

# Florida International University

## Dormitory Revenue Bonds New Issue Report

### Ratings

#### New Issue

\$51,650,000 State of Florida Board of Governors, Florida International University Dormitory Revenue Bonds, Series 2012A

A+

#### Outstanding Debt

\$22,875,000 State of Florida Board of Governors, Florida International University Dormitory Revenue Refunding Bonds, Series 2011A

A+

\$46,765,000 Florida International University Dormitory Revenue Bonds

NR

NR – not rated by Fitch Ratings.

### Rating Outlook

Stable

### New Issue Details

**Sale Information:** \$51,650,000 State of Florida Board of Governors, Florida International University Dormitory Revenue Bonds, Series 2012A, expected to price on 18 hours' notice in mid-March via competition.

**Security:** Series 2012A bonds on parity with outstanding dormitory revenue bonds and secured and payable from pledged net revenues of Florida International University's (FIU, or the university) housing system.

**Purpose:** To finance a 620-bed expansion to FIU's student housing system (the system), fund capitalized interest, refund all or a portion of series 1998 housing facility revenue bonds, and pay costs of issuance.

**Final Maturity:** July 1, 2042.

### Key Rating Drivers

**Strong Operating Performance:** The 'A+' rating is supported by the system's healthy operating performance, driven by strong demand for and occupancy of on-campus FIU residential facilities. The primary credit concern relates to the potential increase in system financial leverage over the next four years as plans to debt finance a near doubling of on-campus beds are implemented.

**Enrollment Growth:** Consistent enrollment growth at FIU resulted in housing demand for the fall 2011 semester exceeding capacity by at least 400 beds. An expansion of system capacity being funded by the bonds would have accommodated more than 60% of this excess demand.

**High Debt Burden:** The system's debt burden, based on fiscal 2011 system operating revenues, increases from an already high 27% to nearly 34% following the issuance of the bonds. Adequate, consistent coverage of system debt service from net available revenues partially mitigates this concern.

**FIU's Credit Strength:** FIU's sound credit profile continues to be characterized by positive operating performance, fueled by a diversity of revenue streams, healthy balance sheet resources, and a fairly low debt burden.

### Related Research

[Florida International University, Nov. 1, 2011](#)

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## Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	3/15/12
A+	Assigned	Stable	10/28/11

## Credit Profile

### Financial Summary — Housing System

(\$000, Audited Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011	2012 <sup>a</sup>
<b>Statement of Operating Activities</b>						
Rental Income	19,577	21,243	22,866	23,188	25,984	22,310
Net Investment Income	881	1,696	0	329	126	—
<b>Total Operating Revenues</b>	<b>20,458</b>	<b>22,939</b>	<b>22,866</b>	<b>23,517</b>	<b>26,110</b>	<b>22,310</b>
<b>Operating Expenses</b>						
Personnel Services	3,519	3,995	3,948	4,237	4,542	1,767
Contractual Services	4,726	4,980	6,573	6,760	7,657	4,865
Interest Expense	4,080	3,886	3,690	3,500	3,302	1,685
Depreciation	3,706	3,376	3,065	3,014	3,047	—
Other Expenses	2,259	1,910	2,146	1,900	2,285	521
<b>Total Operating Expenses</b>	<b>18,290</b>	<b>18,147</b>	<b>19,422</b>	<b>19,411</b>	<b>20,833</b>	<b>8,837</b>
<b>Change in Net Assets from Operating Activities</b>	<b>2,168</b>	<b>4,792</b>	<b>3,444</b>	<b>4,106</b>	<b>5,277</b>	<b>13,472</b>
<b>Non-Operating Activities</b>						
Transfers (to)/from University	(3,510)	18	(601)	(1,515)	30	953
Other	1,413	(75)	(241)	(27)	(27)	—
<b>Change in Net Assets</b>	<b>71</b>	<b>4,735</b>	<b>2,603</b>	<b>2,564</b>	<b>5,280</b>	<b>14,426</b>
<b>Change in Net Assets from Operating Activities</b>	<b>2,168</b>	<b>4,792</b>	<b>3,230</b>	<b>4,106</b>	<b>5,277</b>	<b>13,472</b>
Plus: Interest	4,080	3,886	3,690	3,500	3,302	1,685
Plus: Depreciation	3,706	3,376	3,065	3,014	3,047	—
<b>Net Income Available for Debt Service</b>	<b>9,954</b>	<b>12,054</b>	<b>9,985</b>	<b>10,620</b>	<b>11,626</b>	<b>15,158</b>
Annual Debt Service	7,125	7,131	7,129	7,124	7,129	6,948
Pro Forma Maximum Annual Debt Service	7,131	7,131	7,131	7,131	7,131	9,744
<b>Statement of Financial Position</b>						
Unrestricted Cash and Investments	4,740	9,121	10,476	14,130	19,829	—
Land, Buildings, and Equipment, Net	93,578	90,762	87,837	84,458	82,342	—
Unrestricted Net Assets	6,704	8,954	11,957	14,663	19,769	—
Invested in Capital Assets, Net of Related Debt	8,387	8,933	8,739	9,150	11,495	—
<b>Total Net Assets</b>	<b>18,161</b>	<b>22,894</b>	<b>25,496</b>	<b>27,662</b>	<b>31,272</b>	<b>—</b>
Long-Term Debt	82,583	79,126	75,490	71,658	67,648	115,148

<sup>a</sup>Preliminary – Six months ending Dec. 31, 2011 unaudited. Note: Numbers may not add due to rounding.

The system consistently generates an operating surplus, enabling it to cover annual debt service and fund maintenance reserves. On-campus housing rates are reviewed annually by the university's office of finance and administration and have increased, by approximately 3% over the past two years, including associated meal plan costs. Despite these regular increases, collection rates are consistently above 99%, and overall room and board costs remain competitive with off-campus alternatives.

Revenue pledged to bondholders is derived primarily from system rental income following the payment of system expenses. Pledged revenues totaled \$11.1 million in fiscal 2010 and increased to \$12.16 million for fiscal 2011. Coverage of pro forma maximum annual debt service (MADS; \$9.74 million in fiscal 2015), based on fiscal 2011 pledged revenues, equaled an adequate 1.24x.

## Related Criteria

[Revenue-Supported Rating Criteria, June 20, 2011](#)

[U.S. College and University Rating Criteria, July 14, 2011](#)

## Housing System – Debt Service Coverage

(\$'000, Audited Fiscal Years Ended June 30)

	Actual					Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Pledged Revenues	10,267	12,373	10,409	11,099	12,158	10,187	9,857	13,496	13,751	14,429
Annual Debt Service (ADS)	7,125	7,131	7,129	7,124	7,129	6,948	6,831	9,740	9,744	9,378
Maximum Annual Debt Service (MADS)	7,131	7,131	7,131	7,131	7,131	9,744	9,744	9,744	9,744	9,738
ADS Coverage (x)	1.44	1.74	1.46	1.56	1.71	1.46	1.44	1.32	1.34	1.41
MADS Coverage (x)	1.44	1.74	1.46	1.08	1.19	0.99	0.96	1.32	1.34	1.41

Positive enrollment trends continue to fuel robust housing demand and the system's high occupancy rates. FIU expects to grow its headcount of about 48,000 students to 60,000 over 10 years. Based on the historical average annual growth rate between fiscal 2000 and fiscal 2010, such growth projections appear reasonable. Occupancy levels for the system have averaged 95% for the past decade. During fall 2011, as enrollment growth continued, more than 400 housing applicants were turned away. Such excess demand would fill approximately 64% of bond-funded project beds (620) expected to come on line by August 2013.

## Demand and Enrollment Data

(Fall Semester)

	2008	2009	2010	2011
<b>Admissions</b>				
Freshman Applications	13,528	15,978	15,061	16,626
Freshman Admissions	4,482	5,591	5,949	6,545
Acceptance Rate (%)	33.1	35.0	39.5	39.4
Freshman Matriculants	2,113	2,013	2,338	2,607
Matriculation Rate (%)	47.1	36.0	39.3	39.8
<b>Headcount</b>				
Undergraduate	31,893	32,535	35,595	39,226
Graduate	6,720	7,257	7,743	8,022
<b>Total</b>	<b>39,146</b>	<b>40,455</b>	<b>44,010</b>	<b>47,966</b>
<b>Full-Time Equivalent<sup>†</sup></b>				
Undergraduate	23,265	23,533	25,543	27,621
Graduate	4,271	4,773	5,221	5,729
<b>Total</b>	<b>28,108</b>	<b>28,969</b>	<b>31,380</b>	<b>33,923</b>
<b>Annual Cost of Attendance (\$)</b>				
Resident Tuition and Fees <sup>a</sup>	4,006	4,580	5,103	5,678
Nonresident Tuition and Fees <sup>a</sup>	16,403	16,979	17,502	18,077
Average Room and Board	11,120	11,946	11,440	11,330

<sup>a</sup>Tuition and fees include auxiliary system fees.

Source: Common data set.

The housing system's balance sheet resources grew over the past year. Available funds, defined as cash and investments not restricted, increased to \$19.8 million in fiscal 2011, up from \$14.1 million in fiscal 2010. These funds provide a significant cushion relative to operating expenses (95.1%) but remain fairly light (17.2%) relative to pro forma long-term debt. Long-

term debt outstanding for the system totals approximately \$70 million and will increase to \$118 million post issuance.

### Financial Ratios — Housing System

(Audited Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
<b>Revenue Diversity Ratios</b>					
Residence Hall Rents as % of Revenues	95.7	92.6	100.0	98.6	99.5
Investment Income as % of Revenues	4.3	7.4	0.0	1.4	0.5
Operating Margin (%)	6.6	14.6	15.1	16.3	19.8
<b>Leverage Ratios</b>					
Debt Service Coverage (x)	1.3	1.5	1.4	1.4	1.6
Debt Service as % of Revenues	36.4	33.6	31.2	30.7	27.4
MADS Coverage (x)	1.3	1.5	1.4	1.4	1.6
MADS as % of Revenues	36.4	33.6	31.2	30.8	27.4
<b>Liquidity Ratios</b>					
Available Funds as % of Operating Expenses	25.9	50.3	53.9	72.8	95.1
Available Funds as % of Long-Term Debt	6.6	12.7	14.6	19.7	17.2
Available Funds to MADS (x)	0.7	1.3	1.5	2.0	2.8

Over the next four years, significant additional debt is expected, as FIU plans to further expand the system to meet continuing demand for on-campus housing. However, all debt plans undertaken by the system are implemented only when the project is deemed to be self-sufficient, producing adequate revenues to support debt service. Given the magnitude of the system's debt burden, maintenance of debt service coverage at or near current levels is integral to maintaining the rating. Management's track record of implementing timely rate increases in advance of dormitory projects and prudently managing system expenditures suggests coverage levels will not decline, despite the potential future increase in financial leverage.

FIU's housing system currently consists of 2,999 beds in six on-campus facilities that cater to a rapidly growing student body. Upon project completion, the system will have 3,619 beds. FIU has five housing complexes on the Modesto Maidique Campus (MMC) and one, its oldest student housing facility, on the Biscayne Bay Campus (BBC). FIU is one of 11 public universities in the State University System of Florida (revenue bonds rated 'AA' with a Stable Rating Outlook by Fitch). FIU generated positive margins for five consecutive years (fiscal years 2007–2011). Over that period, revenues generated by a 37% increase in full-time equivalent students, from 27,531 to 33,923, offset declines in state appropriations during both fiscal 2009 (5%) and 2010 (4%) inclusive of American Recovery and Reinvestment Act (ARRA) funds. After experiencing increased funding (4.7%) in 2011, inclusive of ARRA moneys, FIU expects a 9% decrease in funding for fiscal 2012. Fiscal 2011 available funds, defined as cash and investments not restricted, increased to \$290 million, representing a sound 41.4% of fiscal operating expenses and strong 154% of pro forma leverage.

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