

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

Primary Credit Analyst:

Jessica H Goldman, New York (1) 212-438-6484; jessica.goldman@spglobal.com

Secondary Contact:

Stephanie Wang, New York (1) 212-438-3841; stephanie.wang@spglobal.com

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Credit Profile		
US\$410.0 mil taxable bnds ser 2019 dtd 06/13/2019 due 04/01/2049		
<i>Long Term Rating</i>	A+/Stable	New
American Univ GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
CP		
<i>Short Term Rating</i>	A-1	Affirmed
ICR		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rationale

S&P Global Ratings' assigned its 'A+' long-term rating to American University's (AU) series 2019 taxable debt. At the same time, S&P Global Ratings' affirmed its 'A+' ratings on AU's existing debt and affirmed its 'A+' issuer credit rating (ICR) on the university and 'A-1' short-term rating on the series 2011 commercial paper (CP) program. The outlook, where applicable, is stable.

We assess AU's enterprise profile as very strong, characterized by growing enrollment, relatively stable demand characteristics, and broad draw for students. We assess the financial profile as strong with a history of robust operating margins though there was some compression in fiscal 2018 and expected in fiscal 2019, and sufficient and improved available resources. Historically, we have viewed the debt profile as quite aggressive with significant exposure to direct purchase agreements and bullet maturities. The proposed series 2019 transaction will eliminate the risk related to the contingent liabilities; however, we expect that the structure will continue to reflect bullet maturities. 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 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 '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 March 31, 2019, AU identified about \$453 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 ample 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:

- Continued positive operations, though the margin in fiscal 2018 was less robust than recent years; and

- An increasing endowment and sufficient expendable resources to debt.

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

- All of the pro forma debt is expected to be structured with bullet maturities; and
- Recently increased debt load to fund capital projects on campus.

We understand that the series 2019 fixed-rate taxable debt will be used to refinance much of the outstanding debt and also includes about \$70 million of additional debt. Proceeds will go toward costs associated with early termination of certain debt and swap agreements. A general obligation of the university secures the outstanding debt. Management does not anticipate issuing additional debt in the next two to 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 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 and External Studies. Within these divisions, the university offers 70 bachelor's degrees, 91 master's degrees, 10 doctoral degrees, six Law programs, and a J.D. program, S.J.D program, as well as more than 70 certificate programs, at both the graduate and undergraduate level.

There is no additional financial or demand data since the last published report from March 20, 2019. The data table below reflects the series 2019 proposed debt. In our opinion, the additional debt can be absorbed at the current rating. The university is changing its fiscal year end from April 30 to June 30 and we expect that a fiscal 2019 audit will be completed.

We understand from management that fiscal 2019 operations are likely to be ahead of fiscal 2018 results but not yet in line with historical margins. Our longer-term expectations, based on discussions with management, are that operations should remain positive and improving. Preliminary fall 2019 demand and enrollment indicators seem to be relatively stable or improved from fall 2018. The construction of the science building is about half way complete and we understand that it should enhance the university's ability to recruit and expand research efforts.

A fundraising campaign is on the horizon and we expect that at the next review we will have more information about the campaign's goal, progress, and timing.

Outlook

The stable outlook reflects our view of the university's continued positive operating performance and solid demand. However, offsetting credit factors include what we consider sufficient available resources compared with debt but overall below median for the 'A' rating category and increased capital spending.

Upside scenario

We could consider a positive outlook or higher rating during the two-year outlook period if operating margins rebounded to historical levels, balance sheet measures improved, and fundraising efforts are successful.

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 solid 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 historical levels.

American University, District Of Columbia Enterprise And Financial Statistics						Medians for 'A' rated private colleges and universities
	--Fiscal year ended April 30--					
	2019	2018	2017	2016	2015	2017
Enrollment and demand						
Headcount	14,311	13,858	13,347	13,200	13,061	MNR
Full-time equivalent	13,091	12,615	12,226	12,110	12,036	3,632
Freshman acceptance rate (%)	31.5	29.4	25.9	35.0	45.8	63.5
Freshman matriculation rate (%)	29.3	32.5	33.5	30.5	25.7	MNR
Undergraduates as a % of total enrollment (%)	52.0	53.3	59.2	59.9	59.0	78.0
Freshman retention (%)	87.8	89.8	89.8	88.3	89.0	85.5
Graduation rates (six years) (%)	79.8	79.2	81.0	81.2	82.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	755,795	718,537	669,570	647,697	MNR
Adjusted operating expense (\$000s)	N.A.	741,593	665,519	625,187	604,450	MNR
Net operating income (\$000s)	N.A.	14,202	53,018	44,383	43,247	MNR
Net operating margin (%)	N.A.	1.92	7.97	7.10	7.15	1.37
Change in unrestricted net assets (\$000s)	N.A.	70,171	119,817	10,184	44,302	MNR
Tuition discount (%)	N.A.	28.0	24.9	23.6	23.2	36.0
Tuition dependence (%)	N.A.	73.8	73.1	75.8	75.3	MNR
Student dependence (%)	N.A.	85.7	84.5	86.8	86.5	86.4
Research dependence (%)	N.A.	6.2	5.2	5.5	5.9	MNR
Endowment and investment income dependence (%)	N.A.	3.6	3.5	3.5	3.6	MNR
Debt						
Outstanding debt (\$000s)	N.A.	561,375	481,311	481,620	481,905	102,893
Proposed debt (\$000s)	N.A.	410,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	640,500	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	44,388	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.02	2.98	3.17	2.53	MNR
Current MADS burden (%)	N.A.	4.42	3.94	4.69	4.41	5.00
Pro forma MADS burden (%)	N.A.	5.99	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	694,462	641,758	579,467	611,416	223,898
Cash and investments (\$000s)	N.A.	1,107,386	951,586	889,493	952,937	MNR

American University, District Of Columbia Enterprise And Financial Statistics (cont.)

	--Fiscal year ended April 30--					Medians for 'A' rated private colleges and universities
	2019	2018	2017	2016	2015	2017
Unrestricted net assets (\$000s)	N.A.	1,043,748	973,577	853,760	843,576	MNR
Expendable resources (\$000s)	N.A.	927,166	773,736	707,548	780,006	MNR
Cash and investments to operations (%)	N.A.	149.3	143.0	142.3	157.7	146.1
Cash and investments to debt (%)	N.A.	197.3	197.7	184.7	197.7	253.5
Cash and investments to pro forma debt (%)	N.A.	172.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	125.0	116.3	113.2	129.0	91.5
Expendable resources to debt (%)	N.A.	165.2	160.8	146.9	161.9	171.8
Expendable resources to pro forma debt (%)	N.A.	144.8	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.0	12.9	13.6	13.9	13.6

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). Student dependence = 100*(gross tuition revenue + auxiliary 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 and 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.

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