UNIVERSITY OF SOUTH FLORIDA SYSTEM

DRAFT

USF Board of Trustees
Finance Committee
NOTES
Thursday, February 16, 2017
Tampa Campus - Marshall Student Center Room# 3707

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Brian Lamb at 12:52pm. The following committee members and liaisons were present: Brian Lamb, Mike Carrere, Scott Hopes, Stan Levy (phone), John Ramil, Judy Genshaft, Dipayan Biswas, Carl Pacini, and Alan Bomstein. A quorum was established.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of January 19, 2017 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Lamb requested a motion for approval, it was seconded and the January 19th meeting notes were unanimously approved as submitted by all committee members present.

b. Approval of Amended Debt Management Policy

Hilary Black, Sr. Associate General Counsel, presented the amended Debt Management Policy. The BOG recently revised their Debt Management Guidelines. Included in the revision is the requirement that universities and DSOs must notify the Board Office and Division of Bond Finance (DBF) in advance of any contact with a rating agency, such that the Board Office and DBF will have an adequate opportunity to prepare and participate.

The USF BOT Debt Management Policy 06-003 is being revised to include this new requirement in the BOG Debt Management Guidelines.

Trustee Ramil explained that by implementing this policy, the University and the BOG take credit ratings seriously.

A motion was made to approve the amendment to the USF BOT Debt Management Policy 06-003. The motion was seconded and approved by all committee members present.

c. Approval of Revised USF Purchasing Regulations

Joel Londrigan, Associate General Counsel, presented the revised USF Purchasing Regulations. The BOG recently amended its regulation 18.001 Procurement. USF has completed a review of its Purchasing regulations in conjunction with this regulation. Ten (10) current USF System purchasing regulations (4.02000 through 4.02090) have been consolidated into three (3) proposed new regulations and have been updated to comply with FL BOG Reg. 18.001. Mr. Londrigan noted that the new regulation that will have an effect on our current purchasing procedures is the limitation on extension of contracts.

Trustee Ramil asked if anything weakens our current purchasing program. Mr. Londrigan responded no, we may need to do more due diligence in piggybacking on to another university's contract to ensure that the contract was entered after a competitive solicitation.

Trustee Hopes asked how USF Health's purchasing policies compare to the rest of the university. Mr. Londrigan responded that Purchasing is a system office which manages all purchasing functions for the system.

A motion was made to approve the three (3) proposed new USF System Purchasing Regulations: Procurement – General; Procurement of Commodities, Contractual Services, Motor Vehicles, and Licenses; Notice of a Decision and Protest Procedures (for Procurement) and repeal the prior ten (10) regulations. The motion was seconded and approved by all committee members present.

IV. New Business – Information Items

a. DSO Mid-Year Forecasts

Fell Stubbs, University Treasurer, introduced the agenda item. The nine DSOs have prepared their Mid-Year Forecasts for FY 2017. These reports include a comparison of the Forecast to the DSO approved FY 2017 Financial Plans, as well as actual results for FY 2016 and FY 2015. The DSOs forecasted net operating profit, net change in cash, and provided explanations for major variances from Plan, and provided management's actions to correct unfavorable variances.

1. USF Financing Corp. & USF Property Corp.

Mr. Stubbs presented the mid-year forecast for USF Financing Corp. & USF Property Corp. The Financing Corp. and the Property Corp. are the debt financing arm of the University for Student Housing, Health, Athletics, and Marshall Center facilities. The Financing Corp. operates as a "conduit" entity for the university – taking pledged revenues from auxiliaries and making debt service payments on its bonds. The Financing Corp. manages $349M in bonds and $84M in interest rate swaps. Both net operating profit and net cash flow (including accumulated reserves for debt service and facility replacement) are forecasted to slightly exceed plan. Mr. Stubbs noted the July 1, 2016 conversion of $37.9M Series 2013A Health bonds and the November 2016 Moody's and Standard & Poor's ratings on the University and auxiliary bonds.

2. University Medical Services Assoc., Inc. & USF Medical Services Support Corp.

Rich Sobieray presented the mid-year forecasts for UMSA and MSSC. UMSA is on target for earnings and cash flows and is on target to meet income from operations target. There has been an increase in patient volume as well as a reduction in expenditures (decrease in consulting costs). Projecting cash stability due to slowing capital spending (do not have the EPIC install this fiscal year).

MSSC is on target for earnings and cash flows. Should exceed revenue targets due to favorable Dean's Tax allocation.

Trustee Ramil is glad to see UMSA making good on their long range plan commitments.

For next steps, Chair Lamb would like to look at what the sustainable growth rate should be for UMSA and what the normalized business and normalized growth rate look like.

3. USF Foundation, Inc.

Joel Momberg and Rob Fischman presented the mid-year forecast for USF Foundation, Inc. Forecasted results do not vary significantly from the financial plan. Not expecting changes to revenue as fundraising is on track. Realized a number of large gifts this last quarter and the outlook is good for this quarter. Receiving a lot of gifts from alumni, who are now at the age to give. Also seeing a lot of estate planning gifts and gifts from regional campuses. Projecting a slight uptick in scholarship disbursements. Not expecting any changes in unrealized investment gains – still targeting an 8% return which was budgeted.

4. USF Health Professions Conferencing Corp.

Joann Strobbe and Dr. Ed Funai presented the mid-year forecast for USF Health Professions Conferencing Corp. (HPCC). HPCC is projecting an improvement in net operating profit and a decrease in operating cash (but closer to Plan than the $96K in the forecast). USF Health Programming at CAMLS is up 22% from Plan due to renovations related to moving the Undergraduate Medical Education (UME) program to CAMLS and increased UME programming. CAMLS revenue from non-USF clients will miss Plan expectations due to increased competition, pricing pressure, industry consolidations, decreased international training revenue, decreased regional hospital training and decreased Innovation Center revenue. Direct Program Expense decreases in tandem with decreased revenue. An increase in capital expenditures for the purchase of equipment due to the Phillips lease expiration and for the renovation to accommodate UME students (converted office space into exam rooms, study spaces, kitchen and lounge – a great student environment).

5. USF Alumni Association, Inc.

Bill McCausland and Melissa Schaeffer presented the mid-year forecast for USF Alumni Association, Inc. The Alumni Association is in the cultivation and engagement business. Projecting a slight increase in net operating profit and a slight decrease in cash. Revenue continues to increase year over year, just not favorable to plan. Lifetime memberships are slightly down and annual memberships are slightly up. Projecting an increase in gifts and donations and a decrease in salaries and benefits expenditures (salary savings).

6. Sun Dome, Inc.

Mark Harlan and Yulander Wells presented the mid-year forecast for Sun Dome, Inc. (SDI). SDI is focused on putting on great events and keeping its debt service commitments. Forecasted results for revenue are slightly off pace from plan. The organization is continuing to book events and acquire acts for Q3 and Q4 which have traditionally been the most profitable quarters for the organization. Expenses are tracking on plan, but there was an over estimate in the plan related to depreciation (aircraft). Trustee Levy asked why sponsorship and parking revenues were down. Mr. Wells responded that sponsorship involves taking risk and is not appropriate for every show. Chair Lamb asked if revenue is up from pre-renovation years. Mr. Wells responded yes, definitely.

7. USF Research Foundation, Inc.

Patty Gamble presented the mid-year forecast for USF Research Foundation, Inc. The Research Foundation is on track to achieve its plan financial goals – projecting a slight increase in net income and in cash. A favorable variance is forecast with savings in Interest Expense, which reflect the benefits from refinancing long-term debt totaling $120K compared to FY17 Plan. These savings will be passed on to the University by reducing the master lease building rent to be charged in FY17, thereby causing a correlated decrease in forecasted Rental Revenue of $120K (-12%). The savings in Interest Expense are attributed to locking in the interest rate (3.18%) for refinancing long-term debt in July 2016, less than initially projected (3.85%). As such, these variances have no effect on cash flow or profitability to the Research Foundation, as the reduced financing costs will correspond to reduced rent revenue in FY17. President Genshaft noted that there is very little space left to rent in any of our buildings in the Research Park and we will soon be looking at building a new building.

b. College of Medicine Construction Update

Calvin Williams, Vice President for Administrative Services, provided an update on the Morsani College of Medicine and Heart Institute project. BOT and BOG approved project scope and budget is $152M for 11 floors. Of the $112M in PECO funds requested from the state, $79M has already been appropriated to USF leaving a remaining state funding request of $33M funded. The BOG now officially recommends that this amount be split equally into two appropriations of $16.7M each in 2017-18 and 2018-19. USF committed to fund the remaining construction costs with $40.5M in non-state funds acquired by USF from other funding sources, such as philanthropic gifts and auxiliary enterprises (retail). Of the $40.5M pledged to the project by USF from non-state sources, a remaining balance of $12.4M is still needed to be acquired to complete the original project scope.

Should the BOT elect to expand the scope of the project to include two additional “shelled” (vacant) floors for future program expansion (constructing a 13-story facility), the anticipated cost for the two additional floors is $12M ($6M per floor) to be borne entirely by non-state sources. If this project scope expansion is approved, the new total construction budget would increase to $164.7M and the remaining balance still to be acquired would remain $33M in state (PECO) funds and would increase to $24M in USF-acquired non-state funds.

President Genshaft stressed that we are not asking the state for anything more than the $112M; we are keeping our word on the $152M project. Chair Lamb wants to see what the additional two floors will look like – will it be Pharmacy? Pharmacy is on the PECO list for its own building ($40-50M) starting in 2018-19. Trustee Carrere noted that a free-standing Pharmacy building would cost about $60M, but would cost about half that to do as part of this building. There are many strategic reasons to integrate Pharmacy into this building as opposed to a separate building. Mr. Bomstein stated that we need to take into consideration that if we use the buildout space for Pharmacy, there will be nowhere to grow/expand in the future. The

Trustees agreed that now is the time to have this conversation among ourselves and with the BOG.

V. Adjournment

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 2:11pm.