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University of South Carolina  
BOARD OF TRUSTEES

Executive and Governance Committee

October 11, 2019

The Executive and Governance Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on October 11, 2019, in the C. Edward Floyd Boardroom at the Pastides Alumni Center.

Members participating were: Mr. John C. von Lehe Jr., Chairman; Mr. Hubert F. Mobley, Board Vice Chairman; Dr. C. Edward Floyd; Mr. Toney J. Lister; Mr. Miles Loadholt; and Mr. Eugene P. Warr Jr.

Other Trustees participating were: Mr. C. Dan Adams; Mr. Chuck Allen; Mr. Robert F. Dozier Jr.; Mr. William C. Hubbard; Mr. Richard A. Jones Jr.; Ms. Leah B. Moody; Ms. Rose Buyck Newton; Dr. C. Dorn Smith III; Ms. Molly M. Spearman; Mr. Thad H. Westbrook; and Mr. Charles H. Williams; with Mr. Egerton Burroughs and Mr. A.C. "Bubba" Fennell joining by telephone.

Also present were: Strategic Advisor David Seaton, USC Columbia Faculty Senate Chair Mark Cooper, and USC Columbia Student Government President Luke Rankin.

Others present were: President Robert L. Caslen Jr.; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Interim Executive Vice President for Academic Affairs and Provost Tayloe Harding; Senior Vice President for Administration and Chief Operating Officer Edward L. Walton; Vice President for Student Affairs and Vice Provost for Academic Support Dennis A. Pruitt; Vice President for Human Resources Caroline Agardy; Vice President for Information Technology and Chief Information Officer Doug Foster; Athletics Director Ray Tanner; Vice President for Research Prakash Nagarkatti; Interim Chief Communications Officer and Director of Public Relations Jeff Stensland; Interim Chief Development Officer Will Elliott; Senior Advisor to the President for Advancement Paula Harper Bethea; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; College of Arts and Sciences Dean Lacy Ford; College of Education Dean Jon Pedersen; University Architect and Associate Vice President of Facilities Planning, Design and Construction Derek Gruner; University Controller Mandy Kibler; University Treasurer Pat Lardner; University Budget Director Joe Sobieralski; Associate Vice President for Administration and Finance and Medical Business Affairs Jeffrey L. Perkins III; Associate Vice President for Finance Kelly Epting; Executive Director for the Office of Economic

Engagement William D. “Bill” Kirkland; Chief Audit Executive Pam Doran; Executive Director for Strategic Initiatives Jack Claypoole; My Carolina Alumni Association Chief Executive Officer Wes Hickman; Assistant Controller Lindsay Anastasio; Director of Financial Reporting Sandy Smith; Director of Public Affairs and Advocacy Craig H. Parks; Office of Equal Opportunity Programs Director Clifford Scott; Assistant to the President for System Affairs Eddie King; Assistant Dean of Business Operations, College of Education, Ryan Inzana; Associate Director, Distributed Learning, Trena Houpp; USC Upstate Vice Provost and Associate Vice Chancellor for Academic Affairs Pam Steinke; USC Upstate Faculty Chair Lizabeth Zack; Palmetto College Faculty Senate Chair Christine Sixta Rinehart; Cynthia Lister, wife of Trustee Toney Lister; Ann Loadholt, wife of Trustee Miles Loadholt; Maggie Metcalf, guest of Trustee von Lehe; Trustee Emeritus M. Wayne Staton; Association of Governing Boards Consultants Rick Legon, Ellen Chaffe, Sally Mason and Brit Kirwan; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Terri Saxon.

I. Call to Order

Chairman von Lehe called the meeting to order and stated notice of the meeting had been posted and the press notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated; and a quorum was present to conduct business. Secretary Heath confirmed those Trustees who had joined the meeting by telephone.

Mr. Stensland introduced Ms. Meghan Crum with *The Daily Gamecock*.

II. Board of Trustees Policies

Chairman von Lehe called on Mr. Parham to present.

A. BTRU 1.02, *Mission Statements*

Mr. Parham said the Office of the Provost maintains the official Policies and Procedures Manual for the University, and coordinates review and approval of all policies that have campus- and system-wide application. With that introduction, he said there were two new policies to present to the Board.

First was BTRU 1.02, which is a policy dealing with mission statements for each campus in the University system.

In 2018, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) released a new set of accreditation standards that colleges and universities must meet in order to maintain accreditation. USC Aiken Chancellor Sandra Jordan was involved in writing the standards. SACSCOC has

always had a standard that requires institutions to have a mission statement. But in 2018, SACSCOC added Standard 4.2.a which states: “The governing boards of colleges and universities must ensure a regular review of the institution’s mission.”

Additionally, under state law, the South Carolina Commission on Higher Education (CHE) reviews and approves each institutional mission statement to ensure it is within the overall mission of that type of institution as outlined in state law.

In order to meet the SACSCOC standard and ensure compliance with CHE requirements, the Provost’s Office developed Board of Trustees Policy 1.02. The policy is designed to ensure the mission statements for all USC campuses are accurate, up-to-date and comply with state law.

The policy further assigns to the University’s Office of Institutional Research, Assessment, and Analytics responsibility for reviewing the mission statements and notifying the Board of Trustees and the respective chief academic officer when a campus’ mission statement must be reviewed and updated by the Board.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of BTRU 1.02, *Mission Statements*. Mr. Mobley so moved. Mr. Loadholt seconded the motion. The vote was taken, and the motion was approved.

B. BTRU 2.00, Commencement Exercises

The second policy for consideration is BTRU 2.00 dealing with official University commencement exercises, which is strictly a “housekeeping matter,” Mr. Parham said.

In 2010, the University adopted an Academic Affairs policy (ACAF 3.70) designed to establish clear procedures for academic ceremonies hosted by individual colleges and academic units separate from the official commencement exercises that fall within the exclusive purview of the Board of Trustees. That policy also described in detail the official commencement exercises that are conducted by the Board.

The Office of the Provost determined the policy establishing the procedures for Board-controlled official University commencement exercises should be a Board of Trustees policy rather than an Academic Affairs policy. So, those portions of the old ACAF 3.70 policy dealing with official commencement activities have been removed and made into the new Board policy BTRU 2.00.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of BTRU 2.00, *Commencement Exercises*. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken, and the motion was approved.

### III. Contracts

Mr. Parham proceeded with the presentation of contracts for approval.

#### A. HelioCampus, Inc. Subscription and Service Agreement

Mr. Parham said the Division of Information Technology sought approval of a Subscription and Service Agreement with HelioCampus, Inc. This is a business operations tool developed specifically for higher education to improve institutional data analytics. HelioCampus was selected after a competitive solicitation pursuant to the South Carolina Procurement Code.

Data is an institutional asset – it is not owned by individual units even though it is currently maintained within individual unit “silos.” There are literally hundreds of these “silos” across campus, he said. The HelioCampus product will allow the University to gather and centralize data from all these individual “silos” into what is called a “data lake.” This is cloud-based technology. The “data lake” will include data from numerous University officials and operations including for example, Admissions, Registrar, Housing, Bursar, Financial Aid, HR/Payroll, Business and Finance, etc.

Once collected, the data is made accessible across campus so individual units can mine the data from all units and generate detailed analytical reports. These reports can be used to create new or modified dashboards that will allow for easy identification of patterns and trends and improve operational efficiencies.

All data uploaded, created or generated through the HelioCampus service remains solely University-owned data. At the conclusion of the agreement, HelioCampus will return the data to USC at no additional cost in a format identified by the University.

The one-year term of the agreement may be renewed for additional periods not to exceed a maximum term of five years. If the agreement continues for five years, the maximum cost to the University will be \$6,300,000.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of HelioCampus, Inc. Subscription and Service Agreement. Mr. Warr so moved. Mr. Mobley seconded the motion.

In response to a question from Trustee Spearman, Mr. Foster said HelioCampus is a systemwide solution, which will be applied on the Columbia campus but could be expanded in the future if the Board so desired.

The vote was taken, and the motion was approved.

B. Academic Programs International, LLC Master Service Agreement

Mr. Parham said the Study Abroad Office and Global Carolina sought approval of an agreement with Academic Programs International, LLC (API) under which API will develop a study abroad program in Ireland called Gamecocks in Ireland.

Under the agreement, API will develop a semester-long customized study-abroad program for USC students who wish to study at the University of College Cork or Maynooth University in Ireland. The program will be offered each spring semester during the five-year term of the agreement.

If approved, the first cohort of six students will begin the program in January 2020. The goal is to expand the program to an enrollment of 19 students per semester at each university in Ireland.

Students must be in good academic standing and not on disciplinary probation to be eligible to participate. Students who participate will be considered full-time students at the host institution in Ireland and will have the opportunity to earn 12 to 15 hours of academic credit transferrable to USC. All courses taken in Ireland have been vetted and approved by the respective academic department at USC.

Students will pay a semester fee of \$15,950. The fee will cover the cost of tuition, lodging in student residence halls, cultural excursions, and ground transportation. Students are responsible for airfare to and from Ireland and meals. Under the agreement, API will provide an onsite director who will make all pre-arrival onsite program arrangements, conduct an orientation program for students upon their arrival in Ireland, assist with all academic and cultural visits, serve as the housing liaison, and provide medical and emergency support if needed while the students are abroad.

The University does not profit financially for providing this study-abroad experience to students. The study abroad program estimates the value of the contract to be \$606,100.

Chairman von Lehe called for a motion and second to approve the Academic Programs International, LLC Master Service Agreement. Mr. Loadholt so moved. Mr. Lister seconded the motion.

In response to Trustee Whittle's questions as to whether financial support was available for students who may not be able to afford such opportunities, Mr. Parham said if more students enroll than originally expected, there will be \$200 per student placed in a scholarship fund to be awarded to students who might need it from a financial aid standpoint. Interim Provost Harding said the University does have study-abroad scholarships. He also said in-state students can use their lottery-funded scholarships for study abroad if it is one of the eight semesters of study toward their degree. Student Government President Rankin said he was personally aware of other scholarship opportunities and grants to help cover the cost of study abroad.

The vote was taken, and the motion was approved.

C. Alumni Association Affiliation Agreement

Mr. Parham said the Alumni Association sought approval of an Affiliation Agreement with the University. The University has similar agreements with each of its support foundations. Having these documents is good business practice and also is required by SACSCOC as part of the University's re-accreditation process. The proposed Alumni Association Affiliation Agreement has been reviewed and determined sufficient for SACSCOC purposes by Donald Miles, the University's SACSCOC expert.

The agreement is standard in form and recites the association's separate legal status from the University as a 501(c)(3) non-profit organization governed by a separate Board of Governors.

The agreement recites the association's responsibility to coordinate with and support and provide services to the University, and to manage its assets in accordance with state and federal laws.

Historically, Mr. Parham said, association employees have been state employees paid by the University, allowing them to receive state benefits, with the association reimbursing the University for all compensation and benefits costs. That isn't the best business practice model because it can blur the arms-length relationship that must be maintained with the University due to the association's 501(c)(3) status. So, as is the case with the University's other support foundations, he said the association is beginning to transition its employees away from state employment.

Thus, beginning not later than January 1, 2020, new hires will be association employees rather than state employees paid by the University. For individuals currently employed by the association who remain University employees, this agreement reflects that the University and the association will execute an employee leasing agreement to better document that arrangement.

Mr. Parham also noted the agreement stipulates a review every five years to ensure it remains up-to-date.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of the Alumni Association Affiliation Agreement. Mr. Warr so moved. Mr. Mobley seconded the motion. The vote was taken, and the motion was approved.

D. Athletics Department

1. Men's Basketball Charter Flight Agreement

Mr. Parham said the Athletics Department sought approval to enter into a charter flight agreement with STM Charters, Inc. for the men's basketball team.

Under the standard agreement, STM will transport the men's basketball team to 10 away games during the 2019-2020 season at a total cost of \$465,750.

Chairman von Lehe called for a motion and second to approve the Men's Basketball Charter Flight Agreement. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken, and the motion was approved.

2. Women's Basketball Charter Flight Agreement

Mr. Parham said the Athletics Department sought approval to enter into a charter flight agreement with Champion Air, LLC for women's basketball team.

Under the agreement, Champion Air will transport the women's basketball team to 10 away games during the 2019-2020 season at a total cost of \$331,899.95.

Chairman von Lehe called for a motion and second to approve the Women's Basketball Charter Flight Agreement. Mr. Warr so moved. Mr. Mobley seconded the motion. The vote was taken, and the motion was approved.

3. Football Hotel Contract

Mr. Parham said the Athletics Department sought approval of a contract with DoubleTree Hotel and Conference Center on Bush River Road in Columbia to serve as the home site for the football team.

The football team spends Friday night before home football games at a hotel off campus so the team is away from distractions and can focus on getting ready for the game the next day, he said. In order to save money, the Athletics Department has negotiated a three-year contract with DoubleTree to serve as the home site for the team. The contract covers the 2020, 2021 and 2022 football seasons.

Under the contract, the hotel will provide rooms for USC players and coaching staff Friday night, meeting rooms, and food service. Traditionally, food service includes a team dinner and evening snack on Friday, a team breakfast on Saturday, and a pre-game meal on Saturday.

Room rates for 2020 and 2021 are set at the same rate Athletics is paying this year and the rates will increase by only \$2 per room for 2022. Similarly, food service rates are set for 2020 at the 2019 rate and will increase by 2% for 2021 and 2022.

Athletics estimates it will spend \$36,000 to \$40,000 per home game for rooms and meals. Assuming seven home games per season, the total value of the contract is \$756,000 to \$840,000. By entering into a three-year contract and locking in rates, Athletics expects to save approximately \$75,000.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of the football hotel contract. Mr. Loadholt so moved. Mr. Lister seconded the motion.

In response to a Trustee question, Athletics Director Tanner said all SEC teams make similar arrangements for their home football games.

The vote was taken, and the motion was approved.

E. Gift Agreements

1. Dominion Energy, Amendments

Mr. Parham said in a previous Buildings and Grounds Committee meeting, Paula Harper Bethea presented gift naming agreements requiring the committee's approval under Board Bylaws due to the dollar amount involved.

He said on May 9, 2000 and February 23, 2015, respectively, the Board approved naming agreements for SCANA Corporation to name the SCANA Corporation Science Education and Investigation Classroom in the College of Education for \$125,000, as well as the SCANA Study Commons in the Darla Moore School of Business for \$500,000.

Since the approval of those two agreements, Dominion Energy Inc. acquired SCANA Corporation. Thus, approval is sought to amend the two SCANA agreements to rename the areas in question to the Dominion Energy Science Education and Investigation Classroom and the Dominion Energy Study Commons, respectively.

Chairman von Lehe called for a motion and second to approve the amendments to the Dominion Energy Gift Naming Agreements. Dr. Floyd so moved. Mr. Warr seconded the motion. The vote was taken, and the motion was approved.

2. Sandra and John Wurzbürger

Mr. Parham said approval also is sought for a gift naming agreement under which Sandra and John Wurzbürger are donating \$500,000 to the Football Facilities Enhancement Fund to name the Wurzbürger Family Student Gate on the Springs Brooks Plaza at Williams Brice Stadium.

Chairman von Lehe called for a motion and second to approve the Sandra and John Wurzbürger Gift Naming Agreement. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken, and the motion was approved.

#### IV. College of Education Voluntary Separation Plan

Chairman von Lehe called on Interim Provost Harding who requested approval of a Voluntary Separation Program (VSP) in the College of Education (COE) designed to reduce costs.

COE wants to offer a separation incentive payment to eligible employees in accordance with the current State Appropriation Act Proviso. VSP will be open to all COE faculty and staff in FTE positions. However, Interim Provost Harding said, an employee may be declared ineligible for VSP based on financial considerations or based on the critical need to retain the employee in order for the COE to continue its mission. Employees who submit notice of resignation or retirement before the date of the VSP, are not eligible to participate.

The separations that are approved will be effective at the start of the Spring 2020 semester, he said. No more than 12 positions will be affected and the incentive will be capped at \$100,000 per person or the employee's base salary, whichever is less. Benefits will not be offered to separated employees beyond the employee's separation date. Employees participating in the VSP cannot be employed in an FTE position with the COE or any other state agency for a period of two years.

Beyond the first year, the salary savings would accrue and strong justification would be needed to fill vacancies. This is a key piece of the college's plan to address its budgetary shortfall, he said. The estimated cost savings over five years is \$2.875 million.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of the College of Education Voluntary Separation Plan. Mr. Mobley so moved. Mr. Loadholt seconded the motion.

In response to Trustee Williams' question, Interim Provost Harding said the program was targeted at individuals who may not consider retiring for some time without the buyout. He added that the college's financial need is significant. The plan is a downsize that allows for the elimination of 12 positions, with only five to be refilled. Responding to a question from Trustee Moody, Ms. Agardy said the cited provision allows such programs when approved by the State Division of Human Resources.

In response to Trustee Whittle's question about needing to educate future teachers, Dean Pedersen said the downsizing will not reduce the number of faculty training future teachers. Across the nation, he said, traditional enrollment in teacher education programs is on a decline. USC's COE is restructuring how it should prepare teachers. It will continue to be the number one producer of teachers in the state, Dean Pedersen said.

Responding to a question from Faculty Senate Chair Cooper, Dean Pedersen said he expected four participants the first year and that the program would be made available on a first-come basis until the cap is reached. On rollout, the college will have identified individuals who are mission-critical and will notify them of that classification and thus their ineligibility for the program.

The vote was taken, and the motion was approved.

V. USC Columbia Off-Cycle Fee Request

Chairman von Lehe called on Mr. Walton who said at its called meeting earlier in the day, the Buildings and Grounds Committee approved a parking plan for Greek Village residents. This action means the Greek parking fee of \$375 per semester is no longer needed. Thus, the administration sought approval to eliminate the fee effective October 11, 2019 for all semesters after fall 2019.

Chairman von Lehe called for a motion and second to recommend approval by the full Board of the USC Columbia Off-Cycle Fee Request. Mr. Warr so moved. Mr. Mobley seconded the motion.

In response to a question from Trustee Whittle, Mr. Walton said there were no other outstanding fees associated with future projects that have not yet been started.

The vote was taken, and the motion was approved.

VI. FY2019 Year-End Report and Financial Update

Chairman von Lehe called on Mr. Walton who presented the fiscal year-end report, noting the University finished FY2019 on June 30 very strong. Updates on the University's financial position, as well as an update on the current and future budget models will be provided. To present the details, he introduced Associate Vice President for Finance Kelly Epting, University Controller Mandy Kibler, and Assistant Vice President for Administrative Operations Joe Sobieralski.

Addressing the current economic state of higher education, Mr. Walton said the old models for higher education are no longer going to work. Going forward, it was not feasible to continue raising prices and enrollment – neither the market nor the politics will tolerate price increases. This environment is just not in South Carolina, it is seen across America. The landscape of higher education is changing and the University must adapt to that change, he said.

Last year, he said, the University made progress at the State House and received more money than it had since the mid-2000s to support higher education. However, this progress is not enough to overcome all of the burdens that are going to happen economically now and over the next 10 years, he warned.

All resources are expended to accomplish the mission of public higher education, he said, so expenses must be carefully managed otherwise they will easily exceed revenue. The University has a strong financial position because of current management methods, but to maintain that position, the University will have to adapt.

To underscore his observations, Mr. Walton used the University of Missouri as an example of what can go wrong. Campus turmoil there resulted in a 35% decrease in freshmen enrollment. If that were to happen at USC, a \$100 million a year decrease in revenues would result. He noted that although things are improving at the University of Missouri, its enrollments have not returned to the 2015 levels.

Mr. Walton offered an example of a decrease in enrollment combined with a loss of accreditation, which would result in a loss of federal funding. In his hypothetical scenario of a loss of accreditation, massive annual deficits with years of cost reductions would result and the surviving institution would be substantially changed. The best way to ensure such things don't happen is to work together, he said, recognizing the efforts of President Caslen in helping to manage a difficult future by building bridges and breaking down barriers.

The University's strong financial position is an important element in its future success, he said, calling on Ms. Kibler to present the FY19 Comprehensive Annual Financial Report (CAFR).

Ms. Kibler said the University had a solid financial position demonstrated June 30 with a total increase in assets. Total assets were \$2.7 billion compared to \$2.6 billion on June 30, 2018. Total assets increased 2.5%, much of which came from increases in investments, cash and cash equivalents. In contrast, the University had a slight increase in liabilities of 0.4%, which demonstrated a strong balance sheet with more asset growth than liability growth.

Operating revenues were strong, with a growth of 5.1%, most of which was derived from tuition and fees, and grant and contact revenues. Non-operating revenues increased 11.3%, mainly from an increase in state appropriations and investment and endowment income. In contrast, the University's expenditures increased by 5.6%, mostly due to salary and fringe benefits. Overall, she said these trends are positive and present a strong, stable financial position.

Ms. Kibler said the CAFR is prepared in accordance with general accepted accounting principles and in accordance with Government Accounting Standards Board. Thus, the statements are prepared reporting unfunded liabilities – net pension liability and post-employment liability. GASB 68 and GASB 75

are University portions of the unfunded pension and post-employment pension that is passed along from the State of South Carolina to the University to be reported.

These two liabilities skew the ability to be able to see the University's true financial position, she said. Thus, the financial strength of the University is more clearly demonstrated when not including GASB 68 and 75. The increase in total net position for FY2019 was \$127.6 million over FY2018, she said, compared to \$73.7 million when considering the impact of GASB 68 and GASB 75.

The University had a strong unrestricted operating cash position of \$460 million as of June 30, 2019. Ms. Kibler said it was a management priority to maintain a three-month operating cash reserve in the event of emergencies, a downturn in the economy, or fluctuations with enrollment. USC's current operating reserve is \$255 million. Maintaining adequate reserves is essential to establishing financial stability and is reviewed by the University's accrediting bodies as part of the fiscal component of the accreditation process.

In analyzing the reserves from a ratio standpoint, the University is able to cover its current liabilities with current assets 5.07 times. This ratio shows strong liquidity and strong ability for the University to weather short-term demands on cash, she said.

In addition to cash, capital assets are one of the University's largest assets on the statement of net position. The University had \$1.46 billion invested in capital assets, an increase of \$53.3 million or 3.8% percent over FY2018. She noted assets are recorded at historic costs and are not adjusted for fair market value. In FY2019, the University added over \$118.4 million to buildings and building improvements, which included the Long Family Football Operations building, the Close-Hipp renovation, and the Hilton Head Hospitality building at USC Beaufort. In addition, the University added \$33.2 million to intangible assets, which include capitalization of the PeopleSoft/HCM and other software assets.

Ms. Kibler also presented details about the University's debt service of which outstanding debt, compared to FY2018, decreased 4.6% to \$560 million as of June 30, 2019; a report on the upward trend of USC's composite financial index of 3.32; and a summary of the statement of revenues, expenses and changes in net position for the fiscal year, illustrating a continued dependency on tuition and fees as a primary revenue resource. She concluded with a "snapshot" of the University's total endowment of \$673.5 million of which \$539 million is held by University Foundations.

Trustee Whittle noted operating expenses exceeded operating revenues in FY2019 and the difference was covered from tuition increases. He asked how such expenses would be covered if tuition is

flat. Ms. Kibler said expenditures would have to be reduced. She also confirmed for Trustee Allen that state appropriations comprised 12.1% of USC's FY2019 revenue or \$175.6 million.

In the next portion of the financial update, Ms. Epting discussed the 2019 year-end budget to actual information, based on the legacy budget format.

Ms. Epting's presentation bridged Ms. Kibler's discussion of the financial statements and the specific operating funds that would be discussed with the new budget model. Two basic funds are included in the annual financial report – operating funds and non-operating funds. Ms. Epting addressed current funds and how the numbers reconciled what was reported in the annual financial statement. Current funds are divided into two types – unrestricted funds which are education and general funds and restricted funds which are grants, contracts and scholarships.

After illustrating the current funds budget and actual expenditures for each campus, which showed a total net margin of \$96.875 million, Ms. Epting provided an academic unit level breakdown for USC Columbia with a total net margin of \$19.545 million. After illustrating the academic units, she detailed the other two budget categories of auxiliary units and support units before summarizing the three categories in a single slide detailing a total net margin on the Columbia campus of \$82.161 million.

Following Ms. Epting, Mr. Sobieralski discussed the new budget format. The new budget model has been in development for several years with external assistance from Huron and Elliott Davis and an internal steering committee. Each dean and their business managers have been consulted individually and in groups on many occasions in different forums. The University community has heard about the new budget model at the Provost's retreats, at Board meetings and at individual college meetings. The new model also was submitted in June as a draft to Trustees as part of the FY2020 budget process.

Mr. Sobieralski discussed the differences between the two budget models. The new budget model eliminates the use of a base budget, which establishes spending authority based on a history of requests being made and approved. The new budget model keeps other revenue sources such as summer tuition, program and other fees, a percentage of indirect costs, as well as revenue from grants, contracts, gifts, sales and services. In place of the base budget, the specific revenue streams that supported the base budget concept are used, including fall and spring tuition, state appropriations, and full recovery of indirect costs by the generating unit. This increases transparency and creates a more direct association with activity levels.

Uses remain the same with the addition of a new category, which Mr. Sobieralski said are support unit allocations or indirect costs – costs related to the University's support units that are allocated to the

academic units to get a better sense of the full costs of each. Thus, Trustees will obtain an understanding of which units are the net contributors and which are the net consumers. He cautioned that being a contributor or consumer is not good or bad in itself, but creates a point for future measurement.

The new model also utilizes a “subvention” allocation, which recognizes the need to support consumer units. Subvention levels initially will be at a “held harmless” phase, which will prevent units from getting significantly better or worse than they were in the legacy budget, he said.

Mr. Sobieralski illustrated the performance of the new budget model in FY2019 with detailed slides of academic, auxiliary and support units. Included was a comparison of the same information in the legacy format. The illustration showed how the risk of the new model is that all revenue is allocated, where in the past increases in revenue would have been managed centrally and not allocated.

In response to some confusion over his illustration that included the legacy budget with the new budget model, he assured Trustees that the new model would be simplified in practice as his illustration sought to show the transition.

Mr. Sobieralski then detailed the decision points for allocating revenue and costs in the new budget model, such as undergraduate resident tuition is allocated on the basis of 70% to an academic unit based on the share of resident credit hours instructed and 30% to an academic unit based on the share of resident credit hours enrolled. Clarifying discussion of the issue, Faculty Chair Cooper said that as soon as a student declares a major the college identified received 30% of the student’s tuition and the college of instruction receives the 70%.

Trustee Whittle stressed the need for a strategic component to ensure dollars are allocated to places where the strategic goal can be achieved. Mr. Sobieralski said the funding category of subvention is where there is “human intervention” in the new model to allow this. Trustee Westbrook said the financial overlay necessary for helping achieve strategic goals will be discussed at the strategic planning meeting in January.

The cost pools and the support units which comprise each pool also were detailed by Mr. Sobieralski. He said data used for the metrics to allocate indirect costs is received from the Office of Institutional Research, Assessment and Analytics (OIRAA).

The governance of the budget model will reside with three groups, he said. An operational support team will handle development and training. Its work will inform advisory committees, which will review requests from support unit proposals, giving some academic review of support units. There also will be an arbitration group as one of the advisory committees to address unanticipated significant concerns related to

the budget model. The advisory committees then inform the Executive Groups, which include the Budget Update Group, the President and the Board of Trustees.

Mr. Sobieralski noted there is faculty and Faculty Senate representation throughout the governance structure. Faculty Chair Cooper thanked Mr. Sobieralski for efforts to include faculty and for the time which had been taken to explain the new budget model to different groups of faculty leaders. “There is increasing confidence that we understand how it will all work. In terms of shared governance, it is a major improvement,” he said.

In response to Trustee Whittle’s question about organized training, Mr. Sobieralski said from the beginning the involvement with the deans has been an important development element and is central to the training team concept included in the budget governance. Trustee Whittle also noted the President had talked about a budget committee of the board, which if established, would want to be more directly involved. Thus, he said, consideration should be given as to where such a committee would fit into the earlier stages of the budget process.

Mr. Seaton applauded the new budget model efforts. He underscored that donors who make significant gifts are investing in programs and they want to know profit and loss margins and what the return will be on their investment. “We must demonstrate we are good stewards of the money. That is critical. Once we know where we are, then each of these units need to do 10% better, so the funding needed for strategic priorities is there,” he said.

Trustee Smith said the purpose was to allow the deans to see what they were doing so as to be able to strengthen programs that need to be improved and to identify other changes they can make to be more efficient and to make USC a “better, sustainable university and a partner for corporations.”

Trustee Moody said when the University goes to the Legislature for funding, it must be in terms of the return on investment achieved when funding is received to improve programs and build facilities.

Mr. Seaton agreed, citing the efforts of Dean Pedersen to “right size his organization so he can spend the money in the right places, so he can educate teachers and get more teachers ready to educate the youth of the State of South Carolina. That is what you want to take to the State Legislature.”

Mr. Sobieralski concluded by summarizing upcoming calendar dates for development of the FY2020 budget. At this time, he said, the process is highly manual. It takes a lot of time and a lot of verification to ensure everything is correct. Over time, he said, it was hoped a more robust technology solution could be identified to help facilitate reporting.

In conclusion, Mr. Walton emphasized Trustees should read the management discussion in the comprehensive financial statement and also the statistical section, which provides answers to almost any question one would have about enrollment, tuition, or appropriations for the past 10 years.

Chairman von Lehe thanked Mr. Walton and said the report was received as information.

VII. Adjournment

There being no other business to come before the committee, Chairman von Lehe declared the meeting adjourned at 12:25 p.m.

Respectfully submitted,

J. Cantey Heath, Jr.  
Secretary