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Ratings

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

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

Credit Profile		
US$10.575 mil univ rev bnds (Moravian College) ser 2022 due 10/01/2031		
Long Term Rating	BBB+/Stable	New
US$4.955 mil univ rev bnds (Moravian College) ser 2021 due 10/01/2038		
Long Term Rating	BBB+/Stable	New
Moravian College ICR		
Long Term Rating	BBB+/Stable	Affirmed
Northampton Cnty Gen Purp Auth, Pennsylvania		
Moravian College, Pennsylvania		
Northampton Gen Purp Auth (Moravian College) coll rev bnds (Moravian College)		
Long Term Rating	BBB+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'BBB+' rating to 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 2012, 2013, and 2016 college general revenue bonds issued on behalf of the university. The outlook is stable.

The $5.0 million tax-exempt series 2021 and $10.6 million tax-exempt series 2022 bonds are secured by a gross revenue pledge, on parity with the university's outstanding bonds. The series 2021 and 2022 bonds will be used to refund Moravian's 2019 note and 2012 bonds, respectively. The transaction will bring total pro forma debt to approximately $77.9 million, including $16.7 million issued by Moravian College Housing Inc. (MCHI) and $3.1 million in capital leases. Management reports there are no plans for additional debt during the outlook period.

For fall 2021, most courses were offered in person, though students had a range of in-person and online learning options due to the pandemic. While Moravian did not have a vaccine mandate, management reported high vaccination rates and that unvaccinated students were regularly tested for COVID-19. The university required masks indoors. Enrollment was stable in fall 2021, following several years of impressive growth. Matriculation was strong, with the largest first-year class since fall 2017. Moravian is expected to receive approximately $6.1 million in institutional relief funds for expenses incurred during the pandemic. Relief funds combined with expense measures contributed to a 2.8% operating surplus in fiscal 2021. Management is budgeting for break-even operations in fiscal 2022, using assumptions we believe are conservative.

Credit overview

We assessed Moravian's enterprise profile as strong, with a stable management team and a track record of enrollment growth despite a highly competitive market. We assessed Moravian's financial profile as adequate, with positive operations in fiscals 2020 and 2021 and continued growth in 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 in fall 2021 following several years of impressive growth;
- Stable and innovative management team that has guided Moravian through the COVID-19 pandemic and through demand pressures in a highly competitive region; and
- Positive full-accrual operations in fiscals 2020 and 2021, with an expectation of at least break-even operations in fiscal 2022.

We believe somewhat offsetting credit factors include Moravian's:

- High dependence on student-generated revenue, which accounted for 88% of adjusted operating revenues, and a high discount rate of 47% in fiscal 2021;
- A high pro forma maximum annual debt service (MADS) burden of 6.9%; 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 about 2,500 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.

The stable outlook reflects our view of Moravian's solid enrollment trend, improved balance sheet, and recent operating surpluses, with at least break-even operations expected in fiscal 2022. Despite tough competition and pressured demographics, we expect the university will continue to successfully market and deliver high-demand programming.

Environmental, social, and governance

In our view, the higher education sector continues to face elevated social risks due to the health and safety issues created by COVID-19. However, we believe that Moravian has taken steps to protect students and staff with the implementation of a mask mandate and by encouraging vaccination. We believe the university's environmental and governance risks are in line with those of the sector as a whole.

Stable Outlook

Upside scenario

We could consider a positive rating action if the university continues to generate operating surpluses and if available resources grow materially while Moravian continues to amortize debt and maintains enrollment.

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 additional debt without a commensurate increase in resources.

Credit Opinion

Enterprise Profile

Market position and demand

Moravian has improved demand for its programs in recent years, despite the pandemic and a highly competitive environment. In fall 2021, enrollment was stable, with a headcount of 2,554 students, following several consecutive years of growth. The first-year class was the largest since fall 2017. Over the past five years, enrollment has grown an impressive 8% on a full-time-equivalent basis. We understand that management is projecting further enrollment increases due to growth in graduate programs and retention initiatives at the undergraduate level. Undergraduate students make up 75% of the student body. Approximately 76% of students are from Pennsylvania, and the remainder largely come from New York and New Jersey.

Freshman applications at Moravian increased by 16% in fall 2021 following a 10% increase in fall 2020, driven in part by a new enrollment ("results oriented") strategy. We note applications in fall 2018 and fall 2019 declined as part of management's strategy of recruiting more selectively by buying fewer student names. The matriculation rate declined slightly and was 21% in fall 2021 compared with 23% in fall 2020; however, the university still achieved its largest first-year class size since 2017. Moravian's selectivity was relatively stable at 78%. We would view improvement in selectivity as a positive credit factor. We believe that the university's freshman-to-sophomore retention rate is solid, at 79% in fall 2021, though this is a slight decline from 83% in fall 2020. We expect this number will rebound as retention is a key focus for management.

Management

Moravian's management team continues to innovate in a difficult market. In spring 2021, the school completed the process of transitioning from a college to a university. Management expects this will provide a marketing benefit to the school, particularly for international students. In fall 2021, Moravian introduced a new undergraduate initiative, ELEVATE, which aims to improve student outcomes by building global awareness, increasing work experience, and expanding employer relationships. ELEVATE includes "results oriented" programs. For example, students who complete coursework milestones are eligible, upon graduation, to receive free undergraduate- or graduate-level classes at Moravian if six months post-graduation the student has not yet found employment. The university also continues to expand graduate programs, particularly in the health sciences. New graduate programs include several certificates, an online MBA, behavioral health, and a dual MSN/MBA program. Additional hospital partnerships are also supporting the growth of Moravian's nursing program.

Moravian recently renewed its status as an Apple distinguished school for another four years. Apple distinguished schools have access to the latest laptops and tablets from Apple, and seamlessly integrate technology into the classroom in order to achieve learning efficiencies. This IT capability eased the university's transition to online learning throughout the pandemic.

In June 2021, Moravian University and Lancaster Theological Seminary agreed to consolidate. Lancaster Theological Seminary currently has about 88 students. As part of the agreement, both institutions will continue to confer degrees, but management and governance will consolidate following the approval of overseeing agencies. Moravian will gain facilities and land in Lancaster, Pa., as well as approximately $17 million from Lancaster Theological Seminary's endowment. Moravian plans to use the location in Lancaster to open a remote learning center, which will include business courses. The university is not acquiring any additional debt as part of this agreement. We believe the combination provides a solid opportunity for additional revenue.

The senior management team has been relatively stable at Moravian, which we view favorably. The university recently added a vice president and dean for equity and inclusion as well as an advisor to the president for strategy, planning, and institutional research. The provost has announced her intention to retire, and a search is in process.

Moravian is currently in the quiet phase of a $65 million campaign for capital projects, scholarships, and academic initiatives. Management reports it has raised approximately 50% of the goal to date.

Financial Profile

Financial performance

Thanks to expense measures, including temporarily lowered retirement contributions, and federal relief funds, Moravian ended fiscal 2021 with a full-accrual operating surplus of $3.4 million (or a 2.8% operating margin). The university's surpluses in fiscals 2020 and 2021 followed two years of deficits, which management attributed to startup costs associated with new graduate-level programs. Management is budgeting for break-even operations in fiscal 2022, and we note that, to date, net enrollment results are favorable to budget. 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.

Moravian's net tuition revenue experienced a seventh consecutive year of growth in fiscal 2021, increasing by 2.1%. While we consider this an excellent trend, we note that the tuition discount rate remains high at approximately 47%. This rate is indicative of the intense level of competition Moravian faces for students in the region; however, we would view stable or lower discounting positively. We expect that with the expansion of graduate offerings, net tuition revenue should continue to grow. Like most small private liberal arts colleges, Moravian is highly dependent upon student-related income from tuition, fees, and auxiliary operations. These sources accounted for a very high 88% of fiscal 2021 revenues, and we view this high dependence as a credit risk.

Available resources

Like many peer institutions, Moravian saw excellent growth in financial resources in fiscal 2021. In our opinion, the university's balance sheet ratios remain adequate for the rating category. Cash and investments grew 30% and totaled $160.9 million as of fiscal 2021, equivalent to 136% of operating expenses and 207% of pro forma debt. To calculate expendable resources, we use net assets "without donor restrictions" instead of the formerly classified unrestricted net assets. We also factor in $68.3 million of net assets "with donor restrictions" that would have been classified as "temporarily restricted net assets" under the old FASB standards for comparability purposes. As of June 30, 2021, expendable resources equaled $93.2 million, or 79% of operating expenses and 120% of pro forma debt.

Moravian maintains what we consider a modest endowment, valued at about $142.7 million as of June 30, 2021, up 28% from 2020. We consider the endowment's asset allocation moderately aggressive, with 38% invested in alternatives. As of fiscal 2021, daily liquidity on Moravian's assets is approximately $96.7 million, which 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

Of total debt, approximately $16.7 million is debt issued by MCHI that came onto Moravian's balance sheet after Moravian's acquisition in fiscal 2016. MCHI was party to a swap with Lafayette Ambassador Bank that expired during April 2018. The university entered into two forward swaps that are now its current swap and will expire in 2032. The total notional amount of the swaps is $16.7 million as of fiscal 2021, and the fair value of the swaps was negative $1.4 million. MCHI pays a synthetic fixed rate of 3.26%, while Lafayette Ambassador Bank pays variable interest based on the USD-LIBOR-BBA Index rate.

As of fiscal 2021, Moravian's total debt also included three bank loans totaling $13.0 million and the series 2012, 2013, and 2016 bonds. The series 2021 and 2022 bonds will eliminate the 2019 bank note and series 2012 bonds. S&P Global Ratings does not rate the MCHI-related debt or the bank loans; however, we have reviewed the loan documents for this debt. 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 level, as it is fully mitigated by funds of $96.7 million available on a daily basis as of fiscal year-end 2021. Moravian's pro forma MADS (inclusive of MCHI debt) is high at about $6.8 million, or 6.9% of fiscal 2021 operating expenses. However, we note that MADS occurs in fiscal 2022 and will gradually decline thereafter.

Moravian University, Pennsylvania Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2022	**2021**	**2020**	**2019**	**2018**	**2020**
Enrollment and demand						
Headcount	2,554	2,565	2,541	2,450	2,382	MNR
Full-time equivalent	2,309	2,315	2,276	2,207	2,135	2,732
Freshman acceptance rate (%)	78.2	78.7	74.8	72.8	74.8	75.0
Freshman matriculation rate (%)	21.0	23.1	26.6	25.2	20.9	MNR

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

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2022	2021	2020	2019	2018	2020
Undergraduates as a % of total enrollment (%)	74.6	76.3	79.5	84.7	85.4	70.4
Freshman retention (%)	79.0	83.0	82.4	80.5	82.4	79.5
Graduation rates (six years) (%)	68.0	69.0	69.0	68.0	63.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	122,087	118,487	115,695	108,532	MNR
Adjusted operating expense ($000s)	N.A.	118,722	117,597	120,139	109,367	MNR
Net operating income ($000s)	N.A.	3,365	890	(4,444)	(835)	MNR
Net operating margin (%)	N.A.	2.83	0.76	(3.70)	(0.76)	0.00
Change in unrestricted net assets ($000s)	N.A.	9,396	(188)	(5,205)	856	MNR
Tuition discount (%)	N.A.	46.9	46.7	46.3	45.0	42.4
Tuition dependence (%)	N.A.	77.4	77.8	77.1	75.9	MNR
Student dependence (%)	N.A.	88.0	89.6	90.6	90.1	88.4
Research dependence (%)	N.A.	3.7	2.5	1.0	0.8	MNR
Endowment and investment income dependence (%)	N.A.	6.0	7.6	8.4	7.9	MNR
Debt						
Outstanding debt ($000s)	N.A.	82,858	86,476	89,692	85,761	62,342
Proposed debt ($000s)	N.A.	15,530	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	77,879	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	8,028	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	7.08	6.58	5.82	5.74	MNR
Current MADS burden (%)	N.A.	6.88	6.91	6.50	6.46	3.90
Pro forma MADS burden (%)	N.A.	6.76	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	142,724	111,383	115,011	112,940	84,815
Cash and investments ($000s)	N.A.	160,940	123,555	127,795	126,501	MNR
Unrestricted net assets ($000s)	N.A.	91,275	81,879	82,067	87,272	MNR
Expendable resources ($000s)	N.A.	93,218	53,665	57,315	59,348	MNR
Cash and investments to operations (%)	N.A.	135.6	105.1	106.4	115.7	86.4
Cash and investments to debt (%)	N.A.	194.2	142.9	142.5	147.5	158.6
Cash and investments to pro forma debt (%)	N.A.	206.7	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	78.5	45.6	47.7	54.3	45.7
Expendable resources to debt (%)	N.A.	112.5	62.1	63.9	69.2	83.9
Expendable resources to pro forma debt (%)	N.A.	119.7	N.A.	N.A.	N.A.	MNR

Moravian University, Pennsylvania Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges & universities
	2022	**2021**	**2020**	**2019**	**2018**	**2020**
Average age of plant (years)	N.A.	12.6	11.7	10.9	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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of November 23, 2021)		
Northampton Cnty Gen Purp Auth, Pennsylvania		
Moravian College, Pennsylvania		
Northampton Cnty Gen Purp Auth (Moravian College)		
Long Term Rating	BBB+/Stable	Affirmed