

**Ohio Higher Education Facilities
Commission
Franciscan University of Steubenville;
Private Coll/Univ - General Obligation**

Primary Credit Analyst:

Jean C Lee, San Francisco +1 415.371.5057; jean.lee@spglobal.com

Secondary Contact:

Ken Rodgers, New York (1) 212-438-2087; ken.rodgers@spglobal.com

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Credit Profile

US\$20.795 mil rev bnds (Franciscan Univ of Steubenville) ser 2016 due 05/31/2042

Long Term Rating

A/Stable

New

Rationale

S&P Global Ratings assigned its 'A' long-term rating on Ohio Higher Educational Facility Commission, Ohio's series 2016 bonds, issued for Franciscan University of Steubenville (FUS). The outlook is stable.

We assessed FUS's enterprise profile as strong, highlighted by its geographically diversified student draw, capable management, and demand metrics generally consistent with the rating category. We assessed the university's financial profile as also strong, characterized by healthy operating surpluses, adequate financial resources, and low pro forma maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'a' and a final rating of 'A'.

The rating reflects our assessment of the university's:

- Stable operating performance with a long history of surpluses;
- Available resources, as measured by expendable resources, equal to an adequate 69.7% of fiscal 2016 adjusted operating expenses and a robust 231.2% of pro forma total debt; and
- Low debt burden with a pro forma MADS equal to 1.95% of fiscal 2016 adjusted expenses.

We believe somewhat offsetting factors include the university's:

- High dependence on student tuition and fees (89.1%); and
- Strong competition for undergraduate students.

FUS's general obligation to make rental payments under a lease agreement with Ohio Higher Educational Facility Commission secures the bonds. The bonds are further secured by the Guaranty, by which the University unconditionally guarantees the payment of the debt service. The university's obligation to make rental payments is absolute and unconditional, and is not subject to abatement, set-off, or counterclaim. The 2016 bonds will refinance various existing debt obligations, and finance improvements at the university.

FUS is a private, co-educational Catholic university located in east Ohio with liberal arts, science, and professional programs of study at undergraduate and graduate levels. It was established in 1946 as the College of Steubenville by the Franciscan Friars of the Third Order Regular at the request of Bishop Mussio, and was renamed Franciscan University of Steubenville in 1985. In 1991, the university began a study abroad program in Gaming, Austria, with roughly 200 students attending each semester. As of fall 2017, FUS had 2,400 students from all 50 states and 14

countries enrolled, 87% of who were undergraduates.

Outlook

The stable outlook during the next two years reflects our opinion that the university's operations will continue to generate surpluses, debt burden will remain low, and available resources will remain in line with the rating category. The outlook further reflects our expectation that the university's demand profile will remain consistent with prior years, with an average selectivity rate and stable freshman applications.

Downside scenario

We could lower the rating should a trend of continued enrollment declines pressure the university's operations, weakened demand characteristics, or lower operating performance to a level that is more commensurate with its lower-rated peers.

Upside scenario

Although unlikely in our two-year outlook horizon, we could raise the rating should the student dependence for revenue moderate and the demand profile strengthens.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclical, competitive risk, and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the university has good geographic diversity with about 76.5% of total students coming from outside the state. As such, our assessment of Franciscan University of Steubenville's economic fundamentals is anchored by the U.S. gross domestic product (GDP) per capita.

Market position and demand

FUS's total enrollment is stable, with modest fluctuations since fall 2010. Total enrollment for fall 2016 was 2,411 students, down 1.8% from fall 2015. Fall 2015 slightly increased by 0.9% from fall 2014 to 2,454 students.

Undergraduate enrollment mirrored a similar trend to total enrollment, with a modest decline of 0.6% in fall 2016 to 2,090 students. Total headcount excludes online graduate students, which have been experiencing growth with the introduction of new online course offerings, which have attracted out-of-state students.

Freshman applications improved slightly 0.9% for fall 2016 to 1,752 applicants, following declines in fall 2014 and 2015 of 4.0%-4.5% each. Freshman matriculants remained solid at 32.8% in fall 2016, which is similar to prior years. Overall, FUS's freshman selectivity was weaker than rating category medians, but freshman matriculation rates were higher. Freshman selectivity continues to weaken to 78.9% for fall 2016, from 76.0% in fall 2012. FUS has initiated new

enrollment strategies, with teams of counselors who work with freshman and transfer students on an individual basis. In addition, the university leads youth summer conferences at FUS and cities across the country, with over 55,000 youth attending in the summer of 2016. Management estimates roughly 50% of Franciscan undergraduate students have attended a youth conference. Further, the university is focused on partnering with other universities to provide additional course and degree offerings. We view the current enrollment strategies favorable, as they will continue to diversify FUS' geographic footprint and improve the demand profile.

Student quality, as measured by SAT scores is 1165 for fall 2016. While this is below what we consider strong, as defined in our criteria as typically 20% above the national averages of 1212, it remains in line with similarly rated peers. The freshman-to-sophomore retention rate is 84% for fall 2016 and management intends to sustain the retention rate. However in our opinion, the retention rate does not contribute to incremental headcount growth. The six-year graduation rate has somewhat declined in the past few years to 76% for fall 2016 and is close to management's goal of 80%. In our view, the enrollment and demand profile is average, but is partially offset by the diversified geographic draw and consistent enrollment.

The university has a history of capital campaigns, with campaign 1995 and 2005 successfully completed. The current campaign is in the quiet phase with two years remaining. The university plans to go public next year and does not anticipate any issues reaching the goal. The funds will go towards building a new chapel, academic building, scholarships, student science research, student leadership, and various programs.

Management and governance

In our opinion, FUS has an experienced and stable management team with sufficient financial practices. The university budgets on a cash basis but builds in a proxy for depreciation, and has a history of conservative budgeting.

Father Sean O. Sheridan has served as president of FUS since 2013. He had previously worked as an assistant professor at the Catholic University, as a practicing attorney, and as a pharmacist, prior to entering the priesthood. The president oversees an administration comprised of the vice president for enrollment management, the vice president for finance and administration, the vice president for advancement, the vice president for human resources, executive director of marketing and communications, the vice president of student life, and the vice president of pastoral care and evangelization. The senior management team has remained fairly stable with no anticipated turnover.

FUS is governed by board of trustees under civil charter and the bylaws. Its bylaws limit the board's membership to 25, of whom seven must be members of the Province of the most Sacred Heart of Jesus of the Third Order Regular of St. Francis. The members of the board, other than ex officio members, serve a term of four years and are eligible to be re-elected for consecutive terms for up to 12 years. The chairman is appointed from the executive committee and the vice chairman elected by the board. The full board meets three times in a year. The current board has diverse and experienced backgrounds, including prior work in technology, legal, manufacturing, consulting, science, and religion.

Financial Profile

Financial management policies

The university has a formal policy for investments and will formally adopt a debt and capital expenditure policy in 2017. It operates according to a strategic plan, typically updated in three year cycles. The university meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the university's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, legal structure, and a comparison of these policies to comparable providers.

Financial performance

FUS consistently generates operating surpluses due to its conservative budgeting practices, but continues to be highly reliant on student fees. About 89.1% of fiscal 2016 operating revenue was from tuition and auxiliary operations, which makes it vulnerable to changes in enrollment. FUS generated a \$2.6 million surplus in fiscal 2016 (a 3.2% margin), compared to a \$6.0 million surplus in fiscal 2015. The smaller surplus in fiscal 2016 is related to the university fronting the cost of various expenditures, which will partly be reimbursed from the 2016 bond issuance. Operating performance has remained healthy, with surpluses between 3.2%-7.7% in the past five years. Net tuition revenue continues to improve year-to-year, more recently at 1.2% in fiscal 2016. Management is budgeting for breakeven operations in fiscal 2017, but will likely perform at a surplus based on its track record of conservative budgeting practices. We expect financial performance to remain stable going forward.

Undergraduate tuition for the academic year 2016-2017 increased 3.6% to \$25,680, which is a similar increase to prior years. The overall tuition discount rate for all students has steadily increased to 31.8%, but is below the median for the rating level.

Available resources

We consider the university's financial resources solid for the rating. Expendable resources of \$58.0 million as of June 30, 2016, were an average 69.7% of adjusted operating expenses and a robust 231.2% of pro forma debt. Cash and investments of \$88.0 million, as of June 30, 2016, were equal to 105.8% of operating expenses and 350.9% of debt.

The endowment market value was about \$52.5 million in fiscal 2016. The spending rate is a standard 5% of a trailing 12-quarter average, but the university's endowment spending has consistently been lower than its policy. Asset allocations are moderately aggressive, in our opinion, but we note management has been successful in growing the endowment level. As of Sept. 30, 2016, the endowment is invested in domestic and international equity (53.5%) including 1.7% in private equity, market alternatives (22.9%), fixed income (14.1%), real assets (7.8%), and cash (1.6%). FUS investments are in domestic and international equity (39.5%), fixed income (30%), market alternatives (25.4%), real assets (3.5%), and cash (1.7%).

Pro forma debt and contingent liabilities

FUS has \$29.8 million in pro forma debt, a combination of public debt and direct purchase bank notes that are a general obligation of the university. Pro forma debt burden is low at 1.95%. The 2014 note payable balance is \$331,650

and is fixed rate. The 2015 note payable issued with Citizens Bank for \$3.625 million and is variable-rate. Covenants for the 2015 note include a minimum of debt service coverage ratio of 1.25 to 1.

The university is currently complying with all covenants. We calculate the university has sufficient liquidity to cover the notes in the event the debt is accelerated. The university also has non-recourse debt associated with the financing for a new hotel in July 2016, which we view as low risk given that the loans are secured by collateral only. The loans are secured by a mortgage on the hotel and real estate project of Good Venture Properties, LLC. The University also has a line of credit agreement in the amount of \$4.0 million, with a maturity date of March 15, 2017. Management indicates the outstanding balance will be fully paid by maturity.

Franciscan University of Steubenville, Ohio						
	--Fiscal year ended May 31--					--Medians--
Enrollment and demand	2017	2016	2015	2014	2013	Private Colleges & Universities Rated 'A' In 2015
Headcount	2,411	2,454	2,431	2,424	2,466	MNR
Full-time equivalent	2,218	2,246	2,240	2,225	2,253	3,443
Freshman acceptance rate (%)	78.90	78.70	77.90	76.00	76.00	65.80
Freshman matriculation rate (%)	32.80	33.40	32.70	31.80	32.00	MNR
Undergraduates as a % of total enrollment (%)	86.70	85.70	87.60	87.00	84.80	78.90
Freshman retention (%)	84.00	86.00	87.00	86.00	87.00	86.00
Graduation rates (five years) (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	85,836	84,718	79,225	75,114	MNR
Adjusted operating expense (\$000s)	N.A.	83,201	78,672	76,090	69,971	MNR
Net operating income (\$000s)	N.A.	2,635	6,046	3,135	5,143	MNR
Net operating margin (%)	N.A.	3.17	7.69	4.12	7.35	1.92
Change in unrestricted net assets (\$000s)	N.A.	(369)	6,524	6,023	9,764	MNR
Tuition discount (%)	N.A.	31.80	29.80	28.70	27.40	34.90
Tuition dependence (%)	N.A.	63.70	61.90	62.70	63.60	MNR
Student dependence (%)	N.A.	89.10	87.90	88.90	90.50	85.80
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Endowment and investment income dependence (%)	N.A.	1.50	2.00	1.80	1.60	MNR
Debt						
Outstanding debt (\$000s)	N.A.	23,531	21,370	18,887	20,341	98,975
Proposed debt (\$000s)	N.A.	20,795	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	25,081	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	1,735	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.25	4.34	3.23	3.37	MNR
Current MADS burden (%)	N.A.	2.21	N.A.	N.A.	N.A.	4.50
Pro forma MADS burden (%)	N.A.	2.09	N.A.	N.A.	N.A.	MNR

Franciscan University of Steubenville, Ohio (cont.)

Financial resource ratios

Endowment market value (\$000s)	N.A.	52,527	52,994	48,311	41,989	219,203
Cash and investments (\$000s)	N.A.	88,009	98,376	86,084	82,744	MNR
Unrestricted net assets (\$000s)	N.A.	108,257	108,626	102,102	96,079	MNR
Expendable resources (\$000s)	N.A.	57,987	72,414	60,682	59,145	MNR
Cash and investments to operations (%)	N.A.	105.80	125.00	113.10	118.30	147.00
Cash and investments to debt (%)	N.A.	374.00	460.30	455.80	406.80	263.00
Cash and investments to pro forma debt (%)	N.A.	350.90	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	69.70	92.00	79.80	84.50	93.20
Expendable resources to debt (%)	N.A.	246.40	338.90	321.30	290.80	172.00
Expendable resources to pro forma debt (%)	N.A.	231.20	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.50	12.80	12.00	11.50	13.30

N.A.--not available. MNR--median not reported. MADS--maximum annual debt service. 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 = $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$. Student dependence = $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$. Current debt service burden = $100 \times (\text{current debt service expense} / \text{adjusted operating expenses})$. Current MADS burden = $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$. Cash and investments = cash + short-term & long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation & amortization expense.

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