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Summary:

Reed College, Oregon; Private Coll/Univ - General Obligation

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Credit Profile

Reed Coll taxable fixed rate bnds ser 2022A due 07/01/2052

Long Term Rating

AA-/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Reed College, Ore.'s series 2022A taxable fixed-rate bonds.
- The outlook is stable.

Security

Reed's debt consists entirely of the \$125.0 million series 2022 bonds, which are 30-year, fixed-rate, taxable bonds with a bullet maturity. To prepare for the bullet maturity, the college has a robust internal amortization program with annual reporting to the board for the life of the bonds. The bonds are a general obligation of the college. The college's total debt load is low compared with that of similarly rated peers; however, we view the smoothed maximum annual debt service (MADS) burden of 6.2% as slightly above average. Management does not expect to issue any additional debt within the two-year outlook period.

Credit overview

We assessed Reed's enterprise profile as very strong, characterized by above-average student quality, improved selectivity, and excellent geographic diversity, offset by weak matriculation. We assessed Reed's financial profile as very strong, with a track record of healthy operating margins, robust expendable resource ratios for the rating, moderate dependence on student and endowment revenues, and an above-average MADS burden. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'aa-' and a final rating of 'AA-'.

The rating reflects our view of Reed College's:

- Consistently positive margins on a full-accrual basis, with a strong surplus of 9.6% in fiscal 2022 supported by better-than-budgeted enrollment and \$6.3 million in relief funding and another positive operating result expected in fiscal 2023;
- Lower reliance on student-derived revenues than many similarly sized liberal arts institutions, as tuition and auxiliary revenues made up 69% of fiscal 2022 total adjusted operating revenue;
- Stable enrollment, which we expect the college will maintain near a target size of 1,430 full-time-equivalent students given management's commitment to a close-knit campus culture and a low student-faculty ratio;
- Robust balance sheet for the rating, with fiscal 2022 expendable resources equal to 4.0x operating expenses and 4.7x debt, with stronger investment performance in fiscal 2022 than many peers; and

- Skilled and stable management team that has continued to attract and retain high-quality students, with excellent growth in applications following the pandemic and another increase expected in fall 2023.

In our view, the preceding credit strengths are in part offset by:

- Heightened competition among top liberal arts colleges, as demonstrated by a relatively low matriculation rate of 14% in fall 2022, and
- Above-average smoothed MADS burden at 6.2% of fiscal 2022 adjusted operating expenses.

Founded in 1908, Reed College is a coeducational, independent liberal arts and sciences college. Reed is known for its academic rigor, creative thinking, and engaged citizenship. The college offers 40 majors and programs on a partially wooded 116-acre campus five miles from downtown Portland, Ore.

Environment, social, and governance

We analyzed the college's environmental, social, and governance factors related to its market position and financial performance. Health and safety risks stemming from the pandemic, which we consider a social risk factor, have largely abated and are neutral in our credit analysis. We also view the college's environment and governance risk as neutral factors in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Reed will maintain an attractive liberal arts niche that supports enrollment around its target size, while generating full-accrual operating surpluses and growing available resources.

Downside scenario

We could consider a negative rating action if the college's demand metrics, particularly matriculation and retention, declined significantly. We could also consider a negative rating action if enrollment pressure or increased discounting led to persistent operating deficits and a material weakening of balance sheet resources.

Upside scenario

We could consider a positive rating action if the college improves its demand profile, particularly selectivity, graduation, and matriculation rates, while maintaining healthy operating margins and strong available resources.

Reed College, Oregon--Enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' rated private colleges & universities
	2023	2022	2021	2020	2019	2021
Enrollment and demand						
Headcount	1,534	1,566	1,385	1,471	1,503	9,643
Full-time equivalent	1,506	1,532	1,355	1,440	1,472	8,501
Freshman acceptance rate (%)	30.8	43.8	42.3	39.5	35.0	20.6
Freshman matriculation rate (%)	14.2	16.3	15.4	17.2	17.4	36.0
Undergraduates as a % of total enrollment (%)	99.3	98.9	98.6	99.0	98.7	68.5

Reed College, Oregon--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' rated private colleges & universities
	2023	2022	2021	2020	2019	2021
Freshman retention (%)	86.0	87.0	83.0	91.0	88.0	92.3
Graduation rates (six years) (%)	80.0	73.0	77.0	76.0	81.0	91.5
Income statement						
Adjusted operating revenue (\$000s)	N.A.	159,546	136,051	140,209	136,718	MNR
Adjusted operating expense (\$000s)	N.A.	145,560	132,828	132,001	127,896	MNR
Net operating income (\$000s)	N.A.	13,986	3,223	8,208	8,822	MNR
Net operating margin (%)	N.A.	9.61	2.43	6.22	6.90	2.40
Change in unrestricted net assets (\$000s)	N.A.	(13,118)	109,019	(6,444)	(911)	MNR
Tuition discount (%)	N.A.	39.8	37.4	35.7	35.9	40.0
Tuition dependence (%)	N.A.	58.3	58.7	58.7	59.1	50.9
Student dependence (%)	N.A.	69.1	66.2	68.1	70.1	58.4
Research dependence (%)	N.A.	5.4	2.2	1.3	1.1	5.1
Endowment and investment income dependence (%)	N.A.	17.9	21.2	20.6	21.1	11.1
Debt						
Outstanding debt (\$000s)	N.A.	125,000	97,400	98,995	100,530	534,327
Current MADS burden (%)	N.A.	6.23	6.02	6.06	6.26	5.20
Financial resource ratios						
Endowment market value (\$000s)	N.A.	696,435	747,245	569,284	579,820	2,559,082
Cash and investments (\$000s)	N.A.	835,132	862,608	650,114	651,237	MNR
Unrestricted net assets (\$000s)	N.A.	455,932	469,050	360,031	366,475	MNR
Expendable resources (\$000s)	N.A.	588,701	608,751	404,149	416,062	MNR
Cash and investments to operations (%)	N.A.	573.7	649.4	492.5	509.2	466.9
Cash and investments to debt (%)	N.A.	668.1	885.6	656.7	647.8	540.7
Expendable resources to operations (%)	N.A.	404.4	458.3	306.2	325.3	313.1
Expendable resources to debt (%)	N.A.	471.0	625.0	408.3	413.9	407.9
Average age of plant (years)	N.A.	19.4	18.4	17.8	18.8	14.2

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 = $100 \times (\text{net adjusted operating income} / \text{adjusted operating expense})$. Student dependence = $100 \times (\text{gross tuition revenue} + \text{auxiliary revenue}) / \text{adjusted operating revenue}$. Current debt service burden = $100 \times (\text{current debt service expense} / \text{adjusted operating expenses})$. Current MADS burden = $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$. Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Summary: Reed College, Oregon; Private Coll/Univ - General Obligation

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