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Ratings

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Moravian College, Pennsylvania; Private Coll/Univ - General Obligation

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Moravian College, Pennsylvania; Private Coll/Univ - General Obligation

Credit Profile		
Moravian College ICR		
Long Term Rating	BBB+/Stable	Current

Rationale

S&P Global Ratings' issuer credit rating on Moravian College, Pa., is 'BBB+'. Its long-term rating on Northampton County General Purpose Authority, Pa.'s series 2012, 2013, and 2016 college general revenue bonds, issued for Moravian College, is 'BBB+'. The outlook is stable.

We assessed Moravian's enterprise profile as strong, with a second consecutive year of improved matriculation, and continued growth in enrollment for a sixth consecutive year while in a highly competitive market. We assessed Moravian's financial profile as adequate, with growth in net tuition revenue for a fifth consecutive year, and relative stability in available resources offset by weak operating results with the expectation that they will continue until at least fiscal 2020. We believe these credit factors lead to an indicative stand-alone credit profile of 'bbb+' and a final rating of 'BBB+'.

More specifically, the 'BBB+' ratings reflect our assessment of Moravian's:

- Negative full-accrual operating performance over the past two fiscal years, with fiscal 2019 ending with a 3.7% operating deficit;
- High dependence on student-generated revenue, which accounted for nearly 91% of fiscal 2019 revenue;
- Significant regional competition from public and private liberal arts institutions; and
- Modest declines in expendable resources, with fiscal 2019 expendable resources equivalent to 48% of operations and 64% of debt.

We believe somewhat offsetting credit factors include Moravian's:

- Sixth consecutive year of full-time-equivalent (FTE) enrollment growth in a highly competitive region;
- Improved matriculation rates for the second consecutive year, and a solid retention rate of 82.4% as of fiscal 2019;
- Fifth consecutive year of net tuition revenue growth, with net tuition revenue growing a solid 5.7% during fiscal 2019; and
- Growth in cash and investments for a fourth consecutive year, with fiscal 2019 cash and investments totaling $127.8 million.

The series 2012, 2013, and 2016 bonds are unconditional general obligations of the obligated group, of which the college is the sole member, and are secured by a gross revenue pledge. The 2012 issue is secured by a fully funded debt service reserve.

Founded in 1742 and one of the oldest colleges in the nation, Moravian College and Theological Seminary is a private, coeducational college affiliated with the Moravian Church. Located in Bethlehem, Pa., the college serves about 2,452 students in three schools: the School of Arts, Humanities and Social Sciences, the School of Natural and Health Sciences, and Moravian Theological Seminary. Moravian offers approximately 80 undergraduate and graduate professional and preprofessional programs in the arts, humanities, social sciences, sciences, business, nursing and health sciences, and teacher education.

Outlook

The stable outlook reflects our expectation that Moravian will continue to maintain or improve its demand profile, including selectivity, matriculation, and continued growth in undergraduate and graduate enrollment. The stable outlook also reflects our expectation that financial resources will not deteriorate materially, and that operating performance will begin to rebound over time.

Downside scenario

We could consider a negative rating action if the college achieves sustained negative full-accrual operating results. We could also consider a negative rating action should financial resources decline further, or should the college issue a material amount of debt without commensurate growth in resources. We could also consider a negative rating action if the college's demand profile weakens materially.

Upside scenario

Although unlikely within the outlook period, we could consider a positive rating action should Moravian College continue to increase enrollment, produce robust operating margins, and experience significant balance sheet growth over time.

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, Moravian does not have geographic diversity; about 77% of students come from within Pennsylvania. As a result, we base our assessment of Moravian's economic fundamentals on Pennsylvania's GDP per capita.

Market position and demand

Moravian has improved demand for its programs over the past several years, and has grown enrollment in spite of the high level of competition for students within the area. Over the past five years, FTE enrollment has increased 17.2% to

2,276 in fall 2019 from 1,942 in fall 2015. Over the past year, FTE enrollment rose a more modest, but still solid, 3.1% to 2,276 students in fall 2019 from 2,207 in the previous year. Traditional undergraduate enrollment, which represents about 80% of the student body, decreased 1.3% in fall 2019, compared with 3.7% growth in fall 2018. We note overall enrollment growth was driven by growth in graduate programs. We understand that management is projecting further enrollment increases due to growth in graduate programs and new recruiting and retention initiatives at the undergraduate level. Occupational Therapy and Speech Pathology are two new master's-level graduate programs that launched in 2019, and a third graduate program, the Doctorate of Physical Therapy, is scheduled to launch within the outlook period. We also note that the college began its Athletic Training master's and doctorate programs recently, with the master's program starting in the 2016-2017 school year and the doctorate program opening in July 2018.

Freshman applications declined as part of management's strategy of recruiting more selectively by buying fewer student names. Applications decreased by 12% to 2,150 in fall though we note this decrease was intentional, and expect applications to remain around their current level within the outlook period, and do not expect application volatility. Over the past year, the average SAT score at Moravian has been relatively flat at 1128, compared with 1137 in fall 2018. We also note that the matriculation rate has also improved to 26.6% in fall 2019 from 25.2% in fall 2018, and we would view further improvement in selectivity as a positive credit factor. Moravian's selectivity was relatively stable and modestly declined to 74.8% in fall 2019 from 72.8% in the prior year. We note the selectivity rate has fluctuated between 75% and 86% over past five years, largely as a result of the high level of competition Moravian faces relative to its peers. We believe that the college's freshman-to-sophomore retention rate is solid, at 82.4% in fall 2019, and would view further strengthening of retention positively. We expect retention to remain solid within the outlook period.

Despite the recent successes in recruitment and enrollment, Moravian faces competitive pressure in its regional market given that there are seven liberal arts colleges and two community colleges in the Lehigh Valley. The majority of its students come from Pennsylvania, New York, and New Jersey. We would expect the competitive pressures to remain, given the challenges of the college's market and the area's overall declining demographics.

Management

Management operates under the guidance of a strategic plan, Vision 2020; the plan's goals are broad and include growing undergraduate enrollment, improving educational outcomes, increasing graduate program offerings, boosting graduation rates, and increasing alumni participation. Moravian is also focusing on enhancing the students' experience by providing research opportunities to students in professional programs and courses and internships to students enrolled in traditional liberal arts programs.

Governing Moravian is a joint board of trustees that consists of 15-55 members. The college president reports to both the college and seminary boards, and nine key administrators support Moravian. The senior management team has been relatively stable at Moravian, with Jill Anderson starting as the new vice president for advancement and alumni engagement and Wilson Gonzalez being named the college's director of finance during the past year. We believe the management team remains stable and will continue to guide Moravian College successfully.

In October 2016, Moravian College ended a $45 million campaign that began in fall 2008, raising $45.8 million, and used campaign proceeds to enhance the science facilities; support renovations to the Hurd Campus dormitories; and provide funding for faculty development, financial aid, and operations. Moravian is currently in the quiet phase of its next campaign.

Financial Profile

Financial management policies

Moravian has formal policies for its endowment, investments, and debt, and recently created a formal reserve and liquidity policy, which we view as a best practice. Finance and the business office work closely to manage cash and debt. Although Moravian does not prepare full-accrual budgets, it builds significant contingencies into the budget that cover depreciation expenses in most years and it budgets for its debt service, which we view favorably. Overall, we view the financial policies as appropriate for the institution.

Financial performance

Moravian ended fiscal 2019 with a sizable full-accrual operating deficit of with a modest operating deficit of $4.4 million (or a negative 3.7% operating margin), a decline from fiscal 2018's more modest operating deficit of $835,000 (or a negative 0.8% operating margin). Management attributes the decline in margins to ongoing startup costs associated with the expansion of its new graduate-level program offerings, which have incurred expenses but not yet earned revenue. Management expects the programs will be break even once students begin to enroll, and that the operating margin should begin to strengthen, but are ultimately expected to be cash flow positive for the college. We would view further negative operating margins as a pressuring credit factor, though we note management expects a slight operating deficit during fiscal 2020.

Despite overall pressure to operating margins, Moravian's net tuition revenue experienced a fifth consecutive year of growth in fiscal 2019, increasing 5.7% to $47.9 million. This follows growth of 8.9% in fiscal 2017, and stronger growth of 16.7% in fiscal 2016. Although net tuition revenue has grown in every year, the rate of growth has declined. We attribute slowing net tuition revenue growth partly to increased tuition discounting. We note that the overall tuition discount rate was 46.3% during fiscal 2019, an increase from 45% during fiscal 2018, with further increase expected in fiscal 2020. We view the relatively high discount rate at Moravian as indicative of the high level of competition it faces for students in the region. We expect that with the implementation of new graduate offerings, net tuition revenue should continue to grow, and would view stable or lower discount rates positively. Like most small private liberal arts colleges, Moravian depends highly on student-related income with tuition, fees, and auxiliary operations. These accounted for a very high 90.6% of fiscal 2019 revenues, and we view this high dependence on student-generated revenues as a credit risk. We continue to monitor the college's discounting practices closely.

Available resources

In our opinion, Moravian's financial resource ratios remain adequate for the rating category, though they did decline modestly in fiscal 2019. As of June 30, 2019, expendable resources equaled $57.3 million, or 48% of operating expenses and 64% of debt, down from $59.3 million, or 54% of operating expenses and 69% of debt, in fiscal 2018. Cash and investments totaled $127.8 million as of fiscal 2019, equivalent to 106% of operating expenses and 142% of debt, including debt related to Moravian College Housing Inc. (MCHI), which was moved onto Moravian's balance sheet after Moravian formally acquired MCHI during fiscal 2016 (previously, MCHI debt's was off-balance-sheet housing debt).

Moravian maintains what we consider a small endowment, valued at about $115.0 million as of June 30, 2019, an increase of 1.8% compared to the previous year. The asset allocation comprises 46% equity, 30% alternatives, and 24% fixed income. We consider the allocation modestly aggressive given exposure to alternatives. As of fiscal 2019, daily liquidity on Moravian's assets is approximately $78.9 million, which we believe is more than adequate to cover all contingent liabilities. The endowment spending target is typical, and remains 4.5% of a three-year moving average.

Debt and contingent liabilities

As of June 30, 2019, Moravian's total debt was $89.7 million, including formerly classified off-balance-sheet financing of approximately $18.5 million issued by MCHI that has now come onto Moravian's balance sheet after Moravian's acquisition of MCHI, and including a bank note of approximately $6 million that is on parity with existing notes the college holds.

MCHI was party to a swap with Lafayette Ambassador Bank that expired during April 2018. The college entered into a forward swap that is now its current swap and will expire in 2032. The notional amount of the new swap is $17.9 million as of fiscal 2019 and was entered into for savings. MCHI pays a synthetic fixed rate of 3.26%, while Lafayette Ambassador Bank pays variable interest based on the USD-SIFMA Municipal Swap Index rate.

Moravian's total debt also includes a three bank loans totaling $13.9 million and the series 2012, 2013, and 2016 bonds. The series 2015 loan terms are the same as those in the master trust indenture. S&P Global Ratings does not rate the $18.5 million bank note or the $13.9 million bank loans; however, we have reviewed the loan documents for this debt. Moravian College has contingent liability risk exposures from these loans, with payment provisions that change upon the occurrence of certain events. We consider the risk manageable at the current rating level, as it is fully mitigated by funds of $79.8 million available on a daily basis as of fiscal year-end 2019. Moravian's maximum annual debt service (MADS) is about $7.9 million (inclusive of MCHI debt) in 2019. We consider Moravian's MADS burden moderately high, at about 6.5% of fiscal 2019 expenses, but believe Moravian can adequately address this burden as its debt service steps down over time.

Moravian College, Pennsylvania--Enterprise And Financial Statistics					
	--Fiscal year ended June 30--				
	2020	2019	2018	2017	2016
Enrollment and demand					
Headcount	2,541	2,450	2,382	2,337	2,163
Full-time equivalent	2,276	2,207	2,135	2,072	1,942
Freshman acceptance rate (%)	74.8	72.8	74.8	76.8	74.8
Freshman matriculation rate (%)	26.6	25.2	20.9	24.0	25.6
Undergraduates as a % of total enrollment (%)	79.5	84.7	85.4	85.2	86.3
Freshman retention (%)	82.4	80.5	82.4	78.5	79.5
Graduation rates (six years) (%)	69.0	68.0	63.0	69.0	69.0

Moravian College, Pennsylvania--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--				
	2020	**2019**	**2018**	**2017**	**2016**
Income statement					
Adjusted operating revenue ($000s)	N.A.	115,695	108,532	102,332	92,784
Adjusted operating expense ($000s)	N.A.	120,139	109,367	102,196	90,063
Net operating income ($000s)	N.A.	(4,444)	(835)	136	2,721
Net operating margin (%)	N.A.	(3.70)	(0.76)	0.13	3.02
Change in unrestricted net assets ($000s)	N.A.	(5,205)	856	1,853	3,844
Tuition discount (%)	N.A.	46.3	45.0	43.9	42.9
Tuition dependence (%)	N.A.	77.1	75.9	76.0	75.7
Student dependence (%)	N.A.	90.6	90.1	91.7	91.3
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	1.0	0.8	0.9	0.8
Endowment and investment income dependence (%)	N.A.	8.4	7.9	5.9	6.8
Debt					
Outstanding debt ($000s)	N.A.	89,692	85,761	84,282	84,914
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	89,692	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	5.82	5.74	5.00	4.01
Current MADS burden (%)	N.A.	6.50	6.46	6.41	7.28
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	115,011	112,940	106,708	97,299
Cash and investments ($000s)	N.A.	127,795	126,501	118,974	107,960
Unrestricted net assets ($000s)	N.A.	82,067	87,272	86,416	84,563
Expendable resources ($000s)	N.A.	57,315	59,348	59,906	70,527
Cash and investments to operations (%)	N.A.	106.4	115.7	116.4	119.9
Cash and investments to debt (%)	N.A.	142.5	147.5	141.2	127.1
Cash and investments to pro forma debt (%)	N.A.	142.5	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	47.7	54.3	58.6	78.3
Expendable resources to debt (%)	N.A.	63.9	69.2	71.1	83.1
Expendable resources to pro forma debt (%)	N.A.	63.9	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	10.9	10.9	11.1	12.2

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.

Ratings Detail (As Of January 10, 2020)

Ratings Detail (As Of January 10, 2020) (cont.)		
Northampton Cnty Gen Purp Auth, Pennsylvania		
Moravian College, Pennsylvania		
Northampton Gen Purp Auth (Moravian College) coll rev bnds (Moravian College)		
Long Term Rating	BBB+/Stable	Current
ser 2012 and ser 2013		
Long Term Rating	BBB+/Stable	Current