UCF

UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees
Finance and Facilities Committee Meeting
January 14, 2021
Virtual Meeting

MINUTES

CALL TO ORDER

Trustee Alex Martins, chair of the Finance and Facilities Committee, called the meeting to order at 1:00 p.m. Committee members Caryl McAlpin, Harold Mills, Danny Gaekwad, David Walsh, and William Yeargin attended virtually. Board of Trustees Chair Beverly Seay and Trustees Joseph Harrington, Sabrina La Rosa, and Michael Okaty attended virtually.

MINUTES

The committee unanimously approved the minutes of the November 19, 2020, Finance and Facilities Committee Meeting as submitted.

REPORTS

Gerald Hector, Senior Vice President for Administration and Finance, provided the committee with an update on the financial status of the university and what to expect from the Administration and Finance Division moving forward.

In his first ninety days, Hector will focus on the Three Ps: People, Process, and Performance. Hector has been engaged with the UCF team since December and is finalizing plans to reorganize the combined division by January 31, 2021. Updates to processes will include the ERP system, Adaptive Planning budgeting software, and the new UCF Budget Model. Performance will be measured through reporting KPIs and metrics to the cabinet and the Board of Trustees (BOT), assessing the timelines of reports for information and quality control, and looking at industry best practices. Hector is also building relationships with the Board of Governors (BOG), Council for Administrative and Financial Affairs (CAFA), and other stakeholders.

Hector's focus on performance will reshape reporting to the BOT and all key decision makers through a monthly report of KPI measurements. BOT discussions on financial and operational milestones and targets will be aligned with BOG requirements and deadlines. Hector is also having conversations about service delivery and programmatic aspects of the Knight Vision project.

Much of Hector's work since arriving at UCF has centered on understanding the institution's cash flow and liquidity. One of his top priorities is analyzing the "colors of money" at UCF and any flexibility the institution may have in utilizing different sources of funds. His key takeaway is that even though UCF has substantial working capital, it is highly structured by purpose and statute and does not provide much flexibility in terms of core operations and repayment of internal loans. He wants to determine the flow and cadence of the different sources of funds over time.

Hector then provided an update on enrollment. Summer 2020 tuition, non-resident fees, and differential tuition were up $7.2 million over last Summer. Fall 2020 tuition, non-resident fees, and differential tuition were up $5.8 million over last Fall. Spring 2021 tuition, non-resident fees, and differential tuition are projected to be up $7.3 million over last Spring. Hector plans to spend more time looking at UCF's tuition revenue, as well as the correlation between tuition revenue and cash flow.

While COVID and CDC guidelines continue to impact UCF's housing occupancy rates, occupancy has increased for Spring 2021 over Fall 2020. Housing occupancy is at 84 percent of full capacity on the main campus for the Spring semester as of this week, compared to 76 percent occupancy for the Fall 2020 semester. Due to the impacts of COVID, Summer 2020 rental revenues were down about $900,000 over Summer 2019. Fall 2020 rental revenues were down $2.6 million from pre-COVID budget expectations. Spring 2021 rental revenues are projected to be $1.8 million lower than pre-COVID projections. UCF is looking at Summer and Fall 2021 housing revenues on a prospective basis.

Of the $51 million UCF received in CARES Act funding, all $25.5 million received for student support was awarded to 24,521 eligible students as of September 2020; only $125,000 received for institutional support remains available for allocation. Of the $3.8 million in Minority Serving Institution funds, the university has allocated $1.7 million, with $2.1 million remaining. Hector has met with the provost on how best to utilize the remaining funds.

Trustee Yeargin asked whether Hector had seen any indication that UCF has a cash flow problem. Hector responded that, since sources of university funds are often restricted, he is looking into UCF's monthly cash burn rate for the past three years and overlaying the impact of COVID. From that analysis, he will make projections for the end of the year and beyond.

Chair Seay asked Hector to help the BOT understand UCF's carryforward funds, which are viewed as excess cash by external constituencies. Hector responded that he is looking into carryforward funds, the order in which university funds are utilized for expenses, and how the new budget model will address carryforward funds. He also intends to include carryforward funds in the new reporting system.

Trustee Mills asked whether Hector could elaborate on the most recent CARES Act that was passed and any additional student aid or benefits that UCF may receive as a Minority Serving Institution. Hector responded that UCF is projected to receive $86.9 million from this round of funding. Final regulatory guidance from the US Department of Education as to how these funds may be spent is not yet available. Preliminary guidance indicates that institutions will be required to split their aid allocation between institutional uses and additional emergency grants to students. As a Minority Serving Institution, UCF will receive additional funds.

Trustee Martins asked whether Hector had any insights into UCF's state funding. Hector responded that Florida's CARES Act funding is in place and that the state legislature will begin meeting again in March to look at the state general revenue collections and any potential impacts on the State University System of Florida (SUS). President Alexander Cartwright added that CARES Act funding is specifically for COVID-related expenses, not to supplement institutional operations, and that UCF has implemented a six percent holdback of E&G funding and is continuing to look at other ways to reduce expenses. Cartwright feels that UCF is as prepared as it can be, given the uncertainty of what will be done for the SUS.

Chair Seay commented that enrollment management is becoming more important and that the BOT would like more information regarding UCF's strategy with respect to prospecting and yield. Hector responded that enrollment will be a key factor in his analysis of net tuition revenue.

Misty Shepherd, Interim Vice President for Administrative Affairs and Chief Operating Officer, then provided the committee with the COO update.

UCF has been approved as a vaccination site for faculty, staff, and students, beginning with an initial distribution of 1,000 doses of the vaccine this week. The state of Florida's current executive order allows UCF to administer the vaccine to healthcare workers, and faculty, staff, and students who are 65 years of age or older. Details on scheduling vaccination appointments are being shared with those who are eligible.

Facilities and Safety will continue frequent cleaning of restrooms and high-touch points, as well as disinfecting all classrooms nightly and stocking hand sanitizing and disinfectant wipe stations throughout campus. Classrooms continue to have distanced seating in accordance with CDC guidelines. This spring, UCF introduced sending reminder messages through the UCF Mobile app to users in heavily populated areas.

Beginning this semester, UCF will be implementing wastewater testing on main campus dormitories to monitor for the presence of the coronavirus. Facilities and Safety has also begun monitoring carbon dioxide levels in certain high-density classrooms.

Campus welcomed back Spin scooters, an SGA-driven initiative that brought scooters to UCF last year. Scooters had been removed as part of UCF's response to the pandemic, but as a result of students' support for the scooters, 200 scooters will be available on UCF's main campus with new safety precautions in place.

Garage A will continue to serve as a drive-through testing site for UCF faculty, staff, and students, as well as the surrounding community. Testing was required for all students living in on-campus residence halls for the Spring semester, and the testing and move-in process flowed very smoothly.

Trustee Martins commented that the state surgeon general praised universities for doing a phenomenal job of safety and sanitization and keeping positivity rates lower than the general population. Shepherd responded that UCF has emphasized communication, self-quarantine, testing, random testing, social distancing, and strong restrictions on social gathering and events.

NEW BUSINESS

FFC-1 Change Campus Type for South Orlando Site (2)

Shepherd gave a brief overview of the site reclassification for South Orlando Site (2) (SO), as required by Florida Statutes and BOG Regulations. SO is a 20-acre site with two unoccupied facilities that is currently designated as a Special Purpose Center (SPC). SPCs are sites designated to provide non-degree seeking programs or services. SO was used primarily as a testing center until Spring 2013. This activity ended in August 2015 and SO is no longer SACSCOC-approved for instruction. UCF received BOG approval to demolish the facilities in the 2015 UCF Educational Plant Survey. In January 2020, UCF entered a 50-year sublease with Orange County to use the land and facilities on the site. Per BOG Educational Site definitions, SO no longer meets the current designation of SPC. The BOG and UCF Academic Program Quality recommend changing SO's designation from SPC to Other.

Trustee Yeargin made a motion to approve Change Campus Type for South Orlando Site (2). Trustee Walsh seconded the motion. The motion was approved unanimously.

FFC-2 Amendment to Aramark Contract

Shepherd reviewed UCF's relationship with Aramark, which became the food service provider for UCF in 2001. Since that time, the BOT has approved two amendments to the contract. The 2006 amendment provided UCF with capital investment to support the construction of the new convocation center and second dining hall in exchange for setting the term at 10 years, with two additional five-year extensions. The 2016 amendment provided additional capital investment from Aramark to support renovation and expansion of the student union and converted the two five-year extensions into one ten-year option and then exercising that option to make the new termination date effective 2026. The amendment also included an additional $5 million for brand refresh, increased the annual commitment for repair and maintenance funding, and increased the commission structure to 11.5 percent of all meal plans sold and 10.5 percent of gross retail sales.

UCF receives revenue from the contract in four ways: commissions, capital investment, brand refresh, and repairs and maintenance. Together, UCF's annual revenue from the contract is over $4 million. Since the pandemic began, Aramark's retail sales have dropped 86 percent from the prior year and meal plan sales have experienced a 34 percent decline. The contract has become an operational challenge for Aramark due to the structure of the contract, delayed capital investment construction, and COVID-19's depopulation of the campus.

UCF has reached an agreement with Aramark, reflected in the proposed third amendment to the contract. The terms effected by this amendment would be a four-year extension of the amortization period for the capital investment beyond the contract term. Any unamortized liability existing at the end of the term would be due at the end of the contract through either university funding or included in the solicitation for an awarded vendor to be financially responsible. The amendment also provides for a reduction of Aramark's refresh commitments, and a sharing agreement of any unspent repair and maintenance funding at the end of each year. The amendment is also written to allow the university flexibility in "buying down" the unamortized liability should the university make any material changes to its food service program or retail mix resulting in revenue growth for the contract. UCF is also exploring the possibility of a one-year extension beyond 2026 based on BOG Regulations during the RFP process, which would reduce the unamortized amount and give Aramark an additional 12 months. The amendment places priority on maintaining university cash flow by leaving the commission structure unchanged and opting instead to alter the capital contributions. UCF's commission structure is the highest in the state and provides UCF with flexibility for added revenue growth opportunities that would reduce the unamortized liability, such as a mandatory meal plan for first-year students.

Trustee Martins commented that similar conversations with food service providers are happening throughout the nation. The majority of contract amendments have centered on commission reductions and the fact that staff has been able to negotiate this kind of agreement without impacting commissions is very advantageous to UCF.

Trustee McAlpin inquired about the amount that UCF is relinquishing in refresh and maintenance and repair funds in the proposed amendment. Kevin Sowers, Director of Business Services, responded that UCF's repair and maintenance expenses would continue to be fully covered, and that only savings will be shared. McAlpin then asked about whether the amendment would allow for renegotiation if there was any type of material impact to revenues, such as a implementing a mandatory meal plan. Sowers responded that it would. McAlpin applauded staff for not moving on the commission structure.

Trustee Yeargin voiced his concern that UCF was making dramatic concessions in the proposed amendment. Sowers responded that the amortization issue is a reflection not only of the pandemic, but also delays in the Student Union construction project. Shepherd added that UCF will retain the assets from Aramark's $27 million in capital improvements, which will benefit UCF in future contract negotiations. Shepherd further noted that the risk of not reaching an agreement should be taken into consideration. Sowers added that UCF receives over 20 percent of every dollar Aramark receives either in advanced capital investment or as it is produced through commissions. Aramark is also operating 10 locations on campus, even though sales are down, and demand would realistically suggest only operating one or two locations. Aramark has been a good partner to UCF by keeping those locations open at a loss.

Trustee Mills asked whether the trustees could be provided with a comparison of the terms of the current and proposed contracts. Shepherd responded that a comparison will be shared with trustees.

Trustee Martins commented that the fact that UCF's commission structure isn't changing is a concession by Aramark, based on current industry negotiations, and that the absorption of residual amortization dollars in a new contract is almost expected in the current market.

Hector added that he had just renegotiated a contract with Aramark at his former institution, and he sees UCF as maintaining its position, rather than losing ground, given all the other variables.

Trustee Harrington commented that UCF should not solve its financial problems through a mandatory meal plan for first-year students, since many first-year students live off campus or have dietary restrictions. Trustee La Rosa agreed that a mandatory meal plan would be inappropriate due to UCF's lack of housing for all first-year students.

Trustee Walsh commented that Aramark's investment in UCF made it unlikely that they would walk away from the contract. Shepherd responded that while it was not probable, it was a risk to take into account.

Trustee McAlpin made a motion to approve the Amendment to Aramark Contract. Trustee Yeargin seconded the motion. The motion was approved unanimously.

FFC-3 Rent Concessions for Independent Retail Vendors

At the November committee meeting, Martins asked staff to explore other options regarding rent concessions for independent retail vendors and look into what other SUS institutions and the Greater Orlando Aviation Authority were doing in similar situations.

Shepherd returned to the committee with further information: the Greater Orlando Aviation Authority confirmed that they offered tenants a deferment to waiver program for the five-month period of May through September, as well as a 50 percent reduction through March 2021 and will assess the volume of holiday and spring break travel to determine if additional concessions will be needed. Other SUS institutions have approached the matter in similar ways, with a mixture of deferments, waivers, and rent reductions.

Shepherd shared that the current unpaid balance of independent retailers' rent to date is approaching $400,000 and that staff is requesting the committee's authority to enter into individual negotiations with each independent vendor on campus to provide rent relief depending on each vendor's current services and financial position. Adjustments that UCF would consider include:

- Deferment of the rents in arrears over the months that the campus was depopulated, with an option to waive pending timely payment of all other payments due;
- Temporary rent reductions to 50 percent or 6 percent of sales, whichever is greater; and
- Possible amendments to add a component for revenue sharing once conditions on campus resume normal operations, in exchange for a possible waiver of certain unpaid balances.

Trustee McAlpin noted that, of the approximately $735,000 in annual rent from independent retailers, UCF has received less than half of that amount to date. McAlpin then asked whether any tenant would be allowed to stay without payment. Shepherd responded that the parameters of the request do not include forgiving rent but rather looking at temporary rent reductions or other terms that would incentivize vendors to pay. Sowers also clarified that rent reductions would apply only to the months in which the campus was depopulated and would be reevaluated once sales for the spring were available. Negotiations would also take into account the remaining length of the vendors' contracts and whether they received state or federal assistance, such as Paycheck Protection Program (PPP) Loans. McAlpin noted that some tenants may not survive, even with rent concessions. Shepherd agreed.

Trustee Mills emphasized that UCF must be aggressive in verifying whether vendors applied for PPP Loans and that the industry standard would be to extend vendors' rent on the back end of the term. Sowers agreed that UCF must verify what other relief vendors may have received.

Trustee McAlpin made a motion to approve Rent Concessions for Independent Retail Vendors. Trustee Yeargin seconded the motion. The motion was approved unanimously.

INFO-1 Direct Support Organizations' Financial Report, Ended September 30, 2020 – First Quarter

Christina Tant, Assistant Vice President for DSO Accounting and Reporting, presented the Direct Support Organizations' Financial Report, Ended September 30, 2020 – First Quarter.

Tant presented the first quarter financial statements for the university's direct support organizations and the Central Florida Clinical Practice Organization. She noted that the Athletics Association, Stadium Corporation, and Convocation Corporation have all experienced operational and financial impacts from the pandemic that have varied significantly from the assumptions used when the budgets for the fiscal year were developed. As a result, FFC-4, Direct Support Organizations' 2020-21 Amended Budgets, presents amended budgets to provide the BOT with amended projections for the year.

FFC-4 Direct Support Organizations' 2020-21 Amended Budgets

Tant presented the Direct Support Organizations' 2020-21 Amended Budgets, which have been approved by the Athletics Association's (UCFAA), Stadium Corporation's (UCFSC), Convocation Corporation's (UCFCC), and Academic Health's respective boards. These amended budgets provide their boards and the committee with updated projections for the fiscal year. There are debt implications associated with the amended budgets for UCFAA, UCFSC, and UCFCC.

The amended budgets support the expectation that UCFSC and UCFCC will be able to meet their debt service payments and debt coverage requirements. A two-year deferral of UCFAA's loan payment to the university and a $4 million, 18-month revolving line of credit from the UCF Foundation were approved by the BOT in November and December, which are helping UCFAA's cash flow; however, there is still some work to be done

The amended combined budgets for UCFAA and UCFSC includes a $12.2 million reduction in operating revenue. The budget shows a $10.3 million reduction in ticket sales revenue and per seat donations due to reduced scheduling and seating capacity. The reduction was partially offset by donations from coaches and staff. The balance of the decrease in operating revenue is primarily due to a $3 million decrease in sponsorships. Operating expenses show a $1.3 million decrease. The amended budget reflects expense reductions of about $3.9 million, which includes $800,000 of savings in compensation. UCFAA saved $3.1 million in sport and support operations. Those expense savings are offset by increases of $1.3 million for additional COVID-19 related expenses. There is also an increase of $1.3 million for stadium rust remediation repairs. The stadium repairs have been fully funded by settlement proceeds that were received by UCFSC last fiscal year. The amended budget reflects an overall $10.3 million decrease in net position. The decrease is being funded by the $5.1 million contingency that was built into the originally approved budget, $1.3 million of rust settlement proceeds received in the prior fiscal year, and the deferral of the $1 million university loan payment, which leaves an operating shortfall of approximately $3 million.

In addition to the budget shortfall, there are cash flow challenges through July 2022. These were partially remedied by the two-year deferment of the loan payment to the university and the $4 million line of credit from the UCF Foundation. UCFAA is continuing to explore other options to handle its cash needs. UCFAA and university leadership are engaged in discussions at the state level to address this challenge. These discussions have raised some questions about the need to wind down UCFAA's existing line of credit - if this becomes necessary, UCFAA could face a cash shortfall of $4 to $6 million through July 2022.

UCFAA's audited financial statements for the year ended June 30, 2020, have not been issued. The auditors have warned UCF that if UCFAA is unable to demonstrate that it will have sufficient cash to operate for at least a year and a day from issuance of their audit report, then they will include language that warns the readers that the organization may not be a going concern.

There was sufficient pledged revenue to cover the September 2020 interest payment on UCFSC's debt. Rent and the first of two installments on the guaranteed royalty payment that are due from UCFAA to UCFSC will be made this quarter to cover the March interest and principal payment.

There is a support agreement that obligates UCF to use legally available revenues to fund any bond payment deficiencies of up to approximately $4 million. There are no plans to enact that support agreement at this time.

UCFCC undertook a management transition this year. The board moved away from using a general manager who was hired to oversee the operations to a more decentralized model in which housing is managed by UCF Housing, retail is managed by Business Services, the arena is managed by UCFAA, and facilities are maintained by the UCF's Facilities & Safety. The amended budget reflects the restructure as well as impacts from the pandemic that were not factored into the original budget. UCFCC generates enough revenue to cover its operating cost, its debt service, funding the R&R reserves as required by the bond documents, and maintaining its debt coverage requirements. The project was structured so that housing is expected to cover its operating costs and debt service but also provide enough surplus to cover the arena's debt service as well. The amended budget reflects a deficit due to the pandemic. A sufficient surplus from housing and the surplus from prior years will cover the debt service and maintain UCFCC's debt service coverage requirements. Changes in the amended budget include a notable increase in housing revenue. When the budget was approved in the spring, it was assumed that the housing would remain closed except to a small number of student athletes until October. The amended budget reflects revenue for the full fall semester and assumes a 93 percent occupancy for the spring semester and an 85 percent occupancy for the summer semester. Retail revenue shortfalls were anticipated due to the number of tenants with rent in arrears. In the arena, there are both revenue and expense reductions due to the lack of events hosted. The budget also reflects a salary savings from efficiencies expected from the management transition that will be realized in the second half of the year.

The budget for Academic Health also was revised. A surplus of $177,000 was projected for FY 2020, which was expected to offset the deficit reflected in the FY 2021 approved budget. Subsequent discussions with auditors resulted in recording expenses in FY 2020 that were expected to be recorded in FY 2021. The difference in timing eliminated the FY 2020 surplus and the FY 2021 deficit that were originally anticipated.

Trustee McAlpin made a motion to approve Direct Support Organizations' 2020-21 Amended Budgets. Trustee Mills seconded the motion. The motion was approved unanimously.

INFO-2 University and Direct Support Organizations Debt Report

Bert Francis, Assistant Vice President for Debt Management, presented the University and Direct Support Organizations Debt Report. He noted that the most significant event since the last report was the Capital Projects Finance Authority (CAPFA) closing a $126,115,000 nontaxable debt and a $22,200,000 taxable debt refinancing. As a result of this refinancing, the UCF Foundation will resume receiving waterfall payments from the surplus funds of the project at the end of FY 2021 versus the expected waterfall payments under the old debt structure which were expected to be received again starting at the end of FY 2028. The waterfall payments projected for FY 2021 and FY 2022 are about $7.5 million and $15.5 million, respectively. These waterfall payments are estimated to be $258,739,000 over the remaining life of the debt.

INFO-3 University Quarterly Investment Report, Ended September 30, 2020 – First Quarter

Danta White, Assistant Vice President and University Controller, provided an update on the university's investment portfolio for the quarter ended September 30, 2020, which has had two consecutive quarters of growth. The quarterly net gains for the structured investment portfolio totaled $9,516,419.

INFO-4 University Auxiliary Enterprises 2020-21 First Quarter Financial Reports

Francis shared with the committee that as a result of feedback received from the BOT on reporting for auxiliaries, a new auxiliary financial committee was formed to improve financial reporting. Changes include a small redesign of the chart of accounts and budgeting on a quarterly basis so that budget to actual financial results may be presented to trustees quarterly. Francis also noted that some of the auxiliary financial reports included multiple auxiliary entities, like UCF Health Services and Business Services.

INFO-5 Update on Knight Vision Enterprise Resource Planning (ERP) Project

Michael Sink, Interim Chief Information Officer, provided an update on the Knight Vision Enterprise Resource Planning (ERP) project. The ERP project is a large program—UCF is implementing Workday, bolt-on tools that support other applications, and transforming service delivery. Eight weeks into the project, UCF is hiring project and backfill staff and examining the program's budget.

With regard to the program timeline, the Adaptive Planning Phase I tool is still slated to go live in March of this year and will be retrofitted into Workday once the project goes live. Workday is scheduled to be implemented on July 1, 2022.

Expense to budget activity is minimal at this time. Sink offered the Budget Summary tool as an example of what could be brought to the BOT in the future.

Sink also noted that two expenses that were relevant to Workday costs but separate from the licensing agreement were not presented to the BOT in October. The first is a $343,825 cost to gain access to Workday training credits for the duration of the implementation. The second is a one-time expense of $213,335 for delivery assurance required by Workday to cover the costs of a Workday engagement partner that provides quality assurance and oversight to ensure that the implementation is successful. These additional expenses total $537,160 and are separate from the license agreement. The expenses are not amendments to the contract and will be absorbed by the project contingency.

Hector added that additional costs may arise in the future. He is reviewing the program and holding meetings to discover UCF's needs and whether there is a sufficient level of effort in place for a successful implementation. He believes that whatever the costs may be, they will fit within the contingency.

Trustee Martins asked the amount of the contingency, to which Sink responded $4 million.

ADJOURNMENT

Martins adjourned the Finance and Facilities Committee meeting at 3:08 p.m.

Reviewed by: 2/11/21

Harold Mills
Chair, Finance and Facilities Committee
Date

Respectfully submitted: Janet D. Owen 2/11/2021

Janet Owen
Associate Corporate Secretary
Date