S&P Global Ratings

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

Primary Credit Analyst:
James Gallardo, Centennial + 1 (303) 721 4391; james.gallardo@spglobal.com

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

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

Credit Profile		
US$48.2 mil univ rev bnds (Duquesne Univ) ser 2021 due 03/01/2041		
Long Term Rating	A/Stable	New
US$15.3 mil univ rev bnds (forward delivery) (Duquesne Univ) ser 2022A due 03/01/2041		
Long Term Rating	A/Stable	New
Allegheny Cnty Hgr Ed Bldg Auth, Pennsylvania		
Duquesne Univ, Pennsylvania		
Allegheny Cnty Hgr Ed Bldg Auth (Duquesne Univ) rev bnds		
Long Term Rating	A/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to Allegheny County Higher Education Building Authority, Penn.'s $48.1 (par) million series 2021 general revenue bonds and $15.3 (par) million series 2022 A (forward delivery) revenue bonds issued for Duquesne University of the Holy Spirit (Duquesne). At the same time, we affirmed our '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.

The university is issuing $48.1 million in series 2021 bonds to fund construction costs associated with the planned College of Osteopathic Medicine and $5.6 million refund the series 2011 A bonds. Additionally, the 2022 A bonds are being issued on a forward delivery basis to refund the series 2013 A bonds. Post-issuance, the university has an estimated $215 million in pro forma debt. Additionally, the university has a small amount of operating lease obligations, which we view as manageable. 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.

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 fall 2023. Additionally, Duquesne will start the hiring process for key senior leadership with the first class of students to start in fall 2024. Duquesne is planning a ramp-up process reaching full enrollment of 680 students in its doctorate program and 70 students in its master programs by fiscal 2030. The university is expecting operating deficits in the initial phases of the program due to the increase in expenses. In anticipation of expected negative operations, Duquesne set aside $20 million is 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 or if the opening of the medical is delayed, the rating could be pressured. We will continue to monitor the project in our future reviews.

Management implemented policies and processes that incorporated good safety precautions due to the COVID pandemic. Duquesne made the decision to fully open its campus and provide full in-person classes in the 2021-2022 academic year, while providing online access to students that require isolation or quarantine. International students represent a very small amount of Duquesne's total enrollment, although they have exhibited some improvement, specifically in their graduate programs as overall revenue was not materially influence. In fiscal 2021, auxiliary revenue accounted for about 4.9% of total revenue or $20.1 million, which is slightly weaker than fiscal 2020 financial results and significant weaker when compared to pre-COVID numbers. The decline in total auxiliary revenue has been influenced by the pandemic. Despite the expenses and loss of revenue incurred due to the pandemic, the university posted a net adjusted operating income of $11.1 million, or a 2.7% margin, in fiscal 2021. As part of the Higher Education Emergency Relief Fund I & II (HEERF), authorized by the Coronavirus Aid, Relief, and Economic Security [CARES] and Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) Acts, the university has received $7.7 million for institution to use and $5.4 million for students. Also, under the American Rescue Plan Act (ARP), the university received a total of $13.8 million with $6.9 million for institutional use. Of HEERF III funding, $5 million will be used for institutional usage in fiscal 2022. In fiscal 2022, management anticipates that financial operations will be slightly weaker on a generally accepted accounting principles (GAAP) basis due to enrollment declines. As of June 30, 2021, the university had approximately $683.4 million in cash and investments, which in our view provides good financial flexibility at the 'A' rating category.

Credit overview

We assessed Duquesne's enterprise profile as strong, characterized by the continued significant decline of full-time-equivalent (FTE) enrollment, although applications and the freshman class size both improved in fall 2021, coinciding with good student retention. However, other demand characteristics, including matriculation and selectivity, continue to decline. We also assessed Duquesne's financial profile as strong, demonstrated by consistent positive operating margins on GAAP basis; healthy available resources ratios for the rating; a manageable pro forma debt burden; and negative net tuition revenue. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'a' and final rating of 'A'.

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

Consistent operating surpluses;

- Stable student retention with good student quality;
- Improving financial resources relative to both adjusted expenses and debt; and
- Moderate pro forma maximum annual debt service (MADS) burden of 4.2% of fiscal 2021 operating expenses.

Partially offsetting these credit strengths are:

- The continued trend of declining FTE enrollment, which could negatively affect financial operations if the trend continues;
- Significant decline in selectivity and matriculation in fall 2021;
- The risk associated with starting a medical program that could pressure financial operations if Duquesne University is not able to meet budget growth projections; and

- Highly competitive environment that could pressure Duquesne's already weakening demand metrics and hinder financial operations.

The stable outlook reflects our expectation that in the near term, Duquesne University will continue to work diligently to stabilize enrollment and improve their demand characteristics. We also expect the university to produce positive operations on a GAAP basis in fiscal 2022, driven by additional federal appropriations funding through HEERF and continued implementation of strict expense controls while maintaining healthy financial resources.

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 nine academic schools: the College of Liberal Arts, Law, Business Administration, Pharmacy, Music, Education, Nursing, Health Sciences, and Natural and Environmental Sciences.

Environmental, social, and governance

In our view, higher education entities face elevated social risk due to the uncertain duration of the COVID-19 pandemic. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. In addition, we believe Duquesne University is also affected by changing demographic and population trends, which we view as a social risk, and could lead to demand metrics pressure. Despite the elevated social risk, we believe Duquesne university environment and governance risk are in line with our view of the sector.

Stable Outlook

Downside scenario

We could consider a negative rating action should the college's financial operations produce a trend of negative operations on a GAAP basis. We could also consider a negative rating action if enrollment were to decline, deteriorating the school's financial operations, or if the university were to take on additional debt without a commensurate increase in financial resources.

Upside scenario

We could consider a positive outlook if the university's enrollment trend stabilizes and demand metrics improve, coupled with the continued improvement of current balance sheet ratios that are more consistent with its higher-rated peers, and preservation of positive financial operations.

Credit Opinion

Enterprise Profile

Market position and demand

Total enrollment at Duquesne University has continued to be pressured during the past three years. Additionally, FTE continues to be pressured with a significant decline the past two years to 8,058 (5.4%) in fall 2021 from 8,520 (4.2%) in fall 2020 compared to 8,889 in 2019. Enrollment has declined due to ongoing competitive pressures and area demographics coinciding with the COVID pandemic. Undergraduate FTE decreased meaningfully to 5,075 in fall 2021 (6.5%) from 5,426 (7%) in fall 2020 compared to 5,771 in 2019. In fall 2021, freshman enrollment slightly improved following four years of declines to 1,233 from 1,195 the previous year compared to a near record high of 1,563 in fall 2017. Management anticipates a continued improvement in freshman enrollment, with the implementation of a comprehensive strategic initiative with a goal to return to around 1,500 freshman in the near-term. Graduate FTE had a healthy increase in fall 2021 to 2,096 compared with 2,041 the previous year. Management has implemented initiatives to spur program and enrollment growth, including revamping its marketing efforts to continue positive enrollment trends.

Total completed applications increased by 15.7% in fall 2021. However, fall 2021 demand metrics have declined compared with historical levels, in our view, selectivity reported a steep decline to 91.9% from 77.2 the previous year. Additionally, matriculation continued decline to 13.9% from a near all-time high of 29.7% in fall 2017. However, student retention has remained fairly stable at 84%.

Student quality remains above average, with an average SAT score of 1231 for fall 2021. Duquesne University's geographic reach is considered limited because 73% of students came from Pennsylvania. Out-of-state students come primarily from Ohio, New York, Maryland, and New Jersey. The six-year graduation rate has remained consistent at 79%. In our view, a continued trend of weakening demand metrics could negatively pressure Duquesne's overall demand profile during the next couple years.

The university has a successful history of fundraising. The most recent capital campaign closed on Dec. 31, 2012, after raising $164.3 million from a goal of $150 million. Management reports that the annual fund raises about $5 million per year and has around a 7% undergraduate alumni participation rate. In 2011, Duquesne was named a beneficiary of the William Dietrich bequest and was granted a portion of a trust, which equates to a value of about $35.6 million as of Dec. 31, 2020. The fund will provide annual disbursements in perpetuity that will go into the university's endowment.

Management and governance

The management team has remained fairly stable during the past few years, with good tenure. 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 on campus enrollment disruption due to COVID-19 pandemic.

Duquesne recently adopted its new five-year strategic plan, covering 2018-2023, and its 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 such as merging the school of leadership and professional advancement programs into other schools, spinning off its musical ensemble program, and closing the university press. We believe this budgetary flexibility shows prudent fiscal management. The university also has investment and debt policies, and its independent 31-member board of directors is responsible for fiscal oversight.

Financial Profile

Financial performance

The university has historically produced unrestricted operating surpluses on a generally accepted accounting principles (GAAP) basis. In fiscal 2021, the surplus was slightly weaker from the previous year, at $11.1 million (2.7% margin) compared to an operating surplus of $17.1 million (4.2%). In fiscal 2021, the university continued to benefit from good expense controls and receiving federal stimulus revenue from HEERF funding. The university continues to have limited revenue diversity and depends heavily on tuition and other student-generated revenue for 86.4% of fiscal 2021 operating revenue. However, in our view, continued lower-than-expected enrollment numbers coinciding with the costs that are incorporated with the starting of a medical school could negatively influence financial operations in the medium-term. The university has budgeted for positive operations in fiscal 2022 with the use of additional federal funds from HEERF III and good controls on expenses to off-set enrollment declines.

Tuition and fees (including room and board) were $57,103 in fall 2021, which is in-line with those of its peers. The overall tuition discount rate for fiscal 2021 was 35% on an institutional basis, which we believe is manageable, and management expects the discount rate could increase modestly in the next few years. Net tuition revenue decreased in fiscal 2021 (by 2.9%) following an increase (by 1.8%) in fiscal 2020. In our opinion, net tuition revenue growth might be limited in the next couple years due to the competitive environment and enrollment pressure.

Available resources

Available resource increased in fiscal 2021, bolstered by healthy investment returns. Due to the significant growth, the university's balance sheet ratios are healthy for the rating category, in our view. Cash and investments (some of which are restricted) were $683.4 million at the end of fiscal 2021, equal to 166.8% of operations and 316.6% of total pro forma debt. Expendable resources of $493.9 million as of June 30, 2021, represented 120.5% of operating expenses and 228.8% of pro forma debt.

The market value of the endowment as of June 30, 2021, was about $591.6 million. As of the same date, the portfolio was 66.7% global equities, 11.9% diversified strategies, 5.7% real assets, 11.3% deflation hedging, and 4.4% private investments. Management states that approximately 86% of the portfolio is liquid within six months. The university is not planning to 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). The university's spending rate was 3% in fiscal 2021, which we view as manageable.

Debt and contingent liabilities

The university issuing $42.5 million in series 2021 bonds to fund the construction of the University's College of Medicine facility and $5.6 million to the refunding of the series A 2011 bonds. Additionally, the series 2022 A bonds are being issued on a forward delivery basis to refund the series A 2013 bonds. Post-issuance, total pro forma debt is approximately $215 million, all of which is fixed rate. We consider the pro forma MADS burden of 4.2% of fiscal 2021 operations manageable, particularly given that most of the university's debt amortizes over 15 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 8%. In fiscal 2021, the university suspended it's retirement contribution for most of their employees, except for employees covered by the collective bargaining agreement. In fiscal 2022, the university restarted its contribution, but have adjusted their contribution to 5%. The university also participates in a multiemployer noncontributory retirement plan for certain union employees, which is funded at the rate of 0.87 cents per hour worked up to a maximum of 40 hours per week. The university annually funds the retirement costs under both plans, which amounted to $800,000 for the year ended June 30, 2021.

Management has engaged in various asset monetization. The two most recent ones occurred in 2019 and in 2020. In May 2019, Duquesne University entered into a 40-year Energy Service Agreement with 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. Clearway is responsible for operating and maintaining the utility system. Clearway will also provide Duquesne with electricity, steam, and chilled water services. As part of the agreement, Duquesne will provide payment for annual fixed operating fees and commodity costs based on usage, and contribute to capital investments. Management anticipates various annual expense savings due to this partnership. 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 a student housing facility on its main campus to a developer. The university and the developer entered into a long-term cooperation and services agreement which specifies the responsibilities and obligations of both parties. The net proceeds from the transaction were applied to other capital expenditures as well as to the university's reserves.

Duquesne University, Penn.: Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Enrollment and demand					
Headcount	8,333	8,861	9,260	9,344	9,256
Full-time equivalent	8,058	8,520	8,889	9,005	8,882
Freshman acceptance rate (%)	91.9	77.2	74.3	71.8	71.7
Freshman matriculation rate (%)	13.9	18.6	24.2	28.0	29.7
Undergraduates as a % of total enrollment (%)	60.9	61.2	63.0	64.3	64.1
Freshman retention (%)	84.0	85.7	85.4	84.8	86.9
Graduation rates (six years) (%)	79.0	79.0	80.0	78.0	79.0
Income statement					
Adjusted operating revenue ($000s)	N.A.	420,981	425,732	415,610	404,421
Adjusted operating expense ($000s)	N.A.	409,849	408,625	408,962	398,544
Net operating income ($000s)	N.A.	11,132	17,107	6,648	5,877
Net operating margin (%)	N.A.	2.72	4.19	1.63	1.47
Change in unrestricted net assets ($000s)	N.A.	102,008	6,782	76,890	12,647

Duquesne University, Penn.: Enterprise And Financial Statistics (cont.)					
	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Tuition discount (%)	N.A.	35.6	35.1	35.1	35.1
Tuition dependence (%)	N.A.	81.5	82.3	82.8	80.8
Student dependence (%)	N.A.	86.4	88.2	90.8	90.3
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	0.7	0.7	0.7	0.8
Endowment and investment income dependence (%)	N.A.	2.4	4.9	3.8	3.2
Debt					
Outstanding debt ($000s)	N.A.	178,916	167,894	173,804	151,514
Proposed debt ($000s)	N.A.	57,875	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	215,841	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	17,383	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	4.60	3.37	4.05	3.54
Current MADS burden (%)	N.A.	3.84	3.85	3.66	3.48
Pro forma MADS burden (%)	N.A.	4.24	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	591,649	445,018	464,658	370,371
Cash and investments ($000s)	N.A.	683,448	515,581	513,097	510,115
Unrestricted net assets ($000s)	N.A.	482,744	380,736	373,954	297,064
Expendable resources ($000s)	N.A.	493,930	343,416	369,559	243,665
Cash and investments to operations (%)	N.A.	166.8	126.2	125.5	128.0
Cash and investments to debt (%)	N.A.	382.0	307.1	295.2	336.7
Cash and investments to pro forma debt (%)	N.A.	316.6	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	120.5	84.0	90.4	61.1
Expendable resources to debt (%)	N.A.	276.1	204.5	212.6	160.8
Expendable resources to pro forma debt (%)	N.A.	228.8	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	15.8	14.9	13.5	12.3

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.

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 November 23, 2021)
Allegheny Cnty Hgr Ed Bldg Auth, Pennsylvania
Duquesne Univ, Pennsylvania

Ratings Detail (As Of November 23, 2021) (cont.)		
Allegheny Cnty Hgr Ed Bldg Auth (Duquesne University)		
Long Term Rating	A/Stable	Affirmed
Allegheny Cnty Hgr Ed Bldg Auth (Duquesne University) (FGIC)(National)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
Duquesne Univ, Pennsylvania		
Pennsylvania Hgr Educl Facs Auth (Duquesne Univ) univ rev bnds		
Long Term Rating	A/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth (Duquesne Univ) univ rev bnds (federally taxable) (Duquesne University)		
Long Term Rating	A/Stable	Affirmed

Many issues are enhanced by bond insurance.