

RatingsDirect®

Summary:

Howard University, District of Columbia; Private Coll/Univ - General Obligation

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Summary:

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Credit Profile

US\$216.065 mil taxable bnds ser 2020B due 10/01/2041

Long Term Rating

BBB-/Stable

New

Rationale

S&P Global Ratings assigned its 'BBB-' rating to the District of Columbia's series 2020B taxable bonds issued for Howard University, D.C.

Bond proceeds will be used to refund debt outstanding for savings.

The rating reflects the university's improved operating performance, although deficits persist; execution of some strategic initiatives, including program developments and identifying health care partnerships; and maintenance of the balance sheet, although we understand that additional debt is likely in the two-year outlook period. In addition, Howard was removed from federal heightened cash monitoring 2 (HCM2) and HCM1 status.

The rating also reflects our view of Howard's strong enterprise profile, characterized by its position as one of the oldest and most prestigious historically black colleges and universities, with a wide array of program offerings and diverse revenues, and relatively steady demand. We assess Howard's financial profile as adequate, with persistent operating deficits on an adjusted basis somewhat offset by the university's significant endowment and sufficient available resource ratios for the 'BBB' category. Combined with the university's only recent removal from HCM1/2 status and recent events, these credit factors lead to a 'bbb-' indicative stand-alone credit profile and 'BBB-' long-term rating.

The rating on Howard reflects our view of:

- Howard University Hospital's (HUH) constrained operating environment and weak payer mix that depends largely on Medicaid;
- Consolidated operating deficits on an adjusted basis in four of the past five fiscal years;
- Intermittent use of bank lines for liquidity, although there were no draws outstanding at the end of fiscal 2019; and
- Significant deferred maintenance needs.

Some of the university's strengths, in our view, include:

- Niche as one of two federally chartered, nonmilitary higher education institutions and status as one of the most prestigious historically African American universities in the U.S., and substantial and historically stable level of federal operating support;

- Overall stable enrollment levels, good demand profile, and improving student quality; and
- Sufficient financial resource ratios for the 'BBB' category.

Howard, founded in 1867, is a comprehensive private university in Washington, D.C. The university offers a broad range of undergraduate, graduate, and professional programs, including law, business, medicine, dentistry, pharmacy, engineering, and architecture. Howard also has a school of divinity. In addition, it owns the teaching hospital and health care accounts for 28% of consolidated operating revenues in 2019. Howard is one of only two nonmilitary schools in the U.S. that are federally chartered and receive an ongoing direct federal appropriation. As the university is a 1928 congressional act mandated institution, we understand that only an act of Congress can terminate its annual appropriation.

Factored into our review of Howard University and into the pro forma debt and debt service calculations is the expectation that the university will issue up to \$139 million and possibly less, with funds going toward a steam plant. Howard retained Engie, an energy service provider, to build and maintain a new combined heat and power plant that is expected to be operational in 2021. Engie will complete routine repairs and maintenance. Howard will support future capital needs through the establishment of a renewal and replacement fund. This additional debt will likely be issued in early 2020 and is factored into this analysis.

During 2018, the U.S. Department of Education placed Howard on HCM2 status so that it could closely monitor the institution's federal financial aid management. As of 2019, approximately 58% of students receive federal financial aid. In December 2019, Howard was returned to the advanced-payment method and was removed from HCM1 where it was placed in September 2019. We understand that improvements include the hiring of a new director of financial aid and a new associate provost for enrollment management, and approval for all awards of grants now being reviewed and approved by the budget office and the controller's office (for donor-directed aid) prior to award.

The university has a \$100 million revolving line of credit (LOC) that it used to cover shortfalls. In our opinion, this reliance on the LOC to offset cash limitations, while temporary in nature, is a credit weakness.

The long-term bonds are general obligations of the university, and there is a debt service reserve. The 2011A and 2011B bonds maintain a bond covenant of a 1.1x debt service coverage pledge. We understand that the university is in compliance with its bond covenants. It also has a \$100 million LOC with JPMorgan Chase Bank N.A. Howard had no draws on the line at the end of each of the past three fiscal years, but did draw on the line during fiscal years 2018 and 2019 for cash management purposes.

(For more information, see our full analysis on Howard University, published Jan. 17, 2020, on RatingsDirect.)

Outlook

The stable outlook reflects our assessment of Howard's and the HUH's consolidated weak operations and lack of consistently stable operations, offset by sufficient available resources for the rating. We expect the university will continue to execute on operational improvements, enrollment growth efforts, and work to build balance sheet strength over time with fundraising and improved performance. At the same time, we expect the university will, at least,

maintain its enrollment and demand profile.

Downside scenario

We could lower the rating during our two-year outlook period if Howard does not maintain its enrollment profile, or if operating performance or financial resources deteriorate.

Upside scenario

Given the weak operating performance, only adequate balance sheet metrics, and recent HCM2/HCM1 status, we do not expect to raise the rating over the outlook period. We would view positively consistent, improved operating results and surpluses, and balance sheet strengthening.

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