

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of North Florida**

UNF Honors College Residential Hall; \$86.7M Debt

Project Description: University of North Florida (the “University”) is seeking authorization to finance the design and construction of a new student housing facility (the “Project”) on the University’s campus, to be designated its Honors College Residential Hall, through the issuance debt in the form of not to exceed \$86.7 million in bonds (the “Bonds”) issued by the Division of Bond Finance (“DBF”).

The Project will be located on the main campus of the University and is anticipated to be a 521 bed, approximately 164,350 gross square-foot student housing facility, with primarily a mixture of 2-bed/ 1-bath single- and double-occupancy semi-suite units and 4-bedroom/ 1-bath apartment-style units. The Project will primarily serve students enrolled in the University’s Honors College.

The Project is expected to increase the housing system’s existing capacity of 3,548 beds by approximately 15% to 4,069 beds. Importantly, the Project will allow the University to address excess demand for on-campus housing, which will facilitate student success and enrollment growth.

The Project is included in the University’s approved Campus Master Plan for 2020-2030, and it was approved by the UNF Board of Trustees (the “UNF BOT”) on July 10, 2023.

Project Location: The Project will be located on the east side of campus, immediately north of one of the existing on-campus student housing facilities, Osprey Fountains, close to the campus academic core, student services, and food services.



Project Design & Construction Period:

On February 2nd, 2023, the University initiated a competitive procurement process for construction management services via a Request for Qualifications (RFQ). Five (5) responses were received from which Ajax Building Company was selected. A similar competitive procurement process was completed for architecture and engineering services, with nine (9) responses received and the firms Harvard Jolly Architects and Hastings Chivetta Architecture, Planning & Engineering (a joint venture) selected.

Project planning and design is expected to be completed in the coming months for a four-story building; the ground floor will be common areas and student housing; levels 2 – 4 will be entirely housing; and the following unit mix:

Anticipated Project Unit Mix

2-BR/1-Bath Semi-Suite (Single-occupancy)	160 Beds
2-BR/1-Bath Semi-Suite (Double-occupancy)	184 Beds
4-BR/1-Bath Apartment Style (Single-occupancy)	160 Beds
RA Units	17 Beds
Total	521 Beds

A guaranteed maximum price (“GMP”) contract is expected by year end, and the Project will be delivered pursuant to a ‘Construction Manager (CM) at Risk’ agreement, with the CM overseeing Project construction and the University administering the contract, consistent with previous UNF projects.

Construction is projected to commence in December 2023, with completion in July 2025 and occupancy in August commensurate with the Fall 2025 semester.

Project Cost:

Project cost is approximately \$76.9M, including contingencies (\$10.4M, 14%). The Project is expected to be funded entirely with Bond proceeds, with no cash contribution from the University. Bond proceeds will also fund capitalized interest (\$7.6M) and cost of issuance (\$2.9M). The latter includes estimated municipal bond insurance premium; however, bond insurance will only be purchased if DBF determines it to be economically beneficial. (See attached **Estimated Sources and Uses of Funds**)

At \$147,000 per bed, the Project is the 2nd most costly SUS housing project in recent years, as reflected in the chart below:

Per-Bed Cost Comparison *

Approval Date	Univ.	Location	Beds	Cost Per Bed	Notes
Proposed	UNF	Jacksonville	521	\$147.6K**	
Jan 2023	FPU	Lakeland	539	\$49.2K	Acquisition of existing facility
Jan 2023	FPU	Lakeland	430	\$92.6K	
Sept 2022	USF	Sarasota-Manatee	200	\$105.0K	
Mar 2021	UF	Gainesville	1400	\$157.0K	
Mar 2020	FIU	Miami	700	\$125.0K	
Jan 2020	FSU	Panama City	400	\$57.8K	P3 project
April 2019	FAU	Boca Raton	616	\$87.8K	
April 2019	FAU	Jupiter	165	\$91.8K	Includes parking
Nov 2018	USF	St. Petersburg	375	\$78.7K	
Nov 2018	FAMU	Tallahassee	700	\$85.7K	

* Based on original Board of Governor’s-approved Project Summary reports

** Cost per bed is reduced to approximately \$139.4K if amenities targeted towards the Honors College residents, such as study rooms and lounges, are excluded.

Demand Analysis:

The University has strategically maintained its annual total full-time enrollment (FTE) at approximately 12,000 students and anticipates minimal enrollment increases for the foreseeable future. Aside from a slight drop in FTE in fall 2021, due to COVID-19, enrollment has remained stable over the last four years.

Historical and Projected Fall Enrollment

	<u>Historical</u>				<u>Projected</u>			
	2019	2020	2021	2022	2023	2024	2025	2026
First-Years	2,269	2,402	2,428	3,241	2,366	2,379	2,392	2,405
Sophomores	2,277	2,198	2,068	1,951	2,181	2,193	2,205	2,216
Juniors	3,443	3,425	3,888	3,628	3,588	3,608	3,627	3,647
Seniors +	2,612	2,754	2,006	1,940	2,451	2,465	2,478	2,492
Other	261	178	210	190	219	220	221	222
Graduates	1,029	1,075	1,006	994	1,084	1,102	1,119	1,136
Total FTE	11,891	12,032	11,606	11,944	11,889	11,967	12,042	12,118

Source: B&D report and University of North Florida

In December 2019, UNF engaged Brailsford & Dunlavey (B&D) to conduct a study assessing demand for the Project. The report was subsequently updated several times; the last time in May 2023 to re-confirm Project feasibility, recommendations, and confirm that market conditions had not changed so as to negatively impact the Project.

Historically, approximately 70% of UNF students are full-time, and just under 50% of those are ‘non-local’ (i.e., from outside Duval, Baker, Clay, Nassau, and St. John’s Counties). The University is exploring expanding its recruitment of ‘non-local’ students. B&D noted that on-campus housing is an important element in attracting those students. Should UNF’s efforts result in increased ‘non-local’ enrollment, an increase in demand for on-campus housing could result.

On-Campus Housing Occupancy and Demand

The University has a mixture of on-campus housing options; traditional dormitory-style, semi-suite, full suite, and apartment-style. Dormitory-style and semi-suite are typically reserved for first-year students, whereas full-suite and apartment-style are for upper-division students. In recent years, however, the University has had to house first-year students in units typically reserved for upper-division students, limiting the latter’s options.

Furthermore, as of fall 2022, UNF had approximately 3,500 on-campus capacity, but over 3,700 students in on-campus housing (i.e., 106.5% of existing capacity). As a stop gap to meet excess demand, UNF has increased beds in existing facilities, such as converting double-occupancy rooms to triple-occupancy.

Based on the B&D demand analysis, the University does not have sufficient housing capacity to meet student demand. According to the B&D study, prior to the pandemic in fall 2019, unmet demand was 801 beds, but this has since jumped to 1,220 beds for the fall 2022 and is projected to increase slightly to 1,272 beds by the fall 2025 semester.

Outside of the impact of COVID-19 in 2020, on-campus occupancy has been over 95% for the past five years. The following chart shows historical occupancy for UNF’s on-campus housing, and the University expects to be fully occupied for the fall 2023 semester.

Historical Housing System Capacity & Occupancy

Fall	Capacity (Beds)	Occupancy (Beds)	Occupancy (%)
2018	3,508	3,402	97.0%
2019	3,504	3,535	100.9%
2020*	3,175	2,001	63.0%
2021	3,424	3,259	95.2%
2022	3,504	3,731	106.5%

Source: University of North Florida.

*Capacity and occupancy reflect the impacts of COVID-19

The University has not raised rental rates since the fall 2015 semester. Earlier this year, the UNF BOT approved student housing rental rate increases; 4.25% annually for academic years FY23-24 through FY25-26, beginning with fall 2023 semester. The University anticipates 3% annual increases thereafter.

The following chart shows on-campus rental rates for the predominate types of student housing the University's existing on-campus facilities.

Housing System Rental Rates (per student per semester)

	<u>Actual</u>		<u>Projected</u> <i>(subject to change)</i>	
	2022-23	2023-24	2024-25	2025-26
<u>Proposed Housing</u>				
<u>The Project</u>				
2-BR/1-Bath (double-occupancy)	N/A	N/A	N/A	\$3,972
2-BR/1-Bath (single-occupancy)	N/A	N/A	N/A	\$5,608
4-BR/1-Bath Apt (single-occupancy)	N/A	N/A	N/A	\$5,863
<u>Existing On-Campus Housing</u>				
<u>Osprey Village</u>				
1-BR/1-Bath Apt (double-occupancy)	\$3,300	\$3,440	\$3,586	\$3,739
2-BR/1-Bath Apt (double-occupancy)	\$2,435	\$2,538	\$2,646	\$2,759
Osprey Hall (Dorm double-occupancy)	\$2,250	\$2,346	\$2,445	\$2,549
Osprey Landing (2/1 double-occupancy)	\$2,900	\$3,023	\$3,152	\$3,286
Osprey Cove (2/1 double-occupancy)	\$2,900	\$3,023	\$3,152	\$3,286
Osprey Crossings (2/1 double-occupancy)	\$3,150	\$3,284	\$3,423	\$3,569
<u>Osprey Fountains</u>				
4-BR/2-Bath (single-occupancy)	\$3,300	\$3,440	\$3,586	\$3,739
6-BR/2-Bath (single-occupancy)	\$3,085	\$3,216	\$3,353	\$3,495
6-BR/2-Bath (double-occupancy)	\$2,830	\$2,950	\$3,076	\$3,206
<u>The Flats at UNF*</u>				
2-BR/2-Bath Apartment (furnished)	\$3,393	\$3,537	\$3,687	\$3,844
2-BR/2-Bath Apartment (unfurnished)	\$3,146	\$3,281	\$3,420	\$3,566
3-BR/3-Bath Apartment (furnished)	\$3,168	\$3,303	\$3,443	\$3,590
3-BR/3-Bath Apartment (unfurnished)	\$2,921	\$3,047	\$3,176	\$3,311

Source: University of North Florida. "Apt" = apartment style

* The Flats at UNF contract is an annual contract (mid-August to end of July), paid in 12 monthly rent installments and the per semester rental rates shown above assume 4.5-month semesters.

Based on the above data, the Project's rental rate for double-occupancy units compares favorably to existing double-occupancy units on campus. However, the Project's single-occupancy rents will be markedly higher compared to existing single-occupancy inventory. Nearly half (45%) of existing on-campus housing is at least 25 years old.

Off-Campus Housing Analysis

As part of its report, B&D analyzed the current market housing conditions and

trends surrounding UNF's campus. The B&D report found that the market immediately surrounding UNF has experienced significant planned development that began delivery in 2022. In the 3-mile radius around UNF, inventory has increased by 9,676 beds (39%), which has helped to stabilize demand and off-campus rental rates. However, the B&D study said that rates remain expensive for students and the market is transitioning to targeting young professionals, not students. Vacancies in neighborhoods around UNF are not projected to exceed 12%, and students prefer to live as close to campus as possible.

Currently, the market average rent per bed within the 3-mile market is \$1,041 per month, or approximately \$3,640 per semester, which exceeds many of the on-campus options offered by UNF (but is less than anticipated Project rates).

Financing Structure: The Bonds will be issued by DBF in an amount not to exceed \$86.7M, with a 30-year maturity, tax-exempt, fixed rate of interest, and level debt service.

For the purpose of the pro forma projections (discussed in *Debt Service Coverage* section below), an interest rate of 5.25% is assumed, resulting in Project debt service of approximately \$6.0M per year. (see attached ***Estimated Debt Service Schedule***)

The assumed rate is based on the Office of Economic & Demographic Research (EDR) Revenue Estimate Conference long-term rate, typically used by the State in debt service projections. The actual interest rate is expected to be less.

Pledged Revenues & Security Structure:

The Bonds will be secured by and payable solely from a lien on the net revenues of the University's housing system (the "Pledged Revenues"). However, regarding net revenues generated by the existing housing system, the proposed lien is after and subject to the preexisting lien on such revenues by the UNF Financing Corporation (the "DSO") securing the outstanding DSO's Capital Improvement Refunding Revenue Bonds and Notes, Series 2016 (the "DSO Bonds"). Comparatively, the lien on Project net revenues, and any additional housing facilities added to the housing system, is a first lien.

The DSO (Financing Corporation) has closed its lien on the Pledged Revenues, and there are no other outstanding liens. The DSO has covenanted not to issue any additional debt with a lien on the Pledged Revenues.

In summary, the Pledged Revenues consist of the net revenues generated by the University's entire housing system, including the Project; however, for so long as the DSO Bonds are outstanding, the Pledged Revenues will consist of (1) the net revenues from the facilities that currently comprise the housing system ("the Existing Housing Facilities") after deducting the amounts required for debt service on the DSO Bonds, and (2) the net revenues of the Project and any other facilities subsequently added to the housing system.

Debt Service Coverage:

Projected Pledged Revenues and debt service coverage are reflected in the attached chart titled ***Historical and Projected Debt Service Coverage***.

As previously described, the UNF BOT approved system-wide rental rate increases for FY24 through FY26. Pro forma Pledged Revenues assume annual 4.25% rental rate increases for those three academic years. Pledged Revenues are also based on estimated initial rental rates for the Project in FY26 of \$3,091 to \$4,560 and assumed 3% annual rental rate increases thereafter. For the purposes of the projections, following Project opening, operating expenses system-wide assume 3% annual escalation. Based on the assumptions, debt

service coverage is estimated to be 1.49x to 1.71x for the projected period, and 1.62x for FY 2025-26 and FY 2026-27, exceeding the 1.20x minimum coverage required by the SUS Debt Management Guidelines.

Note, the Project is not viable on its own, as projected net revenue is insufficient to fund annual debt service on the Bonds. However, its deficits will be subsidized/offset by the Existing Housing Facilities' robust operating capacity, the revenues of which are pledged to the Bonds.

For illustrative purposes only, if the Bonds were to be issued on parity with the existing DSO Bonds, the projected coverage, system-wide, on the DSO Bonds and the Bonds is estimated to be 1.21x in FY26 when the Project opens.

Assessment of Private Sector Alternatives:

The University considered a public-private partnership structure during the evaluation process but did not find this approach desirable for on-campus housing, as it would require the University to forego control over design, operations, and financial benefit. Furthermore, the University desires to provide a robust living and learning environment for its students, which it believes is only possible with its direct input, management, and operation.

Return on Investment:

The Project is expected to achieve an internal rate of return (IRR) estimated at 5.3%, based upon assumptions provided by the University. (See attached ***Projected Internal Rate of Return***)

Method of Debt Sale:

The Bonds 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 overall cost.

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 necessary, all of which 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, the proposed financing appears to be in compliance with Florida Statutes and the SUS Debt Management Guidelines governing the issuance of university debt. As such, staff recommends authorization of the proposed Bonds to finance the Project.