STANDARD & POOR'S

Standard & Poor's Research

October 21, 2011

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

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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 bonds and taxable revenue bonds, issued for Juniata College.

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

- Improvement in enrollment and admission trends over the past five years in a highly competitive market for students;
- Manageable current maximum annual debt service (MADS) burden of 5% with roughly 1.3x MADS coverage in fiscal 2011;
- Significant amount of investment in campus facilities; and
- Total cash and investments that were, what we consider, a good 1.3 times adjusted operating expenses and 2.5 times debt outstanding of approximately $36 million at May 31, 2011.

We believe somewhat offsetting factors include the college's:

- Lower expendable resources compared with its 'A-' rated peers,
- Rising financial aid budget, and
- Break-even financial performance on a full accrual basis in fiscal 2011.

In fiscal 2010, college officials learned the William J von Liebig Foundation would not be able to fulfill its pledge obligation to the college. The foundation provided for annual payments, ranging from $1.3 million-$1.9 million annually, to the college through 2015 for a face value of $12.1 million at May 31, 2009. Approximately $900,000 was restricted for program support in the sciences while the remaining $11.2 million could be used for any lawful charitable educational purpose. The foundation had given Juniata College $15 million in total support before 2010. The college recorded a write-off of $7.4 million for this support agreement, which was the net receivable as of May 31, 2010. Management tells us the 2010 bonds refinanced the bonds college officials used foundation money to pay debt service on those bonds. Management now uses operations, operational reserves, pledges and gifts, endowment, and quasiendowments to service debt outstanding. All of the college's debt outstanding is a GO of the college.

After postponing his 2011 retirement at the request of the board because of the economy, Juniata's president of 15 years plans to retire in spring 2013. The provost and executive vice president for enrollment also expect to retire around the same time. The college has hired a consulting firm to start the process for a presidential transition. The college expects to announce its search for a new president sometime in the first quarter of 2012, and it plans to hire a new president by January 2013.

Founded in 1876, Juniata College has been a coeducational liberal arts college since its inception. The college is on a large 800-acre campus in Huntingdon in south-central Pennsylvania. In the fall 2011 semester, the college enrolled approximately 1,624 students.

The college is considering adding some additional dorm space to the campus by fall 2013; officials, however, do not yet know the financing details. In addition, the college is completing a master plan. Management tells us it will leave longer-term additional debt plans to the presidential successor.

Outlook

The stable outlook reflects Standard & Poor's opinion that, over the next two years, the college will likely demonstrate continued balanced operations on a full accrual basis and continued improvement in expendable resources. It is our opinion that enrollment and demand will likely remain steady in a highly competitive market. Any erosion in financial resources or issuance of additional debt, without parallel growth in expendable resources relative to the rating category, could be of concern. Weak finances or draws on reserves could lead to our lowering the rating. It, however, is unlikely that during the outlook's two-year period Juniata College will significantly increase its financial resources relative to the rating category to warrant an upgrade.

Demand: Enrollment Is Increasing While Demand Trends Are Stable

Juniata's headcount enrollment increased to 1,624 students in fall 2011 from 1,532 in fall 2009. All of the students are undergraduates, and nearly all students are full time. Historically, freshman applications have been volatile: They increased by 25% in fall 2008 and then declined by 17% in fall 2009. Applications increased over the past two years to 2,144 for fall 2011 from 2,038 for fall 2009; there, however, was a slight decline in fall 2011 applications from fall 2010. The matriculation rate weakened during the same period due to a highly competitive market. Management recognizes applications and the number of freshmen matriculants have been volatile over the past five years, so it is working to correct that with several programs targeted at increasing applications and yield. Juniata is moderately selective with a 71% freshman acceptance rate for fall 2011. The fall 2011 freshman-to-sophomore retention rate is also, in our opinion, a good 85% with a 72% four-year graduation rate. Juniata enrolls a small number of transfer students annually. Most of the college's chief competitors are in Pennsylvania, including public universities and small, private liberal arts colleges. Total tuition and fees for fall 2011 were $43,430, which is comparable to peer institutions. The college's discount rate in fiscal 2011 increased to 46%, up slightly from a five-year average of 43%.

Finances: Operations Are Balanced

Historically, operations are balanced. For fiscal 2012, management has budgeted for balanced operations and provided for higher financial aid; it also increased the discount rate to 48.4%. The college reported balanced operations in fiscal 2011 on a generally accepted accounting principles basis with just a small deficit of $6,000. The college prepares the operating budget on cash basis. The college depends on student-generated revenue with tuition and auxiliary enterprises accounting for 82% of adjusted operating revenue in fiscal 2011. The college closed fiscal 2011 with $92.1 million of cash and investments, or, in our view, a good 1.3 times operating expenses and 2.5 times debt outstanding. Expendable resources, as of May 31, 2011, were 41% of annual operating expenses and 81% of debt outstanding, lower than other 'A-' rated peers. The college employs a 5% endowment spending policy based on a five-year moving market value average. Endowment investments, as of May 31, 2011, totaled $78.9 million. Asset allocation favors traditional investments, and its portfolio is liquid with a substantial majority of assets classified as Level 1.

Debt: The Burden Is Manageable

The college has, what we consider, manageable long-term debt with MADS of $3.6 million and a MADS burden of 5% for fiscal 2011. As of May 31, 2011, the college has two revenue notes and two different series of bonds outstanding for approximately $36.3 million. Series 2010A and 2010B bonds are fixed-rate GO bonds maturing by 2016 and 2030, respectively. The college funded series 2004 and 2007 notes with a bank loan with PNC Bank. The two bank loans payable, for revenue notes, of approximately $12.3 million have puts in fiscal years 2015 and 2018. All of the college's debt outstanding is a GO of the college, maturing by 2031. Juniata had an interest rate swap in place with PNC Bank to synthetically hedge a notional amount of $19 million; the college, however, terminated it with the series 2010B bonds issuance.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007