

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Agricultural and Mechanical University
FAMU 2024 Debt Housing, \$102.9M Bonds**

Project Description:

Florida Agricultural and Mechanical University (the “University” or “FAMU”) is seeking authorization to finance the design and construction of a new student housing facility (the “Project”) on the University’s main campus. The Project will be financed with \$102.9M of debt (the “Bonds”) issued by the United States Department of Education’s Historically Black Colleges and Universities Capital Financing Program (the “USDOE HBCU Program”), which is the same financing program utilized for the University’s housing facility & dining hall project approved in 2018 (completed in 2020).

The Project is identical in design/layout as the 2018 housing facility and will be located near it, adjacent to the dining hall that was part of the 2018 transaction.

Total project cost of \$102.9M, includes design, construction, and equipment for two four-story “H-shaped” buildings, representing 182,000 gsf and 700 beds arranged in 350 double-occupancy bedrooms with a shared bathroom (1BR/1Bath). The Project will primarily serve underclassmen students who desire or are required to live on campus.

The Project will increase FAMU’s housing system 2,679-bed capacity by approximately 26%, thus helping to address excess demand for on-campus housing and support future enrollment growth.

The Project is included in the University’s approved Campus Master Plan and was approved by the University’s Board of Trustees (the “BOT”) on September 13, 2023.

Project Location:

The Project will be located on the University’s main campus immediately north and adjacent to the last Board-approved on-campus student housing facility (FAMU Towers, mentioned above) completed in 2020.

Design and Construction Phase:

Project planning and design will be completed later this year, with construction anticipated to commence in March 2024 and be completed in June 2025 in time for student occupancy in August (Fall 2025 semester).

The Project is the same floor plan as the last Board-approved housing project FAMU Towers, completed in 2020, comprised of two four-story “H-shaped” buildings, with 350 bedrooms (double-occupancy; 700 beds), configured as 1BR/1Bath Semi-Suite units.

Finrock served as construction manager on the 2018 housing project and was selected again for the current Project. The University expects to have

a guaranteed maximum price contract (“GMP”) finalized in early 2024 prior to closing. The contract will be administered by FAMU’s Office of Facilities Planning and Construction, consistent with construction of previous University projects.

Project Cost:

The Project is expected to cost no more than \$102.9M, including \$68.8M in construction costs (including 5% construction contingency); \$2.9M of planning & design, \$5M in furniture/equipment and IT infrastructure; a \$3.4M (5%) owner’s contingency, and \$4.8M (6%) escalation contingency. An additional \$18M will fund a \$5M debt service reserve (required by the HBCU Capital Finance Program), \$10.8M in capitalized interest (to pay debt service during construction), and \$2.0M in costs of issuance. (see attached **Estimated Sources & Uses of Funds**).

The Project’s per-bed cost of \$121.4K is elevated from historical levels but in-line with other recent SUS student housing projects (see chart below). The Project is the same configuration as FAMU Towers (see chart) in November 2018, but will be more costly due to inflation over the past five years and current market conditions.

Per-Bed Cost Comparison*

Approval Date	Univ.	Location	Beds	Cost Per Bed	Notes
Proposed	FAMU	Tallahassee	700	\$121.4K	
23-Sep	UNF	Jacksonville	521	\$147.6K	
Jan-23	FPU	Lakeland	539	\$49.2K	Acquisition of existing facility
Jan-23	FPU	Lakeland	430	\$95.6K	
Sep-22	USF	Sarasota-Manatee	200	\$105.0K	
Mar-21	UF	Gainesville	1400	\$157.0K	
Mar-20	FIU	Miami	700	\$125.0K	
Jan-20	FSU	Panama City	400	\$57.8K	P3 project
Apr-19	FAU	Boca Raton	616	\$87.8K	
Apr-19	FAU	Jupiter	165	\$91.8K	Includes parking
Nov-18	USF	St. Petersburg	375	\$78.7K	
Nov-18	FAMU	Tallahassee	700	\$85.7K	Same configuration as the Project

*Based in original Board of Governor’s-approved Project Summary Reports

The Project will be funded entirely with Bond proceeds – i.e., no cash contribution from the University.

Demand Analysis:

The University engaged Novogradac, a national professional consulting firm, to conduct an assessment of demand for on-campus housing, the findings of which are reflected in a report dated June 28, 2023 (the “Study”).

As cited in the Study, since 2017, overall enrollment has trended down (see chart below). Per FAMU, this is largely due to stricter eligibility requirements for financial aid, namely the federal PLUS loan program and

the Pell Grant, impacting FAMU’s students who receive financial aid (86% of total enrollment). Despite the downward trend, the University projects consistent annual enrollment growth through FY27. This is, in part, due to proposed changes to financial aid, specifically the Pell Grant, thus reversing prior hurdles to enrollment growth. More importantly, FAMU states the proposed new university housing will play a major role in facilitating the projected enrollment growth by providing additional on-campus housing at reasonable rental rates.

Historical and Projected Fall Enrollment

	Historical Fall Enrollment						Projected Fall Enrollment				
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Undergraduate	7,554	7,724	7,494	7,082	7,000	7,441	7,637	7,798	7,972	8,110	8,250
Graduate/PHD	1,861	1,859	1,778	1,759	1,688	1,485	1,530	1,580	1,620	1,660	1,700
Total FTE	9,415	9,583	9,272	8,841	8,688	8,926	9,167	9,378	9,592	9,770	9,950

Source: 2023 Accountability Plan: Florida Agricultural and Mechanical University

Currently, only freshmen, student-athletes, and students receiving scholarships are required to live in university housing. According to FAMU, the majority of future enrollment growth will derive from retention of current students and increases in transfer students and graduate students. The latter group typically lives off campus. However, as inflation in off-campus housing rents has priced these students out of occupancy, upperclassman demand for on-campus housing has significantly increased; this increased demand has been largely absorbed by existing university housing. However, the University cannot continue to house those students in addition to the influx of undergrad and transfer students. Accordingly, the Project will add capacity for incoming freshmen and undergrads.

The Novogradac study emphasized the strategic importance of the Project, as well as assessed demand in the targeted student population and analyzed the off-campus rental market in relation to proposed unit mix and rental rates for the Project. The study indicated that 65% of undergraduate students want to live on-campus and, to that extent, further supported FAMU’s goal of having 40%-50% of all students living in university housing within the next five years. Ultimately, Novogradac’s study supported 2,000 new university beds by Fall 2027 (far more than the Project’s 700 beds) but recommended that that such demand be met via a ‘phased-in approach’ of several new housing facilities over the coming years.

University On-Campus Housing:

The University’s current on-campus housing options include traditional dormitories, semi-suite (ensuite bathroom), full suite (ensuite bathroom and living space), and apartment-style units. The traditional and semi-suite units are typically reserved for first-year students while full-suite and apartment-style units are typically upperclassmen/graduate students.

Currently, the University has approximately 2,679 on-campus beds and, as of the fall FY2022 semester, operates at 95% occupancy, leaving little vacancy to accommodate increased demand. The following chart shows historical occupancy as a percentage of capacity for the University’s existing on-campus housing. It should be noted, occupancy has returned to pre-covid percentages.

Historical Housing System Capacity & Occupancy

<u>Fall</u>	<u>Capacity (Beds)</u>	<u>Occupancy (Beds)</u>	<u>Occupancy as % Capacity</u>
2018	2,421	2,339	96.6%
2019	2,340	2,188	93.5%
2020 ¹	1,314	706	53.7%
2021	2,235	2,043	91.4%
2022	2,446	2,355	96.3%
2023 ²	2,679	2,558	95.5%

Source: Florida Agricultural and Mechanical University

¹ Capacity and occupancy reflects the impacts of COVID-19

² 2023 figures are projected; 2023 occupancy reflects percentages as of June 2023

In recent years, the University has demolished aged, end-of-lifecycle housing facilities, namely those where comprehensive renovations were no longer economically feasible. These facilities include Gibbs Hall (270 beds), Truth Hall (96 beds), and Paddyfote (231 beds). These ‘lost’ beds will be essentially replaced by the Project’s 700-bed capacity.

The University anticipates setting the Project’s initial rental rates at \$4,117 per semester, which is identical to FAMU Towers (completed in 2020) and compares favorably to other newer on-campus housing options (as well as the recently acquired off-campus apartments), as reflected in the following chart:

Housing System Rental Rates

<u>Dormitory Facilities</u>	<u>Actual</u>	<u>Projected (subject to change)</u>	
	23-24	25-26	29-30
The Project 1BR/1BA (double)	N/A	\$4,117	\$4,910
Sampson (traditional dorm)			
(double)	\$3,406	\$3,719	\$4,435
(single)	\$3,607	\$3,939	\$4,697
Young (traditional dorm)			
(double)	\$3,406	\$3,719	\$4,435
(single)	\$3,607	\$3,939	\$4,697
Palmetto Street S. Apt			
3 BR/2BA (double)	\$2,828	\$3,088	\$3,683
4 BR/2BA (single)	\$3,188	\$3,481	\$4,152
Palmetto Street Phase III Apt			
3 BR/2BA (double)	\$2,902	\$3,169	\$3,779
4 BR/2BA (single)	\$3,260	\$3,560	\$4,245
FAMU Village (suite single)	\$3,740	\$4,084	\$4,870
FAMU Towers 1BR/1BA (double)	\$3,770	\$4,117	\$4,910
Rattler Pointe A 1BR/1BA (Apt)	\$4,200	\$4,587	\$5,469
Rattler Pointe A 2BR/2BA (Apt)	\$4,080	\$4,455	\$5,313
Rattler Pointe B 3BR/3.5BA (Apt)	\$3,960	\$4,324	\$5,157
Rattler Pointe C 3BR/3BA (Apt)	\$3,921	\$4,282	\$5,106
Rattler Pointe D 2BR/2BA (Apt)	\$4,080	\$4,455	\$5,313

Source: Florida Agricultural and Mechanical University

*Rattler Pointe apartments 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 semester

Off-Campus Housing:

The Novogradac study analyzed current market housing conditions and trends near the University’s campus, identified as the “Primary Market Area” (PMA) being a 1.5-mile radius from the center of campus. The Study cited occupancy rates within the PMA at 95% are expected to hold for the near future, leaving little capacity for increasing demand.

With that in mind, Novogradac interviewed the City of Tallahassee Planning Department who indicated an abundance of new housing in various stages of planning within the PMA could bring 1,005 new housing units and 3,764 new beds, of which the Study projects approximately 843 (beds) would likely be occupied by FAMU students. With the housing market in the PMA in flux in the coming years, as described, and its potential impact on off-campus rental rates unknown at this early juncture,

Novogradac's recommended phased-in approach (i.e., 2,000 beds in several projects in coming years) seems appropriate. It would allow FAMU to adjust its longer-term on-campus housing plans to meet any resulting changes in student housing demand as a result of off-campus market forces.

FAMU states that inflation, the rising cost of rent in Tallahassee, as well as increased crime rates off-campus have, together, driven increased demand for on-campus housing and, in part, necessitated the University's acquisition late last year of off-campus apartment complexes (Brooklyn Yard, Paces, Lighthouse, and Citivue); now collectively "Rattler Pointe", adding 234 beds to the housing system.

Deferred Maintenance: In 2018, the Board authorized the financing for FAMU Towers, the most recently built on-campus student housing. Board approval was conditioned on, among other things, periodic status reports on progress in remediating a backlog of deferred capital replacement/renewal in the housing system, and further prohibited the university from seeking additional debt authorizations for new housing until the Board was satisfied with remediation efforts. To date, FAMU has provided periodic updates reflecting consistent progress, much of which has been accomplished by way of demolishing aged facilities as Paddyfote, Truth, Palmetto North, and Gibbs Hall (the latter to be completed by November 2023). Planned demolitions included two newer facilities, Palmetto South (c. 1993) and Palmetto Phase III (c. 1997). In light of the progress made, last October the Board approved FAMU pursuing another debt financed housing project. Subsequent to that approval, the University revised its prior strategy for Palmetto South and Palmetto Phase III, instead choosing to leave them open for at least another 10 years after investing roughly \$4M in renovating the two facilities.

Financing Structure: The Bonds will be issued by USDOE HBCU Program in an amount not to exceed \$102.9M, with a 30-year maturity, and a taxable fixed rate of interest. 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 \$6.9M per year (see attached ***Estimated Debt Service Schedule***).

The assumed rate is based on the State of Florida 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 on the Bonds is expected to be less. According to FAMU, USDOE HBCU Program provides the University with more favorable (taxable) terms than it may otherwise obtain in a typical (tax-exempt) capital markets transaction, namely a lower interest rate. The actual interest rate will be locked-in with each construction draw based on the current treasury rate (at that time) plus 22.5 bps. As such, the final overall borrowing cost will not be known until after the final loan draw is made. However, for perspective, based on 30-yr treasury yield on 9/21/23, the Bond interest rate would be approximately 4.60%.

Pledge Revenues & Security Structure:

The loan/bonds will be secured by and payable from a first lien pledge on the University’s housing system net revenues.

Over the past five years, despite a declining enrollment trend and the negative impact from Covid-19 (largely offset by federal and state stimulus funding), housing system revenues have consistently hovered around \$15M-\$16M per year. Going forward, FAMU estimates FY23 revenues at \$18M following the addition late last year of Rattler Pointe, and continued revenue growth to over \$20M in FY25 in light of proposed rental rate increases of 4.5%/year.

Upon opening in FY26, the University anticipates the Project will add approximately \$6M to overall housing system net revenue. For the purpose of pro forma projections (see attached **Historical and Project Debt Service Coverage**), revenue and expenses are based on a system-wide occupancy of 99%, pursuant to FAMU’s guidance and expectations, as well as 4.5% annual rental rate increases for five years (starting FY25).

Debt Service Coverage:

As reflected in the pro forma projections (see attached **Historical and Project Debt Service Coverage**), debt service coverage in the full first year of Project operations is 1.81x, and increasing annually thereafter, which exceeds the 1.20x coverage required by the SUS Debt Management Guidelines. As previously described, FAMU is anticipating their BOT to approve system-wide rental rate increases (for FY25 through FY30) at their December 2023 meeting. In the absence of the proposed rental rate increases (i.e. lower revenues), debt service coverage would be 1.35x.

Return on Investment:

The Project is expecting to achieve an internal rate of return (IRR) estimated at 3.28%, based upon assumptions provided by the University. (See attached Projected **Internal Rate of Return**).

Method of Sale:

Since this is a federal financing program, the loan will be placed with Rice Capital Access Program LLC as the USDOE’s loan administrator and Designated Bonding Authority (DBA).

Selection of Professionals:

The Bonds will be issued through the USDOE HCBU Program, which has contracts with multiple outside professionals (including program counsel and trustee) who will be engaged as necessary. Additionally, the Bonds will be issued through DBF, who will provide certain financial advisory and legal services for the transaction. The University has also engaged a financial advisor to provide analytical and transactional assistance. Per DBF, this financial advisor was engaged through the statutory exemption for Accounting Services, which is in accordance with the authority granted under the University’s BOT Regulation 6.005 for Financial Consulting Services.

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.