

U.S. Independent Schools Are Well Prepped For Continued Credit Strength In 2008

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Mimicking its U.S. higher education counterparts, the independent school sector, including such elite preparatory names as Phillips Andover Academy, Mass. and Phillips Exeter Academy, N.H., will likely exhibit credit stability over the next year, despite some mixed sentiment for lower-rated and speculative-grade institutions. We also expect new debt issuance in 2008 to be lower in volume than the records set in recent years.

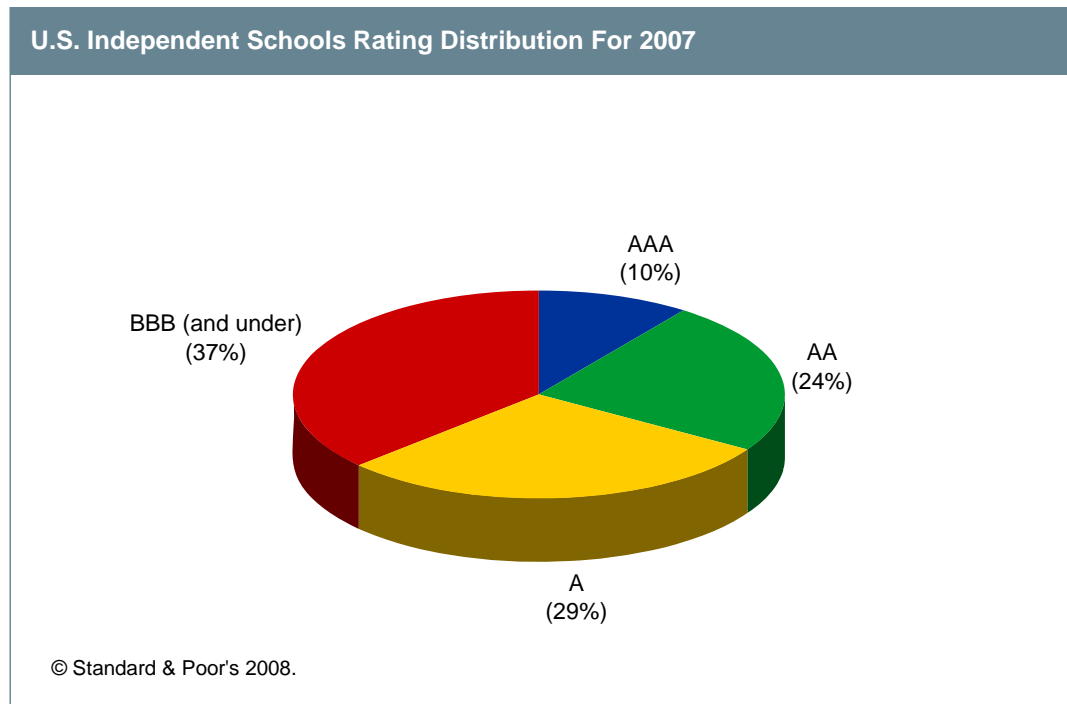
Independent schools, which include private primary and secondary institutions, represent less than 10% of Standard & Poor's Ratings Services' education and non-traditional, not-for-profit group rating universe. Of the roughly 100 rated obligors, Standard & Poor's rates 51 with stand-alone or underlying ratings (SPUR). Despite their relative small number, many independent schools have significantly increased their endowments through substantial gifts and investment returns, and some are approaching or have even topped \$1 billion, putting them in the league of higher education institutions. Phillips Andover Academy, for example, had an endowment of roughly \$812 million as of Sept. 30, 2007, and Phillips Exeter's is more than \$1 billion. This boost has helped strengthen these school's balance sheets, which is needed to help offset their higher debt burdens in recent years. At the same time, the sector's increasing costs and competition remain a challenge.

While the sector faces a potentially weaker economy, institutions with solid finances should easily maintain their competitive strength and financial characteristics. The risk of downward rating changes or outlook revisions could increase mostly for the smaller and lower-rated schools (see chart 1) that didn't significantly benefit from the strong investment markets in 2002-2007 or substantial fundraising gifts. However, most institutions could experience some dislocation in the form of weaker investment performance, and rising expenses for energy, insurance, and borrowing costs.

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Chart 1



Most Rating Trends Were Positive In 2007

During 2007, Standard & Poor’s observed positive credit trends overall and a higher level of new issuance activity within its sector of rated independent schools. Standard & Poor’s rated several new independent schools in 2007, with private ratings or credit assessments provided in some cases (see table 2 and 3). Although the sector produced an increase in new money activity, the volume of those deals and their dollar amounts are down from record highs in the preceding years. This change was due in part to the lack of a steady stream of refinancing activity, and we do not expect issuance volume to regain the same record pace in 2008.

Investment returns were exceptionally strong in 2007, with average endowment performance for the 12-months ended June 30, 2007, well over 10%, leading to a third consecutive year of double-digit returns for many independent schools. Several institutions, particularly the wealthiest ones, had returns of more than 20%. This endowment growth, coupled with record fundraising, helped independent schools to improve their financial performance and balance sheets. This financial growth is especially important given the significant levels of debt that institutions have incurred over the past five years that were used for a combination of increased capacity and renovation projects.

Fundraising efforts in 2007 continued with record levels of giving at many institutions. Gift giving now plays a major role in both financial operations and balance sheet growth. Standard & Poor’s noticed a reduction in the numbers of alumni giving to schools, or the alumni participation rate, but record levels of major gifts have offset the reduced number of alumni giving. Furthermore, parent giving has improved in recent years and is having a significantly positive effect on the level of gifts that an institution receives. Many schools are now in the middle of very ambitious comprehensive campaigns.

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Campaigns stress the need for more financial aid, attracting and retaining faculty, adding new academic programs, and improving facilities.

Overall demand continues to be strong at independent schools given the state of the economy in recent years. We expect to see some demand slowdown especially for private day schools if the economy enters into a recession. This is partly due to parents being forced to make a choice between sending their children to a private day school or a private college. However, boarding schools should remain in good shape due to their larger student draws.

Table 1

U.S. Independent Schools Financial Statistics For 2006*

	<i>—Rating Category—</i>			
	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>
<i>Demand</i>				
Total headcount				
Mean	775	629	900	610
Median	616	540	782	544
Freshman selectivity ratio (%)				
Mean	21.6	33.1	50.7	55.5
Median	22.3	26.6	50.0	56.1
Freshman matriculation ratio (%)				
Mean	63.3	69.4	64.8	59.9
Median	63.7	65.9	68.1	61.5
<i>Revenue diversity</i>				
Tuition dependence (%)				
Mean	47.3	47.4	69.2	78.9
Median	47.3	46.9	69.7	79.8
Investment and endowment income as a percentage of revenue (%)				
Mean	21.4	18.8	6.6	2.8
Median	23.8	9.3	5.2	2.5
<i>Financial aid and expense</i>				
Financial aid burden as a percentage of expenses (%)				
Mean	10.8	9.0	9.2	9.9
Median	12.7	10.6	10.4	10.2
Tuition discount rate (%)				
Mean	22.4	16.3	13.0	11.7
Median	25.3	19.6	14.3	12.1
Instruction (%)				
Mean	27.6	42.0	55.2	53.4
Median	27.3	36.4	57.9	48.8
<i>Endowment</i>				
Endowment market value (Mil. \$)				

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Table 1

<i>U.S. Independent Schools Financial Statistics For 2006* (cont.'d)</i>				
	<i>—Rating Category—</i>			
	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>
Mean	511,278	159,457	43,916	9,570
Median	389,001	163,020	38,595	9,145
<i>Liquidity ratios</i>				
Cash and investments to operations (%)				
Mean	975.1	603.0	214.1	100.0
Median	940.4	580.3	175.4	91.8
Unrestricted resources to operations (%)				
Mean	290.6	359.6	135.6	55.5
Median	256.6	307.1	98.9	48.2
Expendable resources to operations (%)				
Mean	743.8	454.1	172.6	75.3
Median	737.0	378.7	136.8	65.0
Cash and investments to debt (%)				
Mean	1457.2	609.2	330.6	187.5
Median	1068.2	596.5	296.8	158.2
Unrestricted resources to debt (%)				
Mean	379.7	348.0	186.9	94.2
Median	271.1	286.9	170.7	74.3
Expendable resources to debt (%)				
Mean	1111.4	462.5	246.1	123.8
Median	814.5	397.0	195.4	100.6
<i>Debt ratios</i>				
Total outstanding debt (Mil. \$)				
Mean	42,657	26,990	15,277	9,968
Median	40,000	29,995	16,596	7,964
Current debt service burden (%)				
Mean	3.8	6.0	5.4	5.4
Median	3.3	5.8	5.6	5.2
Average age of plant (years)				
Mean	10.6	11.1	10.8	8.8
Median	9.9	11.0	10.1	9.2
<i>Full-time equivalent ratios</i>				
Net tuition per headcount (\$)				
Mean	24,912	21,782	17,342	17,569
Median	25,149	22,553	17,883	17,916
Adjusted operating revenue per headcount (\$)				
Mean	72,096	68,389	29,912	24,932
Median	71,193	64,326	30,745	24,558

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Table 1

<i>U.S. Independent Schools Financial Statistics For 2006* (cont.'d)</i>				
	<i>—Rating Category—</i>			
	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>
Total operating expenses per headcount (\$)				
Mean	61,512	50,928	25,446	21,696
Median	60,095	48,551	23,414	21,018
Debt per headcount (\$)				
Mean	59,814	62,132	22,852	16,991
Median	63,511	65,875	17,247	15,556
Unrestricted resources per headcount (\$)				
Mean	206,553	245,134	45,539	12,927
Median	171,459	179,131	25,432	10,362
Expendable resources per headcount (\$)				
Mean	527,106	296,510	55,781	16,296
Median	531,660	190,647	32,025	15,244
Endowment market value per headcount (\$)				
Mean	659,096	321,985	67,236	16,366
Median	673,831	309,246	50,437	14,643

* Most recent data available at the time of publication.

Rating Criteria For Independent Schools

Our rating criteria for independent schools is very similar to the qualities we would evaluate private colleges and universities. Although the factors we consider when assigning a rating are congruent for all independent schools, differences in rating categories are the result of a number of factors relative to the institution's peer group. These quantitative factors include, but are not limited to, the school's demand profile, niche and competitive position, financial resources and debt burden relative to the overall size of its operation, and ongoing financial performance and flexibility. These institutional differences are largely reflected in the independent school ratios (see table 1).

However, Standard & Poor's also considers a number of qualitative factors, including strength and depth of the institution's senior management team and governing board, which might considerably affect the ultimate rating assigned. Furthermore, while we don't track fund-raising data in our ratio table, we watch for strong annual fund performance. In particular, a high parent and alumni participation rate as well as history of successful comprehensive capital campaign could favorably affect the assigned credit rating. Lastly, we evaluate an institution's operating performance on a generally accepted accounting principles (GAAP) basis, and a history of positive operating performance is a key factor in credit ratings.

Emily Avila provided statistical assistance.

Table 2

<i>Independent School Ratings By Rating</i>			
<i>Institution</i>	<i>State</i>	<i>Rating</i>	<i>Outlook</i>
Deerfield Academy	MA	AAA	Stable

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Table 2

Independent School Ratings By Rating (cont. 'd)			
Institution	State	Rating	Outlook
Hotchkiss School	CT	AAA	Stable
Phillips Andover Academy	MA	AAA	Stable
Phillips Exeter Academy	NH	AAA	Stable
St. Paul's School	NH	AAA	Stable
Groton School	MA	AA+	Stable
Western Pennsylvania School for Blind Children	PA	AA+	Stable
Albuquerque Academy	NM	AA	Stable
Hockaday School	TX	AA	Stable
Peddie School	NJ	AA	Positive
St Andrew's School	DE	AA	Stable
St Johns School	TX	AA	Stable
St Mark's School	TX	AA	Stable
Taft School	CT	AA	Stable
Emma Williard School	NY	AA-	Stable
Milton Academy	MA	AA-	Stable
Thacher School	CA	AA-	Stable
John Burroughs School	MO	A+	Stable
Nightingale-Bamford School	NY	A+ (SPUR)	Stable
Belmont Hill School	MA	A	Stable
Dexter and Southfield Schools	MA	A (ICR)	Stable
Germantown Friends School	PA	A	Stable
Westminster School	CT	A (SPUR)	Stable
Westtown School	PA	A (SPUR)	Stable
Collegiate School	VA	A-	Stable
Creighton Preparatory School	NE	A-	Stable
Germantown Academy	PA	A-	Stable
Haverford School	PA	A- (SPUR)	Stable
Holland Hall School	OK	A-	Stable
Norwich Free Academy	CT	A- (SPUR)	Positive
Pomfret School	CT	A- (ICR)	Stable
Thayer Academy	MA	A-	Stable
St. John's High School of Worcester County Inc.	MA	BBB+	Negative
Suffield Academy	CT	BBB+	Stable
Berwick Academy	ME	BBB	Stable
Bullis School	MD	BBB (SPUR)	Stable
Crossroads School	CA	BBB	Stable
Gonzaga College High School	DC	BBB (SPUR)	Stable
Packer Collegiate Institute	NY	BBB (SPUR)	Stable
Rumson Country Day School (The)	NJ	BBB	Stable
Viewpoint School	CA	BBB (SPUR)	Stable
Waynflete School	ME	BBB	Stable

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Table 2

Independent School Ratings By Rating (cont. 'd)			
Institution	State	Rating	Outlook
Denver Academy	CO	BBB-	Stable
Derryfield School	NH	BBB-	Stable
Green Acres School	MD	BBB-	Stable
Marymount School of New York	NY	BBB-	Positive
McLean School	MD	BBB-	Stable
New Hampton School	NH	BBB-	Stable
Wheeler School	RI	BBB-	Stable
Cambridge Friends School	MA	BB+	Stable
Evergreen Country Day School	CO	BB	Stable

SPUR—Standard & Poor's underlying rating. ICR—Issuer credit rating.

Table 3

Independent School Ratings by State			
Institution	State	Rating	Outlook
Crossroads School	CA	BBB	Stable
Thacher School	CA	AA-	Stable
Viewpoint School	CA	BBB (SPUR)	Stable
Denver Academy	CO	BBB-	Stable
Evergreen Country Day School	CO	BB	Stable
Hotchkiss School	CT	AAA	Stable
Norwich Free Academy	CT	A- (SPUR)	Positive
Pomfret School	CT	A- (ICR)	Stable
Suffield Academy	CT	BBB+	Stable
Taft School	CT	AA	Stable
Westminster School	CT	A (SPUR)	Stable
Gonzaga College High School	DC	BBB (SPUR)	Stable
St Andrew's School	DE	AA	Stable
Belmont Hill School	MA	A	Stable
Cambridge Friends School	MA	BB+	Stable
Deerfield Academy	MA	AAA	Stable
Dexter and Southfield Schools	MA	A (ICR)	Stable
Groton School	MA	AA+	Stable
Milton Academy	MA	AA-	Stable
Phillips Andover Academy	MA	AAA	Stable
St. John's High School of Worcester County, Inc.	MA	BBB+	Negative
Thayer Academy	MA	A-	Stable
Bullis School	MD	BBB (SPUR)	Stable
Green Acres School	MD	BBB-	Stable
McLean School	MD	BBB-	Stable
Berwick Academy	ME	BBB	Stable

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Table 3

Independent School Ratings by State (cont.'d)			
Institution	State	Rating	Outlook
Waynflete School	ME	BBB	Stable
John Burroughs School	MO	A+	Stable
Creighton Preparatory School	NE	A-	Stable
Derryfield School	NH	BBB-	Stable
New Hampton School	NH	BBB-	Stable
Phillips Exeter Academy	NH	AAA	Stable
St. Paul's School	NH	AAA	Stable
Peddie School	NJ	AA	Positive
Rumson Country Day School (The)	NJ	BBB	Stable
Albuquerque Academy	NM	AA	Stable
Emma Williard School	NY	AA-	Stable
Marymount School of New York	NY	BBB-	Positive
Nightingale-Bamford School	NY	A+ (SPUR)	Stable
Packer Collegiate Institute	NY	BBB (SPUR)	Stable
Holland Hall School	OK	A-	Stable
Germantown Academy	PA	A-	Stable
Germantown Friends School	PA	A	Stable
Haverford School	PA	A- (SPUR)	Stable
Western Pennsylvania School for Blind Children	PA	AA+	Stable
Westtown School	PA	A (SPUR)	Stable
Wheeler School	RI	BBB-	Stable
Hockaday School	TX	AA	Stable
St. John's School	TX	AA	Stable
St. Mark's School	TX	AA	Stable
Collegiate School	VA	A-	Stable

SPUR—Standard & Poor's underlying rating. ICR—Issuer credit rating.

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