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INVESTORS SERVICE

CREDIT OPINION
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Contacts

Mary Kay Cooney +1.212.553.7815
VP-Senior Analyst
marykay.cooney@moodys.com

Susan I Fitzgerald +1.212.553.6832
Associate Managing Director
susan.fitzgerald@moodys.com

Dennis M. Gephardt +1.212.553.7209
VP-Sr Credit Officer
dennis.gephardt@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

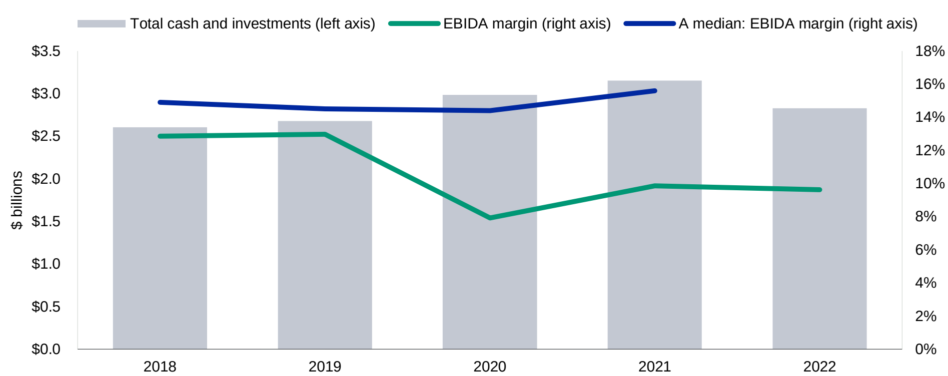
George Washington University, DC

Update to credit analysis

Summary

George Washington University's credit quality (GW, A1 stable) reflects its very good brand and strategic positioning as a large, comprehensive urban university, with a $1.7 billion scope of operations and over 20,000 students, leveraging on its location in the District of Columbia. Wealth is sizeable with $2.8 billion in cash and investments, although this includes a high 40% concentration in largely commercial real estate assets in the area around campus. The primary offsetting considerations include continued exposure to a challenging healthcare environment through a faculty practice plan with recent weak financial performance and a strategic relationship with a hospital partner, relatively high leverage, moderate liquidity, and thinner than peer operating performance.

Exhibit 1
Significant wealth offsets modest operating performance relative to rated peers



Source: Moody's Investors Service

Credit strengths

» Very good brand and strategic positioning as a large, comprehensive urban university, with a $1.7 billion scope of operations, leveraging on its location in the District of Columbia

» Favorable total wealth, with cash and investments of $2.8 billion including real estate assets

» Sound fiscal and treasury operations support very good financial strategy and risk management of enterprise assets, including real estate and campus investments

Credit challenges

» Elevated financial leverage with cash and investments to total adjusted debt of 1.4x and long-dated debt structure

» Financial resources have above average concentration in illiquid real estate assets, contributing to modest unrestricted liquidity relative to peers

» Very competitive student market and exposure to international student demand disruptions

Rating outlook

The stable outlook reflects Moody's expectations for stable EBIDA margins of about 10% with prospects for improved performance under the new agreement with UHS. Further, the stable outlook is based on strong stewardship of commercial real estate assets and limited additional debt plans in the near term.

Factors that could lead to an upgrade

» Significant growth of cash and investments relative to debt and operations

» Sustained material improvement in operating cash flow and donor support

Factors that could lead to a downgrade

» Sustained erosion of EBIDA margins below 8%

» Decline in unrestricted liquidity

» Increase in debt relative to wealth and EBIDA

» Material decline in market value of real estate assets and/or adverse reductions in ground lease payments

Key indicators

Exhibit 2

George Washington University, DC

	2018	2019	2020	2021	2022	Median: A Rated Private Universities
Total Fall FTE Enrollment	23,788	23,375	22,298	22,211	21,768	5,167
Operating Revenue ($Billion)	1.3	1.5	1.7	1.6	1.7	0.2
Annual Change in Operating Revenue (%)	2.6	18.0	9.4	-4.6	4.8	-3.2
Total Cash & Investments ($Billion)	2.6	2.7	3.0	3.2	2.8	0.6
Total Debt ($Billion)	1.9	1.9	2.2	2.1	2.0	0.2
Total Cash & Investments to Total Adjusted Debt (x)	1.3	1.3	1.3	1.4	1.3	3.0
Total Cash & Investments to Operating Expenses (x)	2.0	1.8	1.7	2.0	1.7	2.7
Monthly Days Cash on Hand (x)	315	222	301	313	214	474
EBIDA Margin (%)	12.9	13.0	7.9	9.9	9.6	15.6
Total Debt to EBIDA (x)	11.2	9.7	16.8	13.4	12.3	4.8
Annual Debt Service Coverage (x)	2.0	2.4	1.7	1.8	1.8	3.1

Source: Moody's Investors Service

Profile

The George Washington University (GW) is a large, comprehensive, urban university, with its principal location in the Foggy Bottom neighborhood of Washington DC. Academic programs are offered through 10 schools and colleges for undergraduate, graduate and professional degrees. In fiscal 2022, GW recorded $1.7 billion in operating revenue and for fall 2022, enrolled 21,768 full-time equivalent (FTE) students.

Detailed credit considerations

Market profile: comprehensive urban university leveraging DC location

GW will continue to benefit from its well-established market position as a large, comprehensive urban university leveraging its location in the nation's capital. GW favorably has a broad, diversified mix of undergraduate, graduate and professional curriculum across its multiple schools and colleges, including the School of Medicine and Health Sciences (SMHS), GW Law, as well as public policy, public health, international affairs, and engineering degrees, among others. The student body is also well diversified, with undergraduates comprising 48% of its fall 2022 FTE of 21,768 students, providing some insulation from heightened student demand competition domestically and abroad. International students comprised about 14% of the overall Fall 2022 FTE count.

The university has a moderate but growing research enterprise encompassing multiple disciplines. Externally funded research receipts totaled $214 million for fiscal 2022, with research activities comprising 11.5% of expenses. Diversification in federal, governmental and private awards mitigates competition in one discipline, with research activities encompassing climate change, infectious diseases, education and financial literacy, among others.

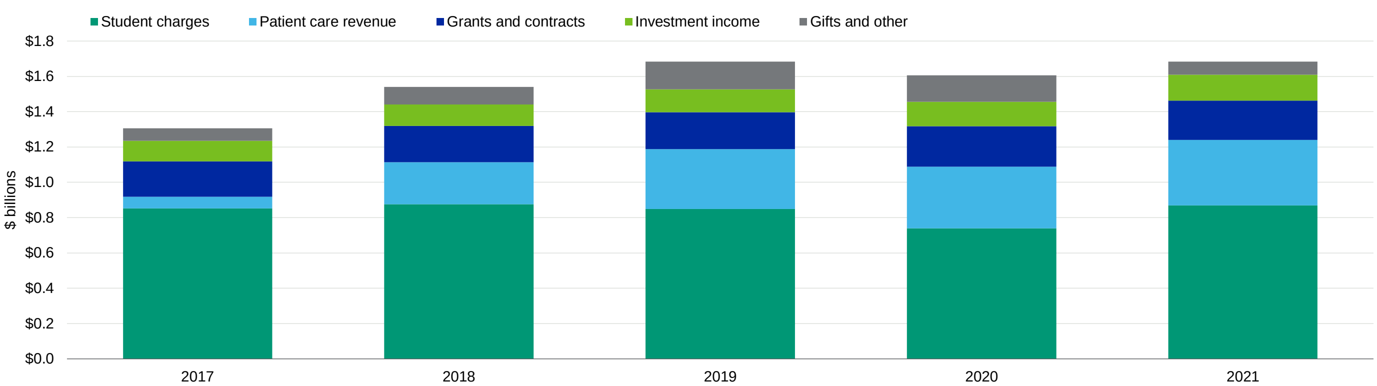
Operating performance: EBIDA margins poised to improve following new agreement with healthcare partner

GW's disciplined budgeting will continue to provide stable operating performance, with prospects for improved margins going forward due to a new agreement with its healthcare partner, rebound in auxiliary operations as students return to campus, and trend away from non-recurring covid expenses. For fiscal 2022, GW recorded $1.7 billion in operating revenue and a 9.6% EBIDA margin and 1.75x debt service coverage, below the A-medians of about 16% 3.1x. While lower EBIDA margins are due in large part to financial impacts of the coronavirus pandemic, sustained modest operating performance results from structural imbalances of the Medical Faculty Associates, Inc. (MFA) faculty practice plan. GW is the sole corporate member of the MFA non-profit corporation.

GW's direct exposure to hospital operations will be reduced due to the August 2022 sale of its 20% share in GW Hospital to its healthcare partner, Universal Health Services, Inc. (UHS), however healthcare exposure through the faculty practice plan is likely to increase under the new operating agreement. MFA operating activity will remain elevated at about 22% of revenue. Favorably for GW, provisions under the new agreement provide for enhanced academic support to the MFA and prospects to expand clinical operations. MFA's fiscal 2023 budget anticipates nearly balanced operations.

Exhibit 3

Revenue diversity provides financial stability



Source: Moody's Investors Service

The university's revenue diversity provides longer term operating stability. GW's largest source of revenue, student charges (52% of fiscal 2022 revenue) is projected to increase for fiscal 2023. Further, tuition discounting is less volatile as nearly half of enrollment in graduate and professional programs. Investment income remains an important revenue source, with about $25-$30 million sourced from GW's sizable real estate portfolio.

Wealth and liquidity: sizable wealth with material direct real estate holdings

GW benefits from sizable wealth of nearly $2.8 billion, though nearly 40% are real estate assets held within its investment portfolio. The fiscal 2022 roughly 10% decline in total cash and investments was attributable to planned use of cash for capital expenditures, repayment of a $125 million term loan, covid-related expenses, and negative market returns. While GW currently expects an increase in cash due to real estate transactions, prospects for significant improvement are limited due to muted cash flow from operations. Total cash and investments to operating expenses was 1.7x for fiscal 2022 and 2.0x for fiscal 2021, below the A-median of 2.7x.

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 overall endowment, including real estate, recorded a -1.6 return for the fiscal year period ending June 30, 2022. Excluding real estate assets, the return was -7.5%. GW's high concentration of direct real estate also poses geographical risk. Its direct investment in commercial real estate is primarily in the Foggy Bottom area, making the university's financial strength susceptible to real estate valuations around the campus.

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. The fiscal 2019-22 average gift revenue was $65 million annually. The university is in the midst of mini-campaigns for specific fundraising targets. GW's last capital campaign for $1 billion successfully closed in fiscal 2017.

Liquidity

The university's unrestricted liquidity is modest relative to peers. For fiscal 2022, monthly liquidity totaled $938 million, translating to 214 monthly days cash on hand, well below the A-median of 474 days. Annual liquidity improves to nearly 300 days cash on hand.

Similar to the decrease in cash and investments, liquidity decreased from 2021 to 2022 due to the $125 million pay off of a term loan taken out in fiscal 2020 in response to the covid pandemic. Concurrent with the term loan payoff, GW increased an operating line of credit to $300 million from $175 million for additional liquidity support if needed.

Leverage: substantial financial leverage and use bullet maturities

With $2 billion of debt in fiscal 2022, due in part to the combined liabilities of the MFA, the university has relatively high leverage. The university's total debt, all of which is taxable revenue bonds, was $1.9 billion. MFA debt totaled $115 million and other debt like liabilities include $116 million of operating leases. GW's fiscal 2022 total cash and investments to total adjusted debt is 1.4x and total adjusted debt to operating revenue of nearly 1.3x are weaker than the A-medians of 3.1x and 0.8x, respectively.

GW continues to invest in capital facilities at roughly the pace of depreciation, evidenced by the average fiscal 2018-22 spending ratio of 0.9x. The most recent capital investments was to the Thurston Hall residence facility, which was funded with prior bond proceeds and available reserves. While the university has no near term plans for additional debt, it continues to evaluate capital project needs.

Legal security

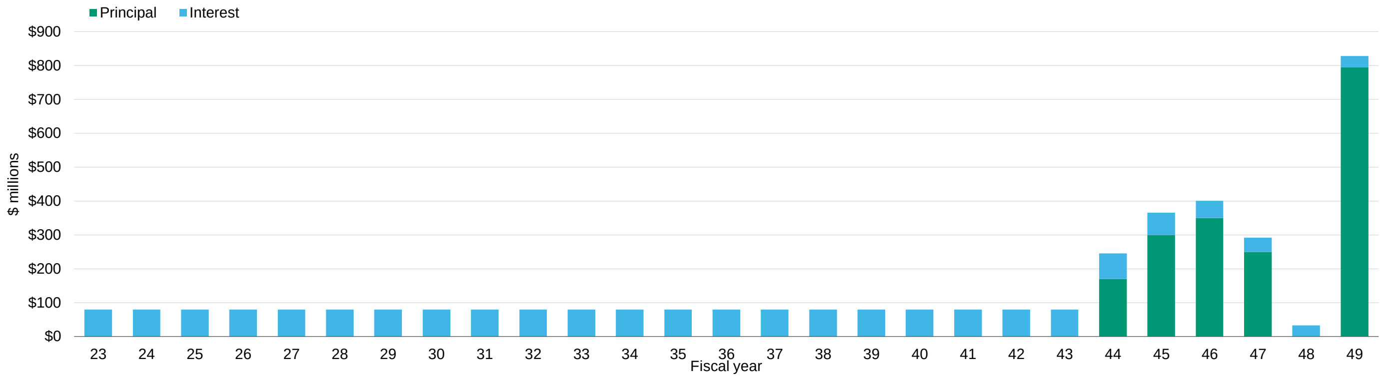
The bonds are an unsecured general obligation of the university.

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.

Exhibit 4

Debt service includes long-dated bullet maturities



Source: Moody's Investors Service

Debt-related derivatives

None

Pensions and OPEB

University employees participate in a defined contribution retirement plan and GW pensions contributions were a manageable 2.4% of fiscal 2022 expense. Some retired employees receive health care and life insurance benefits from the university, with benefits funded on pay-go basis. The OPEB liability was a manageable $6.6 million in fiscal 2022.

ESG considerations

George Washington University, DC's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

The George Washington University's moderately negative (**CIS-3**) credit impact score reflects ESG attributes that have a limited impact on the current rating now, with greater potential for future negative impact over time. The university's large operating scale relative and considerable wealth partially mitigate its ESG risks.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-3	G-3
Neutral-to-Low	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental

Environmental risks are neutral-to-low (**E-2**) across all categories. GW's location in the District of Columbia exposes it to the region's extreme heat risks, but with low flood risk relative to the district given its elevation. Regarding carbon transition, GW aims to meet carbon neutrality by 2030 with limited use of carbon credits.

Social

GW's exposure to social risks is moderately negative (**S-3**), stemming from elevated risk around human capital and demographic and societal trends. Favorable customer relations reflects stability in revenue streams from key stakeholders and very good brand demonstrated by sizable net tuition revenue, solid and growing research activity, and good donor support. Human capital risks are moderately negative, balancing exposure to healthcare activity through a faculty practice plan (FPP) with rising costs for specialized practitioners, but offset by the ability to attract high quality adjunct faculty for its extensive graduate programs. Moderately negative demographic and societal trends incorporate the competitive student market, with decreasing matriculation and increasing tuition discount rates for incoming students. However, market sector risks are partially mitigated by GW's broad geographic draw and favorable outcomes including strong retention.

Governance

GW's exposure to governance risks is moderately negative (**G-3**). Like most of the sector, the university has moderately negative credit risk associated with a large and self-perpetuating board of trustees comprised primarily of alumni. Favorably, the university's market strength supports access to high profile members with diverse expertise. The university has some complexity in organization structure due to its faculty practice plan and related external partnerships, including with a formerly owned hospital, which introduce potential future credit risks. Management credibility risk reflects recent turnover in presidential leadership as well as enrollment and operating performance variability. Neutral-to-low financial strategy and risk management, as well as brand strength, help offset risks around governance considerations.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The Higher Education rating 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 brand and strategic positioning, operating environment, and financial strategy on a qualitative basis, as described in the methodology.

Exhibit 7

George Washington University, DC

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	1,683	Aa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	A	A
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	10%	Baa
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	2,826	Aa
	Total Cash and Investments to Operating Expenses	1.7	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	1.3	Baa
	Annual Debt Service Coverage	1.8	Baa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	A	A
	Scorecard-Indicated Outcome		A2
	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.

Source: Moody's Investors Service

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