



**USF Board of Trustees
Finance Committee
NOTES
Monday, October 29, 2018
USFSM Selby Auditorium**

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Brian Lamb at 1:53pm. Chief of Staff Cindy Visot called the roll with the following committee members present: Brian Lamb, Mike Carrere, Les Muma, Charlie Tokarz, and Judy Genshaft. A quorum was established. The following Trustees were also present: Stephanie Goforth, Oscar Horton, Deanna Michael, 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 27, 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 August 27th meeting notes were unanimously approved as submitted by all committee members present.

b. DSO Thresholds

Hilary Black, Sr. Associate General Counsel, presented an action item to approve an amendment to the USF System Regulation 13.002 *Direct Support Organizations and Health Services Support Organization* for approval of expenditures. Florida Statute §1004.28 and the proposed Florida Board of Governors Regulation 9.011 requires the USF Board of Trustees (BOT) to set thresholds for approval of purchases, acquisitions, projects, and issuance of debt by DSOs. The proposed amendment to USF System Regulation 13.002 requires the USF BOT Finance Committee Chair to approve any of the above expenditures equal to or greater than \$1M and the USF BOT Finance Committee to approve any of the above expenditures equal to or greater than \$2M. The proposed amendment would make the DSO required expenditure approvals comparable to the University's expenditure approvals (USF System Policy 0-100).

Chair Lamb reported that the spending policy is working well at the university level and he does not expect much volume from the DSOs (should not be a significant workload).

Most large transactions for the DSOs already come to the BOT pursuant to the BOT Real Property Policy and the BOT Debt Management Policy.

A motion was made to recommend to the BOT for approval the proposed amendment to USF System Regulation 13.002 Direct Support Organizations and Health Services Support Organization. The motion was seconded and approved by all committee members present.

Chair Lamb stated that it is good governance to get consistency with the University and the DSOs.

IV. New Business – Information Items

a. Tampa Housing Report

Ana Hernandez, Assistant Vice President, Housing & Residential Education, gave an update on USF Tampa Student Housing. Ms. Hernandez reminded the Committee that in May 2016, the BOT approved the USF Tampa Student Housing Rental Request for three years (FYE 2017-2019). As a result of the predictable funding model, Housing & Residential Education has been able to invest \$36.77M in facilities infrastructure and upgrades while meeting or exceeding debt service coverage ratio targets. This reinvestment has extended the useful life of buildings and systems 15-20 years and improved residential experience and satisfaction.

The final three buildings of the USF Village project opened in Fall 2018, bringing the total on-campus bed count to 6,329 student beds (added 1,098 new beds in USF Village and demolished 549 beds in remaining Andros buildings).

Ms. Hernandez listed the FYE 2018 facility reinvestment projects, which included both front of the house (what students see) and back of the house (infrastructure) projects. Ms. Hernandez also presented before and after photos of some of the completed projects (Holly exteriors, Castor bathrooms and RLC office, and furnishings upgrades for Maple). In addition, Ms. Hernandez presented sample facility reinvestment projects for FYE 2019 and FYE 2020. These projects were part of the long-term deferred maintenance plan presented to the Finance Committee in May.

Ms. Hernandez explained the value of living on campus, which includes safety; convenience (close to classes and resources); variety of housing options; Living Learning communities and access to faculty outside the classroom (USF Tampa currently has 14 LLCs and 6 faculty in residence); academic success (graduation and retention); connection to campus life; and flexibility (change rooms or roommates, length of contract, cancellation options).

USF Housing is solely funded by rents collected. USF Housing functions as an auxiliary enterprise. The main cost pressures on USF Housing are matching university salary & benefits increases, cost for services (cable, landscaping), utilities and materials, and facilities reinvestment to critical infrastructure, which are causing expenses to increase. Revenues are under pressure due to loss of 550 Andros beds, the revenue adjustment in Greek Village Master leases to allow for adequate turn between semesters, and reduced administrative services fee revenue from P3 (lower occupancy).

Ms. Hernandez provided a comparison of SUS housing rates by type for 2018-19. Only UF and FSU are proposing rate increases for 2019-20. Also provided was a 2018-19 market comparison with the off-campus community for apartments. USF on-campus apartments have a 97% occupancy rate. Ms. Hernandez also provided a 2019-20 rate comparison for the USF Village and USF Housing. USF Village will be implementing a 2.4% weighted average increase based on demand. USF Village has 92% occupancy; USF Housing has 94%

occupancy. Chair Lamb asked how P3 rates are set. Ms. Hernandez explained that the P3 has a five-member advisory board consisting of 2 USF members (Ms. Hernandez and Mr. Stubbs) and 3 P3 members. Rates are driven by the P3 meeting financial obligations for its investors. USF transfers all collected rents/revenue to the P3; then the P3 pays an administrative services fee to USF Housing per occupied bed. There was then discussion on the term of the P3, which is 46 years. According to Ms. Hernandez, this is standard for a P3 agreement, most are between 36 -70 years. These buildings are required to have a useful life of 65 years; when the P3 turns the building over to USF after 46 years, it will still have 25% useful life.

Ms. Hernandez also provided financial projections for USF Housing for FYE 2020 with no increase in rents and with a 1% average increase in rents. A 1% increase will allow for additional facility reinvestment. President Genshaft was concerned about a rate increase and its impact on cost of attendance. There was discussion on cost of attendance (and its effect on performance based funding) as well as on deferred maintenance.

Chair Lamb stated that we need to continue to invest, recruit and meet debt service. The Trustees will have to make a decision on rates in January. Ms. Hernandez will meet with any of the Trustees who would like more information on this issue before then.

b. Draft 2018 USF Financial Statements

Jennifer Condon, University Controller, provided highlights of the FY 2018 financial statements. The statements are draft as the audit is ongoing. Ms. Condon presented a historical view of operating results. With the exception of FY 16/17, operating results for the USF System have been largely breakeven. FY 16/17 had an operating surplus of \$26.9M primarily due to WUSF FCC auction proceeds. Ms. Condon also presented the year-to-year change in cash and investments showing continuing improvement in these areas. This clearly demonstrates that USF is in a strong financial position.

Ms. Condon explained variances between 2017 and 2018 in excess of \$10M and 10% as well as variances in excess of \$20M. While there were many variances that exceeded the thresholds, she highlighted the following:

- Contracts & Grants revenue increased \$36M (federal and non-governmental awards) – this is our largest revenue source.
- State Appropriations increased \$34M, resulting from Performance Based Funding and Emerging Preeminence.
- Compensation & Employee Benefits increased \$46M due to expansion, filled vacancies, and increases in retirement and pension costs. 60-70 net new faculty were hired and the student/faculty ratio has improved on all campuses.
- Cash & Investments increased \$60M due to FCC auction proceeds, C&G overhead and investment returns, not E&G.
- Net Capital Assets increased \$105M – Phase 1 USF Village (\$56M), CIP for MCOM & Heart Institute (\$30M), land.
- Total Net Position decreased \$295M due to change in accounting for OPEB liability. This is a non-cash item.
- Pension Liability increased \$30M due to lower than anticipated investment performance and change in allocation.
- Other Post-Employment Benefits (OPEB) Liability increased \$301M due to the GASB 75 move to total liability.

Ms. Condon concluded by stressing that the change in cash/investments naturally adjusts for the GASB accounting impact and the cash/investments added to the balance sheet indicate that USF continues to prudently manage its finances.

c. 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.

1. USF Foundation

Brian Keenan, Chair of the USF Foundation Investment Committee and USF Foundation Treasurer, and Ken Souza, Investment Director, USF Foundation, presented the annual Foundation investment report. This report includes the Endowment Portfolio and the Operating Portfolio.

The USF Foundation recently closed FY 2018 with approximately \$615M in total assets under management, of which \$480M are restricted endowment assets. The Endowment Pool posted a return of 11.9% for the fiscal year, which exceeded its policy benchmark by 2.8%. This portfolio performance was due to strong performance from domestic and international equities. USF's endowment returns are the best in the SUS.

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; overweight equity position relative to peers; and no allocation to hedge funds. USF endowment is the third largest among selected institutions established since 1950. This is due to strong returns and good fundraising.

FY 2018 returns exceeded policy benchmarks. Active management provided a significant boost to portfolio returns and investment expenses were reduced 14 basis points.

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 spending rate (4% dividend, 1.95% administrative fee). Recent Investment Committee initiatives include implementing manager change in small cap value and a new quantitative strategy in international equity. The Investment Committee looks at managers and asset allocation quarterly.

The Operating Pool is about \$102M with some overlap as a portion is invested in the endowment. The investment objective for the Operating Pool is 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 2.5% for the fiscal year, which was over its policy benchmark by 1.0%.

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

Rich Sobieray gave the investment report for FY2018 which includes UMSA and MSSC. Investment committee membership overlays with the University Investment Committee. Portfolio objectives include liquidity and mirroring University investment allocations

(although UMSA is currently a bit behind), policies, investment managers and utilization of the same investment consultant, Cambridge Associates. Over the past few years, the DSO has taken cash out of the portfolio to invest in the business; now the DSO is in a growth phase and building investments back to the \$50M level. This is consistent with the approved strategy for the DSO.

3. USF Research Foundation, Inc.

Nick Trivunovich, Chair of the Research Foundation's Administrative Finance Committee, gave a brief report for the Research Foundation. The total investment portfolio is \$34.5M and consists of three investment accounts:

- Long Term Investments (+ 10 Years); USF Foundation Endowment Pool; \$25.1M
- Intermediate Term Investments (5 - 7 Years); SunTrust; \$6.5M
- Short Term Investments; Vanguard; \$3M.

73% of the portfolio is invested long-term with the USF Foundation. The remaining 27% is in intermediate and short-term investments (maintained for strategic purposes such as the potential building of a new facility in the research park in the near future). The intermediate investments (for working capital and reinvestment into the research park) are performing at or slightly below benchmarks.

The Research Foundation had total investment income of just over \$3M in FY 2018. The weighted return on the portfolio was 10.2% which exceeded benchmark by 2.0%.

d. 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 along quickly; construction continues; structural top out scheduled for November 2018; completion 14 months out; still waiting for \$14.2M PECO from State
- USF Grocery (P3) – in construction; store opening moved to December 2018
- USF New Entry/Laurel Drive Extension – in construction; continuation of road between the Village and Publix with tie in to 46th street; new parking lot (300 spaces)
- USF Honors College – philanthropy driven; will be located north of Muma College of Business; in design phase; all other SUS preeminent universities have a stand-alone Honors College
- USF Football Center – consists of indoor practice facility and football operations building; philanthropy driven; football operations building is first priority
- USFSP Student Housing & Dining Project – in procurement phase; the Beck Group has been selected for design/build; one building consisting of 120,000 sf student housing (375 beds) and 12,000 sf dining facility; Chair Lamb thanked Trustee Goforth for advancing this project and also thanked former Trustee Debbie Sembler who led the selection committee
- USFSM Academic STEM Facility – CIP Priority 7; no dollars yet for this project; to date, \$54K has been spent for renderings

Chair Lamb noted that with all of the current construction going on, this is a transformational time in USF's history and it won't stop anytime soon.

e. Supplier Diversity Program Update

Terrie Daniel, Assistant Vice President of Supplier Diversity, gave an annual update of the Supplier Diversity Program. This was the first year of the Program. The BOT approved the strategic plan in December 2017. All 26 short-term goals in the strategic plan have been successfully implemented, including development and launch of "Lunch & Learn" series; purchasing card (pcard) training (it is important to impact this level of spending); and hiring and training of staff to support the operations of the program. To date, the Office of Supplier Diversity (OSD) has created a roadmap for systematic program development; has significantly increased awareness internally and externally about our supplier diversity initiatives; has created and is still driving a system-wide program buy in and support; and is implementing analytics tool Jaggaer to track and identify key areas of spend. OSD recently had its 2nd Annual Supplier Diversity Day (which was a phenomenal success) and awarded the 1st USF Supplier Diversity Champion Awards to recognize those across the USF System who have run with these initiatives.

Ms. Daniel then discussed performance metrics which include total spend with diverse owned suppliers and provided the Trustees with a copy of the "2018 Growing Together Annual Program Update." In 2016/17, USF's spend with diverse-owned suppliers was \$18M. That spend increase \$10M in the first year of the program (2017/18 spend was \$27M). The current percent of total spend with diverse suppliers is 7.8%. The USF System goal is 13-20% upon full program implementation.

President Genshaft thanked Ms. Daniel for all her work. Chair Lamb stated that we have a best in class model here at USF with Ms. Daniel's leadership and that we are in a good place and headed in the right direction. He asked Ms. Daniel not to let up and to continue to be visible on all campuses.

V. Adjournment

Trustee Shinn emphasized the need for housing and labs on the Sarasota-Manatee campus. Chair Lamb reiterated that Sarasota-Manatee is a strategic priority. Trustee Muma noted that Sarasota-Manatee is a great community to provide support to the University. Trustee Tokarz stated that at a recent town hall meeting (in Sarasota) it was noted by attendees that USF will be the only research university in the area.

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 3:50pm.