

RatingsDirect®

Summary:

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

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Summary:

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

Credit Profile

US\$68.14 mil rev rfdg bnds (Case Western Reserve Univ) ser 2019 due 06/30/2045

Long Term Rating

AA-/Stable

New

Ohio Higher Ed Fac Comm, Ohio

Case Western Reserve Univ, Ohio

Case Western Reserve Univ

Long Term Rating

AA-/Stable

Affirmed

Rationale

S&P Global Ratings has assigned its 'AA-' long-term rating to Ohio Higher Educational Facility Commission's \$68 million series 2019 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 peers 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 \$1.8 billion as of June 30, 2018; and
- A pro forma maximum annual debt service (MADS) burden of about 2% at fiscal 2018 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
- Improved but still weak freshman matriculation rate of 17.9% in fall 2018 compared with that of peer research institutions, indicative of significant national competition for high-quality students.

The series 2019 refunding bonds will refund the university's series 2014A bonds. We understand that the series 2019 bonds will likely be issued as floating rate notes. Based on discussions with management, there is the potential that the bonds could instead be issued as fixed rate debt with a put feature (to be more than one year post-issuance)--this analysis contemplates both structures. Post issuance, CWRU will have approximately \$498 million of outstanding debt based on fiscal 2018 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.

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 \$338 million in external research awards and indirect cost recovery revenue in fiscal 2018, principally related to health sciences and the medical school. The university received more 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.

CWRU and Cleveland Clinic have entered an agreement for development and operation of a new Health Education Campus which includes an academic building and dental clinic. Occupancy is set to begin in spring of 2019. We understand that Cleveland Clinic is providing interim financing for the construction and the two organizations are jointly fundraising toward the project. If funds raised by 2020 are not sufficient to pay for the education campus, CWRU has agreed to pay up to \$50 million over a five year period beginning in 2021. We understand that funds are reserved for this potential liability.

Outlook

The stable outlook reflects our expectation 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

A positive rating action would be predicated on a material increase to available resources such that measures were more in line with a higher rating and more robust full-accrual surpluses.

Downside scenario

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

(For more information, see our full analysis on Case Western Reserve University published March 4, 2019, on

RatingsDirect.)

Ratings Detail (As Of March 4, 2019)		
Ohio Higher Ed Fac Comm, Ohio		
Case Western Reserve Univ, Ohio		
Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Case Western Reserve Univ		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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