

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Facilities Committee
March 19, 2015

SUBJECT: A Resolution of the Board of Governors Approving Florida Polytechnic University to enter into a ground lease and an operating agreement for the construction, leasing, financing, operation and maintenance of a student housing facility.

PROPOSED COMMITTEE ACTION

Adoption of a resolution approving of Florida Polytechnic University (“FPU” or “University”) entering into a ground lease and an operating agreement for the construction, leasing, financing, operation and maintenance of the Project with Vestcor Communities, Inc., or it’s affiliate (“Owner”). If approved, FPU will enter into a 40-year Operating 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. FPU 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 lease arrangements for the proposed Project.

The duration of the debt of 36 years and the debt service structure, including an interim financing period of 6 years with ascending debt and little or no amortization, are not consistent with the Board of Governors’ Debt Management Guidelines which recommend a maximum duration of 30 years and a level debt service structure. 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 Polytechnic University Board of Trustees has reviewed a proposal and adopted a resolution authorizing the President to execute a ground lease and an operating agreement for the construction and operation of a student residence facility (the "Project") utilizing a public-private partnership arrangement. The Project will be a 131,695 gross square foot, five-story student housing facility with 543 beds, including amenities such as an outdoor pool and volleyball courts. The proposed Project is to be located on the Florida Polytechnic University campus near the existing residence hall.

The Project cost of \$22 million will be initially funded with an interim bank loan for \$13.2 million incurred by the Owner and secured by Project net revenues, with no other debt outstanding, with a lien on the Project. Additionally, the Owner intends to make an equity contribution of \$8,800,000 from its investors, to finance the remainder of the construction costs. Repayment of the equity contribution will be subordinate to the bank loan. After an interim financing period, expected to last six years, the Owner intends to obtain a 30-year bank loan to refinance both the interim loan and pay off the outstanding equity investment. Debt issued to fund the Project will mature thirty-six (36) years after the initial financing, and debt service is ascending during the first six years. The duration of the debt and the debt service repayment structure are both inconsistent with the Debt Management Guidelines, as previously expressed.

The Owner will receive all net revenues of the Project after repayment of the bank loans and equity return payments to its investors, with no limit on its profits. The estimated annual net cash flow profits to the Owner are expected to total \$59.4 million over the lease term, or \$18.8 million on a present value basis, with an expected IRR of 18%, based upon certain assumptions of occupancy, rental rates and operating expenses. Rental rates are projected to increase 2.25% per year during the term of the lease and the University has limited ability to control rental rate increases to students.

The University's President has requested approval from the Board of Governors prior to execution of the ground lease and operating agreement for the Project as authorized by the University Board of Trustees. FPU 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, FPU could exercise its option to purchase the Project at pre-determined price or may feel obligated to cover these expenses or provide additional support to the Project given the location of the Project on the main campus and the strategic importance of student housing to the University.

The Florida Polytechnic University Board of Trustees, approved the Project and authorized the President to take all necessary actions and steps required to execute all documents in connection with the Project, including a ground lease and operating agreement at its meeting on February 2, 2015.

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- 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. Student Housing Demand Analysis

Facilitators/Presenters: Mr. Chris Kinsley