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

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New Mexico Brd of Regents (University of New Mexico)		
Long Term Rating	AA/Negative	Outlook Revised

Rationale

S&P Global Ratings revised its outlook to negative from stable and affirmed its 'AA' long-term rating and underlying rating (SPUR) on the University of New Mexico's (UNM) outstanding various senior- (closed) and subordinate-lien system revenue bonds. In addition, S&P Global affirmed its rating on the university's existing series 2001, 2002B, and 2002C variable-rate demand bonds, 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, 2020). The rating is 'AA/A-1+'.

The negative outlook reflects the consistent declines in enrollment and the more than 20% drop in applications in fall 2017. Additionally, the outlook reflects inconsistent operations, with the last two years being negative on a full-accrual basis.

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

UNM's enterprise profile reflects its role as the higher educational institution flagship 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 2017 full-time-equivalent (FTE) enrollment of 21,983 students, representing a continued decline from the prior year's enrollment (3.8%). Additionally, applications in fall 2017 declined by more than 20% from the previous year after increasing by more than 10% in each of the two previous years. UNM also operates 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 despite operating in a state that has a low GDP per capita.

UNM's financial profile reflects our view of its excellent financial management policies, uneven financial performance, marked financial resources, and healthy (i.e., moderate) debt and contingent liabilities due to conservative debt issuance, resulting in a very low and favorable maximum annual debt service (MADS) debt burden of 1.5%. Since 2010, UNM has had positive operations, on an adjusted basis, three times (ranging from 0.3% to 4.0% operating margins) and negative operations five times (from negative 5.6% to negative 2.1%). In fiscal 2017, UNM's net operating margin was negative 2.1% on a full-accrual basis; however, it was positive on a cash basis.

The ratings further reflect our view of UNM's:

- Healthy available resource ratios for the rating category, with adjusted fiscal 2017 unrestricted net assets (UNA) equal to 168% of debt outstanding (about $527 million, including hospital debt that we do not rate) and 34% of operations;
- Low, 1.5% debt burden based on MADS of $36.7 million in 2021 and fiscal 2017 expenses;
- Broad undergraduate, graduate, and professional program offerings and increased graduate enrollment;
- Continued, although diminished, financial support from New Mexico, with the university's operating appropriations constituting about 11.1% of fiscal 2017 adjusted operating revenues; and
- 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.

Partially offsetting credit factors include UNM's enrollment challenges from a state whose high school graduate population is declining, the negative financial operations in fiscal years 2016 and 2017, a moderate endowment, and a relatively modest research base ($185 million of research expenses in fiscal 2017) compared with those of peer flagship institutions.

We understand two large privatized student housing projects funded from equity by a third party and totaling approximately $77 million were completed and placed in service over the past eight years. According to university officials, the university has no actual or potential financial exposure to these facilities; however, consistent with our published criteria, we view the university's available resource ratio relative to debt as potentially overstated since the costs of the projects are not included in the university's debt numbers. We consider the student housing facilities to have high connectivity to the university because they are integral to its academic strategies--one facility is on university property, and one will become an asset of the university on completion of the associated long lease terms.

We view the security as an unlimited student-fee obligation of the university due to the broad pledge. Specifically excluded from the system bond pledge are hospital revenues and state operating appropriations. The subordinate-lien bonds are rated on par with the senior-lien bonds ($11.6 million outstanding at fiscal year-end 2016) because the senior-lien indenture is closed, the revenue pledge is broad, and the senior-lien portion is proportionately small. Postissuance, the university's pro forma debt will total approximately $554 million, including $109 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.

Outlook

The negative outlook reflects our expectation that over the next two years, enrollment may continue to decline along with associated demand metrics to a level that could be inconsistent with the current rating. The decline in enrollment and state appropriations has also put pressure on operations. We believe that a further erosion of enrollment and operations could pressure the rating at the current level.

Downside scenario

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

Upside scenario

We could consider revising the outlook to stable if enrollment and applications stabilize, operations improve, and debt and financial resources remain stable or improve.

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 85.9% of the total fall 2017 undergraduate enrollment for all campuses. Therefore, the New Mexico GDP per capita of $42,030 anchors our assessment of UNM's economic fundamentals.

Market position and demand

UNM is the largest of New Mexico's four-year universities in terms of enrollment, which was 32,988 in fall 2017 (including its HSC and branch campuses), approximately 26,000 of which were at the main Albuquerque campus or associated with the HSC. UNM offers bachelor's, master's, 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. An 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 four institutions in the U.S. classified as both a Hispanic Serving Institution and a Carnegie Doctoral/Research University Extensive institution.

After increasing steadily until fall 2012, headcount at UNM's main campus declined by more than 10% to 26,278 in fall 2016. However, FTE enrollment decreased by less than 7% during the same period, to 21,983 in fall 2017 from 23,471 in fall 2012. Graduate student enrollment has fluctuated slightly in recent years and was 4,668 in fall 2017, with an FTE enrollment of 2,621. However, professional enrollment (law, medicine, etc.) increased to 1,199 in fall 2017 from 1,149 in fall 2012. Management attributes fluctuations in both undergraduate and graduate enrollment to economic cycles.

University officials are working toward enrollment growth, particularly from transfer students, nonresidents, and international students, with a goal of raising total enrollment at the main campus to 32,000, or an FTE of 24,000, by 2020. UNM has also undertaken a branding effort to create greater public awareness for UNM, achieve enrollment goals, increase diversity and quality of applicants, and increase ties with alumni and philanthropic support.

Tuition rates for in-state undergraduate students remained the same at $5,286 for the 2017-2018 academic year, after increasing 2.5% the previous academic year. Tuition is slated to increase by 2.5% for the next academic year. 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.

First-year applications plummeted by more than 20% in fall 2017, after increasing by more than 10% in each of the previous two years. First-year applications were 11,165 in fall 2017, a large decrease from the previous year (23.9%) but a modest decrease from fall 2014 (6.0%). Management reports that recruitment strategies have become more targeted and anticipates enrollment stabilizing in the near term. About 58% to 65% of the applicants are typically admitted, although this rate rose to 66.9% in fall 2017; between 39% and 48% of the admitted students matriculate (43.1% in fall 2017). Student quality is slightly above the national average, with entering first-years' average ACT scores typically about 22.4 (22.2 in fall 2017).

Management and governance

A seven-member board of regents appointed by the governor for six-year staggered terms manages the university. On March 1, 2018, Dr. Garnett S. Stokes started her tenure as president of UNM; previously, she was provost at the University of Missouri. The acting president, as of Jan. 1, 2017, Dr. Chaouki Abdallah, returned to his role as provost, a position he has held since 2011. David W. Harris, executive vice president for administration, has announced his retirement. A search is underway. Dr. Paul B. Roth is the university's chancellor for the HSC, the CEO of the UNM Health System, and the dean of the UNM School of Medicine. Kathleen Becker was named CEO of the University of New Mexico Hospitals in May 2018. 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. 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, and according to management, these offices work hand in hand to handle cash management, debt, and investment functions. UNM has comprehensive reserves and liquidity, investment management, and debt management policies that it routinely follows, which we consider best practice.

Financial performance

In fiscal 2017, UNM adopted GASB 80 and restated fiscal 2016. We have included the restated 2016 in our data table. GASB 80 blends component units, and thus UNM's health care operations are presented differently, and the way in which we adjust operations has been somewhat revised. The change in presentation does not materially change our analysis.

The university's revenue mix is a credit strength, in our opinion. For the fiscal year ended June 30, 2017, consolidated operating revenues included net patient services (50%), state operating appropriations (13%), grants and contracts (12%), and gross tuition and fees (9%). Although state operating appropriations to the university increased from 2012 to 2016, they are currently declining again. Operating appropriations dipped to a recent low of $264 million in fiscal 2012 from $340 million in fiscal 2008; however, they have since climbed back, increasing to $326 million in fiscal 2016. In fiscal 2017, including a midyear cut, state appropriations totaled $301.8 million. In fiscal 2018, they were further cut by 0.9%. Management anticipates that they may stabilize in fiscal 2019.

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 several outcome measures assessed, and each institution has a small percentage of its budget at risk depending on its performance compared with outcome measure peer comparisons. Management states that UNM has done well historically with retention and graduation measures and that the formula rewards those institutions experiencing increases in degree completion. Currently, about 8.5% of the appropriation is determined through these at-risk outcome measures.

Although 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, they returned to negative in fiscals 2016 and 2017. This is in part due to mixed health care operations, decline in enrollment, and lower state appropriations. In fiscals 2016 and 2017, adjusted operating margins were about negative 2.1% in each year on an adjusted expense base of about $2.4 billion, after a positive 3% operating margin on an adjusted expense base of $2.1 billion in fiscal 2015. In each year they were positive on a cash basis. Management anticipates improved fiscal 2018 results due to better health care operations, stabilizing enrollment, and continued expense controls.

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 $103 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. The mill levy was reapproved by voters in Bernalillo County; however, the mill levy in Sandoval County has not been reapproved to date. We understand that management continues to meet with the county to understand what might be the opportunity for mill levy tax support for identified programs into the future. We will monitor the situation.

Health system operations include revenues from the 537-bed tertiary UNM Hospital including a children's hospital, an adult psychiatric center, a child psychiatric center, a cancer research and treatment center, an adult substance abuse program, a center for developmental disabilities, and 60 additional beds related to the new Sandoval Regional Medical Center. Patient volumes at UNM Hospital, similar to those at 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 had been rising and remained flat (1% decrease) in fiscal 2017. They have improved in fiscal 2018. In fiscal 2017, UNM Hospital generated a $17 million positive bottom line, just a little less than the $19 million net income it had in fiscal 2016.

Available resources

Total university net assets at June 30, 2017, were $708.4 million, a 14% decrease over fiscal 2015. UNA has been negative since fiscal 2015 due to the recordation of a $938 million net pension liability under GASB 68. When we adjust for the pension liability, UNM's adjusted UNA for debt for fiscal 2017 increased by 1.2% from the previous year to $884.9 million. As a result, in our view, UNM's fiscal 2017 adjusted UNA to operating expense and pro forma debt are healthy, at 34.3% and 167.9%, 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 two large privatized housing projects.

Current market value in the consolidated investment fund was $456.3 million as of Feb. 28, 2018. Invested funds were, in our opinion, diverse, and have a one-year target allocation as follows: They included a mix of equities (47.0%), fixed income and cash (19.3%), and alternative investments (33.5%, including hedge funds, private equity, and commodities). 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, the endowment draw does not represent a significant source of general operating income.

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 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. Management reports that amount has increased further to $987 million as of Feb. 28, 2018.

Debt and contingent liabilities

The university's outstanding system improvement bonds as of June 30, 2016, total $423.5 million, only $9.4 million of which is senior lien. When including the separately secured hospital revenue bonds ($103 million), total debt increases to about $526.9 million. We view UNM's debt MADS burden as manageable at 1.5% of fiscal 2017 operating expenses. The university's debt profile (excluding the fixed-rate hospital bonds) is about 80% fixed rate, 4% floating, and 16% synthetic fixed.

The $103 million outstanding of series 2015 hospital mortgage revenue bonds, not rated by S&P Global Ratings, 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 2017, net patient services were 40% of combined operating revenues, which we consider substantial.

As of its fiscal year-end 2017, the university had six swap agreements outstanding with highly rated counterparties with total notional amounts of $105 million as of June 30, 2017: 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 university 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

	--Fiscal year ended June 30--					Medians for 'AA' Public Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Enrollment and demand						
Headcount	26,278	27,060	27,353	27,889	28,644	MNR
Full-time equivalent	21,983	22,857	23,005	23,173	23,618	32,506
Freshman acceptance rate (%)	66.9	58.7	57.9	60.5	63.1	69.3
Freshman matriculation rate (%)	43.1	39.5	43.6	43.7	47.9	MNR
Undergraduates as a % of total enrollment (%)	72.0	72.6	72.7	72.6	72.8	77.7
Freshman retention (%)	78.2	80.1	79.5	79.1	78.0	86.0
Graduation rates (six years) (%)	48.7	44.4	49.1	47.5	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	2,368,077	2,304,237	2,161,100	1,931,002	MNR
Adjusted operating expense ($000s)	N.A.	2,419,932	2,352,577	2,098,536	2,006,838	MNR
Net adjusted operating income ($000s)	N.A.	(51,855)	(48,340)	62,564	(75,836)	MNR
Net adjusted operating margin (%)	N.A.	(2.14)	(2.05)	2.98	(3.78)	1.46
Estimated operating gain/loss before depreciation ($000s)	N.A.	52,254	56,381	123,652	(14,981)	MNR
Change in unrestricted net assets (UNA; $000s)	N.A.	(40,656)	52,641	(810,647)	30,405	MNR
State operating appropriations ($000s)	N.A.	301,845	326,681	308,196	292,499	MNR
State appropriations to revenue (%)	N.A.	12.7	14.2	14.3	15.1	19.4
Student dependence (%)	N.A.	11.1	11.1	11.8	13.3	41.8
Health care operations dependence (%)	N.A.	50.3	49.0	41.7	36.3	MNR
Research dependence (%)	N.A.	12.3	12.3	12.5	13.6	MNR
Endowment and investment income dependence (%)	N.A.	1.3	0.2	0.5	3.6	0.8
Debt						
Outstanding debt ($000s)	N.A.	526,929	507,747	482,592	556,635	698,540
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	526,929	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

University of New Mexico (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' Public Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Current debt service burden (%)	N.A.	1.98	1.38	1.64	2.23	MNR
Current MADS burden (%)	N.A.	1.52	1.49	2.06	N.A.	3.60
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	N.A.	597,800	615,300	622,300	748,837
Related foundation market value ($000s)	N.A.	211,135	193,975	197,962	198,347	606,279
Cash and investments ($000s)	N.A.	1,159,071	1,049,892	845,630	787,381	MNR
UNA ($000s)	N.A.	(223,853)	(183,197)	(235,838)	574,809	MNR
Adjusted UNA ($000s)	N.A.	829,588	820,063	752,190	610,161	MNR
Cash and investments to operations (%)	N.A.	47.9	44.6	40.3	39.2	54.7
Cash and investments to debt (%)	N.A.	220.0	206.8	175.2	141.5	159.6
Cash and investments to pro forma debt (%)	N.A.	220.0	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	34.3	34.9	35.8	30.4	31.9
Adjusted UNA plus debt service reserve to debt (%)	N.A.	167.9	171.3	163.0	118.1	89.7
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	167.9	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.1	13.5	21.2	20.1	12.9
OPEB liability to total liabilities (%)	N.A.	1.1	1.0	1.5	3.7	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Ratings Detail (As Of May 16, 2018)

University of New Mexico sub lien sys rfdg & imp rev bnds

Long Term Rating	AA/Negative	Outlook Revised

University of New Mexico sub lien sys rfdg & imp rev bnds

Long Term Rating	AA/Negative	Outlook Revised

University of New Mexico Brd of Regents, New Mexico

University of New Mexico, New Mexico

University of New Mexico Brd of Regents subordinate lien sys imp bnds (University of New Mexico)

Long Term Rating	AA/Negative	Outlook Revised

University of New Mexico Brd of Regents (University of New Mexico) gross rev bnds ser 1992A-C dtd 10/01/1992 due 2022

Long Term Rating	AA/Negative	Outlook Revised

New Mexico Brd of Regents (University of New Mexico)

Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised

Ratings Detail (As Of May 16, 2018) (cont.)		
New Mexico Brd of Regents (University of New Mexico) subord lien		
Unenhanced Rating	AA(SPUR)/Negative	Outlook Revised
New Mexico Brd of Regents (University of New Mexico) VRDB ser 2002C		
Long Term Rating	AA/A-1+/Negative	Outlook Revised
New Mexico Brd of Regents (University of New Mexico) VRDB sub lien ser 2001		
Long Term Rating	AA/A-1+/Negative	Outlook Revised
New Mexico Brd of Regents (University of New Mexico) VRDB sub lien ser 2002B		
Long Term Rating	AA/A-1+/Negative	Outlook Revised

Many issues are enhanced by bond insurance.