RatingsDirect®

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

Primary Credit Analyst:
Laura A Kuffler-Macdonald, New York (1) 212-438-2519;
laura.kuffler.macdonald@standardandpoors.com

Secondary Contact:
Charlene P Butterfield, New York (1) 212-438-2741; charlene.butterfield@standardandpoors.com

Table Of Contents

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

Credit Profile		
US$30.425 mil coll rev bnds (Moravian College) ser 2016 due 10/01/2045		
Long Term Rating	BBB+/Stable	New
Moravian College ICR		
Long Term Rating	BBB+/Stable	Affirmed
Northampton Cnty Gen Purp Auth, Pennsylvania		
Moravian College, Pennsylvania		
ser 2012 and ser 2013		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'BBB+' rating on Northampton County General Purpose Authority, Pa.'s $31.3 million series 2016 college general revenue bonds, issued for Moravian College. At the same time, Standard & Poor's affirmed its 'BBB+' rating on the authority's series 2012 and 2013 bonds issued for the college and its 'BBB+' issuer credit rating on Moravian. The outlook is stable.

We assessed Moravian's enterprise profile as strong, with recent improvement in enrollment. We assessed Moravian's financial profile as adequate, with improving operating margins after incurring operating deficits and available resources in line with 'BBB' peers. Combined, we believe these credit factors lead to an indicative standalone credit profile of 'bbb+'.

More specifically, the 'BBB+' rating reflects our assessment of Moravian's:

- Significant regional competition with public and private liberal arts institutions;
- High dependence on student-generated revenue, which accounted for 86% of fiscal 2015 revenue; and
- High pro forma maximum annual debt service (MADS) burden for fiscal 2016, directly attributable to a $3.8 million balloon payment due. After fiscal 2016, MADS declines to 6% of 2015's expenses.

We believe somewhat offsetting credit factors include Moravian's:

- Recent improvements in enrollment for the past two years after several years of declines;
- Improved operating performance in fiscal 2015, generating full-accrual surpluses after two years of deficits; and
- Adequate available resources for the rating, with expendable resources as of June 30, 2015, equaling approximately 96% of expenses, 128% of total debt and 97% of the pro forma debt.

Officials intend to use bond proceeds to finance the acquisition, design, construction equipping, and furnishing of a new health science building, which will allow for the nursing program to increase and will support Moravian's athletic training, occupational therapy, health informatics, and health sciences programs; and allow for expansion to other health care programs. The college expects this project to cost $22 million. The other main project bond proceeds are financing is the addition of a synthetic turf field to support the men's and women's lacrosse, field hockey, and soccer teams, for $2.1 million. A part of bond proceeds will also refund the series 2011 note and buy an equity interest in the housing complex.

The bonds, as well as parity debt (series 2012, 2013, and 2015), are unconditional general obligations of the obligated group, of which the college is the sole member, and are secured by a gross revenue pledge and a fully funded debt service reserve. The obligated group further pledges to maintain annual net revenue available for debt service at levels sufficient to cover the annual debt service requirement by at least 1x. Bondholders also have an additional bonds test that we consider weak due to the discretionary latitude it provides the issuer in choosing either a prospective or retrospective assessment of one of six measures of debt service, total indebtedness, net assets, or net revenue. With this issuance, Moravian's total debt outstanding will be approximately $78.5 million based on fiscal 2015 audited financial statements. This includes $19.9 million in off-balance-sheet debt issued by Moravian College Housing Inc. (MCHI) to construct a mixed-use facility. The college does not have any other additional debt plans.

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 2,160 students in three degree-granting divisions: the undergraduate college; the graduate theological seminary; and the center for continuing, professional, and graduate studies. Moravian offers nearly 50 undergraduate program options and pre-professional courses in dentistry, law, medicine, teacher education, theology, and veterinary medicine.

Outlook

The stable outlook reflects our expectation that Moravian's recent positive enrollment trends will continue, operations will remain positive based on generally accepted accounting principals, and the college will maintain financial resources over the two-year outlook period.

Downside scenario

We would consider a negative rating action if enrollment decreases significantly, leading to sustained negative full accrual operating results or further deterioration of financial resources.

Upside scenario

Given the current level of financial resources, a positive rating action is unlikely within the outlook period.

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 70% of students come from within Pennsylvania and the region. As such, we base our assessment of Moravian's economic fundamentals on Pennsylvania's GDP per capita.

Market position and demand

Moravian has limited demand flexibility and faces enrollment challenges due to high competition in the area. However, in the past two years, headcount has risen due to increased investments in enrollment management, campus facilities, marketing, and technology. Recent higher admissions are also attributable to a new vice-president for enrollment, a new executive director for admissions, and four new admissions counselors. Full-time equivalent (FTE) student enrollment decreased almost 9% to 1,555 in fall 2013 from 1,703 in fall 2011, due to lower numbers in traditional undergraduate courses. However, FTE enrollment increased 7.4% in fall 2014 to 1,670 and 16.3% in fall 2015 to 1,942. Traditional undergraduate enrollment, which represents about 86% of the student body, increased 13.9% in fall 2015, compared with 4.4% in fall 2014. We understand that management is projecting further enrollment increases for fall 2016, given that inquiries, applications and deposits are already ahead of 2015 levels. We view this as a positive, given the college's high dependency on student generated revenues.

Freshman applications levels have been volatile in the past several years. After declining 20% in fall 2013 and by 6% in fall 2014, applications increased by 80% in fall 2015 due to Moravian's success in its recruitment efforts. This resulted in the largest freshman class in the school's history. The matriculation rate was 26% for fall 2015. In our opinion, this indicates that the college experiences a fair degree of competition. Management attributes much of this to commonwealth-sponsored incentive programs that encourage community college attendance. Moravian's selectivity improved to 75% in fall 2015, compared with 86% in fall 2014 and 80% in fall 2013. In turn, student quality indicators, while still well above average, were stable. We believe that the college's freshman-to-sophomore retention rate is good, at 80% in fall 2015, which recovered after a dip to 75% in fall 2012. Management attributes the improvement to increased institutionally funded financial aid to address the needs of at-risk freshmen. The discount rates rose to 42% in fall 2014 from about 35% in fall 2008. We understand management has adopted a strategic plan for 2015-2020, under which Moravian is focusing on enhancing the students' experience by providing research opportunities to students in professional programs courses and internships to students enrolled in traditional liberal arts programs. In addition, the college plans to increase the alumni engagement and student retention rate.

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 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.

Fundraising

We believe Moravian does not have a strong fundraising history, but it has renewed its commitment to building this revenue source and improving its balance sheet. The college concluded a $45 million campaign that began in fall 2008 in October, raising $45.8 million. It intends to use 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 intends to enter a new capital campaign in the near term.

Management

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 14 key administrators support Moravian. In July 2015, the college hired a provost after the academic dean retired. Other than the provost, there have been no major changes in key senior leadership positions.

The current strategic plans include a focus on academic excellence and innovation; student retention and alumni engagement; growth through partnership to provide opportunities for internships, community service and service learning among others; enroll and retain students. Management has a robust strategic planning process that is reviewed quarterly and is consistent with their capabilities and the market they operate in. In addition, the college is implementing more formal enterprise risk management processes, which we view favorably.

Financial Profile

Financial management policies

Moravian has formal policies for its endowment, investments, and debt, but does not have a formal liquidity policy. Treasury 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 the college 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 2015 with a $2.7 million full-accrual operating surplus after reporting operating deficits for the previous two years. The surplus was mainly on account of increased tuition revenue from higher enrollment in fall 2014. Management is projecting another full-accrual surplus in fiscal 2016, mainly on account of the improved enrollment for fall 2015.

The college's net tuition revenue decreased 2.5% in fiscal 2013 and 3.0% in fiscal 2014 while enrollment declined. However, for fiscal 2015, net tuition revenue increased by 14.8%. Not unlike most small private liberal arts colleges, Moravian depends highly on student-related income with tuition, fees, and auxiliary operations. These accounted for 86% of fiscal 2015 revenue. We continue to monitor the college's discounting practices closely, particularly because institutionally sponsored aid continues to pressure tuition and fee revenue as Moravian increases financial awards to retain students. The college's freshman tuition discount was 52.6% in fall 2013, compared with 50% in fall 2012. For fall 2015, the rate was 52%. Management's goal is to reduce the overall discount rate to 40% by 2020.

Available resources

In our opinion, Moravian's financial resource ratios remain adequate for the rating category. As of June 30, 2015, cash and investments equaled $108 million, or 137% of operating expenses and 138% of pro forma debt, including off-balance-sheet housing financing. Fiscal 2015 available resources (as measured by expendable resources) is a more conservative measure than cash and investments, at $76 million, equaled 96% of operating expenses and 128% of debt. However, including the series 2016 issuance, pro forma expendable resources-to-debt decline to 97% of debt, which is more comparable with 'BBB' medians.

Moravian maintains what we consider a small endowment, valued at $100.9 million as of June 30, 2015. Although the endowment has 12% exposure to private equity, 69% of all investments are classified as level 1 and level 2 marketable securities in the fiscal 2015 audited financial statements. Approximately 44.8% of investments were allocated to equity investments, 18.2% to hedge fund, 12.9% to fixed income, 12.2% to private equity and 10.6% to real estate assets. Moravian had about $9.4 million in uncalled capital commitments as of June 30, which was manageable, in our opinion, given that the college has approximately $63 million of investments available for daily liquidity. The endowment spending target is typical, and remains 4.5% of a three-year moving average. We understand that management increased its endowment spending rate to 5.0% in fiscal 2014 for budgetary relief, but it has scaled back the endowment spending rate to 4.5% in fiscal 2015.

Debt and contingent liabilities

As of June 30, Moravian's total debt was $60.0 million including off-balance-sheet financing of approximately $23.9 million issued by MCHI. On July 1, the college fully redeemed the 2005 bonds outstanding, in the amount of $1.9 million, using operating cash. In July 2015, Moravian entered a $6 million bank loan to purchase and renovate a former racquetball club, which will provide space for its athletic training and occupational therapy programs. Including the series 2015 note ($6 million) and the series 2016 bonds of $30 million, total pro forma debt will be $78.5 million. This debt also includes a $3.0 million, bank-qualified bond issued in fiscal 2011 for the construction of Moravian's recreation center and other facility improvements. Although we do not rate the bank-qualified bond debt, we consider it a contingent liability. We have reviewed the loan documents for the 2011 note and 2015 loan and determined that neither pose additional event-driven risk. The series 2016 bond issuance will repay the 2011 note. The 2015 loan terms are the same as those in the master trust indenture. Although Moravian plans to refinance the bank-qualified bond debt with the current series 2016 bond issuance, 2016 balloon payment associated with this financing pushes the MADS burden to what we consider a high 8.2% of fiscal 2015 expenses. Without this payment, pro forma debt burden is 6% of the annual budget.

Moravian had leased a portion of the nonresidential space completed as part of the MCHI financing. Under the 30-year lease, which the college pays MCHI $1.5 million during the first 10 years. It has also invested approximately $2 million for equipment, parking, and landscaping on the Hurd Campus, the site of the residence hall. In addition, Moravian has provided a $1 million subordinated loan to MCHI. As part of its agreement with MCHI, the college created a budget to support building operations. It is responsible for providing maintenance services, for which it will be reimbursed; invoicing students; and integrating this housing with the existing on-campus housing. Students sign lease agreements directly with MCHI. In December, the college purchased the equity interest in MCHI from the Bethlehem Area Moravians for $3.3 million. MCHI will remain an independent 501(c)(3) and will not be part of the obligated group under the current master trust indenture. However, financial statements will be consolidated. Although we have always considered the debt to be on-balance-sheet, Moravian will now have the benefit of the offsetting assets and revenues. The debt has always been funded from room rentals; occupancy has been high historically, and is currently at 96%.

Moravian College--Financial Statistics

	--Fiscal year ended June 30--					
	2016	2015	2014	2013	2012	Medians for 'BBB' private colleges and univerisites, 2014
Enrollment and demand						
Headcount	2,163	1,869	1,749	1,802	1,899	MNR
Full-time equivalent	1,942	1,670	1,555	1,618	1,703	3,318
Freshman acceptance rate (%)	74.8	86.3	80.0	78.5	79.7	70.6
Freshman matriculation rate (%)	25.6	29.2	27.3	23.7	24.3	24.2
Undergraduates as a % of total enrollment (%)	86.3	87.9	90.6	91.9	87.3	74.5
Freshman retention (%)	79.5	79.0	78.0	75.5	78.0	78.0
Graduation rates (five years) (%)	N.A.	N.A.	74.0	76.0	74.0	59.5
Income statement						
Adjusted operating revenue ($000s)	N.A.	81,841	71,686	72,560	73,690	MNR
Adjusted operating expense ($000s)	N.A.	79,117	72,090	72,644	73,512	MNR
Net operating income ($000s)	N.A.	2,724	(404)	(84)	178	MNR
Net operating margin (%)	N.A.	3.44	(0.56)	(0.12)	0.24	MNR
Change in unrestricted net assets ($000s)	N.A.	2,725	1,773	1,088	(982)	MNR
Tuition discount (%)	N.A.	42.0	43.3	41.4	40.2	33.3
Tuition dependence (%)	N.A.	72.4	73.7	72.5	71.8	MNR
Student dependence (%)	N.A.	86.4	88.8	87.8	88.6	MNR
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.0	1.3	1.2	1.2	MNR
Endowment and investment income dependence (%)	N.A.	7.1	8.1	7.1	6.9	MNR
Debt						
Debt outstanding ($000s)	N.A.	59,746	61,049	63,210	55,095	55,019
Proposed debt ($000s)	N.A.	35,775	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	78,475	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	4,929	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.50	4.03	3.58	2.91	3.40
Current MADS burden (%)	N.A.	8.19	8.99	8.90	8.34	MNR
Pro forma MADS burden (%)	N.A.	6.23	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	100,943	101,278	90,484	84,146	64,256
Cash and investments ($000s)	N.A.	108,254	115,278	108,768	102,059	MNR
Unrestricted net assets ($000s)	N.A.	80,719	77,994	76,221	75,133	MNR
Expendable resources ($000s)	N.A.	76,227	84,430	87,287	78,648	MNR
Cash and investments to operations (%)	N.A.	136.8	159.9	149.7	138.8	75.4
Cash and investments to debt (%)	N.A.	181.2	188.8	172.1	185.2	151.7
Cash and investments to pro forma debt (%)	N.A.	137.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	96.3	117.1	120.2	107.0	54.5

Moravian College--Financial Statistics (cont.)						
Expendable resources to debt (%)	N.A.	127.6	138.3	138.1	142.7	88.8
Expendable resources to pro forma debt (%)	N.A.	97.1	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.2	16.6	18.5	17.6	12.8

MADS--Maximum annual debt service. MNR --Median not reported. N.A.--Not available.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014