

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of South Florida
USF St. Petersburg Student Housing and Dining Facility

Project Description: The University of South Florida St. Petersburg (“USFSP” or “University”) submitted a proposal dated July 27, 2018 for financing the construction of a new 6-story mixed-use facility comprised of student housing and a dining facility shell (together, the “Project”). Project financing will be through the issuance of debt by the USF Financing Corporation (the “DSO”) in an expected amount not to exceed \$33M as well as an \$800K equity contribution by the University.

The student housing facility will be approximately 125,000 square feet, with 375 beds in suite style configuration, comprised primarily (60%-75%) of 4 bed-2 bath single-occupancy units, with the remainder as 2 bed-1 bath double-occupancy units. Approximately 30-40 of the single-occupancy units will be designated “flex” units; capable of converting to double-occupancy. The anticipated design will include a student lounge and study room on each floor as well as community laundry space. When added to USFSP’s existing 541 beds, aggregate on-campus housing capacity will increase to a projected 20% of overall student enrollment.

The dining facility shell will be approximately 12,000 square feet and accommodate approximately 400 seats. The facility is integrated into the student housing component, will be available for all USFSP on-campus resident students and will be operated by the University’s current dining services operator, Sodexo, pursuant to a 10-year contract. Sodexo will be responsible for costs for build-out (interior) and equipping of the dining facility.

The Project is included in the campus master plan and it addresses projected student demand for housing and dining.

Site Location: The Project will be located near the northwestern corner of campus on the NW corner of 3rd street and 6th Avenue.

Projected Start and Opening Date: The Project was approved by the DSO Board of Directors and the USF Board of Trustees on July 9 and July 24, 2018, respectively.

Project design is expected to commence in November 2018 and the Project is expected to be complete in July 2020.

On July 27, 2018, the DSO initiated a competitive procurement process for design and construction services. Five proposals were received from qualified, experienced firms by the September 7 due date. On October 11, 2018, the Beck Group, an experienced firm who has successfully completed large projects for the University, was selected as the design-builder for the Project. The Beck Group is committed to deliver the Project in July 2020 at a guaranteed maximum price of \$30.7 million.

Construction Phase: The University expects Project design to commence in November 2018, followed by the commencement of construction in February 2019, and Project completion in July 2020 (21 months in total).

Project Cost: The University expects construction cost for the proposed housing facility and dining hall to total \$30.7M, including \$27.2M for the housing facility, \$2.2M for the dining hall shell space and \$1.3M in contingencies, resulting in a per-bed cost of \$78,700 and a bond amount of \$33M. (See *Estimated Sources and Uses of Funds*).

Operation of the dining facility will be outsourced to the current USFSP dining service operator, Sodexo, who will also be responsible for interior build-out and equipping of the facility at an estimated cost of approximately \$2.8M. Sodexo will recoup its upfront investment through meal plan revenues stemming from a 10-yr dining services contract. Although the University requires student residents on the USFSP campus to purchase a meal plan, the University is not guaranteeing any specific number of meal plans or revenues to Sodexo. The University requires Sodexo to offer a diverse array of meal plans, including an unlimited/all-you-can-eat option, and to keep them affordable to students.

Financing Structure: The Project will be financed with 30-year, fixed rate, tax-exempt debt issued by the USF Financing Corporation ("DSO") in an amount not to exceed \$33M; inclusive of capitalized interest (\$2.75M) and cost of issuance (\$350k), as well as an \$800k cash equity contribution from the University. The debt will be on parity with the DSO's outstanding \$179M of USF Housing System debt as of June 30, 2018. The bonds will be structured with a level debt service.

According to the University, current market rates are 4.1%-4.3%. However, for the purpose of projections, debt service coverage is conservatively based on a tax-exempt fixed interest rate of 5.00%.

A debt service reserve equal to the maximum annual debt service on the bonds will be accomplished via internal restriction of funds from USF Housing System cash on hand.

**Quantitative Demand
For Project:**

Based on the University’s “Accountability Report”, annual enrollment has fluctuated over the past 5 years, but averaged around 4,200 FTE’s, with the University projecting modest 2% annual growth in enrollment through FY21-22 (see chart below).

FTE Enrollment by Level
(Actual and Projected)

	Actual					Projected				
	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Undergrad.	4,071	3,831	3,639	3,671	3,767	3,804	3,880	3,958	4,036	4,116
Graduate	387	429	440	442	434	416	428	437	448	459
Total	4,459	4,260	4,080	4,112	4,201	4,220	4,308	4,395	4,484	4,575
% Change	-	-4.46%	-4.23%	0.78%	2.16%	0.45%	2.09%	2.02%	2.03%	2.03%

Enrollment data based on USFSP’s 2018 *Accountability Plan* dated 5/2/18 presented to USF System Board of Trustees 6/12/18 and the Board of Governors 6/28/18.

The St. Petersburg campus currently has 541 revenue-generating beds (64% apartment beds, 36% semi-Suite beds). Although students are not required to live on campus, the University reported that, as of September 2018, 604 students chose to live on campus, representing 63 occupied beds over existing design capacity (USFSP has temporarily converted some single-occupancy bedrooms to double-occupancy). Furthermore, 80 students opted to be placed on an on-campus housing wait list that USFSP monitors.

The University engaged Brailsford & Dunlavey (“B&D”) to study demand for new on-campus housing, the findings of which were reported in an April 2016 analysis, updated June 2018. Noting a target occupancy date of Fall 2020, B&D estimated current excess demand of 331 beds growing to 395 beds by Fall 2020.

As part of its analysis, B&D surveyed 32 off-campus multifamily developments where students live in the area around USFSP. B&D identified three apartments as most comparable; they were newer (built within 10 years) and close to campus. Average rent for these comparable off-campus 2BR apartments is \$8,988-\$10,160 per

semester, or \$4,494-\$5,080 per bed per semester, as reflected in the chart below.

Comparison of Existing Housing Options

Housing	Beds	Unit Type/Occupancy	Rent/Bed per Semester*	
			Current	FY20*
USFSP On-Campus Residency Halls				
Residence Hall One (built 2006)	352	Studio, Double	\$4,332	\$4,596
		2BR Suite, 6-8 people	\$2,922	\$3,100
		4BR Suite, Single	\$4,491	\$4,764
University Student Center (built 2012)	201	1BR Suite, Double	\$4,332	\$4,596
		1BR Suite, Triple	\$2,922	\$3,100
New Housing Project	375	4BR Suite, Single	--	\$4,671
		2BR Suite, Double	--	\$4,505
Comparable Off-Campus Apartments				
Camden Pier District	n/a	2BR, Single	\$5,018	\$5,324
Cottonwood	n/a	2BR, Single	\$4,494	\$4,768
Hermitage	n/a	2BR, Single	\$5,080	\$5,389

The above data based on Brailsford & Dunlavey student housing demand report, June 2018, and current online rental rates for off-campus apartments. On-campus rent includes utilities, but not meal plan, and current inventory includes resident assistant units.

**Semester based on 4 months. FY20 rental rates projected with 3% annual increase. Off-Campus Apartment rent is per-unit rate converted to per-bed, for comparative purposes.*

In December 2016, the USF Board of Trustees approved a 3-year rental rate structure for the USFSP campus. According to the University, revenues projected for the student suites intended for the Project utilize the Fall 2019 per semester rental rates approved by the Trustees; \$4,671 (single occupancy units) and \$4,505 (double occupancy units).

B&D noted that students were very price sensitive; a 30% decrease in demand (119 beds) resulted when rent was increased \$100 per month over the USFSP rates tested in the survey. The report's Student Focus Groups said "(students) prefer to live on campus but combined cost of room and board is too high" and "more affordable options (are available) if commuting from outside downtown St. Petersburg." The report further noted that many students find off-campus housing that is less expensive, with housing costs further reduced if students share bedrooms, but it requires an average 6.5-mile commute to campus. While the report did not provide rental rate data for these housing options located far from campus, a cursory online search revealed rates (for a 2BR apartment) of approximately \$1,000-\$1,400

per month, or \$2,000-\$2,800 per bed per semester (not including utilities or cost of commuting).

B&D's final report recommended a 375-bed project composed of full suites (four beds per unit, split into single and double-occupancy) with a target occupancy date of Fall 2020, adding that the two suggested unit types would create more on-campus options. Furthermore, while Project breakeven occupancy is estimated at 83% by the University, B&D's report anticipates 100% occupancy based on identified demand.

The Project also includes a dining facility, which will provide a needed amenity that does not currently exist on campus; there is no large indoor venue for meals. According to the B&D report, "*The most common reason students stated they eventually chose to live off campus was the limited scale of dining options on campus.*", while the report's Student Focus Groups said the "*meal plan is expensive and food options are overpriced*". According to B&D's survey, 47% of students were "*only slightly satisfied or dissatisfied*" with the dining options currently available.

Assessment of Private Sector Alternatives:

The University considered a public-private partnership (P3) structure during the Project evaluation process. In fact, USF's Tampa campus employed a P3 approach in developing its recent "Village" student housing project; chosen due to the large size, scale and density of the project, and to avoid use of the University's bonding capacity (if bonded, USF would have needed to stage the development over 8-10 years). However, those same attributes were not present in the proposed Project. The significantly smaller size, scope and nature of the Project did not make the P3 approach advantageous. According to the University, in the P3 scenario that was considered, the cost to students would have been higher (development, operating and financing costs were higher) and it would have placed the University in a subordinate position regarding design input, financial benefits, operational controls and the ability to fully integrate the Project into existing student housing on the St. Petersburg campus. In light of these factors, a University-financed approach was chosen for the Project.

Security/Lien Structure:

The Project debt will be secured by a first lien on USF Housing System Revenues, on parity with the lien granted to the holders of the DSO's outstanding \$179M of Housing System Debt (as of June 30, 2018). The System Revenues include all gross income and

revenues including fees, rentals or other charges received by the DSO, or the University on behalf of the DSO, derived from the ownership and operation of all System Facilities. The Housing System, owned by the DSO, includes approximately 4,352 beds located on the Tampa campus, 541 beds located on the St. Petersburg campus as well as a 1,161-space structured parking facility also located on the St. Petersburg campus.

Pledged Revenues & Debt Service Coverage:

The revenues available to pay debt service consist of System Revenues which will include the revenues from the Project. The Project's operating revenues are projected at \$4,353,078 in FY21-22 and \$4,483,670 in FY22-23, which, net of operating expense yields a net debt service coverage ratio of 1.30x and 1.34x, respectively. To that extent, normally, debt service for auxiliary enterprises is secured by a pledge of net revenues (i.e., gross revenues less operating and maintenance expenses). However, in this case, the pledge is a gross revenue pledge, specifically a first lien pledge of USF's aggregate Housing System gross revenues ("System Revenues"), providing a priority for the payment of debt service. As such, calculation of gross debt service coverage is appropriate and, for the two prior periods cited above, results in coverage ratios of 3.39x and 3.50x, respectively. (See *Historical and Projected Debt Service Coverage*)

Return on Investment:

The Project is expected to achieve an internal rate of return (IRR) estimated at 9.94%, based upon assumptions provided by the University. (See *Projected IRR*)

Method of Sale:

The Project debt will be issued using a tax-exempt, fixed interest rate structure, but will be in the form of Certificates of Participation (COP). According to the DSO, COPs are viewed by the market as less attractive. Furthermore, the DSO is an infrequent issuer without a broad investor base, and the pledge of non-tax-based revenues is considered somewhat weaker (by the market) than a general receipts/obligations pledge. Consequently, based on the analysis of the characteristics of the proposed Project debt, the DSO concluded that a negotiated sale is in the best interest of the University and DSO.

Selection of Professionals:

The professionals involved in this transaction were selected through a competitive process. The bond counsel for the debt will be Bryant Miller Olive; disclosure counsel, GrayRobinson; and financial advisor, PFM Financial Advisors LLC.

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 Project and issuance of debt. The demand for the Project appears adequate and University-provided projections indicate more than sufficient System Revenues to service the additional debt.

It appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt as well as Board of Governors Debt Management Guidelines. Accordingly, Board staff recommends adoption of the resolution authorizing the proposed Project and financing.