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# Missouri Health & Educational Facilities Authority St. Louis University; Joint Criteria; Private Coll/Univ - General Obligation

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## Table Of Contents

# Missouri Health & Educational Facilities Authority St. Louis University; Joint Criteria; Private Coll/Univ - General Obligation

| Credit Profile | | |
|---|---|---|
| **Missouri Hlth & Ed Facs Auth, Missouri** | | |
| St Louis Univ, Missouri | | |
| Missouri Hlth & Educl Facs Auth (St Louis Univ) JOINTCRIT | | |
| *Long Term Rating* | AA+/A-1 | Affirmed |
| *Unenhanced Rating* | AA-(SPUR)/Negative | Affirmed |
| Missouri Hlth & Educl Facs Auth (St. Louis University) | | |
| *Long Term Rating* | AA-/Negative | Affirmed |
| Missouri Hlth & Educl Facs Board var rate dem bonds (St Louis Univ) ser 2008B-2 | | |
| *Long Term Rating* | AA+/A-1 | Affirmed |
| *Unenhanced Rating* | AA-(SPUR)/Negative | Affirmed |

## Rating Action

S&P Global Ratings affirmed its 'AA-' long-term rating on the Missouri Health & Educational Facilities Authority's series 2019A, 2019B (taxable), 2017A, 2015A, and 2015B (taxable) fixed-rate bonds. In addition, we affirmed our 'AA-' underlying rating (SPUR) on the authority's series 2008B1-B2 variable rate demand bonds (VRDBs) and our 'AA+/A-1' dual rating on the authority's series 2008B1 and 2008B2 VRDBs, all of which were issued for issued for St. Louis University (SLU). The outlook is negative.

The negative outlook reflects our opinion of the university's continuing operating pressure, with weaker operating performance than its similarly-rated peers. We believe growth in operating revenue will remain constrained by the effects of the COVID-19 pandemic. Furthermore, increases in borrowing over the past several years has diluted its financial resources ratios compared to debt. Other than the addition of a capital lease related to a new ambulatory care center, we do not expect SLU to issue additional debt in the near term.

The university's debt totaled $508.4 million at fiscal year-end 2020 (unaudited). Securing the bonds is a general obligation of the university.

We believe there is a high level of uncertainty regarding the duration and extent of the COVID-19 pandemic, and recognize that the situation is fluid. The university transitioned its classes online, effective March 2020, and issued pro-rated refunds for room and board. The refunds totaled approximately $9.7 million. The university offset the refunds as well as lost parking, event, and athletic revenue with expense savings from the its dining vendor and federal funding. The university received a total of approximately $5.1 million from the CARES Act, half of which was used to directly support students. The university's physician's group, SLUCare, has also been negatively affected by the pandemic due to the suspension of elective medical procedures in spring 2020, and estimates an approximately $6.1

million deficit in fiscal 2020 from its healthcare operations. Prior to COVID-19, the university anticipated outperforming its breakeven fiscal 2020 operating budget with a small surplus; however now the university anticipates that consolidated fiscal 2020 operations will result in a full accrual deficit of between $10.0 million and $15.5 million. In fiscal 2019, auxiliary revenue comprised approximately 5.7% of adjusted operating revenue, which we believe represents a manageable part of the university's revenue mix, however revenue from health care operations represents 35% of adjusted operating revenue, which we view as material.

Due to the uncertainty with COVID-19, the university added two new lines of credit in May 2020 totaling $100 million, as a defensive measure. This is in addition to the $80 million in the form of two lines of credit it held the year prior. Currently, $80 million has been drawn, but not spent. We have not included this amount as long-term debt in our calculations as we understand these lines are for temporary liquidity support.

SLU plans to open the fall 2020 semester with both in-person and online instruction. The university expects that about 25% of courses will be fully online, 25% will be hybrid with both in person and online instruction, and the rest will be in person, with events space being configured to classroom space, to allow for social distancing. The fall 2020 semester will start two weeks early, and final exams will be held online following Thanksgiving break. The university also plans to de-densify its on-campus housing by about 10%, eliminating triples and quad occupancy rooms, with dedicated space reserved for quarantine. We believe there is uncertainty with how the pandemic will ultimately affect the fall 2020 semester--with both enrollment levels and mode of instruction, however, we understand that enrollment indicators for fall 2020 appear to be holding up. While fall 2019's freshman class was the largest in history, the university anticipates the fall 2020 class will be more comparable to prior years, with a class size of between 1,560 and 1,600. Applications and admits are up, and the university anticipates that its student profile should remain consistent. The university also expects relative stability with graduate and professional enrollment. While international enrollment will be down in fall 2020, we do not believe the university is highly reliant on international students. In fall 2019, international student enrollment equaled approximately 6.9% of total full-time equivalents (FTE) (816 international FTE students compared to total FTE of 11,797).

The university's fiscal 2021 operating budget reflects a small operating deficit; however the university has a history of conservative budgeting, and typically outperforms its budget, which we view favorably. While the university's budget includes an assumption for a 4% decline in enrollment, and increased discounting, we understand that enrollment indicators, to date, have held relatively steady. In addition, the university anticipates an increase in room and board revenue. The university has taken significant measures to reduce operating expenses. In fiscal 2021 these measures include suspension of the university's 403(b) match for one year; suspension of travel; salary reductions for senior administrative personnel, academic deans, and SLUCare physicians; deferral of merit increases; controlled hiring decisions; and reductions in discretionary capital spending. We understand that due to a number of variables and uncertainty with the COVID-19 pandemic, SLUCare has constructed several operating scenarios, all of which would result in breakeven operating results with varied levels of expense management. The university is one of nine long-term nationally contracted centers with the NIH for Vaccine Development and recently received a $17 million grant for fiscal 2021 for COVID-19 research through its vaccine challenge unit.

Though we think the university has taken proactive steps to address COVID-19, we understand the virus to be a global risk, and could consider a negative rating action should pressures related to the pandemic materially affect enrollment, demand, or finances.

## Credit overview

The SLU rating reflects a very strong enterprise profile, with good student quality, geographic mix of students, and solid fundraising capabilities, but offset by high freshman acceptance rates for the rating category, relatively weak matriculation rates, and softness in undergraduate enrollment in recent years due to a competitive market and demographic pressures, though there was some improvement in fall 2019. Further, the SLU rating incorporates a strong financial profile that reflects sound financial policies, but weak financial performance in recent years, and growing debt levels that have pressured available resource-related ratios. This leads to an initial indicative rating 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 SLU's bonds reflects available resources that are still comparable to peers for the rating as well as an effective management team with comprehensive planning and budgeting processes. This, along with ongoing momentum with fundraising, should help to improve expendable resources over time. The rating also reflects some revenue diversity from SLUCare.

The 'AA-' rating further reflects our view of the university's:

- Acceptable financial resources for the rating, with expendable resources (ER) equal to 1.1x expenses and 2.2x debt as of June 30, 2019, but we note the deterioration of expendable resources to debt over the past several years as debt has been issued;
- Healthy endowment of more than $1.2 billion at June 30, 2019 and solid fundraising results;
- Revenue diversity, including benefits from a relationship with SSM Health; and
- Niche as a Jesuit university and a comprehensive range of professional programs, which has supported demand metrics that are weak for the rating.

Partly offsetting the above strengths, in our view, are the university's:

- Operating pressure, including a history of flat net tuition revenue and small operating losses;
- Increasing debt levels, though the maximum annual debt service (MADS) remains manageable, at this time, at 3.3% of 2019 adjusted operating expenses;
- Competitive environment reflected in modestly selective admissions (about 58%), a freshman matriculation rate that we consider weak (about 21%), and a tuition discount rate that continues to increase; and
- Constrained growth of healthcare revenues in recent years, and uncertainty on how the COVID-19 pandemic could affect clinical operations.

The 'AA+' long-term component of the 'AA+/A-1' dual rating on the 2008B1 VRDBs (daily mode) is based on the application of our joint criteria (with low correlation) using the 'AA-' SPUR on the university and the long-term rating on Barclays Bank. The 'AA+' long-term component of the 'AA+/A-1' dual rating on the 2008B2 VRDBs (daily mode) is also based on the application of our joint criteria (with low correlation) using the 'AA-' SPUR on the university and the long-term rating on Wells Fargo Bank N.A. The 'A-1' short-term component of the 2008B1 rating is solely based on the

Barclays 'A-1' short-term rating. The 'A-1' short-term component of the 2008B2 rating is based solely on the short-term rating on Wells Fargo Bank. The letters of credit (LOCs) on the above series have been extended to Sept. 27, 2023 for Wells Fargo and Oct. 28, 2020 for Barclays. SLU's series 1999B VRDBs are rated 'AA-/A-1+', based solely on an LOC provided by U.S. Bank that expires June 2, 2022. SLU has an additional $4.13 million of VRDBs that we do not rate, supported by a bank facility that expires Sept. 27, 2023.

Founded in 1818, SLU is the second-oldest of the 28 Jesuit colleges and universities in the U.S. and offers a mix of undergraduate, graduate, and professional programs that we consider diverse, including law, business, medicine, engineering, divinity, and nursing. SLU maintains a 15% financial interest and governance rights in a joint venture with SSM Healthcare St. Louis.

The negative outlook reflects our opinion of the university's continuing operating pressure, with performance that is weaker than its similarly-rated peers. We believe growth in operating revenue will remain constrained by the effects of the COVID-19 pandemic. Furthermore, increases in borrowing over the past several years has caused dilution in financial resources ratios compared to debt. Other than the addition of a capital lease related to a new ambulatory care center, we do not expect SLU to issue additional debt over the near term.

### Environmental, social, and governance factors

In our view, Saint Louis University, similar to other higher education institutions faces elevated social risk due to uncertainty on the duration of the COVID-19 pandemic. SLU's management team implemented remote learning in spring 2020, and is planning for a hybrid approach to learning in fall 2020 to protect the health and safety of students, faculty, and staff, and to limit the risk associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our environmental, social, and governances (ESG) factors. Despite the elevated social risk, we believe SLU's environmental and governance risk are in line with our view of the sector as a whole.

## Negative Outlook

### Downside scenario

We could consider a lower rating in the near term if SLU is not able to improve its operating performance, if available resources do not continue to show improvement, or if the university's enrollment and demand profile weakens. A negative rating action could also result if SLU issues a material amount of additional debt, though this is not currently expected.

### Return to stable scenario

We could revise the outlook back to stable if SLU improves its operating performance to healthier levels, continues to grow its available resource ratios, and maintains an overall stable enrollment and demand profile.

## Credit Opinion

## Enterprise Profile

### Industry risk

Industry risk addresses the higher education sector's and the health care sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends in each industry. We believe the health care services and higher education industries represent a low-to-intermediate credit risk when compared with other industries and sectors.

### Economic fundamentals

In our view, the university has good geographic diversity. About 41% of total students are from Missouri with many of the remaining coming from Midwestern states but also from Texas and California. U.S. GDP per capita anchors our assessment of SLU's economic fundamentals.

### Market position and demand

During the past several decades, SLU actively reconfigured and invested in its urban St. Louis campuses (the academic campus is about half a mile from the medical campus) as it evolved from a commuter institution to a more residential institution. The university maintains its main academic and health center campuses in St. Louis and has a campus in Madrid. SLU students come from across the country but primarily from Missouri and Illinois.

SLU's fall 2019 FTE enrollment totaled 11,797, which is down slightly (0.2%) from the previous year. In fall 2019, undergraduate FTE increased 2.4%, due to a large freshman class, offsetting declines that totaled about 6% from fall 2013 to fall 2018. We believe there is uncertainty with how the pandemic will ultimately affect the fall 2020 semester with both enrollment levels and mode of instruction, however, we understand that enrollment indicators for fall 2020 appear to be holding up. While fall 2019's freshman class was the largest in history, the university anticipates the fall 2020 class will be more comparable to prior years, with a class size between 1,560 and 1,600. Applications and admits are up, and the university anticipates that its student profile should remain consistent. The university also expects relative stability with graduate and professional enrollment.

SLU's demand profile reflects strong competition for its high-quality student base (with average ACT scores of about 28 in recent years) and, in our view, some self-selection related to the Jesuit educational mission. Freshman applications have grown the last three years, reaching 15,573 in fall 2019. We view SLU as modestly selective, with freshman acceptance rates at 58% in fall 2019. Matriculation rates remain relatively weak at around 21%, but this is an area of focus for management as part of the performance improvement plan, and an improvement from a matriculation rate of 17% in fall 2018. The matriculation rate indicates the high competition that the university faces both regionally and nationally, in our view. We view other measures of undergraduate student quality as improving relative to the rating with a freshman retention rate of 91% and with a six-year graduation rate of 79%. Management believes that recent investments in housing should support undergraduate recruitment at SLU. Admission to SLU's graduate and professional programs, particularly medicine, remains competitive.

Total charges for an undergraduate student for the 2019-2020 academic year, including room and board, are $58,024, comparable with those of most of SLU's private university peers. The university's tuition increases have been between 3.5% and 3.9% over the past few years, also relatively in line with those of peers. An undergraduate tuition increase of

3.6% is planned for fall 2020. We note that SLU's institutional discount rate has inched upward over the past few years to 38.9% in fiscal 2019 (from 32.5% in fiscal 2014) but is still in line with the rating category. We anticipate the discount rate will continue to be pressured as the university seeks to attract students in a competitive environment.

Fundraising has been an area of strength for the university. In November 2018, the university launched the public phase of its Accelerating Excellence Campaign. The campaign has a goal to raise $500 million. We believe there is good momentum with the campaign, as $403 million has been raised as of July 2020. In fiscals 2019 and 2020, $119.4 million (an all-time high for the university) and $61.4 million was raised, respectively. Priorities of the campaigns include funds for academic excellence, health sciences, business education, athletics, and scholarships. Due to the challenges surrounding COVID-19, the university has extended the campaign deadline to June 30, 2022 from June 30, 2020. Recent fundraising efforts include raising money for emergency student aid, faculty and staff support, COVID-19 research, and community outreach. SLU's overall alumni participation rate is approximately 12%. Depending on the success of the campaign, expendable resources could further strengthen over the medium term. SLU's previous fundraising campaign goal was for $300 million and it raised more than $400 million.

### SLUCare and SSM Health

SLU's health care component is related to the academic medical practice of its school of medicine and its faculty physician clinical practice (with more than 500 physicians) known as SLUCare. As of Aug. 31, 2015, SLU formed a new and expanded relationship with SSM Health, a large multistate hospital system (with several hospitals in the St. Louis market) and terminated its relationship with Tenet Corp. At that time, SLU purchased the assets of SLU Hospital from Tenet Corp. and contributed the hospital to a joint venture owned 15% by SLU and 85% by SSM Health. In addition, SSM Health and SLU signed an academic affiliation agreement. As a result of this transaction, SLU has two board seats on the joint venture board. SLUCare physicians had already been working with SSM Health at the SSM Cardinal Glennon Children's Hospital, so although this partnership is more comprehensive, involving one other SSM Hospital; including the former Tenet-owned hospital, the two entities have worked together successfully in the past on a smaller scale. With this affiliation, SLU believes that both its medical school and SLUCare can grow and strengthen. SLU does not currently expect to take any distributions and/or contribute additional capital. While we view this affiliation as accretive to SLU, additional time is needed to see the financial and enterprise benefits from the agreement.

SSM is nearing completion of the construction on a replacement hospital for SLU as well as an ambulatory center estimated to cost about $550 million that will be paid for by SSM Health. Construction remains on schedule with the hospital expected to be complete in September 2020.

Since the joint venture and academic affiliation was finalized SLUCare and SSM Health have worked toward improving the integration between the two organizations. In 2018, SLUCare and SSM Health consolidated its electronic health records systems. In 2019, SLUCare constructed a new call center (SLUCare Central) to centralize clinic and provider schedules with a goal to improve patient access and operating efficiencies.

In fiscal 2019 revenue growth associated with SLUCare was constrained due to competition in the market place, shifting of payments for reimbursement, and operational inefficiencies from operating in a decentralized manner. These challenges resulted in SLUCare posting an operating deficit of $9.5 million in fiscal 2019, prompting the university to hire a consultant with the goal of centralizing operations, improving patient access, and increasing productivity. The consultant helped administer SLUCare for about a year, and subsequently a new CEO for SLUCare was hired in May 2020, with a smooth transition. We understand significant operational progress has been made, and prior to the onset of COVID-19, SLUCare was projecting an operating surplus for the year. As elective procedures were canceled or delayed in spring 2020, revenue was compressed, and a small deficit within the healthcare enterprise is now expected for fiscal 2020. While it is still early in fiscal 2021, and there is much uncertainty on the impact of COVID-19 in fall 2020, we understand that clinical volumes have rebounded well and that management believes it is well positioned to navigate COVID-19 with a new hospital in September, infrastructure in place for telehealth visits, good social distancing protocols, and ample PPE supplies.

### Management and governance

SLU's president, Dr. Fred Pestello, began his tenure at SLU on July 1, 2014. Senior management on the university side has been relatively stable, but with a few recent changes: the appointment of a vice president for enrollment and retention management in July 2019, the naming of an interim provost in May 2020, and a new CEO for SLUCare, also in May 2020. The interim provost has held the position in the past, which we believe provides continuity. The new SLUCare CEO joins from University of Oklahoma Health Sciences, with 17 years of experience in executive leadership and we understand the transition has been smooth. Other changes include a new interim vice president of student development and vice president for mission and identity.

Management has focused on a number of significant initiatives since Dr. Pestello's arrival in early fiscal 2015, including implementation of its strategic plan put in place in fiscal 2015. One area of focus related to that plan is the implementation of a performance improvement plan, given some of the financial pressures. This comprehensive plan, aided by an external consultant, was put in place after lighter operating performance, flat net tuition revenue growth, and the need to right size the organization. The plan involved many levels and individuals of the organization with very specific goals. We view this plan positively and believe the university's management team has been effective in addressing these challenges. In addition, we recognize and view positively the university's ability to finalize the agreement with SSM Health (as SLU's review of its hospital partnership had been an area of focus for a few years), and recent efforts management has undertaken to improve the operating efficiencies of SLUCare.

The university is managed by a self-perpetuating board of trustees, with no fewer than 25 members and no more than 55 members. Bylaws require that at least six, but not more than 12, board members be Jesuits. The president of the university is an ex officio board member. Members serve for three-year terms, and no member can serve more than five consecutive terms.

## Financial Profile

### Financial management policies

The university has formal policies for endowment, investments, and debt. It operates according to a long-term strategic plan, and has a formal reserve liquidity policy. The university meets standard annual disclosure requirements and does quarterly reporting. The financial policies assessment reflects our opinion that, despite areas of risk, the organization's overall financial policies are not likely to hamper its 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, and legal structure and a comparison of these policies with those of comparable providers.

### Financial performance

SLU historically generated healthy surpluses on a full-accrual basis, but margins have come under pressure since fiscal 2013, and remain weak for the current rating. After generally break-even margins in fiscal years 2014 and 2015, SLU closed fiscals 2016, 2017, 2018, with slightly negative, but improving, operating margins of negative 1.15%, negative 1.0%, negative 0.2% respectively, and closed fiscal 2019 slightly positive at a 0.2% operating margin. Despite a lower than expected freshman class in fall 2018, and an operating loss of $9.5 million from SLUCare, fiscal 2019 revenue was boosted by solid fundraising results, contributing to the slightly positive operating margin. Prior to COVID-19, the university anticipated outperforming its breakeven fiscal 2020 operating budget with a small surplus; however the university now anticipates that consolidated fiscal 2020 operations will result in a full accrual deficit between $10.0 million and $15.5 million.

The university's fiscal 2021 operating budget reflects a small operating deficit; however the university has a history of conservative budgeting, and typically outperforms its budget, which we view favorably. The university's budget includes an assumption for a 4% decline in enrollment, and increased discounting, but we understand that enrollment indicators, to date, have held relatively steady. In addition, the university anticipates an increase in room and board revenue. The university has taken significant measures to reduce operating expenses. In fiscal 2021 these measures include suspension of the university's 403(b) match for one year; suspension of travel; salary reductions for senior administrative personnel, academic deans, and SLUCare faculty; deferral of merit increases; controlled hiring decisions; and reductions in discretionary in capital spending. We understand that due to a number of variables and uncertainty with the COVID-19 pandemic, SLUCare has constructed several operating scenarios, all of which would result in breakeven operating results with varied levels of expense management.

While student-related charges are still SLU's largest revenue source (49%), SLUCare clinical revenue represents about 35% of operating revenue. We believe that the SSM Health transaction has helped to support SLUCare's clinical revenue, with 6.7% revenue growth in fiscal 2015, 12.7% in fiscal 2016, and 5.2% revenue growth in fiscal 2017; however, growth in 2018 and 2019 was lighter at 1.5% and 2.1%, respectively.

SLU's endowment draw along with other investment income, which provides approximately 6.0% of revenue, is approved by the board annually and is at a level we consider sustainable: 4.5% of market values for a 12-quarter period. However, management drew additional funds (with board approval) so that endowment spending was 5.0% in fiscals 2016 through 2020, to help support various strategic initiatives while the organization goes through its improvement plan.

### Available resources

We generally measure balance sheet strength by expendable resources, which are defined as audited unrestricted net assets, plus temporary restricted net assets adjusted for net plant and debt. Expendable resources improved in fiscal 2019 to $1.16 billion compared to $1.06 billion in fiscal 2018. Expendable resources relative to operating expenses have been lighter relative to medians but generally stable at 1.1x at fiscal year-end June 30, 2019.

Relative to debt, expendable resources has weakened in recent years to about 2.2x in fiscal 2019 (compared to the 4.1x in fiscal 2015, 2.7x in 2016, 2.5x in 2017, 2.7x in fiscal 2018) with issuance of the series 2015, 2017, and 2019 bonds. SLU's available resource ratios remain weaker than medians, reflecting a reduction in balance sheet flexibility as debt has increased over the past couple of years. Cash and investments is a less conservative measure, as it includes restricted assets. However, ending fiscal 2019 cash and investments totaled $1.35 billion and represented 1.3x adjusted operating expenses, and 2.6x debt.

SLU has adopted the new Financial Accounting Standards Board (FASB) presentation standards, and as such, the net assets on its balance sheet are reported as either "without donor restrictions" or "with donor restrictions." To calculate expendable resources, we used net assets "without donor restrictions," instead of the formerly classified "unrestricted net assets." In addition, management identified $163.3 million of net assets "with donor restriction" that would have been classified as "temporarily restricted net assets" under the old FASB standards. We have therefore used that amount in our expendable resource calculation for comparability purposes.

We view SLU's endowment as healthy at more than $1.2 billion as of fiscal year end 2019 (the preliminary portfolio values for fiscal 2020 reflect a relatively comparable value). As of June 30, 2020, the pooled endowment asset allocation is consistent with policy at roughly 15.5% fixed income and cash, 48.1% domestic and international equities, and approximately 36.5% alternative investments (real assets, private equity and hedge funds) and other securities. At fiscal year-end June 30, 2020, SLU had $206 million in investment commitments outstanding in various private equity and real estate partnerships, accounting for approximately 18% of endowment market value. Separate from the endowment fund was about $147 million of cash and fixed income for operating purposes, which includes $80 million that has been drawn from two lines of credit (compared with $138 million at the end of 2018, and $181 million at the end of 2017). Management reports that about 65% of its total investments (including endowment, operating funds and line of credit) can be liquidated within a month.

### Debt and contingent liabilities

Total long-term debt outstanding as of the university's fiscal year-end (June 30, 2019) was $518.1 million. On an unaudited basis, as of June 30, 2020, total debt outstanding was approximately $508.4 million. The university's MADS burden remains manageable, in our opinion, at 3.3% of adjusted operating expenses in fiscal 2019, with MADS of $33.9 million in 2022. Debt service is fairly level, with no significant bullet maturities. Other than a long-term capital lease related to a new ambulatory care center ($32.7 million, reflected as pro forma debt), the university does not have additional debt plans over our two-year outlook period.

The university currently maintains four lines of credit that total of $180 million, up from the two lines that totaled $80 million as of fiscal 2019-year end. Due to the uncertainty with COVID-19, the university added the additional $100 million in May 2020 as a defensive measure. Currently, $80 million has been drawn. We have not included this amount as long-term debt as we understand these lines are for temporary liquidity support. The university has historically used the lines for contingencies only.

We have historically viewed SLU's debt structure as slightly aggressive given the amount of SLU's debt that is in variable-rate demand mode and direct placement, but these metrics have come down with the issuance of more fixed-rate debt in recent years. Approximately 36% of debt is considered contingent. Approximately 23% of the bonds are VRDBs with an additional approximately 13% of debt directly placed with a bank (series 2016A1 and 2016A2 variable-rate direct placement bonds). Total contingent liabilities for SLU include its VRDBs, direct placement, and swaps outstanding (which swap almost all the variable-rate debt to fixed rate, thus reducing the interest rate risk). The series 2016A1 and 2016A2 direct placement bonds were initially purchased by Wells Fargo and have a mandatory tender on Oct. 20, 2021. We do consider the debt contingent given the mandatory tender coupled with additional covenants outside of the master trust indenture (such as maintaining a ratio of expendable resources greater than debt of 1.25x minimum, and a rating of 'BBB+' or higher), violation of which could accelerate debt, although most covenants would require 30 days' notice.

At June 30, 2019, SLU had about $191.8 million of notional floating- to fixed-rate swap contracts, with a combined mark-to-market value of negative $31.7 million. Management reports no collateral postings under its various contracts. We consider SLU's swap portfolio a low credit risk as a result of counterparty diversity and credit quality, the average economic viability of the swap portfolio over stressful economic cycles, and sound management practices. The swap agreements include a $38.7 million in contracts with JPMorgan Chase Bank N.A., a $56.6 million contract with Deutsche Bank AG, and a $64.3 million contract with Barclays Bank PLC. The remaining two contracts are with Wells Fargo Bank, totaling $21.7 million, and with Morgan Stanley, totaling $10.5 million.

The university provides employees with a defined contribution retirement plan, which, by definition, is fully funded. We understand that SLU has a very small legacy retiree health care plan, with no material liabilities.

**Saint Louis University, Mo.--Enterprise And Financial Statistics**

| | --Fiscal year ended June 30-- | | | | | --Medians for 'A' rated private colleges and universities-- | --Medians for 'AA' rated private colleges and universities-- |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2018** | **2018** |
| **Enrollment and demand** | | | | | | | |
| Headcount | 12,546 | 12,649 | 12,853 | 12,949 | 12,914 | MNR | MNR |
| Full-time equivalent | 11,797 | 11,823 | 11,971 | 12,003 | 11,997 | 3,864 | 6,429 |
| Freshman acceptance rate (%) | 58.3 | 57.5 | 64.4 | 62.8 | 62.6 | 64.8 | 22.2 |
| Freshman matriculation rate (%) | 21.0 | 17.4 | 18.8 | 18.9 | 19.5 | MNR | MNR |
| Undergraduates as a % of total enrollment (%) | 64.3 | 63.1 | 63.4 | 62.7 | 63.9 | 79.1 | 67.8 |
| Freshman retention (%) | 91.0 | 91.0 | 90.0 | 91.0 | 90.0 | 85.9 | 95.0 |
| Graduation rates (six years) (%) | 79.0 | 77.0 | 78.0 | 77.0 | 72.0 | MNR | MNR |
| **Income statement** | | | | | | | |
| Adjusted operating revenue ($000s) | N.A. | 1,030,398 | 991,309 | 950,907 | 917,197 | MNR | MNR |
| Adjusted operating expense ($000s) | N.A. | 1,028,852 | 993,403 | 960,140 | 927,852 | MNR | MNR |
| Net operating income ($000s) | N.A. | 1,546 | (2,094) | (9,233) | (10,655) | MNR | MNR |
| Net operating margin (%) | N.A. | 0.15 | (0.21) | (0.96) | (1.15) | 1.50 | 2.30 |

**Saint Louis University, Mo.--Enterprise And Financial Statistics (cont.)**

| | --Fiscal year ended June 30-- | | | | | --Medians for 'A' rated private colleges and universities-- | --Medians for 'AA' rated private colleges and universities-- |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2018 | 2018 |
| Change in unrestricted net assets ($000s) | N.A. | (7,309) | 38,827 | 69,506 | (85,228) | MNR | MNR |
| Tuition discount (%) | N.A. | 38.9 | 37.3 | 36.0 | 34.4 | 37.5 | 37.9 |
| Tuition dependence (%) | N.A. | 42.8 | 43.5 | 44.2 | 44.1 | MNR | MNR |
| Student dependence (%) | N.A. | 48.5 | 49.5 | 49.7 | 49.7 | 87.1 | 58.3 |
| Health care operations dependence (%) | N.A. | 35.1 | 35.7 | 35.9 | 35.4 | MNR | MNR |
| Research dependence (%) | N.A. | 4.0 | 3.4 | 3.7 | 3.6 | MNR | MNR |
| Endowment and investment income dependence (%) | N.A. | 5.9 | 6.0 | 5.8 | 6.0 | MNR | MNR |
| **Debt** | | | | | | | |
| Outstanding debt ($000s) | N.A. | 518,115 | 386,585 | 408,080 | 340,220 | 104,964 | 386,585 |
| Proposed debt ($000s) | N.A. | 32,700 | N.A. | N.A. | N.A. | MNR | MNR |
| Total pro forma debt ($000s) | N.A. | 550,815 | N.A. | N.A. | N.A. | MNR | MNR |
| Pro forma MADS | N.A. | N.A. | N.A. | N.A. | N.A. | MNR | MNR |
| Current debt service burden (%) | N.A. | 2.78 | 2.66 | 2.31 | 1.97 | MNR | MNR |
| Current MADS burden (%) | N.A. | 3.29 | 2.82 | 2.98 | 2.56 | 4.40 | 4.10 |
| Pro forma MADS burden (%) | N.A. | N.A. | N.A. | N.A. | N.A. | MNR | MNR |
| **Financial resource ratios** | | | | | | | |
| Endowment market value ($000s) | N.A. | 1,252,677 | 1,226,095 | 1,149,590 | 1,053,035 | 240,030 | 1,603,114 |
| Cash and investments ($000s) | N.A. | 1,348,454 | 1,332,552 | 1,302,669 | 1,175,929 | MNR | MNR |
| Unrestricted net assets ($000s) | N.A. | 1,206,267 | 1,213,576 | 1,174,749 | 1,105,243 | MNR | MNR |
| Expendable resources ($000s) | N.A. | 1,164,221 | 1,057,566 | 1,039,021 | 929,097 | MNR | MNR |
| Cash and investments to operations (%) | N.A. | 131.1 | 134.1 | 135.7 | 126.7 | 144.9 | 333.1 |
| Cash and investments to debt (%) | N.A. | 260.3 | 344.7 | 319.2 | 345.6 | 267.3 | 505.9 |
| Cash and investments to pro forma debt (%) | N.A. | 244.8 | N.A. | N.A. | N.A. | MNR | MNR |
| Expendable resources to operations (%) | N.A. | 113.2 | 106.5 | 108.2 | 100.1 | 96.3 | 228.6 |
| Expendable resources to debt (%) | N.A. | 224.7 | 273.6 | 254.6 | 273.1 | 175.7 | 320.2 |
| Expendable resources to pro forma debt (%) | N.A. | 211.4 | N.A. | N.A. | N.A. | MNR | MNR |

| Saint Louis University, Mo.--Enterprise And Financial Statistics (cont.) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | --Fiscal year ended June 30-- | | | | | --Medians for 'A' rated private colleges and universities-- | --Medians for 'AA' rated private colleges and universities-- |
| | **2020** | **2019** | **2018** | **2017** | **2016** | **2018** | **2018** |
| Average age of plant (years) | N.A. | 12.6 | 12.6 | 12.8 | 12.9 | 13.9 | 13.9 |

MADS--Maximum annual debt service. Total adjusted operating revenue equals unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense equals unrestricted expense plus financial aid expense. Net operating margin equals 100 times (net adjusted operating income/adjusted operating expense). Student dependence equals 100 times (gross tuition revenue plus auxiliary revenue) / adjusted operating revenue. Current debt service burden equals 100 times (current debt service expense/adjusted operating expenses). Current MADS burden equals 100 times (MADS expense/adjusted operating expenses). Cash and investments equals cash plus short-term and long-term investments. Expendable resources equals unrestricted net assets plus temporary restricted net assets minus (net property, plant, and equipment minus debt outstanding). Average age of plant equals accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported.

## Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020