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Ratings

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California Educational Facilities Authority
Pomona College; Private Coll/Univ - General Obligation

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Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings affirmed its 'AAA' long-term rating on debt issued for Pomona College, Calif. The outlook is stable.

A general obligation of Pomona secures the bonds. As of fiscal 2021, total outstanding debt was $247.1 million. Pomona's debt consists of the series 2005A and series 2020A bonds, and the series 2020A bonds are structured with a balloon maturity in 2051. Operating leases were nominal in fiscal 2021 at about $1 million. Lease expense will be higher in fiscal 2022 due to the lease of supplemental housing for fall 2021 and spring 2022 to provide additional capacity because of the temporary increase in enrollment in this academic year.

As a result of the COVID-19 outbreak, Pomona transitioned to virtual programs for the spring 2020, fall 2020, and spring 2021 semesters. The primary effect for fiscal 2020 results was loss of revenue from housing and incremental COVID-19-related expenses. For fall 2020, full-time-equivalent (FTE) enrollment declined by 13.7% to 1,470 due to the pandemic environment, as evidenced by the significant deferrals and leave of absence requests. FTE enrollment in fall 2021 rebounded significantly, by 19.7%, to a record high of 1,759, as compared with the previous record of 1,703 in fall 2019. We understand that demand for fall 2022 continues to be robust. The college remains committed to its strategic academic priorities and the safety of its community. We believe that Pomona's exceptional market position and balance-sheet strength help the offset pandemic related pressures.

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 $3.5 billion in cash and investments and $2.9 billion in expendable resources in fiscal 2021;

- 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.

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 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

Vaccine progress in the U.S. has helped alleviate some of the health and safety social risks stemming from the pandemic; however, the higher education sector remains at greater risk from remaining uncertainties. We view the risks posed by COVID-19 to public health and safety as a social risk under our environment, social, and governance factors. Despite the elevated social risk, we believe the college's environmental and governance risks as being neutral in our credit rating analysis.

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.

Credit Opinion

Enterprise Profile

Market position and demand

Pomona has maintained a stable enrollment profile, which supports the rating. FTE enrollment at the college was a record 1,759 as of fall 2021, up 19.7% from a low of 1,470 in fall 2020 as a result of student deferrals due to the pandemic. Pomona has very few part-time students, making its FTE count comparable with total headcount. Pre-pandemic FTE enrollment was 1,703 in fall 2019. In our view, the college is highly selective, student quality is exceptional, and the geographical draw is diverse, with 74% of students coming from out of state in fall 2021. It also has a long tradition of offering need-blind admissions.

The college has significant admissions flexibility, with high selectivity, admitting just 6.6% of its 11,620 freshman applicants in fall 2021 and 8.6% of its 10,388 applicants in fall 2020 during the pandemic. Its matriculation rate was high at 58.5% in fall 2021, indicating Pomona is the first choice for many applicants. 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 almost 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 increased by 3.5% for the 2021-2022 academic year to $56,284, which we view as competitive with those of peer institutions. We consider the tuition discount rate high at 56.8% 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 $317 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 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.

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.

Financial Profile

Financial performance

Pomona has a track record of producing very healthy annual operating surpluses, which we believe are a key credit factor and a function of solid demand, financial controls, and the growth and payout of its endowment. In fiscal 2021, the college posted an adjusted operating surplus of $65.7 million, or a margin of 32.8%. The surplus in fiscal 2020 was $76.5 million, or a margin of 33.5%.

Financial operations are diverse, in our opinion, and are supported by two major revenue sources: tuition revenue and payout from the endowment. In fiscal 2021, tuition and student-generated fees accounted for 28.7% of adjusted revenue, followed by endowment income at 40.5%. In fiscal 2019, a more typical year prior to the pandemic, those percentages were 38.9% for student-derived revenues and 36.8% for the endowment income. During fiscal 2021, the college spent $102.7 million from the endowment (both unrestricted and restricted), and the endowment draw was 4.4%, 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 2021 expendable resources of $2.9 billion equaled an excellent 14.4x adjusted operating expenses and a robust 11.7x debt. Cash and investments were stronger at about $3.5 billion as of fiscal year-end 2021, equal to 17.4x adjusted operating expenses and 14.1x debt. We expect the college's financial resources will 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 $3.0 billion as of fiscal year-end 2021, $2.3 billion as of fiscal year-end 2020, and $2.32 billion at fiscal year-end 2019.

Debt and contingent liabilities

Pomona had $247.1 million of debt as of fiscal year-end 2021, all of which was fixed rate. The series 2020A bonds are structured with a balloon maturity of $206.1 million in 2051. The series 2005A bonds, issued by the California Educational Facilities Authority, were outstanding at $41.0 million at fiscal year-end 2021. Due to the irregular debt service schedule, we smooth the maximum annual debt service (MADS). MADS is $14 million, and we view the MADS burden as moderately high at 7%.

Pomona College, California--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2022	2021	2020	2019	2018	2020
Enrollment and demand						
Headcount	1,764	1,477	1,717	1,679	1,700	MNR
Full-time equivalent	1,759	1,470	1,703	1,670	1,668	9,883
Freshman acceptance rate (%)	6.6	8.6	7.4	7.0	8.2	6.5
Freshman matriculation rate (%)	58.5	44.7	54.0	57.8	56.5	MNR
Undergraduates as a % of total enrollment (%)	99.0	99.1	98.3	98.6	98.1	49.6
Freshman retention (%)	96.0	86.0	97.0	96.6	96.6	97.9
Graduation rates (six years) (%)	93.0	94.0	93.0	94.0	94.0	MNR

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

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges & universities
	2022	**2021**	**2020**	**2019**	**2018**	**2020**
Income statement						
Adjusted operating revenue ($000s)	N.A.	265,808	305,073	289,728	279,076	MNR
Adjusted operating expense ($000s)	N.A.	200,116	228,535	224,604	223,474	MNR
Net operating income ($000s)	N.A.	65,692	76,538	65,124	55,602	MNR
Net operating margin (%)	N.A.	32.83	33.49	29.00	24.88	1.30
Change in unrestricted net assets ($000s)	N.A.	347,478	(21,862)	22,495	44,233	MNR
Tuition discount (%)	N.A.	56.8	54.1	53.2	54.9	49.9
Tuition dependence (%)	N.A.	28.7	30.1	30.4	30.9	MNR
Student dependence (%)	N.A.	28.7	36.7	38.9	39.7	30.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	1.7	0.6	0.5	0.5	MNR
Endowment and investment income dependence (%)	N.A.	40.5	35.0	36.8	35.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	247,075	207,437	208,941	210,337	2,772,416
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	247,075	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.	34.84	4.63	4.64	5.13	MNR
Current MADS burden (%)	N.A.	7.25	6.35	7.64	7.68	6.00
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	3,031,446	2,254,547	2,321,097	2,273,707	14,876,553
Cash and investments ($000s)	N.A.	3,480,162	2,689,192	2,662,110	2,603,324	MNR
Unrestricted net assets ($000s)	N.A.	1,626,421	1,278,943	1,300,805	1,278,310	MNR
Expendable resources ($000s)	N.A.	2,881,077	2,056,929	2,122,722	2,068,550	MNR
Cash and investments to operations (%)	N.A.	1,739.1	1,176.7	1,185.2	1,164.9	855.4
Cash and investments to debt (%)	N.A.	1,408.5	1,296.4	1,274.1	1,237.7	813.0
Cash and investments to pro forma debt (%)	N.A.	1,408.5	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	1,439.7	900.0	945.1	925.6	632.7
Expendable resources to debt (%)	N.A.	1,166.1	991.6	1,015.9	983.4	658.3
Expendable resources to pro forma debt (%)	N.A.	1,166.1	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
	2022	**2021**	**2020**	**2019**	**2018**	**2020**
Average age of plant (years)	N.A.	13.7	12.4	12.1	11.6	12.7

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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 23, 2022)		
Pomona Coll taxable bnds ser 2020A due 01/01/2051		
Long Term Rating	AAA/Stable	Affirmed