

**Summary:**

**University of Delaware; Public  
Coll/Univ - Unlimited Student Fees**

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## Summary:

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### Credit Profile

US\$113.295 mil Tax-Exempt Bonds ser 2019 dtd 06/27/2019 due 11/01/2043

*Long Term Rating* AA+/Stable New

**Univ of Delaware rev bnds ser 2004A, 1993, 1997**

*Long Term Rating* AA+/Stable Affirmed

## Rationale

S&P Global Ratings has assigned its 'AA+' long-term rating to the University of Delaware's (UD) approximately \$113.3 million in tax-exempt bonds, series 2019. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on UD's bonds outstanding, and its 'AA+/A-1+' and 'AA+/A-1' ratings on the university's variable-rate debt. The rating's short-term component reflect liquidity from various banks through standby bond purchase agreements (SBPAs). The outlook is stable.

The 'AA+' rating reflects our view of UD's enterprise profile as extremely strong and financial profile as very strong, with favorable demand metrics, a solid management team, a history of consistently positive operating results with limited reliance on state appropriations, and a solid balance sheet for the rating. However, available resources could become constrained if additional debt is issued during the two-year outlook period. 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 the following factors:

- Stable enrollment of about 22,000 students and a relatively broad geographical draw for a public flagship institution;
- A strong record of positive full-accrual operating results; tempering this are by expectations of weaker near-term margins as management increases expenditures in accordance with its strategic plan;
- Adequate financial resources for the rating, with expendable resources equal to 102% of adjusted operating expenses and 170% of pro forma debt; and
- A solid pooled investment portfolio (which included \$1.3 billion in endowment funds) with a market value of \$1.6 billion as of March 31, 2019, and a below-industry-average endowment spending rate of 4.1%.

In our opinion, partially offsetting credit factors include the following:

- UD's location, in a region with high competition for students and demographic pressures; and
- Reductions in state operating appropriations, although a limited level of dependence on the State of Delaware balances this.

Bond proceeds will fund capital projects consistent with UD's capital plan. Total pro forma debt with this issue is approximately \$707 million (including bonds and capital leases). Debt will not increase, because before this issuance and before fiscal 2019 year-end, the university will legally defease its series 2009B and 2013A bonds with operating cash. The 2019 bonds will fund capital needs that the university had previously planned to fund with operating cash. The amount and structure and maturities of the Series 2019 bonds will substantially mirror that of the legally defeased bonds, thereby maintaining a similar amortization schedule. Management does not have any additional, board-approved direct debt plans during our two-year outlook period. The net effect of these transactions will result in an estimated \$9.7 million in net present value savings and a lowering of UD's capital cost.

Before the 2018 issuance, the university issued several series of revenue bonds pursuant to the 1989 trust agreement, of which about \$315 million will be outstanding after the cash defeasance. Securing the bonds is a senior lien on pledged revenues that include gross revenues from UD's housing, dining, and other revenue-producing facilities. A mandatory comprehensive student fee, student health fee, and student center fee, which all full-time undergraduate student pay, also secure the bonds. We view this broad revenue pledge as equivalent to an unlimited student fee pledge.

UD is issuing and securing the 2019 bonds with a new indenture. The bonds are unsecured general obligations of the university, payable solely from its general revenues. The series 2018 and 2019 bonds will hold a subordinate position on those revenues, which have been previously pledged to the university's prior revenue bonds. However, UD has covenanted to not issue any additional revenue bonds secured by a senior lien on the pledged revenues. At the same time, the 2018 and 2019 bonds will benefit from additional, significant available revenues not pledged to the previously issued debt. For fiscal 2018, total net revenues were \$67 million, which will pay debt service on prior obligations. The additional revenues available for the debt service on the 2018 and 2019 bonds are significantly higher with net pledged revenues at \$110 million in fiscal 2018. As per our criteria, we may rate subordinated obligations at the same level as senior obligations when the subordinate obligation holders receiving additional security such as a pledge of another revenue stream not pledged to senior-lien holders if we believe this additional security improves their position sufficiently. Given the magnitude of the additional revenues, and that the university has covenanted not to issue additional debt under the senior lien, we rate the 2018 and 2019 bonds on par with the prior obligations.

## Outlook

The stable outlook reflects our expectation that, during our two-year outlook period, student demand and enrollment will likely be stable and UD will continue achieving positive full-accrual operations; albeit with slimmer margins. We do not anticipate any significant new debt during the outlook period, and would expect the university to meet any additional debt with commensurate growth in resources.

### Downside scenario

A negative outlook or rating action during the outlook period could follow a significant deterioration in enrollment or financial operations, or significant additional debt without a commensurate growth in resources such that available resources become inconsistent with the rating. Although we understand that state appropriations are a relatively small part (approximately 10%) of operating revenues, a significant decline that hurts UD's operating performance could

result in a negative rating action.

### Upside scenario

We do not believe a positive outlook or rating action is likely within the outlook period unless there is significant endowment growth, improved levels of cash and investments as a share of operating expenses and debt levels, and an increase in financial margins to levels commensurate with those of higher-rated public universities.

Ratings Detail (As Of May 23, 2019)		
University of Delaware PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Delaware PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Delaware PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
University of Delaware VRDO PCU_USF		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
University of Delaware PCU_USF		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
University of Delaware PCU_USF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Delaware Econ Dev Auth (Univ of Delaware) rev bnds, ser 2009A</b>		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>University of Delaware rev bnds ser 2005</b>		
<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
<b>Delaware Econ Dev Auth, Delaware</b>		
University of Delaware, Delaware		
<b>Delaware Econ Dev Auth (Delaware Tech Park) (Univ of Delaware Proj) ser 2007 (Syncora)</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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