BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
University of Central Florida
Greek Housing Purchase

Project Description: The proposed project includes the purchase and renovation of two former fraternity houses, Sigma Alpha Epsilon and Sigma Psi Epsilon (the "Project") with a total of 84 beds, to be added to the Housing System of the University of Central Florida (the "University"). Greek housing already exists on the main campus but no fraternity/sorority houses are part of the Housing System. The University is exercising its option to purchase vacant houses and proposes adding them to the inventory of beds in the University's Housing System. The houses will subsequently be leased to other Greek organizations at the University.

The Project is consistent with the Campus Master Plan and Campus Development Agreement.

Approval of the proposed financing would set a new precedent by having a university finance and provide Greek housing. The University would make the fraternity houses a part of the Housing System and secure the debt through a subordinate pledge of the Housing System revenues (see "Security/Lien Structure"). Historically, Florida's State Universities and their DSOs have not been involved in financing fraternity houses, although such arrangements are more common outside the State. Typically, in the State University System, the host university leases land to the Greek organization and it is responsible for building, owning and operating the fraternity/sorority house. The host university usually imposes certain restrictive covenants in the lease along with a right of first refusal upon any subsequent sale of the property.

The University believes the two facilities being acquired have historically been inadequately maintained by the Greek organizations, leaving them in poor condition. The University believes that by acquiring these facilities and leasing them to the Greek organizations as opposed to just leasing the land to them will enable it to retain significantly more control over the maintenance and condition of the facilities.

On-Campus Housing: The Project will provide an additional 84 beds to the Housing System for a total of 3,669 Housing System beds on the main campus. The proposed financing will be secured by a junior lien on the net revenues of the Housing System.

In addition to the Housing System, there are four student housing facilities with a total capacity of 2,000 beds at the Towers at Golden Knight Plaza which were constructed in connection with the financing of the new convocation center (the "Convocation Center Housing") and which are not part of the Housing System. The revenues received from the Convocation Center Housing are not pledged to the outstanding Housing System Bonds and will not be pledged to the proposed financing. There are approximately $134.9 million outstanding bonds secured by the net revenues of the Convocation Center Housing.

Facility Site Location: The Project is located in the Northwest quadrant of campus in an area known as Greek Row.

Projected Start and Opening Date: It is anticipated that the houses will be purchased in November 2008, with renovations to be completed in July 2009. The houses will be available for occupancy in August 2009.

Demand Analysis: The total student resident capacity on the main campus of 5,669 for both the Housing System and the Convocation Center Housing is supported by an enrollment of approximately 48,691 students. The Housing System and Convocation Center Housing each experienced occupancy levels of 99% in 2007-08 and there was a waiting list of 1,550 students for the Housing System for the Fall 2007 semester.

Fourteen Greek chapters have expressed interest in entering into agreements to lease the houses from the University. If no Greek groups are able to meet the qualifications, the houses will be made available to other special interest groups such as LEAD Scholars or the Honors program.

Project Cost and Financing Structure: The proposed purchase cost of the two houses is $2.8 million with renovations, furnishings and other Project costs estimated at $1 million, for an estimated total cost of $3.8 million.

The University anticipates financing the Project with a 20 year bank loan (the "Loan") made available to the University of Central Florida Finance Corporation (the "Corporation") in an amount not to exceed $4,000,000. It is the goal of the Corporation to have the Loan bear interest at a fixed rate. However, due to the length and structure of this financing along with the Loan initially bearing a taxable interest rate, the Corporation may structure the Loan as variable rate debt to allow for the ability to prepay this debt, at any time, without penalty. Although the financing is structured as a 20-year amortizing loan, the University desires to and anticipates refinancing the loan within the next five years in conjunction with the issuance of additional senior lien Housing System Revenue Bonds.

The Loan is being structured with level annual payments and will be interest-only through April 1, 2011, with principal amortization commencing October 1, 2011, which is two years after completion of the project. Typically, amortization starts one year after completion of a project. This deferral of principal for an additional year results in a deviation from the level debt service structure called for in the Board of Governors Debt Management Guidelines. In addition, interest will be capitalized during the renovation through October 1, 2009 in the estimated amount of $200,000. The Loan is expected to finance the total cost of the Project without the contribution of University funds.

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

Security/Lien Structure: The Loan will be payable from and secured by a pledge of the lease rental payments from the students leasing the beds in the facilities and the Guaranty Payments and Parlor Fees, as described below. As additional security for the Loan, the University will grant a lien on the University's Housing System net revenues which will be subordinate to the lien granted to the holders of the Housing System Revenue Bonds currently outstanding in the amount of $81.345 million. The University's Housing System does not include the Convocation Student Housing System.

Each resident of the two houses will have individual housing agreements with the Department of Housing and Residence Life. When the facilities open in Fiscal Year 2009-10, the projected double occupancy rental rate would be equal to that charged in the on-campus Academic Village Community; $2,525 for double occupancy. In addition, the University anticipates entering into an agreement with each fraternal organization pursuant to which the organization will guaranty to pay for any unoccupied beds in the facilities ("Guaranty Payments"), as well as leasing the common areas within the facilities. Customarily, each facility is used by all members of the respective fraternal organizations attending classes at the University and each organization assesses each member a fee for the availability and use of the common areas located in the facilities ("Parlor Fees").

The University has not entered into any agreements with any Greek organizations and is not currently negotiating with any of the Greek organizations that have expressed interest in the Project. As a result, no credit review has been performed to determine the strength of any such organization's guaranty. The University expects to negotiate and complete a lease agreement at some future date.

Pledged Revenues and Debt Service Coverage: For Fiscal Year 2009-10, the first year of operation, the Project is expected to generate pledged revenues of $225,842. Throughout the five year projection period provided, projected coverage for the project on a stand-alone basis is only approximately 1x debt service and is dependent upon the collection of Parlor Fees from the Greek organizations in the amount of $115,000 per year. If the Parlor Fees are not realized, then based upon the information provided by the University, the net revenues of the Housing System will have to be used to supplement the annual debt service payments on the Loan. In Fiscal Year 2009-10, the entire Housing System pledged revenues are expected to be $9,832,455 resulting in a combined debt service coverage of approximately 1.5x on both existing senior lien bonds as well as the proposed junior lien debt.

The projected debt service coverages have been calculated using a variable interest rate of 5.47% (current rates plus 50 basis points) and assuming a 20 year taxable loan. The University has assumed that the projected revenues and expenses will increase by 3% per year. Projected occupancy rates are 97% for fall and 94% for spring semesters. The first year of interest on the Loan will be capitalized from the proceeds of the Loan through October 1, 2009.

Due to the guarantees by the fraternity or sorority's corporate organization, it is the opinion of the University's Bond Counsel that the interest on the Loan will be taxable to the Bank making the Loan. Structuring the financing as a taxable financing is in the best interests of the University because the guarantees of the fraternal organizations are a necessary and desirable component of the financing, and the benefit of these guarantees outweighs the additional interest cost associated with them.

(See Attachment 2 for a table of historical and projected pledged revenues and debt service coverage prepared based upon revenue and expense information supplied by the University).

Variable Rate Debt: The University has prepared a debt management plan related to the possibility that the Loan may bear interest at a variable rate. 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 debt currently comprises 7.1% of the combined University and DSO outstanding debt.

The University has $1.4 million in unrestricted cash in the Housing System. Due to the size and term of the Loan and the level of unrestricted cash in the Housing System, the University believes its exposure to interest rate risk associated with variable rate debt is reasonable. If the variable interest rate on the Loan increases by 200 basis points from 5.47% to 7.5% the annual interest expense would increase an additional $61,000 per year, or a total of $1.2 million for the entire 20-year loan. The University has no plans to enter into an interest rate swap. For the Fiscal Year 2006-07 University Housing System net revenues (operating revenues less operating expenses and debt service) were over $3.8 Million. Current and projected debt service coverage ratios are over 1.4x.

Type of Sale: Competitive

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University of Central Florida with respect to the request for Board of Governors approval for the subject financing. While the Housing System pledged revenues have historically generated positive debt service coverage and are 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, information supplied by the University indicates that if certain supplemental payments are not received from the Greek organizations, net revenues from the operation of the Project would not be sufficient to make debt service payments on the Loan and existing Housing System revenues would then be needed for such payments. Additionally, the proposed financing requires the University to own and operate Greek housing. This is a departure from the way Greek housing has historically been accommodated at Universities in Florida. Accordingly, prior to approval, careful consideration should be given by the Board of Governors to setting this precedent and to the potential use of Housing System revenues to support the financing. The proposed financing defers principal repayment for two years which is inconsistent with the Board of Governors Debt Management Guidelines. Other than this exception, 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.