



**J. BEN WATKINS III**  
DIRECTOR

**STATE OF FLORIDA**  
**DIVISION OF BOND FINANCE**

**RON DESANTIS**  
GOVERNOR

**ASHLEY MOODY**  
ATTORNEY GENERAL

**JIMMY PATRONIS**  
CHIEF FINANCIAL OFFICER

**WILTON SIMPSON**  
COMMISSIONER OF AGRICULTURE

**MEMORANDUM**

To: Board of Governors

From: J. Ben Watkins III

Date: August 8, 2023

Re: University of South Florida Stadium Project

As required by Section 1010.62, Florida Statutes, the Division of Bond Finance ("DBF") has reviewed and analyzed the information provided in connection with the University of South Florida ("USF") Finance Corporation's proposed financing of a 35,000-person stadium located on USF's Tampa campus (the "Project"). DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project.

DBF finds the BOG staff analysis of the Project satisfactorily addresses the relevant aspects of the proposed financing. However, there are further policy issues for the BOG to consider in the evaluation of the Project, including the use of taxable debt, adequacy of project cost validation and contingencies, ongoing USF Foundation support of athletic operations, reasonableness of projected pledged revenues, and the use of non-athletic revenue sources, including student fees, to support Project feasibility. The Project is ambitious for USF and relies heavily on meeting projections and substantial support from the University and donations, not athletic department revenues.

The University is proposing to use taxable debt to finance the Project through a bank loan from Truist Bank at an estimated interest rate of 5.34%. Traditionally, financings of college football stadiums have been done primarily through the issuance of tax-exempt debt to take advantage of a tax advantaged or lower interest rate. A small difference in rate creates a significant dollar cost over the life of the loan. The justification provided for using taxable debt relates to federal tax law restrictions related to "private use" of tax-exempt financed facilities. The restrictions on private use are normally satisfied by having only a small portion of the financing that does not qualify because of "private use" being done as taxable, not the entire loan. We are not in a position to make this assessment since we have not been involved in the planning or structuring of the financing but encourage the University to consider the additional cost of using taxable debt and do everything possible to reduce the cost of the debt by using tax-exempt financing.

USF is citing \$339.5 million for project costs but has not provided a breakdown of the Project budget and the developer has not yet established construction and cost escalation

contingencies. Adequate contingencies are of heightened importance in the current construction market where project cost overruns are common. While USF has stated that the developer is required to redesign the Project, as necessary, to bring into alignment with the established budget, there may be a need to reduce the scope of the Project or increase the cash contribution in response to the risk of cost increases in the current construction environment.

The USF Foundation has provided significant institutional support for athletic operations and, even with that support, athletics has operated at a loss in two of the previous five years. Additionally, the support from the USF Foundation, which has historically ranged from \$6.5 million to \$19.7 million, is projected to increase substantially going forward (averaging between \$40 million to \$50 million annually) to provide USF athletics with a projected net debt service coverage ratio of 1.30x. These transfers from the USF Foundation to athletics are in addition to the \$50 million cash advance from the USF Foundation to the Project for current and future capital gifts for the Project. There is a risk that the USF Foundation does not receive sufficient gifts to offset the contribution to the Project putting additional pressure on the USF Foundation to maintain on-going operational support. However, there is no obligation for athletics to reimburse the USF Foundation for the uncollected portion of the cash advance.

In addition to relying on the on-going support from the Foundation, the financial feasibility of the Project's operations is also reliant upon USF realizing arguably ambitious projections of ticket sales and other pledged athletics revenues, such as game guarantees, conference and NCAA distributions, and royalties and licensing revenues, which have been historically volatile. The projected stadium ticket sales portion of the pledged revenues are contingent upon adequate demand for the Project. USF has assumed revenues from tickets sales through the projection period that far exceed the estimates provided by their consultant. If projections for increased revenues are not met, shortfalls will need to be covered by additional contributions from USF Foundation for operational support or necessitate spending cuts for athletics.

This is the first proposed use of unreserved cash from non-athletic auxiliaries for athletics for consideration by the BOG following the amendment to BOG Regulation 9.013(3). Historically, athletics were required to be self-supporting as a stand-alone enterprise but now may be considered with other auxiliaries in determining self-sufficiency. A fundamental principle underlying the policy for auxiliary services is that they are an integral service and should be provided at cost to students, administration, and faculty not as a profit center to support investment in unrelated facilities. Consideration should be given to lower fees when excess revenues are generated from auxiliary enterprises in keeping with the long-standing policy of maintaining affordability. Another example of a surplus generated by costs ultimately borne by students is the unspent administrative overhead derived from a 6% levy on annual auxiliary expenditures that USF plans to use for the Project. Universities should consider lowering fees for auxiliaries when they are generating substantial excess revenues instead of allowing the excess to build up to fund athletics.

DBF would welcome the opportunity to discuss further amendments to BOG Regulation 9.013(3) to ensure fees being charged to students are reasonable and not artificially inflating the cost of a university education for ancillary endeavors.

cc: Raymond Rodrigues, Chancellor, Board of Governors

Kevin Pichard, Director, Finance and Facilities, Board of Governors  
Fell Stubbs, University Treasurer and Associate Vice President, University of South Florida  
Executive Director, USF Financing Corporation