Fitch Ratings-New York-22 February 2016: Fitch Ratings has affirmed the 'A+' rating on approximately $98.5 million of dormitory revenue bonds issued by the State of Florida Board of Governors (BoG) on behalf of Florida International University (FIU).

The Rating Outlook is Stable.

SECURITY

Dormitory revenue bonds are secured by a first lien on pledged net revenues of FIU's student housing system. Additional security provisions include a pledge of sufficiency and a 1.2x additional bonds test (ABT).

KEY RATING DRIVERS

CREDIT STABLE: The housing system serves approximately 10% of the 32,050 full-time students on FIU's main campus in Miami. The 'A+' rating reflects the system's importance to the university and adequate debt service coverage due to healthy demand for and occupancy of on-campus residential facilities.

SOUND DEMAND: Recent enrollment growth and limited on-campus housing supply drive consistently high occupancy. Most FIU students do not live on campus, but Fitch believes the large full-time population provides more than sufficient demand for the relatively small number of on-campus beds.

HIGH DEBT BURDEN: The system's debt burden is very high, which is typical of capital-intensive auxiliary systems. Debt service coverage is adequate, with Fitch-calculated maximum annual debt service (MADS) coverage of 1.3x and stronger legal coverage of 1.5x in fiscal 2015. FIU aims to expand its housing capacity, likely bonding for new facilities over the next few years.

SOUND UNIVERSITY CREDIT PROFILE: FIU's credit profile is characterized by sound demand and enrollment, healthy balance sheet resources, and low leverage. GAAP-basis operating results are generally slightly negative, offset by positive cash flow and state capital support. FIU is well positioned under Florida's performance funding metrics, which increasingly determine state operating appropriations.

RATING SENSITIVITIES

HOUSING DEMAND: Rating stability assumes sufficient student demand to maintain high occupancy of Florida International University's (FIU) housing system and adequate debt service coverage related to existing and future system facilities. While unanticipated, a meaningful decline in demand could result in downward rating pressure.

UNIVERSITY OPERATIONS: An unexpected deterioration in FIU's overall financial profile could also pressure the housing system rating, given the limited revenue pledge.

CREDIT PROFILE
FIU, one of 12 institutions of higher education in Florida's State University System, is the largest university in South Florida. The university serves over 54,000 students on its two main campuses in southwest and northeast Miami-Dade County and satellite campuses located in Broward County, Miami Beach and downtown Miami. FIU's housing system is a component auxiliary enterprise that finances and operates the university's campus housing stock consisting of six facilities and 3,180 beds.

STRONG OPERATIONS; ADEQUATE COVERAGE

The system has consistently generated strong operating margins averaging 16% over the past five years. Fiscal 2015 operations generated another strong margin of 19%; revenues and expenses declined marginally as an older facility was removed from the system. Operating results reflect strong occupancy, flat to modestly increasing rental rates, and good management of expenses.

Strong operations generated adequate coverage of debt service as calculated by Fitch of 1.34x pro forma MADS. Pledged net revenues, which exclude certain expenses, generated slightly stronger 1.5x legal coverage of MADS, in line with the system's prior projections.

HOUSING DEMAND IS SOUND

FIU has historically had a large commuting population, but significant enrollment growth in recent years has increased demand for on-campus housing. Housing supply is limited; total capacity of 3,180 beds houses approximately 10% of FIU's 32,050 full-time students. High demand and limited on-campus housing capacity result in consistently high system occupancy levels (97% - 100% over the past five years).

FIU will likely construct an additional housing facility on the main campus in the next couple of years to meet some of the excess demand identified in a recent market study. Longer term, the university's strategic plan contemplates as much as doubling the percentage of full-time students living on campus. Growth in residential enrollment, especially for lower division students, is aligned with FIU's strategic goal of improving the student outcomes and success metrics emphasized in Florida's performance-funding framework.

DEBT AND BALANCE SHEET RESOURCES

The system is highly leveraged, typical of capital-intensive auxiliary enterprises. Available funds, defined as cash and investments not permanently restricted, totaled $20.4 million as of June 30, 2015. This unrestricted liquidity made up a healthy 86.6% of operating expenses, but only 20.4% of debt. The MADS burden is very high at 33.3% of operating revenues, also typical of auxiliary systems.

Absent additional debt, MADS coverage and burden would improve in the near term due to a declining debt service structure. MADS of $9.7 million occurred in fiscal 2015, but drops to $9.3 million in 2016 and $7.5 million thereafter. However, additional debt issuance over the next few years is likely. Fitch believes the ABT and management's internal guidelines provide good assurance that pledged coverage will remain acceptable. However, new debt may limit improvement of MADS coverage.

UNIVERSITY OPERATIONS

The university's overall credit profile remains sound and supportive of its auxiliary enterprises including the housing system, although general university resources are not pledged to pay the bonds. FIU has a large enrollment base (over 54,000 headcount) and good regional market position
in South Florida. Operations remain slightly negative on a GAAP basis (-2.8% margin in fiscal 2015) but positive on a cash basis.

Negative margins reflect depreciation expense and are historically offset by state capital funding. State operating appropriations are increasing after major cuts during the recession. FIU is well positioned for continued increases in state support based on its strong scores on Florida's performance-funding metrics, which increasingly drive appropriation levels. However, the current political environment prevents tuition increases and limits revenue-raising flexibility.

FIU's available funds (unrestricted cash and investments) of $277.9 million as of June 30, 2015 equaled an adequate 31.5% of operating expenses and a strong 109.7% of debt (including certain related-entity obligations). University MADS equals a low 2.3% of operating revenues. The university's low leverage and debt burden reflect historically strong state capital support.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
U.S. College and University Rating Criteria (pub. 12 May 2014)

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