New Issue: Kalamazoo College, MI

MOODY’S ASSIGN A1 LONG-TERM DEBT RATING TO KALAMAZOO COLLEGE’S $19.6 MILLION OF LIMITED OBLIGATION REVENUE AND REVENUE REFINANCING BONDS, SERIES 2007; OUTLOOK IS STABLE

COLLEGE WILL HAVE $25.8 MILLION OF RATED DEBT OUTSTANDING

Michigan Higher Education Facilities Auth.
Higher Education
MI

Moody’s Rating
ISSUE RATING
Limited Obligation Revenue and Revenue Refunding Bonds, Series 2007 A1
Sale Amount $19,615,000
Expected Sale Date 09/15/07
Rating Description Private College Revenue Bonds

Moody’s Outlook Stable

Opinion

NEW YORK, Sep 4, 2007 -- Moody's Investors Service has assigned an A1 long-term debt rating to Kalamazoo College’s $19.6 million of Limited Obligation Revenue and Revenue Refunding Bonds, Series 2007. At this time, we are also affirming the A1 rating on the College's outstanding debt (see RATED DEBT at the end of this report). The outlook for the rating is stable.

USE OF PROCEEDS: Bond proceeds will be used to refund a portion of the Limited Obligation Revenue Bonds, Series 2000 and 2003 as well as finance capital improvements.

LEGAL SECURITY: Bond payments are a general, unsecured obligation of the College.

STRENGTHS

* Strong financial resource coverage of debt and operations, with expendable resources providing 4.0 times coverage of pro forma debt based on draft FY 2007 financial statements. The financial resource cushion and limited amount of debt continues to be a key factor underpinning the College's A1 rating.

* Market niche as liberal arts college with noted academic programs offering substantive off-campus educational opportunities (including internships and international studies), with enrollment of 1,350 full-time equivalent (FTE) students expected for fall 2007 and plans to modestly grow enrollment over the next six years.

* Modest future borrowing plans to finance the construction of a new fitness center, offset by expectations of philanthropic support for the project. However, management reports no definite borrowing plans within the next two years.

CHALLENGES

* Highly competitive student market, as demonstrated by relatively low net tuition per student ($15,167 for draft FY 2007 compared to the Moody's A rated median of $17,339 for FY 2006), with the strong competition from public universities and other small liberal arts colleges.

* Relatively small operating revenue base largely dependant on student-derived charges (including net tuition, fee, and auxiliary revenue streams) in a competitive environment, accounting for nearly 65% of the College's operating revenue for FY 2007.
**High age of plant (21.3 years in draft FY 2007)** demonstrating the College's need to continue to invest in its facilities; Management reports that the next capital campaign will include a support for capital projects.

**MARKET/COMPETITIVE STRATEGY: LIBERAL ARTS COLLEGE DRAWING STUDENTS PRIMARILY FROM MICHIGAN AND SURROUNDING STATES**

Moody's expects that the College will continue to enjoy a sound market position as a liberal arts college with noted academic programs offering substantive off-campus educational opportunities. The College, located in the city of Kalamazoo, has approximately 1,350 undergraduate full-time equivalent students based on preliminary fall 2007 enrollment. Management reports plans to moderately grow enrollment by 150 students within six years. Kalamazoo distinguishes itself from other Midwestern liberal arts colleges through its unique program called the K-Plan, which focuses on international study abroad programs, off-campus career development internships, on-campus courses, and a senior individualized project. An extremely high 80% of the College's graduates have studied abroad.

The College has experienced rising applications, enabling it to improve its selectivity to accepting 62.5% of applying students in fall 2007 from a 78.2% acceptance rate in fall 2001. However, the yield on accepted students (% of accepted who chose to enroll) declined modestly to 28.2% in fall 2007 - a reflection of the competition for students.

The enrollment base is somewhat concentrated geographically, as nearly 70% of the students are Michigan residents, with the balance primarily from other Midwestern states. The College's main competitors are the University of Michigan, Michigan State University, and other public institutions in the state. Kalamazoo also competes with other liberal arts colleges in the region, including Albion College, Denison University (Aa3), Earlham College (Aa3), Beloit College, and Hope College.

**OPERATING PERFORMANCE: NEAR BALANCED OPERATIONS; CASH FLOW PROVIDES ADEQUATE DEBT SERVICE COVERAGE**

We expect the College to maintain near balanced operating performance over the next several years. Kalamazoo has posted a three-year average operating margin of 0.8% by Moody's adjusted operating measures, which includes the absorption of $1.9 million in non-cash depreciation expense (up 46% from fiscal 2004). Moody's expects that, even with essentially balanced operating performance, debt service coverage will remain adequate (three-year average debt service coverage of 1.6 times and average maximum debt service coverage of 1.2 times based on draft FY 2007).

Kalamazoo is moderately reliant on student charges, which comprise nearly 65% of revenue, so ability to meet enrollment and net tuition targets is critical for ongoing fiscal balance. Net tuition per student is relatively low at $15,167 in FY 2007, compared to the Moody's A rated median of $17,339 for FY 2006, reflecting competition from lower-priced public universities in Michigan as well as the prevalence of tuition discounting among Kalamazoo's competitors. Investment income, including external funding from a private trust of which the College is a beneficiary accounts for 21.3% of operating revenue with gifts contributing nearly 11% based on FY 2007 financial statements.

**BALANCE SHEET POSITION: GROWING FINANCIAL RESOURCES PROVIDE SOLID CUSHION FOR DEBT**

Kalamazoo College's balance sheet resources are strong relative to its modest debt and operating profile, a primary credit strength supporting the A1 long-term debt rating. Moody's calculations of financial resources include approximately 90% of the market value of a fund held in trust by others, the Heyl Fund. The Fund distributes funds to the College for scholarships on a discretionary basis for qualifying students, with distributions averaging over $1 million annually. For FY 2007, total financial resources were $217.1 million, an increase of 13% over the prior year. Expendable financial resources of $103.2 million cover $25.8 million of proforma debt by 4.0 times and annual operating expenses by 2.6 times.

We expect continued growth of financial reserves driven by favorable investment returns and continued philanthropic support. Management reports that the College is in the planning stages of its next capital campaign. Kalamazoo's most recent capital campaign ended in 2004 and raised $78 million, surpassing the $65 million goal.

The College's age of plant (calculated as accumulated depreciation divided by annual depreciation expense) is high relative to the median for small A-rated private colleges based on FY 2006, 21.3 years in FY 2007 compared to 11.8 years respectively. This measure indicates the possible need for continued capital investment by the College. Management reports limited future borrowing plans, expecting to finance capital investment through gifts and operating cash flow. Future long-term debt would likely be associated with the construction of a new fitness center, which will be offset by expected philanthropic support for the project. At this time, management reports no definite borrowing plans within the next two years.

**Outlook**
Moody's stable outlook reflects our expectation that Kalamazoo's balance sheet will provide good support for debt and operations and that cash flow coverage of debt service will remain adequate.

What could change the rating-UP

Significant strengthening of student demand reflected in increased selectivity and improved yield and continued rising net tuition per student, especially if combined with heightened philanthropic support

What could change the rating-DOWN

Deterioration of the College's balance sheet profile, currently its primary credit strength, either due to investment or operating losses or more aggressive use of debt

KEY INDICATORS (Fall 2007 enrollment and Draft FY 2007 financial statements)

Total Enrollment: 1,350 full-time equivalent students

Total Proforma Debt: $25.8 million

Expendable Resources to Proforma Debt: 4.0 times

Expendable Resources to Operations: 2.6 times

Three-Year Average Operating Margin: 0.8%

RATED DEBT


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