New York, September 23, 2019 -- Moody's Investors Service has assigned an A1 rating to the University of San Diego's (CA) planned Revenue Bonds (University of San Diego), Series 2019, to be issued by the California Municipal Finance Authority. Series 2019 bonds are expected to consist of around $57 million of new debt and may also include a refunding of approximately $51 million of series 2011A, 2011B and 2012 bonds. We maintain A1 ratings on approximately $62 million of outstanding debt. The outlook is stable.

RATINGS RATIONALE

The University of San Diego's (USD) A1 rating reflects its very good strategic positioning as a Catholic university with diverse programming and an attractive campus in San Diego. The university's well integrated long-term financial and strategic planning, strong cash flow and stronger fundraising have contributed to a solid cash and investment cushion relative to debt and operations and denote future financial flexibility for strategic investments. A high proportion of funds are liquid, with an ample 451 monthly days cash. While debt will rise with the planned issuance of $57 million for capital projects, leverage and debt affordability will remain favorable compared to peers with spendable cash and investments covering proforma debt by 2.8x and proforma debt to cash flow of 3.0x. For fall 2019, the university projects generally stable enrollment, and fiscal 2019 operating performance is estimated to show a slight improvement from fiscal 2018's strong results.

Offsetting factors include an over 80% revenue reliance on student charges in a fiercely competitive region as evidenced by the relatively low yield of 19% of accepted students. Growth in net tuition revenues is likely to slow in future years from growing discounting, which could result in thinning margins.

RATING OUTLOOK

The stable outlook reflects our expectation the university will maintain favorable operating cash flow in the 15-20% range despite potentially slower growth in net tuition revenue in fiscal 2020.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial growth of cash and investments outpacing that of peers and providing stronger cushion of operations
- Consistently stronger philanthropy to support growing financial aid and capital projects

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Trend of declining operating cash flow 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

Proceeds will be used for a variety of capital expenditures including contributing towards the renovation of classrooms, faculty offices, student residences, and the library, the construction of a new Learning Commons, and to pay the cost of issuance.

PROFILE

University of San Diego is a mid-sized private Catholic comprehensive university located in San Diego, California. It reported over 8,200 students in fall 2018 and $373 million in operating revenue in fiscal 2018.
METHODOLOGY

The principal methodology used in this rating was Higher Education published in May 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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