S&P Global
Ratings

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George Washington University, District of Columbia; Private Coll/Univ - General Obligation

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George Washington University		
Long Term Rating	A+/Stable	Affirmed

Rating Action Overview

- 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.

Security

All debt outstanding is a general obligation (GO) of the university. GW's total debt outstanding is $2.2 billion, including $98.8 million in operating and financing leases. 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.

Credit overview

Because of the COVID-19 pandemic, the university transitioned to an online format and closed residence halls to the majority of students in March 2020. For fall 2020 GW determined that offering online instruction 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. In fall 2021, the university returned to a more typical residential experience and on-campus instruction; headcount continued to decline, dropping 2.1% to 26,457. We understand that fall 2022 enrollment is expected to grow.

The university realized federal stimulus funds totaling $9 million in fiscal 2020, $17 million in fiscal 2021, and $13 million in fiscal 2022. As a result of increased expenses and lower revenues, particularly from auxiliaries and health care, the university posted operating deficits, on a GAAP basis as calculated by S&P Global Ratings, with net operating deficits of 2.1% in fiscal 2021 and 2.8% in fiscal 2020. Strict budgeting, alignment of costs, and enhanced revenue generation are expected to result in positive margins in fiscal 2022 and going forward.

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, and an investment portfolio with a concentration in real estate holdings that we generally view as being less liquid. 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:

- Robust student quality, wide variety of undergraduate and graduate programs, and sizable endowment per full-time-equivalent student;
- Good revenue diversity, with student-derived revenue accounting for less than 60% 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 2021; and
- Sound budget strategy to increase revenue and align costs.

Offsetting factors include:

- Merely adequate available resources to operating expenses and debt;
- High smoothed maximum annual debt service burden (MADS), 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.

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. 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 (UHS) 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. Management is in the process of finalizing a new agreement with UHS, which is expected to be beneficial to the university. Under the restructured agreement, UHS will become the sole owner of GW Hospital by purchasing the 20% interest from GW; additionally, a new partnership affiliation will be created.

Environment, social, and governance

Vaccine progress in the U.S. has helped alleviate some health and safety social risks stemming from COVID-19, but in our view, GW, similar to other not-for-profit colleges and universities, continues to face potential operational pressures in light of emerging virus variants. We believe that management took prudent actions regarding health and safety. We view the university's governance, along with its environmental risks, as being neutral considerations in our credit rating analysis.

Outlook

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.

Downside scenario

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

Upside scenario

Any consideration of a positive rating action would be predicated upon sustained positive financial operating performance on a full-accrual basis and a significant improvement in financial resources in relation to operations and debt.

Credit Opinion

Enterprise Profile

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. GW generally does have the ability to flex demand through tuition pricing and discounting strategies.

As of fall 2021, the university enrolled 26,457 students at all of its campuses. Headcount enrollment fell 2.1% from fall 2020 enrollment of 27,017, which had declined 2.9% from fall 2020, 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 2021. We understand enrollment projections for fall 2022 are indicating stabilization, including a significant increase in the freshman class. We expect enrollment will trend up, 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. 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.

For fall 2021, applications increased by 3.1% and reached a record of 27,236, following a 2.1% decline for fall 2020 primarily as a result of COVID-19. GW became test-optional in fiscal 2016, as management believes the data shows 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 49.7% of applicants in fall 2021; that percentage increased from a low of 40.8% in fall 2019. Evidencing the competitiveness of the market, the matriculation rate was around 24% prior to the pandemic, but 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 2021, with an average SAT score of 1387 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

Dr. Mark S. Wrighton was appointed interim president of the university following the retirement of President Thomas J. LeBlanc. Dr Wrighton's term began Jan. 1, 2022, and will conclude June 30, 2023; during this time, GW will conduct a global search for a permanent president. Prior to coming to GW, Dr. Wrighton was the chancellor at Washington University in St. Louis. In July 2022, Bruno Fernandes became the chief financial officer and treasurer of the university. Mr. Fernandes has considerable experience in finance; prior to serving as the vice president of finance and treasurer at GW since April 2021, Mr. Fernandes held a similar role for the District of Columbia.

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 following the appointment of the permanent president.

Financial Profile

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 2.1% net operating income in fiscal 2021 and a negative 2.8% net operating income in fiscal 2020, following three years of full-accrual surpluses. The fiscal 2021 net adjusted operating income of negative $41.5 million included depreciation expense of $90.9 million so was positive on a cash basis. In fiscal 2020, 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; in fiscal 2021, net patient revenue largely recovered. In fiscal 2020, auxiliary revenue declined to $90.4 million as compared with $119.3 million in fiscal 2019 and $113.7 million budgeted for fiscal 2020; however, with the full year of residence hall closures, fiscal 2021 auxiliary revenue fell to only $15.9 million. In planning for fiscal 2021, management faced a revenue loss scenario of $180.2 million and in response implemented permanent structural budget reductions, as well as other expense cuts and in revenue enhancements. With the structural changes, as well as increases in revenue with some recovery, the fiscal 2022 margin is expected to be positive. Fiscal 2023 is also budgeted for a positive margin on a GAAP basis. We believe that management's budgeting practice is sound, and it has executed well and in timely fashion on its financial plan.

In our view, GW generally has good revenue diversity, with tuition revenue accounting for 55% of total adjusted operating revenue in fiscal 2021, followed by health care operations at 18%, grants and contracts at 13%, investment and endowment income at 6%, and auxiliary sources at 1%. Research funding peaked at $228 million in fiscal 2021. Tuition increases have been modest, in our view, with undergraduate tuition and fees up approximately 2.7% for fall 2021 over the prior year; annual increases have been about 3.1%.

Available resources

At fiscal year-end June 30, 2021, GW's unrestricted resources totaled $1.7 billion, its expendable resources $2.7 billion, its cash and investments $3.2 billion, and total debt $2.2 billion. When compared with adjusted operating expenses, expendable resources were adequate, at 140%, and somewhat lower compared with debt, at 123%. Cash and investments were stronger as of June 30, 2021, equal to 165% of adjusted operating expenses and 145% 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 33% to $2.4 billion as of fiscal year-end 2021 from $1.8 billion in fiscals 2020, 2019, and 2018. 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 market value, adjusted for new gifts received during the year. The actual endowment spending in fiscal 2021 was 5.5%, 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.

Debt and contingent liabilities

The university has a high debt load, in our opinion, at $2.2 billion. 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 June 2022, GW finalized a $300 million credit agreement with PNC Bank as administrative agent. This replaced a $175 million five-year committed revolving line of credit and $125 million five-year term loan with no amortization with PNC. The new agreement has no financial maintenance covenants. Management does not anticipate drawing anything on the credit agreement.

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 that management uses an internal bank system, with a debt sinking fund rubric. Smoothed MADS is about $129 million; this equals 6.7% of fiscal 2021 adjusted operating expenses, which we consider moderately high. The university has no off-balance-sheet debt and has not entered into any swaps or other derivative arrangements.

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; these large projects were funded from either cash flow from real estate investments, or philanthropy, or both. Management is evaluating future capital needs and considering these sources as well as long term debt if it is prudent. We understand GW 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
	2022	**2021**	**2020**	**2019**	**2018**	**2021**
Enrollment and demand						
Headcount	26,457	27,017	27,814	28,172	27,973	MNR
Full-time equivalent	22,218	22,306	23,387	23,798	23,520	3,350
Freshman acceptance rate (%)	49.7	43.0	40.8	41.9	41.0	70.3
Freshman matriculation rate (%)	19.0	17.4	23.8	25.6	23.6	18.0
Undergraduates as a % of total enrollment (%)	43.5	43.5	44.9	44.5	42.9	83.3
Freshman retention (%)	87.7	87.7	92.0	92.9	91.2	85.2
Graduation rates (six years) (%)	83.5	85.0	82.2	82.0	80.6	74.9
Income statement						
Adjusted operating revenue ($000s)	N.A.	1,897,774	2,025,544	1,879,987	1,616,377	MNR
Adjusted operating expense ($000s)	N.A.	1,939,233	2,084,751	1,863,359	1,594,401	MNR
Net operating income ($000s)	N.A.	(41,459)	(59,207)	16,628	21,976	MNR
Net operating margin (%)	N.A.	(2.14)	(2.84)	0.89	1.38	1.60
Change in unrestricted net assets ($000s)	N.A.	84,368	(58,997)	4,615	102,977	MNR
Tuition discount (%)	N.A.	30.9	30.3	30.1	29.5	41.1
Tuition dependence (%)	N.A.	55.1	55.5	58.9	66.1	MNR
Student dependence (%)	N.A.	56.0	60.0	65.3	73.3	82.2
Health care operations dependence (%)	N.A.	18.4	16.8	12.6	4.0	MNR
Research dependence (%)	N.A.	12.1	10.3	11.0	12.5	MNR
Endowment and investment income dependence (%)	N.A.	5.6	7.2	6.9	8.2	MNR
Debt						
Outstanding debt ($000s)	N.A.	2,213,864	2,236,964	1,939,960	1,865,051	110,132
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	2,213,864	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.	4.04	3.65	4.14	4.47	MNR

George Washington University, District of Columbia--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					Medians for 'A' rated private colleges & universities
	2022	2021	2020	2019	2018	2021
Current MADS burden (%)	N.A.	6.67	6.96	7.78	9.14	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.	2,411,272	1,802,656	1,778,559	1,798,810	318,702
Cash and investments ($000s)	N.A.	3,200,579	3,025,686	2,738,287	2,666,853	MNR
Unrestricted net assets ($000s)	N.A.	1,693,529	1,609,161	1,668,158	1,680,689	MNR
Expendable resources ($000s)	N.A.	2,716,678	2,465,296	2,255,525	2,265,508	MNR
Cash and investments to operations (%)	N.A.	165.0	145.1	147.0	167.3	179.3
Cash and investments to debt (%)	N.A.	144.6	135.3	141.2	143.0	369.5
Cash and investments to pro forma debt (%)	N.A.	144.6	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	140.1	118.3	121.0	142.1	121.0
Expendable resources to debt (%)	N.A.	122.7	110.2	116.3	121.5	246.5
Expendable resources to pro forma debt (%)	N.A.	122.7	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.5	11.3	11.1	11.0	15.3

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.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022