FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 12 Oct 2020: Fitch Ratings has assigned an 'AAA' rating to approximately $209 million of Taxable Bonds, Series 2020A issued by Pomona College.

At the same time, Fitch has affirmed the 'AAA' rating on approximately $20 million outstanding California Educational Facility Authority Capital Appreciation Bonds, Series 2005A; and $138.5 million California Municipal Finance Authority (CMFA) Revenue Bonds, Series 2017. Fitch has also affirmed Pomona's Long-Term Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

The fixed-rate Series 2020 bonds are expected to sell via negotiated sale the week of Oct. 19, 2020. Bond proceeds will be used to restructure and refund outstanding debt, including the CMFA series 2014 and series 2016 private placement loans and CMFA series 2017 outstanding revenues bonds, and to pay costs of issuance.

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.

Coronavirus Impacts

The ongoing coronavirus pandemic and related government-led containment measures create an uncertain environment for the U.S. public finance higher education sector. Fitch's forward-looking analysis is informed by management expectations coupled with Fitch's common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. Fitch's current baseline scenario includes a sharp economic contraction in 2Q20 with a sequential recovery starting from 3Q20 onward. For the higher education sector, the baseline case assumes the closure of most residential campuses for a three- to four-month period with continued sporadic closures possible thereafter.

Pomona elected to offer enhanced online instruction for fall 2020 and to keep all residence halls closed and have no students reside on campus, in accordance with local Los Angeles County public health guidance. Typically, about 97% of students live on campus. Pomona expects to make a decision about resuming on-campus instruction in November 2020. Pomona received $1.3 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, $650,000 of which it disbursed in June 2020 to students based on financial need, with the second tranche held for fiscal 2021.

Pomona's ratings would also be stable through Fitch's downside scenario due to its exceptionally strong balance sheet. This scenario assumes a slower economic recovery, and prolonged or recurring pandemic-induced disruptions lasting into fiscal 2021, including further tuition, auxiliary and other related revenue pressures on the university's operations.

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 smaller class in fall 2020 due to the coronavirus, although demand metrics remain very strong, with a number of students deferring admission and electing to take a leave of absence.

Operating Risk: 'aaa'

Exceptionally strong margins and strong fundraising

Pomona has exceptionally strong operating cost flexibility, as demonstrated by very robust cash flow margins (36.7% and 37.8% in fiscals 2018 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 will be scaled back in fiscal 2021, but the school plans to proceed with funding capital projects in fiscal 2022 with a mix of internal funds and capital gifts. Fitch considers the endowment spend rate sustainable despite a 1.0% endowment return for fiscal YE June 30, 2020.

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 992% in fiscal 2019. Fitch expects financial leverage to remain consistent with a 'aaa' financial assessment profile in fiscal 2020 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 downside 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.

REVENUE DEFENSIBILITY

Pomona's demand profile is consistent with a 'aaa' revenue defensibility assessment. The college has very selective admissions, with broad national/international demand, exceptional student quality and a strong liberal arts academic reputation.

Fall 2020 enrollment totaled 1,464, a 13% drop from fall 2019 due to the impact of the coronavirus, with a number of students deferring admission and electing to take a leave of absence. Pomona's admissions remain very competitive in fall 2020, with a very selective freshman acceptance rate of 8.6% and a similarly strong freshmen-to-sophomore retention rate consistently above 90%. Pomona enrolled a first-year freshmen class of 400 in fall 2020, versus 416 in the prior year. Pomona's freshman matriculation rate dropped slightly to 45% in fall 2020, but has generally been in the mid 50% range in recent years. The entering freshman class is of superb student quality when measured by standardized testing, with SAT and ACT scores averaging 1470 and 33, respectively, in fall 2020, both in the top decile of the national average and consistent with a 'aaa' assessment.

In-state students account for about 28% of Pomona's undergraduate enrollment in fall 2020, with the remaining 72% supportive of a national and international geographic reach. Management reports that the international cohort, generally about 13% of the matriculated class, is broad but shrinking due to the coronavirus and immigration issues. Given the institutions need blind admissions policies and increasing institutional aid requirements, Fitch notes full-pay international students could aid in stabilizing net tuition revenues over time, which increased in fiscal 2019 after declining in recent years.

Investment and endowment income appropriated for operations represent the college's largest revenue source, averaging a sizable 43% of total operating revenues during the past three fiscal years, with student-generated revenues comprising the second largest revenue source at 27% of revenues in fiscal 2019. Net assets released from restrictions (24%) and gifts and contributions (3%) together are also relatively large, and are expected to help stabilize but not fully counter volatility in other revenues.

The board of trustees authorized distributions of $97 million, $93 million and $89 million for fiscals 2019, 2018 and 2017, respectively, based on an approved spending rate of 4.3%, 4.3% and 4.5%, respectively, for current operations from the net realized investment gains of pooled investments. Periodic draws are generally comfortably below expected annual long-term investment returns based on the current asset allocation, except for fiscal 2020 due to the coronavirus. The one-year 2020 return was 1.0%, versus 6.5% for 2019. However, Fitch expects these annual draws to be sustainable over time.

To mitigate significant reliance on endowment/investment income, Pomona transitioned from a 12-quarter endowment spending policy to a 20-quarter market value average in fiscal 2017, spending between 4.5% and 5.5%. Pomona expects these adjustments to moderate spending growth. Pomona also expects this policy will allow its endowment to maintain its purchasing power over the long term by growing at a rate at least equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return. The endowment was valued at $2.26 billion as of June 30, 2020.

OPERATING RISK

Pomona's adjusted cash flow margins, inclusive of the endowment draw, remain at remarkable levels in fiscal 2019 at 37.8% and 36.7% in fiscal 2018.

Management reports more positive results for fiscal 2020, despite lower operating revenues due to the coronavirus, due to adequately offsetting revenue reductions with various cost-cutting measures. Fiscal 2020 unaudited results reflect a $7 million net operating surplus before the endowment payout. Fitch expects cash flow margins, inclusive of the endowment draw, to exceed prior years. Based on lower enrollment totals, management amended its fiscal 2021 budget to address an anticipated $38.6 million operating deficit, with $28.9 million in expense adjustments realized. Under the proposed amendment, Pomona projects a $9.7 million deficit for fiscal 2021, which it plans to partly address with $3.3 million in projected gifts and bequests, $2.7 million of releases and $3.7 million from a newly created coronavirus response fund of $13.3 million, which is set aside for contingencies. There is some variability expected, which is not unusual given the high proportion of investment income, but Pomona expects performance to remain consistently strong.

Pomona reports capital spending plans of about $120 million over the next five years, including two major projects that Fitch views as moderately large relative to operating revenues ($145 million in fiscal 2019, excluding the endowment draw). However, the college expects some flexibility with respect to timing for major capital costs. Management reports that only essential spending will be done in fiscal 2021. Pomona's financial flexibility, prudent facilities planning and exceptional fundraising capabilities are all mitigating factors offsetting the college's stated capital plans.

Major capital projects include a $55 million gymnasium/wellness center expected in the near term. The college is also evaluating a $60 million international residence hall/dining center that is a major priority, but the timing is uncertain. Capital needs will be funded by a mix of gifts and internal reserves, although some level of debt may be considered for a dormitory/dining project.

Overall, Pomona's lifecycle investment needs are viewed as moderate as assessed through an average age of plant of 11.9 years.

Pomona has a very strong track record of fundraising; the college is currently between campaigns. The college's previous major campaign in fiscal 2016 raised $317 million over five years, exceeding its $250 million goal. Pomona funded about 56% of its institutional aid requirement in fiscal 2019; the remaining 44% is sponsored aid funded by donors.

Fundraising momentum continued post campaign. Pomona received a $15 million gift for a new art museum completed in September 2019 and two additional gifts totaling $2 million-$3 million. Overall gifts represented about 75% of the museum's total cost, which was also funded with a portion of debt proceeds issued in 2018 (Series 2017A). The college also runs a successful annual fund, typically budgeting for $4.5 million per year in unrestricted gifts. Gifts and grants from private sources recorded in fiscal 2019 totaled about $35 million.

FINANCIAL PROFILE

Pomona's financial profile is extremely strong in the context of the college's 'aaa' revenue defensibility and 'aaa' operating risk profile assessments. Leverage-related ratios are remarkably strong through the cycle in Fitch's base case and downside scenario analysis. Fitch believes Pomona's financial profile is very resilient against investment and operating stresses through a period of heightened capital spending.

Available funds (AF, defined by Fitch as unrestricted cash and investments less permanently restricted net assets) measured about $2.2 billion at fiscal YE 2019. The college's AF to adjusted debt measured extremely high at 992% at fiscal YE 2019. Pomona's adjusted debt totaled $224 million at fiscal YE 2019 and included outstanding revenue bonds of $179 million, an unamortized bond premium of $15 million and two bank loans for $30 million. AF to operating expenses measured a remarkable 1,250% at fiscal YE 2019.

The series 2020 plan of finance restructures the existing debt portfolio that is outstanding in the amount of $188.1 million, and includes two private bank loans and the Series 2017 bonds. The new issue will refund all debt except the capital appreciation bonds (CAB; Series 2005), which are not callable at this time. Following the refunding/restructuring, Pomona's debt portfolio will consist of the Series 2005A tax-exempt CABs and the Series 2020 taxable refunding bonds. The restructuring moves away from an amortizing debt structure and lowers interest expense by structuring the bonds with a 30-year bullet maturity of about $209 million in 2051, extending the final maturity of the Series 2017 bonds by three years (from 2048). This effectively provides $2 million of savings to the operating budget in the next few years, half of which will be used to establish a principal retirement fund to repay the bullet at maturity. The board approved the internal amortization structure and plans to invest the funds along with the endowment with oversight by the finance and investments committees.

Pomona issued Series 2017A tax-exempt bonds through the CMFA in fiscal 2018. The majority of the proceeds were used to refund Series 2008A and Series 2009A bonds. The bonds restructured debt and smoothed out very large bullet maturities. The remaining proceeds of about $26 million were used to provide partial funding for the new Pomona College Museum of Art. Pomona's outstanding notes payable totaling $30.6 million include two private-placement tax-exempt credit facilities with First Republic Bank and Boston Private. Both facilities are fixed-rate term loans amortizing over 30 years, which are expected to be full refunded with the current offering. An escrow fund will be established to defease the noncallable Series 2017 bonds.

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

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

U.S. Public Finance College and University Rating Criteria (pub. 07 Oct 2020) (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

California Educational Facilities Authority (CA)	EU Endorsed
California Municipal Finance Authority	EU Endorsed
Pomona College (CA)	-

https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

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