



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees
Finance and Facilities Committee Meeting
President's Boardroom, Millican Hall, 3rd Floor
October 10, 2018

MINUTES

CALL TO ORDER

Trustee Alex Martins, chair of the Finance and Facilities Committee, called the meeting to order at 8:32 a.m. Committee members Joshua Bolona and David Walsh were present. Committee members John Lord and Robert Garvy attended by teleconference. Chairman Marcos Marchena was present. Trustee Beverly Seay attended by teleconference.

NEW BUSINESS

Nicholson School of Communication Building Name Change (FFC-1)

Robert Littlefield, Director of the Nicholson School of Communication and Media, requested Board of Trustees approval to change the name of the Nicholson School of Communication building to the Nicholson School of Communication and Media building. On July 1, 2018, the Nicholson School of Communication became a new interdisciplinary, intercollegiate school, the Nicholson School of Communication and Media. The building now needs to display the proper name.

Trustee Lord made a motion to approve, and Trustee Walsh seconded. The committee unanimously approved the request.

Bryan Cave Investigation Expansion (FFC-2)

At the request of Trustee Walsh, it was requested the committee consider recommending to the full Board of Trustees the expansion of the Bryan Cave investigation to include a three-year review for possible capital projects that did not receive necessary committee and board approvals.

Trustee Walsh made a motion to approve, and Chairman Marchena seconded in order to proceed with discussion.

Trustee Seay said three investigations are ongoing—the Board of Governors, the Florida House, and Bryan Cave. All of the requests for information are slowing down the investigations, and she believes staff is currently covering the motion. In addition, she does not believe expanding the scope of the investigation will improve processes. Rather, it would only continue to slow down the investigation to address the concerns with Trevor Colbourn Hall.

Vice Chair Garvy said he has similar concerns, and asked how this request is this different from what is already being investigated. Scott Cole, Vice President and General Counsel, said this is what staff is investigating for the Board of Governors' requested 10-year lookback, but Chairman Marchena clarified what Bryan Cave is investigating is if projects were done utilizing wrong funds. What Trustee Walsh is asking to check for is projects that potentially never received formal approval by the Finance and Facilities Committee and Board of Trustees for the contracts to proceed based on the delegated authority. Chairman Marchena suggested letting General Counsel and staff continue their current investigation topics to keep the investigation clear and focused and finished on time.

Trustee Walsh said the thought process was generated by the emergency meeting just last week to review Downtown projects the staff felt were not approved. Given the origin of that concern came from the current investigation and set of circumstances, it is a logical and easy conclusion that an objective review of the facts surrounding any other project, as we go forward with the state, legislature, Board of Governors, and other reviews, be included so the Bryan Cave investigation is as thorough, complete, objective, and comprehensive as possible.

He continued his request is consistent with what the study is about, and he struggles to think it would add much time. He also cited the past confusion regarding projects being on the Five-year Capital Improvement Plan erroneously meaning those specific projects had committee and board approvals.

Kathy Mitchell, Interim Chief Financial Officer, added that if any contract is found to have not received appropriate approvals, it will be brought to the committee and the board.

Chair Martins said he understands the request, but it was the work of the staff, not the investigation, that uncovered the contracts that were brought back to the committee and the board at the October 5 Finance and Facilities Committee and Board of Trustees meetings. He also is concerned about Trustee Seay's worry about the pace of the investigation. He is confident the staff will uncover and bring to the board additional contracts if indeed any are found. Bryan Cave also can perform additional work later if contracts are found that were not approved. Chair Martins expressed concerned about slowing down the investigation and it not being completed on time. Based on what he has heard, expanding the investigation would bog it down.

Trustee Walsh voted for approval of expanding the Bryan Cave investigation. Chairman Marchena, Chair Martins, Vice Chair Garvy, Trustee Bolona, and Trustee Lord opposed. The motion did not carry.

Chairman Marchena asked what staff was hearing from the Board of Governors. Cole said there is a lot of confusion among all the state universities as to what standards were for use of E&G funds for capital projects. There is a lack of written guidance, with universities relying on verbal direction from board staff. The Board of Governors is going to clarify what they believe those standards are, including down to the level of defining what is a capital project. That is expected shortly from the Board of Governors so everyone is on the same page.

Mitchell added there was even confusion as to what the Board of Governors was requesting from the universities, so they are looking at extending the original October 19 deadline to the end of the month.

Chairman Marchena said he was confused because they had asked for a 10-year lookback, but then the report was given to the trustees with the additional projects, and he thought the rule had only gone into effect five years ago. He was trying to figure out what we were looking for in the proceeding five years if the rule was not in effect.

Mitchell said the BOG regulation for the use of operating capital outlay was strengthened and clarified in 2013, specifically to state what operating capital may be used for.

Chairman Marchena asked if there were a definition of capital projects and appropriate use of funds for the various types of projects before 2013 that might have been less clear. Mitchell said that was possible, but if it was there they have not found it. For example, one statute refers to a \$1 million capital threshold and another statute states \$2 million, but they do not specifically define a capital project.

President Whittaker reiterated our commitment to the trustees is we are operating under the 2017 Delegation of Authority guidelines, which have more clarity and are more restrictive than the Board of Governors' guidelines. Then, when we implemented the process for certifying the sources of funds that took it to a higher standard that is now being looked at across the state. What we did in the emergency meeting, with the exception of one project that had not been previously discussed for approval, was retroactively implement our own source of funds certification. We should be in good shape for everything that is operating, especially since that 2017 delegation here at UCF, and we will continue to commit to that and bring anything forward that is underway or needs further approval.

Vice Chair Garvy asked if our lookback beyond five years might find projects that involved E&G funds, but then we will not know whether or not it was inappropriate because of the confusion regarding the Board of Governors' regulations. Mitchell said that was correct.

Chairman Marchena said it was like a video replay, where somebody will end up making a decision as to what the rule meant. He and Mitchell said we will then follow that guidance.

Vice Chair Garvy further asked should the Board of Governors clarify before we go through the time and expense and distraction of our primary mission, and would it be advisable to take direction from the Board of Governors on extending the investigation. Marchena said he does not want to slow down the current investigation, and for the staff to assume that we knew what the rule said.

Vice Chair Garvy added prior to 2013, there might be significant questions throughout the state university system about whether or not the use of E& G funds for capital projects was even disallowed.

Trustee Walsh commented the use of E&G funds might have been per say periodically approved, and the actions we have taken at recent board meetings might not have been necessary. Chairman Marchena said the actions taken last week needed to occur, and those contracts needed to be approved. President Whittaker confirmed and said it was to operate under our Delegation of Authority guidelines. It could be we are operating under higher standards right now.

Mitchell said there is a good chance we overcorrected. Chairman Marchena said he would rather err on the side of overcorrecting than be found to have continued to be in noncompliance. We will always, once the investigation is over and the clarification comes from the Board of Governors, have the ability to make adjustments if deemed appropriate. He is much more comfortable in the place we are today than where we would have been had we not taken the actions from a few weeks ago.

Direct Support Organizations' 2017-18 Fourth-Quarter Financial Reports (INFO-1)

Mitchell and John Pittman, Associate Vice President for Debt and Revenue Management, presented as an information item the fourth-quarter reports for the university direct support organizations. Vice Chair Garvy commended the UCF Athletics Association and the UCF Convocation Corporation for their increases in operations funds and revenues.

He also asked why UCF Limbitless Solutions had no sponsorship and naming rights revenues. Albert Manero, President of UCF Limbitless Solutions, explained this is because sponsorship contracts were signed after the fourth quarter ended and thus were not reflected in the report. They also are working with the UCF Foundation and the Knights Partnership Alliance for naming rights opportunities. Jones added they actually received the same amount of funds as projected in their budget from sponsorships and naming rights but from other sources.

Vice Chair Garvy also asked the Central Florida Clinical Practice Organization to comment on their total revenue being above last year yet still below projections. He wondered if they are still in line with expectations and if budgets should be adjusted. Steve Omli, Assistant Dean of Medical School Finances, explained actuals are lower than budget because those fiscal years included a hiring plan for clinical faculty, but there was a lag in hiring those faculty. This caused the revenues to never meet the budget. The current budget is more conservative in revenue projections, and they did not make the same assumptions about hiring faculty. Their revenue projections are in line with what they expect going forward. He added the clinical practice is growing, so they expect revenues to continue to grow, as well.

University and Direct Support Organization Debt Report (INFO-2)

Mitchell and Pittman presented as an information item the University and Direct Support Organization Debt Report. Chairman Marchena asked if the Fifth Third line of credit for the UCF Athletics Association still had a rest period at the end of the year. Brad Stricklin, Senior Associate Athletics Director and Chief Financial Officer, confirmed.

UCF Investments Quarterly Report Ended June 30, 2018 (INFO-3)

Mitchell and Tracy Clark, Associate Provost for Budget, Planning, and Administration and Associate Vice President for Finance, presented as an information item the UCF Investments Quarterly Report for the quarter that ended June 30, 2018.

Clark noted the portfolio had good gains in the second quarter and had risen to a 15.51 percent equity position. That number was 10 percent when they started the investment portfolio in 2010. She proposed rebalancing Pools III and IV, as the university investment policy mandates rebalancing if outside 5 percent of the target range.

Chairman Marchena asked if rebalancing occurs quarterly, and Clark said no, it is only when the numbers are outside of range. It is not a continuous process. She said for this rebalancing they will be moving \$10.4 million from equity to fixed income.

Chairman Marchena also asked about the current status of the investment portfolio, as the report only reflects activity up to June 30. Dave West, the assigned &Co (the investment company) UCF investment advisor, said they have reviewed the current status and rebalancing is still required. Clark added cash is constantly flowing in and out, and the investments are fluid, so they must just select a point in time and perform the rebalancing.

Chairman Marchena asked if there is a set time of year to look at rebalancing, and Clark responded they review quarterly, but they also have a range of 10 to 12 percent to allow for fluctuations.

Chairman Marchena proposed having a presentation by Finance and Accounting and the &Co team to explain the structure and content of the investment pools. This will be added to the agenda of a future Finance and Facilities Committee meeting.

Chair Martins asked if the investments are further exceeding the target equity allocation since the June 30 date of the report, and West confirmed.

Vice Chair Garvy stated rebalancing a portfolio is a positive as long as there is a tendency to reversion to the mean. UCF has earned \$80 million in gross earnings on the portfolio, but we are in the longest bull market in history. Eventually the economy will go from this high point to a period of distress, and we must be prepared for volatility. We have disciplined methodology and guidelines in place. He expects more deviation moving forward, so the presentation to the committee would be useful.

West informed the committee &Co went to the treasury for site visits as part of their due diligence with SPIA oversight and have positive findings. He trusts the current policies and procedures in place, and SPIA contains reasonable liquidity prospects for UCF investments in that fund.

Clark added SPIA functions much like a checking account, with funds being added and withdrawn (as an example, state appropriations go into SPIA) daily. It produces approximately a 1.6 percent yield.

Trustee Walsh asked if we have excess money in reserves that could be used toward improving undergraduate education. Clark and Chairman Marchena emphasized the investment pools are not reserves, and commitments are in place for those funds, such as the new faculty start-up packages. Chairman Marchena stated the actual reserve, required by the state, is 5 percent, but the university keeps slightly more than that to allow for future expenses.

Trustee Walsh then asked if any funds are available that could be used for improving undergraduate education, such as the College of Business' need for \$2 million. President Whittaker said he would rather discuss that with Trustee Walsh offline, as he is not convinced the College of Business is underfunded. President Whittaker added a plan is in place for the coming months to review funding.

2019 Finance and Facilities Committee Meeting Dates (INFO-4)

Chair Martins presented the 2019 Finance and Facilities Committee meeting dates and instructed the committee members to add the dates to their calendars. Meetings are scheduled for February 20, April 17, May 16, June 19, August 14, October 16, and December 11.

OTHER BUSINESS

Make Good Process Recommendation

Trustee Walsh proposed going forward the staff consider implementing a make good process. This would involve reviewing three or four major projects each year to see if they met objectives and are performing as expected. In other words, it is a post mortem project review. Chair Martins said the committee has approved many projects but has not gone to see any of them. During the next year he would like to take a tour of some of the projects or hold a committee meeting in one of the buildings.

Five-year Capital Improvement Plan Revision

Trustee Walsh requested that the Five-year Capital Improvement Plan be rescrubbed and updated with the latest approvals and developments. Chair Martins said committee work is ongoing on this and suggested bringing it as it currently stands for the committee to review. Trustee Walsh said he wants to potentially speed up the process and see the whole list sooner than the previous due date.

Chairman Marchena added because there has always been such a short time to review this even in normal circumstances, he sees merit in allowing more time to examine the list.

President Whittaker explained this past year was the first time the university used a comprehensive exercise for all units and divisions to present their budget requests at a retreat in November to the Facilities Budget Committee. Clark added it then took from November to April to assimilate the information presented at the retreat, hold the necessary follow-up meetings, and then make sure their internal plan matches the Five-year Capital Improvement Plan. The Facilities Budget Committee now plays a part in the development of the Five-year Capital Improvement Plan.

Chairman Marchena said we have two lists. The first is the reality list prepared by the Facilities Budget Committee. The second is the Five-year Capital Improvement Plan, which can be thought of as a wish list of projects the university wants to complete. He voiced his concern about Trustee Walsh's request to remove projects from the Five-year Capital Improvement Plan, as the state mandates that any item must be on the Five-year Capital Improvement Plan to even be considered for approval. Chairman Marchena added we need to be prepared in the off chance funding becomes available.

Trustee Walsh said he wants to ensure what projects have been approved so far are on the Five-year Capital Improvement Plan, such as the components of UCF Downtown approved at the October 5 Finance and Facilities Committee and Board of Trustees meetings. He also asked if items are not on the Campus Master Plan, should they be put on the Five-year Capital Improvement Plan anyhow, or wait to be added to the Five-year Capital Improvement Plan once the committee and full board have approved.

President Whittaker proposed having the Five-year Capital Improvement Plan be brought to the committee in two stages. First would be a reading cycle, and the second would be an approval cycle.

Chairman Marchena said a closer look at the Five-year Capital Improvement Plan is needed sooner rather than later. President Whittaker also suggested providing to the trustees the internal Facilities Budget Committee document that shows the financial reasoning for the budget breakdown and how it aligns to the Five-year Capital Improvement Plan.

Roth Athletics Center Funding

Danny White, Vice President and Director of Athletics, and Stricklin informed the committee they will be requesting its approval at the November 15 meeting to begin the loan solicitation process to secure the financing to finish construction on the Roth Athletics Center before football season begins in August 2019.

White said Athletics staff has been working on picnic tables and folding card tables for almost three years, and the time has come for genuine and productive workspaces. The football team's locker room also will be updated as part of the renovation.

Stricklin said construction must start in mid-January in order to reach the August 2019 completion deadline. A special BOT meeting will likely be needed in early January for final project approval, as the January construction start time is critical in order for the project to be finished on time.

Stricklin added they will have a "does not exceed" number for the loan request, but they are thinking it will be in the low \$10 million range. They have \$11.4 million from five-year pledges set aside to cover the loan principal and interest.

Martins clarified they will be asking for approval at the November 15 meeting to approve the "not to exceed" loan amount and then come back to the committee for approval later with the final funding details and guaranteed maximum price (GMP) contract.

Chairman Marchena asked how the original groundbreaking was funded. Stricklin stated cash through donations. Chairman Marchena also asked for confirmation only donations will be used, and the university will not back the loan. This was confirmed by Stricklin and Pittman. President Whittaker stated because this project is using donations, it is exempt from his moratorium on capital projects.

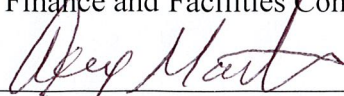
Chairman Marchena emphasized the board would only consider approving the loan "do not exceed" amount, not a "do not exceed" amount for the GMP.

Trustee Walsh asked for confirmation of total project costs for the Roth Athletic Center, and Stricklin confirmed it was right around \$13 million. White said of the \$11.4 million in donations, some were marked as specifically for the Roth Athletics Center, and some were for the overall expansion of the Dixon Athletics Village.

Vice Chair Garvy said Athletics has been innovative and making do with their current space, but it is critical to keep the project moving forward. He emphasized it does not require Board of Governors' approval, and no university funds will be used.

Chair Martins adjourned the Finance and Facilities Committee meeting at 10 a.m.

Reviewed by:

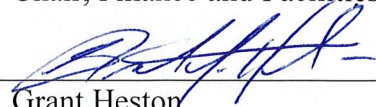


Alex Martins
Chair, Finance and Facilities Committee

11.15.18

Date

Respectfully submitted :



Grant Heston
Associate Corporate Secretary

11/19/18

Date