

CREDIT OPINION

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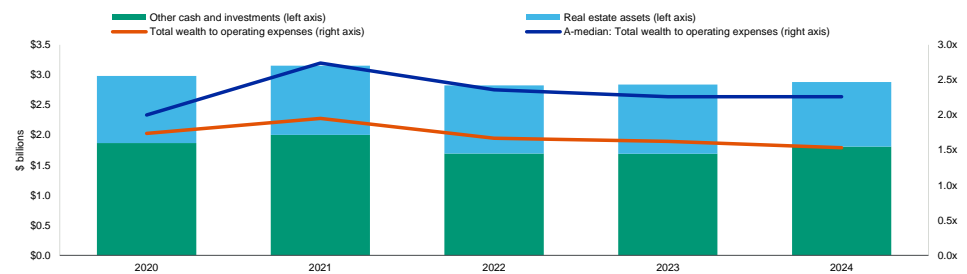
George Washington University, DC

Update to credit analysis following outlook change

Summary

[George Washington University's](#) (GW, A1 negative) credit quality reflects its very good brand and strategic positioning as a large, comprehensive urban university with a \$1.8 billion scope of operations, leveraging on its location in the [District of Columbia](#) (Aa1 negative). Net tuition per student continues to rise, with enrollment of nearly 22,000 full-time equivalent students expected to remain steady into fall 2025. GW's wealth is sizable at \$2.9 billion in cash and investments, though 40% is concentrated in commercial and multi-family real estate. The university's property holdings, mainly around its Foggy Bottom location, are self-supporting with potential for net positive sales. However, credit challenges arise from the weak performance of its medical faculty practice plan, which comprises one-fifth of operating revenue but operates at a deficit. GW's investment in illiquid assets and limited unrestricted reserves result in weaker liquidity compared to peers. While considering increasing its bank line of credit, GW faces constraints in debt capacity due to high debt relative to wealth and EBIDA margins, along with long-term maturities. The evolving federal landscape for higher education and sponsored research also introduces additional near-term risks.

Exhibit 1
Sizable total wealth, but lags peers relative to expenses
Real estate assets at 40% of total wealth limit liquidity



Fiscal 2024 preliminary median
Source: Moody's Ratings

Credit strengths

- » Very good brand and strategic positioning as a large, comprehensive urban university, with a \$1.8 billion scope of operations, leveraging its location in the District of Columbia
- » Relatively stable enrollment of over 20,000 students, with strong graduate and professional schools, and growing net tuition revenue per student
- » Sizable total wealth, with cash and investments of \$2.9 billion including real estate assets

Credit challenges

- » Persistent underperformance of the Medical Faculty Associates (MFA) practice plan is adversely impacting consolidated EBIDA margins
- » Very high financial leverage with cash and investments to total adjusted debt of 1.3x, debt to EBIDA of 18x, and long-dated debt structure
- » Investments hold a significant concentration in illiquid real estate assets, contributing to modest liquidity relative to peers and elevating exposure to commercial market volatility

Rating outlook

The negative outlook reflects our expectation that MFA operations will continue to burden overall university operations until those healthcare costs are reasonably managed. Additionally, regional commercial office space challenges in the DC market pose downside risks to GW's real estate strategies, constraining revenue and wealth growth.

Factors that could lead to an upgrade

- » Significant growth of cash and investments to cover debt and operating expenses by 2x, respectively
- » Sustained material improvement in operating cash flow and donor support

Factors that could lead to a downgrade

- » Sustained erosion of EBIDA margins below 8% and interest only debt service coverage less than 2x
- » Negative impact to wealth or operations due to weak MFA operations or inability to reasonably manage healthcare costs
- » Any further decline in unrestricted liquidity to less than 280 monthly days cash on hand
- » Material decline in market value of real estate assets and/or adverse reductions in ground lease payments
- » Increase in debt relative to wealth and EBIDA

Key indicators

Exhibit 2

George Washington University, DC

	2020	2021	2022	2023	2024	Median: A Rated Private Universities
Total FTE Enrollment	22,298	22,211	21,768	21,757	21,973	4,986
Operating Revenue (\$000)	1,683,293	1,606,522	1,683,481	1,716,587	1,814,599	240,752
Annual Change in Operating Revenue (%)	9.4	-4.6	4.8	2.0	5.7	2.0
Total Cash & Investments (\$000)	2,983,540	3,153,022	2,826,463	2,840,638	2,880,236	547,642
Total Adjusted Debt (\$000)	2,343,515	2,213,864	2,108,492	2,083,203	2,226,807	178,750
Total Cash & Investments to Total Adjusted Debt (x)	1.3	1.4	1.3	1.4	1.3	3.1
Total Cash & Investments to Operating Expenses (x)	1.7	2.0	1.7	1.6	1.5	2.3
Monthly Days Cash on Hand (x)	301	313	214	195	177	402
EBIDA Margin (%)	7.9	9.9	9.6	8.7	6.8	11.9
Total Debt to EBIDA (x)	16.8	13.4	13.0	13.9	18.1	6.2
Annual Debt Service Coverage (x)	1.7	1.8	1.8	1.5	1.2	2.6

Fiscal year ending June 30

Source: Moody's Ratings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

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 2024, GW recorded \$1.8 billion in operating revenue and for fall 2024, enrolled 21,973 full-time equivalent (FTE) students.

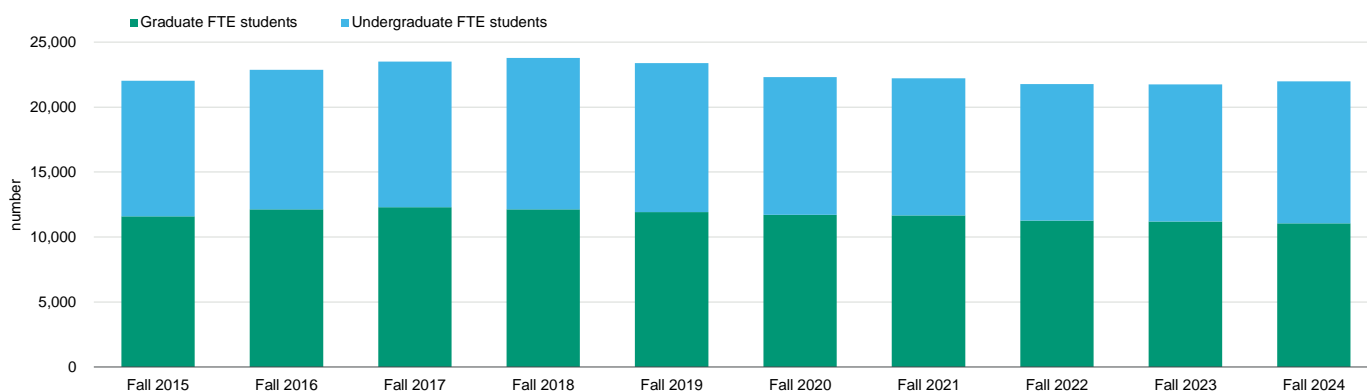
Detailed credit considerations

Market profile

GW's well-established market position as a large, comprehensive, urban university leveraging its location in the nation's capital will continue to support sound student demand. 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 2024 enrollment, providing some insulation from heightened student demand competition domestically and abroad. Preliminary fall 2025 expectations call for steady enrollment. Geopolitical risk exposure resides in its relatively high but consistent 15% international student composition.

Exhibit 3

Solid brand demonstrated by generally stable enrollment and distribution of the student body over the last decade



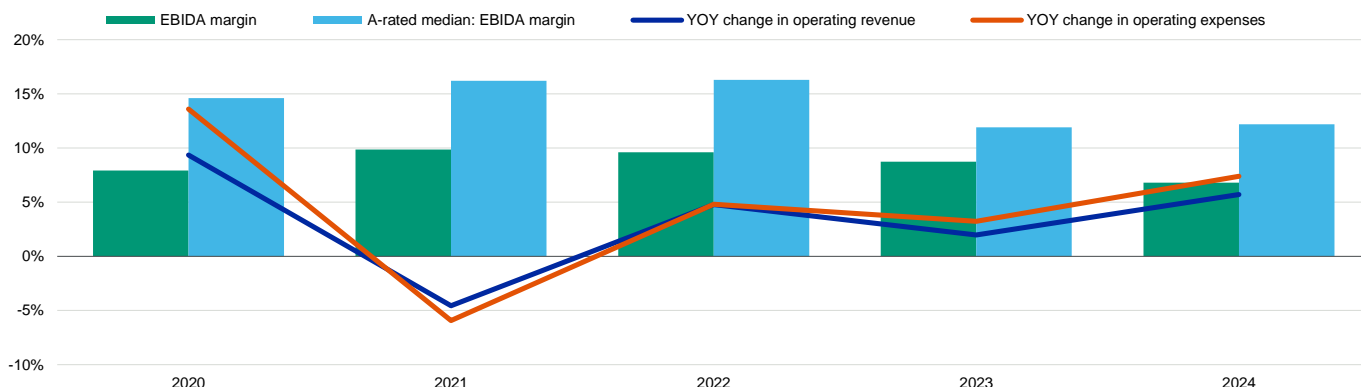
Source: Moody's Ratings and George Washington University, DC

The university has a moderate research enterprise encompassing multiple disciplines, comprising \$225 million or 12% of operating expenses in fiscal 2024. As a relatively new member of the Association of American Universities (AAU), GW was planning for research growth. However, due to evolving federal policy, the university is closely monitoring agency funding changes, adjusting expenses and resource allocations accordingly.

Operating performance

Persistent weak operating performance of the Medical Faculty Associates (MFA) practice plan continues to negatively impact GW's consolidated margins. The fiscal 2024 Moody's adjusted EBIDA margin was 6.8%, the weakest performance over the past ten years, covering the interest-only debt service by a low 1.2x. Similarly weak performance is currently projected for fiscal 2025, despite ongoing expense reductions. Removing the effects of the MFA, which comprise 20% of overall revenue, GW's EBIDA fiscal 2024 margin was estimated at 15%, a figure more aligned with A-rated peers, and reflecting the relative strength of GW's academic enterprise.

Exhibit 4
Lagging EBIDA margins relative to rated peers stem from outpaced expense growth



Source: Moody's Ratings

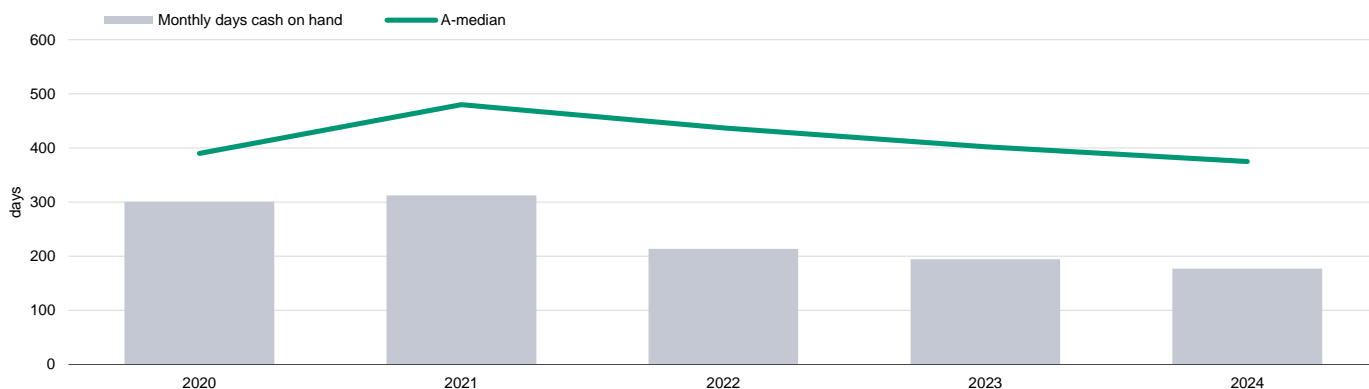
GW's leadership team remains focused on strategies to address the business activities of the MFA. While GW is the sole corporate member of MFA, there is reliance on its healthcare partner, [Universal Health Service, Inc. \(UHS\)](#), to collaborate on a solution, though this remains in the development stage. In May 2022, GW sold its 20% interest in GW Hospital to UHS. The DC healthcare market is highly competitive, with several large providers that have large regional footprints.

The university's revenue diversity, with rising net tuition revenue and solid gift support, provides longer term operating stability. GW's largest source of revenue, student charges (52% of fiscal 2024 revenue), is projected to increase for fiscal 2025. Favorable growth in net tuition per student, up 15% in the fiscal 2020-24 period, helps mitigate rising educational expenses. Further, tuition discounting is less volatile as nearly half of enrollment is in graduate and professional programs. Very good donor support, with average fiscal 2022-24 gifts of \$69 million, will contribute to growing wealth, as well as for operating and capital investments.

Wealth and liquidity

Though the university's wealth is sizable at \$2.9 billion in fiscal 2024, the cushion relative to operating expenses of 1.6x is low compared to the A-rated median of 2.4x. Further, total cash and investments declined 3.5% over the fiscal 2020-24 period, significantly lagging A1-median growth of nearly 35%. Unrestricted liquidity remains modest relative to peers. The fiscal 2024 monthly liquidity of \$863 million translates to 177 monthly days cash on hand, well below the A-median of 402 days.

Exhibit 5
GW's monthly liquidity lags rated peers



Preliminary fiscal 2024 median
 Source: Moody's Ratings

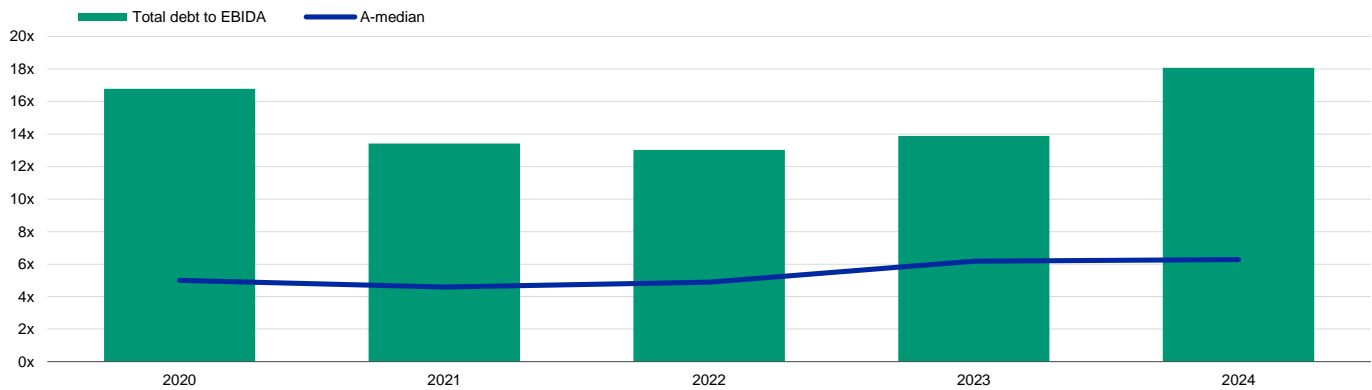
A significant 40% of GW's wealth is tied to real estate assets that are booked at annually appraised market value. Income derived from roughly 80% of the real estate assets stem from long-term ground leases. GW's direct investment in commercial and multi-family

property is primarily in the Foggy Bottom area around campus. The overall investment portfolio, including real estate, recorded a 0.7% return in the fiscal year period ending June 30, 2024 reflecting the university's property buy/sell strategies that are aligned with long-term investment horizons.

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 long-term debt. Total adjusted debt of \$2.2 billion is virtually all taxable debt, with 5.4% of total debt attributable to MFA. Fiscal 2024 total cash and investments to total adjusted debt of 1.3x and total adjusted debt to operating revenue of 1.2x are weaker than the A-rated peer 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 2020-24 spending ratio of 1x and an average age of plant at 14 years.

Exhibit 6
High leverage demonstrated by weak debt to EBIDA



Preliminary fiscal 2024 median
 Source: Moody's Ratings