



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees  
Finance and Facilities Committee Meeting  
President's Boardroom, Millican Hall, 3<sup>rd</sup> Floor  
December 12, 2018

**MINUTES**

**CALL TO ORDER**

Trustee Robert Garvy, vice chair of the Finance and Facilities Committee, called the meeting to order at 8:30 a.m. Vice Chair Garvy requested that in the absence of Chair Alex Martins, and given the difficulty of chairing a meeting over the phone, that the meeting be turned over to Board of Trustees Chairman Marcos Marchena.

Committee member David Walsh was present. Committee members Joshua Bolona, John Lord, and John Sprouls attended by teleconference. Chairman Marcos Marchena was present. Trustees Ken Bradley, Joseph Conte, and Beverly Seay attended by teleconference. Trustee Bill Self was present.

**MEETING MINUTES**

The minutes of the November 15, 2018 Finance and Facilities Committee meeting were unanimously approved as submitted. Trustee Walsh made the motion and Trustee Lord seconded.

**NEW BUSINESS**

E&G Carryforward Spending Plan (FFC-1)

Kathy Mitchell, Interim Chief Financial Officer, requested approval of the plan for the “committed” portion of the university’s remaining 2017-18 Education & General (E&G) carryforward funds. President Dale Whittaker stated this is the first time that the Board of Governors has requested each university present to its board of trustees a plan for how it is using and budgeting the carryforward from E&G funds.

Whittaker noted this is an opportunity to review the way we budget these carryforward funds to make sure funds are used for their highest purpose from a university perspective, that they are used appropriately, and that they are used in a timely way. The plan for spending E&G carryforward funds is structured following BOG guidelines. It covers specific plans for the carryforward dollars not contractually committed or otherwise encumbered by a purchase order or another mechanism. These spending recommendations reflect UCF’s pursuit of excellence, as well as university priorities that will have a great institutional return on investment, specifically accelerating the university toward preeminence and moving up in performance funding.

Whittaker shared that the university is allocating \$40 million in other carryforward funds for scholarships that will support student success. This strategic move will help the university advance in several of its preeminence and performance funding metrics, including four-year graduation rates, first-year retention rates, and lowering the net cost of a college degree. This new funding will significantly increase the amount that UCF provides in scholarships, grants, fellowships, and assistantships to undergraduate and graduate students.

The \$40 million, named the Constellation Fund, will augment a variety of existing funds. Whittaker is very proud that this record investment in institutional aid reflects the university's commitment to student success. The multiple scholarship opportunities that this fund will offer will continue to help the university attract the highest-potential student, even as we see the quality of the incoming freshmen class continue to increase, as well as improve on our newly achieved 90 percent first-year retention rate.

The initiative is also a reflection of the board's deep value for balancing affordability with excellence in providing students the highest-quality experience. Provost Elizabeth Dooley is leading a task force of students, faculty, and academic leaders to decide how the scholarship funds will be used. The plan will be ready early next year.

Mitchell said in its October meeting, the Board of Governors outlined the charge that each university board of trustees look at the committed section of E&G carryforward funds that remains from last year and approve a plan for expenditure of those funds. The BOG gave specific categories to consider: critical deferred maintenance of existing facilities, critical campus infrastructure, campus safety and security, student welfare, student financial aid, any board-adopted SUS operating legislative budget request issues, academic and student affairs, and information technology.

Each university was asked to take its August 21, 2018 E&G carryforward balance and roll forward to a date of its own choosing (UCF chose November 30, 2018). After subtracting expenditures, encumbrances, and contractual obligations that occurred between August 21 and November 30, 2018, they arrived at a new E&G carryforward balance.

Mitchell explained that Attachment A contains those details and pointed out this only applies to the main campus. The medical school and Florida Center for Students with Unique Abilities items have separate legislative appropriations, but they have no funds remaining in the committed section.

Items A through D contain information that was previously provided to the BOG. Item A reflects the cash balance on June 30, 2018; Item B reflects expenditures between June 30 and August 21, 2018; Item C is any encumbrances or purchase orders through August 21, 2018; and Item D is the remaining balance after subtracting B and C from A, arriving at the E&G carryforward balance of \$118 million.

Mitchell then reviewed the next section, which is a summary of what happened from August 21 through November 30, 2018: \$40 million allocated to fund the Constellation Fund, and \$20 million allocated to fund critical deferred maintenance for a dozen projects all under the \$2 million minor projects threshold.

The third item includes the normal cash flow and purchasing cycles, as well as other big items. First, they added back to the E&G carryforward balance the \$38.2 million reimbursement for the construction of Trevor Colbourn Hall, \$13.8 million for eight additional repair and renovation projects, and \$32.4 million related to those same eight projects for cash that had been transferred to but not spent for those projects (they are now being paid for by Auxiliary funds). All of those funds will remain pending the release of the Auditor General's final report and Bryan Cave's investigative report.

They also added \$12.9 million in unrealized gains on E&G investments that the university recorded and budgeted. The university still has sufficient reserves to cover market fluctuations.

The university spent \$5 million for research at the BRIDG facility in Osceola County, \$5 million for deferred maintenance allocated by the University Budget Committee in July 2018, \$11 million for scholarships, and \$24.6 million in normal purchasing cycle transactions.

This left approximately \$111 million in the E&G carryforward balance as of November 30, 2018.

Trustee Lord asked if \$20 million for critical deferred maintenance would cover the university's needs in that area. Misty Shepherd, Interim Vice President for Administration and Finance, said the total amount for critical deferred maintenance across campus is estimated at \$165 million, and the \$20 million is to meet the most critical needs of projects under the \$2 million minor projects threshold.

Chairman Marchena said we have two limitations: one is the amount of money, and the other is the \$2 million dollar maximum per project that we can use from those funds. The \$20 million reduces the deferred maintenance total to \$145 million.

Trustee Walsh said it might be useful to show the inputs the Board of Trustees made to re-up E&G funds for Trevor Colbourn Hall, the \$13.8 million for other capital projects, and the \$32 million for the funds transferred but not spent. Mitchell handed out a summary of those transactions and noted that the summary would be added to the agenda item. Walsh also asked to clarify that the trustees were being asked to approve all of Attachment A. She said that only the approximately \$20 million highlighted in the green box on the attachment (Section F commitments) is what the trustees are being asked to approve today.

Trustee Self asked if there was a timeframe to spend the \$40 million in the Constellation Fund. Mitchell said we have three to five years per the BOG, and we have confirmed with Student Financial Assistance we can record it in a four-year allocation. He added he supports student scholarships but does not want to spend all \$40 million in one year. Mitchell said the task force led by Provost Dooley will make the determination on how to spend the money.

Trustee Conte asked when did the \$2 million threshold for capital projects go into effect. Chairman Marchena clarified Trustee Conte was asking why there is a \$2 million-dollar limit and said staff will research and make available when known.

Mitchell continued to Section E of the attachment and said the university has required restricted and contractual obligations of approximately \$90 million. That includes our 5 percent statutory

reserve requirement of almost \$32 million and another set of restricted and contractual obligations of \$58 million.

That leaves the roughly \$20.5 million in Section F. Using the BOG's broad categories, the first one of which is academic and student affairs, they allocated \$9.3 million for faculty research support (which includes first-year salaries for principal investigators and research staff, research equipment, some travel to conferences, and essential administrative support), \$5.6 million for faculty recruitment and start-up (which includes the 400 new line hires requested by the president, some of the faculty clusters, and the diversity hire initiative), and \$3.4 million for UCF Downtown for operating and minor capital projects that are all one-time expenses associated with the campus opening.

Under the student welfare category, \$1.1 million is for the digital learning course redesign initiative, \$1 million for undergraduate and graduate student support (including student success, retention, and graduation initiatives, as well as support for the Graduate Student Center, graduate assistantships, and the parental leave program).

Having fully committed that \$20.5 million, that leaves Section G (Available E&G Carryforward as of November 30, 2018) at \$0.

Trustee Walsh asked if the board needed to approve the \$40 million for the Constellation Fund. Scott Cole, Vice President and General Counsel, said no because this is an internal allocation of money, not a capital project or contractual obligation.

Trustee Bolona asked for Section F if the two main categories (academic student affairs and student welfare) were BOG mandated. Mitchell said they were encouraged to focus on eight specific categories, and those are two of the eight. Trustee Bolona then asked how the team chose those two categories and what percentage to give to each. Mitchell said as of June 30, 2018, all of those funds had been allocated to the departments and units, and the cash was still present. The team went back to the departments as of November 30, 2018 and asked what the plans were for the remaining funds. Because the university had already committed \$40 million to the Constellation Fund and \$20 million to deferred critical maintenance, when looking at the rest of the eight categories, these two jumped out from the units' plans as what to focus on to continue on our path to preeminence.

Trustee Bolona asked for the categories that are not being included, and Mitchell said critical campus infrastructure, campus safety and security, any board-adopted SUS operating legislative budget request issue, and information technology. Mitchell said all of those categories are within the \$58 million in the restricted and contractual obligations in Section E, particularly information technology.

Trustee Self asked to clarify where funding for a new line faculty hire would come from, and where funding for current faculty would come from. Mitchell said if a contract has been signed the funding is from "contractual obligations," whereas a new hire that is in process is shown in the "faculty recruitment and start-up" in Section F.

Provost Dooley said they are meeting with the deans next week and have a sensitivity to faculty members coming in and the start-up packages. They want to mitigate the impact as much as possible.

Trustee Walsh asked in light of concerns over the lack of teaching faculty, does the plan include allocations to teaching faculty versus research faculty and balancing those critical needs. Provost Dooley said they had conversations with the college deans to learn the colleges' needs, and decisions are made around that. There is a balance between teaching and research faculty.

Trustee Walsh added it made sense to take 10 more days to understand the E&G Carryforward Spending Plan more clearly. Chairman Marchena said the trustees were being asked to approve the \$20.5 million in the green box highlighted on Attachment A, not the overall \$80 million explained in the document.

Trustee Self said it is disappointing the BOG did not put "faculty hiring" in their list of priorities. Provost Dooley said these funds are not recurring dollars. The recurring dollars they have allocated are still in play, and they will continue their hiring pattern. What is being discussed today impacts the dollars being held for the faculty start-up. When the university achieves preeminence and is in the top level of performers, there will be additional recurring dollars coming into the university, and those are the dollars where they will make the decision to hire faculty members.

Trustee Walsh asked if they should name a placeholder for additional "teaching faculty." President Whittaker said 400 new faculty are tenure-track, meaning they are both teaching and research faculty, and they carry the bulk of the teaching commitment at the university. With the new budget model, the university moves recurring funds to the colleges if they have increased teaching demands. The design of the system, with the assumption that the tenure-track faculty are teaching and researching, will continue to grow the faculty as the student demand increases.

Mitchell said what Trustee Walsh is referring to is faculty salaries, and those come from recurring dollars. This \$5.7 million is for start-up expenses and recruiting expenses. Chairman Marchena said "teaching faculty" are likely "instructors," and start-up packages would not be part of their hire.

Trustee Bolona commented we have impacted four of the eight categories, and he wants to make sure the head of each category was offered the chance to speak for their needs. Chairman Marchena clarified another way to ask is was every category considered.

Mitchell said yes, all were considered. The August E&G carryforward balance was always evaluated by the BOG. For the past four years, all university units have been asked to provide a plan on how they will spend their carryforward funds. The following year, the university comes back to the units with that plan and reconciles them. This is not a new exercise, and carryforward information is provided to the BOG two or three times during the year.

President Whittaker added this was not a request for new projects or new commitments. The funds have been in three-year budgets and plans, just not spent. The first piece is to make sure what is in plans is actually being spent, and the second piece is to review the priorities of every unit head. The university made executive decisions on the highest priorities based on

those. The highest priority was making sure we could continue to hire the faculty we had already committed to, to take care of the pedagogical demands through the digital learning course redesign, and to take care of student support. Some things will be delayed until next year that were planned to be purchased this year, but none of these are new ideas or new items. They were budgeted for during the past three years.

Trustee Garvy made a motion to approve, with Trustee Lord seconding.

Chairman Marchena said he is pleased to move the \$40 million into the Constellation Fund and realizes how many of our metrics this will positively impact. He is comfortable with the recommendations being made as they focus on academics and student welfare.

Trustee Walsh said this information was received a day and a half ago, and he wants enough time to deliberate something this significant. He again is asking if it could wait 10 more days. He could be supportive with more time to review.

Trustee Self said one item of concern is addressing “campus safety,” and he feels this should be recognized as a critical issue. Shepherd said the \$20 million for deferred critical maintenance includes items such as lights and parking garages that incorporate campus safety.

The committee approved the plan for spending the “Committed” portion of the university’s remaining 2017-18 E&G Carryforward funds, with Chairman Marchena, Trustee Bolona, Trustee Garvy, and Trustee Lord in favor, and Trustee Walsh opposed.

The FFC meeting was recessed at 9:15 a.m. for a Board of Trustees meeting to occur. The FFC meeting began again at 9:20 a.m.

#### Board of Governors’ 10-Year Lookback on Source of Funds for Capital Projects (INFO-1)

Mitchell stated the report given to the Board of Governors containing their requested 10-year lookback to see if E&G funds were incorrectly used for any other capital project is now being provided as an information item. As discussed at prior meetings, it was determined Trevor Colbourn Hall was the only building where improper E&G funds were used.

#### Minor Amendment to Coordinate the University of Central Florida 2015-25 Campus Master Plan Update With Site Refinements (FFC-2)

Shepherd requested approval for a minor amendment to coordinate the 2015-25 Campus Master Plan Update (CMP) with site refinements made by the university since the CMP was approved by the UCF Board of Trustees on November 20, 2014.

The purpose of the amendment is to modify the Capital Improvements List (Attachment B) to update names and funding sources and to remove one project (Trevor Colbourn Hall), change the line item names for four projects, and change the funding source indicated on eight of the projects; annotate the Urban Design and Capital Improvements Map (Attachment C) to illustrate the proposed changes to the Capital Improvements List; and revise the Future Land Use Map (Attachment D) and the Recreation and Open Space Map (Attachment E) to align with site refinements. Shepherd stated the projects will be changed or removed from the Capital Improvements List when the UCF 2020-30 Campus Master Plan Update is published.

The following changes were requested to the Capital Improvements List and the Urban Design and Capital Improvements Map:

LINE	PROJECT	MODIFICATION
4	John C. Hitt Library Renovation Phase II	Funding source change
17	Colbourn Hall Renovation	Project deletion
32	Research Building I	Name change
62	Roth Athletic Center	Name change
97	Dr. Phillips Academic Commons	Name and funding source change
98	CREOL Expansion Phase II	Funding source change
99	Downtown Campus Combined Heat and Power Plant	Funding source change
103	Downtown Phase II	Name and funding source change
104	Downtown Phase III	Funding source change
105	Downtown Phase IV	Funding source change
111	UCF Solar Farm	Funding source change

The following changes were requested to the Future Land Use Map and the Recreation and Open Space Map:

- ITEM 1 - District Energy Plant IV

UCF proposes to change the Future Land Use Map and the Recreation and Open Space Map to create approximately 4.75 acres of Mixed Use land bounded by Scorpio Drive, Gemini Boulevard, the Arboretum wetlands, and Apollo Circle. The parcel is currently classified as: Recreation/Open Space (approximately 3.4 acres), Mixed Use (approximately 0.10 acres), and Parking (approximately 1.25 acres); and includes the site of District Energy Plant IV.

- ITEM 2 - New Lake

UCF proposes to change the Future Land Use Map to indicate the addition of just over an acre of lake and natural space at this site. In 2016, a parking lot adjacent to Libra Drive was removed and the area converted to a lake (storm water retention pond).

- ITEM 3 - Ara Drive

This proposal will support UCF's effort to master plan a research neighborhood along Ara Drive and facilitate the planned growth of utility and support functions.

Trustee Walsh asked to clarify they were being asked to vote for the changes to the projects and not the projects themselves. Shepherd confirmed this is not to approve projects. Rather, it is approving name changes so the Campus Master Plan Update and Capital Improvements List have the same name for an item, or to change a funding source.

Chairman Marchena said he wanted on the record the trustees are not approving projects but only the changes requested. Any project on the Campus Master Plan Update or the Capital Improvements List that requires specific Finance and Facilities Committee and/or Board of Trustees approval will come to the committee and the board for that approval.

Cole confirmed projects need to be on the list to receive funding, but being on the list is not an approval of the project itself. Shepherd added being placed on the list represents the first step in a long process.

Trustee Walsh made a motion to approve and Trustee Bolona seconded. The committee unanimously agreed to approve a minor amendment to coordinate the 2015-25 Campus Master Plan Update (CMP) with site refinements made by the university since the CMP was approved by the UCF Board of Trustees on November 20, 2014.

#### Minor Amendment to Align the University of Central Florida 2015-25 Campus Master Plan Update (FFC-3)

Shepherd presented for approval a minor amendment to align the UCF 2015-25 Campus Master Plan Update (CMP) with the Five-year Capital Improvement Plan for 2019-20 through 2023-24 (CIP).

The purpose of the proposed amendment is to align the CMP with the CIP that was approved by the UCF Board of Trustees on July 19, 2018. The following projects that were on the CIP will be added to or revised on the CMP by modifying the Capital Improvements List, Urban Design and Capital Improvements Map, Future Land Use Map, and Recreation and Open Space Map.

- Adding two new projects on the Main Campus
  1. Dining, Housing, and Residence Life and Creative School for Children Partnership Building
  2. The Ara District Energy Plant
- Revising an existing project on the Main Campus
  3. Research II (added to the CMP on January 13, 2017)
    - Aligning the project name to match the CIP
- Adding one new project on the Rosen campus
  4. Rosen Parking Garage

Trustee Self asked if the Lake Nona campus, Rosen campus, Downtown campus and main campus have their own detailed Campus Master Plans. Cole said only the main campus has an official campus master plan. Items for the other campuses are provided for information only, and those campuses follow applicable city and/or county regulations.

Chairman Marchena said the campus master plan is used in two ways. The state allows universities to permit their own projects as 1) an indication of where they plan to go and 2) a legal step in the process of projects being approved and permitted. The master plan information for the other campuses is just a guide and does not serve a permitting approval purpose.



Trustee Walsh asked if projects on the Campus Master Plan can be funded externally if sources become available. Shepherd confirmed.

Trustee Walsh made a motion to approve and Trustee Bolona seconded. The committee unanimously approved the minor amendment to align the UCF 2015-25 Campus Master Plan Update (CMP) with the Five-year Capital Improvement Plan for 2019-20 through 2023-24 (CIP).

#### Subway Contract Amendment (FFC-4)

Shepherd requested approval of up to two five-year retail lease renewal options for Subway at Knight's Plaza. This item is being brought to the board because of the term length of the amendment. The two five-year renewal options will allow Subway to refresh its current space as required by the franchise and amortize that cost over time. No university funds will be used in the refreshing of the space.

Chairman Marchena asked for the franchise's investment in the facility. Ronnie Lamkin, General Manager for the UCF Convocation Corporation, said no dollar amount has been determined. At this stage, the franchisee has only asked for the two five-year renewals to receive the appropriate return on investment.

Chairman Marchena asked when the term expires. Lamkin said 2022. Trustee Walsh asked if they have time to develop an investment plan before a renewal decision, and Lamkin confirmed.

Chairman Marchena said he does not think the two five-year renewal options are warranted for a refurbishment investment given what time remains on the current term. He does not want to give an additional 10 years to a tenant until their investment is known. He recommended tabling the item until the level of investment is available. Lamkin said the franchisee asked for this now and is aware the trustees must make the decision.

Trustee Garvy made a motion to table the item and Trustee Walsh seconded. The item will be brought back to a future Finance and Facilities Committee meeting.

#### Direct Support Organizations' 2018-19 First-Quarter Financial Reports (INFO-2)

Mitchell presented as an information item the first-quarter financial reports for the following DSOs: UCF Athletic Association and Stadium Corporation, UCF Convocation Corporation, UCF Finance Corporation, UCF Foundation, UCF Limitless Solutions, UCF Research Foundation, and Central Florida Clinical Practice Organization.

Trustee Garvy asked for explanation of the \$865,000 variance on Total Debt Service on the UCF Athletics Association and UCF Stadium Corporation report. Brad Stricklin, Executive Associate Athletics Director and Chief Financial Officer, and Bert Francis, Assistant Controller, said the prior year was reported on an accrual basis while the current year was reported on a cash basis. Stricklin summarized this a typo that needs correcting. A corrected report was sent to the trustees.

Trustee Garvy also asked for an explanation of the negative \$322,000 variance on the Net Operating Income line. Stricklin said that figure is because employee compensation bonuses were paid earlier than normal, and the student fee allocation is behind budget. Trustee Garvy asked if there was anything out of the ordinary. Stricklin said no. They will be ahead of projected

ticket sales for the remainder of the year, and they are projecting contributions including premium seating going into next year trending higher.

Trustee Garvy also asked for the reason for the variance under Unrestricted Expenses on the Development, alumni relations, and operations line on the UCF Foundation report. Hina Behal, Senior Director of Reporting, Advancement and Alumni Affairs, said that is a typo, and a “7” was missing from the \$477,741 stated. It should have read \$4,777,741. A corrected report was sent to the trustees.

Trustee Self asked for an explanation of the Faculty Salaries and Benefits versus the Staff Salaries and Benefits on the Central Florida Clinical Practice Organization report. Steve Omli, Assistant Dean of Medical School Finances, said Faculty Salaries and Benefits are for the doctors and physicians, while Staff Salaries and Benefits are for administrative staff. Omli added having additional providers has increased their Patient Care revenue.

#### University Draft Audited Financial Report 2017-18 (INFO-3)

Christina Tant, Assistant Vice President and University Controller, presented the University Draft Audited Financial Report 2017-18 as an information item. Tant said this is under review by the Auditor General. The university has been impacted by a new accounting standard adopted during the fiscal year, GASB 75, which changed the way employers are required to account for post-employment benefits. Employees who retire from the university are eligible to participate in the state’s health insurance plan at the same cost as active employees. Because premium costs for retirees are typically higher than for active employee, the university effectively subsidizes that cost by offering retirees the same rates as employees.

Previously, accounting standards allowed post-employment benefits to be recognized over a 30-year period. GASB 75 requires it to be recognized in full in the current year.

The amounts recorded on the financial statements are based on an actuarial study by the State of Florida Department of Management Services. Post-employment benefit liability was calculated at the beginning of the year at \$322 million, which is a \$220 million increase in liabilities, causing a decrease in the net position reported under the old standard. The Division of State Group Insurance has elected not to create a trust for these obligations, so the liabilities are on a pay-as-you-go basis.

Chairman Marchena asked if the decrease in net position of \$182 million was primarily a result of the accounting change. Tant confirmed. He also asked will the university see a similar decrease next year. Tant said no, financials are now relatively consistent.

Trustee Walsh asked if the cumulative post-employment benefits liability is now on the books. Tant said yes. Tracy Clark, Associate Provost for Budget, Planning, and Administration and Associate Vice President for Finance, added the university’s net position is still strong, even after paying for the post-employment benefits and pension liability.

#### University Operating Budget Report Quarter Ended September 30, 2018 (INFO-4)

Clark presented the university operating budget for the quarter that ended September 30, 2018 as an information item. Clark said the one anomaly was a capital projects correction shown in the

revenue section of Educational and General. This is detailed in the explanations and was covered by Mitchell during the E&G carryforward discussion.

Chairman Marchena asked if that was the only anomaly, and Clark confirmed.

University Investments Presentation and Investments Quarterly Report Ended September 30, 2018 (INFO-5)

Clark and Dave West, the UCF investment advisor for &Co, gave a presentation on the university's investment policy and presented the investments quarterly report for the period ended September 30, 2018, as an information item.

The presentation covered the governing policies for UCF's investments, cash and investments as of September 30, a breakdown of the managed pool program, the current operating funds general investment structure and structure since its inception, the current managers by pool, an in-depth analysis of each of the pool managers, a graph of the structured investment portfolio versus net contributions, and the structured investment portfolio investment policy compliance checklist.

Trustee Walsh asked if the State Treasury Special Purpose Investment Account (SPIA) holds E&G carryforward funds. Clark confirmed and added SPIA is for the entire university and contains auxiliary cash balances including debt and interest reserves, repair and replacement reserves, funds for parking and other large auxiliaries that are required by bonds, their operating cash, contract and grant funding, and E&G funding.

It also holds cash for the university DSOs where Finance and Accounting performs their accounting (UCF Convocation Corporation, UCF Finance Corporation, UCF Limitless Corporation, UCF Research Foundation, and UCF Stadium Corporation,). The state minimum reserves of \$32 million also are in this account.

West said for the current managers by pool slide, the Total Equity Allocation is now 12.5 percent after a rebalancing in October. Chairman Marchena asked did we calculate the increase in risk when Pool I was closed and those funds were reallocated to Pools II and III. West confirmed and said they completed a review at that time. The majority of the funds went to the bonds manager Sawgrass, all of which is fixed income.

Clark added they also were comfortable moving out of the money market because our SPIA balances grew, so the university's need for instant liquidity was satisfied. There was no need to have \$60 million in money market for quick liquidity. The whole portfolio is liquid.

Trustee Garvy remarked Galliard Capital Management's senior leadership is aging, but they also have grown substantially. Both of these circumstances can cause difficulties to arise. Sawgrass, however, is very different from Galliard. They are very small with only four individuals, and they have been inconsistent in their short-term and long-term performance.

He asked how West and team are assessing the funds managers, and are they being proactive with necessary changes. West confirmed and said his research team has dedicated analysts who stay in touch with managers at minimum on a quarterly basis and are inside the shops and the processes to make sure expectations are met.

He added they have been monitoring Galliard for several years and are comfortable they have a workable succession plan in place. They are team-oriented, and the departure of a single portfolio manager is not disruptive to their program. He also said their assets have grown considerably, but given the high quality and liquid securities the manager is investing in, and the growth of the underlying fixed income markets, they are comfortable with Galliard and have not seen a decline in performance.

Sawgrass is a boutique where we receive customized management services. If its lead portfolio manager were to retire, West and his team would be before the trustees making a recommendation for change. He also said Sawgrass' performance has been a function of their interest-rate anticipation, and they have been on the wrong side of a few interest calls, leading to volatility.

Trustee Garvy also suggested Sawgrass be put on an active watch basis, because their strategy has not added alpha net of fees since 2013. West clarified Sawgrass has been able to deliver for UCF performance consistency and said the comments Trustee Garvy referenced are for the broader macro strategy. Trustee Garvy said with that information he is satisfied, and there is no need to move forward.

Chairman Marchena said Trustee Garvy's comments as a general principle are solid, and the trustees expect West to come to them if a manager requires action. West added as part of their due diligence, regardless of what strategy the manager is implementing in their product offering, if &Co determines that a manager needs to be removed, they will come before the trustees with that recommendation.

Trustee Garvy noted when preparing manager summaries, it would be helpful if the correct strategy is used for the commentary and analysis to prevent raising concerns that are not warranted.

Clark pointed out on the structured investment portfolio investment policy compliance checklist, the university is now in compliance with the Pool III Equity requirement that investments in equity securities shall not exceed 20 percent of the market value of Operating Pool III's assets. This was corrected with the October rebalancing.

She also said they receive monthly flash reports provided by &Co. October had a loss of almost \$6.5 million, but in November they gained back about \$2.2 million. The chart on page 140 that shows our balance at \$284 million is now about \$280 million. West said in October both short-term and long-term debt lost on a total-return basis, and the aggregate bond index declined 1.5 percent. Equities also corrected during the month. All available investment avenues were unusually off.

Clark said, however, even with both bonds and equities having the large decline, the overall portfolio is still within a safe return and projected tolerance.

Trustee Garvy stated it is obvious this has been a tremendously successful program for UCF since its inception in 2010. A significant amount of credit needs to go to Bill Merck and the Administration and Finance group, as well as West and his team. The kind of graph shown going up for eight years running is extremely rare. We must accept with a program like this there will

be periods where that graph goes down. Over the long-term, it should shape upwards but will have ups and downs. Staying with a program like this is important in the long-term because trying to guess when to get out and get back in only amplifies the complications and has not shown to be a productive strategy. He gives his compliments to both Bill Merck, Clark, and that whole team, and West and his team.

#### Five-year Internal Capital Plan 2019-23 (INFO-6)

Mitchell presented the Five-year Internal Capital Plan 2019-23 as an information item. The trustees had previously requested this report. The Five-year Internal Capital Plan was developed with input from colleges and units on what they need to be successful for our students. With that, they created this list of facilities projects. Moving forward, this list will be used to prepare the Capital Outlay Budget and Five-year Capital Improvement Plan.

This is being provided now only for information. It will be discussed as it relates to the Capital Outlay Budget and Five-year Capital Improvement Plan after the first of the year.

Mitchell said under “Academic” in the Deferred Maintenance and Capital Renewal section, the \$4 million for the Visual Arts HVAC is now on hold. They are waiting for the BOG to confirm if the equipment needed can be purchased with E&G funds.

Trustee Self said he appreciated this being brought to the board and the detail behind the descriptions of the buildings. He also stated the minutes for the previous Finance and Facilities Committee meeting were very detailed, and this is a significant occurrence. He would like to see that throughout our work with the board.

Chairman Marchena said the minutes style has been changed from the previously used summary style to a more detailed style, as the summary style is not necessarily adequate for keeping track of why decisions were made.

Trustee Garvy asked why the Deferred Maintenance Capital Renewal total was \$90 million when it was mentioned earlier in the meeting the actual deferred maintenance costs required is closer to \$200 million. Clark said this is an internal list and does not include every project that needs maintenance. They did not want this to be a carbon copy of the Five-year Capital Improvement Plan, but rather contain larger and more significant items, and what they felt the university could actually accomplish within the five years.

Chairman Marchena requested a list of all the projects that require deferred maintenance funding. Trustee Garvy said it is important to know the total number required for deferred maintenance so someone does not see this list and erroneously think the total is \$90 million, when in reality it is twice that.

Chairman Marchena adjourned the Finance and Facilities Committee meeting at 10:54 a.m.

Reviewed by:

  
\_\_\_\_\_  
Marcos Marchena  
Chairman, UCF Board of Trustees

1/24/19

\_\_\_\_\_  
Date

Respectfully submitted:

  
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Grant J. Heston  
Associate Corporate Secretary

1/29/19  
\_\_\_\_\_  
Date