

Florida International University; Public Coll/Univ - Unlimited Student Fees

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US\$45.955 mil Dormitory Rev Rfdg Bnds ser 2021A dtd 04/15/2021 due 07/01/2041

Long Term Rating

A/Stable

New

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to Florida Board of Governors' (BOG) \$46 million series 2021A dormitory revenue refunding bonds, issued for Florida International University (FIU). The outlook is stable.

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, which we view as equivalent to an unlimited student fee pledge.

As of fiscal year-end 2020, total debt outstanding was \$161.3 million, including parking facility revenue bonds, dormitory revenue bonds, and \$27.9 million in component unit debt. With subsequent events including the current issuance and the 2020A bonds, total pro forma revenue debt is approximately \$228.2 million. FIU's debt structure is conservative, in our opinion, and we consider the pro forma maximum annual debt service (MADS) burden to be low at 1.1%. The series 2021A bonds are being issued to refund all or a portion of the series 2011A and series 2012A dormitory revenue and revenue refunding bonds.

While there is a high level of uncertainty regarding the duration and extent of the effects of the COVID-19 pandemic, we believe FIU has taken prudent steps to ensure the safety of its students, faculty, and staff while also remaining financially responsible. In March 2020, FIU transitioned to remote and online formats, and residence halls were closed to the majority of students through the summer 2020 semester (except those who did not have safe housing alternatives). A refund was issued to 2,781 affected students for a portion of their spring 2020 housing fees. Total housing system refunds were approximately \$2.9 million. FIU received \$41.1 million in federal awards under the Coronavirus Aid, Relief, and Economic Security (CARES) Act; \$19.2 million is for emergency student financial aid, \$19.2 million is for institutional costs resulting from the pandemic, and \$2.8 million is for minority-serving institutions. The emergency aid to students awards were made to 9,550 students. Under the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, FIU was allocated \$51.7 million for institutional support and \$19.2 million for emergency financial aid grants to students with exceptional needs; FIU also anticipates receiving an additional allocation of approximately \$4.6 million under CRRSSA as a minority service institution.

In June 2020, FIU's fall 2020 reopening plan was adopted by the board of trustees and approved by the BOG. Key components of the plan include COVID-19 virus testing, a mobile screening app, contact tracing and surveillance, student ambassadors to promote understanding and compliance, and a shift in academic program delivery. Academic program delivery for fall 2020 included a delayed start (4.3%), face-to-face (16.5%), hybrid (3.4%), online (26.3%), and

remote (49.5%), as compared with fall 2019 with face-to-face (55.0%), hybrid (13.0%), and online (32.0%). In fall 2020, dormitories reopened with an occupancy level of 51% (occupancy typically is 99%). Occupancy for spring 2021 increased to approximately 65%. Enrollment for fall 2020 increased by 0.2% to 58,928 from fall 2019 enrollment. International enrollment represents only 7% of fall 2020 enrollment, down only slightly from 8% in fall 2019. As a result of management's prudent financial management, a surplus of approximately \$10 million was achieved in fiscal 2020 as calculated by S&P Global Ratings, with certain adjustments including those for pension and other postemployment benefit (OPEB) expense.

Fiscal 2021 presents challenges including uncertainties related to COVID-19 effects, particularly as they affect state appropriations and auxiliary revenues. The fiscal 2021 operating budget was adopted prior to the governor's 6% holdback and potential 8.5% reduction to state appropriations; these changes could have the effect of reducing fiscal 2021 state appropriations by up to \$28.5 million. FIU has worked to mitigate budget uncertainty, including expense reductions and a possible use of reserves; currently, management is projecting a modest operating surplus for fiscal 2021. FIU has good liquidity, with cash and unrestricted investments of \$475 million as of Jan. 31, 2021; 85% of the investment portfolio can be accessed within five days or less. We understand fundraising has been solid, with gifts of \$75.9 million against a goal of \$71.0 million in fiscal 2020. We recognize that FIU continues to monitor the course of the pandemic, having evaluated additional measures that could be taken to protect the health of the community and promote its core mission. We believe that FIU's balance sheet and liquid resources will help the institution offset medium-term pressures that might arise as a result of the pandemic.

Credit overview

We have assessed FIU's enterprise profile as very strong, reflecting its growing demand and strong selectivity and retention rates. We have assessed FIU's financial profile as very strong, with solid available resource ratios relative to its debt load, low MADS burden, and solid financial policies. When we combine the enterprise and financial profiles, this leads to an indicative stand-alone credit rating 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;
- Growing enrollment at the university and the parking system's strong demand and history of surplus operations; and
- Solid and growing available resources compared with debt, as reflected in FIU's ratio of adjusted unrestricted net assets (UNA) to pro forma aggregate (all securities) debt of 159.6% as of fiscal 2020 and cash and investments to pro forma aggregate debt of 198.7% in fiscal 2020.

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

- A solid pledge of net housing system revenue and a large housing system of 3,223 beds in fall 2020;
- The housing system's adequate debt service coverage (DSC), with coverage of outstanding debt of 2.0x in fiscal 2019 and, despite the effects of the COVID-19 pandemic on revenues, coverage of 1.4x in fiscal 2020; and

- Strong demand for on-campus housing, as illustrated by an average occupancy rate of 99% over the past five years, although occupancy in fall 2020 was 51% due to the academic delivery mode (primarily online and remote) as a result of COVID-19.

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

- Continued capital pressures, and
- Tuition and fee restraints imposed by the state for all Florida public universities, which constrain a key revenue stream.

The stable outlook reflects S&P Global Ratings' expectation that the university will continue to experience stable demand and enrollment trends and maintain available resource ratios. The stable outlook also reflects S&P Global Ratings' expectation that once students return to campus, FIU's housing system will continue to experience high levels of demand and solid DSC levels.

FIU is a public university comprising two campuses, offering about 190 degrees across undergraduate, graduate, and professional programs. 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. The university also has an academic site in Broward County, a 40-acre Engineering Center--a major research facility near the main campus--and the Downtown Center, located in downtown Miami for graduate courses.

Environmental, social, and governance (ESG) factors

In our view, FIU, similar to other higher education institutions, faces elevated social risk as a result of uncertainty about the duration of the COVID-19 pandemic. We view the risks posed by COVID-19 to public health and safety as a social risk under our ESG factors. In addition, given FIU's location in coastal Florida, the environmental risk is also elevated when compared to the sector given the potential for severe weather events and sea level rise. Despite the elevated social and environmental risks, we believe FIU's governance risk is in line with our view of the sector.

Stable Outlook

Downside scenario

Credit factors that could lead toward a negative rating action on the university's unlimited student fee-equivalent debt during the outlook period include negative operating performance and a weakening of the university's available resources relative to the rating category, as well as declining enrollment. In addition, further unforeseen pressures from the pandemic that cause material weakening of demand, finances, or the trajectory of the university's plan to mitigate the effects of the COVID-19 outbreak could also cause a negative rating action.

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 during the outlook period if demand remains stable or grows, operating performance is consistently positive on a full-accrual basis, and

the university strengthens its available 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, as well as consistently strong occupancy levels as the university adds beds.

Credit Opinion

Enterprise Profile

Economic fundamentals

In our view, the university has limited geographic diversity as it is predominantly regional. About 89% of fall 2020 students were from Florida, with the rest coming from other states and countries. While the university aims to increase its student population, it is unlikely to materially shift the current student geographic mix within the outlook period. Therefore, our assessment of FIU's economic fundamentals is anchored by the Florida GDP per capita.

Market position and demand

FIU demonstrates continued enrollment growth, solid demand, and good student quality, in our opinion. As of fall 2020, total enrollment was 58,928, or 41,210 full-time equivalents (FTEs), about 83% of whom are undergraduates. Despite the COVID-19 pandemic, total headcount increased 0.2% over fall 2019 headcount enrollment of 58,787. Over the past several years, enrollment has generally increased moderately on a year-over-year basis, following very strong growth earlier in the decade. The number of transfer students continues generally to grow, supported by strong articulation agreements across Florida higher education institutions. Graduate program enrollment has increased over time and was up 5.6% in fall 2020, with enrollment at 6,829 FTEs. Management is expecting a general stable to upward trend in overall enrollment. Fall applications have been declining the past several years due to a change where a number of students were admitted in summer and spring rather than in fall as part of a strategy to provide more support to the students with a goal of increasing successful academic outcomes at the university. As of four years ago, students could apply only for fall enrollment; however, now there are 10 pathways for admission. Selectivity was about 48.4% in fall 2020, and the graduation rate improved markedly to 66.0% from 62.0% in the previous year. Over time, management expects selectivity to improve, along with graduation rates.

Fall 2020 student quality, as measured by the average entering class SAT score, remained solid, in our view, at 1130, and the average ACT score was 28--both above the national averages. The 2020-2021 academic year tuition and fees remain reasonable, in our opinion, at \$6,167 for in-state residents, as is out-of-state tuition, at \$18,566.

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. The university reports normal board turnover. University officials report that there are no major changes in senior management expected at this time. 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 its debt is self-supporting in nature.

Financial Profile

Financial management policies

The university has formal policies for reserves and liquidity, endowment investments, and debt, which we view favorably. Its strategic plan contains 20 critical performance indicator goals related to student quality, academics, access, research, and revenue, with objectives and metrics for these goals. FIU meets standard annual disclosure requirements. It publishes annual full-accrual financial reports following completion of the annual financial audit by the state auditor general. Its reserve policy is dictated by state statute, which requires all state universities to maintain a minimum of a 7% operating budget reserve, which it has complied with historically; FIU maintains additional contingency reserves. Cash and debt management functions are centralized under the chief financial officer. It also has a formal debt management policy prescribed by the Florida BOG with specific debt limits. The debt policy is monitored by the Florida BOG and FIU, with no deviations from the policy. Multiyear capital plans are updated every year. Our analysis of financial policies includes a review of the university's financial reporting and disclosure, investment allocation and liquidity, debt profile, contingent liabilities, and legal structure and a comparison of these policies with those of comparable institutions.

Financial operations

We view FIU's success in producing positive operating results on a full-accrual basis in the last three fiscal years favorably. Despite the challenges presented by the pandemic, FIU achieved an operating surplus in fiscal 2020 of \$10.2 million, or a margin of 0.8%, as calculated by S&P Global Ratings, including \$3.2 million in CARES Act funding in operating revenues. In fiscal 2019 FIU had a positive net operating income of 2.4%, or \$29.8 million, following a 1.2% positive net operating income in fiscal 2018 (\$13.9 million). We understand the fiscal 2021 operating margin could be pressured by the effects of the COVID-19 pandemic; however, management is currently projecting a modest surplus. Overall, we consider university revenue to be relatively diverse; in fiscal 2020, 44% of total operating revenue came from student and auxiliary sources and 25% from state appropriations. We believe that the composition of the university's revenue stream will remain stable.

State appropriations

In our view, Florida has traditionally provided strong support for higher education. State operating appropriations have increased in the past six years, after economic conditions resulted in state appropriation declines in fiscals 2012 and 2013. FIU received \$322.4 million in fiscal 2019, a 9.4% increase from \$294.6 million in fiscal 2018. Appropriations in fiscal 2020 were \$323.3 million, or a 0.3% increase over fiscal 2019. Operating appropriations, excluding capital support, were \$317.8 million in fiscal 2019 and \$318.8 million in fiscal 2020. Fiscal 2021 operating appropriations were adopted by the state at \$338.1 million; however, we understand the fiscal 2021 state operating appropriations are subject to a 6% holdback (\$20.1 million) and a potential additional \$8.4 million cut as ordered by the governor in response to COVID-19.

In addition, while public universities in Florida also benefit from capital support for academic buildings through public education capital outlay (PECO) grants, these grants have become less frequent during the past couple of years because of a decrease in the revenue that funds the program. In general, state capital appropriations have fluctuated in recent years; in our opinion, it is possible that the long-term effect of reduced capital appropriations will increase

additional financing needs for the university. State capital support in fiscal 2019 totaled \$30.6 million and \$6.3 million in fiscal 2020.

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 over 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 3,223 beds in fall 2019 and 2020. In fall 2019 (before the effects of COVID), approximately 9% of full-time students resided on campus, and management indicates it would like to increase that percentage. To that end, management is constructing the Parkview II project to provide additional housing capacity on the MMC of about 700 beds. Parkview II is expected to open for occupancy in fall 2022. With the additional beds from Parkview II, management estimates capacity for 11% of full-time students to live on-campus. In fall 2019 occupancy was 100%, and occupancy had ranged from 99% to 100% over the previous five years. With the move to offering classes primarily through remote and online learning in fall 2020, occupancy was only 51%. Occupancy for spring 2021 increased to approximately 65%. Management expects demand to return to the historical rate after the pandemic.

Historically, the housing system has performed well financially, with the consistent generation of pledged revenue. The housing system had net pledged revenue of \$14.6 million for fiscal 2019 and \$10.5 million for fiscal 2020. The housing system provided DSC at a solid 2.0x in fiscal 2019 and an adequate 1.4x in fiscal 2020. Fiscal 2021 DSC is projected at 0.71x as a result of a decline in net revenues to \$5.2 million; however, when including CARES Act and CRRSA Act funding for lost revenues, the university anticipates DSC of 1.34x in fiscal 2021.

Available resources

We believe FIU has a good balance sheet for the rating, with solid available resource ratios relative to its current debt load and a low pro forma MADS burden, at 1.1% in fiscal 2020. Adjusted UNA (including debt service reserve funds, UNA of the foundation, and pension and OPEB liability adjustments) of approximately \$362.7 million in fiscal 2020 represented 28.4% of operations and 159.6% of pro forma debt. Cash and investments totaled \$451.5 million in fiscal 2020, which equated to 35.4% of operations and 198.7% of pro forma debt. The university's endowment, held by the Florida International University Foundation Inc., was \$216.4 million as of fiscal 2020.

Debt and contingent liabilities

At June 30, 2020, total debt outstanding was \$161.3 million, including \$27.9 million of component unit debt. Pro forma debt including subsequent events is \$228.2 million. We consider the debt structure to be conservative, with fixed rate debt amortized over 30 years and a declining debt service schedule.

FIU offers retirement benefits through both defined contribution and defined benefit plans to its employees. 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 2018 FRS three-year funded ratio was 79%. Management reports FIU has been making required employer contributions to plans, and per state statute, should FIU not be able to make the required contributions, the state is ultimately responsible. FIU offers other OPEBs, which it funds on a pay-as-you-go basis. Pension and OPEB costs to adjusted operating expense was 2.1%, which we consider manageable. For more information on the plans, please see the debt and liabilities section in the state report published Sept. 18, 2020, on RatingsDirect.

Florida International University--Enterprise And Financial Statistics

	--Fiscal year ended June 30--					Medians for 'AA' rated public colleges & universities
	2021	2020	2019	2018	2017	2019
Enrollment and demand						
Headcount	58,928	58,787	58,063	56,866	55,112	MNR
Full-time equivalent	41,210	41,089	40,656	39,881	39,055	36,667
Freshman acceptance rate (%)	48.4	45.1	43.6	51.1	49.4	69.6
Freshman matriculation rate (%)	33.3	31.6	35.0	38.1	37.3	MNR
Undergraduates as a % of total enrollment (%)	83.3	84.0	84.2	84.0	83.4	78.8
Freshman retention (%)	92.0	91.0	92.0	90.0	89.0	85.7
Graduation rates (six years) (%)	66.0	62.0	58.0	56.0	56.0	MNR
Income statement						
Adjusted operating revenue (\$000s)	N.A.	1,286,800	1,253,851	1,167,269	1,076,346	MNR
Adjusted operating expense (\$000s)	N.A.	1,276,606	1,224,027	1,153,407	1,094,646	MNR
Net adjusted operating income (\$000s)	N.A.	10,194	29,824	13,862	(18,300)	MNR
Net adjusted operating margin (%)	N.A.	0.80	2.44	1.20	(1.67)	1.50
Estimated operating gain/loss before depreciation (\$000s)	N.A.	56,779	78,619	62,199	30,595	MNR
Change in unrestricted net assets (UNA; \$000s)	N.A.	(64,128)	492	(217,743)	(17,680)	MNR
State operating appropriations (\$000s)	N.A.	323,327	322,360	294,596	278,033	MNR
State appropriations to revenue (%)	N.A.	25.1	25.7	25.2	25.8	18.3
Student dependence (%)	N.A.	44.3	45.6	47.2	49.8	41.2
Health care operations dependence (%)	N.A.	N.A.	N.A.	N.A.	N.A.	MNR
Research dependence (%)	N.A.	10.3	10.1	9.7	9.2	MNR
Endowment and investment income dependence (%)	N.A.	0.7	0.7	0.7	0.7	1.4
Debt						
Outstanding debt (\$000s)	N.A.	161,269	172,060	182,264	191,912	808,057
Proposed debt (\$000s)	N.A.	117,755	N.A.	N.A.	N.A.	MNR
Total pro forma debt (\$000s)	N.A.	228,294	N.A.	N.A.	N.A.	MNR

Florida International University--Enterprise And Financial Statistics (cont.)

	--Fiscal year ended June 30--					Medians for 'AA' rated public colleges & universities
	2021	2020	2019	2018	2017	2019
Pro forma MADS	N.A.	14,660	N.A.	N.A.	N.A.	MNR
Current debt service burden (%)	N.A.	1.23	1.21	1.24	1.37	MNR
Current MADS burden (%)	N.A.	1.19	1.04	1.24	1.31	3.60
Pro forma MADS burden (%)	N.A.	1.15	N.A.	N.A.	N.A.	MNR
Financial resource ratios						
Endowment market value (\$000s)	N.A.	216,382	216,382	209,237	196,281	1,006,154
Related foundation market value (\$000s)	N.A.	187,874	187,875	181,034	172,201	782,587
Cash and investments (\$000s)	N.A.	451,530	412,072	373,018	345,658	MNR
UNA (\$000s)	N.A.	(190,527)	(126,399)	(126,891)	90,852	MNR
Adjusted UNA (\$000s)	N.A.	362,744	349,077	317,441	297,563	MNR
Cash and investments to operations (%)	N.A.	35.4	33.7	32.3	31.6	56.4
Cash and investments to debt (%)	N.A.	280.0	239.5	204.7	180.1	169.9
Cash and investments to pro forma debt (%)	N.A.	198.7	N.A.	N.A.	N.A.	MNR
Adjusted UNA to operations (%)	N.A.	28.4	28.5	27.5	27.2	36.7
Adjusted UNA plus debt service reserve to debt (%)	N.A.	224.9	204.6	175.7	156.6	92.9
Adjusted UNA plus debt service reserve to pro forma debt (%)	N.A.	159.6	N.A.	N.A.	N.A.	MNR
Average age of plant (years)	N.A.	14.9	13.3	12.6	11.6	13.2
OPEB liability to total liabilities (%)	N.A.	37.6	30.3	32.9	50.4	MNR

N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service. 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 debt service burden = 100*(current debt service expense/adjusted operating expenses). Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Adjusted UNA = Unrestricted net assets + unrestricted net assets of the foundation. Average age of plant = accumulated depreciation/depreciation and amortization expense.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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