



UNIVERSITY OF CENTRAL FLORIDA

Board of Trustees Meeting
Budget and Finance Committee
February 15, 2022
President's Boardroom | Millican Hall, 3rd Floor | Virtual Option

MINUTES

CALL TO ORDER

Trustee Harold Mills, chair of the Budget and Finance Committee, called the meeting to order at 10:00 a.m. Committee members Jeff Condello, Tiffany Altizer, Bill Christy and Joseph Conte were present. Trustee Michael Okaty was absent. Other Trustees attending Joseph Harrington, Caryl McAlpin, Alex Martins (ex officio), John Miklos and Beverly Seay.

MINUTES

Trustee Altizer made a motion to approve the minutes from the November 16, 2021, Budget and Finance Committee meeting. Trustee Conte seconded the motion.

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

REPORTS

DISC – 1 SVP Update

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

- The financial audit was completed with no material findings or significant weaknesses.
- Unit Testing on Workday has commenced.
- Internal Control Questionnaires for the DSOs were submitted for review by the Board of Governors' selected auditors.
- Transition teams for Service Enhancement Transformation (SET) have been formed. Adjustments will be needed as we begin to better understand skill sets and capabilities. We will also need to add professional development as part of the transformation.
- The CFO Council meetings are going well. Trustee Altizer sits in on the monthly meetings. Monthly CFO to CFO meetings between the SVP and the DSO of

financial teams (augmenting CFO Council) have been launched which allow a better understanding of their financial items and what they need.

- SVP meetings with the faculty groups are ongoing, four have been completed since January 2022, in regard to SET, the new budget model and the new budget system. Feedback has been favorable thus far.
- An RFP/Invitation to Negotiate (ITN) process had to be pulled back a bit to accommodate further due diligence. It should be out by the end of the week. We're looking for investment advisors. We hope to wrap this up by early April at the latest.
- An unsolicited request to sell the university's Educational Broadband Service (EBS) licenses is being negotiated, this is currently in the due diligence phase.

Trustees had the following comments:

- Chair Mills asked for an explanation of what an EBS license is. Hector stated that an EBS license is also known as a wireless spectrum and allows for the transmittal of information. About 15 years ago, there was an FCC auction and UCF was the recipient of three licenses. We leased the licenses to T-Mobile and garnered about \$1M each year in lease payments. The university will never have a use for these licenses other than leasing them.
- Chair Mills then wanted to further clarify that these leases have nothing to do with the internet service or TV that we provide to the dorms. Hector stated that these leases are totally separate and distinct from internet and TV we provide to the dorms. The value of these leases is driven by the size of the population.

Hector next gave an update on the university's Cash Balance. HEERF is strewn into all our cash flow balances, which is driven by the timing of reimbursements. Hector shared that it's time we stop looking at transactional things that happen on campus and start talking about strategy. The chart shows a balance of \$606.8M at the end of 2020 and at the end of 2021, the balance is \$642.1M. This difference indicates that we are moving back to "normal" operations and the timing of reimbursements from HEERF. We are keeping an eye on those areas that received reimbursements from HEERF and reminding them that those funds must be spent first and by June 30, 2022. We're spending a lot of time looking at cash because this year is the first year ever that we have a diminution in revenues. Over the last 15 or so years, we've consistently had a growth in student enrollment of 2% year over year that brought with it about \$15-20M based on SCH. This year we are down about 1700 students, so SCH is also down. For the current fiscal year, we're seeing a \$10M reduction in fungible cash. We are keeping an eye on this and can manage it because \$330M was collected from the BOG. The university had budgeted for less, so the excess fell into carryforward. We are letting the campus know that the days of excess revenues are gone. We must manage within our means and we must decide how to apply carryforward prospectively. Cash is king, but the colors of cash is very important.

Trustees had the following comments:

- Trustee Condello asked if we are looking to reduce the student population over the next 3-5 years. Hector says that yes, this is the case. We are modeling several scenarios around this. We are building out a 5-year rolling forecast on enrollment since it's a key part of the overall E&G picture of the university. We are looking at what the overall impact of an enrollment reduction will do to finances.
- Trustee Condello then asked if we have done an analysis of teacher to student ratio from a financial aspect. Hector stated that we have. The ratio is currently 31:1. If we try to get down to, for instance, 27:1, the university need to invest about \$100M. More of these analyses will be shared in May when a preliminary budget is brought to the board.

Hector next gave an update on the Working Capital Management Group. The invitation to negotiate will go out the door this week. We've decided to invite at most four vendors to come make formal presentations to the budget and finance committee. This change is prudent because we are utilizing vendors and requesting them to do things that are more targeted and focused. A review of the State of Florida rules and regulations around working capital management has also played a part in this new process.

Trustees had the following comments:

- Trustee Christy would like to share that the group is not looking at what was done in the past but are now considering larger banks like Morgan and Goldman Sachs. As such, they have been included in the net as a potential for the ITN as well.
- Trustee Condello asked Trustee Christy to give an overview of the advisory investment. Trustee Christy stated that there are 2 components. The traditional method searches for a firm similar to the one we have today. The new concept acknowledges that there are a lot of major institutions like Morgan Stanley and Goldman Sachs, that handle treasury functions for institutions in a format similar to what we are requesting. We initially were going to look at 3rd party servicers like we use today, but are now broadening the net, so we can have access to products lower in risk and higher in return. The intent is to get proprietary products, not a fund-of-fund or fund managers product. Better options, lower cost, better returns, and lower risk.

Hector next shared the risk heat map. A heat map is a visual of a risk-based approach to finances using the colors of traffic lights. The map is a foray into some of the financial risk measures that the Budget Office has top of mind as we move forward with change management.

Trustees had the following comments:

- Trustee McAlpin had a question regarding tuition and fees. Aren't we allowed by law to increase housing fees and are we looking at this and if so, how much could this bring to the table. Hector stated that we are looking into increasing housing fees. This will be a part of the overall budget that will be presented in May. There are also fees with online learning. Our current fee is \$18/credit-hour where some of our peers are at \$30/credit-hour. We must also look at the impact that an increase in fees will have on our students. This information will be presented in detail in May.

- Trustee McAlpin next asked for the status on the search for the Vice President for Advancement. Hector stated that a committee will be seated in the next couple of weeks. Mike Kilbride is leading the search and we are using an outside firm to assist.
- Trustee McAlpin then asked for the date we are looking at for this person to start. Dr. Cartwright stated that he would like this person in place by July 1.
- Trustee Altizer stated that she really likes the heat map because it visualizes our challenges, and we need to be cognizant of this as we work through our strategic plan.

Hector next gave a recap on priorities through June 30, 2022. The university's number one priority for this year is Knight Vision and we're now seeing that it will require more training and professional development. Other priorities are refinement of the RCM budget model, strategic plan support, new leading standards adoption, review of policies and procedures to streamline operations and a continuation of 'deep dives' into DSOs.

Trustees had the following comments:

- Trustee Christy commented that the Workday transition budget is in place and that customization of components can take time. Do we have the budget for continued Workday modifications? Hector stated that yes, we do have the budget. We are on budget and on track. We are also learning from other institutions of their transition to Workday.
- Trustee Christy stated that the key is to minimize customization wherever possible.
- Trustee Conte asked if we are on target for July 1 go-live? Hector stated that yes, but it is tight. The job market is still having an impact on us.
- Dr. Cartwright thanked Gerald and the team for their focus on this. Many of the things that we're trying to change keeps coming from the same team members. He thanked the leadership team. He is hopeful of the transformation that will come after we end this work.

Hector next gave a brief recap on UCF turnover, recruiting and position management. We continue to be impacted. We are looking at strategies to address it via talent acquisition, remote and hybrid work and streamlining the hiring process. With SET, we will push authority for some things from the centers to the colleges and units. The accountability and ownership to get it done will also go the colleges and units. The deans have asked for this.

Trustees had the following comments:

- Chair Martins wants to ensure we have efficiency in hiring and are not minimizing or changing our hiring standards. Hector stated that our streamlining is efficiency based. Professional development is part of this.

DISC - 2 University Operating Budget Report – 2nd Quarter, Ended December 31, 2021

Hector stated that the cover memo has all the details but emphasized that HEERF envelops most of our operations for the current year. HEERF goes away in May 2022, though we have the ability to extend some things until May 2023. We want to ensure

that we are on budget, we are spending at a manageable level, and our cash position is not strenuous. Our cash burn and seasonality around that cash burn is still something we are trying to understand.

Trustees had the following questions/statements:

- Trustee Harrington commented that we are slightly ahead of the year on revenue and slightly behind the year on expenses. Is this typical? What does our carryforward situation look like since we're under pressure to lower carryforward? What's the projected carryforward at this point? Hector stated that projections on carryforward are tough to answer since we won't really know until the end of the year. The team is arresting all of the variables that drive carryforward prospectively. Despite the diminution of enrollment, we still maintaining at the same level and without much additional strain.
- Trustee Harrington is concerned that supply chain issues are pushing projects later, which means carryforward, and he would like to see actual projections, high or low. He would like to see some sort of difference from prior years. Chair Mills added that in the spirit of inspecting what we expect, we talked about what funds to use first so there's less carryforward at the end of day. What are the tools that will allow us to inspect if we're making progress toward this goal? Hector stated that the inspection is shown on exhibit A. Part of the challenge is how units use carryforward. The board approved \$11.8M for IT to do some one-time things, and now there are supply chain issues that have caused delays until June or the next fiscal year. This year, managing carryforward has been an issue of us getting an understanding of how colleges and units are using carryforward and how they are spending E&G. The mantra we're sending out is "spend E&G first." But some units are not committing to this and will require a mind shift to get onboard. That's what we're addressing and building with the new budget. There is project underway that changes how we show reports starting at the DSO level. The goal is to show you a visual that has the approved budget, the period budget, the period actuals and then comparing the period year over year. This is a big change.
- Chair Mills commented that since a budget was approved with a \$3M deficit, and we are a little ahead of schedule on that today, is there an opportunity to impact that deficit? Hector stated that the deficit will be impacted. The lost revenue pick-up that we received (\$32.1M) will be a factor and should fall to the bottom line. Danta White, Senior Assistant Vice President for Financial Affairs and University Controller, gave a brief recap on this topic and agreed there is an opportunity to address it.

ACTION

BUDC – 1 Operating Budgets for Auxiliary Facilities with Bonded Debt

UCF currently has outstanding bonds in the areas of parking and housing auxiliaries. Hector gave a brief overview of this item and stated that this is a formality. Misty Shepherd, Senior Associate Vice President for Financial Affairs, iterated that the bonds attached to these facilities have requirements about them regarding sufficiency of reserve balances and ensuring these reserve balances are in place so debt covenants are met.

These budgets show that. Chair Mills made a motion to approve this item. Trustee Altizer moved and Trustee Christy seconded. The motion was unanimously approved.

Trustees had the following questions:

- Trustee Condello stated that parking operating expenses are going from \$13M to \$16M, exclusive of salaries, and asked what caused this. Hector stated that last year was a diminished COVID impacted year and we're just getting back to normal operations, which is primarily causing the uptick in expenditures. Danta White confirmed this also.
- Trustee Condello asked for a breakdown of the \$16M expenditure. It seems high. Danta White will provide this. Hector also added that a big chunk is debt service and also transportation shuttles costs. A breakdown is forthcoming.
- Trustee Christy asked about premier pricing for certain rental aspects of the Arena with a defined plan and time. He would really like to see this and to formalize an action plan. Hector stated that this will be included in the May meeting.

INFORMATION

INFO – 1 University Investment Report – 2nd Quarter, Ended December 31, 2021

Bert Francis, Assistant Vice President for Debt Management and University Treasurer, gave a brief overview of this item. We saw net returns of 2.94% this quarter on the structured portfolio. SPIA returned 2.2%. We also rebalanced as described in the cover memo.

Trustees had the following comments:

- Chair Mills commented that once the ITN has been done we will have the opportunity to go back and review our investment policies.

INFO – 2 Direct Support Organizations' (DSO) Financial Reports – 1st Quarter, Ended September 30, 2021

Christy Tant, Assistant Vice President for DSO Accounting and Reporting, gave a brief overview. She stated that the Athletics Association report is excluded from this agenda item due to staff turnover, but will be included next time.

Trustees had the following comments:

- Trustee Condello stated that reformatting of DSO financial reports is imperative. What is the timing of reformatting the reports? Hector stated that the goal to have this done by next quarter.
- Chair Mills reiterated the importance of reformatting these reports.
- Trustee Christy stated that it was important that the new CFO of athletics understand where we are and understand where we need to go. Their next board meeting is schedule for March to give the CFO the time to develop reporting using today's data. Hector stated that the CFO Council is working on this.
- Chair Martins commended Gerald and the team on the work they are doing. The level of transparency and accountability is rising to a level never seen and this is

a great thing. UCF is creating change equivalent to turning a ship. The level of communication Gerald has with the other CFOs and their focus on consistency and accountability will make us much better.

NEW BUSINESS

The committee had no other business to discuss.

ADJOURNMENT

Chair Mills adjourned the Budget and Finance Committee meeting at 11:30 a.m.

Reviewed by:

Harold Mills
Chair, Budget and Finance Committee

Date

Respectfully submitted:

Mike Kilbride
Associate Corporate Secretary

Date