

RatingsDirect®

Summary:

Indiana University; CP; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:

Jessica L Wood, Chicago (1) 312-233-7004; jessica.wood@spglobal.com

Secondary Contact:

Mary Ellen E Wriedt, San Francisco (1) 415-371-5027; maryellen.wriedt@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

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Credit Profile

US\$81.4 mil student fee bnds (Indiana Univ) ser Z-1 due 08/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
US\$18.6 mil taxable student fee bnds (Indiana Univ) ser Z-2 due 08/01/2026		
<i>Long Term Rating</i>	AAA/Stable	New
Indiana Univ		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Indiana University's (IU) approximately \$81.4 million series Z-1 tax-exempt student fee bonds and \$18.6 million series Z-2 taxable student fee bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on IU's outstanding lease purchase obligations, student fee revenue bonds, consolidated revenue bonds, and certificates of participation; and its 'A-1+' short-term rating on IU's commercial paper (CP) notes program, board-authorized for up to \$125 million. The outlook, where applicable, is stable.

Total university debt outstanding will equal approximately \$1.13 billion post-issuance. Approximately \$13 million in CP notes is currently outstanding. Approximately \$355 million of total debt is supported by fee-replacement appropriations, a specific state appropriation that reimburses a portion of the debt service payments on bonds issued for certain academic facilities, such as classrooms, libraries, laboratories, and other academic support facilities. These appropriations are subject to biennial legislative consideration and are specifically not pledged to bondholders. However, although the Indiana Legislature reduced the university's capital appropriations in recent years, to date, it has paid scheduled fee-replacement appropriations in full during the program's more than 45-year history. The series Z-1 and Z-2 bond proceeds will be used to provide funding for the Bicentennial Repair and Replacement Plan, under which the university will renovate four buildings on the Indiana University-Purdue University Indianapolis campus and three buildings on the Indiana University Bloomington campus. The series Z-1 and Z-2 bonds will also be used to refinance the series T-2 and V-1 student fee bonds. The university's student fee bonds are payable from pledged funds, including all academic fees (including tuition), which we view as equivalent to an unlimited student fee pledge. While management reports there are no plans for additional new-money debt within the outlook period, the university has secured a \$600 million operating line of credit to backstop liquidity as a defensive measure; the university has not drawn on this line and has no current plans to do so. Therefore, we have not included this line of credit in our current debt calculations.

As a result of the recent COVID-19 outbreak, IU transitioned all undergraduate and graduate course instruction to an

online format effective March 15. Most students left the campuses, with those who remain (limited to students who do not have a suitable alternative) subject to social distancing measures and reduced on-campus services. Most faculty and staff, including those engaged in nonessential research, transitioned to remote work. Summer classes will continue under the online format. The main impact of COVID-19 for fiscal 2020 is expected to be a loss of revenue; while about \$30 million in refunds mostly on room and board for students were felt immediately, the cancellation of events, programs, and athletics will pressure university operations through the current fiscal year and into fiscal 2021. Auxiliary revenues comprise a manageable 10.1% of total operating revenues, and international enrollment represents a modest proportion of the university's full-time equivalent (FTE) enrollment, at about 6,377 students or 7.8% of total FTE enrollment. We believe the university could face some challenges with new international enrollment and will need to manage and plan for the potential impact to this student population in the fall.

Management reports that the revenue losses for fiscal 2020 have been largely offset by funding received through various programs under the CARES Act, including \$60.2 million (half of which will go directly to students) to be spread across the university's seven campuses, as well as some expense savings from spending controls throughout the system. While the full financial impact of COVID-19 cannot be quantified at this time, we believe IU's fiscal 2020 operating results will be weaker than originally budgeted; fiscal 2021 performance could be more severely affected depending on the trajectory of the virus and its impact on operations. We expect that the current economic environment could lead to potential cuts in state funding for higher education, although the magnitude of such cuts in Indiana is unknown at this time. We also expect that fundraising could be softer in fiscal 2021, given market volatility and the current recession, but that IU will maintain its strong fundraising profile. In addition, the long-term impact on IU's endowment fund growth cannot be fully quantified at this time, as investment performance could be affected by the downturn in the financial markets. We recognize that IU has taken prudent steps to address the current situation and continues to evaluate measures to protect the health of the community and promote its mission. In our view, the university has significant resources and liquidity for the current rating, providing financial cushion over the medium term to offset financial pressures. As of March 31, IU has \$2.2 billion in cash and investments and management indicates all of these investments could be liquidated within one month, which we view positively. Most of the university's endowment is held at Indiana University Foundation, which maintains approximately \$2.7 billion in cash and investments as of June 30, 2019. Approximately 60% can be liquidated within one month.

On May 21, IU management released a report conducted by its Restart Committee in which it discussed proposed plans for a phased reopening for fall semester. IU has entered into a comprehensive agreement with its partner IU Health, Indiana's largest health care provider and one of the nation's largest, to screen and test any member of the IU community who is symptomatic for COVID-19, beginning June 1. The phased resumption of research activities will also begin around June 1, with appropriate and extensive risk mitigation, so that researchers, including graduate students, can begin returning to their laboratories. A central recommendation in the Restart Committee's report is that the fall semester can involve on-campus, in-person instruction "in some proportion," with extensive risk mitigation, and testing and tracking procedures that the report describes in considerable detail. President Michael McRobbie has distributed the report to all campuses and has asked that they report back as to how they will implement this central recommendation, which supports a blended or hybrid model of instruction, and confirm that they can implement such an instructional model with appropriate risk mitigation. We will continue to monitor updates as the university's plans for fall evolve.

Credit overview

We assess IU's enterprise profile as extremely strong, with solid demand with a broad geographic draw, large and stable enrollment profile in a multi-campus system, and excellent management of resources. We assess the university's financial profile as extremely strong, with a manageable debt burden, solid available resources, excellent fiscal planning, and historically positive financial operations, albeit weaker in recent years. IU also benefits from its position as a co-flagship university and receives solid support from the state in the form of fee-replacement debt service. Combined, we believe these factors lead to an indicative stand-alone credit profile of 'aaa' and a final rating of 'AAA'.

More specifically, the 'AAA' rating reflects our view of IU's:

- Co-flagship status in the public higher education system of Indiana and continuing state support;
- Stable enrollment and demand trends in a multi-campus system;
- Historically solid full-accrual financial performance, although there has been some weakening in recent years, and weaker operating performance is expected in the near term because of COVID-19;
- Solid available resources relative to the rating category;
- Excellent fundraising record;
- Manageable pro forma maximum annual debt service burden; and
- Significant debt supported by fee-replacement appropriations.

Partially offsetting these credit strengths is demand that is less selective than that of comparable institutions in the 'AAA' rating category.

Established in 1820 as Indiana Seminary in Bloomington, IU has evolved into a comprehensive university system that offers 791 baccalaureate, master's, and doctoral degrees. The university is one of two public research universities in Indiana. It is one of the nation's largest universities, with a total enrollment of 93,578 (81,430 FTE) for the fall 2019 semester. After a realignment, which took effect July 1, 2018, the Indiana University Fort Wayne campus is located on the current Indiana University-Purdue University Fort Wayne campus and shares building space with Purdue University Fort Wayne. The main, Bloomington campus constitutes about 49% of the student body, and the Indianapolis campus (shared with Purdue University) constitutes about 31% of FTEs based on IU students.

Rating above the sovereign

IU's bonds are eligible to be rated above the sovereign due to a moderate sensitivity to country risk. The university has a diverse revenue stream and is not dependent on federal funds. The institutional framework in the U.S. is predictable, with significant autonomy, independent treasury management, and no history of government intervention. Demonstrating financial flexibility are the large endowment market value, which officials invest globally; the manageable debt service; and that a significant portion of the debt portfolio amortizes and the State of Indiana reimburses through fee-replacement funds.

The stable outlook reflects our expectation that IU will maintain its enrollment while improving upon already healthy available resource ratios. In addition, we expect that without any future debt plans, IU will maintain a relatively low debt burden.

Environmental, social, and governance (ESG) factors

In our view, higher education entities face elevated social risk due to the uncertainty on the duration of the COVID-19 pandemic, and unknown impact on fall 2020 enrollment levels and mode of instruction. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite the elevated social risk, we believe IU's environment and governance risk are in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could consider a negative rating action if financial operations continue to weaken such that there is a trend of full-accrual operating deficits, available resources deteriorate significantly or the system issues material debt without commensurate growth in revenue or available resources. In addition, although we understand that the coronavirus is a global risk, we could also consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of IU's plan as a result of the COVID-19 outbreak.

For additional information, please see the full analysis for Indiana University published Jan. 9, 2020, on RatingsDirect.

Ratings Detail (As Of May 27, 2020)		
Indiana Univ comm pap nts ser 2018 due 08/07/2023		
<i>Short Term Rating</i>	A-1+	Affirmed
Indiana Univ stud fee bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana Univ PCU_USF		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana Univ PCU_USF		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana Univ (National) (FGIC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Indiana University Board of Trustees (The), Indiana		
Indiana Univ, Indiana		
Indiana University Board of Trustees qualified lse purch oblig (Indiana Univ)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana University Board of Trustees (Indiana Univ) cons rev bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana University Board of Trustees (The) (Indiana Univ) cons rev bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana University Board of Trustees (The) (Indiana Univ) taxable lse purch oblig (Indiana Univ) ser 2020C due 07/01/2037		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana University Board of Trustees (The) (Indiana Univ) tax-exempt lse purch oblig		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Indiana Univ Trustees (Indiana University)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Ratings Detail (As Of May 27, 2020) (cont.)

Indiana Univ Trustees (Indiana Univ) COPs

Long Term Rating

AAA/Stable

Affirmed

Indiana Univ Trustees (Indiana Univ) PCU_USF

Long Term Rating

AAA/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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