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Cambria County General Finance Authority, Pennsylvania Saint Francis University; Private Coll/Univ - General Obligation

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Table Of Contents

Rating Action

Stable Outlook

Enterprise Profile

Financial Profile

Related Research

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Saint Francis University; Private Coll/Univ - General Obligation

Credit Profile		
US\$12.8 mil rev bnds (Saint Francis University) ser 2021 TT5 due 11/01/2051		
<i>Long Term Rating</i>	BBB/Stable	New
Cambria County General Finance Authority, Pennsylvania		
Saint Francis University, Pennsylvania		
Cambria County General Finance Authority (Saint Francis University) rev bnds		
<i>Long Term Rating</i>	BBB/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
Saint Francis University, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Saint Francis University)		
<i>Long Term Rating</i>	BBB/Stable	Affirmed

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its existing 'BBB' long-term rating on Cambria County General Financing Authority, Pa. and Pennsylvania Higher Educational Facilities Authority's revenue bonds issued for Saint Francis University (SFU). At the same time, we assigned our 'BBB' rating to Cambria County General Financing Authority's estimated \$12.8 million series 2021 TT5 revenue bonds issued for Saint Francis University. The outlook is also stable.

The outlook revision reflects our view of the university's fairly stable enrollment over the past three year despite the pandemic, operating surpluses, and improving available resource ratios, inclusive of the new issuance. We expect the university to maintain enrollment while generating at least break-even operations and maintaining its current available resource ratios. While we do not anticipate any new debt, if issued without commensurate growth in available resources it could put downward pressure on the rating.

Bond proceeds from this issue will be used to refund the university's Northwest Savings Loan with \$4.0 million outstanding and \$8.8 million for new capital projects. As of June 30, 2021, the university had about \$30.5 million of debt outstanding including about a million outstanding in operating and capital leases. With this issue, debt will increase to about \$39 million on a pro forma basis. All college debt is on par and is a general obligation (GO) of the college and subject to a 1.1x rate covenant. Management reports no plans to issue debt over the next two years.

For fall 2020, SFU resumed in-person learning providing a mix of in-person, hybrid, and online classes while also putting in place additional safety precautions for students. Classes returned to mostly in-person in fall 2021 while

offering some accommodation to students with medical needs. The university did not mandate vaccines in the fall but strongly encouraged all students to get the vaccine while also continuing to implement safety measures. The university's full-time equivalent (FTE) enrollment grew almost 2% in fall 2020 due to growth in graduate and non-traditional students and improvements in retention while enrollment was fairly flat in fall 2021. The university has a small number of international students (less than 50 students), which declined slightly from fall 2019, but the impact was minimal. Overall, we believe that while the pandemic and demographics have affected enrollment, the university has managed through it effectively given the program offerings and effective marketing to prospective students.

SFU received about \$7.5 million in Higher Education Emergency Relief Funds, of which about \$4.2 million was in institutional funds. The university realized very little in fiscal 2020, about \$1.7 million in fiscal 2021 and plans to use the rest in fiscal 2022 and beyond. For fiscal 2020, the university generated a small surplus (1.1%) compared with a small deficit (0.8%) the previous year. In fiscal 2021 the university generated a stronger surplus given the addition of COVID-19 relief funds, an increase in net tuition revenue, prudent expense management, and a slightly higher endowment draw. Management is budgeting a similar operating margin in fiscal 2022 as fiscal 2021.

Credit overview

The 'BBB' long-term rating reflects S&P Global Ratings' view of SFU's strong enterprise profile and adequate financial profile. We base the strong enterprise profile on the university's above-average retention and matriculation compared with peers along with solid graduation rates that have improved substantially over the past three years, offset by slightly below average selectivity, which has been weaker the past couple years and enrollment declines in four of the past five years. The adequate assessment of the financial profile is based on the university's full accrual surpluses the past two years, improvements in available resource ratios in fiscal 2021, and below-average debt burden, offset just adequate available resource ratios for the rating and high dependence on student generated revenue. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb' and a final rating of 'BBB.'

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

- Improving operations that were positive on a full-accrual basis in fiscal 2021 and fiscal 2020;
- Low pro forma debt burden of 2.7% of fiscal 2021 operating expenses; and
- Above-average retention rate above 85% and graduation rates of about 77%.

The positive credit characteristics are partially mitigated by our view of the university's:

- Enrollment declines in four of the past five years;
- Limited revenue diversity, with about 86% of revenue coming from student-generated sources; and
- Slightly high tuition discount rate of 44% in fiscal 2021 that has grown over the past few years.

Founded as a boys' school in 1847 by six Franciscan friars from Ireland, SFU is now a residential, Catholic, coeducational, liberal arts institution of higher learning. Located in southwestern Pennsylvania in the rural borough of Loretto, SFU is about 80 miles east of Pittsburgh.

Environmental, social, and governance (ESG) factors

In our view, SFU, similar to other higher education institutions, faces elevated social risk due both the pandemic and changing demographics in the region. While vaccine progress has helped alleviate some of the health and safety social risk stemming from the pandemic, we believe the higher education sector remains one at greater risk than other sectors given the importance of the resumption of pre-pandemic activities and the corresponding influence on operating revenue. We believe management has taken prudent action regarding the health and safety of its students, including implementing remote learning in spring 2020 and adopting a hybrid approach for the 2020-2021 academic year. This fall, SFU has encouraged vaccinations for all students, faculty, and staff to protect the health and safety of students. Currently, vaccination rates among students, faculty and staff are estimated to exceed 70%. We believe uncertainty remains on the trajectory of the pandemic due to the highly contagious delta variant. In addition, we believe that SFU is also affected by demographic pressure, which we view as a social capital risk. A lower number of high school students are expected to graduate in Pennsylvania for the next several years, which could add to the enrollment pressures. Despite the elevated social risk, we believe SFU's environmental and governance risks are in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We would consider a negative rating action if total FTE enrollment significantly declines, the university establishes a trend of net operating deficits, and available resource ratios deteriorate substantially from current levels.

Upside scenario

We would consider a positive rating action if enrollment consistently improves, SFU continues to generate solid operating surpluses, and available resource ratios improve from current levels.

Enterprise Profile

Market position and demand

Enrollment at the university was fairly flat in fall 2021 and overall has been stable over the past three years after larger declines the previous years. The university has been able to capitalize on its strength as a leader in field of nursing and also grow its online presence to offset some of the demographic pressures in the area. Freshman enrollment was solid in fall 2021 after declining a bit in fall 2020 due, in-part to the pandemic. While applications have increased in fall 2021 about 14%, the university also accepted more students as they work to maintain enrollment. The matriculation rate increased slightly in fall 2021 and is at 23%, but it is down from where it was a few years ago. Though the pandemic has also had an impact on matriculation, and the university could return to demand metrics at pre-pandemic levels in the coming years.

Graduate FTE enrollment decreased slightly in fall 2021 to 372 from a record high of 395 in fall 2020. With the expansion of programs, particularly the university's online presence, we would anticipate that enrollment at the undergraduate and graduate levels to at least remain stable over the next year or two.

The university's retention and graduation rates remain solid at 85% and 77%, respectively. The graduation rate is up significantly from 63% just four years ago. The retention rate is down from fall 2020 but in-line with where it has been historically. The increase to 90% in fall 2020, helped the university increase enrollment despite a smaller freshman class. In our view, the university has somewhat limited geographic diversity as over 80% of students come from Pennsylvania. The university is located in a highly competitive state and regional market in our view. As such, our assessment of SFU's economic fundamentals is anchored by the local GDP per capita.

The university has recently raised funds for several capital projects including upgrades to athletics fields and an addition to its health science building. The university raises about \$6 million to \$7 million annually. The alumni participation rate was 13% in fiscal 2021, which we view as similar to peer institutions' rates. We expect available resources ratios to continue to improve or remain stable as the university continues to fundraise for its various needs.

Management and governance

The university is governed by a board of trustees, which sets the number of members through its bylaws. Currently, the board consists of 24 trustees elected for a term of four years and who may serve no more than three consecutive terms. At least 20% of the board members must be members of the Province of the Most Sacred Heart of Jesus of the Third Order Regular Franciscans (TOR).

The Rev. Malachi Van Tassell, TOR, who is a certified public accountant with a masters in taxation and doctorate in Higher Education Leadership, began as president in May 2014. We understand that the executive management team has remained relatively stable since he joined the university. We believe the overall tenure of the leadership team lends stability to the overall credit profile.

SFU recently realigned the university under a new interdisciplinary academic structure. The university now operates under three schools and Francis Worldwide, School of Continuing Studies, its online division. The three schools are: The Shields School of Business; The School of Health Sciences and Education ; and The School of Science, Technology, Engineering, Arts, and Mathematics (STEAM). Programs dedicated to the arts and humanities were not eliminated, but are included within one of these three schools now. The university is also continuing an evaluation of all of its programs to identify areas of growth and strengthen or remove areas of weakness, which has helped them more recently improve enrollment.

The university has formal policies for endowment, investment, and debt, and budgets for depreciation expenses and an operating contingency, which we view as a positive credit factor. In our view, the university has good financial practices and manages in a proactive manner. It operates according to a five-year strategic plan and has a formal reserve liquidity policy. The university meets standard annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, overall financial policies are not likely to negatively affect the university's future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with peer universities.

Financial Profile

Financial performance

SFU's operating full accrual operating margin improved for the fourth straight year in fiscal 2021, and has been positive the past two fiscal years. SFU produced a full accrual surplus of \$3.0 million or 3.1%, in fiscal 2021 up from 1.1% in fiscal 2020. The university produced this surplus by growing enrollment in fall 2020, budgeting prudently given the potential pressures of the pandemic, receiving additional federal funds of about \$2 million utilized in fiscal 2021, and a slightly higher endowment draw. The university did take an endowment draw that was a little more than \$500,000 more than the previous year, a 6.2% draw. Management did this to protect against the pressures of the pandemic but also reduced expenses. In addition, the university realized about \$1.7 million in institutional HEERF funds in fiscal 2021.

For fiscal 2022, the university is budgeting for another surplus. SFU also has about \$2.3 million in unspent HEERF funds that it plans to utilize, which should help achieve this goal.

The university has limited revenue diversity as student-supported revenues accounted for about 86% of total adjusted operating revenue in fiscal 2021. Student generated funds come mainly from net tuition revenue and auxiliary revenue, which have been lower due to the pandemic. We view the university's limited revenue diversity as a credit weakness. Tuition, including room and board, was in line with peer institutions, in our view, with increases averaging approximately 2.0% for fall 2021. The overall fiscal 2019 tuition discount rate remained average for the rating category, at about 42%. Management expects little change in the current rate.

Available resources

SFU's available resources, as measured by expendable resources and cash and investments grew significantly in fiscal 2021 as the university benefited from its full accrual surplus and solid investments returns. Expendable resources equaled \$40.3 million as of fiscal year-end 2021 up from \$26.2 million at fiscal year-end 2020 and equal to 41.3% of adjusted operating expenses and 102.4% of pro forma outstanding debt when including minimal operating leases. We calculate expendable resources as unrestricted plus temporarily restricted net assets minus net property, plant, and equipment plus long-term debt. Though available resources are slightly deflated given property plant and equipment that is double the university's outstanding debt. Cash and investments equaled \$69.3 million up from \$54.4 million and equal to 73.2% of operating expenses and 176% of outstanding pro forma debt.

The endowment value was approximately \$64.3 million as of fiscal year 2021, much of which is restricted to support scholarships and faculty expense. As of June 30, 2021, asset allocations were domestic and international equities (59%), fixed-income securities (19%), alternative investments (18%), and cash (4%). The spending policy is 5% of a three-year moving average, which we consider sustainable. While the university utilized a larger endowment draw in fiscal 2021, we anticipate it to be at or near 5% in the coming years.

Debt and contingent liabilities

Despite the issuance, SFU's use of debt remains modest, with the university often using fundraising and grants to fund capital projects. Total pro forma debt including outstanding notes, operating, and capital leases was 30.5 million as of June 30, 2021. With this issue, debt will increase to about \$39 million on a pro forma basis. The pro forma MADS

burden remains manageable at 2.7%, up from just 2.5% in fiscal 2020. The debt service schedule remains fairly flat with annual debt service payments between about \$2.5 million and \$2 million through 2050. This issuance extended those payments, as the vast majority of the universities previous debt amortized by 2043.

Saint Francis University, Pennsylvania Enterprise And Financial Statistics					
	--Fiscal year ended June 30--				
	2022	2021	2020	2019	2018
Enrollment and demand					
Headcount	2,112	2,147	2,201	2,231	2,283
Full-time equivalent	1,948	1,955	1,921	1,932	2,128
Freshman acceptance rate (%)	81.5	79.4	71.9	74.1	75.7
Freshman matriculation rate (%)	23.1	22.6	29.4	27.1	29.0
Undergraduates as a % of total enrollment (%)	78.3	77.2	75.5	77.2	75.3
Freshman retention (%)	85.4	89.6	85.2	86.8	85.4
Graduation rates (six years) (%)	76.7	74.9	72.7	67.7	62.6
Income statement					
Adjusted operating revenue (\$000s)	N.A.	97,663	93,349	94,161	93,926
Adjusted operating expense (\$000s)	N.A.	94,621	91,735	94,264	95,803
Net operating income (\$000s)	N.A.	3,042	1,614	(103)	(1,877)
Net operating margin (%)	N.A.	3.21	1.05	(0.76)	(1.96)
Change in unrestricted net assets (\$000s)	N.A.	4,836	192	(187)	15,732
Tuition discount (%)	N.A.	44.0	42.6	41.6	40.9
Tuition dependence (%)	N.A.	72.5	73.9	71.3	71.7
Student dependence (%)	N.A.	85.5	86.0	86.2	87.0
Research dependence (%)	N.A.	2.8	3.2	2.8	2.9
Endowment and investment income dependence (%)	N.A.	2.7	2.5	2.4	2.4
Debt					
Outstanding debt (\$000s) (excluding operating leases)	N.A.	29,384	30,119	29,540	27,959
Proposed debt (\$000s)	N.A.	12,785	N.A.	N.A.	N.A.
Total pro forma debt (\$000s) (excluding operating leases)	N.A.	38,169	N.A.	N.A.	N.A.
Total pro forma debt (\$000s) (including operating leases)	N.A.	40,251	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	2,592	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	2.40	2.73	3.04	3.08
Current MADS burden (%)	N.A.	2.42	2.50	2.62	2.86
Pro forma MADS burden (%)	N.A.	2.74	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value (\$000s)	N.A.	64,341	50,049	50,786	48,589
Cash and investments (\$000s)	N.A.	69,266	54,411	53,072	51,468
Unrestricted net assets (\$000s)	N.A.	49,696	44,860	44,668	44,855
Expendable resources (\$000s)	N.A.	39,534	26,213	24,127	23,614

Saint Francis University, Pennsylvania Enterprise And Financial Statistics (cont.)

--Fiscal year ended June 30--

	2022	2021	2020	2019	2018
Cash and investments to operations (%)	N.A.	73.2	59.3	56.3	53.7
Cash and investments to debt (%)	N.A.	235.7	180.7	179.7	184.1
Cash and investments to pro forma debt (%)	N.A.	181.5	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	41.8	28.6	25.6	24.6
Expendable resources to debt (%)	N.A.	134.5	87.0	81.7	84.5
Expendable resources to pro forma debt (%)	N.A.	103.6	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	14.9	14.1	13.5	11.7

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 = $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$. Student dependence = $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$. Current debt service burden = $100 \times (\text{current debt service expense} / \text{adjusted operating expenses})$. Current MADS burden = $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$. Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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