S&P Global Ratings

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

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

Credit Profile		
George Washington Univ 2009,2010,2011,2011A,2012,2012A,2013		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' long-term rating on George Washington University (GWU, or the university), D.C.'s various series of outstanding taxable bonds totaling $1.7 billion as of its latest audited fiscal year ended June 30, 2016. The outlook is stable.

Our rating reflects our belief that GWU's enterprise profile is extremely strong as a comprehensive research university, with more than half of its enrollment coming from its graduate and professional programs (law and engineering, among other disciplines), and with a total enrollment that has grown 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 (although negative most recently), ample available resources, and moderate to high debt, with some susceptibility due to the frequent use of bullet maturities. The combined enterprise and financial profile lead to an initial indicative standalone credit profile of '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 (ER) to operations and ER to debt in comparison with medians and those of peers.

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

- Growing enrollment, with full-time undergraduate enrollment increasing over the past three 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, and with a quarter of revenue coming from grants and contracts, private gifts, and auxiliary operations;
- Sizable moneys received from its research programs (although like with many other universities, this funding source declined in fiscals 2015 and 2016); and
- Demonstrated successful fundraising capabilities and increasing amounts of annual fundraising support.

In our opinion, partially offsetting credit factors include:

- Only adequate available (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 opened in fall 2016;
- A moderate to slightly high 7.0% 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; and

- An investment portfolio with a heavy allocation to real estate, which we typically view as a less liquid asset.

All outstanding debt is a general obligation of the university. GWU's long-term debt totals $1.7 billion. 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 general obligation (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, financial operations on a full-accrual basis will improve, and ER ratios relative to operations and debt will increase somewhat. We also assume there will be no additional new-money debt issuance without a commensurate increase in ER.

Downside scenario

A lower rating could result from an unexpected enrollment decline, substantially weaker financial operating performance, lack of growth in ER, or a measurable increase in debt.

Upside scenario

We believe it is unlikely GWU will increase its operating margins and ER sufficiently during the two-year outlook period 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 ER in relationship to operations and current and planned debt.

Enterprise Profile

Industry risk

Industry risk addresses the higher education sector's overall cyclicality, competitive risk, and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

Economic fundamentals

In our view, GWU has fairly strong geographic diversity, as we understand that approximately 70% of its students come from outside the D.C, Maryland, and Virginia region. As such, our assessment of GWU's economic fundamentals is anchored by the U.S. GDP per capita of $52,735.

Market position and demand

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 27,000 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; the 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.

GWU does have the ability to flex its demand by its tuition pricing and discounting strategies, which it demonstrated 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, as it did with the pickup of approximately 300 students from the art school program associated with the Corcoran Gallery acquisition in the summer of 2014. Also, with the adoption of its Vision 2021 long-range strategic plan in 2012, GWU began a more intensive focus on developing five-year business plans for all new initiatives, enhancing the undergraduate experience, improving infrastructure supporting its graduate enrollment process, and attaining annual cost reduction targets.

To date, these efforts have demonstrated a certain measure of success, with total enrollment increasing 1.4%, 2.3%, and 3.6% in fiscals 2014, 2015, and 2016, respectively, and according to management, realizing almost $25 million of cost reductions in fiscals 2015 and 2016.

We continue to expect only modest increases in demand from tuition strategies (given tuition sensitivity in the northeast) and increased program flexibility while the university continues to promote its somewhat unique and advantageous position of its location in our nation's capital with the expectation of increasing enrollment from interdisciplinary education and globalization of the student body and institution.

Enrollment had been relatively stable over the four fall enrollment periods preceding fall 2015, averaging slightly more than 25,448 students per year. Total headcount increased 2.3% to 26,212 in fall 2015 from 25,613 in fall 2014; total headcount increased another 3.6% in fall 2016 to 27,159. GWU has a large number of graduate and professional students; undergraduates constituted just 42% of total enrollment for fall 2016. The university's graduate and professional programs have faced enrollment pressure, particularly its law school, for which applications have declined over the past six years, consistent with national trends. We anticipate continuation of a stable to slightly rising enrollment trend as we expect undergraduate enrollment to improve and graduate enrollment growth likely to be modest at best.

Freshman applications increased by 28.5% to 25,488 in fall 2016 from fall 2015. GWU became test-optional in 2016 as management believes the data show low correlation between standardized test scores and undergraduate success; rather, it evaluates long-term factors, such as grade point average, difficulty of high school curriculum, and community service. Fall 2015 freshman applications increased by 4.0%, and applications prior to fall 2015 rose in three of the preceding four years, declining by 12.5% in fall 2014. 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. GWU is very selective, typically accepting only about one-third of applicants; that percentage increased to 47% of freshman applicants for fall 2015 then fell to 40% in fall 2016. Evidencing the competiveness of the market, the matriculation rate declined to 25% in fall 2016 from over 30% in fall 2013 and earlier. In our view, student quality is strong for fall 2016, with an average SAT score of 1287 (excluding the writing section of the SAT) for incoming freshmen.

Management and governance

President Thomas J. LeBlanc took office on Aug. 1, 2017. Dr. LeBlanc previously served as the executive vice president, provost, and professor of computer science and electrical and computer engineering at the University of Miami. Otherwise, GWU's senior management team has had little turnover. We believe both management and governance are a credit strength, recognizing that management stability is likely difficult in a city known 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

Financial management policies

The university prepares publicly available audited financial statements on an annual basis and internal interim financial statements monthly. We understand there are formal policies for endowment and investments and informal reserves, liquidity, and debt policies. The university operates according to a 10-year long-range strategic plan supplemented by rolling five-year business plans. We also understand the university is fully accredited and has had no regulatory infractions.

The university also meets standard annual disclosure requirements and has an enterprise risk management program in place that is actively monitored. The financial policies assessment reflects our opinion that, while there may be some areas of risk, the organization's overall financial policies are not likely to negatively affect its future ability to pay debt service. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies to those of comparable providers.

Financial performance

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 operating surpluses in most recent years.

In fiscal 2016, the university had a $17 million full-accrual-based operating deficit on an adjusted basis (including rental income and endowment spending, but excluding investment gains), or negative 1.1% of total adjusted operating expenses. However, for four of the five years up to fiscal 2016, the university realized a full-accrual-based operating surplus. To address affordability, management implemented in fall 2004 a five-year fixed-tuition rate that 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. However, in fiscals 2015 and 2016, GWU reported net tuition growth of 5.1% in each year. Total tuition, fees, and room and board were $64,450 in fall 2016, up 3.1% from the prior year's amount.

In our view, GWU generally has good revenue diversity, with tuition revenues accounting for 63% of total adjusted operating revenues in fiscal 2016, followed by grants and contracts at 12% and auxiliary sources at 7%. Research funding declined slightly to $181 million in fiscal 2016 from a high of $199 million in fiscal 2014--a trend that is consistent with that seen at other research-based universities. Tuition increases have been modest, in our view, with undergraduate tuition and fees up 3.1% for fiscal 2016 over the prior year; a 3.0% increase is planned for fiscal 2017. Under the current university policy, tuition for undergraduates is fixed for five years. Management has taken steps in the past decade to limit GWU's health care activities, including selling 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 that management's budgeting practice is sound and that management has generally executed well and in timely fashion on its financial and strategic plan.

Available resources

At fiscal year-end June 30, 2016, GWU's unrestricted resources totaled $1.4 billion, its ER $1.8 billion, its cash and investments $2.2 billion, and total debt $1.7 billion. When compared with adjusted operating expenses, ER were adequate at 121% and somewhat lower on a debt basis at 106%. Cash and investments were stronger as of June 30, 2016, equal to 146% of adjusted operating expenses and 128% of debt.

GWU's available 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.

GWU's endowment has risen 18% over the past five years to $1.6 billion as of fiscal year-end 2016 from $1.3 billion at fiscal year-end 2011. The endowment's asset allocation is diverse, in our view, but more heavily invested in real estate, at about 50%, than the allocations of comparable peers. 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. The actual endowment spend in fiscal 2016 was 4.8%.

On July 1, 2011, GWU began a major $1 billion fundraising campaign that as of June 2017 had exceeded the target. The campaign's proceeds will be used mainly to enhance the university's academic programs, and annual giving has been strong. We believe the current capital fundraising campaign may ease some of the pressure on the university's current high capital spend rate and positions it well for future growth.

Debt and contingent liabilities

While GWU's total assets have grown 29% over the past five years ended in fiscal year 2016 to over $4 billion, its long-term debt has risen at a greater rate of 57% to $1.7 billion, 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 2016 totaled $81 million, while capital spending totaled $135 million.

The high debt load is mitigated partly by the rapid amortization schedule for most of the debt. For the past few years, the university 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. Over the next six years, approximately $674 million of debt will mature; GWU has the flexibility either to refinance with new debt issuances or to pay off each of the debt series with existing cash when they mature. All of GWU's debt is fixed rate, which we believe provides predictability to the debt portfolio.

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, which is typically thought of as less liquid). However, management reports that its overall cost of capital is approximately 4.0% and that many 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 in the near future such that refinancing risk will be mitigated largely 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 does not jeopardize the liquidity position.

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 the new school of public health building; these large projects are funded from either cash flow from real estate investments, or philanthropy, or both. 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.

We are estimating maximum annual debt service of $105.6 million based on a smoothing of the total aggregate debt service due over the next 30 years, and it equals 7.0% of fiscal 2016 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.						
	Fiscal year ended June 30					Medians
	2017	**2016**	**2015**	**2014**	**2013**	**Private Colleges & Universities 'A' 2016**
Enrollment and demand						
Headcount	27,159	26,212	25,613	25,264	25,653	MNR
Full-time equivalent	22,883	22,055	21,436	21,163	21,473	3,659
Freshman acceptance rate (%)	40.2	46.5	43.8	34.4	33.1	63.1
Freshman matriculation rate (%)	24.6	28.1	28.9	31.4	33.2	MNR
Undergraduates as a % of total enrollment (%)	42.4	42.6	41.9	41.0	40.8	82.3
Freshman retention (%)	90.2	93.9	93.4	92.3	91.6	86.0

George Washington University, D.C. (cont.)

	Fiscal year ended June 30					Medians
	2017	**2016**	**2015**	**2014**	**2013**	**Private Colleges & Universities 'A' 2016**
Graduation rates (six years) (%)	83.7	83.0	81.3	N.A.	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	1,500,927	1,490,303	1,392,947	1,352,950	MNR
Adjusted operating expense ($000s)	N.A.	1,518,078	1,487,970	1,429,613	1,348,803	MNR
Net operating income ($000s)	N.A.	(17,151)	2,333	(36,666)	4,147	MNR
Net operating margin (%)	N.A.	(1.13)	0.16	(2.56)	0.31	2.57
Change in unrestricted net assets ($000s)	N.A.	(55,545)	3,686	85,577	29,831	MNR
Tuition discount (%)	N.A.	28.7	28.3	28.2	27.7	34.9
Tuition dependence (%)	N.A.	62.8	59.8	60.8	61.2	MNR
Student dependence (%)	N.A.	69.6	66.4	67.9	68.7	87.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	12.0	12.7	14.3	12.8	MNR
Endowment and investment income dependence (%)	N.A.	9.5	8.8	9.2	9.3	MNR
Debt						
Outstanding debt ($000s)	N.A.	1,728,703	1,549,844	1,361,030	1,380,439	102,389
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	1,728,703	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	4.98	5.52	4.86	5.08	MNR
Current MADS burden (%)	N.A.	6.96	7.32	6.63	4.61	4.44
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	1,570,278	1,616,357	1,576,508	1,375,202	200,977
Cash and investments ($000s)	N.A.	2,209,371	2,125,622	2,023,698	2,085,453	MNR
Unrestricted net assets ($000s)	N.A.	1,415,327	1,470,872	1,467,186	1,381,609	MNR
Expendable resources ($000s)	N.A.	1,832,027	1,774,747	1,731,123	1,752,444	MNR
Cash and investments to operations (%)	N.A.	145.5	142.9	141.6	154.6	137.7
Cash and investments to debt (%)	N.A.	127.8	137.2	148.7	151.1	243.9
Cash and investments to pro forma debt (%)	N.A.	127.8	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	120.7	119.3	121.1	129.9	81.0
Expendable resources to debt (%)	N.A.	106.0	114.5	127.2	126.9	151.8
Expendable resources to pro forma debt (%)	N.A.	106.0	N.A.	N.A.	N.A.	MNR

George Washington University, D.C. (cont.)

	Fiscal year ended June 30					Medians
	2017	**2016**	**2015**	**2014**	**2013**	**Private Colleges & Universities 'A' 2016**
Average age of plant (years)	N.A.	10.0	10.5	10.5	10.3	13.5

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term & long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation & amortization expense.