FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Florida International University's Dorm and Parking Revs at 'A+'; Outlook Stable

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Fitch Ratings - New York - 11 May 2020: 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):

--$81.3 million dormitory revenue bonds;

--$54.3 million parking system revenue bonds.

In addition, Fitch has assigned an Issuer Default Rating (IDR) of 'AA-' to FIU.

The Rating Outlook 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).

ANALYTICAL CONCLUSION

FIU's 'AA-' IDR reflects the university's strong financial profile in the context of the university's strong revenue defensibility and operating risk. 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, including suspension of most campus activity and a shift to online learning beginning in March. FIU's financial profile is also resilient to more severe revenue 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.

The recent outbreak of novel coronavirus and related containment measures create an uncertain environment for the U.S. public finance higher education sector. Our forward-looking analysis is informed by management expectations and by Fitch's common set of baseline and downside macroeconomic scenarios. Fitch's scenarios will evolve as needed during this dynamic period. Currently, Fitch's baseline scenario includes a sharp economic contraction in the second quarter of 2020, with sequential recovery starting in the third quarter. For higher education, the baseline case assumes that most residential campuses will reopen for fall 2020 following three to four months of closure.

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 (discussed in more detail below), and Fitch expects demand and debt service coverage to remain adequate through near term coronavirus related demand and revenue volatility.

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 and 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 strong near 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 negative rating action/downgrade:

--Failure to maintain parking bond debt service coverage on a consolidated basis at or above 1.2x beyond fiscal 2020 may result in pressure on the parking bond rating;

--Deterioration of AF to adjusted debt to levels consistently below 60%.

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%.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance 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.

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 be pressured in fiscal 2021, but FIU benefits from over $38 million of CARES Act funding in fiscal 2020.

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 robust with a five-year CAGR of about 9% as of fall 2019. Acceptance and matriculation rates have remained stable over this same period at around 60% and 50%, respectively. Fitch expects some enrollment softening may occur in fall 2020, but applications to date are modestly below fall 2019 levels at this time and 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 fast-growing state, FIU is well positioned to manage through near-term state appropriation and enrollment pressure. 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 but remains uncertain for fiscal 2021. Early budget appropriations included system-wide increases for Florida public universities, but Fitch expects that pressure on state revenues from the economic impact of the coronavirus will likely result in some reductions in fiscal 2021 appropriations. Favorably, Florida 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 expects to receive approximately $38 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.

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 improved in recent years (to over 7% in fiscal 2019), but remain vulnerable to potential 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.

Fitch expects FIU's adjusted cash flow margins to remain adequate at or above 6%, consistent with the university's historical levels. The university's adjusted cash flow margin has improved in recent years (to over 7% in fiscal 2019) with shifts in state operating appropriations and state and federal grant programs. Fitch expects margins to be pressured in fiscal 2021 followed by stabilization from increasing state support and enrollment growth 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 2019.

FIU historically benefited 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.

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 $341 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 additional housing debt, significant investment volatility, and suppressed cash flows. In a more sever downside case FIU still retains AF to adjusted debt of around 60%. There are no concerns about debt service coverage liquidity.

Housing and Parking Auxiliary Bond Ratings

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%. Current coverage of housing debt service has improved in recent years to a solid 2x in fiscal 2019 and similar results are expected for fiscal 2020. Total housing revenues are somewhat modest at $31 million in fiscal 2019 and fiscal 2020 revenues and coverage are expected to be modestly lower due to refunds and credits relating to the closure of dormitories through the second half of the spring semester and summer.

Given the longer term trend of increasing demand for housing, the university is planning to construct an additional housing facility on the main campus in the near term to meet some of the demand identified in a recent market study. The project, Parkview Housing II, will be funded with additional housing system indebtedness not to exceed $71.8 million, which Fitch believes the system can absorb at the current rating. Longer term, the university's strategic plan contemplates as much as doubling the percentage of full-time students living on campus. 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 maximum annual debt service (MADS) coverage.

Mandatory Fee Supports Parking Bonds

System revenues are primarily derived from the mandatory TAF assessed on materially all FIU students. The fee supports the system's operations and has historically been increased ahead of approved capital projects to generate revenues sufficient to support pro forma debt service. The system also generates revenue from the sale of parking decals to faculty, staff and visitors and from fines and violations.

On a consolidated basis, including the operations of a shuttle service and other subordinate expenses, Fitch calculates parking system operations generated slim MADS coverage of 1.1x in fiscal 2019. Excluding subordinate activities and capex, indenture-calculated MADS coverage was slightly stronger at 1.3x. Overall, Fitch considers debt service coverage somewhat low for the rating level, but this concern is tempered given the strength of the mandatory student fee pledge. FIU had budgeted stronger coverage for fiscal 2020, but revenue pressure from the coronavirus may result in coverage remaining around fiscal 2019 levels. Fitch expects FIU to adjust rates and expenses to return to historical coverage levels by fiscal 2021. Failure to maintain coverage near historical levels beyond the current year may result in divergence of the parking bond rating further than one notch below the university's IDR.

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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Florida International University (FL)	LT IDR	AA-	New Rating
• Florida International University (FL) /Dormitory Revenues/1 LT	LT	A+	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance College and University Rating Criteria (pub. 26 Mar 2020) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Florida International University (FL)	EU Endorsed
State of Florida Board of Governors (FL)	EU Endorsed

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