Summary:
Ohio Higher Educational Facility Commission
Case Western Reserve University; Joint Criteria; Private Coll/Univ - General Obligation

Primary Credit Analyst:
Ashley Ramchandani, Chicago (1) 312-233-7071; ashley.ramchandani@standardandpoors.com

Secondary Contact:
Shivani Singh, New York (1) 212-438-3120; shivani.singh@standardandpoors.com

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Credit Profile

US$60.0 mil higher ed fac rev bnds (Case Western Reserve Univ) ser 2015A due 12/01/2034

Long Term Rating

AA-/Stable

New

Ohio Hgr Ed Fac Com, Ohio
Case Western Reserve Univ, Ohio

Case Western Reserve Univ, various rev bnds ser 1990B, ser 1994

Long Term Rating

AA-/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Case Western Reserve University (CWRU), Ohio's series 2015A bonds. At the same time, Standard & Poor's affirmed its 'AA-' long-term rating and underlying rating (SPUR) on various Ohio Higher Educational Facility Commission revenue bonds and its 'A-1+' short-term rating on the commission's series 2001A variable-rate demand bonds (VRDBs). All bonds were issued on behalf of CWRU. Finally, we affirmed our 'A-1' short-term rating on the university's commercial paper (CP) program, authorized at $90 million, based on liquidity support from JP Morgan N.A. as well as Northern Trust. The outlook on the long-term ratings and SPURs is stable.

The 'A-1+' short-term rating reflects that on the banks backing the VRDBs. The 'AAA/A-1' rating on the series 2008A bonds is based on the application of our joint criteria.

Various bank letters of credit and standby bond purchase agreements support liquidity on all of CWRU's VRDBs.

The rating reflects our view of the university's niche as one of Ohio's prominent research institutions, strengthening demand and selectivity, consistent growth in net tuition revenue, positive operating performance on a full-accrual basis for the past five fiscal years, and significant federal support for its research efforts, with more than $311 million in research grants awarded during fiscal 2014. Partly offsetting the above strengths, in our view, are the university's weak balance sheet metrics for the rating category.

More specifically, the 'AA-' long-term rating further reflects our view of CWRU's:

- Sizable cash and investments of $1.7 billion at June 30, 2014;
- Stable and proactive management team that has successfully implemented a financial plan resulting in positive operating results on a full-accrual basis for the past five fiscal years;
- Stable undergraduate and graduate enrollment due to the university's broad range of programs, research and...
community medical coalitions, and adequate demand metrics despite strong competition for CWRU’s high-quality students;

- Fiscal 2014 debt burden of less than 4%, which we consider manageable; and
- Strong fundraising, with a $1 billion comprehensive campaign announced in 2011 that has surpassed its goal and has subsequently been increased.

Partly offsetting the above strengths, in our view, are CWRU's:

- Financial resource ratios that remain low for the 'AA' rating category, with June 30, 2014, expendable resources equal to 1.0x of operating expenses and a stronger 1.6x pro forma debt, and
- Weak freshman matriculation rate of 15% in fall 2014 compared with that of peer research institutions, indicative of significant national competition for high-quality students.

The approximately $60 million in series 2015A bonds will be issued to fund the cost of a new housing facility, to fund general capital maintenance projects, and to refinance approximately $15.6 million of two existing U.S. Department of Housing and Urban Development (HUD)-guaranteed loans held by the university. At the time of our last review, the university had approximately $578 million in total debt outstanding, including its two HUD-guaranteed loans and $84 million of a $90 million authorized CP program. We understand that, at June 30, 2014, $16 million of the $27 million portion of the authorized CP dedicated to bridge financing of pledges was outstanding; management reports that $21 million of that $27 million is outstanding. In the event of an unremarketed rollover, liquidity for the program is provided by JPMorgan Chase ($60 million) and Northern Trust ($30 million). Management further reports that it has to date paid $12 million in long-term debt principal and repaid $25 million of a total $40 million in short-term debt on its operating line of credit, and it anticipates repaying the remaining balance of $15 million in the near future. Following issuance, we anticipate total debt will be approximately $570 million, as the university does not anticipate maintaining an outstanding balance on its line of credit, but instead uses the line intermittently. We note that the total debt amount of $570 million includes $15.7 million in unamortized bond premium.

The debt profile of the university is front loaded, in our opinion, with maximum annual debt service of $40 million in fiscal 2023. Approximately 17% (giving effect to interest rate swaps) of the university's debt is variable rate. In addition, CWRU has contingent liquidity risk exposures that we consider manageable at the current rating level. The exposures come from $67.5 million of debt sold directly to refund a portion of the university's series 2008 bonds. We have reviewed documents associated with the direct purchase debt and understand that there are no events that lead to acceleration of debt or cross default and no additional financial-based covenants associated with the debt.

CWRU, located in Cleveland, is Ohio's largest private university. It offers a wide range of undergraduate, graduate, and professional degree programs, including arts and sciences, law, business, medicine, engineering, nursing, social work, and dentistry. The university research base is extensive, in our view. CWRU received more than $380 million in research grant and indirect cost recovery revenue in fiscal 2014 principally related to health sciences and the medical school. CWRU's campus is one of the anchor institutions in University Circle, a 500-acre concentration of more than 40 educational, social, medical, cultural, and religious institutions at the eastern edge of Cleveland.

For more information, see the full analysis published Nov. 6, 2014, on RatingsDirect.
Outlook

The stable outlook reflects our expectation that during the two-year outlook period, CWRU will maintain balanced operating results on a full-accrual basis, will improve financial resources, and will maintain relatively stable enrollment. We understand that the university has no additional debt plans beyond this issuance. We believe that, with this additional issuance, the university will be near or at its debt capacity for the current rating. In our opinion, any significant debt outside of this potential issuance could pressure the ratings. We could consider a downgrade if operations weaken, if the university issues significant debt not matched with growth in financial resources, or if financial resource ratios decline significantly relative to the rating category. A positive rating action, while unlikely during the two-year outlook period, could occur if financial resource ratios improve relative to the rating category commensurate with strengthened operations and enrollment growth.

Related Criteria And Research

Related Criteria

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of January 12, 2015)

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Many issues are enhanced by bond insurance.

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.