BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Analysis of Method of Sale – Competitive Versus Negotiated Sale

Florida Atlantic University
Innovation Village Project

On behalf of Florida Atlantic University, the FAU Finance Corporation proposes to finance the design, development and construction of an approximately 1,200-bed apartment style student housing community on the north side of the Boca Raton campus in an area designated as Innovation Village (the "Project"). The FAU Finance Corporation proposes to use a negotiated sale for the debt. In accordance with the debt issuance guidelines established by the Board of Governors Debt Management Guidelines, prior to issuing any debt obligations an analysis must be completed to assess the relative benefits of employing a negotiated sale versus a competitive sale.

In determining that a negotiated sale is desirable for the proposed project, FAU considered a number of factors, starting with a competitive ITN process in summer 2008 through which a development team was selected to develop and provide financing for the Project. As part of the transaction structure, a newly establish DSO has been formed (FAU Finance Corporation), which creates a different financing structure than FAU's previously issued Housing Revenue Bonds (Series 2000, Series 2003, Series 2006A and Series 2006B). The proposed financing structure does not create a senior lien on the revenues of FAU's existing housing program, though benefits from any available excess revenue generated by the existing housing program once all outstanding debt service, operating expenses, reserve funds and related state bond fees are paid. In creating the financing structure, working with an underwriting firm with local and national expertise in structuring student housing financings has been beneficial in preparing a variety of financial analyses and in working with the rating agencies. Further, because the financing structure is unique and includes the private placement of separate series of junior and subordinated debt, FAU Finance Corporation will benefit from having an underwriting firm available to discuss the transaction specifics with potential retail and institutional investors in advance of the bond sale. A negotiated sale also provides the DSO with the flexibility of evaluating the cost-effectiveness of bond insurance or taxable direct-subsidy Build America Bonds at the time the issue is prepared to go to market.

The matrix below further outlines factors taken into consideration in determining that a negotiated sale process would result in the most favorable financing terms and conditions available in the debt capital markets.

Competitive Versus Negotiated Sale Analysis of Conditions Favoring Each Method of Sale Florida Atlantic University Innovation Village Project				
Debt Structure	**Conditions Favoring a Competitive Sale**	**Conditions Favoring a Negotiated Sale**	**Sale Type Favored by Conditions**	**Explanation**
Pledged Revenues	General Obligation or Strong Revenue Stream	Non-tax based or Project Supported Revenues	N	The pledged payments are classified as non-tax based, project supported revenue. Florida law does not allow FAU to issue general obligation bonds and/or permit the pledging of student tuition revenues (i.e. a "general receipts" pledge that includes all non-State revenues of the University). Thus, the pledged revenue structure is weaker than a general receipts or general obligation pledge. Additionally, the debt will not be secured on a parity basis with FAU's existing Housing Revenue Bond issues, but will benefit from any surplus revenues generated from the existing units. This creates a unique pledged revenue structure that is different than what has been used by FAU on prior transactions.
Security Structure	Conventional Resolution and Cash Flow: Rate Covenant and Coverage	Unusual or Weak Covenants	N	The bonds will be secured by a lien on Pledged Revenues as defined in the Trust Indenture to include (i) the net operating revenues of the Project and surplus revenues of the Existing Units, subject to the payment of amounts due the State under the State Bond Resolution, (ii) the DSO's interest in the Ground Lease from the University related to the Project site and the Existing Units land, (iii) an assignment of the development, design, construction and other project agreements with the Developer and the DSO or University. Although the rate covenant and coverage features are strong, in comparison to FAU's existing Housing Revenue Bond debt, the structure is unusual and requires additional marketing efforts.
Debt Instrument	Traditional Serial and Term Bonds, Semi-annual Interest and Annual Maturities	Use of Innovative Structuring, Structure to Attract Particular Investors	N	It is anticipated that the Series A bonds will be structured as publicly offered fixed rate, tax-exempt bonds while the Junior Series B and Subordinate Series C bonds will be privately placed. Because of the innovative structuring, a negotiated sale is warranted. Additionally, the negotiated sale provides flexibility to add credit enhancement or taxable Build America Bonds into the structure if interest cost savings can be achieved.
Size	A transaction size that can be easily absorbed in the market	A large issue size the market cannot readily handle without the need to consolidate syndicates	N	The anticipated $126.6 million Senior Series A bonds may easily be absorbed in the market in terms of issue size, but the unique security structure warrants additional marketing. The Junior Series B and Subordinate Series C bonds could not be sold in a public offering via competitive sale.
Rating	'A' or Better	Below 'A'	C/N	The credit ratings for the Series A bonds have not yet been determined, although the goal is to achieve 'A' category ratings. As such, it is critical to remain flexible in the financing structure to switch to a fixed rate insured issue if necessary.

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Outlook	Stable	Uncertain, Vulnerable or Weak	N	Based on the success of FAU's existing housing program and the demand analysis showing a need for the additional housing, the market outlook for the debt will likely be stable. However, because the Project proforma is based on the construction and stabilization of additional housing units and is not secured on a parity basis with FAU's existing Housing Revenue Bonds, the revenue stream is more uncertain.
Type of Organization	Well Known, Broad-based General Purpose Borrower	Special Purpose, Independent Authority	N	There is implied credit strength for FAU Finance Corporation from the University; however the University is not legally obligated to repay the debt.
Frequency of Issuance	Regular Borrower in the Public Market	New or Infrequent Issuer	N	The FAU Finance Corporation is a newly established DSO and, as such, not a well known entity in the capital markets.
Market Awareness	Active Secondary Market with Broad Investor Base	Little or No Institutional Awareness of Issuer	N	While the market will be aware of FAU, the FAU Finance Corporation and the newly proposed innovative financing structure is not well known in the capital markets.
Interest Rates	Stable / Predictable Market	Volatile or Declining Market	N	While the market is in considerably better shape than it was a year ago, conditions are still somewhat volatile particularly for credits rated below the 'AA' category. The interest rates on the bonds will be fixed for the life of the financing.
Supply and Demand	Strong Investor Demand, Good Liquidity, Light Forward Calendar	Oversold Market / Heavy Supply	N	As previously mentioned, market conditions are still somewhat unpredictable particularly for credits rated below the 'AA' category. While the Senior Series A bonds should have strong investor demand, the Junior and Subordinate bonds are not able to be sold in the public market via a competitive sale.
Changes or Anticipated Changes in the Law	No Recent or Anticipated Changes	Recent changes which the market has not adapted to and which would require additional marketing efforts to explain	N	There have been recent substantial changes to Florida law regarding the issuance of debt by universities and their direct support organizations. There have also been recent changes to federal law that may provide benefits to the FAU Finance Corporation, including the ability to issue taxable Build America Bonds with a 35% subsidy payment from the federal government.