STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida State University
Student Union Bonds – Series 2022A

Project Overview:

Florida State University (the "University") is requesting approval from the Board of Governors (the "Board") to issue tax-exempt bonds in an amount not to exceed $66.5M (the "Debt") and use the proceeds to reimburse a portion of the cost incurred by the University from internally financing the construction of a new student union (the "Union") and to request the Division of Bond Finance (the "DBF") to issue the Debt.

In 2018, the University's Board of Trustees (the "BOT") adopted a resolution authorizing capital expenditures aggregating approximately $128M to finance the Union with the expectation of subsequently executing a refinancing to reimburse the University for a portion of the original expenditures. The Union is approximately 148,266 ft^2, and the total project cost is estimated to be $143.8M.

The Debt will be secured by a first lien pledge of the Student Facilities Use Fee (the "Fee"), the leveraging of which was made possible via specific Legislative authorization in the 2022 General Appropriations Act Implementing Bill.

The University formally received BOT approval to issue the Debt through DBF on June 22, 2022.

Project Site and Progress:

The Union is consistent with the campus master plan and is located in the same area as the original Oglesby student union on the University's main campus. Demolition of the original Oglesby student union began in June 2018, and construction of the Union is expected to be finished in August 2022.

Quantitative Metrics:

The Union is not a revenue-generating project; thus, traditional quantitative metrics aren't applicable to the evaluation of the project.

The original Oglesby student union opened in 1952 when enrollment at the University was less than 5,000 students. More recently, in light of its age, it was in need of significant renovations and was inadequate to accommodate the University's current needs. The new Union will better serve the University's 40,000+ student body and 740+ student organizations, providing a central focal point for the campus, bringing together all members of the University's diverse community of students, faculty, staff, alumni, and guests, while providing capacity for numerous educationally purposeful activities (outside of the classroom) as well as functional space for the University.

Projected Cost and Original Funding:

Total project cost of approximately $143.8M is comprised of $128.3M in construction costs and $15.5M in project-related expenses such as professional fees, moveable furnishings, and telecommunications. As of April 1, 2022, $109.3M has been expended on the project, with the remaining $34.5M to be outlaid between now and August 2022.

The project's construction has been funded internally from various sources, including student fees, E&G operating and carryforward funds, as well as two loans, one from the University and the other from the Florida State University Foundation (the "Foundation"), as shown below.

Project Funding Sources

Funding Source	Amount
Capital Improvement Fee	$34,694,108
Student Facilities Use Fee	16,427,972
Health Fee	15,630,400
E&G Operating	10,012,512
E&G Carryforward	1,807,077
Foundation Loan	19,223,376
University Loan	45,700,000
Earnings on Loan Proceeds	340,074
Total Funding	**$143,835,519**

The Foundation Loan ($19.2M) was issued by the Foundation on December 1, 2019, currently bearing a fixed interest rate of 4% (the rate resets in 2-3 years) and maturing in 2030. The University Loan ($45.7M) was granted on September 22, 2020, bearing a fixed interest rate of 1.3% and maturing in 2035. A breakdown of the sources of the University Loan is as follows:

Sources of Internal Loan

Funding Source	Amount
General Auxiliary Fund Reserves	$25,700,000
Auxiliary Overhead Fund Reserves	6,000,000
Auxiliary Housing Fund Reserves	14,000,000
Total	**$45,700,000**

E&G funding consists of $10M from the University's Fiscal Year 2019 and 2020 operating budgets and $1.8M in carryforward. Since construction began, the University has kept Board staff apprised on the use of E&G funds on the project. The varied uses are outlined below:

Use of E&G Funding

Approved E&G Item	Amount
Utility Infrastructure	$1,660,663
Fire Alarm Upgrades	19,775
Landscape/Irrigation	425,000
Renovation of Adjacent Buildings[1]	2,128,000
Natural Gas Emergency Generator	1,075,000
FF&E	5,000,000
Build Out of Crenshaw	315,563
Bowling Equipment	380,261
Demolition of Davis Building	815,327
Total	**$11,819,589**

Refinancing The Project: The University has proposed to issue the Debt to refinance internal loans effectively allowing the University to repay all or a portion of the internal University Loan and the Foundation Loan. The University anticipates that priority will be given to repaying the University Loan. Depending on the amount of proceeds generated from the issuance of the Debt, the Foundation Loan may not be repaid in full.

The University has worked closely with DBF throughout the process to ensure that the best course of action is taken in issuing the Debt to maximize the benefit to the University. While the University wishes to maintain flexibility regarding the date of issuance and other technical features, some parameters have been set. The Debt will be issued at a fixed rate, the term is anticipated to be 20 years (not to exceed 30), and annual debt service will be level.

The principal amount of the Debt expected to be issued is approximately $46.8M. This estimate assumes a rate of 4%[2] and annual debt service of $3.44M (see *Debt Service Coverage* section below). The amount of debt is subject to change due to the prevailing interest rate environment at the time the Debt is priced/sold. As interest rate volatility continues, the debt issued may be reduced or increased to keep the annual debt service at or below $3.44M while maximizing proceeds delivered to the University.

Pledged Revenues: The Debt will be secured by the revenues derived from the mandatory Student Facilities Use Fee (the "Fee") authorized by Section 1009.24(14)(p) FS. The Fee is "*related to the use, late return, and loss and damage of facilities and equipment*." According to FSU, the Fee applies only to students on its main (Tallahassee) campus, and certain students, such as 3rd and 4th-year medical students, are not assessed the Fee. The University assesses the Fee at $2 per credit hour plus $20 per semester. The University wishes to

[1] Adjacent buildings were renovated for temporary use to provide office space for relocated staff until completion of the new union.
[2] DBF estimate of long-term, tax-exempt interest rates provided to the Office of Economic & Demographic Research on 12/20/21.

maintain the current fee structure; however, the University's BOT has the authority to increase the Fee in accordance with Board Regulation 7.003(18), if needed.

Pursuant to s. 1010.62, F.S., and the 2022 General Appropriations Act Implementing Bill, s. 13, House Bill 5003 (2022), the Fee may be pledged to the repayment of the Debt. The University received limited approval from the Legislature to leverage the Fee, as follows:

> *In order to implement Specific Appropriation 145 of the 2022-2023 General Appropriations Act, Florida State University is authorized under s. 1010.62(2)(a), Florida Statutes, to use revenues derived from the student facilities use fees authorized by s. 1009.24(14)(p), Florida Statutes, to pay and secure debt with annual debt service in an amount not to exceed $4 million to finance or refinance the university's new student union project. This section expires July 1, 2023.*

The Fee revenue is a function of total enrollment and credit hours. Due to this relationship, the revenue generated from the Fee is predictable and reliable. The attached exhibit *Historical and Projected Debt Service Coverage* shows that historical fee revenue remained stable, despite the COVID-19 Pandemic, increasing roughly 3% from $3.98M to $4.10M over the past 5 years. The University projects Fee collections to remain essentially flat through FY 2025-26. However, the University's 2021 Accountability Plan projects modest yet consistent annual declines in Enrollment and FTEs through the reported 5-year projection period. Per the University, this decline is anticipated, as greater strategic emphasis has been placed on graduate enrollment. Since graduate enrollment is about a third of undergraduate, gains made in former may not offset the latter. To be conservative, the projected Fee collections mirror the trend in the Accountability Plan.

Debt Service Coverage: The University wishes to maximize the amount of proceeds generated by the issuance of the Debt, and has received Legislative authorization to use up to $4M in annual Fee revenue to service the Debt.

The State University System Debt Management Guidelines (Guidelines) require a minimum 1.20x debt service coverage (DSC) ratio for the requisite 5-years of projected revenues. Based on projected Fee revenue and an assumed interest rate of 4% and a 20-year final maturity, DBF could issue approximately $46.8M in Debt on behalf of the University to maintain a minimum DSC of 1.20x (see attached *Historical and Projected Debt Service Coverage*). If the debt is issued with a 30-year final maturity, the borrowing amount would increase to $59.5M based on the assumed 4% interest rate; however, the University is currently anticipating issuing with a 20-year final maturity. Ultimately, the Debt will be sized by DBF at pricing, based on prevailing market rates at that time, in an amount that complies with the Guidelines' minimum 1.20x DSC ratio.

Type of Sale: The Debt will be issued through DBF. Based on an analysis of current market conditions and the proposed bond issuance, it was determined that a competitive sale would yield the best results in terms of Debt cost.

Analysis and Recommendation: Staff of the Board and DBF have reviewed the information provided by the University regarding the issuance of bonds to refinance a portion of the Union. The proposed financing complies with Florida Statutes governing the issuance of university debt and the State University System Debt Management Guidelines. Board staff recommends authorization of the Debt provided that the University adheres to a projected 1.20x DSC ratio. The Debt must be sized accordingly at the time of issuance, given the prevailing interest rate and term.