

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

**Project Description:**

The proposed Innovation Village Housing project (the “Project”) is the first phase of a multi-phase mixed use project known as Innovation Village. Innovation Village is being undertaken in an effort to transform Florida Atlantic University (the “University”) into a more traditional campus where students reside and engage in a full range of campus activities. This effort, which was approved as a top priority for the University by unanimous vote of its Board of Trustees, aims to provide programs and places that will heighten the traditional university experience for students and all members of the University community. In identifying this priority, the University Board considered the experiences of other young universities that have enhanced their appeal through similar successful campus developments. The Board also looked at national data that show a direct correlation between student recruitment, retention, and graduation, and on-campus living.

Innovation Village will make the on-campus living experience both more available and more appealing to the University’s current and prospective students. It will be constructed in a contiguous and currently undeveloped area of the Boca Raton campus. Innovation Village will offer facilities and opportunities for living, learning, dining, shopping, and recreation that do not currently exist on the campus. By concentrating these facilities in close proximity to one another, Innovation Village will create a center of campus activity. The University expects to more than double the number of on-campus residents in the next decade, and the student residence halls, shopping and dining establishments, and recreational and athletics facilities in Innovation Village are thus essential to provide a fuller, more engaging university experience for all students.

The Project is the first phase of Innovation Village, and will include the construction of a student residence facility comprised of two buildings with an approximate total square footage of 504,000, including common areas. The University has established the FAU Financing Corporation (the “DSO”) to construct, finance and manage capital projects for the benefit of the University, including Innovation Village and the Project. The Project will increase the current student housing available on the University’s Boca Raton

campus from six buildings and 2,446 beds to a total of eight buildings with 3,664 beds. In addition to the Project, Innovation Village is planned to include additional student housing and student life facilities, as well as retail, commercial, recreational and athletic facilities to be located on the University's Boca Raton campus.

The University currently manages all aspects of its housing system. The operation of both the University's existing housing system and the DSO's new Project will now be jointly operated by both the University and a private entity selected through a competitive process. Pursuant to a Management Agreement, the University will be responsible for all residence life management and will collect revenues on behalf of the DSO, and the private entity will be responsible for operations and maintenance of both systems.

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

**Facility Site Location:** The proposed Project will be located on the Boca Raton campus of Florida Atlantic University.

**Projected Start and Opening Date:** Construction of the Project is expected to commence in February of 2010 and is anticipated to be completed and available for occupancy by August of 2011.

**Demand Analysis:** By University policy, all full-time freshmen are required to reside in University Housing. Insufficiency of available beds has made this policy difficult to maintain. For Fall 2009, University housing had an occupancy rate of 99%. The University has consistently maintained a waiting list for students wishing to live in on-campus housing. Even with the addition of 500 beds in 2007, the University had a waiting list that exceeded 400 students in 2009. While enrollment at the Boca Raton campus for Fall 2009 totaled 20,309 students, a 12.5% increase over Fall 2005, information provided by the University to the BOG indicates that the University anticipates minimal enrollment growth for the next few years.

Thus, the primary targeted market for the Project is upper division undergraduate and graduate students -- a target market that complements another University priority of expanding its research program. The Project will offer high amenity, apartment style living, including academic, social and recreational amenities, a swimming pool, fitness room and large open green spaces. When the facility opens in Fiscal Year 2011-2012, the projected rental rate for fall and spring semesters is \$4,475 to \$5,075 per bed, per semester, and \$1,790

per bed for the summer semester. These rates will be 29% to 75% higher than the projected single room rental rates will be for existing housing facilities at that time, since the Project will be the newest housing on campus and will offer additional amenities. The University has not planned any rate increases on the existing housing system for purposes of paying debt service on the Bonds.

A market study conducted by Brailsford & Dunlavey indicated that there is indicative demand of more than 1,300 beds and that Innovation Village will face little significant competition from nearby off-campus rental properties.

**Project Cost and  
Financing Structure:**

The proposed Project construction cost and associated soft costs is approximately \$111.2 million, including \$6.6 million in developer fees, a \$12 million upfront ground lease payment, and reimbursement to the University for funds already spent from existing Housing Reserves in the amount of \$2,500,000. The Project will be financed with proceeds from fixed rate bonds currently estimated at \$130,050,000 (the "Bonds"). The financing structure consists of approximately \$126,685,000 million of fixed rate Senior Series Revenue Bonds (the "Series A Bonds"), and \$3,365,000 of subordinated Junior Series B Bonds (the "Series B Bonds"). The Series A Bonds will be issued at an assumed interest rate of 4.96%. The Series B Bonds will be privately placed with the developers at an interest rate not in excess of the interest rate limitations provided by law (assumed interest rate of 7.33%). The DSO is selling the Series B Bonds to the developer in order for the developer to share some of the risk of the Project's financial performance. The Series B Bonds will not be transferable by the developer until such time as the term of the Management Agreement has expired or been terminated by the University. Both Series will mature in just over thirty (30) years after issuance, and are structured with level debt service payments, with the first principal payment occurring in July 2013.

Interest on the debt in the estimated amount of \$12.1 million will be funded from proceeds (capitalized interest) for a period beginning upon the closing of the issue and extending through construction completion plus an additional six months. The use of capitalized interest increases the cost of the financing, but is necessary for the financial feasibility of the Project because the Project does not begin to generate revenues until completion and occupancy. Once completed, the revenues generated by the Project will be sufficient to pay debt service on both the Series A Bonds and the Series B Bonds. Future surplus revenues from the existing University housing

facilities are pledged to support the Project in order to obtain an A rating on the Series A Bonds. The University has not planned nor does it anticipate increasing the rates on the existing housing to pay debt service on the Bonds. Interest payments on the Series B Bonds will be deferred during the construction period, with the deferred amount paid in 2013. Additionally, \$8.7 million will be used to fund a debt service reserve and \$1.6 million will be used to pay issuance costs.

Up to \$12 million of the proposed Project costs of \$111 million will be used by the DSO to pay for a ground lease with the University. This is an unusual feature in that the typical ground lease to a DSO for university housing purposes would be for a nominal amount, rather than \$12 million. The Project being financed with the Bonds is the first phase in the multi-phase Innovation Village that will be available to all students and faculty of the University. The University plans to spend the \$12 million on infrastructure costs that will benefit not only the first phase but all future phases of Innovation Village. This includes running the water, sewer and electric utility improvements and new roads to the undeveloped portion of campus where the housing, commercial retail, student life and athletic facilities which will be located in and near Innovation Village, as well as defraying the capital costs of a proposed football stadium that is the next planned phase of Innovation Village. Specifically, the road improvements will enhance traffic flow for the Project, Innovation Village and the entire campus. Likewise, the utility improvements, which are anticipated to include an expansion of the University's chilled water plant, will also benefit the Project, Innovation Village and other University facilities including the existing residence halls.

It is contemplated that a portion of the Bonds may be issued as Build America Bonds thus bearing a taxable interest rate. The issuance of the Build America Bonds on a taxable basis may be in the best interest of the University because the DSO will receive a 35% subsidy from the United States Treasury offsetting the interest cost of the Build America Bonds.

(See Attachment 1 for an estimated sources and uses of funds).

**Security/Lien Structure:** The Bonds will be secured by a lien on pledged revenues as defined in the Trust Indenture (the "Pledged Revenues") to include the net operating revenues of the Project and future surplus revenues generated by the existing housing system, subject to the prior payment of obligations due under the currently outstanding bonds

of the existing housing system. The lien on the University's existing housing system will be closed, and no further debt will be incurred under the existing bond resolution. The University is committed to ensuring that sufficient revenues will be generated from the Project to fulfill the University's obligations with respect to the Debt.

Currently the aggregate principal amount outstanding on the existing housing system debt is \$77,740,000, and there are no other liens against the Pledged Revenues.

**Pledged Revenues and Debt Service Coverage:**

For fiscal years 2011-2012, the first year of operation of the Project, to 2014-2015, Pledged Revenues are projected to grow approximately 3% per year, from \$13,584,581 to \$15,904,831, with projected annual debt service coverage of 3.17x in 2011-2012 (after capitalized interest) and 1.37x in 2014-2015. Included in the pledged revenue amounts are expected future surplus revenues of the existing Housing system, which have been included solely to obtain the A rating on the Series A Bonds, as required by the BOG's Debt Management Guidelines. The projected debt service coverage has been calculated using assumed interest rates of 4.96% on the Series A Bonds and 7.33% on the Series B Bonds through the assumed maturity date of July 1, 2040.

Projected net revenues are based on an assumed academic year occupancy rate of 95% and summer occupancy rate of 15%. The University has assumed that the projected revenues and expenses will increase by 3% per year. The projections provided by the University indicate that the Pledged Revenues will be sufficient to pay required debt service on the debt. In the event of a shortfall in revenues sufficient to pay the Series B Bonds, the obligation to pay will remain, but the Subordinate Bondholders must wait to be paid until the revenues are sufficient to satisfy such obligations.

(See Attachment 2 for a table of historical and projected Pledged Revenues and debt service coverage prepared based upon revenue information supplied by the University).

**Type of Sale:**

The University provided an analysis of the most appropriate method of issuing the debt (competitive versus negotiated) as required by the Debt Management Guidelines. The University is requesting approval for a negotiated sale. The University feels that, among other factors, uncertainty in the market for 'A' rated credits warrant a negotiated sale in order to provide additional investor education.

**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.

Based upon the information provided, including a market study conducted by Brailsford & Dunlavey, the University believes that demand for the existing and proposed housing is adequate to support construction of the Project. Additionally, the housing system has historically generated positive debt service coverage and is 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 on the part of the University. (It should be noted that while the existing housing system revenues are pledged to enhance the credit rating of the new system, the new system is projected to generate a stand-alone positive cash flow after the Capitalized Interest period, and that the University has not planned nor anticipates increasing existing housing rental rates to provide additional funding to the Project or the new housing system in its financial projections.) However, the financing structure is unique and raises policy issues which must be considered by the Board of Governors with regards to s. 1010.62, Florida Statutes, and compliance with the BOG Debt Guidelines.

Section 1010.62, Florida Statutes, requires that revenues of one University auxiliary enterprise fund may not be used to secure debt of another University auxiliary fund unless the Board of Governors determines that the facilities to be financed are functionally related to auxiliary enterprise revenues being used to secure the debt. Revenues derived from the DSO's operation of its assets that are being constructed, and those leased from the University, are the sole source of repayment of the proposed bonds. While only these DSO housing revenues will be used to secure housing debt, up to \$12 million of bond proceeds will be used by the DSO to make an upfront payment to the University on a ground lease of the property. In turn, the University plans to use these funds for non-Housing System improvements related to Innovation Village, including shared utility, infrastructure, and road improvements for Innovation Village, as well as a portion of the capital costs of a football stadium.

While the DSO intends to apply some project revenues to support Innovation Village capital costs, there is no pledge of University or DSO housing system revenues towards the proposed DSO stadium debt and no pledge of stadium revenues to support the DSO's

housing system. Accordingly, there is no fiscal relationship between the financial success of the DSO's housing assets and the financial success of the proposed athletic component of FAU Innovation Village. Neither the existing fund balances in the University's housing auxiliary fund nor the revenues that will be generated from University housing facilities not being leased to the DSO (such as the University's student housing facilities located on its Jupiter campus) will be pledged to secure the repayment of the Bonds. Only the future net revenues to be generated from the Project and the future surplus revenues from existing housing facilities that are being leased to the DSO will be pledged to secure the repayment of the Bonds.

In addition, all revenues pledged to repay the bonds will be DSO revenues, rather than University revenues, and are therefore not revenues from University auxiliary funds. However, even if the revenues were University auxiliary funds and were pledged to secure the debt of other Innovation Village projects, the University believes that all the components of the proposed Innovation Village are functionally related, and that student life at the University will benefit from the proximate location of housing, athletic and commercial facilities. One of the defining characteristics of Innovation Village is the concentrated geographic proximity of its facilities. This geographic nexus creates a campus focal point for a wide array of recreational and social activities, thus providing students the opportunity to enjoy a fuller, more engaging university experience. The Innovation Village concept is thus a major component in the University's strategic vision to continue its transition from a "Commuter" campus to a more traditional one.

While the costs of these and other major components of Innovation Village have not yet been finalized, the University believes that the added value of these additional components (athletic and commercial facilities) will outweigh the additional cost of Innovation Village Housing compared to existing housing.

A result of the proposed structure also raises an issue regarding the BOG Debt Guidelines, which states that *"All bonds of a particular program should be secured by a first lien on specified revenues. Additionally, bonds should generally be equally and ratably secured by the revenues pledged to the payment of any outstanding bonds of a particular bond program. However, the creation of a subordinate lien is permissible if a first lien is not available or circumstances require."* Revenues from the University's existing housing inventory on the Boca Raton campus secure outstanding bonds that were previously issued by the

Division of Bond Finance on behalf of the University. The lien on these existing housing revenues will not be adversely impacted by the proposed financing, as the DSO lease of the existing housing units from the University is expressly subject to the prior lien granted by the University on these revenues to the existing bondholders. Only future surplus revenues from the existing housing facilities – that is, the surplus that will remain after payment of the annual debt service on the existing bonds – will be added to the net revenues from the Project to form the Pledged Revenues for the Bonds. The holders of the Series A Bonds will have a first lien on the Pledged Revenues and the holders of the Series B Bonds will have a subordinate lien on the Pledged Revenues. The subordination of the Series B Bonds was done to increase the debt service coverage on the Series A Bonds to obtain the A rating from the rating agencies. Thus, the university believes that the creation of a subordinate lien is permissible.

In this case, the DSO is issuing bonds that, while not technically subordinate to the University's outstanding bonds, do rely on the pledge of surplus revenues from the University's existing housing system to enhance the new system's credit rating. The DSO's bonds are being issued in order to provide funding for the Project and an additional \$12 million to fund improvements related to Innovation Village, including shared utility, infrastructure, and road improvements, as well as a portion of the capital costs of a football stadium. The University's position is that these improvements are critical to improve and support student life. Since the additional \$12 million in Housing debt is not being secured by any other funding, this use is not prohibited by s. 1010.62. This credit enhancement in turn allows the DSO to borrow funds (bond proceeds) at a competitive "A" rated rate, for the Project and related components of Innovation Village. More specifically, the \$3,365,000 in Series B Bonds are being issued on a subordinate basis to the Series A Bonds in order to improve the debt service coverage for the Series A Bonds. The University believes the circumstances described provide sufficient justification to issue the Bonds with the lien structure described.

The interest rate on the Series B will carry a higher rate than the publicly offered Series A Bonds because those Bonds assume an increased risk, and their repayment is contingent on the success of the Project. Therefore, consideration must be made as to whether having the Developer's equity at risk warrants paying interest rates of more than 200 basis points over current rates. In the event of a shortfall in revenues sufficient to pay the Series B Bonds, the



obligation to pay remains, but the Subordinate Bondholders must wait to be paid until the revenues are sufficient to satisfy such obligations. The DSO also has the right to prepay the Series B Bonds at any time, without penalty. The Series B Bonds will not be transferrable until the term of the Management Agreement expires or is terminated by the University. The initial term of the Management Agreement is ten years.

The policy issues discussed above, as well as all other information provided, must be appropriately considered by the Board of Governors in determining whether or not to approve adoption of the resolution authorizing the proposed financing. Projections provided by the University indicate that sufficient net revenues will be generated to pay debt service on the Bonds. Further information provided by the University demonstrates that all components of the proposed Project and associated debt are functionally related. The University also provided information that demonstrates the circumstances warrant issuing the new debt on a non-parity basis with existing Housing debt. BOG staff agrees that the University has established the functional relationship and that the circumstances warrant issuing new debt on a non-parity basis, and further concludes that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and with the Board of Governors Debt Management Guidelines. However, this approval should be subject to the condition that the Series B Bonds, if issued, be non-transferrable during the term of the Management Agreement. Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing, as presented.