

**Faculty Senate Chair  
Report  
January 2019**

**HSC**

John Smith, Jonathan Fuller and Krista Wallace-Boaz met with President Bendapudi in December to discuss safety concerns on the HSC campus. In January, leadership from the Senates will begin monthly “office hours” on HSC in order to meet with faculty, staff and students. Date/Time TBA.

**Foundation**

Keith Sherman shared a report from S&P Global (see attached document). The Foundation is pleased to report that S&P has boosted the Foundation’s rating from a negative to a stable outlook, remaining at A+. This rating is aligned with the University’s, and is based in part on the following:

- ULF management has taken significant steps to restore confidence in governance and improve financial transparency following a forensic audit in 2017 that revealed issues. We (S&P) believe that management's actions have improved financial transparency and governance, and improved financial operations by reducing expenses significantly
- Governance reform also has added three, nonvoting constituent members of the university's board of trustees to the foundation's board. There has been significant change in the makeup of the board during the past two years, and as of 2017, all but one member was new.
- The foundation's senior management team has changed significantly in the past two years, with the departure of Jason Tomlinson, the former CFO, as well as several board members, and the appointment of Keith M. Sherman as interim executive director and COO in November 2016. We (S&P) view new senior management positively, but expect it will take some time for the team to fully transition and create a fresh track record.

**Bookstore Advisory Council**

Operations has developed and launched a Bookstore Advisory Council. Membership includes faculty, academic advisors, financial aid representatives, Delphi Center staff, the bookstore manager, representatives from operations, and students. Additional faculty and students will be added to the council.

**BOT Committees**

Board of Trustees Committees met December 13<sup>th</sup>. Dr. Lorrel Brown, Assistant Professor of Cardiovascular Medicine in the School of Medicine was awarded the 2018 Trustees Award. She was honored at the December Commencement Ceremony.

Dan Durbin presented a proposed project, Belknap Academic Building Pedestrian Plaza, to the finance committee. Please see the attached Executive Summary for details.

## Financial Results for Quarter Ended September 30, 2018

- Increase in Net Position over the prior year
- Total revenues are greater than prior year primarily as a result of new Adidas contract, tuition increase, and contributions from the Foundation
- Total expenses are greater than the prior year, however, the increase in expenses is still less than the increase in revenues
- Cash position shows modest growth despite the spend down of remaining unrestricted KOH strategic funds
- Overall financial performance and position holding to plan

## Upcoming Budget Priorities:

- Strategic Plan funding
- Reserves and contingencies
- Compensation
- Deferred maintenance and capital
- Appropriate program support
- Continued savings initiatives

## Academic Performance Solutions Tool

This platform will bring together information regarding academic, student, human resources and financial data. Analytics will provide data regarding course information (class size, seat utilization, etc), faculty workload, and costs. This national collaborative provides peer benchmarking information. Beth Boehm and Bob Goldstein will present this platform in further detail to the Faculty Senate Executive Committee (XC) later in January.

## **Tuition Waiver Program**

The Kentucky General Assembly has passed legislation that ended the tuition waiver program for university faculty and staff taking classes at other Kentucky public institution. UL will continue this program through Spring 2019. Options for post Spring 2019 are currently being reviewed.

## **Government Relations**

The Legislative Advisory Team will begin meeting in February. This group of faculty, staff and representatives from across the University will meet during the legislative session to review and determine how legislation will affect the University of Louisville.

## **HR Request: Great Place to Work**

John Elliot has asked for input from faculty regarding two questions:

- What currently makes UofL a great place to work?
- What changes are necessary to make UofL a great place to work?

The XC is currently addressing these questions, and the Faculty Senate will discuss these two questions during the January 9 Faculty Senate Meeting

## **Project Title: Belknap Academic Building Pedestrian Plaza**

### **Executive Summary:**

The creation of a drive that replaces Brook Street and maintains service access to the Northwest portion of the main campus has long been desired. The transformation of this portion of Brook Street from vehicle to pedestrian traffic is a major improvement to the campus. The conflict between service and other vehicles and pedestrian traffic that access student services in Houchens and other University buildings in this area is dangerous and inconvenient. The creation of a pedestrian plaza to replace Brook Street will be an amenity to the campus in that new greenspace and useable plaza area will be provided allowing expanded sustainability features, convenience and safety to students. This aligns with the new Belknap Academic Building vision and cost projections. This will fulfil the greenscape portion of this vision, which is allowable to use with the remaining project funds.

**Phase 1 Start Date:** January 1, 2019

**Phase 1 Completion Date:** March 15, 2019

**Phase 2 Start Date:** March 1, 2019

**Phase 1 Completion Date:** August 15, 2019

### **Recommendation:**

**There will be two separate phases for this project.**

**Phase One:** "Service Drive" Scope of work includes demolition of existing abandoned Post Office, installation of paved area at Post Office demo, installation of paved parking at rear/East side of Central Plant, removal of parking spaces immediately at rear/East side of PPD.

**Phase Two:** "Pedestrian Plaza" Scope of work includes closure and demolition of existing Brook Street. Installation of paved pedestrian plaza and connecting sidewalks, installation and continuation of bicycle pathway, installation of landscape materials and lawn areas, installation of storm water infiltration (sustainability) features.

### **Project Budget and Funding:**

Estimated cost for Phase 1 of the project is \$1,250,345. This will be funded from remaining construction funds from the Belknap Academic Building.

Estimated cost for Phase 2 of the project is \$1,800,000. This will be funded from potential remaining construction and contingency funds from the Belknap Academic building. Construction of Phase 2 will not proceed unless funds are available.

### **Locations on Belknap Campus:**

The work includes demolition of the existing Post Office located behind Houchens Building thereby allowing the construction of a service drive immediately adjacent and parallel to the existing railroad track. The Pedestrian Plaza transformation will be a portion of Brook Street alongside of the Belknap Academic Building.

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## University of Louisville Foundation Inc., Kentucky; Non-Profit Organizations

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### Table Of Contents

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Rationale

Outlook

Enterprise Profile

Financial Profile

# University of Louisville Foundation Inc., Kentucky; Non-Profit Organizations

## Credit Profile

### University of Louisville Foundation, Inc ICR

*Long Term Rating*

A+/Stable

Affirmed

## Rationale

S&P Global Ratings has revised its outlook to stable from negative and affirmed its 'A+' long-term debt rating and issuer credit rating (ICR) on the University of Louisville Foundation Inc. (ULF), Ky.

The outlook revision reflects our view that ULF management has taken significant steps to restore confidence in governance and improve financial transparency following a forensic audit in 2017 that revealed issues. We believe that management's actions have improved financial transparency and governance, and improved financial operations by reducing expenses significantly.

In our opinion, there was significant management and board turnover couple of years ago that seems to have stabilized. The 2017 forensic investigation of ULF's transactions and activities from fiscal years 2014-2016 had affected confidence in the foundation's historical financial transparency, and hindered both foundation gifts and overall fundraising at the university. At the same time, several of ULF's key financial metrics had weakened, specifically its operating performance and financial resources to operating expenses. Based on fiscal 2018 audited results, key financial metrics have improved.

ULF's rated bonds are unsecured general obligations of the foundation, backed by a guarantee from ULF. The foundation is organized under 501(c)(3) and operates exclusively as a supporting organization for the University of Louisville (UL). The ratings reflect our view of ULF's connectivity to UL as one of its primary financing entities.

We base the 'A+' long-term rating and ICR on our view of the foundation's underlying credit strength and irrevocable guarantees, including its:

- Strong institutional and administrative ties among the foundation, UL Housing (ULH), UL Athletic Assn. (ULAA), and UL;
- Adequate long-term investments, with cash and investments of \$691.6 million as of June 30, 2018, a diversified investment portfolio, and sufficient immediate and short-term liquidity;
- Adequate financial resources relative to total debt and guarantees (\$81.3 million) as of June 30, 2018, with unrestricted resources and temporarily restricted assets of about \$321.7 million, equal to about 4.0x total debt and guarantees; and
- Record of no payout on any guaranteed debt and active project monitoring by ULF and university.

Offsetting factors, in our opinion, are the management and board turnover in recent years. The foundation's new management has taken steps to revise bylaws, policies, and procedures to ensure financial transparency, and has cut expenses significantly in fiscal years 2017 and 2018.

ULF guarantees debt service payments on about \$81 million of total debt or related obligations (including a long-term lease, lines of credit, and nonrecourse guarantees), all of which are housing or other projects that support UL's mission. The foundation is working on a refinancing that will result in the defeasance of some bonds and a release of ULF's financial guarantee. Post-transaction, the foundation will guarantee debt service payments on only about \$50 million of total debt or related obligations. It reports that the guarantee agreements are substantially similar. The foundation reports no plans for additional direct debt or debt guarantees in our two-year outlook period. In fact, management has reduced its total debt and guarantees significantly in the past year, to \$81 million, from over \$130 million in 2016, which we view positively. Since fiscal 2015, a new foundation has overseen real estate related activities, including the three tax increment districts formerly managed by ULF, with separate governance and leadership.

## **Outlook**

The stable outlook reflects our expectation that the management team will continue to restore confidence in governance and improve financial transparency, and will continue to improve financial metrics, particularly full-accrual operating performance and financial resources to operating expenses.

### **Downside scenario**

We could consider a negative rating action if there ULF's financial resources to operations or overall operations deteriorate, or if we find that actions to restore confidence and financial transparency are ineffective.

### **Upside scenario**

We believe a positive rating action is unlikely during the outlook period, given our rating on UL and the foundation's connection to the university. However, we would view significant growth in operations and financial resources relative to expenses positively.

## **Enterprise Profile**

ULF is the sole member of a group of companies that either own real estate or own leasehold interests in real estate with intention to generate income for the foundation through the subsidiaries. Other subsidiaries and related entities provide business support in health sciences, administrative support, and management of the foundation's enterprises. ULF's investment manager invests assets in accordance with the foundation's investment guidelines, among other items. A custodian for ULF is responsible for establishing and maintaining direct account relationships with each investment manager, among other items. An investment consultant, Cambridge Associates LLC, performs periodic reviews of investment policies and objectives and measures and evaluates fund and investment manager performance, among other duties. ULF is a discrete component unit of UL. It holds and manages most of the university's endowment, and some of university fundraising flows through the foundation.

A 15-member board of directors directs and supervises the foundation, and the members serve staggered three-year

terms. The UL president holds one position, members of the UL board of trustees hold four, and the remaining 10 are at-large. Governance reform also has added three, nonvoting constituent members of the university's board of trustees to the foundation's board. There has been significant change in the makeup of the board during the past two years, and as of 2017, all but one member was new.

The foundation's senior management team has changed significantly in the past two years, with the departure of Jason Tomlinson, the former CFO, as well as several board members, and the appointment of Keith M. Sherman as interim executive director and COO in November 2016. We view new senior management positively, but expect it will take some time for the team to fully transition and create a fresh track record.

A forensic investigation from June 2017 detailed several issues involving improper oversight and mishandling of funds. The issues cited in the forensic investigation occurred under previous university leadership and ULF board and that the new leadership and have committed to open and honest action and communication and transparency. Since the investigation, the foundation underwent a number of significant changes. It ended the deferred compensation program that paid large amounts to former UL officials, including former president, James Ramsey. The board of directors has turned over, with several new ex-officio and at-large members. ULF also changed its bylaws, including forbidding the UL president from being the president of the foundation, a dual role Mr. Ramsey held for many years. Another major reform was the passage of a line-item operating budget for first time in ULF's history and modifications to the endowment spending policy allocation methodology. We view these changes positively.

UL has 13 academic schools and colleges, including a medical school and law school. It is state-supported and has close historical and legal ties with Louisville's largest metropolitan area. Students are primarily undergraduate and from the state of Kentucky. The university formed ULF as a nonstock, nonprofit corporation in May 1970. The foundation is an independent 501(c)(3) corporation that holds, invests, and designates funds for UL's benefit. The foundation invests and manages these funds to support the university, including its education, research, and service goals for which it uses its funds for scholarships, endowments, research chairs, grants, and other academic initiatives. Donors and the appropriate university departments manage gifts to the foundation, and the foundation board manages unrestricted gifts at the president's recommendation.

## **Financial Profile**

For the fiscal year ended June 30, 2018, ULF had total net assets of \$790.8 million, of which only \$3.8 million were unrestricted net assets, which is still low compared with that of prior years. At the same time, foundation cash and investments totaled \$691.6 million in 2018, up slightly from fiscal 2017 but down from \$817 million in 2014. For fiscal 2018, the foundation's unrestricted assets and temporarily restricted net assets of \$321 million equaled 3.5x operating expenses and 4.0x debt (\$81.3 million, including guarantees). These ratios improved in fiscal years 2017 and 2018. Management reports that fiscal 2017's audited financials corrected for the findings in the forensic investigation, and as per the new line-item budget, fiscal 2018 had improved expense control and operations.

ULF's operations have historically fluctuated given their dependence on gifts and investment income. However, due to market volatility and increased university funding in the past couple of years, the foundation's operations have

declined noticeably, with a drop of \$95.4 million in fiscal 2016's unrestricted net assets, compared with a \$38.1 million decline in fiscal 2014. Management expected improved operations in fiscal years 2017 and 2018, based on reduced expenditures, and in our opinion, it has achieved this.

Total fundraising in fiscal 2017 was \$88.3 million, followed by \$78.1 million in fiscal 2018.

As of Sept. 30, 2018, the long-term portfolio had a market value equal to \$714.3 million. In our opinion, ULF's returns compare favorably to the industry. Asset allocation for long-term investments as of the same date, was 40.9% domestic and international equities; 30.7% private investments and real assets; 17.0% hedge funds; and 11.2% cash and fixed-income investments. The foundation can liquidate about 49% of this in less than 30 days, which we view as a credit strength.

ULF changed its formal investment policy in December 2016, to a spending rate of 4.09% of a three-year rolling average of market value for general distribution, plus an additional 1.09% for university fundraising and professional advancement operations. In fiscal 2019, this changed again; the current distribution is 4.2% of a rolling three-year average of market value for general distribution, and an additional 1% for university fundraising and 0.3% for foundation operations. Management reduced the spending rates in anticipation of expected market returns and make spending more sustainable. In fiscal 2016, ULF transferred \$97.5 million to the university, which included \$45.9 million in endowment appropriations. By comparison, in fiscal 2017, the foundation reduced its endowment appropriations to \$46 million (the endowment spending will continue to monitor financial operations and spending. The policy was \$32 million plus \$14 million for advancement and presidential initiatives). ULF further reduced to \$28.9 million for the fiscal 2018 (endowment spending policy was \$28.9 million plus \$7.1 million for advancement and presidential initiatives). For fiscal 2019, management has budgeted this to fall again, to \$25.8 million. The president's office budget has been eliminated in its entirety, and the office of advancement is budgeted to received \$6 million. We view these changes positively.

#### Ratings Detail (As Of December 3, 2018)

University of Louisville Foundation, Inc NONPROFORG

*Long Term Rating*

A+ / Stable

Affirmed

#### **Louisville & Jefferson Cnty Metro Govt, Kentucky**

University of Louisville Foundation, Inc, Kentucky

Louisville & Jefferson Cnty Metro Govt (University of Louisville Foundation, Inc) hsg

*Long Term Rating*

A+ / Stable

Affirmed



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