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

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Huntingdon Cnty Gen Auth, PA Series 2010A and Series 2010B		
Long Term Rating	A-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' rating, with a stable outlook, on Huntingdon County General Authority, Pa.'s revenue bonds and taxable revenue bonds, issued for Juniata College.

The rating reflects our assessment of Juniata's modest enrollment growth, adequate demand profile, and adequate financial resource ratios. We believe the college's increasing financial aid needs could further pressure operating performance and inhibit net tuition revenue growth. We will continue to monitor Juniata's operating performance and the upcoming transitions in its senior management team.

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

- Adequate financial resources with cash and investments of $106.8 million as of May 31, 2013, or 139% of adjusted operating expenses and 293% of debt outstanding;
- Modest enrollment growth and adequate demand profile over the past five years despite a highly competitive market for students;
- Historically balanced financial performance with a small full-accrual surplus in fiscal 2013; and
- Moderate maximum annual debt service (MADS) burden of 5.2% with roughly 1.4x MADS coverage in fiscal 2013.

We believe what we consider Juniata's moderately high tuition discount rate, which is indicative of financial aid pressure, and low endowment relative to the rating category somewhat offset these strengths.

Founded in 1876, Juniata College 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. Juniata enrolled an estimated 1,635 students in fall 2013; the largest enrollment in its history. The college is mainly residential with about 80% of students living on campus. Juniata draws about 60% of its students from Pennsylvania. According to management, most of the college's chief competitors are in Pennsylvania, including public universities and small, private liberal arts colleges such as Pennsylvania State University, University of Pittsburgh, Gettysburg College, and Dickinson College.

Outlook

The stable outlook reflects Standard & Poor's opinion that over the outlook's two-year period, Juniata will likely demonstrate continued balanced financial operations on a full-accrual basis, maintain cash and investment ratios at or near current levels, sustain steady enrollment, and continue to improve demand metrics. We could consider a negative rating action during the outlook's two-year period if cash and investments were to weaken further, if Juniata were to issue significant additional debt without parallel growth in cash and investments relative to the rating category, if the college were to generate significant full-accrual deficits, or if Juniata were to take additional drawdowns on reserves. It is unlikely we would consider a positive rating action during the outlook period due to historically break-even operations.

Enterprise Profile

Enrollment and demand

Juniata's enrollment has grown modestly during the past five years despite year-to-year fluctuations. Full-time equivalent enrollment was 1,593 in fall 2013, a 5% increase from 1,519 in fall 2012. Management expects continued moderate enrollment growth in fall 2014. According to management, optimal enrollment at the college ranges from 1,600-1,650, which it expects to reach within three years to five years.

In our opinion, the college's demand profile remains adequate for the rating category with good student quality, retention, and graduation rates despite variable applications and selectivity. Freshman applications have been historically volatile. Freshman applications increased by 6% to 2,559 in fall 2013 from 2,422 in fall 2012; management, however, indicates freshman applications will likely decrease in fall 2014 due, in part, to Juniata's decision to improve student quality. Management recognizes applications and the number of freshmen matriculants have been volatile over the past five years, and it is 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 to reach potential enrollees.

Juniata is, in our view, moderately selective: The freshman acceptance rate was 65% in fall 2013, which strengthened from 66% in fall 2012. Although the college operates in a highly competitive market, the fall 2013 24% freshman matriculation rate remained, in our view, consistent with the rating category median of 24%. The freshman matriculation rate has averaged 25% over the past five years. The fall 2013 freshman-to-sophomore retention rate and the five-year graduation rate are, in our opinion, a good 88% and 77%, respectively. Student quality for the fall 2013 incoming freshman class remained above average with an average SAT score of 1143, which was consistent with peer institutions and above the national average.

Management

Juniata College is undergoing a year of transition with a few new key members of the executive management team. Juniata welcomed a new president in May 2013. The previous president retired after leading Juniata College for 15 years. A new executive vice president for enrollment was hired in February 2014, and the college expects to hire a new provost for student development by June 2014. In addition, the college also has a new chief information officer. The vice president for finance and operations remains unchanged; he has been at the college since 2002.

We generally consider high management turnover a negative credit factor, but we recognize it is common for significant management changes to occur after a new leader is appointed at an organization. We expect governance to be more stable following this transition.

A 39-member self-perpetuating board of trustees governs Juniata College. In our opinion, the board is stable; only rotational changes have occurred recently. According to management, the board actively supports the college; the board contributed 45% in pledges for Juniata's last comprehensive campaign. The board of trustees reviews the college's written debt and investment policies annually. We understand the board recently completed a review of its bylaws. Although there were no major changes to the bylaws, it added a full board meeting to the schedule.

We understand the board and new management team started the planning process for a new strategic plan, which it expects to complete by May 2015. According to management, a comprehensive campaign focused on growing the endowment will likely coincide with the strategic plan. The college completed a self-study review; it was reaccredited by the Middle States Commission on Higher Education on June 27, 2013.

We believe Juniata has strong financial management practices, which have consistently generated balanced to positive operations in previous years. Management indicates it expects these practices to continue throughout the transition period. The senior management team uses, what we regard as, conservative and proactive budgeting practices; it prepares the operating budget on a cash basis. Although management does not budget for depreciation, we recognize the budget includes principal and interest, which are equivalent to the depreciation expense. We view the college's 5% endowment spending policy as moderate.

Financial Profile

Operating performance

Historically, Juniata has balanced financial operations on a full-accrual basis with the exception of fiscal 2010 operations, which yielded a $3.6 million deficit. After smaller deficits in fiscal years 2011 and 2012, fiscal 2013 operations improved and yielded a small $870,000 full-accrual surplus. Management is projecting another small full-accrual surplus in fiscal 2014.

Juniata faces financial aid pressure, which is reflected in a moderately high discount rate and slower net tuition revenue growth over the past three fiscal years. Net tuition revenue was basically flat in fiscal 2013, increasing by 1%; this was lower than, what we view as, the modest 2% and 3% growth in fiscal years 2011 and 2012. Management expects modest net tuition revenue growth in fiscal 2014.

The college's overall discount rate was, in our view, a moderately high 48% in fiscal 2013; management is projecting the discount rate will likely increase to 51% in fiscal 2014. The freshman discount rate was, in our view, a very high 59% in fiscal 2013. In our opinion, Juniata is highly dependent on student-generated revenue; tuition and auxiliary enterprises accounted for 82% of fiscal 2013 adjusted operating revenue. Tuition and fees, including room and board, increased by 4% to $47,470 in fall 2013 from $45,580 in fall 2012; this was comparable to peer institutions.

Financial resources

In our opinion, financial resource ratios are adequate for the rating category. Cash and investments, which include restricted assets, were, in our view, adequate at $106.8 million at fiscal year-end 2013, or 139% of adjusted operating expenses and 293% of debt. Expendable resources were, in our view, a weaker $37.9 million as of May 31, 2013, or 49% of adjusted operating expenses and 104% of debt. It should be noted that 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 relative to net plant, property, and equipment; therefore, we believe cash and investments are a better relative measure.

Endowment

Juniata's endowment market value was $95.3 million as of May 31, 2013; in our view, this remained low relative to the rating category median. Management allocated the endowment in 62% equities; 18% fixed income; 10% short-term investments; 7% real estate, mortgage, and other investments; and 3% hedge funds at fiscal year-end 2013. The endowment increased to $105.6 million as of Dec. 31, 2013; it, however, remains largely restricted. Juniata employs a 5% endowment spending policy based on a five-year moving market value average; the effective rate was a lower 4.4%. Management expects the effective endowment spending rate to be a lower 3.8% in fiscal 2014.

The relative liquidity of the investment portfolio is an important factor in our analysis of an institution, and we believe audited classification levels provide a relative measure of long-term investment liquidity. Levels 1 and 2 are, in our view, the most liquid assets. As of May 31, 2013, Juniata's long-term investments of $86.5 million consisted of 95% level 1 assets and 5% level 2 assets. In our opinion, this distribution represents a highly liquid portfolio that offsets low expendable resources.

Fundraising

Juniata has a successful, but limited, fundraising history. Its largest campaign ended in 2005; this campaign raised $103.4 million. The college has focused on small targeted capital campaigns recently. Management believes a new campaign with a focus on increasing the endowment will likely coincide with the new strategic plan. Juniata raised approximately $1.1 million toward the annual fund in fiscal 2013. Management expects to raise a similar amount for fiscal 2014.

Debt and contingent liabilities

As of May 31, 2013, Juniata had $36.5 million of total debt outstanding that consisted of 80% fixed-rate revenue bonds and 20% variable-rate bank notes. All of Juniata's debt is a GO of the college. We consider the MADS burden a moderate 5.2% of fiscal 2013 adjusted operating expenses. According to management, Juniata is constructing an additional residence hall on campus that provides an additional 78 beds. Management indicates that the project cost $8.5 million and that it financed the project through a bank-qualified loan. The residence hall will be completed on May 31, 2014; construction is ahead of schedule and on budget. We understand the college will open the residence hall by fall 2014; management expects full occupancy.

After accounting for the $8.5 million bank-qualified loan, debt increases to $44 million. In addition, Juniata maintains a $3 million line of credit; the line of credit did not have a balance as of fiscal year-end 2013. Management does not plan to issue additional debt during the next two years.

We did not rate the series 2013 revenue note issued through a bank-qualified loan with Manufacturers & Traders Trust Co. to construct the residence hall. We, however, have reviewed the bank documents; we have concluded that Juniata has some resulting event-driven repayment risk exposure stemming from bank obligations that could come due because of events of default or covenant violations. According to the loan documents, an event of default under the agreement results in acceleration, at which time Juniata would be required to repay the outstanding amount of the loan immediately. The college, however, would have a 30-day cure period for covenant violations, including its covenant to maintain a 1.1x debt service coverage ratio annually at each fiscal year-end beginning on May 31, 2013.

Management has identified $58 million of investments available daily. We believe these investments provide ample coverage for the $8.5 million revenue note and $7.1 million variable-rate debt at fiscal year-end 2013.

Juniata College, Pennsylvania Select Demand And Financial Statistics

	-- Fiscal year-end May 31 --					'A' private colleges and universities medians
	2014	**2013**	**2012**	**2011**	**2010**	**2012**
Enrollment And Demand						
Headcount	1,635	1,565	1,619	1,593	1,532	MNR
Full-time equivalent	1,593	1,519	1,551	1,545	1,507	3,445
Freshman acceptance rate (%)	64.5	66.3	71.3	72.2	71.0	64.0
Freshman matriculation rate (%)	23.7	25.0	23.8	26.8	25.3	24.0
Undergraduates as a % of total enrollment (%)	99.4	99.6	100.0	100.0	100.0	79.0
Freshman retention (%)	87.8	90.4	85.0	83.6	85.0	86.4
Graduation rates (five years) (%)	77.2	74.3	74.3	75.5	71.0	74.0
Income Statement						
Adjusted operating revenue ($000s)	N.A.	77,569	74,667	72,200	61,430	MNR
Adjusted operating expense ($000s)	N.A.	76,699	75,229	72,206	65,058	MNR
Net operating income ($000s)	N.A.	870	(562)	(6)	(3,628)	MNR
Net operating margin (%)	N.A.	1.1	(0.8)	0.0	(5.6)	2.1
Change in unrestricted net assets ($000s)	N.A.	3,665	(1,719)	2,106	(8,717)	MNR
Tuition discount (%)	N.A.	47.7	46.8	45.8	43.2	34.0
Tuition dependence (%)	N.A.	67.9	68.5	68.3	74.4	70.2

Juniata College, Pennsylvania Select Demand And Financial Statistics (cont.)						
Student dependence (%)	N.A.	82.3	82.5	82.1	89.9	MNR
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.1	0.1	0.0	0.2	MNR
Endowment and investment income dependence (%)	N.A.	4.7	5.2	5.4	5.4	MNR
Debt						
Outstanding debt ($000s)	N.A.	36,479	35,995	36,272	35,813	95,019
Total pro forma debt (000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.7	2.3	2.9	4.9	4.0
Current MADS burden (%)	N.A.	5.2	4.9	5.1	5.6	MNR
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial Resource Ratios						
Endowment market value ($000s)	N.A.	95,329	77,365	78,245	64,087	182,270
Cash and investments ($000s)	N.A.	106,758	90,738	92,057	77,395	MNR
Unrestricted net assets ($000s)	N.A.	45,983	42,318	44,037	41,931	MNR
Expendable resources ($000s)	N.A.	37,895	29,073	30,259	21,076	MNR
Cash and investments to operations (%)	N.A.	139.2	120.6	127.5	119.0	130.2
Cash and investments to debt (%)	N.A.	292.7	252.1	253.8	216.1	228.3
Expendable resources to operations (%)	N.A.	49.4	38.6	41.9	32.4	84.9
Expendable resources to debt (%)	N.A.	103.9	80.8	83.4	58.9	141.4
Average age of plant (years)	N.A.	14.8	17.5	16.7	16.4	12.5

Juniata College, Pennsylvania Select Demand And Financial Statistics (cont.)

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*(MADS expense/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. N.A. -- Not available. MNR -- Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012