S&P Global Ratings

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University Of South Florida; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

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University of South Florida Fincg Corp aux		
Long Term Rating	A+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA' long-term ratings on the Florida Division of Bond Finance's parking facility revenue bonds and the University of South Florida Financing Corporation's (USFFC, a university component unit) Marshall Center bonds.
- S&P Global Ratings affirmed its 'AA' issuer credit rating (ICR) on the University of South Florida (USF).
- S&P Global Ratings affirmed its 'A+' rating on its housing certificates of participation (COPs) issued for the University of South Florida Financing Corporation (USFFC) for the University of South Florida (USF).
- The outlook on all issues is stable.

Security

We calculate the university's total pro forma debt at about $575 million, including about $348 million in debt outstanding as of fiscal 2022 year-end, $247 million in debt issued in fiscal 2023 or that the university plans to issue, and exclude about $20 million the university paid off in fiscal 2023. Our prior analysis incorporated a planned issuance of $50 million. However, this amount has increased by an additional $200 million reflecting the university's plans to issue debt for a new stadium. We have incorporated the planned debt issuance into our analysis and will evaluate the terms of the new debt when issued.

The parking bonds and Marshall Center bonds are secured by a fee charged to all students, which we view as an unlimited student fee equivalent bond security, equivalent to the ICR.

The USFFC issued housing COPs are secured by lease payments made by the university from pledged revenues. The leases have stipulated commencement dates, are not contingent on project completion, runs through the COPs final maturities, contains no annual appropriation or renewal risk, and are not subject to abatement or set off. Therefore, we do not apply any notching from the unlimited student fee equivalent ratings for the lease structure risks.

The series 2022 bonds and existing housing COPs are secured by auxiliary revenue including all revenue of facilities owned by USFFC. We rate these two notches lower than the rating on the university because of a more limited security pledge of housing revenue and coverage. Debt service coverage was at about 1.5x in fiscal 2023 when occupancy was nearly full, and this is expected to be similar in the near term.

Credit overview

We assessed USF's enterprise risk profile as extremely strong, characterized by stable enrollment and very good demand metrics that improved the past two years, a capable management team highly experienced in higher education, growing sponsored research, and good fundraising success. We assessed USF's financial risk profile as very strong, characterized by solid financial resource ratios that are likely to improve in fiscal 2023, a low maximum annual debt service (MADS) burden that will increase given the new debt, but is likely to remain moderate, and full accrual surpluses in five of the past six years, with the university expecting another improvement in net position in fiscal 2023. Combined, we believe these credit factors lead to an anchor rating of 'AA+' and a final rating of 'AA' which in our opinion, better reflects the university's slightly weaker financial resource ratios and demand metrics compared with other higher rated Florida public universities.

The 'A+' rating on the housing system debt reflects our view of the close connection between the auxiliary system and the university and continued effective management of the system. The system's occupancy rebounded to just above 95% the past two years from 51% in fall 2020 at the height of the pandemic. Coverage is projected to be 1.5x in fiscal 2023 and estimated to be similar in fiscal 2024. The housing system maintains about $62 million in reserves, which we consider healthy.

The 'AA' rating reflects our assessment of USF's following strengths:

- Steady enrollment, large student body, and stellar demand characteristics bolstered by its comprehensive research university status;
- Robust financial resources with cash and investments that decreased slightly in fiscal 2022 but are expected to grow further in fiscal 2023;
- Consistent support from the state for higher education with one of the nation's lowest in-state tuition rates; and
- Experienced management team and comprehensive governing policies reflected in management's ability to react quickly to the changing economy and operating environment.

The rating is partially offset by our view of the university's:

- Limited tuition and fee-raising flexibility imposed by the state legislature for several years, thus constraining one important area of revenue generation for the university;
- Somewhat weaker cash and investments to pro forma debt given the expected new issuance; and
- Increased competition with other large Florida public research universities because they vie for the same students and state resources.

Founded in 1956, USF has a total enrollment of about 50,000 students. The main (and largest) campus is in Tampa with additional campuses in St. Petersburg and Sarasota. The university is the state's only urban-based research institution. It primarily competes with other large public universities in the state, including the University of Central Florida, University of Florida (UF), and Florida State University (FSU). The university recently received the "Preeminent State Research University" designation from the Florida Board of Governors. This designation is held by only three Florida public universities (USF, FSU, and UF) in the state and is expected to increase USF's state appropriations, which we view favorably.

Environment, social, and governance

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. We view the university's environmental risks are somewhat elevated for USF due to its location along Florida's Gulf Coast, which makes it more susceptible to weather events and the effects of climate change. The university has insurance and plans in place to mitigate this risk partially. Despite the elevated environmental risk, we believe USF's social and governance risk is a neutral factor in our analysis.

Outlook

The stable outlook reflects our expectation that during the outlook period, USF's enrollment and enterprise profile characteristics will remain at least stable, while continuing to generate full accrual operating surpluses, and financial resources will remain stable with surpluses and fundraising offsetting some additional cash the university plans to invest in the stadium.

The stable outlook on the housing system bonds reflects the university's solid occupancy of 95% the past two years, with our expectation that the university will maintain similar occupancy and that coverage will continue to be near 1.5x.

Downside scenario

We could consider a negative rating action within our outlook period if university demand weakens materially, while the university begins to generate full accrual deficits and available resources deteriorate. In addition, if the university were to issue significant debt without additional growth in available resources, it could pressure the rating. Moreover, we could consider a negative rating action on the housing system revenue bonds if occupancy deteriorates significantly leading to coverage below 1.2x without the use of additional reserves.

Upside scenario

We could consider an upgrade to the unlimited student fee equivalent if the university grows enrollment, generates consistent healthy full accrual operating surpluses, and grows financial resource ratios significantly to a level commensurate to a higher rating. We could consider an upgrade to the housing system if occupancy continues to be near 100% while coverage improves and reserves remain solid.

Credit Opinion

Enterprise Risk Profile--Extremely Strong

Market position and demand

The university's demand metrics improved in fall 2022 and fall 2023 with FTE enrollment growing and selectivity improving significantly. The university saw applications increase significantly in fall 2022 and remain stable in fall 2023. Management attributes the improvement to the university's desirability in an urban area and growing research presence. Freshman matriculants were slightly down in fall 2023 after two years above a historically high level of 4,000. The freshman class was 3,377, which is about where it was before the two larger classes. This led to a small decline in undergraduate enrollment but overall fairly stable enrollment over the past few years.

The university has also seen fairly stable graduate enrollment over the past few years. The university hopes to see future growth in established programs, in particular the nursing program.

About 80% of students come from Florida. In-state tuition has remained flat for ten years and remains at just $6,410. Out-of-state tuition has also remained flat at $17,324 for ten years and is lower than in-state tuition at many universities. The university does have some capacity constraints, which limits significant growth. The Florida legislature sets the undergraduate in-state tuition rates, and increases to such tuition levels requires a two-thirds vote of each chamber of the legislature for passage. Tuition is not pledged to any outstanding revenue bonds for USF or any other Florida public universities as tuition may not be pledged pursuant to current Florida law. The state requires a supermajority two-thirds vote instead of a simple majority of the university board of trustees (nine of 13 members) or the Board of Governors (12 of 17 members) to raise, impose, or authorize any university fee if approval by such board or boards is required by general law. In our view, while these do not weaken our current assessment of university fee-secured debt strengths, they do impose a higher hurdle to approve increases to existing fees and could make any future increases more stringent.

USF continues to have solid student quality, retention, and graduation rates. Graduation rates have been consistently above 70% while freshman retention rates have been consistently at or above 90%. While we do not anticipate significant enrollment increases given some capacity constraints, we believe demand metrics will remain very solid.

Fundraising

While the university is still quite young, it has more than 300,000 alumni; however, we understand that many alumni have not yet reached their peak-giving years. Nevertheless, the university successfully completed a $1 billion comprehensive campaign goal several years ago and continues to raise over $100 million consistently including about $150 million in fiscal 2022 and fiscal 2023, which we view favorably.

Management and governance

The university appointed a new president, Rhea Law, a USF alumna, in 2022. She previously served as the university's interim president since 2021 and was the former chair of the university's Board of Trustees. The university implemented a new strategic plan in 2023 with goals to further rise as a top university and also has financial goals, which we view favorably. The university has formal policies for real property, endowment spending, investments, derivatives and debt and has protection against risks including insurance for some environmental risks and an IT team that actively manages to protect them against cyber risks. The university finance and budgeting office personnel are seasoned and considered very competent by us.

Over the same time, the Board of Trustees has been stable other than normal turnover. We believe that management is quite capable, has a great deal of experience, and has satisfactory policies and practices relative to peers. We do not expect material changes in management positions, practices, or policies in the near term.

Financial Risk Profile--Very Strong

Financial operations

The university produced another solid full accrual surplus of 2.7% in fiscal 2022 with projections of another similar surplus in fiscal 2023. The surplus in fiscal 2022 was driven by increases in net tuition revenue, federal funds, and auxiliary revenue. These helped offset a small increase in adjusted operating expenses. For fiscal 2023, the university will likely see a larger increase in expenses; however, likely still maintain a surplus in-part driven by large increases in state funds. The university's general revenue and lottery related state revenue increased to $523 million in fiscal 2023 from $437 million in fiscal 2022.

For fiscal 2024, the university is budgeting for a similar surplus as fiscal 2023 with continuous increases in state and auxiliary revenue potentially offset by increases in expenses.

USF has solid revenue diversity given solid state support and growing research revenue. The state of Florida does provide some funds based on performance, and USF has consistently ranked among Florida public universities on metrics included in the performance-based funding and received $92 million in performance-based funding in fiscal 2024 up from $73 million in fiscal 2023. The university expects to continue growing its research capacity. Overall, about 31% of adjusted operating revenue is student dependence, while about 37% is research funding and 30% of state appropriations, which we view favorably.

Financial resources

Financial resources as measured by total cash and investments at the university and its component units decreased slightly in fiscal 2022 but still remains up significantly from fiscal 2020. The university is projecting total cash and investments to grow roughly $130 million in fiscal 2023. The university had about $882 million in cash and investments in fiscal 2022 with another roughly $910 million at affiliated foundations. Total cash and investments including the foundation were equal to just over 100% of adjusted operating expenses and just above 300% of pro forma debt. The university does plan on utilizing another roughly $100 million to fund the new stadium in addition to the debt, which could impact cash and investments, but given the university's fundraising and operational success, financial resources are not likely to deteriorate much more in the near term and could increase over a longer period.

The foundation endowment funds totaled $674 million as of June 30, 2023. The asset allocation of the total long-term funds as of the same date was about 32% domestic equity, 27% international equity, 22% cash and fixed income, 10% public and private real assets, and 9% alternative investments. We believe that the asset allocation is conservative and liquid, providing the university with sufficient access to liquid resources if necessary.

Debt and contingent liabilities

Including direct support organizations debt, but excluding the amount of capital leases outstanding for the university, and adding future debt, the university's total pro forma debt outstanding was about $575 million including the proposed debt for the new stadium. We consider the pro forma MADS burden, which includes all DSO debt as very manageable at just below 2.0x of adjusted operating expenses. While we expect this to go up with the additional debt, it is likely to remain somewhat manageable. The pro forma debt service schedule excluding the stadium debt is relatively front loaded with about 50% of debt amortizing within 10 years. Total annual debt service falls below $10 million by 2039.

About $180 million of total university and DSO debt as of June 30, 2022, is made up of directly placed bank debt, which we consider contingent liabilities. While this debt structure is somewhat aggressive, it is mitigated in our opinion by the debt terms, which do not include cross-default provisions, financial covenants, or events of default beyond nonpayment, which we view as conservative. We do not view the direct-purchase bonds as adding credit risk to the university's debt profile as it has ample same-day liquid funds to fully cover these amounts in the event of acceleration.

Housing system

The security for the housing system is a gross revenues pledge that provides sound annual debt service coverage and which we view as a solid pledge due to the size of the system with 5,255 bed capacity on two campuses. Tampa housing beds account for the vast majority. Occupancy has historically been solid, at near 100%. While it fell slightly during the pandemic it has been nearly full the past two years and is expected to remain above 95%. Management is calculates coverage at about 1.5x in fiscal 2023 and expects it to be near 1.5x again in fiscal 2024. The comprehensive and multicampus nature of the housing revenues further supports the 'A+' rating. The bond covenants require a look-back test to the previous year before USF can issue additional debt and the bonds must be on parity. The covenants also require a pro forma test of the two fiscal years following project financing. In addition, the covenants require that net revenues must exceed 110% of MADS plus 100% of operating expenses for those years. Existing and pro forma revenues and expenses provide solid coverage to meet covenant requirements and for MADS on a net basis.

The university entered into a public-private partnership (PPP) to build replacement and new-bed housing on the Tampa campus, which opened up in 2017. As of June 30, 2023, the project had about $110 million outstanding.

Pension plans and other postemployment benefits (OPEB)

The university provides retirement benefits through two pension plans administered by the state of Florida--the Florida Retirement System (FRS) and Health Insurance Subsidy (HIS). The state's pension-funded ratios exceed the S&P Global Ratings-calculated average for all states, based on fiscal 2022 information available on state pension plans. As of June 30, 2022, the university reported an unfunded pension liability of $60 million for its proportionate share of the collective net pension liability. The Florida Retirement System is about 83% funded, which we view as sufficient. For additional details on the state's pension plans, see our Florida report published on April 8, 2022, on RatingsDirect.

USF offers OPEBs through the State Group Health Insurance Program, a defined-benefit plan, which it funds on a pay-as-you-go basis. In our view, total university contributions toward the pension and OPEB plan equaled what we consider a manageable 4.6% of total adjusted operating expenses in fiscal 2022. Overall, we consider pension and OPEB contributions to be manageable as a percentage of total adjusted operating expenses, and not financially constraining at this time.

University of South Florida--enterprise and financial statistics					
	--Fiscal year ended June 30--				
	2024	**2023**	**2022**	**2021**	**2020**
Enrollment and demand					
Full-time-equivalent enrollment	41,664	42,094	41,419	42,241	41,948
Undergraduates as a % of total enrollment	78.1	77.3	77.2	76.7	76.8

University of South Florida--enterprise and financial statistics (cont.)					
	--Fiscal year ended June 30--				
	2024	**2023**	**2022**	**2021**	**2020**
First-year acceptance rate (%)	34.4	35.6	42.3	41.2	42.5
First-year matriculation rate (%)	19.1	21.7	24.5	27.9	27.5
First-year retention rate (%)	91.0	87.0	90.0	92.0	90.0
Six-year graduation rate (%)	N.A.	74.0	73.0	74.0	71.0
Income statement					
Adjusted operating revenue ($000s)	N.A.	N.A.	1,780,191	1,652,226	1,607,253
Adjusted operating expense ($000s)	N.A.	N.A.	1,731,727	1,610,035	1,613,279
Net adjusted operating margin (%)	N.A.	N.A.	2.8	2.6	(0.4)
Estimated operating gain/loss before depreciation ($000s)	N.A.	N.A.	134,496	120,476	69,331
Tuition discount (%)	N.A.	N.A.	34.2	37.4	36.5
Student dependence (%)	N.A.	N.A.	32.4	31.4	33.4
State appropriations to revenue (%)	N.A.	N.A.	24.6	26.5	26.7
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Research dependence (%)	N.A.	N.A.	25.5	25.6	26.3
Debt					
Total debt with foundation ($000s)	N.A.	N.A.	347,983	360,591	378,999
Proposed debt ($000s)	N.A.	N.A.	226,901	46,350	N.A.
Total pro forma debt ($000s)	N.A.	N.A.	574,884	N.A.	N.A.
Current debt service burden (%)	N.A.	N.A.	1.8	1.6	1.5
Current MADS burden (%)	N.A.	N.A.	2.0	2.1	2.1
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Average age of plant (years)	N.A.	N.A.	15.0	16.4	17.1
Financial resource ratios					
Endowment market value ($000s)	N.A.	N.A.	638,707	732,252	551,915
Related foundation market value ($000s)	N.A.	N.A.	996,120	1,088,582	849,608
Cash and investments including foundation ($000s)	N.A.	N.A.	1,791,492	1,859,580	1,595,073
Cash and investments including foundation to operations (%)	N.A.	N.A.	103.5	115.5	98.9
Cash and investments including foundation to debt (%)	N.A.	N.A.	514.8	515.7	420.9
Cash and investments including foundation to pro forma debt (%)	N.A.	N.A.	311.6	N.A.	N.A.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 2, 2023)		
University of South Florida Fincg Corp aux (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of November 2, 2023) (cont.)		
University of South Florida Fincg Corp certs of part ser 2022 due 07/01/2052		
Long Term Rating	A+/Stable	Affirmed
University of South Florida Fincg Corp (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
University of South Florida Fincg (Univ South Florida Hsg Sys) (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
University of South Florida ICR		
Long Term Rating	AA/Stable	Affirmed
Florida Division of Bond Finance, Florida		
University of South Florida, Florida		
Florida Div of Bnd Fin (Univ of South Florida)		
Long Term Rating	AA/Stable	Affirmed
University of South Florida Financing Corp., Florida		
University of South Florida, Florida		
Univ of South Florida Fincg Corp (Univ South Florida)		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.