S&P Global
Ratings

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California Municipal Finance Authority
Pomona College; Private Coll/Univ - General Obligation

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California Municipal Finance Authority Pomona College; Private Coll/Univ - General Obligation

Credit Profile		
US$129.295 mil rev bnds (Pomona Coll) ser 2017 due 01/01/2048		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the California Municipal Finance Authority's $129 million series 2017 revenue bonds, issued on behalf of Pomona College. The outlook is stable.

We assessed Pomona's enterprise profile as extremely strong, characterized by stable enrollment, exceptional student quality, a geographically diverse student body, and strong management and governance oversight. We assessed the college's financial profile as very strong, with a track record of excellent margins and superior balance sheet resources. We also note the college's current aggressive debt structure with a series of bullet maturities and direct placement debt that represents a contingent liability; however, we understand the bullet maturities will be refinanced with this issuance. Combined, these factors lead to an indicative standalone credit profile of 'aa+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AAA' rating on the college's bonds better reflects Pomona's significant cash and investments compared with pro forma debt.

The rating further reflects our view of Pomona's:

- Exceptional financial resources and financial flexibility provided by close to $2 billion in expendable resources;
- Track record of positive operations and substantial margins;
- Healthy demand profile, with excellent student quality and significant admissions flexibility; and
- Sound fiscal management and prudent budgeting, which have allowed for a track record of very strong operating surpluses.

Partly offsetting the above strengths, in our view, are the college's:

- High dependence on endowment spending for its operations, and
- Direct placement debt that represents a contingent liability risk.

A general obligation of Pomona secures the bonds. Pomona is currently issuing $19 million in new money for renovations to the college's Museum of Art. Pomona is also restructuring the series 2008A and series 2009A bonds, and following the series 2017 refunding, Pomona's bullet maturities due in 2018, 2019, and 2024 will be retired/defeased.

Founded in 1887, Pomona is a private liberal arts college in Claremont, Calif., and 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 with 48 majors in the arts, humanities, social sciences, and natural sciences.

Rating above the sovereign

Pomona's bonds are eligible to be rated above the sovereign because we believe the institution can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published on Nov. 19, 2013 on RatingsDirect, U.S. colleges and universities are considered to have moderate sensitivity to country risk. Pomona's revenue is the sole source of security on the bonds. The institutional framework in the U.S. is predictable, with institutions such as Pomona College having significant autonomy, independent treasury management, and no history of government intervention. Financial flexibility is evident in the college's large endowment, which has a substantial market value and is invested globally, and relatively low debt level compared with 'AAA' medians.

Outlook

The stable outlook reflects our expectation that, during the two-year outlook period, Pomona College will maintain its excellent demand characteristics, healthy balance sheet, and exceptional operating performance.

Downside scenario

Credit factors that could lead to a lower rating within the outlook period include an unexpected deterioration in the demand profile, sizable operating losses on a generally accepted accounting principles basis, or a substantial decline in financial resource ratios.

Enterprise Profile

Industry risk

Industry risk addresses our view of the higher education sector's overall cyclicality and competitive risk and growth through application of various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the college has good geographic diversity, drawing students nationally and internationally. About 70% of students come from outside the state. As such, our assessment of Pomona's economic fundamentals is anchored by the U.S. GDP per capita.

Market position and demand

Pomona has maintained a stable enrollment profile characterized by very modest increases in recent years, which supports that rating. Full-time equivalent (FTE) enrollment at the college was 1,668 as of fall 2017, up 1% from 1,653 in fall 2016. Pomona has very few part-time students, making its FTE count comparable with total headcount. FTE enrollment is expected to remain stable. In our view, the college is highly selective, student quality is exceptional, and the geographical draw is diverse, with approximately 70% of students coming from out of state. It also has a long tradition of offering need-blind admissions. Pomona is largely residential, with almost all of its students living on campus.

The college has significant admissions flexibility, admitting just 8.2% of its 9,046 freshman applicants in fall 2017. Its matriculation rate continues to improve and was 55% in fall 2017 compared with its historical average of 47%. Student quality is excellent, with an average freshman SAT score of 1420 (excluding the writing test), well above the national average of 1020. The freshman-to-sophomore retention rate is outstanding, in our view, at 97%. The six-year graduation rate is also excellent, at 97%. Pomona's reputation and draw have solidified, in our opinion, given its national draw. The college traditionally competes for students with Ivy League and East Coast liberal arts colleges as well as with California's well-respected public universities such as the University of California's Berkeley and Los Angeles campuses.

Total tuition, room, and board charges for the 2017-2018 academic year are $67,225, which we view as competitive with those of peer institutions. Total charges increased by 3.5% from the 2016-2017 academic year. We consider the tuition discount rate high at about 40%, but it has remained fairly stable given the college's longstanding need-blind admissions policy.

In our view, Pomona has a solid fundraising history in terms of successful campaigns and annual giving. The college's most recent campaign, "Campaign Pomona: Daring Minds," concluded in during fiscal 2016 and raised $316 million compared with the goal of $250 million. The campaign raised funds for facilities, programs, and faculty positions. With the campaign completed, fundraising momentum has continued with the largest outright naming gift in the college's history for the Pomona College Museum of Art. Management will determine the new capital campaign priorities according to the next strategic plan.

Management and governance

Pomona's management team has been generally stable and is supported by an active board of trustees containing 37 members. In July 2017, a new president, G. Gabrielle Starr, took office as the former president retired. President Starr brings strong experience to the position. The college also hired a new dean beginning July 2016 from one of the Claremont Colleges within the consortium. We characterize these changes in personnel as typical normal turnover, and the remainder of the executive management team is stable and long tenured, which lends strength to the overall credit profile.

One of the college's strengths, in our opinion, is its financial management with effective budgeting and financial control mechanisms that have contributed to consistently robust operating surpluses. The college conservatively maintains reserves for operations, sets identified debt limits, and manages investment objectives within prescriptive and well-defined risk constraints. In our view, the management team manages the college's financial profile prudently and proactively.

Financial Profile

Financial management policies

The college is supported by formal policies for endowment, investments, and debt. The college meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that despite some areas of risk, the college's overall financial policies are not likely to hamper its ability to pay debt service. Our analysis of financial policies includes a review of the college's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies with those of comparable institutions.

Financial performance

Pomona has a track record of producing healthy annual operating surpluses, which we believe are a function of solid demand, financial controls, and the growth and payout of its endowment. In fiscal 2016, the college posted an adjusted operating surplus of $42.7 million, which included $44.7 million of net assets released from restrictions. Management anticipates that fiscal 2017 results will be similar to those of previous years. For fiscal 2018, Pomona College has budgeted for balanced operations, though we expect it will produce a surplus similar to those in recent previous fiscal years.

Financial operations are diverse, in our opinion, and are supported by two major revenue sources: tuition revenue and payout from the endowment. In fiscal 2016, tuition and student-generated fees accounted for 41% of adjusted revenue, followed by endowment income at 36%. During fiscal 2016, the college spent $82 million from the endowment (both unrestricted and restricted). In fiscal 2016, the endowment draw was 4.5%, well below the maximum allowable 5.5% under the college's spending guideline. Management anticipates that fiscal 2017 results will be similar to those of previous years.

Available resources

In our view, Pomona College's available resources are exceptional and higher than 'AAA' rating category medians. Fiscal 2016 expendable resources of $1.8 billion equaled a robust 8.8x adjusted operating expenses and a strong 8.8x debt. Cash and investments were stronger at about $2.3 billion as of fiscal year-end 2016, equal to 11.1x adjusted operating expenses and 11.1x debt. We expect the college's financial resources to remain healthy and grow incrementally, given expectations of steady surpluses. We will continue to evaluate Pomona's resource ratios relative to any potential new debt plans.

Pomona's endowment remains one of its main revenue sources. The endowment comprises investment income, and in the event that ordinary income from the pooled investments is insufficient to provide the full payout, Pomona appropriates the balance from cumulative realized gains of the pooled investments. The endowment portfolio is invested in 44% public equities, 12% fixed income, and 44% alternative assets.

Debt and contingent liabilities

Pomona had $203 million of debt as of fiscal year-end 2016, all of which was fixed rate, and debt as of fiscal year-end 2017 is expected to be slightly lower. Pomona is currently issuing $19 million in new money for renovations to the college's Museum of Art. Pomona is also restructuring the series 2008A and series 2009A bonds, and following the series 2017 refunding, Pomona's bullet maturities due in 2018, 2019 and 2024 will be retired/defeased. We view the refunding favorably as reducing risk; however, the pro forma maximum annual debt service burden is high, in our opinion, at approximately 8%.

Pomona has contingent liquidity risk exposure that we consider manageable. The exposure comes from two private placement loan agreements totaling $31 million, which are not rated by S&P Global Ratings. There is a debt service and liquidity covenant of 1x, which the college more than adequately covers.

Pomona College, California

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated Private Colleges & Universities
	2018	2017	2016	2015	2014	2016
Enrollment and demand						
Headcount	1,700	1,660	1,663	1,650	1,612	MNR
Full-time equivalent	1,668	1,653	1,654	1,644	1,603	11,775
Freshman acceptance rate (%)	8.2	9.2	9.8	12.2	13.9	9.3
Freshman matriculation rate (%)	56.5	56.0	50.9	47.9	39.9	MNR
Undergraduates as a % of total enrollment (%)	98.1	98.9	98.6	99.1	100.0	45.4
Freshman retention (%)	N.A.	96.8	97.0	99.0	99.0	97.0
Graduation rates (six years) (%)	N.A.	97.0	94.0	93.0	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	N.A.	246,922	256,974	234,836	MNR
Adjusted operating expense ($000s)	N.A.	N.A.	204,224	194,343	185,350	MNR
Net operating income ($000s)	N.A.	N.A.	42,698	62,631	49,486	MNR
Net operating margin (%)	N.A.	N.A.	20.91	32.23	26.70	3.79
Change in unrestricted net assets ($000s)	N.A.	N.A.	(93,789)	36,706	135,950	MNR
Tuition discount (%)	N.A.	N.A.	38.1	38.0	37.2	39.6
Tuition dependence (%)	N.A.	N.A.	41.0	38.1	38.9	MNR
Student dependence (%)	N.A.	N.A.	N.A.	38.1	38.9	27.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	N.A.	0.8	0.6	1.0	MNR
Endowment and investment income dependence (%)	N.A.	N.A.	35.5	31.3	33.1	MNR
Debt						
Outstanding debt ($000s)	N.A.	N.A.	203,029	191,437	186,921	1,824,872
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	N.A.	3.93	3.90	4.12	MNR
Current MADS burden (%)	N.A.	N.A.	4.63	4.74	4.11	4.32
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Pomona College, California (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated Private Colleges & Universities
	2018	2017	2016	2015	2014	2016
Financial resource ratios						
Endowment market value ($000s)	N.A.	N.A.	1,984,930	2,098,703	2,101,461	8,259,597
Cash and investments ($000s)	N.A.	N.A.	2,261,256	2,347,519	2,357,163	MNR
Unrestricted net assets ($000s)	N.A.	N.A.	1,152,434	1,246,223	1,209,517	MNR
Expendable resources ($000s)	N.A.	N.A.	1,803,744	1,943,574	1,967,459	MNR
Cash and investments to operations (%)	N.A.	N.A.	1,107.2	1,207.9	1,271.7	811.2
Cash and investments to debt (%)	N.A.	N.A.	1,113.8	1,226.3	1,261.0	693.1
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	N.A.	883.2	1,000.1	1,061.5	605.1
Expendable resources to debt (%)	N.A.	N.A.	888.4	1,015.3	1,052.6	607.0
Expendable resources to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	N.A.	9.7	13.7	13.5	12.3

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense.