George Washington University, DC

New Sale - Moody's Assigns A1 to George Washington University's (DC) Series 2016; Outlook Stable

Summary Rating Rationale
Moody’s Investors Service has assigned an A1 rating to George Washington University’s proposed $250 million Taxable Bonds, Series 2016. At the same time we have affirmed the A1 rating on $1.7 billion of prior bonds.

The A1 rating reflects George Washington University’s excellent student market position with growing net tuition revenue, diverse academic programs as a research university with a sizeable $1.2 billion in operating revenue, and considerable financial strength. Offsetting factors include relatively weak operating performance in fiscal 2014 and 2015, and a high debt to operating revenue burden, with pro forma debt to operating revenue of 1.5 times.

Exhibit 1
Expectations of Revenue Growth & Improving Operating Performance Key to Maintaining Credit Quality

FY 2016 and FY 2017 projections based on operating results and budgets
Source: George Washington University and Moody’s Investors Service
Credit Strengths
» Ongoing revenue growth prospects for comprehensive university aided by location in Washington, DC
» Favorable total wealth of over $2 billion including real estate assets
» Healthy unrestricted liquidity
» Increasing donor support with average gift revenue of $128 million per year

Credit Challenges
» Soft operating performance in FY 2014 and FY 2015
» High debt burden relative to operating revenue and cash flow
» Financial resources have concentration in commercial real estate holdings near campus
» Bullet maturity debt structure increases reliance on market access and treasury management

Rating Outlook
The stable outlook is predicated on expected improvement in operating cash flow performance with an operating cash flow margin in the 9% range for FY 2016 and beyond. The stable outlook also assumes the university will be able to generate revenue growth and manage expense increases more closely than in the last half decade as expense growth has outpaced revenue growth. Maintenance of strong cash flow is a critical credit driver given the university's comparatively high debt burden.

Factors that Could Lead to an Upgrade
» Sustained significant improvement in operating cash flow performance
» Material growth in financial resources and donor support
» Reduction in financial leverage

Factors that Could Lead to a Downgrade
» Inability to generate stronger operating cash flow performance
» Contraction in prospects for revenue growth
» Material reduction in total cash and investments
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Key Indicators

Exhibit 2

GEORGE WASHINGTON UNIVERSITY, DC

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td>Total FTE Enrollment</td>
<td>21,122</td>
<td>21,431</td>
<td>21,133</td>
<td>21,409</td>
<td>22,032</td>
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<tr>
<td>Operating Revenue ($000)</td>
<td>999,908</td>
<td>1,022,723</td>
<td>1,103,517</td>
<td>1,127,966</td>
<td>1,163,245</td>
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<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>2.5</td>
<td>2.3</td>
<td>7.9</td>
<td>2.2</td>
<td>3.1</td>
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<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>1,961,126</td>
<td>2,183,663</td>
<td>2,081,903</td>
<td>2,023,405</td>
<td>2,125,288</td>
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<tr>
<td>Total Debt ($000)</td>
<td>1,105,714</td>
<td>1,392,348</td>
<td>1,380,439</td>
<td>1,361,030</td>
<td>1,359,362</td>
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<td>Spendable Cash &amp; Investments to Total Debt (%)</td>
<td>1.6</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
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<tr>
<td>Spendable Cash &amp; Investments to Operating Expenses (%)</td>
<td>1.7</td>
<td>1.9</td>
<td>1.7</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Monthly Days Cash on Hand (%)</td>
<td>239</td>
<td>328</td>
<td>223</td>
<td>175</td>
<td>180</td>
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<tr>
<td>Operating Cash Flow Margin (%)</td>
<td>10.5</td>
<td>9.9</td>
<td>11.1</td>
<td>6.4</td>
<td>7.6</td>
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<tr>
<td>Total Debt to Cash Flow (%)</td>
<td>10.5</td>
<td>13.8</td>
<td>11.3</td>
<td>18.7</td>
<td>17.7</td>
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</table>

Source: Audited financial statements and Moody’s Investors Service

Recent Developments

Recent developments are incorporated in Detailed Rating Considerations.

Detailed Rating Considerations

Market Profile: Growing Comprehensive University Benefits From DC Location

George Washington University’s (GWU) favorable demand for diverse programs supports its excellent strategic positioning. Its continued brand improvement and favorable location will support ongoing net tuition revenue gains. Capital investments have aided the university’s strengthening strategic positioning. Between FY 2011 and FY 2015, the university purchased $907 million of property, plant and equipment.

GWU continues to enjoy strong and geographically diverse student demand for its residential undergraduate degree offerings across eight colleges and schools. While demand for graduate and professional programs is generally strong, some programs, including law and business continue to weather enrollment declines. Over half of enrollment is graduate.

The university aims to enhance its academic reputation through expansion of sponsored research activity, although this is difficult in a highly competitive research environment. Management projects sponsored awards will be in the $168 million range in fiscal 2016, down from $180 million in the prior year.

The university’s ability to invest in programs will continue to be aided by its growing donor support. Total gift revenue was $187 million in FY 2015 as the university makes gains toward its $1 billion comprehensive campaign goal.

Operating Performance: Stable Outlook Predicated on Expectations of Improved Operating Results in FY 2016

Since FY 2009 the university has increased investments in programs, faculty, and financial aid at the expense of operating performance. Preliminary results for FY 2016 point to an expected improvement, with an operating cash flow margin in the 9% range. Improving operating performance is especially important in light of the university’s considerable debt service commitments. Various expense management initiatives will aid the broader strategy to invest in new programs while also improving operating performance.

GWU remains reliant on student charges, with tuition and auxiliary revenue comprising 62% of operating revenue in FY 2015. Other components of operating revenue include grants and contracts (16%), investment income (10%) and patient care/medical education agreements (5%).

Through a number of strategic changes between 1997 and 2002, the university greatly reduced its exposure to the patient care revenue, although its School of Medicine relies on affiliations with a faculty practice plan and hospital. The university maintains a 20% stake in District Hospital Partners, L.P. which owns and operates the 371 bed GWU Hospital and provides support to the university’s
School of Medicine and Health Sciences. The university’s partner is Universal Health Services, Inc. Under agreements with its partner the university is reimbursed for providing personnel and other services and also receives a share of the DHP profits. GWU also has an affiliation agreement with its faculty practice plan group, Medical Faculty Associates, Inc. (MFA). In FY 2015 the university recorded revenue of $11 million from MFA.

Wealth and Liquidity: Wealth Gains Aided By Real Estate Investments
GWU will continue to benefit from a large pool of financial assets. The university’s total cash and investments were $2.1 billion as of June 30, 2015.

The Investment Committee of the Board of Trustees is responsible for the oversight of the endowment. In December 2014 the university moved to an outsourced chief investment officer. GWU assets will continue to held in the university’s name. As of March 31, 2016 total endowment assets were $1.5 billion, comprised of $664 million of investment real estate and pooled endowment assets of $883 million. The university's endowment had a 2.8% return in fiscal year 2015, including the appreciation of the direct real estate investments. Because of the concentration in the direct real estate investments in the Foggy Bottom area, the university’s financial strength is sensitive to changes in that particular market.

LIQUIDITY
GWU has strong liquidity. With $1.1 billion of board designated endowment and $82 million of working capital at the end of fiscal 2015, GWU has a large base of cash and investments not subject to donor restrictions. The liquidity profile is aligned with the A rating category, with monthly liquidity of $561 million as of June 30, 2015 equating to 180 monthly days cash on hand.

Leverage
With $1.78 billion of pro forma debt we expect leverage to remain elevated relative to operating revenue. Pro forma debt includes $168 million of Series 2012A bonds for which proceeds from the Series 2015 bonds have been earmarked for defeasance. Pro forma debt is at 1.5 times FY 2015 operating revenue, approximately twice the median for A-rated private universities. The considerable debt burden also underscores the importance of stronger cash flow from operations in maintaining credit quality.

The university has no plans for additional debt at this time and has only moderate capacity for additional debt at the A1 level absent strengthening of cash flow.

DEBT STRUCTURE
The university has all fixed-rate and all taxable debt. Through the current plan of finance GWU will extend the average life of its debt as some near-term bullet maturities are refunded. Because management plans to issue new debt as part of its treasury management, the university is exposed to market access and interest rate risks in the intervening years. These risks, however, are partially mitigated by the university’s sound treasury management and healthy liquidity.

DEBT-RELATED DERIVATIVES
None.

PENSIONS AND OPEB
University employees participate in a defined contribution retirement plan. Some retired employees are receive health care and life insurance benefits from the university. The benefits are funded as payments are made. The OPEB liability was a manageable $19 million in fiscal 2015.

Governance and Management: Strategic Plan Guides Program Investments and Expense Discipline
In the fall of 2012 the university developed a strategic plan to guide its next decade. While the plan acknowledges that the location in the District of Columbia is a clear strength, it also comes with limits including an enrollment cap that GWU must manage to at its Foggy Bottom campus. One source of funding for the future initiatives will be the Innovation Task Force that has identified savings through a rigorous process that can be re-invested in the academic program. Philanthropic support is another crucial source of funds for the plan and management has prioritized moving its donor support more in line with peers.

Although the additional expenses and commitments involve new risks, we view management’s clear focus on measured outcomes, financial stewardship and liquidity management as crucial mitigants to those risks. The recent agreement to enter into a long term energy purchase agreement in partnership with American University also points to the university’s culture of long-range planning.
Legal Security
The bonds are an unsecured general obligation of the university.

Use of Proceeds
The proceeds of the Taxable Bonds, Series 2016 will be available for the general corporate purposes of the university. Management intends to refund the $200 million Series 2009 bonds subject to a make whole call.

Obligor Profile
George Washington University is a large, comprehensive, urban university that continues to leverage its location in the nation’s capital to draw a healthy mix of undergraduate and graduate students. Total full-time equivalent enrollment surpassed 22,000 FTEs in fall 2015. Graduate Arts and Sciences programs are complemented by Law, Medicine and other Medical degree offerings. The university has a growing sponsored research enterprise, with $187 million in research expenditures in FY 2015.

Methodology
The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

George Washington University, DC

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<td>Taxable Bonds, Series 2016</td>
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<table>
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<th>Rating Type</th>
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<tr>
<td>Rating Description</td>
<td>General Obligation</td>
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Source: Moody’s Investors Service
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Contacts
Dennis M. Gephardt  212-553-7209
VP-Senior Credit Officer
dennis.gephardt@moodys.com

Susan I Fitzgerald  212-553-6832
Associate Managing Director
susan.fitzgerald@moodys.com

CLIENT SERVICES
Americas  1-212-553-1653
Asia Pacific  852-3551-3077
Japan  81-3-5408-4100
EMEA  44-20-7772-5454