S&P Global Ratings

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

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

Credit Profile		
US$193.0 mil rev bnds (Univ of Rochester) ser 2017A due 07/01/2047		
Long Term Rating	AA-/Stable	New
US$39.0 mil rev bnds (Univ of Rochester) ser 2017B due 07/01/2047		
Long Term Rating	AA-/Stable	New
Dorm Auth of the St of New York, New York		
Univ of Rochester, New York		
New York St Dorm Auth (University of Rochester) various rev bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Monroe County Industrial Development Corp., N.Y.'s series 2017A and 2017B tax-exempt revenue bonds issued for the University of Rochester (UR). At the same time, we affirmed our 'AA-' long-term and underlying ratings on various series of bonds issued by Monroe County Industrial Development Corp. and New York State Dormitory Authority for UR. In addition, we affirmed our 'AAA/A-1+' ratings on the series 2003B bonds, our 'AA+/A-1' ratings on series 2003A and 2003C bonds, and our 'AA/A-2' ratings on the series 2006A-1 and 2006B-1 bonds, all issued by the authority for the UR. The outlook on the long-term and underlying ratings is stable.

The long-term and underlying ratings on UR reflect our view that its enterprise profile is extremely strong and its financial profile is strong, leading to an initial indicative stand-alone credit profile rating of 'aa-' and final indicative rating of 'AA-'.

UR's extremely strong enterprise profile is characterized by its rising enrollment and patient care volumes at its medical center, other mostly favorable demand attributes, and robust management and governance. UR's strong financial profile reflects a somewhat concentrated revenue stream with about two-thirds of its adjusted operating revenue attributable to its prominent medical center, recurring generally accepted accounting principles (GAAP) based operating surpluses, sufficient expendable resources for the rating category, successful fundraising, and a low debt burden.

The ratings further reflect our view of the university's:

- History of increasing enrollment and consistent student quality and retention metrics;
- Full-accrual financial operating surpluses;

- Robust management and governance;
- Solid health care operations with healthy occupancy and volumes;
- Successful fundraising efforts pledges exceeding its goal at the conclusion of its Meliora Challenge capital campaign; and
- Low maximum annual debt service (MADS) debt burden.

Factors that, in our view, partially offset these credit strengths include the university's:

- Competition from other Northeastern and mid-Atlantic colleges and universities and from other health care providers in the region;
- Location in an economically challenged region of New York that historically has had low wealth and incomes and high unemployment;
- Concentrated revenue with slightly more than two-thirds (68%) of its revenue from health-related operations;
- Capital spending the past five years that on average has been substantially in excess of the cash flow it realizes from depreciation and amortization; and
- Expendable resources that decreased in fiscal 2016, resulting in a ratios relative to operating expenses and debt that are below median levels.

The 'AA+/A-1' rating on the series 2003A and C bonds reflects the support of a letter of credit (LOC) from JPMorgan Chase Bank N.A. and is 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 JPMorgan Chase and 'AA-' underlying rating (SPUR) on the university. The short-term component of the rating reflects our 'A-1' rating on JPMorgan Chase. The LOC expires on March 3, 2018.

The 'AAA/A-1+' rating on the series 2003B bonds, supported by an LOC from HSBC Bank USA N.A., also issued by the authority, based on the application of joint criteria with low correlation. The rating's long-term component reflects the joint application of our long-term 'AA-' rating on HSBC Bank USA and our 'AA-' SPUR on the university. The short-term component reflects our 'A-1+' rating on the bank. The LOC expires Sept. 3, 2018.

The 'AA/A-2' rating on the series 2006A1 and B1 bonds is supported by an LOC from Barclays Bank PLC, issued by the authority, based on the application of joint criteria with low correlation. The rating's long-term component reflects the joint application of our long-term 'A-' rating on Barclays Bank PLC and our 'AA-' SPUR on the university. The short-term component reflects our 'A-2' rating on the bank. The LOC expires on Aug. 7, 2019.

A general obligation pledge under the loan agreement with the authorities secures the bonds.

Proceeds from the series 2017A bonds will be used toward capital projects and to refund all or a portion of the series 2007A, 2009A, 2009B, 2009E, and 2011A bonds. Proceeds from the sale of the series 2017B bonds will be used toward capital projects and refund all or a portion of the following series of bonds: 2007C, 2009C, and 2011B. The new-money portion totals about $122 million. We understand that the series 2017A and B bonds will include $73 million of new money and the remaining $49.3 million will be a direct-purchase arrangement set to mature on July 1, 2047.

The university has a number of capital projects under development or recently completed funded in part with monies from bond issues, operations, and gifts. The majority of spending in the next couple of years will be at the medical center but other significant projects will enhance River campus, Eastman School of Music, and other university-wide enhancements that relate to IT and infrastructure.

Outlook

The stable outlook reflects our view that the university's enterprise profile will remain extremely strong in that it will continue to benefit from robust management and governance, while its enrollment increases further and its medical center gains greater widespread recognition for the breadth and quality of its services. The outlook also assumes that the university's financial profile will remain consistent as it balances growth pressure while trying to maintain operating profitability, enhanced expendable resources, and modest use of additional debt.

Upside scenario

Although unlikely in the next two years given available resource ratios, an outlook revision to positive or higher rating is possible if the university's financial operating margins improve and expendable resources strengthen relative to operations and debt such that expendable resource ratios would be comparable with peer institutions currently rated a notch higher.

Downside scenario

An unexpected enrollment decline, financial operating margin deterioration, or an increase in debt not commensurate with an increase in expendable resources could lead to consideration of a lower rating.

Enterprise Profile

Industry risk

Industry risk addresses the health care sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, the level and trend of industry profit margins, risk from secular change and substitution of products, services, and technologies, and risk in growth trends. We believe the health care services industry represents an intermediate credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, UR has geographic diversity as approximately 65% of the students come from outside of New York. As such, our assessment of UR's economic fundamentals is anchored by the U.S. GDP per capita.

Market position and demand

Founded in 1850, the university is an independent, nonprofit institution of higher education, research, and health care in Rochester. It 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 campuses. In addition, Strong Memorial Hospital is a part of the University of Rochester Medical Center. The center also houses the School of Medicine and Dentistry, the School of Nursing, the Eastman Dental Center, and University of Rochester Medical Faculty Group.

The University of Rochester Medical Center is also affiliated with Highland Hospital of Rochester, a 261-bed acute-care hospital, and its affiliates. It is the sole member of Strong Partners Health System, which controls Highland and its affiliates. The university is also affiliated with FF Thompson Health System, also in the Finger Lakes region of New York. Also, early in 2016, the university effectively took control of the 67-bed Noyes Memorial Hospital and the 70-bed Jones Memorial Hospital. On a combined basis, the hospitals maintain a dominant inpatient market share in the service area and occupancy and volume levels remain solid, though there is competition from Rochester Regional Health System, the primary competitor in the service area.

The university's enrollment trend remains positive and we expect modest growth could continue. Full-time equivalent (FTE) enrollment was up just over 1% for the fall semester 2016 and headcount reached 11,209. Freshmen applications declined for fall 2016 after reaching a peak in fiscal 2015. The university remains focused on student quality, which might result in some limiting of the potential applicant pool by self-selection. Admissions remain highly selective, with the freshmen acceptance rate improving around 35% for fall 2016 and the matriculation rate remains steady at 23.7% for fall 2016, which we believe is indicative of the high level of competition within the peer group. Student quality as measured by SAT scores and retention and graduation rates also remained relatively steady and we do not expect any material changes in those figures in the near term. The university offers a diverse mix of academic programming, and of the total enrollment for fall 2016, 57% were undergraduates.

Students primarily come 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 both international students, primarily from China, and Americans from outside the New England and mid-Atlantic regions, most notably from Ohio, California, and Illinois.

Medical center and health system

The medical center is an integrated component of the university, and its financial results include those for the center.

Medical center operations have been profitable, generating surpluses in the past three years. Strong Memorial is the primary teaching facility for the schools of medicine, dentistry, and nursing, and is licensed for 838 beds. It 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.

Strong Memorial recorded 39,846 inpatient discharges in fiscal 2016, which is up from the prior year. Overall, the health system has approximately 1,300 beds and is the largest provider in the market, capturing more than half of all patient discharges.

Management and governance

The University of Rochester is led by President Joel Seligman, who became president in 2005 and is a noted authority on and author in the field of securities law. The university's management team has largely been in place for several years, with only ordinary turnover, which we believe is an additional credit strength. Also, UR continues to focus on reducing its endowment spending rate so as to meet its policy goal of 5.5% of a five-year moving average. The actual spend rate has been decreasing in the most recent periods.

Table 1

University of Rochester, NY -- Enterprise Profile						
	Fiscal year ended June 30					Medians
	Demand Data 2017	Audited 2016	Audited 2015	Audited 2014	Audited 2013	Private colleges and universities 'AA' 2015
Enterprise Profile						
Full-time equivalent	10,132	10,015	9,977	9,862	9,396	3,761
Freshman acceptance rate (%)	35.3	33.8	36.4	35.7	35.3	27.4
Freshman matriculation rate (%)	23.7	23.1	22.6	23.9	23.7	MNR
Freshman retention (%)	96.0	96.0	97.0	95.9	95.8	95.0
Faculty with terminal degrees (%)	98.6	98.8	98.7	N.A.	N.A.	MNR
Average SAT scores	1,354	1,348	1,343	1,345	1,334	1,371
Average ACT scores	31	31	31	30	30	MNR
Freshman Applications	17,484	17,912	17,428	17,244	16,033	MNR
Annual freshman application percentage change (%)	(2.4)	2.8	1.1	7.6	7.2	MNR
Graduation rates (six years) (%)	86.0	88.0	84.0	N.A.	N.A.	MNR
Undergraduates as a % of total enrollment (%)	57.0	56.8	56.7	54.9	53.5	73.9
Tuition discount (%)	N.A.	41.3	40.6	42.2	41.9	36.9
Alumni particpation rates (%)	N.A.	22.0	20.0	18.0	16.0	MNR
Endowment per FTE	N.A.	185,601	198,571	190,834	171,775	314,832
Students from inside of the state (%)	35.0	37.0	38.0	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.2	11.7	11.5	10.9	13.4

SAT scores include only reading and math. N.A.--Not available. MNR--Median not reported.

Financial Profile

Financial management policies

UR has formal policies for operating capital, investment management (including endowment), and debt. It operates according to a five-year strategic plan. The system meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to impair its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies to comparable providers.

Financial performance

The system has generated full-accrual financial operating surpluses in recent years, though there has been some compression in the last two fiscal years. The financial performance is largely due to the medical center's success, but also solid enrollment levels. Management notes that results for the full fiscal year 2017 could be in line with or ahead of fiscal 2016, which were weakened by some non-recurring items.

In our opinion, there is revenue concentration with the majority of fiscal 2016 total adjusted operating revenues (68%)

coming from medical center operations. The next-largest portion of fiscal 2016 revenue came from tuition, student fees, and auxiliary revenue (15%); sponsored research (10%); and endowment and investment income (2%). UR received sponsored research funding of approximately $370 million in fiscal 2016, which was an increase from $343 million in the previous year. The overall tuition discount of 41% in fiscal 2016 rate remains consistent with historical levels and we do not expect any material changes in the near term.

Available resources

Expendable resources to operations and debt trail medians for the rating category. These metrics declined in fiscal 2016 as the university continues to pursue capital projects. At fiscal year-end 2016, expendable resources totaled $1.9 billion and equated to 50% of operating expense and 142% of pro forma debt, compared with median ratios for the rating category of 241% and 319%, respectively. However, we expect that financial resources for major research institutions could be weaker compared with category medians. Cash and investments at fiscal year-end 2016 were stronger, at $3.0 billion, equal to 78% of expenses and 224% of pro forma debt. We believe that additional debt could further strain these metrics absent growth in available resources or repayment in debt.

The endowment and similar funds market value was approximately $1.9 billion as of June 30, 2016, and experienced a negative return in fiscal 2016, similar to other universities with a June year-end. The university estimated unfunded commitments outstanding to private partnerships to be $472.3 million as of June 30, 2016. Management indicates that 37% of the investment portfolio was liquid daily, and 63% was available annually as of June 30, 2016.

Debt and contingent liabilities

Of the university's total $1.24 billion of long-term debt as of June 30, 2016, about 16% was variable rate, nearly all of which is swapped to fixed rates; the rest is fixed rate. The university has a solid level of diversity, in our view, with three swap counterparties and three LOC providers. LOC terms contain evergreen provisions. Debt service for debt outstanding is front-loaded, and the university amortizes principal regularly, following the university's conservative approach to debt. The pro forma MADS burden is manageable and low relative to medians, in our opinion. The pro forma metrics reflect the addition of $122 million of debt. While management notes that additional debt is likely in 2019, the total debt amount should remain relatively stable given the repayment schedule.

Table 2

University of Rochester, NY -- Financial Profile

	Fiscal year ended June 30					Medians
	Demand Data 2017	**Audited 2016**	**Audited 2015**	**Audited 2014**	**Audited 2013**	**Private colleges and universities 'AA' 2015**
Financial Profile						
Net operating margin (%)	N.A.	1.59	2.20	3.84	3.73	1.15
Student dependence (%)	N.A.	14.8	15.5	15.3	14.9	62.5
State appropriation dependence (%)	N.A.	N.A.	N.A.	N.A.	0.1	MNR
Healthcare operations dependence (%)	N.A.	67.7	67.5	66.5	64.6	MNR
Research dependence (%)	N.A.	9.5	9.6	10.3	12.5	MNR
Endowment and investment income dependence (%)	N.A.	2.3	2.6	3.0	3.0	MNR

Table 2

University of Rochester, NY -- Financial Profile (cont.)

	Fiscal year ended June 30					Medians
	Demand Data 2017	**Audited 2016**	**Audited 2015**	**Audited 2014**	**Audited 2013**	**Private colleges and universities 'AA' 2015**
Other operating revenue dependance (%)	N.A.	0.0	0.0	0.0	0.0	MNR
Endowment spending rate (%)	N.A.	5.40	5.40	5.90	5.90	MNR
Current MADS burden (%)	N.A.	2.78	3.11	2.84	2.99	5.24
Pro forma MADS burden (%)	N.A.	3.00	N.A.	N.A.	N.A.	MNR
Cash and investments ($000s)	N.A.	3,012,260	3,214,075	3,092,207	2,597,122	MNR
Cash and investments to debt (%)	N.A.	241.7	273.8	280.9	285.2	462.6
Cash and investments to pro forma debt (%)	N.A.	221.2	N.A.	N.A.	N.A.	MNR
Expendable resources ($000s)	N.A.	1,913,378	2,171,163	2,178,479	1,741,795	MNR
Expendable resources to operations (%)	N.A.	49.8	61.9	66.8	56.3	240.5
Expendable resources to debt (%)	N.A.	153.5	185.0	197.9	191.3	318.7
Expendable resources to pro forma debt (%)	N.A.	140.5	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	3,839,801	3,506,566	3,259,026	3,096,279	MNR
Total debt	N.A.	1,246,512	1,173,906	1,100,931	910,684	250,895
Total pro forma debt	N.A.	1,361,637	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	108,573	112,254	71,770	63,181	MNR
Pension funded status (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pension expense	N.A.	89,401	84,382	80,493	76,850	MNR
OPEB expense	N.A.	17,385	10,760	11,245	12,984	MNR
Pct Retired 10 years (%)	N.A.	44.0	42.5	N.A.	N.A.	MNR
Contingent liabilities	N.A.	190,549	208,620	235,565	N.A.	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Ratings Detail (As Of March 13, 2017)

Dorm Auth of the St of New York, New York

Univ of Rochester, New York

New York State Dorm Auth (Univ of Rochester) (MBIA) (National) (SEC MKT)

Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

New York State Dorm Auth (University of Rochester)

Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed

New York St Dorm Auth (University of Rochester)

Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1	Affirmed

Monroe Cnty Indl Dev Corp, New York

Univ of Rochester, New York

Monroe Cnty Indl Dev Corp (University of Rochester)

Ratings Detail (As Of March 13, 2017) (cont.)		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.