

Iowa Higher Education Loan Authority Grinnell College; Private Coll/Univ - General Obligation

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Iowa Higher Education Loan Authority, Iowa		
Grinnell College, Iowa		
Iowa Hgr Ed Loan Auth (Grinnell College)		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AAA' long-term rating on Grinnell College, Iowa's revenue bonds.
- The outlook is stable.

Security

Grinnell had about \$214 million in debt outstanding as of June 30, 2023. The debt is fixed rate, fully amortizes by 2052, and is secured by a general obligation of the college. The debt has a bullet payment of roughly \$61 million due in 2052; however, this poses little to no risk to the college given the size of its financial resources and liquidity. The college does not have any additional debt plans within our outlook period.

Credit overview

Grinnell's enterprise risk profile was assessed as extremely strong based on stable enrollment, an exceptional acceptance rate of about 10% the past few years, along with a high matriculation rate that fell slightly but was still 36% in fall 2023, a geographically diverse student body, solid management team, and great student quality. The financial risk profile is very strong, characterized by abundant financial resource ratios and consistent full accrual operating surpluses. Combined, these factors lead to an anchor of 'aa+.' As our criteria indicate, the final rating can be within one notch of the anchor. In our opinion, the 'AAA' long-term rating is supported by the college's significant cash and investments to debt.

The 'AAA' long-term rating reflects the college's unsecured general obligation pledge, supported by our view of the college's:

- Impressive endowment of approximately \$2.5 billion as of June 30, 2023, which is about \$1.4 million per full-time equivalent (FTE) student;
- Above-average financial resource ratios relative to other 'AAA' rated colleges and universities;
- Very selective demand metrics with selectivity at about 10% combined with excellent student quality given reputation of the college; and
- Exceptional geographic diversity with just 7% coming from inside Iowa.

The above factors are partially offset by slightly above-average debt burden of just over 6% of fiscal 2023 expenses when smoothing the series 2021 issuance only.

Founded in 1846, the college is a private, undergraduate liberal arts institution on an attractive 190-acre campus in the city of Grinnell, about 60 miles east of Des Moines. We view enrollment as fairly stable historically, though it fluctuated a bit through the pandemic. Most students live on campus and almost all attend full time.

Grinnell's revenue bonds are rated above the sovereign because we believe the institution can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "**Ratings Above The Sovereign--Corporate And Government Ratings--Methodology And Assumptions**," published Nov. 19, 2013, U.S. colleges and universities are considered to have moderate sensitivity to country risk. Grinnell's revenue and resources are the sole source of security on the bonds, the institutional framework in the U.S. is predictable with institutions like Grinnell having significant autonomy, independent treasury management, and no history of government intervention. The large endowment, which has a substantial market value and is invested globally, a relatively low debt level, and the largely serial amortization of the debt portfolio, provide financial flexibility.

Environmental, social, and governance

We analyzed the college's environmental, social, and governance (ESG) credit factors pertaining to its market position, management and governance, and financial performance. We view Grinnell's ESG factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that the college will maintain its solid FTE enrollment and stellar demand metrics, while sustaining its robust financial resource ratios, and maintain surpluses or at least close to break-even operating performance on a GAAP basis.

Downside scenario

We could consider a negative rating action during the outlook period if enrollment were to decline materially, if financial resource ratios weaken substantially, or if the college issues significant debt without commensurate growth in financial resources.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

Grinnell's demand profile continues to be very solid with stable FTE enrollment, selectivity continuing to be about 10% and matriculation falling but still remaining high at about 36%. The university continues to garner large interest both nationally and internationally with about 93% of students attending from outside of the state. The college has increased its recruitment efforts and is offering more student aid as it continues to make Grinnell accessible for all

students. The slight decline in matriculation to 36% from about 40% is in part driven by recruitment of even higher quality students.

The college increased its total tuition and fees by about 5% the past two years; however, it has increased the tuition discount rate given its commitment to its no-loan policy.

We do not view the college as having a strong history of fundraising for the rating category, but it has improved. The college completed the largest fundraising campaign in the history of the college in 2021 raising \$189 million on a goal of \$175 million over about eight years. Current fundraising efforts are focused on scholarships and financial aid, diversity, equity and inclusion needs and initiatives, endowed faculty positions, Renfrow Hall, and unrestricted gifts to the Pioneer Fund. We view the improved fundraising as a positive factor and could help the college improve its revenue diversity in the future.

Management and governance

The college named Dr. Anne F. Harris, who was the former dean and vice president of academic affairs of Grinnell, as its 14th president in July 2020. The management team has remained fairly stable, in our opinion, with the only changes recently of hiring a new vice president for development and alumni relations and diversity, equity, and inclusion. An interim vice president for Student Affairs has been appointed. The search for the permanent role is underway. We believe the general stability will help Grinnell continue to meet its goals. The college finalized its new strategic plan in 2023 that will emphasize the college's mission of serving the common good through academic excellence, a diverse and equitable community, and social responsibility.

Overall, the college has pretty conservative financial practices. Operations have consistently been positive at the college the past several years, which offsets the fact that management does not budget for full depreciation. Management reports that the college funds its facility maintenance expenses through a combination of the operating budget and reserve funds, and the funding demand is projected on a one-year and 10 year outlook that is updated at least once annually. The college has formal policies for endowment, investments, and debt. It operates according to an actively managed, ongoing strategic plan, and has a formal reserve and liquidity policy.

Grinnell adopted a new strategic plan in spring of 2021 after a community wide information gathering period to understand Grinnell and goals major constituents had for the college. The strategic plan emphasizes four key principles of the college: Grinnell as catalyst, belonging and connection, collective equity, and shared goals and common ground. We believe management has been successful over the past two years in achieving its goals and believe it continues to have the people in place to do so.

Financial Risk Profile--Very Strong

Financial performance

Grinnell has produced full accrual surpluses the past eight years, including about a 3% net operating margin in 2023 with the expectation that those will continue. Net tuition revenue, auxiliary revenue, and endowment draws have increased the past few years, which are the main revenue drivers for the college. The net tuition revenue increased 3.1% and 6.7% in fiscal 2023 and fiscal 2022, respectively. The tuition increases have helped offset increases in the

tuition discount rate. The college reduced its endowment draw in fiscal 2022 to 4.0% due to the expiration of board-approved additional payouts; however because of improvements in the endowment, revenue continues to increase, including in fiscal 2023, which we expect to continue over the long-term. While expenses have increased, the college has managed those expenses adequately to produce consistent full accrual surpluses. For fiscal 2024, we expect another operating surplus though it may be slightly weaker than fiscal 2023.

Financial resources

Financial resource ratios are excellent and well above the 'AAA' rating category medians due to the college's large unrestricted endowment and conservative endowment spending rate. Cash and investments for the fiscal year ended June 30, 2023, were \$2.6 billion similar to fiscal 2022. Cash and investments equaled 11.8x operating expenses, an impressive 11.7x adjusted operating expenses and 11.2x of debt. We expect that over time cash and investments will continue to grow given the university's conservative endowment draws, consistent surpluses, and modest fundraising.

Grinnell's endowment is largely unrestricted, and management indicates its growth during the past two decades is due largely to the college's investment strategy, planning, and budget discipline, rather than fundraising. The endowment's market value as of June 30, 2023, was \$2.6 billion, of which approximately \$1.7 billion was unrestricted. As of June, 2023 the endowment asset allocation was about 31% public equities, 39% in private equities, 19% in marketable alternatives, 8% in cash and fixed income, and 3% in real assets. Management estimates that approximately 19% of endowment could be liquidated in 30 days. We understand that unfunded capital commitments as of September 2023, are about 15.7% of the portfolio, which we consider conservative relative to that of peer institutions with similar-sized endowments.

Debt and contingent liabilities

The college has series 2014, series 2017, and series 2021 debt outstanding totaling about \$214 million as of June 30, 2023. All debt is fixed rate with no swap contracts. We believe this fixed-rate debt profile is conservative and does not expose the college to put and interest-rate risk. Financial resource ratios relative to debt remains above-average for the 'AAA' rating category, and we would expect that to remain stable. Since the series 2021 bonds are structured with a bullet with a final maturity in 2052, we've smoothed total debt service over a 30-year period. The maximum annual debt service burden after smoothing is just slightly above-average at about 6% of fiscal 2023 adjusted operating expenses. The college does not have any debt plans in the immediate future.

Grinnell College, Iowa--enterprise and financial statistics

	--Fiscal year ended June 30--				
	2024	2023	2022	2021	2020
Enrollment and demand					
Full-time-equivalent enrollment	1,730	1,724	1,728	1,470	1,711
Undergraduates as a % of total enrollment	98.5	98.9	100.0	100.0	100.0
First-year acceptance rate (%)	12.6	10.7	10.5	19.2	23.1
First-year matriculation rate (%)	36.1	40.6	42.5	23.3	24.9
First-year retention rate (%)	93.0	93.0	93.0	81.0	94.0
Six-year graduation rate (%)	87.0	88.0	87.0	87.0	89.0

Grinnell College, Iowa--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--				
	2024	2023	2022	2021	2020
Income statement					
Adjusted operating revenue (\$000s)	N.A.	232,266	212,233	181,583	198,788
Adjusted operating expense (\$000s)	N.A.	224,940	209,977	178,116	191,313
Net operating margin (%)	N.A.	3.3	1.1	1.9	3.9
Change in unrestricted net assets (\$000s)	N.A.	21,110	-296,744	565,514	9,661
Tuition discount (%)	N.A.	65.5	65.2	60.9	61.0
Student dependence (%)	N.A.	53.6	56.5	47.8	53.6
Research dependence (%)	N.A.	0.0	0.0	0.0	0.7
Debt					
Outstanding debt (\$000s)	N.A.	214,325	217,975	221,470	166,675
Total pro forma debt (\$000s)	N.A.	214,325	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	5.6	6.0	7.7	7.2
Current MADS burden (%)	N.A.	6.5	6.0	7.3	7.0
Average age of plant (years)	N.A.	18.5	17.5	17.4	17.2
Financial resource ratios					
Endowment market value (\$000s)	N.A.	2,505,851	2,484,419	2,931,550	2,090,750
Cash and investments (\$000s)	N.A.	2,642,012	2,631,354	3,090,564	2,167,564
Cash and investments to operations (%)	N.A.	1,174.5	1,253.2	1,735.1	1,133.0
Cash and investments to debt (%)	N.A.	1,232.7	1,207.2	1,395.5	1,300.5
Cash and investments to pro forma debt (%)	N.A.	1,232.7	N.A.	N.A.	N.A.

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 MADS burden = $100 \times (\text{maximum annual debt service expense} / \text{adjusted operating expenses})$. Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

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

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