

Pomona College, California

Revenue Bonds New Issue Report

Ratings

New Issue^a

\$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

^aThe 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)

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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.

Rating History –Long Term

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	11/16/17
AAA	Affirmed	Stable	4/26/17
AAA	Affirmed	Stable	4/30/15
AAA	Affirmed	Stable	5/17/13
AAA	Affirmed	Stable	6/2/11
AAA	Affirmed	Stable	1/31/11
AAA	Affirmed	Stable	2/27/09
AAA	Affirmed	Stable	6/17/08
AAA	Assigned	—	5/19/08

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.

Related Criteria

[Rating Criteria for Public Sector Revenue-Supported Debt Master Criteria \(June 2017\)](#)

[U.S. Public Finance College and University Rating Criteria \(Sector-Specific Criteria\) \(April 2017\)](#)

Financial Ratios

(\$000, Audited Fiscal Years Ended June 30)

	2012	2013	2014	2015	2016
Revenue Diversity (% Adjusted Total Unrestricted Operating Revenues)					
Tuition	20.4	19.7	19.7	19.6	21.0
Student Fees (Tuition and Auxiliary Revenues)	31.5	30.4	30.8	30.8	32.6
Federal Grants and Contracts	1.3	1.5	1.2	0.8	1.1
Other Grants and Contracts	0.7	0.5	0.5	0.8	0.4
Total Grants and Contracts	1.9	2.0	1.8	1.6	1.5
Gifts and Contributions	4.6	4.5	4.1	5.6	3.6
Total Investment Return	43.2	42.9	41.7	40.9	45.6
Net Assets Released From Restrictions for Operations	18.2	19.4	20.8	20.5	14.7
Expense Ratios (% Total Unrestricted Operating Expenses)					
Instruction	38.5	38.9	38.6	38.9	38.3
Research	2.0	1.8	2.0	2.0	2.3
Financial Aid Ratios					
Tuition Discounting (%)	45.5	46.7	48.1	49.1	48.8
Net Tuition and Fees (\$)	34,751	35,768	36,647	38,557	40,314
Change in Net Tuition and Fees (%)	3.4	2.9	2.5	5.2	4.6
Operating Performance Ratios (%)					
Operating Margin	(28.1)	(26.5)	(32.8)	(30.9)	(51.5)
Adjusted Operating Margin	20.9	21.3	18.7	20.1	13.6
Balance Sheet Ratios					
Available Funds / Total Unrestricted Operating Expense	1,199.88	1,233.84	1,326.49	1,269.52	1,108.28
Available Funds / Total Long Term Debt	840.0	923.3	1,044.5	1,018.4	891.1
Available Funds / Total Pro Forma Long Term Debt	—	—	—	—	775.5
Available Funds / MADS (x)	94.5	103.2	117.5	116.8	107.5
Adjusted Available Funds / Total Unrestricted Operating Expense	457.8	474.3	501.5	297.8	297.4
Adjusted Available Funds / Total Long Term Debt	320.5	355.0	394.9	238.9	239.1
Adjusted Available Funds / Total Pro Forma Long Term Debt	259.9	286.2	320.5	197.5	208.1
Adjusted Available Funds / MADS (x)	36.0	39.7	44.4	27.4	28.8
Unfunded Capital Commitments / Available Funds	12.6	11.4	10.1	10.2	15.7
Unfunded Capital Commitments / Adjusted Available Funds	33.1	29.6	26.8	43.5	58.3
Leverage Ratios					
<i>Adjusted Total Unrestricted Operating Revenues Basis</i>					
Current Debt Service Coverage (x)	6.32	6.39	7.23	7.79	6.27
Current Debt Burden (%)	5.3	5.0	4.1	4.0	4.2
Pro Forma MADS Coverage (x)	3.31	3.40	3.23	3.56	2.95
Pro Forma MADS Burden (%)	10.0	9.4	9.2	8.7	8.9
Pro Forma AADS Coverage (x)	4.26	4.37	4.16	4.59	3.79
Pro Forma AADS Burden (%)	7.8	7.3	7.1	6.7	6.9

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

Sources: Pomona College, CA and Fitch.

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)

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

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)

	2012	2013	2014	2015	2016
Unrestricted Operating Revenue					
Gross Tuition and Fees	63,766	67,162	70,619	75,766	78,795
Less: Student Aid	29,015	31,394	33,972	37,209	38,481
Net Tuition and Fees	34,751	35,768	36,647	38,557	40,314
Sales and Services of Auxiliary Enterprises	18,771	19,474	20,736	22,096	22,324
Federal Grants and Contracts	2,127	2,755	2,317	1,601	2,083
Other Grants and Contracts	1,172	901	982	1,573	842
Gifts and Contributions	7,834	8,167	7,560	10,916	6,896
Dividend and Interest Income	8,409	9,264	5,540	3,829	5,095
Net Assets Released from Restrictions for Operations	30,929	35,172	38,735	40,311	28,112
All Other Operating Revenues	1,030	1,474	1,476	1,166	3,730
Total Unrestricted Operating Revenue	105,023	112,975	113,993	120,049	109,396
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					
Instruction	51,806	55,539	58,479	61,176	63,442
Academic Support	13,396	14,430	13,891	14,336	16,072
Institutional Support	26,640	27,356	28,439	28,896	31,892
Student Services	15,089	16,711	18,852	20,225	21,370
Public Service	1,056	1,081	1,209	1,867	1,390
Research	2,696	2,587	3,079	3,085	3,824
Auxiliary Enterprises	23,803	25,211	27,429	27,549	27,753
Total Unrestricted Operating Expense	134,486	142,915	151,378	157,134	165,743
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	10,259	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	3,105
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	381,825
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.

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