



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

28Feb2023

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>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in

our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

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

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S

RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where

the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations – Corporate Governance – Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including

corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.