



## Rating Update: Moody's affirms Point Loma Nazarene University's (CA) Baa2 rating; outlook stable

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### \$31M rated debt

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPS., CA  
Private Colleges & Universities  
CA

### Opinion

NEW YORK, April 22, 2014 --Moody's Investors Service has affirmed the Baa2 underlying rating on PLNU's Series 2008 Bonds issued through the Association of Bay Area Governments (ABAG) Finance Authority for Nonprofit Corporations. The rating outlook is stable.

### SUMMARY RATING RATIONALE

The Baa2 is based on Point Loma Nazarene University's solid market niche and positive operating performance supported by prudent budgeting and moderate balance sheet leverage for its rating level. Offsetting challenges include high reliance on student charges, and a debt profile that carries some risk with 100% demand debt, with an associated swap and required maintenance of financial covenants.

### STRENGTHS

\*PLNU has a solid student market niche as a Christian liberal arts university located in San Diego, with full-time equivalent (FTE) enrollment of 2,849 in fall 2013, and good matriculation (31%) despite its competitive California market.

\*The university recorded strong growth of both net tuition revenue and net tuition per student, while maintaining a low tuition discount rate. The net tuition per student of \$21,953 in FY 2013 was above the Baa-median for private institutions of \$17,912 and the tuition discount rate of 23% was below the Baa-median of 32%.

\*Favorable operating performance provided PLNU with an average operating margin of 6.0% from FY 2011-13, while strong operating cash flow of 13.1% provided more than ample debt service coverage of 4.5 times in FY 2013.

\*The university has an adequate balance sheet cushion at this rating level, with expendable financial resources at the close of FY 2013 of \$44 million, providing a cushion to debt of 1.4 times and to operations of 0.6 times.

### CHALLENGES

\*Concentrated revenue diversity, with student charges comprising a very high 89% of operating revenue (as calculated by Moody's), underscores the need to maintain growth in net tuition revenue as well as a solid market position.

\*Limited philanthropic support has caused the university to scale back capital campaign goals and seek debt financing for an upcoming project.

\*Undergraduate enrollment on PLNU's main campus is capped at 2,000 FTE students due to a conditional use permit through the City of San Diego, causing the administration to utilize alternative offsite locations to manage enrollment and program growth.

\*Virtually all of the university's debt (\$31 million) is demand debt held by Bank of America, N.A. (BOA) (rated A2/P-1, stable), which has several financial covenants, with a swap on the Series 2008 bonds that has BOA as the counterparty.

### DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The Series 2008 bonds are a general obligation of the university. In addition, under a Limited Guaranty

The rating could decline with a deterioration of financial resources to debt (beyond planned issuance) and narrowing headroom on financial covenants. Declines in liquidity, or trend of decreasing enrollment and net tuition revenue would also adversely impact the university's rating.

#### KEY INDICATORS (FY 2013 enrollment data and fall 2013 financial data)

Full-Time Equivalent Enrollment: 2,849 students

Primary Selectivity: 70.5%

Primary Matriculation: 31.0%

Net Tuition per Student: \$21,953

Educational Expenses per Student: \$26,428

Average Gifts per Student \$1,702

Total Cash and Investments: \$65.8 million

Total Direct Debt: \$31.2 million

Expendable Financial Resources to Direct Debt: 1.44 times

Expendable Financial Resources to Operations: 0.55 times

Monthly Days Cash on Hand: 227 days

Monthly Liquidity to Demand Debt: 144%

Operating Revenue: \$86.1 million

Operating Cash Flow Margin: 13.1%

Three-Year Average Debt Service Coverage: 4.2 times

Reliance on Student Charges (% of Moody's Adjusted Operating Revenue): 88.8%

#### RATED DEBT:

Series 2008: underlying Baa2 rating

#### PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).