MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Florida International University's $47.3M Ser. 2013A parking fac. bonds; outlook stable

Global Credit Research - 18 Jul 2013

$155M pro-forma rated debt affected

FLORIDA STATE BOARD OF GOVERNORS
Public Colleges & Universities
N/A

Moody's Rating

ISSUE	RATING
Parking Facility Revenue Bonds, Series 2013A	Aa3

Sale Amount	$47,290,000
Expected Sale Date	07/22/13
Rating Description	Revenue: Public University Broad Pledge

Moody's Outlook STA

Opinion

NEW YORK, July 18, 2013 --Moody's Investors Service has assigned a Aa3 rating to Florida International University's ("FIU") $47.3 million of fixed rate Series 2013A Parking Facility Revenue Bonds expected to be issued by the Florida Board of Governors. We have also affirmed the ratings on outstanding debt listed in the RATED DEBT section of the report. The rating outlook is stable.

The Aa3 ratings reflect security pledges of specific revenue streams for the university's auxiliary systems (parking facilities and dormitories), rather than a broader general obligation pledge of the university's revenues. However, we believe FIU has a strong commitment to the projects given their strategic importance to the university.

SUMMARY RATING RATIONALE

The Aa3 ratings and stable outlook on the parking and dormitory bonds reflect FIU's healthy market position and enrollment growth, which contributes to strong demand and adequate debt service coverage from pledged revenues. The rating also incorporates the university's moderate leverage, positive operating performance and solid reserves for the parking and dormitory auxiliary systems. Offsetting factors include significant dependence on the state and a challenging state funding environment.

STRENGTHS

*Strong student demand and healthy market position for this large, comprehensive, public university with multiple campuses enrolling 35,603 full-time equivalent (FTE) students in fall 2012 across campuses in south Florida. Total full-time equivalent enrollment has grown by 26% over the past five years.

*Two-thirds of the university's $276.4 million in FY 2012 expendable financial resources are unrestricted which provides favorable financial flexibility. Expendable financial resources, which include assets held at the foundation, adequately cushion pro-forma debt and operations at 1.17 times and 0.42 times, respectively.

*Positive operating performance with a three-year average operating margin of 2.8% from FY 2010-FY 2012, generating nearly five times average debt service coverage.

*Healthy performance at the parking and dormitory facilities with specifically pledged revenues providing adequate debt service coverage of 1.35 times and 1.52 times, respectively, in FY 2012.

*Historically robust state capital support has contributed to modest leverage with pro-forma debt to operating revenues of 0.36 times in FY 2012 and most debt funded projects as revenue generating.

CHALLENGES

*Heavy reliance on state funding with appropriations comprising a diminishing 30% of Moody's adjusted operating revenue in FY 2012. Deep cuts in state appropriations in FY 2012 led to a weaker operating performance with cash flow margin of 8.6% compared to a strong 11.7% in FY 2011 and we expect another year of muted operating performance in FY 2013 given further state budget cuts of 14.6% for the year.

*While FY 2014 appropriations restored FIU's state funding, the legislated tuition increase for undergraduates is just 1.7% causing another year of revenue pressure. The state's control over tuition increases presents a longer-term credit challenge for the university and its ability to adjust revenues to changes in state funding.

*High exposure to Pell Grants, which represented 38% of net tuition revenue in FY 2012 increases the university's vulnerability to potential cuts or changes to program eligibility. Approximately 50% of students were Pell recipients in FY 2012.

*Growing campus with significant enrollment growth anticipated, which creates some complexity for FIU, as the university is land locked.

*Presence of construction risk to build a new 2,000 parking space multi-level parking garage. The garage is anticipated to be completed in December 2014 with debt service payments commencing in FY 2014.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the Series 2013A bonds will be used to pay construction costs of a multi-level parking garage containing approximately 2,000 parking spaces and various other pedestrian and shuttle stop infrastructure improvements on FIU's main campus; refinance the Series 1999 and Series 2002 parking facility revenue bonds; pay costs of issuance. Total project cost of the parking garage is estimated at $42.6 million with $9 million funded through parking and other reserve funds.

LEGAL SECURITY: The parking facility bonds are secured by and payable from the pledged revenues of the Parking System, which are the net revenues of the Parking System, including mandatory student parking and transportation access fees, a flat fee assessed to all students at the Modesto Maidique, Biscayne Bay, and Engineering Center campuses. The Parking System currently provides 14,628 vehicle spaces. Pledged Revenues of $7.5 million covered maximum annual debt service 1.34 times in FY 2012. Maximum annual debt service (MADS), including the current issuance will be $6.7 million and MADS when using FY 2012 revenues would provide weak, but sufficient 1.12 times coverage. MADS coverage improves to 1.31 times in FY 2015 when including the new revenue generated from the Series 2013A project. The parking system has a current fund balance of approximately $10.7 million. There is no debt service reserve fund for the Series 2013A bonds. However, the 2013A bonds will be secured by the $2.4 million surety bonds from MBIA under the terms of such bonds, which secured the Series 1999 and Series 2002 bonds.

The housing bonds are secured by and payable from pledged revenues of the Housing System, which includes all fees, rentals or other charges and income received by the university from students, faculty members, tenants and others using the Housing System facilities, net of Current and Administrative Expenses. Pledged revenues in FY 2012 and estimated for FY 2013 were $11.0 million and $11.4 million, respectively, covering MADS of $9.7 million by 1.14 times 1.17 times, respectively. MADS coverage is projected to increase to 1.42 times in FY 2014 when the new 620-bed dormitory opens in fall 2013. Actual debt service coverage for FY 2012 was 1.52 times and estimated FY 2013 debt service coverage was 1.67 times. For FY 2012, demand for housing was a healthy 97% across the main Modesto Maidique Campus ("MMC") and the Biscayne Bay Campus ("BBC"), serving just 9% of the university's full-time students. Across the Housing System, collection rates are strong at approximately 99% in FY 2007 through FY 2012. At FYE 2013, housing reserves were $24.7 million.

DEBT STRUCTURE: While the university does not have any variable rate debt, the university's Direct Service Organizations (DSOs), including FIU Foundation Inc. and FIU Athletics Finance Corporation ("Finance Corporation") have approximately $41.6 million of variable rate debt before swaps at fiscal year-end (FYE) 2012. This amounts to approximately 20% of the university's total debt. The foundation entered into a bank qualified tax exempt loan with SunTrust Bank (rated A3/P-2) on July 30, 2010, refinancing the Series 1999 variable rate demand bonds. The bonds have an optional tender date of March 15, 2015 with approximately $8.2 million outstanding at FYE 2012. The Finance Corporation's Series 2009A & B bonds ($33.4 million outstanding as of

FYE 2012) are a bank loan with Regions Bank (Baa3/P-3) that have scheduled puts with the next one on March 1, 2018.

DEBT-RELATED INTEREST RATE DERIVATIVES: FIU has not entered into any swap agreements, but two of the university's DSOs, the FIU Foundation and Finance Corporation, have entered into swap agreements with two different counterparties in order to hedge the interest rate risk on their variable rate debt. The foundation entered into a fixed-rate payer swap with SunTrust Bank on the Series 1999 bonds. The foundation pays a fixed rate of 4.63% and receives 67% of 1-month LIBOR and expires February 1, 2015. The Finance Corporation's swap on the Series 2009A & B bonds is with Regions Bank with the Finance Corporation paying a fixed rate of 3.6% and receives 63.7% of 3-month LIBOR. Neither of the swap agreements has collateral posting requirements or rating triggers for the DSOs or the university. As of June 28, 2013, the mark-to-market valuation of the swap portfolio was a liability of $4.3 million.

MARKET POSITION: LARGE COMPREHENSIVE PUBLIC UNIVERSITY WITH HEALTHY DEMAND

FIU will continue to benefit from strong demand for public higher education in the state, as well as the region. The university's main campus, the Modesto Maidique Campus ("MMC") and the Biscayne Bay Campus ("BBC") are located in the metropolitan Miami area in Dade County with its smaller regional campuses and institutes in close proximity, as well as in central Florida. FIU's healthy demand continues demonstrated by a fall 2012 undergraduate selectivity rate of 40.5% coupled with a 41.1% matriculation rate of accepted students.

Fall 2013 enrollment is projected to increase 1.5% over the prior fall when enrollment reached 35,603 full-time equivalent (FTE) students. FIU offers a wide array of undergraduate and graduate programs, including Colleges of Business, Law, Nursing, Health Sciences, and a College of Medicine. The university aims to grow its graduate student population, while keeping undergraduate enrollment relatively stable. Graduate students comprised nearly 20% of fall 2012 FTE enrollment. The more significant growth in graduate enrollment is consistent with the university's goals of enhancing its research profile, in part, through increasing its graduate population.

FIU continues to invest in its sponsored research activity and believes its relatively new College of Medicine, which received full accreditation from the Liaison Committee on Medical Education's (LCME) in February 2013, will help position it to increase awards in the long term. However, sequestration will have a limiting impact on its ability to grow federal research grants. The university is expecting a $5 million reduction in research expenses in FY 2014 from $78 million in FY 2013.

We believe FIU has additional tuition pricing flexibility as the in-state "sticker price" tuition rates for Florida public universities remain among the lowest in the country. FIU's net tuition per student, including Pell Grants, was $6,525 in FY 2012. The relatively low tuition price and significant draw from within the state have contributed to the low net tuition per student. FIU will continue to draw the vast majority of students from within the state fostered by a strong relationships with community colleges and visible presence in the community. However, FIU plans to increase out of state and international students as part of a longer term strategic plan to maintain geographic diversity. Currently just 6% of freshman matriculants are from outside of Florida. Strong academic programs in international studies, as well as its urban location are positive attributes to draw both in-state and out-of-state students, including international students.

OPERATING PERFORMANCE: MORE NARROW OPERATING PERFORMANCE EXPECTED RESULTING FROM A CONSTRAINED STATE FUNDING ENVIRONMENT

We expect FIU to generate a weaker operating performance in coming fiscal years driven by a challenging state funding environment. Fiscal year 2012 operating performance narrowed to 8.6% from the prior four years of double-digit cash flow margins, but debt service coverage remained healthy at 4.1 times. Over FY 2010-FY 2012, FIU generated a three-year average operating margin of 2.8% and average MADS coverage was 3.0 times over the same timeframe.

While legally pledged revenues for the parking and dormitory systems are more limited and provide lower coverage than on a university-wide basis, we expect debt service coverage to remain adequate and within projected ranges. We also weigh heavily the strategic importance of parking and housing to FIU's ability to draw students and believe that the university has a strong incentive to see the projects succeed. However, ratings on the auxiliary facilities bonds are sensitive to declines in coverage and reserves.

Beginning in FY 2012, the university has faced more constrained funding, including cuts to state appropriations in FYs 2012 and 2013 and a much lower tuition increase of 1.7% for FY 2014 compared to double-digit increases (not exceeding 15%) in prior years. Fiscal 2013 was a challenging year for the 11 public universities as the legislature cut a significant portion of state funding and we expect weaker operating results for FIU in FY 2013. FIU had to grapple with a $24 million cut from FY 2012 following on an approximately 12% state appropriation cut (including stimulus funding) the prior year. FIU's management is using fund balances to absorb the $24 million cut in FY 2013 and estimates an $8 million loss, which compares to a $11 million gain in FY 2012. Inability to reduce expenses to produce operating surpluses longer term would likely exert downward rating pressure.

The FY 2014 budget comes with mixed results on the revenue side. Favorably, the state's budget prioritized higher education restoring $300 million in recurring funding. FIU was restored the $24 million cut made in FY 2013. However, at the same time, the state restricted the in-state undergraduate tuition increase to an inflation factor of 1.7% established by prior law after the governor vetoed the legislature's recommended 3.0% tuition increase. Given the university's high reliance on student charges, the politicized nature of tuition price setting will likely be a long term credit challenge for FIU. In addition, the high Pell Grant exposure, which represented 38% of net tuition revenue is FY 2012, is a credit challenge as the high reliance increases the university's vulnerability to potential cuts or changes to program eligibility. Approximately 50% of students were Pell recipients in FY 2012. FIU's $660 million Moody's calculated operating revenue was comprised of 51% student charges (including Pell), 30% state appropriations, 13% grants and contracts and 6% investment income and other revenue in FY 2012.

Moody's maintains an Aa1 rating with a stable outlook on the State of Florida. The State's Aa1 rating reflects Florida's history of conservative budgeting practices, large and diverse economy with strong tourist and retirement appeal, and manageable pension liability. Challenges include weakness in the state economy reflected in employment dislocations, an unemployment rate that exceeds national averages, job losses that exceed those for comparably rated states, and a weak housing market. For more information on Moody's ratings of Florida, please refer to our report dated May 17, 2013.

BALANCE SHEET POSITION: SOLID FINANCIAL CUSHION RELATIVE TO MANAGEABLE DEBT BURDEN; NO NEAR-TERM DEBT PLANS ANTICIPATED

FIU's overall financial position will remain sound as it has built a solid balance sheet with healthy unrestricted financial resources. Fiscal year 2012 expendable financial resources (including net assets at the foundation and excluding plant equity) of $276.4 million provide a solid cushion to pro-forma debt and operations of 1.17 times and 0.42 times, respectively. Expendable financial resources declined for the first time since FY 2009 by about 4% in FY 2012 from FY 2011 as a result of lower investment returns and a weaker operating results. Though diminished from FY 2011, FIU's high level of unrestricted financial resources are a credit strength comprising nearly 40% of total financial resources in FY 2012 ($183 million). The university's unrestricted monthly liquidity of $220 million provided an adequate 132 monthly days cash on hand in FY 2012 and 530.2% coverage of demand debt, which is held at FIU's direct support organizations.

The university's FY 2012 financial resource calculations are depressed by a growing other post-employment benefit (OPEB) liability, which amounted to $19.2 million. The unfunded actuarial accrued liability was $101.0 million as of July 1, 2011, up from $72.1 million as of July 1, 2009 actuarial valuation date and will be recognized on the university's balance sheet over a 30 year timeframe per GASB 45 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions). The university is funding its OPEB obligations on a pay-as-you-go basis and does not plan to fund the actuarial liability.

Fundraising remains relatively modest relative to the size of the university, but FIU is embarking on a capital campaign to raise $750 million by the year 2020. Total gifts received for the campaign as of FYE 2012 are $42.8 million.

Based on preliminary fiscal year end (FYE) investment performance reports, the foundation's investment portfolio with a market value of $201.7 million posted a return of 11.6% at June 30, 2013. The foundation's assets were allocated 45.7% domestic equity, 3.3% international equity, 21.2% fixed income, 14.4% hedge funds, 6.5% real assets, 5.0% private equity, 2.2% commodities and other and 1.7% cash.

After the current issuance, the university has no debt plans within the next two to five years. The 2013A Project will increase the total number of structured parking spaces to 8,800 and 17,000 total parking spaces university-wide. The project will also include approximately 35,000 gross square feet of unfinished shell space, which will be available for classrooms, retail and food services. While FIU has some debt capacity, balance sheet growth will be important to maintain the Aa3 rating in addition to meeting debt service coverage projections for the parking and housing projects.

GOVERNANCE AND MANAGEMENT: GROWING CAMPUS NECESSITATES CAREFUL LONG-RANGE PLANNING

FIU's management team has demonstrated positive near-term and long-range planning as it has positioned itself for healthy enrollment growth through diversification of its undergraduate and graduate programs, including the addition of a medical school in 2009. The university is the largest university in southern Florida, by enrollment, and also maintains strong programs in international studies, law and business. While the university benefits from its location in a region with healthy population growth and increasing number of high school graduates, management is forward looking and is fostering strong partnerships with the local community for continued enrollment growth. More recent strategic initiatives include expansion of its Pembroke Pines facility with Broward College to help support the state's strong 2+2 initiatives, establishment of a magnet school at BBC and development of other partnerships with national and international businesses to grow programs. The university also has invested in strategic hires, including the addition of a vice president for enrollment services in October 2012 to facilitate growing the out-of-state and international student population.

OUTLOOK

The stable outlook is based on our expectation of continued enrollment and financial strength of the university, as well as that pledged net revenues will continue to provide adequate debt service coverage on the university's parking and dormitory bonds. The outlook also incorporates expectations that more narrow operating performance experienced in FY 2012 will continue in FYs 2013 and 2014 but that the university will take steps to maintain overall fiscal stability.

WHAT COULD MAKE THE RATING GO UP

Stronger debt service coverage of pledged revenues and healthier auxiliary system reserves accompanied by improvement in the fundamental credit quality of the university evidenced by significant growth of financial resources and healthier cushion to debt and operations; diversification of revenue sources and enhanced fundraising; substantial increase in operating revenue. Stronger support from the state or upgrade of the state's rating could also bolster the rating.

WHAT COULD MAKE THE RATING GO DOWN

Significant additional borrowing absent growth of financial resources and pledged net revenues; weakening of pledged revenues and debt service coverage; downgrade of state's credit rating or further significant reductions in state support that adversely impacts university operations; deterioration of market position.

KEY INDICATORS (FY 2012 financial results; fall 2012 enrollment data)

Full-Time Equivalent Enrollment: 35,603 students

Primary Selectivity: 40.5%

Primary Matriculation: 41.1%

Net Tuition per Student: $6,525

Educational Expenses per Student: $15,381

Average Gifts per Student $82

Total Cash and Investments: $301.8 million

Total Pro-Forma Direct Debt: $235.4 million

Total Pro-Forma Comprehensive Debt*: $258.4 million

Expendable Financial Resources to Pro-Forma Direct Debt: 1.17 times

Expendable Financial Resources to Operations: 0.42 times

Monthly Days Cash on Hand: 132.0 days

Monthly Liquidity to Demand Debt: 530.2%

Operating Revenue: $659.6 million

Operating Cash Flow Margin: 8.6%

Three-Year Average Debt Service Coverage: 4.97 times

Reliance on Tuition and Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 51.3%

Reliance on State Appropriations Revenue (% of Moody's Adjusted Operating Revenue): 29.6%

State of Florida Rating: Aa1, Stable outlook

* Comprehensive Debt includes direct debt and operating leases.

RATED DEBT

Parking Facility Revenue Bonds, Series 2013A: Aa3

Parking Facility Revenue Bonds, Series 2009A & Series 2009B Build America Bonds (Federally Taxable - Issuer Subsidy): Aa3

Parking Facility Revenue Bonds, Series 2002 (expected to be refunded): Aa3

Dormitory System Revenue Bonds, Series 2012A, 2011A: Aa3

PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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