S&P Global Ratings

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American University, D.C.; CP; Joint Criteria; Private Coll/Univ - General Obligation

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Credit Profile		
US$102.0 mil taxable bnds ser 2017 dtd 10/18/2017 due 04/01/2047		
Long Term Rating	A+/Stable	New
American Univ GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to American University (AU), D.C.'s series 2017 taxable bonds. We also affirmed our 'A+' long-term and underlying ratings (SPUR) on AU's outstanding debt--some of which was issued by D.C. In addition, we affirmed our 'A+' issuer credit rating (ICR) on the university, as well as our 'A-1' short-term rating on the series 2011 commercial paper (CP) program. The outlook is stable.

At the same time, S&P Global Ratings affirmed its 'AA+/A-1+' rating on the series 2006 bonds, reflecting the application of low-correlation joint criteria with a letter of credit (LOC) from Royal Bank of Canada (which substituted JPMorgan Chase Bank N.A. in December 2014). The 'A-1+' short-term rating component reflects the Royal Bank of Canada LOC, which expires Dec. 22, 2017.

The LOCs on the series 1999 and 2003 bonds were replaced with direct-purchase agreements with Wells Fargo (with expiration on Feb. 1, 2018). The series 2008 is now a direct purchase with U.S. Bank (with expiration February 2020). In our opinion, this debt is a contingent liability given the expiration within five years and the put risk associated with the direct-purchase agreements.

The 'A-1' rating reflects our view of AU's self-liquidity program. The university has committed several sources of funds, including its working capital and endowment to support its outstanding unenhanced CP program ($125 million is authorized). As of Aug. 31, 2017, AU held cash, fixed-income, and domestic equity assets in excess of $514 million. S&P Global Ratings continues to monitor both the sufficiency and liquidity available on a monthly basis to ensure the university can cover a failed remarketing for the outstanding CP. In our opinion, there is ample liquidity provided through the money held in domestic equities, cash and high-quality, short-term, fixed-income securities.

We assess AU's enterprise profile as very strong characterized by relatively stable to growing enrollment and strengthening demand characteristics. We assess the financial profile as strong with continued robust operations and sufficient financial resources offset by relatively aggressive debt profile with all of the debt structured with bullet maturity and increasing debt load to fund a substantial capital plan. Combined, we believe these credit factors lead to an indicative standalone credit profile of 'a+' and a final rating of 'A+.' We expect that the university's robust operating surpluses and solid demand profile will allow for further balance-sheet growth during the ongoing period of increased capital spending, such that the financial resources remain sound for the rating.

The rating reflects our assessment of AU's following strengths:

- Continued robust financial performance; and
- An increasing endowment, and sufficient expendable resources to debt.

The rating reflects our assessment of AU's following weaknesses:

- Significant contingent liability exposure related to direct-purchase debt, variable-rate demand bond, and CP, which has potential put risk if AU's debt is accelerated, and the relatively aggressive debt profile with all of the debt structured with bullet maturity;
- Increased debt load to fund capital projects on campus.

We understand that AU is issuing $102 million fixed-rate taxable debt in series 2017 to pay off the $22 million outstanding mortgage payable and fund various capital improvement projects to its academic buildings on campus. A general obligation (GO) of the university secures the outstanding debt. Management does not anticipate issuing additional debt in the next three years.

American University is on two campuses on 84 acres in northwest Washington, D.C. and is an independent, private, coeducational institution. The university's academic programs are offered through seven major divisions: The College of Arts and Sciences, The School of Public Affairs, Kogod School of Business, Washington College of Law, The School of Communication, The School of International Service, and The School of Professional and External Studies. Within these divisions, the university offers 68 bachelor's degrees, 80 master's degrees, 10 doctoral degrees, six Law programs, and a J.D. program, as well as more than 75 certificate programs, at both the graduate and undergraduate level.

Outlook

The stable outlook reflects our view of the university's continued robust operating performance and solid demand. However, offsetting credit factors include what we consider only sufficient financial resources compared with debt, a measurable degree of event-driven risk associated with both its high level of variable-rate demand debt and direct-purchase debt exposure, and increased capital spending.

Downside scenario

A lower rating or negative outlook is unlikely during the two-year outlook period given the university's solid demand profile and consistently strong operating performance. We could consider a negative rating action over time if available resources compared with debt do not remain in line with the rating, or if there is a substantial decrease in enrollment or operating performance from current levels.

Upside scenario

A higher rating or positive outlook is unlikely during the two-year outlook period due to the university's additional debt issuance, somewhat aggressive debt structure associated with multiple bullet maturities, and available resources that remain below average for the rating category and are not yet consistent with a higher rating. We could consider a positive rating action over time if the university can show substantial growth in available resources while maintaining demand metrics at current levels or better.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, the university has good geographic diversity, with increasing draw outside the primary region (D.C., Virginia, Maryland.) and international draw in more than 129 countries. As such, our assessment of American University's economic fundamentals is anchored by the U.S. GDP per capita.

Market position and demand

Total headcount increased 4.1% in fall 2017 following continual increases in the last three years. Total university headcount increased to 13,897 for fall 2017; 8,180 or 59% were undergraduates. Freshman applicants decreased modestly by 3% in fall 2017 after two years of solid growth and record high applications. Selectivity was stable with freshman acceptances increasing to 29% from 26% in fall 2016, and matriculation rate also hovered around 33% in fall 2017 compared with 34% in fall 2016 and 21% in fall 2015. Management attributes the strengthening in demand metrics to the unique location and market position as well as the programs and internship opportunities that the university provides to its students. We view student quality as good based on incoming students' average SAT scores and average freshman-to-sophomore retention rate. Graduate enrollment increased to 4,276 in fall 2017 compared with 3,981 in fall 2016 and 3,822 in fall 2015, largely driven by fast-growing online enrolment according to management. Graduate applications, on the other hand, increased in fall 2017 by almost 11% to 6,093, following four years of decline. We would view sustained growth in graduate applications favorably.

Management

AU recently welcomed its new President, Sylvia Burwell, following the retirement of the previous President. Mrs. Burwell was the former Secretary of U.S. Department of Health and Human Services, and she started at AU on June 1, 2017. The vice president and general counsel of the university retired in July, 2017, and the university is searching for his replacement. Other senior team members remain stable from the prior review and we are not aware of any other potential management changes. We believe that overall, the senior team remains stable and the detailed financial management and tenure of the financial management team as a whole provides stability at the current rating. Management provides two-year detailed operating budgets that reflect contingencies, deferred maintenance, and routine plant renewal, which is less than annual depreciation expense, but do not reflect generally accepted accounting principles accounting. We view the detailed budgets and capital forecasts, as well as management's ongoing focus on revenue growth and cost control positively, as they all provide stability to the university as it enters a period of increased capital spending.

The board of trustees, which is self-perpetuating, has 26 members, with a limit of no more than 50. Trustees serve for a minimum of a three-year term. Board members are approved by both the General Board of Higher Education and the

Ministry of the United Methodist Church.

Financial Profile

Financial policies

The university has formal policies for investment management, liquidity and debt management. It operates according to a 10-year strategic plan, and meets standard annual disclosure requirements. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to weaken its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure, and a comparison of these policies to comparable providers.

Financial performance

AU has demonstrated consistently positive operating performance, with a robust operating surplus. The surplus in fiscal 2017 was a healthy $53 million, an 8% margin. The university's operating performance lends considerable strength to the overall credit profile. We understand the surplus results from growth in net tuition revenue due to a strong focus on cost controls with expenses below budget for the year. As with most private universities, AU relies heavily on tuition and other student-generated fees to support operations. For fiscal 2017, student-dependence was 84.5%. In our opinion, the overall tuition discount rate is low at almost 24.9%, partly due to the university's graduate programs. For fall 2017, tuition was $44,046, a 3.5% increase from fall 2016 tuition, and management budgets for a 4% increase for fall 2018. Management expects similarly solid operating results for fiscal 2018 based on fall 2017 actual enrollment that is slightly above the budgeted number.

Available resources

Available resources, as measured by expendable resources, are consistent with the rating when compared with operating expenses and outstanding debt as of April 30, 2017, with expendable resources of $774 million equal to 116% of operating expenses and 138% of pro forma debt. Expendable resources declined in fiscal 2016, which was mainly driven by negative market return investments. In fiscal 2017, the university enjoyed 12.6% endowment return, which helped to boost the expendable resources. We expect financial resources to continue to grow in the next one to two years due to continued solid cash flows and investment returns.

The endowment grew to $642 million as of April 30, 2017, up 10.8% from the prior year-end and in line with market trend. The endowment asset allocation is relatively stable with 34% domestic equities, 15% international equities, 5% emerging markets, 9% real assets, 19% hedge funds, 7% private equity, 10% fixed income, and 1% cash. The university is able to access almost 74% of the endowment on a monthly basis. The university's endowment spending policy is 5% of a rolling three-year average though the effective rate is generally below or equal to 3%.

During the next three to five years, management plans to complete the projects discussed in recent years. Recently completed projects include construction of new residence halls and academic buildings at a cost of $124 million and the law school campus project, which began classes in the spring 2016. The university also completed the east campus development in spring 2017, within budget although slightly delayed in schedule. As of April 30, 2017, AU had in planning or in design, capital projects with a total cost of approximately $170 million under the campus plan. Items in the campus plan are underway and fully funded from the series 2017 debt issuance, reserves and gift funds.

Debt and contingent liabilities

As of April 30, 2017, total pro forma debt was $561.4 million, compared with an endowment value of $642 million. About 54% of pro forma debt is fixed rate and the remainder is variable rate. All of the debt has bullet maturities. We believe there is a considerable degree of put risk associated with AU's sizable variable-rate debt and contingent structure (variable-rate and direct-purchase debt) because financial resources could be stretched should the university need to purchase some or all of its debt if it cannot be remarketed or accelerated. In addition, the bullet maturities associated with all of the long-term debt is an offsetting credit factor.

In June 2011, the university entered into a fixed-rate term loan for $75 million with JPMorgan Chase Bank, maturing on June 14, 2021. On an event of default, which is tied to events such as nonpayment of debt service and violation of covenants--such as debt service coverage below 1.6x and leverage below 85%--JPMorgan Chase may accelerate the bonds immediately. In January 2015, the university entered into two direct-purchase agreements with Wells Fargo, $58 million for the series 1999 and 2003 with expiration in 2018. The series 2008 is also a direct-purchase agreement with US Bank expiring in February 2020. We understand the covenants and events of default are similar to their other documents, and if violated, the bank may accelerate the bonds. Management reports that the university is in compliance with the debt covenants as of fiscal 2016. Of the total endowment portfolio, about $320 million could be liquidated within one day, offsetting the risk associated with acceleration of bonds.

AU has entered into six floating- to fixed-rate swaps with Morgan Stanley and Bank of America with a total notional amount of $195 million. The interest rate swap agreements contain provisions that require the university's debt to maintain an investment-grade credit rating from each of the major credit rating agencies. In the event of violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. In our view, the likelihood of breaching these provisions by AU is remote.

American University, D.C. Financial Statistics

	--Fiscal year ended April 30--					Medians for 'A' rated private colleges and universities
	2018	2017	2016	2015	2014	2016
Enrollment and demand						
Headcount	13,897	13,347	13,200	13,061	12,817	MNR
Full-time equivalent	12,541	12,226	12,110	12,036	11,781	3,659
Freshman acceptance rate (%)	29.4	25.9	35.0	45.8	43.1	63.1
Freshman matriculation rate (%)	32.5	33.5	30.5	25.7	21.5	MNR
Undergraduates as a % of total enrollment (%)	58.9	59.2	59.9	59.0	57.3	82.3
Freshman retention (%)	90.3	89.8	88.3	89.0	88.0	86.0
Graduation rates (five years) (%)	N.A.	N.A.	N.A.	80.0	81.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	718,537	669,570	647,697	620,084	MNR
Adjusted operating expense ($000s)	N.A.	665,519	625,187	604,450	577,120	MNR

American University, D.C. Financial Statistics (cont.)

	--Fiscal year ended April 30--					Medians for 'A' rated private colleges and universities
	2018	2017	2016	2015	2014	2016
Net operating income ($000s)	N.A.	53,018	44,383	43,247	42,964	MNR
Net operating margin (%)	N.A.	7.97	7.10	7.15	7.44	2.57
Change in unrestricted net assets ($000s)	N.A.	119,817	10,184	44,302	110,381	MNR
Tuition discount (%)	N.A.	24.9	23.6	23.2	21.8	34.9
Tuition dependence (%)	N.A.	73.1	75.8	75.3	75.5	MNR
Student dependence (%)	N.A.	84.5	86.8	86.5	87.2	87.2
Research dependence (%)	N.A.	5.2	5.5	5.9	5.6	MNR
Endowment and investment income dependence (%)	N.A.	3.5	3.5	3.6	3.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	481,311	481,620	481,905	418,676	102,389
Proposed debt ($000s)	N.A.	102,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	561,375	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	33,285	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	2.98	3.17	2.53	2.48	MNR
Current MADS burden (%)	N.A.	3.94	4.69	4.41	N.A.	4.44
Pro forma MADS burden (%)	N.A.	5.00	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	641,758	579,467	611,416	568,367	200,977
Cash and investments ($000s)	N.A.	951,586	889,493	952,937	886,463	MNR
Unrestricted net assets ($000s)	N.A.	973,577	853,760	843,576	799,274	MNR
Expendable resources ($000s)	N.A.	773,736	707,548	780,006	740,268	MNR
Cash and investments to operations (%)	N.A.	143.0	142.3	157.7	153.6	137.7
Cash and investments to debt (%)	N.A.	197.7	184.7	197.7	211.7	243.9
Cash and investments to pro forma debt (%)	N.A.	169.5	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	116.3	113.2	129.0	128.3	81.0
Expendable resources to debt (%)	N.A.	160.8	146.9	161.9	176.8	151.8
Expendable resources to pro forma debt (%)	N.A.	137.8	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.9	13.6	13.9	13.8	13.5

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term & long-term investments Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Ratings Detail (As Of October 3, 2017)

CP

Ratings Detail (As Of October 3, 2017) (cont.)		
Short Term Rating	A-1	Affirmed
ICR		
Long Term Rating	A+/Stable	Affirmed
District of Columbia, District Of Columbia		
American Univ, District Of Columbia		
Series 2006		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	AA+/A-1+	Affirmed