

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

FAU Boca Raton - Student Housing Facility; \$117.75M Bonds

Project Description:

Florida Atlantic University Finance Corporation (“FAUFC”), a direct support organization (“DSO”) of Florida Atlantic University (“FAU” or the “University”) is requesting approval from the Board of Governors (“Board”) to issue fixed rate, tax-exempt revenue bonds in an amount not to exceed \$117.75M (the “Bonds”) through Bank of America to finance the construction of a new housing facility on the University’s Boca Raton campus (the “Project”).

The Project cost of \$117.75M, includes design, construction, and equipment for a seven-story, 204,000 sq ft facility with 670 beds. The unit mix will be single-occupancy 3- and 4-bedroom semi-suite units with shared bathrooms and a kitchenette. Additional space includes a front desk, study spaces, community kitchen, and laundry. According to the University, the Project will mainly target non-first-year students, but will ultimately be made available for all students; if necessary.

The Project is expected to increase the housing system’s existing capacity by 14% to 5,438 total beds and, importantly, will allow the University to address excess demand for on-campus housing while supporting enrollment growth.

The Project is included in the University’s 2021 adopted campus master plan, and it was approved by the FAUFC’s Board of Directors on January 17, 2024 and FAU’s Board of Trustees (BOT) on March 30, 2024.

Project Location:

The Project will be located on the University’s Boca Raton campus, on an undeveloped plot of land adjacent to an existing parking lot currently serving residential and commuter students. The Project will be immediately east of Parliament Hall and west of University Village Apartments, (see map below).



Design and Construction Phase:

Project planning and design is underway. HKS Architects will serve as the Project architect. The University has almost completed the competitive selection of a construction manager, and anticipates finalization of a guaranteed maximum price contract (“GMP”) later this year. Construction is expected to commence in December 2024, followed by completion in May 2026, in time for student occupancy for the Fall 2026 semester.

Project Cost:

The Project is expected to cost no more than \$117.75M, including \$4.4M (3.4%) in construction contingencies. The Project’s per-bed cost of \$160.5K will be the highest to date among SUS student housing projects (see chart below). FAU attributes the high cost to inflation over the past five years coupled with current market conditions in the Boca Raton area.

Per-Bed Cost Comparison*

Approval Date	Univ.	Location	Beds	Cost Per Bed	Notes
Proposed	FAU	Boca Raton	670	\$160.5K	Proposed Project
23-Oct	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	

*Based on original Board approved Project Summary reports, specifically Project cost and bed count.

Demand Analysis:

To Project demand and feasibility, the University engaged Brailsford & Dunlavey (“B&D”), a national professional consulting firm that specializes in such studies and is frequently utilized by SUS institutions. B&D’s findings are reflected in a report dated December 2023 (“the Study”). The Study indicated that Boca Raton campus enrollment has been fairly stable, excluding the sharp drop in FY20 (see chart below) where students were classified as “distance learning” due to covid restrictions. Enrollment has since rebounded to pre-covid levels, and the University projects enrollment growth of 1% annually through FY28 (as reflected in their most recent Board approved Accountability Plan).

Historical and Projected Fall (FTE) Enrollment

	<u>Historical</u>					<u>Projected</u>				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Undergraduate	14,247	1,636	11,226	11,663	14,157	14,265	14,696	15,094	15,420	15,755
Graduate/PHD	1,410	359	1,517	1,813	2,201	2,241	2,282	2,324	2,367	2,410
Total FTE	15,657	1,995	12,743	13,476	16,358	16,506	16,978	17,418	17,787	18,165
% Change	1.0	0.1	6.4	1.1	1.2	1.0	1.0	1.0	1.0	1.0

Source: 2023 Brailsford & Dunlavy Housing Feasibility Assessment: Florida Atlantic University

Though upperclassmen tend to live off campus, inflation and high off campus housing rents have increased their demand for on-campus housing. According to FAU, future anticipated enrollment growth will be derived through the retention of current students, as well as increased demand from off-campus upperclassmen and, importantly, increases in non-local students (i.e., students from outside the immediate market). As stated in the B&D study, FAU has seen an increase in non-local students and, importantly, they prefer on-campus housing. The University seeks to target the sophomores of this demographic. However, the current on-campus housing inventory does not have enough beds to accommodate the demand from sophomore students while keeping other units (apartment style) open for upperclassmen. Accordingly, the Project will add capacity for incoming sophomores and non-first year students.

The B&D study assessed the demand in the targeted student population and off-campus rental market in relation to the rental rates and unit mix for the Project. Based on the report, B&D supported adding approximately 1,066 beds (more than the Project's 670 beds) by Fall 2026, but recommended that such demand be met through a phased-in approach. Accordingly, FAU plans to target sophomore and non-first year students with the Project. This will help meet projected demand from sophomore students and help re-allocate existing apartment-style units to upper classmen/grad students.

The University's current on-campus housing options include semi-suite (ensuite bathroom), full-suite (ensuite bathroom and living space), and apartment style units. The semi-suite units are typically reserved for first-year students while semi-suite, full-suite, and apartment-style units are typically sophomore, upperclassmen, and graduate students. Currently, the University has approximately 4,768 on-campus beds and operates at 99.8% occupancy. Even with the recent addition of Atlantic Park Towers FY21 (612 beds), the University has no capacity to accommodate increased demand. The following chart shows historical on-campus occupancy.

FAU Boca Raton Occupancy	Historical				
	Fall 2019	Fall 2020	Fall 2021	Fall 2022	Fall 2023
Total Residents	4,191	3,088	4,496	4,819	4,760
Total Beds	4,068	3,956	4,551	4,681	4,768
Occupancy (%)	103.00%	78.10%	98.80%	102.90%	99.83%

In March 2024, FAU’s Board of Trustees approved an increase in student housing rental rates of up to 5% annually over the next three fiscal years (through FY 26-27); the first BOT-approved rate increase in nine (9) years. For the purpose of proforma projections, the University assumed 3% annual increases thereafter.

The B&D Study states that, while FAU’s rental rates are among the highest in the SUS, the University provides a wide range of rental rate options to maintain accessibility for as many students as possible. Notably, the Project’s proposed rates (\$5,499 - \$5,655 per bed per semester) are below FAU’s highest rates; see chart below.

	Actuals		Projected <i>(subject to change)</i>		
	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
Proposed Housing					
The Project					
4-Bed/2-Bath Semi -Suite (Single-Occupancy)	N/A	N/A	N/A	N/A	\$5,655
3-Bed/1-Bath Semi-Suite (Single-Occupancy)	N/A	N/A	N/A	N/A	\$5,499
Existing Boca Raton Campus Housing (Suite Style)					
Atlantic Park Towers					
4-Bed/2-Bath Full Suite (Single-Occupancy)	\$4,885	\$4,885	\$5,102	\$5,332	\$5,574
2-Bed/1-Bath Semi-Suite (Single-Occupancy)	\$4,750	\$4,750	\$5,102	\$5,382	\$5,684
2-Bed/1-Bath Semi-Suite (Double-Occupancy)	\$3,900	\$3,900	\$3,900	\$3,966	\$4,164
Parliament Hall					
4-Bed/2-Bath Semi-Suite (Single-Occupancy)	\$4,600	\$4,600	\$4,812	\$5,030	\$5,262
2-Bed/2-Bath Semi-Suite (Double-Occupancy)	\$3,365	\$3,365	\$3,516	\$3,676	\$3,846
Indian River Towers					
4-Bed/1-Bath Full Suite (Single-Occupancy)	\$4,600	\$4,600	\$4,904	\$5,228	\$5,574
2-Bed/1-Bath Full Suite (Double-Occupancy)	\$3,365	\$3,365	\$3,560	\$3,792	\$4,038
Heritage Park Towers					
3-Bed/1-Bath Semi-Suite (Double-Occupancy Room)	\$3,050	\$3,050	\$3,206	\$3,384	\$3,540
3-Bed/1-Bath Semi-Suite (Single-Occupancy Rooms)	\$4,160	\$4,160	\$4,352	\$4,548	\$4,760
1-Bed/1-Bath Semi-Suite (Super Double)	\$3,650	\$3,650	\$3,814	\$3,984	\$4,164
Glades Park Towers					
3-Bed/1-Bath Semi-Suite (Double-Occupancy Room)	\$3,050	\$3,050	\$3,206	\$3,384	\$3,540
3-Bed/1-Bath Semi-Suite (Single-Occupancy Rooms)	\$4,160	\$4,160	\$4,352	\$4,548	\$4,760
1-Bed/1-Bath Semi-Suite (Super Double)	\$3,650	\$3,650	\$3,814	\$3,984	\$4,164
Existing Boca Raton Campus Housing (Apartment Style)					
Innovation Village Apartments - North					
4-Bed/2-Bath Apartment (Single-Occupancy)	\$5,180	\$5,180	\$5,418	\$5,662	\$5,918
2-Bed/2-Bath Apartment (Single-Occupancy)	\$5,480	\$5,480	\$5,788	\$6,078	\$6,382
1-Bed/1-Bath Apartment (Single-Occupancy)	\$5,680	\$5,680	\$5,942	\$6,210	\$6,490
Innovation Village Apartments - South					
4-Bed/2-Bath Apartment (Single-Occupancy)	\$5,180	\$5,180	\$5,418	\$5,662	\$5,918
1-Bed/1-Bath Apartment (Single-Occupancy)	\$5,680	\$5,680	\$5,942	\$6,210	\$6,490
University Village Apartments					
4-Bed/1-Bath Apartment (Single-Occupancy)	\$4,200	\$4,200	\$4,394	\$4,594	\$4,802
Studio Apartment (Double-Occupancy)	\$3,100	\$3,100	\$3,368	\$3,606	\$3,846
Studio Apartment (Single-Occupancy)	\$4,600	\$4,600	\$5,272	\$5,662	\$5,918

The B&D study analyzed current market conditions and trends near the University’s campus, and identified a “Primary Market Area” (PMA) as encompassing a 3-mile radius from the center of campus. The PMA is primarily comprised of higher-end rental properties and single-family houses, with only a few properties catering to students. Furthermore, according to

the study, the off-campus rental rates increased significantly (29.5%) immediately after the Covid pandemic, and they have continued to increase since. The University states that this caused an affordability gap between the on and off-campus market, even in light of the BOT-approved rental rate increases. It should be noted that, despite the higher cost of off-campus housing, some students elect to live off-campus in order to enjoy amenities not associated with on-campus options, such as convenient laundry facilities and private bedrooms. However, the study also noted that many students indicated they would live on campus, amenities aside, if there were available units (which, currently, there are not). The University has kept the student preferences in mind when designing the Project.

Financing Structure:

The Project will be financed with 30-year, fixed rate, tax-exempt debt, with level debt service, issued by the FAUFC in the principal amount not to exceed \$117.75M; inclusive of capitalized interest and cost of issuance. \$9.3M of the debt will fund capitalized interest during the construction period (approximately 18 months), and \$650K will fund the cost of issuance. A debt service reserve is not necessary, thus not included. For the purpose of the pro forma projections, an interest rate of 5.00% is assumed, resulting in Project debt service of approximately \$7.9M per year. (See attached ***Estimated Debt Service Schedule***).

Note, for the purpose of the pro forma analysis of debt service coverage, the FAU assumed an interest rate of 5.0%. However, the University expects the actual interest rate to be less – as of 4/1/24, the anticipated rate was 4.56%, resulting in annual debt service approximately \$700K lower than that assumed in the pro forma projections.

Security/Lien Structure:

FAU's housing system is bifurcated (i.e., two housing systems) due to the structure of its outstanding housing debt and related revenue pledges, as reflected in the chart below. One system is financed by the DSO, and the other financed by the Division of Bond Finance.

The Project debt will be secured by (i) a first lien on the net revenues of Housing System 1 (see chart below) on parity with its outstanding bonds; together “Pledged Revenues”, and (ii) a second lien on the net revenues of Housing System 2 after payment of all debt service (on bond series 2016) and related obligations (e.g., annual payments to a building maintenance reserve).

Housing System 1 (FAUFC Financed)	Housing System 2 (DBF Financed)
Bond series: 2012B, 2019A, 2019B, & 2022A	Bond series: 2016
7 Projects	4 Projects
Issued on parity, with net revenue pledge to all Housing System 1 bonds.	One bond issue, with net revenue pledge to repayment of 2016 bonds only.
	Proposed subordinate pledge of net revenue to Housing System 1 (after payment of Housing System 2 debt service and related obligations).

As an aside, FAU has a third housing system comprised of two facilities (Jupiter Hall I, 147 beds, c. 1999 and Jupiter Hall II, 151 beds, c. 2001), both of which were financed internally by the FAU Foundation and are not pledged/tied to Housing Systems 1 or 2 debt. As such, they are not considered part of the proposed transaction.

Pledged Revenues & Debt Service Coverage:

As previously described, the FAU BOT approved system-wide rental rate increases for FY24 through FY26 of up to 5% per year, which, along with the proposed Project rents, have been modeled into the pro forma projections. Also, operating expenses system-wide assume a 3% annual escalation.

The Project is not viable on its own; it is projected to operate below 1.0x debt service coverage (see attached schedule "**Projected Debt Service Coverage - Project Only**"). However, as previously described, the Project will be part of Housing System 1, with a pledge of system net revenues and a secondary/subordinate pledge of net revenues from Housing System 2. As such, the Project's operating deficits will be subsidized/absorbed by the existing housing systems (1 and 2).

Based on this structure, debt service coverage is estimated to be at least **1.53x**, which exceeds the minimum 1.20x required by the SUS Debt Management Guidelines. Debt service coverage is reflected in the attached chart "**Historical and Projected Debt Service Coverage**".

Assessment of Private Sector Alternatives:

FAU evaluated several financing structures, including the public private partnership (P3) model, and selected the proposed financing approach because it presented the lowest cost of capital and greatest affordability. According to the University, a P3 structure adds unnecessary complexity with no benefit to FAU, and potentially dilutes control of housing inventory.

Return on Investment:

The Project is expecting to achieve an internal rate of return (IRR) estimated at 6.63%, based upon assumptions provided by the University. (See attached Projected **Internal Rate of Return**).

Method of Sale:

FAU plans to market the debt via negotiated sale, based on input from their underwriting firm, Bank of America (BofA). BofA expects the debt to be easily absorbed in the market with strong investor demand (due to a current lack of supply), but the DSO is an infrequent issuer, and the unique lien structure and revenue pledge (see *Security/Lien Structure* section above) warrants additional marketing. As such, a negotiated sale is anticipated to provide the most favorable financing terms.

Selection of Professionals:

The professionals involved in this transaction were selected through a competitive process; Bryant Miller & Olive PA (bond counsel), Dunlap & Associates (financial advisor), and Bank of America (bond underwriter).

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.