PFM®
The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

Lincoln Plaza
Suite 1170
300 S. Orange Avenue
Orlando, FL
32801-3470

407 648-2208
407-648-1323 fax
www.pfm.com

April 1, 2013

# Memorandum

**To:** Fell Stubbs, Executive Director – University of South Florida Financing Corporation

**From:** David Moore, Managing Director – Public Financial Management
Jay Glover, Managing Director – Public Financial Management

**Re:** University of South Florida Arena and Convocation Center Project – Financing Structure Review

---

Public Financial Management ("PFM") has been retained by the University of South Florida (the "University" or "USF") to serve as financial advisor on its proposed issuance of $20,000,000 of debt to refinance a portion of the cost to renovate the USF Arena and Convocation Center Project (the "Project") and to fund a debt service reserve fund equal to one year's debt service. The scope of this review did not involve PFM preparing a feasibility report on the operations of the Arena including the revenue and expenses expected to be generated by the Project. Rather, PFM reviewed the financial proforma prepared by the University and assisted with the development of the plan of finance and credit structure as well as review of the bank loan proposals received by the University.

## Project Description

Based on information provided to PFM by the University, it is our understanding that the Project included modifications to the existing 250,000 gross square foot arena aimed at improving the building's overall functionality. The modifications extended the useful life of the Arena for an additional 30 years which included the replacement of the 10,000-seat bowl structure, added new seating with retractable sections at the lower level, enhanced life safety and energy efficient HVAC, added a new concourse level with concession stands and restrooms, added ten new loge boxes with premium seating, added new student, upscale hardwood and arena clubs, added a new retail area, added a new center hung scoreboard with ribbon and display boards and a 4-cluster sound system, added new NCAA broadcast capabilities including level C lighting and a large media conference room, enhanced the southeast, northeast and southwest entries, modified the temporary hurricane shelter, and restored the plaza, loading dock, broadcast and performer staging areas, sidewalks, parking, landscaping and exterior concrete. The project was completed in May of 2012 at a total cost of $35.6 million, which was initially funded from legally available auxiliary cash resources of the University. From the outset it has been the University's intention to reimburse itself for a portion of the cost via an external financing and as such a reimbursement Resolution was adopted by the University of South Florida Financing Corporation (USFFC) Board of Directors on November 6, 2012. Subsequently, the University Board of Trustees adopted the reimbursement Resolution authorizing the issuance of the debt by USFFC on March 21, 2013.

PFM

the University generated proforma included as Exhibit A. Specifically, the proforma relies on increased Arena Revenues (Pledged Revenues) from $2.96 MM in 2013 to $4.6 MM in 2018 (55% increase). The most significant portion of this revenue stream ($1.2 MM) is related to a recently renewed pouring rights/sponsorship agreement with Coca-Cola that provides for a 50% increase in payments and has a revised expiration date of 2017. It is vital to the ongoing operation of the Arena as well as the timely payment of debt service that this agreement be extended or re-negotiated prior to its expiration date. Based on conversations with the University, it is their expectation that Coca-Cola will enter into negotiations to extend this longstanding agreement prior to its expiration, as well as match any offers from competitors. Another element of the Pledged Revenues that warrants discussion is the Arena naming rights ($255,000 in FY 2014 increasing to $585,265 in FY 2018). Currently there is not a contract in place for these naming rights, but the University has engaged IMG Sports Marketing to accurately value and actively market them on a national basis. As such, PFM has recommended to USFFC that the proforma debt service coverage calculations be shown with and without naming rights revenues.

Preliminary revenue projections were prepared by Convention Sports & Leisure ("CSL") in its 2009 Feasibility Assessment: Sun Dome Renovation or New Arena Development. While CSL was not retained to update their feasibility study based on the final project configuration, the Project is generally consistent with the recommendations in the feasibility report. Due to the competitive environment for similar facilities, it is impossible to determine whether the additional revenues will materialize as projected, but the study demonstrates that similar facilities are able to generate similar revenues. It is worth noting in the study that the Arena's geographic location, anticipated renovation and link to the University will likely be a significant asset in the effort to draw new, more lucrative activities to the Arena.

Based on the revenue and expense estimates included in the proforma, the Arena is projected to generate positive net income in FY 2013. These projections represent six months of actual performance and a forecast for the balance of the year. Upon issuance of the contemplated debt, the Arena is projected to continue operating at a surplus in FY 2014-FY 2018. In addition, gross debt service coverage ranges from 2.48 times to 2.81 times over this timeframe. When analyzed on a net coverage basis (after payment of operating expenses) the debt service coverage ranges from 1.48 times to 1.70 times (with naming rights included) and 1.20 times to 1.34 times (without naming rights included). The University has indicated its intention that the Arena will be operated in such a manner that will allow the net debt service coverage ratio to be maintained at a minimum of 1.30 times.

Given the uncertainty regarding the magnitude of certain revenue streams and expense projections, it is important to have additional liquidity for bondholder protection. As such, PFM recommended that USSFC fund a debt service reserve equal to one year's debt service. In the event of unforeseen circumstances, the DSRF would be available to make debt service payments and allow the University time to make strategic long-term decisions regarding changes in the operating parameters required to return the Arena to profitability. This reserve will remain in place through the duration of the financing and, if ever used, would be replenished from next available Pledged Revenues.

# Exhibit A:

# Financial Proforma Developed by the University

**Notes & Assumptions**

(1) The financial information related to revenues and expenses was provided by the University of South Florida.

(2) The decrease in revenues and operating expenses from FY 2008-09 to FY 2011-12 was due to a steady decline in events held in the arena. During FY 2010-11, the arena was closed due to poorly functioning mechanical and structural elements. The arena was closed for most of FY 2011-12 for renovation.

(3) The significant increase in revenues and expenses in FY 2012-13 is due to the opening of the renovated arena which can now accommodate additional, higher margin events - details provided below, and also due to the recent hiring of Global Spectrum to manage the arena. Global Spectrum is a worldwide leader in the venue management industry and the world leader in managing university arenas. Current figures and projections for the arena were provided by Global Spectrum; guidance was also provided in a feasibility study performed by Conventions, Sports & Leisure in April 2009 that assessed the market and financial potential for a renovated or new Sun Dome Arena.

(4) The increased event rent revenue in FY 2012-13 is due to an increase in the number of larger events that will be charged a full market rate. At an average of approximately 175 events per year, average event rent will increase from $2,500 to $3,700 per day. Event rent is projected to increase to an average of $4,400 per day in FY 2013-14 due to an additional increase of $2,000 to $6,000 per day for University events. Projections for FY 2014-15 and thereafter are based on an assumed growth rate of 5% per annum.

(5) The increased facility fee revenue in FY 2012-13 is due to an increase in facility fee per ticket for basketball events, from $1.00 to $2.25, and an increase in facility fee per ticket for concerts and other external events, from $1.00 to $2.50. Projections are based on an annual increase of $0.25 per ticket.

(6) The increased concessions revenue in FY 2012-13 is due to an increase in the number of concessions stands on the new concourse level and due to an increase in realized revenue per attendee related to new and enhanced premium food/beverage offerings, an increase in the number of events and attendance at each event. The University recently partnered with Aramark Corporation for its concessions program. Aramark supports more than 200 premier sports, entertainment, recreational, and educational sports facilities in the U.S. Projections are based on an assumed growth rate of 5% per annum.

(7) The Coca-Cola pouring rights / sponsorship contract was extended for five years in August 2012 at a negotiated per annum amount of $1,200,000 through FY 2016-17, up $400,000 per annum from the expiring contract at $800,000 per annum.

(8) The event parking revenue in FY 2012-13 is based on the anticipated event mix, whereby patrons are charged for event parking reflecting the current availability and ability to charge for parking. Projections are based on an assumed growth rate of 5% per annum.

(9) Premium seating projections are based on net revenue from loge suite sales (i.e. loge suite gross sales less basketball ticket fulfillment costs) and an annual club access contribution from USF Athletics for donor club seating sections. Loge suites are estimated to net $28,000 to $32,000 per suite per annum and USF Athletics contribution for club access is $40,000 per annum. Projections are based on an escalating level of loge suite sales to FY 2014-15 and are also based on an assumed growth rate of 5% per annum.

(10) The increased sponsorship revenue in FY 2012-13 is due to the increased value and inventory of sponsorship opportunities: increased number of events, spectators and visibility (over 300,000 in annual attendance, over 150 annual events, member of The Big East Conference which nationally televises all men's basketball games). Projections are based on an assumed growth rate of 5% per annum.

(11) Projected naming rights revenues in FY 2013-14 are based on an initial value of $650,000 (excluding other sponsorship components) less applicable annual commission fees to third party sales agent and one-time/upfront fulfillment costs associated with implementing naming rights. The University Athletics Department also has a longstanding relationship with IMG, the world's leading sports talent and licensing management company. IMG has valued and will be marketing the Naming Rights for the Arena. Projections thereafter are based on a growth rate of 3% per annum.

(12) Event expenses typically include expenses directly associated with providing ticket takers, ushers, security, event changeover crews, materials, supplies and other such expenses. The costs are passed through to the event promoters plus a premium rate, an average of 15 percent. The premium charges generate net revenue to the arena and can be pledged to pay debt service. The expense reimbursements are included under expenses as an offset to direct costs and indirect operating costs of the arena. The costs are based on the type of event and number of people in attendance. Event expenses are projected to grow at a rate of 3% per annum.

(13) Novelties, ticket fees (e.g. convenience charge rebates, box office fees) and other revenues are each expected to increase due to the a new team merchandise store and increased number of events and attendance; projections are based on an assumed growth rate of 5% per annum. Convenience charge rebates are rebates that the arena receives from the third-party ticket agents, such as Ticketmaster, who is contracted to sell tickets. It is estimated that third-party ticket sellers will sell 60 percent of market-driven event tickets. Box office fees are fees charged on transactions directly fulfilled at the ticket office point of sale.

(14) Projected debt service is calculated based on the assumed par amount of $20 million, financed over a period of 20 years at an assumed interest rate of 5.25%. The proceeds of the debt will be used to refinance a portion of the costs of the Project, to fund a Debt Service Reserve Fund and also to pay for costs of issuance.

(15) Unless otherwise indicated, all projected expenses are based on an assumed growth rate of 3% per annum.

(16) Scoreboard contribution represents an annual cash outflow to a scoreboard manufacturer based on percentage share of sponsorship / advertising revenues related to certain corner scoreboard units. Contribution amount beginning in FY 2013-14 is based on the five year historical average. Projections are based on an assumed growth rate of 5% per annum.

(17) Maintenance & Utilities represent routine maintenance and utility costs for operating the facility.

(18) The University Management Fee is collected by the arena and offsets operating costs associated with the management of fixed assets, including custodial and maintenance costs. Projections are based on a management agreement with the University.

(19) The University is restricting arena net income after operations and debt service to a dedicated account to accumulate cash funds for future operating support (if needed) and future renovation and replacement reserves.