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Huntingdon County General Authority, Pennsylvania Juniata College; Private Coll/Univ - General Obligation

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Huntingdon County General Authority, Pennsylvania
Juniata College; Private Coll/Univ - General Obligation

Credit Profile		
US$40.1 mil rev bnds (Juniata Coll) ser 2016 due 05/01/2046		
Long Term Rating	BBB+/Stable	New
Huntingdon Cnty Gen Auth, Pennsylvania		
Juniata Coll, Pennsylvania		
Huntingdon Cnty Gen Auth, PA Series 2010A and Series 2010B		
Long Term Rating	BBB+/Stable	Downgraded

Rationale

S&P Global Ratings lowered its rating to 'BBB+' from 'A-' on Huntingdon County General Authority, Pa.'s revenue debt issued for Juniata College. We also assigned our 'BBB+' long-term rating to the series 2016 OO2 revenue bonds issued by the authority for the college. The outlook is stable.

We lowered our rating to 'BBB+' based on the application of our updated criteria published Jan. 6, 2016.

We assessed the college's financial profile as adequate, characterized by modest available resources for the rating category and management's ability to absorb revenue shortfalls through expense management. We assessed the college's enterprise profile as strong, characterized by satisfactory student quality metrics and generally stable full-time equivalents (FTEs) since fall 2010 despite yearly fluctuations, given the highly competitive regional market in which it operates. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb+' and final long-term rating of 'BBB+'.

The rating reflects our opinion of the college's general obligation (GO) pledge, supported by its:

- Modest available resources with cash and investments of $120.8 million at May 31, 2015, equal to 143.9% of adjusted operating expenses and 201.5% of pro forma debt; and
- Moderate pro forma maximum annual debt service (MADS) burden at 4.6% of fiscal 2015 adjusted operating expenses.

We believe somewhat offsetting credit factors include what we consider Juniata's:

- Lackluster operating results on a generally accepted accounting principles (GAAP) basis, which are expected to continue in the outlook period;
- Fluctuating enrollment and demand trends over the past five years largely due to a highly competitive market for students; and

- Moderately high tuition discount rate, which is indicative of financial aid pressure.

Founded in 1876, Juniata College has been an undergraduate coeducational liberal arts college since its inception. The college is on a large 1,000-acre campus in Huntingdon in south-central Pennsylvania. Juniata enrolled 1,583 students in fall 2015. Between 83% and 85% of the students live on the mainly residential college's campus. Juniata draws about 60% of its students from Pennsylvania. According to management, most of the college's chief competitors are in Pennsylvania, including public universities and small, private liberal arts colleges such as Pennsylvania State University, University of Pittsburgh, Gettysburg College, and Dickinson College. The college was reaccredited by the Middle States Commission on Higher Education on June 27, 2013.

The college will use a portion of the series 2016 OO2 bond proceeds to provide roughly $15 million (par amount) for various new construction and renovation projects at its campus. Per management, these capital projects are aligned with the college's strategic priorities. Simultaneously the balance of the series 2016 OO2 bond proceeds, together with a bank loan, will remove an $11.5 million bullet and restructure the series 2010A bonds. A second bank loan will refund the college's 2007 $5.1 million bank note. These series 2016 bank loans have fixed rates for their first seven years. We understand the key covenants for these loans are expected to mirror the covenants associated with the series 2016 OO2 bonds and these loans can be prepaid without penalty by the college.

At May 31, 2015, Juniata had $59.6 million of pro forma debt. All college debt is on par with each other. Management reports there are no plans to issue debt over the next two years.

Outlook

The stable outlook reflects S&P Global's opinion that over the outlook period, Juniata's enrollment and demand metrics will stabilize, it will post essentially break-even GAAP financial operations, and maintain its available resource ratios.

Downside scenario

While unlikely, in our view, credit factors that could lead to a negative rating action during the outlook period include a trend of GAAP operating deficits, enrollment decreases, or weakened available resource ratios. A violation of any covenants resulting in an acceleration of the bank loans could also trigger a negative rating action.

Upside scenario

A positive rating action would require a trend of improved GAAP operations and improved available resources.

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 59.6% of its fall 2015 students from Pennsylvania. As such, our assessment of the college's economic fundamentals is anchored by the Pennsylvania GDP per capita.

Market position and demand

Juniata's FTE enrollment has averaged 1,550 since fall 2009. FTE enrollment decreased by 2.6% to 1,546 in fall 2015 compared with 1,587 in fall 2014, largely due to its lower-than-expected freshman class size. Based on trends to date, management expects stable enrollment in fall 2016. According to management, optimal enrollment at the college ranges from 1,600-1,650, which it expects to reach within three to five years.

In our opinion, the college's demand profile remains satisfactory for the rating category with good student quality, retention, and graduation rates despite variable applications and selectivity trends. Freshman applications have varied historically. Freshman applications increased by 18% to 2,604 in fall 2015 from 2,207 in fall 2014. Management recognizes applications and freshmen matriculants have been volatile over the past five years, and it is expanding its reach to recruit applicants from contiguous counties and implementing several programs targeted at increasing applications and improving selectivity and yield. Management added recruiters in secondary and international markets, and it plans to use the college's alumni network more aggressively to reach potential enrollees.

Juniata is, in our view, moderately selective: The freshman acceptance rate was 76.9% in fall 2015, which weakened from 64.5% in fall 2013. The college operates in a highly competitive market and opted to reduce its freshman discount rate in fall 2015, which resulted in a lower freshman class size. The fall 2015 freshman matriculation rate weakened 17.7% from an average rate of 25% in the past five years. The fall 2015 freshman-to-sophomore retention rate is, in our opinion, a good 85.6%. Student quality for the fall 2015 incoming freshman class remained above average with an average SAT score of 1,146, consistent with peer institutions and higher than the national average of about 1,012.

Juniata has a successful, but limited, fundraising history. Its largest campaign started in 1998 and ended in 2005, raising $103.4 million. The college has focused on small, targeted capital campaigns recently and has achieved its goals. According to management, a new campaign with a focus on increasing the endowment will likely coincide with the new strategic plan. Juniata raised approximately $1.75 million toward the annual fund in fiscal 2015. Management expects to increase this to about $2 million in annual fund gifts by fiscal 2020. We understand the college has completed the feasibility study for another major campaign.

Management and governance

The college has undergone several senior management changes since 2013 following the appointment of the current president. Certain changes, including the president, provost, and vice president for enrollment and retention, were due to retirements of the previous incumbents. While we generally view frequent senior management turnover unfavorably as it could prove disruptive to normal operations of an institution, we recognize it is common for some turnover to occur after an organization appoints a new leader. Changes in senior leadership since our last review include a new vice president for student life and dean of students, who was named to this position on March 4, 2016, and a new vice president for finance and operations effective Aug. 1, 2016. Both these positions have been filled externally. The current vice president for finance and operations, who has a long tenure with Juniata, has been named as the new special assistant for strategic initiatives. This is a newly created position and will include overall responsibility for tracking progress on the current strategic plan. Lastly, the college also created a new associate vice president for development position, which we understand is a board-funded position. We expect future governance to be more stable.

A maximum 40-member self-perpetuating board of trustees governs college operations. In our opinion, the board is stable; only rotational changes have occurred recently. According to management, the board actively supports the college; the board contributed 45% in pledges for Juniata's last comprehensive campaign. The board of trustees reviews the college's written debt and investment policies annually.

The board approved a new strategic plan in April 2015. The strategic plan has specific financial and operational goals with defined measures of achievement. Management tracks progress on the plan through dashboards and plans to formally update them at least annually. On an annual basis, the college updates three-year financial plans. It builds specific annual capital budgets as part of the annual budgeting process. They target the amount for future capital budgets at the same time, tied to their annual cash flow and endowment support. We view assumptions outlined in the college financial plans as fairly reasonable.

Table 1

Juniata College, PA

Enterprise Profile

	Fiscal year ended May 31					Medians
	Demand Data 2016	**Audited 2015**	**Audited 2014**	**Audited 2013**	**Audited 2012**	**Private colleges and universities 'BBB' 2014**
Full-time equivalent	1,546	1,587	1,593	1,519	1,551	3,318
Freshman acceptance rate (%)	76.9	74.2	64.5	66.3	71.3	70.6
Freshman matriculation rate (%)	17.7	25.8	23.7	25.0	23.8	24.2
Freshman retention (%)	85.6	88.0	87.8	90.4	85.0	78.0
Faculty with terminal degrees (%)	90.0	93.0	93.0	86.1	91.3	MNR
Average SAT scores	1,146	1,149	1,143	1,182	1,749	MNR
Average ACT scores	26	26	25	27	26	MNR
Freshman Applications	2,604	2,207	2,559	2,422	2,144	MNR
Annual freshman application percentage change (%)	18.0	-13.8	5.7	13.0	(1.6)	MNR
Graduation rates (six years) (%)	73.2	77.9	N.A.	N.A.	N.A.	MNR
Undergraduates as a % of total enrollment (%)	99.2	99.0	99.4	99.6	100.0	74.5
Tuition discount (%)	N.A.	52.7	51.2	47.7	46.8	33.3
Alumni particpation rates (%)	N.A.	27.5	27.9	28.2	N.A.	MNR
Endowment per FTE	N.A.	70,323	67,716	62,122	49,881	MNR
Students from inside of the state (%)	59.6	59.9	N.A.	N.A.	61.7	MNR
Average age of plant (years)	N.A.	15.9	17.0	14.8	17.5	12.8

N.A.--Not available. MNR--Median not reported.

Financial Profile

Financial management policies

The college has formal policies for endowment, investments, and debt. In our view, it has good financial practices and manages in a proactive manner. Cash and debt management functions are centralized and handled by the controller. The college's debt policy has minimum and maximum thresholds in place for debt service coverage (DSC) from operating cash flow, debt burden, and expendable resources to operations and debt. The debt policy has specific sections pertaining to the use of swaps and prohibited uses of debt. 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 impair 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

In the past five years, Juniata's financial operations on a GAAP basis have essentially been break-even on a GAAP basis. In fiscal 2015, the net adjusted operating deficit equaled roughly $424,000 (negative 0.5% of adjusted operating expenses). Fiscal 2014 operations were also break-even with a small $794,000 GAAP deficit. While fall 2015 enrollment, particularly freshman matriculants, was lower than expected, the college enacted a 5.2% tuition increase for the year and implemented various expense controls to close the revenue shortfall. On the expense side, it reassigned and reallocated resources instead of filling certain open positions and managed various departmental expenses, including utilities and reduced departmental travel, food, and office supplies. Per management, based on year-to-date trends, the college is projecting an increase in unrestricted assets from operations on a GAAP basis. The college's financial projections for the next few years show small operating surpluses.

Juniata faces financial aid pressure, reflected in a moderately high discount rate and slower net tuition revenue growth over the past four fiscal years compared to historical rate increases. Net tuition revenue increased to 1.4% in fiscal 2015 and is projected to increase in fiscal 2016, given increased tuition and reduced freshman discounting in fall 2015.

The college's overall discount rate was, in our view, a moderately high 52.7% in fiscal 2015. The freshman discount rate was, in our opinion, a very high 60.2% in fall 2015, albeit lower than the 61.4% in fall 2014. According to management, the discount rate planned for fall 2016 is 62.6% for freshman and 52.8% overall. Because the college is overwhelmingly undergraduate, the graduate programs, which typically receive minimal discounting, do not help reduce the overall discount rate.

In our opinion, Juniata is highly dependent on student-generated revenues: Tuition and auxiliary enterprises generated 86.2% of fiscal 2015 adjusted operating revenue. Tuition and fees, including room and board, increased by 4.9% to $51,770 in fall 2015 from $49,370 in fall 2014; this was comparable to peer institutions. Management indicates tuition has increased by a relatively more moderate 3.9% for the upcoming academic year 2016-2017.

Available resources

In our opinion, available resource ratios are sufficient for the rating category. Cash and investments, which include restricted assets, were $120.8 million at May 31, 2015, equal to 143.9% of adjusted operating expenses and 201.5% of pro forma debt. Expendable resources were, in our view, a substantially lower $47.4 million at May 31, 2015, or 56.5% of adjusted operating expenses and 79.1% of pro forma debt.

Juniata's endowment market value was $111.6 million at May 31, 2015. The endowment value decreased to $101.6 million at Feb. 29, 2016. While it remains largely restricted, per management, roughly 23% ($24.3 million) of those funds are unrestricted. Management allocated the endowment to equities (60.4%), cash and fixed income (20.4%), and alternative investments (19.2%) at Feb. 29, 2016. Juniata has a 5% endowment-spending policy based on a five-year moving market value average; the effective rate was above average at 6.2% in fiscal 2015. Per management, this was a one-time additional draw related to an actuarial adjustment related to its post-retirement liability for a plan that the college ended in 1997. The endowment rate has been approved by the board at 5% of the trailing 12-quarter average as of Dec. 31. This rate applies to both fiscal years 2016 and 2017.

Debt and contingent liabilities

At May 31, 2015, Juniata had $59.6 million of pro forma debt. Of this amount, the series 2016 OO2 bonds are fixed rate, while the series 2016 bank loans with a regional bank have fixed rates for their first seven years. We have not reviewed the series 2016 bank loan documents as they have not yet been executed. We understand the key covenants for these loans are expected to mirror the covenants associated with the series 2016 OO2 bonds and these loans can be prepaid without penalty by the college. The series 2004 bank loan with PNC Bank is fixed rate through maturity. Total fixed-rate pro forma debt constitutes 86.4%, while the series 2013 bank loan with Manufacturers & Traders Trust Co. constitutes the remainder. All of Juniata's debt is a GO of the college. In addition, Juniata maintains a $3 million line of credit, which has not been drawn on historically and did not have a balance at May 31, 2015.

We did not rate the series 2013 revenue note, issued through a bank-qualified loan to construct the residence hall. In prior years, we reviewed bank documents and concluded Juniata has some resulting event-driven repayment risk exposure stemming from bank obligations that could come due because of events of default or covenant violations. According to loan documents, an event of default under the agreement results in acceleration, at which time Juniata would be required to repay the amount of the loan outstanding immediately. The college, however, would have a 30-day cure period for covenant violations, including its covenant to maintain a 1.1x DSC ratio annually at each fiscal year-end beginning on May 31, 2013. The college was in compliance with all debt covenants related to its bank loans. Management has identified approximately $40 million of investments that could be liquidated within three days. We believe these investments provide ample coverage for an acceleration of all college bank loans ($25.9 million on a pro forma basis).

The college offers employees a defined-contribution retirement plan, which by definition is fully funded. It is carrying a $6.7 million postretirement liability on its books. It has no swap contracts and no bullet maturities post the series 2016 debt issuance.

Table 2

Juniata College, PA						
Financial Profile						
	Fiscal year ended May 31					**Medians**
	Demand Data 2016	**Audited 2015**	**Audited 2014**	**Audited 2013**	**Audited 2012**	**Private colleges & universities 'BBB' 2014**
Net operating margin (%)	N.A.	(0.51)	(1.02)	1.13	(0.75)	MNR
Student dependence (%)	N.A.	86.2	88.6	82.3	82.5	MNR
State appropriation dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.3	0.9	0.1	0.1	MNR
Endowment and investment income dependence (%)	N.A.	6.5	5.0	4.7	5.2	MNR
Other operating revenue dependance (%)	N.A.	0.0	0.0	0.0	0.0	MNR
Endowment spending rate (%)	N.A.	6.20	5.00	5.00	N.A.	MNR
Current MADS burden (%)	N.A.	4.46	5.08	5.18	4.85	MNR
Pro forma MADS burden (%)	N.A.	4.65	N.A.	N.A.	N.A.	MNR
Cash and investments ($000s)	N.A.	120,771	117,254	106,758	90,738	MNR
Cash and investments to debt (%)	N.A.	283.2	277.3	292.7	252.1	151.7
Cash and investments to pro forma debt (%)	N.A.	201.5	N.A.	N.A.	N.A.	MNR
Expendable resources ($000s)	N.A.	47,396	44,422	37,895	29,073	MNR
Expendable resources to operations (%)	N.A.	56.5	56.8	49.4	38.6	54.5
Expendable resources to debt (%)	N.A.	111.1	105.1	103.9	80.8	88.8
Expendable resources to pro forma debt (%)	N.A.	79.1	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	83,935	78,188	76,699	75,229	MNR
Total debt	N.A.	42,647	42,277	36,479	35,995	55,019
Total pro forma debt	N.A.	59,942	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	2,493	2,187	2,082	1,712	MNR
Pension funded status (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pension expense	N.A.	1,887	1,793	1,691	1,670	MNR
OPEB expense	N.A.	314	313	216	602	MNR
Pct Retired 10 years (%)	N.A.	19.4	N.A.	N.A.	N.A.	MNR
Contingent liabilities	N.A.	25,900	N.A.	N.A.	N.A.	MNR

N.A.--Not available. MNR--Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014