

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS**

June 20, 2013

SUBJECT: A Resolution of the Board of Governors Authorizing the Issuance by the University of South Florida Financing Corporation of Debt to Reimburse a Portion of the Costs Associated with Financing the Improvement and Renovation of the Existing Arena and Convocation Center located on the Main Campus of the University of South Florida.

PROPOSED BOARD ACTION

Adoption of a resolution approving the issuance by the University of South Florida Financing Corporation (the "Financing Corporation"), a University Direct Support Organization, of debt in an amount not to exceed \$20,000,000 (the "Debt"), for the purpose of reimbursement of costs associated with financing the improvement and renovation of the existing arena and convocation center ("the Project"), on the main campus of the University of South Florida (the "University").

The Debt is to be issued subject to the restriction that proceeds from the Debt cannot be used for operating expenses. The Debt shall only be used to reimburse the University for the portion of the Arena Capital Project capital costs specified. Any further use the proceeds for other capital projects is subject to future approval by the Board of Governors.

Staffs of the Board of Governors, State University System of Florida, and the Division of Bond Finance, State Board of Administration of Florida, have reviewed this resolution and all supporting documentation. Based upon this review, the Division has expressed concerns that the proposed Debt is not contemplated by s. 1010.62 F.S. or the SUS Debt Management Guidelines, in as much as the Project is already completed and there is no criteria, by which to analyze whether financing for reimbursement purposes is appropriate. With the exception of this noted concern, the proposed financing appears otherwise to be in compliance with Florida Statutes governing the issuance of university debt and the debt management guidelines adopted by the Board of Governors. For this reason, as well as those stated below in background, staff of the Board of Governors makes no recommendation with regards to adoption of the resolution and authorization of the proposed financing.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Florida Constitution; Section 1010.62, Florida Statutes; and Florida Board of Governors Debt Management Guidelines

BACKGROUND INFORMATION

On March 24, 2011, the Board of Governors (the "Board") authorized the University to borrow up to \$26.5 million to fund substantial renovations to the existing 250,000 gross square foot arena (the "Project"). However, because the projected net revenues were not sufficient to cover expenses and debt service for the first years of operation or to maintain the required coverage ratio without annual support payments from the USF Foundation Inc. (the "Foundation"), the Board conditioned the approval upon the Foundation setting aside \$20 million in a restricted account to guarantee payment of the debt. The Board provided that the University could later request a reduction or removal of the \$20 million Foundation reserve if it could present documentation, including an opinion of a financial advisor, to support the financial feasibility of the Project.

Rather than issue the debt with the conditions imposed by the Board, the University decided to fund the Project with existing auxiliary cash resources and notified the Board on June 3, 2011, that it had developed "a more efficient financing arrangement that [would] not require external debt." The Project has been completed, and the University is seeking to reimburse itself \$20 million in project costs to repay a portion of the auxiliary loan.

The Debt will be structured with a 20-year final maturity and level annual debt service payments with the first principal payment occurring in July 1, 2014 and a final maturity date of July 1, 2033. The Debt will be secured by a senior lien on the gross revenues of the Arena. The University is legally authorized to secure the Debt with the revenues to be pledged pursuant to section 1010.62, Florida Statutes.

The projections provided by the University indicate that sufficient revenues will be generated to pay debt service on the Debt as well as cover operating expenses of the Arena. The ability of the Arena to meet all of its obligations is dependent upon the realization of revenue growth and certain additional revenues which are somewhat speculative, such as naming rights. It is uncertain as to whether or not the Project will meet the revenue projections provided and failure to meet projections could create financial challenges. The University and the Financing Corporation have indicated that they are committed to ensuring that sufficient revenues will be generated to fulfill the obligations with respect to the proposed Debt.

The University of South Florida Board of Trustees, at its March 21, 2013 meeting, approved the Project and the financing thereof. The USF Financing Corporation, at its meeting November 6, 2012, approved the Project and the financing thereof.

Supporting Documentation Included: Information is located behind the Facilities Committee agenda