Annual Debt Management Policy Report

August 20, 2009 Board of Trustees Finance & Audit Workgroup
Annual Debt Management Policy Report

Debt Management Issues

- USF Carefully Rationing Debt Capacity – Slowing Revenue Growth and Past Increase in Debt
- No New Variable Rate Debt – Changes in Market Pricing
- Challenges Due to Downgrades in Financial Partner Credit Quality
- USF Increasing / Maintaining Credit Ratings – Despite Market Stress
- USF’s Long-Term Interest Cost of Debt = 3.75%, Well Below Current Long-Term Market Rates
## USF DEBT PROFILE

As of June 30, 2009

<table>
<thead>
<tr>
<th>USF Party</th>
<th>Foundation (Athletics)</th>
<th>Financing (Housing)</th>
<th>Financing (Health)</th>
<th>Research</th>
<th>USF</th>
<th>TOTAL / WEIGHTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Issue</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Outstanding Amount of Bond</td>
<td>$11,100,000</td>
<td>$42,120,000</td>
<td>$79,425,000</td>
<td>$12,250,000</td>
<td>$41,610,000</td>
<td>$73,700,000</td>
</tr>
<tr>
<td>Total Outstanding Amt per USF Entity</td>
<td>$11,100,000</td>
<td>$249,105,000</td>
<td>$69,905,000</td>
<td>$41,730,000</td>
<td>$62,538,090</td>
<td></td>
</tr>
<tr>
<td>Fixed Rate</td>
<td>3.34%</td>
<td>4.24%</td>
<td>3.22%</td>
<td>0.28%</td>
<td>4.48%</td>
<td>3.55%</td>
</tr>
<tr>
<td>Weighted Fixed Rate per USF Entity</td>
<td>3.34%</td>
<td>3.56%</td>
<td>3.52%</td>
<td>4.31%</td>
<td>4.48%</td>
<td>3.75%</td>
</tr>
</tbody>
</table>
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Student Demand and Market Position Assessment

- Strong Student Demand (46,000), Increasing Selectivity (56%) and Rising Quality (1160 SAT)

- Most of Undergraduate Growth Occurring at Regional Campuses; Graduate Growth at Tampa Campus

- Compelling Comparative Value for Students

- Research Grants at $360 million (2008)

- Large Metropolitan Research University - $3.2 Billion Economic Impact
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Balance Sheet Assessment

- Increased Liquidity in 2008-09 to Support Debt and Operations
- Moderate Leverage for Scale of Existing Operations
- Financial Resources and Cash Flows Provide Appropriate Coverage of Debt
- Endowment Portfolio Losses in 2008-09 – Modest Effect on USF Operations
Operating Performance Assessment

- USF’s Operating Profit Was Positive in 2008-09 – An Achievement in a Challenging Year
- USF’s Revenues are Well Diversified
- The State’s AAA GO Rating Provides Strong Support
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Strengths / Challenges

- **Strengths**
  - Student demand & increasing student quality
  - USF size & Tampa Bay location
  - Diversified revenues
  - Private sector support
  - Financial resources and access to capital markets
  - Fiscal conservatism during period of state and national duress

- **Challenges**
  - Capital rationed to high-priority projects
  - Debt capacity carefully managed
  - Stressed economy
  - Declining state support
# Annual Debt Management Policy Report

## Debt Capacity Assessment

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Moody’s Aa3 Median</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROFITABILITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Operating Margin</td>
<td>1.5%</td>
<td>4.3%</td>
<td>(1.6)%</td>
<td>5.1%</td>
<td>2.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>LEVERAGE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Debt Service Coverage</td>
<td>5.5x</td>
<td>6.0x</td>
<td>4.5x</td>
<td>10.6x</td>
<td>8.1x</td>
<td>3.3x</td>
</tr>
<tr>
<td>Debt / Operating Expense</td>
<td>1.3%</td>
<td>1.8%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>LIQUIDITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable Financial Resources / Debt</td>
<td>1.1x</td>
<td>1.0x</td>
<td>0.8x</td>
<td>1.0x</td>
<td>0.9x</td>
<td>1.2x</td>
</tr>
<tr>
<td>Total Financial Resources / Debt</td>
<td>2.8x</td>
<td>2.4x</td>
<td>2.0x</td>
<td>2.3x</td>
<td>1.9x</td>
<td>1.9x</td>
</tr>
<tr>
<td>Expendable Financial Resources / Operating Exp</td>
<td>0.3x</td>
<td>0.4x</td>
<td>0.4x</td>
<td>0.4x</td>
<td>0.5x</td>
<td>0.5x</td>
</tr>
</tbody>
</table>
## University of South Florida Peer Medians

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Total Cash &amp; Investments</strong></td>
<td>273,041</td>
<td>284,546</td>
<td>313,837</td>
<td>381,518</td>
<td>499,161</td>
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<tr>
<td><strong>Invested in capital assets</strong></td>
<td>519,248</td>
<td>521,274</td>
<td>535,467</td>
<td>631,644</td>
<td>716,335</td>
</tr>
<tr>
<td><strong>Unrestricted net assets</strong></td>
<td>171,710</td>
<td>234,605</td>
<td>259,101</td>
<td>326,192</td>
<td>319,721</td>
</tr>
<tr>
<td><strong>Restricted expendable net assets</strong></td>
<td>113,966</td>
<td>134,838</td>
<td>133,339</td>
<td>205,385</td>
<td>322,762</td>
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<tr>
<td><strong>Less: Invested in capital projects</strong></td>
<td>(75,739)</td>
<td>(102,887)</td>
<td>(192,250)</td>
<td>(170,964)</td>
<td>(238,355)</td>
</tr>
<tr>
<td><strong>Expendable Financial Resources</strong></td>
<td>209,937</td>
<td>267,355</td>
<td>300,191</td>
<td>362,613</td>
<td>404,128</td>
</tr>
<tr>
<td><strong>Restricted for nonexpendable</strong></td>
<td>314,547</td>
<td>354,986</td>
<td>395,724</td>
<td>458,023</td>
<td>449,190</td>
</tr>
<tr>
<td><strong>Total Financial Resources</strong></td>
<td>524,485</td>
<td>622,341</td>
<td>695,914</td>
<td>820,636</td>
<td>853,318</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td>189,021</td>
<td>262,054</td>
<td>355,220</td>
<td>360,964</td>
<td>451,253</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>35,734</td>
<td>41,484</td>
<td>43,603</td>
<td>45,742</td>
<td>46,003</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>4,870</td>
<td>7,445</td>
<td>3,174</td>
<td>4,081</td>
<td>4,028</td>
</tr>
<tr>
<td><strong>Principal payments on debt</strong></td>
<td>4,503</td>
<td>6,399</td>
<td>4,404</td>
<td>5,145</td>
<td>5,291</td>
</tr>
<tr>
<td><strong>Actual annual debt service</strong></td>
<td>9,373</td>
<td>13,831</td>
<td>7,578</td>
<td>9,226</td>
<td>9,316</td>
</tr>
</tbody>
</table>

## Income Statement

### Revenues:
- **Tuition Revenue**: 111,552
- **Less: Scholarships & Fellowships Expense**: (36,631)
- **Net Auxiliary Enterprise Revenue/CU**: 74,921
- **Net Invest Earnings & Gains and Losses**: 3,197
- **Grants and contracts**: 279,959
- **Sales and Services of Educational Depts**: 424
- **Other operating revenue**: 4,503
- **State Appropriations**: 293,485
- **Other Nonoperating Revenue**: 271

### Expenses:
- **Compensation & Employee Benefits**: 489,978
- **Depreciation**: 35,734
- **Interest**: 4,870
- **Other expenditures**: 185,626

### Operating Profit

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenues</strong></td>
<td>727,154</td>
<td>783,935</td>
<td>806,979</td>
<td>939,891</td>
<td>931,657</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>716,209</td>
<td>750,382</td>
<td>819,495</td>
<td>891,948</td>
<td>906,651</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>10,944</td>
<td>33,553</td>
<td>12,484</td>
<td>47,943</td>
<td>25,006</td>
</tr>
</tbody>
</table>

### Profitability

- Operating Margin (%) | 1.5% | 4.3% | 1.6% | 5.1% | 2.7% |

### Leverage

- Debt Service Coverage (multiple) | 5.5 | 6.0 | 4.5 | 10.6 | 8.1 |

### Liquidity

- Expendable Resources to Debt (multiple) | 1.1 | 1.0 | 0.8 | 1.0 | 0.9 |

### Market Data

- Fall Enrollment FTE (#) | 29,469 | 30,540 | 31,888 | 33,563 | 33,398 |

* University figures adjusted for blending of USF Financing Corporation for one year only.

- Depreciation: 2003 excludes a one-time adjustment of $45.7 million; the cumulative effect of the change in useful lives for depreciable buildings from 50 to 40 years.

### Moody’s 2008 Aa3 Rating

- **Key Financial Statistics**
  - **5-Year Financial Performance**
  - **Historical**
  - **Peer Medians**
  - **Expendable Resources to Debt (multiple)**
  - **Total Resources to Debt (multiple)**
  - **Expendable Resources to Operations (multiple)**
  - **Market Data**
  - **Fall Freshman Selectivity (Acceptance Rate) (%)**
  - **Fall Freshman Matriculation (Yield Rate) (%)**

**Moody’s 2008 Aa3 Rating**

**University of South Florida & Affiliates**

**5-Year Financial Performance**

**Expendable Financial Resources**

**Restricted for nonexpendable**

**Total Financial Resources**

**Total Debt**

**Depreciation**

**Interest**

**Principal payments on debt**

**Actual annual debt service**

**Income Statement**

**Revenues:**
- Tuition Revenue
- Less: Scholarships & Fellowships Expense
- Net Auxiliary Enterprise Revenue/CU
- Net Invest Earnings & Gains and Losses
- Grants and contracts
- Sales and Services of Educational Depts
- Other operating revenue
- State Appropriations
- Other Nonoperating Revenue

**Expenses:**
- Compensation & Employee Benefits
- Depreciation
- Interest
- Other expenditures

**Total Revenues**

**Total Operating Expenses**

**Operating Profit**

**Operating Margin (%)**

**Leverage**

**Debt Service Coverage (multiple)**

**Debt Service to Operations (%)**

**Liquidity**

**Expendable Resources to Debt (multiple)**

**Total Resources to Debt (multiple)**

**Expendable Resources to Operations (multiple)**

**Market Data**

**Fall Enrollment FTE (#)**

**Fall Freshman Selectivity (Acceptance Rate) (%)**

**Fall Freshman Matriculation (Yield Rate) (%)**

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Expendable Financial Resources to Debt (x)

- USF
- Moody’s Aa3
Variable Rate Debt Issues

- **Variable Rate Debt Level is Assessed Periodically**

- **Variable Rate Debt = 65% of Total Debt**
  - Moody’s reports that “A” or higher-rated universities have 50% of their debt in a variable mode (excluding swaps)
  - Moody’s views the use of swaps for “A” or higher-rated universities as lower risk than endowment investments

- **Variable Rate Debt Now Capped For USF**
  - Provides attractive long-term capital costs
  - Problematic recently due to capital market stress and banking industry weakness
Total Debt and % Variable Stable Over Past Year