S&P Global
Ratings

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York College of Pennsylvania; Private Coll/Univ - General Obligation

Primary Credit Analyst:
Carolyn McLean, New York (1) 212-438-2383; carolyn.mclean@spglobal.com

Secondary Contact:
Luke J Gildner, Centennial (303) 721-4124; luke.gildner@spglobal.com

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York College of Pennsylvania; Private Coll/Univ - General Obligation

Credit Profile		
US$16.0 mil Refunding ser 2016 OO3 due 11/01/2037		
Long Term Rating	A-/Stable	New

Rationale

S&P Global Ratings lowered its long-term rating on York County Industrial Development Authority's bonds outstanding issued for York College of Pennsylvania (YCP) to 'A-' from 'A' and its rating on the series 2014T2 short-term revenue refunding multimode bonds, issued for YCP, to 'A-/A-2' from 'A/A-1'.

At the same time, S&P Global Ratings assigned its 'A-' rating and stable outlook to the authority's series 2016 OO3 revenue refunding bonds, issued for YCP. The outlook is stable.

We lowered the rating based on credit quality deterioration and the application of the Not-for-Profit Public and Private Colleges and Universities methodology, published Jan. 6, 2016, on RatingsDirect. The 'A-' long-term rating reflects YCP's adequate enterprise profile and strong financial profile. The adequate enterprise profile is supported by limited demand flexibility, declining enrollment, and variable applications. The strong financial profile is supported by robust margins, with expectations for declines over the next several years, as well as solid financial resource ratios relative to operations and debt and no plans for additional debt. Combined, these factors result in an indicative stand-alone credit profile of 'a-' and a long-term rating of 'A-'. The downgrade reflects deterioration in the enterprise profile, which is likely to negatively affect the college's historically strong operating margins.

The long-term rating component reflects our assessment of the institution's general credit characteristics. The short-term rating component reflects our assessment of the institution's self-liquidity. We believe the college demonstrates sufficient liquid assets of high credit quality, which it could use to cover the purchase price of its variable-rate series 2014 T2, which are in a one-year mode, requiring a short-term rating.

The 'A-' rating further reflects our opinion of YCP's:

- Decreasing full-time equivalent (FTE) student enrollment of 4,362 for fall 2015, down from over 5,000 FTE five years earlier, with expectations it will decline;
- Limited revenue diversity with a high 93% dependence on tuition and auxiliary fees for fiscal 2015;
- Highly competitive market, characterized by a low freshman matriculation rate of 16% in the past two years, with expectation for improvement to over 20%; and
- Modest fundraising history.

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

- History of solid full-accrual operating surpluses, with expectations for results closer to breakeven over the next several years ;

- Solid financial resources with expendable resources of about $157 million, representing 132% of operating expenses and 175% of pro forma debt;
- Moderate pro forma maximum annual debt service (MADS) burden of 5%; and
- Strong tuition flexibility with a comprehensive price that is well below that of its peers and a low level of tuition discounting with an overall discount rate of 21% in fiscal 2015.

YCP is a private, coeducational institution founded in 1787. It is on a 190-acre campus in York. The college currently offers more than 50 baccalaureate degree programs in the arts and sciences, as well as master degrees in nursing, business administration, and education. YCP's most popular majors include business, behavioral science, nursing, and physical sciences. It recently added civil engineering, radiography, hospitality, and doctorate of nursing programs. Chemical engineering, food sciences, and horticulture studies are some of the new programs the college's administration is considering. The college also owns York Country Day School, a private day school serving preschool through 12th-grade students with a headcount of about 250; this is the only private day school in York County.

YCP is issuing approximately $15.5 million in series 2016 refunding bonds. The bonds will be used to advance refund the General Authority of Southcentral Pennsylvania revenue bonds, series 2007 GG2 bonds for economic savings. The maturity will remain at 2037 and the bonds will be fixed rate. The series 2016 bonds will be on parity with other bonds outstanding and are secured by pledged revenues, which include all revenues of the college, or equivalent to a general obligation pledge.

Outlook

The stable outlook reflects our opinion that over the two-year period, enrollment and demand will stabilize, operating margins will remain at least at breakeven, and financial resource ratios will remain in line with current levels.

Downside scenario

We could lower the rating if financial resources were to decrease significantly below current levels, financial performance were to sustain deficits, or the college were to issue significant additional debt without commensurate financial resource growth. Furthermore, continued declines in enrollment or weakened demand could also pressure the rating.

Upside scenario

It is unlikely that we would raise the rating during the outlook's two-year period, although we could do so if financial resources were to increase significantly, margins were consistent with historical levels, and enrollment and demand metrics were to improve.

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 rather limited geographic diversity, with approximately 60% of students coming from Pennsylvania. As such, our assessment of York's economic fundamentals is anchored by Pennsylvania's GDP per capita.

Market position and demand

Enrollment has declined in the past four years as a result of weak demographics in Pennsylvania and strong competition for students. FTE decreased by a significant 6.5% to 4,361 in fall 2015 from 4,663 in fall 2014, down from a high of nearly 5,100 in fall 2011. The drop is largely due to declines in the undergraduate population, with decreasing freshmen enrollment over the time. Management expects further declines in FTE enrollment over the next several years, and projects improvement over time as the small freshman class of fall 2015 rolls through the undergraduate program. Management indicates it plans to add new programs based on market demand, implementing a robust marketing campaign and increasing the applicant pool to achieve its long-term goal of raising undergraduate student enrollment to 5,000 and graduate enrollment to 500 over time. While we believe this goal is possible, we expect enrollment to remain low over at least the next few years.

YCP's demand profile is somewhat limited in flexibility, defined by moderate selectivity, weak, but somewhat improving matriculation, and average student quality. Freshman applications decreased in fall 2014 and fall 2015, and will likely remain at a lower level given that management implemented a more-targeted enrollment approach instead of focusing on increasing applications. Management states that as a result, matriculation rates in fall 2016 are likely stronger than those in previous years, which have hovered around 15%, which we consider moderately weak. Selectivity has been fairly consistent and is expected to remain so at about 40% to 45%. We expect the demand will improve slightly as the new program is implemented.

YCP has a unique model, with low tuition levels and low tuition discounting relative to those of peers. Tuition and fees, including room and board, were $28,400 for academic year 2015-2016 and the discount rate was 21%, which we consider modest. The college's main competitors are local public universities, including Pennsylvania State, and Temple universities in Pennsylvania; the universities of Maryland, Towson, and Salisbury in Maryland; and University of Delaware.

The college has a solid history of fundraising, raising approximately $10 million to $11 million on average per year. It has been raising funds for specific strategic initiatives, but is not in the middle of a comprehensive campaign.

Management

A 26-member board of trustees appointed to three-year terms governs YCP. Although a new chairman and vice chairman were elected in May 2016, the board is stable with only rotational changes recently. We consider the board diversified and actively engaged in the affairs of the college, evidenced by the financial support it provides the college.

YCP's president started in August 2013. The college experienced some transition in its senior management team, which is not uncommon after a presidential change. YCP hired new Deans of Enrollment, Academic Affairs, College Advancement, and Information Technology. The rest of the executive management team, including the chief financial officer, is stable, which we believe lends stability to the overall credit profile.

Financial Profile

Financial management policies

We believe the management team has prudent fiscal practices that produce healthy operating surpluses and it cuts expenses to continue to reach breakeven. We understand that the college has formal endowment spending, investment, and debt policies and that management budgets for depreciation expenses, which we view as a positive credit factor. We also view YCP's limited reliance on endowment spending as a credit strength, providing an additional financial cushion.

The college operates according to a five-year strategic plan and has an informal reserve liquidity policy. It meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization'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 organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable providers.

Financial performance

YCP's financial performance is characterized by consistently solid operating margins, with full-accrual surpluses exceeding 5% margins until fiscal 2015, which resulted in a 4.8% margin. Management projects slimmer margins in the future as a result of enrollment declines, but expects to maintain at least breakeven operating performance.

YCP remains highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 93% of fiscal 2015 operating revenue. It has also increased discounting modestly each year to attract more students. As a result, net tuition revenue has declined year over year, which is likely to persist in the next few fiscal years.

Although management plans to add several additional academic deans and are investing in a new strategic plan, it plans to draw down a strategic fund that was previously unused. We believe that this, as well as other unspent endowment funds will continue to support positive operating performance. The college's budgeting practices are quite strong and we expect management will meet targets and continue to cut expenses if necessary.

Available resources

In our opinion, YCP's financial resource ratios are solid. Expendable resources were $157 million at fiscal year-end 2015, equal to 132% of fiscal 2015 operating expenses and 175% of pro forma debt. Cash and investments, including restricted investments, were $191 million at June 30, 2015, or 161% of operating expenses and 213% of pro forma debt. We note the expendable resources calculation -- unrestricted net assets plus temporarily restricted net assets less net plant, property, and equipment minus debt -- is slightly deflated due to what we consider the college's low debt compared to net plant, property, and equipment, although it is still an appropriate relative measure.

At March 31, 2016, YCP's pooled investments market value was $170 million. The college's endowment spending policy is 5% of the three-year annual moving average market value of pooled endowment assets, which includes approximately $82 million. YCP's investments were allocated investments to domestic and international equities

(40%), diversifying equity (29%), fixed income (14%), emerging markets (7%), private equity (7%), and cash (3%).

Debt

The college had approximate $90.6 million of debt outstanding as of June 30, 2015 and it will have approximately $85.3 million of post-issuance debt. Approximately 70% of the bonds are naturally fixed-rate and the remaining 30% are multimodal bonds, which are currently in fixed modes for various terms. All debt is a GO of the college. In our opinion, the pro forma MADS burden of $6.4 million was a moderate 5.4% of fiscal 2015 operating expenses. We understand management does not currently plan to issue additional debt during the next two years. The college has additional capital needs, but we understand management will likely fund them internally with operating cash and gifts.

The multimodal bonds are currently in fixed rate mode, but two of the series have a term expiration in less than one year and require a short-term rating. The series 2014 T2 bonds are currently in a one-year rate mode, and the T4 bonds are currently in a three-year mode; both expire April 30, 2017. The series 2014 T3 bonds are in a two-year mode expiring May 1, 2018. The combined par of the T2 bonds is $6.6 million and the total is approximately $25.1 million, and the university states it has approximately $75 million in daily available funds to cover the put if the bonds are not successfully remarked at the end of the term. We believe this is sufficient for the rating.

Related Criteria And Research

Related Criteria

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

Ratings Detail (As Of June 20, 2016)		
General Auth of Southcentral Pennsylvania, Pennsylvania		
York Coll of Pennsylvania, Pennsylvania		
series 2011 II		
Long Term Rating	A-/Stable	Downgraded
Southcentral Pennsylvania General Auth (York Coll of Pennsylvania) ser 2007 GG2		
Unenhanced Rating	A-(SPUR)/Stable	Downgraded
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
York Coll of Pennsylvania, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) PCU_GO		
Long Term Rating	A-/A-2/Stable	Downgraded
Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) PCU_GO		
Long Term Rating	A-/Stable	Downgraded
Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) PCU_GO		
Long Term Rating	A-/Stable	Downgraded

Many issues are enhanced by bond insurance.