

# 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

<b>Florida Board of Governors, Florida</b>		
Florida Intl Univ, Florida		
Florida Brd of Governors (Florida Intl Univ) 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) AUXSYSTEM		
<i>Long Term Rating</i>	A/Stable	Affirmed

### Rationale

S&P Global Ratings affirmed its 'AA-' long-term rating on Florida Board of Governors' (BOG) parking facility revenue bonds, issued for Florida International University (FIU). At the same time, S&P Global Ratings affirmed its 'A' long-term rating on FIU's dormitory revenue bonds currently outstanding. The outlook on all ratings is stable.

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 narrower than the pledge supporting the parking facility bonds, which we view as equivalent to an unlimited student fee pledge.

We have assessed FIU's enterprise profile as very strong, reflecting its growing demand and strong selectivity and retention rates. We have assessed FIU's financial profile as very strong, with solid available resource ratios relative to its debt load, low maximum annual debt service burden (MADS), and solid financial policies. Additionally, the housing system has had strong occupancy levels and adequate MADS coverage. When we combine the enterprise and financial profiles, this leads to an indicative stand-alone credit rating of 'aa-' and a final rating of 'AA-'.

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 (DSC);
- Strong university demand and enrollment trends, as demonstrated by a fall 2017 headcount of 56,866, a 19% increase in enrollment since fall 2011, and the university's highest enrollment in history; and

- Solid available resources compared with current debt, as reflected in FIU's adjusted unrestricted net assets (UNA) of 145% as of fiscal 2017 and 131% as of fiscal 2016.

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

- A solid pledge of net housing system revenues and a large housing system of 3,223 beds in fall 2017;
- The housing system's adequate DSC, with MADS coverage of outstanding debt of 1.8x in fiscal 2017 and 1.9x in fiscal 2016; and
- Continuing strong demand for on-campus housing, as illustrated by an average occupancy rate of 99% 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 constrains the ratings:

- Continued growth and capital pressures, and
- The challenging future state appropriation environment, which remains an important revenue stream, accounting for 26% of fiscal 2017 and 25% of fiscal 2016 operating revenues.

FIU is a public university comprising two campuses, offering about 190 degrees across undergraduate, graduate, and professional programs. FIU's main campus is the 342-acre Modesto A. 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.

S&P Global Ratings has restated all financial performance numbers to reflect the university only. In the past, financial performance numbers reflected the university and its component units, or direct support organizations. However, debt-related ratios reflect the university and component units consolidated.

## **Outlook**

The stable outlook reflects S&P Global Ratings' expectation that the university will continue to experience stable demand and enrollment trends and maintain financial resource ratios; we anticipate that any additional debt issuance will be commensurate with growth in financial resources. The stable outlook also reflects S&P Global Ratings' expectation that, during the next two years, FIU's housing system will continue to experience high levels of demand and solid DSC levels.

### **Upside scenario**

We could take a positive rating action on the university's unlimited student fee-equivalent debt during the outlook period if operating performance is positive at the university level and the university strengthens its financial resources while meeting its future capital needs.

In our opinion, a positive rating action on the university's housing system debt is unlikely during the outlook period but

could result if the housing system achieves consistently stronger DSC, at or above 2.0x, as well as consistently strong occupancy levels as the university adds beds.

### **Downside scenario**

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.

Credit factors that could lead toward a negative rating action on the university's housing system debt during the outlook period could include significant decreases in DSC.

## **Enterprise Profile**

### **Industry risk**

Industry risk addresses the higher education sector's overall cyclical and competitive risk and growth by applying various stress scenarios and evaluating barriers to entry, levels and trends of profitability, substitution risk, and growth trends observed in the industry. We believe the higher education sector represents a low credit risk when compared with other industries and sectors.

### **Economic fundamentals**

In our view, the university has limited geographic diversity as it is predominantly regional. About 89% of fall 2017 students are from Florida, with the rest coming from other states and countries. While the university aims to increase its student population, it is unlikely to materially shift the current student geographic mix within the outlook period. Therefore, our assessment of FIU's economic fundamentals is anchored by the Florida GDP per capita.

### **Market position and demand**

FIU demonstrates continued enrollment growth, solid demand, and good student quality, in our opinion. As of fall 2017, total enrollment was 56,866, or 39,881 full-time equivalents (FTEs), about 82% of whom are undergraduates. Over the past several years, enrollment has generally increased moderately on a year-over-year basis, following very strong growth earlier in the decade. The number of transfer students continues generally to grow, with matriculation currently at over 5,100 annually, supported by strong articulation agreements across Florida higher education institutions. Graduate program enrollment has also continued to increase over time, with 8,091 students enrolled (6,314 FTEs) in fall 2017. Management is expecting a general upward trend in enrollment, with increases of approximately 2% per year. Applications in fall 2017 were down 14% due to a change where a number of students were admitted in summer rather than fall as part of a strategy to provide more support to the students with a goal of increasing successful academic outcomes at the university. As of three years ago, students could only apply for fall enrollment; however, now there are 10 pathways for admission. Over time management expects selectivity to improve, along with graduation rates.

Demand has grown over the past five years; total headcount in fall 2017 reached a high of 56,866, up from 47,966 in fall 2011. Selectivity has improved to 51% from 39%, and matriculation has remained relatively stable, at 38% and 39%, respectively. Fall 2017 student quality, as measured by the average entering class SAT score, remained solid, in

our view, at 1150, and the average ACT score was 26--both above the national averages. The 2017-2018 academic year tuition and fees remain reasonable, in our opinion, at \$6,167 for in-state residents, as is out-of-state tuition, at \$18,566. We understand that undergraduate tuition will not increase in fall 2018.

### **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 and reports normal board turnover. University officials report that there are no 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 the past through the use of operating efficiencies and internal reserves. We also regard the university's conservative debt issuance practices favorably given that almost all of its debt is self-supporting in nature.

## **Financial Profile**

### **Financial management policies**

The university has formal policies for reserves and liquidity, endowment investments, and debt, which we view favorably. Its strategic plan contains 20 critical performance indicator goals related to student quality, academics, access, research, and revenue, with objectives and metrics for these goals. FIU meets standard annual disclosure requirements. It publishes annual full-accrual financial reports following completion of the annual financial audit by the state auditor general. Its reserve policy is dictated by state statute, which requires all state universities to maintain a minimum of a 5% operating budget reserve, which it has complied with historically; FIU maintains additional contingency reserves. Cash and debt management functions are centralized under the CFO. It also has a formal debt management policy prescribed by the Florida BOG with specific debt limits. The debt policy is monitored by the Florida BOG and FIU, with no deviations from the policy. Multiyear capital plans are updated every year. Our analysis of financial policies includes a review of the organization's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable providers.

### **Financial operations**

We consider FIU's financial operations adequate despite negative net operating income on a full-accrual basis in fiscals 2017, 2016, and 2015; on a cash basis, net operating income is positive. Overall, we consider university revenues to be relatively diverse; in fiscal 2017, 50% of total operating revenue came from student and auxiliary sources, 26% from state appropriations, 9% from grants and contracts, and the remainder from other support and investments. We believe that the composition of the university's revenue stream will remain stable.

### **State appropriations**

In our view, Florida has traditionally provided strong support for higher education. State operating appropriations have increased in the past four years, after economic conditions resulted in state appropriation declines in fiscals 2012 and 2013. FIU received \$278.0 million in fiscal 2017, a 6.3% increase from \$261.6 million in fiscal 2016. Fiscal 2016 state

operating appropriations increased by 5.5% from \$247.8 million in fiscal 2015. State appropriations are expected to grow incrementally.

In addition, while public universities in Florida also benefit from capital support for academic buildings through public education capital outlay (PECO) grants, these grants have become less frequent during the past couple of years because of a decrease in the revenues that fund the program. In general, state capital appropriations have fluctuated in recent years; in our opinion, it is possible that the long-term effect of reduced capital appropriations is to increase additional financing needs for the university. It is our opinion that FIU will continue to have very limited capacity to issue additional PECO-supported debt to fund new projects in the near term. We will continue to focus on how FIU and all higher education institutions in the state will manage through a long-term shortfall in PECO-supported debt.

### **FIU parking system**

The Office of Parking and Transportation, a subdivision of the Office of the Vice President for Operations & Safety and Chief of Staff, 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 17,204 vehicle spaces on the university's 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 with the consistent generation of pledged revenues. The parking system had net pledged revenues of \$9.4 million in fiscal 2017 and \$8.6 million for fiscal 2016. A student transportation access fee and faculty and staff decal sales generate the majority (over 80%) 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 are required to have a parking decal to park on campus. Parking citation fines and visitor parking generate the remaining revenues.

The parking system has provided adequate coverage of MADS, at 1.4x in fiscal 2017 and 1.3x in fiscal 2016. Management expects MADS coverage to remain above 1.2x for the foreseeable future. The transportation fee for the 2017-2018 academic year is \$89 per student per semester, and is included in tuition and fees.

### **The FIU housing system**

The university operated seven residence halls in fiscal 2017 located on the Modesto A. Maidique Campus (MMC) with a combined capacity of 3,223 beds in fall 2017. In fall 2017, approximately 10% of full-time students resided on campus, and management indicates it would like to increase that percentage. To that end, management is planning to construct additional housing capacity on the MMC, including an additional 656 beds. Management expects to issue approximately \$60 million in dormitory revenue bonds by the end of 2018, and open the new housing for occupancy in 2020.

Historically, the housing system has performed well financially, with the consistent generation of pledged revenue. The housing system had net pledged revenue of \$12.9 million for fiscal 2017. The housing system has provided adequate coverage of MADS, at 1.8x in fiscal 2017, and 1.9x in fiscal 2016. Following the issuance of the additional debt, management projects that MADS coverage will exceed 1.6x. We view current MADS coverage as adequate but would view increased coverage to levels of 2.0x or higher favorably.

**Available resources**

We believe FIU has a solid balance sheet for the rating category, with solid available resource ratios relative to its current debt load and a low MADS burden, at 1.3% in fiscal 2017. Adjusted UNA (including debt service reserve funds) of approximately \$278.5 million in fiscal 2017 represented 25% of operations and 145% of debt, and \$260.9 million in fiscal 2016 also represented 25% of operations and 131% of debt. Cash and investments totaled \$345.7 million in fiscal 2017, which equated to 32% of operations and 180% of debt, and \$318.1 million in fiscal 2016 equated to 30% of operations and 160% of debt. When including an additional \$60 million in debt for the new residence hall, these ratios decline but still remain adequate at the rating level. The pro forma MADS burden is expected to remain under 2.0% based on fiscal 2017 figures; cash and investment to pro forma debt is 137%, and adjusted UNA to pro forma debt is 111%.

The university's endowment, held by the Florida International University Foundation Inc., was \$196 million as of fiscal 2017 and \$174 million as of fiscal 2016.

**Debt and contingent liabilities**

At June 30, 2017, total debt outstanding was \$191 million, including \$34 million of component unit debt. We understand that management plans to issue \$60 million in additional dormitory revenue debt in fiscal 2019 for a new residence hall.

FIU, through a subsidiary, has one swap in its portfolio. The swap, with a total notional value of \$21 million, is structured as floating-to-fixed rate. The mark-to-market value as of June 30, 2017, was negative \$3.8 million.

FIU offers retirement benefits through both defined contribution and defined benefit plans to its employees. The defined benefit plans are offered through two state plans: the Florida Retirement System and the Health Insurance Subsidy defined benefit plan. The state's pension funded ratios are among the highest nationally based on fiscal 2017 information available on state pension plans. Management reports FIU has been making required employer contributions to plans, and per state statute, should FIU not be able to make the required contributions, the state is ultimately responsible. FIU offers other postemployment benefits, which it funds on a pay-as-you-go basis.

**Florida International University**

**Enterprise And Financial Statistics**

	--Fiscal year ended June 30--				Medians for 'AA' rated Public Colleges & Universities
	2018	2017	2016	2015	2016
<b>Enrollment and demand</b>					
Headcount	56,866	55,112	54,058	54,099	MNR
Full-time equivalent	39,881	39,055	38,323	38,141	32,506
Freshman acceptance rate (%)	51.1	49.4	49.9	47.6	69.3
Freshman matriculation rate (%)	38.1	37.3	36.4	36.0	MNR
Undergraduates as a % of total enrollment (%)	84.0	83.4	83.8	84.1	77.7
Freshman retention (%)	90.0	89.0	89.0	86.0	86.0
Graduation rates (six years) (%)	56.0	56.0	58.0	54.0	MNR

**Florida International University (cont.)**

**Enterprise And Financial Statistics**

	--Fiscal year ended June 30--				Medians for 'AA' rated Public Colleges & Universities
	2018	2017	2016	2015	2016
<b>Income statement</b>					
Adjusted operating revenue (\$000s)	N.A.	1,074,901	1,039,021	1,007,861	MNR
Adjusted operating expense (\$000s)	N.A.	1,094,646	1,048,525	1,011,222	MNR
Net adjusted operating income (\$000s)	N.A.	(19,745)	(9,504)	(3,361)	MNR
Net adjusted operating margin (%)	N.A.	(1.80)	(0.91)	(0.33)	1.46
Estimated operating gain/loss before depreciation (\$000s)	N.A.	29,150	36,418	41,115	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(17,680)	26,383	(119,678)	MNR
State operating appropriations (\$000s)	N.A.	278,033	261,567	247,849	MNR
State appropriations to revenue (%)	N.A.	25.9	25.2	24.6	19.4
Student dependence (%)	N.A.	49.9	50.6	50.4	41.8
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	9.2	9.4	9.9	MNR
Endowment and investment income dependence (%)	N.A.	0.6	0.6	0.5	0.8
<b>Debt</b>					
Outstanding debt (\$000s)	N.A.	191,912	198,806	210,092	698,540
Proposed debt (\$000s)	N.A.	60,000	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	251,912	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.37	1.59	1.69	MNR
Current MADS burden (%)	N.A.	1.31	N.A.	N.A.	3.60
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	MNR
<b>Financial resource ratios</b>					
Endowment market value (\$000s)	N.A.	196,281	174,061	178,750	748,837
Related foundation market value (\$000s)	N.A.	172,201	160,780	153,808	606,279
Cash and investments (\$000s)	N.A.	345,658	318,088	295,224	MNR
UNA (\$000s)	N.A.	90,852	108,532	82,149	MNR
Adjusted UNA (\$000s)	N.A.	275,570	258,076	213,314	MNR
Cash and investments to operations (%)	N.A.	31.6	30.3	29.2	54.7
Cash and investments to debt (%)	N.A.	180.1	160.0	140.5	159.6
Cash and investments to pro forma debt (%)	N.A.	137.2	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	25.2	24.6	21.1	31.9
Adjusted UNA plus debt service reserve to debt (%)	N.A.	145.1	131.3	102.9	89.7
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	110.5	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.6	11.4	10.8	12.9



**Florida International University (cont.)**

**Enterprise And Financial Statistics**

	--Fiscal year ended June 30--				Medians for 'AA' rated Public Colleges & Universities
	2018	2017	2016	2015	2016
OPEB liability to total liabilities (%)	N.A.	14.9	13.4	9.7	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current debt service burden = 100\*(current debt service expense/adjusted operating expenses). Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

**Ratings Detail (As Of June 6, 2018)**

**Florida Board of Governors, Florida**

Florida Intl Univ, Florida

Florida Brd of Governors (Florida International University) dorm rev rfdg bnds

Long Term Rating A/Stable Affirmed

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