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Fitch Ratings: New Constitutional Amendments Could Limit Flexibility of Florida Public Universities

Fitch Ratings-New York-20 November 2018: The State University System of Florida's 12 public universities have more stringent requirements for raising revenues following passage of amendments 5 and 7 in the November election, according to Fitch Ratings. Amendment 5 will require a two-thirds vote (rather than a simple majority) by each chamber of the legislature to increase undergraduate in-state tuition levels, while amendment 7 will require a supermajority vote (rather than a simple majority) by the university's Board of Trustees or the Board of Governors to raise, impose or authorize any university fee (such as capital improvement fees, athletic fees, activity and service fees, student housing fees, transportation access fees, decal fees, and health fees).

The independent ability of public universities to set tuition rates is a sub-factor in Fitch's assessment of Revenue Defensibility in its 'Exposure Draft: U.S. Public Finance College and University Rating Criteria' (Criteria Exposure Draft, dated Nov. 15, 2018). However, in this assessment, Fitch also considers the level and consistency of direct and indirect support from the state government as an offset to tuition control imposed by the state.

In Florida, the legislature sets the undergraduate in-state tuition rate but tuition has not been raised for many years in an effort keep the cost of higher education affordable. Instead, Florida public universities receive generous levels of state operating support and other revenue allocations (performance funding, pre-eminent funding and other grant-like funding), and are expected to continue to do so. Moreover, tuition may not be pledged to any revenue bonds, pursuant to current Florida law. Fitch does not expect financial operations to narrow or overall credit quality to decline as a result of the new voting requirement in amendment 5.

The implementation of new university fees or increases to existing fees are typically approved by unanimous or near unanimous votes of the required board or boards. Since debt of Florida public universities is issued by blended component units (generally to support housing, parking and student health and other type of auxiliary systems on each university's campus), the debt is expected to be solely supported by the pledged revenues of these entities themselves. As such, the boards have covenanted in bond documents authorizing capital improvement debt to set fees at levels sufficient to cover debt service. The Board of Governors has stated that based on current Florida law, amendment 7 will not affect such covenants.

Fitch not does not expect any immediate impact on the financial operations of Florida's public universities or their auxiliaries as a result of the constitutional amendments; and expects little, if any, impact on their ability to repay debt obligations. However, over time, more stringent requirements for raising revenues could lead to erosion of cash flow and debt service coverage levels, particularly if there is broader university operating pressure. The amendment could limit a university's ability to make a rate adjustment if needed to offset enrollment decline. If several fees are collected, an increase in one pledged fee supporting an auxiliary system may need to be offset by a reduction in another auxiliary system fee, suppressing the pledged revenues that support that system's bonds. Pressure on cash flows supporting the pledged revenues for any one auxiliary system could have rating implications. In most cases, the sum of the fees is limited by law (to a percentage of student's base tuition fee) unless authorized by the state legislature, leaving limited flexibility to increase rates over time if needed.

Fitch continues to take a forward looking approach to ratings in the sector as described in the Criteria Exposure Draft. In its assessment of Revenue Defensibility, Fitch considers the level of local university control over tuition as one factor that could be deemed 'weaker' in this case. However, the final determination of the Revenue Defensibility assessment will also reflect other components, such as demand, market reach, pricing power and other revenue sources. Lack of tuition and student fee control could be expected to have greater impact on a smaller, regional public university with weaker or eroding demand than on a state flagship university with more resilient demand and other revenue sources available to preserve overall revenue levels going forward.

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