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To: Mr. John T. Gray, Florida Polytechnic University, Director of Special Projects

From: Brad Noyes and Joe Winters, Brailsford & Dunlavey

Date: March 10, 2015

Re: Invitation to Negotiate (ITN) – Vestcor Communities' Proposed Financial Terms

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Dear Mr. Gray:

The purpose of the following memorandum is to provide Florida Polytechnic University ("Florida Poly" or the "University") further context regarding the financial terms associated with Vestcor Communities' ("Vestcor" or "Developer") proposal to partner for the development of a new student housing complex ("Project" or "Development") on the University's Lakeland, Florida campus.

Over the past three months, Brailsford & Dunlavey ("B&D") has served as a consultant to the University throughout the procurement process associated with ITN 14-004: Development of Residential Housing. During that time, B&D's consulting services have included market analysis, program development, and procurement strategy support.

Background & Approach

Florida Poly's current status as an unaccredited institution with a rapidly changing student population has resulted in an elevated risk profile for prospective development partners submitting responses as a part of the ITN process. Accordingly, Vestcor's proposal in response to the ITN included the assumption of a financial event ("Event") involving the re-capitalization of the Development's funding at the point of institutional stabilization, which would result in a return of (at least) a portion of the Equity Partner's initial equity investment at that time.

With this understanding, to accurately provide additional context regarding the Developer's submission, Vestcor's proposed financial return can be examined using three key markers. The three financial markers include: *Developer Fee, Required Preferred Return on Equity*, and *Total Internal Rate of Return to Developer / Equity Partner*. This approach allows portions of Vestcor's submission to be compared to a sample of recent, public-private partnership ("P3") student housing engagements across the country in order to provide further context. The results of this comparison are provided below.

Developer Fee

The upfront developer fee percentage proposed as a part of Vestcor's submission is 2.70%. The developer fee percentage associated with the sample of recent P3 student housing engagements ranged between 2.15% and 4.00%.

Required Preferred Return on Equity to Equity Partner

The preferred return on equity to the Equity Partner ("EP") proposed as a part of Vestcor's submission is 8.0%. The percentage of preferred return on equity associated with the sample of recent P3 student housing engagements ranged between 6.5% and 8.0%.

Re-capitalization Event

In addition to being a new, growing institution, the University's desire to minimize the required termination value of the partnership agreement influenced the need for a re-structuring event as a part of Vestcor's proposal. As a result, the proposed partnership submitted by the Developer creates a unique type of P3 engagement and makes understanding the appropriateness of the resulting financial terms difficult when the Event is considered. This is particularly true given the fact that there are several key assumptions associated with the Event, including Florida Poly's future enrollment stability, credit rating, and the Project's future appraised value, that are difficult to quantify in the University's nascent status. As a result, determining the impact of the Event on the Developer and EP's financial return is challenging at best. Furthermore, it is difficult to compare the Developer / EP's proposed profitability since the sample of recent P3 student housing projects do not share the University's unique status (i.e., new, unaccredited institution) and corresponding risk profile.

Total Internal Rate of Return to Developer / Equity Partner

The overall internal rate of return ("IRR") to the Developer / EP projected as a part of Vestcor's submission is approximately 18%, and includes the following components:

- the EP's preferred return and share of net revenue proceeds,
- the Developer's share of net revenue proceeds and developer fee (upfront and deferred), and,
- the projected financial impact associated with the Event.

In summation, Florida Poly's changing risk profile stemming from being a new institution makes evaluating the Developer's unique partnership proposal difficult. As a result, certain financial terms associated with Vestcor's proposal can be deconstructed and compared in order to provide the desired context.