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

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# Cambria County General Finance Authority, Pennsylvania

## Saint Francis University; Private Coll/Univ - General Obligation

### Credit Profile

<b>Cambria County General Finance Authority, Pennsylvania</b>		
Saint Francis University, Pennsylvania		
Cambria County General Finance Authority (Saint Francis University) rev bnds		
<i>Long Term Rating</i>	BBB/Stable	Affirmed
<b>Pennsylvania Hgr Educl Facs Auth, Pennsylvania</b>		
Saint Francis University, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Saint Francis University)		
<i>Long Term Rating</i>	BBB/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings 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).
- The outlook is stable.

### Security

As of June 30, 2022, the university had \$38.2 million of debt outstanding, including \$1.1 million in operating and capital leases. All of SFU's debt is on parity, a general obligation of the college, and subject to a 1.1x rate covenant. Management reports no plans to issue additional debt.

### Credit overview

We assessed SFU's enterprise profile as strong, demonstrated by solid retention and matriculation and improving selectivity, partially offset by declining enrollment in fall 2022 and weakening graduation rates. We assessed SFU's financial profile as adequate, with full accrual surpluses the past three years and low debt burden, offset by weak available resource ratios for the rating. Combined, 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:

- Three consecutive years of full-accrual operating surpluses, although margins have been bolstered by federal aid, and the university expects a small deficit in fiscal 2023;
- Low debt burden, measured by maximum annual debt service burden (MADS), of 2.5% of fiscal 2022 adjusted operating expenses; and

- Healthy demand metrics, demonstrated by solid selectivity, matriculation, and retention.

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

- Weak available resource ratios compared with debt for the rating, with cash and investments and expendable resources representing 156.0% and 96.2% of outstanding debt, respectively;
- 3.3% enrollment decline in fall 2022, which we believe is somewhat due to demographic and competitive pressures in the region; and
- Slightly high and increasing tuition discount rate of 47.4% in fiscal 2022.

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**

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 a social risk factor, have largely abated. Similar to many schools in Pennsylvania, we believe SFU is affected by changing demographic and population trends due to a smaller traditional college-age population, which we view as a social risk and could worsen demand pressure in the near term. We view the university's environmental and governance risks as neutral factors in our credit rating analysis.

## **Outlook**

The stable outlook reflects our expectation that SFU will stabilize enrollment while maintaining solid demand metrics. We also expect the university to maintain stable operations, while maintaining or improving available resources, and we do not anticipate any new debt issuance.

### **Downside scenario**

We could consider a negative rating action if there are multiple years of significant full-time equivalent (FTE) enrollment declines, the university establishes a trend of material operating deficits, or available resource ratios continue to deteriorate.

### **Upside scenario**

We could consider a positive rating action if enrollment stabilizes, SFU continues to generate positive to break-even operating margins, and available resource ratios improve significantly such that they are in line with a higher rating.

## **Enterprise Profile**

### **Market position and demand**

Despite a healthy increase in FTE enrollment in fall 2021, the university's enrollment declined 3.3% in fall 2022, primarily due to decreased enrollment in the Science, Technology, Engineering, Art, and Mathematics (STEAM)

school. Historically, the university has been able to capitalize on its strength as a leader in the field of nursing and grow its online presence to offset some of the demographic pressures in the area. Despite recent enrollment declines, management reports that deposits for fall 2023 are up 15.5% from the prior recruitment cycle. Applications have also been increasing, and selectivity has improved, as management has implemented a more focused enrollment review process. Although matriculation declined slightly in fall 2022, it remains solid among peers.

The university's retention rate remains healthy at 85.3%, and management continues to focus on retention in each of the individual schools. The graduation rate is down to 70%, although it remains mostly in line with peers. In our view, the university has somewhat limited geographic diversity as over 80% of students come from Pennsylvania. The university is also located in a highly competitive state and regional market.

SFU 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 and does not expect to issue additional debt to complete the ongoing capital projects.

### **Management and governance**

The Rev. Malachi Van Tassell, a member of the Province of the Most Sacred Heart of Jesus of the Third Order Regular Franciscans (TOR), who is a certified public accountant with a masters in taxation and doctorate in Higher Education Leadership, began as president in May 2014. The university has hired a new vice president of enrollment and vice president of academic affairs in the last two years, both of whom have significant higher education experience. Otherwise, the management team has remained stable. We believe the overall tenure of the leadership team lends stability to the overall credit profile.

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 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 TOR.

## **Financial Profile**

### **Financial performance**

SFU has posted full-accrual operating surpluses in fiscal years 2020, 2021, and 2022. The university produced this surplus by growing enrollment in fall 2020 and fall 2021, budgeting prudently, and receiving federal COVID-19 aid. The university also took elevated endowment draws of 6.24% and 6.07% in fiscal years 2021 and 2022, due to an act instituted by the Commonwealth of Pennsylvania, which allows up to a 10% draw in fiscal years 2020, 2021, and 2022. The elevated endowment draw was a strategic management decision to take advantage of the act, and management expects to return to a roughly 4.5% annual draw after fiscal 2022. Management is budgeting for a full-accrual deficit in fiscal 2023, similar to the deficits seen prior to fiscal 2020. The deficit is partially due to a budgeted increase in operating expenses and depreciation expense, which has slowly increased with ongoing capital projects. Management continues to use a robust financial review model when assessing programs.

The university has limited revenue diversity as student-supported revenues accounted for about 80.2% of total adjusted operating revenue in fiscal 2022. Tuition, including room and board, was in line with peer institutions, in our view, with an overall increase of approximately 3.0% for fall 2022. Tuition discount has increased over the past several years and was 47.4% in fiscal 2022, which is slightly elevated. Management expects tuition discount to slowly increase over the next several years as it continues to increase enrollment.

### Available resources

SFU's available resources, as measured by expendable resources and cash and investments declined in fiscal 2022 after a significant increase in fiscal 2021 and remain weak compared with peers. Expendable resources equaled 35.6% of adjusted operating expenses and 96.2% of outstanding debt when including minimal operating leases. Cash and investments equaled 57.7% of operating expenses and 156.0% of outstanding debt.

As of June 30, 2022, the endowment was valued at \$56.6 million, and much of the endowment is restricted to support scholarships and faculty expense. As of June 30, 2022, asset allocations have not changed materially from prior years. The spending policy is 5% of a three-year moving average, which we consider sustainable.

### Debt and contingent liabilities

As of June 30, 2022, the university had \$38.2 million of debt outstanding, including \$1.1 million in operating and capital leases. The MADS burden remains low at 2.5%, which we view positively. The university does not have any additional debt plans during the outlook period.

<b>Saint Francis University, Pennsylvania Enterprise And Financial Statistics</b>						
	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2023	2022	2021	2020	2019	2021
<b>Enrollment and demand</b>						
Headcount	2,800	2,839	2,147	2,201	2,231	2,761
Full-time equivalent	2,022	2,090	1,955	1,921	1,932	2,454
Freshman acceptance rate (%)	73.1	81.5	79.4	71.9	74.1	78.2
Freshman matriculation rate (%)	21.0	23.1	22.6	29.4	27.1	16.5
Undergraduates as a % of total enrollment (%)	58.1	58.3	77.2	75.5	77.2	77.8
Freshman retention (%)	85.3	85.4	89.6	85.2	86.8	78.1
Graduation rates (six years) (%)	70.0	76.7	74.9	72.7	67.7	MNR
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	106,324	97,663	92,700	93,543	MNR
Adjusted operating expense (\$000s)	N.A.	103,396	94,621	91,735	94,264	MNR
Net operating income (\$000s)	N.A.	2,928	3,042	965	(721)	MNR
Net operating margin (%)	N.A.	2.83	3.21	1.05	(0.76)	1.80
Change in unrestricted net assets (\$000s)	N.A.	2,050	4,836	192	(187)	MNR
Tuition discount (%)	N.A.	47.4	44.0	42.6	41.6	44.0
Tuition dependence (%)	N.A.	67.5	72.8	74.4	71.8	76.5
Student dependence (%)	N.A.	80.2	85.8	86.6	86.8	85.2

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

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2023	2022	2021	2020	2019	2021
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.8	2.8	3.2	2.8	3.5
Endowment and investment income dependence (%)	N.A.	2.7	2.4	1.8	1.7	3.6
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	38,242	30,475	30,119	29,540	60,809
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	38,242	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.46	2.40	2.73	3.04	MNR
Current MADS burden (%)	N.A.	2.50	2.42	2.50	2.62	4.30
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	56,612	64,341	50,049	50,786	107,786
Cash and investments (\$000s)	N.A.	59,650	69,266	54,411	53,072	MNR
Unrestricted net assets (\$000s)	N.A.	51,746	49,696	44,860	44,668	MNR
Expendable resources (\$000s)	N.A.	36,806	40,139	26,213	24,127	MNR
Cash and investments to operations (%)	N.A.	57.7	73.2	59.3	56.3	114.3
Cash and investments to debt (%)	N.A.	156.0	227.3	180.7	179.7	204.2
Cash and investments to pro forma debt (%)	N.A.	156.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	35.6	42.4	28.6	25.6	72.9
Expendable resources to debt (%)	N.A.	96.2	131.7	87.0	81.7	129.4
Expendable resources to pro forma debt (%)	N.A.	96.2	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.6	14.9	14.1	13.5	15.6

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\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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