Fitch Ratings-New York-08 February 2018: Fitch Ratings has affirmed its 'AA-' rating on the following bonds issued by the State of Florida, Board of Governors on behalf of the University of South Florida (USF):

--$19.5 million State of Florida, Board of Governors, parking facility revenue refunding bonds, series 2016A.

The Rating Outlook is Stable.

SECURITY

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

KEY RATING DRIVERS

STRONG USF CREDIT PROFILE: Although university resources are not pledged to the parking bonds, the system is important to the function of USF's main campus. USF's positive demand and enrollment trends, revenue diversity, healthy operating performance, and strong balance sheet benefit the parking system.

STRONG FINANCIAL PERFORMANCE: The 'AA-' rating reflects the parking system's consistently strong operating performance, which has resulted in sound reserves and solid debt service coverage from pledged net revenues.

ROBUST DEMAND: A large enrollment and personnel base with strong demand support a high level of parking system utilization relative to capacity. The system spans nearly 21,000 parking spaces and serves approximately 58,000 students, faculty, and staff at USF's main campus in Tampa.

MANDATORY FEES: A mandatory transportation access fee (TAF) constituting approximately 23% of system pledged revenues provides a degree of revenue stability, irrespective of system utilization. All students at the Tampa campus pay the TAF, currently $3 per credit hour, as part of registration for classes.

RATING SENSITIVITIES

USF OPERATIONS: A deterioration of the university's strong credit profile, while not expected, would negatively pressure the rating of the parking bonds.

WEAKENED FINANCIAL METRICS: Material softening of debt service coverage ratios on the University of South Florida's parking system revenue bonds could negatively affect the rating.

CREDIT 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 14 colleges, including the Colleges of Medicine, Nursing and Public Health. The University of South Florida System also has campuses in St. Petersburg and Sarasota-Manatee.

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.

USF'S STRONG CREDIT PROFILE

USF's financial position and demand profile continue to improve, as program offerings gain traction. USF has generated operating surpluses since fiscal 2014, when the state restored funding levels after severe cuts in the two prior years. Since then, USF has seen steadily increasing state operating appropriations largely due to its strong scores on Florida's performance funding metrics. Net tuition and research-related revenues are also growing.

The university has a strong financial cushion. Available funds provided over 1x coverage of long-term debt, including debt of all component units and direct support organizations. Several affiliated entities have direct bank placements and sizeable, though shrinking, exposure to interest rate derivatives. Fitch considers this exposure manageable given USF's strong resource base and trend of simplifying its affiliates' debt structures over time.

ROBUST STUDENT DEMAND SUPPORTS PARKING SYSTEM

USF has a large enrollment base, with headcount of 50,784 and FTE of 41,871 as of fall 2017 (fiscal 2018). After consistent growth in prior years, USF has met its strategic enrollment target; the university is focused instead on student quality and outcomes, which are rewarded under Florida's performance funding framework. A high and increasing level of research activity has also helped elevate the university's profile in recent years.

STRONG PARKING SYSTEM FINANCIAL PERFORMANCE

USF's parking system typically meets or exceeds its internally targeted 1.3x debt service coverage ratio; fiscal 2017 coverage of debt service was 1.7x, as calculated by Fitch. Excluding university overhead charges, legal coverage was stronger at 1.9x. Coverage levels have improved as a result of the 2016A refunding and are projected to remain within this range in future years.

The system generates consistently strong operating results, which allow it to service debt and meet capital needs. Operating margins have averaged 16.5% over the five fiscal years between 2013 and 2017. Results reflect enrollment growth, periodic rate increases for parking decals and good expense management over that period.

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.

The system has retained excess cash flow and built up solid reserves. Available funds (cash and investments less certain restricted net assets) have nearly doubled since fiscal 2013 to $12.6 million at June 30, 2017, equal to 125% of operating expenses and 69% of debt. The system builds cash reserves in part to offset the cost of future capital projects, which Fitch considers prudent.
The system conducts periodic reviews of parking needs as part of the university's master plan update process. USF expects to finance and build a fifth garage with capacity of about 2,000 spaces sometime between about three and five years out. The expected project cost is about $25 million, to be funded with a mix of debt and reserves.

Fitch does not expect the project to affect debt service coverage due to significant debt amortization since the system's most recent new money (2006) borrowing, and USF’s track record of setting decal and fee rates sufficient to maintain sound coverage.

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Applicable Criteria
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)
https://www.fitchratings.com/site/re/898969

U.S. Public Finance College and University Rating Criteria (pub. 26 Apr 2017)
https://www.fitchratings.com/site/re/897285

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