DIRECTIVE 2021-045

November 16, 2021

Re: CONSIDERATION OF A REQUEST BY UNIVERSITY OF AKRON TO PLEDGE FEES IN SUPPORT OF A BOND ISSUANCE NOT TO EXCEED $33,700,000 TO REFUND OUTSTANDING DEBT TO RESTRUCTURE THE UNIVERSITY’S DEBT TO PROVIDE A MORE CONSISTANT DEBT RETIREMENT SCHEDULE.

Ohio Revised Code §3345.11 enables a state university or college to issue general receipts obligation bonds in the manner provided by and subject to the applicable provisions of Ohio Revised Code §3345.12.

§381.390 of Am. Sub. H.B. 110 of the 134th General Assembly requires that any new pledge of fees to secure bonds or notes of a state college or university be approved by the Chancellor of the Ohio Department of Higher Education.

Pursuant to Ohio Revised Code, the University of Akron has demonstrated the following:

- The proposed project is essential to fulfilling institutional goals.
- The institution’s Board of Trustees approved a resolution authorizing this bond issuance during their October 14, 2020 meeting.
- The institution’s proposal complies with §3345.11 and §3345.12.

Agency staff reviewed the request and posted its recommendations to the Department of Higher Education’s web site for purposes of providing a period of public comment before final approval by the Chancellor. The materials posted for comment and the request to pledge fees are attached to this document.

Based on my review of staff recommendations, I hereby approve the request to pledge fees by University of Akron in support of general receipts obligation bonds (the “obligations”) in an aggregate amount not to exceed $33,700,000. Furthermore, any increase in fees to support this issuance shall not be exempt from any future restraint to increases in undergraduate instructional and general fees imposed by the General Assembly.

This directive will take effect immediately.

Randy Gardner
Chancellor
University of Akron Fee Pledge

University of Akron is requesting to pledge fees to support the refunding of $33.7 million of debt. The debt issuance will provide a refunding for Series 2018B bonds and Series 2015A bonds. The refunding will provide a more consistent debt retirement schedule and will provide a cash flow relief for 3 years. The transaction will not extend the University’s overall debt maturity.

The University had nearly $347 million of outstanding bond debt at the end of FY 2020. Their SB 6 Composite Score in FY 2020 is 2.8. Since this refunding will not increase the University’s debt, this issuance will not negatively impact their SB 6 score.

Analysis

1) Does the request provide an overview and project descriptions with supporting documentation? NA, proposed debt will support a refunding of debt.

2) Does the proposal provide a projected cost break down? NA

3) Does the proposal specify that the project(s) will have no direct impact on student tuition and fees? UAK affirms in their request that: “The proposed debt issuance will have no direct impact on student tuition and fees. While the University may use unrestricted student fee revenues to support the debt service and other potential operating costs, student fees are not expected to increase as a direct result of this request.”

4) Does the proposal include a financial ratio analysis? Composite Scores below:

<table>
<thead>
<tr>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2</td>
<td>3.4</td>
<td>3.2</td>
<td>2.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

5) Does the proposal provide a financial outlook and bond rating? Also, does the proposal discuss change in plant debt?
   - UA’s current rating from Fitch is A+/Negative and from Moody’s is A1/Negative.
   - UA’s plant debt - $371.5 million at the end of FY 2020. Their Viability ratio was 39.5%; which generates a score of 2 on this ratio.
The University of Akron
Fee Pledge Request $34 Million

Submitted to the Ohio Department of Higher Education

September 27, 2021
1. **Transaction Overview:**

The University of Akron is seeking approval of a fee pledge request to secure a potential refinancing opportunity. A summary of the proposed transaction (approx. $33.7 million) is included. The transaction includes a tax-exempt component of $13.2 million (Series 2018B Bonds), and a taxable portion of $20.5 million (Series 2015A Bonds).

The transaction’s aim is to advance refund the Series 2018B bonds for savings and to restructure a portion of the Series 2015A current outstanding bond principal payments for fiscal years ending June 30, 2024 – June 30, 2026. The transaction will provide a more consistent debt retirement schedule, and will also provide the University with cash flow relief for three years 2024-2026 as it increases its recruitment efforts.

The impact of the tax-exempt series will decrease the University’s outstanding bond principal by $2.9 million and the taxable series will increase principal by $2.8 million, for an overall decrease of $0.1 million. The transaction will not extend the University’s overall debt maturity.

2. **Fee Impact:**

The proposed debt issuance will have no direct impact on student tuition and fees. While the University may use unrestricted student fee revenues to support the debt service and other potential operating costs, student fees are not expected to increase as a direct result of this request.

3. **Ratio Analysis:**

**Background**

Senate Bill 6 of the 122nd General Assembly was enacted into law in 1997. It is designed to increase financial accountability of state colleges and universities by using a standard set of measures with which to monitor the fiscal health of campuses. Using the year-end audited financial statements submitted by each public institution, the Ohio Department of Higher Education (ODHE) annually applies these standards to monitor individual campus finances. In addition, Senate Bill 6 requires state colleges and universities to submit quarterly financial reports to the ODHE within 30 days after the end of each fiscal quarter.

**Ratio Analysis Methodology**

In order to meet the legislative intent of Senate Bill 6, the ODHE computes three ratios from which four scores are generated. The data and methodology used to conduct the ratio analysis along with The University’s figures are as follows:
### The University of Akron (in millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expendable net assets</td>
<td>$160.8</td>
<td>$181.7</td>
<td>$160.4</td>
<td>$158.8</td>
<td>$146.9</td>
</tr>
<tr>
<td>Plant debt</td>
<td>$441.4</td>
<td>$430.8</td>
<td>$412.9</td>
<td>$396.9</td>
<td>$371.5</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$463.8</td>
<td>$453.7</td>
<td>$429.4</td>
<td>$394.5</td>
<td>$367.5</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$453.6</td>
<td>$434.2</td>
<td>$419.7</td>
<td>$405.9</td>
<td>$381.7</td>
</tr>
<tr>
<td>Total non-operating expenses</td>
<td>$0.8</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.6</td>
</tr>
<tr>
<td>Change in total net assets</td>
<td>$9.3</td>
<td>$19.5</td>
<td>$9.7</td>
<td>($11.4)</td>
<td>($14.9)</td>
</tr>
</tbody>
</table>

The methodology for calculating the three ratios and the composite score is as follows:
- **Viability ratio**: Expendable net assets divided by plant debt.
- **Primary Reserve ratio**: Expendable net assets divided by total operating expenses.
- **Net Income ratio**: Change in total net assets divided by total revenues.
- **Composite Score**: A weighted summary score of all three ratios. This is the primary indicator of fiscal health.

**Assignment of Scores**

Based on the calculations described above, each ratio is assigned a score ranging from zero to five according to the criteria listed in the table below. A score of 5 indicates the highest degree of fiscal strength in each category.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Composite Weight</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viability Ratio</td>
<td>30%</td>
<td>&lt; 0</td>
<td>0 to .29</td>
<td>.30 to .59</td>
<td>.6 to .99</td>
<td>1.0 to 2.5</td>
<td>&gt; 2.5 or N/A</td>
</tr>
<tr>
<td>Primary Reserve Ratio</td>
<td>50%</td>
<td>&lt; -.1</td>
<td>-.1 to .049</td>
<td>.05 to .099</td>
<td>.10 to .249</td>
<td>.25 to .49</td>
<td>.5 or greater</td>
</tr>
<tr>
<td>Net Income Ratio</td>
<td>20%</td>
<td>&lt; -.05</td>
<td>-.05 to 0</td>
<td>0 to .009</td>
<td>.01 to .029</td>
<td>.03 to .049</td>
<td>.05 or greater</td>
</tr>
</tbody>
</table>

**NOTE:** A composite score of or below 1.75 for two consecutive years would result in an institution being placed on fiscal watch. The highest composite score possible is 5.00.
Composite Score

Fiscal Year 2020

2.8

Viability Ratio

The Viability Ratio measures the availability of expendable net assets to cover debt should The University need to settle its obligations as of the balance sheet date.

Primary Reserve Ratio

The Primary Reserve Ratio measures the financial strength of The University by indicating how long the institution could function using the expendable reserves without relying on additional net assets generated by operations.

Net Income Ratio

The Net Income Ratio measures The University's profitability or ability to operate within its means. Continued gains or losses measured by the ratio will impact all the other fundamental elements of financial health over time.
4. Financial Outlook and Bond Rating:

Excerpts from the recent Moody’s rating review dated August 26, 2020 are as follows (A1, negative outlook):

**Market position: important regional role challenged by demographic shifts that have pressured operating revenue downward**

Favorably, UA maintains a regionally important role as a competitively priced public university with strong STEM academic programs. Overall scale, as measured by revenue and enrollment, is still comparatively sound. However, the university will continue to experience enrollment and net tuition revenue pressures due to sustained student market challenges. Like other Midwestern universities, the University of Akron has been affected by a decline in regional high school graduates that limits the student market and exacerbates competition. Fall 2019 full-time equivalent students (FTE) of just over 16,250 fell 33% from its fall 2011 peak enrollment. As a part of the University of Ohio system, the University of Akron participates in the “tuition guarantee” program. The program fixes each new cohort of students’ tuition, fees, and room/board for four years. While helping the university’s tuition remain competitive, the program nonetheless has limited its ability to price according to market conditions.

University management has worked to adjust financial aid policies, expand recruitment efforts, and invest in retention. Despite ongoing efforts to stabilize enrollment, the university recognized its challenges, in part accelerated by the coronavirus pandemic, with an assumed 15% decline of FTE students in fall 2020. To date, preliminary enrollment figures indicate a less pronounced decline of 8%. While actual enrollment is demonstrating a positive trend compared to the budgeted assumption, shifts in pandemic conditions could ultimately stymie these small gains. The university has adjusted its curriculum, including a mix of remote and on-campus learning, but auxiliary enterprises will experience revenue decline. The general fund will support auxiliary services through the 2021 fiscal year.

The university’s operating revenue remains sizable at nearly $365 million as of fiscal 2019 and is strong for its rating category. The university’s operating scope, however, has waned, having declined 24% since its fiscal 2011 peak of $479 million. As UA has worked to build wealth and liquid reserves, capital reinvestment has been minimal, which will be a growing challenge. Capital spending has not kept pace with depreciation for three fiscal years and was a minimal 0.4x depreciation in fiscal 2019.

**Operating performance: historically robust operating performance will be constrained as challenges mount**

The university achieved historically favorable operating performance through focused fiscal management efforts. The university’s ability to maintain operating performance, however, will be constrained by mounting operating challenges exacerbated by pandemic conditions. The university’s operating revenue are driven by net tuition and auxiliary (55%), and state appropriations (27%). Net tuition revenue has declined for seven consecutive years due to FTE declines and tuition fee growth that is constrained by Ohio University system policy. While state appropriation support has been steady historically, it will decline in fiscal 2021 as the state adjusts its budget to adverse economic conditions brought on by the pandemic.

Despite persistent operating challenges, UA management had successfully adjusted expenses downward, producing historically robust operating results. The fiscal 2019 operating cash flow margin of 11.6% was consistent for UA’s A1 rating and has supported growth in wealth and liquidity. The university projects that fiscal 2020 year-end results will be similar to fiscal 2019. The ongoing positive results were bolstered by steady fiscal 2020 state appropriations and the receipt of CARES Act funding that offset extraordinary pandemic-related costs.
Fiscal 2021 financial performance, on the other hand, remains sensitive to pandemic-related volatility and budgetary uncertainties. The fiscal 2021 budget was approved in August 2020 with conservative assumptions. Budget assumptions include net revenue reductions correlated to a budgeted 15% decline in FTE. Year to date FTE performance, however, suggests that the decline will be under 10% that would produce more favorable operating results. The fiscal 2021 budget also includes very significant faculty reductions that would save UA a little over $8 million in salary and benefits expense per year. The faculty reduction has been met by bargaining unit opposition. If bargaining units prevent the faculty reduction, UA’s fiscal 2021 could end with a material deficit. The university has stated that if arbitration fails, it is dedicated to implement retrenchment procedures. Retrenchment procedures would ultimately adjust faculty to align with diminished operations, but would take longer to carry out. Fiscal 2021 results also remain subject to outsized adverse conditions caused by the pandemic that may result in deeper enrollment disruption or larger state appropriation cuts.

**Wealth and Liquidity:** strong wealth and liquidity will provide flexibility to UA during a period of uncertainty

Management’s concerted cost saving efforts have built very good wealth and liquidity with total cash and investments of $483 million in fiscal 2019. The university’s wealth exceeds the A-rated peer median and will provide UA with good flexibility as its capacity to maintain strong operating results becomes more challenged. Spendable cash and investments of $265 million were 0.7x operating expense, providing an expense cushion for nearly three-quarters of the year.

Liquidity

The university maintains good liquid reserves, with 231 days cash on hand as of fiscal 2019.

**Current University of Akron Bond Ratings**

The University bond ratings were reviewed/revised in August and October 2020 indicating the University’s profile remains strong though the outlook was changed from stable to negative.

<table>
<thead>
<tr>
<th>University Bond Rating</th>
<th>Moodys</th>
<th>A1</th>
<th>Negative</th>
<th>August, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>A+</td>
<td>Negative</td>
<td>October, 2020</td>
<td></td>
</tr>
</tbody>
</table>

**5. Outstanding Indebtedness:**

The University of Akron continues to prudently manage its entire fixed rate debt portfolio.

The University has $346,623,837 of outstanding bond debt as of June 30, 2021 consisting of general receipts bonds ($311,450,000) and additional tax credit revenue bonds ($35,173,837). The annual commitment to service the outstanding debt for Fiscal Year 2022 (pending this transaction) is approximately $27 million. The repayment sources allocated for Fiscal Year 2021 debt service consisted of a combination of user fees (84.6%) and a general fund allocation (15.4%). All outstanding debt is fixed rate in nature.
Debt Service Schedule (Bonds Only):

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Receipts</th>
<th>Debt Service Refunded</th>
<th>Refunding Debt Service</th>
<th>Debt Service Refunded</th>
<th>Refunding Debt Service</th>
<th>Gross Savings</th>
<th>Post-Issuance Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>21,682,341</td>
<td>399,923</td>
<td>54,833</td>
<td>442,875</td>
<td>42,027</td>
<td>685,938</td>
<td>26,084,758</td>
</tr>
<tr>
<td>2023</td>
<td>25,076,746</td>
<td>679,847</td>
<td>658,000</td>
<td>885,750</td>
<td>504,325</td>
<td>1,400,325</td>
<td>30,525,919</td>
</tr>
<tr>
<td>2024</td>
<td>31,513,648</td>
<td>679,847</td>
<td>658,000</td>
<td>6,504,750</td>
<td>504,325</td>
<td>6,022,727</td>
<td>30,491,721</td>
</tr>
<tr>
<td>2025</td>
<td>31,459,836</td>
<td>679,847</td>
<td>658,000</td>
<td>6,504,750</td>
<td>504,325</td>
<td>6,022,727</td>
<td>30,491,721</td>
</tr>
<tr>
<td>2026</td>
<td>31,425,638</td>
<td>679,847</td>
<td>658,000</td>
<td>6,504,750</td>
<td>504,325</td>
<td>6,022,727</td>
<td>30,491,721</td>
</tr>
<tr>
<td>2027</td>
<td>31,373,678</td>
<td>679,847</td>
<td>658,000</td>
<td>-</td>
<td>1,594,325</td>
<td>(1,571,891)</td>
<td>33,901,064</td>
</tr>
<tr>
<td>2028</td>
<td>31,580,674</td>
<td>748,500</td>
<td>679,847</td>
<td>-</td>
<td>1,593,738</td>
<td>(1,571,891)</td>
<td>33,901,064</td>
</tr>
<tr>
<td>2029</td>
<td>20,999,024</td>
<td>15,748,500</td>
<td>679,847</td>
<td>-</td>
<td>1,595,726</td>
<td>(1,573,879)</td>
<td>38,321,403</td>
</tr>
<tr>
<td>2030</td>
<td>36,935,274</td>
<td>-</td>
<td>4,454,847</td>
<td>3,708,000</td>
<td>-</td>
<td>1,595,701</td>
<td>(848,854)</td>
</tr>
<tr>
<td>2031</td>
<td>25,462,073</td>
<td>-</td>
<td>4,458,222</td>
<td>3,710,500</td>
<td>-</td>
<td>1,593,603</td>
<td>(845,881)</td>
</tr>
<tr>
<td>2032</td>
<td>25,227,893</td>
<td>-</td>
<td>4,457,991</td>
<td>3,715,250</td>
<td>-</td>
<td>1,594,853</td>
<td>(852,212)</td>
</tr>
<tr>
<td>2033</td>
<td>24,562,434</td>
<td>-</td>
<td>4,458,782</td>
<td>3,711,750</td>
<td>-</td>
<td>1,594,011</td>
<td>(846,979)</td>
</tr>
<tr>
<td>2034</td>
<td>20,103,652</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,595,702</td>
<td>(1,595,702)</td>
<td>21,699,358</td>
</tr>
<tr>
<td>2035</td>
<td>20,108,593</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,595,448</td>
<td>(1,595,448)</td>
<td>21,704,041</td>
</tr>
<tr>
<td>2036</td>
<td>16,522,737</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,593,191</td>
<td>(1,593,191)</td>
<td>18,115,927</td>
</tr>
<tr>
<td>2037</td>
<td>16,529,737</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,593,869</td>
<td>(1,593,869)</td>
<td>18,123,060</td>
</tr>
<tr>
<td>2038</td>
<td>21,647,487</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,592,689</td>
<td>(1,592,689)</td>
<td>23,240,176</td>
</tr>
<tr>
<td>2039</td>
<td>4,456,250</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,591,714</td>
<td>(1,591,714)</td>
<td>6,046,964</td>
</tr>
<tr>
<td>2040</td>
<td>4,458,750</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,594,547</td>
<td>(1,594,547)</td>
<td>6,053,297</td>
</tr>
<tr>
<td>2041</td>
<td>4,450,813</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,596,039</td>
<td>(1,596,039)</td>
<td>6,046,852</td>
</tr>
<tr>
<td>2042</td>
<td>4,456,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,596,190</td>
<td>(1,596,190)</td>
<td>6,052,690</td>
</tr>
<tr>
<td>Total</td>
<td>450,032,772</td>
<td>42,687,277</td>
<td>22,928,692</td>
<td>19,506,333</td>
<td>20,843,875</td>
<td>27,570,769</td>
<td>(3,304,535)</td>
</tr>
</tbody>
</table>

*Other debt service is comprised of 2013AB OAQDA Bonds.

Financing Assumptions:

- Anticipated Pricing Date: Week of November 1, 2021
- Issuance Type: Fixed Rate
- Tax-Exempt: 1.40%
- Taxable: 2.68%
- Aggregate: 2.21%
- All-In TIC: 1.40%
- Refunding Average Life: 9.6 years

6. Campus contact:
Sameer Alramahi, Controller
Akron, Ohio 44325-6205
Office: 330-972-5767
salaramahi1@uakron.edu
THE UNIVERSITY OF AKRON

RESOLUTION 10-5-20

Authorizing the issuance and sale, from time to time, of The University of Akron
General Receipts Refunding Bonds
for the purposes of refunding all or a portion of the University’s Outstanding Debt

WHEREAS, Pursuant to its Indenture, the University has issued its Outstanding General Receipts Obligations; and

WHEREAS, The University has additional outstanding debt, including the OAQDA Bonds, capital leases, and other long-term obligations issued to pay for capital improvements; and

WHEREAS, At any time and from time to time, it may be in the University’s best interest to refund or refinance the Outstanding Debt to (a) generate savings for the University on a net present value basis, or (b) achieve any other goal that is otherwise in the best interests of the University and is in compliance with the University’s debt management policy; and

WHEREAS, This Board has previously approved the pledge of General Receipts to the payment of bonds issued to finance and refinance projects and real property acquisitions initially financed by the University’s Outstanding General Receipts Obligations; Now, Therefore,

BE IT RESOLVED By the Board of Trustees of The University of Akron, that:

Section 1. Findings and Determinations. This Board makes the following findings and determinations:

(a) It is necessary, from time to time, to issue bonds of the University for the purpose of refunding all or any portion of (i) the University’s Outstanding General Receipts Obligations, (ii) the outstanding OAQDA Bonds and making loan payments to the OAQDA in accordance with the OAQDA Loan Agreement to cause the refunding of the OAQDA Bonds, and (iii) any other Outstanding Debt.

(b) Those refunding bonds may be issued in one or more series and at any time, and from time to time, on or before December 31, 2025.

(c) All formal actions of this Board relating to the enactment of this Resolution were taken in an open meeting of this Board. All deliberations of this Board and of any of its committees that resulted in those formal actions were in meetings open to the public in compliance with all legal requirements, including Section 121.22, Revised Code.

(d) Before entering into a written Purchase Agreement in connection with the sale of any Refunding Bonds, the President of the University, the Chair of the Board of Trustees, and the Chair of the Board’s Finance & Administration Committee must approve the determinations and approvals of the Chief Financial Officer authorized by this Resolution, including without limitation, those in Sections 2, 3, 4, 5, 6 and
by this Resolution, including without limitation, those in Sections 2, 3, 4, 5, 6 and 7. The approval of the President and the Chair of the Board’s Finance & Administration Committee may be approved in writing or by facsimile, email, or other similar means of communication, including a telephonic communication confirmed in writing.

(e) Terms that are capitalized in this Resolution and not otherwise defined are used with the meanings given to them in Section 10 or, if not there, in the Indenture.

Section 2. Purpose and Terms.

(a) Purpose and Authorization. The Refunding Bonds will be issued for the purpose of refunding any Outstanding Debt if the Chief Financial Officer determines that there will be cost savings for the University as a result of the refunding at least equal to the Minimum Savings Threshold, or determines that the refinancing is otherwise in the best interests of the University and is in compliance with the University’s debt management policy. The proceeds of any Refunding Bonds may also be used to pay expenses and costs relating to the issuance of the Refunding Bonds, and any other items included in the definition “costs of facilities” in Section 3345.12, Revised Code, including, without limitation, any items authorized by Section 3345.12(K)(2), Revised Code. This Board authorizes and directs the Chief Financial Officer to determine any or all of the following and to take the following actions with respect to each issue or series of Refunding Bonds:

(1) The amount of savings or other benefit to the University resulting from each issue or series of Refunding Bonds.

(2) Which maturities or portions of maturities of the Outstanding Debt will be refunded. This Board authorizes and directs the Chief Financial Officer to call the refunded Outstanding Debt of those maturities for redemption, and to cause the OAQDA to call the OAQDA Bonds of those maturities for redemption. The actions under this Section 2(a)(2) are intended to be actions of the University and this Board sufficient for all purposes of the Indenture and the OAQDA Loan Agreement.

(3) The amounts of refunding costs authorized by Section 3345.12(K)(2), Revised Code, to be paid from the proceeds of the Refunding Bonds.

(4) Whether the Refunding Bonds should be issued in one or more series, and the appropriate changes to the series designations of those series, if necessary or advisable.

(5) Whether bond anticipation notes, in anticipation of the issuance of the Refunding Bonds, should be issued.

(b) Refunding Bond Terms. The Refunding Bonds may be issued in any principal amount determined by the Chief Financial Officer. The Refunding Bonds will bear
fixed interest at the rates approved by the Chief Financial Officer, provided that the maximum interest rate may not exceed 8% per annum. Refunding Bonds of the same maturity need not bear the same interest rate. Subject to those limits, this Board authorizes the Chief Financial Officer to determine the following terms and provisions of each issue or series of Refunding Bonds:

1. the principal amount of the Refunding Bonds;
2. the interest rates to be borne by the Refunding Bonds;
3. the date of the Refunding Bonds;
4. the interest payment dates for the Refunding Bonds;
5. the maturity amounts and dates of maturities of the Refunding Bonds, including any mandatory sinking fund redemption dates and amounts; and
6. the optional redemption provisions, if any, for the Refunding Bonds, including any period during which the Refunding Bonds will not be subject to optional redemption and any premium due upon optional redemption, which may not exceed 10% in any year in which the Refunding Bonds are subject to optional redemption.

The Chief Financial Officer must deliver a Certificate of Award setting forth the terms of any Refunding Bonds determined under this Section 2(b). The Refunding Bonds may have such other terms as are provided in the Indenture and approved by the Chief Financial Officer with the advice of General Counsel to the University, Bond Counsel, and the Financial Advisor.


(a) Refunding Bonds General Receipts Pledge. The Refunding Bonds will be payable from the General Receipts of the University and will be secured by a pledge of and lien on those General Receipts and by the covenants made in this Section 3. The pledge of and lien on the General Receipts will be on a parity with the pledge of and lien on the General Receipts securing all Parity Obligations and will be prior to all other expenses, claims, or payments to be made from the General Receipts. The Refunding Bonds also will be secured by a pledge of and lien on the Special Funds. The pledge of and lien on the General Receipts and Special Funds is created in the Indenture.

(b) Security for Other Obligations. This Board further authorizes the pledge of General Receipts, either on a parity basis with Parity Obligations or on a subordinate basis to Parity Obligations, and a pledge of Available Securities to secure the University’s obligations under investment agreements, bond insurance, and other credit enhancement, as provided in Section 7, if the Chief Financial Officer determines that pledge to be necessary or useful.
(c) **University Security Covenants.** This Board covenants, and confirms its covenant in the Indenture, that in each fiscal year it will make, fix, adjust, collect, and apply such charges, rates, fees, rentals, and other items included in General Receipts, to the extent permitted by law so that Available Receipts will be sufficient to pay the operation and maintenance expenses of the University and to pay principal, interest, and any premium requirements on the Outstanding Debt, any reserve requirements for the Outstanding Debt, and any other requirements provided for in the Bond Proceedings.

This Board further covenants to include in its budget for each fiscal year the amounts from the several sources of General Receipts to be applied to make the payments to the Debt Service Fund, and payments under investment agreements, bond insurance policies, and other credit enhancement, so that the amounts from those sources, in the aggregate, will at all times be sufficient in amount and time of collection to meet those payments.

(d) **Authorization of Officers.** The Board authorizes and directs any one of the President, the Chair of the Board, and the Chief Financial Officer to seek the approval of the Ohio Department of Higher Education to the pledge of General Receipts to the repayment of principal, interest, and any premium on any Refunding Bonds, if the President, the Chair of the Board, or the Chief Financial Officer determine that such approval is required.

(e) **Limited Obligation.** Notwithstanding the foregoing, the holders and owners of any Refunding Bonds or any related agreement, shall not be given the right and shall have no right to have excises or taxes levied by the General Assembly of Ohio for the payment of principal, interest, and any premium on any Refunding Bonds, and each Refunding Bond shall bear on its face a statement to that effect and to the effect that the right to such payment is limited to the General Receipts and the Special Funds pledged to that purpose under the Bond Proceedings.

**Section 4. Sale.** Each issue or series of Refunding Bonds will be sold at private sale at a purchase price determined by the Chief Financial Officer in the Certificate of Award. The Chief Financial Officer may sell any Refunding Bonds to an investment banker, acting as underwriter, or to a financial institution or other entity or person, in a private placement. The Chief Financial Officer may enter into a Purchase Agreement with the Original Purchaser in that private sale, or may sell Refunding Bonds without a Purchase Agreement. This Board authorizes the Chief Financial Officer to sell Refunding Bonds at such times, on such terms, and at such prices as they shall determine are in the best interest of the University.

**Section 5. Federal Tax Matters.**

(a) If any Refunding Bonds are to be issued on a tax-exempt basis, the University covenants that it will take or cause to be taken those actions required for the interest on those tax-exempt Refunding Bonds to maintain its Federal Tax Status. The University covenants that it will not take or permit to be taken any action that would
adversely affect the Federal Tax Status. In accordance with these covenants, the Board authorizes and directs the Chief Financial Officer or any other officer having responsibility for issuing any Refunding Bonds, to do the following:

(1) Sign and deliver a certificate of the University, for inclusion in the transcript of proceedings for those tax-exempt Refunding Bonds, setting forth the reasonable expectations of the University regarding the amount and use of the proceeds of those tax-exempt Refunding Bonds and of the projects and real property acquisitions financed and refinanced with those tax-exempt series of Refunding Bonds.

(2) Limit the yield on any “investment property” (as defined in Code Section 148(b)(2)) acquired with the proceeds of those tax-exempt Refunding Bonds.

(3) Maintain such books and records and make such calculations and reports as are required to comply with the arbitrage rebate requirements of the Code.

(4) Retain accountants or other consultants to assist in the calculation of any rebate amounts required to be paid, if retaining such accountants or consultants is necessary in the judgment of the Chief Financial Officer. The fees of those accountants or consultants may be paid from the proceeds of those tax-exempt Refunding Bonds, or from other sources lawfully available and appropriated for that purpose.

(5) Sign and file Form 8038-G with the Internal Revenue Service and any other federal tax form required by the Internal Revenue Service.

(b) This Board authorizes and directs the Chief Financial Officer to take any action with respect to Outstanding Debt to maintain the Federal Tax Status of those Outstanding Debt, including, without limitation, taking remedial actions under the applicable Treasury Regulations to correct any violation of the private business test or private loan financing test.

Section 6. Original Purchaser.

(a) Selection of Original Purchaser. This Board authorizes and directs the Chief Financial Officer to (i) issue, at any time and from time to time, requests for proposals, requests for qualifications, or requests for bids or similar requests to investment banks, financial institutions or other persons or entities in connection with the issuance and sale of the Refunding Bonds, and (ii) select one or more investment banks, financial institutions or other persons or entities as an Original Purchaser of the Refunding Bonds, whether as an underwriter as part of a selling group or acting alone, a placement agent in a private placement of the Refunding Bonds, or as a purchaser in a private placement of the Refunding Bonds.
(b) **Sale to Original Purchaser.** This Board authorizes and directs the Chief Financial Officer to sell each issue or series of Refunding Bonds in accordance with Section 4 and Section 6(a). If the sale is to an investment banker, acting as an underwriter, the Original Purchaser will be compensated for its services in accordance with the Purchase Agreement. If the sale is a private placement involving a placement agent, the placement agent will be paid for its services in accordance with any agreement entered into between that placement agent and the University for those services.

**Section 7. Authorization of University Officers.** This Board authorizes and directs the Chief Financial Officer or, in the Chief Financial Officer’s absence, the University’s Associate Vice President and Controller, to do any or all of the following if, in the Chief Financial Officer’s judgment, with the advice of the Original Purchaser, Bond Counsel, General Counsel, and the Financial Advisor, they are necessary, appropriate, or useful and in the best interests of the University:

(a) Prepare, or cause to be prepared, and negotiate the terms of any or all of the following in connection with each issue or series of Refunding Bonds:

   (1) a Refunding Supplemental Indenture;
   
   (2) a Tax Regulatory Agreement;
   
   (3) a Purchase Agreement;
   
   (4) a Continuing Disclosure Agreement;
   
   (5) one or more escrow agreements to provide for the discharge of any refunded bonds;
   
   (6) a continuing covenant agreement or similar agreement if the sale of the Refunding Bonds is to an Original Purchaser in a private placement; and
   
   (7) such other documents, agreements, instruments, and certificates, including the form of Refunding Bonds, required in connection with each issue or series of Refunding Bonds.

(b) Apply for a rating on any issue or series of Refunding Bonds from one or more nationally recognized statistical rating organizations.

(c) Prepare or cause to be prepared on behalf of the University a preliminary and final official statement or similar disclosure document (together, the “Official Statement”) and any necessary supplements, and

   (1) use and distribute or authorize the use and distribution of the Official Statement and any supplements in connection with the original issuance of any issue or series of Refunding Bonds;
(2) sign, on behalf of the University, the Official Statement and any supplements;

(3) advise the Original Purchaser in writing regarding limitations on the use of the Official Statement and any supplements for purposes of marketing any issue or series of Refunding Bonds;

(4) sign and deliver, on behalf of the University, certificates in connection with the accuracy of the Official Statement and any supplements;

(5) determine when the Official Statement is to be deemed “final” for purposes of Securities and Exchange Commission Rule 15c2-12 and certify as to that status; and

(6) contract with the Original Purchaser to provide such numbers of the Official Statement as necessary to enable the Original Purchaser to comply with the requirements of Securities and Exchange Commission Rule 15c2-12.

(d) Take actions to comply with the University’s obligations under any Continuing Disclosure Agreement, including preparing and filing annual information, annual financial statements, and event notices. The costs of that compliance may be paid from the proceeds of any Refunding Bonds, or from the General Receipts.

(e) Enter into investment agreements to provide for investment of bond proceeds in any escrow funds.

(f) Apply for a policy or policies insuring the obligation to make payments of principal and interest on all or a portion of any Refunding Bonds, from one or more bond insurance companies, accept a commitment for such policy of insurance, and provide such bond insurance company with information about the University.

(g) Obtain other credit enhancement for or in connection with any Refunding Bonds.

(h) Provide for pledging General Receipts, either on a parity basis with Parity Obligations or on a subordinate basis to Parity Obligations, and pledging Available Securities, to secure the University’s obligations under any investment agreements, bond insurance, and other credit enhancement.

(i) Sign and deliver, on behalf of the University, any Refunding Bonds, any Refunding Supplemental Indenture, any Purchase Agreement, any Tax Regulatory Agreement, any Continuing Disclosure Agreement, documents in connection with any bond insurance, investment agreements, and other credit enhancement, and such documents, instruments, agreements and certificates as required by those documents.

(j) Do all other acts (including signing and delivering documents, instruments, and certificates and retaining the services of attorneys, accountants, printers, broker-dealers, registrars, paying agents, authenticating agents, escrow agents,
verification agents, and consultants) necessary or appropriate to consummate the
bond transaction, that are not inconsistent with this Resolution.

(k) In connection with the Refunding Bonds or any Outstanding Debt, whether or not
those Outstanding Debt are to be refunded, take any of the following actions that,
in the judgment of the Chief Financial Officer, with the advice of Bond Counsel,
General Counsel, and the Financial Advisor, are necessary or useful and in the best
interest of the University, including, without limitation:

(1) removing any existing service providers (such as investment bankers,
financial advisors, bond trustees, paying agents, and authenticating agents);

(2) appointing successors to those service providers or appointing or engaging
additional service providers;

(3) making tender offers for and purchasing any of the Outstanding Debt or
securities issued and outstanding in connection with those Outstanding Debt;

(4) calling for early redemption any Outstanding Debt, or causing the OAQDA
to call for early redemption the OAQDA Bonds, being refinanced or
refunded with any Refunding Bonds; and

(5) seeking and obtaining any amendment or supplement to the documents for
any Outstanding Debt.

Section 8. Authorized University Representatives. This Board authorizes and
directs the President of the University to designate an Authorized University Representative and
one or more alternates under the Indenture. The Authorized University Representative or
alternates must take all action required of the University under the Bond Proceedings that is not
otherwise specifically delegated under this Resolution. The Authorized University Representative
may be changed and additional alternates may be added by action of the President or this Board.
The alternates may act in the absence or at the direction of the Authorized University Representative.

Section 9. Prior General Receipts Refunding Resolution. This Board adopted
Resolution 4-5-16 and Resolution 4-7-17 (together, the “Prior Refunding Resolutions”) on April
16, 2016 and on April 19, 2017, respectively, which authorized the issuance of bonds to refund
outstanding obligations of the University. The Prior Refunding Resolutions remain in full force
and effect with respect to any Refunding Bonds issued pursuant to those Prior Refunding
Resolutions, but no additional Refunding Bonds may be issued under the Prior Refunding
Resolutions. Any Refunding Bonds issued after the date of this Resolution must be issued under
this Resolution.

Section 10. Definitions. In addition to terms elsewhere defined in this Resolution or in
the Indenture, the following terms are defined terms:
“Authorized University Representative” means a person at the time designated to act on behalf of the University by a written certificate furnished to the Trustee, containing the specimen signature of that person and signed on behalf of the University by the President. The certificate may designate an alternate or alternates.

“Available Receipts” means, for a particular fiscal year, the General Receipts received in that fiscal year, plus unencumbered cash from General Receipts received in previous fiscal years and held as part of the fund balance of the University as of the end of the immediately preceding fiscal year.

“Available Securities” means securities owned by the University, to the extent those securities were acquired either (a) with General Receipts, or (b) with money other than items specifically excluded from General Receipts by clauses (a) through (d) of the definition of General Receipts.

“Bond Counsel” means special counsel appointed by the Attorney General, or such other nationally recognized bond counsel firm appointed as special counsel by the Attorney General.

“Bond Proceedings” means with respect to any issue or series of Refunding Bonds, this Resolution, the Certificate of Award, the Indenture, the Tax Regulatory Agreement, the Continuing Disclosure Agreement, the Purchase Agreement, any continuing covenants agreement, the Refunding Bonds certificates, the other agreements and credit enhancement authorizing, awarding, or providing for the terms, conditions, or security of the Refunding Bonds and amendments and supplements to those documents, and such other documents, instruments, or certificates as authorized in accordance with Section 7(a) of this Resolution.

“Certificate of Award” means a certificate of the Chief Financial Officer described in Section 2, determining certain terms of each issue or series of Refunding Bonds.

“Chief Financial Officer” means the University’s Senior Vice President for Finance and Administration/CFO (or any interim Chief Financial Officer) or, in the event that such officer is absent or unavailable, the University’s Associate Vice President and Controller.


“Continuing Disclosure Agreement” means one or more Continuing Disclosure Agreements between the University and the Trustee, under which the University agrees to provide information on an annual basis, and notices of material events as they occur, to the Municipal Securities Rulemaking Board, for the benefit of the holders of any Refunding Bonds expressly made subject to those Continuing Disclosure Agreements.

“Debt Service Fund” means any Debt Service Fund for the payment of principal, interest, and premium on any Refunding Bonds created under the Indenture, as supplemented by any Refunding Supplemental Indenture.

“Federal Tax Status” means the status of the interest on the obligations as excludable from gross income for federal income tax purposes and not treated as an item of tax preference for purposes of the alternative minimum tax.
“Financial Advisor” means the registered financial advisor or financial advisory firm designated by the Chief Financial Officer as the University’s financial advisory firm.

“General Receipts” means all money received by the University, except (a) moneys raised by taxation; (b) state appropriations; (c) any special fee, and receipts from that special fee, charged under Section 154.21(D), Revised Code; and (d) any grant, gift, donation or pledge that is restricted by the donor to purposes inconsistent with the payment of principal, interest, and any premium on any Refunding Bonds. Notwithstanding the foregoing, moneys raised by taxation will be included in General Receipts, if those taxes are specifically allocated to secure University obligations by the General Assembly of Ohio. Without limiting the foregoing, “General Receipts” includes the following (i) income, revenues, and receipts from the operation, ownership, or control of facilities owned and operated by the University; (ii) grants, gifts, donations, and pledges and receipts from those grants, gifts, donations, and pledges; and (iii) receipts from fees and charges.

“Indenture” means the Trust Indenture dated as of June 1, 1997, between the University and the Trustee, as supplemented by several supplemental indentures, upon its signing and delivery, any Refunding Supplemental Indenture.

“Minimum Savings Threshold” means 3% of debt service on the refunded obligations, determined on a net present value basis.

“OAQDA” means the Ohio Air Quality Development Authority.

“OAQDA Bonds” means the (a) $44,571,171 State of Ohio Air Quality Development Authority Tax Exempt Revenue Bond (The University of Akron Campus-Wide Energy Efficiency and Conservation Project), 2013 Series A, and (b) $15,000,000 State of Ohio Air Quality Development Authority Tax Credit Revenue Bond (The University of Akron Campus-Wide Energy Efficiency and Conservation Project), 2013 Series B (Qualified Energy Conservation Bonds—Direct Payment).

“OAQDA Loan Agreement” means the Loan Agreement between the OAQDA and the University dated as of September 30, 2013, entered into in connection with the issuance of the OAQDA Bonds.

“Original Purchaser” means the entity or entities selected by the Chief Financial Officer under Section 6 as the purchaser of any Refunding Bonds.

“Outstanding Debt” means (a) Outstanding General Receipts Obligations, (b) the OAQDA Bonds, and (c) any other debt, capital leases, or other long-term obligations of the University.

“Outstanding General Receipts Obligations” means any Obligations, as defined in the Indenture, issued by the University under its Indenture that are secured by a pledge of the General Receipts.

“Parity Obligations” as defined in the Indenture, means Obligations of the University secured by General Receipts on a parity basis with all senior University Obligations under the Indenture, and any Refunding Bonds.
“Purchase Agreement” means any Bond Purchase Agreement, Bond Owner Agreement, or similar agreement, between the University and the Original Purchaser, providing for the sale of any Refunding Bonds.

“Refunding Bonds” means one or more series of bonds authorized in Section 2, which are issued at any time, and from time to time, after the adoption of this Resolution and on or before December 31, 2025.

“Refunding Supplemental Indenture” means any Supplemental Trust Indenture between the University and the Trustee executed and delivered in connection with the issuance of any Refunding Bonds.

“Special Funds” means the Special Funds, as defined in the Indenture, and includes, without limitation, the Debt Service Fund and the Project Funds.

“Tax Regulatory Agreement” means, collectively, the Tax Regulatory Agreements between the University and the Trustee, under which the University agrees to take the necessary actions to maintain the tax-exempt status of the interest on any Refunding Bonds expressly made subject to that Tax Regulatory Agreement.

“Trustee” means U.S. Bank National Association, as successor Trustee to Star Bank, N.A.

Adopted: October 14, 2020

Signed: (signature)
Chairman, Board of Trustees
The University of Akron

Attest: (signature)
Secretary, Board of Trustees
The University of Akron
University of Akron, OH

Update to credit analysis

Summary

University of Akron’s (UA; A1 negative) good strategic position reflects its regional importance, strong wealth and liquidity, and substantial scale of operations. The university’s credit, however, is challenged by regional demographic pressures that are reflected in seven consecutive years of enrollment decline. Enrollment declines have driven precipitous loss in net tuition revenue, which is the key driver of total operating revenue. Nonetheless, strong fiscal management focused on concerted expense reduction in alignment with revenue loss has driven historically strong operating results. Robust operating cash flows have bolstered wealth and liquidity, but capital reinvestment has waned and has not kept pace with depreciation. Favorable operating results have historically been supported by state of Ohio appropriations, representing nearly one-third of the university’s operating revenue. As the State of Ohio (Aa1 stable) addresses pandemic-driven economic uncertainty, part of state-level cost cutting includes reduced appropriations to universities. The University of Akron is additionally exposed to underfunded state-run pension systems that is driving elevated and growing leverage. Despite the underfunding of the plans, it is a stable annual expense for the university. Contribution requirements are capped at a percentage of payroll, providing budgeting predictability. While the University of Akron’s management has demonstrated strong fiscal decisions in the face of persistent pressures, we view its ability to continue adjusting to substantial operating challenges as constrained. Further cost cutting efforts will face stiff opposition from bargaining units.

On August 24, 2020 we revised the University of Akron’s outlook to negative from stable.

Exhibit 1
Strong fiscal management drove good operating performance in spite of revenue decline

Source: Moody's Investors Service
Credit strengths
» Regional importance and broad scope with substantial operating revenue of nearly $365 million
» Strong fiscal management that has driven favorable operating performance that has increased wealth and liquidity
» Good wealth and liquidity with $483 million total cash and investments and 231 days cash on hand

Credit challenges
» Pandemic driven pressures that will constrain the university's ability to continue adjusting to operating challenges
» Challenged demographic environment that has driven enrollment down for eight consecutive years
» Tuition raising constrained by state policy that has suppressed the university's ability to mitigate net tuition revenue decline
» Exposure to an underfunded state pension plan reflected in elevated leverage, with adjusted debt 3.5x operating revenue

Rating outlook
The negative outlook reflects our view that the University of Akron's ability to continue adjusting to material and persistent operating pressures will be constrained by challenges that are accelerated by the pandemic. Heightened challenges have the potential to drive fiscal deterioration to levels no longer consistent with the university's current rating category.

Factors that could lead to an upgrade
» Material improvement in strategic positioning, reflected in stabilized FTE and growth in operating revenue
» Substantial increase in flexible reserves to better support a high amount of total adjusted debt

Factors that could lead to a downgrade
» Further declines in operating revenue or inability to adjust expenses rapidly enough, leading to deterioration in operating performance and debt affordability
» A reduction of financial reserves or liquidity
» A sustained disruption or reduction in state funding

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Key indicators

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<th>2017</th>
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<td>Total FTE Enrollment</td>
<td>20,723</td>
<td>19,016</td>
<td>18,578</td>
<td>17,551</td>
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<td>Operating Revenue ($000)</td>
<td>448,065</td>
<td>438,470</td>
<td>407,330</td>
<td>388,169</td>
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<td>Annual Change in Operating Revenue (%)</td>
<td>-2.8</td>
<td>-2.1</td>
<td>-7.1</td>
<td>-4.7</td>
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<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>424,458</td>
<td>403,728</td>
<td>434,736</td>
<td>464,302</td>
<td>483,472</td>
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<td>Total Debt ($000)</td>
<td>453,581</td>
<td>429,304</td>
<td>419,220</td>
<td>401,946</td>
<td>386,491</td>
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<td>Total Adjusted Debt to Operating Revenue (x)</td>
<td>3.1</td>
<td>3.1</td>
<td>3.4</td>
<td>3.5</td>
<td>3.5</td>
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<tr>
<td>Spendable Cash &amp; Investments to Operating Expenses (x)</td>
<td>0.7</td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
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<tr>
<td>Monthly Days Cash on Hand (x)</td>
<td>154</td>
<td>163</td>
<td>195</td>
<td>223</td>
<td>231</td>
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<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>12.0</td>
<td>16.5</td>
<td>16.2</td>
<td>16.3</td>
<td>11.6</td>
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<tr>
<td>Total Debt to Cash Flow (x)</td>
<td>8.4</td>
<td>5.9</td>
<td>6.3</td>
<td>6.4</td>
<td>9.2</td>
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<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>1.5</td>
<td>1.9</td>
<td>1.9</td>
<td>1.8</td>
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Source: Moody’s Investors Service

Profile

The University of Akron is a large public university located in northeast Ohio that offers comprehensive academic programming. The university had total operating revenue of just under $365 million in fiscal 2019.

Detailed credit considerations

Market position: important regional role challenged by demographic shifts that have pressured operating revenue downward

Favorably, UA maintains a regionally important role as a competitively priced public university with strong STEM academic programs. Overall scale, as measured by revenue and enrollment, is still comparatively sound. However, the university will continue to experience enrollment and net tuition revenue pressures due to sustained student market challenges. Like other Midwestern universities, the University of Akron has been affected by a decline in regional high school graduates that limits the student market and exacerbates competition. Fall 2019 full-time equivalent students (FTE) of just over 16,250 fell 33% from its fall 2011 peak enrollment. As a part of the University of Ohio system, the University of Akron participates in the “tuition guarantee” program. The program fixes each new cohort of students’ tuition, fees, and room/board for four years. While helping the university’s tuition remain competitive, the program nonetheless has limited its ability to price according to market conditions.

University management has worked to adjust financial aid policies, expand recruitment efforts, and invest in retention. Despite ongoing efforts to stabilize enrollment, the university recognized its challenges, in part accelerated by the coronavirus pandemic, with an assumed 15% decline of FTE students in fall 2020. To date, preliminary enrollment figures indicate a less pronounced decline of 8%. While actual enrollment is demonstrating a positive trend compared to the budgeted assumption, shifts in pandemic conditions could ultimately stymie these small gains. The university has adjusted its curriculum, including a mix of remote and on-campus learning, but auxiliary enterprises will experience revenue decline. The general fund will support auxiliary services through the 2021 fiscal year.

The university’s operating revenue remains sizable at nearly $365 million as of fiscal 2019 and is strong for its rating category. The university’s operating scope, however, has waned, having declined 24% since its fiscal 2011 peak of $479 million. As UA has worked to build wealth and liquid reserves, capital reinvestment has been minimal, which will be a growing challenge. Capital spending has not kept pace with depreciation for three fiscal years and was a minimal 0.4x depreciation in fiscal 2019.
Operating performance: historically robust operating performance will be constrained as challenges mount

The university achieved historically favorable operating performance through focused fiscal management efforts. The university’s ability to maintain operating performance, however, will be constrained by mounting operating challenges exacerbated by pandemic conditions. The university’s operating revenue are driven by net tuition and auxiliary (55%), and state appropriations (27%). Net tuition revenue has declined for seven consecutive years due to FTE declines and tuition fee growth that is constrained by Ohio University system policy. While state appropriation support has been steady historically, it will decline in fiscal 2021 as the state adjusts its budget to adverse economic conditions brought on by the pandemic.

Despite persistent operating challenges, UA management had successfully adjusted expenses downward, producing historically robust operating results. The fiscal 2019 operating cash flow margin of 11.6% was consistent for UA’s A1 rating and has supported growth in wealth and liquidity. The university projects that fiscal 2020 year-end results will be similar to fiscal 2019. The ongoing positive results were bolstered by steady fiscal 2020 state appropriations and the receipt of CARES Act funding that offset extraordinary pandemic-related costs.

Fiscal 2021 financial performance, on the other hand, remains sensitive to pandemic-related volatility and budgetary uncertainties. The fiscal 2021 budget was approved in August 2020 with conservative assumptions. Budget assumptions include net revenue reductions correlated to a budgeted 15% decline in FTE. Year to date FTE performance, however, suggests that the decline will be under 10% that would produce more favorable operating results. The fiscal 2021 budget also includes very significant faculty reductions that would save UA a little over $8 million in salary and benefits expense per year. The faculty reduction has been met by bargaining unit opposition. If bargaining units prevent the faculty reduction, UA’s fiscal 2021 could end with a material deficit. The university has stated that if arbitration fails, it is dedicated to implement retrenchment procedures. Retrenchment procedures would ultimately adjust faculty to align with diminished operations, but would take longer to carry out. Fiscal 2021 results also remain subject to outsized adverse conditions caused by the pandemic that may result in deeper enrollment disruption or larger state appropriation cuts.

Wealth and Liquidity: strong wealth and liquidity will provide flexibility to UA during a period of uncertainty

Management’s concerted cost saving efforts have built very good wealth and liquidity with total cash and investments of $483 million in fiscal 2019. The university’s wealth exceeds the A-rated peer median and will provide UA with good flexibility as its capacity to maintain strong operating results becomes more challenged. Spendable cash and investments of $265 million were 0.7x operating expense, providing an expense cushion for nearly three-quarters of the year.

Liquidity
The university maintains good liquid reserves, with 231 days cash on hand as of fiscal 2019.

Leverage: manageable debt levels but high unfunded pension liability

With no additional borrowing plans, the university’s debt will remain manageable. Overall adjusted leverage, however, will remain significantly elevated due to UA’s share of the state-run pension plans’ liability. The university’s debt leverage of $387 million was a mildly elevated but manageable with spendable cash and investments 0.7x debt. Debt was a good 9.1x cash flow but with narrowing operating margins, debt affordability is beginning to erode. Total adjusted leverage, driven by UA’s share of underfunded, state-run pension plans’ liability put spendable cash and investments at a less favorable 0.2x adjusted debt.

Legal security
All general receipts bonds are payable from and secured by a first pledge of and lien on the general receipts of the university. General receipts consist of all monies received by the university for student charges, all unrestricted grants, gifts, donations and pledges, and other legally available revenues. Specifically excluded from general receipts are state appropriations (unless authorized by law) and any restricted funds. There are no debt service reserve funds.

Debt structure
The university’s direct debt of $386.5 million is comprised primarily of general receipt bonds ($331 million), with additional tax credit revenue bonds ($42.6 million), and a lease revenue bond ($12 million). Outstanding bonds were all issued at a fixed rate, with regular amortization. Total adjusted debt of $1.3 billion is comprised of $386.5 direct debt, and $873 million Moody’s adjusted net pension liability (ANPL). Moody’s ANPL is calculated based on the university’s reported net pension liability that is adjusted to improve
comparability across peers. The ANPL adjustment is driven by a market driven index, rather than the pension plans assumed discount rates.

**Debt-related derivatives**
The university is not party to any debt-related derivative agreements.

**Pensions and OPEB**
University of Akron offers its employees post retirement benefits through three different state-run, multi-employer defined benefit plans. Like other public universities in Ohio, UA has very high exposure to post-retirement benefit obligations through its participation in the state plans. The plans’ assumed discount rates are aggressive, with the Ohio PERS assumption at 7.2%, Ohio STRS at 7.45%, and Ohio SERS at 7.5%. Nonetheless, strong market returns in 2017, state-level plan adjustments, and steady contribution rates drove UA's share of reported liability down nearly 11% to $266 million in fiscal 2019 from $298 million in fiscal 2018. However, market returns for most state-run pension plans across the US with a June 30 fiscal year end have demonstrated weakness. We expect diminutive fiscal 2021 returns to drive net pension liability upward.

The Ohio state legislature exerts significant control over pensions and sets contribution rates for the plans, which has remained a steady 14% of covered payroll. Required contribution rates are typically below amounts necessary to offset liability growth but it does provide the university with annual expense stability. While the state has enacted changes that alleviates some reported liability growth, the changes include the suspension of benefits like COLA, and potentially increased contribution requirements. While these changes can offset some liability growth, they are subject to bargaining unit opposition if plan changes impair expected compensation.

Other post-employment benefits (OPEB) are also administered through the three state retirement plans. As of fiscal 2019, UA’s reported net OPEB liability was $90 million, which was a 34% reduction over the fiscal 2018 liability of $136 million. The $90 million reported liability included the state share, as well as the university’s share, which is being phased out. The discount rates used to determine employee contributions range from 3.7% to 7.45% depending on the plan. Overall, lower assumed discount rates have driven strong contributions that have reduced net liability.

**ESG considerations**

**Environmental**
According to data from Moody's affiliate Four Twenty Seven, the university's location exposes it to rising environmental risk from increasing average temperatures and excessive rainfall. These risks are not a material credit consideration for the university at this time. The region is also exposed to extreme weather events such as tornadoes. While these events are not currently a credit consideration, excessive damage caused by an event would factor into our analysis.

**Social**
We regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. While the university adapted its 2020 academic year programming to the acute effects of the pandemic, ongoing challenges will be a material credit consideration. As the pandemic drives downside economic pressure, we expect university operating revenue to be adversely affected. Volatility in coronavirus transmission rates and regional impact will further exacerbate FTE declines that will drive net tuition revenue further downward. As the state adjusts its budget to the economic environment, operating appropriations will also be reduced for a minimum of one fiscal year, and potentially more should pandemic-related challenges persist or drive accelerated downside risks. The university's ability to adjust to the pandemic-driven challenges is also constrained by bargaining unit negotiations.

**Governance**
University of Akron is led by a focused senior leadership team that has demonstrated a willingness and ability to preserve the university's very good strategic position. Amid challenging revenue conditions, the university continues to demonstrate highly effective budget oversight and expense management that has bolstered strong wealth and driven improved liquidity. A new president assumed the role on October 1, 2019, bringing a long track record of higher education experience. Maintaining leadership continuity will be essential to the university's ability to successfully execute its various market, financial, and capital objectives. The university is also subject to state-level policy decisions that constrains the university's ability to adjust tuition and fees to market conditions. Exposure to the state's underfunded pension plans additionally drives the university's elevated adjusted leverage.
Rating methodology and scorecard factors
The principal methodology used in this rating was Higher Education published in May 2019.

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 strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 3
UNIVERSITY OF AKRON, OH

<table>
<thead>
<tr>
<th>Scorecard Factors and Sub-factors</th>
<th>Value</th>
<th>Score</th>
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<tbody>
<tr>
<td><strong>Factor 1: Market Profile (30%)</strong></td>
<td></td>
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<tr>
<td>Scope of Operations (Operating Revenue) ($000)</td>
<td>364,588</td>
<td>A1</td>
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<tr>
<td>Reputation and Pricing Power (Annual Change in Operating Revenue) (%)</td>
<td>(6.1)</td>
<td>Caa1</td>
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<tr>
<td>Strategic Positioning</td>
<td>Baa</td>
<td>Baa</td>
</tr>
<tr>
<td><strong>Factor 2: Operating Performance (25%)</strong></td>
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<td></td>
</tr>
<tr>
<td>Operating Results (Operating Cash Flow Margin) (%)</td>
<td>11.6</td>
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<tr>
<td>Revenue Diversity (Maximum Single Contribution) (%)</td>
<td>52.4</td>
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<td><strong>Factor 3: Wealth &amp; Liquidity (25%)</strong></td>
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<tr>
<td>Total Wealth (Total Cash &amp; Investments) ($000)</td>
<td>483,472</td>
<td>Aa2</td>
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<tr>
<td>Operating Reserve (Spendable Cash &amp; Investments to Operating Expenses) (x)</td>
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</tr>
<tr>
<td>Liquidity (Monthly Days Cash on Hand)</td>
<td>231</td>
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<tr>
<td><strong>Factor 4: Leverage (20%)</strong></td>
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<tr>
<td>Financial Leverage (Spendable Cash &amp; Investments to Total Debt) (x)</td>
<td>0.7</td>
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<tr>
<td>Debt Affordability (Total Debt to Cash Flow) (x)</td>
<td>9.2</td>
<td>Aa3</td>
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</table>

Scorecard-Indicated Outcome
Assigned Rating
A1

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

Source: Moody’s Investors Service
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RATING ACTION COMMENTARY

Fitch Affirms Univ of Akron (OH) at 'A+'; Outlook Revised to Negative

Thu 08 Oct, 2020 - 4:47 PM ET

Fitch Ratings - New York - 08 Oct 2020: Fitch Ratings has affirmed the University of Akron OH's (UA) Issuer Default Rating (IDR) at 'A+' and has affirmed the 'A+' ratings on the following bonds issued by or on behalf of the university:

--University of Akron general receipts bonds;

--Summit County Port Authority (SCPA) lease revenue bonds, series 2011.

The Rating Outlook is revised to Negative from Stable.

SECURITY

General receipts bonds are a special obligation of UA secured by a first lien on its general receipts, which are generally all gross revenues and receipts excluding state appropriations and donor-restricted gifts. Lease revenue bonds are secured by a master lease agreement between UA and SCPA, with university lease payments equal to annual debt service. Lease payments are an unsecured general obligation of the university.
ANALYTICAL CONCLUSION

Affirmation of the 'A+' IDR and bond ratings reflects UA's proactive financial management and governmental support to blunt the near-term effects of the pandemic. Significant cost reductions and other cash preservation efforts position UA to absorb potentially material revenue declines through fiscal 2021 (ending June 30) related to lower fall 2020 enrollment, weaker auxiliary performance while using a hybrid (online/in-person) approach, and mid-biennium cuts to operating appropriations from the State of Ohio (IDR AA+/Stable).

The Negative Outlook is based on UA's vulnerability to continuing revenue pressures, which Fitch considers likely from continuing enrollment declines and plausible from further pandemic-related disruption, in context of the increasing difficulty of making further expense reductions. While the pandemic contributed to the university's approximately 7% fall 2020 enrollment drop, Fitch expects unfavorable regional population and economic trends - likely to be exacerbated by the pandemic - will continue to pressure the university's enrollment and net tuition revenue. The level of state support also remains uncertain and could be further reduced over the next biennium (2021-2022) after cuts to operating appropriations of nearly 4% late in fiscal 2020 and an additional 5% for fiscal 2021 (totaling approximately 9% below the original fiscal 2020 appropriation).

Enrollment declines to date are roughly half the severity of UA's fiscal 2021 budget assumptions, giving the university some flexibility to manage additional revenue pressures - whether from pandemic-related disruption or further enrollment declines - over the next one to two years without drawing substantially from reserves. However, Fitch believes UA's future cost management flexibility is now sufficient, but no longer very strong. Achieving budgetary balance through further expense reductions will be increasingly difficult and complex, as significant recent consolidation efforts leave fewer straightforward options for large reductions.

Revenue Defensibility: 'bbb'

Regional Public Role; Pandemic Intensifies Revenue Pressure

The pandemic has intensified existing revenue pressure and could further delay stabilization of UA's enrollment, which fell 7% in fall 2020 has declined steadily since about
fall 2012. A hybrid operating model will soften auxiliary revenues in the near term, and
Fitch expects the university's tuition pricing flexibility will be constrained in the current
environment. Other revenue sources remain supportive, however. State operating
appropriations, despite cuts through fiscal 2021, account for about 27% of operating
revenues and are a stabilizing factor reflecting UA's regional public role in the state. UA also
benefits from regular support from the UA Foundation.

Operating Risk: 'a'

Sufficient Cost Management; Limited Capital Needs

UA's forward-looking cost flexibility remains sufficient but is no longer very strong. The
university has demonstrated strong financial management and has exercised strong cost
flexibility in recent years by continually right-sizing its expense base to balance enrollment
debonds. However, Fitch believes that significant further costs reductions, should they be
necessary, are likely to be increasingly difficult and complex. This assessment is consistent
with UA's somewhat lower but still adequate operating cash flow margins (Fitch-adjusted
for non-cash other post-employment benefits [OPEB] income/expense) between 6% and
9% in fiscal 2019 and fiscal 2020 (unaudited, including federal stimulus funds), compared to
results around 12% or better in prior years. Qualitatively, recent faculty and staff
reductions - contentious but ultimately upheld through arbitration in September 2020 -
demonstrate UA's somewhat lower capacity to reduce expenses easily or through non-
personnel means going forward.

UA maintains more significant flexibility around capital spending. Capital needs are largely
limited to maintenance due to significant campus investment through the 2000s and in
context of declining enrollment trends. State capital funding and other external support
cover the vast majority of necessary expenditures in the near term, and Fitch considers
UA's lifecycle needs less onerous than suggested by an average age of plant approaching 14
years. Given declining enrollment trends, the university has been consolidating its physical
plant and lowering costs by decommissioning or disposing of underutilized, non-core or
high-maintenance assets. Capital fundraising is somewhat limited but consistent,
supporting investment for key programs and growth areas.
Financial Profile: 'a'

Adequate Leverage Position

UA maintains an adequate overall leverage position for the rating with a still-healthy reserve cushion and a consistent deleveraging trend as the university works down a historically high debt load largely incurred during a period of higher enrollment. The university had available funds-to-adjusted debt of 36% (including Fitch-adjusted net pension liabilities and operating leases) and available funds-to-debt of 74% as of June 30, 2019, with similar results expected through fiscal 2020. The fiscal 2021 budget positions the university to manage through the immediate phase of the pandemic and potentially some additional fall or spring disruption while avoiding large near-term reserve drawdowns. In addition, refinancings over the past few years provide some cash flow relief with modestly lower debt service through fiscal 2022. However, the Negative Outlook reflects the sensitivity of the university’s financial profile to further disruption or material revenue declines, regardless of cause, that exceed its ability to balance through additional expense adjustments.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations affected the ratings.

RATING SENSITIVITIES

The ongoing coronavirus pandemic and related government-led containment measures create an uncertain environment for the U.S. public finance higher education sector. Fitch’s forward-looking analysis is informed by management’s expectations coupled with Fitch’s common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. The ratings reflect Fitch's current baseline scenario, which incorporates the sharp economic contraction in 2Q20, with an initial bounce in 3Q20 followed by a slower recovery trajectory from 4Q20. For the higher education sector, the baseline case assumes residential campuses that have fully or partially reopened may experience continued sporadic closures through fall 2020. UA’s Rating Outlook and rating sensitivities address potential rating implications under a
downside scenario, which assumes slower economic recovery and prolonged or recurring disruptions related to the coronavirus through fiscal 2021, including enrollment and related revenue pressures.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- Strong indicators of stabilizing enrollment and associated net student fee revenue by fall 2021, in conjunction with steady or improved cash flow, reserves and leverage metrics, could return the Outlook to Stable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- Material additional enrollment or revenue declines during fiscal 2021, or similarly weaker enrollment indicators through fiscal 2022 (fall 2021) would likely cause a downgrade;

-- Deterioration in financial performance from any cause resulting in Fitch-adjusted operating cash flow below about 6% or material reserve draws would likely lead to a downgrade;

-- Additional debt or cash spending resulting in cash-to-adjusted debt likely to remain below 30% would lead to a downgrade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CREDIT PROFILE

Originally founded in 1870, UA is one of 14 public universities in the state of Ohio (IDR AA+/Stable). The main campus is in downtown Akron, OH, and the university also serves students at three other locations throughout northeast Ohio and online. UA serves primarily undergraduates, who make up about 86% of total headcount, but key graduate and research programs are also well-regarded.

Steady Enrollment Declines and Institutional Consolidation

AU’s enrollment has declined steadily in recent years. Full-time equivalent (FTE) enrollment fell over 7% to 13,988 in fall 2020 from 15,128 in fall 2019 and has fallen 30% from 20,448 in fall 2015. For fall 2020, the pandemic likely exacerbated further loss in enrollment, which Fitch had expected could stabilize over the next few years based on prior incoming class sizes. UA’s FTE enrollment peaked at 23,219 in fall 2011. Steady declines reflect a combination of weakening underlying market conditions in the region - with increasing competition, population declines and unfavorable economic trends - and strategic initiatives in response. In context of regional trends, its public mission and Ohio’s performance funding framework, the university ended open enrollment at the main campus starting fall 2012 and has continued tightening admissions standards and taking other steps which have improved student quality and outcomes but have not reversed enrollment declines.

As declines have continued, UA has made significant expense adjustments to right-size its budget to current enrollment levels. Over the past few years, the university has restructured and consolidated its colleges to reduce administrative overhead, phased out programs with low student demand, reduced its workforce - through attrition, incentive programs and layoffs - cut various other costs, and reduced its physical plant.

Coronavirus Update

UA amended its fiscal 2020 budget in late February 2020, reducing revenue expectations and spending plans as the coronavirus outbreak accelerated. The university shifted to fully remote learning in March 2020. The university largely offset approximately $6 million of prorated auxiliary refunded, as well as other added costs, through expense savings and receipt of about $14 million of Coronavirus Aid, Relief and Economic Security (CARES) Act proceeds, of which $7 million was available for institutional use ($6 million expected to be recognized through fiscal 2020). In August 2020, UA also received a $9 million allocation of Coronavirus Relief Fund (CRF) proceeds for institutional use to offset costs incurred by the university related to the pandemic through the end of the calendar year. Fall 2020 courses have resumed with a mix of in-person, remote and hybrid structures. Student housing
capacity has been limited, and according to management, a rigorous testing, quarantine, and contact tracing system has limited the number of active cases to date.

The board approved spending resolution for the first two months of fiscal 2021 before approving the full-year budget in August 2020. In response to expected enrollment declines and state appropriation cuts, the budget included over $40 million of expense reductions, including a large reduction in force - originally 178 employees including 97 faculty but subsequently reduced somewhat by attrition and retirements. The immediate workforce reduction relied on a force majeure provision, called as a result of the pandemic, in the collective bargaining agreement with its faculty union (AAUP). The AAUP challenged the use of this provision, and UA's position was ultimately upheld in arbitration in September 2020. Fitch believes the significant expense reductions provide the university flexibility to manage through likely near-term revenue stress but leave somewhat less capacity to make significant future adjustments if necessary to balance potential further enrollment declines or material state appropriation cuts.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS
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<td>A+ Rating Outlook Negative Affirmed</td>
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<td>University of Akron (The) (OH) /General Revenues</td>
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<td>University of Akron (The) (OH) /Lease Obligations</td>
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**VIEW ADDITIONAL RATING DETAILS**

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS

Summit County Port Authority (OH) EU Endorsed
University of Akron (The) (OH) EU Endorsed

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