



RATING ACTION COMMENTARY

Fitch Affirms Pomona College, CA's Revs at 'AAA'; Outlook Stable

Fri 08 Oct, 2021 - 1:07 PM ET

Fitch Ratings - New York - 08 Oct 2021: Fitch Ratings has affirmed the 'AAA' rating on approximately \$209 million outstanding taxable revenue bonds, Series 2020A issued by Pomona College and approximately \$20 million outstanding California Educational Facilities Authority Capital Appreciation Bonds, Series 2005A issued on behalf of Pomona College. At the same time, Fitch also affirmed Pomona's Long-Term Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are an unsecured general obligation of the college, payable from all legally available funds.

ANALYTICAL CONCLUSION

The 'AAA' IDR and revenue bond ratings reflect Pomona's exceptional demand profile, robust financial profile and excellent fundraising track record. The Stable Rating Outlook reflects Fitch's expectation that the college will maintain strong adjusted cash flow margins in the coming years in line with historical trends, and that its exceptional balance sheet strength will be preserved. Pomona's ratings would also be stable through Fitch's stress scenario due to its exceptionally strong balance sheet. This scenario assumes a slower economic recovery, and prolonged or recurring pandemic-induced disruptions, including further tuition, auxiliary and other related revenue pressures on the university's operations.

KEY RATING DRIVERS

Revenue Defensibility: 'aaa'

Exceptional Demand Characteristics with Broad Geographic Reach

Pomona's revenue defensibility assessment is 'aaa' due to its exceptional demand indicators, national/international student draw and reputation for academic excellence, as demonstrated by increasing applications, very selective admissions and a steady, solid freshmen matriculation rate. The college's adjusted operating revenues have a heavy reliance on investment income/endowment spending, generated by its pooled investment fund, in addition to student-driven charges. Pomona enrolled a larger class in fall 2021 after a smaller class enrolled fall 2020. The increase is likely due to students electing to return after deferring admission and taking a leave of absence the prior year due to the coronavirus.

Operating Risk: 'aaa'

Exceptionally Strong Margins and Strong Fundraising

Pomona has exceptionally strong operating cost flexibility, as demonstrated by very robust cash flow margins (40.6% and 37.8% in fiscals 2020 and 2019, respectively). Pomona's consistently high margins are largely driven by a high proportion of endowment

spending and net assets released from restriction and available for operations. The college's remarkably strong fundraising and consistent donor support for capital spending are also key considerations in the 'aaa' assessment. Capital spending is scaled back in fiscal 2021, but the school has proceeded with funding capital projects in fiscal 2022 with a mix of internal funds and capital gifts. Fitch considers the endowment spend rate sustainable over time.

Financial Profile: 'aaa'

Substantial Financial Cushion

Pomona's extremely strong financial profile is driven by a substantial measure of available funds to adjusted debt of 1015% in fiscal 2020. Fitch expects financial leverage to remain consistent with a 'aaa' financial assessment profile in fiscal 2021 based on unaudited results and through the cycle. In the forward look, Fitch assumes moderate near-term capital spending needs resume in fiscal 2022 with demonstrable resilience through the base case and stress scenarios, which include changes in market value of the investment portfolio over the course of a market or economic downturn.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations affected the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable given the 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Material erosion of Pomona's substantial financial cushion and/or a material change in adjusted cash flow margins (nearing 200% and 20%, respectively), in conjunction with a material shift in enrollment or a severe market decline, while not expected, could pressure the rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

Founded in 1887, Pomona is a small, private independent 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 largely an undergraduate college, offering 48 majors in natural sciences, humanities, social sciences and fine arts to about 1,464 students in fall 2020. The college is highly selective, with a prestigious national reputation and very strong student demand that continues to improve.

Pomona's president began her tenure in early fiscal 2018. Several recent appointments include a new chief operating officer and vice president for advancement in January 2020. The college's new strategic plan was completed by the end of fiscal 2020. The college will complete its re-accreditation review by Western Association of Schools and Colleges in 2021.

Pomona resumed on-campus instruction and activity in fall 2021, following offering a full year of enhanced online instruction last fall and spring semesters and closing all residence halls in accordance with local Los Angeles County public health guidance related to the coronavirus. Typically, about all students live on campus with some exceptions.

In fiscal 2020, Pomona received \$1.3 million in CARES Act funding, half of which was disbursed to students that year, with the remaining portion used for general operations in fiscal 2021. In fiscal 2021, the college received nearly \$1.6 million Higher Education Emergency Relief Funds (HEERF), \$643,000 of HEERF II funds were disbursed to students in May 2021 and about \$915,000 are institutional funds for general operations expended in fiscal 2021. These funds were used to provide emergency grants to furloughed staff last fall and to partially offset COVID-19 testing expenses.

Additionally, when the crisis hit in March of 2020, Pomona suspended any transfers to capital and instead directed projected budget surpluses into a Coronavirus Response Fund to help manage any extraordinary costs resulting from the pandemic. At fiscal-year-end 2021, the Coronavirus Response Fund, totaled \$13.3 million which could be used for potential impacts in FY 2022.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations affected the rating.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Pomona College (CA)	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
● Pomona College (CA) /General Revenues/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[U.S. Public Finance College and University Rating Criteria \(pub. 07 Oct 2020\) \(including rating assumption sensitivity\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.2 (1)

ADDITIONAL DISCLOSURES

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Pomona College (CA)

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