

**USF Board of Trustees
Finance Committee
NOTES
August 27, 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 2:30pm. The following committee members and liaisons were present: Brian Lamb, Mike Carrere, Charlie Tokarz, Judy Genshaft, and Alan Bomstein. A quorum was established. Trustee Byron Shinn was also present.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of May 22, 2018 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 22nd meeting notes were unanimously approved as submitted by all committee members present.

b. 2018-19 Operating Budget

Nick Setteducato, Associate Vice President for Resource Management & Analysis and Interim Vice Chancellor for Business & Finance at USFSP, presented the 2018-19 Operating Budget. The USF System Board of Trustees (BOT) is required to adopt an annual budget for the operation of the University. The BOT must approve the budget prior to July 1, 2018 for the State Comptroller to process cash releases of state funds. On June 12, 2018, the BOT approved a 2018-19 continuation operating budget at last year's level with the understanding that the USF System would prepare a 2018-19 budget for submission to the Board of Governors (BOG) by August 21, 2018 and for presentation to the BOT at the September 4, 2018 meeting.

The operating budget was a collaboration across all campuses. We are requesting the Board approve the 2018-19 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 2018-19 Operating Budget excluding Direct Support Organizations (DSOs) and carry forward totals \$1.84B, an increase of \$43.5M or 2% 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.

Incremental state funds were awarded through various incentive programs. However, the increased amounts are smaller than the increases provided during the previous fiscal year (SUS FY18 to FY19 increase was \$122M smaller than the increase from FY17 to FY18). USF Tampa is now among the state's Preeminent universities which provides incremental funds for the achievement of the established metrics. These funds are designated for strategic investments. In addition, although USF tied for 3rd place in Performance Based Funding, the tie-breaker eliminated 'bonus' funds that are enjoyed by the top-three. The USF System received \$13M in new funds compared to almost \$38M in FY18. All of the recurring funds awarded in FY2018 were retained, nothing was taken away. Allocations for these incentive programs were less in FY19 as funds in the state budget were redirected to K-12 security issues (approximately \$500M). USF also was the beneficiary of several specific state funding appropriations, mostly non-recurring, for USFSM and USFSP.

Like last year, the Budget was broken down by funding source, fungibility, and expenditure category for the System as well as for each campus. Two-thirds of our Budget is non-fungible (contracts & grants and financial aid); one-third is fungible (state dollars). The major budget sources for the USF System are: State Appropriations (23%); Contracts & Grants (23%); Financial Aid (22%); Tuition (16%); and Auxiliary Operations (12%). Financial Aid increased the most (\$14.2M or 4%) over the prior year. Budget for Tuition collections is up \$6.5M or 2% as a result of sustained collections over the last three years. This is not due to an increase in tuition rates, but rather an increase in student credit hours (SCH) (students progressing quicker) and a change in mix (in-state and out-of-state). The budget for Contracts & Grants expenditures is up \$5M or 1% over the previous year. Auxiliaries are up, mainly due to the establishment of several new online Master's programs in USF's College of Public Health (+\$3.2M).

Overall, fungible expenditures are up \$10.3M or 2% over last FY, mainly due to salary-related actions and strategic hires. Salaries & Benefits are up 5% or \$22.3M - strategic hires of Faculty and 2% salary increase for faculty, administrative and staff positions. Strategic Investment Fund is down 28% or \$14.4M - offset to investments made in strategic hires. Reserved Tuition Authority is up \$2.2M or 21% - refers to undistributed authority which may be used to direct specific allocations in the fiscal year.

The System's largest expenditure is salaries and benefits, indicating our greatest investment is in people, our greatest resource.

Chair Lamb stated that faculty are an important investment strategy for Preeminence, Performance Based Funding, AAU membership. Provost Wilcox explained that we are investing in hiring the right faculty - those that are research-intensive, and those that will help to lower the student/faculty ratio. Chair Lamb would like to see at the upcoming BOT meeting, a fact sheet with how many new faculty have been hired and the change in our student/faculty ratio. He wants to be sure we are delivering on our investment strategy.

A motion was made to approve the 2018-19 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. Approval of Institute of Applied Engineering DSO Budget

Robert Bishop, Dean of the College of Engineering, presented the Institute of Applied Engineering (IAE) DSO budget. IAE was approved as a DSO by the BOT at their June 12, 2018 meeting. As is required by Florida Statutes and DSO Bylaws, the IAE budget must be reviewed and approved by the BOT. This is the initial budget for this DSO and a three year budget plan has been provided.

IAE's mission is to become their customers' trusted agent to provide engineering solutions that enhance the performance, effectiveness and safety of their frontline operators. This builds on existing relationship with U.S. Special Operations Command (won't be the only customer, just how IAE is starting up). The purpose of the DSO is to diversify the research portfolio through addressing Department of Defense needs.

The DSO is basically a start-up company and will require funding support in the first three years. This funding support will come from indirect cost recovery on contracts and grants awarded; one-time system funds (Provost Wilcox confirmed other Academic Affairs research funds (F&A) will be used to support the DSO, which will not cannibalize other strategies); and departmental funds from the College of Engineering. In addition, Dean Bishop confirmed that if expenditures exceed the amount budgeted, the College of Engineering would absorb the costs.

Chair Lamb stated that we should not be subsidizing a surplus as is indicated in Year 3; rather we should be solving for breakeven.

A motion was made to approve the Institute of Applied Engineering Budget for 2018/19. The motion was seconded and approved by all committee members present, with the conditions as noted above.

d. Expenditure Authorization Requests

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

- Springer/Nature Journals License Agreement - \$2,347,832

This license provides system-wide access to Springer, Nature, and Palgrave ejournal content, as part a three-year agreement, negotiated at the state level by the University of Florida on behalf of the State University System of Florida. The multi-year contract terms limited future increases to 3.45% and 3.81% for the non-health content, and 4% for health content. These increases are below the historic 4.3% - 4.7% levels and thus represent a significant savings to the University. Both USF Tampa and USF Health (Shimberg) Libraries support this expenditure with budgeted funds.

A motion was made to approve the Springer License Agreement in the amount of \$2,347,832. The motion was seconded and approved by all committee members present.

- Renovation and Build-out of Chemical & Biomedical Engineering Laboratory Space - \$2,250,000

Renovation of USF Research Park building 3802 Spectrum (BPB) Suite 213 to welcome the research team of Chemical & Biomedical Engineering Chair Cliff

Henderson. The team was recruited to USF from Georgia Institute of Technology. The College of Engineering has budgeted E&G carryforward funds for this renovation, which they have been accumulating for this purpose.

A motion was made to approve the renovation in the amount of \$2,250,000. 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. Investment

The USF System investment portfolio consists of 10 USF and DSO portfolios. Combined USF/DSO portfolios total \$1.4B, up \$116M over 2017. All portfolios are in compliance with BOT Investment Policy. All portfolios have effective governance structures. The University portfolio is an operating portfolio. Objectives are to provide liquidity to fund University operations; preserve capital and provide reasonable returns on invested State funds and reserves; achieve positive absolute returns in all market conditions (balance risk and return); and provide support for Moody's and Standard & Poor's ratings. Performance in 2018 and returns for 1, 3, 5 year periods closely tracks our benchmarks. University investment returns have been stable and positive in each of the past 10 years despite market volatility. This is due to prudent risk management through a diversified portfolio and conservative structure. Near-term initiatives include: ongoing assessment of portfolio exposure to interest rate risk (well positioned in short-term, high quality fixed income); maintain liquidity in diversified, well-managed mutual funds (next day availability); continue investment of positive net cash flow into a balanced portfolio structure; and monitor investment managers for performance and/or organizational issues.

Chair Lamb asked about the yield/rate on our cash. Mr. Stubbs replied that current returns are 1.6% - 1.9%.

2. Debt Management

BOT Debt Management Policy objective is to strengthen the balance sheet. To achieve this objective requires active management. This is accomplished with prudent governance (USF/USF Financing Corporation); maintaining strong Moody's and Standard & Poor's credit ratings; effective use of USF debt capacity; and managing long-term cost of capital and risk. Ten transactions closed in FY 2018 for \$229M. Over the past 10 years, the University's debt portfolio has had 10 ratings upgrades plus recent *Positive Outlook* on all rated series by S&P. 45+ transactions have closed over 13 years for over \$1.8B. Our debt structure has been managed to reduce risk and leverage and/or capitalize on market opportunities.

Mr. Stubbs reviewed the Policy's key performance measures we are expected to meet. Not all of the data for FY 2018 is available yet. He discussed 10 year trends. He also noted that the USFSP housing project will increase outstanding debt by 9% with minimal impact on performance measures. Near-term initiatives include USFSP Housing and Dining Project - \$33M; USF Research Park Building (in development); and USFSM Student Housing Project (in development).

3. Derivatives

The BOT Derivatives Policy governs all derivatives. We have no unhedged positions and no new swaps since 2007. Two swaps currently outstanding for \$62M. Market is not favorable to swaps; looking to exit remaining swap (convert to fixed rate bonds).

b. Accounting Standards Changes

Jennifer Condon, University Controller, provided an overview of the recently implemented Post-Employment Governmental Accounting Standards and the related impact on the USF System statement of net position. These standards and recent changes affect USF's total pension liability and total Other Post-Employment Benefits (OPEB) liability. For the first 16 years GASB 27 was in effect, USF had nothing on its financial statements for pension costs. For FY 2018, USF's pension liability is \$165.5M; USF's OPEB liability is \$504M (up from \$144.3 in FY 2017). USF's unrestricted net position will be in the red for FY 2018 financial statements due to this. Every state university in the country is experiencing the same effects on their financial statements. There is no cash implication at this time and we do not expect any changes to our credit ratings as the credit agencies are prepared for this. Chair Lamb noted that despite all of this, there are other measures that indicate our balance sheet is healthy – carry forward balances, reserves.

c. Construction Update

Calvin Williams, Vice President for Administrative Services, gave a brief update on the following construction projects over \$2M:

- USF Health Morsani College of Medicine and Heart Institute – project is moving well; construction continues; structural top out scheduled for November 2018; haven't received all of the funding allocation from the state
- USF Residence Life Village (P3) – project is complete; post occupancy status; completing punch-list items; 2,000 beds, 7 buildings; great success
- USF Grocery (P3) – store opening anticipated November 2018; students are very excited
- USF New Entry/Laurel Drive Extension – in construction; roundabout to 46th Street to handle traffic associated with the Village and Publix; new parking lot; University and P3 funding; estimated completion – April 2019
- USFSM College of Hospitality & Tourism Expansion – program is currently in Lakewood Ranch about 6 miles from campus (currently leasing space); expansion/renovation will be able to accommodate 40 students (28 currently); will include instructional kitchen
- USF Honors College – philanthropy driven; will be located between Muma College of Business and Cooper Hall; in design phase; CM will be onboard in October

- USF Football Center – consists of indoor practice facility and football operations building; philanthropy driven; \$11.2M raised to date; \$2.1M available now to get started; operations center is the first priority if not all the funds are raised.

Chair Lamb noted that the Village is the largest P3 in the state and is now complete, here. He also stated that all of the projects presented total over \$400M and are truly transformational for USF.

d. Football Stadium Financial Feasibility Study

David Lechner, Sr. Vice President for Business & Financial Strategy, presented the USF Stadium Feasibility Report. The purpose of the report was to accomplish the President's goal to provide a feasibility study to the BOT. It was noted that USF released its findings to the Tampa Bay Times on July 30, 2018. The study was performed by Conventions, Sports & Leisure and was a thorough, multi-faceted approach that included historical analysis, local market conditions, peer benchmarking, stakeholder interviews, and market surveys. Key take away from the study was "do not compromise on quality." Mr. Lechner also reviewed the cost and funding analysis provided by CS&L. CS&L's recommended building program could cost between \$120M - \$240M. Conclusions: great baseline document - informs our strategy going forward; continue to work with Foundation leadership on strategy; need to maintain our momentum; need to keep our focus/attack priorities; priority remains the USF Football Center / practice facility.

V. Adjournment

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