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Ratings

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Northampton County General Purpose Authority, Pennsylvania
Moravian College; Private Coll/Univ - General Obligation

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Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'BBB+' issuer credit rating on Moravian College, Pa. S&P Global Ratings also revised its outlook to stable from negative and affirmed its 'BBB+' long-term rating on Northampton County General Purpose Authority, Pa.'s series 2012, 2013, and 2016 college general revenue bonds, issued for Moravian College.

The outlook revision reflects Moravian's continued trend of full-time-equivalent (FTE) enrollment growth, including during the COVID-19 pandemic, and our expectation that enrollment growth will continue. The outlook revision also reflects our view of a return to positive operating results during fiscal 2020 after several years of full-accrual deficits.

As of fiscal 2020, Moravian College had approximately $86.5 million of total debt including formerly classified off-balance-sheet financing of approximately $17.3 million issued by Moravian College Housing Inc. (MCHI) that has now come onto Moravian's balance sheet after Moravian's acquisition of MCHI, and including several bank notes totaling $13.5 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 also secured by a fully funded debt service reserve.

In response to the COVID-19 pandemic, Moravian College took prudent steps to address COVID-19-related concerns by transitioning to virtual teaching for the spring 2020 semester. The college's status as an Apple distinguished school, as well as investments into the college's IT infrastructure, helped to ensure a smooth transition online. Apple distinguished schools have access to the latest laptops and tablets from Apple, and seamlessly integrate technology into the classroom in order to achieve learning efficiencies. Moravian received $2.02 million from Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Per the requirements from the Department of Education, 50%, or $1.01 million, was used to provide grants directly to students who were negatively affected by the campus closure in the spring semester. The balance of the CARES Act funding ($1.01 million) was used to partially reimburse the College for board refunds that were provided to students. Board refunds totaled $1.2 million for fiscal 2020. The total amount of the CARES Act funding was recognized in fiscal 2020. We anticipate under Coronavirus Response and Relief Supplemental Appropriations that the college will receive about $2.06 million. Auxiliary revenues made up 11.7% of total operating revenues in fiscal 2020, which we view as moderately high. The college welcomed students back on its campus this fall with safety guidelines and regular testing put in place, and it has transitioned to a hybrid learning model for students and anticipates a similar model in spring 2021. Student housing has been de-densified in order to better socially distance, and 77% of the college's 1,227 available beds are currently occupied. Despite COVID-19 pressure and a high level of competition in the area, FTE enrollment grew 1.7% during fiscal 2020, which we view favorably. About 2.9% of the college's students are international, which we view as minimal. We note the college posted a positive 1.6% full-accrual operating margin ($1.9 million surplus) during fiscal 2020. The college is budgeting for break-even operations in fiscal 2021, which we view as achievable given its success in navigating initial pressures of the pandemic. The college also has $77.1 million in assets liquid on a daily basis, which we believe offers flexibility to the college. We believe the college has adequately adopted contingency measures to help combat the spread of COVID-19, and we will continue to monitor the evolving situation.

Credit overview

We assessed Moravian's enterprise profile as strong, with a stable management team, growing applications, and seven consecutive years of enrollment growth while in a highly competitive market that was affected by the pandemic. We assessed Moravian's financial profile as adequate, with a return to positive results during fiscal 2020, although management anticipates a break-even result for fiscal 2021 due to COVID impacts, and stability in net tuition revenue, offset by a modest trend of decline in available resources over the last few years. 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:

- Seventh consecutive year of FTE enrollment growth in a highly competitive region;
- Stable and experienced management team that has guided Moravian through the COVID-19 pandemic, and through demand pressures in a highly competitive region; and
- Positive full-accrual operations for fiscal 2020, with fiscal 2020 achieving a $1.9 million operating surplus, compared to operating deficits in each of the prior two fiscal years.

We believe somewhat offsetting credit factors include Moravian's:

- Trend of declines in expendable resources over time, with fiscal 2020 expendable resources equal to an adequate 46% of operations and 62% of debt;
- High dependence on student-generated revenue, which accounted for nearly 89% of fiscal 2020 revenue; and
- Significant regional competition from public and private liberal arts institutions; and anticipated demographic pressure expected in the mid-2020s, which we believe will further increase competition.

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.

Environmental, social, and governance (ESG) factors

Moravian's leadership has implemented a hybrid-learning model 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 virus' duration and the unknown effect it will have on enrollment. Despite elevated social risks, we consider Moravian's environmental and governance risks to be in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could also consider a negative rating action should financial resources show a material trend of decline, 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 or if the college achieves a trend of sustained negative full-accrual operating results. Further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the school's plan to mitigate the effects of the COVID-19 outbreak may also result in a negative rating action.

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.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, Moravian does not have geographic diversity; about 76% 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, and more recently increased pressure from COVID-19. Over the past five years, FTE enrollment has increased 19% to 2,315 in fall 2020 from 2,072 in fall 2016. Over the past year, FTE enrollment rose a more modest, but still solid, 1.7% to 2,315 students in fall 2020 from 2,276 in the previous year. Traditional undergraduate enrollment, which represents about 76% of the student body, decreased 2.9% in fall 2020, compared with a 1.3% decrease in fall 2019; we attribute the substantial decline in fall 2020 to COVID-19. We note overall enrollment growth has been 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. New graduate programs include several certificates, in addition to an online MBA and a dual MSN/MBA program, which we feel will aid growth. At the undergraduate level, the college will shift to a "results oriented" approach in which students who complete coursework milestones will be eligible, upon graduation, to receive free undergraduate or graduate level classes at Moravian should they find employment. We believe the transition to a more market-oriented approach should help to continue to grow enrollment at Moravian.

Freshman applications at Moravian increased by 10.1% in fall 2020, driven in part by a new enrollment ("results oriented") strategy. We note applications in fall 2018 and fall 2019 declined as part of management's strategy of recruiting more selectively by buying fewer student names. Over the past year, the average SAT score at Moravian has been relatively flat at 1111, compared with 1128 in fall 2019. We note that the matriculation rate has declined slightly and was 23.1% in fall 2020 compared with 26.6% in fall 2019 and 25.2% in fall 2018, and we would view improvement in selectivity as a positive credit factor. Moravian's selectivity was relatively stable and declined modestly to 74.8% in fall 2019 from 74.8% in the prior year. We note the selectivity rate has fluctuated between 72.8% and 78.7% 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 83% in fall 2020, and would view further strengthening of retention positively. We expect retention to remain solid within the outlook period.

Despite the continued 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

The management team has contracted with Credo to create a new strategic plan. Management completed its previous strategic plan, Vision 2020, during calendar 2020. The plan's goals were broad and included growing undergraduate enrollment, improving educational outcomes, increasing graduate program offerings, boosting graduation rates, and increasing alumni participation. Moravian also focused 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. We understand the new strategic plan will build on these goals and that the duration of the plan will be less than five years.

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, which we view favorably. We believe the management team remains stable and will continue to guide Moravian College successfully.

Moravian is currently in the quiet phase of a $65 million campaign for capital projects, scholarships, and academic initiatives. The college's last campaign ended in October 2016, and raised $46 million on a $45 million goal. The campaign proceeds were used to enhance the college's science facilities; support renovations to the Hurd Campus dormitories; and provide funding for faculty development, financial aid, and operations.

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 2020 with a full-accrual operating surplus of $1.9 million (or a 1.6% operating margin). Given financial pressures from COVID-19 at the end of fiscal 2020, we view the operating results as solid. Prior to fiscal 2020, the college ended fiscal 2019 with a sizable full-accrual operating deficit $4.4 million (or a negative 3.7% operating margin). Management attributed the decline in margins to ongoing startup costs associated with the expansion of its new graduate-level program offerings, which have incurred expenses but have not yet earned revenue. Management has currently budgeted for break-even operations during fiscal 2020, and we note that, to date, net tuition revenue has grown and results are favorable to budget.

Moravian's net tuition revenue experienced a sixth consecutive year of growth in fiscal 2020, increasing by a very modest 0.6% to $48.1 million. This follows growth of 5.7% in fiscal 2019. Although net tuition revenue has increased 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 a high 47.8% during fiscal 2020, an increase from 46.9% during fiscal 2019, with a further increase expected in fiscal 2021. 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 89% of fiscal 2020 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 have declined steadily over the last several years; continued declines could become a pressuring credit factor. As of June 30, 2020, expendable resources equaled $53.7 million, or 46% of operating expenses and 62% of debt, down from $57.3 million, or 48% of operating expenses and 64% of debt, in fiscal 2019. Cash and investments totaled $123.5 million as of fiscal 2020, equivalent to 105% of operating expenses and 143% of debt, including debt related to 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 $111.3 million as of June 30, 2020, a decrease of 3.2% compared to the previous year. The asset allocation comprises 44% equity, 38% alternatives, and

18% fixed income. We consider the allocation modestly aggressive given exposure to alternatives. As of fiscal 2020, daily liquidity on Moravian's assets is approximately $77.1 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, 2020, Moravian's total debt was $86.5 million. We note the college does not have immediate debt plans within the outlook period.

Of total debt, approximately $17.3 million is debt issued by MCHI that has now come onto Moravian's balance sheet after Moravian's acquisition of MCHI. 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 $17.3 million as of fiscal 2020, and the fair value of the swaps was negative $2.3 million as of fiscal 2020s. 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 $13.5 million and the series 2012, 2013, and 2016 bonds. S&P Global Ratings does not rate the $17.3 million MCHI-related debt or the $13.5 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 $77.1 million available on a daily basis as of fiscal year-end 2020. Moravian's maximum annual debt service (MADS) is about $8.1 million (inclusive of MCHI debt) in 2020. We consider Moravian's MADS burden moderately high, at about 6.9% of fiscal 2020 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--					Medians for 'BBB' rated private colleges & universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	2,565	2,541	2,450	2,382	2,337	MNR
Full-time equivalent	2,315	2,276	2,207	2,135	2,072	2,806
Freshman acceptance rate (%)	78.7	74.8	72.8	74.8	76.8	72.0
Freshman matriculation rate (%)	23.1	26.6	25.2	20.9	24.0	MNR
Undergraduates as a % of total enrollment (%)	76.3	79.5	84.7	85.4	85.2	73.9
Freshman retention (%)	83.0	82.4	80.5	82.4	78.5	79.0
Graduation rates (six years) (%)	69.0	69.0	68.0	63.0	69.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	119,499	115,695	108,532	102,332	MNR
Adjusted operating expense ($000s)	N.A.	117,596	120,139	109,367	102,196	MNR
Net operating income ($000s)	N.A.	1,903	(4,444)	(835)	136	MNR
Net operating margin (%)	N.A.	1.62	(3.70)	(0.76)	0.13	0.00

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

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Change in unrestricted net assets ($000s)	N.A.	(188)	(5,205)	856	1,853	MNR
Tuition discount (%)	N.A.	47.8	46.3	45.0	43.9	40.6
Tuition dependence (%)	N.A.	77.1	77.1	75.9	76.0	MNR
Student dependence (%)	N.A.	88.8	90.6	90.1	91.7	89.0
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.5	1.0	0.8	0.9	MNR
Endowment and investment income dependence (%)	N.A.	7.5	8.4	7.9	5.9	MNR
Debt						
Outstanding debt ($000s)	N.A.	86,476	89,692	85,761	84,282	60,453
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	6.58	5.82	5.74	5.00	MNR
Current MADS burden (%)	N.A.	6.91	6.50	6.46	6.41	4.00
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	111,383	115,011	112,940	106,708	81,634
Cash and investments ($000s)	N.A.	123,555	127,795	126,501	118,974	MNR
Unrestricted net assets ($000s)	N.A.	81,879	82,067	87,272	86,416	MNR
Expendable resources ($000s)	N.A.	53,665	57,315	59,348	59,906	MNR
Cash and investments to operations (%)	N.A.	105.1	106.4	115.7	116.4	84.0
Cash and investments to debt (%)	N.A.	142.9	142.5	147.5	141.2	164.9
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	45.6	47.7	54.3	58.6	47.0
Expendable resources to debt (%)	N.A.	62.1	63.9	69.2	71.1	85.6
Expendable resources to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.7	10.9	10.9	11.1	15.0

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

Ratings Detail (As Of February 4, 2021)		
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	Outlook Revised