

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Facilities Committee
March 28, 2018**

SUBJECT: University of North Florida Refinancing Report

PROPOSED COMMITTEE ACTION

For information

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Florida Constitution; Section 1010.62, Florida Statutes, SUS Debt Guidelines

BACKGROUND INFORMATION

In January, the University of North Florida submitted a refinancing transaction proposal to the Office of Finance and Facilities for review pursuant to the 10 day required notice provisions of the SUS Debt Guidelines. In anticipation of increasing interest rates, the University of North Florida Financing Corporation was pursuing an opportunity to obtain a bank loan to fix the interest rate for existing parking bonds which expire in 2028. These 1998 bonds are currently variable rate and have an outstanding principal amount of \$5.5 million. At the time, the current interest plus fees for letter of credit, remarketing, and ratings was 1.95%. After initiating a request for bank loan proposals, UNF's best and final 10 year rate was 2.71%. There were no swaps associated with the existing debt. The proposal was for level debt that did not extend the term. In fact, the proposal shaved a few months off final debt service.

UNF provided an amortization schedule, financial analysis, and all other documents requested by the review team. After review, and consultation with staff of the Division of Bond Finance, Board staff recommended approval of the transaction to the Chancellor. The Board Chair, Vice-Chair, and Facilities Chair were also informed of the proposal and staff recommendation. Following these conversations, UNF was notified that the UNF Financing Corporation could close on the proposed transaction in as much as the transaction appeared to be in the best interest of the university.

UNF closed on the transaction with TD Bank, NA, on January 31, 2018, at the aforementioned 2.71% fixed.

While no change to the Debt Management Guidelines is recommended at this time, this transaction is being brought to the Committee's attention because it is important that the Board and the SUS financial community understand the current staff position for processing debt conversion transactions. In a rising rate environment, proposals to convert from variable to fixed rate debt will generate anticipated interest rate savings - but unlike a fixed-to-fixed refunding, the savings on a variable-to-fixed conversion cannot be demonstrated until the end of the remaining life of the debt. (Of course, unless the conversion to fixed takes place, the savings cannot be realized after the fact). For instance, the actual US 10 Year Treasury rate as of 02/20/18 was 2.90% - so, UNF was able to borrow at a lower cost than the federal government. However, if rates were to drop and remain below 2.71% for 10 years after taking into account all fees, UNF may have greater savings by maintaining a variable rate position.

The elimination of interest rate risk and reduction in uncertainty are positive factors that more than offset the potential for savings. Similar future transaction will continue to be reviewed by the Office of Finance and Facilities, as it is widely believed that rates will continue to increase.

The Committee will have an opportunity to consider for approval any proposed transactions that: 1) increase overall debt; 2) extend term; or 3) increase financial risk to the university.

Supporting Documentation Included: None

Facilitators/Presenters: Mr. Chris Kinsley