BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
Florida Gulf Coast University
Residence Life Enhancement Project
Student Residences, Phase IX (South Lake Village),
And Associated Infrastructure

Project Description:

The proposed Student Residences, Phase IX project will be the second student housing in the South Lake Village Residence Life Enhancement Project and will provide an additional 406 beds (400 rentable beds) to the housing system. The project will be constructed as a five story building and will consist of private bedrooms and baths, offices, reception, study, lounge, laundry, and mechanical space.

The project is included in the 2005 Campus Master Plan Update.

Facility Site Location:

The proposed Student Residences, Phase IX project will be located in the south portion of the main campus of Florida Gulf Coast University in an area already containing expanded student residences Phase VIII (South Lake Village). The build-out for this parcel of land will ultimately house approximately 3,000 students and will include a central plant, play fields, shop space, and parking decks.

Projected Start and Opening Date:

It is anticipated that construction of the Student Residences, Phase IX project will commence in April 2008 and that the project will be open and available for occupancy in August 2009.

Demand Analysis:

The primary targeted market for Student Residences, Phase IX will be traditional single, undergraduate, graduate, and professional students with particular emphasis on the University's growing "first time in college" student population.

Florida Gulf Coast University student enrollment has increased from 2,584 in 1997-1998 to 9,531 for 2007-2008. The first-time-in-college student enrollment has grown from 864 in Fall Semester 2002 to 1,918 in Fall Semester 2007.

Over the past nine years, eight phases of student residences have been built at a rate of almost one phase per year. Currently, the University provides housing to 1,902 students in Student Residences, Phase I through VII with Phase VIII under construction and scheduled to open in fall 2008 with approximately 380 beds. After the opening of the proposed Phase IX project, the total capacity of the housing system will be approximately 2,700.

The University continues to enjoy strong demand by new students with enrollment increasing from 1,946 FTE in fiscal year 2000-2001 to 5,018 FTE in fiscal year 2006-2007. Since the housing system was established in 1998-1999, average occupancy rates have ranged from 93% to 102%, with an average occupancy rate of 102% in Fall Semester 2007.

In Fall Semester 2007, approximately 700 students seeking on campus housing were turned away because of lack of available housing facilities. The campus is located in an area of Lee County experiencing rapid growth, none of which is geared to accommodate student residences.

Project Cost and Financing Structure:

The proposed Student Residences, Phase IX project construction cost is approximately $20.3 million. The project will be financed with tax-exempt revenue bonds issued by the Florida Gulf Coast University Financing Corporation (the "Corporation"), on behalf of the Florida Gulf Coast University, in an amount not to exceed $22,000,000. The bond size includes capitalized interest during the 19-month construction and occupancy period through November 2009. The bonds will be structured with a 30-year final maturity and level annual debt service payments with the first principal payment occurring in February 1, 2010 and, as determined by the Corporation, will be issued either as fixed or variable rate revenue bonds.

Construction of the project will be administered by the Corporation under the supervision of Florida Gulf Coast University which is consistent with construction of previous University housing phases.

(See Attachment 1 for an estimated sources and uses of funds.)

Security/Lien Structure:

Net housing system revenues will be pledged for the payment of debt service. These revenues are derived primarily from rental income, damage deposit forfeitures, summer special event rentals, and other miscellaneous collections after deducting operating and maintenance expenses. When the facility opens in Fiscal Year 2009-2010, the projected rental rate for fall and spring semesters is $3,103 per bed, per semester, and $2,079 per bed for the Summer Semester. These rates are consistent with single room rental rates for existing facilities at FGCU and in the State University System.

The Series 2008A Bonds will be issued on parity with the current outstanding Florida Gulf Coast University Financing Corporation Capital Improvement Revenue Bonds, Series 2003 (fixed rate), Series 2005A (variable rate), and Series 2007A (fixed rate) currently outstanding in the total principal amount of $78,040,000.

Pledged Revenues and Debt Service Coverage: For fiscal year 2009-2010, the first year of operation, the project is expected to generate pledged revenues of $1,543,716, which would produce a debt service coverage ratio of 1.79x which includes five months of capitalized interest. For the second year of operation, the project is expected to generate pledged revenues of $2,083,624 which would produce a debt service coverage ratio of 1.40x which includes full principal and interest. For the entire system, during the past five year period from fiscal year 2002-2003 to 2006-2007, pledged revenues grew from $1,875,412 to $5,119,014 resulting in debt service coverage which ranged from 2.07x to 2.42x. For fiscal years 2007-2008 to 2011-2012, pledged revenues for the system are projected to grow from $5,552,619 to $10,912,660 with coverage of 2.32x in 2007-2008 to 1.65x in 2011-2012. It has been assumed that interest on the bonds during the 19-month construction period through November 2009 will be provided from proceeds of the bonds. In fiscal year 2009-2010, the first year the facility is expected to be open, the debt service coverage ratio for the housing system is projected to be 1.56x. In fiscal year 2010-2011, the debt service coverage ratio for the Housing System is projected to be 1.57x. This is the first year that a full 12 months of debt service will be paid on the bonds after capitalized interest has been expended.

The projected debt service coverages have been calculated using an interest rate of 5.24% on the proposed bonds and the outstanding variable rate 2005A Bonds. The projected revenues are based, in part, upon 5% - 7% annual rental rate increases through Fiscal Year 2012-2013. Annual operating expenses are expected to increase by 4-5% per year.

(See Attachment 2 for 5-years historical and 5-years projected pledged revenues and debt service coverage prepared based upon information provided by the Corporation).

Variable Rate Debt: The University is planning to closely monitor market conditions and to make a decision of issuing the 2008A Bonds as variable or fixed rate revenue bonds prior to their sale. With the current turmoil in the market, the University believes this to be a prudent decision.

Based upon market conditions at the time, the University's initial analysis indicated an expected reduction in total borrowing cost of about 1.3% from issuing variable debt at an estimated 3.51% compared to the current fixed rate of 4.80%.

The University has prepared a debt management plan related to the issuance of the proposed variable rate bonds. The purpose of the plan is to mitigate, to the extent possible, the liquidity and interest rate risks over the life of the debt. Variable rate bonds currently comprise 20% of the University's outstanding debt. With the addition of two future variable rate issues, variable rate bonds will comprise approximately 39% of total debt of the University. This percentage of variable rate debt is high relative to rating agency guidelines but the University has attempted to mitigate the risk associated with variable rate debt in its management plan. Variable rate bonds currently comprise 10% of the University's Housing System debt. If the 2008A Housing bonds are issued at a variable rate, variable rate bonds will comprise approximately 30% of total Housing System debt.

To mitigate the liquidity risk, the Corporation plans to obtain a letter of credit. It is anticipated that the letter of credit will have a three year evergreen provision which will require the University be provided a notice of non-renewal each year or the letter of credit will automatically renew for an additional year. This provision will effectively provide the University with two years to secure another letter of credit or other form of guarantee in the event of a non-renewal. The University's existing variable rate bonds are secured by a letter of credit from Wachovia Bank. In connection with this financing, Wachovia has waived certain requirements of the letter of credit documents with regards to the issuance of additional parity debt.

With regards to reducing interest rate risks, the University plans to actively manage its variable rate debt by monitoring interest rates on a continuous basis, budgeting conservatively high interest rates on variable rate debt, and providing a hedge with their short-term investments. The University currently has over $10 million in cash from student residence facility revenues. This is expected to provide a hedge for approximately one-third of all outstanding variable rate exposure for Housing System debt and will also be sufficient to support 1 ½ years of debt service. It appears this level of reserve will help mitigate adverse impacts from any unexpected interest rate increases. The University also plans to adopt a derivatives policy and explore the possibility of providing a limit on the variable interest rates through a derivative.

Type of Sale:

The University provided an analysis of the most appropriate method of selling the bonds (competitive versus negotiated) as required by the Debt Management Guidelines. The University is requesting approval for a negotiated sale of the Bonds. A negotiated sale is the best method for implementing a variable rate financing, which is what is currently being planned by the Corporation. Additionally, if it issues fixed rate debt, the Corporation feels that limited market awareness of the Corporation and the credit warrants a negotiated sale in order to better explain the transaction to investors and to achieve the lowest borrowing cost.

The University anticipates selecting from a RFP process an underwriting proposal from a team of underwriters that are qualified in a competitive process.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida Gulf Coast University with respect to the request for Board of Governors approval for the subject financing. Based upon the information provided, the University feels that demand for the existing and proposed housing is adequate to support construction of the proposed project. Additionally, the housing system has historically generated positive debt service coverage and is projected to continue to provide adequate debt service coverage in the future based on what appear to be reasonable assumptions as to revenue and expenditure growth. Based upon a review of the information provided by the University, it appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and the Board of Governors Debt Management Guidelines. Accordingly, staff of the Board of Governor's recommends adoption of the resolution authorizing the proposed financing.