

Annual Finance Policy Reports

*Board of Trustees Finance Committee
August 20, 2024*

Presented by: Dawn M. Rodriguez, Acting University Treasurer

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Annual Investment Report

COMBINED 10 USF INVESTMENT PORTFOLIOS

All USF Investment Portfolios Governed by the BOT Investment Policy

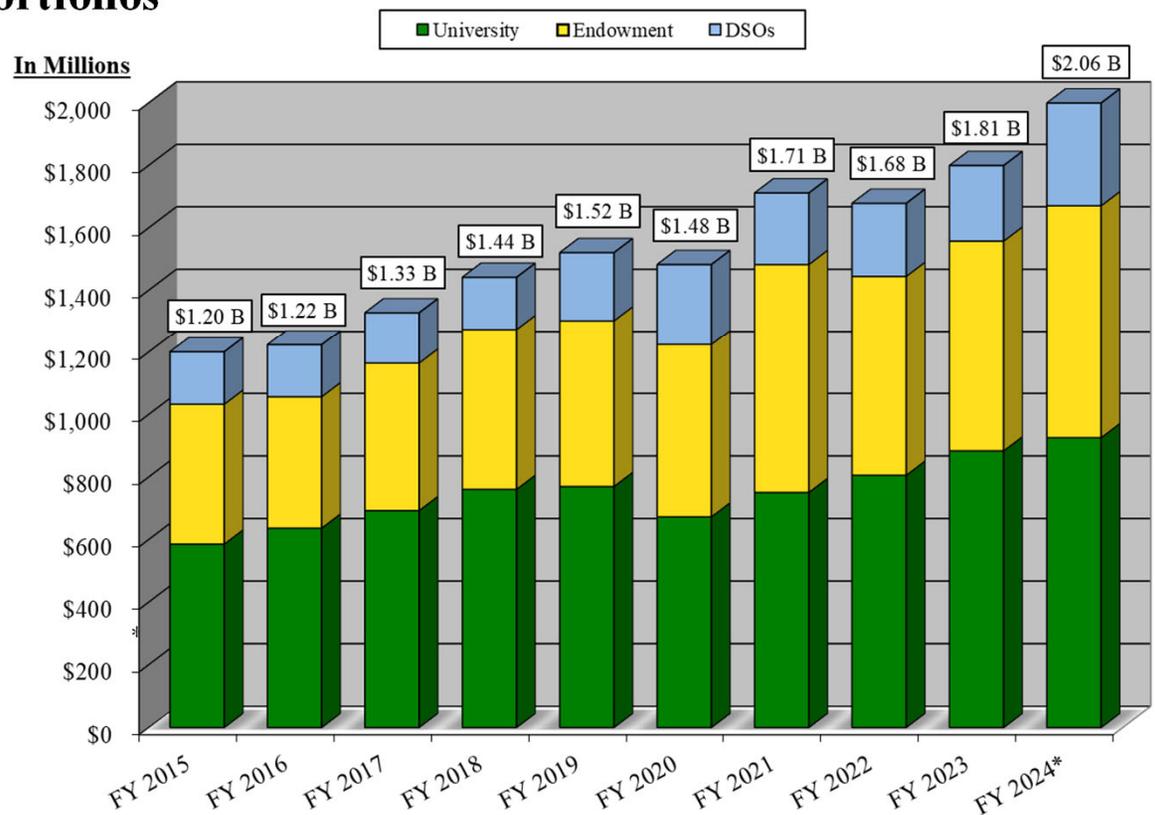
All USF Investment Portfolios Governed by Investment Committees

Central Oversight of All Investment Portfolios

**Record USF Wealth –
\$2.1 Billion – Steadily Growing**

The 2 Largest Portfolios:

- **University at \$926 Million (6/30/24)**
- **Endowment at \$745 Million (3/31/24)**



All Portfolios in Compliance with BOT Investment Policy

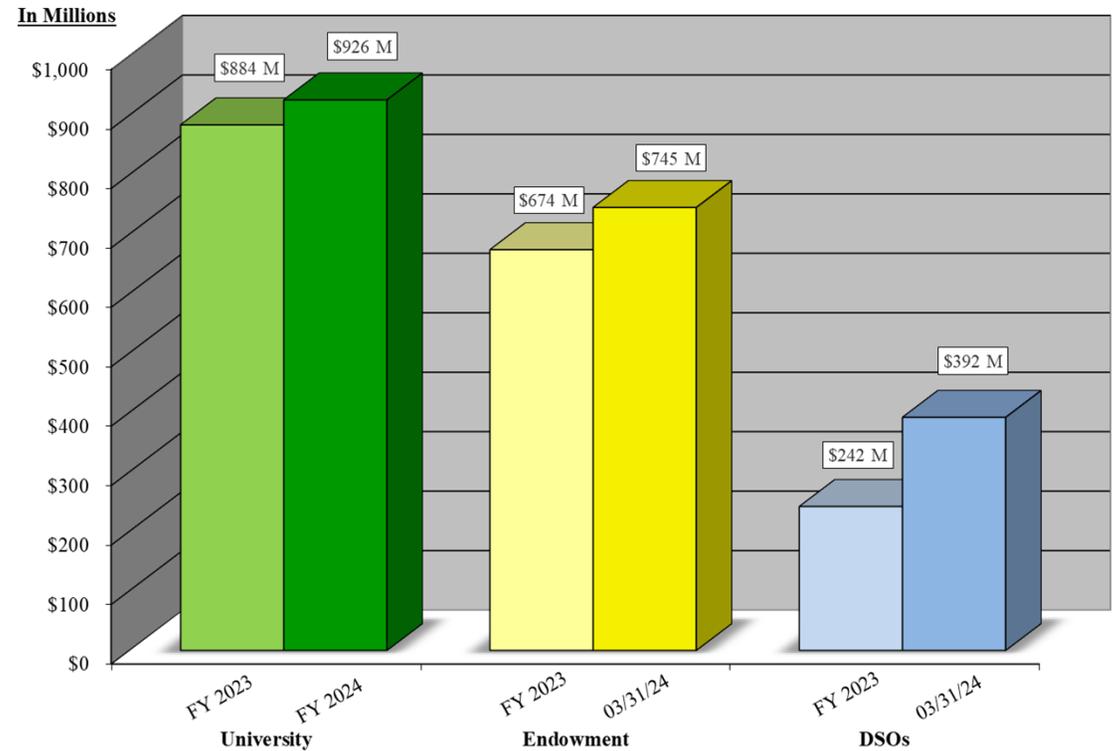
COMBINED 10 USF INVESTMENT PORTFOLIOS

2 Types of USF Portfolios:

- 1 Endowment – USF Foundation
 - Long-term investment horizon
 - Restricted
- 9 Operating Portfolios – USF and DSOs
 - Short-term investment horizon
 - Liquid

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
Combined Portfolio, 6/30/24*	\$926	\$745	\$392	\$2,063
Combined Portfolio, 6/30/23	\$884	\$674	\$242	\$1,800
Change in Combined Portfolio	\$42	\$71	\$150	\$263

* Endowment and DSO balances are as of 3/31/24, FY 2024 balances not yet available

UNIVERSITY INVESTMENT PORTFOLIO

**University Portfolio Preserves
Capital, Provides Liquidity**

University Portfolio Objectives

- Preserve Capital – Investing State Funds and Reserves
- Provide Essential Liquidity to Fund Operations – \$2 billion in annual payroll and expenditures
- Achieve Positive Annual Return in All Market Conditions
 - Returns are secondary to safety and liquidity (required in F.S. 218.415)
- Invest in Low Risk, Passive/Indexed Investments
- Invest in Broad Markets with Bias to U.S.

USF Liquidity Measure: Days Cash on Hand = 229 Days / Moody’s AA Peers = 189 Days

University Portfolio Structure – Balance Risk and Return

- Target Balance: 75% – Short-Term, High-Quality Bonds and Cash
- Target Balance: 25% – Domestic and Foreign Equities

University Portfolio Balance – 12 Month Change

- 6/30/24 – \$926 M
- 6/30/23 – \$884 M
- Change – \$ 42 M

Portfolio Expense Ratio Management – Enhance Long-Term Returns

- Keep investment portfolio expense ratios low – Buy institutional share classes (min. investment +\$100M)
- Current portfolio weighted average expense ratio = 5 basis points

UNIVERSITY INVESTMENT PORTFOLIO

Conviction Regarding Portfolio Structure

- Right asset allocation – Protect against downside risks
- Right investment managers and funds – Diversified, low cost

Portfolio Designed to Preserve Capital and Minimize Risk

- Portfolio generated positive returns in 94% of past 16 fiscal years

Portfolio is Generating Cash

- 12 Month Interest/Dividends = \$31.2 M

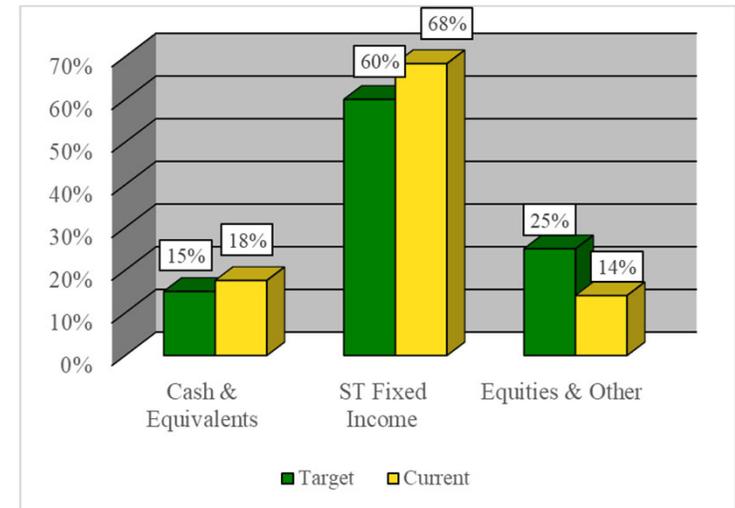
Bond Fund Yields Now Providing an Effective Hedge to Downside Equity Risk

- Yield to Maturity June 2024
 - Vanguard ST Govt Bonds 4.80%
 - Vanguard ST Corp Bonds 5.40%

Current Portfolio Strategy

- Limit buy / sell transactions
- Investing positive cash flows

Portfolio Expected to Meet Objectives



Asset Allocation	Target	Current	\$
Cash & Equivalents	15%	18%	\$162.7
ST Fixed Income	60%	68%	\$633.1
Equities & Other	<u>25%</u>	<u>14%</u>	<u>\$130.0</u>
TOTAL	100%	100%	\$925.8

UNIVERSITY PORTFOLIO – 10-YEAR PERFORMANCE

FY 2024 was a Recovery Year from FY 2022

- FY 2022 – Simultaneous losses for both equities and bonds
 - Not occurred in 2 decades – since 1999
- FY 2024 – Consider 7.9% return extraordinary
 - Strongest annual return in portfolio’s history
- FY 2025 – Returns likely to stabilize with decline in interest rates and pressure on equities

Capitalized on Market Opportunities – Locked in High Rates with Longer Duration

- Added \$100M in Cash from MMF to S-T Corporate Bonds
- Invested \$200M in Stadium Loan Proceeds in 1-3 Year Treasuries

USF Returns Vs. Benchmark

	<u>1 Year</u>	<u>5 Year</u>	<u>From Inception</u>
▪ USF Portfolio	7.9%	2.1%	2.8%
▪ Benchmark	7.8%	2.5%	2.9%

USF 10-Year Risk-Adjusted Returns Vs. S&P 500 and Barclays Agg

(as of 3/31/24)

	<u>Return</u>	<u>Std Dev</u>	<u>Sharpe</u>
▪ USF Portfolio –	3.3%	3.3%	0.6%
▪ S&P 500 Index –	13.0%	15.2%	0.8%
▪ Barclay’s Agg –	1.5%	4.8%	0.1%

UNIVERSITY ANNUAL PORTFOLIO PERFORMANCE

12-Month Performance	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Annual Investment Income (Loss)	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$4 M	\$27 M	(\$45 M)	\$29 M	\$64 M

Annualized Return - Equities	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)	17.1%	(10.6%)	19.5%	24.5%
Annualized Return - Fixed Income	0.9%	2.4%	0.9%	0.0%	5.8%	5.3%	1.4%	(4.3%)	2.0%	5.6%
Total Annualized Return	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%	4.0%	(5.2%)	3.8%	7.9%



Annual Debt Management Report

USF DEBT PORTFOLIO

FY 2024 Debt Portfolio

All USF and DSO Debt Governed by BOT Debt Management Policy

Prudent Governance: Board of Trustees and USF Financing Corporation

Central Oversight of USF and DSO Debt

As of June 30, 2024

USF Finance Systems	Moody's / S&P Rating	Public / Private	Fixed / Variable	Taxable / Tax Exempt	Weighted Ave. Interest Rate	Outstanding Debt (In millions)
Housing	A1 / A+	76% Public Bonds 24% Private Bonds / Loans	76% Fixed Rate 24% Variable w/ Swap	Tax Exempt	4.13%	\$195.7
Parking	Aa3 / AA	Public Bonds	Fixed Rate	Tax Exempt	2.20%	\$2.3
Marshall Center	Aa3 / AA	Public Bonds	Fixed Rate	Tax Exempt	3.43%	\$24.2
Energy Savings	Not Rated	Private Bonds / Loans	Fixed Rate	Tax Exempt	3.05%	\$28.2
Health	Not Rated	Private Bonds / Loans	Fixed Rate	19% Tax Exempt 81% Taxable	3.44%	\$50.6
Athletics	Not Rated	Private Bonds / Loans	Fixed Rate	5% Tax Exempt 95% Taxable	6.17%	\$223.7
Research	Not Rated	Private Bonds / Loans	Fixed Rate	Taxable	3.27%	\$37.7
Foundation	Not Rated	Conventional Mortgage	Fixed Rate	Tax Exempt	2.63%	\$2.7
TOTAL USF & DSO DEBT		31% Public (\$176M) 69% Private (\$389M)	92% Fixed Rate (\$519M) 8% Variable w/ Swap (\$46M)	49% Tax Exempt (\$274M) 51% Taxable (\$291M)	4.72%	\$565.1

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

DEBT MANAGEMENT

Debt Management Objectives

- Protect “AA” credit ratings with Moody’s and Standard & Poor’s
- Preserve debt capacity – Provide essential access to credit markets
- Structure debt to reduce risk, cost and capitalize on market opportunities
- Manage long-term cost of capital
- Manage compliance – BOT Debt Management Policy, BOG Regulations, State Statutes, Federal SEC / IRS laws, bond covenant requirements, continuing disclosure requirements

Active Debt Management - \$2.2 Billion in Closed Transactions Since 2005 (56 Total)

- Developed 2.3 million square feet of new capital projects
- Achieved low cost of capital – 4.72% (blend of taxable and tax-exempt bonds)
- Restructured bonds to produce NPV savings – Realized \$30 Million and negotiate favorable covenants
- Tracking a refinancing opportunity on the Stadium bonds to lower rates

P3s Operating as Expected

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

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

**Credit Ratings Affirmed in
Nov/Dec 2023**

Moody’s Affirmed USF “Aa2/Stable” Rating (Dec. 2023)

- Well positioned urban research university – Affordable pricing, steady demand
- Growing wealth and improving operations – Retained earnings, investment returns and philanthropy
- Strong and growing State support – \$77M recurring operational increase
- Manageable financial leverage – Including new Stadium debt
- Growing reserves – 227 days cash on hand above similarly rated peers (210 peers)
- Effective treasury management – Material reduction in demand debt exposure

S&P Affirmed USF “AA/Stable” Rating (Nov. 2023)

- Extremely strong enterprise profile – Steady enrollment, stellar demand characteristics
- Solid financial resources – Improving net position, growing research and fundraising
- Consistent State support – Maintain one of the nation’s lowest in-state tuition rates
- Moderate debt service burden – Including new Stadium debt
- Capable management team – Highly experienced, comprehensive governing policies

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 fall 2023

Presentations to Moody’s & S&P Expected in Fall 2024 – Annual Surveillance Reviews

Why Ratings Matter

- Ratings are based on assessment of University leadership, financial performance and strategic planning AND confidence key performance measures will continue to increase.
- Ratings directly affect access to capital markets on favorable terms.

FY 2024 Transactions

USF DEBT PORTFOLIO

Project Financing

- **\$340 Million USF Stadium Project**
 - Funded with \$200 M 20yr, fixed rate, taxable loan and \$140 M equity
 - Construction Manager / Architect-Engineer Team: Manhattan Construction Company / Populous
 - Groundbreaking: October 2024
 - Anticipated completion: July 2027



USF DEBT PORTFOLIO

Future Transactions

Project Financing – Anticipated

- **2,100-Bed Argos Redevelopment Project**
 - Replace 912 beds built in the 1960s with approximately 2,100 new beds (net 1,200 beds)
 - Phased approach to maintain occupancy levels and provide a continuous revenue stream.
 - Assessments underway to determine costs, financial feasibility, impact on Housing “A+” credit ratings, and University debt capacity.
 - Currently assessing financing structure and timeline for the Project.

- **Remarketing of the \$43M Series 2012B Certificates**
 - Variable rate Series 2012B Certificates currently held by Wells Fargo Bank
 - Wells Fargo exercised its option to put the Certificates to the Financing Corporation on October 1, 2024
 - JPMorgan Chase proposed terms deemed to be favorable by the Financing Corporation:
 - 13-year term – to final maturity on 7/1/2037
 - 0.83% spread – compared to 1.05% spread for a 7-year term (competitive proposal)
 - Option to convert to fixed rate and terminate interest rate swap when market is attractive

**Funding Key Capital Projects /
Maintaining Appropriate Leverage**

DEBT MANAGEMENT

(In Millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Moody's Aa2 Medians FY 2023
NEW DEBT	\$20					\$36	\$27			\$75	\$200	
TOTAL DEBT	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$370	\$349	\$386	\$565	\$1,123
LONG-TERM RATE	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	3.62%	3.66%	3.73%	4.72%	

POLICY MEASURES

(In Millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Moody's Aa2 Medians FY 2023
<u>OPERATIONS</u>												
Operating Cash Flow Margin (↑)	10.2%	7.4%	7.3%	9.1%	7.0%	8.5%	7.9%	11.4%	13.5%	9.8%		11.9%
Operating Margin (↑)	2.4%	0.1%	0.0%	2.0%	-0.2%	2.4%	1.6%	4.9%	7.0%	3.5%		3.6%
<u>LIQUIDITY</u>												
Cash & Investments / Operating Exp (↑)	0.65x	0.64x	0.64x	0.89x	0.92x	0.94x	0.94x	1.16x	1.04x	1.02x		0.87x
Monthly Days Cash on Hand (↑)	202 days	197 days	200 days	213 days	216 days	214 days	189 days	220 days	225 days	229 days		189 days
<u>LEVERAGE</u>												
Cash & Investments / Debt (↑)	1.6x	1.8x	1.9x	2.3x	3.2x	3.3x	3.3x	4.1x	4.0x	4.1x		1.9x
Debt Service Coverage (↑)	4.0x	2.7x	4.1x	4.8x	4.0x	3.9x	3.8x	5.3x	6.4x	4.2x		3.3x
Debt Service / Operating Exp (↓)	2.2%	2.2%	1.5%	1.8%	1.5%	1.9%	1.8%	1.9%	2.3%	2.4%		4.0%

Rated Bond System Updates – USF Housing System

\$196M USF Housing System (A1/A+)

- Annual debt service payments = \$17.1 M (FY 2025)

Sound, Highly Rated System; Key Initiative to Create Debt Capacity

Strong Occupancy; Maintenance of Debt Service Coverage Ratios; Maintenance of Reserves

- Strong occupancy levels and waiting lists indicate continued strong demand
- Debt service coverage ratios decline slightly in FY 2025 (1.43x), with added \$2 M annual debt service (USFSM)
- Continued growth in reserves:
 - \$63 M (FY 2022) / \$66 M (FY 2023)
 - \$71 M in FY 2024, notwithstanding significant investments in Housing facilities

Housing System *	FY 2020 **	FY 2021 **	FY 2022 **	FY 2023	FY 2024 (estimate)	FY 2025 (budget)
Occupancy (Fall)	98%	51%	88%	97%	99%	+95%
Revenues	\$45,167,526	\$34,365,132	\$55,933,376	\$50,441,118	\$52,711,452	\$56,562,411
Expenses	\$23,136,072	\$15,770,196	\$18,528,952	\$26,002,942	\$27,172,746	\$31,148,698
Net Revenues	\$22,031,454	\$18,594,936	\$37,404,424	\$24,438,176	\$25,538,706	\$25,413,713
Debt Service	\$13,712,753	\$15,622,388	\$15,593,199	\$15,573,263	\$15,816,455	\$17,781,657
Debt Service Coverage Ratio (net)	1.61x	1.19x	2.40x	1.57x	1.61x	1.43x

* 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 \$6.4 M in FY 2020, \$5.9 M in FY 2021, and \$9.0 M in FY 2022, included in the figures above.

Rated Bond System Updates – USF Parking System

\$2 M USF Parking System (Aa3/AA/AA-)

- Annual debt service payments = \$1.1 M (FY 2025)

**Highly Rated System with
Strong Reserves**

Continued Pressure on Revenues; Maintenance of Debt Service Coverage Ratios; Maintenance of Reserves

- Revenues remain flat, while expenses continue to grow
- Reduction in Debt Service due to amortization of the Series 2016A bonds, mature on July 1, 2026
- Reserves remain strong, despite significant investments in facilities, and \$8 M contribution to Stadium Project:
 - \$28 M (FY 2022) / \$29 M (FY 2023)
 - \$18 M in FY 2024

Parking System	FY 2020	FY 2021	FY 2022 *	FY 2023	FY 2024 (estimate)	FY 2025 (budget)
Revenues	\$13,065,735	\$9,216,410	\$13,516,547	\$13,118,706	\$12,946,930	\$13,102,955
Expenses	<u>\$8,571,495</u>	<u>\$7,885,906</u>	<u>\$7,336,091</u>	<u>\$8,240,210</u>	<u>\$9,822,028</u>	<u>\$8,919,750</u>
Net Revenues	\$4,494,240	\$1,330,504	\$6,180,456	\$4,878,496	\$3,124,902	\$4,183,205
Debt Service	\$2,940,330	\$2,937,910	\$2,929,280	\$2,934,550	\$2,043,390	\$1,185,490
Debt Service Coverage Ratio (net)	1.53x	0.45x	2.11x	1.66x	1.53x	3.53x

* Federal funding (CARES Act, CRRSA Act) provided 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

\$24 M USF Marshall Student Center (Aa3/AA)

- Annual debt service payments = \$2.4 M (FY 2025)

**Sound, Highly Rated System
with Growing Reserves**

Strong Revenues; Maintenance of Debt Service Coverage Ratios; Maintenance of Reserves

- Revenues continue to grow at a steady pace
- Expenses managed downward during the pandemic; Returning to pre-pandemic levels
- Continued growth in reserves:
 - \$14 M (FY 2022) / \$16 M (FY 2023)
 - \$16 M in FY 2024

Marshall Student Center	FY 2020	FY 2021	FY 2022 *	FY 2023	FY 2024 (estimate)	FY 2025 (budget)
Revenues	\$7,372,480	\$7,278,282	\$8,637,592	\$8,451,062	\$8,948,543	\$8,536,547
Expenses	<u>\$4,524,180</u>	<u>\$3,699,018</u>	<u>\$4,221,320</u>	<u>\$4,803,039</u>	<u>\$5,683,337</u>	<u>\$5,194,142</u>
Net Revenues	\$2,848,300	\$3,579,264	\$4,416,272	\$3,648,023	\$3,265,206	\$3,342,405
Debt Service	\$2,420,245	\$2,395,895	\$2,399,645	\$2,397,645	\$2,395,395	\$2,393,145
Debt Service Coverage Ratio (net)	1.18x	1.49x	1.84x	1.52x	1.36x	1.40x

* Federal funding (CARES Act, CRRSA Act) provided the Marshall Student Center with additional revenues of \$0.8 million in FY 2022, included in the figures above.

Annual Derivatives Report

DERIVATIVES PORTFOLIO

Winding Down Swaps

Prudent Governance – Board of Trustees and Financing Corporation

- Effective BOT Derivatives Policy and Management Practices

Swap Portfolio Objectives

- 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
- \$232 M Reduction in Swaps over 16 Years – Capitalized on Maturing Swaps to Refund Bonds
- Winding Down Swap Portfolio – No New Swaps Since 2007
 - 1 Swap Currently Outstanding – \$46 M (Termination Value as of June 30 – \$2 M)
- Variable Rate Bonds Series 2012B Include Option to Convert to Fixed Rate – Will Exercise Option When Swap Termination Value is Attractive

As of June 30, 2024

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	\$0 M	3.94%	\$46 M
TOTAL USF DSO SWAPS				\$0 M	3.94%	\$46 M

DERIVATIVES PORTFOLIO

19-Year Managed Trend / Unwinding Swaps

USF Derivatives – \$46 Million (6/30/24)

