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California Educational Facilities Authority
Pomona College; Private Coll/Univ - General Obligation

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California Educational Facilities Authority Pomona College; Private Coll/Univ - General Obligation

Credit Profile		
California Ed Fac Auth, California		
Pomona Coll, California		
California Ed Fac Auth (Pomona Coll) various rev bnds Series 2005 A , 1999, 2008A		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' long-term rating on California Educational Facilities Authority's fixed-rate revenue bonds, series 2011, 2009A, 2008A, 2005A, and 1999A, issued on behalf of Pomona College.

The rating reflects our view of the college's solid enterprise and financial profiles, which include good demand characteristics and strong financial resource ratios and operating margins. These characteristics remain stable and adequately offset the historically weaker matriculation rate compared with other similarly rated institutions.

Additional rating factors include:

- Strong financial resources and financial flexibility provided by approximately $2 billion in expendable resources as of June 30, 2014, which represents 9.2x total debt and almost 10.8x operating expenses;
- Operations that, on an adjusted full-accrual basis, continue to be strong in fiscal 2014;
- Manageable debt burden of under 5%, with total outstanding debt of $217.2 million at June 30, 2014, and no additional debt plans for the near future;
- Above-average student demand characteristics, with excellent student quality highlighted by a median SAT score of about 2179 for incoming first-year students; and
- Good endowment of $2.1 billion as of June 30, 2014.

In our opinion, credit factors that slightly offset these strengths include the college's:

- Competition for students as evidenced by a matriculation rate that is not as strong as those of other highly rated higher-education institutions, and
- High dependence on endowment spending for its operations, accounting for about 33% of fiscal 2014 adjusted operating revenues.

All of the college's $217.2 million in debt (as of June 30, 2014) is fixed rate. Pomona has contingent liquidity risk exposures that we consider manageable at the current rating level. The exposures come from a $25 million private placement loan agreement (30-year term) with First Republic Bank issued on June 26, 2014. This loan agreement was reviewed but not rated by Standard & Poor's. The interest rate is fixed at 3.25%, and the funds can be drawn over two years as part of a 30-year term. There is a debt service and liquidity covenant of 1x, which the college more than adequately meets.

With maximum annual debt service of $7.6 million, not including three bullet payments, the debt burden is manageable, in our view, at 4.1%. There are two significant bullet payments in 2018 and 2019 totaling about $100 million that the college says it will refinance; there is a board committee in place reviewing the college's options. We understand that the college does not anticipate issuing significant new debt in the near future.

Outlook

The stable outlook reflects our expectation that, during the next two years, Pomona will likely maintain and continue to build good financial resources. The outlook also reflects our anticipation of continued financial flexibility, with no significant issuance of additional debt in the near term. We also expect continued strong demand for the college's programs.

We do not expect to lower the rating; however, a trend of declining financial resources coupled with a lower matriculation rate may place pressure on the outlook or rating.

Enterprise Profile

Organization and management

Founded in 1887, Pomona is a founding member of the Claremont Colleges, a consortium of five undergraduate colleges, a graduate university, and a graduate institute in applied life sciences. Its campus is located on 140 acres about 35 miles east of Los Angeles. It is a liberal arts college that offers 41 bachelor's degrees.

Management

One of the college's strengths is its dedicated management team, supported by an active board of trustees. From an operating perspective, management's effective budgeting and financial control mechanisms, coupled with growth in Pomona's revenue base that we view as solid, have contributed to consistent historical generation of operating surpluses. The college is governed by a self-perpetuating board of trustees, which consists of up to 42 members. Currently there are 36 members. Officers of the board are elected each year, and members currently serve staggered four-year terms. Management is stable and knowledgeable and believe overall governance provides the proper amount of oversight. The president has served since 2003, and the vice president and treasurer have been with the college since 2008.

Demand

All of Pomona's students are undergraduates, and most attend full time. Historically, headcount has been very stable, with slight variations between 1% and 3% each year. In fall 2014, headcount enrollment was 1,650. Demand has continued to increase: The college received 7,727 applications for fall 2014 -- the highest number of applications ever received. Management reports that the application increase was unexpected, but it improved the college's yield. Selectivity also continues to improve with a fall 2014 acceptance rate of 12.2% compared with 13.9% the previous year. The matriculation rate also improved to 47% for fall 2014 from a historical average of 40%, but it still remains weaker than other similarly rated institutions. Applications for fall 2015 also increased, and management reports that it was the most selective year ever, which we view positively.

Student quality is excellent, in our view, as demonstrated by the median SAT score for first-year students of about 2179 in fall 2014. Pomona's national reputation and draw have also solidified, in our opinion, as only about a third of the class is from California; about half of students originate from western states. Indeed, Pomona traditionally competes for students with East Coast Ivy League colleges in addition to competing for students with California's well-respected public universities, such as University of California, Berkeley, and University of California, Los Angeles.

Financial Profile

Operations

Operations for the college have historically been very strong with solid operating surpluses on a full accrual basis. Most recently, in audited fiscal 2014, the college reported an operating surplus of $49.5 million on an adjusted basis, which includes $53 million of net assets released from restrictions. Fiscal 2015 is on budget, and management anticipates results similar to previous years.

Financial operations are supported by two major revenue sources: tuition revenue and payout from the endowment. Tuition revenue accounted for 38.9% of total revenues in 2014. The college's tuition -- $45,832 for the academic year 2014-2015 -- is slightly lower than those of competing high-quality private colleges and universities. Pomona's overall tuition discount rate based on gross student revenues remains manageable, in our view, at 37.2%. Pomona is one of a few colleges that offer need-blind admissions.

Endowment

Pomona's other primary source of revenue is from its endowment, about 33% of total adjusted revenues in fiscal year 2014. Its spending rate in fiscal 2014 was 4.5% ($72.1 million); in fiscal 2013 it was 4.5% ($68.6 million). The endowment comprises investment income and, in the event that ordinary income from the pooled investments is insufficient to provide the full amount of payout, the balance is appropriated from cumulative realized gains of the pooled investments. Investment returns for fiscal 2014 on pooled assets were 18.5%. As of February 2015, the endowment stood at $2.1 billion.

Pomona's investment strategy is, in our view, moderately aggressive, which is consistent with the audit that indicates about 38% of investments are level 1 and 2 or can be liquidated generally within 30 days. The college reports that about a third of its assets can be liquidated within a month (about 11% within a week). Nearly half of asset allocations are in equities -- including about 15.6% U.S., 19.1% international and emerging markets, 22.2% marketable alternatives, 4.3% hard assets, and about 11.8% fixed income and cash. Within the next five years, capital calls are slightly over $200 million. The college relies on multiple outside managers and uses an outside consultant to evaluate performance.

Financial resources

In our view, financial flexibility is good for the 'AAA' category, with expendable resources providing an improving 9.2x coverage of total debt and 10.8x coverage of annual operating expenses based on fiscal 2014 results, which we consider very good.

Fundraising

In terms of fundraising, the college in general receives about $4.5 million for its annual fund every year, and 45% to 50% of alumni make pledges, a rate that we consider good. The college has been in a $250 million capital campaign since July 1, 2007, and had already exceeded that amount as of April 2015; the majority is in cash. The campaign is scheduled to conclude in December 2015 and is primarily for financial aid and academic programs.

Pomona College, California

	--Fiscal year ended June 30,--				Medians
	2015	**2014**	**2013**	**2012**	**Private Colleges & Universities 'AAA' 2013**
Enrollment and demand					
Headcount	1,650	1,612	1,606	1,586	MNR
Full-time equivalent	1,644	1,603	1,595	1,578	11,449
Freshman acceptance rate (%)	12.2	13.9	13.0	13.6	11.0
Freshman matriculation rate (%)	47.9	40.0	41.3	40.6	50.7
Undergraduates as a % of total enrollment	100.0	100.0	100.0	100.0	49.1
Freshman retention (%)	99.0	99.0	99.0	100.0	97.9
Graduation rates (five years; %)	N.A.	96.0	96.0	N.A.	94.1
Income statement					
Adjusted operating revenue ($000s)	N.A.	234,836	215,541	209,462	MNR
Adjusted operating expense ($000s)	N.A.	185,350	174,309	163,501	MNR
Net operating income ($000s)	N.A.	49,486	41,232	45,961	MNR
Net operating margin (%)	N.A.	26.70	23.65	28.11	3.50
Change in unrestricted net assets ($000s)	N.A.	135,950	69,708	(9,410)	MNR
Tuition discount (%)	N.A.	37.2	36.2	35.2	41.2
Tuition dependence (%)	N.A.	38.9	40.2	39.4	25.4
Student dependence (%)	N.A.	38.9	40.2	39.4	MNR
Endowment and investment income dependence (%)	N.A.	33.1	36.1	35.1	MNR
Debt					
Outstanding debt ($000s)	N.A.	217,246	190,974	192,111	1,475,931
Current debt service burden (%)	N.A.	4.09	5.11	5.46	4.81
Current MADS burden (%)	N.A.	4.11	4.37	N.A.	MNR
Financial resource ratios					
Endowment market value ($000s)	N.A.	2,101,461	1,823,441	1,679,640	7,240,505
Cash and investments ($000s)	N.A.	2,357,163	2,095,268	1,937,581	MNR
Unrestricted net assets ($000s)	N.A.	1,209,517	1,073,567	1,003,859	MNR
Expendable resources ($000s)	N.A.	1,997,784	1,707,839	1,567,311	MNR
Cash and investments to operations (%)	N.A.	1,271.7	1,202.0	1,185.1	795.8
Cash and investments to debt (%)	N.A.	1,085.0	1,097.1	1,008.6	773.4
Expendable resources to operations (%)	N.A.	1,077.8	979.8	958.6	602.9
Expendable resources to debt (%)	N.A.	919.6	894.3	815.8	560.0

Pomona College, California (cont.)					
Average age of plant (years)	N.A.	13.5	13.7	11.2	11.5

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). 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- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net PPE - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. MADS—Maximum annual debt service. N.A.—Not available.

Related Criteria And Research

Related Criteria

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of April 30, 2015)		
California Ed Fac Auth, California		
Pomona Coll, California		
California Ed Fac Auth (Pomona Coll) rev rfdg bnds ser 2009A		
Long Term Rating	AAA/Stable	Affirmed
Series 2011		
Long Term Rating	AAA/Stable	Affirmed