Northampton County General Purpose Authority, Pennsylvania Moravian College; Private Coll/Univ - General Obligation

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Credit Profile		
US$21.805 mil rfdg bnds (Moravian College) ser 2012 due 07/01/2031		
Long Term Rating	A-/Stable	New
Moravian College ICR		
Long Term Rating	A-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating to the Northampton County General Purpose Authority, Pa.'s series 2012 college revenue bonds issued on behalf of Moravian College (MC or Moravian), located in Bethlehem, Pa. Standard & Poor's also affirmed its 'A-' issuer credit rating on the college. The outlook is stable.

The 'A-' rating reflects Moravian's historically positive operating performance and solid financial resource ratios despite recent declines in enrollment. These factors are somewhat tempered by a high pro forma maximum annual debt service (MADS) burden that is directly attributable to a $4.1 million balloon payment due in fiscal 2016. Since 89% of the college's revenue is derived from student-related charges, weakening student demand trends and rising tuition discounting are reflected in the rating as well. While Moravian is taking steps to address its competitive challenges, the increased operating pressure and potential weakening of the balance sheet resulting from weaker student demand, declining enrollment, and lower retention will likely constrain the rating at this level for the foreseeable future.

More specifically, the 'A-' rating reflects our view of MC's:

- Consistently balanced or positive operating results on a full accrual basis with operating margins ranging from negative 0.3% to 17.5% since at least fiscal 2006 -- levels sufficient to cover annual debt service 1.8x to 5.1x;
- Solid financial resources for the rating category with expendable resources as of June 30, 2011, equal to approximately 121% expenses and 160% of outstanding debt; and
- Management's proven ability to generate positive operating performance despite enrollment fluctuations.

Offsetting credit factors, in our view, include:

- Recent enrollment declines and a weakening student demand profile marked by lower applications in six of the past seven years, reduced selectivity, lower matriculation rates, and moderating retention;
- Significant regional competition from both public and private liberal arts institutions;
- Limited revenue diversity, with student-related charges representing 89% of fiscal 2011 revenues; and
- High pro forma maximum annual debt service burden of approximately 8.3% of fiscal 2011 operating expenses.

Proceeds from the series 2012 revenue bonds, approximately $21.8 million in fixed-rate, serial debt, will be used to refund Moravian's outstanding series 1999 and series 2001 revenue bonds. The bonds, as well as $31 million in parity debt outstanding, are unconditional general obligations of the obligated group, of which the college is the sole showing signs of increased competitive pressure in the college's regional market and has lead to weaker long-term enrollment--which is not surprising considering there are seven liberal-arts colleges (including Moravian) and two community colleges in Lehigh Valley and no more than 20% of Moravian's students come from outside the Pennsylvania, New York, and New Jersey markets. Going into fall 2011, freshman applications continued to deteriorate, marking the fourth consecutive year of declines and the sixth drop in the past seven years. Matriculation rates have followed suit and, in our opinion, indicates MC is not the school of choice for many applicants. Management attributes much of this trend to state-sponsored incentive programs encouraging community college attendance. In order to facilitate improved new student enrollment, the college responded by reducing its selectivity prior years covering MADS more than 1.1x.

Not unlike most small, private, liberal arts colleges, MC is highly dependent on student-related income, with tuition, fees, and auxiliary operations accounting for more than 89% of fiscal 2011 revenue. For that reason, we will monitor the college's discounting practices closely, particularly since institutionally sponsored aid grew faster than tuition and fee revenue in fiscal 2010 as MC increased financial aid awards in an effort to retain students. While the financial aid budget continued to grow in fiscal 2011, tuition rate increases offset the growth in this expense to hold net tuition revenue steady relative to that of the prior year. Together with conservative budgeting practices and careful cost containment efforts, operations remained positive on a full accrual basis nevertheless. Private gifts and grants represent another 2.8% of MC's total unrestricted revenue, investment income totals another 2.3%, and government grants and contracts at 1.1% of total revenue, rounding out MC's three largest revenue sources following student-related charges.

Balance sheet: financial resources

Since suffering substantial investment losses in fiscal 2009, net assets have since improved as a result of positive investment returns and increased gift revenue--nearly recovering from the market volatility experienced globally during that year. As of June 30, 2011, cash and investments were equal to $107 million, or 152% of operating expenses and 201% of debt outstanding (including an off-balance-sheet housing financing). Fiscal 2011 expendable resources -- a more limited measure than cash and investments -- were equal to 121% of operating expenses and 160% of outstanding debt, compared with medians of 81% and 126% respectively, for the 'A' category.

Post issuance, Moravian's total debt outstanding will reach approximately $53 million when including an off-balance-sheet financing of approximately $22 million, issued by Moravian College Housing, Inc. (MCHI) for the purposes of constructing a mixed use facility that included a 231-bed residence hall space on the college's campus. All remaining debt, about $31 million, is a fixed-rate obligation of the college on parity with the series 2012 refunding. This includes an additional $5 million bank qualified bond issuance completed during fiscal 2011 for the renovation of MC's recreation center and various other facility improvements. While the college plans to retire or refinance this debt, the balloon payment in 2016 associated with this financing pushes the pro forma MADS burden to a level of expenses we consider high: 8.3%. Without this payment, debt service is manageable in our view, at 3.6% of the annual budget.

The college leases a portion of the non-residential space completed as part of the MCHI. It is a 30-year lease in which MC pays MCHI $1.5 million during the first 10 years of the arrangement. As part of its agreement with Moravian College Housing Inc., the college created a fund to support building operations and has also invested approximately $2 million in parking and landscaping on the Hurd Campus, the site of the residence hall, as well as another $2.5 million for furnishings and equipment. Pursuant to the operating agreement, the college is responsible for providing maintenance and custodial services for which it will be reimbursed; invoicing students; and integrating this housing with the existing housing on campus. Students sign lease agreements directly with Moravian College Housing, however.

MC is carrying nearly $21 million in deferred maintenance and has capital plans for which it may complete additional borrowings of approximately $10 million during the next five years.

MC maintains a small endowment valued at $84 million as of June 30, 2011, compared with its high of $94 million at the end of fiscal 2007 -- an overall decline of approximately 10.6% as the result of recent market turmoil. Although the endowment has notable exposure to private equity, nearly 60% of the value of all investments are in level 1 and level 2 marketable securities. As of Sept. 30, 2011, approximately 39% of investments were allocated to equity investments, 31% to fixed-income, 17% to hedge funds, 21% to real assets and private equity, and 2% to cash. The endowment spending target is typical and remains 4.5% of a three-year moving average.

MC does not have a strong fundraising history but has renewed its commitment to building this revenue source and improving its balance sheet. The school recently entered the public phase of a $45 million campaign that began in fall 2008 and is expected to run six to seven years. We understand that campaign proceeds will be used to enhance science facilities, to support renovations to the Hurd dorms, and to provide funding for faculty development, financial aid, and operations. To date, the college has raised $31.5 million toward its goal -- $27.2 million of which has been collected.

Moravian College

Financial and Demand Statistics

	Year-to-date	--Fiscal Year Ended June 30--			
	2012	2011	2010	2009	2008
Enrollment and demand					
Headcount (HC)	1,899	1,926	2,069	2,054	2,022
Full time equivalent (FTE)	1703	1,726	1,746	1,748	1,755
Freshman selectivity (%)	79.7	75.9	75.3	69.7	64.0
Freshman matriculation (%)	24.3	25.0	25.0	26.5	26.8
Undergraduate HC to total HC (%)	87.3	91.4	86.8	88.5	88.3