BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
Florida Gulf Coast University
Parking Garage Phase III

Project Description: Florida Gulf Coast University currently has two parking garages near the center of the main campus of the University. The proposed Parking Garage Phase III project will contain approximately 900 parking spaces. The garage will be built on an existing surface parking lot (loss of 200 surface parking spaces) and will provide a net additional 700+ parking spaces to the parking system for a total of 2,500 structured parking spaces and total parking spaces on campus of 6,337. The project will be constructed as a four or five level garage and will consist of open spaces for student, faculty, and staff. The project is included in the 2005 Campus Master Plan Update.

Facility Site Location: The proposed Parking Garage Phase III project will be located on the main campus of Florida Gulf Coast University in an area which is currently a parking lot, but planned for parking garage expansion.

Projected Start and Opening Date: It is anticipated that construction of the parking garage project will commence in April 2008 and the garage will open in August 2009.

Demand Analysis: Currently, the University provides parking for all students, faculty, staff and visitors with a current inventory of 5,637 parking spaces of which 1,600 are in parking garages Phases I and II. The proposed parking garage project will provide for the addition of approximately 700 spaces (representing approximately 900 new spaces, less 200 existing parking spaces lost due to constructing the new garage on an existing surface lot) for a total on-campus parking inventory of 6,337. Over the past several years, enrollment growth has created ever increasing demands for parking. Florida Gulf Coast University student enrollment has increased from 2,584 in 1997-1998 to 9,531 for 2007-2008. Current parking facilities in place at the beginning of fall term 2007 were inadequate to meet demand.

The campus is located in an area of Lee County experiencing rapid growth, none of which is geared to accommodate off-campus parking.

Project Cost and Financing Structure:

The proposed Parking Garage Phase III project construction cost is $9.4 million. The project will be financed with tax-exempt revenue bonds issued by the Florida Gulf Coast University Financing Corporation (the "Corporation"), on behalf of the Florida Gulf Coast University, in an amount not to exceed $10,000,000. The bonds will be structured with a 30-year final maturity and level annual debt service payments with the first principal payment occurring February 1, 2010, and, as determined by the Corporation, will be issued either as fixed or variable rate revenue bonds.

The bond size includes capitalized interest during the 17-month construction period through September 2009. Capitalized interest is typically used for revenue producing projects secured by user fees to fund debt service prior to when the project is completed and open. The Board of Governor's Debt Management Guidelines provide for the use of capitalized interest when necessary for the financial feasibility of the project. Under these circumstances, capitalized interest is not absolutely necessary for financial feasibility because the bonds are being secured by mandatory charges to students rather than user fees. However, the use of capitalized interest for this parking garage project is being used by the University to limit the amount of increase in mandatory student fees over the next two years, while resulting in an overall increase in the cost of the financing.

Construction of the project will be administered by the Corporation under the supervision of Florida Gulf Coast University which is consistent with construction of previous University parking projects.

(See Attachment 1 for an estimated sources and uses of funds.)

Security/Lien Structure:

Net parking system revenues will be pledged for the payment of debt service. These revenues are derived primarily from parking registration fees paid by students, faculty and staff; a per-credit-hour student transportation access fee; fines and other miscellaneous revenues after deducting operating and maintenance expenses. When the facility opens in Fiscal Year 2009-2010, the projected registration fee per car will be $114 for staff or $515 for staff reserved, which is a 14% increase from current rates. In addition, for Fiscal Year 2009-2010, the per student credit hour registration fee and transportation access fee will be $2.70 and $5.75, respectively, bringing the total student fees to $8.50 per credit hour, which is a 13% increase from $7.50 per credit hour currently. The financial projections also indicate yearly student fee increases thereafter.

The Series 2008B Bonds will be issued on parity with the current outstanding Florida Gulf Coast University Financing Corporation Capital Improvement Revenue Bonds, Series 2005B (variable rate), and Series 2007C (fixed rate) currently outstanding in the total principal amount of $15,800,000.

Pledged Revenues and Debt Service Coverage:

During the five-year period from Fiscal Year 2002-2003 to 2006-2007, pledged revenues grew from $69,423 to $685,117. For fiscal years 2007-2008 to 2011-2012, pledged revenues for the system are projected to increase by 127% from $1,371,679 to $3,115,637 with debt service coverage decreasing from 3.37x in 2007-2008 to 1.77x in 2011-2012. As hereafter discussed, the financial projections are based on aggressive enrollment growth and yearly increases in student fees. It has been assumed that interest on the bonds during the 17-month construction period through September 2009 will be provided from proceeds of the bonds. In fiscal year 2009-2010, the first year the facility is expected to be open, the debt service coverage ratio for the parking system is projected to be 1.33x. In fiscal year 2010-2011, the debt service coverage ratio for the Parking System is projected to be 1.54x. This is the first year that a full 12 months of debt service will be paid on the bonds after capitalized interest has been expended.

The projected debt service coverages have been calculated using an interest rate of 5.24% on the proposed bonds and the outstanding variable rate 2005C Bonds.

The projected pledged revenues and financial feasibility analysis are dependent upon annual FTE enrollment growth assumptions provided by the University. For the period of fiscal year 2001-2002 to 2006-2007, the average annual FTE enrollment growth rate was 16%. For 2007-2008 the annual FTE enrollment growth rate is assumed to be 21.5%. However, actual enrollment growth for the current fiscal year was estimated to be 13%. The assumption made for future years is 11% to 12%. The student enrollment projections appear to be very aggressive and may not be realized which would adversely affect the revenue projections and financial performance of the project. Additionally, the financial projections are based on annual student fee increases. Transportation access fee increases of 7% in 2008-2009, 6% in 2009-2010 through 2011-2012, and 5% thereafter are also assumed. It is very unusual for financial plans to include recurring fee increases. Annual operating expenses are expected to increase by 4% – 5% per year. *Aggressive student enrollment growth coupled with recurring student fee increases are two* *unusual factors significantly affecting financial performance of the project which the Board of Governors should carefully consider.*

(See Attachment 2 for a table of historical and projected pledged revenues and debt service coverage prepared by the Corporation.)

Variable Rate Debt: The University is planning to closely monitor market conditions and to make a decision of issuing the 2008B Bonds as variable or fixed rate revenue bonds prior to their sale. With the current turmoil in the market, the University believes this to be a prudent decision.

Based upon market conditions at the time, the University's initial analysis indicated an expected reduction in total borrowing cost of about 1.3% from issuing variable debt at an estimated 3.51% compared to the current fixed rate of 4.80%.

The University has prepared a debt management plan related to the issuance of the proposed variable rate bonds. The purpose of the plan is to mitigate, to the extent possible, the liquidity and interest rate risks over the life of the debt. Variable rate bonds currently comprise 20% of the University's outstanding debt. With the addition of two future variable rate issues (including the 2008B Bonds), variable rate bonds will comprise approximately 39% of total debt of the University. Variable rate bonds currently comprise 37% of the University's Parking System debt. If the 2008B Parking Bonds are issued at a variable rate, variable rate bonds will comprise approximately 61% of total Parking System debt, which is in excess of rating agency guidelines.

To mitigate the liquidity risk, the Corporation plans to obtain a letter of credit. It is anticipated that the letter of credit will have a three year evergreen provision which will require the University be provided a notice of non-renewal each year or the letter of credit will automatically renew for an additional year. This provision will effectively provide the University with two years to secure another letter of credit or other form of guarantee in the event of a non-renewal. The University's existing variable rate bonds are secured by a letter of credit from Wachovia Bank. In connection with this financing, Wachovia has waived certain requirements of the letter of credit documents with regards to the issuance of additional parity debt.

With regards to reducing interest rate risks, the University plans to actively manage its variable rate debt by monitoring interest rates on a continuous basis, budgeting conservatively high interest rates on variable rate debt, and providing a hedge with their short-term investments. The University currently has $1.8 million in cash from Parking System revenues. This is expected to provide a hedge for 11% of all outstanding variable rate parking system debt. This will also support approximately one year of debt service on the entire parking system facilities. The University also plans to adopt a derivatives policy and explore the possibility of providing a limit on the variable interest rates through a derivative. **Notwithstanding the University's debt management plan for variable rate debt, the University will have significant risk exposure to future interest rates which could adversely affect financial performance of the project or present financial challenges for the University in the future.**

Type of Sale:

The University provided an analysis of the most appropriate method of selling the bonds (competitive versus negotiated) as required by the Debt Management Guidelines. The University is requesting approval for a negotiated sale of the Bonds. A negotiated sale is the best method for implementing a variable rate financing, which is what is currently being planned by the Corporation. Additionally, if it issues fixed rate debt, the Corporation feels that limited market awareness of the Corporation and the credit warrants a negotiated sale in order to better explain the transaction to investors and to achieve the lowest borrowing cost.

The University anticipates selecting, from a RFP process, an underwriting proposal from a team of underwriters that are qualified in a competitive process.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida Gulf Coast University Financing Corporation with respect to the request for Board of Governors approval for the subject financing. Projections provided by the University indicate that sufficient net revenues will be generated from transportation access fees, registration fees, and fines to pay debt service on the Series 2008B Bonds and the outstanding 2007A Bonds and 2005B Bonds. However, the projected revenues depend on realizing aggressive student enrollment growth projections. Additionally, the financial projections also depend on increases in the current transportation access fee of 5% – 7% annually. *The aggressive student enrollment growth projections and recurring student fee increases are two factors the Board of Governors should carefully consider in evaluating the requested project and related financing.* It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and is substantially in compliance with the Board of Governors Debt Management Guidelines. Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing.