

28 APR 2022

Fitch Affirms Vanderbilt University, TN at 'AAA'; Outlook Stable

Fitch Ratings - Chicago - 28 Apr 2022: Fitch Ratings has affirmed the 'AAA' Issuer Default Rating (IDR) for Vanderbilt University, TN (VU). Fitch has also affirmed at 'AAA' approximately \$116 million of taxable revenue bonds, series 2016 issued by the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee on behalf of VU. In addition, Fitch has affirmed the 'F1+' Short-Term ratings on VU's \$300 million taxable and tax-exempt commercial paper (CP) program.

The Rating Outlook is Stable.

SECURITY

The bonds are an unsecured general obligation of Vanderbilt, payable from all legally available funds.

ANALYTICAL CONCLUSION

The 'AAA' IDR and bond ratings reflect Vanderbilt's very strong demand characteristics, continued strength in tuition growth prospects and pricing flexibility, its well-diversified revenue base and consistently solid operating cash flow margins, which are all anchored by a robust resource base and relatively low leverage. Vanderbilt has effectively preserved its operating performance through the pandemic, with consistent growth in net student fees, healthy yet sustainable support from a sizeable endowment, and some curtailment of capital spending.

Capital plans going forward are expected to be sizeable, and funded with a mix of debt, philanthropy, and university resources. With over \$10.4 billion in available funds, against a relatively low adjusted debt level (\$697 million), the Stable Outlook reflects VU's ample financial flexibility to execute its plans and is further supported by an expectation of stable demand and operating performance.

The 'F1+' Short-Term rating corresponds to VU's 'AAA' IDR and is consistent with a contingent liability assessment and coverage of maximum potential liquidity demands presented by VU's CP program from immediately available liquid resources. Under an amended and restated note, VU increased its CP authority to \$300 million (from \$200 million). It retains \$375 million across three lines of credit for its liquidity needs, with nothing drawn to date.

KEY RATING DRIVERS

Revenue Defensibility: 'aaa'

Very Strong Demand and Well-Diversified Revenues

Vanderbilt retains excellent demand characteristics and a favorable position in its region and nationally, with very selective admissions, a solid application pipeline, and strong freshman retention levels near 96%. Revenue sources are balanced between net student fees, research funding, contractual payments from Vanderbilt University Medical Center (VUMC), investment and endowment support and fundraising.

Operating Risk: 'aa'

Strong Cash Flow Margins; Robust Fundraising for Capex

Vanderbilt is a consistent operator, leveraging effective cost management through the pressures of the pandemic. Its cash flow margins improved in fiscal 2020 and 2021, as management attention to expenses yielded results. While capital spending was curtailed in 2021, spending over time has been consistent as reflected in an average age of plant around 12 years. VU has sizable long-term capital plans, centered on student experience and including new residential colleges to replace traditional campus housing, as well as some athletics and STEM-focused plans. A solid track record on philanthropy will support these needs in part, along with additional debt and other university resources.

Financial Profile: 'aaa'

Exceptional Resource Base with Low Leverage

VU's extraordinary wealth and low leverage support the 'aaa' financial profile assessment. Its endowment increased materially in fiscal 2021 with strong market performance, and as of FYE 2021, available funds (cash and investments not permanently restricted) exceeded \$10.4 billion, more than 15x the university's adjusted debt. The 'aaa' profile remains resilient in the context of Fitch's stress scenario, including a plausible market contraction and inclusive of VU's debt and capital plans.

Asymmetric Additional Risk Considerations

No asymmetric factors affected the ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Significant unexpected deterioration in wealth or available funds, whether due to operating or investment stress or due to capital and debt plans, such that available funds-to-adjusted debt deteriorates materially to approximately 400%-500% or less.

--Severe financial stress that results in a material deterioration to VU's operating cash flow margin to a level inconsistent with its 'aa' Operating Risk assessment, if sustained over time, could pressure the rating.

--Material erosion in internal liquidity resources and substantial downward movement in VU's long-term rating could negatively affect the short-term rating, but is not expected.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

Founded in 1873, VU is a private comprehensive university located in Nashville, TN. In fall 2021, VU had 7,111 undergraduate and 6,685 graduate/professional in headcount enrollment across its 10 colleges. VU has an ongoing economic relationship with the legally separate Vanderbilt University Medical Center (A/Stable) via an Academic Affiliation Agreement (AAA), a Trademark Licensing Agreement (TLA), a Master Service Agreement (MSA), and a ground lease.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Vanderbilt University (TN)	LT IDR	AAA ●	Affirmed	AAA ●
• Vanderbilt University (TN) /General Revenues/ 1 LT	LT	AAA ●	Affirmed	AAA ●
• Vanderbilt University (TN) /Self-	ST	F1+	Affirmed	F1+

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Liquidity/ 1 ST			

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.01 Sep 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance College and University Rating Criteria \(pub.04 Nov 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.3 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Vanderbilt University (TN) EU Endorsed, UK Endorsed

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