New York, March 05, 2021 -- Moody's Investors Service has assigned a Aa3 rating to Florida International University's proposed $46 million of Dormitory Revenue Refunding Bonds, Series 2021A, to be issued by the State of Florida Board of Governors. We maintain Aa3 ratings on the university's approximately $200 million of outstanding rated dormitory and parking bonds. The outlook is stable.

RATING'S RATIONALE

Assignment of the Aa3 rating to the dormitory revenue bonds reflects Florida International University's broad credit strength, the typically good performance of the dormitory system with sound debt service coverage and reserves as well as the active management of the dormitory system to offset pandemic-related impacts.

The Aa3 limited pledge ratings incorporate expectations of FIU's ongoing sound student demand as a large comprehensive public university, enhanced by its designation as a 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 generally 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 university faces considerable business disruption including to various auxiliary systems caused by the coronavirus pandemic, which is a social risk under Moody's ESG framework due to implications for public health and safety. With material support in the form of federal relief, a broad public health response and close management of expenses, the credit impact of the pandemic should remain manageable.

RATING OUTLOOK

The stable outlook reflects expectations that operations will remain generally balanced and that auxiliary systems will maintain adequate debt service coverage from pledged revenues, with federal funds transferred from the university to support housing system operating losses in fiscal 2021. The outlook is also predicated on sound student demand and FIU's ability to adjust expenses to potential fluctuations in state operating support, with limited use of reserves.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Sustained weakening of debt service coverage from pledged revenues
- Decline in unrestricted liquidity
- Material weakening of operating performance

LEGAL SECURITY

Dormitory 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 provided debt service coverage of 1.4x, excluding funding from the CARES Act that was used to reimburse housing refunds from spring 2020. Pledged revenue coverage is expected to thin to 0.7x in fiscal 2021, though transfers from the university of federal CARES Act and CRRSAA funds to replace lost revenue are expected to boost coverage from all funding sources to 1.34x. The housing system held approximately $25 million in reserves at fiscal 2020 year end. While some funds will be expended for a new student housing project, reserves are expected to remain above $11 million, exceeding maximum pro forma annual debt service. Other security features include an additional bonds test (preceeding two fiscal year's net revenues greater than or equal to 120% pro forma maximum annual debt service) and a sum sufficient rate maintenance covenant.

https://www.moodys.com/research/Moodys-assigns-Aa3-to-Florida-International-University...  3/9/2021
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, debt service coverage (and MADS coverage) from pledged revenues was 1.3x, 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. Other security features include an additional bonds test and a sum sufficient rate maintenance covenant.

USE OF PROCEEDS

Funds will be used to refund all or a portion of the Series 2011A and Series 2012A bonds and to pay 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.

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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