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

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

Secondary Contact:
Sean Lacy, Centennial (1) 303-721-4250; sean.lacy@spglobal.com

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

Credit Profile		
US$21.674 mil rev bnds (Saint Francis University) ser 2017 PP3 due 11/01/2037		
Long Term Rating	BBB/Stable	New
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
Saint Francis University, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Saint Francis University)		
Long Term Rating	BBB/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'BBB' long-term rating to Cambria County General Financing Authority, Pa.'s series 2017 revenue refunding bonds issued on behalf of Saint Francis University (SFU). In addition, S&P Global Ratings affirmed all other ratings on debt issued for SFU. The outlook is stable.

We assessed SFU's enterprise profile as strong with relatively stable enrollment despite some pressure in recent years, an improving demand profile with improved selectivity, and respectable matriculation. We assessed SFU's financial profile as adequate, with somewhat fluctuating operating performance, sufficient available resources, and below-average debt burden. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb' and a final rating of 'BBB.'

The 'BBB' rating reflects our assessment of SFU's weaknesses, including:

- Balanced to positive financial operations in the past several years, although the university had an operating deficit of approximately $2.7 million in fiscal 2017, and expects break-even to negative results for fiscal 2018;
- Limited revenue diversity, with more than 87% of revenue coming from student-generated sources; and
- High tuition discount rate of 41% in fiscal 2017 that is likely to increase slightly in the near term.

The above credit characteristics are partly mitigated by our view of the university's:

- Low pro forma debt burden of 2% of fiscal 2017 operating expenses; and
- Relatively stable enrollment and improving demand profile.

Securing the bonds is a general obligation of the university.

Postissuance, total debt outstanding is approximately $27.5 million of projected fiscal 2017 results. Total pro forma debt includes a fixed-rate, taxable $4 million term loan secured on parity with bond debt; management reports that the loan serves as a match for a grant the university anticipates receiving from the Commonwealth of Pennsylvania to support building renovations. We understand that the university has no plans to draw down the loan at this time.

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. The university offers over 30 undergraduate and 10 graduate degree programs, including a doctorate in physical therapy, to over 2,600 students. Management identified health sciences, business, natural sciences, and education as some of its strongest programs. The university also maintains a site in Ambialet, France to provide U.S. students with study-abroad opportunities.

Outlook

The stable outlook reflects our anticipation that SFU will likely experience break-even to negative operations during fiscal 2018. We expect that the university will work toward balanced operating results over time. In addition, we believe SFU will maintain stable enrollment, improve its demand profile, and at minimum maintain available resources.

Downside scenario

We could consider a negative rating action in the next two years if the university fails to achieve at least break-even operations, available resources were to decrease from current levels, and enrollment were to decline.

Upside scenario

While an upgrade is unlikely in the next two years, we could consider a higher rating if SFU experiences moderate enrollment growth while consistently producing full-accrual surpluses, and if available resources were to increase significantly.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the university has good geographic diversity. However, it is mostly regional, with about 74% of students coming from Pennsylvania and New Jersey. 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.

Market position and demand

Enrollment has followed a cyclical trend during the past several years, with periods of moderate growth and slight declines. Total enrollment is projected to remain relatively stable in fall 2017. Management anticipates that new programming and recruitment initiatives will continue to support stabilized enrollment. It projects enrollment growth in the intermediate to longer term, which we would view favorably.

Projected applications for fall 2017 were somewhat softer at 1,714, compared with 1,836 in fall 2016. We understand that the university is implementing various efforts to stabilize and increase more targeted applications, including employing new scholarship award methodologies, increased campus visits, and focused marketing efforts. We consider demand flexibility acceptable with average selectivity and a sufficient matriculation rate. Selectivity is consistent with historical levels; the university accepted 77% of applicants in fall 2017. We understand that 31% of undergraduate applicants matriculated in fall 2017.

Student quality is in line with the national SAT average at 1,012. The freshman-to-sophomore retention rate has improved during the past few years to 89% for fall 2016 and was at 85% in fall 2017, consistent with management's goal. The graduation rate weakened slightly in fall 2016 to 68% from 71% on average for the past three years. In our view, the enrollment and demand profile is adequate but is offset by the limited geographic draw, with 74% of students coming from the region. According to management, SFU's competitors include private institutions such as Duquesne University and Robert Morris University, as well as public universities such as Pennsylvania State University.

The university currently has a campaign to raise funds for specific projects. At fiscal 2017 year-end, the university concluded its $35 million campaign to support renovations and development for four academic buildings on campus. We understand that the related capital projects are completed. The alumni participation rate was 16.5% in fiscal 2016, which we view as competitive relative to peer institutions' rates. We expect available resources ratios will remain stable to improving over time related to the ongoing campaign.

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, T.O.R., began as president in May 2014. We understand that the executive management team has remained stable. We believe the overall tenure of the leadership team lends stability to the overall credit profile.

SFU operates under the guidance of a strategic plan, Francis 2020, which addresses key objectives of the university, including specific operational goals such as enrollment growth, retention, program review, and partnerships. In addition, the strategic plan includes specific financial goals such as capital funding levels, endowment growth, and operational performance.

Financial Profile

Financial management policies

The university has formal policies for endowment and debt. It is re-evaluating its investment policies, 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 to peer universities.

Financial performance

SFU has historically demonstrated overall solid financial discipline by generating break-even or positive operating results on a full-accrual basis since at least fiscal 2006. In fiscal 2017, the university experienced an operating deficit of $2.8 million (a negative 2.9% operating margin) compared with a deficit of $81,000 (a negative 0.1% margin) in fiscal 2016 and a surplus of $368,000 (0.4% margin) in fiscal 2015. While operations remain positive on a cash basis, we note that the university produced more robust operating margins on a full-accrual basis historically, ranging from 3.2% to 3.9% prior to fiscal 2014. Management reports that it anticipates break-even to slightly negative operating results for fiscal 2018. We understand that management is focused on strengthening operating margins by fiscal 2020 as called for in its strategic plan.

The university's limited revenue diversity inhibits operational flexibility in our opinion. Tuition and student-supported revenues accounted for 87.6% of fiscal 2017 total adjusted operating revenue; the ratio is considerably higher than those of comparable institutions and has steadily grown since fiscal 2008 due to the conclusion of certain government grant receipts. We anticipate that student-revenue dependence will remain at current levels.

Tuition, including room and board, was in line with peer institutions, in our view, with increases averaging approximately 3.8% for the past four fiscal years. The overall fiscal 2017 tuition discount rate, in our opinion, remained high at approximately 41%. Management expects little change in the current rate.

Available resources

SFU's pro forma available resources, while somewhat weak, remain consistent with the current rating, in our view. Available resources (as measured by expendable resources) equaled $20.9 million as of fiscal year-end 2017 (June 30), equal to 22.1% of adjusted operating expenses and 75.9% of outstanding debt. 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 more than double the university's outstanding debt, we note that these ratios are adequate for the rating.

The endowment value was approximately $46.8 million as of fiscal year-end 2017, most of which is restricted to support scholarships and faculty expense. At the time of publication, asset allocations were domestic and international equities (56%), fixed-income securities (26%), alternative investments (17%), and cash (1.4%). The spending policy is 5% of a three-year moving average, which we consider sustainable. Management reports that its endowment spending has been approximately 4.3% for the past few fiscal years. In addition, the university has an untapped $3 million unsecured demand line of credit for working capital.

Debt and contingent liabilities

Postissuance, total debt will be $27.5 million, including capital leases and the school's $4 million fixed-rate taxable term loan, which is only expected to be drawn down should the receipt of grant or donor contributions were to lag behind building renovations. We understand that the term loan does have provisions for cross-default and immediate acceleration in the event of default but may be prepaid at any time without penalty and is secured on parity with the university's bonds through an intercreditor agreement. It is our opinion that the likelihood of default is remote given the university's relatively low MADs burden. However, should immediate acceleration occur, we believe the university has ample liquidity to address the debt. Management reports that approximately 99% of its estimated $49 million portfolio (as of the time of this report) could be made liquid within one to three days. All bonds are fixed rate, which we consider conservative. The maximum annual debt service is approximately $2 million, which represents a manageable 2% of projected fiscal 2017 expenses. We understand that management does not have any significant debt plans for the short term, and that it anticipates financing future capital needs with campaign proceeds.

Saint Francis University, PA						
	--Fiscal year ended June 30--					Medians
	2018	2017	2016	2015	2014	Private Colleges & Universities 'BBB' 2016
Enrollment and demand						
Headcount	N.A.	2,689	2,668	2,703	2,923	MNR
Full-time equivalent	N.A.	2,235	2,189	2,219	2,274	2,642
Freshman acceptance rate (%)	76.7	67.4	74.1	74.9	76.1	72.5
Freshman matriculation rate (%)	28.6	28.8	28.4	33.9	31.7	MNR
Undergraduates as a % of total enrollment (%)	N.A.	62.5	65.4	64.1	58.2	73.4
Freshman retention (%)	85.1	89.0	86.7	85.5	81.1	78.6
Income statement						
Adjusted operating revenue ($000s)	N.A.	91,666	91,768	89,837	84,588	MNR
Adjusted operating expense ($000s)	N.A.	94,422	91,849	89,469	85,168	MNR
Net operating income ($000s)	N.A.	(2,756)	(81)	368	(580)	MNR
Net operating margin (%)	N.A.	(2.92)	(0.09)	0.41	(0.68)	0.78
Change in unrestricted net assets ($000s)	N.A.	(1,777)	(323)	623	551	MNR
Tuition discount (%)	N.A.	40.7	40.9	39.2	39.5	38.0
Tuition dependence (%)	N.A.	71.8	71.5	71.7	71.9	MNR
Student dependence (%)	N.A.	87.6	88.2	88.7	88.3	89.4
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.7	2.5	2.5	3.1	MNR
Endowment and investment income dependence (%)	N.A.	2.2	2.3	2.2	2.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	24,010	24,644	24,964	26,082	54,629
Proposed debt ($000s)	N.A.	20,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	27,510	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	1,861	N.A.	N.A.	N.A.	MNR

Saint Francis University, PA (cont.)

	--Fiscal year ended June 30--					Medians
	2018	2017	2016	2015	2014	Private Colleges & Universities 'BBB' 2016
Current debt service burden (%)	N.A.	3.70	3.90	3.80	3.60	MNR
Current MADS burden (%)	N.A.	3.16	3.25	3.97	3.95	4.17
Pro forma MADS burden (%)	N.A.	1.97	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	46,843	43,076	44,532	44,086	63,098
Cash and investments ($000s)	N.A.	49,888	47,690	51,154	51,592	MNR
Unrestricted net assets ($000s)	N.A.	29,123	30,900	31,223	30,600	MNR
Expendable resources ($000s)	N.A.	20,882	19,667	27,458	27,250	MNR
Cash and investments to operations (%)	N.A.	52.8	51.9	57.2	60.6	79.2
Cash and investments to debt (%)	N.A.	207.8	193.5	204.9	197.8	150.7
Cash and investments to pro forma debt (%)	N.A.	181.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	22.1	21.4	30.7	32.0	49.4
Expendable resources to debt (%)	N.A.	87.0	79.8	110.0	104.5	83.1
Expendable resources to pro forma debt (%)	N.A.	75.9	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.7	12.7	11.7	11.3	13.5

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). Tuition dependence = 100*(gross tuition 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 & 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.