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Ratings

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District Of Columbia Gallaudet University; Private Coll/Univ - General Obligation

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Long Term Rating	A-/Negative	Outlook Revised

Credit Highlights

- S&P Global Ratings revised its outlook to negative and affirmed its long-term 'A-' rating on District of Columbia's series 2021A and 2021B revenue bonds, issued for Gallaudet University (GU).
- The negative outlook represents our opinion of GU's persistent enrollment declines and operating deficits, with a $10.7 million deficit in fiscal 2024, and expectations of further enrollment decline at least through fall 2025.

Security

The series 2021 bonds are the university's only bonds, with about $41.5 million outstanding as of June 30, 2024. The bonds are secured by a general obligation of the university. Also included in long-term debt are the university's finance and operating leases of $12.3 million, $14.1 million outstanding on the university's $40 million line of credit, and $19.6 million in bank debt. The bank debt consists of a $17.8 million term loan issued in fiscal 2023 to fund the microgrid project and a small taxable term loan issued in fiscal 2022 with a balance of $1.9 million. Although we have not reviewed the loan documents, in the event of acceleration, the university maintains $39 million in financial assets available to meet cash needs for general expenditures within one year as of fiscal 2024. The university's maximum annual debt service (MADS) burden as of June 30, 2024, is approximately 3.7%, which includes all debt and leases.

Credit overview

We assessed Gallaudet's enterprise risk profile as strong, with consistently solid matriculation and good selectivity, and a geographically diverse student body. These strengths are offset by a history of declining enrollment, including a 6.5% decline in fall 2024 and expected further decline in fall 2025. We assessed Gallaudet's financial risk profile as strong, with a manageable debt burden and moderate tuition discount. The significant and consistent support the university receives in federal appropriations, which accounts for approximately 70% of revenues, also supports our view of the financial profile. However, expenses continue to rise and have led to several years of operating deficits, including a material deficit of $10.7 million in fiscal 2024, and long-term expectations of increased capital needs. These credit factors, combined, lead to an anchor of 'a'. As our criteria indicates, the final rating can be adjusted below the anchor due to a variety of overriding factors. The 'A-' long-term rating better reflects our view of Gallaudet's status as a specialty school with a narrower demand profile compared with other education organizations.

The debt figures do not incorporate additional capital expenses that will likely be incurred beyond the outlook period for the university's sixth-street project, which will be a combination of retail and mixed-use facilities for students that acts as a gateway to the university. Funding sources are still being identified for the project and will likely include a combination of fundraising and debt. We will fully incorporate the capital spending associated with the sixth-street project when information becomes available.

The rating reflects our assessment of the university's:

- Unique status as a federally chartered private university that provides educational programs and training for individuals who are deaf or hard of hearing;
- Consistent federal support, with federal appropriations constituting close to 70% of operating revenue in most years and an additional $15 million construction appropriation fund received in fiscal 2023;
- Consistently solid matriculation rates and good selectivity; and
- Manageable debt burden, despite an additional $18 million of long-term debt in fiscal 2024, with a MADS burden of 3.7% as of June 30, 2024.

Partially offsetting credit factors include our opinion of the university's:

- Consistent enrollment declines over the last several years, except for a small 1.2% increase in fall 2023, with another year of declining enrollment expected in fall 2025;
- Several years of full-accrual operating deficits;
- Somewhat weak financial resources for the rating, especially relative to operating expenses; and
- Recession, sequestration, and annual approval risk related to federally appropriated funds, partially mitigated by the university's demonstrated ability to manage through these challenges in the past. The college is currently operating on a continuing resolution for federal appropriations that will run through March 2025. While we expect that the resolution will continue, we believe there is some risk given the uncertain political environment.

Gallaudet, founded in 1864 in Washington, D.C., by a federal charter, provides educational programs and training for individuals who are deaf or hard of hearing, and for hearing individuals interested in pursuing careers in areas related to deafness. Gallaudet operates the College of Arts and Sciences, the School of Education, Business, and Human Services, and graduate and professional programs. It also operates the Laurent Clerc National Deaf Education Center, which provides elementary and secondary education to deaf students. Although established as a private institution, Gallaudet receives most of its revenues from annual federal appropriations due to its mission that ensures the advancement of deaf and hard-of-hearing individuals.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. We view environmental, social, and governance credit factors as neutral in our analysis.

Outlook

The negative outlook reflects our expectation that during the outlook period, enrollment declines will continue, resulting in continued operating deficits and a decline in financial resources that may no longer be consistent for the rating. We do not expect additional debt issuance during the outlook period; however, we believe it is likely that the university will issue additional debt outside the outlook period.

Downside scenario

We could lower the rating if significant enrollment declines, or significant operating deficits persist with no signs of stabilization. Further deterioration of financial resource ratios, an increase in debt, or additional capital spending beyond what has already been articulated by management related to the Sixth Street project could also pressure the rating. Declines to federal funding would also be viewed negatively.

Upside scenario

We could consider a revision to stable if the university is able to stabilize enrollment and improve operations closer to break-even without the support of extraordinary endowment draws. Improvement in financial resources would also be viewed favorably.

Credit Opinion

Enterprise Risk Profile--Strong

Market position and demand

Gallaudet's enrollment has declined over the last five years. Immediately following a very modest 1.2% increase in fall 2023, full-time equivalent (FTE) enrollment decreased 6.5% in fall 2024, driven by decreased applications and first-year matriculants. Management continues to work on several aspects of its recruiting strategy and programmatic offerings, including new online and on-campus programs, focusing on the student experience and vocational rehabilitation, and increase graduate student capacity. While undergraduate enrollment has materially declined in recent years, the university has seen growth in graduate demand. The undergraduate demand profile remains moderately selective with a very strong matriculation rate, indicative of the university's niche in educating students who are deaf or hard of hearing. In fall 2024, the university's undergraduate headcount was 875. Management expects further enrollment decline in fall 2025, with an undergraduate headcount goal of 850.

The university's receipt of federal appropriations caps the percentage of hearing students it can admit at the undergraduate level at 8% and the percentage of international students at 15%. We understand the university remains in compliance with these requirements. Gallaudet has a national draw with a most students coming from outside the state. The majority of undergraduate students have historically lived on campus, and the university maintains a two-year residency requirement.

Management and governance

The university is governed by a 20-member board of trustees, which includes three members of Congress. Currently, the Honorable Sherrod Brown, Betty McCollum, and Larry Bucshon are members of Gallaudet's board. Management maintains a close relationship with the U.S. Department of Education and members of Congress to maintain appropriations each year. Although there was some volatility in appropriation in the past with federal funding and midyear cuts, management expects to secure stable funding through the end of fiscal 2025.

Gallaudet University appointed a new provost in 2023, and a new controller in 2024, but the remainder of the executive management has been stable. The president, Roberta Cordano, joined the university in January 2016 and has focused her attention on long-term planning, building connections with current and prospective students, and increasing research. The university is in phase two of their strategic plan, which runs through 2030, with goals focused on academic excellence, student experience, collaborating with the deaf community, and operational excellence. The university has also undertaken significant capital projects in the last few years, including a microgrid project and pending Sixth Street project, which have been difficult for the management team to execute, given enrollment and operational challenges.

Financial Risk Profile--Strong

Financial performance

Gallaudet has produced full-accrual operating deficits of varying sizes over the last five years, including a $6.5 million deficit (2.7%) in fiscal 2023 and a $10.7 million deficit (4.4%) in fiscal 2024. The deficits in recent years are largely due to declining enrollment; however, the deficits in the last several years can also partially be attributed to the repair of a student housing facility, the Laurent Clerc Center, which is a federally funded center catering to elementary and secondary students. We understand repairs were needed due to construction defects and problems with the design and construction of the facility. The operational impact associated with these repairs totaled $1.7 million in fiscal 2022, $17.5 million in fiscal 2021, and $4.6 million in fiscal 2020. The university also hired a consultant to develop a plan for remediation, on which they spent $1.3 million and $233,000 in fiscal years 2023 and 2024, respectively. These expenses have not been capitalized and were recognized as operating expenses. The university asserted claims against both the construction company and architect to recover these damages and received a $1.5 million settlement from the architect in fiscal 2022. Management expects fiscal 2025 operations to remain negative but somewhat improved from fiscal 2024, with increased tuition and an increased endowment draw driving the improvement. We continue to believe the challenging operating environment creates uncertainty for operating performance.

Federal appropriations to Gallaudet are determined annually by Congress as authorized under the Education of the Deaf Act, which is part of the Higher Education Act. Appropriations are specifically designated for Gallaudet University and operating appropriations have been relatively stable in the last several years, with $155.7 million in 2024 appropriations. Management is budgeting for flat federal appropriations in fiscal 2025 and does not expect any major changes in funding from the new federal administration. We consider the large percentage of federal appropriations in the budget a credit strength, due to the U.S. government's strong history of support. However, the high reliance on potentially volatile appropriations limits budgetary flexibility, in our opinion. Management is assessing the potential impacts of disruptions in federal funding. While there is uncertainty around the implications of the recently announced executive order to delay or eliminate different areas of funding, we believe that the university maintains a strong track record of federal funding, as well as strong bipartisan relationships with lawmakers.

Financial resources

Gallaudet's cash and investments improved somewhat in fiscal 2024, with $254 million in total cash and investments as of Sept. 30, 2024. This increase led to a small improvement in financial resources compared with operations, with a ratio of 106% in fiscal 2024; however, the ratio is still weaker compared with peers and the median ratio of 159%. The university's financial resources compared with debt declined in fiscal 2023, with the issuance of nearly $18 million in debt. In fiscal 2024, financial resources to debt improved slightly to 291% but remains significantly lower than recent years due to increase debt and is no longer in line with the 'A' median of 347%. We expect financial resource ratios might be affected by future capital plans outside the outlook period, but the full impact is unknown at this time.

Gallaudet University, District Of Columbia--enterprise and financial statistics

	--Fiscal year ended Sept. 30--					Medians for 'A' category rated private colleges and universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	1,225	1,304	1,289	1,379	1,408	3,442
Undergraduates as a % of total enrollment	64.0	66.0	68.0	69.0	67.5	84.7
First-year acceptance rate (%)	58.1	61.0	59.2	62.4	62.6	72.9
First-year matriculation rate (%)	60.7	57.3	71.6	60.6	58.9	17.5
First-year retention rate (%)	71.0	77.0	73.0	80.0	74.0	85.1
Six-year graduation rate (%)	47.0	47.0	44.0	58.0	44.0	76.2
Financial performance						
Adjusted operating revenue ($000s)	N.A.	230,283	238,454	229,189	202,965	MNR
Adjusted operating expense ($000s)	N.A.	240,965	245,003	233,037	212,454	MNR
Net operating margin (%)	N.A.	-4.4	-2.7	-1.7	-4.5	0.5
Change in unrestricted net assets ($000s)	N.A.	-3,692	-3,143	-13,664	-1,918	MNR
Tuition discount (%)	N.A.	33.4	39.9	43.0	29.9	42.3
Student dependence (%)	N.A.	21.3	20.3	19.5	14.2	82.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	3.5	3.3	4.1	2.6	1.8
Financial resources						
Endowment market value ($000s)	N.A.	235,095	207,445	191,649	232,869	332,263
Cash and investments ($000s)	N.A.	254,305	235,610	205,652	254,945	393,804
Cash and investments to operations (%)	N.A.	105.5	96.2	88.2	120.0	159.3
Cash and investments to debt (%)	N.A.	290.7	277.3	383.6	477.9	347.2
Cash and investments to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR

Gallaudet University, District Of Columbia--enterprise and financial statistics (cont.)						
	--Fiscal year ended Sept. 30--					Medians for 'A' category rated private colleges and universities
	2025	2024	2023	2022	2021	2023
Debt						
Outstanding debt ($000s)	N.A.	87,484	84,956	53,612	53,343	129,836
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	3.7	2.9	2.7	2.6	4.2
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	15.4	15.4	14.6	15.0	16.3

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*(maximum annual debt service 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. MADS--Maximum annual debt service.