MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Contacts

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

Susan E Shaffer +1.212.553.4132
VP-Sr Credit Officer
susan.shaffer@moodys.com

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

George Washington University, DC

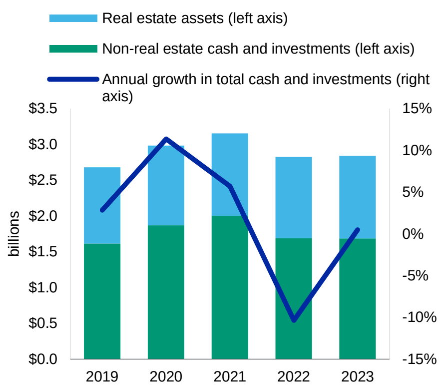
Update to credit analysis

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 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 medical faculty practice plan adds exposure to a challenging healthcare environment, and as a blended component unit, its persistently weak financial operations adversely impact consolidated GW EBIDA margins. Additional considerations include a strategic relationship with a for-profit hospital, University Health Service (UHS), though GW has exited direct financial hospital operations. Additional challenges stem from GW's relatively high leverage and moderate liquidity.

Exhibit 1

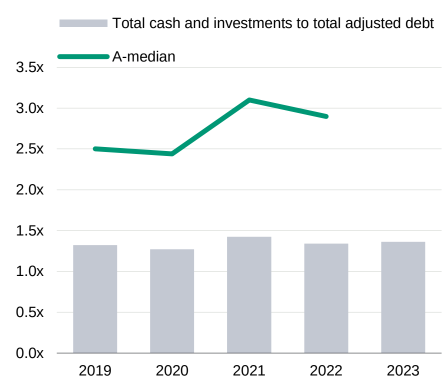
Relative stability in investments helps mitigate....



Source: Moody's Ratings

Exhibit 2

....modest leverage relative to peers



Source: Moody's Ratings

Credit strengths

» Very good brand and strategic positioning as a large, comprehensive urban university, with a $1.7 billion scope of operations, leveraging 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

» Investments hold a significant 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 a 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 available reserves and liquid cash and investments relative to debt and operations

» Sustained material improvement in EBIDA 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 3
George Washington University, DC

	2019	2020	2021	2022	2023	Median: A Rated Private Universities
Total FTE Enrollment	23,375	22,298	22,211	21,768	21,757	5,320
Operating Revenue ($Billion)	1.5	1.7	1.6	1.7	1.7	0.2
Annual Change in Operating Revenue (%)	18.0	9.4	-4.6	4.8	2.0	10.7
Total Cash & Investments ($Billion)	2.7	3.0	3.2	2.8	2.8	0.5
Total Adjusted Debt ($Billion)	2.0	2.3	2.2	2.1	2.1	0.2
Total Cash & Investments to Total Adjusted Debt (x)	1.3	1.3	1.4	1.3	1.4	2.9
Total Cash & Investments to Operating Expenses (x)	1.8	1.7	2.0	1.7	1.6	2.4
Monthly Days Cash on Hand (x)	222	301	313	214	195	417
EBIDA Margin (%)	13.0	7.9	9.9	9.6	8.7	16.2
Total Debt to EBIDA (x)	9.7	16.8	13.4	13.0	13.9	4.9
Annual Debt Service Coverage (x)	2.4	1.7	1.8	1.8	1.5	3.3

Fiscal end June 30
Source: Moody's Ratings

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 2023, GW recorded $1.7 billion in operating revenue and for fall 2023, enrolled 21,757 full-time equivalent (FTE) students.

Detailed credit considerations

Market profile

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. Favorably, GW has a broad, diversified mix of undergraduate, graduate and professional curriculum across its multiple schools and colleges, with policy and STEM curriculum and including the School of Medicine and Health Sciences (SMHS) and GW Law. The student body is also well diversified, with undergraduates comprising almost half of fall 2023 enrollment, providing some insulation from heightened student demand competition domestically and abroad. A very high fall 2022 freshman class of over 2,900 students was purposely reined in to 2,539 students in fall 2023. A relatively high but consistent 15% international students composition adds some geopolitical risk.

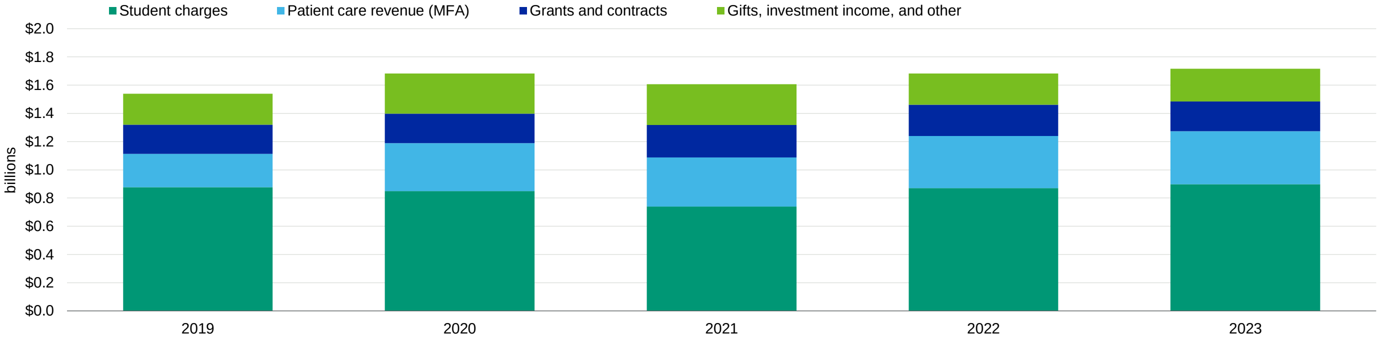
The university has a moderate research enterprise encompassing multiple disciplines, which has good prospects for future growth due to GW's recent acceptance into the Association of American Universities (AAU). Externally funded research expenses totaled $204 million for fiscal 2023, comprising roughly 12% of expenses.

Operating performance

GW's disciplined budgeting will continue to provide stable operating performance though will remain moderate relative to peers due to persistent weak performance at its medical faculty practice plan (MFA) component unit. GW is the sole corporate member of the MFA non-profit corporation, which accounts for one-fifth of overall GW revenue. The consolidated fiscal 2023 EBIDA margin of 9.8% provided sufficient 1.5x debt service coverage, though debt service is interest only. EBIDA margins would be nearly double excluding MFA performance. MFA operations will remain pressured largely due to challenging healthcare operations at UHS.

The university's revenue diversity provides longer term operating stability. GW's largest source of revenue, student charges (52% of fiscal 2023 revenue), is projected to increase for fiscal 2024. Favorable growth in net tuition per student, up 12% in the fiscal 2019-23 period, helps mitigate inflationary educational expenses. Further, tuition discounting is less volatile as nearly half of enrollment in graduate and professional programs. Investment income remains an important revenue source, at about $25-$30 million annually, largely sourced from GW's sizable real estate portfolio.

Exhibit 4
Revenue diversity helps mitigate impacts from medical faculty practice plan (MFA) operations



Source: Moody's Ratings

Wealth and liquidity

Though the university's wealth is sizable at $2.8 billion in fiscal 2023, the cushion relative to operating expenses of 1.6x will remain modest compared to the A-rated median of 2.4x. Very good donor support, with average fiscal 2021-23 gifts of $69 million, will contribute to growing wealth. Similarly, unrestricted liquidity is modest relative to peers. The fiscal 2023 monthly liquidity of $881 million, translating to 195 monthly days cash on hand, is well below the A-median of 417 days. Annual liquidity improves to nearly 291 days cash on hand.

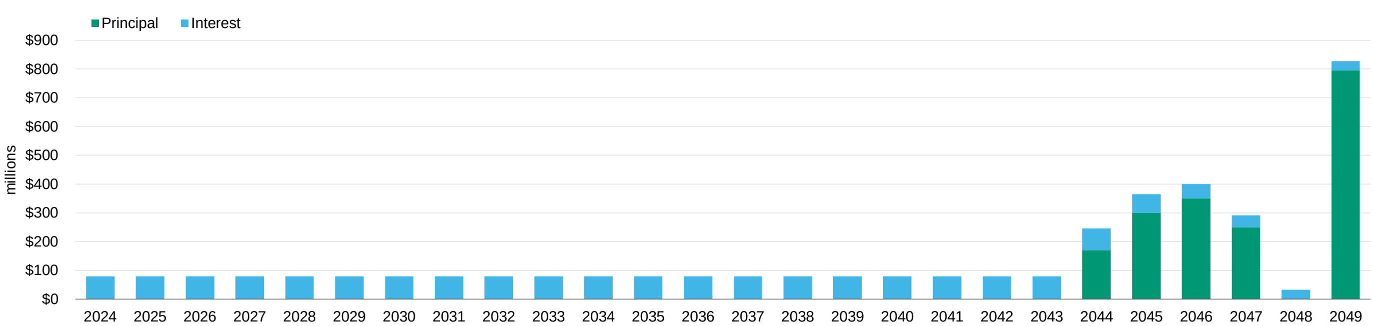
Nearly 40% of GW's wealth are real estate assets that are booked at annually appraised market value. Income derived from roughly 80% of the real estate assets stems from long-term ground leases. GW's direct investment in commercial real estate is primarily in the Foggy Bottom area, adding exposure to potential real estate valuations around the campus. The overall endowment, including real estate, recorded a 6.9% return for the fiscal year period ending June 30, 2023.

Real estate assets within the portfolio will rise with the $140M February 2024 purchase of the Residences on The Avenue, which is located adjacent to the university. While the building, which has both residential and retail components, will add to the real estate portfolio, the residential units, currently at 96% occupancy, and Whole Foods market tenant, will help the university meet its student housing demands and diversify its income stream. GW will be strategic as it evaluates further real estate opportunities, always with the end goal of furthering the academic mission of the university.

Leverage and coverage

GW's relatively high leverage will remain manageable due to strong treasury oversight of the long-term bullet maturities and no plans for additional debt. Total adjusted debt of $2.1 billion is virtually all taxable debt, with about 5% attributable to MFA. Fiscal 2023 total cash and investments to total adjusted debt of 1.4x and total adjusted debt to operating revenue of 1.2x are weaker than the A-rated peer medians of 2.9x and 0.8x, respectively. GW continues to invest in capital facilities at roughly the pace of depreciation, evidenced by the average fiscal 2019-23 spending ratio of 1x and an average age of plant at 13.6 years.

Exhibit 5
Debt service includes long-dated bullet maturities



Source: Moody's Ratings and George Washington University