

California Educational Facilities Authority Woodbury University; Private Coll/Univ - General Obligation

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Credit Profile

California Ed Fac Auth, California

Woodbury University, California

California Ed Fac Auth (Woodbury University) rev bnds ser 2005

Long Term Rating

BBB-/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB-' long-term rating on the California Educational Facilities Authority's revenue bonds, series 2005, issued on behalf of Woodbury University.

The rating reflects our view of the university's:

- Good financial performance, with a history of operating surpluses;
- Stable enrollment, with fall 2009 headcount of 1,540;
- Strong niche programs in architecture/design and business; and
- Low debt burden of about 3%.

The preceding credit factors are offset in part by our view of the university's:

- Low financial resources for the rating category, with expendable resources in fiscal 2009 of \$9.9 million covering only 24% of operations and 36% of outstanding debt; and
- Very small endowment of \$13.2 million at Dec. 31, 2009.

The bonds are a general obligation of the university, though payment on the bonds is made first from gross revenues (excluding auxiliary enterprise revenue). We understand that the university does not plan to issue additional debt in the near future. In addition to the about \$19 million outstanding 2005 bonds, in 2007 the university issued \$7 million in bonds that we do not rate. All rated bond debt is fixed rate with a maximum annual debt service of \$1.2 million, making the debt burden under 3%. At June 30, 2009, the university had \$27.5 million in debt outstanding, including a note for \$1.7 million.

Outlook

The stable outlook reflects our anticipation that the university will maintain positive operations and grow its financial resources over time. Our view of operational shortfalls may have negative outlook or rating implications, as would additional debt without a commensurate increase in resources.

The University

Founded in 1884, Woodbury University started as a for-profit vocational institution focused primarily on businesses located in Burbank, Calif. It obtained nonprofit status in 1972, and management added a second campus in San Diego about 10 years ago. The primary campus is located on 22 acres in Southern California and, in addition to undergraduate degrees in business and architecture/design, offers degrees in arts and sciences and a master's of business administration and a master's degree in architecture and design. The majority of the student body attends classes at the Burbank campus, and there is a small contingent of architecture/design students at the San Diego location. We understand that management has no current plans to add additional sites.

Demand

The university has a predominantly regional draw, with most of its students coming from Southern California. As stipulated by its mission, the university is very diverse: Fall 2009 full-time-equivalent enrollment totaled 1,540, and approximately one-third of the student body is Latino. The majority of students are the first generation of their families to attend college. The university is a Department of Education-designated Hispanic-serving institution. Applications for first-time students increased significantly during the past two years, with 670 applications received for fall 2008 -- a 37% increase from 2007 -- although they dipped slightly to 614 for fall 2009. Management said that applications for fall 2010 are at about the same levels. SAT scores are at about the national average at 1070. The university's tuition is average for its peer group at \$27,636 for fall 2009, which was up by less than 4% from the previous year.

Financial Operations

The university maintains balanced financial operations, and has experienced small surpluses on an accrual basis for the past several years. The university is able to maintain what we consider good budget flexibility in part by using practicing professionals as teaching staff, rather than tenured faculty. In fiscal 2009, the university posted what we consider a modest operating surplus of just below \$1 million. Management expects a break-even year for fiscal 2010. The university has historically budgeted a cash reserve of \$400,000 annually and, according to management, will increase the amount to \$625,000 in fiscal 2011. The university's pension obligation is more than \$6 million underfunded.

According to management, financial resources declined in fiscal 2008 due in part to an increase in capital assets, and they continued to decrease in fiscal 2009 partly because of investment losses. Expendable resources (under \$10 million as of June 30, 2009, including temporarily restricted net assets) were 24% of operations and 36% of debt, low for the rating category, in our opinion. Measures are slightly better against cash and investments (40% and 59%, respectively).

Endowment/Fundraising

The university has been operating as a nonprofit institution for only 38 years, resulting in a limited history of fundraising and, consequently, a small endowment. The university is completing a capital campaign, having raised \$29.4 million against a goal of \$27 million. We understand that the university is planning an endowment campaign,

and as such it does not spend any of the interest or earnings of the board-designated endowment and contributes a portion of operational surpluses to the fund each year. In our view, the endowment was a small \$13.2 million as of Dec. 31, 2009, nearly a \$1 million positive change since the end of the fiscal year. The endowment earned 17.9% in calendar 2009 and 2.5% over five years. Most of it is unrestricted. The asset allocation is what we consider conservative, with 54% in equity and 46% in fixed income and cash.

Related Criteria And Research

USPF Criteria: Non-Traditional Not-For-Profits, June 14, 2007

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