FitchRatings

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Fitch Affirms Grand Canyon University, AZ at 'BBB-'; Outlook Stable

Fitch Ratings - New York - 09 Jun 2025: Fitch Ratings has affirmed Grand Canyon University, AZ's (GCU) Issuer Default Rating (IDR) at 'BBB-'. Fitch has also affirmed GCU's series 2021B taxable bonds and the Maricopa County Industrial Development Authority (AZ) series 2024 taxable bonds at 'BBB-'.

The Rating Outlook is Stable.

GCU's 'BBB-' IDR and bond ratings are based on the university's competitive strengths in both the traditional and online higher education markets. Its operating model also provides strong cash flows with high flexibility. These credit strengths are tempered by GCU's very high leverage with additional risks from its lumpy debt structure with several large bullet maturities.

The Outlook is Stable, although GCU is involved with several regulatory and legal matters that have the potential to pressure the ratings. However, recent rulings favorable to the university have eliminated the downside risks from two of these significant matters. Management reports that GCU is indemnified against most other known pending claims and suits.

SECURITY

The $520 million series 2024 bonds, $550 million outstanding of series 2021B bonds, and two term loans with a bank totaling approximately $146 million (outstanding amounts as of 3/31/2025) are secured under a master trust indenture (MTI). The MTI provides for GCU's gross revenues to be pledged and held pursuant to a deposit account control agreement. MTI obligations are also secured by a mortgage on the university's 300-acre campus property in Phoenix, AZ, which was appraised at over $2 billion in 2023. There is no debt service reserve fund securing instruments issued under the MTI.

In March 2025, GCU refinanced all non-MTI cash-collateralized lines of credit with $80 million outstanding with an MTI obligation, thereby releasing a similar amount of cash from restriction. GCU has one line of credit outside of the MTI with a capacity of $30 million that requires cash collateral against outstanding amounts. GCU plans to draw approximately $20 million from this line by June 30, 2025.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

GCU has a significant presence in both the traditional and online higher education markets. Almost 25,000 undergraduates study at its main campus in Phoenix, AZ, and more than 98,000 students from all 50 U.S. states are enrolled in its online undergraduate and graduate programs. Robust enrollment is critical to GCU's revenue profile because the university has limited revenue diversity. Over 95% of its total income is derived from students.

In the traditional ground program, GCU benefits from its competitive position as a low-cost, Christian private university in a favorable demographic region and climate. GCU has maintained an undergraduate tuition rate of $16,500 since 2009. Undergraduate demand metrics are moderate with an 78% average acceptance rate over the past five years through fall 2024 and an approximately 24% matriculation rate over the same period, with some variation year-to-year. Total undergraduate enrollment contracted slightly in fall 2024 to 24,657 from 25,232.

GCU's growth and presence in the online education market reflects its national brand recognition and ability to quickly adapt and tailor programs to meet workforce development needs and student demand. Online enrollment grew to its highest recorded level in fall 2024, with a 5.8% increase in headcount. GCU is one of the largest providers of online education in the U.S.

Operating Risk - 'aa'

GCU has consistently generated healthy Fitch-calculated cash flow margins of around 10%. This trend is projected to continue in Fitch's forward-looking scenarios, which model Fitch's expectations of future revenues, expenses, capital expenditures and potential financial market stresses. Due to the size of GCU's operations, absolute cash flows have exceeded $100 million per year.

GCU has significant operating flexibility as a result of its mostly part-time adjunct faculty and unique operating model that outsources certain marketing, technology, financial aid processing, counseling and other functions to the currently unaffiliated for-profit public company, Grand Canyon Education (GCE). GCU pays GCE a fixed 60% of most revenues for these services, pursuant to a long-term master services agreement (MSA). This flexibility contrasts with largely inflexible expenses and extended decision-making protocols of the higher education industry in general. Fitch estimates roughly 90% of GCU's expenses are variable and automatically scale up or down in line with revenues.

GCU's 300-acre physical campus is quite new, with over three-quarters of its facilities' square footage built since 2014. With limited deferred maintenance, Fitch believes that GCU has significant flexibility with respect to capital spending. Approximately 70% of undergraduate students live on campus. GCU has 31 residential halls and apartment buildings with capacity for over 19,000 beds. A new 700-bed residence hall is expected to open in fall 2025.

Financial Profile - 'bbb'

GCU's solid Revenue Defensibility and strong Operating Risk characteristics are tempered by very high leverage. The university bonded debt and bank loans feature large balloon payments, exposing the university to refinancing risks. However, the university has demonstrated its ability to access the capital markets to refinance bullet maturities. Most recently it used $520 million in series 2024 bonds issued in December 2024 to refinance interim bank loans of $500 million that were used to refinance the $500 million, Oct. 1, 2024 maturity of the series 2021B bonds and $20 million of other bank debt.

Leverage is effectively weakened by GCU's use of bank lines collateralized by cash. Favorably, the university has eliminated exposure to this financing structure from the $80 million balance at FYE 2024 and expects to draw about $20 million at the end of fiscal year 2025.

Fitch expects GCU's leverage ratio, measured as Available Funds (AF: cash and investments less permanently restricted net assets) to Adjusted Debt to total around 35% at FYE 2025. This figure removes the expected $20 million in cash collateral from AF and the associated loan from Adjusted Debt. In Fitch-modeled, forward-looking scenarios, AF-to-adjusted debt grows to almost 50%. This is consistent with Fitch's 'bbb' financial profile assessment in the context of GCU's 'a' Revenue Defensibility and 'aa' Operating Risk assessments. Fitch's forward-looking scenarios assume conservative enrollment growth assumptions and no net increase in debt.

At FYE 2024, GCU reported compliance with all financial covenants under the MTI, with 76 DCOH against the requirement of 55, and DSCRs above the 1.25x threshold on a parity basis and 1.00x on a total basis. Management expects to meet all covenants for fiscal 2025. GCU's debt service requirement for the DSCR covenant calculation provides for a smoothing of balloon payments, which will ameliorate pressure to meet the covenants during years of large scheduled payments.

As a proprietary institution for U.S. Department of Education (DOE) purposes, GCU is subject to several financial measures that differ from institutions classified as nonprofit institutions by DOE. GCU has been in compliance over recent years with the 90/10 rule, which requires proprietary institutions to derive at least 10% of their revenue from non-federal sources. Similarly, GCU's DOE financial responsibility composite score using the proprietary school formula has consistently been in the "financially responsible" range. GCU has been actively challenging the DOE's classification of its status as a proprietary institution.

Asymmetric Additional Risk Considerations

GCU and Grand Canyon Education (GCE) are co-defendants in private class-action litigation over alleged marketing practices and a suit filed in December 2023 by the U.S. Federal Trade Commission. GCU has been dismissed as a co-defendant in the FTC case but is exposed to certain legal costs of GCE. In addition, GCU management has indicated that the university is indemnified by GCE in other private class-action suits against the entities. Nevertheless, significant final, unappealable, adverse rulings against the university could affect its financial profile and ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Persistent erosion of Fitch-calculated cash flow margins to below about 10% resulting from expenses that track unfavorably against revenues;

--Cash flow generation that is insufficient to meet annual debt service covenants and requirements;

--Increased use of cash towards collateralized bank lines or notes, effectively reducing funds available to pay debt service on MTI obligations;

--Inability to refinance maturing bank loans or bullet maturities on bonds on manageable terms;

--Diminished Available Funds-to-Debt below about 30% after adjusting for bank-held cash collateral, and that persist at that level in Fitch-modeled forward-looking scenarios;

--Sizeable internally funded or debt-funded capital expenditures beyond current expectations;

--Performance failures by GCE in the MSA, or termination of the MSA without internal or alternate sources to replace the services GCE provides in the MSA.

--Unappealable final judgements against GCU that result in substantial impact on the university's financial profile, or noncompliance with significant DOE regulations, standards and agreements applicable to GCU.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Fitch-calculated cash flow margins regularly approaching 15% or more, resulting in robust debt service coverage and increasing balance sheet resources;

--Decreased use or elimination of cash used for collateral against outstanding portions of bank lines;

--Improvement in leverage metrics, with AF-to-Debt improving to over 50% and maintenance of this level in Fitch forward-looking scenarios;

--Replacement of current lumpy debt service obligations with more level debt service to reduce refinancing risks, and reduction of shorter-term bank notes and collateralized lines to fund capital expenditures.

PROFILE

GCU is a coeducational, Christian university with two primary modalities. Its traditional undergraduate residential program operates on a 300-acre campus in Phoenix, AZ with approximately 25,000 students as of fall 2024. GCU participates in 20 NCAA Division I sports programs and engages in ministry projects in its surrounding community in Phoenix. Its online and hybrid programs enroll approximately 98,000 undergraduate, graduate and certificate students from all 50 U.S. states.

GCU offers hybrid accelerated Bachelor of Science in nursing programs in 10 locations in Arizona, Utah, Nevada, Idaho, New Mexico, Florida and Missouri in spaces provided by GCE. GCU plans to open an additional site in Colorado in fall 2025. GCU also launched its Center for Workforce Development in Phoenix and Texas in partnership with local employers, where it offers pre-apprenticeship programs for high-demand skilled trade roles such as electricians and computer numerical control machinists.

GCU traces its roots to 1949, when Grand Canyon College was established in Arizona as a Baptist-affiliated institution focusing on religious studies and education degrees. In 2004, investors purchased the university and expanded its online programs as a for-profit institution and completed an initial public offering in 2008 as GCE. In 2014, the non-profit Gazelle University was formed and, in 2018, changed its name to Grand Canyon University and purchased the academic operations, other business operations, real estate and facilities of the university from GCE.

As part of this transaction, GCU entered into a $870 million note to purchase the assets of the university and subsequently borrowed an additional $330 million for additional capital improvements, subsequently refinanced with $1.2 billion in series 2021B taxable bonds. The series 2021B taxable bonds were partially refinanced again with interim loans and the series 2024 bonds. In addition, GCU entered into the MSA with GCE, whereby GCE provides certain technological, counseling, marketing, financial aid processing and other administrative functions to GCU in exchange for 60% of most of GCU's net student revenues.

GCU 's board of trustees consists of eight independent members. GCU President Brian Mueller, who is not a GCU trustee, is CEO and board chair of GCE. To reduce perceived or actual conflicts of interest arising from his roles at both GCU and GCE, President Meuller cannot serve on GCU's master services agreement committee.

GCU's accreditation by the Higher Learning Commission (HLC) was last affirmed in 2020-2021 and is scheduled for its next comprehensive evaluation in 2026-2027. HLC's most recent action with GCU on May 27, 2025, removed GCU's heightened monitoring status with a governmental investigation designation.

An IRS audit of GCU's nonprofit tax filings for fiscal years 2015-2019 was concluded with the IRS issuing a closure letter in May 2025 confirming no change in the institution's not-for-profit tax status.

GCU has been authorized to participate in federal student aid programs through successive provisional program participation agreements (PPPAs) with DOE. The current PPPA was last executed in September 2023 and expires in June 2026. Under the terms of the current PPPA, GCU has five new monitoring and disclosure requirements pertaining to marketing practices. GCU reports that it is in compliance with all conditions of the current PPPA.

GCU and GCE have been under scrutiny by various entities regarding marketing practices, but GCU's exposure appears to be limited. A $37.7 million fine against GCU recommended by DOE was dismissed with prejudice in March 2025. According to GCU management, GCU is indemnified by GCE in other class action suits against the entities. GCU has also been dismissed as co-defendant with GCE in an FTC lawsuit, but GCU is responsible for certain of GCE's defense costs in this case. The likely outcomes of these matters cannot be assessed at this time. GCU has not placed any funds in reserve related to such matters.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Grand Canyon University (AZ) has an ESG Relevance Score of '4' for Customer Welfare - Fair Messaging, and an ESG Relevance Score of '4' for Governance Structure, defined as board independence and effectiveness in fiduciary and strategic efforts, ownership concentration and span of control, and Group Structure defined as complexity, transparency and related-party transactions. The elevated scores arise from the interdependence of GCU with GCE, the shared senior executive at both entities, and limited breadth of GCU's board. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Grand Canyon University (AZ)	LT IDR	BBB- ●	Affirmed		BBB- ●
• Grand Canyon University (AZ) /General Revenues/1 LT	LT	BBB- ●	Affirmed		BBB- ●

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	●	◆
STABLE	●	

Applicable Criteria

U.S. Public Finance College and University Rating Criteria (pub.19 Sep 2023) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub.10 Jan 2025) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.1 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Maricopa County Industrial Development Authority (AZ)	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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