

RatingsDirect®

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

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Florida International University; Auxiliary - System; Public Coll/Univ - Unlimited Student Fees

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Florida Intl Univ, Florida		
Ser 2009A, Ser 2009B, Ser 2013A Pkg facility bonds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Florida St Brd of Ed, Florida		
Florida Intl Univ, Florida		
Ser 2011 Student Apartments Refunding Bonds		
<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 abundant 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. This is counterbalanced by planned additional debt needs within the outlook period that could dilute available resources. 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;
- Strong university demand and enrollment trends, as demonstrated by a fall 2016 headcount of 55,112, a 36%

increase in enrollment since fall 2009, and the university's highest enrollment in history; and

- Abundant available resources compared with current debt, as reflected in FIU's adjusted unrestricted net assets (UNA) of 163% as of unaudited fiscal 2016 and 130% as of audited fiscal 2015.

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 and large housing system of 3,180 beds in unaudited fiscal 2015;
- The housing system's adequate debt service coverage, with actual annual debt service coverage and MADS of 1.88x in unaudited fiscal 2016 and 1.50x in unaudited fiscal 2015; and
- Continuing strong demand for on-campus housing, as illustrated by an average occupancy rate of 98% 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 roughly 25% of unaudited fiscal 2016 and 24% of audited fiscal 2015 operating revenues.

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 debt service coverage 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 during the outlook period could result if the housing system is expected to achieve consistently stronger debt service coverage, at or above 2.0x, as well as consistently strong occupancy levels as the university adds additional 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 debt service coverage.

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 2016 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. As such, 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 2016, total enrollment was 55,112, or 39,051 full-time equivalents (FTEs), about 83% 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 5,000 annually, supported by strong articulation agreements across Florida higher education institutions. Graduate program enrollment has also continued to increase, with 8,144 students enrolled (6,325 FTEs) in fall 2016. While FIU is not expecting a significant increase in enrollment for fall 2017, a general upward trend is expected. To date, applications for fall 2017 are up. Over time management expects selectivity to improve, along with graduation rates.

Demand has grown over the past five years; total headcount in fall 2016 reached a high of 55,112, up from 47,966 in fall 2011. Selectivity has improved to 49% from 39%, and matriculation has remained relatively stable, at 37% and 39%, respectively. Fall 2016 student quality, as measured by the average entering class SAT score, remained solid, in our view, at 1128, and the average ACT score was 25--both above the national averages. The 2016-2017 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 2017.

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 unaudited fiscal 2016 and audited fiscal 2015; on a cash basis, net operating income is positive. Overall, we consider university revenues to be relatively diverse; in unaudited fiscal 2016, 50% of total operating revenue came from student and auxiliary sources, 25% 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 three years, after economic conditions resulted in state appropriation declines in fiscals 2012 and 2013. FIU received \$261.6 million in unaudited fiscal 2016, a 5.5% increase from \$247.8 million in fiscal 2015. Fiscal 2015 state operating appropriations increased by 9.7% from \$225.9 million in fiscal 2014.

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 PECO will continue to have very limited capacity to bond 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 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 16,410 vehicle spaces on the

university's two main 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 \$8.6 million for fiscal 2016 and \$9.0 million for fiscal 2015, and management estimates \$9.2 million in net pledged revenue for fiscal 2017. 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 1.25x in fiscal 2016 and 1.30x in fiscal 2015. Management expects MADS coverage to total 1.33x in fiscal 2017 and remain above 1.20x for the foreseeable future. The transportation fee for the 2016-2017 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 2016 located on the Modesto Maidique (MMC) Campus with a combined capacity of 3,178 beds. In fiscal 2016, 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 campus. The project will construct an additional 656 beds. Management expects to issue \$59 million in dormitory revenue bonds by the end of 2017, begin construction in December 2017, and open for occupancy in May 2019.

Historically, the housing system has performed well financially, with the consistent generation of pledged revenue. The housing system had net pledged revenue of \$17.5 million for unaudited fiscal 2016 and \$14.6 million in unaudited fiscal 2015. Management estimates net pledged revenue of \$16.0 million for fiscal 2017. The housing system has provided adequate coverage of MADS, at 1.88x in unaudited fiscal 2016, and 1.50x in unaudited fiscal 2015. Management expects MADS coverage to total 2.17x in fiscal 2017 as debt service declines in that year. Following issuance of the additional debt, management projects that MADS coverage will exceed 1.60x. 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 abundant available resource ratios relative to its current debt load and low MADS burden, at 1.3% in unaudited fiscal 2016. Adjusted UNA (including debt service reserve funds) of approximately \$264.7 million in unaudited fiscal 2016 represented 24% of operations and 163% of debt, and \$224.1 million in audited fiscal 2015 represented 21% of operations and 130% of debt. Cash and investments totaled \$564.2 million in unaudited fiscal 2016, which equated to 52% of operations and 347% of debt, and \$544.6 million in audited fiscal 2015 equated to 52% of operations and 316% of debt. When including an additional \$59 million in debt for the new residence hall, these ratios decline but still remain adequate at the rating level. Pro forma MADS burden is expected to remain under 2.0% based on unaudited fiscal 2016 figures; cash and investment to pro forma debt is 255%, and adjusted UNA to pro forma debt is 119%.

The university's endowment, held by the Florida International University Foundation Inc., is estimated at \$174 million as of audited fiscal 2016 and \$179 million as of audited fiscal 2015.

Debt and contingent liabilities

At June 30, 2016, total debt outstanding was \$165 million, including \$70 million of FIU parking facility revenue bonds, secured by parking revenues, which we view as an unlimited student fee, and roughly \$93 million of dormitory revenue debt, which we view as having a narrower pledge of revenues than the unlimited student fee parking bonds. We understand that management plans to issue \$59 million in additional dormitory revenue debt in fiscal 2018 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, 2016, was negative \$5.4 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 2015 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.

	Fiscal year ended June 30					Medians
	2017	2016	2015	2014	2013	Public Colleges & Universities 'AA' 2015
Enrollment and demand						
Headcount	55,112	54,058	54,099	52,980	50,394	MNR
Full-time equivalent	39,051	38,324	38,141	37,607	35,605	32,632
Freshman acceptance rate (%)	49.4	49.9	47.6	43.0	40.5	71.7
Freshman matriculation rate (%)	37.3	36.4	36.0	42.0	41.1	MNR
Undergraduates as a % of total enrollment (%)	83.4	83.8	84.1	83.8	82.7	77.7
Freshman retention (%)	89.0	88.0	86.0	85.0	84.0	85.5
Graduation rates (five years) (%)	N.A.	48.0	47.0	49.0	45.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	1,049,764	1,039,316	1,027,948	921,222	MNR
Adjusted operating expense (\$000s)	N.A.	1,089,390	1,053,292	1,002,905	903,991	MNR
Net adjusted operating income (\$000s)	N.A.	(39,626)	(13,976)	25,043	17,231	MNR
Net adjusted operating margin (%)	N.A.	(3.64)	(1.33)	2.50	1.91	2.10
Estimated operating gain/loss before depreciation (\$000s)	N.A.	7,116	31,400	66,492	56,817	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	22,225	(111,743)	19,510	(15,160)	MNR
State operating appropriations (\$000s)	N.A.	261,567	247,849	225,862	173,819	MNR

Florida International University (cont.)

	Fiscal year ended June 30					Medians
	2017	2016	2015	2014	2013	Public Colleges & Universities 'AA' 2015
State appropriations to revenue (%)	N.A.	24.9	23.8	22.0	18.9	21.0
Student dependence (%)	N.A.	50.0	48.9	47.2	48.8	42.4
Healthcare operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	9.3	9.6	9.7	9.9	MNR
Endowment and investment income dependence (%)	N.A.	(0.2)	0.2	5.9	3.8	0.8
Debt						
Outstanding debt (\$000s)	N.A.	162,667	172,511	183,517	158,683	646,050
Proposed debt (\$000s)	N.A.	59,000	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	221,667	N.A.	N.A.	N.A.	MNR
Pro forma MADS	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.53	1.62	3.37	N.A.	MNR
Current MADS burden (%)	N.A.	1.31	N.A.	N.A.	N.A.	3.70
Pro forma MADS burden (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	174,061	178,750	176,500	N.A.	642,929
Related foundation market value (\$000s)	N.A.	160,780	153,808	148,052	N.A.	612,539
Cash and investments (\$000s)	N.A.	564,178	544,583	569,258	515,043	MNR
UNA (\$000s)	N.A.	112,309	90,084	201,827	182,317	MNR
Adjusted UNA (\$000s)	N.A.	261,853	221,249	239,175	208,514	MNR
Cash and investments to operations (%)	N.A.	51.8	51.7	56.8	57.0	51.7
Cash and investments to debt (%)	N.A.	346.8	315.7	310.2	324.6	162.6
Cash and investments to pro forma debt (%)	N.A.	254.5	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	24.0	21.0	23.8	23.1	30.3
Adjusted UNA plus debt service reserve to debt (%)	N.A.	162.7	129.9	131.9	133.2	86.7
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	119.4	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	11.2	10.6	10.6	10.3	12.4
OPEB liability to total liabilities (%)	N.A.	12.1	8.7	9.5	7.0	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 & long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation & amortization expense.

Ratings Detail (As Of March 22, 2017)

Florida Board of Governors, Florida

Florida Intl Univ, Florida

Ratings Detail (As Of March 22, 2017) (cont.)

Ser 2012 Student Apartments Bonds

Long Term Rating

A/Stable

Affirmed

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