

Monroe County Industrial Development Corp., New York University Of Rochester; Joint Criteria; Private Coll/Univ - General Obligation

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Credit Profile		
US\$124.00 mil rev bnds (University of Rochester)ser 2011A due 07/01/2041		
<i>Long Term Rating</i>	A+/Positive	New
US\$39.00 mil rev bnds (University of Rochester)ser 2011B due 07/01/2041		
<i>Long Term Rating</i>	A+/Positive	New
New York State Dorm Auth, New York		
University of Rochester, New York		
New York St Dorm Auth (University of Rochester) various rev bnds		
<i>Long Term Rating</i>	A+/Positive	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term rating and positive outlook to the \$124 million series 2011A and \$39 million series 2011B revenue bonds to be issued by Monroe County Industrial Development Corp., N.Y. for University of Rochester. In addition, Standard & Poor's has affirmed its 'A+' long-term ratings and underlying ratings (SPURs) on various revenue bonds, issued for the university by New York State Dormitory Authority.

We revised the outlook to positive from stable in March 2011, reflecting our assessment of the university's fiscal 2010 rebound in operating performance at the same time it lowered the endowment spending policy to what we believe is a more sustainable rate. In our opinion, the improved performance, coupled with increasing enrollment and demand will likely result in continued healthy operating surpluses.

Additional rating factors include our view of the university's:

- Healthy operating performance that resumed growth in fiscal 2010;
- Good revenue diversity through fiscal 2010;
- Increasing demand and enrollment for both undergraduate and graduate programs for fall 2010;
- Solid cash and investments level and successful recent fundraising for the annual fund as of June 30, 2010;
- Manageable endowment spending policy in fiscal 2010; and
- Manageable pro forma maximum annual debt service (MADS) burden.

Credit factors precluding a higher rating at this time include:

- Fiscal 2010 financial resources compared with operating expenses and pro forma debt that, while satisfactory for the current rating, are not yet commensurate with a higher rating, and remain below historical levels;

- An upcoming large additional debt issuance, with more debt likely within the next three to five years, coupled with significant capital needs; and
- Competition within the peer group for students, and a geographic draw that, though still somewhat limited, has diversified measurably for fall 2010.

Standard & Poor's also affirmed its 'AAA/A-1+' rating on the series 2003A and 2003C bonds, supported by a letter of credit (LOC) from JPMorganChase Bank N.A. ('AA-/A-1+'), also issued by the authority, based on the application of joint criteria with low correlation. The long-term component of the rating reflects the joint application of our long-term 'AA-' rating on JPMorganChase and 'A+' SPUR on the university. The short-term component of the rating reflects our 'A-1+' rating on JPMorganChase. The LOC expires on March 13, 2013.

Standard & Poor's also affirmed its 'AAA/A-1+' rating on the series 2003B bonds, supported by a LOC from HSBC Bank USA N.A. ('AA/A-1+'), also issued by the authority, based on the application of joint criteria with low correlation. The long-term component of the rating reflects the joint application of our rating on HSBC and our 'A+' SPUR on the university. The short-term component of the rating reflects our 'A-1+' short-term rating on HSBC. The LOC expires Sept. 9, 2013.

Standard & Poor's also affirmed its 'AAA/A-1' rating on the series 2006 A1 and B1 bonds, supported by a LOC from Bank of America N.A. ('A+/A-1'), also issued by the authority, based on the application of joint criteria with low correlation. The long-term component of the rating reflects the joint application of our 'A+' long-term rating on Bank of America and our 'A+' SPUR on the university. The short-term component of the rating reflects our 'A-1' short-term rating on Bank of America. The LOC expires Sept. 10, 2013.

Management intends to use series 2011A bond proceeds to finance various university projects, fund capitalized interest on a portion of the series 2011A bonds, refund the series 2001A bonds, and pay issuance costs. Management will use series 2011B bond proceeds to fund various hospital projects and pay issuance costs. The series 2011A and 2011B bonds will be fixed rate.

A general obligation pledge under the loan agreement with the authority secures the bonds. Of the university's total \$922.4 million pro forma debt as of June 30, 2010 (\$772.9 million outstanding on June 30, 2010, and \$149.4 million of new money series 2011A and 2011B bonds), 27% will be variable-rate, most of which is swapped to fixed rates; the remainder of the debt will be fixed rate. The swaps have a solid level of diversity with three counterparties and three LOC providers. The swaps have a current mark-to-market value of negative \$35.2 million as of Aug. 9, 2011, with low nominal levels and probability of collateral posting. LOC terms contain evergreen provisions. Debt service for outstanding debt is front-loaded, and the university amortizes principal regularly, following the university's conservative approach to debt. The pro forma MADS burden was low through fiscal 2010 at 2.9% of expenses.

Standard & Poor's assigned the University of Rochester a Debt Derivative Profile overall score of a '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4', the highest.

Outlook

The positive outlook reflects our expectation that student demand will continue to grow, financial performance will remain at current levels or better, and the substantial hospital operations will remain robust. Standard & Poor's

expects any future additional debt to be commensurate with growth of financial resources.

We could consider a higher rating within the next one to two years if current institutional initiatives continue, growth of financial resources is commensurate with additional debt, and the university sustains the recent progress made regarding endowment spending, budgetary controls, and fundraising. If operating results decline or financial resources fail to improve to levels that are more commensurate with a higher rating, Standard & Poor's could consider a return to a stable outlook.

Organizational Profile

Founded in 1850, the University of Rochester is an independent, nonprofit institution of higher education, research, and health care located in Rochester, N.Y. 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.

Hospital operations have been profitable, generating increasing surpluses during fiscals 2010 and 2009. Strong Memorial Hospital, licensed for 739 beds, serves as the primary teaching facility for the schools of medicine and dentistry and nursing. Strong Memorial is the largest acute-care general hospital in Rochester and the Finger Lakes region, and serves as a general regional and national tertiary care hospital and a specialized referral center for the 14-county region.

In the fall semester 2010, University of Rochester enrolled a total headcount of 10,111 students. The university expects to meet its enrollment targets for fall 2011 based on current applications and deposits ahead of the previous year through July 2011. Management expects continued moderate enrollment growth during the next few years. The university offers a diverse mix of academic programming. Of the total enrollment for fall 2010, 54% were undergraduates and the remainder was graduate and professional students.

Students are primarily drawn from the New England and mid-Atlantic regions, with the largest cohorts of students from New York, Massachusetts, and Pennsylvania. The university has expanded its recruitment efforts, and drew a greater number of international students, primarily from China, and from outside the New England and mid-Atlantic regions, most notably from Ohio, California, and Illinois. Total undergraduate student charges of \$51,922 for the 2010-2011 academic year are consistent with the university's peer group.

Finances: Good Operating Performance

Financial resources remained consistent with the rating category as of June 30, 2010, with expendable resources of \$1.4 billion equal to a satisfactory 54% of operating expenses, a strong 185% of outstanding debt, and adequate 155% of pro forma debt. Cash and investments as of June 30, 2010 were stronger at \$2 billion, equal to 76% of operating expenses, 261% of outstanding debt, and 218% of pro forma debt. Though the additional debt represented by the series 2011AB bonds does pressure financial resources, management expects fiscal 2011 financial

resources to be stronger than those of fiscal 2010, to aid in absorption of the additional debt.

The endowment and similar funds market value was approximately \$1.4 billion as of June 30, 2010, with a 12.1% annual return. The largest components of diversified portfolio include alternative investments at 60%, domestic equities at 15%, international equities at 16%, and fixed income at 8%. The university estimated outstanding unfunded commitments to private partnerships to be \$305.4 million at June 30, 2010. Through May 31, 2011, the endowment returned 18.2%, with 32% of the portfolio in equities, 22% in hedge funds, 15% in real assets, 22% in private equity, and 9% in fixed income and short-term investments.

For additional information regarding University of Rochester, please see the report published March 21, 2011, on Global Credit Portal.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

Ratings Detail (As Of August 11, 2011)

New York State Dorm Auth, New York

University of Rochester, New York

New York State Dorm Auth (University of Rochester) ed VRDO ser 2003A

<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed

New York State Dorm Auth (University of Rochester) ed VRDO ser 2003C

<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed

New York State Dorm Auth (University of Rochester) (MBIA) rfd ser 2000A

<i>Unenhanced Rating</i>	NR(SPUR)	
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New York St Dorm Auth (University of Rochester) ser 2003B

<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed

New York St Dorm Auth (University of Rochester) ser 2007C, 2001A rev bnds

<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
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New York St Dorm Auth (University of Rochester) VRDB ser 2006A-1

<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

New York St Dorm Auth (University of Rochester) VRDB ser 2006B-1

<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Many issues are enhanced by bond insurance.

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