

06 MAR 2023

Fitch Rates Florida International University's Parking Bonds 'A+'; Outlook to Positive

Fitch Ratings - New York - 06 Mar 2023: Fitch Ratings has assigned an 'A+' rating to \$24.3 million parking system revenue refunding bonds, series 2023A, issued by the Board of Governors of the State of Florida (BoG) on behalf of Florida International University (FIU).

In addition, Fitch has affirmed FIU's Issuer Default Rating (IDR) at 'AA-' and the following revenue bond ratings at 'A+':

--\$45.6 million parking system revenue bonds, series 2013A and 2019A;

--\$134.9 million dormitory revenue refunding bonds, series 2015A, 2020A, and 2021A.

The Rating Outlook on the IDR and parking system revenue bonds has been revised to Positive from Stable.

The Rating Outlook on the dormitory revenue bonds is Stable.

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.

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) measured over the two prior fiscal years.

ANALYTICAL CONCLUSION

The Positive Outlook on FIU's IDR reflects Fitch's view that FIU's increasing balance sheet cushion and continued strong demand provide an increasing level of resilience despite expected operating and expense pressures in fiscal 2023. FIU's 'AA-' IDR reflects the university's strong and improving financial profile in the context of strong revenue defensibility and moderate operating risk. FIU's demand characteristics remain competitive, which, combined with historically strong state support for operations and capital, offset thin yet adequate adjusted cash flow.

Pursuant to Fitch's criteria, ratings on securities with narrower or limited revenue pledges may be notched below the parent IDR.

The Positive Outlook on FIU's parking system revenue bonds reflects the strength of the TAF and

resultant resilience of parking system revenue bond debt service coverage. Debt service coverage for the parking revenue bonds is historically solid and resilient due in large part to the stability of the TAF revenue stream, and Fitch expects demand and debt service coverage to remain adequate as the system rebounds to pre-pandemic levels of activity.

The Stable Outlook on FIU's housing system revenue bonds reflects stable yet thin coverage (0.96x MADS in fiscal 2022) as the university fills out new housing stock and contemplates further expansion of the system over the intermediate to long term. The Stable Outlook further reflects the relatively small scale of the system, which serves about 10% of FIU's student base, and elevates the sensitivity of economic DS coverage to operating performance.

KEY RATING DRIVERS

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, including good retention and steady selectivity and matriculation levels. FIU continues to position its enrollment base with a focus on the academic outcomes emphasized under Florida's performance funding system. As a result, FIU's admissions rate has tightened to below 45% in recent years and undergraduate headcount enrollment declined modestly to about 45,600 in fall 2022 from a peak of 49,000 three years prior.

State support has historically been strong, and Fitch expects FIU to continue to benefit from strong state support for operations. Support from the FIU Foundation remains sustainable with annual draws of 4%.

Operating Risk: 'bbb'

Thin Cash Flow; Manageable Capital Needs

The university's 'bbb' operating risk assessment reflects FIU's thin yet adequate adjusted cash flow margins. Fitch expects margins to be modestly pressured in the near term, with softer enrollment and moderate expense growth in the tight state and regional labor market. FIU's capex requirements benefit from consistent state support and manageable capital needs in the near to intermediate term. Current projects under consideration include a mix of residential, academic, and amenities funded by a combination of debt, internal resources and outside funding that Fitch considers manageable.

Financial Profile: 'aa'

Strong Balance Sheet Ratios Through Stress

FIU continued to demonstrate strong leverage metrics in fiscal 2021, as investment and fundraising performance outpaced new borrowing. Total available funds (AF) of about \$758 million to adjusted

debt of \$626 million (including the \$397 million Fitch-adjusted net pension liability), increased to over 120% from historical levels consistently 80%-100%. Fitch's scenario analysis incorporated unaudited fiscal 2022 results and assumes a return to moderate growth in both revenues and expenses, as well as ongoing capex.

Fitch's stress case (which incorporates a modeled market downturn and corresponding operating revenue stress) reflects a more protracted return to revenue growth with somewhat limited expense flexibility, yielding thinner but still ample AF to adjusted debt at near 100%. Liquidity remains adequate and therefore neutral to FIU's ratings; systemwide (Fitch-calculated) debt service coverage was near 1x for fiscal 2022.

Asymmetric Additional Risk Considerations

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

RATING SENSITIVITIES

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

- Weakened demand and operating revenues could result in a revision of the Outlook for the IDR and parking revenue bond rating to Stable;
- Failure to meet housing demand targets and MADS coverage of 1.2x from pledged revenues by fiscal 2023 would pressure the dormitory bond rating;
- Deterioration of AF to adjusted debt to levels consistently below 50%.

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

- Consistent demand strength driving a sustained trend of operating revenue growth;
- Maintenance of adjusted cash flow margins consistently above 6%;
- AF to adjusted debt maintained consistently above 100%;
- Upward rating pressure on the housing system bonds could be prompted by sustained, stronger MADS coverage generally exceeding 1.4x over time.

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 and is a leading Hispanic Serving Institution in the state. The university serves about 55,500 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.

FIU's largely commuter student base has remained stable throughout the pandemic, with fall 2022 undergraduate headcount enrollment remaining fairly stable at just under 46,000. FIU's housing system historically sustained around 100% capacity despite housing about 10% of the university's student base, indicating considerable capacity to absorb added campus housing supply.

Parking Bond Coverage Remains Solid

FIU's parking system has maintained solid revenue bond coverage despite pandemic-related volatility. The system absorbed volatility in fiscal 2020 from contracted activity in the spring semester and a reduced TAF rate in the summer term. These revenue pressures combined with limited expense curtailment late in the fiscal year, compressing coverage to a solid 1.29x. Performance rebounded in fiscal years 2021 and 2022 as parking activity increased and management set the TAF at historical levels with coverage at 1.47x and 1.53x, respectively.

The 2023A refunding bonds will modestly reduce debt service without extending maturity. No additional debt is contemplated at this time. The Positive Outlook on FIU's parking revenue bonds is supported by the broad and consistent base on which the TAF is levied--a set charge for all campus-based students--as well as resilient coverage, which, taken together, reflect credit strength consistent with one notch below the parent IDR.

Strong Housing Demand; Thinner Bond Coverage

FIU has historically experienced growing demand for housing, despite its largely commuter-based campus with only around 10% of students living on campus and history of dormitory occupancy rates consistently at or near 100%. The pandemic and the shift to remote forms of learning significantly weakened housing occupancy in fiscal 2021, with occupancy rates declining to 51% in fall 2020. Despite these challenges, the housing system maintained sufficient annual debt service coverage of 1.05x in fiscal 2021, excluding the transfers of federal relief funds. Housing system occupancy rebounded to 96% in fall 2022 and returned to 9% of enrolled students, generating fiscal 2022 coverage of 1.54x and MADS coverage of 0.96x.

Given the longer-term trend of increasing demand for housing, the university constructed an additional housing facility on the main campus to meet some of the demand identified in a recent

market study. The project, Tamiami Hall, was funded with \$72 million of 2020A bond and nearly \$13 million of cash. With the additional beds, fall 2022 occupancy increased to 98%, equaling 11% of full-time students. The university's strategic plan contemplates as much as doubling the percentage of full-time students living on campus over the long term.

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, though new debt is likely to curtail future MADS coverage and sustain coverage at levels consistent with the current 'A+' rating.

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.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Florida International University (FL)	LT IDR	AA- 	Affirmed	AA- 
<ul style="list-style-type: none"> Florida International University (FL) /Dormitory Revenues/ 1 LT 	LT	A+ 	Affirmed	A+ 
<ul style="list-style-type: none"> Florida International University (FL) /Issuer Default Rating/ 1 LT 	LT	AA- 	Affirmed	AA- 
<ul style="list-style-type: none"> Florida International University (FL) /Parking Revenues/ 1 LT 	LT	A+ 	Affirmed	A+ 

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.01 Sep 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance College and University Rating Criteria \(pub.22 Sep 2022\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.4 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Florida International University (FL) EU Endorsed, UK Endorsed

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