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University of Florida Debt Rating Outlook Revised To Positive On Strong Market Position, Steady Surpluses

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NEW YORK (S&P Global Ratings) July 31, 2024--S&P Global Ratings revised the outlook to positive from stable on the rated debt outstanding issued by the Florida Board of Governors (BOG) for the University of Florida (UF).

At the same time, we affirmed our 'AA+' long-term rating on the Florida BOG's outstanding student activity fee revenue bonds outstanding issued for UF. We also affirmed our AA rating on the BOG's research revenue bonds issued for UF and our 'AA-' rating on the dormitory and parking facility revenue bonds outstanding.

"We revised the outlook to positive based on UF's maintenance of its exceptional market position, track record of surplus operations over the past few years; and exceptional balance-sheet metrics," said S&P Global Ratings credit analyst Laura Kuffler-Macdonald. Despite recent management turnover, we could raise the rating to 'AAA' depending on resources relative to debt and more near-term clarity regarding UF's capital plans.

We view the security on the student activity bonds as an unlimited student fee (USF)-equivalent pledge because these bonds are secured by a student activity fee charged to all on-campus university students on a per-credit hour basis (some online students are exempt from the fee; however, these students make up a small percentage of overall enrollment). Therefore, these bonds carry our highest credit rating on the university of 'AA+'.

The research revenue bonds are on parity with the clinical translational research building revenue refunding bond, which is held by Bank of America. The bonds(one or more?) are secured by the university's indirect cost reimbursements from federal, state, and private research grants. UF had previously planned to issue up to $250 million of new debt for the construction of a new research building in the next two years that would be secured by the same pledged revenue but with a new senior leadership, these plans are now being reconsidered. The one-notch differential between the rating on the research revenue bonds and that on the university's unlimited student fee debt reflects the narrower revenue pledge offset by robust debt service coverage (DSC).

The rating on UF's dormitory and parking bonds is two notches below the 'AA+' rating, given the more limited revenue pledge associated with these bonds, in contrast to the broader UF pledge securing the student activity fee bonds; the smaller size of pledged revenue supporting debt service payments; and respective system financial performance indicators.

The university's total debt, including component unit or direct support organization (DSO) debt, was $516 million as of June 30, 2023 rising to $567 million when including debt that was issued subsequent to the close of fiscal 2023. Approximately 27% of total debt is bank debt held by a UF DSO; the remainder is fixed rate. The university has $20.7 million in leases and subscriptions that we have also included in our debt figures. There are no swap contracts outstanding.

"The positive outlook is based on the fact that if balance-sheet metrics continue to improve, particularly relative to operations, and remain in line with those of higher-rated peers while operations and enrollment trends continue, we could raise the rating on the USF equivalent bonds and as a result, on the auxiliary revenue bond," added Ms. Kuffler-Macdonald.