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Lycoming County Authority, Pennsylvania Pennsylvania College of Technology; Junior/Community College; Private Coll/Univ - General Obligation

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Lycoming County Authority, Pennsylvania Pennsylvania College of Technology; Junior/Community College; Private Coll/Univ - General Obligation

Credit Profile		
US$53.0 mil coll rev bnds (Pennsylvania Coll of Technology) ser 2016 due 10/01/2037		
Long Term Rating	A/Stable	New
Lycoming Cnty Auth, Pennsylvania		
Pennsylvania Coll of Tech, Pennsylvania		
Lycoming Cnty Auth (Pennsylvania Coll of Tech)		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to Lycoming County Authority, Pa.'s series 2016 college revenue bonds, issued for Pennsylvania College of Technology (PCT). At the same time, we affirmed our 'A' long-term and underlying ratings (SPUR) on the authority's existing college revenue debt, also issued for PCT. The outlook is stable.

The revenue bonds are a general obligation of the college, pursuant to a loan agreement with the authority.

Factors supporting the rating include an improvement in the college's financial performance since fiscal 2011, specifically its full-accrual financial operations and financial resource ratios. We also view the college's affiliation with Pennsylvania State University (Penn State) and Penn State's implied oversight of the college's operations favorably. The Corp. for Penn State, which has been organized to promote the interests of Penn State, appoints the majority of the college's board members. However, neither Penn State nor The Corp. for Penn State has any obligation with respect to the college loan agreement or its bonds, which is why we do not view this debt as Penn State's direct or indirect obligations and this rating is not linked to our debt rating on Penn State.

While improved, in our view, the college's financial resource ratios need to strengthen to levels more consistent with the 'A' category. Credit factors that support the rating include our opinion of the college's:

- Substantial improvement in financial operations since fiscal 2012 due to revenue increases and management's strategic cost-cutting initiatives;
- Niche as the largest technical college in the commonwealth and status and role as a wholly owned subsidiary of The Corp. for Penn State, as well as a consolidated entity in Penn State's audited financial statements;
- Receipt of modest, but consistent, annual operating appropriations from Pennsylvania, which equaled 11.7% of fiscal 2015 adjusted operating revenue; operating appropriations increased by 11.4% in fiscal 2016; and
- Minimal deferred-maintenance needs due to a young campus and no new debt plans within the next two years.

We believe somewhat offsetting these credit strengths are, what we consider, the college's:

- Low financial resource ratios relative to the rating category with expendable resources equal to just 21.5% of adjusted operating expenses and 25.6% of pro forma debt at June 30, 2015;
- Negative enrollment trends that continued through fall 2015, although management is budgeting for fairly flat enrollment for fall 2016;
- High pro forma maximum annual debt service (MADS) burden at 7.1% relative to peer institutions in the rating category; and
- Revenue base that is largely student-dependent, representing 76% of fiscal 2015 adjusted operating revenue, and high tuition relative to the school's competition.

The authority will issue the series 2016 bonds and loan the proceeds to the college pursuant to a loan agreement between the two parties. Under the terms of the loan agreement, the college is obligated to make loan payments in sufficient amounts to pay debt service on the bonds as it comes due. A security interest in the college's tuition revenue secures its obligations under this agreement.

The college will use $53.4 million of series 2016 bond proceeds to fully advance refund its series 2008 college revenue bonds on a matched maturity basis for debt service savings. The series 2016 bonds are on parity with the college's revenue bonds outstanding.

Total debt at fiscal year-end June 30, 2015, was $127.3 million, including a small amount of capital leases. All debt is fixed-rate. The MADS burden of $10.8 million in fiscal 2027 is high, in our view, at 7.1% of fiscal 2015 adjusted operating expenses. Roughly 43% of total bond principal will be repaid over the next 10 years. Roughly 45% of total debt service payments in 2015 were for self-supporting housing projects, and operations on a cash flow basis typically provide adequate coverage. We understand the college does not currently have any swap investments. Management does not plan to issue debt over the next two years and the college has minimal deferred-maintenance needs, which it intends to fund internally.

Outlook

The stable outlook reflects our expectation that during the two-year outlook period, enrollment will be stable, financial operations will at least be balanced on a full-accrual basis, and financial resource ratios will show continued improvement.

Downside scenario

Credit factors that could lead to a negative rating action include a failure to improve financial resource ratios, consecutive years of enrollment declines, or full-accrual operating deficits. Additional debt could pressure the rating given current financial resource ratios are weak for the rating category.

Upside scenario

We do not expect to raise the rating during the outlook period without a meaningful improvement in the college's financial resource ratios to levels consistent with a higher rating. A positive rating action would also be contingent upon the college maintaining or exceeding its recent operating margins and stabilizing enrollment.

Enterprise Profile

The college

PCT, originally established as a small industrial-arts shop at Williamsport High School in 1914, successfully became the Williamsport Area Community College in 1965. In 1989, the community college transformed and became a wholly controlled subsidiary of The Corp. for Penn State and an affiliate of Penn State. Today, PCT has two- and four-year degree programs with an emphasis on emerging and advanced technologies. The college is fully accredited by the Middle States Commission on Higher Education.

The main campus is in Williamsport, encompassing 130 acres with 31 major buildings. Campus facilities are, in our view, in good condition. The college has the authority to grant associate's and bachelor's degrees, and it currently offers 48 bachelor of science degree programs in six academic schools. There are programs at five campus locations in the commonwealth: the Aviation Center at the Williamsport/Lycoming County Airport, the Earth Science Center in Allenwood, the Advanced Automotive Technology Center in Williamsport, the north campus in Wellsboro, and the main campus in Williamsport. The most popular programs are health science, industrial, computing and engineering technologies, and construction and design technologies. In fall 2015, roughly 88% of students were in-state students and nearly 37% came from the 10 counties closest to the college.

Enrollment

The college's enrollment decreased by 1.9% to a 5,514 headcount [5,122 full-time-equivalent (FTE)] in fall 2015, from 5,623 (5,262 FTE) in fall 2014. While the rate of enrollment decreases has been lower than fall 2011 and 2012 levels, enrollment remains well below the 5,964 FTE in fall 2009. Total credit hours, which is how the college budgets, was 3.6% lower at 75,041 in fall 2015 compared with 77,883 in fall 2014. Per management, its fall 2015 enrollment decrease was larger than expected and it made appropriate budgetary reductions to offset the revenue shortfall.

Management attributes recent enrollment decreases to a right-sizing of the curriculum, which resulted in the termination of several programs; sensitivity to commonwealth and national economic cycles; and, in the recent past, increased numbers of graduating high school students deferring college to take on unskilled jobs in the natural gas industry, especially in the Marcellus shale region from which the college draws the majority of its students. The college is hopeful that with a drilling downturn, this trend could reverse and result in an uptick in enrollment. Management reports a continued focus on retention rates, which have improved recently, and on evaluating programs.

Based on fall 2016 enrollment activity to date, applications are up versus the prior year, while total tuition deposits are flat. The college has hired a new vice president for enrollment management and has undertaken more branding and marketing to recruit more students. It has also eliminated its fee for online applications. The college is conservatively budgeting for a fairly flat credit hour production and a lower total headcount of 5,472 for fall 2016, but actual enrollment could be higher given a high number of active applications. Management projects a slight rise in enrollment thereafter, aided by growth in most schools. The college is projecting total headcount will grow by roughly 2% to 3% over the next decade; management also indicates it has the infrastructure to support a total headcount of approximately 8,000.

Total freshmen applications decreased by 5.4% to 5,522 in fall 2015, from 5,838 in fall 2014. In our view, the institution is not selective as it accepted 87.1% of students for the fall 2015 semester. Due to the self-selective nature of the institution, however, matriculation is also high at 50%-55% on average for the past five years.

We consider total student charges for an in-state student living on campus, like other commonwealth-supported institutions in Pennsylvania, moderately high at $26,098 for the 2015-2016 academic year, compared with $25,486 for 2014-2015. Management focuses on keeping tuition affordable. Consistent with this goal, the college's 2015-2016 tuition increase was 2.8% for all students, the lowest increase until the current fiscal year. For the current 2016-2017 academic year, the college raised tuition and fees by a modest 1.7% and housing rates by 1%, which are the lowest increases in its history.

The college's three-year cohort-student-loan default rate has remained fairly stable; it was 12% in fiscal 2012 (most recent data available), which was fairly in line with the national average. In our view, the default rate does not currently pose a credit risk; in addition, the college is not in danger of violating any federal default penalty threshold. According to management, about 43% of its students were Pell-eligible in 2014-2015.

Management and governance

An 11-member board of directors governs the college's operations. The Corp. for Penn State appoints nine of the board of directors, and the state Senate and House of Representatives appoint two members. The board of directors has administrative and financial oversight of the college's activities, including setting tuition and fees, approving annual operating and capital budgets, and approving debt issuance. Key members of the college's senior management team remain stable with no expected turnover. The college president has been in her current position since May 1998, and the vice president of finance, has been with the college since 2006. Management reports the vice president for human resources will retire in December 2016 and will be replaced by a staff member reporting to the vice president of finance. Also, with the chief information officer due to retire in late 2017, the college will soon begin a national search to fill the position. The remainder of the senior management team remains intact and has a long tenure with the college, which we view favorably.

Financial Profile

Commonwealth appropriations

PCT receives commonwealth appropriations every year as a separate line item in the commonwealth's budget under Penn State University; the appropriations, however, are not dependent on Penn State University's appropriation. The percent of the college's operating budget funded by the commonwealth has increased marginally in the past three years. For fiscal 2015, the commonwealth provided roughly $18 million, or 11.7% of fiscal 2015 adjusted operating revenues; this represented a strong $2 million increase, or 12.5%, from roughly $16 million in fiscal 2014. Fiscal 2016 commonwealth operating appropriations increased by $2 million, or 11.1%, to roughly $20 million, and fiscal 2017 appropriations increased by a relatively moderate $490,000 (2.5%). The college's increased operating appropriations are impressive since most community colleges and four-year public higher education institutions in the commonwealth have had flat-to-decreasing commonwealth funding.

The commonwealth has a history of late budget adoption as evidenced by its protracted eight-month budget impasse for fiscal 2016 which was ultimately resolved. Although the college did not receive commonwealth appropriations for fiscal 2016 until April 28, 2016, it closely monitored its cash flows and did not need to liquidate any investments or resort to borrowings. The commonwealth has a history of late budget adoption, which is a credit risk as it could impair the college's ability to make debt service payments. However, the college has so far been effective in managing these pressures.

Financial performance

Financial operations, based on full-accrual results, have materially improved from large deficits posted in fiscal 2011 and 2012. In previous years, particularly fiscal 2011 and 2012, enrollment decreases, cuts in commonwealth support, nonrecurring expense-line items, and continued high depreciation charges contributed to full-accrual operating deficits. The college ended fiscal 2015 with a net adjusted operating gain on a full-accrual basis of $2 million (1.3% of adjusted operating expenses) compared with a $2.2 million net adjusted operating gain (also full-accrual) in fiscal 2014. Management attributed the fiscal 2015 result to a healthy 4% net tuition revenue increase, a $2 million increase in commonwealth operating appropriations, and relatively modest 2.8% adjusted expense growth. On a cash basis, operating results are stronger after factoring in depreciation and amortization expenses. We consider the college's fiscal 2015 depreciation and amortization expense at $10.6 million relatively high due largely to significant investments in new on-campus buildings constructed within the past 20 years.

While fall 2015 enrollment was below budgeted expectations, per management, the college has made appropriate expense reductions to offset the projected revenue shortfall. Specifically, it developed an early retirement incentive program for employees, eliminated a number of full-time positions, and is currently closely evaluating all areas to identify further cost savings and efficiencies. Currently underway are an expansion of its welding lab and renovation of its dental hygiene lab, which should help boost enrollment and revenues. On a continual basis, the college reviews a reallocation of resources and right-sizing of the organization to align revenue with expenses. The early retirement incentive program and employee reduction are expected to produce meaningful salary and benefit savings in fiscal 2017. While it is hard to project fiscal 2016 full-accrual financial operations because certain full-accrual items are not accounted for in interim results--such as depreciation, postretirement health insurance benefits, and the self-funded health insurance plan--we expect at least balanced operations for the next two years.

The college's revenue diversity is limited compared with certain peer institutions; it has a relatively high dependence on student-generated charges at 76% of fiscal 2015 adjusted operating revenues, with commonwealth appropriations at 11.7%, and government grants and contracts at 8.3%.

Financial resources

Despite improved financial resource ratios in recent years due to positive full-accrual financial operations and no new debt issues during this time frame, the ratios remain slim for the rating category. This is primarily due to the college's high debt load as a result of its investment in physical facilities.

At fiscal year-end 2015, expendable resources equaled just 21.5% of adjusted operating expenses and 25.6% of pro forma debt. Cash and investments--which include restricted funds and are, therefore, viewed by us as a less conservative measure of balance sheet strength--as a percent of adjusted operating expenses and pro forma debt were stronger, albeit still weak for the rating category, at 36.1% and 43%, respectively. We expect further improvements in financial resource ratios to levels more commensurate with the rating category.

Due to the college's significant capital investments for the past 20 years, minimal future deferred-maintenance needs, and recently improved operating performance, we expect to see an improvement in financial resource ratios. The college's investments are, in our view, highly liquid as they are mostly in the form of cash and marketable securities (about $55 million at fiscal year-end 2015, not including additional debt service reserves of $447,991 held by trustees).

The college also has a separate foundation with total net assets of roughly $12.8 million at June 30, 2015, more than double $5.8 million as of June 30, 2010. The foundation aims to raise gifts to provide scholarships for students. In 2011, PCT launched a campaign with a goal of at least $3 million. This campaign closed on Dec. 31, 2014 after raising $6.4 million in donations and pledges. A previous campaign from 2004-2010 raised approximately $1.7 million for the new library.

Pension plans

PCT has three contributory pension plans that substantially cover all full-time employees: the Pennsylvania Public School Employees' Retirement System, the Pennsylvania State Employees' Retirement System, and the Pennsylvania Teachers' Insurance & Annuity Assn.'s college retirement equities fund. Liabilities for the PSERS plan are recorded on the commonwealth's balance sheet.

Pennsylvania College of Technology, PA

	--Fiscal year ended June 30--				
	2016*	**2015**	**2014**	**2013**	**2012**
Enrollment and demand					
Headcount	5,514	5,623	5,678	5,671	5,976
Full-time equivalent	5,122	5,262	5,290	5,262	5,520
Freshman acceptance rate (%)	87.1	88.2	90.0	91.3	92.6
Freshman matriculation rate (%)	54.1	54.2	52.7	51.0	52.7
Undergraduates as a % of total enrollment (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Freshman retention (%)	71.3	66.9	62.2	59.0	59.2
Graduation rates (five years) (%)	N.A.	37.1	40.8	40.4	37.1
Income statement					
Adjusted operating revenue ($000s)	N.A.	153,491	149,535	139,367	136,064
Adjusted operating expense ($000s)	N.A.	151,483	147,309	141,343	142,217
Net operating income ($000s)	N.A.	2,008	2,226	(1,976)	(6,153)
Net operating margin (%)	N.A.	1.33	1.51	(1.40)	(4.33)
Change in unrestricted net assets ($000s)	N.A.	3,614	3,120	(289)	(8,702)
Tuition discount (%)	N.A.	1.9	1.6	1.5	2.0
Tuition dependence (%)	N.A.	60.1	59.2	60.0	60.2
Student dependence (%)	N.A.	76.0	75.4	76.7	76.6
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	8.3	8.8	8.6	8.3
Endowment and investment income dependence (%)	N.A.	0.2	0.3	0.3	N.A.
Debt					
Outstanding debt ($000s)	N.A.	127,252	132,532	135,159	137,894
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.

Pennsylvania College of Technology, PA (cont.)

	--Fiscal year ended June 30--				
	2016*	**2015**	**2014**	**2013**	**2012**
Total pro forma debt ($000s)	N.A.	127,252	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	10,821	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	7.62	6.25	6.44	N.A.
Current MADS burden (%)	N.A.	8.20	8.43	8.79	8.73
Pro forma MADS burden (%)	N.A.	7.14	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	12,809	12,029	8,834	7,548
Cash and investments ($000s)	N.A.	54,725	50,957	41,549	36,379
Unrestricted net assets ($000s)	N.A.	85,459	81,845	78,725	79,014
Expendable resources ($000s)	N.A.	32,591	27,263	20,923	15,619
Cash and investments to operations (%)	N.A.	36.1	34.6	29.4	25.6
Cash and investments to debt (%)	N.A.	43.0	38.4	30.7	26.4
Cash and investments to pro forma debt (%)	N.A.	43.0	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	21.5	18.5	14.8	11.0
Expendable resources to debt (%)	N.A.	25.6	20.6	15.5	11.3
Expendable resources to pro forma debt (%)	N.A.	25.6	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	15.6	14.9	14.0	12.9

Fall 2015 enrollment data. 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). Tuition dependence = 100*(gross tuition 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 July 29, 2016)

Lycoming Cnty, Pennsylvania

Pennsylvania Coll of Tech, Pennsylvania

Lycoming Cnty (Pennsylvania College of Technology) (ASSURED GTY)

Unenhanced Rating	A(SPUR)/Stable	Affirmed

Lycoming Cnty Auth, Pennsylvania

Pennsylvania Coll of Tech, Pennsylvania

Lycoming Cnty Auth (Pennsylvania Coll of Tech) coll rev rfdg bnds (Pennsylvania Coll of Tech) ser 2012 dtd 05/17/2012 due 05/01/2017-2020 2022 2026 20

Long Term Rating	A/Stable	Affirmed

Lycoming Cnty Auth (Pennsylvania Coll of Tech) PCU_GO

Long Term Rating	A/Stable	Affirmed

Lycoming Cnty Auth (Pennsylvania Coll of Tech) PCU_GO (BAM) (SECMKT)

Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.