Competitive vs. Negotiated Sales: Analysis of Conditions Favoring Each Method of Sale
University of North Florida Financing Corporation Capital Improvement Revenue Bonds, Series 2007B (Student Union)

Debt Structure	**Conditions Favoring A Competitive Sale**	**Conditions Favoring A Negotiated Sale**	**Sale Type Favored By Conditions**	**Explanation**
Pledged Revenues	General Obligation or Strong Revenue Stream	Non-tax based or Project Supported Revenues	C/N	The Financing Corporation has pledged a student approved per credit hour "student union fee" as security for the Lease Payments under the Operating Lease. The bonds are not secured by any interest in, lien or mortgage on the Student Union or the underlying land of the project. The revenue stream being pledged is thus classified as a non-tax based project supported revenue. Florida law does not allow the University or the Financing Corporation to issue general obligation bonds and/or permit the pledging of student tuition revenues (i.e. a "general receipts pledge" that includes all non-State revenues of the University), and the student union fee pledge is a weaker pledge than a general receipts or general obligation pledge of the University. However, the student union fee is a mandatory fee per credit hour and overall University credit hours have demonstrated consistent annual growth. While this pledge is considered more speculative than a general obligation or general receipts pledge, the market will readily accept the security for the proposed bonds.
Security Structure	Conventional resolution and cash flow: Rate Covenant and Coverage	Unusual or weak covenants	C	The BOG Debt Policy requires 1.20x coverage. This bond issue will fully comply with BOG and UNF policy and will include strong covenants and level annual debt service.
Debt Instrument	Traditional Serial and Term Bonds, Semi-annual Interest and Annual Maturities	Use of Innovative Structuring, Structure to Attract Particular Investors	C/N	While the Series 2007B Bonds will be traditional fixed rate bonds with both serial and term maturities and semiannual interest payments, this is one of the first fixed rate debt issues by the Financing Corporation. The proposed bond issue will be familiar to the proposed market but the University and the lease based pledge will be new to the capital markets.
Size	A transaction the size of which the market is used to and can comfortably manage.	A large size which the market cannot readily handle without the need to consolidate syndicates	C/N	While approximately $20-25 million is a relatively small issue, it should be easily absorbed in the market. Given the Financing Corporation's lack of history in the market, underwriters will need to make a concerted effort to educate investors on the University, the Financing Corporation, the Project and the proposed pledged revenues.

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Rating	'A' or better	Below Single A	C/N	The Financing Corporation expects to receive an investment grade underlying rating and it expects to receive favorable insurance bids (price and conditions) that would allow the bonds to also be rated AAA based on bond insurance. However, the Financing Corporation reserves the ability to issue non-insured bonds should the price and conditions relating to bond insurance be deemed unsatisfactory and/or not cost-effective.
Outlook	Stable	Uncertain, Vulnerable or weak	C	The outlook for the proposed project and pledge of revenues will likely be considered stable. A stable outlook is produced due to the mandatory nature of the fee and the stability of the University's credit hour production.
Type of organization	Well Known Broad-based General Purpose Borrower	Special Purpose, Independent Authority	C/N	A competitive bid does not provide the full marketing opportunity that individual contact and negotiation affords. There is implied credit strength as a state university. However, because the University doesn't have any fixed rate debt outstanding, the investing public is not familiar with the University. Furthermore, the type of organization acting as the borrower is the Financing Corporation, not the University, which increases the need for explanation of the transaction. Also, the State of Florida, the University and the Financing Corporation are not obligated to repay the bonds, but the University is leasing the project subject to the availability of sufficient pledged revenues. The University's prior debt has all been variable rate. Fixed rate investors have never been exposed to the University or the Financing Corporation and will require an education on the University and underlying creditworthiness of the bonds over a 1-30 year period. Should Student Union experience challenges due to lower enrollment, competing universities or a factor beyond the University's control such as a hurricane, the investors won't have the ability to "put" the bonds at par if they no longer wish to own the securities. Instead they would have to sell them in the market based on the market price taking into account the market's outlook for the University and the Financing Corporation at that time.
Frequency of issuance	Regular borrower in the public market	New or infrequent issuer	N	Neither the University nor the Financing Corporation has issued fixed rate bonds, and thus are completely new to such investors.

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Market Awareness	Active Secondary Market with broad Investor Base	Little or no institutional Awareness of Issuer	N	The University and the Finance Corporation are unknown in the market to investors who purchase fixed rate debt. Because there is no fixed rate debt outstanding, there is no secondary market and no investor base for the Financing Corporation's debt at this time.
Interest Rates	Stable/Predictable Market	Volatile or declining market	C/N	Since interest rates will be set for 30 years for the fixed rate Series 2007B Bonds, it is important to be able to access the market quickly during periods of volatility to take advantage of favorable moves in interest rates. A negotiated sale can take place immediately as long as the preliminary official statement has been issued for at least 2 business days and premarketing has occurred. While it benefits the Financing Corporation to have the preliminary official statement circulated at least 3-5 days prior to the sale and have an extended premarketing period, a negotiated sale can be undertaken immediately if market conditions are extremely beneficial or volatile. In competitive sales, many underwriters and salespeople do not commit an extended period to review a credit, and this incentive is lessened for a smaller transaction with an unfamiliar name and security.
Supply and Demand	Strong Investor Demand, Good Liquidity, Light Forward Calendar	Oversold Market/heavy supply	C/N	While there is currently strong investor demand in the municipal market, there has been extremely heavy supply over the past several months. Due to this moderate to heavy issuance, strong competition among bond issuers in the market and unfamiliarity with the Financing Corporation, a negotiated offering with extensive pre-marketing and investor education benefits the Financing Corporation to ensure that the most demand as possible is created for the University's bonds.
Changes or anticipated changes in the law	No recent changes or anticipated changes	Recent changes which the market has not adapted to and which would require additional marketing efforts to explain.	C/N	There have been recent substantial changes to Florida law regarding the issuance of debt by universities and their direct support organizations that will need to be explained to the market. Any substantial pending legal changes may impact the sale of the bonds. If pending litigation or legislation exists at the time of the sale, a negotiated sale allows for additional marketing efforts to explain the impact of the issue.

Conclusion and Recommendation Regarding Method of Sale

In conclusion, no one factor is dispositive of whether it is more effective to sell bonds through competitive bidding or negotiation. The results of our analysis show some factors that favor a competitive bid process, and other factors that indicate a negotiated sale is in the best interest of the University and the Financing Corporation. Further, many factors show no strong indication that a competitive bid or negotiated sale would be more effective.

Neither the University nor the Financing Corporation has issued fixed rate bonds and thus the market is unfamiliar with the University, the Financing Corporation, the proposed project and the security for the bonds. The lack of fixed rate bonds outstanding, lack of familiarity with the issuer lessens the motivation for an underwriter to premarket the bonds in a competitive sale and submit the most aggressive bid. The Financing Corporation is a new borrower in the fixed rate market and the fixed rate market has no institutional awareness of the University. Additionally, there have been new and substantial changes to the Florida law regarding the ability of universities and direct support organizations to issue tax-exempt debt.

Underwriters have particular expertise in explaining the transaction, the security, the issuer and its history as well as the changes in the law to the market. In a negotiated sale, the underwriter will undertake a comprehensive pre-marketing campaign utilizing its long-term relationships with retail and institutional investors to explain the lease-based structure and maximize investor demand for the Financing Corporation's bonds. Therefore, it is prudent for the Financing Corporation to utilize this expertise with respect to the Series 2007B Bonds.

Based on the analysis of the characteristics of the proposed Series 2007B Bonds, the Financing Corporation and the University conclude that a negotiated sale of these bonds is in the best interest of the University of North Florida.