Pomona College, California

Revenue Bonds
New Issue Report

New Issue Details

Sale Information: Approximately $129,295,000 of California Municipal Finance Authority Revenue Bonds (Pomona College), Series 2017, via negotiated sale the week of Nov. 27.

Security: On par with Pomona College’s (Pomona, or the college) outstanding revenue bonds and unsecured, general obligation of the college, payable from all legally available funds.

Purpose: Bond proceeds will be used to refund several large bullet maturities, including series 2008A (due in 2018) and series 2009A (due in 2019 and 2024); to fund construction of the college’s art museum (approximately $19.2 million); and to pay various issuance costs.

Final Maturity: 30-year final maturity (up to 2048); the bonds will be structured with a 10-year principal deferral and gradually escalating debt service thereafter.

Key Rating Drivers

Strong Financial Profile: The ‘AAA’ rating primarily reflects Pomona’s significant balance sheet resources, evidenced by its strong liquidity relative to debt and operations and robust fundraising capabilities offsetting a moderately high debt burden, high financial aid needs and significant reliance on investment income/endowment spending.

Exceptional Demand: The college benefits from a prestigious reputation for academic excellence that draws very strong student demand, demonstrated by increasing applications, very selective admissions and a steady, solid freshman matriculation.

Strong Operations: Pomona’s operating margins are steadily positive and include endowment spending and net assets released from restriction that are available for operations, according to management. Pomona’s operating performance heavily relies on endowment distributions and investment returns generated by its pooled investment fund. Excluding net assets released, GAAP margins were breakeven to slightly negative from fiscal years 2014 to 2016, which is mitigated by the college’s vast resource base.

Manageable Financial Leverage: Pomona’s current nonlevel debt maturities structure along with very large bullet payments coming due in fiscal 2018 will be restructured under the current financing plan. Pro forma debt burden, including $19.2 million of new debt, is moderately high due to an ascending debt maturity structure, but it is offset by sound debt service coverage from operations (inclusive of endowment spending), the college’s vast resources and prudent debt management.

Rating Sensitivities

Preservation of Financial Resources: Material erosion in Pomona’s strong financial cushion and/or a material change in operating results, including endowment spending, significantly driven by investment returns could negatively affect the rating.

Ratings

New Issue
$129,295,000 California Municipal Finance Authority Revenue Bonds (Pomona College), Series 2017 AAA

Outstanding Debt
$170,800,000 CEFA, Fixed-Rate Revenue Bonds (Pomona College Issuances, Series 2005A, 2008A and 2009A) AAA
$13,690,263 First Republic Bank Tax-Exempt Private Placement, Series 2014 NR
$17,225,000 Private Placement Tax-Exempt Loan with Boston Private Refunding, Series 2016 NR

*The series 2017 bonds are expected to be issued as fixed-rate debt and refund outstanding series 2008A and 2009A.

Rating Outlook
Stable

Related Research
Fitch Affirms Pomona College, CA’s Revs at ‘AAA’; Outlook Stable (April 2017)

Analysts
Nancy Moore
+1 212 908-0725
nancy.moore@fitchratings.com
Sahil Khera
+1 212 908-0868
sahil.khera@fitchratings.com
Credit Profile

Founded in 1887, Pomona is a small, private independent coeducational liberal arts college located in Claremont, CA and a founding member of an affiliated group of colleges known as The Claremont Colleges. However, Pomona is a separate corporate entity governed by a separate board of trustees. Pomona is solely an undergraduate college, offering 49 majors in natural sciences, humanities, social sciences and fine arts. The college is highly selective, with a prestigious national reputation and strong student demand that continues to grow. Pomona’s new president began her tenure in July 2017.

Debt

Under the current finance plan, Pomona will maintain an entirely fixed-rate debt portfolio. The 2017 bonds will refinance several bullet maturities coming due, including a large bullet payment due in fiscal 2018. Post-restructuring (including $19.2 million of new money), the college will have a back-ended debt structure with pro forma maximum annual debt service (MADS) of about $17.1 million due in 30 years (2048).

As a result, the pro forma MADS burden is significantly reduced but still moderately high, at 8.9% of fiscal 2016 adjusted unrestricted operating revenues (inclusive of endowment distributions), but it is expected to improve in fiscal 2017.

Fitch Ratings views this level as manageable, as demonstrated by sound pro forma MADS coverage of approximately 3.0x based on a fiscal 2016 net income of $50.3 million. Pro forma MADS coverage is expected to improve in fiscal 2017 based on unaudited results.

Pomona has two private placement tax-exempt credit facilities outstanding with First Republic Bank and Boston Private in the amount of $13.7 million and 17.2 million, respectively. Together with the bank loans, Pomona had approximately $203 million in fixed-rate debt currently outstanding, including unamortized premium and outstanding revenue bonds ($170.8 million), as of fiscal year end 2017.

Pomona has no additional debt plans outside the current 2017 financing plan, which will partially fund the college’s art museum construction. Gifts and internal reserves will partially fund longer term capital needs.

Finances

Pomona’s impressive balance sheet liquidity and moderate financial leverage underpins its ‘AAA’ rating. As of June 30, 2016, available funds (AF), defined by Fitch as cash and investments not permanently restricted, totaled $1.83 billion. AF covered fiscal 2016 operating expenses ($165.7 million) and pro forma debt ($236.9 million) by a very strong 11.1x and 7.8x, respectively.

Similar to many private colleges and universities with like-sized endowments, Pomona has significant exposure to alternative, illiquid asset classes. Excluding these investments, the college’s adjusted available funds would still provide strong coverage of both operations and debt.

Pomona continues to rely heavily on investment returns generated by its pooled investment fund to support operations. Investment and endowment income appropriated for operations represent the college’s largest revenue source, averaging approximately 43% of total operating revenues during the past five fiscal years. Student-generated revenues made up the second largest revenue source at 32.6% of revenues in fiscal 2016.
Pomona’s endowment distribution was $82.5 million in fiscal 2016, with a moderate increase expected in fiscal 2017. According to management, beginning with fiscal 2017 Pomona transitioned from a 12-quarter to a 20-quarter average endowment spending policy, spending between 4.5% and 5.5%. Management indicated that the adjustment will help moderate spending growth. Fitch views this as a sustainable level.

Net assets released and available for operating expenditures (prior to transfers) in fiscal year 2016 is $44.7 million with an increase expected in fiscal 2017, according to management. Including net assets released, the adjusted operating margin is a robust 13.6%, compared with 20.1% in fiscal 2015, with an increase expected in fiscal 2017. Operating margins may be significantly understated when excluding net assets released from restrictions, which are not specified in the audited financial statement as released for operations or capital.
Excluding net assets released, Pomona’s operating performance is historically negative to breakeven, as reflected in fiscal 2016 levels. The adjusted operating margin is negative $2 million (or negative 1.2%; not shown in financial table), compared with nearly breakeven performance in fiscal 2015 ($828,000 deficit, or negative 0.5%), but expected to return to positive in fiscal 2017, according to management. The college’s fiscal 2018 operating budget is not yet finalized, but management reports that it will likely reflect another modest increase in endowment spending.

**Demand Profile**

Per Fitch’s rating methodology, stable-to-growing enrollment trends are viewed favorably. Pomona continues to reflect strong demand in fall 2017. Total headcount enrollment is stable in fall 2017 at 1,668, compared with 1,642 in fall 2016. Enrollment is at the desired size, according to management, and there are no plans for significant expansion. Pomona is interested in maintaining its current size to ensure small classes and student-to-faculty ratio.

**Demand Summary**

(Fall Semester of Fiscal Years Ended June 30)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Headcount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Undergraduate Enrollment</td>
<td>1,585</td>
<td>1,587</td>
<td>1,635</td>
<td>1,640</td>
<td>1,642</td>
<td>1,668</td>
</tr>
<tr>
<td>Total Undergraduate / Total Headcount Enrollment (%)</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td>Full-Time Equivalent (FTE)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total FTE Enrollment</td>
<td>1,585</td>
<td>1,587</td>
<td>1,635</td>
<td>1,640</td>
<td>1,642</td>
<td>1,668</td>
</tr>
<tr>
<td>Admissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freshman Applications</td>
<td>7,456</td>
<td>7,153</td>
<td>7,727</td>
<td>8,099</td>
<td>8,104</td>
<td>9,046</td>
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<tr>
<td>Freshman Admissions</td>
<td>970</td>
<td>994</td>
<td>942</td>
<td>833</td>
<td>743</td>
<td>741</td>
</tr>
<tr>
<td>Acceptance Rate (%)</td>
<td>13.0</td>
<td>13.9</td>
<td>12.2</td>
<td>10.3</td>
<td>9.2</td>
<td>8.2</td>
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<tr>
<td>Freshman Matriculants</td>
<td>399</td>
<td>398</td>
<td>450</td>
<td>400</td>
<td>416</td>
<td>419</td>
</tr>
<tr>
<td>Matriculation Rate (%)</td>
<td>41.1</td>
<td>40.0</td>
<td>47.8</td>
<td>48.0</td>
<td>56.0</td>
<td>56.5</td>
</tr>
<tr>
<td>In-State Undergraduate Student (%)</td>
<td>34.0</td>
<td>28.5</td>
<td>24.4</td>
<td>26.7</td>
<td>26.2</td>
<td>31.0</td>
</tr>
<tr>
<td>Out-of-State Undergraduate Student (%)</td>
<td>66.0</td>
<td>71.5</td>
<td>75.6</td>
<td>73.4</td>
<td>73.8</td>
<td>69.0</td>
</tr>
<tr>
<td>Total Headcount Residing on Campus (%)</td>
<td>97.0</td>
<td>98.1</td>
<td>98.2</td>
<td>N.A.</td>
<td>N.A.</td>
<td>98.0</td>
</tr>
<tr>
<td>Average SAT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freshmen</td>
<td>2,152</td>
<td>2,177</td>
<td>2,179</td>
<td>2,220</td>
<td>2,200</td>
<td>2,200</td>
</tr>
<tr>
<td>Average ACT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freshmen</td>
<td>31.0</td>
<td>32.0</td>
<td>32.0</td>
<td>33.0</td>
<td>32.0</td>
<td>33.0</td>
</tr>
<tr>
<td>Freshmen to Sophomore Year Retention Rate (%)</td>
<td>97.0</td>
<td>97.0</td>
<td>98.5</td>
<td>96.9</td>
<td>96.8</td>
<td>N.A.</td>
</tr>
<tr>
<td>Annual Undergraduate Cost of Attendance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition</td>
<td>41,438</td>
<td>43,580</td>
<td>45,832</td>
<td>47,620</td>
<td>49,352</td>
<td>51,074</td>
</tr>
<tr>
<td>Room and Board</td>
<td>13,526</td>
<td>14,100</td>
<td>14,700</td>
<td>15,150</td>
<td>15,605</td>
<td>16,150</td>
</tr>
<tr>
<td>Total</td>
<td>54,964</td>
<td>57,680</td>
<td>60,532</td>
<td>62,770</td>
<td>64,957</td>
<td>67,224</td>
</tr>
</tbody>
</table>

N.A. – Not available.
Sources: Pomona College, CA and Fitch.

Pomona’s demand strength is fueled by its extremely high selectivity, demonstrated by a fall 2017 acceptance rate of only 8.2%. The matriculation rate increased to its highest level (56.5%) since at least fall 2011, and fall 2017 was the third consecutive year when more than one-half of accepted freshmen enrolled at Pomona.
The college has received approximately 9,046 total freshmen applications for fall 2017, about 11.6% more than for fall 2016. Pomona was even more selective, with a decreased acceptance rate of 8.2% for the incoming fall 2017 class. The small incoming class allows Pomona to provide a residential experience for all levels of enrolled students, given the college's mandatory housing requirement.

Fitch considers Pomona’s enrollment goals reasonable and achievable, given past enrollment trends.
Financial Summary
($000, Audited Fiscal Years Ended June 30)

Unrestricted Operating Revenue

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Tuition and Fees</td>
<td>63,766</td>
<td>67,162</td>
<td>70,619</td>
<td>75,766</td>
</tr>
<tr>
<td>Less: Student Aid</td>
<td>29,015</td>
<td>31,394</td>
<td>33,972</td>
<td>37,209</td>
</tr>
<tr>
<td>Net Tuition and Fees</td>
<td>34,751</td>
<td>35,768</td>
<td>36,647</td>
<td>38,557</td>
</tr>
<tr>
<td>Sales and Services of Auxiliary Enterprises</td>
<td>18,771</td>
<td>19,474</td>
<td>20,736</td>
<td>22,096</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>2,127</td>
<td>2,755</td>
<td>2,317</td>
<td>1,601</td>
</tr>
<tr>
<td>Other Grants and Contracts</td>
<td>1,172</td>
<td>901</td>
<td>982</td>
<td>1,573</td>
</tr>
<tr>
<td>Gifts and Contributions</td>
<td>7,834</td>
<td>8,167</td>
<td>7,560</td>
<td>10,916</td>
</tr>
<tr>
<td>Dividend and Interest Income</td>
<td>8,409</td>
<td>9,264</td>
<td>5,540</td>
<td>3,829</td>
</tr>
<tr>
<td>Net Assets Released from Restrictions for Operations</td>
<td>30,929</td>
<td>35,172</td>
<td>38,735</td>
<td>40,311</td>
</tr>
<tr>
<td>Total Unrestricted Operating Revenue</td>
<td>105,023</td>
<td>112,975</td>
<td>113,993</td>
<td>120,049</td>
</tr>
</tbody>
</table>

Unrealized and Realized Gains Portion of Endowment Payout | 65,022 | 68,638 | 72,095 | 76,568 | 82,455 |

Adjusted Total Unrestricted Operating Revenue | 170,045 | 181,613 | 186,088 | 196,617 | 191,851 |

Unrestricted Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>51,806</td>
<td>55,539</td>
<td>58,479</td>
<td>61,176</td>
</tr>
<tr>
<td>Academic Support</td>
<td>13,396</td>
<td>14,430</td>
<td>13,891</td>
<td>14,336</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>26,640</td>
<td>27,356</td>
<td>28,439</td>
<td>28,896</td>
</tr>
<tr>
<td>Student Services</td>
<td>15,089</td>
<td>16,711</td>
<td>18,852</td>
<td>20,225</td>
</tr>
<tr>
<td>Public Service</td>
<td>1,056</td>
<td>1,081</td>
<td>1,209</td>
<td>1,867</td>
</tr>
<tr>
<td>Research</td>
<td>2,696</td>
<td>2,587</td>
<td>3,079</td>
<td>3,085</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>23,803</td>
<td>25,211</td>
<td>27,429</td>
<td>27,549</td>
</tr>
<tr>
<td>Total Unrestricted Operating Expense</td>
<td>134,486</td>
<td>142,915</td>
<td>151,378</td>
<td>157,134</td>
</tr>
</tbody>
</table>

Change in Unrestricted Net Assets from Operations | (29,463) | (29,940) | (37,385) | (37,085) | (56,347) |

Adjusted Change in Unrestricted Net Assets from Operations | 35,559 | 38,698 | 34,710 | 39,483 | 26,108 |

Unrestricted Non-Operating Revenues/(Expenses)

Net Assets Released from Restrictions for Capital Purposes | 10,269 | 4,103 | 15,031 | 23,159 | 800 |

Realized and Unrealized Gain/(Loss) on Investments | (54,415) | 17,822 | 73,494 | (48,070) | (114,834) |

Other Non-Operating Revenues | (813) | 9,085 | 12,715 | 23,451 | 881 |

Other Non-Operating Expenses | N.A. | N.A. | N.A. | (1,317) | (6,746) |

Total Unrestricted Non-Operating Revenue/(Expense) | (44,969) | 31,010 | 101,240 | (2,777) | (119,899) |

Change in Unrestricted Net Assets | (9,410) | 69,708 | 135,950 | 36,706 | (93,791) |

Adjusted Change in Unrestricted Net Assets from Operations | 35,559 | 38,698 | 34,710 | 39,483 | 26,108 |

Add Back: Depreciation, Amortization and Other Non-Cash Items | 14,357 | 12,701 | 13,865 | 14,823 | 17,465 |

Add Back: Interest Expense | 6,565 | 6,649 | 6,565 | 6,589 | 6,739 |

Adjusted Net Income Available for Debt Service | 56,481 | 58,048 | 55,140 | 60,895 | 50,312 |

Current Debt Service | 8,940 | 9,084 | 7,631 | 7,819 | 8,024 |

Pro-Forma Maximum Annual Debt Service (MADS) | 17,084 | 17,084 | 17,084 | 17,084 | 17,084 |

MADS Fiscal Year | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 |

Pro-Forma Average Annual Debt Service (AADS) | 13,270 | 13,270 | 13,270 | 13,270 | 13,270 |

Balance Sheet

Assets

Cash and Cash Equivalents | 4,004 | 4,127 | 6,704 | 5,570 | 3,766 |

Investments | 1,933,577 | 2,091,141 | 2,350,459 | 2,341,949 | 2,214,952 |

Total Cash and Investments | 1,937,581 | 2,095,268 | 2,357,163 | 2,347,519 | 2,218,718 |

% Total Investments Classified as Alternative Assets Per Audit | 62 | 62 | 62 | 77 | 73 |

Property, Plant and Equipment, Net | 347,898 | 352,387 | 373,176 | 396,358 | 393,348 |

Liabilities

Bonds Payable

Fixed-Rate Bonds Payable | 192,111 | 190,974 | 185,921 | 187,437 | 189,029 |

Total Bonds Payable | 192,111 | 190,974 | 185,921 | 187,437 | 189,029 |

Other Obligations

Notes Payable | N.A. | N.A. | 1,000 | 4,250 | 14,000 |

All Other Obligations | N.A. | N.A. | 5,325 | 4,198 | 3,015 |

Total Other Obligations | N.A. | N.A. | 6,325 | 8,448 | 17,105 |

Total Long-Term Debt | 192,111 | 190,974 | 192,246 | 195,885 | 206,134 |

Total Pro Forma Debt

— | — | — | — | 236,875 |

Unfunded Capital Commitments | 204,000 | 200,500 | 203,400 | 203,400 | 287,500 |

Net Assets

Unrestricted Net Assets | 1,003,859 | 1,073,567 | 1,209,517 | 1,246,223 | 1,152,434 |

Temporarily Restricted Net Assets | 719,239 | 795,685 | 944,197 | 902,272 | 841,629 |

Permanently Restricted Net Assets | 323,910 | 331,931 | 349,144 | 352,672 | 381,625 |

Total Net Assets | 2,047,008 | 2,201,183 | 2,502,858 | 2,501,167 | 2,375,888 |

Balance Sheet Resources and Liquidity

Total Resources

Available Funds (AF) | 1,613,671 | 1,763,337 | 2,008,019 | 1,994,847 | 1,836,893 |

Adjusted Available Funds (AAF) | 615,677 | 677,904 | 759,198 | 467,878 | 492,844 |

N.A. – Not available. Note: Fitch may have reclassified certain financial statement items for analytical purposes.

Sources: Pomona College, CA and Fitch.
The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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