

## RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 25 Sep 2024: Fitch Ratings has affirmed the 'AAA' rating on approximately \$241.4 million outstanding taxable revenue bonds, Series 2020A issued by Pomona College and approximately \$35.4 million outstanding California Educational Facilities Authority Capital Appreciation Bonds, Series 2005A issued on behalf of Pomona College. Additionally, Fitch also affirmed Pomona's Long-Term Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

## 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](#)

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 cashflow 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 plausible market economic downturn and gradual recovery, as well as tuition, auxiliary and other related revenue pressures on the university's operations.

## SECURITY

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

## KEY RATING DRIVERS

### Revenue Defensibility - 'aaa'

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 strong applications, very selective admissions and a steady, solid freshmen matriculation rate. The college's adjusted operating revenues heavily rely on investment income for about 43% of total unrestricted operating revenues, including annual steady draws on the endowment for operations, which are generated by its pooled investment fund, in addition to student-driven charges of about 28%.

Pomona's incoming freshmen class sizes are small but steady in fall 2024, consistent with prior years but down from a record high in fall 2021. This is likely due to students electing to return after deferring admission and taking a leave of absence the prior year due to the pandemic.

### Operating Risk - 'aaa'

Pomona has exceptionally strong operating cost flexibility, as demonstrated by very robust cash flow margins (34.5% in fiscal 2023) down from 40.6% the prior year, which is likely due to pandemic-related funding ending in fiscal 2022. 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 has a policy of appropriating for distribution each year. It appropriates 4.50% to 5.50% of its endowment funds' average fair value over the prior 20 quarters through June 30 one year prior to the beginning of the fiscal year in which the distribution is planned. Fitch considers the endowment spend rate sustainable over time.

The college's remarkably strong fundraising and consistent donor support for capital spending are also key considerations in the 'aaa' assessment. The school increased funding capital projects in fiscal 2022 with a mix of internal funds and capital gifts, after which capital spending was scaled back in fiscal 2021 due to the pandemic. Capital spending in fiscal 2023 was more moderate at 68.2% of depreciation, compared to 185.7% the prior year, but could increase closer to depreciation over the next several years given the college's increasing average age of plant of 14.2 years.

### Financial Profile - 'aaa'

Pomona's extremely strong financial profile is driven by a substantial measure of available funds to adjusted debt of 1,131.4% in fiscal 2023. Fitch expects financial leverage to remain consistently robust with a 'aaa' financial assessment profile in fiscal 2024 and through the forward-looking cycle. In Fitch's sensitivity analysis, it assumes moderate

near-term capital spending occurs over the next five years with demonstrable resilience through the base case and stress scenarios. This includes 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 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.

##### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable given the 'AAA' rating

#### 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 1,750 students in fall 2023. The college is highly selective, with a prestigious national reputation and very strong student demand that continues to improve.

#### 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

The highest level of ESG credit relevance is a score of '3'; unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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#### APPLICABLE CRITERIA

[U.S. Public Finance College and University Rating Criteria \(pub. 19 Sep 2023\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

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

Portfolio Analysis Model (PAM), v2.0.0 (1)

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Pomona College (CA)

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