

RATING ACTION COMMENTARY

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 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

ENTITY/DEBT	RATING	PRIOR
Florida International University (FL)		
● Florida International University (FL) /Dormitory Revenues/1 LT	LT	A+ Rating Outlook Stable Affirmed
		A+ Rating Outlook Stable

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APPLICABLE CRITERIA

[U.S. Public Finance College and University Rating Criteria -- Effective March 26, 2020— Oct. 7, 2020 \(pub. 26 Mar 2020\) \(including rating assumption sensitivity\)](#)

[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

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