S&P Global
Ratings

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The Health & Educational Facilities Board of the Metro Government of Nashville & Davidson County, Tennessee
Vanderbilt University; CP; Private Coll/Univ - General Obligation

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The Hlth & Ed Facs Brd of the Metro Govt of Nashville & Davidson Cnty, Tennessee		
Vanderbilt Univ, Tennessee		
Nashville & Davidson Cnty Metro Govt Hlth & Ed Fac Brd (Vanderbilt Univ)		
Long Term Rating	AA+/Positive	Affirmed
Vanderbilt Univ CP		
Short Term Rating	A-1+	Affirmed

Rating Action

S&P Global Ratings revised the outlook to positive from stable and affirmed its 'AA+' long-term rating on Vanderbilt University (VU), Tenn.'s debt outstanding. At the same time, S&P Global Ratings affirmed its 'A-1+' short-term rating on VU's commercial paper (CP) programs.

We revised the outlook to positive given Vanderbilt's history of exceptional operating performance post-separation from the medical center; recent increase in the endowment, which adds balance sheet strength; and the continued increasing selectivity and matriculation. We could raise the rating to 'AAA' depending on further balance sheet growth, given market returns and more near-term clarity regarding VU's future debt issuance plans if balance sheet metrics continue to improve and remain in line with those of higher-rated peers.

The short-term rating reflects our view of VU's adequate liquidity, sufficiency of the pledged assets, and unsecured general obligation (GO) pledge. The university committed several sources of funds to guarantee the full and timely purchase of any obligations tendered in the event of a failed remarketing. We believe the funds, which are held in high-quality, fixed-income securities, provide ample liquidity. To supplement cash and securities, VU also maintains three general-use lines of credit with a maximum commitment of $375 million. Management has established clear and detailed procedures to meet liquidity demands as needed. We will monitor the credit quality, liquidity, and sufficiency of the assets that the university pledges monthly. At fiscal year-end, June 30, 2020, Vanderbilt had no CP outstanding. However, the university does plan to use its CP program to help fund capital programs in the future. In July 2021 (fiscal 2022), the university issued $50 million of CP to help fund internal projects and a strategic real estate acquisition. At present, Vanderbilt does not plan to issue significant additional amounts under its CP program over the medium term. As of June 30, 2021, VU had $1.8 billion in same-day discounted assets to cover any potential future draws on its CP program.

As of fiscal year-end 2020, Vanderbilt had $542 million in fixed-rate debt. In August 2019, the university entered into a private-placement agreement for $100 million. VU entered into a rate-lock agreement but only drew on the funds on July 1, 2020 (fiscal 2021). With that issuance, total debt outstanding debt rose to $642 million. Vanderbilt also adopted the new Financial Accounting Standards Board (FASB) operating lease accounting rules in fiscal 2020 and reported $66 million in lease liabilities, which we view as modest relative to debt levels and resources. All debt is an unsecured GO of the university.

As a result of the COVID-19 outbreak, Vanderbilt transitioned all undergraduate and graduate course instruction to an online format in March 2020 through the remainder of the academic year. Most students left the campus, with those who remained subject to social-distancing measures and reduced on-campus services. Most faculty and staff, including those engaged in nonessential research, transitioned to remote work. For fall 2020 and spring 2021, Vanderbilt operated in a hybrid mode of instruction. Graduate coursework varied by program, but generally involved a combination of in-person and virtual instruction. As a result, there was no disruption in academic credit activity. Vanderbilt's overall enrollment increased for fall 2020 at both the undergraduate and graduate levels and was minimally affected by declines in international enrollment. For fall 2021, Vanderbilt has mandated vaccinations for all students, faculty, and staff and anticipates a return to more normal operations, with a full program of teaching, research, and residential life on campus.

The primary impact for fiscal 2020 was a loss of revenue, largely from refunds on room and board of approximately $5.4 million for students who left campus. Other areas were also affected with lower revenues including parking and athletics. Overall, the impact of the pandemic was offset by some expense savings due to reduced discretionary expenditures. However, Vanderbilt incurred additional costs associated with a voluntary severance program as well. Management achieved various expense savings from work-related travel, employee medical care, utilities and supplies, and services, a hiring freeze, and other spending controls. Overall, Vanderbilt had about $12.5 million in revenue declines associated with the pandemic, which were more than offset by expense savings and better-than-expected operating performance in the fourth quarter of 2020. Overall, Vanderbilt maintained its exceptional operating margins of 11.3% for fiscal 2020 and we expect this will continue for fiscal 2021 with the aid of federal stimulus funds and the cost-saving measures implemented. In fiscal 2021, while enrollment increased for both undergraduate and graduate students, housing, dining, parking, and athletic revenues were affected by the pandemic and expenses increased due to COVID-19-related expenses. This resulted in an approximate impact of $75 million, which was largely offset by federal stimulus funds, and expense controls. As a result, we expect that Vanderbilt will continue to generate healthy operating margins. For fiscal 2022, with a return to more normal operations and an anticipated rebound in revenues, operations should continue to improve.

Vanderbilt has used all $11.4 million of its federal stimulus funding (institutional portion) in fiscal 2021 to offset lost revenues and increased expenses associated with the pandemic. Vanderbilt also received an additional $12.9 million; the university refunded the entire amount directly to students. The university received $5.6 million in funds under the Higher Education Emergency Relief Fund (HEERF I); about half was allocated to students, of which all was used in fiscal 2021. Vanderbilt also received $4.1 million in HEERF II funding, of which $2.8 million was passed through to students and $1.3 million was for institution use that the university used in fiscal 2021. Lastly, the university received $14.6 million under HEERF III, half of which was allocated for students.

We recognize that Vanderbilt has taken prudent measures to address the current situation, and that the university continues to monitor the course of the pandemic, having fully evaluated additional measures that could be taken to protect the health of the community and promote its core mission of academics and research. We believe that Vanderbilt's exceptional balance sheet strength and liquid resources will help the institute offset near-term pressures that might arise due to the pandemic.

Credit overview

The long-term rating reflects our view of VU's extremely strong enterprise profile and very strong financial profile. We base the enterprise profile on the university's strong market position, as well as its demand profile and impressive fundraising track record. The financial profile incorporates VU's healthy endowment, history of positive full-accrual operating results, and robust balance sheet metrics relative to debt. In July 2018, VU entered into a trademark license securitization that resulted in it receiving $1.4 billion, which substantially increased the university's endowment. The management team at Vanderbilt has seen consistent improvement in its enterprise profile and financial profile. Combined, these credit factors lead to an indicative stand-alone credit profile of 'aa+' and a long-term rating of 'AA+'.

The rating reflects our view of Vanderbilt's:

- Strong student demand, with an undergraduate selectivity rate of 11.6%, strong application volume, and strong student quality;
- Healthy endowment net assets of $9.6 billion as of March 31, 2021;
- Stable and strong management team;
- History of positive financial operations, with a $175 million surplus in fiscal 2020 despite the effects of the pandemic. We expect continued positive operating margins in fiscal 2021 and over the medium term; and
- History of strong fundraising.

The university's matriculation rates, as well as expendable resources to operations and debt, would need to improve for us to consider a higher rating.

In April 2016, the university separated its clinical operations from Vanderbilt University Medical Center (VUMC), a newly formed 501(c)(3). The transaction closed April 29, 2016, at which time VU defeased $849 million of debt. The university and the medical center now have an academic affiliation. The separation results in VU receiving substantially less of its total revenue from health care, which accounted for 69% of the university's total revenues in fiscal 2015. As a result of the reorganization, the university's associated operating expenses and debt also declined significantly. At the same time, the university retained all but $79 million of its endowment.

Environmental, social, and governance (ESG) factors

Because of the pandemic, Vanderbilt's management team implemented remote learning in spring 2020 to protect the students' health and safety and to limit social risks associated with community spread of COVID-19. Since then, the institution has implemented a hybrid model with both in-person and remote learning for fall 2020 and spring 2021, following social-distancing guidelines to welcome students back on campus. Furthermore, for fall 2021, Vanderbilt is mandating vaccinations for students, faculty, and staff. We believe management has taken prudent actions regarding the health and safety of its students, faculty, and staff through its remote and hybrid instruction options and vaccination mandate, but the somewhat lower vaccination rates in the region could challenge these efforts, particularly should students, faculty, or staff become infected with the highly contagious delta variant. Despite the elevated social risk, we believe environmental and governance risks at Vanderbilt are in line with our view of the sector as a whole.

Positive Outlook

Upside scenario

We could raise the rating if the university improves expendable resources to operations and debt relative to 'AAA' rating category medians. At the same time, we would expect VU to continue to build on its enterprise profile and maintain its strong operating surpluses.

Return to stable scenario

Although we consider it unlikely, we could lower the rating if VU experiences difficulty in maintaining positive surpluses or if the university issues significant debt that weakens financial resources to levels inconsistent with the current rating level.

Credit Opinion

Enterprise Profile

Market position and demand

Founded in 1873, Vanderbilt is a private, coeducational, nonsectarian university in Nashville. The institution's 10 schools and colleges are on a well-maintained, 330-acre campus. It has 36 residence halls, 51 academic buildings, and a 40,000-seat football stadium. The university's 10 schools and colleges include: College of Arts and Science (the largest), Blair School of Music, Divinity School, School of Engineering, Graduate School, School of Law, School of Medicine, School of Nursing, and Owen Graduate School of Management, as well as the Peabody College of Education and Human Development. The institution's leading competitors include Duke University, Yale University, and Harvard University.

VUMC operates as a not-for-profit academic medical center that is financially and legally distinct from the university. It runs the hospitals and clinics, clinical departments, and the physician practice plan. VU is responsible for the School of Medicine's and School of Nursing's faculty appointments and promotions and Ph.D. programs in biomedical sciences, as well as research in the basic science departments and related centers. Vanderbilt conveyed its clinical assets and operations to VUMC. The two entities have an academic affiliation agreement through which VU receives an indexed payment to support its research. In addition, the university receives payments through a trademark license agreement for the use of the Vanderbilt name.

Demand

In fall 2020, total enrollment was 13,537, of which 52% were undergraduates. Vanderbilt has no plans to increase its undergraduate enrollment. Freshman applications declined slightly for fall 2020 due to the pandemic but overall have been increasing. For fall 2021, applications have increased to record levels at more than 47,000. Management reports that the overall growth in applications is due to the university's academic reputation as well as its reputation for providing financial assistance. VU offers need-blind admissions and meets 100% of demonstrated student need. Beginning in fall 2009, the university eliminated need-based loans from the undergraduate financial-aid packages and, depending on each student's circumstances, it replaced those loans with grants and scholarships. Currently, almost 80% of undergraduate students graduate from Vanderbilt with no debt.

Vanderbilt is quite selective, having accepted only 11.6% of its applicants for fall 2020, which increased slightly due to the pandemic but is expected to decline substantially for fall 2021 given the record applications. Similarly, while matriculation declined for fall 2020, we expect it to improve this fall with a return to normal operations. Overall, we consider the matriculation rate strong given the competition for high-quality students and VU's peer set. In our opinion, the geographic draw is diverse, with only 9.1% of undergraduates from Tennessee. We consider student quality strong, with an average ACT score of 34. We also view student retention as strong, with 96% of freshmen returning for their sophomore year. We believe the university continues to have a strong demand profile given its high selectivity. We expect overall enrollment will be stable.

VU has a significant graduate student presence. Graduate studies lead to either research or professional degrees, each with their own admission requirements. Graduate students constitute approximately 48% of the university's enrollment, and demand for these graduate programs is also what we view as consistently strong, with 18% of applicants accepted for fall 2020 and an estimated 31% matriculating. We expect graduate enrollment will continue to increase at VU.

Fundraising

In 1999, VU began a $1 billion capital campaign, which it increased to $1.25 billion and then to $1.75 billion by June 30, 2011. It closed the campaign at fiscal year-end 2011, having raised gifts and pledges of $1.94 billion. The total includes more than $400 million of stock, which the Ingram family and the Ingram Charitable Fund donated to the university in the past decade. Vanderbilt is in the quiet phase of its next $2.5 billion fundraising campaign that will focus on furthering need-based financial aid for all students, the residential college halls' system, and other discovery and learning initiatives. Through fiscal year-end 2021, VU has raised $1.87 billion toward this goal. The university continues to work to enhance its philanthropic support, raising $236 million and $294 million in fiscal 2020 and 2021, respectively. Alumni participation has also increased, rising to 25% in fiscal 2020, and the university is looking to improve this participation rate over the next several years.

Management and governance

As of fiscal 2021, VU has a new chancellor with the appointment of Dr. Daniel Diermeier. Overall, the senior leadership team is stable with significant institutional experience, and the transition to a new chancellor has been smooth. There are 65 members of the board of trust, consisting of 34 regular trustees and 31 trustee emeriti, who do not vote. The board governs Vanderbilt and operates under a standard committee structure. Management recently completed a university-wide strategic plan. The strategic initiatives center on four priority areas: launching new trans-institutional programs that strengthen research and graduate and undergraduate programs; defining the residential, research-based undergraduate liberal arts education; leading technology development; and becoming leaders in health care innovation.

We view VU's financial management practices as strong. The institution monitors liquidity closely relative to its endowment, capital, and debt needs. As with other institutions with large endowments, VU's management places importance on oversight and operations of its endowment. Management prepares generally accepted accounting principles-based budgets and forecasts and updates them quarterly.

Financial Profile

Financial performance

The full effect of the separation of VU from VUMC came in fiscal 2017, the first full fiscal year of the separation. We consider the university's revenue streams diverse. As of fiscal year-end 2020, the largest components of Vanderbilt's operating revenues are tuition and student fees (42%), grants and contracts (11%, excluding facilities and administrative cost recovery), and endowment (19%). Before the separation, health care revenues accounted for almost 70% of total operating revenues.

In fiscal years 2018 and 2019, VU reported operating surpluses of $93.7 million and $161.2 million, respectively. And, as previously noted, VU had strong margins in fiscal 2020 despite the impact of the pandemic on the fourth quarter's operating results. We expect full-accrual operations will remain positive in fiscal years 2021 and 2022. In fiscal 2020, operating revenue increased 2.5% with some areas showing negative growth due to the pandemic. However, this was offset by VU's cost-containment efforts and as seen by the modest 1.9% expense growth. Overall, VU has had a history of generating healthy surpluses post-separation, and we anticipate that this will continue over the medium term.

Trademark license securitization

As part of the separation from VUMC in April 2016 and in consideration for leveraging the Vanderbilt University brand, VUMC committed to a trademark licensing agreement with VU in perpetuity. In July 2018, VU securitized the upcoming 30-year term of one of the university's trademark revenue streams and the remaining $89.6 million balance of a promissory note receivable. The securitization occurred on a true-sale basis to a group of external investors. As a result of the transaction, VU received $1.43 billion in net cash. VU entered into this transaction to further diversify its revenue stream away from health care and to help build its endowment. The university invested the net proceeds in the endowment during fiscal 2019. This transaction accounted for the significant increase in the market value of the endowment, which rose to $6.3 billion from $4.6 billion in fiscal 2019. In December 2019 (fiscal 2020), VU closed on the sale of an additional portion of its royalty stream and received $349.2 million, which further increased the endowment. From an operating perspective, as a result of these transactions, we expect that VU will see increased distributions from its endowment and lower revenues from VUMC. The impact of the transactions will help diversify the revenue base but will not change our expectations of continued solid operating margins. On the balance sheet, the endowment increased, but VU also recorded a liability associated with the deferred revenue that will amortize over the life of the agreement.

Financial resources

Until the separation from VUMC and defeasance of debt, we had considered VU's financial resources low for the rating category relative to operations. However, given the separation and the significant reduction in debt offset by the transfer of 51% in net property plant and equipment, VU's balance sheet improved significantly.

VU has adopted the new FASB presentation standards, and as a result, the net assets on its balance sheet are reported as either "without donor restrictions" or "with donor restrictions." To calculate expendable resources, we used net assets "without donor restrictions" instead of the formerly classified "unrestricted net assets." In addition, management identified $1.5 billion of net assets "with donor restrictions" that would have been classified as "temporarily restricted net assets" under the old FASB standards. Therefore, we have used that amount in our expendable resource calculation for comparability purposes. Using these numbers, as of June 30, 2020, VU's expendable resources totaled $4.1 billion, equal to 2.7x adjusted operating expenses and 6.4x pro forma debt (including the $100 million private placement draw). Cash and investments, a less conservative measure that includes restricted assets, were stronger at $7.6 billion as of fiscal year-end 2020--equivalent to 4.9x operating expenses and 11.9x pro forma debt.

For fiscal 2020, the endowment had a market return of negative 0.1%, which is in line with many peers given market volatility. As of June 30, 2020, its value was $6.9 billion. We expect that the endowment will increase significantly in fiscal 2021 given VU's 36.8% market returns through the first nine months of fiscal 2021. The endowment's asset allocation is 28.0% in equities, 25.9% in private investments, 25.0% in hedged strategies, 4.1% in real assets, 9.2% in fixed-income securities, 1.3% in commodities, 2.1% in real estate, and 4.7% in cash. As of June 30, 2020, the university had approximately $1 billion in funds available daily, which well exceeded any potential capital calls. Beginning with fiscal 2016, the endowment's spending policy is 5.0% of the average market value for the previous three calendar years. With the increase in endowment, we do not expect any changes to VU's asset-allocation strategy, but Vanderbilt is affected by the new endowment tax beginning in fiscal 2020. However, we do not expect this will have a significant impact on the rating.

Debt and contingent liabilities

Due to the separation, VU reduced its debt, which improved its financial resource ratios. As of June 30, 2020, the institution had $542 million of debt, all of which is fixed rate. VU also has $66 million in operating lease liability, which we have included in our assessment of Vanderbilt's debt portfolio. The university also has authorization for up to $200 million of combined tax-exempt and taxable CP. In July 2021, VU drew $50 million from its taxable CP program. In May 2018, VU locked into a note purchase agreement payable over 30 years. VU drew on the full $300 million note in November 2018 (fiscal 2019) and used a portion of the proceeds to repay all taxable CP outstanding. The remaining proceeds will fund $160 million of the next phases of VU's residential colleges construction, as well as $25 million for strategic real estate acquisitions. Similarly, in August 2019, the university entered into a private-placement agreement for $100 million. VU entered into a rate-lock agreement but only drew on the funds until fiscal 2021. We have reviewed the terms of the note purchase agreement, and, while there are terms that could lead to acceleration of the debt outstanding, given the strength of VU's balance sheet, we do not view this as presenting a significant risk. VU has indicated that to fund its future capital plans, the university could issue up to $500 million in the near term, which we will assess as we have more clarity on the amount and timing of the debt issuance.

In fiscal 2020, VU terminated its last remaining interest rate exchange swap. VU had one $50 million fixed payer interest rate exchange swap outstanding after novating and terminating swaps over the past several years and the swap was terminated at a cost of $29.7 million. This eliminated any contingent liabilities associated with swaps.

Vanderbilt University, Tennessee--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					--Medians for 'AA' rated private colleges and universities--
	2021	2020	2019	2018	2017	2020
Enrollment and demand						
Headcount	13,537	13,131	12,824	12,592	12,587	MNR
Full-time equivalent	12,718	12,412	12,184	12,052	12,085	8,288
Freshman acceptance rate (%)	11.6	9.1	9.6	10.9	10.7	18.0
Freshman matriculation rate (%)	39.9	47.1	48.6	47.1	45.9	MNR
Undergraduates as a % of total enrollment (%)	52.1	52.4	53.5	54.7	54.6	65.1
Freshman retention (%)	96.0	97.0	97.0	97.0	97.0	95.0
Graduation rates (six years) (%)	93.0	93.0	94.0	92.0	92.0	MNR
Income statement						
Adjusted operating revenue ($000s)	N.A.	1,727,490	1,685,459	1,536,689	1,505,588	MNR
Adjusted operating expense ($000s)	N.A.	1,552,521	1,524,256	1,442,953	1,435,596	MNR
Net operating income ($000s)	N.A.	174,969	161,203	93,736	69,992	MNR
Net operating margin (%)	N.A.	11.27	10.58	6.50	4.88	1.20
Change in unrestricted net assets ($000s)	N.A.	(29,250)	245,275	213,709	171,675	MNR
Tuition discount (%)	N.A.	43.1	44.4	44.5	45.1	39.4
Tuition dependence (%)	N.A.	35.6	34.1	35.0	34.1	MNR
Student dependence (%)	N.A.	42.3	41.1	42.2	44.9	59.4
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	11.3	11.2	11.3	11.9	MNR
Endowment and investment income dependence (%)	N.A.	19.1	19.8	15.1	14.9	MNR
Debt						
Outstanding debt ($000s)	N.A.	542,120	536,490	359,072	366,480	540,885
Proposed debt ($000s)	N.A.	100,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt ($000s)	N.A.	642,120	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	36,826	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.77	1.62	1.53	1.64	MNR
Current MADS burden (%)	N.A.	2.18	2.21	1.20	1.20	4.20
Pro forma MADS burden (%)	N.A.	2.37	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value ($000s)	N.A.	6,917,371	6,270,877	4,608,461	4,136,465	1,922,226
Cash and investments ($000s)	N.A.	7,632,791	7,714,348	5,652,333	5,369,472	MNR
Unrestricted net assets ($000s)	N.A.	3,499,455	3,528,705	3,283,430	3,069,721	MNR
Expendable resources ($000s)	N.A.	4,121,246	4,527,243	4,133,142	3,782,002	MNR

Vanderbilt University, Tennessee--Enterprise And Financial Statistics (cont.)						
	--Fiscal year ended June 30--					--Medians for 'AA' rated private colleges and universities--
	2021	**2020**	**2019**	**2018**	**2017**	**2020**
Cash and investments to operations (%)	N.A.	491.6	506.1	391.7	374.0	338.3
Cash and investments to debt (%)	N.A.	1,408.0	1,437.9	1,574.2	1,465.1	447.8
Cash and investments to pro forma debt (%)	N.A.	1,188.7	N.A.	N.A.	N.A.	MNR
Expendable resources to operations (%)	N.A.	265.5	297.0	286.4	263.4	185.4
Expendable resources to debt (%)	N.A.	760.2	843.9	1,151.1	1,032.0	261.5
Expendable resources to pro forma debt (%)	N.A.	641.8	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	12.8	13.2	12.7	12.5	13.9

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Expendable resources = unrestricted net assets + temp. restricted net assets - (net PPE- outstanding debt). Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020