

## District Of Columbia American University; Joint Criteria; Private Coll/Univ - General Obligation

**Primary Credit Analyst:**

Charlene Butterfield, New York (1) 212-438-2741; charlene\_butterfield@standardandpoors.com

**Secondary Contact:**

Carolyn McLean, New York (1) 212-438-2383; carolyn\_mclean@standardandpoors.com

### Table Of Contents

---

Rationale

Outlook

Stable Enrollment

Strong Financial Performance

Debt Derivative Profile: '2.0'; Low Credit Risk

Related Criteria And Research

# District Of Columbia American University; Joint Criteria; Private Coll/Univ - General Obligation

## Credit Profile

### District of Columbia, District Of Columbia

American Univ, District Of Columbia

### District of Columbia (American Univ) ser 2003

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'A+' long-term and underlying (SPUR) ratings on the District of Columbia's revenue bonds issued for American University. Standard & Poor's also affirmed its 'A+' issuer credit rating (ICR) on American University.

At the same time, Standard & Poor's affirmed its long-term 'AAA/A-1' ratings on the series 2003 and 2006 bonds, reflecting the application of low-correlation joint criteria with a letter of credit (LOC) from Bank of America N.A. (A+/A-1) and the 'A+' SPUR on American University's debt. The 'A-1' short-term component of the rating reflects the Bank of America LOCs, which expire May 15, 2013, and May 20, 2013. The 'A-1' short-term component of the rating on the series 1999 bonds is based on the correlation of the university's long-term 'A+' rating and the standby bond purchase agreement (SBPA) from TD Bank (AA-/A-1+), which expires July 2, 2013.

The 'A+' rating reflects our view of the university's consistently strong operating results through fiscal 2010.

Additional rating factors include:

- Healthy financial performance in fiscal 2010, with an adjusted operating surplus of \$43.3 million;
- Continued enrollment growth through Fall 2010; and
- Low debt burden of 2.2% in fiscal 2010.

Partially offsetting credit factors include:

- Adequate, though increasing, financial resources for the rating category, with an endowment of \$384.9 million at April 30, 2010, that has rebounded from fiscal 2009 levels;
- Measurable debt compared with the endowment, with \$255.9 million of debt outstanding as of April 30, 2010, all of which is variable-rate demand mode. This poses potential put risk in the event that American University must repurchase all or some of its debt if the debt cannot be remarketed; and
- The potential for increased capital spending and additional debt of roughly \$100 million during the next 12 months, with the potential for additional large debt issuances in the next three-to-five years.

We also factored into the rating the competition for students in the greater D.C. area, as highlighted by the

university's low matriculation rate.

As of April 30, 2010, total debt was in our view moderately high at \$255.9 million compared with an endowment of \$384.9 million. Excluding the bullet maturities, the debt service burden was in our opinion low at 2.2% of operating expenses in fiscal 2010. We believe there is a considerable degree of put risk associated with American's 100% variable-rate debt structure, in that financial resources, which we currently consider only adequate for the rating, could be stretched should the university need to purchase some or all of its debt in the event that it cannot be remarketed, or make accelerated debt repayments should the debt become bank bonds. The outstanding debt is secured by a general obligation of the university.

American University is located on two campuses on 84 acres in northwest Washington, D.C. As an independent, private, coeducational institution, the university offers both graduate and undergraduate degrees through six major divisions: the College of Arts and Sciences, School of Public Affairs, Kogod School of Business, School of International Service, School of Communication, and Washington College of Law.

## Outlook

The stable outlook reflects our expectation for the university's continued strong operating performance and steady enrollment. In addition, we expect the university to maintain financial resources at or near current levels, and manage additional debt and capital spending prudently during the next one to two years.

Additional debt in an amount greater than currently expected, measurable deterioration in operating performance or in financial resources during the next one to two years could pressure the rating or outlook. A higher rating or positive outlook is unlikely during the next one to two years given the university's currently adequate financial resources and variable-rate debt structure.

## Stable Enrollment

For fall 2010, total university headcount was 13,047, of which 7,322 or 56% were undergraduates. After decreases for falls 2008 and 2009, applications increased 13% for fall 2010 to 16,925 from 14,937 for fall 2009. For the next few years, management expects enrollment to remain at fall 2010 levels. American university accepted 44% of applicants, and a low 20%, or 1,502 students, chose to attend. Student quality is in our view good, with average SAT scores of incoming graduates at 1,275 and an average freshman-to-sophomore retention rate of 91%. Graduate student demand is also strong, in our opinion, with 6,708 applicants for fall 2010, up 3% from the previous year. The university accepted 3,979 graduate students, or 59% of applicants, and a healthy 37% chose to attend.

## Strong Financial Performance

American University has demonstrated consistently positive operating performance, with an operating surplus of \$43.3 million in fiscal 2010. We understand the surplus is the result of growth in net tuition revenue due to solid enrollment, an increased focus on fundraising, and good fiscal management practices that include budgeting for contingencies and deferred maintenance. As with most private universities, American relies heavily on tuition and other student-generated fees to support operations. For fiscal 2010, student-generated fees comprised 86% of operating revenues. The overall tuition discount rate is low at 22%, partly due to the university's graduate

programs, though the discount rate is up from fiscal 2009 when it was 20% due to the student body's greater financial need during the economic recession. The undergraduate tuition discount rate is more in line with peers, at 29%. For fall 2010, tuition was \$36,180, a 5% increase from fall 2009 tuition. Management expects solidly positive operating results for fiscal 2011.

Financial resources are in our view adequate for the rating category, with expendable resources equal to 90% of operating expenses and 173% of outstanding debt. As of April 30, 2010, total debt was moderately high, in our opinion, at \$255.9 million compared with an endowment of \$385 million. Excluding the bullet maturities, the debt service burden was in our view low at 2.2% of operating expenses. There is a considerable degree of put risk associated with American's 100% variable-rate debt structure, in that financial resources, which we currently consider only adequate for the rating, could be stretched should the university need to purchase some or all of its debt in the event that it cannot be remarketed, or make accelerated debt repayments should the debt become bank bonds.

Management is contemplating a potential debt issuance of substantive size sometime during the next 12 months, which could pressure financial resources that we currently consider only adequate for the rating. Management does have plans for additional debt beyond the next year, though no plans have been finalized at this time. Standard & Poor's will assess the effect of the additional debt and capital spending on the rating at the time of issuance and in light of the university's continued strong operating performance and balance sheet accretion.

The university did have some funds held at both the Common Fund short- and medium-term investment funds, and has recouped its \$24 million from the short- and medium-term funds as of fiscal 2009. The endowment increased to \$385 million as of April 30, 2010, up from \$297 million as of April 30, 2009, with a 16.1% return for the fiscal 2010 year. Endowment asset allocation is 33% domestic equities, 16% international equities, 5% emerging markets, 5% real estate, 5% real assets, 19% hedge funds, 1% private equity, 4% cash and 12% fixed income. Approximately 22% of the investment portfolio as of April 30, 2010, was in level 1, 76% of the portfolio was in level 2, and 2% of the portfolio was in level 3. Of the total portfolio, 68% is liquid on a same-day basis. The university's endowment spending policy is 5% of a three-year-moving average. The university closed its \$200 million capital campaign in November 2010, raising \$205 million.

## **Debt Derivative Profile: '2.0'; Low Credit Risk**

American University has entered into six floating-to-fixed swaps with Morgan Stanley (A) and Bank of America (A+), with a total notional amount of \$216.7 million. Standard & Poor's assigned the university a Debt Derivative Profile of '2.0' on a scale of '1' to '4', with '1' representing the lowest risk and '4', the highest.

The score of '2.0' reflects a low credit risk at this time, due to:

- Good economic viability of the swap portfolio over stressful economic cycles;
- Sound management practices, including monthly monitoring of the swap portfolio;
- Moderate counterparty risk, due to the adequate counterparty ratings; and
- Moderate involuntary risk of collateralization related to the \$155.8 million Morgan Stanley swap portfolio, due to the somewhat narrow spread between American University's current 'A+' rating and full collateralization rating trigger of 'BBB+', and wide spread between American University's 'A+' rating and involuntary termination trigger of 'BB+' for the entire swap portfolio.

## Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

<b>Ratings Detail</b> (As Of March 1, 2011)		
<b>District of Columbia, District Of Columbia</b>		
American Univ, District Of Columbia		
District of Columbia (American University)		
<i>Long Term Rating</i>	A+/A-1/Stable	Affirmed
District of Columbia (American University) ICR		
<i>Long Term Rating</i>	A+/Stable	Affirmed
<b>District of Colu rev bnds (American Univ) ser 2006</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1	Affirmed

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).