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Huntingdon County General Authority, Pennsylvania Juniata College; Private Coll/Univ - General Obligation

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Long Term Rating	BBB/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'BBB' rating on Huntingdon County General Authority, Pa.'s existing revenue bonds, issued for Juniata College.
- The outlook is stable.

Security

As of fiscal year-end May 31, 2023, Juniata had $67.7 million of debt outstanding including leases. All is a general obligation of the college and subject to a 1.05x rate covenant. As of June 30, 2023, the college is in compliance with all covenants. Management reports no plans to issue debt over the next two years. Juniata also has a $5 million unsecured line of credit, which, as of May 31, 2024, had a $0 outstanding balance.

Credit overview

We assessed the college's enterprise risk profile as adequate, with recent enrollment growth but overall very small enrollment of fewer than 1,400 students. We also assessed the college's financial risk profile as adequate, with two years of modest operating surpluses and healthy endowment per full-time-equivalent (FTE) student, offset by management's expectation of a modest operating deficit in fiscal 2024 and fiscal 2025 and weakening financial resources. We believe these credit factors, combined, lead to an anchor of 'bbb' and final long-term rating of 'BBB'.

The rating reflects our view of the college's:

- Elevated endowment draw over the past several years, which has continued with a 6% endowment draw in fiscal 2024;
- Somewhat weak financial resources compared to debt, with cash and investments making up 198% of outstanding debt as of June 30, 2023; and
- High tuition discount rate, which the college has used to increase demand.

We believe somewhat offsetting credit factors include, what we consider, Juniata's:

- Increase in FTE enrollment of over 8% in fall 2023, and expectations of at least stable enrollment in fall 2024;
- Two years of small operating surpluses, although management expects an operating deficit in fiscal 2024; and
- Moderate maximum annual debt service burden.

Founded in 1876, Juniata has been an undergraduate, coeducational liberal arts college since its inception. The college is on a large 1,000-acre campus in Huntingdon in south-central Pennsylvania. The university also has property at the Field Station and Sparks Farm outside of Huntingdon. Juniata enrolled 1,159 students in fall 2022.

Environmental, social, and governance

We evaluated Juniata's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. In our view, Juniata faces elevated risk due to demographic pressure, which we view as a social capital risk. A lower number of high school students are expected to graduate in Pennsylvania for the next several years, which could add to the enrollment pressures. Despite the elevated social risk, we believe Juniata's environmental and governance are neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Juniata will maintain stable enrollment while producing full-accrual deficits but working to balance operations. We also expect that Juniata will not issue any additional debt over the outlook period and that financial resource ratios will be maintained.

Downside scenario

We could consider a negative rating action if a trend of declining enrollment emerges, the college sees a trend of material operating deficits, or financial resources deteriorate further such that they are no longer adequate for the rating. While not anticipated, a violation of any covenants that results in an acceleration of bank loans could also trigger a lower rating.

Upside scenario

We could consider a positive rating action if the college sees a trend of at least stable enrollment and break-even to positive operations without extraordinary endowment draws. We would also view improvement in financial resources positively.

Credit Opinion

Enterprise Risk Profile--Adequate

Market position and demand

Prior to fall 2023, Juniata's enrollment had been declining steadily for several years, including a 9.2% decline from fall 2021 to fall 2022. However, in fall 2023, total FTE enrollment increased 8.3% to 1,255. The college also saw the largest number of first-year matriculants in the last four years, with 390 incoming freshmen. Management attributes the increased enrollment to its retention efforts that targeted cohorts who had been affected by the pandemic, as well as focusing enrollment efforts on local students. For fall 2024, management reports roughly 410 first-time freshmen and transfers, which is essentially flat from fall 2023 and exceeded its goal of 400. This should lead to another total FTE enrollment increase for fall 2024. Juniata's other demand metrics, such as selectivity and matriculation, also improved somewhat in fall 2023, with selectivity of 72% and matriculation of almost 19%. Retention declined slightly in fall 2023 to 77%, but management reports that fall 2024 retention was nearly 90%, which we view positively. Despite improvement in the college's demand profile, we believe the college could continue to face enrollment pressures given the market it serves. Additionally, as a result of Juniata's competitive marketplace, the tuition discount rate remains high and increasing, at 65.4% as of June 30, 2023, and this continues to add to Juniata's financial pressures.

Juniata has a successful, but limited, history of fundraising and achieving its goals. Its most recent public comprehensive campaign, launched in October 2018 and ended in fiscal 2021, raised $128.6 million and exceeded its $115 million goal. The college is currently in the quiet phase of its next capital campaign. The college raised $20 million in annual fundraising in fiscal 2023, and we expect this level of fundraising will be sustainable.

Management and governance

James Troha has been president of the college since fiscal 2013. Juniata has had relatively stable senior leadership over the past several years, and the most recent addition to the leadership team was the appointment a new vice president of marketing and communications in fiscal 2024. A maximum 40-member, self-perpetuating board of trustees governs college operations. In our opinion, the board is stable. According to management, the board actively supports the college and has contributed substantially to current and past capital campaigns. The board of trustees reviews the college's written debt and investment management policies annually.

The board approved a new strategic plan in 2022, which outlines priorities related to academic distinction, an equity-minded culture, and the campus experience, all while being mindful of fiscal sustainability. The college annually updates five-year financial plans and builds specific annual capital budgets as part of the budgeting process. Management targets the amount of future capital budgets at the same time, which are tied to annual cash flow and endowment support. As part of the strategic plan and efforts to increase demand, management has introduced several new programs in the last few years, including civil engineering, exercise science, and legal studies, and the college's new nursing program is set to begin in fall 2025.

Financial Risk Profile--Adequate

Financial performance

Juniata has reported full-accrual operating surpluses for the past two years, including a surplus margin of 1.7% in fiscal 2022 and a more modest surplus margin of 0.3% in fiscal 2023. These surpluses are somewhat inflated, due to the college taking what we view as extraordinary endowment draws in both years: 10% in fiscal 2022 and 6% in fiscal 2023. In fiscal 2022, the board authorized the 10% endowment draw, as this level of draw was allowed by the state legislature in fiscal years 2020, 2021, and 2022. In fiscal 2024, management expects a modest operating deficit, which includes an endowment draw of 6%. Although the 6% endowment draw is within the college's 7% spending policy, we view the draw as slightly elevated.

In our opinion, Juniata remains dependent on student-derived revenue. Tuition and auxiliary enterprises generated

78% of fiscal 2023 adjusted operating revenue, and although this is slightly below the median of 83.7%, we believe Juniata's very small enrollment base makes it more susceptible to risks associated with concentrated revenue. Juniata's overall discount rate is high, in our view, at 65.4% in fiscal 2023. We expect the discount rate will remain high given the market Juniata operates in, leading to continued operating strain.

Financial resources

In our opinion, financial resources, measured by cash and investments, remain sufficient for the rating category. Fiscal 2023 cash and investments totaled $134 million, which is slightly down from fiscal 2022. As of June 30, 2023, cash and investments made up 138% of operations and 198% of outstanding debt, which is in line with those of peers and with medians.

Juniata's endowment market value was $123.2 million as of June 30, 2023, which is up slightly from a value of $122.8 million in fiscal 2022. While about 70% of the endowment remains restricted, the college maintains $36.3 million in board-designated assets, which could be used in the case of an unanticipated liquidity need.

Debt and contingent liabilities

As of May 31, 2023, Juniata had $67.7 million of debt outstanding including $582,000 in leases. Of this, all but the series 2016-U2 bank bonds are fixed-rate debt. The series 2016 bank loans, with Fulton Bank N.A., were fixed rates for the first seven years through May 2023 and are now in variable-rate mode. We have reviewed the 2016 bank loan documents and understand that key covenants for these loans mirror those associated with the series 2016-OO2 bonds and that the college could prepay these loans without penalty.

We do not rate the series U2 debt, but in our view, Juniata has some event-driven repayment risk exposure due to bank obligations that could come due because of events of default or covenant violations. According to loan documents, an event of default related to nonpayment under agreements for any debt outstanding in an amount exceeding $1 million results in a cross-default acceleration, at which time the college would be required to repay immediately.

Juniata, however, would have a 60-day cure period for covenant violations, including its covenant to maintain a 1.05x debt service coverage ratio annually at each fiscal year-end, which is similar to the bond covenant. The college is currently in compliance with all debt covenants related to bank loans. Management has identified approximately $101.8 million of investments it could liquidate within three days to fund the bank loans. We believe these investments provide ample coverage for an acceleration of all college bank loans, totaling $7.7 million as of June 30, 2023.

Juniata offers employees a defined-contribution retirement plan that, by definition, is funded in full. It does not have any swap contracts or bullet maturities.

Juniata College, Pennsylvania--enterprise and financial statistics

	--Fiscal year ended May 31--					Medians for 'BBB' category rated private colleges and universities
	2024	2023	2022	2021	2020	2023
Enrollment and demand						
Full-time-equivalent enrollment	1,255	1,171	1,289	1,312	1,365	2,481

Juniata College, Pennsylvania--enterprise and financial statistics (cont.)

	--Fiscal year ended May 31--					Medians for 'BBB' category rated private colleges and universities
	2024	2023	2022	2021	2020	2023
Undergraduates as a % of total enrollment	95.9	98.0	98.8	98.6	99.7	77.4
First-year acceptance rate (%)	72.0	76.2	74.5	67.5	70.8	78.5
First-year matriculation rate (%)	18.6	15.2	16.4	17.7	23.8	15.0
First-year retention rate (%)	77.0	81.0	86.0	84.2	85.4	77.0
Six-year graduation rate (%)	69.0	71.0	75.8	74.2	72.8	64.4
Income statement						
Adjusted operating revenue ($000s)	N.A.	97,729	96,588	86,230	88,466	MNR
Adjusted operating expense ($000s)	N.A.	97,415	95,016	89,682	89,693	MNR
Net operating margin (%)	N.A.	0.3	1.7	(3.8)	(1.4)	(1.6)
Change in unrestricted net assets ($000s)	N.A.	(2,014)	(3,436)	5,287	(3,952)	MNR
Tuition discount (%)	N.A.	65.4	64.7	61.7	62.7	46.9
Student dependence (%)	N.A.	78.3	78.8	87.6	83.8	83.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	2.3	5.4	3.7	2.2	1.6
Debt						
Outstanding debt ($000s)	N.A.	67,711	67,567	56,744	57,754	66,181
Proposed debt ($000s)	N.A.	N.A.	N.A.	17,650	N.A.	MNR
Total pro forma debt ($000s)	N.A.	67,711	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.1	2.8	3.7	3.7	MNR
Current MADS burden (%)	N.A.	5.6	5.4	4.5	4.5	4.1
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	21.0	20.0	18.9	17.1	16.5
Financial resource ratios						
Endowment market value ($000s)	N.A.	123,190	122,825	136,578	112,931	112,261
Cash and investments ($000s)	N.A.	134,301	145,867	143,678	115,337	129,885
Cash and investments to operations (%)	N.A.	137.9	153.5	160.2	128.6	99.7
Cash and investments to debt (%)	N.A.	198.3	215.9	253.2	199.7	183.3
Cash and investments to pro forma debt (%)	N.A.	198.3	N.A.	N.A.	N.A.	MNR

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022