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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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Juniata College; Private Coll/Univ - General Obligation

Credit Profile

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Huntingdon Cnty Gen Auth, PA Series 2010A and Series 2010B		
Long Term Rating	BBB+/Negative	Affirmed

Rationale

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

The negative outlook reflects Juniata's ongoing enrollment issues, which have resulted in increased operating pressures, and full-accrual operating deficits in fiscal years 2017 and 2018. We expect deficit operations to continue for 2019, with improvements in operations in 2020 and beyond. We expect enrollment to stabilize and operations to return to break-even on a generally accepted accounting principles (GAAP) basis within the next two years. Absent such improvements, we could lower the rating to 'BBB'.

We assessed the college's financial profile as strong, with sufficient available resources and debt burden for the rating category, offset by operating deficits. We assessed the college's enterprise profile as adequate, with satisfactory student quality, stable applications, and improving retention. Enrollment has fluctuated due to the highly competitive regional market in which the college operates. 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 GAAP basis, which should continue during the outlook period;
- Fluctuating enrollment and demand 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, 2018, or 134% of adjusted operating expenses and 209% of debt; and

- Moderate maximum annual debt service burden at 4.5% of fiscal 2018 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 1,433 students in fall 2018. About 93% of students live on the mainly residential college's campus. The college has a four-year residency requirement, with exceptions for students living with parents near campus. Juniata draws about 63% of its students from Pennsylvania. The Middle States Commission on Higher Education reaccredited the college June 27, 2013.

At May 31, 2018, 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.

Outlook

The negative outlook reflects S&P Global Ratings' opinion that, during the two-year outlook period, we could lower our rating on Juniata's debt should enrollment fail to stabilize, the college were to report sustained operating deficits on a GAAP 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.

We do not expect to raise the rating during the outlook period, but could revise the outlook to stable if management were to report stable-to-positive demand, GAAP operations were to improve, and the available-resources-to-operations and debt ratios stay at current levels.

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 compared with other industries and sectors.

Economic fundamentals

In our view, Juniata has somewhat limited geographic diversity, with 63% of its fall 2018 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. Juniata's full-time equivalent (FTE) enrollment has declined an average of 2.8% each year over the past five years. However, FTE enrollment decreased 5.7% and 4.2% in fall 2017 and 2018, respectively. Overall FTE enrollment for fall 2018 is 1,381. The decline in enrollment was largely based on smaller-than-expected incoming freshman classes and prior large class sizes graduating. However, based on preliminary enrollment data, we expect that FTE enrollment will increase for fall 2019, reversing a multiple-year trend. While applications and acceptances were flat compared with fall 2018, matriculation was higher due to management's more strategic use of financial aid. We expect that enrollment will stabilize over the near term given that freshman matriculants have increased since fall 2017. In addition to improving freshman enrollment, management has focused on retention and the freshman-to-sophomore retention rate improved to 84% for fall 2018 from 81% in the prior year. Management expects retention to be stable for this fall, which should also help ensure that enrollment remains stable.

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. Freshman applications have varied historically. Management recognizes applications and freshmen matriculants have been volatile over the past five years, and Juniata is expanding its reach to recruit applicants by 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. We believe these measures should help stabilize enrollment.

Juniata is moderately selective, in our view. The freshman acceptance rate was 70.2% in fall 2018, which is improved from 76.9% in fall 2015. The college operates in a highly competitive market, which is a reason for the increasing tuition discount rate. In fall 2018, the tuition discount rate was 57.7%. The fall 2018 freshman matriculation rate has been in the low 20% range, indicative of the competition that Juniata faces. For fall 2018, the matriculation rate was 21%, up from 18% in fall 2015. The fall 2018 freshman-to-sophomore retention rate was good, in our opinion, at 84%. Despite declines in enrollment and competitive pressures, Juniata has remained committed to maintaining its student quality. Student quality for the fall 2018 incoming freshman class remained above average, with an average SAT score of 1222, which is consistent with that of peer institutions and improved from the prior year.

Juniata has a successful, but limited, fundraising history. Its largest campaign started in 1998 and ended in 2005: It raised $103.4 million. The college has focused on small, targeted capital campaigns recently; Juniata has achieved its goals. In October 2018, Juniata went public with its comprehensive campaign. As of May 31, the college has raised $91 million toward its $115 million goal. We expect that given the pace of fundraising Juniata will achieve 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 were several changes in senior leadership. Most notably, Juniata has a new controller and chief financial officer and a new vice president for enrollment. 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. 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 annual 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 fairly reasonable.

Financial Profile

Financial management policies

Juniata has formal endowment, investment, and debt policies. In our view, the college has good financial practices, which it manages proactively. The controller 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, in fiscal 2017, the net adjusted operating deficit was $2.3 million, or 2.3% of adjusted operating expenses. Influencing fiscal 2017 operations was the decline in enrollment that affected net tuition revenue (which declined 4.7% after being largely flat for several years). Other factors affecting operations included an unexpected $800,000 deficit in the health insurance trust that had to be funded; and a one-time, $500,000 cost associated with a branding study. For fiscal 2018, the net adjusted operating deficit was $1.7 million, or 1.9% of adjusted operating expenses. In fiscal 2018, management implemented several cost-containment efforts, which resulted in expenses being flat compared with the prior year. However, revenues were also flat compared with the prior year. For fiscal 2019, we expect a comparable deficit to that in fiscal 2018. For fiscal 2020, management has budgeted for comparable results. However, we do not expect the college to return to break-even operations until at least fiscal 2022 or fiscal 2023.

To date, management has been proactive in managing expenses. During fiscal years 2018 and 2019, the college held salaries and wages flat. In addition, in July 2019 (fiscal 2020) management completed a workforce reduction, which is expected to result in savings of $900,000; reduced eight fixed-term faculty positions for a savings of $625,000; has held open eight vacant positions; reduced the student employment budget; and removed spouses with other coverage from employee medical plans for significant savings. With these steps, we believe the current 2020 budget is conservative, as not all of these measures are incorporated into it budget and we believe there is potential for Juniata's operations to improve.

In our opinion, Juniata depends greatly on student-generated revenue. Tuition and auxiliary enterprises generated 88% of fiscal 2018 adjusted operating revenue. Tuition and fees, including room and board, increased 3.9% to $58,118 in fall 2018 from $55,915 in fall 2017, which is comparable with those of peer institutions. For the upcoming 2019-2020 academic year, tuition and fees increased 3% to 59,875. Juniata's overall discount rate is high, in our view, at 58% in fiscal 2018. Because the college is overwhelmingly undergraduate, graduate programs, which typically receive minimal discounting, do not help reduce the overall discount rate. We expect the discount rate to 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 $120.8 million at May 31, 2018, or 134.4% of adjusted operating expenses and 209.3% of debt. Expendable resources were, in our view, a substantially lower $48.6 million at May 31, or 54.0% of adjusted operating expenses and 84.1% of debt. Any additional debt absent growth in resources would stress the rating.

Juniata's endowment market value was $124 million at July 2019. While it remains largely restricted, according to management, about 92% has donor restrictions. Management allocated the endowment-to-equities (53.5%), alternative-investment (19.4%), cash-and-fixed income (16.9%), and other (10.3%) ratios as of July 2019. The effective spending rate has historically been about 5.0%; in fiscal years 2018 and 2019; however, the effective spending rate was 7% to support various initiatives, but the draw is expected to moderate for 2020 and beyond. The board-approved endowment spending rate is 5%-7% of the trailing 12-quarter average.

Debt and contingent liabilities

At May 31, 2018, Juniata had $57.7 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. is fixed-rate debt through maturity.

Total fixed-rate debt accounts for 79.5% of debt, while the series 2 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 $3 million line of credit that it has not drawn on historically and that does not have a balance as of May 31, 2018.

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 under the agreement results in acceleration, at which time the college would be required to repay the loan amount 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 $105 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 $15.1 million in remaining bank loans after this financing.

Juniata offers employees a defined-contribution retirement plan that, by definition, is funded in full. The college carries a $6.4 million postretirement liability on its books, which we believe is manageable. It does not have any swap contracts or bullet maturities.

Juniata College--Enterprise And Financial Statistics

	--Fiscal year ended May 31--					--Medians for 'BBB' rated private colleges and universities--
	2019	2018	2017	2016	2015	2018
Enrollment and demand						
Headcount	1,433	1,495	1,573	1,583	1,632	MNR
Full-time equivalent	1,381	1,442	1,529	1,546	1,587	2,700
Freshman acceptance rate (%)	70.2	70.8	74.6	76.9	74.2	71.4
Freshman matriculation rate (%)	20.5	21.0	22.1	17.7	25.8	MNR
Undergraduates as a % of total enrollment (%)	99.3	99.3	99.7	99.2	99.0	74.1
Freshman retention (%)	83.9	80.7	84.8	85.6	88.0	78.8
Graduation rates (six years) (%)	79.1	82.9	75.3	73.2	77.9	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	88,263	88,102	85,834	83,511	MNR
Adjusted operating expense ($000s)	N.A.	89,957	90,362	84,757	83,935	MNR
Net operating income ($000s)	N.A.	(1,694)	(2,260)	1,077	(424)	MNR
Net operating margin (%)	N.A.	(1.88)	(2.50)	1.27	(0.51)	(0.60)
Change in unrestricted net assets ($000s)	N.A.	(1,929)	973	(5,257)	893	MNR
Tuition discount (%)	N.A.	57.7	56.1	52.9	52.7	40.8
Tuition dependence (%)	N.A.	68.5	69.9	70.0	70.7	MNR
Student dependence (%)	N.A.	83.2	85.1	85.0	86.2	89.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.4	1.5	1.2	1.3	MNR
Endowment and investment income dependence (%)	N.A.	8.5	7.2	6.1	6.5	MNR
Debt						
Outstanding debt ($000s)	N.A.	57,739	58,656	59,225	42,647	57,739
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	57,739	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.	3.54	2.71	2.71	2.97	MNR
Current MADS burden (%)	N.A.	4.51	4.38	4.67	4.46	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.	119,731	115,664	114,505	111,602	77,239
Cash and investments ($000s)	N.A.	120,870	119,865	114,208	120,771	MNR
Unrestricted net assets ($000s)	N.A.	43,170	45,099	44,126	49,383	MNR
Expendable resources ($000s)	N.A.	48,559	47,133	54,718	47,396	MNR
Cash and investments to operations (%)	N.A.	134.4	132.6	134.7	143.9	82.6
Cash and investments to debt (%)	N.A.	209.3	204.4	192.8	283.2	166.5

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

	--Fiscal year ended May 31--					--Medians for 'BBB' rated private colleges and universities--
	2019	2018	2017	2016	2015	2018
Cash and investments to pro forma debt (%)	N.A.	209.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	54.0	52.2	64.6	56.5	49.7
Expendable resources to debt (%)	N.A.	84.1	80.4	92.4	111.1	89.4
Expendable resources to pro forma debt (%)	N.A.	84.1	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.8	16.9	16.3	15.9	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.