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

Credit Profile		
American University CP		
Short Term Rating	A-1	Affirmed
American University ICR		
Long Term Rating	A+/Stable	Affirmed
American Univ GO		
Long Term Rating	A+/Stable	Affirmed

Credit Highlights

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

Security

As of fiscal 2022 year-end, total debt was $745.4 million, largely composed of long-term, fixed rate debt. Total debt outstanding also includes minor finance and operating leases. The series 2015, series 2017, and series 2019 bonds are structured with bullet maturities. The university also maintains a $125 million CP program, which, as of fiscal 2022 year-end, was undrawn. All of the university's debt is a general obligation of AU. Management indicates that there are no plans to issue further debt over the outlook period.

Credit overview

We assess AU's enterprise profile as very strong, characterized by relatively stable demand characteristics and a broad draw for students offset by student success metrics, which are somewhat soft relative to those of similarly rated peers. We assess the financial profile as strong, with a history of robust operating margins and an impressive financial management team offset by an expectation for softer operations over, at least, the next year and all existing bonds that have bullet maturities. We believe these credit factors, combined, 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 committed several sources of funds, including its working capital and endowment, to support its existing unenhanced CP program ($125 million is authorized with currently nothing outstanding and no planned draws). As of Mar. 31, 2023, AU identified about $413.8 million in (undiscounted) assets available same or next day. We will monitor both the sufficiency and liquidity available fixed-income securities.

The rating reflects our assessment of AU's:

- History of consistent, positive full-accrual operations, although we expect operations will finish closer to breakeven over the next two years;
- Enrollment, which remains flat relative to fall 2017 levels despite some variability due to the pandemic and capacity constraints on campus; and
- Experienced and highly capable management team, which we believe can guide the university through adversity.

Offsetting these strengths, in our view, are AU's:

- A somewhat risky debt profile, which is structured with, exclusivepuv de.

Upside scenario

Management and governance

Since June 2017, Sylvia Burwell has led the university as its fifteenth president. Before joining AU, Ms. Burwell served as secretary of the U.S. Department of Health and Human Services. Following the retirement of longtime CFO Doug Kudravetz, AU appointed Dr. Bronté Burleigh-Jones as CFO, vice president, and treasurer in 2021. Before AU, Dr. Burleigh-Jones served Dickinson College as vice president of finance for eight years. In addition, Dr. Peter Starr became provost at AU in July 2020 after serving as dean of the university's college of arts and sciences for 11 years. In April 2022, Dr. Linda Aldoory was named as Dr. Starr's replacement as dean. 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, which reflect contingencies, deferred maintenance, and routine plant renewal (which is less than annual depreciation expense), but do not reflect generally accepted accounting principles.

The board of trustees, which is self-perpetuating, has 31 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

Historically, AU has demonstrated consistently positive operating performance, which has lent strength to the overall credit profile. For more than 10 years up until fiscal 2018, the university generated full-accrual operating margins in excess of 6%, but the pandemic has caused some variability in the university's operating success. In fiscal 2021, management enacted a several 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. We believe these cost reductions were prudent and helped offset a 10% decline in net tuition revenue and a more than 70% decline in auxiliary revenue. With those reductions and the recognition of federal pandemic-relief funding, AU recorded a modest 1.1% full-accrual operating deficit. In fall 2021, the university welcomed its largest first-year class, saw its second consecutive year of healthy graduate level matriculants, and returned to near-pre-pandemic levels of operation on campus, which, combined, helped adjusted operating revenue up nearly 30% in fiscal 2022. Gross tuition revenue and auxiliary revenue, which combined make up on average 85% of AU's total adjusted operating revenue, rebounded to above pre-pandemic levels. The university also recognized some federal pandemic-relief funds in fiscal 2022. The return to on campus operations, coupled with inflationary and labor market pressures, also drove expenses up 17% compared with fiscal 2021 and 9.5% compared with fiscal 2019, the last fiscal year prior to the pandemic. Overall, the university ended the year with a healthy 8.2% full-accrual operating surplus.

Over the outlook period, we expect operations will finish closer to breakeven. In years past, robust full-accrual operating surpluses were partially driven by steady enrollment growth, rising tuition, and modest year-over-year expense increases. Given the university's current capacity constraints, we expect enrollment will remain relatively flat over the outlook period, which will require management to focus on its tuition and financial aid strategy. We also expect that macroeconomic pressures will slowly lift operating expenses and that the university's continued investment in its employees, students, and campus, while a positive, will come with increased costs. Management indicates that a space-management project is in the works that would optimize the use of university space.

Financial resources

In our view, AU's financial resources are modest for the size and scale of university operations, particularly relative to rating category medians and similarly rated peers. Since fiscal 2017, cash and investments grew 42.6% to nearly $1.4 billion in fiscal 2022 from $951.6 million. This healthy growth was attributed to steady investment returns and consistent full-accrual operating surpluses, but also to the holding of excess bond proceeds in cash; in fiscal 2021, the university recorded about a $115.6 million cash inflow related to its "tap" issuance of the series 2019 bonds. The university recorded similar influxes in cash following the first series 2019 and series 2017 issuances. Importantly, much of the cash currently held by the university is earmarked for various projects across campus. The university's investments alone grew to approximately $1.2 billion in fiscal 2022 from $934.1 million in fiscal 2017. Despite this growth, AU's financial resource metrics remained relatively flat due to the university's growing operations and issuance of debt. Cash and investments relative to adjusted operating expenses were 157.0% in fiscal 2022, down from a high of 190.4% in fiscal 2021. The metric softened in fiscal 2022 largely due to the university's return to full on-campus operations and that impact on operating expenses. Cash and investments to total debt was 182% in fiscal 2022, down slightly year over year. We view this metric in particular as weak relative to rating category medians and that of similarly rated peers. Looking forward, we expect these metrics will remain relatively stable but believe that rising operating expenses could lead to some pressure. Furthermore, we expect the university will, over the coming years, spend down cash to complete capital projects, which we believe could also weaken these metrics.

AU's endowment was valued at $947.8 million as of January 2023. 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 can access about 55% of the endowment on a monthly basis. The university's endowment spending policy is 5% of a rolling three-year average although the effective rate is generally below or equal to 3%. Management does not plan any changes to the endowment draw in the near term.

In 2024, AU is expected to break ground on its Student Thriving Complex, a $103.5 million investment in the university campus, which includes renov9 (as) 20 (2024,) -260.0 (to) -260.0 (comp() -260.0 (peer) -14 (7(the) -2i96ts.0 (its) -260.0 (Stu own self liquidity. We've identified approximately $413.8 million of same- or next-day liquidity, which we believe partially mitigates this risk.

Given the bullet maturities, we smooth debt service in accordance with our criteria over the remaining life of the university's debt and estimate maximum annual debt service of $53.1 million, equivalent to 6.1% of fiscal 2022 adjusted operating expenses. While we view the university's maximum annual debt service as somewhat high, we believe it could come down over time given the lack of additional debt plans.

American University, D.C.--Enterprise And Financial Statistics

	--Fiscal year ended June 30--	--Medians reg5ie fQBT1 0 0 1 plansUn J'Ah0--

American University, D.C.--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					--Medians reported for 'A' category rated private colleges and universities--
	2023	2022	2021	2020	2019	2021
Cash and investments to debt (%)	N.A.	182.0	187.3	163.0	169.7	369.5

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 MADS burden = 100*(MADS expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. Note: Operating leases not included in debt ratios prior to fiscal 2021.

Related Research

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