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New York State Dormitory Authority, New York University Of Rochester; Joint Criteria; Private Coll/Univ - General Obligation

Primary Credit Analyst:
Blake Cullimore, Boston (1) 617-530-8312; blake_cullimore@standardandpoors.com

Secondary Credit Analyst:
Charlene Butterfield, New York (1) 212-438-2741; charlene_butterfield@standardandpoors.com

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New York State Dormitory Authority, New York
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Credit Profile		
US$89.24 mil gnl rev bnds (University Of Rochester) ser 2009A due 06/30/2040		
Long Term Rating	A+/Stable	New
US$36.185 mil Revenue Refunding Bonds (University Of Rochester) ser 2009B due 06/30/2040		
Long Term Rating	A+/Stable	New
US$10.895 mil gnl rev bnds (University Of Rochester) ser 2009C due 06/30/2040		
Long Term Rating	A+/Stable	New
US$3.68 mil Revenue Refunding Bonds (University Of Rochester) ser 2009D due 06/30/2040		
Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to New York State Dormitory Authority's series 2009 revenue bonds, issued for the University of Rochester. At the same time, Standard & Poor's affirmed its 'A+' SPURs and long-term rating on the university's previously issued bonds.

The university will issue the series 2009 bonds in a fixed-rate mode with a final maturity date of July 1, 2039. The issuance will consist of four tranches the series 2009A, 2009B, 2009C, and 2009D for a par amount of approximately $140 million, including issuance costs. The university issued series 2009A and 2009C bonds as new debt totaling approximately $100 million. The series 2009B and 2009D bonds will be issued to refinance existing debt totaling approximately $40 million. Securing the bonds is the university's general obligation (GO) pledge.

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

- Solid 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 2008 and expected balanced operations for fiscal 2009, coupled with good revenue diversity;
- Long-term investments of $1.3 billion on April 30, 2009; and
- Historically manageable debt burden with pro forma maximum annual debt service (MADS) of a low 2.5% for fiscal 2008.

Offsetting rating factors include:

- A relatively high endowment spending policy with a five-year-moving average of 6.6% for fiscal 2008 and expected to increase in fiscal 2009 to 6.8%, however, is budgeted for a draw rate of 5.8% for fiscal 2010;
- 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
- Significant additional debt needs and early stages of a capital campaign.

The university will use series 2009A and 2009C bond proceeds to make various improvements throughout the university and the medical center's facilities. Management expects total improvements to cost $194 million. Additional funding supporting the improvements has been previously raised and includes private gifts and grants from the State of New York. The proceeds of the series 2009B will refund the series 1997A, series 1998A, series 2000A bonds; the series 2009D bonds will refund the series 1999B bonds. Management expects that refunding the bonds will achieve covenant relief and debt service savings. The covenant relief will be achieved through an amended and restated loan agreement, which would eliminate the university's requirement to maintain its current available assets to general liabilities ratio; eliminate the requirement to maintain securities in connection with short-term debt; and modify the circumstance for engagement of a management consultant. The amended loan agreement depends on a majority of bondholders agreeing to the changes; until then, the current covenants remain in effect. Post issuance, we expect the university and its component's total outstanding debt, after fiscal year 2009 debt service payments of $32 million, to increase to approximately $751 million or a 10% increase from fiscal 2008 outstanding debt. The university does not expect to issue additional new debt until fiscal 2011. Pro forma debt is expected to produce an estimated MADS of $61 million in fiscal 2016, which is a low 2.5% of adjusted fiscal 2008 operating expenses of $2.45 billion.

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Approximately 37% of the university's debt is variable rate, all of which is swapped to fixed rates. The university currently has a solid level of diversity with three swap counterparties and three letter of credit (LOC) providers. The swaps have a current mark-to-market value of $17 million with low nominal levels and probability of collateral posting. LOC terms range from three to five years and contain evergreen provisions. The university takes a conservative approach to debt. Debt service for outstanding debt is front-loaded, and the university amortizes principal regularly.

The university's financial resources have declined, paralleling losses in their endowment investments; additionally, they remain somewhat low relative to the rating category. In fiscal 2008, unrestricted resources were $1.5 billion, or 62% of operating expenses and 195% of pro forma debt of $783 million. Expendable resources were $1.8 billion or 72% of operating expenses and 226% of pro forma debt, cash and investments of $2.2 billion or 92% of operating expense, and 287% or pro forma debt in fiscal 2008. The university has enlarged existing lines of credit and is in the process of diversifying its lines by pursuing additional lines of credit with regional banks. Operations continue to be balanced to positive, with Strong Memorial Hospital providing consistent operating margins. While fundraising has increased since 2004, current total cash receipts from gifts are down 35% through April 2009, similar to other universities. This is balanced by its annual fund, which has performed well this year, and commitments from the board of trustee's, which exceeded $40 million. The university is in the planning stages of a capital campaign.

As of March 31, 2009, the university reported that its net assets declined to $2.1 billion, primarily attributable to losses in the university's investment returns and mark-to-market losses on their swaps. However, these endowment losses are balanced by solid operational performance characterized by strong performance of Strong Memorial Hospital and its Medical Center, which continue to provide 60% of the university's total revenues and $25 million annually to the bottom line (based on a five-year average.)

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 2008, University of Rochester enrolled a total headcount enrollment of 9,832 students; the university expects fall 2009 to be similar with current deposits indicating the university will meet its target enrollment levels. 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. Total undergraduate student charges of $49,890 for the 2009-2010 academic year are consistent with the university's peer group.

Outlook

The stable outlook reflects Standard & Poor's expectation that student demand will remain stable, financial performance will continue to be balanced, and the substantial hospital operations will remain positive. Standard & Poor's expects future new debt issuance to be commensurate with growth of financial resources. While 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, the current recession may slow progress towards these goals, which is a concern. Additionally, university revenues, which are largely driven by its health care operations, will be monitored to ensure commensurate resources are maintained for the rating category, as significant additional capital plans critical to hospital growth remain part of its business strategy.

Overview Of University Of Rochester

The university consists of seven schools and colleges, including the School 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 2008, total university headcount enrollment was 9,832, of which 5,178 were undergraduate students; fall 2009 is expected to have similar enrollment levels. Freshman applications were solid for fall 2008 with 12, 870 applications including the Eastman School of Music. Management reports applications are expected to increase for fall 2009. Admissions continue to be highly selective, with the freshman acceptance rate improving to 40.8% and matriculation rate continuing its slight positive trend with the freshman matriculation rate at 25% for fall 2008. Management indicates it expects to reach its enrollment targets for fall 2009. Student quality, as measured by SAT scores, remains high, with an average score of 1,315 for the freshman class in 2008, with similar expectations for the fall 2009 class. The graduate programs remain highly selective, with a selectivity rate of 21% in fall 2008 and matriculation rate of 53% 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 with the largest cohorts of students from New York, Pennsylvania, and Massachusetts. Approximately 54% of students attend from out of state.

Favorable Finances And Financial Resources

The university's financial operations are characterized by good revenue diversity, and historically favorable financial performance. In fiscal 2008, the largest components of operating revenues were hospital operations ($1.52 billion), followed by grants and contracts ($366 million), and gross tuition and fees ($270 million). Health care revenues, generated largely by the surplus operating performance of Strong Memorial Hospital, continue to have solid 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 $366 million in fiscal 2008.

Management expects fiscal 2009 to end on a balanced basis. The university achieved its results through cost reductions in both its operational and capital budgets. The Medical Center reduced costs by $40 million with a small level of savings on the university side. However, endowment spending continues to remain high and was 6.8% for fiscal 2009, which is offset by management's focus on reducing the spend rate in fiscal 2010 to 5.8%. Sponsored research was up 5% through April 2009 and the university expects to benefit from the American Recovery and Reinvestment Act (ARRA) over the next two years. To date, the university has submitted grant applications of more than $164 million. The university characterizes the effect of the grants as supporting existing investigators and requiring minimal development of new programs and facilities. Management plans to treat these grants as one-time opportunities and does not plan to build them into the budget or expect them to extend beyond the two-year sunset provisions of the ARRA. The university's current indirect cost recovery rate is 54%, and this rate is contracted through 2012.

The university's operating performance remains balanced. Fiscal 2008 net adjusted operating income has increased by more than $52 million over fiscal 2007 levels, while unrestricted net assets declined by $52 million attributable primarily to losses in the investment portfolio. Fiscal 2007 operating performance continues to be characterized by growth in health care operations, as well as growth in enrollment and tuition revenues. 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 2009 operations should remain balanced with a small surplus. The fiscal 2010 budget will remain flat compared with fiscal 2009, with the largest budget increases expected in financial aid, tuition, and fees, and indirect-cost recovery from research. The cost-saving measures enacted in fiscal 2009 will be fully incorporated into the 2010 budget. The university traditionally budgets for a 2% surplus in operations, giving it a degree of flexibility.

Financial resources remain somewhat low for the rating category. However, this is balanced by management's restructuring of the debt portfolio, liquid nature of the endowment, and solid cash position.

Endowment And Fundraising

The endowment and similar funds market value was approximately $1.3 billion on April 30, 2009. The largest components of the diversified portfolio include alternative investments at 60%, domestic equity (17%), international equity (14%), and fixed income (9%). The draw on the endowment remains a concern. The five-year-moving average remains high at 6.6%, with 6.8% for fiscal 2009 and an expected decline to 5.8% for fiscal 2010. The investment return on the university's endowment portfolio on April 30, 2009, was down negative 22.87% fiscal year to date. The university had total equity investments of 91% as of April 30, 2009. The university estimates outstanding commitments of $400 million as of April 30, 2009, with an average draw period of 2.5 to 3.5 years.

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. Gift giving for fiscal 2009 is expected to be down significantly; however, university trustees have pledged significant amounts of more than $40 million. However, while we expect the capital campaign to be successful and offset any future capital needs and debt arising from the strategic plan, the recession has slowed progress. The university has responded and is in the process of reevaluating its fundraising and strategic plan timelines.

Hospital Operations: Stable With History Of Generating Surpluses

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 40,203 discharges and 257,434 patient days for fiscal 2008. Operating performance was also strong for fiscal 2008, with the hospital generating an operating margin of 3.7%, or $34.6 million on an operating revenue base of $928 million. Operating revenue growth was a result of increased patient volumes, case mix, and payment rates. Cash on hand has decreased to 81 days as of April 30, 2009, from 98 days in fiscal 2007,while account receivables have remained between 36 and 40 days over the past year. Hospital revenues remain consistent with previous years with Blue Cross and Medicare accounting for 61% of fiscal 2008 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 (33.4%), Blue Cross (27.2%), and Medicaid (15.2%).

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 with the following counterparties: Citibank N.A. ('AA'); Wells Fargo Bank ('A+'); and Merrill Lynch & Co. ('A+'). The swap with Citibank and Wells Fargo had notional value of $82.23 million $65.6 million, respectively and terminating in 2033. Under this swap, Rochester will be paying 3.97% and receiving 61.5% of LIBOR, plus 0.56%. The swap with Merrill Lynch as counterparty has a notional value of $111 million, and under its terms, Rochester will be paying 3.92% and receiving the Securities Industry and Financial Markets Association (SIFMA) rate.

As of June 1, 2009, the mark-to-market on the university's outstanding swaps is $17 million. The collateral threshold on the Citibank series 2003C and Wells Fargo Bank series 2003A and 2003B is $25 million. The collateral threshold for the Merrill Lynch series 2006 A-1 and B-1 is $30 million.

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.

Related Research

- USPF Criteria: "Higher Education," June 19, 2007
- USPF Criteria: "Debt Derivative Profile Scores," March 27, 2006

Ratings Detail (As Of June 25, 2009)		
New York St Dorm Auth, New York		
University of Rochester, New York		
New York St Dorm Auth (University of Rochester) ser 2007, 2001A rev bnds		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
New York St Dorm Auth (University of Rochester) various rev bnds		
Long Term Rating	A+/Stable	Affirmed
New York St Dorm Auth (University of Rochester) VRDB ser 2006A-1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
New York St Dorm Auth (University of Rochester) VRDB ser 2006B-1		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
New York St Dorm Auth (Univ of Rochester) (MBIA of Illinois) ser 1997A, 1998A rev bnds		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.