S&P Global
Ratings

# RatingsDirect®

## Summary:

# Virginia Commonwealth University; CP; Public Coll/Univ - Unlimited Student Fees


**Primary Credit Analyst:**
Stephanie Wang, Harrisburg + 1 (212) 438 3841; stephanie.wang@spglobal.com

**Secondary Contact:**
James Gallardo, Centennial + 1 (303) 721 4391; james.gallardo@spglobal.com


## Table Of Contents

**Summary:**

# Virginia Commonwealth University; CP; Public Coll/Univ - Unlimited Student Fees

| Credit Profile | | |
|---|---|---|
| Virginia Commonwealth Univ | | |
| *Long Term Rating* | AA-/Stable | Outlook Revised |

## Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA-' long-term rating on Virginia Commonwealth University (VCU) bonds. At the same time, S&P Global Ratings affirmed its 'A-1+' short-term rating on VCU's commercial paper (CP) general revenue pledge notes.

The stable outlook reflects our view of the improved available resource ratios in fiscal 2021 due to strong market returns along with improved operations primarily driving by an increase in state appropriations and federal stimulus. Although total full time equivalent (FTE) enrollment has weakened over the past three years, graduate FTE continued to grow in fall 2021 and management anticipates total enrollment increases in the future with greater emphasis on recruiting graduate and non-traditional students while focusing on improving undergraduate retention and graduation rates. We understand that the university may have plans to draw further on its CP program and may eventually add about $52.7 million as new long-term debt within the outlook period. We believe there is some capacity for debt given current available resources, although the exact effects of the debt will be evaluated at the time of issuance.

Total debt at the end of June 30, 2021, equaled $425.8 million, including $4.4 million drawn from the commercial paper program, $3.2 million of capital leases and $36.2 million of direct purchase debt. A general obligation pledge secures all debt issued by the university.

The 'A-1+' short-term rating on VCU's $75 million CP program is based on the university's self-liquidity. At the end of fiscal 2021, total CP equaled $4.4 million and has since increased to $20.7 million as of February 2022. We understand that pursuant to the issuing and paying agent agreement, the maximum amount of CP notes maturing within any five-business-day period will be limited to $37.5 million. The 'A-1+' rating reflects VCU's ability to meet optional and mandatory tenders under a failed remarketing. The university uses a combination of high-quality investments and an external bank facility to provide support for the CP program. Total self-liquidity support along with $75 million of same-day liquidity support from the bank was $167.3 million as of Dec. 31, 2021, which provides sufficient coverage for the maximum $75 million, in our opinion.

VCU offered a substantially higher percentage of in-person classes in fall 2021 and spring 2022 compared with fall 2020 and spring 2021, although a mix of hybrid and online-only classes remain. Going forward, management notes that many courses will likely continue to be technology assisted through the use of the online learning management system. For fiscal 2020 and fiscal 2021, VCU received over $35.4 and $88.2 million, respectively, in federal COVID funding. In fiscal 2021, approximately $20.1 million went directly toward student aid, while $36.9 million ($12.3 million each) went to offsetting tuition and fee losses, auxiliary revenue losses, and COVID-related expenses. In addition, $31.2 million was passed directly through to the VCU Health System. Between the increase in state appropriations, COVID-funding and various cost saving initiatives, the university was able to post a small full accrual surplus in fiscal 2021. Occupancy at the various housing projects has improved to 95.1% in fall 2021 from 80.4% in fall 2020 and management is confident that it will achieve its budget of break-even on a cash basis in fiscal 2022.

## Credit overview

We assessed VCU's enterprise profile as very strong, characterized by relatively stable management and solid retention offset by declining total FTE enrollment and weakening selectivity. We assessed VCU's financial profile as very strong, with healthy available resource ratios and improved operations, although somewhat due to the one-time CARES stimulus. Maximum annual debt service (MADS) burden is relatively low. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'aa-, and a final rating of 'AA-'.

The rating reflect our opinion of the university's:

- Status as one of the three major research institutions in the commonwealth with $363 million of sponsored research awards in fiscal 2021;
- Solid improvement in fundraising over time; and
- Improved operations and available resources which are comparable to peers.

Partially offsetting the strengths, in our view, are the university's:

- Declining enrollment and weaker demand metrics compared with peers; and
- Additional debt plans, including the use of CP, which may somewhat weaken available resources.

VCU is a public, urban research university, located in Richmond, Va. The university is composed of two main campuses in the city of Richmond: the Medical College of Virginia (MCV) Campus, located near the financial, governmental and retail district in downtown Richmond, and the Monroe Park Campus, situated two miles to the west of downtown. The university's teaching hospital, MCV, is the largest medical center in Virginia, with more than 800 beds. In addition to the two primary campuses in Richmond, the university also has a branch campus known as the VCU School of the Arts in Qatar, in Education City, Doha, Qatar, along with some other branch campuses associated with the VCU School of Medicine and VCU School of Pharmacy located in Falls Church, Va. Effective July 1, 2008, the commonwealth granted the university Tier 3 status pursuant to the Restructuring Act of 2005, which allows the university to remain a commonwealth institution but exercise more autonomy over its operations, including procurement, capital outlay, finances, and human resources. Virginia Polytechnic Institute and State University, College of William and Mary, George Mason University, James Madison University and the University of Virginia are also Tier 3 institutions.

## Environmental, social, and governance

Vaccine progress in the U.S. has helped alleviate some health and safety social risks stemming from COVID-19; however, in our view, VCU, like other not-for-profit colleges and universities, continues facing potential operational pressures in light of emerging COVID-19 variants. We believe management has taken prudent actions regarding health and safety -- vaccinations were required for registration for the Fall '21 and Spring '22 semesters, and masks were required in classrooms and clinical settings, but as of March 21 are optional in most indoor spaces. VCU reported that more than 97% of faculty and staff and more than 95% students are vaccinated. We believe that VCU's governance, along with environmental risks, are in line with our view of the sector.

## Stable Outlook

### Downside scenario

We could consider a negative rating action if enrollment continues to decline and sizable operating deficits return or if available resources deteriorate materially from current levels. Substantial debt issuance without commensurate growth in resources would be viewed negatively.

### Upside scenario

We could consider a positive rating action if VCU stabilizes enrollment, improves demand metrics such as selectivity and matriculation and operations remain positive on a full-accrual basis. Available resource growth relative to operations and debt from current levels would also be viewed favorably.

(For more information, see our full analysis on Virginia Commonwealth University published April 1, 2022, on RatingsDirect.)

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

| Ratings Detail (As Of April 1, 2022) | | |
|---|---|---|
| Virginia Commonwealth Univ comm paper gen rev pledge notes ser 2019A | | |
| *Short Term Rating* | A-1+ | Outlook Revised |
| Virginia Commonwealth Univ comm paper gen rev pledge notes ser 2019B | | |
| *Short Term Rating* | A-1+ | Outlook Revised |
| Virginia Commonwealth Univ gen rev pledge rfdg bnds | | |
| *Long Term Rating* | AA-/Stable | Outlook Revised |
| Virginia Commonwealth Univ gen rev pledge rfdg bnds | | |
| *Long Term Rating* | AA-/Stable | Outlook Revised |
| Virginia Commonwealth Univ Gen Rev Pldg Bnds ser 2020A dtd 06/08/2020 due 11/01/2050 | | |
| *Long Term Rating* | AA-/Stable | Outlook Revised |
| Virginia Commonwealth Univ Gen Rev Pldg Bnds ser 2020 dtd 06/08/2020 due 11/01/2050 | | |
| *Long Term Rating* | AA-/Stable | Outlook Revised |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.