



Item: AFSP: A1-4

**AUDIT & FINANCE COMMITTEE/
STRATEGIC PLANNING COMMITTEE
JOINT COMMITTEE MEETING
Wednesday, December 16, 2009**

SUBJECT: Innovation Village Housing Project: Phase I

PROPOSED COMMITTEE ACTION

Recommend approval of the Innovation Village Housing Project: Phase I, which includes four (4) primary components as follows:

- A. A debt resolution: (i) authorizing The FAU Finance Corporation ("FAUFC"), an FAU direct support organization (the "DSO"), to issue debt in an amount not to exceed \$140,000,000 (the "Debt") for the purpose of financing the construction of certain student housing facilities and related facilities on the Boca Raton Campus, (ii) requesting the Florida Board of Governors ("BOG") to approve the issuance of the Debt, (iii) authorizing the President or his designee to execute and amend all documents required for the issuance of the Debt, and (iv) authorizing the Chair of this Board to modify the Debt in accordance with project cost and bond requirements;
- B. A sublease between FAU, as sublessor, and FAUFC, as sublessee for the proposed new housing site as well as the existing student housing facilities on the Boca Raton Campus;
- C. A development agreement between FAUFC, as owner, and B-C Development, LLC, and CP IV Acquisition, LLC, as co-developers, to design, construct and furnish the new student housing facilities on or before August 2011; and
- D. A management agreement between FAUFC, as owner, and FAU and B-C Management, LLC, as co-managers, to manage both the new and existing student housing facilities on the Boca Raton Campus.

BACKGROUND INFORMATION

Florida Atlantic University does not have adequate housing on its Boca Raton campus to meet the demand by resident students. Currently, FAU enrolls approximately 20,535 students exclusively on the Boca Raton Campus. Projections call for an increase of over 1,000 students on the Boca Raton Campus within the next five years. The immediate need is to house approximately 1,200 of the total full-time, traditionally aged (18-21) undergraduate and graduate student population.

On July 22, 2009, this Board approved a Pre-Development Agreement (the "PDA") with a development team led by Crocker Partners, LLC. The PDA provides a framework to address the current housing shortage on the Boca Raton Campus and achieve the design, financing, construction, and operation of new student residential communities on the Boca Raton Campus, comprising as many as 2,400 new beds. The PDA contemplates the development of the new student residential communities in two phases, with an initial phase ("Phase I") of a new apartment-style housing community compromised of approximately 1200 beds targeted to upper-division undergraduate and graduate students targeted for completion in August of 2011. A new FAU Direct-Support Organization would own and finance Phase I and operate both Phase I and the existing housing facilities on the Boca Raton Campus. The second phase ("Phase II") may be initiated at some point in the future, if and when FAU reasonably determines that demand warrants it.

On August 19, 2009, this Board certified FAUFC as an FAU DSO. With the formation and certification of the new DSO now in place, the implementation of Phase I includes four (4) primary components as follows:

A. The Debt Resolution

With the approval of this Board and the approval of the BOG, FAUFC intends to issue debt in an amount not to exceed \$140,000,000 (the "Debt") to finance the construction of Phase I on the Boca Raton Campus. Phase I is reflected on the approved master plan and is consistent with the mission of the University. Construction of Phase I is expected to begin in February of 2010 and to be completed by August of 2011. Proceeds of the Debt are anticipated to be sufficient to complete the construction of Phase I without the use of additional funds. Legislative approval of Phase I has been obtained pursuant to section 1010.62(7)(a), Florida Statutes. No proceeds of the Debt will be used to finance operating expenses of the University or the DSO.

The Debt is to be secured by a lien on the net revenues of Phase I and a subordinate lien on net revenues from the existing student housing facilities on the Boca Raton Campus. The University is legally authorized to secure the Debt with the revenues to be pledged pursuant to section 1010.62, Florida Statutes. The University is also committed to ensuring that sufficient revenues will be generated to fulfill the University's obligations with respect to the Debt. The Debt will mature not more than 30 fiscal years after issuance, including any extensions or renewals thereof. The Project has an estimated useful life of 40 years, which is beyond the anticipated final maturity of the Debt. The Debt will bear interest at a fixed interest rate.

The Debt, which consists of two series of Student Housing Revenue Bonds—Series A and B Bonds—to be issued by the DSO (collectively, the “Bonds”), will be sold through a negotiated sale. A negotiated sale is necessary due to the complexity of the proposed financing, which includes the structuring of a series of subordinate bonds—the B Bonds—that shall be sold through private placements. Additionally, the University wishes to have additional flexibility in the structuring of cost effective financing alternatives, which may include the issuance of taxable Build America Bonds. The underwriter was selected as part of a competition process in summer 2008. 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 is 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 Bonds.

B. The Sublease

The proposed location for the construction of Phase I is on the “East Site” of Innovation Village, near the intersection of Lee Street and St. Lucie Avenue. The proposed sublease between FAU and the FAUFC covers both the unimproved new housing site contemplated for Phase I and the already improved existing housing facilities. The term of the sublease shall continue until all obligations under the Bonds have been satisfied. Rent for the sublease shall be prepaid to FAU by FAUFC in the sum of twelve million dollars (\$12,000,000.00). Ownership of all existing and new improvements shall revert and/or transfer to FAU upon expiration or termination of the sublease.

C. The Development Agreement

FAUFC intends to retain B-C Development, LLC and CP IV Acquisition, LLC (the “Developers”) to design, construct and furnish Phase I. The Developers (or their affiliates) include experienced managers in planning, development, design, construction and equipping post-secondary student housing and related projects. The proposed development agreement between FAUFC and the Developers covers all aspects of the design, construction and furnishing of Phase I, and provides for a substantial completion date before the start of classes for the fall semester of 2011. The agreement contemplates the development of two LEED-certified (silver) apartment buildings surrounding a courtyard area with a swimming pool and recreational areas. The buildings will house approximately 1218 residential beds, and include approximately 376 furnished units, each with private bedrooms and fully equipped kitchens. FAU will retain permitting authority over the site. All development costs for Phase I, including its fair share infrastructure costs, shall be paid from the Bonds.

D. The Management Agreement

FAUFC intends to retain B-C Management, LLC (“BCM”) and FAU, as co-managers, to manage Phase I as well as the existing student housing facilities on the Boca Raton Campus. B-C Management, LLC (or their affiliates) are experienced managers of post-secondary student

housing facilities. The management responsibilities of each manager are clearly delineated in the proposed management agreement, with BCM taking primary responsibility for budgeting and physical operations (i.e., maintenance and repairs) and FAU taking primary responsibility for leasing, marketing, student programming, and residential life. The FAU Board retains exclusive authority over the establishment of rent and other charges with respect to all student housing facilities, with the advice and consultation of a contemplated management advisory committee. The Phase I facilities shall be marketed exclusively to upper division undergraduate and graduate students. BCM shall be paid a management fee equal to approximately two percent (2%) of all revenues from the facilities. The annual budget for the facilities shall include operating expenses, management fees, capital improvements, required reserves to satisfy the 1.25 rate covenant for the Bonds, and repair and replacement reserves. The revenues from the existing facilities shall not include the unencumbered fund balance in the University's existing Housing Auxiliary Enterprise Fund. The initial term of the proposed management agreement is ten (10) years.

IMPLEMENTATION PLAN/DATE

The Debt issuance is scheduled to be presented to the BOG for approval on January 28, 2010. If the BOG approves the issuance of the Debt, the closing on the Bonds is contemplated to occur within a few weeks thereafter (mid-February 2010). The development agreement will become effective upon the closing of the bonds, and construction under the development agreement will commence immediately upon receipt of Bond funds. Preliminary site work and mobilization is already underway. The management agreement is expected to become effective on or about July 1, 2011.

FISCAL IMPLICATIONS

Issuance of the Debt by the FAUFC will cover all Phase I development costs and will not impose any direct financial requirements upon the University. The Debt is to be secured by a lien on the net revenues of Phase I and a subordinate lien on net revenues from the existing student housing facilities on the Boca Raton campus. Tax-exempt debt not to exceed \$140,000,000 will be issued by FAUFC, with an annual debt service payment of approximately \$8,910,712. FAU shall receive twelve million dollars from FAUFC in prepaid rent upon commencement of the sublease. All management fees shall be paid from housing revenues.

Supporting Documentation: Proposed Resolution (with Appendix A), Sublease, Development Agreement and Management Agreement

Presented by:

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