

**STATE UNIVERSITY SYSTEM OF FLORIDA**  
**BOARD OF GOVERNORS**  
**Project Summary**  
**Florida Atlantic University**  
Housing Facilities on Boca Raton and Jupiter campuses  
March 27, 2019

**Project Description:** On December 19, 2018, Florida Atlantic University (“FAU” or “University”) submitted a proposal for financing the construction of two (2) new housing facilities; one on the Boca Raton (main) campus and the other on its Jupiter campus (together, the “Project”). Project financing will be through the issuance of debt by FAU Financing Corporation (“DSO”) in the principal amount of not to exceed \$78,500,000.

The housing facility on the main Boca Raton campus (“Boca facility”) will be approximately 185,000 square feet, seven (7) stories, with approximately 616 beds comprised of single and double-occupancy suite configurations. A community kitchen on each floor, co-located with study/laundry space, will provide students an alternative to a meal plan. Also, FAU intends to construct a surface parking area comprised of approximately 230 spaces reserved for use by on-campus residents.

The facility on the Jupiter campus (“Jupiter facility”) will be approximately 51,000 square feet, three (3) stories, with approximately 165 beds in single-occupancy full suite configuration and an approximate 124-space surface parking area dedicated to residents of the Jupiter facility. The design will include a kitchenette in each units, a community kitchen on each floor and a first floor fitness center.

The Project is included in the campus master plan and was approved by the DSO’s Board of Directors on October 30, 2018 and FAU’s Board of Trustees on November 13, 2018.

The proposed Project, targeting a Fall 2021 opening, represents the first phase of FAU’s two-phase, 5-year delivery strategy to address projected unmet housing demand on both campuses. The second phase, of similar size/scope and targeting a Fall 2024, is not part of the current proposal and is not being submitted at this time for consideration by the Board of Governors.

**Site Location:** The Boca facility will be located approximately within the current footprint of the to-be-demolished Algonquin Hall; the oldest (1965) housing facility on the main campus. The Jupiter facility will be located on a vacant parcel near the campus's two existing residence halls built nearly 20 years ago.

**Construction Phase:** Advanced design of both housing facilities is expected to begin in April 2019, with construction commencing on the Boca campus in November 2019, followed by construction of the Jupiter facility in April 2020, with both facilities completed in July 2021.

**Project Cost:** FAU expects construction costs for both facilities to total \$69.3 million; \$54.1 million for the Boca facility and \$15.2 million for the Jupiter facility, including \$3.3 million in contingencies, resulting in a per-bed cost of \$87,823 (Boca) and \$91,846 (Jupiter). The Jupiter budget includes \$558K for dedicated surface parking, resulting in higher per-bed cost than Boca. (See *Estimated Sources and Uses of Funds*).

**Financing Structure:** The Project will be financed with 30-year, fixed rate, tax-exempt debt, with level debt service, issued by the DSO in the principal amount not to exceed \$78.5 million; inclusive of capitalized interest ("Cap-I") and cost of issuance. A debt service reserve is not necessary, thus not included.

According to FAU, estimated Cap-I includes six (6) months additional funding beyond anticipated construction completion (July 2021); the intent being to mitigate risk associated with potential construction delays and resulting revenue postponement. Furthermore, the Cap-I estimate is "gross" funded instead of the typical "net" funding (i.e. net of interest earned during the term).

**Quantitative Demand For Project:**

Based on the University's "Accountability Report", annual enrollment trended up over the past 5 years at an average annual growth rate of .8%, with the University projecting slightly over 3% annual growth 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.	20,736	21,011	20,781	21,308	21,436	21,449	22,244	23,078	23,954	24,874
Graduate	3,305	3,163	3,133	3,180	3,395	3,477	3,512	3,547	3,582	3,618
<b>Total</b>	<b>24,041</b>	<b>24,174</b>	<b>23,914</b>	<b>24,488</b>	<b>24,831</b>	<b>24,926</b>	<b>25,756</b>	<b>26,625</b>	<b>27,651</b>	<b>28,492</b>
% Change	-	0.56%	-1.07%	2.39%	1.40%	0.37%	3.33%	3.37%	3.85%	3.04%

Enrollment data based on FAU's 2018 Accountability Plan, approved by the Board of Trustees 5/15/18.

The University seeks to support anticipated enrollment growth through enhanced on-campus housing offerings through a progressive housing model with age-appropriate unit-type options, as illustrated below:

**Student:** Freshman → Sophomores → Juniors → Seniors/Graduate  
| | | |

**Housing:** Traditional → Semi-Suite → Full Suite → Apartment Style

The University engaged Brailsford & Dunlavey (“B&D”) to study demand for new on-campus housing, the findings of which were reported in late 2017 analysis, updated December 2018. Of note, per B&D, their analysis utilized more conservative estimates for enrollment growth than FAU’s 2018 Accountability Plan. Based on the B&D report, in light of the Project’s target occupancy date of Fall 2021, estimated demand will exceed current inventory by 513 beds (over 600 beds with the demolition of Algonquin Hall) on the Boca Raton campus and 209 beds on the Jupiter campus.

**Boca Raton**

Per FAU, on the Boca campus, all FTIC students are required to reside in on-campus housing their first year, unless they live with a parent/guardian within a 30 mile commutable radius of the campus, they are at least 21 years of age, or they are married. According to the B&D report, occupancy on the Boca Raton campus has steadily increased in recent year, exceeding design capacities in 2018 at 104%.

	Fall 2015	Fall 2016	Fall 2017	Fall 2018
<b>Boca Raton Campus Total Occupancy</b>	96%	99%	100%	104%

Strong demand on the Boca Raton campus has resulted in FAU exceeding design capacity in two residence halls and utilizing a nearby off-campus hotel (Fairfield Inn) to accommodate overflow.

The demolition of Algonquin will remove 94 beds (based on design capacity) from inventory, while the Boca facility adding back 616 beds, addressing current over-capacity as well as projected Fall 2021 demand, as reflected in the following chart:

**Projected Occupancy: Boca Raton campus**

	(Actual)			(Projected)		
	Fall 2018			Fall 2021		
	Design Capacity	Occupants	Occupancy %	Design Capacity	Projected Demand	Occupancy %
Algonquin <sup>1</sup>	94	172	183%	---	---	---
Business Women's House	17	17	100%	17	17	100%
Glades Park	602	598	99%	602	602	100%
Heritage Park	602	599	99%	602	602	100%
Indian Park	607	603	99%	607	607	100%
Parliament	612	599	98%	612	612	100%
Innovation Village North	605	603	100%	605	605	100%
Innovation Village South	599	598	100%	599	599	100%
University Village	434	472	109%	434	434	100%
Fairfield Inn (off-campus) <sup>1</sup>	0	87	n/a	---	---	---
Proposed Boca facility	n/a	n/a	n/a	616	607	98%
<b>Total (existing):</b>	<b>4,172</b>	<b>4,348</b>	<b>104%</b>	<b>4,694</b>	<b>4,685<sup>2</sup></b>	<b>99%</b>

Footnotes:

- 1) Algonquin to be demolished with Boca facility construction. Fairfield Inn currently used for excess demand.
- 2) Projected demand per B&D analysis, updated December 2018.

In keeping with FAU's progressive housing model, freshman and sophomore students are housed in traditional and suite-style units, respectively. Currently, there are 2,534 such units in inventory (2,440 without Algonquin).

**Current Housing Composition: Boca Raton campus**

	Traditional / Suite	Apartment
Algonquin	94	
Business Women's House	17	
Glades Park Towers	602	
Heritage Park Towers	602	
Indian River Towers	607	
Parliament	612	
Innovation Village North		605

Innovation Village South		599	
University Village		434	
<b>Total Beds</b>	<b>2,534</b>	<b>1,638</b>	<b>= 4,172</b>

B&D’s report indicates that, by Fall 2021, nearly 3,300 beds will be needed to accommodate freshman/sophomore students. Accordingly, FAU plans to target the sophomore population with the proposed 616-bed suite-style Boca facility. This will provide sufficient supply to meet freshman/sophomore demand (existing housing for freshman, new Boca facility targeting sophomores) and help allocate apartment-style units to upper division students.

In terms of off-campus options and projected rental rates, B&D’s report notes six (6) off-campus apartments within 2 miles of the proposed Boca facility, with 726 units in aggregate, with minimum 12-month leases and rental rates ranging from \$875 - \$1400/month per bedroom, including estimated utilities. Comparatively, based on a 4-month semester, the Boca facility will offer single-occupancy beds at \$1,220/month, which is on the upper end of the off-campus options but will be similarly priced against on-campus stock, as reflected below:

**On-campus Rent Comparison: Boca facility**

	Existing On-Campus Housing	Proposed Boca Facility
Single Occupancy	\$4,786 - \$5,389	<b>\$4,882</b>
Double Occupancy	\$3,501 - \$3,900	<b>\$3,797</b>

*The above data based on Brailsford & Dunlavey student housing demand report, December 2018. On-campus rent includes utilities, but not meal plan. Off-Campus Apartment rent is per bedroom.*

**Jupiter**

The Jupiter campus is located approximately 40 miles north of the (main) Boca Raton campus, with its primary focus being FAU’s Honors College. Per B&D’s report, there were 492 full-time students on the Jupiter Campus in FY17, 435 of which are in the Honors College, where enrollment has grown 10.6% since 2015, driven by growth in upper-division students (see below).

**FAU Jupiter Honors College enrollment**

	Actual				Projected			
	Fall 2015	Fall 2016	Fall 2017	Fall 2018	Fall 2019	Fall 2020	Fall 2021	Fall 2022
Undergraduate students								
Lower	172	173	170	148	200	240	260	260

Upper	215	232	265	280	243	254	315	416
<b>Total</b>	<b>387</b>	<b>405</b>	<b>435</b>	<b>428</b>	<b>443</b>	<b>494</b>	<b>575</b>	<b>676</b>

*Data reflected in B&D report, December 2018, as per FAU Enrollment Management.*

FAU anticipates improved growth in the Honors College, driven, in part, by its co-location with two internationally recognized research institutes; Scripps Research Institute and Max Planck Florida Institute. New undergraduate collaborative offerings are being launched with Max Planck. FAU has tripled its science-related personnel on the Jupiter campus, and has hired (for the first time) a Director of Admissions and Enrollment specifically for the Honors College commensurate with revamping recruitment strategies, redesigning the scholarship awarding model and implementing a common admissions application. The Honors College was recognized in the Fall 2018 edition of “Inside Honors” - out of 50 public university honors programs reviewed, FAU’s Honors College was one of seven to receive a top rating along with Penn State, Arizona State, among others. Lastly, FAU anticipates a new STEM/Life sciences research building in the next 3-5 years (note: total costs \$35M, with \$12.9M PECO funding to date).

Unlike FAU’s main campus, Jupiter’s FTIC Honors College students are required to live on-campus for their first 2 years, while upper-division Honors College students are encouraged to (but not required). The Jupiter housing inventory is comprised of two 20-yr old facilities, representing a combined total 270 suite-style single-occupancy beds, reserved first for Honors College (HC) attendees before being made available for non-HC students. Occupancy has been nearly 100% for several years, driven almost entirely by Honors College attendees (fewer than 10 non-HC students have lived on-campus in the last 5 years).

	<u>Fall 2015</u>	<u>Fall 2016</u>	<u>Fall 2017</u>	<u>Fall 2018</u>
<b>Jupiter campus occupancy:</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>96%</b>

Although FAU’s projections indicate growth in lower-division and an interim drop in upper-division, the University, in keeping with its progressive housing strategy, plans to target the upper-division population with the proposed Jupiter facility, encouraging them to stay on-campus through their academic career. With approximately 170 freshman/sophomore students absorbing the majority of Jupiter’s existing 270 beds, the majority of upper-division students are currently living off-campus. According to B&D’s market

analysis, there are six (6) multifamily communities within a 2-mile radius of campus, representing 1,759 beds; see chart below.

### Rental Rate Comparison

Off-campus options within 2-mile radius

Off-campus Apt size	Avg. Monthly Rent per Bed	# of Units
1 BR	\$1,767	491
2 BR	\$1,178	894
3 BR	\$951	331
4 BR	\$887	43
Total		1759
<b>Jupiter Facility</b>	<b>\$1,221</b>	<b>165</b>

\*Off-campus rates assume single-occupancy, include estimated utilities, and 12-mo lease. Data per B&D report, updated December 2018.

As reflected above, the 3BR/4BR units offer the most affordable off-campus option, but comprise only 21% of available stock, and overall occupancy was 94% as of November 2018 (per B&D’s report), leaving roughly 100 available off-campus units to absorb future demand. B&D’s report did not provide a break-down of occupancy by unit type, but, given the significant gap between 2BR to 1BR rents, it is assumed the majority of vacancy is in the 1BR category.

According to B&D’s report, upper-division students emphasized affordability as a critical component in their consideration to continue living on-campus. In light of that, the Jupiter facility’s projected rate of \$4,882 per-bed-per-semester is 7% above existing on-campus stock (proposed Jupiter facility has kitchenettes, whereas existing housing does not) and is higher than the majority of off-campus options. Looking ahead, B&D’s report noted off-campus effective rents increased 7.5% in 2018, which, if continued in future years, could result in off-campus options becoming less attractive. B&D’s report did not indicate if any new off-campus multifamily communities were planned for the near future. Lastly, as the design process for the Jupiter facility progresses, FAU anticipates Project cost will decrease below the figures submitted to the Board of Governors, which may provide opportunities to reduce rental rates and enhance accessibility to the new facility.

In light of FAU's strategic investments in the Jupiter Honors College and resulting projected enrollment growth, weighed against its limited housing options for upper-division students on and off campus, the proposed Jupiter facility's 165 beds will help address future housing needs while enhancing FAU's progressive housing model and supporting concept of the Honors College as a residency university.

**Assessment of Private Sector Alternatives:**

The University considered the option of a public-private partnership (P3) strategy, but chose not to pursue it due it presenting less affordable alternative in terms of financing structure. The debt would have been issued as project-based debt without the benefit of financial support from FAU's overall housing system; would have used a national 501c3 model, resulting in a likely Baa3 rating on project-based debt; and a higher cost of capital putting greater stress on achieving a 1.20x debt service coverage in the first year and the need to enhance cash flow by \$600,000 annually, likely requiring higher rental rates, lower operating costs or both. Under the proposed financing structure, the DSO is saving more than \$16 million during the debt term.

**Security/Lien Structure:**

The Project debt will be secured by a first lien on the DSO's net revenues on a parity basis with the DSO's outstanding Capital Improvement Revenue Bonds Series 2012A, 2012B, and 2019A; together "Pledged Revenues", and a second lien on the net revenues of the University Housing System after payment of all debt service and any other obligations under the University's Housing Bonds, Series 2016 issued by the Division of Bond Finance (DBF), including annual payments to the Building Maintenance and Equipment Reserve Fund. This two-tier structure is reflected in the exhibit "*Historical and Projected Debt Service Coverage*".

Note, the existing Jupiter housing facilities are financed with debt (certificates of participation) issued by the FAU Foundation (not FAU Finance Corporation) in the form of a bank loan. In FY2018, the facilities had a 1.82x debt service coverage and generated \$568K annual surplus cash flow. However, it is outside of the FAU Housing System, parity structure and revenue pledge under the proposed Boca facility and Jupiter facility. Accordingly, the Board of Governors approval of the Bonds is subject to the understanding that issuance of the Debt, as contemplated herein, is separate from the existing FAU Foundation Certificates of Participation for the existing



Jupiter campus housing.

**Pledged Revenues &  
Debt Service Coverage:**

Project completion is targeted for July 2021, with 6 months additional Cap-I carrying debt service through the end of the year. Full annual debt service; principal and interest, commences in FY21-22 and beyond, along with Project operational stabilization. The pro forma projections assume 95% occupancy at both facilities, but notably the Jupiter facility produces only a 1.02x debt service coverage (DSC) at stabilization. However, it's proportionally small size results in minimal impact to the overall system. The Project will exceed breakeven with occupancy above 80% on the Boca Raton campus. Lastly, the two-tiered net revenue pledge, as previously described, provides more than adequate resources as evidence by debt service coverage ratios of 1.77x and 1.61x in FY21-22 and FY 22-23, 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 7.32%, based upon assumptions provided by the University. (See *Projected IRR*)

**Method of Sale:**

FAU plans to market the debt via negotiated sale. Based on input from underwriting firms with local and national expertise, FAU provided supporting rationale concluding that the debt should be easily absorbed in the market and should have strong investor demand (given the current lack of supply), the DSO is a relatively new and infrequent issuer, and the lien structure and unique security features warrant additional marketing, so a negotiated sale is anticipated to provide the most favorable financing terms and conditions and thus the most benefit to the University and DSO.

**Recommendation:**

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by FAU 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 sufficient pledged 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.