J. BEN WATKINS III
DIRECTOR

STATE OF FLORIDA
DIVISION OF BOND FINANCE

MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III

Date: January 13, 2023

Re: Florida Polytechnic University Student Housing Project

As required by Section 1010.62(3)(b)4., Florida Statutes, the Division of Bond Finance ("DBF") has reviewed and analyzed the information provided to support Florida Polytechnic University's (the "University") proposed financing of the acquisition of an existing 539-bed dormitory, which is currently owned and operated by a third-party ("Phase II"), and the construction of a new 430-bed dormitory ("Phase III"), both located on its campus (collectively, the "Project"). DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project and evaluated the proposed financing for compliance with BOG policies. The BOG staff analysis of the Project discusses the relevant aspects of the proposed financing and the deviation from the BOG Debt Management Guidelines (the "Guidelines"). However, the proposed financing involves policy issues beyond those set-forth in Guidelines which are important for the BOG to consider, and which are summarized below.

As discussed in the BOG staff analysis, the Project will create a university owned and managed housing system, and the proposed financing will be the first time the University has issued debt. The University is relatively new, has a limited operating history and a vastly smaller student population than most universities in the SUS. Unlike auxiliary enterprises at other SUS universities that have an established housing system, the University has limited demonstrated historical financial and operating performance of a housing system to support the financial feasibility of the Project. Additionally, the revenues expected to be generated by the Project are dependent on demand for on-campus housing and projected enrollment growth assumptions. The University has taken steps to mitigate these risks by prudently deviating from the Guidelines to provide a cushion for falling short of financial projections. However, there are still uncertainties with the financial feasibility reflected in the credit quality of the proposed financing; DBF believes there is a potential that the financing will not receive an investment-grade credit rating (Baa3/BBB- or above) and has not yet been able to qualify the financing for bond insurance, although still actively pursuing and remains a possibility, which would provide a financial backstop and an investment-grade credit rating. Both of these factors reflect credit weakness. The financing proposes the use of capitalized interest, funding of a debt service reserve, deferring principal until after the first year of Phase III operation, and a springing residency requirement if financial performance is not sufficient to meet all expenses and debt service payment obligations.

These debt structuring strategies are being deployed to strengthen the credit quality and generate additional cash-flow to mitigate construction and occupancy risks as the University launches its housing system. The BOG should consider appropriateness of deviating from the Guidelines to address credit quality/financial feasibility and the potential financial challenges posed by a start-up auxiliary enterprise in evaluating the Project and the University's plan for using student housing to augment enrollment growth.

There are points raised in the BOG staff analysis that DBF believes are atypical relative to the financing of student housing at other universities that the BOG should consider in evaluating the Project. These issues are not debt management matters but novel policy considerations for the BOG and relate to the strategy for increasing student population, the targeted percentage of students housed on-campus, the cost for students to live on-campus and the availability of off-campus housing. The feasibility study for the Project assumes increasing enrollment, increasing demand for on-campus housing, and an increased capture rate for the percentage of students living on campus. The University believes and there is some evidence to support that limited student housing is impacting enrollment growth. However, there may be other factors impacting enrollment growth and the Project's financial feasibility is dependent on enrollment projections. Additionally, the assumed capture rate is far beyond the percentage of students living on campus at other universities within the SUS and above the weighted average undergraduate capture rate for polytechnic institutions nationwide which trend higher than traditional universities. Also, the costs associated with the construction of Phase III require an increase in the current rental rates for the beds that are a part of Phase II and further annual rate increases will be needed for both Phase II and Phase III when it opens. The cost to live on-campus in Phase II (and Phase III when it opens) will be comparable to off-campus options. Lastly, control of on-campus housing will be bifurcated between the University, which will own and operate the Project, and a third-party, which will still own and operate one facility under a P3 agreement. Accordingly, the housing system may face competition from off-campus alternatives and, potentially, other on-campus housing. The demand for the Project, strategy for increasing enrollment and affordability of on-campus student housing are policy decisions rather than a debt-related issue that the BOG should consider.

cc: Ray Rodrigues, Chancellor, Board of Governors
Kevin Pichard, Director, Board of Governors
Allen Bottorff, Vice President and Chief Financial Officer, Florida Polytechnic University