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New Issue

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Rollins College, FL

New Issue - Moody's Assigns A2 to Rollins College's (FL) Series 2016A; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Rollins College's ("Rollins") $13.1 million of fixed rate Series 2016A Revenue Bonds (expected maturity in 2046) to be issued through the Florida Higher Educational Facilities Financing Authority. We also have affirmed the A2 ratings on the prior bonds. Total pro-forma rated debt outstanding is $137 million.

The A2 rating reflects Rollins' very good strategic positioning, evidenced by solid philanthropic support, net tuition revenue growth and diversified revenue sources to strategically invest in capital projects and program development. Though the college operates in a highly competitive student market for traditional undergraduates, it has broader programmatic offerings and scale relative to typical liberal arts colleges. The rating also considers the college's moderately high debt burden relative to revenues, modest liquidity, and thin operating performance pressured by expense growth.

Credit Strengths

» Donor support remains consistently healthy, with average annual gift revenue of $13 million from FY 2013-2015

» Attractive campus near the growing city of Orlando with a variety of programs, and moderate enrollment scale (over 3,200 students in fall 2015)

» Favorable and growing revenue diversity aided by successful commercial real estate and hotel adjoining the campus, reduces reliance on student-related charges

Credit Challenges

» Modest liquidity position relative to other A-rated colleges, with 165 monthly days cash on hand at FYE 2015, limits financial flexibility

» Highly competitive student market, with softening yield on admitted students

» Moderately high financial leverage limits debt capacity, with pro-forma debt to operating revenue of over 1 times, with debt service comprising a relatively high 7.6% of expenses

Rating Outlook

The stable outlook reflects expectations that the college will generate at least balanced operating performance and that gifts and improved cash flow will bolster reserves over

time. The outlook also incorporates expectations that the college will maintain considerable headroom above its debt service coverage covenant.

Factors that Could Lead to an Upgrade

» Material growth of liquid reserves relative to peers

» Stronger cushion of spendable cash and investments relative to debt and expenses

» Improved operations leading to stronger cash flow and debt service coverage

Factors that Could Lead to a Downgrade

» Additional debt absent sustained improvement in cash flow and increased reserves

» Contraction of liquidity

» Sustained deterioration of student demand or inability to generate revenue growth

Key Indicators

Exhibit 1

ROLLINS COLLEGE, FL	2011	2012	2013	2014	2015	2015 $13M new
Total FTE Enrollment	3,043	3,078	2,975	3,070	3,264	3,264
Operating Revenue ($000)	103,165	104,891	107,317	123,629	133,917	133,917
Annual Change in Operating Revenue (%)	0.0	1.7	2.3	15.2	8.3	8.3
Total Cash & Investments ($000)	367,100	340,910	352,298	358,072	360,974	360,974
Total Debt ($000)	106,139	134,828	132,998	129,599	127,294	138,479
Spendable Cash & Investments to Total Debt (x)	1.8	1.2	1.3	1.3	1.3	1.2
Spendable Cash & Investments to Operating Expenses (x)	1.8	1.5	1.5	1.3	1.3	1.2
Monthly Days Cash on Hand (x)	329	349	210	147	165	165
Operating Cash Flow Margin (%)	12.4	11.0	9.5	9.7	15.2	15.2
Total Debt to Cash Flow (x)	8.3	11.7	13.1	10.8	6.3	6.8

FTE Enrollment is for the fall of the indicated year
Source: Moody's Investors Service

Recent Developments

Incorporated in Detailed Rating Considerations

Detailed Rating Considerations

Market Profile: Strong Competition, but Solid Demand for its Core Undergraduate Program

Rollins' attractive campus near Orlando and academic programs will drive sustained and solid student demand, particularly for its undergraduate day program. The college has a unique mix of student enrollment, which has been beneficial to weather cyclical enrollment trends. Of the college's 3,264 full-time equivalent (FTE) students in fall 2015, roughly 60% represent traditional undergraduate students, 28% are evening students in undergraduate or masters programs, and 12% are graduate business students.

Net tuition revenue growth remains consistent for the college's core undergraduate program. Some of the variable enrollment and net tuition patterns were driven by softness in its business school professional programs, due to the financial downturn. Net tuition per

student has generally been rising, up every year for the past 10 years except for one. Aggregate net tuition per student, including the lower cost evening program netted a solid $21,012 per student in FY 2015 and trends evidence moderate pricing power, particulary for its traditional undergraduate program.

Fall 2016 deposits for first year students are up considerably over the prior year and at a similar level to 2014 when the college enrolled one of its largest classes. The college enrolls over half of its students from Florida, a still demographically vibrant region, but remains focused on increasing enrollment from other markets to diversify enrollment.

Operating Performance: Improved Operations Benefit from Greater Revenue Diversity

Operations improved materially in FY 2015, but will likely remain thin given the college's continued investments in programs, plant, and personnel. For FY 2015, the operating margin was close to balanced (0.4% deficit), with a solid 15% cash flow margin, generating nearly 2 times debt service coverage. The additional debt service from the current new money borrowing will be wrapped around existing debt service, and that combined with the expected savings from the separate refunding will not materially alter the debt service requirement. Management projects FY 2016 operations to be similar to FY 2015 results.

The operations of the Alfond Inn, consolidated within the college's financial statements, is the driver for the increased revenue diversity and the significant growth in revenues and expenses since FY 2013. In FY 2015 the inn's gross revenues were $15 million. Student charges revenue comprises nearly 62% of Moody's adjusted revenue compared to 72% just two years ago. All other revenue streams have remained relatively stable. Profitability at the Inn has swelled since FY 2013 and rental streams from the other commercial properties have remained stable.

Wealth and Liquidity: Expect Moderate Improvement in Spendable Reserves Cushion Relative to Recent Years

Rollins' spendable reserves provide moderate financial flexibility. Spendable cash and investments of $171 million in FY 2015 cushioned pro-forma debt by 1.2 times and expenses by 1.3 times, compared to preliminary A2 median of 1.6 and 1.3 times, respectively. Strategic investments and recent years of thin cash flow have contributed to slower growth in reserves than peers. With improved cash flow in FY 2015 and continued strong donor support, however, there is potential upside for stronger growth in the future. Gift revenue has averaged nearly $13 million annually from FY 2013-2015.

Not reflected in spendable cash and investments are the college's real estate assets of its commercial properties and hotel, which is well above the book value of $59 million reflected in the financial statements. Given the profitability of these properties and the landlocked nature of the college's location, we believe there are no near term plans to sell these assets.

Oversight, management, and asset allocation of the investment portfolio is commensurate with similarly-sized endowments. As of March 31, 2016, the fiscal year to date return was a loss of 5.3% (May 31 FYE) and the total market value of the endowment was $315 million. At that time, unfunded commitments totaled $27.6 million, for which the college has ample liquidity within the endowment to manage. Roughly 45% of the endowment is available within one week.

LIQUIDITY

The college's operating liquidity is thin on an absolute basis and relative to expenses for the A-rating category. Monthly liquidity of $54 million provides 165 days cash on hand at FYE 2015. Rollins' liquidity declined substantially from a high of $96 million in FY 2012 because it used roughly $30 million toward the Inn's construction costs. This amount is scheduled to be repaid to the college, with interest, in 2039.

Partially mitigating the risk of its liquidity position, is their improving cash flow and relatively limited calls on liquidity, given their fixed-rate debt structure and generally predictable expenses.

Leverage: Moderately High Financial Leverage, But No Plans for Additional Debt

The college's pro-forma debt burden remains somewhat elevated for the rating level, but financial leverage will likely continue to moderate given anticipated growth in revenue and reserves, as well as an amortizing debt structure and no future debt plans. Pro-forma debt to revenue is approximately 1.0 times in FY 2015.

The college intends for future capital investment to be funded either by gifts or from operations. Possible projects funded by this issuance include: potential purchases of property, building a child development center, and renovations of various buildings.

DEBT STRUCTURE

All of Rollins' debt is fixed-rate with level amortization through FY 2038 when the debt service steps down to $8.6 million before trailing off to $1.8 million through the planned maturity of the Series 2016A bonds in FY 2047. Maximum annual debt service of $9.9 million is reached in FY 2018.

Contemporaneous with the issuance of the Series 2016A bonds, the college plans to refund the Series 2007 bonds with a private bank placement (Series 2016B). Based on the proposed Continuing Covenant Agreement (CCA), the college is required to maintain at least 1.15 times to 1.00 times debt service coverage tested at the end of each fiscal year. Failure to adhere to the requirement is not an Event of Default that would lead to an acceleration, but the college would be required to hire a consultant. The commitment term is 20 years, and there are no scheduled put options by the bank.

DEBT-RELATED DERIVATIVES

The college's liquidity position relative to an amortizing orphan swap with a notional amount of $12.3 million and no collateral posting requirements mitigate the related risks. The swap's market value was a liability to the college of $3.7 million at FYE 2015.

PENSIONS AND OPEB

The college has very limited retirement benefit exposure through its defined contribution plan as the board determines the contribution amounts. The total expenses to the plan represented less than 3% of the college's expenses for FY 2015. The college does not offer post-retirement health benefits (OPEB).

Governance and Management: New President and Board Lead Upcoming Strategic Planning Process

Rollins' new president joined on July 1, 2015 from a small liberal arts college in the Midwest, followed by the hiring of a new vice president for enrollment management and vice president for academic affairs/provost, transitions not uncommon under a new leader. The senior leadership team and the board are working closely to define a thorough strategic planning process and fundraising campaign priorities. We expect the college to maintain its solid student demand, a sound fiscal position, and strong philanthropic support, contributing to very good strategic positioning.

Legal Security

All bonds are a general obligation of the college, with a lien on the college's revenues. The Series 2007 bonds (expected to be refunded with the Series 2016B bonds via a bank direct purchase) had a senior lien security interest in the college's revenues under the 2002 Master Trust Indenture, which was closed through a March 1, 2010 amendment.

The Series 2016A bonds are on parity with the Series 2010 tax-exempt, 2010 taxable, 2012A, and 2012B bonds ("Parity Bonds"). These Bonds were subordinate to the Series 2007 bonds but after the refunding will be senior bonds.

The lien on the revenues securing the Parity Bonds, including the Series 2016A and 2016B bonds will be released when the 2010 taxable series are no longer outstanding. Once the lien is released, there will be no lien on revenues and all bonds will be an unsecured general obligation of the college.

The 2002 MTI, which will be defeased after the refunding is complete, includes an additional bonds test providing that Maximum Annual Debt Service (MADS) should not exceed 15% of Revenues, as well as a Current Debt Service Coverage Covenant of at least 1.0 times, which was 2.1 times at FYE 2015.

There are no debt service reserve fund requirements.

Use of Proceeds

Thee proceeds of the Series 2016A bonds are expected to be used for the purpose of financing certain property acquisitions and campus renovations and improvements, and paying issuance costs.

Obligor Profile

Rollins College is a private comprehensive liberal arts college established in 1885 with FTE enrollment of 3,264 students in fall 2015. The college is located in Winter Park, Florida, approximately five miles northeast of Orlando. Rollins is primarily a traditional

undergraduate institution, but also offers bachelor's and master's evening degree programs designed for working adults and a graduate business school.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology

Ratings

Exhibit 2

Rollins College

Issue	Rating
Revenue Bonds, Series 2016A	A2
Rating Type	Underlying LT
Sale Amount	$13,100,000
Expected Sale Date	06/09/2016
Rating Description	Revenue: 501c3 Unsecured General Obligation

Source: Moody's Investors Service

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