

Rating Action: Moody's assigns A2 to Florida Gulf Coast University Fin. Corp. series 2017; outlook stable

Global Credit Research - 10 Oct 2017

New York, October 10, 2017 -- Issue: Capital Improvement Refunding Revenue Bonds, Series 2017 B (Parking Project); Rating: A2; Rating Type: Underlying LT; Sale Amount: \$7,105,000; Expected Sale Date: 10/18/2017; Rating Description: Revenue: Public University Limited Pledge;

Issue: Capital Improvement Refunding Revenue Bonds, Series 2017 A (Housing Project); Rating: A2; Rating Type: Underlying LT; Sale Amount: \$47,600,000; Expected Sale Date: 10/18/2017; Rating Description: Revenue: Public University Limited Pledge;

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Florida Gulf Coast University Financing Corporation's (FGCUFC) Capital Improvement Refunding Revenue Bonds Series 2017A (Housing Project) & 2017B (Parking Project), totaling approximately \$55 million. At the same time, we have affirmed our existing A1 issuer rating on Florida Gulf Coast University, FL (FGCU) and the A2 ratings on \$99 million of outstanding rated debt. The outlook is stable.

The A1 issuer level rating reflects FGCU's sound market position as a four-year regional public university with healthy enrollment trends as well as increased financial resources and liquidity. Trends of improved operating performance and growing philanthropic support further bolster the rating. Offsetting factors include a high debt burden, debt structure risk and variable funding from the State of Florida.

The A2 ratings on the housing system and parking system reflect the limited pledge of revenues of the respective systems. While limited in scope, each system supports solid debt service coverage and the housing and parking systems remain key strategic elements of the university's mission.

Rating Outlook

The stable outlook incorporates expectations that the university will continue to demonstrate flexibility in adjusting to state funding fluctuations while delivering cash flow margins above 10% and modest enrollment growth.

Factors that Could Lead to an Upgrade

Ongoing revenue growth and enhanced ability to compete for students

Significant increase in financial resources and liquidity through retained surpluses and philanthropy

Reduction in financial leverage and continued growth in unrestricted liquidity relative to variable rate and variable rate demand debt

Factors that Could Lead to a Downgrade

Deficit operations or material decline in liquidity

Deterioration of debt service coverage from pledged revenues or increase in financial leverage

Legal Security

The A1 issuer rating reflects the unsecured general obligation credit characteristics of FGCU.

Capital improvement revenue bonds for the Housing System are secured by and payable from the net revenue of the Housing System through an operating lease between FGCUFC and the university. There is a rate covenant of at least 120% of annual debt service requirements and a limit on additional parity debt unless FGCU can demonstrate 120% coverage of maximum annual debt service (MADS) including additional debt.

Debt service coverage for fiscal 2017 is estimated at 1.5 times.

Capital improvement revenue bonds for the Parking System are secured by and payable from the net revenue of the Parking System through an operating lease between FGCUFC and the university. There is a rate covenant of at least 120% of annual debt service requirements and a limit on additional parity debt unless FGCU can demonstrate 120% coverage of maximum annual debt service (MADS) including additional debt. Debt service coverage for fiscal 2017 is estimated at 2.2 times.

All outstanding bonds other than the bonds being refunded are further secured by a cash funded debt service reserve fund held by the Trustee equal to MADS. Unrated STI bank loans (series 2005A and B bonds) have a debt service reserve fund held by the bank equal to MADS.

Use of Proceeds

Proceeds from the series 2017A bonds will be used to refund Housing System series 2003 and 2007A bonds. Proceeds from the series 2017B bonds will be used to refund Parking System series 2007C bonds and to pay costs of the issuance.

Obligor Profile

Florida Gulf Coast University is a relatively young public university, admitting its first class in 1997. The university is located in southwest Florida, approximately 20 minutes from Naples and downtown Fort Myers. FGCU, a regional public university, enrolled approximately 15,000 headcount students in fall 2017, almost all of whom are undergraduates. Fiscal 2016 revenue totaled approximately \$206 million.

Florida Gulf Coast University Financing Corporation is a blended component unit of the university. It was created as a direct support unit to receive, hold, invest and administer property for the exclusive benefit of the university.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. The additional methodology used in the housing and parking revenue bond ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

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