Fitch Rates University of South Carolina's Series 2010A REVS 'AA'; Outlook Stable

Fitch Ratings-New York-14 May 2010: Fitch Ratings assigns an 'AA' rating to the approximately $30 million of higher education revenue bonds series 2010A issued by the University of South Carolina (USC, or the university).

The series 2010A bonds are expected to sell via negotiation either on May 26 or June 2. Bond proceeds will be used to finance the renovation of two residence halls at the university's main Columbia campus and to pay costs of issuance.

In addition, Fitch affirms the 'AA' rating on the university's approximately $195.3 million of outstanding higher education revenue bonds.

The Rating Outlook is Stable.

Rating Rationale:

-- USC is the state's flagship institution of higher education with strong student demand and historically strong operating performance which counterbalance a low, although adequate, liquidity position at the current 'AA' rating level.

-- USC maintains flexibility to handle ongoing reductions in state funding through enrollment growth and moderate increases in student-generated revenues.

-- While USC has additional capital needs, portions of which will be debt-financed, the university continues to maintain a very manageable debt burden.

Key Rating Drivers:

-- Continued generation of balanced to slightly positive operations, despite recent and expected near to intermediate term reductions in state funding;

-- Maintenance of stable demand trends, despite the potential need to modestly raise tuition to offset reductions in state appropriations;

-- Preservation of balance sheet resources at or above current levels.

Security:

Higher education revenue bonds are payable solely from and secured by a pledge of the net revenues of USC's student and faculty housing and parking facilities. The bonds are further secured by a pledge of all legally available, unencumbered funds of USC, excluding state appropriations and tuition revenues pledged to state institution bonds.

Credit Summary:

USC has generated a positive operating margin for the past several fiscal years. For fiscal 2009, the operating margin was a solid 2.9%, although this was down from 5.2% in fiscal 2008 due mainly to reduced state appropriations. USC has maintained positive operations through enrollment growth, strategic tuition increases, and by controlling expenses. USC's tuition rates are competitive compared with other public colleges and universities in the state. Net tuition, fees, and auxiliary revenues were $378 million in fiscal 2009 and represented the largest revenue source at 41.6% of operating revenues. Grants and contracts and state appropriations represent the second and third
While state appropriations have been stable over the past few years, they declined significantly in fiscal 2009 and fiscal 2010 due to the state's budget deficits. Appropriation funding to USC fell to $173 million for fiscal 2009, from $230 million in fiscal 2008. State funding was reduced further in fiscal 2010 to $161 million, with an additional cut anticipated for fiscal 2011. The university offset the fiscal 2009 and fiscal 2010 funding reductions with a mix of measures including increased enrollment, modest hikes in tuition and fees, and various budgetary restraints. The receipt of federal stimulus funds has also helped the university mitigate the impact of state funding reductions in these fiscal years. Funding reductions in fiscal 2011 are expected to be managed in a similar fashion, though the receipt of federal stimulus funds is somewhat uncertain.

USC's debt burden remains very manageable. Total pro forma MADS, including both revenue bonds and state institution bonds (rated 'AAA' by Fitch), is approximately $31.7 million and would consume a low 3.5% of fiscal 2009 revenues. After issuance of the series 2010A bonds, USC will have approximately $448 million of debt outstanding, including revenue bonds, state institution bonds, and notes payable. USC's near-to-intermediate term capital improvement plan (CIP) includes approximately $360 million of projects (including the series 2010A project) to address academic, housing and athletic facility needs. While sizeable, the CIP is modular, with individual projects initiated as available resources permit. USC expects to fund the majority of CIP projects through a mix of revenue bonds, state institution bonds, capital appropriations, gifts, and internal reserves. Management's track record of prudently implementing capital projects both on-time and on-budget is viewed favorably and helps to mitigate the size of the overall CIP.

USC's available funds, defined as cash and investments which are not permanently restricted, totaled $281.6 million in fiscal 2009, and covered a low 31.9% of operating expenses and 62.8% of pro forma debt. While these metrics are low for the rating level, it should be noted that a significant portion of funds benefiting USC are held by separately incorporated, though related, foundations, namely the USC Educational Foundation, and are not reported on USC's financial statements. As of March 31, 2010, the foundations' combined investments had a market value of $255.8 million.

Founded in 1801, USC is an eight campus system with its flagship campus located in Columbia, SC. The university's total fall 2009 headcount enrollment was 43,100, an increase of 3.8% from fall 2008. Between fall 2005 and fall 2009, headcount grew at an average annual rate of 2.3%. The university's FTE enrollment was 37,965, of which 20,156 represented undergraduate students enrolled at the Columbia campus. USC's demand trends remain stable, with 17,698 applications received for fall 2009, up 4% from fall 2008, and applications for fall 2010 are on pace to exceed the level received for fall 2009.

Applicable criteria available on Fitch's web site at 'www.fitchratings.com' include:

'Revenue-Supported Rating Criteria' (Dec. 29, 2009);
'College and University Rating Criteria' (Dec. 29, 2009).

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Additional information is available at 'www.fitchratings.com'.

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