Fitch Ratings-New York-09 July 2015: Fitch Ratings has upgraded to 'AA-' from 'A+' the ratings on the following parking facility revenue bonds issued on behalf of the University of South Florida (USF, or the university):

--$6.3 million Florida Board of Education series 2002;
--$7.2 million Florida Education System series 2004A;
--$11.2 million State of Florida Board of Governors series 2006A.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by and payable from USF parking system net revenues. A debt service reserve fund provides additional bondholder security.

KEY RATING DRIVERs

STRONG FINANCIAL PERFORMANCE: The parking system's consistently strong operating performance and resultant available funds growth, as well as stable debt service coverage levels and no immediate debt financing plans, drive the rating upgrade.

ROBUST DEMAND: A growing enrollment base supporting parking demand, together with related fee increases, underpins historical revenue growth. A fiscal 2014 rate increase sufficiently offset a corresponding decrease in parking decals issued that year.

MANDATORY FEES: A mandatory transportation access fee constituting approximately one-quarter of total revenues provides a degree of revenue stability, irrespective of system utilization. All students pay this fee based on credit hours.

NO IMMEDIATE DEBT PLANS: Internally-funded capital needs should help the system maintain healthy debt service coverage levels and balance sheet ratios for the foreseeable future.

STRONG USF CREDIT PROFILE: Although related resources are not pledged, USF's positive demand and enrollment trends, revenue diversity, generally healthy operating performance, and strong balance sheet benefit the parking system.

RATING SENSITIVITIES

WEAKENED FINANCIAL METRICS: Softening debt service coverage ratios on the University of South Florida's parking system revenue bonds or the material erosion of available funds could lead to negative rating action.

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

CREDIT PROFILE
Founded in 1956, USF is a growing research institution principally serving the greater Tampa Bay and St. Petersburg region. The university is one of 12 institutions constituting the State University System of Florida. USF's main Tampa campus is home to 14 colleges, including USF Health. The broader University of South Florida System includes USF, USF St. Petersburg, and USF Sarasota-Manatee.

Increased research spending has helped elevate the university's profile. FTE enrollment gains have averaged 1.1% annually since fall 2009 to a sizable 39,165 in fall 2014. Moreover, planned infrastructure investments in the USF Heart Institute and College of Medicine should propel additional growth.

RATING UPGRADE

Solid and improving parking system operations reflected in strengthening financial ratios, along with no immediate debt plans, drive the rating upgrade. An average of 13.8% annual operating margins during the past five years, including 17.2% in fiscal 2014, benefited the system's available funds balances. Operating revenues increased by 9.9% during the period, while ongoing expense management caused operating expenses to remain essentially flat.

The financial cushion provided by available funds increased by 57% since fiscal 2010 to $9.4 million. Available funds (defined as cash and investments not permanently restricted) cover annual operating expenses and total long-term debt by a good 82.4% and 38.4%, respectively, up from 51.7% and 24.4%.

Scheduled amortizations have reduced total parity debt by nearly one-third since fiscal 2010, and the university no longer plans to issue additional growth-related debt in the near term. USF typically meets or exceeds its targeted 1.3x debt service coverage ratio; fiscal 2014 coverage of level debt service was 1.46x, as calculated by Fitch.

SECURITY AND REVENUE SOURCES

Pledged revenues are concentrated, as expected of auxiliary enterprises, but gain some degree of stability from a mandatory fee and ongoing university enrollment growth. Moreover, USF has the full authority and obligation to set parking fees sufficient to fund related expenses and debt service. Bondholder security is limited to USF’s Tampa campus facilities.

Parking fees include a mandatory student transportation access fee comprising 23% of total operating revenues. This per credit hour fee for all students is paid as part of class registration. Credit hours have grown by a healthy 2.4% annually since fiscal 2010.

Parking decal sales for USF’s growing student body and staff constitute about 60% of total revenues. Overall decal sales have remained largely flat since fiscal 2010 at about 47,000, despite some annual fluctuations. However, Tampa campus student headcount and personnel growth averaging 1.3% annually during that time to 57,646 should support continued demand.

A 5% increase in fiscal 2014 parking decal fees offset a corresponding 4.9% decrease in decals issued that year. The relationship highlights some pricing sensitivity that is an important part of USF's ongoing financial management. Fuel prices, residence hall occupancy rates, and alternative parking options also factor into decal issuance, according to management. There were no rate increases in fiscal 2015 and none are planned in fiscal 2016.

Citations and metered space collections round out total revenue sources.

PARKING SYSTEM
Parking system growth reflected in continued demand provides revenue-raising flexibility. The Tampa campus had 18,759 spaces at the issuance of the series 2006 bonds, and USF estimated that total spaces would increase to more than 20,000 post construction. Fiscal 2014 total spaces grew by 11% since 2006 to 20,809.

REBOUNDING UNIVERSITY FINANCIAL POSITION

USF's financial position and demand profile continue to improve, as program offerings gain traction. Increased state appropriations and continued tuition revenue growth helped restore positive fiscal 2014 operating margins (5.6%) after two years of negative results. Moreover, available funds ratios have strengthened, notwithstanding $139 million of total charges related to the spin-off of Florida Polytechnic University.

USF's fiscal 2014 available funds provided significantly more than 1x long-term debt, including all component units. This is an important consideration, given sizable bank direct placements, along with associated interest rate derivatives, representing more than half of the university's total debt. USF available funds have increased by 37% since fiscal 2010 to $557 million.

A proposed $134 million privatized student housing project presents some concern about additional leverage that will be a consideration of future reviews. However, the debt structure will reportedly be non-recourse to the university.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
U.S. College and University Rating Criteria (pub. 12 May 2014)