

Annual Finance Policy Reports

*Board of Trustees Finance Committee
August 10, 2021*

Presented by: Fell L. Stubbs, University Treasurer

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Annual Investment Report

COMBINED 10 INVESTMENT PORTFOLIOS

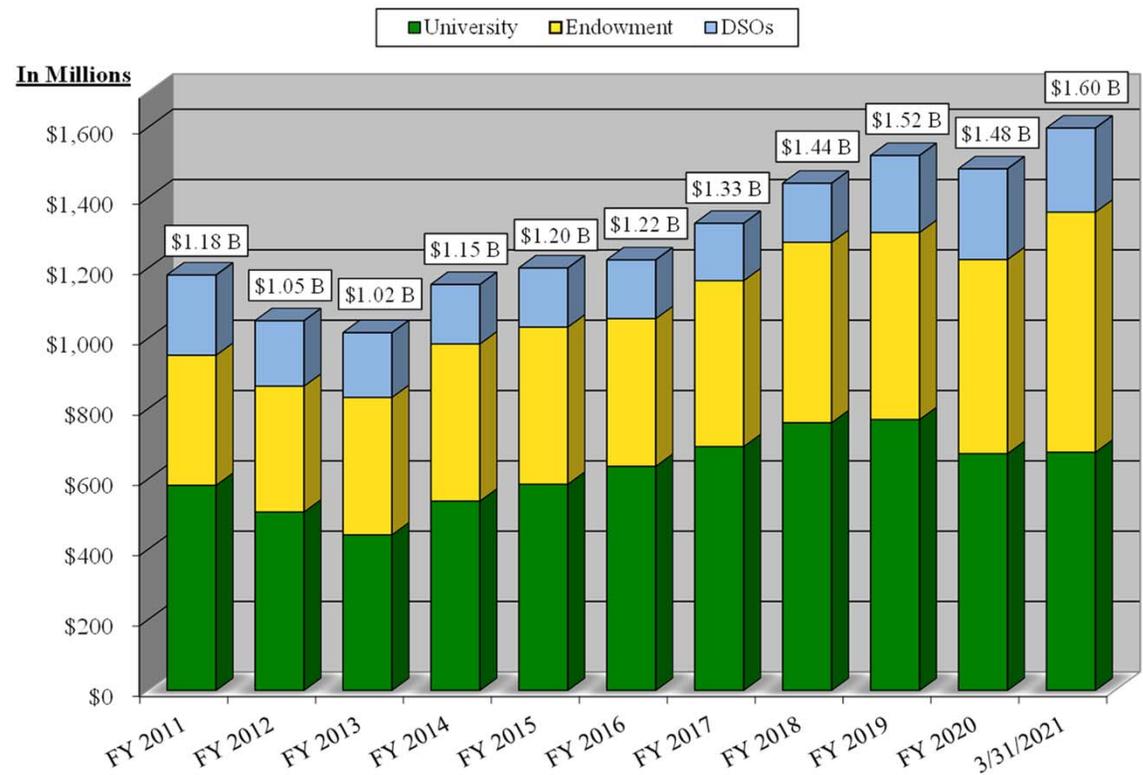
All USF Investment Portfolios Governed by the BOT Investment Policy

All USF Investment Portfolios Governed by Investment Committees

Central Oversight of All Investment Portfolios

**Record USF Wealth –
\$1.6 Billion – Steadily Growing**

- **University at \$751 Million (6/30/21),
Endowment at \$683 Million (3/31/21)
are largest of 10 portfolios**



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

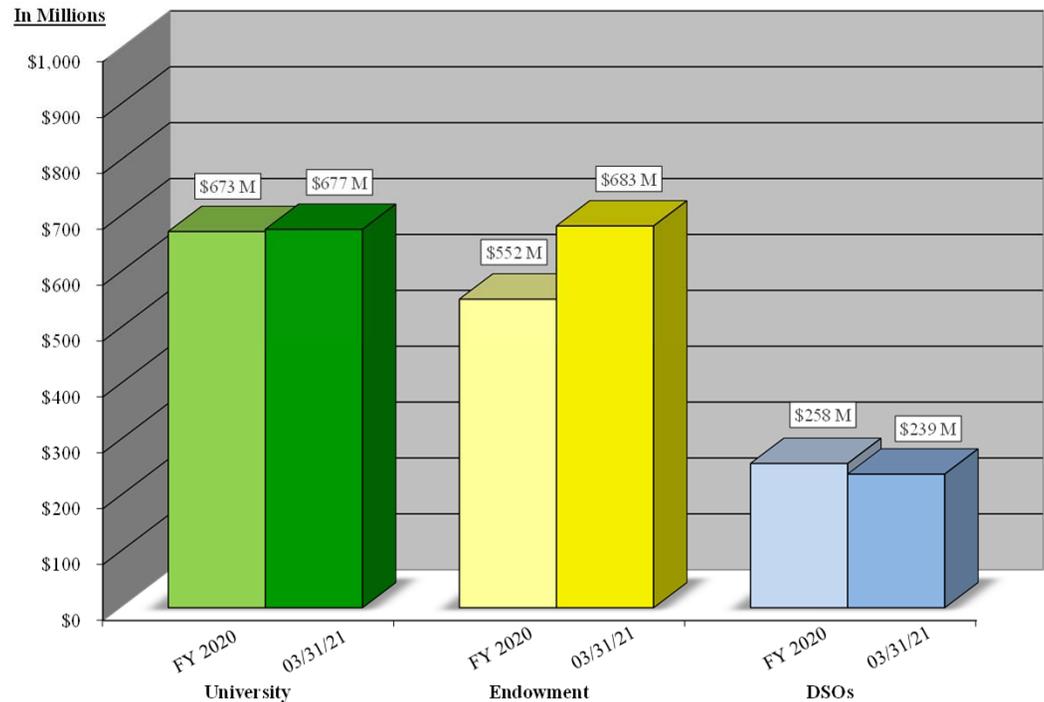
COMBINED 10 INVESTMENT PORTFOLIOS

Different Types of USF Portfolios:

- Endowment
 - Long-term investment horizon
 - Restricted
- Operating
 - Short-term investment horizon
 - Liquid
 - University and all DSOs

Barometer of Financial Health:

- Growth in portfolios reflects investment performance and net cash flows



Combined Portfolio (In Millions)	University	Endowment	8 Other DSO Portfolios	USF's 10 Investment Portfolios
System Portfolio, 3/31/21	\$677	\$683	\$239	\$1,599
System Portfolio, 6/30/20	\$673	\$552	\$258	\$1,483
Change in System Portfolio	\$4	\$131	(\$19)	\$116

UNIVERSITY INVESTMENT PORTFOLIO

**University Portfolio Provides
Liquidity, Preserves Capital**

University Portfolio Objectives

- Provide Essential Liquidity to Fund Operations – \$2 billion in annual payroll and expenditures
- Preserve Capital – Investing State Funds and Reserves
- Achieve Positive Annual Return in All Market Conditions

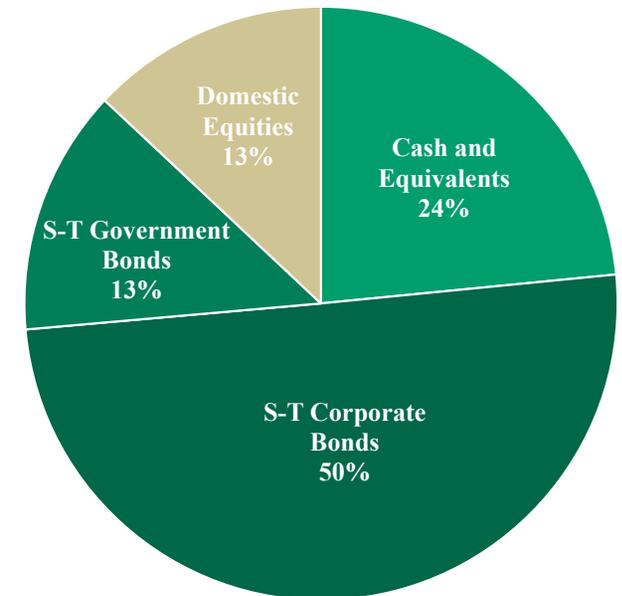
USF Liquidity Measure: Days Cash on Hand = 191 Days / Moody’s AA Peers = 163 Days

University Portfolio Structure – Balance Risk and Return

- Target Balance: 75% – Short-Term, High Quality Bonds and Cash
- Target Balance: 25% – Diversified, Domestic and Foreign Equities
- Core Fund Managers – Bond and Equity Index Funds

University Portfolio Balance – 12 Month Change

- 6/30/21 – \$751 M
- 6/30/20 – \$673 M
- Change – \$ 78 M



As of June 30, 2021

UNIVERSITY PORTFOLIO

**Decisions Reduce
Investment Risk**

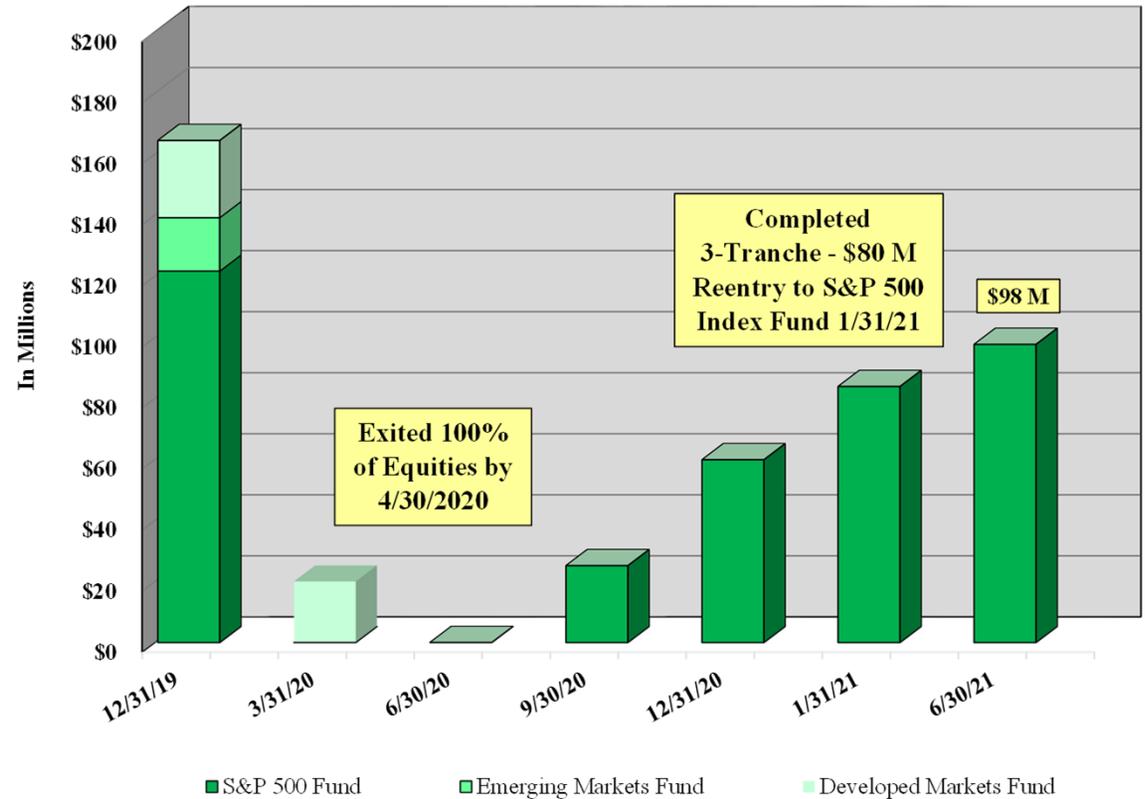
Decision to Exit All Equities – March 2020

- Facing Unprecedented Economic and Market Risk
- Placed Equity Sale Proceeds in Bonds and Cash (Safe Haven)

Decision to Return to Equities

- Return to Stable Markets
- Reestablished Equity Positions in 3 Tranches:
 - \$25 M – September 2020
 - \$30 M – November 2020
 - \$25 M – January 2021

**PORTFOLIO EQUITY: DE-RISKED EARLY IN PANDEMIC;
COMPLETED DOMESTIC EQUITY REENTRY BY 1/31/2021**



UNIVERSITY PORTFOLIO – 10-YEAR PERFORMANCE

**Investment Returns – Stable
and Positive in Every Year,
Despite Market Downturns**

**Actively Manage Portfolio to Achieve
Stated Objectives**

**USF 10-Year Risk-Adjusted Returns
Exceed S&P 500 and Barclays Agg**

	<u>Return</u>	<u>Std Dev</u>	<u>Sharpe</u>
▪ USF Portfolio –	4.2%	3.2%	1.10%
▪ S&P 500 Index –	14.8%	13.6%	1.00%
▪ Barclay’s Agg –	3.4%	3.0%	0.90%

UNIVERSITY PORTFOLIO

12-Month Performance	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Annual Investment Income (Loss)	\$10 M	\$14 M	\$27 M	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$4 M	\$27 M

Annualized Return - Equities	(4.7%)	13.1%	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)	17.1%
Annualized Return - Fixed Income	2.3%	0.8%	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%	5.3%	1.4%
Total Annualized Return	1.6%	2.7%	2.1%	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%	4.0%



Annual Debt Management Report

USF DEBT PORTFOLIO

**Governance, Compliance,
Ratings and Cost**

Prudent Governance: Board of Trustees and USF Financing Corporation

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

**Compliance with BOT Debt Management Policy, BOG Regulations, State Statutes,
Federal SEC / IRS Laws, Bond Covenant Requirements, Continuing Disclosure
Requirements – Avoid Default**

Effective Use of USF Debt Capacity

Manage Long-Term Cost of Capital, Covenant and Credit Risks

USF Finance Systems

As of June 30, 2021

Outstanding Debt (In Millions)	Housing	Parking	Marshall Center	Health	Athletics	Research	Foundation	Total / Weighted
Total Outstanding Debt per System	\$191.1	\$9.7	\$28.3	\$61.1	\$32.2	\$43.9	\$3.9	\$370.2
Weighted Average Interest Rate	3.92%	2.20%	3.43%	3.06%	4.11%	3.29%	2.63%	3.62%
Moody's / S&P Rating	A1 / A+	Aa3 / AA	Aa3 / AA	NR	NR	NR	NR	Aa2 / AA (University)

NR = Not Rated

MOODY’S / S&P – RATINGS REPORTS ON USF

**Credit Ratings Affirmed in
April / May 2021**

Moody’s Affirmed USF “Aa2/Stable” Rating (5/12/21)

- Market Profile: Excellent strategic positioning
- Operating Performance: USF will continue to demonstrate solid fiscal oversight. However, performance has weakened over the past several years.
- USF’s excellent credit profile incorporates its strong market demand and ongoing prospects for modest enrollment growth as a well-run comprehensive urban university.
- Growth of USF Health and strengthening of Tampa General Hospital’s (Baa1/Stable) role as USF’s academic medical center through a revamped operational structure present upside opportunities over the medium term.
- Monthly days cash on hand of 190 days in fiscal 2020 is strong and above similarly rated peers.
- Effective treasury management includes oversight of direct placement bonds with gradual reduction of demand debt exposure over the last decade.

S&P Affirmed USF “AA/Stable” Rating (4/29/21)

- USF’s enterprise profile and financial profile are very strong.
- Management is quite capable, has a great deal of experience, and has satisfactory policies and practices relative to peers.
- USF has debt and derivative policies and continues to manage its complex debt and derivatives portfolios successfully.

USF DEBT PORTFOLIO

FY 2021 Transactions

Project Financing – Completed / Current

- **\$36 Million, 375-bed USF St. Petersburg Housing & Dining Project**
 - Funded with \$30.5 M public bonds and \$5.5 M equity
 - Design-Construction Team: HC Beck
 - Housing completed July 2020; On time and on budget
 - Dining completed January 2021; Over budget by \$1.2 M

- **\$42 Million, 120,000 square-foot USF Research Laboratory and Office Building Project**
 - Funded with \$27 M private bank loan and \$15 M equity
 - Construction Manager / Architect-Engineer Team: Skanska / Gensler
 - Project under construction; On time and slightly below budget
 - Expected completion date of January 2022



Debt Restructuring – Completed

- **\$30 Million Loan Refundings – Series 2018A&B Athletics and Series 2018 CAMLS**
 - Refunded outstanding loans to take advantage of low market interest rates – August 2020
 - \$1.6 M NPV savings over the term of the note – 6% NPV, exceeds BOG 5% requirement
 - No new covenants; No change to final maturity dates of 2031

USF DEBT PORTFOLIO

FY 2022 Transactions

Project Financing – Anticipated

- **Central Plant Guaranteed Energy Performance Savings Contract**
 - \$11 - \$12 M Project Cost
 - Replace hot water system, chiller, and upgrade operation and control system
 - BOT approved obtaining an Investment Grade Audit (6/2/20)
 - Siemens guarantees savings to amortize financing within 20 years

Debt Restructuring – Current

- **\$45 Million Bond Conversions – Series 2013A&B Health – Tax-Exempt to Taxable Rate**
 - Bonds originally financed Morsani Clinic, South Tampa Clinic, Medical Office Building
 - USF and TGH Affiliation Agreement, effective 10/1/21, clinically integrates operations
 - Transaction results in private business use under IRS rules
 - Tax-exempt bonds automatically convert to taxable debt, pursuant to bond agreements
 - \$358k proforma increase in debt service (FY 2022)
 - Management is negotiating with banks holding the bonds to limit rate increase

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

DEBT MANAGEMENT

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 – 3.62%, 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
- Moody's and S&P affirmed University's "Aa2/Stable" and "AA/Stable" ratings in spring 2021

P3s Operating as Expected

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

**Deleveraging Over Time /
Restructuring to Lower Rates**

DEBT MANAGEMENT

(In Millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Moody's Aa2 Medians FY 2020
NEW DEBT			\$20					\$36	\$27		
TOTAL DEBT	\$445	\$431	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$370	\$1,204
LONG-TERM RATE	4.00%	4.13%	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	3.62%	

POLICY MEASURES

(In Millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Moody's Aa2 Medians FY 2020
<u>OPERATIONS</u>											
Operating Cash Flow Margin (↑)	1.1%	3.9%	10.2%	7.4%	7.3%	9.1%	7.0%	5.4%	-0.6%		11.0%
Operating Margin (↑)	-6.9%	-4.7%	2.4%	0.1%	0.0%	2.0%	-0.2%	-2.3%	-9.6%		3.0%
<u>LIQUIDITY</u>											
Cash & Investments / Operating Exp (↑)	0.62x	0.58x	0.65x	0.64x	0.64x	0.68x	0.67x	0.71x	0.65x		0.75x
Monthly Days Cash on Hand (↑)	173 days	167 days	202 days	197 days	200 days	213 days	216 days	210 days	180 days	191 days	163 days
<u>LEVERAGE</u>											
Cash & Investments / Debt (↑)	1.5x	1.4x	1.6x	1.8x	1.9x	2.3x	2.5x	2.6x	2.5x		1.4x
Debt Service Coverage (↑)	-0.1x	1.1x	4.0x	2.7x	4.1x	4.8x	4.0x	2.9x	-0.3x		3.5x
Debt Service / Operating Exp (↓)	2.0%	2.2%	2.2%	2.2%	1.5%	1.7%	1.4%	1.8%	1.6%		4.3%

Rated Bond System Updates – USF Housing System

\$191M USF Housing System (A1/A+)

- Annual debt service payments = \$15.5 M (FY 2022)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- During call with Rating Agencies, USF committed to support the Housing System
 - \$9.2 M in FY 2020, \$5.9 M in FY 2021, additional \$7 M expected in FY 2022
- Expenses managed downward in FY 2020 and FY 2021; Continued expense management in FY 2022
- Tampa Occupancy: 84% Fall 2021 54% Fall 2020
- St. Pete Occupancy: 82% Fall 2021 34% Fall 2020
- \$5 M increase in reserves: \$51 M FY 2021 \$46 M FY 2020

Housing System *	FY 2018	FY 2019	FY 2020 **	FY 2021 ** (estimated)	FY 2022 ** (budget)
Occupancy (Fall)	101%	94%	98%	51%	84%
Revenues	\$46,792,061	\$45,165,802	\$45,167,526	\$34,189,762	\$49,626,912
Expenses	<u>\$27,014,570</u>	<u>\$24,615,242</u>	<u>\$23,136,072</u>	<u>\$15,310,678</u>	<u>\$22,233,169</u>
Net Revenues	\$19,777,491	\$20,550,560	\$22,031,454	\$18,879,084	\$27,393,743
Debt Service	\$13,793,953	\$13,738,224	\$13,712,753	\$15,616,882	\$15,588,401
Debt Service Coverage Ratio (net)	1.43x	1.50x	1.61x	1.21x	1.76x

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

** Federal funding (CARES Act, CRRSA Act, grants) provided the Housing System with revenues of \$9.2 M in FY 2020 and \$5.9 M in FY 2021, included in the figures above.
Federal funding (CARES Act, CRRSA Act) is expected to provide the Housing System with additional revenues of \$7 million in FY 2022, included in the figures above.

Rated Bond System Updates – USF Parking System

\$10 M USF Parking System (Aa3/AA/AA-)

- Annual debt service payments = \$2.9 M (FY 2022)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- During call with Rating Agencies, USF committed to support the Parking System
 - \$1.8 M in Federal funding from CARES/CRRSA Act expected in FY 2022
- Revenues declined in FY 2020 and FY 2021 due to pandemic; expected return to pre-pandemic levels in FY 2022
- Expenses managed downward in FY 2021; Increased expenses in FY 2022 for special projects
- Reserves remain strong despite use of \$3 M to support operations in FY 2021
 - \$26 M in reserves (FY 2021) / \$29 M (FY 2020)
- Parking permit sales 42,670 (FY19-20); 21,429 (FY 20-21); 38,000 (FY 21-22)

Parking System	FY 2018	FY 2019	FY 2020	FY 2021 (estimated)	FY 2022 * (budget)
Revenues	\$14,701,120	\$15,111,494	\$13,065,735	\$9,029,899	\$14,240,524
Expenses	<u>\$8,525,803</u>	<u>\$8,327,075</u>	<u>\$8,571,495</u>	<u>\$7,916,704</u>	<u>\$8,961,543</u>
Net Revenues	\$6,175,317	\$6,784,419	\$4,494,240	\$1,113,195	\$5,278,981
Debt Service	\$2,936,320	\$2,936,430	\$2,940,330	\$2,937,910	\$2,929,280
Debt Service Coverage Ratio (net)	2.10x	2.31x	1.53x	0.38x	1.80x

* Federal funding (CARES Act, CRRSA Act) is expected to provide the Parking System with additional revenues of \$1.8 million in FY 2022, included in the figures above.

Rated Bond System Updates – USF Marshall Student Center

\$28 M USF Marshall Student Center (Aa3/AA)

- Annual debt service payments = \$2.4 M (FY 2022)

**Credit Ratings Affirmed in
April / May 2021**

Recovery from Pandemic; Maintenance of Reserves

- Revenues declined in FY 2020 and FY 2021 due to pandemic; expected return to pre-pandemic levels in FY 2022
- Expenses managed downward in FY 2020 and FY 2021; continued expense management in FY 2022
- Reserves remain strong despite use of \$3 M to support operations in FY 2021
 - \$15 M in reserves (FY 2021) / \$12 M (FY 2020)

Marshall Center	FY 2018	FY 2019	FY 2020	FY 2021 (estimated)	FY 2022 (budget)
Revenues	\$8,468,829	\$8,408,071	\$7,372,480	\$7,277,616	\$8,550,987
Expenses	<u>\$4,848,866</u>	<u>\$4,716,249</u>	<u>\$4,524,180</u>	<u>\$3,634,617</u>	<u>\$4,834,224</u>
Net Revenues	\$3,619,963	\$3,691,822	\$2,848,300	\$3,642,999	\$3,716,763
Debt Service	\$2,370,445	\$2,355,845	\$2,420,245	\$2,399,895	\$2,399,645
Debt Service Coverage Ratio (net)	1.53x	1.57x	1.18x	1.52x	1.55x

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

- Hedged Variable Rate Bonds – Provided a Lower Cost of Capital – Requires Active Management
- Matched Maturities of Bonds to Coincide with Maturing Pay-Fixed Interest Rate Swaps
- \$225 M Reduction in Swaps over 13 Years – Capitalized on Maturing Swaps to Refund Bonds
- Winding Down Swap Portfolio – No New Swaps Since 2007
 - 1 Swap Currently Outstanding – \$53 M
 - Will terminate swap and convert bonds to fixed rate when termination value is positive

As of June 30, 2021

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	\$3.96 M	3.94%	\$53 M
TOTAL USF DSO SWAPS				\$3.96 M	3.94%	\$53 M

DERIVATIVES PORTFOLIO

16-Year Managed Trend

USF Derivatives – \$53 Million (6/30/21)

