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Trinity Higher Educational Facilities Corp., Texas
University of St. Thomas; Private Coll/Univ - General Obligation; Public Coll/Univ - Unlimited Student Fees

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Trinity Higher Educl Facs Corp (University of St. Thomas)		
Long Term Rating	BBB+/Negative	Affirmed

Rating Action

S&P Global Ratings affirmed its 'BBB+' rating on Trinity Higher Educational Facilities Corp., Texas' series 2019 revenue refunding bonds, issued for the University of St. Thomas (UST). The outlook is negative.

University of St. Thomas' general obligation pledge secures the series 2019 fixed-rate bonds, which as of June 30, 2020, had $40.0 million outstanding. Included in our analysis is a $580,000 promissory note (unrated) issued in March 2021. The university has a minimal amount of operating leases that we consider to be immaterial relative to the total debt outstanding. As of June 30, 2020, the university did not have any capital leases.

Due to COVID-19, UST transitioned to virtual instruction for the spring 2020 semester. For fiscal 2020, the university had COVID-19-related costs, primarily prorated room-and-board refunds of $700,000. Auxiliary revenue has historically represented about 8.2% of total adjusted revenue, although in fiscal 2020 auxiliary revenue declined by about $1.5 million totaling 6.2% of total adjusted operating revenue. In our view, the decline is manageable. While the university has historically had modest operating deficits on a full-accrual basis, it anticipated weaker operating performance in fiscals 2019 and 2020 due to strategic initiatives it developed to expand offerings and increase overall demand. In addition, increased costs related to the COVID-19 pandemic further weakened operations in fiscal 2020. Operating performance for fiscal 2020, on a full-accrual basis, resulted in a deficit of $3.8 million (3.9%) compared with a $3.5 million deficit (3.7%) in fiscal 2019.

Full-time-equivalent (FTE) enrollment rose in fall 2020 to 2,835, a 12.5% increase compared with 2,520 in fall 2019. In addition, the university is projecting modest enrollment growth in fall 2021. Despite the enrollment growth, the university is projecting operating performance in fiscal 2021 to be similar to that of fiscal 2020, excluding federal COVID-19 stimulus funds. Management attributes the continued deficits to the pandemic's delaying some of the restructuring and strategic initiatives undertaken prior to COVID-19 outbreak. Inclusive of about $2.9 million in federal stimulus funds, which were utilized to support operations, the university is projecting balanced operations on a full-accrual basis in fiscal 2021. UST was awarded $1.2 million of Coronavirus Aid, Relief, & Economic Security Act funding; funding guidelines allocate half of this money for direct student support and the other half for institutional support, partially offsetting expenses. In fiscal 2021, UST will realize an additional $3.4 million in federal funding from the Coronavirus Response & Relief Supplemental Appropriations Act. The university was also awarded approximately $6.8 million from the American Rescue Plan Act, which it expects to be realized in fiscal 2022.

Credit overview

We assess UST's enterprise profile as strong, with a growing undergraduate enrollment and solid matriculation rates. This has led to healthy increases in overall FTE enrollment; however, the tuition discount has been rising, which in our view may pressure operating performance. We assess the university's financial profile as adequate, with a history of full-accrual deficit operations and solid available resource metrics relative to medians. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'bbb+' and a long-term rating of 'BBB+'.

In particular, the rating reflects our view of the following credit weaknesses:

- A history of deficit operations on a full-accrual basis, which have been increasing in recent years;
- Increasing tuition discount rates, which in our view could further pressure operations in the near term; and
- A narrow geographic draw, because a majority of the students come from the Houston region.

Somewhat offsetting the above weaknesses is our view of the university's:

- Increased FTE enrollment, totaling 2,835 for fall 2020, a 12.5% increase over the prior year, although selectivity weakened significantly to 96% in fall 2020 from 87% in the prior year;
- Improved financial resources, as measured by expendable resources, which totaled $52.9 million for fiscal 2020, compared with $42.7 million in fiscal 2019; and
- Modest annual debt service (MADS) burden of 2.6% for fiscal 2020.

The negative outlook reflects our view that full-accrual operating deficits might persist without additional support from COVID-19 relief funds beyond those of fiscal 2022, which could weaken available resource ratios within the outlook period.

UST is a co-educational Catholic university in the Museum District of Houston and was founded by the Basilian Fathers in 1947. It offers degrees in more than 39 subject areas; master's degrees in 22 subject areas; and doctorates in philosophy, education, and nursing.

Environmental, social, and governance (ESG) factors

We believe that UST has elevated social and governance risk while environmental risk is in line with our view of the sector as a whole. Because of the pandemic, UST's management team implemented remote learning in spring 2020 to protect the students' health and safety and to limit social risks associated with community spread of COVID-19. Since then, the institution has implemented a hybrid model with both in-person and remote learning for fall 2020 and spring 2021, following social distancing guidelines to welcome students back on campus. We believe management has taken prudent actions regarding the health and safety of its students, faculty, and staff through its remote and hybrid instruction options. Although, the somewhat lower vaccination rates in the region could challenge these efforts, particularly should students, faculty, or staff become infected with the highly contagious delta variant. Despite this risk, we acknowledge that UST benefits from favorable demographic trends including a growing population with its location in the state of Texas, which we believe is a social opportunity when compared with many other institutions, supporting its market position over the long term. We believe UST's location near the Gulf Coast, with potential for rising sea levels and severe weather events that could damage facilities, elevates the system's environmental risks above those without this exposure. The university carries property insurance coverage for tropical weather events. Despite the elevated social and environmental risks, we believe governance risk is in line with our view of the sector as a whole, as the university has historically maintained healthy management and governance controls.

Negative Outlook

Downside scenario

We could lower the rating if the university is not able to maintain balanced operating performance, available resources deteriorate materially, or the university issues additional debt without commensurate growth in resources.

Return to stable scenario

Should the university maintain balanced operations on a full-accrual-bases while maintaining available resources, and the overall demand profile remains at or near current levels we could revise the outlook to stable.

Credit Opinion

Enterprise Profile

Market position and demand

Over the past three years, the college has continued to develop new programs, which has driven increases in total enrollment. For fall 2020, enrollment totaled 3,765 students, a 6.9% increase over 3,523 students in fall 2019. On an FTE basis, the university has had stronger growth, with 2,835 students in fall 2020, a 12.5% increase compared with 2,520 in fall 2019. The increase was driven by undergraduate enrollment, which rose to 2,134 students on an FTE basis, from 1,859 in fall 2019. For fall 2021, the university is projecting enrollment will be slightly higher than that of fall 2020.

Graduate-level FTE enrollment increased in fall 2020 by 6.1% to 695 students, from 655 in fall 2019. Management attributes this growth to the introduction of new programs including a Spanish master of theology as well as expansions of its nursing programs and areas of its MBA program in recent years.

Approximately 65.4% of students are undergraduates. UST is not selective, with an acceptance rate of 96.1% (typical of schools with large commuter bases), although this is considerably weaker than the 87.3% acceptance rate in fall of 2019. Students are somewhat self-selective with their applications, as the university's good, 38.9%, matriculation rate indicates. Student quality measures are mixed, with an above-average retention rate (84%) but a six-year graduation rate of 66%, which is low for the rating category. Although the university went to test optional in fall 2020, ACT scores were slightly above average at 23. Average tuition for fall 2020 was $30,800, which is flat in comparison with fall 2019. Overall, tuition is comparable with that of regional peers.

Fundraising

Management completed its capital campaign in 2018, which raised $145 million for a new science building. The alumni giving rate is low at 7.5%. The university is in the process of planning a new campaign, which it intends to launch in the next year.

Management and governance

A 38-member board of directors governs UST, led by Dr. Richard Ludwick as president. Other than normal rotations, there have been no recent changes to the board of directors. We expect no significant changes to the board other than normal rotations.

Dr. Ludwick began his term as president on July 1, 2017. With Mr. Ludwick's presidency, UST had some turnover in management, finance, enrollment, institutional advancement, and marketing. Since that time, the management team has been stable with no changes since our last review, and no changes are anticipated in the near term.

Financial Profile

Financial management policies

UST has a formal policy for investments. It operates according to a five-year strategic plan. The university meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization'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 UST's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, with a comparison of these policies with those of similar institutions.

Financial performance

As is typical for a private university, UST is highly student dependent, with about 83% of total revenues coming from tuition and auxiliaries, 7% from gifts, 4% from grants and contracts, and 6% from investment and endowment income. For the past five years, the university has had increasing full-accrual deficit operations. For fiscal 2020, UST reported a full-accrual operating deficit of $3.8 million, or a negative 3.9% margin, slightly weaker than in fiscal 2019, which produced an operating deficit of $3.5 million, or 3.7%. For fiscal 2021 the university is projecting balanced operating performance on a full-accrual basis including about $2.9 million of federal COVID-19 relief funding that was utilized to support operations. In addition, management is budgeting break-even operating performance for fiscal 2022 excluding additional stimulus funds. Operations have always been positive on a cash basis. The university had anticipated the operating deficits resulting from the board-approved two-year restructuring plan for fiscal years 2019 and 2020, which increased investments in new initiatives. To fund the new initiatives, the board authorized an endowment draws above 5.0% (6.0% for fiscal 2019 and 6.5% in fiscal 2020). The endowment spend rate is expected to decline to 5% for fiscal 2022. We expect that management will reduce its endowment draw and will work to maintain balanced operations.

Available resources

Available resources, as measured by expendable resources, increased significantly in fiscal 2020 to $52.9 million from $42.7 million in fiscal 2019. For fiscal 2020, expendable resources equaled 53.7% of operations and 130.4% of total debt including the aforementioned promissory note issued in fiscal 2021. These ratios are in line with rating category medians. Absent continued growth in balance sheet metrics, additional debt could pressure the rating. We expect management will continue to improve its balance sheet metrics.

The endowment has increased due to positive fundraising results and positive investment performance in recent years. The endowment had a market value of approximately $108.2 million as of June 30, 2020, compared with $106.6 million as of fiscal 2019. Investments were 73% in equity, 12% in fixed income, and 15% in diversifying strategies as of June 30, 2021. The endowment spending rate policy is 5% of a 12-quarter moving average of the endowment assets, but in fiscal 2019, the board authorized a 6% draw to fund strategic initiatives and a 6.5% draw for fiscal 2020.

Debt and contingent liabilities

In fiscal 2020, the university refinanced its entire debt portfolio and incurred an additional $8.0 million. The $8 million in additional debt would be used to help fund strategic capital projects. In 2020, the university repaid a $2.0 million revolving line of credit outstanding, with no additional balance outstanding. The refinancing smoothed the debt service and extended the maturity of debt outstanding. The MADS is $2.6 million, or a modest 2.6% of fiscal 2020 expenses.

University of St. Thomas, Texas--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2021	**2020**	**2019**	**2018**	**2017**	**2020**
Enrollment and demand						
Headcount	3,765	3,523	3,314	3,237	3,312	MNR
Full-time equivalent	2,835	2,520	2,408	2,277	2,271	2,732
Freshman acceptance rate (%)	96.1	87.3	82.2	80.9	77.4	75.0
Freshman matriculation rate (%)	38.9	35.7	35.5	34.4	38.0	MNR
Undergraduates as a % of total enrollment (%)	65.4	61.9	61.8	57.6	54.8	70.4
Freshman retention (%)	84.0	84.0	82.0	85.0	82.0	79.5
Graduation rates (six years) (%)	66.0	68.0	57.0	60.0	58.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	94,827	90,896	85,079	82,611	MNR
Adjusted operating expense ($000s)	N.A.	98,631	94,433	86,787	84,110	MNR
Net operating income ($000s)	N.A.	(3,804)	(3,537)	(1,708)	(1,499)	MNR
Net operating margin (%)	N.A.	(3.86)	(3.75)	(1.97)	(1.78)	0.00
Change in unrestricted net assets ($000s)	N.A.	(1,993)	(689)	3,026	12,638	MNR
Tuition discount (%)	N.A.	40.9	40.3	35.9	33.1	42.4
Tuition dependence (%)	N.A.	77.0	73.7	75.8	76.7	MNR
Student dependence (%)	N.A.	83.3	81.9	84.0	81.3	88.4
Research dependence (%)	N.A.	2.6	1.5	2.0	2.2	MNR
Endowment and investment income dependence (%)	N.A.	5.6	5.5	4.2	4.3	MNR
Debt						
Outstanding debt ($000s)	N.A.	40,580	31,220	32,565	34,986	62,342
Current debt service burden (%)	N.A.	2.02	8.05	7.05	8.13	MNR

University of St. Thomas, Texas--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					**Medians for 'BBB' rated private colleges & universities**
	2021	**2020**	**2019**	**2018**	**2017**	**2020**
Current MADS burden (%)	N.A.	2.60	8.20	10.20	3.35	3.90
Financial resource ratios						
Endowment market value ($000s)	N.A.	108,167	106,589	102,369	93,315	84,815
Cash and investments ($000s)	N.A.	127,812	113,544	112,434	103,728	MNR
Unrestricted net assets ($000s)	N.A.	90,829	92,822	93,511	90,485	MNR
Expendable resources ($000s)	N.A.	52,935	42,707	42,146	37,821	MNR
Cash and investments to operations (%)	N.A.	129.6	120.2	129.6	123.3	86.4
Cash and investments to debt (%)	N.A.	319.5	363.7	345.3	296.5	158.6
Cash and investments to pro forma debt (%)	N.A.	315.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	53.7	45.2	48.6	45.0	45.7
Expendable resources to debt (%)	N.A.	132.3	136.8	129.4	108.1	83.9
Expendable resources to pro forma debt (%)	N.A.	130.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.9	16.5	15.6	18.5	15.6

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*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. Outstanding debt and current MADS burden include a $580,000 note issued in fiscal 2021

Related Research

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

Ratings Detail (As Of September 30, 2021)		
University of St Thomas taxable bnds		
Long Term Rating	BBB+/Negative	Affirmed