USF Board of Trustees
Finance Committee
NOTES
August 10, 2021
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 11:05am. Chair Griffin asked Kiara Guzzo to call roll. Ms. Guzzo called roll with the following Committee members present: Michael Griffin, Mike Carrere, John Ramil, Will Weatherford, and Chip Newton. 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 May 25, 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 May 25th meeting notes were unanimously approved as submitted by all Committee members present**.**

b. 2021-22 Operating Budget

Masha Galchenko, Interim Associate Vice President for Resource Management & Analysis, presented the 2021-22 Operating Budget. On June 8, the board approved continuation budget at prior year levels with the understanding that a revised budget would be presented later. The board is now being asked to approve the new 2021-22 Operating Budget for all main sources of funds. Today's presentation will go over the Legislative Session outcomes and impact on our Educational & General (E&G) budget and as well as our preliminary plan for federal funds spending. In reviewing the FY2022 Operating Budget, Ms. Galchenko focused on the major variances from the prior year. Contract & Grants increased 31% in expenditures over the prior year solely due to federal funding associated with unspent CRRSAA (Coronavirus Response and Relief Supplemental Act) and ARPA (American Rescue Plan Act) funds. Technology Fee increased 32.5% in expenditures due to rollover projects that were stalled in the prior year due to COVID. USF's E&G budget had a few wins after this last Legislative session, including the Legislature fully funded our request for $8.1M for construction of the Judy Genshaft Honors College facility; the Legislature approved the disbursement of $46M in Capital Improvement Trust Fund (CITF) fee revenue for Florida's public universities, of which USF will receive $6.5M; and the Legislature set aside $350M from the state's federal stimulus funds to be used on deferred maintenance projects at state-owned facilities, and specifically made state university facilities eligible to receive funds from this source - USF will submit its updated priority list for consideration. Additional impacts included: reduced funding for faculty positions over $200K salary amount ($2.5M); state investment portion of Performance Based Funding (PBF) has been reduced by about $1.3M; St. Petersburg campus received Citizen Scholar Partnership allocation of $306K; additional unfunded retirement cost - estimated around $7M for all campuses; and additional cost associated with waivers for specific programs (uncollected tuition) – amount still to be determined.

Year 1 of the planned recurring reductions (presented to board last winter) have been implemented as of July 1 for Tampa campus University and Academic Support Units (except Library and Police). This does not include the Colleges. These reductions have been reallocated to cover recurring costs without recurring source of funds. USF Health, St. Petersburg and Sarasota-Manatee campuses overall E&G budget was only reduced based on allocation from the state mentioned earlier.

Beyond the original CARES allocation of FY 2020 in the amount of $34M, USF has received $58.2M of CRRSAA funds and $102.3M of ARPA funds. CRRSA funds are a 70/30 split between institutional portion and student financial aid; ARPA funds are about 50/50. Student financial aid totals about $69.4M between these two awards and can only be awarded as need-based aid to students. $16.6M of this was spent in FY 2021 and $52.8M remains to be spent in FY 2022. The institutional portion of the two awards totals $91.1M. Allowable expenses include lost revenues due to COVID and expenses directly associated with COVID. Our current plan is 42% for lost revenue recovery, 44% for direct COVID expenses and 14% for overhead charged on the direct expenditures. The biggest pieces of lost revenue recovery will go to Athletics (30%) for lost revenues associated with fees (Athletics fees were waived last summer because we were all remote) and lost revenues associated with their operation; medical faculty practice plan (27%); and housing (19%) – for both Tampa and St. Petersburg. For direct expenses, funds are being set aside for performance bonuses associated with COVID; however, the final plan will need to be approved by the board before proceeding. Also setting aside $4.7M in contingency to cover new expenses that might come up during the year, since there is a new wave in cases.

President Law thanked Ms. Galchenko for a very good presentation on the operating budget and made the following remarks. On August 5, USF St. Petersburg Campus Advisory Board approved their operating budget with the allocation for the academic affairs budget of $250K previously allocated to USF Health to support the Pediatrics Residency Program at Johns Hopkins All Children's Hospital in St. Petersburg deleted from the recommendation as it did not have any clear connection or benefit to the St. Petersburg campus. The campus board's recommendation was accepted and President Law committed to finding alternative funds to support the Pediatrics Residency. President Law also committed to the BOT to develop a framework for aligning the costs for shared services across the campuses where it makes operational, programmatic or strategic sense to do so, and will work collaboratively with all USF campuses to develop this proposed framework and will come back to the committee the with a proposal.

Chair Griffin made the following remarks. He thanked Vice President Trivunovich and Ms. Galchenko and their entire team for their good work on the budget. He stated that we were fortunate that the Legislature did release the holdback from the prior year, but we have some needs that we need to address from a structural perspective. There is still some discussion as to the number, but as chair of the Finance Committee, he will continue to work with the relevant stakeholders to address these recurring structural issues. As we will see in the next agenda item, we still need to work to increase the level of support from the state. The use of federal funds is still under discussion to insure we are compliant.

Trustee Carrere noted that federal funds are one-time funds and need to be spent correctly and spent this year. We all need to be comfortable with this. Once these are spent, we will go back to a more standard operating budget. Chair Griffin agreed that we need to get these dollars in use quickly and correctly.

Trustee Boaz asked will there be challenges in getting the federal funds to students. Mr. Trivunovich responded that Financial Aid is working on this but has guidelines to follow. Previous rollout was slow as we had to implement a process to be sure the students had a need, and this took some time; but hope to get ahead of it this fall to the extent that we can. Trustee Boaz asked does the funding for Athletics make them whole or at a level consistent with where they were before the pandemic. Mr. Trivunovich responded that the funding allows us to restore Athletics to where they were last year, where revenues equaled expenses, so this puts them on a better footing.

A motion was made to approve the USF FY 2021-22 Operating Budget as presented and authorize the President (or the Designee) to implement budget amendments issued by the state during the fiscal year or other changes approved by the Board Chair; with the understanding (per President Law) that a framework will be developed collaboratively with the branch campuses for sharing costs where it makes sense and is appropriate, and this framework will be brought back to this committee. The motion was seconded and approved by all Committee members present.

c. Legislative Budget Request (LBR)

1. USF LBR

Mark Walsh, Assistant Vice President, presented the 2022-23 USF Legislative Budget Request (LBR). The BOG submits the official LBR for the SUS to the Legislature. The BOG sets guidelines of what they would like the universities to request. These guidelines are based on a 3-pillar system: 1) preeminence and national rankings (for the three institutions designated preeminent, including USF); 2) the universities of distinction program (for the other nine universities); and 3) performance-based funding increase (for all 12 universities). The BOG allows each institution to make its request within those parameters. The USF LBR has been submitted (deadline was July 12), but requires BOT approval. Given the truncated timeline with the Legislature starting early, most if not all of the universities have done this same thing – submitted on time, pending BOT approval as noted on the request. This LBR is very similar to what the board approved last year. What is different is the state of Florida's economy. USF is requesting a $50M recurring increase in base funding of all of USF across all campuses to be used to achieve our top goals of becoming a top 25-ranked public university, in *U.S. News & World Report's (USN&W*R) annual rankings of national universities, and AAU eligibility. Mr. Walsh reviewed the details and specific investments of the request, which is primarily to retain current high performing faculty and to add and hire a net increase of 175 additional new faculty across all campuses and an additional 25 support staff to assist those new faculty. He also reviewed *USN&WR's* metrics for their rankings, as this is our path to the Top 25. *USN&WR* used 18 metrics to calculate their 2021 rankings and each of those 18 metric inputs are documented in the LBR. The documentation outlines USF's current performance on each metric versus the current average performance of all 36 public AAU institutions. For 10 of these 18 metric inputs, USF is already today either at, ahead of, or very completive with the average achievement level of the AAUs that are public. In the other 8 metrics, the common theme is a deficit of financial resources available to USF that are not a deficit at the AAU public institutions. For instance, the average spending per student at a public AAU institution is nearly double USF's current spending. Financial resources are where USF is behind its AAU peer institutions, making this $50M request an investment so critical to USF's ability to reach the Top 25.

Mr. Walsh again noted that although this LBR is very similar to what the board approved last year, what is markedly different is the state of Florida's economy and the capacity and ability of the Legislature to fulfill a request like this.

A motion was made to: approve the 2022-2023 updated Legislative Budget Request (LBR) for $50,020,903 per BOG Request; and authorize the President (or their designee), in consultation with the Board Chair, to make necessary adjustments to the LBR. The motion was seconded and approved by all Committee members present.

2. FIO LBR

Monty Graham, FIO Director, presented the Florida Institute of Oceanography (FIO) Academic Infrastructure Support Organization (AISO) 2022-2023 Legislative Budget Request in the amount of $2.5M recurring. This is a tag on to the FIO AISO renewal process that was presented earlier at the ACE meeting. FIO is an SUS-wide institution hosted by USF. Consistent with the BOG regulation, any legislative requests by the AISO require consideration and approval by the Board of Trustees of the host institution or its designee. The LBR fulfills the mission and goals of FIO. The purpose of this LBR plan is to accommodate an emergent and critical need for FIO research vessels, Keys Marine Laboratory (KML), and scientific equipment use support directed to the SUS (System-wide) marine science community. This is an expensive business. The research vessels have a daily operating cost of about $13K. FIO consists of four divisional structures: operations, education support, research support, and business engagement. The focus of the LBR is on operations, which ties into education, research and business engagement. In 2017, FIO had a recurring $1.3M LBR that was vetoed. This is not a replacement of the that LBR. When FIO lost these recurring funds, it then had to take funds that it could from its E&G operating to subsidize and support all the SUS members. The total operating budget for the vessels and KML is $3.5M. The burden is on FIO to raise that as revenue. FIO subsidizes as much as it can, but this is only about 24% of operating costs of vessels and KML. The other 76% has to come by working outside the FIO envelope; FIO is chasing dollars. The vessels go where the vessels can get work and often the vessels are placed in areas where we cannot meet the mission of FIO and of the SUS membership. This LBR is to try to bring this 24% up to 2/3 or 66%. That's the target to allow FIO to plan years ahead and meet academic schedules. Expected outcomes and return on investment are: stabilize vessel and KML budget to allow long-term planning and positioning to meet SUS member needs; reduce emphasis on third-party (non-FIO member) contracting that conflicts with FIO Mission to meet SUS needs; triple the access of SUS members to FIO vessels and KML; and triple the scholarly output (teaching and research) of SUS members.

A motion was made to approve the 2022-2023 Legislative Budget Request (LBR) for FIO. The motion was seconded and approved by all Committee members present.

d. Expenditure Authorization Requests

Nick Trivunovich, Vice President for Business & Finance and CFO, presented three expenditure authorization requests for approval by the Finance Committee, two are related to USF Housing operations and one is an important maintenance contract for the University.

- **JPH Chiller Replacement Project - $3,022,198**
  Chiller replacement project for Juniper and Popular Residence Halls. These residence halls were put into service in 2009. The life expectancy for these air cool chillers is 10-15 years. Still producing the correct temperatures in these chillers, but Housing is planning for a replacement before failure. In addition, we expect that efficiency will be improved. This project will be done in two phases, with the first expected to be completed in the summer 2022, pending this approval. The first phase is to relace two chillers and to provide mobile chiller connectivity; the second phase will replace a final chiller.

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

- **Magnolia Forced Air Project - $2,511,050**
  Replace current gravity fed air circulation in Magnolia Residence Halls with a forced air unit. This replacement will primarily impact the common areas in the Magnolia Residence Halls. This is as a result of an assessment by our Environmental Health & Safety area that showed a need to improve the air circulation in these areas.

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

- **USF Elevator Maintenance Contracts - $3,105,110**
  Renew USF's elevator maintenance contracts on the Tampa and St. Petersburg campuses for a period of three (3) base years with a potential for two (2) one-year renewals. Current contracts expire at the beginning of November. Currently finalizing our competitive procurement process with an assessment of who provides the best combination of price and quality of service. Once finalized, will engage final negotiations with the selected vendor.

  Chair Griffin is glad to see this item early and stressed the importance of getting these expenditure items to the Finance Committee as early as possible. Still need to continue to find ways to get some of these larger spends, particularly around critical items, to the committee early and not at the last minute, in the event that there are issues that may cause a delay. He is happy with the progress being made on this issue.

  Trustee Carrere asked what is the current cost to provide these elevator services. Interim Vice President Christopher Duffy explained that the cost is about a half million dollars per year and the current estimates that are coming in are about $10K less than we are currently paying per year.

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

e. USF Health Asset Purchase/Lease Agreement

Rich Sobieray, USF Health CFO, presented the USF Health Asset Purchase/Lease Agreement. USF Health is in the process of integrating the medical groups between Tampa General Hospital (TGH) and USF. Part of this are two assets that USF owns - the ambulatory surgery center (ASC) and the two imaging centers. Currently working to value these assets. ASC loses the Practice Plan about $3.5M a year. The solution is to integrate the ASC within the TGH ASC structure through asset purchase agreement as well as a lease. Asset purchase price is between $2.5M-$3M. Lease will be base rent at fair market value. 10-year initial term with 10-year renewal option. TGH responsible for any and all improvements or future build-out of space. The ASC is required to continue to operate for the intended purpose. Transfer date is November 1, 2021. The Imaging Centers at Morsani and South Tampa Clinic lose the Practice Plan about $500K-$700K per year. The solution is the same – integrate the Imaging Centers within the TGH/Tower Imaging structure through asset purchase agreement as well as a lease. Asset purchase price is $1.277M. Lease is base rent at fair market value. 5-year initial term with 5-year renewal option. TGH/Tower responsible for any and all improvements/upgrades or future build-out of space. The Imaging Centers are required to continue to operate for the intended purpose. Transfer date is October 1, 2021. Operating profit of the Practice Plan would go from $24M to $28M as a result of these transactions. Impact of $4M cash to bottom line (independent of federal funds).

A motion was made to authorize the USF Faculty Practice Plan (USFPP) to enter into agreements with Tampa General Hospital (TGH) to sell certain USFPP assets and to lease certain USFPP space as identified in the presentation. The motion was seconded and approved by all Committee members present.

f. Indoor Performance Facility Project Approval

Nick Setteducato, Interim Vice President and COO, presented the Indoor Performance Facility Project for approval. Phase I of Athletics Facilities Project includes the Lee Roy Selmon Athletics Center (LRS) renovation (which is complete and is in use) and the Indoor Performance Facility (IPF). The IPF will provide student athletes, coaches and staff with year-round access for team practices, workouts and other activities. An indoor facility is a mainstay of premier collegiate athletics across the US, and one that our athletics and coaches deserve. This will be an 88,600 square foot state-of-the-art facility. USF Athletics, with philanthropic support from the USF Foundation, will secure funding and pledges to cover all direct costs of designing, constructing and outfitting this facility. The expected start date of the project is September 2021 with the intent of opening in the summer of 2022. A Guaranteed Maximum Price (GMP) has been negotiated allowing this project to stay within the $22.08 million budget established.

Jay Stroman, Senior Vice President of Advancement, gave a fundraising update on Phase I. The total Phase I goal is $25.38M. This consists of $3.3M for the LRS Enhancements and $22.08M for IPF. $19.8M has been raised to date towards Phase I and $5.6M remains to be raised. The Foundation stands ready to loan against this project once all commitments are secured. Cash flowing this project will not be a problem.

Michael Kelly, Vice President of Athletics, explained the strategic importance of the IPF project. Facilities are important to program success. This facility will not only benefit football, but with be a strength and asset to our entire athletic program as well as to the University as a multi-use facility. The timing of this project is very important due to a few things that are going on right now: college football playoff (CFP) expansion discussions, conference realignment discussions, and NCAA structure review. This facility will position USF for the future and will provide opportunities. This is important for our evolution and the role Athletics plays at USF.

Chair Weatherford is very grateful to have Mr. Kelly here during these uncertain times in Collegiate Athletics. Mr. Kelly's experience and command of the changes that could happen as well as our ability to position ourselves in those changes is greatly appreciated. He further stated that we need these types of assets on campus in order to compete and recruit with the best; this facility is a great first step and there is more to do.

A motion was made to authorize the expenditure of funds in the amount of $22,080,000 for construction of an Indoor Performance Center for USF Athletics, at the scope presented, contingent upon the university securing the remaining $5,566,264 in funding required to complete the construction of the project through philanthropy, including pledges, and other non-state funds. University management will satisfy the contingency by providing documentation confirming sources for the required funds to the Interim President, Finance Committee Chair, and the Board Chair, and obtaining written approval from same. Trustee Ramil stressed that the motion is for the budget and scope that is tied to that budget. He does not want to see a reduction in scope to meet the approved budget. Mr. Setteducato confirmed and stated the GMP will be in our hands later this week and pricing will be good for 30 days. GMP will address scope as previously provided and within the budget. Gerard Solis, General Counsel, confirmed that the price is set, no change in scope. The motion was seconded and approved by all Committee members present.

IV. New Business – Information Items

a. 2021-22-Fixed Capital Outlay Budget

Mr. Trivunovich gave a preview of the USF Fixed Capital Outlay (FCO) Project budgets across all campuses of USF. The actual USF FCO budget will be presented for approval at the August 24, 2021 full Board meeting and is due to the BOG no later than October 1, 2021. This is an annual submission. The proposed project list includes all Campus locations; projected projects contingent on funds availability; and assumptions regarding awarding of state deferred maintenance pool (ARP funding subject to BOG and Governor's Office approval). E&G Carryforward funded projects will be reconciled to the E&G Carryforward Budget which will also be presented for approval on 8/24. The largest source of funds for capital projects is E&G carryforward which is the primary support for academic buildings. The preliminary budget includes 138 projects and totals $87.4M. Mr. Trivunovich presented detail for the projects $1M or greater. All projects $1M and over are still required to go through the USF expenditure policy which requires approval of the President and the BOT Finance Committee Chair for expenditures between $1M - $2M and full Finance Committee approval for expenditures over $2M. Mr. Trivunovich highlighted the ESCO project on this list. This is an energy savings contract which is a financing mechanism used to improve our infrastructure in our central utility plant, for items such as boilers, chillers, etc. The cost listed is the initial cost and we are currently working with our partner to validate the appropriate cost on this project based on additional work that has been done by our partner.

This is a critical issue for the University based on the age and condition of our utility infrastructure and will be brought back to the board for its approval.

b. Annual Finance Policy Reports

The Annual Finance Policy Report is required by the three BOT Finance Policies (Investment, Debt Management, Derivatives). The Policies were adopted in 2006, and apply to the University and the Direct Support Organizations (DSOs). The policies are regularly reviewed and amended. Fell Stubbs, University Treasurer, presented highlights of the results of the management of USF's Investment, Debt, and Derivatives Portfolios.

1) Investment

USF has 10 investment portfolios. All portfolios are governed by an investment committee. All portfolios are in compliance with the BOT Investment Policy. As of March 31, the combined portfolios reached a record total of $1.6B. Managing the University portfolio during the pandemic was challenging. USF moved swiftly and decisively to protect the portfolio. In March 2020, we made the decision to exit our equity positions and retreat to high-quality, short-duration bonds. Once the markets had clearly stabilized, we returned to equities in a disciplined manner. One of the key objectives for management of the University portfolio is achieving a positive return even when market equities are down. For example, FYs 2020, 2016, 2015, 2012, 2009 and 2008. This objective is achieved through the portfolio structure, keeping exposure to volatile equities low, and through active management of the portfolio.

2) Debt Management

USF's credit ratings were affirmed in April/May 2021 (Moody's affirmed USF's "Aa2/Stable" Rating on 5/12/21 and S&P affirmed USF's "AA/Stable" Rating on 4/29/21).

Within the debt portfolio, there are three bonds rated by Moody's and S&P – Housing, Parking, and Marshall Student Center. The largest is the USF Housing System ($191M in total outstanding bonds). Mr. Stubbs noted the well managed recovery in occupancy, maintenance of reserves and fulfillment of a $7M funding commitment by USF to the rating agencies. The USF Parking System is also expecting a recovery in revenues, parking permits, debt service coverage ratios, maintenance of reserves and fulfillment of a $1.8M funding commitment by USF to the rating agencies. The USF Marshall Student Center remains a well-managed, very strong credit at Aa3/AA.

3) Derivatives

The BOT Derivatives Policy governs all derivatives. We have had no new swaps since 2007 and we are winding down the swap portfolio. We have one swap currently outstanding for $53M. This swap is performing well and has since inception. Looking to exit the remaining swap; will terminate the swap and convert the hedged bonds to a fixed rate when the swap termination value is positive.

Chair Griffin stated that the recovery in Housing within the last 12 months is very promising. We want to get back into upper 90s occupancy levels. Keeping a close eye on this and watching where it ends up. He wants the Finance Committee to be briefed on occupancy shortly after the start of Fall classes. Mr. Stubbs noted that occupancy continues to climb and is now at 91% for fall semester. Chair Griffin said he was pleased to hear this.

c. Debt Restructuring

Mr. Stubbs stated that this item is related to the item presented by Rich Sobieray on the USF Health Asset Purchase/Lease Agreement with TGH. Mr. Stubbs explained the automatic conversion of the bonds tax-exempt interest rates to taxable rates in support of the USF/TGH affiliation agreement. The affiliation agreement with USF and TGH creating the Academic Medical Center clinically integrates operations of UMSA and TGH on October 1. The transfer of UMSA employees to TGH and the leasing of the space as described previously creates private use under IRS rules and automatically converts the tax-exempt interest rates to taxable rates on the two series of bonds that we used to finance the construction of the Morsani Center on the Tampa campus and the South Tampa Clinic on the TGH campus and the Medical Office Building on the Tampa campus. The proforma increase in annual interest expense is $358K. Management is negotiating with the two banks that hold the bonds to modify the increase in interest expense.

V. Adjournment

Having no further business, the Finance Committee meeting was adjourned at 12:35pm.