State of Florida

University Bonding

November, 2005
Infrastructure Financing Options

Two Ways For Universities to Incur Debt

1. Revenue Bonds Issued by State Board of Education (“SBE’) and Board of Governors (“BOG”) Through the Division of Bond Finance (“DBF”)

2. Revenue Bonds Issued by Direct Support Organizations (“DSOs”) Affiliated with University
Revenue Bond Financed Facilities

- Dormitories
- Parking Garages
- Athletic Facilities
- Healthcare Facilities
- Research Facilities
- Student Activity Facilities
Overview: University Debt Structure

• Facilities Financed on a University-by-University Basis
  • One Exception: State University System Improvement Revenue Bonds
    • Secured by Capital Improvement Fees and Student Building Fees of All Universities

• Revenues Pledged Generated by Facilities Being Financed, i.e., Sales of Auxiliary Enterprises
  • Dormitory Fees for Housing Bonds
  • Parking Fees for Parking Bonds
  • Patient Revenues for Hospital Bonds
  • Ticket Sales for Stadium Bonds

• Evolution to Mandatory Student Fees Rather Than User Fees to Secure Bonds: e.g. Transportation Access Fees, Student Health Fees
University Debt Outstanding

Total University and DSO Debt
Fiscal Year 2004

$1.9 Billion

<table>
<thead>
<tr>
<th>University Debt</th>
<th>$ 891 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSO Debt</td>
<td>$1,009 million</td>
</tr>
<tr>
<td>Total</td>
<td>$1,900 million</td>
</tr>
</tbody>
</table>
Outstanding Debt by University

Outstanding Debt As of June 30, 2004

Total Debt Outstanding = $1.9 billion
University Revenues

Fiscal Year 2004
(Not Including Component Units)

$4.7 Billion

State Appropriations
$1.9 billion or 40%

Grants & Contracts
$1.5 billion or 32%

Net Tuition & Fees
$782.4 million or 17%

Other
$168.3 million or 3%

Auxiliary Revenue
$387.2 million or 8%

University Revenue All Sources

Page 7
Total Tuition and Student Fees

Estimated Total University Tuition and Fees*
Fiscal Year 2005
(in millions)

- Tuition                                $ 780.4
- Activity & Service Fee                 $  58.9
- Athletic Fee                           $  56.6
- Health Fee                             $  39.7 ★
- Transportation Access Fee              $  20.1 ★
- Med. Prof. Fee                         $     1.6 ★
- Building Fee                           $  15.9 ★
- Capital Improvement Fee                $  16.7 ★
- Financial Aid Fee                      $   41.7 ★

Total Gross Tuition and Student Fees: $1,031.6
Less: Scholarship Allowance Estimate: 94.2
Total Net Tuition and Student Fees: $ 937.4

Total All Universities $ 937.4 million

*Estimated Revenue Amounts Provided by Department of Education
State Debt Affordability Analysis

- State measures, monitors and manages State debt position through debt affordability analysis
- State’s benchmark debt ratio (measure of indebtedness) is debt service to revenues available to pay debt service
- Benchmark Debt Ratios: 6% Target 7% Cap
- All debt payable either directly or indirectly by State revenues is included in calculation of State’s debt burden
- A portion of university debt should be counted towards State’s debt burden
- University debt secured by mandatory fees counted toward State’s debt burden
- University debt secured by self-sustaining enterprises, e.g., dormitories, healthcare, athletic facilities, not counted towards State’s debt burden
Recommendations

• Establish Definitive Process for Authorizing the Issuance of Debt
  • Require Board of Governors’ Review and Approval for the Issuance of Debt for University Projects

• Specify Revenues That Can Be Pledged to Pay Debt Service on Bonds or Other Forms of Indebtedness and Prohibit All Others

• Develop Debt Management Policies for University Debt and Criteria for Project Feasibility
Existing Approval Process

- University Board of Trustees Approves Projects
- Board of Governors Approves Projects
- Legislature Approves Projects
- DOE Staff Review
- University Requests BOG and SBE Approval
- Direct Support Organization Issues Bonds
- Legislative Leadership Advised of Budget Amendment To Create Spending Authority
- Request Issuance by DBF
- Board of Governors and State Board of Education Approves Financing
- Division of Bond Finance Issues Bonds
Proposed Approval Process

- University Board of Trustees approves projects through approval of Campus Master Plan.
- Board of Governors approves projects through approval of Strategic Plan.
- Legislature approves projects.
- BOG & DBF Staff Review.
- University requests BOG approval.
- Legislative Leadership advised of budget amendment to create spending authority.
- Request Issuance by DBF.
- University Reports Financing to Board of Governors.
- University Board of Trustees approves projects.
- Board of Governors approves projects.
- Legislature approves projects.
- BOG & DBF Staff Review.
- University requests BOG approval.
- Division of Bond Finance issues bonds.
- Direct Support Organization issues bonds.

Proposal: Change Statutes So Legislature approves types of projects rather than individual projects.
## Proposal Accelerates Approval Process

<table>
<thead>
<tr>
<th>Current Process</th>
<th>Proposed Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spring ’06</strong>  University Develops Project</td>
<td><strong>Spring ’06</strong> University Develops Project and Financing -University BOT Approves</td>
</tr>
<tr>
<td><strong>Fall ’06</strong> BOG Approves Project</td>
<td><strong>Summer ’06</strong> BOG Approves Project and Financing</td>
</tr>
<tr>
<td>(Included in Legislative Budget Request)</td>
<td></td>
</tr>
<tr>
<td><strong>Spring ’07</strong> Legislature Approves Project</td>
<td><strong>Fall ‘06</strong> Plan of Finance Developed</td>
</tr>
<tr>
<td>(Included in Appropriations Act)</td>
<td></td>
</tr>
<tr>
<td><strong>Summer ’07</strong> BOG Approves Project Financing</td>
<td><strong>Winter ’06/’07</strong> Bonds Issued and Financing Closed</td>
</tr>
<tr>
<td><strong>Fall ’07</strong> Plan of Finance Developed</td>
<td></td>
</tr>
<tr>
<td><strong>Winter ’07</strong> Bonds Issued and Financing Closed</td>
<td></td>
</tr>
<tr>
<td><strong>Spring ‘08</strong></td>
<td></td>
</tr>
</tbody>
</table>
Proposed Authorization Process For University Debt

• BOG Preliminary Approval of Projects and Financing Through Approval of Campus Master Plan and Strategic Plan
• Eliminates SBE Approval of Projects and Financing
• Legislative Approval for Types of Projects Rather Than Specific Projects
• Adds Division of Bond Finance to Review Finance Plan
• Requires BOG Approval of Final Financing Plan
• Provides for Report on Bond Sale by DSOs to BOG
Benefits from Proposed Process

• Significantly Reduces Time From Project Approval to Bond Sale (by more than one year)
• Eliminates Redundant or Duplicative SBE/BOG Approvals
• Provides Clear Guidance for Review and Approval Process Required for Issuing Debt
• Continues Flexibility to use DSOs to Issue Debt Under Appropriate Circumstances
• Will Establish Definitive Criteria for Evaluating Financial Feasibility of Proposed Projects
Board of Governors Policy

• Requires Board of Governors Review and Approval of University Financings (Including Certificates of Participation)
• Specifies Types of Revenues that can be Pledged to Pay Debt Service on Bonds or Other Forms of Debt and Prohibits Others
• Requires BOG and Division of Bond Finance Staff Review of Proposed Finance Plan
• Requires Report on Sale of Bonds/Debt to BOG
Legislative Actions Needed

• Replace State Board of Education with Board of Governors for Debt Approval
• Specific Legislative Project Approval Replaced with Legislative Approval of Types of Facilities
• Specify the Types of University Revenues that can be Pledged to Pay Debt, i.e., Mandatory Student Fees and Auxiliary Enterprise Revenues and Prohibit All Other Revenue Sources
• Revision of Other Ambiguous or Conflicting Statutes
Two Step Process

• Step 1:
  • Adopt BOG Policy for Authorizing and Issuing Debt
  • Pursue Legislation Clarifying Process for Authorizing and Issuing Debt

• Step 2:
  • Establish Debt Management Policies for University Debt and Criteria for Project Review and Approval