

Annual Finance Policy Reports

Board of Trustees Finance Committee
August 25, 2020

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Annual Investment Report

USF PORTFOLIOS – GOVERNANCE AND OVERSIGHT

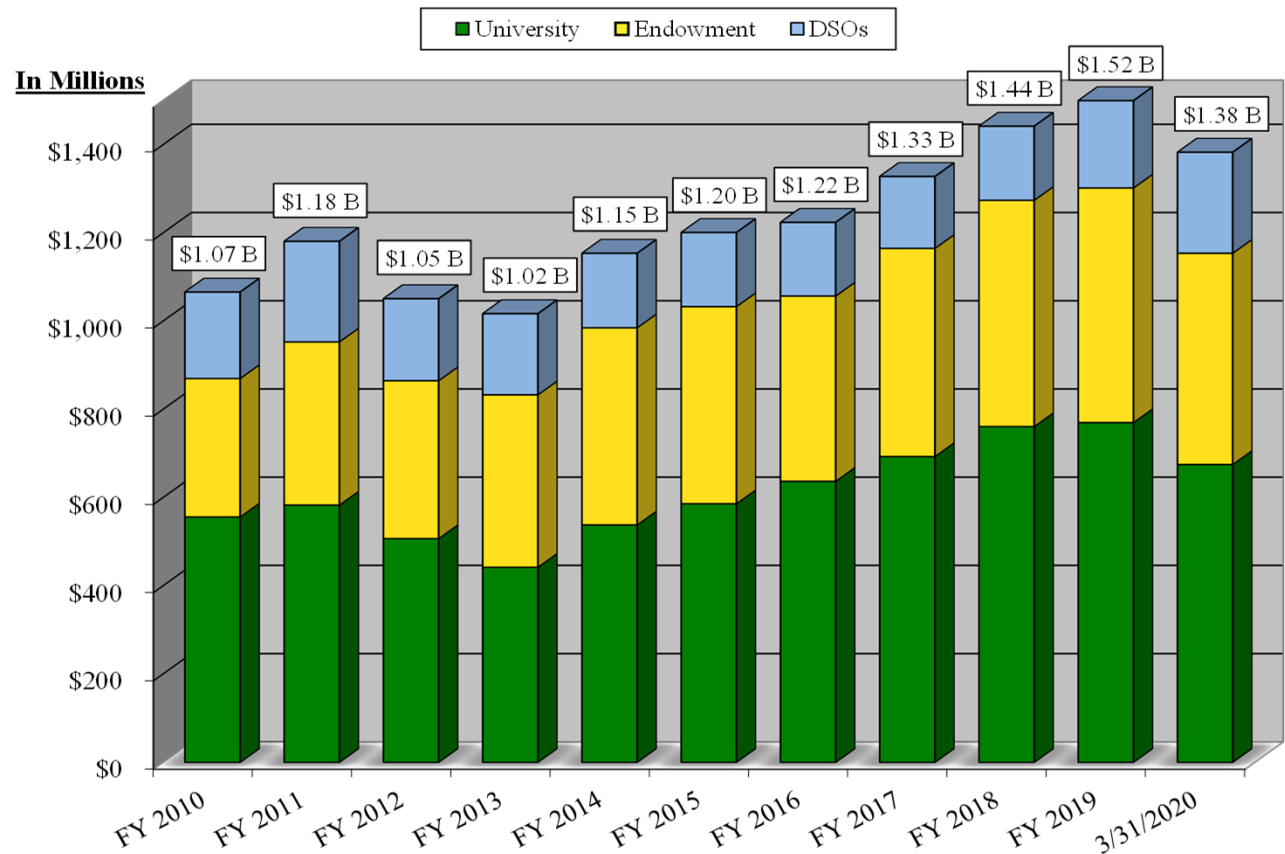
All USF Investment Portfolios Governed by the Board of Trustees Investment Policy

All USF Investment Portfolios Governed by Investment Committees

Central Oversight of All Investment Portfolios

**Combined USF Portfolios –
\$1.4 Billion, Down \$140 M
over 2019**

**All Portfolios in Compliance
with BOT Investment Policy**



**Asset Allocations
within Policy Limits**

Annual Investment Report

USF PORTFOLIOS – Balances as of 3/31/2020

(In Thousands)	Combined ¹	Endowment	Operating Funds								
ASSET CLASS	USF TOTAL INVESTMENTS	FOUNDATION	UNIVERSITY	FINANCING	FOUNDATION	UMSA/MSSC	HPCC	RESEARCH	ALUMNI	APPLIED ENGINEERING	SUNDOME
Cash and Equivalents	\$242,246		\$104,750	\$82,934	\$31,600	\$8,800	\$6,131	\$6,134	\$215	\$755	\$1,130
SHORT TERM INVESTMENTS											
S-T Corporate Bonds	\$379,128		\$323,099		\$51,150	\$700		\$4,179	\$329		
S-T Government Bonds	\$207,601		\$184,851		\$17,050	\$5,700		\$0	\$110		
TOTAL SHORT TERM INVESTMENTS	\$586,729	\$0	\$507,950	\$0	\$68,200	\$6,400	\$0	\$4,179	\$439	\$0	\$0
LONG TERM INVESTMENTS											
L-T Corporate Bonds	\$149,635	\$103,743	\$42,000		\$2,882	\$1,300		\$7,792	\$1,445		
Foreign Fixed Income											
Domestic Equities	\$171,958	\$165,209	\$0		\$4,590	\$4,000		\$11,016	\$2,301		
International Equities	\$142,889	\$120,297	\$20,000		\$3,342	\$1,600		\$7,007	\$1,675		
Real Assets	\$51,066	\$51,066			\$1,419			\$2,564	\$711		
Direct Investments	\$38,422	\$38,422			\$1,067			\$1,917	\$535		
TOTAL LONG TERM INVESTMENTS	\$553,970	\$478,737	\$62,000	\$0	\$13,300	\$6,900	\$0	\$30,296	\$6,667	\$0	\$0
TOTAL CASH and INVESTMENTS as of 3/31/2020	\$1,382,945	\$478,737	\$674,700	\$82,934	\$113,100	\$22,100	\$6,131	\$40,609	\$7,321	\$755	\$1,130

¹ FOUNDATION Operating Funds totaling \$13,300,000 invested in the ENDOWMENT Fund are eliminated in the Combined Investment balances.

RESEARCH FOUNDATION Operating Funds totaling \$23,963,000 invested in the ENDOWMENT Fund are eliminated in the Combined Investment balances.

ALUMNI ASSOCIATION Operating Funds totaling \$7,309,000 invested in the Foundation OPERATING and ENDOWMENT Funds are eliminated in the Combined Investment balances.

UNIVERSITY PORTFOLIO – PROVIDE LIQUIDITY, PRESERVE CAPITAL

University Portfolio Objectives

- Provide essential liquidity to fund operations – \$2 billion in annual expenditures
- Preserve capital – Invested state funds and reserves
- Secondary objective – Achieve positive absolute return in all market conditions

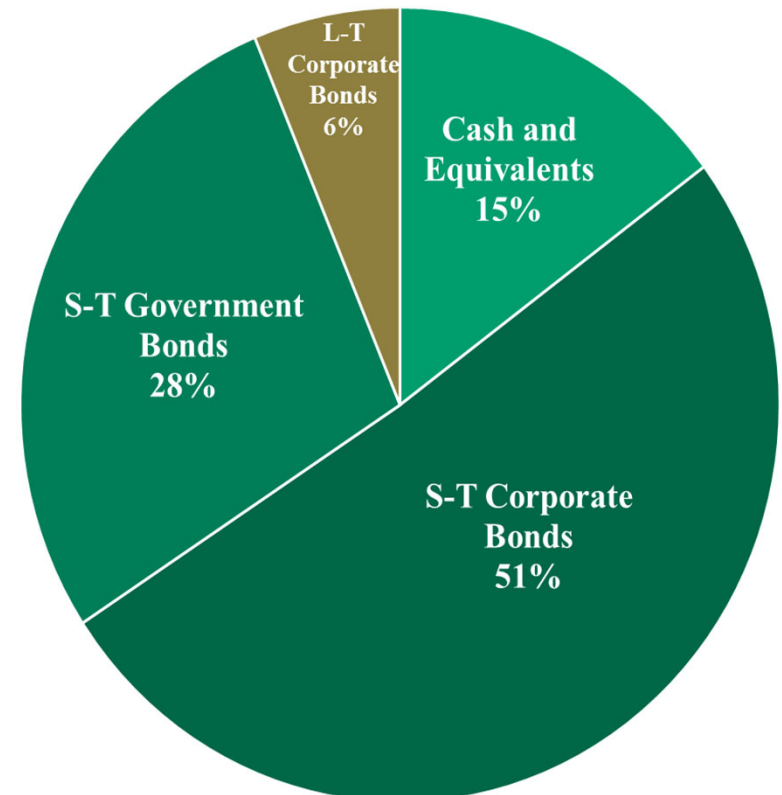
Key Liquidity Measure: USF Days Cash on Hand = 184 Days / AA Peers = 154 Days

Pandemic Effects – Still Early Stages of Impact

- Most significant event for investments and economy in decades
- GDP contracted 32.9% in Q2 – Record drop
- Fed is inflating stock and bond prices and seeding financial instability
- Record unemployment, bailouts, bankruptcies

Swift Committee / Management Action – March 2020

- Preserve assets and limit downside risk
- Exited volatile domestic and foreign equities
- Increased U.S. government and high-grade corp bonds
- Investments held in well-diversified, low cost index funds
- Cash held in U.S. Treasury collateralized accounts



UNIVERSITY PORTFOLIO – FY 2020 PERFORMANCE VS BENCHMARKS

As of June 30, 2020

Asset Class	Market Value	1-Yr Return	3-Yr Return	Since Inception
Total Assets	\$672.9 M	0.2%	2.6%	2.9%
Total Assets Benchmark		0.7%	2.8%	2.6%
Value Add		(0.5%)	(0.2%)	0.3%

Total Long-Term Pool	\$42.0 M	(8.9%)	1.9%	6.0%
Long-Term Benchmark		(11.8%)	0.8%	4.8%
Value Add		2.9%	1.1%	1.2%
Domestic Equity	\$0 M			
International Equity	\$0 M			
Emerging Markets	\$0 M			

Total Intermediate Pool	\$531.6 M	5.3%	3.7%	3.0%
Intermediate Benchmark		5.4%	3.5%	2.6%
Value Add		(0.1%)	0.2%	0.4%
Fixed Income - Government	\$188.2 M	5.5%	3.5%	2.6%
Fixed Income - Corporate	\$343.4 M	5.2%	3.8%	3.2%

Cash and Equivalents	\$99.3 M	1.2%	1.4%	0.7%
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UNIVERSITY PORTFOLIO – 10 YEAR PERFORMANCE

Conservative Portfolio Structure – From Inception in 2008

- 75% (minimum) invested in U.S government bonds, corporate bonds and cash equivalents
- 25% (maximum) invested in diversified equities
- Short duration, high quality bonds diversify volatile equity risk

Investment Returns have been Stable and Positive in Every Year, Despite Market Downturns

Reduced Exposure over Past 18 Months:

- Closed out REIT and Energy investment positions
- Terminated 1 Alternative and 3 Foreign equity managers

10-Year Risk Adjusted Returns

	<u>Return</u>	<u>Std Dev</u>	<u>Sharpe</u>
▪ USF Portfolio –	4.4%	3.5%	1.06%
▪ S&P 500 Index –	14.0%	13.4%	1.00%
▪ Barclay's Agg –	3.8%	1.4%	1.14%

12-Month Performance	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 (Preliminary)
<u>UNIVERSITY PORTFOLIO</u>										
Annual Investment Income (Loss)	\$21 M	\$10 M	\$14 M	\$27 M	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$0 M
Annualized Return - Equities	19.1%	(4.7%)	13.1%	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)
Annualized Return - Fixed Income	2.4%	2.3%	0.8%	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%	5.2%
Total Annualized Return	3.3%	1.6%	2.7%	2.1%	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%

UNIVERSITY PORTFOLIO – NEAR-TERM INITIATIVES

Focused on Priorities: Preserve Capital / Provide University Liquidity

Prepare for Increased Demands on Portfolio over Next 12-24 Months

Monitoring Cash and Portfolio

- Daily portfolio balance and cash transaction reports
- Cash flow projections updated monthly

Annually Stress Test Investment Portfolio

- Optimize risk/return relationships
- Assess ability to withstand market shocks

USF has an “Integrated Treasury Function” (Moody’s term)

- Integrating investments and debt
- Manage risks and portfolio returns / cost
- Secure positive credit ratings



Annual Debt Management Report

DEBT PORTFOLIO – GOVERNANCE, COMPLIANCE, RATINGS, COST

Prudent Governance – Board of Trustees and USF Financing Corporation

- Effective BOT Debt Management Policy and management practices
- Effective BOT and DSO boards
- Expert management team

Managing compliance with USF BOT Debt Management Policy, BOG regulations, state statutes, federal SEC / IRS laws, bond covenant requirements, continuing disclosure requirements

Maintain “AA” Moody’s / Standard & Poor’s Credit Ratings

- Requires effective governance over reserves and operations

Effective Use of USF Debt Capacity

- Only essential projects considered for debt
- Preserve dry powder

Manage Long-Term Cost of Capital and Financial/Credit Risks

- Capitalize on market opportunities to achieve low cost, low risk, long-term financing
- USF ratings provide access to capital markets on attractive terms

Recent Examples of Responsive Management:

- Conducted review of all bonds for refunding opportunities in June
- Identified 3 opportunities
- Successfully negotiated reductions in fixed rates

MOODY’S / S&P – RECENT PERSPECTIVES ON USF

Moody’s States in Credit Report (2/25/20) – Affirmed USF “Aa2/Stable” Rating

- USF’s excellent credit profile incorporates its strong market demand and ongoing prospects for modest enrollment growth as a well-run comprehensive urban university.
- The university’s strategic positioning is excellent and indicates favorable capacity to adjust to market changes over time.
- Solid fiscal oversight and the ability to manage expenses during periods of revenue pressure support our expectation of continued positive operating performance.
- Effective treasury management includes oversight of direct placement bonds with gradual reduction of demand debt exposure over the last decade.
- Spendable cash and investments to total debt of 3.4x in fiscal 2019 highlights strong coverage of debt from reserves.

S&P States in Credit Report (1/7/20) – Upgraded USF “AA/Stable” Rating

- USF’s enterprise profile and financial profile are very strong.
- Steady enrollment, large student body, and stellar demand characteristics bolstered by its comprehensive research university status.
- Experienced management team and comprehensive governing policies, reflected in management's ability to react quickly to the changing economy and operating environment.

DEBT PORTFOLIO – FY 2020 TRANSACTION

One Bond Transaction Closed in FY 2020 – \$27 Million

- \$27 M Series 2019 – Issued New USF Research Lab and Office Project Bonds
 - 20 year , taxable, 3.218% fixed rate

As of June 30, 2020

Program	Current Ratings Moody's / S&P	Public / Private	Fixed / Variable	Taxable / Tax Exempt	Interest Rate	Total Outstanding
Housing	A1 / A+	72% Public Bonds 28% Private Bonds / Loans	72% Fixed Rate 28% Variable w/ Swap	Tax Exempt	3.89%	\$198.1 M
Parking	Aa3 / AA	Public Bonds	Fixed Rate	Tax Exempt	2.20%	\$12.3 M
Marshall Center	Aa3 / AA	Public Bonds	Fixed Rate	Tax Exempt	3.43%	\$29.5 M
Health	Not Rated	Private Bonds / Loans	Fixed Rate	Tax Exempt	3.06%	\$64.3 M
Athletics	Not Rated	Private Bonds / Loans	Fixed Rate	55% Tax Exempt 45% Taxable	4.10%	\$35.1 M
Research	Not Rated	Private Bonds / Loans	Fixed Rate	Taxable	3.29%	\$45.8 M
Foundation	Not Rated	Conventional Mortgage	Fixed Rate	Tax Exempt	2.63%	\$4.3 M

TOTAL USF & DSO DEBT	53% Private Bonds / Loans 47% Public Bonds	86% Fixed Rate 14% Variable w/ Swap	84% Tax Exempt 16% Taxable	3.60%	\$389.4 M
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DEBT MANAGEMENT – STRUCTURE, TRANSACTIONS, RATINGS

Debt Structure Managed to Reduce Risk, Cost and Capitalize on Market Opportunities

Active Debt Management - \$1.8 Billion in Closed Transactions since 2005 (49 Total)

- Low cost of capital – 3.60%, down from peak of 4.28% in 2014
- NPV savings on refundings – \$30 Million

Rating Agency Recognition of USF Management

- 13 ratings upgrades in 10 years
- S&P upgraded University's rating to "AA/Stable" on January 7, 2020

P3s Operating as Expected

- \$137 M Village Housing P3 (2015) – 2,170 beds, dining, recreation
- Publix Grocery P3 (2016) – only on-campus grocery

**Debt Structured Conservatively
Capitalize on Market Opportunities.**

DEBT MANAGEMENT – DELEVERAGING / SOLID LIQUIDITY

(In Millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Moody's Aa2 Medians FY 2019
NEW DEBT	\$52			\$20					\$36	\$27	
TOTAL DEBT	\$454	\$445	\$431	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$1,115

LONG-TERM RATE	4.01%	4.00%	4.13%	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	
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POLICY MEASURES	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Moody's Aa2 Medians FY 2019
<u>OPERATIONS</u>											
Operating Cash Flow Margin (↑)	6.5%	1.1%	3.9%	10.2%	7.4%	7.3%	9.1%	7.0%	5.4%		12.0%
Operating Margin (↑)	0.3%	-6.9%	-4.7%	2.4%	0.1%	0.0%	2.0%	-0.2%	-2.3%		3.6%
<u>LIQUIDITY</u>											
Cash & Investments / Operating Exp (↑)	0.77x	0.62x	0.58x	0.65x	0.64x	0.64x	0.68x	0.67x	0.71x		0.76x
Monthly Days Cash on Hand (↑)	204 days	173 days	167 days	202 days	197 days	200 days	213 days	216 days	210 days	184 days	154 days
<u>LEVERAGE</u>											
Cash & Investments / Debt (↑)	1.7x	1.5x	1.4x	1.6x	1.8x	1.9x	2.3x	2.5x	2.6x		1.4x
Debt Service Coverage (↑)	3.3x	-0.1x	1.1x	4.0x	2.7x	4.1x	4.8x	4.0x	2.9x		2.9x
Debt Service / Operating Exp (↓)	2.0%	2.0%	2.2%	2.2%	2.2%	1.5%	1.7%	1.4%	1.8%		4.3%

DEBT MANAGEMENT – CONSTRUCTION PROJECTS / REFUNDINGS

Current Construction Projects

- USF St. Petersburg Housing Project - \$32 M, Design/Build, GMP Construction Contract
 - Delivery August 2020 / on schedule, on budget
- USF St. Petersburg Dining Center Buildout Project - \$4 M Construction Contract
 - Change in dining services operator in June
 - Delivery January 2021 / over budget by \$1.2 M
- USF Research Park Project - \$27 M, Design/Build, GMP Construction Contract
 - Delivery November 2021 / on schedule, on budget

Assessed All 19 Outstanding Bonds for Refunding Opportunities

- Identified 3 direct placement bonds: \$30 M total outstanding – average 3.5% fixed rate
- Negotiated new 2.25% rate over remaining 10 years to maturity
- Below market pricing – given current COVID impact on pledged revenues
- No new covenants, waived 1% refunding premium
- Savings exceed \$100 K annually – over \$1 M savings total for each – 6% NPV, exceeds BOG 5% Guideline for refundings

DEBT MANAGEMENT – DISCLOSURES TO MOODY’S / S&P

Filed Disclosures to Moody’s / S&P / Bondholders in May/June 2020

- Filed voluntary disclosures with rating agencies and on EMMA (SEC database)
- Filed for Housing, Parking and Marshall Student Center public bonds
- Disclosed student refunds, CARES Act funding, affected revenues, DSCR, reserves

Anticipate Filing Additional Disclosures - After Class Drop/Add (August 28)

- Fall 2020 enrollment, state support
- Housing, Parking and Marshall Student Center bonds

Rating Agency Perspectives on Higher Education – Post Pandemic

- All rating agencies have a Negative Outlook on Higher Education
- Increased downgrades since March
- CARES Act funds will not offset losses
- Most rated institutions have enough balance sheet strength to preserve ratings over near term
- Expect most states will cut appropriations
- Management’s ability to plan is critical: enrollment scenarios, expense reductions, liquidity

Rated Bond System Updates – FY 2020

USF Housing System

- \$198 M debt outstanding
- Rated “A1” (Moody’s) / “A+” (Standard & Poor’s)
- \$46 M total reserves (debt service, renewal & replacement, operating)
- Annual debt service payments = \$15.6 M (FY 2021)
- Entered FY2021 in a strong position
- Experiencing decline in occupancy (due to contract cancellations)
- Expect occupancy stabilization following Drop/Add on August 28
- Managing expenses downward
- No need to tap debt service reserves

Housing System *	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020 (est)</u>
Revenues	\$44,495,427	\$46,792,061	\$45,165,802	\$45,517,607**
Expenses	<u>\$24,680,615</u>	<u>\$27,014,570</u>	<u>\$24,615,242</u>	<u>\$22,951,317</u>
Net Revenues	\$19,814,812	\$19,777,491	\$20,550,560	\$22,566,290
Debt Service	\$13,712,695	\$13,793,953	\$13,738,224	\$13,705,650
Debt Service Coverage (net)	1.44x	1.43x	1.50x	1.65x

* Gross Housing System Revenues are pledged; net debt service coverage is shown for informational purposes

** Contingent on accounting for \$6.5 M of student housing refunds

Rated Bond System Updates – FY 2020 (Cont)

USF Parking System

- \$12 M debt outstanding
- Rated “Aa3” (Moody’s) / “AA” (Standard & Poor’s) / “AA-” (Fitch)
- \$29 M reserves (debt service, renewal & replacement, operating)
- Annual debt service payments = \$2.9 M (FY 2021)
- Entered FY2021 in a strong position
- Experiencing decline in decal/ permit revenue
- Managing expenses downward

Parking System	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020 (est)</u>
Revenues	\$13,997,214	\$14,701,120	\$15,111,494	\$12,550,438
Expenses	<u>\$7,880,349</u>	<u>\$8,525,803</u>	<u>\$8,327,075</u>	<u>\$7,475,935</u>
Net Revenues	\$6,096,865	\$6,175,317	\$6,784,419	\$5,074,503
Debt Service	\$3,057,465	\$2,936,320	\$2,936,430	\$2,940,330
Debt Service Coverage (net)	1.99x	2.10x	2.31x	1.73x

Rated Bond System Updates – FY 2020 (Cont)

USF Marshall Student Center

- \$29 M debt outstanding
- Rated “Aa3” (Moody’s) / “AA” (Standard & Poor’s)
- \$12 M reserves (debt service, renewal & replacement, operating)
- Annual debt service payments = \$2.4 M (FY 2021)
- Entered FY2021 in a strong position
- Experiencing decline in pledged revenue
- Managing expenses downward

Marshall Center	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020 (est)</u>
Revenues	\$8,219,797	\$8,468,829	\$8,408,071	\$7,677,977
Expenses	<u>\$4,857,480</u>	<u>\$4,848,866</u>	<u>\$4,716,249</u>	<u>\$4,862,336</u>
Net Revenues	\$3,362,317	\$3,619,963	\$3,691,822	\$2,815,641
Debt Service	\$2,400,395	\$2,370,445	\$2,355,845	\$2,399,645
Debt Service Coverage (net)	1.40x	1.53x	1.57x	1.17x

Annual Derivatives Report

DERIVATIVES PORTFOLIO – WINDING DOWN SWAPS

Prudent Governance – Board of Trustees and Financing Corporation

- Effective BOT Derivatives Policy and Management Practices

Manage Long-Term Cost of Capital and Risk

- Hedged Variable Rate Bonds – Provided a Lower Cost of Capital – Requires Active Management
- Matched Maturities of Bonds to Coincide with maturing Swaps
- \$223 M reduction in swaps over 12 years (80%)
- Winding Down Swap Portfolio – No New Swaps Since 2007
 - 1 Swap Currently Outstanding – \$55 M
 - Will terminate swap and convert bonds to fixed rate when termination value is positive

As of June 30, 2020

Program	Swap Counterparty	Expiration Date	USF Optional Termination Rights	Collateral Posted	Fixed Swap Rate	Total Outstanding
Housing	Royal Bank of Canada	7/1/2037	Yes	\$8.96 M	3.94%	\$55 M
TOTAL USF DSO SWAPS				\$8.96 M	3.94%	\$55 M

DERIVATIVES PORTFOLIO – 15-Year Managed Trend

USF Derivatives – \$55 Million (6/30/20)

**Plan to Exit
Remaining Swap**

