S&P Global
Ratings

RatingsDirect®

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

Primary Credit Analyst:
Laura A Kuffler-Macdonald, New York + 1 (212) 438 2519; laura.kuffler.macdonald@spglobal.com

Secondary Contact:
Sean M Wiley, Chicago + 1 (312) 233 7050; sean.wiley@spglobal.com

Table Of Contents

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

Credit Profile		
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware VRDO PCU_USF		
Long Term Rating	AA+/A-1+/Stable	Outlook Revised
University of Delaware PCU_USF		
Long Term Rating	AA+/A-1/Stable	Outlook Revised
University of Delaware PCU_USF		
Long Term Rating	AA+/A-1+/Stable	Outlook Revised

Rating Action

S&P Global Ratings revised the outlook to stable from negative and affirmed its 'AA+' long-term rating on the University of Delaware's (UD) bonds outstanding and its 'AA+/A-1+' and 'AA+/A-1' ratings on the university's variable-rate debt. The ratings' short-term component reflects liquidity from various banks through standby bond purchase agreements (SBPAs).

The outlook revision is based on UD's improving operating performance in fiscal 2021 and further improvements anticipated in fiscal 2022 and 2023. Additionally, enrollment has rebounded from the initial declines experienced in fall 2020 and balance sheet metrics have improved with healthy endowment returns.

UD has $673 million in long-term debt and capital and operating leases outstanding as of fiscal year-end 2021. Of this amount, approximately $256 million is pursuant to the 1989 trust agreement. 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 students pay, also secure the bonds. We view this broad revenue pledge as equivalent to an unlimited student fee pledge.

In addition, since 2018 UD has issued bonds under a new indenture. The bonds are unsecured general obligations of the university, payable solely from its general revenues. To date, $347 million is outstanding under this indenture and these bonds (series 2018, 2019, and 2019A) hold a subordinate position on those revenues, which have been pledged to the university's previously issued 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, 2019, and 2019A bonds will benefit from additional, significant available revenues not pledged to the previously issued debt. For fiscal 2021, pledged revenues were $107 million, which will pay debt service on prior obligations. The additional revenues available for the debt service on the 2018, 2019, and 2019A bonds are significantly higher given the university's $1.2 billion adjusted operating revenues. As per our criteria, we may rate subordinated obligations at the same level as

senior obligations when the subordinate obligation holders receive 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, 2019, and 2019A bonds on par with the prior obligations. Management does not plan to issue debt over the outlook period.

As a result of the COVID-19 pandemic, UD transitioned largely to remote learning in March 2020. For fall 2020, UD offered mainly online courses. In-person classes were limited to those areas that required in-person instruction (such as labs). UD had in-person offerings throughout the spring 2021 term and in-person classes resumed for fall 2021. For fall 2020, enrollment declined 1.7% as a result of the pandemic but rebounded 1.6% for fall 2021 and is near pre-pandemic levels. Management requires students, faculty, and staff to be vaccinated, with few exceptions. We expect enrollment for fall 2022 to see continued improvement given UD's solid demand characteristics. International students accounted for 10% of total enrollment in fall 2019 and declined to 9% for fall 2021.

For fiscal 2020, the university reported its first large deficit, which was $39.6 million, or a margin of negative 3.1%. Of this amount, approximately $30 million is attributable to COVID-19; the remainder is due to the university's strategic initiatives, which are focused on building enrollment quality and diversity, increasing its graduate presence, and investing in additional faculty. For fiscal 2021, operating deficits moderated to negative $15.7 million, or negative 1.3%, due to the combined effects of COVID-19 and the strategic plan. The deficit is in line with that of fiscal 2019. The improved operations were a result of federal stimulus funds as well as expense reduction measures covering payroll and discretionary spending. Overall, for fiscal 2022, we expect to see improved operations given a return to campus activities.

UD was granted $34 million in HEERF funding for institutional purposes, of which $13 million was realized in fiscal 2021 and $16 million remains for fiscal 2022 and beyond. In addition, the university received state funding of $32.5 million for fiscal 2021 for COVID-related expenses and lost revenues. The state also recently awarded $6.8 million for COVID-related expenses. In addition, UD received $41 million in state federal relief funding that will be used for construction of a building.

Credit overview

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 capable management team, and a solid balance sheet for the rating. This is offset by recent persistent operating deficits partially due to the pandemic and partially to planned strategic investments. 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;
- Financial resources that are in line with the rating, with fiscal 2021 expendable resources equal to 118% of adjusted operating expenses and 211% of debt; and
- A solid pooled investment portfolio (which included $1.8 billion in endowment funds) with a market value of $2.1 billion as of February 28, 2022, and a below-industry-average endowment spending rate of 3.9%.

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
- Recent full-accrual operating results that have been exacerbated by the pandemic, with expectations that deficits will continue in the near term, partially due to management's increased expenditures in accordance with its strategic plan and partially due to COVID-19.

UD, which traces its roots as a private institution to the 1700s, became the land-grant college for the state in 1867. The main campus is in the center of Newark, 15 miles southwest of Wilmington. In fall 2021, the university offered more than 150 bachelor's degree programs and over 250 graduate and post-baccalaureate programs through 10 colleges and schools. For fall 2021, UD had 22,339 full-time equivalent (FTE) students, consisting of 18,226 undergraduate students and 3,865 graduate students.

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 to improve full-accrual operations. 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.

Environmental, social, and governance

In our view, UD, like other higher education entities, faces elevated social risk because of the high, albeit moderating, uncertainty about the evolution of COVID-19 and its economic effects. Vaccine progress in the U.S. has helped alleviate some health-and-safety social risks stemming from COVID-19, but we believe that the university, like other not-for-profit colleges and universities, continues to face potential operational pressures. However, we believe that the university has taken steps to protect students, faculty, and staff by, over the past two years, requiring vaccination for community members. We view the risks posed by COVID-19 to public health and safety as a social risk under our environmental, social, and governance factors. In addition, we believe that UD is affected by demographic pressure, which we view as a social capital risk. Over the next several years, fewer high school students are expected to graduate in Delaware and the Northeast corridor from where UD draws most its students, which could add pressure to the university's enrollment picture. Despite the elevated social risk, we believe environment and governance risk at the university are in line with our view of those of the sector as a whole.

Stable Outlook

Downside Scenario

A negative outlook or rating action during the outlook period could result from a deterioration in enrollment or financial operations, or if the university issues significant additional debt without a commensurate growth in resources such that available resources become inconsistent with the rating.

Upside scenario

We do not believe a positive outlook or rating action is likely within the outlook period given UD's matriculation and selectivity relative to higher-rated peers. Similarly, we would look to see UD generate a consistent return to surplus operations while maintaining or growing its balance sheet metrics to levels consistent with those of higher-rated peers

before considering a higher rating.

Credit Opinion

Enterprise Profile

Market position and demand

The university served 23,996 students as of fall 2021, or 22,339 FTEs, with a rebound in enrollment levels from fall 2020. For fall 2020, enrollment declined slightly despite opening to largely online classes. Current enrollment is in line with pre-pandemic levels. Applications for fall 2022 are at record levels, and we expect to see continued growth in enrollment at both the undergraduate and graduate levels. Prior to the pandemic the university had seen modest enrollment growth of about 1% per year.

We believe UD enjoys good demand, stable enrollment, and solid student quality. The number of completed freshmen applications for fall 2021 was at record levels and has reached a new high for fall 2022. Part of the growth is due to management implementing new enrollment strategies in recent years, including early action. We expect that strong demand will continue. Although the university does not have specific growth plans, it has continued to increase total enrollment incrementally for the past several years, with the exception of fall 2020. UD's fall 2021 freshman class was 4,276, higher than in fall 2019. We expect undergraduate enrollment to grow. Graduate enrollment grew for fall 2020 and 2021 and management will continue to focus on increasing its graduate and professional programs in the next several years, in line with its growing research opportunities.

Student quality has been consistent, and the university has increased its acceptance of out-of-state students in the past few years. For fall 2021, total freshmen applications were 33,965, selectivity was 70%, and the matriculation rate was 18%. Management indicates that this relates in part to strategic changes to enrollment offerings and financial aid packaging as well as to competitive pricing. Selectivity weakened for fall 2021 as the university moved to an increased access philosophy.

The matriculation rate is indicative of the competition UD faces, primarily for out-of-state students. The university depends on continued high enrollment from out-of-state students because only 36% of enrolled students are Delaware residents (a level that has been fairly stable in the past couple of years). Therefore, UD faces both demographic pressures given its geographic draw and competition for out-of-state students. We believe the risk in the out-of-state student pool is low given the university's competitive cost structure and financial flexibility.

Online enrollment had a larger effect on the university's housing and dining system. UD's housing system has 44 dormitory buildings on the main campus in Newark. Overall, the university has 6,927 beds available but had only 1,285 filled, or an occupancy of 18.6%, for fall 2020, compared with over 100% occupancy for fall 2019. The university implemented a reduced occupancy plan for fall 2020, with a limit of one student per room, and eliminated its residency requirement. In addition, any non-air-conditioned rooms were closed, as were sorority houses. Three buildings with 246 beds were held for quarantine. The reduction in housing occupancy also affected dining services and parking-related revenues, which affected fiscal 2021. For fall 2021, with a return to normal operations, the university

opened 6,815 beds and occupancy increased to 98.9%, which should result in improved revenues for fiscal 2022. There were fewer available beds in fall 2021 as the university held some for quarantine facilities and occupancy was reduced at some rooms to their design triples to improve the student experience.

Fundraising

On Nov. 10, 2017, UD announced the $750 million "Delaware First" fundraising campaign; it reached its goal in December 2019 (fiscal 2020), six months ahead of schedule, and the goal was revised to $1 billion in October 2021. Through March 31, UD has raised $942.6 million towards this goal. For fiscal 2021, UD raised $62 million in gift revenue. In our opinion, UD has generated significant momentum with this capital campaign, as well as several landmark gifts, and we view this positively.

In the past 60 years, UD has received substantial gifts from the Unidel Foundation Inc., a charitable corporation whose primary purpose is to aid and promote higher education in Delaware. During that time, the foundation has contributed $32 million to UD's endowment funds. In addition, during the past five years, the university has received expendable funds for operating or capital purposes averaging $11 million per year. For fiscal 2022, Unidel awarded the university $15.8 million. The amount awarded has continued to grow over time as a result of the close relationship between Unidel and the university leadership.

Management and governance

A 32-member board of trustees (BOT) governs university operations. Board members include four ex-officio members, including the state governor, the university's president, the state grange master, and the state board of education's president. The board elects 20 members, and the governor appoints the remaining eight subject to the consent of a majority of elected members of the state senate. BOT members typically serve six-year terms. The board has administrative and financial oversight of the university's activities. Its duties and responsibilities include setting tuition and fees, developing an institutional plan, determining academic programs, establishing administrative policies, approving debt issuances, and granting degrees.

The president, Dr. Dennis Assanis, has held the position since July 1, 2016 and his contract was recently extended. Under his leadership, there have been some changes to senior management. The only recent change was the departure of the vice president for finance and deputy treasurer, and a search is currently underway. In addition, the provost has announced her retirement; a new provost has been named and will join UD in June 2022. We expect these transitions in leadership to be smooth. Before joining UD, Dr. Assanis was provost and senior vice president for academic affairs at Stony Brook University and vice president for Brookhaven National Laboratory Affairs. Under his leadership, the university has gone public with the $1 billion campaign and announced several transformational partnerships. Overall, we view the management team as a strength, as UD had consistently generated operating surpluses prior to its planned increased investments in its strategic initiatives and the financial effects of COVID-19. Since Dr. Assanis' appointment, the faculty has increased. For fall 2021, net new faculty increased by 91 as part of UD's efforts to expand its graduate and research presence. The university has robust enterprise risk management that identifies, assesses, mitigates, and monitors risks, which we view favorably.

Financial Profile

Financial performance

UD's reliance on state appropriations continues to be limited, in our view, accounting for only 11% of fiscal 2021 operating revenues. Appropriations have historically been modest relative to operating revenues. In fiscal 2018, appropriations were $119 million, a decline from the previous year. However, for fiscal 2019, annual appropriations increased to $122 million and further increased to $125 million in fiscal 2020 and 2021. For 2022, the governor's recommended budget calls for increased appropriations to $129 million, including an additional one-time supplement of $1.8 million. In addition, the university received $5.7 million in indirect operating allocations, $15 million for capital, and $3 million from the state's Higher Education Economic Investment Fund. For fiscal 2023, the governor's budget recommends an increase in appropriations to $131 million, $5.6 million for indirect operating allocations, and $15 million for deferred maintenance for laboratories. The university will also have the opportunity to apply for a portion of the state's Higher Education Economic Development Investment Fund, which is set at $15 million.

Beginning in fiscal 2019, the university began to produce GAAP-based deficits and reported a deficit of $16.5 million, or a negative 1.3%, operating margin. This was part of the university's planned increased spending in faculty, financial aid, and research initiatives. At the time, the deficit was expected to increase in fiscal 2020 before improvements were expected in fiscal 2021. However, with COVID-19, the deficit increased much more substantially in fiscal 2020 and the university's deficit increased to $39.6 million, or a negative 3.1% margin. Of this amount, approximately $30 million is attributable to COVID-19. For fiscal 2021, operations improved despite lower on-campus activity and slightly lower enrollment. Net tuition revenues declined due to lower enrollment levels as well as to increased financial aid, which resulted in UD's first decline in net tuition revenues. Auxiliary revenues declined due to the aforementioned lower on-campus occupancy. Overall, adjusted operating revenues declined 2.2% as revenue losses were partially offset by federal stimulus funding. However, these operating revenue declines were offset by a 4% reduction in adjusted operating expenses from lower instructional expenses, discretionary expenses, and auxiliary expenses. For fiscal 2022, we are anticipating further improved operations as enrollment has rebounded and more on-campus activities have resumed. In addition, the university remains committed to completing its strategic investment plan, which should temper operating results. Consistent surpluses are not expected until fiscal 2024. Should a return to stronger operating results not materialize over the medium term, we could lower the rating.

The majority of revenues come from tuition (51.6% of fiscal 2021 operating revenues), followed by grants at 22.8% and state appropriations at 10.5%. The tuition discount rate has increased somewhat over the past few years but is still comparable with that of rated peer institutions at 32.5% in fiscal 2021. The discount rate represents an all-in rate for undergraduate, graduates, and other tuition and fees.

Available resources

As of June 30, 2021, expendable resources were $1.4 billion, representing 118% of adjusted operating expenses and 212% of debt. We consider these in line with those of peers. Cash and investments were stronger at $2.5 billion, representing 208% of adjusted operating expenses and 375% of debt.

For fiscal 2021, the endowment return was 38.3% and through February the return was 3% for the fiscal year to date.

As of Feb. 28, 2022, the market value of the pooled investment portfolio (which includes $1.8 billion in endowment funds) was $2.1 billion. Currently, the asset allocation is 33% private equity, 31% global equity, 16% hedge funds, 17% fixed income, and 3% real estate. UD reports $354.7 million in unfunded commitments related to its private-equity investments as of Dec. 31, 2021, a level we believe is manageable. For fiscal 2021, the endowment return was 38.3%.

Historically, the endowment spending rate was targeted at 4.5% to 5.5% of the 12-quarter average market value as of Dec. 31. However, starting with fiscal 2014, the board revised its spending policy to target 4% to 5% of the 12-quarter average market value as of Dec. 31, which is more conservative. The approved spending rate for fiscal 2021 was 3.9% and the endowment draw for fiscal 2022 is expected to be comparable. We view the asset allocation as comparable with that of other rated peers.

Debt and contingent liabilities

As of fiscal 2021, the long-term debt structure will consist of about 18% variable-rate and 82% fixed-rate bonds. The university has three series of debt that are in variable-rate mode, the series 2004B, 2005, and 2013C bonds. All are backed by SBPAs from banks. The SBPAs expire on April 30th and May 31st 2024 for the series 2004B and 2005 bonds and on April 30th 2027 for the series 2013C bonds. Our short-term ratings on these bonds reflect the ratings of the banks providing the liquidity. All of UD's variable-rate debt is backed by interest rate swaps. UD has entered six interest rate swaps for a total notional amount of about $136 million, which hedges the interest rates on its variable-rate bonds. Morgan Stanley Capital Services Inc. is the counterparty for the university's variable-rate debt swaps. In addition, PNC is the counterparty on two swaps, which no longer have any associated debt outstanding. As of June 30, 2021, the mark-to-market value of the swaps was negative $28 million. We understand that UD has not posted collateral for any rate swap agreements. Overall, we view the swap portfolio as posing limited credit risk to the university given the magnitude of the financial resources relative to the termination payments.

Pension and other postemployment benefits

UD provides retirement benefits for employees through two retirement plans. Substantially all faculty and professional employees participate in a 403(b) defined-contribution plan. All salaried and hourly staff employees participate in the Delaware State Employees' Pension Plan, a cost-sharing defined-benefit plan. The university's policy is to pay its share of the annual premium accrued in connection with these two plans, and there are no unfunded benefits. UD also provides other postretirement benefits, primarily for retiree health care. As of June 30, 2021, the university had a $582 million postretirement benefit obligation it had not funded. We view this liability as additional pressure on the balance sheet, as it represents a significant unfunded obligation, in our opinion.

University of Delaware, DE: Enterprise and Financial Statistics

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Enrollment and demand					
Headcount	23,996	23,613	23,808	24,120	23,774
Full-time equivalent	22,339	21,994	22,364	22,193	21,898
Freshman acceptance rate (%)	70.50	63.10	68.30	63.00	60.50
Freshman matriculation rate (%)	17.90	17.70	22.90	24.60	25.90
Undergraduates as a % of total enrollment (%)	78.00	78.80	80.00	79.00	79.70

University of Delaware, DE: Enterprise and Financial Statistics (cont.)

	--Fiscal year ended June 30--				
	2022	**2021**	**2020**	**2019**	**2018**
Freshman retention (%)	91.40	89.70	91.20	90.10	91.30
Graduation rates (six years) (%)	83.60	84.00	82.20	83.10	83.20
Income statement					
Adjusted operating revenue ($000s)	N.A.	1,196,763	1,223,962	1,254,472	1,188,083
Adjusted operating expense ($000s)	N.A.	1,212,477	1,263,566	1,270,967	1,183,896
Net operating income ($000s)	N.A.	(15,714)	(39,604)	(16,495)	4,187
Net operating margin (%)	N.A.	(1.30)	(3.13)	(1.30)	0.35
Change in unrestricted net assets ($000s)	N.A.	207,236	(119,358)	(6,687)	80,463
Tuition discount (%)	N.A.	32.50	29.60	28.90	27.10
Tuition dependence (%)	N.A.	51.60	53.10	51.00	51.40
Student dependence (%)	N.A.	55.80	60.80	62.00	62.90
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	22.80	17.50	16.10	15.30
Endowment and investment income dependence (%)	N.A.	5.80	6.00	6.30	6.00
Debt					
Outstanding debt ($000s)	N.A.	673,389	673,288	690,511	707,287
Proposed debt ($000s)	N.A.	N.A.	N.A.	N.A.	N.A.
Total pro forma debt ($000s)	N.A.	673,389	N.A.	N.A.	N.A.
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.
Current debt service burden (%)	N.A.	3.13	2.98	3.46	3.85
Current MADS burden (%)	N.A.	3.41	3.27	3.25	3.55
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial resource ratios					
Endowment market value ($000s)	N.A.	1,864,134	1,376,354	1,387,415	1,336,130
Cash and investments ($000s)	N.A.	2,524,596	1,996,320	2,154,364	2,209,585
Unrestricted net assets ($000s)	N.A.	1,453,852	1,246,616	1,365,974	1,372,661
Expendable resources ($000s)	N.A.	1,424,087	905,855	1,101,527	1,205,205
Cash and investments to operations (%)	N.A.	208.20	158.00	169.50	186.60
Cash and investments to debt (%)	N.A.	374.90	296.50	312.00	312.40
Cash and investments to pro forma debt (%)	N.A.	374.90	N.A.	N.A.	N.A.
Expendable resources to operations (%)	N.A.	117.50	71.70	86.70	101.80
Expendable resources to debt (%)	N.A.	211.50	134.50	159.50	170.40
Expendable resources to pro forma debt (%)	N.A.	211.50	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	15.00	15.30	15.30	15.20

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

Ratings Detail (As Of May 11, 2022)		
University of Delaware tax-exempt bnds ser 2019A dtd 10/01/2019 due 11/01/2045		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware Tax-Exempt Bonds ser 2019 dtd 06/27/2019 due 11/01/2043		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed
University of Delaware PCU_USF		
Long Term Rating	AA+/Stable	Affirmed