Fitch Ratings-New York-14 October 2014: Fitch Ratings affirms the 'AA+' rating on the following series of bonds issued by or on behalf of Vanderbilt University (Vanderbilt, or the university) by the Nashville & Davidson County Metropolitan Government Health & Educational Facilities Board:

--$682.1 million revenue bonds;
--$67 million floating rate notes (three-year put structure), series 2012A;
--$67 million floating rate notes (five-year put structure), series 2012B;
--$250 million taxable notes, series 2009A;

At the same time, Fitch affirms the short-term 'F1+' rating on Vanderbilt's $675 million taxable and tax-exempt commercial paper (CP) program.

The Rating Outlook is Stable.

SECURITY

General obligation of Vanderbilt, payable from all legally available funds.

KEY RATING DRIVERS

STRONG FINANCIAL PROFILE: The 'AA+' rating primarily reflects Vanderbilt's generally positive operating results; substantial balance sheet resources; manageable debt burden; and strong fundraising ability. The university's strong financial profile remains tempered by its significant exposure to the healthcare sector, via the operations of the Vanderbilt University Medical Center (VUMC).

PRUDENT DEBT MANAGEMENT: Vanderbilt's fairly conservative debt structure is the result of prudent debt management practices over the past several years, including reducing exposure to variable-rate demand debt and related interest rate hedges; increasing daily liquidity monitoring; and limiting new debt issuance. The university should therefore be well-positioned to manage a slate of potential capital projects over the next five years, portions of which are expected to be debt-financed.

REVENUE CONCENTRATION: Healthcare services provided by VUMC, which is part of Vanderbilt's primary reporting entity and consolidated within its audited financial statements, contribute approximately two-thirds of total unrestricted operating revenues to the university. Vanderbilt's limited revenue diversity is partially mitigated by the growing patient volumes and generally strong operating performance of VUMC's hospitals and clinics.

IMPRESSIVE STUDENT DEMAND: Vanderbilt's strong reputation in academics, research and clinical patient care are the basis for the university's consistently strong student demand, highly selective admissions at both the undergraduate and graduate levels, and stable enrollment levels.

RESOURCE SUFFICIENCY: The 'F1+' rating is based on Vanderbilt's ability to cover the maximum potential liquidity demands presented by its CP program by at least 1.25x from internal resources. Such resources include cash and cash equivalents and dedicated liquidity facilities.

RATING SENSITIVITIES
HEALTHCARE OPERATIONS: Due to its revenue concentration in the healthcare sector, Vanderbilt's ability to effectively manage an increasingly challenging healthcare environment and maintain positive operations at VUMC will strongly influence the rating and/or outlook.

INTERNAL LIQUIDITY EROSION: Erosion of internal liquid resources supporting Vanderbilt's CP program to a level where such resources could no longer provide at least 1.25x coverage of the program's maximum authorization would cause a downgrade of the short-term rating.

CREDIT PROFILE

Vanderbilt is a private comprehensive university and medical center located in Nashville, TN. The university consists of 10 schools and colleges, and the medical center consists of the School of Medicine, the School of Nursing, the Vanderbilt Medical Group and the Vanderbilt University Hospitals and Clinics. Fall 2013 full-time equivalent enrollment totaled 12,229 students, a 5.6% increase since fall 2008. For fall 2014, the university received more than 29,500 freshmen applications, resulting in an impressive 13% acceptance rate, with a solid 42% of accepted students choosing to enroll.

STRONG FINANCIAL PROFILE TEMPERED BY HEALTHCARE EXPOSURE

Vanderbilt's strong financial profile is primarily supported by its substantial level of balance sheet resources. Available funds, defined as cash and investments not permanently restricted, totaled $4.23 billion as of June 30, 2014 (based on draft audited statements), up from $3.85 billion as of June 30, 2013. Available funds covered fiscal 2014 operating expenses ($3.75 billion) and outstanding debt ($1.52 billion) by a healthy 113% and 278%, respectively. Like other institutions with large endowments, Vanderbilt maintains significant exposure to alternative investments, including hedge funds and private equity (about 62% as of June 30, 2014). Adjusting for these investments, available funds decline to $2.38 billion, but still cover expenses and debt by a sound 63.5% and 157%, respectively.

The university's steady operating performance provides further financial flexibility, producing consistently solid operating margins (including endowment distributions), with the exception of fiscal 2013. A one-time change in estimate of the net realizable value of patient receivables resulted in a $121 million reduction in healthcare revenue in fiscal 2013 and a 1.2% operating deficit for the university. As expected, healthcare revenues normalized in fiscal 2014 and the university generated a positive 2.1% margin (based on draft audited statements). While the fiscal 2014 margin was solid, it was below the 4% range generated the three years prior to fiscal 2013, due partly to flat growth in tuition and fee revenue and federal grant and contract revenue.

Vanderbilt's revenue base remains concentrated in healthcare operations, which typically account for two-thirds of total unrestricted operating revenues. Concern over this revenue concentration is partially mitigated by the continued growth and consistently strong operating performance of VUMC's hospitals and clinics. Vanderbilt's hospitals and clinics have consistently generated strong operating margins, historically exceeding 6%, with the exception of fiscal 2013, which was near-breakeven for the reason mentioned above. Its next largest funding sources are grants and contracts and student fee revenue.

VUMC continues to perform well due to its leading market share and sustained patient volume growth. Management noted that fiscal 2015 financial performance is tracking favorably to budget due to strong clinical operations. However, the challenging healthcare market is beginning to pressure revenues, including an aging population in Tennessee, the state not opting into Medicaid expansion, and shifts to outpatient from inpatient services. VUMC has effectively managed expenses in response to these pressures, including staff cuts, hiring freezes and building affiliations with community
hospitals. Moreover, there is no union representation at the medical center, which provides some expense flexibility. Expenses related to healthcare operations represent about 60% of total university operating expenses.

MANAGEABLE LEVERAGE POSITION

Over the past few years, Vanderbilt significantly reduced the risk profile of its debt portfolio. It refinanced its remaining variable-rate demand bonds in fiscal 2012 and continues to terminate or novate outstanding interest rate swap agreements. Including floating rate notes (FRN) and CP, Vanderbilt's debt is presently 73% fixed and 27% variable-rate. Accounting for its remaining interest rate swaps, the mix is effectively 100% fixed. As of June 30, 2014, the combined market valuation of its swap portfolio was negative $168.4 million, requiring $75.8 million of posted collateral. Fitch believes Vanderbilt maintains sufficient financial resources and management sophistication to address the risks attendant to its relatively modest exposure to FRNs, derivatives and bullet payments.

Vanderbilt's debt burden is manageable. MADS of $380 million represented a high 9.9% of fiscal 2014 unrestricted operating revenues ($3.83 billion), although this includes a $250 million bullet due in fiscal 2019 on the university's taxable series 2009A bonds. Amortizing this bullet over the 10-year life of the bonds, the debt burden is about 4%, which Fitch considers moderate. As indicated by its 'AA+' rating, Fitch expects Vanderbilt will maintain strong market access to manage large bullet maturities and the mandatory tenders associated with its series 2012 FRNs.

Future capital needs are relatively modest. Vanderbilt has approximately $230 million of potential projects planned over the next five years (through fiscal 2019), $155 million of which may be debt financed. Fitch notes positively that the university will also have amortized a similar amount of existing principal debt over this time period, offsetting the impact of adding leverage. Vanderbilt has not issued new money debt since fiscal 2009, opting instead to fund capital expenditures with gifts and internal cash reserves.

LIQUID RESOURCES SUPPORT SHORT-TERM DEBT

The 'F1+' rating is based on the availability of highly liquid, highly rated securities to cover potential maximum liquidity demands presented by Vanderbilt's taxable and tax-exempt CP program. To supplement internal liquidity sources, the university maintains the ability to draw on two dedicated hybrid lines of credit in the aggregate amount of $400 million. Of Vanderbilt's substantial cash and investments, approximately $1.13 billion, including cash, cash equivalents and money market funds was available on a same- or next-day basis as of Aug. 31, 2014.

On a combined basis as of Aug. 31, 2014, Vanderbilt's liquid assets totaled $1.53 billion and covered its total CP authorization of $675 million ($210 million outstanding as of Aug. 31, 2014) by a healthy 2.27x. Fitch typically expects coverage of at least 1.25x for an 'F1+' rating. The aforementioned calculation excludes Vanderbilt's two series of floating rate put bonds that total $134 million and have mandatory tenders in October 2015 and October 2017. However, even when including these bonds, coverage would still be a solid 1.90x. To minimize potential calls on its liquidity, the university limits the amount of CP notes that can come due on a given day to $50 million and in a given week to $100 million. Vanderbilt maintains liquidation procedures detailing the process by which a need for internal liquidity would be managed that are updated quarterly, reflecting favorably on management.

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