



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees
Budget and Finance Committee Meeting
September 22, 2021
Live Oak Center | Virtual Option

MINUTES

CALL TO ORDER

Trustee Harold Mills, chair of the Budget and Finance Committee, called the meeting to order at 3:17 p.m. Committee members Tiffany Altizer, Bill Christy, Jeff Condello, Joseph Conte, and Michael Okaty were present.

Other trustees attending the meeting included Joseph Harrington, Board Chair Alex Martins (ex officio), Caryl McAlpin, and Beverly Seay.

MINUTES

Trustee Christy made a motion to approve the minutes from the June 16, 2021, Finance and Facilities Committee meeting. Trustee Okaty seconded the motion.

The committee unanimously approved the minutes of the June 16, 2021, Finance and Facilities Committee meeting as submitted.

REPORTS

Gerald Hector, Senior Vice President for Administration and Finance, provided the committee with an update. Hector began by reporting that the auxiliary internal loan repayment plan has been executed and \$32.5 million has been offset. The loans and cash balances have been realigned. He is still looking at ways to accelerate the repayment of the remaining \$17.7 million over the next four years. Repayment of the research overhead internal loans has been accelerated with \$27.2 million addressed by sweeping research overhead funds from units.

Hector also shared that the CFO Council has been established and Trustee Altizer attends these monthly meetings. The goal is that this council will help drive change throughout the university.

Hector shared that the new responsibility-centered management (RCM) budget model is approximately 85 to 90 percent complete. The remaining work to be done is cleaning up some past practices. The current fiscal year will see operations continue in the current PeopleSoft system. The new budget model goes live for fiscal year 2022-23, and colleges and units will be held

harmless during this first year of operation. The Adaptive Planning budget tool was launched in March 2021. This tool will help streamline budgeting across the colleges and units of the university. The Service Enhancement Transformation (SET) project is developing a framework for the establishment of shared human resources and financial services. Huron Consulting is working alongside the university Human Resources and Finance personnel to manage the transition and changes to current business processes.

Hector stated that he is also working on how best to communicate directly to more of the campus. President Cartwright approved a forum series to be called “Dollars & Sense” where the SVP will address the campus quarterly to answer questions about finance and administrative matters. An SVP blog is being created as an additional method of communicating directly with the campus. The blog will focus on informing campus constituents of projects and developments in the Division of Administration and Finance that will impact the entire campus.

The new RCM budget model brings greater transparency and accountability to budgeting. It delegates responsibility and accountability to deans by providing incentives for deans to be entrepreneurial and to find ways to generate additional cash flow. The most important figure in this type of model is the Provost, who is the chief budget officer of the university. This is a huge structural and cultural change for UCF.

Hector gave an update on what the draft budget model means for resource allocation planning going forward. A recasting of the current economics of the budget for the 2021-22 fiscal year reveals that the university is \$44 million in the black on a budgeted basis. That increase is due to two things: (1) the carve out for the President’s Strategic Fund, and (2) the delta between the prior year’s tuition spending authority set at \$304 million but increased to \$318 million for the current year. In UCF’s most recent Legislative Budget Request, UCF asked for the tuition spending authority to be increased to \$328.9 million as it is better to have the authority even if it’s unspent than to not have the authority to spend tuition that is collected and miss an opportunity that arises. Hector explained that in the prior year, the university collected close to \$330 million in tuition revenues, but only had spending authority approved from the Board of Governors (BOG) at \$304 million. The unspent delta of approximately \$26 million primarily closed out to carryforward at the end of the fiscal year. Revenues for the university are basically flat, while expenses continue to increase. The Sources and Uses document is now sorted by college which permits viewing the financial status of each college. It was shared with the deans and their budget directors and is now a living document for this fiscal year. The colleges and units have been provided with the underlying metrics to review the allocation of student credit hours so that when the model is fully launched for the 2022-23 fiscal year, there will be a clear understanding of how the budget for each college is built.

In other matters, Hector shared that the university is still working through the delivery of a complete financial dashboard. There are issues that are still being sorted regarding DSO report timelines, including when the local DSO boards meet and their ability to generate quarterly reports to match the flow and cadence of Board of Trustees (BOT) meetings. Some of the issues are systems-related, while others are resource-related. Discussions have started around providing the quarterly reports of DSOs when ready and posting them to either a secure website for viewing or making them a part of a monthly dashboard with the possibility of questions from trustees at a subsequent BOT meeting.

Hector discussed a request to formulate a revised carryforward schedule by designating \$11.6 million from the university's carryforward reserve to be used to address immediate IT needs. He requested that the Budget and Finance offices be allowed to work with Chair Mills and Board Chair Martins to fine-tune this request. He requested approval of the flexibility to complete this task. A recent campuswide outage of IT services prompted a review of critical systems. That review highlighted some immediate system needs that must be addressed in the current fiscal year.

Trustees had the following comments:

- Trustees Seay and Conte asked if deans will receive any training due to their new responsibilities with the RCM budget model. Provost Johnson stated that deans have always been fully responsible for managing their own budgets. Hector stated that yes, deans will be trained in how to manage and construct a budget as well as prioritizing the color of money being spent by the organization to maximize the efficiency and management of working capital and cash flow. President Cartwright also stated that yes, training will be critical.
- Trustee Harrington asked how the new budget model impacts the heads of the non-academic units. Hector stated that this will impact everyone. It is a major cultural shift in how the financial resources are managed at the university.
- Trustee Conte asked whether UCF has exhausted all discounts in the credit facilities it uses and in its contracts and leases, and whether there has been a deep dive in all capital areas where banks and institutions are giving discounts. Hector stated that UCF has not done that in a holistic way. Deep dives are occurring in understanding how money leaves the institution. UCF is doing some things on the capital market side by lowering interest payments and refinancing bonds. UCF also is looking at other ways to save money by being more efficient. In the future, the university will look at its current procurement practices to get it closer to what other R1 institutions employ. Examples include strategic sourcing and procurement protocols that allows for managing spend, and cost avoidance going forward.
- Chair Mills asked how much inefficiencies have cost the university since last year due to the management of inflows from the endowment spending and the difference between investment vehicles at the UCF Foundation. Hector stated about \$15 million based on the returns seen by the long-term portfolio and the investments held outside. That is a practice that is currently being worked on with the Foundation team. Invested assets will not be drawn at the start of the fiscal year but will remain invested until the funds are needed by the university. President Cartwright stated that UCF must begin to think and make decisions for the long term, not just cost cutting, to be more effective and efficient.
- Trustee Seay asked whether there may be a need to subsidize units based upon the Sources and Uses document, and if so, whether that decision would be made collectively. Hector answered that it will be decided primarily by the provost and accomplished via subvention of those units. It's unclear how long the subvention will last after the model is rolled out. That discussion will continue as the budget model matures and the entrepreneurial aspects of the operations of colleges and units are known and implemented.

NEW BUSINESS

BUDC-1 2021-22 Carryforward Spending Plan with the Amendment Previously Discussed

Misty Shepherd, Senior Associate Vice President for Financial Affairs, introduced the 2021-22 Carryforward Spending Plan and provided the committee with a brief overview. She also described the process in place for obtaining and vetting spending plans from each college and division and compiling these plans into the BOG-prescribed format for submission to the state.

Trustees had the following questions/statements:

- Trustee Harrington stated that in the table, two percentages appear to be swapped in the President's Strategic Fund. Chair Mills stated that this will be corrected.
- Chair Mills also pointed out that the university non-recurring reserve is \$33 million and from that, the \$11.6 million will be used to address the IT security issues previously discussed.

Trustee Altizer made a motion to approve the 2021-22 Carryforward Spending Plan with the amendment. Trustee Conte seconded the motion. The motion was approved unanimously.

BUDC-2 2021-22 Fixed Capital Outlay Budget

Jonathan Varnell, Vice President for Facilities and Business Operations, introduced the 2021-22 Fixed Capital Outlay Budget and provided the committee a brief overview, as it was discussed earlier in the Facilities and Infrastructure Committee meeting.

Trustee Altizer made a motion to approve the 2021-22 Fixed Capital Outlay Budget. Trustee Conte seconded the motion. The motion was approved unanimously.

Trustees had the following questions:

- Trustee Christy would like Hector to address, at a future time, failing systems that are critical. Hector stated that currently there is inadequate funding for all projects and there are limited funds available to tackle deferred maintenance, as the correct type of funding is required for these projects. Hector stated that this will be addressed by way of prioritizing projects and sharing the possible source of funds that can be utilized. There are limitations based on BOG regulations and state statutes.
- Trustee Altizer asked Board Chair Martins if he sees any changes in the future regarding this topic. Martins stated that this is becoming a high priority for the board and staff has been asked to research how this can be addressed. This is an issue for universities and buildings throughout the state.
- Chair Mills asked Hector or Varnell to clarify whether this maintenance is done using any of the federal CARES Act funding received by the university. Hector stated that there are multiple sources of funding. Of the \$24 million in new requests, \$18.4 million was for the four HVAC projects funded by CARES funds. Other sources include Capital Improvement Trust Funds for the Library and continued use of E&G carryforward funds within BOG and state guidelines for renovation and remodeling.
- Chair Mills asked how far the current phase of the Performing Arts Complex takes the project. Hector stated that Phase 2.7 takes us to a preliminary stage that consists of design and conceptual work. A funding source still must be identified for the final construction of the building.

DISC-2 University Operating Budget Update

Chair Mills introduced the topic and reminded the board that this was discussed in detail earlier.

Trustees had no comments.

DISC-3 Townes Institute Science and Technology Experimentation Facility (TISTEF)

Elizabeth Klonoff, Vice President for Research and Dean of the College of Graduate Studies, introduced the Townes Institute Science and Technology Experimentation Facility (TISTEF) and provided the committee with an overview.

Trustees had the following comments:

- Board Chair Martins voiced his concern that UCF will be solely responsible for repairs and restoration and whether there was any sense of what a catastrophic event, not covered by insurance could mean. Rhonda Bishop, Vice President for Compliance and Risk, stated that in addition to insurance that is funded through the state's risk management trust fund, we have excess liability up to \$10 million that was purchased on the private market.
- Trustee Altizer asked how well the risks were mitigated. Sandra Sovinski, Deputy General Counsel, stated that while some terms of the contract had been negotiated, the ability to negotiate the terms further is not possible, but there are operational waivers that flow to third parties. We are required to waive our ability to pursue damages from Space Florida and NASA. There is significant oversight of safety operations at the site, which has been increased even more with NASA operational changes.
- Trustee Christy asked how the disposal and return of equipment will be handled and at whose expense. Sovinski stated that in the Memorandum of Agreement (MOA), there is a disposal clause. It is not UCF's equipment, but UCF will manage it according to the MOA. There is no requirement for UCF to replace equipment. Trustee Christy requested to defer the question of who is responsible for the costs of disposing of equipment until more is known.
- Trustees Mills and Conte asked whether UCF owns this equipment. Klonoff stated that, in addition to the equipment owned by TISTEF, UCF has a substantial amount of equipment there.
- Board Chair Martins inquired whether due to the magnitude of the potential exposure, this item should be voted on by the BOT. Youndy Cook stated that this is not a procurement but a consultation, so it is being presented as a discussion item, but the board can move it to an approval item.
- Chair Mills would like to consider opening this up to the board for a vote of approval given the assumption of risk. The mechanism to make a motion to table this until later is needed. Cook stated that if the board would like to table this, they need to express this.
- Klonoff commented on the degree to which all research is risky. This project involves lasers and so it seems riskier, but in reality, much of all of the research UCF does is risky. If the BOT wants to review all research activities that are potentially risky, they would probably have to review each grant and contract. It would be impossible to draw a line, and that is why in the delegation of authority research was exempted. It is up to the Office of Research to ensure that every effort is being made to mitigate the risk.

- Board Chair Martins then agreed that this was probably not a path the BOT wanted to go down.
- Klonoff and Sovinski then agreed to provide the two trustees who had concerns information that would hopefully mitigate some of the concerns.

President Cartwright assured the board that there will be follow-up and clarification of these items directly with Trustees Mills, Christy, and Altizer.

DISC-4 University Investment Report – 4th Quarter, Ended June 30, 2021

Bert Francis, Assistant Vice President for Debt Management and University Treasurer, introduced the University Investment Report – 4th Quarter, Ended June 30, 2021, and provided a brief overview.

Francis stated that this quarter’s investment document format was redesigned to answer questions previously raised by the trustees. In addition, allocation percentages for both the Special Purpose Investment Account (SPIA) and the Bank of New York (BNY) portfolio are detailed. Investment management fees are now also included. The fiscal year to date return on SPIA was 1.85 percent. The fiscal year to date return on the BNY portfolio was 12.25 percent, resulting in \$38 million in net gains for fiscal year 2020-21. An investment subcommittee that was discussed at a previous meeting is still forming.

Trustees had the following comments:

- Chair Mills suggested that Francis consider diversity and inclusion when pursuing the next competitive bid for investment services.

INFO-1 FY 22 Work Plan and Charter Review

Chair Mills introduced the FY 22 Work Plan and Charter Review.

There were no comments.

INFO-2 University and Direct Support Organizations Debt Report

Francis provided the committee with information regarding the University and Direct Support Organizations Debt Report and stated that all obligations for the year were met. In addition, the university completed refinancing of the UCF Housing Series 2012A bonds in August at an All in True Interest Cost (TIC) rate of 1.75 percent rate with a gross savings of \$11.4 million and net present value savings \$9.8 million. The annual rating surveillance of both the university and DSOs’ debt resulted in no ratings changes.

There were no comments.

INFO-3 2020-21 Fixed Capital Outlay Budget Update

This item was covered during the SVP Update.

There were no comments.

INFO-4 University Banking Service Agreement

Francis provided a short briefing on the University Banking Services Agreement. UCF was able to piggyback on the City of Orlando's banking services contract with Bank of America which resulted in a savings to UCF of 20 to 30 percent.

Trustees had the following comments:

- Trustees Altizer and Conte commended Francis for his hard work and amazing results.
- Chair Mills asked about the impacts of the Workday implementation. Francis stated that the transition to Workday will go live on July 1, 2022, which will free up resources without resulting in substantial outsourcing costs.

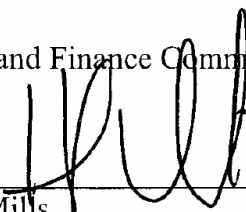
OTHER BUSINESS

The committee had no other business to discuss.

ADJOURNMENT

Chair Mills adjourned the Budget and Finance Committee meeting at 4:59 p.m.


Reviewed by:



Harold Mills
Chair, Budget and Finance Committee

11/16/21
Date

Respectfully submitted:



Mike Kilbride
Associate Corporate Secretary

11/16/21
Date