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Ratings

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

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Huntingdon Cnty Gen Auth (Juniata Coll)		
Long Term Rating	BBB/Stable	Downgraded

Rating Action

S&P Global Ratings lowered its rating to 'BBB' from 'BBB+' on Huntingdon County General Authority, Pa.'s debt issued for Juniata College. The outlook is stable.

The downgrade reflects Juniata's ongoing enrollment issues. Enrollment has declined in each consecutive year since fall 2014 through this fall. This has resulted in increasing discount rates and multiple years of full-accrual operating deficits despite a high 7% endowment draw. We recognize that the endowment draws were largely used to help fund programmatic investments. We expect deficit operations will continue for fiscal 2021, with a potentially more moderate endowment draw. The stable outlook is based on Juniata's still solid available resources relative to the rating median.

At May 31, 2020, Juniata had $57.7 million of debt and capital leases outstanding. All college debt is on par. Management reports no plans to issue debt over the next two years. Juniata also has an unsecured line of credit for $5 million, which has not been drawn.

As a result of COVID-19, Juniata moved to online education in the spring and closed residential buildings for the remainder of the spring semester. Juniata estimates the financial impact of the pandemic for the spring semester is largely related to the approximately $3.6 million it paid in the form of room and board refunds, which was partially offset by Coronavirus Aid, Relief, and Economic Security (CARES) Act funds of $1.1 million. Half of the CARES Act money went directly to aid students with emergency funding; the remainder was used to offset a portion of the institutional costs related to COVID-19, a portion of which Juniata plans to use in fiscal 2021. Overall, auxiliary revenue accounted for about 16.4% of adjusted fiscal 2019 revenue and 13.4% of fiscal 2020 revenue, reflecting the impact of room and board refunds. In response, the college deferred capital spending. Management also implemented various savings initiatives including furloughs, salary freezes, limitations on discretionary expenditures, and a suspension of retirement match, which reduced expenses considerably. For fiscal 2020, Juniata reported a smaller deficit than in fiscal 2019 but this also relied on a high 7% endowment draw. We expect operations in fiscal 2021 will be comparable but with an expected draw of 5.5% and potentially better operations given expense reductions.

For fall 2020, Juniata opened to a mix of hybrid courses. Applications for fall 2020 increased 16% with selectivity improving to 67.5%. However, freshman matriculation declined to 18%, which is lower than in the previous year. Overall enrollment decreased 3.9% on a full-time equivalent (FTE) basis compared with the previous year. International students accounted for 7% of total enrollment in fall 2020 and these students are largely taking courses online. In our opinion, the college faces continued enrollment pressures, which have been exacerbated by the pandemic.

Credit overview

We assessed the college's enterprise profile as adequate, with satisfactory student quality and stable retention. Enrollment has been pressured due to declining demographics and the highly competitive regional market in which the college operates. The college's financial profile is also assessed as adequate, with sufficient available resources and debt burden for the rating category, offset by ongoing operating deficits. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'bbb' and final long-term rating of 'BBB'.

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

- Weak operating results on a generally accepted accounting principles (GAAP) basis, which should continue during the outlook period;
- High 7% endowment draw over the past three fiscal years for new program investments per the college's strategic plan, which we view as unsustainable over the longer term;
- Declining enrollment over the past five years, due largely to a highly competitive market for students; and
- High tuition discount rate, indicative of financial aid pressure.

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

- Modest available resources, with cash and investments of $120.9 million at May 31, 2020, or 129% of adjusted operating expenses and 200% of debt; and
- Moderate maximum annual debt service burden at 4.5% of fiscal 2020 adjusted operating expenses.

Founded in 1876, Juniata 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. The university also has property at the Field Station and Sparks Farm outside of Huntingdon. Juniata enrolled 1,394 students in fall 2020.

The stable outlook reflects our expectations that Juniata will continue to work to stabilize its enrollment, and maintain its modest deficits while moderating its endowment draws. We also expect that available resources will be maintained at current levels.

Environmental, social, and governance (ESG) factors

In our view, Juniata, similar to other higher education institutions, faces elevated social risk due to uncertainty on the duration of the COVID-19 pandemic. The management team implemented remote learning in spring 2020 and has adopted a hybrid approach this fall to protect the health and safety of students, faculty, and staff; and to limit the risk associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our environmental, social, and governance factors. In addition, we believe that Juniata is also affected by demographic pressure, which we view as a social risk, with a lower number of graduating high school students in Pennsylvania anticipated for the next several years, which could add to the enrollment pressures. Despite the elevated social risk, we believe Juniata's environmental and governance risk are in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

We could lower the rating over the outlook period if the college were to report either increased operating deficits on a GAAP basis or endowment draws on a sustained basis, or available resources were to weaken. A violation of any covenants that results in an acceleration of bank loans could also trigger a lower rating. In addition, although we understand that the coronavirus is a global risk, we could also consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the college's plan as a result of the COVID-19 outbreak.

Upside scenario

We do not expect to raise the rating during the outlook period. However, if management were to report stable-to-positive demand and improve operations on a GAAP basis while lowering its endowment draw to within 5%, while available-resources-to-operations and debt ratios improved to levels commensurate with those of higher-rated peers, we could raise the rating.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, Juniata has somewhat limited geographic diversity, with 66% of its fall 2020 students coming from Pennsylvania. Therefore, the state's GDP per capita anchors our assessment of the college's economic fundamentals.

Market position and demand

Juniata operates in a competitive market with declining demographics, which has contributed to the enrollment issues of the past several years. For fall 2020, enrollment declines have been exacerbated by COVID-19. Juniata's FTE enrollment has declined an average of 3.2% each year over the past five years. FTE enrollment decreased 1.2% and 3.9% in fall 2019 and 2020, respectively. Overall FTE enrollment for fall 2020 is 1,312, which is approximately 14% lower than five years ago. Although applications increased for fall 2020 and selectivity improved to 68% from the previous year, overall matriculation weakened to 17%, in part due to COVID as well as overall competition. Management has focused on retention, and the freshman-to-sophomore retention rate was largely maintained for fall 2020 at 84% compared with 85% in the previous year. Despite declines in enrollment and competitive pressures, Juniata has remained committed to maintaining its student quality. Student quality for the fall 2020 incoming freshman class remained above average, with an average SAT score of 1205, which is consistent with that of peer institutions and similar to last year. As a result of the competitive market in which Juniata operates, the tuition discount rate continues to rise. In fiscal 2020, the tuition discount rate was 62.7% and will likely rise in fall 2020. While management has focused on investing in programs that have higher demand and broadening its reach through launching several new programs, we believe Juniata will continue to face enrollment pressures post-pandemic.

Juniata has a successful, but limited, fundraising history and achieving its goals. Its largest campaign started in 1998 and ended in 2005: It raised $103.4 million. In October 2018, Juniata went public with its comprehensive campaign. As of May 31, 2020, the college has raised $112 million toward its $115 million goal. We expect that given the pace of fundraising Juniata will achieve or exceed this goal.

Management and governance

Juniata has undergone several senior management changes since 2013, following the appointment of the current president. In the past year, there have been few changes within senior leadership and we expect future governance will be more stable.

A maximum 40-member, self-perpetuating board of trustees governs college operations. In our opinion, the board is stable. According to management, the board actively supports the college and has contributed substantially to its current comprehensive campaign. The board of trustees reviews the college's written debt- and investment-management policies annually.

The board approved a new strategic plan in April 2015. The strategic plan has specific financial and operational goals with defined achievements. Management tracks plan progress through dashboards, and updates them formally at least annually. The college annually updates five-year financial plans and builds specific annual capital budgets as part of the budgeting process. Management targets the amount of future capital budgets at the same time, which is tied to annual cash flow and endowment support. We view the assumptions outlined in the financial plans as reasonable.

Financial Profile

Financial management policies

Juniata has formal endowment, investment, and debt policies. The office of the CFO handles cash and debt-management functions, which are centralized. Juniata's debt policy has minimum and maximum thresholds for debt service coverage (DSC) from operating cash flow, debt burden, and expendable resources-to-operations and debt ratios.

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. Management is moving toward GAAP-based interim financial statements, which we view favorably. The financial policies assessment reflects our opinion that the college's overall financial policies are not likely to impair its 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, contingent liabilities, and legal structure; we compare these policies with those of similar providers.

Financial performance

From fiscal 2013-2016, Juniata's financial operations on a GAAP basis were essentially break-even, with the college posting small deficits or surpluses in those years. However, beginning in fiscal 2017, operating deficits began to grow. This is in part due to four consecutive years of declining net tuition revenue because of both declining enrollment and increasing discount rates. For fiscal 2020, Juniata reported a $1.2 million operating deficit or a negative 1.4% margin. This included a 7% endowment draw. However, the margin was improved over fiscal 2019, as the 2019 deficit was $3.1 million and had a similarly high endowment draw. This deficit in 2019 increased as a result of higher medical and food services costs. As noted in fiscal 2020, with the impact of the pandemic on operations, management worked to freeze salaries, limit discretionary expenditures, and furlough staff. This resulted in an overall 3% expense decline over the previous year and moderated operating losses. Management is focused on maintaining its cost-containment initiatives and expects that fiscal 2021 will be comparable with fiscal 2020 or even better given that significant expense reductions were implemented in fiscal 2020 with an anticipated more moderate endowment draw. We believe that operations will remain pressured over the near term given enrollment trends, rising discount rates, and the need to continue to contain expenses to bring them in line with revenues.

In our opinion, Juniata depends greatly on student-generated revenue. Tuition and auxiliary enterprises generated 84% of fiscal 2020 adjusted operating revenue. Tuition and fees, including room and board, increased 4.3% to $62,425 in fall 2020 from $59,875 in fall 2019, which is comparable with those of peer institutions. Juniata's overall discount rate is high, in our view, at 62.3% in fiscal 2020. Because the college is overwhelmingly undergraduate, graduate programs, which typically receive minimal discounting, do not help reduce the overall discount rate. Graduate programs at Juniata were first launched in fiscal 2012 and while growing remain small at only 30 FTEs. We expect the discount rate will continue to rise because Juniata operates in a highly competitive market, leading to continued operating strain.

Available resources

In our opinion, available resource ratios are sufficient for the rating category. Cash and investments, which include restricted assets, were $115 million at May 31, 2020, or 129% of adjusted operating expenses and 200% of debt. Expendable resources were, in our view, a substantially lower $41 million at May 31, or 45% of adjusted operating expenses and 71% of debt. Any additional debt absent growth in resources would stress the rating.

Juniata's endowment market value was $121 million at August 2020. While it remains largely restricted, according to management, about 72% has donor restrictions. Management allocated the endowment-to-equities (56.4%), alternative-investment (19.8%), cash-and-fixed income (12.2%), and other (11.5%) ratios as of August 2020. The effective spending rate has historically been about 5%; in fiscal years 2018-2020; however, the effective spending rate was 7% to support specific strategic initiatives, but the draw is expected to moderate for 2021 and beyond. The board-approved endowment spending rate is 5%-7% of the trailing 12-quarter average and is reviewed each year by the board prior to their approval of the annual budget.

Debt and contingent liabilities

At May 31, 2020, Juniata had $57.5 million of debt outstanding. Of this, the series 2016-OO2 bonds are fixed-rate debt. The series 2016 bank loans, with Fulton Bank N.A., have fixed rates for the first seven years. We have reviewed the 2016 bank loan documents. We understand that key covenants for these loans mirror those associated with the series

2016-OO2 bonds and that the college could prepay these loans without penalty. The series 2004 bank loan with PNC Bank N.A. has $2.9 million outstanding as of May 2020 and is fixed-rate debt through maturity in May 2024. This loan contains security and key covenant provisions that are not on parity with the college's bonds outstanding and the Fulton Bank loans. However, given the minimal debt levels for the PNC bank loan, we believe this risk is mitigated by Juniata's liquidity.

Total fixed-rate debt accounts for 80% of debt, while the series 2016 U1 and U2 loans account for the remainder and are variable-rate. All of Juniata's debt is a GO. In addition, the college maintains a $5 million line of credit that it has not drawn on historically and that does not have a balance as of May 31, 2020.

We do not rate the series 2016 U1 and U2 debt, issued through two bank loans, one of which is bank-qualified. We have reviewed bank documents and concluded Juniata has some resulting event-driven repayment risk exposure due to bank obligations that could come due because of events of default or covenant violations. According to loan documents, an event of default related to non-payment under agreements for any debt outstanding in an amount exceeding $1 million results in a cross-default acceleration, at which time the college would be required to repay immediately.

Juniata, however, would have a 60-day cure period for covenant violations, including its covenant to maintain a 1.05x DSC ratio annually at each fiscal year-end. The college is complying with all debt covenants related to bank loans. Management has identified approximately $103 million of investments it could liquidate within three days to fund the bank loans. We believe these investments provide ample coverage for an acceleration of all college bank loans, totaling $11 million in remaining bank loans.

Juniata offers employees a defined-contribution retirement plan that, by definition, is funded in full. The college carries a $6.7 million postretirement liability on its books, which we believe is manageable. It does not have any swap contracts or bullet maturities.

Juniata College, Pennsylvania -- Enterprise And Financial Statistics

	--Fiscal year ended May 31--					--Medians for 'BBB' rated private colleges and universities--
	2021	2020	2019	2018	2017	2018
Enrollment and demand						
Headcount	1,394	1,419	1,433	1,495	1,573	MNR
Full-time equivalent	1,312	1,365	1,381	1,442	1,529	2,700
Freshman acceptance rate (%)	67.5	70.8	70.2	70.8	74.6	71.4
Freshman matriculation rate (%)	17.7	23.8	20.5	21.0	22.1	MNR
Undergraduates as a % of total enrollment (%)	96.1	98.9	99.3	99.3	99.7	74.1
Freshman retention (%)	84.2	85.4	83.9	80.7	84.8	78.8
Graduation rates (six years) (%)	74.2	72.8	79.1	82.9	75.3	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	88,466	89,599	88,263	88,102	MNR

Juniata College, Pennsylvania -- Enterprise And Financial Statistics (cont.)

	--Fiscal year ended May 31--					--Medians for 'BBB' rated private colleges and universities--
	2021	**2020**	**2019**	**2018**	**2017**	**2018**
Adjusted operating expense ($000s)	N.A.	89,693	92,669	89,957	90,362	MNR
Net operating income ($000s)	N.A.	(1,227)	(3,070)	(1,694)	(2,260)	MNR
Net operating margin (%)	N.A.	(1.37)	(3.31)	(1.88)	(2.50)	(0.60)
Change in unrestricted net assets ($000s)	N.A.	(3,952)	(2,794)	(376)	973	MNR
Tuition discount (%)	N.A.	62.7	59.3	57.7	56.1	40.8
Tuition dependence (%)	N.A.	70.4	67.0	68.5	69.9	MNR
Student dependence (%)	N.A.	83.8	83.4	83.2	85.1	89.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.2	1.3	1.4	1.5	MNR
Endowment and investment income dependence (%)	N.A.	9.9	9.5	8.5	7.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	57,754	58,841	58,958	58,656	57,739
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	57,754	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.96	3.42	3.54	2.71	MNR
Current MADS burden (%)	N.A.	4.52	4.37	4.51	4.38	4.00
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	114,658	117,274	122,540	116,649	77,239
Cash and investments ($000s)	N.A.	115,337	114,347	120,870	119,865	MNR
Unrestricted net assets ($000s)	N.A.	37,977	41,929	44,723	45,099	MNR
Expendable resources ($000s)	N.A.	40,718	44,065	49,777	47,133	MNR
Cash and investments to operations (%)	N.A.	128.6	123.4	134.4	132.6	82.6
Cash and investments to debt (%)	N.A.	199.7	194.3	205.0	204.4	166.5
Cash and investments to pro forma debt (%)	N.A.	199.7	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	45.4	47.6	55.3	52.2	49.7
Expendable resources to debt (%)	N.A.	70.5	74.9	84.4	80.4	89.4
Expendable resources to pro forma debt (%)	N.A.	70.5	N.A.	N.A.	N.A.	MNR

Juniata College, Pennsylvania -- Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended May 31--					--Medians for 'BBB' rated private colleges and universities--
	2021	**2020**	**2019**	**2018**	**2017**	**2018**
Average age of plant (years)	N.A.	16.7	15.8	14.8	16.4	15.0

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