

RatingsDirect®

Summary:

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

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Credit Profile

US\$250.0 mil taxable bnds ser 2016 due 09/15/2046

Long Term Rating A+/Stable New

George Washington Univ 2009,2010,2011,2011A,2012,2012A,2013

Long Term Rating A+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'A+' rating to George Washington University (GWU), D.C.'s \$250 million series 2016 taxable bonds. S&P Global Ratings 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 its latest audited fiscal year ended June 30, 2015. The outlook is stable.

Our rating reflects our belief that GWU's enterprise profile is extremely strong as a comprehensive research university with slightly more than half of its enrollment coming from its graduate and professional programs in the health sciences, law and engineering among other disciplines with a total enrollment that has grown, albeit slowly, over the past five years. Also, the rating reflects our view that the university's financial profile is strong characterized by modest operating profitability in most years while its financial resources are ample and its debt moderate to high with some susceptibility due to the frequent use of bullet maturities. The combined enterprise and financial profile lead to an initial indicative stand-alone credit profile is 'aa-'; however, as our criteria indicate, the final rating can be within one notch of the indicative rating. In our opinion, the 'A+' rating better reflects the university's more limited expendable resources to operations and expendable resources to debt in comparison with medians and peers.

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

- Slowly growing enrollment with full-time under graduate enrollment exhibiting an uptick over the past two years while full-time graduate enrollment has been more stable;
- Good revenue diversity with tuition and fees accounting for slightly less than two-thirds of revenue with a quarter of revenue coming from grants and contracts, private gifts and auxiliary operations;
- Modest financial operating performance in most recent years except for fiscal 2014;
- Sizable monies received from its research programs although like many other universities this funding source declined in fiscal 2015 and is expected to dip further in fiscal 2016; 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;

- High capital spending over the past three years to renovate and expand campus facilities, including a new \$275 million science and engineering facility that opened in early 2015, a new \$75 million public health building that opened in May 2014, and a 12-story 900 bed student residence hall that is nearing completion and will be in operation for fall 2016;
- A moderate to slightly high 7.3% debt burden with most debt typically issued as taxable debt and having bullet maturities including several issues with 10-year bullet maturities although more recent issues have carried longer term bullet amortizations;
- An investment portfolio with a heavy allocation to real estate typically viewed as a less liquid asset; and
- Continuing uncertainty about future capital costs from the renovation of the 17th Street building--one of the Corcoran Art Gallery buildings GWU acquired in the summer of 2014, though we understand the capital spending has slowed versus what originally was anticipated and cash flow from operations is expected to be positive shortly.

All outstanding debt and the current issuance is a general obligation (GO) of the university. It is our understanding that bond proceeds from the series 2016 issue will refund the taxable series 2009 including funding a make whole provision with remaining funds for various minor projects and cost of issuance. Also, it is still our understanding that management intends to use a portion of the \$350 million series 2015 bond proceeds to redeem in September 2017 a taxable bond issue that also has a final bullet maturity due at that time; the series 2015 bond sale occurred after the close of GWU's fiscal year that ended June 30, 2015.

Post series 2016 issuance we believe GWU's long-term debt, including notes and capitalized leases, will total \$1.79 billion, an increase from \$1.36 billion outstanding at fiscal year end June 30, 2014. 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 S&P Global Ratings expectation that during the next two years, the university's enrollment will increase slightly and financial operations on a full accrual basis will remain positive while expendable resource ratios relative to operations and debt show some improvement. We also assume there will be no additional new money debt issuance unless there is a commensurate increase in expendable resources.

Downside scenario

A lower rating could result from an unexpected enrollment decline, substantially weaker financial operating performance, lack of growth in expendable resources or if debt increases measurably.

Upside scenario

We believe it is unlikely that during the two-year outlook period, GWU will significantly increase its financial operating margins and expendable resources sufficient to warrant an upgrade. However, any consideration of an upgrade would be predicated upon firmer financial operating performance on a full accrual basis and a significant improvement in

expendable resources in relationship to operations and current and planned debt.

(For more information, see our full analysis on George Washington University published July 1, 2016, on RatingsDirect.)

Related Criteria And Research

Related Criteria

- General Criteria: Methodology: Not-For-Profit Public And Private Colleges And Universities, Jan. 6, 2016
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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