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Ratings

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

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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 $218 million in debt outstanding as of June 30, 2022. 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 available resources. The college does not have any additional debt plans within our outlook period.

Credit overview

Grinnell's enterprise profile was assessed as extremely strong based on an exceptional acceptance rate below 10% along with a high matriculation rate of 41% in fall 2022, a geographically diverse student body, solid management team, and great student quality. The financial profile is also very strong, characterized by overwhelming available resource ratios and consistent full accrual operating surpluses. Combined, these factors lead to an indicative stand-alone credit profile of 'aa+.' The college's significant cash and investments to debt continue to support a 'AAA' rating.

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, 2022, which is about $1,437,742 per full-time equivalent (FTE) student;
- Above-average available resource ratios relative to other 'AAA' rated colleges and universities;
- Improving demand metrics with selectivity falling below 10% compared with about 25% four years ago while matriculation also improved and was above 40% in fall 2022; and
- Exceptional geographic diversity with just 7% coming from inside Iowa.

The above factors are partially offset by slightly above-average debt burden of about 6% of fiscal 2022 expenses.

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 is 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 view the health and safety social risks posed by the pandemic as somewhat abating for the higher education sector. However, the pandemic has had significant effects on enrollment trends and modes of instruction that could continue to affect demand and finances. Management has taken steps to protect students, faculty, and staff through measures including a vaccine requirement, with medical and religious exemptions. We view the college's environmental and governance risks as neutral factors 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 available resource ratios, and maintain 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 available resource ratios weaken substantially, or if the college issues significant debt without commensurate growth in available resources.

Credit Opinion

Enterprise Profile

Market position and demand

Grinnell's demand profile improved substantially the past two years, which was particularly impressive given demand was already solid. Following one year of enrollment declines of 14% during the pandemic, the college grew its FTE enrollment almost 18% in fall 2021 and maintained that level in fall 2022. The college did this while improving selectivity and matriculation significantly. Selectivity dropped below 10% in fall 2022 from over 20% just a few years prior and matriculation also increased to over 40%, which is very impressive given the low acceptance rate. The college has increased its recruitment efforts and also is offering more student aid as they are working to make attending Grinnell loan free for all students.

The college has broad geographic diversity, typically with less than 50% of its student body coming from the Midwest, and only about 7% from Iowa. Student quality is consistently high, with fall 2022 freshmen reporting average SAT and ACT scores of 1448 and 32, respectively. This is consistent with prior years, but the university is now test optional. The college increased its total tuition and fees by about 5% in fall 2022 but will likely see its tuition discount rate increase with its commitment to its no-loan policy. Grinnell's tuition discount rate increased to 65% in fiscal 2022 from 61% in fiscal 2021.

We 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. The college recorded the highest single year in new gifts and commitments ($33.9 million) in fiscal 2022, the first year after the campaign ended. Current fundraising efforts are focused on scholarships and financial aid, diversity, equity and inclusion needs and initiatives, endowed faculty positions, the Civic Engagement Quad, 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 (VP) of academic affairs of Grinnell, as its 14th president in July 2020. The management team has remained fairly stable, in our opinion, but the college has hired some new members of its senior leadership team including its vice president for academic affairs and the vice president for finance and chief financial officer in 2022, which we believe will help Grinnell continue to meet its goals.

Overall, the college has pretty conservative 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, five-year, and 20-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 principals 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 performance

Grinnell has produced full accrual surpluses the past six years with the expectation that those will continue. In fiscal 2022, net tuition revenue was basically in the same place it was in fiscal 2019 despite increases in tuition as financial aid has also increased given Grinnell's strategy. However, the college's revenue from its endowment along with its auxiliary revenue continue to grow allowing Grinnell to maintain its operating success. While this led to some dependencies on endowment income, given the size of the college's endowment and its recent growth, we do not believe it poses a substantial risk at this time. The college reduced its endowment draw to 4% in fiscal 2022 from 4.5% the previous year.

For fiscal 2023 the college is expected to produce similar operations. Operating expenses are likely to increase though given employee recruitment and retainment has become more costly for many colleges and universities around the country. In addition, the college continues to fund its no-loan program for its students, which management said costs the college roughly $5 million annually. However, the growth in the college's investments and fundraising success have built the endowment to such a level, where the college is able to afford these programs and likely maintain its surpluses.

Financial resources

Available 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. Expendable resources for the fiscal year ended June 30, 2022, were $2.4 billion, an impressive 11.6x adjusted operating expenses and 11.2x of debt. Cash and investments were similarly superior at $2.6 billion, equal to 12.5x operating expenses and 12.1x of debt. While cash and investments and expendable resources both declined about 15% in fiscal 2022, they are still up substantially from fiscal 2020 as both increased over 40% in fiscal 2021. We expect available resource ratios to remain exceptionally strong, and still well in excess of those of many 'AAA' peers.

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, 2022, was $2.5 billion, of which approximately $1.7 billion was unrestricted. As of June 30, 2022 the endowment asset allocation was about 31% public equities, 37% in private equities, 21 % in marketable alternatives, 8% in cash and fixed income, and 3% in real assets. Management estimates that approximately 11% of endowment could be liquidated in 30 days. We understand that unfunded capital commitments as of June 30, 2022, are about 13.5% 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 $218 million as of June 30, 2022. 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. Available 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 2022 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--					Medians for 'AAA' rated private colleges and universities
	2023	**2022**	**2021**	**2020**	**2019**	**2021**
Enrollment and demand						
Headcount	1,759	1,748	1,493	1,733	1,716	9,511
Full-time equivalent	1,724	1,728	1,470	1,711	1,691	9,440
Freshman acceptance rate (%)	9.2	10.5	19.2	23.1	24.4	6.9
Freshman matriculation rate (%)	40.6	42.5	23.3	24.9	25.8	56.0
Undergraduates as a % of total enrollment (%)	100.0	100.0	100.0	100.0	100.0	47.4
Freshman retention (%)	93.0	93.0	81.0	94.0	92.0	85.9
Graduation rates (six years) (%)	88.0	87.0	87.0	89.0	84.0	96.5
Income statement						
Adjusted operating revenue ($000s)	N.A.	212,233	181,583		193,150	MNR
Adjusted operating expense ($000s)	N.A.	209,977	178,116	191,313	191,028	MNR
Net operating income ($000s)	N.A.	2,256	3,467	7,475	2,122	MNR
Net operating margin (%)	N.A.	1.07	1.95	3.91	1.11	1.80
Change in unrestricted net assets ($000s)	N.A.	(296,744)	565,514	9,661	60,248	MNR
Tuition discount (%)	N.A.	65.2	60.9	61.0	60.2	52.5
Tuition dependence (%)	N.A.	46.4	45.3	45.6	44.9	25.7
Student dependence (%)	N.A.	56.5	47.8	53.6	54.6	26.3
Research dependence (%)	N.A.	0.0	0.0	0.7	0.0	16.0
Endowment and investment income dependence (%)	N.A.	38.9	48.3	41.9	42.3	37.4
Debt						
Outstanding debt ($000s)	N.A.	217,975	221,470	166,675	172,575	2,988,375
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	217,975	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	6.04	7.67	7.20	7.36	MNR
Current MADS burden (%)	N.A.	5.98	7.29	7.00	7.21	7.40
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	2,484,419	2,931,550	2,090,750	2,069,953	20,938,587
Cash and investments ($000s)	N.A.	2,631,354	3,090,564	2,167,564	2,153,364	MNR
Unrestricted net assets ($000s)	N.A.	1,863,781	2,160,525	1,595,011	1,585,350	MNR
Expendable resources ($000s)	N.A.	2,442,188	2,889,541	1,984,079	1,979,196	MNR
Cash and investments to operations (%)	N.A.	1,253.2	1,735.1	1,133.0	1,127.3	1,101.4
Cash and investments to debt (%)	N.A.	1,207.2	1,395.5	1,300.5	1,247.8	972.2

Grinnell College, Iowa Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AAA' rated private colleges and universities
	2023	2022	2021	2020	2019	2021
Cash and investments to pro forma debt (%)	N.A.	1,207.2	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	1,163.1	1,622.3	1,037.1	1,036.1	882.4
Expendable resources to debt (%)	N.A.	1,120.4	1,304.7	1,190.4	1,146.9	789.9
Expendable resources to pro forma debt (%)	N.A.	1,120.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	17.5	17.4	17.2	18.3	13.2

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

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