STATE UNIVERSITY SYSTEM OF FLORIDA

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<u>MEMORANDUM</u>

TO: Board of Governors Facility Committee Members
Board of Governors Members

FROM: Marshall M. Criser, Chancellor

DATE: January 25, 2021

RE: UF UAA $50M Debt issuance for Athletic Improvements

On the January 27 Facilities Agenda is a proposal by UF's University Athletic Association (UAA) to issue up to $50 million in debt to help fund athletic improvements. Under the current Debt Management Guidelines (hereinafter Guidelines), the debt structure presents two deviations; first, related to the financial impact of COVID, debt service coverage is below 1.20x; and second, non-level debt service when the project is viewed on a stand-alone basis. These issues are discussed in greater detail in the Project Summary and supporting exhibits within your Board package, so I will keep this summary at a high level.

1. *Debt Service Coverage below 1.20x*

The Guidelines require a minimum 1.20x debt service coverage. Due to the pandemic, UAA projects an operating loss this year and a moderate recovery next year, with resulting debt service coverages of 0.00x and 1.04x, respectively. While both periods fall short of the minimum, the issue is isolated to those two years, as UAA anticipates a return to normal operations (and a healthy debt service coverage) in future periods. Because this is isolated to Fiscal Year 2020-21 and 2021-22, the deviation from the Guidelines is mitigated by UAA's cash and investments of roughly $100 million, providing significant resources to cover any anticipated operating shortfalls, as outlined below:

Long-term cash & invest .	$49.2M
Short-term cash & invest.	54.0M
Less: restricted	(42.0M)[1]
	$61.2M
Less: FY21 loss	(24.0M)
Net cash & invest	$37.2M [2]

Option: The Board could make an exception to the current Guidelines on the debt service coverage issue as an anomaly due to the pandemic.

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1 Indenture-required set-aside equal to 25% of outstanding debt, currently $29M, will increase to $42M with this proposed new debt.
2 Potential additional revenue, resulting in extra cash flow, may increase this balance.

2. *Non-Level Debt Service*

The Guidelines apply the requirement of level debt service on a per-transaction/loan basis and not the entire portfolio, whereas the UAA project relies on overall athletic revenues of the UAA (i.e. the project is not revenue generating). As such, the debt service analysis may be more appropriately evaluated on the basis of UAA's aggregate portfolio. UAA has successfully managed its debt for the better part of 20 years, with a demonstrated level of expertise on its entire debt portfolio. Including this $50 million debt deal in UAA's portfolio achieves a more level debt service on the aggregate portfolio. Their goal is to achieve a more level debt service obligation over the near term (2021-22 through 2031-32).

Option: The Board could make an exception to the current Guidelines on level debt service by looking at the UAA's entire athletic portfolio which has more level debt service over the short term, with declining debt service in the out years. Staff, consulting with the Division of Bond Finance, will also develop recommendations to the Board to address amendments to the Guidelines that consider project as well as portfolio performance.

Finally, Board staff is evaluating a request from the universities to consider short term financing alternatives to address seasonal cash flow requirements for athletic operations. These challenges are aggravated by COVID, but are also present in normal operations. There are statutory limitations involved and we are consulting with the Division of Bond Finance to determine alternatives. I expect that we will be prepared to present more information at the next Board meeting.

Thank you.

C: Vikki Shirley, General Counsel
Tim Jones, Vice Chancellor
Kevin Pichard, Director
Ben Watkins, Director, Division of Bond Finance