



Rating Action: Moody's assigns Aa2 to University of Arizona's Series 2016 SRBs; outlook stable

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New York, February 17, 2016 – Issue: System Revenue Refunding Bonds, Series 2016; Rating: Aa2; Sale Amount: \$169,585,000; Expected Sale Date: 2/25/2016; Rating Description: Revenue: Public University Broad Pledge

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the University of Arizona's (UA) \$169.6 million of fixed rate System Revenue Refunding Bonds (SRBs) 2016 (maturing in 2039). The outlook is stable.

The Aa2 senior most rating reflects the University of Arizona's position as the flagship and land-grant institution, as well as its important role in the provision of medical education, for the State of Arizona (Aa2 stable) with a substantial \$1.9 billion scope of operations. UA has healthy student demand leading to strong net tuition growth, significant levels of sponsored research funding from diverse sources, solid and rising gift support, and consistent state support for rough one-third of debt service. Offsetting challenges include volatility in state operating appropriations, comparatively high leverage, in addition to increased competition for federal research funding.

Rating Outlook

The stable outlook reflects our expectation that student demand will remain strong, management will continue to focus on long-term growth of net tuition revenue and expense containment to balance any volatility in state or research funding, and that operating cash flow will provide adequate coverage of high leverage. The new relationship with Banner Health is expected to strengthen medical education and research over the long term.

Factors that Could Lead to an Upgrade

Substantial increase of spendable cash and liquidity with limited increase in debt

Meaningful, consistent improvement in operating margins, enhancing surplus contributions to build flexible reserves

Strengthened and steady research funding

Factors that Could Lead to a Downgrade

Sustained deterioration of operating performance leading to declines in liquidity

Failure of the state to support debt service

Legal Security

The System Revenue Bonds are payable from and secured by a pledge of and first lien on Gross Revenues, which include tuition, fees, and other revenue-producing activities, including auxiliary enterprises and indirect cost recovery. In FY 2015, Gross Revenues totaled \$1.2 billion, which comprised 61% of the \$1.9 billion of university operating revenue. The System Revenue Bonds carry a rate covenant requiring the university to set fees such that Gross Revenues are at least 2.0 times maximum annual debt service (MADS) of the SRBs. Gross revenues cover the estimated pro forma SRB gross MADS of \$49 million over 23 times.

Use of Proceeds

Proceeds of the Series 2016 bonds will be used to refund portions of the Series 2007, 2008A and 2009A SRBs, and to pay costs of issuance.

Obligor Profile

The University of Arizona is the flagship and land-grant public higher education institution for the state of Arizona, as well as providing a significant healthcare presence. The main campus is located in Tucson, with an additional medical school and bioresearch campus located in Phoenix. UA is a member of the Association of American Universities. In FY 2015, the university recorded operating revenues of \$1.9 billion and served 43,335 full-time equivalent students.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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