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INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Baa2 RATING TO VERMONT LAW SCHOOL'S $10.7 MILLION SERIES 2011 REVENUE BONDS; OUTLOOK IS STABLE

Global Credit Research - 31 Jan 2011

AFFIRMATION OF RATINGS ON THE LAW SCHOOL'S APPROXIMATELY $14.2 MILLION OF RATED DEBT INCLUDING THE CURRENT OFFERING

Vermont Educational & Hlth. Bldgs. Fin. Agy.
Higher Education
VT

Moody's Rating

ISSUE	RATING
Series 2011 Revenue Bonds	Baa2

Sale Amount $10,700,000
Expected Sale Date 03/03/11
Rating Description Private Higher Education Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, Jan 31, 2011 -- Moody's has assigned a Baa2 rating to Vermont Law School's $10.7 million of fixed rate Series 2011 Revenue Bonds issued through the Vermont Educational and Health Buildings Financing Agency and affirmed ratings on outstanding debt (see RATED DEBT below). The rating outlook is stable. After this issue, the Law School will have a total of $14.2 million in direct debt outstanding (net of principal payments made in January 2011 and anticipated repayment of an $850,000 variable loan prior to this issuance), including $3.5 million of Series 2003B bonds that are rated Aa2/VMIG1 by Moody's based on the letter of credit from TD Bank, NA supporting the bonds.

RATINGS RATIONALE

The Baa2 rating with a stable outlook reflects Vermont Law School's steady enrollment trends as a provider of niche environmental and public interest law programs, small $26 million revenue base, as well as its positive operating performance and prospects for growth in financial resources.

USE OF PROCEEDS: Bond proceeds will be used to refund the Series 2003A fixed rate bonds; to fund the construction of a Student Fitness Center, renovations of the Center for Legal Services Building, and various rehabilitation and deferred maintenance projects.

LEGAL SECURITY: The Bonds will be special obligations of the Vermont Educational and Health Buildings Financing Agency (the "Agency"). The Agency and Vermont Law School (the "Law School") will enter into a Loan Agreement whereby the Law School's obligation to make timely payments will be absolute and unconditional and will constitute a general obligation of the Law School. The bonds will be issued under the Master Trust Indenture ("MTI") structure, and the Law School has provided further security through a mortgage lien on certain real property and the buildings, improvement, facilities and equipment thereon. The Series 2011 Revenue Bonds will have a fixed interest rate with a final maturity in 2041.

The Law School's outstanding bonds issued under the MTI structure are secured by a Master Note which is payable from the general obligations of the Law School. The Law School must maintain 1.0 times debt service coverage on the MTI debt. The System MTI debt service coverage was 5.11 times in FY 2010. There is also an Additional Bonds Test ("ABT") whereby the Law School may not issue additional long-term debt if their Maximum Annual Debt Service (MADS) is greater than 10% of operating revenues (with pro-forma debt, Moody's calculates MADS to operations at 4.9%). The Series 2011 Revenue Bonds will be on parity with the prior MTI debt.

DEBT-RELATED DERIVATIVES AND DEBT STRUCTURE: The Law School has not entered into any interest rate swap agreements. The Law School has approximately $3.5 million of variable rate demand revenue bonds backed by a Letter of Credit with TD Bank, NA and has plans to repay its $850,000 variable rate loan from TD Bank NA prior to issuance of the Series 2011 Bonds.

DETAILED CREDIT DISCUSSION:

STRENGTHS

*Solid market position due to environmental and public service law niche. From fall 2006 through fall 2010, the number of full-time equivalent students increased by 5% to 683. Growth in net tuition per student has continued, reaching $34,459 in FY 2010. The Institute for Energy and the Environment, international programs, and focus on agriculture and sustainability in particular have attracted new students in recent years. The Law School has recently strategically increased financial aid in order to better attract quality students.

*Steady growth in financial resources. From Fiscal Year (FY) 2006 through 2010, total financial resources grew by 8% to $17 million, despite experiencing substantial losses on investments in FY 2008 and FY 2009 that contributed to a decline in total financial resources from a high of $19.7 million in FY 2007. Of the total financial resources, 55% are unrestricted, providing some financial flexibility. Monthly liquidity of $11.1 million at FYE 2010 provided 172 monthly days cash on hand.

*Consistently positive operating performance supported by steady increases in net tuition and fees. The Law School has produced positive operating performance, by Moody's calculation, since 2003, with annual operating margins ranging from 3.8% to 10.0%. FY 2010 results show a three-year average operating margin of 5.1%. Operating performance has produced sound operating cash flow margins with 11.4% recorded in 2010, providing for three-year average debt service coverage of 4.5 times.

CHALLENGES

*Potential demand risk associated with the Series 2003B variable rate bonds, rated Aa2/VMIG1 based on a Letter of Credit from TD Bank NA, which could increase sharply if the credit fundamentals of the Law School deteriorate significantly and potentially lead to an acceleration of these bonds. At this time, Management reports that the School has comfortably exceeded all key financial covenants of the Letter of Credit. At FYE 2010 monthly liquidity covered demand debt 253%.

*High dependence on student charges with tuition and fees accounting for 80% of the Law Schools operating revenue in FY 2010 as calculated by Moody's. Vulnerability to enrollment fluctuation if the niche sectors in which the Law School specializes become less attractive to prospective students.

*While annual fundraising results have remained steady, gift potential is less robust than at some peer institutions due to the youth of the Law School (established in 1972), smaller alumni base from which to draw support, and the nature of the fields in which graduates practice.

MARKET POSITION/COMPETITIVE STRATEGY: STEADY ENROLLMENT; EXPANSION OF NICHE PROGRAMS, ALTERNATIVE OFFERINGS AND LOAN FORGIVENESS PROGRAM COULD BROADEN APPEAL

Located in South Royalton, Vermont, Vermont Law School is a small, rural, stand-alone law school that enrolls approximately 683 full-time equivalent students in its graduate law programs. The Law School has built its reputation on environmental, energy and public interest law, and has recently begun to focus on local sustainability and agriculture as a result of increased student interest in these areas. Several year's ago, Vermont Law School instituted an international and comparative law program with China and, based on the success of that program, plans to expand its international partnerships with programs in Canada, England, France, Italy and Spain over the next few years. Additionally, the Law School is now developing distance learning, online and summer programs, which could provide a natural hedge against the cyclicality of law school applications. Interest in full-time programs tends to increase during an economic downturn, and interest in alternative programs improves during a healthy economy.

Vermont Law School has experienced steady demand over the last several years, but continues to face strong competition from the multitude of wealthier public and private law schools across the nation. The Law School has maintained a relatively stable selectivity over the last five years (admitted 59.5% of applicants for fall 2010, compared with 56.5% in 2006). The competitive environment is further highlighted by the Law School's first year matriculation rate (percent of accepted applicants who chose to enroll) which has averaged 34% over the past five years. In fall 2010, Management estimated that 11% of the entering class was drawn from Vermont, and the rest came from 45 other states and foreign countries. The Law School attributes this diversity to increased e-marketing and recruiting efforts and estimates that the number of foreign applicants will continue to grow.

Since, FY 2006, net tuition per student has increased 30%, and the School's tuition discount rate has grown by 85% to 23% in FY2010 (an increase of 40% over the discount rate in FY 2010). Management expects to sustain the higher tuition rate as part of its recruiting strategy. Net tuition per student remains high at $34,459, a key indicator of favorable market niche positioning in the law school market. Further growth of net tuition per student could face pressure in light of potential heightened price sensitivity among prospective students in the current economic environment and the School's revised financial aid policy. Law School Management is focused on increasing quality of its students while maintaining stable enrollment for its primary Juris Doctor (JD) program, and growing enrollment in its distance learning and summer programs.

Since many of Vermont Law School's alumni pursue lower-paid public interest positions after graduation, the Law School has developed a loan forgiveness program through the Federal College Cost Reduction and Access Act (CCRAA) to assist with post-education debt burdens. All student loans offered on campus meet the requirements of the CCRAA. The program offers income-based reduction of loan payments and complete loan forgiveness for alumni who work 120 months in a public interest position. Income-based repayment and loan forgiveness after 20 years are also available for alumni who have pursued private sector positions. The Law School offers a supplemental loan forgiveness program that is funded out of the endowment.

OPERATING PERFORMANCE: POSITIVE OPERATING PERFORMANCE; TUITION DEPENDENT REVENUE BASE PRESENTS CHALLENGE

Moody's expects that Vermont Law School will continue to generate solid operating margins, given expectations of continued market demand, sound financial management and conservative budgeting practices. Over the past three years, the School has posted an average operating margin of 5.1%, generating strong cash flow to provide healthy average debt service coverage of 4.5 times. Factors contributing to this performance include expense reductions, the practice of budgeting for an increasing portion of depreciation and careful endowment spending (spending rate is 5% of a trailing average).

The School's ability to maintain healthy operating performance will depend, in large part, on its ability to sustain growth in net tuition revenue. Tuition and auxiliary revenues represented 80.4% of Moody's adjusted operating revenue in FY 2010. The School could further enhance its credit strength by increasing the diversity of its revenue streams through broadened unrestricted gifts and building endowment and quasi-endowment to generate investment income. However, we expect that the Law School will remain highly dependent on student charges.

BALANCE SHEET POSITION: INCREASED DEBT COMBINED WITH INVESTMENT LOSSES RESULT IN MORE LEVERAGED BALANCE SHEET; NO NEAR-TERM ADDITIONAL BORROWING PLANS

Moody's believes that Vermont Law School's relatively small total financial resources of approximately $17 million provides a thin cushion for $15.2 million of pro-forma debt (1.1 times coverage compared to median coverage of 1.5 times for small Baa-rated private colleges). FY 2010 expendable financial resources $12.1 million provide 0.85 times coverage of pro-forma debt and 0.49 times coverage of FY 2010 operating expenses. The Law School will need to continue to grow resources through operations and fundraising to support future borrowing plans at the current rating level. This new issue brings the Law School's debt to the highest it has been since Moody's began rating the School's debt in 2003. Pro forma debt of $14.2 million increases percentage of Maximum Annual Debt Service to Operations from 3.3% to 4.9%. The Law School does not have any plans to issue debt over the next several years.

With this new bond issue, Vermont Law School will have approximately 25% of its debt portfolio in variable rate demand bonds and could face some liquidity pressure if repayment of the $3.5 outstanding of the Series 2003B variable rate bonds backed by a Letter of Credit with TD Bank, N.A. were accelerated due to unremarketed bonds or deterioration of the credit fundamentals of the Law School. Key financial covenants currently require the Law School to maintain a ratio of expendable net assets to debt of at least 0.50 times (Management reports 1.26 times calculated in FY 2010), maintain tuition revenues greater than 90% of budgeted revenues (per Management, total tuition revenues were 111% of budgeted revenues) and limit annual debt service to no more than 10% of annual operating expenses (Moody's estimates maximum annual debt service to operations at 4.9% in FY 2010). In addition, the Law School must maintain a rating of at least Baa3. Management expects to renegotiate the covenants of the Series 2003B variable rate bonds to be on parity with the other MTI debt (all three aforementioned covenants will be removed, to be replaced with the requirement to maintain 1.0 times debt service coverage and the Additional Bonds Test of a Maximum Annual Debt Service no greater than 10% of operating revenues). The stated expiration of the Letter of Credit supporting the Series 2003 variable rate bonds is June 7, 2012. Moody's believes that the School's $11.2 million dollars of Monthly Liquidity (equaling 172.3 Monthly Days Cash on Hand) and margin of 253% Monthly Liquidity to Demand Debt provide a comfortable cushion to cover potential acceleration of the Series 2003B variable rate bonds, but that acceleration could lead to sharp credit pressure.

The Law School has begun to rebound from its 24% FY2009 investment loss and reported an investment gain of 4% during FY 2010, with an allocation of approximately 64% to long-only equities, 35% to fixed income instruments, and minimal real estate investments and alternative investments currently. These allocations fall into the target asset allocations laid out in the Statement of Investment Policy for Vermont Law School Endowment Fund, which was approved by the Law School's Board of Trustees in January 5, 2010. Moody's notes that the Law School utilizes one firm for investment counsel and portfolio management. As of December 31, 2010, the Law School's investment portfolio had a positive 11.2% fiscal year to date return.

Outlook

The stable outlook is based on Moody's expectation that the Law School will continue to grow its financial resources through a combination of operating surpluses and fundraising as well as retain its established market position and incur no additional borrowing in the near-term.

What Could Make The Rating Go Up

Growth of financial resource base through retained operating surpluses, continued growth in net tuition per student, revenue diversity and improved fundraising activities combined with healthy student demand

What Could Make The Rating Go Down

New debt without commensurate growth in financial resources, reduction in liquidity, erosion in market position or move operating deficits.

KEY INDICATORS (Fall 2010 enrollment data and FY 2010 audited financial data)

Total Enrollment: 683 full-time equivalent students

Total Pro-Forma Debt: $14.2 million

Total Financial Resources: $17 million

Unrestricted Financial Resources: $9.4 million

Expendable Financial Resources: $12.1 million

Expendable Financial Resources to Pro-Forma Direct Debt: 0.85 times

Expendable Financial Resources to Operations: 0.49 times

MADS to Operations: 3.3% (4.9% with Pro-Forma Debt)

Average Operating Margin: 5.1%

Operating Cash Flow Margin: 11.4%

Reliance on Student Charges: 80.4%

Monthly Liquidity: $11.2 million

Monthly Liquidity to Demand Debt: 253%

RATED DEBT

Series 2003A Revenue Bonds: Baa2

Series 2003B Variable Rate Demand Revenue Bonds: Aa2/VMIG1 based on a letter of credit from TD Bank, NA with stated expiration date of 06/07/2012; Baa2 underlying

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The principal methodology used in this rating was Moody's Rating Approach for Private Colleges and Universities published in September, 2002.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

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