

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida Agricultural and Mechanical University
Student Housing Project**

Project Description: Florida Agricultural and Mechanical University (the “University”) currently has over 2,600 available beds in student residences on the main campus. The proposed project will demolish the existing Polkinghorne Village residences, currently vacant, and construct a new 6-story, 800 bed residence hall. The rooms in the new residence hall will include 2-bed/1 bath and 4-bed/2-bath suites. The opening of the new facility will coincide with the closing of two existing residence halls, resulting in a net addition of approximately 438 beds on the main campus.

The project is included in the current Campus Master Plan.

Facility Site Location: The new residence hall will be located in the northwestern corner of the Tallahassee campus on the existing site of Polkinghorne Village.

Projected Start and Opening Date: It is anticipated that construction will commence in February 2012 and will be available for occupancy in July 2013.

Demand Analysis: The capacity of the University’s Housing System is currently 2,611 beds in nine traditional residence halls and three apartment facilities, which can accommodate approximately 19% of the University’s fall 2011 enrollment of 13,204, or 23% of full-time undergraduate enrollment of 11,027. After a period of declining enrollment from 13,070 in fall 2004 to 11,567 in fall 2007, enrollment increased approximately 15% over the past three years to 13,277 in fall 2010 before sustaining a slight decline of approximately 0.5% in fall 2011 to 13,204. The official projections of future enrollment growth are 1.4% annually over the next five years.

The primary targeted market for the project will be traditional single, undergraduate students. The University’s full-time undergraduate student population grew by 2,463 students, or 28.7%, from 8,564 in fall 2006 to 11,027 in fall 2011. Freshmen enrollments grew 50%, over the same period from 2,565 to 3,852.

For the fall 2011 semester, the housing system was 100% occupied prior to opening with 2,548 beds filled and 250 students on the waiting list. However, no-shows and cancellations has created vacancies with occupancy falling to about 97.6%. Occupancy rates have averaged more than 97% over the past six years and the annual waiting list has averaged 357.

Additionally, the University has a policy requiring unmarried freshmen and first time in college (FTIC) students who do not live at home and are under 21-years old to live on campus; however, the University has been unable to enforce this requirement due to a lack of available beds. In fall 2011, there were 2,026 FTIC students who fell within the residency requirements, approximately 370 of which were in violation of the requirement to live on campus

Enrollment growth, coupled with extensive deferred maintenance needs, undesirable living conditions at many of the system housing facilities, and a goal to improve student retention rates, has lead to a need for increased student housing through a combination of renovation, replacement and new construction projects. The first phase of the University's plan for meeting their housing needs was the renovation of two residence halls, Sampson and Young, which reopened for the fall 2011 semester at 98% and 99% occupancy rate, respectively. With the opening of the proposed new 800-bed facility, the University plans to simultaneously close two existing residence halls, Cropper and Wheatley, due to extensive renovation and maintenance needs. Those two halls have a combined design capacity of 362 beds, resulting in a net addition of 438 beds to the system in fall 2013.

The University Board of Trustees has established a committee to develop a long-range plan for their housing and athletics systems. Future plans may include the replacement of Cropper and Wheatley Halls with construction of a new 400-bed facility expected to open in fall 2015. The committee may also recommend subsequent replacement of two additional halls, Diamond and McGuinn, with construction of a new 300-bed facility to be open in fall 2017. The timing and costs of future projects is still to be determined; however, for planning purposes, the University is currently using a cost estimate of \$20 million per facility for a total of \$40 million additional funding needs.

The University's comprehensive plan to replace aged housing facilities with new construction is a substantial investment. The plan, if fully executed, will require a 330% increase in the amount of

debt outstanding from \$27 million at June 30, 2011 to more than \$116 million over the next five years. Additionally, the annual debt service payment will increase 176% following the issuance of debt for the proposed project from approximately \$2.5 million to \$6.9 million annually.

The University engaged a consultant, MGT of America, Inc. (MGT), to provide a study of their housing system. MGT concluded that, based on enrollment growth assumptions and assuming the simultaneous closures of Cropper and Wheatley halls, the University would have approximately 260 surplus beds for the first year the new facility is open and approximately 70 surplus beds for the second year. MGT concluded that the system would reach 100% occupancy by the third year the new facility is open with an overall deficit of approximately 125 beds for the system in that year. The University believes MGT's results are conservative and believes that, given the lack of available housing for FTIC students coupled with the average annual waiting list, the surplus beds will likely be occupied. The University has assumed a 97% occupancy rate for the housing system, including the project, for their feasibility analysis.

Staffs of the Board of Governors and the Division of Bond Finance have conducted a sensitivity analysis based on the revenue and expense projections of the University which illustrates the University could have as low as approximately 45% occupancy (approximately 340 beds) in the new facility when it opens in fall 2013 and maintain a 1.2x debt service coverage level. The closures of Cropper and Wheatley halls will generate more demand than would be necessary to fill 340 beds.

The addition of new beds into the housing system will enable the university to better achieve its objective of housing 30% of fall headcount and improving student retention rates.

**Project Cost and
Financing Structure:**

The total project cost, which includes demolition of existing facilities and design and construction of the new facility, is approximately \$44 million. The project will be financed with fixed rate, tax-exempt revenue bonds issued by the Florida State Board of Administration's Division of Bond Finance, on behalf of Florida A&M University, in an amount not to exceed \$49,000,000. Included in the proposed bond amount is approximately \$5 million to fund a debt service reserve fund and pay costs of issuance.

The debt is expected to have a 20-year annual maturity, level debt payment structure with the first principal payment occurring in July 2014.

Security/Lien Structure: Net housing system revenues will be pledged for the payment of debt service on parity with the system's outstanding debt. These revenues are derived primarily from rental income after deducting operating and maintenance expenses. When the facility opens in Fiscal Year 2013-2014, the projected rental rate for fall and spring semesters will be \$3,325 per bed, per semester. The projected rate for the summer is \$2,625. These rates are slightly higher than other residence halls on campus but are consistent with market prices for suite style rooms.

The debt will be secured by a first lien on the pledged revenues on parity with the 2010A and 2010B Bonds, outstanding in the aggregate principal amount of \$26,998,000.

Pledged Revenues and Debt Service Coverage:

During the past five year period from fiscal year 2006-2007 to 2010-2011, pledged revenues for the housing system grew from \$1,606,720 to \$5,115,213 resulting in debt service coverage which ranged from 1.19x to 2.57x. For fiscal years 2011-2012 to 2015-2016, pledged revenues for the system are projected to grow from \$6,272,347 to \$12,065,669. Expected coverage is 1.73x in 2011-2012 and declines to 1.25x in 2012-2013 as a result of an interest payment on the new bond debt service. In fiscal year 2013-2014, the first year the facility is expected to be operated, the debt service coverage ratio for the housing system is projected to be 1.59x which includes a full 12 months of principal and interest and also reflects the University's plan to take Cropper and Wheatley residence halls offline.

With the exception of two renovated dorms brought on-line in 2011, the entire existing housing system at FAMU is in need of significant renovations. While the university plans to set aside at least 3% of operating revenues for a maintenance reserve, Board staff recommends that the University set aside 5% of annual Housing Revenues in a maintenance reserve to be used for repairs and maintenance of the Housing System only. As of June 30, 2011, there was approximately \$2.66 million in the maintenance reserve. In addition, Board staff recommends that no funds be transferred out of the Housing System for administration discretionary expenditures

until such time as the university has made all necessary improvements and renovations to bring the Housing System up to a satisfactory condition level, as determined by the Board of Governors.

The projected revenues are based, in part, upon a 4% annual rental rate increase and a 3% increase in operating expenses. Projected revenues for the Project assume an occupancy rate of approximately 97% per year (including summer semester).

See Attachment 2 for 5-years historical and 5-years projected pledged revenues and debt service coverage prepared by the University.

Type of Sale:

The Division of Bond Finance will make a determination to sell the bonds through either a competitive or negotiated sale based on market conditions and financing options available at the time of sale. It is currently expected that the bonds will be sold through a competitive sale.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance have reviewed the information provided by the University with respect to the request for Board of Governors approval for the subject financing. Based upon the information provided, it appears there will be adequate demand to support the additional beds. Additionally, the last five years of operations have shown the pledged revenues are generating positive debt service coverage and are projected to continue to provide adequate debt service coverage in the future based on what appear to be reasonable assumptions as to revenue and expenditure growth. The University is developing a long-range plan to address the extensive level of physical plant deficiencies detailed in the University's submission. The University's comprehensive plan, if fully executed, will require a 330% increase in the amount of debt outstanding from \$27 million at June 30, 2011 to more than \$116 million over the next five years. Following the issuance of debt for the proposed project, the annual debt service payment will increase 176% from \$2.5 million to \$6.9 million. Compounding the fiscal impact of the additional debt is the possible construction risk, which provides little cushion for delays in the project, which must be open by fall 2013 in order to meet debt service obligations from system revenues. Despite these challenges, Board staff recommends that approval be contingent upon the

establishment of an annual funding level for the maintenance reserve of 5% of annual revenues, and the restriction on the transfer of Housing System revenues, until such time as the University's plan for renovation of the Housing System has been completed. It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and the Board of Governors Debt Management Guidelines. Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing.