S&P Global
Ratings

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Cumberland County Industrial Development Authority, Pennsylvania Rider Musser Development LLC; Private Coll/Univ - General Obligation

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Cumberland County Industrial Development Authority, Pennsylvania
Rider Musser Development LLC; Private Coll/Univ - General Obligation

Credit Profile		
US$59.9 mil taxable rev bnds (Rider Musser Development LLC) ser 2018 due 10/01/2053		
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-' rating, with a stable outlook, to Cumberland County Industrial Development Authority, Pa.'s $59.9 million in series 2018 taxable revenue bonds issued for Rider Musser Development LLC. The series 2018 taxable revenue bonds are supported by a guaranty from Messiah College.

At the same time, S&P Global Ratings affirmed its 'A-' long-term rating on Cumberland County Municipal Authority, Pa.'s series 2018, 2016 OO1, 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 a 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 adequate, with a trend of operating deficits over the last five years and a large operating debt, relative to those of prior years, anticipated for fiscal 2018, though we feel this is partly mitigated by a balance sheet that is composed of nearly 80% unrestricted net assets. The rating further reflects our view of the risk associated with the college's guaranty of the Rider Musser Development LLC debt, most specifically reflected in a higher pro forma debt burden, as we have fully incorporated Rider Musser's debt on Messiah College's balance sheet metrics. These combined credit factors lead to an indicative stand-alone credit profile of 'bbb+'. As our criteria indicate, the final ratings can be within one notch of the indicative credit level. In our opinion, the 'A-' ratings better reflects Messiah's student quality, and niche as a Christian College.

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 in a highly competitive area, and has undertaken various initiatives to ensure demand remains strong; and
- Niche as a Christian college, which helps it to maintain matriculation rates above those of peers.

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

- Consistently 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 with fiscal 2018 anticipated to end with a (4.8%) full-accrual deficit;
- Growing tuition discount rate, which could further pressure already weak operating margins;
- Diminished pro forma available resources ratios, with the incorporation of the Rider Musser debt, reflected by expendable resources equal to 95.2% of pro forma debt as of June 30, 2018.

The college recently entered into a public-private partnership with Rider Musser Development LLC, which will construct a 314-unit residential property adjacent to Messiah College. We expect the project to be completed in two phases, in 2019 and 2020. The residential properties will be market-rate rental apartments open to the public; the apartments will not be available to undergraduate students, but will be available to graduate students. The college has made a one-time $12.78 million investment from its unrestricted investment portfolio in support of the project. The construction project will have a guaranteed maximum price contract, and has builder's risk insurance. Given the commercial nature of the project, we believe the residential apartment project carries considerable construction, start-up, and potential operating challenges, though once constructed, it will be managed by a third party without any further day-to-day operational involvement from Messiah College beyond the series 2018 guaranty and the fact that the college is the sole member of Rider Musser Development LLC.

The series 2018 taxable bonds will fund the residential apartment construction project, with a guarantee from Messiah College to make principal and interest payments if needed, through the final maturity of the bonds, or until the bonds are optionally redeemed, or refunded. Under the guaranty agreement, the series 2018 bonds are an unconditional general obligation of the college. Therefore, we have fully incorporated the series 2018 bonds into our pro forma debt and liquidity ratios.

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 the college will not issue or guarantee any further debt, that financial resources will not materially worsen, and that the balance sheet will remain largely unrestricted.

Downside scenario

During the outlook period, we could consider a negative rating action if operating results were to worsen beyond anticipated fiscal 2018 levels. We could also consider a negative rating action should the college's available resources materially worsen through the issuance of further additional debt or through a material increase in operating expenses. 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 nearly 63% of its students coming from Pennsylvania. 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. Management indicates that preliminary fall 2018 FTE will be similar to that of the previous fall. 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, and then held steady in fall 2018 at 2,529. 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, and is anticipated to be 78.9% in fall 2018. Matriculation has also been relatively stable; it was 33.8% in fall 2017 and declined slightly to 32.5% in fall 2018. 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, fall 2018 SAT scores are anticipated to be similar to those of the previous fall. 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 nearly 3.0% of adjusted operating expenses, the largest operating deficit the college has experienced over the past five years. Management indicates that preliminary fiscal 2018 results show a net adjusted operating deficit of $6.8 million, or a 4.8% operating deficit. We note that fiscal 2018 results are in draft form, as the audit for fiscal 2018 is still being finalized. We view the continued weakening of operating margins as a pressuring credit factor, and would view further increases in operating deficits negatively. We understand that, over time, the college may begin to realize additional savings from its conversion to natural gas and from returns on its $12.78 million investment in 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, and are anticipated to generate 88.7% of fiscal 2018 adjusted operating revenues. 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 the college guarantees, available resources as measured by expendable resources have diminished compared with those of previous years. Fiscal 2017 audited expendable resources of $114.5 million were equal to 84% of adjusted operating expenses, 176% of outstanding debt, and 90% of pro forma debt reflecting the $5.5 million in series 2018 bonds previously issued for Messiah College and the $59.9 million of bonds to be issued for Rider Musser. Fiscal 2018 expendable resources are expected to total $122.4 million, equal to 86% of adjusted operating expenses, 178% of debt, and 95% 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, 245% of outstanding debt, and 126% of pro forma debt. Fiscal 2018 draft cash and investments are expected to total $157.3 million, equal to 110% of operating expenses, 229% of outstanding debt, and 122% of pro forma debt. We note that approximately 80% of the college's total net assets are unrestricted, and view this additional flexibility as a credit strength.

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

Total pro forma debt outstanding at the college was $126.7 million as of June 30, 2017, and is anticipated at $128.6 million based on draft fiscal 2018 results. Fiscal 2018 long-term debt reflects approximately $68.7 million in Messiah College debt and $59.9 million in series 2018 taxable Rider Musser Development LLC debt supported by Messiah's guaranty.

Messiah College's 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 if they were not paid by the college's line(s) of credit, enabling the debt to be refinanced.

The college's pro forma debt burden, reflecting the series 2018 taxable guaranteed bonds, is manageable, in our opinion, at 5.8% of fiscal 2017 expenses and 5.5% of fiscal 2018 expenses.

Messiah College, Pennsylvania

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2017**
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	3,632
Freshman acceptance rate (%)	77.0	79.5	79.0	80.0	65.9	63.5
Freshman matriculation rate (%)	33.8	33.2	35.4	35.2	34.7	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**	**2017**
Undergraduates as a % of total enrollment (%)	80.0	81.7	85.4	86.2	89.9	78.0
Freshman retention (%)	88.0	85.4	88.1	88.1	87.5	85.5
Graduation rates (six years) (%)	80.4	76.3	76.8	79.7	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	135,816	132,782	131,282	126,891	125,073	MNR
Adjusted operating expense ($000s)	142,663	136,674	132,135	127,983	125,325	MNR
Net operating income ($000s)	(6,847)	(3,892)	(853)	(1,092)	(252)	MNR
Net operating margin (%)	(4.80)	(2.85)	(0.65)	(0.85)	(0.20)	1.37
Change in unrestricted net assets ($000s)	(3,384)	4,085	(6,942)	(6,401)	7,711	MNR
Tuition discount (%)	41.3	40.8	40.6	39.9	38.8	36.0
Tuition dependence (%)	73.0	72.0	71.2	71.1	70.4	MNR
Student dependence (%)	88.7	87.6	87.2	88.2	86.9	86.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	0.6	0.7	0.6	0.7	0.6	MNR
Endowment and investment income dependence (%)	6.1	6.3	5.9	6.1	6.2	MNR
Debt						
Outstanding debt ($000s)	68,743	65,065	66,970	42,280	45,465	102,893
Proposed debt ($000s)	59,860	65,360	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	128,603	126,690	N.A.	N.A.	N.A.	MNR
Pro forma MADS	7,869	7,869	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	2.62	2.72	3.46	3.23	2.99	MNR
Current MADS burden (%)	3.07	3.20	3.09	3.23	3.49	5.00
Pro forma MADS burden (%)	5.50	5.76	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	134,534	126,050	131,124	136,765	223,898
Cash and investments ($000s)	157,275	159,343	154,519	159,894	159,353	MNR
Unrestricted net assets ($000s)	190,571	193,955	189,870	196,812	203,213	MNR
Expendable resources ($000s)	122,425	114,489	125,398	119,007	132,625	MNR
Cash and investments to operations (%)	110.2	116.6	116.9	124.9	127.2	146.1
Cash and investments to debt (%)	228.8	244.9	230.7	378.2	350.5	253.5
Cash and investments to pro forma debt (%)	122.3	125.8	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	85.8	83.8	94.9	93.0	105.8	91.5
Expendable resources to debt (%)	178.1	176.0	187.2	281.5	291.7	171.8

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**	**2017**
Expendable resources to pro forma debt (%)	95.2	90.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	16.4	15.4	14.7	13.9	13.6

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.

Ratings Detail (As Of September 26, 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