S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Mary Ellen E Wriedt, San Francisco + 1 (415) 371 5027; maryellen.wriedt@spglobal.com

Secondary Contact:
Ken W Rodgers, Augusta + 1 (212) 438 2087; ken.rodgers@spglobal.com

Table Of Contents

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

Credit Profile		
George Washington University		
Long Term Rating	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A+' long-term rating on George Washington University (GW or the university), D.C.'s various series of taxable bonds outstanding.
- The outlook is stable.

Security

All debt outstanding is a general obligation (GO) of the university. GW's total debt outstanding is $2.1 billion, including $101.1 million in operating and financing leases. All of GW's long-term debt was issued with 30-year bullet maturities. GW has issued no direct placement debt with banks or other financial institutions and has no swaps in place on any of its debt obligations. Management reports that the university does not plan to issue additional new-money debt backed by its GO pledge in the near term.

Credit overview

Our rating reflects our belief that GW's enterprise risk profile is very strong as a comprehensive research university, with more than half of its enrollment coming from its graduate and professional programs (law and medicine, among other disciplines), strong student quality, and stabilizing enrollment following recent declines. Also, the rating reflects our view that the university's financial risk profile is strong, characterized by revenue diversity but high debt, with some susceptibility given the extensive use of bullet maturities, and an investment portfolio with a concentration in real estate holdings that we generally view as being less liquid. The combined enterprise and financial risk profile leads to an anchor of 'a+' and a final long-term rating of 'A+'.

The rating further reflects our view of the university's:

- Robust student quality, wide variety of undergraduate and graduate programs, and sizable endowment per full-time-equivalent (FTE) student;
- Good revenue diversity, with student-derived revenue accounting for less than 60% of adjusted operating revenue, and with revenue coming from health care operations, grants and contracts, and private gifts; and
- Sizable money received from its research programs.

Offsetting factors include:

- Weaker financial resources to operating expenses and debt relative to category medians and to those of peers;

- High smoothed maximum annual debt service burden (MADS), with most debt having bullet maturities; and
- Investment portfolio with a heavy allocation to real estate, which we typically view as a less liquid asset.

GW was established in 1821 as Columbian College by an act of Congress, and in 1904, its name was changed to The George Washington University. Its main campus is in the Foggy Bottom neighborhood in northwest Washington, D.C., with additional facilities in the Mount Vernon Campus in D.C. and the Virginia Science and Technology Campus located in Loudoun County, Va.

Environmental, social, and governance

We analyzed GW's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance, and found them to be neutral in our credit rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the university's enrollment will continue to stabilize, financial operations on a full-accrual basis will remain positive, and financial resource ratios relative to operations and debt will remain stable or improve. We also assume no additional new-money debt issuance without a commensurate increase in financial resources.

Downside scenario

A lower rating could result from significant declines in enrollment, weak financial operating performance, a deterioration in financial resources, or a measurable increase in debt.

Upside scenario

Any consideration of a positive rating action would be predicated upon sustained positive financial operating performance on a full-accrual basis and a significant improvement in financial resources in relation to operations and debt.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

The university consists of 10 schools. Eight schools offer both undergraduate and graduate degrees, and two offer graduate and professional degrees: the Law School and the Graduate School of Education and Human Development. GW generally does have the ability to flex demand through tuition pricing and discounting strategies.

As of fall 2023, the university enrolled 25,568 students, or 21,763 FTEs, at all of its campuses. FTE enrollment fell 0.1% from 21,777 in fall 2022 and 8.6% since its peak in fall 2018 of 23,798. Management states that applications for fall 2024 are strong, and enrollment is expected to stabilize, with a larger freshman class. GW has a large number of graduate and professional students; undergraduates constituted 49.3% of total enrollment for fall 2023. We expect enrollment will trend up, particularly as demand from international students continues to rebound as GW leverages its unique and advantageous location in the nation's capital as well as its diverse student body and institution. In our view, GW has fairly strong geographic diversity, as we understand that approximately 70% of its students come from outside the D.C, Maryland, and Virginia region.

GW is selective, accepting only 43.5% of applicants in fall 2023; that percentage increased from a low of 40.8% in fall 2019 but improved from 49.0% during the pandemic. Evidencing the competitiveness of the market, the matriculation rate was around 24% prior to the pandemic, but it declined to 17.4% in fall 2020, then improved to 21.5% in fall 2023. In our view, student quality is strong for fall 2023, with an average SAT score of 1414 for incoming freshmen.

Management and governance

On July 1, 2023 Dr Ellen M. Granberg became the university's 19th president. Prior to joining GW, President Granberg served as provost and senior vice president for academic affairs at Rochester Institute of Technology and was a professor and senior leader at Clemson University. In July 2022, Bruno Fernandes became the chief financial officer and treasurer of the university. Mr. Fernandes has considerable experience in finance; prior to serving as the vice president of finance and treasurer at GW since April 2021, Mr. Fernandes held a similar role for the District of Columbia. Mr. Fernandes has been instrumental in implementing rigorous budget practices to improve the margins, aligning costs with built-in contingencies.

Financial Risk Profile--Strong

Financial performance

GW generally posts operating surpluses. In fiscal 2023, the net operating income was 1.4% and in fiscal 2022 was 1.7%. Primarily as a result of the effects of the COVID-19 pandemic, including enrollment declines, revenue loss, and increased expenses, GW recorded a negative 2.1% net operating income in fiscal 2021 and a negative 2.8% net operating income in fiscal 2020, following three years of full-accrual surpluses. Fiscal 2024 is projected to have another positive margin on a GAAP basis, likely in excess of fiscal 2023's surplus, and management has a target to achieve 2% margins within the next five years. We believe that management's budgeting practice is sound, and it has executed well and in timely fashion on its financial plan.

In our view, GW generally has good revenue diversity, with tuition revenue accounting for 53% of total adjusted operating revenue in fiscal 2023, followed by health care operations at 17%, grants and contracts at 10%, auxiliary operations at 6%, and endowment income at 5%.

Management has taken steps in the past to limit GW's exposure to health care risk by selling a majority interest (80%) in its hospital to Universal Health Services (UHS) in 1997, creating a separately incorporated faculty practice plan in 2000, discontinuing its health care plan in 2002, and restructuring its relationship with Medical Faculty Associates in 2018 by consolidating the group into GW's financial statement. In May 2022 GW's School of Medicine and Health Sciences and Medical Faculty Associates physicians practice finalized a new agreement with UHS; under this agreement, UHS became the sole owner of GW Hospital by purchasing the 20% interest from GW, and a new partnership was created based on updated structures and practices.

Financial resources

At fiscal year-end June 30, 2023, GW's cash and investments totaled $2.9 billion. When compared with adjusted operating expenses, cash and investments were adequate, at 136%, but below the median for the rating category of 157% and generally slightly below those of peers. Cash and investments were 139% compared with debt, while the median ratio for the rating category was 356%. We understand management has been funding capital investments with cash, and that has contributed to lower absolute levels of cash. GW's cash and investments and related ratios are adequate to support the current debt and rating, as supplemented by strong annual contributions and gifts. However, additional debt issuance without a commensurate increase in financial resources could pressure the rating.

GW's endowment has risen to a high of $2.5 billion as of fiscal 2023. The endowment per FTE at $115.8 million in fiscal 2023 is well above the category median and those of most peers. Starting in fiscal 2021, GW changed its endowment payout policy to 4.5% from 5.0%, based on a three-year rolling average market value, adjusted for new gifts received during the year. The actual endowment spending in fiscal 2023 was 4.4%, or $103 million. While GW's significant investments in real estate are typically less liquid; management closely monitors liquidity required to meets its operating needs and commitments. Further, the real estate portfolio is integrated into the broader investment strategy and policy of the pooled endowment. Strategies are in place to improve returns and monetize real estate in the future, providing liquidity.

Debt and contingent liabilities

The university has a high debt load, in our opinion, at $2.1 billion. The university issued its long-term debt as taxable bonds with 30-year bullet maturities to take advantage of low interest rates. All of GW's long-term debt is fixed rate, which we believe provides predictability to the debt portfolio. GW has an untapped $300 million credit agreement with PNC Bank as administrative agent for liquidity purposes; the agreement has no financial maintenance covenants, and management does not anticipate drawing anything on the credit agreement.

Certain financial and investment practices might seem somewhat risky (e.g., issuing debt with bullet maturities, thus creating refinancing risk and having an investment portfolio with a significant allocation of real estate, which is typically thought of as less liquid). However, management reports that its overall cost of capital is favorable and that many of its real estate holdings (and related debt) are due to transactions with governmental or related entities such that GW gets a guaranteed cash flow and comfort from knowing that its ability to expand is assured by controlling properties and buildings that are not currently needed but will be available in the future. We also understand that management uses an internal bank system, with a debt sinking fund rubric. Smoothed MADS is about $129 million; this equals 6.1% of fiscal 2023 adjusted operating expenses, which we consider moderately high. The university has no off-balance-sheet debt and has not entered into any swaps or other derivative arrangements.

We also expect that further investment in real estate will be limited to deals that have a clear long-term advantage to the university and an associated cash flow that does not jeopardize the liquidity position.

Over the past decade, we believe the university tackled a number of deferred maintenance projects and made other key investments in new buildings; these large projects were funded from either cash flow, real estate investments, or philanthropy, or a combination thereof. Management is evaluating future capital needs and considering these funding sources as well as long-term debt, if it is prudent, to support any associated costs. We understand GW has no additional new-money GO debt plans.

George Washington University, District Of Columbia--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges and universities
	2024	**2023**	**2022**	**2021**	**2020**	**2022**
Enrollment and demand						
Full-time-equivalent enrollment	21,763	21,777	22,218	22,306	23,387	3,352
Undergraduates as a % of total enrollment	49.3	49.0	48.3	48.0	49.8	81.6
First-year acceptance rate (%)	43.5	49.0	49.7	43.0	40.8	72.9
First-year matriculation rate (%)	21.5	22.0	19.0	17.4	23.8	17.8
First-year retention rate (%)	91.9	89.6	90.7	87.7	92.0	86.0
Six-year graduation rate (%)	85.1	84.8	83.7	85.0	82.2	74.5
Income statement						
Adjusted operating revenue ($000s)	N.A.	2,147,551	2,082,190	1,897,774	2,025,544	234,650
Adjusted operating expense ($000s)	N.A.	2,118,645	2,046,658	1,939,233	2,084,751	223,552
Net operating margin (%)	N.A.	1.4	1.7	(2.1)	(2.8)	0.7
Change in unrestricted net assets ($000s)	N.A.	(51,102)	(107,646)	84,368	(58,997)	MNR
Tuition discount (%)	N.A.	32.2	31.4	30.9	30.3	42.4
Student dependence (%)	N.A.	59.0	58.7	56.0	60.0	81.0
Health care operations dependence (%)	N.A.	17.5	17.8	18.4	16.8	MNR
Research dependence (%)	N.A.	9.9	10.7	12.1	10.3	4.6
Debt						
Outstanding debt ($000s)	N.A.	2,083,203	2,108,792	2,213,864	2,236,964	130,281
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	2,083,203	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	5.3	10.7	4.0	3.7	MNR
Current MADS burden (%)	N.A.	6.1	6.3	6.7	7.0	4.0
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	13.1	13.2	12.5	11.3	16.1
Financial resource ratios						
Endowment market value ($000s)	N.A.	2,522,442	2,340,361	2,411,272	1,802,656	316,898
Cash and investments ($000s)	N.A.	2,885,920	2,871,558	3,200,579	3,025,686	386,704
Cash and investments to operations (%)	N.A.	136.2	140.3	165.0	145.1	157.0
Cash and investments to debt (%)	N.A.	138.5	136.2	144.6	135.3	355.7

George Washington University, District Of Columbia--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'A' category rated private colleges and universities
	2024	2023	2022	2021	2020	2022
Cash and investments to pro forma debt (%)	N.A.	138.5	N.A.	N.A.	N.A.	MNR

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.

Related Research

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