STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida State University
FSU Financial Assistance, Inc.
Doak S. Campbell Stadium Improvements

Project Description: The proposed project, (the "Project"), will consist of the acquisition, construction and installation of various capital improvements to the Doak S. Campbell Stadium (the "Stadium"), including but not limited to, improvements to the existing skybox suites, construction, installation and equipping of a club seating section and certain structural improvements, repairs and re-painting of the Stadium.

The Project is reflected on the approved master plan for the University and is consistent with its mission.

Site Location: The Project is located on the main campus of the Florida State University ("FSU" or "University") in Tallahassee, Florida, at the existing Stadium.

Project Cost: The estimated design, construction, and financing costs of the Stadium improvements total $85,000,000, as follows:

1. Painting of Stadium (10 year warranty)	$13.00 million
2. Skybox Improvements to the Stadium (Useful life is 30 years)	$9.01 million
3. Club Seating (6,000 seats) (Useful life is 30 years)	$50.90 million
4. Structural Repairs (Useful life is 30 years)	$7.00 million
5. Capitalized Interest through 10/1/16	$4.56 million
6. Cost of Issuance	$0.53 million
Total	**$85.00 million**

Demand Analysis: Following the 2010 Florida State University football season, the Seminole Boosters conducted a survey of its donors to obtain feedback on certain aspects of the football weekend experience, stadium offerings and other various items. Among the respondents, there was very strong support for wider more comfortable seats (93%) and significant interest in a separate club section (55%). Based on feedback provided by survey respondents, the Seminole Boosters developed a plan to improve the Stadium offerings, make improvements to the existing skybox suites, undertake the construction of a club seating section and make other improvements to the existing stadium.

The existing skybox suites were built in the early 1990's and require renovations and updating. The window system needs replacement and the air conditioning upgraded. The renovated skybox suites will provide additional amenities for the suite holders and increase suite revenues for the football program.

To investigate the club seating option and feasibility, the Seminole Boosters contacted other football programs within the SEC, ACC, Big 12, and Big 10 regarding their experiences with club seating at their respective stadiums. Of the schools surveyed, nine of the schools have club seating sections within one end-zone (Alabama, Clemson, Florida, LSU, Mississippi State, Ole Miss, North Carolina, North Carolina State, and South Carolina).

The Seminole Boosters discussed certain aspects of each club seating section with the nine schools noted above, including number of seats, capital contributions and gift requirements, seat price, ticket price and if the section was sold out. The average number of seats available within the nine schools club seating sections was 2,500. Additionally, the nine schools reported five club seating sections were sold out, one was between 90% and 95% sold, one reported they were not currently sold out and the other two schools did not provide a response on sales volume. Most programs indicated that during the initial football season when the section opened, approximately 60% of the seats were sold and in subsequent seasons the percentage increased as donors and football patrons accepted the idea.

Following the survey analysis from donors and discussions with the nine schools with existing club seating sections, the Seminole Boosters began planning to add a club seating section, ultimately deciding to replace an existing section of approximately 10,000 lower-priced seats with 6,000 club seats. The Boosters evaluated the costs to construct a club seating section on a per seat basis. The first option considered 1,600 seats, which would be consistent with the club seating sections of the nine schools noted above, resulting in a cost per seat of nearly $14,000. The cost per seat decreased to about $5,500 if the Boosters increased the number of seats to 7,000. As the Boosters continued to plan and work with architects on the club seating section, the number of seats was reduced to 6,000 as they decided to widen the seat size to improve comfort for seat-holders.

Based on other programs' experience, the Boosters targeted the sale of 60% of the seats (3,600) at a per seat price per season of $1,500 and requiring a one-time, up-front $1,000 per seat capital contribution. The seat price includes the $125 membership fee in the University Center Club. When compared to the nine schools noted above that currently operate club seating sections, the Seminole Boosters determined that the pricing structure was competitive and on the lower end of the pricing scale. Purchasers are expected to sign five year ownership agreements with annual renewal requirements. The five-year agreement locks in the annual seat price for the five year term; however, at the five-year renewal point, the seat price may increase, but no additional capital contribution will be required. Between August 2014 and April 2015, the Boosters sold 1,935 seats, or 32% of the total 6,000 seats, with approximately $5.2 million paid towards these seats ($1.6 million towards the capital contribution and $3.6 million towards the club seat purchase). Based on the current sales and the continued sales efforts prior to the 2016 football season, Seminole Boosters believe the 60% threshold will be met and 3,600 seats will be sold by the beginning of the 2016 football season.

The club seating section will provide a premium product for fans with access to desirable seating, a club atmosphere within the University Center Club, which provides air conditioned space and premium food options. The club seating section is designed to turn a relatively low yielding revenue area of the Stadium into a significant revenue generator for the football program.

A recent inspection of the Stadium found that it needs major upgrades, particularly the east and west stands. Handrails and mid-aisle handrails are non-existent in these areas and pose a threat to public safety. Seating for persons with disabilities is non-existent in the west stands and only 29 spots are provided in the east stands. Approximately 615 handicap seats are needed to fulfill American with Disabilities Act ("ADA") code requirements. An inspection report found many cosmetic defects and material deterioration to varying degrees, in particular deteriorating floors, treads, and risers throughout the Stadium. Many bleacher seat bracket connections are rusting, which can be directly related to the treads and risers condition. It is recommended that the stands be sandblasted, primed and painted while the bleacher seat bracket connections can be scraped, washed, primed and painted or replaced as needed. Various spalls, cracks, and unsealed joints exist in the field wall and additional walls. A full scrape, wash, prime and paint are recommended in affected areas.

Start and Completion Date: Construction of the Project commenced in February 2015 and will be completed by August 2016.

Study of Private Sector Alternatives: The Project consists of improvements and renovations to an existing structure owned by the University and located on the University campus. Due to the nature of the Project, it was not feasible to explore private sector ownership.

Financing Structure: The Project will be financed through the issuance of fixed-rate bonds (the "Debt") by FSU Financial Assistance, Inc., a direct support organization of the University (the "DSO"), in an amount not to exceed $85,000,000 a portion of which will reimburse the Boosters for expenditures already made toward construction of the Project. The Debt is planned to be sold in three series: a taxable series of approximately $9,000,000 with a ten-year repayment period; a tax-exempt series of $11,140,000 with a ten-year repayment period; and a tax-exempt series of approximately $57,225,000 with a 30-year repayment period. The current pricing structure includes a premium of $7.6 million to produce total proceeds necessary to finance the Project. The taxable series will be used to make improvements to the existing skyboxes. The 10 year tax-exempt series will finance the painting improvements and other repairs to the Stadium (with the final maturity matching the useful life of the improvements financed) and the 30-year tax-exempt series will finance various structural improvements to the Stadium, including the addition of a club seating section as described earlier. The combined debt service payments on the three tranches of debt is level, however, the principal amortization on the 30-year series begins in 2028, after the ten-year portion matures.

The Project cost and cost of the Debt includes approximately $4.6 million of capitalized interest to pay the first year's debt service payment in fiscal year 2015-16. The Debt Guidelines allow for the use of capitalized interest to the extent required for Project feasibility. The Seminole Boosters and the Athletics Department budget to pay debt service on the DSO's outstanding debt obligations on a 1.00x basis with the remainder of pledged revenues available to pay other expenses of either entity. As a result, the new debt service on the Project is funded from capitalized interest in fiscal year 2015-16, prior to the net revenues generated from the club seating section in fiscal year 2016-17 being available to pay the associated debt service. Over the last five fiscal years, the Boosters had between $12.9 million and $19.5 million available that could offset the use of capitalized interest; however, these amounts must also be available to support smaller capital projects undertaken by the Athletics Department (currently estimated at $10 million) or used in the event the Athletics Department operates at a deficit. Therefore, the Boosters determined preservation of the cash available was preferable to drawing it down to eliminate the capitalized interest from the transaction.

(See *Estimated Sources and Uses of Funds*.)

Taxable Debt: The $9,000,000 taxable series to finance improvements to the existing skybox suites at the Stadium is required due to the IRS prohibition on the use of tax-exempt debt to finance improvements to projects involving "…skybox or other private luxury boxes….". The repayment period of the taxable series is structured as 10 years to keep interest rates low on the short end of the yield curve.

Security/Lien Structure: The Debt shall be secured by pledged revenues made up of revenues of the DSO, including but not limited to, conference and suite rental revenues, club seating revenues, athletic department rent (which may be comprised of no more than 5% of student athletic fees pursuant to section 1010.62(3)(a), Florida Statutes), Indicia/trademark royalty revenues, net ticket sales and such other revenues that may be used, pursuant to section 1010.62, Florida Statutes.

The Debt shall be secured on a parity basis with the outstanding Series 2012A, 2012B, 2012C, 2013A and 2014A debt totaling $67,145,000 as of June 30, 2015. The DSO is legally authorized to secure the Debt with the revenues to be pledged pursuant to Section 1010.62, Florida Statutes and specific approval has been requested from the 2015 Legislature.

Pledged Revenues, Debt Service Coverage and Return on Investment:

Conference facility and suite rental revenues are derived by the Boosters from leasing the 94 skyboxes at the Stadium. Skybox suites are leased for five-year periods and have been 100% leased since 1994, when they took on the current configuration, with a current waiting list of 20 individuals or entities. Suite rental fees increased for all levels, at the start of the 2014 football season and subsequently increased for 2015. Suite rental revenues are forecast to increase from $3.4 million in 2013-14 to $3.8 million in 2019-20, as the Boosters believe an improved product will support ongoing gradual price increases. The rental fee increases offset renovation costs and the associated debt service on the taxable series.

Net revenues generated from the club seating section are expected to positively affect pledged revenues beginning in fiscal year 2016-17 when the section opens for the 2016 football season. Net revenues include the initial one-time capital contribution and the annual seat fee but exclude club seating section expenses including payments made to the Athletics Department to compensate for the loss of existing seats. Initial projections for club seating net revenues are projected at $5.2 million in fiscal year 2016-17 the first year the section is open and declining to $5.1 million in fiscal year 2019-20 as the impact of the one-time capital contribution declines and the club seating section is expected to be 95% sold out. Additionally, projections for club seating net revenues are affected by the marketing campaign that included the use of discounted pricing for advanced purchase seats. Assumptions for the club seating revenue are 60% purchased for the initial season with 85% for the second and 95% for the third. Annual seat contract renewals are projected at 90%.

The University Athletics Department pays rent to the DSO of $1,850,000 annually, which is not expected to increase as a result of this Project. The Athletics Department pays the rent from operating revenues, which are generated from several sources including conference distributions, student athletic fees, sponsorships and advertising, game guarantees, bowl games, and television and radio.

Over the past five fiscal years, the total revenues generated from these sources have ranged from $27.2 million to $36.0 million. Pursuant to Section 1010.62(3)(a), Florida Statutes, no more than 5% of student athletic fee revenues may be pledged for debt service on the Debt. Student athletic fee revenues were $7.5 million in fiscal year 2010-11 and have increased slightly each year to $7.9 million in fiscal year 2013-14, which would limit their use to approximately $395,000 if student athletic fee revenues remain at their current level. The University may not legally use any more than 5% of student athletic fees to pay rent to the DSO.

Trademark revenues represent royalties earned by the Boosters from the sale of officially-licensed University merchandise. The royalties are calculated, administered and distributed by Collegiate Licensing Company at 12% of the wholesale price. The trademark revenues increased to a high of $4 million in fiscal year 2013-14 following the 2013 National Championship, but are estimated to decline 8.25% to $3.75 million throughout the projection period (fiscal years 2014-15 through 2019-20). This revenue stream could be variable as it may be influenced by many factors such as the economy or the success of the athletics program.

Up to $7 million of total football ticket revenues are pledged to the repayment of the Debt, which is an increase from the $5 million currently pledged to the outstanding bonds. Ticket revenues are collected by the Athletics Department and, for the past five fiscal years, have been between $15.8 million and $25.6 million. Total ticket revenues can fluctuate and may be influenced by the economy or the success of the athletic program.

For fiscal years 2009-10 to 2013-14, pledged revenues of between $11.3 million and $14.3 million provided coverage of between 2.20x and 2.77x. Over the projection period, pledged revenues are projected to increase nearly 10% in fiscal year 2014-15 due to the $2 million increase in net ticket revenue and remain relatively flat for fiscal year 2015-16 with resulting debt service coverage of around 3.00x. In fiscal year 2016-17 when the club seating revenue is added, pledged revenues are expected to increase approximately 34% over the prior year. Despite higher pledged revenues beginning in fiscal year 2016-17, debt service associated with the Project increases from $5.2 million to nearly $10 million, following the use of capitalized interest in 2015-16, resulting in an expected decline in coverage to around the 2.20x level through fiscal year 2019-20.

The interest rate on the Debt has been estimated at a blended yield between each series of around 4.1%.

(See *Historical and Projected Debt Service Coverage)*

As a gross pledge of revenues, the coverage is well in excess of the 1.2x minimum required by the Debt Guidelines. However, to gain a perspective on how the additional debt may affect the operations of the Athletics Department and the Boosters (of which the FSU Financial Assistance Inc. is a part), it must be emphasized that the Seminole Boosters and the Athletics Department operate essentially as an integrated unit, with the Boosters providing financial support to the Athletics Department. While the gross pledged revenues are more than sufficient to pay debt service, as a practical matter, the excess gross revenues are used to pay other operating expenses of the Seminole Boosters and the Athletics Department. Over the last five years, the combined operations of the Athletics Department and Boosters has resulted in implied debt service coverages varying from negative 0.17x to a high of 3.18x. The fluctuations are primarily the result of significant variations in annual capital contributions. In those years where a combined deficit occurred or annual resources were insufficient to pay all expenses, including debt service, cash reserves were used to make up the shortfall. Combined cash resources of the entities range between $12.9 million and nearly $20 million over the last five fiscal years, indicating sufficient amounts are available to draw upon, if necessary. Projections for combined operations are unavailable. However, they are not expected to be materially different than historical as the club seating section is expected to generate $5 million in additional net revenues annually, which is offset by increased debt service of approximately $4.97 million.

The implication of all this is that the projected revenue margin on the new improvements is narrow, and if significant deficits occur, the Boosters and/or the University Athletics Department may need to increase operating revenues or reduce operating expenses to pay debt service. Additionally, it's important to emphasize that many of the sources of pledged revenues collected by the Boosters and the Athletics Department, such as ticket revenues, capital contributions and gifts, and royalties are volatile and may fluctuate with the success of the athletic program. The need to rely on cash reserves to offset fluctuations may be exacerbated in the future as required debt service payments increase from $5.2 million to nearly $10 million beginning in fiscal year 2016-17.

(*See Historical Combined Changes in Net Position and Implied Debt Service Coverage*)

The DSO has calculated an internal rate of return of 5.04% for the project.

Type of Sale: Negotiated. Primarily due to the uncertain nature of pledged revenues, which are tied to the success of the athletic program, a negotiated sale provides the opportunity to more extensively market the Debt to institutional investors. The DSO solicited underwriters for the Debt through a competitive request for proposal ("RFP") process in January 2015. Ten underwriting firms responded to the RFP with Bank of America/Merrill Lynch selected as the senior manager and J.P. Morgan selected as the co-manager.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the Seminole Boosters and the University Athletics Department with respect to the request for Board of Governors approval for the subject financing. Projections provided indicate that sufficient revenues will be generated to pay debt service on the Bonds and other outstanding long-term obligations. However, when reviewing combined operations of the Boosters and the Athletics Department, which each contribute to the pledged revenues of the DSO, implied coverage has historically fluctuated between negative 0.17x and 3.18x requiring the use of cash reserves in certain years to pay expenses. The need to use cash reserves could occur more frequently in the future given the volatility in pledged revenues and as debt service payments increase from $5.2 million to nearly $10 million beginning in fiscal year 2016-17.

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.