S&P Global
Ratings

RatingsDirect®

Cumberland County Municipal Authority, Pennsylvania
Messiah College; Private Coll/Univ - General Obligation

Primary Credit Analyst:
Phillip A Pena, San Francisco + 1 (415) 371 5039; phillip.pena@spglobal.com

Secondary Contact:
Charlene P Butterfield, New York (1) 212-438-2741; charlene.butterfield@spglobal.com

Table Of Contents

Rationale

Outlook

Enterprise Profile

Financial Profile

Cumberland County Municipal Authority, Pennsylvania
Messiah College; Private Coll/Univ - General Obligation

Credit Profile		
US$5.5 mil coll rev bnds (Messiah Coll) (Coll Proj) ser 2018 QQ2 due 11/01/2048		
Long Term Rating	A/Stable	New
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Messiah Coll) rev bnds ser 2001 I-3		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to the Cumberland County Municipal Authority, Pa.'s series 2018 revenue bonds, issued for Messiah College. At the same time, S&P Global Ratings affirmed its 'A' long-term rating on the Cumberland County Municipal Authority, Pa.'s series 2016 OO1 revenue bonds and 2015 NN1 and 2014 T1 bonds, and the Pennsylvania Higher Education Facilities Authority's series 2001 I-3, 2001 I-4, and 2012 LL3 bonds, all of which were issued for Messiah College. The outlook is stable.

We assessed the college's enterprise profile as strong, characterized by its niche as a Christian college, stable and long-tenured management team, stable demand at the undergraduate level, and continued growth at the graduate level, all in a highly competitive state. We assessed the college's financial profile as strong, with sufficient available resources relative to operations and sound financial policies, a low pro forma maximum annual debt service (MADS) burden, and balance sheet that is composed of nearly 80% unrestricted net assets, which partly mitigates its history of consistently negative and worsening operating performance on a full-accrual basis, revenue concentration, and increasing contingent liabilities. These combined credit factors lead to an indicative stand-alone credit profile of 'a' and a final rating of 'A'.

The rating reflects our assessment of the college's:

- Continued growth in enrollment at the graduate level, which generates additional revenue for the college, as these programs are not heavily discounted, and continued stability in demand at the undergraduate level;
- Stable and long-tenured management team that has managed to grow enrollment at the graduate level and maintain demand at the undergraduate level, and has undertaken various initiatives to ensure demand remains strong; and
- Manageable pro forma MADS burden at 3.2% of fiscal 2017 adjusted operating expenses.

Partly offsetting the above strengths, in our view, are the college's:

- Weak and worsening financial operations on a full-accrual basis, with its largest full-accrual deficit (2.85%) in a five-year period in fiscal 2017, and a similar operating deficit expected for fiscal 2018;
- High amount of contingent liabilities that total $91.5 million when including the college's series 2001 I-3, series 2001 I-4, and series 2014 debt, and planned $63.9 million Rider-Musser transaction for which the college plans to provide a 50% construction completion guarantee (more information about the transaction can be found in the following paragraphs); and
- Revenue concentration, with student-generated revenue making up 87.6% of fiscal 2017 adjusted operating revenue.

The college will be issuing approximately $5.5 million in series 2018 bonds to fund renovations to a student residence hall and various small capital improvements on campus. The series 2018 bonds are fixed rate, and are on parity with existing college revenue bond debt. In addition to the series 2018 issuance, the college recently entered into a public-private partnership with Rider-Musser LLC. The for-profit Rider-Musser LLC will issue approximately $63.9 million in taxable bonds to fund the construction of residential properties near Messiah College. The residential properties are not intended for occupancy by students of Messiah College. The college has made a $7.5 million investment from as part of its unrestricted investment portfolio, and will provide a 50% guarantee for completion of construction on the project. In addition to three years of planned capitalized interest, the transaction benefits from a full debt service reserve fund that is equivalent to MADS, has a guaranteed maximum price contract, and has builder's risk insurance. Although the debt of Rider-Musser LLC will be on its own balance sheet, we view the debt of this LLC as a moral obligation of Messiah College given the benefit it receives from the projects, and given Messiah's role as the preeminent provider of jobs in Mechanicsburg, Pa. We have included this debt as a contingent liability, though there is no acceleration risk, but have not factored Rider-Musser debt service into Messiah's debt burden given that Rider-Musser's debt is still only a contingent liability. We do not rate Rider-Musser LLC. The related debt is expected to be issued in fiscal 2019.

Messiah College is a Christian college founded in 1909 by the Brethren in Christ Church. The college, which the church no longer owns, is located on 471 acres in suburban Grantham, Pa., about 12 miles from Harrisburg. Its most popular programs include accounting, nursing, elementary education, engineering, and the performing arts. While the college is predominantly an undergraduate institution, nine years ago it introduced several graduate programs aligned with its traditional areas of strength. These graduate programs have seen increases in recent years and are projected to continue growing within the outlook period.

Outlook

The stable outlook reflects our expectation that over the outlook period, enrollment will remain stable at the undergraduate level and grow at the graduate level. The stable outlook also reflects our expectation that operating performance will improve relative to fiscal 2017 and fiscal 2018 levels, and available resource ratios will not decrease below current pro forma levels. We also expect that any future debt issuance would be commensurate with growth in available resources.

Downside scenario

During the outlook period, we could consider a negative rating action if operating results were to worsen beyond fiscal 2017 and fiscal 2018 levels. We could also consider a negative rating action should the college's available resources materially worsen through the issuance of additional debt or through a material increase in operating expenses. We could also consider a negative rating action if the college has to make payments on the construction of the Rider-Musser LLC project, due to its 50% guarantee of the project's construction completion. Finally, we could consider a negative rating action in the case of significant enrollment declines at either the undergraduate or the graduate level.

Upside scenario

We view a positive rating action as unlikely within the outlook period, as it would require a material improvement in the college's enterprise and financial profile to levels consistent with a higher rating.

Enterprise Profile

Industry risk

Industry risk addresses our view of the higher education sector's overall cyclicality and competitive risk and growth through application of 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 when compared with other industries and sectors.

Economic fundamentals

In our view, the college has somewhat limited geographic diversity, with 62.8% of its students coming from Pennsylvania in fall 2017. Therefore, our assessment of the college's economic fundamentals is anchored by the Pennsylvania GDP per capita. Other key states the college draws undergraduate students from include Maryland, New Jersey, and New York.

Market position and demand

In fall 2017, the college's total full-time-equivalent (FTE) population included 2,676 undergraduate and 610 graduate FTEs and increased by 2% from the prior year. We also note that undergraduate FTE enrollment has been relatively flat over the past several years, and that graduate enrollment as a proportion of total enrollment has grown consistently for the past five consecutive years, which we view positively.

Demand metrics at the college are relatively stable. Freshman applications decreased modestly, by 1.5%, in fall 2017 to 2,558 applications. The college's selectivity rate has fluctuated between 77% and 80% over the past four years, and selectivity in fall 2017 was stable, with a 77.0% acceptance rate compared to 79.5% in the previous year. Initial results for fall 2018 suggest a similar acceptance rate of 78.7%. Matriculation has also been relatively stable and increased slightly to 33.8% in fall 2017 from 33.2% in the previous fall. It has held at 33% to 35% over the past five years, which we believe indicates the self-selective nature of the student body seeking a Christian college education.

Management does not forecast significant growth at the undergraduate level, but projects continued growth at the graduate level as it adds new graduate programs. The college has added occupational therapy (OT) and physical

therapy programs, with the OT program completing its first full year during the 2017-2018 school year.

Student quality, as indicated by an average SAT score of 1206 for the fall 2017 entering freshman class, is near the national average of 1224. The college has what we consider a solid freshman retention rate of 88%, which is consistent with the rating category. According to management, the college's competitive landscape has remained essentially unchanged in recent years; key competitors include other Christian schools, including Cedarville University in Ohio, Eastern University in Pennsylvania, Gordon College in Massachusetts, and Liberty University in Virginia.

The college has a record of consistent fundraising efforts for an institution of its profile, raising about $8 million in annual giving every year over the last several years. The alumni participation rate was 11% in fiscal 2017. During the college's last campaign--its Centennial Campaign, publicly launched in May 2010 and concluded on Dec. 31, 2012--it raised $46.2 million toward a $40.0 million goal. The college is currently in the planning phase of a new campaign, and will update with further details as they become available.

Management and governance

Senior management at the college has been stable in recent years, which we view favorably. Management expects no turnover among its senior administration. Board membership has also been stable with only routine rotations. The college has not fully budgeted for depreciation since fiscal 2013 and uses a cash budgeting model. It plans to partly budget for depreciation at roughly 70% through its capital expenditures and principal on debt service lines in its operating budget. In our view, partial budgeting of depreciation expense is not an industry best practice and could lead to further pressured operations over time.

Financial Profile

Financial management policies

The college has longstanding formal policies for endowment, investments, reserves, and debt. It operates according to a four-year strategic plan. The strategic plan for 2016 through 2020 has specific financial targets related to expanding the college's financial resource base by increasing the endowment size, reducing endowment spending, raising new endowment funds, and generating cash flow operating surpluses. Management reports that the finance division monitors operational goals and that an annual plan status report is developed each year over the strategic plan cycle.

Cash and debt management functions are integrated, and there are formal policies related to these two areas. Minimum and maximum thresholds are in place for debt service coverage by operating cash flow, debt burden, and expendable resources to debt. The debt policy has specific sections pertaining to the use of swaps (which the college has never employed), variable-rate debt, and prohibited uses of debt. These two functions are centralized and handled by members of the accounting team and the investment office team. All policies are periodically revised. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that the college's overall financial policies are not likely to hamper 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 profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable providers.

Financial performance

The college's financial operations on a GAAP basis remain relatively weak compared with the rating category median. In fiscal 2017, the net adjusted operating deficit equaled $3.9 million, or 2.8% of adjusted operating expenses, the largest operating deficit the college has experienced over the past five years. This followed a GAAP operating deficit of $853,000, or 0.6% of adjusted operating expenses, in fiscal 2016. Management expects fiscal 2018 GAAP operating results to be comparable with those of fiscal 2017. We view a second operating deficit of this size as a pressuring credit factor, and would view even minor increases in the operating deficit as a significantly pressuring factor. We understand that, over time, the college may begin to realize additional savings from its conversion to natural gas and from returns on its private equity-related investment for Rider-Musser LLC.

As are most private colleges of its size and profile, the college is highly dependent on student-generated fees: Tuition, fees, and auxiliary revenue generated 87.6% of fiscal 2017 adjusted operating revenue. Enrollment stagnation and increased discounting could pressure net tuition revenue. To date, net tuition revenue has been increasing at a modest rate despite small increases in institutional discounting at the undergraduate level in response to student affordability concerns. We note the college's overall tuition discount growth rate is relatively lower than that of some of its peers. Moreover, the college's graduate programs, which are a growing component of its total enrollment, are not discounted. Tuition increased by 3% to $33,320 for 2017-2018 and is projected to increase by a similar amount during the 2018-2019 school year.

Available resources

With the inclusion of the Rider-Musser LLC debt, which is legally nonrecourse to the college, but which the college views as a moral obligation, available resources as measured by expendable resources have diminished compared with previous years. On a pro forma basis, including the Rider-Musser debt, expendable resources would have totaled approximately $178.4 million as of June 30, 2017 (though the debt is not planned to be issued until fiscal 2019), up from $125.4 million in the previous year, with most of the increase explained by the addition of the planned Rider-Musser LLC debt. Expendable resources were equal to 131% of adjusted operating expenses and 136.5% of pro forma debt. Cash and investments--which are viewed as a less conservative measure of balance sheet strength, as they include restricted funds--equaled $159.3 million as of June 30, 2017, equal to 117% of adjusted operating expenses and 122% of debt. We note that approximately 80% of the college's total net assets are unrestricted.

The endowment's market valuation of $134.5 million as of June 30, 2017, improved relative to the previous year due to strong investment returns that much of the higher education sector saw during fiscal 2017. The asset allocation as of March 2018 was 57.5% fixed income, 33.8% equities (comprising various funds), 5.3% private equity, 2.0% cash, 1.0% real assets, and 0.4% in hedge funds, which is roughly consistent with strategic asset allocation targets. The college uses a modified Yale spending draw for board-designated investments, and 5% of the most recent 12-quarter moving average market value as of June 30 for the donor-restricted endowment. The actual endowment draw percentage was 5.5% in fiscal 2017 and fiscal 2016.

Debt and contingent liabilities

When including the $5.5 million of series 2018 debt and the $63.9 million of contingent debt associated with the proposed Rider-Musser LLC transaction, total debt outstanding at the college will have increased to $130.7 million as of the end of fiscal 2017: $66.8 million in Messiah College direct debt and the remaining $63.9 million in proposed

Rider-Musser LLC debt. We view the Rider-Musser LLC debt as a moral obligation of the college and therefore count it as a contingent liability. However, we exclude the Rider-Musser debt from our calculation of the pro forma debt burden, as the college is not guaranteeing the payment, nor is it obligated on the debt service for the $63.9 million in taxable Rider-Musser series 2018 bonds. Management indicates that the debt service on the series 2018 taxable Rider-Musser bonds would be payable solely from revenues derived from the construction project when completed.

When including the series 2018 issuance, Messiah College's on-balance-sheet debt includes $41.5 million in fixed-rate and $27.1 million of variable-rate (multiannual mode) bonds. Bond security covenants are sufficient, in our view, and include a rate covenant that net revenue available for debt service plus all other legally available funds of the college will equal or exceed 1.1x of the debt service for each fiscal year, and an additional bonds test. The college has no swaps or bullets. The college has no plans for additional debt and no direct purchase debt, private placement debt, or swaps.

The college's other multiannual mode (variable-rate) debt, totaling $27.1 million of total debt, includes its series 2001 I-3 bonds, which are in a two-year term mode and will reset on Nov. 1, 2021; series 2001 I-4 bonds, which are in a three-year term mode and will reset on May 1, 2021; and the series 2014 T1 bonds, which will reset on May 1, 2020. After every reset period, the college may roll over in the same period or convert to another mode period of a different length. Management expects each of its multimodal bonds to be remarketed in a mode longer than one year and that mode periods will continue to be staggered so that no modes are expected to be remarketed simultaneously. The series 2001 I-3, 2001 I-4, and 2014 T1 bonds have long-term final maturities, each series originally issued for 30 years. The vast majority, approximately 80%, of total college net assets of $243.7 million as of June 30, 2017, are unrestricted and not subject to donor restrictions. In addition, the college maintains two committed lines of credit totaling $15 million, which can be used for any legal purpose, of which $0 is drawn. In our opinion, this provides the college sufficient financial resources to cover a potential failed remarketing of its multimodal bonds. While the bonds are in a term mode of any length, there is no optional tender or put option available to bondholders, and the variable-rate bonds (multiannual mode) have a mandatory tender at the end of any term mode. Upon a remarketing failure at the end of any multiannual period, full payment of the related series (to be remarketed) would be the responsibility of the college.

Messiah College, Pennsylvania

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Enrollment and demand						
Headcount	3,448	3,414	3,302	3,234	3,084	MNR
Full-time equivalent	3,286	3,221	3,217	3,142	3,027	3,659
Freshman acceptance rate (%)	77.0	79.5	79.0	80.0	65.9	63.1
Freshman matriculation rate (%)	33.8	33.2	35.4	35.2	34.7	MNR
Undergraduates as a % of total enrollment (%)	80.0	81.7	85.4	86.2	89.9	82.3
Freshman retention (%)	88.0	85.4	88.1	87.5	86.6	86.0

Messiah College, Pennsylvania (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	2017	2016	2015	2014	2016
Graduation rates (six years) (%)	80.4	76.3	76.8	79.7	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	132,782	131,282	126,891	125,028	MNR
Adjusted operating expense ($000s)	N.A.	136,674	132,135	127,983	125,325	MNR
Net operating income ($000s)	N.A.	(3,892)	(853)	(1,092)	(296)	MNR
Net operating margin (%)	N.A.	(2.85)	(0.65)	(0.85)	(0.24)	2.57
Change in unrestricted net assets ($000s)	N.A.	4,085	(6,942)	(6,401)	7,711	MNR
Tuition discount (%)	N.A.	40.8	40.6	39.9	38.8	34.9
Tuition dependence (%)	N.A.	72.0	71.2	71.1	70.4	MNR
Student dependence (%)	N.A.	87.6	87.2	88.2	86.9	87.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.7	0.6	0.7	0.6	MNR
Endowment and investment income dependence (%)	N.A.	6.3	5.9	6.1	6.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	128,970	66,970	42,280	45,465	102,389
Proposed debt ($000s)	N.A.	5,500	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	130,735	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	4,332	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.72	3.46	3.23	2.99	MNR
Current MADS burden (%)	N.A.	2.98	3.09	3.23	3.49	4.44
Pro forma MADS burden (%)	N.A.	3.17	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	134,534	126,050	131,124	136,765	200,977
Cash and investments ($000s)	N.A.	159,343	154,519	159,894	169,243	MNR
Unrestricted net assets ($000s)	N.A.	193,955	189,870	196,812	203,213	MNR
Expendable resources ($000s)	N.A.	178,394	125,398	119,007	132,625	MNR
Cash and investments to operations (%)	N.A.	116.6	116.9	124.9	135.0	137.7
Cash and investments to debt (%)	N.A.	123.6	230.7	378.2	372.2	243.9
Cash and investments to pro forma debt (%)	N.A.	121.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	130.5	94.9	93.0	105.8	81.0
Expendable resources to debt (%)	N.A.	138.3	187.2	281.5	291.7	151.8
Expendable resources to pro forma debt (%)	N.A.	136.5	N.A.	N.A.	N.A.	MNR

Messiah College, Pennsylvania (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Average age of plant (years)	N.A.	16.4	15.4	14.7	13.9	13.5

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. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Ratings Detail (As Of June 8, 2018)

Cumberland Cnty Mun Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Cumberland Cnty Mun Auth (Messiah Coll) PCU_GO		
Long Term Rating	A/Stable	Affirmed
Cumberland Cnty Mun Auth (Messiah Coll) (AICUP Fing Prog)		
Long Term Rating	A/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
Messiah Coll, Pennsylvania		
Pennsylvania Hgr Ed Fac Auth (Messiah Coll)		
Long Term Rating	A/Stable	Affirmed
Pennsylvania Hgr Ed Fac Auth (Messiah Coll)		
Long Term Rating	A/Stable	Affirmed

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.