

# RatingsDirect®

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

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# Florida Board of Governors

## Florida International University; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

Credit Profile		
US\$47.29 mil pkg fac rev bnds (Florida Intl Univ) ser 2013A due 07/01/2043		
<i>Long Term Rating</i>	AA-/Stable	New
<b>Florida St Brd of Ed, Florida</b>		
Florida Intl Univ, Florida		
<b>Florida St Brd of Ed (Florida International University, Florida Board of Education) Ser 2002</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

### Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Florida Board of Governor's series 2013A parking facility revenue bonds, issued for Florida International University (FIU). At the same time, Standard & Poor's affirmed its 'AA-' long-term rating on FIU's parking-facility bonds, as well as its 'A' long term rating on FIU's dormitory revenue bonds currently outstanding. The outlook on all ratings is stable.

The 'AA-' long-term rating on the university's parking-facility bonds is differentiated from the 'A' long-term rating on FIU's dormitory revenue bonds due to a pledge of housing system net revenues that we view as narrower than the pledge supporting the parking-facility bonds, which we view as equivalent to an unlimited student fee pledge.

The rating reflects our view of FIU's stable demand profile, the strong demand for the parking system, history of surplus operations, and the housing system's solid occupancy levels and adequate maximum annual debt service (MADS) coverage. The university specifically, and higher education in Florida generally, has withstood multiple years of declining state operating and capital appropriations substantial one-time cuts and declines in federal funding and grant revenues. Despite these factors and based on current funding trends and restoration of the one-time cuts in fiscal 2014, it is our opinion that the university will continue to experience positive operations.

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:

- 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;
- The parking system's strong demand and history of surplus operations, which has resulted in adequate historical debt service coverage;
- Strong university demand and enrollment trends as demonstrated by a fall 2012 headcount of 50,394, a 31% increase from fall 2007; and
- History of university operating surpluses on a full-accrual basis, including an operating surplus of \$5 million in fiscal

2012, and management's expectation of another year of surplus operations in fiscal 2013.

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 3,478 beds;

- The housing's system's adequate debt service coverage, with actual annual debt service coverage of 1.52x in fiscal 2012, albeit weaker 1.14x coverage of maximum annual debt service (MADS); and
- Continuing strong demand for on-campus housing as illustrated by an average occupancy rate of 95% over the past five years, as well as management's projections of strong occupancy in the future as the university aims to house more full-time students on campus.

Our view of the following offsetting credit factors constrain the ratings:

- Continued growth and capital pressures; and
- Challenging future state-appropriation environment, which remains an important revenue stream, accounting for roughly 25% of fiscal 2012 operating revenues.

The university will use the series 2013A parking facility revenue bonds to fund construction of a multilevel parking garage located on the main campus and various pedestrian and shuttle-stop infrastructure improvements, as well as to refund its series 1999 and 2002 parking facility revenue bonds. According to management, the new parking structure will add roughly 2,000 spaces and will be used by permitted students, faculty and staff, and visitors. We understand this project will increase the total number of structured parking spaces to 8,800 and total university-wide parking spaces to 17,000. Management indicates that the project is consistent with the university's campus master plan and is expected to cost \$42.6 million. Sources of funding for the project include the 2013A bond proceeds and a \$9 million cash contribution from the parking system and other auxiliary funds. Management expects the new parking garage to open in late 2014.

Following this debt issuance, the university will have \$229.3 million of total debt. This includes \$79 million of parking system debt (including the 2013A bonds), and roughly \$110 million of dormitory revenue debt. The series 2013A bonds are on parity with the outstanding debt of the parking system. The debt profile of the parking system is manageable, in our opinion, with decreasing levels of debt service following pro forma MADS of \$6.7 million in fiscal 2015. Per management, at this time, the university has no planned debt issuances lined up for the next two to three years. While the university continues to have substantial capital needs, it anticipates funding key near-term needs from state funds (other than public education capital outlay (PECO) funds, internal reserves, or private funds).

The university, through its subsidiaries, has two swaps in its portfolio. The first swap, with a total notional value of \$21 million, is with Regions Bank (BBB/Positive/A-2) and the second swap, with a total notional value of \$3.74 million, is with SunTrust Inc. (BBB/Positive/A-2). Both swaps are structured as floating-to-fixed rate.

## Outlook

The stable outlook reflects Standard & Poor's expectation that, during 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. The stable

outlook also reflects our expectation that the university will continue to experience stable 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 an action beyond the two-year period could include consistently stronger debt service coverage, at or above 2x, as well as consistently strong occupancy levels as the university adds 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 a 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 a weakening of the university's financial resources relative to the rating category as well as stagnant enrollment growth.

Given our Government-Related Entities (GRE) criteria, a change in the state of Florida's rating will not affect FIU's rating.

## **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 14,628 vehicle spaces on its two campuses. 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 \$7.5 million for fiscal 2012 and \$7.7 million for fiscal 2011, and management estimates an \$8.7 million surplus for fiscal 2013. A student transportation access fee and faculty and staff decal sales generate the majority (83%) of 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. Furthermore, faculty and staff need a parking decal to park on campus. Parking citation fines and visitor parking generate the remaining 17% of revenues. The parking system provided adequate coverage of MADS, at 1.34x in fiscal 2012 and 1.39x in fiscal 2011. Management expects MADS coverage to total 1.56x in fiscal 2013 and remain above 1.2x following the 2013A issuance. Management increased the fee by 10% with student support in fiscal 2012 and expects to hold the fee flat for the near term. The transportation fee for the 2012-2013 academic year is \$90.55, including tax per student per semester, and is included in tuition and fees.

## **Enterprise Profile**

### **The university**

FIU, 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 51,000 students and offers more than 180 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.

### **Management and governance**

The Florida International University Board of Trustees is composed of 13 members: five appointed by the state board of governors, six appointed by Florida's governor, and student and faculty representation by the university's faculty senate chair and student government president. The board has experienced regular turnover. The university has had a few senior management changes since the time of our last review with the exception of the associate provost being promoted to vice president of engagement and the hiring of a new vice president for enrollment services who started with the university in October 2012. University officials report that there are no other changes in senior management expected at this time. In our view, FIU's financial management practices remain adequate. Management was able to successfully absorb substantial state funding cuts in recent years through the use of internal reserves. We also regard the university's conservative debt issuance practices favorably given that almost of its debt is self-supporting in nature. However, the university lacks robust formal budgeting practices -- a factor that we view unfavorably, given the university's current and historical spending levels and potential to experience future large state funding cuts.

### **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 the state's history of regular, ongoing operating and capital support and the its policies governing tuition, debt issuance, and appointing the governing board.

### **Demand and enrollment**

FIU's demand trends are strong, in our opinion. Headcount enrollment for fall 2012 totaled 50,394 students, a 5% increase from fall 2011 and a 32% increase from fall 2007. While not finalized, management indicates that fall 2013 enrollment is trending ahead of expectations based on year-to-date trends.

In our view, the freshman acceptance and matriculation rates are solid for a public university at a very selective 42% and a strong 46%, respectively, for fall 2012. Student quality has remained stable and above the national average, with an average SAT score of 1141. Management indicates that it received authority to implement a 1.7% tuition increase for the upcoming academic year to \$105 per credit hour. Management indicates that there is a provision in state law

that allows the university to increase tuition up to 15% each year until tuition rates reach the national average.

## **Financial Profile**

### **State appropriations**

In fiscal 2013, state appropriations were cut for all higher education institutions in Florida. FIU is dependent on state support and receives the fifth-largest appropriation from the state. State appropriations decreased by 15% in fiscal 2012 and totaled \$195 million. According to management, in fiscal 2013 the university received \$173.4 million in state appropriations -- a reduction of \$24.3 million; these funding cuts were offset with a one-time nonrecurring use of fund balances. However, the university indicates that it expects to receive \$213.2 million in fiscal 2014.

Management has also indicated that no funding cuts were made to the college of medicine. Florida (AAA/Stable) has provided strong support to its higher education institutions historically, in our opinion, and has committed what we view as significant capital to funding for FIU's four-year medical school, which began teaching its first class of 43 students in fiscal 2010.

### **Financial operations**

The university's revenue stream is currently fairly diverse in our view, with tuition and student fees accounting for 41% of total revenues, followed by state appropriations at 25%, federal and state financial aid at 15%, auxiliaries at 15%, and grants and contracts at 11%. The university, including the component units, has historically generated operating surpluses we consider healthy. In fiscal 2012, the university generated an operating surplus of \$5 million, compared with a surplus of \$82 million in fiscal 2011. Management is currently expecting another full-accrual operating surplus in fiscal 2013.

### **Balance sheet: financial resources**

We believe FIU has an adequate balance sheet for the rating category, with adjusted unrestricted net assets of \$200 million (including debt service reserve funds) as of June 30, 2012, representing 26% of operations and 101% of pro forma debt. Cash and investments totaled \$528 million in fiscal 2012, up 10.5% from fiscal 2011 due to positive investment returns, which equated to 69% of operations and 267% of pro forma debt. As of May 31, 2013, the university's endowment, held by the Florida International University Foundation Inc., is estimated at \$172 million, \$3.6 million of which is unrestricted, and up 13.2% from fiscal 2012 year end.

### **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 2,858 beds. 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 contains 620 beds, increasing the capacity of the university's housing system to 3,478 beds. A 300-space parking structure is being constructed along with the new dormitory. Management indicates the new dorm is on-time and within budget. Revenue generated from new parking structure will support the housing system. Currently 9% of students reside on campus and management indicates that its goal is to have 20% of its full-time undergraduate students housed on campus by 2020.

The housing system continues to perform well financially, with fiscal 2012 operating income of \$11 million when including nonoperating revenues and expenses. This equated to fiscal 2012 debt service coverage of 1.52x. Management expects MADS coverage to total 1.17x in fiscal 2013. The university is projecting debt service coverage levels of 1.42x in fiscal 2014 when MADS is \$9.7 million.

## 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 July 22, 2013)		
<b>Florida Board of Governors, Florida</b>		
Florida Intl Univ, Florida		
Florida Brd of Governors (Florida International University) dorm rev rfdg bnds		
<i>Long Term Rating</i>	A/Stable	Affirmed
Florida Brd of Governors (Florida International University) pkg		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Florida St Brd of Ed, Florida</b>		
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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