STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Atlantic University
Undergraduate Student Housing Project

Project Description: The proposed undergraduate student housing project (the "Project") will include the construction of a student residence facility comprised of one building of seven stories totaling approximately 190,000 square feet. The Project contains approximately 600 resident beds, which the University plans to use primarily for freshmen students and 14 Resident Assistant units for a total of 614 beds. The Project will include apartment style living comprised of double/double suites, four bedroom/two bath suites and single bedroom/single bathroom units for Resident Assistants. The Project will increase the current student housing available on the University's Boca Raton campus from eight buildings and 3,661 beds to a total of nine buildings with 4,275 beds.

When the facility opens in Fall 2013, the projected rental rate for fall and spring semesters is $3,531 for 400 spaces and $4,661 for 200 spaces per bed, per semester. These rates will be higher than the current single room rental rates for existing freshman housing facilities for 2012-13, of $3,900 and $4,271.

The University's Housing System, which was financed by University Housing Bonds issued by the Division of Bond Finance, and the Innovation Village Project, which was financed by the FAU Finance Corporation (the "DSO") in 2011, are both jointly operated by the University and a private management company, pursuant to a management agreement. The new Project will be added to that management agreement and will be similarly operated. The University will be responsible for all residence life management and will collect revenues on behalf of the DSO. The private management company will be responsible for operations and maintenance of all the student residence hall facilities.

The Project is consistent with the Campus Master Plan and Campus Development Agreement.

Facility Site Location: The proposed Project will be located adjacent to existing housing on the southeast side of the Boca Raton campus of Florida Atlantic University.

Projected Start and Opening Date:

Construction of the Project is expected to commence no later than June of 2012 and is anticipated to be completed and available for occupancy by August of 2013.

Demand Analysis:

The University currently has 1,700 beds designated for freshmen and first-time-in-college ("FTIC") students and 1,964 beds designated for returning students and upper division undergraduate and graduate students. For Fall 2011, overall average occupancy of University housing was 97%. The University has maintained an average waiting list of approximately 350 students wishing to live in on-campus housing for the last five fall semesters, approximately two-thirds of which were FTIC students.

By University policy, freshmen students are required to reside in University housing unless they live within 50 miles of the Boca Raton campus, are married, or are 21 years of age or older. However, insufficiency of available beds has made this policy difficult to implement. The addition of Innovation Village in Fall 2011 added to the existing bed spaces but was targeted to upper division undergraduate and graduate students. In Fall 2011, the 1,700 freshmen beds were fully occupied and 600 FTIC students were not initially accommodated. To resolve the overflow, 300 of these students were placed in available upper division bed spaces by displacing upperclassmen, 90 were placed in temporary housing but were ultimately accommodated in on-campus housing, and 150 could not be accommodated and were forced to find off-campus housing. The proposed Project will offer 600 additional beds targeted to freshmen and FTIC students.

The University had a market demand analysis performed by Brailsford and Dunleavy. The results of the study show demand for approximately 600 freshmen and sophomore bed spaces, not just freshmen bed spaces as proposed for the Project. Based on the University's recently submitted fiscal year 2012-13 Workplan covering the five year period between fiscal years 2012-13 and 2016-17, the University plans to grow lower level enrollment by 8% per year, which is twice its historic rate of growth. If this rate of growth is realized, freshmen and sophomore enrollment would increase by approximately 4,000 students and demand would increase for student housing beyond what was projected in the market study.

Project Cost and Financing Structure:

The proposed Project construction cost and associated soft costs total approximately $41,500,000. The Project will be financed with proceeds from a fixed rate bond issue in an amount not to exceed $50,000,000 (the "Debt") to be issued by the DSO. Proceeds from the Debt will be used to fund costs of the Project, fund capitalized interest, fund a deposit to the debt service reserve fund and pay costs of issuance. The Debt will mature not more than thirty (30) years after issuance and will be structured with level debt service payments with the first principal payment occurring July 1, 2014. The University's financial advisor has assumed interest on the Debt at a fixed rate of 4.75% based on the assumption that the Debt will be assigned an "A" rating.

Interest on the debt in the estimated amount of $2.2 million will be funded from proceeds (capitalized interest) for a period beginning upon the delivery of the Debt and extending through completion of the Project. The use of capitalized interest increases the cost of the financing, but is necessary because the Project does not begin to generate revenue until completion and occupancy. The Debt size also includes approximately $3.1 million to fund a debt service reserve.

(See Attachment I for an estimated sources and uses of funds.)

Security/Lien Structure:

The Debt will be secured by (i) a first lien on the net revenues of the Project; (ii) a **third lien** on the net revenues from the Innovation Village Project after payment of all debt service obligations and any other obligations under the Series 2010A and Series 2010B bond covenants, including annual payments to the R&R Fund; and (iii) a **fourth lien** on the net revenues[1] of the University Housing System after payment of all debt service and any other obligations under the University's Housing Bonds issued by the Division of Bond Finance, including annual payments to the R&R Fund.

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[1] The University Housing Bonds are secured by a pledge of net revenues of the University Housing System that remain after the payment of Operations and Maintence expenses ("O&M") and other expenses relating to the University Housing System and the University Housing Bonds. Any bonds secured by a junior lien on Housing System Revenues, such as the DSO's Series 2010A and Series 2010B Bonds, could only receive such revenues after the payment of O&M, other expenses, and debt service related to the University Housing System and the University Housing Bonds. The DSO's 2010 Indenture, however, provides for the transfer of Housing System Revenues to the 2010 Revenue Fund prior to the payment of O&M related to the University Housing System. The University has corrected this issue by modifying its management agreement to ensure that payment of all obligations related to the University Housing System and University Bonds are made in the order of priority required by the University's Housing Bonds prior to making any Housing System Revenues available for the Series 2010A, Series 2010B and Series 2012 Bonds.

The Board of Governors' Debt Management Guidelines provide that all bonds of a particular program should be secured by a first lien on specified revenues and that bonds should generally be equally and ratably secured by the revenues pledged. However, the creation of a subordinate lien is permissible if a first lien is not available or circumstances require.

In issuing the Series 2010A and Series 2010B Bonds through the DSO, the University adopted a resolution to close off the senior lien on the University Housing System's net revenues; therefore issuance of debt on parity with the University Housing Bonds is no longer permitted.

The DSO's Series 2010B Bonds, which are subordinate to the DSO's Series 2010A Bonds, were issued with the intention of providing an incentive for the developer of the Innovation Village Project in the long-term success of that project. The proposed Project is not part of Innovation Village, and is not being constructed as a public-private partnership. Thus, there is no benefit to the DSO in seeking to issue bonds on parity with the Series 2010B Bonds.

The DSO could issue the Debt on parity with the Series 2010A Bonds, except that it is currently unable to meet the Additional Bonds Test under the 2010 Indenture. The Additional Bonds Test requires that the previous fiscal year revenues provide at least 1.25 times coverage for the maximum annual debt service payment on the outstanding and proposed bonds. Because the Innovation Village Project opened for occupancy in Fall 2011, the DSO does not have a full year of historical financial information available to perform the Additional Bonds Test. To issue debt on a parity with the Series 2010A Bonds, the DSO must wait until financial information for Innovation Village is available before it issues the Debt. The University has indicated that it would be unlikely to have this financial information in time to issue parity debt and still be able to open the Project by Fall 2013.

Accordingly, the DSO has proposed financing the current Project on a subordinate lien basis to the University Housing Bonds and the DSO's Series 2010A and Series 2010B Bonds. The University believes the issuance of the Debt on a subordinate basis is warranted because it will enable the DSO to take advantage of favorable interest rates and costs of construction, which they feel may become less favorable if they wait until financial information is available that would permit them to issue debt on a parity with the Series 2010A Bonds. The University and the DSO plan to close off the liens of the Series 2010A and Series 2010B Bonds, and to issue any future debt on parity with the Debt.

The University Housing Bonds are currently outstanding in the aggregate principal amount of $71,131,373. The Series 2010A Bonds are currently outstanding in the aggregate principal amount of $120,930,000, and the Series 2010B Bonds are currently outstanding in the aggregate principal amount of $3,365,000. Total outstanding debt of the DSO is $168,880,000, including the Capital Improvement Revenue Bonds (Football Stadium Revenue Bonds).

The University and the DSO are committed to ensuring that sufficient revenues will be generated from the Project to fulfill the DSO's obligations with respect to the Debt.

The University maintains a five-year Renovation and Repair plan for all on-campus housing. As required under the University Housing Bonds' existing bond covenants, amounts required for the Building Maintenance and Equipment Reserve Fund (the "R&R Fund") are approved in the University's annual budget process. For the Innovation Village Project, the 2010 Indenture defines the Repair and Replacement Fund Requirement as an initial deposit of $175 per bed, increased by 3% per year and further adjusted as necessary. For the proposed Project, the 2012 Indenture defines the Repair and Replacement Fund Requirement as an initial deposit of $200 per bed, increased by 3% per year and further adjusted as necessary. As of June 30, 2011, the University had a total of $3.2 million set aside in the R&R Fund for the University Housing System. For FY 2012, an additional $420,656 will be set aside for the University Housing System and $219,544 will be set aside to fund the initial deposit for the Innovation Village Project. The University and DSO will continue to fund these accounts in accordance with existing bond covenants, to assure that the all on-campus housing is appropriately maintained.

Pledged Revenues and Debt Service Coverage:

The Project is expected to open for the Fall 2013 semester and the first principal payment on the Debt will be due July 1, 2014. The DSO is proposing a pledge of the Project's net revenues and the projected excess net revenues from the University Housing System and Innovation Village. Accordingly, the debt service coverages set forth below were first calculated based on the projected net revenues from the Project only; then calculated based on the net revenues from the Project plus the projected excess net revenues from the University Housing System and Innovation Village (collectively

"Total Revenues"); and finally calculated based upon Total Revenues divided by the sum of debt service on the University Housing Bonds, the Series 2010A and Series 2010B Bonds and the Debt (collectively referred to as "Total Debt Service").

The University's projections show that the Project are anticipated to produce sufficient net revenues to support the debt service coverage required by the Board of Governors' Debt Management Guidelines of at least 1.20x, with net revenues of $3.8 million and projected debt service coverage of 1.24x in fiscal year 2013-14. The net revenues are projected to grow to $4.4 million in fiscal year 2017-2018 with debt service coverage of 1.43x.

When including excess revenues from the University Housing System and the Innovation Village Project, Total Revenues available to pay debt service on the Debt is estimated at $8,.1 million in fiscal year 2013-2014, with projected annual debt service coverage of 2.64x. Total Revenues are projected to grow to $10.5 million in fiscal year 2017-2018 with projected debt service coverage of 3.44x.

When analyzing Total Revenues against Total Debt Service, projected annual debt service coverage is 1.30x in fiscal year 2013-2014 and increases to 1.43x in fiscal year 2017-2018.
Projected net revenues for the Project are based on an assumed academic year occupancy rate of 95%. The occupancy rate for existing on campus housing is 97%. The University has assumed that the projected revenues and expenses related to the Project will increase by 3% per year. The projected debt service coverages have been calculated using an average interest rate of 4.75%.

(See Attachment II for a table of historical and projected revenues and debt service coverage prepared based upon revenue information supplied by the University.)

Type of Sale: The DSO is requesting approval for a negotiated sale, and accordingly provided a negotiated sale analysis as required by the Debt Management Guidelines citing reasons why a negotiated sale would be advantageous. Based upon the unique and complicated financing structure of tiered subordinate liens, the DSO will likely benefit from additional marketing of the Debt by an underwriter through a negotiated sale.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida Atlantic University with respect to the request for Board of Governors approval for the subject financing.

The University believes that demand for the existing and proposed housing is adequate to support construction of the Project at this time. The University Housing System has historically generated positive debt service coverage, and it is expected the Innovation Village Project will generate positive debt service coverage based on preliminary numbers from the first year of operations. Proforma calculations for the proposed Project indicate adequate debt service coverage will be generated in the future based upon the University's assumptions as to revenue and expenditure growth, even if occupancy falls to 95%. Further, the University has stated that it will take appropriate actions to ensure all debt service payment obligations are met.

However, the financing structure is complex and raises policy issues which must be considered by the Board of Governors with regards to s. 1010.62, Florida Statutes and the Board of Governors' Debt Management Guidelines.

The proposed financing varies from the Board of Governors' Debt Management Guidelines in that the Debt is not secured by a first lien on all specified revenues and the Debt is not equally and ratably secured by all revenues pledged. The proposed financing creates a <u>fourth lien</u> on the University Housing System's net revenues (the bondholders of the Series 2010A and Series 2010B Bonds hold the second and third liens, respectively) and a <u>third lien</u> on the net revenues from Innovation Village (the bondholders of the Series 2010A and Series 2010B Bonds hold the first and second liens, respectively).

The University has indicated that it would need to wait until financial information is available from the Innovation Village Project to issue debt on parity with Series 2010A Bonds and waiting would delay the Project so that occupancy for Fall 2013 would be unlikely. In addition, the University believes the issuance of the Debt on a subordinate basis is warranted because it will enable the DSO to take advantage of favorable interest rates and costs of construction, which the University believes may become less favorable if they wait to issue the Debt on a parity with the Series 2010A Bonds. The Guidelines provide that a subordinate lien is permissible if circumstances require. While demand is somewhat soft initially, the University's fiscal year 2012-13 Workplan shows that based on projected enrollment growth, demand will likely increase over time. The risk of increased construction costs and higher interest rates if the Project is delayed may warrant a deviation from the Board of Governors' Guidelines.

Second, the Official Statement for the Series 2010A and 2010B Bonds and 2010 Indenture appear to indicate that the Series 2010A and Series 2010B Bonds are secured by a lien on gross revenues of the Innovation Village Project. However, the University and DSO received approval to issue debt secured by a lien on the net revenues of the Innovation Village Project. The University's bond counsel has provided an explanation for the inconsistency; however, the Division and BOG staff are of the opinion that the 2010 Bond documents effectively create a gross pledge rather than the net pledge approved by the Board. From an operational standpoint, the resulting gross pledge is immaterial as O&M would effectively need to be paid first to continue generating sufficient net revenues to pay debt service. However, the fact remains that the gross pledge provided to the Series 2010A and Series 2010B bondholders is inconsistent with the net pledge approved by the Board of Governors, the University's Board of Trustees, and the board of the DSO.

As indicated in footnote 1 above, that the DSO's 2010 Indenture provides for the transfer of Housing System Revenues to the 2010 Revenue Fund prior to the payment of O&M related to the University Housing System, which is inconsistent with the resolution authorizing the issuance of the University Housing Bonds. However, the University has corrected this issue by modifing its management agreement to ensure that payment of all obligations related to the University Housing System and University Bonds are made in the order of priority required by the University's Housing Bonds prior to making any Housing System Revenues available for the Series 2010A, Series 2010B and Series 2012 Bonds.

The Projections provided by the University indicate that sufficient net revenues will be generated by the Project on a stand-alone basis to pay debt service on the Debt. Based on Board staff analysis, the proposed financing is in compliance with the Florida Statutes governing the issuance of University DSO debt. As discussed above, the proposed financing deviates from the requirements set forth in the Board of Governors' Debt Management Guidelines. Staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing, subject to the reservations noted.