

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

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Credit Profile		
US\$22.585 mil dormitory rev rfdg bnds (Florida Intl Univ) ser 2011A		
<i>Long Term Rating</i>	A/Stable	New
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 International University, Florida Board of Education) Ser 2002		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has assigned its 'A' long-term rating to the Florida State Board of Education' series 2011A dormitory revenue refunding 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. The outlook is stable.

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 based on preliminary data, a 36% increase from fall 2007, and a preliminary fall 2011 headcount of 44,686, a 16% 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 \$49.7 million in fiscal 2010, and a similar operating surplus expected in fiscal 2011, based on unaudited financial statements;
- 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 1.45x on the university's parking system debt in fiscal 2010, and solid projected debt service coverage of 1.2x following the projected \$34 million issuance for a new parking structure in 2012.

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;
- The housing system's debt service coverage, with management reporting solid unaudited fiscal 2011 coverage of 1.67; 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%.

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 reductions in state operating appropriations, which the university relies on for 31% of operating revenue.

Florida International University currently has about 45,000 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.

The series 2011A bonds, issued in the par amount of \$22.6 million, will refund the series 1998 and 2000 bonds. FIU is issuing the bonds to achieve savings. The maturity and fixed rate structure will not change with the refunding. The series 2011A bonds are on parity with the outstanding debt of the housing system, which, following the refunding, will only include the series 2004A bonds. Securing the bonds are net revenues of the housing system. After this issuance, FIU expects its housing system's total outstanding debt to be approximately \$71.3 million, but Standard & Poor's does not rate the series 2004A housing system revenue bonds.

Outlook

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

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. 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.

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. 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.

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 45,000 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, 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, with a headcount enrollment for fall 2010 of slightly more than 44,000 students, a 14% increase from fall 2006. Management is expecting an increase to 44,686 students in fall 2011 based on preliminary enrollment data. Freshman applications for fall 2010 totaled 15,060 and are currently projected at 16,626 for fall 2011, a 36% increase over fall 2007. Transfer and graduate applications both increased over the same time period, with transfer applications for fall 2011 projected to total 9,793, a 64% increase from fall 2007, and graduate applicants projected to increase to 14,722 for fall 2011, up an impressive 94% since fall 2007. The freshman acceptance and matriculation rates are, in our view, solid for a public university at a very selective 39% and a strong 40%, respectively, based on preliminary fall 2011 data. Student quality has remained stable, with an average SAT score of 1139. The university's president has recently announced that the university would like to increase enrollment by 2,000 students per year for 10 years following fall 2011. Management is currently expecting an increase of roughly 2,600 first-time students for fall 2012. Management indicates that it expects 25%-30% of the growth to come through distance learning programs.

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 again decreased slightly to roughly \$214 million, and management currently expects state appropriations to remain stable or slightly decrease in fiscal 2012. Florida (AAA/Stable) traditionally 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. The university is not relying on additional state funding to cover the costs of its future enrollment growth and plans to fund it through tuition increases of roughly 15% per year. The university's revenue stream is currently fairly diverse, with state appropriations accounting for 31% of total revenues, followed by tuition and student fees at 23%, auxiliaries at 15%, grants and contracts at 12%, and federal and state financial aid at 15%.

Operations: financial performance

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, including \$36 million of depreciation expense and a \$36.8 million investment loss. In fiscal 2010, the university returned to positive operations and generated a surplus of \$47.9 million due in part to positive investment returns. Management is currently projecting another operating surplus in fiscal 2011 based on unaudited financial statements. Total net assets increased \$120.3 million, or 14%, to \$980.7 million in fiscal 2010 from \$860.4 million in fiscal 2009. Management is projecting another increase in fiscal 2011 based on unaudited financial statements.

Balance sheet: financial resources

We believe FIU has an adequate balance sheet for the rating category, with fiscal 2010 unrestricted net assets including a debt service reserve of \$191.2 million, representing 30% of operations and 145% of outstanding debt. Cash and investments totaled \$401 million in fiscal 2010, up 24% from fiscal 2009 due to positive investment returns, and equated to 62% of operations and 304% of outstanding debt. Management currently projects that levels of unrestricted net assets and total cash and investments will increase in fiscal 2011 based on unaudited financial statements. As of Sept. 30, 2011, the university's endowment, held by the Florida International University Foundation Inc., is estimated at \$155.5 million, down 1.4% from Sept. 30, 2010.

Debt

Management reports that as of July 1, 2011, the university had \$124.1 million in long-term debt outstanding, \$52.8 million of which is related to the parking system while the remaining \$71.3 million is student housing debt. Revenues generated by the university's parking system secure the parking system debt, which consists of multiple issuances. The final series will mature in 2039. Future debt plans for the parking system include a \$34 million issuance for a new parking structure that management expects to occur in fiscal 2012. Revenues generated by the university's housing system secure the university's housing system debt, which also consists of multiple issuances. The final series will mature in 2034. The university is anticipating a \$48 million issuance for a new housing project in fiscal 2012. Management indicated that it is considering an additional housing project that would likely not occur until at least fiscal 2015. 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.

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 93% over the past five years. 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. Management reports that demand for housing at the Modesto Maidique Campus is experiencing substantial growth, which was

demonstrated by a waiting list of more than 400 students in fall 2011. Management expects additional housing of 600 beds to become available for fall 2013 and has indicated that it could further add more beds as early as 2015.

The housing system continues to perform well financially, with fiscal 2011 operating income of \$11.9 million when including nonoperating revenues and expenses. This equated to fiscal 2011 debt service coverage of 1.67x, which is slightly above the five-year average of 1.53x. The university is expecting coverage levels of 1.36x in fiscal 2012 and expects coverage to strengthen in the following years. The debt profile of the housing system is manageable, with decreasing levels of debt service following maximum annual debt service (MADS) of \$6.97 million in fiscal 2012. 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. The construction of the new parking structure, which management expects to begin in June 2012, will be funded through a debt issuance of roughly \$34 million and approximately \$9 million in cash reserves from the parking system. Management expects the new parking structure to open in August 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, in our view, been healthy, with the consistent generation of operating surpluses. The parking system had operating surpluses of \$6.6 million for fiscal 2010 and \$6 million for fiscal 2009 and management expects a similar operating surplus in fiscal 2011. A student transportation access fee and faculty and staff decal sales generate the majority (87%) 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 13% of revenues. The parking system provided ample coverage of debt service at approximately 1.45x in fiscal 2010 and 1.38x in fiscal 2009. Management expects debt service coverage to remain above 1.3x 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.

Debt Derivative Profile, '2': Low Risk

Standard & Poor's assigned Florida International University a Debt Derivative Profile (DDP) overall score of '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4', the highest, which reflects a very low credit risk at this time. 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 outstanding of \$4.7 million, is with Sun Trust Bank (BBB/Stable). Both swaps are structured as floating-to-fixed rate.

The overall score reflects our view of FIU's:

- Strong management practices, including a written swap management policy and frequent monitoring of the swaps;
- Low risk of involuntary termination, given the short maturity of the two swaps, and lack of rating termination triggers linked to FIU's rating;
- Moderately high basis risk as the floating leg for both the swaps are linked to Libor; and
- High counterparty risk.

Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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