Moody's Investors Service

Rating Action: Moody's assigns A1 rating to Kalamazoo College's (MI) revenue bonds; outlook negative

12 Jun 2018

New York, June 12, 2018 -- Moody's Investors Service has assigned an A1 rating to Kalamazoo College's (MI) proposed $43 million Revenue and Revenue Refunding Bonds (Kalamazoo College Projects), Series 2018 (final maturity in fiscal 2049) to be issued through the Michigan Finance Authority. Moody's affirms the A1 issuer rating for the college. The outlook is negative.

RATINGS RATIONALE

The A1 rating is supported by Kalamazoo College's strong levels of total cash and investments and liquid reserves, which provide it significant flexibility to navigate through a challenged revenue growth environment. The college favorably has managed expenses to sustain better than balanced operating performance. A solid regional brand and investment in areas of market distinctiveness provide a reasonable likelihood of steady enrollment. Good fundraising also provides the college with some resources for strategic investment. However, a highly competitive environment and declining numbers of high school graduates in the college's core market have contributed to rising tuition discounting. This has constrained overall revenue growth and it is uncertain if the college can continue to limit expense growth without impairing its competitive position.

RATING OUTLOOK

The negative outlook reflects prospects for credit deterioration should the college be unable to sustainably grow revenue resulting in weaker operations and cash flow available for academic and facilities investments.

FACTORS THAT COULD LEAD TO AN UPGRADE

Significant and sustained net tuition revenue growth, bolstering operations

Marked growth in total wealth

Sustained strengthening in student demand

FACTORS THAT COULD LEAD TO A DOWNGRADE

Continued weak revenue growth

Further thinning of operating cash flow

Material decrease in available liquidity

Significant additional borrowing absent identified new debt repayment streams

LEGAL SECURITY

Kalamazoo's Series 2018 and outstanding Series 2011A Bonds are unsecured general obligations of the college. The non-rated Series 2011A bonds are privately placed with PNC Bank, N.A., with a mandatory tender date on December 1, 2021. The long term issuer rating reflects Kalamazoo's general credit characteristics. The college also has a $1 million outstanding bank note with PNC Bank, N.A. that is secured by general assets of the college.

USE OF PROCEEDS

Proceeds of the Series 2018 Bonds will be used to fully refund the outstanding Series 2011A Bonds and the outstanding bank note with PNC Bank, N.A., and to finance various projects on campus, including a portion of the costs of the demolition and construction of a new natatorium. There is no debt service reserve fund.

PROFILE
Kalamazoo College, founded in 1833 and located in Kalamazoo, MI, enrolled over 1,400 in fall 2017. The college's K-Plan, offers students an integrated approach to education through, academics, experience based learning, study abroad opportunities, and independent scholarship.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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