BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
Project Summary
University of Florida
East Campus Office Building

Project Description: The East Campus Office Building (the "Project") will be the first new facility constructed at the East Campus site of the University of Florida and will provide space to house various university administrative functions. This 4-story structure will provide approximately 80,000 gross square feet of office space. The University of Florida Foundation, Inc., (the "Foundation") is planning to borrow approximately $15.45 million to build the Project and lease the office space to various University departments.

Facility Site Location: The East Campus is located on Waldo Road, approximately 2.5 miles from the main campus. The property lease from the Board of Trustees of the Internal Improvement Trust Fund was transferred from Florida DOT in 2003, and included offices, warehouses, testing labs, storage units and maintenance sheds. Several departments, including the College of Engineering, Information Technology and the Bridges program have located some administrative and support functions at this site.

Projected Start and Opening Date: It is anticipated that design will commence in July 2008 and construction will start January 2009, with opening planned for December 2009.

Demand Analysis: The proposed Project will serve as a significant cornerstone in the development of the East Campus and East Gainesville redevelopment. The University currently leases over 200,000 gross square feet ("GSF") in Alachua County for a variety of uses including office, laboratory and storage. The most recent University Physical Plant Supplemental Survey identified an unmet need of 44,502 GSF Office/Computer space and over 76,000 GSF Campus Support Services on the main campus. These facility use types will be accommodated in the proposed Project. The Project will help to alleviate some of the unmet space need of the main campus and also consolidate some existing leased off-campus space into a University facility. The University Master Plan policies encourage location of support facilities to off-campus locations, specifically the East Campus, if those facilities require general public access and/or require minimal student interaction. The relocation of offices to the new facility will create additional synergy at the East Campus and provide operational benefits in such areas as direct information technology linkage, campus transportation services and in-house maintenance services. By moving appropriate uses to the East Campus, building space and parking can be made available on the main campus to serve other needs that must be located on the main campus.

Project Cost and Financing Structure:

The proposed Project construction cost is $12.9 million, with an additional $1 million estimated for planning and design fees, $1.1 million for contingency and $450,000 estimated for capitalized interest for a total project cost of $15,450,000. The Project will be financed by a privately placed tax-exempt loan issued by The Northern Trust Bank, N.A., to the University of Florida Foundation, Inc., (the "Foundation"), in an amount not to exceed $15,450,000 (the "Loan"). The amount of the Loan, up to $15,400,000, will be drawn down as needed over the period of construction. The Loan will be structured with approximately level debt service with a 30-year term. The Loan will automatically become due and payable after 10 years and 20 years unless the bank provides written notice 6 months in advance that it will extend the Loan for another ten years. There is no penalty for prepayment of the Loan. The interest rate will vary monthly and will be reset every month based upon 30 day LIBOR +0.55%.

Security/Lien Structure:

The Loan will be secured by the unrestricted net assets of the Foundation**.** There is no parity debt; however at January 31, 2008, the Foundation had other variable rate notes totaling approximately $7,275,000 which are collateralized with assets distinct from those securing the Loan. Although the Loan is secured by the unrestricted assets of the Foundation, once the Project is constructed, space will be leased to various University departments and the revenues from the rental income will be used to pay debt service on the Loan.

Pledged Revenues and Debt Service Coverage:

Pursuant to the terms of the Loan with Northern Trust Bank, N.A., the Foundation will maintain Unrestricted Net Assets in an amount at least equal to $25 million. The Foundation had over $35 million in Unrestricted Net Assets (including long term investments) at June 30, 2007, which had grown from $18 million at June 30, 2003. As of the end of March 2008, the average monthly balance of short-term unrestricted investments was $29.2 million. This would provide sufficient liquidity to pay debt service or to retire the Loan, if necessary. While the amount of short-term investments could change, total Foundation investments grew from over $813 million in 2003 to over $1.4 billion in 2007, with short term investments growing from $33.5 million to $58.9 million over the same period. The Foundation has the ability to re-classify investments between restricted and unrestricted categories giving it the ability to maintain sufficient liquidity to pay debt service or retire the Loan if necessary.

While the Foundation has the ability to prepay the Loan at anytime from available assets, the plan is for the Loan to be amortized over a 30 year period, with annual level debt service estimated to be $1,036,500. Once the Project is occupied, the revenues used to pay annual debt service will come from rental income received by the Foundation from various University departments pursuant to separate agreements between the Foundation and the University. Until the Project is completed and leased to the various University departments, the construction draws will be managed so that the interest on the Loan may be serviced from the $450,000 for capitalized interest. The University will hold title to the facility.

Variable Rate Debt: The Foundation is planning to issue the Loan as variable rate. The Debt Management Guidelines 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. The Foundation has indicated an understanding of these risks and has an effective strategy for managing these risks as discussed below.

The Foundation believes, based upon an analysis it has performed, that over the life of the debt it can save in excess of $3 million on a present value basis by incurring the Loan on a variable rate basis. This analysis was based upon an estimated fixed rate from the bank of 6.02% compared to a variable rate of 4.49% (10 year average based on LIBOR of +55 bps). If the money were borrowed through a public offering of bonds it is reasonable to assume that a fixed rate of approximately 5% could be realized, instead of the 6.02% assumed by the Foundation. This would still provide estimated savings of approximately $1 million. The Foundation has also prepared a debt management plan related to the issuance of the proposed variable rate Loan. The purpose of the plan is to mitigate, to the extent possible, the liquidity and interest rate risks over the life of the Loan.

The proposed Loan provides the bank the right to put the Loan to the Foundation, thereby creating potential liquidity risk. The Loan can become due and payable in 10 years and again at 20 years unless the Bank provides six months advance notice of their agreement to extend the Loan. The Foundation will rely upon the significant investments it has and the ability to transfer investments from restricted to unrestricted categories in order to provide sufficient liquidity to retire the Loan, if necessary.

To reduce interest rate risks, the Foundation will budget for a variable rate each year, considering the volatility of short-term interest rates and their impact on the budget, as well expectations regarding interest rates. The budget will be based on the highest monthly rate for the prior twelve months. In addition to daily monitoring by the Assistant VP and Comptroller, monthly reviews will also be performed and reported to the members of the Foundation Finance Committee, and Executive Vice President so that any budgetary problems can be quickly addressed.

The Foundation has stated that it will maintain appropriate amounts of short-term and long-term investments as a hedge against rising interest rates on its debt. Including this Loan, the Foundation will have a total of $22,725,000 million in variable rate debt. The Foundation's significant short-term investments, nearly $59 million as of June 30, 2007, provide for a hedge on 100% of its variable rate debt.

Type of Sale: Negotiated. The University provided an analysis of the most appropriate method of entering into this debt (competitive versus negotiated) as required by the Debt Management Guidelines. The Foundation is requesting approval for a negotiated sale of the Loan. A negotiated sale is the best method for implementing a variable rate financing.

While the nature of this debt requires a negotiated agreement, the University used competitive methods to ensure it obtained a competitive interest rate. The Foundation and the University contacted several financial institutions to obtain interest rate quotes and terms for the desired loan. This due diligence determined that the interest rates and terms provided by Northern Trust Bank, N.A. were competitive and reasonable.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University of Florida with respect to the request for Board of Governors approval for the subject financing. The information provided demonstrates that the Foundation has the ability to manage the significant assets available to it to assure that the debt can be serviced timely. Furthermore, the assets of the Foundation, including the short-term investments, put it in a very strong position to manage the interest rate risk and liquidity risk associated with variable rate debt. It appears that the proposed financing is in compliance with the Florida Statutes governing the issuance of university debt and is in compliance with the Board of Governors Debt Management Guidelines. Accordingly, staff of the Board of Governors recommends adoption of the resolution authorizing the proposed financing.