USF Board of Trustees
Finance Committee
NOTES
November 19, 2024
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 9:06am. Chair Griffin asked Brittany Dix to call roll. Ms. Dix called roll with the following committee members present: Michael Griffin, Sandra Callahan, Rogan Donelly, Fredrick Piccolo, and Will Weatherford. A quorum was established. Shilen Patel joined the meeting after roll call.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of August 20, 2024 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 August 20th meeting notes were unanimously approved as submitted by all committee members present**.**

b. 2024-25 USF Parking System Budget

Dawn Rodriguez, Acting University Treasurer, presented the 2025-26 USF Parking System Operating Budget and requested approval at this time to meet a February filing requirement by the Board of Governors (BOG). This is the University's annual approval of the Parking System Operating Budget for FY26. The Parking System supports the Series 2016A parking system bonds. The bonds were issued by the Florida Division of Bond Finance, who requires the approval and submission of a detailed operating budget to the BOG at least ninety (90) days before the beginning of the fiscal year which means a filing deadline in February of the coming year. The parking bonds are the only bonds issued by the Division of Bond Finance subject to this requirement.

Ms. Rodriguez briefly provided the FY24 actual results. Operationally, the department generated over $1M. However, there was a $10M decrease in total operating cash. This was expected because the parking system made two critical commitments driving the decrease: 1) $3M to fund the installation of garage fall protection equipment across the university; and 2) an $8M contribution to the USF Stadium project. For the FY5 estimate and FY26 budget, there were modest increases operating revenue. Ms. Rodriguez noted that parking rates and the student transportation access fees have not increased in over a decade, so these modest increases are solely related to the post COVID recovery in the number of parking permits sold. Operating expenses continue to increase with rising inflation. We also anticipate that the university will continue to provide merit increases for its staff, which is incorporated here. The reduction in debt service from FY24 down to $1.3M in FY25 and FY26 reflects the amortization of the Series 2016 bonds, which mature on July 1, 2026. Operations are expected to generate $1.8M in FY25 and $1.4M in FY26. However, total cash is expected to decrease in both FY25 and FY26 to continue funding major capital improvements or purchases that were deferred during and post COVID. In FY25, the largest projects are the parking lot resurfacing at $1.2M and various preventative structural renovations totaling $500K. In FY26, Parking plans to purchase 2 new diesel buses to add to its aging fleet. Notwithstanding these significant capital contributions and investments, the total fund balance will remain strong at $17M, with over $5M in unrestricted operating cash, which provides a strong liquidity that supports our AA credit ratings on these bonds.

A motion was made to approve the 2025-26 Operating Budget for USF Parking Facilities Revenue Bonds, Series 2016A. The motion was seconded and approved by all committee members present.

c. Expenditure Authorization

Jennifer Condon, Vice President and CFO, presented the expenditure authorization request for the facilities service agreement with Southeast Service Corporation (SSC). USF intends to enter into a 15-year agreement with SSC to provide custodial, grounds, plant maintenance and small project management services. The University's partnership with Compass Group, which includes our agreement with SSC, is projected to be worth nearly $320M in cost savings and additional revenue for USF over the next 15 years. It will also result in efficiencies and advancements for our university that otherwise would not have been possible. It also supports the goal our university strategic plan of having a strong, sustainable and adaptable financial base. This $30M expenditure authorization covers the first three operational services from December 1, 2024 to June 30, 2025, on all of our campuses and incorporates academic and auxiliary facilities. Small capital projects will continue to be approved on an individual basis using established expenditure authority delegation as applicable. While we are requesting authority to enter into this agreement, please note that this isn't a new expense. This is a shifting of an expense from compensation costs to purchased services. The expense was budgeted and will be funded by a combination of allowable sources. We intend to return to the Finance Committee in May to request operational expense authority for FY26 and provide a general update on the identified and realized benefits of our agreement with SSC.

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. Annual DSO Investment Reports

1. **USF Foundation**
2. **University Medical Services Assoc., Inc.**
3. **USF Research Foundation, Inc.**

Ms. Rodriguez presented the Annual DSO Investment Reports. This is an informational item that we present annually at the request of the BOT Finance Committee for the three DSOs with significant investment portfolio balances (USF Foundation, UMSA, and USF Research Foundation). The University’s investment report was provided at the August

BOT Finance Committee meeting. Ms. Rodriguez noted that all DSOs have adopted, and are in compliance with, the USF Investment Policy and the DSOs are governed by independent boards of directors and their investments are governed by their own DSO investment committees. Ms. Rodriguez provided the following FY24 highlights of the three DSO investment reports:

- USF Foundation (USFF)
  - Total assets under management approximate $900M as of June 30, 2024. That includes $743M in their endowment pool and $156M in their operating pool.
  - The endowment generated a strong 14% return for the year ended June 30. At 14%, USFF endowment generated the strongest return in the SUS for FY 2024. The second highest return was 12.9% and the lowest was 7.2%. Over the trailing 10 years, the endowment has generated a strong 8.3% return, which exceeds its 10-year expected return of 7.85%. The endowment continues to perform remarkably well, maintaining its top quartile ranking amongst its peers and its investment consultants universe over most time horizons, and particularly over the long term.
  - The operating pool also had a strong year returning 7.8% and the pool did outperform its benchmark over the trailing 10 year periods as well as since inception.
- University Medical Services Association, Inc. (UMSA)
  - Total portfolio was approximately $38M at June 30 with $26M in its short term pool split approximately evenly between cash and cash equivalents and its fixed income pool and $12M in its long term pool, solely in domestic equities.
  - Strong one year return of 14.5% and since inception the portfolio has generated over a 5% return. Considering that this portfolio is heavily tilted toward cash and cash equivalents and fixed income, that is a strong return.
- USF Research Foundation, Inc.
  - Research investment portfolio was approximately $41M at June 30 with $37M in the long term pool that is solely invested in the endowment. This $37M was included in the $743M in the endowment pool. $1.4M is in held in their intermediate pool and $2M is held in their short-term pool.
  - Strong one year return of 13.5% and since inception, this portfolio has returned approximately 9%. With a large allocation to the endowment pool, they get the benefits of the Foundation's strong performance.
  - Outside of the $41M, they have another $15M in unrestricted cash for operations and this unrestricted cash provides for very strong liquidity of 377 days cash on hand.

Chair Griffin stated that this is very good news thanks to our great investment policies. This shows how well we stack up with our peers and others around the state.

b. Draft 2024 Financial Statements

Ms. Condon provided highlights of the draft FY24 financial statements and explanations for all variances above certain thresholds. Supporting materials include two three-year trend analyses: 1) the university's statement of net position; and 2) the statement of revenue, expenses and changes in net position. For this presentation, these statements will be referred to as the balance sheet and the income statement, respectively. These financial statements give insight into the University's strong operating results. We have adjusted results for the effects of accounting for employee post-retirement liabilities. The figures are presented this way because these liabilities are born primarily by the state, not the agencies therein. This approach is consistent with the way Standard & Poors, Moody's and, more recently, SACS is looking at these figures.

On the income statement, for FY 24, and for the second year in a row, we start with a Net Operating Surplus of more than $30M. Then we add back almost $50M of annual expense booked for pension and other post-employment benefits to see a clearer picture of the university's operating results and surplus. On the balance sheet, we start with a deficit in our unrestricted net position of almost $330M for FY24. Here, we add back almost $900M of accumulated liabilities and related net deferrals for pension and other post-employment benefits, yielding an unrestricted net position of nearly $570M. Regarding these figures and related adjustments, it is imperative to know this is happening to all state universities across the country, and at this point, these liabilities are the responsibility of the states, not the universities, which is why the rating and accrediting agencies are adjusting for them.

Trustee Callahan asked if we make contributions to the state on an annual basis toward the pension benefits. Ms. Condon responded yes, we make payments for pension benefits based on the number of employees that are included in our payroll, not the number of employees included in the pension plan. Ms. Condon further explained that the reason these are not really our liabilities is because the state of Florida's pension at last count, which was a year ago, right before this year's incredible investment returns, was funded in the mid 80s. From a percentage standpoint, it's one of the strongest pensions in the country. Trustee Callahan then asked how the expenditure of funds for the pension contributions is accounted for in the financials. Ms. Condon explained that it accounted for as an expense in compensation and employee benefits.

Ms. Condon explained how we achieved such strong operating results. In FY24, USF benefited from an $86M increase in state appropriations. We also increased Contract and Grant activity by more than $100M. This additional operating revenue was used to expand our operations, which offset increases in the major expense categories of compensation and benefits and services and supplies of $147M and $78M, respectively. Ms. Condon reviewed current and prior year information on the makeup of compensation and employee benefits. In FY24, non-cash adjustments summed to more than $56M, including post-retirement benefits. In FY23, these adjustments offset each other, resulting in an impact of less than $1M. The remainder of the increase in salaries and corresponding benefits resulted from workforce expansion, including more than 60 net new faculty hires, new advising positions in several colleges, and insourcing of international recruiting, among other things, as well as merit-based salary increase programs.

Ms. Condon then reviewed the university's overall liquidity. In FY24, USF investment income was a little more than $72M. This was split almost evenly between investment income and unrealized gains and losses. These impressive returns contributed to our overall cash and investment balances, cresting $1B. While most of this balance is subject to operational restrictions, it affords us a very strong 194 days cash on hand for liquidity purposes.

Ms. Condon next explained the remaining specific variances from the management discussion and analysis section of our financial statements. The threshold for review is variances from FY23 to FY24 that exceed $10M and 10% or changes of $20M, regardless of percentage. This year, most of our reportable variances fall into a few general themes.

Post-employment benefits, major operating sources and uses and investment results have already been discussed. Capital assets activity is the next theme. Starting with the balance sheet, we saw material increases in three asset categories and resulting shifts in equity categories. The $38M increase in depreciable capital assets is due to the capitalization of the Judy Genshaft Honors College. The $44M increase in non-depreciable capital assets is primarily construction in progress related to the Sarasota-Manatee campus student center and housing facility, the Taneja College of Pharmacy buildout in the USF Health downtown facility and the three energy savings projects in progress on the Tampa campus. The $13M increase in other non-current assets resulted from an unusually high dollar value of assets received but not yet placed in service at year-end coupled with a GASB-required change in accounting for IT subscriptions. These variances resulted in offsetting shifts in categories within our net position. On the income statement, two variances met our reporting thresholds. First, the FY24 Spectrum sale yielded a $31M variance on disposal of assets and, second, there was an $84M decrease in capital appropriations caused by the unusual and significant appropriations received in FY23 for deferred maintenance and the Tampa College of Nursing expansion. The final two buckets of variance that require disclosure relate to timing and accounting changes. In the area of student accounting, our net student tuition and fees decreased $22M. This was primarily due to an increase in scholarship allowance that was reclassified from scholarship expense due to the source of aid used. If we combine these changes, the variance falls below our reporting threshold. The other two student-related variances, a $26M increase in net receivable and $19M increase in deposits payable, are also offsetting and relate to accounting for international student health insurance. Our final category of variances results from year-end activity with two of our direct support organizations, the Research Foundation and UMSA.
For Research Foundation, significant construction was in progress, including the relocation of the recreation fields. Unspent funds were accounted for using Non-Capital Grants and Donations and Due from Component Units. For UMSA, USF was owed funds for pass-through payments payable to the Agency for Health Care Administration for participation in the upper payment limit Medicaid gap funding program. This resulted in offsetting increases in Due from Component Units and Accounts Payable. All this DSO accounting increased the portion of our net position that is restricted for other expendable purposes.

Trustee Weatherford stated that Ms. Condon is doing a great job and that the University is in the best financial position it's been in since he's been on this board. A lot of people get credit for that, certainly the President and many others. He appreciates the stewardship and the focus. We are very positioned to grow, to excel, to thrive and our financial house is in order.

c. DSO Financial Updates

This is an informational item that is now presented on a quarterly basis at the request of the BOT Finance Committee to provide updates on any DSOs that are expecting operating losses, that have liquidity concerns, or if there are any other significant matter matters to report on. Ms. Rodriguez presented the updates provided by the three DSOs – UMSA, HPCC, and Research Foundation.

1. UMSA

UMSA concluded FY24 with an $11.1M net operating loss and 34 days cash on hand. This is near where they expected at the most recent update. There were two primary contributors. As previously disclosed, academic practice plans continue to be challenged with declining reimbursements and increasing labor and inflationary costs. Like most medical schools across the country in response to these challenges, UMSA is expanding its partnership with its primary hospital partner, TGH. UMSA received a clean, unmodified audit opinion with no findings or audit adjustments. The mid-year forecast will be provided at the February meeting, so we'll look forward to some updates at that time. At this time, there are no changes to their FY25 financial plan and they anticipate breaking even with 28 days cash on hand. The reason for the anticipated breakeven operations is due to the partnership with TGH where UMSA will essentially be shifting its risk and operating losses to TGH. The agreement with TGH has been signed and this is going to continue to expand that very positive momentum and partnership that we have with TGH. This is great news.

For FY25, TGH's estimated incremental investment is $32.5M and includes the following:

- $2.7M for the GME program
- $14M to support clinical faculty
- $15.8M for overall mission support

USF Health has begun implementing the new MCOM faculty compensation plan for its clinical faculty. This will align with the funds flow from TGH and it will compensate based on benchmarks for all missions and assignments. Implementation has begun. Half of the eligible faculty were implemented in October, and the remaining are expected to be implemented this month, and so far it's going very well.

2. HPCC

HPCC ended the year with a $104K net operating profit and 20 days cash on hand. HPCC also received a clean, unmodified audit opinion with no findings or audit adjustments. At this time, there are no changes to their FY25 financial plan. They are expecting a $707K net operating profit with 13 days cash on hand.
The recent hurricanes impacted their operations and profit; however, HPCC is confident that they will recover much of that lost revenue throughout the rest of the year.

Update to their key actions in FY 2025:

- College of Medicine will support HPCC's most significant expense, its debt service on the building of $1.5M, with the remaining $1.2M of COVID relief funds that they hadn't used in prior years.
- HPCC will continue to maximize utilization of the facility (CAMLS) from both the USF and non-USF clients.
- HPCC continues to expand its research capabilities with $900K in grants from NIH and DOD and a newly established lease agreement with the Florida Center for Emergency Medical Services.
- HPCC continues to look for additional ways to drive revenues.

3. Research Foundation

Research Foundation ended FY24 with a $4.2M net operating loss as expected, however their non-operating income was higher than expected at $4.1M, so the overall loss was less than $100K for the year. As we've reported before, we are not concerned about Research Foundation from a business sustainability perspective, with a solid business model and very strong liquidity with 377 days cash on hand. The issue is the delayed lease up of the new building. All of their other buildings are fully leased up and continue to generate positive results for the Research Foundation, which is helping to fund operations on the new building. At this time, there are no changes to their FY25 financial plan. They are expecting a $3.6M net operating loss, but still strong liquidity with over 200 days cash on hand. Ms. Rodriguez noted that similar to the other DSOs, and just for information, all of our DSOs actually came in with unmodified opinions this year and no findings. This is great news.

Update on the status of the lease up of the new building:

- Full occupancy is still anticipated in FY26. The building will contribute to positive cash flow beginning in FY27.
- The two leases on the third floor commenced this month and the remaining 9,000 square feet continues to draw interest from a federal entity and industry companies.
- The entire 2nd floor is expected to be leased in FY 2026. They have received and are entertaining, a very serious proposal.
- All of the soft landing labs on the 1st floor are fully leased out with a waiting list.
- Funding opportunities for build-out of additional labs on the 1st floor are being explored.

Trustee Simmons stated that this is an important piece of USF's very exciting and ambitious plan to grow our research enterprise in a really bold way. He is happy to see that we are leasing out 25,000 feet of lab space. As with any institution trying to dramatically grow its research enterprise, usually the biggest hurdle is lab space because there's a lag time on building it out. This new building has 45,000 square feet of readily convertible lab space which is very hard to get anywhere else on campus, and is one of our highest needs. He asked if there is any way for the University to lease this space. Ms. Condon responded that because this building was financed with taxable bonds, lease payments are required to secure the pledge. There are limitations on what funding we can use to lease this space. We would need to look at some alternative sources of funding that would be legal and appropriate for this purpose, possibly F&A dollars. Ms. Condon indicated that she did start the conversation with Provost Mohapatra to explore this issue. Allison Madden, Research Foundation CFO, explained that one of the opportunities that the Research Foundation is looking at will potentially create additional lab space in one of their existing buildings that also has lab space already built in. While a renovation would likely be needed, they are looking at converting some privately held lab space that could potentially benefit the university as well. We will keep that in mind as we continue to look at opportunities for expansion in the research park.

d. Deferred Maintenance Update

Vice President Carole Post presented. This is an information item concerning the allocation of $72.8M appropriated to USF by the state in 2022 specifically to address critical deferred maintenance and capital renewal needs. This will be a brief update on our current progress and look ahead at addressing longer term infrastructure and capital needs.

An outline of the plan was provided to the full Board in June 2022, followed by updates to the Finance Committee in August 2022 and Feb 2023. We now approach a significant milestone regarding use of the funds.

As a recap about the program which awarded all state universities an allocation of funds tied to previously reported deferred maintenance priorities, USF's priorities were developed across all branches and USF Health. The allocation we received was sufficient to fund the first 87 initiatives on our priority list. Factors that were considered in setting those priorities included likelihood of a system failure based on age or current condition or the impact of a particular system failing. These 87 projects are all essential infrastructure – systems that make our university work every day, like HVAC, electrical, plumbing, roofing, and also ADA related initiatives. The breakdown by project category or discipline, as well as by campus recipient, noting that many of the Tampa projects are deemed university wide improvements, was provided.

A significant milestone for this program is to have all funds encumbered by 12/31/24. We will meet that deadline. This is good news. To achieve that, we worked with the BOG and adapted the budgets of nearly every project to align the budget with the actual cost as bids came in and work was initiated. Some projects were coming in over budget, others were under budget. Initially we were not able to adjust budgets, but the requirements were changed to provide greater flexibility to move funds around to achieve the intended goal. Notwithstanding fairly prescriptive requirements, we will successfully encumber 100% of $72.8M in a little less than 2 years. There are many people to credit for this success, but especially Hari Patel and Scot Berrian of the OAS team.

The next deadline is to complete the projects and spend the funds by the end of 2026. The majority of projects are in construction, some are already completed, and just a few, the more complicated efforts are in design. We are right where we want to be and confident we will meet the next deadline. And while the tracking and reporting is important, it's more important to emphasize how transformational this investment will be when we have these projects completed and the improvements to many of our aging buildings.

Looking ahead, while we have 2 years left to continue this specific effort, we are not waiting for 2026 to continue tackling deferred maintenance. Ms. Post reviewed three slides providing a quick snapshot of what we are looking at to continue these efforts. First is a high-level summary of the age of our physical assets. This is a snapshot of Tampa and we have this data for St. Petersburg and Sarasota-Manatee as well. Sarasota-Manatee is relatively new and St. Petersburg is a mixed range of building age and conditions, like Tampa. This shows the average age of the buildings on the Tampa campus and the same assessment by gross square footage. The data at this level is reasonable, reflecting half the asset stock less than 25 years old, and a quarter each in the middle age range (25-50 years) and older stock (more than 50 years old). The next slide has the same measures, but now looking at just the 'conventional' academic and research facilities, so excluding housing, athletics, and CITF funded buildings. This changes the output to reflect that these buildings trend older than the overall stock. The measure by square footage is similar, reflecting nearly 40% now in the middle age category. A few other key factors to note is that our newer building stock is generally larger in size than our older stock, which is a good thing – we now typically build larger to account for growth including projects that specifically include future build or shell space, which is more economical. What it also shows is our need to address our smaller, older, and continuously aging academic and research buildings. This is just a snapshot at how we've developed greater metrics and data to guide our strategic decisions about capital investments. As previously discussed, it's critical for us to align our investments into capital that drives our academic and research priorities. The other challenge is tackling the systems within the buildings, it's not just the age of the building but how essential systems are accounted for. The third slide is another high-level summary that gives a sense of how we are approaching essential systems within each building. This is an overview of the buildings largely used by the College of Arts & Sciences which is our largest college by both student population and physical footprint. We've analyzed the essential systems for roof and HVAC, and then provided a grade for other supporting systems noted. This becomes another tool to better inform investments. For example, for many buildings, the roof and the HVAC are generally the same age, but several, like the first line show an extreme disparity. For the BEH building, serving the Dept of Psychiatry and Behavioral Sciences, we invested in a new roof a few years ago, but the HVAC dates to the building's origin so it is a likely candidate for the next HVAC investment.

With a goal to ensure alignment of capital investments with strategic priorities, we are moving forward with a number of efforts that run parallel to the continuing deferred maintenance effort. We've already started to re-imagine the Fixed Capital Outlay and the Capital improvement plan processes to better align with our evolving needs and priorities, specifically focusing on the university's needs to support our ambitious research goals. We will continue to re-purpose existing facilities, examples you've seen come through on prior FCO plans to focus investments on research, student success, and public facing functions. These are important successes, but they are incremental and we need a larger strategy to drive our capital planning.

And rolled into this is planning for how to address beyond project the current project. What comes next after we exhaust the $72.8M, we have dozens of projects stacked up in line. One very positive approach is tied to the new partnership with Compass that we recently announced. Being able to validate our building conditions and assessments, to strengthen our buying power across critical systems and equipment, and accelerate how we unify our approach to facility maintenance across the university, will help push our strategic vision.

Chair Weatherford stated that he appreciates the data-driven approach. Much work has been done over the last two years and we still have a lot to go. He hopes that in this legislative session, given that they've deployed a lot of money into deferred maintenance, they will see the value the state is getting out of the resources they put forth and we can have another year where the state invests more into deferred maintenance. We would be great beneficiaries of that, so that will be part of our strategy in session to try and get the state to make another investment here so we can keep this going. We have a lot of old buildings and there is a lot of different maintenance. Now that we have a better data-driven approach, it is easier to see where those resources should go.

V. Adjournment

Having no further business, Chair Griffin adjourned the Finance Committee meeting at 9:58am.