

Annual Finance Policy Reports

*Board of Trustees Finance Committee
August 8, 2023*

Presented by: Fell L. Stubbs, University Treasurer

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Annual Investment Report

COMBINED 10 USF INVESTMENT PORTFOLIOS

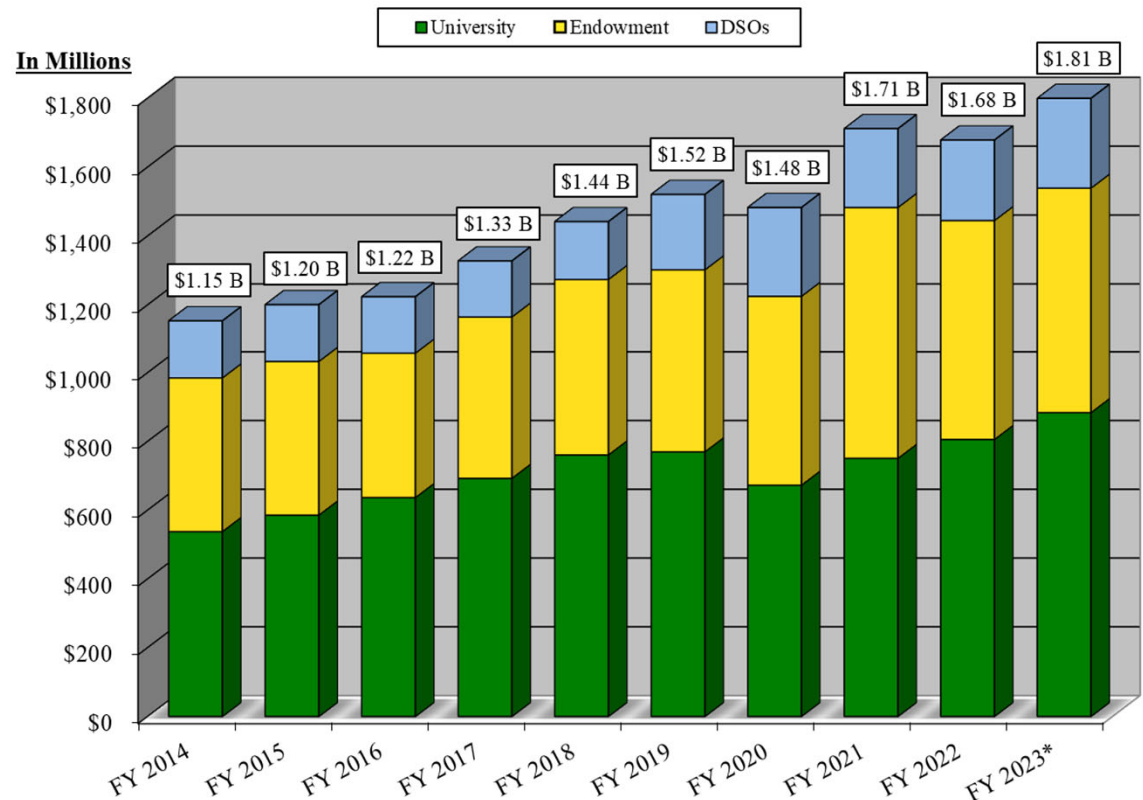
All USF Investment Portfolios Governed by the BOT Investment Policy (Revised 3-8-22)

All USF Investment Portfolios Governed by Investment Committees

Central Oversight of All Investment Portfolios

**Record USF Wealth –
\$1.8 Billion – Steadily Growing**

- **University at \$884 Million (6/30/23), Endowment at \$655 Million (3/31/23) are 2 largest of 10 portfolios**



* Endowment and DSO balances are as of 3/31/23, FY 2023 balances not yet available

All Portfolios in Compliance with BOT Investment Policy

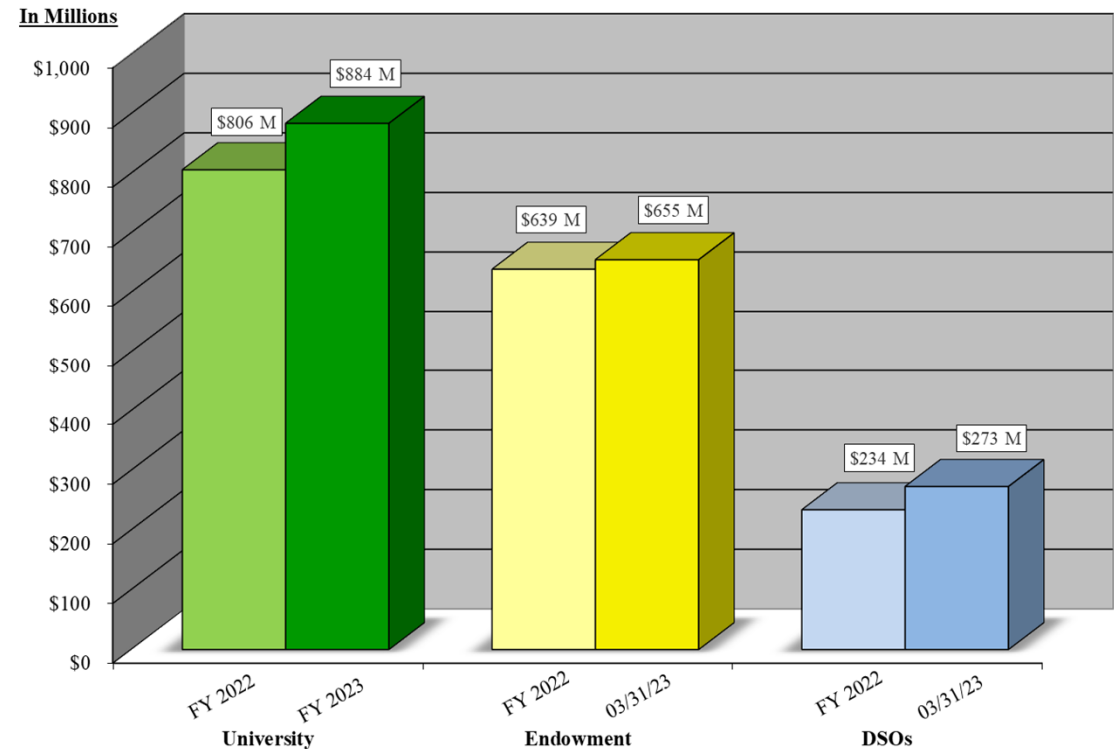
COMBINED 10 USF INVESTMENT PORTFOLIOS

2 Types of USF Portfolios:

- 1 Endowment – USF Foundation
 - Long-term investment horizon
 - Restricted
- 9 Operating Portfolios – 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
Combined Portfolio, 6/30/23*	\$884	\$655	\$273	\$1,812
Combined Portfolio, 6/30/22	\$806	\$639	\$234	\$1,679
Change in Combined Portfolio	\$78	\$16	\$39	\$133

* Endowment and DSO balances are as of 3/31/23, FY 2023 balances not yet available

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 = 237 Days / Moody's AA Peers = 208 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
- Investment Objectives: Invest in broad markets with bias to U.S. / Diversify risk with index funds

University Portfolio Balance – 12 Month Change

- 6/30/23 – \$884 M
- 6/30/22 – \$806 M
- Change – \$ 78 M

Expense Ratio Management – Enhance Long-Term Returns

- Keep investment portfolio expense ratios low – Buy institutional share classes (+\$100M)
- Current portfolio weighted average expense ratio = 4 basis points

UNIVERSITY INVESTMENT PORTFOLIO

Conviction Regarding Portfolio Structure

- Right asset allocation – Protect against downside risks
- Right investment managers and funds – Diversified, low cost

Portfolio Designed to Preserve Capital and Minimize Risk

- Portfolio generated positive returns in 93% of past 21 periods

Portfolio is Generating Cash

- 12 Month Interest = \$17.5 M
- 12 Month Dividends = \$ 2.8 M

Bond Funds are Rapidly Repricing as Rates Rise

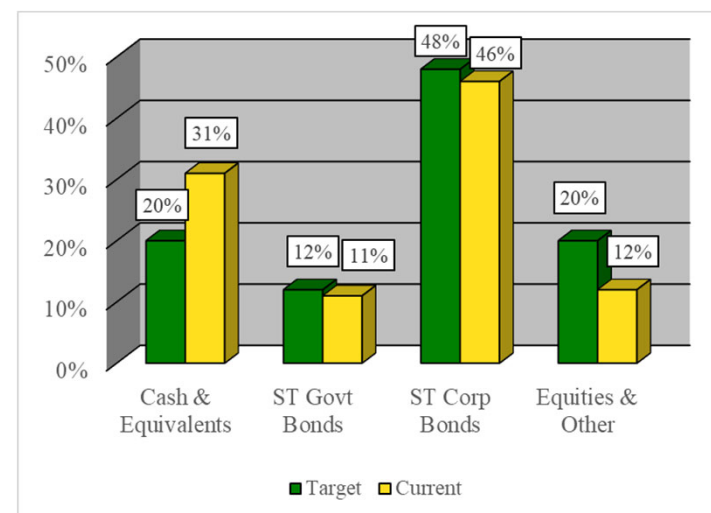
Yield to Maturity	<u>June 2021</u>	<u>June 2022</u>	<u>June 2023</u>
Vanguard ST Govt Bonds	0.60%	3.30%	5.00%
Vanguard ST Corp Bonds	0.99%	4.20%	5.60%

Unrealized Losses Are Unwinding As Markets Stabilize

Current Portfolio Strategy

- Limit buy / sell transactions
- Growing cash position

Portfolio Expected to Meet Objectives



Asset Allocation	Target	Current	\$
Cash & Equivalents	20%	31%	\$276.5
ST Govt Bonds	12%	11%	\$95.5
ST Corp Bonds	48%	46%	\$407.6
Equities & Other	<u>20%</u>	<u>12%</u>	<u>\$104.4</u>
TOTAL	100%	100%	\$884.0

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
- Resulted in first year of losses (unrealized) for USF Portfolio

USF Returns Vs. Benchmark

	<u>1 Year</u>	<u>5 Year</u>	<u>From Inception</u>
▪ USF Portfolio	3.8%	1.6%	2.5%
▪ Benchmark	3.9%	2.0%	2.4%

FY 2023 Markets Recovered, but Remain Challenged

- Rising rate environment – Affecting bond values
 - USF’s bond funds have short-term duration (2.7 years)
- Inflation rate slowed, but core inflation remains high
- Recession remains possible with Fed’s aggressive tightening

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 –	3.1%	3.2%	0.7%
▪ S&P 500 Index –	12.9%	14.9%	0.8%
▪ Barclay’s Agg –	1.5%	4.3%	0.1%

Credit to Outstanding Investment Committee and Consultant

UNIVERSITY ANNUAL PORTFOLIO PERFORMANCE

12-Month Performance	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Annual Investment Income (Loss)	\$27 M	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$4 M	\$27 M	(\$45 M)	\$29 M

Annualized Return - Equities	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)	17.1%	(10.6%)	19.5%
Annualized Return - Fixed Income	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%	5.3%	1.4%	(4.3%)	2.0%
Total Annualized Return	2.1%	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%	4.0%	(5.2%)	3.8%



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 – Assessed Impact of Stadium Debt

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

USF Finance Systems

As of June 30, 2023

Outstanding Debt (In Millions)	Housing	Parking	Marshall Center	Energy Savings	Health	Athletics	Research	Foundation	Total / Weighted
Total Outstanding Debt per System	\$204.3	\$4.2	\$25.5	\$28.6	\$54.2	\$26.0	\$39.9	\$3.1	\$385.8
Weighted Average Interest Rate	4.11%	2.20%	3.43%	3.03%	3.43%	3.54%	3.28%	2.63%	3.73%
Moody's / S&P Rating	A1 / A+	Aa3 / AA	Aa3 / AA	NR	NR	NR	NR	NR	Aa2 / AA (University)

NR = Not Rated

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

**Credit Ratings Affirmed in
September 2022**

Moody’s Affirmed USF “Aa2/Stable” Rating (9/1/22)

- Market Profile: Excellent strategic positioning
- Operating Performance: USF will continue to demonstrate solid fiscal oversight, supporting improved performance after a period of weakening 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 220 days in fiscal 2021 is strong and above similarly rated peers.
- Effective treasury management includes oversight of direct placement bonds with material reduction of demand debt exposure over the last decade.

S&P Affirmed USF “AA/Stable” Rating (9/9/22)

- USF’s enterprise profile and financial profile are very strong.
- Management is capable, highly experienced in higher education, and has satisfactory policies and practices relative to peers.
- USF’s debt burden is very manageable and direct placements structures are mitigated by conservative debt terms, included no financial covenants and no cross-default provisions.

Presentations to Moody’s & S&P expected in August 2023 – Annual Surveillance Reviews

FY 2023 Transactions

USF DEBT PORTFOLIO

Project Financing – Completed / Current

- **\$46.5 Million USF Sarasota-Manatee Housing and Student Center Project**
 - Funded with \$30 M 30-yr, fixed rate, tax-exempt public debt and \$16.5 M equity
 - Construction Manager / Architect-Engineer Team: CORE / Mackey Mitchell
 - Anticipated Opening: May 2024
- **\$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 20 years
 - Anticipated Completion: January 2024
- **\$9.9 Million Central Plant Modernization Project – Cooling System Upgrades**
 - Funded with Energy Savings Performance Contract; 19-yr, fixed rate, tax-exempt
 - \$16.2 million in guaranteed savings over 17 years
 - Anticipated Completion: September 2024
- **\$8.9 Million Central Plant Modernization Project – HVAC, Electrical and Light System Upgrades**
 - Funded with Energy Savings Performance Contract; 20-yr, fixed rate, tax-exempt
 - \$16.3 million in guaranteed savings over 20 years
 - Anticipated Completion: March 2025



USF DEBT PORTFOLIO

Future Transactions

Project Financing – Anticipated

- **Pending \$340 Million USF Stadium Project**
 - Funded with \$200 M 20yr, fixed rate, taxable loan and \$140 M equity
 - Construction Manager / Architect-Engineer Team: Barton Malow / Populous
 - Project approved by USF Board of Trustees in June and being considered for approval by Florida Board of Governors in August
 - If approved, Project is anticipated to open July 2026



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

DEBT MANAGEMENT

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

Active Debt Management - \$2.0 Billion in Closed Transactions Since 2005 (55 Total)

- Achieve low cost of capital – 3.73%, down from peak of 4.28% in 2014
- Restructure bonds to produce NPV savings – \$30 Million and negotiate favorable covenants

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 fall 2022

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 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Moody's Aa2 Medians FY 2022
NEW DEBT	\$20					\$36	\$27			\$75	
TOTAL DEBT	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$370	\$349	\$386	\$1,174
LONG-TERM RATE	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	3.62%	3.66%	3.73%	

POLICY MEASURES

(In Millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 (estimate)	Moody's Aa2 Medians FY 2022
<u>OPERATIONS</u>											
Operating Cash Flow Margin (↑)	10.2%	7.4%	7.3%	9.1%	7.0%	5.4%	-0.6%	6.3%	8.4%		14.7%
Operating Margin (↑)	2.4%	0.1%	0.0%	2.0%	-0.2%	-2.3%	-9.6%	-3.0%	-1.3%		5.4%
<u>LIQUIDITY</u>											
Cash & Investments / Operating Exp (↑)	0.65x	0.64x	0.64x	0.68x	0.67x	0.71x	0.65x	0.81x	0.84x		0.81x
Monthly Days Cash on Hand (↑)	202 days	197 days	200 days	213 days	216 days	210 days	180 days	215 days	227 days	237 days	208 days
<u>LEVERAGE</u>											
Cash & Investments / Debt (↑)	1.6x	1.8x	1.9x	2.3x	2.5x	2.6x	2.5x	3.1x	4.9x		1.8x
Debt Service Coverage (↑)	4.0x	2.7x	4.1x	4.8x	4.0x	2.9x	-0.3x	3.4x	3.7x		3.4x
Debt Service / Operating Exp (↓)	2.2%	2.2%	1.5%	1.7%	1.4%	1.8%	1.6%	1.8%	2.2%		4.3%

Rated Bond System Updates – USF Housing System

\$204M USF Housing System (A1/A+)

- Annual debt service payments = \$15.4 M (FY 2024)

**Credit Ratings Affirmed in
September 2022**

Strong Recovery following Pandemic; Maintenance of Reserves

- Strong recovery in occupancy levels:
 - 51% (fall 2020) / 88% (fall 2021) / 97% (fall 2022)
 - +100% expected for fall 2023 (budgets are based on 95%)
- Continued growth in reserves:
 - \$46 M (FY 2020) / \$52 M (FY 2021) / \$63 M (FY 2022)
 - \$62 M in FY 2023, notwithstanding significant investments in Housing facilities, including \$4 M cash equity contribution to new USF Sarasota-Manatee Student Housing / Center Project

Housing System *	FY 2019	FY 2020 **	FY 2021 **	FY 2022 **	FY 2023 (estimate)	FY 2024 (budget)
Occupancy (Fall)	94%	98%	51%	88%	97%	+95%
Revenues	\$45,165,802	\$45,167,526	\$34,365,132	\$55,933,376	\$49,071,718	\$51,548,244
Expenses	<u>\$24,615,242</u>	<u>\$23,136,072</u>	<u>\$15,770,196</u>	<u>\$18,528,952</u>	<u>\$24,886,363</u>	<u>\$28,957,736</u>
Net Revenues	\$20,550,560	\$22,031,454	\$18,594,936	\$37,404,424	\$24,185,355	\$22,590,508
Debt Service	\$13,738,224	\$13,712,753	\$15,622,388	\$15,593,199	\$15,661,188	\$15,387,359
Debt Service Coverage Ratio (net)	1.50x	1.61x	1.19x	2.40x	1.54x	1.47x

* 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

\$4 M USF Parking System (Aa3/AA/AA-)

- Annual debt service payments = \$2.0 M (FY 2024)

**Credit Ratings Affirmed in
September 2022**

Slow Recovery from Pandemic; Maintenance of Reserves

- 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)
 - \$29 M in FY 2023 – return to FY 2020 level

Parking System	FY 2019	FY 2020	FY 2021	FY 2022 *	FY 2023 (estimate)	FY 2024 (budget)
Revenues	\$15,111,494	\$13,065,735	\$9,216,410	\$13,516,547	\$12,324,952	\$12,425,000
Expenses	<u>\$8,327,075</u>	<u>\$8,571,495</u>	<u>\$7,885,906</u>	<u>\$7,336,091</u>	<u>\$8,521,859</u>	<u>\$8,750,000</u>
Net Revenues	\$6,784,419	\$4,494,240	\$1,330,504	\$6,180,456	\$3,803,093	\$3,675,000
Debt Service	\$2,936,430	\$2,940,330	\$2,937,910	\$2,929,280	\$2,934,550	\$2,043,390
Debt Service Coverage Ratio (net)	2.31x	1.53x	0.45x	2.11x	1.30x	1.80x

* Federal funding (CARES Act, CRRSA Act) provided 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

\$26 M USF Marshall Student Center (Aa3/AA)

- Annual debt service payments = \$2.4 M (FY 2024)

**Credit Ratings Affirmed in
September 2022**

Continued 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)
 - \$16 M in FY 2023

Marshall Student Center	FY 2019	FY 2020	FY 2021	FY 2022 *	FY 2023 (estimate)	FY 2024 (budget)
Revenues	\$8,408,071	\$7,372,480	\$7,278,282	\$8,637,592	\$8,505,921	\$8,935,432
Expenses	<u>\$4,716,249</u>	<u>\$4,524,180</u>	<u>\$3,699,018</u>	<u>\$4,221,320</u>	<u>\$5,094,523</u>	<u>\$5,123,843</u>
Net Revenues	\$3,691,822	\$2,848,300	\$3,579,264	\$4,416,272	\$3,411,398	\$3,811,589
Debt Service	\$2,355,845	\$2,420,245	\$2,395,895	\$2,399,645	\$2,395,395	\$2,398,395
Debt Service Coverage Ratio (net)	1.57x	1.18x	1.49x	1.84x	1.42x	1.59x

* Federal funding (CARES Act, CRRSA Act) provided the Marshall Student Center with additional revenues of \$0.8 million in FY 2022, included in the figures above.

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
- \$229 M Reduction in Swaps over 15 Years – Capitalized on Maturing Swaps to Refund Bonds
- Winding Down Swap Portfolio – No New Swaps Since 2007
 - 1 Swap Currently Outstanding – \$49 M
 - Will terminate swap and convert bonds to fixed rate when termination value is positive

As of June 30, 2023

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%	\$49 M
TOTAL USF DSO SWAPS				\$0 M	3.94%	\$49 M

DERIVATIVES PORTFOLIO

18-Year Managed Trend

USF Derivatives – \$49 Million (6/30/23)

