STANDARD & POOR'S

PUBLIC FINANCE

Dormitory Authority Of The State of New York University Of Rochester

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RatingsDirect
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Credit Profile		
New York State Dormitory Authority, New York		
University of Rochester, New York		
New York State Dormitory Authority (University of Rochester)		
Long Term Rating	A+/Stable	Affirmed
New York State Dormitory Authority, New York		
University of Rochester, New York		
New York State Dormitory Authority (University of Rochester)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York State Dormitory Authority (University of Rochester)		
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Ratings Detail >>

Rationale

Standard & Poor's Ratings Services assigned its 'A+' underlying rating (SPUR) to Dormitory Authority of the State of New York's series 2003A, 2003B, 2003C, 2006A-1, and 2006B-1 revenue bonds, reoffered for the University of Rochester.

The bonds will be reoffered as variable-rate demand obligations. Standard & Poor's expects to issue a rating that will be backed by direct-pay letters of credit (LOC). JP Morgan Chase Bank N.A. will provide the LOC for the series 2003A and 2003C bonds; HSBC Bank USA N.A. will provide the LOC for the series 2003B bonds; and the Bank of America N.A. will provide the LOC for the series 2006A and 2006B bonds. RBC Capital Markets will provide remarketing of the series 2003A and 2003B bonds; JP Morgan will provide remarketing of the series 2003C bonds; Citigroup will provide remarketing of the series 2006A bonds; and

Lehman Brothers will provide remarketing of the series 2006B bonds. Standard & Poor's expects to base its rating on joint criteria and will assign the standard long-term rating separately at a later date.

The 'A+' rating reflects the university's general obligation (GO) pledge under the loan agreement with the authority and the following credit factors:

- Good and improving demand for undergraduate programs, and a comprehensive array of graduate and professional programs;
- A history of balanced financial operations, generating increased operating surpluses in fiscal 2007 and expected surplus operations for fiscal 2008, coupled with good revenue diversity;
- A sizable endowment of $1.7 billion on June 30, 2008; and
- Historically manageable debt burden, with just $709 million of outstanding debt on June 30, 2007.

Offsetting rating factors include:

- A relatively high endowment spending policy with a 5 year moving average of 6.6% for fiscal 2008 and expected to increase in fiscal 2009;
- Low level of unrestricted resources compared to the institution's growing operating budget and increasing levels of debt;
- Demand reflecting its highly competitive peer group, and
- Additional debt needs in the outlook period.

Proceeds of the series 2003 A, 2003B, and 2003C bonds were used to make various improvements throughout the University and the Medical Center to refund portions of outstanding debt. Proceeds of the 2006A-1 and 2006B-1 bonds were used to advance refund outstanding debt. The series 2003A, 2003B, and 2003C bonds, as well as the 2006A-1 and 2006A-2 bonds were originally issued with bond insurance. Effective on the conversion date of the reoffered bonds the policies related to the respective series 2003 and 2006 bonds will be cancelled.

The university's liquidity levels for operations have improved; however, they remain somewhat low relative to the rating category. These loan payments are an unsecured GO of the university.

The university's liquidity levels are within the range of the rating category. In fiscal 2007, unrestricted resources were $1.72 billion, or 75% of operating expenses and 242% of pro forma debt of $709 million. Pro forma debt is expected to produce an estimated maximum annual debt service (MADS) of $56.8 million in fiscal 2015, which is a low 2.5% of adjusted fiscal 2007 operating expenses of $2.28 billion. The university's debt structure includes a mix of fixed interest rate and variable interest rate debt. The variable-rate debt has been synthetically fixed through the use of interest rate swaps. The university takes a conservative approach to debt. Debt service for outstanding debt is front-loaded, and the university amortizes principal regularly, not pursuing maturities longer than 30 years.

Founded in 1850, the University of Rochester is an independent, nonprofit institution of higher education, research, and health care located in Rochester, N.Y. In the fall semester 2007, University of Rochester enrolled a total headcount enrollment of 9,420 students. The university offers a diverse mix of academic programming, and of the total enrollment 53% are undergraduates and the remainder are graduate and professional students.

Outlook

The stable outlook reflects Standard & Poor's expectation that student demand will remain stable, financial performance will continue to be balanced, and hospital operations will remain positive. A significant amount of new debt in the future, without a commensurate build up in liquidity, would be of concern. However, we expect the capital campaign to be successful, which will help offset any future capital needs and debt arising from the strategic plan. Conversely, a continuation of the strong financial performance seen in the past few fiscal years, particularly reductions in endowment spending rates, and strengthened financial resources relative to operating expenses would be viewed favorably. Improvement in competitive positioning for undergraduate programs would also be viewed favorably.

History And Description

The university consists of seven schools and colleges, including the College of Arts and Sciences, the School of Engineering and Applied Science, the Margaret Warner Graduate School of Education and Human Development, the William E. Simon Graduate School of Business Administration, the School of Medicine and Dentistry, the School of Nursing, and the Eastman School of Music. These schools are spread across three academic campuses. In addition, Strong Memorial Hospital is a component of the university and a part of the University of Rochester Medical Center. The University of Rochester Medical Center also houses the School of Medicine and Dentistry, the School of Nursing, the Eastman Dental Center, Strong Memorial Hospital, and University of Rochester Medical Faculty Group.

In fall 2007, total university headcount enrollment was 9,420, of which 4,964 were undergraduate students. Freshman applications have shown some positive growth, with applications climbing 4.3% to 12,768 for the fall 2007. Management reports fall 2008 is expected to increase applications slightly to more than 12,800, as well as increase total matriculants. Admissions continue to be highly selective, with the freshman acceptance rate improving to 39.8% and matriculation rate continuing its slight positive trend. The freshman matriculation rate remains low, at 23%, but it did rise, indicating that the university continues to make headway with its competitive profile in a highly competitive market. Student quality, as measured by SAT scores, remains high, with an average score of 1,323 for the freshman class in 2007. The graduate programs remain highly selective, with a selectivity rate of 19% in fall 2007 and matriculation rate of more than 50% for fall 2008. Student retention is generally very strong, as are graduation rates.

Students are primarily drawn from the New England and mid-Atlantic regions. Generally, about half of undergraduate students are from New York, with the next largest cohorts being students from Pennsylvania and Massachusetts.

Finances And Liquidity: Good Financial Resources, Improved Performance

The university's financial operations are characterized by good revenue diversity, and historically favorable financial performance. In fiscal 2007, the largest components of operating revenues were hospital operations ($1.45 billion), followed by grants and contracts ($362 million), and gross tuition and fees ($242 million). Health care revenues, generated largely by the surplus operating performance of Strong Memorial Hospital, which continues to have strong growth. Federal grants and contract-program revenues also have increased significantly in recent years, rising from $228 million in fiscal 2001 to a peak of $365 million in fiscal 2005; grants have remained stable, primarily attributable to limited growth in federal research grants over the past couple of years. The university's current indirect cost recovery rate is a provisional rate of 54%. Total undergraduate student charges of $48,900 for the 2008-2009 academic year are consistent with the university's peer group. Total student charges increased by 13% for the current academic year, compared with 6.1% for the previous year. Endowment spending provided approximately $79.7 million for the university's operating budget in fiscal 2007.

In total, the university's operating performance continues to improve. Net adjusted operating income has increased by more than $100 million in the past five years to $116 million in fiscal 2007, with a $265 million increase in unrestricted net assets. Fiscal 2007 operating performance was characterized by significant growth in health care operations and related royalty revenue, as well as continued growth in enrollment and tuition revenues. Nonoperating revenues for fiscal 2007 were $182 million compared with $122 million in fiscal 2006 and were primarily driven by strong investment income. The overall tuition-discount rate remains in its traditional range of 40% to 41% and financial aid continues to be a small expense for the university, given its large operating budget. Management indicates that fiscal 2008 operating performance for the university and the health care operations will remain on balance with fiscal 2007.

Liquidity has improved for operations; however, it remains somewhat low for the rating category. Unrestricted resources of $1.7 billion represented 75% of adjusted operational expenses and 242% of pro forma debt. Cash and investments were stronger at $2.4 billion representing 105% of adjusted operational expenses and 337% of pro forma debt.

Endowment And Fundraising

The endowment market value is approximately $1.7 billion. The largest components of the diversified portfolio include alternative investments at 56%; domestic equity (19%), international equity (18%), and fixed income (7%). The draw on the endowment remains a concern. The five-year moving average remains high at 6.6% for fiscal 2008. Additionally, the university expects the endowment draw to increase to 6.8% in fiscal 2009 and has a goal of reducing the draw to 6% by fiscal 2017. The investment return on the university's endowment portfolio for the year ended June 30, 2007, was 19.0%; however, with the current market declines, the return has declined slightly year to date, but remains flat for its one-year return. The university's $1.9 billion in investments held for long-term purposes as of June 30, 2007, including the $1.7 billion of endowment, were invested in equity (46%), limited partnerships and alternative investments (37%), cash and fixed-income securities (15%), and affiliate investments (2%). The university has outstanding commitments of $400 million as of fiscal year–end 2008.

The university is currently in the quiet phase of a major fundraising effort with a preliminary goal of $1 billion. This campaign follows the development of a universitywide strategic plan. The public phase of the campaign is expected to occur in 2011. In fiscal 2008, the university received a record of $109 million in private gifts and pledges received up 29% from fiscal 2007.

Hospital Operations: Stable

The university medical center is an integrated component of the university's management and finances, and the results for the university include the financial results for the medical center

Hospital operations have been stable, generating surpluses during the past several years. The university medical center, which is a division of the university, consists of Strong Memorial Hospital, the School of Medicine and Dentistry, the School of Nursing, the Medical School Faculty Group, and the Eastman Dental Center. The hospital serves as the primary teaching facility for the schools of medicine and dentistry, and nursing, and is licensed for 739 beds. Strong Memorial is the largest acute-care general hospital in Rochester, serving as a general regional and national tertiary care hospital and a specialized referral center for the 14-county region.

The hospital reported 39,657 discharges and 255,030 patient days for fiscal 2007. Operating performance was also strong for fiscal 2007, with the hospital generating an operating margin of 5%, or $46.5 million on an operating revenue base of $875 million. Operating revenue growth was a result of increased patient volumes, case mix, and payment rates. Cash on hand has increased to 98 days while account receivables have decreased. Hospital revenues remain consistent with previous years with Blue Cross and Medicare accounting for 61% of fiscal 2007 patient revenues.

The university is also affiliated with Highland Hospital of Rochester, a 261-bed acute-care hospital, and its affiliates. The university is the sole member of Strong Partners Health System, which controls Highland Hospital of Rochester and its affiliates. Highland Hospital has also issued debt, with approximately $42 million currently outstanding. Although Highland's debt is included in the university's consolidated financial statements, under the terms of the affiliation agreement, the university has no legal obligation for this debt. Strong Memorial is the largest acute-care hospital in the Strong and Highland hospitals' primary service area. Strong Memorial's patient-service revenue base has been fairly constant and diverse; the largest payers are Medicare (32%), Blue Cross (29%), and Medicaid (15%).

Manageable But Increasing Debt Needs

Post issuance, the university will have approximately $709 million long-term debt. Approximately $415 million of the long-term debt is medical center and affiliate debt. All bonds are a general obligation of the university. Management reports that an additional bond issuance of $200 to $250 million is expected in 2009. Proceeds of the reoffering of the series 2003A, 2003B, and 2003C bonds were used to make various improvements throughout the university's campus and medical center. In addition, part of the proceeds were used to refund portions of outstanding series 1987, 1993A, and 1994 bonds. Proceeds of the 2006A-1 bonds were used to advance refund certain maturities of the series 1997A, 1998A, 1999A, and 2000A bonds. Additionally, proceeds of the 2006B-1 bonds were used to advance refund the series 1999B bonds. Pro forma MADS is approximately $57 million, with the university having MADS coverage of 4.7x and a pro forma debt burden of 2.5%. The series 2003A, 2003B, and 2003C bonds, as well as the series 2006A-1 and 2006A-2 bonds were originally issued with bond insurance. Effective on the conversion date of the reoffered bonds, the policies related to the respective series 2003 and 2006 bonds will be cancelled.

Debt Derivative Profile: '2.0'

Standard & Poor's assigned the University of Rochester a Debt Derivative Profile (DDP) overall score of a '2' on a scale of '1' to '5', with '1' representing the lowest risk and '5', the highest.

Rochester has entered into three swap contracts: one with Citibank N.A. ('AA') as the counterparty, one with Lehman Brothers Special Financing Inc. ('A+') as the counterparty, and the third with Merrill Lynch & Co. ('A+') as the counterparty. The swap with Citibank had a notional value of $82.23 million, terminating in 2033. Under this swap, Rochester will be paying 3.97% and receiving 61.5% of LIBOR, plus 0.56%. The terms are the same with the swap entered into with Lehman Brothers; however, here the original notional value is $82.2 million. The swap with Merrill Lynch as counterparty has a notional value of $111.18 million, and under its terms, Rochester will be paying 3.92% and receiving the Securities Industry and Financial Markets Association (SIFMA) rate. This swap has bond insurance associated with the termination payment, which will be removed upon the series 2006 reoffering.

The score of '2' represents:

- A moderate degree of issuer termination risk, due to the narrow spread between the university's current rating and the rating at which it would likely have to post collateral;

- Limited counterparty risk, due to a highly rated counterparties;

- Good viability of the swap portfolio over stressful economic cycles; and

- Debt management plans that incorporate swap guidelines.

Contacts

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Ratings Detail (As Of 20-Aug-2008)		
New York State Dormitory Authority, New York		
University of Rochester, New York		
New York State Dormitory Authority (University of Rochester) revenue bonds series 2003A due 07/01/2031 2033		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York State Dormitory Authority (University of Rochester) revenue bonds (University Of Rochester) series 2003A-C due 07/01/2031 2033		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York State Dormitory Authority (University of Rochester) VRDB series 2006A-1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AA/A-1+/Negative	Affirmed
New York State Dormitory Authority (University of Rochester) VRDB series 2006B-1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AA/A-1+/Negative	Affirmed

Many issues are enhanced by bond insurance.