BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
University of North Florida
Student Housing Project

Financing Description: The University of North Florida requests approval to issue fixed-rate, tax-exempt bonds in an amount not exceeding $116,000,000 for the purpose of constructing a student housing facility containing approximately 1,000 beds (the "Housing Project" or "Project") and to refund certain outstanding bonds of the University of North Florida Foundation, Incorporated (the "Refunding").

New Money Portion Housing Project: A portion of the bonds (the "New Money Portion") will be issued for the purpose of financing the construction, installation and equipping of an approximately 366,000 square foot facility, containing approximately 1,000 beds. The residence facility will include suite style accommodations in either four or six-bedroom, two-bath suites, and will also include laundry facilities, common lounges, common kitchens, study areas and program spaces. Additional planned amenities include: multi-purpose rooms, an exercise room, game room and a convenience store with snack bar and grill. Site amenities will include: a recreational swimming pool and deck, lighted tennis and basketball courts, sand volleyball courts, a running track, picnic areas and large playing/recreation fields.

The Project also includes the construction of 1,000 parking spaces and all necessary infrastructure and site development to support the residential facility and associated amenities and also to support the future expansion of the housing system (another 1,000 beds). Such items include the construction of road and parking improvements, extension of water and wastewater lines and construction of raised boardwalks across wetland areas to provide access to the core area of campus.

The Project is reflected on the approved master plan for the University and is consistent with the mission of the University because it will provide necessary student housing.

New Money Portion Facility Site Location: The Project will be located on a 27 acre site located on an unimproved portion of the eastern ridge of the University's campus, which has been designated for all future phasing of residential housing. The Project will be located on an unimproved portion of the campus that has no access or utility service. Costs related to making the site accessible to improvement and development, including a roadway and parking facilities, boardwalks across wetland areas and costs of extending the water and wastewater lines to the site, total $9 million.

Projected Start and Opening Date: Construction of the Project is expected to begin in June of 2007 and to be completed by July of 2009.

New Money Portion Demand/Need Analysis: The existing University housing system has a design capacity of 2,000 beds with a current occupancy of 2,425 students accomplished by tripling occupancy in some rooms designed as double occupancy rooms. The University believes that 425 of these students will seek double occupancy units when the Project is complete. The target market for the Project is the students in the upper class due to the suite style housing configuration. It is estimated that approximately 900 upper class students will move from existing housing to the Project. This will free-up existing housing for freshmen and will also eliminate the triple occupancy that currently exists.

For the last three fiscal years, housing contracts have increased by an average of 9% per year. The increase in demand for housing is anticipated to remain the same or increase in future years. The University also believes that there are a number of students in the upper classes that do not request on-campus housing due to the current triple occupancy situation. The University maintains a waiting list for student housing which contains approximately 200 students desiring housing on campus.

New Money Project Cost: The Project is estimated to cost approximately $86 million. Of this, $74 million will be funded from the issuance of the bonds (including an estimated $4 million of investment earnings on bond proceeds in the construction fund) and $12 million will be funded with a cash contribution from funds currently on deposit within the housing and parking auxiliary accounts.

Refunding Portion: A portion of the bonds (the "Refunding Portion") will be issued for the purpose of refunding certain outstanding variable rate obligations of the University of North Florida Foundation, Incorporated (the "Foundation"), including the Foundation's Capital Improvement Revenue Bonds, Series 1994, 1997 and 2000, outstanding in the aggregate principal amount of $34.2 million (collectively, the "Prior Bonds"). The Prior Bonds were originally issued to finance or refinance the existing housing system facilities. The purpose of the refunding is to create one consolidated housing system with the University of North Florida Financing Corporation (the "Corporation") and will have the added benefit of eliminating future exposure to interest rate risk by fixing the interest rate on the refunding. The refunding will not extend the maturity of the Prior Bonds.

Finance Plan: The total financing will be accomplished with the issuance of fixed rate, tax-exempt bonds in an amount not to exceed $116,000,000 and a cash contribution of $12 million. The bonds will be issued by the Corporation. A debt service reserve will be created to secure the bonds by the purchase of a surety bond equal to maximum annual debt service on the bonds. The bond size also includes estimated capitalized interest of approximately $8.7 million on the New Money Portion through November 2009, during construction of the Project.

The Refunding Portion will be structured in three pieces, each with a level debt service structure to match the maturity dates of the three series of Prior Bonds refunded. The New Money Portion will be structured with a 30 year final maturity and with a first principal payment date of November 1, 2011, which is two full years after construction is completed. The New Money Portion will be structured with ascending debt service through Fiscal Year 2015-16, with estimated debt service ranging from approximately $3.8 million in 2010-11 to approximately $5.4 million in 2015-16. This proposed structure is a deviation from the University's and Board of Governors' Debt Management Guidelines which recommend a level debt service structure be used.

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

Security/Lien Structure: The bonds will be secured by a first lien on the net revenues of the housing system ("Pledged Revenues") pursuant to a lease between the University and the Corporation.

Pledged Revenues and Debt Service Coverage: During the five year period from Fiscal Year 2001-02 to 2005-06, Pledged Revenues grew from $4,006,169 to $4,249,357. Debt service coverage for that period declined from 4.08x to 1.72x due to increased debt service requirements. For Fiscal Year 2009-10, the first year of operation of the Project, Pledged Revenues are projected to be $6,939,440, which would produce an estimated debt service coverage ratio of 1.55x; however, this projected coverage ratio is based upon capitalized interest funding four months interest for that year and there being no principal payment on the New Money Portion. For Fiscal Years 2010-11 through 2014-15, the University plans to use an ascending debt service structure for the New Money Portion to target as closely as possible the 1.20x coverage level set forth by the

University's and Board of Governor's Debt Management guidelines. Debt service coverage is projected to vary from 1.16x to 1.20x during that five-year period. It is projected that debt service payments will increase from approximately $6.3 million in 2010-11 and reach their maximum level for the remainder of the issue beginning in 2015-16 at approximately $7.9 million, and that pledged revenues will produce a debt service coverage ratio of 1.23x in that year.

The Debt Management Guidelines set forth that debt service coverage should be at least 1.20x, which is accomplished in all years except for 2010-11. For the years 2011-12 through 2015-16, the 1.20x coverage is achieved only through the use of an ascending debt service structure. The University believes that the deviation from the 1.20x coverage level and the use of a level debt service structure, as required by the University's and the Board of Governors' policies, is justified due to the unique nature of the project site which increased the costs of construction by approximately $9 million. The Debt Management Guidelines, however, state that "…[g]enerally, debt should be structured on a level debt basis…" but "…a deviation …is permissible if it can be demonstrated to be in the university's best interest, such as restructuring debt to avoid a default and not to demonstrate feasibility of a particular project."

The University is not planning to raise rental rates to a level sufficient to pay for the proposed financing with a typical level debt service structure. Instead, they are deferring principal repayment and using an ascending debt structure to defer the full debt service costs until revenues have grown to a level to provide sufficient coverage. This deferral of principal and ascending debt structure adds an estimated $3.8 million to the cost of financing the Project.

The projected debt service and coverage has been calculated using an assumed interest rate of 4.75% (approximately 25 basis points higher than current 30-year fixed rates) on the bonds. Pledged Revenues are projected to grow approximately 4% per year, primarily a result of increases in housing rental rates. Operating expenses are projected to increase 3% per year.

(See Attachment 2 for a table of historical and projected Pledged Revenues and debt service coverages, which was prepared based upon information submitted by the University).

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. Based on the analysis of the characteristics of the proposed financing, the University concluded that a negotiated sale of bonds would be most effective due to the lack of market familiarity with the credit and the Corporation and also the growth-based nature of the credit.

The Corporation selected an underwriter and a financial advisor through a competitive RFP process.

Analysis and Recommendations:

Staff of the Board of Governors and the Division of Bond Finance have reviewed the information provided by the University with respect to the request for Board of Governors approval for the subject financing. It appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt. Additionally, except for deferring principal repayment in Fiscal Year 2010-11, using an ascending debt service structure for five years and projecting a debt service coverage ratio of less than 1.20x in Fiscal Year 2010-11, it appears the proposed financing is in compliance with the Board of Governors Debt Management Guidelines. Staff of the Board of Governors recommends that the Board of Governors provide an exception to UNF to deviate from the BOG Debt Management Guidelines as indicated and adopt the resolution and authorize the proposed financing.