

FITCH AFFIRMS FLORIDA INTERNATIONAL UNIVERSITY'S DORM AND PARKING REVS AT 'A+'; OUTLOOK STABLE

Fitch Ratings-New York-20 February 2018: Fitch Ratings has affirmed the 'A+' rating on the following revenue bonds issued by the Board of Governors of the State of Florida (BoG) on behalf of Florida International University (FIU):

- \$89 million dormitory revenue bonds;
- \$66 million parking system revenue bonds.

The Rating Outlook is Stable.

SECURITY

Dormitory revenue 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).

Parking revenue bonds are secured by pledged net revenues derived from the operation of FIU's parking system, including a mandatory transportation access fee (TAF) assessed on all FIU students except distance learners.

KEY RATING DRIVERS

RELATIONSHIP TO UNIVERSITY: Although university resources are not pledged to the parking bonds, the dormitory and parking systems are important to the function of FIU's main campus. FIU's sound demand and enrollment, healthy balance sheet resources, and low leverage benefit both systems.

SOUND UNIVERSITY CREDIT PROFILE: GAAP-basis operating results are generally slightly negative, offset by positive cash flow and state capital support. FIU is well-positioned under Florida's performance funding metrics, which increasingly determine state operating appropriations.

STABLE HOUSING SYSTEM PERFORMANCE: The 'A+' dormitory bond rating considers the system's stable operating performance with solid positive margins, which has resulted in sound reserves and debt service coverage from pledged net revenues.

HIGH PARKING SYSTEM LEVERAGE: Parking system debt service coverage is somewhat low compared to similar systems, but this concern is offset somewhat by the strength of the TAF pledge, which is a broadly assessed, mandatory student fee accounting for the majority of the system's operating revenue. FIU retains full authority to adjust the TAF, though historically has maintained it at historical levels in recent years.

ENROLLMENT-DRIVEN DEMAND: FIU's large enrollment base, urban location and large commuting population provide sustained demand and full utilization of parking system facilities, whereas limited on-campus housing supply drive consistently high occupancy. Most FIU students do not live on campus, but Fitch believes the large full-time population provides more than sufficient demand for the relatively small number of on-campus beds.

RATING SENSITIVITIES

UNIVERSITY OPERATIONS: An unexpected deterioration in Florida International University's overall financial profile could pressure the parking system and dormitory debt ratings, given the limited revenue pledge.

STABLE PARKING COVERAGE: The rating is currently constrained by low debt service coverage relative to peer systems. Failure to maintain parking system coverage at or near current levels may result in negative rating pressure.

HOUSING DEMAND: Rating stability assumes sufficient student demand to maintain high occupancy of Florida International University's housing system and adequate debt service coverage related to existing and future system facilities. While unanticipated, a meaningful decline in demand could result in downward rating pressure.

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 nearly 57,000 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.

UNIVERSITY OPERATIONS

The university's overall credit profile remains sound and supportive of its auxiliary enterprises including the dormitory and parking systems, although general university resources are not pledged to pay the bonds. Operations remain slightly negative on a GAAP basis (-2.9% margin in fiscal 2017 on an unaudited basis) but positive on a cash basis.

Negative margins reflect depreciation expense and are historically offset by state capital funding. State operating appropriations are increasing after major cuts during the recession. FIU is well-positioned for continued increases in state support based on its strong scores on Florida's performance-funding metrics, which increasingly drive appropriation levels. However, the current political environment prevents tuition increases and limits the university's independent revenue-raising flexibility.

FIU's available funds (unrestricted cash and investments) of \$340.5 million as of June 30, 2017, equaled an adequate 35% of operating expenses and a strong 146% of debt (including certain related-entity obligations). University maximum annual debt service (MADS) equals a low 1.8% of operating revenues. The university's low leverage and debt burden reflect historically strong state capital support.

ROBUST DEMAND SUPPORTS DORMITORY AND PARKING SYSTEMS

The university's size and growing enrollment support generation of pledged net revenues for both the dormitory and parking systems. Enrollment has remained on a modest upward trend in recent years, reaching 56,886 in fall 2017 (fiscal 2018).

Only about 10% of FIU's full-time students reside on campus, reflecting significant urban housing constraints. Further, FIU's large enrollment base and urban location in Miami provide sustained demand and very high utilization of parking system facilities.

FIU is planning to construct an additional housing facility on the main campus in the near term to meet some of the excess demand identified in a recent market study. Longer term, the university's

strategic plan contemplates as much as doubling the percentage of full-time students living on campus. Management has set strategic goals to better-align FIU's student metrics with Florida's performance funding framework, emphasizing growth in residential and FTE enrollment.

The most recent garage was completed in late 2014, and current parking capacity generally meets the university's needs at this time, though the housing project currently being planned includes funding (through dormitory debt) for modest additional parking capacity. In addition, the system has made sustained investments in technology and infrastructure to increase efficiency and utilization of existing capacity.

DEBT AND BALANCE SHEET RESOURCES

The dormitory system is highly leveraged, typical of capital-intensive auxiliary enterprises. Available funds, defined as cash and investments not permanently restricted, totaled \$20.8 million as of June 30, 2017 (unaudited). This unrestricted liquidity made up an adequate 83% of operating expenses, but only 23% of debt. The MADS burden is also high at 25% of operating revenues, also typical of capital-intensive auxiliary systems.

Fitch believes the ABT and management's internal guidelines provide good assurance that pledged coverage will remain adequate in the event of planned additional housing debt. Current coverage has improved in recent years to a solid 1.6x; however, new debt is likely to curtail future MADS coverage.

The parking system is leveraged at levels that exceed those of other Fitch-rated capital-intensive auxiliary enterprises. Available funds totaled \$7.9 million as of June 30, 2017. This unrestricted liquidity made up an adequate 38.9% of operating expenses, but only 8.7% of debt. Despite these relatively thin liquidity levels, Fitch expects that FIU will maintain adequate reserves in relation to the system's long-lived and relatively low-maintenance assets with limited future debt issuance.

MANDATORY FEE SUPPORTS PARKING BONDS

System revenues are primarily derived from the mandatory TAF assessed on materially all FIU students. The fee supports the system's operations and has historically been increased ahead of approved capital projects to generate revenues sufficient to support pro forma debt service. The system also generates revenue from the sale of parking decals to faculty, staff and visitors and from fines and violations.

The system has consistently generated positive operating margins averaging 14.1% for the past five fiscal years. The margin declined to a still-adequate 7.2% in fiscal 2017 due to ongoing costs for the university's shuttle service and elevated levels of depreciation expense following the addition of new facilities in recent years. The shuttle service is operated by the parking system; however, related revenues are not pledged and related expenses are subordinate to debt service.

On a consolidated basis, including the shuttle service activities and other subordinate expenses, parking system operations generated slim MADS coverage of 1.1x in fiscal 2017. Excluding subordinate activities and capital expenditures, indenture-calculated MADS coverage was slightly stronger at 1.4x. Overall, Fitch considers debt service coverage somewhat low for the rating level but this concern is tempered given the strength of the mandatory student fee pledge.

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Applicable Criteria

Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)

<https://www.fitchratings.com/site/re/898969>

U.S. Public Finance College and University Rating Criteria (pub. 26 Apr 2017)

<https://www.fitchratings.com/site/re/897285>

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