

## CREDIT OPINION

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 Rate this Research

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## University of Florida, FL

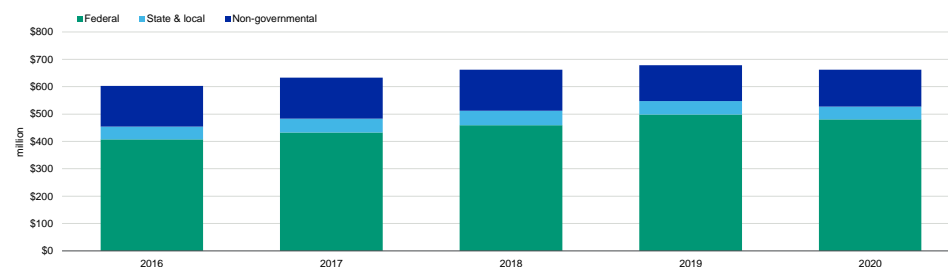
### Update to credit analysis

#### Summary

The [University of Florida's](#) (Aa2 stable) credit strength incorporates its growing financial resources and excellent strategic positioning as a prominent provider of higher education in the state. Strengths include a very low debt burden even with the \$216 million increase in dormitory bonds, consistently positive operating performance and well-diversified revenue streams. Offsetting factors include limited liquidity relative to expenses, political limits on tuition and fee price setting and patient care exposure through closely integrated component units. Our opinion also incorporates substantial deferred maintenance with the university's average age of plant of 16 years above peer medians.

#### Exhibit 1

**Large and growing research enterprise bolsters the university's academic reputation as research expenses move to 24% of total in fiscal 2020**  
Grants and contracts by fiscal year in \$ million



Source: University of Florida

## Credit strengths

- » Strong and established market position as flagship and land grant university for the [State of Florida](#), with growing research activity
- » Excellent student demand with exceptionally strong value proposition especially for in-state undergraduate students
- » Generally sound cash flow and robust fundraising drive prospects for ongoing gains in financial reserves
- » Manageable financial leverage and conservative debt structure affords financial flexibility

## Credit challenges

- » Considerable reliance on state funding for operations and capital combined with political limitations on tuition and fee increases
- » Material deferred maintenance will require increased capital investment over next decade to support strategic momentum
- » Large, complex research and academic medical enterprise and tight affiliation with [Shands Teaching Hospital and Clinics, Inc.](#) (A3 stable) and [Shands Jacksonville Medical Center, Inc.](#) (Baa3 stable)
- » Narrow revenue systems secure bond repayment and require active management

## Rating outlook

The stable outlook incorporates the expectation that operating cash flow performance will remain sound and financial reserves will continue to provide a solid cushion to debt and expenses. It also reflects the expectation that the university will maintain healthy market demand and expense controls, supporting sound debt service coverage from the various pledged revenue streams.

## Factors that could lead to an upgrade

- » Significant growth in unrestricted liquidity with monthly days cash exceeding the Aa2 median
- » Material and sustained improvement in operating performance

## Factors that could lead to a downgrade

- » Material weakening of operating performance
- » Sustained decline in unrestricted liquidity
- » Weakening of pledged revenue streams securing various revenue bonds

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## Key indicators

Exhibit 2

UNIVERSITY OF FLORIDA, FL

	2016	2017	2018	2019	2020	2020 Sensitivity May 21 pro forma	Median: Aa Rated Public Universities
Total FTE Enrollment	50,321	51,012	51,338	51,882	52,575	52,575	30,062
Operating Revenue (\$Billion)	2.7	2.8	3.0	3.1	3.1	3.1	1.3
Annual Change in Operating Revenue (%)	5.2	4.0	5.9	5.5	-0.3	-0.3	4.2
Total Cash & Investments (\$Billion)	3.2	3.5	3.7	4.0	4.2	4.2	1.6
Total Debt (\$Million)	277.2	244.5	223.8	285.2	270.5	481.1	690.5
Spendable Cash & Investments to Total Debt (x)	7.3	9.1	10.8	9.7	10.1	5.7	1.5
Spendable Cash & Investments to Operating Expenses (x)	0.8	0.8	0.9	0.9	0.9	0.9	0.7
Monthly Days Cash on Hand (x)	120	50	61	51	152	152	157
EBIDA Margin (%)	8.9	8.8	9.8	9.3	7.7	7.7	11.8
Total Debt to EBIDA (x)	1.1	1.0	0.8	1.0	1.1	2.0	4.1
Annual Debt Service Coverage (x)	13.2	13.0	13.0	17.1	13.9	13.9	2.8

Source: Moody's Investors Service

## Profile

The University of Florida is a large, comprehensive research university and the state's flagship, enrolling more than 50,000 full time equivalent students. Operations are sizeable, with total operating revenue of over \$3.1 billion. UF offers a broad array of undergraduate, graduate and professional programs on its main campus in Gainesville and through a growing on-line presence.

## Detailed credit considerations

### Market profile: excellent strategic position as Florida's flagship public research university

The University of Florida will maintain its excellent strategic positioning, benefitting from a widely recognized brand for education and research, both nationally and internationally. Student demand remains favorable, with enrollment over 50,000 full-time equivalent students and trending up. Tuition pricing will remain affordable for the selective university. In the 2020-2021 academic year, in-state undergraduate tuition and fees were \$6,381.

Despite strong demand, we expect enrollment growth will remain measured as the university is near capacity for residential undergraduates. Undergraduates account for approximately 71% of total full-time equivalent (FTE) enrollment. UF Online's enrollment will benefit from growing demand as well. For fall 2021, management reports an increase in the number of applications for first time in college students.

The university's research enterprise is strongly positioned to attract future research funding due to its scope and funding diversity. Legislative designation as one of three Preeminent public universities in the state underscores UF's esteem, providing additional state funding to advance academic and research programs. Recent investments in artificial intelligence highlight the university's ability to pivot with funding opportunities over time. Research expenditures were \$740 million in fiscal 2020.

UF has a strong relationship and shared governance with UF Shands Teaching Hospital and Clinics and UF Shands Jacksonville, a combined \$2.7 billion enterprise. UF leadership is closely involved in Shands' strategic direction and shared vision for providing premier healthcare and research. UF Shands in Gainesville serves as the university's primary teaching hospital, and UF Shands Jacksonville, a large trauma unit with diverse clinics, provides different training experiences.

### Operating performance: balanced operating performance supported by revenue diversity and budget discipline

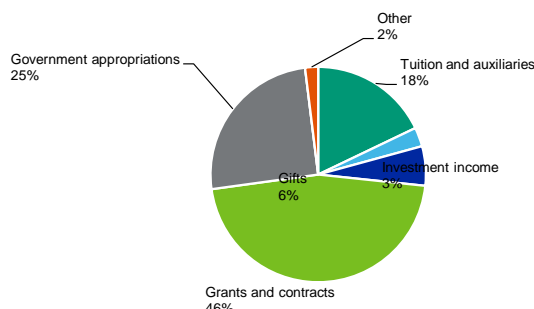
The university remains well positioned to generate balanced operations based on the expectation that management will continue to manage expenses in line with revenue. The university's operating margin averaged 4.0% from fiscal 2018-2020. Federal COVID-19 relief will help mitigate the revenue and expense impacts of the pandemic. The university estimates institutional support of \$92 million across the multiple rounds of relief in addition to \$75 million designated for student aid.

For fiscal 2021, state general revenue budgeted appropriations were in line with the prior year. Favorably, the state legislature has agreed to release a 6% holdback on general revenue support as the state's revenue forecast has improved across the year. UF's strong performance under the state's performance-based funding criteria, in addition to its Preeminence funding status have supported gains in state support. Despite frozen in-state tuition rate, net tuition and auxiliaries revenue will likely increase, driven by measured enrollment growth, increased portion of non-resident students and increases in room and board fees.

#### Exhibit 3

**With a large research enterprise and supportive state funding environment, tuition and auxiliaries comprise just 18% of revenue as compared to the 38% median for comprehensive universities**

Fiscal 2020 operating revenue diversity (%)



Source: Moody's Investors Service

Higher education policy decisions by the legislature will remain a key aspect of UF's credit profile given the state's control over tuition setting and a history of cutting appropriations during challenged economic times. Student price setting ability is further constrained by a super majority requirement of any university board of trustees and the state Board of Governors to approve the increase or imposition on any university fee.

#### Wealth and liquidity: strong reserves provide excellent support for strategic initiatives

Consistently strong fundraising, long-term prudent investment management and retained cash flow will continue to support UF's ongoing prospects to increasing wealth. For fiscal 2020, total cash and investments stood at \$4.2 billion. Approximately \$2.7 billion of that total were spendable cash and investments, which measures the total wealth of the university, the foundation and Direct Support Organizations (DSOs) and excludes assets with permanent restrictions.

UF's fundraising supports credit quality. Alumni support will remain key and management reports an 18% alumni participation rate in 2020. The university reached its comprehensive campaign goal of \$3 billion in March 2021 and will extend the campaign with a focus on capital, faculty and student support initiatives.

The University of Florida Investment Corporation (UFICO) manages the long term pool and working capital of the university and some of its affiliates. The UF endowment pool had a total return of 3.66% in fiscal 2020. Management reports a fiscal year to date return of 16.0% for the first half of fiscal 2021.

#### Liquidity

UF's liquidity profile is adequate in the context of manageable unexpected calls on liquidity given its conservative fixed rate debt structure and revenue diversity. At fiscal year end 2020, UF reported \$1.2 billion of monthly liquidity, providing 152 monthly days cash on hand. The availability of assets varies over the years with what portion of the working funds are deposited in the State Treasury Special Purpose Investment Account, which includes contractual constraints on the amounts of withdrawals.

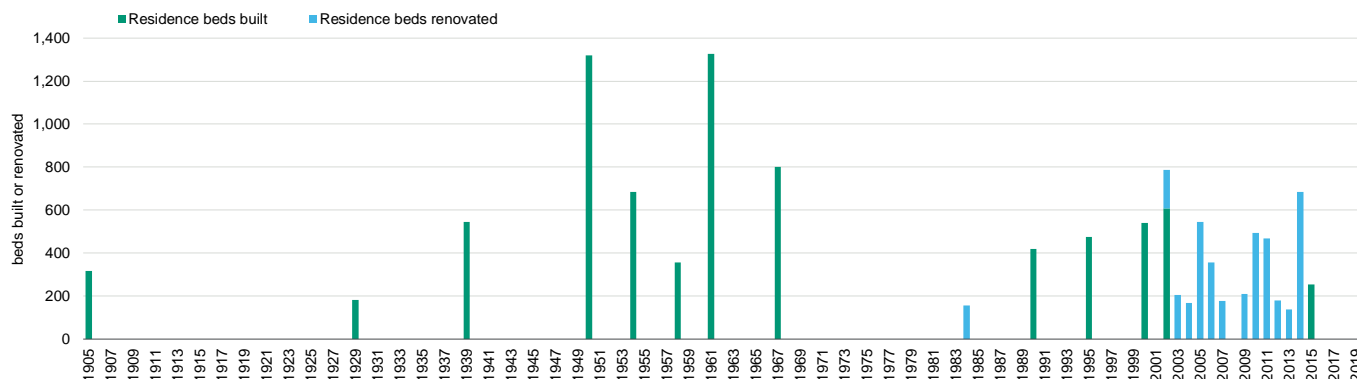
#### Leverage: limited financial leverage relative to operating scale and financial reserves

UF's debt burden will remain manageable given diverse source of capital funding, amortizing debt structure, and relatively limited amount of debt. Substantial deferred maintenance and rising age of plant increases the likelihood of the need for increased capital investment. In addition to the proposed borrowing for student housing, the university is exploring potential partnerships to address its aging utility infrastructure. For fiscal 2020, total debt was approximately \$271 million, including debt of its DSOs.

Exhibit 4

**Older housing stock prompts increased use of debt including \$216 million in fiscal 2021**

While 50% of residence hall beds have been renovated, the average age weighted by beds of the facilities built is around 55 years, by calendar year



Excludes student apartment facilities, with latest build date was 1973 and latest renovation date of 2015

Source: University of Florida continuing disclosure

**Debt structure**

The university has predictable, all fixed-rate debt, and the university's direct support organizations have some variable rate exposure. The amortization of the university's debt is relatively rapid, with 78% of capital improvement debt as of June 30, 2020, retired over the next decade.

**Debt-related derivatives**

There are no debt-related derivatives associated with university debt or the DSOs, but there are debt related derivatives at Shands.

**Legal security**

The dormitory revenue bonds are secured by and payable from the net operating revenues of the university's housing system. The housing system had \$47.8 million in gross operating revenues in fiscal 2020, with pledged revenues of \$12.7 million covering annual debt service 1.85x. Other security features for the new series include an additional bonds test (preceding two fiscal year's net revenues greater than or equal to 120% pro forma maximum annual debt service) and a sum sufficient rate maintenance covenant. The prior 125% additional bonds test will remain in place until amended or the series 2013A and series 2016A bonds are retired. Current guidance for fiscal 2021 projects 0.50x coverage without consideration of the CARES Act funding the system received. With that \$7.3 million of external funding coverage moves to 2.90x. The housing system held \$12.9 million in total cash and investments (compared to annual debt service of around \$7 million) as of June 30, 2020 that would be one of the more likely sources of active debt service support in the event of a disruption to dormitory net revenue performance. With the incremental debt service from the series 2021A bonds, coverage will be dependent on timely completion of the related roughly 1,400 bed project with slated initial occupancy in August 2024.

The parking bonds are secured by the net revenues of the university's parking system. Those net revenues include decal fees, parking fines, miscellaneous fees and other smaller components but exclude the mandatory Transportation Access Fee. There is no debt service reserve requirement for the bonds. Pledged revenues of \$5.8 million in fiscal 2020 provided 1.61x coverage of pro forma maximum annual debt service. The board has covenanted to set rates and expenditures sufficient to provide for sum sufficient debt service coverage.

The student activity bonds are secured by and payable from pledged revenues, consisting of the Student Activity and Service Fees charged per credit hour to students at the University of Florida, plus investment earnings thereon. Pledged revenues were \$29.5 million in fiscal 2020, providing 9.12x debt service coverage. There is no debt service reserve fund requirement.

**Pensions and OPEB**

Pension and OPEB costs, including costs for both defined benefit (DB) and defined contribution (DC) plans, remain manageable, comprising 4% of expenses in fiscal 2020. Most university employees participate in the Florida Retirement System (FRS), which is comprised of two multi-employer, DB cost-sharing plans. The State University System also provides a DC plan for eligible university instructors and administrators. The three-year average Moody's adjusted net pension liability (ANPL) for the university was \$2.1 billion million for fiscal 2020. Total adjusted debt for fiscal 2020 was 0.8x operating revenue, well below peer medians.

Like most other public entities, OPEB is paid on a pay-as-you-go basis. UF's OPEB liability continues to grow and was \$1.2 billion in fiscal 2020.

**ESG considerations****Environmental**

Environmental considerations are currently not a key credit driver. Regarding climate considerations, according to Moody's affiliate, Four Twenty Seven, UF's location brings some physical climate risks including extreme weather and hurricane risks. The university has its own sustainability initiatives. In addition, the university's academic programs and research overlaps with environmental science and stewardship.

**Social**

We regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. The university developed its own testing capacity along with reopening plan reviewed by the Florida Board of Governors. With regard to responsible production UF benefits from exceptional retention and graduation rates as well as low costs of attendance for resident students.

**Governance**

UF's governing board and senior leadership have strong planning discipline that has allowed it execute its strategic, increase its competitive stance amongst research universities and attract students. With increasing state support for operations and capital, combined with donor support and prudent use of resources, the university has made gains toward its strategic goals. Political constraints on tuition pricing could hold back the university's ability to fund its enterprise in an environment of stagnant or declining state support. The university's organizational structure introduces some complexity and it is reliant on legally separate, not-for-profit corporations to support its educational mission.

## Rating methodology and scorecard factors

The [Higher Education 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 strategic positioning on a qualitative basis, as described in the methodology.

Exhibit 5

### University of Florida

Scorecard Factors and Sub-factors	Value	Score
<b>Factor 1: Market Profile (30%)</b>		
Scope of Operations (Operating Revenue) (\$000)	3,127,482	Aaa
Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	(0.3)	B1
Strategic Positioning	Aa	Aa
<b>Factor 2: Operating Performance (25%)</b>		
Operating Results (Operating Cash Flow Margin) (%)	7.7	A1
Revenue Diversity (Maximum Single Contribution) (%)	46.2	Aa3
<b>Factor 3: Wealth &amp; Liquidity (25%)</b>		
Total Wealth (Total Cash & Investments) (\$000)	4,158,763	Aaa
Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	0.9	Aa1
Liquidity (Monthly Days Cash on Hand)	152	Aa3
<b>Factor 4: Leverage (20%)</b>		
Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	5.7	Aaa
Debt Affordability (Total Debt to Cash Flow) (x)	2.0	Aaa
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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