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

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<td>American University CP</td>
<td></td>
<td>A-1</td>
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<td>Affirmed</td>
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<td>Short Term Rating</td>
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<td>American University ICR</td>
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<td>A+/Stable</td>
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Rating Action

S&P Global Ratings' affirmed its 'A+' long-term ratings and issuer credit rating (ICR) on American University (AU) D.C. In addition, S&P Global Ratings affirmed the 'A-1' short-term rating on the series 2011 commercial paper (CP) program. The outlook, where applicable, is stable.

As of fiscal 2021 year-end, total debt was $746 million, all of which was fixed rate with bullet maturities (the long-term debt includes bonds and about $5.5 million in operating leases). All of the university's debt is a general obligation of AU.

In response to the COVID-19 pandemic, AU transitioned to remote instruction in March 2020. Despite the operating challenges presented by the pandemic, AU ended fiscal 2020 with an operating surplus of 3.1%, a result we consider solid in a challenging environment. Fiscal 2021 was weaker, reflecting the 10% tuition discount offered by the university and a 73% decline in auxiliary revenue as AU taught all classes online with no students living on campus. In fiscal 2020 and fiscal 2021, the university enacted a number of expense-cutting measures including delayed capital spending, temporarily suspending retirement contributions, a one-week furlough of all faculty and staff, delaying salary increases, implementing a hiring freeze, cutting operating costs, and reducing the salary of certain school administrators.

Management brought students back partially in spring 2021 and opened for full residential experience in fall 2021. Management projection was for an operating deficit of approximately $26 million for fiscal 2021 and the actual full year loss was closer to $8 million. While we view the deficit negatively, AU has a history of outperforming its budget with healthy operating surpluses and we believe management can return to positive operations with the return to campus and more normalized operations.

Credit overview

We assess AU's enterprise profile as very strong, characterized by relatively stable demand characteristics and broad draw for students despite the pandemic. We assess the financial profile as strong with a history of robust operating margins and sufficient available resources offset by the recent operating deficit in fiscal 2021 and all outstanding bonds...
that have bullet maturities. Combined, we believe these credit factors lead to an indicative standalone credit profile of 'a+' and a final rating of 'A+.'

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 with currently nothing outstanding and no planned draws). As of Jan. 31, 2022, AU identified about $535 million in (undiscounted) assets available same or next day. 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 sufficient liquidity provided through the money held in domestic equities, cash and high-quality, short-term, fixed-income securities.

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

- Almost 7% enrollment growth in fall 2021;
- Consistent history of positive full accrual operations, though a deficit is in fiscal 2021 driven by pandemic; and
- Improving available resource ratios with recent asset growth and no additional debt plans.

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

- A debt profile with all of the debt structured with bullet maturities; and
- Recently increased debt load to provide additional liquidity and fund capital projects.

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 eight 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 Education, The School of International Service, and The School of Professional Studies and Executive Education. Within these divisions, the university offers 80 bachelor's degrees, 99 master's degrees, 11 doctoral degrees, JD, LLM, SJD, and MLS degrees and certificates and associate degrees.

The stable outlook reflects our view of the university's solid enrollment with generally favorable demand metrics and historical operating surpluses (except deficit in fiscal 2021) and expected return to historical operating performance. During the pandemic, AU took steps to lower expenses without affecting the school's culture, which may help maintain demand and relationships with faculty and staff.

Environmental, social, and governance

Vaccine progress in the U.S. has helped alleviate some of the health and safety social risks stemming from the pandemic; however, the higher education sector remains at greater risk from remaining uncertainties. We view the risks posed by COVID-19 to public health and safety as a social risk under our environment, social, and governance factors. Despite the elevated social risk, we believe the university's environmental and governance risks are in line with our view of the sector.
**Stable Outlook**

**Downside scenario**
We could consider a negative rating action if demand characteristics persistently weaken, larger operating deficits persist beyond fiscal 2021, or if there is material weakening of available resources. During the two year outlook period, we do not anticipate any additional debt but any issuance would need to be accompanied by commensurate growth in available resources.

**Upside scenario**
A higher rating or positive outlook is unlikely during the outlook period due to the university's debt and available resource ratio levels that remain below average for the rating category. We could consider a positive rating action over time if the university can show substantial growth in available resources with no significant increase in debt while maintaining demand metrics at current levels or better.

**Enterprise Profile**

**Market position and demand**
In our view, the university has good geographic diversity, with significant draw outside the primary region, which includes D.C., Virginia, Maryland. After a decline for fall 2020, total FTE and headcount increased for fall 2021 by 7% and 6% respectively. The majority of students at AU are undergraduates—almost 55% of headcount. Freshman applicants decreased for fall 2021 by less than 2% though total applications remain above historical levels. Selectivity and matriculation have weakened in the past few years with a significant weakening in selectivity for fall 2021—in large part driven by uncertainty related to COVID. We expect that selectivity will improve and the starting class size for fall 2022 will be slightly smaller to account for the overenrolled fall 2021.

Overall, AU's demand metrics remain solid for the rating. Management attributes this to the university's unique location and market position as well as the programs and internship opportunities that the school provides to its students. We view student quality as good based on incoming students' average SAT scores and the freshman-to-sophomore retention rate. We expect market position and demand will remain relatively stable given AU's market position and track record.

**Management**
Following a retirement, AU appointed Bronté Burleigh-Jones as chief financial officer, vice president, and treasurer in 2021. Before AU, she was at Dickinson College for eight years. We believe that it was a smooth transition as the strategic and financial plans were maintained. In addition, there is a new provost in place and there is an interim dean in place during a search for permanent replacement. We believe that, overall, the senior team remains stable and the detailed financial management and tenure of the financial management team provides stability at the current rating. Management sets 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. We understand that more than 600 employees from academic affairs and 80 from the school's radio station voted to unionize and collective bargaining began in fiscal 2021. While this may present some limitation to expense
management efforts, the school does have some union representation on campus already.

In May 2021, AU publicly launched a $500 million campaign called 'Change Can't Wait'. AU raised $270 million during the quiet phase and has currently reached $307 million in commitments.

The board of trustees, which is self-perpetuating, has 30 members, with a limit of 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 performance**

AU had historically demonstrated consistently positive operating performance, which lent strength to the overall credit profile. While margins have softened from the 7%-8% seen prior to fiscal 2018 and fiscal 2021 was a deficit, we expect that fiscal 2022 and continuing performance will be positive with margins likely less than historical averages but solid for the rating. During the pandemic the university enacted a number of expense-cutting measures including delayed capital spending, temporarily suspending retirement contributions, a one-week furlough of all faculty and staff, freezing salary increases, implementing a hiring freeze, cutting operating costs, and reducing the salary of certain school administrators. Additionally, AU received $37.8 million in institutional federal and other COVID-19 stimulus funding with about $13 million recognized in fiscal 2021 and another $20 million to be used in fiscal 2022 or later.

As with many private universities, AU relies heavily on tuition and other student-generated fees to support operations. For fiscal 2021, student-dependence was about 82%. Auxiliary operations for fiscal 2021 was materially lower at about 3% compared with 11%-12% typically. Tuition for the 2021-2022 school year was $50,542 and we understand a tuition increase of 5% was approved and announced. The tuition discount rate has increased and reached 30% in fiscal 2021 and we understand that will increase modestly again. Overall, the level remains relatively low partly due to the university’s graduate programs.

**Available resources**

Available resources grew in the last year following significant returns (18% for the one year ending Dec. 31, 2021 for example. Resources relative to operations and debt improved and remain consistent with the rating but resources relative to debt are below the category median. We expect financial resources and related ratios may remain relatively stable to improving given expected surpluses and fundraising efforts and no additional debt plans.

AU's endowment was valued at $927 million as of Dec. 31, 2021. In spring 2020 AU divested its endowment from fossil fuels, as part of the school’s overall sustainability goals. Otherwise there have been no material changes to the endowment’s asset allocation recently or any expected. According to management, the university is able to access about 55% 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%. Management does not plan any changes to the endowment draw in the near term.

During the next few years, management is considering construction of an athletic facility as well as other major building renovations. In August 2020, AU completed the construction of a new Hall of Science and the project came in
under budget. Several of the school’s capital projects were delayed due to COVID-19 but now resuming. Items in the current campus plan are fully funded from the series 2019 additional tap issuance and 2017 debt issuances, reserves, and gift funds.

**Debt and contingent liabilities**

As of fiscal 2021 year-end, total debt was $746 million all of which was fixed rate and secured by a general obligation of the university. All the debt has bullet maturities, an offsetting credit factor. The proceeds from the original series 2019 bonds were used to refinance direct purchase debt and pay swap termination costs. The transaction reduced risk related to the direct purchase covenant requirements and liquidity and put risks from the previous variable rate demand bonds. Remaining contingent debt exposure is related to the CP program. AU’s maximum annual debt service burden is what we consider above average, though it should improve over time with no confirmed additional plans for debt at this time.

### American University, District Of Columbia Enterprise And Financial Statistics

<table>
<thead>
<tr>
<th>Enrollment and demand</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>14,852</td>
<td>14,001</td>
<td>14,318</td>
<td>14,311</td>
<td>13,858</td>
<td>MNR</td>
</tr>
<tr>
<td>Full-time equivalent</td>
<td>13,400</td>
<td>12,538</td>
<td>13,031</td>
<td>13,091</td>
<td>12,615</td>
<td>3,451</td>
</tr>
<tr>
<td>Freshman acceptance rate (%)</td>
<td>64.1</td>
<td>38.7</td>
<td>36.1</td>
<td>31.5</td>
<td>29.4</td>
<td>67.5</td>
</tr>
<tr>
<td>Freshman matriculation rate (%)</td>
<td>18.8</td>
<td>20.8</td>
<td>26.2</td>
<td>29.3</td>
<td>32.5</td>
<td>MNR</td>
</tr>
<tr>
<td>Undergraduates as a % of total enrollment (%)</td>
<td>54.7</td>
<td>53.4</td>
<td>53.3</td>
<td>52.0</td>
<td>53.3</td>
<td>80.3</td>
</tr>
<tr>
<td>Freshman retention (%)</td>
<td>90.5</td>
<td>84.8</td>
<td>86.8</td>
<td>87.8</td>
<td>89.8</td>
<td>85.5</td>
</tr>
<tr>
<td>Graduation rates (six years) (%)</td>
<td>78.8</td>
<td>79.1</td>
<td>78.8</td>
<td>79.8</td>
<td>79.2</td>
<td>MNR</td>
</tr>
</tbody>
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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating revenue ($000s)</td>
<td>N.A.</td>
<td>725,665</td>
<td>823,257</td>
<td>835,859</td>
<td>755,795</td>
<td>MNR</td>
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<tr>
<td>Adjusted operating expense ($000s)</td>
<td>N.A.</td>
<td>733,874</td>
<td>798,297</td>
<td>789,327</td>
<td>741,593</td>
<td>MNR</td>
</tr>
<tr>
<td>Net operating income ($000s)</td>
<td>N.A.</td>
<td>(8,209)</td>
<td>24,960</td>
<td>46,532</td>
<td>14,202</td>
<td>MNR</td>
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<tr>
<td>Net operating margin (%)</td>
<td>N.A.</td>
<td>(1.12)</td>
<td>3.13</td>
<td>5.90</td>
<td>1.92</td>
<td>0.70</td>
</tr>
<tr>
<td>Change in unrestricted net assets ($000s)</td>
<td>N.A.</td>
<td>170,366</td>
<td>8,078</td>
<td>41,116</td>
<td>70,171</td>
<td>MNR</td>
</tr>
<tr>
<td>Tuition discount (%)</td>
<td>N.A.</td>
<td>30.4</td>
<td>27.8</td>
<td>27.6</td>
<td>28.0</td>
<td>39.3</td>
</tr>
<tr>
<td>Tuition dependence (%)</td>
<td>N.A.</td>
<td>78.4</td>
<td>74.3</td>
<td>70.8</td>
<td>73.8</td>
<td>MNR</td>
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<tr>
<td>Student dependence (%)</td>
<td>N.A.</td>
<td>81.8</td>
<td>85.2</td>
<td>83.7</td>
<td>85.7</td>
<td>85.3</td>
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<tr>
<td>Health care operations dependence (%)</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
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<tr>
<td>Research dependence (%)</td>
<td>N.A.</td>
<td>6.2</td>
<td>4.5</td>
<td>3.5</td>
<td>6.2</td>
<td>MNR</td>
</tr>
<tr>
<td>Endowment and investment income dependence (%)</td>
<td>N.A.</td>
<td>5.4</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>MNR</td>
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</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>Outstanding debt ($000s)</td>
<td>N.A.</td>
<td>746,046</td>
<td>640,500</td>
<td>640,500</td>
<td>561,375</td>
<td>121,080</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
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<td>------</td>
<td>------</td>
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</tr>
<tr>
<td>Proposed debt (in thousands)</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
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<tr>
<td>Total pro forma debt (in thousands)</td>
<td>N.A.</td>
<td>746,046</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
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<tr>
<td>Pro forma MADS</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
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<tr>
<td>Current debt service burden (%)</td>
<td>N.A.</td>
<td>4.15</td>
<td>2.65</td>
<td>2.92</td>
<td>3.02</td>
<td>3.90</td>
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<td>Current MADS burden (%)</td>
<td>N.A.</td>
<td>7.58</td>
<td>5.36</td>
<td>5.70</td>
<td>4.42</td>
<td>3.90</td>
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<tr>
<td>Pro forma MADS burden (%)</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
</tbody>
</table>

**Financial resource ratios**

- **Endowment market value (in thousands)**
  - 2022: N.A.
  - 2021: 890,547
  - 2020: 722,011
  - 2019: 727,117
  - 2018: 694,462
  - Median: 237,574

- **Cash and investments (in thousands)**
  - 2022: N.A.
  - 2021: 1,396,979
  - 2020: 1,044,116
  - 2019: 1,087,207
  - 2018: 1,107,386
  - Median: N.A.

- **Unrestricted net assets (in thousands)**
  - 2022: N.A.
  - 2021: 1,210,000
  - 2020: 1,039,634
  - 2019: 1,031,556
  - 2018: 1,043,748
  - Median: N.A.

- **Expendable resources (in thousands)**
  - 2022: N.A.
  - 2021: 1,215,039
  - 2020: 890,233
  - 2019: 926,881
  - 2018: 927,166
  - Median: N.A.

- **Cash and investments to operations (%)**
  - 2022: 190.4
  - 2021: 130.8
  - 2020: 137.7
  - 2019: 149.3
  - Median: 144.7

- **Cash and investments to debt (%)**
  - 2022: 187.3
  - 2021: 163.0
  - 2020: 169.7
  - 2019: 197.3
  - Median: 294.2

- **Expendable resources to operations (%)**
  - 2022: N.A.
  - 2021: 165.6
  - 2020: 111.5
  - 2019: 117.4
  - 2018: 125.0
  - Median: 88.8

- **Expendable resources to debt (%)**
  - 2022: N.A.
  - 2021: 162.9
  - 2020: 139.0
  - 2019: 144.7
  - 2018: 165.2
  - Median: 180.6

- **Average age of plant (years)**
  - 2022: 14.7
  - 2021: 14.5
  - 2020: 13.8
  - 2019: 13.0
  - Median: 14.5


**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022