SUBJECT: A Resolution of the Board of Governors Approving Florida International University to enter into a sublease for the construction, operation and maintenance of student housing on the Biscayne Bay Campus of the Florida International University.

PROPOSED BOARD ACTION

Adoption of a resolution approving of Florida International University (“FIU”) entering into a sublease for the construction, operation and maintenance of the Project with NCCD-Biscayne Properties LLC (“Owner”). If approved, FIU will enter into a 40-year Agreement and Ground Lease with the Owner on which a student housing facility will be constructed.

Staff of the Board of Governors, State University System of Florida, and the Division of Bond Finance, State Board of Administration of Florida, has reviewed this resolution and all supporting documentation for compliance with Florida law and, to the extent applicable, the Board of Governor’s Debt Management Guidelines. There is no statutory framework authorizing universities to use public-private partnerships to finance university facilities. FIU is seeking permission from the Board of Governors to use the authority provided in s. 1013.171, which authorizes university boards of trustees to enter into lease agreements with private entities for the purpose of constructing a facility that meets the needs and purposes of the university, to enter into the necessary lease and sublease arrangements for the proposed Project.

The duration of the debt (34 years) and the debt service structure (ascending for the first five years) are not consistent with the Board of Governors’ Debt Management Guidelines. While not in compliance with the Debt Guidelines, nevertheless, based upon this review, it appears that the Project is in compliance with section 1013.171, Florida Statutes.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Florida Constitution; Sections 1013.171, Florida Statutes

BACKGROUND INFORMATION

The Florida International University has reviewed a proposal for entry into a sublease for the construction of a student residence facility (“the Project”) utilizing a Public-
Private Partnership arrangement. The proposed project is to be located on the Biscayne Bay Campus (“BBC”), approximately 26 miles from the main campus of the Florida International University. The Project will be funded by bonds issued through the Miami-Dade Industrial Development Authority and secured by gross Project revenues, with no other debt outstanding, with a lien on the Project. Bonds issued to fund the Project will mature thirty-four (34) years after issuance and debt service is ascending in the first five years. The duration of the debt and the debt service repayment structure are both inconsistent with the Debt Management Guidelines, as previously expressed. The Project will be a 410 bed, 200,682 gross square foot, nine-story building with amenities such as an outdoor pool and approximately 205 parking spaces.

The University Board of Trustees has requested approval from the Board of Governors to enter into a sublease for the housing. FIU is not legally obligated to pay debt service or maintain the Project. In the event actual rental revenue is insufficient to operate the Project and pay debt service, FIU could exercise its option to purchase the Project at fair market value or may feel obligated to cover these expenses given the location of the Project on the BBC.

The Florida International University Board of Trustees, at its December 10, 2014 meeting, approved the Project and the sublease.

The Board of Governors’ Facilities Committee placed this item previously on its January 21, 2015 agenda. The item was deferred in order for FIU to address questions raised regarding the Project. FIU has responded to these questions per the attached memo and revised student cost projections (See FIU Memo and Rental Rate Comparison Document):

- FIU reduced its forecast for rental rates for the least expensive housing unit option in the Project, which comprise 62% of the proposed beds available, from $12,487 to $11,608.

- The rental rate for the lowest cost housing unit in the Housing System on the main campus is projected to be $11,441 in academic year 2016-17 as compared to $11,608 for the Project.

- Revised assumptions for Project rental rates in the lowest cost housing unit are projected to start at about 1.5% higher than those charged for the Housing System on the main campus, after revising Housing System rental rates 0.8% higher. Rental rates for the other unit types in the Project are projected to start about 4.0% higher than the Housing System rental rates for comparable units.

- As illustrated by the attached schedule of housing unit costs, the debt structure (34 years and ascending in the first five years), while not in compliance with the
Debt Guidelines, results in a lower cost unit option of $11,608 as compared to $12,941 for a debt structure that is compliant with the Guidelines. The ascending debt service structure during the first five years requires a 3% annual rental rate increase to cover higher annual debt service costs and maintain 1.20 times debt service coverage.

- If actual results follow the Project pro-forma, rental rates are scheduled to increase 3% annually, resulting in a rental rate for the lowest cost unit option of $13,860 in 2023 when debt service becomes level and $27,355 at the end of a 30-year period.

- Issuing 34-year debt with ascending debt service payments during the first five years results in a lower annual debt service payment versus a 30-year, level debt structure, but financing costs for the facility are approximately $4 million higher over the life of the loan.

- With regards to Project demand, FIU has committed that it will not raise rates more than 3% annually, and that it will work with the Owner on appropriate incentives to ensure full occupancy, including possible rental rate reductions to increase demand. FIU also notes that the Owner’s property management fee is based on occupancy and net rental rates collected.

After weighing all factors, Board staff recommendation is for approval based on the opinion that the proposed Project will result in an affordable housing option for students at BBC who desire on campus housing; if the Board does not approve the Project, FIU’s position is that it will not be able to provide a housing option on the BBC at comparable rates in Fall 2017.

**Supporting Documentation Included:**

1. Requesting Resolution
2. Project Summary
3. Estimated Sources and Uses of Funds
4. Historical and Projected Pledged Revenues and Debt Service Coverage
5. FIU Memo and Rental Rate Comparison Document

**Facilitators/Presenters:** Mr. Chris Kinsley