S&P Global Ratings

Research

University of North Carolina at Greensboro
The Board of Governors of the University of North Carolina; Public Coll/Univ - Unlimited Student Fees

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Long Term Rating	A+/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings affirmed its 'A+' long-term rating on the University of North Carolina Board of Governors' revenue debt, issued for University of North Carolina at Greensboro (UNCG).
- The outlook is stable.

Security

At June 30, 2022, total debt outstanding was $273.5 million, which includes approximately $233.9 million in bonds, $33.3 million in direct bank placements, and $6.3 million in operating leases. Subsequent to fiscal 2022 year-end, UNCG entered into an operating lease for wireless internet equipment. The lease has a 72-month term, with payments totaling about $7.5 million. Including the additional lease payments, total pro forma debt is approximately $281 million. It is our understanding that the university has no near-term plans for additional debt. In our view, UNCG has sufficient resources to manage its direct placements, with $154.2 million in current cash and equivalents as of June 30, 2022. Available funds are any remaining legally available funds of UNCG or the board after satisfying obligations under a trust indenture, including unrestricted fund balances in financial statements but excluding state appropriations, tuition payments, and restricted gifts and grants. We view this payment source as equal to an unlimited student fee pledge of UNCG because of the broad revenue involved.

Credit overview

We assessed UNCG's enterprise profile as strong, characterized by good retention and average matriculation, partially offset by recent enrollment declines. We assessed UNCG's financial profile as very strong, characterized by solid support from North Carolina and a trend of healthy operating margins, which is offset by a sufficient and improved resources-to-debt ratio. We think that, combined, these credit factors led to an indicative rating of 'a+' and final rating of 'A+'.

The rating further reflects our opinion of UNCG's:

- Trend of positive operations, including a full-accrual surplus in fiscal 2022;
- Historically stable appropriations and strong state support; and
- Good revenue diversity, with student-derived revenues and state appropriations each accounting for about 33% of fiscal 2022 revenues.

We believe somewhat offsetting factors are what we consider UNCG's:

- Recent enrollment declines, including a 5.6% decline in full-time enrollment (FTE) in fall 2022, due to larger graduating classes;
- Elevated maximum annual debt service (MADS) burden relative to peers and medians, equal to 5.2% fiscal 2022 operating expenses; and
- Somewhat low unrestricted net assets (UNA) compared to debt for the rating category, with adjusted UNA equal to 59.7% of fiscal 2022 debt.

UNCG is one of 17 state-supported institutions that make up the University of North Carolina System. Located near the state's geographic center, UNCG was established in 1891 as State Normal & Industrial School to provide higher education to women. Today, it includes a college of arts and sciences, a college of visual and performing arts, a graduate school, and five professional schools. UNCG has a primarily regional draw, with about 91% of students from North Carolina.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. All other environmental and governance credit factors are also neutral in our credit rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that enrollment will stabilize over the next two years as management continues to implement strategic initiatives to offset recent declines. Additionally, the outlook reflects our expectation that UNCG will likely generate at least full-accrual positive operating results and maintain available resource ratios around current levels.

Downside scenario

We could lower the rating or revise the outlook to negative during the next two years if enrollment does not stabilize, full-accrual operating deficits were to emerge, or management were to add additional debt without commensurate available resource growth.

Upside scenario

We could raise the rating or revise the outlook to positive during the next two years if demand improves significantly and available resources grow substantially to levels we consider commensurate with those of higher-rated peers.

Enterprise Profile

Market position and demand

UNCG has seen enrollment decline in recent years as a result of pandemic-related pressure. In fall 2022, FTE enrollment was 16,070, a 5.6% decrease from fall 2021. This follows declines of 4.4% and 2.4% in fall 2021 and fall 2020, respectively. Management has taken a number of measures to offset enrollment declines, including elevating the office of enrollment management to a cabinet-level department, implementing more targeted marketing strategies, and creating new high school counselor and community college relationships. Recent programmatic initiatives include a PhD in computer science and an e-sports concentration within the bachelor of science degree in hospitality and tourism management. Additionally, UNCG constructed an e-sports arena, with plans to develop a statewide league.

UNCG received 11,515 freshman applications for the fall 2022 semester, a 7.7% year-over-year increase. Selectivity was marginally weaker at 91.9% in fall 2022, as compared with 90.8% in fall 2021. With the growth in applications, matriculation fell to 22.1% from 26.2%, but the number of matriculants was in line with the last three years. Student quality, measured by standardized tests, remained relatively stable, with an average SAT score of 1,201 in fall 2022. Per requirements of the UNC System, UNCG is test-optional. The policy went into effect in 2020 in connection with the COVID-19 pandemic and lasts through 2024.

The six-year graduation rate was 57.7%. UNCG has kept in-state tuition flat for several years, with incremental increases to room, board, and other fees. Total charges were $17,073 for in-state students and $32,232 for nonresidents for the 2022-2023 academic year, fees we consider affordable compared with those of its peers. UNCG's tuition discount is 32.7%, which should remain relatively stable. In October 2021, UNCG announced the public launch of Light the Way, its first comprehensive capital campaign in 15 years. To date, UNCG has raised $157.4 million toward the $200 million goal. Annual fundraising totaled $22.2 million in fiscal 2022, and had already eclipsed that level in fiscal 2023 as of late March.

Management and governance

A 13-member board of trustees governs UNCG. The University of North Carolina Board of Governors governs UNCG and other University of North Carolina schools. The board delegates certain powers to the local board of trustees. Chancellor Dr. Franklin Gilliam has been at UNCG since September 2015. Since our last review, UNCG elevated enrollment management to a cabinet-level position to address recent enrollment trends. Vice chancellor for enrollment management Tina McEntire has been with UNCG since 2020, having come from UNC Charlotte, where she oversaw successful enrollment growth.

UNCG has positive financial management practices, including conservative budgeting as well as formal debt and investment management policies. It develops a biennial budget for inclusion in the governor's budget in even-numbered years. UNCG also prepares five-year financial plans when submitting tuition and fee plans to the University of North Carolina Board of Governors. UNCG has formal endowment, investment, and debt management policies. It operates according to a multiyear strategic plan and has a formal reserve liquidity policy. UNCG meets standard annual disclosure requirements. The university maintains policies and procedures to protect assets and data from cyber attacks. Additionally, faculty and staff are required to complete information security awareness training. UNCG maintains cyber and multimedia liability insurance.

UNCG's strategic priorities focus on transformation in three areas: students, knowledge, and region. Management has formalized its strategic plan, known as "Taking Giant Steps," across programming. UNCG remains focused on increasing enrollment, including students from rural and low-income areas. It has also increased first-generation and PELL-eligible students, and boosted recruiting of underprivileged students. The university has a strong mission of social mobility.

Financial Profile

Financial performance

UNCG's financial performance has a solid trend of full-accrual surpluses. In audited fiscal 2022, UNCG had a net adjusted surplus of $33.7 million, or a 6.0% margin, an improvement from the $13.5 million surplus, or 2.6% margin, in fiscal 2021. The university realized approximately $44.7 million in federal relief funds in fiscal 2022 and expects to realize about $31.1 million in fiscal 2023. State appropriations totaled $189.2 million in fiscal 2022 and have remained relatively consistent with the historical trend. In our view, state support remains sufficient. UNCG's revenue sources are diverse, in our view, compared with peer institutions. We expect management will likely continue to manage expenses to ensure operational stability. In fiscal 2023, management is anticipating positive operations, which we view as likely.

Available resources

UNCG's adjusted UNA were $163.3 million in audited fiscal 2022, a 27.8% increase from fiscal 2021. The UNA-to-operation expenses ratio improved to 30.7%, from 25.4% in fiscal 2021. UNA relative to debt also improved, to 59.7% from 44.3% in fiscal 2021. Although adjusted UNA levels improved over the last two years, we note they remain below category medians. At June 30, 2022, cash and investments, which includes restricted funds, equaled 104.0% of adjusted operating expenses and 202.5% of debt. Resources-to-pro forma debt are marginally weaker and still sufficient for the rating. Including the $7.5 million in leases entered after fiscal 2022, adjusted UNA to pro forma debt is 58.1%, and cash investments to pro forma debt is 197.1%.

At fiscal year-end 2022, the endowment fund had a $368.6 million market value, down by 6.1% from fiscal year-end 2021. The endowment's majority, however, is restricted. In fiscal 2022, UNCG had an endowment draw of about 2.8%, which we consider sustainable and conservative.

Debt and contingent liabilities

At June 30, 2022, total debt outstanding was $273.5 million. Including the newly entered leases of $7.5 million, total pro forma debt is $281.0 million. The university has no new-money debt plans. Current and pro forma MADS are about 5.2% and 5.5%, respectively, of fiscal 2022 adjusted operating expenses, which we consider manageable.

In August 2021, UNCG entered into a forward bond purchase agreement with Morgan Stanley. Pursuant to the agreement, Morgan Stanley paid UNCG $12.6 million, representing the net present-value savings on a hypothetical tax-exempt forward delivery refunding of UNCG's 2014 bonds. UNCG is using this money to fund the Arts Place at Tate & Gate project. In exchange, it granted Morgan Stanley the option (but not the obligation) to purchase bonds at a predetermined price in 2024 to current refund the 2014 bonds. If issued, the 2024 bonds' debt service would exactly match that of the 2014 bonds.

UNCG contributes to North Carolina Teachers' & State Employees' Retirement Systems, a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. The plans were 95% funded as of June 30, 2022. UNCG's pension expense relative to adjusted operating expense is 6.2%, which we view as manageable.

University of North Carolina at Greensboro--Enterprise and financial statistics

	--Fiscal year ended June 30--				
	2023	2022	2021	2020	2019
Enrollment and demand					
Headcount	17,978	19,038	19,764	20,196	20,106
Full-time equivalent	16,070	17,025	17,812	18,249	18,304
Freshman acceptance rate (%)	91.9	90.8	87.5	82.5	83.8
Freshman matriculation rate (%)	22.1	26.2	28.1	33.4	43.6
Undergraduates as a % of total enrollment (%)	79.0	79.7	80.9	82.1	82.8
Freshman retention (%)	72.9	77.6	80.5	75.3	76.2
Graduation rates (six years) (%)	57.7	59.7	58.8	58.3	53.2
Income statement					
Adjusted operating revenue ($000s)	N.A.	566,200	517,159	517,620	514,725
Adjusted operating expense ($000s)	N.A.	532,505	503,656	515,234	501,209
Net adjusted operating income ($000s)	N.A.	33,695	13,503	2,386	13,516
Net adjusted operating margin (%)	N.A.	6.33	2.68	0.46	2.70
Estimated operating gain/loss before depreciation ($000s)	N.A.	61,096	38,117	25,617	36,700
Change in unrestricted net assets (UNA; $000s)	N.A.	64,506	36,069	667	26,149
State operating appropriations ($000s)	N.A.	189,186	179,817	181,561	179,542
State appropriations to revenue (%)	N.A.	33.4	34.8	35.1	34.9
Student dependence (%)	N.A.	33.0	36.0	38.1	40.1
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	8.7	7.3	6.8	5.8
Endowment and investment income dependence (%)	N.A.	2.2	2.6	2.8	2.7

University of North Carolina at Greensboro--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--				
	2023	**2022**	**2021**	**2020**	**2019**
Debt					
Outstanding debt ($000s)	N.A.	273,531	288,455	303,263	315,113
Proposed debt ($000s)	N.A.	7,494	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	281,025	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	29,110	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	5.50	5.71	5.33	5.62
Current MADS burden (%)	N.A.	5.23	5.64	5.21	5.39
Pro forma MADS burden (%)	N.A.	5.47	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	368,600	392,600	310,300	307,500
Related foundation market value ($000s)	N.A.	174,431	183,903	142,133	140,843
Cash and investments ($000s)	N.A.	554,009	537,784	428,076	432,740
UNA ($000s)	N.A.	(207,616)	(272,122)	(308,191)	(308,858)
Adjusted UNA ($000s)	N.A.	163,313	127,800	109,249	116,489
Cash and investments to operations (%)	N.A.	104.0	106.8	83.1	86.3
Cash and investments to debt (%)	N.A.	202.5	186.4	141.2	137.3
Cash and investments to pro forma debt (%)	N.A.	197.1	N.A.	N.A.	N.A.
Adjusted UNA to operations (%)	N.A.	30.7	25.4	21.2	23.2
Adjusted UNA plus debt service reserve to debt (%)	N.A.	59.7	44.3	36.0	37.0
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	58.1	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	12.6	13.0	12.8	11.9
OPEB liability to total liabilities (%)	N.A.	38.6	33.3	35.7	30.4

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022