Fitch Affirms Florida International University's Aux Bonds at 'A+'; IDR at 'AA-'; Outlook Stable

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Fitch Ratings - New York - 18 Jul 2022: 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):

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

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

In addition, Fitch has affirmed FIU's Issuer Default Rating (IDR) at 'AA-'.

The Rating Outlook is Stable.

The 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. Annual debt service coverage was 1.05x in fiscal 2021.

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. Annual debt service coverage was 1.47x in fiscal 2021.

ANALYTICAL CONCLUSION

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 operating and expense pressures into fiscal 2023, with steady enrollment and relatively favorable level of state support.

Pursuant to Fitch's criteria, ratings on securities with narrower or limited revenue pledges may be notched below the parent IDR. The 'A+' ratings for FIU auxiliary bonds, at one notch below the FIU IDR, reflect the considerable credit strengths of the university and the fundamental importance of the auxiliary functions to FIU operations. Debt service coverage for the auxiliary bonds is at least adequate, and in some cases strong, and Fitch expects demand and debt service coverage to remain adequate as these systems rebound to pre-pandemic levels of activity. FIU's housing and parking systems received federal relief funds to offset pandemic-driven revenue declines. The university recognized relief funds as transfers to the system and supplemental to pledged revenue coverage.
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. Admissions and enrollment declined modestly for fall 2021, but remain broadly 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, which Fitch expects will be sustained through at least fiscal 2023.

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 modestly pressured in the near term with softer enrollment and moderate expense growth as FIU returns to full operations. 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 around 100%. Fitch's baseline scenario analysis assumes a return to moderate growth in both revenues and expenses and maintenance of leverage metrics near the fiscal 2021 level. Fitch's downside stress reflects a more protracted return to revenue growth with somewhat limited expense flexibility, yielding thinner but still ample AF to adjusted debt at around 80%. 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:

--Consistent demand strength driving a sustained trend of student-generated revenue growth;

--Maintenance of adjusted 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 50%;

--A sustained trend of pressured coverage could result in downward rating action on the pledged revenue bonds.

--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

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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 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.

FIU's largely commuter student base has remained stable throughout the pandemic, with fall 2021 full time equivalent (FTE) enrollment remaining fairly stable at just under 39,800. FIU's housing system historically sustained about 100% capacity despite housing less than 10% of the university's student base, indicating considerable capacity to absorb added campus housing supply.

Federal stimulus funding provided a healthy margin of added flexibility for the university and its auxiliary systems, as FIU was awarded approximately $245 million of total federal relief funds in fiscal years 2020 and 2021, of which approximately $149 million was 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.

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 history of dormitory occupancy rates consistently at or near 100%. The coronavirus 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 2021 and returned to 9% of enrolled students, generating fiscal 2022 coverage of 1.47x and MADS coverage of 1.26x.

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, Tamiami Hall, was funded with $72 million of 2020A bond and nearly $13 million of cash. Construction is complete and the student will begin housing students in the fall of 2022. 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.

Parking Bond Coverage Remains Solid

FIU's parking 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 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 1.55x, respectively.

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.
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Portfolio Analysis Model (PAM), v1.3.4 (1)

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