S&P Global Ratings

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Summary:

Northeastern Pennsylvania Hospital & Education Authority
King's College; Public Coll/Univ - Unlimited Student Fees

Primary Credit Analyst:
James Gallardo, Centennial + 1 (303) 721 4391; james.gallardo@spglobal.com

Secondary Contact:
Ken W Rodgers, New York (1) 212-438-2087; ken.rodgers@spglobal.com

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Summary:

Northeastern Pennsylvania Hospital & Education Authority
King's College; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
US$45.575 mil coll rev bnds (King's Coll) ser 2019 due 06/30/2049		
Long Term Rating	BBB+/Stable	New

Rationale

S&P Global Ratings assigned its 'BBB+' long-term rating on Northeastern Pennsylvania Hospital & Education Authority series 2019 college revenue bonds (King’s College project). The outlook is stable.

We assessed King's enterprise profile as adequate characterized by a slight decline in full-time equivalent enrollment, weak matriculation, and weakened selectivity, although these weaknesses are somewhat offset by the college's good student quality within a highly competitive operating environment. We assessed King's financial profile as adequate, with improving available resources for the rating category, continued positive operations, and manageable maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb+' and a final rating of 'BBB+'.

The 'BBB+' rating further reflects our view of the college's:

- History of full accrual operating surpluses;
- Good student quality and faculty; and
- Modest expandable resources for the rating category, with available resources equal to 57.1% of operating expenses and 88.1% to debt

In our view, offsetting factors include, the college's:

- Limited demand profile, with a high acceptance rate, and a low retention rate;
- High student-fee dependence with tuition, fees, and auxiliary revenue accounting for 93% of fiscal 2018 revenue; and
- High contingent liability risk due to the low availability of funds available within 30 days.

The series 2019 college revenue bond proceeds of around $45 million will refund the Dallas Area Municipal Authority's existing series 2014B college revenue notes. The university issued the notes for the design, acquisition, construction, and renovation, of new facilities and improvement to the existing facilities. (For more information on King's College, see our most recent report published Feb. 7, 2019, on RatingsDirect.)

In 1946, the Congregation of Holy Cross accepted the invitation of Bishop William J. Hafey of Scranton to begin an independent four-year college for men in Wilkes-Barre. Originally, the school served sons of coal miners and men returning from the war. Today King's College provides a broad based liberal arts education to a diverse student body. It offers 44 undergraduate and five graduate academic majors, 27 NCAA Division III athletic programs (14 male and 13 female), and more than 50 student clubs and activities.

Outlook

The stable outlook reflects our expectation that, over the two-year outlook period, King's College will continue to generate modest full-accrual surpluses, maintain overall stable enrollment and current demand trends, and maintain available resources at levels consistent with the rating.

Upside scenario

We could consider a higher rating during the two-year outlook period if King's improves its demand profile, while continuing to produce full-accrual surpluses, or if available resources improve to levels consistent with those of 'BBB+' peers.

Downside scenario

We could consider a negative rating action in the next two years if the college generates full-accrual deficits, available resources decrease, enrollment declines substantially, or the college's MADS coverage weakens.

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King's College, Pennsylvania; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
King's College ICR PRIVATE RTG		
Long Term Rating	BBB+/Stable	Rating Assigned

Rationale

S&P Global Ratings assigned its 'BBB+' issuer credit rating (ICR) to King's College, a Pennsylvania nonprofit corporation. The outlook is stable.

An ICR reflects the obligor's general creditworthiness and is not specific to a given debt issue because it does not consider the security and other credit and legal characteristics associated with a specific debt obligation.

We assessed King's enterprise profile as adequate, characterized by a slight decline in full-time-equivalent (FTE) enrollment, weak matriculation, and weakened selectivity, though somewhat offset by good student quality within a highly competitive operating environment. We assessed King's financial profile as adequate, with improving available resources for the rating category, continued positive operations, and a manageable maximum annual debt service (MADS) burden, somewhat offset by the college's high contingent liability risk. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb+' and a final rating of 'BBB+'.

The 'BBB+' rating further reflects:

- History of full-accrual operating surpluses;
- Good student quality and faculty; and
- Modest expendable resources for the rating category, with available resources equal to 57.1% of operating expenses and 81.8% to debt.

Offsetting factors include:

- A limited demand profile, with a high acceptance rate and a low retention rate;
- High student-fee dependence, with tuition, fees, and auxiliary revenue for 93% of fiscal 2018 revenue; and
- High contingent liability risk due to the low availability of funds available within 30 days.

In 1946, the Congregation of Holy Cross accepted the invitation of Bishop William J. Hafey of Scranton to begin an independent, four-year college for men in Wilkes-Barre. In the beginning, the school served sons of coal miners and men returning from the war. Today King's college offers 44 undergraduate and five graduate academic majors, 27 NCAA Division III athletic programs (14 male and 13 female), and over 50 student clubs and activities.

Outlook

The stable outlook reflects our expectation that, over the two-year outlook period, King's College will continue to generate modest full-accrual surpluses, maintain overall stable enrollment and current demand trends, and maintain available resources at levels consistent with the rating.

Upside scenario

We could consider a higher rating during the two-year outlook period if King's College improves its demand profile while continuing to produce full-accrual surpluses, or if available resources improve to levels consistent with those of 'BBB+' peers.

Downside scenario

We could consider a negative rating action in the next two years if the college were to generate full-accrual deficits, if available resources were to decrease, if enrollment were to decline substantially, or if the college's MADS coverage were to weaken.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying 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 limited geographic diversity; it is mostly regional. About 68% of students are Pennsylvanians, and the remaining come from other Mid-Atlantic states. As a result, our assessment of King's economic fundamentals is anchored by the local GDP per capita.

Market position and demand

Enrollment at King's College has been stable overall during the past five years, which supports the rating. FTE enrollment declined slightly year over year, to 2,236 for fall 2018 from 2,271. Also, the entering freshman class decreased to 551 in fall 2018 from a college high of 624 in fall 2017. Management attributes the enrollment decrease to a competitive market.

We expect future enrollment to remain stable overall, given managements continued effort to enhance recruitment. Management reports that applications for fall 2018 were fairly stable at 4,292. We consider demand flexibility limited, with weakened selectivity and matriculation rates for fall 2018 compared to previous years' rates. The college is not very selective, accepting a high 77.0% of applicants for fall 2018 compared with 70.7% the previous year. The matriculation rate declined to 16.50% for fall 2018 from 20.30% in fall 2017, reflecting a highly competitive market environment.

Student quality is well above the national average, as demonstrated by the average incoming freshman SAT score of 1103, compared with the national average of 1086. The freshman-to-sophomore retention rate has remained stable during the past few years and for fall 2018 was 73.7%, weaker than rating category medians. The graduation rate, at 66.7% for fall 2018, has also remained stable in the last few years, and remains above those of peers. In our view, the overall enrollment and demand profile continues to be stable. However, given the school operates in a highly competitive market, we have seen some demand metrics weaken in fiscal 2018. According to management, King's competitors include Misericordia University, Wilkes University, Marywood University, and University of Scranton.

King's College's last capital campaign ended in 2008 and raised $38 million, surpassing the budgeted $35 million. The alumni participation rate is 13%, which we view as competitive relative to peer institutions' rates.

Management and governance

King's College has had the same president since 2011. The executive management team is stable, which we believe lends stability to the overall credit profile. The 38-member board of trustees governing the college has been stable, with only rotational changes recently. The maximum number of board members is 40, and at least 10 board members must be priests, brothers, or sisters of Holy Cross. The university is sponsored by the U.S. province of Holy Cross.

King's College operates under the guidance of a strategic plan, whose goals include keeping the college affordable for students and providing on-campus housing for their student body. We believe the college is achieving its strategic goals through the successful completion of capital projects and the board's focus on affordability and net tuition revenue. The college budgets for depreciation expenses and an operating contingency, which we view as a positive credit factor. In our view, the college has good financial practices and manages in a conservative manner.

Financial Profile

Financial management policies

The college has formal policies for endowment, investments, and debt. It operates according to a five-year strategic plan. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization'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 institutions.

Financial performance

King's College's conservative budgeting and control of operating expenses resulted in a $4 million full-accrual operating surplus for fiscal 2018, compared with a $2.3 million surplus for fiscal 2017. Management attributes the greater surplus to continued growth of net tuition revenue and to stringent expense controls. For fiscal 2019, management expects results to be positive, given its practice of conservative budgeting for operating contingencies. In our view, the continued surpluses support the rating.

As with most private colleges of its size, King's College is highly dependent on student-generated fees: Tuition, fees, and auxiliary revenue generated 93% of fiscal 2018 adjusted revenue; variable enrollment has the potential to pressure net tuition revenue. Tuition, including room and board, was in line with that of peer institutions, in our view, for fall 2018. The college plans to increase tuition by 3% over the previous year. The overall fiscal 2018 tuition discount rate increased to 40.40% from 37.96% in fiscal 2017. The freshman discount rate is expected to remain at 40% in fiscal 2019. Like many of its peers, King's College increased tuition discounting to maintain enrollment, which indicates that the rate is likely to remain stable during the outlook period. In our view, net tuition revenue growth should remain steady, offsetting the high discount rate, if total enrollment continues to grow.

Available resources

Available resources for fiscal 2018 improved modestly. Available resources (as measured by expendable resources) were weak, at $53 million, as of fiscal year-end 2018 (June 30), equal to 57% of adjusted operating expenses and 81.8% of outstanding debt. Although available resources are deflated given that property, plant, and equipment is significantly higher than the college's outstanding debt, we note that the college's cash and investments are largely restricted and are not available for use in the normal course of operations.

The endowment, which had a market value of approximately $84.5million as of fiscal year-end 2019, remains mostly restricted. The college invests a large portion of its endowment ($71.9 million) with the University of Notre Dame, a religious affiliate that shares the college's Catholic ministry and educational mission. These assets are held in Notre Dame's diversified endowment pool with an emphasis on equity-based instruments to obtain capital appreciation and current yield. Investments held in the affiliate's endowment pool include U.S. public equities, non-U.S. public equities, long/short public equities, fixed-income securities, marketable alternatives, private equity, real estate, and other real assets. The majority of this investment is accessible to the school at 90 days, which we view as illiquid. The spending policy is 5% of a three-year moving average and, in our view, is sustainable.

Debt and contingent liabilities

King's college had $64.9 million of debt as of fiscal year-end 2018, all of which was bank debt (series A and series B 2014 and a line of credit). In October 2014, the Dallas Area Municipal Authority issued $69 million of college revenue notes. The notes were then purchased by Bank First National Bank of Pennsylvania (Agent; 32.9% share), Manufacturers and Traders Trust Company (21.4% share), Santander Bank (12.1% share), First Keystone Community Bank (11.4% share), First National Community Bank (10.7% share), NBT Bank (7.1% share), and Wayne Bank (4.3% share). The swap counterparty for the 2013 A debt is First National Bank. The swap counterparty for all of the 2014 B debt is M&T Bank. The obligor has contingent liability risk exposures from financial instruments with payment provisions that change upon the occurrence of certain events, and we do not consider the risk manageable due to the low availability of funds within 30 days. Acceleration provisions include a debt service coverage ratio 1.1x, a minimum amount of unrestricted cash and investment (tested semiannually), and a minimum total endowment funds of $45 million (tested last day of fiscal year). MADS of $3.5 million equaled 3.8% of fiscal 2018 operating expenses, which we consider manageable. In our opinion, the financial profile can accommodate a limited amount of additional debt at the current rating.

Kings College, Pennsylvania

Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2019	**2018**	**2017**	**2016**	**2015**
Enrollment and demand					
Headcount	2,514	2,468	2,421	2,128	2,118
Full-time equivalent	2,236	2,271	2,235	2,128	2,118
Freshman acceptance rate (%)	77.6	70.7	70.9	71.6	67.3
Freshman matriculation rate (%)	16.5	20.3	20.9	22.3	22.8
Undergraduates as a % of total enrollment (%)	90.1	89.0	86.0	93.5	94.5
Freshman retention (%)	N.A.	73.3	76.8	71.9	74.6
Graduation rates (six years) (%)	N.A.	66.7	65.3	65.9	51.5
Income statement					
Adjusted operating revenue ($000s)	N.A.	97,430	89,361	84,113	81,038
Adjusted operating expense ($000s)	N.A.	93,374	86,990	83,096	79,962
Net operating income ($000s)	N.A.	4,056	2,371	1,017	1,076
Net operating margin (%)	N.A.	4.34	2.73	1.22	1.35
Change in unrestricted net assets ($000s)	N.A.	8,037	6,807	1,458	332
Tuition discount (%)	N.A.	40.4	38.0	37.7	37.5
Tuition dependence (%)	N.A.	79.0	78.7	77.5	76.7
Student dependence (%)	N.A.	93.0	92.7	92.7	91.5
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	1.3	1.4	1.7	1.9
Endowment and investment income dependence (%)	N.A.	3.6	3.7	3.5	3.6
Debt					
Outstanding debt ($000s)	N.A.	65,180	63,660	68,457	71,309
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	65,180	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	4.03	4.75	5.08	5.15
Current MADS burden (%)	N.A.	3.76	4.04	4.23	4.57
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	84,545	77,807	68,256	70,165
Cash and investments ($000s)	N.A.	78,779	71,567	63,247	63,430
Unrestricted net assets ($000s)	N.A.	74,386	66,349	59,542	58,084
Expendable resources ($000s)	N.A.	53,339	38,522	37,031	39,426
Cash and investments to operations (%)	N.A.	84.4	82.3	76.1	79.3
Cash and investments to debt (%)	N.A.	120.9	112.4	92.4	89.0
Cash and investments to pro forma debt (%)	N.A.	120.9	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	57.1	44.3	44.6	49.3
Expendable resources to debt (%)	N.A.	81.8	60.5	54.1	55.3

Kings College, Pennsylvania (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--				
	2019	**2018**	**2017**	**2016**	**2015**
Expendable resources to pro forma debt (%)	N.A.	81.8	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	18.0	17.5	17.0	15.9

N.A.--Not available. 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.