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CREDIT OPINION
14 October 2020

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# George Washington University, DC

Update to credit analysis

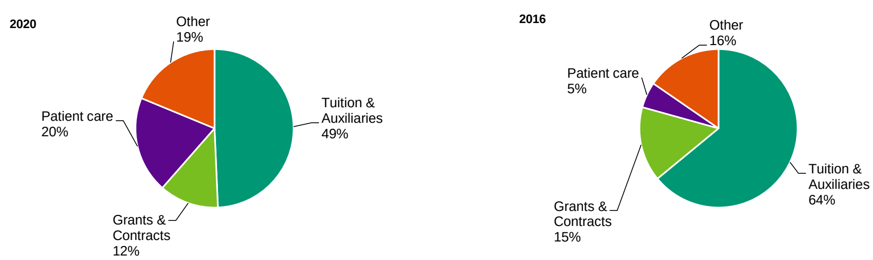
## Summary


George Washington University's credit quality (A1 stable) reflects the university's large scale, with $1.7 billion in operating revenue and considerable financial strength, reflected by $3 billion in cash and investments. Operating performance will soften in fiscal 2021 but management has identified a path for break even operating performance. The university's strategic position is very good, driven by the university's diversified programs offerings at the graduate and undergraduate level and planning actions to position the university in a changing higher education landscape. Offsetting credit considerations include high financial leverage, with spendable cash and investments to total debt of 1.2 times, and a large investment concentration in directly held commercial real estate, geographically concentrated near the campus. The university also has both direct and indirect exposure to health care through its faculty practice plan, which has recently generated losses, and affiliation with a for profit hospital.


Exhibit 1

**GWU's restructured relationship with its faculty practice plan increased its direct exposure to patient care revenue**

**Comparison: fiscal 2016 to fiscal 2020**




*2020 is preliminary estimate*
*Source: Moody's Investors Service*

## Credit strengths

- Strong national profile for comprehensive university aided by location in Washington, DC
- Favorable total wealth, with total cash and investment in excess of $3 billion, including real estate assets
- Absolute scale, with $1.7 billion in operating revenue
- Immediate actions to respond to revenue challenges highlights continued strong financial and risk management

## Credit challenges

- Financial resources have above average concentration in commercial real estate holdings near campus, complicated by government restrictions tied to the coronavirus pandemic
- Restructuring of faculty practice plan increases direct healthcare risk; management of hospital relationship challenged by potential mission misalignment
- Long dated bullet maturity debt structure amplifies importance of favorable treasury management
- Lack of full institutional alignment with strategic plan and pandemic related measures raises governance and management risks

## Rating outlook

The stable outlook reflects our expectations that management will continue to take prudent and aggressive actions to adjust to near term operational and financial challenges posed by the coronavirus pandemic and positions the university towards long term fiscal sustainability. Based on outlined plans for adjustment, GWU should revert to historical performance after the disruption caused in fiscal 2021, with operational cash flow margins of above 10% and over 200 monthly days cash on hand.

## Factors that could lead to an upgrade

- Substantial increase in operating reserves
- Sustained improvement in cash flow from operations, which would partially mitigate high debt levels
- Further strengthening of long term strategic position, reflected in ability to successfully implement its strategic plan while also improving the position of its academic medical center

## Factors that could lead to a downgrade

- Softening of student demand or operating performance with cash flow margins below 10%
- Increase in financial leverage given already high debt levels
- Marked reduction in unrestricted liquidity
- Material decline in market value of real estate assets

## Key indicators

Exhibit 2
GEORGE WASHINGTON UNIVERSITY, DC

| | 2016 | 2017 | 2018 | 2019 | 2020 | Median: A Rated Private Universities |
|---|---|---|---|---|---|---|
| Total FTE Enrollment | 22,866 | 23,502 | 23,788 | 23,375 | 22,111 | 4,695 |
| Operating Revenue ($000) | 1,183,762 | 1,271,651 | 1,305,006 | 1,540,395 | 1,720,295 | 213,591 |
| Annual Change in Operating Revenue (%) | 1.8 | 7.4 | 2.6 | 18.0 | 11.7 | 3.8 |
| Total Cash & Investments ($000) | 2,209,371 | 2,484,055 | 2,666,853 | 2,738,287 | 3,025,686 | 427,133 |
| Total Debt ($000) | 1,739,248 | 1,778,925 | 1,874,349 | 1,939,960 | 2,236,964 | 150,817 |
| Spendable Cash & Investments to Total Debt (x) | 1.1 | 1.2 | 1.3 | 1.3 | 1.2 | 1.9 |
| Spendable Cash & Investments to Operating Expenses (x) | 1.6 | 1.8 | 1.8 | 1.6 | 1.6 | 1.4 |
| Monthly Days Cash on Hand (x) | 244 | 284 | 315 | 222 | 251 | 350 |
| Operating Cash Flow Margin (%) | 9.9 | 14.7 | 12.9 | 13.0 | 9.9 | 14.2 |
| Total Debt to Cash Flow (x) | 14.8 | 9.5 | 11.2 | 9.7 | 13.1 | 5.1 |
| Annual Debt Service Coverage (x) | 1.5 | 2.2 | 2.0 | 2.4 | 2.1 | 2.9 |

Fiscal 2020 Total FTE Enrollment is preliminary. Fiscal 2020 Monthly Days Cash on Hand is Moody's estimate.
*Source: Moody's Investors Service*

## 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 operating revenue was $1.7 billion in fiscal 2020. Total full-time equivalent enrollment is estimated to be over 22,000 students in fall 2020.

## Detailed credit considerations

### Market profile: comprehensive research university with a growing emphasis in STEM

A new strategic plan proposed, introduced in late 2019 but not yet implemented, marks a significant shift in the direction of the university. Its success and implementation will have an influence on the university's desirability, marketability and recruitment objectives, though the credit implications of this have yet to be determined. Among the prominent shifts is to increase the number of STEM majors of undergraduate students, from the current 19% to 30%. The proposed plans also includes a deliberate move to reduce the number of undergraduates over five years by 20%, recognizing demographic trends and a need by the university to have greater flexibility to provide resources to a smaller student population.

The plan's commitment to high-impact research demonstrates that GWU will continue to retain its strength in its research platform. The research enterprise has grown over the last decade and is reflected in steady grants and contracts revenue growth. Research expenses were over $200 million in fiscal 2020.

The university benefits from strong student demand, reflected in historical growth in both net tuition revenue as well as net tuition per student revenue. The school appeals to a diverse student population, attracting students across the country. About 15% of students are international. Graduate students comprise over one half of total enrollment. Reduced enrollment this fall has hit both graduate and undergraduate enrollment, with significant declines largely with international students. Professional programs in law and medicine however are expected to see student enrollment growth.

### Operating performance: short term operational challenges but return to stronger performance likely

Though the coronavirus pandemic will lead to immediate operational challenges for the university, a sustained commitment to enhanced enrollment management and a comprehensive budgeting strategy will support sounder operating performance. Following years with single digit operating cash flow margins, the university started to generate cash flow margins of over 10% starting in fiscal year 2017. While the operating cash flow margins will be under 10% in fiscal 2020 and 2021, operating performance should rebound in fiscal 2022 absent extended downside risks associated with the pandemic.

Like many institutions, GWU shifted to an online learning in the spring. With the fall, the university elected to have most students continue learning online, with access to the campus restricted to those that are authorized to stay. Though the university expects a loss of revenue tied to loss of auxiliary revenue and enrollment declines, the university has identified expenses to offset this revenue loss and expects to break even in fiscal 2021.

Tuition and auxiliaries comprise almost 50% of operating revenue. Though net tuition grew in fiscal 2020, auxiliary revenue declined due to student refunds. Collectively however, the loss in tuition and auxiliary revenue was a manageable 3%. Both tuition and auxillary revenue will decrease in fiscal 2021, as fall 2020 enrollment is down over 5%.

GWU's exposure to patient care revenue continues to evolve, recently through its the restructuring of its relationship with its faculty practice plan group, Medical Faculty Associates, Inc. That evolution has resulted in revenues and the assets from MFA to be included in GWU financial statements starting in the middle of fiscal 2019 as a business combination. Though MFA is still a separate non-profit, the university is the sole corporate member and as such has greater control over the medical enterprise. Following a deficit in fiscal 2020, MFA expects stronger patient volume to drive profitability in fiscal 2021 as its invests in an ERM system.

The university also continues to maintain 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 through dividends. Collectively, revenue from patient care and medical education agreements comprise almost 20% of operating revenue in fiscal 2020.

### Wealth and liquidity: substantial wealth underpins credit strength

The university's ability to invest in programs will continue to be aided by its growing donor support, although fundraising remains below some peers with more established philanthropic programs. Three-year average gift revenue had been around $50 million per year.

GWU benefits from a large pool of financial assets with an uncommonly large exposure to directly held real estate assets, almost 50% of its total investments. The university's total cash and investments were $3 billion for fiscal 2020. The Investment Committee of the Board of Trustees is responsible for the oversight of the endowment with an outsourced chief investment officer. The university's endowment had flat return in fiscal year 2019, including the appreciation of the direct real estate investments.

GWU's high concentration of direct real estate also poses geographical risk. Its direct investment in commercial real estate is entirely in the Foggy Bottom area, making the university's financial strength susceptible to real estate valuations around the campus. This creates potential risks given business restrictions tied to the coronavirus pandemic, though the university has not seen any declines in its real estate portfolio or an increase in vacancy rates.

#### Liquidity

Unrestricted liquidity for GWU remains low relative to similarly rated peers. Estimated monthly liquidity of $1.1 billion in fiscal 2020 translates to 251 monthly days cash on hand, less than the median of 350 days for A-rated private universities.

In response to the uncertainty around COVID, the university expanded its credit facilities to $300 million through a term loan and a revolving line of credit. This replaced $150 million line of credit that was set to mature. Currently, the university has drawn the entire $300 million amount to support liquidity during the pandemic and economic uncertainty.

### Leverage: substantial financial leverage and use bullet maturities

With $2.2 billion of debt in fiscal 2020, due in part to the combined liabilities of the MFA, the university has relatively high leverage. Spendable cash and investments to total debt for the university is 1.2x, below the median of 1.9x of similarly rated peers. Its taxable bond debt is non-amortizing, with bullet maturities starting in 2044. The university has no plans for additional debt and there is a pause on most capital projects at this time. The one exception is the renovation of its residence hall, Thurston Hall, which was funded with prior bond proceeds.

#### Legal security

The bonds are an unsecured general obligation of the university.

**Debt structure**

The university's rated debt is all fixed-rate and taxable debt. Aggressive use of bullet maturity structures, while partially mitigated through careful treasury management, tie the university's ongoing credit health to disciplined management of reserves in advance of out-year maturities.

**Debt-related derivatives**

None

**Pensions and OPEB**

University employees participate in a defined contribution retirement plan. Some retired employees receive health care and life insurance benefits from the university. The benefits are funded as payments are made. The OPEB liability was a manageable $7.8 million in fiscal 2020. In an effort to reduce expenses, the university, starting in fiscal 2021, has temporarily suspended its retirement contributions.

## ESG considerations

### Environmental

The university is exposed to environmental risks due to its location in the District of Columbia. Based on data from Moody's affiliate Four Twenty Seven, the city is at high risk from hurricanes and sea level rise. Medium risks are with extreme rainfall and water stress. These risk factors potentially add longer-term expenses associated with fortification of physical assets, utility costs, and business disruption. The university's emergency response handbook outlines these environmental issues and demonstrates a recognition of these risks.

### Social

We regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. George Washington University will largely remain online for the fall semester with the possibility of opening the campus up by the spring semester to be evaluated. The outbreak poses the potential to drive student enrollment downward due to social distancing, a move to online classrooms and public health concerns.

Demographic changes also pose as a social risk for the university. The introduction of a new strategic plan with a reduction in the undergraduate population is based in part on trends of declining high school graduates in the country and a rightsizing of the university to retain quality.

### Governance

Leadership has made a push to be forward thinking, as reflected in its new strategic plan introduced in fiscal 2020, otherwise known as the 20/30 plan. The planning includes a clear recognition of trends in the country and the need for GWU to adapt to those trends. The development of a strategic plan began with the setup of planning committees around the themes of world class faculty, high-quality undergraduate education, distinguished and distinctive graduate education and high impact research. The impact to the decline of revenue would be less than 6% and offset by expense reductions. Due to the coronavirus pandemic, the strategic planning process has been put on hold including plans to adjust the number of undergradate students.

However, in the introduction of this strategic plan, there have been differences in opinion on strategic objectives, leaving some stakeholders dissatisfied. In addition, the university president, Dr. Thomas J. LeBlanc, has been involved in a series of controversies that have at times put the president at odds with some of the faculty and students. The university president however continues to have strong support from the university's Board of Trustees. Continued discord with leadership has the potential to create negative credit pressure on the university, as well as the inability to reduce expenses in response to recent declining of revenue.

GWU Hospital recently recovered from a cyberattack in October. Though this event largely is the responsibility of the majority owner, Universal Health Services, the cybersecurity risk exposure indirectly affects the university as well, and complicates the relationship between these partners.

## Rating methodology and scorecard factors

The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 3

**George Washington University**

| Scorecard Factors and Sub-factors | | Value | Score |
|---|---|---|---|
| **Factor 1:** | **Market Profile (30%)** | | |
| | Scope of Operations (Operating Revenue) ($000) | 1,720,295 | Aa2 |
| | Reputation and Pricing Power (Annual Change in Operating Revenue) (%) | 11.7 | Aaa |
| | Strategic Positioning | A | A |
| **Factor 2:** | **Operating Performance (25%)** | | |
| | Operating Results (Operating Cash Flow Margin) (%) | 9.9 | A3 |
| | Revenue Diversity (Maximum Single Contribution) (%) | 49.3 | Aa3 |
| **Factor 3:** | **Wealth & Liquidity (25%)** | | |
| | Total Wealth (Total Cash & Investments) ($000) | 3,025,686 | Aa1 |
| | Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x) | 1.6 | A1 |
| | Liquidity (Monthly Days Cash on Hand) | 251 | A3 |
| **Factor 4:** | **Leverage (20%)** | | |
| | Financial Leverage (Spendable Cash & Investments to Total Debt) (x) | 1.2 | A2 |
| | Debt Affordability (Total Debt to Cash Flow) (x) | 13.1 | Baa2 |
| | | | |
| | Scorecard-Indicated Outcome | | A1 |
| | Assigned Rating | | A1 |

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Liquidity metric is estimated by Moody's.

*Source: Moody's Investors Service*

REPORT NUMBER 1249114

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