STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida International University
Biscayne Bay Campus Student Housing Project

Project Description:

The proposed project (the "Project"), will result in the construction of a 410 bed, 203,000 gross square-foot, nine-story student residence facility, and associated infrastructure and amenities, such as an outdoor pool and approximately 205 parking spaces. The project will be owned by NCCD-Biscayne Properties LLC (the "Owner"), a single member limited liability company owned by National Campus and Community Development Corporation. FIU will enter into an Operating Agreement and a Ground Lease with the Owner to construct the Project on the Biscayne Bay Campus ("BBC"). Consent to enter into the Ground Lease is provided in F.S. 1013.171; therefore, it is not expected to be considered by the Board of Trustees for the Internal Improvement Trust Fund. The Ground Lease has been reviewed by the Department of Environmental Protection Division of State Lands. The Owner will enter into a separate Development Agreement with Servitas, LLC (the "Developer") and a Management Agreement with Servitas Management Group (the "Manager") to operate the Project.

The Project is included in the campus master plan.

Project Site Location:

The Project will be located on FIU's BBC. This site is approximately 26 miles from the main campus, and has been designated as a Type I Additional Campus by the Board of Governors, which is the largest site type by enrollment level not part of the main campus, and indicative of long-term commitment by the State of Florida to this location.

Projected Start and Completion Date:

It is anticipated that construction will commence in February 2015 and is expected to be complete by July 2016. Should the Project fail to be available by August 15, 2016, the Owner is responsible for providing a temporary location to place residents until completion of the Project.

In the event the Project completion deadline extends beyond August 15, 2016, as a result of delays caused by FIU, FIU shall reimburse the Owner for temporary housing and transportation costs. Although FIU does not anticipate any Project delays, if they occur FIU will reimburse the Owner from reserve funds available in the administrative overhead account. At September 30, 2014, this reserve was estimated to contain $16.1 million.

Project Cost: The total cost of the Project is $57.4 million, which includes construction costs of approximately $37.0 million, with planning, equipment and other estimated soft costs of $10.0 million, capitalized interest of $4.7 million, a debt service reserve of $3.5 million and $2.2 million of preissuance and other financing costs. Cost per bed is approximately $116,200, compared to $87,100 per bed for FIU's most recent residence hall, which opened in Fall 2013 on the main campus (approximately 33% higher).

(See estimated Sources and Uses of funds.)

Financing Structure: The Project will be financed using tax-exempt ($54,005,000) and taxable debt ($75,000) issued through the Miami-Dade Industrial Development Authority structured as 34-year debt. The Borrower is the Owner who is the ultimate obligor for the debt service payments. During the first five years of repayment, the debt service is ascending, starting at $3.1 million in 2018 and increasing to $3.5 million by 2023 with level payments thereafter. The Board of Governors' Debt Guidelines recommends, as a general guideline, maturities of no more than 30 years and debt service payments which, as nearly as practicable, are the same each year. Total financing costs under a 34-year repayment period with ascending debt service in the first five years are $4 million more over the life of the loan than under a 30-year, level debt service structure.

Security/Lien Structure: The Bonds will be secured by gross Project revenues. There is no other debt outstanding with a lien on the Project. The Bonds will have no lien on any revenues or resources of FIU.

Demand for Project: There is currently no student housing available at the BBC. Until May 2014, FIU had a 274-bed facility, which has been leased to Royal Caribbean ("RCL") for use in housing employees attending its training program. The BBC housing facility averaged about 80% occupancy over the last five years; however, over this time period occupancy was as low as 69% in Fall 2011. The 274-bed facility was originally constructed in 1983 and during FIU's use of the facility for student housing it was in marginal condition.

FIU commissioned two studies discussing demand for the Project. Both studies focused on the "core population", which is students taking at least 50% of their classes on the BBC. For Fall 2014, FIU's core population headcount was 3,162 students, which was a decrease of 16.0% since Fall 2011. FIU projects this number to remain relatively flat. If constructed, the Project would house approximately 13% of the core population.

One study was conducted by Alvarez and Marsal ("A&M") and showed potential demand for the Project ranging from 412 beds to 1,137 beds. The report also indicated that rental rates needed to support the Project are greater than those required for the former facility on the BBC, but indicated students are willing to pay higher rates for a new modern facility. There may be additional demand generated by students who currently live on FIU's main campus and take classes on the BBC. For Fall 2014, FIU indicates 422 students fall into this category. A&M found that there were no similarly constructed student housing options near the BBC, so the Project was not expected to directly compete with the off-campus market.

FIU also engaged Brailsford & Dunlavey ("B&D") in 2012 to conduct a more comprehensive plan for the BBC including what amenities and housing preferences students desired. The B&D study found based on survey-generated feedback, a significant majority of students (at that time 95%) that attend class at the BBC either live with parents, a spouse or are not interested in on-campus housing. Additionally, the study found that given the quality of the housing inventory available on the BBC, the previous facility was appropriately sized at 274 beds. The B&D study concluded that FIU would need an additional 100 beds on the BBC to serve the core population over the next 10 years (to approximately 400 beds). The study also pointed out that the core population was very price sensitive at price points below the expected rental rates for the Project.

Credit Ratings on Project: The Owner obtained credit ratings on the Bonds associated with the Project. The rating from Moody's Investors Service ("Moody's") was

Baa3, with a stable outlook. Moody's rating "is based on the relationship of the Project and FIU, sound legal provisions, favorable financial projections, as well as the Project's on-campus location and expected superior amenities". Moody's noted other risks including the construction risk due to the stand alone nature of the Project, lack of students taking 100% of their classes on the BBC and no on-campus housing available during the construction period of the Project (two academic years, 2014-15 and 2015-16). An investment grade ("BBB-"and above) rating from Standard and Poor's Rating Services ("S&P") was not achievable for the Project; therefore, following preliminary discussions with S&P, the scope of the Project was modified by reducing the number of beds from 618 to 410 and the amount of debt associated with the Project from approximately $83 million to $58 million.

For comparative purposes, FIU's Housing System credit ratings on outstanding debt are Aa3, A+ and A from Moody's, Fitch Ratings and S&P, respectively.

Study of Private Sector Alternatives:

FIU has chosen to utilize a public-private partnership ("P3") to finance the Project. The primary benefit of a P3 is the transfer of demand risk to the Owner.

There is no statutory framework authorizing universities to use public-private partnerships to finance university facilities. The Board of Governors has begun developing P3 guidelines under which to evaluate P3 projects to finance university facilities. FIU is seeking permission from the Board of Governors to use the authority provided in s. 1013.171, which authorizes university boards of trustees to enter into lease agreements with private entities for the purpose of constructing a facility that meets the needs and purposes of the university, to enter into the necessary lease and sublease arrangements for the proposed Project.

In Fall 2014, the FIU Housing System rental rates for the lowest cost unit were approximately $10,700. In Fall 2016, when the Project is expected to open, the Housing System's rental rates for the lowest cost unit option are expected to increase to $11,441 versus $11,608 for a comparable unit in the Project (about 1.5% higher). Rental rates for other units in the Project are expected to start at about 4.0% higher than comparable units in the Housing system. The compression in rental rates between the Project and the Housing System is somewhat offset by a 0.8% increase in Housing System rental rates for Fall 2016 over original projections.

Rental rates will be reviewed annually by the Project Advisory Committee comprised of one representative from FIU, the Owner and the Manager. The Owner is required to charge rents sufficient to maintain an annual 1.20x debt service coverage ratio. The Advisory Committee will also be responsible for reviewing and approving the Project operating budget and if FIU does not agree on the budget, the budget will be set at the prior year level, plus a CPI adjustment.

Pledged Revenues and Debt Service Coverage: Since operating expenses must be paid in order for the Project to be operated, the transaction has been analyzed on a net revenue basis, comparable to any other housing project. Projected net revenues of the Project are expected to grow from $3,377,336 in Fiscal Year 2016-17 to $4,055,608 in Fiscal Year 2020-21, with resulting debt service coverage of 1.20 for the entire period. The projected net revenues are based upon a 3% annual rental rate increase, 3% increase in operating expenses and estimated occupancy of 87% for the Project over the 5-year projection period. The Project is expected to maintain 1.00x debt service coverage with occupancy as low as 75%.

The Bonds are to be issued for 34 years, which exceeds the limits imposed by the Debt Guidelines by 4 years. If the Bonds were issued on a 30 year basis using level debt service and the same interest rate assumption (4.80%), debt service coverage would range from 0.89 in Fiscal Year 2016-17 and increase to 1.07 in Fiscal Year 2020-21 falling below the 1.20x coverage required by the Debt Guidelines during the first five years. Coverage noted for 30-year debt does not reflect potential rental rate increases (above 3.0% noted in the assumptions) or a reduction in operating costs that the Owner could implement to maintain debt service coverage of 1.20 times. If debt for the Project were issued as 30 years with level debt service , required rental rates in the lowest cost unit option are estimated at $12,941 (about 11.5% higher) than required under the proposed debt structure. FIU believes issuing the debt as proposed is justified as it results in an initial lower cost to potential residents of the Project. However, according to the Project pro-forma, a 3% annual rate increase is required to cover higher annual debt service payments resulting in an estimated rental rate of $13,860 in 2023 when the debt service payment becomes level.

Capitalized interest extends beyond when the Project is scheduled to open and increases the amount of debt required for the Project; however, it mitigates the risk of a payment default should construction delays occur.

(See Historical and Projected Debt Service Coverage and estimated net rent)

Taxable Debt: The use of a small taxable bond issue in certain tax-exempt transactions, including those issued by an industrial development authority - is the result of the IRS Revenue Code that limits the costs of issuance to 2% of the bond proceeds of the tax-exempt bonds issued.

University Support of Project: FIU has agreed to market the Project to its students; and, upon request of students receiving financial aid or scholarships through FIU's accounting system, to forward rental payments directly to the Project's trustee for the Bonds. FIU has also agreed that it will not build a competing project on the BBC unless an independent consultant affirms there is adequate demand for the new housing without jeopardizing the Project's ability to meet its debt service coverage requirement. As the Project is on FIU's BBC and it will house its students, FIU has an interest in the Project's long term sustainability and success. Additionally, FIU has engaged appropriate professionals to advise them regarding this transaction and agreed to work closely with the Owner to ensure occupancy goals are met to generate sufficient gross income to pay operational costs and debt service.

To support demand for the Project, FIU has made curriculum and facility investments on the BBC over the past three years to create a more residentially vibrant campus. In addition, FIU has agreed to provide free shuttle service between the BBC and the main campus to incentivize students to reside in the Project.

Debt will not be a legal obligation of FIU or a Direct Support Organization. In addition, FIU has not pledged its credit towards the Project. However, to ensure the viability of the Project, FIU has agreed to pay the cost of utilities. Utilities are estimated at $238,685 in the first year of operations, increasing by 3% thereafter. FIU will be reimbursed for utility payments after payment of operating costs and debt service as long as the Project maintains 1.0x debt service coverage. In addition, FIU will set aside prepaid rent funded with bond proceeds to establish a Utility Reserve equal to $375,000. Further, FIU is responsible for providing a chilled water system to the Project site. The estimated cost of these improvements is $1.2 million, of which the Owner has agreed to contribute $800,000 from bond proceeds at closing.

FIU is not legally obligated to pay debt service or maintain the Project. In the event actual rental revenue is insufficient to operate the Project and pay debt service, FIU could exercise its option to purchase the Project at fair market value or may feel obligated to cover these expenses given the location of the Project on the BBC.

Return on Investment: The land associated with the Ground Lease has significant value, and the property and Project will revert to FIU at the end of the Ground Lease.

Under a 40-year Ground Lease, which may be extended upon mutual agreement by the Owner and FIU, FIU will receive all surplus funds of the Project after all operating costs, debt service costs and management fees have been paid and the Owner has met capital reserve requirements while maintaining 1.20x debt service coverage. Over the 40 year term, surplus funds are expected to total $120.3 million, with a net present value of $24.6 million when discounted at 6%. This specific amount ($120.3 million) is based on assumptions that the Project will open on time, maintain a 95% occupancy level for the academic year and 63% during the summer term, and implement 3% annual rental rate increases over the next 40 years. Should actual results differ from these assumptions, FIU could receive a reduced amount of surplus funds. If the Project generates actual surplus funds greater than forecast, FIU may opt to maintain or reduce student rental rates and forego additional surplus funds.

In addition to the surplus funds quantitative metric discussed above, the Project is expected to provide a positive return with an internal rate of return ("IRR") calculated at an estimated 6.35%. However the IRR calculation is based upon aggressive occupancy assumptions given unclear demand for the Project and rental rates that start between 1.5% and about 4.0% higher than those charged by the FIU Housing System and increase by 3% annually throughout the 40-year term. If there is greater vacancy in the Project or collection of lower rental rates than forecast, the actual IRR will be lower.

Type of Sale: Based on the complex structure, the Owner and the Miami-Dade Industrial Development Authority believe a negotiated sale is appropriate. FIU issued an ITN in October 2013 for proposals to include a private sector developer to finance and construct a housing facility on the BBC. FIU received eight proposals, which included a team of professionals including Raymond James as the Underwriter for the transaction.

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

The demand for the Project appears to be unclear given the results of the studies performed by A&M and B&D. Insufficient demand could result in the Owner's inability to operate and maintain the Project as well as meet 1.20 debt service coverage required by the Board of Governors' Debt Guidelines. To support demand for the Project, FIU has made curriculum and facility investments on the BBC over the past three years to create a more residentially vibrant campus. In addition, FIU has agreed to provide free shuttle service between the BBC and the main campus to incentivize students to reside in the Project. However, should the Owner be unable to operate the Project or pay debt service, FIU may feel obligated to pay these expenses due to the Project's location on the BBC. Such support could require FIU to utilize its financial resources and could adversely affect the surplus funds FIU expects to receive ($120.3 million, $24.6 million present value).

The Project, as proposed, is more costly than similarly sized student housing facilities on a per bed basis. Further, the debt is structured as 34-year repayment with an ascending debt service schedule in the first five years, which results in $4 million in additional financing costs over the life of the loan versus a 30-year, level debt service structure. FIU believes the proposed debt structure is justified as it results in an initial lower required rental rate for the lowest cost unit option in the Project versus a 30-year, level debt structure consistent with the Board of Governors' Debt Guidelines recommendations ($11,608 versus $12,941). According to the Project pro-forma, the ascending debt service structure requires an annual 3% rental rate increase in each of the first five years in order to cover higher annual debt service costs and maintain 1.20 times debt service coverage. At the end of the five-year period in 2023 when the debt service payment becomes level, the rental rate for the lowest cost unit option is estimated at $13,860. If 30 year, level debt is issued using the interest rate assumption for the Bonds (4.80%), debt service coverage falls at or below 1.00 for the first five years. Finally, the Project's estimated IRR is calculated at 6.35%; however, the calculation is based on aggressive occupancy assumptions and rental rates that are between 1.5% and about 4.0% higher than those charged by FIU's Housing System.

After weighing all factors, Board staff recommendation is for approval based on the opinion that the proposed Project will result in an affordable housing option for students at BBC who desire on campus housing; if the Board does not approve the Project, FIU's position is that it will not be able to provide a housing option on the BBC at comparable rates in Fall 2017.