STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
Florida State University
Athletic Indoor Practice Facility

Project Description: The proposed multi-purpose indoor practice facility project (the "Project"), will include the construction of one building consisting of an indoor football field as well as improvements to adjacent outdoor practice fields. While the Project will serve several intercollegiate athletic programs, the primary emphasis is on the football program.

The Project qualifies as a capital outlay project under s. 1010.62, F.S., and is included in the University's Campus Master Plan.

Facility Site Location: The proposed location is within the footprint of the existing outside football practice fields located on the west side of the main campus of the University.

Projected Start and Opening Date: It is anticipated that the Project will begin in August 2012, and the facility will be open in the Fall of 2013, available for practice in time for football season.

Project Description/ Need: The Project will ensure student athlete safety and allow athletic practices to continue to take place regardless of inclement weather. NCAA rules require that outdoor athletic activities be suspended and athletes taken inside whenever lightning is detected within a 6-mile radius of an event. Because thunderstorms and lightning are frequent in the Tallahassee area, these practice delays are common. NCAA rules also limit the number of hours per week that a student athlete can practice. However, hours spent waiting out a thunderstorm do not count towards those practice hour limits.

Project Cost and Financing Structure: The proposed Project construction cost is estimated to be $17,260,000. The Project will be partially financed with fixed-rate, tax-exempt revenue bonds issued by FSU Financial Assistance, Inc (the "DSO"), in an amount not to exceed $15,650,000 (the "Bonds"). Proceeds from the Bonds will be used to fund a portion of the Project and pay costs of issuance. The Bonds will mature not more than 30 (thirty) years after issuance, and will be structured with level annual debt service payments with the first principal payment occurring in October 2013 and final maturity in October 2042. Funding for a debt service reserve fund will not be provided. The DSO also plans to contribute $2,000,000 cash from the Seminole Boosters to the cost of the Project.

(See Attachment I for an estimated sources and uses of funds.)

Security/Lien Structure: The Bonds will be secured by the Pledged Revenues, which consist of several revenue sources of the DSO. The Bonds will be further secured by a guaranty from the Seminole Boosters. The Bonds will be issued on parity with previously issued bonds of the DSO currently outstanding in an aggregate principal amount of $61 million.

Pledged Revenues and Debt Service Coverage: The Pledged Revenues consist of gross revenues of the DSO which are collected from four main sources, including conference facility and suite rentals, University Athletic Department rent, trademark revenues and net ticket revenues.

Conference facility and suite rental revenues are derived from leasing the 94 skyboxes at Doak S. Campbell Stadium. Suites are leased for five-year periods, creating a steady revenue stream. The suites have been 100% leased since they were opened in 1994 and currently have a waiting list of 15 entities. Rental revenues are expected to increase slightly in 2014 because of upgrades to the suites.

The University Athletic Department pays rent to the DSO for the use of certain athletic facilities including the basketball practice facility at the civic center. This rent is $1,850,000 annually; it is not expected to increase as a result of this Project. The Athletic Department pays the rent from operating revenues, which are generated from several sources including: conference distributions, student athletic fees, sponsorships and advertising, game guarantees, bowl games, and television and radio. Over the past five fiscal years, the total revenues generated from these sources have ranged from $23.1 to $29.5 million. Pursuant to Section 1010.62(3)(a), Florida Statutes, no more than 5% of student athletic fee revenues may be pledged for debt service on the Bonds. Student athletic fee revenues were $6.1 million in fiscal year 2006-07 and have increased slightly each year to $7.5 million in fiscal year 2010-11, which would limit their use to approximately $375,000 if student athletic fee revenues remain at their current levels. The University may not legally use any more than 5% of student athletic fees to pay rent to the DSO.

Trademark Revenues represent royalties earned from the sale of officially-licensed FSU merchandise. The royalties are calculated, administered and distributed by Collegiate Licensing Company at 10% of the wholesale price. The trademark revenues have declined over the past five fiscal years, from $2.3 million in fiscal year 2006-07 to a low of $1.8 million in fiscal year 2009-10, with a slight increase to $1.9 million in fiscal year 2010-11. The trademark revenues are projected to increase over the next five fiscal years to $2.2 million in fiscal year 2016. Since trademark revenues are based on sales of FSU merchandise, this revenue stream could be variable as it may be influenced by many factors such as the economy or the success of University athletics.

Net ticket revenues represent a pledge of ticket revenues of up to $5,000,000 annually from the University Athletic Department. For the past five fiscal years, total ticket revenues have been between $15.1 and $18.4 million. Total ticket revenues fluctuate from year to year since they are dependent on ticket sales, which, like the trademark revenues, may be influenced by the economy or the success of the athletic programs,. The pledged portion of this revenue stream, however, seems stable, as the amount of the pledged revenue ($5,000,000 annually) has been equal to approximately one-third of total ticket sale revenues. Further, the University has indicated that they have never drawn on this source of pledged revenues to pay debt service since bonds have been issued, as they have been able to meet debt service requirements with the revenues from the other three pledged revenue sources (conference facility and suite rentals, University Athletic Department rent, trademark revenues).

The Bonds will be further secured by a guaranty from the Seminole Boosters. The operating performance of the Seminole Boosters has weakened recently, resulting from increased financial support to the University Athletic Department. Despite the weakened performance, the expendable financial resources of the Seminole Boosters (in the amount of $61 million as of June 30, 2011) continue to be sufficient to cover the annual debt service payments of approximately $5.7 million including the proposed Bonds, if needed. However, the DSO has not previously relied on the guaranty to meet debt service requirements, as Pledged Revenues have been more than sufficient to cover debt service payments.

During the five year period from fiscal year 2006-07 to 2010-11, pledged revenues remained fairly constant. Revenues fell slightly from $11,848,225 in 2006-07 to $11,327,682 in 2009-10, but rebounded to $11,718,950 in 2010-11. Over the same period, debt service coverage never fell below 2.20x.

For fiscal years 2011-12 to 2015-16, pledged revenues are projected to grow modestly from $11,900,000 to $12,520,000. This growth can be attributed mainly to an expected 15.7% increase in suite rental fees in 2014 due to increased amenities. Support for these amenities and the subsequent increase has been indicated by survey. Projected debt service coverage is expected to be 2.43x in 2011-12 and then decline slightly over the next four fiscal years to 2.18x as a result of debt service from the Bonds being added.

The interest rate on the Bonds has been estimated at 5%.

(See Attachment 2 for a table of the DSO historical and projected revenues and expenses and debt service coverage, which is based on information supplied by the DSO).

Type of Sale: The DSO is requesting approval for a negotiated sale of the Bonds. The DSO provided an analysis of the most appropriate method of entering into this debt (competitive versus negotiated) as required by the Debt Management Guidelines. In light of the unique security structure, the DSO would probably benefit from the additional marketing provided by a negotiated sale.

Analysis and Recommendation: Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the Association with respect to the request for Board of Governors approval for the subject financing. The information provided demonstrates that the DSO has the ability to manage the significant assets available to it to assure that the debt can be serviced in a timely manner. The DSO has historically generated stable revenues with positive debt service coverage and this is expected to continue based on information provided by the DSO. 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.