

Rating Update: [Temple College, TX](#)

MOODY'S CONFIRMS A3 UNDERLYING RATING ON TEMPLE COLLEGE'S REVENUE AND REFUNDING BONDS AND REMOVES THE RATING FROM WATCHLIST; OUTLOOK IS STABLE

COLLEGE HAS \$5.4 MILLION OF RATED REVENUE DEBT OUTSTANDING

Temple College, TX
Higher Education
TX

Opinion

NEW YORK, Mar 10, 2008 -- Moody's Investors Service has confirmed the A3 underlying rating on Temple College's Revenue and Refunding Bonds. The rating is removed from Watchlist for possible downgrade. The rating outlook is stable.

LEGAL SECURITY: Payments are secured by a first lien and pledge of Pledged Revenues including the Gross Revenues of the Housing System (the Housing System does not include revenues from dormitory facilities, but does include revenues of the Student Union building) and the Use Fee, which is a mandatory student fee charged to all enrolled students. Bonds are further secured by a reserve fund, rate covenant to maintain 1.25 times coverage from Pledged Revenues, as well as an additional bonds test of 1.25 times coverage of maximum annual debt service.

INTEREST RATE DERIVATIVES: None

STRENGTHS

* Sound market position as demonstrated by healthy enrollment growth during a strong economy and as tuition and fees have continued to increase. Headcount enrollment reached nearly 4,800 students in fall 2007, an increase of almost 12% over the prior year. Located in central Texas along the I-35 corridor between Austin and Dallas, an area of increasing population density, the College expects to experience continued enrollment growth, particularly in the health science fields and dual credit enrollment.

* Consistently solid operating performance, as calculated by Moody's, despite reductions in state appropriations earlier in the decade (three-year average operating margin of 8.7% in FY 2007). Growth of student charges, driven by enrollment growth and increased tuition and fee charges, has offset reduced state funding.

* Mandatory student fees are dedicated to debt service payments and can be increased if necessary; rate covenant, and debt service reserve fund provide additional bondholder security. Pledged Revenues provide adequate coverage of revenue debt obligations, with the College generating 1.71 times coverage in FY 2007.

CHALLENGES

* Poor performance of the College's privatized student housing, resulting in unscheduled draws on the debt service reserve fund. While Temple College is not legally obligated to support the project, the College has chosen to provide partial scholarships to students who reside in the project; to provide services such as landscaping and security free of charge; and to work closely with the Foundation to discuss the project's performance. Based on these actions, we believe the debt associated with this project is relevant to our analysis of the College's revenue bond rating and we include the debt associated with the project as part of our analysis. Management reports that performance has improved since new management was hired in July 2006 and the project was able to generate sufficient cash flow to cover the March 2008 debt service payment without utilizing the debt service reserve fund.

* We remain concerned about the financial reporting related to this privatized student housing project, as the assets and liabilities associated with the project were omitted from the balance sheet of the Foundation when presented as a component unit of the College. A separate audit of the Foundation, by a different auditor, included the project on the balance sheet. According to the College's auditor, the project will be incorporated into the Foundation's balance sheet beginning with the fiscal 2009 audit and the College may restate prior years' financial data.

* Although state appropriations have improved recently, budgetary challenges at the State level may lead to constrained state funding in future years; Appropriations from the State of Texas (general obligation rating of Aa1) comprised 31.2% of operating revenue in FY 2007, down from 40% in the FY 2002.

* Additional capital investment is likely to support continued enrollment growth. Management reports plans to issue approximately \$5 million in revenue debt within the next two years, with no additional general obligation borrowing plans at this time. Bonds will be supported by student fees.

Outlook

Moody's stable rating outlook is based on our expectation that the College will maintain or increase enrollment and associated revenue, thereby continuing to generate good cash flow for debt service. We also anticipate that future borrowing plans will be manageable and will be coupled with continued growth of the College's resource base.

What could change the rating--UP

Substantial growth of Pledged Revenues to provide stronger support for operations and continued strong operating performance contributing to growth of financial resources

What could change the rating--DOWN

Pledged Revenues providing inadequate debt service coverage; substantial increases in revenue debt issuance without commensurate growth of financial resources

KEY DATA AND RATIOS (FY 2007 financial data and fall 2007 enrollment data):

Total Pro-Forma Revenue Debt: \$26.6 million (Includes \$11.3 million associated with student housing project; excludes \$15.6 million of general obligation debt backed by tax revenues)

Total Financial Resources: \$16.0 million

Expendable Financial Resources-to-Revenue Debt: 0.5 times

Expendable Financial Resources-to-Operations: 0.6 times

Three-Year Average Operating Margin: 8.7%

Share of Revenues from State Appropriations: 31.2%

RATED DEBT:

Revenue and Refunding Bonds, Series 2003: A3 underlying; XL Capital insured (XL Capital's current financial strength rating is A3 - on watch for possible downgrade)

Revenue and Refunding Bonds, Series 1996, 2000: A3 underlying; MBIA insured (MBIA's current financial strength rating is Aaa with a negative outlook)

CONTACTS:

College: Wayne Criswell, Vice President for Administrative Services, 254-298-8601

Analysts

Karen Dulitz
Analyst
Public Finance Group
Moody's Investors Service

Roger Goodman
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

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