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Bethlehem Redevelopment Authority, Pennsylvania Moravian University; Private Coll/Univ - General Obligation

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Bethlehem Redevelopment Authority, Pennsylvania
Moravian University; Private Coll/Univ - General Obligation

Credit Profile		
US$39.13 mil univ rev bnds (Moravian University) (Haupert Union Bldg Project) ser 2024 dtd 05/15/2024 due 10/01/2054		
Long Term Rating	BBB+/Stable	New
Moravian College ICR		
Long Term Rating	BBB+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'BBB+' rating to Bethlehem Redevelopment Authority, Pa.'s series 2024 revenue bonds, issued for Moravian University.
- S&P Global Ratings also affirmed its 'BBB+' issuer credit rating (ICR) on Moravian.
- In addition, S&P Global Ratings affirmed its 'BBB+' rating on the authority's series 2021 and 2022 revenue bonds, issued for Moravian.
- Finally, S&P Global Ratings affirmed its 'BBB+' rating on Northampton County General Purpose Authority, Pa.'s series 2013 and 2016 general revenue college bonds, issued for Moravian.
- The outlook is stable.

Security

A gross revenue pledge secures the bonds.

As of June 30, 2023, Moravian had approximately $71.4 million of debt outstanding, including public bonds, Moravian College Housing Inc. (MCHI) debt, bank loans, and finance lease liabilities. Following the issuance of the $39.13 million series 2024 bonds, Moravian's total pro forma debt equals $110.5 million.

Proceeds of the series 2024 bonds will finance renovations to Haupert Union Building and updates to Moravian's enterprise systems.

Moravian's pro forma maximum annual debt service equals $9.2 million, or 6.9% of fiscal 2023 operating expenses, which we consider somewhat high. However, annual debt service decreases steadily under the current schedule after fiscal 2026. Management does not currently have any additional debt plans.

Credit overview

We view Moravian's enterprise-risk profile as strong, characterized by its steady enrollment and increasing applications despite a highly competitive market, evidenced by slightly weakening matriculation rates. We view

Moravian's financial-risk profile as adequate, characterized by persistent modest full-accrual operating deficits despite growing net tuition revenue. We think these combined factors led to an anchor of 'bbb+' and a final rating of 'BBB+'.

The rating reflects our opinion of Moravian's:

- Solid full-time-equivalent enrollment growth of 6% in fall 2023 from fall 2022, offsetting modest decreases in fall semesters 2021 and 2022 and continuing a trend of enrollment growth from prior years;
- Substantial application growth over several years, albeit with an unusual onetime increase in fall 2023 that should decrease toward normal trends in fall 2024;
- Solid cash and investments, particularly relative to operating expenses; and
- Trend of gradually growing net tuition revenue in most recent fiscal years despite high discounting, coupled with ongoing efforts to diversify revenue by growing nontraditional student enrollment.

We believe somewhat offsetting factors are, what we consider, Moravian's:

- Consistent modest full-accrual operating deficits outside of fiscal years 2020 and 2021 with a deficit of 3.6% of adjusted operating expenses in fiscal 2023;
- High dependence on student-generated revenue, which accounted for 88% of adjusted operating revenue in fiscal 2023;
- Somewhat low cash and investments relative to pro forma debt compared with similar-rated peers; 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 nation's oldest colleges, Moravian University, formerly Moravian College, is a private, coeducational, university and theological seminary affiliated with the Moravian Church. In Bethlehem, the university serves students at three schools:

- School of Arts, Humanities, & Social Sciences;
- School of Natural & Health Sciences; and
- Moravian Theological Seminary.

In 2022, Moravian initiated the consolidation process with Lancaster Theological Seminary; it has since launched a new remote-learning center for graduate and undergraduate studies on the Lancaster campus. Moravian offers undergraduate programs in arts; fine arts; science; nursing; and music, as well as 21 master's and three doctoral degree programs. Undergraduate students made up 75% of the student body in fall 2023, and approximately 74% of students are from Pennsylvania with the remainder largely from New York and New Jersey.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) factors related to Moravian's market position and financial performance. Moravian operates in a commonwealth somewhat affected by demographic pressure, which we view as a social capital factor, with fewer graduating high school students expected in the commonwealth and surrounding region for the next several years. However, stable enrollment and growing graduate programs mitigate the potential pressure we consider part of our market-position analysis. We view Moravian's environmental and governance factors as neutral in our credit-rating analysis.

Outlook

The stable outlook reflects S&P Global ratings' opinion that Moravian's enrollment will likely continue its modest enrollment growth and that demand metrics will likely remain solid. We expect that modest full-accrual operating deficits will likely persist in the near term and that cash and investments will likely remain steady in advance of the addition of Lancaster Theological Seminary's financial resources in fiscal 2025.

Downside scenario

We could revise the outlook to negative or lower the rating if consistent operating deficits were to cause a material decrease in financial resources, if Moravian were to experience significant enrollment pressure, or if Moravian were to issue significant additional debt beyond the series 2024 issuance without a commensurate increase in financial resources.

Upside scenario

We could revise the outlook to positive or raise the rating if financial resources were to grow substantially, if operating margins were to improve toward breakeven results on a full-accrual basis, and if demand metrics were to improve in-line with Moravian's investment in retention-and-application growth.

Credit Opinion

Enterprise-Risk Profile: Strong

Market position and demand

Moravian has invested in expanding academic programs; prospective student searches; and increasing nontraditional student opportunities during the past few years, as well as using the Elevate initiative to enhance experiential learning and student outcomes. Following a small enrollment decrease of 2% over two years to 2,268 in fall 2022 from 2,315 in fall 2020, Moravian saw solid recovery in total full-time-equivalent enrollment by 6% to 2,405 in fall 2023 with a freshman class of 512 students.

Management expects a continuation of these larger freshman class sizes to boost total enrollment, supported by substantial application growth in each of the past four years. While the 53.7% increase in applications to 5,115 in fall 2023 from 3,328 in fall 2022 relates to a onetime widening of the application funnel outside of management's desired strategy, current data suggests a continuation of solid growth in fall 2024. Therefore, we expect related demand metrics, such as freshman selectivity, will likely remain generally stable with historical performance; however, selectivity improved absent this onetime event to 66.3% in fall 2022.

Undergraduate enrollment, though growing in fall 2023, remains slightly lower by 3.4% at 1,911 in fall 2023 compared with the peak of 1,978 in fall 2018. However, graduate enrollment has steadily increased by 115.7% to 494 in fall 2023 from 229 in fall 2018. Management expects continued graduate enrollment growth in the School of Behavioral & Community Health and significant increases in nontraditional students during the next two years in the School of Professional Studies & Innovation (SPSI), which will offer its first associate degrees in fall 2024.

Matriculation continued its slight decrease to 18.5% in fall 2023, which we view as reflective of the significant competition facing many regional schools. We think the university's retention is solid at 81% in fall 2023, improving from 78% in fall 2022. Renovation of Haupert Union Building will include additional wellness spaces for students as part of management's overall student wellbeing initiative to further improve retention.

Management and governance

Moravian's management team has remained generally stable over the years with the president, Bryon Grigsby, in place since July 2013. The university has continued to innovate over the years, including:

- Completing the transition to university status in spring 2021;
- Introducing the Elevate undergraduate program in fall 2021 with a focus on improving student outcomes by building global awareness, increasing work experience, and expanding employer relationships;
- Renewing its status as an Apple distinguished school with access to the latest laptops and tablets, which provided information technology capability that eased the university's transition to online learning throughout COVID-19;
- Agreeing in June 2021 to consolidate with Lancaster Theological Seminary, with Moravian gaining facilities and land in Lancaster, including the seminary's endowment on its consolidated balance sheets in fiscal 2025; and
- Transitioning to a dynamic strategic-thinking process with annual updates to a rolling three-year strategic plan to more swiftly respond to the changing market and emergencies, such as COVID-19.

We view budgeting practices as somewhat conservative relative to Moravian's final cash-based operating results with management monitoring expenses monthly. We think the university has sufficient cybersecurity policies; practices; trainings; and insurance to prevent and protect against potential cybersecurity risks, which we view favorably, with no reported recent incidents.

Financial-Risk Profile: Adequate

Financial performance

Following two years of modest operating surpluses in fiscal years 2020 and 2021, Moravian resumed its prior trend of full-accrual operating deficits at 2.6% and 3.6% of operating expenses in fiscal years 2022 and 2023, respectively. While net tuition revenue has grown consistently aside from a slight decrease in fiscal 2022, auxiliary revenue has not quite yet recovered to pre-COVID-19 levels.

Management projects investments in new programs will take further time to return net revenue. Management expects further net tuition revenue growth during the next few fiscal years due to larger freshman class sizes boosting total enrollment, as well as increasing graduate and nontraditional enrollment with less tuition discounting than traditional undergraduates. Total tuition discounting has remained generally steady at about 48.3% in fiscal 2023, indicative of the intense competition Moravian faces for students in the region.

Based on current data for fiscal 2024, management expects an improvement from fiscal 2023's deficit; however, we expect the final margins will likely remain modestly negative on a full-accrual basis. Moravian reduces operational expenses with measures, such as reduced retirement contributions and delayed merit salary increases; meanwhile, it also targets student revenue growth from programs like SPSI during the next few fiscal years.

We do not currently think the consolidation of financial statements with Lancaster Theological Seminary will likely affect finances materially.

Financial resources

As of June 30, 2023, Moravian's cash and investments total $152.2 million, or 113.8% of adjusted operating expenses in fiscal 2023 and 137.8% of pro forma debt following the series 2024 bond issuance. While we consider financial resources, particularly relative to operating expenses, solid compared with rating-category medians and similar-rated peers, cash and investments relative to debt are somewhat low and weakened further with new debt. Management expects the consolidation of financial statements with Lancaster Theological Seminary will add about $26 million to financial resources in fiscal 2025 with no associated debt.

Moravian's ongoing fundraising campaign has raised $72.4 million toward the current $75 million goal, following an increase from the original $65 million goal. Running from 2018-2026, the campaign targets a portion of Haupert Union Building renovations, supports experiential-learning initiatives, and primarily funds scholarships.

Moravian maintained a solid endowment of $138.4 million in fiscal 2023, up by 4.2% from $132.8 million in fiscal 2022. The university's endowment-spending policy allows a 4.5% draw of the trailing three-year moving average, but endowment draws remain stable at a slightly higher 4.7%. The endowment remains largely liquid at 68.9%, and the university has $85.7 million of net assets without donor restrictions; therefore, Moravian has good flexibility within its current financial resources and ongoing board support to continue its strategic-initiative investments.

Debt-and-contingent liabilities

As of June 30, 2023, Moravian had approximately $71.3 million of debt outstanding, including:

- $46.8 million of public series 2013, 2016, 2021, and 2022 bonds;
- $15.2 million of variable-rate MCHI debt;
- $6.5 million of privately placed bank loans; and
- $2.8 million of finance lease liabilities.

Following the issuance of the series 2024, $39.13 million bonds, Moravian's total pro forma debt equals $110.5 million. The university primarily intends to use series 2024 bond proceeds to finance $40 million of Haupert Union Building renovations and $2 million for enterprise-system updates.

Moravian acquired MCHI debt in fiscal 2016 and entered into two interest-rate swap agreements through 2032. The swaps' total notional amount was $15.2 million in fiscal 2023. MCHI pays a synthetic fixed rate of 3.26% while Fulton Bank pays a variable interest rate based on the one-month secured overnight financing rate. We do not rate

MCHI-related debt or bank loans; however, we have reviewed loan documents for this debt.

Moravian has contingent-liability risk exposure from bank loans with payment provisions that change upon the occurrence of certain events. We consider risk manageable at the current rating because Moravian's available liquidity, including $7 million of line-of-credit availability, fully mitigates the risk.

Moravian has a defined-contribution retirement plan for substantially all regular full-time employees. Annual pension expenses equaled 1.6% of operating expenses in fiscal 2023, which we consider manageable.

Moravian University, Pennsylvania--enterprise and financial statistics

	--Fiscal year-end June 30--					Medians for 'BBB' category rated private colleges and universities
	2024	**2023**	**2022**	**2021**	**2020**	**2022**
Enrollment and demand						
Full-time-equivalent enrollment	2,405	2,268	2,309	2,315	2,276	2,484
Undergraduates as a % of total enrollment	79.5	80.2	80.5	81.9	85.8	71.5
First-year acceptance rate (%)	53.7	66.3	78.2	78.7	74.8	80.3
First-year matriculation rate (%)	18.5	19.4	21.0	23.1	26.6	15.2
First-year retention rate (%)	81.0	78.0	79.0	83.0	82.4	77.0
Six-year graduation rate (%)	71.0	70.0	68.0	69.0	69.0	64.4
Income statement						
Adjusted operating revenue ($000s)	N.A.	128,956	126,241	122,087	118,487	111,191
Adjusted operating expense ($000s)	N.A.	133,735	129,630	118,722	117,597	116,822
Net operating margin (%)	N.A.	(3.6)	(2.6)	2.8	0.8	0.7
Change in unrestricted net assets ($000s)	N.A.	(2,427)	(3,148)	9,396	(188)	MNR
Tuition discount (%)	N.A.	48.3	48.3	46.9	46.7	45.2
Student dependence (%)	N.A.	88.0	86.4	88.0	89.6	82.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.0	5.2	3.7	2.5	4.9
Debt						
Outstanding debt ($000s)	N.A.	71,352	74,481	82,858	86,476	65,564
Proposed debt ($000s)	N.A.	39,130	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	110,482	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	5.6	6.5	7.1	6.6	MNR
Current maximum annual debt service (MADS) burden (%)	N.A.	5.6	5.9	6.9	6.9	4.1
Pro forma MADS burden (%)	N.A.	6.9	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.8	12.9	12.6	11.7	16.1
Financial resource ratios						
Endowment market value ($000s)	N.A.	138,436	132,817	142,724	111,383	104,416
Cash and investments ($000s)	N.A.	152,214	149,495	160,940	123,555	128,132

Moravian University, Pennsylvania--enterprise and financial statistics (cont.)

	--Fiscal year-end June 30--					Medians for 'BBB' category rated private colleges and universities
	2024	2023	2022	2021	2020	2022
Cash and investments to operations (%)	N.A.	113.8	115.3	135.6	105.1	95.2
Cash and investments to debt (%)	N.A.	213.3	200.7	194.2	142.9	184.5
Cash and investments to pro forma debt (%)	N.A.	137.8	N.A.	N.A.	N.A.	MNR

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 MADS burden = 100*(MADS expense/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported.

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 April 17, 2024)

Northampton County General Purpose Authority, Pennsylvania		
Moravian University, Pennsylvania		
Northampton Cnty Gen Purp Auth (Moravian College)		
Long Term Rating	BBB+/Stable	Affirmed
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