Fitch Ratings-New York-10 November 2016: Fitch Ratings has assigned a 'AA-' rating to $19.5 million of parking facility revenue refunding bonds, series 2016A issued by the State of Florida, Board of Governors on behalf of the University of South Florida (USF).

The bonds are expected to be issued via competitive sale as early as the week of Nov. 21. Proceeds will refund a portion of USF's outstanding parking facility revenue bonds and pay costs of issuance.

In addition, Fitch has affirmed the 'AA-' rating on the following parity bonds issued on behalf of USF:

--$5.6 million State of Florida, Florida Board of Education, parking facility revenue bonds, series 2002;
--$6.2 million State of Florida, Florida Education System, parking facility revenue bonds, series 2004A;
--$10.4 million State of Florida, Board of Governors, parking facility revenue bonds, series 2006A.

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 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 base with strong student demand supports the need for parking. The system 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 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.

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.

RATING SENSITIVITIES
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.

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

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 20,824 vehicle spaces across its four parking garages and various surface lots. The most recent garage was financed with the series 2006A bonds.

STRONG FINANCIAL PERFORMANCE

USF's parking system typically meets or exceeds its internally targeted 1.3x debt service coverage ratio; fiscal 2016 coverage of debt service was 1.47x, as calculated by Fitch. Excluding university overhead charges, legal coverage was stronger at 1.69x. The series 2016A refunding bonds are expected to achieve annual savings and improve coverage further, to around 2x.

The system generates consistently strong operating results, which allow it to service debt and meet capital needs. Operating margins have averaged 14.5% over the past five fiscal years, 2012 through (preliminary) 2016. 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.

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 2012 to $12.6 million at June 30, 2016, equal to 108.6% of operating expenses and 56.9% of debt. The system builds cash reserves in part to offset the cost of future capital projects, which Fitch considers prudent.

ADDITIONAL DEBT CAPACITY

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 two 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 the current rating due to significant debt amortization since the system's most recent (2006) borrowing, savings expected from the series 2016A refunding, and USF's track record of setting decal and fee rates sufficient to maintain sound coverage.
USF has a large enrollment base, with headcount of 49,591 and FTE of 40,728 as of fall 2016. 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 is has also helped elevate the university's profile in recent years.

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 revenue 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.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/site/re/750012
U.S. College and University Rating Criteria (pub. 12 May 2014)
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