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University of New Mexico; Public Coll/Univ - Unlimited Student Fees

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University of New Mexico; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
US$208.5 mil sub lien sys rfdg & imp rev bnds ser 2016A due 06/01/2046		
Long Term Rating	AA/Stable	New
US$9.5 mil sub lien sys rfdg & imp rev bnds ser 2016B due 06/01/2024		
Long Term Rating	AA/Stable	New
University of New Mexico Brd of Regents, New Mexico		
University of New Mexico, New Mexico		
New Mexico Brd of Regents (University of New Mexico)		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to the University of New Mexico Board of Regents' $152.9 million tax-exempt series 2016A and taxable series 2016B subordinate-lien system refunding and improvement revenue bonds issued for the University of New Mexico (UNM). In addition, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on UNM's outstanding various senior- (closed) and subordinate-lien system revenue bonds. Standard & Poor's also affirmed its 'AA/A-1+' rating on the university's existing series 2001, 2002B, and 2002C variable-rate demand bonds (VRDBs), with the long-term rating reflecting UNM's credit and the short-term rating based on bank liquidity support, in the event of an unremarketed tender, from U.S. Bank (scheduled to expire on Dec. 29, 2017). The outlook on all ratings is stable.

The assigned and affirmed 'AA' ratings reflect our view that UNM's enterprise and financial profiles are both very strong, leading to an initial and final indicative stand-alone credit profile rating of 'aa' and final bond issue ratings of 'AA'.

UNM's enterprise profile, in our view, is characterized by the university's role as the flagship higher educational institution of the state that has breadth and diversity, and includes a Health Science Center (HSC) with a major academic medical center. UNM is composed of seven campuses, including the main campus in Albuquerque, with total fall 2015 full-time equivalent (FTE) enrollment of 23,005 students, representing a slight 0.7% decline from prior-year enrollment and operating under an excellent common governance and management structure with multiple levels of oversight. Also reflected in the enterprise profile are UNM's superior economic fundamentals operating in a state that has a low GDP per capita that nevertheless has maintained Standard & Poor's second-highest rating for over 20 years.

UNM's financial profile reflects our view of its excellent financial management policies, sound financial performance, marked financial resources, and healthy (i.e. moderate) debt and contingent liabilities from conservative debt issuance, a shorter overall 20-year amortization period versus the more typical 30-year period resulting in a low and favorable pro forma maximum annual debt service (MADS) debt burden of 2.1%. UNM's financial performance improved substantially in its fiscal year that ended on June 30, 2015, producing both cash- and full-accrual-based financial surpluses after experiencing unfavorable financial performance in fiscal years 2013 and 2014, largely due to one-time expenses associated with the academic enterprise and at the HSC due mainly to UNM Sandoval Regional Medical Center (SRMC), a start-up satellite hospital that opened in July 2012 that incurred losses in those years but was profitable in 2015.

The ratings further reflect our view of UNM's:

- Generally stable enrollment trend with total FTE enrollment for fall 2015, and each of the preceding five years, averaging approximately 23,338 students annually with broad undergraduate, graduate, and professional program offerings;
- Excellent governance and management with oversight provided by the university's board of regents, as well as through administrators at each of the university's campuses, with a sound strategic and risk management program that includes articulated reserve, debt management and investment policies;
- Continued financial support from New Mexico, with the university's operating appropriations constituting about 14% of fiscal 2015 adjusted operating revenues and anticipated to increase slightly for fiscal years 2016 and 2017;
- Healthy available resource ratios for the rating category, with adjusted fiscal 2015 unrestricted net assets (UNA) equal to 151.2% of pro forma debt outstanding (about $520 million, including hospital debt that we do not rate) and 36% of operations; and
- Low 2.1% debt burden based on pro forma MADS of $44,726 in 2019 and fiscal 2015 expenses;

Partially offsetting credit factors include UNM's enrollment challenges from a state whose high school graduate population is declining, the above-mentioned unfavorable financial operations in fiscal years 2013 and 2014, a moderate $615.3 million endowment, and relatively modest research base ($172 million of research expenses in fiscal 2015) compared with peer flagship institutions.

We understand two large privatized student housing projects funded from equity by a third party totaling approximately $77 million were completed and placed in service over the past four years. According to university officials, the university has no actual or potential financial exposure to these facilities, though, consistent with our published criteria, we view the university's available resource ratio relative to debt as potentially overstated since the costs are not included in its debt and we consider both student housing facilities to have high connectivity to the university because they are integral to its academic strategies, with one facility on university property, and will become assets of the university on completion of the associated long lease terms. We also understand UNM is playing a leading role in an economic development project to create an innovation district off-campus, along with local government, state and private business interests that will contain (among other things) apartment-style living, with 320 beds, for UNM students on five floors of a multistory mixed-use residential and retail building with the university possibly offering an occupancy guarantee for the beds that it estimates would only potentially expose it to a contingent liability of just under $3 million.

The approximately $152.9 million in total series 2016A and B subordinate-lien system refunding and improvement revenue bond proceeds will be used to current refund the Regents' series 2007A and B bonds for savings, and to fund certain capital projects at the campus. These bonds are secured by a broad mix of pledged university revenues, including housing facilities, revenues from other buildings owned or operated by the university, and student fees. Specifically excluded from the system bond pledge are hospital revenues and state operating appropriations. The university has no taxing authority.

We view the security as an unlimited student-fee obligation of the university due to the broad pledge. The subordinate-lien bonds are rated on par with the senior-lien bonds ($15 million outstanding at fiscal year-end 2015) because the senior-lien indenture is closed, the revenue pledge is broad, and the senior-lien portion is proportionately small. Post issuance, the university's pro forma debt will total approximately $520.4 million, including $115 million of separately secured hospital revenue bonds. Currently, it is our understanding that the university has very limited additional debt plans over the next two years, with a possible $50 million offering in early 2017 for, among other projects, a physics and astronomy interdisciplinary science facility.

Outlook

The stable outlook reflects our expectation that UNM's stable enrollment and recently improved financial performance will continue over the next two years. Also, we assume UNM will maintain its available resources ratios relative to debt consistent with medians for the rating category. In addition, our expectation is that the HSC's operations will continue to improve and its debt will continue to be supported by net hospital operations.

Upside scenario

We believe consideration of a higher rating during the outlook period is unlikely owing to continuing enrollment pressure and generally constrained funding in both higher education and health care. However, factors that could lead to such action could include a sustained and significant enrollment increase, consistently stronger university and HSC operating margins, growth in available resource ratios relative to medians for the rating category, or an unanticipated sharp reduction in outstanding debt.

Downside scenario

We could consider a negative rating action during the outlook period if the university enrollment declines significantly, or if full accrual-based operating deficits occur unabated, HSC's operations become pressured, or if UNM's available resources decline significantly or a significant amount of additional debt is issued.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality, competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, UNM has good geographic diversity; however, New Mexico residents accounted for approximately 84% of the total fall 2015 new enrollment for all campuses. As such, our assessment of UNM's economic fundamentals is anchored by the New Mexico GDP per capita of $41,414.

Market position and demand

UNM is the largest of New Mexico's four-year universities in terms of enrollment, which was 34,434 in fall 2015 (including its HSC and branch campuses), of which 27,353 were at the main Albuquerque campus or associated with the HSC. UNM offers bachelors, masters, and doctorate degrees, as well as various professional degrees (medicine, law, pharmacy, and architecture). There are four branch campuses--in Gallup, Los Lunas (Valencia), Taos, and Los Alamos--and two graduate studies centers, in Santa Fe and Los Alamos. A new academic center in Rio Rancho that opened in January 2010 is considered a satellite branch of the main Albuquerque campus. The HSC is the state's largest integrated health care treatment, research, and education organization. Management reports that UNM is one of only six institutions in the U.S. classified as both a minority and a Carnegie Doctoral/Research University Extensive institution.

After steady increases till fall 2012, headcount at UNM's main campus has declined by 6% since then to 27,353 in fall 2015. However, and we believe more importantly, total FTE enrollment has remained relatively constant over the past six fall enrollment periods, e.g., FTE enrollment was 23,375 in fall 2011 and 23,005 in fall 2015. Graduate student enrollment has fluctuated a bit in recent years and is reported at 5,317 for fall 2015 with an FTE enrollment level of 3,108. Professional enrollment (law, medicine, etc.) increased to 1,201 in fall 2015 from 1,064 in fall 2012. Management attributes fluctuations in both undergraduate and graduate enrollment to economic cycles.

University officials expect continued enrollment growth, particularly from transfer students, non-residents, and international students with a goal by 2020 of raising total enrollment at the main campus to 32,000 or an FTE of 24,000.

Tuition rates for in-state undergraduate students increased 3% for the 2015-2016 academic year, rising to $5,158. In-state, undergraduate tuition and fees remain competitive, in our view, aided by the state-sponsored scholarship program, which is funded by lottery revenues. The lottery fund was established in 1996 for scholarships and is funded with proceeds of lottery sales in New Mexico. The fund supports tuition, but not mandatory fees or room and board charges.

Freshman applications increased 11.4% in fall 2015 to 13,189 from the 11,835 recorded for fall 2014. About 58% to 64% of the applicants are typically admitted and a slightly lower range of between 43% to 48% of the admitted students matriculates. Student quality is slightly above the national average, with entering freshman average ACT scores typically about 22.5.

Management and governance

The university is managed by a seven-member board of regents appointed by the governor for six-year staggered terms. The university is led by its president, Robert G. Frank, who assumed his position On June 1, 2012, after most recently serving as the provost and senior vice president for academic affairs at Kent State University in Ohio from 2007 to 2012. President Frank is directing the university's focus to attain student success, improved development and fundraising, and increasing the contribution of the university to local and statewide economic development.

The university's chancellor for the HSC serves as the CEO of the UNM Health System.

UNM updates its strategic plan every three-to-five years ,according to management, and the plan has goals, strategies, and key performance indicators that the university follows to realize its ambitions. In addition, UNM has a risk assessment plan administered by its internal audit department that is overseen by the board of regents' audit committee and includes completion of an annual risk assessment matrix.

Financial Profile

Financial management policies

UNM annually produces full accrual-based independently audited financial statements that have not had any qualifications for several years now. Modified accrual financial reports are presented to the university governing body on a monthly basis. Cash and debt management functions are centralized in the university's controller's office and in the Office of Planning, Budget & Analysis with these offices working hand in hand, according to management, to handle cash management, debt, and investment functions. UNM has fairly comprehensive reserves and liquidity, investment management, and debt management policies that it routinely follows that we consider best practice.

Financial performance

The university's revenue mix is a credit strength, in our opinion. For the fiscal year ended June 30, 2015, consolidated operating revenues included patient services and clinical income (42%), state operating appropriations (14%), grants and contracts (13%), gross tuition and fees (10%), and state lottery scholarships (2%). State operating appropriations to the university recently have shown strong increases after a period from 2009 through 2012 of declining appropriations. Operating appropriation levels dipped to a recent low of $264 million in fiscal 2012 from $340 million in fiscal 2008; however, it has since climbed back, increasing to $308 million in fiscal 2015.

We understand that New Mexico changed its funding formula for its universities effective in fiscal 2013. The prior formula was based on enrollment and physical space while the new formula is performance or outcome based with over 25 different outcome measures assessed and each institution having a small percentage of its budget at risk depending on its performance compared with outcome measure peer comparisons. Management states UNM has done well historically with retention and graduation measures and that the formula rewards those institutions experiencing increases in degree completion. Currently, about 6.5% of the appropriation is determined through these at-risk outcome measures and the percentage is scheduled to increase to 8.5% in 2017.

Consolidated financial operations for the university (including substantial HSC clinical revenues) improved significantly in fiscal 2015 on a full-accrual basis after turning negative in fiscal 2012 through 2014. A full accrual-based operating gain of $57.3 million was recorded in fiscal 2015 with an even larger cash-based gain of $118.4 million. Management indicates that the financial improvement in fiscal 2015 reflects both better revenue and expense realization. Revenue included an increase in state appropriation and higher HSC revenue in large part due to the ongoing implementation of the Patient Protection and Affordable Care Act. Expense improvement in large part reflected management in response to concern about a decline in enrollment held back 5% of operating unit budgeted funds. Management expects that results for the fiscal year that will end on June 30, 2016, will show continued improvement over fiscal 2015's results. We understand the budget in fiscal 2016 is balanced by drawing down reserves for one-time expenditures that, in the view of management, represents a prudent and strategic use of funds.

UNM Health System Operations

We view UNM Health System operations as presenting incremental risk to the university owing to the vagaries of health care reimbursement and constant spending pressures. However, UNM Health System regularly produces a positive bottom line and its principal affiliate UNM Hospital generates sufficient positive net income to support hospital-secured debt service on about $115 million of bonds. While the majority of revenues come from patient service income, positive operating margins depend on proceeds of a voted mill levy from Bernalillo and Sandoval counties and sufficient revenue-generating capacity to service required intergovernmental transfers for the state's Medicaid program.

Health system operations include revenues from the 527-bed tertiary UNM Hospital and additional beds related to other hospitals, including the new SRMC, a children's hospital, an adult psychiatric center, a child psychiatric center, an orthopedic hospital, a cancer research and treatment center, an adult substance abuse program, and a center for developmental disabilities. Patient volumes at UNM Hospital, similar to many hospitals and health systems nationally, had generally been stable, but began to decline in fiscal 2013 with the beginning of implementation of national health reform. Patient volumes at the new SRMC are rising as this facility gains market recognition.

In fiscal 2015, UNM Hospital generated a $52 million operating gain and an $18 million positive bottom line. SRMC in fiscal 2015 for the first time realized both a positive operating gain of $1.6 million and a positive bottom line of $2.7 million.

Available resources

Total university net assets at June 30, 2015, were $809.8 million, a 50% decrease from the $1.62 billion recorded at the end of fiscal 2014. However, the decline reflects the underlying UNA becoming negative $236 million from positive $575 million in fiscal 2014, almost entirely due to the recordation of a $938 million net pension liability under GASB 68.

In line with our Sept. 2, 2015 publication "Incorporating GASB 68: Evaluating Pension Obligations under Standard & Poor’s Higher Education and Charter School Criteria," we have made certain adjustments to the financial statements of public colleges and universities and certain public charter schools for financial results beginning with fiscal year-end June 30, 2015, to enhance analytical clarity regarding the economic substance of the funding of liabilities, expenses, and deferred inflows and outflows of resources associated with pension plan obligations and a change in accounting principle as detailed in GASB 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27." We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics as long as states remain able and willing to fund these pension liabilities.

When we adjust for the pension liability, UNM's adjusted UNA for fiscal 2015 shows an increase of 19.7% to $786.7 million in fiscal 2015 from $657.2 million in 2014. As a result, in our view, UNM's adjusted UNA to operating expense and pro forma debt are healthy at 35.8% and 151.2%, respectively. We view these available resource ratios as consistent with the rating category. However, the financial resource ratio relative to debt may be slightly overstated as it does not adjust for the two large privatized housing projects.

As of June 30, 2015, UNM's endowment, not including the university's share of the State Permanent Fund ($209.5 million), was about $405.8 million. Most university and foundation endowments are consolidated for investment purposes in a consolidated investment fund. The foundation's spending draw for quasi and permanent endowment is a fairly standard formula varying between 4% and 6% of a trailing 20-quarter market value. As is typical of many public universities, endowment draw does not represent a significant source of general operating income.

Current market value in the consolidated investment fund was estimated at $405.8 million as of June 30, 2015, and the return for the year was 0.5%. Invested funds were, in our opinion, diverse, and have a one-year target allocation as follows: It included a mix of equities (40%), fixed income and cash (20%), and alternative investments (40%, including hedge funds, private equity, and commodities). We understand the actual allocation at June 30, 2015, was near the policy target allocation with rebalancing employed as needed to match the policy target.

The university had been in the midst of a $675 million comprehensive campaign, which began in 2006 and was scheduled to end in fiscal 2015, but it recently decided to extend the campaign to the close of fiscal 2020 and raise the goal to $1 billion after having attained $658.5 million in gifts and pledges as of fiscal year-end 2014. It reports that amount has increased further to $808 million as of Dec. 31, 2015.

Debt and contingent liabilities

The university's outstanding system improvement bonds as of June 30, 2015, total $367.6 million, of which only $15 million is senior lien. When the separately secured hospital revenue bonds are included, total university debt increases to about $520.4 million. We view UNM's debt burden, including the hospital debt, as manageable at slightly over 2% of fiscal 2015 operating expenses. The university's debt profile (including the fixed-rate hospital bonds) is about 83% fixed rate and 17% variable rate. Approximately 80% of the variable-rate debt has been synthetically swapped to fixed.

The $115 million outstanding of series 2015 hospital mortgage revenue bonds, not rated by Standard & Poor's, were issued to refund the series 2004 hospital mortgage revenue bonds. Hospital revenue bonds are secured by net income from the hospital and a Federal Housing Administration mortgage. Internally, hospital operations are distinct from general academic operations, and net hospital revenues have not been used to secure university debt. While other revenues of the university are not pledged to the hospital debt, we view the hospital as an integral part of the university, and in fiscal 2015, patient care and clinical revenues were 42% of combined operating revenues, which we consider substantial.

As of its fiscal year-end 2015, the university had six swap agreements outstanding with highly rated counterparties with total notional amounts of $116.9 million as of June 30, 2015: five with JP Morgan Chase Bank N.A. and one with Royal Bank of Canada. We believe there is minimal degree of issuer termination risk due to the wide spread between the rating on the college and the termination trigger, limited counterparty risk due to the high ratings associated with the counterparties, and moderate economic viability of the swap portfolio over stressful economic cycles.

University of New Mexico -- Selected Financial Statistics

	Fiscal year ended June 30					Medians
	2016	2015	2014	2013	2012	Public colleges and universities 'AA' 2014
Enrollment and demand						
Headcount	27,353	27,889	28,644	29,100	29,056	34,431
Full-time equivalent	23,005	23,173	23,618	23,471	23,375	32,265

University of New Mexico -- Selected Financial Statistics (cont.)						
Freshman acceptance rate (%)	57.9	60.5	63.1	64.6	63.9	68.6
Freshman matriculation rate (%)	43.6	43.7	47.9	46.2	45.8	MNR
Undergraduates as a % of total enrollment (%)	72.7	72.6	72.8	72.2	72.1	77.7
Freshman retention (%)	79.5	79.1	78.0	N.A.	N.A.	85.0
Graduation rates (five years) (%)	N.A.	N.A.	N.A.	N.A.	N.A.	55.4
Income statement						
Adjusted operating revenue ($000s)	N.A.	2,161,100	1,931,002	1,823,273	1,746,295	MNR
Adjusted operating expense ($000s)	N.A.	2,103,800	2,006,838	1,930,921	1,817,214	MNR
Net adjusted operating income ($000s)	N.A.	57,300	(75,836)	(107,648)	(70,919)	MNR
Net adjusted operating margin (%)	N.A.	2.65	(3.93)	(5.90)	(4.06)	MNR
Estimated operating gain/loss before depreciation ($000s)	N.A.	118,388	(14,981)	(44,743)	(5,370)	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	(810,647)	30,405	(881)	31,931	MNR
State operating appropriations ($000s)	N.A.	308,196	292,499	279,359	264,469	MNR
State appropriations to revenue (%)	N.A.	14.3	15.1	15.3	15.1	21.4
Student dependence (%)	N.A.	11.8	13.3	13.8	13.7	MNR
Healthcare operations dependence (%)	N.A.	41.7	36.3	35.4	35.7	MNR
Research dependence (%)	N.A.	12.5	13.6	14.5	15.0	MNR
Endowment and investment income dependence (%)	N.A.	0.5	3.6	2.5	0.5	2.4
Debt						
Outstanding debt ($000s)	N.A.	482,592	556,635	575,679	600,926	689,891
Proposed debt ($000s)	N.A.	152,865	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	520,417	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	44,726	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.63	2.23	2.31	5.01	3.30
Current MADS burden (%)	N.A.	2.05	N.A.	1.78	N.A.	3.50
Pro forma MADS burden (%)	N.A.	2.13	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	615,300	622,300	541,500	495,400	631,508
Related foundation market value ($000s)	N.A.	197,962	198,347	169,998	152,771	646,108
Cash and investments ($000s)	N.A.	845,630	787,381	743,051	748,981	MNR
UNA ($000s)	N.A.	(235,838)	574,809	544,404	545,285	MNR
Adjusted UNA ($000s)	N.A.	752,190	610,161	577,691	577,971	MNR
Cash and investments to operations (%)	N.A.	40.2	39.2	38.5	41.2	63.5
Cash and investments to debt (%)	N.A.	175.2	141.5	129.1	124.6	163.0
Cash and investments to pro forma debt (%)	N.A.	162.5	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	35.8	30.4	29.9	31.8	36.1
Adjusted UNA plus debt service reserve to debt (%)	N.A.	163.0	118.1	108.1	102.6	102.1
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	151.2	N.A.	N.A.	N.A.	MNR

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University of New Mexico -- Selected Financial Statistics (cont.)						
Average age of plant (years)	N.A.	21.2	20.1	18.2	16.2	12.2
OPEB liability to total liabilities (%)	N.A.	1.5	3.7	3.6	3.5	5.4

N.A.--Not available. MNR--Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of February 3, 2016)		
University of New Mexico Brd of Regents, New Mexico		
University of New Mexico, New Mexico		
New Mexico Brd of Regents (University of New Mexico)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Brd of Regents (University of New Mexico) subord lien		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Brd of Regents (University of New Mexico) VRDB ser 2002C		
Long Term Rating	AA/A-1+/Stable	Affirmed
New Mexico Brd of Regents (University of New Mexico) VRDB sub lien ser 2001		
Long Term Rating	AA/A-1+/Stable	Affirmed
New Mexico Brd of Regents (University of New Mexico) VRDB sub lien ser 2002B		
Long Term Rating	AA/A-1+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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