

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Facilities Committee
March 30, 2022**

SUBJECT: Florida State University Research Foundation Interdisciplinary Research and Commercialization Building Construction Financing

PROPOSED COMMITTEE ACTION

Authorization of a resolution approving the issuance of debt by the Florida State University Research Foundation, Inc. (FSURF) in the amount of \$44,105,000 (Loan) to provide funding to Florida State University (FSU) to finance a portion of the construction of the Interdisciplinary Research and Commercialization Building (IRCB).

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Florida Constitution; Sections 1001.706 and 1010.62, Florida Statutes; and State University System Debt Management Guidelines.

BACKGROUND INFORMATION

The IRCB project has been on FSU's 5-year Capital Improvement Plan (CIP) since 2015 and recommended on their latest Educational Plant Survey (EPS), both prerequisite to the annual PECO project prioritization (per s. 1001.706, F.S.). Their CIPs and EPS indicate the project will be approximately 115,000 gross sq. ft. and will provide 68,302 net assignable sq. ft.¹ of Educational and General (E&G) space dedicated to *Research Lab, Office and Campus Support Service*. FSU recently indicated that other space in the building will be utilized for non-E&G activities, such as sponsored research.

As originally proposed, the IRCB project will cost \$88M, funded with \$44M in private donations and \$44M in Legislative appropriations. At this juncture, all funding has been received, including donations. The appropriations are as follows:

<u>Legislative Appropriations</u>	
FY17-18	\$6,774,101
FY18-19	\$9,500,000
FY19-20	\$4,233,813
FY20-21	\$0
FY21-22	\$23,492,086
Total	\$44,000,000

Under the PECO scoring system for FY21-22, the project was ranked 2nd with 50

¹ The enclosed, interior floor area specifically dedicated to E&G activities and assigned to 1 of the 9 E&G space type categories. It does not include areas such as circulation, stairwells, restrooms, custodial storage, electrical/mechanical areas, etc.

points; 12 of these points were due to the considerable donations as a funding source. The State's 50% funding of the project was fully funded by the Legislature that year, as were all university projects that needed funding to complete.

FSU is proposing to substitute the \$44M in private donations with \$44,105,000 in debt (includes \$105,000 for cost of issuance) in order to retain those funds within its endowment for long-term investment. By not having to liquidate investments from the endowment pool, and borrowing the money instead, FSU feels it can capture an arbitrage opportunity over the next 15 years, with projected investment earnings exceeding borrowing costs of 2.51%. FSU has developed a plan to evaluate the transaction on an ongoing basis which includes actively monitoring the investment return and market value of the Research Foundation endowment on a quarterly basis (see attached exhibit "Arbitrage Monitoring").

Though not specifically dedicated to the IRCB project, FSU indicated that net investment earnings generated by this transaction will further FSURF's mission to support research and training activities of FSU's faculty, staff, and students, including those at IRCB.

The lender, TD Bank, was competitively selected via a Request for Proposals. Terms of the Loan provide for a taxable fixed interest rate of 2.51% with a 15-year final maturity (assuming Loan closure by 4/8/2022), and level debt service of \$3.7M annually. After the first 12 months, the Loan is pre-payable without penalty. Repayment of the Loan will be secured by FSURF's overhead and indirect costs revenues (from grants and contracts), royalties and licensing fees, investment earnings, and unrestricted net assets.

Working with financial advisor Hilltop Securities, FSURF projects pledged revenues of approximately \$6.8M/year, which alone provides debt service coverage of 1.83x (Debt Management Guidelines minimum is 1.20x). Unrestricted net assets are projected at \$136.5M, which, together with pledged revenues, provides coverage of over 30x (refer to FSU's financing proposal attached as an exhibit).

As a whole, the financing proposal is a departure from the funding plan originally presented to the Board. Also, it may prompt other universities to issue debt for similar purposes, as well as necessitate a revision of the project scoring/ranking methodology to add debt issuance as a comparable metric to "private donations" for assigning points.

The proposed issuance of debt was approved by the FSURF Board of Directors and the FSU Board of Trustees last month.

Staff of the Board of Governors and the Division of Bond Finance have reviewed the resolution and supporting documentation provided by FSU. Based upon this review, it appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt and complies with the Debt Management Guidelines adopted by the Board of Governors.

Supporting Documentation Included:

- 1) Requesting Resolution
- 2) Arbitrage Monitoring
- 3) FSU financing proposal package
- 4) DBF Memorandum

Facilitators/Presenters:

Mr. Kyle Clark, FSU Vice President for Finance and Administration