STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
University of South Florida
USF Sun-Dome Renovation Project

Project Description:	The proposed renovation of the USF Sun-Dome (the "Project") is for the purpose of extending the useful life of the facility, which was originally constructed in 1979. Based upon professional surveys, the university believes that unless these renovations occur, the facility has reached the end of its useful life. Previous repairs and modifications have not extended the useful life of the facility. 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 the facility up to current code. The Project is consistent with the Campus Master Plan.
Facility Site Location:	The Project will retain its current location on the main campus, in the USF athletic district.
Projected Start and Opening Date:	Construction of the Project is expected to commence in March of 2011, following Board approval and is anticipated to be completed and available for use by November 2011.
Demand Analysis:	The university commissioned POPULOUS, a global design firm specializing in comprehensive design services, including sports architecture, conference and exhibition center architecture, interior design, environmental graphics and way-finding, events planning and overlay, master planning, sustainable design consulting and facilities operations and analysis to explore concepts that would extend the life of the Sun-Dome for an additional 30 years. The consultant determined that the arena has reached the end of its

effective life due in part to age and in part to a lack of preventative maintenance. The existing management of mechanical infrastructure is inefficient and obsolete, and POPULOUS recommends a total replacement of the entire existing mechanical infrastructure. Building systems that need replacement include electrical, seating and HVAC. Moisture infiltration is also a problem. Correction of any one major deficiency will trip thresholds requiring that the entire facility be brought up to code in all health safety areas.

The University retained a nationally recognized real estate, hospitality, and sports venue consulting firm, Convention, Sports, and Leisure International, to prepare a market and financial analysis comparing the costs of constructing a new stadium, a complete renovation of the existing Sun-Dome or the minimal required renovation of the arena for life safety and to avoid closing the facility. This analysis indicated that while additional revenues would be generated by a new arena or major overhaul, the additional costs would not be offset by these additional revenues.

Project Cost and Financing Structure:

Total Project costs of $35 million will be financed using cash contributed by the University of $8.5 million from existing auxiliary reserves and $26.5 million in debt to be incurred by the University of South Florida Finance Corporation (the "Corporation"), a University direct support organization, using a private placement bank loan with BB&T. The loan is secured by various revenues associated with operation of the arena, as well as the pledge of revenues from the USF Foundation, another University direct support organization.

The USF Foundation has made an unrestricted pledge to satisfy debt service to the extent all other pledged revenues are insufficient. Specifically, s. 1010.62 F.S. provides that "The assets of a university foundation and earnings thereon may also be used to pay and secure revenue bonds of the university or its direct-support organizations."

The Debt will mature no later than twenty (20) years after issuance and will be structured with level debt service payments based on the interest rate. The first principal payment will occur in July 2012.

The loan will bear interest at a fixed rate for twenty years.

It is estimated that 80% of the debt will be issued as tax-exempt debt and 20% will be issued as taxable debt because of private use issues.

The Corporation has a commitment letter from BB&T indicating that it will finance the Project at a combined rate of 5.52%.

(See Attachment 1 for an estimated sources and uses of funds).

Security/Lien Structure: The Debt will be secured by a lien on certain gross Project revenues, including event rent, facility fees, concessions, event parking, sponsorships, advertising, novelties, convenience charge rebates, premium seating, and naming rights. To the extent needed to achieve 1.2X debt service coverage, the USF Foundation has pledged its available assets. Although the available assets are currently negative, USF believes that the Foundation's long-term temporarily restricted assets of more than $137 million provide reasonable assurance that the Foundation can meet its obligations to service the debt for the Project.

For the past three fiscal years, operating income from arena operations alone would not have been sufficient to pay for Sun Dome operations. Without additional financial support from the University, arena and convocation center operations would have generated net operating losses of ($333,500), ($418,500) and ($91,500) for the years 2007-08, 2008-09 and 2009-10, respectively. Accordingly, historical revenues cannot support the Project's expected debt service and the Project will not generate sufficient additional revenues to pay for itself. However, the University has committed additional revenues from the USF Foundation which it believes are legally available and will allow the Project to cover debt service and be well maintained and operated. The financial feasibility of the Project is dependent on the USF Foundation's formal agreement to make contributions to the Corporation such that net operating revenues are at least 120% of annual debt service.

In this regard it is important to note that for the most recent financial period, as of June 30, 2010, the USF Foundation had investments in its operating investment pool of approximately $80 million and an unrestricted fund balance of negative $16,542,081. The University has stated that 100% of the operating investment pool is available to meet the Foundation's financial commitments and that there is no direct relationship between the Foundations's operating pool and the deficit in unrestricted net assets. The deficit is the result of the required reclassification under generally accepted accounting principles of accumulated investment losses on donor-restricted endowments. Accounting principles do not allow accumulated losses to reduce the other net asset categories; therefore, these investment losses are offset against unrestricted net assets.

The Foundation's $80 million in its operating investment pool is available to support its shortfall guarantee of the Sun Dome Arena and Convocation Project. However, the USF Foundation has additional commitments related to debt guarantees including 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.

The University Board of Trustees initially approved a resolution requesting the Board of Governors approve the issuance of debt to finance the Project on December 16, 2010. Subsequently, the Trustees revised the requesting resolution on March 4, 2011 to remove a reference to a $10,000,000 future PECO appropriation as a funding source for the Project; remove the commitment of $750,000 in recurring revenues from Parking and Food Services which would have a required a Board determination of a functional relationship; reduce the total debt by $8.5 million and include a University contribution of $8.5 million. The university contribution will be a pro-rata assessment from each auxiliary enterprise unrestricted cash and investment balance.

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 and the Corporation believe that they continue to be in compliance with all required covenants and commitments required by the outstanding Certificates of Participation and/or other Debt instruments.

Pledged Revenues and Debt Service Coverage: The primary sources of revenues pledged to pay the Debt are gross operating revenues of the Project which includes event rent, facility fees, concession sales, novelty sales, parking revenues, premium seating revenues, advertising and sponsorship revenues, and naming rights. It also includes a lien on the USF Foundation assets. On its own, the Project cannot generate sufficient revenues to provide adequate debt service coverage. However, the additional revenues provided by the USF Foundation allow for adequate debt service coverage for the life of the Debt.

Several primary sources of revenues being pledged to pay debt service are new and have no historical performance. Additionally, several historical sources of revenues are projected to grow significantly, including event rent and facility fees. While the University has the benefit of prior experience in running the Sun-Dome, the DSO charged with doing so, Sun-Dome, Inc. has achieved an operating loss each of the past three years ($145,239 in 2010, $434,817 in 2009, and $328,411 in 2008).

For fiscal year 2011-12, which is the first year of principal and interest on the debt service, through fiscal year 2014-15, the pledged gross revenues of the Project including expected contributions from the Foundation are projected to increase from $4,067,260 to $4,137,233 and produce gross debt service coverage ratios of 1.83x in 2011-12 and 1.87x in 2014-15. The Foundation is projected to contribute a total of $1 million over four years, from 2011-12 through 2014-15. The Foundation payment is projected to decrease from $700,000 in 2011-12 to $25,000 in 2014-15, as other Project revenues increase. Because expenses of operating the arena must be considered when analyzing the financial feasibility of the project, debt service coverage based upon net revenues must also be reviewed. Without the Foundation payment, the implied net coverage ratio for 2011-12 is projected to be 0.88x and increase to 1.19x in 2014-15. The Foundation's contribution will increase to the extent that projected revenues are less or projected expenses are greater. However, the intent is for the Foundation's contribution each year to allow the Project to achieve a net implied coverage ratio of 1.2x for the life of the Debt. Annual debt service will be structured on a level basis, assuming a 5.52% interest rate, and is projected to be no more than $2,217,502 in any given year. If the projected growth in revenues is not achieved, it will not likely adversely affect the payment of debt service because the pledge of Foundation revenues provides that debt service payments will be paid by the Foundation.

(See Attachment 2 for a table of historical and projected pledged revenues and debt service coverage prepared based upon revenue and expense information supplied by the University).

Type of Sale: The University is requesting approval for a negotiated sale through a private placement of the debt with a commercial bank. The university issued an RFP to several banks and entered into negotiations with the bank offering the best terms in order to select

BB&T Bank. The University provided an analysis of the most appropriate method of issuing the Debt (competitive versus negotiated) as required by the Debt Management Guidelines. In that analysis, the University states that it will not be able to obtain a rating on the Debt and the security for the Debt consists of revenues that are relatively new and unproven. Both of these factors would make it extremely difficult to sell the Debt through a public offering.

USF has not selected an independent financial advisor through a competitive selection process to advise them with regards to this transaction; instead it is relying on in-house expertise.

Analysis and Recommendation:

Staff of the Board of Governors and the Division of Bond Finance has reviewed the information provided by the University with respect to the request for Board of Governors approval for the subject financing and make no recommendation with regards to the Project. The projections provided by the University indicate that the revenues from the Project, as well as revenues of the USF Foundation which have been legally committed will be sufficient to pay for the required debt service and operating expenses.

The financial success of the Project is dependent on the realization of certain additional revenues which are inherently speculative, such as naming rights. Since the implied net debt service coverage is at 1.2X, a relatively small decrease in projected revenues or increase in operating costs will require the USF Foundation to commit funds beyond the amounts projected.

It is uncertain as to whether or not the Project will meet the revenue projections provided. Failure to meet projections could create budgetary challenges. The University believes it has sufficient financial flexibility to absorb any operating deficits without creating a materially adverse effect on its athletic programs or student athletic activities.

The SUS Debt Guidelines state that:

One of the most important components of an effective debt management policy is an analysis of what level of debt is affordable given a particular set of circumstances and assumptions. More comprehensive than simply an analysis of the amount of debt that may be legally issued or supported by a security pledge, the level of debt should be analyzed in relation to the financial resources available to the university and its DSOs, on a *consolidated basis, to meet debt service obligations and provide for operating the university.*

This project on a stand-alone basis is not financially feasible, nor is it part of a larger system, such as housing, where it would be considered financially feasible as part of the whole. However, the University has made financial commitments through the pledge of Foundation assets that ensure adequate debt service coverage, and believes this project is vital to the strategic mission of USF.

The Project, taken as a whole, represents an exception to this fundamental Guideline principle of financial feasibility. Otherwise, the proposed financing appears to be in compliance with the Board of Governors Debt Management Guidelines. The University believes an exception to the Guidelines is warranted, and that the Board should adopt the resolution authorizing the proposed financing, as provided in s. 1010.62.