



New Issue: MOODY'S HAS ASSIGNED A Baa1 RATING TO SAINT MICHAEL'S COLLEGE'S (VT) \$53 MILLION SERIES 2012 REVENUE BONDS; OUTLOOK REMAINS STABLE

Global Credit Research - 12 Apr 2012

COLLEGE WILL HAVE \$53 MILLION OF PRO-FORMA RATED DEBT OUTSTANDING

VERMONT EDUCATIONAL & HEALTH BUILDINGS FIN. AGY.
Public Colleges & Universities
VT

Moody's Rating

ISSUE	RATING
Revenue and Revenue Refunding Bonds, Series 2012	Baa1
Sale Amount \$53,000,000	
Expected Sale Date 05/02/12	
Rating Description Revenue: 501c3 Unsecured General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, April 12, 2012 –Moody's Investors Service has assigned a Baa1 long term rating to Saint Michael's College's (the "college") Revenue Bonds, \$53 million Series 2012 issued through the Vermont Educational and Health Buildings Financing Agency. The rating outlook remains stable.

SUMMARY RATING RATIONALE

The Baa1 rating is based on Saint Michael's College's (Saint Michael's or the college) established market position with challenges for undergraduate enrollment from a highly competitive student market and a demographically challenged region; positive operations despite contracting net tuition revenue expected through FY 2012 and an adequate financial resource cushion relative to a moderate, but growing debt burden.

STRENGTHS

*History of positive operating performance resulting from conservative budgeting practices and recent cost containment efforts; three-year average operating margin of 4.8% based on draft fiscal year (FY) 2011 financial statements.

*Adequate financial resource cushion for Baa1 rating, with FY 2011 expendable financial resources of \$47.4 million cushioning pro-forma debt by approximately 0.87 times.

*Established undergraduate student market position that, while pressured, should be maintained as a small Catholic liberal arts higher education institution located near Burlington, Vermont.

*All fixed rate debt with no swaps.

CHALLENGES

*Weak demand statistics, evidenced by a low and further declining matriculation rate, which was 15.5% in fall 2011 reflecting a highly competitive student market position.

*High reliance on student charges (87.6% of operating revenue as calculated by Moody's) underscoring the need to grow net tuition revenue. Net tuition per student has declined for two consecutive years (FYs 2010 and 2011) due to increases in the tuition discount rate.

*Small enrollment base with demographic declines for high school graduates in the Northeast, the college's primary market, present long-term enrollment challenges for Saint Michael's core undergraduate program.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The Series 2012 bonds will be used to refund all or a portion of the college's revenue bonds Series 1999, 2001 and 2003; to acquire, construct and equip a new student center and a new residence hall at Saint Michael's College, and to pay costs of issuance.

LEGAL SECURITY: General obligation pledge of the college.

INTEREST RATE DERIVATIVES: None

MARKET/COMPETITIVE STRATEGY: NICHE MARKET POSITION AS CATHOLIC LIBERAL ARTS COLLEGE NEAR BURLINGTON, WHILE FACING WEAK DEMOGRAPHICS AND COMPETITION IN ITS CORE MARKET

Moody's believes that Saint Michael's high dependence on tuition revenue for operations (87.6% of revenues based on preliminary FY 2011, as calculated by Moody's) and pressured enrollment present the biggest challenge for the college. The college currently enrolls 2,178 FTE students, down from 2,216 in fall 2007, largely due to the college's elimination of both its Masters in Administration and Masters in Theology programs and the nationwide trend of lower enrollment in graduate education programs. Undergraduate students represent about 90% of the total, or 1,973 students.

The New England area continues to be a highly competitive environment for private liberal arts colleges as reflected in the steady decline in annual matriculation ratios (from 25.8% in fall 2006 to 15.5% in fall 2011). Although applications for the college grew in recent years (up 45% from fall 2006 to 4471 in fall 2011), selectivity has remained stagnant and has failed to translate to demand as the weakening matriculation reflects the inability to matriculate new applicants.

This trend of weak matriculation is expected to continue, both as more students are applying to a greater number of schools and the college is reaching out beyond its usual recruiting scope for applications. Continued deterioration of demand statistics for enrollment could place downward pressure on the current Baa1 rating. Favorably, the college enrolled 543 new freshmen in fall 2011, contributing to a reversal of its previous three-year trend of declining total full-time equivalent enrollment (FTEs). During FY 2011, Saint Michael's engaged an admissions consultant and the college has embarked upon a branding initiative including social networking and participating in the national Catholic initiative in order to boost its market position.

OPERATING PERFORMANCE: FINANCIAL DISCIPLINE LEADS TO POSITIVE OPERATIONS AND GOOD DEBT SERVICE COVERAGE

Moody's expects Saint Michael's College to continue to produce positive operations due to its conservative budgeting and cost management efforts despite recently stagnant net tuition revenue. For FY 2011, Saint Michael's generated a three-year average surplus of 4.7%, as calculated by Moody's assuming a 5% endowment spend rate, and a 15.7% operating cash flow margin which provided 2.85 times debt service coverage. Management reports that operations remain positive year-to-date for FY 2012 and the college is projecting another surplus.

The college has experienced pressure on net tuition and operating revenue from an increased financial aid expense in FYs 2010 and 2011 and is projecting another stagnant year for net tuition revenue in FY 2012, followed by a modest increase in FY 2013. As a high tuition, high discount institution, the college is vulnerable to outsized financial aid demands. Saint Michael's overall tuition discount has increased from 31% in FY 2009 to 35% in FY 2011 which Moody's anticipates to continue to increase based on the college's plans to offer more financial aid over the next two years. The college instituted a 9% increase in its freshman tuition discounting in FY 2009 to 44%. The full impact of this increase will not be realized until FY 2014, when all four classes will have been admitted with the higher discount rate.

The college has worked on a five year financial plan which is based upon an incoming class of 545 students per year. We believe it has made necessary adjustments to balance current and future budgets. Nonetheless significant

challenges remain based on the college's plans to increase financial aid expense in a stressed enrollment environment. The strategy could result in further stagnant or declining net tuition and fee revenue if the college is unable to meet its targeted enrollment.

The college uses a conservative endowment spend rate of 4.5% of the lower of the following (but not less than \$2 million): three-year rolling average value; market value as of June 30th of the fiscal year ending two years prior, the market value as of October 31st of the preceding fiscal year.

BALANCE SHEET POSITION: LEVERAGE INCREASES SIGNIFICANTLY WITH THIS ISSUANCE, BUT FINANCIAL RESOURCES CONTINUE TO PROVIDE ADEQUATE COVERAGE OF DEBT AND OPERATIONS

Saint Michael's College's balance sheet provides sufficient cushion for its growing debt burden and its operations at this rating level. For FY 2011, expendable resources cover pro-forma debt by approximately 0.87 times and operations 0.65 times, which is in line with the FY 2010 medians for similarly sized peer institutions of 0.77 and 0.56 respectively. As of June 30, 2011, the college's flexible reserves provided approximately \$21 million of monthly liquidity, which equates to just under 3 months of cash on hand for the college.

An important longer-term credit factor is the college's ability to improve its fundraising performance to boost financial resources as the college takes on debt to pursue the development of a master plan. The college's current borrowing of approximately \$27.5 million of new debt will complete several projects included in the campus master plan and strategic plan, including the construction of student townhouses and another new student residence facility, a new student center as well as renovations to Alliot Hall. The total project cost is expected to be \$33.5 million, with \$27.5 million in debt and the remainder through fundraising. The college has currently raised \$2.5 million toward the project.

Saint Michael's has lagged behind similarly rated peers with fundraising, but is currently restructuring and investing in its advancement infrastructure to position itself for future fundraising for financial resource growth. In FY 2010, The college's three-year average gift revenue was \$3.5 million, below the FY 2010 median of \$5.3 million for Baa-rated private colleges and universities. The college is currently rebuilding its advancement office with five open positions, presenting a challenge for the new projects' capital campaign.

In March 2011, Saint Michael's switched investment advisors to the Fund Evaluation Group with all allocation and investment decisions made by the Investment Committee of the Board of Trustees. With the help of Fund Evaluation Group, the Investment Committee is currently evaluating the college's asset allocations and assumptions for returns with new guidelines. For the fiscal year ending June 30, 2011, Saint Michael's endowment was valued at \$72.4 million, representing a return of 22.5 with assets allocated to: 17.6% U.S. equities; 45.6% international equities, 16.7% fixed income, 13.9% hedge funds; 4.2% private equity; 1.5% real estate and 0.5% other. The college does have significant manager concentration in several funds with 23.7%, 17%, 11%, and 10.5% invested with four distinct managers. While many of these are composite funds, Moody's views such concentration as carrying some business risk in the event of fund failure.

GOVERNANCE AND MANAGEMENT: DISCIPLINED FISCAL MANAGEMENT AND CONSERVATIVE BUDGETING PROVIDE BACKBONE OF POSITIVE OPERATING PERFORMANCE

The college has been able to sustain its recent stagnancy in net tuition revenues through careful budgeting and cost containment, displaying positive indicators for its financial management practices. The college's assumptions include budgeting for a contingency, including a variance for financial aid appeals from upper classmen, as well as five year budget projections based on different scenarios and stress testing. In the past few years, the college has cut back expenses by deferring capital expenditures, reducing pension contributions, instituting a voluntary retirement program in FY 2010 and eliminating underperforming classes and programs. The college also benchmarks its admissions statistics and tuition pricing against both peer and aspirant schools.

Outlook

The stable outlook reflects our expectation that the college will stabilize its weakened market position, continue to produce healthy operating performance, and build balance sheet reserves through fundraising to help absorb the new debt.

WHAT COULD MAKE THE RATING GO UP

Sustained strengthening of student market demand reflected in growing net tuition revenue; growth of financial

resources to cushion debt and operations

WHAT COULD MAKE THE RATING GO DOWN

Weakening of net tuition revenue and operating margins; deterioration of the financial resource base cushioning debt and operation; additional debt without commensurate growth in resources

KEY INDICATORS (FY 2011 financial data, fall 2011 enrollment data)

Full-Time Equivalent Enrollment: 2,178 students

Primary Selectivity: 78.1%

Primary Matriculation: 15.5%

Net Tuition per Student: \$22,223

Educational Expenses per Student: \$25,221

Average Gifts per Student \$1,596

Total Cash and Investments: \$87.1 million

Total Pro-Forma Direct Debt: \$54.8 million

Expendable Financial Resources to Direct Debt: 0.87 times

Expendable Financial Resources to Operations: 0.65 times

Monthly Days Cash on Hand: 115 times

Operating Revenue: \$76.8 million

Operating Cash Flow Margin: 15.7%

Three-Year Average Debt Service Coverage: 2.78 times

Reliance on Student Charges Revenue (% of Moody's Adjusted Operating Revenue): 87.9%

RATED DEBT

Series 1999, 2001, 2003 and 2012: Baa1

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PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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