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

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Credit Profile		
US$793.0 mil Taxable Bonds ser 2018 due 09/15/2048		
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+' long-term rating to the $793 million series 2018 taxable bonds issued by George Washington University (GWU), D.C. At the same time, we affirmed our 'A+' long-term rating on GWU's various series of outstanding taxable bonds. The outlook is stable.

Our rating reflects our belief that GWU'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 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 improved operating profitability and 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 'a+' and a final long-term rating of 'A+'. We expect the university will continue its positive operating margins and strong financial performance, with no additional debt issuance in the near term.

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

- Growing enrollment, with full-time undergraduate enrollment increasing over the past four years and graduate enrollment increasing over the past three years;
- 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; and
- Impressive budget strategy to grow revenues, align costs, and grow reserves.

In our opinion, partially offsetting credit factors include:

- Only adequate available (expendable) resources to operating expenses and debt;
- High capital spending over the past four 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; a 12-story, 898-bed student residence hall that opened in fall 2016; and the acquisition and current renovation of the Corcoran Building;

- A high 8.8% pro forma maximum annual debt service (MADS) burden, with most debt typically issued as taxable debt and having bullet maturities; and
- An investment portfolio with a heavy allocation to real estate, which we typically view as a less liquid asset.

The series 2018 bonds and all outstanding debt is a general obligation of the university. The series 2018 taxable bonds are expected to be offered with a bullet maturity of 30 years. The series 2018 bonds include $250 million for a residence hall project and academic programming initiatives, with the balance for debt refinancing and cost of issuance. GWU's pro forma long-term debt following this issuance will total approximately $1.85 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.

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 remain positive, and expendable resource (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 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 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. Therefore, our assessment of GWU's economic fundamentals is anchored by the U.S. GDP per capita of $53,701.

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 just under 28,000 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, the 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 School of Art + Design acquisition in the summer of 2014. Also, with the adoption of its Vision 2021 long-range strategic plan in 2013, 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%, 3.6%, and 3.0% in fiscals 2014, 2015, 2016, and 2017, respectively, and according to management, projected expense reductions of $186 million over the five-year period ending in fiscal 2020. These cost reductions will be partially offset by increased investment in financial aid and online education support.

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 has grown in the last four years, reaching a total headcount of 27,973 in fall 2017. GWU has a large number of graduate and professional students; undergraduates constituted just 43% of total enrollment for fall 2017. Undergraduate headcount has increased in the each of the past four years, and graduate matriculants have increased over the past three years. The university's professional programs have faced enrollment pressure, particularly its law school, for which matriculants have declined over the past three years, consistent with national trends. We anticipate enrollment to remain stable or increase slightly.

Freshman applications increased by 5.9% in fall 2017 to 26,987, after growing 28.5% to 25,488 in fall 2016. GWU became test-optional in fiscal 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. Overall, applications have been growing; the only decline in applications in the past nine years was in fall 2014 (12.5%) as a result of moving exclusively to the Common App. 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 selective, accepting only 41% of applicants in fall 2017; that percentage decreased from 46% of freshman applicants in fall 2015 but is up from prior years, when selectivity was approximately one-third. Evidencing the competiveness of the market, the matriculation rate declined to 24% in fall 2017 from over 31% in fall 2013 and earlier. In our view, student quality is strong for fall 2017, with an average SAT score of 1355 (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 February 2018, the long-term chief financial officer, Lou Katz, announced that he would be retiring as of June 30, 2018. Mr. Katz will be replaced by Mark Diaz, who was a leader in budget and planning at the University of Miami. Mr. Diaz will start at GWU on Aug. 1, 2018. Other leadership changes include the appointment of Donna Arbide to the role of vice president for development and alumni relations; Ms. Arbide had been serving in an interim role in this position at the University of Miami. As part of the presidential strategic initiatives implemented by President LeBlanc, the university plans to improve fundraising performance and return on fundraising investment. Other presidential strategic initiatives include enhancing the undergraduate student experience, building the research portfolio and profile, restructuring partnerships with medical academic affiliations, and implementing service improvements in the institutional culture. Historically, we believe both management and governance have been a credit strength at GWU, and our expectation is that, following some transition, the university's governance and management will likely remain 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 2017, the university had a $46 million full-accrual-based operating surplus on an adjusted basis (including rental income and endowment spending, but excluding investment gains), or a positive 2.9% of total operating expenses. This improvement comes following the university's fiscal 2016 $17 million full-accrual-based operating deficit on an adjusted basis, 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. Management expects positive margins to continue in the two-year outlook horizon. The university is in year four of a five-year plan as part of its comprehensive budget strategy to grow its revenues and align its costs. To address affordability, in fall 2004, management implemented 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, and in fiscal 2017, net tuition grew by 8.7%. Total tuition, fees, and room and board were $66,518 in fall 2017, up 3.2% 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 2017, followed by grants and contracts at 12% and auxiliary sources at 7%. Research funding increased to $191 million in fiscal 2017, the second-highest year behind a high of $199 million in fiscal 2014. Tuition increases have been modest, in our view, with undergraduate tuition and fees up 3.2% for fiscal 2017 over the prior year; a 3.0% increase was implemented in fiscal 2018, and fiscal 2019 tuition will increase by 3.2%. 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, 2017, GWU's unrestricted resources totaled $1.6 billion, its ER $2.1 billion, its cash and investments $2.5 billion, and total debt $1.8 billion. When compared with adjusted operating expenses, ER were adequate, at 134%, and somewhat lower on a pro forma debt (including the effect of the series 2018 bonds) basis, at 114%. Cash and investments were stronger as of June 30, 2017, equal to 159% of adjusted operating expenses and 135% of pro forma 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 32% over the past five years to $1.7 billion as of fiscal year-end 2017 from $1.3 billion at fiscal year-end 2012. The endowment's asset allocation is diverse, in our view, but more heavily invested in real estate, at about 43%, 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 2017 was 4.8%.

On July 1, 2011, GWU 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 are being used mainly to enhance the university's academic programs, and annual giving has been strong. The presidential strategic initiatives are targeting to improve fundraising performance and return on fundraising investment, as well as engage alumni in the life of the university. We believe the university's fundraising 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 26% over the past five years ended in fiscal year 2017 to over $4.3 billion, its long-term debt has risen at a slightly higher rate of 27% to $1.8 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 2017 totaled $82 million, while capital spending totaled $71 million.

The university has a high debt load, in our opinion. The university issued much of its debt as taxable bonds with bullet maturities to take advantage of low interest rates. However, the taxable series produce an uneven debt structure with large bullets. With a portion of the series 2018 bonds, the university is refinancing approximately $521 million in bullet maturities due in the next five years. Additionally, management is issuing $250 million in new money to construct a new residence hall and renovate Thurston Hall ($100 million), as well as increase liquidity for academic programming and student experience priorities ($150 million). The debt service for the new money could be paid for by revenue generated by the residence hall revenue, as well as increased annual investment real estate cash flow. The series 2018 taxable bonds will have a bullet maturity of 30 years. 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 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 approximately 4.3% 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. 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 pro forma MADS of $138 million based on a smoothing of the total aggregate debt service due over the next 30 years; this equals 8.8% of fiscal 2017 adjusted operating expenses, which we consider 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, District of Columbia

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Enrollment and demand						
Headcount	27,973	27,159	26,212	25,613	25,264	MNR
Full-time equivalent	23,520	22,883	22,032	21,409	21,132	3,659
Freshman acceptance rate (%)	41.0	40.2	46.5	43.8	34.4	63.1
Freshman matriculation rate (%)	23.6	24.6	28.1	28.9	31.4	MNR
Undergraduates as a % of total enrollment (%)	42.9	42.4	42.6	41.9	41.0	82.3
Freshman retention (%)	91.2	90.2	93.9	93.4	92.3	86.0
Graduation rates (six years) (%)	80.6	83.7	83.0	81.3	N.A.	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	1,612,251	1,500,927	1,490,303	1,392,947	MNR
Adjusted operating expense ($000s)	N.A.	1,566,642	1,518,078	1,487,970	1,429,613	MNR
Net operating income ($000s)	N.A.	45,609	(17,151)	2,333	(36,666)	MNR
Net operating margin (%)	N.A.	2.91	(1.13)	0.16	(2.56)	2.57
Change in unrestricted net assets ($000s)	N.A.	162,385	(55,545)	3,686	85,577	MNR
Tuition discount (%)	N.A.	28.4	28.7	28.3	28.2	34.9
Tuition dependence (%)	N.A.	63.2	62.8	59.8	60.8	MNR
Student dependence (%)	N.A.	70.4	69.6	66.4	67.9	87.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	11.9	12.0	12.7	14.3	MNR
Endowment and investment income dependence (%)	N.A.	8.4	9.5	8.8	9.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	1,769,008	1,728,703	1,549,844	1,361,030	102,389
Proposed debt ($000s)	N.A.	794,830	N.A.	N.A.	N.A.	MNR

George Washington University, District of Columbia (cont.)

Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'A' rated Private Colleges & Universities
	2018	**2017**	**2016**	**2015**	**2014**	**2016**
Total pro forma debt ($000s)	N.A.	1,840,898	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	138,112	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	5.41	4.98	5.52	4.86	MNR
Current MADS burden (%)	N.A.	6.74	6.96	7.32	6.63	4.44
Pro forma MADS burden (%)	N.A.	8.82	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	1,729,147	1,570,278	1,616,357	1,576,508	200,977
Cash and investments ($000s)	N.A.	2,484,055	2,209,371	2,125,622	2,023,698	MNR
Unrestricted net assets ($000s)	N.A.	1,577,712	1,415,327	1,470,872	1,467,186	MNR
Expendable resources ($000s)	N.A.	2,099,492	1,832,027	1,774,747	1,731,123	MNR
Cash and investments to operations (%)	N.A.	158.6	145.5	142.9	141.6	137.7
Cash and investments to debt (%)	N.A.	140.4	127.8	137.2	148.7	243.9
Cash and investments to pro forma debt (%)	N.A.	134.9	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	134.0	120.7	119.3	121.1	81.0
Expendable resources to debt (%)	N.A.	118.7	106.0	114.5	127.2	151.8
Expendable resources to pro forma debt (%)	N.A.	114.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	10.6	10.0	10.5	10.5	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 and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.