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Florida State Board of Education Florida International University; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

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Credit Profile		
US\$48.29 mil dormitory rfdg bnds (Florida Intl Univ) ser 2012A due 07/01/2041		
<i>Long Term Rating</i>	A/Stable	New
Florida St Brd of Ed, Florida		
Florida Intl Univ, Florida		
Florida St Brd of Ed (Florida International University, Florida Board of Education) Ser 2002		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A' long-term rating to Florida State Board of Education's series 2012A dormitory revenue bonds, issued for Florida International University (FIU). At the same time, Standard & Poor's affirmed its 'A' long term rating on FIU's currently outstanding dormitory revenue bonds as well as its 'AA-' long-term rating on FIU's parking-facility bonds. The 'A' long-term rating on FIU's dormitory revenue bonds is differentiated from the 'AA-' long-term rating on the university's parking-facility bonds due to a pledge of housing system net revenues that we view as a narrower pledge of revenues than the pledge supporting the parking-facility bonds, which we view as equivalent to an unlimited student fee. The outlook is stable.

The 'A' rating on the dormitory revenue bonds reflects the university's credit strength as well as:

- A solid pledge of net housing system revenues and large housing system of 3,619 following the completion of the new dormitory;
- The housing system's debt service coverage, with management reporting solid unaudited fiscal 2011 coverage of 1.69x; and
- Continuing solid demand for on-campus housing as illustrated by an average occupancy rate of 93% over the past five years and management projecting fall 2011 occupancy of 94%.

The 'AA-' rating on the parking-facility bonds, which we view as equivalent to an unlimited student-fee pledge, reflects our assessment of FIU's:

- Strong university demand and enrollment trends as demonstrated by fall 2011 freshman applications of 16,626, a 36% increase from fall 2007, and a fall 2011 headcount of 47,966, a 24% increase from fall 2007, along with management's plan to increase headcount by 2,000 students per year for the next 10 years;
- History of solid operating surpluses at the university level, including an operating surplus of \$96.2 million in fiscal 2011, and managements expectation of balanced to surplus operations in fiscal 2012;
- Requirement of all on-campus students to pay a parking and transportation access fee as a part of registration for

classes and a pledge of parking system revenues, which is a broad pledge that we consider to be equivalent to an unlimited student fee pledge; and

- The parking system's strong demand and history of surplus operations, which resulted in strong debt service coverage of 1.55x in fiscal 2010 and management estimates at 1.34x in fiscal 2011, and solid projected debt service coverage of 1.2x following the projected \$33.5 million issuance for a new parking structure in calendar year 2012.

We believe the following offsetting credit factors constrain the ratings:

- Uncertainties regarding future capital needs related to the large increases in headcount the university has planned over the next 10 years; and
- Budgetary pressures at the state level that could result in decreases in state operating appropriations, which the university relies on for 29% of operating revenue.

The approximately \$48.3 million series 2012A dormitory revenue bonds will be issued to fund the construction of a dormitory on the university's Modesto Maidique Campus and to refund roughly \$6.2 million of the outstanding series 1998 bonds. The series 2012A bonds are on parity with the outstanding debt of the housing system. Securing the bonds are net revenues of the housing system. After the issuance, FIU expects its housing system's total outstanding debt to be approximately \$118 million, but Standard & Poor's does not rate the 2004A housing system revenue bonds, which account for roughly \$41.2 million of the total. The debt profile of the housing system is manageable, in our opinion, with decreasing levels of debt service following a pro forma maximum annual debt service (MADS) of \$9.26 million in fiscal 2015.

Florida International University currently has about 48,000 students, making it one of the 25 largest universities in the nation, based on enrollment. FIU offers more than 200 bachelors, masters, and doctoral programs in 21 colleges and schools across its two campuses, which are both located within Miami-Dade County.

Outlook

The stable outlook reflects Standard & Poor's expectation that, over the next two years, FIU's housing system will continue to experience high levels of demand and maintain at least solid debt service coverage levels. In addition, we expect the new dormitory to open on budget and on schedule. The stable outlook also reflects our expectation that the university will continue to experience strong demand and enrollment trends and maintain financial resource ratios commensurate with any additional debt plans.

In our opinion, a positive rating action on the university's housing system debt during the outlook period is unlikely. However, factors that could lead to such action beyond the two-year period could include consistently stronger debt service coverage as well as consistently strong occupancy levels as the university begins to add additional beds. A positive rating action on the university's unlimited student fee equivalent debt during the outlook period would require continued positive operating performance at the university level as well as strengthening of the university's financial resources while meeting its future capital needs.

Credit factors that could lead toward a negative rating action on the university's housing system debt during the outlook period could include decreases in debt service coverage, which could be a result of future debt issuance for housing projects that are not supported by adequate demand. Credit factors that could lead toward a negative rating

action on the university's unlimited student fee equivalent debt during the outlook period could include negative operating performance and weakening of the university's financial resources relative to the rating category as well as stagnant enrollment growth.

Enterprise Profile

History

Florida International University, established in 1965, opened its doors to 5,667 students six years later in 1972 as a two-year, upper-division school. In 1981, the institution received approval to add a lower division and doctoral programs. Today, the university has about 48,000 students and offers more than 200 bachelors, masters, and doctoral programs in 21 colleges and schools. FIU is one of the 25-largest universities in the nation, based on enrollment. The university has two campuses. FIU's main campus is the 344-acre Modesto Maidique campus (formerly known as University Park campus) in western Miami-Dade County, there is also the 200-acre Biscayne Bay campus in northeast Miami-Dade County. The university also has an academic site in Broward County, a 40-acre Engineering Center—a major research facility near the main campus, and the Downtown Center, located in downtown Miami for graduate courses.

Demand and enrollment

FIU's demand trends are strong, in our opinion. The university's president announced in 2011 that FIU would like to increase enrollment by 2,000 students per year for 10 years following fall 2011, with 25%-30% of the growth to come through distance learning programs. Headcount enrollment for fall 2011 totaled 47,966 students, a 9% increase from fall 2010 and a 24% increase from fall 2007. Freshman applications for fall 2011 totaled 16,626, a 10.4% increase from fall 2010 and a 36% increase from fall 2007. Transfer and graduate applications both increased over the same time period, with transfer applications for fall 2011 of 9,792, a 64% increase from fall 2007, and graduate applicants totaled 14,722 for fall 2011, up an impressive 94% since fall 2007. In our view, the freshman acceptance and matriculation rates are solid for a public university at a very selective 39% and a strong 40%, respectively, for fall 2011. Student quality has remained stable, with an average SAT score of 1139.

Government-related entities

In accordance with our criteria for government-related entities (GREs), we based our view of a "moderate" likelihood of extraordinary government support on our assessment of FIU's "limited" link with state government, given the state's limited legal capacity and ability to provide extraordinary support in a timely manner. However, the provision and availability of higher education and its "important" role is reflected in its history of regular, ongoing operating and capital support and the state's policies governing tuition, debt issuance, and appointing the governing board.

Financial Profile

State appropriations

FIU is dependent on state support and receives the fifth-largest appropriation from the state. State appropriations, including American Reinvestment and Recovery Act of 2009 (ARRA) funds, decreased by 5.1% and 3.9% in fiscals 2009 and 2010, respectively, and totaled \$218.3 million in fiscal 2010. According to unaudited fiscal 2011 financial statements, state appropriations increased 4.7% to roughly \$228.6 million, and management currently expects state appropriations to decrease 14.7% to approximately \$195 million in fiscal 2012. The state appropriations

environment for fiscal 2013 remains unclear at this point, but management has indicated that further cuts are expected that it plans to partially offset with increased tuition revenue. Management has also indicated that it is not relying on additional state funding to cover the costs of its future enrollment growth and also plans to fund it through tuition increases, which are expected to total 15% annually. Florida (AAA/Stable) typically provides strong support to higher education, in our opinion, and has committed what we view as significant capital to fund FIU's four-year medical school, which began teaching its first class of 43 students in fiscal 2010.

Operations: financial performance

The university's revenue stream is currently fairly diverse, with state appropriations accounting for 29% of total revenues, followed by tuition and student fees at 21%, federal and state financial aid at 14%, auxiliaries at 14%, and grants and contracts at 11%. The university, including the component units, has historically generated what we consider to be healthy operating surpluses. However, in fiscal 2009, the university experienced a \$5.7 million operating loss before returning to positive operations in fiscal 2010 due in part to positive investment returns. In fiscal 2011, the university generated an operating surplus of \$96.2 million, according to unaudited financial statements. The improvement from fiscal 2010 can be attributed mainly to increased tuition and federal and state financial aid revenue. Management is currently expecting balanced to surplus operations for fiscal 2012. Total net assets increased \$114.6 million, or 11.7%, to \$1.1 billion in fiscal 2011 from \$980.7 million in fiscal 2010, according to unaudited financial statements. Management is projecting an increase in total net assets of roughly \$50 million for fiscal 2012.

Balance sheet: financial resources

We believe FIU has an adequate balance sheet for the rating category, with unaudited fiscal 2011 unrestricted net assets of \$218.5 million, representing 31% of operations and 128%% of pro forma debt. According to unaudited financial statements, cash and investments totaled \$477.8 million in fiscal 2011, up 19% from fiscal 2010 due to positive investment returns, and equated to 68% of operations and 280% of pro forma debt. As of Dec. 31, 2011, the university's endowment, held by the Florida International University Foundation Inc., is estimated at \$164.5 million, up 11.9% from Dec. 31, 2010.

Debt

After this issuance, management reports that it expects outstanding debt to total \$170.6 million, \$118 million of which is related to the housing system while the remaining \$52.6 million is associated with the university parking system. Revenues generated by the university's housing system secure the university's housing system debt, which consists of multiple issuances. The final series will mature in 2041. Currently, 9% of FIU students are housed on campus. Management has indicated a goal to increase that total to 20% by fall 2016, which would require approximately 3,000 additional bed spaces following the construction of the new 620-bed facility. However, management has stated that to ensure adequate demand for additional facilities, it does not plan to issue additional housing debt until the 620-bed facility has opened. Revenues generated by the university's parking system secure the parking system debt, which also consists of multiple issuances. The final series will mature in 2039. FIU plans to issue up to \$33.5 million in debt before the end of calendar year 2012 to fund the construction of a new parking structure. Management also noted that it expects existing facilities to come under stress as it begins its 10-year plan to increase enrollment significantly, and future capital needs could arise as a result. The university has not yet determined the exact costs or timing of any projects related to the enrollment increase.

The university, through its subsidiaries, has two swaps in its portfolio. The first swap for a total notional value of \$21 million is with Regions Bank (BBB-/Negative) and the second swap, with a total notional value of \$4.4 million,

is with Sun Trust Bank (BBB/Stable). Both swaps are structured as floating-to-fixed rate.

Housing System

The university currently operates six dormitories across its two campuses, with five of the dormitories located on the Modesto Maidique Campus. The six dormitories offer a combined 2,999 beds. Occupancy has been strong, averaging 94% over the past five years. The new dormitory, which the university expects to open for the fall 2013 semester, will be located on the Modesto Maidique Campus. The new dormitory will contain 620 beds, increasing the capacity of the university's housing system to 3,619 beds. A 300-space parking structure will be constructed along with the new dormitory. Revenue generated from new parking structure will support the housing system. Management reports that demand for housing at the Modesto Maidique Campus is growing substantially, which was demonstrated by a waiting list of more than 400 students in fall 2011. Historically, the majority of vacancies have occurred in the Biscayne Bay campus dormitory, which management attributes to a competitive local real estate market in that area and the relocation of certain academic programs to the Modesto Maideque Campus.

The housing system continues to perform well financially, with fiscal 2011 operating income of \$12.1 million when including nonoperating revenues and expenses. This equated to fiscal 2011 debt service coverage of 1.69x, which is slightly above the five-year average of 1.58x. Following the issuance, annual debt service will remain at roughly \$6.8 million until fiscal 2014, the first year the new dormitory is expected to be open. The university is expecting debt service coverage levels of 1.48x in fiscal 2012 and 1.46x in fiscal 2014 when annual debt service increases to roughly \$9.26 million. The debt profile of the housing system is manageable, in our opinion, with decreasing levels of debt service following MADS of \$9.26 million in fiscal 2015. We consider the additional bonds test adequate, with covenants providing for the preceding two years of pledged revenues to be 120% of MADS on the aggregate outstanding and pro forma parity debt.

Parking System

The Office of Parking and Transportation, a subdivision of the Office of the Chief Financial Officer and Senior Vice President of Administration, operates the FIU parking system. The parking system is a self-supporting auxiliary operation that does not receive state funding. The FIU parking system currently has 14,814 vehicle spaces on its two campuses. According to management, there are plans to build a new parking structure that will add 2,000 new spaces. Management indicated that the debt will likely be issued before the end of calendar year 2012 and the amount of issuance will not exceed \$33.5 million. Additional funding for the project is expected to be drawn out of cash reserves from the parking system. Management expects the new parking structure to open in late 2013. Management indicated that demand for the parking system is currently very strong, and it expects demand to strengthen as enrollment continues to grow.

The parking system's financial operations have been healthy, in our view, with the consistent generation of operating surpluses. The parking system had operating surpluses of \$6.8 million for fiscal 2010 and \$6.5 million for fiscal 2009 and management is currently estimating a \$7.5 million surplus for fiscal 2011. A student transportation access fee and faculty and staff decal sales generate the majority (78%) of the parking system revenues. All students are required to pay the parking and transportation access fee as a part of registration for classes, with the exception of distance learning students. Parking citation fines and visitor parking generate the remaining 22% of revenues. The parking system provided ample coverage of debt service at approximately 1.55x in fiscal 2010 and 2.16x in fiscal

2009. Management expects debt service coverage to total 1.34x in fiscal 2011 and remain above 1.2x following the approximately \$34 million issuance. The transportation fee for the 2011-2012 academic year is \$86.50, including tax per student per semester, and is included in tuition and fees. Management is expecting to increase the fee by 10% in the upcoming year to help support the new debt issuance and maintain solid coverage levels. Furthermore, faculty and staff need a parking decal to park on campus.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of March 14, 2012)		
Florida Board of Governors, Florida		
Florida Intl Univ, Florida		
Florida St Brd of Ed (Florida Intl Univ) parking fac rev bnds (Florida Intl Univ) ser 2009A dtd 11/01/2009 due 10/01/2039		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Florida St Brd of Ed, Florida		
Florida Intl Univ, Florida		
Florida St Brd of Ed (Florida Intl Univ) dormitory rev rfdg bnds (Florida Intl Univ) ser 2011A		
<i>Long Term Rating</i>	A/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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