

ISSUER COMMENT

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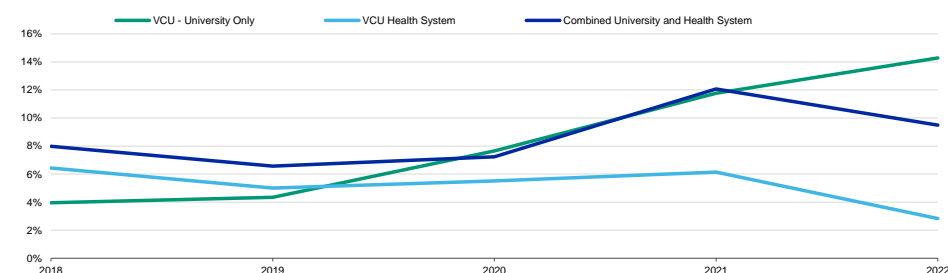
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Virginia Commonwealth University, VA

Large scale and substantial presence in Virginia's capital

[Virginia Commonwealth University's](#) (VCU, Aa3 stable) credit quality reflects its role as an urban-based comprehensive university located in the state capital of Richmond, Virginia, inclusive of an academic medical center and affiliation with [Virginia Commonwealth University Health System](#) (VCUHS, Aa3 stable). The combined VCU and VCUHS entity benefits from its sizable \$5.1 billion scope of operations, and strong, steady operating and capital support from the [Commonwealth of Virginia](#) (Aaa stable). Excellent financial policy and strategy incorporates steady combined operating performance and debt service, while still navigating post-COVID business disruptions. Financial leverage is manageable across the consolidated system. Challenges stem from the high 65% exposure to healthcare operations and associated labor costs, in addition to a sizable net pension and elevated competition for federal research funding.

Exhibit 1

Strong university operating performance bolsters system-wide EBIDA margins
Fiscal 2019-22 EBIDA margins


Source: Moody's Investors Service

Student market strengths incorporate VCU's role as a large, urban-based comprehensive public university located in the Virginia capital and strategies underway for incremental enrollment growth. Though the university's academic profile is very diverse, health science programming through its VCUHS affiliation remains important for the multiple professional health schools. VCU is focused on measured enrollment increases to offset pandemic disruptions and lagging in-state high school graduates through strategic initiatives in the areas of retention, and freshman, nonresident and online pipelines. Undergraduates comprise roughly 75% of the fall 2022 FTE enrollment of 25,121 students.

VCUHS maintains a solid market position, serving as a regional referral center and the most comprehensive medical center for much of central Virginia. Though regional market competition remains, the health system's clinical distinctions and wide geographic draw of patients is a strength, with roughly one-third of patients from outside of its primary service

area. The health system remains Virginia's largest provider of Medicaid and indigent care, and as a result, is reimbursed on a favorable cost basis for its safety net population.

Consolidated operating performance for the university and health system enterprises will remain steady, though modest, with good debt service coverage. Disciplined fiscal oversight, in addition to remaining federal and state COVID relief funds, and gains in state appropriations underpin solid operating performance. The consolidated system recorded an aggregate fiscal 2022 EBIDA margin of 9.5% and 5.4x debt service coverage. Aggregate fiscal 2023 operations are likely to be softer due to the absence of HEERF funds and slightly lower than budgeted enrollment at the university and still elevated healthcare labor costs.

Total wealth of VCU, VCUHS and component organizations was a substantial \$3.5 billion at fiscal end 2022, with roughly half attributed to the health system. Fiscal 2019-21 significant growth in wealth of about 22% stemming from surpluses, investment gains and gift support was partially allocated, largely for capital projects at the health system. Near term increases in cash and investments will be driven by university cash flow and improved gift support. Cash and investments to expenses across the consolidated system was a moderate 0.9x relative to the Aa3-median of 1.3x. System liquidity strength of 203 monthly days cash on hand stems from unrestricted cash and investments at the health system. University only monthly liquidity is a more modest 137 days. VCU Investment Management Company (VCIMCO) continues to manage the long-term fund assets for system entities. Endowment funds totaled \$1.8 billion as of November 30, 2022.

Given state capital support, limited new debt issuance and reserve use, financial leverage remains manageable despite continued capital needs. University supported debt is roughly 40% of the system wide \$1.3 billion. VCU issued \$45 million for fiscal 2023 projects and is planning around another \$98 million issue in fiscal 2024. VCU's CP program is backed by its own liquidity, with its highest short-term ratings reflecting its long-term rating, ample internal liquidity, backup bank facilities and strong treasury management. As of December 31, 2022, discounted daily assets of \$58 million provided coverage of 6.8x potential liquidity needs before consideration of a back up bank facility of \$75 million. Health system debt is separately secured by a revenue pledge of its obligated group.

Exhibit 2

Virginia Commonwealth University, VA

	2018	2019	2020	2021	2022	Median: Aa Rated Public Universities
Total FTE Enrollment	27,431	26,742	25,943	25,538	25,121	32,387
Operating Revenue (All Components) (\$000)	4,550,525	5,083,061	5,010,291	3,863,136	4,170,271	1,374,020
Annual Change in Operating Revenue (%)	9.1	11.7	-1.4	-22.9	8.0	1.5
Operating Revenue (University Only) (\$000)	1,059,607	1,097,168	1,133,751	1,182,053	1,287,729	1,374,020
Total Cash & Investments (\$000)	3,367,479	3,495,317	3,602,299	4,098,099	3,535,680	1,970,591
Total Debt (\$000)	1,090,772	1,147,662	1,113,479	1,075,164	1,325,880	733,584
Total Cash & Investments to Total Adjusted Debt (x)	1.5	1.5	1.6	1.8	1.4	1.0
Total Cash & Investments to Operating Expenses (x)	0.8	0.7	0.7	1.1	0.9	1.3
Monthly Days Cash on Hand (x)	210	188	185	263	203	203
EBIDA Margin (All Components) (%)	8.0	6.6	7.2	12.1	9.5	13.1
EBIDA Margin (University Only) (%)	4.0	4.3	7.7	11.8	14.3	13.1
Total Debt to EBIDA (x)	3.0	3.4	3.1	2.3	3.4	3.9
Annual Debt Service Coverage (x)	7.3	6.4	4.4	7.5	5.4	3.7

VCU university, VCUHS and component organizations unless noted otherwise.

Source: Moody's Investors Service

Issuer 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 (VCUHS) and multiple foundations. VCU is located in Virginia's state capital of [Richmond](#).

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