Standard & Poor's Research

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

Primary Credit Analyst:
Charlene P Butterfield, New York (1) 212-438-1000; charlene_butterfield@standardandpoors.com

Secondary Contact:
Carolyn McLean, New York (1) 212-438-1000; carolyn_mclean@standardandpoors.com

Table Of Contents

 1071986 | 300642892

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

Credit Profile		
US$170.0 mil taxable GO rfdg bnds ser 2013 due 09/15/2043		
Long Term Rating	A+/Stable	New
George Washington Univ (SAVRS) 2002 B , 2007 A		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
George Washington Univ 2009,2010,2011,2011A,2012,2012A		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term rating to George Washington University (GWU), D.C.'s series 2013 taxable revenue bonds. At the same time, Standard & Poor's affirmed its long-term rating and underlying rating (SPUR) on GWU's previously issued debt.

In our opinion, while certain aspects of GWU's overall credit profile remain consistent with current rating, such as healthy demand and enrollment and financial resources compared with operations, the financial profile continued to experience pressure in fiscal 2012, particularly following the series 2012 bond issuance. Though still profitable on a full accrual basis, GWU's operating margins have been shrinking since fiscal 2010, and are not providing as strong an offset to the high debt load in fiscal 2012 as in prior years. During the next year, if operating performance does not rebound to historical strength or if financial resources do not experience significant growth, we could consider the overall financial profile more commensurate with a negative outlook or lower rating. In our view, the upcoming series 2013 issuance allows GWU to restructure a portion of its debt, and reduces the pro forma debt burden, which we view positively.

The 'A+' rating also reflects our view of the university's

- Stable enrollment and strong demand characteristics for its comprehensive academic programs;
- Continued operating surpluses through fiscal 2012, though margins have decreased steadily since fiscal 2010 as the rate of revenue growth has been slower than that of the expense base;
- Good revenue diversity and demonstrated successful fundraising; and
- Experienced management team, which continues to focus on improving the university's visibility and stature, strengthening undergraduate quality, and increasing the endowment.

In our opinion, offsetting credit factors include:

- A high level of nominal debt, with large bullet maturities in fiscal years 2017-2019 and 2022-2023, which management plans to retire in part with the series 2013 issuance and extend at maturity;

- A moderately high pro forma maximum annual debt service (MADS) burden at 6.9% of expenses, excluding the bullet maturities;
- Adequate financial resources compared with debt; and
- An investment portfolio that has a significant portion allocated to real estate, which generates income but is not immediately liquid.

The university is issuing $170 million in series 2013 taxable bonds to be used to refund the series 2002A and 2002B bonds. All outstanding debt is a general obligation of the university (excluding the nonrecourse debt). GWU has no plans to issue additional debt at this time.

Outlook

The stable outlook reflects Standard & Poor's expectation that during the next one to two years, the university will demonstrate continued stable enrollment and strength in demand trends, full accrual financial surpluses, and maintenance of financial resource levels consistent with the rating category. We expect any additional debt to parallel growth in financial resources.

During the next one to two years, if GWU's full accrual operating performance does not increase above current levels, such that margins are sustained below 2%, or if financial resources compared with debt are sustained below 140%, we could consider a negative outlook or lower rating. It is unlikely that during the one- to two-year outlook period George Washington University will significantly increase financial resources or operating margins sufficient to warrant an upgrade.

Enterprise Profile

Organization

The George Washington University 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 with additional facilities in Loudoun County, Va. The university currently enrolls more than 25,000 students at all of its campuses in the District of Columbia and Virginia. The university consists of 10 academic units. Eight schools offer both undergraduate and graduate degrees and two schools offer graduate and professional degrees: the Law School and the Graduate School of Education and Human Development. The School of Medicine and Health Sciences, School of Public Health and Health Services, School of Nursing, and affiliated entities were formerly organized within an administrative unit known as the George Washington University Medical Center.

Demand and enrollment

Strong enrollment continues to be a credit strength, in our opinion, with a stable headcount of 25,653 for fall 2012, compared with 25,260 for fall 2011. GWU has a large number of graduate and professional students; undergraduates made up just 41% of total enrollment for fall 2012. University management has no plans to increase the undergraduate population at this time. Freshmen applications were flat for fall 2012 compared with the previous two years: For fall 2012, there were 21,756 applications compared with 21,591 for fall 2011 and 21,433 for fall 2010. GWU remained very selective, accepting 33% of freshman applicants for fall 2012. The matriculation rate improved for fall 2012 to 33%, compared with 31% for fall 2011.

In our view, student quality remained strong for fall 2012, with an average SAT score of 1290 for incoming freshmen. Graduate and professional admissions were also strong, in our view, with graduate applications up 7% for fall 2012. Medical school applications for fall 2012 were down slightly; there were 10,504 compared with 10,625 for fall 2011. The medical school remained highly selective, accepting only 3% of applicants, with 55% choosing to attend in fall 2012. Law school applications decreased significantly in fall 2012 by 16%, mirroring the national trend for law schools, though the school remained selective, with a 29% acceptance rate. The matriculation rate decreased to 19%, its lowest level since fall 2007, indicating the high degree of competition for law students.

Management

The management team has been in place for several years, and we believe the long tenure lends stability to the organization. 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.

Management has focused heavily on maintaining an above-average level of liquidity in its investment portfolio, and controlling university expenses, which has allowed for consistent operating surpluses during the past several years. In our opinion, historical operating performance has been a credit strength but management's significant increase in debt (essentially double) since fiscal 2006 is aggressive, in our opinion, and remains an offsetting rating factor. Management's recent efforts to restructure its debt portfolio with the series 2013 refunding bonds, in our view, should benefit the financial profile by lowering the debt burden.

Financial Profile

Operating performance

GWU's financial operations remained profitable in fiscal 2012, with light operating surpluses on a full accrual basis (including rental income and endowment spending but excluding investment gains and lease receivable monies), compared with historical levels. The operating surplus remained adequate at $10.9 million, compared with $19.1 million in fiscal 2011. Despite the consistent profitability during the past several years, the operating performance (margins) has been decreasing steadily since fiscal 2010, particularly as depreciation and interest expense base have increased as capital projects have come online and additional debt has been added, and the rate of revenue growth has slowed in comparison. To address affordability, management implemented a five-year fixed-tuition rate that has slowed the rate of net tuition revenue growth. Should the operating performance fail to rebound to levels approaching historical margins, the rating could come under pressure in the future.

In our view, GWU generally has good revenue diversity, with tuition and other student-generated revenues accounting for 69% of total adjusted operating revenues in fiscal 2012, followed by grants and contracts at 12%, endowment income at 9%, and auxiliary sources at 8%. Tuition increases have been modest, in our view, with 4% for fall 2012 with a similar increase planned for fall 2013. Under the current university policy, tuition is fixed for five years for undergraduates. Management has taken steps in the past decade to limit GWU's health care activities, including the sale of 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. The medical center's operations were balanced in fiscal 2012 with positive cash.

Financial resources

GWU's financial resources on the whole remain consistent with the rating, though weak when compared with debt. When compared with adjusted operating expenses, expendable resources of $1.9 billion as of June 30, 2012, were healthy at 148%, though when compared with pro forma debt (including nonrecourse debt), were weak at 135%. Cash and investments were stronger as of June 30, 2012, at $2.2 billion, equal to 172% of adjusted operating expenses and 157% of pro forma debt.

Endowment and fundraising

The university had an investment return of 2.38% for the 12 months ended June 30, 2012. As of Sept. 30, 2012, GWU's approximately $1.3 billion endowment had an asset allocation we consider diverse but was more heavily invested in real estate than comparable peers, with 44% in global equities, 35% in strategic equity (real assets), and 14% in fixed income. This asset allocation does not include the university's investment in real estate. GWU's endowment spending policy target is 5% of the market value (including real estate). GWU base the annual increase in endowment spending on the change in the consumer price index for the Washington, D.C. metropolitan area for the previous calendar year.

We view liquidity as good: As of Sept. 30, 2012, $365 million of the endowment could be liquid within one month and $475 million could be liquid within one year. The university had $121 million in uncalled commitments to private partnerships.

GWU benefits from successful fundraising. In fiscal 2012, the university raised $120 million in cash, pledges, and deferred commitments.

Debt

The university's total debt was $1.4 billion (including about $225 million in nonrecourse debt), which we consider high for the rating category. However, the high debt load is partly mitigated by the rapid amortization schedule for most of the debt. In March 2012, the university issued $300 million series 2012 taxable bonds, used to fund various capital projects. The bonds were structured as a 10-year bullet maturity. For the past few years, the university has issued much of its debt as taxable bonds with bullet maturities to take advantage of low interest rates. However, the taxable series do produce an uneven debt structure with large bullets. All of GWU's debt is fixed rate, which we believe provides predictability to the debt portfolio.

Roughly $225 million of total debt is self-supporting, nonrecourse mortgage payable, collateralized by real estate. Pro forma MADS of $81.8 million in fiscal 2016 includes the nonrecourse mortgage obligations, equal 6.5% of adjusted operating expenses, which we consider moderately high, though it is lighter than the previous MADS of $87.7 million and the previous 6.9% debt burden. The university does not have any off-balance-sheet debt, and has not entered into any swaps or other derivative arrangements. GWU has no additional debt plans at this time. The university has several capital projects that it plans to fund with a combination of series 2012 proceeds and other sources.

George Washington University Selected Financial Statistics

	--Fiscal year ended June 30--				Medians
	2012	**2011**	**2010**	**2009**	**Private Colleges & Universities A**
Enrollment and demand					
Headcount (HC)	25,260	25,135	25,061	25,116	MNR
Full-time equivalent (FTE)	21,152	20,700	20,553	20,171	3,834
Freshman acceptance rate (%)	33.0	31.7	36.8	37.4	62.0
Freshman matriculation rate (%)	31.5	35.2	35.5	33.9	25.0
Undergraduates as a % of total enrollment (%)	41.2	41.2	42.1	41.0	77.0
Freshman retention (%)	94.3	94.0	91.4	91.1	85.5
Graduation rates (5 years) (%)	80.0	79.2	N.A.	N.A.	72.0
Income statement					
Adjusted operating revenue ($000s)	1,279,812	1,255,863	1,230,332	1,156,353	MNR
Adjusted operating expense ($000s)	1,268,858	1,236,742	1,189,062	1,127,005	MNR
Net operating income ($000s)	10,954	19,121	41,270	29,348	MNR
Net operating margin (%)	0.9	1.5	3.5	2.6	3.1
Change in unrestricted net assets ($000s)	(38,700)	138,489	126,995	(154,917)	MNR
Tuition discount (%)	27.9	28.0	28.6	25.8	33.9
Tuition dependence (%)	61.7	59.5	57.7	58.3	70.2
Debt					
Outstanding debt ($000s)	1,390,181	1,102,119	1,013,878	972,981	93,958
Current debt service burden (%)	4.93	4.68	4.51	4.48	4.10
Current MADS burden (%)	6.91	7.39	3.23	3.41	MNR
Financial resource ratios					
Endowment market value ($000s)	1,305,892	1,331,100	1,143,581	1,011,193	180,190
Cash and investments ($000s)	2,183,663	1,961,126	1,705,004	1,581,048	MNR
Unrestricted net assets ($000s)	1,351,778	1,390,478	1,251,989	1,124,994	MNR
Expendable resources ($000s)	1,877,132	1,680,954	1,421,003	1,289,900	MNR
Cash and investments to operations (%)	172.1	158.6	143.4	140.3	136.6
Cash and investments to debt (%)	157.1	177.9	168.2	162.5	235.3
Expendable resources to operations (%)	147.9	135.9	119.5	114.5	92.9
Expendable resources to debt (%)	135.0	152.5	140.2	132.6	160.3
Average age of plant (years)	10.6	9.1	9.8	9.8	12.6

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 times (Net Adjusted operating income/adjusted operating expense). Tuition dependence = 100 times (gross tuition revenue/adjusted operating revenue). Current debt service burden = 100 times (current debt service expense/adjusted operating expenses). Current MADS burden = 100 times (maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short- and long-term investments. Expendable resources = unrestricted net assets + temporary restricted net assets - (net PPE - outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense. MNR--Median not reported. N.A.--Not available. MADS--Maximum annual debt service.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- The Interaction Of Bond Insurance And Credit Ratings, Aug. 24, 2009