

**BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
University of Florida
University Athletic Association
Expansion and Renovation to Ben Hill Griffin Stadium**

Project Description: The University Athletic Association (the "Association") is in the process of expanding and renovating Ben Hill Griffin Stadium (the "Project"). The Project will provide for the renovation of the football office complex and areas in the south end zone, an expansion of the strength and conditioning facilities and the renovation and expansion the Gator Room (a recruiting facility). The addition and renovation will consist of approximately 31,000 and 32,000 square feet, respectively.

The project is consistent with the University's Campus Master Plan.

Facility Site Location: The proposed Project will be located in the South West portion of the stadium in the central part of the Gainesville campus.

Projected Start and Opening Date: The Project is divided into Phase I and Phase II. The construction for Phase I began in February 2007 and was completed in July 2007. Phase II construction began in July 2007 with completion planned for August 2008.

Demand Analysis: The Project is being built to accommodate the growth in the University's football program.

Project Cost and Financing Structure: The Project construction cost is estimated to be \$28 million. Phase I of the Project is estimated to cost \$10.3 million and will be funded with approximately \$7 million in donations and \$3.3 million from Association funds. Phase II is expected to cost approximately \$17.7 million. Phase II is expected to be financed with the issuance of tax-exempt bonds (the "Series 2007 Bonds") by the Association in an amount not to exceed \$15 million and donations of \$2.7 million. While the \$2.7 million represents commitments, and not funds collected to this point, the Association expects to collect all of the commitments and expects additional contributions. In the event additional contributions are pledged, the amount of the bonding may decrease. For purposes of the request to the BOG, \$15 million dollars in bonding is assumed.

The financing is planned to be structured with a 30-year final maturity, with the first principal payment occurring in October 2008 and final maturity in October 2037. While the Association does not expect to set mandatory amortizations, it is planning to make level, annual principal payments to retire the debt. This will retire the debt faster than a level debt service structure. Funding for a debt service reserve fund will not be provided.

The Series 2007 Bonds can be issued as either fixed or variable interest rate debt; however, it is expected that the debt will be issued as variable rate (see "Variable Rate Debt" below).

The financing will be accomplished through the issuance of the Series 2007 Bonds by the Association, a direct support organization created on behalf of the University. The University will lease the land to the Association, which will then construct the Project with the proceeds of the Series 2007 Bonds. The Association will hold title to the Project until the end of the lease, which is coterminous with the maturity of the bonds, when title shall vest with the University.

Security/Lien Structure: The Series 2007 Bonds will be general unsecured obligations of the Association payable from available revenues other than the athletic fee collected by the Association. The Series 2007 Bonds will be issued on parity with previously issued bonds of the Association currently outstanding in an aggregate principal amount of approximately \$84 million, all of which have a variable rate of interest.

Pledged Revenues and Debt Service Coverage: Association revenues are collected from a variety of sources. Operating revenues include ticket sales and conference revenues (primarily football and basketball), auxiliary sales, sponsorships and other miscellaneous sources. Non-operating revenues are derived primarily from investment earnings and athletic fees. The Association is allowed to retain the sales tax on ticket sales and this is also included as non-operating revenue. Although athletic fees are not available to pay debt service, they are available to pay other expenses of the Association. Since the bonds are general unsecured obligations of the Association, all revenues, including athletic fees, and all expenses of the Association must be examined to assess the Association's ability to pay debt service.

During the five year period from fiscal year 2001-02 to 2005-06, operating revenues grew from \$54,274,514 to \$72,146,625 for a total increase of nearly 33% or nearly 7.4% annually. Over the same

period, non-operating income (including contributions from the Association to the University) ranged from a low of \$2,113,148 in 2001-02 to a high of \$5,238,063 in 2004-05 primarily due to fluctuations in investment earnings and varying amounts of contributions to the University. Combined, operating and non-operating revenues (including contributions from the Association to the University) during the same five year period increased from \$56,387,662 to \$75,337,044 or approximately 7.5% annually. The Association's expenses, net of depreciation and interest expense, grew from \$51,258,127 to \$66,330,012 for an increase of 29% or 6.7% on an annual basis. The result is that revenues available to pay debt service after payment of annual expenses ranged from \$5,129,535 to \$12,717,884, producing debt service coverage ratios from 1.86x to 3.72x.

For fiscal years 2006-07 to 2011-12, operating revenues are projected to grow from \$71,857,457 to \$95,726,177 or approximately 5.90% annually based in large part on increases in football and basketball seat prices. Non-operating income, net of contributions from the Association to the University, is projected to range from \$6,296,222 to \$7,499,566 over the same period. Expenses, net of depreciation and interest expense, are, in relation to recent history, conservatively expected to grow by approximately 8.24% annually from \$62,520,927 to \$92,876,921. The result is that Association revenues available to pay debt service vary from a high of \$16,836,096 to a low of \$8,441,296. This variation in revenues available for debt service is primarily a result of conservative expense estimates and a practice of budgeting for operating revenues below amounts anticipated to be collected. Resulting debt service coverage ratios range from 1.32x to 3.05x.

Other than for a relatively short period during which the interest rate on a portion of the outstanding bonds is fixed, the debt service for the outstanding and the Series 2007 Bonds has been estimated at 5.65%, which is the current estimated variable rate of 3.65% plus 2%. (See Attachment 2 for a table of the Association's historical and projected revenues and expenses and debt service coverage, which is based on information supplied by the Association).

Variable Rate Debt:

The Association is currently planning (although depending on interest rates at the time of issuance, the Association may choose to issue fixed rate bonds) to issue the Series 2007 Bonds as variable rate. With this issuance, Association debt outstanding will total close to \$100 million, with 100% of the debt carrying a variable rate of interest. The Debt Management Guidelines do not set a specific limit

on the amount of variable rate debt which may be outstanding. However, in making a determination of the proper level of variable rate debt, the guidelines do require an understanding of the associated risks, a plan for addressing and mitigating those risks and the expected benefit to be derived from issuing variable rate debt. On balance, the Association has indicated an understanding of these risks and benefits as discussed below.

The Association has approximately seventeen years of experience managing its variable rate debt portfolio since its first variable rate debt issuance in 1990. The Association believes, based upon an analysis it has performed, that it can save in excess of \$1 million on a present value basis by issuing the Series 2007 Bonds on a variable rate basis. The Association has also prepared a debt management plan related to the issuance of the proposed Series 2007 Bonds as variable rate debt. The purpose of the plan is to mitigate the liquidity and interest rate risks over the life of the debt.

The outstanding bonds and proposed Series 2007 Bonds provide the bondholders the right to put the securities to the Association, thereby creating potential liquidity risk. The Association plans to obtain either a direct pay letter of credit or a liquidity facility from a bank to mitigate the liquidity risk. It is anticipated that the direct pay letter of credit or liquidity facility will have renewal terms comparable to the direct pay letter of credit the Association currently has for its outstanding debt. The existing facility is for a five year term with an evergreen provision which will require the Association be provided a notice of non-renewal each year or the facility will automatically renew for an additional year. This provision effectively provides the Association with four years to secure another facility or other form of guarantee in the event of a non-renewal.

With regards to managing interest rate risks, the Association budgets for variable rate debt each year considering the volatility of short-term interest rates and their impact on the budget as well as expectations regarding interest rates. The current practice is to budget based upon the highest monthly rate for the preceding twelve months. Monthly monitoring of debt service expenditure and variations from budget will be performed by the Director of Athletics, the Association Finance Committee and the chair of the Association Audit Committee so that any budgetary problems can be recognized and addressed very quickly.

The Association has stated that it will also maintain appropriate amounts of short-term and long-term investments as a hedge against rising interest rates on its debt. The financing documents require the Association to maintain unrestricted cash and marketable securities of at least 25% of its outstanding indebtedness. The short-term investments average on a monthly basis, approximately \$20 million. The long-term investments totaled approximately \$34 million, at June 30, 2006. The short-term investments are invested with the State's Treasury Investment Pool and earn interest at a monthly rate. These investments should perform as a direct hedge against approximately one-fifth of the outstanding and proposed variable rate debt because the interest received on the investments should increase as the interest rate paid on the variable rate debt increases. The long-term investments, on the other hand, currently are invested significantly in equity funds. These investments might not perform in the same manner as the variable rate debt because their value and earnings, under varying market conditions, could decline when the interest rate on the variable rate debt is rising. Although investing in equity funds does not provide the most stable or predictable hedging tool, the \$34 million in those funds, along with the \$20 million in short-term investments, does provide significant protection to the Association in the event of an increase in interest rates.

Type of Sale:

The Association provided an analysis of the most appropriate method of selling the Series 2007 Bonds (competitive versus negotiated) as required by the Debt Management Guidelines. The Association is requesting approval for a negotiated sale of the Series 2007 Bonds. A negotiated sale is the best method for implementing a variable rate financing, which is what is currently being planned by the Association.

The Association anticipates using Lehman Brothers as underwriter and remarketing agent. Lehman Brothers was selected in 2001 based upon an RFP.

**Analysis and
Recommendation:**

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the Association with respect to the request for Board of Governors approval for the subject financing. The information provided shows that the Association has historically generated positive debt service coverage and projects that to continue in the future based on what appear to be reasonable assumptions as to revenue and expenditure growth. The Association has also demonstrated significant experience in managing variable rate debt. Furthermore, the actual amount of the

Association's reserves and the current requirement that it maintain an amount of reserves at least equal to 25% of its debt puts it in a strong position to withstand and react to rising interest rates on its debt. Also, it appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and the Board of Governors Debt Management Guidelines. Accordingly, staff of the Board of Governor's recommends adoption of the resolution authorizing the proposed financing.