

RatingsDirect®

Summary:

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

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Credit Profile

US\$103.4 mil rev rfdg bnds (Case Western Reserve University) ser 2018 due 12/01/2030

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings has assigned its 'AA-' long-term rating to Ohio Higher Educational Facility Commission's series 2018 facility revenue refunding bonds, issued for Case Western Reserve University (CWRU). The outlook is stable.

We assessed CWRU's enterprise profile as very strong, characterized by stable enrollment and a healthy demand profile, with improved selectivity though mitigated by weak matriculation rates for the rating. We assessed CWRU's financial profile as strong, with consistently positive operations on a full-accrual basis, with sufficient available resources for the rating, though somewhat weaker than category medians. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'a+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AA-' rating on the university's bonds better reflects CWRU's position as a comprehensive research institution with available resources that while somewhat weak, are consistent with peer institutions and have increased in recent years; we anticipate these trends to continue given the school's limited additional debt plans.

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

- Stable undergraduate and graduate enrollment due to the university's broad range of programs, research and community medical coalitions, and healthy demand metrics despite strong competition for CWRU's high-quality students;
- Consistently positive operating results on a full-accrual basis for the past several fiscal years;
- Sizable cash and investments of \$1.7 billion as of June 30, 2017; and
- A maximum annual debt service (MADS) burden of less than 3% at fiscal 2017 year-end, which we consider low.

The rating reflects our assessment of the following weaknesses:

- Available resource ratios that while adequate, are low for the 'AA' rating category; and
- Weak freshman matriculation rate of 15.6% in fall 2017 compared with that of peer research institutions, indicative of significant national competition for high-quality students.

The series 2018 facility revenue refunding bonds will refund the university's outstanding commercial paper totaling \$30 million as well as CWRU's series 2015B variable rate direct purchase debt of approximately \$72.6 million. Post issuance, CWRU will have approximately \$506.1 million of outstanding debt based on fiscal 2017 financial statements.

The university also has two bank lines of credit, totaling \$100 million, available for working capital. There is no outstanding balance on these lines at present. Management reports no planned new debt issuances at this time; we will continue to monitor the impact of any additional debt should plans materialize. It is our opinion that CWRU has limited debt capacity at the current rating. We anticipate that any additional debt issuances be met with commensurate growth in available resources.

CWRU, located 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 \$337 million in external research awards and indirect cost recovery revenue in fiscal 2017, principally related to health sciences and the medical school. The university received over \$400 million 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.

Outlook

The stable outlook reflects our anticipation that CWRU will maintain relatively stable enrollment and demand, continue to produce positive operations on a generally accepted accounting principles basis and, at minimum, maintain stable to improving available resources in the next two years.

Upside scenario

While an upgrade is unlikely in the next two years given the university's sufficient balance sheet ratios relative to peers, we could consider a higher rating if CWRU produces more robust full-accrual surpluses and if available resources were to increase significantly.

Downside scenario

We could consider a negative rating action in the next two years if enrollment were to decline, the university were to incur full-accrual deficits, or if available resources were to decrease from current levels.

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