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New Wilmington Municipal Authority, Pennsylvania
Westminster College; Private Coll/Univ - General Obligation

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Credit Profile		
US$26.53 mil rev bnds (Westminster College) (Aicup Fincg Prog) ser 2017 dtd 02/01/2017 due 05/01/2047		
Long Term Rating	BBB/Stable	New

Rationale

S&P Global Ratings assigned its 'BBB' long-term rating to New Wilmington Municipal Authority's series 2017 revenue bonds, issued for Westminster College (the college), Pa. The outlook is stable.

We assessed the college's enterprise profile as adequate, characterized by increased undergraduate enrollment in fall 2016 following several years of decreases, improving selectivity and matriculation, and a proactive management team, which has demonstrated the ability to make difficult decisions and adjust strategic direction as necessary. We assessed the college's financial profile as strong, characterized by solid available resources, a moderate debt burden, minimal contingent liability exposure, and a conservative pro forma debt structure with 100% fixed-rate debt and fairly level annual debt service. These strengths are offset by our view of generally accepted accounting principles (GAAP)-basis deficit operating trends and limited operating flexibility. The college has had two consecutive years of debt service coverage covenant violations related to its previously issued series 2007 bonds in fiscal 2015 and 2016, which we consider a credit weakness. Per the series 2007 bond documents, there exists a 1.1x debt service coverage requirement, which the college did not meet. We understand these are the only two covenant violations since the series 2007 bonds were issued and have not resulted in an acceleration of the bonds. The college is currently negotiating resolution of this matter with the bond insurer as it is fully refinancing all its long-term debt with the series 2017 bond proceeds, including the series 2007 bonds, and expects to receive a waiver of the bond covenant violation.

It is also inserting a different rate covenant for the series 2017 bonds, which incorporates a liquidity provision, that we feel should be more favorable to the college compared with the series 2007 bonds rate covenant. Combined, we believe these credit factors lead to an indicative standalone credit profile of 'bbb+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'BBB' rating on the college's bonds better reflects its weaker GAAP-basis operating performance compared with medians and peers, and failure to diligently track and comply with debt covenants.

The 'BBB' rating reflects our assessment of the college's strengths:

- Robust available resources for the rating category;
- Healthy fundraising trends; and
- Lack of additional debt plans.

The 'BBB' rating reflects our assessment of the following credit weaknesses:

- Covenant violations in fiscal 2015 and 2016;
- Historical trend of large enrollment decreases with limited demand flexibility although enrollment improved in fall 2015 and 2016 and is expected to grow in fall 2017; and
- Limited revenue diversity.

Securing the bonds is a general obligation of the college. The college, founded in 1852 by members of the Presbyterian Church, is a private, co-educational liberal arts college in New Wilmington, Pa., about 60 miles north of Pittsburgh. As of fall 2016, it served 1,263 headcount (1,208 full-time equivalents [FTE]) through 41 majors, 10 pre-professional programs and four masters programs. It has been continuously accredited by the Middle States Commission on Higher Education since 1921 and also has program-specific accreditations.

The college will use the series 2017 bond proceeds to provide $26.5 million (par amount) to fully refund its series 2007 bonds and variable-rate series 2011 note, and provide $15 million (par amount) for various capital projects. The series 2017 bonds are to be structured as fixed rate, with a fairly level annual debt service for the life of the bonds. The college indicates no additional debt plans within the outlook period.

Outlook

The stable outlook reflects our expectation that the college's enrollment will stabilize consistent with management's projections, GAAP-basis operations will improve from fiscal 2016 levels, and available resources will remain steady around current levels.

Downside scenario

We could consider a negative rating action within the two-year outlook period if GAAP-basis operating deficits worsen from fiscal 2016 levels, enrollment returns to a declining trend, available resources materially deteriorate, or the college issues substantial additional debt. In addition, an increased endowment draw beyond 6% would be viewed negatively.

Upside scenario

A positive rating action within the outlook period is possible if the college demonstrates consistent compliance with its debt covenants, if there is a trend of enrollment stabilization, improves GAAP-basis operating performance and preserves current available resource ratios.

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, as 64% of students in fall 2016 attend from Pennsylvania. As such, our assessment of the college's economic fundamentals is anchored by the Commonwealth of Pennsylvania's GDP per capita.

Market position and demand

After multiple years of large enrollment decreases, the college's enrollment levels have improved in the past two fall semesters supported by improved enrollment at the undergraduate level, offset by continued declines in graduate and nontraditional enrollment which represent a small component of overall enrollment. Undergraduate headcount and FTE enrollment figures were 1,163 and 1,156 in fall 2016, a 5.3% and 5% increase, respectively, from fall 2015 levels. We understand the graduate and nontraditional headcount and FTE declines in fall 2016 reflected a strategic decision by the college to intentionally pull back and refocus graduate recruitment efforts toward enrolling more online students rather than traditional graduate students at its three graduate satellite offices. Management indicates they are concentrating on recruiting full-time, undergraduate students consistent with their mission.

The college recently announced a new partnership between its new nursing program and the University of Pittsburgh Medical Center (UPMC) associated with its Jameson Hospital school of nursing in New Castle, Pa. Under this partnership, a new four-year full-time undergraduate program leading to a nursing diploma and a bachelor of science in nursing degree will commence in fall 2017 at the college campus. Per management, first-year students will take pre-nursing and liberal arts courses at the college and matriculate to UPMC Jameson's school of nursing located approximately seven miles from the college campus. Management indicates the college is targeting recruiting 48 full-time undergraduate students annually in this nursing program due to capacity constraints, but is likely to adjust this goal based on demand.

Freshman applications have been volatile and decreased for consecutive years between fall 2013 and 2015. This was attributed to the reduction and eventual termination of an agreement with an admissions consulting firm starting with fall 2013. The incoming freshman class size in fall 2016 was the highest in recent years at 378. The freshman acceptance rate has also varied with applications and was 65.8% in fall 2016. The matriculation rate remains weak, albeit improved versus prior years, at 20% in fall 2016, which is indicative of regional competitive pressures. Per management, the college has exceeded budgeted targets for freshman and transfers categories in fall 2016 and expects a positive budgetary variance as a result.

Student quality, as measured by aggregate math and reading SAT scores, is slightly above the national average of 1,006 at 1,038 for fall 2016. The graduation rate decreased to 73% for fall 2016 versus 79% in fall 2012, which management attributes to students recruited through its agreement with an admissions consultant in prior years which resulted in students enrolling who were not a good fit with the college. In our view, within sustained enrollment stabilization, the enrollment and demand profile is susceptible given the college's small size and a highly competitive market for students.

Management has executed various enrollment strategies to stabilize enrollment and attract students in a highly competitive regional landscape, including adding admissions staff, expanding its geographic footprint to markets outside of its primary market, increased social media marketing, signing new articulation agreements with local

community colleges to streamline its transfer process, utilizing a financial aid consultant to maximize use of unfunded aid to recruit a broader set of students, purchase of a new customer relations management system to better track students and prospects, and starting men's and women's lacrosse teams. Overall, management expects undergraduate enrollment will continue to grow from fall 2016 levels especially given the addition of the new nursing program in fall 2017, and noted that while it is still early in the admissions cycle, applications, acceptances, and deposits for fall 2017 are up from this time last year. The undergraduate first-year retention rate has improved over the past five years to 84.6% in fall 2016 from 80.4% in fall 2012, and further supports the university's projections for undergraduate headcount.

Fundraising

The college has a good fundraising history and robust culture of giving and has successfully completed multiple fundraising campaigns in recent history. Its most recent comprehensive campaign was completed in 2015, having exceeded its original $40 million goal with a total of $52 million raised. Management reports the majority of capital projects on campus have historically been funded with gifts, and the college continues to plan to finance major projects this way, due to their solid and stable donors and prospects. The college has a large endowment size per FTE relative to rating category medians and peers. Its alumni participation rate remains well above the national average and peer institutions at roughly 20.8% in fiscal 2016. The institutional advancement office has been restructured and refocused and a new vice president for institutional advancement has been recruited and fundraising remains an important institutional focus under leadership of the new president.

Management and governance

As planned, the college's long-tenured president retired at the conclusion of the 2015-16 academic year and has been succeeded by Dr. Kathy Richardson, who officially started as the college's new president on July 1, 2016. Dr. Richardson has an extensive background in higher education as a researcher, author, professor, and chief academic officer, including a long time at Berry College in Georgia where she held positions such as faculty member, provost and chief academic officer. Aside from this change, the college hired a new vice president for enrollment and marketing in January 2014 with an extensive background in enrollment management and marketing, including admissions and financial aid. Following a national search, a new vice president for institutional advancement was hired and joined in January 2015. The new vice president for institutional advancement has a fundraising background, having previously served as director of university advancement at a liberal arts college in Ohio, and as executive director of a private foundation also in Ohio, where he was responsible for all aspects of fundraising efforts. The vice president for finance and management services has served in this position since 2004. Lastly, the college has an interim vice president for academic affairs (VPAA) and dean of the college during 2016-2017. This position is expected to be filled by the new president shortly. Management indicates the transitions have proceeded smoothly, with all positions filled quickly. Management does not budget for depreciation, which we do not consider a best practice, but includes debt service in its forecasting. A 27 active member (excluding non-voting emeritus members) self-selecting board of trustees with a standard committee structure governs the college.

Financial Profile

Financial management policies

The college has formal policies for endowment investments, reserves and liquidity, and debt which we view favorably. Its current 10-year 2010-2020 strategic plan has defined initiatives and per management, specific strategies with measurable costs and goals but lacks specific financial targets related to operating margins, which is not entirely unusual relative to its higher education peers. Per management, the college will create a new strategic plan under direction of its new president in fiscal year 2018. The college meets standard annual disclosure requirements. The financial policies assessment is neutral, reflecting our opinion that, while there may be some areas of risk, the college'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 comparable providers.

Financial performance

The college has posted operating deficits on a GAAP basis in the past three fiscal years based on S&P Global Ratings' operating income calculations. In addition, it has a high reliance on student-generated fees. It ended fiscal 2016 with an adjusted operating deficit of $2.4 million (or negative 4% margin) on a GAAP basis, up from a $2.1 million adjusted operating deficit in fiscal 2015 (negative 3.5% margin). In fiscal 2016, a relatively small $376,175 in net assets was released from restrictions for capital, which we classify as nonoperating revenue in our analysis. Overall operations were affected by a number of factors, including a 3.7% decline in net tuition revenue for fiscal 2016 given increased discounting and an enrollment decrease. Operations were further pressured by rising operating expenses in fiscal 2016. On a cash basis, operations have consistently been positive given a $2.6 million average depreciation and amortization expense for the past three fiscal years. Beyond fiscal 2016, the college projects improved GAAP operations and indicates student revenues are tracking over budgeted estimates so far this year. To achieve sustained operating improvements, we consider it imperative for the college to stabilize its enrollment given its revenue reliance and continue to focus on expense management.

As with most private colleges of its size, the college is highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 82.4% of fiscal 2016 adjusted operating revenues; it is our opinion that continued enrollment challenges would adversely affect operations. Tuition increases have averaged 2.8% for the past four years and increased by 3% to $33,810 for the 2016-2017 academic year, comparable with peer institutions, in our view. Roughly 35% of college students are Pell-eligible, which we view as a moderate figure. The overall tuition discount rate has increased in recent years largely due to steadily increased freshman discounting. For fall 2015 (fiscal 2016), the overall discount rate was 48.1%, an increase compared with 46.4% in fall 2014 (fiscal 2015). The fall 2015 freshman discount rate was 62.5%, while for fall 2016 (fiscal 2017), the freshman discount rate slightly decreased to 61.9%.

Available resources

Available resources, as measured by expendable resources, are healthy for the rating category at $43.7 million as of June 30, 2016, equal to 72.2% of adjusted operating expenses and 141.2% of pro forma debt. Cash and investments, which we typically view as a less conservative measure of balance sheet strength due to the inclusion of restricted funds, equaled a higher 192.2% of adjusted operating expenses and 376.1% of pro forma debt as of June 30, 2016. We

expect the college's available resources will improve in the near term, with expectations of improved operating trends, and no plans for additional debt.

As of June 30, 2016, the college reported a $109.9 million endowment, a good level for the current rating category, in our view. We consider the asset allocation of the university's long-term investment portfolio moderately risky for an endowment of its size, with 64.4% invested in equities, 15.8% in fixed-income, and 19.8% in alternative investments (including hedge funds). As of June 30, 2016, 40.3% of total investments were listed as level I in audited financials. The endowment spending rate of 5.7% in fiscal 2016 is above-average compared with the industry average, although management indicates a slight reduction in the rate for fiscal 2017 relative to fiscal 2016.

Debt and contingent liabilities

Post issuance of the series 2017 bonds, the college's debt would equal $30.9 million consisting almost entirely of the series 2017 bonds. Post issuance of the series 2017 bonds, all debt will be fixed rate. The pro forma maximum annual debt service burden is what we consider a moderate 3.2% of fiscal 2016 adjusted operating revenues.

The college offers its employees a defined-contribution retirement plan, which, by definition, is fully funded. It also sponsors deferred compensation plans under which benefits payable equal the fair value of the underlying investments. The size of the college's other postemployment benefit healthcare liability recorded on its June 30, 2016 balance sheet was $7.5 million. Per management, this is related to a healthcare plan that has been frozen for many years. The annual premiums for this plan totaled $295,000 for fiscal year 2016. The college has no intention of increasing participation in this plan and projects the liability and annual premiums is expected to diminish over time as the grandfathered group of retirees/employees eventual die or seek other medical plans. The overall cost of this plan is dependent on the number of participants (which was restricted by the college in 1996) and the cost of the Medicare supplement plans. The college may curtail benefits in the future, if necessary. The college is not party to any swap contracts and therefore has no counterparty risk.

Westminster College, Pa. Financial Statistics

	--Fiscal year ended June 30--				Medians for 'BBB' rated private colleges and universities
	2017*	**2016**	**2015**	**2014**	**2015**
Enterprise Profile					
Full-time equivalent	1,208	1,211	1,235	1,308	3,229
Freshman acceptance rate (%)	65.8	70.3	75.6	72.5	72.0
Freshman matriculation rate (%)	20.0	18.7	14.7	12.7	MNR
Freshman retention (%)	84.6	81.5	81.0	85.1	79.4
Faculty with terminal degrees (%)	93.0	91.0	93.0	91.0	MNR
Average SAT scores§	1,038	1,055	1,048	1,036	1,064
Average ACT scores	23	24	23	23	MNR
Freshman Applications	2,868	2,424	2,633	3,432	MNR
Annual freshman application percentage change (%)	18.3	(7.9)	(23.3)	(12.8)	MNR
Graduation rates (six years) (%)	73.0	76.0	78.0	74.0	MNR
Undergraduates as a % of total enrollment (%)	92.1	84.3	86.0	94.0	75.7

Westminster College, Pa. Financial Statistics (cont.)

	--Fiscal year ended June 30--				Medians for 'BBB' rated private colleges and universities
	2017*	**2016**	**2015**	**2014**	**2015**
Tuition discount (%)	N.A.	48.1	46.4	46.7	35.6
Alumni particpation rates (%)	N.A.	20.8	23.0	23.4	MNR
Endowment per FTE	N.A.	90,756	93,414	87,787	22,451
Students from inside of the state (%)	64.0	72.0	70.0	79.0	MNR
Average age of plant (years)	N.A.	12.4	11.7	11.5	13.6
Financial Profile					
Net operating margin (%)	N.A.	(3.99)	(3.52)	(3.06)	0.83
Student dependence (%)	N.A.	82.4	82.6	86.0	90.0
Research dependence (%)	N.A.	0.9	0.9	1.0	MNR
Endowment and investment income dependence (%)	N.A.	9.6	9.1	8.1	MNR
Other operating revenue dependance (%)	N.A.	0.0	0.0	0.0	MNR
Endowment spending rate (%)	N.A.	5.70	5.70	5.80	MNR
Current MADS burden (%)	N.A.	3.14	N.A.	N.A.	4.30
Pro forma MADS burden (%)	N.A.	3.20	N.A.	N.A.	MNR
Cash and investments ($000s)	N.A.	116,287	124,695	126,706	MNR
Cash and investments to debt (%)	N.A.	730.4	726.9	712.6	150.8
Cash and investments to pro forma debt (%)	N.A.	376.1	N.A.	N.A.	MNR
Expendable resources ($000s)	N.A.	43,670	53,864	59,781	MNR
Expendable resources to operations (%)	N.A.	72.2	91.6	99.9	52.6
Expendable resources to debt (%)	N.A.	274.3	314.0	336.2	93.9
Expendable resources to pro forma debt (%)	N.A.	141.2	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	60,488	58,805	59,849	MNR
Total debt	N.A.	15,921	17,155	17,782	56,393
Total pro forma debt	N.A.	30,921	N.A.	N.A.	MNR
Current debt service	N.A.	2,042	1,407	1,408	MNR
Pension expense	N.A.	824	829	879	MNR
OPEB expense	N.A.	306	219	201	MNR
Percent Retired 10 years (%)	N.A.	19.6	N.A.	N.A.	MNR
Contingent liabilities	N.A.	1,860	2,590	2,700	MNR

N.A.--Not available. MNR--median not reported. 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 times (net adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Current MADS burden = 100 times (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. *Unaudited. §SAT Scores include only reading and math.

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