



Rating_Action: Moody's places North Idaho College's ratings under review for downgrade

21Dec2022

New York, December 21, 2022 -- Moody's Investors Service has placed North Idaho College's A1 issuer and A2 revenue bond ratings under review for downgrade. The action affects \$7.9 million in rated debt.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

North Idaho College (NIC)'s A1 issuer and A2 revenue bond ratings are under review for downgrade. Governance considerations, including board structure risks, are a key consideration in this action. Due to board action, there has been significant turnover in presidential leadership, including recent placement of the current president, Dr. Swayne, on leave. The board itself has also experienced notable turnover with two members resigning triggering the state to appoint three members who were all replaced in November 2022 during a public election. Dysfunction of the board has resulted in NIC's loss of its insurer, a letter of warning from its accrediting body, NWCCU, in April, and again in December, and most recently, the resignation of NIC's legal counsel. The college also confronts litigation due to the placement of Dr. Swayne on leave. The board members' very public disputes with one another, college leadership and external parties are negatively impacting NIC's brand, which in turn, could negatively impact student demand and operations.

The college's board has not approved its fiscal 2022 audit, despite it being prepared and available for their review, resulting in deterioration of our assessment of the college's overall financial policy and strategy. However, performance is reportedly stable according to management, and in line with fiscal 2021. The college did benefit from a period of management stability during mid-2022 with three state-appointed members on the board and the hiring of a new president. However, healthy financial performance is less certain for fiscal 2023 despite increases in state aid and property taxes: ongoing board dysfunction, including the placement of the president on administrative leave, and the upcoming visit from NIC's accrediting body, has reportedly negatively impacted student interest, enrollment and retention.

Future reviews and resolution of the RUR will focus on receipt of timely financial information, including the fiscal 2022 audit, as well as a clear remediation plan as to how the college plans to stabilize its leadership vacuum, particularly in the office of the president, and address the concerns outlined by NIC's accrediting body, which is due to visit the college in April 2023. Notably, after the Board placed Dr. Swayne on leave and received a vote of no confidence from NIC's staff and faculty, NWCCU sent another letter to the college on December 17, 2022, cautioning that NIC may be out of compliance, with a deadline of January 4, 2023, to "show cause" for why they are actually in compliance with their accrediting body. Absent current financial information and meaningful steps taken to stabilize leadership and address accretor's concerns, multi-notch rating action could be warranted.

NIC has historically played an important regional role as a provider of two-year education in

northern Idaho. The college has historically reported good operating performance with increasing cash reserves and low debt. Further, NIC benefits from diverse revenue streams, including property taxes, state aid and tuition and fees. The student fee revenue bond ratings are currently rated one-notch below the A1 issuer rating, reflecting the limited pledge of specific student fees and auxiliary revenues and active management of the pledge, including the availability of auxiliary fund balance to support debt service coverage.

LEGAL SECURITY

The outstanding revenue bonds were issued by the North Idaho College Dormitory Housing Commission, which is a blended component unit of North Idaho College. The bonds are payable from a mandatory student union fee, net revenues of the dormitory system, and net revenues of the student union building, as well as fund balances from these revenues and fees. The bonds have a rate covenant requiring the college to generate pledged revenues sufficient to generate 1.25x annual debt service coverage. However, in recent years, the college has needed to utilize a portion of accumulated fund balances to reach the 1.25x covenant. In fiscal 2021, pledged revenues were approximately \$981 thousand, and the college designated \$353 thousand in fund balance support in order to reach the 1.25x covenant.

PROFILE

North Idaho College is a community college with its main campus located in Coeur d'Alene, ID, and serving a five-county region. The college offers over 80 academic programs including associates degrees, certificates programs, and career and technical education. In fiscal 2021, the college generated nearly \$68 million in operating revenue and enrolled 4,577 students as of fall 2021.

METHODOLOGY

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

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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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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