



**FLORIDA INTERNATIONAL UNIVERSITY
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MINUTES
SEPTEMBER 5, 2018**

1. Call to Order and Chair's Remarks

The Florida International University Board of Trustees' Finance and Facilities Committee meeting was called to order by Committee Chair Leonard Boord at 8:44 am on Wednesday, September 5, 2018, at the Modesto A. Maidique Campus, Graham Center Ballrooms.

Committee Chair Boord welcomed all Trustees and University faculty and staff to the meeting.

General Counsel Carlos B. Castillo conducted roll call of the Finance and Facilities Committee members and verified a quorum. Present were Trustees Leonard Boord, *Chair*; Rogelio Tovar, *Vice Chair*; Dean C. Colson; Natasha Lowell; Joerg Reinhold; and Marc D. Sarnoff. Trustee Cesar L. Alvarez arrived after roll call, during the presentation of FF1.

Board Chair Claudia Puig, Trustees Gerald C. Grant, Jr., Justo L. Pozo, and Jose L. Sirven, III, and University President Mark B. Rosenberg also were in attendance.

2. Approval of Minutes

Committee Chair Boord asked that the Committee approve the Minutes of the meetings held on May 23, 2018 and June 6, 2018. A motion was made and unanimously passed to approve the Minutes of the Finance and Facilities Committee Meetings held on Wednesday, May 23, 2018 and Wednesday, June 6, 2018.

3. Follow-up from Previous Meeting

Committee Chair Boord explained that multiple documents related to the follow-up items from the Board's April Retreat were provided at the June 6, 2018 meeting and that a prioritization schedule and timeline pertaining to the remaining items were provided to BOT members this morning.

There were no questions from the Committee members in terms of the approved critical investment allocations and State University System comparative analysis, which are provided today in response to Trustee requests from the Committee's June meeting.

4. Action Items

FF1. Approval of a Student Housing Agreement between the Florida International University Board of Trustees and University Bridge, LLC

Trustee Natasha Lowell disclosed that the matter before the Board of Trustees inured to the special

gain or loss of a family member, and noted that as a result, she would abstain from any ensuing discussion and voting. Trustee Lowell, prior to this meeting, filed with the Board of Trustees Office a Form 8A Memorandum of Voting Conflict for State Officers regarding her voting conflict.

Prior to Trustee Cesar L. Alvarez joining the meeting and at the request of Committee Chair Board, General Counsel Castillo read from the Form 8A Memorandum of Voting Conflict for State Officers filed by Trustee Alvarez prior to the meeting with the Board of Trustees Office. General Counsel Castillo read from the Form 8A, which provides, in pertinent part, that Trustee Alvarez's law firm, "Greenberg Traurig, where [he is] Chair, a Shareholder and Employee, is the Bond Counsel for this transaction" and that "if this transaction is completed with bond financing, we would receive customary fees for our professional representation. As such, Trustee Alvarez "determin[ed] that [he has] a voting conflict and therefore [he] will not vote or participate in any discussions in this matter."

Senior Vice President and Chief Financial Officer Kenneth A. Jessell presented the request to approve a Student Housing Agreement between the Florida International University Board of Trustees and University Bridge, LLC (UB) for Committee review. He provided an overview of the Project benefits and risks and highlighted key changes to the Agreement that occurred subsequent to Board of Trustees review in July, noting that an independent assessment of financial assumptions, potential Project risks, and value for FIU was completed by Brailsford and Dunlavey (BD). He stated that representatives from BD will be presenting their assessment later in the meeting.

Sr. VP and CFO Jessell explained that UB is constructing an Arquitectonica-designed 20 story, 886 unit, 1244 bed residential rental housing Project located at SW 8 Street and SW 109 Avenue in the City of Sweetwater to house FIU students, faculty, and staff. He added that Project construction started in June 2018 and that completion is targeted for August 2020. He stated that the Project will cost approximately \$220 million and will be partially funded with a proposed 40-year tax-exempt financing in the amount of \$200 million. He noted that to date, the Project has been funded with approximately \$30M of private funding and that in order to qualify for tax-exempt financing as well as a possible ad valorem property tax exemption, and to provide financial benefits to FIU, a Student Housing Agreement between FIU and UB is necessary to define structures, roles, and responsibilities between the parties.

Sr. VP and CFO Jessell presented Project renderings and noted that, under the terms of the Agreement, FIU will not have any obligations or responsibilities related to the financing, design, development, construction, maintenance and/or operation of the Project, but indicated that the University will have the right to have a representative present at construction meetings and to receive copies of all monthly progress reports. He explained that since the Project will serve FIU students, faculty, and staff, the Owner will have access to advertise to FIU students on FIU's off-campus housing website and that the University may display materials for the Project and make student referrals to the Project once FIU's on-campus housing is full. He commented that the Owner will not lease, advertise, or market the Project to FIU undergraduate first-year freshmen students.

Sr. VP and CFO Jessell further noted that each year, FIU will receive a minimum of 20 housing scholarships and explained that FIU will receive \$200,000 in annual scholarship/academic support, subject to payment of operating expenses, debt service, and City of Sweetwater payment for taxes, but prior to payment of asset management fees. He indicated that FIU may also receive additional scholarship/academic support funds, initially Projected at \$800,000 and growing over time, if net cash flows are available.

Sr. VP and CFO Jessell stated that the University will provide a candidate or list of candidates for selection as a member of the Board of Managers for the Project. He mentioned that a Land Restoration Fund will be established with \$500,000 initial funding and increased annually from net cash flows to cover future demolition costs in the event FIU requires the demolition of improvements. He further noted that the University will benefit from 15 percent minimum/up to 50 percent of net cash flows from UB, otherwise available to Atlantic Housing Foundation, Inc. (AHF), an entity organized under Section 501(c)(3) of the Federal Tax Code and sole member of UB, for charitable activities mutually beneficial to FIU and AHF.

Sr. VP and CFO Jessell explained that FIU approval is required for any refinancing or additional financing for the Project, that FIU has no restriction on building, operating or otherwise supporting any new competing on or off-campus housing facility, and that Project financing has been designed so that it will have no impact on the balance sheet or credit capacity of FIU. He added that the Florida Division of Bond Finance has indicated that they do not believe the Student Housing Agreement will have any ratings implications for FIU housing bonds. He further noted that FIU has limited termination rights under the SHA due to the owner's financing arrangement, but may terminate if UB defaults under the financing documents and the lender moves to foreclose.

Sr. VP and CFO Jessell indicated that the City of Sweetwater and Owner have entered into a Payment in Lieu of Taxes (PILOT) Agreement to ensure that the City will receive an annual payment greater than foregone City property taxes in the event the Project is exempt from ad valorem taxes. He noted that the City of Sweetwater is supportive of the Agreement, as is reflected in the August 16, 2018 letter from City Mayor Orlando Lopez.

Sr. VP and CFO Jessell provided an overview of the benefits to UB, noting that UB will be able to issue tax-exempt debt at a lower cost than traditional taxable financing, UB may save approximately \$2.7M in annual property taxes net of the City of Sweetwater PILOT Agreement if the Owner is successful in its petition to Miami-Dade County Property Appraiser to be exempt from ad valorem taxes, and that UB Developer, Global City, will earn a developer profit and fee of \$16 million over the next two years and may earn \$145M over the 40 year financing period.

Members of the BD team, Cassia Sookhoo and Brad Noyes, presented key considerations for the Project in terms of benefits for the University, noting that these included housing located near campus for FIU students seeking off-campus residency, cash flows for scholarships/academic initiatives, and housing scholarships. The team explained that the Project requires minimal involvement from the University and creates favorable opportunities to capture cash flows and other benefits through participation in the waterfall.

The BD team also provided an overview of potential risks that could impact the benefits to the University, noting that these included Project occupancy, housing demand, construction quality and advertising. The team indicated that the market is dynamic with additional new student housing coming online in the next two-three years, that FIU students traditionally commute to campus and are price sensitive, and that the Project is priced higher than existing on-campus housing and comparable or slightly higher than competitive off-campus properties.

In response to Trustee Roger Tovar's questions, the BD team stated that their opinion was that the Agreement was a positive one for the University. Sr. VP and CFO Jessell, in response to an additional question from Trustee Tovar, explained that if safety issues were identified, the Project would likely not be in compliance with City of Sweetwater or Miami-Dade County housing codes and that the University would be able to refer the issues of non-compliance to the appropriate authorities. In response to Trustee Tovar's question, Global City Development principal, Brian Pearl, noted that FIU's Division of Information Technology has been involved with the design of the Project and was engaged in order to install cameras and panic buttons throughout the Project.

In response to Trustee Tovar's inquiry regarding the process for obtaining tax-exempt status and the possible risks associated with not achieving said status, Mr. Pearl noted that once the property is open and operational, an application for tax-exemption would be submitted to Miami-Dade County and that the risk lies solely with Global City Development. Mr. Pearl noted that while the professional advice they have received has deemed that tax-exemption is likely, if tax-exemption status is not secured, it will affect the cash-flows and any subsequent waterfall to FIU.

In response to Trustee Dean C. Colson's inquiry regarding the training of front desk personnel, Landmark Property Vice President of Business Development and Consulting Services, Jonathan Bove, commented that an integral component of staff training will consist of resident assistance and University-specific safety regulations.

In response to Trustee Joerg Reinhold's inquiries, Sr. VP and CFO Jessell noted that the occupancy rate of Bayview Student Living at the Biscayne Bay Campus was 90%. In terms of parking for the proposed Project, Mr. Pearl explained that 648 parking spots are being planned in order to serve the needs of the residents.

In response to Trustee Jose L. Sirven, III's inquiry, Mr. Bove stated that as part of their focus on customer service, data acquired from quarterly surveys is used to determine overall resident satisfaction. In addition, he noted that property management teams are eligible to receive quarterly bonuses based on resident satisfaction, also indicating that current resident surveys report 98% satisfaction rates. In response to Trustee Sirven's inquiry on how data on student academic performance and student retention correlates to students living off-campus, Mr. Bove explained that research reflects that the more connected students are to campus, the more likely they are to be successful and discussed efforts to connect students living off-campus to on-campus activities and student organizations and groups. Senior Vice President of Academic and Student Affairs Elizabeth M. Bejar explained that further research will be conducted to analyze data on academic performance in terms of students living in off-campus housing that is within close proximity to the campus.

Trustee Tovar stated that he is in support of the Project.

Board Chair Claudia Puig and Trustee Gerald C. Grant, Jr. concurred that the Project addresses the need for quality off-campus housing.

As Trustee Alvarez joined the meeting after the discussion of the voting conflict, General Counsel Castillo noted for the record that Trustee Alvarez had filed the Form 8A. Trustee Alvarez explained that he would abstain from the discussion and vote.

A motion was made and unanimously passed, with Trustees Alvarez and Lowell abstaining from the vote, that the FIU Board of Trustees Finance and Facilities Committee recommend that the Florida International University Board of Trustees approve (1) a Student Housing Agreement with University Bridge, LLC; and (2) delegate authority to the University President, or designee, to execute the Agreement on behalf of the Florida International University Board of Trustees.

FF2. School of International and Public Affairs Phase II Building (SIPA-II)—Amendment to Prior Budget Approval

Sr. VP and CFO Jessell presented the amendment to the prior budget approval for the School of International and Public Affairs Phase II Building (SIPA-II) for Committee review. He explained that the original program and construction budget for SIPA-II, as presented to the Board of Governors on October 8, 2014, and initially approved by the Board of Trustees on June 3, 2015, was \$30 million. He stated that planned funding for the facility was a \$15 million gift from the Steven J. Green, Dorothea Green, and Kimberly Green Family Foundation received on March 16, 2015, and \$15 million in Public Education Capital Outlay (PECO). He added that the 2017-18 Florida Legislature appropriated \$12,701,439, for a total combined available funding of \$27,701,439 and that the budget deficiency is the result of higher construction and program costs (\$3.89 million) and reduced PECO funding (\$2.3 million).

Sr. VP and CFO Jessell presented conceptual renderings of Phase II, as the Project is not in the design stages. He indicated that the FIU School of International and Public Affairs (SIPA) serves over 5,000 students with nearly 200 full-time faculty members through eight departments and 20 interdisciplinary centers and institutes and awards approximately 2,000 baccalaureate, masters and research doctoral degrees annually, in addition to almost 200 undergraduate and graduate certificates.

Sr. VP and CFO Jessell stated that the Dean of SIPA, John F. Stack, Jr., is developing an aggressive fundraising campaign for the additional funds, which will not be needed until early 2021, and that to mitigate the risk of a funding gap, the construction program will allow for unfinished shell space that will be built-out and completed in the future as funding becomes available. Sr. VP and CFO Jessell further stated that by 2025, it is expected that approximately 50 percent of student enrollments will be online, up from 32 percent today and that in order to accommodate the growth in online enrollments and provide online students with resources for success, FIU Online needs additional space for technology services, instructional media, student tech support, success coaches, a contact center, and a computer lab.

Sr. VP and CFO Jessell explained that the Distance Learning Fee of \$30.00 per credit hour includes \$2.25 per credit hour to support online facility needs, which generates approximately \$1.2M per year and that currently, \$2.5M in funding is available, and this amount is projected to be \$6M by 2021 when the funds will be needed.

A motion was made and unanimously passed that the FIU Board of Trustees Finance and Facilities Committee recommend to the Florida International University Board of Trustees approval of the request to expand the size and budget of the School of International and Public Affairs Phase II Building from the currently approved budget of \$27.7 million to \$39.42 million to accommodate increases in construction and program costs, reduced PECO funding, and new programming space for FIU Online.

5. Discussion Items

5.1 Marketing and Public Relations Report

Senior Vice President for External Relations Sandra B. Gonzalez-Levy stated that the University spent \$19.8M in the current year in total marketing expenditures, which she explained represented an increase of 11 percent over the last three years. She presented an overview of marketing expenditures by unit, adding that the central unit represents 17% of marketing expenditures and the remaining top ten units' expenditures align with areas of strategic focus. She also delineated data related to media buys, largest media buy vendors, and marketing personnel expenditures. She concluded by commenting that marketing and public relations efforts within the University are decentralized but there are opportunities where efficiencies can be gained in order to achieve greater alignment.

In response to Committee Chair Boord's request, Sr. VP and CFO Jessell indicated that the marketing and public relations review has been beneficial and has led to the identification of areas for improvement in terms of increasing efficiencies and return on investment.

Trustee Tovar stressed the importance of sharing the FIU story. In response to Trustee Colson's inquiry, Sr. VP Gonzalez-Levy explained that private universities spend between 14%-20% of their total budget on marketing expenditures, while public universities spend between 1.5% - 6%.

In anticipation of the follow-up presentation at the regularly scheduled December Board meetings, Trustee Lowell encouraged Sr. VP Gonzalez-Levy to seek out the expertise of the Board of Trustees members. Committee Chair Boord added that a reorganization plan should be included as part of the December strategy presentation.

5.2 Financial Performance Review FY 2017-18

Sr. VP and CFO Jessell presented the Financial Performance Review for the fourth quarter of 2017-18 and provided a summary of University revenues and expenditures. He reported that the University and direct support organizations' operating revenues were above estimates by \$77.5M (or 7 percent), which can be primarily attributed to higher research grants, higher external contract revenues, and higher auxiliary and student fees revenues. He explained that operating expenses were above estimates by \$20.2M (or 2 percent), primarily due to higher sponsored research and unit research support expenses associated with additional grants and higher DSO expenses mainly due to

higher than budgeted contribution to Athletics capital improvement Projects by the FIU Foundation, Inc. He added that these were offset by lower Educational & General expenses mainly due to vacant positions and operating expense savings.

6. Reports

There were no questions from the Committee members in regards to the reports included as part of the agenda materials: Athletics Update; Business Services Report; Emergency Management Status Report; Facilities and Construction Update; Foundation Report; Safety and Environmental Compliance Report; and Treasury Report.

7. New Business

No new business was raised.

8. Concluding Remarks and Adjournment

With no other business, Committee Chair Leonard Boord adjourned the meeting of the Florida International University Board of Trustees Finance and Facilities Committee on Wednesday, September 5, 2018 at 10:23 am.

There were no Trustee requests.

9.14.18 MB