S&P Global
Ratings

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

Primary Credit Analyst:
Phillip A Pena, San Francisco + 1 (415) 371 5039; phillip.pena@spglobal.com

Secondary Contact:
Mary Ellen E Wriedt, San Francisco + 1 (415) 371 5027; maryellen.wriedt@spglobal.com

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

Credit Profile		
US$80.0 mil taxable subordinate ln sys rfdg rev bnds (University of New Mexico) ser 2021 due 06/01/2035		
Long Term Rating	AA-/Stable	New
University of New Mexico Brd of Regents, New Mexico		
University of New Mexico, New Mexico		
Univ of New Mexico Brd of Regents (University of New Mexico)		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' rating to The Regents of The University of New Mexico's series 2021 taxable subordinate-lien system revenue bonds. At the same time, S&P Global Ratings affirmed its 'AA-'long-term rating on the University of New Mexico's (UNM) outstanding various senior- (closed) and subordinate-lien system revenue bonds. The subordinate-lien bonds are rated on par with the senior-lien bonds ($1.6 million outstanding at fiscal year-end 2020) because the senior-lien indenture is closed. In addition, S&P Global Ratings affirmed the 'AA-' long-term component of its rating on the university's existing series 2001, 2002B, and 2002C variable-rate demand bonds. The 'A-1+' short-term component of this rating remains unchanged. The long-term rating on the variable-rate demand bonds reflects UNM's creditworthiness, and the short-term rating is based on bank liquidity support, in the event of an unremarketed tender, from U.S. Bank (scheduled to expire on Oct. 30, 2023). The outlook is stable.

Post-issuance of the series 2021 bonds, the university will have $465.1 million of outstanding debt, which includes the separately secured hospital revenue bonds ($86.3 million); excluding the hospital debt, university debt totals $378.8 million. The anticipated $80 million issuance will be used to refund the university's series 2014A and 2014C bonds for savings. The university's debt is secured by what we consider an unlimited student fee obligation of the university due to the broad pledge. Specifically excluded from the system bond pledge are hospital revenue and state operating appropriations. Maximum annual debt service (MADS) on university debt is $35.58 million and occurs in fiscal 2022, equivalent to a 1.4% MADS burden, which we view as low and manageable. Currently, it is our understanding that the university has very limited additional debt plans over the next two years.

In response to the COVID-19 pandemic, the University of New Mexico transitioned to online learning in spring 2020. Residential halls were closed, and refunds for room and board totaling about $1.5 million were issued to students. In fall 2020, classes were taught in a hybrid format, with about 25% of classes having an in-person component, and the remainder online. We understand spring 2021 will also use a similar hybrid format. Full-time-equivalent (FTE) enrollment fell by 2.5% in fall 2020, attributed in part to the COVID-19 pandemic. Despite the decline, we note on a headcount basis that the university's total international enrollment grew by 30% to 1,000 students in fall 2020, which we consider solid. The university has 527 beds available to students (the campus is mostly commuter), and has socially distanced the dorms and implemented personal protective equipment requirements in order to prevent the spread of COVID-19. Auxiliary operations make up about 1.5% of fiscal 2019 operating revenues. Through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, UNM received $17,396,526 in funding, of which $9,933,404 was designated for institutional costs of the university, with the remainder to be used as direct aid for students. Based on draft audited results, the university had a small and near break-even operating deficit in fiscal 2020, which we view as modest given the pressures associated with the pandemic. Based on the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) data, we anticipate up to $22.4 million in additional institutional aid in fiscal 2021. We note that despite operating losses, the university has sufficient liquidity to handle short-term disruptions, in our view, with a majority of assets classified as level 1 investments.

Credit overview

We assessed UNM's enterprise profile as strong, reflecting its role as the flagship higher educational institution of the state. UNM's enterprise profile also maintains solid retention, improving selectivity, and continued improvement in already-robust matriculation rates, which are offset by continued FTE enrollment declines. We assessed UNM's financial profile as very strong, characterized by robust and growing available resources, a low debt burden, and modestly negative full-accrual operating margins anticipated in fiscal 2020. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AA-' rating on the university's bonds better reflects UNM's robust balance sheet relative to those of peers.

The ratings further reflect our view of:

- UNM's healthy available resource ratios for the rating category, with adjusted fiscal 2019 unrestricted net assets (UNA) equal to 200% of pro forma debt and a robust 37% of operations;
- UNM's low, 1.4% debt burden based on MADS of $35.6 million in 2022 and fiscal 2019 expenses; and
- Recent improvement in UNM's selectivity, applications, and matriculation rate, which we believe could begin to improve the university's overall demand profile.

Partially offsetting credit factors include UNM's:

- Enrollment challenges, with continued and significant FTE declines over the last several years and the expectation that they will continue;
- History of full-accrual operating deficits, including a negative 1.7% operating margin for fiscal 2019, and management's anticipation of a slightly negative and near break-even result for fiscal 2020; and
- High dependence on health care revenue, which makes up nearly 52% of the university's operating revenue.

The stable outlook reflects our expectation that available resources will remain stable or grow, operating margins will not deteriorate significantly, and fundraising will remain robust. Although we expect some pressure to FTE enrollment over the next year, we believe the university is taking steps to address the declines.

UNM is the largest of New Mexico's seven four-year universities in terms of enrollment. 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 has been transitioned to a health sciences campus that leverages the relationship with UNM Sandoval Regional Medical center to increase the health care workforce for New Mexico. The Health Sciences Center (HSC) is the state's only Academic Medical Center and the 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.

Environmental, social, and governance (ESG) factors

UNM's leadership moved classes entirely online in spring 2020 in order to protect student health and public health and safety, and to limit COVID-19-associated social risks, and transitioned to a hybrid model for both fall 2020 and spring 2021. We view COVID-19-related health-and-safety issues as a social risk under our ESG factors, because of the uncertainty surrounding the virus' duration and the unknown effect it will have on enrollment. Despite elevated social risks, we consider University of New Mexico's environmental and governance risks to be in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could consider a negative rating action during the outlook period if the university's enrollment declines materially, the university operations further weaken from their current level, the HSC's operations become pressured or UNM's available resources decline, or UNM issues a significant amount of additional debt. Further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the school's plan to mitigate the effects of the COVID-19 outbreak may also result in a negative rating action.

Upside scenario

We could consider a positive rating action during the outlook period if FTE enrollment begins to show a trend of growth, operations continue to improve, and debt and financial resources remain stable or improve further.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, UNM has good geographic diversity; however, New Mexico residents accounted for approximately 84% of the total fall 2020 undergraduate enrollment for all campuses. Therefore, the New Mexico GDP per capita of $46,948 anchors our assessment of UNM's economic fundamentals.

Market position and demand

FTE enrollment has seen a sustained trend of decline for the last several years, most recently falling 3.5% in fall 2020 to 18,171 from 18,883 in the previous year. We note that the trend of decline has at least partly been offset by the university's strategic enrollment plan, as the 3.5% decline in fall 2020 was the lowest level of decline in the last three years, and occurred concurrently with COVID-19. The university's new strategic enrollment plan has targeted an increased number of out-of-state students in addition to leveraging online learning capabilities to outreach to students at all levels, including graduate students, and the university also engaged enrollment consultants in order to create an optimal new demand strategy. We note that applications increased to 13,918, or by 18%, compared to the previous fall, and that selectivity improved to a 54% acceptance rate in fall 2020 from 66% in the year prior. About 37% of students matriculated in fall 2020, an increase from 36% in the prior year. Student quality is slightly above the national average, with entering first-years' average ACT scores typically about 22.3. Retention rates are also solid at 77% for fall 2020. We would view further improvement in the university's demand and enrollment profile as a positive credit factor. We note that in addition to the above-mentioned strategy, the university has created the Lobo First Year Promise scholarship, a "last dollar" program that would cover any tuition and fees not covered by federal and state aid.

Tuition rates for in-state undergraduate students totaled $6,740 for the 2020-2021 academic year, an increase of 20.7% from $5,586 in the previous year. Despite the increase, we note general improvement in the university's demand metrics relative to years past. In-state, undergraduate tuition and fees remain competitive, in our view, aided by the state-sponsored scholarship program, which is funded by lottery revenue. 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.

Management and governance

A seven-member board of regents appointed by the governor for six-year staggered terms manages the university. We view the board as capable, and expect, despite recent UNM board changes due to normal turnover, continued board strength.

The senior management team has seen relative stability after a number of changes several years ago. Since our last review, the university has hired a general counsel and chief of equity and inclusion. Aside from this, the university president, Dr. Garnett S. Stokes, is in her third year as president. We note recent hires within the last few years include a senior vice president for finance and administration, a new provost, a new vice president for diversity, and a new vice president for enrollment management. We view the management team as experienced and capable, having guided the university through the onset of the pandemic while improving demand and achieving a near break-even operating deficit.

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

The university's revenue mix is a credit strength, in our opinion. We note that audited fiscal 2020 results were unavailable; however, we used draft statements as part of our analysis. For the fiscal year ended June 30, 2019, consolidated operating revenue included net patient services (52.2%), state operating appropriations (12.6%), grants and contracts (11.5%), and gross tuition and fees (10.1%). Operating appropriations have shown a trend of growth over the past three fiscal years. The management team indicates that it expects modest increases in state funding for fiscal 2020 and beyond, which we would view positively.

Based on draft fiscal 2020 data, consolidated financial operations for the university (including substantial HSC clinical revenue) have achieved their best operating result of the recent past, and management expects to achieve a small near-break even operating result on a full-accrual basis. Fiscal 2019 and fiscal 2018 ended with full-accrual operating deficits of negative 1.7% and negative 1.6%, respectively. We attribute the improvement in operating revenues to a number of factors, including an improvement in health care revenues, and a less severe drop in enrollment following several years of steep declines. The tuition discount rate is high for a public university at 35.8%, which we believe has the potential to affect operating results over time. Despite this decline in operating revenues, we note that the university is much less dependent on student-generated revenues (10.1% dependence) relative to peers, and believe that should the university's enrollment stabilize or improve, operating deficits could return to positive performance. We note that in each of the last several years, UNM was positive on a cash basis.

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 $86.3 million of bonds. While the majority of revenue comes 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 in 2016; the mill levy in Sandoval County was reapproved in 2018.

Health system operations include revenue 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. Inpatient volumes have been flat over the past two years as the health system has focused on management of care in primary and specialty outpatient clinics. In fiscal 2020, UNM Hospital generated a substantial $95.9 million positive bottom line, up from fiscal 2019's positive $27 million. We note this margin is the strongest in the last several years.

Available resources

When we adjust for the pension liability, UNM's adjusted UNA for debt for fiscal 2019 increased by 6.2% from the previous year to about $982.9 billion. UNM's adjusted UNA for operations also increased by 6.2% to $921.8 billion. Fiscal 2019 adjusted UNA to debt and to operating expense are 200% and 37%, respectively. We note that, based on draft audited results for fiscal 2020, adjusted UNA are anticipated to grow further. 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 $495 million as of November 2020. Invested funds were, in our opinion, diverse, and have a one-year target allocation as follows: They included a mix of equities (50.6%), fixed income and cash (12.8%), hedge funds (18.1%), private investments (15.2%), and real assets (3.4%). 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.

We note that two large privatized student housing projects funded from equity by a third party and totaling approximately $77 million are currently in service. 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, but view resources relative to operations as solid. 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.

The university had been in the midst of a $1 billion comprehensive campaign, which began in 2006 and closed in fiscal 2020. Management reports that fundraising is successful and that the university has raised $1.1 billion on its $1 billion goal. We view this fundraising as strong and would view further success in fundraising positively.

Debt and contingent liabilities

The university's outstanding debt post-issuance will total $465.1 million, which is inclusive of the separately secured hospital revenue bonds ($86.3 million). We view UNM's MADS burden as manageable at 1.4% of fiscal 2019 operating expenses. The university's debt profile (excluding the fixed-rate hospital bonds) is about 83% fixed rate and 17% variable rate.

The $86.3 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 revenue has not been used to secure university debt. While other revenue of the university are not pledged to the hospital debt, we view the hospital as an integral part of the university.

As of its fiscal year-end 2020, the university had six swap agreements outstanding with highly rated counterparties with total notional amounts of $83.9 million as of June 30, 2020: 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--Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2021	**2020**	**2019**	**2018**	**2017**
Enrollment and demand					
Headcount	22,244	22,792	24,393	26,278	27,060
Full-time equivalent	18,171	18,833	20,245	21,982	22,857
Freshman acceptance rate (%)	53.8	66.3	69.6	66.9	58.7
Freshman matriculation rate (%)	37.2	33.2	36.0	43.1	39.5
Undergraduates as a % of total enrollment (%)	70.9	70.9	71.0	72.0	72.6
Freshman retention (%)	77.0	77.3	73.6	78.2	80.1
Graduation rates (six years) (%)	52.3	53.7	49.9	52.3	44.4
Income statement					
Adjusted operating revenue ($000s)	N.A.	N.A.	2,475,826	2,366,490	2,368,077
Adjusted operating expense ($000s)	N.A.	N.A.	2,518,658	2,403,842	2,418,189
Net adjusted operating income ($000s)	N.A.	N.A.	(42,832)	(37,352)	(50,112)
Net adjusted operating margin (%)	N.A.	N.A.	(1.70)	(1.55)	(2.07)
Estimated operating gain/loss before depreciation ($000s)	N.A.	N.A.	60,782	65,254	53,997
Change in unrestricted net assets (UNA; $000s)	N.A.	N.A.	(228,474)	(209,795)	(144,881)
State operating appropriations ($000s)	N.A.	N.A.	310,785	299,100	301,845
State appropriations to revenue (%)	N.A.	N.A.	12.6	12.6	12.7
Student dependence (%)	N.A.	N.A.	10.1	11.1	11.1
Health care operations dependence (%)	N.A.	N.A.	52.2	51.6	50.3
Research dependence (%)	N.A.	N.A.	11.5	12.4	12.3
Endowment and investment income dependence (%)	N.A.	N.A.	1.8	1.2	1.3
Debt					
Outstanding debt ($000s)	N.A.	N.A.	479,805	504,157	526,929
Proposed debt ($000s)	N.A.	N.A.	76,115	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	N.A.	491,630	N.A.	N.A.
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	N.A.	2.02	2.08	1.98
Current MADS burden (%)	N.A.	N.A.	1.46	1.53	1.52
Pro forma MADS burden (%)	N.A.	N.A.	1.4	N.A.	N.A.

University of New Mexico--Enterprise And Financial Statistics (cont.)					
	--Fiscal year ended June 30--				
	2021	2020	2019	2018	2017
Financial resource ratios					
Endowment market value ($000s)	N.A.	N.A.	459,892	454,900	424,000
Related foundation market value ($000s)	N.A.	N.A.	235,978	229,559	211,135
Cash and investments ($000s)	N.A.	N.A.	1,205,514	1,194,004	1,159,071
UNA ($000s)	N.A.	N.A.	(766,347)	(537,873)	(328,078)
Adjusted UNA ($000s)	N.A.	N.A.	921,807	867,633	837,479
Cash and investments to operations (%)	N.A.	N.A.	47.9	49.7	47.9
Cash and investments to debt (%)	N.A.	N.A.	251.3	236.8	220.0
Cash and investments to pro forma debt (%)	N.A.	N.A.	245.2	N.A.	N.A.
Adjusted UNA to operations (%)	N.A.	N.A.	36.6	36.1	34.6
Adjusted UNA plus debt service reserve to debt (%)	N.A.	N.A.	204.8	183.5	169.4
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	N.A.	199.9	N.A.	N.A.
Average age of plant (years)	N.A.	N.A.	15.4	14.9	14.1
OPEB liability to total liabilities (%)	N.A.	N.A.	3.9	4.2	5.6

N.A.--Not available. 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.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 27, 2021)		
University of New Mexico sub lien sys rfdg & imp rev bnds		
Long Term Rating	AA-/Stable	Affirmed
University of New Mexico sub lien sys rfdg & imp rev bnds		
Long Term Rating	AA-/Stable	Affirmed
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-/Stable	Affirmed
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-/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) PCU_USF		
Long Term Rating	AA-/A-1+/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) PCU_USF		
Long Term Rating	AA-/A-1+/Stable	Affirmed

Ratings Detail (As Of January 27, 2021) (cont.)		
University of New Mexico Brd of Regents (University of New Mexico) PCU_USF		
Long Term Rating	AA-/A-1+/Stable	Affirmed
University of New Mexico Brd of Regents (University of New Mexico) Taxable Subordinate Lien sys rfdg rev bnds		
Long Term Rating	AA-/Stable	Affirmed