

# RatingsDirect®

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## Summary:

# Moravian University, Pennsylvania; Private Coll/Univ - General Obligation

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## Summary:

# Moravian University, Pennsylvania; Private Coll/Univ - General Obligation

### Credit Profile

Moravian College ICR

*Long Term Rating*

BBB+/Stable

Affirmed

#### **Northampton Cnty Gen Purp Auth, Pennsylvania**

Moravian University, Pennsylvania

Northampton Cnty Gen Purp Auth (Moravian College)

*Long Term Rating*

BBB+/Stable

Affirmed

## Credit Highlights

- S&P Global Ratings affirmed its 'BBB+' rating on the Redevelopment Authority of the City of Bethlehem, Pa.'s series 2021 and series 2022 revenue bonds issued on behalf of Moravian University (Moravian). At the same time, S&P Global Ratings affirmed its 'BBB+' issuer credit rating on Moravian and its 'BBB+' long-term rating on Northampton County General Purpose Authority, Pa.'s series 2013 and 2016 college general revenue bonds issued on behalf of the university.
- The outlook is stable.

## Security

The university's bonds are secured by a gross revenue pledge. Total debt as of fiscal 2022 was approximately \$74.5 million, including \$16.0 million issued by Moravian College Housing Inc. (MCHI), \$6.9 million of bank loans, and \$2.8 million in capital leases. S&P Global Ratings does not rate the MCHI debt or the bank loans; however, we have reviewed the loan documents. Moravian 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, as Moravian has over \$80 million available daily as of fiscal year-end 2022. The university's maximum annual debt service (MADS) is 5.9% of fiscal 2022 operating expenses, which we consider average. The university may issue additional debt within the two-year outlook period, but the amount and timing are not yet determined.

## Credit overview

We assessed Moravian's enterprise profile as strong, with a track record of steady enrollment despite a highly competitive market. The stable management team has also successfully implemented strategic initiatives including the transition to a university and status as an Apple distinguished school. We assessed Moravian's financial profile as adequate, with a gradually declining MADS burden and steady net tuition revenue despite a high discount rate. 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:

- Stable enrollment and improved selectivity in fall 2022 with initial positive results for fall 2023 and growth expected

to continue at the graduate level;

- Capable management team that has guided Moravian through demand pressures in a highly competitive region. Recent innovations include the university's results-oriented ELEVATE program, which aims to improve student outcomes by developing leadership skills through global exposure and work experience; and
- Trend of gradually growing net tuition revenue prior to fiscal 2022, despite high discounting.

We believe somewhat offsetting credit factors include Moravian's:

- Variable operating performance, with a deficit of \$3.4 million, or 2.6% of adjusted operating expenses, in fiscal 2022;
- High dependence on student-generated revenue, which accounted for 86% of adjusted operating revenues in fiscal 2022;
- Low cash and investments relative to debt compared with those of similarly rated peers, at 201%; and
- Significant regional competition from public and private liberal arts institutions and demographic pressure expected in the coming years.

Founded in 1742 and one of the oldest colleges in the nation, Moravian University (formerly Moravian College) and Theological Seminary is a private, coeducational college affiliated with the Moravian Church. Located in Bethlehem, Pa., the university serves students in three schools: the School of Arts, Humanities and Social Sciences, the School of Natural and Health Sciences, and Moravian Theological Seminary. In 2022, Moravian initiated the combination process with Lancaster Theological Seminary, and has since launched on the Lancaster, Pa., campus a new remote learning center for graduate and undergraduate studies. 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**

We view the health and safety social risks posed by the pandemic as somewhat abating for the higher education sector. However, the pandemic has had significant effects on enrollment trends that could continue to affect demand and finances. In addition, we believe Moravian is affected by demographic pressure, which we view as a social capital risk, with fewer graduating high school students in Pennsylvania and the surrounding region anticipated for the next several years. However, Moravian has a solid enrollment trend relative to similar schools in the region and has diversified its student body with growing graduate programs. We view the university's environmental and governance risks as neutral factors in our credit rating analysis.

## **Outlook**

The stable outlook reflects our view of Moravian's solid enrollment trend, improved selectivity, declining MADS burden, and track record of expense controls. Despite competition and pressured demographics, we expect the university will continue to successfully market and deliver high-demand programming. We will monitor the impact of any additional debt as details become available.

## Downside scenario

We could consider a negative rating action if consistent operating deficits caused a material decline in available resources, if the university began to experience significant enrollment pressures, or if Moravian issued significant additional debt without a commensurate increase in resources.

## Upside scenario

While unlikely given the university's plans for additional debt within the outlook period, we could consider a positive rating action if available resources grow materially while Moravian continues to amortize debt and maintains enrollment.

Moravian University, Pennsylvania--Enterprise And Financial Statistics						
	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2023	2022	2021	2020	2019	2021
<b>Enrollment and demand</b>						
Headcount	2,495	2,554	2,565	2,541	2,450	2,761
Full-time equivalent	2,268	2,309	2,315	2,276	2,207	2,454
Freshman acceptance rate (%)	66.3	78.2	78.7	74.8	72.8	78.2
Freshman matriculation rate (%)	19.4	21.0	23.1	26.6	25.2	16.5
Undergraduates as a % of total enrollment (%)	74.8	74.6	76.3	79.5	84.7	77.8
Freshman retention (%)	78.0	79.0	83.0	82.4	80.5	78.1
Graduation rates (six years) (%)	70.0	68.0	69.0	69.0	68.0	MNR
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	126,241	122,087	118,487	115,695	MNR
Adjusted operating expense (\$000s)	N.A.	129,630	118,722	117,597	120,139	MNR
Net operating income (\$000s)	N.A.	(3,389)	3,365	890	(4,444)	MNR
Net operating margin (%)	N.A.	(2.61)	2.83	0.76	(3.70)	1.80
Change in unrestricted net assets (\$000s)	N.A.	(3,148)	9,396	(188)	(5,205)	MNR
Tuition discount (%)	N.A.	48.3	46.9	46.7	46.3	44.0
Tuition dependence (%)	N.A.	75.6	77.4	77.8	77.1	76.5
Student dependence (%)	N.A.	86.4	88.0	89.6	90.6	85.2
Research dependence (%)	N.A.	5.2	3.7	2.5	1.0	3.5
Endowment and investment income dependence (%)	N.A.	5.2	6.0	7.6	8.4	3.6
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	74,481	82,858	86,476	89,692	60,809
MADS burden (%)	N.A.	5.88	6.88	6.91	6.50	4.30
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	132,817	142,724	111,383	115,011	107,786
Cash and investments (\$000s)	N.A.	149,495	160,940	123,555	127,795	MNR
Unrestricted net assets (\$000s)	N.A.	88,127	91,275	81,879	82,067	MNR

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

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2023	2022	2021	2020	2019	2021
Expendable resources (\$000s)	N.A.	76,140	93,218	53,665	57,315	MNR
Cash and investments to operations (%)	N.A.	115.3	135.6	105.1	106.4	114.3
Cash and investments to debt (%)	N.A.	200.7	194.2	142.9	142.5	204.2
Expendable resources to operations (%)	N.A.	58.7	78.5	45.6	47.7	72.9
Expendable resources to debt (%)	N.A.	102.2	112.5	62.1	63.9	129.4
Average age of plant (years)	N.A.	12.9	12.6	11.7	10.9	15.6

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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

**Ratings Detail (As Of February 9, 2023)**

**Northampton Cnty Gen Purp Auth, Pennsylvania**

Moravian University, Pennsylvania

Northampton Gen Purp Auth (Moravian College) coll rev bnds (Moravian College)

Long Term Rating BBB+/Stable Affirmed

**Redevelopment Authority of the City of Bethlehem, Pennsylvania**

Moravian University, Pennsylvania

Redevelopment Authority of the City of Bethlehem (Moravian College) univ rev bnds (Moravian College) ser 2021 due 10/01/2038

Long Term Rating BBB+/Stable Affirmed

Redevelopment Authority of the City of Bethlehem (Moravian College) univ rev bnds (Moravian College) ser 2022 due 10/01/2031

Long Term Rating BBB+/Stable Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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