STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Agricultural and Mechanical University
New Student Housing & Debt Restructuring
(US DOE HBCU Capital Financing Program)

Project Description: Florida Agricultural and Mechanical University (the "University", "FAMU") submitted a Debt Management Packet dated June 14, 2018 proposing a $125M two-part transaction consisting of 1) construction of a new student housing project with an associated dining facility shell space (not to exceed $70M) (the "Project"); and 2) restructuring of all of its existing housing system debt (not to exceed $55M).

The proposed housing project will consist of two (2) four-story "H-shaped" student residence buildings, each with an east and west wing, representing 182,000 combined gross square feet and a total of 700 beds (500 replacement and 200 new) arranged in 350 double-occupancy bedrooms (with shared bathroom). The design includes support spaces, such as laundry facilities, vending area, common student lounges, study rooms, recreation/TV/computer rooms, and administrative offices. The Project includes an associated, separate dining facility shell space of approximately 10,000 sq. ft.

The proposed refunding will restructure all of the University's existing housing system debt; revenue bonds 2010A, 2010B and 2012A, in an aggregate amount not to exceed $55M, inclusive of new debt service reserves for each series, extending the term of the 2012A bonds by up to 10 years and place all University Housing System debt with the United States Department of Education's Historically Black Colleges and Universities Capital Financing Program (the "USDOE HBCU Program").

Housing Facility Site Location: The housing project will be located on FAMU's main campus, on a 4.8-acre parcel near the southwest corner of the campus. An associated separate dining facility will be located on a 2.25-acre site adjacent the north side of the housing project. The location is consistent with the campus master plan.

Projected Start and Opening Date: It is anticipated that construction will begin in January 2019, with a proposed completion date of August 2020. The loan process has been initiated with DOE and, based on a letter dated June 13, 2018 from Wanda Ford, FAMU's CFO and Vice President of Finance and Administration, in contemplation of BOG approval, the University intends to close on the HBCU loan by September 30, 2018.

Construction Analysis: The proposed housing facility is reflected on the University's approved master plan, and it is considered (by the University) to be Phase 1A of a much larger plan that, long term, would include another similar housing facility, parks, plazas and a new football stadium. At this time, the Board is being asked to authorize the proposed "Phase 1A" housing facility (and associated dining facility shell) only. If approved, the University's goal is to close the loan by September 30, 2018, but no later than December 2018, and commence construction in January 2019, completing the project by August 2020; approximately 18 months. University, and selected development partner, CTG, assert that the proposed schedule can be achieved. In the event the Project is not available for student occupancy effective Fall 2020, the University will still have approximately 460 beds available in existing housing prior to demolition (see chart "*Existing On-Campus Housing at FAMU*" in the *Quantitative Demand* section herein).

Following construction completion, the University plans to demolish three (3) existing residence halls; Paddyfote, Truth and Palmetto North, which will eliminate an identified maintenance backlog in these 3 facilities of $25M. The University has not yet selected a contractor for demolition and site restoration, nor have they finalized plans for the long-term use of the land, post site restoration.

The Project scope does not include the plan to address the $24M in deferred maintenance needs associated with the remaining units in the University's Housing System. However, the University is working on developing a comprehensive plan to address these needs; the plan can be executed if, and only if, the free cash flow anticipated from the new Project and the Refinancing is realized. This issue is addressed later in this Summary; see "Financing Structure" and "Deferred Maintenance".

The University has selected Construction Two Construction Managers, Inc. ("CTG"), an affiliate of CTG Development Company, as the developer and construction manager. Construction costs are based on a Schematic Design Closeout Report dated 8/6/18 and a Schematic Design Construction Cost Estimate dated 8/1/18. Separately, the University has contracted with Pinnacle Engineering for utility infrastructure and hook-up.

Project Cost:

Estimated construction cost for the proposed housing facility and dining hall total $57.3M; $51.7M for the housing facility, $2.75M for the dining hall shell space and $2.8M for utility infrastructure, not to exceed $60M, resulting a per-bed cost of approximately $85,714. Total cost will not exceed $70M, inclusive of capitalized interest, a debt service reserve fund and cost of issuance (see *Estimated Sources and Uses of Funds*). The University intends to enter into a loan agreement with U.S. Department of Education through its Historically Black College and University (HBCU) Capital Financing Program, and will request the Division of Bond Finance to issue fixed-rate, taxable revenue bonds for the purpose of financing the project and restructure existing housing system debt (discussed later in this Summary). The USDOE HBCU Program offers advantageous terms, namely a fixed rate set at the 30-yr Treasury rate plus 22.5 bps (3.275%, as of 8/13/18), and the loan term will not exceed 30 years beyond construction completion. While the debt has a fixed rate, the overall cost of funds will not be known until after final construction draw. To clarify, during construction, each monthly draw will be priced based on the prevailing treasury rates at the time of the draw. Over the proposed 18-month construction period, there will be 18 different subseries of bonds, each with a different fixed interest rate. Once construction is complete and the final draw is completed, the overall costs of funds can be determined. There is interest rate risk throughout the construction period

Refunding and Debt Restructuring

In addition to the new housing project, the University proposes to restructure all of its existing housing system debt through advance refunding of Series 2010A, 2010B and 2012A; approximate par outstanding of $10.8M, $6.7M and $35.1M, respectively. The aggregate amount is not exceed $55M, inclusive of new debt service reserve funds and cost of issuance.

It is anticipated that the 2010A&B bonds will be refinanced with no change to final maturity or overall debt structure. However, the final maturity of the 2012A bonds (originally a 20-yr term, maturing 7/1/32) will be extended up to 10 years, providing for a lower, level annual debt service of approximately $2.4M, and it is well within the 50-yr estimated useful life of the facility (FAMU Village). Furthermore, the extended term will keep aggregate housing system annual debt service at approximately $8M in the early (and highest) years, helping to ensure a DSC of 1.30x or better, while bolstering housing system net revenues (after debt service) which will be used to fund the University's 10-yr deferred maintenance plan.

Carrying cost on the existing debt is 5.07% (2010A), 4.06% (2010B), and 4.0%-5.0% (2012A). Unlike the new money Project piece of this transaction, the cost of funds of which will not be determined until after final construction draw, the interest rate on the refunding piece will be locked-in immediately upon closing (based on the Treasury rate at the time of pricing that corresponds to the final maturity of the refunding). Federal DOE prices the bonds based on the final maturity. For comparative purposes, rates utilized in the debt service projections range from 3.17% for the shortest refunding (includes 25 bp premium; volatility spread) to 4.12% for the 30-yr new money (includes 100 bp premium; volatility spread). A Preliminary Structuring Scenario provided by the University indicated actual savings over the remaining/extended term of approximately $238k, limited by the offsetting interest carry associated with the 10-yr extension of the 2012A debt.

Financing Structure: The proposed taxable financing provides the University with more favorable terms than it may otherwise obtain in a tax-exempt capital markets transaction, such as significantly lower cost of funds and the ability to advance refund its existing housing system debt. This will allow the University to increase its annual housing system cash flow, which, in turn, will be used to address significant deferred/ongoing maintenance needs in the coming years (see the *Deferred Maintenance* section herein).

While the transaction is generally in compliance with the SUS Debt Guidelines, the taxable nature of the USDOE HBCU Program is a deviation from the Guidelines. Also, several more exceptions are proposed by the University, all of which are for the same purpose, namely to generate additional (housing system) cash flow which will be utilized to address existing deferred maintenance needs. In addition to the being taxable debt, the University is proposing extended the term of the 2012A bonds, currently outstanding in the amount of $35.1M. This debt was originally issued with a 20 year life, but will be extended up to an additional 10 years, providing lower level debt service. Furthermore, the new money "Project" debt will be structured so that projected debt service coverage achieves at least a 1.30 X debt service coverage in the early years of the Project. In order to achieve this goal, the University is proposing a debt structure which has limited principal amortization for the first several years. This is a warranted deviation from the Debt Guidelines to improve cash flow, which will be used to address significant long-term maintenance needs. Lastly, the proposed debt service is not level (although projected to decrease in later years the underlying refunded bonds (2010A&B, 2012A) retire.

Quantitative Demand: Based on University's "Accountability Report", annual enrollment has steadily declined over the past five years, dropping 20% over the period. However, the University has indicated a trend reversal with a 2.4% increase in FY17-18, and further projects consistent annual growth to an estimated 11,000 students by 2020, driven by recruiting efforts and improved/new on-campus housing.

FTE Enrollment by Level
(Actual and Projected)

	Actual					Projected				
	12-13	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**	**21-22**
Undergrad.	9,632	8,656	8,090	7,786	7,435	7,614	7,969	8,348	8,753	9,185
Graduate	2072	1,861	1,795	1,832	1,945	1,991	2,084	2,184	2,290	2,403
Total	**11,704**	**10,517**	**9,885**	**9,618**	**9,380**	**9,605**	**10,053**	**10,532**	**11,043**	**11,588**
% Change	-	-10.1%	-6.0%	-2.7%	-2.5%	2.4%	4.7%	4.8%	4.9%	4.9%

Enrollment data based on Board of Trustees-approved (6/7/18) *Accountability Report* submitted to the Board of Governors.

In 2016, the University engaged Novogradac & Company to conduct a market demand study for the proposed student housing project. According to the study, the University has potential demand for approximately 1,400 beds (new and renovated) based primarily on the increased enrollment projections and the University's policy requiring certain students live on campus. Specifically, per FAMU, students required to live on campus the first two (2) academic years of enrollment include freshmen, all student athletes, all full University scholarship recipients (Life Gets

Better Scholarship, Distinguished Scholars Award, and Adopted High School Scholarship), Access Summer Bridge Program and CeDAR ART Program participants. The study suggested a total bed capacity of approximately 2700 beds per 10,000 students. The University's housing system currently has 2,543 on-campus beds available and in use within its nine on-campus housing facilities (see table below).

Existing On-Campus Housing at FAMU

Housing	Beds	Unit Types	Rent per Bed per Semester	Year Built/Ren.
Residency Halls				
Young Hall	79	Double/Single	\$3,406-\$3,832	1929/2011
Sampson Hall	159	Double/Single	\$3,406-\$3,832	1938/2011
Gibbs Hall	302	Double	\$2,736	1955/1989
Truth Hall *	103	Double	\$2,736	1958
Paddyfote *	229	Single	\$2,953	1967
Palmetto North *	163	Double	\$2,719	1975
Apartments				
Palmetto South	352	3BR double & 4BR single	\$2,825-\$3,188	1993
Palmetto Phase III	356	3BR double & 4BR single	\$2,902-\$3,260	1996
FAMU Village	800	2BR single suites	\$3,740	2014
Total	**2,543**			

**To be closed upon construction completion of the proposed 700-bed housing project.*
The above data provided by the University as of 8/17/18. Rents do not include a meal plan, but are inclusive of furnishings and utilities.

The University plans to close residence halls Truth, Paddyfote, and Palmetto North, resulting in a decrease of approximately 500 beds – the aggregate design capacity is 793, but current capacity is much less (486, as of 8/14/18) due to condition/age. Note, residence halls Diamond, McGuinn, Wheatley and Cropper (not included in the table above) have been mothballed for several years. The University intends to demolish these buildings, but that is outside of the scope of this summary. Palmetto North was previously closed, but increased enrollment in FY17-18 resulted in the University temporarily re-opening the hall to address the need for beds. Based on University-supplied data, Fall 2018 housing occupancy is 100% with a waiting list (as of 8/17/18). Also, FAMU is experiencing a 20% increase in applications for FY18-19, and there is a waiting list for FAMU Village, the newest on-campus housing facility (6-story midrise, 2BR/1Bath single-occupancy 313-sq.ft. suites, intended for upperclassmen).

The proposed new 700-bed housing facility will replace lost housing stock (i.e. closure of Truth, Paddyfote and Palmetto North) upon construction completion, while increasing aggregate inventory by approximately 200 beds.

The Novogradac market study contemplated an apartment-style, single-occupancy development, but the proposed facility will be studio-style, double-occupancy bedrooms, similar to the units it will replace in Truth and Palmetto North; both to be removed from inventory upon Project completion. For comparative purposes, Sampson and Young halls, both renovated in 2011 and double-occupancy, are projected to have rental rates of $3,542 per student per semester (pbps) for double-occupancy rooms by 2021. The University's anticipated average rental rate for the proposed new facility is approximately $3,952 pbps; $410 more than the older Sampson and Young halls, and roughly $60 more than FAMU Village (built in 2014, but a different design; 2BR single-occupancy suites).

In light of residency hall closures, anticipated increased enrollment and the requirement that certain students (i.e. freshmen, athletes, full scholarship recipients, etc.) live on-campus, the study indicated sufficient demand in support of the proposed 700 beds.

Deferred Maintenance

The University's need for new housing is further substantiated by the extensive deferred maintenance issues, undesirable and unsafe living conditions and the goal to improve its comparative advantage. In December of 2017, the University contracted with the ISES Corporation, an independent third-party firm, to perform a comprehensive Facility Condition Assessment (FCA) of its housing facilities. As reflected in ISES's Executive Summary dated February 2018, the assessment included 30 university buildings, encompassing 861,858 square feet, and suggested that all of the residence halls be either renovated (to varying degrees) or replaced, due to age and critical maintenance issues. However, this observation applies less to the newest housing facility, FAMU Village (a 2012 project), as well as halls Sampson and Young, both of which underwent significant renovations in 2011. Also, it should be noted that Diamond, McGuinn, Wheatley and Cropper have been closed for years and were not included in the assessment. Truth, Paddyfote and Palmetto North were judged to be in "below average" condition, requiring extensive renovations. Palmetto North was previously closed, but the University has temporarily re-opened the hall to accommodate increased demand. The other buildings in the system were deemed "fair" to "excellent" due to their comparatively young age and/or recent renovations.

Based on the ISES report, the University's housing system has $49M in identified maintenance needs; nonrecurring and recurring. Of the total, $25M will be eliminated through the closure of Truth, Paddyfote and Palmetto North, where repairs/renovations are cost prohibitive. This leaves $24M in maintenance needs over the next 10 years, most of which is concentrated in Gibbs, Palmetto Phase II and Palmetto South. The University has a plan to address the remaining identified needs over the next 10 years, with the most critical repairs to be addressed first and less-critical/recurring needs tackled in the later years. To carry out the plan, the University plans to fund maintenance needs through net cash flow from the housing system (after payment of debt service and all other expenses), which they have projected to be $2.0M - $3.25M annually.

If net cash projections are lower than estimated, the University has not identified other funding sources to complete the entire scope of maintenance work. Factors that could lower the net cash projections are 1) lower occupancy levels; 2) higher expenses; 3) lower collection rates.

Pledged Revenues & Debt Service Coverage:

The loan/bonds will be secured by and payable from a first lien pledge on the University's housing system net revenues. Note, since the proposed transaction will refund and restructure all of the University's existing housing system debt, there are no parity considerations.

Over the past five years, despite consistent annual decline in FTE enrollment, housing system revenues averaged $11.4M through FY14, climbing to $14.9M in FY16 following the opening of the 2012A project (FAMU Village), dropping the following year to $14.5M with the closure of Palmetto North. Over the same period, the system exhibited weak DSC in the early periods; 1.09x (FY13) and .65x (FY14), but posted consecutively stronger coverage in subsequent periods; 1.11x (FY15), 1.23x (FY16) and 1.34x (FY17). Note, in FY14, the University used available cash reserves in the housing system to cover deficits in debt service funding stemming from a one-year delay in opening FAMU Village (2012A bonds).

Upon opening, the University anticipates rental rates for the proposed 700-bed facility at $3,952 per bed, per semester, adding approximately $4.5M to system net revenue, more than offsetting the $2M lost from the closure of Paddyfote, Truth and Palmetto North. Revenue and expense projections are based on a system-wide occupancy rate of 96%, with existing older, smaller facilities at 99%-100% occupancy and the newer, larger facilities (FAMU Village and the proposed project, combined 1500 beds and 55% of total stock) at around 95%. Projected revenues and expenses of the system are based on assumed 4% increase in rental rates every four years (versus annually), 1-2% annual increases in personnel expenses and general operating expenses. Debt service payments on the new bonds have been estimated using interest rates ranging from 3.228% (for the shortest term refunding) to 4.12% (for 30-yr new money bonds, includes 100 bp volatility spread to be conservative). Annual Debt Service Coverage is above 1.30x over the projected period. (See *Historical and Projected Debt Service Coverage* prepared based upon revenue and expense information supplied by FAMU.)

Return on Investment The Project is expected to provide a positive return with an internal rate of return (IRR) estimated at 3.11%, based upon the assumptions provided by the University. (See *Projected IRR*)

Type of Sale: The loan will be placed with Rice Capital Access Program LLC as the US DOE's loan administrator and Designated Bonding Authority (DBA), with the Dept. of Education guaranteeing repayment of principal and interest for the HBCU loan.

Credit Ratings: In light of the financing structure and guarantee through U.S. Department of Education, the University will not be required to obtain or maintain a bond/credit rating.

Overall Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University with respect to the request for Board of Governors approval for the subject financing.

This is a "one-time" solution for FAMU, and it represents an historic opportunity to restructure existing housing debt and revitalize FAMU's residential housing stock. The consequences of taking no action will be a long-term decline in the number of beds on campus, with existing good condition rooms moving towards poor over time.

Projections provided by the University indicate sufficient net revenues will be generated from housing rental income to pay debt service on the HBCU loan.

The Board staff recommend that the Board consider adding the following as conditions to the approval of the transaction:

1) The University develop a robust contingency plan to address failure of some or all of the Project to open for occupancy as scheduled.
2) The University report on a monthly basis to Board staff on all aspects of the Project until such time as the Board determines this is no longer required.
3) The University submit to Board staff the Close Out Report at the end of each development phase; Conceptual/Schematic Design, Design Development, Construction Documents (50% and 100%) and Design Build.
4) The University submit to Board staff a draft GMP contract by November 1, 2018.
5) The University continue to pursue outsourcing of Housing maintenance.
6) The University to report its progress in addressing its Housing System Deferred Maintenance needs, as shown in the Facility Condition Assessment Executive Summary prepared by ISES Corporation in February 2018, to the Board of Governors on an annual basis.
7) The University may not transfer any housing system moneys from the housing system for non-housing system purposes, except for the housing system's reasonable share of general University overhead expenses, until such time as

all existing Housing System Deferred Maintenance has been addressed.

8) The University may not request any additional housing system debt, or request approval to enter into housing-related public private partnership arrangements, until 1) the completion of the Project, and 2) a Facility Condition Assessment is performed which indicates that the University is making substantial progress in addressing Housing Deferred Maintenance.

It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and is generally in compliance with the Board of Governors Debt Management Guidelines dated September 22, 2016, except for 1) the extended maturity on the 2012A debt; 2) delayed principal amortization (on the new money piece); 3) non-level debt service; and 4) the contemplated financing is taxable debt, all of which have been explained previously in this Summary. Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing.