



**USF Board of Trustees
Finance Committee
NOTES
Tuesday, May 14, 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 Jordan Zimmerman at 1:17pm. The following committee members were present: Jordan Zimmerman (phone), Les Muma, Charlie Tokarz, Judy Genshaft, and Alan Bomstein. A quorum was established. The following Trustees were also present: Britney Deas, Stephanie Goforth, 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 February 12, 2019 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Zimmerman requested a motion for approval, it was seconded and the February 12th meeting notes were unanimously approved as submitted by all committee members present.

b. 2019-20 Continuation Operating Budget

Nick Setteducato, Associate Vice President for Resource Management & Analysis, presented the 2019-20 Continuation Operating Budget. The USF System Board of Trustees (the BOT) is required to adopt an annual budget for the operation of the University. The BOT must approve the budget prior to July 1, 2019 for the State Comptroller to process cash releases of state funds. The universities are still required to submit a detailed operating budget to the Board of Governors (BOG) at a later date - earlier this year, by August 1.

We are requesting approval of a Continuation Operating Budget at the same level as the 2018-19 Operating Budget. We are requesting approval of a continuation budget due to pending funding decisions. Once those decisions have been finalized, the USF System will prepare an operating budget according to our guidelines and the laws and regulations of the BOG and submit to the BOT for approval at a later meeting. The final budget will come back to the Finance Committee for approval.

A motion was made to approve the 2019-20 Continuation Operating Budget at last year's Operating Budget level. A subsequent approval will be needed once the USF System annual budget has been established. The motion was seconded and approved by all Committee members present.

c. 2019-20 Preliminary Fixed Capital Outlay Budget

Nick Trivunovich, Vice President for Business & Finance and CFO, presented the 2019-20 Preliminary Fixed Capital Outlay Budget. This is an annual request for authority to spend funds appropriated for capital outlay budget to include prior year appropriations (unspent funds from previous authority), new appropriations, and debt issuances. All fixed capital projects have been previously approved by the BOT. This action will allow the university to spend capital funds that have been appropriated but not yet spent (we are asking for approval to spend funds we already have).

There will be some changes to this budget as we are still waiting for final instructions from the BOG. We will bring back the final Fixed Capital Outlay budget once the BOG finalizes procedures/instructions. We are still asking for approval in current form so we can spend on these projects.

A motion was made to approve the 2019-20 Preliminary Fixed Capital Outlay Budget and authorize the President to make necessary non-material adjustments to the 2019-20 Fixed Capital Outlay Budget, with the requirement that any material changes be approved by the University Board of Trustees Executive Committee. The motion was seconded and approved by all Committee members present.

d. USF System Five-Year Capital Improvement Plan (2020-21/2024-25)

Mr. Trivunovich presented the USF System Five Year Capital Improvement Plan. This is an update to our Capital Improvement Plan (CIP). The CIP, as used by the BOG, is intended to present the additional academic and academic support facilities needed for a five-year period for which state funds are requested. Separate sections on the CIP are provided for CITF projects and future projects which require state funding or may be funded from non-state sources, such as debt. Each institution's CIP will be used to select projects for inclusion within the SUS Three-Year PECO Project Priority List, to prepare the SUS Five-Year Capital Improvement Plan.

There may be changes to the CIP as well as we are waiting for the Governor to sign the budget. If the CIP changes, it will be brought back to the BOT.

First on the CIP are the PECO-eligible project requests. These requests reflect BOG priorities – 1) projects not yet fully funded, 2) infrastructure projects or renovations, and 3) new buildings (BOG will not recommend new buildings forward without compelling reason). Per the BOG, only two projects will move forward from this process, based on a point system. For us, engineering space is critical, so we would like to change from new building to renovation so it would move up for funding. Second are the CITF project requests.

President Genshaft noted that MCOM is top on the list because the Governor has not signed the budget yet. Therefore, the list may change depending on the Governor's actions.

Chair Zimmerman asked if all USF campuses will be treated as one entity. Mark Walsh, Assistant Vice President for Government Relations, responded yes.

A motion was made to approve the USF System Five-Year Capital Improvement Plan Summary and Project Detail and transmittal letter and authorize the President to make necessary nonmaterial adjustments to the Five-Year Capital Improvement Plan, with the requirement that any material changes be approved by the University Board of Trustees Executive Committee. The motion was seconded and approved by all Committee members present.

e. Authorize Issuance of Debt for the Research Park Office/Lab Building

David Lechner, Sr. Vice President for Business & Financial Strategy, presented the USF Research Park Mixed Lab and Office Facility Project. This project was initially presented to the Finance Committee at its February meeting. This is planned expansion in the Research Park. The project is a 120,000 square foot office and lab space facility with Fowler frontage which will define the physical approach to the University and Research Park from I-275. The project provides flexibility for long-term marketability and economic viability of the Research Park. Expansion is anticipated in the Research Park DRI (Development of Regional Impact) and Master Plan. The project cost is \$37M. The project addresses projected and existing demand for laboratory and office space. Per space needs analysis by the BOG, USF has 36% of its minimum required research lab space. By BOG measurement, USF has a significant unmet need for lab space. Our current lab spaces have “aged out” - mechanical systems (installed 1992) have exceeded standard life span of 20 to 25 years and hydronic heating piping and valves system has had numerous failures and leaks. USF cannot recruit world-class faculty with these labs.

The project will be financed with debt issued by the USF Financing Corporation (\$27M, taxable, fixed rate bonds) and a cash equity contribution from the Research Foundation (\$15M). The debt will be privately placed with a commercial bank. Financing meets all BOG debt management guidelines. An RFP has been issued for debt financing and three responses were received. There will be no restrictive covenants.

Factors helping to mitigate risk for this project including support by a demand study, large equity infusion, funded debt reserve, integrated construction/design team, GMP fixed day one, partnering with a national broker, and strong revenue backing. This project has strong coverage and backing - debt coverage of 1.49x in 2020/21; Research Park income at \$3M. Project design is expected to begin in October 2019 and the project is expected to be complete in January 2021.

In conclusion, Mr. Lechner stated this is a straight up deal.

Chair Zimmerman asked about any pre-leasing. Dr. Paul Sanberg responded that a national leasing group has been selected through an RFP. Pre-leasing will start as soon as the project is approved. Should be leased up in five years and then should be another building. Research Foundation has enough cash to carry lease up.

Chair Zimmerman stated that this project is built around a lot of strengths - \$15M equity contribution; conservative assumptions; good debt coverage. This will serve to put some much needed research space online.

A motion was made to authorize issuance of \$27M of debt by USF Financing Corporation

and to request approval by the Florida Board of Governors. The motion was seconded and approved by all committee members present.

f. DSO 2019-20 Annual Financial Plans

The DSOs are governed by independent boards of directors who have previously approved these FY2020 Financial Plans. The DSO Financial Plans are presented to the BOT for review and approval, pursuant to Florida Statutes and DSO bylaws.

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

Alicia Ozmeral presented the combined Financial Plan for University Medical Services Assoc., Inc. (UMSA) and USF Medical Services Support Corp (MSSC). UMSA/MSSC has met or exceeded targets over the last three years. Now generating positive operating margins and cash flows and is therefore rebuilding its cash reserves. UMSA/MSSC is projecting a stable operating margin and an improvement in cash flow in FY2020 over FY2019. This is based on the following assumptions: 1) total revenues will increase 4% or \$14M due to Patient Service Revenue is projected to grow at 5% or almost \$10M due to mostly organic growth (3%) and revenue optimization initiatives (2%); Grants, Contracts & Awards and Other Revenue are projected to decrease primarily due to contract revenue with TGH remaining flat and the practice plan not receiving additional academic support from state dollars; and UMSA will receive new incremental Medicaid Physicians Supplemental (UPL) and Low Income Pool (LIP) payments of \$6M due to an increasing rate; 2) total expenses will increase 5% or 15M due to new faculty recruitment; offset by a reduction in support for HPCC of \$700K; and UMSA also has a few departments under stress due to unexpected physician departures and/or restructuring of clinical operations. These challenges require investment by UMSA and therefore causes costs to increase faster than revenues. Days cash on hand for FY2020 is projected to be 53 days.

2. USF Foundation, Inc.

Joel Momberg and Rob Fischman presented the Financial Plan for USF Foundation, Inc. The Foundation had another good year – meeting its goal of raising \$100M for FY2019.

Due to a legislative change made to the governance structure of university direct support organizations during 2018, the Foundation will be required to convert from Financial Accounting Standards (FASB) to standards set by the Governmental Accounting Standards Board (GASB). The FY2019 forecast and FY2020 financial plan reflect the anticipated changes as a result of this conversion to report under the GASB reporting model. The impact of this conversion is anticipated to result in approximately \$32M decrease in total assets, \$21M increase in liabilities with an overall decrease in net position of \$53M.

For FY2020, revenues are projected to increase largely due to investment earnings. Expenses are projected to increase as well largely due to transfer out of gifts for the downtown medical school (part of program service expense – department spending from gifts and endowment distributions). The Foundation is cash flow positive and expects to outperform its peers in FY2020.

3. USF Research Foundation, Inc.

Dr. Paul Sanberg and Patricia Gamble presented the Financial Plan for USF Research Foundation, Inc. The FY2020 Financial Plan projects a positive cash flow from Operations of \$4.8M, with a net positive cash flow of \$1.5M available for reserves. The FY2020 Financial Plan also anticipates a 2% increase in revenues to include a modest increase in rental revenue due to an increase in rent (new terms for UDI and rents from other tenants). Occupancy within the Research Park is near full capacity – 98%. Expenses are held constant for FY2020; investment income is projected to increase 31% (70% of portfolio is from Foundation endowment); net income is projected to increase 22%.

The proposed development and operation of a new mixed use lab and office space project in the Research Park will drive increases in operating earnings for FY2021 and FY2022.

4. Sun Dome, Inc.

Michael Kelly and Brandon Hall presented the Financial Plan for Sun Dome, Inc. (SDI). Both the Men's and Women's Basketball teams had a great year this year and look very encouraging for next year. This should help the Sun Dome business plan. Attendance went up for both teams this year. The Sun Dome is in its third year of management with Tampa Bay Entertainment Properties (TBEP). TBEP is continuing to enhance awareness and perception in the local market and nationally, promoting Yuengling Center as a premiere event and hospitality venue. Recent negative cash flow should become positive in FY2021. Projecting a 2% increase in revenue for FY2020 (not including any post season play or political rallies); expenditures are flat; net operating profit projected to increase 18%.

While the Yuengling Center is the #3 performing arena in the state, the size of the arena holds us back from large events. There is also a lot of competition.

Chair Zimmerman and Trustee Muma would like to see a breakdown of event revenues and expenses (concerts, games, commencements). For simplification, Trustee Muma suggested this can be prepared by non-USF events and USF events. Chair Zimmerman also asked if we get rent or per ticket revenue. He wants to look at these details.

5. USF Institute of Applied Engineering

Dean Robert Bishop and Eric Forsyth presented the Financial Plan for USF Institute of Applied Engineering. The Institute has made great progress this year – governance structure has been established (officers and committees); financial structure is in place, banking with Wells Fargo; building business operations staff; and physical infrastructure is coming into place. Did not meet revenue target in FY2019 – if infrastructure had been in place, would have hit target. The Institute is in active negotiations on up to seven contracts, with a total value, including the anticipated Florida High Tech Corridor Matching funds, up to \$3.2M. Six of these contracts are federally funded (either direct or pass through with an industry partner).

In addition, the Institute is actively responding to a USSOCOM solicitation to enter into “a long term contractual agreement with an Academic institution within the local (two hour) MacDill AFB geographic area.” The Institute anticipates USSOCOM's next steps on this task order contract to be formally announced via FedBizOps this summer, with award later in FY2020. Projected FY2020 revenues include \$843K in Contracts & Grants tied to specific projects, \$1.4M in potential Contracts & Grants, and \$602K in University Support. Direct program costs will fluctuate with contracts. The Institute is projecting breakeven for FY2020. Trustee Muma stated that he wants to see a profit in FY2020 instead of just breakeven.

6. USF Health Professions Conferencing Corporation

Carole Post and Greg Vannette presented the Financial Plan for USF Health Professions Conferencing Corp. (HPCC). The past few years have been a turn around. We are on target to achieve the forecast for FY2019. HPCC is now fully staffed, including newly recruited Executive Director Haru Okuda, MD. In FY2020, the 'DSO (UMSA) Support - Continuing Ed. - Faculty, Students' for the development and delivery of continuing academic and professional simulation education for students and practitioners will decline to \$250K. This support along with HPCC's strong financial performance will support programming and reinvestment in equipment and facility improvements. The reduction in support is a significant step forward to being self-sufficient. Projected drop in net operating profit is due to lower support from UMSA. As MCOM comes online, will tie together building operations (unified services, economies of scale). Trustee Muma asked if there is any potential for revenue growth from the relationship with TGH. Dr. Okuda responded that we are looking to partner with TGH for simulation based training (zero human effort). Trustee Muma also noted that CAMLS is still making money without the subsidy from UMSA and should look to break away from that support. Ms. Post confirmed that that is the plan.

7. USF Alumni Association, Inc.

Bill McCausland and Melissa Schaeffer presented the Financial Plan for USF Alumni Association, Inc. The Alumni Association is in the alumni engagement and cultivation ("friend raising") business. The focus of the Association is to strengthen relationships with Alumni through myriad activities, thus leading to their long-term involvement with USF. USF has 345,000 alumni. The focus is on membership. The Association currently has 5,485 life members and continues to focus on life membership as a priority engagement initiative for alumni and friends of the University. Sponsorship revenue is up and experiencing positive growth in license plate revenue. Projecting a 52% increase in net operating profit in FY2020. Trustee Muma asked how we compare to other alumni associations. Mr. McCausland explained that they compare themselves annually to other member-based associations of similar age and size. These other associations have an average membership rate of 13.1%; we are a little below average at 10%. He further explained that there is an 8-10 year period before graduates become members. We are in line with other universities established since 1950. We have a higher percentage than UF.

8. USF Financing Corporation & USF Property Corporation

Fell Stubbs presented the Financial Plan for USF Financing Corp. & USF Property Corp. The Financing Corp. is the University's financing arm and is expected to provide low cost, low risk, long-term financing for the University's major non-state funded capital projects. The Financing Corp. manages \$323M in bonds, as well as manages the University's relationships with Moody's and S&P and commercial banks. In January, the Corporation issued the \$30M Series 2018 Bonds to fund the construction of the 375-bed USF St. Petersburg Housing and Dining Project. The Bonds were issued at a 30-year tax-exempt all-in fixed interest rate of 3.99% significantly below the 5.00% interest rate included in the financing plan approved by the BOT in July 2018. The Financing Corp also issued the \$15M Series 2019 Bonds to refund the 2010 Build America Bonds at a rate of 3.68%, which produced a \$1.8M present value savings. The cash flows from the issuance of the debt and the subsequent investment in capital assets are reflected in the FY2019 Forecast and the FY2020 Plan. The Corporation is a highly complex yet stable business model. Trustee Muma asked if there are restrictions on additional debt. Mr. Stubbs said that the University has the capacity to issue additional debt, given its strong credit ratings.

A motion was made to approve each of the FY 2020 DSO Annual Financial Plans (items 1-8 of agenda item IIIf) as individually presented; with the exception of the annual financial plan for Sun Dome, Inc., which is approved with the condition that future Sun Dome, Inc., annual financial plans will separate event revenue between USF and external sources. The motion was seconded and approved by all Committee members present.

g. Expenditure Authorization Requests

Mr. Trivunovich presented two expenditure authorization requests for approval by the Finance Committee.

- Wiley Ejournals Renewal Agreement - \$4,664,090

This license provides access (student, faculty and researcher) to Wiley Online Library ejournal content, as part a five-year agreement, negotiated at the state level by the University of Florida on behalf of the State University System of Florida.

- Adobe Acrobat and Creative Cloud License Renewal Agreement - \$2,373,520

This is a 3-year renewal for the license agreement for the use of Adobe Acrobat and Creative Cloud for faculty, staff, students, and computer labs.

A motion was made to approve the two expenditure requests as presented. The motion was seconded and approved by all Committee members present.

h. Lease of Space to TGH

Mr. Lechner presented the prepaid lease with Tampa General Hospital (TGH). TGH is a long-standing strategic partner to USF in many areas. USF Health has reached a tentative agreement with TGH whereby TGH will transfer \$20M to USF Health in consideration for a long-term lease of space in USF Health's new Morsani College of Medicine (MCOM)

and Heart Institute in downtown Tampa. The leased space will be used to deliver joint USF Health/TGH healthcare-related services in coordination with the clinical, teaching and research missions of the new building. The context for this agreement is the accelerating clinical partnership and integration between USF Health and TGH. Key deal points are: lease of approximately 25,000 square feet; lease term of 25 years; includes signage; includes common area costs of \$10/sf in advance; and payment of \$20M in advance. Rental rates are supported by third party real estate consultant – they gave us a range and we negotiated to center of range. Strategic advantages to the transaction are: integral to teaching, research and outreach missions; solidifies the strategic partnership; creates co-branded imaging center on ground floor; creates TGH urgent care on the ground floor; creates heart health co-location on ninth floor; creates executive wellness on twelfth floor; and paves the way for increasing partnerships. Mr. Lechner stated this is a straight up deal. The lease was approved by the TGH board last week.

Trustee Tokarz asked if the buildout of their floors was taken into consideration in the negotiation (who pays for the buildout). Ms. Post responded that the tenant will pay for the buildout; does not affect the \$20M lease payment. Dr. Lockwood explained that we get the tenant and the facility to generate additional services.

Revenue from the lease will help with the gap in PECO funding for FY2020 (we were expecting \$14.6M but received \$12.5M) as we finish out the building.

Chair Zimmerman emphasized several points. This will help in USF having a great relationship with TGH, with the community, and with students. The rates were determined by an independent consultant. This will lead to a great strategic alignment with USF and TGH and will provide outstanding care.

A motion was made for approval to lease space to Tampa General Hospital. The motion was seconded and approved by all Committee members present.

IV. New Business – Information Items

a. Amended P3 Guidelines

Hilary Black, Sr. Associate General Counsel, presented the changes to the BOG Public-Private Partnership (P3) Guidelines. The BOG approved changes to their Public-Private Partnership (P3) Guidelines on March 28, 2019. The initial BOG P3 Guidelines were adopted in 2016. To date, USF has successfully utilized the P3 structure for two projects: the Village P3 Housing Project and the on-campus Publix grocery store.

Ms. Black explained each amendment and provided a corresponding assessment on the impact to USF's operations and practice. The most beneficial of these to USF is to Section IV (k) - Term of Lease (page 9 of BOG P3 Guidelines, blackline version, included in the materials). The new language provides for the possibility of extending the P3 lease term beyond the previously required 40 years from substantial completion. For student life transactions (housing, parking), the P3 Guidelines now provide the term shall not exceed the useful life of the facility (assumed to be 50 years if built to University construction standards in accordance with F.S. 1013.64). However, to utilize this extension, the University must demonstrate the benefits to the University, including additional cash flow to the University, the DSO and the private entity as compared to the 40 year term. For all other projects (non-student life projects), the University will need to demonstrate that the

lease term is reasonable based on industry norms and the term shall not exceed 99 years. This amendment starts to bring the P3 Guidelines more in line with industry standard term lengths and could prove helpful for future USF projects. The USF Village P3 project received approval for an exception to the prior 40 year term restriction to allow for a 45 year term and, therefore, permit a more advantageous financing structure for the University.

The most negative change for USF is to Section VII- Approval Process and Required Information (pages 10-15 of BOG P3 Guidelines, blackline version, included in the materials). The second change of this section in subparagraph (a) (4) on page 11 (BOG P3 Guidelines, blackline version, included in the materials), requires Universities to submit a full draft of the P3 agreements, rather than a substantially complete draft along with a statement of key terms as previously allowed. USF has provided a substantially complete lease agreement at the time of approval for our prior transactions, along with the summary of the key terms enumerated in the prior P3 Guidelines. This allowed USF to finalize the material key terms within the document prior to the approval process, but address the less material terms of the agreement after approval, allowing for a more expeditious approval time and providing greater surety to the private entity that the transaction would proceed. The new amendment will increase the time the private entity is at risk for the predevelopment costs without the comfort of approval. This could make negotiation more difficult.

b. Proposed Sigma Nu Greek Village Annex Report

Mr. Lechner presented the Sigma Nu Annex Project. Sigma Nu alumni have approached USF wanting to build an annex to their house in the Greek Village. The facility would be constructed using funds raised by the alumni group and is estimated to cost approximately \$2M. Funds raised will be deposited at the USF Foundation for this purpose. Construction would not begin until 80% of the funds are in hand with the final 20% due when the project is 50% complete. The facility will be constructed according to USF standards, with construction oversight by USF facilities management. Construction will be bid through USF procurement. The proceeds of this project go back to scholarships for Sigma Nu.

Mr. Lechner emphasized the following benefits of the project: no cost to USF; no financial exposure to USF; does not use our debt capacity; protects existing bond structure; creates new, modern space for students; and is a “portable” concept that can be offered to others.

Trustee Muma disclosed that he is a Sigma Nu. He also disclosed that he has no financial interest in the project and that he has not participated in the negotiations that have taken place.

V. Adjournment

Having no further business, Chair Zimmerman adjourned the Finance Committee meeting at 3:30pm.