



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees
Finance and Facilities Committee Meeting
FAIRWINDS Alumni Center
May 16, 2019

MINUTES

CALL TO ORDER

Trustee Alex Martins, chair of the Finance and Facilities Committee, called the meeting to order at 10:33 a.m. Committee members Robert Garvy, Kyler Gray, David Walsh, and Bill Yeargin were present. Trustees Ken Bradley, Danny Gackwad, Beverly Seay, and Bill Self were present.

Chair Martins opened the meeting by introducing Dennis Crudele, the new Interim Chief Financial Officer.

MEETING MINUTES

The minutes of the March 13, 2019, and March 21, 2019 Finance and Facilities Committee meetings were approved as submitted.

NEW BUSINESS

U.S. Army Cooperative Agreement Modification 33 (FFC-1)

Misty Shepherd, Interim Vice President for Administrative Affairs and Operations, Elizabeth Klonoff, Vice President for Research and Dean of the College of Graduate Studies, and Sandra Sovinski, Deputy General Counsel for Research, presented for approval the U.S. Army Cooperative Agreement Modification 33.

Shepherd stated FFC-1, FFC-2, and FFC-3 are all related to research agreements where UCF is the receiver of research funding from external entities. These will not place an additional financial burden on the university.

Klonoff said these research contracts are all related to INFO-1 “Clarification of Board of Trustees Contract Approval Requirements” on this meeting’s committee agenda, which is to inform the trustees of the need to make clear what contracts must receive board approval.

Research contracts should have been exempt from needing Board of Trustees approval per the latest Delegation of Authority to the President in January 2019. However, research contract approval is still required per the UCF Board of Trustees Guidelines for Materiality.

UCF and the US Army Research Laboratory Simulation Training Technology Center entered into a Cooperative Agreement effective June 3, 2015, titled “Soldier Perception Laboratory for Force 2025 Army Training and Education Modernization”. The initial term was five years and was estimated to result in \$4,175,627 in funding, with four potential options resulting in a total estimated funding amount of \$22,235,059, if all options are exercised.

To date, \$4,860,302.79 has been funded within the initial base term. There have been 32 prior modifications, including administrative modifications and incremental funding modifications. Depending upon their character, some modifications require execution by UCF and others are unilateral, with UCF legally accepting the terms upon the drawing down of the funds.

Modification 33 is a unilateral modification issued by the Army in order to increase the funding for the initial base term by \$1,412,176, which will increase total UCF funding to \$6,272,478.79.

Martins asked if there are any material changes to the agreement. Klonoff said new task orders were given, but that this is true for any kind of grant.

Trustee Walsh asked if any cost exposure could arise that could exceed intake. Klonoff said that the cost exposure does not differ from any other grant. Most grants are on a cost reimbursement basis.

Martins added this will be true for all the research contracts up for approval today, which will lead into the discussion on INFO-1.

The committee unanimously approved the U.S. Army Cooperative Agreement Modification 33 as presented.

Lockheed College Work Experience Program Contract Amendments (FFC-2)

Shepherd, Klonoff, and Sovinski presented for approval the Lockheed College Work Experience Program Contract Amendments.

UCF and Lockheed executed the current College Work Program Blanket Contract (CWEP Contract) January 1, 2017, with a term ending December 31, 2021. Under the CWEP Contract, Lockheed provided \$5,000,000 in funding to UCF in 2017, and \$5,000,000 in 2018.

An amendment to Lockheed Purchase Order #4102886387 was issued on February 11, 2019, to provide an additional \$8,500,000, for a total funded value of \$18,500,000, and with a total anticipated value for the CWEP Contract of \$28,500,000. Another amendment was issued on February 12, 2019, to update certain text, and another amendment was issued March 1, 2019, to remove certain text.

1. CWEP

- CWEP provides an opportunity for undergraduate and graduate students to gain real-world work experience relevant to their academic and career goals while maintaining full-time enrollment at UCF.
- Funding provides UCF students with a year-round paid opportunity with training experience on the cutting edge of technology.
- CWEP Facts:

- Established by Martin Marietta in 1981
- Over 3,000 students have participated since 2003
- Over 700 students participated in 2018
- Over \$93 million funded since 1988
- UCF Stakeholders:
 - SDES and Career Services
 - College of Engineering and Computer Science
 - Office of Research
 - Finance and Accounting
- CWEP Impact:
 - Lockheed Martin hires more graduates from UCF than any other university.
 - UCF First Destination Survey data says:
 - Lockheed Martin is the #1 employer for UCF College of Engineering and Computer Science and College of Business graduates.
 - Lockheed Martin is the #4 employer for all UCF majors.

2. CWEP Contract

- CWEP student participants (“Students”) are UCF employees, with attendant employer-employee risks, including Workers’ Compensation and General Liability risks.
- Lockheed Martin owns all Students’ intellectual property with no UCF license.
- Students are assigned to work at Lockheed Martin Missiles and Fire Control facilities, with all or some directly charging work time to a U.S. Government contract.
- UCF CWEP Contract obligations include Students’ compliance matters, such as:
 - Prohibiting Students from bringing any software to Lockheed Martin facilities
 - Performing drug screening and background checks
 - Obtaining required security clearances
 - Complying with Lockheed Martin Supplier Code of Conduct
 - Complying with export control laws and regulations
 - Complying with Lockheed Martin premises rules and restrictions
 - Complying with confidentiality obligations
- CWEP Contract may be terminated for convenience

Trustee Walsh asked if all interns to Lockheed flow through this agreement. Klonoff said 700 students interned with Lockheed in 2018, so the majority of them would.

The committee unanimously approved the Lockheed College Work Experience Program Contract Amendments as presented.

Schlumberger Global Master Services Agreement Amendment (FFC-3)

Shepherd, Klonoff, and Sovinski presented for approval the Schlumberger Global Master Services Agreement Amendment.

UCF and Schlumberger Technology Corporation executed the Global Master Services Agreement (Master Agreement) on September 29, 2014, with an initial term ending on September 29, 2016. By a first amendment that was executed by UCF in May 2017, and made effective on September 29, 2016, the Master Agreement was extended until September 29, 2018.

A second amendment that is pending execution and would be effective on January 1, 2019, extends the term until December 31, 2023, thereby extending the entire term of the contract to nine years.

Klonoff said this amendment is going before the board because the time of the contract is now above the five-year threshold.

The committee unanimously approved the Schlumberger Global Master Services Agreement Amendment as presented.

First Amendment to the Florida Advanced Manufacturing Research Center Lease (FFC-4)
Shepherd, Klonoff, and Sovinski presented for approval the First Amendment to the Florida Advanced Manufacturing Research Center Lease.

Klonoff summarized that UCF is leasing the facility for \$1 per year. UCF operates the facility, and at the end of 40 years the facility comes into the possession of UCF. However, difficulties have been encountered with gearing up the facility. BRIDG is requesting that \$8.5 million worth of sophisticated tools (which were paid for by Osceola County) be used as collateral for a loan with an outside company. At the end of 40 years, the tools will become the property of UCF.

On August 26, 2016, UCF authorized Osceola County's expenditure of certain Development Agreement funds: \$8.5 million for acquisition of certain tools ("Intersil Tools") and \$1,210,670 for a portion of the installation costs of the Intersil Tools. The Intersil Tools, which are owned by Osceola County, will become part of the R&D Center leased by UCF.

BRIDG requested that Osceola County assign ownership of the Intersil Tools to BRIDG to enable BRIDG's pledge of the Intersil Tools as collateral for a third-party line of credit. A First Amendment to the Lease and Tool Conveyance Agreement is proposed to facilitate this transfer, which revises UCF's obligations to continue operation of the R&D Center in the event of a foreclosure of the security interest in the Intersil Tools. A related second amendment to the Master Services Agreement (MSA) allows for such an encumbrance.

On May 15, 2019, UCF received a request from Osceola County and BRIDG to revise the pending First Amendment by: (a) inserting terms required by the EDA, and (b) removing a requirement to the BRIDG line of credit that is secured by the Intersil Tools. These revisions are highlighted in updated Attachment A, at 4.05(C) (page 7 of 18) and at Section 3(D)(3) (page 9 of 18).

As background, in August 2014, UCF entered into a Development Agreement with Osceola County for an R&D Center to be built by Osceola County and leased by UCF (approved by the Board of Trustees on September 25, 2014). The Development Agreement included an agreed upon lease.

The board approved an Amended and Restated Development Agreement and Lease on May 18, 2017, which updated certain aspects of the development progress, including a commitment by Osceola County of additional funds, and reflected terms of related agreements for utility infrastructure delivery.

Prior to the execution of the Amended and Restated Development Agreement, the board approved a new version on July 20, 2017, which included new terms required by the United States Department of Commerce Economic Development Administration for a \$2,222,412 financial assistance award to enhance the clean room and install tools at the R&D Center.

The Amended and Restated Development Agreement was executed by UCF on October 6, 2017, and the lease was executed on February 15, 2018. Relatedly, UCF entered into a Master Services Agreement with ICAMR, Inc. (aka BRIDG) on October 24, 2017, with a first amendment adding performance milestones executed on April 20, 2018.

Martins asked for confirmation that Osceola County owns the tools and is giving them to BRIDG per this agreement, but that the UCF Board of Trustees needs to approve. Klonoff said giving the tools to BRIDG changes the lease, which has to be approved by the board. Martins asked for and received confirmation that UCF receives the tools after 40 years.

Trustee Bradley asked what will happen if BRIDG defaults. Klonoff said that the tools become collateralized as part of the mechanism to pay back the loan.

Bradley suggested, and Martins agreed, the board should receive a presentation updating them on BRIDG.

President Thad Seymour concurred but added that this lease amendment approval is a timely request that needs to be presented now. A more strategic discussion on BRIDG can occur at the next board meeting.

Chairman Garvy stated that BRIDG needs this approval to move forward.

Walsh asked for clarification that UCF is not a party to the loan, and Klonoff confirmed. He also asked for and received confirmation the tools are owned by Osceola County and not UCF.

Sovinski added that the amendment changes UCF's obligations to the building. In the original lease agreement, UCF was obligated to continue to use the building for 40 years for its current use. Under this new amendment, the building potentially can be used for other purposes or sold.

The committee unanimously approved the First Amendment to the Florida Advanced Manufacturing Research Center.

Clarification of Board of Trustees Contract Approval Requirements (INFO-1)

Shepherd, Klonoff, and Sovinski presented as an information item the clarification of Board of Trustees contract approval requirements.

This item went to the Nominating and Governance Committee for approval, but the Finance and Facilities Committee is being informed of the request because the Finance and Facilities Committee approves most of the university's long-term and high-dollar-value contracts.

UCF employees currently have several UCF documents available for guidance in determining whether a contract is required to be presented to and/or approved by the Board of Trustees. These documents include the following:

- UCF Board of Trustees Guidelines for Materiality (“Materiality Guidelines”)
- Board of Trustees Delegation of Authority to the President (“Delegation of Authority”)
- UCF Regulation 4.034 Direct Support Organizations (“Regulation 4.034”)

However, these documents are not consistent as to dollar and/or term thresholds that require contract approval by the board. The more recent Delegation of Authority renders the Materiality Guidelines unnecessary, and inconsistencies between the two cause uncertainties as to the requirements, which can be rectified by eliminating the Materiality Guidelines and updating the Delegation of Authority.

UCF Regulation 4.034, which sets forth requirements for board approval of certain DSO contracts, identifies certain exceptions, including sponsored research and expenditures funded by third parties.

Historically, and to date, research contracts have not been referred to or approved by the board. However, neither the Delegation of Authority nor the Materiality Guidelines specifically refer to research contracts or to any exceptions. Updating the Delegation of Authority to include an exception for research contracts would confirm current practice.

Research contracts are defined as “all grants, contracts, and other agreements with terms and conditions for research, sponsored training, clinical trials, patents and licensing, technology transfer, and research compliance including but not limited to agreements that obligate university project funds.” (UCF Policy 2-107.5)

Inconsistencies (boldface):

Delegation of Authority	Materiality Guidelines	Regulation 4.034
Requires BOT Approval	Requires BOT to be promptly informed ; Should be referred to BOT	Requires BOT Approval
Financial commitment, obligation, or contingent risk of five million dollars or .5% percent of the University budget, whichever amount is smaller	An annual financial commitment, obligation, or contingent risk of five million dollars or .5% of the university budget, whichever amount is smaller	An annual financial commitment, obligation, or contingent risk of five million dollars or .5% of the university budgets, whichever amount is smaller
Contractual obligation of either more than five (5) years’ duration or an aggregate net	A contractual obligation of more than five (5) years’ duration, having an aggregate net value of	A contractual obligation of either more than five (5) years’ duration or an

value of five million or more dollars	five million or more dollars	aggregate net value of five million or more dollars
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Trustee Yeargin, Chair of the Nominating and Governance Committee, said this item was unanimously approved by the Nominating and Governance committee on May 1 and is on the consent agenda for the full board this afternoon.

Martins said he supports this change, but he is bothered by the board distancing itself from the grant process and these partnerships without some level of authority or oversight. At minimum some sort of reporting should be made to the board on these significant grants.

Klonoff said she can report twice a year to the board and provide an update on large grants. Martins clarified he is not looking to approve the grants and contracts, but rather letting the board see what grants the university is receiving.

2018 Capital Projects Summary (INFO-2)

Shepherd and Bill Martin, Director of Facilities Planning, presented a summary of projects completed in 2018, including information on budgeted versus actual costs, projected timeline versus actual completion timeline, the final square footage at completion, and any programmatic changes after board approval for the following buildings and projects:

- Research I
- John C. Hitt Library, Phase 1
- District Energy Plant IV
- Trevor Colbourn Hall
- Student Union, Phase 2
- Baseball Stadium Expansion

Because of the extent of the Global UCF project, it was included in this presentation, although it was completed in 2016.

Martins asked for an explanation of the “came under budget without project manager services” in the “Actual Cost” line on the library and energy plant sections. He also asked why that was different from the other projects presented, and whether the project management services were internal or external.

Martin explained the project management services to which he was referring are provided by UCF Facilities Planning. They charge three percent as a “project management fee” on all projects to cover staff costs. Facilities Planning is 50 percent funded by E&G funds, and the remaining funding comes from project management service fees.

For those two projects, costs were getting close to budget, and Facilities Planning did not want to ask for additional university funds. As such, Facilities Planning reduced what they charged for the project management fee on the library and energy plant so that those projects would remain on budget.

A robust discussion with input and questions from all trustees followed. Martins requested that consistent calculations be determined for all the projects, and this presentation be brought back to the board.

Seymour said staff would agree, and it should be reported to the board the same way it was budgeted. He added that the university is in the process of reviewing internal accounting procedures.

Walsh requested that the budgetary savings for Trevor Colbourn Hall be removed from the report. Martins said when the report comes back with the budget versus actual approach, Walsh can consider how Trevor Colbourn Hall is presented.

L3 Building Lease Documents (INFO-3)

At the March 21, 2019, Finance and Facilities Committee meeting, Trustee Walsh asked that the lease between the UCF Foundation and the University of Central Florida for the L3 Building in Research Park be brought to the committee for approval. This lease was approved by the committee and the full board at their respective November 15, 2018 meetings. The item and minutes from the November 15, 2018 Finance and Facilities Committee and full Board of Trustees meetings were presented.

Walsh said that he was satisfied and confirmed that the original prepayment requirement was not included in the final lease.

Critical Deferred Maintenance Update (INFO-4)

Shepherd and Duane Siemen, Interim Associate Vice President for Facilities, presented an update on critical deferred maintenance.

At the March 13, 2019 Finance and Facilities Committee meeting, trustees requested further information on critical deferred maintenance needs and funding, including any critical deferred maintenance needs that are not being met. To address this request, they are providing to the committee excerpts from the most recent Intelligent Systems & Engineering Services Corporation (ISES) report, which was issued in September 2018. Included in this report are specific issues identified as critical deferred maintenance.

Facilities can confidently respond that all maintenance needs identified as critical have been addressed and that the university does not have any items to report as critical deferred maintenance at this time.

The report identifies three main categories for campus needs:

Nonrecurring	\$ 14,857,108
Recurring (Deferred)	\$ 75,934,762
Recurring (Projected)	\$174,440,632
Total 10-year Facility Needs	\$265,232,502

At this time, the report only includes buildings identified as Education & General (E&G), and does not include student housing, auxiliary space, or recreational and sports facilities. The total identified gross square feet is over 4 million, and the current replacement value (CRV) is \$1.8 billion.

ISES recommends that the annual funding target for renewal needs should be three percent of CRV, or roughly \$50 million. UCF Facilities engineers consider this to be an overly aggressive target, and believe that 1.5 percent of CRV, or roughly \$27 million, is sufficient. However, the average actual annual spending is closer to \$6 million. For the past several years, UCF has requested between \$12 and \$14 million in PECO funds, in accordance with BOG guidelines, to provide the necessary resources for deferred maintenance. These requests have not been funded, causing a large gap between target expenditures and available funding.

To mitigate this funding shortfall, UCF Facilities has instituted various methods of preventative and predictive maintenance to encourage longer life cycles for major building systems and equipment, including a model and practice known as Reliability Centered Maintenance. As the report reflects, since the implementation of this model Facilities has seen strong progress toward effectively accomplishing more with less.

Shepherd stated other facilities, even some outside of higher education, are seeking advice from UCF on building maintenance and upkeep. Also, UCF received the Uptime Reliability Award for work execution management. UCF competed with more than 2,000 entries from 79 countries, beating out Honda, Pepsi Co, and Caterpillar, and is the first higher education institution to win this award.

Bradley asked if the university budget includes the costs needed for maintenance. Shepherd said \$6 million has been budgeted per year. Bradley added that means a \$14 million gap exists, and Shepherd confirmed.

Siemen said they look at renovations of systems when possible versus complete replacements. Larger, energy-efficient projects are often replaced, whereas small projects are renovated. If a large item, such as a generator or plumbing system, is properly cared for, it can last a longer amount of time, extending the life cycle and saving money in the long term.

Trustee Self asked for confirmation that Plant Operation and Maintenance (PO&M) determination by the state at the time a building is built does not increase over time. He further asked where the money comes from in the budget for PO&M on buildings.

Shepherd said it is all in the state-approved base budget, and a project is now underway to determine exactly how much is for PO&M.

Trustee Seay asked if the new Facilities methodology has reduced critical deferred maintenance costs, and Siemen confirmed. Seay requested that Facilities give an updated presentation in the future, and that these numbers could be used when budgeting to reduce the scare factor.

Siemen clarified that, within PO&M, there is an operational cost and a deferred maintenance cost (the \$6 million referenced). There are 22 buildings built before 1982, including the high energy-use Biology building and the Library, which still receive 1982 dollar amounts for operating funds.

Trustee Gaekwad asked if Facilities receives the necessary dollars to complete critical repairs. Siemen said yes, but interior finishes such as paint and carpet will require deferred maintenance

funds. He can do very little with his methodology because those are replacement costs. Gaekwad said those are capital expenses, not maintenance, and should come from a different bucket of funds. However, he commended Siemen for Facilities' accomplishments.

Shepherd said the \$6 million UCF had received annually for maintenance has been cut effective with this session. Janet Owen, Vice President for Government Relations, will present more information in her update to the full board.

Gaekwad asked if Facilities is using students to help complete any of these projects, and Siemen confirmed.

Capital Improvement Plan Process Explanation (INFO-5)

Shepherd presented as an information item the schedule and approval process for submission of the annual Five-year Capital Improvement Plan and Capital Outlay Budget. Those will be presented to the board in June.

Direct Support Organizations' 2018-19 Second-Quarter Financial Reports (INFO-6)

Dennis Crudele, Interim Chief Financial Officer, and Bert Francis, Assistant Controller, presented as an information item the 2018-19 Second-Quarter Financial Reports for the Central Florida Clinical Practice Organization and the university DSOs: UCF Athletic Association and Stadium Corporation, UCF Convocation Corporation, UCF Finance Corporation, UCF Foundation, UCF Limbitless Solutions, and the UCF Research Foundation.

Martins asked if any general abnormalities were present for any of the DSOs. Francis said notes for each DSO were provided on the cover page to explain any changes, but overall none adversely affect the operating results.

Walsh asked for explanation of the "15-month accounting period" specified on the CFCPO report. Steve Omli, Assistant Dean of Medical School Finances, said it was a way to calculate revenue for the second quarter. Revenues and expenses were equivalent for the two quarters of 2018-19. He also emphasized the CFCPO is not the same entity as the full Faculty Practice Plan.

Walsh requested an update on the implementation of the recommendations following the consultant review of the health clinics. Martins said this can be presented at a future committee meeting.

University and Direct Support Organization Debt Report (INFO-7)

Crudele and Francis presented as an information item the University and Direct Support Organization Debt Report.

Martins asked if any abnormalities were present, and Francis said two new debt issuances and one refunding occurred:

- In July, the UCF Convocation Corporation refunded the housing and retail Certificates of Participation with revenue bonds to a bank with maturity dates extending through October 2035 at a fixed rate of 3.52 percent. As a result, the Corporation transferred \$78.3 million of capital assets to the university.

- The UCF Foundation purchased the L3 Building. The \$6 million note is included with the BB&T balance.
- The UCF Foundation purchased the Sanford Burnham Research Annex, funded by a \$50 million interest-free mortgage from the seller (Orange County).

Martins confirmed that all three had come before the committee for approval.

University Final Audited Financial Report 2017-18 (INFO-8)

Crudele and Brad Hodum, Interim Controller, presented as an information item the University Final Audited Financial Report 2017-18. The draft of this report was presented to the committee at the December 12, 2018 Finance and Facilities Committee meeting. The Auditor General has completed its review and released the final report.

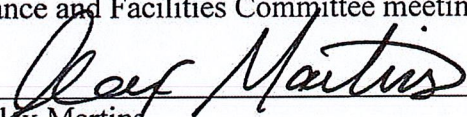
There were no material changes in the financial statements from the draft presented on December 12, 2018. The Auditor General issued an unqualified or "clean" audit opinion for the financial statements. The auditor's supplemental report on internal controls over financial reporting and compliance includes a material weakness in internal controls related to the misuse of Education and General appropriation carryforward funds to construct Trevor Colbourn Hall and other capital projects as a result of their findings included in their operational audit report issued January 2019.

Quarterly Operating Budget Report Ended March 31, 2019 (INFO-9)

Crudele and Hodum presented as an information item the quarterly operating budget report for the quarter that ended March 31, 2019. The reports include year-to-date revenues and expenditures for the nine months ending on March 31, 2019 and 2018 in comparison to the operating budget, along with narrative discussion of significant changes in year-over-year financial results. Overall, revenues and expenditures as a percent of the operating budget are 76.7 percent and 70.2 percent, respectively, compared to 73.8 percent and 68.7 percent in the prior year.

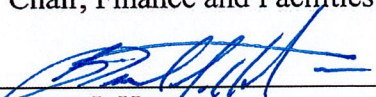
Martins adjourned the Finance and Facilities Committee meeting at 12:06 p.m.

Reviewed by:


 Alex Martins
 Chair, Finance and Facilities Committee

6.19.19
 Date

Respectfully submitted :


 Grant J. Heston
 Associate Corporate Secretary

6/26/19
 Date