STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Project Summary
UF University Athletic Association, Inc.
Athletic Improvements, Phase 3

Project Description:

The University of Florida's (UF) University Athletic Association (UAA) is proposing an athletic improvements project, specifically Phase 3 of a 4-phase initiative.

For perspective, prior phases included the construction of UF's new Florida Ballpark baseball stadium and renovation of the Katie Seashole Pressly softball stadium, financed in part by $50M debt authorized by the Board in 2018. And, looking forward, the tentatively planned Phase 4 will renovate and expand Ben Hill Griffin football stadium.

The currently proposed Phase 3 project includes two components: (i) construction of the new $85 million Bill Heavener Football Training Center and (ii) a $7.5 million renovation and expansion of the Soccer and Lacrosse Stadium Complex (collectively, the "Project"). At the time of the 2018 debt authorization for Phase 2, the UAA represented that the currently proposed project would be fully funded through future donations. However, anticipated capital contributions have fallen short, thus the $92.5 million project will be financed, in part, with $50M debt, as well as private donations and, to a lesser extent, UAA capital.

Bill Heavener Football Training Center

The planned 140,000 sq ft facility will serve as the new headquarters for UF football student-athletes and staff, providing meeting rooms, locker room, strength and conditioning area, training room and coaches' offices, and will be located adjacent to the practice field. The front lower quadrant of the building will be for all student-athletes and will feature a dining hall and lounge, along with outdoor activities and amenities.

Soccer and Lacrosse Stadium Complex

The proposed project also includes improvements to the existing Lacrosse and Soccer Practice facility. The Lacrosse facility improvements will include a reception area, coaches' offices, storage and work areas, while the Soccer facility will represent an addition to the Lacrosse building, providing coaches' offices, locker room, training area, equipment storage, and other program spaces. This will allow the Soccer program to be housed at their practice/game field rather than being scattered over several current locations. A multi-purpose classroom/team meeting room is also programmed.

The Project is included in the University's campus master plan, and specific legislative approval of the Project financing has been obtained, effective 7/1/20. Also, the Project (and proposed financing) was approved by the UAA Board of Directors and the UF Board of Trustees on 12/2/20 and 12/4/20, respectively.

Facility Site Locations: The Project is located in two separate areas. The Bill Heavener Football Training Complex will be constructed in the now vacant location of the old baseball stadium (the old stadium has been razed). The Soccer/Lacrosse Complex is located near the practice fields. (*See attached Map & Artist Renderings*)

Projected Start and Opening Date: (i) Preparation for construction of the Bill Heavener football training complex began five months ago (July 2020) with demolition of the old baseball stadium and minor site work (cost incurred to date is $6.4M). Construction completion is expected in Spring 2022.
(ii) Renovation and expansion of the Soccer and Lacrosse facility is currently in the design phase. An official start date would be no sooner than August 2021 and is expected to take 12 months.

Demand Analysis: *Bill Heavener Football Training Center*

This facility will benefit all UF student-athletes. It will serve as the new headquarters for Florida football and includes a prominent and visible entrance intended to capture the attention of recruits and fans. The facility includes an indoor practice field, as well adjacent team locker room, coaches' offices, dedicated team lounge space, and state of the art weight room and conditioning space, maximizing logistical efficiency. An enhanced sports medicine and rehabilitation area will have state-of-the-art resources.

The front lower quadrant of the building will be a dining hall and lounge area available to <u>all</u> student athletes. Also, with the daily activities of the football program moving out of Ben Hill Griffin Stadium (and into the proposed complex), the vacated spaces will be available for future development to benefit other student-athletes and football fans.

Soccer and Lacrosse Stadium Complex

In 2016, the UAA had a feasibility study completed to evaluate relocating the Soccer program to the Lacrosse site. At the time, the soccer competition field was a shared space with the track and field stadium, which, given its dimensions, precluded the UAA from hosting post-season championships. Subsequent to this study, Soccer has permanently relocated to the original lacrosse stadium. As such, UAA would like to move all related support services for these teams to the current site. The planned renovations and expansion of the current facility will accommodate this relocation of support services.

Study of Private Sector Alternatives: The Project consists of athletic facilities managed and operated by the UAA for the benefit of student-athletes and the athletic programs at the University. The programs and services offered at these proposed facilities are directly correlated and impacted by the physical proximity to athletic facilities, housing, dining and academic programs. The UAA is also convinced that the advantages of proximity also affect student-athlete recruitment and retention. As a result, there are no private sector alternatives that can provide the same level of access and service as the proposed Project.

Project Cost and Financing Structure:

Total Project cost is estimated at $92.5M, as reflected in the table below, and will be funded with $50M in debt proceeds and $42.5M in contributions from private donors and, to lesser extent, unrestricted UAA cash. (See attachment *Estimated Sources and Uses of Funds*)

Project	**Cost**
Soccer and Lacrosse Stadium Complex	$7,500,000
Bill Heavener Football Training Center	$85,000,000
Total:	**$92,500,000**

The financing structure has not yet been determined; several options are being considered. As such, UAA is seeking an authorizing Resolution from the Board providing flexibility to issue the Debt utilizing a structure that is deemed most advantageous (by UAA) for UAA at the time of issuance. This could include some combination of publicly offered bonds and privately placed debt, with an interest rate that is variable, short-term or long-term fixed, or some combination thereof. Debt service will be calculated based on a 30-year amortization and final maturity. However, if all or a portion of the debt is placed directly with a bank, this could be done via negotiated process, with an initial term no shorter than 5 years and no longer than 20 years, requiring subsequent renewal/refinancing.

The UAA is seeking this flexibility with regards to financing methods due to current unprecedentedly low borrowing costs; short-term and long-term interest rates are exceedingly low. The UAA's goal is to issue the Debt using the method that is projected to result in the lowest cost of capital while maintaining a conservative risk profile. Based on market conditions closer to the time of sale, the UAA will review the all-inclusive interest costs, terms, and advantages/disadvantages of a public offering compared to a direct placement, and determine the financing method and structure deemed most advantageous to UAA at that time.

Security/Lien and Financing Structure:

The debt will be issued on a parity basis with the outstanding UAA debt totaling $114,260,000, as of 10/1/20. Outstanding debt is comprised of $59.3M, or 52%, of variable rate and short-term fixed rate obligations, as well as $54.8M in older debt with interest rates that are (now) fixed through maturity. With the addition of the proposed Debt, UAA will have approximately $164.3M debt outstanding, of which approximately 67% will be in variable rate and short-term fixed rate modes.

The UAA has indicated the most likely financing structure will be a short-term fixed rate debt with an initial term of 10 years. Again, payments are based on a 30-year amortization. Subsequent renewal/refinancing will be required, thus exposing UAA to renewal risk and interest rate risk. Because the future financing structures are anticipated to differ, if for no other reason than different interest rates with each renewal, the debt service will not be level over the life of the Debt. **This is an exception to the State University System Debt Management Guidelines (Guidelines)** (i.e. *debt should be structured on a level debt basis, so that annual debt service repayments will, as nearly as practicable, be the same in each year.*) A mitigating factor is UAA's long history of successfully managing its debt portfolio, which has been predominantly comprised of variable rate and short-term fixed rate debt. In light of the anticipated 10-year initial term, for the purpose of estimating debt service in future periods, it is assumed subsequent renewals/refundings will be for a similar 10-year term, but in an environment of increasing interest rates, thus an increase of 200 bps (2%) is assumed with each renewal (see attached *Estimated Debt Service Schedule*).

The debt will be a general unsecured obligation, payable from available revenues of the UAA pursuant to section 1010.62, Florida Statutes, but excluding (i) Athletic Fees described in section 1009.24(12), Florida Statutes and (ii) any capital gifts and donations.

Pledged Revenues and Debt Service Coverage:

Revenues available to pay debt service consist of all UAA revenues, excluding Athletic Fees and capital gifts and donations, with the primary components being ticket sales and conference distributions related to football and basketball. Additional revenues are derived from other sports, auxiliary sales, camps, royalties and sponsorships. A 5-year history of UAA operations, as well as a 5-year projection of revenues and expenses, is reflected in the attached *Historical and Projected Debt Service Coverage*.

Due to the pandemic, revenues have been significantly impacted. Consequently, the 5-year projection includes negative debt service coverage in FY21. **This is an exception to the Guidelines** (i.e. *the 5-year projection of pledged revenues available to pay debt service should provide debt service coverage of at least 1.20x for both existing parity debt and the proposed new debt in all years within the 5-year projection*). The UAA is projecting a 2-year recovery period (FY21 and FY22) until revenues normalize. In evaluating UAA's capacity for paying debt service, it is important to note that Capital Contributions (i.e. Gifts and Donations) cannot be pledged for repayment, but, over the past 5 years, they have averaged $9.6M annually and are available to pay other expenses of the UAA. Athletic fees averaged $2.5M, and they may be pledged to pay debt service only to the limitation described in s. 1010.62, Florida Statutes. These sources are not included in the projections to accurately reflect UAA capacity for debt repayment from core operations and permissible sources. Furthermore, while operations have been significantly impacted by the pandemic, UAA's balance sheet provides substantial resources available to subsidize operations and pay debt service. UAA's unrestricted long-term investments totaled $49.2M as of 6/30/20, with aggregate (restricted and unrestricted, long-term and short-term) cash and investments totaling approximately $100M.

UAA has discounted FY22 projected revenues by 10% (compared to a 3-year average of normal operations; FY18-FY20) in anticipation of possible further disruption from the pandemic.

Management of Variable Rate Debt:

The debt is expected to be issued for an initial term shorter than the 30-year amortization. While not a true variable-rate structure, interim/short-term calls on the note will require renewal/refinancing at interest rates yet to be determined, exposing UFUAA to interest rate risk similar, in part, to a variable rate structure.

Over the past 20 years or more, the UAA has successfully managed its debt portfolio with a mixture of variable rate and short-term fixed rate structures. While part of this is attributable simply to the downward trend in interest rates over the period, UAA has demonstrated a level of expertise in understanding the risks and complexities associated with variable rate financing and has utilized the "short end" of the yield curve to its advantage, effectively minimizing its cost of capital. With regard to managing interest rate risk, UAA considers the volatility of short-term interest rates and their impact on their budget, as well as expectations regarding future interest rates. The current practice is to budget based upon the highest monthly rate for the preceding twelve months, with a review of predicted future federal rate increases. Quarterly monitoring of debt service expenditures, projections and variations from budget are performed by the Director of Athletics, the Association Finance Committee, and the chair of the Association Audit Committee so that any budgetary concerns can be recognized and quickly addressed.

The UAA also maintains short-term and long-term investments as a partial hedge against the impact of rising interest rates on its debt. Financing documents (on previously issued debt) require UAA to maintain unrestricted cash and marketable securities of at least 25% of its outstanding indebtedness. Per UAA, short-term investments average approximately $54M on a quarterly basis, of which approximately $29M is restricted to meet the 25% reserve requirement. This amount will need to be increased to $42M if the proposed $50M Debt is issued. The short-term investments are held in the State's Treasury Investment Pool and earn interest at a variable monthly rate. As of June 30, 2020, UAA long-term investments totaled $49.2M, Combined, UAA investments (including cash) totaled approximately $100M.

In light of their variable earnings, UAA short-term investments should perform as a direct hedge against variable rate and short-term fixed debt in UAA's portfolio, as the interest received on the investments should increase as the interest rate paid on the debt increases. Note, UAA long-term investments are mostly in equity funds, which can be converted to cash within 90 days. These investments generally do not perform in the same manner as short-term/variable rate debt, thus they are not a hedge, as previously described, but represent additional resources that may protect the UAA in the event of an increase in interest rates.

The UAA does not intend to use derivatives for this transaction.

Quantitative Metrics: *Bill Heavener Football Training Center*

The lower quadrant of the proposed facility will be a dining hall available to <u>all</u> student-athletes, providing increased capacity over current accommodations. The current student-athlete dining hall is undersized and underserves the needs of the current student-athlete population. Over 450 students utilize the existing dining hall daily. The facility has seating/serving capacity for 125 students, whereas actual need is closer to 250. The new facility will provide greater capacity in terms of seating, service and food choice.

The sports health training room and hydrotherapy spaces in the new facility will greatly improve the overall health and well-being of the student-athletes. It will triple the number of hydrotherapy pools and incorporate new, improved equipment and latest practices and technology, which, together, will have a positive impact on student-athletes.

Housing the proposed football complex in relation to outdoor practice fields maximizes logistical convenience, avoiding the current issues with travel time and safety concerns for athletes crossing the road fully dressed for practice. Expansion of the existing space was considered, but it was deemed sub-optimal due to the lack of proximity to the practice fields.

While this facility will not be a revenue generating facility, it will allow more efficient use of staff/students time and resources, allow for indoor practice in the event of inclement weather due, and it will aid in recruiting efforts by way of the new facility's aesthetic appeal to prospective student-athletes.

Lastly, certain football-related activities will move out of Ben Hill Griffin stadium and into the proposed new football complex, thus freeing up space at the stadium for future development to benefit other student-athletes and fans.

Soccer and Lacrosse Stadium Complex

The current Lacrosse facility does not include the coaches' offices, nor does it include any support facilities for the soccer program. Currently, coaches' offices for both programs, as well as soccer support facilities, are housing elsewhere on campus in the Lemerand Center near the O'Connell Center. The proposed renovation and expansion (2800 added sq ft for Lacrosse and 1200 added sq ft for Soccer) will create an integrated complex with sufficient capacity to house all support functions for both programs in one facility adjacent to their practice field. This will maximize efficiencies and coordinating efforts. The facility will also provide a 1200 sq ft multi-purpose classroom to be used by both teams.

The existing facilities also create a Title IX equity issue. Currently, these two female sports are the only sports that do not have the ability to house their team functions (and are forced to travel across campus to do so), unlike their male counterparts. This new expansion and renovation would alleviate these inequities.

Type of Sale: The UAA is requesting approval for a negotiated sale of the debt and/or a direct placement with a bank via a competitive/negotiated process. Based on the UAA negotiated sale analysis, the factors indicate a negotiated sale is appropriate and in the UAA's best interest.

Selection of Professionals: The professionals involved in this transaction were selected through a competitive process. The bond counsel for the debt will be McGuireWoods LLP and the financial advisor will be RBC Capital Markets. These professionals have been in place for ten years.

Analysis and Recommendation: The proposed financing does not comply with the State University System's Debt Management Guidelines. Deviations from the Guidelines are represented in (i) non-level debt service over the life of the Debt and (ii) a minimum debt service coverage ratio of 1.20x is not achieved in each year of the 5-year projection. The risks associated with these two exceptions are, for the most part, mitigated by (i) UAA's demonstrated history of successfully managing debt structured with variable and short-term fixed rates, and (ii) UAA's significant cash and investments. With that said, however, in light of currently unprecedented low interest rates, it seems imprudent not to lock-in at today's levels. As such, staff recommends approval of the Project and debt, but only on a fixed rate basis and for a term no less than ten (10) years.