

ISSUER COMMENT

16 December 2020

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RATING

Seniormost Rating ¹

Aa3 Stable

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University of Vermont & State Agricultural College, VT

Annual comment on UVM

Issuer profile

The University of Vermont and State Agricultural College is the state's only comprehensive public research university. UVM operates a School of Medicine, through an affiliation agreement with the University of Vermont Health Network. In fiscal 2020, UVM generated operating revenue of \$729 million and enrolled 12,524 full-time equivalent (FTE) students as of fall 2020.

Credit overview

[University of Vermont and State Agricultural College's](#) (UVM, Aa3 stable) credit profile benefits from its role as the flagship and land grant institution, with an important position in the provision of medical education for the [State of Vermont](#) (Aa1 stable) through its affiliation with the [University of Vermont Health Network](#) (UVMHN, A3 stable). Strong fiscal oversight is demonstrated by its consistently favorable operations and debt service coverage, solid reserves and liquidity, and manageable leverage, which will underpin UVM's ability to manage through the near term fiscal challenges posed by the coronavirus pandemic. Challenges stem from its very high net tuition revenue per student, requiring greater financial aid support from an increasingly affordability sensitive student. Further tempering the rating are weak state support, a highly competitive research funding environment and some exposure to healthcare volatility at its medical center affiliate.

Exhibit 1

University of Vermont & State Agricultural College, VT ²

	2016	2017	2018	2019	2020	Median: Aa3 rated public universities
Total FTE Enrollment	12,243	12,584	12,619	12,853	12,524	23,394
Operating Revenue (\$000)	653,138	677,348	697,071	715,749	728,898	778,197
Annual Change in Operating Revenue (%)	4.2	3.7	2.9	2.7	1.8	4.2
Total Cash and Investments (\$000)	796,667	872,987	907,469	941,443	972,479	737,970
Total Debt (\$000)	559,944	542,062	527,394	517,415	536,122	433,802
Spendable Cash and Investments to Total Debt (x)	1.1	1.3	1.3	1.4	1.4	1.4
Spendable Cash and Investments to Operating Expenses (x)	1.0	1.1	1.1	1.1	1.1	0.7
Monthly Days Cash on Hand	213	233	235	244	270	151
Operating Cash Flow Margin (%)	14.4	13.8	13.5	12.9	14.8	10.7
Total Debt to Cash Flow (x)	5.9	5.8	5.6	5.6	5.0	4.8
Annual Debt Service Coverage (x)	3.7	3.5	3.5	2.7	3.3	2.7

Source: Moody's Investors Service

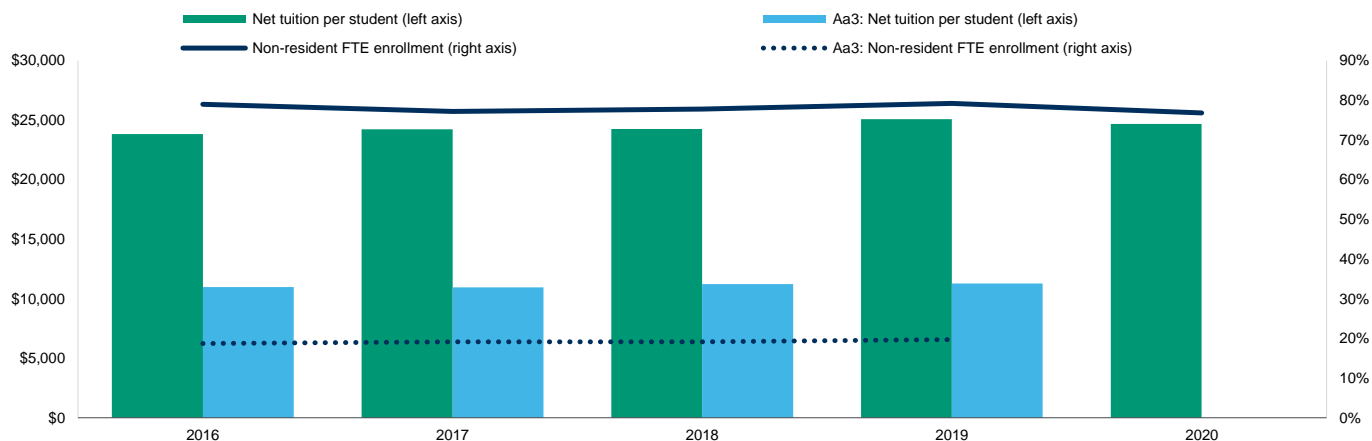
Market profile: UVM's desirable location in Burlington (A2 stable), Vermont and academic profile as Vermont's sole public comprehensive research university will continue to attract students despite a highly competitive student demand environment. The coronavirus pandemic had an impact on fall 2020 enrollment, but was a comparatively modest 2.6% decrease, to 12,524 FTE from 12,853 in fall 2019. The majority of the decrease was attributable to nonresident undergraduates, though a portion of these were accepted students who deferred to the spring 2020 or fall 2021 semesters. Undergraduates comprise a comparatively high 86% of enrollment, with a very high 77% of first year nonresident students. UVM's fall 2020 instruction was delivered in a mix of online and in-person formats. Housing occupancy was at 72% for fall 2020 compared to a more typical 93% rate.

UVM will continue to benefit from its academic medical center affiliation with the University of Vermont Medical Center (UVMHC). The medical center is the primary teaching hospital for UVM's Larner College of Medicine, operating under an affiliation agreement. The agreement was renewed in June 2014 for five years, and was recently extended to June 2021. UVMHC is the flagship hospital for the University of Vermont Health Network. UVMHC has a leading market share throughout its service area, which includes western Vermont and adjacent parts of northern New York.

- » UVM's scale of operations at \$729 million in fiscal 2020 gives the school meaningful options to navigate operating volatility and has increased by 12% since fiscal 2016, mainly driven by a 9% increase in tuition and auxiliaries.
- » UVM's annual change in operating revenue of 1.8% in fiscal 2020 reflects the university's highly competitive environment and is weaker than that of similarly rated peers which have median annual change in operating revenue of 4.2%. The university's strategic positioning is very good, which reflects the university's actions, with sufficient resources, to adjust to evolving market conditions.
- » UVM's net tuition per student of \$24,685 in fiscal 2020 is comparatively high relative to peer institutions, owing largely to a very high percentage of nonresident students paying higher tuition.
- » Research activity is a meaningful 15% of operating expenses. Research expenses rose 16% over the fiscal 2016-20 period, reflecting UVM's focus toward becoming an R1 research university.

Exhibit 2

High net tuition per student reflects a higher composition of nonresident students UVM net tuition per student and percentage of first time nonresident students



Source: Moody's Investors Service

Operating performance: UVM faces near term fiscal challenges due to impacts from the coronavirus pandemic. However, historically strong fiscal oversight and the recent focus on campus-wide budget efficiencies will help offset the operating challenges. Nonetheless, with an 8% decline in net tuition revenue, and ongoing higher expenses largely due to coronavirus-related public health and safety protocols, fiscal 2021 operating performance is likely to be weaker than prior years.

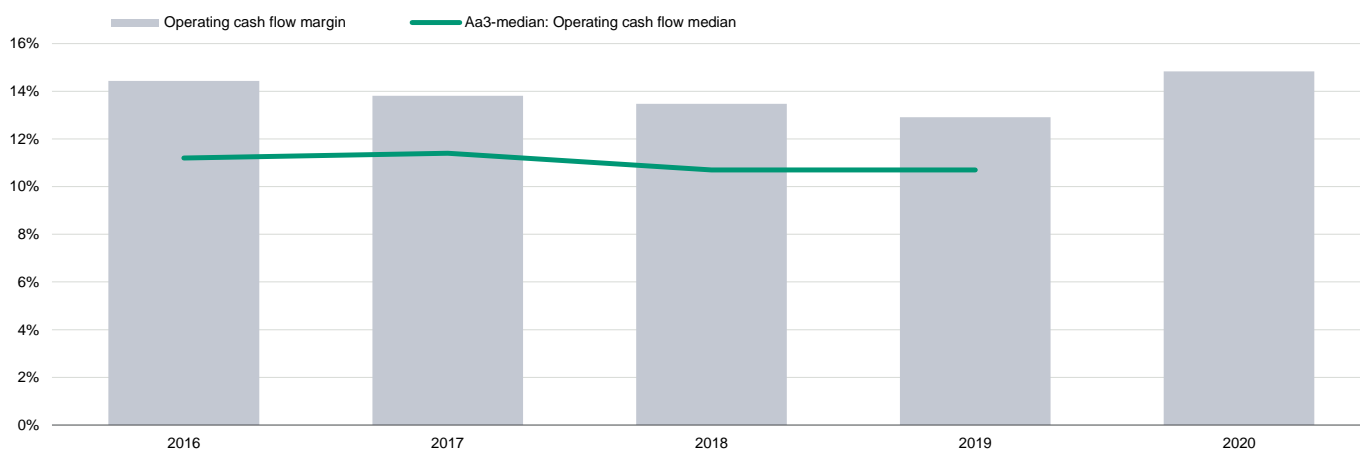
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The fiscal 2021 budget incorporates a \$21.4 million gap that the university is addressing through slightly better than expected net tuition revenue, further expense cuts, and federal and state disseminated CARES Act funds. Favorably, nearly \$33 million of CARES Act funds were disseminated from the governor's office. Another \$7 million in CARES Act direct federal funds were split between direct student aid and university expenses. The fiscal 2020 operating performance of a solid 14.8% and 3.3x debt service coverage reflects the university's expense adjustments and receipt of CARES Act funds, despite providing \$5 million in auxiliary refunds to students.

- » UVM's operating cash flow margin of 14.8% in fiscal 2020 demonstrates good financial performance. It has ranged between 12.9% and 14.8% over the fiscal 2016-20 period, exceeding the Aa3-medians of about 11%.
- » Debt service coverage of 3.3x in fiscal 2020, and ranging from 2.7x to 3.7x over the fiscal 2016-20 period is very good relative to rated peers. The Aa3-median for fiscal 2019 was 2.7x.
- » Student charges comprise a relatively high 58% of operating revenue, reflecting high reliance on tuition revenue.
- » State support comprises a very low 7.1% of operating revenue, compared to the Aa3-median of 23.1%, and heightens pressure on more volatile student charges.

Exhibit 3

UVM's operating cash flow margin is greater than the median for similarly rated universities, which provides some cushion for challenging fiscal 2021 operations

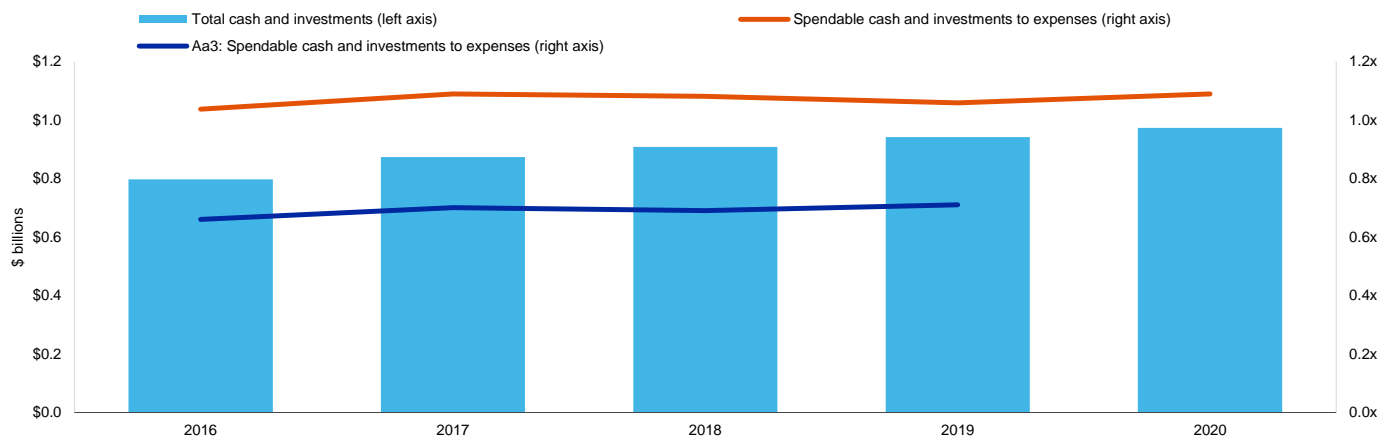


Source: Moody's Investors Service

Wealth and liquidity: The university's wealth and liquidity will provide some cushion for near term fiscal volatility. Total cash and investments of \$972 million are up a strong 22% for the fiscal 2016-20 period, largely reflecting gifts associated with a recent \$500 million comprehensive campaign that concluded in June 2019. The long-term endowment pool of \$541 million at June 30, 2020 recorded a 0.8% return for the fiscal year. Since then, with improved capital markets, the return is up 4.3% for the first three months of fiscal 2021. Liquidity has remained strong, rising to 270 days for fiscal 2020. However, fluctuations in liquidity might occur as departmental units access their incremental reserves for strategic investments and potential budget gaps during fiscal 2021.

- » UVM's total cash and investments have grown significantly by 22% to \$972 million in fiscal 2020 compared with \$797 million in fiscal 2016.
- » The university's spendable cash and investments to operating expenses at 1.1x in fiscal 2020 highlights the university's strong financial flexibility. It has been flat compared with fiscal 2016. Also, it is well above the Aa3-rated public university median of 0.7x.
- » The university's robust monthly days cash on hand of 270 days in fiscal 2020 has risen from 213 days in fiscal 2016. Also, it is significantly stronger than the Aa3-rated public university median of 151 monthly days cash on hand.
- » The university has a strong total cash and investments per student of \$77,649 in fiscal 2020, which has increased by 19% since fiscal 2016. Also, it is well above that of similarly rated peers which have median total cash and investments per student of \$34,655.

Exhibit 4

Solid wealth and monthly liquidity bolster UVM's credit profile and provide some cushion for near term fiscal volatility

Source: Moody's Investors Service

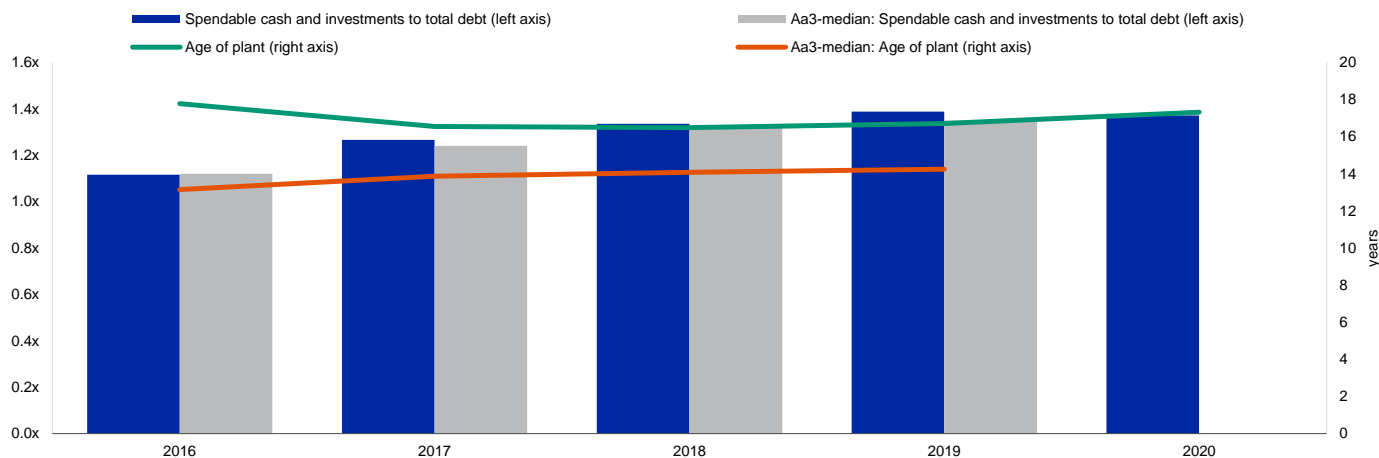
Leverage: Total debt at June 30, 2020 of \$536 million are primarily general unsecured obligations of the university. UVM also has a \$50 million commercial paper (CP) program that is backed by internally managed self-liquidity. There is no CP outstanding and the university is not planning use of CP in the near term. The university also has a \$50 million line of credit with TD Bank that has not been accessed, nor are there plans to access this line in the near term. As of September 30, 2020, UVM had a diversified \$315 million of discounted investments with same-day liquidity, which would provide strong 6.3x coverage of the \$50 million full authorized level of CP.

The university's plan to issue an additional \$30 million of revenue bonds to finalize projects related to a multi-purpose sports and events center has been postponed until the pandemic uncertainty subsides. Another project, a college of medicine biomedical research building (Firestone Building, expected opening 2022), expected to cost \$41 million, will be funded by donor gifts, university and hospital practice plan reserves, and grants. The university is planning to fund a contribution of approximately \$4 million from reserves.

- » The university's total debt has remained steady at \$536 million in fiscal 2020 compared with fiscal 2016. Debt service is all fixed rate and amortizing allowing for predictable budgeting.
- » UVM has a strong spendable cash and investments to total debt of 1.4x in fiscal 2020, which strengthened from 1.1x in fiscal 2016 as a result of modestly improving reserves.
- » Debt service to operating expenses is manageable at 4.9% in fiscal 2020 and exceeds the Aa3-rated public university median of 4.4%.
- » Favorably, the university does not participate in a defined benefit plan to which it would have a rising pension liability. UVM does contribute to an employees defined contribution plan, with contributions of moderately high 3.4% of operating expenses in fiscal 2020.

Exhibit 5

UVM's financial leverage is on par with rated peers, but comparatively high age of plant signals capital investment needs



Source: Moody's Investors Service

Sector trends

We have a negative outlook for the US higher education sector through 2021. The negative outlook acknowledges sector wide enrollment softness that will lead to net tuition revenue declines at most universities. Reductions in auxiliary revenue, such as housing, parking and athletics, will be material as colleges have pivoted to remote learning and limited the number of students on campuses. Stress on other key revenue streams, such as state funding and philanthropy, will rise as the effects of the coronavirus pandemic persist. Larger comprehensive universities with a national or even international student draw will typically fare better in this environment, while universities in urban settings will continue to confront tighter public health measures through the pandemic, which could result in prolonged enrollment decline and suppressed auxiliary revenue. The rapid move to a virtual classroom experience has accelerated advances in online delivery that might have taken much longer before the pandemic. Universities will continue to use a variety of balance sheet tools to help mitigate mounting deficits and shore up liquidity.

Endnotes

- 1 The rating referenced in this report is the college's or university's seniormost public rating.
- 2 Definitions of the metrics in the Key Indicators table are available in the appendices of our most recently published Higher Education medians reports, [public university](#) and [private university](#). The appendices also provide additional metrics broken out by sector and rating category. We use data from a variety of sources to calculate the medians, some of which have differing reporting schedules. Median data for prior years published in this report may not match last year's publication because of data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals. Median data represents the most recent published median data, which in some cases could be from the prior fiscal year.

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