S&P Global
Ratings

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

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Long Term Rating	BBB/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'BBB' rating on Huntingdon County General Authority, Pa.'s existing revenue bonds, issued for Juniata College (Juniata).
- The outlook is stable.

Security

As of fiscal year-end May 31, 2022, Juniata had $67.6 million of debt outstanding including leases. All is a general obligation (GO) of the college and subject to a 1.05x rate covenant. Management reports no plans to issue debt over the next two years. Juniata also has a $5 million unsecured line of credit, which has not been drawn.

Credit overview

We assessed the college's enterprise profile as adequate, with declining enrollment yet satisfactory student quality. Enrollment has been pressured due to declining demographics and the highly competitive regional market in which Juniata 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 GO pledge, supported by its:

- History of weak operating results, which should continue during the outlook period, although fiscal 2022 resulted in a surplus;
- Elevated endowment draw over the past several years which we view as unsustainable over the longer term;
- Declining enrollment over the past several years; and
- High tuition discount rate, indicative of financial aid pressure.

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

- Good available resources to support the rating, which are comparable with peers and rating category medians; and
- Moderate maximum annual debt service burden.

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 1,159 students in fall 2022.

Environmental, social, and governance

We evaluated Juniata's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. However, in our view, Juniata, faces elevated risk due to demographic pressure, which we view as a social capital risk. A lower number of high school students are expected to graduate in Pennsylvania for the next several years, which could add to the enrollment pressures. Despite the elevated social risk, we believe Juniata's environmental and governance are neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Juniata will continue to work to stabilize its enrollment and maintain or improve its operations while moderating its endowment draws. We also expect that Juniata will not issue any additional debt over the outlook period and that available resources will be maintained at current levels or higher.

Downside scenario

We could lower the rating during the outlook period if freshman matriculation does not improve. We would also consider lowering the rating 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. While not anticipated, a violation of any covenants that results in an acceleration of bank loans could also trigger a lower rating.

Upside scenario

We could raise the rating or revise the outlook if management were to report stable-to-positive demand and improve operations on a GAAP basis while lowering its endowment draw to within 5%, and available resources-to-operations and debt ratios were maintained.

Credit Opinion

Enterprise Profile

Market position and demand

About 61% of Juniata's students come from within Pennsylvania. This has resulted in a pressured operating environment with competition from other colleges and universities in the state and declining demographics. As a result, enrollment has declined over the past several years. Juniata's full-time equivalent (FTE) enrollment has declined an average of 3.3% each year over the past five years leading up to the fall of 2022 when enrollment decreased significantly. Overall, FTE enrollment for fall 2022 is 1,159, which is about 16% lower than five years ago. The sharp decline in fall 2022 is due to several factors including turnover with the admissions office, limited in-person high school recruitment in core markets, and limited on campus visits as well as some turnover in the athletics department that impacted athletic recruitment. There was also a decrease in retention due to a cohort of international students transferring. The admissions office is currently fully staffed and has been actively recruiting in its core markets, which has led to improved initial indicators for fall 2023. Management reports that applications for fall 2023 are up, and year-to-date deposits are up 51% relative to last fall, indicative of potentially an improved freshman class size. Management has focused on more in-person recruitment and has shifted some of its geographic market focus, which has resulted in these initial positive results. Management has also focused on investing in programs that have higher demand and broadening its reach through launching several new programs. In addition, management has built community college relations in the area, which could result in increased transfers. Despite Juniata's initiatives , we believe the college will continue to face enrollment pressures given the market it serves. As a result of Juniata's competitive marketplace, the tuition discount rate remains high at 64.7%, and this contributes to Juniata's financial pressures.

Juniata has a successful, but limited, history of fundraising and achieving its goals. Its previously largest completed campaign from 1998 to 2005 raised $103.4 million. Its most recent public comprehensive campaign, launched in October 2018 and ended in fiscal 2021, raised $128.5 million and exceeded its $115 million goal. Juniata has continued fundraising with $27 million in commitments raised in fiscal 2022. Management is evaluating its next fundraising goals.

Management and governance

President James Troha has been president of the college since fiscal 2013. Juniata has had relatively stable senior leadership over the past several years and the most recent addition to the leadership team was the appointment of Dr. Grace Fala in September 2022 as dean of equity, diversity, and inclusion.

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 2022. The strategic plan includes a commitment to academic distinction; an equity-minded culture and the campus experience while being mindful of fiscal sustainability. The plan is anticipated to have specific financial and operational goals with defined achievements. Management will track plan progress through dashboards and update 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 are tied to annual cash flow and endowment support. We view the assumptions outlined in the financial plans as reasonable. 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. Management reports GAAP-based interim financial statements, which we view favorably.

Financial Profile

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 increase. This is, in part, due to four consecutive years of declining net tuition revenue because of both falling enrollment and increasing discount rates. For fiscal 2019 and 2020, the endowment draw was 7%, which we consider high. For fiscal 2021, Juniata increased its draw to 10% as was allowed by the Pennsylvania legislature. Of the endowment draw, 5.5% was spent on operations and the remainder was used to fund a voluntary severance program; a compensation study, technology investments and capital improvements. Management offered a voluntary separation incentive program to faculty and staff with an estimated six-year savings of $5.4 million. The college suspended its share of retirement contributions for an estimated savings of $900,000. Additional measures in fiscal 2021 included furloughs, decreased discretionary expenditures, a pay reduction for the president and vice presidents, as well as other savings.

For fiscal 2022, management generated an operating surplus but also drew 10% from its endowment, again the draw was allowed by the state legislature. Part of the draw was to grow unrestricted resources by $3.35 million. This was the final year that the state legislature allowed draws of up to 10%. Cost savings initiatives continued through fiscal 2022 with a focus on staffing and hiring practices resulting in $1.7 million in budgetary savings and $2 million in medical benefit savings due to experience. Fiscal 2023 is anticipated to result in a modest deficit of $962,000(including a $500,000 contingency) and will include a 6% draw on the endowment as Juniata will realize the impact of the various cost-savings measures implemented over the past two years. 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 79% of fiscal 2022 adjusted operating revenue. Tuition and fees, including room and board, increased 5.1% to $67,386 in fall 2022 from $64,126 in fall 2021, which is comparable with those of peer institutions. Juniata's overall discount rate is high, in our view, at 64.7% in fiscal 2022. 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 11 FTEs. We expect the discount rate will remain high given the market Juniata operates in, leading to continued operating strain.

Available resources

In our opinion, available resource ratios are sufficient for the rating category. Cash and investments were $145.8 million as of May 31, 2022, or 154% of adjusted operating expenses and 216% of debt. Expendable resources were substantially lower, in our view, at $72 million as of May 31, or 76% of adjusted operating expenses and 107% of debt. Any additional debt absent growth in resources would stress the rating.

Juniata's endowment market value was $122.5 million as of February 2022 with a calendar year-to-date return of 3%. While it remains largely restricted, according to management, about 71% of the endowment has donor restrictions.

Management allocated the endowment-to-equities (53%), alternative-investment (22%), cash-and-fixed income (13%), and other (12%) ratios as of March 2022. The effective spending rate has historically been about 5%; in fiscal years 2018-2020; however, it was 7% to support specific strategic initiatives. For fiscal years 2021 and 2022, the draw was 10%, as the board elected to take advantage of the Pennsylvania legislature's house bill 2484 that allowed for increased endowment draws. For fiscal 2023, management is budgeting a 6% draw, which includes a contingency. We expect the endowment draw to moderate for 2023 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 its approval of the annual budget.

Debt and contingent liabilities

As of May 31, 2022, Juniata had $67.6 million of debt outstanding including $223,000 in leases. Of this, all but the series 2016-U2 bank bonds are fixed-rate debt. The series 2016 bank loans, with Fulton Bank N.A., were fixed rates for the first seven years through May 2023 and are now in variable rate mode. 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.

We do not rate the series U2 debt but 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, which is similar to the bond covenant. The college is complying with all debt covenants related to bank loans. Management has identified approximately $97.5 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 $7.8 million in remaining bank loans.

Juniata offers employees a defined-contribution retirement plan that, by definition, is funded in full. The college carries a $5.7 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
	2023	**2022**	**2021**	**2020**	**2019**	**2021**
Enrollment and demand						
Headcount	1,210	1,312	1,394	1,419	1,433	2,761
Full-time equivalent	1,159	1,289	1,312	1,365	1,381	2,454
Freshman acceptance rate (%)	76.2	74.5	67.5	70.8	70.2	78.2
Freshman matriculation rate (%)	15.2	16.4	17.7	23.8	20.5	16.5
Undergraduates as a % of total enrollment (%)	97.3	97.7	96.1	98.9	99.3	77.8
Freshman retention (%)	81.0	86.0	84.2	85.4	83.9	78.1

Juniata College, Pennsylvania enterprise and financial statistics (cont.)

	--Fiscal year ended May 31--					Medians for 'BBB' rated private colleges and universities
	2023	2022	2021	2020	2019	2021
Graduation rates (six years) (%)	71.0	75.8	74.2	72.8	79.1	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	96,588	86,230	88,466	89,599	MNR
Adjusted operating expense ($000s)	N.A.	95,016	89,682	89,693	92,669	MNR
Net operating income ($000s)	N.A.	1,572	(3,452)	(1,227)	(3,070)	MNR
Net operating margin (%)	N.A.	1.65	(3.85)	(1.37)	(3.31)	1.80
Change in unrestricted net assets ($000s)	N.A.	(3,436)	5,287	(3,952)	(2,794)	MNR
Tuition discount (%)	N.A.	64.7	61.7	62.7	59.3	44.0
Tuition dependence (%)	N.A.	64.2	72.8	70.4	67.0	76.5
Student dependence (%)	N.A.	78.8	87.6	83.8	83.4	85.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	5.4	3.7	2.2	1.3	3.5
Endowment and investment income dependence (%)	N.A.	12.9	14.2	9.9	9.5	3.6
Debt						
Outstanding debt ($000s)	N.A.	67,567	56,744	57,754	58,841	60,809
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	67,567	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.	2.77	3.70	3.71	3.42	MNR
Current MADS burden (%)	N.A.	5.38	4.52	4.52	4.37	4.30
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	122,825	136,578	112,931	117,274	107,786
Cash and investments ($000s)	N.A.	145,867	143,678	115,337	114,347	MNR
Unrestricted net assets ($000s)	N.A.	39,828	43,264	37,977	41,929	MNR
Expendable resources ($000s)	N.A.	72,577	72,967	40,718	44,065	MNR
Cash and investments to operations (%)	N.A.	153.5	160.2	128.6	123.4	114.3
Cash and investments to debt (%)	N.A.	215.9	253.2	199.7	194.3	204.2
Cash and investments to pro forma debt (%)	N.A.	215.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	76.4	81.4	45.4	47.6	72.9
Expendable resources to debt (%)	N.A.	107.4	128.6	70.5	74.9	129.4
Expendable resources to pro forma debt (%)	N.A.	107.4	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
	2023	2022	2021	2020	2019	2021
Average age of plant (years)	N.A.	20.0	18.9	17.1	15.8	15.6

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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022