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Standard & Poor's Reclassifies 157 U.S. Public Universities; They are No Longer Government-Related Entities.

NEW YORK (Standard & Poor's) Dec. 5, 2014—Standard & Poor's Ratings Services has reviewed all rated entities in the U.S. public finance higher education sector it had previously classified as a government-related entity (GRE). Pursuant to our methodology, "Rating Government-Related Entities: Methodology And Assumptions," published Dec. 9, 2010, on RatingsDirect, GREs could receive extraordinary government intervention during periods of stress. We have reexamined the link between the government and the U.S. public universities we rate and have concluded the majority of these universities will not benefit from timely extraordinary government support, nor do we expect them to be subject to negative intervention by the related government, in that the state will not redirect funds away from it or take other action to impair the university.

As a result of this review, we will no longer apply the GRE criteria to 157 public universities in the following states: Alabama, Alaska, Arizona, California, Colorado, Connecticut, Delaware, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming. This also applies to public universities in the District of Columbia.

We do not expect this to have a significant impact on our ratings. The long-term rating on 155 institutions are unaffected by this change because the long-term rating and the stand-alone credit profiles (SACPs) on them are the same. However, as a result of this action, we have lowered the ratings on two public universities to the level of their SACP. We have downgraded Alabama State University to 'BBB+' from 'A-'; the outlook is negative. As well, we lowered the rating on the University of Northern Iowa to 'A' from 'A+'; the outlook is stable. These two institutions had previously benefited from a one-notch rating uplift for government support, as a result of the application of the GRE criteria. In conjunction with this review, we also raised the SACP on two universities. We raised our SACP on Iowa State University of Science and Technology to 'aa' from 'aa-' based on our assessment of strong enrollment growth, consistently strong operating performance, and financial resources that are consistent with the rating. In addition, we raised our SACP on the University of North Dakota to 'aa-' from 'a+' based on what we view as its strong demand profile, manageable debt, and financial resources that are comparable to those of other 'aa-' public universities. In both cases, the revised SACP equals the previous long-term rating. Therefore, although there is no longer a one-notch uplift from the SACP for government support, there is no change in the long-term rating.

We first applied GRE criteria to the sector in 2009. Since then, the Great Recession and the performance of U.S. states and public universities have informed our expectations that most public universities operate independently and do not benefit from timely extraordinary support. Universities in the U.S. have demonstrated a proven ability to withstand declining revenue sources, variability in endowment values, changing demographics, and various competitive pressures in a range of economic cycles. Universities in the U.S. are autonomous entities. They have operated

without any direct negative government intervention and retain full authority to implement any adjustments to respond to changing economic climates. These institutions operate separately from the state or federal government. U.S. states provide ongoing operating and capital support for public universities. However, we have seen that in times of fiscal stress, states have responded by cutting back ongoing operating and capital appropriations to these institutions. We have also seen that universities usually had full autonomy to raise tuition and other fees charged, as well as cut back on their operating expenses.

Although there is little history of public universities requiring extraordinary entity-specific support related to their fiscal stress, we also believe that U.S. states are less willing to provide this support. In most cases, there is also a lack of a government framework to predictably respond in a timely manner. This is because for most public universities, extraordinary support can only be given through the acceleration of funds annually appropriated. For some states, this can be done as an administrative action; others would require legislative action. In either case, the usefulness of the ability to accelerate already appropriated funds depends on the point in the year that the university would need liquidity, so the benefit is hard to predict. In addition, for most states, the requirement for legislative approval for any other support, in our view, affects both the predictability and the timeliness of support. We believe the same holds true for both Howard University and Gallaudet University, which receive annual appropriations from the federal government. The criteria focus on government intervention that enables timely repayment of a GRE's debt, reducing the likelihood of default.

We will continue to consider the remaining 14 public universities as GREs; for these, we either expect timely extraordinary government support or see a material risk of negative intervention from the related government. The GRE criteria apply to public universities in Hawaii, New York, Ohio, Tennessee, and the Commonwealth of Puerto Rico. No ratings are affected. We believe that Hawaii, New York, Ohio and Tennessee either have a legislative or administrative framework in place to provide timely extraordinary support.

For Hawaii, although there has been no need for extraordinary support, should an extraordinary event require state assistance, the director of finance and governor are statutorily authorized to provide temporary loans to the University of Hawaii (and other state departments and agencies) to meet their obligations. This does not require legislative action.

Similarly, New York considers both of its public universities to be state agencies. In addition, the state has an established history of helping distressed public entities and each year there is a substantial contingency appropriation that it could use with any other debt service appropriation. We consider these resources as sufficient to provide timely extraordinary support for either State University of New York or City University of New York, given that state appropriations already back most of the debt that each of these universities issues.

Ohio has a history of providing extraordinary support dating to the 1970s and as recent as the mid-1990s, including for debt service payments. Currently, state legislation requires that the state monitor the finances of the universities to ensure all payroll and debt service payments are made. Universities attest quarterly that they have made these payments. Officials use annual audited data to develop a score and place a university on fiscal watch. The state monitors debt to resources and operating surpluses as well as fund balances. This allows for timely extraordinary support for the universities in the state. The GRE criteria affect the nine public universities in Ohio.

In Tennessee, the Tennessee State School Bond Authority (TSSBA), a component unit of the state, issues debt for public universities. The TBSSA issues debt for revenue-supported projects for the University of Tennessee (UT) board of trustees, which oversees the UT system (composed of four

universities and three institutes), and the Tennessee board of regents, the governing body for six state universities, 13 community colleges, and 27 technology centers. The bonds benefit from a strong state appropriation-intercept mechanism, if fees and charges are insufficient to pay debt service. A statutory intercept of state revenues to the university secures the bonds. The state commissioner of finance and administration will, within one business day, intercept any operating and maintenance appropriations to the publicly funded institutions with projects under the resolution if the TSSBA notifies the commissioner that funds on hand are insufficient to pay debt service. We understand that the commissioner has never used the provision and the program has a 47-year history of no debt service shortfalls or defaults.

We continue to classify the University of Puerto Rico as a GRE. However, we have revised our view of the likelihood of extraordinary support to “low” from “high.” The change does not affect the rating on the university because the rating does not include any uplift from government support. Our SACP on the university is the same as our rating on the Commonwealth of Puerto Rico (BB/Negative). The revision reflects our expectation, that given Puerto Rico’s current fiscal condition, its ability to provide extraordinary support for the university is diminished. In addition, the university still relies on the Government Development Bank of Puerto Rico as its fiscal agent. We believe the liquidity pressures that face the commonwealth and GDB create the potential for negative intervention.