

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

Primary Credit Analyst:

Ying Huang, San Francisco (1) 415-371-5008; ying.huang@spglobal.com

Secondary Contact:

Kevin Barry, New York (1) 212-438-7337; kevin.barry@spglobal.com

Table Of Contents

Rationale

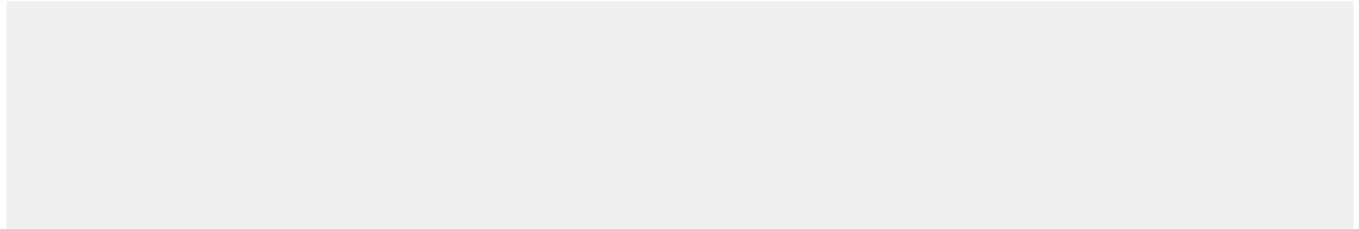
Outlook

Enterprise Profile

Financial Profile

Oregon Facilities Authority

Reed College; Private Coll/Univ - General Obligation



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 cyclical 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

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES TO THE EXTENT PERMITTED BY LAW. S&P PARTIES DO NOT WARRANT ANY SERVICE PROVIDED BY A THIRD PARTY. Fees apply.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.