S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Mary Ellen E Wriedt, San Francisco + 1 (415) 371 5027; maryellen.wriedt@spglobal.com

Secondary Contact:
Ken W Rodgers, New York + 1 (212) 438 2087; ken.rodgers@spglobal.com

Table Of Contents

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

Credit Profile		
George Washington University		
Long Term Rating	A+/Stable	Affirmed

Rating Action

S&P Global Ratings affirmed its 'A+' long-term rating on George Washington University (GW or the university), D.C.'s various series of taxable bonds outstanding. The outlook is stable.

All debt outstanding is a general obligation (GO) of the university. GW's total debt outstanding is $2.2 billion, including a $300 million draw on a credit agreement for defensive liquidity during the COVID-19 pandemic. All of GW's long-term debt was issued with 30-year bullet maturities. GW 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 reports that the university does not plan to issue additional new-money debt backed by its GO pledge in the near term.

Although uncertainty is high regarding the duration and extent of the effects of the COVID-19 outbreak, we believe that GW has taken prudent steps to ensure the safety of its students, faculty, and staff while remaining financially responsible. In March 2020, the university transitioned to an online format and closed residence halls to the majority of students. For students living on campus before the outbreak, the university provided refunds for housing and dining. In total, GW's auxiliary revenue was $24 million lower than forecast. GW leveraged its medical enterprise, developing a testing lab, tracking and tracing procedures, and facilities for quarantining.

The university received $9.1 million through the Coronavirus Aid, Relief, and Economic Security (CARES) Act Higher Education Emergency Relief Fund and has allocated the full amount to student aid (rather than using half to offset institutional costs). GW also received $9 million through the CARES Act Health and Human Services Provider Relief Fund. In fiscal 2020, net operating income on a full-accrual basis was negative 2.8%, or negative $59.2 million. Results were positive on a cash basis. In response to the lower revenue (e.g., auxiliary and net patient revenue) and higher expenses (e.g. testing and supplies), a number of cost-saving measures were taken. In fiscal 2021, management is projecting break-even results or a slight surplus.

GW determined that offering online instruction for fall 2020 and keeping all residence halls closed with certain exceptions was in the best interest of its community. As expected, total headcount declined as students either took a gap year or deferred enrollment. Total headcount in fall 2020 was 27,017, or a decline of 2.9% from fall 2019 headcount of 27,814. Domestic headcount was up slightly by 0.3%, or 63 students, but international enrollment was down 20.6%, or 860 students. Overall, international enrollment fell to 12.3% of total headcount enrollment in fall 2020 from 15.0% in fall 2019. Professional students in law and medicine were the only categories that increased for both domestic and international students. For the spring 2021 semester, the university announced that 100% online learning will continue. To increase liquidity during the uncertainty of the pandemic, management negotiated a new credit agreement with favorable terms and drew the full $300 million for defensive purposes in spring 2020. Total cash was $696 million as of June 30, 2020, relative to $162 million as of June 30, 2019. The endowment was valued at $1.8 billion as of June 30, 2020. We believe GW's management responded promptly in aligning the university's expenditures with conservatively budgeted revenue, and this, together with available resources, should help the university offset medium-term pressures that might arise as a result of this pandemic.

Credit overview

Our rating reflects our belief that GW's enterprise profile is very strong as a comprehensive research university, with more than half of its enrollment coming from its graduate and professional programs (law and medicine, among other disciplines), and strong student quality. Also, the rating reflects our view that the university's financial profile is strong, characterized by revenue diversity but high debt, with some susceptibility given the extensive use of bullet maturities. The combined enterprise and financial profile lead to an initial indicative stand-alone credit profile of 'a+' and a final long-term rating of 'A+'.

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

- Good revenue diversity, with student-derived revenue accounting for less than two-thirds of adjusted operating revenue, and with revenue coming from health care operations, grants and contracts, and private gifts;
- Sizable money received from its research programs, with record funding in fiscal 2020; and
- Sound budget strategy to increase revenue, align costs, and improve liquidity.

Partly offsetting the above strengths, in our view, are the university's:

- Merely adequate available (expendable) resources to operating expenses and debt;
- High 7% smoothed maximum annual debt service burden, with most debt having bullet maturities; and
- Investment portfolio with a heavy allocation to real estate, which we typically view as a less liquid asset.

The stable outlook reflects S&P Global Ratings' expectation that the university's enrollment will stabilize, financial operations on a full-accrual basis will return to break-even-to-positive, and expendable resource ratios relative to operations and debt will increase somewhat. We also assume no additional new-money debt issuance without a commensurate increase in expendable resources.

GW 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.

Environment, social, and governance factors

In our view, GW, similar to other higher education institutions, faces elevated social risk given the uncertain duration of the COVID-19 pandemic. Because of the pandemic, GW's management team moved to implement remote learning in spring 2020 and is fully remote in fall 2020 to protect students' health and safety and limit social risks associated with the community spread of COVID-19. We view the risks posed by COVID-19 to public health and safety as a social risk under our environment, social, and governance factors. Despite the elevated social risk, we believe GW's environment and governance risk are in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

A lower rating could result from an unexpected further decline in enrollment, weaker financial operating performance, lack of growth in expendable resources, or a measurable increase in debt. In addition, though we understand that the virus is a global risk, we could also consider a negative rating action during the outlook period should unforeseen pressures related to the pandemic materially affect demand, finances, or the trajectory of the university's plan as a result of the recent COVID-19 outbreak.

Upside scenario

We believe that GW is unlikely to increase its expendable resources sufficiently during the outlook period to warrant a positive rating action. However, any consideration of a positive rating action would be predicated upon firmer financial operating performance on a full-accrual basis and a significant improvement in expendable resources in relation to operations and debt.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, GW has fairly strong geographic diversity, as we understand that approximately 70% of its students come from outside the D.C, Maryland, and Virginia region. Therefore, the U.S. GDP per capita of $62,171 anchors our assessment of GW's economic fundamentals.

Market position and demand

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, the School of Nursing, and affiliated entities were formerly organized within an administrative unit known as the George Washington University Medical Center. GW generally does have the ability to flex demand through tuition pricing and discounting strategies.

As of fall 2020, the university enrolls slightly more than 27,000 students at all of its campuses. Headcount enrollment fell 2.9% to 27,017, primarily as a result of COVID-19, including challenges for the significant international population. However, fall 2019 also had a decline in headcount enrollment of 1.3% following growth in the previous five years. GW has a large number of graduate and professional students; undergraduates constituted just 43.5% of total enrollment for fall 2020. In fall 2020 and 2019 undergraduate and graduate headcount declined, but professional programs in law and medicine grew. Total international headcount was 3,310 in fall 2020, down 20.6% from 4,170 in fall 2019; the percentage of total international headcount enrollment declined to 12.3% in fall 2020 from 15.0% in fall 2019. Total domestic headcount enrollment increased 0.3% to 23,7070 in fall 2020 from 23,644 in fall 2019. Management has identified both short-term and longer-term strategies to reflect on and refresh enrollment plans with new market data and leverage virtual platforms. We expect enrollment to stabilize or increase, particularly as demand from international students starts to rebound as GW leverages its unique and advantageous location in the nation's capital as well as its diverse student body and institution.

Primarily as a result of COVID-19, freshman applications decreased by 2.1% to 26,405 in fall 2020 but were down only 2.2% from the record 26,987 in fall 2017. GW became test-optional in fiscal 2016, as management believes the data show low correlation between standardized test scores and undergraduate success; GW instead evaluates long-term factors such as grade point average, difficulty of high school curriculum, and community service.

GW is selective, accepting only 43.0% of applicants in fall 2020; that percentage increased from a low of 40.8% in fall 2019 but is still an improvement from 46.5% in fall 2015. Evidencing the competitiveness of the market, the matriculation rate has been around 24% in the past four years. It declined to 17.4% in fall 2020, again primarily as a result of COVID-19 and a larger-than-usual number of deferrals. In our view, student quality is strong for fall 2020, with an average SAT score of 1354 (excluding the writing section of the SAT) for incoming freshmen.

The university uses econometric modeling for enrollment management and budgeting. This modeling gives management the data tools to make critical decisions. The enrollment management modeling is used to develop strategies to manage enrollment, retention, and revenue implications of alternative financial aid packaging strategies, as well as weigh the trade-offs between short-term revenue and compositional differences in the size and profile of the entering class.

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. In August 2018, Mark Diaz began as executive vice president and chief financial officer, following the retirement of his predecessor Lou Katz. Prior to joining GW, Mr. Diaz was a leader in budget and planning at the University of Miami. A new five-year strategic planning process was begun during the 2019-2020 academic year, but in spring 2020 that process was placed on hold while the university and community addressed the COVID-19 pandemic's impact and mitigation. A new strategic plan is expected to be drafted in the near future.

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 strategic plan supplemented by rolling 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, despite areas of risk, the organization's overall financial policies are not likely to hamper its ability to pay debt service. Our analysis of financial policies includes a review of the university'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 institutions.

Financial performance

Primarily as a result of the effects of the COVID-19 pandemic, including enrollment declines, revenue loss, and increased expenses, GW recorded a negative 2.8% net operating income in fiscal 2020, following three years of full accrual surpluses. The net adjusted operating income of negative $59.2 million included depreciation expense of $93.8 million so was positive on a cash basis. Net patient revenue after bad debt declined to $273.5 million versus the budgeted $348.4 million largely as a result of the cancellation of elective procedures following the onset of the pandemic. Additionally, auxiliary revenue declined to $89.7 million as compared with $119.3 million in fiscal 2019 and $113.7 million budgeted for fiscal 2020. In planning for fiscal 2021, management faced a revenue loss scenario of $180.2 million and in response implemented $62.0 million of permanent structural budget reductions, as well as $87.0 million in other expense cuts and $20.0 million in revenue enhancements, resulting in a break-even-to-slightly-positive margin.

In our view, GW generally has good revenue diversity, with tuition revenue accounting for 56% of total adjusted operating revenue in fiscal 2020, followed by health care operations at 17%, grants and contracts at 10%, investment and endowment income at 7%, and auxiliary sources at 5%. Research funding peaked at $209 million in fiscal 2020. Tuition increases have been modest, in our view, with undergraduate tuition and fees up 3% for fall 2020 over the prior year; annual increases have been about 3%. Management has taken steps in the past to limit GW's exposure to health care risk by selling a majority interest (80%) in its hospital to Universal Health Services in 1997, creating a separately incorporated faculty practice plan in 2000, discontinuing its health care plan in 2002, and restructuring its relationship with Medical Faculty Associates in 2018 by consolidating the group into GW's financial statement. We believe that management's budgeting practice is sound, and it has executed well and in timely fashion on its financial plan.

Available resources

At fiscal year-end June 30, 2020, GW's unrestricted resources totaled $1.7 billion, its expendable resources $2.6 billion, its cash and investments $2.6 billion, and total debt $2.2 billion. When compared with adjusted operating expenses, expendable resources were adequate, at 126%, and somewhat lower compared with debt (including the effect of $300 million drawn on lines of credit for defensive liquidity purposes), at 118%. Cash and investments were stronger as of June 30, 2020, equal to 145% of adjusted operating expenses and 135% of debt. We consider expendable resources ratios to be a better measure of available resources, as cash and investments include more than $1 billion in real estate, which is generally illiquid. We do note that GW has a history of divesting real estate assets that no longer meet strategic objectives.

GW's available resources and related ratios are adequate to support the current debt and rating, as supplemented by strong annual contributions and gifts. However, additional debt issuance without a commensurate increase in financial resources could pressure the rating.

GW's endowment has risen 15% to $1.80 billion as of fiscal year-end 2020 from $1.57 billion in 2016. The endowment's asset allocation is diverse, in our view, but more heavily invested in real estate compared with peers. Through fiscal 2020, GW's endowment spending policy target was 5% of the market value (including real estate). Starting in fiscal 2021, GW has changed its endowment payout policy to 4.5% from 5.0%, based on a three-year rolling average. The actual endowment spending in fiscal 2020 was 5.1%, with no extraordinary draws as a result of COVID-19.

On July 1, 2011, GW began a major $1 billion fundraising campaign that concluded on June 30, 2017. The campaign exceeded the target and raised $1.024 billion. The campaign's proceeds were used mainly to enhance the university's academic programs. Annual giving has been strong, in our opinion, with net contributions of $39 million in fiscal 2020, exceeding the budget of $32 million.

Debt and contingent liabilities

The university has a high debt load, in our opinion. The university issued its long-term debt as taxable bonds with 30-year bullet maturities to take advantage of low interest rates. All of GW's long-term debt is fixed rate, which we believe provides predictability to the debt portfolio. In May 2020, GW finalized a $300 million credit agreement with PNC Bank as administrative agent, with a $175 million five-year committed revolving line of credit and $125 million five-year term loan with no amortization. These replaced $150 million in lines of credit with PNC. The new agreement has no financial maintenance covenants. At closing, GW borrowed the entire $300 million for defensive liquidity purposes as a result of the pandemic. Thus, GW's total debt increased to $2.2 billion from $1.9 billion in fiscal 2019, and total cash including the credit agreement totaled $696.4 million as of June 30, 2020.

Certain financial and investment practices might seem somewhat risky (e.g., issuing debt with 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 favorable and that many of its real estate holdings (and related debt) are due to transactions with governmental or related entities such that GW gets a guaranteed cash flow and comfort from knowing that its ability to expand is assured by controlling properties and buildings not currently needed but that will be available in the future. We also understand management uses an internal bank system, with a debt sinking fund rubric. We are estimating pro forma maximum annual debt service of $145 million based on a smoothing of the total aggregate debt service due over the next 30 years; this equals 7% of fiscal 2020 adjusted operating expenses, which we consider high. The university has no off-balance-sheet debt and has not entered into any swaps or other derivative arrangements. We understand GW has no additional new-money GO debt plans.

We anticipate continuation of strong risk management and financial policies. 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.

Over the past decade, we believe the university tackled a number of deferred maintenance projects and made other key investments in new buildings that included the science and engineering hall and the school of public health building; these large projects were funded from either cash flow from real estate investments, or philanthropy, or both. We also believe these investments should enable GW to accommodate growth in STEM and health programs in the coming years despite an increasingly competitive higher education sector.

George Washington University, D.C.--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					--Medians reported for 'A' rated private colleges and universities
	2021	**2020**	**2019**	**2018**	**2017**	**2019**
Enrollment and demand						
Headcount	27,017	27,814	28,172	27,973	27,159	MNR
Full-time equivalent	22,306	23,387	23,798	23,520	22,883	3,383
Freshman acceptance rate (%)	43.0	40.8	41.9	41.0	40.2	67.5
Freshman matriculation rate (%)	17.4	23.8	25.6	23.6	24.6	MNR
Undergraduates as a % of total enrollment (%)	43.5	44.9	44.5	42.9	42.4	81.0
Freshman retention (%)	87.7	92.0	92.9	91.2	90.2	85.1
Graduation rates (six years) (%)	85.0	82.2	82.0	80.6	83.7	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	2,025,544	1,879,987	1,616,377	1,612,251	MNR
Adjusted operating expense ($000s)	N.A.	2,084,751	1,863,359	1,594,401	1,566,642	MNR
Net operating income ($000s)	N.A.	(59,207)	16,628	21,976	45,609	MNR
Net operating margin (%)	N.A.	(2.84)	0.89	1.38	2.91	1.60
Change in unrestricted net assets ($000s)	N.A.	(58,997)	4,615	102,977	162,385	MNR
Tuition discount (%)	N.A.	30.3	30.1	29.5	28.4	38.3
Tuition dependence (%)	N.A.	55.5	58.9	66.1	63.2	MNR
Student dependence (%)	N.A.	60.0	65.3	73.3	70.4	85.6
Health care operations dependence (%)	N.A.	16.8	12.6	4.0	N.A.	MNR
Research dependence (%)	N.A.	10.3	11.0	12.5	11.9	MNR
Endowment and investment income dependence (%)	N.A.	7.2	6.9	8.2	8.4	MNR
Debt						
Outstanding debt ($000s)	N.A.	2,236,964	1,939,960	1,865,051	1,769,008	106,232
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	2,236,964	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.	4.61	4.14	4.47	5.41	MNR
Current MADS burden (%)	N.A.	6.96	7.78	9.14	6.74	4.20
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	1,802,656	1,778,559	1,798,810	1,729,147	240,596
Cash and investments ($000s)	N.A.	3,025,686	2,738,287	2,666,853	2,484,055	MNR
Unrestricted net assets ($000s)	N.A.	1,609,161	1,668,158	1,680,689	1,577,712	MNR
Expendable resources ($000s)	N.A.	2,635,101	2,255,525	2,265,508	2,099,492	MNR

George Washington University, D.C.--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					--Medians reported for 'A' rated private colleges and universities
	2021	2020	2019	2018	2017	2019
Cash and investments to operations (%)	N.A.	145.1	147.0	167.3	158.6	142.2
Cash and investments to debt (%)	N.A.	135.3	141.2	143.0	140.4	287.1
Cash and investments to pro forma debt (%)	N.A.	135.3	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	126.4	121.0	142.1	134.0	89.0
Expendable resources to debt (%)	N.A.	117.8	116.3	121.5	118.7	178.3
Expendable resources to pro forma debt (%)	N.A.	117.8	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.3	11.1	11.0	10.6	14.1

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*(MADS expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net property, plant, and equipmenbt - debt outstanding). Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020