USF Board of Trustees
Finance Committee
NOTES
February 21, 2022
Microsoft Teams Virtual Meeting

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Michael Griffin at 10:20am. Chair Griffin asked Kiara Guzzo to call roll. Ms. Guzzo called roll with the following committee members present: Michael Griffin, Mike Carrere, Shilen Patel, Melissa Seixas, and Will Weatherford. A quorum was established.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of November 16, 2021 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Griffin requested a motion for approval, it was seconded and the November 16th meeting notes were unanimously approved as submitted by all committee members present**.**

b. Approve Revisions to USF BOT Investment Policy

Fell Stubbs, University Treasurer, presented for approval revisions to the USF BOT Investment Policy. The Policy requires annual review by management, which has been done. The last revisions to the Policy were seven years ago. The current revisions were developed by the University, the USF Foundation and the USF DSOs. These revisions were promulgated to the University community for comment on October 21, 2021. No comments were received. The Investment Policy provides investment governance and guidance for 10 portfolios ranging in size from $500K to $800M, in aggregate, approximately $2B. These Policy revisions provide for the management of three distinct University investment portfolios: a University portfolio, a Foundation endowment portfolio and 8 DSO portfolios. These Policy revisions authorize DSO Boards to prudently manage the financial assets of the DSO portfolio, adopt a policy statement, declare asset allocations, and provide quarterly investment performance reports to the DSO Board and University. Annual DSO investment reports may be requested by the BOT. Once approved by the BOT, the final Investment Policy 06-001 will be recommended to the DSOs for approval.

A motion was made to approve the revisions to USF BOT Investment Policy USF BOT 06-001. The motion was seconded and approved by all Committee members present.

c. Expenditure Authorizations

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

- Adobe Acrobat & Creative Cloud License Agreement

  This is a new 3-year agreement that will allow the University to continue the use of Adobe Acrobat and Creative Cloud for faculty, staff, students, and computer labs. The total cost is $2,555,214 over 3 years. The cost per user increased by 5.86% from the pricing in the 2019 agreement and is locked in thru the end of this new agreement in 2025. A 3-year term is the only option for this type of license agreement with Adobe.

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

- Microsoft Azure

  Microsoft Azure is used for cloud-based computing, storage and services for USF data and applications. Buying of Azure credits to support USF Infrastructure in the Microsoft Azure Cloud will help move USF into an operating expense model based on usage for IT infrastructure versus a capital model. This request is for $2M for one year. USF is continuing to move its IT infrastructure to the cloud to support the agile needs of the business units. Currently all of USF's ERPs are hosted within Azure, allowing USF much greater flexibility in solutions that go far beyond what USF IT could offer on premise. This shift is expected to continue as USF IT expands to meet its clients' needs.

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

- AV Equipment Installation and Resellers ITN

  IT would like to conduct an ITN to build a structured pool of vendors to provide AV installation and maintenance services as well as equipment to lock in costs. There will be no commitment for the University to spend any money with the vendors, this will just provide us with a contract avenue to conduct installations, maintenance, and repairs as needed. This will be a competitive procurement. Estimated spend is $14.25M over 5 years. The continual need for audio visual equipment is an ongoing project to ensure that the classrooms for USF have current and leading-edge technology to ensure the best possible experience for the Faculty and Students. IT wishes to conduct this ITN to develop a larger list of vendors than are currently available and develop a structured cost for installation and equipment for the life of the ITN. This will allow IT to better estimate project costs over the life of the ITN.

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

- Baseball & Softball Batting Cage Enclosure

  Primary scope of work is to enclose batting cage structures at Baseball and Softball stadia and provide HVAC to protect practice activities from inclement weather. Cost is $1,950,000. Funded solely from philanthropy.

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

- Athletics Broadcast Production Service ITN

  Athletics is requesting authority to issue an ITN for services in executing broadcast and in-arena production of USF Athletics sponsored events for multimedia platforms at all Athletic facilities. These expenses were new to FY21 with the addition of our ESPN+ Broadcast Production Studio. This is required under our ESPN+ contract with our conference. The American Athletic Conference requires USF Athletics to broadcast a number of events on the ESPN+ platform to fulfill contractual obligations to receive Media Rights revenue distributions from the Conference. Seeking a 5-year contract with an estimated cost of $4M. This will be a competitive procurement.

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

- STG Remodel – Research & Teaching Labs

  This project will convert five classrooms on the first floor of the Science, Technology & General (STG) facility on the St. Petersburg campus to flexible research lab space and a new teaching lab with preparation room. This is in support of the new major in environmental chemistry. The estimated cost is $3M and will be funded with E&G carryforward (an appropriate use of carryforward funds). This will be a competitive procurement. The project will be completed primarily during the summer 2022 term to minimize disruption to students and faculty.

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

IV. New Business – Information Items

a. USF 2021 Audited Financial Statements

Jennifer Condon, University Controller, gave a brief review of the USF 2021 Audited Financial Statements. The financial statements and associated audit report were released by the State of Florida Auditor General on December 16, 2021. USF received an unqualified/clean opinion with no adjustments. There were no adjustments to the financial information/results that were presented at the November 16, 2021 Finance Committee meeting.

b. DSO Mid-Year Forecasts

Mr. Stubbs introduced the agenda item. Each year, the DSOs prepare a Mid-Year Forecast – this Forecast is for FY 2022. These reports include a comparison of the Forecast to the FY 2022 Financial Plans approved by the BOT Finance Committee at its May 25, 2021 meeting, as well as actual results for FY 2021, FY 2020, and FY 2019. The Mid-Year Forecast describes progress in achieving the key initiatives in the Annual Financial Plan and describes management's actions to close significant unfavorable variances in net income and net cash flows before fiscal year end. Four DSOs will present their Mid-Year Forecasts today (the three largest as requested by the Finance Committee, along with HPCC). The remaining four DSOs have provided their Mid-Year Forecasts and have management present to answer any questions.

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

Alisha Ozmeral presented the mid-year forecasts for UMSA and MSSC combined. Highlights included:

- By January 1st 2022, approximately 1,300 UMSA employees transitioned employment to either USF, USFTGP, or TGH, depending on their function, with the majority moving to USFTGP.
- The practice plan will receive an additional $14.7M of CARES Act funding in FY22 to reimburse for lost revenue associated with the COVID pandemic.
- Forecasting Net Profit of $21M which exceeds plan.
- Clinical volumes have returned to pre-pandemic levels.
- Will miss Days Cash on Hand target due to large receivable.
    - $44M receivable for the Medicaid Managed Care Supplemental Payment Program (UPL). The Agency for Healthcare Administration (AHCA) remains challenged with turnaround times due to staffing shortages, therefore we do not anticipate receiving the Medicaid Managed Care Supplemental payments until after the fiscal year end.

2. USF Foundation, Inc.

Jay Stroman and Rob Fischman presented the mid-year forecast for USF Foundation, Inc. Highlights included:

- FY21 was a successful year for the Foundation.
- Forecasting Net Profit of $24M for FY22, which is $18M short of plan. Investment losses incurred through December 31st combined with the investment return projections for the 3rd and 4th quarters are driving the decrease in net operating profit compared with the FY22 financial plan. These return projections will not negatively impact endowment spending distributions as the 5-year average market value used to calculate earnings distributions has increased.
- Other transfers and expenses are anticipated to increase compared to the financial plan for FY22 due to additional funding available through fundraising efforts for academic facility construction projects. 14 multimillion-dollar commitments have been received to date.

3. USF Research Foundation, Inc.

Dr. Sylvia Thomas and Patricia Gamble presented the mid-year forecast for the USF Research Foundation, Inc. The Research Foundation supports the USF innovation enterprise encompassing the Research Park, our Technology Transfer Office (TTO) and the Tampa Bay Technology Incubator and provides a broad financial mechanism to administer private research contracts and grants. Goal is to design a business model for sustainability for TTO and focus on enhancing TTO's operational efficiency and effectiveness while enhancing the business strength of the Research Foundation. One of the key initiatives for FY22 is the new Research Park Mixed Use Lab and Office Building. A certificate of occupancy was issued on February 3rd for the shell and core. Construction costs were on budget. Leasing interests have ramped up. FY22 revenues are projected to be $364K less than budgeted; expenses are projected to be $745K less than budgeted; resulting in a $381K improvement to the bottom line. All operating expenses are projected to be less than plan.

4. **USF Health Professions Conferencing Corp.**

Dr. Haru Okuda and Greg Vannette presented the mid-year forecast for USF Health Professions Conferencing Corp (HPCC). This is a recovery story. CAMLS is a face-to-face business and was hurt by COVID. In FY2022, HPCC is successfully rescheduling FY2020 programs affected by COVID and CAMLS affirmative actions to proactively postpone many programs has strengthened relationships with external clients, resulting in growing revenue and increasing operating earnings for FY2022 and FY2023. New virtual reality and live streaming capabilities also helped CAMLS identify numerous new clients and offer new training options to established clients. HPCC will exceed plan with no assistance from CARES.

c. Annual DSO Investment Reports

Periodic DSO Investment Reports, for significant DSOs, will be provided to the USF Board of Trustees, upon request. Three DSOs will present their Investment Reports (as of June 30, 2021) today – the three largest as requested by the Finance Committee.

1. **USF Foundation**

Brian Keenan, Chair of the USF Foundation Investment Committee, 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.

Mr. Fischman reviewed the structure and governance of the Foundation's asset pools. The Foundation has 2 separate asset pools – an operating pool and long-term investment pool. Endowment assets reside in the long-term investment pool. Investment governance provided by USF Foundation Board of Directors; its investment committee (consisting of 10 voting members) is responsible for financial oversight and administration of operating and endowment investment pools. The investment committee is supported by Foundation investment staff and investment advisor Wilshire Associates (since 2000).

Mr. Keenan provided highlights of last year's financial performance (year ending June 30, 2021) for the endowment portfolio. All measurements exceeded benchmarks. Realized a 35% return. NACUBO Endowment Assets are close to $700M. Crossed over the $500M mark 2 years ago and since then have grown by $200M. Every asset class exceeded benchmarks as well, led by equities (domestic and international). Had a great year. Top returning asset class for the 5-year period was alternatives which is primarily private equity. Still have not dabbled into hedge funds and have no plans to do so. We've stayed our course, leaning more towards equity at about 65%-70% of our portfolio. This has served us well over the years. USF's Endowment is a leader among peers, based on NACUBO-TIAA Study of

Endowments. We are in the top quartile for every period (1-yr, 3-yr, 5-yr and 10-year); we are in the top decile for the 3-yr, 5-yr and 10-yr periods. We were #2 in the state last year at 35%; only FSU was better, by about 1%. This is first time in several years that we were not #1 in the state.

Long-term returns remain above policy benchmark. Strategic overweight to public equities contributed to performance (USF 64% vs Peers 38%). Active management has added to long-term returns, especially in international equity which has exceeded benchmark by 300 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 were approximately 88 bps.

Mr. Souza discussed recent Investment Committee initiatives. The Investment Committee has been very busy over the last two years working through the volatility caused by the pandemic. Recent initiatives include: implemented asset allocation changes as well as structure changes with credit assets; committed to private equity secondaries program as well as recommitted to private credit partners; and committed to global infrastructure partnership to bolster inflation exposure in real assets. The 10-yr expected return is about 7%. A couple of years ago this number was 7.85%. This number is moving downward because the economists at Wilshire are taking into account the frothy equity markets as well as the added inflation. The USF Endowment, like all endowments across the country, are reckoning with higher inflation and lower expected returns and the strain that causes on spending.

The Operating Pool (assets of $174M) is where non-endowment gifts are kept. 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 was revised in 2021, based on risk/return forecasts for each asset class. Increased Tier III Capital Enhancement from 15% to 20%, and made a corresponding increase to Tier I Liquidity Vehicle as well to balance off the volatility. The Operating Pool posted a return of 5.7% for the fiscal year, which exceeded its policy benchmark of 4.1%.

Since June 30, the Foundation's investment returns are flat for the year through January, due to the ups and downs in the market.

2. University Medical Services Assoc., Inc.

Rich Sobieray and Alisha Ozmeral presented the investment report for FY2021 which includes UMSA and MSSC. The investment committee is a subcommittee of the UMSA/MSSC Board of Directors and is responsible for oversight and authority of the investment fund. Investment committee membership intentionally overlays with the University Investment Committee. Portfolio objectives include: maintain adequate liquidity (primary objective), with a target of 60-90 days cash on hand (actual 21.3 days cash on hand due to delays in receipt of Upper Payment Limit (UPL) funds, which were received in July/August 2021); mirrors university investment allocations and primarily consist of long-term funds; a total portfolio return which outperforms appropriate market and asset benchmark portfolio returns over a rolling 1, 3, and 5 year time horizon, net of all investment expenses; and target allocations are reviewed once per year and voted on by the committee. Utilizes the University's investment consultant, Cambridge Associates. Asset allocation was outside targets at the end of the year due to investment appreciation which is an allowable exception in our investment policy. FY2021 was a strong year for investment returns (39%). Portfolio performance was slightly below the benchmark in the quarterly, 1-year and 5-year time horizons; overall portfolio was very closely aligned with the benchmarks.

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 consists of three distinct investment accounts: long term investments (+ 10 Years); intermediate term investments (5 - 7 Years); and short-term investments. The intermediate portfolio will be key as the Research Foundation continues to develop the new research park lab and office building. There will be a need to fund buildout of the space as well as other potential development opportunities. The intermediate investment portfolio allows the Research Foundation to maintain an acceptable rate of return while providing immediate accessibility to reserve funds with no restriction on the number of withdrawals.

The investment portfolio increased by just under $10M in FY21, to an ending balance of $52.2M. 70% of the investment portfolio is with the USF Foundation and is part of their Endowment Fund investment pool. Returns for the year echo that of the Foundation with an annual return from the Foundation investment of 35%. Truist, the intermediate fund, provided a return of just slightly under 27% for FY21. Total portfolio weighted return was 29.5%, which exceeded the policy benchmark, with a positive value add of 3.3%. Strong liquidity with 770 days cash on hand which was available for operations.

d. Budget Update

Rich Sobieray, Interim Sr. Vice President for Financial Strategy, gave an update on the budget planning project. USF has begun a process for modernizing its budget process and funds flow model. The goal is to design and recommend a new value driven university-wide budget process and resource allocation model that balances the budget (Tampa E&G). Accomplishments to date: engaged all constituents across One USF; activated a budget oversight committee (Budget Committee) and five workgroups (Resource Generation, Operational Effectiveness and Efficiency, F&A Distribution, Resource Distribution Methodology, and Reporting) to address our challenges; developed Guiding Principles document to lead our transformation; engaged HelioCampus to assist with benchmarking our spend across One USF; Support Functions are preparing budget requests; identified and defined drivers for elements for a new resource allocation methodology; developed 5-year Tampa E&G plan and identified broad strategies for balancing (identified revenue targets and operational efficiency targets by year for FY23-FY28). By the end of that 5-year plan, we will be a much stronger organization financially with the ability to invest in strategic priorities at a level we have not be able to in quite some time. The Budget Committee has been charged with: 1) designing a new value driven university-wide budget process and resource allocation model that builds on the diverse, equitable and inclusive culture at USF; and 2) providing recommendations for balancing the E&G budget, through developing strategies to maximize the University's financial resources and opportunities for efficiencies. None of this can ignore the Strategic Plan – strategy should drive finance, not the other way around. Mr.

Sobieray described what a resource methodology might look like. Need to look at all sources and see how all the sources of funds are being utilized to support the mission of the University. Working on our strategies of new resource generation, operational excellence and efficiencies and innovative initiatives. Need to eliminate the duplication in our organization and be lean and mean; need to work smarter, not harder. The support functions as well as the colleges need to be operating efficiently. Success is defined as: 1) a balanced budget by establishing a sustainable funds flow model with incentives that advance USF's mission of excellence.; and 2) a new budget model that balances local autonomy with a strong sense of unity in vision and values, provides decision-makers with increased transparency into USF finances and fosters an information-rich disclosure on college priorities and budget matters, advances and encourages Campus and Health strengths and priorities, aligns authority with accountability, and provides for reasonable transitions and bridging strategies over the next several years.

Trustee Carrere stated that this budget model directly supports goal # 5 of the Strategic Plan - A strong, sustainable, and adaptable financial base. This process and resulting budget model are important to the success of the Strategic Plan and strategic initiatives as well as the to the University.

Trustee Boaz stated that this is one of the things the faculty has been concerned about and they have been pushing strongly for this new budget model. He is excited about what has been done so far. This is a broadly inclusive process across the University and he is very optimistic that we will be able to get this done in a way that will be beneficial to the University.

Chair Weatherford stated that this has been a long time coming and is needed. The end product will make a difference for us and the University will benefit in a big way from this process.

e. INTO Update

Provost Ralph Wilcox gave an update on the INTO USF Center. This is a 12-year-old public-private partnership. Was part of the 2007-2008 Strategic Plan. Prior to INTO (2009), USF had 1,317 degree seeking international students. In Fall 2021, there were 4,666. USF was the second INTO Center in the U.S. INTO now has 20 centers. The INTO partnership has served both parties well over time, but the current business model is no longer working. Hilary Black, Sr. Associate General Counsel, reviewed the ownership structure and contractual components of the agreement. USF maintains complete control over academic programs.

Provost Wilcox again noted that the partnership has been strong and productive, but Pathways (PW) students have steadily declined since Fall 2015. This is due to an increase in competition in the global marketplace; an increase in the number of INTO centers in the U.S.; the launch of off shore and domestic in-market English language programs, so international students in certain countries didn't see the need to travel to the U.S. to learn English, they could learn it at home; a decline in the number of government sponsored students in key markets; political economic shifts and headwinds including limitations placed on the admission of students to the U.S. from some countries; fluctuation in international monetary exchange rates; and the global pandemic. Important to note that the student decline far preceded the emergence of COVID around the world. During this same period, the number of USF's INTO-sourced students (directly enrolled students [DEs] that are recruited by INTO) have increased. This was not the expectation of the original business model. INTO students generate approximately $120M impact to the Tampa Bay economy supporting upward of 1,300 jobs.

Mr. Trivunovich presented a summary of INTO's financial results back to 2013. Got off to a quick start for a startup entity. Functioned at breakeven almost from the start. Reached a peak in the number of students entering the program in the 2016-2017 time period and this is reflected in the operating results. It was during this time that a special distribution of $6M to each partner was provided. The University has used a portion of this distribution to meet USF student needs; it still holds part of this distribution to cover a contractually required $2M line of credit. There has yet been no commitment on drawing down against this line of credit and this line of credit requirement expires at the beginning of 2024. From the program's peak in 2016-2017, the summary shows the steady decline in enrollment and the related financial results. The University has initiated discussions with our INTO partners to consider the efficacy of our current Pathways model and what the appropriate state might be. Projecting an additional loss of $3M in FY2022. This will require an infusion of liquidity into the entity. The last two columns of the summary show the forecasted financial results for FY 2022 with and without the infusion.

Currently considering our next steps in moving forward with our INTO relationship. The first issue to be resolved is to determine the appropriate methodology in funding to address the liquidity issue just mentioned. Second, we must develop a high level of confidence in (a) the enrollment forecast for FY23, and (b) cost reductions, to restore INTO-USF financials to no less than a breakeven status for this next fiscal year. Our INTO partners have stated that they are committed to working with us in reducing the cost structure of INTO USF to an appropriate level. Will be looking at three types of costs: costs in the INTO Center; costs charged by the partners to the partnership (USF will look at its instructional and administrative costs) and our INTO partners will look at their recruiting and marketing costs. And lastly, with changing market conditions (compared to FY11), we must reassess the status and structure of the INTO USF partnership given the downward trend in PW enrollment and the steady gains in DEs (sourced not only by INTO but through our own USF International Admissions Office). In the most recent national report, USF is the leading destination for international student enrollment in the state of Florida,

Trustee Seixas asked, if a decision is made to sunset the program, will there be an opportunity to work with international student groups so they understand the strategy behind this and that there is an ongoing commitment to their success. Provost Wilcox responded that our international admissions and recruitment efforts are not going to slow down. In fact, over time, they have picked up the pace. Trustee Patel stated that the key is not only what we are doing, but how we communicate this externally. We need to explain that we are not moving away from this commitment, but rather accomplishing this outreach in different ways that made the program redundant, etc. Provost Wilcox stressed that no decision has been made yet on the status and structure of our relationship with INTO. This has been a productive partnership, but market conditions are changing and demand is shifting and we recognize the need to adapt and respond to those changing needs. Chair Weatherford explained that while this relationship has been productive in the past, it needs to continue to be productive and meet the needs that we have today as they are changing and evolving. We are living in a dynamic world and we need to be sure our relationships and partnerships are reflective of that. He is confident that we will get not only the best deal, but the right deal for the University. Chair Griffin added that this is not an ideal situation; there are several contributing factors that have led us to this point. Times have changed and our expectation at USF is one of excellence, and we expect our partners to share that. Based on today's presentation, the path we are on tells a story that is inconsistent with our amazing trajectory at USF and we need to correct this. He looks forward to future updates on this issue.

V. Adjournment

Having no further business, the Finance Committee meeting was adjourned at 11:59am.