



My Credit Profile

American University, DC - 'A+/Stable'

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

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Credit Profile

District of Columbia, District Of Columbia

American Univ, District Of Columbia

District of Columbia (American Univ) univ ser 1999

Long Term Rating A+/A-1+/Stable Upgraded

Issuer Credit Rating: American Univ

Long Term Rating A+/Stable Upgraded

+ District of Columbia (American Univ) ser 2003

Unenhanced Rating A+(SPUR)/Stable Upgraded

Long Term Rating AAA/A-1 Upgraded, Removed from CreditWatch

+ District of Colu rev bnds (American Univ) ser 2006

Unenhanced Rating A+(SPUR)/Stable Upgraded

Long Term Rating AAA/A-1 Upgraded, Removed from CreditWatch

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying (SPUR) ratings to 'A+' from 'A' on the District of Columbia's revenue bonds issued for American University. Standard & Poor's also raised its issuer credit rating (ICR) to 'A+' from 'A' on American University. The short-term rating on the series 1999 bonds was raised to 'A-1+' from 'A-1', reflecting a standby bond purchase agreement (SBPA) from TD Bank ('AA-/A-1+'), which expires July 20, 2010.

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. 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+' rating reflects consistently strong operating results.

Additional rating factors include:

- Strong financial performance in fiscal 2009, with an adjusted operating surplus of \$50.8 million;

- Continued enrollment growth; and
- Low debt service burden.

Offsetting factors include:

- A sizeable decrease of 21% in endowment value to \$312.4 million at June 30, 2009, from \$394.0 million at June 30, 2008, as a result of investment losses related to market volatility;
- Measurable debt compared to the endowment, with \$255.9 million of debt outstanding as of June 30, 2009, 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;
- A light matriculation rate of 19%, indicative of the competitive environment in which the university operates, though it has improved slightly since 2006, when it was 18%.

American University appointed a new president in September 2007, Dr. Cornelius Kerwin, who previously served as provost of the university. In July 2008, a new provost, Scott Bass, was appointed. The 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 of 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.

Stable Enrollment

For fall 2008, total university headcount was 12,183 students, of which 6,816 or 56% were undergraduates. After increasing 10% annually on average for five years, applications decreased by 3% for fall 2008, to 15,413 from 15,847. For the next few years, the university plans to hold enrollment flat at fall 2008 levels. American University accepted 53% of applicants, and a low 19%, or 1,573 students, chose to attend. Student quality is good, with average SAT scores of incoming graduates at 1,260 and an average freshman to sophomore retention rate of 88%. Graduate student demand is also strong, with 5,575 for fall 2008, flat with the previous year. The university accepted 3,381 graduate students, or 61% of applicants, and a healthy 37% chose to attend.

Strong Financial Performance

American University has consistently demonstrated positive operating performance, with an operating surplus of \$50.8 million, or 12% of operating expenses, in fiscal 2009. The surpluses are the result of increased 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 2009, student-generated fees comprised 88% of operating expenses. The overall tuition discount rate is low at 20%, partly due to the university's graduate programs. The undergraduate tuition discount rate is more in line with peers, at 29%. For fall 2008, tuition was \$32,816, and increased to \$34,457 for fall 2009, a 5% increase. Management expects positive operating results for fiscal 2010.

Financial resources are adequate for the rating category, with expendable resources equal to 77% of operating expenses and 133% of outstanding debt. As of April 30, 2009, total debt was moderately high at \$255.9 million compared with an endowment of \$312.4 million. Excluding the bullet maturities, the debt service burden was a low 2.5% 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 are currently 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 university did have some funds held at both the Common Fund short-term and medium-term investment funds, and it will recoup its \$15 million from the short-term fund over the next seven months, and has already received the \$9 million held at the medium-term fund. Endowment asset allocation is 40% domestic equities, 20% alternative assets, 15% fixed income, 13% international equities, 7% emerging market equities, and 5% real estate. The university's endowment spending policy is 5% of a three-year-moving average.

The university is nearing the end of a \$200 million capital campaign and has raised \$180 million to date, with \$130 million collected as cash.

Debt Derivative Profile: '2.0'

American University has entered into six floating- to fixed-rate 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 Research

- USPF Criteria: "Higher Education," June 19, 2007
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009
- Criteria: "Joint Support Criteria Update," April 22, 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