A RESOLUTION ON THE IMPACT OF THE MEDICAL FACULTY ASSOCIATES DEBT ON STRATEGIC PLANNING, EDUCATION, AND FINANCIAL AID AT THE GEORGE WASHINGTON UNIVERSITY (24/7)

WHEREAS, Education at the George Washington University is central to its reputation for excellence and continued success as an institution of higher learning; and

WHEREAS, The George Washington University’s competitors in higher education are continuing to invest in education, the student experience, and financial aid in order to ensure future success as national enrollments in colleges and universities are predicted to decline in the coming decades; and

WHEREAS, The university is about to embark on a strategic planning process that will require prioritizing its educational mission to ensure its continued competitiveness; and

WHEREAS, The university has invested in the Medical Faculty Associates, one of its partners in medical education,1 by providing it with annual loans and helping to secure its debts, making its financial performance important for the entirety of the George Washington University community; and

WHEREAS, There is growing alarm and frustration that the debts incurred by the Medical Faculty Associates may threaten the educational mission of the university as a whole; and

WHEREAS, Despite these investments, the Medical Faculty Associates continues to experience substantial, ongoing, and far larger losses than the Medical Faculty Associates had incurred before the 2018 reorganization of its relationship with The George Washington University; and

WHEREAS, Some of these investments are no longer recoverable because the debt was “written off” by the university, representing an opportunity lost to invest in other aspects of the university’s mission; and

WHEREAS, Projections for the Medical Faculty Associates financial performance reported to the Faculty Senate have been consistently overly optimistic for several years, creating doubt that the Medical Faculty Associates will be able to meet its obligations without the university providing it significant, additional funds this year and annually for the foreseeable future; and

WHEREAS The Medical Faculty Associates and the Board of Trustees have not shared a credible plan with the Faculty Senate for returning the Medical Faculty Associates to profitability;4 and

1 Medical affiliates of the George Washington University include Childrens' National Hospital and the Washington D.C. VA Medical Center.
2 See Appendix 1, notes 5, 6, 9.
3 See Appendix 1, note 10.
4 See Appendix 1, notes 10, 11.
WHEREAS, The Medical Faculty Associates’ declining financial performance and high rate of indebtedness exposes the university to high levels of risk that prevent a coherent and rational strategic planning process which would consider what university priorities should be in the coming years and especially limit the ability to expand financial aid to students.5

NOW, THEREFORE, BE IT RESOLVED BY THE FACULTY SENATE OF THE GEORGE WASHINGTON UNIVERSITY

1. That the Board of Trustees, as fiduciaries of the university, is requested to evaluate the impact of ongoing losses at the Medical Faculty Associates on the University’s abilities to develop a strategic plan and to invest in its educational mission and student financial aid;

2. That the Faculty Senate requests that administration and Board leaders conduct an assessment, in cooperation with the Senate's Educational Policy and Technology committee and the Senate’s Research Committee, of underfunded areas, especially in undergraduate and graduate education and aid, that require investment in order to preserve the reputation for excellence at the George Washington University;

3. That the Faculty Senate recommends that Board of Trustees evaluate whether the Medical Faculty Associates debt threatens the academic mission of the university;

4. That in order to develop and implement future academic endeavors and engage in strategic educational planning of appropriate scale and scope across the university, the faculty need timely and accurate appraisals of the timeline for the Medical Faculty Associates return to profitability;

5. That by March 1, 2024 and by February 1 of each subsequent calendar year the President, Provost, and CFO are asked to prepare a report to be shared with the Trustees Academic Affairs Committee, and the Faculty Senate’s Educational Policy and Technology Committee that accounts for both impacts and opportunity costs of ongoing losses at the Medical Faculty Associates on the University’s mission of advancing undergraduate and graduate education across its schools.

Educational Policy & Technology Committee
January 19, 2024

Adopted as amended by the Faculty Senate
February 9, 2024

5 https://gwhatchet.com/2020/03/16/more-than-100-faculty-sign-petition-in-support-of-meeting-full-financial-need-of-students/
Appendix 1: On the Dire Financial Situation of the GW Medical Faculty Associates (MFA)
(MFA) December 7, 2023

Executive Summary

- The Medical Faculty Associates (“MFA”) is comprised of the physicians who service the GW Hospital. It is structured as an independent 501(c)(3) entity, although the University has considerable oversight authority. It employs over 2,150 employees. The MFA Board of Trustees is chaired by former GWU Board Vice Chair Ellen Zane, and includes two members (Chichester, Lawrence) of the GW Board of Trustees, GW President Granberg, and GW Vice President/CFO/Treasurer Fernandes. The MFA CEO is GW VP for Health Affairs and GW Medical School Dean Barbara Bass.

- Over 4 previous fiscal years, the MFA expenses exceeded revenues by ($43M + $48M + $78M + $79M =) $248M – nearly a quarter of a BILLION dollars. In the first quarter of the current fiscal year, the MFA expenses exceeded revenues by $27M. The GW VP/Treasurer projects a deficit in the current fiscal year in the range of $30M-$50M.

- To cover these losses, the University has loaned the MFA a great deal of money (some of which has been “forgiven”) over the years, and GW has underwritten major loans from private creditors.
  - The amount of MFA debt to the University is at least $235M;
  - In the current fiscal year (2023-2024,) GW has already loaned the MFA an additional $35M; in FY2022-2023, GW loaned the MFA an additional $80M. That $115M was therefore unavailable for the pursuit of the GW academic mission. GW continues to pump tens of millions of dollars each year into an enterprise that hasn’t come close to breaking even for at least four years (and a projected current-year loss of $30M-$50M);
  - The amount of MFA debt to private creditors appears to be in excess of $115M, of which at least $85M (and possibly all) is guaranteed by the University;
  - Therefore, the total MFA debt exceeds $350M, with University exposure of at least $320M;

- A MFA departmental website posting has, for over a year, suggested that physician shortages may be leading to the inability to take new patients, raising concerns about maintaining current revenues.

- The University administration has repeatedly offered inaccurately positive assurances about the future financial health of the MFA, and has, to date, declined to provide the Faculty Senate with a MFA Business Plan showing how they are going to recover from this situation. GW VP Hernandes has agreed to provide the Faculty Senate’s Committee on Fiscal Planning and Budgeting with periodic updates. The full Senate received an update on the University’s Fiscal Health on October 23, 2023.

This is a serious problem, with the potential to have major long-lasting effects if not addressed immediately. In the absence of a credible Business Plan, the only forecast is that the MFA will continue to lose tens of millions of dollars, including in the current year. The GW administration has, recently, been fully transparent regarding past and short-term future predicted losses, but has not provided any sort of long-term Business Plan for recovery. Deferring, yet again, to the end of the fiscal year to see if the MFA has turned around without a long-term Business Plan would be extremely risky.

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6 This document draws heavily on the presentation by Professors Joseph Cordes and Susan Kulp to the May, 2022, meeting of the GWU Faculty Senate: https://cpb-us-e1.wpmucdn.com/blogs.gwu.edu/dist/0/196/files/2022/06/5-2022-minutes-attachments.pdf. Those numbers, in turn, are drawn from the University’s published audited financial statements, provided at https://finance.gwu.edu/reports. In addition, this document draws from the Minutes of the Faculty Senate meeting on October 23, 2023, and a December update to those Minutes. https://bpb-us-e1.wpmucdn.com/blogs.gwu.edu/dist/0/196/files/2023/10/10-2023-minutes-attachments.pdf. If there are any errors contained in the current document, they are exclusively attributable to this document’s author, Professor Philip Wirtz (pww@gwu.edu).

7 https://gwdocs.com/about-gw-medical-faculty-associates/history
1. **What is the “Medical Faculty Associates” (MFA)?**
   The Medical Faculty Associates, Inc. (“MFA”) is an independent 501(c)(3) (nonprofit) corporation. The MFA operates exclusively for the benefit of the University. Although the MFA exists as a separate non-profit, the University is the sole corporate member and as such has greater control (and responsibility) over the medical enterprise.

2. **Who are the employees of the MFA?**
   According to GWToday, the “Medical Faculty Associates is the largest academic physician practice in the metro D.C. area, with 800 physicians who provide comprehensive patient care in 51 medical and surgical specialties. As faculty members in the GW School of Medicine and Health Sciences, the GW MFA physicians serve as teachers and mentors for medical students, residents and researchers.”

3. **What function does the MFA serve?**
   The MFA
   • provides certain clinical, teaching, research and administrative services to the University;
   • provides professional physician services and related health care services, including diagnostic and therapeutic procedures and services, to patients in the greater Washington, DC community and other areas, including those unable to pay for such care;
   • Furthers the advancement of medical knowledge through basic and applied research in medicine, lectures, consulting, publishing information and teaching, particularly regarding medical and health care issues prevalent in urban communities;
   • Undertakes teaching the diagnosis and treatment of medical conditions to medical students, interns, residents, fellows and other professionals in connection with the University;
   • Employs physicians duly licensed to practice medicine, who hold a faculty appointment at the University, and other qualified personnel and makes the service of such personnel available to indigent and other persons requiring such care; and
   • Performs the other necessary or appropriate functions and services in connection with the above purposes.

4. **How is the MFA structured?**
   • The GWU Medical School Dean is the CEO of the MFA.
   • The MFA has its own Board of Trustees who are appointed by the GWU Board of Trustees. Those trustees include several GW Trustees (currently Chichester, Lawrence), the GW President (Granberg), and the GW Vice President/Treasurer (Fernandes).
   • The Board Chairman of the MFA is former GW Trustee (Zane).
   • The University has considerable oversight authority over the MFA as set forth in the “Amended and Re-stated By-Laws of the MFA”.
   • MFA physicians:
     i. Salaries and benefits of MFA are paid by the MFA.
     ii. MFA physicians are clinical faculty in the GWU School of Medicine.
     iii. MFA physicians are represented in the GWU Faculty Senate.
     iv. Dependents of MFA clinical faculty qualify for GWU tuition benefits.

5. **What is the financial relationship between the MFA and GWU?**
   • Although the MFA and the University are two separate financial entities, the University has loaned the MFA over $235M (in the form of structured loans and lines of credit) and is a guarantor of many of the existing private loans to the MFA.
   • The University and the MFA each file separate IRS 990 informational tax returns to the IRS and prepare separate audited financial statements.
   • Starting in 2020, consolidated financial statements have been prepared.
   • As a result of a December 2018 restructuring of the GW-MFA relationship, although the MFA is still a separate non-profit, the University is the sole corporate member and as such has greater control (and responsibility) over the medical enterprise.

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• There are numerous transactions between GW and MFA, including
  i. Guarantee of debt
  ii. Loans / lines of credit
  iii. Debt forgiveness
  iv. Contractual relationships (e.g., faculty)

6. What is the financial situation of the MFA?
Based on published University financial statements:

• In FY2022-2023, MFA operating expenses exceeded operating revenue by $78,841M (i.e., approximately $80M). That operating deficit was nearly identical to the deficit in the prior fiscal year. Over the prior 4 fiscal years, the MFA expenses exceeded revenues by ($43M + $48M + $78M + $79M =) $248M (i.e., approximately a quarter of a BILLION dollars). The corresponding number at the end of the previous fiscal year was ($43M + $48M + $78M = $168M). In the first quarter of the current fiscal year, the MFA lost an additional $27M. The GW VP/Treasurer has projected a current-year deficit of between $30M and $50M;

• In FY2022-2023, the MFA’s liabilities exceeded its assets by $237M. The deficit increased by approximately $80M last year. Because a large portion of the liabilities is in the form of loans to the MFA that GW has either made directly or has underwritten, this means that if all activity of the MFA had stopped on June 30, 2023, the University would be “on the hook” to cover approximately $237M. Some of this $237M would be in the form of “bad debt” that would no longer be available as assets to pursue the academic mission of the University; the remainder would be additional debt owed to creditors, reducing even further the University’s ability to fulfill its academic mission;

• The MFA has covered these huge annual losses through a series of loans/lines of credit, many of which are directly provided or guaranteed by GW. As of June 30 2023, GW had loaned the MFA at least $200M, including an additional $80M in FY2022-2023. As of November of 2023, the University had loaned the MFA at least an additional $35M;

• In 2019, the University forgave $17.5M of the MFA’s debt to it;49

• It would appear that the MFA has spent nearly all of its available cash, and is in a serious cash flow crisis. If the MFA continues to run a deficit this year (as it is projected to do), it will need to find the cash to fund that deficit. One source is the possible sale of the M Street building, although this one-time sale (1) would likely not fully offset the historical annual deficit and (2) would not address the fact that the MFA is running a major deficit each year. It is also not clear that the value of this property significantly exceeds the $32.7M secured loan that the MFA has on the property. Another possible revenue source is additional loans from GW (beyond the $35M already loaned this year), which would drain those funds from pursuit of the academic mission, directing them instead into an enterprise which has consistently shown an inability to cover its expenses.

7. Is the University’s stake in the Hospital directly related to the MFA?
Not in any direct sense. Until 2022, the University owned a 20% stake in the GW Hospital. In the summer of 2022, the University sold its 20% share for $54M. Former Interim President Wrighton announced at the September 2022 Faculty Senate meeting that (without any apparent Faculty consultation) the $54M would be invested in 14 endowed Faculty positions, including nine in the School of Medical and Health Sciences. This has no direct bearing on the financial operation or circumstances of the MFA. The $54M went into the University quasi-endowment, and has zero relationship with the MFA’s operations. It has been noted, however, that Interim President Wrighton chose (again, without any apparent Faculty consultation) to delegate a significant portion of the $54M to endowed Faculty positions in the School of Medical and Health Sciences at the same time that the MFA has been running a significant deficit each year and has had to borrow heavily to cover its expenses. In addition to this $54M, it is reasonable to presume that there are additional provisions associated with the sale of GW’s stake that have not yet been shared with the Faculty.

8. What role did COVID-19 play in the MFA’s financial situation?
COVID-19 related variants, most notably Omicron, had an adverse impact on MFA volumes, particularly in the months of December 2021 and January 2022. As of June 30 2022, while the number of people commuting into DC for work had increased, it was reportedly still far below pre-pandemic levels, which

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continued to have an adverse impact. To help mitigate the adverse impact of COVID-19, the MFA received federal Coronavirus Aid, Relief and Economic Security Act (CARES Act) grants of $15.6 million and $4.8 million for the years ended June 30, 2022 and 2021, respectively. In addition, during the year ending June 30, 2021, the MFA received $9.9 million in grants from the Washington, D.C. government to help to mitigate the adverse financial impacts of COVID-19. In the absence of a MFA Business Plan or associated earnings forecasts, it is not currently possible to estimate any continued drag of COVID-19 on MFA revenues in FY2023-2024.

9. Have the MFA deficits impacted the operations of the University’s academic units?

- As previously noted, in 2019, the University forgave $17.5M of the MFA’s debt to it. That is $17.5M that was not, therefore, available to fulfill other aspects of the University’s academic mission;
- In order to cover the losses incurred annually by the MFA, the University has chosen to loan the MFA significant amounts of money and provide a line of credit which has been largely drawn upon. In the past fiscal year alone, the University loaned the MFA an additional $80M; in the current fiscal year, the University has already loaned the MFA at least an additional $35M. These are funds which could otherwise have been used to fulfill other aspects of the University’s academic mission. Even though the University has no ongoing significant construction projects, on June 30, 2023, the University had $56M of cash on hand. On June 30, 2022, the University had $123M of cash. The amount of cash on hand in June 2023 is the lowest it has been since the end of the 2013-2014 fiscal year. There is absolutely no basis in fact for the assertion that the MFA’s failure to generate revenue to cover its expenses “has no effect on the University.” The University continues to pour tens of millions of dollars each year into the MFA; this is money which is not available to fulfill the academic mission of the University and which may never find its way back to the University’s budget;
- Given the significant deficits incurred by the MFA operations in the past several years, there is basis for concern that the University might choose to loan the MFA more money, to forgive additional MFA indebtedness, and/or to act as guarantor of additional private loans. This, again, potentially depletes funds which would otherwise be available to fulfill other aspects of the University’s academic mission.

10. What assurance has the University administration provided to the community that the MFA financial situation is improving?

- At the October 2020 Faculty Senate meeting, President LeBlanc was asked “how the MFA is performing this year, financially, and how it is anticipated to perform next year.” President LeBlanc replied that “the MFA is geared back up now and working hard to recover some of its lost patient care revenue. MFA leadership is optimistic that the MFA has the opportunity to break even this year, which would be a sizable accomplishment in face of the pandemic.” He noted that “Dean Bass and the MFA Chief Operating Officer are working hard to make this happen, noting that increased efficiency in scheduling allowing for more appointments and telemedicine are helping to keep revenue flowing into the MFA.” That was the fiscal year in which the MFA closed out with a $43M loss.
- At the May 2022 Faculty Senate meeting, Dean Bass asserted that “[s]he anticipated that, in short order, the MFA’s accounts payable to the university will be reconciled.” Dean Bass’ presentation to the Senate failed to disclose that, in less than 2 months, the MFA would close out the fiscal year with a $78M loss and $250M in debt. The disparity between Dean Bass’ remarks to the Senate and the reality are, charitably, disconcerting.
- At his October 2022 presentation to the Faculty Senate, VP Fernandes stated “that the current plan, reflecting a break-even year, assumed an earlier start to the agreement. instead, the MFA and university operated for the first two months of FY23 under the old arrangement. Based on some early trends, he expected that the MFA will most likely require some additional liquidity before stabilization occurs from the new agreement along with some of the other operational and financial incentives that are now being fully implemented. He expected that stabilization will probably occur around the fourth quarter of FY23, with eventual profitability at some point late in FY24” (Faculty Senate Minutes: emphasis added).

• At that same Senate meeting, Dean Bass noted that she was “optimistic that, with [cited] operational, funds flow, and structural changes, the MFA will have a net zero balance sheet a year from now” (i.e., October 2023). [According to VP/T Fernandes' October 2023 report to the Senate, the MFA is projected to run a $30M-$50M deficit, and as of June 30 2023, the MFA's liabilities exceeded its assets by $237M.];
• At the January 2023 Senate meeting, VP Fernandes stated that “for FY23, a loss of between $55-65 million on revenue of $375-400 million is expected. He noted that the run rate will start to decline substantially in the next few months, as most of the loss for FY23 is front-loaded to the beginning part of the fiscal year.” [As previously noted in this Report, the FY2022-2023 MFA loss was $79M – nearly identical to the previous year – and the revenues totaled $370M.];
• At that same meeting, Interim President Wrighton noted that he “believes that the MFA will be at breakeven by the end of FY24”. He also noted that “the new partnership with Universal Health Services (UHS) only came into effect on August 22, 2022. By end of this fiscal year, this partnership will still be less than a year old. He anticipated better times ahead fiscally as a result of the renegotiated partnership.” [Again, according to VP/T Fernandes' October 2023 report to the Senate, the MFA is projected to run a $30M-$50M deficit.];
• At the March 2023 Senate meeting, VP Fernandes noted that “those projections have not changed”;
• A recent GWU medical department posting suggests physician shortages may result in the inability to take new patients, raising questions about ongoing financial viability (see Appendix A);
• Recently, the University administration has been much more transparent regarding the MFA's financial situation, although it has been unwilling to provide any sort of Business Plan identifying if, when, and how the MFA will return to profitability. In a December 2023 update to the Senate, the administration reported a $27M MFA deficit in the first quarter of FY2023-24, and a projected FY deficit of between $30M and $50M.

11. Does the MFA have a long-term Business Plan and revenue/cost forecasts?
No. The only forecast is short term: viz., a deficit of between $35M and $50M in the current fiscal year (ending June 30, 2024). As Professor Yezer noted at the May 2022 Faculty Senate meeting, the absence of a long-term Business Plan is troubling.

12. How could the situation have gotten this out of hand without anyone noticing?
• As cited in this document, the Faculty Senate has been pressing the administration heavily on this issue;
• Former Interim President Wrighton, President Granberg, and VP Fernandes have reflected refreshing candor about the current numbers;
• President Granberg has assured the Senate that she is carefully monitoring the MFA situation;
• Dean Bass appears to have been far less candid and seriously off in her projections;
• The “missing link” is the GW Board of Trustees, whose silence on this situation is troubling.

13. Where do we go from here?
The provision of credible and auditable current quarterly revenue/cost data is a refreshing and promising first step. Nevertheless, the absence of a Business Plan, including credible and auditable predicted future quarterly revenue/cost forecasts, which demonstrate that the MFA has structured a way to return to solvency, is very concerning. It would appear that the MFA is spiraling financially downward at high velocity with no end in sight, taking its primary creditor -- the University -- with it. The rest of the University is paying a very high price, with University funds which would otherwise be invested in key academic initiatives flowing instead to the MFA to cover its spiraling debts. And if the excessive losses continue, the very existence of the University becomes imperiled.

The time has come for the central GW administration and the MFA leadership to prepare and share with the Faculty Senate a fiscally responsible MFA Business Plan, including credible, defended quarterly estimates of future revenues, expenses, cash flows, assets, liabilities (including debts), profits, and losses, in order to demonstrate that the MFA is returning to fiscal health. It would not be sufficient to provide generic undefended “we plan to be at $X by quarter Y” without providing full documentation supporting such assertions.

The problem is not that the University and the MFA have a symbiotic relationship: the MFA has played a critical role in the provision of medical education at GW. The problem is that the MFA’s fiscal performance has continued to deteriorate ever since the University assumed more direct control over it in December 2018. Prior to this, the University was only partially responsible for the MFA losses, which were significantly less. The MFA’s fiscal
performance is undermining the University’s capacity to perform its overall education and research mission, and rosy claims that the problems were addressed have repeatedly been undermined by the audited year-end reports released by the University.

In order to restore the faith of the GW community that the MFA is truly on the path to fiscal recovery, it is critical that the University administration prepares and shares a Business Plan that will guide the MFA in the years ahead and that MFA quarterly performance reports continue to be shared with those who have been trying to ring the alarm bell for several years.
Appendix A
Department of Gastroenterology & Liver Diseases Notice to Patients


“Dear Patients,

The GW MFA Division of Gastroenterology is undergoing a transformation, and as always, we remain committed to delivering the best possible care for our patients. With this in mind, our goal is to enhance access and continue to deliver high-quality care for our current patients at our 2150 Pennsylvania Ave., NW, location.

Like so many academic medical centers around the country in the aftermath of the pandemic, we are rebuilding our physician and advanced practitioner teams and are excited for our new colleagues to start this fall. As we grow, we expect to be able to welcome new patients to our practice again soon. Thank you so much for entrusting the GW MFA with your care. If you have any questions, please don’t hesitate to contact our offices.

Thank you very much for your patience and understanding during this time.”