

RatingsDirect®

Louisiana Local Government Environmental Facilities Community Development Authority University of Louisiana at Lafayette; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

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Louisiana Local Government Environmental Facilities Community Development Authority University of Louisiana at Lafayette; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

Credit Profile

US\$49.0 mil rev bnds (student hsg and parking proj)

Long Term Rating

BBB+/Stable

New

Lafayette Pub Trust Fincg Auth, Louisiana

Univ of Louisiana at Lafayette, Louisiana

Lafayette Pub Trust Fincg Auth (Ragin Cajun Facs Corp) (AGM)

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Lafayette Pub Trust Fincg Auth (Ragin Cajun Facs Corp) (Student Union/Univ Fac Proj) (AGM)

Unenhanced Rating

A-(SPUR)/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'BBB+' long-term rating to the Louisiana Local Government Environmental Facilities Community Development Authority's series 2018 student housing and parking project revenue bonds, issued for the Ragin' Cajun Facilities Corp. (the corporation) at the University of Louisiana at Lafayette. At the same time, we affirmed our 'BBB+' underlying rating (SPUR) on the corporation's series 2010, 2012, and 2017 student housing and parking bonds. In addition, S&P Global Ratings affirmed its 'A-' SPUR on the Lafayette Public Trust Financing Authority's series 2010 higher education revenue bonds (student union bonds), issued on behalf of the corporation. Also, we affirmed our 'BBB+' SPUR on the Louisiana Local Government Environmental Facilities Community Development Authority's series 2013 revenue bonds issued for the corporation's Lewis Street parking garage project and athletic facilities project. The outlook on all ratings is stable.

We assessed the university's enterprise profile as strong, reflecting solid selectivity, matriculation, and retention rates, along with a relatively steady enrollment base. We assessed the system's financial profile as adequate, reflecting a relatively weak balance sheet and a history of negative operations on a full-accrual basis, though we note operations are improved relative to last year. When we combine the enterprise profile and financial profile, they generate an indicative standalone credit profile of 'bbb+'. As our criteria indicate, our final rating can be within one notch of the indicative standalone credit profile. In our view, the 'A-' rating better reflects the university's solid demand profile relative to those of peers.

The ratings reflect our assessment of University of Louisiana at Lafayette's:

- Solid demand metrics, as evidenced by continually solid selectivity, matriculation, and retention rates that are better than those of peers;

- Low and decreasing tuition discount rate, with a fiscal 2017 discount rate of 19.4%, its lowest over the past several fiscal years;
- Improving operating performance, with fiscal 2017 achieving the strongest (though still negative) operating margin in a five-year period, and the expectation that operating performance in fiscal 2018 will be similar.

The ratings also reflect our view of the university's:

- Weak balance sheet resource ratios, with adjusted unrestricted net assets (UNA) equivalent to 10.2% of adjusted operating expenses and 15.3% of pro forma debt;
- Uncertain state funding environment, as evidenced by the trend of decreasing state appropriations and an uncertain pension funded status, both of which could ultimately place unexpected pressure on the university; and
- Significant increase in total debt over a five-year period, to \$273.7 million in fiscal 2017 from \$196.2 million in fiscal 2013.

Debt security

- The 'A-' rated student union bonds are secured by the two student union center fees, which we view as equivalent to an unlimited student fee pledge.
- The 'BBB+' rated 2013 bonds issued for the athletic facilities project are secured by an unlimited student fee given that a covenant is in place by the board to level fees or impose additional fees as necessary to ensure that pledged revenue equals at least 1.2x debt service at all times. These bonds have a subordinate security pledge of auxiliary system revenue and a student auxiliary fee, which is equivalent to an unlimited student fee given the subordinate security pledge's broad application to all students taking four or more credit hours and the board's control of setting rates. There is also an additional pledge of revenue, including student-approved auxiliary improvements and spirit fee, which we view as a limited student fee given its student-controlled rate setting structure, and the unrestricted revenue of the foundation. The bonds are notched down from the university rating to reflect a lease structure that includes annual appropriation--though partly mitigated by the timing of the lease payments, which occur prior to the university's June 30 fiscal year end--coupled with the university's involvement in approving and monitoring each project.
- The 'BBB+' rating on the series 2013 revenue bonds issued for the Lewis Street Parking Garage project reflects a security pledge of student transit and parking fees, which we view as equivalent to an unlimited student fee pledge, in addition to the covenant by the board to level or impose any additional fees to maintain at least 1.2x debt service coverage at all times. The bonds are also secured by an additional mix of more narrowly pledged revenue, including a student-assessed master plan student fee and other limited parking revenue, as well as a subordinate pledge of a small subset of auxiliary fee parking revenue. The bonds are notched to reflect the previously mentioned lease structure risk.
- The 'BBB+' rating on the series 2010, 2012, 2017, and 2018 student housing and parking project bonds reflects a security pledge of auxiliary revenue and a student auxiliary fee that we consider to be equivalent to an unlimited student fee, given its broad application to all students taking four or more credit hours and the board's control of setting rates as outlined above. The bonds are further secured by a debt service reserve and operating reserves. The bonds are notched to reflect the previously mentioned lease structure risk.

The \$49 million series 2018 student housing and parking project bonds are being issued to construct a 589-bed student housing project. The series 2018 bonds are expected to have bond insurance, capitalized interest through fiscal 2020,

and a debt service reserve fund surety policy.

The University of Louisiana at Lafayette (the university) is a public university established in 1898 that is part of the University of Louisiana system. The main campus is in the southwest part of the state. The university has a research park, and another research center in New Iberia. The university offers 53 bachelor's degree program and 13 postbaccalaureate certificates; it also offers master's degrees, five graduate certificates, and one postmaster's certificate in 30 major fields. Doctoral degrees in ten disciplines and two professional field are also available.

Outlook

The stable outlook reflects our expectation that enrollment and demand will remain strong over the next two years such that net tuition revenue continues to grow. The outlook also reflects our expectation that operations will remain stable or improve, and that the balance sheet will not experience any further material deterioration.

Downside scenario

We could lower the rating over the next two years if balance sheet resources weaken, significant additional new debt is issued without a commensurate increase in financial resources, or if operating margins worsen relative to fiscal 2017. We could also consider a negative rating action if state appropriations materially worsen such that operating margins substantially weaken, or if pension obligations are shifted to the university. With regard to the auxiliary, parking, and athletic revenue bonds, we could take a negative rating action if the debt metrics significantly weaken.

Upside scenario

Although unlikely during the outlook period, an improvement in balance sheet resources and movement toward positive operations on a full-accrual basis would be viewed positively.

Enterprise Profile

Industry risk

Industry risk addresses our view of the higher education sector's overall cyclical and competitive risk and growth through application of various stress scenarios and evaluation of 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

About 88% of university students are from the state of Louisiana. Therefore, our assessment of the university's economic fundamentals is anchored by the state GDP per capita.

Market position and demand

Over a five-year period, full-time-equivalent enrollment has increased 4.2% to 14,595 in fall 2017. Relative to fall 2016, enrollment was relatively flat, dropping 1% from 14,741. Management attributes this overall growth in enrollment to increased recruitment of students, particularly transfers, as well as to an improved retention rate. Management aims to increase enrollment to 20,000 students, and is targeting quality students for recruitment.

The university implemented a more selective admissions process in fall 2013 and student quality continues to improve, which we view as a positive credit factor. Applications for fall 2017 dropped to 10,436 from an all-time high of 11,633 in fall 2016. Although applications fell by 10% year over year, they are still within the range of recent historical averages and therefore do not present a credit concern. Selectivity remains stable, with 50.9% accepted and a solid 56.2% matriculated for fall 2017, which denotes some self-selectivity and a regional draw. The average ACT score for incoming freshmen increased again to a solid 23.9 in fall 2017. A majority of freshman entering the university are part of the Taylor Opportunity Program for Student scholars program, whereby the state pays for undergraduate tuition for Louisiana residents who meet certain academic requirements and attend a public university. In-state tuition and fees for a full-time student increased by 4.6% to \$9,876 for the 2017-2018 academic year from \$9,438 in the year prior. We view tuition levels as affordable and below those of peers such that future tuition increases should not significantly affect demand.

Management and governance

The University of Louisiana at Lafayette, along with eight other public universities, is part of the University of Louisiana System. It is the largest system in the state in terms of enrollment and has a 16-member board of supervisors, 15 of whom are appointed by the governor. Management, in our opinion, is stable with key administration officials having long tenure, including the president, who has held this position since 2008. The university has good management practices, including conservative budgeting and formal investment policies.

The university operates under the guidance of a strategic plan, which has specific financial and operational goals, including four strategic imperatives relating to faculty, students, research, and governance. The university also has strong risk management standards that help bring a systematic and disciplined approach to its overall governance. In our view, the university has solid financial practices and manages in a proactive manner.

Financial Profile

Financial management policies

The university has an informal policy for reserves and liquidity and follows University of Louisiana system and state guidelines for investment management. The chief financial officer determined the debt policy in consultation with the state, professional counsel, and the financial advisor; the policy is based on goals and directives of the president and the board. The university meets annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, despite areas of risk, the university's overall financial policies are not likely to impair its ability to pay debt service. Our analysis of financial policies includes a review of the university'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 providers.

In line with our report "Incorporating GASB 67 And 68 (Governmental Accounting Standards Board Statement Nos. 67 and 68): Evaluating Pension Obligations under Standard & Poor's Higher Education and Charter School Criteria," published Sept. 2, 2015, on RatingsDirect, we have made certain adjustments to the financial statements of public colleges and universities and certain public charter schools for financial results beginning with fiscal year-end June 30, 2015, to enhance analytical clarity regarding the economic substance of the funding of liabilities, expenses, and

deferred inflows and outflows of resources associated with pension plan obligations and a change in accounting principle as detailed in GASB 68, "Accounting and Financial Reporting for Pensions--An Amendment of GASB Statement No. 27." We believe these adjustments enhance analytical clarity from a credit perspective and result in more comparable financial metrics as long as states continue to be able and willing to fund these pension liabilities.

Financial operations

As have many other parts of the country, Louisiana has experienced budgetary stress, which has strained the state's financial support for higher education. State appropriation dependence has declined again in fiscal 2017 to 12.9% from 14.6% in fiscal 2016 and 21.4% in fiscal 2013. In our opinion, the decline in state support continues to put financial stress on the university, but the university has become less reliant on this support and has offset this decline through tuition and other revenue increases. We believe that the university has taken steps toward this aim by containing costs while preserving its academic core. The state appropriation for fiscal 2016 was \$46.3 million and for fiscal 2017 was essentially flat at \$45.8 million.

In our view, operations remain pressured on a full-accrual basis, though we note adjusted operating results for fiscal 2017 are their strongest in the last several years. Adjusted operating results for fiscal 2017 posted a negative \$4.7 million deficit, equivalent to a negative 1.3% operating margin, improved from a fiscal 2016 deficit of \$23.2 million (negative 6.8% margin) and a fiscal 2013 deficit of \$19.8 million (negative 7.0% margin). Management attributes its recent operating success to increases in net tuition revenue that were helped by increasing tuition, a decreasing discount rate, and relatively stable enrollment in addition to improved revenues from grants and contracts. Operations have historically been negative on a full-accrual basis but positive on a cash basis, largely as a result of other postemployment benefit noncash accruals and declines in state appropriations. Management expects fiscal 2018 results to be similar to those of fiscal 2017.

Available resources

The University of Louisiana at Lafayette has seen its financial resources decline since fiscal 2012. Fiscal 2017 adjusted UNA of \$36.6 million was equal to 10.2% of adjusted operating expenses and 15.3% of pro forma debt, compared to fiscal 2013 adjusted UNA of \$83.4 million, equal to 29.3% of expenses and 42.5% of pro forma debt. For fiscal 2017 cash and investments were stronger but still somewhat weak, at \$169.7 million, covering adjusted expenses by 47.3% and pro forma debt by 62%. We would view improvement in the university's financial resources positively, as the financial resource ratios are currently a significant pressuring factor for the credit. We would also view any additional increases in debt without commensurate increases in financial resources as having the potential to pressure the credit.

The university's estimated endowment market value as of fiscal 2017 was about \$94.1 million. The university's reliance on the endowment is minimal. The spending policy is 4.0% and the endowment draw in fiscal 2017 was \$1.23 million, equaling a draw of approximately 2.4%, which we view as sustainable.

Debt and contingent liabilities

Overall, the University of Louisiana at Lafayette's debt structure is conservative, in our opinion, as all debt is fixed rate and the university has no swap contracts. Total debt has grown significantly over the past few years, and includes two direct placement issues. The series 2015 direct placement in the amount of \$1.1 million was used to purchase a bookstore that had been leased, and the series 2017 direct placement in the amount of approximately \$10.1 million

was used to renovate the university's baseball stadium. The terms of the direct purchase debt have been reviewed, there is no cross-default risk in either direct purchase series, though there is potential for acceleration for the series 2017 bonds. However, we believe this risk is mitigated by a level debt service payment of \$850,000 annually throughout the life of the bonds, and by the university's financial resource ratios. Total debt, inclusive of the direct purchase debt and the series 2018 new issuance, totals \$273.7 million, and the MADS burden is still moderate, in our view, at 4.45% of fiscal 2017 adjusted expenses. Management states that it does not plan to issue additional debt within the outlook period, but could consider issuing additional debt outside of the outlook period should there be additional need for student housing. We would view any increase in debt, without a commensurate increase in financial resources, as a pressuring credit factor.

University of Louisiana at Lafayette, Louisiana

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Enrollment and demand						
Headcount	17,297	17,519	17,508	17,195	16,646	MNR
Full-time equivalent	14,595	14,741	14,812	14,331	14,001	11,962
Freshman acceptance rate (%)	50.9	51.1	55.3	55.8	59.3	74.4
Freshman matriculation rate (%)	56.2	50.9	52.7	55.8	53.4	MNR
Undergraduates as a % of total enrollment (%)	90.6	91.3	90.6	90.6	90.4	84.5
Freshman retention (%)	75.0	75.0	76.0	76.0	74.0	77.0
Graduation rates (six years) (%)	44.0	45.0	45.0	48.0	45.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	353,899	316,729	290,046	284,485	MNR
Adjusted operating expense (\$000s)	N.A.	358,662	339,963	315,486	297,099	MNR
Net adjusted operating income (\$000s)	N.A.	(4,763)	(23,234)	(25,440)	(12,614)	MNR
Net adjusted operating margin (%)	N.A.	(1.33)	(6.83)	(8.06)	(4.25)	(0.72)
Estimated operating gain/loss before depreciation (\$000s)	N.A.	20,921	4,573	(594)	9,674	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(17,730)	(14,442)	(248,532)	(32,772)	MNR
State operating appropriations (\$000s)	N.A.	45,805	46,330	46,622	49,719	MNR
State appropriations to revenue (%)	N.A.	12.9	14.6	16.1	17.5	22.6
Student dependence (%)	N.A.	61.1	63.4	59.2	54.0	53.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	7.3	6.6	7.1	7.3	MNR
Endowment and investment income dependence (%)	N.A.	2.7	0.3	0.3	4.0	0.4
Debt						
Outstanding debt (\$000s)	N.A.	224,718	219,087	203,795	206,816	164,127

University of Louisiana at Lafayette, Louisiana (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Public Colleges & Universities
	2018	2017	2016	2015	2014	2016
Proposed debt (\$000s)	N.A.	49,005	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	273,723	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	15,959	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.98	4.31	3.94	3.08	MNR
Current MADS burden (%)	N.A.	3.77	4.24	4.53	4.81	4.40
Pro forma MADS burden (%)	N.A.	4.45	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	94,176	87,497	85,263	86,963	81,992
Related foundation market value (\$000s)	N.A.	151,337	140,615	147,699	142,218	111,376
Cash and investments (\$000s)	N.A.	169,757	176,410	180,341	233,475	MNR
UNA (\$000s)	N.A.	(316,609)	(298,879)	(284,437)	(35,905)	MNR
Adjusted UNA (\$000s)	N.A.	36,634	35,586	51,376	58,707	MNR
Cash and investments to operations (%)	N.A.	47.3	51.9	57.2	78.6	45.2
Cash and investments to debt (%)	N.A.	75.5	80.5	88.5	112.9	96.3
Cash and investments to pro forma debt (%)	N.A.	62.0	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	10.2	10.5	16.3	19.8	26.8
Adjusted UNA plus debt service reserve to debt (%)	N.A.	18.7	21.8	31.2	28.4	52.0
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	15.3	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.5	13.6	15.0	15.8	14.0
OPEB liability to total liabilities (%)	N.A.	16.6	17.3	16.3	27.1	MNR

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. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Ratings Detail (As Of March 29, 2018)

Lafayette Pub Trust Fincg Auth, Louisiana

Univ of Louisiana at Lafayette, Louisiana

Lafayette Pub Trust Fin Auth (Ragin' Cajun Facs Corp) 2009 rev bnds

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Louisiana Local Govt Envir Facs Comnty Dev Auth, Louisiana

Univ of Louisiana at Lafayette, Louisiana

Louisiana Local Govt Envir Facs and Comnty Dev Auth (Ragin

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Ratings Detail (As Of March 29, 2018) (cont.)

Louisiana Local Govt Envir Facs Comnty Dev Auth (Univ of Louisiana at Lafayette) (AGM)

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Louisiana Local Govt Envir Facs & Cmnty Dev Auth (Ragin

Unenhanced Rating

BBB+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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