BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
University of South Florida
Student Housing Project – Phase IV

Project Description: The Phase IV Student Housing Project will consist of an approximately 423,000 square foot housing and 19,000 square foot dining facility and will increase the on-campus student housing by 1,056 additional beds on the main campus of the University of South Florida (the "University") in Tampa. The facility will be a high-density model arranged in suites of double occupancy rooms and shared baths. The facility will also include support spaces, such as laundry, lounges, living/learning centers and study areas.

The project is included in the 2005 Campus Master Plan Update.

Facility Site Location: The proposed student housing project will be located in the south west quadrant of the Tampa campus.

Projected Start and Opening Date: It is anticipated that construction of the student housing project will commence in July 2007 and will be available for occupancy in July 2009.

Demand Analysis: The University currently houses 4,407 students in student residences on the Tampa campus. On average since 1999, when Tampa housing equaled 2,616 beds, campus housing facilities have been filled beyond their designed capacity, and each year a waiting list exceeding 100-200 students has been established. Currently, available on-campus housing is very limited and the current residences do not address the needs on campus.

Student headcount enrollment is projected to increase from 44,038 in 2006 to 50,587 in 2010, which will put a further strain on the existing housing stock. The proposed student housing project will add 1,056 beds in 2010 to on-campus student housing on the Tampa campus. The University's pro forma housing financial plans also provide for taking 600 older housing beds off-line for major repairs in 2010. As there is an absence of sufficient contemporary and competitive traditional on-campus student housing, the only practical remedy is new construction. The proposed student housing project is also central to the University's strategic commitment to achieving the Carnegie classification of a primarily residential campus.

Project Cost and

Financing Structure: The proposed student housing project construction cost is $68.2 million. The project will be financed with issuance of tax-exempt Certificates of Participation, Series 2007A ("2007A Certificates"), in an amount not to exceed $80,000,000. Currently, the Corporation anticipates issuing $76.4 million. Additionally, the financing includes borrowing approximately $6.5 million to fund capitalized interest during the 24-month construction period through July 2009. The financing will be structured as level debt with a 30-year final maturity, with the first principal payment occurring in July 2010 and final maturity in July 2036. Funding for a debt service reserve fund equal to the maximum annual debt service on the 2007A Certificates will be established with $4.9 million of cash on hand.

The 2007A Certificates will be issued as either fixed or variable interest rate debt based on a decision of the Executive Director of the USF Financing Corporation (the "Corporation"); however, it is expected that the debt will be issued as variable rate. If issued as variable rate debt, the Corporation plans to use interest rate swap agreements to create a synthetic fixed rate on the debt (see "Variable Rate Debt" below).

The financing will be accomplished under a lease purchase financing by the Corporation, a direct support organization created on behalf of the University. The Corporation will issue the 2007A Certificates and the University will operate the project under a management contract and will collect and apply the revenues on behalf of the Corporation.

Security/Lien Structure: System Revenues will be pledged for the payment of debt service. The 2007A Certificates will be issued on parity from the pledged System Revenues with certificates of participation currently outstanding in an aggregate principal amount of $180 million, of which approximately $87 million is fixed rate and approximately $92 million is variable rate (with $80 million of that converted to fixed through an interest rate swap agreement).

The System Revenues include all gross income and revenues received by the Corporation from the ownership and/or operation of the System Facilities. The System Facilities include the housing facilities on the Tampa Campus (approximately 4,407 beds), a 354 bed housing facility and 1,161 space parking structure on the St. Petersburg campus (collectively, the "Housing System") and the Marshall Center, which is a student union facility on the Tampa campus. Pledged System Revenues include the gross revenues of the Housing System (before payment of operating expenses) and the lease payments received from the Corporation from the University for the Marshall Center in the amount of 120% of the debt service on the outstanding 2005C Certificates issued to finance the Marshall Center project. The Marshall Center lease payments from the University are secured by the University's pledge of and lien on the Marshall Center Revenues, which include the Marshall Center Use Fees (per semester and per credit hour student fees), a portion of the University Student Activity and Service Fees ("A&S Fees"), and revenues generated from the operation of the Marshall Center.

Since the issuance date of the 2005C Certificates, a limitation on the amount of A&S Fees that may be used to pay and secure revenue bonds to 5% of such fees collected, has been established in Section 1010.62, Florida Statutes. The existing pledge of the A&S Fees to the certificates is limited to the lease payments due from the University to the Corporation in the amount of 120% of debt service on the 2005C Certificates, or approximately $3.1 million, and the issuance of the 2007A Certificates would not increase the amount of such A&S Fees pledged. The commitment of the A&S fees to secure the University lease payments on the Marshall Center will expire when the existing 2005C Certificates mature in 2036. Since the issuance of the 2007A Certificates will in no way increase the commitment of the A&S Fees, it does not violate the limitations set forth in 1010.62, Florida Statutes.

The existing pledge includes a combination of housing, parking and student union revenues. Since all of these enterprises are related to improving the resident student life experience at the University, they can be considered functionally related to the facility being financed with the proposed issuance of the 2007A Certificates.

Pledged Revenues and Debt Service Coverage:

During the past five year period from fiscal year 2001-02 to 2005-06, pledged System Revenues grew from $13,211,361 to $22,016,830, producing debt coverage ratios ranging from 6.32x to 3.19x. Over this five year period, net revenues (after taking into consideration operations expenses on the Housing System) ranged from $5,248,034 to $9,760,100, producing debt service coverages from net revenues varying from 2.51x to 1.41x.

Over the five year period from fiscal year 2006-07 to 2010-11, pledged System Revenues are projected to grow from $24,939,141 to $35,305,158, producing debt service coverage ratios from 2.90x to 2.31x. Over the same period, net revenues are projected to range from $12,605,521 to $19,691,275, producing debt service coverages from net revenues varying from a high of 1.46x to a low of 1.24x, with the low occurring during the first year of operation of the project in 2009-10.

Estimated debt service has been calculated based on a 4.49% interest rate for the proposed 2007A Certificates, based on current fixed rates. However, the University believes the interest rate on its planned synthetic fixed rate financing would be approximately 0.47% lower, resulting in annual debt service approximately $300,000 less than the fixed rate estimates used for the financial feasibility analysis provided. Debt service shown for the outstanding certificates is based on actual payments for the fixed rate obligations (including $80 million variable rate obligations that are swapped to a fixed rate) and an assumed all-in annual rate of 4.5% for the approximately $12 million variable rate obligations.

Generally, the projected System Revenues are based in part on annual increases in housing rental rates on the Tampa campus of approximately 7% through 2010 and a 3% thereafter. At their March 1, 2007 meeting, the University Board of Trustees approved a 7% increase in rental rates for the 2007-08 academic year for the Tampa campus. Operating expenses are assumed to increase by approximately 3-4% per year.

(See Attachment 2 for a table of historical and projected pledged System Revenues and debt service coverages, which are based on information supplied by the University of South Florida and the Corporation).

Variable Rate Debt: The University is currently planning to issue all or a portion of the 2007A Certificates as variable rate and converting the financing to a synthetic fixed rate through an interest rate swap agreement. The University believes issuing variable rate debt with a synthetic swap versus issuing fixed rate debt will save approximately $300,000 per year, which is a total of approximately $8.6 million over the life of the loan or approximately $4.4 million total on a present value basis.

The University has prepared a debt management plan related to the issuance of the proposed 2007A Certificates as variable rate debt. The purpose of the plan is to mitigate, to the extent possible, the liquidity and interest rate risks over the life of the debt. The existing variable rate certificates outstanding and the proposed variable rate 2007A Certificates will utilize auction rate securities, which do not give the holders the right to put the securities to the University, thus eliminating any potential liquidity risk.

The University will continue to primarily utilize interest rate swap agreements to mitigate interest rate risk. Currently, $80 million (approximately 87%) of the system's $92 million variable rate certificates is effectively being converted to fixed rate through the use of an interest rate swap agreement which will expire in 2015. The University plans to engage in an interest rate swap agreement for the 2007A Certificates to eliminate interest rate exposure during the term of the agreement. The term of the agreement will likely be for the life of the 2007A Certificates, but in no event for a period less than 10 years. If the term of the interest rate swap agreement does not extend through the maturity date of the underlying debt, then the interest rate applicable to the financing will change before the debt matures. This "rollover risk" subjects the Corporation to interest rate risk and possibly higher interest rates in the future on the 2007A Certificates and other variable rate debt which has been synthetically fixed with a swap agreement. However, the Corporation's debt will revert to a variable interest rate upon termination of the applicable swap agreement and could again be fixed, albeit at a potentially higher interest rate, with a subsequent swap agreement if desirable.

Because the University is engaging in interest rate swap transactions, it has prepared a swap management plan addressing the risks involved. In that plan, the University states that it will use different counterparties to diversify its counterparty exposure and will require that counterparties be rated at least AA-. Also, the University feels that any risk the variable rate payment it would receive from the swap counterparty and the actual rates it will have to pay the certificate holders as set under the terms of the certificates (known as basis risk) is small (no more than 1 basis point or $160,000 on all swaps based on their experience) and could be paid from cash flows. Additionally, because the certificates will receive a "AAA" rating based upon the purchase of a municipal bond insurance policy, the rating on the bond insurer would have to decline below the "A" category before the University would be required to post any collateral under the swap agreement, virtually eliminating any collateral posting risk. Another risk the University has addressed is the risk that in the event of a termination of the swap agreement, it could be required to make a termination payment if general market fixed swap rates are lower at the time of termination than the fixed rate it is paying to the counterparty under the agreement. This would mean that fixed swap rates would have to decline from the current level of 4% which the University estimates it would have to pay on a swap. In the event that the University would be required to make a termination payment, it has estimated that fixed swap interest rates would have to decline 100 basis points to approximately 3% to generate a payment of approximately $9.3 million for the entire $80 million amount of the new swap agreement. In this event, the Housing System reserve balances would be sufficient to accommodate the payment. The amount of the estimated termination payment declines gradually over time as the amount of the swap declines. It is important to recognize that only the University has the right to terminate, except in cases of default. One example of an event of default would be if the counterparty's credit rating declined from AA- to less than A. Therefore, for the most part, the University controls when it would have to make a termination payment. Finally, the University has, and will continue, to engage an independent swap advisor in the structuring and execution of a swap.

The University currently holds approximately $15 million in cash and investments in the Housing System which will be used as a hedge for the remaining $12 million of variable rate debt that has not been swapped to a fixed rate. The University expects the investment balance of the Housing System to grow to and be maintained at $20 to $25 million in the future to mitigate risks associated with variable rate debt.

Prior to the maturity of the existing $80 million swap or the new swap associated with this financing, the University will make an assessment of its liquidity needs, system finances and market conditions and will most likely extend the maturing swap with a new swap contract or could potentially permit all or a portion of the variable rate debt to remain unhedged, which would increase its exposure to interest rate risk to the extent that the investment balance is less than the amount of the variable rate debt. This could result in potentially approximately $150 million of certificates being exposed to variable interest rates.

The University also actively manages its variable rate debt by monitoring interest rates on a continuous basis, budgeting conservatively high interest rates on variable rate debt, and maintaining fund balances in reserve to pay debt service, if needed.

Type of Sale: The University provided an analysis of the most appropriate method of selling the Certificates (competitive versus negotiated) as required by the Debt Management Guidelines. The University is requesting approval for a negotiated sale of the Certificates. 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 they issue 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 member of a team of underwriters that was qualified in a competitive process in 2005.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University of South Florida with respect to the request for Board of Governors approval for the subject financing. Based upon the information provided, the University feels that with the current waiting lists they maintain for student housing and projections of future enrollment growth there will be adequate demand to support the construction of additional student housing. Additionally, the System Revenues have historically generated positive debt service coverage and are projected to continue to provide adequate debt service coverage in the future based on what appear to be reasonable assumptions as to revenue and expenditure growth. 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.