

**Ohio Higher Educational Facility
Commission
Case Western Reserve University;
Private Coll/Univ - General Obligation**

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Credit Profile

Ohio Higher Educational Facility Commission, Ohio

Case Western Reserve University, Ohio

Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO

Long Term Rating

AA-/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Case Western Reserve University (CWRU) various series of debt.
- The outlook for all debt is stable.

Security

The bonds are an unsecured general obligation of CWRU. Debt issued through the commission is secured by CWRU's general obligation (GO) pledge to make rental payments under a lease agreement with the commission. The university's obligation to make rental payments is absolute and unconditional and not subject to abatement, setoff, or counterclaim. As of June 30, 2023, (based on draft audit results), CWRU had \$911.2 million of long-term debt outstanding. Included in the debt figures is the operating lease obligation, which we view as manageable relative to the overall balance-sheet position.

Credit overview

We assessed CWRU's enterprise risk profile as very strong, characterized by solid enrollment and selectivity, but somewhat offset by weak matriculation rates for the rating. We assessed CWRU's financial risk profile as strong, with positive operations on a full-accrual basis, though with financial resource ratios relative to operations and debt that are below median levels. Combined, we believe these credit factors lead to an anchor of 'a+'. As our criteria indicate, the final rating could be within one notch, and we believe that 'AA-' better reflects CWRU's solid enterprise profile and that is more in line with 'AA-' peers given the expected enrollment opportunities and significant research focus.

The rating reflects our assessment of CWRU's following strengths:

- Broad range of programs, research, and community medical coalitions, which have historically led to healthy demand metrics despite strong competition for its high-quality students;
- Consistently positive operating results on a full-accrual basis for the past several fiscal years; and
- Sizable cash and investments.

The rating reflects our assessment of the following weaknesses:

- Low freshman matriculation rate of about 14% in fall 2023 (based on preliminary data) compared with that of peer research institutions, indicative of significant national competition for high-quality students; and
- Recent significant increase in debt with the series 2022 issuances, which in part support strategic initiatives such as the construction of a new interdisciplinary science and engineering building and construction of a new dormitory.

CWRU, 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's research base is extensive, in our view. CWRU received approximately \$394 million in external research awards and indirect cost recovery revenue in fiscal 2023, principally related to health sciences and the medical school. It received more when including revenue passed through to the Cleveland Clinic. 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.

CWRU and the Cleveland Clinic have an agreement for development and operation of a Health Education Campus, which includes an academic building and dental clinic. Occupancy began in the spring of 2019 and we understand that the operations are as expected, with management reporting a solid working relationship and financial performance to date. Cleveland Clinic provided the interim financing for construction and the two organizations are jointly fundraising toward the project. Based on the agreement (\$50 million in five equal payments), CWRU has paid \$30 million as of January 2023 with another \$20 million liability over a two-year period. We understand that funds are reserved for this liability.

Fiscal 2023 results presented in this report are based on draft audit statements. These are preliminary and may change when finalized. Fall 2023 enrollment and demand information is also preliminary and subject to change.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider to be a social risk factor, have largely abated and are neutral in our credit rating analysis. We view the college's environmental and governance risks as neutral factors in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that CWRU will maintain stable to growing enrollment and demand; continue to produce positive operations on a generally accepted accounting principles basis; and, at minimum, maintain stable-to-improving financial resources as it manages its increased debt burden.

Downside scenario

We could consider a negative rating action if certain factors weaken such that enrollment, positive margins, or fundraising are no longer consistent with expectations and sufficient to offset the debt load. Weakening in the financial resources relative to operations or debt could also lead to a lower rating.

Upside scenario

A higher rating is not likely during the two-year outlook period given the recent increase in debt. However, we could consider a positive rating action over the long-term if the university's financial resources improve such that metrics were in line with a higher rating while maintaining robust full-accrual surpluses as well as improvement in enterprise profile characteristics, such as matriculation, that are more in line with those of a higher rating.

Credit Profile

Enterprise Risk Profile--Very Strong

Market position and demand

CWRU has a broad draw for students with less than one third coming from within Ohio. While the number of international students declined during the pandemic, it remains about 20% of total full-time equivalent (FTE). Similar to many colleges and universities, CWRU's enrollment declined in fall 2020 as the pandemic continued, but then rebounded with modest increases in subsequent years. As a comprehensive research institution, CWRU has a significant proportion of graduate and professional students (estimated at approximately 47% of FTEs for fall 2023) than many of its peers. First-year undergraduate applications for fall 2023 increased over the past year and the solid demand profile is characterized by increasing applications and selectivity offset by weak matriculation. The matriculation at below 15% reflects a highly competitive landscape for the students. Preliminary information for fall 2023 indicates that the entering class in fall 2023 was fairly consistent with fall 2022. Student quality remained high as measured by average freshmen ACT and SAT scores though the school remains test optional. Retention and graduation rates remain just below 'AA' category medians but relatively consistent with historical levels. In our view, CWRU's enrollment and demand profile is solid with no material weakening expected in the near term.

Management and governance

The overall management team has been relatively stable since the last review though there is an interim Provost currently in place. There are no other major leadership changes expected in the near term.

CWRU's regulations and bylaws do not provide for a maximum size for its board of trustees. Members are generally limited to four-consecutive, four-year terms, and may move to emeritus status once their term ends. Most board members are also alumni. We understand that board turnover has been routine. The full board meets formally three times a year and has a committee system. Recent commitment from the board and management to invest in strategic initiatives such as growth in undergraduate population and research are significant and the recent increase in debt is material but supports these initiatives.

Financial Risk Profile--Strong

Financial performance

CWRU typically produces operating surpluses on a full-accrual basis, with margins ranging from 1%-6% in recent years. The consistent surpluses reflect increasing research revenues, net tuition revenue, and auxiliary revenues with

focused expense management efforts. For fiscal 2023, the unaudited draft report presents with a similar operating margin to fiscal 2022 despite an increase in some expenses such as the salary pool and decrease in non-recurring funding (fiscal 2022 includes almost \$12 million in COVID-related stimulus funds). Fiscal 2024 budgets show continued surpluses. While CWRU will be bringing new projects online in the next few years, we expect that margins could compress some but not materially given the revenue generation potential with the projects.

Beginning in fiscal 2019, CWRU adopted a new endowment payout policy, which compares the 10-year average of actual endowment activity and will adjust the annual distribution based on the comparison. We do not anticipate any unusual draws in the near term.

Operating revenue streams are relatively diverse compared with peers, although CWRU is primarily dependent on student-related charges to fund operations. In fiscal 2023 (unaudited), gross tuition and student fees represented 46% of total revenue. The next largest component of revenue is research. While the university receives a concentration of National Institutes of Health funding; we understand that management has focused on remaining competitive for federal grants and is exploring efforts to bolster foundation and industry awards. In our opinion, management is positioned to adjust its research enterprise, which should remain a significant focus and revenue diversifier.

Financial resources

On an absolute basis, CWRU maintains a significant pool of funds with \$2.75 billion at fiscal 2023 year-end (unaudited) however, in our opinion, the cash and investments relative to operating expenses and relative to debt remain sufficient for the 'AA' category, though light when compared with medians and some peers. The cash and investments amount excludes funds held by trusts, which the university does not manage, but are shown as assets on the financial statements.

The university's private equity, real assets, and private credit investments have mandatory capital calls related to future investments. Unfunded commitments remain manageable, in our opinion, at about \$264 million. The university maintains sufficient liquidity to address its unfunded calls.

CWRU closed its most recent campaign in December 2018, where it raised \$1.8 billion, which was ahead of goal. In addition to its own ongoing fundraising efforts, the university does joint fundraising with the Cleveland Clinic to support that project. CWRU is raising funds for scholarships and is exploring a campaign focused on scholarships, strategic capital projects, and research in the next few years.

Debt and contingent liabilities

Long-term debt as of fiscal 2023 year-end (unaudited) is approximately \$911 million (excluding premium and unamortized bond issuance costs). Financial resources relative to debt and debt burden weakened following the series 2022 issuances. We calculate maximum annual debt service (MADS) as the total debt service averaged over 30 years (including the century bond), resulting in a smoothed MADS of about \$100.5 million. The majority of the debt is public, fixed rate debt though the series 2021B bonds are floating rate notes and the series 2022A and 2022B are privately placed issuances with New York Life. Management notes that the variable-rate exposure is offset by CWRU's interest-rate swaps resulting in a synthetic fixed rate. The university has three bank lines of credit, totaling \$150 million, available for working capital. There is no balance on these lines at present. The series 2022C bonds are century bonds--with a bullet due at maturity in 2122. There are no other debt plans in the two-year outlook period.

Proceeds from last year's issuances are going toward financing a portion of a new 250,000 square foot interdisciplinary science building project, a 600-bed residence hall project, and other university capital projects. The interdisciplinary science building project cost is expected to be about \$300 million and the residence hall project is expected to cost about \$110 million. About \$165 million from the 2022 issuance will be maintained as an "internal bank," which allows the university flexibility over time--funding for future capital projects, provide a bridge as fundraising funds are collected, or to provide for support over time for interest payments and the balloon payment at maturity, which should in part offset the additional debt.

The direct purchase agreements with New York Life have events of default that trigger acceleration (though no financial covenants). However, CWRU has sufficient liquidity, in our opinion, to mitigate risk related to these non-public debt transactions with over \$300 million with same-day liquidity as of June 30, 2023.

The university has one interest-rate swap contract remaining with a total notional amount of \$35 million with expiration in 2034. The contract is floating-to-fixed rate and Morgan Stanley is counterparty. The mark-to-market value was negative \$4 million as of the end of fiscal 2023. The university reports that its collateral threshold is \$20 million.

The university offers both a defined-contribution retirement plan to employees (which, by definition, is fully funded) and a defined-benefit plan. The latter is closed to new entrants. It had a funded status of negative \$52 million at the end of fiscal 2023 (unaudited). Defined-benefit contributions are made annually according to actuarial valuations. The university offers a retiree health care plan, but reports no related liability on its balance sheet because the cost is paid entirely by retirees.

Case Western Reserve University, Ohio--enterprise and financial statistics

	--Fiscal year ended June 30--						Medians for 'AA' category rated private colleges and universities
	2024*	2023*	2022	2021	2020	2019	2022
Enrollment and demand							
Full-time-equivalent enrollment	11,517	11,454	11,397	10,792	11,076	11,072	7,733
Undergraduates as a % of total enrollment	53.2	51.9	50.1	49.4	47.7	46.5	67.4
First-year acceptance rate (%)	28.7	25.9	30.2	30.3	27.4	29.3	17.8
First-year matriculation rate (%)	13.7	15.5	16.0	14.8	17.2	17.9	38.8
First-year retention rate (%)	91.9	92.8	93.7	93.4	93.2	94.4	95.0
Six-year graduation rate (%)	86.8	85.5	85.4	85.3	84.4	84.9	90.3
Income statement							
Adjusted operating revenue (\$000s)	N.A.	1,516,597	1,355,428	1,252,752	1,277,812	1,230,105	693,572
Adjusted operating expense (\$000s)	N.A.	1,451,735	1,290,627	1,177,230	1,227,899	1,197,534	661,052
Net operating margin (%)	N.A.	4.5	5.0	6.4	4.1	2.7	4.1

Case Western Reserve University, Ohio--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--						Medians for 'AA' category rated private colleges and universities
	2024*	2023*	2022	2021	2020	2019	2022
Change in unrestricted net assets (\$000s)	N.A.	63,772	30,866	117,923	(33,787)	29,798	MNR
Tuition discount (%)	N.A.	44.1	42.4	39.6	40.6	38.8	39.5
Student dependence (%)	N.A.	45.7	48.1	45.6	45.0	46.1	59.7
Health care operations dependence (%)	N.A.	0.0	0.0	0.0	0.0	0.0	MNR
Research dependence (%)	N.A.	19.2	19.3	20.4	20.6	21.5	5.4
Debt							
Outstanding debt (\$000s)	N.A.	911,196	801,710	470,194	509,535	483,765	596,725
Proposed debt (\$000s)	N.A.	N.A.	115,915	585,715	56,040	64,790	MNR
Total pro forma debt (\$000s)	N.A.	911,196	917,625	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.0	3.0	3.1	2.8	2.8	MNR
Current MADS burden (%)	N.A.	6.9	7.5	2.2	2.1	2.1	5.2
Pro forma MADS burden (%)	N.A.	N.A.	8.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	18.2	19.2	18.5	16.9	17.2	14.4
Financial resource ratios							
Endowment market value (\$000s)	N.A.	1,956,613	1,890,708	2,004,374	1,570,559	1,568,311	2,391,304
Cash and investments (\$000s)	N.A.	2,746,301	2,577,137	2,348,690	1,876,188	1,847,534	2,852,879
Cash and investments to operations (%)	N.A.	189.2	199.7	199.5	152.8	154.3	377.8
Cash and investments to debt (%)	N.A.	301.4	321.5	499.5	368.2	381.9	463.1
Cash and investments to pro forma debt (%)	N.A.	301.4	280.8	N.A.	N.A.	N.A.	MNR

Fiscal 2023 financial information is based on draft audit information and Fall 2023 (Fiscal 2024) enrollment is also preliminary. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 28, 2023)

Case Western Reserve Univ taxable bnds ser 2022C

Long Term Rating

AA-/Stable

Affirmed

Ratings Detail (As Of September 28, 2023) (cont.)

Ohio Higher Educational Facility Commission, Ohio

Case Western Reserve University, Ohio

Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO

Long Term Rating AA-/Stable Affirmed

Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO

Long Term Rating AA-/Stable Affirmed

Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO (MBIA) (National)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

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