Oregon Facilities Authority Reed College; Private Coll/Univ - General Obligation

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All outstanding debt is a general obligation of the college.

Founded in 1908, Reed College is a liberal arts institution that attracts high-quality undergraduate students from across the U.S. The median freshman ACT score was 31 in fall 2018, which is significantly above average. Reed College shares student cross-applications and admissions with institutions such as Brown University, R.I.; University of California, Berkeley; University of Chicago; and Pomona College, Calif.

Outlook

The stable outlook reflects our expectation that, during the next two years, the college will continue to compete with other top liberal arts colleges for students and will continue to maintain positive operating performance, student enrollment and demand, and already robust available resources. We understand Reed is currently conducting a search for its new president, and we expect the transition to be completed in a timely manner and smoothly this year.

Downside scenario

We could take a negative rating action if enrollment or matriculation declines significantly, if the college issues significant debt such that it begins to pressure the MADS burden or available resource ratios, or if the college reports materially and consistently weaker operating performance.

Upside scenario

Although not expected during the outlook period, we could consider a higher rating with significant and consistent improvement to application, selectivity, and matriculation rates. We would also view significant growth in available resources favorably.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the college has exceptional geographic diversity, with only 7% of fall 2018 students coming from Oregon. As a result, our assessment of Reed's economic fundamentals is anchored by the U.S. GDP per capita.

Market position and demand

The college has historically maintained relatively stable enrollment. The broad five-year trend indicates that enrollment has historically fluctuated around the 1,400 student level, with a low of 1,360 full-time-equivalent (FTE) students in fall 2014 and a high of 1,472 in fall 2018, representing an 8% increase. Management continues to be committed to maintaining a student-faculty ratio of 10 to 1, and anticipates that FTE will hover around the 1,400 mark for the foreseeable future.

Debt and contingent liabilities

As of June 30, 2018, Reed College's debt totaled $102 million, approximately 36% of which consists of the series 2008A variable-rate debt, while the remaining 64% consists of the series 2017A fixed-rate debt. The series 2008A bonds are supported by an SBPA provided by Wells Fargo Bank N.A. expiring in January 2023.

The college has one interest rate swap with an outstanding notional amount of $8.9 million; the mark-to-market value of the swap was a negative $825,000 as of June 30, 2018. The college's debt service structure has debt service payments of about $4.4 million in fiscal 2019 and steadily escalates to an estimated MADS of $8 million in 2041, a

Reed College, Oregon (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AA' rated Private Colleges & Universities
	2019	2018	2017	2016	2015	2017
Total pro forma debt ($000s)	N.A.	101,995	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.	2.88	2.96	2.83	3.03	MNR
Current MADS burden (%)	N.A.	6.53	5.68	5.82	6.32	4.00
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	555,583	516,219	484,078	534,814	1,461,237
Cash and investments ($000s)	N.A.	639,593	604,124	552,557	588,695	MNR
Unrestricted net assets ($000s)	N.A.	367,086	347,091	317,729	373,160	MNR
Expendable resources ($000s)	N.A.	438,632	390,625	352,767	396,422	MNR
Cash and investments to operations (%)	N.A.	522.4	490.5	459.1	531.0	351.2
Cash and investments to debt (%)	N.A.	627.1	776.6	697.3	730.0	480.4
Cash and investments to pro forma debt (%)	N.A.	627.1	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	358.3	317.2	293.1	357.6	226.0
Expendable resources to debt (%)	N.A.	430.1	502.2	445.2	491.6	317.0
Expendable resources to pro forma debt (%)	N.A.	430.1	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.8	17.1	16.9	16.0	13.7

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