

RatingsDirect®

University Of Virginia; CP; Public Coll/Univ - Unlimited Student Fees

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Credit Profile

University of Virginia PCU_USF

Long Term Rating

AAA/Stable

Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AAA' long-term rating on various series of general revenue pledge and refunding bonds (tax-exempt) and general revenue pledge (taxable) bonds issued by and for the University of Virginia (UVA).
- At the same time, S&P Global Ratings affirmed its 'A-1+' short-term rating on the university's commercial paper (CP) program.
- The outlook, where applicable, is stable.

Security

All the university's debt is secured by its pledge of general revenue. This pledge is a very broad pledge that we deem tantamount to a pledge of unlimited student fees.

At UVA's latest audited fiscal year ended June 30, 2022, debt, composed of bonds, notes and lease obligations, totaled \$3.4 billion and its discrete component units (mostly related foundations) had debt totaling \$259.4 million.

The 'A-1+' short-term rating reflects the university's self-liquidity and our opinion that financial resources are not only robust, but liquid, providing more-than-adequate support for any exposure on UVA's authorized CP. Cash, treasury, and agency securities, and dedicated bank lines are available to provide coverage of outstanding commercial paper. We believe the university has established clear and detailed procedures to ensure sufficient asset coverage and meet liquidity demands fully and on time. UVA's \$500 million authorized CP program (no CP was outstanding as of fiscal year-end June 30, 2022) limits the amount of CP coming due in any day to \$40 million. As of March 31, 2023, UVA had \$2.7 billion in discounted assets, in addition to various bank lines, available to support the CP program.

Credit overview

We assessed UVA's enterprise risk profile as extremely strong, characterized by very strong management and governance, a firm enrollment trend, impressive matriculation, selectivity and graduation rates, and very good student quality. We assessed UVA's financial risk profile as very strong, characterized by a history of positive operating margins in three out of the past four audited fiscal year, a loss was recorded in fiscal 2022 in part due to a significant decline in investment income in comparison with fiscal 2021's extraordinarily strong investment results, robust financial resources and philanthropy, and an elevated debt burden. Combined, we believe these credit factors lead to an anchor of 'aa+'. As our criteria indicate, the final rating can be within one notch of the indicative credit level. In our opinion, the 'AAA' rating on the university's bonds better reflects its cash and investments that exceed 6x its debt in addition to its position as the flagship higher education facility of the state with a broad national student draw and

stellar reputation.

The rating reflects our assessment of UVA's credit strengths that include:

- Impressive demand for its academic programs and program diversity;
- Exceptional financial resources at 495.5% compared with annual operating expenses as of June 30, 2022;
- History of positive financial operations, on a full accrual basis, in recent years that include fiscal years 2019 through 2021 while a deficit was recorded in fiscal 2022;
- Very strong management and governance bolstered by the recruitment of new senior administrative leaders over the past two to three years with extensive experience; and
- Impressive fundraising track record, with over \$4.6 billion raised to date on a \$5.1 billion campaign underway that is scheduled to conclude in two years.

The rating also reflects our assessment of:

- Elevated capital spending over the past three years or so that in our view is likely to continue in the near term and that has pushed up outstanding debt although we understand there are no additional debt issuance plans over the next two years;
- Potential for reductions in research and health care funding as these revenue sources tend to have higher volatility than student derived revenue, and a rise in faculty recruitment, to in part offset higher faculty turnover rate due to aging, that contributed to a rise in compensation and benefits expense in fiscal 2022; and
- A somewhat high maximum annual debt service (MADS) burden of 6.1% based on fiscal 2022 adjusted operating expenses that incorporates smoothing to mitigate the impact of several bullet maturities.

UVA, founded by Thomas Jefferson in 1819, is a comprehensive university with undergraduate, graduate, and professional programs, and the flagship public higher education institution in Virginia. UVA has three distinct operating components: the academic division on the Charlottesville campus; the medical center in Charlottesville, with ancillary regional facilities; and the College at Wise, founded in 1954 as a branch campus of UVA.

UVA continues to make significant investments in its physical facilities on the main campus and at its medical center funded with a combination of increased debt, funds from operations and philanthropy. Acquisition and construction of capital assets totaled \$592.6 million, \$418.0 million, and \$557.8 million in fiscal years 2022, 2021 and 2020, respectively. By contrast monies realized from cash flow associated with depreciation and amortization expense totaled \$323.0 million, \$305.0 million, and \$266.0 million for the comparable fiscal years, respectively. We believe in the near term this healthy level of capital spending is likely to continue with investments being made in new technologies and other campus improvements.

The hub of UVA's medical center is a 696-licensed-and-operating-bed hospital that includes a state-designated level-one trauma center. The trauma center serves a broad geographic area that includes large portions of central and southwestern Virginia. UVA's medical center also operates the first comprehensive cancer center in the state. Approximately 60% and 24.2% of UVA's fiscal year 2022 and 2021 operating revenues, respectively, pertain to the medical center.

We understand the university is anticipating receiving in September the results of two external reviews of events surrounding an active shooter incident that occurred on campus Nov. 13, 2022, that resulted in the deaths of three people and injuries to two others. We do not expect any potential legal exposure to have a material adverse impact on the university's financial position due to this tragic event.

UVA's bonds are eligible to be rated above the sovereign due to a moderate sensitivity to country risk. The university's general revenues are the sole source of security on the bonds. Furthermore, the institutional framework in the U.S. is predictable with higher education institutions such as UVA having many characteristics of private higher education institutions, such as significant autonomy, independent treasury management, and no history of federal government intervention. The large endowment market value, which is invested globally, and the low relative to total financial resources debt levels demonstrate UVA's financial flexibility, in our view.

Environmental, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, have largely abated and are neutral in our credit rating analysis. All other environmental and governance credit factors are also neutral in our credit rating analysis as the university has historically maintained sound management and governance controls.

Outlook

The stable outlook reflects our continued view of UVA's favorable enrollment and impressive student demand traits that we believe are likely to continue while its medical center's patient volumes now exceed pre-pandemic levels. In addition, it is our view that UVA will likely return to positive financial performance on a full accrual basis when fiscal 2023's audited results are released later this year. Also, we understand UVA has no additional debt issuance plans during the two-year outlook period and its financial resources to operations and debt, despite a healthy capital spending program, should remain quite robust.

Downside scenario

We could consider a negative rating action during the next two years if unanticipated additional debt issuance significantly outpaces growth in financial resources. In addition, if enrollment or the medical center's patient volumes decline unexpectedly leading to weak financial operating performance a negative rating action is possible.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

UVA, unlike most colleges and universities, never experienced a contraction in full-time-equivalent (FTE) enrollment during the pandemic. In fall 2022, UVA's FTE enrollment was 25,003 compared with an enrollment of 24,319 in fall 2019 (pre-pandemic). Most enrollment growth has occurred at the undergraduate level, which makes up approximately

68% of total enrollment and graduate accounts for 32% as of fall 2022. Graduate FTE enrollment has been above 30% of total enrollment for the last five years. Undergraduate admissions remain highly competitive at UVA and, in our view, stronger than those at most peer U.S. public flagship institutions. Fall 2021 and 2022 applications increased by 17% and 6%, respectively, and increased to 50,940 in fall 2022 from the 40,839 received for fall 2019. Selectivity continues to improve and is below 20% as of fall 2022, which is excellent. In addition, UVA's Freshmen retention rate for fall 2022 is extremely strong in our view at 97%, and consistent with prior years. Student quality, as measured by the average SAT score of 1272, remained well above the national average, supporting the rating.

In our view, UVA has a reasonable amount of tuition pricing flexibility. Total charges for Virginia residents remained in line with other mid-priced public universities, while the total non-resident tuition and fees (excluding room and board) of \$53,325 remained slightly below that of UVA's highly selective private university peers-that is to say UVA more often competes for students with the latter rather than public university peers.

In our view, the university has good geographic diversity, however, most students including the freshman class for fall 2022 (57%) are Virginians, similar to the student body as a whole, and the remainder comes from across the U.S. and around the world. Therefore, our assessment of UVA's economic fundamentals is anchored by Virginia's GDP per capita.

UVA Medical Center

The university's medical center is an organizational unit of the university. It serves as the teaching facility for the school of medicine and nursing and has extensive relationships with many of the university's other schools. In 2019, the university hospital completed the expansion of the emergency department and additional private rooms within a new eight-story addition directly east of the existing hospital. Medical center patient discharges, including UVA Community Health Inc.- three hospitals and other health facilities located in northern Virginia formerly owned through a joint venture with Novant Health Inc. but since July 2021 wholly owned by UVA Health System, were 39,560 in fiscal 2022 and were anticipated to exceed 40,000 for fiscal 2023. Management indicated that the current level of patient activity now exceeds pre-pandemic levels as most health facilities nationally suffered a drop in patient activity during the pandemic. The positive patient utilization trend reflects expansion of the medical center's referral territory and a growing service area population. Over the longer term, we expect UVA's medical center will realize favorable patient utilization given management's plans to further enhance clinical service offerings in conjunction with a recent minority interest acquired in Riverside Health System, including its hospitals in Newport News, Williamsburg, Gloucester and Onancock.

UVA's research presence adds to its strong enterprise profile. For fiscal 2022, the university had \$505 million in sponsored research funding. Most research funding comes from the federal government and is tied to the university's strong health care operations.

Fundraising

UVA has a strong history of fundraising. In June 2013, UVA concluded its \$3 billion Campaign for the University of Virginia, exceeding its goal by raising \$3.05 billion. A substantial portion of the campaign was related to priorities identified in the university's previous strategic plan. UVA's current capital campaign, "Honor the Future", launched publicly in October 2019 coinciding with the university's bicentennial. The campaign's goal is \$5 billion, and the

university already has \$4.6 billion in commitments as of early fiscal 2023. The campaign is scheduled to conclude at the end of fiscal 2025.

Management and governance

UVA's management team is led by Mr. James E. Ryan who became UVA's ninth president on Aug. 1, 2018. President Ryan was formerly Dean of Harvard's Graduate School of Education; he is a UVA law graduate and had previously been the associate dean of the UVA School of Law. President Ryan appointed Ms. Jennifer (J.J.) Wagner Davis who joined UVA from George Mason University as the executive vice president and chief operating officer in Nov. 2018. Mr. Ian Baucom became UVA's executive vice president and provost in March, 2022 and Dr. K. Craig Kent joined UVA in February 2020 from The Ohio State University as the chief executive officer of UVA Health and executive vice president for Health Affairs at the University of Virginia. Also, early in 2018, Mr. Robert Durden became the new chief executive officer and chief investment officer of The University of Virginia Investment Management Co. (UVIMCO). Mr. Durden previously was the chief investment officer of Texas Children's Hospital. More recently in February 2023, Mr. Augie Maurelli became UVA's new vice president and chief financial officer after coming to UVA as assistant vice president of finance in December 2019 from the University of Delaware. Ms. Julie Richardson has been serving as treasurer since Jan. 2020. We believe UVA now has a very strong and talented management team and the university has had for the past decade or more a history of good governance.

The current strategic plan, "Great and Good: The 2030 plan", was adopted in June 2019. The plan's goals include:

- Strengthen our foundation which means supporting our students, faculty and staff;
- Cultivate the most vibrant community in higher education;
- Enable Discoveries That Enrich and Improve Lives; and
- Make UVA synonymous with service.

The university has developed 10 key initiatives it is pursuing to assist in attainment of the goals.

The university's information security department provides information security consultation, guidance, and investigative support to the UVA schools and departments to protect sensitive personal and university data and prevent a cyber breach by unauthorized personnel. In addition, the university is insured through the Commonwealth of Virginia's property risk management plan. Management reports that UVA has had no significant data breach in the past two years.

Financial Risk Profile--Very Strong

Financial performance

While UVA is an agency of the Commonwealth of Virginia, it receives a comparatively small amount of state support relative to its large operating budget. State appropriation as a portion of UVA's operating budget was 5.6% of adjusted operating revenue in fiscal 2022 compared with 2.6% in fiscal 2021 and 5.0% in fiscal 2020. The state also provides capital support for academic projects on campus, which we expect to continue during the next few years. Overall, UVA's revenues are diverse. The largest percent of revenues comes from health care operations, at 60.4% of fiscal

2022 adjusted operating revenues followed by 26% for student dependence (net tuition plus auxiliary revenue) and 11.5% from research.

UVA's financial operations include the activity of the academic campus, medical center, and Wise campus. Its financial statements also include 23 legally separate, tax-exempt, university-affiliated organizations, which are component units of UVA.

Fiscal 2022's financial operating performance was weaker compared to recent prior fiscal years performance largely owing to an unfavorable investment return in comparison to the prior year's outstanding return (see financial resources below for additional information). In addition, compensation and benefit costs were 5.4% higher in fiscal 2022 compared with fiscal 2021. After four consecutive surpluses UVA ended fiscal 2022 with a deficit of 15.6% or \$389.6 million. This performance comes on the heels of a huge surplus of 89.5% recorded in fiscal 2021 due to abnormally strong investment income realized in that year compared with recent prior years. We understand for fiscal 2023 the university is anticipating a small surplus on a budgetary basis and as of this writing the state has not yet passed its next biennial budget for fiscal years 2024 and 2025 and as such UVA's fiscal 2024 budget hasn't been finalized.

With a strong rebound in patient volumes in fiscal 2022 as the pandemic wound down medical center patient services revenue, net of charity care and contractual adjustments, increased 28.6% to \$2.3 billion from the \$1.8 billion realized in fiscal 2021. Medical center financial performance generally has aided the university's operating profitability despite the high costs associated with running a complex and growing academic based health system that also is a key safety net provider in the state.

Financial resources

Financial resources, as measured by cash and investments, for the university and the foundation are solid for the rating and totaled \$22.58 billion in fiscal 2022, down 5.4% from fiscal 2021's \$23.8 billion. Cash and investments relative to operating expenses was extremely strong for the rating at 495.5% in fiscal 2022, although down from 606.3% in fiscal 2021. In our view, UVA has a very healthy cash and investments to debt ratio of 615.5% for fiscal 2022, although down from 752.2% in fiscal 2021.

The university's endowment and a fair amount of its investments are managed by its affiliated (discrete component unit) University of Virginia Investment Management Company (UVIMCO). On June 30, 2022, the university's investment in the (UVIMCO) long-term pool (LTP) and short-term pool (STP) was \$10.7 billion representing 89.7% of the university's invested assets. UVIMCO's primary investment objective for the LTP is to maximize long term real return commensurate with the risk tolerance of the university. To obtain this objective, UVIMCO actively manages the LTP to achieve returns that consistently exceed the returns on a passively investable benchmark with similar asset allocation and risk.

As of June 30, 2022, management reports the university's endowment (not including other foundation endowments for the benefit of UVA) value as \$7.03 billion. The asset allocation as of May 31, 2023, was 26% public equity; 11% long-short equity; 26% private equity; 15% real assets; 10% absolute return, 4% credit and 8% fixed income and cash. We view the asset allocation as somewhat aggressive, however, UVIMCO has 45 employees that oversee investments placed with about 80 active external portfolio managers and has favorable long term investment returns while providing the university approximately \$300 million in fiscal 2022 for operating support. In fiscal 2021, UVIMCO

realized a very healthy 49% return on the LTP followed by a negative 4.7% return in fiscal 2022 as investment markets contracted significantly.

Debt and contingent liabilities

As of fiscal year-end June 30, 2022, UVA had approximately \$3.4 billion in debt outstanding, including lease obligations of \$125.6 million, and its discrete component units (mostly related foundations) had debt totaling \$259.4 million. UVA does not presently have any CP outstanding and can issue up to \$500 million in commercial paper. UVA's debt service structure is not level, with several long-dated bullet maturities including century bonds. As a result, we have smoothed debt service for purposes of calculating the MADS burden. Assuming a smoothed 30-year debt service, we estimate MADS at about \$276.4 million, or 6.1% of fiscal 2022 expenses, which we consider relatively high.

UVA's executive vice president and chief operating officer notes in an introductory letter to the fiscal 2022 audit that approximately \$1.7 billion in renovation and construction projects are planned for the academic division, which includes \$874.1 million in projects that will be completed by spring 2025 and \$810.3 million were in planning and design. We understand authorized expenditures for construction and other projects unexpended as of June 30, 2022, were approximately \$376.2 million. The capital plan is being funded by a combination of debt, fundraising, and internally generated funds. We understand no additional debt is expected over the next two years.

UVA has four swaps outstanding as of June 30, 2022 (fixed-payer swaps), for a total notional amount of \$100 million. UVA is not required to post collateral for its swaps. As of fiscal 2022, the fair market value of the swaps was \$22.06 million, an amount we consider manageable. UVA has no direct-placement debt outstanding.

The university contributes to the Virginia Retirement System and Virginia Law Officers' System retirement plans. UVA has a net pension liability of \$318.1 million at fiscal year-end June 30, 2022. Pension expenses for fiscal 2022 totaled \$11.5 million and university contributions to the plans totaled \$57 million. These plans are single-employer pension plans that are treated like cost-sharing plans. The system administers different benefit structures that include two defined-benefit plans and a hybrid retirement plan. We understand that the overall pension funded status on all plans is 83.26%. As of June 30, 2022, UVA also reported net other postemployment benefit obligations of \$248.3 million, which is manageable in our view.

University of Virginia, Virginia--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AAA' rated public colleges and universities
	2023	2022	2021	2020	2019	2022
Enrollment and demand						
Full-time-equivalent enrollment	25,003	24,837	24,378	24,319	23,950	60,438
Undergraduates as a % of total enrollment	67.5	66.9	68.1	68.3	68.4	76.2
First-year acceptance rate (%)	18.7	20.7	22.6	23.9	26.4	65.5
First-year matriculation rate (%)	42.2	39.1	41.0	40.1	38.9	33.7
First-year retention rate (%)	97.0	97.0	97.0	97.0	97.0	94.6
Six-year graduation rate (%)	94.0	94.0	94.0	94.0	94.0	89.9

University of Virginia, Virginia--enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AAA' rated public colleges and universities
	2023	2022	2021	2020	2019	2022
Income statement						
Adjusted operating revenue (\$000s)	N.A.	3,845,602	7,462,544	3,891,335	3,845,397	4,572,843
Adjusted operating expense (\$000s)	N.A.	4,558,248	3,937,871	3,817,300	3,773,045	4,556,402
Net adjusted operating margin (%)	N.A.	(15.6)	89.5	1.9	1.9	7.6
Estimated operating gain/loss before depreciation (\$000s)	N.A.	(389,601)	3,829,718	338,592	316,172	MNR
Tuition discount (%)	N.A.	20.8	21.1	20.2	19.4	23.6
Student dependence (%)	N.A.	26.1	12.1	23.5	22.9	23.2
State appropriations to revenue (%)	N.A.	5.6	2.6	5.0	4.6	12.2
Health care operations dependence (%)	N.A.	60.4	24.2	42.5	44.7	MNR
Research dependence (%)	N.A.	11.5	5.5	10.6	9.8	13.5
Debt						
Outstanding debt (\$000s)	N.A.	3,410,585	2,999,597	2,397,692	2,119,442	3,290,934
Foundation debt (\$000s)	N.A.	259,397	174,235	92,390	137,731	MNR
Total debt with foundation (\$000s)	N.A.	3,669,982	3,173,832	2,490,082	2,257,173	3,550,331
Proposed debt (\$000s)	N.A.	N.A.	N.A.	1,000,000	1,387,410	MNR
Total pro forma debt (\$000s)	N.A.	3,669,982	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	3.6	4.7	2.4	2.6	MNR
Current MADS burden (%)	N.A.	6.1	7.1	6.3	3.7	3.5
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.8	11.6	12.5	12.6	13.7
Financial resource ratios						
Endowment market value (\$000s)	N.A.	7,037,167	7,521,785	5,170,464	5,066,270	5,036,526
Related foundation market value (\$000s)	N.A.	3,278,471	3,387,974	2,413,578	2,335,497	1,483,771
Cash and investments (\$000s)	N.A.	8,197,252	8,558,964	5,732,900	5,483,412	7,502,647
Cash and investments including foundation (\$000s)	N.A.	22,587,043	23,874,447	16,333,765	15,794,718	8,517,250
Cash and investments including foundation to operations (%)	N.A.	495.5	606.3	427.9	418.6	209.5
Cash and investments including foundation to debt (%)	N.A.	615.5	752.2	656.0	699.8	477.6
Cash and investments including foundation to pro forma debt (%)	N.A.	615.5	N.A.	N.A.	N.A.	MNR

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 MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of August 4, 2023)		
University of Virginia gen rev pledge bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge rfdg bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge rfdg bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge & rfdg bnds (federally taxable) <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia gen rev pledge & rfdg bnds <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia CP <i>Short Term Rating</i>	A-1+	Affirmed
University of Virginia PCU_USF <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia PCU_USF <i>Long Term Rating</i>	AAA/Stable	Affirmed
University of Virginia PCU_USF <i>Long Term Rating</i>	AAA/Stable	Affirmed

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