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Rating Action: Moody's affirms Florida International University's Aa3; outlook stable

Global Credit Research - 09 Dec 2014

\$182M pro-forma rated debt

New York, December 09, 2014 -- Moody's Investors Service affirms Florida International University's (FIU) Aa3 ratings on its outstanding dormitory and parking bonds. The rating outlook is stable.

SUMMARY RATING RATIONALE

The Aa3 ratings on the dormitory and parking bonds reflect FIU's healthy market position as a large and growing comprehensive public university in a demographically vibrant region, moderate leverage, and balanced operating performance. The ratings also incorporate the narrow revenue pledges for the dormitory and parking bonds. Offsetting credit factors include limited revenue diversity, moderately high reliance on Pell grant revenue, and state-imposed in-state tuition freezes.

The stable outlook reflects the expectation that FIU will continue to prudently manage its growth plans, capital investment will be measured and the auxiliary systems will remain profitable with adequate debt service coverage from pledged revenues.

STRENGTHS

*FIU fills a crucial role in higher education and economic development of Miami as a large comprehensive university with over 37,000 full-time equivalent students (FTEs) in fall 2014.

*Healthy performance at the dormitory and parking facilities leads to good debt service coverage of 1.37 times and 1.54 times (excluding the BABs subsidy), respectively, in FY 2013.

*FIU's growth has been well-managed by a seasoned leadership team that has maintained close to breakeven operating performance and grown total financial resources, despite cuts in state funding and state-imposed limitations on in-state undergraduate tuition increases. Expendable financial resources grew 63% in FY 2013 to \$299 million from FY 2009 and are up again in FY 2014 based on unaudited financials.

*Historically robust state capital support has contributed to manageable leverage with pro-forma debt of \$221 million to operating revenues of 0.3 times in FY 2013, and most debt-funded projects are revenue generating.

CHALLENGES

*FIU faces revenue pressures on multiple fronts due to a state-imposed tuition freeze for FY 2015, curbing historically robust net tuition revenue growth. High exposure to Pell grants could also pressure revenue growth given uncertainties in future Pell funding.

*State appropriations comprise a meaningful, though diminishing portion of operating revenue of approximately 30% compared to 41% for FY 2009. Significant state budget cuts in FY 2013 drove a weak cash flow margin of just 6.3%.

*A history of reduced state capital support could translate into increased leverage over time for this fast growing university.

OUTLOOK

The stable outlook incorporates the expectation of ongoing healthy student demand, continued net tuition revenue growth, improved operating performance in conjunction with state funding increases in FY 2015, and financial resource growth. It also reflects the expectation that the dormitory and parking bonds will maintain adequate debt service coverage from pledged revenues.

WHAT COULD MAKE THE RATING GO UP

A rating upgrade could result from substantial growth in liquid financial resources, stronger operating performance and diversification of revenue streams.

WHAT COULD MAKE THE RATING GO DOWN

A rating downgrade could result from a material weakening of debt service coverage from pledged revenues, weaker operating performance resulting in lower operating cash flow, tightening of liquidity or credit deterioration of the state.

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.

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