



## OFFICE OF FINANCE & ADMINISTRATION

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February 3, 2015

Mr. Chris Kinsley  
Assistant Vice Chancellor, Finance and Facilities  
Florida Board of Governors  
325 West Gaines Street  
Tallahassee, FL 32395

Dear Chris:

I am writing to provide some additional information on FIU's Student Housing Project at the Biscayne Bay Campus. The Board of Governors will consider our request for approval at the February 19, 2015 meeting.

### **DEMONSTRATED NEED FOR HOUSING AT BBC**

- The BBC "Bay Vista" housing, containing 235 units accommodating 510 students, opened fall 1984 to recruit high-performing students for BBC programs.
- From the very beginning, there were issues with the facility due to poor construction, the detrimental effects of the coastal location, and deficient mechanical, electrical and plumbing systems.
- The Engineering firm of Corzo, Castella, Carballo, Thompson, Salman, PA (C3TS) was first hired in 1997 to do the initial evaluation and cost projections of major deficiencies; over \$7.5 million was spent on critical repairs as a request to demolish and rebuild was denied by the Board of Regents.
- C3TS was hired again in 2008 to assess the condition of the building and provide an outlook of future capital investments; this report reflected almost \$15 million in code and building deficiencies and amenities improvements and stated "Financially, the existing facility will continue to lose money as a residential facility under its existing design and construction while a new facility with proper planning, design, location and financing will have a positive cash flow from the beginning."

- Royal Caribbean Cruise Lines has taken over the existing housing for their performers as part of an innovative and unique partnership with FIU and is investing almost \$7 million in improvements and \$2.5 million in mold abatement, saving FIU \$2 million in demolition costs.
- The proposed housing project contains 410 beds and is primarily replacement housing for the 280 beds that were repurposed to RCL.
- The replacement housing is critical to the success of FIU’s commitment to the students at BBC and the need to provide an active and dynamic residential campus that is essential to student success.
- A market study conducted by Alvarez and Marsal in 2014 showed potential demand from 412 to 1137 beds.
- The replacement housing aligns with many strategic “quality of life” investments FIU has recently made at BBC to ensure that students have access to the same high-quality education, support, and campus life opportunities that exist at the MMC campus, including:
  - Expansion of Chaplin School of Hospitality and Tourism Management, including the Advanced Food Laboratory and Wine Spectator Restaurant
  - Expansion of STEM programs in our School of Environment, Arts and Society (SEAS)
  - Development of an Environmental Center in partnership with the Patricia and Phillip Frost Museum of Science in collaboration with SEAS
  - Renovation and expansion of the Wolfe University Center and outdoor plaza
  - Creation of the Royal Caribbean Cruise Lines partnership providing internships, career placement, workshops and research opportunities for students
  - Development of MAST Academy at FIU, a STEM high school in partnership with Miami-Dade County School Board that provides an extensive dual enrollment program with FIU to enable these students to graduate college in 2-3 years, saving college costs and started STEM employment quickly; MAST@FIU was recently awarded the *STEM EXCELLENCE AWARD* by the Florida Education Technology Conference
  - Renovation and improvements in the Hubert Library to encourage student success, including the Center for Excellence in Writing and Instructional Lab
  - Expansion of student amenities, including a new Starbucks and Subway and a renovated Barnes and Noble Bookstore and Café
  - Academic programs in the Chaplin School of Hospitality and Tourism Management, SEAS, School of Journalism and Mass Communications, and the College of Business have been expanded and restructured to support a residential student population at BBC

## **PROJECT COMPLIANCE WITH DEBT MANAGEMENT GUIDELINES**

The proposed BBC Housing is not a traditional project in terms of debt issued by the University or a Direct Support Organization and therefore outside of the Debt Management Guidelines. Nonetheless, FIU has worked hard, through a competitive solicitation, to provide a quality Public-Private Partnership project that fulfills the best practices of the Guidelines. Because this is a smaller, stand-alone project, costs are a little higher due to high-rise and coastal construction requirements under the South Florida Building Code. As a result of these costs, the Developer, with the concurrence of the FIU Board of Trustees, recommended a financing model that utilized an ascending debt structure and 34 years financing to help keep the rates lower for our students while providing a quality project to ensure student success.

Ascending Payments: While the Guidelines reflect that “generally, debt should be structured on a level debt basis so that annual debt service repayments will, as nearly as practicable, be the same each year,” the amount of the proposed lower debt service is not that significant. If we look at a fixed or level debt service payment for the 34 years, it would be right at \$3,480,000. For 2017-18, the debt service is \$3,085,375, a reduction of only 11 percent off the level debt payment. If we look at the first 5 years, the average reduction is only 7 percent; that is, the first 5 years of debt service averages 93 percent of the level fixed rate. As stated in the Guidelines, “a deviation from these preferences is permissible if it can be demonstrated to be in the university’s best interest.” Although the project will be financially feasible with level debt, we believe the proposed structure and the resulting savings to our students are in the best interest of FIU.

Amortization Period of 34 Years: The project’s 34 year amortization includes the construction period, about 1.5 years of construction time, and there is also one year of Debt Service Reserve Fund (DSRF). In the private sector, it is typical to obtain a short term construction loan for the construction period and then get the permanent, 30 year financing upon completion of the project. To avoid interest rate risk and the additional cost associated with a short term construction loan, the fixed rate tax-exempt debt model was selected. And, while the current Guidelines have been interpreted as Start Date, perhaps completion date would be a better benchmark. Between the construction period and the DSRF, the project financing is effectively only 18 months over the 30 years guideline. The Guideline includes flexibility for a longer than 30 year maturity and with the purpose of the Guidelines being “to confirm that the state universities and their DSO’s must engage in sound debt management practices” we believe that the FIU housing project is consistent with this purpose. Certainly, there have been other projects that, appropriately, have deviated from the Guidelines in order to ensure success of the project.

The net result is that by using the slightly ascending debt service payments along with a 34 year amortization period, we are able to avoid interest rate risk and the additional costs

associated with a short term construction loan, reducing the housing rates by approximately 11 percent—savings that benefit our students. For example, the 4 bedroom/2 bathroom annual rate is reduced from \$12,941 to \$11,608, a savings of \$1,330 for students.

## **SAFEGUARDS IN PLACE TO LIMIT FUTURE RENTAL RATE INCREASES**

FIU embarked on this project in order to provide a housing solution that our BBC students want—FIU wants to provide a high-quality housing program at an affordable cost. To illustrate FIU's concern for student costs as well as our commitment to student success, we are providing the following:

- FIU has demonstrated a commitment to limiting housing rate increases. There was no increase in any rates in 2014-15 and the increase for 2015-16 averages less than 1 percent, with no increases in the University Apartments and 3.7 percent reductions in Lakeview Hall South and Lakeview Hall North for 2 bedroom/1 bath units and no increases in the other Lakeview units.
- FIU will do everything possible to limit rate increases to no more than the 3 percent projection unless significant inflationary conditions would require a higher increase in order to meet expenses. Our intent is to keep rates as low as possible for our students.
- Our plan is NOT to increase rates to offset lower demand as this would likely lead to even lower demand. Our intent in doing this project is simply to provide a safe, high-quality and affordable residential option to our students at BBC.
- All parties are focused on the importance of occupancy to project success and student success and understand the University's position regarding rental rates. The developer has been appropriately incentivized through our agreements to maintain high occupancy since this will maximize the revenues; part of the management fee is contingent upon meeting required DSCR. Furthermore, FIU has an oversight role regarding the project's operating budget, including rates.
- FIU keeps the excess revenues, not the developer/manager, so there is no "profit" motive to the developer/manager.
- In the event demand by FIU students at BBC is weak, we would provide free shuttle service to MMC students who are not able to be accommodated in housing at MMC so that they may have a quality on-campus housing experience at BBC.
- While the project is being constructed to provide housing to FIU students, to create flexibility in meeting occupancy and avoiding rate increases, the project owner is authorized to address, on a temporary basis, a demand shortfall with

additional types of appropriate residents, including FIU faculty and staff, faculty and staff of affiliate programs, such as scientists who are working in the Science Museum facility or teachers in the MAST Academy High School, and students from other educational institutions.

- FIU Deans in the College of Business, the School of Journalism and Mass Communication, the College of Hospitality and Tourism Management, and the College of Arts and Sciences/SEAS were in attendance at the BOG meeting and were prepared to articulate their plan for expanded enrollments and programs at BBC, which will significantly assist in meeting occupancy requirements.
- The Developer/Manager has an incentive to do an outstanding job on this project, in terms of occupancy, residential life programs, and operations, since the eligibility to complete a second phase of housing depends upon project performance.

Chris, I hope this information provides additional information that will convey to the Board of Governors why this project is so important to our students, why we believe the project will be a successful project, and what FIU has done to ensure our students will have access to a high quality residence at a reasonable and affordable cost.

If I may provide you with other, specific information, please do not hesitate to contact me at (305) 348-2101.

Sincerely,



Kenneth A. Jessell, Ph.D.

Senior Vice President for Finance and Chief Fiscal Officer and Professor

Cc: Mark B. Rosenberg, President  
Albert Maury, Chairman, FIU Board of Trustees

**Rental Rate Comparison for FIU and FIU BBC**

					34 Years, Ascending			34 Years, Ascending	34 years, Level	30 years, Level
Unit Type Mix	Unit Type	No. of Units	No. of Beds	FIU FY 2016-17 Rental Rates – ORIGINAL PROJECTED RATES FOR MAIN CAMPUS	FIU/BBC FY 2016-17 Rental Rates – ORIGINAL PROJECTED RATES	FIU Current 2014-15 Rental Rates for Main Campus	FIU Main Campus– New 2016-17 Projection	FIU BBC New Projected Rates at max 3% annual in 2016-17	FIU BBC New Projected Rates at max 3% annual in 2016-17	FIU BBC New Projected Rates at max 3% annual in 2016-17
41.50 %	4Bed/2Bath	64	256	\$11,352	\$12,487	\$10,700	\$11,441	\$11,608	\$12,487	\$12,941
41.50 %	2Bed/2Bath	64	128	\$12,094	\$13,304	\$11,400	\$11,883*	\$12,368	\$13,304	\$13,787
16.00 %	Studio	24	24	\$12,005	\$13,537	\$11,100	\$12,139	\$12,585	\$13,537	\$14,029

\*There are no 2 Bedroom/2 Bath units on the Main Campus, only 2 Bedroom/1 Bath units, so there is a slight premium for the 2 Bedroom/2 Bath units on the BBC campus.