

**USF Board of Trustees
Finance Committee
NOTES
Tuesday, February 13, 2018
Tampa Campus – Gibbons Alumni Center – Traditions Hall**

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Brian Lamb at 2:55pm.

President Judy Genshaft called roll with the following committee members present:

Brian Lamb
John Ramil (phone)
Michael Carrere
Les Muma
Charlie Tokarz

A quorum was established.

The following Trustees were also present: James Garey 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 November 2, 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 November 2nd meeting notes were unanimously approved as submitted by all committee members present.

b. Expenditure Authorization Requests

Chair Lamb announced that this item will be taken as two actions as one committee member has a conflict with one of the requests. He also noted that presentations were made at an earlier committee meeting today for two of the items - Pamela Muma Women's Health Center and USF Football Center, thus demonstrating how the different committees work to vet various issues.

Nick Trivunovich, Vice President for Business & Finance and CFO, presented four expenditure authorization requests for approval by the Finance Committee.

- Firewall and VPN Services - \$2,450,119

This is an anticipated expenditure to the fund the one-time purchase of equipment, related infrastructure expenses, and 5 years of maintenance for Palo Alto firewalls and VPN to protect USF's Primary Datacenter (Tampa), WAN, and Secondary Datacenter (Winter Haven). Paying for 5 years of maintenance upfront vs annually represents a savings of 26%, approximately \$828,118.90.

Trustee Tocarz inquired about the financial stability (bond rating) of Palo Alto before spending \$2.4M for 5 years. Mr. Trivunovich indicated that Palo Alto is one of the top firms in firewall/VPN, but he did not have information on their bond rating at this time.

- The Pamela Muma Women's Health Center - \$2,000,000

The Pamela Muma Women's Health Center will provide a comprehensive primary care concierge center in South Tampa, defined by personalization and convenience and dedicated to women in our community. The Women's Health Center will be a 6,000 SF facility located on the 5th floor of the USF Health South Tampa Center.

Les and Pamela Muma have donated \$2M towards the development of the Women's Health Center. Project design, construction and furniture, fixtures and equipment funding will be initially financed through a USF Foundation loan to be repaid by either the execution of the pledge or from other available Practice Plan funds. Operations will be supported through memberships, additional philanthropy and a partnership opportunity with Tampa General Hospital.

Trustee Muma disclosed that he will not take action on this request as he and his wife donated the funds at a naming level and that he anticipates continuing involvement by Pamela Muma in the direction of the Center. Chair Lamb thanked Trustee Muma for this contribution.

A motion was made to approve the expenditure authorization request for the Pamela Muma Women's Health Center in the amount of \$2,000,000. The motion was seconded and approved by all committee members except for Trustee Muma who abstained from voting after first disclosing his conflict.

- USF Honors College - \$2,000,000

This request is for the initial design costs of 58,000 GSF dedicated building for the Honors College program including auditorium, classrooms, workshops, seminar rooms and offices.

- USF Football Center - \$3,500,000

This request is for the design of the first phase of a 99,000 GSF Indoor Practice Facility for USF Athletics and 67,000 GSF Football Operations Building.

An amended motion was made for the remaining expenditure authorization requests (Firewall and VPN Services - \$2,450,119; USF Honors College - \$2,000,000; and USF Football Center - \$3,500,000) to go forward provided Palo Alto has an investment grade bond rating. If not, the Firewall and VPN Services request must come back to the Finance Committee. The amended motion was seconded and approved by all committee members present.

Mr. Trivunovich provided an update on Palo Alto. Palo Alto has no long-term debt so therefore no bond rating. It does have \$1B in cash currently. Mr. Trivunovich believes the savings realized from the upfront payment takes away the risk for the last 2 years of the 5 years and that the company looks stable for the next 3 years.

Based on the information provided, Trustee Tocarz made a motion to remove the contingency from the previous amended motion. The motion was seconded and approved by all committee members present.

IV. New Business – Information Items

a. DSO Mid-Year Forecasts

Each year, the nine DSOs prepare a Mid-Year Forecast – this Forecast is for FY 2018. These reports include a comparison of the Forecast to the FY 2018 Financial Plans approved by the Trustees at its May 18, 2017 Finance Committee meeting, as well as actual results for FY 2017 and FY 2016. The DSOs have 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.

Chair Lamb explained that we do this Mid-Year Forecast for transparency and to see how the DSOs are trending.

1. USF Health Professions Conferencing Corp.

Carol Post and Greg Vannette presented the mid-year forecast for USF Health Professions Conferencing Corp. (HPCC). HPCC has a renewed focus on transparency. They have a responsible and achievable budget for FY 2018. HPCC is meeting targets and making the turnaround needed. HPCC is on a good course. The income statement is stable and total cash and investments are strengthened and improved. Revenue and Net Operating Profit are forecasted to exceed FY 2018 targets. Cash flow is also forecasted to exceed FY 2018 targets due to a continuing trend of operating profit exceeding operating expenses. Chair Lamb stated that this is exactly what we need from HPCC as they had been struggling and in the red.

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

Rich Sobieray and Alisha Ozmeral presented the mid-year forecasts for UMSA and MSSC. The Mid-Year Forecast was presented without the expected increase in physician Upper Payment Limit (UPL) supplemental payments of \$17M. These are supplemental payments to ensure Medicaid recipient access to specialty care at the state's medical schools. UMSA/MSSC is continuing to hit its targets and is on track to meet its commitments to the BOT. Forecasting to break even and move from investment mode to growth and stability.

Chair Lamb noted that the top line is growing and net margins are small. He would like to know what the long-term plan is for expanding margins.

3. Sun Dome, Inc.

Kevin Toso presented the mid-year forecast for Sun Dome, Inc. (SDI). The Sun Dome is in the first year of its new partnership with Tampa Bay Entertainment Properties (TBEP).

SDI is not meeting its targets in FY 2018. FY 2018's financial plan was based on the high water marks of FY 2016 which included several high margin political events. However, net income is increasing and current cash position is strong. SDI and TBEP are focused on getting out current and accurate information on the facility – there are still some misconceptions about SDI in the industry. President Genshaft stated that there were some events booked by Spectra (former partner) that did not come to fruition and this contributed to the current revenue shortfall. Chair Lamb wants to look at the long-term strategy for SDI. Revenues have been up and down and up and down over the past few years – he does not want to see these large variances. He wants SDI to look forward over the next 2-3 years and come back to the Finance Committee. He also wants to know how SDI measures success. Trustee Muma stated that if we get good naming rights for the facility, this could help to bring in more and better events. Chair Lamb wants to know what this asset can do for us. He also noted that presently cash is decreasing and wants to know if SDI needs any cash injection to cover operating expenses. Mr. Toso responded no.

4. 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. Revenue expectations are higher than anticipated as fundraising is up this year. Mr. Momberg noted that two former Foundation Board members are now on the USF Board of Trustees – Trustee Muma and Trustee Horton. He also reported the success of the Campaign and the recent gala which raised \$240K for veteran's services and scholarships. NACUBO results for FY2017 are in – USF is #20 out of 808 for endowment returns.

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 decrease in revenue from memberships due to fewer annual members. Life memberships are strong. In order to offset this decrease in revenue, program expenses for the Association have been adjusted. Overall, the Association is forecasting an increase in net operating revenue and an increase in ending cash. Trustee Muma asked how many of our alumni are members. Mr. McCausland reported that 11.2% of our alumni are members - the national average is 12.2%; UF is 9.3% and FSU is 5.2%.

6. USF Research Foundation, Inc.

Paul Sanberg and Patty Gamble presented the mid-year forecast for USF Research Foundation, Inc. The Research Foundation manages the research park, the incubator and intellectual property. This has been a good year for the Research Foundation and it is meeting its financial plan. Will exceed plan on operating profit (due to expense savings) and net income. The research park will soon be at full occupancy and will be out of space imminently.

7. USF Financing Corp. & USF Property Corp.

Fell 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 \$370M in bonds, which has come down a little as no new bonds have been issued. Forecasting little deviation from financial plan. The forecasted gain of \$0.5M on its 50% equity investment in INTO USF, Inc. decreased \$1.2M from the Plan. The reduction in INTO USF's net income is a result of lower student enrollment. The \$6M Eye Institute project is on schedule and on budget and is expected to be complete in June 2018.

b. Annual DSO Investment Reports

The Board of Trustees, in the August 17, 2017 Finance Committee meeting, requested annual investment reports on significant DSO investment portfolios.

Chair Lamb stated that the Committee is in a new operating rhythm to look at investment performance of major DSO portfolios. The USF Foundation made its investment report at the November meeting and UMSA and Research Foundation will present today. All reports will be given at the same meeting going forward.

1. University Medical Services Assoc., Inc. (UMSA)

Mr. Sobieray and Ms. Ozmeral gave the investment report for FY2017 which includes UMSA and MSSC. Investment committee membership is aligned with the University Investment Committee. Portfolio objectives mirror university investment allocations, policies, and investment manager. DSO is building back reserves with UPL (physician Upper Payment Limit) supplemental payments and will meet Policy and performance benchmarks.

Trustee Muma asked why this portfolio is not invested with the university portfolio. Mr. Trivunovich responded that this an operating portfolio and has different liquidity requirements.

2. USF Research Foundation, Inc.

Mr. Trivunovich and Ms. Gamble gave the report for the Research Foundation. The Administrative Finance Committee is responsible for financial oversight of the investment portfolio. The Committee was recently expanded to 5 members, comprised of 2 internal and 3 external with investment management experience. Investments are in compliance with University investment policy. The total investment portfolio is \$30.5M and consists of three investment accounts:

- Long Term Investments (+ 10 Years); USF Foundation Endowment Pool; \$22.5M
- Intermediate Term Investments (5 - 7 Years); SunTrust; \$6M
- Short Term Investments; Vanguard; \$2M

Trustee Lamb likes the linkage to the USF Foundation; the flexibility of the portfolio; and the strong policies in place.

c. USF 2017 Audited Financial Statements

Jennifer Condon, University Controller, gave a brief review of the USF 2017 Audited Financial Statements. The financial statements and associated audit report were released by the State of Florida Auditor General on December 15, 2017. We received a clean opinion with no

recommendations/findings. We had two proposed adjustments which were immaterial and had no impact.

d. USFSP P3 Housing Project Update

Mr. Trivunovich gave an update on the USFSP P3 housing project. The project consists of 550 beds and a 15,000 square foot dining facility. Project cost is \$54M. The project was approved by the BOT in August 2017. Some changes have occurred since then to include: removal of 21,135 gsf conference center because it was not revenue neutral and impacted the cost to the students; the delivery date has been changed to Fall 2020; EdR (Education Realty Trust, Inc.) team taxable interest on subordinate corporate debt (\$5M) has been reduced to 10% from 11.9% as that would have threatened 501(c)(3) status. Currently working on asset management agreement, operating agreement, and ground lease with developer EdR. USFSP retains all residential life (programmatic and academic services) and the administrative services (marketing, assignment, leasing, billing and collection). Advisory Committee approves the student rates and operating budget for the project and is made up of 5 members: 3 USF System members, 1 NCCD member, 1 EdR member (this gives USF super majority). Project pro forma meets the required 1.30x debt service coverage ratio. Proposed student housing rates remain the same as those presented in the August 2017 BOT presentation, adjusted to a Fall 2020 delivery. Project preserves USF System's "Aa2" and Housing System's "A1" credit rating. USFSP retains all net cash flow to be used for investment in existing housing inventory and student success initiatives. USF System has an option to purchase the Project after year 10. Dining services contract negotiations are ongoing. No Exceptions to the FL BOG P3 Guidelines. Mr. Trivunovich reviewed the timeline for project approvals.

Trustee Carrere noted that the cost of the P3 project is higher for USFSP than for Tampa by about \$60K per bed. Mr. Trivunovich explained that the USFSP costs include dining facilities, capitalized interest, and closing costs and Tampa did not.

Chair Lamb stated that this project is a big advantage as it doubles housing for USFSP.

e. USFSP Student Housing Report

Jacob Diaz, USFSP Dean of Students & Director of Housing and Residence Life, gave a report on USFSP student housing. In December 2016, the USF BOT approved a three-year USFSP housing rental rate increase plan (fiscal years 2017-2020) to achieve a preferred 1.4x debt service coverage ratio by fiscal year 2019-2020. The rental rate increases were also in preparation for occupancy change once the P3 project is completed and University owned housing returns to 95% occupancy and to address increasing costs of staffing, utilities, and maintenance of facilities. Dr. Diaz reported that USFSP Housing opened Fall 2017 at 126% occupancy with continued demand for on-campus housing. Several housing enhancements have been made including: additional staffing to meet service needs; new shower base project started in RHO; additional cameras for safety and security; bike corral for both RHO and USC (thus no thefts of bicycles); and hammock stands for student gatherings. USFSP Housing is on target to meet a debt service coverage ratio of 1.39x in 2018-19. Dr. Diaz also reported on the value of living on-campus; the cost pressures facing USFSP Housing; and the local market comparison (lack of affordable student housing near campus).

V. Adjournment

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 4:20pm.