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

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Credit Profile

Virginia Commonwealth Univ

Long Term Rating

AA-/Stable

Affirmed

Credit Highlights

- S&P Global Ratings 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 outlook on all ratings is stable.

Security

Total debt at the end of June 30, 2024, equaled \$527.4 million, including \$112.7 million of financing leases and installment purchases, \$91.1 million of direct purchase debt, and \$14.0 million of foundation debt. A general obligation pledge secures all debt issued by the university. Additional debt is possible within the outlook period, which we will assess at the time of issuance. Given current debt ratios relative to medians, we believe the university has some debt capacity.

We base our 'A-1+' short-term rating on VCU's \$75 million CP program on the university's self-liquidity. There was no outstanding balance on the program at fiscal year-end 2024. We understand that pursuant to the issuing and paying agent agreement, the maximum amount of CP notes maturing within any five-business-day period is limited to \$37.5 million. The 'A-1+' rating reflects VCU's ability to meet optional and mandatory tenders under a failed remarketing. As of Dec. 31, 2024, VCU had \$214.6 million in same-day discounted assets, including \$75 million of same-day liquidity support from Bank of America N.A. to cover any potential draws on its CP program, which provides sufficient coverage, in our opinion.

Credit overview

We assessed VCU's enterprise risk profile as very strong, characterized by incremental growth in enrollment, increased applications, and solid retention. We expect enrollment growth will continue to be spurred by both undergraduate and graduate students, as well as online programs. We assessed VCU's financial profile as very strong, with healthy financial resource ratios and improved operations driven largely by increasing state appropriations. The maximum annual debt service (MADS) burden is moderate when including financing lease payments. We believe these credit factors, combined, lead to anchor of 'aa-' and a final rating of 'AA-'.

The rating reflects our opinion of the university's:

- Healthy financial resource ratios for the rating;
- Solid success in fundraising; and

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- Status as one of the three major research institutions in Virginia, and that received \$506.9 million of sponsored research awards in fiscal 2024 under half of which is federally funded.

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

- Weaker demand metrics in areas such as selectivity, matriculation, and graduation rates compared with those of peers; and
- Operating deficits in the past two years caused by inflationary and wage pressures, although there has since been improvement.

VCU is a public, urban, R1 designated research university, located in Richmond, Va. It is composed of two main campuses in the city of Richmond: the Medical College of Virginia (MCV) Campus near the financial, governmental, and retail district in downtown Richmond; and the Monroe Park Campus, situated two miles 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 has a branch campus in Education City in Doha, Qatar, known as VCUarts Qatar, along with some other branch campuses associated with the VCU School of Medicine and VCU School of Pharmacy located in Falls Church, Va.

Although the situation with federally funded research continues to evolve, we believe that VCU has sufficient liquidity and expense flexibility to address temporary delays or pauses in federally funded research grants in the short term.

Environmental, social, and governance

We analyzed VCU's environmental, social, and governance (ESG) credit factors pertaining to the university's market position, management and governance, and financial performance. We view VCU's ESG factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that financial resource ratios will remain solid and consistent for the rating. We expect incremental growth in enrollment over time and operations to normalize to about breakeven.

Downside scenario

We could consider a negative rating action if enrollment declines substantially resulting in sizable operating deficits or if financial resources deteriorate materially from current levels. We would view negatively substantial debt issuance without commensurate growth in resources.

Upside scenario

We could consider a positive rating action if VCU improves demand metrics to levels consistent with those of higher-rated peers. Positive full-accrual surpluses would be viewed favorably along with financial resource growth.

Credit Opinion

Enterprise Risk Profile--Very Strong

Market position and demand

Total full-time equivalent (FTE) enrollment rose incrementally in both fall 2024 and 2025, spurred by growth in undergraduate and graduate enrollment. Approximately 76% of the enrollment is undergraduate students. Currently, VCU is not geographically diverse as it draws about 85% of its students from Virginia. Management would like to increase enrollment to 30,000 by fall 2028, with a focus on more graduate, online, and adult/nontraditional students, along with transfer and international students. With growing research funding, VCU is positioning itself as a premier research institution within the state and has quickly been integrating AI into its various programs.

In our view, while applications have been growing, fall 2024 selectivity and graduation rates remain somewhat weak compared with those of peers at 92.6% and 63.2%, respectively, while retention rates have held steady at 85%. Matriculation rates softened slightly to 21.6% from 25.0% due to continued competition and challenging demographics. VCU is trying to increase the number of international students, which might be a challenge given political headwinds and uncertain student visa situations, although there is a campus in Qatar and online initiatives. Currently international FTE enrollment accounts for only 3.8% of total FTE enrollment. Management is actively working to improve student success measures.

We view VCU's fundraising capabilities as a credit strength. To date, the university has already raised more than \$1 billion since the last campaign, which raised \$841.6 million. A new, much larger campaign is expected to be announced in fall 2025 and will be focused primarily on scholarships and professorships, with some funds directed toward research, unrestricted endowment, and capital. The campaign will run in conjunction with the VCU Health System, with 90% of the campaign goal for the university, all health science schools, and the Massey Cancer Center; and 10% specifically for the health system. The university's endowment per FTE was \$51,319 in fiscal 2024, which is higher than rating category medians and that of similarly rated peers.

Management and governance

A 16-member board of visitors governs VCU and supports the senior management team. Virginia's governor appoints board members, with confirmation from the state senate, for a maximum of two four-year terms. The board of visitors has administrative and financial oversight of VCU's activities; the board's duties and responsibilities include, among others, setting tuition and fees, developing an institutional plan, determining academic programs, establishing administrative policies, approving debt issuances, and granting degrees.

Management has remained relatively stable. The president's contract has been extended to 2030. The interim senior vice president for VCU Health Sciences and CEO of VCU Health System was made permanent as was the interim vice president for strategic enrollment management. A new senior vice president for finance and administration was promoted from within. The university continues to work through its strategic plan, Quest 2028. Major themes include diversity, student success, research and innovation, and thriving communities. Division and unit plans are being updated to align with the strategic plan. We view VCU as having solid financial policies on debt, investments, and

working cash. The university does not budget for depreciation expenses, which we do not view as best practice. However, in our opinion, the university budgets conservatively and proactively.

Financial Risk Profile--Very Strong

Financial performance

VCU generated small full-accrual operating deficits in fiscal years 2023 and 2024. In fiscal 2023, due to small enrollment declines in fall 2022 and increasing inflation and salary pressures, the result was a small, full-accrual deficit of negative 3.9%. In fiscal 2024, expense growth due to inflation remained a challenge; however, because of a sizable increase in state appropriations to \$377.4 million from \$334.4 million, coupled with growth in enrollment, VCU was able to reduce the deficit to negative 0.66%. Capital support from the state has also remained strong, with more than \$232.5 million marked for the CoStar Center for Arts and Innovation and additional planned for the Altria Research Facility.

Sponsored research remains one of VCU's strengths, increasing to \$506.9 million in fiscal 2024, up 86% from fiscal 2018. About 40% of the research funding is from federal funds and within that about half comes from the National Institute of Health (NIH). Despite the recent uncertainty about the status of future federal funding and the proposed 15% cap placed on indirect costs for all NIH grants, management remains committed to maintaining high levels of liquidity and working through various strategic reallocations, efficiencies, and adjustments over the next 12-24 months to minimize disruptions for ongoing research. Although implementation of any funding change will likely be caught up in court appeals and pending injunctions in the near-to-medium term, we believe the university is committed to research for the long term and is already exploring new and alternative funding strategies to partially offset any potential shortfalls.

VCU continues to have fairly diverse revenues. For fiscal 2024, student-dependent fees generated 39.8% of adjusted operating revenue, followed by commonwealth appropriations of 23.6% and research grants of 15.4%. State appropriations are expected to increase slightly in fiscal 2025.

Financial resources

VCU's financial resources remained solid for the rating. As of fiscal year-end 2024, cash and investments, including those held at the six foundations (except the VCU Health System), totaled \$2.0 billion, equal to 125.1% of adjusted operating expenses and 381.1% of debt. As of June 2024, VCU's endowment assets managed by VCU Investment Management Co. or VICMCO were allocated in 59.1% equities (including 14.4% in private equity), 24.7% credit and absolute return, 8.3% real assets, and 7.9% cash and equivalents. Overall holdings are very conservative, with no exposure to China investments or cryptocurrency. Similar to other public universities, VCU's reliance on endowment for operations is limited because most goes toward scholarships and other restricted uses. About 30% of the portfolio is liquid on a quarterly basis, which is sufficient given the university's debt portfolio.

Debt and contingent liabilities

The majority of VCU's debt is fixed rate with financing leases and direct purchase debt. There are no onerous covenants associated with the direct purchase debt and the chance of acceleration is fairly remote, in our view. The CP program is \$75 million and, while there might be small draws on it, we believe there is sufficient liquidity to cover any

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acceleration or failed remarketing associated with the bank debt or CP. VCU also has the necessary procedures to access funds in a timely manner.

The current debt structure includes some front-loaded debt service payments as well as some bullets. MADS remains about \$62 million or a moderate 3.8% of adjusted operating expenses. If debt service were smoothed over 30 years, the MADS burden would be lower. VCU has an established central bank, which enables the university to set aside funds for future debt service to satisfy the bullet payments. We expect some debt issuance is possible within the outlook period but believe there is some debt service capacity given the current front-loaded nature.

The university provides retirement benefits through two state-defined-benefit plans, the Virginia Retirement System's (VRS) state employee retirement plan and the Virginia Law Officers' Retirement System (the VaLORS plan), as well as two defined-contribution plans. We calculate Virginia's overall pension funded ratio aggregated across all related plans at 81.3% in fiscal 2023, which we believe is high compared with those of other states. We view VCU's pension and other postemployment benefit contributions relative to adjusted operating expense as manageable at present.

Virginia Commonwealth University, Virginia--enterprise and financial statistics						
	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
Enrollment and demand						
Full-time-equivalent enrollment	25,343	25,123	24,830	25,243	25,621	38,162
Undergraduates as a % of total enrollment	76.4	76.8	76.1	76.1	76.5	80.2
First-year acceptance rate (%)	92.6	93.1	91.0	92.8	90.6	73.7
First-year matriculation rate (%)	21.6	25.5	25.1	25.0	24.0	27.1
First-year retention rate (%)	85.1	85.4	84.0	83.3	82.9	85.6
Six-year graduation rate (%)	63.2	65.4	64.5	67.5	66.1	71.0
Financial performance						
Adjusted operating revenue (\$000s)	N.A.	1,596,357	1,466,765	1,466,407	1,357,056	MNR
Adjusted operating expense (\$000s)	N.A.	1,606,915	1,526,676	1,391,632	1,308,437	MNR
Net adjusted operating margin (%)	N.A.	(0.7)	(3.9)	5.4	3.7	2.1
Estimated operating gain/loss before depreciation (\$000s)	N.A.	78,267	20,350	144,187	110,080	MNR
Tuition discount (%)	N.A.	40.0	30.5	27.9	26.9	28.2
Student dependence (%)	N.A.	39.8	41.7	40.5	41.6	36.2
State appropriations to revenue (%)	N.A.	23.6	22.8	20.2	19.8	17.2
Health care operations dependence (%)	N.A.	3.7	3.7	3.4	3.6	MNR
Research dependence (%)	N.A.	15.4	14.5	12.8	13.6	14.5
Financial resources						
Endowment market value (\$000s)	N.A.	1,289,291	1,175,070	1,103,185	1,178,638	1,291,622
Related foundation market value (\$000s)	N.A.	1,267,498	1,154,337	1,070,631	1,146,299	MNR

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Virginia Commonwealth University, Virginia--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges & universities
	2025	2024	2023	2022	2021	2023
	Cash and investments including foundation (\$000s)	N.A.	2,009,718	1,850,268	1,752,234	1,822,872
Cash and investments including foundation to operations (%)	N.A.	125.1	121.2	125.9	139.3	116.1
Cash and investments including foundation to debt (%)	N.A.	381.1	326.1	328.2	424.3	290.2
Cash and investments including foundation to pro forma debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Debt						
Foundation debt (\$000s)	N.A.	13,953	17,749	8,020	3,825	MNR
Total debt with foundation (\$000s)	N.A.	527,354	567,356	533,956	429,598	985,387
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current MADS burden (%)	N.A.	3.9	4.0	3.8	3.4	3.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.9	13.3	15.4	15.3	12.7

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*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Ratings Detail (As Of February 19, 2025)

Virginia Commonwealth Univ comm paper gen rev pledge notes ser 2019A		
Short Term Rating	A-1+	Affirmed
Virginia Commonwealth Univ comm paper gen rev pledge notes ser 2019B		
Short Term Rating	A-1+	Affirmed
Virginia Commonwealth Univ gen rev pledge rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Virginia Commonwealth Univ gen rev pledge rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Virginia Commonwealth Univ Gen Rev Pldg Bnds ser 2020A dtd 06/08/2020 due 11/01/2050		
Long Term Rating	AA-/Stable	Affirmed
Virginia Commonwealth Univ Gen Rev Pldg Bnds ser 2020 dtd 06/08/2020 due 11/01/2050		
Long Term Rating	AA-/Stable	Affirmed

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