

CREDIT OPINION

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University of South Florida, FL

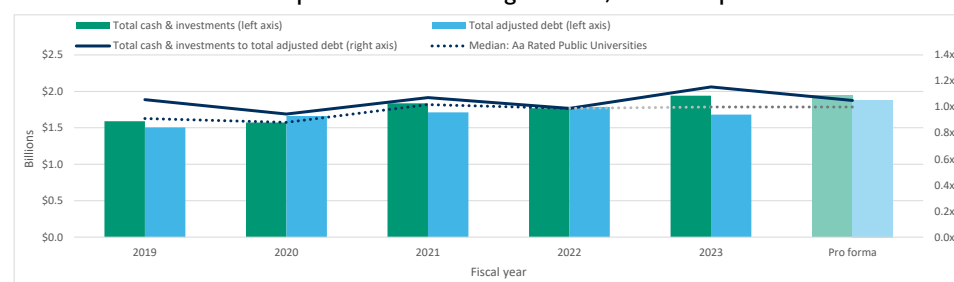
Update to credit analysis

Summary

The [University of South Florida's](#) (Aa2 stable issuer rating) credit profile incorporates its sizable operations as a comprehensive university with very good operating performance, affordable pricing and solid student demand. Credit quality also benefits from growing wealth fueled by retained reserves, investment returns and philanthropy. Support from the [State of Florida](#) (Aaa stable) for operations and capital is strong and growing, and financial leverage remains manageable, even with a planned increase in debt. Designation as a Preeminent State Research University contributes to USF's excellent strategic positioning and will help propel its growing sponsored research prowess. These strengths are tempered by relatively high reliance on potentially volatile state funding, political limits on tuition and fee pricing and a highly competitive environment for students and research funding. Our opinion also considers the role of USF's affiliated organizations that finance facilities, raise funds, manage a faculty practice plan and steward endowed funds. The credit profile acknowledges various limited revenue pledges for parking (Aa3), student center (Aa3) and housing (A1) bonds.

Exhibit 1

Growth of financial reserves provides solid coverage of debt, even with planned increase



Source: Moody's Investors Service

Credit strengths

- » Well positioned urban research university with \$1.6 billion revenue base and steady student demand
- » Improved operating performance resulting from prudent budgeting and planning with updated budgeting practices
- » Manageable financial leverage relative to a sizable operating base and growing financial reserves, with 227 monthly days cash on hand for fiscal 2023

- » Strong and growing state support, with a large \$77 million recurring operational increase in fiscal 2024

Credit challenges

- » State control of tuition and fee increases add complexity to budgeting and planning and inhibits revenue growth
- » Heavy competition for students, faculty and research with ongoing needs for capital and program investments
- » Indirect patient care exposure including through the University Medical Service Association, the faculty practice plan support organization

Rating outlook

The stable outlook reflects expectations for positive operating performance and very good cash flow, with manageable increases in financial leverage and maintenance of unrestricted liquidity. The outlook also incorporates expectations that pledged net revenues will continue to provide consistently good debt service coverage on the various bonds.

Factors that could lead to an upgrade

- » Substantial and sustained increase in total cash and investments relative to debt and operations
- » Sustained strengthening in EBIDA margins outpacing peer medians
- » For limited pledge revenue bonds, strengthened debt service coverage or broadening of pledge

Factors that could lead to a downgrade

- » Deterioration of operating performance
- » Decline in unrestricted liquidity
- » Sustained weakening of debt service coverage from pledged revenues or material decline in housing or parking system reserves

Key indicators

Exhibit 2

UNIVERSITY OF SOUTH FLORIDA, FL

	2019	2020	2021	2022	2023	Median: Aa Rated Public Universities
Total FTE Enrollment	41,948	42,239	41,419	42,093	41,665	30,783
Operating Revenue (\$000)	1,387,854	1,377,407	1,382,879	1,502,150	1,611,076	1,505,466
Annual Change in Operating Revenue (%)	-0.3	-0.8	0.4	8.6	7.3	8.8
Total Cash & Investments (\$000)	1,589,130	1,571,976	1,836,213	1,767,880	1,941,753	1,947,594
Total Adjusted Debt (\$000)	1,504,484	1,662,048	1,713,040	1,786,510	1,682,393	1,862,165
Total Cash & Investments to Total Adjusted Debt (x)	1.1	0.9	1.1	1.0	1.2	1.0
Total Cash & Investments to Operating Expenses (x)	1.2	1.2	1.4	1.3	1.2	1.3
Monthly Days Cash on Hand (x)	214	190	220	225	227	191
EBIDA Margin (%)	8.5	7.9	11.4	13.5	9.8	14.4
Total Debt to EBIDA (x)	3.1	3.5	2.3	1.9	2.5	3.4
Annual Debt Service Coverage (x)	3.9	3.8	5.3	6.4	4.2	4.1

Fiscal 2023 data used throughout the Credit Opinion is preliminary

Source: Moody's Investors Service

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.moody's.com> for the most updated credit rating action information and rating history.

Profile

USF, a member of the State University System of Florida, is a large, comprehensive public research university founded in 1956. Total headcount enrollment is approximately 50,000 students across Tampa, St. Petersburg, and Sarasota-Manatee campuses. The university, including its direct support organizations and faculty practice plan, has a budget of over \$2.3 billion. USF Financing Corporation is a Direct Support Organization (DSO) that administers property for the benefit of USF. The Financing Corporation (USFFC) is presented among other DSOs in the university's annual financial statements as discretely presented component units.

Detailed credit considerations

Market profile

USF's location in the Tampa-St. Petersburg-Clearwater metropolitan area, with strong demographic trends and a relatively diverse economy combined with solid student demand, will continue to support its excellent strategic positioning. A focus on student success continues to result in improved student quality, retention above 90% and six-year graduation rates in the mid-70%. Transfer students, while declining consistent with sector trends, will remain important to healthy enrollment, though declines are offset by growing freshman enrollment. Given USF's favorable enrollment trends, we expect demand for its housing and parking facilities to remain strong.

While low net tuition revenue per student of \$7,834 in fiscal 2023 supports affordability, it also reflects state caps on tuition and auxiliary charges, which limit USF's ability to translate brand into pricing power. Tuition has not increased since 2012.

USF's expanded research enterprise benefits from diversified funding sources and the growing scope of USF Health. The university recently accepted an invitation to join the Association for American Universities, which will further advance its research profile and ability to compete for federal funding and to attract top talent. Grants and contracts revenue comprises almost one-third of total revenue. Research expenses were \$384 million in fiscal year 2023, up almost 20% since fiscal 2018.

Operating performance

USF will continue to demonstrate solid fiscal oversight and the ability to manage expenses during periods of varied revenue constraints, supporting improved EBIDA margins generally around 10%. Implementation of a new budgeting model in fiscal 2024 will further strengthen long-term planning and oversight to support strategic priorities. A large scale of operations, at \$1.6 billion in fiscal 2023, gives USF multiple options to respond to operating volatility, with fiscal 2024 boosted by a material \$77 million recurring increase in state appropriations, on top of a \$55 million increase the prior year. However, a moderately high approximately one-third dependence on potentially volatile state funding leads to vulnerability if state funding is negatively pressured. USF has a track record of strong results in competitive state funding and further benefits from diverse revenue sources.

Growth of USF Health and strengthening of [Tampa General Hospital's](#) (Baa1 stable) role as USF's academic medical center through a revamped operational structure present upside opportunities over the medium term. However, there is also increased potential for volatility from indirect patient care exposure including through the University Medical Service Association, the faculty practice plan support organization.

Financial resources and liquidity

Total cash and investments (including DSOs) will remain solid, at over \$1.9 billion at fiscal year end 2023, bolstered by growing fundraising, investment returns and historically good cash flow from operations. Three-year average gift revenue has almost tripled since fiscal 2018, at almost \$100 million in fiscal 2023. With capital investment funded through multiple sources, USF's wealth growth has typically not been constrained by its ambitious capital plan, though some reserves included in total cash and investments will be used for an upcoming project. USF's liquidity position will remain healthy, with unrestricted monthly liquidity, which includes only USF operating reserves and not funds at DSOs, is strong, with a strong 227 monthly days cash on hand.

Leverage and coverage

Debt, held at USF and various DSOs, will increase though remain manageable in the near term based on USF's capital plans, which include a \$340 million stadium project, of which \$200 million will be debt funded. Debt service is expected to be funded with new stadium-driven revenue streams as well as general athletic department revenue including conference distributions, royalties and contributions. USF has made significant investment in plant, included recently completed housing and a student center at the Sarasota-Manatee campus, an honors college and a wellness complex. University debt is fixed rate and amortizing, but USF has

exposure to various private placement loans and some variable rate demand debt through its DSOs and is party to a PPP housing project, for which it receives annual rental payments. Effective treasury management includes oversight of direct placement bonds with material reduction of demand debt exposure over the last decade. Pro forma total adjusted debt includes a significant \$1.2 billion pension liability for participation in state managed pension plans, which is high but manageable in the context of growing revenue and financial resources.

Exhibit 3

Pledge	Debt outstanding	Reserves	Estimated 2023 coverage (net)	Budgeted 2024 coverage (net)
USF Parking system net revenue, including mandatory fee	\$4 million	\$29 million	1.7x	1.8x
USF Financing Corporation Student center revenue, secured by a lien on revenue prior to payment of operating expenses	\$26 million	\$16 million	1.4x	1.6x
USF Financing Corporation Housing system gross revenue	\$204 million	\$62 million	1.5x	1.5x

Source: Moody's Investors Service, University of South Florida

ESG considerations

University of South Florida, FL's ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

The University of South Florida's **CIS-2** credit impact score reflects ESG attributes that have limited impact on the current rating. It incorporates moderately negative exposure to environmental and governance risks, partially mitigated by strong financial reserves, favorable student demand and its important role in serving the greater Tampa area.

Exhibit 5

ESG issuer profile scores

ENVIRONMENTAL

E-3



SOCIAL

S-3



GOVERNANCE

G-3



Source: Moody's Investors Service

Environmental

Environmental risks (E-3) incorporate higher than typical exposure to hurricanes and water stress, resulting in moderately negative physical climate risks. Severe weather risk is somewhat mitigated by USF's hurricane preparedness and resiliency efforts. USF is

dedicated to sustainability and recognizes the importance of meeting the needs of its metropolitan location while minimizing its environmental impact. The USF Patel College of Global Sustainability boosts the university's sustainability impact through academic impact and volunteer programs.

Social

USF's social risks of S-3 reflect strong regional growth mitigating limited student revenue raising ability and revenue diversity of the university. Gains in the expected number of high school graduates and young adults in Florida support USF's demographic prospects. Excellent state funding underscores the importance of the relationship with the state. Favorably, low tuition pricing supports USF's value proposition to its graduates, with notable strengthening in student outcomes in recent years. The university's growing sponsored research enterprise supports its customer relations acumen with federal agencies and other key grantors. Substantial state control of tuition and fee pricing, fringe benefit programs, faculty tenure exposure and demand for specialized labor introduce moderately negative human capital risks. Customer relations elements with the state as customer include performance funding and legislative power to set tuition pricing, which could lead to variability in funding.

Governance

USF's governance risks of G-3 reflect sound financial stewardship, with a boost in state funding supporting low tuition pricing and capital investment. USF's strong strategic prioritization, favorable demographics and robust planning position the university to maintain competitiveness. Public universities typically have some board structure and governance risks given their lack of full independence from the state. The board selection process includes six members appointed by the governor and five members appointed by the Florida Board of Governors joining the faculty senate chair and student body president. Considerations also include multiple layers of governance as a state agency subject to oversight from the state and its legislature, the Board of Governors and Board of Trustees and support organizations that assist in executing USF's strategies. Legislation has tended to increase centralization of control at the state level relative to other states, with increased standards around accreditation, tenure review processes and posting of course materials, potentially limiting institutional autonomy. In addition, USF performs a key role for the state through hosting the Florida Center for Cybersecurity and works with all 12 Florida institutions in the State University System, as well as private industry and local, state, and federal government entities to improve cybersecurity in Florida and its related workforce.

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 [Higher Education](#) rating 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 South Florida

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Scale (15%)		
Adjusted Operating Revenue (USD Million)	1,611	Aa
Factor 2: Market Profile (20%)		
Brand and Strategic Positioning	Aa	Aa
Operating Environment	A	A
Factor 3: Operating Performance (10%)		
EBIDA Margin	10%	A
Factor 4: Financial Resources and Liquidity (25%)		
Total Cash and Investments (USD Million)	1,942	Aa
Total Cash and Investments to Operating Expenses	1.2	Aa
Factor 5: Leverage and coverage (20%)		
Total Cash and Investments to Total Adjusted Debt	1.2	Aa
Annual Debt Service Coverage	4.2	Aaa
Factor 6: Financial Policy and Strategy (10%)		
Financial Policy and Strategy	Aa	Aa
Scorecard-Indicated Outcome		Aa2
Assigned Rating		Aa2

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

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