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Reed College, Oregon; Private Coll/Univ - General Obligation

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Table Of Contents

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Credit Profile		
Reed Coll taxable fixed rate bnds ser 2022A due 07/01/2052		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Reed College, Ore.'s series 2022A taxable fixed-rate bonds.
- The outlook is stable.

Security

Reed's debt consists entirely of the $125.0 million series 2022A bonds, which are 30-year, fixed-rate, taxable bonds with a bullet maturity. To prepare for the bullet maturity, the college has a robust internal amortization program with annual reporting to the board for the life of the bonds. The bonds are a general obligation of the college. We view the college's debt burden as low compared with those of similarly rated peers, and we view the smoothed maximum annual debt service burden of 5.8% as average. Management does not expect to issue additional debt within the two-year outlook period.

Credit overview

We assessed Reed's enterprise risk profile as very strong, characterized by above-average student quality, improved selectivity, and excellent geographic diversity, offset by weak matriculation. We assessed Reed's financial risk profile as very strong, with a track record of healthy operations and robust financial resource ratios for the rating, offset by a relatively high average age of plant. We believe these credit factors, combined, lead to an anchor of 'aa-' and a final rating of 'AA-'.

The rating reflects our view of Reed College's:

- Consistently positive margins on a full-accrual basis, including a solid surplus of 7.9% in fiscal 2024, though we expect softer results in the outlook period;
- Lower reliance on student-derived income than many similarly sized liberal arts institutions, as tuition and auxiliary fees made up 67% of fiscal 2024 total adjusted operating revenues; and
- Skilled and stable management team that has maintained a consistent brand for the college's close-knit culture.

In our view, the preceding credit strengths are in part offset by:

- Heightened competition among top liberal arts colleges, as demonstrated by a relatively low matriculation rate of 14% in fall 2024, and
- Relatively high average age of plant at 19.0 years as of fiscal 2024.

Founded in 1908, Reed College is a coeducational, independent liberal arts and sciences college. Reed is known for its academic rigor, creative thinking, and engaged citizenship. The college offers 40 majors and programs on a partially wooded 116-acre campus five miles from downtown Portland, Ore.

Environmental, social, and governance

We analyzed the college's environmental, social, and governance factors related to its market position and financial performance. We view these factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Reed will maintain an attractive liberal arts niche that supports enrollment around its target size, with robust financial resources and a manageable debt burden.

Downside scenario

We could consider a negative rating action if the college's demand metrics, particularly matriculation and retention, declined significantly. We could also consider a negative rating action if enrollment pressure or increased discounting led to persistent operating deficits and a material weakening of balance sheet resources.

Upside scenario

We could consider a positive rating action if the college improves its demand profile, particularly selectivity, graduation, and matriculation rates, while maintaining healthy operating margins and strong financial resources.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

Historically, Reed's enrollment has been relatively stable and slightly above its target size of 1,440 full-time-equivalent (FTE) students. However, the college has experienced some variability in enrollment over the last few years. Following a drop during the height of the pandemic, enrollment was above target in fall 2021 and fall 2022. Management then sought to limit growth as the college is committed to maintaining a close-knit campus culture and a low student-faculty ratio. But in fall 2024, enrollment was below budget at 1,332 FTE students due in part to the government's delays processing information from the Free Application for Federal Student Aid (FAFSA) and a one-time communication error with some applicants. We do not believe this signals longer term demand pressure for the college.

Reed continues to compete for high-quality students both nationally and internationally. More than 90% of students come from out of state. Selectivity is strong and improving, as the college accepts only 24% of applicants. Matriculation remains low at 14%. Management attributes lower matriculation to a shift in the quality of students it attracts and the competing institutions to which they apply. However, there are plans in place to increase yield, including more personalized outreach to admitted students. The freshman retention rate for fall 2024 was good at 87%, although below the rating category median.

Management and governance

Audrey Bilger has served as Reed's president since July 2019. Recently the college added a new advancement officer. The rest of the management and board leadership has been stable, which we view positively. The college is governed by a self-perpetuating board of trustees that consists of at least 25 members.

Reed operates under a strategic plan with goals for growth and change in academic programs, supporting student development, welcoming diversity, and improving career preparation. We would view improvement in matriculation and graduation rates as a result of the college's strategic initiatives favorably. Reed College has formal policies for endowment, investments, debt, and its internal amortization program that addresses the series 2022A bullet maturity. Reed also has a formal endowment liquidity policy and meets standard annual disclosure requirements.

Financial Risk Profile--Very Strong

Financial performance

Reed has a track record of positive full-accrual operations, and this continued in fiscal 2024 with a surplus of $12.6 million, or 7.9% of adjusted operating expenses. Operations benefited from increased revenue from auxiliaries and gifts and private grants. The college is less reliant on student-derived revenues than peers, which we view as a credit strength. Tuition and auxiliaries make up approximately 67% of total adjusted operating revenue. Reed's discount rate increased to 41% in fiscal 2024, which is line with those of peers. Management plans to slightly lower the discount rate in the outlook period.

We expect Reed will generate a weaker operating result in fiscal 2025, driven by lower-than-expected enrollment and discounting over target. However, we still view operating performance positively as management has a history of conservative budgeting for modest surpluses, which has supported growth in financial resources.

Financial resources

In our opinion, Reed's financial resource ratios continue to be very strong for the rating. The college saw solid growth in resources in fiscal 2024, supported by good market returns. Cash and investments grew by 9% to $940.0 million. The endowment grew by 9.7% to net assets of $791.0 million. The endowment spend rate has been consistent at 5% of a rolling 13-quarter average, which we consider standard.

Reed has a history of strong fundraising. The college is in the silent phase of a large comprehensive campaign, and management reports solid progress toward its goal.

Debt and contingent liabilities

In addition to a defined contribution pension plan and a defined contribution retiree health plan for employees hired after July 1, 2006, the college maintains a defined benefit retiree medical insurance plan for certain employees hired before July 1, 2006, with a total $25.3 million benefit obligation as of fiscal year-end 2024. The plan is funded as benefits are paid and annual benefit payments are included in the operating budget.

Reed's total debt burden is low compared with those of similarly rated peers. The college does not have any direct-placement debt and does not have plans for additional debt within the outlook period. Management plans to use recent operating surpluses to support facility projects. Recent and upcoming capital projects include the college's sports center, IT infrastructure, and boiler plant updates.

Reed College, Oregon--enterprise and financial statistics						
	--Fiscal year ended June 30--					Medians for 'AA' category rated private colleges and universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	1,332	1,423	1,506	1,532	1,355	7,994
Undergraduates as a % of total enrollment	99.8	99.6	99.9	99.7	98.6	70.5
First-year acceptance rate (%)	23.7	27.2	30.8	43.8	42.3	14.4
First-year matriculation rate (%)	13.6	12.9	14.2	16.3	15.4	38.4
First-year retention rate (%)	87.0	86.0	86.0	87.0	83.0	95.0
Six-year graduation rate (%)	71.5	76.0	80.0	73.0	77.0	91.1
Income statement						
Adjusted operating revenue ($000s)	N.A.	171,154	158,269	159,546	136,051	MNR
Adjusted operating expense ($000s)	N.A.	158,590	152,431	145,560	132,828	MNR
Net operating margin (%)	N.A.	7.9	3.8	9.6	2.4	2.4
Change in unrestricted net assets ($000s)	N.A.	41,618	12,630	(13,118)	109,019	MNR
Tuition discount (%)	N.A.	40.6	38.1	39.8	37.4	39.3
Student dependence (%)	N.A.	67.1	70.0	69.1	66.2	60.8
Research dependence (%)	N.A.	1.6	2.5	5.4	2.2	3.3
Debt						
Outstanding debt ($000s)	N.A.	125,000	125,000	125,000	97,400	612,704
Current MADS burden (%)	N.A.	5.8	5.9	6.2	6.0	4.9
Average age of plant (years)	N.A.	19.1	18.8	19.4	18.4	14.7
Financial resource ratios						
Endowment market value ($000s)	N.A.	790,961	720,867	696,435	747,245	2,219,768
Cash and investments ($000s)	N.A.	939,963	859,974	835,132	862,608	2,821,640
Cash and investments to operations (%)	N.A.	592.7	564.2	573.7	649.4	373.7
Cash and investments to debt (%)	N.A.	752.0	688.0	668.1	885.6	472.3

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 MADS burden = 100*(maximum annual debt service expense/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