S&P Global Ratings

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Kent State University, Ohio; Public Coll/Univ - Unlimited Student Fees

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Kent State University, Ohio; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
US$172.27 mil Gen receipts rfdg bnds ser 2020B due 05/01/2042		
Long Term Rating	A+/Stable	New
US$22.76 mil Gen receipts bnds ser 2020A dtd 01/26/2020 due 04/30/2050		
Long Term Rating	A+/Stable	New
Kent St Univ PCU		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Kent State University (KSU), Ohio's approximately $22.8 million series 2020A general receipts bonds and $172.3 million series 2020B general receipts refunding bonds. In addition, S&P Global Ratings affirmed its 'A+' long-term rating on various series of general receipts bonds issued by KSU. The exact amount of the issuance will be determined based on market conditions at time of sale. The outlook on all ratings is stable.

We assessed the university's enterprise profile as strong, characterized by solid retention and selectivity and a large total full-time-equivalent (FTE) enrollment, offset by declines in total FTE enrollment over the past three years. We assessed the university's financial profile as very strong, characterized by robust available resources and healthy financial policies, offset by relatively break-even operating performance when excluding GASB 68 and 75 adjustments. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'a+' and a final bond issue rating of 'A+'.

Pursuant to our government-related entities (GREs) criteria, a moderate likelihood of extraordinary support from Ohio does not result in our raising the 'a+' stand-alone credit profile rating on Kent State.

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

- More-than-adequate available resources for the rating category, with adjusted unrestricted net assets totaling $400.1 million as of the fiscal year ended June 30, 2019;
- Solid retention rates and matriculation rates of 74% and 36%, respectively, as of fall 2019, which should help the university stem enrollment declines; and
- Solid governance from its board of trustees and additional oversight provided by the Ohio Department of Higher Education, in addition to the successful hire of a new president who has significant experience with the university, and successful addition of several other new permanent cabinet members including a new vice president for enrollment management, and student affairs.

We believe somewhat offsetting factors include the university's:

- Unfavorable demographics for graduating high school seniors bound for college, and a more recent decline in international enrollment, which has caused FTE enrollment to decline for a fourth consecutive year, though we note total enrollment remains robust and believe management has created a plan to address these declines;
- Pressured net tuition revenue that declined for a third consecutive year as the state continues to significantly limit tuition increases for students, though the fiscal 2019 decrease in net tuition was lower than the prior year's; and
- Increasing tuition discount rates without commensurate increases in tuition, per a state mandate, that have continued to pressure operating revenue, though we note the discount rate increases remain modest and below S&P Global Ratings medians.

The $22.8 million series 2020A general receipts bonds will be used to finance a parking facility that will replace 900 asphalt parking spaces with 1,100 spaces. The $172.3 million series 2020B bonds will be issued to refund the series 2012A and series 2014A general receipts bonds for savings. All bonds of the university, including the series 2020A and 2020B bonds, are secured on a parity basis by the general receipts pledge, which reflects the credit strength of KSU's general revenues, which include fees, tuition, revenues from operations, and unrestricted gifts, but not state appropriations. Because of the comprehensive nature of this pledge, we view the security as equivalent to an unsecured general obligation of the university.

Outlook

The stable outlook reflects our view that KSU will successfully navigate enrollment pressures over the next two years as it implements a new enrollment strategy under the guidance of the new vice president for enrollment management. We expect that operating results will improve as the university continues to enact cost-saving and revenue-generating measures. We expect relative stability in available resources and expect that KSU's state appropriation will not decline and that it will continue to receive occasional state-funded capital support.

Downside scenario

We could consider a negative rating action if enrollment declines significantly, or if there is material pressure to the university's application, acceptance, or matriculation rates. We could also consider a negative rating action should available resource ratios be compromised through reduced liquidity, increased debt, or a combination of both.

Upside scenario

We could consider a higher rating over the next two years if enrollment increases markedly and can be sustained, net tuition revenues grow and available resource ratios strengthen, and the debt burden remains sound.

A rating change on Ohio or a change in our assessment of KSU's link to the state government could result in a rating change for KSU consistent with our GREs criteria.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, KSU has good geographic diversity; however, Ohio residents accounted for approximately 84% of the total fall 2019 enrollment across its campuses. Therefore, our assessment of KSU's economic fundamentals is anchored by Ohio's GDP per capita of $60,025.

Market position and demand

Located in northeastern Ohio in the city of Kent, approximately 15 miles east of Akron and 40 miles southeast of Cleveland, KSU is the third largest of 13 state-supported universities in Ohio. A high concentration of students from Ohio (84%), combined with associated risk from the declining numbers of high school graduates in the state, declining international enrollment, and declining enrollment at the university's seven regional campuses, continues to present longer-term challenges for management, in our view. Management has implemented myriad strategies to fight enrollment declines, including developing new undergraduate and graduate programs, increasing international marketing, and creating the VP for Enrollment Management position.

The university had FTE enrollment of 30,631 as of fall 2019, down by 2.8% from 31,528 in fall 2018. FTE enrollment at the main Kent campus totaled 23,522 in fall 2018, down 2.7% from the 24,189 students enrolled in fall 2017 and down 3.3% from the fall 2016 enrollment of 25,015. Enrollment at the Kent campus accounts for about 75% of the total university enrollment as of fall 2018. The university provides traditional housing on its main campus for approximately one-quarter of its students. The university's seven other campuses are also located in northeastern Ohio and enrolled 8,005 FTE students in fall 2018, down 3.7% from the 8,317 students enrolled in fall 2017 and down 3.9% from the fall 2016 enrollment of 8,662 students. The regional campuses offer associate degrees and certificate programs and certain upper division level courses with a few also offering bachelors and master's degrees.

Most students attend the Kent campus on a full-time basis; a larger proportion of part-time students are at the regional campuses where there are no residential facilities. At the Kent campus, about 75% of students are undergraduates. Kent also offers select graduate and professional programs, including business, nursing, architecture, public health, and podiatric medicine, and these are some of its stronger and fastest-growing programs. Resident undergraduate tuition for continuing students totaled $10,212 for the 2019-2020 school year, a 2% increase from the previous year. A tuition guarantee was implemented for new students, including a retroactive "flashback" guarantee for students who transfer to Kent State that sets tuition at the price they would have received based on credit hours earned. We believe this strategy has the potential to further increase demand and stem enrollment declines. The management team also plans to grow enrollment through financial aid optimization, a comprehensive communications and marketing plan, and expanded recruitment funnel in addition to initiatives already mentioned.

Management has seen some pressure to international enrollment over the recent past. As early as fall 2016, more than 2,900 of its students had international backgrounds, equating to approximately 10% of its enrollment. However, international enrollment has declined primarily as the result of a loss of scholarship students from the Kingdom of Saudi Arabia, as well as declining enrollment from India. Management notes that fall 2018 international enrollment was 1,728; however, management has implemented several new strategies to increase international enrollment. These include developing an American Academy in Brazil, expanding and diversifying country-of-origin recruitment, and focusing on online certificate and degree programs, including a Master of Science in business analytics approved by the Indian Accounting Agency. We believe that with these plans, and under the guidance of a new VP for Enrollment Management, these international enrollment pressures will subside within the outlook period.

Management and governance

S&P Global Ratings continues to view the university's governance and management team as a credit strength. The university's a nine-member board of trustees, composed of local business and community leaders, is appointed by the governor with the advice and consent of the state senate for overlapping nine-year terms.

Dr. Todd Diacon was appointed president of Kent State University in July 2019 following the departure of Dr. Beverly J. Warren, the former president. President Diacon has over 30 years of experience in higher education, including serving as deputy chancellor at UMass Amherst and serving as the provost at Kent State University since 2012 until his appointment as president. We believe that President Diacon will maintain the strength of the management team and will help guide the university through new strategic initiatives successfully. Melody Tankersley has been promoted to the position of interim vice president and provost and has over 25 years of experience with Kent State. Additionally, Lamar Hylton was appointed as the interim vice president for student affairs and has been with the university the past two years.

In order to address the demographic pressures that the university faces in Ohio, and to generally combat declining enrollment, the new position of VP for enrollment management was created, Mary Parker, formerly the assistant vice president for enrollment management at the University of Utah – Salt Lake City, has been hired as the new VP of enrollment management for KSU. She has been with the university since January 2019, and continues to develop a multiyear plan to address enrollment declines and to improve retention, among other goals. We view the creation of the position as evidence of management's proactivity in a pressured enrollment environment. In our view KSU's management team has good breadth and depth and has been relatively stable despite recent changes.

GRE profile

In accordance with our criteria for GREs, we based our view of a moderate likelihood of extraordinary government support on our assessment of KSU's strong link with the state government, given its history of regular, ongoing operating and capital support. We also considered the state's relatively active role in overseeing the financial health of the public institution, as well as KSU's limited role in the state's objectives for higher education, given the large number of public universities in Ohio and competition in the area. Pursuant to our GRE criteria, a moderate likelihood of extraordinary support from Ohio does not result in an upgrade of Kent State's stand-alone credit profile of 'a+'.

Financial Profile

Financial management policies

KSU has formal policies for endowment, investment management, derivatives, and debt. It operates according to a five-year strategic plan, and has formal reserves and liquidity policies and practices, which we view favorably. The system meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the university'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 the KSU's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable institutions.

Financial performance

Because of changes in certain assumptions of the pension and other postemployment benefit (OPEB) plan, KSU's operating expense post-GASB 68 and 75 have been relatively volatile over the past three fiscal years. When adjusting post-GASB 68 and 75 operating results based on S&P Global Ratings' calculations, fiscal 2019 ended with a $6.9 million (0.9% margin) operating surplus, down from a significant $104.3 million (16.3% margin) operating surplus in fiscal 2018. We note the surpluses when including these results over the past two years reflect accounting changes rather than changes in the underlying economics of the university.

When excluding GASB 68 and 75, operating results were more stable and near break even during both fiscal 2019 and fiscal 2018. When adjusting S&P Global Ratings' calculations to exclude GASB 68 and 75, fiscal 2019 ended with a $10.3 million (1.4% margin), up from an operating deficit of $12.5 million (negative 1.7% margin) in fiscal 2018. We understand that management budgeted for break-even results for fiscal 2020. We note that the management team has made concerted efforts to control costs in the face of increasing enrollment pressure. The university has implemented an employee separation plan, changed investment management, redesigned its health care plans, refunded debt, and optimized financial aid as part of a strategy of cost containment. Further, as of Sept. 1, 2019, the university has implemented a hiring freeze.

Ohio's economy has fared fairly well since a significant contraction that occurred during the Great Recession, enabling the governor to increase state funding in each of the previous four fiscal years, with expectations of a similar modest level of increases going forward. Also, the university received and spent capital funds from Ohio of $36.9 million in fiscal 2017, $15.5 million fiscal 2018, and $5.5 million in fiscal 2019. We would view continued support from the state favorably.

Available resources

The balance sheet provides KSU some financial flexibility at the current rating, in our view. Cash and investments total $495.9 million, equal to 67% of adjusted operating expenses and 109% of pro forma debt, as of fiscal year-end 2019, and adjusted unrestricted net assets totaling $400.9 million were equal to a lower 54% of adjusted operating expenses and 89% of pro forma debt. Kent State does not have unfunded OPEB liabilities because it participates in the state benefit plans and makes the required annual contributions. We have added back $378.6 million to our adjusted unrestricted net assets figure for KSU representing its recorded pension liability under GASB 68 in fiscal 2019.

The university's related foundation, Kent State University Foundation Inc., held total assets of $239.2 million as of fiscal 2019. It continues to play a major role as the direct investor of a 100-room hotel and conference center built in 2013 and located in downtown Kent that can accommodate up to 300 people. The hotel and conference center is part of a larger, approximately $100 million downtown Kent revitalization project that was completed in early 2016 linking the downtown area to the university's campus by a newly created Esplanade connection. Both university-managed and foundation funds appear to follow reasonably sound investment practices, in our opinion, with allocations to alternative investments at less than 30% with remaining allocation to cash and equivalents, fixed income and equities resembling allocations typical for most colleges and universities.

KSU has generally enjoyed successful fundraising. Its last major campaign ended in 2012 and raised $265 million, exceeding a $250 million goal. Annual fundraising is also strong, with $39.7 million and $44.8 million raised in fiscal 2019 and fiscal 2018, respectively.

Debt and contingent liabilities

Post-issuance and inclusive of capital leases, pro forma maximum annual debt service is $44.9 million and represents about 6.0% of fiscal 2019 adjusted operating expenses, which we view as moderate but manageable for the rating level. University officials indicated no plans for additional debt over the next two years.

Post-issuance, debt outstanding will total approximately $453.6 million at fiscal year-end 2019. Nearly 87% of debt is fixed rate, which we view as a relatively stable debt profile. However, we believe there is slightly elevated credit risk associated with a bank direct placement the university entered into in April of 2013 in conjunction with its issuance of $60 million general receipt bonds, series 2013A, with a May 1, 2032, maturity date. We understand the covenants associated with this issue are essentially the same as those associated with KSU's other rated debt issues. Recent debt issuances over the past five years have funded needed campus expansion, renovation, and student housing projects, and management reports that all projects were completed on time and within budget. The university's Kent Gateway Plan, its new transformation plan for the next 10 years, has as key pillars teaching and learning enhancements and research expansion.

The university participates in the Ohio Public Employees Retirement System, which has a funded status of 84.9% as of fiscal 2019. The university also participates in the State Teachers Retirement System, which has a funded status of 77.3%. Both plans are statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code that cover substantially all employees of the university. Furthermore, pension and OPEB costs as of fiscal 2019 were a manageable 4.6% of adjusted operating expenses, and therefore, we consider pension and OPEB liabilities funded and addressed.

Kent State University, Ohio

Enterprise And Financial Statistics					
	--Fiscal year ended June 30--				
	2020	**2019**	**2018**	**2017**	**2016**
Enrollment and demand					
Headcount	37,411	38,323	39,367	40,782	41,005
Full-time equivalent	30,631	31,528	32,507	33,677	33,850
Freshman acceptance rate (%)	86.0	86.0	89.3	65.7	65.5
Freshman matriculation rate (%)	35.5	36.8	36.1	37.8	38.2
Undergraduates as a % of total enrollment (%)	85.4	85.5	85.3	84.0	84.1
Freshman retention (%)	74.0	73.3	73.2	75.0	81.2
Graduation rates (six years) (%)	53.1	49.5	47.2	44.7	55.7
Income statement					
Adjusted operating revenue ($000s)	N.A.	753,290	743,570	781,921	777,337

Kent State University, Ohio (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2020	**2019**	**2018**	**2017**	**2016**
Adjusted operating expense ($000s)	N.A.	746,386	639,343	792,755	758,894
Net adjusted operating income ($000s)	N.A.	6,904	104,227	(10,834)	18,443
Net adjusted operating margin (%)	N.A.	0.92	16.30	(1.37)	2.43
Estimated operating gain/loss before depreciation ($000s)	N.A.	61,295	156,151	40,613	67,299
Change in unrestricted net assets (UNA; $000s)	N.A.	(19,367)	(52,939)	(45,255)	(10,184)
State operating appropriations ($000s)	N.A.	155,044	156,299	152,230	145,595
State appropriations to revenue (%)	N.A.	20.6	21.0	19.5	18.7
Student dependence (%)	N.A.	63.5	63.8	66.0	66.6
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	4.7	4.5	4.3	4.5
Endowment and investment income dependence (%)	N.A.	1.5	1.3	1.1	0.9
Debt					
Outstanding debt ($000s)	N.A.	430,788	454,794	476,118	501,087
Proposed debt ($000s)	N.A.	195,880	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	453,673	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	44,966	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	5.72	6.65	5.87	5.09
Current MADS burden (%)	N.A.	3.62	4.22	3.40	3.56
Pro forma MADS burden (%)	N.A.	6.02	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	141,403	138,118	129,069	110,747
Related foundation market value ($000s)	N.A.	220,879	214,212	189,763	161,878
Cash and investments ($000s)	N.A.	495,901	503,725	554,121	585,742
UNA ($000s)	N.A.	(98,595)	(79,228)	(26,289)	18,966
Adjusted UNA ($000s)	N.A.	400,845	412,091	437,374	502,860
Cash and investments to operations (%)	N.A.	66.4	78.8	69.9	77.2
Cash and investments to debt (%)	N.A.	115.1	110.8	116.4	116.9
Cash and investments to pro forma debt (%)	N.A.	109.3	N.A.	N.A.	N.A.
Adjusted UNA to operations (%)	N.A.	53.7	64.5	55.2	66.3
Adjusted UNA plus debt service reserve to debt (%)	N.A.	93.0	90.6	91.9	100.4
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	88.4	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	14.9	14.8	14.0	13.8
OPEB liability to total liabilities (%)	N.A.	8.2	11.0	0.0	N.A.

N.A.--Not available. 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. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.