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Ratings

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

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Credit Profile		
US$10.0 mil taxable univ rev bnds (Wilkes University) ser 2019 due 03/01/2039		
Long Term Rating	BBB/Stable	New
Northeastern Pennsylvania Hosp & Ed Auth, Pennsylvania		
Wilkes Univ, Pennsylvania		
Series 2012A		
Long Term Rating	BBB/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'BBB' long-term rating to the City of Wilkes-Barre Finance Authority, Pa.'s $10.0 million series 2019 taxable university revenue bonds, issued for Wilkes University. In addition, S&P Global Ratings affirmed its 'BBB' long-term rating on the Northeastern Pennsylvania Hospital & Education Authority's series 2007, 2012A, and 2016A, 2016B revenue bonds, issued for Wilkes University. The outlook is stable.

We assessed the university's enterprise profile as adequate, characterized by declining applications and enrollment though good programmatic diversity and expectations of enrollment stabilization. We assessed the university's financial profile as adequate, with historical full-accrual operating surpluses, conservative budgeting practices and a manageable debt burden. However, operating results were negative in the last fiscal year, while 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 is supported by our assessment of the university's:

- History of positive operating performance on a full-accrual basis, despite a full accrual operating deficit in fiscal 2019;
- 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:

- Declining enrollment over the past three 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.

The series 2019 bond proceeds will refund the university's outstanding taxable line of credit and fund maintenance and capital projects at the university.

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. For fall 2019, the university had a total full-time equivalent (FTE) enrollment of 3,544, 61.7% of which were undergraduate students.

Outlook

The stable outlook reflects our expectation that during the two-year outlook period, the university will record minor full accrual operating deficits while maintaining or improving current available resource ratios. We expect no material additional debt within the outlook period that dilutes available resources to levels inconsistent with the rating category.

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.

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.

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 76.5% of its students coming from Pennsylvania in fall 2019. 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. 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 2019, the university's total FTE population included 2,189 undergraduate, 1,080 graduate, and 275 professional students. Undergraduate FTE enrollment has seen some pressure over the last three years, with a 2.3% decline seen in fall 2017, followed by a 1.2% and 5.0% decline in fall 2018 and fall 2019, respectively. 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 increases from fall 2015 through fall 2017, graduate FTE enrollment decreased by 12% in fall 2018 to 1,288 and then by another 16% in fall 2019 to 1,080. The professional student FTE remained relatively stable at 275 in fall 2019, all of whom are enrolled in a pharmacy program.

Management has implemented various 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, implementing new marketing, advertising and recruitment techniques, and building additional capacity in popular programs such as nursing. The university has new articulation agreements with local community colleges to bolster its transfer student population. In 2017, the university launched its first PhD program in nursing and has recognized growing demand for the program over the past two years. Additionally, the university has a signed recruitment plan with the Republic of Panama to increase its international student population, consistent with its strategic plan.

For fall 2019, the university's first year applications fell to 3,756, a 4.5% decline from fall 2018 totals and a 11.5% decline from its peak of 4,225 in fall 2016. We consider demand flexibility limited, with weak selectivity and a weak matriculation rate. The university is not very selective, accepting a high 78.6% of first year applicants for fall 2019. The matriculation rate, in our view, remains weak at 18.5% for fall 2019, due to a highly competitive regional market environment. The university recorded its second largest freshman class of 640 in fall 2018 but saw 545 matriculants for fall 2019. Management has indicated that, going forward, it would like to enroll 550 in each new first year class.

Student quality, as measured by an average SAT score of 1,123 for the fall 2019 entering first year class, remains slightly above the national average of about 1,059. The first to second year retention rate improved slightly over the past few years to 78% for fall 2019, compared with 75.7% in fall 2017. The university is committed to improving retention rates and has constituted a university-wide retention task force, with identified resources, to ensure its strategic plan goal of achieving an 82% first to second year 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 63.1% for fall 2019, compared to 59.7% in fall 2017. The university typically competes with other Pennsylvania regional public and private universities.

The university is in the midst of a comprehensive campaign, whose previous goal was $50 million but, after surpassing the goal, updated it to $55 million. The university has currently raised $56.4 million. This campaign is intended to raise funds for faculty, scholarships, and capital projects, as well as bolster the university's endowment. Annual giving has ranged between $1 million and $2 million in the past few years. The alumni participation rate fell slightly in fiscal 2019 to 13.0% from 13.4%.

Management and governance

In July 2019, Patrick Leahy, who had been serving as president for the past seven years, resigned. With his departure, the university appointed Dr. Paul Adams, former vice president of student affairs, as the interim president. In the same month, Wilkes also saw the departure of its provost, Dr. Anne Skleder, and has since appointed Dr. Terese Wignot as interim provost. The university is currently undergoing a search for its next president and will begin a search for provost once a new president has been appointed. Finally, a new vice president for enrollment management and marketing started in 2019. 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.

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 finance committee 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, 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

Historically, operating results have been positive on a full accrual basis with surpluses of 1.1%, 1.3% and 1.4% recognized over the past three years. Fiscal 2019 ended with a net adjusted full-accrual operating deficit of $1.87 million (negative 1.3% of adjusted operating expenses). The deficit is in part due to recent declines in enrollment, which have put pressure on net tuition revenue while bolstered program offerings, continued capital investments and strategic enrollment-related initiatives have led to an increase in expenses. Management does note, however, that while these investments have been costly, they are expected to generate positive returns in future years. Beyond the outlook period, management indicates operating margins could improve if the university is able to stabilize or increase enrollment. We note that management has been successful in the past at adjusting 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 92.5% of fiscal 2019 adjusted operating revenues. Tuition, including room and board, was comparable with peer institutions, in our view, for fall 2019. Student charges (including room and board) for the 2019-2020 academic year equaled $52,730, a 3.6% 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 43% of students are the first in their family to attend a four-year higher education institution. About 32% 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 as of May 31, 2019 declined for the third straight year and remain below-average for the rating category, in our view. Measured by expendable resources, they totaled $43.7 million, representing 30.0% of adjusted operating expenses and 60.8% of debt. Cash and investments fell slightly from fiscal 2018 levels and totaled $80.6 million, equal to 55.3% of adjusted operating expenses and 112.1% of debt. We note available resources are deflated given that net property, plant and equipment (PP&E) is over 1x university debt. Net PP&E has increased over the past two years as several large university capital projects have been completed and placed into service.

The endowment's market valuation was $51.8 million as of May 31, 2019. We consider the endowment assets quite liquid, with 90.4% able to be liquidated within a week. The university's investment portfolio is 72.5% equities and alternatives, and 27.5% fixed income instruments and cash. 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.

Debt and contingent liabilities

Wilkes had $71.9 million of debt as of fiscal year-end 2019. This figure includes $61.9 million in bonds, $6.0 million outstanding under an existing capital line of credit with PNC Bank, $3.3 million for a capital lease, and $670 thousand for a variable rate bank note which, according to management, was paid down subsequent to fiscal year end 2019.

The series 2019 bond proceeds will refund the $6.0 million line of credit and provide resources for maintenance and capital projects at the university. Total pro forma debt equals $75.3 million and debt service is fairly flat over the life of the bonds. Current MADS is at $5.3 million and is expected to increase to $5.7 million with this financing, equal to 3.9% of fiscal 2019 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, Pa. -- Enterprise And Financial Statistics

	Fiscal year ended May 31					Medians for 'BBB' rated Private Colleges & Universities
	2020	**2019**	**2018**	**2017**	**2016**	**2018**
Enrollment and demand						
Headcount	4,680	5,132	5,545	5,552	5,053	MNR
Full-time equivalent	3,544	3,875	4,081	4,123	3,830	2,700
Freshman acceptance rate (%)	78.6	74.8	75.3	75.9	81.7	71.4
Freshman matriculation rate (%)	18.5	21.8	19.8	20.6	23.2	MNR
Undergraduates as a % of total enrollment (%)	50.2	47.8	44.9	46.1	47.9	74.1
Freshman retention (%)	78.0	76.0	75.7	76.2	77.4	78.8
Graduation rates (six years) (%)	63.1	59.8	59.7	61.5	59.2	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	144,056	141,167	138,121	124,994	MNR
Adjusted operating expense ($000s)	N.A.	145,933	139,644	136,407	123,239	MNR
Net operating income ($000s)	N.A.	(1,877)	1,523	1,714	1,755	MNR
Net operating margin (%)	N.A.	(1.29)	1.09	1.26	1.42	(0.60)
Change in unrestricted net assets ($000s)	N.A.	(338)	6,919	2,838	765	MNR
Tuition discount (%)	N.A.	35.5	32.5	32.1	30.6	40.8
Tuition dependence (%)	N.A.	81.2	81.8	82.4	83.9	MNR
Student dependence (%)	N.A.	92.5	91.9	92.3	94.4	89.4
Research dependence (%)	N.A.	2.7	2.0	1.8	1.7	MNR
Endowment and investment income dependence (%)	N.A.	2.2	2.2	2.1	2.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	71,953	70,574	70,548	75,573	57,739
Proposed debt ($000s)	N.A.	10,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	75,953	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	5,742	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.81	4.23	4.12	4.09	MNR
Current MADS burden (%)	N.A.	3.61	3.80	3.89	4.48	4.00
Pro forma MADS burden (%)	N.A.	3.93	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	51,848	51,627	47,734	40,590	77,239
Cash and investments ($000s)	N.A.	80,651	81,914	79,783	73,557	MNR
Unrestricted net assets ($000s)	N.A.	72,753	73,091	66,172	63,334	MNR
Expendable resources ($000s)	N.A.	43,758	44,590	44,754	46,471	MNR
Cash and investments to operations (%)	N.A.	55.3	58.7	58.5	59.7	82.6
Cash and investments to debt (%)	N.A.	112.1	116.1	113.1	97.3	166.5
Cash and investments to pro forma debt (%)	N.A.	106.2	N.A.	N.A.	N.A.	MNR

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

	Fiscal year ended May 31					Medians for 'BBB' rated Private Colleges & Universities
	2020	**2019**	**2018**	**2017**	**2016**	**2018**
Expendable resources to operations (%)	N.A.	30.0	31.9	32.8	37.7	49.7
Expendable resources to debt (%)	N.A.	60.8	63.2	63.4	61.5	89.4
Expendable resources to pro forma debt (%)	N.A.	57.6	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.2	14.0	14.5	14.4	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 = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.