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## Pomona College, California; Private Coll/Univ - General Obligation

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# Pomona College, California; Private Coll/Univ - General Obligation

## Credit Profile

US\$207.945 mil taxable bnds ser 2020A due 01/01/2051

<i>Long Term Rating</i>	AAA/Stable	New
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### **California Ed Fac Auth, California**

Pomona Coll, California

California Ed Fac Auth (Pomona Coll)

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Pomona College, Calif.'s \$207.9 million series 2020A taxable bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long term rating on the California Municipal Finance Authority's (CMFA) and the California Educational Facilities Authority's debt issued for Pomona College. The outlook is stable.

A general obligation of Pomona secures the bonds. As of fiscal 2019, total outstanding debt was \$208.9 million. Total pro forma debt after the series 2020A issuance is \$228.8 million. The series 2020 bonds are being issued to refund the CMFA's series 2014, 2016, and 2017 bonds. Following the refunding, Pomona's debt will consist of the series 2005A and series 2020A bonds. The series 2020A bonds are expected to be structured as a 30-year bullet.

While there is a high level of uncertainty regarding the duration and extent of the effects of the COVID-19 outbreak, we believe that Pomona has taken prudent steps to ensure the safety of its students, faculty, and staff while also remaining financially responsible. In March 2020, the college transitioned to an online format, and residence halls were closed to the majority of students. For students living on campus before the outbreak, Pomona provided prorated refunds for housing and dining totaling about \$6 million. Additionally, Pomona's initial response last spring also included reimbursement for travel costs; emergency cash assistance; continued payment of certain students, faculty, and staff who were unable to work; and preparation for online education and telework. During the summer, Pomona invested in training and equipment for online instruction and telework, invested in physical health and safety infrastructure improvements (HVAC systems, automatic doors, light sensor, plexiglass partitions), purchased personal protective equipment, and researched testing protocols. In response to the lower revenues and unexpected expenses, a number of cost-savings measures were taken, and gifts in response to the pandemic were made, and as a result, management is projecting fiscal 2020 unaudited unrestricted funds should result in a surplus of \$17.0 million. Of the \$17.0 million, \$3.7 million has been allocated to prefunding fiscal 2021, and \$13.3 has been allocated to a COVID response fund.

In July, the college determined that it was in the best interest of its entire community to offer enhanced online instruction for fall 2020 and to keep all residence halls closed. As expected, a number of students elected to defer their

enrollment, and enrollment at the college was 1,464 in fall 2020 versus 1,688 in fall 2019. Of the 10,388 of freshmen who applied for fall 2020, 8.62% were admitted and 400, or 44.69%, matriculated. These figures, while still very impressive, were down from last year's figures of 10,401 applicants, with 7.40% accepted and 416, or 54.03%, matriculated. International students represent about 10% of total enrollment. For the spring semester, the goal is to invite students back to campus, although it is expected that instruction will likely still be online. Currently, management is projecting break-even results for fiscal 2021, with use of the COVID response fund, furlough of certain employees, projected gifts, and releases. Fiscal 2021 performance could be more severely affected, depending on the trajectory of the virus and its impact on operations. The long-term impact on the endowment also cannot be quantified at this time. As of June 30, 2020, the endowment was valued at \$2.26 billion and returned 1.0% for fiscal 2020. We believe that Pomona's exceptional balance sheet strength and liquid resources will help the college offset medium-term pressures that might arise as a result of this pandemic.

### **Credit overview**

We assessed Pomona's enterprise profile as extremely strong, characterized by solid 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 excellent margins and superior balance sheet resources. Combined, these factors lead to an indicative stand-alone 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 \$2.7 billion in cash and investments and \$2.2 billion in expendable resources in fiscal 2019;
- Track record of positive operations and substantial margins, although we do expect margin compression in the near term due to the effects of COVID-19;
- Healthy demand profile, with excellent student quality and significant admissions flexibility; and
- Sound fiscal management and prudent budgeting.

Partly offsetting the above strengths, in our view, is the college's high dependence on endowment spending for its operations.

The stable outlook reflects our expectation that, in the near term, Pomona will maintain its exceptional market position and maintain its extremely strong financial resources compared with operating expenses and debt.

Pomona's revenue bonds are eligible to be rated above the sovereign due to a 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.

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.

### **Environment, social, and governance (ESG) factors**

In our view, Pomona College, similar to other higher education institutions, faces elevated social risk due to the uncertain duration of the COVID-19 pandemic. Because of the pandemic, Pomona's management team moved to implement remote learning in spring 2020 and is fully remote in fall 2020 to protect students' health and safety and limit social risks associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. Despite the elevated social risk, we believe Pomona's environment and governance risk are in line with our view of the sector as a whole.

## **Stable Outlook**

### **Downside scenario**

While unlikely, credit factors that could lead to a negative outlook or a lower rating include an unexpected deterioration in the demand profile, sizable operating losses on a generally accepted accounting principles basis, or a substantial decline in available resource ratios. In addition, though we understand that the virus is a global risk, we could also consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the college's plan as a result of the recent COVID-19 outbreak.

## **Credit Opinion**

## **Enterprise Profile**

### **Economic fundamentals**

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

### **Management and governance**

Pomona's management team has been generally stable and is supported by an active board of trustees containing up to 42 members, with current membership standing at 35. In July 2017, President G. Gabrielle Starr took office, as the former president retired. President Starr brings strong experience and vision to the position, in our opinion. The chief operating officer (COO) and treasurer joined Pomona in January 2020; his prior position was COO of Barnard College.

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 historically. 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.

### **Market position and demand**

Pomona has maintained a stable enrollment profile, which supports the rating; management targets to a class size of 415 freshmen plus 20 transfers per year. Full-time-equivalent (FTE) enrollment at the college was 1,703 as of fall 2019, up 2.0% from 1,670 in fall 2018. Pomona has very few part-time students, making its FTE count comparable with total headcount. Fall 2020 FTE enrollment declined 13.7% to 1,470 due to student deferrals as a result of the COVID-19 pandemic. In our view, the college is highly selective, student quality is exceptional, and the geographical draw is diverse, with 72% of students coming from out of state in fall 2020. It also has a long tradition of offering need-blind admissions.

The college has significant admissions flexibility, with high selectivity, admitting just 7.4% of its 10,401 freshman applicants in fall 2019 and 8.6% of its 10,388 applicants in fall 2020 during the pandemic. Its matriculation rate was high at 54% in fall 2019, but declined to a still-impressive 45% in fall 2020. Student quality is excellent, with an average freshman SAT score well above the national average. The freshman-to-sophomore retention rate is outstanding, in our view, at 97%. The six-year graduation rate is also strong, at 93%. Pomona's reputation and draw are excellent, in our opinion, given its national draw and high student quality. 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.

Tuition was held flat for the 2020-2021 academic year at \$54,380, which we view as competitive with those of peer institutions. We consider the tuition discount rate high at about 53% but comparable with that of peers that also have a 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 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. Management will determine the new capital campaign priorities according to the new strategic plan. Fundraising was impressive in fiscal 2020 at \$46.3 million, the third-highest year.

## **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 very 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 2019, the college posted an adjusted operating surplus of \$64.7 million, which included \$57.6 million of net assets released from restrictions. Management anticipates that fiscal 2020 results will be positive despite the pandemic; however, for fiscal 2021, Pomona College has budgeted for balanced operations.

Financial operations are diverse, in our opinion, and are supported by two major revenue sources: tuition revenue and payout from the endowment. In fiscal 2019, tuition and student-generated fees accounted for 39.0% of adjusted revenue, followed by endowment income at 36.6%. During fiscal 2019, the college spent \$96.9 million from the endowment (both unrestricted and restricted). In fiscal 2019, the endowment draw was 4.8%, below the maximum allowable 5.5% under the college's spending guideline.

## Available resources

In our view, Pomona College's available resources are exceptional and higher than 'AAA' rating category medians. Fiscal 2019 expendable resources of \$2.2 billion equaled an excellent 9.6x adjusted operating expenses and a robust 9.5x pro forma debt. Cash and investments were stronger at about \$2.7 billion as of fiscal year-end 2019, equal to 11.9x adjusted operating expenses and 11.6x pro forma debt. We expect the college's financial resources to remain extremely strong. 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 balance of the endowment was \$2.26 million as of fiscal year-end 2020 and was \$2.32 million at fiscal year-end 2019.

## Debt and contingent liabilities

Pomona had \$208 million of debt as of fiscal year-end 2019, all of which was fixed rate. The pro forma debt following the refunding is expected to be \$228.8 million. We view the pro forma maximum annual debt service burden as moderately high at 6.5%. The series 2020 bonds are expected to be structured with a bullet maturity of \$208.9 million in 2051.

Pomona has contingent liquidity risk exposure that we consider manageable. The exposure comes from two private placement loan agreements totaling about \$30 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. We expect these loans to be taken out by the series 2020 refunding.

## Pomona College, California--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2020	2019	2018	2017	2016	2018
<b>Enrollment and demand</b>						
Headcount	1,717	1,679	1,700	1,660	1,663	MNR
Full-time equivalent	1,703	1,670	1,668	1,653	1,654	11,275

**Pomona College, California--Enterprise And Financial Statistics (cont.)**

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2020	2019	2018	2017	2016	2018
Freshman acceptance rate (%)	7.4	7.0	8.2	9.2	9.8	7.2
Freshman matriculation rate (%)	54.0	57.8	56.5	56.0	50.9	MNR
Undergraduates as a % of total enrollment (%)	98.3	98.6	98.1	98.9	98.6	44.3
Freshman retention (%)	97.0	96.6	96.6	96.8	97.0	98.0
Graduation rates (six years) (%)	93.0	94.0	94.0	97.0	94.0	MNR
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	289,315	279,076	268,737	246,922	MNR
Adjusted operating expense (\$000s)	N.A.	224,604	223,474	212,088	204,224	MNR
Net operating income (\$000s)	N.A.	64,711	55,602	56,649	42,698	MNR
Net operating margin (%)	N.A.	28.81	24.88	26.71	20.91	3.70
Change in unrestricted net assets (\$000s)	N.A.	22,495	44,233	81,643	(93,789)	MNR
Tuition discount (%)	N.A.	53.2	54.9	40.1	38.1	42.7
Tuition dependence (%)	N.A.	30.5	30.9	38.9	41.0	MNR
Student dependence (%)	N.A.	39.0	39.7	N.A.	N.A.	30.9
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	0.5	0.5	0.6	0.8	MNR
Endowment and investment income dependence (%)	N.A.	36.6	35.2	35.4	35.5	MNR
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	208,941	210,337	201,733	203,029	2,556,520
Proposed debt (\$000s)	N.A.	208,935	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	228,814	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	14,501	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.64	5.13	13.48	3.93	MNR
Current MADS burden (%)	N.A.	7.64	7.68	4.46	4.63	5.10
Pro forma MADS burden (%)	N.A.	6.46	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	2,321,097	2,273,707	2,165,208	1,984,930	10,869,245
Cash and investments (\$000s)	N.A.	2,662,110	2,603,324	2,466,375	2,261,256	MNR
Unrestricted net assets (\$000s)	N.A.	1,300,805	1,278,310	1,234,077	1,152,434	MNR
Expendable resources (\$000s)	N.A.	2,165,804	2,068,550	1,979,189	1,803,744	MNR
Cash and investments to operations (%)	N.A.	1,185.2	1,164.9	1,162.9	1,107.2	838.9
Cash and investments to debt (%)	N.A.	1,274.1	1,237.7	1,222.6	1,113.8	921.1
Cash and investments to pro forma debt (%)	N.A.	1,163.4	N.A.	N.A.	N.A.	MNR

**Pomona College, California--Enterprise And Financial Statistics (cont.)**

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2020	2019	2018	2017	2016	2018
Expendable resources to operations (%)	N.A.	964.3	925.6	933.2	883.2	671.3
Expendable resources to debt (%)	N.A.	1,036.6	983.4	981.1	888.4	723.5
Expendable resources to pro forma debt (%)	N.A.	946.5	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.1	11.6	10.8	9.7	12.1

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 plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

**Related Research**

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

**Ratings Detail (As Of October 13, 2020)**

**California Ed Fac Auth, California**

Pomona Coll, California

California Ed Fac Auth (Pomona Coll) PCU\_GO

*Long Term Rating* AAA/Stable Affirmed

**California Municipal Finance Authority, California**

Pomona Coll, California

California Municipal Finance Authority (Pomona Coll) rev bnds

*Long Term Rating* AAA/Stable Affirmed

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