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## University of Puget Sound Washington Higher Education Facilities Authority; Private Coll/Univ - General Obligation

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# University of Puget Sound

## Washington Higher Education Facilities Authority; Private Coll/Univ - General Obligation

### Credit Profile

#### Washington Higher Education Facilities Authority, Washington

University of Puget Sound, Washington

Washington Higher Education Facilities Authority (University of Puget Sound) rev and rfdg bnds (University of Puget Sound)

Long Term Rating

A+/Stable

Affirmed

### Credit Highlights

- S&P Global Ratings affirmed its 'A+' long-term rating on the Washington Higher Education Facilities Authority's series 2023 revenue refunding bonds issued on behalf of the University of Puget Sound.
- The outlook is stable.

### Security

The University of Puget Sound had approximately \$62.8 million in debt outstanding as of June 30, 2024, including a small amount of capital leases. A broad pledge of unrestricted revenue, gains, and other support secures the bonds; we view this as equivalent to a general obligation pledge of the university. The university's maximum annual debt service (MADS) is a low 2.8% of fiscal 2024 adjusted operating expenses. We do not expect the university will issue any new debt in the two-year outlook period.

### Credit overview

We assessed the university's enterprise risk profile as strong, characterized by good geographic diversity and consistent student quality, offset by weak acceptance and matriculation rates. We assessed the university's financial risk profile as strong, reflecting solid financial resources and robust financial management. We believe these credit factors, combined, lead to an anchor of 'a'. As our criteria indicate, the final rating can be within one notch of the anchor. In our opinion, the 'A+' rating better reflects the university's robust level of cash and investments relative to debt.

The long-term rating reflects our view of the following strengths:

- Strong cash and investment position that has grown over time, particularly relative to debt;
- Manageable debt burden, with a modest MADS and no additional debt expected in the outlook period; and
- Solid endowment relative to those of peers on a per-full-time-equivalent (FTE) basis.

The long-term rating also reflects our view of the following weaknesses:

- Weaker demand metrics than peers', particularly selectivity and matriculation rates;

- Limited revenue diversity, with student-derived revenue making up 78% of adjusted operating revenues; and
- Pressured operations in recent years, coupled with our expectation that the university will draw on its unrestricted quasi-endowment to support near-breakeven results through fiscal 2027.

The University of Puget Sound, founded in 1888 in Tacoma, is a private residential liberal arts and science institution with an emphasis on undergraduate education. The university offers more than 50 areas of study, including a school of music and a school of business and leadership.

### **Environmental, social, and governance**

Overall, environmental, social, and governance factors are neutral in our analysis. However, data from S&P Global Sustainable<sup>1</sup> indicates that, relative to the U.S., both Washington State and Pierce County, where the university is located, face elevated exposure to coastal flooding and severe rainfall. The university carries a suite of insurance policies to combat environmental risks.

## **Outlook**

The stable outlook reflects our view that the University of Puget Sound's balance sheet and lack of additional debt plans provide sufficient cushion for the current rating, despite operational pressure as the university works to stabilize enrollment.

### **Downside scenario**

We could consider a negative rating action if operating results are weaker than projected and if elevated endowment draws cause a substantial decline in financial resources. We would also view weakening of demand metrics, such as enrollment and retention, negatively.

### **Upside scenario**

We could consider a positive rating action if the university significantly strengthened its demand profile, primarily selectivity and matriculation, while maintaining or improving student quality. We would also expect the university to return to positive operations and further grow cash and investments.

## **Credit Opinion**

### **Enterprise Risk Profile--Strong**

#### **Market position and demand**

The University of Puget Sound has faced enrollment pressure in recent years. Most recently, FTE enrollment fell by 3% in fall 2024, to 1,819 students, which management partly attributes to the government's delays in processing information from the Free Application for Federal Student Aid (FAFSA). Both selectivity and matriculation have gradually improved in recent years, with fall 2024 results reaching 72% and 11%, respectively, but remain weak compared to peers. The university's retention rate has also improved in recent years, reaching 84% in fall 2024, which is in line with that of rating category medians. We would view continued improvement in selectivity and matriculation

rates as well as enrollment stability as positive credit factors. Despite enrollment pressure, student quality remains stable and stronger than rating category medians. Undergraduates make up 87% of the student body. The university has good geographic diversity, with only 37% of students from Washington state.

Management is targeting modest enrollment growth over the next several years under a strategic enrollment plan. The plan includes refreshing marketing materials and expanding video content. It also seeks to improve the use of analytics, increase application volumes, diversify enrollment channels, launch new graduate programs, and improve retention.

### **Management and governance**

The university has a stable and experienced management team. The university's president, Dr. Isiaah Crawford, has been in his role since 2016. The university recently announced a new vice president of enrollment. The board has been stable, with primarily rotational changes.

The university operates according to a 2018-2028 strategic plan, "Leadership for a Changing World," with goals to advance institutional excellence, academic distinction, and student success; enrich campus learning through increased diversity, inclusion, and access; support and inspire faculty and staff members; enhance engagement with the community; and expand institutional assets by pursuing entrepreneurial opportunities. Management has updated the strategic plan to adapt to changing demand. In particular, management seeks to improve the university's financial health by right-sizing operations for a target enrollment size of 2,300 students.

## **Financial Risk Profile--Strong**

### **Financial performance**

Demand pressure, increased discounting, and the impacts of the COVID-19 pandemic have weakened the university's operations in recent years. To manage budgetary pressure, management has supported operations with supplemental draws from the quasi-endowment in fiscal years 2023 and 2024, allowing university to achieve near-breakeven results. In 2024, the net supplemental draw was approximately \$5 million. Management will continue to make relatively modest draws from the quasi endowment through fiscal 2027 to support budgetary equilibrium while the university works to curtail expenses, diversify revenue, and stabilize enrollment. While we view the elevated draws negatively, we believe management has a commitment to financial discipline, including efforts to right-size operations.

Like many private universities of its size, the University of Puget Sound is dependent on tuition and fees, which account for approximately 78% of adjusted revenue. In line with enrollment pressure, net tuition revenue decreased by 4% in fiscal 2024. The university's discount rate in fiscal 2024 was high at 50%, though management anticipates improvement in fiscal 2026. Tuition increased by 5% in fall 2024 and remains in line with peers at \$62,310 for the 2024-25 school year.

### **Financial resources**

The university's financial resources have grown and remain a credit strength, in our view. Cash and investments measured \$533.6 million as of June 30, 2024, equal to 321% of adjusted operating expenses and a very strong 850% of debt. Even with operating pressure in the outlook period, we expect the university's resources will remain solid for the

rating.

As of fiscal 2024, the university's endowment had a market value of \$471.5 million, up 5% from the prior year, net of spending. Management reports continued growth in fiscal 2025 to date. The asset allocation is moderately conservative, primarily invested in global equities, private capital, real assets, and fixed income. The university has an endowment spending policy of 5% of a trailing 36-month average market value with a two-year lag, which we view as sustainable. The effective spending rate is typically below this level; however, we expect slightly elevated draws as the university uses its unrestricted quasi-endowment to support near-breakeven results through fiscal 2027. The unrestricted quasi-endowment measured \$49.2 million in fiscal 2024. We do not anticipate these draws will materially deteriorate the university's financial resources.

The university has a track record of successful fundraising efforts. In 2020, the university exceeded its internal five-year fundraising goal, raising \$51 million compared to a target of \$43 million. In January 2022, the university launched the silent phase of its current campaign, "Greater, We Ascend." Management reports there was a significant increase in donations and donors in fiscal 2024, marking the second-largest fundraising year in the university's history.

**University of Puget Sound, Washington--Enterprise and financial statistics**

	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges & universities
	2025	2024	2023	2022	2021	2023
<b>Enrollment and demand</b>						
Full-time-equivalent enrollment	1,819	1,878	1,968	2,118	2,113	3,442
Undergraduates as a % of total enrollment	87.0	86.5	85.8	87.2	87.9	84.7
First-year acceptance rate (%)	72.2	76.3	82.7	88.3	86.9	72.9
First-year matriculation rate (%)	11.4	10.9	9.2	9.2	8.7	17.5
First-year retention rate (%)	84.0	80.2	78.7	88.0	76.3	85.1
Six-year graduation rate (%)	68.0	69.9	76.1	74.2	77.1	76.2
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	166,296	163,668	160,861	150,563	MNR
Adjusted operating expense (\$000s)	N.A.	165,987	163,146	164,535	154,487	MNR
Net operating margin (%)	N.A.	0.2	0.3	(2.2)	(2.5)	0.5
Change in unrestricted net assets (\$000s)	N.A.	(914)	2,136	(14,470)	24,306	MNR
Tuition discount (%)	N.A.	49.6	48.0	47.5	48.2	42.3
Student dependence (%)	N.A.	77.7	78.3	82.0	77.0	82.2
Research dependence (%)	N.A.	0.1	0.1	0.1	0.1	1.8
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	62,786	63,220	65,358	67,484	129,836
Current MADS burden (%)	N.A.	2.8	2.5	2.7	3.0	4.2
Average age of plant (years)	N.A.	19.2	18.1	14.9	14.4	16.3

University of Puget Sound, Washington--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges & universities
	2025	2024	2023	2022	2021	2023
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	471,468	448,622	427,977	474,232	332,263
Cash and investments (\$000s)	N.A.	533,562	513,315	493,015	545,357	393,804
Cash and investments to operations (%)	N.A.	321.4	314.6	299.6	353.0	159.3
Cash and investments to debt (%)	N.A.	849.8	812.0	754.3	808.1	347.2

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.

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