MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO THE JACKSON STATE UNIVERSITY EDUCATIONAL BUILDING CORPORATION'S REVENUE BONDS, SERIES 2010-A-1 AND SERIES 2010-A-2 ISSUED FOR JACKSON STATE UNIVERSITY; OUTLOOK IS STABLE

Global Credit Research - 21 May 2010

IHL HAS A TOTAL OF $784 MILLION PRO FORMA RATED DEBT OUTSTANDING, INCLUDING THE CURRENT ISSUE

Jackson State University Edl. Bldg. Corp., MS
Higher Education
MS

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2010-A-1	Aa2
Sale Amount $30,595,000	
Expected Sale Date 06/02/10	
Rating Description Public Higher Education Revenue	
Revenue Bonds, Series 2010-A-2	Aa2
Sale Amount $800,000	
Expected Sale Date 06/02/10	
Rating Description Public Higher Education Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, May 21, 2010 -- Moody's Investors Service has assigned an Aa2 rating to Jackson State University Educational Building Corporation's (EBC) Revenue Bonds, Series 2010-A-1 and Series 2010-0A-2. The Aa2 rating is based on the pledge of the lease payments from the Mississippi Institutions of Higher Learning (IHL). The rating outlook is stable.

At the same time we have affirmed our existing Aa2 ratings on bonded debt of Mississippi Institutions of Higher Learning, specifically issues for the Educational Building Corporations of Alcorn State University, Delta State University, Jackson State University, Mississippi State University, Mississippi Valley State University, the University of Mississippi, the University of Mississippi Medical Center, and the University of Southern Mississippi. The rating outlook is stable. Please see RATED DEBT for specific debt series.

USE OF PROCEEDS: Proceeds will refund JSUEBC's Series 2002, Series 2004-A, Series 2004-B and 2006A revenue bonds, pay the swap termination payment for the swap related to the 2004B Variable Rate Demand bonds (approximately $4 million) and pay issuance costs.

LEGAL SECURITY: The Series 2010-A Bonds are secured by the EBC's lease payments from the Board of Trustees of State Institutions of Higher Learning of the State of Mississippi. The Series 2010-A bonds are issued on parity of JSUEBC's outstanding Series 2006A and 2007 bonds. The lease obligation of IHL is on parity with the other rated IHL bonds issued through the Educational Building Corporations of the various IHL member institutions.

Moody's notes the legal security for the various university EBCs are distinct from that of the University of Mississippi Medical Center EBC. As part of the lease structure, the Board covenants that it will appropriate designated revenues for the purpose of making rental payments and that it would use any legally available funds should the base of designated revenues prove insufficient. Designated Revenues and Fund Balance totaled $1.8 billion in FY 2009 for the eight universities. For the separately secured debt of the University of Mississippi Medical Center, Designated Revenues and Fund Balance totaled $678 million in FY 2009. The Medical Center Series 1998A and 1998B Revenue Bonds have debt service Reserve Fund Requirements originally met with Ambac surety bonds. Following the downgrade of Ambac the Medical Center has met the requirement with cash deposits for the Series 1998B Revenue Bonds.

The lease agreement runs for the life of the bonds and the Board's obligation to make rental payments is not subject to abatement. The lease agreements obligate the Board to make rental payments sufficient to pay principal (whether at maturity or prior redemption or by acceleration or otherwise) and interest on the related bonds. Under the Trust Indenture, the Board's rental payments for principal and interest are made directly to the Trustee. The Board's ability to assign its interest in the Lease is highly limited and would require written consent of the Trustee and the Bond Insurer.

INTEREST RATE DERIVATIVES: For the IHL System, Jackson State University EBC is the only entity that has an outstanding swap contract. In September 2008, Jackson State University EBC entered into two forward interest rate swaps with an aggregate notional of $66.405 million to hedge its Series 2004-B and 2007 bonds. The EBC received an upfront payment of $1.9 million that would be repaid over the life of the swaps once they become effective. One swap with a notional of $22.375 million is effective 3/1/2011 in which JSUEBC pays 5.0% and receives a rate indexed to SIFMA. The second forward swap is effective 3/1/2015 at which JSUEBC will pay a 5% fixed rate and receive a variable rate indexed to SIFMA. Both saps mature on 3/1/2034. JSUEBC intends to terminate the swap related to the Series 2004-B bonds with its current refunding

and pay a termination value, with a estimated value of $4 million. It continues to assess its options regarding the forward swap for the Series 2007 bonds.

STRENGTHS

* Lease payments payable from Legally Available funds of Mississippi Board of Trustees of State Institutions of Higher Learning (IHL), which includes eight institutions as well as an academic medical center. Covenant from the IHL provides broad support from state governing authority which also approved the plans for the projects and their financing.

*Growing enrollment for Mississippi public university system as dominant provider of higher education with nearly 63,000 full-time equivalent (FTE) students, up 3.6% from Fall 2005. Jackson State University reported FTE enrollment of 7,374 students.

*Substantial level of financial resources with total financial resources of $1.5 billion at the end of FY 2009; expendable resources of $977 million cushion proforma debt1.2 times and operations 0.4 times.

*Positive operating performance averaging 2.1% at the system level during FY 2007-2009 and operation cash flow margin of 17.6% in FY 2009, providing average debt service coverage of 6.9 times during that period. Debt service relative to operations remains manageable and represented 2.1% of annual operating expenses in FY 2009.

* Funding for operations and capital from Aa2-rated State of Mississippi with operating support providing 29% of Moody's adjusted operating expenses in FY 2009, although the universities have incurred reductions of 9.3% that was partially replaced by ARRA funds.

*Continued growth in research funding from diverse sponsoring agencies, with $489 million awarded in FY 2009, up from $452 million the prior year and $409 million in FY 2005.

CHALLENGES

*Considerable patient care exposure (23% of adjusted FY 2009 revenues) from the University of Mississippi Medical Center, with a payer mix reflecting significant reliance on Medicaid and Medicare revenues ; however we note UMMC is the only level one trauma center and organ transplant center in the State of Mississippi.

* Ongoing needs to invest in capital facilities could drive future borrowing to remain competitive. Future borrowing plans in the next two years total in the $25 million to $57 million range.

*Goals to increase sponsored research funding likely to meet significant pressure as competition continues to heighten during a period of extremely large budget deficits that will likely pressure some federal research funding.

MARKET/COMPETITIVE POSITION: MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING ENJOYS DOMINANT MARKET POSITION

Although the obligors for the Revenue Bonds, including the current Series 2010-A bonds, are the various Educational Building Corporations, ultimate debt service responsibility lies with the IHL Board of Trustees, broadening bondholder security and driving the Aa2 rating. In FY 2009, Moody's calculation of operating revenues for the large system totaled $2.6 billion. Founded in 1943 by amendment to the state constitution, the twelve-member Board of Trustees of the IHL oversees all of the state's eight public higher education institutions, as well as the Gulf Coast Research Laboratory and the University of Mississippi Medical Center.

Each University anticipates making debt service payments from Designated Revenues and Fund Balances. If one University's funds prove to be inadequate, the IHL Board of Trustees is obligated to make up for any shortfall using any legally available funds, excluding state appropriations, at its disposal. Moody's believes the IHL Board of Trustees possesses the requisite authority, willingness, and resources to ensure that timely debt payments are made. Designated Revenues and Unrestricted Net Assets totaled $1.8 billion in FY 2009 for the eight universities. For the separately secured debt of the University of Mississippi Medical Center, Designated Revenues and Fund Balance totaled $678 million for FY 2009.

IHL's student market position is virtually unchallenged in the State as the sole provider of four-year public higher education. Total system-wide enrollment has grown to 62,686 FTEs in Fall 2009 from 60,389 five years ago. Moody's expects IHL institutions to maintain stable enrollment, bolstered in part by plans to boost rates of participation in higher education and relatively flat demographic factors in the state over the next decade.

Across the system, research funding grew, with awards of $489 million in FY 2009 compared to $452 million in FY 2008 and $409 million in FY 2005. Mississippi State University and the combined University of Mississippi and University of Mississippi Medical Center accounted for the largest shares, representing $145 million and $144 million, respectively, for awards in FY 2009. Federal awards accounted for 78% of research grants, but sponsoring agencies are widely diverse, with the largest agencies being the Departments of Commerce and Defense, as well as the National Institutes of Health and the National Science Foundation. We expect IHL will continue to show moderate growth in grants, although it faces fierce competition for federal funding in an uncertain federal budget climate.

As a historically black public university, Jackson State University maintains a solid position within Mississippi's higher education framework and contributes significant levels of research and economic development activities to the state. The University is the only officially designated urban university in Mississippi. Currently it has enrollment of nearly 8,800 headcount and 7,400 FTE for Fall 2009, up 3% since 2004. With multiple campuses in the Jackson area, the University is increasingly serving the educational needs of the metropolitan area and the state, including the launch of online degree programs with the first to be in Education.

OPERATING PERFORMANCE: FAVORABLE AVERAGE OPERATING PERFORMANCE PROVIDES GOOD CASH FLOW AND DEBT SERVICE COVERAGE

Moody's expects that the IHL will continue to produce healthy operating margins and cash flows. For FY 2007-2009, IHL produced a three-year average operating margin of 2.1%, although we note that the annual margins have compressed in recent years, with only a 1.1% margin for FY 2009. Operating cash flow is consistent, with a 6.3% operating cash flow margin, leading to good debt service coverage, with average debt service coverage of 3.3 times.

State funding represented 29% of the FY 2009 revenues. Although funding had improved in recent years, the State is cutting operating

appropriations to address revenue shortfalls. State funds were cut 5% in FY 2009 and 10% for the current fiscal year 2010 (including ARRA funds). IHL and its institutions are implementing budget plans for fiscal years 2011 and 2012, with assumptions of reductions in state funding of 5% and 10% for fiscal years 2011 and 2012, respectively. Tuition increases ranging from 4.5 - 9.0% have been approved for member universities for 2011 and 2012 with tuition expecting to replace about 36% of the funding shortfall. The balance is to be met by actions including expenses reductions. Although the cuts are substantial, we expect IHL and its universities will be able to work through the upcoming budget challenges, although it may result in constrained operating performance and thinner operating cash flow. Nonetheless, we do not expect diminishment of debt service capability.

Patient care revenues from University of Mississippi Medical Center accounted for 23% of IHL's adjusted operating revenues in FY 2009, with medical revenues coming from the University of Mississippi Medical Center, the only level one trauma center and organ transplant center in the State. UMMC receives significant revenues from Medicaid and Medicare, with the FY 2009 Payer Mix of Medicaid (34%), Medicare (25%), and Blue Cross (16%), Self Pay (16%) and Commercial /Other (10%). Management reports positive utilization trends with System-Wide Adjusted Admissions up 12% in FY 2009 to 48,786 from the prior year, and UMMC projects 5% growth for the current FY 2010.

The State of Mississippi has a general obligation rating of Aa2 with a stable outlook. The strengths underpinning the rating are strong growth of available general fund balance and reserves earlier in the decade and measured use of those reserves during current recession; conservative approach to revenue forecasting, aggressive midcourse spending adjustments; potential to benefit from foreign direct investment in manufacturing (Nissan, Toyota and suppliers); and low liability for other post-employment benefits (OPEB), given minimal retiree health benefits provided. Credit challenges are poverty and associated conditions such as low educational attainment, high unemployment; declining tax receipts and rising unemployment as result of recession; lack of out-year budget projections and other management best practices; above-average debt burden; and relatively weak pension funding. For more information about Moody's rating of the State of Mississippi, please see our report dated October 12, 2009.

BALANCE SHEET PROFILE: ADEQUATE RESOURCE LEVELS AND MANAGEABLE BORROWING PLANS

Moody's believes that the IHL will continue to maintain good level of financial resources. For FY 2009, total financial resources at the IHL and affiliated foundations was $1.50 billion, down modestly from $1.57 billion at the end of FY 2008 largely due to negative investment returns for the IHL's affiliated foundations. We note our calculation of expendable and total financial resources includes the net assets of three university-affiliated foundations - The University of Mississippi Foundation, Mississippi State University Foundation and the University of Southern Mississippi Foundation. Calculated monthly liquidity is modest relative to the large expense base of the IHL at 58 days for fiscal year-end 6/30/2009, although we note that much of the reported $356 million is cash or cash equivalents.

Despite the increase in debt to $840 million proforma including the current issues for both Jackson State University and University of Mississippi Medical Center, expendable resources still provide a good cushion of debt and operations - 1.2 times and 0.4 times, respectively. Over the last two years variable debt of the System has decreased and was just $160 million as of June 30, 2009, with no variable rate debt outstanding with the concurrent Jackson State University refunding. Debt levels at IHL remain manageable with actual debt service amounting to 2% of operating expenses in FY 2008. Management reports limited future borrowing plans for the next two years - new dorm project at the University of Southern Mississippi for $32 million and new parking garage project at Mississippi State University for $25 million.

Outlook

Our stable outlook reflects the IHL system's strong market position and overall financial health, ongoing support from the State, as well as on the Board of Trustees' ability to tap all legally available revenues generated by the multiple institutions it oversees for debt service purposes. We note that the IHL bonds issued for UMMC are separately secured from the debt issued for the other member universities' EBC. Although both are currently rated Aa2 with a stable outlook, the rating or outlook for one can be changed without impacting the other if pressure is expected on operating performance and debt service coverage, the liquidity profile or the strength of the pledged revenues relative to outstanding debt and debt service.

What Could Change the Rating--UP

Significant growth in financial resource base; further improvements in scope of research activities and student market position.

What Could Change the Rating--DOWN

Marked decline in operating performance or financial resource levels; significant reductions in public support; material increase in debt relative to financial resources and operations.

KEY INDICATORS FOR IHL SYSTEM (Fiscal year 2009 financial data, Fall 2009 enrollment):

FTE enrollment: 62,686 students

Total Proforma Debt (including current debt issuances for the benefit of Jackson State University and University of Mississippi Medical Center): $840 million

Total financial resources: $1.5 billion

Total Expendable Financial Resources: $977 million

Monthly Liquidity: $356 million

Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 58 days

Expendable resources to proforma debt: 1.1 times

Expendable resources to operations: 1.2 times

Average operating margin: 2.1%

Reliance on State (% of operating revenues): 29%

State of Mississippi GO rating: Aa2, with stable outlook

RATED DEBT

*Alcorn State University Education Building Corporation Revenue Bonds:

Series 2009A: Aa2

*Delta State University Education Building Corporation Revenue Bonds:

Series 2009A: Aa2

*Jackson State University Educational Building Corporation Revenue Bonds:

Series 2010A: Aa2

Series 2004A, 2006A: Aa3; insured by FGIC (both series to be refunded by current issue)

Series 2007: Aa3; insured by Assured Guaranty (Current financial strength rating of Aa3 with a negative outlook)

Series 2004B: Aa3 (currently in three-year rate period); to be refunded by current issue

*Mississippi State University Educational Building Corporation Revenue Bonds:

Series 1998 and 2005: Aa3; insured by MBIA Illinois (MBIA's current financial strength rating is Baa1 on review for possible upgrade)

Series 2001 and 2007A: Aa3; insured by Ambac (Current financial strength rating of Caa2 on Watchlist for Possible Upgrade)

Series 2004 and 2004A: Aa3; insured by FGIC

*Mississippi Valley State University Educational Building Corporation Revenue Bonds:

Series 2009A-1, 2009A-2: rated Aa2

Series 2007: Aa3; insured by Ambac (Current financial strength rating of Caa2 on Watchlist for Possible Upgrade)

*University of Mississippi Educational Building Corporation:

Series 2002: insured by National Public Finance Guarantee (Current financial strength rating of Baa1 with a developing outlook)

Series 2005: insured by Assured Guaranty (Current financial strength rating of Aa3 with a negative outlook)

Series 2000A: Baa1/SG based on insurance with National Public Finance Guarantee (Current financial strength rating of Baa1 with a developing outlook) and liquidity facility provided by Regions Bank (expected to be refunded)

Series 2008A, 2009A, 2009B, 2009C: Aa3

*University of Southern Mississippi Educational Building Corporation:

Series 2006A, 2006B and Series 2007: Aa3; insured by Assured Guaranty (Current financial strength rating of Aa3 with a negative outlook)

Series 2002: insured by Assured Guaranty (Current financial strength rating of Aa3 with a negative outlook)

Series 2009: Aa2

*Mississippi Medical Center Educational Building Corporation:

Series 1998A, 1998B, 2009, 2010: Aa2

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METHODOLOGY

The principal methodology used in rating the Mississippi Institutions of Higher Learning was Moody's Rating Methodology for Public Colleges and Universities published in November 2006 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

LAST RATING ACTION:

The last rating action with respect to the Mississippi Institutions of Higher Learning was on October 13, 2009, when a municipal finance scale

rating of Aa3 with a stable outlook was affirmed. That rating was subsequently recalibrated to Aa2 on May 7, 2010.

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