MOODY'S RATINGS

CREDIT OPINION
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Virginia Commonwealth University, VA

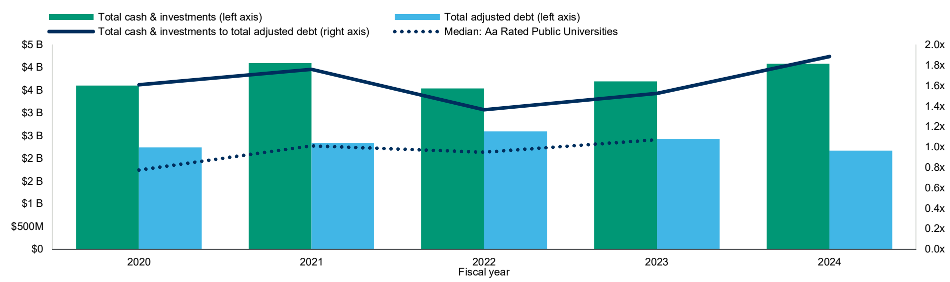
Update to credit analysis

Summary

Virginia Commonwealth University's (VCU, Aa3 stable) excellent strategic positioning translating to continued enrollment growth prospects. The university will continue to benefit from its location within the state capital of Richmond, VA and strong academic medical center affiliation with the Virginia Commonwealth University Health System Authority (VCUHSA, Aa3 stable).Its large size and scale of operations at nearly $5 billion on a consolidated basis combined with stable and ongoing operating and capital support from the Commonwealth of Virginia (Aaa stable) further contributes to maintenance of sustainable operations. A low average age of plant, along with sound wealth and liquidity levels support prospects for ongoing favorable coverage to debt. Offsetting factors include a sizeable pension obligation, elevated competition for research awards and potential increases in direct debt to funding upcoming capital projects.

Exhibit 1

Total Cash and Investments gains and manageable leverage expected to continue



Source: Moody's Ratings

Credit strengths

- Strong market profile as a public urban research university and academic medical center with nearly $5 billion of operating revenue
- Ongoing support for operations and capital from the Aaa-rated Commonwealth of Virginia, including active state oversight
- Sound consolidated total cash and investment to adjusted debt and operating expenses, at 1.9x and 0.9x, respectively

Credit challenges

- Modest EBIDA margins on both a consolidated and university only basis, 11.5% and 8.3% respectively
- Tuition revenue growth constrained by very competitive student market and high reliance on in-state students
- Debt service coverage on a university-only basis at 2.5x is narrow compared to peers

Rating outlook

The stable outlook incorporates maintenance of EBIDA margins in the low double digits coupled with continued growth of wealth and liquidity. Further, the university's favorable academic and health care brands will continue to support the core strength of the university's credit profile.

Factors that could lead to an upgrade

- Marked increase in liquidity and other flexible reserves, including heightened donor support
- Sustained improvement in operating performance at both the university and the health system
- Strengthening of the student market profile, in part reflected in increased geographic diversification of the student population and associated improvement in tuition revenue flexibility
- Commercial Paper: Not applicable

Factors that could lead to a downgrade

- Downturn in operating performance, reflected in a sustained move to deficit operations
- Material erosion of unrestricted liquidity
- A decline in VCUHSA' credit quality given significant consolidated exposure to the health system authority
- Commercial Paper: Material adverse changes to VCU's access to capital markets or significant reduction in liquidity

Key indicators

Exhibit 2

Virginia Commonwealth University - Consolidated results of VCU, VCUHS, and component units

	2020	2021	2022	2023	2024	Median: Aa Rated Public Universities
Total FTE Enrollment	25,943	25,538	25,121	25,438	25,675	31,582
Operating Revenue ($000)	5,010,291	3,863,136	4,170,271	4,423,381	4,984,895	1,560,341
Annual Change in Operating Revenue (%)	-1.4	-22.9	8.0	6.1	12.7	4.9
Total Cash & Investments ($000)	3,602,299	4,098,099	3,535,680	3,694,658	4,083,922	2,146,033
Total Adjusted Debt ($000)	2,241,688	2,330,673	2,590,316	2,427,658	2,166,989	1,760,397
Total Cash & Investments to Total Adjusted Debt (x)	1.6	1.8	1.4	1.5	1.9	1.1
Total Cash & Investments to Operating Expenses (x)	0.7	1.1	0.9	0.8	0.9	1.2
Monthly Days Cash on Hand (x)	185	263	203	189	194	189
EBIDA Margin (%)	7.2	12.0	9.3	6.3	11.5	11.7
Total Debt to EBIDA (x)	3.1	2.3	3.4	4.6	2.2	4.4
Annual Debt Service Coverage (x)	4.4	7.4	5.3	3.4	6.5	3.2

Source: Moody's Ratings

Exhibit 3

Virginia Commonwealth University - University only

	2020	2021	2022	2023	2024	Median: Aa Rated Public Universities
Total FTE Enrollment	25,943	25,538	25,121	25,438	25,675	31,582
Operating Revenue ($000)	1,133,751	1,182,053	1,287,729	1,278,174	1,401,209	1,560,341
EBIDA Margin (%)	7.7	11.8	14.3	4.8	8.3	11.7
Annual Debt Service Coverage (x)	1.9	4.1	4.6	1.6	2.7	3.2

Source: Moody's Ratings

Profile

Virginia Commonwealth University is a comprehensive public university and academic medical center, established from the merger of two organizations in 1968. The university is a component of a larger system that includes a Health System Authority (VCUHSA) and multiple foundations. VCU is located in Virginia's state capital of Richmond.

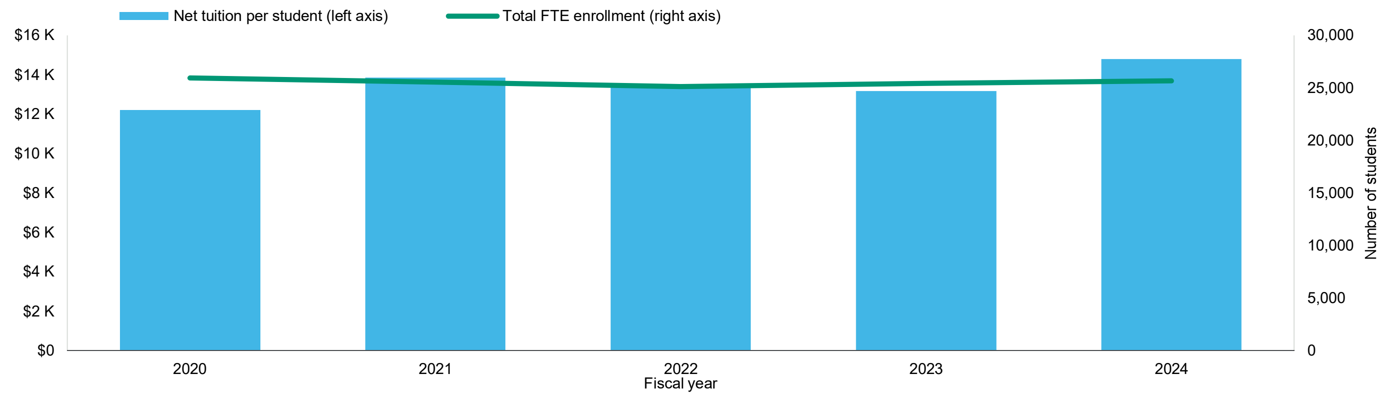
Detailed credit considerations

Market position:

VCU continues to be positioned as a significant, urban-centered public university with a strong emphasis on health science through its affiliations, particularly VCUHSA (VCU Health System Authority). The university has demonstrated enrollment stability, with a balanced offering of undergraduate and graduate/professional programs. The predominance of in-state students and the demographic trends in Virginia will continue to contribute to VCU's enrollment stability. Furthermore, the VCU Health System continues to solidify its market presence and commitment to serving a broad patient base, including significant Medicaid and indigent care, bolstered by favorable reimbursement dynamics. Longer term prospects for growth include programmatic expansion, online learning capabilities, and strengthening of its offerings in the School of Medicine, Nursing, Pharmacy, and College of Health Professions. Further, VCU's commitment to increasing its nonresident student mix reflects a strategic move to diversify its enrollment and enhance its national profile.

Exhibit 4

Competitive tuition pricing will continue support the university's enrollment management efforts despite competition



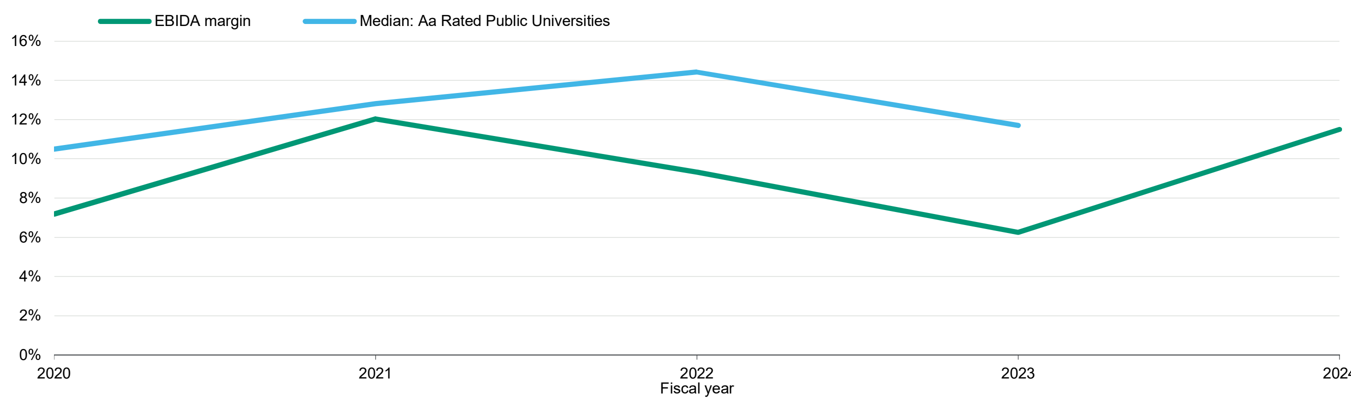
Source: Moody's Ratings

Operating performance

EBIDA margins will continue to be in the high single digit to low teens over the near term. Enrollment growth prospects, growing research enterprise and programmatic expansion will contribute to operational results. Further, ongoing stable state support for both capital and operations provides stability to margins. The university will continue to remain economically important to the Richmond region with nearly $5 billion in operating revenue on a consolidated basis. Exposures to patient care will continue to impact operational performance with approximately 72% of revenue coming from patient care versus 11% for student charges and 8% for state appropriations.

Exhibit 5

EBIDA margins will continue to be suppressed compared to peers



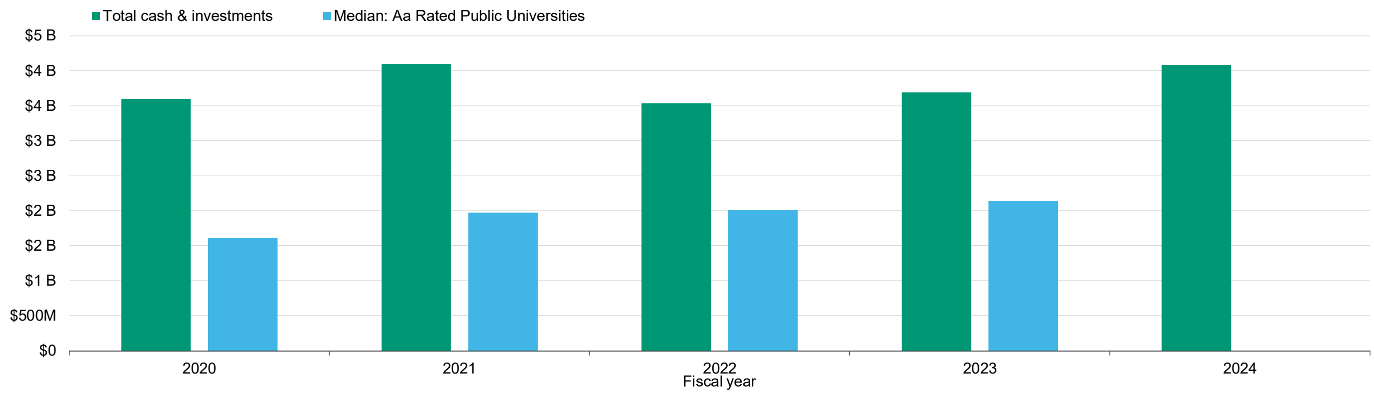
Source: Moody's Ratings

Wealth and liquidity

Gift support will continue to underpin growing cash and investments. Recent growth of wealth and liquidity will continue to be driven by retained surpluses, particularly from the health system, favorable investment market returns, and the success of the university's comprehensive capital campaign, with just over $200 million raised in fiscal 2024. VCU's approach to managing its cash and investments, with clear delineation between short-term and long-term tiers, positions it to navigate the complexities of its liquidity needs and the investment landscape. The short-term pool, managed through operating bank accounts and short-term investment managers, alongside the long-term funds managed by VCIMCO, reflects a strategic approach to liquidity and investment returns. The outcomes of VCU's financial strategies, including its philanthropic endeavors, investment management, and resource allocation, will be integral to its capacity to fund capital investments, support programmatic expansion, and grow its endowment.

Moderate university-only liquidity will continue to be somewhat mitigated by the university's largely fixed rate debt portfolio and limited calls on liquidity, in addition to a bank line for the $75 million commercial paper program. The university uses its own liquidity to provide support its commercial paper program. Daily self-liquidity coverage is strong with and excluding the $75 million dedicated bank facility from JPMorgan Chase Bank.

Exhibit 6
Total Cash and investments compared to peers provides strength to offset modest margins



Source: Moody's Ratings

Leverage and Coverage

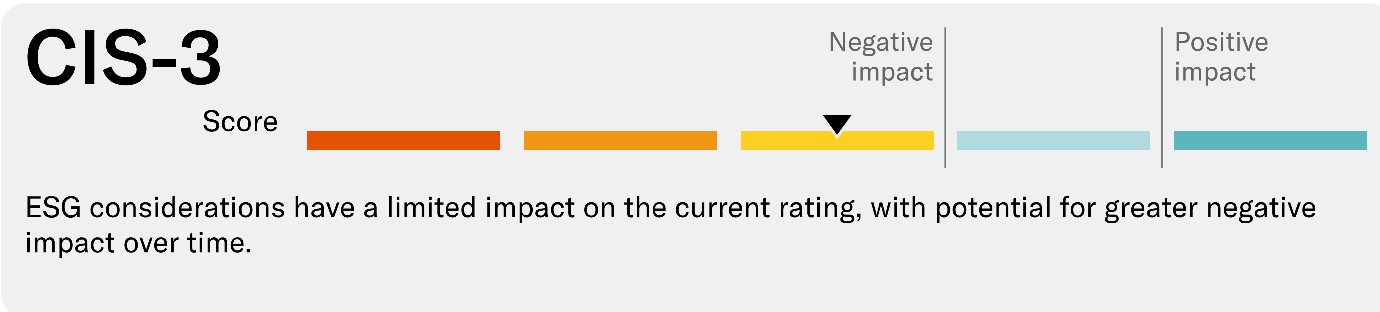
While the university is currently contemplating some near term debt, an internal policy to keep debt service on general revenue debt below 6% of operating expenses aids in maintaining manageable leverage, a policy we expect to continue. With its liquidity VCU is well-equipped to navigate financial challenges and seize strategic opportunities without undue reliance on additional debt. The partnership with American Campus Communities (ACC) for student housing reflects VCU's multiple source approach to infrastructure development and student services. VCU has a robust multi-year strategic capital plan of which a largest housing project that is currently in the planning stages and may require debt. The university is currently still in the RFP design process for the housing project and expects to make funding decision in the late summer or early fall. VCU's all-fixed-rate debt structure provides predictability in debt service budgeting, contributing to financial stability.

VCU's all-fixed-rate debt structure provides predictability in debt service budgeting, contributing to financial stability. The distinction between university and VCU Health System Authority debt, with separate security pledges, underscores a strategic approach to debt management that aligns with the specific financial dynamics and risks of each entity. This separation ensures that the financial health of one does not unduly impact the other, allowing each to pursue its objectives. Total consolidated outstanding direct debt as of FYE 2024 was $1.2 billion while VCU only debt was approximately $506 million. Additionally, total cash and investments favorably covered adjusted debt by 1.9x.

ESG considerations

Virginia Commonwealth University, VA's ESG credit impact score is CIS-3

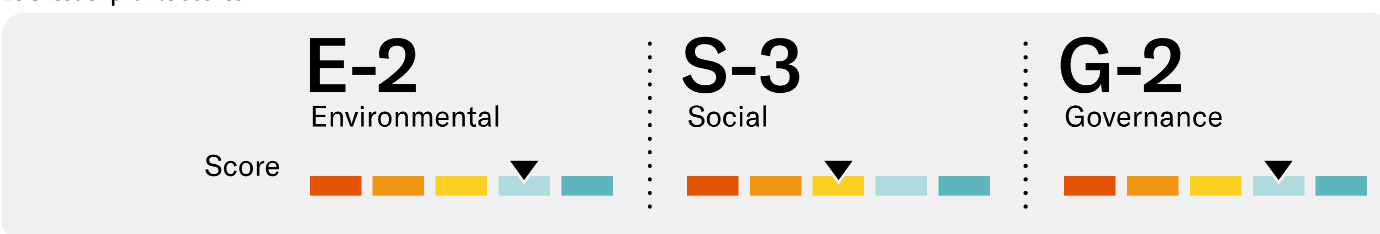
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Virginia Commonwealth University's (**CIS-3**0 indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. The university's sizable scale and scope of operations combine with steady operating and capital support help mitigate exposure to ESG risks.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

VCU's environmental risks (**E-2**), encompass VCU's location in the City of Richmond, Virginia reflective of medium to high exposure to water stress, hurricane effects and wildfire hazards. Regarding carbon transition and sustainability, VCU is currently preparing a roadmap to meet impactful goals.

Social

VCU's social risks (**S-3**) the university's important role in Virginia's capital city, as a comprehensive university and academic medical center, with established ties to the Virginia Commonwealth University Health System Authority that provides tertiary and quaternary care in the Richmond region. The risk profile further incorporates consistent operating and capital support and alignment with State of Virginia education priorities, and risks associated with customer relations at the related health system. In-state and regional demographic pressures and tuition affordability commitments introduce credit risks impacting enrollment and net tuition growth over the longer-term since the university continues to draw the bulk of students from in-state. Human capital risks are informed by rising wage pressures and a large unfunded pension liability.

Governance

VCU's governance risk (**G-2**). reflects the close coordination and strategic alignment of the health system and university, as well as the long-standing operating and capital support from the Commonwealth of Virginia. Moderately negative risk around organizational structure is informed by the presence of multiple support foundations, as well as the need for close coordination with the Health System Authority. Favorably, governance of the university and healthcare entities remains aligned. A Virginia statutory requirement holds that the president of the university and vice president for the health sciences of the university, as well as five non-legislative members of the university's board of visitors, serve as voting members of the board of directors for the health system. In addition, the president of the university serves as chairman of the health system board. However, similar to many public universities, board structure risks at the university are introduced by the selection process, with the 16 members of the board of visitors appointed by the Virginia governor. This structure adds exposure to potential political considerations which could create misalignment to institutional priorities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 9

Virginia Commonwealth Universtiy

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	4,985	Aaa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	A	A
	Operating Environment	Aa	Aa
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	12%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	4,084	Aaa
	Total Cash and Investments to Operating Expenses	0.9	Aa
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	1.9	Aa
	Annual Debt Service Coverage	6.5	Aaa
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Aa	Aa
	Scorecard-Indicated Outcome		Aa2
	Assigned Rating		Aa3

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

VCU university, VCUHS and component organizations unless noted otherwise.
Source: Moody's Ratings

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