

CREDIT OPINION

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Contacts

Jason D. Potts +1.212.553.3430
AVP-Analyst
jason.potts@moodys.com

Susan E Shaffer +1.212.553.4132
VP-Sr Credit Officer
susan.shaffer@moodys.com

Dennis M. Gephardt +1.212.553.7209
VP-Sr Credit Officer
dennis.gephardt@moodys.com

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Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

University of NC at Greensboro, NC

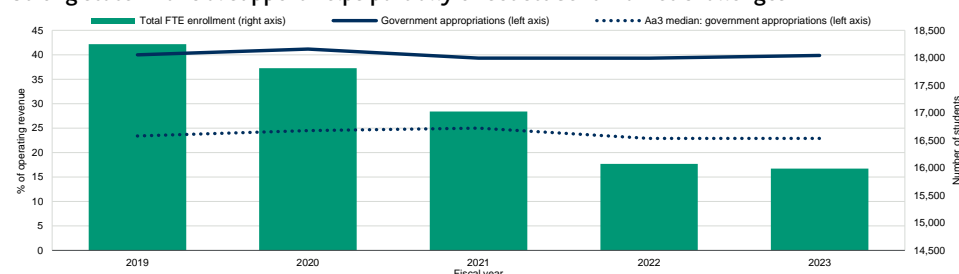
Update to credit analysis

Summary

[University of North Carolina at Greensboro's](#) (UNCG; Aa3 stable) credit quality incorporates its regional brand as a member of the University of North Carolina System. Strong operating support from the [State of North Carolina](#) (Aaa stable) also underpins credit quality, while healthy state capital support helps to minimize the need for additional debt resulting in manageable leverage. Total wealth has been growing, supported in part by improved philanthropy. Operating performance has been solid resulting in sound EBIDA margins. Offsetting credit factors include a highly competitive student market in North Carolina which has resulted in enrollment declines. Additionally, state pricing restrictions as well as a price sensitive student population partially constrain net student revenue growth prospects. Operating performance will narrow due to lower enrollment and the conclusion of pandemic relief funding. Favorably, UNCG has a good track record of financial stewardship and has articulated strategies to reduce operating expenses in order to match lower baseline revenue levels. The university has a modest scale of operations relative to peers.

Exhibit 1

Strong state financial support helps partially offset student market challenges



Source: Moody's Investors Service

Credit strengths

- » Strong operating support from the State of North Carolina averages about 40% of annual operating revenue since 2019
- » Track record of double digit EBIDA margins demonstrates good fiscal management
- » Growing total wealth, bolstered in part by improved fundraising, covers operating expenses by 1.5x compared to the 1.3x peer median
- » Sound state capital support helps minimize the need for new debt and supports an age of plant of just 12 years

Credit challenges

- » Highly competitive student market environment has resulted in a 12% enrollment decline over the last five years
- » An ongoing focus on cost containment will be necessary in order to align expenses with lower baseline revenue levels
- » A price-sensitive student population, with about 46% of undergraduates being Pell-eligible, and tuition pricing restrictions limit the university's revenue growth prospects
- » A modest scale of operations is reflected by UNCG's 16,000 total FTE enrollment compared to the Aa-rated median of almost 31,000

Rating outlook

The stable outlook is supported by Moody's expectations of stabilizing student demand. The outlook also incorporates expectations that the university will make meaningful progress toward its expense reduction initiatives to maintain at least low to mid teen double-digit EBIDA margins.

Factors that could lead to an upgrade

- » Strengthening of brand and strategic position, leading to improved annual revenue growth prospects including net tuition revenue
- » Material increase in wealth relative to debt and operations
- » Sustained strengthening in EBIDA, contributing to increases in unrestricted liquidity and debt affordability

Factors that could lead to a downgrade

- » Disruption or decline in financial support from the State of North Carolina
- » Weakening of operating performance with EBIDA margins below 10% or debt service coverage of less than 2x
- » Material increase in debt absent growing wealth or revenue in support of debt service

Key indicators

Exhibit 2

UNIVERSITY OF NORTH CAROLINA AT GREENSBORO, NC

	2019	2020	2021	2022	2023	Median: Aa Rated Public Universities
Total FTE Enrollment	18,249	17,812	17,026	16,071	15,988	30,783
Operating Revenue (\$000)	448,999	440,742	436,660	481,334	498,769	1,505,466
Annual Change in Operating Revenue (%)	5.7	-1.8	-0.9	10.2	3.6	8.8
Total Cash & Investments (\$000)	468,067	462,656	574,920	594,989	666,504	1,947,594
Total Adjusted Debt (\$000)	511,987	514,766	547,979	563,596	531,036	1,862,165
Total Cash & Investments to Total Adjusted Debt (x)	0.9	0.9	1.0	1.1	1.3	1.0
Total Cash & Investments to Operating Expenses (x)	1.1	1.1	1.4	1.4	1.5	1.3
Monthly Days Cash on Hand (x)	110	101	120	141	103	191
EBIDA Margin (%)	12.4	10.2	11.5	17.0	18.9	14.4
Total Debt to EBIDA (x)	5.6	6.5	5.6	3.3	2.7	3.4
Annual Debt Service Coverage (x)	2.2	1.8	2.1	3.1	3.8	4.1

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

UNCG is a large regional public university located in Greensboro, NC. Founded in 1891 as a college to train women educators, today it is one of three original members of the UNC system. Centrally located in the state's Piedmont Triad, a regional manufacturing and transportation hub, it offers a broad range of baccalaureate, masters and doctoral degree programs. In fiscal 2023, UNCG generated operating revenue of \$499 million and as of fall 2023, enrolled about 16,000 FTE students.

Detailed credit considerations

Market profile

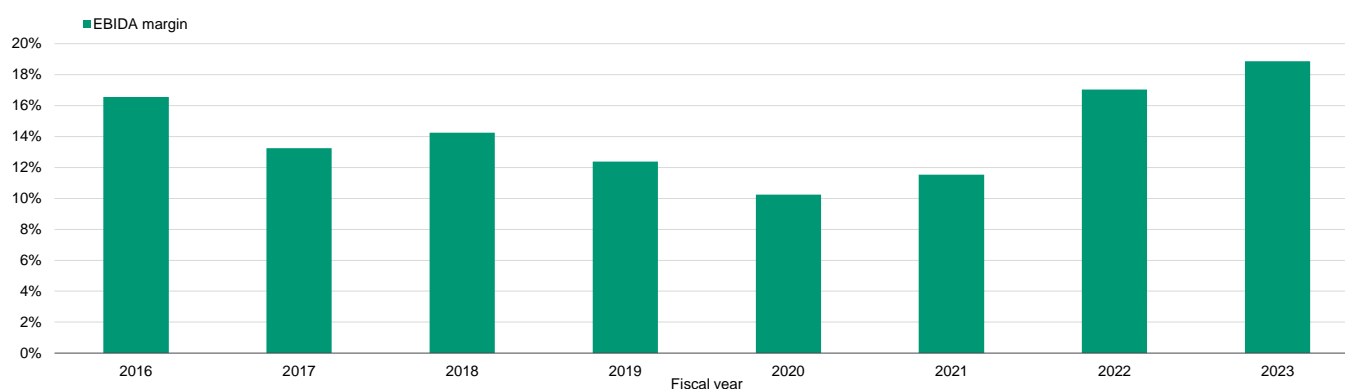
UNCG will continue to experience a challenging student market environment given the highly competitive in-state market, with many public university alternatives, coupled with shifting societal trends resulting in a decline in students enrolling in higher education. While total FTE enrollment has declined by around 12% since fall 2019, fall 2023 enrollment was down less than 1% to 15,988. The university projects that fall 2024 enrollment will be flat. Favorably, fall 2023 first-year first-time in college enrollment improved over 11% from the prior fall, to 2,613. An important strategy to stabilize enrollment includes an increased focus on Hispanic students since UNCG has the highest percentage of Hispanic/Latino student enrollment in the UNC system. Given an affordability focus by the state legislature and UNC Board of Governors, pricing restrictions partially constrain pricing power. Additionally, UNCG has a price-sensitive student body, with Pell-eligible students comprising approximately 46% of the undergraduate population. Philanthropy has improved in recent years driven by a \$200 million capital campaign. Of \$167 million raised to date, about \$83 million is for endowed scholarships and professorships.

Operating performance

UNCG's operating performance will narrow as a result of enrollment declines and the conclusion of federal pandemic relief funding. In order to match lower baseline revenue levels going forward, UNCG's leadership team is actively pursuing several expense management and right-sizing initiatives. These include an academic portfolio review that will result in program eliminations, a faculty realignment incentive program and the restructuring of the university's administrative and operational units. Favorable state operating support is an important aspect of credit quality, especially considering state limitations on tuition increases. For UNCG, it has averaged 40% of operating revenue in each of the last five years. Although fiscal 2024 state operating support will decline by about \$4 million to \$194 million due to enrollment losses, UNCG was one of only two UNC campuses to benefit from a one-time stop-loss adjustment that helped offset part of the reduction. The university continues to grow its research enterprise; for fiscal 2023, excluding pandemic relief funds, grants and contracts revenue totaled almost \$59 million or about 12% of total operating revenue.

Exhibit 3

A track record of double-digit EBIDA margins evidences good fiscal management



Source: Moody's Investors Service

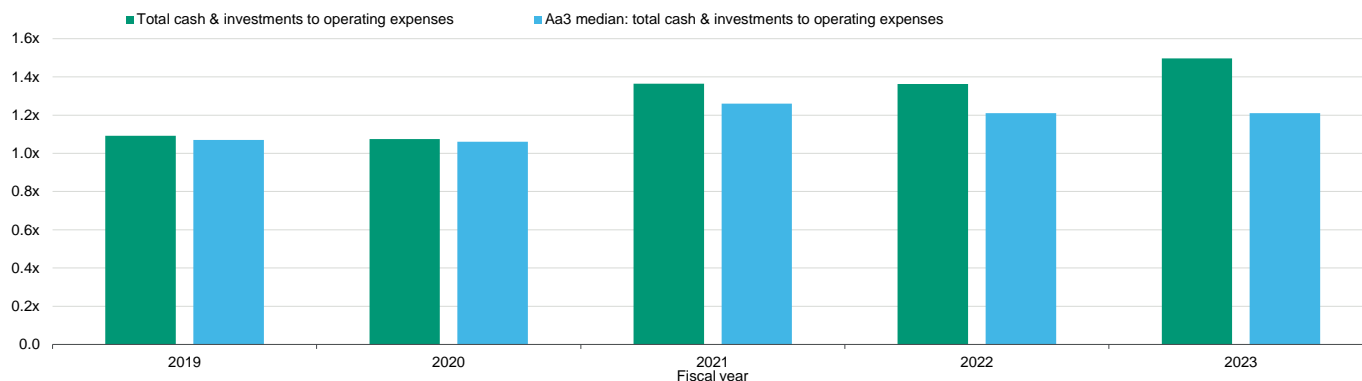
Financial resources

The university's total wealth will continue to provide financial flexibility relative to operations with fiscal 2023 total cash and investments covering operating expenses by 1.5x compared to the Aa-rated median of 1.3x, although wealth is modest compared to peers on an absolute basis. UNCG is currently undertaking an RFP process for Outsourced Chief Investment Officer (OCIO) services.

UNCG has used the OCIO model for endowment management for the last decade. Liquidity is weaker than peers. For fiscal 2023, monthly days cash on hand was 103 compared to the Aa-rated median of 191.

Exhibit 4

Growth in total wealth provides good coverage of operating expenses



Source: Moody's Investors Service

Leverage and coverage

UNCG's leverage will remain manageable, due in part to strong state capital support. Fiscal 2023 total cash and investments covered total adjusted debt by 1.3x, above the Aa-rated public peer median of 1x, while total debt to EBIDA of 2.7x is below the 3.4x peer median. The university has been reinvesting in its physical infrastructure supported by strong state capital support for deferred maintenance and new facilities. At 12 years, UNCG's age of plant is lower than the peer median of 15 years. The university's direct debt of \$257 million largely consists of \$225 million of general revenue bonds, which are fixed rate and amortizing with final maturities ranging from fiscal 2034-2043. In addition to approximately \$20 million of direct placements bonds with maturities ranging from fiscal 2026-2037, UNCG has a note outstanding with a balloon maturity of about \$7 million due in fiscal 2027. The university has moderate exposure to risks associated with its multiple-employer defined benefit pension and other post-employment benefit plans, which are relatively well-funded compared to plans in other states. Combined pension and OPEB expenses represented about 2% of fiscal 2023 operating expenses. Moody's three-year average adjusted net pension liability for fiscal 2023 was \$274 million.

Legal security

The general revenue bonds are unsecured obligations of the university, payable from Available Funds. Available Funds include all legally available funds of the university except appropriations from the state, tuition payments from students, funds whose purpose has been restricted by the gift, grant or payee thereof, revenues generated by special facilities or funds otherwise restricted by law. In fiscal 2023, Available Funds equaled about \$293 million which is an increase of about \$56 million over fiscal 2022. Fiscal 2023 Available Funds provided over 11x coverage of fiscal 2023 debt service.

ESG considerations

University of NC at Greensboro, NC's ESG credit impact score is CIS-3

Exhibit 5

ESG credit impact score

CIS-3



ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Investors Service

University of North Carolina at Greensboro's credit impact score is CIS-3. UNCG's favorable regional reputation and strong state support partially mitigate its ESG risk exposures.

Exhibit 6

ESG issuer profile scores

ENVIRONMENTAL

E-2



SOCIAL

S-3



GOVERNANCE

G-3



Source: Moody's Investors Service

Environmental

UNCG's exposure to environmental risks is E-2. The university's location in Greensboro North Carolina exposes it to manageable environmental risks. Severe weather risks are more moderate in the Greensboro area than the coastal areas of the state.

Social

UNCG's exposure to social risks is S-3 driven by demographic and societal trends and human capital risks. Consistent with most higher education providers, the university has a mission aligned with positive social impact through education and service, and those favorable impacts increase the likelihood of ongoing support from the state. Although UNCG draws the majority of its students from within North Carolina, a state with a growing number of high school graduates, declining enrollment and net tuition revenue reflect the university's highly competitive student market. Given pricing restrictions within the state, future growth in net tuition revenue will be closely aligned with enrollment growth. Favorably, UNCG enjoys a highly regarded regional reputation in the Piedmont Triad. Customer relations risks are reflected by a softening in student demand but offset by state support that has been consistently strong. Exposure to faculty tenure and a state defined benefit plan introduce human capital risks.

Governance

UNCG's exposure to governance risks is G-3 driven by board structure risks. UNCG benefits from its membership in the University of North Carolina System, which provides strong oversight of its member institutions. However, public universities typically have some board structure and governance risks given their lack of full independence from the state. Voting members of the UNC System Board are appointed by the state legislature. This structure adds exposure to potential political considerations which could create misalignment to institutional priorities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating was the [Higher Education Methodology](#) published in August 2021. The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard indicated outcome may or may not match an assigned rating. We assess brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 7

University of North Carolina at Greensboro, NC

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Scale (15%)		
Adjusted Operating Revenue (USD Million)	499	A
Factor 2: Market Profile (20%)		
Brand and Strategic Positioning	A	A
Operating Environment	Aa	Aa
Factor 3: Operating Performance (10%)		
EBIDA Margin	19%	Aa
Factor 4: Financial Resources and Liquidity (25%)		
Total Cash and Investments (USD Million)	667	Aa
Total Cash and Investments to Operating Expenses	1.5	Aaa
Factor 5: Leverage and coverage (20%)		
Total Cash and Investments to Total Adjusted Debt	1.3	Aa
Annual Debt Service Coverage	3.8	Aa
Factor 6: Financial Policy and Strategy (10%)		
Financial Policy and Strategy	A	A
Scorecard-Indicated Outcome		Aa3
Assigned Rating		Aa3

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Reflects fiscal 2023 in line with key indicators above

Source: Moody's Investors Service

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