

York College of Pennsylvania; Private Coll/Univ - General Obligation

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York College of Pennsylvania; Private Coll/Univ - General Obligation

Credit Profile

US\$10.885 mil rev bnds (York Coll of Pennsylvania) ser 2021 TT2 due 05/01/2034

<i>Long Term Rating</i>	A-/Stable	New
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Pennsylvania Hgr Educl Facs Auth, Pennsylvania

York Coll of Pennsylvania, Pennsylvania

Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) PCU_GO

<i>Long Term Rating</i>	A-/A-2/Stable	Affirmed
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Pennsylvania Hgr Ed Fac Auth (York Coll of Pennsylvania) PCU_GO

<i>Long Term Rating</i>	A-/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'A-' long-term rating to General Authority of South Central Pennsylvania's estimated \$10.89 million series 2021 TT2 revenue bonds to be issued for York College of Pennsylvania (YCP). Simultaneously, we affirmed our 'A-' long-term rating on the General Authority of South Central Pennsylvania's, the York County Industrial Development Authority's, and the Pennsylvania Higher Educational Facilities Authority's (PHEFA) bonds, issued for YCP. In addition, S&P Global Ratings affirmed its 'A-/A-2' dual rating on the PHEFA's series 2014T2 bonds. The outlook, where applicable, is stable.

The college will use the estimated \$10.89 million series 2021 TT2 revenue bonds to fully refund its outstanding series 2014 T2 and 2014 T3 multimodal bonds. Post-issuance the college will have approximately \$100 million in total debt outstanding, approximately 76% of the bonds will be naturally fixed rate, and 24% will be multimodal bonds, which are in fixed modes for various terms. The pro forma maximum annual debt service (MADS) burden is 5.5% of fiscal 2020 operating expenses, down from 5.6% of fiscal 2019 operating expenses. All debt is a general obligation of the college. Management does not plan to issue additional new-money debt during the next two years.

The long-term rating component reflects our assessment of the institution's general credit characteristics. The short-term rating component reflects our assessment of the institution's self-liquidity. We believe the college demonstrates sufficient liquid assets of high credit quality, which it could use to cover the variable-rate series 2014 T2 debt in the event of a failed remarketing. These bonds are expected to be fully refunded with this issue.

Because of the COVID-19 outbreak, the college closed its campus on March 15, 2020, and all students returned home. The college reopened to all students in the fall with students taking a mix of in-person, online, and hybrid courses. Students lived on campus in fall 2020, though the college saw a slight decline in beds occupied from the previous year. The number of positive cases on campus has been limited since the start, and the college currently has ample space to quarantine students if necessary. The college saw about a 6% decline in enrollment in fall 2020, which management believes was largely due to COVID-19. The college had about 100 fewer freshmen students than the previous year, and while it does not have many international students, its international full-time-equivalent (FTE) enrollment decreased to

21 from 59. Management expects to increase international FTE enrollment in fall 2021 and hopes to curb its trend of declining total enrollment.

The college ended fiscal 2020 with break-even operations, slightly weaker than previous years. Management projected a negative \$1.8 million net impact related to COVID-19, meaning it would have likely had a similar surplus as in previous years. Included in this calculation was about \$1.3 million in Coronavirus Aid, Relief, and Economic Security Act funding for the college. The college also elected to recognize about \$297,000 in fiscal 2021 to offset additional expenses. Given the decline in enrollment, the college is expecting slightly negative operations in fiscal 2021, partially offset by estimated Coronavirus Response and Relief Supplemental Appropriations Act and American Rescue Plan funds for institutional use of \$3.45 million and \$4.48 million respectively. Auxiliary revenue was about 19% of total revenue generated in fiscal 2020, down from 22% in fiscal 2019 but still above average and in our view a potential risk. Although we think YCP has taken proactive steps to address COVID-19, and understand the virus to be a global risk, we could consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect the college's demand, finances, or trajectory.

Credit overview

The rating reflects YCP's adequate enterprise profile and strong financial profile. The adequate enterprise profile is characterized by strong matriculation and low tuition discount rates, offset by below-average retention rates and ongoing enrollment declines that fell further in fall 2020 given the impact of COVID-19. The strong financial profile is supported by historically solid operating margins, though operations were break even in fiscal 2020. Although management is budgeting modest deficits in fiscal 2021, it does not expect to use its entire endowment draw, which would provide an additional \$3 million in revenue as current operations remain sustainable. The financial profile is also supported by above-average expendable resource ratios compared with those of similarly rated peers with no additional plans for debt. Combined, these factors result in an indicative stand-alone credit profile of 'a-' and a long-term rating of 'A-'.

The rating further reflects our opinion of YCP's:

- History of solid full-accrual operating surpluses for the college before break-even full-accrual operations in fiscal 2020 due to COVID-19;
- Solid available resources, with expendable resources of about \$201 million, representing 153.95% of operating expenses, and 200.2% of pro forma debt;
- Large investment in its campus, as evidenced by a low average age of plant of 11.9 years; and
- Strong tuition flexibility, with a comprehensive price that is below that of its peers and a low, though growing, level of tuition discounting, with an overall discount rate of 29.6% in fiscal 2020.

We believe somewhat offsetting credit factors include YCP's:

- Nine straight years of FTE student enrollment declines, including a 6% decline in fall 2020, which management attributes to COVID-19;
- Limited revenue diversity, with a high 87% dependence on tuition and auxiliary fees for fiscal 2020;
- Below-average retention and graduation rates compared with those of similarly rated peers, though graduation rates

have increased the past three years; and

- Highly competitive market.

The stable outlook reflects our opinion that over the outlook period, enrollment and demand will stabilize, operating margins will not deteriorate beyond current expectations such that they do not remain consistent with the rating category, and available resource ratios will remain robust.

YCP is a private, coeducational institution founded in 1787. It is on a 190-acre campus in York. The college offers more than 50 baccalaureate degree programs in the arts and sciences, as well as master's degrees in nursing, business administration, and education. YCP's most popular majors include business, behavioral science, nursing, and engineering/computer sciences. It recently added environmental science, environmental and sustainability studies, environmental horticulture, and health care administration programs. The college also owns York Country Day School, a private day school serving preschool-through-12th-grade students, with a headcount of about 260.

Environmental, social, and governance (ESG) factors

In our view, higher education entities face elevated social risk due to uncertainty on the duration of the COVID-19 pandemic and the uncertainty around its total effect on the school's operations. Although the school is operating under a primarily in-person mode of instruction for spring 2021, we believe management has been prudent regarding the health and safety of students, faculty, and staff, and has limited the risk associated with the community spread of COVID-19. Despite elevated social risk, we consider YCP's environmental and governance risks in line with our view of the sector.

Stable Outlook

Downside scenario

We could lower the rating if declines in enrollment continue and demand metrics deteriorate, or if operating margins decrease materially while available resource ratios fall significantly. Although we think the college has taken proactive steps to address COVID-19, we understand the virus to be a global risk, and we could consider a negative rating action during the outlook period should pressures related to the pandemic materially affect enrollment, demand or finances.

Upside scenario

We could consider a positive rating action if the college stabilizes or grows enrollment while improving its operating margins and growing available resources without adding debt.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the college has rather limited geographic diversity, with approximately 58% of students coming from Pennsylvania. Therefore, our assessment of YCP's economic fundamentals is anchored by Pennsylvania's GDP per

capita. However, the percentage of incoming freshman students from Maryland (the second-highest state) increased in fall 2020 to 23% from 19% in fall 2019.

Market position and demand

After a year of flat enrollment, the college saw a decline in fall 2020 given COVID-19's impact on student decisions and York's recruitment. Total FTE enrollment fell to 3,707 in fall 2020 from 3,956 in fall 2019. Pressured demographic trends continue in Pennsylvania and have led to declining enrollment at the college over the past eight years. However, enrollment was near break even in fall 2019, and the college expects enrollment to increase in the future. The college had a smaller freshman class of 846 in fall 2020, down from 942 in fall 2019 and 975 in fall 2018. YCP is working to persuade those students who chose to stay home or attend another college or university to attend the college. The college's graduate student enrollment increased in fall 2020 to 163 from 153 a year ago and has increased capacity to continue to grow annually in the future through the addition or expansion of programs. The college is hopeful it will increase enrollment in fall 2021.

Selectivity has remained fairly stable over the past four years, with the college accepting about 70% of applicants who started an application; however, when including completed applications the college accepted 96% of students in fall 2020, which we view as weak for the rating. Matriculation continued to decrease, partially from the pressures of COVID-19, falling to 21% in fall 2020 from 23% in fall 2019 and 25% in fall 2018. While we understand the decline in fall 2020 was partially driven by the virus, if the college's matriculation rate continues to decrease, we would view it unfavorably. The college has only about 50 international students, mitigating the risk some colleges and universities face from declines in international students.

Freshman-to-sophomore retention and graduation rates remain slightly below average compared with those of similarly rated peers at 77% and 65%, respectively. Graduation rates increased for the third straight year. YCP's average SAT score declined slightly to 1089 in fall 2020 from 1109 in fall 2019, though remains above historical levels.

YCP has a unique model, in our view, with low tuition levels and low tuition discounting relative to those of peers. Tuition and fees, including room and board, were \$33,390 for academic year 2020-2021, and the discount rate was 29% in fiscal 2020, up slightly from 28% in fiscal 2019. Because of the competitive market and weak demographics in Pennsylvania, we have seen the tuition discount rate increase incrementally the past six years. We expect to see this continue as the college competes for students. YCP's main competitors are local public universities, including Pennsylvania State and Temple in Pennsylvania, Towson, and Salisbury in Maryland, and the University of Delaware.

The college launched its first comprehensive fundraising campaign in October 2020 with the goal of achieving \$55 million. As of March 2021, it had surpassed that goal with \$60.5 million raised. For fiscal 2020, YCP raised \$22.5 million. The alumni participation rate is about average at 5.8%, compared with that of similarly rated peers; however, the college has always had solid participation from various benefactors.

Management

A 24-member board of trustees appointed to three-year terms governs YCP. The former vice president of the board became the president of the board in the summer. One trustee resigned from the position; however, the college does not anticipate any additional major changes. We consider the board diversified and actively engaged, as evidenced by the financial support it provides the college.

Dr. Pamela Gunter-Smith has been YCP's president for the past seven years. YCP recently announced the planned retirements of both its vice president of business affairs and chief financial officer (CFO) and vice president of enrollment management. The search to find replacements is ongoing. The college expects to have a successful candidate for the CFO position by June 2021 to allow some overlap transition, while the vice president for enrollment is expected to continue in his position until the search is completed. The remainder of the senior management team has remained stable, which we believe lends stability to the overall credit profile.

Financial Profile

Financial management policies

We believe the management team has prudent fiscal practices that produce healthy operating surpluses, and it cuts expenses to continue to enhance operating performance. The college has formal endowment spending, investment, and debt policies, and management budgets for depreciation expenses, which we view as a credit strength. We also view YCP's historical limited reliance on endowment spending as a credit strength, providing an additional financial cushion.

The college operates according to a five-year strategic plan and has an informal reserve liquidity policy. It meets standard annual disclosure requirements. The financial policies assessment reflects 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 YCP'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

Although YCP was poised to have another solid full-accrual surplus in fiscal 2020, the impact of COVID-19 led to break-even operations for the year. The college estimates that the virus had about a \$1.8 million impact in fiscal 2020. York is striving for break-even results in fiscal 2021 driven by prudent expense management. While the majority of students are currently on campus, York was affected by the loss of auxiliary revenue in fiscal 2020, which accounted for about 19% of total adjusted operating revenue. We would view a trend of material deficits as a negative credit factor but note the college's robust track record of positive operating performance and expectations to gradually return to positive margins.

YCP remains highly dependent on student-generated fees; tuition, fees, and auxiliary revenue generated 87% of fiscal 2020 operating revenue. It has also increased discounting modestly each year to attract more students, which we believe makes it difficult to improve revenue when enrollment is decreasing. We expect enrollment to stabilize during the outlook period and YCP to realize general full-accrual surpluses following fiscal 2021.

Available resources

In our opinion, YCP's available resource ratios are solid and remained stable in fiscal 2020, following many years of increases. Expendable resources were \$200.9 million at fiscal 2020, equal to 153.9% of operating expenses and 200.2% of pro forma debt. Cash and investments, including restricted investments, were \$224.8 million as of June 30, 2020, or 172.2% of operating expenses and 224.0% of pro forma debt. The expendable resources calculation--unrestricted net

assets plus temporarily restricted net assets less net plant, property, and equipment minus debt--is slightly deflated due to what we consider the college's low debt compared with net plant, property, and equipment, although it is still an appropriate relative measure. In addition, the college has made about \$144 million in significant investments in the campus in the past 10 years, with the majority being cash from operations.

At fiscal 2020 year-end, YCP's pooled investments market value was approximately \$206.1 million. The college's endowment spending policy is principally 5% of the three-year annual moving average market value of pooled endowment assets. As of June 30, 2020, YCP's investments are in domestic and international equities (53%), alternatives (25%), fixed income (21%), and cash (1%).

Debt

Following the issuance of the series 2021 TT2 bonds, the college will have approximately \$100 million of pro forma debt outstanding. This amount is expected to decrease to \$96.7 million after the upcoming debt service payment. Approximately 76% of the bonds are naturally fixed rate, and the remaining 24% are multimodal bonds, which are in fixed modes for various terms. All debt is a general obligation of the college. The pro forma MADS burden is 5.5% of fiscal 2020 operating expenses. Management does not plan to issue additional debt during the next two years.

Upon issuance of the fixed-rate debt to refund its current 2014 T2 and 2014 T3 bonds, the college will have about \$22.78 million in multimodal variable-rate bonds. About \$15.7 million has a two-year term, and about \$7.1 million has a 1.5-year term. The college states it has approximately \$82 million as of June 30, 2020, in daily and T+1 available funds to cover a mandatory tender if the bonds are not successfully remarketed at the end of the term with another approximately \$86 million in T+2 funds. We believe the college maintains sufficient liquidity to cover any remarketing risk.

York College of Pennsylvania--Enterprise And Financial Statistics						
	--Fiscal year ended June 30--					Medians for 'A' rated private colleges & universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	4,039	4,305	4,317	4,415	4,503	MNR
Full-time equivalent	3,707	3,956	3,975	4,071	4,127	3,383
Freshman acceptance rate (%)	96.4	94.9	87.7	89.7	83.3	67.5
Freshman matriculation rate (%)	21.0	22.8	24.8	27.3	25.4	MNR
Undergraduates as a % of total enrollment (%)	92.8	93.8	93.8	94.5	95.2	81.0
Freshman retention (%)	77.2	81.3	76.8	80.7	78.2	85.1
Graduation rates (six years) (%)	65.0	63.0	58.5	56.3	60.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	130,540	130,427	128,633	124,502	MNR
Adjusted operating expense (\$000s)	N.A.	130,616	127,048	125,043	121,717	MNR
Net operating income (\$000s)	N.A.	(76)	3,379	3,590	2,785	MNR
Net operating margin (%)	N.A.	(0.06)	2.66	2.87	2.29	1.60
Change in unrestricted net assets (\$000s)	N.A.	(3,101)	6,015	9,348	13,740	MNR

York College of Pennsylvania--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' rated private colleges & universities
	2021	2020	2019	2018	2017	2019
Tuition discount (%)	N.A.	29.6	28.3	26.9	25.0	38.3
Tuition dependence (%)	N.A.	67.9	65.8	65.8	66.2	MNR
Student dependence (%)	N.A.	86.8	87.8	88.0	89.2	85.6
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.8	0.8	0.9	0.8	MNR
Endowment and investment income dependence (%)	N.A.	4.8	5.0	4.6	4.6	MNR
Debt						
Outstanding debt (\$000s)	N.A.	78,913	81,381	83,533	83,611	106,232
Proposed debt (\$000s)	N.A.	32,370	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	100,398	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	7,137	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.79	3.94	2.89	3.43	MNR
Current MADS burden (%)	N.A.	4.94	5.08	5.16	5.30	4.20
Pro forma MADS burden (%)	N.A.	5.46	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	147,918	152,175	150,015	145,718	240,596
Cash and investments (\$000s)	N.A.	224,857	224,553	218,630	211,403	MNR
Unrestricted net assets (\$000s)	N.A.	310,505	313,606	307,591	298,243	MNR
Expendable resources (\$000s)	N.A.	200,960	201,312	195,373	189,743	MNR
Cash and investments to operations (%)	N.A.	172.2	176.7	174.8	173.7	142.2
Cash and investments to debt (%)	N.A.	284.9	275.9	261.7	252.8	287.1
Cash and investments to pro forma debt (%)	N.A.	224.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	153.9	158.5	156.2	155.9	89.0
Expendable resources to debt (%)	N.A.	254.7	247.4	233.9	226.9	178.3
Expendable resources to pro forma debt (%)	N.A.	200.2	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.9	11.5	11.1	10.8	14.1

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 = $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$. Student dependence = $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$. Current debt service burden = $100 \times (\text{current debt service expense} / \text{adjusted operating expenses})$. Current MADS burden = $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$. 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.

Related Research

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

Ratings Detail (As Of April 2, 2021)		
York Coll of Pennsylvania Refunding ser 2016 OO3 due 11/01/2037		
<i>Long Term Rating</i>	A-/Stable	Affirmed
General Auth of Southcentral Pennsylvania, Pennsylvania		
York Coll of Pennsylvania, Pennsylvania		
General Auth of Southcentral Pennsylvania (York Coll of Pennsylvania) federally taxable multi-mode rev bnds (York Coll of Pennsylvania) ser 2020 W1&W2		
<i>Long Term Rating</i>	A-/Stable	Affirmed
General Auth of Southcentral Pennsylvania (York Coll of Pennsylvania) rev bnds (York Coll of Pennsylvania) ser 2020 SS1 due 11/01/2050		
<i>Long Term Rating</i>	A-/Stable	Affirmed
Southcentral Pennsylvania Gen Auth (York College of Pennsylvania)		
<i>Long Term Rating</i>	A-/Stable	Affirmed
Pennsylvania Hgr Educl Facs Auth, Pennsylvania		
York Coll of Pennsylvania, Pennsylvania		
Pennsylvania Hgr Educl Facs Auth (York Coll of Pennsylvania) rev bnds (AICUP Fin Prog - York Coll of Pennsylvania) ser 2014 T4		
<i>Long Term Rating</i>	A-/Stable	Affirmed

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