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**MEMORANDUM**

To: Board of Governors

From: J. Ben Watkins III

Date: March 14, 2019

Re: Florida International University – Hotel and Conference Center Construction

As required by Section 1010.62(3)(b)4, Florida Statutes, the Division of Bond Finance (“DBF”) has reviewed and analyzed the information provided to support Florida International University’s (“FIU’s”) proposed public-private partnership to finance, construct and operate a hotel and conference center with associated parking (the “Project”) on the main campus of the university. DBF has also reviewed the Board of Governors (“BOG”) staff analysis of the proposed Project, and FIU’s written responses to questions that arose at the August 31, 2017 BOG Facilities Committee meeting.

The primary concern arising from this Project is the potential pressure on FIU to provide financial assistance to the hotel if demand is insufficient to make it profitable for the developer/owner of the Project. To address this concern, the Board could embed conditions in the authorizing resolution for the Project to address issues it determines are appropriate. For example, that FIU is prohibited from providing financial support to the hotel in any form, whether taking over the project, providing utilities or shared infrastructure/services at less than full cost, providing any other services including marketing and promotion, developing new programs to support the hotel or guaranteeing a certain amount of room nights/usage of the Project. The authorizing resolution could also require the final documents to build in a maintenance reserve to ensure the Project is in good condition at the end of the lease term and to provide for demolition at the developer’s expense if FIU chooses not to take over the building at the end of the lease term.

Below are the specific issues that we identified for the BOG’s consideration in connection with its evaluation of FIU’s Project. The recommendations provided above are an effort to address these issues and protect the university from any pressures should the financial performance of the Project not be consistent with projections.

***Demand***

FIU commissioned three feasibility studies to determine the demand for the Project under various configurations, however none of the feasibility studies show strong demand for the size and scope of the proposed Project absent demand provided by the university. The December 2013 study conducted by PKF Consulting USA (“PKF”), concluded that there was insufficient demand to support the development of a large-scale hotel and conference center. The study found that 74% of FIU’s needs for conference space were already being met on campus, but that a smaller scale hotel with 95 beds, a restaurant and bar could operate successfully in the future.

PKF updated its study in June 2015 and found an increase in demand when it focused on demand created by FIU’s main campus specifically. PKF surveyed FIU departments to determine demand for lodging and meeting space needs. PKF found FIU-generated lodging demand of 23,300 rooms per year (versus its estimate of 14,100 rooms per year in the 2013 study). With this updated room demand estimate which equated to a 67% occupancy rate for a 95-room hotel, PKF still points to a gap of 8,000 to 10,400 rooms per year which would need to be filled by external sources to operate at a successful level.

FIU also hired JLL to conduct a market demand study along with financial projections and cost estimates, which was completed in October 2015. The JLL study found sufficient demand for a 150-bed hotel and determined that a smaller hotel would eliminate benefits received from economies of scale. JLL based its findings on current market demand and the trend in the area for increasing lodging demands. JLL's study also assumed that the hotel would be branded and operated by a well-known operator, which tends to increase occupancy. JLL's study indicates that by 2020, the hotel would stabilize at 73% occupancy. JLL estimated that with FIU leadership implementing incentive policies to *drive* demand, the hotel could achieve 75% occupancy, but if the hotel relied solely on the FIU demand, occupancy would only reach 48%. FIU must create executive programs to ensure the success of the hotel.

### ***Location***

The proposed hotel and conference center utilizes property on a constrained campus footprint. Building a hotel and conference center on a limited land university campus restricts the availability of land for academic buildings. This raises the issue of the highest and best use of the university campus property. Foreclosure or repossession of the leasehold interest may prove problematic for FIU if the hotel does not meet projections, particularly if the alumni center is attached. If the hotel does not meet projections, FIU may be pressured to provide financial assistance as noted previously. Since the hotel is integrated with the alumni center and associated parking, the Project may be considered in FIU's debt profile by the rating agencies.

Additionally, at the end of the 40-year sublease, unless renewed, the hotel will revert to FIU. FIU justifies the two five-year renewal terms (exercisable at FIU's option) by the increased profit sharing to the University once outstanding debt is satisfied and by the industry norm of 50 to 99 years for hotel ground leases. At the end of 40 years the hotel may be worthless or obsolete and a liability for FIU. Demolition and removal may be problematic since the alumni center is attached to the hotel.

### ***Core Mission***

The Project does not directly support the core mission of the University to educate and graduate students but will utilize FIU resources and personnel, including 5 acres of land on a physically constrained university campus. The Project will combine the hotel with university facilities (the alumni center) which could potentially pressure FIU to provide financial assistance if projections are not met and/or cause the debt to be included in FIU's debt profile.

cc: Marshall M. Criser, Chancellor, Board of Governors  
Chris Kinsley, Assistant Vice Chancellor, Board of Governors