

Annual Finance Policy Reports

Board of Trustees Finance & Audit Workgroup
September 8, 2015

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Annual Investment Report

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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

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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 (1/2)	2.6%	5.1%	0.6%	0.3%	-6.9%	-4.7%	2.4%	-0.0%	1.4%
<u>LEVERAGE</u>									
Debt Service Coverage (1/2)	8.8x	10.2x	11.8x	11.5x	-0.6x	4.9x	20.6x	15.9x	2.4x
Debt / Operating Expense (1/2)	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 (1/2)	0.88x	0.94x	1.16x	1.18x	1.01x	1.02x	1.20x	0.92x *	1.21x
Total Financial Resources / Debt (1/2)	1.86x	1.84x	2.18x	2.21x	2.03x	2.15x	2.42x	2.20x *	1.83x
Expendable Financial Resources / Operating Exp (1/2)	0.45x	0.49x	0.51x	0.53x	0.43x	0.42x	0.48x	0.33x *	0.53x
Additional Measure: Days Cash on Hand (1/2)	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

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GOVERNANCE AND DERIVATIVES MANAGEMENT STRUCTURE

x University Board of Trustees

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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

