Summary:
Puerto Rico Industrial, Tourist, Educational, Medical, & Environmental Control Facilities Financing Authority Polytechnic University of Puerto Rico; Private Coll/Univ - General Obligation

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Credit Profile

Puerto Rico Indl Tourist Educl Med Environ Cntl Facs Finncg Auth, Puerto Rico
Polytechnical Univ of Puerto Rico, Puerto Rico

Puerto Rico Indl Tour Ed Med & Environ Ctrl Fac Fin Auth (Polytechnical University of Puerto Rico) Ser 2002A

Unenhanced Rating
BBB-(SPUR)/Stable
Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB-' underlying rating (SPUR), with a stable outlook, on Puerto Rico Industrial, Tourist, Educational, Medical, & Environmental Control Facilities Financing Authority's series 2002A revenue bonds, issued for Polytechnic University of Puerto Rico (Polytechnic).

The university's concentration in engineering, which despite its good reputation, has resulted in declining enrollment over the last several years, thereby constraining the rating. Other constraining credit factors include student-fee revenue concentration and an above-average debt burden. The rating is supported by surplus operating results on a full accrual basis and a balance sheet that is consistent with the 'BBB' rating category.

The rating reflects our view of the university's:

- Positive operating performance on a full accrual basis that management has maintained despite declining enrollment and a drop in net tuition revenue in fiscal 2012 to 2013, with similar performance expected for fiscal 2014 and 2015;
- Solid demand niche in Puerto Rico with a strong reputation for its engineering, architecture, and business academic courses;
- Solid financial resource ratios for the rating category with $24 million of expendable resources in fiscal 2013, equal to 70% of operating expenses and 81% of debt in 2013;
- Significant reliance on federally-funded Pell Grants, making up 25% of total revenue, which Standard & Poor's considers a stable revenue source, but also a revenue concentration that exposes the university to political risk; and
- Strong management, which has helped the university to stabilize its core operational performance significantly especially when enrollment has declined.

In our opinion, partially offsetting rating factors include the university's:
Declining enrollment over the past five years, with management expecting continued declines, although at a more-moderate pace in the next few years;

Very limited revenue diversity, with 88% of revenues generated from student-generated revenue (tuition and auxiliaries);

A very high maximum annual debt service (MADS) burden at 7% of fiscal 2013 operating expenses; and

Minimal institutional fundraising due to an island-wide culture that has not historically encouraged fundraising for higher education, although a more favorable tax law passed recently, prompting the university to begin its first campaign.

Founded in 1966 to provide a college program for land surveyors, Polytechnic University of Puerto Rico today is a professionally oriented, coeducational institution offering bachelor and master degree programs in engineering, architecture, and business. The university is in the Hato Rey section of metropolitan San Juan, Puerto Rico's financial district. Engineering has historically been Polytechnic's largest program offering, and the university has the distinction of being the largest private, Hispanic-serving institution specializing in engineering and associated fields in the U.S. We understand Polytechnic is among the largest engineering colleges in Puerto Rico.

Outlook

The stable outlook reflects Standard & Poor's expectation that the university will maintain its strong program niche, stabilize enrollment, and generate balanced financial operations over the next two years. We expect that management will continue to maintain operating surpluses, despite anticipated enrollment declines, and continue to improve its financial resource ratios.

Credit factors that could lead to a negative rating action include sustained operating deficits on a generally accepted accounting principle (GAAP) basis, significant declines in financial resource ratios, or the issuance of significant additional debt without a corresponding rise in financial resources. We believe a positive rating action is unlikely during the two-year outlook period, given the continued decline in enrollment and net tuition revenue.

For more information, see the full analysis published Oct. 20, 2014.

Related Criteria And Research

Related Criteria


Complete ratings information is available to subscribers of RatingsDirect 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.