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

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Long Term Rating	BBB+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB+' rating on Northampton County General Purpose Authority, Pa.'s series 2012, 2013, and 2016 college general revenue bonds, issued for Moravian College. The outlook is stable.

We assessed Moravian's enterprise profile as strong, with continued growth in enrollment for a third consecutive year, and a significant increase in applicants over a five-year period, all while in a high-competition market. We assessed Moravian's financial profile as adequate, with continued positive operating margins, largely driven by increases in enrollment at the college, and weakening financial resource ratios that are also associated with enrollment growth at the college. Combined, 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+' rating reflects our assessment of Moravian's:

- Decline in expendable resources every year over the past four fiscal years, largely as a result of increased spending at the college as it continues to improve facilities and grow full-time-equivalent (FTE) enrollment;
- Significant regional competition with public and private liberal arts institutions; and
- High dependence on student-generated revenue, which accounted for 91% of fiscal 2016 revenue.

We believe somewhat offsetting credit factors include Moravian's:

- Continued growth in full-time enrollment, with further full-time enrollment growth expected for fall 2017;
- Positive full accrual operating performance in fiscals 2015 and 2016, with a full accrual surplus expected for fiscal 2017; and
- Significant growth in net tuition revenue over the past two fiscal years of 15% in fiscal 2015 to $34.3 million, and an additional 17% in fiscal 2016 to $40.0 million.

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 and 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 2,160

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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 preprofessional 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 principles, and the college will maintain financial resources commensurate with the rating category 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 if financial resources deteriorate to a level not commensurate with the rating category.

Upside scenario

Given the current level and the current state of decline of financial resources, and given the high level of competition Moravian College faces in the region, 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 those of other industries and sectors.

Economic fundamentals

In our view, Moravian does not have geographic diversity; about 69% of students come from within Pennsylvania. As such, 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 three years, headcount has risen due to increased investments in enrollment management, campus facilities, marketing, and technology. During the past five years, FTE enrollment has increased almost 28% to 2,072 in fall 2016 from 1,618 in fall 2012. Over the past year, FTE enrollment increased 6.6% to 2,072 students in fall 2016 from 1,942 in the previous year. Traditional undergraduate enrollment, which represents about 85% of the student body, increased 6% in fall 2016, compared with 14% in fall 2015. We understand that management is projecting further enrollment increases for fall 2017, given that inquiries, applications, and deposits are already ahead of 2016 levels. We view this positively, 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 to 1,656, applications increased by 80% in fall 2015 to 2,758 due to Moravian's success in its recruitment efforts. Applications have declined slightly since this high in 2015, with 2016 applications decreasing a manageable 2.3%, to 2,694. The matriculation rate was 24% for fall 2016, and we note that the matriculation rate has hovered between approximately 24% and 29% over the past five years. In our opinion, this indicates that the college experiences a fair degree of competition. Moravian's selectivity weakened to 77% in fall 2016 from 75% in fall 2015. 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. Student quality indicators were in line with national averages. We believe that the college's freshman-to-sophomore retention rate is good, at 79% in fall 2016, which has been its modal retention rate over the past five years. Management states it plans to improve retention through new retention software, a retention advisory team, and a student success innovation team.

The tuition discount rate for Moravian has been volatile over the past five years, but has generally stayed between 40% and 43%, with a fiscal 2016 discount rate of 43%, up from 42% in the previous year. We believe that management has managed tuition discounting well in light of increased FTE growth at Moravian. Management operates under the guidance of a strategic plan, Vision 2020; the plan's goals are broad and include growing undergraduate students to 2,000, 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.

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 with an eventual goal of funding 50% of projects at the school with fundraised dollars. The college concluded in October 2016 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 intends to enter a new capital campaign within the next two to three years; we will evaluate fundraising plans as they become available.

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; and 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 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 2016 with a $2.7 million full accrual operating surplus, similar to the surplus it achieved in fiscal 2015. Prior to this, Moravian had reported operating deficits the previous two years, but results were generally been break even to positive. Moravian projects to end fiscal 2017 with a small full accrual surplus. We believe continued positive operating surpluses continue to provide strength to the rating.

Moravian's net tuition revenue has experienced tremendous growth over the past two fiscal years, growing 15% in fiscal 2015 to $34.3 million, and an additional 17% to $40.0 million in fiscal 2016. Growth in net tuition revenue is attributed to increased FTE, and we believe this strong growth helps to support the rating. However, 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 91.3% of fiscal 2016 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. The college's freshman tuition discount was 52.7% in fall 2016, which is in line with historical freshman discount rates of between 50% and 52% over the past five years. We note that the overall tuition discount rate is 43% as of fall 2016 and that the overall tuition discount rate has hovered between 40% and 43% over the past five years. We view the relatively high discount rate at Moravian as indicative of the high level of competition it faces for students in the region.

Available resources

In our opinion, Moravian's financial resource ratios remain adequate for the rating category. As of June 30, 2016, cash and investments equaled $107.9 million, or 120% of operating expenses and 127% of debt, including debt related to Moravian College Housing Inc. (MCHI), which was previously off-balance-sheet housing debt but has since moved onto Moravian's balance sheet after Moravian formally acquired MCHI during fiscal 2016. Fiscal 2016 available resources (as measured by expendable resources) are a more conservative measure than cash and investments, and as of fiscal 2016 totaled $70.5 million, or 78% of operating expenses and 83% of debt. We note that expendable resources have been in a state of decline, decreasing every year for the past four fiscal years, and believe that further declines of financial resources could begin to pressure the credit.

Moravian maintains what we consider a small endowment, valued at $97.3 million as of June 30, 2016, a decrease of 3.6% compared to the previous year, though we note that market returns across the higher education industry were weak. The endowment has 11% exposure to private equity, 49% equities, 11% fixed income, 19% hedge funds, and 11% real assets, and a small negative 1% cash balance which we view as a fairly standard asset allocation. Daily liquidity on Moravian's assets is approximately $65 million as of October 2016. Moravian had about $12.4 million in uncalled capital commitments as of June 30, 2016, which was manageable, in our opinion, given that the college's daily liquidity. The endowment spending target is typical, and remains 4.5% of a three-year moving average.

Debt and contingent liabilities

As of June 30, 2016, Moravian's total debt was $85 million, including formerly classified off-balance-sheet financing of approximately $19.7 million issued by MCHI that has now come onto Moravian's balance sheet after Moravian's acquisition of MCHI. Moravian's total debt also includes a 2015 $5.8 million bank loan and the series 2012, 2013, and 2016 bonds. The 2015 loan terms are the same as those in the master trust indenture. S&P Global Ratings does not rate the $19.7 million bank note or the $5.8 million bank loan; 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 $64.97 million available on a daily basis as of July 2016. Moravian's maximum annual debt service (MADS) is $6.5 million (inclusive of MCHI debt) in 2019, we consider Moravian's MADS burden high, at 7.3% of fiscal 2016 expenses, but believe Moravian can adequately address this burden.

In fiscal 2016, the college purchased the equity interest in MCHI from the Bethlehem Area Moravians for $3.3 million. MCHI remains an independent 501(c)(3) and is not be part of the obligated group under the current master trust indenture. However, financial statements are now consolidated, and reflect MCHI's debt. We believe that Moravian now benefits from the offsetting assets and revenues that were previously not available when MCHI was off balance sheet. The MCHI debt has always been funded from room rentals; occupancy has been high historically, and is currently at 96%.

Moravian College, Pennsylvania					
	Fiscal year ended June 30				
	2017	**2016**	**2015**	**2014**	**2013**
Enrollment and demand					
Headcount	2,337	2,163	1,869	1,749	1,802
Full-time equivalent	2,072	1,942	1,670	1,555	1,618
Freshman acceptance rate (%)	76.8	74.8	86.3	80.0	78.5
Freshman matriculation rate (%)	24.0	25.6	29.2	27.3	23.7
Undergraduates as a % of total enrollment (%)	85.2	86.3	87.9	90.6	91.9
Freshman retention (%)	78.5	79.5	79.0	78.0	75.5
Graduation rates (five years) (%)	N.A.	N.A.	N.A.	74.0	76.0
Income statement					
Adjusted operating revenue ($000s)	N.A.	92,794	81,841	71,686	72,560
Adjusted operating expense ($000s)	N.A.	90,073	79,117	72,090	72,644
Net operating income ($000s)	N.A.	2,721	2,724	(404)	(84)
Net operating margin (%)	N.A.	3.02	3.44	(0.56)	(0.12)
Change in unrestricted net assets ($000s)	N.A.	3,844	2,725	1,773	1,088

Moravian College, Pennsylvania (cont.)

	Fiscal year ended June 30				
	2017	2016	2015	2014	2013
Tuition discount (%)	N.A.	42.9	42.0	43.3	41.4
Tuition dependence (%)	N.A.	75.7	72.4	73.7	72.5
Student dependence (%)	N.A.	91.3	86.4	88.8	87.8
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	0.8	1.0	1.3	1.2
Endowment and investment income dependence (%)	N.A.	6.8	7.1	8.1	7.1
Debt					
Outstanding debt ($000s)	N.A.	84,914	59,746	61,049	63,210
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	84,914	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	4.01	3.50	4.03	3.58
Current MADS burden (%)	N.A.	7.28	8.19	8.99	8.90
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	97,299	100,943	101,278	90,484
Cash and investments ($000s)	N.A.	107,894	108,254	115,278	108,768
Unrestricted net assets ($000s)	N.A.	84,563	80,719	77,994	76,221
Expendable resources ($000s)	N.A.	70,527	76,227	84,430	87,287
Cash and investments to operations (%)	N.A.	119.8	136.8	159.9	149.7
Cash and investments to debt (%)	N.A.	127.1	181.2	188.8	172.1
Cash and investments to pro forma debt (%)	N.A.	127.1	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	78.3	96.3	117.1	120.2
Expendable resources to debt (%)	N.A.	83.1	127.6	138.3	138.1
Expendable resources to pro forma debt (%)	N.A.	83.1	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	12.2	14.2	16.6	18.5

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 & long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation & amortization expense.

Ratings Detail (As Of February 28, 2017)

Northampton Cnty Gen Purp Auth, Pennsylvania		
Moravian College, Pennsylvania		
Northampton Cnty Gen Purp Auth (Moravian College)		
Long Term Rating	BBB+/Stable	Affirmed