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CREDIT OPINION
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Update

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Wright State University, OH

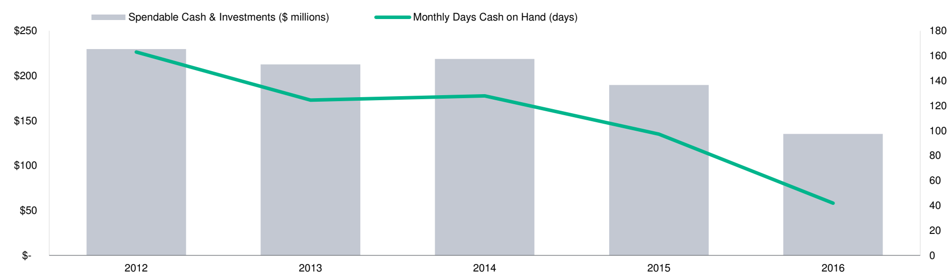
Update - Moody's Downgrades Wright State University to Baa2 from A2; Outlook Negative

Summary Rating Rationale

Moody's Investors Service has downgraded Wright State University, OH's (WSU) $68 million of outstanding General Receipts bonds to Baa2 from A2. The outlook is negative. This concludes the review for downgrade initiated March 23, 2017. The downgrade is driven by WSU's severe financial deterioration in a short period of time, with significant operating deficits in FY 2016 and projected for FY 2017 resulting in substantial reduction in liquidity. Management is implementing a comprehensive expense reduction plan to restore fiscal balance in FY 2018. However, with a relatively inflexible expense base, realizing adequate savings to align with revenues will prove challenging. Should the university not accomplish its expense realignment plan, it will continue to have deficit operations and potential further draw downs on liquidity, which could trigger additional downward rating pressure.

The Baa2 favorably incorporates WSU's regionally important role as a low-cost public university serving the Dayton region, with good scale, solid fundraising, diverse revenue, and a predictable debt structure. It also incorporates the university's relationship with the State of Ohio (Aa1 stable), which has implemented enhanced monitoring of the university's financial condition.

Exhibit 1
Rapidly Deteriorating Financial Position Driven by Unbalanced Operations



Source: Moody's Investors Service

Credit Strengths

- Competitively priced, regional public university with notable strengths in science and technology serving 15,821 full-time equivalent students in fall 2016
- Relationship with Aa1-rated state, which provides about a quarter of annual operating revenue and is engaging in close monitoring of the university's financial condition

» Renewed focus on right sizing the expense base by identifying over $30 million in spending reductions with a goal of restoring fiscal balance in FY 2018

» Conservative, fixed-rate debt structure with relatively rapid amortization

Credit Challenges

» Very weak operating performance with large deficits expected through at least FY 2017 driven partly by the largely inflexible expense base

» Rapidly diminishing unrestricted liquidity, currently projected to bottom out at $10 million at the end of July 2017

» Material revenue headwinds driven by a state-mandated tuition freeze, challenging demographics, and drop off in international enrollment

» Recent years of key leadership transitions and legal issues expose the university to financial and reputational risks

» Substantial indirect debt and reliance on third party developer for majority of student housing

Rating Outlook

The negative outlook acknowledges WSU's severe financial stress, reflected by diminishing liquidity and large operating deficits. It also incorporates the challenges of executing upon a comprehensive plan to substantially reduce operating expenses given multiple constraints.

Factors that Could Lead to an Upgrade

» Sustained improvement in cash flow and debt service coverage

» Material improvement in flexible reserves relative to debt and operations

Factors that Could Lead to a Downgrade

» Failure to achieve substantial improvement in financial operations for FY 2018 and beyond

» Reduction in liquidity below the $10 million currently projected at the end of July 2017

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Key Indicators

Exhibit 2

WRIGHT STATE UNIVERSITY, OH	2012	2013	2014	2015	2016
Total FTE Enrollment	15,800	15,625	15,823	16,134	15,821
Operating Revenue ($000)	375,191	376,560	341,662	340,958	347,717
Annual Change in Operating Revenue (%)	-1.7	0.4	-9.3	-0.2	2.0
Total Cash & Investments ($000)	265,837	250,321	259,491	231,471	178,405
Total Debt ($000)	97,148	125,732	104,957	98,430	91,748
Spendable Cash & Investments to Total Debt (x)	2.4	1.7	2.1	1.9	1.5
Spendable Cash & Investments to Operating Expenses (x)	0.6	0.5	0.6	0.5	0.3
Monthly Days Cash on Hand	163	124	128	97	42
Operating Cash Flow Margin (%)	3.8	1.5	-0.1	-1.0	-4.4
Total Debt to Cash Flow (x)	6.8	21.6	-206.6	-29.6	-6.0
Annual Debt Service Coverage (x)	1.3	0.6	0.0	-0.3	-1.5

Source: Moody's Investors Service

Detailed Rating Considerations

Market Profile: Competitively Priced, Regional Public University With Steady Demand Despite Persistent Enrollment Headwinds

The university's role as an important provider of educational services to the southwest Ohio region, with ongoing state support and oversight, is the primary factor sustaining an investment grade rating at this time. The university has material size and scale, with over 15,800 students and nearly $350 million of operating revenue, leading to the likelihood of ongoing political support. As the university's financial conditions deteriorates, the relationship with the state assumes an increasingly important component of its market position. The university derives approximately a quarter of its revenue from the state.

Under Ohio's Senate Bill 6, enacted in law in 1997, each state supported public university receives an annual composite score which provides an indication of its fiscal health. The university will likely fall below the required benchmark score of 1.75 in FY 2017 and FY 2018. As a result, the university could potentially be placed on fiscal watch by the state, making it subject to increased state scrutiny. While this further demonstrates WSU's financial challenges, the additional layer of oversight provided by the state is credit positive. The state is not required to provide extraordinary support, but could take additional measures, including driving the replacement of management and governance. Currently, on a weekly basis, the university is providing the state with cash flows and outward projections.

Overall enrollment has remained relatively stable. However, the university confronts challenging regional demographics, with declining numbers of high school graduates. A material recent drop in international enrollment combined with a tuition freeze that is expected to remain in place through at least FY 2018 will result in modest prospects for tuition revenue growth.

The university has favorably established a niche as a provider of scientific and technical education, with notable programmatic strengths in engineering, computer science, and medicine. This distinction has helped mitigate the aforementioned pressures and maintain relative enrollment stability. It continues to leverage its relationship with Wright Patterson Air Force Base, which provides about 200 students annually. While the university continues to benefit from its collaboration with Dayton Regional STEM Schools, which is serving as a pipeline for high school graduates, reductions in statewide community college enrollment have driven declines in WSU transfer students.

Operating Performance: Unbalanced Operations Remaining Through FY 2017 With Significant Expense Reductions Needed to Restore Balance in FY 2018

The university's rapid credit deterioration reflects the unexpected severity of operating deficits in FY 2016 and expected into FY 2017, materially eroding liquidity and highlighting significant management failure to adjust to an evolving environment. While the FY 2016 operating cash flow margin was anticipated to be relatively weak, ultimately a negative 4.4%, management had previously outlined a plan to reduce expenses to manage through enrollment challenges. Instead, expense growth exceeded revenue growth. Since FY 2014, revenue has grown by less than 2% compared to a 6% growth in expenses. With revenue headwinds persisting as a result of an expected continued tuition freeze, moderating state funding, and ongoing enrollment pressures, executing on a comprehensive strategy to reduce expenses is critical to the university's credit quality and ability to restore operating balance.

While WSU benefits from a large $389 million operating base, its highly unionized workforce limits expense flexibility. Management has identified a series of measures that include (among others) voluntary retirement incentives, eliminating fee waivers, restricting hiring and travel, and addressing health care costs. While it is unclear how feasible realizing the full amount, the university has identified over $30 million in savings that could be generated through these measures in FY 2018. Regardless, with uncertainty surrounding the upcoming expiration of a faculty contract, achieving balanced operations in FY 2018 will prove challenging.

Wealth and Liquidity: Deficit Operations Driving Deterioration of Flexible Reserves

WSU's challenged operating performance will continue to erode financial flexibility. Over the last two years, total cash and investments of the university and affiliated foundation declined 31% to $178 million in FY 2016, with additional softening anticipated in FY 2017. While the university is implementing a series of measures to adjust operations to restore balance, failure to execute upon this strategy could result in the additional spend down of reserves beyond FY 2017 which would likely trigger additional downward rating pressure.

Favorably, WSU has benefitted from recent fundraising success driven by a comprehensive campaign. To date, the campaign raised over $163 million, above the original $150 million goal. Three-year average gift revenue of $12 million translates to $763 per student, comparatively stronger than the Baa-rated median of $314.

LIQUIDITY

WSU's rapidly diminishing liquidity is another key factor behind the multi-notch downgrade. At FYE 2016, reported unrestricted monthly liquidity of $42 million provided just 42 monthly days cash on hand. This represents a sharp decline from the $121 monthly liquidity at FYE 2014 and was driven by the university's inability to curb spending during a period of revenue stagnation. With another large operating deficit projected for FY 2017, the university anticipates further deterioration of liquidity, with approximately $10 million at the end of July 2017.

Along with potentially continued imbalanced operations, additional potential calls on liquidity include a $4 million unfunded private equity commitment.

The university does not maintain a line of credit and is prohibited from doing so by the state. This limitation prevents the university from pursuing an avenue to address potential cash flow concerns should they arise.

Leverage: Weak Debt Service Coverage; No Additional Debt Plans; Reliance on Third Party for Housing Stock

The university's outstanding debt is moderate relative to revenues (0.3 times) in part due to reliance on a third party for housing stock. However, with weak operating performance, FY 2017 will be the fifth consecutive year of failure to cover debt service from operating cash flow. There are no additional near-term debt plans and the university has no additional debt capacity at the current rating level absent improvement in operating performance.

Despite the successive years of poor operating performance, WSU has continually invested in plant with capital spending averaging 1.6 times depreciation over the last five years. These investments were funded through a combination of debt, gifts, and reserves.

The bulk of Wright State's housing stock is owned and operated by a private developer. The current agreement is near expiration, although management is currently exploring options to ensure there is no disruption to its housing. Through the agreement that is set to expire, WSU does not have a legal obligation to support this housing and would only be expected to compensate the developer up to a pre-defined fixed occupancy level should WSU construct additional housing or advise students to occupy other housing not provided by the developer and that agreed upon occupancy is not met. Management reports that all housing is at or close to 100% occupancy.

DEBT STRUCTURE

During a period of severe financial stress, WSU's all fixed-rate debt structure provides predictable fixed costs to incorporate into budgets. At FYE 2016, the university had $92 million of direct debt, $68 million of which are General Receipts Bonds. The bonds are regularly amortizing with annual debt service peaking at $10.6 million in FY 2017 before falling incrementally through the FY 2032 final maturity.

Along with General Receipts Bonds, included in direct debt are $21 million of notes and a $3 million guarantee entered into by the university's foundation with Dayton Regional STEM Schools, Incorporated. The notes are related to an energy conservation projects whereby the university would realize savings through reduced energy consumption over a 15-year period. Total projected savings of $35 million is well above debt service on these notes.

DEBT-RELATED DERIVATIVES

There are no debt-related derivatives.

PENSIONS AND OPEB

The university's exposure to pension and other post-employment retirement benefits (OPEB) is elevated. Moody's adjusted debt, including $92 million of direct debt and $736 million Moody's three-year (2013-2015) average adjusted net pension liability, exceeds the preliminary median for rated public universities. Total adjusted debt is 2.4 times FY 2016 operating revenue and spendable cash and investments is only 0.2 times total adjusted debt.

The Ohio legislature exerts significant control over pensions, setting contribution rates for State Teachers' Retirement System of Ohio (STRS) and Ohio Public Employees Retirement System (OPERS), the two multiple-employer defined benefit plans in which the university participates. Combined, these plans were 53% funded in FY 2016 on a Moody's adjusted basis, up five percentage points from FY 2013 when the state implemented pension reforms. While the university's contributions for STRS and OPERS are currently capped at 14% of covered payroll, increases to this contribution amount would add stress to the university's budget.

Governance and Management: Maintaining Continuity Critical to Restoring Financial Footing

Recent years of financial, operational, and legal challenges, counterbalanced by its role as a regionally important public university, factor into WSU's only fair strategic positioning. Currently, the university is led by an interim president who assumed the role after the abrupt resignation of the long-tenured predecessor. The interim president has been tasked with implementing measures to improve the university's financial position. On July 1, a new president will be in place. In recent years, there have been other transitions at key leadership positions. Moving ahead, maintaining leadership continuity and implementing improved budget discipline will be critical to restoring the university's financial footing.

Legal Security

All bonds are secured by a broad pledge of the university's General Receipts, which includes all legally available revenue of the university, except money raised by taxation, state appropriations, or restricted gifts. There are no debt service reserve funds.

Use of Proceeds

Not applicable.

Obligor Profile

Wright State University is a moderate size regional public university with its main campus situated just outside of Dayton, Ohio. As a comprehensive university, WSU offers a broad menu of undergraduate, graduate and professional level offerings, including a School of Medicine. In fall 2016, the university served a total headcount of nearly 18,000 students.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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