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## Southcentral Pennsylvania General Authority York College Of Pennsylvania; Private Coll/Univ - General Obligation

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# Southcentral Pennsylvania General Authority York College Of Pennsylvania; Private Coll/Univ - General Obligation

## Credit Profile

US\$22.55 mil Rev Rfdg Bnds (York College of Pennsylvania) (AICUP Fincg Prog) ser 2015 NN2 due 11/01/2032

<i>Long Term Rating</i>	A/Stable	New
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### Pennsylvania Hgr Ed Fac Auth, Pennsylvania

York Coll of Pennsylvania, Pennsylvania

Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) (AICUP Fin Prog) ser 2014 T3

<i>Long Term Rating</i>	A/Stable	Affirmed
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## Rationale

Standard & Poor's Ratings Services assigned its 'A' rating and stable outlook to Southcentral Pennsylvania General Authority's series 2015NN2 revenue refunding bonds, issued for York College of Pennsylvania (YCP).

At the same time, Standard & Poor's affirmed its 'A/A-1' rating, with a stable outlook, on Pennsylvania Higher Educational Facilities Authority's series 2014T2 revenue refunding variable-rate multimode bonds, issued for YCP.

The long-term rating component reflects our assessment of the institution's general credit characteristics. The short-term rating component reflects our assessment of the institution's self-liquidity. We believe the college demonstrates sufficient liquid assets of high credit quality, which it could use to cover the purchase price of its variable-rate series 2014 T2, 2014 T3, and 2014 T4 bonds on a mandatory tender.

In addition, Standard & Poor's affirmed its 'A' rating, with a stable outlook, on YCP's various series of revenue bonds.

The 'A' long-term rating reflects YCP's low tuition rate compared to its peers; low level of tuition discounting; and historical focus on professional programs, which we think gives the college a competitive advantage over its peers. We believe, what we consider, the college's solid operating results and adequate financial resource ratios somewhat offset YCP's very high student dependence and moderate debt. Although the college has additional capital needs, we understand YCP does not currently plan to issue new debt during the next two years. We also believe significant additional debt without a commensurate increase in financial resources could pressure the rating.

The 'A' rating further reflects our opinion of YCP's:

- History of solid full-accrual operating surpluses;
- Strong demand, characterized by improved selectivity and above-average student quality;
- Strong tuition flexibility with a comprehensive price that is well below its peers and a low level of tuition discounting with an overall discount rate of 20% in fiscal 2014; and
- Adequate level of financial resources with expendable resources of roughly \$141 million, representing 121% of operating expenses and 158% of debt outstanding at June 30, 2014, which is consistent with the 'A' rating category.

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

- Limited revenue diversity with a high 92% dependence on tuition and auxiliary fees for fiscal 2014;
- Highly competitive market, characterized by a low freshman matriculation rate of 16% in fall 2014;
- Decreasing full-time-equivalent (FTE) student enrollment of 4,663 for fall 2014 with further decreases expected for fall 2015;
- Moderate pro forma maximum annual debt service (MADS) burden of 6% of fiscal 2014 operating expenses; and
- Modest fundraising history.

YCP is a private, coeducational institution founded in 1787. It is on a 190-acre campus in York. The college currently offers more than 50 baccalaureate degree programs in the arts and sciences, as well as master degrees in nursing, business administration, and education. YCP's most popular majors include business, behavioral science, nursing, and physical sciences. It recently added radiography, hospitality, and doctorate of nursing programs. Chemical engineering, food sciences, and horticulture studies are some of the new programs the college's administration is considering. The college also owns York Country Day School, a private day school serving preschool through 12th-grade students with a headcount of 231; this is the only private day school in York County.

YCP plans to amortize the series 2015 NN2 fixed-rate bonds over 18 years with level debt service. We understand management plans to use series 2015 NN2 bond proceeds to refund YCP's series 2005EE1 bonds in full. The bonds are a general obligation (GO) of the college, secured by pledged revenue. The bonds are on parity with the college's existing debt, and a rate covenant and additional bonds test enhance the bonds.

At June 30, 2014, YCP had \$91 million of debt outstanding, approximately 71% of which is in naturally fixed-rate bonds and notes. The remaining 29% was in variable-rate demand bonds. Management reports that no failed remarketing have occurred and that no interest rate swaps are associated with the variable-rate debt. All debt is a GO of the college. In our opinion, the pro forma MADS burden of \$6.4 million was a moderate 6% of fiscal 2014 operating expenses. We understand management does not currently plan to issue additional debt during the next two years. The college has additional capital needs, but we understand management will likely fund them internally with operating cash and gifts. According to management, it will likely determine long-term debt plans after the completion of a new strategic plan.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion that over the outlook's two-year period, the college will likely continue to generate, what Standard & Poor's considers, strong operating surpluses; in addition, expendable resource ratios will likely remain stable or improve compared to the rating category, and management will likely expand its fundraising efforts while working to stabilize demand and enrollment. We could lower the rating if financial resources were to decrease significantly below current levels, if financial performance were to weaken significantly or generate deficits, or if the college were to issue significant additional debt without commensurate financial resource growth. Conversely, we could raise the rating during the outlook's two-year period if financial resources were to increase significantly higher than current levels due to, what we consider, strong financial results and if the freshman matriculation rate were to improve significantly.

## **Enterprise Profile**

### **Demand and enrollment**

Management indicates that over the years, YCP has transformed into an institution with a large residential population from a commuter-based college. Commuter students accounted for just 25% of undergraduates in fall 2014. The college's housing availability, however, has not kept up with the growth of its residential population. YCP's residential facilities have been at or near full capacity for a number of years; the occupancy rate was nearly 100% for fall 2014. YCP could consider expanding Northside Commons to accommodate an additional 205 students. YCP will not determine the timing of the expansion until after the completion of the college's new strategic plan.

Enrollment has decreased within the past three years due to increased competition. FTE student enrollment decreased by 3% to 4,663 in fall 2014 from 4,790 in fall 2013 due to decreases in undergraduate and graduate headcount. Undergraduate students decreased by 3% to 4,848 in fall 2014 and graduate students decreased by 5 % to 214. Management expects a modest FTE enrollment decrease in fall 2015, but it expects enrollment to stabilize by fall 2016. We believe stabilization is possible but management is projecting fall 2015 freshman matriculants will be lower than the 1,088 freshman matriculants in fall 2014. Management indicates it plans to add new programs based on market demand, implementing a robust marketing campaign, and increasing the applicant pool to achieve its long-term goal of increasing undergraduate student enrollment to 5,000 and graduate enrollment to 500. In addition, it plans to hire a director of international recruitment to focus on foreign markets, including China and India.

What we view as moderate selectivity, low matriculation, and above-average student quality characterize YCP's demand profile. Freshman applications decreased by 8% to 15,270 in fall 2014 from 16,563 in fall 2013. Management is projecting applications will likely decrease in fall 2015 due to its decision to use a more-targeted enrollment approach instead of focusing on increasing applications. Selectivity -- measured by the freshman acceptance rate -- remained, in our view, a moderate 46% in fall 2014. The freshmen matriculation rate remains, in our view, low despite improving to 16% in fall 2014 from 15% in fall 2013, which was indicative of a highly competitive Northeastern market. Student quality was, in our opinion, above average with a mean SAT score of 1050 for fall 2014 compared with the national average of 1011.

YCP's geographic draw remains largely regional with most students coming from the mid-Atlantic region. Pennsylvanians accounted for 55% of the freshman class in fall 2014. The remaining fall 2014 freshman class came from Maryland (22%), New Jersey (9%), New York (8%), and other states (6%). Tuition and fees, including room and board, of \$27,500 for academic year 2014-2015 were far below YCP's peer institutions, affording the college a niche as a low-cost provider of higher education. The college's main competitors include Pennsylvania State, Drexel, and Temple universities in Pennsylvania; the universities of Maryland, Towson, and Salisbury in Maryland; and University of Delaware.

### **Management**

A 29-member board of trustees appointed to three-year terms governs YCP. Although a new chairman and vice chairman were elected in January 2013, the board is stable with only rotational changes recently. We consider the board diversified and actively engaged in the affairs of the college, evidenced by the financial support it provides the

college. The board, including emeriti trustees, contributes about 20% of the annual fund.

YCP welcomed a new president in August 2013; the previous president retired in June 2013 after a long tenure of 22 years. The college experienced some transition in its senior management team, which is not uncommon after a presidential change. YCP hired a new Dean of Enrollment in August 2014. The college is searching for a new Dean of Academic Affairs, a Dean of College Advancement, and a Dean of Information Technology; it expects to complete this search by fall 2016. The YCP board appointed interim deans for all of these positions after the previous deans either retired, departed, or changed positions within the college in May and June of 2015.

The rest of the executive management team, including the chief financial officer, is stable, which we believe lends stability to the overall credit profile. We believe the management team has strong and prudent fiscal practices that produce healthy operating surpluses year after year. We understand that the college has formal endowment spending and investment policies and that management budgets for depreciation expenses, which we view as a positive credit factor. We also view the college's nonreliance on endowment spending as a credit strength, providing an additional financial cushion.

## **Financial Profile**

### **Operating performance**

YCP's financial performance is characterized by, what we consider, consistently strong operating margins but high student dependence. The college has produced full-accrual surpluses for the past five fiscal years. Although fiscal 2014 operations yielded a smaller \$6.6 million full-accrual surplus compared with \$9.7 million in fiscal 2013, operating margins were, in our opinion, a solid 6% for fiscal 2014. Management indicates it expects a weaker but still positive fiscal 2015 operating margin due to recent enrollment decreases. YCP's deferred maintenance needs are minimal due to its recent campus expansion and renovations. The college invested \$126.5 million from operations to fund capital investments in fiscal years 2006-2014. In our view, the college's average age of plant was a low nine years for fiscal 2014. Management credits operating margins to an administrative overhead ratio, a highly productive faculty, and the strategic use of adjunct faculty. In our opinion, instructional expenses are low compared to the overall budget.

In our opinion, YCP remains highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 92% of fiscal 2014 operating revenue. Enrollment decreases pressured net tuition revenue: Net tuition revenue decreased by 2% in fiscal 2014. Management expects net tuition revenue to remain pressured in fiscal years 2015 and 2016.

Auxiliary revenue of \$28 million, partially from the college's new residential facilities, generated 23% of fiscal 2014 adjusted operating revenue; by contrast, public and private funding accounted for about 2% of operating revenue. We consider YCP's overall discount rate a low 20% for fiscal 2014. The freshman discount rate was, in our view, a still-low 32% compared with the rate at peer institutions. Management expects this rate to increase during the next two years.

### **Financial resources**

In our opinion, YCP's financial resources are adequate for the rating category. Cash and investments, including restricted investments, were \$177 million at June 30, 2014, or 152% of operating expenses and 197% of pro forma

debt. Expendable resources increased by \$31 million to a total of \$141 million at fiscal year-end 2014. We consider expendable resources adequate at 121% of fiscal 2014 operating expenses and a weaker 158% of debt compared with category medians of 98% and 173%, respectively. We note 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 compared to net plant, property, and equipment; therefore, we believe cash and investments are a better relative measure.

### **Endowment**

At June 30, 2014, YCP's endowment market value was \$80 million, which we consider low compared with the college's 'A' category peers. The college's endowment spending policy is 5% of the three-year annual moving average market value of pooled endowment assets. Although the college budgets 5% of endowment spending annually, we understand it does not need the draw to attain break-even performance, which we view favorably.

YCP's asset allocation is, what we regard as, slightly more aggressive than some similarly endowed peers. Total investments, which include plant funds and reserves, increased to \$169 million at March 31, 2015, from \$165 million at fiscal year-end 2014; management allocated investments to domestic and international equities (42%), diversifying equity (29%), fixed income (14%), emerging markets (7%), private equity (6%), and cash (1%). The one-year return of the investment portfolio was 5.5% at March 31, 2015, and the three-year return was 9.7%.

YCP had approximately \$15.7 million of unfunded capital calls at fiscal year-end 2014, or 10% of the total portfolio. We view audited classification levels as a proxy for the liquidity of long-term investments. The college's investments were classified as level 1 (19%), level 2 (60%), and level 3 (21%) assets; in our view, this represents a highly liquid portfolio. At March 31, 2015, management reports approximately \$77.2 million, or 45% of the portfolio, was liquid daily and \$151.4 million, or 88%, was liquid within one year.

### **Fundraising**

Instead of engaging in a comprehensive campaign, YCP has chosen to focus on limited capital campaigns for strategic capital projects. In addition, the college has ramped up its development office and focused on planned giving. It raised a record \$8.8 million in fiscal 2014. According to management, total giving was more than \$10 million in fiscal 2015 with \$1.7 million raised toward the annual fund.

### **York College Of Pennsylvania Select Demand And Financial Statistics**

--Fiscal year-ended June 30--					'A' private colleges and universities medians	
	2015	2014	2013	2012	2011	2014
<b>Enrollment and demand</b>						
Headcount	5,062	5,234	5,426	5,596	5,589	MNR
Full-time equivalent	4,663	4,790	4,952	5,093	5,052	3,434
Freshman acceptance rate (%)	45.5	44.1	44.9	43.4	48.3	64.5
Freshman matriculation rate (%)	15.7	14.7	16.5	14.9	15.4	21.2
Undergraduates as a % of total enrollment (%)	95.8	95.7	95.5	95.9	95.7	80.9
Freshman retention (%)	78.7	74.8	72.9	78.2	75.6	86.3

**York College Of Pennsylvania Select Demand And Financial Statistics (cont.)**

Graduation rates (five years) (%)	N.A.	N.A.	59.0	57.6	59.2	74.9
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	122,975	122,961	121,769	113,127	MNR
Adjusted operating expense (\$000s)	N.A.	116,399	113,265	109,044	102,179	MNR
Net operating income (\$000s)	N.A.	6,576	9,696	12,725	10,948	MNR
Net operating margin (%)	N.A.	5.7	8.6	11.7	10.7	MNR
Change in unrestricted net assets (\$000s)	N.A.	24,116	20,166	11,349	27,052	MNR
Tuition discount (%)	N.A.	19.6	17.6	15.9	15.3	35.4
Tuition dependence (%)	N.A.	69.6	69.5	69.4	70.5	MNR
Student dependence (%)	N.A.	92.4	91.7	91.3	91.5	MNR
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.0	1.0	1.1	2.8	MNR
Endowment and investment income dependence (%)	N.A.	2.7	2.6	2.5	2.8	MNR
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	89,585	92,767	95,382	96,946	90,765
Proposed debt (\$000s)	N.A.	22,900	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	89,585	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	6,455	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.8	4.8	4.9	3.9	4.0
Current MADS burden (%)	N.A.	5.6	5.7	5.9	6.3	MNR
Pro forma MADS burden (%)	N.A.	5.6	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	79,925	67,932	61,297	63,630	218,129
Cash and investments (\$000s)	N.A.	176,789	147,015	130,790	131,421	MNR
Unrestricted net assets (\$000s)	N.A.	272,197	248,081	227,915	216,566	MNR
Expendable resources (\$000s)	N.A.	141,116	109,790	98,295	103,498	MNR
Cash and investments to operations (%)	N.A.	151.9	129.8	119.9	128.6	150.6
Cash and investments to debt (%)	N.A.	197.3	158.5	137.1	135.6	266.7
Cash and investments to pro forma debt (%)	N.A.	197.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	121.2	96.9	90.1	101.3	97.9
Expendable resources to debt (%)	N.A.	157.5	118.4	103.1	106.8	172.6
Expendable resources to pro forma debt (%)	N.A.	157.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	9.0	8.9	8.5	8.8	13.3

### **York College Of 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-term and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net property, plant, and equipment - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007

### **Ratings Detail (As Of August 18, 2015)**

#### **Pennsylvania Hgr Ed Fac Auth, Pennsylvania**

York Coll of Pennsylvania, Pennsylvania

Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) (AICUP Fin Prog) ser 2014 T4

<i>Long Term Rating</i>	A/Stable	Affirmed
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Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) (AICUP Program) ser 2014 T2

<i>Long Term Rating</i>	A/A-1/Stable	Affirmed
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#### **Pennsylvania Hgr Ed Fac Auth (Assn of Indpt Coll & Univ of PA Fing Prog -York Coll of PA Proj) ser 2005 EE1**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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#### **Southcentral Pennsylvania General Auth, Pennsylvania**

York Coll of Pennsylvania, Pennsylvania

#### **series 2011 II**

<i>Long Term Rating</i>	A/Stable	Affirmed
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#### **Southcentral Pennsylvania General Auth (York Coll of Pennsylvania) ser 2007 GG2**

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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