

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida State University
Housing Replacement Project - Phase II**

Project Description: The Housing Replacement Project - Phase II (the "Project") will consist of two student residence buildings with approximately 211,000 combined gross square feet, with 912 beds arranged in suite-style, double-occupancy rooms with a connecting bathroom. The Project also includes demolition of the existing Dorman and Deviney residence facilities, which will be demolished to provide the location of the new residence hall complex. The Project is the second phase of the University's two-part on-campus housing plan to replace the aging community style housing facilities with updated accommodations. The design also includes support spaces such as common student lounges, recreation room, TV lounge, furniture storage and administrative offices. Laundry and vending service areas may be added.

Facility Site Location: The Project will be located on the main campus of Florida State University (FSU) at the intersection of University Way and West Jefferson Street. This site is located in close proximity to academic and student services buildings and completes the chain of residence halls on the east side of campus. This location is consistent with the campus master plan.

Projected Start and Opening Date: It is anticipated that construction will begin in May 2015. The Project is scheduled to open for the Fall term, 2017.

Quantitative Demand and Construction Analysis: The Project will house undergraduate students, focusing primarily on first-time-in-college (FTIC) students. Total enrollment for the Fall 2014 semester is 41,700, including 33,288 undergraduates, of which 6,000 were FTIC students. The University's master plan calls for on campus housing for 20% of all FSU students. University housing also has an informal goal to house all FTIC students who desire to live on campus.

The current capacity of the housing system is 6,572 beds, which is sufficient to house all FTIC students and approximately 16% of all

University students; however, existing demand for on-campus housing by students exceeds the number of beds available. FSU does not have a policy requiring any students to live on campus, leaving students free to choose their living accommodations. Even though no mandate exists, there has been strong demand for participation in its first-year housing experience. Over the past ten (10) years, occupancy rates for the undergraduate halls have exceeded 100% to begin each Fall term. Waiting lists are developed and students are placed in temporary housing until permanent assignments can be identified through attrition. The waiting list for Fall 2014 exceeded 800 at the end of May 2014.

Of the current capacity, 1,618 beds are in older community-style facilities that will be replaced, based on recent condition assessments, as part of Phase I and Phase II of the Housing Replacement Project.

Phase I of the replacement project (approved March 2013) is currently underway and is scheduled to open in the Fall of 2015 with 840 new beds. At that time, Dorman, Deviney, and Kellum (combined 1,063 beds) will be removed from the housing inventory bringing total capacity to 6,349 in Fall 2015.

The Project will create an additional 912 beds beginning Fall 2017. At that time, Smith Hall (551 beds) will also be taken out of use. This will bring the total housing capacity to 6,710 in Fall 2017, which is a net increase of 138 beds over current capacity.

Available Private Sector Alternatives:

Prior to initiating Phase I of the Housing Replacement Project (February 2013), FSU retained the firm of Brailsford and Dunlavey (B&D) to conduct an independent student housing analysis. This report confirms that a complementary relationship exists between suite-style rooms available on campus and the apartment-style units available off campus. Approximately 73% of on-campus housing is suite-style, and FSU plans to replace the remaining inventory of traditional community-style dorms. With the exception of two complexes, the off-campus market consists of apartments. In the past, several private residence halls were available, but these have gradually been converted to apartments or other uses. With the exception of the two units mentioned, comprised of 700 beds, the local market is focused on providing apartment-style housing that typically appeals more to the needs of upperclassmen and graduate

students. Of the two off-campus private halls, the larger, with 500 beds, has equivalent rental rates to on-campus housing and strong demand. The smaller, private loft-style has lower rental costs than on-campus housing, but no residential life programming.

B&D found that the Tallahassee off-campus housing market is robust; however, these apartment-style facilities are not in direct competition with the residences and the experiences offered by FSU Housing to its on-campus residents. This finding is evidenced by the fact the new facilities currently under construction in the off-campus market are all apartment-style units and is also supported by the reduction of the number of privately-owned dormitories by approximately 50% over the past five years.

National studies have shown that students who live on campus are more connected to the institution, do better academically, and persist to graduation. According to a recent study conducted by FSU's Office of Institutional Research, retention and 4-year graduation rates for students who lived on campus versus off campus during their first semester at FSU were nearly 4% and 13% higher, respectively.

University Housing at FSU provides a unique student residential experience that is fundamentally different from any other living environment available in the Tallahassee off-campus housing market. The masters level live-in professional staff, coupled with live-in graduate and undergraduate staff are extremely well trained and prepared to respond to individual student needs from adjustment issues associated to the transition to college life to management of more serious individual student crises. Parents want their children to reside on campus particularly during their first year for quality of service, convenience, safety and resources provided.

Through the replacement of aging beds with community-style baths with modern suite-style rooms that meet the needs of today's students, FSU will position itself to continue to provide an exemplary on-campus living experience and ensure continued demand and the successful persistence of its students through graduation, therefore contributing to the FSU's overall academic mission.

While FSU has the opportunity to engage the private market for the establishment of a public-private partnership, it would be required to give up financial benefit, building design, and/or operational

control. University ownership provides long-term strategic and financial benefits, as well as increased flexibility for FSU.

(See Attached *Feasibility Study prepared by B&D.*)

**Project Cost and
Financing Structure:**

The estimated construction of the proposed residence halls is a total cost of \$59,500,000. Estimated construction costs for the residence halls are \$50,210,000 with planning, equipment and other estimated soft costs of \$8,290,000 and demolition of the existing structures estimated at \$1,000,000.

The total Project cost of \$59,500,000, plus financing costs, will be funded through a variety of funding sources. An estimated \$40,500,000 will be funded by fixed rate, tax-exempt revenue bonds issued by the Division of Bond Finance. An additional \$20,000,000 will be funded by a cash contribution from the housing system's Building Maintenance and Equipment Reserve Fund.

The bonds will finance a portion of the cost of the project, fund a debt service reserve account (if deemed necessary by the Division of Bond Finance) and pay costs of issuance. The bonds will be structured with a final maturity no more than 20 fiscal years after construction of the project is completed and level annual debt service payments with the first principal payment occurring May 1, 2018.

(See Attached *Estimated Sources and Uses of Funds.*)

Security/Lien Structure: Net housing system revenues will be pledged for the payment of debt service. These revenues are derived primarily from rental income, after deducting operating expenses. The bonds will be issued on parity with the outstanding Florida State University Housing Facility and Dormitory Revenue Bonds currently outstanding in the aggregate principal amount of \$158,855,000.

**Pledged Revenues, Debt Service
Coverage and Return on
Investment:**

During the past five years from fiscal year 2009-10 to 2013-14, pledged revenues grew from \$16.4 million to \$24 million. These revenues produced debt service coverage ratios ranging from a high of 2.39x to a low of 1.85x. For fiscal year 2014-15, pledged revenues are projected at \$24.4 million, producing an estimated debt coverage ratio of 2.13x. Pledged revenues are projected to increase from \$24

million to \$25.6 million for 2015-16 through 2018-19 with debt service coverage expected to be at least 1.50x in each year

Upon opening, the approved rental rate for the proposed 912 bed facility is \$3,370 per bed, per semester. Revenue and expense projections are based on a 98% occupancy rate for the housing system. It is estimated that first year net revenue for the proposed project, before debt service payments, will be approximately \$3.8 million in 2017-18. Revenues and expenses of the system are based on assumed 2% annual increases in rental rates, 2% increases in personnel expenses, 3% increases in general operating expenses and 4% increases in utilities. Debt service payments on the new bonds have been estimated using a 5.75% interest rate.

(See Attached *Historical and Projected Debt Service Coverage* prepared based upon revenue and expense information supplied by FSU.)

The Project is also expected to provide a positive return with an internal rate of return (IRR) estimated at 5.43%, based upon the assumptions provided by FSU.

(See Attached *IRR Calculation*.)

Type of Sale:

The Division of Bond Finance will determine whether the bonds will be sold through a competitive or a negotiated sale based upon market conditions and financing options available at the time of sale. Presently, a competitive sale is contemplated.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided FSU with respect to the request for Board of Governors approval for the subject financing. System Revenues have historically generated 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. Also, 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.