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MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III 

Date: March 14, 2019

Re: Florida Atlantic University Financing Corporation

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 Atlantic University Finance Corporation's ("FAUFC's") proposed financing of the construction of dormitories on the University's Boca Raton and Jupiter campuses (the "Project"). DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project. Below are the specific issues that DBF identified for the BOG's consideration in connection with its evaluation of the Project.

Demand/Housing Improvement Plan

On the Boca campus, the occupancy rate for on-campus student housing facilities has been in excess of 100% for the past two years and appears to support demand for additional on-campus beds. However, the University has a freshman residency requirement which drives demand. The University plans to build additional housing through demolition of existing housing and replacement with new housing facilities in a phased approach. Additional student housing facilities are being built to support anticipated growth in student population and to provide/improve on-campus housing options not only for freshman but the entire student population, including upperclassmen. The University's stated goal in providing additional housing options is to aid in recruiting and attracting higher caliber students. Using upgraded housing facilities to offer a wider array of on-campus housing options is a somewhat unconventional approach to improving the quality of the student population and supporting growth of the University. Additionally, there are no quantitative metrics provided by which to judge performance of the strategy and measure success of this initiative.

A review of statistical information provided by FAU for its annual disclosure filing indicates a decrease in undergraduate student headcount over the past five years from 24,228 to 23,264. However, during the same period undergraduate FTEs have increased from 20,997 to 21,663 presumably reflecting a shift to more full-time versus part-time students. Freshman applications have also increased from 12,313 to 14,007 over the past five years with the percentage of applicants admitted decreasing from 54% to 45% over this period reflecting the University's focus on improving criteria for students admitted. Lastly, it should be noted and important to the University's strategy is a marked improvement in GPA of freshman admitted from 3.46 in 2013 to 4.04 in 2017. Although there appears to be adequate demand for on-campus housing to support the Project on the Boca campus, this is just the first phase of implementing the overall housing improvement plans which call for additional housing with a wider spectrum of unit-type options being offered to upperclassmen as well as freshman to support growing the student population. Currently, most upperclassmen live off campus either by choice or because on-campus housing is not

available. According to the University's demand study survey, 70% of respondents living off campus indicated they lived with parents, a relative or their spouse. The forgoing information is provided not because of concerns with debt-related issues but to highlight the reasons underlying the request for additional housing and the policy issues the Board should consider in evaluating the need for additional beds, i.e., providing additional on-campus housing for upperclassmen and as a means to enhance the University's competitive position.

The Jupiter campus had a total Honors College student population of 435 full-time students in 2017 and already houses 270 students or 62% of the student population. The Honors College at FAU's Jupiter campus is operated as a "residential college" and has a requirement for both first and second year students to live on campus. From 2015 to 2017 the student population has increased by 48 students or 12%. FAU is projecting tremendous growth in the Honors College, more than doubling the student population by 2023 (1,020 projected students). Therefore, the University contends that additional beds are needed to accommodate future growth plans based on the residency requirement and the desire to have the campus operated as a "residential college". The Project on the Jupiter campus is adding 165 additional beds for a projected capacity of 435, equal to the current enrollment within the Honors College. The need for additional housing is dependent on the University realizing its projected growth plan for the Jupiter campus and operating the Jupiter campus as a "residential college". There are other private sector housing options which could be available for student housing if not for the residency requirement and desire to operate the Jupiter campus as a "residential college". However, FAU's strategy for growing the Honors College at the Jupiter campus and the need for additional housing to accommodate growth are policy rather than debt-related issues which the Board should consider.

Capitalized Interest and Project Costs

The estimated uses of bond proceeds includes approximately \$7.2 million of capitalized interest. The proposed finance plan calls for capitalized interest for the 18-month construction period plus an additional 6 months to provide flexibility in case the Project is not completed on time. The Board's Debt Management Guidelines indicate that capitalized interest should only be used to pay debt service until the Project is placed in service, i.e., during construction, because capitalized interest increases the size and cost of the financing. Using capitalized interest to address the possibility of delayed completion of the Project is inconsistent with the Board's Debt Management Guidelines and is better addressed through contractual provisions with the company the University chooses to build the Project.

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