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## New York State Dormitory Authority Brooklyn Law School; Private Coll/Univ - General Obligation

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# New York State Dormitory Authority Brooklyn Law School; Private Coll/Univ - General Obligation

## Credit Profile

**New York State Dorm Auth, New York**

Brooklyn Law Sch, New York

**New York St Dorm Auth (Brooklyn Law Sch) rev bnds ser 2003A**

*Unenhanced Rating*

BBB(SPUR)/Stable

Downgraded

## Rationale

Standard & Poor's Ratings Services lowered its rating on New York State Dormitory Authority's revenue debt, issued for Brooklyn Law School (BLS), one notch to 'BBB' from 'BBB+'. The outlook is stable.

The downgrade reflects our opinion of BLS' significant net tuition revenue decrease and full-accrual deficits over the past three fiscal years due to enrollment decreases and a tuition discount rate that increased by 14% since fiscal 2010. In our view, BLS' weaker credit profile is more commensurate with a lower rating. We, however, believe the school's healthy and improved financial resource ratios support the 'BBB' rating. Although we believe net tuition revenue and operating performance will likely remain pressured in fiscal years 2015 and 2016, we recognize what we consider the strong balance sheet currently provides a sufficient cushion. In our opinion, the maintenance of the current rating will depend on BLS' ability to maintain stable enrollment and improve full-accrual operating performance in fiscal 2016 while it maintains financial resource ratios at or more than current levels.

The rating reflects our opinion of the school's:

- Strong financial resource ratios for the rating category with fiscal 2013 expendable resources of \$114.9 million, or 149% of operations and 283% of debt;
- Solid demand profile, characterized by a solid acceptance rate, above-average student quality, and good geographic diversity; and
- Unique location and provision for student and faculty housing.

We believe somewhat offsetting credit factors include, what we consider, the school's:

- Recently weaker operating performance, resulting in full-accrual deficits over the past three fiscal years and another full-accrual deficit expected in fiscal 2015;
- Significant decrease in applications over the past two years because of a very competitive market that has intensified due to a continuing decrease in the nationwide applicant pool;
- High maximum annual debt service (MADS) of 8.3% of fiscal 2014 operating expenses;
- Very high student-fee dependence with 2014 tuition and fees accounting for 90% of operating revenue; and
- Weak fundraising history due to a lack of a major capital campaign.

BLS is in the historic Brooklyn Heights section in the Brooklyn Borough of New York City. Since the school's founding in 1901, BLS has had a tradition of welcoming students regardless of gender, class, or race. The law school offers both full-time (three-year) and part-time (four-year) programs of study leading to a Juris Doctor (J.D.) degree. In May 2014, BLS launched an accelerated two-year J.D. program. The school requires entering students to have a baccalaureate degree from an accredited college or university. The school guarantees housing to first-year students.

## Outlook

The stable outlook reflects Standard & Poor's opinion that during the next two years, BLS will likely maintain financial resource ratios at current levels, sustain stable enrollment, improve full-accrual operations, and improve fundraising. We could lower the rating during the next two years if BLS' enrollment were to decrease further; if the college were to generate larger full-accrual deficits, coupled with significant net tuition revenue decreases; or if financial resource ratios were to deteriorate. We believe a higher rating is currently unlikely during the next two years due to BLS' significant full-accrual deficits, which have weakened the credit profile to levels commensurate with other 'BBB' rated credits.

## Enterprise Profile

### Demand and enrollment

Like most law schools in the nation, BLS faced significant total full-time-equivalent (FTE) enrollment decreases recently. After total FTE enrollment decreased by 22% from falls 2010-2013, BLS stabilized total FTE enrollment in fall 2014 due to new programs such as the accelerated two-year J.D., introduced in May 2014, and the one-year Master of Laws program for foreign-trained lawyers, introduced in fall 2011. In addition, BLS froze tuition in academic year 2014-2015. The law school sector is still quite volatile, and we believe law schools could experience further enrollment decreases over the next two years. We believe BLS could maintain stable enrollment during the next two years due to its larger first-year J.D. entering classes; new marketing initiatives in international markets such as Russia, India, and China; and new tuition reduction plan. Total headcount was flat at 1,136 and 1,138 in fall semesters 2013 and 2014, respectively. Approximately 80% of its students, or 909, attend the school full time. Management indicates the school decided to reduce the size of the entering class to about 375-400 in fall 2011. BLS' fall 2014 entering class was a much larger 400 compared with 369 in fall 2013. Although the entering class is still below historical levels -- the entering class averaged 494 students from falls 2006-200 -- it grew by 8%, indicating possible enrollment stabilization at a lower enrollment figure. Management is projecting an entering class size of 395 for fall 2015.

In our opinion, BLS' demand profile is weaker due to a significant decrease in applications and weaker selectivity and matriculation. It, however, remains solid for the rating category, characterized by solid selectivity, good student quality, and good geographic diversity. We believe the demand profile will likely remain solid during the next two years. Applications decreased by 11% to 3,376 in fall 2014 from 3,793 in fall 2013; the decrease, however, was smaller than the 18% and 24% decreases in falls 2012 and 2013, respectively. Although selectivity continues to weaken, it remains, in our view, solid for the rating category: The student acceptance rate was 53% for fall 2014. The matriculation rate remained, what we consider, a low 22% in fall 2014. We understand the matriculation rate reflects

the school's increasingly competitive market environment due to a shrinking nationwide applicant pool.

According to management, the school maintained a fall 2014 entering class size that was below historical levels rather than sacrifice the quality of the entering class. BLS could have achieved a larger class size if it had lowered entrance requirements. In our opinion, student quality remains good with a fall 2014 median LSAT score of 156, consistent with 159 in fall 2013. According to management, in addition to LSAT scores, the school increased its focus on undergraduate grade-point averages because it believes grade-point averages are better indicators of student performance. We consider the school's geographic draw diverse with 37% of the fall 2014 entering class coming from outside New York State. The retention rate of 95% for fall 2014 is, in our view, still high. BLS' graduation rate remained consistent, averaging 90% during the past five years.

BLS implemented a tuition-reduction plan in fall 2014 to address affordability and attract more students. The board froze tuition for all students in academic year 2014-2015, and it plans to reduce tuition by 15% for academic year 2015-2016. The overall tuition discount rate increased to 44% in fiscal 2014 from 40% in fiscal 2013. Management indicates the rate increased to 46% in fiscal 2015. According to management, however, it now distributes discounting more evenly among students. Management lowered the discount rate for the entering class to 44% in fiscal 2015, down from 55% in fiscal 2014. Management is projecting the entering class' discount rate will decrease again in fiscal 2016. BLS competes locally with Fordham University School of Law and Benjamin N. Cardozo School of Law, as well as nationally with George Washington University Law School in the District of Columbia, Boston University School of Law and Boston College Law School in Massachusetts, and Emory University School of Law in Georgia.

## **Management**

A self-perpetuating board of trustees governs BLS. The board currently has about 18 members, and it is actively engaged in the affairs of the law school. The board appointed Nick Allard as president and dean of BLS in October 2014. Mr. Allard has served as dean since July 2012 and as CEO since the retirement of the previous president in 2013. We believe that several newly created positions in the past year will likely strengthen BLS' executive management team, which has been stable for many years. BLS' filled the following newly created positions in the past year: general counsel and chief compliance officer, director of public safety, and director of facilities management. In addition, BLS welcomed a new dean of career and professional development and a new chief information officer in the past year.

The law school has a formal endowment spending policy and an investment policy that include a derivatives policy. The school budgets for full depreciation, which we consider a best practice; therefore, we view this as a positive credit factor. In our opinion, the management team uses prudent fiscal policies, which we also view as a positive credit factor. We believe BLS has proactively dealt with its recent operating pressure stemming from significant enrollment decreases by creating new programs; implementing cost-reduction initiatives; reducing debt load; and adjusting tuition, discounting, fundraising, and endowment spending strategies. We also view BLS' recent debt reduction and subsequently stronger balance sheet positively. While we believe that BLS could maintain stable enrollment during the next year and that recent cost reductions could lead to improved operations over time, we also believe net tuition revenue and operating performance will likely remain pressured through at least fiscal 2015.

## Financial Profile

### Operating performance

Significant enrollment decreases and increased discounting pressured net tuition revenue and BLS' operating performance since fiscal 2012. Full-accrual deficits replaced historically healthy margins, and net tuition revenue decreases have grown larger over the past three fiscal years. Fiscal 2014 operations generated a \$3.9 million full-accrual deficit, which was much larger than the \$996,000 and \$1.4 million full-accrual deficits generated in fiscal years 2012 and 2013, respectively. Net tuition revenue decreased by 3% in fiscal 2012, 11% in fiscal 2013, and 13% in fiscal 2014.

In response to enrollment decreases and financial pressure, we understand management implemented cost-cutting initiatives, including a voluntary early retirement incentive for staff and faculty, while it boosted revenue through the sale of residential buildings. According to management, the early retirement package will yield a savings of \$1.45 million in fiscal 2015. The school also reports it implemented an expense cut of 10% and 5% in fiscal years 2014 and 2015, respectively. The property sale yielded approximately \$35 million of proceeds, which the school used to defease a significant portion of bonds, reducing debt load by 46%. Despite the recent cost-cutting initiatives, management is projecting another net tuition revenue decrease and deficit operations on a full-accrual and cash basis for fiscal 2015. Management, however, believes net tuition revenue could stabilize and operating performance could improve in fiscal 2016 due to its new tuition and financial aid strategy and continued cost-reduction efforts.

Tuition flexibility is limited with auxiliary operations accounting for just 11% of fiscal 2014 revenue while tuition accounts for 79%. Other fiscal 2014 revenue sources include endowment income (7%), gifts and contributions (2%), and state appropriations (less than 1%). BLS began appropriating endowment income for operations in fiscal 2011: Endowment income accounted for 7% of adjusted operating revenue in fiscal 2014 compared with 4% in fiscal 2011. Although BLS is relying more heavily on endowment for operations, in our opinion, it still depends greatly on tuition and student-generated fees, which accounted for approximately 90% of fiscal 2014 revenue. We believe this high student dependence leaves the school vulnerable to enrollment shifts.

### Financial resources

BLS' financial resource ratios improved in fiscal 2014 due to its recent debt reduction. In our opinion, financial resource ratios are strong for the rating category but commensurate with other stand-alone law schools. As of fiscal year-end 2014, expendable resources of \$114.9 million represented 149% of operating expenses and 283% of debt. In addition, a trustee held \$3.3 million of assets at fiscal year-end 2014, which are excluded from our financial resource ratio calculations. We believe financial resource ratios will remain strong for the rating category during the next two years due to BLS' recent debt reduction.

### Endowment

According to management, BLS' endowment had a total market value of \$133.3 million as of June 30, 2014, with 72% unrestricted. Management reports the endowment's one-year return was 16% at fiscal year-end 2014. In our opinion, the endowment's asset allocation is moderately aggressive with 62% in domestic and international equities, 25% in fixed income, 8% in alternative investments, and 5% in cash and other short-term investments. The relative liquidity of

the investment portfolio is an important factor in our analysis of a higher education institution, and we believe audited classification levels serve as a proxy for the liquidity of long-term investments. As of June 30, 2014, the school's total investments and assets held by trustees equaled \$136.6 million: 88% in level 1 assets, 11% in level 2 assets, and 1% in level 3 assets. In our view, this distribution represents a very liquid portfolio, which we consider a positive credit factor. Management indicates approximately 97% of the school's investments can be liquid within one week.

The school began appropriating endowment income for operations in fiscal 2011. Its endowment spending policy is 4.5% of the donor-restricted portion of the endowment's three-year average market value. BLS drew \$4.5 million and \$4.8 million from the endowment to support operations in fiscal years 2013 and 2014, respectively. According to management, it expects to draw at the 4.5% spending policy within the next few years.

### Fundraising

The school's fundraising activities have improved over the years due to the reorganization of the development office. BLS appointed a new director in 2011 and hired a full-time annual giving director in 2013. The school has shifted its fundraising strategy: It recognized that the fundraising environment has shifted to smaller, more-targeted campaigns from large comprehensive campaigns. In addition, management has aligned a portion of its fundraising strategy with its financial aid strategy. The strategic shift resulted in a strong fundraising year: BLS received approximately \$6.4 million of gifts and contributions in fiscal 2014 compared with \$5.4 million in fiscal 2013. Annual giving, which has traditionally been low, was \$900,000 and \$1 million in fiscal years 2013 and 2014, respectively. According to management, graduating class participation was a good 62% in fiscal 2014. Management is projecting it will raise more than \$1 million toward the annual fund in fiscal 2015.

### Debt

BLS reduced its debt load by 46% to \$40.6 million as of June 30, 2014, from \$75.3 million at fiscal year-end 2013 through a \$30.2 million bond defeasance in April 2014. All debt outstanding is fixed rate. According to management, it does not currently plan to issue debt during the next two years. MADS is \$6.4 million; this results in, what we consider, a high MADS debt burden of 8.3% of fiscal 2014 operating expenses. Although MADS is still high, the debt reduction lowered BLS' current debt service burden to 3.7% in fiscal 2014 from a higher 7.2% in fiscal 2013, which we viewed positively.

Brooklyn Law School, New York						
	-- Fiscal year-end June 30 --					'BBB' private colleges and universities medians
	2015	2014	2013	2012	2011	2013
<b>Enrollment and demand</b>						
Headcount	1,138	1,136	1,269	1,383	1,461	MNR
Full-time equivalent	1,092	1,092	1,218	1,325	1,405	3,274
Law school acceptance rate (%)	53.2	43.6	37.2	28.8	26.8	69.6
Law school matriculation rate (%)	22.3	22.2	21.3	22.5	30.3	24.2
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	73,423	78,127	81,296	82,957	MNR
Adjusted operating expense (\$000s)	N.A.	77,320	79,561	82,292	82,541	MNR

Brooklyn Law School, New York (cont.)						
Net operating income (\$000s)	N.A.	(3,897)	(1,434)	(996)	416	MNR
Net operating margin (%)	N.A.	(5.0)	(1.8)	(1.2)	0.5	1.7
Change in unrestricted net assets (\$000s)	N.A.	23,109	(1,935)	4,980	5,950	MNR
Tuition discount (%)	N.A.	44.4	40.3	36.6	36.2	32.3
Tuition dependence (%)	N.A.	78.5	78.8	80.2	80.6	76.4
Student dependence (%)	N.A.	89.5	90.8	91.5	92.3	MNR
Endowment and investment income dependence (%)	N.A.	6.6	5.8	5.0	3.6	MNR
<b>Debt</b>						
Outstanding debt (\$000s)	N.A.	40,619	75,252	80,480	82,285	53,642
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	40,619	N.A.	N.A.	N.A.	MNR
Pro forma maximum annual debt service (MADS)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.7	7.2	7.6	7.6	4.0
Current MADS burden (%)	N.A.	8.3	8.1	8.2	7.8	MNR
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	133,266	117,055	105,829	93,804	54,901
Cash and investments (\$000s)	N.A.	136,599	123,895	112,124	99,371	MNR
Unrestricted net assets (\$000s)	N.A.	159,803	136,694	138,629	133,649	MNR
Expendable resources (\$000s)	N.A.	114,937	101,690	102,590	96,214	MNR
Cash and investments to operations (%)	N.A.	176.7	155.7	136.3	120.4	67.7
Cash and investments to debt (%)	N.A.	336.3	164.6	139.3	120.8	134.6
Cash and investments to pro forma debt (%)	N.A.	336.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	148.7	127.8	124.7	116.6	42.9
Expendable resources to debt (%)	N.A.	283.0	135.1	127.5	116.9	75.5
Expendable resources to pro forma debt (%)	N.A.	283.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	10.0	9.2	9.1	8.4	12.3

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). Tuition dependence = 100\*(gross tuition revenue/adjusted operating revenue). Current debt service burden = 100\*(current debt service expense/adjusted operating expense). Current MADS burden = 100\*(MADS expense/adjusted operating expense). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net property, plant, and equipment - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A. -- Not available. MNR -- Median not reported.

## Related Criteria And Research

## Related Criteria

USPF Criteria: Higher Education, June 19, 2007

### Ratings Detail (As Of January 16, 2015)

#### **New York State Dorm Auth, New York**

Brooklyn Law Sch, New York

#### **New York St Dorm Auth rev bnds (Brooklyn Law Sch) ser 2003B (Auction Rate Bnds) dtd 08/20/2030**

<i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Downgraded
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#### **Series 2009 & 2012A**

<i>Long Term Rating</i>	BBB/Stable	Downgraded
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Many issues are enhanced by bond insurance.



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