STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Seminole Boosters, Inc.
CollegeTown III Financing Project
And CollegeTown I Refinancing and New Money

Project Description: The proposed project, CollegeTown III, is a new off-campus student housing facility comprised of a seven-story building, containing: 129 housing units (300 beds) a parking garage with 500 spaces (348 residential and 152 retail), and 1,500 square feet of commercial space (the "Project"). The Seminole Boosters plan to own and manage the Project, through an operating agreement with a private management company, as a part of CollegeTown. In addition, the Seminole Boosters plan to refinance a portion of the debt on CollegeTown I and obtain an additional loan payable from an assignment of the Seminole Booster's portion of CollegeTown I revenues in order to provide a portion of the financing for CollegeTown III (together the "Refinancing").

The CollegeTown project is being constructed in three phases. CollegeTown I was completed in 2013. It has a total of 71 units and 135 beds. This phase also includes 33,522 square feet of retail space and 147 designated parking spaces. CollegeTown II broke ground in 2015. The residential space of CollegeTown II opened fall 2016 and is 96% leased. The commercial space for CollegeTown II was completed late fall 2016. It contains a total of 89 residential units with 202 beds. This phase also contains 21,145 square feet of retail space and 544 designated parking spaces. The CollegeTown project is not a part of FSU's housing system.

Facility Site Location: The Project will be located on W. Madison Street, which is approximately two blocks south of The Florida State University campus (the "University"). The Project will be built on property currently owned by T'Alley Properties, LLC ("T'Alley Properties"), a wholly owned subsidiary of the Seminole Boosters; T'Alley Properties plans to formally transfer the property title to the Seminole Boosters, upon approval of the project.

Projected Start and Opening Date: It is anticipated that construction for the Project will begin in March 2017 and be completed by August 2018.

Approvals: The Seminole Boosters' Real Estate Committee approved the proposed financing terms of CollegeTown I and CollegeTown III on

September 20, 2016, and the Seminole Boosters' Board approved the terms on September 27, 2016. The proposed financing is still subject to approval from the University's Board of Trustees on January 17, 2017.

Demand Analysis:

Cureton-Johnson & Associates, LLC, a real estate appraisal firm, performed a market study for the Project. According to the study, the CollegeTown area is foreseen to have very good long-term value prospects. As of March 2016, most occupancy rates for new construction, of both commercial and residential spaces, in immediate areas around FSU are in excess of 90%. The study also indicates that even though approximately 7,000 beds have been added to the market over the past five years, the influx of students to the immediate area is leading to occupancy rates exceeding 95%. Currently, FSU has over 41,000 students, but is only equipped to house approximately 6,600 students on campus, which forces the remainder to rely on off-campus housing. Additionally, although current commercial retail space in CollegeTown and in immediate surrounding areas is leased-up with national retailers and restaurant chains such as CVS, Urban Outfitters, Brooklyn Bagel, Pomberry, Jimmy Johns, etc., more commercial retailers such as Publix and Walgreens are expected to locate in the area in the coming years. The Project is already 60% pre-leased residentially for fall 2018. CollegeTown I currently is 99% leased and has an average residential occupancy rate of 98% since opening in 2013. CollegeTown I also has an average commercial occupancy rate of 97.5%. CollegeTown II, which just opened for fall 2016, is 96% leased residentially and 60% pre-leased commercially.

Residents of CollegeTown have their own designated parking. Due to its location, a majority of residents walk to campus and leave their cars at home. The Project includes a parking garage so that it can provide parking to CollegeTown III residents as well as replace 108 surface spots lost for CollegeTown I residents. All CollegeTown parking provides spaces for retail customers as well.

There are numerous comparable student housing facilities within walking distance to FSU. In the 5,000 most competing beds to CollegeTown III, the average rent per square foot ranges from $1.92/SF-$2.30/SF. The proposed lease rates fall within this range, at $2.08/SF.

Project Cost and Financing Structure:

The total project cost is estimated at nearly $34,000,000. This amount includes soft costs of $2.7 million (architecture, engineering, appraisal, permitting, etc.), apartment and commercial space costs of $19.1

million, garage costs of $10.3 million, and other hard costs of $1.4 million.

The project will be financed with a not to exceed $31.0 million bank loan between the Seminole Boosters and Ameris Bank (the "Loan") and approximately $5.3 million from a separate bank loan with Hancock Bank to be obtained on CollegeTown I (described below).

The Loan will be taxable and comprised of up to a three year, interest only, construction loan; however, the project is planned to be complete in August 2018, at which time the construction loan will be taken out with a 25 year, level annual debt service permanent financing. The Loan will finance a portion of the cost of the Project, fund capitalized interest ($1.6 million), and pay costs of issuance ($574,000). The first principal payment is scheduled to occur in August 2019 with a final maturity date of December 1, 2045. The interest rate on the construction loan is calculated as the Wall Street Journal prime rate at the day of financing commitment (3.5% as of 9/20/2016, which is assumed throughout all supporting documents of the Project submission), converting to permanent financing for 25 years, calculated at 7-year UST + 218bps after retirement of the construction loan (3.69% as of 9/20/16, which is also assumed throughout all supporting documents of the Project submission). Although the Seminole Boosters plan on beginning amortizations of the loan in 2019, in the event the Project is not generating sufficient revenues, Ameris Bank will allow for interest only payments until March 2020. The terms of the Loan put the Seminole Boosters at interest rate risk, as the construction loan rate and the permanent financing rate are not set until a later time.

The approximate $5.3 million CollegeTown I loan mentioned above will be derived from a portion of a not to exceed $15 million loan from Hancock Bank. The $5.3 million is needed for CollegeTown III because the Ameris Bank loan on CollegeTown III is already at 80% loan to cost, and the bank will not exceed that leverage point. In addition, approximately $8.7 million of the loan will be used to retire a private investment in CollegeTown I from 10 G&G, LLC, a group of private investors comprised, in part, of members from the Seminole Boosters board of directors. The 10 G&G loan carries a 6% rate of interest. If the 10 G&G loan remains outstanding after 2018, the loan converts to equity and the investors will receive 29% of the net revenues of CollegeTown I in addition to the 6% interest rate for the life of the project. The CollegeTown Project has averaged around $1.3 million per year for the three years it has been in operation. Assuming the future net revenues will be around the same level, 10 G&G will receive approximately $380,000 annually from net revenues. As a result, the estimated overall yield to the investor from the 6% interest rate and the estimated 29% share of net revenues, is around 8%.

The Hancock Bank loan will pay interest only for up to three years at a fixed rate of 2.95% and will have to be refinanced after that period. Under the Debt Management Guidelines, debt should be structured on a level annual debt service basis. Deferring debt is usually used with new construction when revenues may not be available until the project is complete. In this case, CollegeTown I has been in operation for three years. Accordingly, the structure proposed, that is three years with no amortization of the principal, is in violation of the level debt service principle. Furthermore, since the loan is only for three years and will need to be refinanced, the current plan is to refinance it with a 30 year, nonrecourse structure secured by net revenues. Since that will extend the debt, it does not comport with the refunding exception in the guidelines. This will require the Seminole Boosters to come back to the Board of Governors for approval. The Seminole Boosters will be exposed to interest rate risk and liquidity risk on the $15 million Hancock Bank loan. The Seminole Boosters have stated that they plan to utilize cash and investments on hand in the event they cannot refinance the Hancock Bank loan. The Seminole Boosters have had approximately $17 million of cash on hand in average per year over the last five years.

In addition to the $8.7 million 10 G&G loan, CollegeTown I was also financed with an additional private investment of approximately $12 million. This loan is payable from the net revenues of CollegeTown I until 2018 when it retires. The Seminole Boosters will seek permanent financing on CollegeTown I once this loan retires.

Although the CollegeTown I loan is used to partially finance the Project, it does not appear to violate the functionally related test of the Debt Management Guidelines. The Project is for student housing, parking and retail space as was CollegeTown I and both are part of the overall CollegeTown concept.

(See Attachment Sourced and Uses).

Security/Lien Structure: The Loan with Ameris Bank for the Project will be secured by a mortgage on the property and net revenues of the Project. The revenues are derived primarily from rental income, retail and parking, after deducting operating expenses. The pledged security also includes a covenant by the Seminole Boosters to maintain a 1.3x debt service coverage ratio. However, the bank has verbally agreed that it will not apply this requirement until 2019, after one full year of operation.

The loan with Hancock Bank on CollegeTown I is secured by an assignment of the Seminole Booster's portion of CollegeTown I revenues. The pledged security also includes a covenant by the Seminole Boosters to maintain a 1.3x debt service coverage ratio. Any future financing to take out the Hancock Bank loan in 2018 is planned to be secured by all net revenues of CollegeTown I.

Study of Private Sector Alternatives: The Project is being constructed to provide comparably priced housing conveniently located to the university. It is also being viewed as an investment to generate additional financial resources in order to further support the University. Accordingly, the Seminole Boosters want to own the Project so that they are able to retain all benefits. Using a private party to build and run the Project or entering into a partnership agreement with a third party would require the Seminole Boosters to give up financial benefits associated with ownership. Furthermore, if the Project is 100% owned by the Seminole Boosters, as proposed, it would be exempt from property taxes, saving approximately 9% a year in expenses. As is the case in CollegeTown I and II, the Seminole Boosters' will involve the private sector by retaining a private management company, currently Greystar Inc., to operate and maintain the Project.

Taxable vs. Tax-Exempt: Although they have represented that tax counsel has not been consulted, the Seminole Boosters believe a taxable loan, in both circumstances, is necessary because of the potential end-users of CollegeTown I and the Project and the structure of the management contract will not allow the debt to be issued as tax-exempt. As a general rule, federal tax law restricts the private use of facilities to no more than ten percent of the amount financed with tax-exempt debt and the payment of the debt to no more than ten percent by private parties. Because the Seminole Boosters do not plan to restrict residents to students only, there is also private retail within the CollegeTown buildings, and the parking component of the Project will also provide for commercial spaces they believe the tax law allowing for tax-exemption on the loans will be violated. The Seminole Boosters also plan to utilize the same private management agreement used on other CollegeTown projects, which they believe violates the rules associated with tax-exempt financing.

Pledged Revenues & Debt Service Coverage:

CollegeTown I:

During the two year period from year-end 2013 to 2015, CollegeTown I's net revenues grew from $269,889 to approximately $1.3 million resulting in historical coverage ratios of 0.62x and 1.53x for 2013 and 2015, respectively. For 2013, it was expected that revenues would be insufficient to meet debt service. Accordingly, reserves were used in the amount necessary to pay debt service. Based on projections, CollegeTown I is expected to generate net revenues of $1.49 million in year-end 2016 at a 1.72x coverage ratio. These net revenues are expected to grow to $1.53 million in year-end 2017 with a coverage ratio of 1.98x. The increase in coverage is a result of the refinancing of the 10 G&G loan. CollegeTown I's pledged revenues are expected around the $1.6 million mark thereafter and increasing to $1.7 million by year-end 2022.

CollegeTown III:

The Project is expected to open for fall 2018. During the first five-years of operation, pledged revenues are expected to grow from $1.05 million in 2018 for a partial year and then from $2.5 million to approximately $2.7 million from year-end 2019 to year-end 2022. The majority of the Project's revenues come from rental and parking income. Coverage ratios for the Project are expected to go from 2.97x in 2018 to 1.38x in 2020 and 1.44x in 2022. The decline in coverage is due to anticipated principal payments occurring as early as 2019. Coverage is expected to be well above the banks' requirement of 1.3x and the Board of Governors' requirement of 1.2x.

Housing rental income has assumed a 95% occupancy rate based on annual leases. Projected operating revenues do not have set rate increases built in, however, they do assume that there will be an average 2.5% growth in all revenues each year. The assumptions provided explain rates may be increased or decreased, depending on market conditions. Garage and housing expenses, which include repairs, maintenance, insurance, cleaning, and management, are estimated at 28% and 29% of revenues, respectively, based on the experience of the developer from the previous CollegeTown projects and with other garages and apartments. There is also an assumed 2.5% increase in expenses each year.

The projected debt service for the Project loan has been calculated using an interest rate of 3.5% for the first three years of the construction loan, where debt service will be interest only. Following year three, the interest rate is assumed to increase to 3.69% for the remaining years until maturity. The projected debt service for the refinancing of CollegeTown I has been calculated using an interest rate of 2.95% for two years until the conversion to permanent financing, at which a rate of 5% is estimated, as that financing will be determined at that time.

(See Attachment Historical and Projected Debt Service Coverage).

Quantitative Metrics/ IRR:

The performance metrics for CollegeTown I and III will be based upon their annual cash flow after debt service payments which are available to support FSU. The Project is projected to generate an average of nearly $1 million per year over the five year projection period. Additionally, CollegeTown I is projected to produce another $800 thousand annual average over five years. The result is that more than $1.8 million in additional annual cash flow is expected to be available for the Seminole Boosters to support the University. Additionally, a relevant performance metric for the Seminole Boosters is the level of support provided to the University. To measure the Seminole Boosters performance overall, information regarding the historical annual revenues generated by the Seminole Boosters and contributions to the University for each of the last six years has been provided in the Attachment (See Projected Revenues Metric). The Seminole Boosters' historical revenues averaged approximately $37 million over the last six years and contributions to FSU were $2.625 million per year. Management of the Seminole Boosters has set a floor for revenues of at least $37 million per year and a floor for contributions to FSU of at least $2.625 million per year. There is no formal plan for projected revenues or contributions to the University to measure future performance. The performance metrics for CollegeTown I and III are cash flow available from operations to support the University. The performance metrics for the Seminole Boosters is based on the Seminole Boosters growth in revenues and contributions to the University. The Historical and Projected Debt Service Coverage tables show the projected CollegeTown I and III cash flow available from operations and historical Seminole Boosters' revenues and contributions to FSU, respectively.

Type of Sale:

The Seminole Boosters provided a standard competitive versus negotiated sale analysis which analyzed various criteria in making a determination to negotiate a bank loan. While the Seminole Boosters have cited a number of criteria in the analysis as favoring a negotiated sale, the most compelling is due to the nature of the security pledged to repay the debt. Unlike a system-wide pledge of revenues (like the FSU housing system uses, which is a stronger and more secure pledge), CollegeTown III is a stand-alone pledge secured only by the net revenues from the CollegeTown III project. A stand-alone pledge is inherently a weaker security. If revenues from the Project are insufficient to pay debt service, revenues from CollegeTown I and CollegeTown II are legally not available. Fundamentally this type of pledge is more difficult to place in the public market.

Selection of Professionals: The professionals involved in this transaction were not selected through a formal competitive solicitation process. The Seminole Boosters' selection process for financial advisor was based on Brad Williamson's, with Berkadia, experience of the CollegeTown project from a relationship developed over the completion of CollegeTown II, where he worked as the developer. The bond counsel for this transaction will be the Seminole Booster's general counsel, who is already under contract. The banks, however, were selected through a competitive selection process. Due to the complexity of this project and the loans involved, the Seminole Boosters determined the best way to obtain bank loan proposals was to judge interest and then discuss the projects with the banks that showed interest. Banks interested in either project provided the terms for the phase, or phases they were interested in. The financial advisor put the proposed terms in to a matrix for final approval by the SBI Real Estate Sub-Committee.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida State University with respect to the request for Board of Governors approval for the subject financing. Projections provided by the University indicate that sufficient net revenues will be generated from housing rental income, commercial rental income, parking fees, and other associated revenues to pay debt service on the Loan, the Hancock Bank loan, and other outstanding housing debt. It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and is generally in compliance with the Board of Governors Debt Management Guidelines, with the following as exceptions to the Debt Management Guidelines:

The Hancock Bank loan for CollegeTown I is paying interest only payments over the designated three year loan term, not principal, contrary to the debt guidelines. Nor does it comport with the refunding exception under the guidelines. Accordingly, Board staff is recommending it come back to the board to obtain approval for the refinancing.

Additionally, the Board of Governors should consider that the Hancock Bank loan exposes the Seminole Boosters to liquidity and interest rate risk. If the Seminole Boosters are unable to obtain take-out financing at the end of the three years, they have stated they would pay the loan from cash and other investments available. This would be a significant amount of their current $17 million cash position.

The Ameris Bank loan also puts the Seminole Boosters at interest rate risk as the construction loan rate and the permanent financing rate are not set until commitment of the financing after approval.

The 10 G&G investors in CollegeTown I are comprised of Seminole Booster Board members. The participation by Booster Board members as investors/lenders in CollegeTown I creates a possible conflict of interest; however, the current proposal removes any future participation by 10 G&G in CollegeTown I. CollegeTown III will be 100 % owned by the Boosters from inception.

Under the Debt Management Guidelines amended by the Board effective September 22, 2016, the original CollegeTown I project would have required the Board of Governors authorization, as it does not clearly fit within any category of debt that may be approved by the Trustees without Board approval. Nonetheless, the opinion of Board staff is that the proposed Project remedies the deficiencies identified with CollegeTown Phase I; and, solely relying on the financial projections of the University, the University has a reasonable expectation of seeking approval for permanent financing from the Board in 2020 that fully conforms to the Debt Management Guidelines.

Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing.