

Vermont Education & Health Building Finance Agency St. Michael's College; Private Coll/Univ - General Obligation

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Table Of Contents

Rationale

Outlook

Enterprise Profile

Financial Profile

Related Criteria And Research

Vermont Education & Health Building Finance Agency

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Credit Profile

US\$52.0 mil rev bnds (St Michaels Coll) (St. Michael's Project) ser 2012 dtd 05/15/2012 due 10/01/2043

<i>Long Term Rating</i>	A-/Stable	New
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Vermont Ed & Hlth Bldg Fin Agy, Vermont

St Michaels Coll, Vermont

Series 2003, 2001

<i>Long Term Rating</i>	A-/Stable	Affirmed
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Vermont Ed & Hlth Bldg Fin Agy (St Michaels Coll Proj) rev rfdg bnds ser 1999 dtd 04/01/1999 due 10/01/1999-2015 2023

<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'A-' rating and stable outlook to Vermont Education & Health Building Finance Agency's series 2012 revenue bonds, issued for St. Michael's College, and affirmed its 'A-' rating, with a stable outlook, on the agency's existing debt, issued for St. Michael's College.

The rating reflects our assessment of St. Michael's consistently positive operations; relatively stable enrollment; and manageable debt, which we believe mitigate the college's below-average financial resource ratios, high student dependence, and weakening demand profile.

Although management's prudent fiscal management has allowed the college to generate full accrual surpluses, we believe that year-to-year enrollment fluctuations, a weakened demand profile, and increased tuition discounting could continue to pressure net tuition revenue growth and operating performance.

Rating maintenance will depend on the college's ability to stabilize enrollment, improve selectivity and matriculation, maintain financial resources at current levels or better, and generate full accrual surpluses and positive net tuition revenue growth.

The rating reflects our view of the college's:

- History of positive operations,
- Manageable maximum annual debt service (MADS) debt burden at 4.5% of 2011 operating expenses, and
- Good student quality and relatively stable enrollment.

We believe somewhat offsetting credit factors include the college's:

- Below-average financial resource ratios for the rating category with expendable resources of approximately \$53.4 million representing 54% of operating expenses and 98% of debt outstanding as of June 30, 2011;
- High dependence on tuition and student fee revenue of 92% of 2011 operating expenses; and
- Weakening acceptance and matriculation rates.

Agency officials expect to structure the series 2012 revenue bond issue as serial, fixed-rate debt with a mostly front-loaded 30-year amortization schedule. We understand college officials plan to use approximately \$27.5 million of series 2012 bond proceeds to construct a student center and a residence hall. Management indicates it intends to use the remaining bond proceeds, roughly \$24.5 million, to refund the series 1999, 2001, and 2003 bonds.

Pursuant to the loan agreement, the series 2012 bonds are an absolute and unconditional general obligation of the college. The college agrees to make loan payments from lawfully available money to maintain a debt service reserve funded through a standard three-prong test and satisfy an additional bond test before issuing additional debt.

Postissuance, the college will have approximately \$54.6 million of debt outstanding, a 72% increase from \$31.8 million in fiscal 2011. Pro forma MADS of \$4.4 million is, in our opinion, a still-manageable 4.5% of fiscal 2011 operating expenses. The college has a significant campus master plan with additional near-term capital needs, including additional housing and renovations. We, however, understand that within the next two years, the college does not have additional debt plans beyond the current issuance.

The Society of St. Edmund founded St. Michael's in 1904, and the organizations still maintain an affiliation. Today, St. Michael's is a Catholic liberal arts college providing five graduate-level programs and courses for international students. The college is on a 440-acre campus in Colchester, Vt., just outside of Burlington. The college largely consists of undergraduate students, who accounted for 80% of the fall 2011 headcount of 2,455. Nearly 100% of the undergraduate student population lives on campus, and students come from 38 states and 12 countries -- 77% of the student body comes from outside Vermont. Classes remain very small with a student-to-faculty ratio of 12-to-1.

Outlook

The stable outlook reflects Standard & Poor's view of the college's continued stable enrollment and positive operating performance based on generally accepted accounting principles during the outlook's two-year period. It is also our opinion that the college will likely strive to strengthen its financial resources, endowment, and acceptance and matriculation rates. We could consider a negative rating action if financial resources decline relative to operating expenses and debt, demand metrics continue to weaken, or the college issues additional debt without commensurate increases in financial resources. We, however, believe it is unlikely financial resources or the endowment will increase sufficiently to warrant a positive rating action during the outlook's two-year period.

Enterprise Profile

Enrollment and demand

Enrollment at St. Michael's has been relatively stable, but it has fluctuated year to year. Full-time equivalent (FTE) enrollment increased by 3% to 2,210 for fall 2011 after it decreased for three consecutive years. Management indicates it is expecting a larger entering freshman class in fall 2012, which will likely increase FTE enrollment. Graduate headcount decreased in fall 2011 due to some graduate program terminations, but undergraduate

headcount growth offset the lower graduate student headcount. Management expects graduate headcount to stabilize in fall 2012. Demand for St. Michael's is improving with freshman applications increasing during the past two years. Freshman applications increased by 33% to a new high of 4,474 in fall 2011 from 3,363 in fall 2010. Management expects applications to increase again for fall 2012. Management reports this growth in applications is due to St. Michael's strategy of expanding market penetration. The college expects to maintain its current demand profile. According to management, students are attracted by the college's small size, broad course offerings, Catholic affiliation, and location.

Student quality has been, and remains, slightly above the national average; acceptance and matriculation rates, however, have weakened recently, reflecting the increasingly competitive New England market. Selectivity strengthened slightly to 78% in fall 2011 from 83% in fall 2010, but it currently remains weaker than the median for the rating category. The matriculation rate weakened to, what we consider, a very low 16% for fall 2011 from 20% in fall 2010. The retention rate and five-year graduation rate are, in our view, an excellent 87% and 81%, respectively. Student quality remains, what we view as, good: The average SAT score was 1158 in fall 2011 compared with the national average of 1011. St. Michael's geographic draw is largely regional with 78% of students coming from New England states. According to management, the college mainly competes with other New England liberal arts colleges and the University of Vermont.

Management

St. Michael's has been under the direction of President John J. Neuhauser since 2007. According to college management, the executive management team is stable. The college has formal endowment and investment policies; it also budgets for depreciation, which we consider a best practice.

Financial Profile

Operating performance

Operating income remains, in our view, strong, demonstrated by the consistent generation of operating surpluses during the past five fiscal years. We, however, believe increased financial aid could continue to pressure net tuition revenue growth. The college's fiscal 2011 operations generated a \$2.2 million operating surplus, including depreciation expenses, which was slightly lower than its \$2.5 million operating surplus in fiscal 2010. Management expects a \$3.5 million surplus for fiscal 2012. Net tuition revenue growth decreased by 3% and 1% in fiscal years 2011 and 2010, respectively, driven by increased financial aid expenses that outpaced tuition revenue growth. Management indicates it expects positive net tuition revenue growth for fiscal 2012 due to a larger entering freshman class and restrained tuition discounting.

As with most private colleges, St. Michael's is, in our view, highly dependent on student-generated fees. Tuition, fees, and auxiliary revenue accounted for 92% of fiscal 2011 revenue. Tuition, board, and fees increased by 4% from last year to about \$45,270 for academic year 2011-2012, which is comparable with peer institutions. The college's tuition discount rate increased to 38% for fiscal 2011 from 33% in fiscal 2010. The freshman discount rate was a higher 44% for fiscal 2011 due, in part, to the recession. Management is focusing on maintaining the freshman discount rate at 44% for the next few years.

Financial resources

Fiscal 2011 financial resources declined below rating category medians with expendable resources of \$53.4 million equal to 54% of operating expenses and 98% of pro forma debt. Expendable resources grew by 32% from the

previous year. Cash and investments, which include restricted investments, were, what we regard as, a stronger \$82.2 million in fiscal 2011, or 83% of operations and 152% of pro forma debt.

The endowment market value of \$70.9 million as of June 30, 2011, up by 22% from \$58.2 million in fiscal 2010, was small compared with St. Michael's peers' endowment market value. The asset mix is highly diversified; it consists of 62% domestic and international equities, 21% alternatives, 15% fixed income, and 2% cash. We view the audited classification levels as a proxy for the liquidity of long-term investments. As of June 30, 2011, St. Michael's \$73.2 million of investments consisted of 22% level 1 assets, 51% level 2 assets, and 27% level 3 assets. In our opinion, this distribution represents a liquid portfolio. We understand investment performance has been mixed recently.

The college's endowment spending policy is 4.5% of the lower, but not less than \$2 million, of:

- The rolling-average market value for the three-year period ended two years before the fiscal year in which endowment spending occurs,
- The market value as of June 30 of the fiscal year-ending two years before the fiscal year in which the endowment spending occurs, or
- The market value as of Oct. 31 of the preceding fiscal year.

Annual giving continued to increase in fiscal 2011; the college raised approximately \$2.7 million in fiscal 2011 compared with \$2.5 million in fiscal 2010. The alumni participation rate remained consistent at 18% in fiscal 2011. Management reports it is working on improving the alumni participation rate to 20% by 2013 and 25% by 2016. The college's last comprehensive campaign ended in 2005: St. Michael's exceeded its \$52 million goal. The college does not currently plan to begin a comprehensive campaign. Management reports it is focusing on small campaigns to fund capital projects partially throughout the campus.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

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