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

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

Credit Profile		
Florida Intl Univ Dormitory (BAM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
<b>Florida Board of Governors, Florida</b>		
Florida International University, Florida Florida Brd of Governors (Florida Intl Univ) PCU_USF <i>Long Term Rating</i>	AA-/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on Florida Board of Governors' (BOG) parking facility debt outstanding, issued for Florida International University (FIU).
- At the same time, we affirmed our 'A' SPUR on BOG's dormitory bonds outstanding, issued for FIU.
- The outlook is stable.

### Security

The parking facility bonds are secured by a pledge of parking facility revenues, which we view as equivalent to an unlimited student fee pledge.

The dormitory revenue bonds are secured by a pledge of net housing revenues. 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 revenue that we view as narrower than the pledge supporting the parking facility bonds and only adequate debt service coverage (DSC).

As of fiscal year-end 2023, total debt outstanding was \$255.3 million, including parking facility revenue bonds, dormitory revenue bonds, and \$21.1 million in component unit debt and \$39.2 million in leases.

FIU's debt structure is conservative, in our opinion, and we consider the maximum annual debt service (MADS) burden to be low at 1.6%.

### Credit overview

We assessed FIU's enterprise risk profile as very strong, reflecting the university's solid demand and selectivity and retention rates. We assessed FIU's financial risk profile as very strong, with solid financial resource ratios relative to the university's debt load, a low MADS burden, and prudent fiscal management but weaker financial resource ratios relative to operations. When we combine the enterprise and financial risk profiles, this leads to an anchor 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 transportation access fee as a part of registration for classes, and a pledge of parking system revenue, which is a broad pledge that we consider to be equivalent to an unlimited student fee pledge;
- Healthy enrollment at the university and the parking system's solid demand;
- FIU's history of surplus operations; and
- The university's robust financial resources relative to debt.

The 'A' rating on the dormitory revenue bonds reflects the university's credit strengths, as well as:

- A large housing system of over 3,800 beds in fall 2023;
- The housing system's adequate DSC for the rating of 1.6x in fiscal 2023; and
- The current strong demand for on-campus housing, as illustrated by an average occupancy rate of 99% over the past five years, although occupancy fell in fall 2020 to 51% due to the academic delivery mode (primarily online and remote) as a result of the pandemic.

Our view of the following offsetting credit factors constrains the ratings:

- Weaker cash and investments to operations relative to peers and medians;
- Low endowment to full-time-equivalent (FTE) relative to peers and medians; and
- Tuition and fee restraints imposed by the state for all Florida public universities, which constrain a key revenue stream.

FIU is a public university composed of two campuses, offering about 200 degrees across undergraduate, graduate, and professional programs. FIU has the only public colleges of law and medicine in southern Florida. FIU's main campus is the 342-acre Modesto A. Maidique (MMC) campus in western Miami-Dade County; there is also the 200-acre Biscayne Bay campus in northeast Miami-Dade County. Additionally, FIU has academic centers in downtown Miami, South Beach, and Miramar, Fla.

### **Environmental, social, and governance**

We analyzed the university's environmental, social, and governance credit factors pertaining to its market position, management and governance, and financial performance. Given FIU's location in coastal Florida, the environmental risk is elevated, in our opinion, when compared with the sector given the potential for severe weather events and chronic risks related to sea-level rise. The university has insurance and plans in place to mitigate this risk. FIU's social and governance factors are neutral within our credit rating analysis.

## **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. The outlook also reflects S&P Global Ratings' expectation that FIU's housing system will continue to experience high levels of demand and adequate DSC levels.

### **Downside scenario**

Credit factors that could lead to a negative rating action on the university's unlimited student fee-equivalent debt during the outlook period include a trend of negative operating performance and a weakening of the university's financial resources relative to the rating category, as well as declining enrollment.

Credit factors that could lead to a negative rating action on the university's housing system debt during the outlook period could include sustained significant decreases in DSC.

### **Upside scenario**

We could take a positive rating action on the university's unlimited student fee-equivalent debt in the outlook period if demand remains stable or grows, operating performance strengthens on a full-accrual basis, and the university increases its financial resources while meeting its future capital needs.

We could take a positive rating action on the university's housing system debt if the housing system achieves consistently stronger DSC while maintaining consistently robust occupancy levels.

## **Credit Opinion**

### **Enterprise Risk Profile--Very Strong**

#### **Market position and demand**

Although total FTE enrollment has softened over the past three years to 38,979 in fall 2023 from 41,210 in fall 2020, we believe FIU continues to demonstrate solid demand and good student quality. Prior to fall 2021, enrollment had generally increased moderately on a year-over-year basis, after very strong growth earlier in the decade. We understand the recent decline is primarily driven by high school dual enrollment and community college transfers. Administration is working to increase articulation agreements. Graduate FTE enrollment has moderated to 7,694 in fall 2023 from a high of 8,176 in fall 2021. Management is expecting stable overall enrollment through fall 2026. Selectivity was extremely strong at about 38% in fall 2023, the six-year graduation rate has improved to 74% from 62% in fall 2019 and 54% in fall 2014, and the retention rate was also impressive at 93% in fall 2023. About 90% of students are from Florida, and about 80% are undergraduates.

#### **Management and governance**

The university's board of trustees is composed of 13 members: five appointed by the state BOG, six appointed by Florida's governor, and student and faculty representation by the university's faculty senate chair and student government president. In October 2022, Dr. Kenneth A. Jessell was named FIU's sixth president. Dr. Jessell had served as the interim president since January 2022 and prior to that was FIU's senior vice president for finance and administration and CFO for 13 years. Dr. Elizabeth M. Bejar, who had been serving as the interim, was named to the position of provost, executive vice president, and chief operating officer. Dr. Bejar has been with FIU since 2003. Ms. Aime Martinez, who served as the acting CFO in Dr. Jessell's place, was appointed to the position; Ms. Martinez has

significant experience in finance, accounting, and investments. In our view, FIU's financial management practices are prudent. We also regard the university's conservative debt issuance practices favorably given that almost all of FIU's debt is self-supporting in nature.

## Financial Risk Profile--Very Strong

### Financial operations

We view favorably FIU's success in producing positive operating results on a full-accrual basis in the past six fiscal years. Despite the challenges presented by the pandemic, FIU achieved an operating surplus in fiscal 2020 and fiscal 2021. The fiscal 2022 operating margin was modest at under 1%, and the fiscal 2023 grew to 2.1%, or \$29.2 million. Fiscal 2024 is expected to achieve a surplus as well.

In our view, Florida has traditionally provided strong support for higher education. State operating appropriations have increased in the past seven years. FIU received \$362.0 million in fiscal 2023, \$346.5 million in fiscal 2022, and \$343.0 million in state appropriations in fiscal 2021. Appropriations in unaudited fiscal 2024 and preliminary fiscal 2025 continued to increase steadily.

Overall, we consider university revenue to be relatively diverse; in fiscal 2023, 41.2% of total operating revenue came from student and auxiliary sources and 25.5% from state appropriations. We believe that the composition of the university's revenue stream will remain stable.

### FIU parking system

The Office of Parking and Transportation, a subdivision of the Office of the Vice President for Operations & Safety and Chief of Staff, operates the FIU parking system. The parking system is a self-supporting auxiliary operation that does not receive state funding. The FIU parking system has more than 17,000 vehicle spaces on the university's campuses. A student transportation access fee and faculty and staff decal sales generate the majority of parking system revenue. 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 revenue.

### The FIU housing system

The university operates seven residence halls located on the MMC, with a combined capacity of 3,814 beds as of fall 2023. In fall 2019, prior to the pandemic, approximately 9% of full-time students resided on campus. Management set a goal to increase that percentage, and to that end, it completed constructing Tamiami Hall, which opened in fall 2022. With the additional beds from this project, management estimates capacity for 11% of full-time students to live on campus. Occupancy has ranged from 98% to 100% since fall 2018, with the exception of fall 2020. With the move to offering classes primarily through remote and online learning in fall 2020, occupancy was only 51%. For fall 2021, occupancy increased closer to historical levels at approximately 96%. With the opening of Tamiami Hall, occupancy reached 98% in fall 2022 then increased to 99% in fall 2023.

Historically, the housing system has performed well financially, with consistent generation of pledged revenue. The housing system had net pledged revenue of \$17.0 million for fiscal 2023. It provided DSC at a good 1.6x in fiscal 2023

and a slightly slimmer 1.5x in fiscal 2022. Fiscal 2021 annual DSC was materially lower at 1.05x because of a decline in net revenues to \$7.6 million due to the pandemic; however, when including CARES Act and Coronavirus Response and Relief Supplemental Appropriations Act funding for lost revenues, which is not pledged revenue, DSC improved to over 2.5x in fiscal 2021. Since pledged revenue did generate at least 1x annual DSC, the housing system remained in compliance with bond covenants. Coverage is projected at 1.6x for fiscal 2024 and a more robust 2.1x in fiscal 2026.

To fill unmet demand for on-campus housing, management is planning for a new housing project that will have 840-1,240 beds in a phased construction approach. The total budget is expected to be no more than \$231 million for the maximum number of beds. The first phase is planned to open in August 2027, with the subsequent phase in August 2028. Currently, the project is in design phase with the goal of developing the scope and timing of the project. It is expected that the project would be funded with a combination of funding from the housing system and the issuance of debt. We believe FIU has some capacity for additional debt at the current rating.

### Financial resources

We believe FIU has a good balance sheet for the rating, with robust financial resource ratios relative to its current debt load. Cash and investments including the foundation and component units were approximately \$958.3 million in fiscal 2023 and represented 68.9% of operations and 375.4% of debt. FIU's financial resource ratios relative to 'AA' category medians are weaker for operations and stronger for debt; the category medians are 116.1% for operations and 290.2% for debt.

The university's endowment, held by the Florida International University Foundation Inc., was \$306.6 million in fiscal 2023 and \$284.3 million as of fiscal 2022.

### Debt and contingent liabilities

FIU offers retirement benefits to its employees through both defined-contribution and defined-benefit plans. The defined-benefit plans are offered through two state plans: the Florida Retirement System (FRS) and the Health Insurance Subsidy defined-benefit plan. The fiscal 2023 FRS funded ratio was a solid 82.3%. Management reports FIU has been making required employer contributions to plans, and as per state statute, should FIU not be able to make the required contributions, the state is ultimately responsible. FIU offers other postemployment benefits (OPEB), which it funds on a pay-as-you-go basis. Pension and OPEB costs to adjusted operating expense were modest and remain manageable, in our view.

The FIU Athletics Finance Corp., a discretely presented component unit, entered into a swap in connection with its series 2009A bonds issuance to synthetically fix the interest rate. As of June 30, 2023, this swap had a derivative liability of \$764,284.

## Florida International University--enterprise and financial statistics

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2024	2023	2022	2021	2020	2023
<b>Enrollment and demand</b>						
Full-time-equivalent enrollment	38,949	39,307	39,786	41,210	41,104	38,162

**Florida International University--enterprise and financial statistics (cont.)**

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2024	2023	2022	2021	2020	2023
Undergraduates as a % of total enrollment	80.3	80.0	79.5	80.6	81.7	80.2
First-year acceptance rate (%)	38.1	44.9	52.0	48.4	45.1	73.7
First-year matriculation rate (%)	27.8	32.7	34.4	33.3	31.6	27.1
First-year retention rate (%)	93.0	92.0	91.0	92.0	91.0	85.6
Six-year graduation rate (%)	74.0	68.0	67.0	66.0	62.0	71.0
<b>Income statement</b>						
Adjusted operating revenue (\$000s)	N.A.	1,421,239	1,413,292	1,295,934	1,287,490	MNR
Adjusted operating expense (\$000s)	N.A.	1,392,008	1,403,815	1,207,238	1,276,606	MNR
Net adjusted operating margin (%)	N.A.	2.1	0.7	7.3	0.9	2.1
Estimated operating gain/loss before depreciation (\$000s)	N.A.	85,832	62,310	135,054	57,469	MNR
Tuition discount (%)	N.A.	40.6	42.1	41.4	41.6	28.2
Student dependence (%)	N.A.	41.4	41.5	42.5	44.3	36.2
State appropriations to revenue (%)	N.A.	25.5	24.5	26.5	25.1	17.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	15.4	12.3	11.2	10.3	14.5
<b>Debt</b>						
Foundation debt (\$000s)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Total debt with foundation (\$000s)	N.A.	255,271	255,328	254,384	156,851	985,387
Proposed debt (\$000s)	N.A.	N.A.	N.A.	N.A.	117,755	MNR
Total pro forma debt (\$000s)	N.A.	255,271	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.0	1.4	1.2	1.2	MNR
Current MADS burden (%)	N.A.	1.6	1.5	1.8	1.2	3.5
Pro forma MADS burden (%)	N.A.	0.0	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.7	14.8	15.8	14.9	12.7
<b>Financial resource ratios</b>						
Endowment market value (\$000s)	N.A.	306,631	284,292	276,410	218,684	1,291,622
Related foundation market value (\$000s)	N.A.	N.A.	246,678	201,514	195,147	MNR
Cash and investments including foundation (\$000s)	N.A.	958,335	931,650	981,730	752,049	2,690,303
Cash and investments including foundation to operations (%)	N.A.	68.8	66.4	81.3	58.9	116.1
Cash and investments including foundation to debt (%)	N.A.	375.4	364.9	385.9	479.5	290.2

**Florida International University--enterprise and financial statistics (cont.)**

	--Fiscal year ended June 30--					Medians for 'AA' category rated public colleges and universities
	2024	2023	2022	2021	2020	2023
Cash and investments including foundation to pro forma debt (%)	N.A.	375.4	N.A.	N.A.	N.A.	MNR

Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100\*(net adjusted operating income/adjusted operating expense). Student dependence = 100\*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100\*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

**Ratings Detail (As Of August 30, 2024)**

**Florida Board of Governors, Florida**

Florida International University, Florida

Florida Board of Governors (Florida International University) parking facility rev rfdg bnds ser 2023A dtd 04/04/2023 due 07/01/2043

*Unenhanced Rating* AA-(SPUR)/Stable Affirmed

Florida Board of Governors (Florida Intl Univ) rev rfdg bnds ser 2023A dtd 04/04/2023 due 07/01/2043

*Long Term Rating* AA-/Stable Affirmed

Florida Brd of Governors (Florida Intl Univ) PCU\_USF

*Unenhanced Rating* AA-(SPUR)/Stable Affirmed

Florida Brd of Governors (Florida Intl Univ) PCU\_USF

*Unenhanced Rating* A(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

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