

**BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
Florida International University
Athletic Stadium Expansion, Phase I**

Project Description: Florida International University has submitted a proposal for the financing and construction of Phase I of the Athletics Stadium Expansion and Related Infrastructure project to be located on the main campus. Phase I will include the expansion of the existing football stadium from its current capacity of 7,800 permanent seats to over 18,000 permanent seats, which includes 14 luxury suites, 1400 club seats and associated stadium infrastructure.

The proposed project is included in the University Campus Master Plan and will be located on the same site and within the existing footprint of the current stadium. The current Campus Development Agreement of the Florida International University has expired, and is undergoing review and public hearings prior to approval by the Miami-Dade County Board of Commissioners (planned for March 6, 2007).

Project Cost and Financing Structure: The estimated project construction cost for Phase I will be approximately \$31,000,000. The project will be financed from up to \$35,000,000, in variable rate revenue bonds and \$4,000,000 of 2005-2006 Capital Improvement Fee funds. Currently it is estimated that \$33,550,000 will be issued, comprised of approximately \$28,160,000 tax-exempt variable rate bonds and approximately \$5,390,000 taxable variable rate bonds. An interest rate swap is planned for at least one-half of the tax-exempt bonds. Taxable bonds are being issued because a portion of the expansion will be for private use, which, under federal tax law, precludes the use of tax-exempt debt. The relative amount of tax-exempt and taxable bonds will vary depending on the ultimate extent of private

use.

The FIU Athletics Finance Corporation (“Corporation”) will issue the debt on behalf of Florida International University. The bond size includes capitalized interest estimated to be \$3.9 million through March 2009. Funding for a debt service reserve equal to the maximum annual debt service (calculated for the taxable and tax-exempt bonds separately) is estimated to be \$2.9 million. The taxable bonds are expected to mature from 2010 to 2016, with the tax-exempt bonds maturing from 2016 to 2033. Overall, the bonds will be structured with a 26-year final maturity and level annual debt service payments with the first principal payment due March 2010. The University plans to retire the taxable bonds from excess pledged revenues as quickly as possible.

Variable Rate Bonds:

The University plans to issue variable rate bonds because the limited history and type of revenue being pledged, according to the university’s financial advisor, would preclude the bonds receiving municipal bond insurance. Without bond insurance, it is highly unlikely that bonds could be sold at reasonable fixed rates. This will be the only issue secured by the pledged revenues and, accordingly, variable rate debt will account for 100% of the debt secured by such revenues. Additionally, variable rate bonds currently comprise \$5.7 million or 4.1% of the University’s outstanding debt. After this issue, estimated variable rate debt will be \$25.2 million, or 14.1% of total outstanding debt.

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. The letter of credit will have a five year evergreen provision which will

require that notice of non-renewal be provided each year or the letter of credit will automatically renew for an additional year. This provision will effectively provide four years notice to secure another letter of credit or other form of guarantee in the event of a non-renewal.

The University currently plans to mitigate the interest rate risk on at least one-half of the tax-exempt bonds by converting the bonds to a synthetic fixed rate through an interest-rate swap agreement. Approximately \$19.5 million of bonds will remain as variable rate bonds. To manage the interest-rate risk on the \$19.5 million of bonds that remain variable-rate instruments, the University plans to closely monitor the level of interest rates through monthly reports and provide a hedge against rising rates with earnings on invested funds. The invested funds are comprised of: (a) \$3.5 million of Corporation fund balance, (b) \$2.9 million in the debt service reserve fund and, (c) investment earnings from the short-term investments in unrestricted university fund balances. The unrestricted university fund balance's monthly average was approximately \$108 million last year generating investment earnings of just over \$3 million. Approximately 75% of those investment earnings are budgeted to make an annual loan payment while the remaining 25% is budgeted for non-core needs, which the University president has the power to re-direct as needed. Accordingly, approximately 25% of the \$108 million average monthly balance (\$27 million) can serve as a hedge against rising interest rates for the \$19.5 million of variable rate bonds. Additionally, the University will construct its annual budget based upon the 20-year average of the Bond Market Association's variable rate index and determine whether expected pledged revenues and existing reserves provide adequate coverage if interest rates increase by 200 basis points. The \$6.4 million from the Corporation fund balance and debt service reserve fund is estimated to be adequate to pay debt service for two to three years, if needed.

Type of Sale: Negotiated. A negotiated sale is the best method of sale for implementing a variable rate bond program.

Facility Site Location: The Athletic Stadium is located on the southwest quadrant of the main campus, on the site of the current stadium bordering the Miami-Dade County Parks & Recreation property. This project will not impact traffic flows and current parking capacity.

Demand Analysis: Florida International University currently uses a stadium with approximately 7,800 permanent seats for intercollegiate NCAA Division IA football games. The current stadium is substandard for Division IA football games because NCAA rules require that the University sell an average of 15,000 tickets per game. In order to achieve seating compliance, during the first five years of the program, the University has incurred annual costs of \$450,000 for rental of 10,000 temporary bleacher seats, President's suite box, and a portable press box.

The University anticipates that the proposed stadium expansion will meet NCAA guidelines, provide amenities for students, alumni, and friends of the University, generate additional revenue, enhance recruiting efforts and elevate intercollegiate athletics at Florida International University.

The proposed stadium, when complete, will provide Miami-Dade County with the first open air stadium of its size with amenities conducive to staging outside events that are too small for the two other local venues (Dolphins Stadium and the Orange Bowl).

Security/Lien Structure: The variable rate bonds will be secured from operating revenues, which include ticket sales, special events, concessions, catering, novelties, parking fees and investment income. Additionally, non-operating revenues will be pledged and will include premium seating, sponsorships, the sale of naming rights, athletic support fees, conference revenues, fundraising, and investment earnings. Currently,

there is no other debt secured by these pledged revenues.

**Pledged Revenues and
Debt Service Coverage:**

For fiscal year, 2008-2009, the first full year of operations, the proposed Athletics Stadium Expansion, Phase I project is projected to generate pledged revenues of \$3,913,066 with debt service paid from capitalized interest. Pledged revenues are projected to grow to \$4,075,215 in 2009-2010, the first full year that debt service will be paid from pledged revenues without using capitalized interest, resulting in a projected debt service coverage ratio of 1.59X. Future year projections show growth in pledged revenues and debt service coverages ranging from 1.64X in fiscal year 2010-2011, to 1.77X in fiscal year 2013-2014. (See Attachment 2 for 5 years of financial projections of pledged revenues and debt service coverages prepared by the university.)

The bonds are being secured by pledged revenues expected to be generated from ownership and operation of the football stadium. The pledged revenues consist of net operating and non-operating revenues of the Corporation. The primary sources of revenues pledged to pay the bonds are sales of premium seating (luxury boxes and club-level seats), fundraising, sale of stadium naming rights, student athletic fees, football ticket sales, sponsorships, concessions and other miscellaneous revenues. The projections provided indicate that the pledged revenues will be sufficient to pay required debt service on the bonds. Several primary sources of revenues being pledged to pay debt service are new and have no historical performance. However, the financial projections are based on data provided by C. H. Johnson Consulting, Inc., a feasibility consultant employed by the University. If the projections provided by the feasibility consultant are not realized, a revenue-shortfall could occur causing fiscal stress and requiring a change to the operating plan for the stadium. However, the University has a \$3.5 million operating reserve included in its finance plan to

mitigate the negative impact of revenue short-falls or expense increases.

The university intends to adopt a derivatives policy in the near future. Current plans anticipate fixing the interest rates for at least one-half of the tax-exempt bonds through an interest rate swap (the amount ultimately fixed will be determined later based upon an assessment of fixed versus variable interest rates). The projected debt service coverage on the bonds is based on: (1) one-half of the tax-exempt bonds at an interest rate of 6.45% (current variable rates plus 200 basis points), (2) one-half of the tax-exempt bonds being swapped to a fixed rate of 4.45% and, (3) the taxable bonds at an interest rate of 7.85% (current taxable variable rates plus 200 basis points).

Projected Start and Opening Date:

It is anticipated that construction of the Athletics Stadium Expansion, Phase I project will commence in March 2007, subject to approval of the Campus Development Agreement by the Miami-Dade County Commission. The stadium is planned to open in September 2008. The expected useful life of the stadium is fifty years.

Analysis and Recommendations:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by Florida International University with respect to the request for Board of Governors approval for the subject financing.

The projections provided by the University indicate that pledged revenues will be sufficient to pay the required debt service and operating expenses. However, a large portion of the projected pledged revenues are new and have no collection history. The University's projections are based on information provided by C. H. Johnson Consulting, Inc., a feasibility consultant employed by the University. If the revenue projections are not realized, then a revenue short-fall could occur causing fiscal stress

and requiring a change in the operating plan. The University has included an operating reserve in its finance plan to cover unexpected revenue short-falls. Also, 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.