MOODY'S
INVESTORS SERVICE

Higher Education Ratings & Construction Risk

Georgia Facilities Officers Conference

October 25, 2012

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Agenda

Moody's in Capital Markets

Moody's Outlook for Higher Education

Productive Rating Agency Meetings

Construction Risk for Georgia PPV projects

Moody's: Ratings and Ratios

Independent Risk Opinions for Investors & Lenders: 21-point scale ranging from Aaa to C to evaluate credit risk of loss in lending to or investing in colleges and universities

Rate Most Colleges and Universities: In US, ratings cover 90% of public higher education sector and 70% of private, not for profit sector measured by enrollment in four-year degree institutions

Robust Ratios & Data on Higher Ed: Historical and current data on financial and student demand trends in the 500+ colleges, universities and systems; all adjusted for comparability

Rated Colleges Have Full Access: Analysts, ratings, research, data

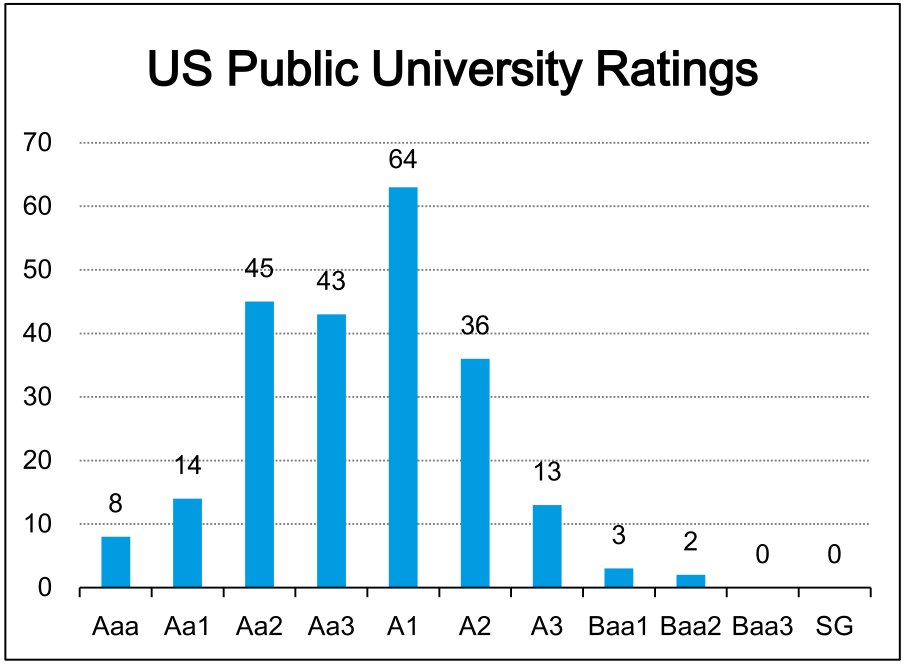
Higher Ed Ratings: Public Universities Rated Higher

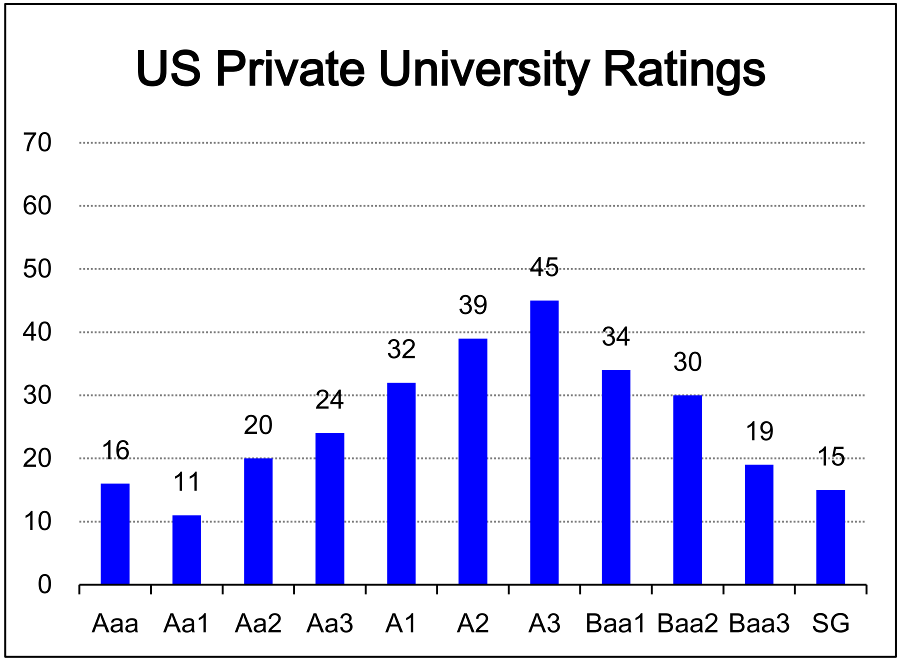
Moody's rates 228 four-year public colleges and universities in the U.S., with $85 billion+ of debt outstanding.

» Median rating of Aa2 when weighted by debt

Moody's rates 285 private colleges and universities in the U.S., with $80 billion+ of debt outstanding.

» Median rating of Aa3 when weighted by debt





Source: Moody's MFRA

Moody's Research

Most Research on Colleges & Universities:

- 500 reports yearly on individual colleges/universities

- 30 topical sector research reports

JANUARY 16, 2012

U.S. PUBLIC FINANCE

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SECTOR COMMENT

Georgia Public Universities' Campus Consolidation Plan Is Credit Positive

From Weekly Credit Outlook

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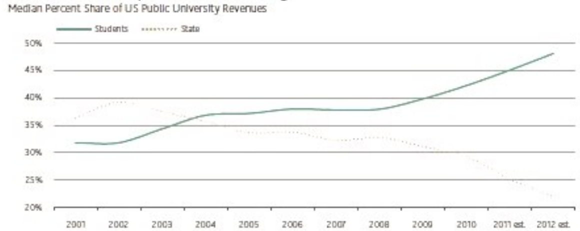
Last Tuesday, the Board of Regents of the University System of Georgia (system lease Aa3 stable) voted to consolidate eight of its 35 colleges and universities into four. The consolidation is credit positive for the University System of Georgia because it fosters operating efficiencies and reduces overhead costs amid declining state support.

The system is the dominant education provider in the state, with 318,000 students enrolled in fall 2011 and a fiscal 2010 revenue base of $5.8 billion. Like other public university governing boards across the US, Georgia's board is being pressured as state funding declines as a share of revenue and student charges are climbing to compensate (Exhibit 1). To maintain affordability, these universities must find new operating efficiencies to limit tuition increases. Historically, public university mergers and system consolidations have been limited, but recently proposals, as in New York and Louisiana, have increased. Consolidations typically face intense opposition from entrenched stakeholders, especially loyal alumni, who are often successful in blocking mergers. Despite these challenges, the University System of Georgia consolidation points to an increased likelihood of public university mergers in other states that are confronting intense revenue and cost pressures and ongoing concerns about affordability.

EXHIBIT 1
Student Revenues Replace Lost State Funding
Median Percent Share of US Public University Revenues



Source: Moody's

What is Moody's Weekly Credit Outlook?

Moody's Weekly Credit Outlook provides our research clients with timely opinions on breaking credit market developments and trends. Published every Monday morning, the newsletter will help you start your week informed of Moody's latest opinions from across the organization.

Moody’s Outlook for Higher Education

Moody's Outlook for US Higher Education: Established Risks

Macroeconomic headwinds intensify flight to quality and value. As unemployment remains high, and household net worth and incomes remain depressed, weaker purchasing power in its core markets, heightened competition favors most reputable and lower priced options.

Regulatory and accreditation risk intensifies as government focuses more on affordability, transparency & outcomes. The challenging job market for college graduates and headlines on student loan defaults have heightened public and political pressure on the sector to justify the cost of a college degree. Increased scrutiny, higher level of regulatory and accreditation risk.

Revenue growth remains a challenge for most, underscoring need for operational efficiency. Tuition, investments, donor support, state appropriations, and federal research funding continue to face considerable headwinds.

Source: Moody's Midyear 2012
Outlook for US Higher Education

Moody's Outlook for US Higher Education: Developing Risks

Growth of online education and new technology platforms will create new winners and losers. Online technology platforms are evolving at a rapid pace, presenting new disruptive risks to universities, but also new opportunities for the delivery of content and new revenue streams.

Backlogged capital spending threatens higher future capital maintenance costs, but universities slowly begin to restart capital projects. The slowed investment in capital since 2008 cannot continue indefinitely if universities are to remain competitive. The favorable interest rates in the first half of 2012 have brought an uptick in debt issuance.

Growing need for bolder leadership creating new conflicts. Stagnation of key revenue sources, rising public scrutiny & growing need for operating efficiency, colleges/universities need more decisive leadership; more conflicts between governing boards, management and faculties.

Source: Moody's Midyear 2012
Outlook for US Higher Education

Moodys Outlook for Sector Sustainability: Publics & Privates Face Similar Risks, Differing Capacity

Publics Have Size/Price Advantages; Privates Have Leadership Edge

PUBLIC UNIVERSITIES

- Economies of Scale
- Low Price Competitor
- Public Subsidy/Ultimate Support
- Shifting to Student Pay Model
- Management Slow but Improving
- Governance Lagging
- Exposure to Pensions/OPEB
- Political Limits of Tuition

PRIVATE COLLEGES

- Much Smaller on Average
- Moderate to High Price Competitor
- Philanthropic Subsidy
- Most Highly Tuition Dependent
- Management More Nimble
- Governance Mostly Better
- Investments/ Liquidity Volatility
- Market Limits on Tuition

The Surveillance Cycle

When?

What?

Who?

Where?

Productive rating agency meetings

Special Comment

August 2005

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Tips for a Productive Meeting with Moody's Higher Education and Not-for-Profit Ratings Team

This publication provides answers to some frequently asked questions about how to prepare for and structure a successful meeting with Moody's Higher Education and Not-For-Profit Ratings Team. These guidelines are based on what has worked well in the past, but are not requirements that are set in stone. Our goal is for the meeting time to be as productive and efficient as possible, so that Moody's analysts gain a full understanding of your organization and gather the necessary information to assess the institution's credit profile. We welcome your feedback on how we can improve the rating process and encourage you to contact us if you have any comments or questions.

WHEN IS AN IN-PERSON MEETING APPROPRIATE?

Moody's analysts often conduct surveillance on our existing ratings via a telephone call with select members of the organization's management team. However, there are specific situations when an in-person meeting may be particularly beneficial to the rating process. These include:

- When Moody's is assigning a rating to an organization for the first time (initial rating)
- When the organization's borrowing plans are very large or complex
- When the borrowing is for an unexpected or unusual project
- When there have been significant positive or negative changes in market position or financial health that could potentially result in a rating or outlook change
- When Moody's has not met with the management team or visited the campus in several years, particularly if there have been changes in high-level management positions or construction of noteworthy capital projects

Depending on logistics and scheduling preferences, an in-person meeting can take place at the borrower's campus or facilities, at the investment banker or financial advisor's offices, at Moody's main office in New York, or at one of our regional offices in San Francisco, Chicago, Dallas, or Boston. For initial ratings, however, we prefer to meet on campus or in the organization's current facilities, particularly when these facilities play an important role in the organization's market position.

Also, when Moody's analysts are traveling in an area on other business, they may contact nearby institutions to arrange an in-person meeting, if scheduling allows. Conversely, when members of an institution's management team are in the New York area, they should not hesitate to contact us to arrange a meeting at Moody's offices. While Moody's certainly welcomes full participation from the institution's senior management at these meetings, we also welcome shorter, more topical meetings with just the representatives from the financial leadership team.

Moody's Investors Service
Global Credit Research

Example Update Process: Valdosta State University

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Rating Update: Moody's affirms Valdosta State University's (GA) A1 lease-backed revenue bond ratings; outlook remains stable

Global Credit Research - 20 Aug 2012

Bonds supported by rental agreements from the Board of Regents of the University System of Georgia; University has $185.6 million of rated debt outstanding

VALDOSTA STATE UNIVERSITY, GA
Public Colleges & Universities
GA

Opinion

NEW YORK, August 20, 2012 --Moody's Investors Service has affirmed Valdosta State University's ("Valdosta State" or "VSU") A1 lease revenue rating on the various series of debt detailed in the RATED DEBT section of the report. VSU is a component unit of the Board of Regents of the University System of Georgia ("BOR"). The rating outlook remains stable.

SUMMARY RATING RATIONALE

The A1 rating incorporates the strong implied support from the Board of Regents of the University System of Georgia (lease revenue debt rated Aa3), which provides a broad revenue pledge for the bonds through annually renewable rental payments and also reflects the university's stable market position as one of two designated regional universities in Georgia, a state with healthy demographics of high school graduates and breakeven to favorable operating performance with healthy cash flow margins. Offsetting factors include a challenging state funding environment, highly leveraged balance sheet, and risks associated with variable rate demand debt heightened by insufficient monthly liquidity to cover demand debt and swap exposure.

STRENGTHS

*Broad revenue pledge for the bonds from the Board of Regents of the University System of Georgia through annually renewable rental payments. Security for the bonds are therefore not limited solely to the university's or project's revenues.

*Stronger cash flow margins in recent years (17.7% in FY 2011) with expectations of similar performance in FY 2012, driven by solid growth of net tuition revenue and expense containment, provides healthy debt service coverage of about 3 times.

*Growing expendable financial resource base, albeit modest on an absolute basis, up significantly to $34.7 million in FY 2011 from $8.5 million in FY 2009 and unrestricted resources represent a high 80% of expendable financial resources, which provides some additional financial flexibility.

*Support from the Board of Regents made evident by their approval for the university's projects, as well as the strategic importance of the housing, parking, and other student facility projects to Valdosta's market position.

*Increasing diversification of programs has aided enrollment growth, evidenced by a 16% increase in FTE enrollment over the past five years, primarily attributed to new graduate programs.

CHALLENGES

*Challenging state funding environment with fluctuating state appropriations that have been cut over several years and cuts made to state tuition assistance programs. While the BOR's FY 2013 budget contemplates an increase over the prior year, total state operating support will still not regain to FY 2008 levels.

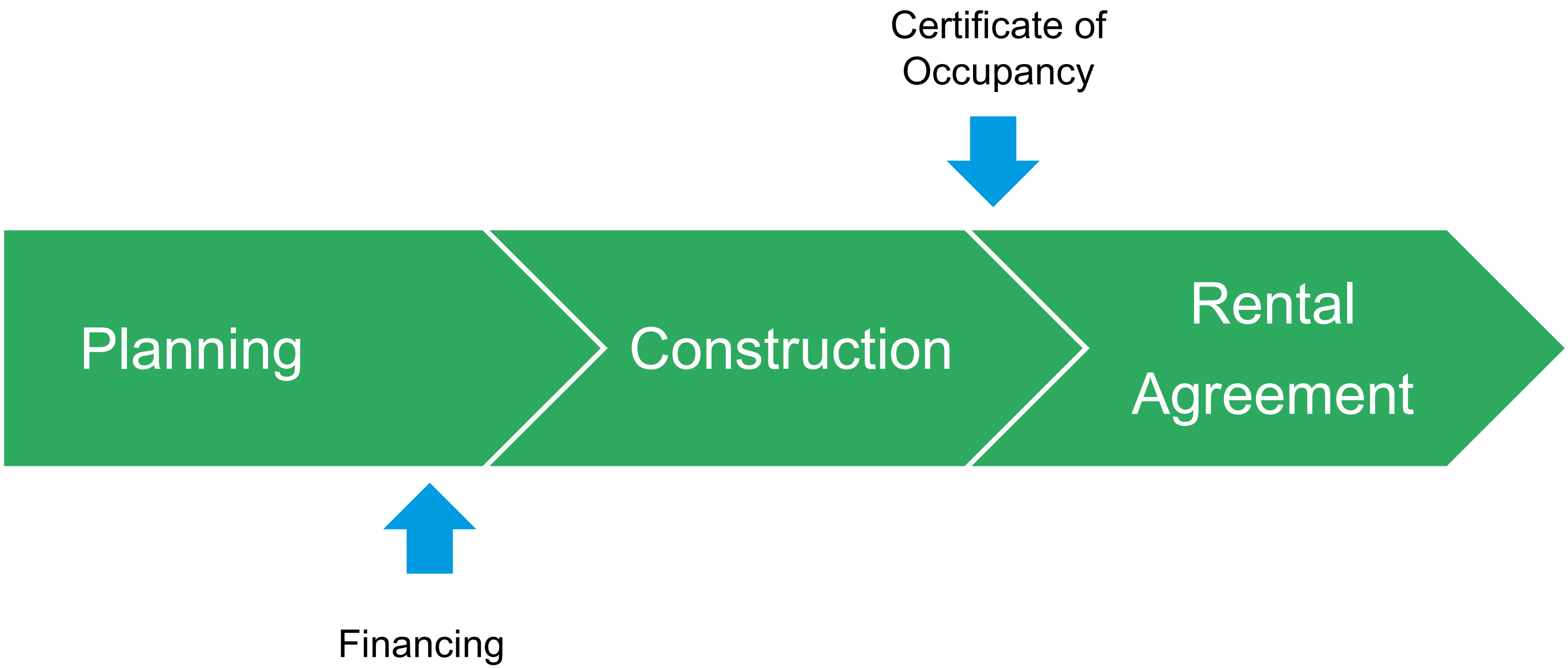
*Risks associated with variable rate demand debt and swap, heightened given thin monthly liquidity of about $26 million, covering $31 million of demand debt by only 84%. While the demand debt is a privately placed bank agreement and is not subject to weekly remarketing risk, the risk of this structure will increase as the expiration

Moody's Role and Relationship

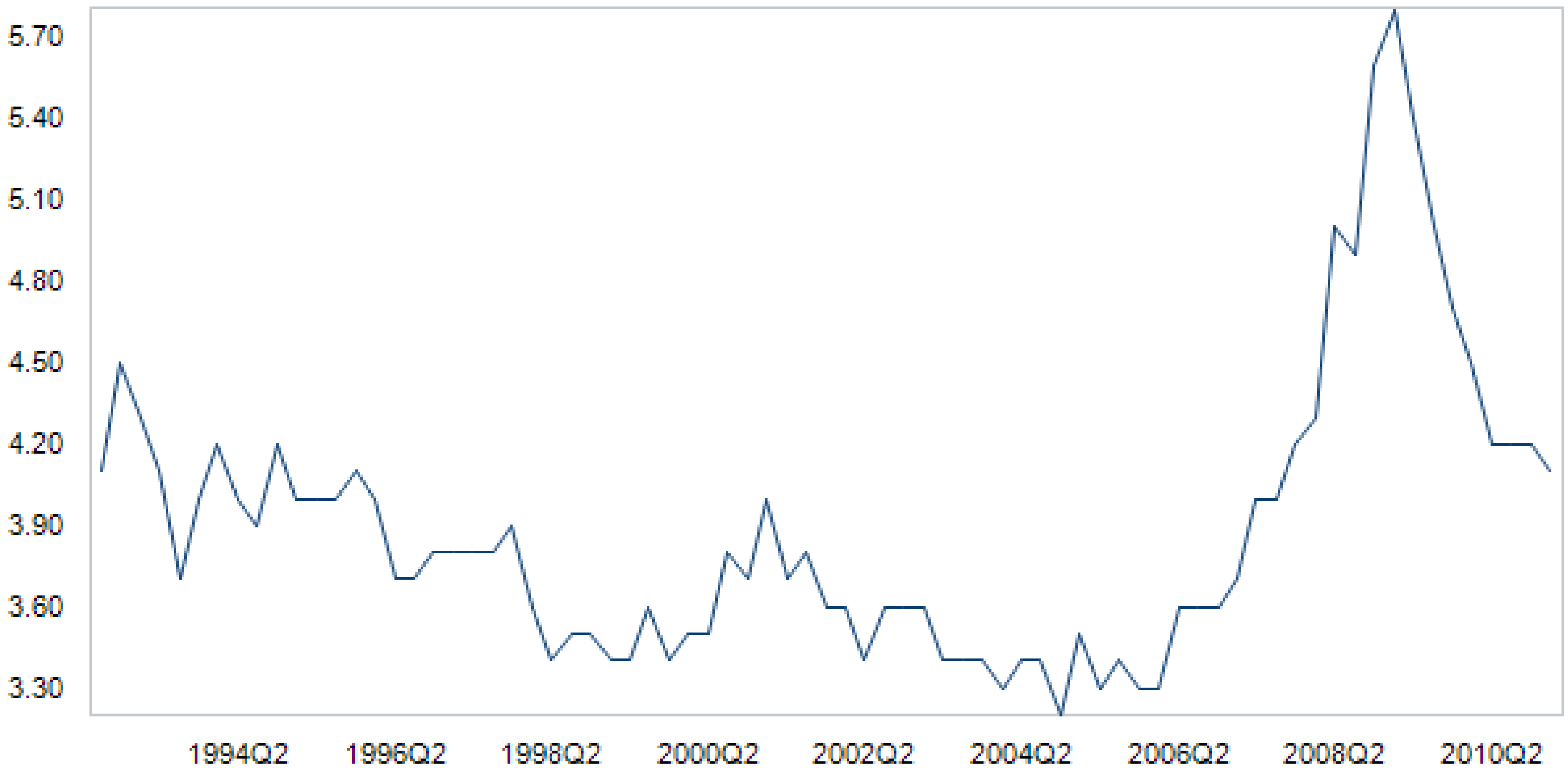
- Moody's analysts can
  - Explain our methodology and research describing our analytical approach for evaluating the credit impact of various changes
  - Discuss published rating reports for universities that have undertaken similar efforts
  - Provide general feedback to a rated university on how we would evaluate a proposed transaction within our analytical framework
- Moody's analysts <u>**cannot**</u>
  - Advise whether or not to pursue a certain course
  - Advise how to structure the transaction to achieve a desired outcome
  - Discuss specific credit implications about a transaction with parties other than the rated university, unless our conclusions are already presented in a published report

Construction Risk in Georgia PPV projects

Core Credit Strength Supplied by Rental Agreement Does Not Begin Until Certificate of Occupancy is Received



Construction Business Closures Shows Economic Sensitivity of Sector (%)

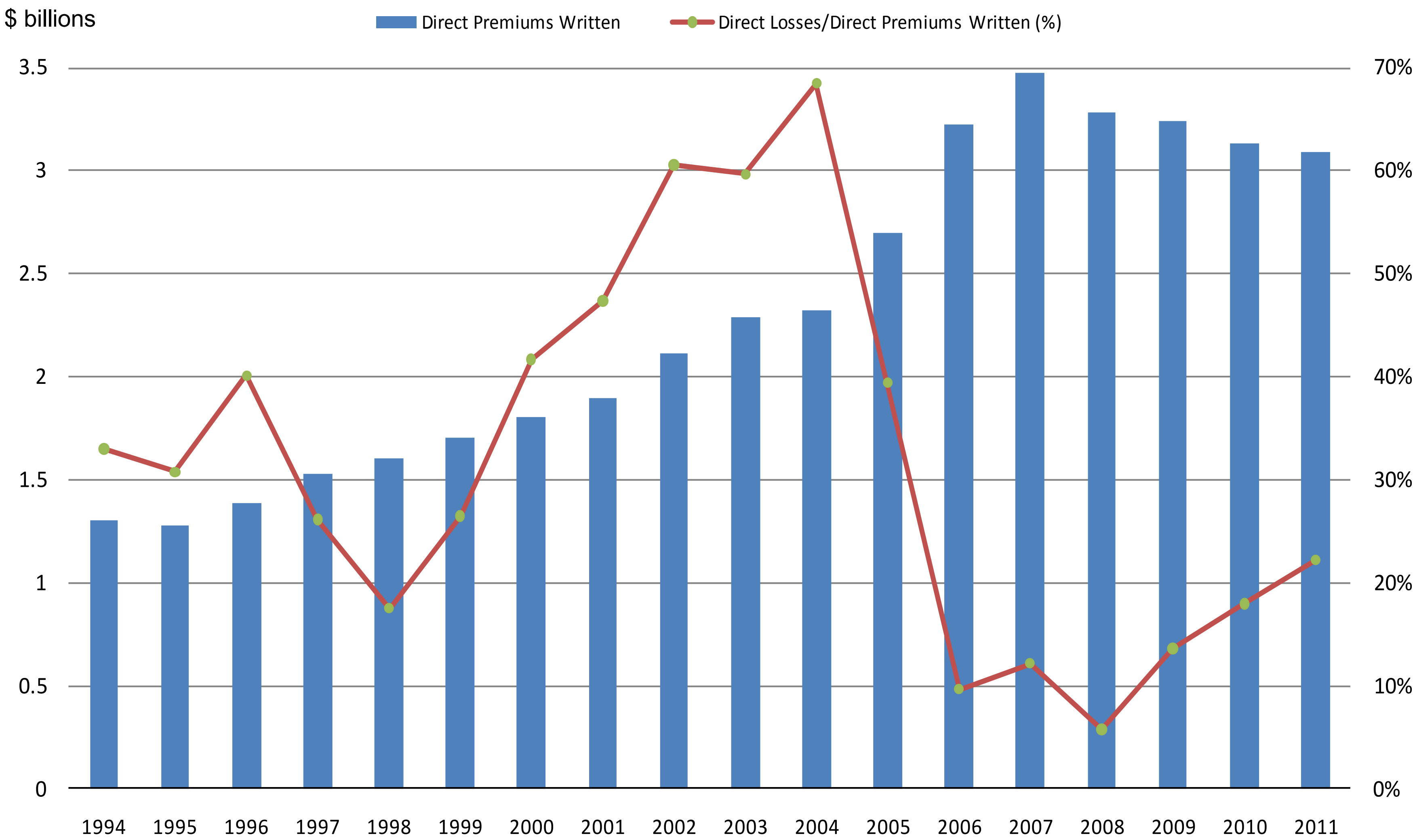


Source: U.S. Bureau of Labor Statistics (BLS): Business Employment Dynamics Survey (BD), and DataBuffet.com

Strategies to Mitigate Construction Risk Reduce, but do not Eliminate Related Risks

Risk reduction strategy
System and campus oversight
Project complexity
Contractor selection process
Project completion timeline
Capitalized interest period
Payment and Performance bonds
Liquidated damages
Potential foundation or sponsor support

Surety Losses Increase During Recessions



Source: The Surety & Fidelity Association of America “Twelve-Year Experience Summaries (2000-2011) Surety Countrywide (Preliminary)”

Majority of US Surety Policies Written by Top Providers with Varied Ratings

Rank	Surety Provider	2011 Premium ($ millions)	Example Moody's Rating within Family Tree
1	TRAVELERS BOND	830	Aa2
2	LIBERTY MUTUAL	764	A1
3	ZURICH INSURANCE	497	A1
4	CNA INSURANCE	402	A3
5	CHUBB & SON INC	243	Aa2
6	HCC SURETY	171	Baa1
7	HARTFORD FIRE & CASUALTY	164	A2
8	INTERNATIONAL FIDELITY INS CO	158	A3
9	ACE LTD GROUP	124	A1
10	RLI INSURANCE	111	A2
11	GREAT AMERICAN	101	A2

Source: Surety & Fidelity Association of America, Moodys.com

Questions/Discussion