

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Polytechnic University Housing
Acquisition of Phase II and Construction of Phase III**

Project Overview:

Florida Polytechnic University (the “University”) is requesting approval from the Board of Governors (the “Board”) to issue tax-exempt revenue bonds in an amount not to exceed \$76M (the “Bonds”) through the Division of Bond Finance (DBF) to finance (1) the acquisition of an existing on-campus P3 student housing facility (“Phase II”), currently owned and operated by Vestcor, and (2) the design and construction of a new student housing facility (“Phase III”). There is an older existing P3 student housing project (“Phase I”), also owned and operated by Vestcor, that is not part of this transaction.

The Acquisition of Phase II and the Construction of Phase III; collectively, the “Project”, was approved by the University’s Board of Trustees on October 18, 2022, and amended on December 8, 2022. The Project is included in the University’s approved Campus Master Plan for 2021-2031.

Project Description:

Phase II is a 131,500 sq. ft. facility, built in 2016, primarily comprised of 2-bedroom / 1-bath, double-occupancy semi-suite units; 539 beds in total. It is a P3 project evidenced by a ground lease between the University and a private corporation (Vestcor), whereby the University agreed to lease a parcel of on-campus land to Vestcor, who, in turn, agreed to construct, own, and operate the Phase II housing project. At this juncture, the University has elected to exercise its right to purchase Phase II at a predetermined price in accordance with the ground lease agreement. The acquisition of Phase II is expected to be completed on or after June 12, 2023.

Phase III is anticipated to be a 136,900 sq. ft. facility comprised of 2, 3, and 4-bedroom full-suite units in single-occupancy and double-occupancy layouts; 430 beds in total. Capstone Development Partners, LLC (Capstone) was selected by the University for the design-build of Phase III. Construction is projected to commence in March 2023, with substantial completion and occupancy in August 2024 (i.e. the Fall semester).

The Project will launch the University’s first-ever fully owned Housing System, giving it autonomy over approximately 75% of the on-campus student housing. A complete list of the Project’s various unit types is provided below.

Project Unit Types

Unit Type	Phase II	Phase III	Total
2-BR / 1-Bath Semi-Suite (double occ)	488 beds	-	488 beds
4-BR / 2-Bath Apartment	36 beds	48 beds	84 beds
1-BR / 1-Bath (RA)	15 beds	14 beds	29 beds
4-BR / 2-Bath Full-Suite	-	248 beds	248 beds
1-BR / 1-Bath Full-Suite	-	8 beds	8 beds
2-BR / 1-Bath Full-Suite (double occ)	-	88 beds	88 beds
3-BR / 1-Bath Full-Suite	-	24 beds	24 beds
Total Beds *	539 beds	430 beds	969 beds

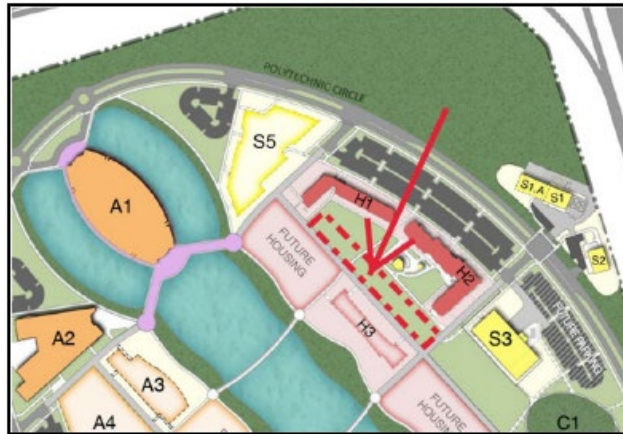
*Includes residential assistant (RA) units; 15 (Ph II) and 14 (Ph III)

Of note, since 2019, the University has been responsible for all resident life activities (e.g., recreational activities, roommate matching service, etc.) for all on-campus housing.

Currently, the University does not have adequate staff and infrastructure to fully manage the Project. As such, Capstone will provide custodial and maintenance services, and, in return, will be paid an annual fee of 3.25% of gross revenues. The University is adding operational capacity in anticipation of its leasing responsibilities for Phase II and III. For example, a Director of Student Housing Operations was recently added to staff.

Other than the Project, remaining on-campus student housing consists of a single facility (Phase I) built in 2014. Like Phase II, Phase I is a P3 project built, owned, and operated by Vestcor. However, unlike Phase II, its lease agreement does not permit the University to acquire the facility at a predetermined (favorable) price. As such, after review, the University chose not pursue acquisition of Phase I at this time (Vestcor will continue as owner/operator).

Site Location:



The University, located in Lakeland, Florida, is comprised of a 171-acre main campus. In keeping with the Campus Master Plan, Phase III will be located near Phase I and Phase II housing (“H1” and “H2”,

respectively; see picture above), which preserves the parcels directly adjacent to the pond for future development and maintains pedestrian and emergency pathways across campus.

Benefit to Stakeholders:

As mentioned previously, the Project will ultimately provide the University control over most of its on-campus housing, enabling it to directly address continued excess (unmet) demand and, thus, help facilitate enrollment growth. According to FL Poly, for Fall 2022, and Fall 2023, **they have, and expect to, scale back their projected size of its incoming freshman classes due to the lack of housing options, particularly on-campus housing.** In light of this, Phase III will primarily house returning students, freeing up space in Phase II to accommodate increased enrollment of incoming first-time college students. **The University feels that the Project (specifically Phase III) is crucial for their future enrollment growth.**

Based on the information provided by the University, the Project is expected to yield an internal rate of return (IRR) of 10.80%. When debt financing is factored in, the Project is expected to yield a levered internal rate of return of 45.61%. [see attached *Internal Rate of Return*]

Demand Analysis:

In 2021, the University engaged Brailsford & Dunlavey (B&D) to conduct a feasibility study assessing the demand for Phase III. B&D analyzed the University’s current housing inventory, future on-campus housing demand, the off-campus housing market, and conducted a survey of the student population to gain insight of student preferences and obtain quantitative market demand data. B&D’s findings are reflected in a report dated September 2022.

Current and Future Demand

Phase I and Phase II were designed to house 758 students, but were subsequently modified to house 795 students, 5% over the original design capacity. As demand has continued to outstrip supply, currently Phase I and II are over capacity by 10% and 3%, respectively. Historical occupancy for Phase I and II is provided below. Note, reduced occupancy in 2019 and 2020 stemming from the pandemic has since recovered, exceeding pre-pandemic levels.

Historical On-Campus Housing Capacity & Occupancy

Fall	Phase I			Phase II		
	Design Capacity	Beds	Occupancy (% capacity)	Design Capacity	Beds	Occupancy (% capacity)
2018	219	211	96%	539	483	90%
2019	219	217	99%	539	471	87%
2020	219	205	94%	539	437	81%
2021	219	216	99%	539	534	99%
2022	219	240	110%	539	555	103%

Current excess demand is expected to grow commensurate with projected enrollment growth in coming years. The University’s Board-approved 2022 Accountability Plan projects fall 2026 headcount enrollment of 2,519 students: an increase of 926 students or 58% over fall 2022.

In fall 2022, 50% of the University’s students lived on campus. While this percentage (or ‘capture rate’) would be high for most universities, it is typical of polytechnic institutions, according to the B&D study. Polytechnic universities are uniquely focused on applied technology-based training, and prospective students value on-campus residency due to the collaborative, hands-on nature of their fields of study. Per B&D, the national weighted average undergraduate capture rate for polytechnic institutions is 51%; 46% for public institutions and 58% for private institutions. According to B&D, the University is projected to achieve a higher capture rate of 64%-66% in the coming years due to 1) a bottleneck of unmet demand and 2) the proposed Phase III unit mix/type being unmet by off-campus options. In the absence of Phase III, current excess demand is expected to continue growing, as reflected in the chart below:

**Projected On-Campus Housing Demand
(in the absence of Phase III)**

Fall Term	Enrollment	Estimated Capture Rate	Beds Needed	Existing Inventory (Ph I & Ph II)	Surplus/ (Deficit)
2022	1593	66%	1051	758	(293)
2023	1776	66%	1172	758	(414)
2024²	2075	64%	1328	758	(570)
2025	2304	64%	1475	758	(717)
2026	2519	64%	1612	758	(854)

1) Enrollment estimates are based on the University’s latest Board approved Accountability Plan.

2) Phase III is anticipated to open for Fall 2024 semester.

As reflected above, projected capture rates of 64%-66% are based on the B&D demand analysis. At that level, the projected FY24 deficit of 570 beds will be largely offset by opening of Phase III (430 beds), but still leaving a deficit of 140 beds.

Off-Campus Market

According to the B&D study, potential housing in the off-campus market is mostly clustered around Lakeland, approximately 12 miles from campus, with some additional housing options located through Polk County, 30-40 minutes from campus. Importantly, Polk County’s population has grown 20% between 2011 to 2020, but residential housing inventory has only grown 13%. As such, the area continues

to face a general housing shortage, driving up home prices and rental rates.

There are currently no off-campus housing options that target the student population or offer roommate matching services, flexible academic year leases, and fully furnished units typical of on-campus housing. However, in 2022, approximately 665 multifamily units were added to the off-campus inventory within 15 miles of the University, and another 608 units are under consideration, although none include purpose-built student housing. As such, **B&D does not expect these new/proposed off-campus units to disrupt the University’s on-campus housing opportunities.** Nevertheless, the additional units may pose a potential risk to Phase III.

Rental Rate Comparison

Per the B&D study, the per-bed rental rates in the surrounding market averaged \$762/month (not including utilities) for the Spring 2022 semester, and they have grown 4.88% / year, on average, since 2014. Comparatively, for Phase II, the average rental rate was \$745 for fall 2022. Phase III will come to market in fall 2024 with an average rental rate of \$1,194. The higher rate is driven by the fact that Phase III is mostly single-occupancy units. Below is a comparison of the on-campus and off-campus rates including board of trustees (BOT) approved rate increases.

Per-Bed Average Rental Rate Comparison

	Current	Projected		
	Fall 2022	Fall 2023	Fall 2024	Fall 2025
Phase II	\$745	\$812	\$849	\$887
Phase III	\$0	\$0	\$1,194	\$1,248
Growth rate		9%	4.5%	4.5%
Off-Campus *	\$868	\$891	\$914	\$938
Growth rate		3%	3%	3%

* Includes average monthly utility cost of \$106 per B&D study as reported by off-campus students.

On December 8, 2022, the University’s BOT approved a plan to increase rental rates beginning in fall 2023; up to 9% (Phase II only) in 2023, up to 4.5% in fall 2024 and 2025, and up to 3% annually thereafter, as needed. **Rental rate increases were essential to the viability of the Project.** The approved rate adjustments are not unique to FL Poly; other SUS institutions have increased rates as well, as reflected in the chart below.

BOT-approved student housing rental rate increases

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
UF	4.5%	4.5%	4.5%	4.5%	4.5%
FSU	2.0%	2.0%	2.0%	2.0%	2.0%
UWF			4.0%	4.0%	4.0%
NCF	-	-	8.0%	8.0%	8.0%
FL Poly	-	-	9.0%	4.5%	4.5%

Student Survey Results

The B&D survey was disseminated to 1,418 students, with 29% responding. The two most important factors students cited when deciding whether to live on campus were 1) affordability and 2) proximity (to campus and University resources). Students also placed importance on the availability of single-occupancy units, which was considered in the unit mix of Phase III where only 21% of the beds are double-occupancy, compared to 93% in Phase II. Furthermore, respondents who currently live on campus were generally satisfied; they highlighted the convenience and safety (of living on campus). Respondents were dissatisfied with the total cost of living on campus, when parking and meal plans were taken into consideration, as well as the quality of current maintenance and custodial services.

Project Cost:

The acquisition cost of Phase II is expected to be \$26.5M, in accordance with the ground lease agreement between the University and Vestcor. The design and construction cost of Phase III is expected to be \$39.8M, which includes a \$1.5M construction contingency (4%). In total, the Project (Phase II and III) cost is \$66.4M. [see attached *Estimated Sources and Uses* for more detail]

The per-bed cost of Phase II (539 beds) and Phase III (430 beds) are \$49.2K and \$92.6K, respectively. Combined, with 969 beds and total project cost of \$66.4M, **the Project's per-bed cost is \$68.5K**. A comparison of per-bed costs of other recent SUS student housing projects is provided below.

Per-Bed Cost Comparison of recent SUS Housing Projects

Approval Date	University	Location	Beds	Cost Per-Bed
Pending	FL Poly	Lakeland	969	\$68.5K
September-22	USF	Sarasota-Manatee	200	\$105.0K
March-21	UF	Gainesville	1400	\$157.0K
March-20	FIU	Miami	700	\$125.0K
January-20	FSU	Panama City	400	\$57.8K
April-19	FAU	Boca Raton	616	\$87.8K
April-19	FAU	Jupiter	165	\$91.8K
November-18	USF	St. Petersburg	375	\$72.5K
November-18	FAMU	Tallahassee	700	\$85.7K

Financing Structure:

The Project will be 100% financed with the proposed \$76M Bonds (no equity contribution), funding Project cost (\$66.4M), capitalized interest (\$4.0M), debt service reserve (\$2.7M), municipal bond insurance (\$2.4M), if necessary, as well as the underwriter's discount and cost of issuance (\$1.0M).

Capitalized interest (Cap-I) will fund interest-only debt service on the Phase III portion of the Bonds during its 16-month construction. A small portion of Cap-I will fund the initial 4-5 months of debt service until Phase II is acquired/closed and starts contributing revenue to cover its portion of the Debt.

Based a review of the proposed transaction and current market conditions, DBF anticipates that a debt service reserve and municipal bond insurance may be necessary to improve investor interest and benefit the overall structure. DBF will perform a cost/benefit analysis to determine the appropriateness of bond insurance. Also, the University may elect to further bolster the debt service reserve with residual cash flows of the Project (after operating expenses, debt service, and other expenses) through FY28, as an added enhancement.

The Bonds will be issued with a 30-year term and a fixed interest rate. Current estimates assume a 5.65% rate, with resulting debt service (principal & interest) of \$5.4M / year. As proposed, debt service will not be level for the first year. Amortization of principal will be deferred for the first year Phase III's operations to help it stabilize and to keep overall debt service coverage at or above the 1.20x minimum required by the SUS Debt Management Guidelines (the "Guidelines"). For reference, the Guidelines state the following:

Generally, debt should be structured on a level debt basis so that the annual debt service repayments will, as nearly as practicable, be the same in each year. A deviation from these preferences is permissible if it can be demonstrated to be in the university's best interest, such as restructuring debt to avoid a default and not to demonstrate feasibility of a particular project.

The deferral of principal (for the first 12 months that Phase III is in operation) results in non-level debt and, given the circumstances, is an exception to the Guidelines.

As a mitigating factor for the above exception, the University has approximately \$6.8M in auxiliary reserves to further support Project operations, if needed.

Pledged Revenues:

The Bonds will be secured by a first lien on the net operating revenue ("Pledged Revenue") of the new Housing System, which, as stated earlier, will consist of the acquired Phase II and newly constructed Phase III. Operating expenses include the annual management fee

(3.25%) paid to Capstone for their share of operating and maintenance responsibilities.

Based on the projections provided by the University, Pledged Revenue of \$2.6M in FY24 more than doubles the next year to \$6M with the opening of Phase III. Subsequent revenue growth of 5% annually through FY29 generates sufficient debt service coverage through the projection period. Projected growth is, in part, a product of the University's planned increase to rental rates, previously discussed in the section *Rental Rate Comparison* above. For pro forma and projected debt service coverage, see attached exhibit titled *Historical and Projected Debt Service Coverage*.

Debt Service Coverage: The University and B&D provided historical operating data as well as 5-year projections for the Project; see attached *Historical and Projected Debt Service Coverage*.

Based on the projections, Project debt service coverage ranges between 1.20x and 1.64x, meeting the minimum 1.20x threshold pursuant to the Guidelines. Underlying the University's estimated debt service coverage is the assumption of 95% occupancy for the Project and a projected capture rate of 64%-66%. As previously discussed, the projected capture rate exceeds national averages. For perspective, if the capture rate is lower and comparable to the national average of 51%, occupancy for Phase III could fall to 70% in FY25, potentially resulting in debt service coverage below 1.20x. However, it is unlikely that this scenario would jeopardize timely debt service payments.

Type of Sale: The University has concluded that maintaining flexibility for a competitive or negotiated sale is in the best interest of the University. The Debt will be the first issuance of its kind by the University. As such, there are concerns about how the Debt will be perceived by prospective investors especially the ability to achieve an "A" category rating. Based on an analysis of the Debt and market conditions, DBF will determine whether a competitive or negotiated sale will yield the best results in terms of debt cost and structure.

Selection of Professionals: The Bonds will be issued through DBF, which has contracts with multiple outside professionals (including bond counsel, financial advisors, and verification agents) who will be engaged as needed, all of whom were selected through a competitive process.

Recommendation: Staff of the Board of Governors and the Division of Bond Finance have reviewed the resolution and supporting documentation provided by the University. Based upon this review, it appears that the proposed financing includes one exception to the Guidelines: annual debt service is not level for the term of the Debt due to the deferral of principal amortization until 2026.

The University BOT feels that the Project is vital to attaining projected enrollment growth and achieving its long-term strategic goals.

The B&D study projects continued excess demand for on-campus housing, which is further evidenced by the University's plans to downsize enrollment of incoming freshman over the next two years in light of insufficient on-campus inventory.

The deferral of principal amortization is only for the first year of operations (following the opening of Phase III) and the University has approximately \$6.8M in auxiliary reserves to support operations, if needed. As such, Board staff recommends the project despite the exception to the Guidelines.