

**BOARD OF GOVERNORS  
STATE UNIVERSITY SYSTEM OF FLORIDA**

August 7, 2008

**SUBJECT:** A Resolution of the Board of Governors Authorizing the Issuance by the University of Central Florida Finance Corporation of Taxable Debt to Finance the purchase and renovation of two former fraternity houses on the Main Campus of the University of Central Florida.

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**PROPOSED BOARD ACTION**

Adoption of a resolution approving the issuance of fixed or variable rate, taxable debt by the University of Central Florida Finance Corporation ("Corporation"), in an amount not to exceed \$4,000,000 for the purpose of financing the purchase and renovation of two former fraternity houses on the main campus of the University of Central Florida ("the Project").

Staff of the Board of Governors, State University System of Florida, and the Division of Bond Finance, State Board of Administration of Florida, has reviewed this resolution and all supporting documentation. The proposed financing includes a deferral of principal repayment which is inconsistent with the Board of Governors Debt Management Guidelines. Other than this exception, 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. Staff of the Board of Governors recommends adoption of the resolution and authorization of the proposed financing.

**AUTHORITY FOR BOARD OF GOVERNORS ACTION**

Florida Board of Governors Debt Management Guidelines dated April 27, 2006; Section 1010.62, Florida Statutes; and Article IX, Section 7(d), Florida Constitution.

**BACKGROUND INFORMATION**

The University of Central Florida (the "University") has submitted a proposal for financing the purchase and renovation of two former fraternity houses, Sigma Alpha Epsilon and Sigma Psi Epsilon, to be added to the University's Housing and Residence Life system (the "Housing System"). The proposed project is to be located on the main campus of the University in an area known as Greek Row. The Project will provide an additional 84 beds to the Housing System for a total of over 3,669 Housing System beds on the main campus. The Project is consistent with the University's Campus Master Plan. The total Project cost including purchase, renovations and furnishings is expected to be \$3.8 million.

Approval of the proposed financing would set a new precedent by having a university finance, own and operate Greek housing. Historically, Florida's State Universities and their DSOs have not been involved in financing fraternity houses, although such arrangements are more common outside the State. Typically, in the State University System, the host university leases land to the Greek organization and it is responsible for building, owning and operating the fraternity/sorority house. The host university usually imposes certain restrictive covenants in the lease along with a right of first refusal upon any subsequent sale of the property.

The Corporation, a direct support organization of the University, proposes to obtain a 20-year fixed or variable rate, taxable, bank loan in an amount not to exceed \$4,000,000 to finance the Project and to provide for capitalized interest. The University will pay interest only on the bank loan through April 1, 2011, with principal amortization commencing October 1, 2011. The financing contemplates capitalized interest of approximately \$200,000 through October 1, 2009. The bank loan will be structured to provide for level annual debt service.

The debt service payments will be funded from revenues generated from the operation of the Fraternity houses, after payments of operation and maintenance costs. In addition, the University anticipates entering into an agreement with each fraternal organization pursuant to which the organization will guaranty to pay for any unoccupied beds in the facilities ("Guaranty Payments"), as well as, leasing the commons areas within the facilities. Customarily, each member of the fraternal organization is assessed a fee for the use of the common areas located in the facility ("Parlor Fees"). Operating revenues are generated primarily from lease revenues, Guaranty Payments, Parlor Fees and other miscellaneous revenue from leases between the University and fraternity and sorority organizations that will lease the facilities. As additional security, the University will grant a lien on the University's Housing System net revenues which will be subordinate to the lien granted to the holders of the University Housing System Revenue Bonds, currently outstanding in the aggregate principal amount of \$81.345 million. Projections provided by the University indicate that sufficient net revenues will be generated to pay debt service on the debt and the outstanding senior lien bonds.

The Corporation's Board of Directors, at a meeting July 23, 2008, and the University of Central Florida Board of Trustees, at its July 24, 2008, meeting, approved the Project and the financing thereof.

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**Supporting Documentation Included:** Requesting Resolution  
Project Summary  
Attachment 1 - Estimated Sources and  
Uses of Funds  
Attachment 2 - Historical and Projected  
Pledged Revenues and Debt Service  
Coverage

**Facilitators/Presenters:**

Mr. Chris Kinsley, Director of Finance and  
Facilities