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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		
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Cambria County General Finance Authority (Saint Francis University) rev bnds		
<i>Long Term Rating</i>	BBB/Negative	Outlook Revised

Credit Highlights

- S&P Global Ratings revised its outlook to negative from stable and affirmed its 'BBB' long-term rating on Cambria County General Finance Authority, Pa.'s revenue bonds issued for Saint Francis University (SFU).
- The negative outlook reflects our view of the university's recent enrollment declines, material operating deficit of 5.3% in fiscal 2023, and expected break-even results in fiscal 2024, including an extraordinary endowment draw of just over 11%.
- The outlook also reflects our view of the university's weak balance sheet compared with similarly rated peers, which could see additional pressure if extraordinary endowment draws and operating deficits continue.

Security

As of June 30, 2023, the university had \$37.4 million total debt outstanding, including \$850,000 in operating leases. All of SFU's debt is on parity, a general obligation of the college, and subject to a 1.1x rate covenant. The university was in compliance with these covenants as of June 30, 2023, with 3.7x coverage. The university does not have any additional debt plans.

Credit overview

We assessed SFU's enterprise risk profile as strong, demonstrated by consistently solid matriculation and retention, partially offset by two years of total full-time equivalent (FTE) enrollment declines, although management expects enrollment to improve somewhat in fall 2024. We assessed SFU's financial risk profile as adequate, with a low maximum annual debt service (MADS) burden, offset by a material operating deficit in fiscal 2023, weakening liquidity, and weak financial resources compared to category medians. Combined, these credit factors lead to an anchor of 'bbb' and a final rating of 'BBB.'

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

- Low debt burden, measured by maximum annual debt service burden (MADS), of 2.6% in fiscal 2023, with no additional debt plans;

- Consistently healthy demand metrics despite enrollment declines, including selectivity, matriculation, and retention; and
- Solid and stable management team.

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

- Two consecutive years of enrollment declines, although management expects enrollment growth in fall 2024;
- Material operating deficit of 5.3% in fiscal 2023 after several years of surpluses, although management is expecting break-even operations in fiscal 2024 due mostly to the extraordinary endowment draw; and
- Weak financial resources compared with peers and medians, with cash and investments making up 59% of operations and 168% of debt.

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. We view all factors as neutral in our analysis.

Outlook

The negative outlook reflects our expectation that the university will at least stabilize enrollment, while working to minimize operating deficits and maintain current financial resources.

Downside scenario

We could consider a negative rating action if the university's declining enrollment trend continues, operating deficits or extraordinary endowment draws persist, or financial resources deteriorate from current levels. We would also view additional debt issuance without commensurate growth in financial resources negatively.

Upside scenario

We could revise the outlook to stable if the university stabilizes enrollment while producing break even to positive operations, and financial resources are maintained or improved.

Credit Opinion

Enterprise Risk Profile--Strong

Market position and demand

The university has seen two years of declining enrollment, after a nearly 7% FTE enrollment increase in fall 2021. In fall 2023, total FTE enrollment declined 9.3% to 1,833 students, largely due to the graduation of a large class of about

400 students, replaced by a smaller class of about 330 students. Management reports a record number of applications for fall 2024, which has led to increased admits and deposits. The university expects about 410 incoming first time students in fall 2024, which should lead to overall FTE enrollment growth. Despite two years of enrollment decline, SFU's demand metrics have remained solid compared with medians and peers, with selectivity of 75%, matriculation of 22%, and retention of 88%. All of these demand metrics have been relatively stable over the last two years, and management reports stability going into fall 2024.

The university continues to assess the feasibility of new programs to increase demand in a highly competitive environment, with the newest program, aviation management technician, opening in fall 2024. Management continues to use a robust financial review model when assessing programs. SFU has recently completed several capital projects, including refurbishment of student centers and upgrades to athletic facilities. The majority of these projects are fundraised, with some debt from the 2021 bonds used and some cash from the endowment. SFU is currently fundraising for the construction of the Conner's Family Fine Arts Center, which has a total project cost of \$7.7 million. The university plans to use about \$2.2 million from the 2021 bonds and \$5 million in donations for the project.

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. Over the past several years, the management team has remained stable and cohesive, which we view positively. We believe the overall tenure of the leadership team lends stability to the overall credit profile.

The university operates according to a five-year strategic plan and 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 Risk Profile--Adequate

Financial performance

After several years of full-accrual operating surpluses, SFU posted a material operating deficit of 5.3% in fiscal 2023, which management attributes to an increase in travel, athletic expenses, and an increase in depreciation. Management reports that the university outperformed its 2024 budget, ending the year with break-even operations, including an extraordinary endowment draw. Management is budgeting for another modest deficit in fiscal 2025. In fiscal 2023, the university drew just over 4% from the endowment, which is under the spending policy of 5%. However, in fiscal 2024, management reports an extraordinary endowment draw of 11.3%, which was used to bridge cash shortages due to construction projects and support operations. Because of the supplemental endowment draw in 2024, we expect financial resource ratios to weaken modestly, which we view as a credit risk.

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.

Financial resources

SFU's financial resources, measured by cash and investments, improved modestly in fiscal 2023. As of June 30, 2023, cash and investments made up 59% of operations and 168% of outstanding debt. Despite the improvement, financial resource ratios remain weak compared with category medians of 99.7% and 183.3%, respectively.

As of June 30, 2023, the endowment was valued at \$60 million, and much of the endowment is restricted to support scholarships and faculty expense. As of June 30, 2023, management reports that approximately 93% of the endowment can be liquidated within 3 days. Financial assets available to meet cash needs for general expenditures within one year, declined from \$16.5 million in fiscal 2022 to \$12.4 million in fiscal 2023. We view this decline in liquidity negatively, particularly due to the extraordinary endowment draws in fiscal 2024, which could weaken liquidity further.

Debt and contingent liabilities

As of June 30, 2023, the university had \$37.4 million of debt outstanding, and the MADS burden remains low at 2.6%, which we view positively. The university does not have any additional debt plans during the outlook period.

SFU's debt is subject to an annual covenant, which details that net revenues available for debt service plus all other funds which are legally available to be used for the payment of debt service will equal or exceed 110% of the debt service requirement. In fiscal 2023, the university met this covenant with coverage of 377% and expects to continue to meet the covenant requirements.

Saint Francis University, Pennsylvania--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'BBB' category rated private colleges and universities
	2024	2023	2022	2021	2020	2023
Enrollment and demand						
Full-time-equivalent enrollment	1,833	2,022	2,090	1,955	1,921	2,481
Undergraduates as a % of total enrollment	73.4	76.7	75.4	79.8	79.9	77.4
First-year acceptance rate (%)	75.4	73.1	81.5	79.4	71.9	78.5
First-year matriculation rate (%)	21.8	21.0	23.1	22.6	29.4	15.0
First-year retention rate (%)	88.1	85.3	85.4	89.6	85.2	77.0
Six-year graduation rate (%)	71.7	70.0	76.7	74.9	72.7	64.4
Income statement						
Adjusted operating revenue (\$000s)	N.A.	101,125	106,324	97,663	92,700	MNR
Adjusted operating expense (\$000s)	N.A.	106,811	103,396	94,621	91,735	MNR
Net operating margin (%)	N.A.	-5.3	2.8	3.2	1.1	(1.6)
Change in unrestricted net assets (\$000s)	N.A.	-4,761	2,050	4,836	192	MNR
Tuition discount (%)	N.A.	48.6	47.4	44.0	42.6	46.9
Student dependence (%)	N.A.	83.8	80.2	85.8	86.6	83.7

Saint Francis University, Pennsylvania--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'BBB' category rated private colleges and universities
	2024	2023	2022	2021	2020	2023
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.6	1.8	2.8	3.2	1.6
Debt						
Outstanding debt (\$000s)	N.A.	37,428	38,242	30,475	30,119	66,181
Proposed debt (\$000s)	N.A.	N.A.	N.A.	12,785	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	37,428	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.8	2.5	2.4	2.7	MNR
Current MADS burden (%)	N.A.	2.6	2.5	2.4	2.5	4.1
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.2	15.6	14.9	14.1	16.5
Financial resource ratios						
Endowment market value (\$000s)	N.A.	60,051	56,612	64,341	50,049	112,261
Cash and investments (\$000s)	N.A.	62,891	59,650	69,266	54,411	129,885
Cash and investments to operations (%)	N.A.	58.9	57.7	73.2	59.3	99.7
Cash and investments to debt (%)	N.A.	168.0	156.0	227.3	180.7	183.3
Cash and investments to pro forma debt (%)	N.A.	168.0	N.A.	N.A.	N.A.	MNR

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

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