STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of Florida
University Athletic Association Improvements

Project:	The University Athletic Association (the "Association") Improvements (the "Project") include the construction, renovation and equipping of various capital improvements to certain athletic facilities. The Project may include the renovation of the West Concourse of Ben Hill Griffin Stadium, (the "Stadium Renovations") the renovation of the O'Connell Center 1st Floor (the "O'Connell 1st Floor Renovations"), the renovation of the O'Connell Center Gymnastics Studio (the "Gymnastics Renovations"), covering the tennis courts (the "Tennis Court Renovations"), the renovation of the softball batting cages and locker rooms (the "Softball Renovations") and the equipping of a new scoreboard control and production room for football/basketball/baseball/softball (the "Control Room").
Facility Site Location:	All of the improvements are to facilities located on the main campus of the University of Florida (the "University") and are consistent with the University's Master Plan.
Projected Start and Opening Date:	It is anticipated that construction for the Stadium Renovations will commence in either December 2011 or December 2012 and be completed in either calendar year 2012 or 2013. All other improvements are scheduled to begin construction in May 2012 and be available in calendar year 2013.
Project Description/ Need:	The proposed Stadium Renovations are to the main and upper levels of the West Concourse plus the adjacent restrooms and concessions. The Stadium Renovations focus on updating the finishes, reducing overhead mechanical and electrical utilities, improving crowd flow and improving the functionality of concessions for the users and the vendors. The improvements also include installation of ADA compliant restroom plumbing fixtures, upgrading the fire alarm system and renovating the first aid rooms. The proposed O'Connell 1st Floor Renovations consist of approximately 18,000 GSF of renovation and approximately 14,900 GSF of refinished space in the lower level of the O'Connell Center. The renovation and improvement of the facilities include replacing and updating the currently damaged finishes, providing more

efficient use of space for storage, laundry and vending and creating new public restrooms.

The proposed Gymnastics Renovations intend to address space and heating issues on the north side of the O'Connell Center. The current gymnastics studio provides inadequate square footage, resulting in over-utilization of the space, which can be dangerous for athletes. The Gymnastics Renovations will add more space for training and also include space for the coaching staff that is near the training area. Coaches are currently remotely located on the other side of the building. In addition, the Gymnastics Renovations will include a reconstruction of the roof to address temperature control issues.

The Tennis Court Renovations include the demolition and redesign of the existing tennis practice facility to create a fully enclosed facility. The footprint will remain the same.

The Softball Renovations are to upgrade the Women's Softball Complex and include replacing the existing practice batting facility, adding additional seating and remodeling an existing storage area to create umpire locker rooms.

The Project also includes the Control Room, which includes the equipping of a new scoreboard control and production room for football/basketball/gymnastics/volleyball/baseball/softball.
Currently, the video board productions emanate from a production truck that has suffered significant failure in recent months and is no longer a viable option. The Control Room will provide a long term solution to renting a production truck as well as maximize efficiencies for the Association's electronic media department. Although this item has an estimated useful life of 10 years, which is less than the term of the debt, it is being included in the larger financing for efficiency.

The Project will include any or all of the above depending on ultimate costs of individual items.

Project Cost and Financing Structure:

The proposed Project construction cost is estimated to be $14,850,000. This includes planning, construction and equipment costs of $5.4 million for the Stadium Renovations, $4 million for the Gymnastics Renovations, $1.35 million for the O'Connell 1st Floor Renovations, $1.3 million for the Tennis Courts, $700,000 for the Softball Renovations and $2.1 million for the Control Room.

The Project will be financed with tax-exempt revenue bonds issued by the Association, in an amount not to exceed $15,000,000 (the "Bonds"). The financing is planned to be structured with a 20-year final maturity, with the first principal payment occurring in October 2012 and final maturity in October 2031. While the Association does not expect to set mandatory amortizations, it is planning to make level annual principal payments to retire the debt. This will retire the debt faster than a level debt service structure. Funding for a debt service reserve fund will not be provided.

The Bonds can be issued as either fixed or variable interest rate debt; however, it is expected that the debt will be issued as variable rate (see "Variable Rate Debt" below).

Security/Lien Structure: The Bonds will be general unsecured obligations of the Association payable from available revenues of the Association, including but not limited to, ticket sales, conference revenues, auxiliary sales, sponsorships and such other revenues that may be used, pursuant to Section 1010.62, Florida Statutes to pay and secure debt, other than student athletic fees described in Section 1009.24(12), Florida Statutes. The Bonds will be issued on parity with previously issued bonds of the Association currently outstanding in an aggregate principal amount of $80 million.

Pledged Revenues and Debt Service Coverage: Association revenues are collected from a variety of sources. Operating revenues include ticket sales (with retained sales tax) and conference revenues (primarily football and basketball), auxiliary sales, sponsorship, student athletic fees and other miscellaneous sources. Non-operating revenues are derived primarily from investment earnings and gifts. Although student athletic fees are not available to pay debt service, they are available to pay other expenses of the Association. Since the bonds are general unsecured obligations of the Association, all revenues, including student athletic fees, and all expenses of the Association must be examined to assess the Association's ability to pay debt service.

During the five year period from fiscal year 2005-06 to 2009-10, operating revenues, including student athletic fees, grew from $74,647,917 to $104,495,491 for a total increase of nearly 40% or 10% annually, primarily due to increases in football ticket, royalties and sponsorships revenues. Over the same period, non-operating revenues (including capital contributions) grew from $6,929,291 in 2005-06 to $16,541,753 in 2007-08 and then declined to $6,824,428 in 2009-10, primarily due to fluctuations in gifts for capital projects and investment earnings. From fiscal year 2005-06 2009-10, the Association's expenses, net of depreciation and interest expense, grew from $66,330,012 to $88,302,533 for an increase of 33% or 8.3% on an average annual basis. Over the same period, revenues available to pay debt service after payment of annual expenses grew from $15,247,196 to $23,017,386, producing debt service coverage ratios of 3.74x in 2005-06 and 2.68x in 2009-10.

For fiscal years 2010-11 to 2014-15, operating revenues are projected to grow from $100,551,229 to $118,603,503 or approximately 4.5% average annually. Minimal increases in football ticket prices have been assumed and no increases in basketball ticket prices. Non-operating income is projected to remain steady, with $2,345,462 projected in 2010-11 and 2,927,696 projected in 2014-15. Expenses, net of depreciation and interest expense, are expected to grow by approximately 8.7% average annually from $80,763,709 to $109,036,104. Projected Association revenues available to pay debt service vary from a high of $25,632,982 in 2010-11 to a low of $15,995,095 in 2014-15. This variation in revenues available for debt service is primarily a result of the Association's practice of budgeting for operating revenues below amounts anticipated to be collected. Resulting projected debt service coverage ratios range from 4.43x in 2010-11 to 2.48x in 2014-15.

The interest rate on the Bonds has been estimated at 6%.

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

Variable Rate Debt: The Association is currently planning to issue the Bonds as variable rate. However, depending on interest rates at the time of issuance, the Association may choose to issue fixed rate bonds. After the issuance of the Bonds, Association's debt outstanding will total close to $93 million, with approximately 65% of the debt carrying a variable rate of interest or a periodic multi-annual remarketing structure. The Debt Management Guidelines do not set a specific limit on the amount of variable rate debt which may be outstanding. However, in making a determination of the proper level of variable rate debt, the Guidelines do require an understanding of the associated risks, a plan for addressing and mitigating those risks and the expected benefit to be derived from issuing variable rate debt. On balance, the Association has indicated an understanding of these risks and benefits as discussed below.

The Association has approximately twenty years of experience managing its variable rate debt portfolio since its first variable rate debt issuance in 1990. The Association believes, based upon an analysis it has performed, that it can save in excess of $3 million on a present value basis by issuing the Bonds on a variable rate basis. The Association has also prepared a debt management plan related to the issuance of the proposed Bonds as variable rate debt. The purpose of the plan is to mitigate the liquidity and interest rate risks over the life of the debt.

If issued as variable rate bonds, the Bonds provide the bondholders the right to put the securities back to the Association, thereby creating potential liquidity risk. The Association will obtain either a direct pay letter of credit or a liquidity facility from a bank to mitigate the liquidity risk. It is anticipated that the direct pay letter of credit or liquidity facility will have renewal terms similar to the direct pay letter of credit the Association currently has for its outstanding debt. The existing facility is for a five year term with an evergreen provision which requires that the Association be provided a notice of non-renewal each year or the facility will automatically renew for an additional year. The current letter of credit is due to expire on October 1, 2012 and will either be renegotiated or replaced at that time. The Association has periodically reviewed the cost and availability of letters of credit from other banks and has consistently received indications of interest from several banks at competitive rates.

With regards to managing interest rate risks, the Association budgets for variable rate debt each year considering the volatility of short-term interest rates and their impact on the budget as well as expectations regarding interest rates. The current practice is to budget based upon the highest monthly rate for the preceding twelve months. Quarterly monitoring of debt service expenditures, projections and variations from budget will be performed by the Director of Athletics, the Association Finance Committee and the chair of the Association Audit Committee so that any budgetary problems can be recognized and addressed very quickly.

The Association has stated that it will also maintain appropriate amounts of short-term and long-term investments as a hedge against rising interest rates on its debt. The financing documents require the Association to maintain unrestricted cash and marketable securities of at least 25% of its outstanding indebtedness. The short-term investments average on a monthly basis, approximately $20 million. The long-term investments totaled approximately $38 million, at

June 30, 2010. The short-term investments are invested with the State's Treasury Investment Pool and earn interest at a variable monthly rate. These investments should perform as a direct hedge against approximately one-fifth of the outstanding and proposed variable rate debt because the interest received on the investments should increase as the interest rate paid on the variable rate debt increases. The long-term investments are currently invested primarily in equity funds. These investments might not perform in the same manner as the variable rate debt because their value and earnings, under varying market conditions, could decline when the interest rate on the variable rate debt is rising. Although investing in equity funds does not provide the most stable or predictable hedging tool, the $38 million in those funds, along with the $20 million in short-term investments, does provide significant protection to the Association in the event of an increase in interest rates.

Type of Sale: The Association is requesting approval for a negotiated sale of the Bonds. The Association provided an analysis of the most appropriate method of entering into this debt (competitive versus negotiated) as required by the Debt Management Guidelines. A negotiated sale is the best method for implementing a variable rate financing.

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 Association has the ability to manage the significant assets available to it to assure that the debt can be serviced in a timely manner. Furthermore, the assets of the Association, including the short-term investments, put it in a very strong position to manage the interest rate risk and liquidity risk associated with variable rate debt. 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.