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Ratings

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Northeastern Pennsylvania Hospital & Education Authority
Wilkes University; Private Coll/Univ - General Obligation

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Credit Profile		
US$18.0 mil univ rev rfdg bnds (Wilkes University) ser 2016B due 03/01/2037		
Long Term Rating	BBB/Stable	New
Wilkes-Barre Finance Authority, Pennsylvania		
Wilkes Univ, Pennsylvania		
ser 2007		
Long Term Rating	BBB/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'BBB' long-term rating to the Northeastern Pennsylvania Hospital & Education Authority, Pa.'s series 2016B revenue refunding bonds, issued for Wilkes University. At the same time, we affirmed our 'BBB' rating on the university's series 2007, 2012, and 2016A revenue bonds. The outlook is stable.

We assessed the university's enterprise profile as strong characterized by robust enrollment increases in fall 2015 and 2016, expectations for future enrollment increases, and good programmatic diversity. This is partly offset by our view of the university's limited demand profile, with weak selectivity, and graduation and matriculation rates for the rating. We assessed the university's financial profile as adequate, with historical full-accrual operating surpluses posted due to its conservative budgeting despite a high reliance on student revenues. However, available resources remain below-average relative to rating category medians and management remains uncertain of fiscal 2017 full-accrual operating performance given lower-than-budgeted transfer enrollment for fall 2016 and above-average freshman discounting. When we combine the enterprise profile and the financial profile, we believe these credit factors lead to an indicative stand-alone credit profile of 'bbb', and a final rating of 'BBB'.

The rating is supported by our assessment of the university's:

- Solid enrollment increase in fall 2016 primarily due to robust growth in graduate programs;
- History of positive operating performance on a full-accrual basis;
- Good program diversity for the rating category, including a traditional undergraduate program, nontraditional courses, and graduate programs; and
- Budgetary flexibility, particularly in the graduate program.

Offsetting factors include our assessment of:

- Below-average available resources for the rating category;
- High budgetary reliance on student charges;

- Limited demand flexibility given a weak freshman selectivity and low matriculation rate; and
- High freshman discount rate, albeit mitigated by a lower overall discount rate due to minimal discounting of graduate programs.

The university will use the series 2016B bond proceeds to currently refund the remaining balance of its series 2007 bonds on a matched maturity basis. We expect the bonds to be issued as fixed-rate obligations that will be an unsecured general obligation of the university, on parity with its existing debt. This refunding is being undertaken to achieve interest savings. Post-issuance, the university's debt will equal $75.6 million (using audited debt figures as of May 31, 2016). This figure includes $67.7 million in bonds, $4.4 million outstanding under a variable-rate bank note, and roughly $3.5 million for a capital lease. The pro forma maximum annual debt service burden at 4.3% of fiscal 2016's adjusted operating expenses is manageable, in our view.

All long-term bonds are fixed rate and only the drawdown bank note is variable rate (5.9% of pro forma debt). Management indicates the university has no plans to issue additional debt within the next two years.

Wilkes University was founded in 1933 as Bucknell Junior College. In 1947, Wilkes College became an independent, nondenominational, four-year institution, and the first graduate programs were offered in 1959. It gained the designation of a university in 1990, and in 1996, it opened its School of Pharmacy. The university is on a 27-acre campus in the heart of Wilkes-Barre, offering more than 40 majors and concentrations, 13 pre-professional programs, and a professional degree program in the Nesbitt School of Pharmacy. For fall 2016, the university had a total full-time equivalent (FTE) enrollment of 4,123, 57.9% of which were undergraduate students.

Outlook

The stable outlook reflects our expectation that during the two-year outlook period, the university will maintain at least balanced full-accrual operating performance, and stable available resource ratios. We expect no material additional debt within the outlook period that dilutes available resources to levels inconsistent with the rating category, and that the bank note will be retired on schedule by 2020.

Downside scenario

Credit factors that could lead to negative rating actions during the outlook period include a trend of full-accrual operating deficits, enrollment decreases without appropriate budgetary cuts to absorb revenue shortfalls, or issuance of new debt that weakens available resource ratios. A violation of any covenants resulting in an acceleration of the bank note could also trigger a negative rating action.

Upside scenario

A positive rating action would require an improvement in the university's enterprise profile--specifically its demand metrics such as selectivity, and retention and graduation rates--coupled with improved available resources and consistent full-accrual operating surpluses. Growth in the endowment would also be viewed favorably.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality 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 university has somewhat limited geographic diversity, with 74.1% of its students coming from Pennsylvania in fall 2016. As such, our assessment of the university's economic fundamentals is anchored by the Pennsylvania GDP per capita. Other key states the university draws students from include New Jersey and New York. The university has been successful in diversifying its mix over time as demonstrated by a higher percentage (87%) classified as in-state students in fall 2009. Under the university's current five-year strategic plan, it aims to recruit over 30% of its student population from outside Pennsylvania and overseas by 2020.

Market position and demand

In fall 2016, the university's total FTE population included 2,387 undergraduate, 1,452 graduate, and 284 professional students. Undergraduate FTE enrollment increased by 10.3% over the past five years since fall 2012 and averaged roughly 2,300 per year. Similar to many private colleges and universities in the commonwealth of Pennsylvania, the university has been hit with increased competition from public universities due to the recession and slow economic recovery within the commonwealth, and declining high school demographics in the region.

Following large graduate enrollment decreases between fall 2010 through fall 2014, graduate FTE enrollment increased robustly by 18.5% to 1,452 in fall 2016 from 1,225 in fall 2015, aided by a solid enrollment in the graduate teacher education, doctorate of education, MBA, and nurse practitioner programs. The professional student FTE remained relatively stable at 284 in fall 2015, all of whom are enrolled in a pharmacy program.

Management has implemented various strategies to increase enrollment at both the undergraduate and graduate levels. In recent years, it entered into a partnership arrangement with an organization specializing in online marketing and delivery. This partnership is aimed at expanding the university's existing graduate-level nursing programming. Management also opened a site in Mesa, Ariz., where the university enrolled its first MBA graduates and undergraduate business students. The university has expanded its honors program seats, and is working to expand its geographic draw by recruiting more out-of-state and international students in new markets, focusing on STEM programs, implementing new marketing, advertising and recruitment techniques, and building additional capacity in popular programs such as nursing. The university is also seeking to finalize new articulation agreements with a couple of community colleges to bolster its transfer student population. Recently, the university signed a six country strategic recruitment plan with certain Latin America and Caribbean countries to increase its international student population, consistent with its strategic plan.

For fall 2016, the university's freshman applications increased by a robust 34.2% to 4,245 from 3,164 in fall 2015. This large increase was attributed to the transition to the common application, coupled with enhanced and targeted marketing and improved rankings for the university. We consider demand flexibility limited, with weak selectivity and a weak matriculation rate. The university is not very selective, accepting a high 75.9% of freshman applicants for fall 2016. The matriculation rate, in our view, remains weak at 20.6% for fall 2016, due to a highly competitive regional market environment and as the university expands its market reach to recruit an increasingly competitive student profile. The size of the university's freshman class was a record 665 in fall 2016 compared with a budgeted 600 students. The university's transfer matriculants of 115 in fall 2016 fell below its budgeted estimate of 160.

Student quality, as measured by an average SAT score of 1,017 for the fall 2016 entering freshman class, remains slightly above the national average of about 1,002. The freshman-to-sophomore retention rate deteriorated during the past few years to 76.2% for fall 2016, compared with a higher 81.8% in fall 2011. The university is committed to improving retention rates and has constituted a university-wide retention task force, with identi#?ed resources, to ensure its strategic plan goal of achieving an 82% freshman-to-sophomore retention rate by 2020. We expect to see incremental improvements to this rate over the outlook period. The six-year graduation rate has also improved in the past few years to 61.5% for fall 2016, but remains behind on management's target of 65% by 2020. The university typically competes with other Pennsylvania regional public and private universities.

The university recently launched a comprehensive campaign with a goal of $50 million. To date, management reports the university has raised roughly $20 million, including outright and deferred gifts and pledges. This campaign is intended to raise funds for faculty, scholarships, and capital projects, as well as bolster the university's endowment. We expect available resources to increase over time related to the ongoing campaign. Annual giving has ranged between $1 million and $2 million in the past few years. The alumni participation rate in a typical noncampaign year remains relatively lower than that for some peer rated institutions at 14%, albeit improved in recent years due to management's ongoing efforts in reaching out to alumni donors.

Management and governance

The university's president has been in office since July 1, 2012. The president made a few key changes to the administrative and reporting structure of the university in recent years to streamline reporting lines and for administrative efficiencies. A new vice president for university advancement was recruited to bolster fundraising capabilities and spearhead what is expected to be the largest fundraising campaign in the university's history. Following the departure of the previous vice president for enrollment services in February 2016, and completion a national search, the university filled this position with an external candidate in October 2016. We understand that the new vice president for enrollment services has extensive higher education experience, particularly in areas of retention and recruitment. A new dean of the business school was also recruited. Management does not anticipate additional changes to the senior administrative team. A board of trustees comprised of not more than 36 elected members governs the university. We understand the board has been stable, with only rotational changes recently.

The university is currently operating under the guidance of a five-year strategic plan which runs through 2020. The plan ties overarching goals to very clear strategic priorities and objectives, with specific financial and enrollment targets. Management indicates the strategic plan is reviewed, and if necessary, updated annually. The university also prepares a long-term operating budget projection that is aligned with the current strategic plan and modified as yearly priorities change. The university has formal policies for endowment, investment, and debt; it budgets for full depreciation expenses and an operating contingency and utilizes conservative assumptions while formulating operating budgets, which we view favorably. Full-accrual interim financial statements are prepared and presented to the board each quarter. In our view, the university has good financial practices and manages in a proactive manner.

Financial Profile

Financial management policies

The university has formal policies for endowment, investments, and debt. It operates according to a five-year strategic plan. While it does not have a formal reserve and liquidity policy, management is working to develop an operating reserve policy. The university 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 negatively affect 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, as well as a comparison of these policies to comparable providers.

Financial performance

The university has produced consistently positive operating results on a full-accrual basis over the years, although the fiscals 2015 and 2016 full-accrual operating margins were compressed versus historical levels.

Fiscal 2016 ended with a net adjusted full-accrual operating surplus of $1.8 million (1.4% of adjusted operating expenses), comparable with a $1.1 million full-accrual operating surplus (1% of adjusted operating expenses) in fiscal 2015. These are slimmer margins than a $4.8 million surplus posted in fiscal 2014 (4.4% of adjusted operating expenses), and a $4.5 million surplus posted in fiscal 2013 (4.4% of adjusted operating expenses). Per management, the smaller operating margins posted in fiscals 2015 and 2016 compared with immediately preceding years are partly due to strategic investments made by the university in building capacity, enhancing programmatic offerings, strategic enrollment-related initiatives, and greater investments in its compliance and public safety areas. We understand these investments are expected to generate positive returns in future years. For the current fiscal 2017 year, owing to a higher-than-budgeted freshman discount rate, smaller number of transfer matriculants versus budget, and a lower retention rate, the university anticipates a negative revenue variance which it is trying to offset through expense management and other revenue enhancement measures. Beyond the outlook period, management indicates operating margins could improve if the university is able to increase enrollment and strategic investments moderate. We expect management to adjust expenses in response to revenue pressures to generate overall balanced full-accrual operations given its conservative budgeting practices and operating contingencies built into budgets.

As with most private universities of its size and profile, the university is highly dependent on student-generated fees--tuition, fees, and auxiliary revenue generated 94.4% of fiscal 2016 adjusted operating revenues; enrollment fluctuations have the potential to pressure net tuition revenue. Tuition, including room and board, was comparable with peer institutions, in our view, for fall 2016. Student charges (including room and board) for the 2016-2017 academic year equaled $47,314, a 3.7% increase from the previous academic year.

The university plans to keep tuition increases moderate for the next few years as undergraduate affordability is critical given that approximately 47% of students represent the first generation in their families to attend a four-year higher education institution and, as such, affordability is still a concern for many of its students. About 40.4% of first-time, full-time freshman receive a Pell grant. Since the university has such a large graduate student population which receives minimal tuition discounts, the overall tuition discount rate was much lower than the freshman discount rate at 30.6% in fiscal 2016. The fall 2016 freshman discount rate was higher than budgeted at 53% versus a budgeted rate of 50%, which is likely to pressure financial operations. We understand this was due to a decrease in the university's full-pay student population since its high merit student population increased and it raised financial aid to remain competitive. Like many of its peers, the university has recently increased tuition discounting to maintain enrollment, although management indicates it is reassessing the discount rate.

Despite increased tuition discounting and enrollment decreases prior to fall 2015, net tuition revenue increased by what we consider a healthy 3.2% in fiscal 2015 and 4.8% in fiscal 2014. In our view, future net tuition revenue growth could be pressured by growth in the discount rate and enrollment decreases if entering classes remain below target.

Available resources

Available resources as of May 31, 2016 remain below-average for the rating category, in our view. Available resources (as measured by expendable resources) totaled $46.5 million as of May 31, 2016, representing 37.7% of adjusted operating expenses and 61.5% of pro forma debt. Expendable resources as of May 31, 2016 were lower than the $54.2 million on May 31, 2015, despite a small increase in unrestricted net assets as temporarily restricted net assets decreased; moreover, net property, plant and equipment increased as projects were placed into service, and long-term debt went up. Cash and investments totaled $73.6 million as of May 31, 2016, equal to 59.7% of adjusted operating expenses and 97.3% of pro forma debt. We note available resources are deflated given that net property plant and equipment (net PP&E) is over 1x university pro forma debt. Net PP&E increased recently as several large university capital projects have been completed and placed into service.

The endowment's market valuation of $42.2 million as of Sept. 30, 2016 (unaudited) has been adversely affected due to recent volatility in broader investment markets. We consider the endowment assets quite liquid, with 86% able to be liquidated within a week. The university's investment portfolio is 69.7% equities and alternatives, and 30.3% fixed income instruments and cash. The university's endowment spending policy is 4.5% of the trailing 12-quarter rolling average market value and is, in our view, sustainable and not expected to change for the foreseeable future.

Debt and contingent liabilities

The university entered into a $15 million drawdown bank note with PNC Bank in 2012 to provide bridge financing, and this note is on parity with other university debt outstanding. The series 2012A bonds and the bank note financed construction of a new science building on campus, with a total cost of approximately $35 million. We understand proceeds of the bank note provided bridge financing for a portion of the pledges designated for the building. Management indicates the project was completed on time and opened during the summer of 2013. The university completed a $20 million campaign to raise funds for the new science building on campus and raised $18.3 million toward this goal. Management indicates this campaign concluded in fall 2013 (earlier than originally planned) because the science building project came in almost $2 million under budget.

The bank note was structured as a drawdown so that the university could pull funds as needed to match construction expenses. Although the note had a par value of $15 million and a term of 25 years, the university ended up utilizing a total of $8.1 million under this note through project completion, and made a roughly $3.7 million principal payment on this note in fiscals 2015 and 2016. No further draws on this note are expected and the university modified the bank note loan agreement with PNC. Under this amendment, the university does not have the right to borrow additional amounts available under the original $15 million note. Management intends to repay the bank note with cash from gifts to the capital campaign by 2020. The bank note requires that the university maintain a debt service coverage ratio of at least 1.2x and expendable resources to operations of at least 40%, which the university is in compliance with currently. Failure to meet these covenants results in a 30-day cure period, followed by immediate acceleration of the debt. In addition, a "material adverse change" could result in the immediate acceleration of the debt. We understand the university was in compliance with its bond covenants at the close of fiscal 2016. The university has contingent liability risk exposures from the bank note, with payment provisions that change upon the occurrence of certain events. We consider the risk manageable at the current rating level, as it is fully mitigated by $13.5 million in short-term investments as of May 31, 2016 that could be fully liquidated within one business day if needed. This provides sufficient coverage, in our view, of the outstanding bank note in the event of acceleration.

The university offers employees a defined-contribution postretirement plan, which by definition is fully funded. It has no swap contracts and no bullet maturities.

Wilkes University, Pa.-- Financial Statistics

	--Fiscal year ended May 31--					Medians for 'BBB' private colleges and universities
	2017*	**2016**	**2015**	**2014**	**2013**	**2015**
Enterprise Profile						
Full-time equivalent	4,123	3,830	3,534	3,550	3,671	3,229
Freshman acceptance rate (%)	75.9	81.7	78.6	80.1	76.0	72.0
Freshman matriculation rate (%)	20.6	23.2	25.7	24.2	26.8	MNR
Freshman retention (%)	76.2	77.4	78.6	78.4	80.3	79.4
Faculty with terminal degrees (%)	90.1	90.2	89.5	84.3	84.0	MNR
Average SAT scores	1,017	1,046	1,043	1,040	1,054	1,064
Average ACT scores	23	N.A.	N.A.	N.A.	N.A.	MNR
Freshman Applications	4,245	3,164	2,812	3,120	2,998	MNR
Annual freshman application percentage change (%)	34.2	12.5	(9.9)	4.1	6.7	MNR
Graduation rates (six years) (%)	61.5	59.2	57.5	N.A.	N.A.	MNR
Undergraduates as a % of total enrollment (%)	46.1	47.9	51.7	51.2	45.8	75.7
Tuition discount (%)	N.A.	30.6	31.4	31.2	31.6	35.6
Alumni participation rates (%)	N.A.	14.0	14.0	13.2	13.2	MNR
Endowment per FTE	N.A.	10,598	12,284	12,318	11,042	22,451
Students from inside of the state (%)	74.1	75.9	78.9	80.5	82.7	MNR
Average age of plant (years)	N.A.	14.4	14.4	15.6	19.1	13.6
Financial Profile						
Net operating margin (%)	N.A.	1.42	0.99	4.42	4.42	0.83
Student dependence (%)	N.A.	94.4	93.9	93.9	92.5	90.0
Research dependence (%)	N.A.	1.7	2.2	2.5	3.7	MNR

Wilkes University, Pa.-- Financial Statistics (cont.)

	--Fiscal year ended May 31--					Medians for 'BBB' private colleges and universities
	2017*	2016	2015	2014	2013	2015
Endowment and investment income dependence (%)	N.A.	2.2	2.1	2.1	1.9	MNR
Endowment spending rate (%)	N.A.	4.50	4.50	5.00	N.A.	MNR
Current MADS burden (%)	N.A.	4.48	4.94	5.09	7.87	4.30
Pro forma MADS burden (%)	N.A.	4.26	N.A.	N.A.	N.A.	MNR
Cash and investments ($000s)	N.A.	73,557	76,881	77,067	67,199	MNR
Cash and investments to debt (%)	N.A.	97.3	101.8	99.2	91.8	150.8
Cash and investments to pro forma debt (%)	N.A.	97.3	N.A.	N.A.	N.A.	MNR
Expendable resources ($000s)	N.A.	46,471	54,173	55,281	45,332	MNR
Expendable resources to operations (%)	N.A.	37.7	47.4	51.4	44.2	52.6
Expendable resources to debt (%)	N.A.	61.5	71.8	71.2	61.9	93.9
Expendable resources to pro forma debt (%)	N.A.	61.5	N.A.	N.A.	N.A.	MNR
Total adjusted operating expense	N.A.	123,239	114,230	107,643	102,454	MNR
Total debt	N.A.	75,573	75,492	77,689	73,199	56,393
Total pro forma debt	N.A.	75,573	N.A.	N.A.	N.A.	MNR
Current debt service	N.A.	5,039	6,047	3,668	3,513	MNR
Pension expense	N.A.	2,235	2,078	2,025	2,368	MNR
OPEB expense	N.A.	0	71	66	45	MNR
Retired 10 years (%)	N.A.	25.9	N.A.	N.A.	N.A.	MNR
Contingent liabilities	N.A.	4,431	5,785	8,139	3,649	MNR

N.A. not available. MNR median not reported. MADS maximum annual debt service. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Current MADS burden = 100*(maximum annual debt service expense/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. SAT scores include only reading and math. *Demand data.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of November 18, 2016)

Northeastern Pennsylvania Hosp & Ed Auth, Pennsylvania

Wilkes Univ, Pennsylvania

Series 2012A

Long Term Rating	BBB/Stable	Affirmed