New York, November 04, 2020 – Moody's Investors Service has assigned a Aa3 rating to Florida International University's proposed $71.8 million of Dormitory Revenue Bonds, Series 2020A, to be issued by the State of Florida Board of Governors. Concurrently, we affirmed Aa3 ratings on $128.5 million of outstanding dormitory and parking bonds. The outlook is stable.

RATINGS RATIONALE

Assignment and affirmation of the Aa3 ratings incorporate expectations of FIU's ongoing sound student demand as a large comprehensive public university, enhanced by its designation as an Hispanic-Serving Institution and the favorable demographics of its location in greater Miami (Aa2 stable). Credit quality is further supported by healthy financial reserves and manageable financial leverage, with sound pledged revenue coverage of debt service. Challenges include relatively thin operating margins, impacted by the State of Florida's (Aaa stable) cap on student charges, and high reliance on potentially volatile state funding. While total revenue and cash and investment growth trends are favorable, financial reserves are somewhat weaker than peers relative to FIU's large operating scale. The ratings also incorporate the narrow revenue pledges for the housing and parking bonds.

With solid reserves, steady enrollment and the ability to adjust operations to potential revenue fluctuations, FIU has sufficient runway to manage through near-term operating volatility associated with the coronavirus pandemic. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Based on preliminary financial and enrollment information, fiscal 2020 operating performance was in line with fiscal 2019. While potential declines in state funding remain undetermined during fiscal 2021 and 2022, FIU has identified potential additional budget reductions and expects limited use of reserves in fiscal 2021. While pledged revenue coverage of housing and parking bonds will thin slightly, management anticipates coverage moderately exceeding debt service for fiscal 2020 and 2021.

RATING OUTLOOK

The stable outlook reflects expectations that operations will remain generally balanced and that auxiliary systems will remain profitable with adequate debt service coverage from pledged revenues. The outlook is also predicated on sound student demand and FIU's ability to adjust expenses and other revenues to potential fluctuations in state operating support, with limited use of reserves.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material growth in financial reserves
- Increased liquidity and strengthened operating performance

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained weakening of debt service coverage from pledged revenues or material decline in housing or parking system reserves (beyond planned spenddown of housing reserves)
- Decline in unrestricted liquidity
- Material weakening of operating performance

LEGAL SECURITY

Housing facility revenue bonds are secured by and payable from pledged revenues of the Housing System, which includes all fees, rentals or other charges and income from the Housing System facilities, net of Current
and Administrative Expenses. Pledged revenues of $10.5 million in fiscal 2020 (unaudited) provided debt service coverage of 1.4x, excluding funding from the CARES Act that was used to reimburse housing refunds from spring 2020. Coverage is expected to thin modestly to 1.2x in fiscal 2021 due to reduced occupancy as a result of the coronavirus pandemic, with improvement in fiscal 2022, even with the expectation of minimal rate increases. For the $87.5 million project to be financed with 2020A bonds, the system anticipates contributing approximately $18 million, of which $3.3 million has been spent from reserves. The additional contribution as well as $17.5 million of routine maintenance over a five-year period are expected to be largely covered by ongoing cash flow, with some potential use of reserves, which were at $25 million for fiscal 2020 (preliminary).

Parking system 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. For fiscal 2020 (unaudited), debt service coverage (and MADS coverage) from pledged revenues of $7.5 million was 1.4x, in line with prior years despite modest impact from the pandemic. Coverage for fiscal 2021 is expected to improve slightly, to 1.44x (1.43x MADS), with no planned rate increases. The parking system had approximately $8 million of unrestricted cash and investments for fiscal 2020 (unaudited).

USE OF PROCEEDS

Funds will be used for a new student housing project, capitalized interest, and costs of issuance.

PROFILE

Florida International University is a comprehensive public research university, designated as an Hispanic-serving institution, located in Greater Miami, Florida. FIU's main campus is located in west Miami-Dade County (Aa2 stable), with additional locations throughout the area. The university enrolled almost 59,000 headcount students in fall 2020 and generated operating revenue of over $977 million in fiscal 2020 (unaudited).

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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