



Moody's Investors Service

Rating Update: MOODY'S AFFIRMS Aa3/VMIG1 RATING ON UNIVERSITY OF NEW MEXICO'S SERIES 2001, 2002B, AND 2002C REVENUE BONDS IN CONJUNCTION WITH SUBSTITUTION OF STANDBY BOND PURCHASE AGREEMENTS AND AFFIRMS LONG-TERM RATING; OUTLOOK IS STABLE

Global Credit Research - 16 Jul 2009

UNIVERSITY HAS \$479 MILLION OF RATED DEBT OUTSTANDING

Board of Regents of the Univ. of New Mexico
Higher Education
NM

Opinion

NEW YORK, Jul 16, 2009 -- Moody's Investors Service has affirmed the Aa3/VMIG1 rating on the University of New Mexico's Series 2001, 2002B, and 2002C Revenue Bonds in conjunction with the substitution of each series' standby liquidity facility (SBPA) currently provided by Dexia Bank, plc (rated A3/P-1) with SBPA's provided by JPMorgan Chase Bank, N.A. (rated Aa1/P-1) expected to occur on July 17, 2009. At the same time, we are affirming our ratings on the University of New Mexico's outstanding debt, as detailed at the end of this report. The outlook remains stable.

LEGAL SECURITY: Bonds are payable from a subordinate lien on Pledged Revenues which include tuition and fees as well as auxiliary revenues derived from the bookstore, parking, housing, indirect cost recovery and income from the permanent and land funds. Pledged Revenues exclude state appropriations, restricted funds and hospital revenue. The senior lien, associated with \$23.8 million of outstanding Series 1992A bonds, has been closed. The bonds are further secured by a debt service reserve fund, sum sufficient rate covenant, and additional bonds test of at least 1.75 times coverage of pro-forma peak debt service coverage. Revenues pledged to bondholders provided ample debt service coverage of 8.3 times in fiscal 2008. Hospital revenues bonds are secured solely by hospital revenue and the mortgage insurance from the Federal Housing Administration's Section 224 mortgage insurance program, with no recourse to the revenue streams supporting debt service on the System Revenue Bonds. The Hospital provides good debt service coverage of their outstanding \$190 million of debt by 3.2 times.

INTEREST RATE DERIVATIVES: The University has floating to fixed rate swap agreements related to its Series 2002B, 2002C, and 2001 adjustable tender bonds. There are two swap agreements related to the 2001 bonds, synthetically fixing the interest on half of the debt. The swap counterparties are RBC Capital Markets and JP Morgan. The University has synthetically fixed the entire notional amount of the Series 2002B and 2002C bonds. JP Morgan is the counterparty on the 2002 bonds. The swap agreements are conterminous with the maturity of the debt and with payment on parity with that provided to bondholders. In 2006, the University entered into two interest rate exchange agreements, or swap overlays, on the Series 2001 and 2002C bonds. The University will pay SIFMA and receive from the counterparty, JP Morgan, a percentage of five-year LIBOR plus a fixed basis point spread. At the current rating level, the University must post collateral should the market to market value reach negative \$20 million for the University. The current total market to market valuation is negative \$8.5 million for the University as of April 2009.

DEBT STRUCTURE: Including hospital debt, UNM's debt profile consists of approximately 84% fixed rate debt, 3% unhedged variable rate debt and 13% hedged variable rate debt. Moody's notes increased credit risk with its outstanding Series 2001, 2002B and 2002C variable rate bonds supported by an SBPA. We believe this debt structure carries additional risks as under certain circumstances, the bank could require an acceleration of the bonds and terminate the agreement. These circumstances include failing to meet certain financial and reporting requirements including a debt service coverage calculation, bank bond ratings upon request and maintaining a rating at or above A2 or A. Should the University's rating fall below investment grade by Moody's and S&P, the SBPA will automatically terminate. Should the bonds become bank bonds, the repayment period commences 91 days following the purchase date and will end the earliest to occur of a) the third anniversary of the amortization commencement date, b) the conversion date and c) the substitution date. Given the University's current healthy liquidity (approximately \$107 million of variable rate demand debt compared to an average unrestricted cash balance of \$264 million in FY09), we are

comfortable with the risks associated with the variable rate debt structure at the current rating level.

STRENGTHS

* Solid market position as the flagship public institution providing important post-secondary education and health care services to the State. UNM offers a broad array of undergraduate, graduate, and professional programs including the State's only public schools of medicine, law, architecture and planning, and pharmacy. The University's enrollment remains relatively stable at around 24,000 full-time equivalent students. Approximately 85% of the University's enrollment is on its main campus in Albuquerque, while the remaining 15% are spread across four branch campuses.

* History of strong and consistent operating and capital support from the State of New Mexico (General Obligation rating of Aa1 with a stable outlook), as well as dedication of lottery revenues for scholarships. Operating appropriations represent 22.2% of Moody's adjusted operating revenue. Despite current economic pressures, state funding has remained relatively steady, with 2.5% reduction in state appropriations in fiscal 2009 and a possible similar reduction in fiscal 2010. For more information about the State's credit profile, please see our last report published on June 19, 2009

* Improved operating performance, with a three-year average operating margin of 3.6% (FY 2006-2008), compared to 0.4% in fiscal 2005. With the implementation of GASB 45, UNM's expenses include the annual required contribution (ARC) with other post-employment benefits (OPEB) in fiscal 2008. Despite reporting this liability, UNM's annual operating margin for FY08 was a healthy 5.2%. The \$95.7 million unfunded actuarial accrued liability will be recognized and amortized over 30 years, with \$2.9 million recognized in FY 2008. Management expects similar operating results for fiscal 2009. Management reports healthy hospital operations, with smaller, but still healthy surplus of \$11.9 million as of May 2009 (compared to \$30.9 million in May 2008), providing good debt service coverage of their outstanding \$190 million hospital debt by 3.2 times. Hospital operations benefits from relatively stable mill levy (tax) support from Bernalillo County (rated Aa1), although this must be renewed by voters every 8 years (renewed in 2008). In fiscal 2009, the levy represented approximately 17% of annual hospital revenues.

* Continued growth of financial resource base, due in large part to strong state support and improved philanthropic support. Total financial resources increased over 70% in just five years to \$965.7 million in fiscal 2008. Expendable resources of \$565 million provided adequate balance sheet cushion, covering direct debt 0.8 times and operations 0.38 times. However, recent investment losses at the Foundation and University will reduce this cushion. In fiscal 2009, the University Foundation's investment portfolio declined by 23% on an annualized rate through May 31, 2009. As of May 31, the Foundation's investments, which include University investments, totaled \$260 million and were allocated into the following assets: 43% equities, 16% in fixed income, 21% in hedge funds, 8% in real assets, and 5% in cash. Assuming a 30% decline in total financial resources, which would fully impact expandable resources, coverage of debt and operations would fall to weak, but still adequate 0.4 times and 0.19 times, respectively.

CHALLENGES

* High degree of exposure to the potentially volatile healthcare market, with over 42% of UNM's operating revenues generated from patient care revenues. UNM's Health Sciences Center (HSC) is critical to health care education and delivery for the State. The HSC clinical facilities include the 384-bed UNM Hospital, the State's only Level-1 trauma center and a key provider of indigent care to Bernalillo County as the public hospital for the County. In the fall of 2008, HSC opened their new Pavilion Hospital increasing licensed beds from 393 to 517. From May 2008 to May 2009, patient days have increased 10%, outpatient visits have increased 3% and emergency room visits increased 5%. The Hospital's two largest competitors are Presbyterian Healthcare Services (Aa3) and the for-profit Ardent Health Services. As an academic medical center, UNM Hospital is the primary provider for Medicaid recipients and indigent residents.

* Reliance on state funding (22% of FY 2008 operating revenues) leaves the University vulnerable to state budget challenges. In fiscal 2009, UNM experienced a 2.5% mid-year reduction in state appropriations.. Management notes the University was able to absorb these reductions through use of reserves, hiring freezes, and certain budget reductions. Capital appropriations have been healthy over the past three years, averaging \$53 million (FY06-FY08), however appropriations have been reduced significantly to \$4.8 million in fiscal 2009 and expects approximately \$832,500 for fiscal 2010. UNM did receive \$49.7 million for all campuses of capital support from a state general obligation bond passed in November 2008

* Substantial capital plans, with UNM identifying nearly \$600 million of capital outlays for all of their

campuses over the next five years. Management believes that improved/increased bed for student housing remains a critical priority to remain competitive. The University is considering a ground lease to a private developer in connection with the construction of housing facilities for 1,000 beds. Moody's will continue to monitor capital projects expansion and any potential impact it could have on UNM's overall credit quality. The University has no additional borrowing plans within the next two years.

* Modest projected declines in high school graduates over the next decade, potentially placing pressure on maintenance of enrollment levels. UNM primarily draws students from inside the state, with New Mexico residents comprising 86% of freshman enrollment for fall 2008. The University's Division of Enrollment Management has implemented strategies in efforts to increase recruitment and retention rates. Within the state, UNM competes with New Mexico State University (Aa3/stable), the State's land grant institution, as well as several smaller regional institutions within the state. In January 2010, the University will open a new facility in Rio Rancho, New Mexico's fastest growing city. Management expects continued enrollment growth at all campuses, despite implementing a 5.5% tuition and fee increase for resident rates and a 9.8% tuition and fee increase for the non-resident rate.

SHORT-TERM RATIONALE

The short-term rating is derived from the credit quality JPMorgan Chase Bank, N.A. (the Bank) as provider of the liquidity facilities and the likelihood of termination of the applicable facility without a mandatory tender. The long term and short term ratings of the Bank are Aa1/P-1, respectively. Each liquidity facility is in the form of a standby bond purchase agreement. Events that would cause the applicable liquidity facility to terminate without a mandatory purchase of the applicable bonds are directly related to the credit quality of the University. Accordingly, the likelihood of any such events occurring is reflected in the long-term rating assigned to the applicable bonds.

The Bank's obligations under each SBPA can be immediately terminated or suspended as a result of the occurrence of any of the following events: (i) any principal of, or interest on, any applicable series of bonds (including bank bonds), shall not be paid when due; (ii) the bankruptcy or insolvency of the Board; (iii) the Board shall fail to pay when due and payable any interest or principal (including premiums) on parity bonds shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract; (iv) any provision of the applicable SBPA, the applicable series of bonds, the master resolution or the pricing resolution related to the payment of principal or interest on applicable series of bonds or bank bonds or the pledge of and lien on the pledged revenues shall at any time for any reason cease to be valid and binding or fully enforceable on the Board as determined by any court or governmental agency having appropriate jurisdiction in a final nonappealable judgment; (v) the validity or enforceability of any provision of the applicable SBPA, the applicable series of bonds, the master resolution or the pricing resolution related to the payment of principal or interest on the applicable series of bonds or bank bonds or the pledge of and lien on the pledged revenues shall be contested by the Board or University; (vi) any governmental agency having appropriate jurisdiction over the Board shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which contests the validity or enforceability of any material provision of the applicable SBPA, the applicable series of bonds, the master resolution or the pricing resolution related to the payment of principal or interest on the applicable series of bonds or bank bonds or the pledge of and lien on the pledged revenues; (vii) the Board shall deny that it has any or further liability or obligation under the applicable series of bonds, the master resolution or the pricing resolution; (viii) the Board fails to pay any final, non-appealable legal judgment against the Board or University in an amount equal to five million (\$5,000,000) dollars or more for a period of at least sixty (60) days after such judgment without staying the enforcement thereof; (ix) the Board shall impose a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on any indebtedness of the Board secured by or payable from pledged Revenues that is senior to or on a parity with the applicable series of bonds and banks bonds; (x) any governmental agency having appropriate jurisdiction over the Board shall make a finding or ruling or shall enact or adopt legislation or issue an executive order or enter a judgment or decree which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the applicable series of bonds and banks bonds or on all indebtedness of the Board; and, (xi) the long-term rating assigned by Moody's on any parity bonds shall be withdrawn or suspended or reduced below Baa3.

DESCRIPTION OF THE VARIABLE RATE BONDS

Each series will bear interest in the weekly rate mode and will pay interest on the first Wednesday of June

and December. Each series can be converted, in whole, to the long-term rate mode. Upon conversion, the applicable series shall be subject to mandatory tender. Each liquidity facility from the Bank supports the applicable series while such series bears interest in the weekly rate. Therefore, the VMIG rating only applies to the applicable series of bonds bearing interest in the weekly rate.

Each standby bond purchase agreement may be substituted and requires a mandatory tender on the business day prior to the date of such substitution unless the paying agent receives written evidence from each rating agency then rating the applicable series that the applicable ratings will not be reduced or withdrawn as a result of such substitution. Holders of the applicable bonds will be notified 30 days prior to the mandatory tender date associated with the substitution date of the applicable SBPA.

Each series will be subject to mandatory tender as follows: (i) on the conversion date to the long-term rate; (ii) on the business day preceding the expiration date or termination date of the liquidity facility; (iii) on the business day preceding the date of substitution of the applicable liquidity facility unless the paying agent receives written evidence from each rating agency then rating the applicable bonds that the ratings will not be reduced or withdrawn as a result of such substitution; and (iv) on the date designated by the Bank in a notice sent to the paying agent indicating an event of default under the SBPA has occurred directing the tender agent to tender all the bonds (provided the tender date shall occur prior to the termination of the SBPA).

Bondholders may tender their bonds during the weekly rate mode on any business day with at least seven days prior written notice to the tender agent and remarketing agent. Bonds which are purchased by the applicable liquidity facility due to a failed remarketing may not be released by the tender agent until the applicable SBPA has been reinstated.

THE LIQUIDITY FACILITIES

Each SBPA is sized for full principal plus 187 days interest at the rate of 12% per annum, will secure payments of purchase price while the applicable series bears interest in the weekly rate mode.

Under the terms of each SBPA, conforming draws received by the bank by 11:00 a.m. (New York time) on a mandatory or optional tender date will be honored by 2:00 p.m. (New York time) on the same day.

Each SBPA will terminate, with respect to such the applicable series of bonds, upon the earliest to occur: (i) the stated expiration date, July 16, 2010; (ii) the date on which no bonds of the applicable series remain outstanding; (iii) the close of business on the 30th day following receipt by the tender agent and the Board of a notice of termination from the Bank directing a mandatory tender of the applicable series of bonds; (iv) the close of business on the business day following the date of substitution of the applicable liquidity facility; (v) the date on which the available commitment of the applicable liquidity facility has been reduced to zero or terminated in its entirety (including voluntary termination by the Board); (vi) upon automatic termination of the applicable liquidity facility; or (viii) on the business day following the conversion of all the applicable series of bonds to the long-term rate mode.

Outlook

The stable outlook is based on our expectation that the University will continue to maintain healthy coverage of debt service from pledged revenues, favorable operating performance, and no additional borrowing within the next several years. We anticipate that the University will maintain its strong market position as a leading provider of higher education within the state and that enrollment levels will remain stable.

What Could Change the Rating-UP

Significant growth of financial resources through successful fundraising bolstering balance sheet reserves, combined with enhanced market position, leading to more enrollment growth and tuition flexibility

What Could Change the Rating-DOWN

Sharp reductions in State operating and capital support to the University that is not offset by other revenue growth; sustained deterioration of the hospital or the University as a whole; significant additional borrowing without growth in the University's resource base

KEY INDICATORS (Fall 2008 enrollment; FY 2008 financials)

* Numbers in parentheses represent as assumed 30% decline in total financial resources that fully impact expendable financial resources due to recent investment declines

Total Full-Time Equivalent Enrollment: 24,376

Total Debt: \$668.9 million

Expendable Resources: \$565 million (\$275 million)

Total Resources: \$966 million (\$676 million)

Expendable Resources to Debt: 0.8 times (0.4 times)

Expendable Resources to Operations: 0.38 times (0.19 times)

State of New Mexico G.O. Rating: Aa1, stable outlook

Reliance on State Funding (% of Operating Revenue): 22%

Reliance on Patient Care Revenue (% of Operating Revenue): 42%

RATED DEBT

Superior Lien System Revenue Bonds

Series 1992A: Aa3

Subordinate Lien System Revenue Bonds

Series 2001, 2002B, 2002C: Aa3/VMIG1 (VMIG1 rating based on SBPA with JPMorgan Chase Bank, N.A. (effective July 17, 2009 through July 16, 2010)

Series 2002A, 2003A, 2007A, 2007B (Taxable): Aa3

Series 2000A, 2000B: Aa3, insured by National Public Finance Guarantee Corp. (current financial strength rating is Baa1 with a developing outlook)

Series 2003B, 2003C, 2005: Aa3, insured by Ambac (current financial strength rating is Ba3 with a developing outlook)

Hospital Revenue Bonds

Series 2004: insured by FSA (FSA's currently financial strength rating is Aa3 under review for downgrade)

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METHODOLOGY

The principal methodology used in rating the University of New Mexico was Moody's Rating Approach for Public College and Universities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the University of New Mexico was on November 20, 2007, when the University's long term rating of Aa3 and stable outlook was affirmed.

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