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Montgomery County Higher Education & Health Authority, Pennsylvania Ursinus College; Private Coll/Univ - General Obligation

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Montgomery County Higher Education & Health Authority, Pennsylvania

Ursinus College; Private Coll/Univ - General Obligation

Credit Profile

US\$12.0 mil rev bnds (Ursinus Coll) ser 2019 due 11/01/2046

Long Term Rating

BBB/Stable

New

Rationale

S&P Global Ratings assigned its 'BBB' long-term rating on Montgomery County Higher Education & Health Authority's series 2019 revenue bonds, issued for Ursinus College. At the same time, we affirmed our 'BBB' long-term rating on the Pennsylvania Higher Educational Facilities Authority's series 2012, 2013, and 2015 revenue bonds, and Montgomery County Higher Education & Health Authority's 2016 revenue bonds, issued for the college. The outlook is stable.

We assessed Ursinus' enterprise profile as adequate, characterized by improving retention and graduation rates even though matriculation is weak, and enrollment continues to decline. Applications continue to fluctuate, although the volatility is less. The management team continues to invest in its long-term strategic plan. We assessed Ursinus' financial profile as adequate, as evidenced by another year of full accrual deficits with a higher endowment draw, which is offset by solid available resources relative to rating category medians and a moderate pro forma maximum annual debt service (MADS) burden. Combined, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb' and a final rating of 'BBB'.

The rating reflects our assessment of Ursinus' following strengths:

- Good available resources that are comparable with rating category medians and similarly rated peers;
- Nice momentum in fundraising; and
- Moderate maximum annual debt service (MADS) burden for the rating at 4.53%.

The rating reflects our assessment of Ursinus' following weaknesses:

- Relatively weak enrollment and demand profile with a high freshmen discount rate of close to 65%;
- Operating deficit in fiscal 2018 with a higher endowment draw that is expected to continue for the next few years as the college seeks to stabilize enrollment; and
- High level of dependence on tuition and student charges, which accounted for 85% of fiscal 2018 operating revenue.

Securing the bonds is a general obligation of the college. The series 2019 bonds will be used to refund a portion of the series 2016 bonds as well as provide a small amount of new money for various capital expenditures around campus.

Total debt issuance is expected to be just under \$12 million.

Ursinus College is a private, liberal arts college located 25 miles west of Philadelphia in Collegeville, Pa. It was founded in 1869 as a college for young men before admitting women in 1881. Zacharias Ursinus, the college's namesake, was a distinguished 16th-century scholar and reformer from the University of Heidelberg in Germany. In fall 2018, enrollment was about 1,417. The college's 170-acre residential campus houses more than 95% of its students. The college enrolls 100% undergraduate students.

Outlook

The stable outlook reflects our opinion that, during the outlook's two-year period, Ursinus will manage enrollment pressures with negative to break-even operations, and maintain available resource ratios that are commensurate for the rating.

Upside scenario

We would consider a positive rating action should enrollment stabilize or increase, demand metrics improve, operations turn consistently positive on a full-accrual basis, and available resources were maintained at current levels.

Downside scenario

We could consider a negative rating action in the next two years if enrollment and demand continued to weaken significantly, operating deficits grew or available resources declined to levels no longer commensurate with the rating or failed to keep pace with additional debt.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicity and competitive risk and growth by applying 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 good geographic diversity, but it is mostly regional. About 60% of students are from within Pennsylvania. As such, our assessment of Ursinus' economic fundamentals is anchored by the local GDP per capita.

Demand and enrollment

Total FTE enrollment at Ursinus continues to weaken, with enrollment declining by 5.2% to 1,417 in fall 2018 from 1,495 in fall 2017. While selectivity improved, matriculation remained a challenge, with only 378 freshmen matriculating in fall 2018. The college would like to enroll 420 students in fall 2019 and grow incrementally from there. Ideal FTE enrollment, according to management would be about 1,600. A new vice president of enrollment management started in July 2018 and is working on continuing to build out the Ursinus brand through additional digital marketing, further expansion of the counselor program with more campus visits and optimizing financial aid by

the use of specialty scholarship programs. Continual work is also being done in soliciting and increasing international recruits as well as transfers. According to management, applications and deposits are up compared with the same time last year, although it is unclear how final 2019 enrollment will look. We believe that continued weakness in enrollment will lead to ongoing financial pressure.

Following a record year of application growth in fall 2017, applications declined slightly by 3.6%, but was still higher at 3,361 compared with the years prior to fall 2017. Continued stability or growth of applications would be viewed positively. Selectivity improved to 71% from 78%, which was good but matriculation remained weak at 16%. Student quality has been slightly improving with the average student SAT score at 1232. The retention rate and graduation rate also improved to 89% and 79%, respectively, and is solid compared with peers. Still, Ursinus operates in a very competitive landscape, with many small liberal arts undergraduate schools in the area. We believe the college has limited geographic diversity with the majority of students coming from Pennsylvania, New Jersey, and Delaware, although a major strategy is to try and expand the brand nationally. Ursinus views its main competitors as Gettysburg College, Dickinson College, Franklin & Marshall College, Lafayette College, and Muhlenberg College in Pennsylvania.

In fall 2016, the college launched the public phase of its \$100 million 'Keep the Promise' comprehensive campaign. The campaign focuses on endowment, particularly scholarships, capital, including funding for a new Innovation and Discovery Center, student experiences and the annual fund. The college has made nice progress with the campaign, raising over \$82.6 million in gifts and pledges as of January 2019. According to management, it remains on track to conclude the campaign in conjunction with the college's sesquicentennial celebration during the 2019-2020 academic year.

Management and governance

The president at Ursinus has been in place since July 2015 and the remaining leadership team has been relatively stable. A new vice president for enrollment management and vice president of academic affairs joined within the last year and are experienced in the higher education sector. Management is still implementing the strategy and it will likely take a few years before we are able to see progress. So far, enrollment has not yet been stabilized, which continues to pressure operations. The college continues to be governed by a 26-member board. A new chair of the board was elected in January 2017. Initial priorities of the board include updating the college's bylaws and constitution to ensure a strong governance structure as well as approving new fiscal policies around reserves, budgeting, and endowment. In our opinion, the board is supportive of the senior leadership and the new strategic plan.

A new strategic plan was launched by the president and his team centered around seven main objectives, ranging from programming to student life to financial sustainability. A new core curriculum was implemented in fall 2018 centered around four central questions that are meant to introduce students to a life of thoughtful deliberation, independence and informed responsibility. Management is hopeful that this curriculum will be a good recruitment tool in addition to the Innovation and Discovery Center, which opened in 2018 and was completed on time and on budget, and the Commons building, currently under construction. Both are major capital projects. With respect to budgeting practices, the college currently does not budget for depreciation but does budget for debt service and some slight contingencies.

Financial Profile

Financial management policies

The college has formal policies for endowment, investments, and debt. It operates according to a multi-year strategic plan and is currently in the process of approving a formal reserve liquidity policy. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with comparable providers.

Financial performance

Ursinus faced a full accrual operating deficit in fiscal 2018 of \$2.14 million or 1.96% primarily because net tuition revenue suffered as a result of enrollment declines and an increase in the tuition discount rate. The endowment draw increased in fiscal 2018 to 7% or \$8 million from the 5.75% or \$6.35 million in prior years. About \$1.4 million was spent settling a lawsuit that was filed against the college while the remaining was used to help lessen the operating deficit. We expect that the college will continue to take high draws at about 7% for the next few years, mainly from investment gains, which we view negatively. In our opinion, while the available resources are currently solid for the rating, continual draws upon the endowment will diminish its value over time, especially if market returns slow down. The board is currently supportive of management's approach especially as it pivots and tries to execute on its strategy but recognizes that this is not a long-term solution to financial sustainability. Should the college continue to struggle following the planned two years of investments for repositioning, management is prepared for additional strategies related to expense structures.

As with most private colleges of its size, Ursinus relies heavily on tuition and auxiliary fee revenue, which accounted for 85% of total adjusted revenue in fiscal 2018, followed by 8.6% endowment income and 2.3% private gifts and 1.2% grants and contracts. Tuition, including room and board, increased 3.4% to \$64,800 in the 2018-2019 academic year. The freshmen discount rate is expected to remain high at 65% for the next few years until enrollment is able to grow which in our opinion will continue to pressure net tuition revenue. We view the market that Ursinus operates in as highly competitive. The college is actively looking to pursue other sources of revenue by hosting conferences and special events on campus when school is not in session. We would view the continual growth of these additional revenue sources favorably.

Available resources

Available resources, as measured by expendable resources, declined in fiscal 2018 but remains healthy for the rating at \$82.7 million. This was 75.7% of adjusted operating expenses, and 134.3% of pro forma debt. As of June 30, 2018, cash and investments remained relatively flat at \$161 million, excluding funds held in trust by others, which is stronger when compared to similarly rated peers.

As of June 30, 2018, the market value of the college's endowment was \$138.8 million. The portfolio was comprised of 65% equity, of which approximately 20% is in alternatives, and 20% in fixed income, 15% in cash and money market

funds. According to management, of the entire portfolio, 92% of assets are available daily, which we view as very liquid. As mentioned, Ursinus took at 7% draw in fiscal 2018 and will likely do so again in the next few years. We would view any such reduction positively because it would signal less reliance on the endowment for operations.

Debt and contingent liabilities

As of fiscal 2018 year end, Ursinus had \$59.7 million of debt, all of which was structured as overall level, fixed rate. With the refunding and the small new money addition, pro forma debt is expected to be about \$61.6 million. The obligor has no contingent liability risk exposures from financial instruments with payment provisions that change on the occurrence of certain events.

Pro forma MADS burden is moderate at 4.5%. Given the solid balance sheet resources, we believe the financial profile can accommodate a moderate amount of the debt at the current rating, although the college has no additional debt plans at this time.

Ursinus College, Pennsylvania Enterprise And Financial Statistics						
	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2019	2018	2017	2016	2015	2017
Enrollment and demand						
Headcount	1,435	1,507	1,556	1,643	1,681	MNR
Full-time equivalent	1,417	1,495	1,547	1,636	1,668	2,463
Freshman acceptance rate (%)	70.9	78.2	82.4	82.6	82.9	70.5
Freshman matriculation rate (%)	15.9	14.7	18.6	19.7	22.4	MNR
Undergraduates as a % of total enrollment (%)	100.0	100.0	100.0	100.0	100.0	76.0
Freshman retention (%)	88.8	85.3	84.4	85.9	91.8	79.2
Graduation rates (six years) (%)	78.7	76.8	78.0	77.8	80.5	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	107,182	107,090	108,304	105,020	MNR
Adjusted operating expense (\$000s)	N.A.	109,323	109,227	107,025	103,695	MNR
Net operating income (\$000s)	N.A.	(2,141)	(2,137)	1,279	1,325	MNR
Net operating margin (%)	N.A.	(1.96)	(1.96)	1.20	1.28	0.78
Change in unrestricted net assets (\$000s)	N.A.	(3,013)	191	(13,697)	3,039	MNR
Tuition discount (%)	N.A.	61.6	60.2	57.8	55.6	39.5
Tuition dependence (%)	N.A.	69.1	69.9	70.6	71.8	MNR
Student dependence (%)	N.A.	85.4	86.9	87.8	89.3	88.3
Research dependence (%)	N.A.	1.2	1.2	0.9	1.0	MNR
Endowment and investment income dependence (%)	N.A.	8.6	7.7	7.3	6.2	MNR
Debt						
Outstanding debt (\$000s)	N.A.	59,705	61,135	39,520	40,990	59,055
Proposed debt (\$000s)	N.A.	11,955	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	61,583	N.A.	N.A.	N.A.	MNR

Ursinus College, Pennsylvania Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'BBB' rated private colleges and universities
	2019	2018	2017	2016	2015	2017
Pro forma MADS	N.A.	4,955	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.61	2.71	2.89	2.94	MNR
Current MADS burden (%)	N.A.	4.61	3.84	2.89	2.98	4.00
Pro forma MADS burden (%)	N.A.	4.53	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	138,781	136,771	129,647	138,677	75,273
Cash and investments (\$000s)	N.A.	161,073	164,914	155,258	160,703	MNR
Unrestricted net assets (\$000s)	N.A.	108,573	111,586	111,395	125,092	MNR
Expendable resources (\$000s)	N.A.	82,703	103,309	76,636	82,071	MNR
Cash and investments to operations (%)	N.A.	147.3	151.0	145.1	155.0	83.6
Cash and investments to debt (%)	N.A.	269.8	269.8	392.9	392.1	157.7
Cash and investments to pro forma debt (%)	N.A.	261.6	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	75.7	94.6	71.6	79.1	48.0
Expendable resources to debt (%)	N.A.	138.5	169.0	193.9	200.2	87.7
Expendable resources to pro forma debt (%)	N.A.	134.3	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.7	17.3	16.7	17.5	14.4

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 March 20, 2019)

Ursinus Coll PCU_GO

Long Term Rating

BBB/Stable

Affirmed

Pennsylvania Hgr Educl Facs Auth, Pennsylvania

Ursinus Coll, Pennsylvania

Series 2012

Long Term Rating

BBB/Stable

Affirmed

Series 2013

Long Term Rating

BBB/Stable

Affirmed

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