MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to Indiana University's Student Fee Bonds; outlook stable

27 May 2020

New York, May 27, 2020 -- Moody's Investors Service has assigned a Aaa to Indiana University's proposed approximately $81 million of Student Fee Bonds, Series Z-1 and approximately $19 million of Taxable Student Fee Bonds, Series Z-2 with maturities through 2035. We also maintain Aaa ratings on approximately $341 million of outstanding Student Fee Bonds, $517 of Consolidated Revenue Bonds, $235 of Lease Purchase Obligations/Certificates of Participation and a P-1 on the universities outstanding $13 million of self-liquidity backed Commercial Paper Notes. The outlook is stable.

RATINGS RATIONALE

The assignment and maintenance of Indiana University's (IU) Aaa rating reflects its excellent strategic positioning as a flagship public university with significant enrollment and a substantial and expanding research profile. IU benefits from its large size and scale with well diversified revenues and its affiliation with the Big Ten Academic Alliance. IU holds ample balance sheet reserves and liquidity. Funding from the Aaa-rated State of Indiana for operations and debt service related to the fee-replaced student fee bonds is a credit strength. Factoring in the support from the state for debt service, leverage will remain moderate. The strength of the university's market, reserves, and sound management and governance provide the ability to manage through operational and financial disruptions due to the coronavirus outbreak.

Credit strength is tempered by a prolonged period of modest revenue growth that is generally being outpaced by expense growth and leading to operating margin compression. Prior to the coronavirus pandemic, fiscal 2020 operating results were likely to reflect another year of thin performance. The pandemic will lead to modest, but manageable weakening of near-term operating performance. Expense mitigation and federal stimulus funding will help offset most of the impact in fiscal 2020. With the announcement of a phased, or hybrid approach to hosting on-campus instruction, management continues to prepare for the fiscal 2021 budgetary impact. Further expense mitigation strategies, including broader budget reductions, are being considered and deployed to help mitigate anticipated revenue loss.

The P-1 rating on the commercial paper program reflects the university's excellent fundamental credit strength combined with strong levels of unrestricted liquidity available on a daily basis to support maturing commercial paper.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and financial market declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework.

RATING OUTLOOK

The stable outlook reflects manageable risk over the outlook period to IU's student market position, research activities, philanthropy and state funding. We anticipate disruption to multiple revenue streams and that further thinning of operating margins is likely to occur as the university works through the impacts of the pandemic. The outlook additionally incorporates ongoing state fee-replacement appropriations supporting a significant proportion of IU's debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Materially weaker than anticipated operating results for fiscal 2020 and fiscal 2021; prospects for a prolonged period of thinner operating results

- Significant increase in leverage or reduction in either the state's reimbursement of debt service or share of total debt paid by the state

- Credit deterioration of the State of Indiana

- For commercial paper, substantially weakening of coverage from daily available assets or evidenced increased risk of debt or treasury management

LEGAL SECURITY

The Student Fee Bonds (rated Aaa) are secured by pledged revenues, including student fee revenue, not including the state's debt service reimbursement for the bonds. There is a fee covenant to set student fees to provide at least two times coverage of annual debt service. Fiscal 2019 pledged revenues were $1.5 billion and excluded from Available Funds.

The Consolidated Revenue Bonds (rated Aaa) are payable from Available Funds of $1.6 billion for fiscal 2019 including all legally available funds, including unrestricted fund balances at Indiana University Foundation (IUF), excluding student fee and other pledged revenues, and state appropriations authorized for other purposes or restricted by law.

The Lease Purchase Obligations were previously issued as Certificates of Participation and are all on parity (rated Aaa). They are secured by IU's lease with Indiana University Building Corporation (IUBC). The leases cannot be terminated except for IU's lack of available funds. The leases are not subject to abatement or reduction. IU has the option to purchase the facilities in an amount sufficient to refund the facilities' related outstanding indebtedness. There is no debt service reserve fund.

The Commercial Paper Notes are general obligations of the university and payable from Available Funds.

USE OF PROCEEDS

An estimated $62 million in Series Z proceeds will be used for various capital projects across the campuses. There are multiple refunding opportunities if considered economically feasible at the time of issuance. Proceeds will also be used to pay the costs of issuance.

PROFILE

Indiana University, founded in 1820, is one of the state's flagship universities and a Big 10 conference member. Currently, IU has seven campuses, including its main Bloomington campus. Indiana University is one of the nation's largest universities, with over 81,000 full time equivalent students. The university generated over $3.2 billion in operating revenue in fiscal 2019, over half of which came from student charges (including auxiliaries).

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in May 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1175020 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms

have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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