

**USF Board of Trustees
Finance Committee
NOTES
Thursday, November 2, 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 12:38pm. The following committee members and liaisons were present: Brian Lamb, Mike Carrere, Stan Levy, John Ramil, and Judy Genshaft. A quorum was established. The following Trustees were also present: James Garey, Stephanie Goforth, and Byron Shinn.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of August 17, 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 August 17th meeting notes were unanimously approved as submitted by all committee members present.

b. Approval of October 12, 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 October 12th meeting notes were unanimously approved as submitted by all committee members present.

IV. New Business – Information Items

a. Tampa Housing Report

John Long, Sr. Vice President/COO, reminded the Committee that in May 2016, the BOT approved the USF Tampa Student Housing Rental Request for three years (FYE 2017-2019). The purpose of the approved three-year rate structure (9.3% average – Fall 2016; 9.0% average – Fall 2017; and 8.0% average – Fall 2018) was primarily to address deferred maintenance and to maintain the debt service coverage ratio and health of the housing system. And, as required by the approved resolution, staff will return annually to report on the performance of the housing system.

Ana Hernandez, Assistant Vice President, Housing & Residential Education, gave an update on USF Tampa Student Housing. Based on performance, the recommendation is to implement a 6.5% average rate increase for FY 2018/19 (previously approved at 8.0% average). This is

year 3 of a 3-year increase. Ms. Hernandez reported that she briefed Trustee Moneer Kheireddine and he is in agreement with and in support of the recommendation.

Tampa Housing & Residential Education opened in Fall 2017 with 98.6% occupancy and demand for student housing continues. Reinvestment in housing facilities continues (FYE 2017 - \$14.4M projects completed; FYE 2018 - \$12.3M projects completed, planned and underway; and FYE 2019 - \$6.6M projects planned). We will meet the targeted debt service coverage ratio of 1.35x in Year 2 of three year approved plan. Ms. Hernandez listed some of the FYE 2017 facility reinvestment projects, which included both non-capital and capital projects. Ms. Hernandez also presented before and after photos of some of the completed projects (interior and exterior of Magnolia Halls and renovated parcel facility). Chair Lamb stated that the pictures are compelling and it is good to see the money being reinvested into facilities. Chair Lamb asked how the projects are prioritized. Ms. Hernandez responded that it is based on the VFA deferred maintenance report (comprehensive facilities audit) and residents surveys. Trustee Levy asked if there is a spreadsheet that tracks what needs to be done (repairs, renovations, etc.) and when, in order to forecast needs. Ms. Hernandez responded that they are currently using "SchoolDude" (operations management software) for this process. She will bring this information back to the committee. Trustee Ramil explained that we need to have a good line of sight on upcoming needs over the next 5-10 years so we know where the lumps are (large projects that need to be funded).

Ms. Hernandez presented financial projections based upon proposed rates as well as debt service coverage ratios with the proposed rates. Chair Lamb asked what deferred maintenance will be after FYE 2019. Ms. Hernandez responded that we will have completed 75% of the projects in the 2012 VFA report. Chair Lamb would like for this to come back to the Finance Committee (updated deferred maintenance schedule with quantified amounts /life-cycle facility maintenance management program).

Trustee Shinn wants to be sure we do not hurt ourselves by asking for less of an increase (6.5% vs 8%); wants to be sure we do not backslide and end up with a large deferred maintenance backlog again. Mr. Long explained that we will continue to ask for modest increases in the next years (1-4%), so we can successfully manage the deferred maintenance program.

After additional discussion, the Finance Committee agreed with the report and a 6.5% average increase, which represents a reduction from the original rate increase. The 6.5% rate will be implemented in Fall 2018 as presented. Based on the May 3, 2016 motion originally approving the increase, further action was not required by the Board.

b. Morsani College of Medicine and Heart Institute Project Update

Mr. Long provided an update on the Morsani College of Medicine and Heart Institute project. Deep foundations are complete. Pile caps, grade beams, and underground utilities are ongoing. Cranes will go up in early November. The project is on schedule, on time, and on budget. GMP #2 (building core and external skin) will be implemented by mid-November. Chair Lamb reminded the Committee that the two additional shell floors do not affect the schedule and do not require any additional/new state dollars. The programs that will occupy the space will build it out.

Chair Lamb asked for an update on Skanska's MWBE engagement. Chris Duffy, Assistant Vice President for Facilities Management, reported that Skanska has two MWBE businesses,

one of which was terminated for legal reasons. Skanska is working with us to continue to involve MWBE sub-contractors.

Trustee Levy asked about usable square footage. Mr. Duffy reported the square footage of the building as follows:

395K gross square feet
345.8K net square feet
222K usable square feet

This is consistent with the program developed and approved. The two shell floors are 72.6K gross square feet (included in the numbers above). Discussion continued on gross versus assignable square feet. Chair Lamb asked that Mr. Long and Mr. Duffy provide additional information on this to Trustees Levy and Shinn prior to the next Finance Committee meeting, and that Trustee Levy report back to the Finance Committee.

c. Annual Foundation Investment Report

Brian Keenan, Chair of the USF Foundation Investment Committee and USF Foundation Treasurer, and Mark Brubaker, Managing Director, Wilshire Associates, presented the Annual Foundation Investment Report. This report includes the Endowment Portfolio (current reporting practice) and the Operating Portfolio (new report).

The USF Foundation recently closed fiscal year 2017 with approximately \$557M in total assets under management, of which \$442M are restricted endowment assets. The Endowment Pool posted a return of 16.4% for the fiscal year, which exceeded its policy benchmark by 1.5%. This portfolio performance was due to strong performance from domestic and international equities. Our endowment return is the top performing in the state.

NACUBO is the primary benchmarking tool. USF endowment continues to outperform peers in all time periods (1, 3, 5, and 10 year) primarily due to its strategic asset allocation; relative overweight to long-only equities and high yield bonds; and no allocation to hedge funds. We have a higher equity allocation than our peers, but we are working to diversify. USF endowment is the third largest among selected institutions established since 1950. This is due to strong returns and good fundraising.

FY 2017 returns exceeded policy benchmarks. Contributors include strong performance in US and Non-US equity as well as high yield bonds; the endowment's overweight equity position relative to peers; and positive results from private capital, especially private equity and natural resources. Detractors include core fixed income that underperformed in an equity bull market; and public real assets that lagged as inflation remained muted.

Endowment distributions provide support for endowed University programs, scholarships, etc. Distributions to the University exceeded \$17M in FY 2017; approximately \$157M in support over last ten years. The Foundation's investment objective is to preserve the intergenerational equity of endowed gifts while providing a consistent source of funding to University programs, faculty, and students.

Asset allocation is set for long-term growth through multiple market cycles. Wilshire forecasts indicate that the USF endowment should be able to maintain long-term intergenerational equity while maintaining its current 6% spending rate (4% dividend, 2% administrative fee). Recent

Investment Committee initiatives include increased allocations to private credit and private real assets, and manager changes in small cap growth and public real assets. The Investment Committee looks at managers quarterly and asset allocation. The focus is on getting the long-term decisions right.

The Operating Pool is about \$100M with some overlap as a portion is invested in the endowment (about \$14M). The investment objective for the Operating Pool is long-term preservation of capital. Foundation management conducts an actuarial review of the operating funds' cash flow activity in order to forecast the pool's liquidity needs; this becomes the basis of the asset allocation strategy. Asset allocation is set based on risk/return forecasts for each asset class, under guidance from Wilshire. The Operating Pool posted a return of 3.2% for the fiscal year, which was over its policy benchmark by 1.1%. The long-term goal is 4%.

V. Adjournment

Trustee Ramil stated that he spoke to the Chair of the USF Investment Committee regarding the University's investment portfolio and he is satisfied that the University portfolio is performing well and is aggressive enough.

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 1:45pm.