August 4, 2016

Fitch Affirms Wagner College, NY’s Revs at ‘BBB-’; Outlook Stable

Posted: Aug 04, 2016 11:44 AM EDT Updated: Aug 04, 2016 11:44 AM EDT

NEW YORK (BUSINESS WIRE) — Fitch Ratings has affirmed the ‘BBB-’ rating on $12.7 million outstanding Build NYC Resource Corporation revenue bonds, series 2012, issued on behalf of Wagner College (Wagner).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a pledge of gross receipts of the college, supported by a mortgage on all campus property. The debt service reserve on the series 2012 bonds is funded at $1.27 million.

KEY RATING DRIVERS

INVESTMENT-GRADE CHARACTERISTICS: The ‘BBB-’ rating reflects Wagner’s historically balanced operating performance, adequate debt service coverage and balance sheet resource consistent with the rating category. Offsetting factors include the pressure associated with a competitive enrollment environment and a high tuition discount rate compared to Fitch-rated peers.

ENROLLMENT-DRIVEN OPERATIONS: Wagner’s operating performance is heavily reliant on student-generated revenues and stable total undergraduate and graduate enrollment. The college has developed new graduate programs which help to diversify its academic offerings.

FIXED-RATE DEBT STRUCTURE: Fitch views positively the college’s conversion of its variable-rate debt to fixed-rate in fiscal 2015, partially through a term loan. The loan expires in 2024, creating some tender and refinancing risk, which Fitch considers manageable at this time. In addition, the loan agreements contain acceleration clauses.

RATING SENSITIVITIES

STABLE ENROLLMENT LEVELS: Wagner College’s inability to stabilize enrollment and grow net tuition revenue could result in a negative rating action.

IMPROVED OPERATING MARGINS: Failure to maintain at least breakeven operating performance and generate maximum annual debt service (MADS) coverage would lead to a negative rating action.

ACCELERATION COULD AFFECT LIQUIDITY: The college's bank loan agreement includes financial covenants of which violation would trigger loan acceleration. A recent covenant violation has been waived, and at this time, Fitch does not anticipate any acceleration.

LIMITED DEBT CAPACITY: Issuance of new debt without a commensurate increase in operating performance and resources would negatively pressure the rating.

CREDIT PROFILE

Wagner College was founded in 1883, and has been located on its Staten Island, New York, campus since 1918. Full-time equivalent enrollment was a steady 2,093 for fall 2015, of which about 83% were undergraduates. The campus provides a liberal arts education, residential college environment, and most undergraduate students attend on a full-time basis and live on the college's 105-acre campus. The largest graduate programs include education, business and nursing. Wagner is accredited by the Middle States Commission on Higher Education, with its next reaccreditation review slated for 2021.

ENROLLMENT DRIVES OPERATIONS

Annual operations are primarily funded from student-generated revenues, which provided 89.3% of fiscal 2015 operating revenues. The declining undergraduate enrollment level in fall 2015 was partially mitigated by increased graduate enrollment. Further, management indicated that an increased number of incoming undergraduate and graduate matriculants in spring 2016 will provide additional net tuition revenue for fiscal 2016.

Because Wagner operates in a highly competitive region, management indicates it plans to continue expanding recruitment beyond the Northeast (specifically the South and West U.S.), and focus on students attracted to its niche (i.e. a residential campus near New York City offering a liberal arts education).

HISTORICALLY BALANCED OPERATIONS

The 'BBB-' rating is supported by Wagner's historically balanced financial performance. However, Wagner reported a negative 1.7% operating deficit in fiscal 2015 following four fiscal years of breakeven or positive performance. Management attributes this partly to accounting changes that do not capture net tuition revenue at fiscal year-end, as well as various accruals.

Fiscal 2015 results were also pressured by tuition discounting (43.5% in fiscal 2015). Management reports that the college's discount rate is competitive compared to its regional peers. While net tuition revenue increased 5.3% in fiscal 2014, it dipped again in fiscal 2015. Wagner expects additional growth in fiscal 2016.

Weaker operating results in fiscal 2015 resulted in less robust net income available for debt service, providing 1.1x current debt service coverage (down from 1.7x in fiscal 2014). MADS coverage also weakened to 0.94x (from 1.14x in fiscal 2014), although it is stronger than all Fitch-rated 'BBB-' peers. Fitch anticipates ongoing management actions to improve net income available for debt service.

College officials report that operations for the fiscal year ending Aug. 31, 2016 are balanced on a budgetary basis, and are expected to result in breakeven or slightly positive GAAP operations. This is due primarily to increased net tuition revenue from growing graduate enrollment, which offsets the effects of declining undergraduate enrollment. Expense containment actions continue, as do Wagner's conservative enrollment and budget assumptions.

SLIGHTLY WEAKER LEVERAGE POSITION

Wagner entered into a loan agreement with TD Bank (rated 'AA-'/'F1+') during fiscal 2015 to convert its 80% variable-rate debt structure to fixed-rate. At the end of the 2024 loan term, about $24 million in related long-term debt will be outstanding. Loan covenants include liquidity and cash flow coverage covenants, which could trigger the loan's acceleration clause. Wagner was not in compliance with required cash flow coverage for fiscal 2015, but obtained a waiver. Fitch will monitor this risk, but at this time Fitch considers acceleration risk to be remote.

Wagner's debt burden was high at 8.6% of fiscal 2015 operating revenues. Current MADS is about $6.1 million and occurs in 2021. The college has no additional debt plans at this time.

SOLID BALANCE SHEET FOR RATING CATEGORY

A sufficient balance sheet supports Wagner's investment-grade rating. Available funds (AF), defined by Fitch as cash and investments not permanently restricted, was $51.8 million in fiscal 2015. AF was equal to 70.9% of outstanding debt ($73.1 million, including capital and operating leases) and 71.7% of operating revenues ($71.1 million). Fitch views these ratios as strong for the rating category.

At Aug. 31, 2015, Wagner's investments had a market value of $77.5 million, and were roughly 60% equities, 20% fixed-income and cash, and 20% alternative assets (in line with the college's investment policy).

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. College and University Rating Criteria (pub. 12 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=748013

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1009963
Solicitation Status
https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1009963
Endorsement Policy
https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE

PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

View source version on businesswire.com:
http://www.businesswire.com/news/home/20160804005933/en/

Fitch Ratings
Primary Analyst
Sahil Khera
Analyst
+1-212-908-0868
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004
or
Secondary Analyst
Susan Carlson
Director
+1-312-368-2092
or
Committee Chairperson
Joanne Ferrigan
Senior Director
+1-212-908-0723
or
Media Relations:
Elizabeth Fogerty, +1 212-908-0526
elizabeth.fogerty@fitchratings.com