

FITCH RATES FLORIDA INTERNATIONAL UNIVERSITY'S PARKING REVS 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-13 May 2019: Fitch Ratings has assigned an 'A+' rating to approximately \$19 million parking facility revenue refunding bonds, series 2019A issued by the Board of Governors of the State of Florida (BoG) on behalf of Florida International University (FIU).

The bonds are expected to sell via competition the week of May 13th. Proceeds will refund all or a portion of the outstanding Florida International University Parking Facility Revenue Bonds, Series 2009B Build America Bonds (Federally Taxable-Issuer Subsidy), and to pay costs of issuance.

In addition, Fitch has affirmed the 'A+' rating on the following BoG revenue bonds issued on behalf of FIU:

- \$64 million parking system revenue bonds, series 2009B and 2013A;
- \$87 million dormitory revenue bonds, series 2011A, 2012A, and 2015A.

The Rating Outlook is Stable.

SECURITY

Parking revenue bonds are secured by pledged net revenues derived from the operation of FIU's parking system, including a mandatory transportation access fee (TAF) assessed on all FIU students except distance learners.

Dormitory revenue bonds are secured by a first lien on pledged net revenues of FIU's student housing system. Additional security provisions include a pledge of sufficiency and a 1.2x additional bonds test (ABT).

KEY RATING DRIVERS

RELATIONSHIP TO THE UNIVERSITY: FIU's steady demand, solid balance sheet resources and strong state performance funding remain notable strengths. Though general university resources are not pledged to parking and housing bonds, FIU has rate-setting authority for parking and housing auxiliary systems, which are integral to the university's operations.

SOLID UNIVERSITY FINANCIAL PROFILE: GAAP-basis operating results are generally slightly negative, offset by positive cash flow and state capital support. FIU is well-positioned under Florida's performance funding metrics, which increasingly determine state operating appropriations.

PLEDGE MITIGATES ELEVATED PARKING LEVERAGE: Parking system debt service coverage is historically somewhat low compared with similar auxiliary systems, but this concern is offset somewhat by the strength of the TAF pledge, which is a broadly assessed, mandatory student fee accounting for the majority of the system's operating revenue. Pledged revenues from decal sales and other charges have also shown solid growth.

STABLE HOUSING SYSTEM PERFORMANCE: The 'A+' dormitory bond rating considers the system's stable operating performance with solid positive margins, which has resulted in sound reserves and debt service coverage from pledged net revenues.

RATING SENSITIVITIES

UNIVERSITY OPERATIONS: A deterioration in Florida International University's overall financial profile could pressure the parking system and dormitory bond ratings, given the limited revenue pledge.

STABLE PARKING COVERAGE: Failure to make timely adjustments to rates sufficient to maintain pledged revenues and coverage at historical levels could pressure the parking bond rating.

HOUSING DEMAND: Rating stability assumes sufficient student demand for FIU's housing system that produces adequate debt service coverage. A meaningful decline in demand could result in downward rating pressure.

CREDIT PROFILE

FIU, one of 12 institutions of higher education in Florida's State University System, is the largest university in South Florida. The university serves about 58,000 students on its two main campuses in southwest and northeast Miami-Dade County and satellite campuses located in Broward County, Miami Beach and downtown Miami. FIU's dormitory and parking systems are component auxiliary enterprises that finance and operate the university's housing stock and parking/transportation infrastructure, respectively.

UNIVERSITY OPERATIONS

The university's overall credit profile remains strong and supportive of its auxiliary enterprises including the dormitory and parking systems, although general university resources are not pledged to pay the bonds. Operations remain slightly negative on a GAAP basis (-1.1% margin in fiscal 2018) including depreciation, but positive on a cash basis. In addition, negative margins are partially mitigated by a strong record of state support for capital.

State operating appropriations are increasing after major cuts during the recession. FIU is well-positioned for continued increases in state support based on its strong scores on Florida's performance-funding metrics, which increasingly drive appropriations. However, the current political environment prevents tuition increases and limits the university's independent tuition revenue-raising flexibility.

There is an ongoing National Transportation Safety Board investigation relating to the March 2018 collapse of the FIU pedestrian bridge. Management reports that the university is named as an additional insured party on various insurance policies and is additionally protected by a surety bond and the State Risk Management Trust Fund. Fitch will continue to monitor progress relating to the proceedings.

DEBT AND BALANCE SHEET RESOURCES

FIU's available funds (unrestricted cash and investments) of \$350 million as of June 30, 2018, equaled an adequate 34% of operating expenses and a strong 156% of debt (including certain related-entity obligations). University maximum annual debt service (MADS) equals a low 1.5% of operating revenues. The university's low leverage and debt burden reflect historically strong state capital support.

MANDATORY FEE SUPPORTS PARKING BONDS

System revenues are primarily derived from the mandatory TAF assessed on materially all FIU students. The fee supports the system's operations and has historically been increased ahead of approved capital projects to generate revenues sufficient to support pro forma debt service. The system also generates revenue from the sale of parking decals to faculty, staff and visitors and from fines and violations.

The system has consistently generated positive operating margins averaging 10% for the past five fiscal years. The margin fluctuated in recent years due to ongoing costs for the university's shuttle service and elevated levels of depreciation expense following the addition of new facilities. The shuttle service is operated by the parking system; however, related revenues are not pledged, and related expenses are subordinate to debt service. Beginning in fiscal 2020 the shuttle will be funded from a TAF increase rather than individual passenger charges, improving revenue stability.

On a consolidated basis, including the shuttle service activities and other subordinate expenses, parking system operations generated slim MADS coverage of 1.2x in fiscal 2018. Excluding subordinate activities and capex, indenture-calculated MADS coverage was slightly stronger at 1.5x. Overall, Fitch considers debt service coverage somewhat low for the rating level, but this concern is tempered given the strength of the mandatory student fee pledge and prospects for demand growth.

The parking system is leveraged at levels that exceed those of other Fitch-rated capital-intensive auxiliary enterprises. Available funds totaled \$5.9 million as of June 30, 2018. This unrestricted liquidity made up an adequate 42% of operating expenses, but only 9% of debt. Despite these relatively thin liquidity levels, Fitch expects that FIU will maintain adequate reserves in relation to the system's long-lived and relatively low-maintenance assets with limited future debt issuance.

ROBUST DEMAND SUPPORTS DORMITORY AND PARKING SYSTEMS

The university's size and growing enrollment support generation of pledged net revenues for both the dormitory and parking systems. Enrollment has remained on a modest upward trend in recent years, reaching 58,063 in fall 2018 (fiscal 2019).

Only about 10% of FIU's full-time students reside on campus, reflecting significant urban housing constraints. Further, FIU's large enrollment base and urban location in Miami provide sustained demand and very high utilization of parking system facilities.

FIU is planning to construct an additional housing facility on the main campus in the near term to meet some of the demand identified in a recent market study. The project, Parkview Housing II, will be funded with approximately \$63 million in additional housing system indebtedness, which Fitch believes the system can absorb at the current rating. Longer term, the university's strategic plan contemplates as much as doubling the percentage of full-time students living on campus. Management has set strategic goals to better-align FIU's student metrics with Florida's performance funding framework, emphasizing growth in residential and FTE enrollment.

The most recent garage was completed in late 2014, and current parking capacity generally meets the university's needs at this time, though the housing project currently being planned includes funding (through dormitory debt) for modest additional parking capacity. In addition, the system has made sustained investments in technology and infrastructure to increase efficiency and utilization of existing capacity.

The dormitory system is highly leveraged, typical of capital-intensive auxiliary enterprises. Available funds, defined as cash and investments not permanently restricted, totaled \$25.3 million as of June 30, 2018 (unaudited). This unrestricted liquidity made up an adequate 98% of operating

expenses, but only 31% of debt. The MADS burden is also high at 24% of operating revenues, also typical of capital-intensive auxiliary systems.

Fitch believes the ABT and management's internal guidelines provide good assurance that pledged coverage will remain adequate in the event of planned additional housing debt. Current coverage has improved in recent years to a solid 1.7x; however, new debt is likely to curtail future MADS coverage.

CONSTITUTIONAL AMENDMENTS

Two constitutional amendments (Amendment Five and Amendment Seven) were approved by voters in the 2018 election that could affect FIU's revenue prospects, and Fitch will continue to monitor events related to these amendments and the impact, if any, on FIU and related bonds.

Amendment Five requires a two-thirds vote (rather than simple majority) by the Florida Legislature in order to adopt any legislation that authorizes new or increases existing state taxes or fees. This amendment could apply to future increases on undergraduate in-state tuition.

Amendment Seven requires a two-thirds vote (rather than simple majority) by the University's Board of Trustees to increase any fee that currently has to be approved by the Board of Trustees. With regards to FIU's parking and housing systems, this would include the TAF and decal fees that secure payment of the parking system bonds and student housing fees that secure FIU's housing system debt.

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Applicable Criteria
Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
<https://www.fitchratings.com/site/re/10020113>

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