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Cumberland County Municipal Authority, Pennsylvania Messiah College; Private Coll/Univ - General Obligation

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Cumberland County Municipal Authority, Pennsylvania
Messiah College; Private Coll/Univ - General Obligation

Credit Profile		
US$16.21 mil Revenue Bonds (Messiah Coll) ser 2016 due 05/01/2046		
Long Term Rating	A/Stable	New
Pennsylvania Hgr Ed Fac Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Messiah Coll) rev bnds ser 2001 I-3		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to the Cumberland County Municipal Authority, Pa.'s $16.2 million series 2016 revenue bonds, issued for Messiah College. Standard & Poor's also affirmed its 'A' long-term rating on the authority's series 2014 T1 and 2015NN1 bonds, and the Pennsylvania Higher Educational Facilities Authority's series 2001 I-3, 2001 I-4, and 2012 LL3 bonds issued for the college. The outlook is stable.

We assessed the college's enterprise profile as strong characterized by its niche as a Christian college, healthy enrollment increases supported by a growing graduate student base, and stable management. We assessed the college's financial profile as strong, with sufficient available resources relative to its pro forma debt load and sound financial policies, which partly mitigate its weak operating performance and revenue concentration. When we combine the enterprise profile and the financial profile, these credit factors lead to an indicative stand-alone credit profile of 'a', and a final rating of 'A'.

The rating reflects our assessment of the college's:

- Growing enrollment bolstered by increases in the college's graduate programs;
- Sufficient available resources for the rating category, with expendable resources equal to 93% of adjusted operating expenses and 178.9% of pro forma debt as of June 30, 2015; and
- Manageable pro forma maximum annual debt service burden at 3.2% of fiscal 2015 adjusted operating expenses.

In our opinion, offsetting credit factors include the college's:

- Relatively weak financial operations on a generally accepted accounting principles (GAAP) basis; and
- Reliance on student-generated revenues that accounted for 88.2% of fiscal 2015 adjusted operating revenues.

We understand the college will use the series 2016 bond proceeds to fund renovations to its existing fitness center, and pay issuance costs. Management expects to issue the series 2016 bonds as fixed-rate debt with a final maturity in 2046, on parity with the college's existing revenue bonds. Bond security covenants are sufficient, in our view, and include a rate covenant that net revenues available for debt service plus all other legally available funds of the college will equal or exceed 1.1x of the debt service for each fiscal year, and an additional bonds test.

Post-issuance, pro forma debt will be $66.5 million, all of which is a general obligation of the college. The debt structure includes $38.4 million in fixed-rate and $28.1 million of variable-rate (multiannual mode) bonds. The college does not have any swaps or bullets. The college has no plans for additional debt.

The college's other multiannual mode (variable-rate) debt includes its series 2001 I-3 bonds, which are currently in a two-year term mode and will reset on Nov. 1, 2017; series 2001 I-4 bonds, which are in a three-year term mode and will reset on May 1, 2018; and the series 2014 T1 bonds which will reset on May 1, 2017, and at that point, the college may roll over in the same period, or convert to another mode period of a different length. Management indicates each of its multimodal bonds is expected to be remarketed in a mode longer than one year and that mode periods will continue to be staggered so that no modes are expected to be remarketed simultaneously. The series 2001 I-3, 2001 I-4, and series 2014 T1 bonds have long-term final maturities, each series originally issued for 30 years. The vast majority (80.6%) of total college net assets of $244.3 million as of June 30, 2015, are unrestricted and not subject to donor restrictions. In addition, the college maintains two committed lines of credit totaling $15 million, which can be used for any legal purpose. In our opinion, this provides the college sufficient financial resources to cover a potential failed remarketing of its multimodal bonds.

While in a term mode of any length, there is no optional tender or put option available to bondholders, and the variable-rate bonds (multiannual mode) have a mandatory tender at the end of any term mode. Upon a remarketing failure at the end of any multiannual period, full payment of the related series (to be remarketed) would be the responsibility of the college. Since fiscal 2010, balance sheet assets have averaged 81.7% unrestricted net assets.

Messiah College is a Christian college founded in 1909 by the Brethren in Christ Church. The college, which the church no longer owns, is located on 471 acres in suburban Grantham, Pa., about 12 miles from Harrisburg. Its most popular programs include accounting, nursing, elementary education, engineering, and the performing arts. While the college is predominately an undergraduate institution, in recent years, it has introduced several graduate programs aligned with its traditional areas of strength. These graduate programs have seen double-digit increases in recent years and are projected to continue growing for the foreseeable future.

Outlook

The stable outlook reflects our expectation that over the outlook period, enrollment will be stable, operating performance will be close to breakeven on a GAAP basis, and available resource ratios will remain consistent with the rating category. Our outlook does not factor in issuance of additional debt.

Downside scenario

During the outlook period, we could consider a negative action if there were enrollment declines, increased GAAP operating deficits, or deterioration of available resources relative to the rating category.

Upside scenario

We view a positive rating action as unlikely within the outlook period, as it would require a material improvement in the college's enterprise and financial profile to levels consistent with a higher rating.

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, the college has somewhat limited geographic diversity, with 62.5% of its students coming from Pennsylvania in fall 2015. As such, our assessment of the college's economic fundamentals is anchored by the Pennsylvania GDP per capita. Other key states the college draws undergraduate students from include Maryland, New Jersey, and New York.

Market position and demand

In fall 2015, the college's total full-time equivalent (FTE) population included 2,727 undergraduate and 490 graduate FTEs. Total FTE in fall 2015 increased by 2.4% compared with 3,142 in fall 2014. In recent years, graduate FTE growth has far outpaced growth at the undergraduate level due to the introduction of new graduate programs. Undergraduate FTE was essentially flat at 2,727 in fall 2015 while graduate FTE increased by what we consider a solid 15% to 490 in fall 2015.

Freshman applications were relatively flat at 2,469 in fall 2015. In years prior to fall 2013, the college was receiving roughly 3,100 freshman applications each fall. Around that time, it made a change in its recruitment strategy related to how it was buying student names. Management indicates freshman applications between 2,400 and 2,500 represent a more legitimate population of students interested in applying to the college. The college accepted 79% of freshman applications received for fall 2015. Matriculation was relatively steady at 35.4%, which is more favorable than the rating category median, and is indicative of the self-selective nature of the student body seeking a Christian college education.

Freshman matriculants were 691 in fall 2015, higher than the college target of 675. The college is targeting for 675 freshman students in fall 2016 and its annualized target is 655. Management does not forecast significant growth at the undergraduate level; it does, however, project continued growth at the graduate level as it adds new graduate programs. The college plans to start occupational therapy (OT) and physical therapy (PT) programs, with the OT program starting in fall 2017. It projects 30 OT in fall 2017 and 30 PT students in fall 2018.

Student quality, as indicated by average SAT scores of 1130 for the fall 2015 entering freshman class, remains above the national average of about 1012. The college has, what we consider, a solid freshman retention rate of 88.1%, which is consistent with the rating category. According to management, the college's competitive landscape has remained essentially unchanged in recent years; key competitors include other Christian schools including Houghton College in New York, Gordon College in Massachusetts, and Eastern University and Grove City College in Pennsylvania.

The college has a record of successful fundraising efforts for an institution of its profile. It raised $46.2 million toward a $40 million goal for its Centennial Campaign, publicly launched in May 2010 and concluded on Dec. 31, 2012. Annual unrestricted giving was $1.3 million in fiscal 2015 compared with $2.2 million in fiscal 2014, and $1.1 million in fiscal 2013. Per management, the goal for fiscal 2016 is approximately $1.4 million, which has already been exceeded with roughly $2.2 million raised to date. The alumni-participation rate was 11.9% in fiscal 2015.

Management and governance

Senior management at the college has been stable in recent years, which we view favorably. Management does not expect any turnover among its senior administration at this time. Board membership has also been stable with only routine rotations. The college has not fully budgeted for depreciation since fiscal 2013 and uses a cash budgeting model. Currently it plans to partially budget for depreciation at roughly 70% through its capital expenditures and principal on debt service lines in its operating budget. In our view, partial budgeting of depreciation expense is not an industry best practice.

Financial Profile

Financial management policies

The college has longstanding formal policies for endowment, investments, reserves, and debt. It operates according to a four-year strategic plan. The draft version of the next strategic plan (2016 through 2020) has specific financial targets related to growing the college's financial resource base by increasing the endowment size, reducing endowment spending, raising new endowment funds, and generating cash flow operating surpluses. Management indicates operational goals are routinely monitored by the finance division and an annual plan status report is developed each year over the strategic plan cycle.

Cash and debt management functions are integrated, and formal policies exist related to these two areas. There are minimum and maximum thresholds in place for debt service coverage by operating cash flow, debt burden, and expendable resources to debt. The debt policy has specific sections pertaining to the use of swaps, variable-rate debt, and prohibited uses of debt. These two functions are centralized and handled by members of the accounting team and the investment office team. All policies are periodically revised. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that the college's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the college's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies to comparable providers.

Financial performance

The college's financial operations on a GAAP basis remains relatively weak compared with the rating category median. In fiscal 2015, the net adjusted operating deficit, excluding $1.3 million of net assets released from restriction for capital purposes, equaled $1.1 million (negative 0.9% of adjusted operating expenses). This follows a slight GAAP operating deficit of $252,000 (negative 0.2% of adjusted operating expenses) in fiscal 2014. The deficit in fiscal 2015 was due to overall lower revenues in certain categories, increased institutional discounting at the undergraduate level, and expense growth. Management expects fiscal 2016 GAAP operating results to be comparable with fiscal 2015. The college's three-year financial plan reflects balanced operations on a cash basis; although the new graduate programs in OT and PT are projected to yield additional net revenues, there are likely to be initial start-up costs associated with these programs, which the college intends to absorb internally. Operations are expected to be favorably affected by energy savings associated with its conversion to natural gas, which has helped it realize roughly $1 million in energy savings in fiscal 2016 per management. These savings are expected to continue for the foreseeable future.

As with most private colleges of its size and profile, the college is highly dependent on student-generated fees: tuition, fees, and auxiliary revenues generated 88.2% of fiscal 2015 adjusted operating revenues; enrollment fluctuations and increased discounting have the potential to pressure net tuition revenue. To date, net tuition revenues have been flat-to-growing despite small increases in institutional discounting at the undergraduate level in response to student affordability concerns. We note the college's overall tuition discount growth rate is relatively lower than some of its peers. Moreover, the college's graduate programs, which are a growing component of its total enrollment, do not get discounted. Tuition increased by 2.9% to $30,510 for 2014-2015. Tuition and fees increased by 2.9% to $31,410 for the 2015-2016 academic year and are projected to increase by roughly 3% for the upcoming 2016-2017 academic year, which we view as moderate.

Available resources

Available resources as of June 30, 2015, are consistent with the rating category, in our view. Available resources (as measured by expendable resources) were approximately $119 million as of June 30, 2015, equal to 93% of adjusted operating expenses and 178.9% of pro forma debt (including the series 2015 bonds issued after the fiscal year-end, and series 2016 bonds). Cash and investments--which are viewed as a less conservative measure of balance sheet strength as they include restricted funds--equaled $150.9 million as of June 30, 2015, equal to 117.9% of adjusted operating expenses and 226.8% of pro forma debt (including the series 2015 bonds issued after the fiscal year-end, and series 2016 bonds).

The endowment's market valuation of $120.7 million as of Jan. 31, 2016 is lower than fiscal 2014 levels due to volatility in broader investment markets. Investment returns were a negative 4.9% for the 12 months through Jan. 31, 2016. The asset allocation as of Jan. 31, 2016, was 57.3% equities (comprising various funds), 33.4% cash and fixed income, and 9.3% alternative investments, which is consistent with strategic asset allocation targets.

The college uses a modified Yale spending draw for board-designated investments, and 5% of the most recent 12-quarter moving average market value as of June 30 for the donor-restricted endowment. The actual endowment draw percentage was 5.6% in fiscal 2015 and 2014 and not expected to change in fiscal 2016. For fiscal 2017, the college has planned for an endowment draw rate of 5.2%.

Messiah College Selected Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated private colleges and universities
	Demand Data 2016	**Audited 2015**	**Audited 2014**	**Audited 2013**	**Audited 2012**	**2014**
Enterprise Profile						
Full-time equivalent	3,217	3,142	3,027	2,933	2,918	3,434
Freshman acceptance rate (%)	79.0	80.0	65.9	64.2	64.3	64.5
Freshman matriculation rate (%)	35.4	35.2	34.7	35.0	34.2	21.2
Freshman retention (%)	N.A.	88.1	87.5	86.6	86.5	86.3
Faculty with terminal degrees (%)	80.7	85.5	84.3	85.7	80.0	MNR
Average SAT scores*	1,130	1,127	1,150	1,135	1,156	MNR
Average ACT scores	25	24	25	25	25	MNR
Freshman applications	2,469	2,472	2,836	3,153	3,162	MNR
Annual freshman application percentage change (%)	(0.1)	(12.8)	(10.1)	(0.3)	3.0	MNR
Graduation rates (six years) (%)	76.8	79.7	N.A.	N.A.	N.A.	MNR
Undergraduates as a % of total enrollment	85.4	86.2	89.9	92.7	93.8	80.9
Tuition discount (%)	N.A.	39.9	38.8	38.6	37.5	35.4
Alumni particpation rates (%)	N.A.	11.9	12.5	14.3	N.A.	MNR
Endowment per FTE	N.A.	41,733	45,182	42,116	41,218	MNR
Students from inside of the state (%)	62.5	63.2	58.2	58.6	58.2	MNR
Average age of plant (years)	N.A.	14.7	13.9	14.1	14.2	13.3
Financial Profile						
Net operating margin (%)	N.A.	(0.85)	(0.20)	0.35	(0.19)	MNR
Student dependence (%)	N.A.	88.2	86.9	88.0	88.6	MNR
Research dependence (%)	N.A.	0.7	0.6	1.1	0.8	MNR
Endowment and investment income dependence (%)	N.A.	6.1	6.2	6.2	6.4	MNR
Endowment spending rate (%)	N.A.	5.60	5.60	5.80	N.A.	MNR
Current MADS burden (%)	N.A.	3.23	3.49	3.51	3.66	MNR
Pro forma MADS burden (%)	N.A.	3.23	N.A.	N.A.	N.A.	MNR
Cash and investments ($000s)	N.A.	150,902	159,353	144,966	153,914	MNR
Cash and investments to debt (%)	N.A.	356.9	350.5	329.5	325.6	266.7
Cash and investments to pro forma debt (%)	N.A.	226.8	N.A.	N.A.	N.A.	MNR
Expendable resources ($000s)	N.A.	119,007	132,625	116,859	126,391	MNR
Expendable resources to operations (%)	N.A.	93.0	105.8	96.8	109.3	97.9
Expendable resources to debt (%)	N.A.	281.5	291.7	265.6	267.4	172.6

Messiah College Selected Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated private colleges and universities
	Demand Data 2016	Audited 2015	Audited 2014	Audited 2013	Audited 2012	2014
Expendable resources to pro forma debt (%)	N.A.	178.9	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	127,983	125,325	120,700	115,614	MNR
Total debt	N.A.	42,280	45,465	43,995	47,265	90,765
Total pro forma debt	N.A.	66,525	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	4,133	3,752	4,067	4,213	MNR
Pension expense	N.A.	2,465	2,463	2,447	2,372	MNR
Pct Retired 10 years (%)	N.A.	30.4	N.A.	N.A.	N.A.	MNR
Contingent liabilities	N.A.	28,100	32,600	N.A.	N.A.	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). 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. *SAT scores include only reading and math.

Related Criteria And Research

Related Criteria

- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016

Ratings Detail (As Of April 25, 2016)

Cumberland Cnty Mun Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Cumberland Cnty Mun Auth (Messiah Coll) PCU_GO		
Long Term Rating	A/Stable	Affirmed
Cumberland Cnty Mun Auth (Messiah Coll) (AICUP Fing Prog)		
Long Term Rating	A/Stable	Affirmed
Pennsylvania Hgr Ed Fac Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Messiah Coll)		
Long Term Rating	A/Stable	Affirmed
Pennsylvania Hgr Ed Fac Auth (Messiah Coll)		
Long Term Rating	A/Stable	Affirmed

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