



**USF Board of Trustees  
Finance Committee  
NOTES  
November 20, 2019  
Tampa Campus – Alumni Center/Traditions Hall**

**I. Call to Order and Comments**

The meeting of the Finance Committee was called to order by Chair Jordan Zimmerman at 10:52 am. The following committee members were present: Jordan Zimmerman, Mike Carrere, Les Muma, John Ramil, and Charlie Tokarz. A quorum was established. Trustees Sandy Callahan, Britney Deas, Stephanie Goforth, Mike Griffin, Oscar Horton, Deanna Michael, Hal Mullis, Byron Shinn and Nancy Watkins and President Steven Currall were also present.

**II. Public Comments Subject to USF Procedure**

No requests for public comments were received.

**III. New Business – Action Items**

**a. Approval of August 27, 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 August 27<sup>th</sup> meeting notes were unanimously approved as submitted by all committee members present.

**b. 2020-21 USF Parking System Budget**

Fell Stubbs, University Treasurer, presented the 2020-21 USF Parking System Operating Budget and requested approval at this time to meet a February filing requirement by the Board of Governors (BOG). The February Parking System filing requirement took effect in 2018 with the amendment of BOG regulation 9.008. In years prior to 2018, this annual operating budget was approved by the BOT in June of each year. This auxiliary budget for the Parking System is brought to the BOT apart from the University budget cycle, due to requirements of the Division of Bond Finance, who issued the first parking bonds for USF in 1994, prior to the formation of the Financing Corporation in 2005.

The USF Parking System has \$14.9M of bonds outstanding, financing four parking garages, operates 32 circulator buses on the Tampa campus, and employs 80 full-time and 43 temporary employees. The Tampa campus has 20,370 parking spaces and issues 47,887 permits (fees unchanged since FY 2013-14). The Parking System has cash and investments of \$28M and a debt service coverage ratio of 2.31x. Revenues are stable at \$14M; expenditures, including debt service, are stable at \$12M. The \$1.6M increase in staff costs and operating costs is a

conservative budget figure due to the early filing date, reflecting “assumptions” for full staffing and expensing of improvements to garages and parking lots that may be capitalized.

A motion was made to approve the 2020-21 Operating Budget for USF Parking Facilities Revenue Bonds, Series 2016A. The motion was seconded and approved by all committee members present.

Chair Zimmerman stated that he asked pointed questions when reviewed on the briefing. Looked closely at budget vs salary. The staff do an excellent job.

**c. Expenditure Authorization Requests**

Nick Trivunovich, Vice President for Business & Finance and CFO, reviewed the current exemptions to the expenditure authorization policy and requested approval of a proposed exemption for pass through expenses. Pass through expenses pose no financial risks to the University and many occur in a very short time frame (often a two day turn around) which is not enough time for BOT to act. Mr. Trivunovich gave some examples. These expenditures/payments are still subject to our strong internal controls. Chair Zimmerman stated that this exemption will make our policy more efficient without opening us up to risk. Trustee Tokarz remarked that we are not changing what we do (our process), just clarifying.

Trustee Griffin asked if any of the exemptions have a savings or benefits. Mr. Trivunovich responded that some do such as Aramark, as the students benefit from not paying sales tax; and DOPOs which also have sales tax savings.

Trustee Watkins stated that not all the examples provided are actual pass throughs. Some are required by law or government entity and do not need to go to the Finance Committee. Some are contractually obligated (contract must be approved by the Finance Committee). She doesn't think “no financial risk” is an accurate description and “pass through” is not the best term. She suggested that the expenditures in question be further broken down and categorized as contractual obligations, pass through, and required by government agency.

Chair Zimmerman deferred action on this item and asked that a call be set up for the Finance Committee for approval once wording/definition is acceptable to everyone.

**IV. New Business – Information Items**

**a. Draft 2019 Financial Statements**

Jennifer Condon, University Controller, provided highlights of the FY 2019 financial statements. This presentation is consistent with prior years. Ms. Condon presented the historical change in cash and investments. We have consistently added cash and investments to our balance sheet. We set out to have a completely balanced income statement in FY19, intentionally spending accumulated resources, but we received \$20M from TGH at end of FY19. OPEB and GASB continue to impact net operating results and net position. While our Unadjusted Unrestricted Net Position is (\$211.7M), we are not actually in the red by that amount because we have to book liability (OPEB) on our books, but we do not get to book due from State to offset. Financing Corporation moving from FASB to GASB and MCOM progress have also impacted the financial statements.

Ms. Condon explained variances between 2018 and 2019 in excess of \$10M and 10% as well as variances in excess of \$20M, highlighting the following:

- Accounts Payable decreased \$13M. Prior year accounts payable was high due to timing of equipment purchased at the end of FY18.
- Compensation & Employee Benefits increased \$44M due to expansion, filled vacancies, and bargained salary increases.
- Net Investment Income increased \$23M due to unrealized gains and losses.

## **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.

### **1. USF Foundation**

Chip Newton, Chair of the USF Foundation, Rob Fischman, USF Foundation Vice President & CFO, and Ken Souza, USF Foundation Investment Director, presented the annual Foundation investment report. This report includes the Endowment Portfolio and the Operating Portfolio.

The Foundation has 2 separate asset pools – operating pool and long-term investment pool. Combined assets of both pools total \$630M. Endowment assets reside in the long-term investment pool. Endowment reached the \$500M milestone in FY19, completing the twelfth Preeminence metric. USF became the third institution within the SUS to reach a \$500M endowment. USF is one of only three institutions, nationwide established after 1950 to have a \$500M endowment. This is a terrific accomplishment.

The endowment fund returned 6.0% for the year ending 06/30/19. Ranked in the top quartile of the Endowment Portfolios Universe (based on 2018). The USF Endowment is a leader among peers (public and private), based on NACUBO-TIAA Study of Endowments (rankings for FY 2018; FY 2019 not yet available). We stack up well against our peers, even peers that are larger than us.

Long-term returns remain above policy benchmark. Modest underperformance for FY 2019 endowment returns, mostly from active management in domestic and international equity detracting more than 100 bps from overall return; partially offset by strong results from alternatives and private real assets. Active management has added to long-term returns, especially in international equity which has exceeded benchmark by 110 bps over the last ten years. Alternatives (private equity and venture capital partnerships) have been the endowment's best performing asset class across all time periods. Investment manager fees are approximately 74 bps, comparable to previous years (low to mid 70s the past few years; lower than most of peers). Not investing in hedge funds has been a huge contributor to the success of our endowment.

Asset allocation is set for long-term growth through multiple market cycles. Projected returns depressed from prior years due to reductions in return assumptions. Alpha from active management is a key component of forecasted returns. Despite pullback in return assumptions, models indicate that endowment will have the capacity to preserve

intergenerational equity while maintaining current spending rate (4% dividend, 1.95% administrative fee). The Foundation is projecting a 7.85% return over the next 10 years which will support our 5.95% expenditure policy. Trustee Goforth asked if our spending rate is high. Mr. Souza responded that it is in line with our peers, about average.

The Operating Pool is about \$116M with some overlap as a portion is invested in the endowment. The investment objective for the Operating Pool is long-term 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 investment strategy. Asset allocation is set based on risk/return forecasts for each asset class. The Operating Pool posted a return of 5.4% for the fiscal year, which was under its policy benchmark of 6.4% by 1.0%. Tier II manager was conservative, so under performed.

Trustee Shinn asked about the 1.95% administrative fee. Mr. Fischman explained that it funds the operations of the Foundation. President Currall asked if the Foundation charged a gift fee. Mr. Fischman stated that we do not take a gift fee (a conscious decision by the Foundation). Approximately 40-45% of universities charge a gift fee, usually about 5%, which is about 10% of budget. 4% is average for the State of Florida, or slightly lower. President Currall would like an analysis of top 25 universities/AAU.

Trustee Ramil congratulated the Foundation on the Endowment reaching \$500M.

## **2. University Medical Services Assoc., Inc.**

Rich Sobieray and Alisha Ozmeral presented the investment report for FY2019 which includes UMSA and MSSC. Investment committee membership overlays with the University Investment Committee. Portfolio objectives include liquidity (primary objective) and positive rolling 5-year total return, net of inflation as defined by the Consumer Price Index (CPI), and net of all fund investment and operating expenses (secondary objective). Utilizes the University's investment consultant, Cambridge Associates. Asset allocation is within limits for all investments. Meeting or exceeding policy benchmarks for time periods listed – doing well. Previously, spending/reinvesting cash into the practice plan. Over the last few years, increasing cash position and liquidity.

President Currall asked why they are not investing with the Foundation. Mr. Sobieray explained that they have had to spend cash/reinvest quite quickly. The current investment policy was in effect before he got to USF. This is something they will look at in the future.

Trustee Ramil congratulated them on growing the investment portfolio.

## **3. USF Research Foundation, Inc.**

Nick Trivunovich, Chair of the Research Foundation's Administrative Finance Committee, and Patricia Gamble, Research Foundation CFO, gave a brief report for the Research Foundation. The total investment portfolio is \$39.7M and consists of three investment accounts:

- Long Term Investments (+ 10 Years); USF Foundation LT Operating Investment Fund (\$14.5M) and USF Foundation Endowment Fund (\$12M); \$26.5M
- Intermediate Term Investments (5 - 7 Years); SunTrust; \$6.9M
- Short Term Investments; Vanguard; \$6.2M.

67% of the portfolio is invested long-term with the USF Foundation. Reallocated portion of investment in USF Foundation to the Endowment (\$12M) to take advantage of the USF Foundation's investment expertise. The investment portfolio increased \$5.1M in FY19, \$2.1M of which was from investment income.

**c. Honors College Update**

David Lechner, Sr. Vice President for Business & Financial Strategy, gave an update on the Honors College. The project is moving forward. The Project is now ready to move to the construction documents phase. Under current policy, the approval of the CIP empowers USF management to give written notice to proceed to the A/E to begin the construction documents phase. Negotiations are underway on the design fees for this phase. An estimate of the project budget will be furnished to USF by the A/E at the completion of the construction documents. That budget will be shared with the Board (BOT) at the next regularly scheduled meeting following receipt of that budget. There are sufficient donated funds available for the purpose of funding the A/E services to date and the A/E fees for the remaining design costs, including the construction drawings through construction administration phases. Construction will begin once substantially all of the funds needed for construction are identified. USF is grateful to the philanthropic support of Judy Genshaft and Steve Greenbaum and will steward these resources and manage the process so as to obtain the maximum impact from their generosity.

Chair Zimmerman stated that USF has one of the best Honors Colleges in the southeast US, if not entire US. President Currall emphasized that this project is very important for the University. A discussion was held (based on question by Trustee Watkins) on the allowability of using carryforward funds on the project. Mr. Lechner explained that this project does not yet appear on the educational plant survey – we missed the last survey and will be on the next survey; then will identify all the funds. Chair Zimmerman stated that we need to come in at \$450-\$500 per square foot. BOT still needs to approve schedule, funding, scope, and not to exceeds.

[Editor's note: carryforward cannot be utilized on construction of a new building, but may be used to fund furniture and fixtures per guidance from the BOG.]

**V. Adjournment**

Having no further business, Chair Zimmerman adjourned the Finance Committee meeting at 12:20pm.