

17 OCT 2023

## Fitch Affirms University of South Florida's Series Parking Revs at 'AA-'; Outlook Stable

Fitch Ratings - New York - 17 Oct 2023: Fitch Ratings has affirmed at 'AA-' the rating on \$4.2 million parking facility revenue refunding bonds, series 2016A, issued by the state of Florida, Board of Governors on behalf of the University of South Florida (USF).

Fitch has also affirmed the Issuer Default Rating (IDR) of USF at 'AA'.

The Rating Outlook is Stable.

USF's 'AA' IDR reflects the university's very strong financial profile combined with its 'aa' revenue defensibility and 'a' operating risk profile assessments. As a comprehensive university, USF has both a statewide and a national draw for its students, and also has a considerable capacity for fundraising in terms of both track record and magnitude. The Stable Outlook reflects Fitch's expectation that the university will sustain adjusted cash flow margins in line with historical trends, and that balance sheet strength will be maintained.

Pursuant to Fitch's criteria, ratings on securities with narrower or limited revenue pledges may be notched below the parent IDR. The 'AA-' rating for the parking bonds, at one notch below the USF IDR, reflects the fundamental importance of the auxiliary function to USF operations, with consideration for the limited revenue pledge. Debt service coverage for the parking bonds is at least adequate (discussed in more detail below), supported by high demand for parking services on USF's Tampa campus.

### SECURITY

The parking facility revenue bonds are secured by and payable from the net revenues of the USF parking system on the Tampa campus.

### KEY RATING DRIVERS

#### Revenue Defensibility - 'aa'

National University with Broad Reach

USF's revenue defensibility is consistent with an 'aa' assessment, characteristic of a competitive national public institution with strong in-state and national student draw, evidenced by very stable demand with total full-time equivalent enrollment over 41,000 through fiscal 2022 and favorable undergraduate acceptance and retention rates of 43% and 92%, respectively.

Enrollment has been very stable in recent years, including a solid undergraduate base comprising about 75% of the total. State support remains strong, driven by ongoing economic strength in the state and USF's strong student outcomes, which position the university favorably within the state's funding framework. Further, USF has a solid research base as well, which makes up about 37% of its operating base and provides additional revenue diversity.

### **Operating Risk - 'a'**

Sufficient Adjusted Cash Flow; Strong Capital Support

The university's 'a' operating risk assessment is consistent with USF's Fitch-adjusted cash flow margins, generally above 6%, reflecting adequate capacity to manage operating costs. USF implemented a new budget alignment process in fiscal 2022, constraining expenses relative to modest revenue growth and maintaining capacity to sustain relatively stable cash flow in future years.

Capital spending requirements benefit from consistent state and foundation support, as well as manageable capital needs in the near to intermediate term. While some major capex has been vetoed as part of the state's budget process, the state's public education capital outlay funding mechanism remains supportive of near to intermediate term capex.

### **Financial Profile - 'aa'**

Strong and Resilient Financial Profile

USF's leverage, calculated as total available funds (AF) to adjusted debt (including the Fitch-adjusted net pension liability), remains strong, in line with historical levels, through Fitch's stress case scenario. AF increased to \$1.26 billion in fiscal 2021 with significant investment gains and successful fundraising efforts, equaling 165% of total adjusted debt. Total debt leverage has decreased in recent years as USF has paid down capital improvement debt.

The university's Fitch-adjusted net pension liability of \$223.4 million accounts for about 45% of USF's total adjusted debt of \$496 million; absent the inclusion of adjusted pension USF's AF to debt was over 500% in fiscal 2022. USF's balance sheet ratios remain robust through Fitch's stress case scenario, which includes both investment and operating stresses.

### **Asymmetric Additional Risk Considerations**

No asymmetric additional risk considerations apply to USF's ratings.

### **RATING SENSITIVITIES**

#### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Though unlikely, substantial deterioration of USF's demand base and resultant operating pressure could result in negative rating action;

--Sustained deterioration in coverage of USF's parking bonds debt service could result in a rating notched further below USF's IDR.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Maintenance of strong demand and operating risk with improving balance sheet ratios;

--A consistent trend of very strong cash flow with margins consistently exceeding 12%.

### **PROFILE**

Founded in 1956, USF is a large public research institution serving the greater Tampa Bay region. USF maintains the highest research activity classification (R1) from the Carnegie Foundation for the Advancement of Teaching and is among the top 50 U.S. universities by total research expenditures. The university is one of 12 institutions in Florida's State University System. USF's main Tampa campus is home to 13 colleges, including the Colleges of Medicine, Nursing and Public Health. The USF System also has campuses in St. Petersburg and Sarasota-Manatee.

#### **Parking Facility Revenue Bonds**

The parking system is a component auxiliary enterprise of USF that finances and operates the university's parking facilities and transportation services on its main campus in Tampa. The system operates 20,708 vehicle spaces across its four parking garages and various surface lots. The most recent garage was financed with the series 2006A bonds, which were refunded by the series 2016A bonds.

USF's parking system typically meets or exceeds its internally targeted 1.3x debt service coverage ratio. Fiscal 2022 coverage of debt service increased to 2.1x, excluding university overhead charges. Coverage levels have improved following significant revenue declines during the pandemic. Fiscal 2021 coverage was a low .45x from pledged revenues, which excludes the university's use of \$1.6 million of reserves and transfers of federal relief funds to meet debt service requirements of \$2.9 million.

During times of normal operation, the system generates consistently strong operating results, which allow it to service debt and meet capital needs. Pledged revenues are concentrated, as expected of auxiliary enterprises, but gain some stability from the mandatory TAF and the university's strong student demand profile. Moreover, USF has the full authority and obligation to set parking fees sufficient to fund related expenses and debt service with a rate covenant of 1.0x. Coverage will likely dip near 1.3x in fiscal 2023 as the system contends with inflationary expense pressure, but Fitch expects coverage to rebound with the system's declining debt service schedule and moderate revenue flexibility.

The system has retained excess cash flow and built up solid reserves. The system maintained total reserves of \$29 million in fiscal 2022, in part to fund \$21 million of capex over the intermediate term, which Fitch considers prudent.

### **Sources of Information**

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
University of South Florida (FL)	LT IDR	AA	Affirmed	AA
<ul style="list-style-type: none"> <li>University of South Florida (FL) /Issuer Default Rating/ 1 LT</li> </ul>	LT	AA	Affirmed	AA
<ul style="list-style-type: none"> <li>University of South Florida (FL) /Parking Revenues/ 1 LT</li> </ul>	LT	AA-	Affirmed	AA-

**RATINGS KEY OUTLOOK WATCH**

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

**Applicable Criteria**

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.27 Apr 2023\) \(including rating assumption sensitivity\)](#)

## U.S. Public Finance College and University Rating Criteria (pub.19 Sep 2023) (including rating assumption sensitivity)

### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.4 (1)

### Additional Disclosures

#### Solicitation Status

### Endorsement Status

University of South Florida (FL)    EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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