

The Citadel, the Military Coll. of S.C.

S.C. Board of Visitors of the Citadel

Contacts

Joseph Beare 212-553-7209
Thomas E. Calibeo 212-553-4982

Moody's Rating

Issue	Rating
Revenue Bonds, Series 1997	A2
Sale Amount \$25,065,000.00	
Expected Sale Date 10/14/97	
Rating Description Higher Education Revenue	

Opinion

Moody's Investors Service has assigned an A2 rating with a positive outlook to The Citadel, the Military College of South Carolina's Series 1997 Revenue Bonds. The rating and outlook are based on the Citadel's distinctive, albeit narrow, market position as a public military college and expected expansion of the student applicant pool; well-diversified operating revenues resulting in comfortable debt service coverage; and balance sheet resources which adequately cushion annual operations as well as the increased debt burden.

STUDENTS DRAWN FROM SMALL APPLICANT POOL TO MILITARY ENVIRONMENT; APPLICANT BASE EXPECTED TO IMPROVE DESPITE NEGATIVE PUBLICITY OVER TRANSITION TO COEDUCATION:

As one of the few state-supported military institutions in the country, the Citadel attracts a small, yet consistent pool of applicants from throughout South Carolina and the rest of the country. Stable demand for the distinctive corps of cadets program is evidenced by the above-average 50% matriculation rate and consistent flow of second generation cadets. The Citadel revised its single-sex admissions policy during 1996 and began to admit female students into its Corps of Cadets. At that time, the Citadel was experiencing modest but steady declines in both the number and academic quality of its traditional applicant pool. Moody's expects the admission of female cadets, along with recent changes in admissions personnel and strategy, will expand the Citadel's overall applicant pool. Females now represent less than 2% of the Citadel's 1,821 corps of cadets.

Total enrollment of 3,121 students at The Citadel is primarily comprised of the full-time undergraduate corps of cadets program. The school also offers part-time undergraduate and graduate programs which have experienced growth in recent years. The College competes for students primarily with other military institutions, such as the Virginia Military Institute and the federal military academies, as well as with the University of South Carolina.

DEBT LEVELS REMAIN MANAGEABLE TO COLLEGE'S FINANCIAL RESOURCES:

The Citadel's balance sheet resources provide an adequate buffer to the College's \$27.2 million aggregate debt. Expendable resources derived from its spendable endowment and operating funds provide over 1.5 times coverage of debt and provide a strong buffer to annual operating expenses (91.7% expendable resources to operations). Moderate growth in resources has been led by endowment gains and gifts received through the Citadel's affiliated foundations, most notably the Citadel Development Foundation (CDF). While the College receives support in excess of \$2 million a year from CDF, coordinated fundraising efforts are only just beginning. Over the next several years, such efforts are expected to raise funds for plant facilities as well as endowed scholarships at the Citadel.

Funds provided by the current offering will be used to refund the College's Series 1990 Student and Faculty Housing Revenue Bonds, Series 1990 Plant Improvement Bonds, and Series 1995 Student Housing Facilities Bonds, as well as provide funds for the construction of a new 460-bed replacement barracks. The Citadel plans to replace two more barrack facilities over the next few years without incurring additional debt, given funding expected from the State of South Carolina (Aaa) and future capital gifts.

LOW STATE APPROPRIATION LEVELS MITIGATED BY DIVERSE REVENUE STREAMS AND POSITIVE OPERATING MARGINS:

Sound operations despite low levels of state support at the Citadel contribute to healthy operating margins (6.2% in 1997) due in large part to surpluses derived from auxiliary enterprises and operating support provided by affiliated foundations. Operating margins provide a comfortable two times coverage of annual debt service expense. The Citadel's ability to maintain moderate operating surpluses and comfortable debt service coverage despite comparatively low levels of state appropriations (\$4,727 per student) are evidence of well-diversified operating revenue streams from state appropriations, net tuition and fees, auxiliaries, and investment income and gifts. This unusually broad diversification for a public college mitigates the risk of a downturn in any one revenue stream. The Citadel's operations also benefit from a comparatively low \$10,554 educational expense per student.

The Citadel is exposed to a potentially significant assessment for plaintiff attorney fees stemming from challenges to its former all-male cadet admissions policy. However, Moody's does not expect that the college will actually have to pay much of any assessment because a state insurance policy will cover up to \$1 million. Beyond that amount, a special appropriation of the South Carolina legislature or additional fundraising support would be likely avenues of payment before the Citadel would have to spend its own reserves.

Outlook

The positive outlook reflects Moody's expectation that the change to coeducation within the corps of cadets will enlarge the Citadel's currently small applicant pool, reducing its susceptibility to male-only enrollment shifts. Moody's also expects healthy operating surpluses will continue despite relatively stagnant state appropriations, as well as improvement in already favorable external support resulting from closer coordination of fundraising campaigns by the Citadel and affiliated foundations. Future gifts and state capital appropriations are expected to be the main funding source of major plant additions and renovations within the next three years, with no new debt currently planned.

Copyright 1997 Moody's Investors Service