

**STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Facilities Committee
March 24, 2011**

SUBJECT: A Resolution of the Board of Governors Authorizing the Issuance by the University of South Florida Financing Corporation of Debt to Finance the Renovation of the USF Arena and Convocation Center on the Tampa campus of the University of South Florida

PROPOSED BOARD ACTION

Adoption of a resolution approving the issuance of debt, by the University of South Florida Financing Corporation (the "Corporation"), in an amount not to exceed \$26,500,000 (the "Debt") for the purpose of financing a major renovation of the USF Arena and Convocation Center (the "Project"). The facility is currently named the USF Sun-Dome, and is located on the Tampa campus of the University of South Florida.

Staff of the Board of Governors, State University System of Florida, and the Division of Bond Finance, State Board of Administration of Florida, have reviewed this resolution and all supporting documentation. Based upon this review, it appears that the proposed financing is in compliance with Florida Statutes governing the issuance of university debt; but does not comply with the debt management guidelines adopted by the Board of Governors because the Project is not financially feasible based on the net revenues of the USF Arena and Convocation Center. However, the USF Foundation has agreed to make-up any shortfall in net revenues of the Sun Dome so that the debt service coverage ratio is maintained at 1.2X annual debt service required by the guidelines. Accordingly, staff of the Board of Governors makes no recommendation regarding the adoption of the resolution and authorization of the proposed financing.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Florida Board of Governors Debt Management Guidelines; Section 1010.62, Florida Statutes; and Article IX, Section 7, Florida Constitution.

BACKGROUND INFORMATION

The proposed Project is for the purpose of extending the useful life of the Sun Dome, which was originally constructed in 1980. Based upon professional surveys, the

university believes that unless these renovations occur, the Sun Dome has reached the end of its useful life. Previous repairs and modifications have not extended the useful life of the Sun Dome. Rather, they have resulted in a facility with significantly impaired mechanical systems. The current seating capacity of 10,000 will remain approximately the same.

Systems to be replaced include arena seating, heating and cooling, electrical, restrooms, locker areas, offices, etc. Additionally, the renovation work includes redesigning the interior to meet new building code requirements while replacing much of the current retractable seating with fixed seating, retrofitting for energy efficiency, removing environmental hazards and generally bringing up to current code.

The University's Board of Trustees has requested approval from the Board of Governors for the Corporation to issue debt in the form of a bank loan in an amount up to \$26,500,000 to finance the renovation, fund capitalized interest and pay costs of issuing the Debt. The Debt will mature not more than twenty (20) years after issuance and will have approximately level annual debt service payments.

The debt service payments will be secured by revenues legally authorized for such purpose pursuant to Section 1010.62, Florida Statutes. These are limited to revenues derived from operations of the USF Arena and Convocation Center and include event rent, facility fees, concessions, event parking, sponsorships, advertising, novelties, convenience charge rebates, premium seating, and naming rights. In addition, to the extent that net revenues of the Project are less than 120% of annual debt service, the University of South Florida Foundation (the "Foundation") will make-up the amount of the shortfall from their unencumbered cash reserves such that a minimum debt service coverage ratio of 1.2X is maintained. Specifically, on debt service of \$2,217,502, the Foundation is projected to pay for no more than \$700,000 in fiscal year 2011-12, the first year of debt service. The Foundation's contribution to maintain the required debt service coverage ratio is projected to decrease significantly in all subsequent years and is projected to total \$1 million over four years from 2011-12 through 2014-2015. However, the University asserts that the Foundation has sufficient resources to guarantee the full amount of the debt under any and all circumstances.

As of June 30, 2010, the Foundation had an operating investment pool of approximately, \$79 million, all of which would have been available to meet this obligation. The Foundation's unrestricted net assets equaled negative \$16 million. Although the available assets are currently negative, USF believes that the long-term temporarily restricted assets of the Foundation of more than \$137 million provide reasonable assurance that the Foundation can meet its obligations to maintain a 1.2X debt service coverage ratio. The USF Foundation has additional commitments relating to debt guarantees formally pledging \$536,000 per year towards the USF St. Pete Student Center Debt and informally committing to serve as a financial guarantor of the USF

CAMLS facility debt, issued in the total amount of \$20 Million with a maximum annual debt service of \$1,673,587.

As of December 31, 2010, the Corporation's outstanding debt includes Certificates of Participation Series 2005A, Series 2005B, Series 2005C, Series 2007 and Series 2010-Health and Series 2010-Housing in the aggregate principal amount of \$369,190,000. Approximately 59% of this outstanding debt is variable rate. The University's current policy is not to issue new variable rate debt.

The University of South Florida Financing Corporation Board of Directors, at a meeting held on February 8, 2011, and the University of South Florida Board of Trustees, at its March 4, 2011 meeting, approved the Project and the financing thereof.

Supporting Documentation Included:

1. Requesting Resolution
2. Project Summary
3. Attachment I - Estimated Sources and Uses of Funds
4. Attachment II - Historical and Projected Pledged Revenues and Debt Service

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