STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of Central Florida
Golden Knights Corporation
University of Central Florida Athletics Building

Project Description: The proposed project, the "Project", will consist of the construction of a 22,500 square-foot, three-story facility that will house the new Wayne Densch Center for Student-Athlete Leadership and office suites for the NCAA compliance staff, athletics student-services, and academic services. Currently these services are provided primarily on the south end of campus in two buildings of the Wayne Densch Sports Center. With the exception of locker room space on the south side of the building, UCF Athletics Association, UCFAA, will vacate one of the two buildings once the Project is completed. The vacated space, consisting of 9,843 gross square feet, which is in fair condition, will be turned over to the University to be repurposed as deemed necessary.

Project Site Location: The Project will be located on the University of Central Florida (the "University" or "UCF") main campus in Orlando, Florida. The specific location is in the north section of campus consistent with the Campus Master Plan, and adjacent to the east side of Bright House Networks Stadium.

Project Start and Completion Date: It is anticipated that construction of the Project will commence in December 2014 and the facility will be completed by October 2015.

Project Cost: The estimated design and construction cost of the Project is $5,722,000, with an additional $308,000 for furniture, fixtures and equipment, for a total budget of $6,030,000.

Needs Analysis: The University believes a new facility with the capability to host all the academic enhancement activities for the 420 student-athletes currently attending UCF is paramount in continuing to place UCF as a highly competitive institution among its peers. These functions are currently spread among multiple buildings in multiple areas of campus and the new facility will improve UCF's oversight of all of the usage areas. Currently, thirty-year old space, designed originally as locker rooms, is being used to accommodate study halls and tutor sessions.

The University believes that the Project will impact not only the athletics department, but the University and the campus community as a whole. The selected programming or activities within the new facility will serve to enhance the development of graduating students, allowing the University to produce more job and market-ready students.

Confidentiality - In the current space for academic support, there are no enclosed spaces for tutorial or mentor sessions. Currently, there are 71 student-athletes with a documented learning disability. These students have no quiet or confidential space to use their accommodations or adaptive technology at the existing location. There is no space where they can study and avoid potential stigmatization. In the new building, there will be a specific suite area designed for students with disabilities to be able to work in their own space and to use technology that will allow them to be successful academically within the guidelines established by UCF's office of Student Disability Services. These upgrades will put UCF on par with peer institutions and their level of confidentiality.

Academic Integrity - Currently, multiple teams are studying and engaging in study halls in three different buildings on campus. This makes it difficult to monitor and can be inefficient for staff and students. The new building would allow for 100% monitoring and for certain areas to be secured and protected, as needed. Security cameras will also be added in the building and computer labs. In addition, all academic work would be in one space and none would take place in sports' team meeting rooms as they are currently. With the number of schools being embroiled in academic scandals nationally at an all-time high, the University believes it imperative for students to be monitored and supervised at all times. The new facility allows academic advisors and support staff to work with students more regularly and will make it much easier to schedule team study halls in order to have the proper supervision. Team study halls are necessary at times to be able to access all students in one space for monitoring and tracking purposes.

Session Sizes - There are 8 tutorial carrels in the present setup, which only allows for 1-on-1 tutor sessions. The new building will have 6 enclosed tutorial rooms for groups of 2-3 individuals and 6 more rooms that can fit up to 8 individuals. This could reduce expenses by 30% over the course of the year and allow students to work together in tutoring/mentoring sessions, share ideas and work together on projects and group assignments.

In the current setting, students must work outside of our building if they want to do any group work or assignments/projects. There is simply no space for group tutorial. Additionally, it is difficult for more than 50+ students to be in the building at one time, combined in tutoring, working in the computer lab and doing quiet study. The new center will have the capacity to serve over 300 students at one time.

Staff Interaction - The current academic advising staff has cramped office space that does not allow for student interaction in a manner that entices students to visit and spend time on their academic work. Study and tutoring schedules for student athletes can be unique due to training, competition and other demands which create challenges for the student athletes to use the existing services and facilities offered to university students. The future location will be more convenient for academic and student service resources, as it is to be much nearer to where the student-athletes reside, train and dine.

Student Services -Currently, Student Services holds upwards of 50+ workshops and programs throughout the year to assist student athletes with mental health issues, nutrition and improving contact with employers/businesses. The workshops and programs must use multiple athletic or other on-campus spaces for events/meetings that are not conducive to professional meetings. The intention of the new space will be to have a designated area where potential employers would be comfortable meeting with students for interviews. The University believes the workshops are vital to the preparation for job placement of student-athletes. They allow business partners to meet with students, engage in mock interviews, and networking nights.

NCAA Compliance - In addition to the academic purpose for the facility, it is very important for UCF Athletics' NCAA compliance office to be located in the new facility. Their current space is isolated from coaches and student-athletes which impacts the staff's ability to interact effectively. Due to the convenience of the new location, there will be an enhanced opportunity for daily interaction and provide greater opportunities for education on NCAA rules.

Study of Private Sector Alternatives:

Because the Project is a non-revenue producing facility, the only private-sector alternative would be to lease a facility from another entity. Donors have pledged sufficient funds to pay for the construction making this the best alternative.

Financing Structure:

Financing of the Project will be through the issuance by the Corporation of a fixed rate long term bank loan with a final maturity no later than 15 years (the"Series 2014 Debt"). Series 2014A Debt will be tax-exempt, in the amount of $4,000,000. A cash contribution of $2,085,000 from donor pledges will also be used to fund a portion of the Project.

(See Attachment I for estimated Sources and Uses of funds.)

Security/Lien Structure:

The Series 2014A Debt will be secured by a pledge of the current System Revenues of the Golden Knights Corporation. System Revenues are defined as Gross Operating Revenues and Non-Operating Revenues. Gross Operating Revenues include football ticket sales revenues, food and beverage concessions, catering, novelties, football events parking, premium seating revenues (luxury suites and club seats), advertising and sponsorships, naming rights, facility service fees, and other miscellaneous revenues. Non-operating Revenues consist of UCFAA rent payments, conference and non-conference game guarantees, and fund raising. The University is legally authorized to secure the Debt with the revenues to be pledged pursuant to section 1010.62, Florida Statutes.

The University anticipates using contributions received under pledge agreements to prepay a portion the Series 2014A Debt under a special or early redemption provision. The University anticipates significant fundraising, as current donation commitments of $7,010,000 have been made, with $2,085,000 already received in cash.

The 2014A Debt will be issued on parity with the outstanding 2006A&B COPs of the Corporation, currently outstanding in the aggregate principal amount of $51.3 million. The 2006A COPs are fixed rate, while the 2006B COPs are variable rate thru a loan agreement with Wells Fargo. The 2006A&B COPs are additionally secured by a debt service reserve account in the amount of approximately $4 million and the University has entered into a

Support Agreement with the Corporation to guaranty the replenishment of any deficiencies in the reserve fund from any legally available funds of the University. Additionally, the trustee holds a Restricted Surplus Fund for the 2006A&B Bonds in the amount of $4 million available to meet any shortfalls. The proposed Debt will not be secured by either reserve account and will not be covered by the Support Agreement. For the 2006B Bonds, scheduled principal payments do not occur until 2020; however, the University has prepaid the debt and reduced the principal from $18.9 million to $11.8 million as of June 2013. The University plans to continue making principal prepayments, but that will depend on sufficient revenues being available.

Management of Variable Rate Debt: Even though the proposed Series 2014A Debt will be issued as a fixed rate loan, a significant portion of the outstanding debt of the Corporation and the UCFAA is variable rate and subject to interest rate risk. Of the currently outstanding $70.7 million combined debt, approximately $30 million, or 42% is variable rate. As a percent of overall University and DSO debt, the variable rate debt is only 6%; however, it is concentrated in the athletics program where funding of operations is tight, so it should be managed carefully. When preparing their budgets, UCF and its DSO's budget for a slightly higher than the current annual rate. If the actual rate exceeds the budgeted rate during the year, internal decisions are made to adjust other budgeted items, including reducing discretionary non-recurring expenditures, if necessary. They would also make adjustments to their budget in the following year. UCF has stated they have not had any issues with the budgeting of their variable rate debt since the stadium opened. Additionally, with regards to the outstanding $11.8 million 2006B variable rate debt of the Corporation, the trustee holds a Restricted Surplus Fund, in addition to the Debt Service Reserve, which was created specifically to cover unexpected shortfalls.

Pledged Revenues, Debt Service Coverage: The Series 2014A Debt will be secured by a gross revenue pledge by the Golden Knights Corporation. In effect, what this structure provides is that debt service payments will always be paid first before expenses, so that any shortfalls in revenues of the athletic program's budget would have to be made up from budget reductions or supplemented by other University revenues. While this pledge provides strong debt service coverage, it is important to consider how operating expenses of the Corporation will be paid. Equally important in this case is to understand that much of the revenue pledged to pay debt service comes from the UCFAA. As a result, the operations of the Corporation and the UCFAA must be analyzed on a combined basis to understand the complete financial structure.

On a legal, gross pledge basis, debt service coverage from 2009-10 to 2013-14 has ranged from a low of 3.23x in 2011-12 to a high of 4.37x in 2013-14 while coverage of maximum annual debt service ranged from 2.38x in 2010-11 to 3.29x in 2013-14. Annual debt service coverage is projected to range from 4.44x in 2014-15 to 3.09x in 2019-20, with maximum annual debt service coverage of 3.13x to 2.96x. For the financial feasibility analysis, the 2006B variable rate debt was projected at the current interest rate of 1.13% through September 1, 2016, and 6% thereafter, to be conservative.

While the coverages shown for a gross pledge are strong, after taking into consideration operating expenses necessary to run the athletics program and recognizing the integrated nature of the Corporation and the UCFAA, the resulting implied debt service coverages are much lower. On a net implied basis, which combines the operations and debt of Golden Knights and the UCFAA, from 2009-10 to 2013-14, annual debt service coverage has ranged from a high of 1.61x in 2009-10 to a low of 1.05x in 2012-13. This combined implied coverage is projected to range from a high of 1.40x in 2016-17 to a low of 1.26x in 2017-18.

It is also important to note the volatile nature of many of the revenue sources. Athletics revenues are typically weaker and less reliable as pledged revenues since they are dependent in many instances on the success of the athletics program. The volatility of the revenues can be seen on the attached coverage tables. For instance, in 2010-11 ticket revenues were down by $1.2 million from 2009-10. In 2012-13, ticket sales and conference revenues were down by a combined $1 million from the previous year. Furthermore, in 2012-13, recurring revenues were insufficient to pay operating expenses, debt service and all debt related expenses, such that a draw upon the available cash reserves of the UCFAA was necessary. The University explains this was due to changing athletics conferences. Contrast that with 2013-14 results which show those two revenue sources increased by $4.3 million on a combined basis. The athletics program will be required to pay debt service before any other expenses, as shown in the attached coverage table. Both the interest rate risk of variable rate debt and the volatile nature of the revenues may make it more likely that the athletics program could face difficulties paying all debt service and operating expenses; however, UCF has stated they could cut non-recurring expenses, if needed, and have an additional Restricted Surplus Fund of $4 million available for the 2006A&B Bonds in the event of a shortfall.

The implied coverage analysis also takes into consideration the debt of the UCFAA including a line of credit with Fifth Third Bank outstanding in the amount of $6.7 million and a $10.3 million balance of a loan from the University that was advanced through fiscal years 2004 through 2008 to support the athletics program. The UCFAA repays the University loan from net revenues available, but they have deferred such repayment for Fiscal Years 2012 and 2013, adding approximately $350,000 of accrued interest due during that time. The accrued interest was paid to the University in June 2014.

(See Attachment II for a detailed summary of Historical and Projected Debt Service coverage)

Return on Investment: No revenue will be generated from the Project, so no standard ROI or IRR can be calculated. However, the University believes the Project will significantly enhance several components of the university mission, with the two primary quantitative metrics related to career development programming and academic progress.

UCF plans to increase the number of students served, as measured by student daily volume, from a high of 200 to a high of 275 per day by 2017-18. This includes increased review sessions from 5 to 25 per semester and increased in group tutoring from none to 75 sessions. Individual tutoring will be reduced when group tutoring is more appropriate. A group will typically be 2 or 3 students. Student daily volume also includes self-study students who will use the new space. UCF projects that the increase in study activity will cause the average GPA, which has averaged between 3.05 and 3.15 over the past six semesters, to increase to 3.20 by 2017-18. These metrics will be reported on an annual basis to the Board of Governors, as required by the Debt Guidelines.

Additionally, the Project will allow a projected 90 programs and workshops per year by 2017-18. For example, due to space constraints, the number of members of the business community that can attend various workshops, such as networking nights and mock interviews, is currently limited to 25-30 businesses and once per semester. The increased dedicated space will allow Student Services to hold workshops in a space that is able to hold 50+ students and potential employers on multiple occasions during the semester thereby increasing the number business community members that can interact with our student-athletes, and the number of opportunities our student-athletes can attend such sessions.

(See Attachment III for a summary of Academic Projections)

Type of Sale: Based on the complex structure of the Golden Knights Corporation and the desire to have the ability to pay debt early with pledges, UCF believes a negotiated sale is appropriate.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University of Central Florida with respect to the request for Board of Governors approval for the subject financing. Projections provided by the University indicate that sufficient revenues will be generated to pay debt service on the Bonds and other outstanding long-term obligations. Financial results for 2013-14 show the athletics program operated at a surplus; however, operations have been at break-even or a deficit over recent years and there are significant long-term liabilities. While the University believes it is now positioned to benefit from their transition to a larger conference and that the Athletics program will generate positive revenues, if these projections are not realized, the University will still be required to make mandatory debt service payments on a priority basis. This could result in further support needed by the University or significant reductions to University Athletic programs. 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.