Annual Finance Policy Reports

Board of Trustees Finance Committee August 8, 2023

Presented by: Fell L. Stubbs, University Treasurer



<u>CONTENTS</u>

	Page
Annual Investment Report	2
Annual Debt Management Report	8
Annual Derivatives Report	18



Annual Investment Report



All Portfolios in Compliance with BOT Investment Policy

Annual Investment Report

COMBINED 10 USF INVESTMENT PORTFOLIOS

2 Types of USF Portfolios:

- <u>1 Endowment USF Foundation</u>
 - Long-term investment horizon
 - o Restricted
- <u>9 Operating Portfolios USF and E</u>
 - o Short-term investment horizon
 - o Liquid

Barometer of Financial Health:

 Growth in portfolios reflects investm performance and net cash flows

	T. Trill	
n		
zon		
2011		
nd D		
zon		
		5273 M
		SORPut State
	\$200	
estm	n <u>t s100 </u>	
lows		
10 103		

Combined Portfolio (In Millions)	University	Endowment	8 Other DSO Portfolios	USF's 10 Investment Portfolios
Combined Portfolio, 6/30/23*	\$884	\$655	\$273	\$1,812
Combined Portfolio, 6/30/22	\$806	\$639	\$234	\$1,679
Change in Combined Portfolio	\$78	\$16	\$39	\$133

* Endowment and DSO balances are as of 3/31/23, FY 2023 balances not yet available

UNIVERSITY INVESTMENT PORTFOLIO

University Portfolio Objectives

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



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 93% of past 21 periods

Portfolio is Generating Cash

- 12 Month Interest = \$17.5 M
- 12 Month Dividends = \$ 2.8 M

Bond Funds are Rapidly Repricing as Rates Rise

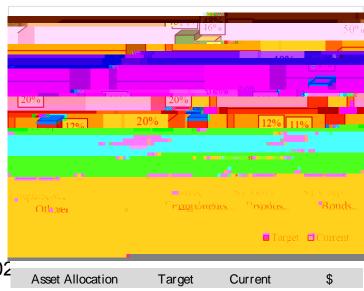
٠	Yield to Maturity	June 2021	June 2022	<u>June 2</u> 02	Asset Allocation	Target	Current	\$
	Vanguard ST Govt Bonds	s 0.60%	3.30%	5.00%	Cash & Equivalents	20%	31%	\$276.5
	Vanguard ST Corp Bond	s 0.99%	4.20%	5.60%	ST Govt Bonds			

Unrealized Losses Are Unwinding As Markets Stabilize

Current Portfolio Strategy

- Limit buy / sell transactions
- Growing cash position

Portfolio Expected to Meet Objectives



UNIVERSITY PORTFOLIO – 10-YEAR PERFORMANCE

 FY 2022 Was a Highly Unusual Investment Market Equities and bonds both declined Not occurred in 2 decades – since 1999 Resulted in first year of losses (unrealized) for USF Port 	USF Returns Vs. Benchmark From <u>1 Year 5 Year Inception</u> USF Portfolio 3.8% 1.6% 2.5% Benchmark 3.9% 2.0% 2.4%
 FY 2023 Markets Recovered, but Remain Challenged Rising rate environment – Affecting bond values USF's bond funds have short-term duration (2.7 year) Inflation rate slowed, but core inflation remains high Recession remains possible with Fed's aggressive tighted Credit to Outstanding Investment Committee and Conditional Statement Committee Statement C	S&P 500 Index – 12.9% 14.9% 0.8% Barclay's Agg – 1.5% 4.3% 0.1%

UNIVERSITY ANNUAL PORTFOLIO PERFORMANCE

12-Month Performance	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Annual Investment Income (Loss)	\$27 M	\$6 M	\$10 M	\$25 M	\$18 M	\$41 M	\$4 M	\$27 M	(\$45 M)	\$29 M
Annualized Return - Equities	18.3%	(0.1%)	(2.6%)	14.5%	9.0%	6.7%	(8.9%)	17.1%	(10.6%)	19.5%
Annualized Return - Fixed Income	1.1%	0.9%	2.4%	0.9%	0.0%	5.8%	5.3%	6 1.49	% <mark>(4.3%)</mark>	2.0%
Total Annualized Return	2.1%	0.7%	1.1%	3.5%	2.4%	5.5%	0.2%	4.0%	(5.2%)	3.8%







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 – Assessed Impact of Stadium Debt

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

USF Finance Systems

As of June 30, 2023

Outstanding Debt (In Millions)	Housing	Parking	Marshall Center	Energy Savings	Health	Athletics	Research	Foundation	Total / Weighted
Total Outstanding Debt per System	\$204.3	\$4.2	\$25.5	\$28.6	\$54.2	\$26.0	\$39.9	\$3.1	\$385.8
Weighted Average Interest Rate	4.11%	2.20%	3.43%	3.03%	3.43%	3.54%	3.28%	2.63%	3.73%
Moody's/S&P Rating	A1 / A+	Aa3 / AA	Aa3 / AA	NR	NR	NR	NR	NR	Aa2 / AA (University)

NR = Not Rated

MOODY'S / S&P - RATINGS REPORTS ONUSE

Moody's Affir med USF "Aa2/Stable" Rating (9/1/22) Market Profile: Excellent strategic positioning

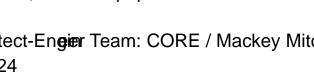


USF DEBT PORTFOLIO

Project Financing – Completed / Current

\$46.5 Million USF Sarasota-Manatee Housing and Student Center Project

- Funded with \$30 M 30-yr, fixed rateax-exempt public debt and 0 \$16.5 M equity
- Construction Manager / Architect-Engier Team: CORE / Mackey Mitchell 0
- Anticipated Opening: May 2024 0



\$9.9 Million Central Plant Modernization Project – Heating System Upgrades

- Funded with Energy Savings Performancent Cact; 19-yr, fixed rate, tax-exempt 0
- \$14.9 million in guaranteessavings over 20 years 0
- Anticipated Completion: January 2024 0

\$9.9 Million Central Plant Modernization Project – Cooling System Upgrades

- Funded with Energy Savings Performancent Cact; 19-yr, fixed rate, tax-exempt 0
- \$16.2 million in guaranteessavings over 17 years Ο
- Anticipated Completion: September 2024 0

\$8.9 Million Central Plant Modernization Project – HVAC, Electrical and Light System Upgrades

- Funded with Energy Savings Performancent Cact; 20-yr, fixed rate, tax-exempt Ο
- \$16.3 million in guaranteessavings over 20 years 0
- Anticipated Completion: March 2025 0

FY 2023 Transactions





USF DEBT PORTFOLIO

Future Transactions

Project Financing - Anticipated

Pending \$340 Million USF Stadium Project

- Funded with \$200 M 20yr, fixed rate, taxable loan and \$140 M equity
- Construction Manager / Architect-Engineer Team: Barton Malow / Populous
- Project approved by USF Board of Trustieres une and being considered for approval by Florida Board of Governors in August
- o If approved, Project is anticipated to open July 2026





DEBT MANAGEMENT

Debt Structured Conservatively / Capitalize on Market Opportunities

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

Active Debt Management - \$2.0 Billion in Closed Transactions Since 2005 (55 Total) Achieve low cost of capital – 3.73%, down from peak of 4.28% in 2014 Restructure bonds to produce NPV savings – NBBC on and negotiate favorable covenants

Rating Agency Recognition of USF Management

13 ratings upgrades in 10 years Moody's and S&P affirmed University's "Aagatable" and "AA/Stable" ratings in fall 2022

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 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Moody's Aa2 Medians FY 2022
NEW DEBT	\$20					\$36	\$27			\$75	
TOTAL DEBT	\$435	\$421	\$413	\$377	\$359	\$383	\$389	\$370) \$349	\$386	\$1,174
LONG-TERM RATE	4.28%	3.99%	3.91%	3.64%	3.68%	3.63%	3.60%	6 3.62 ⁹	6 3.66%	3.73%	

POLICY MEASURES

(In Millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 (estimate)	M oody's Aa2 M edians FY 2022
OPERATIONS											
Operating Cash Flow Margin ()	10.2%	7.4%	7.3%	9.1%	7.0%	5.4%	-0.6%	6.3%	8.4%		14.7%
Operating Margin ()	2.4%	0.1%	0.0%	2.0%	-0.2%	-2.3%	-9.6%	-3.0%	-1.3%		5.4%
LIQUIDITY											
Cash & Investments / Operating Exp ()	0.65x	0.64x	0.64x	0.68x	0.67x	0.71x	0.65x	0.81x	0.84x		0.81x
Monthly Days Cash on Hand ()	202 days	197 day	s 200 da	ys 213 da	iys 216 d	ays 210	days 180	days 21	52027a7yostays	237 days	208 days
LEVERAGE											
Cash & Investments / Debt ()	1.6x	1.8x	1.9x	2.3x	2.5x	2.6x	2.5x	3.1x	4.9x		1.8x
Debt Service Coverage ()	4.0x	2.7x	4.1x	4.8x	4.0x	2.9x	-0.3x	3.4x	3.7x		3.4x
Debt Service / Operating Exp ()	2.2%	2.2%	1.5%	1.7%	1.4%	1.8%	1.6%	1.8%	2.2%		4.3%



Rated Bond System Updates – USF Housing System

\$204M USF Housing System (A1/A+)

Annual debt service payments = \$15.4 M (FY 2024)

Credit Ratings Affirmed in September 2022

Strong Recovery following Pandemic; Maintenance of Reserves

Strong recovery in occupancy levels:

- 51% (fall 2020) / 88% (fall 2021) / 97% (fall 2022)
- +100% expected for fall 2023 (budgets are based on 95%)

Continued growth in reserves:

- $_{\odot}$ \$46 M (FY 2020) / \$52 M (FY 2021) / \$63 M (FY 2022)
- \$62 M in FY 2023, notwithstanding significant/estments in Housing facilities, including
 \$4 M cash equity contribution to new USF Sataddanatee Student Housing / Center Project

Housing System *	FY 2019	FY 2020 * *	FY 2021 **	FY 2022 **	FY 2023 (estimate)	FY 2024 (budget)	
Occupancy (Fall)	94%	98%	51%	88%	97%	+95%]
Revenues	\$45,165,802	\$45,167,526	\$34,365,132	2 \$55,933,	376 \$49,07 ⁻	1,718 \$51,54	- 48,244
Expenses	<u>\$24,615,2</u> 42	<u>\$23,136,072</u>	<u>\$15,770,19</u> 6	<u>\$18,528,95</u> 2	<u>\$24,886,36</u> 3	<u>\$28,957,73</u> 6	
Net Revenues	\$20,550,560	\$22,031,454	\$18,594,93	6 \$37,404,	424 \$24,18	5,355 \$22,5	90,508
Debt Service	\$13,738,224	\$13,712,753	\$15,622,388	8 \$15,593, ⁻	199 \$15,661	1,188 \$15,38	37,359
Debt Service Coverage Ratio (net)	1.50x	1.61x	1.19x	2.40x	1.54x	1.47x	

* 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

\$4 M USF Parking System (Aa3/AA/AA-)

Annual debt service payments = \$2.0 M (FY 2024)

Slow Recovery from Pandemic; Maintenance of Reserves

Revenues declined in FY 2020 and FY 2021 due to pandemic Transportation access fees remain Detcal/permit revenues slow to recover Reserves remain strong despite us\$20M to support operations in FY 2021

- \$29 M (FY 2020) / \$26 M in resees (FY 2021) / \$28 M (FY 2022)
- o \$29 M in FY 2023 return to FY 2020 level

Rated Bond System Updates – USF Marshall Student Center

\$26 M USF Marshall Student Center (Aa3/AA) Annual debt service payments = \$2.4 M (FY 2024) Credit Ratings Affirmed in September 2022

Continued Recovery from Pandemic; Maintenance of Reserves
Revenues declined in FY 2020 and FY 2020 to the pandemic; recovered to pre-pandemic levels in FY 2022
Expenses managed downward in FY 2020, FY 2021 and FY 2022
Reserves remain strong / growing despite pressure on revenues during the pandemic
\$12 M (FY 2020) / \$13 M (FY 2021) / \$14 M (FY 2022)
\$16 M in FY 2023



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 Lowest of Capital – Requires Active Management Matched Maturities of Bonds to CoincidethwMaturing Pay-Fixed Interest Rate Swaps \$229 M Reduction in Swaps over 15 Years – Capitalized on Maturing Swaps to Refund Bonds Winding Down Swap Portfolio – No New Swaps Since 2007

- 1 Swap Currently Outstanding \$49 M
- Will terminate swap and convert bonds to fixed rate when termination value is positive

Program	Swap Counterparty	Expiration Date	USF Optional Termination Rights	Collateral Posted	Fixed Swap Rate	Total Outstanding
Housing	Royal Bank of Canada	a 7/1/2037	Yes	\$0 M	3.94%	\$49 M

Asof	June 30,	2023
------	----------	------

TOTAL USF DSO SWAPS	\$0 M	3.94%	\$49 M
---------------------	-------	-------	--------



Annual Derivatives Report

DERIVATIVES PORTFOLIO

18-Year Managed Trend

USF Derivatives - \$49 Million (6/30/23)

