

# Annual Finance Policy Reports

Board of Trustees Finance & Audit Workgroup  
September 8, 2015

# CONTENTS

	<u>PAGE</u>
<b>Annual Investment Report</b>	<b>1</b>
<b>Annual Debt Management Report</b>	<b>7</b>
<b>Annual Derivatives Report</b>	<b>13</b>

# Annual Investment Report

Board of Trustees Finance & Audit Workgroup  
September 8, 2015



USF I

## UNIVERSITY PORTFOLIO – RECENT EVENTS

- x Maintain Highly Liquid Portfolio to Support Annual Cash Flow of \$1.5 Billion
- x Manage Portfolio to Preserve Capital and Provide Reasonable Returns at an Acceptable Degree of Risk
  - o Redemption of Vanguard Prime Money Market Fund Due to Dodd-Frank Money Market Reforms
  - o Continuing Redemption of Bridgeway Large Cap Index Fund – Redeploying Proceeds into S&P 500 Index Fund
  - o Selective Rebalancing from High-Valuation to Attractive-Valuation Portfolio Segments
  - o USF Portfolio Transactions Over the Past 12 Months
    - f Total Liquidation – \$26 million – Vanguard Prime money market fund
    - f Partial Liquidation – \$ 5 million – Bridgeway Mega-cap index fund
    - f 1 Purchase – \$ 7 million – Vanguard S&P 500 index fund
    - f 1 Purchase – \$ 2 million – Vanguard Developed markets index fund
    - f 1 Purchase – \$ 1 million – Vanguard Emerging markets index fund
    - f 2 Partial Liquidations – \$ 1 million – Vanguard REIT index fund
    - f 2 Purchases – \$ 1 million – Vanguard Energy index fund
    - f 1 Purchase – \$ 3 million – Longshort absolute return fund

## UNIVERSITY PORTFOLIO – NEAR-TERM INITIATIVES

- x Ongoing Assessment of Portfolio Exposure to Rising Interest Rates – USF Well Positioned in Short-Term, High Quality Fixed Income Funds
- x Assess Corporate Bond Liquidity Risk due to Dodd-Frank Act Regulations – 80% Decline in Dealer Inventories
- x Maintain Liquidity in Diversified, Well-Managed Mutual Funds – Next Day Availability
- x Monitor Performance of Investment Managers – Strong Watch List Criteria
- x Continue Investment of Positive Net Cash Flow Into Balanced Portfolio Structure

## UNIVERSITY PORTFOLIO – HISTORICAL PERFORMANCE

- x University Portfolio Structure Has Lower Exposure to Market Volatility, Improving Prospects for Positive Absolute Returns
  - o U.S. Fixed Income – \$332 M – 59%
  - o U.S. / Foreign Equity – \$125 M – 23%
  - o



# Annual Debt Management Report

Board of Trustees Finance & Audit Workgroup  
September 8, 2014

# GOVERNANCE AND DEBT MANAGEMENT STRUCTURE

- x University Board of Trustees
  - o Adopted USF System Debt Management, Derivatives, Real Property Policies
  - o Authorize all new debt and real property transactions
  
- x The University Maintains Strong, Stable Credit Ratings – “Aa2 – Stable Outlook” (Moody’s)
  
- x USF Organized Pledged Revenue Into 5 USF Finance Systems
  - o Attract highest possible credit ratings / Obtain attractive, long-term interest rates
  - o Demonstrated capability to access public and private capital markets
  
- x Central Management of New Debt, Debt Capacity and Compliance – Oversight of Leveraged Auxiliaries
  - o Financing Corporation closed \$1.4 billion transactions / Developed 1.9 million square feet of projects (2005-2015)

## USF Finance Systems

Outstanding Debt(In Millions)	Housing	Health	Athletics	Research	Parking	Total / Weighted
Total Outstanding Debt per System	\$232.7	\$78.5	\$47.3	\$33.2	\$25.1	\$416.8
Weighted Average Interest Rate	3.75%	4.19%	4.46%	4.28%	4.30%	3.99%

## USF DEBT MANAGEMENT

- x University Debt Managed to Provide Low Cost, Low Risk, Long-Term Financing for Major Capital Projects
  - o Maintain USF's strong "Aa2" credit ratings and provide access to capital markets on the best possible terms
  - o Maintain strong balance sheet – Increase liquidity, manage gradual reduction in overall leverage
  - o Preserve debt capacity for strategic projects
  - o Maintain conservative new debt issuance standards – First year 1.3x debt service coverage ratio (exceeds BOG 1.2x requirement)



## NEAR-TERM INITIATIVES – NEXT 12 MONTHS

- x P3 USF Student Housing Development Project – \$133 M (\$40 M Equity, \$93 M Debt)
  - o Opportunity:
    - f Develop multi-use residential village
  - o Objectives:
    - f Transfer risks for capital asset maintenance, construction, operations and demand
    - f Accelerate delivery of housing project
    - f Preserve USF credit ratings and debt capacity
  
- x Capitalize on Structured 3-5 Year Maturities of Bank Private Placements and Swaps
  - o Opportunity:
    - f Convert \$40 million of variable rate debt to fixed rate (Series 2013A)
    - f Advance refund prior to the July 1, 2016 expiration of the bank private placement
    - f Terminate associated interest rate swap
  - o Objectives:
    - f Lock in current low, long-term market rates
    - f Reduce exposure to variable interest rates
    - f Reduce reliance on interest rate swaps

## 8-YEAR MANAGEMENT OF OUTSTANDING DEBT

Effect of New Debt Relative to Cash & Investments (In Millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (ACTUAL)	Moody's Aa2 Medians FY 2014
NEW DEBT	\$96		\$10	\$52			\$20		
TOTAL DEBT	\$446	\$445	\$415	\$454	\$445	\$431	\$435	\$417	\$793
CASH & INVESTMENTS	\$499	\$511	\$576	\$608	\$530	\$471	\$579	\$626	\$823

  

POLICY MEASURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (EST)	Moody's Aa2 Medians FY 2014
<u>PROFITABILITY</u>									
Operating Margin ( <del>1/2</del> )	2.6%	5.1%	0.6%	0.3%	-6.9%	-4.7%	2.4%	-0.0%	1.4%
<u>LEVERAGE</u>									
Debt Service Coverage ( <del>1/2</del> )	8.8x	10.2x	11.8x	11.5x	-0.6x	4.9x	20.6x	15.9x	2.4x
Debt / Operating Expense ( <del>1/2</del> )	1.0%	1.1%	0.6%	0.6%	0.4%	0.5%	0.4%	0.4%	4.1%
<u>LIQUIDITY</u>									
Expendable Financial Resources / Debt ( <del>1/2</del> )	0.88x	0.94x	1.16x	1.18x	1.01x	1.02x	1.20x	0.92x *	1.21x
Total Financial Resources / Debt ( <del>1/2</del> )	1.86x	1.84x	2.18x	2.21x	2.03x	2.15x	2.42x	2.20x *	1.83x
Expendable Financial Resources / Operating Exp ( <del>1/2</del> )	0.45x	0.49x	0.51x	0.53x	0.43x	0.42x	0.48x	0.33x *	0.53x
Additional Measure: Days Cash on Hand ( <del>1/2</del> )	171 days	177 days	191 days	192 days	162 days	153 days	184 days	180 days	149 days

\* USF measures affected by prior period pension adjustment (GASB 68) - All other public U.S. universities will have a similar adjustment. This adjustment is not reflected in the Moody's Medians for FY 2014.

# Annual Derivatives Report

Board of Trustees Finance & Audit Workgroup  
September 8, 2015

# GOVERNANCE AND DERIVATIVES MANAGEMENT STRUCTURE

x University Board of Trustees



10-Y

## RECENT EVENTS

- x May 2015 – Terminated \$75 Million Swap with Conversion of \$88 Million of Variable Rate Debt to Fixed Rate Debt (Housing - Series 2012A)
  
- x Highlights of Recent Compliance Efforts
  - o Compliance with new Dodd-Frank Act – SEC Rules
    - f “Swap Data Reporting and Recordkeeping Requirements”
  
- x Cost of Compliance is Affecting USF’s Interest in New Derivatives

## NEAR-TERM INITIATIVES – NEXT 12 MONTHS

- x Expiring 3-year Direct Bank Placements Creates Opportunity to Convert from Variable Rate Debt to Fixed Rate Debt and Eliminate Significant Amount of Interest Rate Swaps
  - o \$40 Million of Health Certificates (Series 20013A)
  - o \$27 Million of Research Bonds (Series 2013B and Series 2013D)

## MANAGEMENT OF USF DERIVATIVES

- x USF Derivatives Policy – Required Strong Counterparties (At Issuance) Have Ensured Stable Derivatives Portfolio

