

Summary:

University Of Puerto Rico; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:

Bianca Gaytan-Burrell, Dallas (1) 214-871-1416; bianca_gaytan-burrell@standardandpoors.com

Secondary Contact:

Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426; horacio_aldrete@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

University Of Puerto Rico; Public Coll/Univ - Unlimited Student Fees

Credit Profile

University of Puerto Rico

Long Term Rating

BBB-/Stable

Affirmed

Univ of Puerto Rico univ sys ser O (ins)

Unenhanced Rating

BBB-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB-' long-term rating on the University of Puerto Rico's (UPR) series P and Q university system revenue bonds. At the same time, Standard & Poor's affirmed its 'BBB-' underlying rating (SPUR) on UPR's series O university system revenue bonds. The outlook on all bonds is stable.

Though historically the rating on UPR has mirrored that of the Commonwealth of Puerto Rico (BBB/Stable), given the significant dependence (about 68%) of total revenues, we differentiate the rating one notch given the decline in Puerto Rico's appropriated funds, continued operational deficits, and accreditation concerns. Standard & Poor's believes an investment-grade rating is still warranted despite the aforementioned concerns.

In our opinion, credit concerns include UPR's:

- Significant dependence (67.9%) on Commonwealth-appropriated funds to fund the annual operating budget;
- History of structural imbalance and ongoing difficulties anticipated with efforts to reduced the accrued deficit;
- Probation status on various campuses from the Middle State Commission on Higher Education, although this is somewhat mitigated by the reaccreditation of seven out of 10 campuses;
- Recent softening of enrollment, with fall 2010 headcount of about 62,000;
- Lack of fund raising and a modest endowment of about \$82 million as of March 31, 2011.

In our opinion, credit strengths include UPR's:

- Continued financial support from the Commonwealth of Puerto Rico;
- Role as the commonwealth's only comprehensive public university of higher education;
- Several additional sources of Commonwealth revenue and funding from a broader pool of revenues, of which UPR receives 9.6%; and
- Manageable debt burden with no additional debt plans in the outlook period.

Under the Commonwealth Act 2 of 1966, UPR is allocated an amount equal to 9.6% of the average total revenue collected by Puerto Rico during the prior two fiscal years. While this strong link to the Commonwealth has historically benefited UPR in terms of annual appropriations growth, its revenue stream is vulnerable to the Commonwealth's economic slowdowns, which has recently led to decreasing levels of operating support.

Appropriations in fiscal 2010 accounted for about 67.9% of UPR's operating budget, a decline from 76.0% in fiscal 2008. Total appropriations from the Commonwealth were \$944 million (including \$105 million of American Recover and Reinvestment Act or ARRA funding) in fiscal 2010 or about \$14,500 per student, which in our opinion is very strong. Management reports that funding for fiscals 2011 and 2012 has declined from previous years, but continues to improve.

Since fiscal 2008, the university has had negative operations on a full accrual basis, with a deficit of \$33.2 million for fiscal 2010. Management reports this was a result from a decrease in Commonwealth appropriations that did not have corresponding reduction in expenses. Management reports that through cost-control measures and the addition of a "stabilization fee", it expects the university to have positive operations by fiscal 2013.

Despite student protests in 2010 and 2011, UPR continues to exhibit strong demand and plays a very important role in Puerto Rico's higher education system, as it enrolls about 30% (about 62,000) of Puerto Rico's college students. In addition, we believe the university has some admissions flexibility, as about 76% of its applicants are admitted each year, of which a high 88% enroll. Tuition rates have increased to \$51 per credit hour/ semester for fall 2011 from \$49 the previous year. In addition, the administration implemented a \$400/semester stabilization fee. The fee resulted in about \$40 million of additional tuition income. Despite these increases, student charges are, in our opinion, still below the private colleges and universities in Puerto Rico.

UPR's long-term obligations as of June 30, 2010, totaled \$666 million, of which more than \$67 million is subordinate debt. Maximum annual debt service (MADS) is still manageable in our opinion at 4.2% of 2010 operating expenses. The university provides post employment health care benefits (OPEB) for its retired employees, although it does not pre-fund the obligation and thus the benefits are paid from university's general assets each year. The total unfunded accrued liability for fiscal 2010 is \$189.5 million. The university also has a \$100 million line of credit with the Puerto Rico Government Development Bank for working capital, which currently has \$93 million outstanding. In our opinion, the university's weakened cash position is a credit concern.

In accordance with our criteria for government-related entities, our view of a "high" likelihood of extraordinary government support reflects our assessment of UPR's "very important role" in Puerto Rico, given its status as the only public university in the Commonwealth. In addition, the assessment is based on UPR's "strong" link with the government of Puerto Rico, given the commonwealth's history of regular operating support through annual appropriations and periodic capital support for programs and facilities through the Puerto Rico Government Development Bank.

Outlook

The stable outlook on UPR's debt reflects our expectation that during the next two years, we expect demand to stabilize, progress toward accreditation for all campuses will be successful, and budget adjustments will continue to enhance structural budget performance. Operational and liquidity support from the Commonwealth are also a factor in the current outlook.

A negative rating action could be considered during the outlook period if the local economy further weakens, a loss of accreditation from the Middle State Commission, and if enrollment continues to decline significantly. At this time, we do not believe the university can improve its operations to warrant any positive rating action during the outlook period.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.