J. BEN WATKINS III
DIRECTOR

STATE OF FLORIDA
DIVISION OF BOND FINANCE

MEMORANDUM

To: Board of Governors

From: J. Ben Watkins III

Date: September 19, 2019

Re: University of South Florida Financing Corporation Research Park Project

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 South Florida Finance Corporation's ("USFFC's") proposed financing of the construction of a mixed use lab and office facility in the University's Research Park in Tampa (the "Project"). DBF has also reviewed the Board of Governors ("BOG") staff analysis of the Project. Below are the specific concerns that DBF identified for the BOG's consideration in connection with its evaluation of the Project.

University Use of Project

The pledged portion of the USF Research Park consists of three buildings in addition to the Project: University Technology Center I ("UTC I"), University Technology Center II ("UTC II") and the Multi-Tenant Office Building ("MTOB"). Presently, a large percentage of the leased space in the USF Research Park is utilized by the University. Two buildings, UTC I and UTC II, are occupied solely by the University and have an average occupancy rate of 100% over the last 5 years. However, one of the buildings in the Research Park, MTOB, is occupied by a mix of private and university tenants. As provided by USFFC, this building has had a year-end average vacancy rate of 21% over the last 5 years. While the demand study demonstrates a need for community research space, there are no commitments from private users to lease space in the USF Research Park, and leasing is not expected to begin until 6 months after construction completion. The Project's demand study is based on demand from the private market, but indicates that USF's academic departments could be used to backfill the Project if that demand does not materialize.

If the University ultimately occupies vacant space in the Project, a further analysis of the lease payments is required. While the University is permitted to lease space, because the Project is debt financed, the University may only make rental payments from certain authorized sources. Section 1010.62(3)(a) prohibits the use of operating revenues but does allow payments to be made from money received for overhead and indirect costs of grants. While the demand study indicates a need for additional lab space by university departments, it does not indicate whether the academic programs that require lab and office space have sufficient overhead and indirect costs of grants that may be pledged to pay rent. To emphasize the express limitation on the source of University rental payments, DBF suggested additional language to the approval section of the BOG resolution, which has been incorporated by BOG staff.

Disclosure Best Practices

The Board should require the voluntary disclosure of this direct-placement loan. Municipal market regulators are concerned about the lack of transparency of bank loans utilized by municipal issuers. In fact the SEC recently amended Rule 15c2-12 to require the disclosure of bank loans or direct placements incurred after February, 2019. Additionally, the Government Finance Officers Association recommends the voluntary disclosure of bank loans as a best practice. USFFC should review its debt portfolio and provide voluntary disclosure to the investor community of any and all bank loans.

cc: Marshall M. Criser, Chancellor, Board of Governors
Chris Kinsley, Assistant Vice Chancellor, Board of Governors