MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 rating to the George Washington University's (DC) $170 million Taxable Bonds, Series 2013; outlook is stable

Global Credit Research - 30 Jan 2013

University has a total of $1.16 billion of pro forma rated debt

GEORGE WASHINGTON UNIVERSITY, DC
Private Colleges & Universities
N/A

Moody's Rating

ISSUE		RATING
Taxable Bonds, Series 2013		A1
Sale Amount	$170,000,000	
Expected Sale Date	02/05/13	
Rating Description	Revenue: 501c3 Unsecured General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, January 30, 2013 --Moody's Investors Service has assigned an A1 rating to The George Washington University's $170 million Taxable Bonds, Series 2013. At this time we have also affirmed the existing A1 ratings on the university's outstanding debt. The rating outlook is stable.

SUMMARY RATING RATIONALE

The A1 rating reflects George Washington University's market position as a large urban comprehensive research university located in Washington, DC with growing net tuition revenue and relatively healthy balance sheet cushion for debt and operations. The rating also incorporates the university's challenges including uncommonly high operating leverage with pro forma debt to operating revenue of 1.36 times, limited donor support relative to reputational peers, and narrow debt service coverage. The stable outlook reflects expectations of a continued strong student market position, substantial financial resource base and no plans for additional debt through the end of fiscal year (FY) 2014.

STRENGTHS

*Large urban comprehensive university with solid student demand located in the nation's capital, serving 21,421 full-time equivalent (FTE) students in fall 2012. Undergraduate selectivity was 33.1% in fall 2012, with a yield of 33.2%. Net tuition revenue per student increased 3.6% in fiscal 2012 to $26,102.

*Large base of financial resources totaling $1.83 billion at the end of FY 2012, providing a relatively healthy cushion to debt and operations. Expendable financial resources of $1.60 billion covered pro forma direct debt by 1.2 times and annual operating expenses by 1.6 times. Moody's calculation of pro forma direct debt ($1.39 billion) includes $225 million of non-recourse mortgage debt related to the university's direct real estate investments near the campus.

*Healthy base of flexible reserves with monthly liquidity of $872 million equating to 329 days cash on hand. A portion of the liquid assets may be used to fund the construction of a $275 million Science and Engineering Hall.

*Lack of plans for additional debt through the end of fiscal year 2014.

CHALLENGES

*Uncommonly high operating leverage with pro forma debt of $1.39 billion at 1.36 times operating revenue.

*Thin debt service coverage for rating category with FY 2012 operating cash flow of 10.2% covering debt service by 1.7 times.

*Pressure on ability to grow net tuition revenue could continue to challenge the university's operating performance, since student charges comprised 63.5% of Moody's adjusted operating revenue in FY 2012. Fixed priced tuition program limits the university's financial flexibility compared to peers.

*Debt structure includes $1.1 billion of bullet maturities in general obligation and non-recourse debt including $250 million in bullet maturities through the end of fiscal 2017. The university's debt strategy relies on ongoing market access to refinance bullet maturities.

*University's financial resources include relatively concentrated commercial real estate holdings near the urban campus, with the holdings comprising a significant 47% of total investments at the end of fiscal 2012, including the rental payments GWU expects to receive from Boston Properties, Inc. (senior unsecured rating of (P)Baa2) for the long-term ground lease of the university's Square 54 site.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds will be used to refund the Series 2002A and Series 2002B bonds and to pay costs of issuance.

LEGAL SECURITY: Unsecured general obligation. The Indentures for the Series 2009, 2010, 2011, 2011A, 2012, 2012A, 2013 Taxable Bonds do not include an additional bonds test. The university's taxable Series 2002 and 2007 documents include additional bonds tests: aggregate Maximum Annual Debt Service not to exceed 12% of Unrestricted Revenues for the most recent fiscal year and Expendable Net Assets for the prior fiscal year to be not less than 50% of pro forma Long-Term Debt.

DEBT-RELATED DERIVATIVES: None

MARKET POSITION/COMPETITIVE STRATEGY: LARGE COMPREHENSIVE URBAN UNIVERSITY LOCATED IN WASHINGTON, DC

Moody's expects that George Washington University (GWU) will maintain its well-established student market position as a large, comprehensive, urban university that continues to leverage its location in the nation's capital to draw a healthy (46%/54%) mix of undergraduate and graduate students. Total full-time equivalent enrollment grew to 21,421 students in the fall of 2012, up 1.4% from the prior year. Net tuition per student was at $26,102 in FY 2012 up 3.6% from the prior year, and well above Moody's median for A-rated private universities of $21,916 primarily due to the university's high proportion of graduate and professional students. Graduate Arts and Sciences programs are complemented by Law, Medicine and other Medical degree offerings. On a combined basis application volume for graduate programs continues a recent pattern of increasing.

GWU continues to enjoy strong student demand for its residential undergraduate degree offerings from six colleges and schools. In the fall of 2012, the university accepted 33.1% of freshman applicants and yielded 33.2% of accepted students. GWU enjoys a national and international market reach. Approximately 45% of undergraduate students come from the mid-Atlantic region, with Californians comprising around 8% of the undergraduate population. Management reports that leading indicators for the fall 2013 entering class are in line with prior years. In keeping with national trends the Law School is experiencing a decline in application volume. On a headcount basis the Law School's enrollment was 2,060 students, down 3% from the prior year.

Sponsored research awards totaled $149 million in FY 2012, down from $158 million in FY 2011, in line with reduced awards at many universities. We note that GWU has seen multi-year declines in research activity with research expenses declining each year between 2008 and 2012, with a total reduction of 13.6% for the five years. In FY 2012, federal agencies made up 76% of awards, with the Department of Health and Human Services comprising 68% of federal awards. Funding pressure from the various sponsors combined with the competitive landscape could hamper ongoing research enterprise growth although management is focused on making continued investments around programmatic strengths.

OPERATING PERFORMANCE: OPERATING CASH FLOW, WHILE HEALTHY, EXPECTED TO PROVIDE LIMITED COVERAGE OF INCREASING DEBT SERVICE

Moody's calculation of the operating cash at GWU has edged downward over the recent past, averaging 10.7% in fiscal 2010 through 2012 compared to a 13.1% average in fiscal 2007 through 2009. During the financial crisis, the university increased investments in programs, faculty, and financial aid while many peers were focused on cost reduction or containment. As a result, GWU generated a modest 0.8% deficit in fiscal 2012 and a reduced, yet adequate cash flow margin of 10.2%, covering debt service 1.7 times. We note that annual debt services obligations are relatively limited as a majority of the university's debt is issued as bullet maturities and does not amortize. Sustained weakening of operating cash flow pressuring debt service coverage or the university's balance sheet could pressure the university's rating over time. Preliminary results for the first half of FY 2013 indicate ongoing tuition revenue growth and expense management.

GWU is relatively reliant on student charges, with tuition and auxiliary revenue comprising 63.5% of Moody's adjusted operating revenue. The university has a fixed price tuition plan, which provides a guarantee of tuition price and financial aid for five years, assuming the student remains in good standing academically. For students entering in the fall of 2012, the tuition per academic year was fixed at $45,735 through graduation within five years. Given the recessionary climate and concerns about family and student ability and willingness to pay for a premium education experience, GWU has recently increased its budget for financial aid through FY 2013, and increased the discount rate to 43.1% in fall 2010. The preliminary rate was 35.2% for the fall 2012 entering class. Funding for the incremental financial aid increases are held in cash reserves. Management plans to lower the freshman discount rate 0.5% per year until it reaches 37%. On a blended basis across all students, Moody's calculation of total tuition discount shows slight improvement to 30.2% in FY 2012 from 30.4% in FY 2011 as net tuition per student increased 3.6%.

Operating revenue is also comprised of grants and contracts 15.4%, gifts 2.0%, and investment income 11%. Through a number of strategic changes between 1997 and 2002, the university greatly reduced its exposure to the patient care market. The university maintains a 20% stake in District Hospital Partners, LP which owns and operates the GWU Hospital and provides support to the university's School of Medicine and Health Sciences.

BALANCE SHEET POSITION: LARGE BASE OF FINANCIAL RESOURCES WITH MATERIAL DIRECT REAL ESTATE HOLDINGS; DEBT STRUCTURE INCLUDES MID-TERM BULLET MATURITIES

Moody's anticipates that GWU will continue to benefit from a large pool of financial assets even as operating leverage remains elevated. The university's total financial resource base of $1.8 billion as of June 30, 2012 with 31% of resources unrestricted, provides substantial credit strength. Given narrow operating cash flow expectations and limited fundraising relative to the resource base, we believe the prospects for additional resource growth are somewhat limited, although gift revenue has been trending upward. With the recent $300 million increase in debt to $1.39 billion, operating leverage will remain elevated with pro forma debt at 1.36 times fiscal 2012 operating revenue as compared to Moody's median of 0.65 times for A-rated private universities. Our A1 rating and stable outlook reflect expectations of no additional debt through the end of fiscal year 2014. Expendable financial resources of $1.6 billion cushion pro forma debt by 1.15 times and provide a 1.55 times cushion relative to FY 2012 operating expenses.

GWU's pro forma comprehensive debt of $1.56 billion as of FY 2012 includes $167 million of indirect debt, which is made up of operating leases. The majority of leased space is for administrative offices. The university continues to move a portion of its administrative workforce to offices in northern Virginia where occupancy costs are considerably lower. Of the pro forma total direct debt, the majority consists of taxable revenue bonds with the proceeds used to fund working reserves, refunding prior bonds and internal capital reserves of the university. Management assesses the various capital projects an interest rate that is used in its debt service budgeting. While revenue generating projects such as housing and investment properties comprise the majority of the pro-forma debt, we note an increasing portion of debt funded by general revenue of the university, typically used for academic projects. The university is currently constructing a $275 million Science and Engineering Hall and will rely on its internal capital reserves to fund the project over the next two years. The plan of repayment at the project level includes lease payments from Square 54, indirect cost recovery revenue and philanthropic support. The university also is planning to invest in student life facilities including student housing, with approximately $130 million of anticipated capital spending in fiscal years 2014 through 2016.

We include the $225 million of non-recourse notes collateralized by real estate investments (primarily commercial buildings located at 2000 and 2100 Pennsylvania Avenue as well as the GW Inn) in direct debt. The majority of the real estate debt is associated with two commercial office buildings which, while they adjoin the primary GWU campus, are not core real estate holdings. The local real estate holdings have acceptable occupancy and have enjoyed a strong market in the Washington metropolitan area. For the trailing twelve month period as of 9/30/2012, the properties produced an average 2.1 times debt service coverage. Investment real estate was appraised at $770 million at June 30, 2012, or 36% of total cash and investments.

The Investment Committee of the Board of Trustees is responsible for the oversight of the endowment. The Investment Office staff includes a Chief Investment Officer overseeing an investment and investment operations staff. This team conducts the bulk of manager due diligence work with limited reliance on outside consultants. The university's endowment had a 2.4% return in fiscal year 2012, including the appreciation of the direct real estate investments. The asset allocation as of September 30, 2012 excluding the direct real estate investments was 43% long only global equity, 36% other global equity strategies including long/short managers and natural resources, 16% fixed income and credit strategies, and 5% cash and other. The majority of the real estate investments are associated with the two commercial office buildings mentioned above and the rental payments GWU expects to receive from Boston Properties, Inc. (rated (P)Baa2) for the long-term ground lease of the university's Square 54 site. While manager diversity is healthy in the pooled funds, we note the concentration in the Foggy Bottom area commercial real estate market. Though that real estate market has experienced significant price appreciation over recent decades the university's financial strength is sensitive to changes in that particular market.

With $942 million of board designated endowment and $498 million of working capital at the end of fiscal 2012, GWU has a large base of cash and investments not subject to donor restrictions. The liquidity profile is aligned with the A rating category with monthly liquidity of $872 million as of June 30, 2012 equating to 329 monthly days cash on hand. Through the current plan of finance, the university will no longer have any demand debt although its debt structure does include a number of bullet of maturities. Our calculation of demand debt includes the Series 2002A/B being tracked as long mode put bonds. In addition to the liquidity cited, the university has two PNC Bank, N.A. (rated A2/P-1) lines of credit for a total of $150 million. The university funds a majority of it capital needs internally and plans to fund the construction costs of the $275 million Science and Engineering Hall through its internal bank. Given this commitment and other capital projects we expect that liquidity could decline in the $200 million range over the next few years.

The university's debt strategy relies on ongoing market access to refinance bullet maturities. GWU's debt profile contains a substantial amount of non-amortizing debt, with $924 million of bullet maturities in general obligation debt combined with $200 million of non-recourse bullet maturities in 2017. The university has no swap exposure and relies on natural hedging from its working capital for the manageable amount of variable rate debt, but given the bullet structure retains exposure to interest rate increases with each expected refinancing over time.

The university has no plans for additional debt through the end of fiscal year 2014 and has limited capacity for additional debt at the A1 level. Debt service in FY 2012 (including the non-recourse notes) was 5.8% of operating expenses pointing to a manageable burden, though this is primarily interest payments. Adjusted maximum annual debt service (8% of pro-forma debt amount) ramps up to an uncommonly high 10.8% of operating expenses.

While total gift revenue at GWU has remained below its large, A-rated private university peers, Moody's notes that resource levels have been aided by increased philanthropic support in recent years with average total gift revenue of $45 million for the three-year period ending with FY 2012. This average includes the higher than average $62 million of support in FY 2012. Given its large enrollment base, however, average gifts per student at $2,117 in fiscal 2012 is below reputational peers. Management continues to make strategic investments in the development office to boost donor support and reports that fundraising targets for FY 2013 are on track to meet goals.

GOVERNANCE AND MANAGEMENT: STRATEGIC PLAN GUIDES INVESTMENTS FOR NEXT DECADE

In the fall of 2012 the university developed a draft strategic plan to guide its next decade. While the plan acknowledges that the location in the District of Columbia is a clear strength, it also comes with limits including an enrollment cap that GWU must manage to at its Foggy Bottom campus. The plan to make new program investments is somewhat counter to industry trends, management believes this is an opportunistic time to invest in research, faculty quality, and financial aid strategy, One source of funding for the future initiatives will be the Innovation Task Force that has identified savings through a rigorous process that can be re-invested in the academic program. Philanthropic support is another crucial source of funds for the plan and management has prioritized moving its donor support more in line with peers. Although the additional expenses and commitments involve new risks, we view management's clear focus on measured outcomes, financial stewardship and liquidity management as crucial mitigants to those risks.

Outlook

The university's stable outlook reflects our expectation of continued large financial resource cushion, solid market position, adequate liquidity relative to demand debt and operating expenses, cash flow performance covering debt service and lack of any new money borrowing plans.

WHAT COULD MAKE THE RATING GO UP

Sustained improved operating performance, increased liquid financial resources, improved revenue diversity, increased philanthropic support and reduction in operating leverage.

WHAT COULD MAKE THE RATING GO DOWN

Deterioration in financial resource base; continued weak operating performance; material deterioration of student market position or inability to grow net tuition revenue, increase in debt without offsetting growth in financial resources

KEY INDICATORS (Fall 2012 student demand and Fiscal 2012 financial data):

Full-Time Equivalent Enrollment: 21,421 students

Freshmen Selectivity: 33.1%

Freshmen Matriculation: 33.2%

Net Tuition per Student: $26,102

Operating Revenue: $1.0 billion

Average Gifts per Student: $2,117

Total Financial Resources: $1.83 billion

Expendable Financial Resources: $1.60 billion

Pro-forma Direct Debt: $1.39 billion

Pro-forma Comprehensive Debt: $1.56 billion (includes operating lease commitments)

Expendable Financial Resources to Pro-Forma Direct Debt: 1.15 times

Expendable Financial Resources to Pro-Forma Comprehensive Debt: 1.03 times

Monthly Liquidity: $872 million

Expendable Financial Resources to Operations: 1.55 times

Monthly Days Cash on Hand: 329 days

Monthly Liquidity to Demand Debt: 2.56 times as of FYE 2012

Three-year Average Operating Margin: -0.3%

Operating Cash Flow Margin: 10.2%

Three-Year Average Debt Service Coverage: 1.9 times

Reliance on Student Charges: 63.5%

RATED DEBT

Series 2002A (to be retired), 2002B (to be retired), 2007: A1, insured by National Public Finance Guaranty (formerly MBIA)

Taxable Bonds Series 2009, 2010, 2011, 2011A, 2012, 2012A, 2013: A1

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RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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