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Allegheny County Higher Education Building Authority, Pennsylvania Duquesne University; Private Coll/Univ - General Obligation

Primary Credit Analyst:

Vicky Stavropoulos, Chicago +1 3122337035; vicky.stavropoulos@spglobal.com

Secondary Contact:

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

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Allegheny County Higher Education Building Authority, Pennsylvania

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Credit Profile		
US\$29.825 mil univ rev bnds (Duquesne University) ser 2024 due 06/30/2043		
<i>Long Term Rating</i>	A/Stable	New
Allegheny County Higher Education Building Authority, Pennsylvania		
Duquesne University, Pennsylvania		
Allegheny Cnty Hgr Ed Bldg Auth (Duquesne University)		
<i>Long Term Rating</i>	A/Stable	Affirmed
Pennsylvania Higher Educational Facilities Authority, Pennsylvania		
Duquesne University, Pennsylvania		
Pennsylvania Hgr Educl Facs Auth (Duquesne Univ) univ rev bnds		
<i>Long Term Rating</i>	A/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth (Duquesne Univ) univ rev bnds (federally taxable) (Duquesne University)		
<i>Long Term Rating</i>	A/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'A' rating to Allegheny County Higher Education Building Authority, Pa.'s \$29.8 million series 2024 university revenue bonds, issued for Duquesne University.
- At the same time, S&P Global Ratings affirmed its 'A' long-term rating and underlying rating (SPUR) on Duquesne's outstanding general revenue bonds issued by Allegheny County Higher Education Building Authority and Pennsylvania Higher Educational Facilities Authority.
- The outlook is stable.

Security

The educational and general revenue bonds are secured by Duquesne University's general revenue pledge, which we view as equivalent to a general obligation pledge. Total debt as of fiscal 2023 year-end was \$201.4 million, which includes \$198.3 million in educational and general revenue bonds. Included in the total debt is \$3.1 million in leases. The series 2024 bonds are being issued to supplement the capital program, including various renovations, energy management, life cycle, life safety and other project costs. Post-issuance, we estimate pro forma debt to be \$231.2 million and final maturity in 2043. The college has no other plans to issue additional debt within the next two years but could consider debt in the three-to-five-year timeframe.

Credit overview

We assessed Duquesne's enterprise risk profile as strong, characterized by growing applications and freshmen matriculating classes the past two years and a good management team that has proactively managed financial performance and the start-up of the College of Osteopathic Medicine, offset by a weak matriculation rate. We also assessed Duquesne's financial risk profile as strong, demonstrated by consistent positive operating margins on a generally accepted accounting principles (GAAP basis), healthy financial resources ratios for the rating, and a manageable pro forma debt burden, offset by overall dependence on student generated revenues. We believe these credit factors, combined, lead to an anchor of 'a' and final rating of 'A'.

The rating further reflects in our view of Duquesne's:

- Consistent operating surpluses and the expectation for another surplus in fiscal 2024;
- Stable student retention and graduation rates;
- Solid financial resources relative to both adjusted expenses and debt; and
- Moderate pro forma maximum annual debt service (MADS) burden of 4.4% of fiscal 2023 operating expenses.

Partially offsetting these credit strengths are:

- Weak matriculation rate and selectivity rate, though we recognize selectivity improved solidly in fall 2023 to 78.9% from 87.5% over one year;
- The risk associated with starting a medical program that could pressure financial operations if Duquesne University is not able to meet budgeted growth projections; and
- Highly competitive environment that could pressure Duquesne's demand metrics and stabilizing trend in enrollment.

Duquesne University of the Holy Spirit is a private Catholic residential university. The 50-acre hilltop campus is located adjacent to the downtown area of Pittsburgh's business and cultural centers. The university currently has ten academic schools: Business Education, Health Sciences, Law, Liberal Arts, Medicine, Music, Nursing, Pharmacy, and Science and Engineering.

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. We believe Duquesne is affected by demographic pressure, which we view as a social capital risk, with fewer graduating high school students in Pennsylvania and the surrounding region anticipated for the next several years. We view the university's environmental and governance risks as neutral factors in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that over the near term Duquesne will continue to stabilize enrollment. We also expect the university to produce positive operations on a GAAP basis in fiscal 2024, albeit a weaker result from

the previous fiscal year, while maintaining its healthy financial resources.

Downside scenario

We could consider a negative rating action should the university's financial operations trend negatively on a GAAP basis or if the university were to take on additional debt such that it significantly weakens financial resource ratios.

Upside scenario

We could consider a positive outlook if the university's enrollment trend remains stable and demand metrics improve, coupled with healthy financial operations and continued improvement of balance sheet ratios to a level more consistent with higher rated peers.

Credit Opinion

Enterprise Risk Profile--Strong

Market position and demand

Total enrollment at Duquesne University recently stabilized after multiple years of decline due to competitive pressures and area demographics, coinciding with the pandemic. Full-time enrollment (FTE) improved to 7,919 (0.7%) in fall 2023, compared with 7,864 in fall 2022 and 8,058 in fall 2022. Much of the improvement in fall 2023 was due to freshmen enrollment rebounding the past two years to 1,477 students in fall 2023 and 1,441 in fall 2022 from 1,233 in fall 2021. Management has implemented a comprehensive strategic enrollment initiative, focused on enhancing marketing, leveraging financial aid, and reducing student attrition, and they anticipate a continued improvement in freshman enrollment, with a goal to return to about 1,500-1,600 freshmen in the near-term. Graduate FTE, including law students, declined recently to 2,739 students in fall 2023 compared with 2,816 the previous year, which management attributes to waning demand for certain programs that are aligned with national trends.

Total completed applications have been increasing since fall 2020, growing 14% in fall 2023 to 14,112, compared with 12,376 the previous year. Selectivity weakened during the pandemic to a high of 91.9% in fall 2021, however as the university has continued its growth in applications, selectivity improved to pre-pandemic levels in fall 2023 to 78.9% from 87.5% in fall 2022. Matriculation has been stable at 13.3%, which we consider weaker compared to the median for the rating category. Student retention improved over one year to 86.5% from 84% in fall 2022 and graduation rates have held steady at 78%, both of which we consider solid for the rating category.

The university has a successful history of fundraising. Additionally, the school has raised \$33 million to date for the College of Osteopathic Medicine to support operations, capital, and the endowment.

Management and governance

The management team has remained stable during the past few years, with good tenure. The university welcomed its first chief investment officer in March 2022, which has brought strategic leadership and oversight of the university's long-term investment program in-house. In our view, management has generally conservative budgeting and financial management practices, which we view positively. Management continues to take an active approach to prepare for possible unplanned expenses and proactively manages the start-up cost and timeline of establishing the College of

Osteopathic Medicine.

Management has extended its current strategic plan, covering the period of 2018-2023 for the next few years. Primary goals include improving student success through enhanced student services and enrollment management, broadening community engagement, increasing interdisciplinary learning, and capitalizing on entrepreneurial opportunities. Management budgets on a full-accrual basis and produces full-accrual interim statements monthly, which we view as a best practice. Management has demonstrated its ability to cut expenses through the implementation of three rounds of voluntary retirement programs during the past few years, and other expense savings. We believe this budgetary flexibility shows prudent fiscal management.

Financial Risk Profile--Strong

Financial performance

The university has historically produced operating surpluses on a GAAP basis. In fiscal 2023, the surplus was slightly weaker from the previous year at \$16.1 million (3.7% margin) compared with an operating surplus of \$19.9 million (4.9%) in fiscal 2022. Key factors leading to the fiscal 2023 operating result include improving auxiliary revenues as housing occupancy grew, supplemental endowment spending for strategic initiatives, offset by increases in expenses related to salaries and benefits due to inflationary pressures as well as no additional HEERF funding. For fiscal 2024, management expects for continued positive operations, though slightly weaker results compared to the previous few years due to cost pressures as they start up the medical school and inflationary pressures persist. In the near-term as the university manages the start-up of the COM, they are assessing opportunities for asset monetization and cost containment to offset the elevated costs and anticipate positive operations will persist.

Tuition and fees (including room and board) were \$62,766 in fall 2023, which is in-line with those of its peers. The overall tuition discount increased in fiscal 2023 at 38.2% on an institutional basis compared to 35.6% in fall 2022, which we believe is manageable, and management is working with consultants to moderate the discount rate. Net tuition revenue decreased slightly in fiscal 2023 (by 1.2%) following another decline (2.4%) in fiscal 2022. The university continues to have limited revenue diversity and depends heavily on tuition and other student-generated revenue for 85% of fiscal 2023 operating revenues. As the balance sheet has strengthened, the endowment has been able to support operations further, though we recognize revenues are still concentrated.

Financial resources

Due to the growth over the past three years, the university's balance sheet ratios are healthy for the rating category, in our view. Cash and investments grew 5.9% to \$664.7 million at the end of fiscal 2023, equal to 154.7% of operations and 287.5% of pro forma debt.

The market value of the endowment as of June 30, 2023, was about \$557 million. Management states that approximately 80.5% of the portfolio is liquid within 30 days. The university is not planning to significantly change its current investment strategy.

The investment spending policy currently sets an all-in spending rate of 4.5% of the average fair market value of the endowment fund over a rolling 16-quarter average (4.25% endowment payout plus 0.25% administrative fee).

Management reports that for fiscal 2023, the university utilized a supplemental draw of \$7.8 million in endowment funds, which was deferred from fiscal 2021, as they continue to make investments to grow enrollment and net revenues and note that their effective spend rate including those funds is 6.9%.

College of Osteopathic Medicine

As part of their long-term strategic plan Duquesne University is in the process of opening the College of Osteopathic Medicine. The university anticipates construction of their new facility to be completed by 2023 year-end and the project is fully-funded and on track for completion. Additionally, Duquesne has gradually started the hiring process and anticipates having half of positions filled by fiscal 2024 year-end while it begins to grow enrollment. Duquesne is planning a ramp-up process reaching full enrollment of 680 students in their doctorate program and 70 students in their master programs by fiscal 2030. Management reports that as the school is coming online, they have already seen solid demand for their masters in biomedical sciences program. The university is expecting operating deficits in the initial phases of the program due to the increase in expenses as accreditation requires for the school to be fully operational while enrollment ramps up. In anticipation of expected negative operations Duquesne has set aside \$30 million in cash reserves. In our view, currently the university has the financial flexibility to support the upfront expenses that will occur with the opening of a new medical school. However, in our opinion, if the university is unable to meet budgeted projections the rating could be pressured. We will continue to monitor the project in our future reviews.

Debt and contingent liabilities

Including the series 2024 issuance, total pro forma debt is \$231.2 million. We consider the pro forma MADS burden of 4.4% of fiscal 2023 operations manageable, particularly given that the university's debt (which is all fixed-rate) amortizes within 20 years. The obligor has no contingent liability risk exposures from financial instruments with payment provisions that change upon the occurrence of certain events.

Historically, the university participates in single-employer contributory retirement plans, to which the employee contributes 5% and the university contributes up to 8%. The university annually funds the retirement costs under the plans, which totaled \$5.2 million for the year ended June 30, 2023.

Management continued to assess new opportunities for asset monetization to grow financial resources. Management has engaged in various asset monetization, occurring in 2018, 2019, 2020, and most recently in 2022. In May 2019, Duquesne University entered into a 40-year Energy Service Agreement with Cordia (formerly Clearway Energy Inc.) The university realized a substantial upfront payment of \$102 million as part of the agreement. Duquesne retained ownership of the land, building, and distribution network. Cordia is responsible for operating and maintaining the utility system and in providing Duquesne with electricity, steam, and chilled water services. The net proceeds of the sale after paying related debt and capital expenditures were added to the university's long-term investment portfolio.

In June 2020, Duquesne closed on a transaction whereby it conveyed another student housing facility on its main campus to the developer who purchased the initial property in 2018. Additionally, in December 2022, the university closed on a transaction whereby it sold a property near campus to the same developer, aimed at constructing a new student housing facility. For all three mentioned transactions, the university and the developer entered into a long-term cooperation and services agreement that specifies the responsibilities and obligations of both parties. The

developer also completely renovated and modernized the two facilities located on the main campus. The net proceeds from the transactions were applied to other capital expenditures as well as to the university's reserves.

Duquesne University, Pennsylvania--enterprise and financial statistics						
	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges and universities
	2024	2023	2022	2021	2020	2022
Enrollment and demand						
Full-time-equivalent enrollment	7,919	7,864	8,058	8,520	8,889	3,352
Undergraduates as a % of total enrollment	65.4	64.2	62.5	63.0	64.9	81.6
First-year acceptance rate (%)	78.9	87.5	91.9	77.2	74.3	72.9
First-year matriculation rate (%)	13.3	13.3	13.9	18.6	24.2	17.8
First-year retention rate (%)	86.5	84.0	84.0	85.7	85.4	86.0
Six-year graduation rate (%)	78.0	78.0	79.0	79.0	80.0	74.5
Income statement						
Adjusted operating revenue (\$000s)	N.A.	445,857	427,390	420,981	425,732	234,650
Adjusted operating expense (\$000s)	N.A.	429,748	407,534	409,849	408,625	223,552
Net operating margin (%)	N.A.	3.7	4.9	2.7	4.2	0.7
Change in unrestricted net assets (\$000s)	N.A.	25,548	(40,071)	102,008	6,782	MNR
Tuition discount (%)	N.A.	38.1	35.6	35.6	35.1	42.4
Student dependence (%)	N.A.	85.3	85.2	86.4	88.2	81.0
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.9	0.8	0.7	0.7	4.6
Debt						
Outstanding debt (\$000s)	N.A.	201,372	212,041	178,916	167,894	130,281
Proposed debt (\$000s)	N.A.	29,825	N.A.	57,875	24,780	MNR
Total pro forma debt (\$000s)	N.A.	231,197	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.2	5.0	4.6	3.4	MNR
Current MADS burden (%)	N.A.	4.4	4.3	3.8	3.9	4.0
Pro forma MADS burden (%)	N.A.	4.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.2	15.2	15.8	14.9	16.1
Financial resource ratios						
Endowment market value (\$000s)	N.A.	557,014	521,456	591,649	445,018	316,898
Cash and investments (\$000s)	N.A.	664,715	627,872	683,448	515,581	386,704
Cash and investments to operations (%)	N.A.	154.7	154.1	166.8	126.2	157.0
Cash and investments to debt (%)	N.A.	330.1	296.1	382.0	307.1	355.7

Duquesne University, Pennsylvania--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges and universities
	2024	2023	2022	2021	2020	2022
Cash and investments to pro forma debt (%)	N.A.	287.5	N.A.	N.A.	N.A.	MNR

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

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