**STATE UNIVERSITY SYSTEM OF FLORIDA**
**BOARD OF GOVERNORS**
**Project Summary**
**Seminole Boosters, Inc.**
**College Town I Refinancing**

**Project Description:**

The Seminole Boosters, Inc. ("Boosters" or "SBI") has submitted a request for Board approval to issue $17M in debt to refinance, in part, a $15M note originally approved in January 2017.

The Boosters is a direct support organization of Florida State University ("FSU" or "University") that provides financial support for the intercollegiate athletic programs. The proposed loan will refinance outstanding debt on College Town phase I (the "Project"), as well as fund, in part, the buyout of investors in College Town phase II. The Project is a mixed-use facility containing student-focused housing and commercial/retail space, part of a larger, multi-phase development called "College Town" located just south of FSU's campus.

College Town was constructed in three phases, each containing student housing, commercial/retail space and associated parking:

- College Town I (the Project) broke ground in 2011, with construction completed and the facility fully operational by July 2013. It has 71 residential units (135 beds), approximately 34,000 square feet of commercial space (entertainment and restaurant venues) and 147 designated parking spaces.
- College Town II broke ground in 2015, with construction completed and the facility fully operational by year-end 2016. It contains 86 student housing units (195 beds), approximately 21,000 square feet of commercial space and 544 designated parking spaces.
- College Town III started construction in early 2017 and was completed and fully operational in early 2019. It contains 129 student housing units (300 beds), approximately 3,500 square feet of event space (i.e. no commercial component), and a parking garage with 500 spaces (348 residential and 152 retail).

This is an off-campus facility, but adjacent to campus, built on property currently owned by T'Alley Properties, LLC, a wholly owned subsidiary of the Boosters. Furthermore, as of December 2018, the Boosters own 100% of CollegeTown, LLC; phase I, the Project, and has been the 100% owner of College Town III since inception. The ultimate goal is to acquire 100% ownership of phases II as well. The Project is managed, as part of College Town, through an operating agreement with a private management company.

The Project is not included in FSU's Master Plan due to it not being located on the campus or on property directly owned by the University. The proposed refinance transaction was approved by the Booster's Board of Directors on January 30, 2020, the FSU Athletic Association, Inc. Board of Directors on March 20, 2020 and FSU's Board of Trustees on March 23, 2020.

**Facility Site Location:** The Project is located on the corner of Madison Street and Woodward Avenue, approximately two blocks south of the Florida State University campus (the "University"), well within walking distance for students.

**Projected Start and Opening Date:** Project construction commenced in December 2011 and opened during the 2012-2013 academic school year.

**Demand Analysis:** Currently, FSU has 42,876 students, but is only equipped to house approximately 6,733 students on campus, which forces the remainder to rely on off-campus housing, helping to support demand for the housing component of College Town. Additionally, commercial retail space, within College Town as well as the immediate surrounding area, is leased-up with national retailers and restaurant chains such as CVS, Urban Outfitters, Brooklyn Bagel, Jimmy Johns, and Publix. College Town, as a whole, is 99% leased in residential and 100% commercial (phases I and II). More specifically, according to the Boosters, the Project's residential and commercial space is 100% leased for the 2019-2020 school year, and it has experienced average occupancy rates of 96% (residential) and 90% (commercial) since 2016. The commercial component was still in lease-up in 2016 (71% occupied), hence the lower average. As an aside, College Town II, which opened in fall 2016, is leased 99.5% residentially and 100% commercially, while College Town III (opened early 2019) is leased 99% residentially (no commercial component).

There is no restriction limiting residency solely to FSU students; it is open to anyone. However, because of the Project's location and the Booster's goal to support the University, marketing efforts are directed entirely to FSU students. Furthermore, according to the Boosters, the current resident population of College Town is comprised of FSU students.

Residents of College Town have their own designated parking. Due to its location, a majority of residents walk to campus and leave their cars at home. Note, phase III included a parking garage, in part, replacing 108 surface spots lost for the Project (phase I) residents. All College Town parking provides spaces for retail customers as well.

**Approvals:** Approval of the Board of Governors was not required when construction of the Project, as well as Phase II, were initiated. However, in 2016, the SUS Debt Management Guidelines were amended, resulting in the third phase; College Town III, being submitted to the Board and subsequently approved in January 2017. At that time, the Board was provided an overview of the status of the phases I and II, as well as the Boosters proposal to restructure the Project's (phase I) debt and ownership with a $15 million short-term interest-only note from Hancock Bank (the primary driver of the proposed refinancing).

**Project Cost, Ownership & Financing Structure:** The Project's original construction totaled approximately $29M. It was financed, in part, with four (4) Federal New Market Tax Credit loans totaling approximately $27M, combined, and $2.1M in subordinate debt from Ten G&G LLC, an equity investor in the Project comprised of approximately 10% of the voting members of the Booster's Board of Directors. The various loans are secured by leasehold mortgages on the Project.

In February 2017, with approval of the Board of Governors, the Boosters entered into a $15M 3-year note with Hancock Bank to fund, in part, the retirement of an investment from Ten G&G, LLC totaling approximately $8.9M, including the $2.1M subordinate mortgage. Ten G&G is now a wholly-owned subsidiary of the Boosters. The remaining balance of the Hancock Bank note was used toward development of College Town III. At this juncture, it appears that the $2.1M subordinate mortgage was not retired, but instead was assigned to the Boosters and remains as debt on the Project's books.

In December 2018, when the Project exited the New Market Tax Credit program, instead of extinguishing the four outstanding NMTC equity notes totaling approximately $27M, the Boosters took assignment of them via T'Alley Properties, LLC, a wholly-owned subsidiary. With this transaction, the Boosters owned (via subsidiaries) 100% of the Project, but it left the debt on the books and the Project substantially leveraged. Board staff has confirmed that the Boosters intend to remove the legacy debt from the Project's books.

**College Town I long-term debt**

| Payable to | | Security | Amt. |
|---|---|---|---|
| T'Alley Properties, LLC | (acquired tax credit note) | 1st leasehold mtg | $7,358,687 |

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| T'Alley Properties, LLC | (acquired tax credit note) | 1st leasehold mtg | $2,331,313 |
| T'Alley Properties, LLC | (acquired tax credit note) | 1st leasehold mtg | $13,099,247 |
| T'Alley Properties, LLC | (acquired tax credit note) | 1st leasehold mtg | $3,900,753 |
| Seminole Boosters, Inc. | (acquired from Ten G&G) | 2nd leasehold mtg | $2,100,000 |
| | | Subtotal: | $28,790,000 |
| ***(Proposed debt)*** | | | |
| Seminole Boosters, Inc. | (payoff Hancock Bank note) | Lien on Net Oper Income & 1st mtg | $17,000,000 |
| | | Total: | $45,790,000 |

Also, as an aside, the Boosters are currently working on buying out the investors in College Town II, and College Town III has been 100% Booster-owned since inception.

The Hancock Bank loan was a 3-year note, interest-only payments (3.52% rate, fixed), secured by the net revenues of the Project and a guarantee of the Boosters. The original maturity was February 1, 2020, but the bank extended it to October to facilitate the proposed refinancing. Of note, when the Board approved this debt in January 2017, it was noted that, in light of the short-term loan, the Boosters would have to come back to the Board for approval and would be exposed to interest rate risk.

Comparatively, the proposed $17M note will again be secured by a lien on the Project's net revenues, but, instead of a guarantee from the Boosters, it will be secured by a first mortgage on the Project. The loan will be for a 10-year term with monthly payments based on a 30-year amortization, level debt service, and a fixed interest rate locked-in at closing based on 10-year US Treasury + 2.05% (currently 3.63%). Loan proceeds will be used to pay-off the $15M note to Hancock Bank, with the remaining proceeds (approximately $1.8M, net of closing costs) used to fund, in part, the buyout of outside investors in College Town phase II (CT II). (See attached *Estimated Sources & Uses of Funds*).

According to the Boosters, a full buyout of the outside investors in CT II would require $6.957 million (as of September 30, 2019), but they are working with the investors to potentially donate their interest or put it into a Pooled Income Fund to reduce the buyout. If there are any loan proceeds remaining after the CT II investor buyout, Boosters will use them to pay back the Seminole Boosters Endowment for the buyout of the City of Tallahassee Community Redevelopment Agency (City CRA) grant utilized in the construction of the Projects (original amount $2.4M, buyout $1.7M). The agreement with the City CRA called for the property to remain on the tax rolls for 25 years.

It is important to note that, based on discussions with the Boosters, they do not plan to seek new/additional debt for over 10 years; until 2033, to be specific.

**Security/Lien Structure:** As described above, the proposed refinancing loan will be a first lien on the Net Operating Income (Net Revenues) from the Project, as well as a mortgage on the subject property. This loan will be non-recourse to the Boosters.

**Taxable vs. Tax-Exempt** Based on discussions with its Financial Advisors, FSU believes the proposed refinancing of Project debt should remain as private placement taxable debt, as 1) a bond issuance would result in an investment grade rating below that allowable in the SUS Debt Management Guidelines; 2) the project is expected to cause Unrelated Business Income to the Boosters, which will adversely affect the ability to issue tax-exempt debt; and 3) if, in the future, the Boosters were to dispose of the project prior to final maturity of the debt, remedial action (including redemption of the bonds) would likely be required if financed by tax-exempt debt.

**Pledged Revenues & Debt Service Coverage:** Pledged revenues include the net operating income for the Project, which appear sufficient to service the proposed debt.

The Project opened in mid-2013 and stabilized quickly. Annual operating revenue and expenses have averaged $2.4M and $1.2M, respectively, generating net operating income (NOI) of $1.2M (average) each year. Likewise, budgeted 2020 NOI is $1,419,512. Historical coverage ratios have remained healthy, ranging from 1.20x – 1.69x. The proposed refinancing will result in slightly higher debt service, compared to historical levels, but it will lock-in the interest rate for the next 10 years and, importantly, start amortizing the principal balance. Furthermore, debt service coverage is projected to be 1.56x or better. No debt service is assumed in future periods for the $29M of assigned notes stemming from the investor buyouts on the Project, as the debt is to be terminated.

(See attached *Historical and Projected Debt Service Coverage*)

**Quantitative Metric / IRR:** The Project is expected to provide a positive internal rate of return of 8.63% and generate approximately $350,000 per year of additional revenues (5-year average, post refinancing) that will enable the Boosters to continue to contribute to the FSU Athletic Department. All calculations are based upon assumptions provided by the Boosters.

**Type of Sale:** The method of sale will be a "bank loan" or "private placement" with a bank or other financial institution selected via competitive solicitation process. Currently, it appears that the Boosters will place the note with Ameris Bank. Due to the nature and security of the project, a public offering, which would require significantly more issuance cost, is not cost effective. Also, the security and structure lends itself to a negotiated method of sale. This is a stand-alone debt (it is not cross-collateralized with phase II and III) and has a stand-alone pledge of Project net revenues (unlike more typical public debt issued on parity with system-wide revenue pledges). Fundamentally, this type of pledge is more difficult to place in the public market.

**Selection of Professionals:** The professionals involved in this transaction, including the Financial Advisor (Berkadia), Bond Counsel (to be determined) and Financial Institution (Ameris Bank), have been or will be selected pursuant to the SUS Debt Management Guidelines and a competitive solicitation process.

**Analysis and Recommendation:** Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida State University Seminole Boosters, Inc. with respect to the request for Board of Governors approval for the subject refinancing. The Project appears operationally stable, based on Booster-provided projections, and will generate sufficient net revenues to service the proposed debt.

It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and is in compliance with the Board of Governors Debt Management Guidelines.

However, it is noted that the proposed $17M note is for a term of ten (10) years, thus the interest rate is for 10 years only. After 10 years, the remaining balance, if any, may need to be refinanced for the remaining 20 years. This subjects the Boosters to interest rate risk. If interest rates are substantially higher at that time, it may result in higher debt service and reduced potential net revenue from the Project (College Town phase I).

Furthermore, Board staff's recommendation is based on the understanding that the five (5) leasehold mortgages assigned to the Boosters and its subsidiary, T'Alley Properties, in connection with prior investor buyouts, will be terminated and removed from the Project's books.

Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed refinancing.