STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

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

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

Credit Profile		
US$121.835 mil Rev Bnds Tax-Exempt (University Of Rochester Issue) ser 2013A dtd 09/25/2013 due 07/01/2043		
Long Term Rating	AA-/Stable	New
US$73.62 mil Rev Bnds Tax-Exempt (Rochester Univ) (University Of Rochester Issue) ser 2013B		
Long Term Rating	AA-/Stable	New
US$69.755 mil Rev Bnds Taxable (Rochester Univ) (University Of Rochester Issue) ser 2013C due 07/01/2043		
Long Term Rating	AA-/Stable	New
New York State Dorm Auth, New York		
Rochester Univ, New York		
New York St Dorm Auth (University of Rochester) various rev bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' rating to the series 2013ABC bonds to be issued by Monroe County Industrial Development Corporation, New York for University of Rochester. In addition, Standard & Poor's affirmed its existing 'AA-' rating on the university's outstanding debt issued by Monroe County Industrial Development Corporation and New York State Dormitory Authority. The outlook is stable.

The 'AA-' rating reflects our assessment of the university's increasing demand and history of solid operating surpluses, coupled with management's recent reduction in the endowment spending policy to what we believe is a sustainable rate. We expect that the university's successful philanthropy will bolster financial resources during the next few years, and allow for successful absorption of the upcoming series 2013ABC debt. If financial resources do not increase significantly during the next few years, the rating could be pressured. Management indicates that it expects a solid investment return for fiscal 2013, which should aid absorption of the additional debt.

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

- Healthy operating performance in fiscal 2012, though the margin decreased compared with prior years;
- Good revenue diversity through fiscal 2012;
- Increasing demand and enrollment;
- Solid level of cash and investments and successful recent fundraising;
- Manageable endowment spending policy;
- Low debt burden.

Offsetting credit factors include:

- Fiscal 2012 financial resources compared with operating expenses and debt that we consider weak for the rating, particularly on a pro forma basis;
- Plans for greater capital spending and significant additional debt represented by the series 2013ABC bonds, with the potential for more debt in three to five years; and
- Competition within the peer group for students, and a geographic draw that, though still somewhat limited, continues to diversify.

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. (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 long-term 'A+' rating on JPMorganChase and 'AA-' SPUR on the university. The short-term component of the rating reflects our 'A-1' rating on JPMorganChase. The LOC expires on March 3, 2015.

Standard & Poor's also affirmed its 'AAA/A-1+' rating on the series 2003B bonds, supported by an 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 'AA-' SPUR on the university. The short-term component of the rating reflects our 'A-1+ short-term rating on HSBC. The LOC expires Sept. 3, 2018.

Standard & Poor's also affirmed its 'AAA/A-1+' rating on the series 2006A1 and B1 bonds, supported by an LOC from Wells Fargo 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 'AA-' long-term rating on Wells Fargo and our 'AA-' SPUR on the university. The short-term component of the rating reflects our 'A-1+' short-term rating on Wells Fargo. The LOC expires Aug. 14, 2015.

A general obligation pledge under the loan agreement with the authority secures the bonds. At June 30, 2012, the university had $874.2 million in total long-term debt. Including the issuance of the series 2013ABC bonds, the university would have had $1.2 billion in total long-term debt as of March 31, 2013.

Management will use the tax-exempt portion of the series 2013ABC bond proceeds to fund various capital projects, including the construction of the Golisano Children's Hospital, infrastructure projects and general hospital renovations, deferred maintenance, renovations on the college campus, and the acquisition of parking spaces in a new parking garage near the college campus. Taxable proceeds will fund construction of outpatient facilities, replacement of a financial information system, data center renovations, and various other projects. In addition to funding capital projects, management will use bond proceeds to refund a portion of its existing debt, fund capitalized interest, and cost of issuance. The university entered into three swaps with three counterparties and three LOC providers.

Outlook

The stable outlook reflects our expectation that student demand will continue to grow, financial performance will remain at or near current levels, and the substantial hospital operations will remain robust. Standard & Poor's also expects that financial resources will increase from current levels as a result of the ongoing capital campaign, and that growth will help to absorb the series 2013ABC debt.

We could consider a negative outlook within the next one to two years if additional debt issued exceeds current expectations, or if financial resources fail to grow from current levels or operating results decline from current levels. A positive outlook is not likely during the next one to two years given current levels of financial resources, operating results, and plans for additional debt.

Enterprise Profile

Overview

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 Simon Graduate School of Business, 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.

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 $39 million outstanding as of June 30, 2012. 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. For additional information on Highland's debt rating, please see the report published Oct. 8, 2012 on RatingsDirect. The university is also affiliated with FF Thompson Health System, also in the Finger Lakes region of New York.

Medical center

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 profitable, generating increasing surpluses during fiscals 2012 and 2011. Strong Memorial Hospital serves as the primary teaching facility for the schools of medicine and dentistry and nursing, and is licensed for 800 beds. 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.

The hospital recorded 40,817 discharges in fiscal 2012, up from 39,891 in fiscal 2011 due to growth in tertiary and quaternary clinical services. Ambulatory surgery cases increased in fiscal 2012 to 21,743 from 21,567 in fiscal 2011.

Demand and enrollment

During the last several years, University of Rochester has benefited from increasing demand and enrollment. In the fall semester 2012, University of Rochester enrolled a total headcount of 10,586 students. Freshmen applications were healthy for fall 2012, increasing 7% to 16,033 from 14,961 for fall 2011. Admissions continue to be highly selective, with the freshmen acceptance rate improving to 35% for fall 2012, compared with 41% for fall 2008. The matriculation rate for fall 2012 is indicative of the high level of competition within its peer group. Management indicates that undergraduate applications for fall 2013 are up from the previous year, while the admission rate is up slightly and the matriculation rate slightly lower than for fall 2012.

Student quality as measured by SAT scores remained high at an average score of 1,334 for the freshman class in fall 2012. The graduate programs remained highly selective, with an acceptance rate of 21% and matriculation rate of 50% for fall 2012, which has decreased from 53% for fall 2010. Management expects moderate enrollment growth during the next few years. The university offers a diverse mix of academic programming, and of the total enrollment for fall 2012, 53% 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 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 $56,222 for the 2012-2013 academic year are consistent with the university's peer group.

Management

University of Rochester's management team has been in place for several years, which we believe provides stability to the organization. The university budgets for depreciation in that the hospital budgets for depreciation expense and the university budgets principal and interest on debt as an approximation of depreciation. Additionally, the university has reduced its endowment spending policy over time to 5.9% of a five-year moving average, down from what we consider a high rate of 6.6% for fiscal 2009. The university had a historically high endowment spending rate of between 6% and 7% until fiscal 2010, but has plans to keep the spending rate below 6% and move toward a goal of 5.5% of a five-year-moving average over time. We believe the current and future spending rates are more sustainable over time, and provide greater flexibility and potential for financial resource growth at the current rating.

Financial Profile

Operating performance

After rebounding in fiscal years 2010 and 2011 after declining in fiscal years 2009 and 2008, University of Rochester's operating results have decreased in fiscal 2012, though results remain strong. The operating surplus of $75.0 million in fiscal 2012 was driven primarily by healthy operating results at the medical center, compared with $107.6 million in fiscal 2011. Though we view the history of operating surpluses favorably, we view the trend of decreasing margins as a potential offsetting factor. Through the nine months of fiscal 2013 ended March 2013, management reports continued solid full accrual operating surplus.

Hospital operating income was strong, in our view, before clinical support to the faculty practice group, at $109.3

million for fiscal 2012. Operating revenue growth was spurred by increased patient volumes, case mix, and payment rates. Cash on hand remains low for the size of the operation at 109 days' as of June 30, 2012. The fiscal 2012 payor mix remained consistent with prior years, with Blue Cross and Medicare accounting for 62% of fiscal 2012 net patient revenues.

In our opinion, the university has good revenue diversity, though the majority (63%) of fiscal 2012 total adjusted operating revenues was derived from hospital operations. The next largest portion of fiscal 2012 revenue came from tuition and all student fees (15%), from sponsored research (13%), with 3% from endowment and investment income, 3% from auxiliary revenues, 1% from private gifts, and the remainder from state appropriations and other sources. Sponsored research was down 9% in fiscal 2012 from fiscal 2011. The university's indirect cost recovery rate is 53.5%, contracted through 2014. The overall tuition discount rate remains in its tradition range of 42% and financial aid continues to be a relatively small expense for the university given its large operating budget.

Financial resources

Financial resources decreased as a result of unfavorable market declines, consistent with recent industry trends, which have been weak compared with operations and have decreased to weak levels compared with outstanding debt at June 30, 2012. However, we expect financial resources for a research institution to be weaker when compared with category medians. At June 30, 2012, expendable resources were $1.6 billion, equal to an adequate 54% of expenses and 179% outstanding debt. On a pro forma basis, expendable resources equaled 142% of debt. Cash and investments were stronger at $2.4 billion, equal to 82% of expenses, 270% of outstanding debt, and 213% of pro forma debt. Successful absorption of the upcoming additional debt will depend upon continued growth in financial resources, in our view.

Fundraising

The university is currently in the public phase of a major fundraising effort. The campaign, with a $1.2 billion goal, is the largest in the university's history. To date, the university has raised $945 million toward its goal, and we expect the campaign proceeds to offset any future capital needs and debt arising from the strategic plan. The university raised $12.3 million for the annual fund in fiscal 2012 and expects to raise a similar amount for fiscal 2013. The alumni-participation rate was in our view adequate at 17% in fiscal 2012, though management has a goal of increasing the rate to 20% over time.

Endowment

The endowment and similar funds market value was approximately $1.6 billion as of June 30, 2012, with a 1.8% annual return. The largest components of the diversified portfolio include alternative investments at 59%, public equities at 33%, and fixed income at 6%. The university estimated outstanding unfunded commitments to private partnerships to be $197.1 million as of June 30, 2012. Management indicates that 37% of the investment portfolio is liquid on a daily basis, and 60% is available on an annual basis as of June 30, 2012.

Debt and contingent liability

Of the university's total $874.2 million of long-term debt as of June 30, 2012, 32% was variable-rate, nearly all of which is swapped to fixed rates; the remainder of the debt is fixed-rate. The university has a solid level of diversity with three swap counterparties and three LOC providers. The swaps have a current mark-to-market value of $37.8 million as of

June 30, 2012, 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 MADS burden was low at 3% of expenses in fiscal 2012.

University of Rochester has entered into three swap contracts with the following counterparties: Citibank N.A. ($54.1 million), Wells Fargo Bank ($52.9 million); and Merrill Lynch & Co ($111.2 million). The swaps with Citibank and Wells Fargo had a notional value of $115.1 million at June 30, 2012, 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 a counterparty has a notional value of $111.2 million, and under its terms, Rochester will be paying 3.939% and receiving the Securities Industry and Financial Markets Association (SIFMA) rate. The collateral threshold on the Citibank series 2003A and 2003B is $25 million. The collateral threshold for the Merrill Lynch series 2006A-1 and B-1 is $30 million.

University of Rochester					
	Fiscal year ended June 30				
	2012	**2011**	**2010**	**2009**	**2011 medians - private colleges and universities 'AA'**
Enrollment and demand					
Headcount (HC)	10,290	10,111	9,944	9,712	MNR
Full time equivalent (FTE)	9,161	9,050	8,872	8,658	3,111
Freshman acceptance rate (%)	34.1	38.0	38.0	40.8	29.0
Freshman matriculation rate (%)	25.0	24.9	24.2	24.4	35.0
Undergraduates as a % of total enrollment (%)	53.2	53.7	53.2	53.3	78.0
Freshman retention (%)	95.0	95.2	96.0	95.0	95.0
Graduation rates (5 years) (%)	81.6	82.8	77.4	78.1	87.7
Income statement					
Adj. operating revenue ($000s)	2,958,399	2,901,176	2,768,394	2,581,489	MNR
Adj. operating expense ($000s)	2,883,359	2,793,558	2,650,345	2,568,790	MNR
Net operating income ($000s)	75,040	107,618	118,049	12,699	MNR
Net operating margin (%)	2.6	3.9	4.5	0.5	1.7
Change in unrestricted net assets ($000s)	(73,036)	(58,558)	152,906	(434,786)	MNR
Tuition discount (%)	42.0	41.4	41.2	40.1	35.9
Tuition dependence (%)	12.2	11.8	11.6	11.6	48.0
Debt					
Outstanding debt ($000s)	874,209	745,914	772,951	643,734	249,020
Current debt service burden (%)	1.96	1.87	3.45	2.28	3.91
Current MADS burden (%)	3.02	2.74	2.23	2.30	MNR
Financial fesource ratios					
Endowment market value ($000s)	1,601,155	1,640,407	1,308,342	1,282,924	987,054
Cash and investments ($000s)	2,358,197	2,277,952	2,013,212	1,711,371	MNR
Unrestricted net assets ($000s)	1,745,673	1,818,709	1,877,267	1,724,361	MNR
Expendable resources ($000s)	1,567,458	1,617,064	1,428,752	1,197,491	MNR

University of Rochester (cont.)					
Cash and investments to operations (%)	81.8	81.5	76.0	66.6	341.8
Cash and investments to debt (%)	269.8	305.4	260.5	265.9	414.8
Expendable resources to operations (%)	54.4	57.9	53.9	46.6	202.7
Expendable resources to debt (%)	179.3	216.8	184.8	186.0	261.1
Average age of plant (years)	10.9	10.6	10.9	10.7	12.2

N.A.- not available; MNR - median not reported. Total adj. operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adj. operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adj. operating income/adj. operating expense). Tuition dependence = 100*(gross tuition revenue/adj. operating revenue). Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term & long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation & amortization expense.

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: Contingent Liquidity Risks, March 5, 2012

Ratings Detail (As Of August 30, 2013)		
Monroe Cnty Indl Dev Corp, New York		
Rochester Univ, New York		
series 2011A &B		
Long Term Rating	AA-/Stable	Affirmed
New York State Dorm Auth, New York		
Rochester Univ, New York		
New York St Dorm Auth (University of Rochester) ser 2007C		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York St Dorm Auth (University of Rochester) VRDB ser 2006A-1		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
New York St Dorm Auth (University of Rochester) VRDB ser 2006B-1		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed
Series 2003 A		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed
Series 2003 B		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1+	Affirmed

Ratings Detail (As Of August 30, 2013) (cont.)		
Series 2003 C		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AAA/A-1	Affirmed

Many issues are enhanced by bond insurance.