

Lancaster Higher Education Authority Franklin & Marshall College; Private Coll/Univ - General Obligation

Primary Credit Analyst:

Blake Cullimore, Boston (1) 617-530-8312; blake_cullimore@standardandpoors.com

Secondary Credit Analyst:

Carolyn McLean, New York; carolyn_mclean@standardandpoors.com

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Credit Profile

Lancaster Hgr Ed Auth, Pennsylvania

Franklin & Marshall Coll, Pennsylvania

Lancaster Hgr Ed Auth (Franklin & Marshall Coll) coll rev bnds ser 2006

<i>Long Term Rating</i>	AA-/Stable	Upgraded
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Lancaster Hgr Ed Auth (Franklin & Marshall Coll) rev bnds ser 2003

<i>Long Term Rating</i>	AA-/Stable	Upgraded
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Lancaster Hgr Ed Auth (Franklin & Marshall Coll) rev bnds ser 2008

<i>Long Term Rating</i>	AA-/Stable	Upgraded
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Rationale

Standard & Poor's Ratings Services has raised its long-term rating on Lancaster Higher Education Authority, Pa.'s series 2003, 2006, and 2008 revenue bonds, issued for Franklin & Marshall College, to 'AA-' from 'A+'. The outlook is stable.

The reasons for the upgrade include:

- Impressive fiscal management with consistently strong operating performance during the past several years with a \$15.4 million operating surplus on a Standard & Poor's-adjusted generally accepted accounting principles (GAAP) basis in fiscal 2009; and
- Good balance sheet resources with expendable resources of \$224.7 million in fiscal 2009, representing 1.8x of operating expenses and 2.0x of outstanding debt.

Other positive rating factors are:

- Conservative debt structure with \$106.6 million in debt outstanding as of June 30, 2010, all of which is fixed rate;
- Strong fundraising record with a history of successful capital campaigns and a growing annual fund; and
- A solid and experienced management team, with a history of strong strategic planning.

Offsetting credit factors include:

- Slightly above average revenue dependence on student tuition, fees, and auxiliary operations;
- Below-average endowment levels for the rating category; and
- The highly competitive market in which it operates, resulting in slightly volatile application numbers and a low matriculation rate.

Franklin College was founded in 1787 in Lancaster, Pa. and Marshall College was founded in 1836 in Mercersburg, Pa. In 1853, the two colleges merged as Franklin & Marshall College, which, today, is a small private undergraduate college in Lancaster, halfway between New York City and Washington, D.C. Franklin College was the first bilingual college and the first coeducational college in the nation. Franklin & Marshall has a national reputation as a highly selective institution that is strongly supportive of both independent and collaborative learning.

Franklin & Marshall has a total debt of \$106.6 million as of fiscal year-end 2010, which includes the series 1964, 2003, 2006, and 2008, all of which is issued as fixed rate and is secured by a general obligation pledge of the college.

Outlook

The stable outlook reflects Standard & Poor's expectation that the college will continue to generate positive operating results and maintain its favorable demand profile and its current levels of financial resources.

Decreasing selectivity and demand and increases in debt without commensurate increases in financial resources could have a negative impact on the rating. It is unlikely that the college will be upgraded during the outlook period, but a more stable demand profile, growth of financial resources, and decreasing dependence on students for revenues could have positive rating implications.

Presidential Search

The college is currently conducting a presidential search to replace former President John Fry, who left Franklin & Marshall in spring 2010. John F. Burness is serving as the interim president until the new president is hired, likely in summer 2011.

Strong History of Fundraising

Franklin & Marshall has entered into the silent phase of a major capital campaign that is expected to last seven years and has a tentative goal of \$250 million, which supports the growth of endowment funds for scholarships, faculty positions internships, and research projects, as well as funding for capital projects throughout campus. The college has demonstrated strong fundraising capabilities, exceeding goals and growing over the past few years with a good alumni participation rate of 31% in fiscal 2010. As of June 30, 2010, the college received total gifts of \$25.1 million toward the annual fund, facilities, endowment, and other funds, an increase of 37% over fiscal 2009 with \$18.3 million raised. The annual fund has also been steadily growing, with \$3.2 million raised in fiscal 2009 and \$3.8 million raised in fiscal 2010.

Slightly Volatile Demand

Freshman applications have fluctuated over the past five years, causing increases and decreases in its selectivity. The college received 4,934 applications in fall 2010--down 6% since fall 2009, but up 17% since fall 2005. Since fall 2007, the number of applications is approximately 5,000 students each year, give or take 5%, except for fall 2008, when there were 5,600 applicants, which was an anomaly, according to management. Of this pool, 45% gained acceptance in fall 2010 and, of those, 29% opted to enroll; in fall 2009, 48.5% of applicants were accepted and, of

those, 25% chose to attend. The selectivity reached a high point in fall 2008, with only 36% of students accepted, but has come back down to 45% in fall 2010. This fluctuation in the selectivity and matriculation rates is indicative of the competitive Pennsylvania market.

For fall 2010, the college enrolled 2,453 students, which has grown steadily over the past five years and is up from 2,101 in fall 2006, representing growth of 17%. Enrollment has grown according to management's plans. Currently, the enrollment target for the college is 2,400 students, which it is currently evaluating in relation to housing and faculty capacity on campus. Franklin & Marshall's total tuition for the 2010-2011 school year, including room and board, is competitive at \$52,110, compared with the 2009-2010 total tuition, including room and board, of \$50,410. The tuition discount rate has remained fairly flat at 27%-29% over the past five years, but it will likely increase as the school leans more toward need-blind admissions.

Student quality is high, indicated by a mean SAT score of 1306 for fall 2010. The college competes with institutions such as Bucknell University, Lafayette College, the University of Pennsylvania, Colgate University, Hamilton College, and Tufts University. Franklin & Marshall's student draw is predominantly from Pennsylvania, New Jersey, New York, Maryland, and Delaware.

Healthy Financial Operations

Financial operations remain healthy, with a history of operating surpluses, including strong surpluses over the past three years. The college posted operating surpluses of \$15.4 million and \$23.3 million, on a GAAP basis, in 2009 and 2008, respectively, and projects a \$12.3 million surplus on a GAAP basis for fiscal 2010. Management indicates that fiscal 2010 will have strong operating results, similar to those in fiscal 2009, and is projecting an operating margin of \$8.4 million on a budgetary basis for fiscal 2010, down slightly from \$9.7 million in fiscal 2009. The college has conservative fiscal management and has been able to weather the economic downturn with impressive operating results.

Franklin & Marshall has adequate revenue diversity, but is slightly more student-dependent than other colleges and universities in the rating category. In 2009, unrestricted operating revenues were composed of 60% tuition and fees and 11% auxiliary operations, resulting in revenues that are 71% student-dependent.

Good Financial Resources

Franklin & Marshall's financial resources are good for the rating category. As of June 30, 2009, expendable resources were \$224.7 million, representing 1.8x operating expenses and 2.0x outstanding debt. This is down from fiscal 2008, which had expendable resources of \$323 million, representing 2.8x operating expenses and 2.8x debt. The decrease is in large part due to decreases in investment income. Cash and investments, although adequate, are slightly below average for the rating category. Cash and investments were 2.5x operations and 2.9x debt in fiscal 2009, down from 3.5x and 3.6x, respectively, in fiscal 2008.

Liquid Endowment

As of June 30, 2010, the endowment totaled approximately \$293 million, which was up 7% from a market value of \$273 million on June 30, 2009. The college's endowment is smaller than some of its competitors and other private

universities in the rating category. The endowment's asset allocation as of March 31, 2010, was 31% domestic equity, 20% nondomestic equity, 19% absolute return, 9% private equity, 4% real assets, 4% in fixed income, and 13% in cash. As of the same date, the college had \$19 million outstanding in unfunded capital calls. Management indicates that 79% of the portfolio can be liquid within one year, which is in line with the fiscal 2009 audit, which categorized 70% of its investment portfolio as either Level 1 or 2. Standard & Poor's views this level of liquidity as strong.

The college has adjusted its spending policy in fiscal 2011 to 5.25% of a trailing seven-year average market value from a 5.5% of the trailing three-year-average market value, which the college expects will provide it with more stable investment income.

Manageable Debt

As of fiscal year end 2010, Franklin & Marshall had a total debt of \$106.6 million. All of the college's debt is fixed-rate debt, which Standard & Poor's views as positive. Maximum annual debt service was above-average at approximately \$8.8 million, or 6.9% of adjusted operating expenses. The college does not plan to issue additional debt in the next few years.

The college is in-progress or completing a large number of building projects on campus, funded through debt, fundraising, and internal sources. Recently completed projects include the Brooks College House Commons and the Lisa Bonchek-Adams Lecture Hall Auditorium. The Brooks Lower Level Residences, new chiller, New College House, Old Main structural repairs, and Race Avenue parking lot are currently in-progress. There are plans to renovate or construct a new parking lot, the art museum, a green area, the conservancy, and a residence hall. In addition, the college has partnered with the Lancaster General Health to redevelop a former flooring plant into commercial space and relocate a rail yard into commercial space, both of which abut the college's campus and will benefit Lancaster General Health and the City of Lancaster, as well as the college.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

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