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Ratings

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Northampton County General Purpose Authority, Pennsylvania
Lafayette College; Private Coll/Univ - General Obligation

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Long Term Rating	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A+' rating on the Northampton County General Purpose Authority, Pa.'s series 2017, 2018, and 2020 bonds, issued for Lafayette College.
- We also affirmed our 'A+/A-1' rating on the authority's series 2006 and 2010A variable-rate revenue bonds, also issued for the college.
- The outlook, where applicable, is stable.

Security

The rating's short-term component represents our opinion of the likelihood of the payment of tenders and reflects liquidity facilities in the form of standby bond purchase agreements (SBPAs) from TD Bank for the series 2006 and 2010A bonds.

As of June 30, 2024, the college had: $300.7 million in debt outstanding, all of which is secured by a general obligation of Lafayette. The debt consists of $229.2 million in fixed-rate bonds, $33.3 million in variable-rate bonds, $31.0 million in directly placed debt, $6.9 million in operating leases, and $310,000 in finance leases. During fiscal 2023, the college entered into a private term loan of $35 million with TD bank, this loan was subsequently refinanced as a tax-exempt bond for $35 million in August 2024, and we have included this debt as a part of fixed-rate debt rather than direct purchase debt. The college's debt profile includes several large bullets; however, given our belief that the college would have market access to refinance and maintain a robust level of liquidity (about $266 million of endowment assets can be liquidated in 30 days) we have smoothed maximum annual debt service (MADS) over 30 years; when smoothed MADS is moderate at about $18.4 million, equivalent to a 6.6% MADS burden.

Credit overview

We assessed Lafayette's enterprise profile as very strong, based on its solid selectivity, graduation, and retention rates, stable enrollment trend, and a faculty with a high terminal degree rate and experienced senior management team. We assessed the financial profile as strong, characterized by stable operations with modest surpluses since fiscal 2016, as well as balance sheet resources that are solid for the rating level. These strengths are offset by an above-average

MADS burden with an irregular debt service schedule given several bullet payments. Combined, these credit factors lead to an anchor of 'a+' and a final rating of 'A+'.

The 'A+' rating reflects our assessment of the college's:

- Healthy market position with a solid selectivity rate and robust retention and graduation rates that are consistent with similarly rated peers;
- Solid balance-sheet resources with cash and investments of $1.22 billion, equaling 4.4x operating expenses and 4.1x debt as of fiscal 2024; and
- History of good financial performance with full-accrual surpluses since fiscal 2016.

Offsetting credit factors include Lafayette's:

- Debt structure that includes several bullet maturities, though we believe the college maintains market access and ample liquidity to address these bullets; and
- Debt profile that includes variable rate debt, though it has supporting SBPAs.

Lafayette College is an undergraduate, liberal arts, and engineering college near the Delaware River on the New Jersey border. Its primary campus occupies 110-acres just north of Easton, Penn. Chartered in 1826, it admitted its first class in 1832. The college attracts the majority of its students from New York, New Jersey, and Pennsylvania; the percentage, however, is down from historical levels. Lafayette competes primarily with other private selective institutions in the region; the three leading schools in terms of cross applications are Lehigh University, Bucknell University, and Union College.

Environmental, social, and governance

We analyzed the college's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Lafayette College has elevated social risk due to its location in an area with pressured demographic trends and a decreasing number of high school students; however, we believe the college has been able to mitigate demographic pressures through its substantial demand profile, and geographically diverse student base. Despite the increased social risks, we evaluated the college's environmental and governance factors and found them to be neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation that Lafayette's enrollment, demand metrics, and senior management team will remain relatively stable. We expect the college will continue to produce at least break-even operating results and believe the college's financial resources will remain robust and will continue to support the rating.

Downside scenario

We could consider a negative rating action if there is significant weakening of operating performance or deterioration in financial resources to levels more commensurate with those of a lower rating. We could also do so if the college shows a material weakening in its demand metrics.

Upside scenario

We could consider a positive rating action if the college's financial resource ratios demonstrate a trend of stability, while operating surpluses remain at least slightly positive on a full-accrual basis. We would also expect to see stable to growing enrollment and continued improvement in the college's matriculation, selectivity, and retention rates.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

Full-time equivalent enrollment at Lafayette College has shown a general trend of growth every year over the past decade aside from the worst of the pandemic during fall 2020. Overall enrollment growth has been incremental in the past three-years and we understand that the college desires a total enrollment of about 2,800. Incoming freshmen class sizes have normalized to just under 700 students over the past two years following larger classes in fall 2022 and fall 2021, and freshmen demand metrics remain robust.

Freshman selectivity has improved to 31.4% in fall 2024 from 33.6% in fall 2022. Matriculation has been relatively stable at about 22% in fall 2024 and the prior year, and has been near the low of 20% area since the pandemic; while student demand metrics are solid and enrollment grows, we would view further strengthening of the matriculation rate as a credit strength. Retention rates have been in the low 90% area since the worst period of the pandemic and declined slightly to 90% in fall 2024 from 92% in the prior year. We still view retention rates as solid and would view a trend of sustained improvement as a credit positive.

Lafayette College is also bolstered by solid graduation rates, with a six-year graduation rate of 88%, about 20% above the national average. The college is a traditional liberal arts college, but also offers classes in engineering, which we believe adds to the demand of the university. Faculty at the college have a 97% terminal degree rate, which we also believe helps differentiate the college from other private colleges in the region. Overall, we expect Lafayette's demand profile to remain robust and expect stability or improvement in the college's demand metrics.

Lafayette has a successful fundraising history, in our opinion. The college concluded a successful $425 million campaign in December 2018. There are currently plans for another campaign to coincide with the university's bicentennial, we anticipate that the college will meet goals established in its new campaign given previous success at fundraising.

Management and governance

The management team at Lafayette College has been relatively stable. The only interim position is the vice president for advancement and a search is underway to fill the role on a permanent basis. There are no planned departures or retirements of senior cabinet members and the team continues to demonstrate sufficient depth and breadth.

In December 2024 the board of trustees approved a new strategic plan. The plan has five strategic goals:

- Building into the "and": Liberal Arts, Engineering, and Interdisciplinarity.

- Experience and Collaboration: Easton, The Lehigh Valley, and the Globe.
- Democracy and its Technologies: History, Design, and Civic Practice.
- Creating Ecosystems of Connection: Inclusivity, Belonging, and Stewardship.
- Strengthening Our Infrastructure: People, Process, and Place.

We consider the new plan comprehensive and believe it emphasizes Lafayette's strengths, including its academic reputation, its strength in engineering, its location in the country and the world, and its focus on creating long-lasting connections within and outside of the college. The plan also emphasizes the practical real-world necessity of stewardship, including improved digital, physical, and financial infrastructure, which will allow the college to continue to be a top liberal art's college.

Lafayette does not budget for the full amount of depreciation, which we do not view as a best practice. However, the college's annual capital expenditures typically exceed annual depreciation. Management is working toward budgeting more of the depreciation expense; it intends to continue to perform internal GAAP reconciliations to the operating budget, which it reports on a semi-accrual basis. A 35-member board of trustees, which meets at least four times a year, governs the college. The members are elected to serve five-year terms. The board reported only normal turnover-related changes in the last year.

Financial Risk Profile--Strong

Financial performance

Lafayette has reported full-accrual surpluses since fiscal 2016. The college generated a net operating surplus of $5.0 million (1.8% margin) in fiscal 2024 and $5.5 million (2.2% margin) in fiscal 2023. Operations in fiscal 2024 were driven by net tuition revenue growth due to enrollment growth in the fall semester, increased interest income, and a higher-than-anticipated number of vacant positions. Fiscal 2025 anticipates a break-even operating result, but given further enrollment growth, and careful expense management, we anticipate another slightly positive operating margin could be achieved. We expect operating results to sustain around current levels and expect continued modest and positive operating surpluses during the outlook period.

Lafayette's endowment spending policy is in line with industry averages, in our opinion, at 4.6% as the policy rate for fiscal 2024 and fiscal 2023. The tuition discount rate was about 41% in fiscal 2024 and has shown incremental increases over the last few years. However, the discount rate is still lower than that of many peer liberal arts institutions, and unlike many colleges, net tuition revenue at the college continues to grow. Management expects to continue to raise the tuition discount rate modestly in the next few years to increase affordability and remain competitive.

Financial resources

Based on June 30, 2024 values, Lafayette's financial resources were solid for the rating category, with cash and investments of $1.2 billion representing a robust 441% of operations and 406%, of debt. Management does not currently anticipate any additional debt issuance in the near term.

Lafayette's endowment had a market value of approximately $1.1 billion as of fiscal year-end 2024, up from approximately $1.05 billion as of Fiscal 2023. In our view, the endowment asset allocation was moderately conservative as of fiscal 2024, at 45% public equity, 19% absolute return, 28% private investment, and 8% fixed income. As of the same date, 40% of the endowment could be liquidated within a month, which provides ample short-term liquidity.

Debt and contingent liabilities

As of June 30, 2024, Lafayette held approximately $33.3 million in variable-rate debt, all of which management has synthetically swapped to fixed rate. The college has two floating- to fixed-rate swap agreements with one counterparty with a total notional amount of $33.3 million. In addition to that, Lafayette also has liquidity facilities in the form of SBPAs from TD Bank for the series 2006 and 2010A bonds. The SBPAs cover principal and 34 days' interest at a maximum 12% annual rate for the purchase price of bonds not successfully remarketed. The SBPAs cover bonds in the daily, weekly, and monthly interest-rate modes. They are due to expire Dec. 2, 2027 for the 2006 bonds, and April 30, 2027, for the 2010A bonds, at which time we will remove the short-term component of the ratings unless extended or terminated beforehand. The SBPA providers' obligations to purchase tendered bonds will automatically terminate should some default events set forth in the respective SBPAs occur. These events (which we consider consistent with our published criteria) include, but are not limited to, a lowering of the rating on the bonds below 'BBB-'.

Although the college's series 2022A and 2022B privately placed debt has some associated acceleration provisions, the lack of financial covenants associated with the debt mitigates this risk in our assessment. Additionally, in the unlikely event of debt acceleration, we consider the college's monthly liquidity of more than $266 million to be sufficient to address the associated risk. On its public debt, the college has about $30 million in bullet payments due in fiscal 2028, and we believe the college has adequate unrestricted resources as well as sufficient market access to meet or refinance these obligations.

Lafayette College, Pennsylvania--enterprise and financial statistics					
	--Fiscal year ended June 30--				
	2025	2024	2023	2022	2021
Enrollment and demand					
Full-time-equivalent enrollment	2,753	2,744	2,718	2,712	2,476
Undergraduate (%)	100.00	100.00	100.00	100.00	100.00
First-year acceptance rate (%)	31.4	31.5	33.6	40.7	35.6
First-year matriculation rate (%)	21.8	22.4	21.4	23.2	20.7
First-year retention rate (%)	90.00	92.00	90.00	91.00	87.00
Six-year graduation rate (%)	88.00	88.00	89.00	88.00	90.00
Income statement					
Total adjusted operating revenue ($000s)	N.A.	282,227	262,244	251,961	205,542
Total adjusted operating expense ($000s)	N.A.	277,228	256,692	239,985	204,089
Net adjusted operating margin (%)	N.A.	1.80	2.16	4.99	0.71
Change in unrestricted net assets ($000s)	N.A.	57,644	24,883	24,089	54,122
Tuition discount (%)	N.A.	41.0	39.9	39.7	35.5
Student dependence (%)	N.A.	75.6	76.1	76.3	72.6

Lafayette College, Pennsylvania--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--				
	2025	2024	2023	2022	2021
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	0.8	1.0	3.0	2.2
Debt					
Total debt ($000s)	N.A.	300,745	301,796	283,076	271,599
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	300,745	301,796	300,076	300,619
Current debt service burden (%)	N.A.	17.2	4.6	5.4	5.3
MADS Burden (%)	N.A.	6.6	6.5	6.9	7.0
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	17.4	18.8	19.1	18.1
Financial resource ratios					
Endowment market value ($000s)	N.A.	1,121,470	1,048,240	1,004,897	1,063,747
Cash and investments, including foundation ($000s)	N.A.	1,221,761	1,180,626	1,140,066	1,201,753
Cash and investments to operations (%)	N.A.	440.7	459.9	475.1	588.8
Total cash and investments to total debt (%)	N.A.	406.2	391.2	402.7	442.5
Total cash and investments to total pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. MNR--Median not reported. MADS--Maximum annual debt service. N.A.--Not available. N.M.--Not Meaningful.

Ratings Detail (As Of December 19, 2024)

Northampton County General Purpose Authority, Pennsylvania

Lafayette College, Pennsylvania

Northampton Cnty Gen Purp Auth (Lafayette College) VRDB - 2010A

Long Term Rating	A+/A-1/Stable	Affirmed

Northampton Cnty Gen Purp Auth (Lafayette Coll) RMKTD 11/14/16 variable rate rev bnds (Lafayette Coll)

Long Term Rating	A+/A-1/Stable	Affirmed