USF Board of Trustees
Finance Committee
NOTES
Tuesday, February 18, 2020
Tampa Campus – Marshall Student Center Room # 3707

I. Call to Order and Comments

The meeting of the Finance Committee was called to order by Chair Jordan Zimmerman at 1:08pm. The following committee members were present: Jordan Zimmerman, Mike Carrere, John Ramil, Charlie Tokarz, and Alan Bomstein. A quorum was established. President Currall and Trustees Sandra Callahan, Stephanie Goforth, Deanna Michael, Byron Shinn and Nancy Watkins were also present.

Chair Zimmerman reported that the Housing item that was discussed during the briefings has been pulled from the agenda. We are gathering additional information as requested by gubernatorial staff. The item will come back to the Finance Committee at a later date.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of November 20, 2019 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Zimmerman requested a motion for approval, it was seconded and the November 20th meeting notes were unanimously approved as submitted by all committee members present**.**

b. Expenditure Authorizations

1. Policy Change

Nick Trivunovich, Vice President for Business & Finance and CFO, requested approval of a proposed exemption to the expenditure authorization policy. The expenditure authorization exemption requested at the last meeting has been revised. The initial request used the term “pass-thru” which was not accurate per accounting language. The wording of the expenditure authorization exemption has been changed and approval is requested for exemption for expenditures for which the University collects funds for a specific purpose and then remits them to an appropriate party. Types of expenditures that fall under this exemption include the following: a) expenditures where the University collects funds from the end user of a service or commodity then remits those funds to a third party at a later date (these funds may fluctuate - for example, the University collects payments for books at the bookstore and then remits the payments to Follett); b) expenditures required by State or Federal law, such as employee payroll taxes (this also includes payments for premiums to the State of Florida for employee benefits); c) pre-negotiated amount of funds collected based on a contractual commitment and remitted to the contracting party (an example of this would be the collection of meal plan payments made by students which is then sent to our contracted Food Service provider). These are all expenditures with limited risk.

2. Expenditure Authorization Requests

   Mr. Trivunovich presented two expenditure authorization requests for approval by the Finance Committee.

   - Oracle Database, PeopleSoft, and GEMS Maintenance Renewal - $5,308,251

     This is a 3-year renewal of maintenance and support on our Oracle software which supports our enterprise business systems. This is a negotiated price. Currently 15,000 faculty and staff use this software.

   - USF ESPN+ Equipment and Broadcast Studio Upgrades - $3,243,100

     This is a facility renovation and broadcast studio equipment required by our contract with ESPN. The equipment is the most significant portion of this expenditure. Athletics has engaged a consultant (also did this for FSU) to advise on equipment and layout. Chair Zimmerman asked if we are working with the conference to consolidate one buy. Michael Kelly, Vice President of Athletics, responded yes, some equipment has been purchased through the conference. Athletics will receive approximately $2.0M from ESPN and the conference for these upgrades; auxiliary funds will be used for the remaining $1.2M. Trustee Tokarz asked if there is any increase in revenue associated with this. Mr. Kelly responded yes, our conference distributions will increase. (Conference distributions are currently $2M; they will increase to $5M and then to $8M.)

3. Fixed Capital Budget Outlay Change

   Mr. Trivunovich requested approval to amend the Fixed Capital Outlay Budget by adding one additional project. Project to be added is USF ESPN+ Equipment and Broadcast Studio Upgrades in the amount of $3,243,100.

A motion was made to approve all items (1-3) in IIIb as presented. The motion was seconded and approved by all committee members present.

IV. New Business – Information Items

a. USF 2019 Audited Financial Statements

Jennifer Condon, University Controller, gave a brief review of the USF 2019 Audited Financial Statements. The financial statements and associated audit report were released by the State of Florida Auditor General on December 13, 2019. USF received another unqualified or clean opinion. The basic financial statements include two columns; one for

USF and one for the discretely presented component units. There were no audit adjustments in USF's columns, which were presented at our November meeting. There were minor audit adjustments to the discretely presented component unit column primarily due to the aggressive timing of USF's submission to our auditors (i.e. represented differences from the draft to final DSO statements). The statements and footnotes include consistent presentation to that of prior years, with one notable addition being two more SACS required schedules in the "Consolidation Footnote" (#24) (Consolidating Statement of Current Unrestricted Funds Net Position and Consolidated Statement of Current Unrestricted Funds Revenues, Expenses, and Changes in Net Position).

Chair Zimmerman reported that at the last BOG meeting, Crowe LLP, who had been engaged by the BOG to perform an Internal Management and Accounting Control and Business Process Review at all 12 universities, gave its final report. USF was the only university that had no recommendations (Crowe found opportunities to strengthen controls at 11 of the 12 universities; there were no observations for USF).

b. College of Pharmacy Project Status Update

Dean Kevin Sneed gave an update on the USF Health Taneja College of Pharmacy (TCOP) renovation project. Dean Sneed gave a brief history of TCOP, reviewed its mission, vision and values, and reported its impressive performance to date. TCOP is approved to accept up to 400 students (100 per year) in the Doctor of Pharmacy degree program. TCOP has achieved national recognition, rankings, and professional stature in less than 10 years. TCOP has recently received a very generous donation from the Taneja Family Foundation and has entered the planning phase of a project to renovate 1.5 floors of the Morsani College of Medicine in downtown Tampa to house the program. The project will enhance the student experience; facilitate interprofessional training and experiences; allow joint teaching and better curricular design; create parity with other Florida pharmacy schools (7 programs in Florida – 4 private and 3 public); enable the development of a futuristic workforce; and provide the ability to leverage the MCOM location/asset. The cost to build out the 1.5 floors is still to be determined. A/E fees to schematic design will cost less than $1M and sufficient funds are available to fund this phase. No action needed by the BOT at this time. This project will not move beyond the schematic design phase without BOT approval.

c. USFSP Housing & Dining Project – Revised Costs

Fell Stubbs, University Treasurer, presented an estimation of the revised costs for the USF St. Petersburg Housing & Dining Project. The Financing Corporation (USFFC) has a $30.7M design/build contract, with GMP, with HC Beck to construct the USFSP Student Housing Facility and an unimproved dining center shell. Beck's scope of work for the housing facility and dining shell is consistent with USF's requirements in the project RFP. USFSP has a contract with Sodexo to renovate the existing student dining facility on campus and equip the new dining center for $2.9M. In the contract, Sodexo is responsible for cost overruns. To complete the new dining center, it has been determined that another $1.5M is needed. It was expected that negotiations with Sodexo would produce solutions to fund the gap and finish the dining center. Sodexo recently provided three options to fund the $1.5M: 1) increase student meal plan rates; 2) USFSP payment of an annual fee to Sodexo for the additional cost of capital; and/or 3) renegotiation of commission rates downward. These options were not acceptable to USF. We are looking at other alternatives. One alternative is Tampa's dining auxiliary temporarily advancing $1.5M to the USFSP dining auxiliary to fund the cost to improve the dining center shell. This advance by the Tampa dining auxiliary will be repaid over time by the USFSP dining auxiliary with dining commissions or other allowable funds. USFFC will contract with Beck to complete the space versus Sodexo entering into that agreement. Since the cost of finishing the facility was not included in the $30.7 GMP, the contract with Beck must be increased by $1.5M. Beck has agreed to waive their fees and general conditions in the contract for the dining center improvements. The University believes funding the dining center improvements using dining auxiliary cash reserves is in its best interest in order to keep USFSP student meal plan costs affordable, preserve USFSP's opportunity to realize dining commissions, and benefit from cost and schedule controls with Beck performing the work.

Much discussion ensued on the issue. Chair Zimmerman asked what caused the overrun. Mr. Stubbs responded that we needed to improve the dining center from a "cold, dark shell to a warm white box." The shell as is does not have electrical, plumbing, or HVAC. Chair Zimmerman asked why this wasn't included in the original scope; he further stated that if the contract called for Sodexo to absorb cost overruns, they should absorb this. Alan Bomstein commented that this would not necessarily be a responsibility of Sodexo. Chair Zimmerman asked if this is Beck's responsibility. Mr. Stubbs explained that we were likely not specific enough in our RFP and Beck interpreted this differently. Trustee Shinn stated that we need to be sure that our defined scope is complete on projects. Chair Zimmerman stated that this is disappointing; we need to be specific with these bids and not have to come back with increased costs. Trustee Ramil asked if we have strong case with our written documents to get these costs covered. David Lechner, Sr. Vice President for Business and Financial Strategy, reported that the word "shell" was in our documents and per the Chair's instructions, we are negotiating with Beck and Sodexo to cover costs. Negotiations look promising and we will report back to the Committee. Mr. Bomstein explained that a design/build contract is an open-ended scope, but our partners should have pointed out the gap earlier.

d. DSO Mid-Year Forecasts

Mr. Stubbs introduced the agenda item. Each year, the DSOs prepare a Mid-Year Forecast – this Forecast is for FY 2020. These reports include a comparison of the Forecast to the FY 2020 Financial Plans approved by the BOT Finance Committee at its May 14, 2019 meeting, as well as actual results for FY 2019, FY 2018, and FY 2017. The DSOs have forecasted net operating profit, net change in cash, and provided explanations for major variances from Plan and provided management's actions to correct unfavorable variances. As requested by the Finance Committee last year, only the three largest DSOs will present their Mid-Year Forecasts today. The remaining DSOs have provided their Mid-Year Forecasts and have management present to answer any questions. The Mid-Year Forecasts represent management's performance expectations, relative to the BOT-approved plan, and actions to mitigate risks in achieving the plan.

1. University Medical Services Assoc., Inc. & USF Medical Services Support Corp.

Rich Sobieray presented the mid-year forecasts for UMSA and MSSC combined. The Practice Plan finds itself under pressure to cover more and more academic costs due to resource restraints on the academic side, so the Practice Plan has not been able to recruit faculty as expected in the Plan. Net patient service revenue will miss Plan by $7.4M as a result of three (3) important issues: 1) current faculty not achieving productivity expectations; 2) new faculty not ramping up their practices as quickly as assumed; and 3) delay in new faculty hires. Volumes are lower than expected in this budget year as well.

The Dean’s fund also runs through the Practice Plan to support the Dean’s initiatives, including contributing $7M to the downtown building (this comes from cash reserves). Operating margins are not as expected, but managing accounts receivable improved the cash position. Cash will miss target by $6.2M primarily because of: 1) the $7M contribution to MCOM and HI downtown impacting the net profit of the practice plan; 2) $4.4M in receivables improvement as result of collecting TGH payments and FICA refund from prior year; and 3) shift from FASB to GASB and its impact on the noncash EPIC costs ($1.1M).

Trustee Ramil asked what the plan was for moving ahead. Mr. Sobieray explained that the focus for the remainder of the fiscal year will be faculty productivity. If productivity gaps can't be resolved, further reductions may be made to the bonus pool at year-end. Some adjustments have already been made to the year-end bonus pool as a result of changing productivity expectations. Accountability cushions are built on performance. The key to our future plans is our relationship/partnership with Tampa General Hospital. We will be working on receiving more timely payments from TGH for the various support agreements. Also, performance has improved from a patient perspective. Demand is high; but we are getting squeezed on space. Need to take full advantage of the space we have before adding bricks and mortar. Trustees Ramil and Shinn commended the Practice Plan on improvements in patient service and patient billing.

2. USF Foundation, Inc.

Noreen Segrest and Rob Fischman presented the mid-year forecast for USF Foundation, Inc. The main variance on the income statement is the decrease in other transfers due to the timing of a significant transfer for the construction of the USF Health downtown expansion project that was included in the 2020 financial plan; however, the transfer was made just prior to the close of fiscal year 2019. All other forecasted results do not vary significantly from the financial plan. Mr. Fischman reminded the Committee that the gap between the public numbers for fundraising and the numbers on the financials is due to estate gifts which are only recognized on our financials when received. Rate of return on investments was 6.9% thru December – this leads all Florida schools.

3. USF Research Foundation, Inc.

Paul Sanberg and Patty Gamble presented the mid-year forecast for the USF Research Foundation, Inc. Projecting Operating Revenue to track favorably to Financial Plan, with no significant unfavorable variances anticipated at this time. In addition, it is expected that Operating Expenses will track favorably to the Financial Plan as well, with the exception of the following: an unfavorable variance in Research Park operating expenses attributed to non-cash amortization of the Capital Lease Obligation associated with the May 2019 acquisition of the University Diagnostic Institute building (UDI), located within the USF Research Park; an unfavorable variance in contractual services expense that is attributed to unplanned costs for a project manager to assist with the IT conversion that is presently underway at the USF Research Foundation, legal costs associated with Research Park Development; and an unfavorable variance in expense of $82,000 related to vacancies associated with leasing and sub-leasing the University Business Center (UBC). UBC is about two-thirds occupied due to most partners wanting to be on the other side of Fowler Ave. Projecting Net Income to track favorably with plan and projecting Cash Flow to be consistent with plan as well. Should meet targets and goals.

Chair Zimmerman asked if there was anything of note to report from the other DSOs. Mr. Stubbs reported on behalf of Financing Corporation that USF received 3 credit rating upgrades from Standard & Poor's: USF's issuer credit rating is now AA up from AA-; USF Marshall Center bonds are now AA; and USF Parking bonds are now rated AA. Dean Robert Bishop reported that the Institute for Applied Engineering has been awarded an $85M, five-year contract with U.S. Special Operations Command (USSOCOM).

V. Adjournment

Having no further business, Chair Zimmerman adjourned the Finance Committee meeting at 2:30pm.