BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
Florida Gulf Coast University
Student Union Addition, Phase I

Project Description:

The Florida Gulf Coast University Student Union Addition, Phase I, will add approximately 30,000 gross square feet to the existing student union. The existing student union currently houses office and support space for student government, student clubs and organizations, food service, and the bookstore. The Phase I addition will expand office and support space for student services, student clubs, student organizations, student meeting, student lounge, and university meeting space to accommodate added student activities. The project will also include space for university postal services and student residence mailboxes. The project is included in the 2000 Campus Master Plan Update, and also included in the 2005 Campus Master Plan Update.

The Florida Gulf Coast University (the "University") also plans to remodel and expand the existing food service dining area and the bookstore facility; however, these projects will be funded with existing cash on hand and will not be part of the proposed bond financing.

Facility Site Location:

The Student Union Addition, Phase I project will be located adjacent to the existing Student Union in the central portion of the main campus.

Projected Start and Opening Date:

It is anticipated that construction of the Student Union Addition, Phase I project will commence in February 2007 and the project will open in August 2008.

Project Cost and Financing Structure:

The proposed Student Union Addition, Phase I, project construction cost is $5,562,815. The project will be financed from variable rate, tax-exempt, revenue bonds, issued by the Florida Gulf Coast University Financing Corporation (the "Corporation"), on behalf of the University, in an amount not to exceed $6,000,000. The bond size includes estimated capitalized interest of $518,700 for a 19-month period through October 2008, during construction of the project. The bonds will be structured with a 30-year final maturity with mandatory annual amortizations of principal beginning on April 1, 2010. The amortization schedule will be structured in $100,000 increments, producing estimated annual debt service payments ranging from approximately $340,000 to $500,000. This structure does not defer debt service and does not produce total debt service payments in excess of what would be required for a true level debt service structure.

Construction of the project will be administered by the Corporation under the supervision of University. (See Attachment 1 for an estimated sources and uses of funds.)

Variable Rate Bonds: The University has prepared an analysis of issuing variable interest rate bonds showing an expected savings compared to issuing fixed rate bonds. This will be the only issue secured by bookstore and food service revenues and, accordingly, variable rate debt will account for 100% of the debt secured by such revenues. Additionally, variable rate bonds currently comprise 100% of the University's outstanding debt. With the addition of two fixed rate issues, one for a student residences project and one for a parking project, and after issuance of the proposed student union bonds, variable rate bonds will comprise approximately 65% of total debt of the University.

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.

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.

With regards to reducing interest rate risks, the University plans to closely monitor interest rates through reports on a monthly basis, construct budgets using conservatively high interest rate assumptions, and provide a hedge with their short-term investments of the average monthly balance of student union unallocated revenues, expected to be $1.9 million by the time the bonds are issued. This money is expected to provide a hedge for approximately one-third of the $6 million proposed bonds. The University has indicated that they expect the fund balance to grow to an amount sufficient to provide a 100% hedge by 2019-20; however, their plan is to adopt a derivates policy and explore the possibility of providing a limit on the variable interest rates through a derivative sooner. Additionally, the $1.9 million should provide reserves to pay debt service for 4-5 years, if needed.

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. Based on the University analysis of the characteristics of the proposed Student Union Addition, Phase I bond program, the University concluded that a negotiated sale of bonds is the best method for implementing a variable rate bond program.

Demand Analysis: The University believes the proposed student union expansion project is necessary to accommodate projected growth in student enrollment. The University has experienced strong demand with student FTE enrollment increasing by an average annual rate of 16% from fiscal year 2001-02 to 2005-06. Current projections show FTE enrollment growth rates of 18% for the current year, 20% in 2007-08 and 11% to 12% in 2008-09 through 2010-11, for an average of 14.6%.

Security/Lien Structure: Net revenues from operations of the bookstore and net revenues from food service operations will be pledged for the payment of debt service. These revenues are derived from management agreements between the University and Follett for the bookstore and Aramark for the food service operation and are net of certain operating expenses paid by the University. The revenues received by the University under the contracts are derived from either (1) guaranteed yearly amounts, or (2) a percentage of gross sales, whichever is greater. The management and operating agreement for the bookstore with Follett has a termination date of June 30, 2008, with two optional one-year renewal periods available. The food services management agreement with Aramark has a termination date of July 31, 2010, with two optional three-year extension periods available. The guaranteed commissions under the bookstore contract are $200,000 per year until 2007-08 and then $200,000 and $250,000 for the two optional one-year renewal periods thereafter. The guaranteed commissions under the food service contract are $150,000 in 2006-07, $175,000 in 2007-08, $318,000 in 2008-09 and $351,000 in 2009-10, to be renegotiated by both parties after 2009-10 when the contract terminates. There is currently no outstanding debt with a lien on the pledged revenues.

Pledged Revenues and Debt Service Coverage: During the five year period from fiscal year 2001-02 to 2005-06, pledged revenues grew 71% from $214,186 to $367,227, for an average annual increase of 14.4%. Pledged revenues are projected to increase over the next five years from $458,591 in 2006-07 to $936,090 in 2010-11, for an average annual increase of 21%.

For fiscal year 2008-09, after completion of the project, total pledged revenues are projected to be $729,253, resulting in a debt service coverage ratio of 2.75x. The projected debt service coverage ratio for 2009-10, the first year that a full year debt service obligation will be paid from pledged revenues without the use of capitalized interest on the bonds, is 1.93x based on projected pledged revenues of $824,524 in that year. Projected debt service has been calculated based on a 5.46% interest rate (which is 2% higher than current short-term rates) for the proposed 2007B Bonds.

Generally, projected pledged revenues are anticipated to increase annually at the same rate as projected enrollment growth, except for 2008-09 and 2009-10, when projected food service revenues are based on guaranteed minimums under the contract. The University has assumed aggressive enrollment growth rates of 20% for next fiscal year and 11% to 12% thereafter (based on the official enrollment projections of the Board of Governors). For the period of fiscal year 2001-02 to 2005-06, the average annual enrollment growth rate was 16%. Operating expenses paid by the University before debt service are projected to increase by 4% and 5% annually.

(See Attachment 2 for 5-years historical and 5-years projected pledged revenues and debt service coverage prepared by Florida Gulf Coast University Financing Corporation).

Analysis and Recommendations:

Staff of the Board of Governors and the Division of Bond Finance have 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. Information provided by the University shows the projected pledged revenues from contracted bookstore and food service operations will provide adequate debt service coverage in the future. However, the projected revenues are dependent on realizing aggressive student growth projections. If growth projections are not realized, revenue shortfalls could occur causing fiscal stress and requiring adjustments to the operating plan. Projected operating results have not been evaluated by an independent expert but appear reasonable based on historical growth experienced by the University. Furthermore, it appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt and the Board of Governors Debt Management Guidelines. Accordingly, adoption of the resolution authorizing the proposed financing is recommended.