

Annual Finance Policy Reports

*Board of Trustees Finance Committee
August 16, 2022*

Presented by: Fell L. Stubbs, University Treasurer

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Annual Investment Report

COMBINED 10 USF INVESTMENT PORTFOLIOS

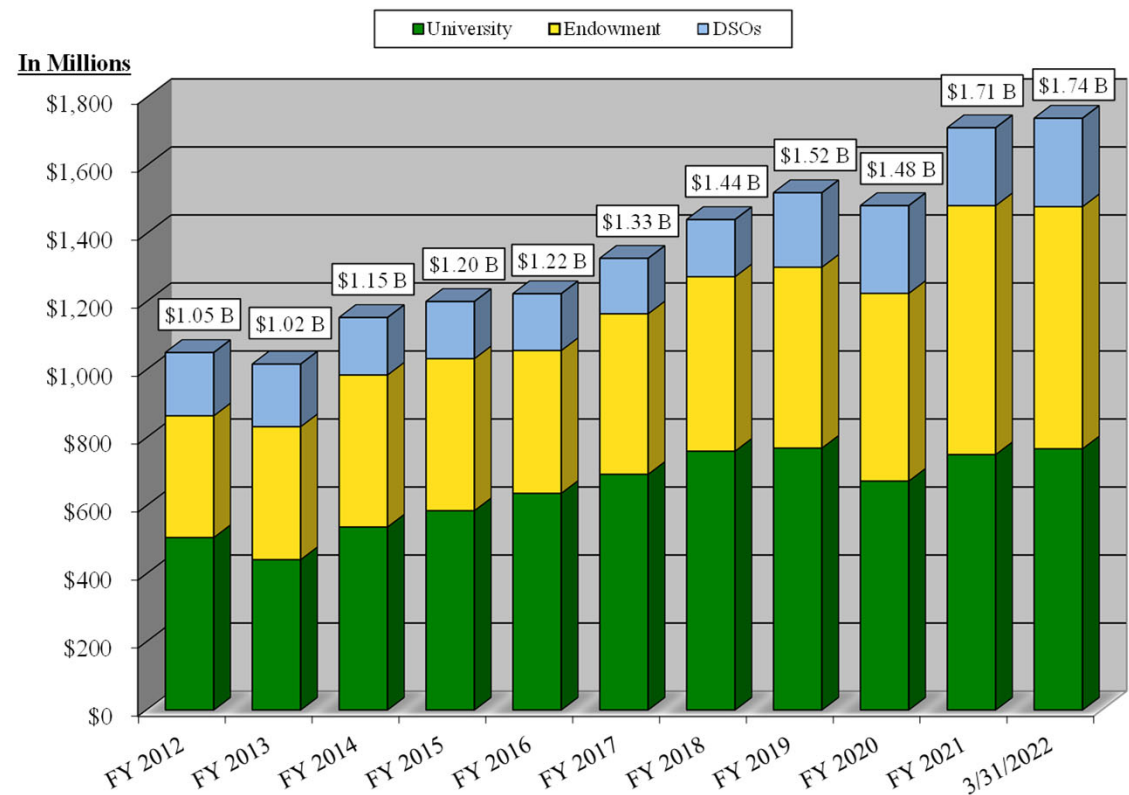
All USF Investment Portfolios Governed by the BOT Investment Policy (Revised 3-8-22)

All USF Investment Portfolios Governed by Investment Committees

Central Oversight of All Investment Portfolios

**Record USF Wealth –
\$1.7 Billion – Steadily Growing**

- **University at \$806 Million (6/30/22),
Endowment at \$712 Million (3/31/22)
are 2 largest of 10 portfolios**



All Portfolios in Compliance with BOT Investment Policy

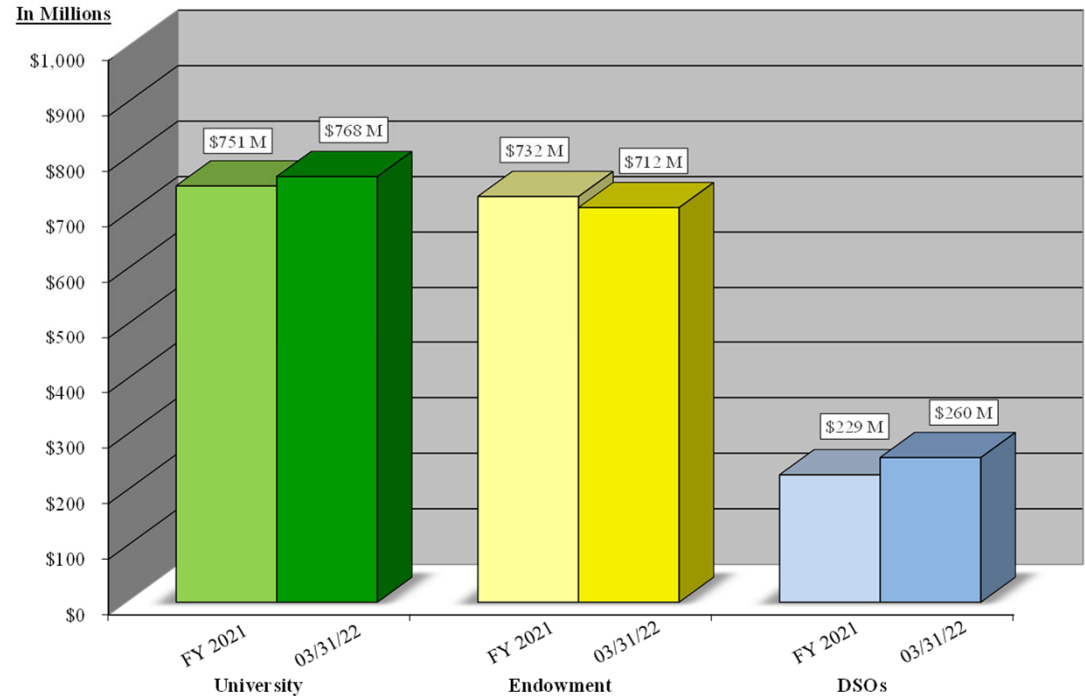
COMBINED 10 USF INVESTMENT PORTFOLIOS

Different Types of USF Portfolios:

- Endowment – USF Foundation
 - Long-term investment horizon
 - Restricted
- Operating – USF and DSOs
 - Short-term investment horizon
 - Liquid

Barometer of Financial Health:

- Growth in portfolios reflects investment performance and net cash flows



Combined Portfolio (In Millions)	University	Endowment	8 Other DSO Portfolios	USF's 10 Investment Portfolios
System Portfolio, 3/31/22	\$768	\$712	\$260	\$1,740
System Portfolio, 6/30/21	\$751	\$732	\$229	\$1,712
Change in System Portfolio	\$17	(\$20)	\$31	\$28

UNIVERSITY INVESTMENT PORTFOLIO

**University Portfolio Provides
Liquidity, Preserves Capital**

University Portfolio Objectives

- Provide Essential Liquidity to Fund Operations – \$2 billion in annual payroll and expenditures
- Preserve Capital – Investing State Funds and Reserves
- Achieve Positive Annual Return in All Market Conditions

USF Liquidity Measure: Days Cash on Hand = 216 Days / Moody's AA Peers = 210 Days

University Portfolio Structure – Balance Risk and Return

- Target Balance: 80% – Short-Term, High Quality Bonds and Cash
- Target Balance: 20% – Domestic and Foreign Equities
- Core Fund Managers – Diversified Bond and Equity Index Funds

University Portfolio Balance – 12 Month Change

- 6/30/22 – \$806 M
- 6/30/21 – \$751 M
- Change – \$ 55 M

UNIVERSITY INVESTMENT PORTFOLIO

Conviction Regarding Portfolio Structure

- Right asset allocation – risk adjusted returns
- Right investment managers and funds – highly diversified, low cost

Portfolio Designed to Preserve Capital and Minimize Risk

- Portfolio generated positive returns in 93% of past 20 periods

Portfolio is Generating Cash

- 12 Month Interest = \$8.6 M
- 12 Month Dividends = \$4.7 M

Bond Funds are Rapidly Repricing

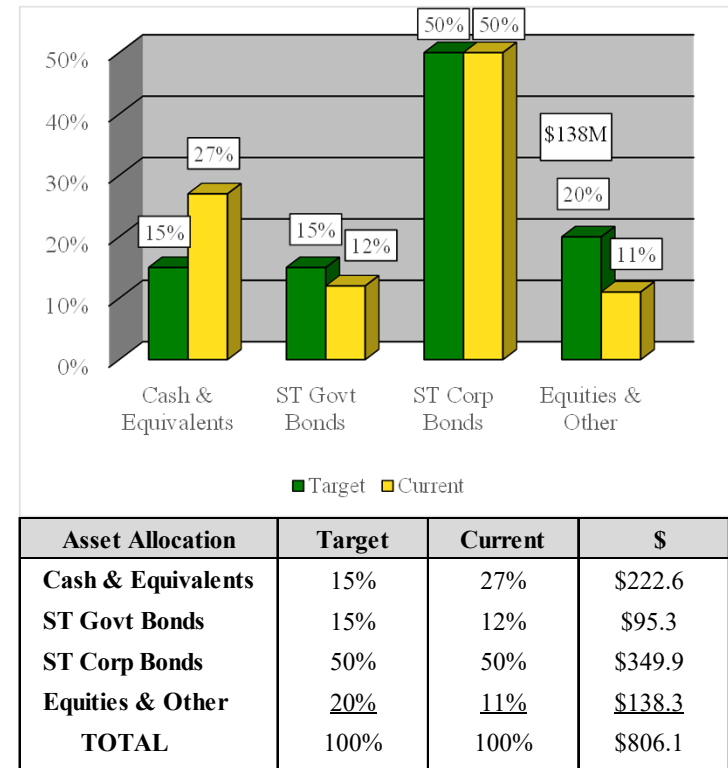
- | | | |
|------------------------|------------------|------------------|
| • Yield to Maturity | <u>July 2021</u> | <u>July 2022</u> |
| Vanguard ST Govt Bonds | 0.50% | 3.30% |
| Vanguard ST Corp Bonds | 0.90% | 4.20% |

Unrealized Losses Will Unwind Once Markets Stabilize

Current Portfolio Strategy

- No buy/sell transactions
- Grow cash position

Portfolio Expected to Meet Objectives



UNIVERSITY PORTFOLIO – 10-YEAR PERFORMANCE

FY 2022 Was a Highly Unusual Investment Market

- Equities and bonds both declined
- Not occurred in 2 decades – since 1999
- Reflects periods of high inflation and slow growth – stagflation

Resulting in First Year of Losses (Unrealized) for USF Portfolio

Period of Stagflation Expected to Continue

USF Returns Vs. Benchmark

	<u>1 Year</u>	<u>5 Year</u>	<u>From Inception</u>
▪ USF Portfolio	(5.2%)	1.3%	2.4%
▪ Benchmark	(5.2%)	1.8%	2.3%

USF 10-Year Risk-Adjusted Returns Vs. S&P 500 and Barclays Agg

	<u>Return</u>	<u>Std Dev</u>	<u>Sharpe</u>
▪ USF Portfolio –	3.3%	3.3%	0.80%
▪ S&P 500 Index –	13.0%	13.7%	0.90%
▪ Barclay's Agg –	1.5%	3.5%	0.30%

UNIVERSITY PORTFOLIO

12-Month Performance	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Annual Investment Income (Loss)	\$14 M	\$27 M	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$4 M	\$27 M	(\$45 M)
Annualized Return - Equities	13.1%	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)	17.1%	(10.6%)
Annualized Return - Fixed Income	0.8%	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%	5.3%	1.4%	(4.3%)
Total Annualized Return	2.7%	2.1%	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%	4.0%	(5.2%)



Annual Debt Management Report

USF DEBT PORTFOLIO

**Governance, Compliance,
Ratings and Cost**

Prudent Governance: Board of Trustees and USF Financing Corporation

Maintain “AA” Moody’s and Standard & Poor’s Credit Ratings

**Compliance with BOT Debt Management Policy, BOG Regulations, State Statutes,
Federal SEC / IRS Laws, Bond Covenant Requirements, Continuing Disclosure
Requirements – Avoid Default**

Effective Use of USF Debt Capacity

Manage Long-Term Cost of Capital, Covenant and Credit Risks

USF Finance Systems

As of June 30, 2022

Outstanding Debt (In Millions)	Housing	Parking	Marshall Center	Health	Athletics	Research	Foundation	Total / Weighted
Total Outstanding Debt per System	\$182.8	\$7.0	\$26.9	\$57.7	\$29.2	\$41.9	\$3.5	\$349.0
Weighted Average Interest Rate	3.95%	2.20%	3.43%	3.42%	3.54%	3.28%	2.63%	3.66%
Moody's / S&P Rating	A1 / A+	Aa3 / AA	Aa3 / AA	NR	NR	NR	NR	Aa2 / AA (University)

NR = Not Rated

MOODY’S / S&P – RATINGS REPORTS ON USF

**Credit Ratings Affirmed in
April / May 2021**

Moody’s Affirmed USF “Aa2/Stable” Rating (5/12/21)

- Market Profile: Excellent strategic positioning
- Operating Performance: USF will continue to demonstrate solid fiscal oversight. However, performance has weakened over the past several years.
- USF’s excellent credit profile incorporates its strong market demand and ongoing prospects for modest enrollment growth as a well-run comprehensive urban university.
- Growth of USF Health and strengthening of Tampa General Hospital’s (Baa1/Stable) role as USF’s academic medical center through a revamped operational structure present upside opportunities over the medium term.
- Monthly days cash on hand of 190 days in fiscal 2020 is strong and above similarly rated peers.
- Effective treasury management includes oversight of direct placement bonds with gradual reduction of demand debt exposure over the last decade.

S&P Affirmed USF “AA/Stable” Rating (4/29/21)

- USF’s enterprise profile and financial profile are very strong.
- Management is quite capable, has a great deal of experience, and has satisfactory policies and practices relative to peers.
- USF has debt and derivative policies and continues to manage its complex debt and derivatives portfolios successfully.

Presentations to Moody’s & S&P in June 2022 – Requesting Ratings on New USF Sarasota-Manatee Housing Bonds

USF DEBT PORTFOLIO

FY 2022 Transactions

Project Financing – Completed / Current

- **\$42 Million, 120,000 square-foot USF Research Laboratory and Office Building Project**
 - Funded with \$27 M private bank loan and \$15 M equity
 - Construction Manager / Architect-Engineer Team: Skanska / Gensler
 - Project completed February 2022

- **\$9.9 Million Central Plant Modernization Project – Heating System Upgrades**
 - Funded with Energy Savings Performance Contract; 19-yr, fixed rate, tax-exempt
 - \$14.9 million in guaranteed savings over 18 years

- **\$9.4 Million Central Plant Modernization Project – Cooling System Upgrades**
 - Funded with Energy Savings Performance Contract; 19-yr, fixed rate, tax-exempt
 - \$19.2 million in guaranteed savings over 20 years



Debt Restructuring – Completed

- **\$45 Million Bond Conversions – Series 2013A&B Health – Tax-Exempt to Taxable Rate**
 - Bonds originally financed Morsani Clinic, South Tampa Clinic, Medical Office Building
 - USF and TGH Affiliation Agreement, effective 10/1/21, clinically integrates operations
 - Transaction resulted in private business use under IRS rules, automatically converted to taxable debt
 - \$358k increase in debt service (FY 2022)

USF DEBT PORTFOLIO

Future Transactions

Project Financing – Anticipated

- **Pending \$43.5 Million USF Sarasota-Manatee Housing and Student Center Project**
 - Funded with \$27 M 30-yr, fixed rate, tax-exempt public debt and \$16.5 M equity
 - Construction Manager / Architect-Engineer Team: CORE Construction / Mackey Mitchell
 - Project approved by USF Board of Trustees in June and being considered for approval by Florida Board of Governors in September
 - If approved, Project is anticipated to open May 2024

- **Pending USF On-Campus Athletics Stadium**
 - Early planning phase underway; anticipated opening 2026 or 2027
 - Developing funding strategies
 - Issued ITN for Design and Construction Services; firms will be engaged to assist USF in verifying scope and cost options
 - Potential funding sources include revenue bond financing, philanthropy (\$10M in gifts secured), cash equity and other sources

**Debt Structured Conservatively /
Capitalize on Market Opportunities**

DEBT MANAGEMENT

Debt Structure Managed to Reduce Risk, Cost and Capitalize on Market Opportunities

Active Debt Management - \$1.9 Billion in Closed Transactions Since 2005 (50 Total)

- Low cost of capital – 3.66%, down from peak of 4.28% in 2014
- NPV savings on refundings – \$30 Million

Rating Agency Recognition of USF Management

- 13 ratings upgrades in 10 years
- Moody's and S&P affirmed University's "Aa2/Stable" and "AA/Stable" ratings in spring 2021

P3s Operating as Expected

- \$137 M Village Housing P3 (2015) – 2,170 beds, dining, recreation
- Publix Grocery P3 (2016) – only on-campus grocery

**Deleveraging Over Time /
Restructuring to Lower Rates**

DEBT MANAGEMENT

(In Millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Moody's Aa2 Medians FY 2021
NEW DEBT		\$20					\$36	\$27			
TOTAL DEBT	\$431	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$370	\$349	\$1,164
LONG-TERM RATE	4.13%	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	3.62%	3.66%	

POLICY MEASURES

(In Millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 (estimate)	Moody's Aa2 Medians FY 2021
<u>OPERATIONS</u>											
Operating Cash Flow Margin (↑)	3.9%	10.2%	7.4%	7.3%	9.1%	7.0%	5.4%	-0.6%	6.3%		13.8%
Operating Margin (↑)	-4.7%	2.4%	0.1%	0.0%	2.0%	-0.2%	-2.3%	-9.6%	-3.0%		6.0%
<u>LIQUIDITY</u>											
Cash & Investments / Operating Exp (↑)	0.58x	0.65x	0.64x	0.64x	0.68x	0.67x	0.71x	0.65x	0.81x		0.90x
Monthly Days Cash on Hand (↑)	167 days	202 days	197 days	200 days	213 days	216 days	210 days	180 days	215 days	216 days	210 days
<u>LEVERAGE</u>											
Cash & Investments / Debt (↑)	1.4x	1.6x	1.8x	1.9x	2.3x	2.5x	2.6x	2.5x	3.1x		1.8x
Debt Service Coverage (↑)	1.1x	4.0x	2.7x	4.1x	4.8x	4.0x	2.9x	-0.3x	3.4x		3.3x
Debt Service / Operating Exp (↓)	2.2%	2.2%	2.2%	1.5%	1.7%	1.4%	1.8%	1.6%	1.8%		5.3%

Rated Bond System Updates – USF Housing System

\$183M USF Housing System (A1/A+)

- Annual debt service payments = \$15.6 M (FY 2023)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- Federal funding of \$21.3 M and expense reductions in FY 2020, FY 2021 and FY 2022 offset Housing Revenues lost related to the pandemic
- Strong recovery in occupancy levels:
 - 51% (fall 2020) / 88% (fall 2021) / +95% (fall 2022)
- Continued growth in reserves:
 - \$46 M (FY 2020) / \$52 M (FY 2021) / \$63 M (FY 2022)

Housing System *	FY 2018	FY 2019	FY 2020 **	FY 2021 **	FY 2022 ** (estimate)	FY 2023 (budget)
Occupancy (Fall)	101%	94%	98%	51%	88%	+95%
Revenues	\$46,792,061	\$45,165,802	\$45,167,526	\$34,365,132	\$55,134,763	\$47,843,587
Expenses	<u>\$27,014,570</u>	<u>\$24,615,242</u>	<u>\$23,136,072</u>	<u>\$15,770,196</u>	<u>\$22,087,078</u>	<u>\$25,373,754</u>
Net Revenues	\$19,777,491	\$20,550,560	\$22,031,454	\$18,594,936	\$33,047,685	\$22,469,833
Debt Service	\$13,793,953	\$13,738,224	\$13,712,753	\$15,622,388	\$15,589,406	\$15,573,263
Debt Service Coverage Ratio (net)	1.43x	1.50x	1.61x	1.19x	2.12x	1.44x

* Gross Housing System Revenues are pledged; net debt service coverage is shown for informational purposes.

** Federal funding (CARES Act, CRRSA Act, grants) provided the Housing System with revenues of \$6.4 M in FY 2020, \$5.9 M in FY 2021, and \$9.0 M in FY 2022, included in the figures above.

Rated Bond System Updates – USF Parking System

\$7 M USF Parking System (Aa3/AA/AA-)

- Annual debt service payments = \$2.9 M (FY 2023)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- Federal funding of \$1.8 M and expense reductions in FY 2021 and FY 2022 offset Parking Revenues lost related to the pandemic
- Revenues declined in FY 2020 and FY 2021 due to pandemic
- Transportation access fees remain flat; Decal/permit revenues slow to recover
- Reserves remain strong despite use of \$2 M to support operations in FY 2021
 - \$29 M (FY 2020) / \$26 M in reserves (FY 2021) / \$28 M (FY 2022)

Parking System	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 * (estimate)	FY 2023 (budget)
Revenues	\$14,701,120	\$15,111,494	\$13,065,735	\$9,216,410	\$13,415,336	\$12,771,977
Expenses	<u>\$8,525,803</u>	<u>\$8,327,075</u>	<u>\$8,571,495</u>	<u>\$7,885,906</u>	<u>\$7,510,127</u>	<u>\$8,947,864</u>
Net Revenues	\$6,175,317	\$6,784,419	\$4,494,240	\$1,330,504	\$5,905,209	\$3,824,113
Debt Service	\$2,936,320	\$2,936,430	\$2,940,330	\$2,937,910	\$2,929,280	\$2,934,550
Debt Service Coverage Ratio (net)	2.10x	2.31x	1.53x	0.45x	2.02x	1.30x

* Federal funding (CARES Act, CRRSA Act) is expected to provide the Parking System with additional revenues of \$1.8 million in FY 2022, included in the figures above.

Rated Bond System Updates – USF Marshall Student Center

\$27 M USF Marshall Student Center (Aa3/AA)

- Annual debt service payments = \$2.4 M (FY 2023)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- Revenues declined in FY 2020 and FY 2021 due to the pandemic; recovered to pre-pandemic levels in FY 2022
- Expenses managed downward in FY 2020, FY 2021 and FY 2022
- Reserves remain strong / growing despite pressure on revenues during the pandemic
 - \$12 M (FY 2020) / \$13 M (FY 2021) / \$14 M (FY 2022)

Marshall Center	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 * (estimate)	FY 2023 (budget)
Revenues	\$8,468,829	\$8,408,071	\$7,372,480	\$7,278,282	\$8,739,735	\$8,636,434
Expenses	<u>\$4,848,866</u>	<u>\$4,716,249</u>	<u>\$4,524,180</u>	<u>\$3,699,018</u>	<u>\$4,345,855</u>	<u>\$4,959,444</u>
Net Revenues	\$3,619,963	\$3,691,822	\$2,848,300	\$3,579,264	\$4,393,880	\$3,676,990
Debt Service	\$2,370,445	\$2,355,845	\$2,420,245	\$2,395,895	\$2,399,645	\$2,395,395
Debt Service Coverage Ratio (net)	1.53x	1.57x	1.18x	1.49x	1.83x	1.54x

Annual Derivatives Report

DERIVATIVES PORTFOLIO

Winding Down Swaps

Prudent Governance – Board of Trustees and Financing Corporation

- Effective BOT Derivatives Policy and Management Practices

Manage Long-Term Cost of Capital

- Hedged Variable Rate Bonds – Provided a Lower Cost of Capital – Requires Active Management
- Matched Maturities of Bonds to Coincide with Maturing Pay-Fixed Interest Rate Swaps
- \$227 M Reduction in Swaps over 14 Years – Capitalized on Maturing Swaps to Refund Bonds
- Winding Down Swap Portfolio – No New Swaps Since 2007
 - 1 Swap Currently Outstanding – \$51 M
 - Will terminate swap and convert bonds to fixed rate when termination value is positive

As of June 30, 2022

Program	Swap Counterparty	Expiration Date	USF Optional Termination Rights	Collateral Posted	Fixed Swap Rate	Total Outstanding
Housing	Royal Bank of Canada	7/1/2037	Yes	\$0 M	3.94%	\$51 M
TOTAL USF DSO SWAPS				\$0 M	3.94%	\$51 M

DERIVATIVES PORTFOLIO

17-Year Managed Trend

USF Derivatives – \$51 Million (6/30/22)

