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

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Table Of Contents

Huntingdon County General Authority, Pennsylvania
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Credit Profile		
Huntingdon Cnty Gen Auth, Pennsylvania		
Juniata Coll, Pennsylvania		
Huntingdon Cnty Gen Auth, PA Series 2010A and Series 2010B		
Long Term Rating	A-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' rating, with a stable outlook, on Huntingdon County General Authority, Pa.'s revenue debt and taxable revenue debt, issued for Juniata College.

The rating reflects our opinion of Juniata's stable enrollment; adequate demand profile; and adequate financial resource ratios, offset by its break-even fiscal 2014 operating results. We believe that the college's operations will likely remain pressured and that its increasing financial aid needs will likely result in net tuition revenue decreases during the next two fiscal years. We will continue to monitor Juniata's operating performance and the upcoming transitions in its senior management team. We believe we could lower the rating if operations were to deteriorate further.

The rating reflects our opinion of the college's general obligation (GO) pledge, supported by its:

- Adequate financial resources with cash and investments of $117 million at May 31, 2014, or 150% of adjusted operating expenses and 277% of debt outstanding;
- Stable enrollment and adequate demand profile over the past five years despite a highly competitive market for students; and
- Moderate maximum annual debt service (MADS) burden of 5% with roughly 1x MADS coverage in fiscal 2014.

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

- Break-even operating results in fiscal 2014 with operations expected to remain pressured through fiscal 2016;
- Moderately high tuition discount rate, which is indicative of financial aid pressure; and
- Low endowment relative to the rating category.

Founded in 1876, Juniata College 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. Juniata enrolled an estimated 1,632 students in fall 2014. About 80% of students live on the mainly residential college's campus. Juniata draws about 60% of its students from Pennsylvania. According to management, most of the college's chief competitors are in Pennsylvania, including public universities and small, private liberal arts colleges such as Pennsylvania State

University, University of Pittsburgh, Gettysburg College, and Dickinson College.

Outlook

The stable outlook reflects Standard & Poor's opinion that over the outlook's two-year period, Juniata will improve operations so that it achieves balanced financial operations on a full-accrual basis by fiscal 2016, maintains cash and investment ratios at or near current levels, sustains steady enrollment, and continues to improve demand metrics. We could lower the rating during the outlook's two-year period if cash and investments were to weaken below category medians, if Juniata were to issue significant additional debt without parallel growth in cash and investments relative to the rating category, if the college cannot balance operations on a full-accrual basis by fiscal 2016, or if Juniata were to take additional drawdowns on reserves. We, however, believe it is unlikely we would raise the rating during the outlook period due to historically break-even operations.

Enterprise Profile

Enrollment and demand

Juniata's enrollment has grown modestly during the past five years despite year-to-year fluctuations. Full-time equivalent student enrollment was 1,587 in fall 2014, which was consistent with fall 2013 enrollment of 1,593. Management expects stable enrollment in fall 2015. According to management, optimal enrollment at the college ranges from 1,600-1,650, which it expects to reach within three years to five years.

In our opinion, the college's demand profile remains adequate for the rating category with good student quality, retention, and graduation rates despite variable applications and selectivity. Freshman applications have been historically volatile. Freshman applications decreased by 13.8% to 2,207 in fall 2014 from 2,559 in fall 2013; management, however, indicates it recaptured freshman applications for fall 2015 due, in part, to targeting broader geographic markets. Management recognizes applications and freshmen matriculants have been volatile over the past five years, and it is implementing several programs targeted at increasing applications and improving selectivity and yield. Management added recruiters in secondary and international markets, and it plans to use the college's alumni network more aggressively to reach potential enrollees.

Juniata is, in our view, moderately selective: The freshman acceptance rate was 74% in fall 2014, which weakened from 65% in fall 2013. Although the college operates in a highly competitive market, the fall 2014 26% freshman matriculation rate remained, in our view, consistent with the rating category median of 24%. The freshman matriculation rate has averaged 25% over the past five years. The fall 2014 freshman-to-sophomore retention rate and the five-year graduation rate are, in our opinion, a good 88% and 78%, respectively. Student quality for the fall 2014 incoming freshman class remained above average with an average SAT score of 1149, which was consistent with peer institutions and higher than the national average.

Management

Juniata College underwent a managerial transition recently. It welcomed a new president in May 2013. In addition, the college has hired a new vice president for enrollment, a new provost, a new chief information officer, and a new dean of students within the past two years. The vice presidents for finance and operations and advancement remain unchanged; they have been at the college since 2002 and 2007, respectively.

We generally consider high management turnover a negative credit factor, but we recognize it is common for significant management changes to occur after an organization appoints a new leader. We expect governance to be more stable following this transition.

A 40-member self-perpetuating board of trustees governs Juniata College. In our opinion, the board is stable; only rotational changes have occurred recently. According to management, the board actively supports the college; the board contributed 45% in pledges for Juniata's last comprehensive campaign. The board of trustees reviews the college's written debt and investment policies annually. We understand the board recently completed a review of its bylaws. Although there were no major changes to the bylaws, it added a full board meeting to the schedule.

We understand the board approved a new strategic plan in April 2015. According to management, a comprehensive campaign focused on growing the endowment and funding capital investments will coincide with the strategic plan. The college completed a self-study review; it was reaccredited by the Middle States Commission on Higher Education on June 27, 2013.

We believe Juniata has strong financial management practices, which have consistently generated balanced-to-positive operations in previous years. Management indicates it expects these practices to continue throughout the transition period. The senior management team uses, what we regard as, conservative and proactive budgeting practices; it prepares the operating budget on a cash basis. Although management does not budget for depreciation, we recognize the budget includes principal and interest, which are equivalent to the depreciation expense. We view the college's 5% endowment-spending policy as moderate.

Financial Profile

Operating performance

Historically, Juniata has balanced financial operations on a full-accrual basis with the exception of fiscal 2010 operations, which yielded a $3.6 million deficit. Operations improved until the small full-accrual surplus in fiscal 2013. Fiscal 2014 operations were break even, which resulted in a small $794,000 full-accrual deficit. Management is projecting operations will likely remain break even through fiscal 2016 due to small year-over-year enrollment fluctuations.

Juniata faces financial aid pressure, reflected in a moderately high discount rate and slower net tuition revenue growth over the past three fiscal years. Net tuition revenue decreased slightly in fiscal 2014, which shows further deterioration from, what we view as, modest 1% and 2% growth in fiscal years 2013 and 2012, respectively. Management expects another small decrease in net tuition revenue for fiscal 2015; it, however, believes net tuition revenue could grow again in fiscal 2016.

The college's overall discount rate was, in our view, a moderately high 51% in fiscal 2014. The freshman discount rate was, in our opinion, a very high 61% in fiscal 2014. According to management, it has hired a consulting firm to improve the discount rate within the next three years. Management reports the fiscal 2015 discount rate was a lower 60%. In our opinion, Juniata is highly dependent on student-generated revenue; tuition and auxiliary enterprises generated 88.6% of fiscal 2014 adjusted operating revenue. Tuition and fees, including room and board, increased by 4% to $49,340 in fall 2014 from $47,470 in fall 2013; this was comparable to peer institutions. Management indicates tuition has increased by 5.2% in academic year 2015-2016.

Financial resources

In our opinion, financial resource ratios are adequate for the rating category. Cash and investments, which include restricted assets, were, in our view, adequate at $117 million at fiscal year-end 2014, or 150% of adjusted operating expenses and 277% of debt. Expendable resources were, in our view, a weaker $44 million at May 31, 2014, or 57% of adjusted operating expenses and 105% of debt. It should be noted that 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 relative to net plant, property, and equipment; therefore, we believe cash and investments are a better relative measure.

Endowment

Juniata's endowment market value was $107.7 million at May 31, 2014; in our view, this remained low relative to the rating category median. The endowment increased to $110.4 million at May 31, 2015; it, however, remains largely restricted. Management allocated the endowment to equities (62%); alternative investments (20%); fixed income (15%); and cash (3%) at May 31, 2015. Juniata employs a 5% endowment-spending policy based on a five-year moving market value average; the effective rate was a lower 3.8% in fiscal 2014. The effective spending rate increased to 4.7% in fiscal 2015 due to an additional $1 million draw for residence hall renovations.

The relative liquidity of the investment portfolio is an important factor in our analysis of an institution, and we believe audited classification levels provide a relative measure of long-term investment liquidity. Levels 1 and 2 are, in our view, the most-liquid assets. At May 31, 2014, Juniata's long-term investments of $103 million were mostly level 1 (93%) assets, which, in our opinion, represents a highly liquid portfolio that offsets low expendable resources.

Fundraising

Juniata has a successful, but limited, fundraising history. Its largest campaign ended in 2005; this campaign raised $103.4 million. The college has focused on small, targeted capital campaigns recently. According to management, a new campaign with a focus on increasing the endowment will likely coincide with the new strategic plan. Juniata raised approximately $1.75 million toward the annual fund in fiscal 2015. Management expects to raise about $2 million by fiscal 2020.

Debt and contingent liabilities

At May 31, 2014, Juniata had $42 million of total debt outstanding, fixed-rate revenue bonds (68% of debt) and variable-rate bank notes (32%). All of Juniata's debt is a GO of the college. We consider the MADS burden a moderate 5% of fiscal 2014 adjusted operating expenses. According to management, Juniata completed construction of a new residence hall on campus in May 2014; the hall provides an additional 78 beds. According to management, this project, completed on time and on budget, cost $8.5 million, which it financed through a bank-qualified loan. We understand the residence hall was occupied fully in fall 2014; management also expects full occupancy for fall 2015.

In addition, Juniata maintains a $3 million line of credit; the line of credit did not have a balance at fiscal year-end 2014. According to management, it has additional capital plans during the next three years, including a new integrated media and studio art building, a new tennis and soccer complex, and a commercial and residential facility. Management indicates the commercial and residential facility will likely be an off-balance sheet project. While the college has received pledged gifts for the remaining capital projects, management believes it could issue about $3 million in bridge financing during the next 12 months-18 months to complete the projects.

We did not rate the series 2013 revenue note, issued through a bank-qualified loan with Manufacturers & Traders Trust Co. to construct the residence hall. We, however, have reviewed bank documents and concluded Juniata has some resulting event-driven repayment risk exposure stemming from bank obligations that could come due because of events of default or covenant violations. According to loan documents, an event of default under the agreement results in acceleration, at which time Juniata would be required to repay the amount of the loan outstanding immediately. The college, however, would have a 30-day cure period for covenant violations, including its covenant to maintain a 1.1x debt service coverage (DSC) ratio annually at each fiscal year-end beginning on May 31, 2013.

Management has identified $57 million of investments available daily. We believe these investments provide ample DSC for the $13.3 million in variable-rate debt at fiscal year-end 2014.

Juniata College, Pennsylvania Select Demand And Financial Statistics

	--Fiscal year-ended May 31--					'A' private colleges and universities medians
	2015	**2014**	**2013**	**2012**	**2011**	**2014**
Enrollment and demand						
Headcount	1,632	1,635	1,565	1,619	1,593	MNR
Full-time equivalent	1,587	1,593	1,519	1,551	1,545	3,434
Freshman acceptance rate (%)	74.2	64.5	66.3	71.3	72.2	64.5
Freshman matriculation rate (%)	25.8	23.7	25.0	23.8	26.8	21.2
Undergraduates as a % of total enrollment (%)	99.0	99.4	99.6	100.0	100.0	80.9
Freshman retention (%)	88.0	87.8	90.4	85.0	83.6	86.3
Graduation rates (five years) (%)	77.9	77.2	74.3	74.3	75.5	74.9
Income statement						
Adjusted operating revenue ($000s)	N.A.	77,394	77,569	74,667	72,200	MNR
Adjusted operating expense ($000s)	N.A.	78,188	76,699	75,229	72,206	MNR
Net operating income ($000s)	N.A.	(794)	870	(562)	(6)	MNR
Net operating margin (%)	N.A.	(1.0)	1.1	(0.8)	(0.0)	MNR
Change in unrestricted net assets ($000s)	N.A.	3,142	3,665	(1,719)	2,106	MNR
Tuition discount (%)	N.A.	51.2	47.7	46.8	45.8	35.4
Tuition dependence (%)	N.A.	72.9	67.9	68.5	68.3	MNR
Student dependence (%)	N.A.	88.6	82.3	82.5	82.1	MNR
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.9	0.1	0.1	0.0	MNR

Juniata College, Pennsylvania Select Demand And Financial Statistics (cont.)						
Endowment and investment income dependence (%)	N.A.	5.0	4.7	5.2	5.4	MNR
Debt						
Outstanding debt ($000s)	N.A.	42,277	36,479	35,995	36,272	90,765
Proposed debt ($000s)	N.A.	3,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	45,277	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	3,889	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.8	2.7	2.3	2.9	4.0
Current MADS burden (%)	N.A.	5.1	5.2	4.9	5.1	MNR
Pro forma MADS burden (%)	N.A.	5.0	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	107,726	94,363	77,365	78,245	218,129
Cash and investments ($000s)	N.A.	117,254	106,758	90,738	92,057	MNR
Unrestricted net assets ($000s)	N.A.	48,490	45,983	42,318	44,037	MNR
Expendable resources ($000s)	N.A.	44,422	37,895	29,073	30,259	MNR
Cash and investments to operations (%)	N.A.	150.0	139.2	120.6	127.5	150.6
Cash and investments to debt (%)	N.A.	277.3	292.7	252.1	253.8	266.7
Cash and investments to pro forma debt (%)	N.A.	259.0	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	56.8	49.4	38.6	41.9	97.9
Expendable resources to debt (%)	N.A.	105.1	103.9	80.8	83.4	172.6
Expendable resources to pro forma debt (%)	N.A.	98.1	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.0	14.8	17.5	16.7	13.3

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). Tuition dependence = 100*(gross tuition revenue/adjusted operating revenue). Current debt service burden = 100*(current debt service expenses/adjusted operating expenses). Current MADS burden = 100*(MADS expenses/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net property, plant, and equipment - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported.

Related Criteria And Research

Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009