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UNIVERSITY *of* FLORIDA

FACILITIES AND CAPITAL INVESTMENTS COMMITTEE/FINANCE, STRATEGIC PLANNING AND PERFORMANCE METRICS COMMITTEE JOINT CHAIRS PLANNING MEETING

Minutes
November 14, 2022
199 S. Knowles Avenue, Winter Park, FL 32789
Time Convened: 12:00 p.m.
Time Adjourned: 2:00 p.m.

Committee and Board members present:
Thomas G. Kuntz (Committee Chair), David Brandon (Committee Chair)

Others present were:
Chris Cowen, Senior Vice President and Chief Financial Officer; Amy Hass, Vice President and General Counsel; Charlie Lane, Senior Vice President and Chief Operating Officer; Curtis Reynolds, Vice President for Business Affairs; Colt Little, Associate Vice President for Enterprise Projects and Senior Counsel; and Alan West, Assistant Vice President and University Treasurer.

1.0 Call to Order and Welcome

Committee Chair Thomas G. Kuntz welcomed everyone in attendance and called the meeting to order at 12:00 pm.

2.0 Discussion Items

1. **Capital Gift Pledge Schedules and Current Major Projects.**
   The chairs and administrators discussed at length six current major projects that are funded in significant part by philanthropy commitments. These include the College of Design, Construction and Planning project, wherein the philanthropy commitment totals $20 million; the Dental School, wherein the philanthropy commitment totals $25 million; the Early Childhood Education project phases 1 and 2, wherein the philanthropy commitment totals $5 million; the Honors building project, wherein the philanthropy commitment totals $12 million; the West Palm Beach Campus project, wherein the philanthropy commitment totals $100 million; and the Whitney Lab renovation project, wherein the philanthropy commitment totals $7 million. The group discussed each project individually, noting the need to generally enhance existing policies around funding commitments, amount of cash in hand prior to commencing a project and timeline for full gift amounts to be paid. The group also discussed the need for any gift agreement that would be used to fund a capital project to be reviewed and signed off on by the Chief

Financial Officer and the General Counsel's office to ensure the final agreement is binding in its commitment and timeline terms. The joint chairs also proposed that the enhanced policy on capital construction projects, where donor funds are to be used, require the following prior to commencement of any project:

a. At least 50% of the total funds from the gift portion have been received; and
b. Remaining 50% from the gift portion are received in at least equal installments over the next 5 years.

The group also determined that projects not meeting the above requirements would not qualify for bridge funding.

2. **Guidelines for Capital Construction Projects.**
   The chairs and administrators discussed enhanced guidelines for approving and prioritizing new capital construction projects on campus. Senior Vice President Charlie Lane presented a draft document memorializing the enhanced guidelines, attached hereto. The group discussed and decided that an executive committee of the Construction Project Planning & Approval Committee (CPPEC) was needed in order to make final recommendations on projects that should go to the President and Board for approval and how to prioritize those projects to match the strategic needs and plans of the University.

   The group also briefly discussed funds to be set aside for building maintenance and ensured all understood the current statutory and Board of Governors requirements.

3. **Bridge Funding to Allow Universities to Better Leverage Private Funds.**
   The chairs and administrators reviewed a draft of amended legislation (Florida Statutes 1010.62) that we would propose as a state university system to change current policy and allow a university to draw on commercially common tools like a bank line of credit, commercial paper program, or similar vehicle to provide bridge financing. The proposed policy and legislation places conditions on such funding, and is attached hereto.

The meeting concluded at 2:00 pm.

Guidelines for Sponsors of Capital Construction Projects

Introduction: As the funding mix traditionally utilized to advance UF construction becomes more varied, it is critical that anyone serving as a capital construction project sponsor develop capital improvement plans that will clearly and realistically reflect their ability to fund capital projects (and related operating expenses and reserve requirements) with one or a combination of funding types. The purpose of these guidelines is to provide those project sponsors with a clear understanding of what is expected of them in terms of the development and execution of funding strategies for any major capital construction project (i.e., >$4 million construction cost), including any ongoing maintenance, programming, or revenue requirements.

For many deans and vice presidents, major capital projects are infrequent activities, and the requirements can be complex and both internal and external requirements and options regularly evolve. Therefore, it is critical that prior to initial approvals, the sponsor meet with the relevant University administrators to review the required steps and milestones, which is described more fully in this document.

Scope: These guidelines apply to all administrators, institute or program directors, and others who may serve as project sponsors affiliated with the University of Florida in any way. These guidelines also apply to senior leadership in Business Affairs, the Office of Finance, and the Foundation, as these individuals must work in concert to ensure that capital projects are sufficiently funded and in compliance with all State, BOG and University guidelines (unless specific exceptions are authorized) before the start of construction.

Goal: It is paramount that good budgeting decisions are made and sound judgment applied when considering the initiation of major capital construction projects and their related costs. These decisions should be grounded in fiscal responsibility and practicality, tied to UF's long-term master plans and goals, and consider the university's available resources now and in the future. **Accordingly, one of the primary goals of these guidelines is to ensure that all required funding for any project be identified and verified in advance of a project being approved and undertaken.** Funding refers not only to the anticipated source(s) of funds, but also the expected timeframe for the receipt of cash.

Practice: The following steps must be taken for the purpose of advancing any capital construction project:

1. The sponsor of a major capital construction project request (i.e., > $4 million construction cost) must begin by submitting a project request through Planning, Design & Construction (PD&C).

2. The intake information provided to PD&C will be reviewed by UF senior management through the Construction Project Planning & Approval

Executive Committee (CPPEC) process. A preliminary project scope, budget, and funding plan will be developed by PD&C staff in conjunction with the project sponsor. To ensure the financial viability of a project, the Chief Operating Officer, Chief Financial Officer, and Vice President of Advancement will also **convene an intake meeting** with the project sponsor for the purpose of reviewing funding requirements, the funding process, and the project sponsor's understanding of the funding plan. Depending upon the nature of the project, this meeting may involve other affected individuals, including (but not limited to) anyone identified as responsible for committing funding.

3. If the proposed project and its proposed funding sources appear in order, CPPEC will provide conditional approval of the project, allowing the project sponsor the opportunity to proceed by conducting a gift feasibility study, raising funds for the project as needed, and/or finalizing the project's scope of work. Authorization may be given to hire consultants if seed funding is available and verified per items #6 and #9.

4. Subsequent to the initial review of the project by CPPEC, a project sponsor may be required to resubmit information concerning the scope of the project and other project details as they develop until final approval is granted. Depending upon project complexity, this could require multiple CPPEC reviews, and initial approval does not guarantee the project will receive final approval.

5. The goal should be for every project to have 100% of its needed funds in hand (cash) before executing a contract to begin construction. In any event, at least 50% of the cost of a project must be verified as available in cash prior to the start of any project. The source of those funds must be guaranteed.

6. Only with written approval from the university president, board vice chair, Chief Financial Officer, and Chief Operating Officer may a project proceed with any form of bridge funding if less than 100% of the needed funds are available at the time of signing the Authorization for Construction. Any bridge loan must be paid off within five (5) years. The terms of repayment, including date, source and interest rate charges will be included, and a guarantor identified in the event funds are not received. Further, if external bridge funding is to be utilized, all requirements associated with the Board of Governors and Division of Bond Finance must be understood and followed. Note that the receipt of bridge funding is not guaranteed, as the University must consider the project request within the context of all current and anticipated bridge funding needs of the University, as sources are limited.

7. In all instances, project sponsors must adhere to UF's policy concerning namings and memorials. Specifically,
    a. New facilities generally require a gift of 20-50% of the private support for the facility but not less than 15% of the total cost of the facility,

with a current gift of cash or cash-equivalent equal to at least such minimum threshold, payable over no more than five years with at least 20% of such minimum threshold paid in the first year (in any event prior to the name included on such facility) and with the balance of the minimum threshold generally payable on a prorata basis for the remainder of the five years;

b. Existing facilities generally require a gift of 20-50% of the replacement value of the facility, with a current gift of cash or cash-equivalent equal to at least such minimum threshold payable over no more than five years with at least 20% of such minimum threshold paid in the first year (in any event prior to the naming being on such facility) and with the balance of the minimum threshold generally payable on a prorata basis for the remainder of the five years; a deferred gift may be made for the naming of an existing facility in appropriate circumstances.

c. Sources for the ongoing funding of maintenance reserve set-aside (State and/or University requirements) must be identified as well.

8. Once all of the project's funds are accounted for, the project sponsor will be asked to submit a final funding plan with donor schedule (provided by the Foundation) and bridge loan certification (provided by the CFO) to UF's Treasurer. Other sources of project funding, such as grants or bond issues, require similar written verification by the CFO. The Treasurer will review the final funding plan and funding sources to verify that the funds are in order.

9. The Treasurer will issue a written statement to CPPEC, certifying that the needed funds are in place to proceed with the project.

10. Once the funding for a project is deemed in order, the project will be submitted to the UF Board of Trustees for approval, including approvals through Facilities and Finance Committees.

Funds to be Set Aside for Building Maintenance: In accordance with Board of Governors' requirements, sponsors of all construction projects that are funded in whole or in part with state appropriations for new construction of Education and General (E & G) space must annually set aside funds in an escrow account, specific to the project, for future maintenance. The formula for establishing the required annual reserve contribution is set by Board of Governors' regulations at a level up to two percent (2%) of the value of the building, depending upon whether a new building or addition to a building is undertaken.

A written plan for the needed maintenance set-aside funding must be submitted with the project funding plan noted above. This maintenance funding plan must likewise be reviewed and certified by the CFO and Treasurer before the project will be submitted to the UF Board of Trustees for approval.

Building and Maintenance Endowment: In order to better ensure the long-term life of any newly constructed building, project sponsors will be expected to set aside five percent (5%) of the construction cost of the building for the purpose of supporting the maintenance of that building over time. Maintenance might include physical upkeep (e.g., building envelope; mechanical, electrical, and plumbing infrastructure; and building interiors) as well upkeep of the building's technical infrastructure (i.e., maintenance related to the information technology infrastructure). The funds to create this quasi-endowment must be identified prior to the start of construction and verified by the university Treasurer.

Bridge Funding to Allow Universities to Better Leverage Private Funds

In recent years, private philanthropy and university reserves have become increasingly important funding sources to help finance the construction and renovation of buildings at Florida's universities. These private funds advance important public policy goals and help leverage public funds.

However, these resources typically are not immediately available to spend, as payments for large gifts are often made incrementally, over a period of years. Without a way to bridge those gift commitments until received, construction timelines are delayed, and costs increase. Progress delays may also jeopardize the receipt of additional donor funds as the complete financing structure is being assembled from a variety of sources. Often a construction project will be funded by multiple donor gifts paid on different time schedules, university funds, state funds, and other resources, creating additional timing challenges that must be bridged.

Current Florida policy does not permit a university to draw on commercially common tools like a bank line of credit, commercial paper program, or similar vehicle to provide this sort of bridge financing. Changing that policy would encourage private philanthropy to leverage state funds, assist when universities' internal funds are better invested in higher yielding vehicles, and allow for universities to keep as many dollars as possible in the classroom and research lab to deliver on these institutions' core missions. Peer public universities outside Florida typically have that type of flexibility.

This could be a structure for an expanded Florida policy:

- Bridge funding in aggregate for a university cannot exceed the greater of $200 million or 6 percent of that institution's cash and investments;
- The term of bridge funding for any project cannot exceed 5 years;
- The source of repayment for the bridge funding must be documented in writing, with a guarantee of a backstop source of funding if the full expected source of repayment is not received within 5 years;
- The loan must be approved by the university's chief financial officer and by the university's Board of Trustees, or a designated committee;
- The bridge funding programs must be coordinated with the State Division of Bond Finance;
- In order to receive favorable terms from a third-party lender (e.g., bank(s) and/or investors), the source of repayment externally may be an unsecured general obligation of the university payable from all legally available funds;
- Annually, a list of the projects bridge funded, repayments and balances must be provided to the Board of Governors.

Draft legislation, Option A

Section 1010.62, Florida Statutes, is amended to read:

(3) (c) Notwithstanding paragraphs (a) and (b), state universities and direct-support organizations may engage in the following activities without the approval of the Board of Governors:

1. State universities may lease-purchase equipment and software in accordance with the deferred-purchase provisions in chapter 287 and direct-support organizations may lease-purchase equipment and software to the extent that the overall term of the financing, including any extension, renewal, or refinancing thereof, does not exceed 5 years or the estimated useful life of the equipment or software, whichever is shorter;
2. Direct-support organizations may issue promissory notes and grant conventional mortgages for the acquisition of real property; and
3. State universities and direct-support organizations may secure debt with any source of repayment other than state operating appropriations ~~gifts and donations and pledges of gifts~~ so long as the facilities being financed thereby have been included in the university's 5-year capital improvement plan that has been approved by the Board of Governors, ~~and~~ the maturity of the debt, including any extension, renewal, or refunding, does not exceed 5 years, and the aggregate outstanding balance of that university's debt issued under this subsection does not exceed $200 million.

Draft legislation, Option B

Section 1010.62, Florida Statutes, is amended to read:

(3) (c) Notwithstanding paragraphs (a) and (b), state universities and direct-support organizations may engage in the following activities without the approval of the Board of Governors:

1. State universities may lease-purchase equipment and software in accordance with the deferred-purchase provisions in chapter 287 and direct-support organizations may lease-purchase equipment and software to the extent that the overall term of the financing, including any extension, renewal, or refinancing thereof, does not exceed 5 years or the estimated useful life of the equipment or software, whichever is shorter;
2. Direct-support organizations may issue promissory notes and grant conventional mortgages for the acquisition of real property; and
3. State universities and direct-support organizations may secure debt with any source of repayment other than state operating appropriations under the following conditions: ~~gifts and donations and pledges of gifts~~
    - a) Any facilities being financed ~~thereby~~ must have been included in the university's 5-year capital improvement plan ~~that has been~~ approved by the Board of Governors~~,~~;
    - b) ~~and t~~The maturity of the debt, including any extension, renewal, or refunding, does not exceed ~~5~~ five years,
    - c) The aggregate outstanding balance of a state university's debt shall not exceed $200 million or six percent of its cash reserves and investments;
    - d) The repayment sources must be documented in writing and adequate to repay the entire debt notwithstanding unrecognized gifts or financial pledges;
    - e) Each transaction must be approved by the university's chief financial officer and its Board of Trustees;
    - f) The overall debt structure must be approved by the State Division of Bond Finance; and
    - g) Each state university must report annually to the Board of Governors each such bridge loan, including the maturity date, the outstanding balance, and the intended repayment source.