

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

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Credit Profile

US\$350.0 mil taxable bnds ser 2022C due 06/01/2122

Long Term Rating	AA-/Stable	New
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Ohio Higher Ed Fac Comm, Ohio

Case Western Reserve Univ, Ohio

Ohio Hgr Ed Fac Com (Case Western Reserve Univ) PCU-GO

Long Term Rating	AA-/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Case Western Reserve University (CWRU), Ohio's \$350 million series 2022C taxable bonds. At the same time, we affirmed our 'AA-' existing ratings on CWRU. The outlook for all debt is stable.

As of June 30, 2021, the last audit, CWRU had \$470.2 million of long-term debt outstanding. After fiscal year end in 2021, CWRU issued series 2021A and series 2021B bonds, in the amounts of \$29 million and \$35 million, respectively. In 2022, CWRU refunded portions of the series 2013 and 2016 bonds via a \$56 million direct-purchase arrangement (series 2022A). Incorporated also in the pro forma debt is CWRU's proposed 2022B direct-purchase agreement, in the amount of \$116 million, as well as the \$350 million taxable bond. The pro forma debt including debt issued after the last audit and the proposed series 2022B direct purchase and 2022C taxable bond is \$936 million. The series 2022C bonds are an unsecured general obligation of CWRU. Debt issued through the 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. Included in the debt figures is the operating lease obligation of about \$10 million as of fiscal year-end

rating, solid operating results, and potential revenue generation and debt support from the projects. In addition, management notes that \$200 million from the issuance will be maintained as an "internal bank," which allows the university flexibility over time--funding for future capital projects, provide a bridge as fundraising funds are collected, or to provide for support over time for interest payments and the balloon payment at maturity, which should in part offset the additional debt.

Because of the COVID-19 pandemic, CWRU transitioned to virtual instruction for the second half of the spring 2020 semester. The university's operations improved in fiscal years 2020 and 2021 despite the COVID-19 crisis. CWRU received \$4.5 million in CARES Act funding in fiscal 2020; half of that amount was a pass-through for student emergency aid. The remaining funds helped offset the housing and dining refunds given in fiscal 2020. The university received another \$6.5 million in HEERF II funding, \$663,000 from Employee Retention Credit, and \$4.8 million from

The rating reflects our assessment of the following weaknesses, including its:

- Low freshman matriculation rate of about 16% in fall 2021 compared with that of peer research institutions, indicative of significant national competition for high-quality students; and
- Significant increase in debt with the proposed transaction, which has led to an increase in the maximum annual debt service (MADS) burden from 2% to about 8.5%, on a 30-year smoothed basis.

The university has three bank lines of credit, totaling \$150 million, available for working capital. There is no balance on these lines at present.

CWRU, 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 \$390 million in external research awards and indirect cost recovery revenue in fiscal 2021, principally related to health sciences and the medical school. It 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 the Cleveland Clinic have an agreement for development and operation of a new 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 toward the project. Based on the agreement (\$50 million in five equal payments), CWRU paid \$10 million in January 2021 and \$10 million in January 2022 with another \$30 million liability over a three-year period. We understand that funds are reserved for this liability.

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 available resources as it manages its increased debt burden.

Environmental, social, and governance

Vaccine progress in the U.S. has helped alleviate some of the health and safety social risks stemming from the pandemic; however, the higher education sector remains at a greater risk from remaining uncertainties. We view the risks posed by COVID-19 to public health and safety as a social risk under our environmental, social, and governance (ESG) factors. Despite the elevated social risk, we view the university's environmental and governance risks as neutral factors in our credit rating analysis.

Stable Outlook

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 expectations and sufficient to offset the debt load. Any weakening in the

balance sheet from pro forma levels either due to more debt or reductions in available resources could also lead to a lower the rating.

Upside scenario

A higher rating is not likely during the two-year outlook period given the increase in debt. However, we could consider a positive rating action over the long-term if the university's available resources improve such that capital projects and additional debt were absorbed and metrics were in line with a higher rating, and if it sees sustained robust full-accrual surpluses (excluding external, nonrecurring funding) as well as improvement in enterprise profile characteristics such as matriculation that is more in line with those of a higher rating.

Credit Profile

Enterprise Profile

Market position and demand

entrepreneurship, and advocating for diversity, equity, and inclusion. There are no other major leadership changes expected 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 increase in debt is material but supports these initiatives.

Financial Profile

Financial performance

CWRU typically produces operating surpluses on a full-accrual basis, with margins ranging from 1%-6% in recent years. Operating results on a full-accrual basis were improved in fiscal 2021, which was ahead of the previous year. The surplus reflected significant cost-saving measures in light of the COVID-19 pandemic and uncertainty, some support of federal funds, and fairly consistent research revenues with fewer expenses. For fiscal 2021, the negative COVID-19 effect is estimated at about \$45.5 million, with the most significant factors being lost auxiliary revenues and expenses associated with testing. For the full fiscal year 2021, however, management posted a robust surplus given its expense management efforts. For fiscal 2022, many of the structural expense management changes have been retained, and as of March 2022, management reports results that are ahead of the previous year. Increased enrollment, tuition increases, and expense management efforts (including a voluntary retirement program) should yield consistent operating margins. While CWRU will be bringing new projects online in the next few years, their incorporation should not compress margins given the revenue generation potential with the projects.

Beginning in fiscal 2019, CWRU adopted a new endowment payout policy, which compares the 10-year average of actual endowment activity and will adjust the annual distribution based on the comparison. The spending rate was maintained at 4.7% for fiscal years 2021 and 2022.

Operating revenue streams are relatively diverse compared with peers, although CWRU is primarily dependent on student-related charges to fund operations. In fiscal 2021, gross tuition and student fees represented 46% 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.

Available resources

CWRU's financial resource ratios are improved with growth in cash and investments due to a 31.5% investment return for fiscal 2021 and amortization and repayment of debt. However, pro forma resource ratios show declines, due to the outstanding debt nearly doubling on a pro forma basis. In our opinion, the ratios remain sufficient for the 'AA'

equipment plus long-term debt. As of June 30, 2021, expendable resources totaled approximately \$1.4 billion, equal to 120% annual adjusted operating expenses and 152% of total pro forma debt. Total cash and investments, which includes restricted assets, were approximately \$2.35 billion as of fiscal year-end 2021 (June 30), excluding funds held by trusts, which the university does not manage, but are shown as assets on the financial statements. Cash and investments improved over historical levels given the recent investment gains and provide some capacity for the additional debt.

The university's private equity, real assets, and private credit investments have mandatory capital calls related to future investments. Unfunded calls remain manageable, in our opinion, at about \$311 million. The university reports that about \$321 million is available in same-day liquidity; it is our view that its liquidity profile mitigates its unfunded calls.

Debt and contingent liabilities

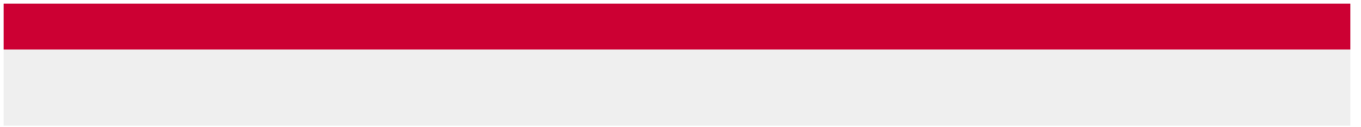
Pro forma debt as of fiscal 2022 is approximately \$936 million (excluding premium and unamortized bond issuance costs). Resources relative to debt and debt burden will weaken with the significant addition of debt. We calculate maximum annual debt service (MADS) as the total debt service averaged over 30 years, resulting in a smoothed MADS

Case Western Reserve University, Ohio Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AA' rated private colleges and universities	Medians for 'A' rated private colleges and universities
	2022	2021	2020	2019	2018	2020	2020
Enrollment and demand							
Headcount	12,142	11,465	11,874	11,891	11,824	MNR	MNR
Full-time equivalent	11,397	10,792	11,076	11,072	10,917	8,288	3,451
Freshman acceptance rate (%)	30.2	30.3	27.4	29.3	33.1	18.0	67.5
Freshman matriculation rate (%)	16.0	14.8	17.2	17.9	15.6	MNR	MNR
Undergraduates as a % of total enrollment (%)	47.7	47.4	45.3	44.3	43.6	65.1	80.3
Freshman retention (%)	93.7	93.4	93.2	94.4	92.5	95.0	85.5
Graduation rates (six years) (%)	85.4	85.3	84.4	84.9	82.6	MNR	MNR
Income statement							
Adjusted operating revenue (\$000s)	N.A.	1,252,752	1,277,812	1,230,105	1,195,955	MNR	MNR
Adjusted operating expense (\$000s)	N.A.	1,177,230	1,227,899	1,197,534	1,163,479	MNR	MNR
Net operating income (\$000s)	N.A.	75,522	49,913	32,571	32,476	MNR	MNR
Net operating margin (%)	N.A.	6.42	4.06	2.72	2.79	1.20	0.70
Change in unrestricted net assets (\$000s)	N.A.	117,923	(33,787)	29,798	22,859	MNR	MNR
Tuition discount (%)	N.A.	39.7	40.6	38.8	38.6	39.4	39.3
Tuition dependence (%)	N.A.	42.2	39.9	39.9	39.4	MNR	MNR
Student dependence (%)	N.A.	45.6	45.0	46.1	45.4	59.4	85.3
Health care operations dependence (%)	N.A.	0.0	0.0	0.0	0.0	MNR	MNR
Research dependence (%)	N.A.	20.4	20.6	21.5	21.8	MNR	MNR
Endowment and investment income dependence (%)	N.A.	8.1	6.4	6.7	7.0	MNR	MNR
Debt							
Outstanding debt (\$000s)	N.A.	470,194	509,535	483,765	496,973	540,885	121,080
Proposed debt (\$000s)	N.A.	585,715	N.A.	N.A.	N.A.	MNR	MNR
Total pro forma debt (\$000s)	N.A.	935,659	N.A.	N.A.	N.A.	MNR	MNR
Pro forma MADS	N.A.	100,141	N.A.	N.A.	N.A.	MNR	MNR
Current MADS burden (%)	N.A.	2.22	2.12	2.06	2.20	4.20	3.90
Pro forma MADS burden (%)	N.A.	8.51	N.A.	N.A.	N.A.	MNR	MNR

Case Western Reserve University, Ohio Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' rated private colleges and universities	Medians for 'A' rated private colleges and universities
	2022	2021	2020	2019	2018	2020	2020
Financial resource ratios							
Endowment market value (\$000s)	N.A.	2,004,374					



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