S&P Global Ratings

RatingsDirect®

Summary:

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

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

Secondary Contact:
Amber L Schafer, Centennial (1) 303-721-4238; amber.schafer@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$22.44 mil taxable rev rfdg bnds (Messiah Univ) ser 2020 SS3 due 05/01/2040		
Long Term Rating	A-/Negative	New
US$6.7 mil rev bnds (Messiah Univ) ser 2020 SS2 due 05/01/2040		
Long Term Rating	A-/Negative	New

Rating Action

S&P Global Ratings assigned its 'A-' rating to Cumberland County Municipal Authority, Pa.'s series 2020 SS2 and SS3 bonds issued for Messiah University. The outlook is negative.

COVID-19

We believe there is a high level of uncertainty regarding the duration and extent of the impact from COVID-19, and that Messiah University has taken adequate steps at this point in time to address its COVID-19 concerns. The university moved all classes online as of March 25, 2020, and student housing facilities were closed outside of hardship circumstances. The university was proactive in cutting costs, and froze travel, hospitality, and operational expenses, in addition to freezing nonessential capital spending and furloughing or reducing the hours or salary of staff, which generated savings of about $7 million. The university received $2.1 million in funding from the CARES Act. Additionally, we note that the university has substantial assets without donor restriction, which totaled $185.5 million in fiscal 2019, in addition to lines of credit that total $15 million, of which $0 is currently drawn. International enrollment accounts for only about 3% of total enrollment, and we believe the university can manage for potential impacts to this student population. As of July 8, 2020, demand for fall seems to be stable with flat trends in both freshman and transfer full-time-equivalent (FTE) enrollment despite modest declines in applications. We also note that selectivity and matriculation rates remain in line with historical averages, which we view favorably given pandemic pressures. The university plans to utilize a hybrid learning format for fall 2020, with one-third of classes socially distanced and in-person and two-thirds of classes remote. The university has also planned for worst-case scenarios, and if necessary could easily transition to an online-only format, as it did during spring 2020.

Messiah University

As of July 2020, Messiah College has moved to university status, and is now Messiah University. We note the university has offered undergraduate and graduate coursework since 2009 and feel that the transition to university status should help increase demand and brand recognition for the institution.

Credit overview

We assessed the university's enterprise profile as strong, characterized by growing enrollment driven by graduate enrollment growth, a stable and long-tenured management team, and a solid retention rate, all in a highly competitive state. We assessed the university's financial profile as adequate, with a trend of worsening operating deficits over the last five years and a large operating deficit, though we feel this is partly mitigated by a balance sheet that is composed of nearly 80% unrestricted net assets. 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-' rating better reflects Messiah's student quality, and niche as a Christian university.

The rating reflects our assessment of the university's:

- Continued growth in overall FTE enrollment that has been primarily driven by growth at the graduate level, which generates additional revenue for the university, 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 university, which helps it to maintain matriculation rates above those of peers.

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

- Consistently weak and worsening financial operations on a full-accrual basis, with a history of full-accrual operating deficits, including a $7.8 million operating deficit (5.4% operating margin) for fiscal 2019, though fiscal 2020 results are trending positively and expected to end with an operating surplus given cost-cutting initiatives at the university;
- Revenue concentration, with student-generated revenues accounting for 90% of fiscal 2019 operating revenues and the potential for COVID-19 to materially pressure these revenues into the fall 2020 semester; and
- Growing tuition discount rate, with a 41.2% overall tuition discount rate for fiscal 2019, which could further pressure already-weak operating margins.

Total outstanding debt at the university is approximately $124 million, and post-issuance outstanding debt will total $129.2 million. Current long-term debt reflects approximately $66.5 million in Messiah University debt and $57.5 million in series 2018 taxable Rider Musser Development LLC debt supported by Messiah's guaranty of annual debt service payments. Messiah will issue about $29.1 million in debt, including a $5.1 million new-money component to fund various improvements on campus, while the remainder of the issuance will partially refund its series 2012 LL3 bonds, and will fully refund series 2001 I3 and 2001 I4 multimodal bonds. The refunding will greatly reduce interest rate risk, and will de-risk the debt profile; currently the debt profile comprises 59.5% fixed-rate debt and 40.5% variable-rate debt. Post-issuance, the debt profile will be composed of approximately 93.6% fixed-rate debt and 6.4% variable-rate debt.

The bonds are secured by a general obligation of the university and are on parity with existing debt. 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 university will equal or exceed 1.1x of the debt service for each fiscal year, and an additional bonds test. The university has no swaps or bullets, and the university has no direct purchase or private placement debt.

Messiah University, initially Messiah College, was founded in 1909 by the Brethren in Christ Church. The university, 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 university is predominantly an undergraduate institution, nine years ago it introduced several graduate programs aligned with its traditional areas of strength. These graduate programs have increased in recent years and are projected to continue growing within the outlook period.

The negative outlook reflects our view that, relative to March of 2020, there remains a very high level of uncertainty related to the COVID-19 pandemic, and that it could still materially pressure Messiah University's demand or finances depending on severity and duration. We believe there is potential for the pandemic to further pressure operating margins into fiscal 2021, and to weaken the university's currently growing FTE enrollment and solid balance sheet. We will continue to monitor the pandemic's impact on the university.

Environmental, social, and governance (ESG) factors

The negative outlook reflects that, although we view the university's response to the COVID-19 pandemic as prudent, we believe risks posed by COVID-19 to public health and safety, which we view as a social risk under our ESG factors, could pressure the university's enterprise and financial profiles.

Negative Outlook

Downside scenario

During the outlook period, we could consider a negative rating action if available resources at the university were to diminish materially from their current levels, or if operations were to experience renewed pressure in fiscal 2021. We could also consider a negative rating action in the case of significant and unexpected enrollment declines at either the undergraduate or the graduate level. Although we think the university continues to take proactive steps to address COVID-19, and understand the virus to be a global risk, we could consider a negative rating action should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the university.

Return to stable scenario

We could consider revising the outlook to stable should full-accrual operating results continue to improve in fiscal 2021 and enrollment remain stable or grow. We could also consider returning the outlook to stable should the university's already solid balance sheet continue to improve.

Credit Opinion

For more information on Messiah University, please see our report published April 15, 2020, on RatingsDirect.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.