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# Roseman University, Nevada; Private Coll/Univ - General Obligation


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# Roseman University, Nevada; Private Coll/Univ - General Obligation

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|---|---|---|
| US$82.6 mil rev bnds (Roseman Univ of Hlth Sciences Proj) ser 2020 dtd 1//20/02/2 due 06/30/2049 | | |
| *Long Term Rating* | BB/Stable | New |
| **Public Fin Auth, Wisconsin** | | |
| Roseman Univ, Nevada | | |
| **Rev bonds** | | |
| *Long Term Rating* | BB/Stable | Affirmed |

## Rationale

S&P Global Ratings assigned its 'BB' rating to Public Finance Authority, Wis.' $82.6 million series 2020 bonds, issued for Roseman University, which is located in Henderson, Nev., and South Jordan, Utah. At the same time, S&P Global Ratings affirmed its 'BB' long-term rating on the authority's series 2012 and 2015 bonds, issued for Roseman. The outlook is stable. The exact amount of the issuance will be determined based on market conditions at time of sale.

We have assessed the university's enterprise profile as strong, based on its niche programs, robust graduate selectivity, and solid matriculation rates. We have assessed Roseman's financial profile as adequate, based on the university's growing available resources and improving operating margins, offset by significant leverage with the new issuance nearly doubling outstanding debt, and a very high maximum annual debt service (MADS) burden. We believe the university's high amount of debt and aggressive growth strategy for a new college of medicine (COM) have heightened its risk profile. When we combine the enterprise and financial profile scores with the university's specialized focus on health care-related fields, the indicative stand-alone credit profile is 'bbb-'; however, in our view, the long-term debt rating of 'BB' better reflects the university's significant debt load and remaining uncertainty regarding accreditation for its planned COM.

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

- High level of pro forma debt totaling $182.5 million as of fiscal 2019, and pressuring MADS burden of about 13.8% of fiscal 2019 expenses;
- Aggressive growth and debt strategy further affected by high growth risk, as the university still plans to add a COM; and
- Pressured demand in the university's pharmacy program, which accounts for nearly 39% of the university's fall 2019 enrollment, and which has seen annual declines over the last several years.

Credit factors that support the rating include:

- The trend of improving operating performance over the past four fiscal years driven by growing net tuition revenue, with fiscal 2019 ending with the university's largest surplus in a five-year period ($7.5 million, or an 8.03% margin), coupled with the expectation that strong operating results will also be achieved in fiscal 2019 and going forward;

- The university's profitable niche programs (doctorate in pharmacy, bachelor of science in nursing [BSN], doctor of dental medicine [DMD], and master of business administration in health services) with little regional competition; and
- The university's growing available resources as measured by expendable resources, totaling $54.5 million as of fiscal 2019, up from $21.3 million in fiscal 2015, equivalent to 58% of operations and 30% of pro forma debt.

Post-issuance, long-term debt (all of which is parity) will total approximately $182.5 million as of fiscal 2019. The $82.6 million series 2020 bonds are being used to finance the acquisition of multiple properties that the university currently leases; operating leases for these properties totaled $34.7 million as of fiscal 2019. The issuance, though it adds more debt up front, ultimately will produce savings projected at about $14.2 million through the first five years of issuance, and significant savings over the next 30 years. The series 2020 bonds are on parity with the university's outstanding bonds and are secured by the gross revenue of the university; therefore, all outstanding bonds are general obligations of the university. Pro forma MADS is very high at $12.9 million, equivalent to a 13.8% MADS burden, which we also consider high and a pressuring credit factor.

Roseman University was founded as the Nevada College of Pharmacy in 1999 in Henderson, just outside Las Vegas. A second campus in South Jordan, just south of Salt Lake City, opened in fall 2006. The South Jordan campus has grown significantly due to increased enrollment in the college of dentistry and now enrolls as many students as the Henderson campus. The university also has a family dental clinic in Utah, which has received a positive response. Management plans to open additional clinics, which would help increase revenues. The university does not provide housing. It doesn't plan to add auxiliary services.

In 2013, Roseman completed a merger with the Nevada Cancer Institute Foundation and subsequently acquired a 184,000-square-foot cancer research building in Summerlin as well as 10 acres of undeveloped land adjacent to the research building. In 2015, Roseman acquired a 142,000-square-foot building, known as the flagship building and is expected to eventually house the COM. The flagship building contains clinical and diagnostic space, examination rooms, an oncology infusion space, and a significant amount of medical equipment. Since the university did not receive preliminary accreditation for the COM due to weak financial resources, Roseman management has decided to slow down its plans for the COM opening in order to continue fundraising and build its balance sheet for the next couple of years. Management has successfully leased about 35% of the flagship building and has plans to partner with a pediatric oncology firm to further utilize the space.

The university continues to meet with the Liaison Committee on Medical Education, the accrediting body for allopathic (MD) medical schools, and expects that it should enroll its first COM class by 2024. The discussion will focus on Roseman's decision to pursue a moderated path to student enrollment, and to first develop its physician practices, philanthropy, and research grants. Roseman's plans will require success in the growth of physician practices, increased annual philanthropy, and National Institutes of Health-level research grants over the next 18-24 months.

## Outlook

The stable outlook reflects our expectation that over the next year, the university will continue to sustain robust surplus operating performance while maintaining or growing its available resources and fundraising. We also expect the university will continue to maintain or grow demand in nonpharmacy programs.

### Downside scenario

We could consider a negative rating action if available resources begin to weaken, or if the university issues any additional debt given its already very high leverage. We could also consider a lower rating if Roseman were to experience operating deficits or material declines in enrollment or demand in any of its programs.

### Upside scenario

We could consider a positive rating action if the university continues its trend of strong operating surpluses, does not issue additional debt, and continues to grow available resources. We would also expect the university to maintain or improve its enrollment and demand profile, while the university progresses toward COM accreditation.

## Enterprise Profile

### Industry outlook

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

### Economic outlook

In our view, the university has good geographic diversity. Roseman's enrollment is split across Nevada and Utah, offering geographic diversity. As a result, our assessment of Roseman's economic fundamentals is anchored by the national GDP per capita.

### Market demand and position

Roseman University serves a niche market. The applicant pool consists primarily of prospective students applying to the dental and pharmacy schools, as well as the nursing program. The applicant pool also includes those looking to attend business school. The College of Dental Medicine's applications have increased modestly over a five-year period, increasing 18% from 1,872 applications in fall 2015 to 2,219 applications as of fall 2019. This demand has helped offset declining applications in the College of Pharmacy.

During the five-year period ended fall 2019, total full-time-equivalent (FTE) students grew to 1,631 from 1,447 in fall 2015. Despite pressure in recent years, the College of Pharmacy still accounts for a majority of enrollment at the university, accounting 39% of fall 2019 FTE students, with 474 applications and a 58% acceptance rate. Because of the general trend of declining enrollment at pharmacy schools, as well as a limited capacity for growth at the DMD program, we expect enrollment in these programs to decline in the near future. However, the university's BSN and accelerated bachelor of science in nursing (ABSN) have helped to offset demand in the College of Pharmacy. The BSN/ABSN programs had 968 applications and a 41% acceptance rate as of fall 2019.

Roseman's most competitive programs are the DMD and AEODO (advanced education in orthodontics and dentofacial orthopedics) programs in the College of Dental Medicine, with a 9% acceptance rate across both programs. Fall 2019 saw 2,219 DMD applications and a matriculation rate of 51%, and also saw 110 AEODO applications and a matriculation rate of 100% given its slim acceptance rate.

The university's geographic draw is highly reliant on the surrounding region, with the majority of students at the Henderson Campus coming from California and Nevada. The Utah campus, due to demand for the DMD program, has a wider geographical reach. The university's tuition and fees are comparable with other institutions; however, due to the academic model, pharmacy students complete their studies in three years instead of the typical four years.

### Management and governance

A 24-member board of trustees, consisting primarily of area pharmacists and health service professionals, governs the operations. The university appointed Dr. Renee Coffman as president in December 2012. She was previously the executive vice president and chancellor of the university. The previous president, Dr. Harry Rosenberg, assumed the role of Founding President Emeritus. Dr. Coffman and Dr. Rosenberg are a married couple who founded the university. The presidential transition followed a succession plan that has been in place since 2007.

The university also appointed Dr. Frank Licari as the new dean of the College of Dental Medicine and Dr. Mark Penn as the founding dean of the College of Medicine. Management reports that Dr. Penn was instrumental in Roseman's September 2017 $10 million gift for the COM. The university will continue to lead fundraising efforts for the COM under the new dean. Overall management at the university is stable. The university has successfully filled the positions for the vice president of research and dean of graduate studies.

In our opinion, Roseman's management and board have experience heavily weighted toward the health care industry. Management has demonstrated its ability to consistently grow enrollment since the university opened.

## Financial Profile

### Financial management policies

The university has formal policies as well as guidelines for endowment, investments, and debt. It operates according to a formal strategic plan and has a reserve liquidity guideline and strategy. The college meets standard annual disclosure requirements. The financial policies assessment is neutral, which reflects our opinion that, although there may be some areas of risk, Roseman's overall financial policies are not likely to negatively affect 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 institutions.

### Financial operations

Several years ago, the university produced break-even or near break-even results on a full-accrual basis, but over the past three years operations have begun to improve markedly. Fiscal 2019 achieved the largest surplus of the recent past with an $7.5 million surplus (8.03% margin), fiscal 2018 produced a solid surplus of $6.0 million (6.8% margin), and fiscal 2017 achieved a solid operating surplus of $2.7 million (3.1% margin). We note that it is typical for specialty colleges such as Roseman to achieve strong operating results, and view this trend of operating margins favorably. We expect fiscal 2020 to end with a similar operating surplus as fiscal 2018, and afterward expect marked improvement in operating margins.

The university continues to be highly dependent on tuition revenues, which account for over 89.1% of unrestricted operating revenue as of fiscal 2019. The university has some operating advantage because faculty are employed on a contractual basis and do not have tenure. In addition, over the past few years, the university has increased its research base and contract work. Nevertheless, the university remains highly tuition-dependent. As the dental and pharmacy schools are reaching targeted capacity, future tuition revenue growth will rely on the university's ability to continue to expand the nursing school and open the COM.

### Available resources

The university's available resources have grown in each of the last six years, and are now average for the rating and a key credit factor. Fiscal 2019 ended with a new peak of expendable resources at $54.5 million, a sizable increase from $39.6 million as of fiscal 2018. Fiscal 2019 expendable resources are equivalent to 58% of adjusted operating expenses and only 30% of total pro forma debt. The significant issuance in fiscal 2020 pressures otherwise adequate expendable resources to debt, and we would view further debt increases as a pressuring credit factor. Cash and investments total $64.9 million as of fiscal 2019 and are also adequate at 69% of operating expenses and 36% of pro forma debt. The endowment market value was approximately $21 million at 2019 fiscal year-end, reflective of the university's short operating history. While we consider the endowment spending policy sustainable at 4% of a three-year rolling average, we understand the university has not taken an endowment draw since fiscal 2013 to keep building its endowment in preparation for accreditation of its COM.

In fiscal 2019, the college decided to change investment strategy to a less conservative portfolio. The endowment's portfolio now consists of 46.5% equities, 47.4% fixed income, and 6.1% cash. We consider the endowment to be highly liquid, with close to 100% of assets invested in level 1 securities.

In September 2017, Roseman University's COM was awarded a $10 million grant from the Engelstad Family Foundation, a leading family in the Las Vegas community. Management expects the relationship to help Roseman expand its reach in the community and tap additional philanthropy opportunities for university and the COM. The university plans to use some of the Engelstad donation to attract researchers with current grants.

### Debt and contingent liabilities

Total long-term pro forma debt (all of which is parity) is approximately $182.5 million as of fiscal 2019. The bonds, including the $82.6 million series 2020 bonds, are all general obligations of the university. Debt service coverage (DSC) on outstanding debt is strong at over 2x, and debt covenants for all debt (including series 2020 bonds) include an annual DSC test of 1.1x at fiscal year-end. An additional bonds test is a forward-looking 12-month 1.25x DSC test as well as a historical 1.2x DSC test. The university does not have additional debt plans for the next two years. Pro forma MADS on the debt occurs in fiscal 2036 and is a very high $12.9 million, equivalent to a high MADS burden of 13.8% of fiscal 2019 operating expenses. We also note that the series 2020 debt will be used to finance the acquisition of property for which the university currently maintains operating leases. As of fiscal 2019, the long-term obligation of these operating leases equals $34.7 million, and post-issuance these leases will no longer be on the university's balance sheet. We note that in fiscal 2019 the university entered into a lease agreement as the lessor, with the agreement totaling $10.5 million in lease income for space at its Summerlin campus, which we believe adds revenue diversity to the university. The university participates in a defined contribution plan, which is fully funded by definition.

## Roseman University, Nevada

**Enterprise And Financial Statistics**

| | --Fiscal year ended June 30-- | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| **Enrollment and demand** | | | | | |
| Headcount | 1,631 | 1,627 | 1,580 | 1,486 | 1,447 |
| Full-time equivalent | 1,631 | 1,627 | 1,580 | 1,486 | 1,447 |
| Freshman acceptance rate (%) | 40.8 | 57.6 | 40.1 | 69.1 | 65.3 |
| Freshman matriculation rate (%) | 89.6 | 91.5 | 86.6 | 70.4 | 86.7 |
| Undergraduates as a % of total enrollment (%) | 35.8 | 34.6 | 32.0 | 25.9 | 21.6 |
| Freshman retention (%) | N.A. | N.A. | N.A. | N.A. | N.A. |
| Graduation rates (six years) (%) | N.A. | N.A. | N.A. | N.A. | N.A. |
| **Income statement** | | | | | |
| Adjusted operating revenue ($000s) | N.A. | 101,091 | 95,025 | 89,926 | 82,169 |
| Adjusted operating expense ($000s) | N.A. | 93,581 | 88,987 | 87,231 | 82,912 |
| Net operating income ($000s) | N.A. | 7,510 | 6,038 | 2,695 | (743) |
| Net operating margin (%) | N.A. | 8.03 | 6.79 | 3.09 | (0.90) |
| Change in unrestricted net assets ($000s) | N.A. | 9,950 | 6,484 | 3,122 | (140) |
| Tuition discount (%) | N.A. | 0.3 | 0.2 | N.A. | N.A. |
| Tuition dependence (%) | N.A. | 89.1 | 90.4 | 91.4 | 92.4 |
| Student dependence (%) | N.A. | 89.1 | 90.4 | 91.4 | 92.4 |
| Health care operations dependence (%) | N.A. | N.A. | N.A. | N.A. | N.A. |
| Research dependence (%) | N.A. | 2.6 | 2.5 | 2.0 | 1.7 |
| Endowment and investment income dependence (%) | N.A. | N.A. | 0.5 | 0.5 | 0.5 |
| **Debt** | | | | | |
| Outstanding debt ($000s) | N.A. | 99,985 | 101,927 | 103,093 | 104,483 |
| Proposed debt ($000s) | 82,575 | N.A. | N.A. | N.A. | N.A. |
| Total pro forma debt ($000s) | 182,560 | N.A. | N.A. | N.A. | N.A. |
| Pro forma MADS | 12,950 | N.A. | N.A. | N.A. | N.A. |
| Current debt service burden (%) | N.A. | 8.24 | 7.86 | 8.34 | 9.38 |
| Current MADS burden (%) | N.A. | 8.25 | 8.68 | 8.85 | 9.31 |
| Pro forma MADS burden (%) | 13.84 | N.A. | N.A. | N.A. | N.A. |
| **Financial resource ratios** | | | | | |
| Endowment market value ($000s) | N.A. | 20,963 | 13,575 | 12,950 | 14,584 |
| Cash and investments ($000s) | N.A. | 64,928 | 51,967 | 41,193 | 33,232 |
| Unrestricted net assets ($000s) | N.A. | 77,869 | 67,919 | 61,435 | 58,313 |
| Expendable resources ($000s) | N.A. | 54,499 | 40,620 | 31,529 | 25,152 |
| Cash and investments to operations (%) | N.A. | 69.4 | 58.4 | 47.2 | 40.1 |

## Roseman University, Nevada (cont.)

**Enterprise And Financial Statistics**

| | --Fiscal year ended June 30-- | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Cash and investments to debt (%) | N.A. | 64.9 | 51.0 | 40.0 | 31.8 |
| Cash and investments to pro forma debt (%) | 35.6 | N.A. | N.A. | N.A. | N.A. |
| Expendable resources to operations (%) | N.A. | 58.2 | 45.6 | 36.1 | 30.3 |
| Expendable resources to debt (%) | N.A. | 54.5 | 39.9 | 30.6 | 24.1 |
| Expendable resources to pro forma debt (%) | 29.9 | N.A. | N.A. | N.A. | N.A. |
| Average age of plant (years) | N.A. | 6.9 | 5.8 | 4.8 | 3.9 |

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.