FLORIDA BOARD OF GOVERNORS
FINANCE COMMITTEE
October 22, 2003

SUBJECT: Guidelines for Long-Term Debt Financing for Capital Projects

BACKGROUND INFORMATION

The Board of Governors reviews and approves long term debt proposals submitted by universities, including fixed rate and variable rate debt. These proposals are reviewed by the Office of Educational Facilities for approval by the Chancellor and the Deputy Commissioner & Chief Education Financial Officer (CEFO). The CEFO has responsibility to recommend approval based on an assessment of the financial plan, confirmation of the authority to pledge the revenue source, and legislative approval of the project. The financial plan is a forecast of conditions to exist when the project is completed, the facility is operational, and the debt service is to be paid from revenues generated through operation of the facility. The plan is reviewed for feasibility to ensure that there is a reasonable expectation that revenues will be available to meet the proposed debt service obligation.

The financial feasibility review process includes application of key assumptions regarding the forecast. These forecast variables should be considered as guidelines for the review process. It is recommended that the key variables be approved by the Board of Governors for use in the review process.

Supporting Documentation Included: Guidelines for Financial Feasibility Review Criteria Related to Proposed University Long Term Debt

Facilitators/Presenters: Mr. Raymond Monteleone

Guidelines for Financial Feasibility Review Criteria Related to

Proposed University Long Term Debt

Fixed Rate Proposals:
Minimum debt service coverage of 1.2 or higher must be met pursuant to requirements of the bond documents.

The university board of trustees must consider, in their approval action for the debt proposals, the coverage for the proposed project and the coverage of the system (such as a housing or parking system).

The interest rate assumption for the proposed long-term debt must be consistent with the projected interest rate for the issuance date, as determined by the Deputy Commissioner & Chief Education Finance Officer after consultation with the Division of Bond Finance.

The projected operational expenses must be consistent with actual expenses or comparable expenses for similar facilities at other universities, as adjusted for inflation.

Project schedules for design and construction shall be consistent with actual experience for similar projects.

Assumptions relating to realization of revenue, such as occupancy rates and proposed rental rates, shall be consistent with demand indicators provided by universities. All proposals shall include recognition of the commitment to set rates (rental, parking, etc.) at levels sufficient to provide debt service coverage for each years debt service. It shall be recognized that the revenue available after operational and debt service costs shall be used for required reserves for repair and replacement, and debt service reserve payments if necessary.

The committee should periodically provide guidance to staff regarding minimum debt service coverage ratios and interest rate assumptions.

Variable Rate Proposals:
These proposals shall be subject to the same guidelines applied to fixed rate except for the following:

The assumed interest rate may be less than the fixed rate assumption, as determined after consultation with the Division of Bond Finance.

The university shall commit to utilization of a hedging plan whereby a majority of the outstanding debt is under the terms of an agreement to cap interest rates for a portion of the debt term. Alternatively, a combination of a restricted fund balance and a hedging plan may be used.

The university shall designate a position with responsibility for close monitoring of the interest rate market and timely utilization of options to mitigate the risk of an increase in the interest rate. Options may include conversion to different terms such as longer or shorter variable rate periods and locking in a fixed rate.

The university shall commit to set rates pursuant to rate covenants established within the bond documents. These covenants enable generation of revenue such that reserves are established and maintained for the repair and replacement of facilities, and for the payment of debt service.

The committee should periodically provide guidance to staff regarding minimum debt service coverage ratios, interest rate assumptions assuming a variable rate, and options for the use of a hedging plan.