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Ratings

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Wilkes University, Pennsylvania; Private Coll/Univ - General Obligation

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Table Of Contents

Wilkes University, Pennsylvania; Private Coll/Univ - General Obligation

Credit Profile		
Northeastern Pennsylvania Hosp & Ed Auth, Pennsylvania		
Wilkes Univ, Pennsylvania		
Northeastern Pennsylvania Hosp & Ed Auth (Wilkes Univ) rev bnds (Wilkes Univ Proj)		
Long Term Rating	BBB-/Stable	Downgraded
Wilkes-Barre Finance Authority, Pennsylvania		
Wilkes Univ, Pennsylvania		
Wilkes-Barre Finance Authority (Wilkes Univ) taxable univ rev bnds		
Long Term Rating	BBB-/Stable	Downgraded

Rating Action

S&P Global Ratings lowered its long-term rating to 'BBB-' from 'BBB' on the Northeastern Pennsylvania Hospital & Education Authority's series 2012A, 2016A, and 2016B revenue bonds and the City of Wilkes-Barre Finance Authority, Pa.'s series 2019 taxable revenue bonds, issued for Wilkes University (Wilkes). The outlook is stable.

The lower rating reflects our view of Wilkes' softening available resource levels brought on by highly cash intensive capital projects and further limited by two consecutive years of full accrual operating deficits. Compared to rating category medians and similarly rated peers, available resource ratios remain very weak. In part driving the operational challenges is sustained pressure on the university's enterprise profile with weak undergraduate trends, though management did record a 10.3% increase in graduate enrollment which contributed to only a modest decrease in total FTE in fall 2020. In part due to the outbreak of COVID-19, Wilkes has also seen matriculation soften while retention–though relatively stable over the past five years–remains below rating category medians, indicating that the university faces challenges keeping and retaining students. Management is making a concerted effort to improve the university's enrollment and demand profile through key strategic initiatives, though we expect results could take time.

As of fiscal 2020 year-end, Wilkes had $73.9 million in debt outstanding. All of the university's long-term debt is fixed rate and secured by a general obligation of the university. In addition to the outstanding series 2012A, 2016A, 2016B and 2019 bonds, the university has $3.2 million in capital leases outstanding. Wilkes has no plans for additional debt at this time.

While there remains uncertainty regarding the duration and extent of the COVID-19 pandemic, we believe Wilkes has taken the steps necessary to ensure the safety of its students, faculty, and staff while also remaining financially responsible. In mid-March, the university transitioned to an online format and required all students, with the exception of those with extenuating circumstances, to move out of the residence halls. For students living on campus prior to the outbreak, Wilkes issued prorated room and board refunds totaling approximately $3 million which led to a 20.9% decline in auxiliary revenue in fiscal 2020. Auxiliary revenue historically accounts for about 10% of total adjusted operating revenue. To offset some of this lost revenue and additional expenses, Wilkes received $2.4 million from the Coronavirus Aid, Relief, an Economic Security (CARES) Act, half of which went directly to aid students with emergency funding, while the remainder was used to cover some of the auxiliary revenue lost due to room and board refunds. As part of the Higher Education Emergency Relief Fund II, authorized by the Coronavirus Response and Relief Supplemental Appropriations Act 2021 (CRRSAA), the university will receive a total of $3.9 million. Of that, $1.2 million will be used for direct to student grants, which will be drawn down on a monthly basis as funds are disbursed to students. For the institutional portion of the $3.9 million, the university plans to reimburse itself for additional COVID-related expenses.

For fall 2020, the university moved to a mix of in-person, online, and hybrid format classes, a strategy the university will continue to implement in the spring. The majority of students were brought back on campus with the university taking steps to de-densify student housing and safety precautions. Wilkes saw a decline of about 5.1% in undergraduate full-time equivalent (FTE) enrollment but saw a 10.3% increase in graduate FTE enrollment in fall 2020. International enrollment, which has historically accounted for around 4% of total FTE enrollment, fell from 141 to 133 in fall 2020 which, in our opinion, does not constitute a material impact. The university has taken proactive steps to manage expenses and budget conservatively and, as a result, is projecting breakeven operating results on a full accrual basis with the potential for a modest surplus when including federal support through CRSSAA.

Credit overview

We assessed the university's enterprise profile as adequate, characterized by declining undergraduate enrollment and softening of demand metrics further pressured due to the pandemic. However, graduate enrollment increased nicely in fall 2020 and management is actively trying to build upon this momentum. We assessed the university's financial profile as adequate, with conservative budgeting practices and a manageable debt burden. However, operating results have been negative over the past two years and, while management is anticipating breakeven operations in fiscal 2021, continued enrollment challenges could lead to future operational pressure. Additionally, available resources remain thin and are below-average relative to rating category medians. 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 reflects our view of Wilkes':

- Declining FTE enrollment over the past four years, with limited demand flexibility given a weak first year selectivity and low matriculation rate;
- Below-average available resources for the rating category; and
- High budgetary reliance on student charges, though strengthening a graduate program provides some flexibility.

Partially offsetting these weaknesses, in our view, are:

- Fifteen consecutive years of positive operating performance on a full-accrual basis, though enrollment challenges and COVID-19 have led to pressure in recent years;
- Good program diversity for the rating category, including a traditional undergraduate program, nontraditional courses, and graduate programs; and

- Management's ability to recognize institutional challenges and develop meaningful strategies to address them although successful execution remains unproven.

The stable outlook reflects our expectation that during the outlook period, the university will continue growing graduate enrollment and make progress stabilizing undergraduate enrollment. Additionally, we expect Wilkes to record minor full accrual operating deficits over the outlook period while maintaining current available resource ratios. We expect no material additional debt within the outlook period that further dilutes available resources.

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 34-acre campus in the heart of Wilkes-Barre, offering more than 40 majors and concentrations, 15 pre-professional programs, and a professional degree program in the Nesbitt School of Pharmacy.

Environmental, social, and governance (ESG) factors

In our view, Wilkes, similar to other higher education institutions, faces elevated social risk due to the uncertainty on the duration of the COVID-19 pandemic. The university's management team implemented remote learning in spring 2020 and adopted a hybrid approach this past fall to protect the health and safety of students, faculty, and staff, and to limit the risk associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite the elevated social risk, we believe the university's environmental and governance risk are in line with our view of the sector.

Stable Outlook

Downside scenario

Credit factors that could lead to negative rating actions during the outlook period include a trend of increasing full-accrual operating deficits, enrollment decreases without appropriate budgetary cuts to absorb revenue shortfalls, or issuance of new debt that weakens available resource ratios. Although not expected, persistent high endowment draws would also be viewed negatively as this would further dilute available resources. While management has taken steps to mitigate the effects of COVID-19, we could consider a negative rating action during the outlook period should unforeseen pressure materially affect the organization's demand, finances, or overall trajectory.

Upside scenario

A positive rating action, while not anticipated, would require an improvement in the university's enterprise profile--specifically a flattening or turnaround to enrollment's current negative trend--coupled with improved available resources and consistent full-accrual operating surpluses. Growth in the endowment would also be viewed favorably.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the university has somewhat limited geographic diversity, with 73.4% of its students coming from Pennsylvania in fall 2020. Therefore, 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.

Market position and demand

In fall 2020, the university's total FTE population included 2,093 undergraduate, 985 graduate, and 273 professional students. Undergraduate FTE enrollment has seen pressure over the last four years, slipping 12.9% from a university record 2,404 in fall 2016. 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.

Graduate enrollment at Wilkes has seen some volatility over the past ten years; following large graduate enrollment increases from fall 2015 through fall 2017, graduate FTE enrollment decreased by 12.7% in fall 2018 to 1,037 and then by another 13.8% in fall 2019 to 893. In recent years, Wilkes has been working with Keypath Education, a higher education consultant, to enhance the visibility of and, in turn, grow the enrollment of Wilkes' graduate programs. In part due to growth in its nursing program aided by Keypath, graduate FTE enrollment saw a 10.3% jump to 985 in fall 2020. Management is optimistic that the success of this program, will lead to sustainable growth in graduate enrollment. Professional student FTE, all of whom are enrolled in the pharmacy program, remained relatively stable at 273 in fall 2020.

For fall 2020, the university's first year applications fell to 3,633, a 3.3% decline from fall 2019 totals and a 14.4% decline from its peak of 4,245 in fall 2016. We consider demand flexibility limited, with weak selectivity and a weak matriculation rate. Between fall 2015 and fall 2019, Wilkes accepted, on average, 77.2% of freshman applicants but, in fall 2020, accepted 91.8%. The sharp increase in acceptance rate occurred as Wilkes–which has struggled with declining applications and enrollment over the past four years–worked to maintain enrollment amidst a pandemic that has led many college aged students to reconsider their fall plans. As selectivity softened, so too did matriculation rate, slipping from 18.5% for fall 2019 to 15.1% in fall 2020. The first to second year retention rate also softened from 78% in fall 2019 to 76.3% in fall 2020. The six-year graduation rate, however, has improved over the past few years to 63.9% for fall 2020, compared to 59.7% in fall 2017.

As part of its new strategic plan, Wilkes has set a specific goal to improve all of the aforementioned metrics and plans to do so through continued work with Keypath, development of programmatic offerings that set students up for success, and the strengthening of student support services. In addition to working with Keypath, management has implemented various internal strategies to increase enrollment at both the undergraduate and graduate levels. The university has expanded its honors program and is working to expand its geographic draw by recruiting more out-of-state and international students in new markets, focusing on STEM programs, and implementing new marketing, advertising and recruitment techniques. The university has articulation agreements with local community colleges to bolster its transfer student population. Additionally, the university has a recruitment plan with the Republic of Panama that it hopes will increase its international student population.

At the end of fiscal year 2020, Wilkes officially closed out their comprehensive campaign which sought to raise $55 million for faculty, scholarships, and various capital projects, as well as bolster the university's endowment. Management reports that total commitments over the six campaign years total over $62 million. While some of the funds have been expended as they've been received, management has earmarked certain funds for new scholarships and smaller capital projects planned for the coming years.

Management and governance

In December 2019, after undergoing a national search following the departure of the prior president, Wilkes appointed Dr. Greg Cant as its seventh president. Dr. Cant, who assumed office in June 2020, has over 30 years of experience in higher education and served most recently as dean of the school of business at Montclair State University. With the appointment of Dr. Cant, the interim president, Dr. Paul Adams, returned to his role as vice president for student affairs. A search remains for a permanent provost. Outside of the current vacancies, management does not anticipate additional changes to the senior administrative team. A board of trustees composed of not more than 36 elected members, governs the university. We understand the board has been stable, with only rotational changes recently.

In late 2020, management introduced Wilkes' new two-year strategic plan, "Bridge to the Future". The new plan aims to build off from the successes of last plan, "Gateway to the Future", while introducing new strategic goals to address the current challenges of the university. The first of the six goals, which management describes as the "bedrock" of the entire plan, is to foster institutional efficiency and develop a culture of entrepreneurship. To this end, management is in the midst of an Academic Portfolio Review through which low demand, high cost programs may be wound down. Within the remaining five goals are supporting initiatives which aim to not only develop in-demand, highly successful programs, but further develop university commitment to faculty and staff, stabilize enrollment, and improve financial strength. We believe that management is prepared to make difficult decisions to execute on its strategic plan in order to remedy some of the financial challenges it has been facing.

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, the board is currently reviewing 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

For over fifteen years, Wilkes saw steady growth in gross tuition revenue and, with good expense management, saw consistent full accrual operating surpluses. In fiscal 2019, as enrollment declines put pressure on net tuition revenue and bolstered program offerings, continued capital investments and strategic enrollment-related initiatives led to an increased expenses, Wilkes saw a full-accrual operating deficit of $1.87 million or 1.3%. In fiscal 2020, the spread of COVID-19 exacerbated the enrollment pressures felt by Wilkes and drove net tuition revenue down 4% to $72.4 million. After sending students home in mid-March, Wilkes issued room and board refunds of approximately $3 million which pushed auxiliary revenue down 20.9% from $16.4 million to $12.9 million. To offset some of these expenses, the university received $1.2 million in institutional funds through the CARES Act. The university took steps of its own, cutting discretionary spending while lowering auxiliary and partner contract expenses.

For fiscal 2021, Wilkes initially budgeted for an $8 million deficit but, due to higher than budgeted enrollment and the additional support of funds distributed through the Higher Education Emergency Relief Fund II, authorized by CRRSAA, management is now projecting breakeven operations with the potential for a modest surplus. As of part of CRSSAA, Wilkes expects to receive a total of $3.9 million. Of that, $1.2 million will go directly to students for emergency funding while the remaining $2.7 million is for institutional use. Wilkes expects to use a portion the institutional funding to cover COVID-19 related expenses and lost revenue in fiscal 2021.

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 90.6% of fiscal 2020 adjusted operating revenues. Tuition, including room and board, was comparable with peer institutions, in our view, for fall 2020. Student charges (including room and board) for the 2020-2021 academic year equaled $54,052, a 2.5% increase from the previous academic year.

The university plans to keep tuition increases moderate for the next few years as affordability and attainability of a Wilkes education remains a strategic goal. About 31% of full-time first-year students receive a Pell grant. Like many of its peers, the university has recently increased tuition discounting to maintain enrollment, which plans to monitor going forward.

Available resources

Available resources, measured by expendable resources, have seen pressure over the past six years, sliding 24.9% from $55.3 million in fiscal 2014 to $41.5 million in fiscal 2020. Expendable resources are defined as audited net assets without donor restrictions plus net assets available for appropriation adjusted for net property, plant and equipment (PPE) and debt. As of fiscal 2020 year-end, expendable resources are a weak 29.2% of adjusted operating expenses and 56.1% of outstanding debt. Cash and investments, which we view as a less conservative measure, have also fallen over recent years and, in fiscal 2020, totaled $80.2 million, equal to 56.4% of adjusted operating expenses and 108.6% of debt. Management indicated that the new strategic plan will shift focus from what, over the past five years, has been a highly cash intensive push to improve the physical state of the campus. We believe that, absent any large capital projects over the coming years, management has the ability to rebuild its available resources.

The endowment's market valuation was $59.6 million as of Dec. 31, 2020. We consider the endowment assets quite liquid, with 97% liquid within a month. The university's investment portfolio is 67% equities, and 30% fixed income instruments and cash, 2% in private equity, and 1% in hedge funds. The university's endowment spending policy is 4.4% of the trailing 12-quarter rolling average market value, and is, in our view, sustainable and not expected to change for the foreseeable future. Management did indicate, however, that a temporary increase to 7% has been approved for fiscal 2022 but that, over the coming years, the spending policy will be lowered to 4%.

Debt and contingent liabilities

Wilkes had $73.8 million of debt as of fiscal year-end 2020. This figure includes $70.6 million in bonds, all of which are fixed-rate, and $3.2 million in housing facility and vehicle capital leases. The series 2019 bonds, issued subsequent to fiscal 2019 year end, refunded a $6.0 million capital line of credit and provide resources for maintenance and capital projects at the university.

The university has manageable MADS $5.8 million, which is equal to 4.1% of fiscal 2020 total operating expenses. Management indicates the university has no plans to issue additional debt within the next two years. 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, Penn. -- Enterprise And Financial Statistics

	--Fiscal year ended May 31--					Medians for 'BBB' rated Private Colleges & Universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	4,781	4,680	5,132	5,545	5,552	MNR
Full-time equivalent	3,351	3,373	3,627	3,807	3,883	2,806
Freshman acceptance rate (%)	91.8	78.6	74.8	75.3	75.9	72.0
Freshman matriculation rate (%)	15.1	18.5	21.8	19.8	20.6	MNR
Undergraduates as a % of total enrollment (%)	46.9	50.2	47.8	44.9	46.1	73.9
Freshman retention (%)	76.3	78.0	76.0	75.7	76.2	79.0
Graduation rates (six years) (%)	63.9	63.2	59.8	59.7	61.5	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	139,717	144,056	141,167	138,121	MNR
Adjusted operating expense ($000s)	N.A.	142,167	145,933	139,644	136,407	MNR
Net operating income ($000s)	N.A.	(2,450)	(1,877)	1,523	1,714	MNR
Net operating margin (%)	N.A.	(1.72)	(1.29)	1.09	1.26	0.00
Change in unrestricted net assets ($000s)	N.A.	189	(338)	6,919	2,838	MNR
Tuition discount (%)	N.A.	36.3	35.5	32.5	32.1	40.6
Tuition dependence (%)	N.A.	81.4	81.2	81.8	82.4	MNR
Student dependence (%)	N.A.	90.6	92.5	91.9	92.3	89.0
Research dependence (%)	N.A.	4.7	2.7	2.0	1.8	MNR
Endowment and investment income dependence (%)	N.A.	2.1	2.2	2.2	2.1	MNR
Debt						
Outstanding debt ($000s)	N.A.	73,858	71,953	70,574	70,548	60,453
Current MADS burden (%)	N.A.	4.06	3.61	3.80	3.89	4.00
Financial resource ratios						
Endowment market value ($000s)	N.A.	52,658	51,848	51,627	47,734	81,634
Cash and investments ($000s)	N.A.	80,174	80,651	81,914	79,783	MNR
Unrestricted net assets ($000s)	N.A.	72,942	72,753	73,091	66,172	MNR

Wilkes University, Penn. -- Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended May 31--					Medians for 'BBB' rated Private Colleges & Universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Expendable resources ($000s)	N.A.	41,462	43,758	44,590	44,754	MNR
Cash and investments to operations (%)	N.A.	56.4	55.3	58.7	58.5	84.0
Cash and investments to debt (%)	N.A.	108.6	112.1	116.1	113.1	164.9
Expendable resources to operations (%)	N.A.	29.2	30.0	31.9	32.8	47.0
Expendable resources to debt (%)	N.A.	56.1	60.8	63.2	63.4	85.6
Average age of plant (years)	N.A.	13.6	13.2	14.0	14.5	15.0

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*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = net assets without donor restrictions + net assets available for appropriation - (net PPE - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.