

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of South Florida
Sarasota-Manatee Housing and Student Center

Overview:

The University of South Florida (the “University”) is requesting approval from the Board of Governors (the “Board”) to issue tax-exempt debt in an amount not to exceed \$30M (the “Debt”) through the USF Financing Corporation (the “DSO”). The Debt will finance the construction of a new mixed-use facility containing housing and a student center (together, the “Project”) located on the University’s Sarasota-Manatee campus (the “Campus” or “SM Campus”). The Project is expected to support student recruitment and retention and, **according to the USF Board of Trustees, is critical to the planned growth of the Campus.**

The Project cost is currently estimated at \$39M, to be financed with the Debt and a \$16.5M equity contribution from the University. Additional funding of approximately \$4.7M is included in the overall Project financing plan, providing contingencies to mitigate current market risks and accommodate potential cost escalation in the Project, given design-build negotiations have not been finalized. Any contingency funds not needed for construction will be used to pay debt service.

The Debt will be secured by a first lien on the gross revenue of the USF Housing System, on parity with the lien granted to holders of the DSO’s outstanding \$176M of Housing System debt, and a \$200,000/year pledge (by the University) of Activity & Service Fee revenues generated at the SM Campus.

The Project is consistent with the University’s campus master plan and was approved by the DSO’s Board of Directors on May 5th, 2022 and the University’s Board of Trustees on June 15th, 2022.

Project Description:

The University plans for the Project to be a 100,000ft², four-story, mixed-use facility containing a first-floor Student Center, with student housing located in the upper floors.

The student center component will be approximately 32,000ft², providing the campus with a new bookstore, a student health center, and space for dining, lounges, and meeting rooms. Dining services and bookstore operations will be outsourced to private, for-profit vendors, who will be responsible for build-out and furnishing of their leased space.

The housing component will be approximately 68,000ft², providing 200 beds and representing the Campus’ first on-campus housing. It will be comprised of 70 double-occupancy bedrooms (i.e. 140 beds), each with shared bathroom) and 60 single-occupancy bedrooms in 1-

bedroom, 2-bedroom and 4-bedroom apartment-style configurations (with shared bathrooms, living space and kitchen or kitchenette).

Project Location:

The Campus is located approximately 50-60 miles south of the Tampa and St. Petersburg campuses, and is comprised of 32 acres and 174,000 ft² of existing facility space, most of which is reflected in a single (main) education building and auditorium, together representing 70% of the Campus physical plant. The remaining space is represented in 7-8 smaller buildings including a utility plant, offices, a bookstore (shared space with New College) and a converted motel (¼ mile south of Campus) used for research labs and storage.

The Project will be located on the north side of Seagate Drive, adjacent to the south parking lots and near the main educational building (see map below). Construction is expected to begin no later than October 2022 and be completed in May 2024, ensuring availability for the fall semester.

Sarasota-Manatee Campus



Outside of the Project scope, the University has plans for another educational facility on Campus. USF received an initial legislative appropriation of \$3M for a new “Academic STEM Nursing Facility”. The 75,000ft², \$62M project received its first State appropriation in the 2022 legislative session. If fully funded, it will provide teaching labs and research labs for new and expanded STEM-related programs.

The Brailsford & Dunlavey (B&D) demand analysis, described below, makes no mention of the above STEM Nursing project or its impact, if any, on the proposed new housing. The report did, however, offer a projection of how the 200 beds would be filled from the current market, indicating approximately 56 beds (28%) in the Project would

be post-bachelors nursing students, as discussed in the Demand Analysis section later in this report.

Benefit to Stakeholders:

In addition to offering students an option for on-campus housing, the Project will provide supplementary services, such as health and wellness, bookstore, dining, and retail. The University expects the Project to enhance engagement on campus and promote student success, as well as increase Campus aesthetic appeal, together helping to support student recruitment and retention efforts.

Based on the information provided by the University, the Project is expected to yield an internal rate of return (IRR) on the University's \$16.5M equity contribution of 3.10%, assuming \$27M in debt. If \$30M (the maximum amount of debt) is issued, the IRR falls to 1.90%. (Please see the *Projected IRR*.)

Demand Analysis:

In 2018, the University engaged B&D to conduct a study assessing demand for the Project, which was subsequently updated in May 2022. The report describes the strategic importance of the Project, identifies the target student population, provides results of a student survey and analyzes the off-campus rental market in relation to proposed unit mix and rental rates.

In the report, for discussion purposes, B&D identified the Project's primary market as students whose coursework and programs are located on the Campus, labeling them "Home Students". This student population includes full-time, part-time, in-person, hybrid and online students, but excludes dual-enrolled students and commuter-based students whose primary coursework and "home" campus is USF's Tampa and St. Petersburg campuses. Note, this commuter population comprises the majority of SM Campus total enrollment of 5,693 students.

As of fall 2021, the SM Campus had a total enrollment of 5,693, of which 1,273 were "Home Students" (excluding dual-enrolled high school students), including 100%-online and part-time students, neither of which are typical target market for on-campus housing. Excluding these two elements, the target market is 480 full-time in-person students, as per the B&D study, which includes 403 undergraduate (approximately 50 are freshmen/sophomores, per USF estimates) and 77 graduate students. Students from this group are deemed most likely to show interest in on-campus housing, but, with only 480, this represents a very limited base to draw from and implies a required capture rate of 42% to achieve 100% occupancy (see chart below). Note, according to B&D's survey, respondent data indicates the majority of these students currently live at home, with parents/guardians.

SM Campus Enrollment – Target Market
Fall 2021*

Students Served	5,693
Less: Tampa, St Pete & Dual-Enrolled students	(4,420)
SM Campus “Home Students”	1,273
Less: Online and Part-time	(793)
Target Market (in-person, full time)**	480
# of Project Beds	200
Required Capture Rate	42%

*Data based on B&D market analysis, May 2022

**Includes 403 undergraduate (approximately 50 are freshmen/sophomore, per USF estimate) & 77 graduate students

Based on data provided by USF and reflected in the B&D report, after a decline of 6.5% and 36.4% in undergraduate and graduate student credit hours, respectively, in Fall 2022, the Campus will experience moderate annual growth through 2025 of 1.23% and 2.53% in undergraduate and graduate student hours, respectively. There was little information provided to evidence significant growth beyond that.

B&D conducted an 82-question survey, soliciting the entire Campus enrollment of 5,693 students. It received 521 responses, of which 355 were SM Campus “Home Students” (inclusive of online and part-time students). According to B&D, participants showed significant interest in on-campus housing and indicated it would improve their Campus experience and engagement, generally speaking. However, as it relates specifically to housing, the two most common themes were:

- **Privacy** – students prioritized privacy, preferring single-occupancy living arrangements over double occupancy.
- **Affordability** – students clearly found it challenging to find “affordable” housing near campus.

The Project’s proposed unit mix includes 1-bedroom, 2-bedroom and 4-bedroom units (with shared bathrooms) in double-occupancy and single-occupancy configurations. **The majority of Project beds are double-occupancy.**

Furthermore, proposed per-bed rental rates range between \$1,170 and \$1,416 per month, and contemplate annual increases of 3%. In comparison, B&D’s analysis of the off-campus market found that off-campus rental rates have jumped 43% in the last two years, increasing from an average of \$766/month in 2020 to \$1,094/month currently. However, these off-campus rates are per-room, not per-bed, and **the proposed Project rents appear to exceed average off-campus options.** See chart below.

Proposed Housing Unit Mix & Rental Rates

Project Mix & Rental Rates (\$, 1 st yr)						Off-Campus Mkt Avg.
Unit Type	Style	Units	Occupancy	Beds	Per-Bed / Month *	Per-Bedroom / Month *
1-BR 1-Bath	Dorm Room w/ Bath	70	Double	140	\$1,170	\$1,076 **
2-BR 1-Bath	Apartment	20	Single	20	\$1,550	\$1,027
4-BR 2-Bath	Apartment	40	Single	40	\$1,416	\$1,076

Above data per B&D *Student Housing Analysis*, May 2022

* The Project rents do not include the cost of meal/dining options. Off-campus rents include \$125 per individual for monthly utility allowance.

**On a per-bed basis, assuming double-occupancy for comparative purposes, the rent is \$538/mo.

The B&D report concluded that there is sufficient demand to support the Project, assuming the recommended unit mix and rental rates.

The report does not, however, make note of the required capture rate of 42%, nor does it discuss how the predominance of double-occupancy bedrooms comport with **target market preference for “privacy”** or how the Project rental rates address **students’ priority of “affordability”** in relation to off-campus rental rates.

The B&D report also did not mention the proposed STEM Nursing Facility to be located directly across from the Project, or its potential impact, if any, on housing demand. However, the report did predict that existing nursing students would account for over 25% of Project beds, as reflected in the chart below.

Composition of Student Demand *

Market Segment	Projected Demand Fall 2024
FT Undergraduate + Graduate (full-time, in-person and hybrid)	91 beds
Post-Bachelors Nursing Students (full-time, in-person and hybrid)	56 beds
FT Students Living with Parents (full-time, in person and hybrid)	77 beds
FT Distance Ed. Students (online, currently renting off-campus)	8 beds
Part-Time In-Person Students (in-person & hybrid, currently renting off-campus)	0 beds

Total 232 Beds

*Per B&D *Student Housing Mkt Analysis*, May 2022

USF believes that demand from nursing students will fill most of the 60 single-occupancy bedrooms in the Project. If that proves accurate, it will mean the Project must address demand with remaining inventory comprised solely of double-occupancy rooms. According to B&D’s data (see chart “Composition of Student Demand”, prior page), the remaining demand will be comprised, in part, of graduate, students living with parents, and online students. In light of previously cited market preference for “privacy” and “affordability”, filling the double-occupancy units may prove challenging.

Project Cost:

The University issued an ITN in March 2022 for design-build services in connection with the Project and, in May, chose CORE Construction / Mackey Mitchell Architects as the design-build team. An agreement (with guaranteed maximum price) is currently being negotiated. The expected Project budget is \$39M, according to the University, with the housing component and student center estimated to cost \$21M and \$17M, respectively, and a \$1M construction contingency. The University is also contributing \$2M to fund an additional owner’s contingency to mitigate current market risks (i.e. supply chain delays and inflation). Lastly, should the finalized Project budget result in excess bond proceeds; currently estimated at \$2.7M, they will be used for Debt repayment. [See attached *Estimated Sources and Uses of Funds*]

Note, dining and bookstore operations in the Student Center will be outsourced to private vendors who will be responsible for build-out and furnishing of their leased spaces.

The housing component will provide 200 beds at a cost of at least \$21M, representing an approximate **per-bed cost of \$105,000**. For comparison, the chart below reflects per-bed cost for other SUS housing projects in recent years.

Per-Bed Cost Comparison*				
Approval Date	University	Location	Beds	Cost Per Bed
March-21	UF	Gainesville	1400	\$157.0K
March-20	FIU	Miami	700	\$125.0K
January-20	FSU	Panama City	400	\$57.8K
April-19	FAU	Boca Raton	616	\$87.8K
April-19	FAU	Jupiter	165	\$91.8K
November-18	USF	St. Petersburg	375	\$78.7K
November-18	FAMU	Tallahassee	700	\$85.7K

*Based on original Board-approved Project Summary reports

The design/build delivery process has not been completed, so total project cost has not been finalized. Furthermore, construction costs have risen significantly due to inflation, supply chain bottlenecks, and changes in the labor market, all of which may impact final contracted costs.

Financing Structure:

The Project will be financed through a combination debt and equity. The \$30M in debt will primarily fund the \$21M housing component, a portion of the student center component (approximately \$3.5M), construction contingencies of \$2.7M, estimated \$2.5M capitalized interest over the 20-month construction period, and cost of issuance. Excess debt proceeds not needed for Project construction, if any, will be used to fund debt service.

The University has elected to contribute \$16.5M to the Project to help fund construction of the \$17M student center. The equity contribution helps preserve the tax-exempt status of the Debt in light of anticipated private business activity (for-profit vendors) anticipated within certain Student Center space, as well as reduced the overall leverage burden of the Project. A breakdown of the equity contribution sources is provided below.

USF Equity Contribution Sources	
Auxiliary	\$11,000,000
Activity and Service	\$4,000,000
CITF	\$1,500,000
Total	\$16,500,000

Of the \$11M in equity funding from Auxiliary (see chart above), \$4M is from Housing System, leaving approximately \$33M in unrestricted reserves in the Housing System. The remaining \$7M in Auxiliary is accumulated cash in other SM Campus auxiliaries, such as parking, bookstore, student health services, facilities rental, distance learning, etc.

The Debt will be issued as certificates of participation, with a maximum term of 30 years, level debt service, and a fixed interest rate. According to the University, current market rates are 4.5% - 4.75%; however, the estimated debt service schedule and projections have conservatively assumed a 5% rate, resulting in estimated annual debt service of approximately \$1.98M per year. [See attached *Debt Service Schedule*]

Pledged Revenues:

The Debt will be secured by a first lien on the gross revenue of the USF Housing System made through a master lease purchase agreement between the DSO (owner/lessor) and USF Property Corporation (lessee/operator). These revenues are derived from the operations of student housing facilities on the Tampa and St. Petersburg campuses as well as related a parking facility located on the St. Petersburg campus. The Project will be part of the USF housing system once constructed, and the lien will be on parity with the holders of the DSO's other Housing System certificates of participation (COPs) currently totaling \$176M.

Housing revenue averaged \$44.9M per year between FY17-FY20 before falling 23% to \$34.2M in FY21 due to the negative impact from the pandemic. Operations have since recovered; FY22 gross revenue is estimated at \$52.8M, including approximately \$7.9M in federal relief funds, or \$45M net of federal monies, which is consistent with historical performance. FY23 gross housing revenues are project at \$47.7M (an increase over pre-pandemic average revenues), and the University is projecting moderate growth of 3% per year for the near future based on assumed rental rate increases. The Project is expected to open in Fall 2024 and contribute to gross revenue that year, FY25.

In addition to the above gross revenue pledge, the University is also pledging \$200,000/year of the student Activity and Service Fee (A&S Fee) toward the repayment of the Debt. USF indicated that the SM Campus generates approximately \$1.5M in A&S Fee revenue annually, so the University considers this pledge attributable to the SM Campus. According to s. 1010.62(2)(a) F.S., the A&S Fee may be used to service debt, *“except that the annual debt service shall not exceed an amount equal to 5% of the fees collected during the most recent 12 months for which collection information is available.”*

After accounting for a similar pledge connected to other USF debt (i.e. series 2010A and 2019 COPs), annual A&S Fee revenue has adequate capacity to accommodate the additional pledge and remain compliant with Statute. The chart below shows the historical capacity of the A&S Fee.

A&S Fee Capacity	FY18	FY19	FY20	FY21	FY22
Fee Revenue	\$18,259,099	\$18,121,243	\$17,917,755	\$18,147,043	\$18,113,437 ¹
Available to Pledge (5%)	912,955	906,062	895,888	907,352	905,672
Series 2010A & 2019 Allocation	556,220	536,778	501,509	504,648	504,756
Remaining Capacity	356,735	369,284	394,379	402,704	400,916

Debt Service Coverage:

Historically, the Housing System’s debt service coverage (DSC) has been strong, and it is projected to remains so, accordingly to University data. Prior to the pandemic, DSO gross revenue provided a coverage ratio of 3.27x (based on 4-yr avg.), which dipped to 2.19x in FY21 due to COVID impact, then rebounded to 3.39x in FY22 with the inclusion of approximately \$7.9 million of federal relief funds received that year. Without the federal funds, gross coverage would have been 2.88x in FY22. Based on projections, which include a 3% annual increase in rental rates beginning in FY24, coverage is expected to average 3.10x over the next 5 fiscal years, which includes the estimated Project revenues and debt in the latter years. If the projected 3% annual rental rate increases are excluded, the

¹ Fiscal year 2022 fee revenue from July 2021 through May 2022.

expected average coverage over the next 5 fiscal years is 2.93x.
[See attached *Historical and Projected Debt Service Coverage*]

While the pledge is a lien on gross revenue, it is important to consider DSC based on net income; i.e. funds available to service debt after operating expenses, to reflect the operational capacity for debt repayment. Based on this perspective, the (net income) DSC for the 4-year historical period of FY17 through FY20, average is 1.51x, and then averages 1.46x for the 5-year projection when including the projected 3% annual rental rate increases and 1.30x when excluding the rate increases.

After the inclusion of the Debt, the University's projected Housing System DSC from net revenues of 1.46x is above the 1.20x minimum required by the State University System Debt Management Guidelines.

Note, the Project itself, when considered on a stand-alone basis, has DSC ranging between .96x – 1.01x, based on projections. In other words, it is only viable as part of the existing Housing System. In fact, **USF's existing Housing System could carry the Project debt without any contributing Project revenues**; DSC only drops 3-4 bps (i.e. 1.41x DSC). In other words, the robust operational capacity of USF's existing Housing System **helps mitigate any associated risk stemming from delays, if any, with the Project attaining full occupancy or achieving operational stabilization.**

Type of Sale:

Based on an analysis of the Debt and market conditions, the DSO concluded that a negotiated sale is in the best interest of the University and the DSO. The analysis cited two reasons; first, certificates of participation are viewed by the market as less attractive than traditional bonds; and secondly, the DSO is an in-frequent issuer that lacks a broad investor base.

Selection of Professionals:

The professionals involved in this transaction were selected through a competitive process. Bond Counsel will be Bryant Miller & Olive PA, the Financial Advisor will be PFM Financial Advisors LLC, and Disclosure Counsel will be GrayRobinson PA. Bond Underwriters will be selected by a competitive selection process. A Request for Proposal was issued in May 2022.

Recommendation:

Staff of the Board of Governors and the Division of Bond Finance have reviewed the resolution and supporting documentation provided by USF. Based upon this review, it appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt and complies with the Debt Management Guidelines adopted by the Board of Governors.

The USF Board of Trustees feels strongly that the proposed Project is fundamental, if not critical, to future growth of the Campus, and the

University has further noted the proposed STEM-Nursing Facility as an additional catalyst to expanded programming, recruitment and retention of students.

Based on the B&D demand analysis, proposed unit mix and rental rates, the Project may be challenged in attaining full occupancy. However, any potential fiscal challenges resulting from delays in achieving operational stability are mitigated by the robust financial capacity of USF's existing Housing System, which the Project will be a part of.

As such, Board staff recommends authorization of the proposed Debt issuance to finance the Project.