



USF Board of Trustees

Finance Committee

NOTES

Tuesday, February 12, 2019

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 11:12am. The following committee members were present: Brian Lamb, Mike Carrere, Les Muma, John Ramil, Charlie Tokarz, and Judy Genshaft. A quorum was established. The following Trustees were also present: Oscar Horton, Deanna Michael, 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 October 29, 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 October 29th meeting notes were unanimously approved as submitted by all committee members present.

b. Approve Revisions to USF BOT Debt Management Policy

Fell Stubbs, University Treasurer, presented for approval revisions to the USF BOT Debt Management Policy 06-003. USF's Debt Management Policy is being revised to conform certain sections of the Policy to the BOG Debt Management Guidelines, including selection of underwriters and advisors, consideration of the BOG Public-Private Partnership Guidelines, and the specification of continuing disclosure requirements in SEC Rule 15(c)2-12 and the reporting of subsequent events. Additionally, revisions were made to clarify debt management responsibilities, funding strategies and financing structures. USF follows the BOG guidelines and are now clarifying this in our Policy.

A motion was made to approve amendment to USF BOT Debt Management Policy USF BOT 06-003. The motion was seconded and approved by all committee members

c. Assumption of Subleasehold Interest and Acquisition of Building Improvements – University Diagnostic Institute (UDI)

David Lechner, Sr. Vice President for Business & Financial Strategy, presented the information related to proposed transaction with University Diagnostic Institute (UDI). UDI is a full service imaging facility located on the USF Research Park campus. UDI currently occupies the property by way of a 99 year sublease of the land granted in 1984. UDI wishes to assign their interest in the sublease and sell their building improvements to the USF Financing Corporation, but wants to continue to operate within the facility in the short term by way of a

five year space lease of the facility, paying market rates to the USF Financing Corporation for that use. The UDI subleased property is in the research area of the campus, and this transaction will allow USF to gain control of a strategic parcel of real estate and provide USF valuable flexibility in redeploying this space in the future for research or any other priority uses. The acquisition will be financed by the USF Financing Corporation utilizing a conventional mortgage obtained on a competitive basis. Appraisals were obtained supporting the purchase price of \$3.6M. The five-year leaseback payments (\$376K per year) will be dedicated to pay down the debt. The acquisition will not be consummated until environmental and other due diligence processes are completed.

Mr. Lechner noted that since this will be financed utilizing a conventional mortgage, it does not require BOG approval. He also noted that this is a very fair deal to both sides and has been a very amiable process.

Chair Lamb disclosed that he will not take action on this item as UDI banks with Fifth Third Bank. Chair Lamb also disclosed that he has not been involved in any of the negotiations.

A motion was made to approve the assumption of UDI's subleasehold interest and the acquisition of UDI's building improvements by the USF Financing Corporation and authorizing the execution of documents attendant to the assumption, acquisition and related financing. The motion was seconded and approved by all committee members except for Chair Lamb who abstained from voting after first disclosing his conflict.

d. Tampa Student Housing Rental Rates

Ana Hernandez, Assistant Vice President, Housing & Residential Education, presented the 2019-2020 USF Tampa Student Housing Rate Proposal. 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.

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 explained the intangible value of on-campus housing, which includes greater safety; academic success (proven factor in graduation and retention rates); added convenience; variety of housing options; access to Living Learning communities; connection to campus life; and greater flexibility with on-campus experience (change rooms or roommates, length of contract). Chair Lamb stated that this applies across the entire USF System and indicates how we think about housing.

Chair Lamb thanked Ms. Hernandez and her team for their hard work over the past few years in greatly decreasing the deferred maintenance backlog, which had previously been at \$90M. In the last three years, over \$80M of deferred maintenance has been eliminated (\$30M from projects plus \$50M from demolition). Trustee Ramil stated that we are a learning organization and have been very strategic in how we've reinvested. Chair Lamb noted we do not see this at other SUS institutions; they are challenged with deferred maintenance.

Ms. Hernandez explained that we have created a high performing, financially stable, self-sustaining Housing system with a track record of progress. In order to strategically move forward, we are requesting a 1% average increase in housing rates for FY 2020 (starting fall 2019). Cost drivers for this request are salaries and benefits; utilities, repairs; cable, landscaping, amenities; and reduced fees from P3. While these costs are increasing much more than 1%, because of our sensitivity to student needs, we have elected to be less aggressive in our deferred maintenance program and absorb portions of the cost. In addition, this small increase keeps faith with BOT guidance of consistently modest increases versus no increases followed by large increases (aligned with discussion in 2015-16 at 3-year rate increase request); keeps USF rates lower than P3 rates and P3 rate of increase; keeps our rates comparable to other metro SUS institutions; and allows us to meet debt service ratios at 1.4x (helps Tampa and the entire system).

A motion was made to approve the 2019-2020 USF Tampa Student Housing Rate Proposal of a 1% average increase. The motion was seconded and approved by all committee members present.

e. Expenditure Authorization Requests

Nick Trivunovich, Vice President for Business & Finance and CFO, presented the expenditure authorization request for the Insightec equipment (MR guided focused ultrasound) purchase and 5-year service agreement for approval by the Finance Committee. MR guided focused ultrasound (MRgFUS) is a novel technique for precisely targeting therapeutic intervention within deep brain structures noninvasively – without skin incision, craniotomy or radiation. This is a research piece of equipment that can be used clinically as well. Pricing is an initial system payment of \$1,149,000, a per-procedure payment of up to \$850,000, and a total service fee of \$800,000 (5 years at \$160,000 per year) for a total of \$2,799,000 over the life of the contract. The purchase of the MRgFUS is funded through 3 parts:

1. Preeminence Funding: Initial Capital Investment - \$1,149,000
2. Patient service and clinical trial and federal research revenue:
 - a. The balance of \$850,000 paid through a per click charge
 - b. \$160,000 per year maintenance contract over 5 years = \$800,000 to support the service agreement.

Trustee Muma asked where the equipment would be located. Rich Sobieray stated that it will be at the Morsani Clinic. President Genshaft asked how this affects F&A. Dr. Sanberg stated that this expenditure will help in renegotiating our F&A rates with the federal government during this base year of negotiations; this will also help to offset our lack of building depreciation. Trustee Tocarz asked how the use of preeminence funds work. President Genshaft explained that we use preeminence funds to build on areas of strength and excellence. Chair Lamb further explained that we said we wanted to use preeminence funds to invest in neurology/brain; heart; and medical engineering. This is what we said we would do.

A motion was made to approve the expenditure authorization request for the Insightec equipment (MRgFUS) and 5-year service agreement in the amount of \$2,799,000. The motion was seconded and approved by all committee members present.

IV. New Business – Information Items

a. USF 2018 Audited Financial Statements

Jennifer Condon, University Controller, gave a brief review of the USF 2018 Audited Financial Statements. The financial statements and associated audit report were released by the State of Florida Auditor General on January 24, 2019. We received an unqualified/clean opinion with no adjustments. Chair Lamb reminded the committee that this item is part of our normal governance process to close out the audit.

b. Research Park Mixed Use Lab and Office Building

Paul Sanberg, President of USF Research Foundation, Allison Madden and Fell Stubbs gave a presentation on the need for expansion in the USF Research Park. The Research Park has experienced above market occupancy rates in its buildings (exceeds 90% occupancy; average 97%+ for the last seven years) due to the connection to talented faculty and students along with access to research facilities. The Research Foundation is looking to strengthen the life sciences and technology ecosystem by reinvesting the strength of its balance sheet and strong cash flows in the Research Park. The Research Foundation has been working hard on financial health and increasing debt capacity in order to reinvest in the Research Park. Investment in research facilities helps to increase the F&A from the federal government (F = facilities) and will help to expedite the path to AAU. The Research Park is currently at 99% occupancy with little available lab or office space. There have been no new buildings in the Research Park for the last 10 years (impacts F&A calculations).

The planned expansion is for a 120,000 SF office and lab space with Fowler frontage (Fowler and Spectrum). The proposed building will define the physical approach to the University and Research Park from I-275 and provide flexibility for long-term marketability and economic viability. The expansion is anticipated in the Research Park DRI (Development of Regional Impact) and Master Plan. The estimated project cost is \$37M. A demand study conducted by HR&A Advisors in December 2018 provided strong assurances that there is demand for lab and office space at the Research Park. This demand includes: 1.2M SF unmet demand for life science and tech space; 253K SF space needed for new faculty hires by 2022; and 35K SF unmet private sector demand from corporate partnerships. Project risks are: project cost exceeds expected rental rates; competition from other market tech parks; and delayed lease up of project space. A broker RFP will be issued soon to assist with pre-leasing the project.

The Research Foundation will contribute \$15M in cash to lower leverage and project risk. The Research Foundation will use its balance sheet strength as it has accumulated cash to use for this project. The Research Foundation will master lease the project to provide revenue and credit support until the project is fully leased, expected within five years. USF Financing Corporation will issue RFP for 20-year fixed rate taxable private placement debt and develop appropriate financing structure and agreements. The project pro forma was also presented and reviewed. Research Foundation revenue needed to support the project in first year at 1.30x debt service coverage ratio is \$1.7M – needed support will diminish as the building leases up and becomes revenue positive.

Chair Lamb wanted to better understand the sources of revenue for the project. He asked how much pre-lease is necessary to move forward. Mr. Stubbs responded 25-40%, without the Research Foundation support. Chair Lamb wanted to better understand the economics of this project and asked for a follow-up presentation at the next meeting.

c. USFSM Student Housing Project

Karen Holbrook, Regional Chancellor, and Eddie Beauchamp, Regional Vice Chancellor for Business & Finance, gave an update on the USFSM Student Housing Project. USFSM is committed to enhancing the student experience on campus. One of the areas being evaluated is the role student housing could play in student success and enriching campus life. The goal is to transform the USFSM Campus by adding residential facilities. Housing is critical to support enrollment growth, diversity objectives, academic goals and performance metrics. Residential facilities support recruitment/retention of high caliber students. Research shows that students living in a residence excel in persistence and academic performance and foster a sense of community on campus for all students. This Project has the support of the USFSM student body (88% of students agree that housing is important in building community and culture at USFSM) and projected demand of 100 beds at the current enrollment.

In August 2018, USFSM engaged Brailsford and Dunlavey (B&D) to complete a student housing demand study. B&D has completed its study from a comprehensive survey of USFSM students. The residential project concept is for 185-215 beds. This would include the 100 beds identified in the B&D demand study, plus 75 beds for New College of Florida (NCF) students, plus an additional 10-40 beds for USFSM students currently living with parents (30+ miles from campus). NCF students have a 4-year live on campus requirement. NCF has demand for 200 additional beds but they currently do not have the debt capacity to fund new housing. The plan would be to phase out the NCF students and fill the 75 beds with USFSM students.

Trustee Tokarz underscored the importance of this project to USFSM. Students do better and graduate within the 4-year window when living on campus. This will also help with pre-eminence.

Trustee Shin stated that this demand study only looks at current students; it does not look at students who would come to USFSM if housing were available.

Mr. Beauchamp and Trustee Shinn distributed a handout of the current USFSM master plan indicating the proposed site of the housing project.

Chair Lamb asked about the balance sheet implications of the project and how it will affect debt service ratios and debt capacity. Trustee Carrere asked about the plan for Tampa. Ms. Hernandez responded that it will be driven by demand. Currently don't expect to expand beds on campus for 4-5 years. 60% of Tampa's beds are freshmen. Chair Lamb asked about dining for USFSM. Mr. Beauchamp indicated that they are looking at several options and will come back to the Finance Committee with this issue. Trustee Horton asked what happens if New College isn't interested. Mr. Beauchamp responded that USFSM will either wait a few years or build a smaller facility (100-125 beds). Trustee Ramil likes the idea of going with New College initially to get going quicker, but wants to see them phased out quickly.

Chair Lamb asked for another update on this project at the next Finance Committee meeting.

d. USFSP Student Housing Update

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 BOT's approval of the rental rate

increase requires USFSP staff to return annually to the Finance Committee to report on the performance of the housing system at USFSP to ensure that the assumptions underlying the increase remain valid. The rental rate increases were also in preparation for occupancy changes once the new residence hall project is completed and University housing returns to 95% occupancy and to address increasing costs of staffing, utilities, and maintenance of facilities. Several housing enhancements have been made including: additional staffing to meet service needs; painting in residence halls; updating lounge furniture in both RHO and USC; and added LED lighting to RHO. The goal is to enhance the student experience. 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). Dr. Diaz reviewed financial performance to date and forecasted going forward. Able to reduce expenses by discontinuing student contracts at the Hilton (able to do this with triple occupancy). USFSP Housing is on target to meet a debt service coverage ratio of 1.39x in 2018-19. Dr. Diaz reported that USFSP Housing opened Fall 2018 at 111% occupancy with continued demand for on-campus housing. Chair Lamb asked that reserve dollar amounts for housing and dining be added to the Financial Projections chart.

e. DSO Mid-Year Forecasts

Each year, the DSOs prepare a Mid-Year Forecast – this Forecast is for FY 2019. These reports include a comparison of the Forecast to the FY 2019 Financial Plans approved by the BOT Finance Committee at its May 22, 2018 meeting, as well as actual results for FY 2018, 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.

1. USF Health Professions Conferencing Corp.

Carol Post and Greg Vannette presented the mid-year forecast for USF Health Professions Conferencing Corp. (HPCC). Wages and Benefits increased year over year as a result of the recruitment of a permanent CAMLS executive director as well as fulfillment of the plan to restore key staffing that had attrited over time in alignment with increased CAMLS academic and event activities. This will be offset by increasing revenues going forward due to increasing demand for services and adding incremental business lines. HPCC has stabilized and will continue in a stabilized fashion. HPCC is forecasting to see increases in net operating profit, cash flow and cash on hand.

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

Rich Sobieray presented the mid-year forecasts for UMSA and MSSC combined. The Practice Plan has reached some stability and continues to improve. A good leadership team is finally in place to improve financials and operations. Revenues are growing faster than expenses. Should settle in at 4-5% operating profit margin. Positive cash flow and rebuilding reserves. UMSA/MSSC continues to meet its commitments to the BOT.

3. Sun Dome, Inc.

Michael Kelly and Brandon Hall presented the mid-year forecast for Sun Dome, Inc. (SDI). The Sun Dome is in its second year of transition of management with Tampa Bay Entertainment Properties (TBEP). USF basketball attendance is up 38% this year. FY 2019 revenues are short of plan, but managing expenses so operating profit will be better than projected. Trustee Muma asked if there have been any effects of the name change to

Yuengling Center. Mr. Kelly responded that there have been no negative effects and have seen an increase in the loge seating due to the new beer garden attracting more shows. Chair Lamb asked if the revenue from the naming rights is included in the mid-year numbers. Mr. Hall responded no. Mr. Trivunovich reminded the committee that the naming rights are included on the university side as the naming rights were pledged for the debt service on the arena renovations. The naming rights are just a portion of what pays for the renovation costs. Also, \$400K is transferred to the University to pay down the debt.

4. USF Foundation, Inc.

Joel Momberg and Rob Fischman presented the mid-year forecast for USF Foundation, Inc. This is another good year for the Foundation; receiving more high quality gifts even though this is a non-campaign year; USFSP donors are more generous than ever. The USF Foundation is still trying to get the endowment over \$500M. The main variance on the income statement is the decrease in investment income due to the investment markets. While the market has recovered in January and cash gifts are coming in better than ever to help offset the market fluctuations, the Foundation is still expecting a decrease in net operating profit. All other forecasted results do not vary significantly from the financial plan.

5. USF Institute of Applied Engineering

Dean Robert Bishop presented the mid-year forecast for USF Institute of Applied Engineering. This is a new Institute; it is fast moving and has yet to achieve the desired consistency of operations. Although FY started in July, did not receive funding until October, delaying execution of formation activities and associated expenses. Currently establishing infrastructure and governance. Accounting system should be in place by late February/early March. Secured financial support to offset expenditures. In discussions with Hillsborough County to provide funding (\$5.3M) to Institute matching University investment and commitment. The Institute will be short of plan for revenues and expenses due to the late start. Per Chair Lamb, since the Institute is off plan at midyear, they need to keep the Finance Committee updated on any changes.

6. USF Alumni Association, Inc.

Bill McCausland and Melissa Schaeffer presented the mid-year forecast for USF Alumni Association, Inc. The Association is focused on growing memberships and engaging alumni out of the area. Projecting a decrease in sponsorship and royalty revenue due to changes in the USF Credit Union affinity contract. Due to the decrease in this revenue, efforts are being made to reduce operating expenses in the area of membership printing, solicitation expenses, staff travel, and printing of Association produced publications. Life memberships are strong. In the past, scholarship gifts raised by Alumni development were housed within the Association. Effective the beginning of the current fiscal year, the Foundation has begun housing all scholarships within their financial records in order to keep them integrated. The Association will continue to manage the scholarships, but the dollars will be reported in the Foundation's net assets. This \$50K transfer is reflected in expenses. The unfavorable gap due to the location of scholarships is a transfer of assets and does not have an impact on the operating profit of the Association. Cash is on target. Chair Lamb asked why memberships are flat when we graduate 14,000 students per year. Mr. McCausland responded that most recent graduates do not think about alumni association until 7-8 years out, after they get settled in jobs, family, etc., but we stay in touch with them (one year full membership upon graduation).

7. USF Research Foundation, Inc.

Paul Sanberg and Patty Gamble presented the mid-year forecast for USF Research Foundation, Inc. Projecting Operating Revenue to track favorably to Financial Plan, with no significant unfavorable variances anticipated at this time. Projecting Operating Expenses to track favorably to Financial Plan as well, with exception of an unfavorable variance in expenses (non-recurring) associated with University Business Center. A delay in timing for completing the renovations of the space to be subletted, resulted in an unfavorable forecasted variance in net rent expense. Projecting a significant unfavorable variance in non-operating Investment Income (like the Foundation) which negatively impacts Income Statement. Variance is due to general market volatility. Non-cash transactions with no effect on Cash Flow. Mid-year forecast assumes positive return for Quarters 3 and 4, resulting in a net forecasted loss of -2.2% for fiscal year 2019.

8. USF Financing Corp. & USF Property Corp.

Fell Stubbs presented the mid-year forecast for USF Financing Corp. & USF Property Corp. This is a well-controlled organization that currently manages approximately \$400M in debt and \$80M in interest rate swaps. Total Revenues are forecasted to be slightly lower than plan (3%) due to a decrease in Housing System forecasted revenues due to a lower occupancy level than forecasted driven by the addition of 1,295 beds in the Village in fall 2018 and a decrease in UMSA forecasted revenues due to the recent refunding of the Series 2013 Certificates resulting in annual debt service savings of \$100K. Total Expenses are also forecasted to be slightly lower than plan (3%) due to a decrease in Housing System forecasted operating expenses, along with lower than anticipated maintenance expense; forecasted interest expenses have decreased due to debt service savings resulting from the Series 2010B and Series 2013B refunding transactions over the past six months; and lower than anticipated property insurance premiums. Cash Flows from Investing Activities and Financing Activities vary from the Plan due to two transactions that were not included in the Annual Plan as the timing and details of the transactions were not yet certain – issuing of Certificates of Participation for the USFSP Housing and Dining Project and the refunding of outstanding Series 2010B Housing Build America Bonds.

f. Creation of SEED Florida LLC

Paul Sanberg and Valerie McDevitt gave an overview of the business structure under the USF Research Foundation to hold general partnership interest in SEED Florida Early Stage Investment Fund. The goal of SEED Florida is to create a seed stage fund to invest in science and technology based Florida start-ups utilizing a hybrid of a venture capital fund and a crowd-funding platform. The fund is being created through a collaboration between USF and Florida Funders under a grant awarded by the federal U. S. Economic Development Association. The USF Research Foundation is looking to create a single member disregarded entity LLC to hold a general partnership interest in the fund to enable receipt of future revenue from the fund. The project will not require university funds for investment. Investment funds for SEED Florida will be raised from outside qualified investors in collaboration with Florida Funders. Structure of the fund includes required safeguards and disclosures for investors.

USF is dedicated to economic development in this region. Part of the incubator's role is to find funding for these companies. This is part of the continuum of the current process. This proposed structure was reviewed and developed with legal counsel. SEED Florida is a hybrid venture fund and crowd funding model approach and an opportunity for USF to be a leader in

innovation in the area of helping early stage companies with seed stage funding. The proposed structure provides protection from risk and lowers administrative burdens. Trustee Ramil asked if the University's assets are isolated from liability. Gerard Solis, General Counsel, responded that risk of litigation can never be eliminated, but the structure and operations of the SEED Fund will provide strong protections for the University and Trustees. The structure was reviewed by external counsel as well. This is a new initiative with high visibility. The SEED fund will not use state funds. President Genshaft asked that this be brought to SrVP as well.

V. Adjournment

Having no further business, Chair Lamb adjourned the Finance Committee meeting at 1:29pm.