Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to University of New Mexico's (NM) Series 2021 bonds; outlook stable

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New York, January 22, 2021 -- Moody's Investors Service has assigned a Aa3 rating to the University of New Mexico's (UNM) (NM) planned approximately $76 million Taxable Subordinate Lien System Refunding Revenue Bonds, Series 2021 (fixed rate, maturing 2035) to be issued by the Board of Regents of the University of New Mexico. We currently maintain Aa3 and Aa3/VMIG 1 ratings on $367 million of outstanding debt. The outlook is stable.

RATINGS RATIONALE

The assignment of the Aa3 rating reflects UNM's role as the flagship public university, academic medical center and significant healthcare provider for the State of New Mexico (Aa2 stable), with a large and growing $2.7 billion scope of operations. UNM currently has modest direct debt burden and good debt service coverage supported by historically sound state capital support. Both the academic and healthcare enterprises face considerable business disruption caused by the coronavirus pandemic, which is a social risk under Moody's ESG framework due to implications for public health and safety. To date, the credit impact has been manageable given UNM's close management of expenses and federal revenue and relief funds. UNM challenges stem from its high 52% exposure to healthcare operations and competitive student demand pressures. Reserves are modest relative to expenses, and the university has an elevated net pension liability. Sizable capital plans for a hospital expansion project will rely on a mix of debt, reserves and state capital support, but a measured approach to project development combined with schedule debt amortization will partially mitigate the impact of the incremental leverage.

The Aa3/VMIG 1 rating on the variable rate bonds reflects the structure of the standby bond purchase agreements that provide liquidity support, short-term ratings of the liquidity facility banks, and UNM's long-term rating.

RATING OUTLOOK

The stable outlook reflects our expectations that the consolidated operations of the university and healthcare enterprises will maintain steady, though modest, operating performance with good debt service coverage. The potential impact of a planned substantial healthcare expansion project will be evaluated as the project and the sources of funding evolve in the context of the university's overall credit health.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Substantial increase in financial reserves and liquidity
- Sustained improvement in operating performance and cash flow generation
- Ongoing gains in net tuition revenue and research activity

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Sustained deterioration of operating performance at the university or healthcare enterprises, including erosion of liquidity
- Significant increase in leverage relative to wealth and cash flow
- Material weakening of state's credit quality
- Discontinuation of the mill levy supporting the hospitals

LEGAL SECURITY

UNM's rated bonds are payable from a lien on Pledged Revenues which include tuition and fees; auxiliary
revenues derived from the bookstore, parking, housing; indirect cost recovery; certain ambulatory care center revenue; and income from the permanent and land funds. Pledged Revenues exclude state appropriations, restricted funds and hospital revenue. For fiscal 2020, the university's pledged revenues available for total debt service totaled $475 million.

The senior lien is closed, associated only with the Series 1992A bonds, which are outstanding in the amount of $1.6 million and will mature during fiscal 2021.

The subordinate bonds, with $365 million outstanding at June 30, 2020, are further secured by a debt service reserve fund, sum sufficient rate covenant, and additional bonds test of at least 1.75x coverage of pro-forma peak debt service coverage. Fiscal 2020 coverage for the subordinate lien bonds' $33 million of annual debt service was 14.5x.

The university's hospital revenue bonds (fiscal 2020 outstanding of $200 million) are not rated and are secured solely by hospital revenue and the mortgage insurance from the Federal Housing Administration's (FHA) Section 242 mortgage insurance program, with no recourse to the revenue streams supporting debt service on the university's senior and subordinate revenue bonds.

USE OF PROCEEDS

Proceeds of the Series 2021 refunding bonds will be used to refund all or portions of the Series 2014A and 2014C bonds, and pay costs of issuance.

PROFILE

The University of New Mexico is the flagship public higher education institution for the State of New Mexico and includes the University of New Mexico Hospital and consolidated operations of the UNM Health Sciences Center. Associated with UNM are four Branch Community College campuses - Gallup, Los Alamos, Taos and Valencia. In fiscal 2020, the university recorded operating revenue (Moody's adjusted) of an unaudited $2.7 billion and for fall 2020, enrolled 21,636 full-time equivalent (FTE) students.

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004

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