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MEMORANDUM

TO: Board of Governors

FROM: J. Ben Watkins III

DATE: January 16, 2020

RE: Florida State University – Panama City Campus Student Housing Development Project

As required by Section 1010.62(3)(b)4, Florida Statutes, the Division of Bond Finance (“DBF”) has reviewed and analyzed the information provided by Florida State University (“FSU”) to support its proposed public-private partnership to design, build, privately finance, own, and operate a 400 bed housing complex and associated parking and recreational amenities (the “Project”) on the FSU Panama City (“FSUPC”) campus. DBF has also reviewed the Board of Governors (“BOG”) staff analysis of the proposed financing and Project. DBF has identified specific issues for the BOG’s consideration in connection with its evaluation of the proposed Project.

Demand

Demand for the Project is contingent upon Gulf Coast State College (“GCSC”), which is located directly across the street from FSUPC. FSU commissioned third-party feasibility studies to determine the demand for the Project, however none of the feasibility studies show strong demand for the size and scope of the proposed Project absent demand provided by GCSC. The studies conducted by Danter Company, LLC (“Danter”) in May 2016 and October 2019, both concluded that the financial viability of the Project is dependent on the ongoing involvement and engagement of both the FSUPC and GCSC and their students.

Enrollment for fall 2019 at FSUPC was 925 students, including approximately 500 full-time students. If demand is limited to FSUPC students, the Project would require occupancy by an unprecedented 43% of students, both full-time and part-time, or 80% of full-time students. The 2019 Danter study highlighted that both FSUPC and GCSC have had decreasing enrollment over the last ten years and are both heavily dependent on part-time students (nearly 45% of FSUPC and 70% of GCSC enrollment is part-time students). While market supply in the area is currently deflated as a result of Hurricane Michael, and Danter expects that the market will be able to absorb the additional rental units that come online in the near future, if enrollment at both schools continues to decline, demand for the Project could also decrease. Insufficient demand could result in the Developer’s inability to operate and maintain the Project.

The Danter studies regard the proposed Project as a value in the market, due to the absence of purpose-built student housing projects in the effective market area. However, because there is no on-campus housing at either school, there is no gauge to determine whether potential renters will value the combination of location, amenities, and price that the Project will offer.

FSUPC is not operated as a “residential university” and there is no requirement that students live on campus. However, once the Project is open, FSU anticipates that it will support its overarching goals of increasing student success and growing revenue streams that will support FSUPC by providing additional pathways

for enrollment (presumably from GCSC) and increasing and diversifying its operating income. The need for on-campus housing for FSUPC students is dependent on realizing growth at FSUPC. FSU's strategy for growing enrollment at FSUPC and the need for additional housing to accommodate such growth are policy decisions rather than debt-related issues for the BOG to consider in its evaluation of the Project.

Additionally, while the project is heavily reliant on GCSC to generate sufficient demand, there is no formal agreement between FSUPC and GCSC requiring that GCSC participate in marketing the Project to its students. However, DBF understands that GCSC has been involved in the Project and has committed, via a letter to the BOG Chancellor, to market the Project to its students via its web site, appropriate social media, direct mailings, and contact with students. While not a debt-related issue, the precedent that may be set with the reliance on an adjacent state college, an institution whose mission does not include providing on-campus housing, to generate sufficient demand for a university housing project is a policy consideration that the BOG should examine in consultation with its counterparts at the Florida College System.

Return on Investment

Based on projections provided, the Developer expects to receive an internal rate of return ("IRR") of approximately 20% based on its initial equity investment during the interim financing period. While actual profits to the Developer may be more or less than projected based upon actual operating results, there is no limit on the amount of profit the Developer may receive from the Project.

cc: Marshall M. Criser, Chancellor, Board of Governors
Chris Kinsley, Assistant Vice Chancellor, Board of Governors
Kathy Hebda, Chancellor, Florida College System