MOODY'S
RATINGS

Rating Action: Moody's Ratings revises St. Mary's College of Maryland (MD) outlook to negative; affirms A2

20 Jun 2024

New York, June 20, 2024 -- Moody's Ratings (Moody's) has revised St. Mary's College of Maryland (SMCM; MD) outlook to negative from stable and affirmed the A2 issuer and revenue bond ratings. As of fiscal year end 2023, the college recorded $38.5 million in outstanding debt.

The outlook revision to negative reflects Moody's expectations of ongoing pressure on EBIDA margins in FY24 and FY25 as a result of continued expense inflation, and weak prospects for growth in tuition revenue due to competitive market pressures.

RATINGS RATIONALE

The affirmation of St. Mary's College of Maryland's A2 issuer rating reflects its excellent operating environment with financial support from the State of Maryland, as well as the college's unique role as the state's only stand-alone public honors college. Though enrollment losses have stabilized as of fall 2023, competitive market pressures remain. State appropriations provide solid operating diversity, comprising 45% of total operating revenues and reducing dependence on income derived from student charges. While operating appropriations have historically been strong, they are projected to be largely flat between FY24 and FY25. EBIDA margins have thinned markedly and will remain pressured in the near-term due to ongoing expense inflation, and given the college's small scale, it has limited flexibility to reduce expenses without adversely impacting its competitive positioning. Favorably, capital funding from the state allows facility investment without additional debt, though total cash and investment only provide a modest 1x cushion to total adjusted debt as of fiscal 2023. Financial resources will remain limited on a nominal basis, but a 0.9x cushion of total cash and investments to operating expenses provides some flexibility to manage through ongoing pressure on margins.

The affirmation of the A2 revenue bonds rating incorporates the issuer rating and the broad pledge of revenues.

RATING OUTLOOK

The negative outlook reflects Moody's expectations of ongoing pressure on EBIDA margins in FY24 and FY25 as a result of expense inflation, weak prospects for growth in tuition revenue due to competitive market pressures, and a reliance on additional bond proceeds to support operations.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Multiple years of growing enrollment, resulting in sustained increases in net tuition and auxiliary revenue that outpace peers

- Substantial growth in financial resources that provide stronger coverage of total adjusted debt greater than 1x

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to generate EBIDA margins that support debt service coverage above 1.5x in FY25

- Ongoing decline in state operating and capital support

- Significant reduction of financial resources resulting in monthly liquidity below 100 days cash on hand

- Increase in leverage without offsetting revenue growth

LEGAL SECURITY

Bonds are secured by a pledge of academic and auxiliary fees, including tuition and mandatory student fees. The college has agreed to a rate covenant to fix the fees in each fiscal year in an amount sufficient to pay debt service on the bonds. There is no debt service reserve fund.

PROFILE

St. Mary's College of Maryland, The National Public Honors College, is Maryland's only public honors college and is located in St. Mary's City, Maryland, on the St. Mary's River. The college enrolled 1,592 students for fall 2023 and generated operating revenue of $76 million in fiscal year 2023.

METHODOLOGY

The principal methodology used in these ratings was Higher Education Methodology published in August 2021 and available at https://ratings.moodys.com/rmcdocuments/72158. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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