

## **How Not to Loan Money**

**By Bob Rackleff, Leon County Commissioner**

Question: What lending institution would loan \$20.6 million to a business with no experience, no assets or collateral, and no down payment -- to borrow money in a nose-diving financial market -- to sell an overpriced product in a overbuilt market and an uncertain (in fact, unmeasured) number of customers, whose finances are probably declining?

Answer: The Leon County Commission, through its agency, the Leon County Educational Facilities Authority (EFA) -- which holds its only hearing on July 8 to issue \$20.6 million of tax-exempt bonds to finance Create Inc.'s purchase, renovating, and operation of the Holiday Inn at 316 West Tennessee St. for a student dormitory.

- The EFA has approved this deal and sent it on to county commissioners who, led by Bill Proctor's advocacy, show every sign of approving it.  
Some basic facts:
- Create Inc. is a 501(c)(3) organization, the sole member of which is the Bethel Missionary Baptist Church; Create Inc. has no financial assets and no history of operating any business.
- The EFA proposes \$18.4 million in senior series bonds, \$1.5 million in subordinate bonds, and \$0.7 million in subordinated developer and sponsor notes, in the name of "The Leon County Educational Facilities Authority."
- Security for the bonds would be the building and a claim on revenues and debts reserves, and nothing else.
- Create Inc. pledges none of Bethel's other assets, which include extensive real estate holdings in the Frenchtown area, in case of default on bond repayments.

Default is a theme in the troubled history of the EFA, which 15 years ago could not make required payments on bonds that financed the Southgate Dormitory, at FSU's southern boundary, which failed to generate enough rental income -- and today sits half-empty.

History is about to repeat itself due to a fundamental misconception by the EFA that it is not responsible for independently verifying the information applicants bring to them. Mortgage lenders did the same thing in recent years, causing today's housing and financial market collapse -- but surely the EFA can do better.

The EFA hangs its approval on the tortuous compliance letter by Leon County's financial advisor that stated that the proposal met statutory requirements -- but set forth four conditions that the EFA has yet to comply with -- that the senior bonds receive a rating of investment grade, that the nonrated bond holders will have no recourse in a default, that the EFA expects that Create Inc.'s marketing plan to work, and that, in the words of the advisor, "there is a need for additional student housing."

(Note: All these documents are available online at [www.leoncountyfl.gov](http://www.leoncountyfl.gov).)

Then there is the project itself.

Create Inc. would renovate the hotel into a dormitory for 334 students, almost all two to a room, for \$1,115 a month per resident (including meals), or \$13,380 a year. Leaving aside the unusually high rent in this local market, the obvious problem is that there are already too many dormitory or apartment rooms locally -- offered at far lower rents. Besides the half-empty Southgate, there are two other privately-owned dormitories. Seminole Oaks (formerly Cash Hall) is only 10 percent pre-leased, and Osceola Hall has only three students who signed leases so far, according to my industry source.

Create Inc. brushes away this concern, declaring that its marketing campaign will solve everything by using 600 churches throughout the state belonging to the Florida General Convention. This would convince students and their families to rent a bed in a shared room for \$13,380 a year.

But the cities most targeted by this marketing campaign are also among the hardest-hit in the nation by the collapse of house prices and family net worth. For example, the median existing house price in Broward and Miami-Dade counties fell 20 percent in the last year. As the Miami Herald noted last week, "In both counties, 33,678 houses were for offered for sale [in May], yet fewer than 900 changed hands. The figures represent only houses listed and sold by licensed agents."

Perhaps the students and their families could take out student loans. Perhaps they will choose the Create Inc. dormitory over less expensive ones. Perhaps the "faith-based sponsor" will close the deal with religious students. Perhaps a lot of other possible things will happen.

But that's not how to make high-stakes decisions -- especially with the credit reputation (and future interest rates) of Leon County at stake -- a reputation already jeopardized by the EFA's last blunder with Southgate.

The county commission faces an important business decision on July 8. It's a public hearing, so you're welcome to tell us your thoughts.

The responsible decision would be to send the project back to the Educational Facilities Authority with instructions to answer the troubling questions raised about this project -- and to return only after it has independently verified the answers. To do less is simply irresponsible.

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