J. BEN WATKINS III
DIRECTOR

STATE OF FLORIDA
DIVISION OF BOND FINANCE

MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III

Date: October 16, 2023

Re: Florida Agricultural and Mechanical University Student Housing Project

---

As required by Section 1010.62, Florida Statutes, the Division of Bond Finance ("DBF") has reviewed and analyzed the information provided in connection with the Florida Agricultural and Mechanical University's ("FAMU") proposed financing of the construction of a new student housing facility on its main campus (the "Project"). DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project, which DBF believes satisfactorily addresses the relevant aspects of the proposed financing. There is one aspect of the Project, the financing structure, mentioned in the BOG staff analysis, which DBF would like to provide context for the BOG to consider in its evaluation of the Project.

The BOG Debt Management Guidelines limit the issuance of taxable debt to those circumstances when it is demonstrated to be in a university's best interest and DBF believes that the proposed issuance of taxable bonds issued in the form of a draw-down loan through the U.S. Department of Education's Historically Black Colleges and Universities Capital Financing Program (the "HBCU Capital Finance Program") to finance the Project is in FAMU's best interest.

The HBCU Capital Finance Program is the same financing platform FAMU used in 2019 to finance the construction of FAMU Towers and refinance all of its then-outstanding housing system debt. A loan through the HBCU Capital Finance Program is effectively a private placement with the federal government rather than a public market transaction. Typically, financings for on campus housing at universities are done through the issuance of tax-exempt debt to take advantage of lower interest rates offered in the tax-exempt public markets; however, based on FAMU's credit quality and the unique nature of the HBCU Capital Finance Program, a taxable issuance through this program is expected to yield the best results for FAMU in terms of overall borrowing cost. The HBCU Capital Financing Program offers more advantageous terms than FAMU could expect to obtain in a tax-exempt public market transaction, including a lower cost of funds with a fixed rate set at the prevailing Treasury rate plus 22.5 bps. Compared to a conventional taxable financing, this is a very favorable rate, which effectively includes no credit spread resulting in pricing that is more in line with a capital markets tax-exempt transaction.

Additionally, while this is fixed rate debt, FAMU faces interest rate risk over the 18-month construction period for the Project because of the draw-down nature of the HBCU Capital Finance Program. Rather than issuing the full amount of debt needed to fund the Project on one date, the program will issue pieces of the loan on an as-needed basis to reimburse FAMU for Project costs over the course of the construction period. The interest rate for each of these draws will be set at the time it is made based on the prevailing like-term Treasury rate. Therefore, the aggregate interest rate on the financing will not be known until the final construction draw.

cc: Raymond Rodrigues, Chancellor, Board of Governors
Kevin Pichard, Director, Finance and Facilities, Board of Governors
Rebecca W. Brown, Vice President Finance and Administration,
Florida Agricultural and Mechanical University