

# RatingsDirect®

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## Case Western Reserve University, Ohio; Private Coll/Univ - General Obligation

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## Credit Profile

Case Western Reserve Univ taxable bnds ser 2022C		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Ohio Higher Educational Facility Commission, Ohio</b>		
Case Western Reserve University, 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
Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Current

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Case Western Reserve University (CWRU), Ohio's various series of debt.
- The outlook for all debt is stable.

## Security

The bonds are an unsecured general obligation of CWRU. Debt issued through the Ohio Higher Educational Facility Commission is secured by CWRU's general obligation (GO) pledge to make rental payments under a lease agreement with the commission. The university's obligation to make rental payments is absolute and unconditional and not subject to abatement, setoff, or counterclaim. As of June 30, 2024 (the most recent audit report), CWRU had \$938 million of debt outstanding. Included in the debt figures is the operating lease obligation and outstanding line of credit draws, which we view as manageable relative to the overall balance-sheet position.

In the two-year outlook period, CWRU may issue up to \$100 million in additional debt to act as bridge financing and cover the outstanding pledge payments. We believe there is some capacity for this intermediate-term debt at the current rating but would factor in the final amount at the time of issuance in light of other credit characteristics.

## Credit overview

We assessed CWRU's enterprise risk profile as very strong, characterized by solid enrollment and selectivity, but offset by weak matriculation rates for the rating. We assessed CWRU's financial risk profile as strong, with positive operations on a full-accrual basis, though with financial resource ratios relative to operations and debt that are below median levels. Combined, we believe these credit factors lead to an anchor of 'a+'. As our criteria indicate, the final rating can be within one notch of the anchor rating, and we believe that 'AA-' better reflects CWRU's solid enterprise profile, which is more in line with 'AA-' peers given the expected enrollment opportunities and significant research

focus.

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

- Broad range of programs, research, and community medical coalitions that has historically led to healthy demand metrics despite strong competition for its high-quality students;
- Consistently positive operating results on a full-accrual basis for the past several fiscal years; and
- Sizeable cash and investments.

The rating also reflects our assessment of the following weaknesses:

- Low and weakened freshman matriculation rate (about 12% in fall 2024) compared with that of peer research institutions, indicative of significant national competition for high-quality students; and
- Recent significant increase in debt with the series 2022 issuances, which in part support strategic initiatives such as the construction of the interdisciplinary science and engineering building (ISEB) and construction of a dormitory.

CWRU, which is 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. In fiscal 2024, CWRU received approximately \$370 million in external research awards and indirect cost-recovery revenue, principally related to health sciences and the medical school. This figure increases 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 on the eastern edge of Cleveland.

CWRU and the Cleveland Clinic have an agreement for development and operation of a health education campus, which includes an academic building and dental clinic. Occupancy began in the spring of 2019 and we understand that the operations are as expected, with management reporting a solid working relationship and financial performance to date. Cleveland Clinic provided the interim financing for construction and the two organizations are jointly fundraising for the project. Based on their agreement (\$50 million in five equal payments), CWRU has paid \$40 million as of October 2024, with the final \$10 million liability due Jan. 1, 2025. We understand that funds are reserved for this liability.

### **Environmental, social, and governance**

We analyzed the university's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. We view the university's ESG factors as neutral in our credit rating analysis.

## **Outlook**

The stable outlook reflects our expectation that CWRU will maintain stable-to-growing enrollment and demand; continue to produce positive operations on a generally accepted accounting principles basis; and, at minimum, maintain stable-to-improving financial resources as it manages its increased debt burden.

### **Downside scenario**

We could consider a negative rating action if certain factors weaken such that enrollment, positive margins, or fundraising are no longer consistent with our expectations or sufficient to offset the debt load. We could also lower the rating if there is a weakening in the financial resources relative to operations or debt.

### **Upside scenario**

A higher rating is not likely during the two-year outlook period given potential increases in debt, some margin compression, and some demand weakening. However, we could consider a positive rating action over the long term if the university's financial resources improve such that its metrics are in line with a higher rating while it maintains robust full-accrual surpluses as well as improvement in enterprise profile characteristics, such as matriculation, that are more in line with those of a higher rating.

## **Credit Profile**

### **Enterprise Risk Profile--Very Strong**

#### **Market position and demand**

CWRU has a broad draw for students, with less than one third coming from within Ohio. The number of international students declined in 2024, however, to about 17% of total full-time equivalent (FTE) students compared with about 20% the prior year. Applications for fall 2024 also declined, and management attributes most of this to a decrease in the number of international applicants. The change in yield and selectivity were also driven by Free Application for Federal School Aid (FAFSA) issues and significant competition for students. Fall 2024 matriculation weakened to below 12%, which is below median. As a comprehensive research institution, CWRU has a significant proportion of graduate and professional students; for fall 2024, management estimates this at approximately 44% of FTEs, more than many of the school's peers. Student quality remained high as measured by average freshmen ACT and SAT scores, though the school remains test-optional. Retention and graduation rates remain below 'AA' category medians but are relatively consistent with historical levels. In our view, CWRU's enrollment and demand profile is relatively consistent, though applications and matriculation have weakened and, if not stabilized, would be negative credit factors.

#### **Management and governance**

We understand that there will be a change in financial leadership with the appointment of a new CFO, Brian Burnett, following the retirement of John Sideras. Burnett joins from the University of Alabama at Birmingham. The school expects no other significant leadership changes in the near term.

CWRU's regulations and bylaws do not provide for a maximum size for its board of trustees. Members are generally limited to four consecutive four-year terms, and may move to emeritus status once their term ends. Most board members are also alumni. We understand that board turnover has been routine. The full board meets formally three times a year and has a committee system. Recent commitment from the board and management to invest in strategic initiatives, such as growth in undergraduate population and research, are significant, and the incurred debt is material but supports these initiatives.

## Financial Risk Profile--Strong

### Financial performance

CWRU typically produces operating surpluses on a full-accrual basis, with margins ranging from 2%-6% in recent years. The consistent surpluses reflect increasing research revenues, net tuition revenue, and auxiliary revenues, along with focused expense-management efforts. For fiscal 2024, the margin compressed some, as expected given new projects coming online. Fiscal 2025 budgets show continued surpluses.

Beginning in fiscal 2019, CWRU adopted a new endowment payout policy that compares the 10-year average of actual endowment activity and adjusts the annual distribution based on the comparison. We do not anticipate any unusual draws in the near term and the spend that management expects for fiscal 2025 should be about 4.7%.

Operating revenue streams are relatively diverse compared with those of peers, although CWRU is primarily dependent on student-related charges to fund operations. In fiscal 2024 (audited), gross tuition and student fees represented 47% of total revenue. The next-largest component of revenue is research. While the university receives a concentration of National Institutes of Health funding, we understand that management has focused on remaining competitive for federal grants and is exploring efforts to bolster foundation and industry awards. In our opinion, management is positioned to adjust its research enterprise, which should remain a significant focus and revenue diversifier.

### Financial resources

On an absolute basis, CWRU maintains a significant pool of funds, with \$2.8 billion at fiscal 2024 year-end (audited); however, in our opinion, the cash and investments relative to operating expenses and relative to debt remain sufficient for the 'AA' category, though light compared with medians and some peers. The cash and investments amount excludes funds held by trusts, which the university does not manage, but are shown as assets on the financial statements.

The university's private equity, real assets, and private credit investments have mandatory capital calls related to future investments. Unfunded commitments remain manageable, in our opinion, at about \$287 million. The university maintains sufficient liquidity to address its unfunded calls. Investment returns for fiscal 2024 were 8% and management reports that it expects consistent asset allocation and liquidity. About 27% of the portfolio is liquid in one month's time and 35% is liquid in one quarter.

In December 2018, CWRU closed its most recent campaign, which raised \$1.8 billion, which was ahead of goal. In addition to its own ongoing fundraising efforts, the university conducts joint fundraising with the Cleveland Clinic to support the health education campus project. CWRU is raising funds for scholarships and is exploring a campaign focused on scholarships, strategic capital projects, and research in the near term.

### Debt and contingent liabilities

Long-term debt as of fiscal 2024 year-end (audited) is approximately \$938 million (excluding premium and unamortized bond issuance costs). Financial resources relative to debt and debt burden weakened following the series 2022 issuances but remain sufficient for the rating, in our opinion. We calculate maximum annual debt service (MADS)

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as the total debt service averaged over 30 years (including the century bond), resulting in a smoothed MADS of about \$98.7 million. The majority of the debt is public, fixed-rate debt, though the series 2021B bonds are floating-rate notes and the series 2022A and 2022B are privately placed issuances with New York Life. Management notes that the variable-rate exposure is offset by CWRU's interest-rate swaps, resulting in a synthetic fixed rate. The university has three bank lines of credit, totaling \$150 million, available for working capital. There was \$45 million outstanding as of June 30, 2024 and currently \$26 million on the lines. The series 2022C bonds are century bonds, with a bullet due at maturity in 2122.

There was no new debt issued during 2024. The new second-year student dormitories, a 600-bed, \$110 million capital project, were completed in the first quarter of fiscal 2025. The ISEB, a \$300 million project with a 2026 completion date, was started in fiscal 2024. The potential additional debt plans mentioned above relate to providing bridge financing for campaign pledges for the ISEB project and the Maltz Performing Arts Center, phase II. The ISEB project is funded by \$150 million from the previously issued century bond proceeds and the remainder from philanthropy. The Maltz project (phase II) is a \$45 million project funded by philanthropy. The university may issue up to \$100 million in debt as bridge financing to cover the uncollected pledges.

About \$172 million from the 2022 issuance is maintained as an "internal bank," which allows the university flexibility over time to fund future capital projects, provide a bridge as fundraising funds are collected, or to provide support for interest payments and the balloon payment at maturity; this should in part offset the additional debt.

The direct purchase agreements with New York Life have events of default that trigger acceleration (though no financial covenants). However, CWRU has sufficient liquidity, in our opinion, to mitigate risk related to these non-public debt transactions, with over \$350 million with same-day liquidity as of June 30, 2024.

The university has one interest-rate swap contract remaining with a total notional amount of \$35 million with expiration in 2034. The contract is floating-to-fixed rate and Morgan Stanley is counterparty. The mark-to-market value was negative \$3 million as of the end of fiscal 2024. The university reports that its collateral threshold is \$20 million.

The university offers both a defined-contribution retirement plan to employees (which, by definition, is fully funded) and a defined-benefit plan. The latter is closed to new entrants. It had a funded status of negative \$26 million at the end of fiscal 2024 (audited). Defined-benefit contributions are made annually according to actuarial valuations. The university offers a retiree health care plan, but reports no related liability on its balance sheet because the cost is paid entirely by retirees.

### Case Western Reserve University, Ohio--Enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated private colleges & universities
	2025	2024	2023	2022	2021	2023
<b>Enrollment and demand</b>						
Full-time-equivalent enrollment	11,447	11,143	11,454	11,397	10,792	7,994
Undergraduates as a % of total enrollment	56.1	54.7	51.9	50.1	49.4	70.5

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Case Western Reserve University, Ohio--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' category rated private colleges & universities
	2025	2024	2023	2022	2021	2023
First-year acceptance rate (%)	36.5	28.7	25.9	30.2	30.3	14.4
First-year matriculation rate (%)	11.9	13.8	15.5	16.0	14.8	38.4
First-year retention rate (%)	92.0	91.9	92.8	93.7	93.4	95.0
Six-year graduation rate (%)	87.0	86.8	85.5	85.4	85.3	91.1
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	1,576,650	1,516,597	1,355,428	1,252,752	MNR
Adjusted operating expense (\$000s)	N.A.	1,537,882	1,451,735	1,290,627	1,177,230	MNR
Net operating margin (%)	N.A.	2.5	4.5	5.0	6.4	2.4
Change in unrestricted net assets (\$000s)	N.A.	42,478	63,772	30,866	117,923	MNR
Tuition discount (%)	N.A.	46.1	44.1	42.4	39.7	39.3
Student dependence (%)	N.A.	46.8	45.7	48.1	45.6	60.8
Health care operations dependence (%)	N.A.	0.0	N.A.	0.0	0.0	MNR
Research dependence (%)	N.A.	19.2	19.2	19.3	20.4	3.3
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	938,067	911,196	801,710	470,194	612,704
Proposed debt (\$000s)	N.A.	N.A.	N.A.	115,915	585,715	MNR
Total pro forma debt (\$000s)	N.A.	938,067	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	6.4	7.2	7.5	2.2	4.9
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	18.7	18.2	19.2	18.5	14.7
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	2,067,848	1,956,613	1,890,708	2,004,374	2,219,768
Cash and investments (\$000s)	N.A.	2,803,912	2,746,301	2,577,137	2,348,690	2,821,640
Cash and investments to operations (%)	N.A.	182.3	189.2	199.7	199.5	373.7
Cash and investments to debt (%)	N.A.	298.9	301.4	321.5	499.5	472.3
Cash and investments to pro forma debt (%)	N.A.	298.9	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.

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