

**Onondaga Civic Development Corp.,  
New York  
Upstate Properties Development, Inc.;  
Auxiliary - Stand Alone**

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**(Editor's Note:** This article, originally published April 24, 2020, has been updated to reflect COVID-19-related risks and par amount. On March 25, we revised all of our student housing project outlooks to negative due to the uncertainty around the duration of COVID-19 and its potential effects on fall enrollment and occupancy. The following report has been update to reflect these changes.)

Credit Profile		
US\$31.17 mil Revenue Refunding Bonds (Upstate Properties Development, Inc) ser 2020 dtd 04/29/2020 due 12/01/2041		
Long Term Rating	A+/Negative	Affirmed
<b>Onondaga Civic Dev Corp, New York</b>		
Upstate Properties Development, Inc., New York		
Onondaga Civic Development Corporation (Upstate Properties Development, Inc.)		
Long Term Rating	A+/Negative	Affirmed

## Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Onondaga Civic Development Corp., N.Y.'s proposed \$30.6 million series 2020 taxable revenue refunding bonds. At the same time, we affirmed our 'A+' long-term rating on Onondaga Civic Development Corp., N.Y.'s \$32 million series 2011 revenue bonds issued for Upstate Properties Development Inc. (UPDI). UPDI used bond proceeds from the series 2011 issue to fund the renovation and reconstruction of a 21-story student-housing complex known as Geneva Tower. The outlook is negative.

The series 2020 bonds will be used to advance refund the series 2011 bonds. The series 2020 bonds are obligations of UPDI are secured by the gross revenues of the project, a negative pledge of the leasehold interest of UPDI causing a future mortgage, if any, to be shared with the series 2020 bonds on parity, a State University of New York (SUNY) agreement contained within the management agreement, and most critical to the project's rating, an agreement between SUNY and UPDI that we consider equivalent to a lease-vacancy agreement. Under this agreement, SUNY essentially financially guarantees the project will have 1.1x debt service coverage, which post-issuance will be greater than its 1.0x debt service coverage covenant. UPDI is a New York not-for-profit corporation organized to support the State University of New York-Upstate Medical University (SUNY-UMU) by development, construction, and rental of student housing for SUNY-UMU. While the rating isn't applicable to SUNY-UMU, we view the demand and fiscal characteristics of SUNY-UMU as having some bearing on the likelihood of the continued success of the Geneva Tower residential student housing facility and as such we comment on aspects of the university's operations where appropriate. At fiscal year-end June 30, 2019, there was approximately \$28.5 million outstanding on the series 2011 bonds, and pro forma for this transaction, total project debt will equal \$30.6 million.

As a result of the COVID-19 pandemic, SUNY-UMU moved all course instruction to an online format, effective the

week of March 23 through the remainder of the academic year. The vast majority of students who needed to complete clinical hours for the spring semester had already done so. Most students remained on campus as they completed their coursework, and specifically at Geneva Tower, nearly all residents of the project remained living in the residence hall. Notably, there was no need for Upstate Properties to offer rental refunds during this challenging time. On July 1, the new academic year began for the vast majority of SUNY-UMU's students and management indicates that occupancy will remain strong compared with the previous year. Approximately 1.2% of headcount enrollment is international students, and the project would not likely be affected from a decline in international students.

For the fall semester, SUNY-UMU has plans to use a hybrid model of in-person and online learning with clinical rotations and laboratory classes expected to proceed normally. Most faculty and staff of the university, including non-essential research, transitioned to remote work in late March but, since then, research operations have resumed on campus. In addition, while elective surgeries were postponed for a period of time through the spring, Upstate University Hospital has been ramping back up and is close to pre-COVID levels. In our view, the full financial impact of COVID-19 cannot be quantified at this time, but we believe for fiscal 2020 it will affect SUNY-UMU's fiscal 2020 operating results, with weaker results than fiscal 2019 expected, though the hospital did receive \$20 million in CARES Act funding to date to compensate the hospital for its COVID-19-related losses with additional funding expenses in the coming weeks and months. Fiscal 2021 performance could be more severely affected, depending on the trajectory of the virus and its impact on operations. We recognize that SUNY-UMU has taken prudent measures to address the current situation and that the university continues to monitor the course of the pandemic, having fully evaluated additional measures that could be taken to protect the health of the community and promote its core mission of academics and research.

### **Credit overview**

The rating reflects our view of the very strong connection between SUNY ('aa-' stand-alone credit profile, or SACP) and its contractual relationship with UPDI whereby UPDI appointed SUNY as the manager of Geneva Tower for 40 years. In addition, we view favorably a provision in the bond documents referred to as the SUNY Agreement that we deem equivalent to a lease-vacancy agreement which obligates SUNY to lease beds directly if projected occupancy at the beginning of the fall or spring semester falls below a level necessary to meet required covenants, including a 1.1x debt service coverage. In our view, this agreement significantly mitigates occupancy risk for the project. Management reports that historically, the project has not required this financial support from SUNY. Post issuance, the series 2020 debt service covenant requires 1.0x debt service coverage. Because of the support that the SUNY Agreement provides, we rate the series 2011 and series 2020 bonds 'A+'. Other SUNY affiliated housing transactions, which do not have the lease-vacancy support from SUNY, are rated 'A'. In affirming the rating, we also recognize SUNY's credit strengths and weaknesses as outlined in our report on Dormitory Authority of The State of New York, The State University of New York; Appropriations; Auxiliary-System published March 18, 2019. If the rating on SUNY were lowered, it would likely lead to a downgrade on the project as well.

The rating also reflects our view of UPDI's:

- The SUNY Agreement, which we view as a lease-vacancy agreement, that provides a solid level of support for the student-housing bonds if management projects the rate covenant to be less than the required amount;
- UPDI's compliance with all covenants including the previously required 1.10x rate covenant requirement based on

actual debt service coverage (DSC), as calculated by S&P Global Ratings, of 1.1x for fiscal 2019, 1.1x for fiscal 2018 and 1.2 for fiscal 2017 with slightly higher coverage projected in fiscal 2020;

- The SUNY facility management agreement, which includes a first-fill provision; and
- Geneva Tower's favorable position as the sole on, or proximate to, campus housing facility occupied mostly by graduate and professional level students participating in required on-campus, in-person classes and training.

The rating also reflects the following offsetting factors:

- Low DSC of 1.1x in fiscal 2019, though management expects a slight increase in fiscal 2020;
- High reliance on state operating appropriations;
- Instability at the senior levels of management at SUNY-UMU

The negative outlook reflects our expectation that the project's DSC will remain at or slightly above the expected new 1.0x rate covenant and may require the SUNY lease-vacancy support agreement to do so. In addition, the negative outlook is also based on the COVID-19 outbreak and the uncertainties surrounding the ultimate economic fallout. While the project has not suffered thus far as the vast majority of students have remained in Geneva Tower, given the financial impact COVID-19 has had on the state and the likely impact on SUNY, the virus will likely have an impact on the project. If the rating on SUNY were to be lowered, it would likely result in a rating change on the project given the strong connection between the two. In addition, while there remains a need for all students to be on campus given the demand for clinical experiences and laboratory requirements, if the majority of classes moved online in the fall, it could have a negative impact on demand for the project, though management believes this is unlikely given the in-person nature of laboratory classes, clinical rotations, residencies and fellowships.

### **Environmental, social, and governance factors**

In our view, all projects in the privatized student housing sector are facing negative economic or fundamental business conditions that could result in lower ratings over the next one to two years, as reflected in the negative outlook. We believe that as university management teams moved to implement remote learning to protect the health and safety of students and limit the social risks associated with the community spread of the COVID-19, the privatized student housing sector will be challenged by the sudden and potentially prolonged decline in student housing occupancy and associated loss of rental revenue. Despite the elevated social risk, we believe UPDI's environment and governance risks are in line with our view of the sector as a whole.

## **Negative Two-Year Outlook**

### **Downside scenario**

We could lower the rating if we lowered the rating on SUNY. We could also lower the rating if Geneva Tower's occupancy declines such that it would not likely meet its bond covenants or if other events occur leading to a bond covenant violation of less than 1.0x.

## **Upside scenario**

A revision to a stable outlook could result from a significant improvement in occupancy at Geneva Towers, further enrollment growth at SUNY-UMU that leads to increased housing demand at Geneva Tower's and attainment of much stronger DSC. Also, an upgrade of SUNY, were it to occur, could lead to a positive rating action for UPDI.

## **Enterprise Profile**

### **Background and enrollment**

Founded in 1834 as the Geneva Medical College, SUNY-UMU became part of the SUNY system in 1950. SUNY-UMU offers 21 different degree programs. SUNY-UMU's niche is that its health related colleges and hospitals educate residents from a 17-county area from the Canadian to Pennsylvania borders with no other comparable public or private facilities in the area and many students choosing to start their medical careers in this region upon graduation.

SUNY-UMU is part of the SUNY system. We understand SUNY is the nation's largest comprehensive system of public education. It serves more than 436,000 students (including 30 locally sponsored community colleges that account for slightly more than half of its students). SUNY consists of 29 state-operated campuses, and five contract colleges at Cornell and Alfred universities. In addition, SUNY oversees the 30-campus community college system, but those operations are not incorporated into SUNY's financial statements. SUNY serves primarily state residents, with approximately 88.7% of undergraduate students and 85.6% of total students listed as New York State residents.

As of fall 2019, SUNY-UMU's total headcount enrollment remained stable at 1,594 students from 1,592 in fall 2018. Management has seen a slight decline in enrollment in fall 2020, primarily within the College of Nursing. The student body is broken up between the College of Medicine, the College of Health Professions, the College of Nursing and the College of Graduate Studies. Fall 2019 headcount enrollment in the College of Medicine, the largest of the four colleges comprising SUNY-UMU, was 711, down 0.5% from fall 2018's enrollment of 715. Enrollment across the other colleges remained stable in fall 2019.

Tuition costs are significantly lower at SUNY-UMU compared with those of similar public medical universities. SUNY-UMU's 2018-2019 tuition for its college of medicine for in-state students is \$43,020, up 3% from the prior year's \$41,770; and \$65,160 for out-of-state students, which remained unchanged from the prior year.

### **Housing facility**

UPDI is a New York not-for-profit corporation organized to support the State University of New York-Upstate Medical University (SUNY-UMU) by development, construction, and rental of student housing for SUNY-UMU. UPDI used bond proceeds from the series 2011 issue to fund the renovation and reconstruction of a 21-story student-housing complex now known as Geneva Tower. UPDI completed the student housing project in August 2012 in time for SUNY-UMU's fall 2012 semester.

Since opening its doors in fall 2012, occupancy at Geneva Tower has seen some volatility, with occupancy rising to 91% in fall 2019 after falling to 78% in fall 2018 from 91% in fall 2017. There was a slight decrease in total beds to 262 in fall 2019 from 274 in fall 2018; however, the project also filled 238 beds in fall 2019 compared with 217 in fall 2018. Management attributes the occupancy decline in fall 2018 to an increase in competition from off-campus housing

providers which, over the last two years, have added over 2,000 beds to the area surrounding SUNY-UMU. To counter the adverse impact on occupancy that these new housing units have had on Geneva Towers UPDI management recently instituted a short stay program for visiting students and others that may be on the campus for temporary periods. In addition, through the graduate medical education department, there is a stronger outreach effort which coordinates housing needs for medical residents. This coordination and, generally, this connection with the medical community has put UPDI in a stronger position to face the impact of COVID-19. As of April 13, only two residents had left Geneva Towers, and they were not granted refunds. Management indicated that those remaining in their residences are completing class work, doing research, and volunteering at local hospitals. It is management's expectation that, should some classes remain online for the start of the fall 2020 semester, UPDI will still maintain strong occupancy due to the demand of SUNY-UMU medical students. It is our understanding that, as part of UPDI's ongoing effort to update the heating and ventilation systems (HVAC) at the project, a number of beds have been taken off line for fall 2020. Because of this, UPDI has filled about 236 beds for the upcoming semester, a slight decline from fall 2019. UPDI expects occupancy to increase following the HVAC update as beds taken off line for the project are brought back on line. Debt service requirements during the next financial year were adjusted accordingly with this issuance giving the project additional flexibility.

The first-fill requirement includes all classes of students residing on campus. In addition, the SUNY Agreement is measured as of the last day of the calendar month preceding the beginning of the fall or spring semester. UPDI owns the residence hall, but SUNY manages it under the facility management agreement, including the provision for holds on registration for nonpayment, marketing as college housing, and payment of staffing, and general maintenance. Although Geneva Towers is adjacent to campus, Geneva Towers is the only on campus student housing available.

Fiscal 2019 rates for a one-bedroom were \$6,000 per semester the same as for the prior year and for a two-bedroom \$4,950 also the same for the prior year. A four-bedroom option is also available at \$5,200 per semester the same rate in effect for the prior year. There are also certain additional fees for summer storage or a summer stay.

### **Management and governance**

We view management and governance of the project to be adequate as years of turnover within senior management at the university has led us to have some concern of the overall stability at SUNY-UMU; however, the senior finance team has remained stable for several years and the UPDI management team has been led by the current SUNY-UMU senior vice president for administration and finance since 2011, giving us more comfort in the project's ability to operate soundly. The College of Medicine, which holds the majority of the university's students, was put on a probation period about 10 years ago and reinstated two years later. The university recently received full accreditation. In January 2016, following a national search, SUNY named Dr. Danielle Laraque-Arena president of SUNY-UMU. However, within less than three years, Dr. Laraque-Arena resigned from her post and the university is once again in the midst of national search for a new president. A long serving faculty member, Dr. Mantosh Dewan, was named interim president in late 2018. Management believes Dr. Dewan has brought stability to the university during his tenure. The university has also seen turnover at the College of Medicine. In July 2017, SUNY-UMU welcomed Dr. Julio Licinio as its new senior vice president and dean of the College of Medicine, but in September 2019 he was relieved of his duties. The new dean of the College of Medicine, Dr. Lawrence Chin, most recently served as Robert B. and Molly G. King Endowed Professor and Chair of Neurosurgery at Upstate Medical University.

Unrelated to any management turnover at SUNY-UMU, on Sept. 5, 2017, Dr. Kristina M. Johnson assumed her position as the SUNY system's 13th chancellor. In September of 2018, Tod A. Laursen assumed the position of provost and senior vice chancellor replacing Dr. Grace Wang who was appointed interim provost in September 2017 allowing Dr. Wang to return to her former position of senior vice chancellor for research and economic development. In addition, on Nov. 15, 2017, Mr. Robert Megna was named senior vice chancellor and chief operating officer of the SUNY system

## **Financial Profile**

### **Financial operations**

UPDI generated total operating revenue of \$3.5 million in fiscal 2019, a 4.4% increase from the \$3.4 million revenue reported in fiscal 2018. The higher total operating revenue realized in 2019 reflects a nearly \$300,000 increase in support from SUNY-UMU- the university supplies UPDI personnel and other related support, some of which may be at no cost, and the estimated value of this support is reported as revenues with offsetting expenses in the consolidated statement of activities. As a result of increased operating revenues and flat expenses in fiscal 2019, revenues available for debt service increased from \$2.3 million in fiscal 2018 to \$2.4 million in fiscal 2019.

For fiscal 2020, management is projecting an increase in rental revenues due to improved occupancy at the project and continued success of its short stay program. With most residents choosing to remain in Geneva Towers, UPDI did not refund any housing fees for the fiscal 2020 year.

### **Debt service coverage**

S&P Global Ratings' calculation of DSC, which uses fiscal 2019 debt service of \$2.14 million, is 1.10x and is equal to the previously required 1.10x rate covenant. UPDI's calculation of DSC aligns with our calculations. For fiscal 2020, management projects actual DSC of 1.17x, in part due an expected increase in rental income, exceeding the previously required 1.10x rate covenant and the new 1.0x rate covenant that will become effective for fiscal 2021 and subsequent years. Debt service payments are due June 1 and Dec. 1, and we feel confident UPDI will not have any problems making the upcoming required payment.

### **Financial resources**

UPDI is highly leveraged, typical of many off-balance-sheet housing projects, and its financial resources are very modest with liquidity largely limited to certain reserves funded in accordance with the bond provisions and other minimal amounts of unrestricted cash and investments. At fiscal year-end 2019 there was a bond fund totaling \$1.2 million, a repair and renewal and replacement fund totaling \$1.5 million and \$472,732 in assets whose use is limited-pledged revenue, and \$293,162 in cash.

### **Debt and contingent liabilities**

UPDI is issuing the series 2020 bonds in the par amount of \$30.6 million to refund the series 2011 bonds with about \$28.5 million outstanding as of June 30, 2019. Debt will fully amortize in 2042, consistent with previous debt service schedule, and the pro forma maximum annual debt service is projected to decrease to \$1.9 million from \$2.1 million. The debt service schedule is flat after fiscal 2021. UPDI has no additional debt plans. UPDI also has no contingent liabilities for pension or other post-employment benefits.

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