George Washington University, D.C.; Private Coll/Univ - General Obligation

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Table Of Contents

Rationale
Outlook
Enterprise Profile
Financial Profile
Related Criteria And Research
George Washington University, D.C.; Private Coll/Univ - General Obligation

Credit Profile

US$350.0 mil taxable bnds ser 2015

Long Term Rating  A+/Stable  New

George Washington Univ (SAVRS) 2002 B , 2007 A

Unenhanced Rating  A+(SPUR)/Stable  Affirmed


Long Term Rating  A+/Stable  Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to George Washington University (GWU), D.C.'s $350 million series 2015 taxable bonds. Standard & Poor's also affirmed its 'A+' long-term rating, and where applicable underlying rating (SPUR), on the university's various series of outstanding taxable bonds totaling $1.44 billion as of May 31, 2015. The outlook is stable.

Our rating reflects our belief that GWU's enterprise profile is adequate as it is a comprehensive university with slightly more than half of its enrollment coming from its graduate and professional programs that have experienced softer enrollment in fall 2013 and 2014 while its undergraduate program enrollment remains fairly stable. Also, reflected in the rating is our belief that GWU's financial profile is strong with positive operating results for fiscal years 2010 through 2013 before incurring a loss in fiscal 2014 associated with the aforementioned recent softer enrollment. The rating also reflects our view that GWU's financial resources are somewhat weak for the rating and its debt burden moderately high. We also continue to believe GWU has strong governance and management. Also, GWU's capital spending for the past three years is substantially in excess of its cash flow from depreciation and amortization and is expected to remain at an elevated level through the end of the current fiscal year; however, capital spending is budgeted to decline substantially in fiscal 2016 suggesting that financial resources may begin to improve at that time.

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

- Relatively stable enrollment and strong demand for its comprehensive academic programs-although graduate enrollment demand is softer as of late;
- Good revenue diversity with tuition and fees accounting for slightly more than two-thirds of revenue;
- Strong financial operating performance in most recent years except for fiscal 2014;
- Increasing amounts of monies received for its research programs; and
- Demonstrated successful fundraising capabilities and increasing amounts of annual fundraising support.

In our opinion, partially offsetting credit factors include:
• Only adequate financial (expendable) resources to operating expenses and debt;
• Continuing high capital spending to renovate and expand campus facilities, including a new $275 million science and engineering facility and a new $75 million building that opened in May 2014;
• Somewhat high nominal debt and debt burden with large bullet maturities in fiscal years 2019, 2021 to 2023 and 2044 to 2046 due to the university's frequent practice of issuing taxable debt with 10-year bullet maturities (the current issuance has a 30-year term with interest only amortization until the 30th year);
• An investment portfolio with a heavy allocation to real estate typically viewed as a less liquid asset; and
• Uncertainty about future capital costs from the renovation of the 17th Street building--one of the Corcoran Art Gallery buildings GWU acquired last summer.

All outstanding debt and the current issuance is a general obligation (GO) of the university (excluding the nonrecourse debt). It is our understanding that bond proceeds from the series 2015 issue will refund a taxable bond issue and a non-recourse loan all of which have near-term bullet maturities that would have been due in 2017. In addition, it is our expectation based on management's representation that it will use a portion of the series 2015 bond proceeds to redeem in September 2017 a taxable bond issue that also has a final bullet maturity due at that time; however, we are not factoring that potential redemption into the amount of debt outstanding post issuance nor in our debt related ratios.

After the refunding is completed, we understand GWU will no longer have any non-recourse loans outstanding. Post issuance we believe GWU's long-term debt, including notes and capitalized leases, will total $1.72 billion, an increase from $1.36 billion outstanding at fiscal year end June 30, 2014. Not included in the latter number is the $300 million series 2014 taxable bond issue that sold shortly after the close of the fiscal year from which GWU used about $128 million to redeem at a later date non-recourse loans, pay off a maturity of an outstanding bond issue, and cover associated defeasance costs. Similarly, it is our understanding that approximately $330 million of the $350 million series 2015 bond proceeds will ultimately be used for debt refinancing or redemption. GWU 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 indicated that the university does not plan to issue additional new money debt backed by its GO pledge during the next two years; however, it may refinance existing debt for debt service coverage savings should economic conditions permit such and it continues to assess restructuring opportunities for its real estate that is part of its investment portfolio.

**Outlook**

The stable outlook reflects Standard & Poor's expectation that during the next two years, the university's enrollment will remain stable, it will return to generating full-accrual financial operating surpluses, and improve its financial resource ratios relative to its operations and debt levels. We also assume there will be no additional new money debt issuance unless there is a commensurate increase in financial resources.

A lower rating could result from an enrollment decline or if fiscal operating performance is weak or unexpectedly negative on a full-accrual basis, or if financial (expendable) resources do not grow from the existing level of 100.6% of pro forma debt.
We believe it is unlikely that during the two-year outlook period, GWU will significantly increase financial resources or operating margins sufficient to warrant an upgrade. However, any consideration of an upgrade would be predicated upon the realization of stronger enrollment, positive financial operating performance on a full accrual basis and a significant improvement in financial resources in relationship to operations and current and planned debt.

**Enterprise Profile**

**Organization**

GWU 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. The university currently enrolls more than 25,000 students at all of its campuses. The university consists of 10 academic units. 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. The School of Medicine and Health Sciences, Milken Institute School of Public Health, School of Nursing, and affiliated entities were formerly organized within an administrative unit known as the George Washington University Medical Center.

**Demand and enrollment**

GWU does have the ability to flex its demand by its tuition pricing and discounting strategies and recently has demonstrated this by implementing a fixed-price tuition plan. Also, it can flex demand by its off-campus and online programs and through acquisitions of other facilities. It has done the latter with the pickup of approximately 300 students from the art school program associated with the Corcoran Galley acquisition last summer. Also, with the adoption of a new long-range strategic plan almost one year ago, the university is focused on developing five-year business plans for all new initiatives and improving the infrastructure supporting its graduate enrollment process.

To date, the limited enrollment growth seems directly related to declines at the graduate and law schools (the latter school's decline occurring through fall 2013 as enrollment increased in 2014), with management making no adjustments to the size of the law school due to its belief that the school's location in our nation's capital and its need for lawyers should support the program in the long run.

We continue to expect only modest increases in demand relative to tuition strategies (given tuition sensitivity in the northeast) and program flexibility as management in our view has been somewhat slow to address its enrollment strategy while nevertheless promoting the university's somewhat unique and advantageous location in our nation's capital with the anticipation of further demand from interdisciplinary education and globalization of the student body and institution.

Enrollment had been relatively stable over the four fall enrollment periods preceding fall 2013 averaging slightly more than 25,275 students per year. However, total headcount declined 1.5% to 25,264 in fall 2013 from 25,653 in fall 2012 before rebounding by 1.4% in fall 2014 to 25,613. GWU has a large number of graduate and professional students; undergraduates constituted just 42% of total enrollment for fall 2014. The university's undergraduate enrollment has been under modest pressure consistent with industry trends, while its graduate and professional programs have faced
greater enrollment pressure, particularly its law school, for which applications have declined in each of the past five years, consistent with national trends.

Freshmen applications prior to fall 2014 rose in each of the preceding four years but declined 12.5% in fall 2014 to 19,069 from the 21,789 applications received in the prior year. We believe the region's economic sensitivity to sequestration and defense spending may have been partially responsible for the fall off in applications in fall 2014. Also, GWU only accepted the Common Application for fall 2014 and fall 2015 and this may be responsible for some of the application volatility during this time period. Management indicated applications for fall 2015 are up compared with the prior year. GWU is very selective, typically accepting only about one-third of applicants while that number crept up to 44% of freshman applicants for fall 2014. Evidencing the competiveness of the market the matriculation rate similarly has just been 29% to 33% for the past five years and was 29% in fall 2014.

In our view, student quality is strong for fall 2014, with an average SAT score of 1,950 for incoming freshmen. Graduate headcount declined for fall 2014 by 0.4% to 12,519 from the headcount recorded in the prior year and in fall 2013 graduate headcount declined 1.7%. Medical school applications for fall 2014 were up to 10,981 applicants compared with 10,397 for fall 2013. The medical school remained highly selective, accepting only 3% of applicants, with 56% choosing to attend in fall 2014. Law school applications decreased significantly in fall 2014, 2013, and 2012 by 8.5%, 5.3%, and 24%, respectively, mirroring the national trend for law schools, though the school has tried to remain selective, with a 46%, 42%, and 29% acceptance rate, respectively, for the years just cited. The matriculation rate was at 19% in fall 2014, up from 17% in fall 2013, which was the lowest level since fall 2007, indicating the high degree of competition for law students.

We anticipate continuation of a stable enrollment trend with a very slight upward bias as an increase in undergraduate enrollment is anticipated by management for fall 2015 with improving enrollment for graduate programs, although we believe enrollment will continue to decline at the law school.

Management
GWU's senior management team, led by President Steven Knapp (formerly associated with Johns Hopkins University), has been in place for several years with little turnover. We believe both governance and management are a credit strength, recognizing that management stability is probably not an easy feat in a city noted for having a transient population owing to the significant federal government presence. Our expectation is that the university's governance and management will likely remain stable, thereby remaining a credit strength with little possibility of becoming a potential credit risk.

Financial Profile
Risk management and financial policies
Over the past five years, unrestricted resources have grown 18% and expendable resources have grown 34% during a period that includes the Great Recession, suggesting risk management and financial policies are strong in our view. The university's annual budgets do not include depreciation expense, which we do not view as a best practice, but the university does prepare detailed quarterly financial statements tracked against its budget, which we view as a good financial practice. Also, management has focused heavily on maintaining an above-average level of liquidity in its
investment portfolio, and controlling university expenses, which has allowed for consistent operating surpluses during the past several years preceding fiscal 2014.

While certain financial and investment practices might seem somewhat risky (e.g., issuing most debt with relatively short bullet maturities, thus creating refinancing risk and having an investment portfolio with a significant allocation of real estate [typically thought of as less liquid]), management reports that its overall cost of capital is approximately 4.25% and a lot of its real estate holdings (and related debt) are due to transactions with governmental or related entities such that GWU gets a guaranteed cash flow and comfort from knowing that its ability to expand in the future is assured by controlling properties and buildings not currently needed but that will be available in the future.

We anticipate continuation of strong risk management and financial policies and believe management will not be issuing additional debt with bullet maturities any time in the near future such that refinancing risk will largely be mitigated by adequate liquidity. 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 doesn't jeopardize the liquidity position.

Operating performance
For each of the five years up to fiscal 2013, the university realized a full-accrual-based operating surplus, with the 2013 surplus at $18.9 million, and 2012 results of $11 million. However, in fiscal 2014, GWU reported an operating deficit of $18.3 million on an adjusted basis (including rental income and endowment spending, but excluding investment gains). To address affordability, management implemented in fiscal 2004 a five-year fixed-tuition rate that has slowed somewhat the rate of net tuition revenue growth to 1.5% in fiscal 2014 from 5.3% in fiscal 2013 and from 5.6% in fiscal 2012. Total tuition, fees and room and board were $60,460 in fall 2014 up 3.9% from the prior year's amount.

In our view, GWU generally has good revenue diversity, with tuition and other student-generated revenues accounting for 67% of total adjusted operating revenues in fiscal 2014, followed by grants and contracts at 14%, endowment income at 9%, and auxiliary sources at 7%. The university reports research funding rose to $190 million in fiscal 2014 from $164 million in 2013 and $149 million in 2012—a trend that is counter to most other research based universities. Tuition increases have been modest, in our view, with undergraduate tuition and fees up 3% for fiscal 2015 over fiscal 2014 rates and a 3.4% tuition increase planned for fiscal 2016. Under the current university policy, tuition is fixed for five years for undergraduates. Management has taken steps in the past decade to limit GWU's health care activities, including the sale of a majority interest in its hospital in 1997, creating a separately incorporated faculty-practice plan in 2000, and discontinuing its health care plan in 2002.

We believe management's budgeting practice is sound and it has generally executed well and in timely fashion on its financial and strategic plan. We also anticipate the university's financial operating performance on a full-accrual basis will be positive in fiscal 2015, resulting in incremental growth in financial resources consistent with its rating category.

Financial resources
At fiscal year-end June 30, 2014, GWU's unrestricted resources totaled $1.3 billion, its expendable resources $1.7 billion, its cash and investments $2 billion, and total pro forma debt $1.7 billion. When compared with adjusted operating expenses, expendable resources were adequate at 121% and similar compared with pro forma debt (including nonrecourse debt) at 100.6%. Cash and investments were stronger as of June 30, 2014, equal to 149% of adjusted operating expenses and 118% of pro forma debt.
GWU's financial resources, and related ratios, are adequate to support the current level of its debt and rating, as supplemented by its strong annual contributions and gifts. However, additional debt issuance without a commensurate increase in financial resources could pressure the existing rating.

Endowment and fundraising
GWU’s endowment has risen 38% over the past five years to $1.6 billion as of fiscal year-end 2014 from $1.1 billion at fiscal year-end 2010. The endowment at March 31, 2015, was at $1.55 billion, and had an asset allocation we consider diverse, but was more heavily invested in real estate than comparable peers, with 55% in global equities, 28% in strategic equity (real assets), 15% in fixed income, and 2% in cash and cash equivalents. This asset allocation does not include the university's investment in real estate that it manages directly. The university had an investment return on its total endowment for the one-year period ended March 31, 2015, of 9.3% and a return of 11.1% for five years.

GWU's endowment spending policy target is 5% of the market value (including real estate). GWU bases the annual increase in endowment spending on the change in the consumer price index for the D.C. metropolitan area for the previous calendar year.

GWU recently announced a major $1 billion fundraising campaign that began on July 1, 2011, which as of May 2015 had raised $740 million. The campaign's proceeds will mainly be used to enhance the university's academic programs. Annual giving has been strong and was slightly in excess of $130 million in fiscal 2014, $103 million in 2013, and $120 million in 2012.

We believe the current capital fundraising campaign, may ease some of the pressure on the university's current high capital spend rate and position it well for future growth.

We also believe that GWU's outsourcing of its investment management function, for all but its real estate investment portfolio, to an experienced asset management firm positions it to realize more consistent investment returns over time such that both its financial resources and peer ranking may improve.

We view liquidity as good. As of March 31, 2015, and fiscal year-end 2014, respectively, $516 million and $410 million of the endowment could be liquidated within one month and $676 million and $535 million, respectively, could be liquidated within one year, according to management. The university had $82.2 million in uncalled commitments to private partnerships as of March 31, 2015.

Debt
While GWU's total assets have grown 31% over the past five years ended in fiscal year 2014 to $3.8 billion, its long-term debt has risen at a slightly greater rate of 34% to $1.4 billion (including about $215 million in nonrecourse debt), which we consider high for the rating category, as it has engaged in heavy capital spending to renovate and expand its campus. The cash flow realized from depreciation and amortization in fiscal 2014 totaled $66.7 million, while capital spending totaled $294.5 million. The nonrecourse debt is self-supporting and collateralized by real estate.

The high debt load is partly mitigated by the rapid amortization schedule for most of the debt. For the past few years, the university has issued much of its debt as taxable bonds with bullet maturities (typically 10-year bullets) to take advantage of low interest rates. However, the taxable series produce an uneven debt structure with large bullets. All of GWU's debt is fixed rate, which we believe provides predictability to the debt portfolio.
We believe the university tackled a number of deferred maintenance projects and made other key investments in new buildings recently that included the aforementioned science and engineering hall and new school of public health building, with these large projects funded from either cash flow from real estate investments and/or philanthropy. We also believe these investments should enable GWU to realize very modest enrollment growth in the coming years despite an increasingly competitive higher education sector.

Our understanding from management is that capital spending will total $185 million for fiscal 2015 and next year will total only $133 million, dropping off considerably in subsequent years.

We are estimating pro forma maximum annual debt service of $94.7 million based on a smoothing of the total (preliminary) aggregate debt service due over the next 30 years (i.e., the final amortization period in fiscal 2046, of $2.84 billion divided by 30 years), and it equals 6.6% of fiscal 2014 adjusted operating expenses, which we consider moderately high. The university does not have any off-balance-sheet debt, and has not entered into any swaps or other derivative arrangements. Currently, GWU has no additional new money GO debt plans.

### George Washington University, D.C. Financial Statistics

<table>
<thead>
<tr>
<th>Enrollment and demand</th>
<th>--Fiscal year ended June 30--</th>
<th>Medians for 'A' rated private colleges and universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>25,613</td>
<td>25,264</td>
</tr>
<tr>
<td>Full-time equivalent</td>
<td>21,436</td>
<td>21,163</td>
</tr>
<tr>
<td>Freshman acceptance rate (%)</td>
<td>43.8</td>
<td>34.4</td>
</tr>
<tr>
<td>Freshman matriculation rate (%)</td>
<td>28.9</td>
<td>31.4</td>
</tr>
<tr>
<td>Undergraduates as a % of total enrollment (%)</td>
<td>41.9</td>
<td>41.0</td>
</tr>
<tr>
<td>Freshman retention (%)</td>
<td>93.4</td>
<td>92.3</td>
</tr>
<tr>
<td>Graduation rates (five years) (%)</td>
<td>81.3</td>
<td>77.8</td>
</tr>
</tbody>
</table>

### Income statement

<table>
<thead>
<tr>
<th></th>
<th>--Fiscal year ended June 30--</th>
<th>Medians for 'A' rated private colleges and universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted operating revenue ($000s)</td>
<td>N.A.</td>
<td>1,411,316</td>
</tr>
<tr>
<td>Adjusted operating expense ($000s)</td>
<td>N.A.</td>
<td>1,429,613</td>
</tr>
<tr>
<td>Net operating income ($000s)</td>
<td>N.A.</td>
<td>(18,297)</td>
</tr>
<tr>
<td>Net operating margin (%)</td>
<td>N.A.</td>
<td>(1.28)</td>
</tr>
<tr>
<td>Change in unrestricted net assets ($000s)</td>
<td>N.A.</td>
<td>85,577</td>
</tr>
<tr>
<td>Tuition discount (%)</td>
<td>N.A.</td>
<td>28.2</td>
</tr>
<tr>
<td>Tuition dependence (%)</td>
<td>N.A.</td>
<td>60.0</td>
</tr>
<tr>
<td>Student dependence (%)</td>
<td>N.A.</td>
<td>67.0</td>
</tr>
<tr>
<td>Healthcare operations dependence (%)</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Research dependence (%)</td>
<td>N.A.</td>
<td>14.1</td>
</tr>
<tr>
<td>Endowment and investment income dependence (%)</td>
<td>N.A.</td>
<td>8.7</td>
</tr>
</tbody>
</table>
### Debt

<table>
<thead>
<tr>
<th></th>
<th>N.A.</th>
<th>1,361,030</th>
<th>1,380,439</th>
<th>1,390,181</th>
<th>1,102,119</th>
<th>89,201</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding debt ($000s)</td>
<td>N.A.</td>
<td>650,000</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Proposed debt ($000s)</td>
<td>N.A.</td>
<td>1,720,614</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Total pro forma debt ($000s)</td>
<td>N.A.</td>
<td>94,703</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Pro forma MADS</td>
<td>N.A.</td>
<td>650,000</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Current debt service burden (%)</td>
<td>4.86</td>
<td>5.08</td>
<td>4.93</td>
<td>4.68</td>
<td>3.93</td>
<td>MNR</td>
</tr>
<tr>
<td>Current MADS burden (%)</td>
<td>N.A.</td>
<td>6.63</td>
<td>4.61</td>
<td>6.91</td>
<td>7.39</td>
<td>MNR</td>
</tr>
<tr>
<td>Pro forma MADS burden (%)</td>
<td>N.A.</td>
<td>6.62</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
</tbody>
</table>

### Financial resource ratios

<table>
<thead>
<tr>
<th></th>
<th>N.A.</th>
<th>1,576,508</th>
<th>1,375,202</th>
<th>1,305,892</th>
<th>1,331,100</th>
<th>197,497</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment market value ($000s)</td>
<td>N.A.</td>
<td>2,023,698</td>
<td>2,085,453</td>
<td>2,183,663</td>
<td>1,961,126</td>
<td>MNR</td>
</tr>
<tr>
<td>Cash and investments ($000s)</td>
<td>N.A.</td>
<td>1,467,186</td>
<td>1,381,609</td>
<td>1,351,778</td>
<td>1,390,478</td>
<td>MNR</td>
</tr>
<tr>
<td>Unrestricted net assets ($000s)</td>
<td>N.A.</td>
<td>1,731,123</td>
<td>1,752,444</td>
<td>1,877,132</td>
<td>1,680,954</td>
<td>MNR</td>
</tr>
<tr>
<td>Expendable resources ($000s)</td>
<td>N.A.</td>
<td>141.6</td>
<td>154.6</td>
<td>172.1</td>
<td>158.6</td>
<td>139.3</td>
</tr>
<tr>
<td>Cash and investments to operations (%)</td>
<td>N.A.</td>
<td>4.86</td>
<td>5.08</td>
<td>4.93</td>
<td>4.68</td>
<td>3.93</td>
</tr>
<tr>
<td>Cash and investments to debt (%)</td>
<td>N.A.</td>
<td>6.63</td>
<td>4.61</td>
<td>6.91</td>
<td>7.39</td>
<td>MNR</td>
</tr>
<tr>
<td>Expendable resources to pro forma debt (%)</td>
<td>N.A.</td>
<td>100.6</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>MNR</td>
</tr>
<tr>
<td>Average age of plant (years)</td>
<td>10.5</td>
<td>10.3</td>
<td>10.0</td>
<td>9.1</td>
<td>12.5</td>
<td>MNR</td>
</tr>
</tbody>
</table>

N.A.--Not available. MNR--median not reported. 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 times (net adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Current MADS burden = 100 times (maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments.

### Related Criteria And Research

**Related Criteria**

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009