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Summary:

Puerto Rico Industrial, Tourist, Educational, Medical, & Environmental Control Facilities Financing Authority University Of Puerto Rico; Appropriations; Public Coll/Univ - Unlimited Student Fees

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Summary:

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Credit Profile

University of Puerto Rico

Long Term Rating

BBB-/Negative

Outlook Revised

Puerto Rico Indl Tourist Educl Med Environ Cntl Facs Fincg Auth, Puerto Rico

University of Puerto Rico, Puerto Rico

Puerto Rico Indl Tour Ed Med & Environ Cntl Fac Fin Auth ed fac rev bnnds (Plaza Universitaria Proj) ser 2000A

Unenhanced Rating

BBB-(SPUR)/Negative

Outlook Revised

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services revised its outlook to negative from stable and affirmed its 'BBB-' long-term and underlying rating (SPUR) on the University of Puerto Rico's (UPR) existing university system revenue bonds, some of which were issued by Puerto Rico Industrial, Tourist, Educational, Medical, & Environmental Control Facilities Financing Authority.

The negative outlook reflects the downgrade and negative outlook of the Commonwealth of Puerto Rico, which it has generally mirrored given UPR's significant dependence (about 60%) on it for total revenues. 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 concentrate and vulnerable to the commonwealth's economic slowdowns. Appropriations totaled \$704.5 million in fiscal 2012 and \$756.8 million in fiscal 2013, including \$30 million from lottery revenues earmarked for scholarships. Although there were current increases in state appropriations in fiscals 2012 and 2013, we believe the economic slowdown in Puerto Rico will depress revenues and consequently decrease future appropriations.

We also believe the loss of the stabilization fee, which partly enabled the university to return to positive financial operations on a full accrual basis in fiscal 2011 after deficits since 2008, is a credit risk. The \$400 per semester/per student stabilization fee was implemented in 2011 and generated about \$41 million per year of additional revenues. In early 2012, the university board of directors announced that the stabilization fee would be repealed by July 2013. The

current commonwealth administration is proposing an additional appropriation to essentially supplant the loss of the stabilization fee. The total amount is subject to change based and based on legislative approval. We also believe there is uncertainty in this funding source given weakened economic position of the commonwealth and structural budget gaps that may not be able to support an increase in appropriations for the UPR.

We believe the investment grade rating is still appropriate given UPR's role as the commonwealth's only comprehensive public university of higher education, a manageable debt burden and debt service coverage, and strong demand. Because the stabilization fee is to be discontinued starting July 2013, the university would have collected a full year of revenues and therefore we believe fiscal 2013 will likely have at least balanced operations.

The revenue bonds are secured by a pledge of all revenues, excluding appropriations and any contributions. We view this broad pledge as equivalent to an unlimited student fee pledge. Total debt as of June 30, 2012 was \$700 million, including the \$540 million of revenue bonds. The university also has a \$125 million line of credit with the Government Development Bank of Puerto Rico for working capital, which in our opinion denotes a weak cash position and a credit risk.

Debt is still manageable in our opinion at less than 5% of 2011 operating expenses. Management reports that they may consider issuing additional debt beyond the two-year outlook period; however, the timing and total amount has not been finalized.

The University of Puerto Rico was founded in 1903 and is the only state-supported university system. It comprises 11 institutional units located throughout the commonwealth. The main campuses are: Río Piedras, Mayagüez, and Medical Sciences. UPR offers 452 degree-granting programs (associates, undergraduate, masters, graduate certificates, professional) in the arts, sciences, business, engineering and technology. The Río Piedras campus has a Carnegie classification of High Research Activity and is the largest campus based on enrollment, with a headcount of 15,626 for fall 2012.

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. The standalone credit profile is bbb-.

Outlook

The negative outlook reflects our view of the commonwealth's persistent economic challenges, which could potentially result in declines in state appropriation for fiscal 2014. In addition, the negative outlook is based on the downgrade of the commonwealth's GO rating, given the link between the commonwealth's rating and UPR. We could lower the ratings on the UPR, if Puerto Rico's GO rating were lowered to speculative grade.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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