

April 19, 2012

Summary:

New York State Dormitory Authority Pace University; Private Coll/Univ - General Obligation

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Credit Profile

New York State Dorm Auth, New York

Pace Univ, New York

New York St Dorm Auth (Pace University) ser 2005A, 2005B

Unenhanced Rating

BBB-(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its underlying rating (SPUR) on New York State Dormitory Authority's debt, issued for Pace University, to 'BBB-', with a stable outlook, from 'BB+', with a positive outlook. The rating revision incorporates our view that the university's demand has stabilized, and financial performance and financial management have improved.

It also reflects our view of Pace's:

- Very weak level of expendable resources, driven by a history of operating losses on a full accrual basis and the recognition of significant other postemployment benefit (OPEB) liabilities in fiscals 2010 and 2011;
- Limited revenue raising flexibility due to strong competition and an already high level of tuition and fees; and
- High debt level of \$147 million as of June 30, 2011, and moderately high debt service, including operating lease expense.

Positive rating factors include stable enrollment levels with a significant increase in full-time undergraduates from fall 2008 to fall 2011--a key driver of improved financial performance for the university. Positive credit factors also include a significant improvement in financial performance from fiscal 2008 to fiscal 2011, with expectations for positive operating performance on a full accrual basis for fiscal 2012, and a level of cash and investments that is consistent with the 'BBB' rating category. As of June 30, 2011, Pace recorded \$141 million in total cash and investments--a good 35% of adjusted fiscal 2011 operating expenses and 96% of debt outstanding at year-end. Expendable resources are depressed because of a significant level of OPEB liabilities (\$76.1 million) recorded as of June 30, 2011. However, even with an adjustment for OPEB liabilities, the university's liquidity levels as measured by both expendable resources and working cash are low.

Pace University, founded in 1906, is an independent, comprehensive university, and includes the following schools and colleges: the Dyson College of Arts and Sciences; Lubin School of Business; the College of Health Professions/Lienhard School of Nursing; Pace Law School; the School of Education; and the Seidenberg School of Computer Science and Information Systems. Originally founded in New York City, today Pace has five campuses in New York City and Westchester County. The university has one of the largest co-op education programs in the New

York metropolitan area.

Outlook

The stable outlook reflects our expectation that, during the next two years, enrollment and overall demand will remain stable or demonstrate positive trends, and that financial performance will be consistently breakeven or better, on a generally accepted accounting principle (GAAP) basis. Our outlook also reflects our expectation that new debt will be offset by liquidity growth. While we believe that expendable resources will remain very low, depressed by significant OPEB liability, expendable resources will not be further reduced.

During the outlook period, we would have a negative view of any significant weakening in financial performance or significant debt increase. There are potential debt plans associated with the Pleasantville master plan. We believe that significant debt plans, if they were to occur within the next 12 to 24 months, could pressure the current rating if there is not additional growth in expendable resources or a substantial improvement in financial results. Conversely, we would consider significant improvement in financial operating results combined with improved levels of expendable resources as positive rating factors. However, we view this as unlikely given the university's current level of financial resources.

For more information, see the full analysis published April 19, 2012, on RatingsDirect on the Global Portal.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

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