S&P Global Ratings

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

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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 improved matriculation, and continued growth in enrollment for a fifth consecutive year while in a highly competitive market. We assessed Moravian's financial profile as adequate, with growth in net tuition revenue for a fourth consecutive year, and relative stability in available resources offset by weakening operating results. We believe these credit factors lead to an indicative stand-alone credit profile of 'bbb+' and a long-term rating of 'BBB+'.

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

- High dependence on student-generated revenue, which accounted for nearly 90% of fiscal 2018 revenue;
- Negative full-accrual operating performance in fiscal 2018, after consecutive years of positive operating performance, though we note the operating deficit was minor, at negative 0.8%;
- Significant regional competition from public and private liberal arts institutions; and
- Modest declines in expendable resources, with fiscal 2018 expendable resources equivalent to 54% of operations and 69% of debt.

We believe somewhat offsetting credit factors include Moravian's:

- Fifth consecutive year of full-time-equivalent (FTE) enrollment growth, with further FTE enrollment growth expected within the outlook period;
- Improved selectivity and matriculation rates for the fall 2018 semester after some weakness in the previous fall;
- Growth in cash and investments for a third consecutive year, with fiscal 2018 cash and investments totaling $126.5 million; and
- Fourth consecutive year of net tuition revenue growth, though we note the rate of growth has declined compared to

that in previous years.

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 rebound with the addition of new graduate programs.

Downside scenario

We could consider a negative rating action if enrollment decreases materially, or if matriculation rates or selectivity rates weaken. We could also consider a negative rating action if the college fails to grow enrollment in graduate programs as expected, or if the college achieves sustained negative full-accrual operating results. 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 lower rating.

Upside scenario

Although unlikely within the outlook period, we could consider a positive rating action should Moravian College continue to increase enrollment, successfully implement new graduate-level academic offerings, 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 75% 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 almost 41% to 2,198 in fall 2018 from 1,670 in fall 2014. Over the past year, FTE enrollment rose a more modest 3% to 2,198 students in fall 2018 from 2,135 in the previous year. Traditional undergraduate enrollment, which represents about 85% of the student body, increased 1.7% in fall 2018, compared with 2.5% growth in fall 2017. We understand that management is projecting further enrollment increases for fall 2019, due to growth in graduate programs and new recruiting and retention initiatives at the undergraduate level. The three new graduate programs currently slated to start within the outlook period include master's programs in Occupational Therapy, Speech Pathology, and Physical Therapy. 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 21% in fall 2018, 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 increased to 1137 from 1100. In addition to student quality improving, the matriculation rate has also improved to 25.2% from 21.0% for fall 2017, and we would view further improvement in selectivity as a positive credit factor. Moravian's selectivity was relatively stable and improved to 72.8% in fall 2018 from 74.8% in fall 2017. 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 good, at 80.5% in fall 2018, 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. During fiscal 2017, management hired a new dean of enrollment, who has leveraged big data to support recruitment and retention initiatives. Aside from this hire, there have not been any major changes to senior management at the college. However, management indicates that the college's associate vice president for finance, Anne Reid, will retire sometime during calendar 2019. We believe succession planning for this role will be strong, and that the transition will be smooth.

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. 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 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 2018 with a modest operating deficit of $835,000 (or a negative 0.8% operating margin), a decrease from fiscal 2017's slight operating surplus of $136,000 (or a 0.1% 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 similar near break-even operating margins for fiscal 2019.

Despite overall pressure to operating margins, Moravian's net tuition revenue experienced a fourth consecutive year of growth in fiscal 2018, increasing 3.7% to $45.3 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 45% during fiscal 2018, increased from 43.9% during fiscal 2017, and is expected to further increase in fiscal 2019. 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 90.1% of fiscal 2018 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 2018. As of June 30, 2018, expendable resources equaled $59.3 million, or 54% of operating expenses and 69% of debt, down from $59.9 million, or 59% of operating expenses and 71% of debt, in fiscal 2017. Cash and investments equaled $126.5 million, or 115% of operating expenses and 147% 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 $112.9 million as of June 30, 2018, an increase of 5.8% compared to the previous year, though we note that market returns across the higher education industry were strong. The asset allocation comprises 47.6% equity, 18.4% alternatives, 19.2% fixed income, 13.6% other investments, and 1.2% in cash and cash equivalents. We consider the allocation modestly aggressive given exposure to alternatives. As of fiscal 2018, daily liquidity on Moravian's assets is approximately $79.1 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, 2018, Moravian's total debt was $85.7 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.

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 $18.5 million as of fiscal 2018 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 two bank loans totaling $8.2 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 $8.2 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 $78.1 million available on a daily basis as of fiscal year-end 2018. Moravian's maximum annual debt service (MADS) is about $7.1 million (inclusive of MCHI debt) in 2019. We consider Moravian's MADS burden moderately high, at about 6.45% of fiscal 2018 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
	2019	2018	2017	2016	2015	2017
Enrollment and demand						
Headcount	2,452	2,382	2,337	2,163	1,869	MNR
Full-time equivalent	2,198	2,135	2,072	1,942	1,670	2,463
Freshman acceptance rate (%)	72.8	74.8	76.8	74.8	86.3	70.5

Moravian College, Pennsylvania (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'BBB' rated Private Colleges & Universities
	2019	2018	2017	2016	2015	2017
Freshman matriculation rate (%)	25.2	20.9	24.0	25.6	29.2	MNR
Undergraduates as a % of total enrollment (%)	84.7	85.4	85.2	86.3	87.9	76.0
Freshman retention (%)	80.5	82.4	78.5	79.5	79.0	79.2
Graduation rates (six years) (%)	68.0	63.0	69.0	69.0	74.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	108,532	102,332	92,784	81,841	MNR
Adjusted operating expense ($000s)	N.A.	109,367	102,196	90,063	79,117	MNR
Net operating income ($000s)	N.A.	(835)	136	2,721	2,724	MNR
Net operating margin (%)	N.A.	(0.76)	0.13	3.02	3.44	0.78
Change in unrestricted net assets ($000s)	N.A.	856	1,853	3,844	2,725	MNR
Tuition discount (%)	N.A.	45.0	43.9	42.9	42.0	39.5
Tuition dependence (%)	N.A.	75.9	76.0	75.7	72.4	MNR
Student dependence (%)	N.A.	90.1	91.7	91.3	86.4	88.3
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.8	0.9	0.8	1.0	MNR
Endowment and investment income dependence (%)	N.A.	N.A.	5.9	6.8	7.1	MNR
Debt						
Outstanding debt ($000s)	N.A.	85,761	84,282	84,914	59,746	59,055
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	85,761	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.	5.74	5.00	4.01	3.50	MNR
Current MADS burden (%)	N.A.	6.46	6.41	7.28	8.19	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.	112,940	106,708	97,299	100,943	75,273
Cash and investments ($000s)	N.A.	126,501	118,974	107,960	108,254	MNR
Unrestricted net assets ($000s)	N.A.	87,272	86,416	84,563	80,719	MNR
Expendable resources ($000s)	N.A.	59,348	59,906	70,527	76,227	MNR
Cash and investments to operations (%)	N.A.	115.7	116.4	119.9	136.8	83.6
Cash and investments to debt (%)	N.A.	147.5	141.2	127.1	181.2	157.7
Cash and investments to pro forma debt (%)	N.A.	147.5	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	54.3	58.6	78.3	96.3	48.0

Moravian College, Pennsylvania (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'BBB' rated Private Colleges & Universities
	2019	**2018**	**2017**	**2016**	**2015**	**2017**
Expendable resources to debt (%)	N.A.	69.2	71.1	83.1	127.6	87.7
Expendable resources to pro forma debt (%)	N.A.	69.2	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	10.9	11.1	12.2	14.2	14.4

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. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

This report does not constitute a rating action.

Ratings Detail (As Of January 18, 2019)

Northampton Cnty Gen Purp Auth, Pennsylvania

Moravian College, Pennsylvania

ser 2012 and ser 2013

Long Term Rating	BBB+/Stable	Current