S&P Global Ratings

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Research Update:

Moravian University, PA ICR And Debt Rating Affirmed At 'BBB+'; Outlook Is Stable

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Overview

- S&P Global Ratings affirmed its 'BBB+' issuer credit rating (ICR) on Moravian University, Pa.
- S&P Global Ratings also affirmed its 'BBB+' rating on Bethlehem Redevelopment Authority, Pa.'s series 2021, 2022, and 2024 revenue bonds, issued for Moravian.
- In addition, 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.

Rationale

Security

A gross revenue pledge secures the bonds. As of June 30, 2024 (the latest audited year), Moravian had approximately $108.2 million of debt outstanding, including public bonds, Moravian College Housing Inc. (MCHI) debt, bank loans, and finance lease liabilities. Moravian's debt is subject to certain covenants including 1.0x debt service coverage. We do not consider the university's debt materially exposed to acceleration risk, given a covenant violation may be remedied by retaining a consultant, and Moravian has consistently remained above this covenant at approximately 1.1x coverage in fiscal 2024.

Moravian's maximum annual debt service (MADS) equals approximately $9.7 million, or 6.9% of fiscal 2024 total adjusted operating expenses, which we consider somewhat high. However, annual debt service decreases steadily under the current schedule after fiscal 2026. We understand management does not currently have any additional debt plans during the two-year outlook period.

Credit highlights

We view Moravian's enterprise risk profile as strong, characterized by two years of solid enrollment growth and a trend of increasing applications despite a highly competitive market, somewhat offset by weakening matriculation rates. We view Moravian's financial risk profile as adequate, characterized by persistent modest full-accrual operating deficits, offset by solid financial resources ratios, especially relative to operating expenses. We think these combined factors lead to an anchor of 'bbb+' and a final rating of 'BBB+'.

The rating reflects our opinion of Moravian's:

- 9% full-time-equivalent enrollment growth over five years, supported by consistent graduate enrollment increases and two recent years of undergraduate enrollment growth;
- Substantial application growth in each of the last five years and related improvement in selectivity rates;
- Solid cash and investments relative to operating expenses, in part due to the incorporation of Lancaster Theological Seminary's financial resources in fiscal 2024; and
- Strong progress on the current fundraising campaign, surpassing the original goal by a significant margin.

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

- Consistent modest full-accrual operating deficits despite increasing student-generated revenue,
- Somewhat low cash and investments relative to debt compared with similarly rated peers,
- Somewhat high MADS burden, and
- Significant regional competition from public and private liberal arts institutions and demographic pressure expected in the coming years.

Founded in 1742 as 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. The main campus is located in Bethlehem, Pa., approximately 50 miles north of Philadelphia. In 2022, Moravian initiated the consolidation process with Lancaster Theological Seminary (LTS); it has since launched a new remote-learning center for graduate and undergraduate studies on the Lancaster campus. Moravian offers over 70 undergraduate programs, as well as over 50 graduate and five doctoral degree programs.

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, growing enrollment and demand trends 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 growth will likely continue, and that demand metrics will remain solid, aside from the pressured matriculation rate. We also expect that modest full-accrual operating deficits will persist in the near term and that cash and investments will somewhat decline from current levels as the university spends down bond proceeds.

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 without commensurate growth 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 break-even results on a full-accrual basis, and if demand metrics were to improve in line with Moravian's investments in student retention.

Credit Opinion

Enterprise Risk Profile--Strong

Market position and demand

Moravian's full-time-equivalent enrollment increased by 3.1% to a high of 2,480 in fall 2024 following another solid increase to 2,405 in fall 2023, resulting in a five-year increase of 9% from 2,279 in fall 2019. The last two years of total enrollment growth corresponded to similar increases in undergraduate enrollment, which offset the prior four years of undergraduate declines. Management is targeting 2,000 undergraduate full-time-equivalents in the near term, a further 2.6% increase from current levels. To that end, management has invested in a new Institute for World Heritage & History, connecting the university's curriculum and marketing to the United Nations Educational, Scientific and Cultural Organization (UNESCO) world heritage site designation for Moravian church settlements, including some university properties. It has also used the Elevate initiative to enhance experiential learning and student outcomes by building global awareness, increasing work experience, and expanding employer relationships.

To support its undergraduate enrollment targets, management is working to maintain an 80% retention rate, which we consider strong compared with similarly rated peers. Related strategies include weekly faculty alerts to coordinate support for students, the ongoing Apple Watch initiative to encourage wellness, a new required course in fall 2025 teaching foundational university skills with corresponding trained peer mentors, and the expanded counseling center and other wellness spaces opening in the renovated Haupert Union Building (HUB) in fall 2025.

Applications continued growing substantially over each of the last five years, including a 23.4% increase to 6,312 in fall 2024 from 5,115 in fall 2023. In addition to the World Heritage & History marketing, the university has added a career strategist to support student outcomes postgraduation and reassure prospective families, as well as implementing ongoing student-family engagement strategies. The increase in applications has steadily improved Moravian's selectivity rate to 53.1% in fall 2024, which we consider very low compared with similarly rated peers, while still facilitating very large freshman class sizes compared to the university's historical trends. Management is expecting a similar class size above 500 students in fall 2025, and it has completed a comprehensive capacity analysis of the campus to ensure sufficient campus infrastructure for this continued growth.

Moravian's graduate enrollment continued its steady growth trend, increasing by 7.5% to 531 in fall 2024 from 494 in fall 2023. The university has continued expanding graduate program offerings recently and in the near term, including adding dual-degree Master of Business Administration options for other professional degrees like occupational therapy and speech pathology, as well as adding new master's degrees in cyber security and sports psychology. The university also admitted the second cohort of the Doctor of Education and recognized increased enrollment in behavioral health and rehabilitation science. Management expects graduate and nontraditional enrollment to continue growing, including within the School of Professional Studies & Innovation as Moravian targets further corporate partnerships.

Management and governance

Moravian's management team has remained generally stable over the years, maintaining solid experience in the roles. The president, Dr. Bryon Grigsby, has been in place since July 2013. The most recent turnover included a new vice president and dean of the school of theology in February 2025. The university is governed by a 27-member board of trustees.

The university operates according to a dynamic strategic-thinking process, which includes annual updates to a rolling three-year strategic plan to more swiftly respond to the changing market and emergencies. We think the university has sufficient cyber security policies, with no reported recent incidents in the last two years. We view budgeting practices as somewhat conservative relative to Moravian's final cash-based operating results, supported by monthly expense monitoring.

Financial Risk Profile--Adequate

Financial performance

Moravian has returned modest full-accrual operating deficits in each of the last three years, with a $3.9 million, or 2.7%, deficit in fiscal 2024. Fiscal 2024's deficit demonstrated some improvement from the $4.8 million deficit in fiscal 2023, given $4.1 million of additional net tuition revenue and $1.6 million of additional auxiliary revenue offsetting increased instruction and benefit expenses. Management has also used some supplemental endowment draws to support new program initiatives, with $2.2 million drawn of the total authorized $6.5 million so far.

Management expects further improvement in fiscal 2025, though still forecasts a modest full-accrual deficit. Given ongoing enrollment growth and a stable tuition discount rate around 49%, the university anticipates further net tuition revenue growth, as well as some delayed hiring savings offsetting the increase in part-time faculty. Moravian's revenues remain concentrated on student-generated funds at 89.5% of revenues in fiscal 2024. LTS' financial statements were consolidated with Moravian's in fiscal 2024, and we do not expect any material impact on the university's financial performance moving forward from the seminary's inclusion.

Moravian recognized $1.1 million of federal grants and contracts in fiscal 2024, equal to 0.8% of total adjusted operating revenues. Management reports approximately $3.5 million of total active federal grants and a further $4.2 million pending approval, but does not expect any material disruption in operations related to changes in federal funding policy.

Financial resources

As of June 30, 2024, Moravian's cash and investments totaled approximately $217.5 million, a 42.9% increase from $152.2 million in fiscal 2023. Cash and investments included $17.3 million consolidated from LTS at the end of fiscal 2024, as well as $33.7 million unspent bond proceeds from the series 2024 issuance, which management expects to spend down in the near term. Including unspent bond proceeds, financial resources equaled 153.2% of fiscal 2024 operating expenses, which we consider strong compared to similarly rated peers, and 201% of debt, which we likewise consider solid compared to rating category medians, if slightly below many similarly rated peers. Excluding unspent bond proceeds, financial resources equaled 129.4% of operating expenses, which we still consider solid compared to similarly rated peers and rating category medians, and 169.7% of debt, which we consider somewhat weak compared to rating category medians. Series 2024 bond proceeds have been or will soon be spent to fund the construction of the HUB, which management expects to open in fall 2025, and to finance enterprise system upgrades. The university also has $11.8 million of unfunded commitments as of fiscal 2024, which we consider manageable given Moravian's current financial resources.

Moravian's endowment increased by 21.1% to $167.6 million in fiscal 2024 from $138.4 million in fiscal 2023, including the addition of the $17.3 million LTS endowment funds. The university's endowment spending policy allows a 5% draw of the trailing three-year moving average, slightly higher than the historical level of 4.5%. The university has, in our view, sufficient liquidity relative to financial resources, with $22.3 million of net assets available within one year for operations, as well as $22 million of endowment funds without donor restrictions. Moravian also has combined $7 million lines of credit available, with no draws currently outstanding.

Moravian's ongoing fundraising campaign has raised $82.6 million toward the current $100 million goal, following two increases from the original $65 million goal. Running from 2018-2026, the campaign targets a portion of HUB renovations, supports experiential-learning initiatives, and primarily funds scholarships.

Debt and contingent liabilities

As of June 30, 2024, Moravian had approximately $108.2 million of debt outstanding, including:

- $84.5 million of public series 2013, 2016, 2021, 2022, and 2024 bonds;
- $14.5 million of variable-rate MCHI debt;
- $6.1 million of privately-placed notes payable; and
- $3.2 million of finance lease liabilities.

Moravian acquired MCHI debt in fiscal 2016 and entered into two interest rate swap agreements through 2032 with a total notional amount equal to the MCHI debt. 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 notes payable; however, we have reviewed loan documents for this debt. The MCHI debt is not subject to a demand option, and the associated dormitory is the only pledged asset, separate from the obligated group of the university. The MCHI debt also requires maintenance of a capital reserve account. Moravian has contingent liability risk exposure from notes payable with payment provisions that change upon the occurrence of certain events. We consider risk manageable at the current rating because Moravian's available liquidity fully mitigates any associated acceleration risk.

Moravian has a defined-contribution retirement plan for substantially all regular full-time employees. Annual retirement expenses equaled 1.4% of total adjusted operating expenses in fiscal 2024, which we consider manageable.

Moravian University, Pennsylvania--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'BBB' category rated private colleges and universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	2,480	2,405	2,268	2,309	2,315	2,481
Undergraduates as a % of total enrollment	78.6	79.5	80.2	80.5	81.9	77.4
First-year acceptance rate (%)	53.1	54.0	66.3	78.2	78.7	78.5
First-year matriculation rate (%)	16.0	18.5	19.4	21.0	23.1	15.0
First-year retention rate (%)	79.0	81.0	78.0	79.0	83.0	77.0
Six-year graduation rate (%)	72.0	71.0	70.0	68.0	69.0	64.4
Financial performance						
Adjusted operating revenue ($000s)	N.A.	138,106	128,956	126,241	122,087	MNR
Adjusted operating expense ($000s)	N.A.	141,984	133,735	129,630	118,722	MNR
Net operating margin (%)	N.A.	(2.7)	(3.6)	(2.6)	2.8	(1.6)
Change in unrestricted net assets ($000s)	N.A.	3,438	(2,427)	(3,148)	9,396	MNR
Tuition discount (%)	N.A.	48.6	48.3	48.3	46.9	46.9
Student dependence (%)	N.A.	89.5	88.0	86.4	88.0	83.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.1	1.0	5.2	3.7	1.6
Financial resources						
Endowment market value ($000s)	N.A.	167,590	138,436	132,817	142,724	112,261
Cash and investments ($000s)	N.A.	217,539	152,214	149,495	160,940	129,885
Cash and investments to operations (%)	N.A.	153.2	113.8	115.3	135.6	99.7
Cash and investments to debt (%)	N.A.	201.0	213.3	200.7	194.2	183.3
Debt						
Outstanding debt ($000s)	N.A.	108,226	71,352	74,481	82,858	66,181
Current MADS burden (%)	N.A.	6.9	5.6	5.9	6.9	4.1
Average age of plant (years)	N.A.	14.9	13.8	12.9	12.6	16.5

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

Ratings List	
Ratings Affirmed	
Education	
Moravian University, PA General Obligation	BBB+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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