

Florida International University

Dormitory Revenue Bonds New Issue Report

Ratings

New Issue

\$27,125,000 State of Florida, Board of Governors, Florida International University Dormitory Revenue Refunding Bonds, Series 2015A A+

Outstanding Debt

\$52,625,000 State of Florida, Board of Governors, Florida International University Dormitory Revenue Bonds, Series 2012A A+

\$19,325,000 State of Florida, Board of Governors, Florida International University Dormitory Revenue Refunding Bonds, Series 2011A A+

\$32,785,000 State of Florida, Florida Education System, Florida International University Housing Revenue Bonds, Series 2004A NR

NR – Not rated.

Rating Outlook

Stable

Related Research

[Fitch Ratings Affirms Florida International University's Housing Revs 'A+'; Outlook Stable \(February 2014\)](#)

Analysts

Tipper Austin
+1 212 908-9199
tipper.austin@fitchratings.com

Colin Walsh
+1 212 908-0767
colin.walsh@fitchratings.com

New Issue Details

Sale Information: Approximately \$27,125,000 State of Florida, Board of Governors, Florida International University Dormitory Revenue Refunding Bonds, Series 2015A, via competitive sale the week of April 27.

Security: First lien on pledged net revenues of Florida International University's (FIU) student housing system, on parity with outstanding dormitory revenue bonds.

Purpose: To refund certain maturities of the series 2004A bonds and pay costs of issuance.

Final Maturity: July 1, 2034.

Key Rating Drivers

Adequate Coverage: The FIU housing system serves approximately 3,184 of the 31,947 full-time students on the school's main campus in Miami. The 'A+' rating reflects the system's essentiality, adequate coverage and healthy operating performance, which are driven by strong demand for and occupancy of on-campus residential facilities.

Stable Demand: Enrollment growth at FIU in recent years has driven consistent demand for housing, and occupancy rates remain high. Most FIU students do not live on campus, but Fitch Ratings 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 but not inconsistent with similar auxiliary systems. Historically, system debt service coverage has been sound, with Fitch-calculated annual debt service coverage averaging 1.44x over the past five years. FIU aims to expand its housing capacity, likely bonding for new facilities over the intermediate term. The current rating reflects Fitch's expectation that coverage could moderate toward an adequate 1.20x over the longer term, consistent with the limitations of the additional bonds test (ABT).

Sound University Credit Profile: FIU's credit profile is generally characterized by balanced operations, healthy balance sheet resources and a low debt burden. Fitch believes FIU is well positioned based on its strong results under Florida's performance funding metrics.

Rating Sensitivities

Housing Demand: Rating stability assumes sufficient student demand to maintain high occupancy rates 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 system's limited revenue pledge.

Rating History

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	4/21/15
A+	Affirmed	Stable	2/26/14
A+	Affirmed	Stable	3/15/12
A+	Assigned	Stable	10/28/11

Credit Profile

FIU is a public research university and one of the 12 institutions of higher education in Florida's State University System. The largest university in South Florida, FIU serves over 54,000 students on its two campuses in southwest and northeast Miami-Dade County and satellite campuses located in Broward County and downtown Miami. The university's regional accreditation by the Southern Association of Colleges and Schools Commission on Colleges was most recently affirmed in 2010 for a 10-year term.

Housing System

FIU's housing system is a component auxiliary enterprise that finances and operates the university's campus housing stock, consisting of six residential facilities with 3,184 beds. The series 2015A bonds will refund outstanding series 2004A bonds for savings. In line with its strategic plan, FIU aims eventually to house about 20% of its full-time students on campus, compared with 10% currently. There is also a focus on housing lower division students, for whom management reports better student outcomes from living on campus. A new debt-funded housing project is likely within the next two to five years.

Stable Demand

FIU has historically had a large commuting population, but significant enrollment growth in recent years has increased demand for on-campus housing. Full-time students, who are a better measure of potential housing demand than total headcount, have grown 20.8% from 26,439 in fall 2010 to 31,947 in fall 2014. The current number of full-time students is approximately 10 times the current on-campus housing capacity of 3,184 beds. Growing enrollment and limited on-campus housing capacity have ensured consistently high system occupancy levels, including a 98% occupancy rate in fiscal 2014.

Demand Summary

(Fall Semester)	2010	2011	2012	2013	2014
Headcount					
Undergraduate	35,595	39,227	41,694	44,395	45,475
Graduate	8,415	8,739	8,700	8,585	8,624
Total Headcount Enrollment	44,010	47,966	50,394	52,980	54,099
Total Undergraduate/Total Headcount Enrollment (%)	80.9	81.8	82.7	83.8	84.1
Full-Time Equivalent (FTE)					
Undergraduate	25,543	27,621	28,898	30,814	31,285
Graduate	5,921	6,467	6,707	6,901	6,812
Total FTE Enrollment	31,464	34,088	35,605	37,715	38,097
Housing Capacity and Occupancy					
Full-Time Students	26,439	28,778	30,094	32,063	31,947
Total Housing Capacity	2,828	2,851	2,858	3,456	3,184
Occupancy Rate (Modesto Maidique Campus) (%)	99	97	99	99	98
Admissions					
Freshman Applications	15,061	16,626	15,863	16,549	17,617
Freshman Admissions	5,949	6,545	6,418	7,122	8,380
Acceptance Rate (%)	39.5	39.4	40.5	43.0	47.6
Freshman Matriculants	2,338	2,607	2,636	2,990	3,013
Matriculation Rate (%)	39.3	39.8	41.1	42.0	36.0

Source: Florida International University and Fitch.

Related Criteria

U.S. College and University Rating Criteria (May 2014)
 Revenue-Supported Rating Criteria (June 2014)

FIU's long-term plans for housing capacity contemplate roughly doubling the percentage of full-time students living on campus. The university is attempting to increase overall enrollment, including full-time and residential enrollment, through expanded marketing efforts and increased and more effectively distributed financial aid. Growth in residential enrollment, especially for lower division students, is aligned with FIU's strategic aim of improving student outcomes and success metrics emphasized in Florida's performance funding framework.

Strong Operations

The system has consistently generated strong operating margins, averaging 17.4% over the past five years. Fiscal 2014 operations generated another strong margin of 20.0% due to revenue growth from a new facility coming online, continued high occupancy and modest increases in rental rates. The university's board of trustees has authority and flexibility to increase housing rental rates as needed to maintain coverage, which Fitch view favorably.

Housing System Financial Ratios

(Audited Fiscal Years Ended June 30)

	2010	2011	2012	2013	2014
Operating and Leverage Ratios					
Operating Margin (%)	16.3	19.8	17.1	15.4	20.0
Historical Debt Service Coverage (x)	1.44	1.61	1.43	1.28	1.44
Historical Debt Service as % of Revenues	30.7	27.4	28.9	33.4	31.8
Maximum Annual Debt Service (MADS) Coverage (x)	1.44	1.61	1.07	1.15	1.44
MADS as % of Revenues	30.8	27.4	38.7	37.4	31.9
Liquidity Ratios					
Available Funds as % of Operating Expenses	72.8	95.1	85.3	82.9	80.8
Available Funds as % of Total Debt	19.7	29.3	15.3	16.3	18.6
Available Funds to MADS (x)	2.0	2.8	1.8	1.9	2.0

Adequate Coverage Offsets High Debt Burden

Strong system operations generated sound Fitch-calculated coverage of 1.44x pro forma maximum annual debt service (MADS) of \$9.7 million. Pledged net revenues, which exclude certain expenses, generated slightly stronger 1.52x legal coverage of pro forma MADS. The rating reflects Fitch's expectation that pledged coverage could moderate over time with additional debt issuance. Fitch believes the ABT and management's internal guidelines provide good assurance that pledged coverage will remain at least 1.20x or stronger. Strong operations and consistent, adequate coverage help offset the system's high debt burden. While MADS is equal to a very high 31.9% of fiscal 2014 operating revenue, this is not uncommon for a capital-intensive auxiliary system.

High System Leverage but Healthy Operating Cushion

The system is highly leveraged, typical of auxiliary enterprises, but maintains good financial reserves relative to its operating budget. The system's available funds, defined as cash and investments not permanently restricted, totaled \$19.7 million as of June 30, 2014. This unrestricted liquidity amounts to only 18.5% of system debt due to its high leverage. Available

funds equaled a healthy 80.8% of system operating expenses. Accumulated funds are not pledged for debt service and could be transferred out of the system's accounts. However, Fitch takes comfort in the system's ability to weather unforeseen stresses due to good reserve levels and management's practice of insuring facilities at or above replacement cost.

Housing System Coverage

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

	Actual					Projected				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net Pledged Revenues	11,099	12,117	11,021	11,843	14,780	13,781	12,905	13,207	13,602	14,009
Annual Debt Service (ADS)	7,124	7,129	7,253	8,666	9,696	9,704	9,439	7,490	7,491	7,489
Maximum Annual Debt Service (MADS)	7,131	7,131	9,702	9,702	9,702	9,704	9,439	7,495	7,495	7,495
ADS Coverage (x)	1.56	1.70	1.52	1.37	1.52	1.42	1.37	1.76	1.82	1.87
MADS Coverage (x)	1.56	1.70	1.14	1.22	1.52	1.42	1.37	1.76	1.81	1.87

Sound University Credit Profile

FIU's 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's operating margin recovered to break-even as expected in fiscal 2014 from negative 3% in fiscal 2013 due to substantial restoration of state appropriations cut in prior years. Fitch believes FIU is well positioned for increased state support based on its strong scores on Florida's performance funding metrics, which increasingly drive appropriation levels. However, the political environment currently precludes tuition rate increases and limits the university's revenue-raising flexibility. FIU's available funds (unrestricted cash and investments) of \$286.2 million as of June 30, 2014 equaled an adequate 33.4% of operating expenses and a sound 107.0% of pro forma debt. MADS equals a low 2.2% of operating revenues. The university's low leverage and debt burden reflect historically strong state capital support.

Housing System Financial Summary

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

	2010	2011	2012	2013	2014
Operating Revenue					
Rental Income	23,188	25,984	25,060	25,976	30,459
Total Operating Revenues	23,188	25,984	25,060	25,976	30,459
Operating Expenses					
Personnel Services	4,237	4,542	4,596	4,624	4,932
Contractual Services	6,760	7,657	7,580	8,070	8,926
Interest Expense	3,500	3,302	3,202	4,308	4,121
Depreciation and Amortization Expenses	3,014	3,047	2,891	2,819	3,757
Other	1,900	2,285	2,509	2,146	2,618
Total Operating Expenses	19,410	20,833	20,777	21,967	24,353
Change in Unrestricted Net Assets from Operations	3,778	5,151	4,283	4,009	6,105
Non-Operating Activities					
Net Investment Income	329	126	219	449	253
Other	(1,542)	3	1,771	(2,268)	(4,705)
Change in Unrestricted Net Assets	2,566	5,280	6,273	2,190	1,653
Change in Unrestricted Net Assets from Operations	3,778	5,151	4,283	4,009	6,105
Plus: Depreciation	3,014	3,047	2,891	2,819	3,757
Plus: Interest Expense	3,500	3,302	3,202	4,308	4,121
Income Available for Debt Service	10,292	11,500	10,376	11,136	13,983
Annual Debt Service	7,124	7,129	7,253	8,666	9,696
Maximum Annual Debt Service	7,131	7,131	9,702	9,702	9,702
Statement of Financial Position					
Cash and Cash Equivalents	2,865	2,494	657	1,918	617
Investments	15,113	17,335	19,846	18,639	19,073
Total Cash and Investments	17,978	19,829	20,503	20,557	19,690
Less: Restricted Non-Expendable Net Assets	3,848	8	2,773	2,347	6
Available Funds	14,130	19,822	17,730	18,210	19,684
Property and Equipment, Net	84,458	82,545	85,440	130,520	128,256
Unrestricted Net Assets	14,663	19,769	19,628	23,943	20,037
Restricted Net Assets (Fitch-Classified as Non-Expendable)	3,848	8	2,773	2,347	6
Invested in Capital Assets Net of Related Debt	9,150	11,495	15,144	13,444	21,345
Total Net Assets	27,662	31,272	37,545	39,734	41,388
Bonds Payable	71,658	67,648	115,938	111,580	106,005
Total Long-Term Debt	71,658	67,648	115,938	111,580	106,005
Total Pro Forma Debt	N.A.	N.A.	N.A.	N.A.	106,005

N.A. – Not applicable. Note: Numbers may not add due to rounding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings) IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2015 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.