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Michigan Finance Authority Calvin University; Private Coll/Univ - General Obligation

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Credit Profile		
US$65.355 mil Rev Rfdg Bnds ser 2021 due 06/30/2051		
Long Term Rating	A-/Stable	New

Rating Action

S&P Global Ratings assigned its 'A-' rating to Michigan Finance Authority's approximately $65.355 million series 2021 revenue refunding bonds, issued for Calvin University (Calvin). The outlook is stable.

Officials intend to use series 2021 bond proceeds to refund the university's series 2016A and 2016B bonds. We consider the security equivalent to a general obligation (GO) pledge. Total pro forma debt is approximately $81 million.

Due to the effects of the COVID-19 pandemic, Calvin transitioned to virtual programming for the spring 2020 semester. For fiscal 2020, Calvin had $6.6 million in COVID-19-related costs, including $4.6 million in revenue losses and $2 million in increased expenses related to safety protocols, technology, and testing. The revenue losses were primarily due to room-and-board prorated refunds, which totaled $3.2 million. Due to increased costs, Calvin reduced expenses and had a modest full-accrual deficit of $797,000, or -0.46% of adjusted operating expenses, in audited fiscal 2020.

For fiscal 2021, Calvin anticipates surplus operations of approximately $1.5 million. The university had increased costs of approximately $7.5 million due to COVID-19-related safety costs, along with reduced tuition and auxiliary revenues, which was offset with additional endowment spend and expense reductions totaling $9 million. The university reduced headcount, had mandatory furloughs, and reduced wages and employee benefits. We view the disciplined expense reductions of the Calvin management team positively.

For fall 2020, Calvin implemented a flexible hybrid model, which allowed students and faculty to choose whether they wanted to complete coursework online or in-person. For the fall 2020 and spring 2021, the majority of courses were in-person. Auxiliary revenues for Calvin University accounted for 9.8% of fiscal 2020 revenue, which we consider manageable, albeit somewhat high.

Calvin received $2.6 million from the Coronavirus Aid, Relief, & Economic Security (CARES) Act; funding guidelines allocate half this money for direct student support and the other half for institutional support, partially offsetting expenses. Calvin expects to receive an additional $3.8 million in federal funding from the Coronavirus Response & Relief Supplemental Appropriations (CRRSA) Act 2021.

Calvin's strategic initiatives include diversifying and increasing student enrollment, digital strategies, new academic programming, and strengthening community. The university is undergraduate-focused, with these students representing approximately 96.2% of total enrollment. In fall 2020, full-time-equivalent (FTE) enrollment included 12.2% of international students, having remained relatively consistent from 12.6% in fall 2019.

As of June 30, 2020, liquidity available within a 30-day period, according to management, totals $174.2 million, including $149.6 million available daily. In our view, liquidity remains sufficient.

Credit overview

We assessed Calvin's enterprise profile as adequate, reflecting its current demand profile and market position, characterized by solid retention, good student and faculty quality, and stable graduation rates. These strengths are offset by weak selectivity and a trend of declining FTE enrollment, which has been exacerbated by the COVID-19 pandemic. We assessed Calvin's financial profile as strong, characterized by its disciplined expense management with historical full-accrual surpluses, albeit with a modest deficit in fiscal 2020. The university has below-average expendable resources for its rating category, partially offset by a more-manageable maximum annual debt service (MADS).

We think these credit factors, combined, led to an indicative stand-alone credit profile of 'a-' and a final rating of 'A-'.

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

- History of near break-even operations with an expected full-accrual surplus in fiscal 2021;
- Solid retention rate of 86.8%, coupled with good student and faculty quality;
- Manageable pro forma MADS at 2.7% of fiscal 2020 adjusted operating expenses;
- Available resources, which remain commensurate with the rating category, with expendable resources, as of June 30, 2020, equal to 66.9% of operations and 143% of pro forma debt; and
- Demonstrated ability of management to make difficult decisions and expense reductions.

Offsetting the above strengths are:

- FTE enrollment, which experienced a trend of declining enrollment, including an 8% decline in fall 2020 due to increased pressures related to the COVID-19 pandemic;
- Weak selectivity relative to rating category medians, including a 94.7% acceptance rate in fall 2020;
- Elevated endowment spend of 7% for fiscal years 2021 and 2022, albeit with the expectation of returning to the historical 4.5% rate in fiscal 2023;
- Elevated tuition discount rate of 48.6% in fiscal 2020; and
- Relatively high student dependence at 78.4% of fiscal 2020 revenues.

The stable outlook reflects our opinion that Calvin will likely maintain positive operations on a full-accrual basis, sustain available resources relative to the rating category, and maintain enrollment and demand near current levels. At the same time, it is our understanding that Calvin does not have any definitive near-term debt plans, which further lends credit stability.

Calvin University, formerly Calvin College, is a private Christian university in Grand Rapids, Michigan. Founded in 1876, the college was established by the Christian Reformed Church in North America and named for 16th-century reformer John Calvin. The mission of the college is to provide a vigorous liberal arts education that promotes lifelong Christian service. The campus has a suburban setting and is situated on 390 acres. Calvin students study the liberal arts, with programming encompassing a broad range of majors and professional programs, including engineering, business, nursing, psychology, and education.

Environmental, social, and governance (ESG) factors

Calvin's leadership has implemented remote learning to protect student health and safety and limit COVID-19-associated social risks. We view COVID-19-related health and safety issues as a social risk under our ESG factors, because of the uncertainty surrounding the pandemic's duration and unknown effect it will have on enrollment. Despite elevated social risks, we consider Calvin's environmental and governance risks in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating or revise the outlook to negative if enrollment were to decline or selectivity weakens; if the university were to report materially and consistently weaker operating performance; if the university maintains elevated endowment draws beyond our expectations; if the university were to issue significant debt that materially pressures available resource ratios; or if unforeseen pressure from COVID-19 were to cause the material weakening of demand, finances, or the trajectory of the university's plan to mitigate the pandemic's effects on Calvin.

Upside scenario

We could raise the rating or revise the outlook to positive over time if the university were to materially grow available resources to levels commensurate with those of higher-rated peers, and if it experiences significant and consistent improvement to selectivity and matriculation while maintaining a healthy operating margin.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, Calvin has good geographic diversity; however, it is mostly regional, with about 56% of students from Michigan. Therefore, Michigan's GDP per capita anchors our assessment of Calvin's economic fundamentals.

Market position and demand

Calvin has experienced continued enrollment declines, reflecting a highly competitive market. Despite the declines, matriculation levels have remained at solid levels. The university remains somewhat self-selective, with its traditional Christian niche. Management has revamped its enrollment strategy and has implemented an increased data-driven approach. The university is also growing its geographic reach to become less reliant on its traditional feeder high schools.

In fall 2020, FTE student enrollment was 3,157, an 8% decrease from fall 2019. Enrollment was decreasing before COVID-19, including 4.7% and 2.6% decreases in fall semesters 2019 and 2018, respectively; COVID-19, however, has accelerated these pressures. Despite the larger decline, management reports improved deposits and affinity among prospective students for fall 2021.

In fall 2020, applications totaled 2,498, an 8.8% decrease from fall 2019. Management partially attributes this to a highly competitive environment and less in-person recruiting during the pandemic. Despite reduced applications, selectivity remained comparable at 94.7% in fall 2020, slightly improved from 95.5% in fall 2019, albeit at levels we consider weak. However, the credit weakness in selectivity is partially offset by solid student quality, which had an average ACT score of 26 in fall 2020. The university also maintains a high-quality faculty, with 89% holding doctorates.

Freshman matriculation--the number of accepted students enrolled--was 27.2% in fall 2020, or 644 matriculants, weaker than the 29.8%, or 779, enrolled in fall 2019. Retention has been stable, at 86.8% in fall 2020, improved from 84.4% in fall 2019. The six-year graduation rate was 75%, which has remained relatively stable. Calvin competes directly with other private Christian colleges in Michigan, including Hope College.

In terms of fundraising, Calvin completed its last comprehensive campaign, of $155 million, from 2003-2008. Calvin has a trend of successful fundraising and has raised $40.6 million in fiscal 2020. The alumni participation rate in fiscal 2020 was 13.6%, which we consider on par with its peers.

Management and governance

Calvin's president, Dr. Michael K. Le Roy, has served since June 2012. The university has stability in its leadership, with an experienced finance and advancement team. The university added a new vice president of enrollment strategy in 2019, who maintains a more data-driven approach to enrollment. We anticipate that the leadership team will remain relatively stable.

The university is governed by a single board of trustees, which represent the geographical districts of the Christian Reformed Church of North America. The board of the university has been stable, with 31 trustees who have a diverse mix of professional backgrounds and experience. The board traditionally meets in fall, winter, and spring. An executive committee functions for the board throughout the academic year.

Calvin formalizes its planning process and has a strategic map that outlines its goals for 2019-2025. The foundation of the plan is its core Christian values, coupled with the following priorities:

- Employing growth strategies to diversify and increase student enrollment,
- Enact a digital strategy that supports innovation,
- Cultivate faculty scholarship and student learning, and
- Building spaces that inspire learning and create community.

The strategic plan features specific financial and operational goals and is updated for progress quarterly, and management develops new goals approximately every five years. The leadership of the university also utilizes a strategy scorecard to track progress with university managers.

Financial Profile

Financial management policies

The university has formal financial-management policies for investments and debt. It operates according to a formal strategic plan, and financial reports are shared with the board of trustees on a quarterly basis. Multiyear capital plans are monitored and re-evaluated annually. The board finance and audit committees meet at least four times a year.

The university does not have a formal reserve policy, but the board expects a positive fund balance in all funds and seeks to avoid cash flow borrowing. While the university maintains a current line of credit, it has remained unused. The board must authorize any debt plans.

The financial policies assessment reflects our opinion that while there could 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 policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and we compare these policies to those of similar providers.

Financial performance

Calvin has a history of generating near break-even operations due to conservative budgeting and solid expense control. Due to a combination of reductions in personnel and federal funding, the university is anticipating positive operations for fiscal 2021.

For fiscal 2021, management conservatively budgeted for an approximately $7.5 million deficit; due to additional endowment spend and continued expense reductions of approximately $9 million, however, it expects a surplus of approximately $1.5 million. The cost-saving measures included reductions in 62 full-time staff, 17 faculty members, and faculty pay reductions, along with reductions to dining services, travel services, and athletics. Calvin has experienced COVID-19-related expenses for testing, technology, cleaning, and other safety equipment. However, management expects recently received additional federal grants will help offset these additional costs.

For fiscal 2020, Calvin had an adjusted deficit of $797,000, or a negative 0.5% operating margin, down from an adjusted $425,000 deficit, or negative 0.2% operating margin, in fiscal 2019. The university had increased financial costs related to COVID-19 for prorated room-and-board refunds in fiscal 2020, along with losses to other auxiliary revenues.

In fiscal years 2020 and 2019, Calvin had a 4.5% endowment draw, which was standard, in our view. Due to the pandemic, the university anticipates temporarily increasing the draw to 7% for fiscal years 2021 and 2022, returning to its historical 4.5% draw in fiscal 2023. If the university maintains elevated draws beyond its expected time frame, we would view this as a potentially pressuring credit factor.

Despite enrollment declines, the university continues to remain focused on net tuition revenue. The university has a tuition discounting rate of 48.6%, which remains comparable to peers. Management expects relatively stable discounting for fiscal 2021, which we view positively. For the 2021-22 academic year. the university is anticipating a roughly 1% tuition increase. As with most private universities of its size, Calvin remains highly dependent on student-generated fees, which accounted for 78.4% of fiscal 2020 adjusted revenue.

Available resources

Overall, we consider financial-resource ratios commensurate with the rating. Total cash and investments of approximately $285.8 million at June 30, 2020, equaled 164.1% of adjusted operating expenses and 350.8% of pro forma debt. We calculate expendable resources as unrestricted net assets plus temporarily restricted net assets less net plant, property, and equipment minus debt. As of June 30, 2020, expendable resources totaled $145.9 million, or 66.9% of adjusted operating expenses and 143% of pro forma debt.

As of June 30, 2020, the endowment had a market value of approximately $206 million. Asset allocation is, in our view, fairly standard, with approximately 51% in equities, 29% in fixed income, 16% in private equities, 3% in hedge funds, and 1% in cash. Liquidity has remained very high as of June 30, 2020, with more than 72.6% of assets available daily and 84.6% monthly.

Debt and contingent liabilities

As of June 30, 2020, Calvin had total long-term debt of $74.5 million. The par amount for the series 2021 is approximately $65 million, which will refund existing debt. It is our understanding that the university also anticipates approximately $14 million in debt for a private bank loan with UMB Bank. Officials intend to use series 2021 bond proceeds to refund the university's series 2016A and 2016B bonds. The university intends to utilize the private bank loan with UMB Bank to terminate its swap agreement. Total pro forma debt is approximately $81 million.

The university intends for its collective refinancing to eliminate variable-rate bank direct purchase debt, terminate interest rate swap exposure, and allow for all of the debt of the university to be fixed-rate. It is our understanding that the private bank loan with UMB Bank is being structured as a stand-alone note under the master trust indenture, with terms consistent with the tax-exempt fixed-rate bond. While the loan agreement is not yet finalized, management does not anticipate the bank loan to have any covenants or unusual provisions.

Pro forma MADS equals approximately $4.7 million, which we would consider a manageable 2.7% of expenses. The university has made recent capital investments in its infrastructure, including recent investments in a fully donor-funded building for its School of Business. The university also has plans for a donor-funded project for its Commons Union, which would house its dining and student clubs. However, the university does not have any plans to issue debt.

The university has a defined-contribution retirement plan that substantially covers all full-time employees. The university may elect to make a discretionary matching contribution up to 2% of salaries on a monthly basis. The total contribution of the university was approximately $3.2 million and $3.3 million for the years ended June 30, 2020 and 2019, respectively. We view retirement costs as manageable.

Calvin University, Michigan--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	3,307	3,570	3,732	3,840	3,918	MNR
Full-time equivalent	3,157	3,431	3,602	3,699	3,774	3,383
Freshman acceptance rate (%)	94.7	95.5	96.4	95.2	94.6	67.5
Freshman matriculation rate (%)	27.2	29.8	27.2	33.1	30.6	MNR
Undergraduates as a % of total enrollment (%)	96.2	97.1	97.1	97.6	97.1	81.0
Freshman retention (%)	86.8	84.4	86.5	86.7	84.6	85.1
Graduation rates (six years) (%)	75.0	76.0	77.0	72.0	76.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	173,384	176,088	171,996	173,725	MNR
Adjusted operating expense ($000s)	N.A.	174,181	176,513	175,835	172,716	MNR
Net operating income ($000s)	N.A.	(797)	(425)	(3,839)	1,009	MNR
Net operating margin (%)	N.A.	(0.46)	(0.24)	(2.18)	0.58	1.60
Change in unrestricted net assets ($000s)	N.A.	(7,688)	(5,215)	3,947	13,734	MNR
Tuition discount (%)	N.A.	48.6	45.9	44.9	42.5	38.3
Tuition dependence (%)	N.A.	68.6	69.0	69.8	68.5	MNR
Student dependence (%)	N.A.	78.4	81.4	82.5	80.9	85.6
Research dependence (%)	N.A.	2.6	1.4	1.7	1.7	MNR
Endowment and investment income dependence (%)	N.A.	1.7	1.7	0.8	1.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	74,518	75,868	76,915	78,571	106,232
Proposed debt ($000s)	N.A.	79,780	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	81,468	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	4,681	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.10	2.92	3.42	9.14	MNR
Current MADS burden (%)	N.A.	3.07	N.A.	N.A.	N.A.	4.20
Pro forma MADS burden (%)	N.A.	2.69	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	206,001	181,887	165,995	151,800	240,596
Cash and investments ($000s)	N.A.	285,826	260,570	244,518	229,354	MNR
Unrestricted net assets ($000s)	N.A.	152,964	160,652	165,867	161,920	MNR
Expendable resources ($000s)	N.A.	116,524	99,183	95,736	78,658	MNR
Cash and investments to operations (%)	N.A.	164.1	147.6	139.1	132.8	142.2
Cash and investments to debt (%)	N.A.	383.6	343.5	317.9	291.9	287.1
Cash and investments to pro forma debt (%)	N.A.	350.8	N.A.	N.A.	N.A.	MNR

Calvin University, Michigan--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					**Medians for 'A' rated Private Colleges & Universities**
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Expendable resources to operations (%)	N.A.	66.9	56.2	54.4	45.5	89.0
Expendable resources to debt (%)	N.A.	156.4	130.7	124.5	100.1	178.3
Expendable resources to pro forma debt (%)	N.A.	143.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	16.5	16.2	15.3	14.3	14.1

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