



Fitch Rates University of Rochester, NY's Revs 'AA-'; Outlook Stable Ratings

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Fitch Ratings-New York-11 August 2011: Fitch Ratings assigns a rating of 'AA-' to approximately \$163 million in bonds issued by the Monroe County Industrial Development Corporation on behalf of the University of Rochester (UR) consisting of:

- \$124 million Monroe County Industrial Development Corporation tax exempt revenue bonds (University of Rochester Project), series 2011A;
- \$39 million Monroe County Industrial Development Corporation tax exempt revenue bonds (University of Rochester Project), series 2011B.

The fixed rate, tax exempt series 2011A & B (the bonds) are expected to sell via negotiated sale the week of Aug. 15. Bond proceeds will fund various construction and renovation projects for the University in addition to refunding the series 2001A and paying costs of issuance.

In addition, Fitch affirms the long-term ratings on \$389 million of currently outstanding UR fixed rate bonds issued through the Dormitory Authority of the State of New York.

The Rating Outlook is Stable.

Fitch's rating action on Dec. 14, 2010, incorporated the issuance of the bonds. For more information, please see Fitch's research report on UR, dated Jan. 4, 2011.

KEY RATING DRIVERS

- The 'AA-' rating reflects UR's solid financials driven by positive operating performance, low debt burden and successful fund raising abilities.
- The health system's dominant market share, strong financial metrics, growing volumes and status as a sole provider of higher acuity services, anchors UR's fiscal viability.
- Counterbalancing the aforementioned factors are declining levels of sponsored research funding and potentially drastic cuts in healthcare reimbursement levels.
- UR's single management structure with supportive board oversight enables successful integration of the health system's clinical activities and UR's academic and research endeavors.

SECURITY

General unsecured obligation of the university.

CREDIT PROFILE

UR's operating margins have been positive since fiscal 2009 which ended two years of declining margins driven by weak investment performance, healthcare costs outpacing associated revenues and additional expenses associated with student and institutional support. Year to date financial performance as of March 2011 (9 months interim results), reflect UR's continued ability to weather a difficult economic environment by effectively managing operating and capital expenditures. Strong performance from UR's healthcare enterprise and growth in revenue from academic operations are expected to marginalize anticipated decline in patient care reimbursement levels, government derived funding and sponsored research programs.

UR's balance sheet resources as of March 2011 represented by unrestricted cash and investments totaling \$1.93 billion accounts for 97.1% of nine month operating expenses and 205% of current debt. Inclusive of the bonds, available funds represents 154.5% of pro forma debt. The investment portfolio's asset allocation is similar to endowments for like-sized academic institutions. UR's investments performed well in the past year with an annualized return of 15.6% as of March 2011.

UR had approximately \$765 million in long-term debt as of March 2011. UR also had \$175 million in capital and non-cancellable operating leases as of fiscal 2010. Following the issuance of the bonds, total debt outstanding will be \$1.09 billion. Variable rate debt comprises approximately 32% of UR's total debt portfolio, most of which is hedged with interest rate swaps executed among multiple banking institutions. Maximum annual debt service (MADS) comprises 6.1% of UR's nine-month operating revenues which includes repayment of a \$52 million new market tax credit financing. A large portion of the NMTC issue will be repaid with a receivable due UR in 2018, the remainder of which is expected to be refinanced with long-term debt. Fitch acknowledges UR's adequate access to the market given its overall credit strength and balance sheet resources.

UR was founded in 1850 and is one of 62 members of the Association of American Universities. UR offers undergraduate, graduate and professional degrees to over 10,000 students along with URMC which provides healthcare services to the region via Strong Partners Health System including Strong Memorial and Highland Hospital.

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Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 20, 2011);
--'U.S. College and University Rating Criteria' (July 14, 2011);
--'University of Rochester, New Issue Rating Report', (Jan. 4, 2011).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria
U.S. College and University Rating Criteria
University of Rochester (Dormitory Authority of the State of New York)

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