Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns A1 to University of San Diego's (CA) revenue bonds; outlook stable

30 Mar 2022

New York, March 30, 2022 -- Moody's Investors Service has assigned an A1 rating to the University of San Diego's (CA) approximately $75 million Revenue Bonds (University of San Diego), Series 2022 (Federally Taxable) (Green Bonds). The bonds will be issued by the California Municipal Finance Authority and have an expected maturity date of 2052. We also affirm our A1 issuer rating and A1 ratings on outstanding parity debt. Total debt outstanding as of June 30, 2021 was approximately $190 million. The outlook is stable.

RATINGS RATIONALE

The University of San Diego's (CA) (USD) A1 issuer rating reflects its very good brand and strategic positioning as a Catholic university with diverse undergraduate, graduate and professional programming and an attractive campus in San Diego. The university's well integrated long-term financial and strategic planning will continue to support its strong operating performance and contribute to USD's significant self-funding of important capital projects. As a result, USD's leverage remains moderate even inclusive of the proposed issuance and debt affordability will remain comparable to its peers. Total cash and investments provide a solid cushion to operations and reserves are liquid, with monthly days cash on hand at an above average 624 days, providing greater flexibility. Offsetting considerations encompass USD's high operating reliance on student charges and the highly competitive student market driving rising tuition discounting that will pressure future growth in net tuition revenue. Fundraising also lags peers which lowers revenue diversity.

The A1 rating assigned to the revenue bonds reflects their unsecured general obligation to pay and the issuer rating.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that the university will maintain a favorable operating cash flow in the 15-20% range despite pressures on net tuition revenue and expenses related to new initiatives.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Substantial growth of cash and investments outpacing that of peers and providing a stronger cushion for operations
- Consistently stronger philanthropy to support growing financial aid and capital projects
- Further strengthening of brand and strategic position, reflected in consistent ability to meet enrollment targets with steady yield and growing net tuition revenue

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of declining EBIDA margins coupled with deteriorating liquidity
- Weaker operations from stagnating enrollment or net tuition revenue pressure

LEGAL SECURITY

USD's revenue bonds are an unsecured general obligation of the university.

USE OF PROCEEDS

The proceeds will be used for the construction of a Wellness Center.

PROFILE

University of San Diego is a mid-sized private Catholic comprehensive university located in San Diego,
California. It reported over 8,080 students in fall 2021 and $340 million in operating revenue in fiscal 2021. It has a study abroad center in Madrid.

METHODOLOGY


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