Fitch Rates Florida International University's Dorm Revs 'A+'; Outlook Stable

Fri 30 Oct, 2020 - 3:28 PM ET

Fitch Ratings - New York - 30 Oct 2020: Fitch Ratings has assigned an 'A+' rating to the following revenue bonds issued by the Board of Governors of the State of Florida (BoG) on behalf of Florida International University (FIU):

--$71.8 million dormitory revenue bonds series 2020A.

The dormitory revenue bonds are scheduled for competitive sale on or about the week of Nov. 8, 2020. Bond proceeds will partially fund the construction of FIU's Parkview II housing facility, adding approximately 700 new beds to FIU's housing system.

The Rating Outlook is Stable.
The 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) measured over the two prior fiscal years.

**ANALYTICAL CONCLUSION**

Housing Revenue Pledge: The bonds' 'A+' rating, one notch below the FIU's Issuer Default Rating (IDR), reflects the university's considerable credit strengths and the fundamental importance of the housing system to FIU operations. Pursuant to Fitch's criteria, ratings on securities with narrower or limited revenue pledges may be notched below the parent IDR. Fitch expects demand and debt service coverage to remain adequate through near-term coronavirus-related demand and revenue volatility, with coverage returning to historically strong levels in the intermediate term.

FIU's 'AA-' IDR reflects the university's strong financial profile in the context of the university's strong revenue defensibility and operating risk. FIU's strong operating profile is supported by competitive demand indicators, adequate cash flow and historically strong state support for operations and capital. The Stable Outlook reflects FIU's resilience against expected revenue pressure under Fitch's baseline coronavirus scenario. FIU's financial profile is also resilient to more severe revenue stress under Fitch's downside case, which assumes a slower economic recovery and prolonged or recurring coronavirus-related disruptions such as extended lockdowns and campus closures into 2021.

**CORONAVIRUS IMPACTS**

The ongoing coronavirus pandemic and related government-led containment measures create an uncertain environment for the U.S. public finance higher education sector. Fitch's forward-looking analysis is informed by management's expectations coupled with Fitch's common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. Fitch's current baseline scenario includes a sharp economic contraction in 2Q20, with an initial bounce in 3Q20 followed by a slower
recovery trajectory from 4Q20. For the higher education sector, the baseline case assumes the closure of most residential campuses for a three- to four-month period with continued sporadic closures possible thereafter. Rating sensitivities address potential rating implications under a downside scenario, which assumes slower economic recovery and prolonged or recurring disruptions related to the coronavirus into fiscal 2021, including enrollment and related revenue pressures for higher education.

FIU went fully remote in March, 2020 for the remainder of the spring semester. Summer and fall programs have included some face to face and hybrid class offerings, but online learning remains the mode of instruction for the vast majority of courses. FIU’s largely commuter student base has remained stable throughout the pandemic, with fall 2020 full time equivalent (FTE) enrollment remaining fairly stable at approximately 41,000. FIU’s housing system consistently sustained near 100% capacity through fiscal 2020, despite housing less than 10% of the university’s student base, indicating considerable capacity to absorb added campus housing supply. The 2020A bonds will largely fund the construction of FIU’s Parkview Housing II project, which is designed to add about 700 beds (20%) of new capacity to FIU’s housing system when it opens in fall of 2022.

As a result of remaining largely remote for the fall semester, demand for campus housing has been more volatile, with occupancy rates declining from 100% in recent years to 51% in fall 2020. Lower expenses and prospects for increased occupancy in the spring semester are expected to result in maintenance of solid cash flow and current debt service coverage of greater than 1.2x on outstanding housing system debt, but will cover pro-forma MADS (inclusive of 2020A debt service) by only .8x. Debt service on the 2020A bonds is capitalized until fiscal 2022, and Fitch considers underlying demand for housing to be sufficient for FIU to reach 1.2x pro forma MADS coverage by fiscal 2022 and sustain coverage above this level in future years.

FIU’s state funding picture remains uncertain, with a 6% holdback on fiscal 2021 appropriations and legislative consideration of cuts to fiscal 2022. Favorably, the State of Florida (AAA/Stable) has a history of legislating greater tuition flexibility during periods of recessionary appropriation cuts. Federal stimulus funding is
also expected to provide a margin of added flexibility, as FIU was awarded approximately $41 million of CARES Act funds, half of which is available to the university for operating purposes. Despite uncertain near-term prospects for state support, FIU remains well positioned under the state's performance funding framework to benefit from solid appropriations in the intermediate term.

**Revenue Defensibility: 'a'**

Strong Demand and State Appropriations

FIU's revenue defensibility is consistent with an 'a' assessment, characteristic of a competitive regional public institution with solid in-state and regional student draw, evidenced by stable enrollment trends and strong demand indicators. Admissions figures for fall 2020 remain consistent with prior years. State support has historically been strong and FIU benefits from considerable federal stimulus funding, though state support in fiscal 2021 may be pressured.

**Operating Risk: 'bbb'**

Thin Cash Flow; Manageable Capital Needs

The university's 'bbb' operating risk assessment is reflective of FIU's adequate and improving adjusted cash flow margins. Fitch expects margins to be pressured in the near term before returning to historical levels. FIU's capital spending requirements benefit from consistent state support for capital spending and manageable capital needs in the near to intermediate term with some housing projects being considered in the near term.
Financial Profile: 'aa'

Strong Balance Sheet Ratios Through Stress

FIU's leverage, calculated as total available funds (AF) to adjusted debt (including the Fitch-adjusted net pension liability), remains near strong historical levels through Fitch's baseline scenario analysis and remains fairly stable through a downside stress, reflecting a more protracted economic contraction. Liquidity remains adequate and therefore neutral to FIU's ratings.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric additional risk considerations apply to FIU's ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A sustained consistent trend of cash flow margins consistently above 6%;

--AF to adjusted debt maintained consistently above 80%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Deterioration of AF to adjusted debt to levels consistently below 60%;
Failure to generate housing bond DS coverage at or greater than 1.2x in any year and MADS coverage of greater than 1.2x by fiscal 2023.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

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.

DATE OF RELEVANT COMMITTEE

08 May 2020
In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida International University (FL)</td>
<td>LT</td>
<td>A+ Rating Outlook Stable</td>
</tr>
<tr>
<td>Florida International University (FL) /Dormitory Revenues/1</td>
<td>LT</td>
<td>A+ Rating Outlook Stable</td>
</tr>
</tbody>
</table>

VIEW ADDITIONAL RATING DETAILS
FITCH RATINGS ANALYSTS

George Stimola
Director
Primary Rating Analyst
+1 212 908 0770
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Nancy Moore
Director
Secondary Rating Analyst
+1 212 908 0725

Emily Wadhwani
Director
Committee Chairperson
+1 312 368 3347

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA


Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020)
(including rating assumption sensitivity)
APPLICABLE MODELS
Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.1 (1)

ADDITIONAL DISCLOSURES
Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS
State of Florida Board of Governors (FL) EU Endorsed

DISCLAIMER
ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.
Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a
rating or forecast was issued or affirmed.
The information in this report is provided "as is" without any representation or
warranty of any kind, and Fitch does not represent or warrant that the report or
any of its contents will meet any of the requirements of a recipient of the report.
A Fitch rating is an opinion as to the creditworthiness of a security. This opinion
and reports made by Fitch are based on established criteria and methodologies
that Fitch is continuously evaluating and updating. Therefore, ratings and reports
are the collective work product of Fitch and no individual, or group of individuals,
is solely responsible for a rating or a report. The rating does not address the risk
of loss due to risks other than credit risk, unless such risk is specifically
mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch
reports have shared authorship. Individuals identified in a Fitch report were
involved in, but are not solely responsible for, the opinions stated therein. The
individuals are named for contact purposes only. A report providing a Fitch rating
is neither a prospectus nor a substitute for the information assembled, verified
and presented to investors by the issuer and its agents in connection with the sale
of the securities. Ratings may be changed or withdrawn at any time for any reason
in the sole discretion of Fitch. Fitch does not provide investment advice of any
sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings
do not comment on the adequacy of market price, the suitability of any security
for a particular investor, or the tax-exempt nature or taxability of payments made
in respect to any security. Fitch receives fees from issuers, insurers, guarantors,
other obligors, and underwriters for rating securities. Such fees generally vary
from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue.
In certain cases, Fitch will rate all or a number of issues issued by a particular
issuer, or insured or guaranteed by a particular insurer or guarantor, for a single
annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or
the applicable currency equivalent). The assignment, publication, or
dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its
name as an expert in connection with any registration statement filed under the
United States securities laws, the Financial Services and Markets Act of 2000 of
the United Kingdom, or the securities laws of any particular jurisdiction. Due to
the relative efficiency of electronic publishing and distribution, Fitch research
may be available to electronic subscribers up to three days earlier than to print
subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd
holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

**SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

**ENDORSEMENT POLICY**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.