



Board of Governors

University Bonding

January, 2006

University Bonding and Debt Approval Process

- Overview of University Debt and Financial Structure
 - How Debt Incurred
 - What Type Facilities Financed
 - Amount of University Debt Outstanding
 - University Debt Structure and How Debt Secured
 - University Financial Structure
- Education Reorganization and Recent Developments Regarding University Debt Issuance
 - Debt and Financial Management Issues
 - Framework for Authorizing University Debt
 - Board of Governors Policy
 - Legislative Changes
 - Benefits of Proposed Framework
 - Recommendations

Infrastructure Financing Options

Two Ways For Universities to Incur Debt

1. Revenue Bonds Issued by State Board of Education (“SBE”) and Board of Governors (“BOG”) Through the Division of Bond Finance (“DBF”)
2. Revenue Bonds Issued by Direct Support Organizations (“DSOs”) Affiliated with University

Revenue Bond Financed Facilities

- Dormitories
- Parking Garages
- Athletic Facilities
- Healthcare Facilities
- Research Facilities
- Student Activity Facilities

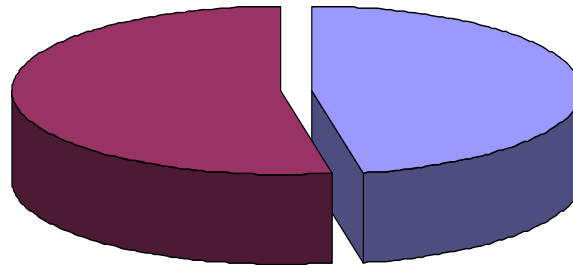
University Debt Outstanding

Total University and DSO Debt

Fiscal Year 2004

\$1.9 Billion

DSO Debt
\$1.0 billion
or 53%



University
Debt
\$891 million
or 47%

Total University and DSO Debt

University Debt	\$ 891 million
DSO Debt	<u>\$1,009 million</u>
Total	\$1,900 million

University Debt Structure

- Facilities Financed on a University-by-University Basis
 - One Exception: State University System Improvement Revenue Bonds
 - Secured by Capital Improvement Fees and Student Building Fees of All Universities
- Revenues Pledged Generated by Facilities Being Financed, i.e., Sales of Auxiliary Enterprises
 - Dormitory Fees for Housing Bonds
 - Parking Fees for Parking Bonds
 - Patient Revenues for Hospital Bonds
 - Ticket Sales for Stadium Bonds
- Evolution to Mandatory Student Fees Rather Than User Fees to Secure Bonds: e.g. Transportation Access Fees, Student Health Fees

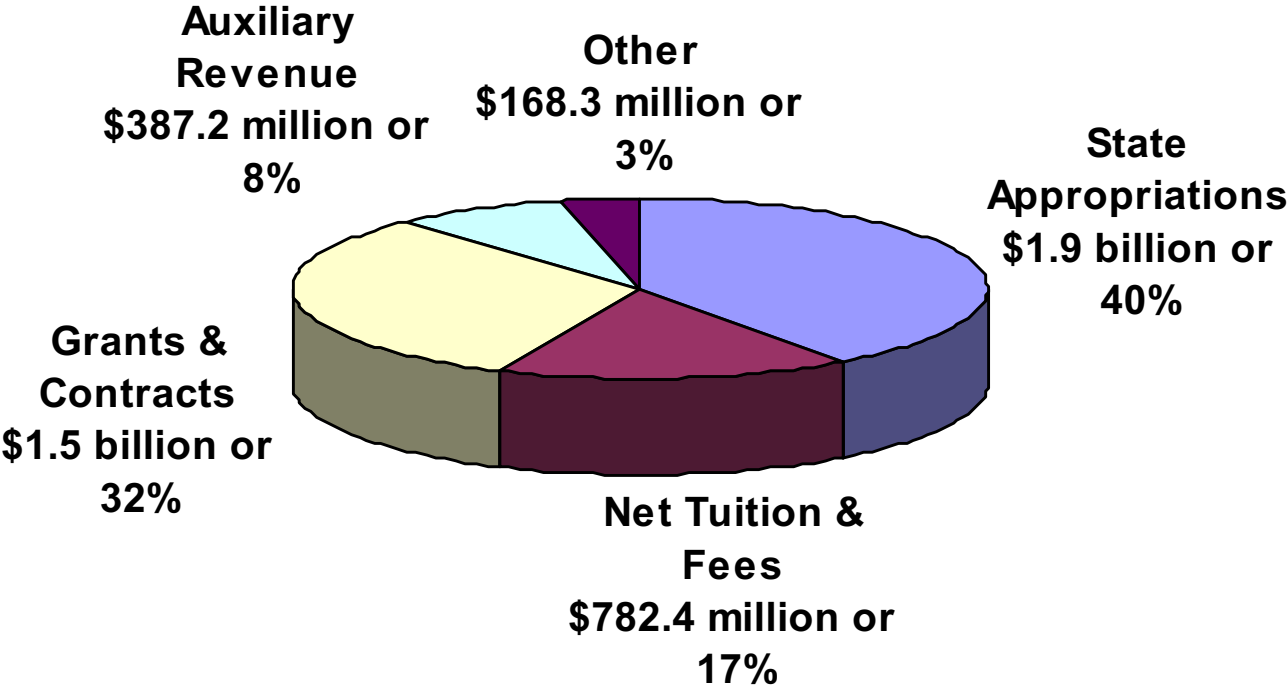
University Revenue All Sources

University Revenues

Fiscal Year 2004

(Not Including Component Units)

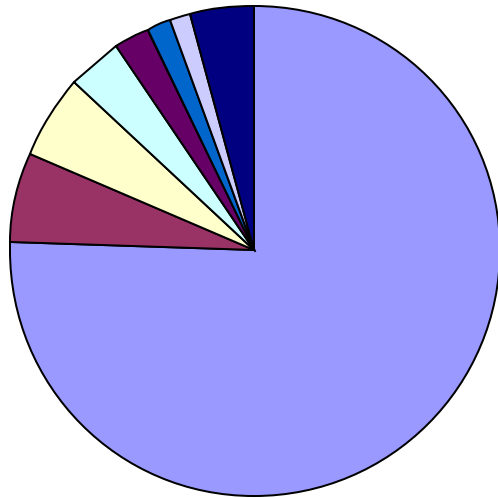
\$4.7 Billion



Total Tuition and Student Fees

Estimated Total University Tuition and Fees*

Fiscal Year 2005
(In millions)



■ Tuition	\$ 780.4	
■ Activity & Service Fee	\$ 58.9	
■ Athletic Fee	\$ 56.6	
■ Health Fee	\$ 39.7	★
■ Transportation Access Fee	\$ 20.1	★
■ Med. Prof. Fee	\$ 1.6	★
■ Building Fee	\$ 15.9	★
■ Capital Improvement Fee	\$ 16.7	★
■ Financial Aid Fee	\$ 41.7	

★ A Portion of Fee
Currently Encumbered,
i. e., Pledged to Pay
Debt

Total Gross Tuition and Student Fees	\$1,031.6
Less: Scholarship Allowance Estimate	<u>94.2</u>
Total Net Tuition and Student Fees	\$ 937.4

Total All Universities \$ 937.4 million

Education Reorganization

- Board of Regents Abolished (2001)
- Florida Board of Education Created Statutorily (2001)
- Individual University Board of Trustees Created Statutorily (2001)
- Constitutional Amendment Creating Board of Governors Approved (2002)
- State Board of Education Created Statutorily (2003)
- Developments Have Created Confusion Regarding
 - Governance of Universities
 - Power to Authorize and Issue Debt

Framework for Authorizing Debt

- Shared Responsibility Among Board of Governors, Legislature and University Board of Trustees
- Board of Governors Responsible for Reviewing and Approving Projects and Finance Plan for University Facilities
- Legislature Determines Which Revenues Universities Can Use to Secure Debt and What Type of Facilities Are Appropriate to Finance
- Individual University Board of Trustees Determine What Facilities They Need and How They Should Be Funded

Board of Governors Policy

- BOG Review and Approval of University and DSO Projects and Financings Required
- University and DSO Debt May Only Be Secured by Revenues Which Are:
 - Appropriate for Capital Outlay
 - Statutorily Authorized
 - Approved by BOG
- Specifies Types of Revenues That Can Be Pledged to Debt Service on Bonds and Other Forms of Debt
- Prohibits Other Types of Revenues From Being Pledged to Secure Debt Unless Approved by BOG
- Debt Secured by Gifts and Donations Limited to 5 Years
- Debt Secured by Licenses and Royalties or Auxiliary Enterprise Revenues Must be Functionally Related to Facilities Being Financed
- Allows Financing of Equipment and Software
- Policy Intended to Apply Prospectively to University Transactions

Legislative Changes Proposed

- Proposed Framework for Authorizing Debt Would Apply to All Forms of Debt
- Replace State Board of Education with Board of Governors for Debt Approval
- Specify the Types of University Revenues that can be Pledged to Pay Debt Consistent With BOG Policy
- Specific Legislative Project Approval Replaced with Legislative Approval of Types of Facilities
- Approval of University Debt *Without BOG Approval*
 - Lease-Purchase of Equipment and Software
 - Promissory Notes and Mortgages for Acquiring Real Property
 - Short-Term Debt (less than 5 years) Secured by Gifts and Donations
- Review of Proposed Financing by Division of Bond Finance
- Grandfather Clause for All Debt Currently Outstanding

Benefits from Proposed Process

- Provides Clear Guidance for Review and Approval Process Required for Issuing Debt
- Eliminates Redundant or Duplicative SBE/BOG Approvals
- Clarifies/Specifies Revenues that Are Appropriate for Securing Debt
- Significantly Reduces Time From Project Approval to Bond Sale (by more than one year)
- Continues Flexibility to use DSOs to Issue Debt Under Appropriate Circumstances
- Enhances Fiscal Responsibility and Accountability by Establishing Prudent Debt Management Policies and Practices

Recommendations

- Adopt Policy to Establish Definitive Process for Authorizing Debt
 - Require Board of Governors' Review and Approval for University and DSO Debt
 - Specify Revenues That May be Pledged to Debt
- Pursue Legislation Eliminating Legislative Approval of Projects and Statutory Changes Consistent With BOG Proposed Policy and Process
- Develop More Detailed Debt Management Policies and Criteria for Review of Financings