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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, 2022, equaled \$525.9 million, including \$22.5 million drawn from the commercial paper program, \$103.4 million of financing leases and installment purchases and \$32.8 million of direct purchase debt. A general obligation pledge secures all debt issued by the university. Subsequent to fiscal 2022, the university issued series 2022A and 2022B and series 2023A bonds to refund the commercial paper and other series along with \$31.4 million of new money for construction of a new technology operations center. Total pro forma debt is about \$557.4 million. When including the foundation debt of about \$8.0 million, total pro forma debt is about \$565.4 million.

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 2022, total CP equaled \$22.5 million which was subsequently refinanced as noted above. 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. 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 JP Morgan Chase Bank, N.A. was \$183.05 million as of June 30, 2023, which provides sufficient coverage for the maximum \$75 million, in our opinion.

Credit overview

We assessed VCU's enterprise risk profile as very strong, characterized by a stable and experienced management team and solid retention. While FTE enrollment has slightly declined the last few years and selectivity is weak compared with rating category medians, we expect improvement in fall 2023 with sizable growth in freshmen admissions. We assessed VCU's financial profile as very strong, with healthy financial resource ratios and improved operations, although somewhat due to pandemic-related stimulus. Maximum annual debt service (MADS) burden is moderate when including financing lease payments. We believe these credit factors, combined, lead to an indicative stand-alone credit profile of 'aa-', and a final rating of 'AA-'.

The rating reflects our opinion of the university's:

- Status as one of the three major research institutions in the commonwealth with \$405.6 million of sponsored research awards in fiscal 2022 and steady growth year over year;
- Solid success in fundraising; and
- Healthy financial resource ratios for the rating.

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

- Trend of declining enrollment over the past few years, although we are expecting some stabilization in fall 2023;
- Weaker demand metrics in areas such as selectivity and graduation and retention rates compared with peers; and
- Moderate proforma maximum annual debt service (MADS) burden of 4.4% when including financing leases.

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 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

We analyzed VCU's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. We view environmental and governance credit factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectations that financial resource ratios will remain solid and consistent for the rating. As pandemic-related stimulus is spent, we expect operations to normalize and be around break-even. Enrollment may stabilize and some demand metrics may improve over time as progress is made on the strategic plan. We do not expect additional debt at this time.

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. Although not expected, 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 and improves demand metrics to levels consistent with higher rated peers. Positive full accrual surpluses apart from stimulus funds would also 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 declined slightly for another year in fall 2022. Undergraduates have been the main driver of that decline as graduate students, while down from the record year in fall 2021, remains up over the last few years. Approximately 76% of the enrollment is undergraduate students. Currently, VCU is not geographically diverse as it draws about 85.7% of its students from Virginia. Under guidance of the strategic plan, management is undergoing an academic repositioning effort to encourage academic success via accessibility, retention and degree completion while maximizing financial efficiency. New deans have been hired at the business and engineering schools with hopes to build out experiential learning programs that are innovative and incorporate the newest technologies. Enrollment for fall 2023 is looking better with a sizable increase in preliminary freshmen matriculants to 4,600 from 4,166 the prior year due to enhanced recruiting efforts. Graduate enrollment is expected to hold fairly steady. The university continues to focus on adult/non-traditional students along with transfer and international students. Expansion of online programs for undergraduate, adult and graduate populations are underway. While the university is conservatively budgeting for relatively stable enrolment, it is working on an enrollment plan that incorporates the various student types and shows growth up to 31,500 students by fall 2028.

In our view, fall 2022 selectivity and graduation rates remain somewhat weak compared with peers at 91% and 64.5%, respectively, while matriculation and retention rates have held steady at 25.1% and 84%, respectively. Some of the weakness can be attributed to remnants of the pandemic. Management is actively working on improving student success measures.

We view VCU's fundraising capabilities as a credit strength. The university raised over \$841.6 million in the most recent "Make It Real Campaign," substantially over the \$750 million goal. VCU including the VCU Health System also recently raised \$271 million, a record in terms of annual fundraising. Management notes a healthy pipeline of donors and preliminary plans are underway for a new, larger comprehensive campaign, for various university priorities including scholarships, professorships, research and endowment. Capital will likely be a smaller portion of the campaign. Big gifts in fiscal 2023 include \$70.2 million from the Bristol Myers Squibb Foundation for a clinical trials award program. Endowment per FTE of \$86,116 in fiscal 2022 is higher than rating category medians and similarly

rated peers.

Management and governance

A 16-member board of visitors governs the 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 the 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. A new vice president of student affairs and an interim vice president for strategic enrollment management started in 2022 and 2023, respectively, and report up to the provost. An updated strategic plan, Quest 2028, was unveiled in 2022. 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

Fiscal 2021 and fiscal 2022 performance were positive on a full accrual basis, mostly bolstered by pandemic related funding which offset some of the enrollment declines. Prior to the pandemic, the university ran full accrual deficits. For fiscal 2023, the university increased tuition by 3% for the first time since 2019. However, undergraduate in-state students were able to receive a one-time waiver. Fiscal 2023 will include the remaining \$23 million in pandemic related stimulus funds. Despite this stimulus, slight enrollment declines in fall 2022 coupled with inflation and wage and salary pressures will likely result in a small cash deficit for the university. For fiscal 2024, management has implemented another 3% increase in tuition. A small increase in enrollment should help improve net tuition revenue. State appropriations are also expected to increase but given the inflationary and wage pressures, the university anticipates it will need to make strategic decisions and re-allocate resources in order to balance operations. The university continues to focus on growing sponsored research which should help with recruitment. Capital appropriations will also likely cover big projects such as the construction of a new VCU Dentistry Center and an Interdisciplinary Classroom and Lab building.

VCU continues to have fairly diverse revenues. For fiscal 2022, net tuition, and mandatory fees generated 31.7% of adjusted operating revenue, followed by commonwealth appropriations of 20%, research grants of 12.8%, and auxiliary revenue of 8.9%. Auxiliary revenues are expected to increase as occupancy improves. State appropriations are also expected to increase in fiscal years 2023 and 2024.

Financial resources

VCU's financial resources remained solid for the rating. As of fiscal year-end 2022, cash and investments, including those held at the six foundations (except the VCU Health System), totaled \$1.75 billion, equal to 125.9% of adjusted operating expenses and 309.9% of pro forma debt. As of June 2023, VCU's endowment investments were allocated in

61.7% equities (including 14.5% in private equity), 25.5% credit and absolute return, 7.5% real assets and 5.3% cash and equivalents. Management may increase its private equity investments as opportunities come up, but overall holdings are very conservative with no exposure to China investments or cryptocurrency. Similar to other public universities, VCU's reliance on its endowment for operations is limited, as most of the endowment is used for scholarships and other restricted use. About 30% of the portfolio is liquid on a quarterly basis.

Debt and contingent liabilities

The majority of VCU's debt is fixed rate with only a small percentage in commercial paper, financing leases and direct purchase debt. There are no onerous covenants associated with the direct purchase debt and the chances of acceleration as fairly remote, in our view. We also believe there is sufficient liquidity to cover any acceleration or failed remarketing associated with the bank debt or commercial paper. VCU also has the necessary procedures to access funds in a timely manner.

The current debt structure includes some bullets, which are smoothed over their respective maturities, 30 years and 13 years. We use this adjusted debt service in addition to financing lease costs to get pro forma MADS of \$61.3 million or a moderate 4.4% of adjusted operating expenses. VCU has an established central bank, which enables the university to set aside funds for future debt service to satisfy the bullet payments. Because of the strong state support for key capital projects and robust fundraising, VCU does not expect it will need to issue additional debt within the outlook period.

The university provides retirement benefits through two state-defined-benefit plans, the VRS State Employee Retirement Plan and the VaLORS plan, and two defined-contribution plans, the Optional Retirement Plans and the Select Plan. We calculate Virginia's overall pension funded ratio aggregated across all related plans at 82.3%, which we believe is high compared with other states. We view VCU's pension and OPEB contribution relative to adjusted operating expense as manageable at this time.

Virginia Commonwealth University, Virginia--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2023	2022	2021	2020	2019	2022
Enrollment and demand						
Full-time-equivalent enrollment	24,830	25,243	25,621	26,432	27,431	41,783
Undergraduates as a % of total enrollment	76.1	76.1	76.5	77.6	77.8	80.2
First-year acceptance rate (%)	91.0	92.8	90.6	87.1	77.1	73.2
First-year matriculation rate (%)	25.1	25.0	24.0	29.6	32.0	27.0
First-year retention rate (%)	84.0	83.3	82.9	82.9	84.7	86.8
Six-year graduation rate (%)	64.5	67.5	66.1	67.2	67.3	71.0
Income statement						
Adjusted operating revenue (\$000s)	N.A.	1,466,407	1,357,056	1,290,244	1,232,887	2,148,374
Adjusted operating expense (\$000s)	N.A.	1,391,632	1,308,437	1,298,745	1,275,076	2,030,534
Net adjusted operating margin (%)	N.A.	5.4	3.7	(0.6)	(3.3)	3.2
Estimated operating gain/loss before depreciation (\$000s)	N.A.	145,894	111,811	58,098	25,919	MNR

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

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2023	2022	2021	2020	2019	2022
Tuition discount (%)	N.A.	27.9	26.9	26.6	23.6	28.2
Student dependence (%)	N.A.	40.5	41.6	45.2	49.0	37.0
State appropriations to revenue (%)	N.A.	20.2	19.8	19.6	19.2	17.3
Health care operations dependence (%)	N.A.	3.4	3.6	3.3	2.6	MNR
Research dependence (%)	N.A.	12.8	13.6	13.9	13.4	13.4
Debt						
Outstanding debt (\$000s)	N.A.	525,936	425,773	444,587	464,898	931,471
Foundation debt (\$000s)	N.A.	8,020	3,825	4,786	7,114	MNR
Total debt with foundation (\$000s)	N.A.	533,956	429,598	449,373	472,012	1,142,825
Proposed debt (\$000s)	N.A.	67,910	52,718	N.A.	101,925	MNR
Total pro forma debt (\$000s)	N.A.	565,403	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.3	2.5	3.4	3.1	MNR
Current MADS burden (%)	N.A.	3.8	3.4	3.4	3.8	3.4
Pro forma MADS burden (%)	N.A.	4.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.4	15.3	13.7	12.5	13.5
Financial resource ratios						
Endowment market value (\$000s)	N.A.	1,103,185	1,178,638	860,635	849,257	1,102,535
Related foundation market value (\$000s)	N.A.	1,070,631	1,146,299	865,440	838,800	945,352
Cash and investments (\$000s)	N.A.	648,928	637,250	494,680	518,106	1,345,446
Cash and investments including foundation (\$000s)	N.A.	1,752,234	1,822,872	1,370,172	1,376,194	2,837,567
Cash and investments including foundation to operations (%)	N.A.	125.9	139.3	105.5	107.9	115.3
Cash and investments including foundation to debt (%)	N.A.	328.2	424.3	304.9	291.6	278.4
Cash and investments including foundation to pro forma debt (%)	N.A.	309.9	N.A.	N.A.	N.A.	MNR

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.

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 September 28, 2023)

Ratings Detail (As Of September 28, 2023) (cont.)

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

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