



**USF Board of Trustees
Finance Committee
NOTES
August 25, 2020
Microsoft Teams Virtual Meeting**

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Michael Griffin at 2:02pm. Chair Griffin asked Dr. Cindy Visot to call roll. Dr. Visot called roll with the following committee members present: Michael Griffin, Mike Carrere, Les Muma, John Ramil, Charlie Tokarz, and Jordan Zimmerman. A quorum was established. Chair Griffin welcomed Chip Newton, the new USF Foundation liaison to the Finance Committee. Chair Griffin announced that the expenditure approval for the Microsoft Campus Agreement 3 Year Renewal has been removed from agenda item IIIc.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of May 14, 2020 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Griffin requested a motion for approval, it was seconded and the May 14th meeting notes were unanimously approved as submitted by all Committee members present.

b. Fixed Capital Outlay Budget

Nick Trivunovich, Vice President for Business & Finance and CFO, presented the 2020-2021 Fixed Capital Outlay Budget. This budget includes all campuses and all funding sources. Approval of this budget does not mean approval to move forward on any project – the normal approval process will still occur. This budget gives us the authority to consider these projects in the current year, but we will still request the appropriate authorizations for all projects over \$1M under consideration. Two lists were presented – new projects and projects in process. New projects fall into four categories: 1) deferred maintenance less than \$1M; 2) reserves for emergency projects; 3) projects on last year's budget; and 4) projects over \$1M (that would need to come back to this board for approval to move forward). There are four large projects: 1) Southeast Chiller Plant - Chiller and Cooling Tower #4 - \$4.75M; 2) USF Central Plant/Energy Performance-Based Contract - \$12M; 3) TVB 2nd floor renovation - \$2.48M (will be presented in the next agenda item); and 4) Athletics renovation to Offices/Lobby/Lockers/Team Rooms - \$3M).

Trustee Ramil asked if all these projects have been vetted and are in line with our strategic planning and are of a high priority. Mr. Trivunovich responded yes, these projects have been reviewed by senior management. Additional review may be necessary prior to bringing major projects back to the Board. Trustee Ramil also asked if all projects funded with carry forward are in compliance with carry forward rules and regulations. Mr. Trivunovich responded yes.

Chair Griffin would like to know how the projects will be prioritized and what projects can wait. He would like this to be discussed at the September BOT meeting.

A motion was made to: approve the 2020-21 Fixed Capital Outlay Budget; authorize the President, in consultation with the BOT Chair, to make necessary non-material adjustments to the 2020-2021 fixed capital outlay budget, with the requirement that material changes be approved by the BOT (this authorization does not modify the Board's expenditure policies); and authorize the President, Board Chair and CFO to execute a certification required by the State University System Board of Governors relating to the Fixed Capital Outlay Budget. The motion was seconded and approved by all Committee members present.

c. Expenditure Authorization Requests

Mr. Trivunovich presented two expenditure authorization requests for approval by the Finance Committee.

○ **Pharmaceutical Supplies/Cardinal Health - \$2,200,000**

Pharmaceutical Supplies for USF Health Pharmacy Plus (Blanket Purchase Order) with Cardinal Health. The amount is based on last year's volume and projected activity for FY 2020-2021. There is a small margin on sales that goes to support the College of Pharmacy's mission. Chair Zimmerman asked if all the pharmaceuticals are sold before their shelf life expires. Dean Kevin Sneed responded yes, they turnover in the appropriate time. He further explained that expensive medications are not kept on hand, but are ordered as needed. There are very few medications that expire; most all medications are ordered on demand. USF Health Pharmacy keeps only a few vaccines and insulin on hand. Trustee Ramil asked if we have any partnerships to get better pricing. Dean Sneed explained that we are currently working with Tampa General Hospital, and are also in an existing consortium.

A motion was made to approve the expenditures as presented. The motion was seconded and approved by all Committee members present.

○ **2nd Floor TVB Renovation for Muma College of Business - \$2,480,000**

Renovate the 2nd Floor of the TVB building for the MUMA College of Business Center for Talent Development to Support Academic programs for the College of Business. Received a donation to fund this. Trustee Muma explained that the impact of this program will extend beyond the Muma College of Business and give an avenue for students to use their degrees after graduation.

A motion was made to approve the expenditures as presented. The motion was seconded and approved by all Committee members present.

Chair Griffin stated that as we consider our expenditures, we need to be smart with our budget and preserve cash balances and maintain liquidity.

IV. New Business – Information Items

a. Annual Finance Policy Reports

The Annual Finance Policy Report is required by the three BOT Finance Policies (Investment, Debt Management, Derivatives). The Policies were adopted in 2006, and apply to the University and the Direct Support Organizations (DSOs). Fell Stubbs, University Treasurer, presented highlights of the results of the management of USF's Investment, Debt, and Derivatives Portfolios.

1. Investment

The USF investment portfolio consists of 10 USF and DSO portfolios (9 operating portfolios and 1 endowment portfolio). Combined USF/DSO portfolios total \$1.4B, down \$140M over 2019. All portfolios are in compliance with BOT Investment Policy. All asset allocations are within Policy limits. When the pandemic occurred, the University moved swiftly to protect the portfolio. Actions included: preserve assets and limit downside risk; exited volatile domestic and foreign equities; increased U.S. government and high-grade corporate bonds; investments held in well-diversified, low cost index funds; and cash held in U.S. Treasury collateralized accounts. Days cash on hand (key liquidity measure) is 184 days. This compares favorably with our AA peers at 154 days. Mr. Stubbs reviewed the portfolio's 10 year performance. Investment returns have been stable and positive in every year, despite market downturns (2012, 2015, 2016, and 2020). Near-term initiatives include: focusing on priorities (preserving capital and providing University liquidity); preparing for increased demands on the portfolio over next 12-24 months; and monitoring cash and portfolio.

Chair Griffin asked Mr. Newton to say a few words about the current state of the USF Foundation (Mr. Newton is also a director on the Board of Directors of the Foundation). Mr. Newton stated that the calendar year return for the Foundation and the endowment is currently -1.5%. The return for FY2020 is 5.3%. The Foundation is being proactive in managing money wisely and prudently.

2. Debt Management

BOT Debt Management Policy objective is to strengthen the balance sheet. To achieve this objective requires active management. This is accomplished with prudent governance (USF/USF Financing Corporation); maintaining "AA" Moody's and Standard & Poor's credit ratings; effective use of USF debt capacity (only essential projects considered for debt); and managing long-term cost of capital and financial/credit risks. We manage our financing programs within an effective governance structure. Recent examples of responsive management include: conducted review of all bonds for refunding opportunities in June; identified three opportunities and successfully negotiated reductions in fixed rates. One bond transaction closed in FY 2020 for \$27M (USF Research Lab and Office Project). Our debt structure is managed to reduce risk and cost and to capitalize on market opportunities. Three current construction projects: USF St. Petersburg Housing Project – on schedule, on budget; USF St. Petersburg Dining Center Buildout Project – due to change in dining services operator in June, delivery is scheduled for January 2021, over budget by \$1.2M; and USF Research Park Project – on schedule, on budget. Filed voluntary disclosures with rating agencies due to pandemic's effect on Housing, Parking and Marshall Student Center bonds. Trustee Ramil asked if we have heard anything from

the rating agencies since the disclosures. Mr. Stubbs responded that the ratings agencies are pleased that we have made the disclosures and are taking proactive steps. We will need to develop a management plan for how we will make our numbers and take it to the ratings agencies. Trustee Ramil stated that this is good, that ratings agencies like us being aggressive and they do not like surprises.

3. Derivatives

The BOT Derivatives Policy governs all derivatives. We have had no new swaps since 2007 and we are winding down the swap portfolio. We have one swap currently outstanding for \$55M. Looking to exit remaining swap; will terminate swap and convert bonds to fixed rate when termination value is positive.

Trustee Carrere asked if we will be OK on our 3 bond programs (Housing, Parking, Marshall Student Center). Mr. Stubbs explained that we are still waiting to see what the final effects will be and will have a better picture after drop/add next week. We do have a mitigation plan to manage expenses downward and use reserves. We should get through this period of contraction with the use of operating reserves only; will not need to tap into debt service reserves. Mr. Stubbs further stated that the credit ratings agencies do not expect to downgrade any highly rated institutions.

Trustee Tokarz asked if there are any foreseeable problems with our bond covenants due to the decline in revenues. Mr. Stubbs responded that as long as we make our payments on time, we should be fine.

Trustee Ramil explained that it is important for us to meet our targets along the way that we have established – we need to have credibility.

Trustee Carrere asked if the Foundation will be able to continue to provide support to the University in the form of investment returns. Mr. Newton responded yes, the dividend level to the University should be safe for this year (4% dividend on a \$500M endowment that gets returned to the University). A five-year average is used to set this dividend rate. Policies and programs are in place to smooth the volatility and lessen the impact to the University.

Trustee Carrere asked since our budget is being cut by 8.5%, will this prevent us from degrading our cash on hand. Mr. Trivunovich responded that the cuts will be done over 2 years and will reduce cash as we transition over the next 2 years. David Lechner, Sr. Vice President for Business & Financial Strategy, explained that the 8.5% cut is only on state appropriated funds, not on all sources.

President Currall asked how much lower can the days cash on hand go, is there a floor for this measure. Mr. Trivunovich responded that we look at Moody's medians to rate ourselves on this.

Chair Zimmerman asked the status of the budget reduction plans that are due to the President and the Chair by September 2. Mr. Lechner responded that we are working on this and will meet the deadline.

b. Debt Refinancing Opportunities

Chair Griffin introduced this agenda item, acknowledging Chair Zimmerman for leading the charge on this and empowering Mr. Stubbs to get this done. Chairs Zimmerman and Griffin had asked for an analysis of debt that could be refinanced.

Mr. Stubbs gave an overview of USF's recent debt refinancing opportunities. University management assessed all 19 outstanding bond issues for refunding opportunities to take advantage of current low, long-term market interest rates. Management, together with the University's financial advisor, PFM Financial Advisors, identified three direct-placement bonds not constrained by call protection, make-whole provisions or other restrictions on refunding. Management successfully negotiated a reduction in interest rates from 3.50% to 2.25% with the bank holding the three bonds totaling \$30M. This will generate interest savings estimated at \$2.1M over the bonds' remaining 10 years.

Chair Zimmerman stated that this is very exciting news. He congratulated Mr. Stubbs and his team on their good work, as this is also very timely.

V. Adjournment

Chair Griffin asked if Chair Zimmerman had any final comments. Chair Zimmerman stated that this is the most productive committee/board he has served on and congratulated everyone on a great job.

Having no further business, Chair Griffin adjourned the Finance Committee meeting at 3:02pm.