



Annual Finance Policy Reports

*Board of Trustees Finance Committee
August 17, 2017*

(Revised November 2017)

USF SYSTEM INVESTMENT PORTFOLIO – 10 USF and DSO Portfolios

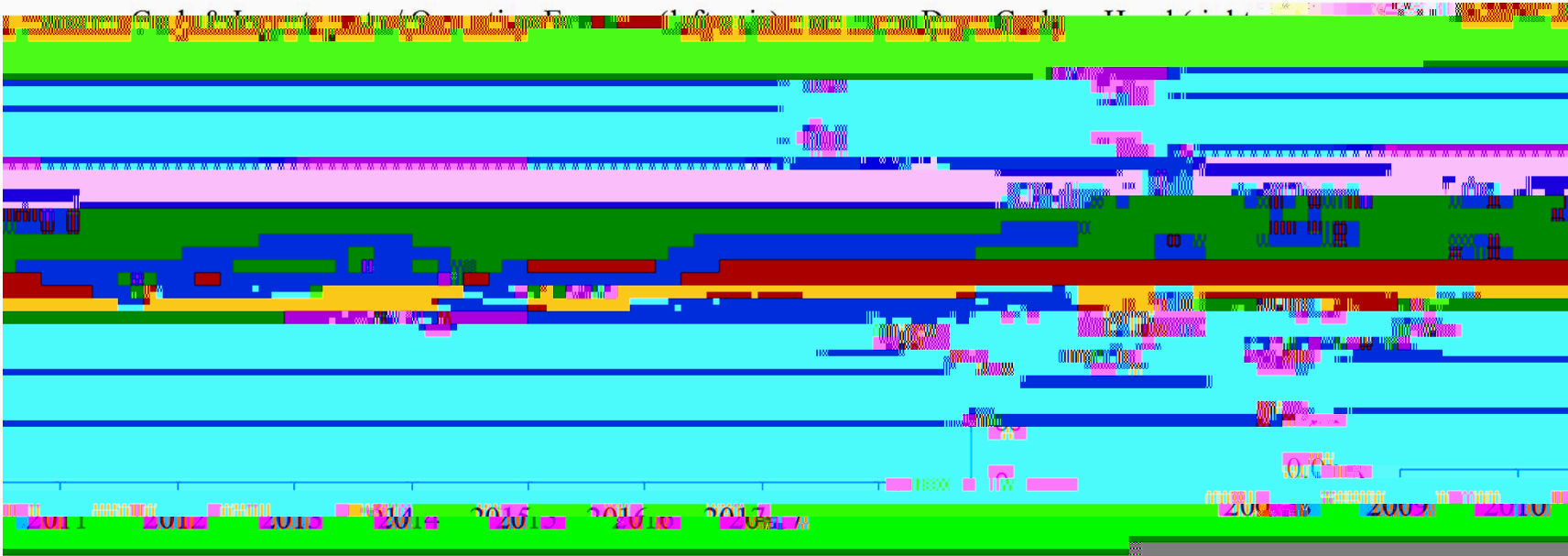
- x System Investment Portfolio has kept pace with growth of the USF System



UNIVERSITY OPERATING PORTFOLIO – CORE STRATEGIES

- x Goals:
 - o Maintain Liquidity (different than the Endowment)
 - o Avoid Investment Losses (preserve capital)
 - o Support Annual Cash Expenditures – \$1.5 Billion (52% payroll)

- x Portfolio liquidity supports USF operations – Measures in line with Aa2 Peers



USF Operating Portfolio	\$483 M	\$487 M	\$556 M	\$583 M	\$507 M	\$442 M	\$538 M	\$586 M	\$637 M	\$693 M
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UNIVERSITY INVESTMENT PERFORMANCE – Recent Results

- x University investment returns have been stable and positive each year over the past 10 years, despite market volatility.

- x University Investment Performance:
 - o 1e each

DEBT MANAGEMENT – Core Strategies

1. Manage debt to achieve low cost, low risk, long-term financing
2. Maintain USF's strong "AA" credit ratings – with stable outlooks
3. Maintain access to capital markets – public and private – at attractive terms
4. Maintain strong balance sheet – Credit strength
5. Provide quality underwriting of new debt – Monitor outstanding debt
6. Capitalize on market opportunities
 - o 5 transactions completed in FY 2015 and 2016 – \$188 M of housing, Marshall Center and health bonds refunded (\$18.2 M NPV savings)
 - o 2 transactions completed in FY 2017 – \$41 M of parking and research bonds refunded (\$4.0 M NPV savings)
 - o 2 transactions planned in FY 2018 – \$81 M of housing and health bonds
7. Experienced central management
 - o Manage long-term relationships – Rating agencies, investment bankers, commercial bankers
 - o Manage credit risks and terms
 - o

USF SYSTEM DEBT – STRUCTURE – 10-YEAR CHANGE

<u>Rating - USF and DSO Issuers</u>	<u>Amount</u>	<u>Rating</u>	<u>Amount</u>	<u>Rating</u>
• University System	N/A	Aa2 / AA-	N/A	NR
• Financing Corporation - Marshall Center	\$ 34 M	Aa3 / AA-	\$ 42 M	A2 / A
• Financing Corporation - Housing	\$186 M	A1 / A+	\$140 M	A2 / A
• Financing Corporation - Health	\$ 73 M	NR	\$ 47 M	NR
• Financing Corporation - Athletics	\$ 25 M	NR	\$ 12 M	NR
• Financing Corporation - Arena	\$ 18 M	NR	N/A	NR
• Research Foundation	\$ 21 M	NR	\$ 45 M	NR
• BOG / DBF (Parking)	<u>\$ 20 M</u>	Aa3 / AA- / AA-	<u>\$ 44 M</u>	A1 / AA- / A+
Total	\$377 M		\$330 M	
<u>Long-Term Rate</u>	3.64%		4.07%	
<u>Mix - Public / Private Placements</u>				
• Public Bonds	\$178 M	(47%		

USF POLICY PERFORMANCE MEASURES – 10 Year Trend

x Outstanding debt has been managed downward, while funding strategic projects.

(In Millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Moody's Aa2 Medians FY 2016
NEW DEBT	\$96		\$10	\$52			\$20				
TOTAL DEBT	\$446	\$445	\$415	\$454	\$445	\$431	\$435	\$421	\$413	\$377	\$836
LONG-TERM RATE	3.94%	3.93%	3.96%	4.01%	4.00%	4.13%	4.28%	3.99%	3.91%	3.64%	
POLICY MEASURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Moody's Aa2 Medians FY 2016
<u>OPERATIONS</u>											
Operating Cash Flow Margin (1/2)	8.8%	11.3%	7.1%	6.5%	1.1%	3.9%	10.2%	7.4%	7.3%	9.1%	11.7%
Operating Margin (1/2)	2.6%	5.1%	0.6%	0.3%	-6.9%	-4.7%	2.4%	0.1%	0.0%	2.0%	3.3%
<u>LIQUIDITY</u>											
Cash & Investments / Operating Exp (1/2)	0.75x	0.67x	0.72x	0.77x	0.62x	0.58x	0.65x	0.64x	0.64x	0.67x	0.65x
Monthly Days Cash on Hand (1/2)	180 days	177 days	195 days	204 days	173 days	167 days	202 days	197 days	200 days	213 days	153 days
<u>LEVERAGE</u>											
Cash & Investments / Debt (1/2)	1.5x	1.3x	1.6x	1.7x	1.5x	1.4x	1.6x	1.8x	1.9x	2.3x	1.1x
Debt Service Coverage (1/2)	4.9x	5.2x	3.8x	3.3x	-0.1x	1.1x	4.0x	2.7x	4.1x	4.8x	2.7x
Debt Service / Operating Exp (1/4)	1.9%	2.1%	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%	1.5%	1.7%	4.5%

DERIVATIVES MANAGEMENT – Core Strategies

1. Only utilize swaps to hedge variable rate bonds – No unhedged positions
2. Match maturities of private placements to coincide with maturing swaps
 - o \$156 M reduction in swaps over 3 years
3. Winding down swap portfolio – No new swaps since 2007

Recent Events

- x Converted \$38 M of USF Financing Corporation variable rate bonds to fixed rate (7/1/16) – \$38 M of swaps expired
- x Converted \$18 M of USF Research Foundation variable rate bonds to fixed rate and paid off \$9 M in variable rate bonds (8/1/16) – \$27 M of swaps expired

Initiatives – Next 12 Months

- x Convert \$19 M of USF Financing Corporation variable rate bonds to fixed rate (7/1/18); expiring 5-year private placement creates refunding opportunity – \$19 M swap will expire

USF SYSTEM DERIVATIVES PORTFOLIO – 10-Year Trend

- x USF System Derivatives – \$85 Million (6/30/17)
 - o 3 swaps outstanding at June 30, 2017 – 1 swap scheduled to expire in July 2018

