

Rating Action: Moody's upgrades Illinois State University's (IL) various ratings to A3; outlook positive

15 Mar 2023

New York, March 15, 2023 -- Moody's Investors Service has upgraded Illinois State University, IL's (ISU) issuer and Auxiliary Facilities System (AFS) bond ratings to A3 from Baa1 and the Certificates of Participation (COPS) to A3 from Baa2. The university had approximately \$194 million of outstanding debt based on fiscal 2022 results. The outlook remains positive.

RATINGS RATIONALE

The upgrade of Illinois State University's (ISU) issuer rating to A3 reflects management's ongoing ability to effectively steer the university through multiple periods of fiscal and operational disruption. Further, continued strengthening of the State of Illinois' (A3 stable) fiscal condition with positive downstream effects to the university contribute to an improving operating environment. The state's fiscal 2023 budget increased direct operating appropriations to the university by 5%, as well as increased monetary assistance program (MAP) funding which provides financial aid for students. Additional healthy increases to both funding sources are proposed for fiscal 2024.

The university's sound financial strategy and risk management, along with management credibility and track record, remain important elements of our credit view. The rating incorporates continued constraints from high reliance on the state for funding of operating and post-retirement benefit expenses, a highly competitive student market, and deferred capital needs. ISU receives around 40% of its revenue from the state in a typical year, making ISU vulnerable to future funding volatility or reduced appropriations. Despite a difficult market environment, enrollment levels have been generally stable, reflecting high demand for ISU's residential experience and diverse program offerings. However, demographic constraints may limit growth as Illinois residents account for approximately 93% of total enrollment. The rating further acknowledges a rising age of plant and potential need for significant capital investments.

The A3 rating on the AFS revenue bonds and COPS incorporates the university's A3 issuer rating as well as the broadness of the pledge and available financial reserves.

RATING OUTLOOK

The positive outlook reflects the potential for additional credit improvement if the university is able to navigate the current challenges in the macroeconomic environment, including high inflation and enrollment volatility, while sustaining operating performance and liquidity. The positive outlook also includes the potential for measured capital investment that supports the competitive profile of the university.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Maintenance of operating performance despite cost pressures and a highly competitive student environment
- Continued growth in wealth and liquidity to help absorb revenue or operating environment disruptions
- Capital investment that strengthens the university's competitive position without materially changing debt service coverage

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained weakening of operating performance, pressuring the university's liquid reserves
- Deterioration of strategic positioning, evidenced by sustained enrollment and net tuition revenue decline

- Weakening of the State of Illinois' fiscal condition resulting in uncertainty surrounding direct operating support and on-behalf payments

LEGAL SECURITY

The AFS bonds are secured by the net revenues of the Auxiliary Facilities System, as well as mandatory student fees and tuition revenue, subject to the prior payment of operating and maintenance expenses of the Auxiliary Facilities System, but only to the extent necessary. There is a rate covenant to provide 2x coverage of maximum annual debt service from pledged revenue, as well an additional bonds test. There is no debt service reserve fund, and accumulated surpluses of approximately \$175 million, as of June 30, 2022, from the closed AFS system may be used to support any lawful purpose within the system. In fiscal 2022, MADS coverage from total funds available for debt service was 16.7x.

The Certificates of Participation (COPS) are unsecured but payable from both state-appropriated funds and from budgeted legally available funds of the university from sources other than state appropriations, including tuition and fees. The obligation to pay can be terminated in the event that the university does not receive sufficient state appropriations and does not have other legally available funds.

PROFILE

Founded in 1857, Illinois State University is the oldest public university in the state and is located in Bloomington-Normal near Illinois' geographic center. ISU, with fall 2022 enrollment nearly 21,000 headcount, offers a broad program array of bachelors, masters, and doctoral degrees. Fiscal 2022 operating revenue was \$585 million.

METHODOLOGY

The principal methodology used in these ratings was Higher Education Methodology published in August 2021 and available at <https://ratings.moody.com/api/rmc-documents/72158> . Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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