STATE OF FLORIDA

DIVISION OF BOND FINANCE
OF THE STATE BOARD OF ADMINISTRATION

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J. BEN WATKINS III
DIRECTOR

MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III

Date: June 21, 2018

Re: University of Florida University Athletic Association – Athletic Facilities Improvements

As required by Section 1010.62 (3)(b)4, Florida Statutes, the Division of Bond Finance ("DBF") has reviewed and analyzed the information provided to support the University of Florida University Athletic Association's (the "UAA") proposed financing for the (i) construction of a new Baseball Stadium Complex; (ii) renovation and expansion of the Katie Seashole Pressly Softball Stadium Complex; and (iii) new maintenance building and yard (the "Project"). Additionally, DBF has also reviewed the Board of Governors ("BOG") staff analysis of the proposed financing and Project. Set forth below are the issues that we identified and an explanation of how these matters have been addressed. These matters should be considered by the BOG in connection with their evaluation of the UAA's proposed financing:

Financing Structure

The BOG submission allows the UAA to enter into a financing with a term as short as five years. We believe that the minimum initial term should be longer in order to mitigate the interest rate and refinancing/rollover risk that a five-year financing term would entail. The UAA has represented that it intends to structure the financing as a 25-year loan and to fix the interest rate for the first 20 years. Also, we understand that the UAA expects to have a firm commitment for this financing structure by the date of the BOG meeting, which mitigates the interest rate and refinancing/rollover risks and addresses our concern.

Variable Rate Debt

The amount of the UAA's variable rate debt is relatively high according to rating agency standards. However, the UAA has successfully used variable rate financings advantageously and managed the interest rate and rollover risk effectively. Additionally, the UAA has been amortizing the principal of its variable rate debt as time has elapsed, reducing the amount of debt that would otherwise be outstanding. The required amortization of the UAA's outstanding debt is embedded in its credit agreements with its lenders and the UAA will continue to amortize its debt in accordance with this schedule. Although the proportion of the variable rate debt on the UAA's balance sheet is high, amortizing the variable rate debt precludes imprudently deferring the principal payments and mimics amortizations as if it were fixed rate debt. Amortization of principal coupled with maintaining adequate endowment investments, discussed below, mitigates risks associated with disproportionately high variable rate debt.

Endowment Funds as a Hedge

The interest rate and refinancing/rollover risk resulting from the relatively high levels of variable rate debt in the UAA's current debt portfolio is hedged by the UAA's short-term investments of approximately $25 million. Additionally, the UAA has approximately $54 million in long-term investments in its endowment, which strengthens the UAA's balance sheet and provides some protection against unexpected liquidity needs which could be caused by refinancing/rollover risk associated with variable rate debt. It is prudent to maintain substantial endowment investments to mitigate the risks inherent in variable rate debt.

One of the reasons for the Project and relocating the baseball stadium is that the UAA plans to construct a new football operations and training complex on the site of the current baseball stadium. Funding for the football complex has not been secured. There are no safeguards to prevent the UAA from using its endowment to pay for the new football operations and training complex. However, the UAA has represented that the new football operations and training complex will be fully funded through future donations and not from the UAA's endowment. Based on the UAA's representation, the UAA is expected to retain substantial endowment investments to mitigate the risk associated with variable rate debt.

Quantitative Metrics

The Project will not produce a return on investment ("ROI") because the revenues generated from baseball and softball are not sufficient to generate a positive return on investment; however, the Project will provide a site for a new football operations and training complex and enhance the experience for baseball and softball fans and the student athletes. The UAA believes that the average attendance for baseball and softball games will increase 20% over the average attendance for the prior four years for each sport. While this is not a traditional financial ROI, the Project will generate incremental revenues for the UAA if attendance increases and the attendance goals provide a quantifiable metric to evaluate the performance of the Project.

cc: Marshall M. Criser, Chancellor, Board of Governors
Chris Kinsley, Assistant Vice Chancellor, Board of Governors
Melissa Stuckey, Associate Athletic Director, University of Florida Athletic Association