



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees
Budget and Finance Committee Meeting
November 16, 2021
UCF Main Campus, Neptune Community Multipurpose Room 195 | Virtual Option

MINUTES

CALL TO ORDER

Trustee Harold Mills, chair of the Budget and Finance Committee, called the meeting to order at 2:12 p.m. Committee members Tiffany Altizer, Bill Christy, Jeff Condello, and Joseph Conte were present. Trustee Michael Okaty was absent. Other trustees attending were Joseph Harrington, Caryl McAlpin, Alex Martins, John Miklos, and Beverly Seay (ex-officio).

MINUTES

Trustee Altizer made a motion to approve the minutes from the September 22, 2021, Budget and Finance Committee meeting. Trustee Conte seconded the motion.

The committee unanimously approved the minutes of the September 22, 2021, Budget and Finance Committee meeting as submitted.

REPORTS

Gerald Hector, Senior Vice President for Administration and Finance, provided the committee with an update on major accomplishments since the last meeting.

- The Draft Audited Financial Statements were submitted.
- The Convocation Corporation, Finance Corporation, and Stadium Corporation audits were completed.
- A special deferred maintenance summary was submitted to the Board of Governors (BOG). Our first submission was about \$63 million; our resubmission number was \$355 million.
- A special BOG Direct Support Organization (DSO) review process has begun.
- The inaugural Dollars and \$ense forum took place in October. The plan is to host a forum a few weeks after each Board of Trustees (BOT) meeting.
- The series, “From the CFO,” was launched as a monthly communication from the Division of Administration and Finance to the campus.
- Conversations have started around, “How much it costs to educate a Knight?” The biggest hurdle is getting the data out of our current PeopleSoft systems.

- The Advisory Board on Working Capital has been formed and the inaugural meeting was held November 2, 2021. The advisory group consists of Carrie Daanen, current chair of the UCF Foundation; Gerald Chen-Young, former CIO for the UNCF, Payne Webber and UBS; Bill Christy, UCF BOT; and Barry Miller, President of Voloridge Investments. Immediate needs are to get and start the competitive selection process to find the best advisors.
- Hector spoke briefly on the Composite Financial Index (CFI). CFI is a measurement of an institution's financial health. This index was last presented to the Board in 2017 and it is being brought back because it is important to manage an institution from a budget and balance sheet perspective. The CFI primarily focuses on the balance sheet and how economics, year over year, impact operations. We must start thinking differently on how we fund the institution.
- Hector next spoke about the current turnover at UCF. UCF currently has about 1,900 vacancies. Historically, the average turnover rate of UCF has been 9.3 percent We're currently at 10-11 percent and it may go a little higher.

Trustees had the following comments:

- Chair Mills suggested that UCF use an outside firm to conduct exit interviews to get input on how to manage retention. Hector stated that HR has been tracking this and we already have this data.
- Trustee Conte asked if we've looked at the cost of the turnover. Hector stated that we are still trying to figure that out. Because UCF currently does not have position control these costs are not currently available. Trustee Conte stated that he would like to know the average cost once it is determined. Hector stated that he will do an analysis on this and provide this information to the Board.
- Trustee Harrington asked if it is likely that departments would be able to hire new employees at the same salary levels as the departing employees, saying that doesn't seem possible. Hector agreed that it is not possible. Harrington stated that he is concerned about the cost of new hires. Gerald stated that this is part of the analysis that must be done.
- Trustee McAlpin asked how many of the 1,900 open positions need to be rehired. Hector stated that we don't yet have the data to determine this.

NEW BUSINESS

DISC-2 Draft University Audited Financial Statements Report, Composite Financial Index Report, and Unrestricted Net Position Exclusive of Plant Assets and Plant-related Debt (UNAEP)

Danta White, Assistant Senior Vice President for Financial Affairs and University Controller, introduced the Draft University Audited Financial Statements Report, Composite Financial Index Report and Unrestricted Net Position Exclusive of Plant Assets and Plant-related Debt (UNAEP) and provided the committee with a brief overview of the financials and the reported results for the year. The general net position decreased by \$23-24 million. However, a significant portion of this decrease needs to be adjusted out for pension and other post-employment liabilities, which are now required to be fully recognized in the current year but are expected to be paid out over time. This accounting

treatment has a significant impact on the university's financial statements and must be excluded to understand our true financial position. Once excluded, the unrestricted net position is \$525 million. This tells us that, even with the impacts from COVID-19, UCF did well for FY 2021.

Trustees had the following questions/statements:

- Trustee Mills asked if pension liability is fully funded. White responded that pension is partially funded. The state contributes about 5 percent and employees contribute 3 percent.
- Trustee Conte asked if it would be better, given our history, to have the liability contained here instead of in Tallahassee. Hector answered that private institutions must carry the investments themselves, so they typically build an investment pool to offset the liability. UCF must record the liability which is a big hit to our financials.

DISC-3 University Treasurer Update

Bert Francis, Assistant Vice President for Debt Management and University Treasurer, provided the committee with information on why our debt is structured the way it is, the tools the BOG gives us for new debt issuances and refinancing, and a review of the university's rated debt. Francis also detailed the debt management guidelines that UCF must follow.

Trustees had the following questions:

- Trustee Mills inquired if there are areas where we might be coming close to a potential bond covenant violation. Francis stated that we are strong in all of our debt coverages as we are well above the 1.2x ratio. Looking forward into FY22, it's projected to be even stronger.
- Trustee Conte asked if we missed listing any covenants on the historical coverage ratios slide and, if so, should they also be reported? Francis stated that housing fell below 1.20x, in both FY 20 and FY 21 due to the reduced occupancy impact from COVID. Although this is not considered a covenant violation, it does result in Housing failing the Additional Bond Test (ABT) requirement which may prevent UCF Housing from issuing additional bonds for the next two fiscal years. Francis noted that although the coverage ratio failed the ABT test, this ratio did not take into account additional federal stimulus (Higher Education Emergency Relief Funding, or HEERF) funds received by UCF Housing, which when included, resulted in a ratio of over 1.20x for FY 20. There may be a possibility of issuing additional bonds within this two-year period, if necessary, due to this secondary ratio including HEERF funds; however that would require further conversation with the Division of Bond Finance. Francis confirmed there were no major covenant violations.
- Hector stated that we have added information on guidelines to this presentation as part of the division's back-to-basics education. We are also looking to adopt a formal debt policy which will factor in how we issue debt.
- Trustee McAlpin stated that she appreciated Francis's presentation, particularly the educational aspect for the trustees.

INFO-1 Direct Support Organizations' (DSO) Financial Reports – 4th Quarter, Ended June 30, 2021

Trustee Mills stated that the report is located in the materials packet and asked if trustees had questions or comments.

Trustees had the following comments:

- Trustee Martins inquired if any DSO is of any major concern. Hector said no, though we always monitor athletics because of their negative net position. But due to investments that were made in the past, and if we continue on the same trend, the negative will be removed. Hector also stated that for all the DSOs, we're looking for a standardized reporting format and will continue to monitor all of them.
- Trustee Mills asked regarding athletics, if there is a way to do a seven-year proforma and what that might look like with increased revenues from the conference. Hector replied that we have already started this process.
- Trustee Altizer asked if the variance for the Finance Corporation is an issue of timing. Hector said yes.

INFO-2 Auxiliary Financial Reports – 4th Quarter, Ended June 30, 2021

Trustee Mills stated that the report is located in the materials packet and asked if the trustees had any questions or comments.

Trustees had the following comments:

- Trustee Martins asked if Hector had any major concerns. Hector stated that Housing concerns him from a purely capital standpoint. An analysis is currently underway and we will probably put forward a recommendation to raise Housing rates. Right now, Housing has no reserves so there is no way of dealing with deferred maintenance. We're looking at various analyses that indicate a rate increase is necessary, which will help start building back a reserve. This issue will be brought to the Board in February 2022.
- Chair Mills asked that since the Housing reserves were used for UCF Downtown, did we make students pay for that? Hector stated that our net assets are not growing so if we are not allowed to increase tuition, but our costs are growing exponentially, then we must reallocate resources around how we structure our budget and invest for ROI, with emphasis on philanthropy, partnerships with purpose, and research.
- Chair Mills stated that Hector has the full support of this Board.
- Trustee Martins concurred with Chair Mills. He also asked to see how our housing rates compare to the rest of the state university system. Hector shared that UCF has one of the lowest rates with no rate increases in 10 years.

INFO-3 Knight Vision/SET Budget Update

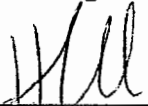
Trustees had no questions on this information item.

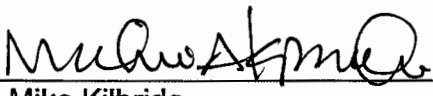
OTHER BUSINESS

The committee had no other business to discuss.

ADJOURNMENT

Chair Mills adjourned the Budget and Finance Committee meeting at 3:03 p.m.

Reviewed by:  _____ 2.15.2022
Harold Mills Date
Chair, Budget and Finance Committee

Respectfully submitted:  _____ 2-16-22
Mike Kilbride Date
Associate Corporate Secretary