Moody's Investors Service
Rating Action: Moody's downgrades Howard University(DC)'s revenue bonds to Baa3 from Baa1; outlook negative

Global Credit Research - 03 Jul 2014

$290M rated debt affected

New York, July 03, 2014 -- Moody's Investors Service has downgraded the District of Columbia Revenue Bonds (The Howard University Issue) Series 2011A and Series 2011B (Taxable) to Baa3 from Baa1. The outlook is negative.

SUMMARY RATING RATIONALE

The downgrade to Baa3 reflects the precipitous deterioration of hospital operations represented by an estimated $37 million operating loss for fiscal year 2014 and continuing significant changes in senior leadership. The hospital turnaround is taking longer than planned, eroding the hospital's market and taxing available liquidity.

The Baa3 rating also incorporates a limited one-year renewal of the university's multi-bank credit agreement for a lower committed amount ($94.5 million). Covenant violation could trigger the need for collateral posting or immediate repayment.

The rating also incorporates the relatively large size of the university, long-standing reputation as one of the foremost Historically Black Colleges and Universities and significant federal government support.

The negative outlook reflects an expectation of continued stressed operations at the hospital despite the university's efforts to reduce expenses and to identify a joint venture partner to reconfigure hospital operations.

CHALLENGES

*Hospital operations continue to pressure consolidated operations. The Howard University Hospital is projected to have lost approximately $37 million for fiscal year (FY) 2014 as a result of declining admissions and a weakening payer mix. A planned reduction in force during FY 2014 was blocked by unions, preventing the hospital from realizing planned savings.

*Federal revenues have not kept pace with cost escalation. Sequestration resulted in a $9 million real reduction of federal appropriations during FY 2014. Grant awards are also down.

*The university had 153 monthly days cash on hand as of June 30, 2013 and, as of June 30, 2014, it has drawn $65 million down on the renewed multi-bank credit agreement. Cash-flow is more difficult for Howard to manage given the hospital deficits and sometimes unpredictable timing of federal payments.

*Debt service coverage will narrow in FY 2014 as a result of weaker cash flow and decreasing headroom above a debt service coverage covenants.

*The university has experienced significant senior leadership turnover. As of July 1, 2014, there is a new board chairman and vice chairman. Most senior management positions including the president, provost, and chief financial officer are currently filled by interim appointments. Senior management positions are expected to be filled after the new president is named. The university intends for that to occur before the beginning of the fall 2014 semester.

*Indirect debt including pension obligations and operating leases remain significant.

*The university's potential need to support two new privatized student housing facilities has increased. If the university financially supports these residences either through forgoing reimbursement for operations or, in fact, fronting operating expenses, Moody's will reconsider whether to add the $108 million in debt to the university's debt burden.

STRENGTHS
*The university is actively wrestling with the operating challenges of the hospital. Management reports having received one proposal and expects to receive a second one from two possible joint venture partners. The contemplated joint venture is expected to preserve most hospital services and to be accompanied by capital infusion.

*The university’s enrollment is stabilizing after a downturn in fall 2012. Applications have reportedly increased by 20% for fall 2014. This heightened demand supported the university’s decision to increase tuition pricing by 6% for fall 2014.

*The university has over $250 million of board-designated funds which could be called on to support operations or strategic initiatives, if needed.

*Total financial resources per student and total cash and investments of $525 million compare favorably to other large private universities rated in the Baa category.

OUTLOOK

The negative outlook reflects continued pressure on hospital operations and potential further narrowing of liquidity. While the university has identified initiatives to correct hospital operations, timely execution of the initiatives remains unproven. The outlook also incorporates reliance on the multi-bank credit agreement with a relatively short one-year expiration requiring full repayment upon maturity if the line is not extended.

WHAT COULD MOVE THE RATING DOWN

Further negative rating action could come as a result of failure to stem losses at the university hospital, reduction in liquidity or increased reliance on the bank facility. Failure to meet liquidity or debt service coverage ratio required for credit line or a narrowing of headroom under the covenants or failure to renew the line in advance of the June 2015 expiration liquidity could all lead to a downgrade.

WHAT COULD MOVE THE RATING UP

Sustained stability of hospital and university operations along with less reliance on the credit line with no reduction in financial resources could lead to a stable outlook.

RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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