

**USF Board of Trustees
Finance Committee
NOTES
Thursday, August 17, 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 1:43pm. The following committee members and liaisons were present: Brian Lamb, John Ramil, Stan Levy (phone), Judy Genshaft, Dipayan Biswas, Ninon Sutton, and Alan Bomstein. A quorum was established. The following Trustees were also present: James Garey, Stephanie Goforth, Byron Shinn, and Nancy Watkins.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of May 18, 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 May 18th meeting notes were unanimously approved as submitted by all committee members present.

b. 2017-18 Operating Budget

Nick Trivunovich, Vice President for Business & Finance and CFO, presented the 2017-18 Operating Budget. The USF System Board of Trustees (the BOT) is required to adopt an annual budget for the operation of the University. The BOT must approve the budget prior to July 1, 2017 for the State Comptroller to process cash releases of state funds. On May 18, 2017, the BOT approved a 2017-18 continuation operating budget at last year's level with the understanding that the USF System would prepare a 2017-18 budget for submission to the Board of Governors (BOG) by August 21, 2017 and for presentation to the Board of Trustees at this meeting.

This is a new process of submitting the full budget to the Board for approval prior to submission to BOG on August 21. We are requesting the board approve the 2017-18 Operating Budget and authorize the President (or the Designee) to implement budget amendments issued by the state during the fiscal year or other changes approved by the Board Chair.

The USF System 2017-18 Operating Budget excluding Direct Support Organizations (DSOs) and carry forward totals \$1.79B, an increase of \$97.7M or 5.4% over the previous year's

budget (excluding Self-Insurance and Faculty Practice Plan). The increase resulted primarily from increased state support and tuition, contracts and grants as well as auxiliary enterprises.

E&G funding increased by \$38.5M for the USF System. This reflects incremental funds of \$45.7M less vetoes resulting in cuts to specific programs of \$7.2M. The incremental funds include \$8.7M Emerging Preeminence; \$10.5M World Class Scholars; \$5.7M Professional and Graduate Excellence; \$13.0M Performance Based Funding; \$5.8M - Specific Appropriations (\$.7M Midtown Early Care and Education Collaborative; \$1.3M Programs of Strategic Importance; and \$1.5M Operational Support); and \$2.0M additional tuition from SCH/Out of State mix (no increase in student tuition/fee rates).

Across the USF System, investments will be made in the following areas:

- Retention of USF faculty by offering nationally competitive compensation packages;
- All campuses continue making further investments in Faculty in Areas of Strategic Emphasis to support degree production and continued improvement in graduation rates;
- All campuses are investing in infrastructure including Information Technology, Student Services, and Campus Safety to support Student Success;
- All campuses are making investments in Student Services for advising, recruiting, and faculty development which will allow USF to continue to improve retention and graduation rates.

Mr. Trivunovich reviewed priority infrastructure projects over \$1M that are included in the Budget (replace cooling tower \$2.4M and campus feeder replacement \$1M) as well as contingency-funded projects (\$6M budgeted).

Like last year, the Budget was broken down by funding source, fungibility, and expenditure category for the System as well as for each campus. We have a very diverse revenue stream which is good for our bond rating. Two-thirds of our Budget is non-fungible (contracts & grants and financial aid); one-third is fungible (state dollars). The System's largest expenditure is salaries and benefits, indicating our greatest investment is in people, our greatest resource.

A motion was made to approve 2017-18 Operating Budget and to authorize the President (or the Designee) to implement Budget amendments issued by the state during the fiscal year or other changes approved by the Board Chair. The motion was seconded and approved by all Committee members present.

c. USF Regulation 4.0095 Employee Debt Collection

Hilary Black, Sr. Associate General Counsel, presented the amended USF System Regulation 4.0095 Employee Debt Collection. The existing regulation has been amended/updated to track current practices. The amended Regulation includes guidance for USF System departments regarding the methods of overpayment recovery such as retraction of the original payment, automatic reduction of the immediate next payrolls, and set-off procedures.

A motion was made to approve the amendment of USF System Regulation 4.0095 Employee Debt Collection. The motion was seconded and approved by all committee members present.

d. Expenditure Authorization Requests

Mr. Trivunovich presented various items related to the University's new Expenditure Authorization Policy. The Expenditure Authorization Policy has been in effect since April 2017. The policy states that all contracts for the procurement of goods and services over \$1M be approved by the Finance Committee Chair and all contracts over \$2M be approved by the Finance Committee. The Finance Committee is being asked to consider exceptions to the Expenditure Authorization Policy and to consider eight requests for approval each over \$2M. An authorization document has been created to provide relevant information to approvers. 19 projects/initiatives have been approved to date at a total cost of \$42.8M. 34 purchase orders over \$1M were issued in 2016/17 (21 purchase orders between \$1M and \$2M and 13 purchase orders above \$2M). Benefits realized from the new process include responsive turnaround (generally within 24 hours) from the Finance Committee Chair on approvals between \$1M and \$2M; transparency and visibility to Board on major University expenditures; and more consistent University documentation on expenditures over \$1M. The process can be further improved by the University continuing to adjust to the lead times necessary for Board approval and by the elimination of expenditure approvals that are redundant or have no material financial impact.

Mr. Trivunovich explained the proposed exceptions to the contract approval requirement:

- Direct Owner Purchase Orders (no material financial impact)
- Items subject to Real Property Policy (approvals are redundant)
- Research Sub-awards (no financial impact)
- Payments obligated under a multi-year contract
- Resolutions for projects approved by the Board of Trustees

Mr. Trivunovich presented the eight requests for approval by the Finance Committee:

Non-Construction

- | | |
|-------------------------------|-------------|
| ○ Office Depot Contract | \$2,150,000 |
| ○ Microsoft Contract (3 yrs.) | \$3,970,348 |
| ○ Oracle Contract (3 yrs.) | \$5,077,920 |

Construction

- | | |
|--|-------------|
| ○ USFSM College of Hospitality & Tourism Expansion | \$2,454,000 |
| ○ USF Holly Renovations (C, D, G) | \$9,000,000 |
| ○ USF Kosove Renovations | \$5,000,000 |
| ○ USF New Entry/Laurel Drive Extension | \$4,855,000 |
| ○ CPT- Replace Failing Cooling Tower #5 | \$2,482,338 |

All of these requests are in the operating budget just approved.

Trustee Ramil asked if we are getting the best rates for the software. Sidney Fernandes, Vice President for Information Technology, noted that the Microsoft and Oracle contracts are renewals. Microsoft was negotiated as part of a consortium at 2011 pricing levels. Oracle guarantees the same price over the three years (no new increases). Trying to keep incremental costs low.

Trustee Ramil asked if the Housing projects are consistent with the housing rate increases. Mr. Trivunovich responded yes. Also, it is the industry standard in housing to do a complete renovation of facilities after 18-20 years.

A motion was made to approve the eight expenditure requests as presented. The motion was seconded and approved by all Committee members present. A motion was made to approve the proposed exceptions to the approval requirement. The motion was seconded and approved by all Committee members present.

IV. New Business – Information Items

a. Annual Finance Policy Reports

The Annual 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. Investments

The USF System investment portfolio consists of 10 USF and DSO portfolios. The System investment portfolio has kept pace with the growth of the USF System and has grown to \$1.29 billion. All investment portfolios are governed by the BOT Investment Policy and active investment committees. The University portfolio is an operating portfolio. The goals are to maintain liquidity; avoid losses; and support annual cash expenditures. Our portfolio liquidity measures are in line with our Aa2 peers. However, the size of the operating portfolio has slipped relative to annual expenditures. University investment returns have been stable and positive each year over the past 10 years, despite market volatility. The portfolio structure cushions exposure to market volatility, the key being conservative asset allocation. We missed our benchmark return in FY 2017 by 20 basis points due to underperformance in foreign equities and cash portfolios. This is the first report where we have underperformed our benchmarks. During the year, we terminated two managers and hired four new managers.

2. Debt Management

Core debt management strategies have not changed. Recent year activities have focused on refunding outstanding bonds to capitalize on the lower yield curves, rather than new debt. Five transactions were completed in FY 2015 and FY 2016 for \$188M (\$18.2M net present value savings); two transactions were completed in FY 2017 for \$41M (\$4M NPV savings); and two transactions are planned in FY 2018 for \$81M. The University is utilizing, as appropriate, "Public-Private Partnerships" to deliver certain capital projects.

Mr. Stubbs reviewed the 10-year change in debt issues, long-term rate and mix. Over the past 10 years, we added \$170M of new debt. Over this period, we converted/refunded \$180M. Our credit ratings have improved over this period as well. There has been a reduction in variable rate bonds from \$196M to \$84M (from 59% to 22% of outstanding debt). Outstanding debt has been managed downward since FY2011, while funding strategic projects.

3. Derivatives

The BOT Derivatives Policy governs all derivatives. We have no unhedged positions and no new swaps since 2007. Recent events include the conversion of \$38M of USF

Financing Corporation variable rate bonds to fixed rate (7/1/16) – \$38 M of interest rate swaps expired; and the conversion of \$18M of USF Research Foundation variable rate bonds to fixed rate and paid off \$9M in variable rate bonds (8/1/16) – \$27M of swaps expired. Over the next 12 months, we will convert \$19M of USF Financing Corporation variable rate bonds to fixed rate (7/1/18). Note that expiring swaps create an opportunity to convert to fixed rates at lower levels. There is a downward trend in outstanding swaps from \$278M in 2008 to \$85M today. All swaps performed as expected.

Trustee Ramil asked if we should have routine reporting on DSO investment portfolios (this is currently done just for the Foundation). Chair Lamb responded yes, just for the significant ones. This is consistent with our focus on transparency. At our next meeting, we need to explain how we are going to do this (frequency, etc.).

Chair Lamb thanked Mr. Stubbs for the good report noting that this maintains the integrity of our balance sheet which is very important and a strategic priority.

b. Construction Update

Calvin Williams, Vice President for Administrative Services, gave a brief update on the following board-approved projects over \$500K: USF Health Morsani College of Medicine and Heart Institute – there will be a future meeting to discuss/approve the two floor buildout; USF Student Housing Village (P3) Phase I – two buildings (885 beds) and The HUB are complete and the FIT will open in September; USF Grocery (P3) – construction will now begin in January 2018; and USF Laurel Drive Roadway and Parking (P3) – will provide access to the Village.

Chair Lamb asked if the opening date of the Grocery store would change as construction has been delayed. Ms. Black responded that this has not yet been discussed.

V. Adjournment

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 2:42pm.