FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Florida International University Dormitory Revenue Bonds 'A+'; Outlook Stable

Mon 08 Mar, 2021 - 5:09 PM ET

Fitch Ratings - New York - 08 Mar 2021: 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):

Feedback

--$46 million dormitory revenue refunding bonds, series 2021A.

The dormitory revenue refunding bonds are scheduled for competitive sale on or about the week of March 8, 2021. Bond proceeds will refund FIU's revenue and revenue refunding bonds, series 2011A and series 2012A, and fund the cost of issuance.

In addition, Fitch has affirmed all outstanding dormitory revenue and refunding bonds at 'A+' and FIU's Issuer Default Rating (IDR) at 'AA-'.

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 IDR, reflects 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 federal funds offsetting revenue losses in fiscal 2021 and coverage from student rentals 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 moderate operating risk. FIU's strong operating profile is supported by competitive demand indicators, thin but 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 downside stress scenario, which assumes a slower economic recovery and prolonged or recurring coronavirus-related disruptions, such as extended lockdowns and campus closures, into fiscal 2022.

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 and increasing state support under Florida's performance funding system in fiscal 2021.

Operating Risk: 'bbb'

Thin Cash Flow; Manageable Capital Needs

The university's 'bbb' operating risk assessment is reflective of FIU's thin yet adequate 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.

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 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 meet housing demand targets and MADS coverage of 1.2x from pledged revenues by fiscal 2023 would pressure the dormitory bond rating.

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.

CORONAVIRUS IMPACTS

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 2021A bonds will provide a margin of cash flow flexibility through fiscal 2022 without extending final maturity.

Federal stimulus funding provides a healthy margin of added flexibility for the university and its auxiliary systems, as FIU was awarded approximately $112 million of total federal relief funds in fiscal years 2020 and 2021, of which approximately $74 million is available to the university for operating purposes.

FIU remains well positioned under the state's performance funding framework to benefit from solid appropriations in the intermediate term.

REVENUE DEFENSIBILITY

FIU's revenue defensibility assessment of 'a' reflects competitive demand indicators, growing enrollment, and a history of solid state and foundation support for operating needs. Fitch expects state appropriations to FIU to remain strong in fiscal 2021, and FIU benefits from under $64 million of federal relief funding.

FIU's demand profile assessment is supported by expectations for continued strong student demand, despite potential near-term volatility. Full-time equivalent (FTE) enrollment growth has been solid with a five-year CAGR of about 1.4% as of fall 2020. Acceptance and matriculation rates have remained stable over this same period at around 50% and 30%, respectively for freshmen admissions. Undergraduate enrollment dipped modestly in fall 2020, but freshman admits were up modestly and graduate enrollment continues to grow. Fitch believes intermediate term prospects for demand remain strong.

Florida's statewide market characteristics are strong, and FIU's desirable location in Miami-Dade County and growing research programs provide access to prospective student growth centers across the state. In-state students account for approximately 90% of FIU undergraduate enrollment. While this in-state rate is high for a national research university, it is driven in part by the university's strategic planning goals. Moreover, population growth in Florida is well above average, supporting strong market characteristics for the university.

FIU's revenue source characteristics are consistent with its 'a' revenue defensibility assessment. While the university has limited control over its tuition setting due to state oversight, Fitch views FIU's enrollment demand as exhibiting limited sensitivity to price increases. As a comprehensive research university in a growing state, FIU is well positioned to manage through near-term enrollment pressure, especially given its track record of increasing state appropriations under Florida's performance funding system, which apportions state funding based on performance against student outcomes. Additionally, FIU benefits from foundation support with a sustainable endowment spend rate of about 4%.

Although FIU has limited control over tuition setting, Florida institutions retain considerably more flexibility for graduate and professional program tuition rates and FIU's moderate and growing graduate enrollment levels support a limited level of tuition control. Net tuition and fees per FTE enrollment have contracted in recent years with increased state support for scholarship programs that benefit FIU's growing enrollment base. Despite this trend, Fitch considers FIU's student base to be moderately sensitive to tuition and fee increases, which may have a marginal impact on demand while generating additional revenues.

Fitch expects FIU's other revenue sources, including state operating appropriations, foundation draws, and the operations of other direct support organizations, to continue to provide stability in the event of potential tuition volatility. State operating support has improved over time to over $320 million in fiscals 2019 and 2020, remaining fairly stable in fiscal 2021.

OPERATING RISK

FIU's 'bbb' operating risk assessment incorporates Fitch's expectations for thin cash flow margins and solid levels of capital spending flexibility. FIU's adjusted cash flow margins are expected to remain fairly thin (below 6%) in the intermediate term, given near-term revenue volatility. Fitch expects state support for capital will remain robust and sufficient to address the university's ongoing capex needs.

Adjusted cash flow margins have improved in recent years, remaining near 7% in fiscal 2020, but are vulnerable to operating pressure consistent with near term volatility. Fitch expects margins to be pressured in fiscal 2021 and will remain at or below 6% over the intermediate term.

The timing of near-term capital is somewhat flexible in the scope of university operations. The addition of undergraduate housing is the most significant item, which may be fully addressed with additional bonded debt. The university has historically funded capital improvements on an as-needed basis with capital spending varying widely in recent years, but averaging above 100% of depreciation, and the average age of plant approaching 13 years in fiscal 2020.

FIU historically benefits from considerable state funding for capital projects from Public Education Capital Outlay Trust Fund (PECO) support and a more limited level of donor fundraising support. Future projects are assessed on a case by case basis. FIU issued $72 million of dormitory revenue bonds in fiscal 2021 to fund construction of a new 700 bed facility. The university does not have additional housing debt plans at this time and Fitch anticipates that this project will provide sufficient capacity to absorb demand growth over the intermediate term.

FINANCIAL PROFILE

Fitch's calculation of adjusted debt includes the Fitch-adjusted net pension liability (NPL) as a debt equivalent. Fitch adjusts the NPL to reflect a 6% discount rate, instead of the 7% rate used by the Florida Retirement System (FRS), in which the university participates. Doing so increases FIU's NPL to $361 million and lowers the ratio of assets to liabilities to 75%, from a reported 86%. The Fitch-adjusted NPL constitutes approximately 63% of FIU's $539 million of adjusted debt in fiscal 2019.

FIU's leverage profile maintains AF to adjusted debt at around 80% throughout Fitch's baseline stress case, including assumptions for significant investment volatility, and suppressed cash flows. In a more sever downside case FIU still retains AF to adjusted debt of around 60%.

Strong Demand Supports Housing Bonds

FIU has historically experienced growing demand for housing, despite its largely commuter-based campus with only around 10% of students living on campus and dormitory occupancy rates consistently at or near 100%. The coronavirus pandemic and the shift to remote forms of learning has significantly weakened housing occupancy in fiscal 2021, with occupancy rates declining to 51% in fall 2020. Despite these challenges, Fitch estimates that transfers of federal relief funds and prospects for increased occupancy in the spring semester are expected to result in maintenance of solid cash flow and adequate coverage in fiscal 2021 with a rebound in demand lifting coverage in future years.

Fitch expects housing system debt service coverage to remain greater than 1.2x in fiscal 2021 (reflecting the refunding), but pledged revenues only generate coverage of .7x before the transfer of federal funds. Fiscal 2021 coverage of pro-forma MADS is thinner still at only .5x from pledged revenues. Despite near-term pressure, Fitch considers underlying demand for housing to be sufficient for FIU to reach 1.2x annual debt service coverage from pledged revenues by fiscal 2022 and pro forma MADS coverage of 1.2x by fiscal 2023.

Given the longer-term trend of increasing demand for housing, the university is constructing an additional housing facility on the main campus to meet some of the demand identified in a recent market study. The project, Parkview Housing II, is funded with $72 million of 2020A bond and nearly $13 million of cash. 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.

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			PRIOR
Florida International University (FL)	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
• Florida International	LT	A+ Rating Outlook Stable	Affirmed	

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance College and University Rating Criteria (pub. 07 Oct 2020) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 23 Feb 2021) (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), v1.3.2 (1, 2)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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