Rating Action: Moody's assigns Aa2 rating to Vanderbilt University's (TN) $145 million of Series 2012D and 2012E revenue refunding bonds; Outlook is stable

Global Credit Research - 06 Nov 2012

University will have $1.8 billion of rated debt, including CP program at full size of $675 million

New York, November 06, 2012 --

Moody's Rating

Issue: Revenue Refunding Bonds-Series 2012D; Rating: Aa2; Sale Amount: $100,155,000; Expected Sale Date: 11/14/2012; Rating Description: Revenue: 501c3 Unsecured General Obligation

Issue: Revenue Refunding Bonds-Series 2012E; Rating: Aa2; Sale Amount: $44,385,000; Expected Sale Date: 11/14/2012; Rating Description: Revenue: 501c3 Unsecured General Obligation

Opinion

Moody's Investors Service has assigned a Aa2 rating to Vanderbilt University's $145 million of Series 2012D and 2012E Revenue Refunding Bonds to be issued by The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. The outlook is stable. At this time we have also affirmed the ratings of Aa2, P-1 and Aa2/VMIG 1 on the university's debt.

SUMMARY RATING RATIONALE

The Aa2 rating reflects Vanderbilt University's nationally prominent student market and research strengths, the market strength and geographic reach of its healthcare enterprise, healthy fundraising, and $4.9 billion of total cash and investments with healthy liquidity. Credit challenges include substantial exposure to patient care revenue and material exposure to interest rate swaps partially mitigated by careful management of the related risks. The Aa2/VMIG 1 and P-1 ratings reflect the self liquidity program of the university.

STRENGTHS

* Solid market position for various educational, research and clinical enterprises with total operating revenue of $3.7 billion in fiscal 2012. Diverse undergraduate and graduate programs yielded combined net tuition per student of $20,416 in fiscal 2012. The research enterprise has had a sustained period of growth with $598 million in sponsored expenditures in fiscal 2012.

* Large financial resource cushion with total financial resources of $4.3 billion and monthly liquidity of $1.7 billion in FY 2012.

* Healthy operating performance with a 5.6% average operating margin and 12.5% operating cash flow margin for FY 2012, aided by healthy performance of patient care activities.

* Solid level of donor support with gift revenues averaging $105 million per year over the last three years. The University raised $1.94 billion towards its $1.75 billion comprehensive campaign that ended on June 30, 2011.

* Manageable debt burden with pro forma debt of $1.3 billion (including only outstanding commercial paper) at 36 percent of fiscal 2012 revenue, down from the fiscal 2009 debt to revenue of 48 percent through revenue growth and debt reduction. Management expects capital projects over the next few years to be funded through gifts and use of reserves.

CHALLENGES

* Exposure to health care industry, which is potentially more volatile than higher education, with patient care revenues comprising 66% of total revenue base in FY 2012.

* Complex portfolio of interest rate hedges combined with $348 million of pro forma demand debt create potential...
calls on liquidity over time, partially mitigated by management’s careful tracking and forecasting of sources and potential uses of liquidity and staggered.

* Expectations for heightened competition for sponsored research awards.

Outlook

Moody's stable outlook is based on our expectations of continued healthy operating performance, including the healthcare operations, coupled with ongoing improvements in market position and maintenance of healthy working reserves relative to demand debt and operating expenses.

WHAT COULD MAKE THE RATING GO UP

Material growth in financial resources with manageable increases in debt; sustained favorable operating performance.

WHAT COULD MAKE THE RATING GO DOWN

Material decline in financial resources; deterioration in operating performance; significant weakening in leverage ratios from additional borrowing; material reduction in liquidity.

METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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