S&P Global
Ratings

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

Primary Credit Analyst:
Amber L Schafer, Englewood + 1 (303) 721 4238; amber.schafer@spglobal.com

Secondary Contact:
Laura A Kuffler-Macdonald, New York + 1 (212) 438 2519; laura.kuffler.macdonald@spglobal.com

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Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Missouri Hlth & Educl Facs Auth (St Louis Univ) JOINTCRIT ser 2008 B-2		
Long Term Rating	AA+/A-1	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Missouri Hlth & Educl Facs Auth (St. Louis University)		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

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

Security

The university's debt totaled $485.4 million at fiscal year-end 2022, which includes bonds payable, notes payable, and lease liabilities. Securing the bonds is a general obligation of the university.

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, 2025, for Barclays.

SLU's series 1999B VRDBs are rated 'A+/A-1', based solely on a LOC provided by U.S. Bank that expires April 18, 2025. SLU has an additional $2.7 million of VRDBs that we do not rate, supported by a bank facility that expires on Sept. 27, 2023.

Credit overview

The rating reflects SLU's very strong enterprise risk profile with a trend of increasing enrollment despite operating in a competitive market with demographic pressures, and a geographically diverse student body; these factors are offset by weaker acceptance rates for first-year students compared to similarly rated peers and a relatively weak matriculation rate. Further, the SLU rating incorporates a strong financial risk profile that reflects sound financial policies, a history of variable, though tightly controlled operating performance, and growing financial resource-related ratios. This leads to an anchor rating of 'a+'. As our criteria indicate, the final rating can be within one notch of the anchor level. In our opinion, the 'AA-' rating on SLU's bonds reflects financial resources that are still comparable to peers for the rating as well as an effective management team with comprehensive planning and budgeting processes.

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

- Healthy financial resources and endowment of more than $1.6 billion as of March 30, 2023; this recent growth due to the sale of SLUCare to SSM Health in fiscal 2023;
- Trend of growing enrollment;
- Manageable maximum annual debt service (MADS) burden; and
- Niche as a Jesuit university with 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:

- Operation in a highly competitive environment for students, with student demand metrics such as selectivity and matriculation lagging similarly rated peers, and
- History of soft operating performance for the rating, with fiscal 2023 unrestricted operating results expected to be modestly positive when adjusting out a large gain associated with the sale of SLUCare, with a greater reliance on student-generated revenues going forward.

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. Effective July 1, 2022, SLU sold its faculty physicians practice, SLUCare, to SSM Healthcare and redeemed its 15% membership interest in a joint venture with SSM Healthcare.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. We also believe the university also has some exposure to elevated social capital risks due to changing demographic trends with a declining population of students in the university's region, which could hamper management's efforts to maintain enrollment at the university; though management has been successful with addressing this to date, with new graduate programming. Despite the elevated social risk, we believe SLU's environmental and governance risk are in line with our view of the sector.

Outlook

The stable outlook reflects our view that the university will continue to generate near-break-even operating margins in the near term and maintain its enrollment and demand profile and financial resources consistent with the rating. No additional debt is expected during the two-year outlook period.

Downside scenario

We could consider a negative rating action in the near term if SLU is not able to maintain near break-even operating performance, if financial resources weaken notably, or if the university's enrollment and demand profile weakens. A negative rating action could also result if SLU issues a significant amount of additional debt.

Upside scenario

We could consider a positive rating action over time with consistently maintained surplus operating performance, growth in resources to a level commensurate with a higher rating, and a strengthened enrollment and demand profile.

Credit Opinion

Enterprise Risk Profile--Very Strong

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 2023 full-time-equivalent (FTE) enrollment is expected to increase to about 13,694. This anticipated increase of about 8% follows total FTE increases of 5.7% in fall 2022 and 4.1% in fall 2021. The university's enrollment in fall 2022 (and expected for fall 2023) is supported by the success of its new global graduate initiative that was launched in the 2020-2021 year. This program is STEM focused, with students primarily being recruited from India. Management anticipates enrollment in this program will be about 1,200 in fall 2023. The university's undergraduate first-year class is expected to be about 1,800 in fall 2023.

Beginning with the fall 2021 application cycle, the university's freshman demand statistics vary from historical trends, which we understand is due to a change to test optional, leading to a weakened acceptance rate. While we don't have standardized test scores for the incoming fall 2021 or 2022 classes, historically these have been solid, with an average ACT score of around 28, which we believe reflects a high-quality student base, and some self-selection related to the Jesuit educational mission. While the matriculation rate for first-year students remains relatively weak at around 15%, there has been stabilization with undergraduate enrollment in recent years. 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 consistent relative to the rating with a freshman retention rate of 87% (expected for fall 2023) and with a six-year graduation rate of 81%. Admission to SLU's graduate and professional programs, particularly medicine, remains competitive.

Total charges for an undergraduate student for the 2023-2024 academic year, including room and board, are $67,814. The university's approved tuition increase for fiscal 2024 is 4.9%, higher than in recent years, which were been between 3.5% and 3.9% for the past few years. We note that SLU's institutional discount rate continues to increase, reaching 46.3% in fiscal 2022 (from 32.5% in fiscal 2014). 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 June 2022, the university completed its Accelerating Excellence campaign, raising $604 million, higher than its $500 million goal. Campaign priorities included funds for academic excellence, health sciences, business education, athletics, and scholarships. Although the fund raising campaign has concluded, fundraising initiatives continue for focused priorities.

SLUCare and SSM Health

SLU's health care component has historically been 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. In August 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, with the goal to strengthen both SLUCare and its medical school. Since the joint venture and academic affiliation were finalized, SLUCare and SSM Health worked strategically to improve the integration between the two organizations with efforts to centralize operations, improve patient access, and increase productivity.

On July 1, 2022, the university and SSM finalized an agreement for SLU to sell SLUCare, redeem its 15% interest in the joint venture, and sell related properties to SSM for a total of about $381 million. About $332.6 million was received at closing (to be reflected in fiscal 2023 financial statements) with $48.3 million to be received over the following two years. In addition, a new academic affiliation agreement was signed, stipulating that SSM will pay SLU annual mission support payments beginning in fiscal 2023, for 44 years.

With this transaction, SLU's intention is to reduce operating risk, use funds from the sale to establish a quasi-endowment to support its School of Medicine, and provide improved access for patients through the full integration of SLUCare and SSM Health.

Management and governance

SLU's president, Dr. Fred Pestello, began his tenure at SLU on July 1, 2014. Other than the naming of an interim vice president of enrollment, in 2023 senior management has been relatively stable since our last review.

Management has focused on a number of significant initiatives since Dr. Pestello's arrival in early fiscal 2015. Early in his tenure as president, Dr. Pestello led the implementation of a performance improvement plan. The 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. We view this, in addition to the careful and strategic navigation of the pandemic, and recent sale of SLUCare as being examples of the university's management team being effective in addressing its operating challenges.

In 2023, the university implemented a new academic strategic plan, "Living Our Institutional Vocations." Priorities of the plan include teaching and learning, research, scholarship and creative work, advancing well-being and equity, expanding access and reach, and institutional planning. More specifically, the university is focused on a number of enrollment initiatives, which include growing enrollment at its Madrid campus and the expansion of its new global graduate program initiative. Other areas of importance include increasing research with the ultimate goal to attain the Carnegie R1 status. Following the sale of SLUCare in 2022, the university has also been focused on elevating the School of Medicine through strategic investments to expand clinical research, medical training, and education.

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 Risk Profile--Strong

Financial performance

Operating margins have fluctuated near breakeven in recent years; but include one-time items related to federal relief funding and temporary expense saving measures. Preliminarily, for fiscal 2023, management anticipates a small unrestricted operating surplus, when factoring out the large gain associated with the sale of SLUCare. This is driven by improved enrollment levels for the year that will contribute to an expected increase in net tuition revenue coupled with careful expense management and a smaller operating base due to the SLUCare transaction. The fiscal 2024 budget reflects a slight deficit; higher than budgeted graduate enrollment is expected to provide some flexibility to offset higher than budgeted discounting; both undergraduate and graduate enrollment is expected to increase. The university has a history of conservative budgeting, and typically outperforms its budget, which we view favorably.

With the sale of SLUCare, the university became more reliant on student-generated revenues, and we estimate student-generated revenues will be between 65% and 70% of total adjusted operating revenue based on fiscal 2023 forecast results. SLU's endowment draw, along with other investment income, has historically provided about 6.0% of revenue, is approved by the board annually and is at a level we consider sustainable: 4.5% of market values for the prior 12-quarter period. However, management has drawn additional funds (with board approval) so that targeted endowment spending was 5.0% in fiscals 2016 through 2023, to help support various strategic initiatives. Beginning in fiscal 2024, the university will reduce this supplemental draw by 0.1% annually during the next five years.

Financial resources

The university's cash and investments at fiscal 2023 year-end will reflect substantial growth relative to fiscal year end 2022 due to the receipt of about $332.6 million from the sale of SLUCare. In addition, the university will receive about $48.3 million more during the next two years. Most of these new funds will be invested in a quasi-endowment, with annual income distributions to support the school of medicine. Relative to debt, cash and investments equaled about

305% at fiscal year-end 2022; based on management's third quarter projections, we anticipate this could improve to near 400%; cash and investments (including restricted assets) totaled about $1.9 billion as of March 31, 2023. SLU's financial resource ratios align well with similarly related peers.

SLU's endowment return in fiscal 2022 was negative 8.9%, which followed a return of about 31.2% in fiscal 2021, due to impressive market returns. As of March 31, 2023, the endowment asset allocation is consistent with policy at roughly 11.8% fixed income and cash, 61.4% public equities, 12.5% private equity, 10.7% real assets, and 3.6% private credit. The university continues to build out its private equity position and expects this allocation to grow to about 20% over time. At fiscal year-end June 30, 2022, SLU had $299.9 million in investment commitments outstanding in various private equity and real estate partnerships, accounting for approximately 22% of endowment market value. Management reports that about 74% of its endowment investments could be liquidated within a month. Separate from the endowment fund was about $162.5 million of cash and fixed income for short-term operating purposes.

Debt and contingent liabilities

Total long-term debt outstanding as of the university's fiscal year-end (June 30, 2022) was $485.4 million. Preliminarily, for fiscal 2023, debt metrics will continue to improve with the normal amortization of regularly scheduled principal payments, in addition to about $10 million of debt retired related to the SLUCare transaction. Even with a lower operating base estimated for fiscal 2023, we anticipate the MADS burden will manageable and incrementally higher than the 2.8% burden recorded at fiscal year-end 2022. Debt service is fairly level, with no significant bullet maturities. In 2023, all bank and derivative agreements referencing LIBOR transitioned to SOFR. The university does not have additional debt plans during our two-year outlook period.

The university maintains two lines of credit, totaling $80 million. 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. As of June 30, 2022, approximately 34% of debt is considered contingent. Approximately 22% of the bonds are VRDBs with approximately 13% of additional 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, with an initial mandatory tender in 2021, which has since been extended to Aug. 12, 2026. We 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, 2022, SLU had about $161.5 million of notional floating- to fixed-rate swap contracts, with a combined mark-to-market value of negative $13.8 million. Management reports no collateral postings under its various contracts. We consider SLU's swap portfolio a low credit risk due to counterparty diversity and credit quality, the average economic viability of the swap portfolio during stressful economic cycles, and sound management practices. The swap agreements include:

- $20.7 million in contracts with JPMorgan Chase Bank N.A.;
- $56.6 million contract with Deutsche Bank AG;
- $64.3 million contract with Barclays Bank PLC;
- $14.3 million contract with Wells Fargo Bank; and
- $5.6 million contract with Morgan Stanley.

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.

St. Louis University, Missouri--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated private colleges & universities
	2023	2022	2021	2020	2019	2022
Enrollment and demand						
Full-time-equivalent enrollment	12,671	11,990	11,520	11,797	11,823	7,733
Undergraduates as a % of total enrollment	62.7	63.9	64.4	65.5	63.8	67.4
First-year acceptance rate (%)	67.7	70.0	55.5	58.3	57.5	17.8
First-year matriculation rate (%)	15.1	17.0	16.7	21.0	17.4	38.8
First-year retention rate (%)	87.0	89.0	90.0	90.0	91.0	95.0
Six-year graduation rate (%)	81.0	80.0	80.0	79.0	77.0	90.3
Income statement						
Adjusted operating revenue ($000s)	N.A.	1,180,021	1,077,686	1,035,970	1,030,398	693,572
Adjusted operating expense ($000s)	N.A.	1,174,112	1,064,420	1,051,515	1,028,852	661,052
Net operating margin (%)	N.A.	0.5	1.2	(1.5)	0.2	4.1
Change in unrestricted net assets ($000s)	N.A.	(108,726)	225,812	(78,451)	(7,309)	MNR
Tuition discount (%)	N.A.	46.3	44.8	42.4	38.9	39.5
Student dependence (%)	N.A.	47.7	48.4	49.6	48.5	59.7
Health care operations dependence (%)	N.A.	36.2	36.7	35.1	35.1	MNR
Research dependence (%)	N.A.	4.5	4.5	4.1	4.0	5.4
Debt						
Outstanding debt ($000s)	N.A.	485,424	546,557	539,553	518,115	596,725
Total pro forma debt ($000s)	N.A.	485,424	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.1	3.2	3.1	2.8	MNR
Current MADS burden (%)	N.A.	2.8	3.2	3.2	3.3	5.2
Average age of plant (years)	N.A.	12.5	12.5	12.9	12.6	14.4
Financial resource ratios						
Endowment market value ($000s)	N.A.	1,343,809	1,524,492	1,197,421	1,252,677	2,391,304

St. Louis University, Missouri--enterprise and financial statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'AA' category rated private colleges & universities
	2023	**2022**	**2021**	**2020**	**2019**	**2022**
Cash and investments ($000s)	N.A.	1,482,524	1,599,043	1,311,620	1,348,454	2,852,879
Cash and investments to operations (%)	N.A.	126.3	150.2	124.7	131.1	377.8
Cash and investments to debt (%)	N.A.	305.4	292.6	243.1	260.3	463.1

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.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022