University of Delaware

Update following revision of outlook to stable

Summary
The University of Delaware’s (Aa1 stable) superior credit quality acknowledges its excellent brand and strategic positioning as Delaware’s land grant and flagship university. That brand strength supports student demand from resident and non-resident students. The university’s economic development role and growing sponsored research enterprise enhances its role within the state and likelihood of ongoing support. The university’s wealth and liquidity also support credit quality. Sound financial stewardship and diverse sources of capital funding support the university’s excellent financial policy. Credit challenges include ongoing competition for resident and non-resident students. That competition combined with university’s affordability aims could limit gains in student revenue over time. Ongoing capital planning goals also temper credit quality. Including externally funded projects, leadership’s long-range capital plans call for $2.0 billion to $2.5 billion in capital projects including investments with longer term planning horizon.

On February 10, 2023 Moody’s revised the outlook on the University of Delaware to stable from negative.

Exhibit 1
Revenue gains and expense management will support sound operating performance even as federal relief wanes

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>12%</td>
<td>7%</td>
<td>2%</td>
<td>-2%</td>
<td>7%</td>
</tr>
<tr>
<td>Annual Change in Operating Expenses (%)</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>10%</td>
<td>12%</td>
<td>7%</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Audited financial statements and Moody’s Investors Service
Credit strengths
» Excellent brand as Delaware’s flagship and land grant university supports student demand for diverse academic programs
» Substantial wealth and liquidity with total cash and investments of $2.3 billion as of fiscal 2022
» Growing sponsored research competitiveness with research funding of $222 million in fiscal 2022
» Strong financial planning discipline supports prospects for predictability of operating performance and spending power of endowment funds

Credit challenges
» Highly competitive higher education landscape combined with focus on affordability especially for Delaware student limits prospects for student revenue gains
» Ambitious long term capital plans could limit gains in total wealth and drive increased financial leverage
» Inflationary expense pressures including compensation and benefit costs could constrain operating performance

Rating outlook
The stable outlook incorporates Moody’s expectations that measured revenue gains and expense management will produce double digit EBIDA margins and debt service coverage over 3x. The outlook also reflects expectations that the primary revenue drivers of net tuition revenue, auxiliary enterprises, grants & contracts and state appropriations will continue to support moderate revenue growth prospects.

Factors that could lead to an upgrade
» Substantial gains in total cash and investments on both an absolute basis and relative to debt and operations
» Sustained strengthening of market position demonstrated by earned revenue growth and enhanced student geographic draw, along with strengthening yield on accepted students

Factors that could lead to a downgrade
» Sustained move to EBIDA margins below 12% or debt service coverage below 3x
» Increase in financial leverage
» Marked reduction in total cash and investments relative to expenses or deterioration relative to peers over time
» For revenue bonds, decline in debt service coverage from pledged revenue

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.
Key indicators

Exhibit 2

<table>
<thead>
<tr>
<th>UNIVERSITY OF DELAWARE</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Median: Aa Rated Public Universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FTE Enrollment</td>
<td>22,505</td>
<td>22,364</td>
<td>21,994</td>
<td>22,338</td>
<td>22,461</td>
<td>32,387</td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>1,036,075</td>
<td>1,079,610</td>
<td>1,052,384</td>
<td>1,012,563</td>
<td>1,134,938</td>
<td>1,374,020</td>
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<tr>
<td>Annual Change in Operating Revenue (%)</td>
<td>3.1</td>
<td>4.2</td>
<td>-2.5</td>
<td>-3.8</td>
<td>12.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Total Cash &amp; Investments ($000)</td>
<td>2,013,135</td>
<td>1,948,804</td>
<td>1,917,857</td>
<td>2,450,823</td>
<td>2,323,089</td>
<td>1,970,591</td>
</tr>
<tr>
<td>Total Debt ($000)</td>
<td>707,287</td>
<td>690,511</td>
<td>673,288</td>
<td>661,135</td>
<td>661,474</td>
<td>733,584</td>
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<tr>
<td>Total Cash &amp; Investments to Total Adjusted Debt (x)</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.8</td>
<td>2.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Cash &amp; Investments to Operating Expenses (x)</td>
<td>2.0</td>
<td>1.8</td>
<td>1.8</td>
<td>2.5</td>
<td>2.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Monthly Days Cash on Hand (x)</td>
<td>472</td>
<td>381</td>
<td>349</td>
<td>441</td>
<td>390</td>
<td>203</td>
</tr>
<tr>
<td>EBITDA Margin (%)</td>
<td>14.6</td>
<td>14.2</td>
<td>9.0</td>
<td>13.4</td>
<td>15.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Total Debt to EBITDA (x)</td>
<td>4.7</td>
<td>4.5</td>
<td>7.1</td>
<td>4.9</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Annual Debt Service Coverage (x)</td>
<td>3.9</td>
<td>3.6</td>
<td>2.7</td>
<td>3.4</td>
<td>4.2</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service

Profile

The University of Delaware, the land grant university for the state, was chartered for higher education by the state in 1833 and became a university in 1921. The main campus is in Newark, Delaware and the university draws the majority of its students from out-of-state. The university offers a broad array of degrees from associates to doctorates to its 22,461 full-time equivalent students in fall 2022. Sponsored research and economic development activity has fostered revenue growth, with operating revenue of $1.1 billion in fiscal 2022.

Detailed credit considerations

Market profile: brand strength supports enrollment management despite regional competition

The brand and strategic positioning of the University of Delaware is excellent, anchored by its role as the State of Delaware’s (Aaa stable) flagship and land-grant university. Located in the more densely populated northeast corridor, the university attracts 65% of its students from out-of-state, primarily from New York, New Jersey, Pennsylvania and Maryland.

Strong retention evidences the academic preparedness of students and the good match of students to the institution. Total enrollment of 22,461 full-time equivalent students (FTEs) for fall 2022 has edged upward following the pandemic. Regional competition along with state and other financial aid programs will limit gains in net tuition revenue. Net tuition revenue per student declined 2.2% in fiscal year 2022 to $17,909. The four year financial plan call for undergraduate tuition rate increased in the 2% to 3% range while the discount rate will be managed downward from 34% to 30%. The university will continue to make strategic investments to enhance the positioning of its graduate and professional programs.

Sponsored research gains will continue to burnish UD’s market strength. Research funding reached $222 million in fiscal 2022. Prospects for federal funding are aided by connections to federal agencies and diversity of funding agencies. Investments in new facilities at the Science, Technology and Advanced Research facilities (STAR) campus. The university is partnering with industry, other universities, nonprofits and local governments in the federally funded National Institute for Innovation in Manufacturing Biopharmaceutical (NIIMBL) building and other joint projects with industry.

Operating performance: revenue gains and expense management aid durability of sound operating performance

Following soft operating performance in fiscal 2020, sustained revenue gains combined with expense management will yield debt service coverage over 3x for the coming years. Management projections through 2027 show gradual gains to net tuition revenue, auxiliary enterprise, grants and state appropriations as pandemic relief funding winds down. Maintaining strong operating performance
will require ongoing expense management especially in light of the university’s commitment to competitive compensation. A voluntary retirement plan and targeted reductions have provided an opportunity to realign the workforce with evolving needs. In addition a shared services approach aims to support both decentralized and market sensitive decisionmaking while maintaining institutional control.

Exhibit 3

UD’s revenue diversity supports prospects for sound operating performance

Fiscal year 2022

Moody’s adjusted operating revenue by category

Source: Moody’s Investors Service

Wealth and liquidity: $2.3 billion of total cash and investments and unrestricted liquidity support credit quality

The university’s sizeable financial resources provide a strong cushion for debt and operations and underpin credit quality. In fiscal 2022, the university had total cash and investments of $2.3 billion. Total cash and investments covered operating expenses by 2.1x, well above the public Aa median of 1.3x.

While cash and investments provide a very solid buffer to operations, the rate of growth is below peers, reflecting a modest and gradual erosion in comparative credit quality. This relative underperformance reflects fundraising disparities. While UD has averaged total gift revenue of $51 million per year, the median of its Aa1 peers is over $200 million per year. While the university has outpaced milestones within its $1 billion comprehensive campaign goal, the majority of new gifts and commitments have been for current operations and less likely to be additive to long term total cash and investments than peers.

The long term investment pool is generally well diversified even as private investments increased to 39% of the pool in 2022. For fiscal 2021, the university reported a 38.3% investment return, followed by a negative 3.2% return in fiscal 2022.

Liquidity

Liquidity will continue to be robust, providing a good cushion for operating expenses, potential calls from its debt portfolio and calls from its unfunded investment commitments but could ease as reserves or cash flow from operations could fund a portion of capital investment. The university had $11 billion of unrestricted monthly liquidity at fiscal year-end 2022, providing 389 monthly days cash on hand. Monthly liquidity covers demand debt by over 9x.

Leverage: debt is manageable given strong resources and expectations of continued growth

The university’s debt burden should remain manageable given the absence of borrowing plans and gradual debt amortization. Total cash and investments to total adjusted debt remains supportive of credit quality at 2.7x. Debt affordability, as measured by total debt to EBIDA, remains sensitive to operating performance with fiscal 2022 results of 3.9x, somewhat above peers.

With ambitions for continued growth in sponsored research and economic development role within the state, the university has substantial capital plans. Preliminary long range plans call for between $2.0 billion and $2.5 billion at various stages of planning including potential projects. Federal and other capital grants along with industry partners will be key to achieving this pace of investment and will limit any reliance on incremental debt, or use of net operating revenue or reserves. While the bulk of the capital plans relate to education and research, management has identified several potential needs to student life including student housing.
and dining. While the campus has benefitted from sustained capital investment, continued investment will be required to maintain competitive facilities. The university age of plant was 16.1 years for fiscal 2022.

**Debt Structure**

The university's debt profile, has a moderate 17% exposure to variable rate debt, mitigated by its treasury management and liquidity. Monthly liquidity covers demand debt by over 9x. Standby bond purchase agreements (SBPAs) support the tender features of UD's series 2004B, 2005, and 2013C bonds with stated expiration dates of April 5, 2024 (Bank of America, N.A.), May 31, 2024 (TD Bank, N.A.) and April 30, 2027 (TD Bank, N.A.) respectively. In the event of a liquidity draw, UD has sufficient funds to reimburse the bank through a two-year term-out period for TD Bank and 90 days for Bank of America.

**Legal Security**

The series 2018, series 2019 and series 2019A bonds are an unsecured general obligation of the university. Prior revenue bonds are secured by pledged revenues and have priority over the general obligation bonds. The indenture for the prior revenue bonds has been closed. Pledged revenues include housing, dining, health care facilities, as well as bookstores and parking, and three mandatory student fees that must be paid by all undergraduate students. Pledged Gross Revenues in fiscal 2022 of $146 million provided 5.8x coverage of maximum annual debt service. Including the impact of housing, dining, student health and other expenditures, net revenue coverage was 2.9x in fiscal 2022.

**Debt-related derivatives**

The university has modest swap exposure relative to its liquidity. The university's floating to fixed interest rate swaps had a total notional amount of $127 million as of June 30, 2022. The total market value on that same date was a $11.9 million liability for the university. A rating downgrade could prompt collateral posting requirements, with the threshold beginning at $50 million at Aa2.

**Pensions and OPEB**

The university's post-retirement benefit costs compared to peers are slightly elevated and could be a source of inflexible expense inflation. The university offers a defined contribution plan for substantially all faculty and professional employees. Its contribution rate is 11% of annual base salary, with total contributions of $36 million in fiscal 2022. Other eligible employees are covered by the Delaware State Employees' Pension Plan with contributions under 1% of operating expenses. The unfunded OPEB liability $475 million at fiscal 2022 is substantial and the pay go expenses will increase over time. The university offers other post-retirement benefits, primarily health care benefits, to faculty and professional staff. Employer contributions amounted to $12.8 million or a low 1.2% of the budget.

**ESG considerations**

**University of Delaware's ESG Credit Impact Score is Neutral-to-Low CIS-2**

Exhibit 4

ESG Credit Impact Score

**CIS-2**

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

The University of Delaware's neutral-to-low (CIS-2) credit impact score reflects ESG attributes with limited negative impact on the current rating. The university's financial stewardship and total wealth partially mitigate its ESG risks.
Environmental
Environmental risks are neutral-to-low (E-2) across all categories. The university's primary location in Newark, Delaware brings manageable severe weather risks. The campus benefits from the resiliency investments of the City of Newark. Sustainability themes drive some of the university's academic and research programming. Its Disaster Research Center, for example, has garnered federal grants for aiding community preparedness and responses to climate change risks. With regard to carbon transition planning the university has acknowledged it is behind some peers but is actively developing a broad sustainability strategy.

Social
The university’s exposure to social risks is moderately negative (S-3) like a majority of the higher education sector. Regional demographic pressures introduce credit risks over the longer-term despite a strong academic brand with broad reach. Fierce competition in the Mid-Atlantic will continue to weigh on the yield rate on accepted students and limit tuition pricing power. The university benefits from sound retention and graduation rates with favorable median earnings for its graduates. Good customer relations with key stakeholders is supported by its favorable student demand, solid per student state funding, and substantial sponsored research activity. Human capital exposures include the need for a specialized workforce including tenured faculty members along with fringe benefits costs.

Governance
The University of Delaware’s governance risk is neutral-to-low (G-2). Prudent fiscal practices support credit quality and inform the management credibility and financial policy scores. Multiyear operating and capital planning provides the tools to make adjustments to its expansion activities should projected enrollment and development objectives not materialize. The university's governance structure provides more autonomy than most of its public university peers. The State Charter, which can only be amended with board approval, grants the board full management of the university's affairs, including setting tuition and fees, adoption of its budget and all powers regarding the investment and control of all funds. Originally a private college, its board structure reflects its roots with a relatively large Board of Trustees. At the same time, there are political linkages. The governor serves as an ex-officio member and eight trustees are appointed by the Governor. All appointments are confirmed by the state Senate.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.
Rating methodology and scorecard factors
The principal methodology used in this rating was Higher Education Methodology published in August 2021. The Higher Education Methodology includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard indicated outcome may or may not match an assigned rating. We assess brand and strategic positioning, financial policy and strategy, and operating environment on a qualitative basis.

Exhibit 6
University of Delaware

<table>
<thead>
<tr>
<th>Scorecard Factors and Sub-factors</th>
<th>Value</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1: Scale (15%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Operating Revenue (USD Million)</td>
<td>1,135</td>
<td>Aa</td>
</tr>
<tr>
<td>Factor 2: Market Profile (20%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand and Strategic Positioning</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td>Operating Environment</td>
<td>Aa</td>
<td>Aa</td>
</tr>
<tr>
<td>Factor 3: Operating Performance (10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIDA Margin</td>
<td>15%</td>
<td>Aa</td>
</tr>
<tr>
<td>Factor 4: Financial Resources and Liquidity (25%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cash and Investments (USD Million)</td>
<td>2,323</td>
<td>Aa</td>
</tr>
<tr>
<td>Total Cash and Investments to Operating Expenses</td>
<td>2.1</td>
<td>Aaa</td>
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<tr>
<td>Factor 5: Leverage and coverage (20%)</td>
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<tr>
<td>Total Cash and Investments to Total Adjusted Debt</td>
<td>2.7</td>
<td>Aa</td>
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<tr>
<td>Annual Debt Service Coverage</td>
<td>4.2</td>
<td>Aaa</td>
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<tr>
<td>Factor 6: Financial Policy and Strategy (10%)</td>
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<td></td>
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<tr>
<td>Financial Policy and Strategy</td>
<td>Aa</td>
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<td>Scorecard-Indicated Outcome</td>
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<td>Assigned Rating</td>
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<td>Aa</td>
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</table>

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Source: Moody’s Investors Service