



April 18, 2013

Mr. Chris Kinsley
Director, Finance and Facilities
Board of Governors
325 W. Gaines Street
Tallahassee, Florida 32399

Re: Authorize Issuance of Debt by the USF Financing Corporation to Refinance the Cost to Renovate the USF Arena and Convocation Center

Dear Chris:

On behalf of the University of South Florida Board of Trustees and the President of the University, I am pleased to submit this letter requesting approval to issue \$20,000,000 of debt by the USF Financing Corporation to refinance the cost to renovate the USF Sun Dome Arena and Convocation Center.

We are resubmitting this Arena financing request pursuant to the resolution adopted by the Board of Governors on March 24, 2011 approving \$26,500,000 in debt to renovate the USF Sun Dome Arena, which stated an understanding that the University could return to the Board of Governors in the future when they had financial information which would support the reduction of a \$20,000,000 set-aside.

The USF Sun Dome Arena is arguably the most iconic structure and one of the most important assets of the University today, and has been for the past 30 years. The Arena is the only facility on campus large enough to accommodate student commencements and other large University events. It is essential that this key structure continue to serve students, faculty, staff and the community.

Due to the age and condition of the USF Arena's core systems, the decision was made to proceed to fully renovate the facility's key infrastructure (electrical, plumbing, HVAC) and add new venues to the Arena to enhance the participant experience and generate new revenue. Due to efficient and sustainable systems built into the Arena, we believe the renovated building will soon receive a LEED certification.

We believe strongly that this proposed Arena financing is both sound and fiscally prudent for the University. We want to stress that this proposed financing has been considerably strengthened, when compared to the previous proposal submitted to the Board of Governors on March 24, 2011, for a number of important reasons described below.

Arena Net Revenues Support Appropriate Amount of Debt

The proposed Arena debt of \$20,000,000 has been reduced from the previous financing proposal (\$26,500,000) to strengthen debt service coverage ratios and eliminate any need for support from non-Arena sources, such as the USF Foundation. We modeled Arena revenues at various levels of debt and also carefully assessed coverage ratios, including and excluding the benefit from the Arena naming rights, in order to be conservative.

The total Arena project cost of \$35,640,000 plus the debt service reserve (\$1,636,000) is being funded by the amount of proposed debt and by equity contributions of \$10,000,000 from the USF Foundation and \$7,354,000 from the University. These USF equity contributions to the Arena project fund the public aspects of the project.

Please note that this financing proposal includes a funded debt service reserve of one year of maximum annual debt service or an estimated \$1,636,000, strengthening this plan of finance.

The University has eliminated the risk of construction costs exceeding the project budget by completing the project prior to seeking financing.

A significant portion of the renovation cost was devoted to adding many new revenue generating capacities to the Arena, such as an interior concourse level surrounding the seating bowl with concession stands to meet today's spectator demands, 10 new loge boxes with premium seating, 3 new club facilities, new television broadcast capabilities, a modern center hung scoreboard with display and ribbon boards for added sponsorships and advertising, and a large retail store at the main entrance. These are all revenue generating enhancements unique to our new Arena.

Advantages for Arena Operations

The Arena's past two years' historical performance was impacted by its closure early in fiscal year 2011, due to poorly functioning mechanical and HVAC systems. The Arena remained closed due to needed renovations until opening for University commencement ceremonies in May 2012. Below are key points to Arena Operations:

The period spent renovating the Arena added three significant advantages for the successful future operation of the Arena:

1) Outsourcing to Leading Private Sector Organizations

Responsibility to manage the Arena was outsourced to Global Spectrum (a Comcast corporation), the largest and most capable sports and convention venue management firm in the

United States. Global Spectrum has comprehensive relationships with the largest entertainment and talent organizations in the country. The decision to outsource Arena management gives USF confidence that we will meet our revenue and performance expectations for the Arena.

Key Arena concession contracts were outsourced to our longstanding partners Coca-Cola and Aramark, both major national corporations specializing in sports facility concessions, to Ticketmaster for ticket sales, and to IMG Sports Marketing, the premier collegiate and professional sports marketing firm in the United States for marketing Arena sponsorships, advertising and, importantly, the naming rights.

Arena naming rights are being aggressively marketed nationally by IMG and locally by USF. IMG has sold naming rights for many major sports facilities across the country. The Arena naming rights have already been marketed nationally by IMG and locally by USF to dozens of firms, with USF having received serious expressions of interest from a number of major national firms. IMG has told us that we will receive our greatest value for the naming rights if we wait until the renovated Arena is operating and its success is proven.

2) Extended Longstanding Concession Contracts

During the past year, we concluded contract negotiations for a 5-year extension to our long-standing Pouring Rights Agreement with Coca-Cola. The extension agreement increased our minimum contracted revenues from Coca-Cola by 50%, from \$800,000 to \$1,200,000.

Last year we also completed an extension of our concession agreement with Aramark. Aramark also committed to contributing \$724,000 in concession equipment to the new Arena.

Concluding contract extensions for these two key contracts also adds confidence in our revenue projections.

3) Commenced Operations in Renovated Arena

Importantly, we have commenced operations in the newly renovated Arena, prior to debt issuance, which is an advantage compared to most debt financing proposals.

In 2012-13, the first full year of operations, we expect to realize \$1,432,000 of Arena net income. In 2013-2014, we expect Arena net income to grow to \$2,085,187, based on increased ticket and event pricing, increased attendance, added premium seating revenues, increased sponsorship revenue, increased concession revenue, tight operating expense controls.

Governor Scott's Request to Assess the Merits of Financed Projects

The renovation of the USF Sun Dome Arena was necessary due to major systems having reached the end of their useful life after 30 years. A feasibility study was conducted in 2009 and considered options to renovate or demolish/replace the building. The most cost-effective solution for the Arena was determined to be a complete interior renovation. This study indicated a

conservative cost to completely replace the Sun Dome would have exceeded \$100,000,000, approximately three times the \$35,640,000 renovation cost.

An assessment of return on investment measures for the Arena Project indicated the following:

- The \$35,640,000 Arena Project pro forma IRR of 8.71% exceeds the University's minimum required IRR of 7.36%
- The Arena Project generates a positive net present value of \$5,650,000 over the life of the Project
- The Arena Project achieves a positive cash payback within the 30-year life of the Project

As disclosed in the previous section, the University has extensively engaged the private sector in support of the renovated Arena, in those areas where there was a demonstrated need for nationally recognized private sector operating expertise and an opportunity for private sector financial contributions.

56% of the total cost of the renovation is proposed to be funded by debt, the balance funded by internal cash resources. Very little of the revenues that cover debt service and operations are derived from students.

We believe that this debt proposal meets the Governor's intent to reduce costs, provide tangible benefits for students, generate revenue and not overly rely on debt to fund University construction.

Commercial Bank Loan Commitment for the Arena Project

The USF Financing Corporation issued an RFP for 20-year privately placed bank term financing for the USF Arena and received five loan proposals from banks in March 2013 to lend \$20,000,000, based on the Arena's pro forma pledged revenues.

We believe that obtaining commitments to lend the requested \$20,000,000 from commercial banks willing to underwrite the Arena's credit risks, on favorable terms, prior to consideration by the Board of Governors, is a significant event that speaks directly to the financial viability of the proposed financing.

The selected bank's loan terms and 20-year fully taxable fixed rate of 4.05% are more favorable than our financing assumption of 5.25% contained in the 2013 Arena financing plan.

Financial Advisor Recommendation and Conclusion – USF Arena Financing

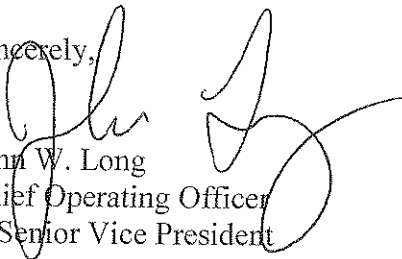
Public Financial Management Group (PFM) was retained as our financial advisor to provide an independent assessment of the proposed USF Arena financing structure.

PFM states the following recommendation and conclusion:

In PFM's opinion the credit structure described herein is conservative, prudent and well crafted, with adequate bondholder protections in the event that Pledged Revenues are not generated as outlined in the pro forma. In addition, the structure does not introduce unreasonable risks to the University. Based on PFM's thorough review of the credit structure and loan proposals received, we have recommended that the University select SunTrust Bank as the loan provider and move forward expeditiously with the closing to lock in the favorable terms.

Our requested date to present this request to issue \$20,000,000 in debt to refinance the USF Sun Dome Arena renovation to the Florida Board of Governors is the June 18-20 meeting.

Sincerely,



John W. Long
Chief Operating Officer
& Senior Vice President

cc: John Ramil, Chair, University of South Florida Board of Trustees
Judy Genshaft, President, University of South Florida

Frank Brogan, Chancellor, State University System of Florida
Richard Beard, Chair, Facilities Committee, Florida Board of Governors