

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa3 to Florida International Univ. \$27M 2015A Dorm. Rev. Ref. Bonds; outlook stable

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Global Credit Research - 30 Apr 2015

#### **\$238M pro-forma rated debt, including privatized student housing**

FLORIDA INTERNATIONAL UNIVERSITY, FL  
Public Colleges & Universities  
FL

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Dormitory Revenue Refunding Bonds Series 2015A	Aa3
<b>Sale Amount</b> \$27,125,000	
<b>Expected Sale Date</b> 05/05/15	
<b>Rating Description</b> Revenue: Public University Limited Pledge	

#### **Moody's Outlook** STA

NEW YORK, April 30, 2015 --Moody's Investors Service assigns a Aa3 rating to Florida International University's proposed \$27.1 million of Series 2015A Dormitory Revenue Refunding Bonds (maturing in 2034) issued through the Florida State Board of Governors. The outlook is stable.

#### SUMMARY RATING RATIONALE

The assignment of the Aa3 rating reflects FIU's favorable market position as a large and growing comprehensive public university. The limited revenue pledge for the dormitory bonds is strengthened by the strategic importance of the university's residential life program, consistently strong occupancy rates, and solid debt service coverage.

The Aa3 rating additionally incorporates manageable financial leverage relative to financial reserves and revenue; prudent management team yielding generally balanced operations; and relatively healthy and improved operating support from the State of Florida (Aa1 stable).

Offsetting credit factors include increasing competition for students; pressure to limit increases on all student-related charges coupled with state-imposed in-state tuition freezes; and relatively high exposure to state and federal funding.

#### OUTLOOK

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.

#### WHAT COULD MAKE THE RATING GO UP

- Material growth in financial resources
- Increased liquidity relative to expenses while strengthening operating performance
- Continued improvement in the university's market position and revenue diversity

#### WHAT COULD MAKE THE RATING GO DOWN

- Sustained weakening of debt service coverage from pledged revenues

-Decline in liquid financial reserves

-Weakening of operating performance, particularly if accompanied by large increases in debt

#### STRENGTHS

-Large, comprehensive public university benefits from a demographically vibrant region

-Growth has been well-managed by a seasoned leadership team employing effective short and long range planning

-Continued growth of total financial resources, up nearly 40% since FY 2010 to \$513 million in FY 2014

-Manageable debt burden, including a privatized student housing project, with pro-forma debt to operating revenue of 0.3 times

-Dormitory system has good debt service coverage from pledged revenues of 1.4 times projected for FY 2015 and solid reserves

#### CHALLENGES

-Increasingly competitive student market with other universities and colleges

-Ongoing capital needs to accommodate enrollment growth and to remain competitive could translate into increased leverage in light of reduced state capital support

-State-imposed tuition freezes and limitations on fee increases tempers the ability to grow revenue

-Meaningful reliance on revenue from state and federal sources including sponsored research, grant funding, and financial aid programs at both levels of government

#### RECENT DEVELOPMENTS

FIU has partnered with a private developer to construct a nine-story 410-bed dormitory on its Biscayne Bay Campus (BBC). While FIU is not directly obligated to make debt service payments on the \$56 million of Industrial Development Revenue Bonds, (NCCD - Biscayne Properties LLC Project) Series 2015A and 2015B (taxable) bonds, the university has a strategic interest in the project as it will be the only university housing on the BBC, is located in the middle of campus, and is integral to FIU's growth plans.

FIU continues to move forward with expansion plans on 64 acres of adjoining parkland, but faces some opposition from Miami-Dade's Youth Fair, the current occupant of the land. The university intends to use the additional land for academic and research space, especially promoting its STEM programs that align with the state's economic development goals.

#### DETAILED RATING RATIONALE

##### MARKET POSITION: LARGE COMPREHENSIVE PUBLIC UNIVERSITY POISED FOR GROWTH

FIU's location in a demographically, culturally and economically vibrant city has supported sustained growth in undergraduate education, graduate and professional programs, and sponsored research over a relatively short period of time since the university's founding in 1973. Strong demand and careful planning has resulted in an average annual enrollment growth of 5.6% over five years, climbing to 38,097 full-time equivalent (FTE) students for fall 2014. We expect measured growth given favorable regional demographics, strong pricing power, and improving retention rates. Though FIU is in an enviable position relative to regional universities with weaker demographics, increasing geographic diversity outside of the state would be credit positive given current state limitations on tuition increases for resident undergraduates.

FIU's sponsored research enterprise will continue to augment its academic reputation and economic impact. Prioritized by the strategic plan, research areas of focus include the environment, globalization and health. Research awards continue to increase annually with management projecting a nominal increase to \$115 million in FY 2015. This trend is unusual given increased competition for new federal awards. Federal agencies provide roughly three-quarters of its awards.

## OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: BALANCED OPERATIONS GENERATED DURING A PERIOD OF ONGOING EXPANSION AND ENROLLMENT GROWTH

FIU will continue to generate at least balanced operating performance given our expectation of continued growth combined with prudent fiscal oversight. In FY 2014, FIU generated an operating surplus of 0.7% and an 8.6% cash flow margin provided 3.9 times overall debt service coverage. Tight expenditure controls while managing growth will remain essential to the university's operating performance given some moderate pressure on revenue growth due to political restrictions on tuition increases.

FIU remains well-positioned under the state's performance based funding formula given the alignment of strategic priorities with those of the state. For FY 2016, FIU again received the third highest score in the performance based model and is expecting another increase in operating funds over the \$215 million received in FY 2015. Recent years of increases come after several years of volatile funding.

Expendable financial resources of \$314 million, including resources of the fundraising foundation cover pro-forma debt and operations 1.1 times and 0.4 times, respectively, in FY 2014. We expect continued financial reserve growth given planned improvement in operating performance and fundraising efforts. FIU is in a comprehensive fundraising campaign with a goal of raising \$750 million by 2020. At the end of February 2015, FIU had raised \$256 million.

Even with the potential campus expansion, we expect leverage will remain manageable as FIU plans to utilize diverse funding sources for capital development. Management reports no significant near-term debt funded capital plans. FIU's last debt-funded project was for a new parking garage, completed in December 2014.

### Liquidity

FIU has adequate monthly liquidity of \$231 million, providing 119 days cash on hand, especially in light of limited potential calls on liquidity due to an all fixed rate debt structure, lack of debt-related derivatives, history of sound cash flow performance and limited unfunded capital commitments. Liquidity remains lower than a previous peak of \$255 million in FY 2011 resulting from declines in state operating support that has not returned to prior levels.

## DEBT AND OTHER LIABILITIES: MANAGEABLE FINANCIAL LEVERAGE EVEN WHEN INCLUDING PRIVATIZED STUDENT HOUSING DEBT

FIU has a manageable debt burden, including \$56 million of debt from the privatized student housing project that is currently being constructed on the BBC. Total pro-forma debt to operating revenue is a low 0.3 times. Favorably, most debt-funded projects are for housing or parking and are revenue generating, which should continue to provide debt capacity.

Bond-issuing authority is retained by the state's Division of Bond Finance, but universities can borrow through affiliated foundations and direct support organizations (DSOs) outside the Division.

### Debt Structure

All of the university's bonded debt is fixed rate and amortizing, but it is exposed to variable rate debt through two of its DSOs, the FIU Foundation and FIU Athletics Finance Corporation. Variable rate debt (before swaps) comprises approximately 17%, or \$38 million, of FIU's total debt.

### Debt-Related Derivatives

The FIU Foundation and FIU Athletics Finance Corporation have entered into swap agreements with two different counterparties to hedge the interest rate on variable rate debt. Neither of the swaps have collateral posting requirements or rating triggers for the respective DSOs or FIU.

### Pensions and OPEB

FIU's pension and OPEB costs are moderate, comprising approximately 3.5% of operating expenses. Statutory contributions can be volatile and have more than doubled for the university over the past three years.

Most university employees participate in the Florida Retirement System (FRS), which is comprised of two multi-employer, defined benefit cost-sharing plans. The State of Florida establishes contribution rates for participating employers and employees. The State University System also provides a defined-contribution plan for eligible instructors and administrators.

## MANAGEMENT AND GOVERNANCE: MEASURED APPROACH MANAGING GROWTH

FIU senior leadership's near- and long-term planning positions the university for continued enrollment growth and ability to elevate its research enterprise. While the university benefits from its location in a region with healthy population growth, management is forward looking to also focus on fostering strong partnerships with the local community.

FIU is a member of the State University System, which is overseen by a statewide Board of Governors (BOG) comprised of seventeen members, fourteen of whom are appointed by the governor for staggered, seven year terms. Each university is directly governed by its own Board of Trustees, consisting of thirteen members, with six appointed by the governor and five appointed by the BOG for staggered five year terms. While FIU is an autonomous state-supported public institution, the legislature largely controls the tuition-setting power. The university, however, has the power to set certain student service fees, such as those for the dormitory and parking systems.

### KEY STATISTICS (FY 2014 financial data, fall 2014 enrollment data)

- Total Full-Time Equivalent Enrollment: 38,097 students
- Total Financial Resources: \$513 million
- Pro Forma Direct Debt: \$274 million (includes \$56 million of P3 debt)
- Operating Revenue: \$768 million
- Monthly Days Cash on Hand: 119 days
- Operating Cash Flow Margin: 8.6%
- Debt Service Coverage: 3.9 times
- Reliance on Tuition and Auxiliaries Revenue (% of Moody's-adjusted Operating Revenue): 51%
- State of Florida rating: Aa1 stable

### OBLIGOR PROFILE

Established in 1972, FIU is a comprehensive public research university with headcount enrollment of approximately 54,000 students across multiple campuses in the Miami metropolitan area. FIU is designated as a Hispanic-Serving Institution.

### LEGAL SECURITY

The dormitory 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.

For FY 2014, pledged revenues of \$14.8 million covered annual debt service and MADS each at 1.52 times. Debt service coverage is projected to be 1.42 times in FY 2015.

### USE OF PROCEEDS

Proceeds will be used to refund all or a portion of the Series 2004A Housing Facility Revenue Bonds and to pay issuance costs.

### PRINCIPAL 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.moody.com](http://www.moody.com) for a copy of this methodology.

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#### **Analysts**

Erin V. Ortiz  
Lead Analyst  
Public Finance Group  
Moody's Investors Service

Dennis M. Gephardt  
Additional Contact  
Public Finance Group  
Moody's Investors Service

#### **Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
USA

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