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University of South Carolina

BOARD OF TRUSTEES

Finance and Infrastructure Committee

November 13, 2020

The Finance and Infrastructure Committee of the University of South Carolina Board of Trustees met at 9:00 a.m. on Friday, November 13, 2020, in the Pastides Alumni Center Ballroom and by Microsoft Teams video conference.

Committee Members present were Mr. Mack I. Whittle Jr., Chair; Mr. C. Dan Adams; Mr. J. Egerton Burroughs; Dr. C. Edward Floyd; Ms. Rose Buyck Newton; Mr. Charles H. Williams; Dr. C. Dorn Smith III, Board Chair; and Mr. Thad H. Westbrook, Board Vice Chair. Mr. Alex English and Mr. Toney J. Lister participated by Microsoft Teams video conference.

Other Board members present were Mr. Brian C. Harlan; Mr. Richard A. Jones Jr.; Mr. Hubert F. Mobley; Ms. Leah B. Moody; Ms. Emma W. Morris; Mr. Robin D. Roberts; Mr. John von Lehe Jr.; and Mr. Eugene P. Warr Jr. Ms. Molly Spearman participated by Microsoft Teams video conference.

Also present were USC Columbia Faculty Senate Chair Dr. Mark Cooper and USC Columbia Student Government President Ms. Issy Rushton.

Others in attendance were President Robert L. Caslen Jr.; Secretary J. Cantey Heath Jr.; Vice President for Human Resources Caroline Agardy; Executive Director Institutional Research, Assessment, and Analytics Sabrina Andrews; President's Chief of Staff Mark D. Bieger; Presidential Faculty Fellow Susan Bon; President and CEO University Foundations

Jason Caskey; Executive Director of Strategic Planning Jack Claypoole; Chief Audit Executive Pamela Dunleavy; Chancellor Palmetto College Susan Elkins; Interim Chief Development Officer William Elliott; Associate Vice President of Finance and Budget Kelly Epting; Vice President of Information Technology and Chief Information Officer Doug Foster; University Architect Derek Gruner; Board of Trustees Governance Consultant Cameron Howell; Chief Executive Officer USC Alumni Association Wes Hickman; University Controller Mandy Kibler; Assistant to the President for System Affairs Eddie King; Executive Director Office of Economic Engagement Bill Kirkland; Executive Communications Director Sally McKay; Director of State Government Relations Derrick Meggie; General Counsel and Executive Director of Compliance Programs Terry Parham; Chief Operating Officer Jeff Perkins; Vice President for Student Affairs and Vice Provost Dennis Pruitt; Special Assistant to the President James Smith; University Treasurer Joe Sobieralski; Director of Public Relations Jeff Stensland; Director of Athletics Ray Tanner; Executive Vice President for Academic Affairs and Provost William F. Tate IV; Vice President for Communications Larry Thomas; Executive Vice President and Chief Financial Officer Ed Walton; Vice President for Diversity, Equity and Inclusion Julian R. Williams; and Board of Trustees support staff.

OPEN SESSION

I. Call to Order

Chair Whittle called the meeting to order, welcomed everyone, and asked Trustees in the room to introduce themselves. Secretary Heath confirmed the Trustee participating by Microsoft Teams video conference.

Chair Whittle called on Mr. Stensland to introduce members of the press. Mr. Stensland introduced Emily Wakeman with WIS-TV and Lucas Daprile with *The State*. Mr.

Stensland also advised Erin Slowey with *The Daily Gamecock* and Dwayne McLemore with *The State* joined by audio.

Chair Whittle stated notice of the meeting and agenda had been posted and the press notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated to the committee; and a quorum was present to conduct business.

MOTION FOR EXECUTIVE SESSION

Chair Whittle stated there were proposed contractual matters pertaining to gift naming opportunity agreements appropriate for discussion in Executive Session. He called for a motion to enter Executive Session and noted there would be no action taken. Mr. Adams so moved, and Ms. Newton seconded the motion. A vote was taken, and the motion carried unanimously.

The following were invited to remain: Trustees, President Caslen, Secretary Heath, Dr. Cooper, Ms. Rushton, members of the President's Executive Council and Board of Trustees support staff.

EXECUTIVE SESSION

— Executive Session Removed

RETURN TO OPEN SESSION

II. Gift Naming Opportunities

Chair Whittle called on Mr. Will Elliott to present gift naming opportunities. Mr. Elliott stated the Gift Naming Opportunity Committee met October 13, 2020 and approved the following specific naming opportunities: College of Information and Communications - The Josephine and Murray M. Howard Jr. Office and an amendment regarding the USC Columbia School of Medicine - Charles S. and Donna H. Bryan Health

Sciences Library. These naming opportunities were presented for consideration in conjunction with an appropriate donation as provided in the Board Bylaws.

Chair Whittle advised these gift naming opportunities were presented in Executive Session without objection and called for a motion to approve the gift naming opportunities as approved and posted on the Board portal for this meeting. Mr. Adams so moved, and Mr. Burroughs seconded the motion. A vote was taken, and the motion carried. Chair Whittle advised these Gift Naming Opportunities will be presented on the Finance and Infrastructure Committee Consent agenda for full Board approval.

III. Infrastructure Items

Chair Whittle called on University Architect Derek Gruner to present infrastructure items for approval. Mr. Gruner advised he would present two actions for consideration and approval. Both reflect a partnership between the City of Columbia and the University, are mutually beneficial to both parties and neither will require funding from the University.

A. Catawba Street Right-Of-Way Land Acquisition from the City of Columbia

The first action presented for approval would transfer ownership of a one-third acre parcel of land in the original Catawba Street right-of-way from the City of Columbia to the University. The University has been using and maintaining the parcel located behind Cliff Apartments as green space for decades and the acquisition will be beneficial to the Campus Village project and is the last remaining city parcel to be transferred on the site.

Mr. Whittle called for a motion to grant full Board approval to acquire a one-third acre parcel of land in the Catawba Street right-of-way from the City of Columbia

at no cost to the University of South Carolina. Dr. Floyd made the motion and Mr. Burroughs seconded the motion. A vote was taken, and the motion carried.

B. Granting of Land Easements to the City of Columbia

The second action presented for approval was a request from the City of Columbia to allow temporary construction easements and 50-year land easements to be placed on portions of University property between Pickens and Whaley Streets. The City of Columbia is undertaking a significant improvement to sanitary sewer service by replacing pipes. The path of the piping was coordinated with University planning staff to avoid impacts to campus utility infrastructure and future development contemplated in the University's 2018 Campus Master Plan. The improved sewer service will support campus growth.

Mr. Whittle called for a motion to grant full Board approval to allow temporary construction easements and 50-year land easements to be placed on portions of University property between Pickens Street and Whaley Street. Mr. Adams made the motion and Mr. Burroughs seconded the motion. A vote was taken, and the motion carried.

IV. Introduction by Executive Vice President and CFO

Chair Whittle called on Executive Vice President and CFO Ed Walton to provide introductory remarks and introduce senior financial staff presenting at the meeting. Mr. Walton advised several fact-filled presentations would follow from the University's most knowledgeable accounting executives and foundation leaders.

V. FY20 Comprehensive Annual Financial Report

Chair Whittle called on University Controller Mandy Kibler for a review of the Comprehensive Annual Financial Report (CAFR). Ms. Kibler advised the University had a strong financial position as demonstrated at June 30, 2020 with an increase of total net assets. Total assets were up \$2.8 billion from \$2.7 billion the prior year. This growth in assets is contributed to increases in investments and cash and cash equivalents. In contrast, the University had a small increase of 1.1% in liabilities demonstrating a strong balance sheet with more asset growth than liability. The University's operating revenues decreased .7% compared to the prior year and net non-operating revenues increased 7.4%. Operating expenses increased 4.1% in large part to salary and fringe benefits and scholarship expenses related to emergency funds and grants to students provided through the Federal CARES act. Ms. Kibler reviewed the University's net position at June 30, 2020 and net position trend without General Accounting Standard Board (GASB) 68 and 75. The University has a strong unrestricted operating cash position of \$621 million as of June 30, 2020. Management considers it a priority to maintain a three-month operating cash reserve in the event of emergencies, and the University's current reserve is \$339 million. The University has \$1.45 billion invested in capital assets, net of accumulated depreciation which is a slight decrease of .6% over the prior year. The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and the Government Accounting Standards Board (GASB) which requires the University to report the unfunded portion of the net pension liability and post-employment benefit liability as a result of GASB 68/75. The unfunded pension and post-employment benefits passed on from the state to the University are reported annually. These two liabilities' impact on the University's financial statement skew the ability to see the

true financial position of the University. Ms. Kibler presented the University's financial statements without the effects of GASB 68/75. The University had a strong growth and net position over the last six years attributed to continued increases in enrollment, leading to increases in tuition and fees revenue, along with maintaining moderate growth and expenditures over this time. Despite the challenges the University has faced due to COVID-19, this stability and financial strength have positioned the University well to weather this pandemic.

Chair Whittle inquired as to the unfunded pension liability. Ms. Kibler stated it did increase and has steadily increased over the last several years. Chair Whittle stated this report was received as information.

VI. Debt Update

Chair Whittle asked Ms. Kibler to provide an update on University debt. Ms. Kibler advised each year the University produces an annual indebtedness report, which outlines the University's debt and is a complement to the financial statements. The University's outstanding debt at June 30, 2020 was \$531.8 billion of which \$471.8 or 88% is attributable to the Columbia campus and includes the School of Medicine. The University's debt portfolio consists of state institution bonds (31.5%), revenue bonds (41.6%) and athletic facility bonds (26.9%). As part of the annual report, a new schedule was developed this year to track outstanding debt by series and each project within that series. For the current outstanding debt, the University retired principal of over \$218 million, or approximately 30% through June 30, 2020 from the original issuance of \$750 million. Each year in preparation for this report the current bond portfolio is reviewed for refinancing opportunities to take

advantage of favorable market changes. Ms. Kibler presented future debt service obligations over the next five years and over the life of outstanding debt. Debt service payment for principal and interest continue to decrease over the next five years. The current year debt service payment for 2021 is \$52.6 million which is a decrease of \$800,000 from last year. Ms. Kibler concluded by presenting the future maturities of bond payables over the life of the bonds based on current outstanding debt at June 30, 2020, which does not account for future considerations or funding or issuance.

Chair Whittle noted while debt has increased, the cost of that debt has not escalated. Ms. Kibler confirmed and stated the Finance team takes pride in seeking favorable market opportunities for refunding. Mr. Jones asked if the University has taken advantage of all favorable market opportunities for refunding, as he noted this is time consuming. Ms. Kibler stated she did not have all the answers to that specific question today and the Jobs and Tax Act passed a few years earlier did take away the ability to do advanced refinancing, which saves money.

Chair Whittle advised the Moody's outlook for higher education was sent out in October and there has been an addendum to that update. Moody's representatives will be at the March 12, 2021 meeting which will present further dialog on the financial outlook of higher education. Chair Whittle stated this report was received as information.

VII. CARES Act Funding Update

Chair Whittle called on Ms. Kibler for an update on COVID-19 CARES Act funding and other federal funding. Ms. Kibler advised there are four major sources of COVID-19 relief funds available to the University. They are Higher Education Emergency Relief

(HEERS) funds provided to all higher education institutions directly by the US Department of Education in April 2020. There were two parts of this funding. The first included emergency grants to assist students with expenses related to disruption or closure of campuses due to COVID-19. The second part was the institutional portion meant to provide funds to offset the refunds due to campus closure and/or increased cost due to response and mitigation efforts. The University was awarded \$35.8 million of HEER funds, which is split 50/50 by law between emergency grants and the institutional portion. The second source of funds comes from the Federal Emergency Management Agency (FEMA). These funds are available for the initial response and mitigation efforts for COVID-19 and are very similar to any type of disaster relief funds such as that for hurricanes or floods. The University's third source of fund is Accelerate SC or CARES. The CARES funding was allocated to each state for distribution by the Governor and the General Assembly. This funding is 100% cost reimbursable. The most recent funding source the University received is testing funds. These funds help the University in its continued operation of the Safe Lab under Dr. Cutler and Dr. Beck. CARES and COVID-19 relief funds were awarded to the University to expand these testing efforts and these statewide funds are also 100% reimbursable and must strictly be related to testing. All these funds have strict guidelines, are subject to uniform guidance, and will be reported on a single audit with the larger portion reported in fiscal year 2020-2021. As of October 31, 2020, the University had expenses directly related to COVID-19 of \$62.5 million. This included \$22.8 million in refunds for campus closure, \$16.8 million in emergency grants for students, and \$22.9 million related to public health and safety (which includes everything from cleaning supplies to Wi-Fi upgrades). Ms. Kibler advised an estimated additional \$28.2 million in these expenses is expected by December 31, 2020. The

majority of that estimated cost (\$12 million) is attributable to the University's continuation and expansion of statewide testing. Ms. Kibler reviewed the sources of funds estimated to offset these actual and estimated costs. It is the University's goal to recoup as much of these expenditures as possible through all the funding sources presented. To-date the University has received \$35.2 million in HEERS funds and \$2.3 million from SC Cares.

Dr. Cooper asked if it was a fair analysis that the University hopes to receive \$90.7 million and has currently received \$38 million. Ms. Kibler confirmed this was correct.

Chair Whittle asked how much of the estimated \$90 million expense is recurring and if the budget needed adjusting. Ms. Kibler advised that the majority of expenses are non-recurring but there was some recurring.

Chair Whittle thanked Ms. Kibler and stated the report was received as information.

VIII. Education Foundation and University System Endowment Update

Chair Whittle called on Jason Caskey to present a USC Educational Foundation update. Mr. Caskey advised the investment results for the quarter ending September 30, 2020 were up approximately 7.7 percent. There are four components of this investment which include the Business Partnership Foundation, the Alumni Association, the Development Foundation, and the Educational Foundation. The investment summary as of September 30, 2020 included \$2,322,246 for the Alumni Association, \$26,296,568 for the Development Foundation, \$110,629,045 for the Business Partnership Fund, and \$494,004,687 for the Educational Foundation. Mr. Caskey reviewed the allocation summary of investments and the investment returns of each as of September 30, 2020. The National Association of College & University Business Officers (NACUBO) offers a survey for all U.S. colleges and

universities to submit details of their investment data. This is done at June 30 each year. The endowment for the USC system at June 30, 2020 was \$782 million. The total endowment is comprised of Foundations, University of SC endowment, USC Upstate, and certain real estate held for investment. The endowment decreased from the June 30, 2019 total of \$788 million to \$782 million at June 30, 2020 due to several payments for debt. Mr. Caskey reviewed a comparison to other Southeastern Conference Universities. The Educational Foundation budget for fiscal year 2020-21 has 68% allocated to support the University which is \$7 million. Of that, \$4 million supports undergraduate and graduate scholarships (which is an increase of \$650,000 over prior year) and \$3 million supports other areas of the University. Highlights of scholarship funding include unrestricted scholarships of \$2 million, USC faculty and staff scholarships of \$1 million, graduate fellowships of \$500,000, Carolina Scholars enrichment fund of \$200,000, bicentennial scholarship/fellowships of \$121,000; and special program scholarships of \$101,000. The Educational Foundation also supports funding in other areas, including USC advancement support of \$810,000; Provost faculty recruitment/retention of \$535,000; University capital improvements of \$500,000; Children's Center at USC of \$400,000; Presidential Salary Supplement of \$340,000; search-fee for the Vice President of Development of \$150,000; support for Regional campuses of \$100,000; and Research for USC Discovery Day of \$75,000.

XI. FY20 Year-End Budget Review

Chair Whittle called on Ms. Kelly Epting to present the fiscal year-end budget. Ms. Epting stated the University ended fiscal year 2020 in a strong financial position. System revenues exceeded budget and prior year, netting \$27.6 million to its fund margin. COVID-19 impacts, including issuance of refunds for partial-term housing, meals, parking, and athletic

tickets and COVID-19 expenditures caused need to use reserves in Auxiliary units. However, the level of reserves in Auxiliaries remains strong at \$40 million.

X. FY21 Budget Fall Review

Ms. Epting advised the fiscal year 2020-21 approved budget reflected a reduction in tuition and fees of 13% (\$39 million) by reducing support unit expense budgets by 10% and academic unit budgets by 5%. Units actively continue to adjust to budget reductions with cost cutting, personnel reductions and other cost containment endeavors. Fall term actuals were better than anticipated, resulting in tuition and fee reductions of only 2.2% (\$8.1 million) from the prior year. The University continues to operate under the approved budget. To identify systemic cost restructuring, the University has set up a cost savings and University transformation structure. As for the overall COVID-19 cost impact across fiscal year 2020-21, most cost are non-recurring. The University expects more funding from CARES than initially estimated in the fiscal year 2020-21 budget.

Chair Whittle thanked Ms. Epting for her reports and stated these reports were received as information. Chair Whittle also advised this data will roll down into the new dashboard. The new dashboard will display 2020 and 2021 budget, and this should be accomplished after the first of the year.

XI. Preliminary Report on Academic Cost Saving Opportunities

Chair Whittle called on President Caslen to present a preliminary report on academic cost savings. President Caslen advised that in budgeting for this fiscal year it was estimated that cost savings measures were needed to address a potential \$59 million in recurring losses. Initial savings measures identified were reduced travel budgets, external contracts, consulting

agreements and temporary staffing. Holds were placed on open positions. Furloughs and a 10% salary cut for senior cabinet members and other personnel were implemented. President Caslen noted he previously briefed the Board on the Committee of Nine whose purpose was to focus on compiling and reviewing financial stability recommendations related to academic areas in the University. The University also engaged the Education Advisory Board (EAB) to assist this committee. The Committee of Nine has received the preliminary report from EAB and its work begins now. The Committee members will refine the information with their own perspectives and the critical next step will be engagement with the Academic Deans to gain their expertise and perspectives. Once the Committee of Nine completes their final report, it will be shared with a group of senior academic and administrative leaders known as the Gang of Six. The Gang of Six includes the University Provost; the Executive Vice President and CFO; the Vice President for Student Affairs; the Vice President for Equity, Diversity and Inclusion; a representative from the Council of Academic Deans; and the Chair of the Faculty Senate. This group will bring its final recommendations to President Caslen who will make a final recommendation to the Board. President Calsen introduced Dr. David Attis with EAB to present a preliminary report of its recommendations.

Dr. Attis presented a brief background on EAB, an education research and technology firm serving over 1700 schools, colleges, and universities. EAB has partnered with the University since 2007. Recently the University engaged EAB to help identify the highest potential short-term and medium-term cost savings and revenue-generating opportunities that align with the goals in the strategic plan. The engagement began in July 2020 and included analysis of internal University reports, datasets, and interviews with University administrators. The results were compiled in a report and presented to the University

Committee of Nine. Dr. Attis shared the preliminary results with the Board, highlighting key trends, challenges, and opportunities. Dr. Attis answered questions from Board members and provided further insight on the preliminary report.

Chair Whittle thanked President Caslen and Dr. Attis and stated the report was received as information.

XII. Concluding Comments

Chair Whittle called on Executive Vice President and CFO Ed Walton for closing comments. Mr. Walton thanked the presenters for their work and participation in the meeting. In summary, he presented a chart depicting operating revenue and expenses dating back to 2009 and forward to 2031 measured in annual increments. He expressed the Board should take comfort that assets accumulated during this time can now use to operationalize President Caslen's strategic plan and finance contingencies the University has made during the pandemic. The next three to four years present an opportunity to stay in balance on an annual basis and grow annual revenue by nearly \$90 million by fiscal year 2024-2025. This can be accomplished without significantly increasing traditional enrollment and tuition. Beyond this timeframe the outlook becomes difficult to gauge. The future will not be easy and the practices of today will not be the practices of tomorrow. He emphasized the importance of the President's strategic plan and the on-going need for transparency and open dialog as the University continues to prepare for the future.

Chair Whittle thanked Mr. Walton and stated this report was received as information.

XIII. Other Matters

Chair Whittle advised further discussions will occur on these topics at the March 2021 Finance and Infrastructure meeting.

XIV. Adjournment

Chair Whittle declared the meeting adjourned at 11:10 a.m.

Respectfully submitted

A handwritten signature in blue ink, appearing to read "J. Cantey Heath, Jr.", written in a cursive style.

J. Cantey Heath, Jr.
Secretary