MOODY'S

Rating_Action: Moody's assigns Aa3 to University of New Mexico's (NM) Series 2023 bonds; affirms Aa3 and Aa3/VMIG 1 ratings; outlook stable

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New York, February 28, 2023 -- Moody's Investors Service has assigned a Aa3 debt rating to the University of New Mexico's (UNM) (NM) planned approximately $59 million System Improvement Revenue Bonds, Series 2023 (fixed rate, maturing 2054) to be issued by the Board of Regents of the University of New Mexico. Concurrently, we affirmed UNM's Aa3 issuer, and Aa3 and Aa3/VMIG 1 debt ratings. UNM recorded $607 million of debt outstanding at fiscal end June 30, 2022. The outlook is stable.

RATINGS RATIONALE

Affirmation of the Aa3 issuer 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 $3.1 billion scope of operations. Excellent brand and strategic positioning, strong and rising state support for operations, financial aid and capital, in addition to very good financial policy and management credibility underpin steady operations. UNM's challenges stem from its high 53% exposure to healthcare operations and associated elevated labor costs, in addition to competitive student demand pressures. Reserves are modest relative to expenses, with limited prospects for significant growth due to allocations for capital investment. While direct debt is moderate relative to cash and investments, a sizable pension liability weighs down financial leverage. Significant 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 scheduled debt amortization will partially mitigate the impact of the incremental leverage.

Assignment of the Aa3 rating to the planned Series 2023 system improvement revenue bonds and affirmation of the Aa3 rating on the parity subordinate lien revenue bonds incorporates the issuer rating and the nature of the broad revenue pledge.

Affirmation of the Aa3/VMIG 1 rating on the variable rate bonds is based on the structure of the standby bond purchase agreements that provide liquidity support, counterparty risk assessment of the liquidity facility banks, and UNM's issuer 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 and continued state support. The ability of the healthcare enterprise to manage its expansion project and continue to meet financial targets given the elevated leverage is important to UNM's overall credit quality, even though the healthcare and system revenue bondholders have different security pledges.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- 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
- For the short-term rating: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained deterioration of operating performance at the university or healthcare enterprises, including erosion of liquidity beyond planned hospital project use

- Significant increase in leverage relative to wealth and cash flow beyond the UNM Hospital expansion underway
- Sustained decrease in state support for operations and capital, including material weakening of state's credit quality
- Discontinuation of the mill levy supporting the hospitals
- For the short-term ratings: Downgrade of the short-term counterparty risk assessment of the credit facility bank and/or multi-notch downgrade of the long-term rating of the system

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; income from the permanent and land funds; and after payment of senior lien bond debt service and certain operating and maintenance expenses. Pledged Revenues exclude state appropriations, restricted funds and hospital revenue. For fiscal 2022, the university's pledged revenues available for debt service totaled $360.5 million.

The planned Series 2023 System Improvement Revenue Bonds are on parity with prior issued subordinate lien revenue bonds. The senior lien is closed and the last outstanding issue, the Series 1992A bonds, matured during fiscal 2021.

The parity subordinate lien revenue bonds, with $333 million outstanding at June 30, 2022, are further secured by a debt service reserve requirement (funded with surety bonds), sum sufficient rate covenant, and additional bonds test of at least 1.75x coverage of pro-forma peak debt service coverage. Fiscal 2022 coverage for the subordinate lien revenue bonds' $33 million of annual debt service was 10.3x. On a pro forma basis inclusive of the Series 2023 bonds, coverage is estimated at 9.3x.

The university's hospital revenue bonds 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 subordinate revenue bonds. During fiscal 2022, UNM Hospital closed on a $320 million HUD insured mortgage loan, which is also secured by a revenue of UNM Hospital and a mortgage on the hospital facilities, and excluding any other revenue of the University of New Mexico. The 2022 loan will be drawn down as needed through fiscal 2025. As of June 30, 2022, debt outstanding for the UNH Hospital and Sandoval Regional Medical Center totaled $227 million.

USE OF PROCEEDS

Proceeds of the Series 2023 bonds will be used for: various capital purposes, including the Center for Collaborative Arts, Welcome Center, Housing Improvements, Duck Pond Water and

Ecological Improvements, and UNM Police Department Building; and to pay costs of issuance.

PROFILE

The University of New Mexico is the flagship public higher education institution for the State of New Mexico and designated Hispanic Serving Institution, 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 2022, the university recorded operating revenue (Moody's adjusted) of $3.1 billion and for fall 2022, enrolled 18,948 full-time equivalent (FTE) students.

METHODOLOGY

The principal methodology used in the issuer and long-term ratings was Higher Education Methodology published in August 2021 and available at
https://ratings.moodys.com/api/rmc-documents/72158
. The principal methodology used in the short-term ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at
https://ratings.moodys.com/api/rmc-documents/68283
. Alternatively, please see the Rating Methodologies page on
https://ratings.moodys.com
for a copy of these methodologies.

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 on https://ratings.moodys.com/rating-definitions.

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Mary Cooney
Lead Analyst
Higher Education
Moody's Investors Service, Inc.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Rachael McDonald
Additional Contact
Housing
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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