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University of South Carolina
BOARD OF TRUSTEES

Executive and Governance Committee, Called Meeting

July 11, 2018

The Executive and Governance Committee of the University of South Carolina Board of Trustees convened in a called meeting at 9:00 a.m. on Wednesday, July 11, 2018, by telephone conference hosted from Room 206-B of the Osborne Administration Building.

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

Other Trustees participating were: Mr. J. Egerton Burroughs; Mr. Mark W. Buyck Jr.; Mr. Thomas C. Cofield (who was present in the room); Mr. Robert F. Dozier Jr.; Mr. A.C. "Bubba" Fennell III; Mr. William C. Hubbard; Ms. Leah B. Moody; Ms. Rose Buyck Newton; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; Mr. Mack I. Whittle Jr.; and Mr. Charles H. Williams.

USC Columbia Faculty Senate Chairman Marco Valtorta attended the meeting in person and USC Columbia Student Government President Taylor Wright participated by telephone.

President Harris Pastides joined the meeting by telephone. Other participants present in the room included: Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Chief Financial Officer Leslie Brunelli; Chief Advancement Officer and Senior Advisor to the President Paula Harper Bethea; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Information Technology Doug Foster; Associate Vice President for Human Resources Carolina Agardy; Athletics Director Ray Tanner; Chief Communications Officer Wes Hickman; Chief Audit Executive Pam Doran; USC Public Relations Specialist Dana Woodward; South Carolina Commission on Higher Education Government Affairs Manager Katie Philpott; and Board staff member Debra Allen.

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.

Mr. Hickman noted members of the press – Lucas Daprile with *The State* and David Cloninger with *The Post and Courier* – were waiting outside the room until the meeting returned to Open Session.

Motion for Executive Session

Chairman von Lehe requested a motion and second for an Executive Session for a proposed contractual matter related to a contract for the Vice President for Human Resources.

Mr. Mobley made the motion, which was seconded by Mr. Loadholt. The vote was taken, and the motion passed.

The following persons were invited to remain: President Pastides, Secretary Heath, Dr. Valtorta, Mr. Wright, and University administrators.

Executive Session

Return to Open Session

II. Employment Agreement, Vice President for Human Resources

Chairman von Lehe called on Mr. Walton who requested approval to appoint Ms. Mary Catherine “Caroline” Agardy as Vice President for Human Resources at an annual salary of \$236,000, effective August 1, 2018.

Chairman von Lehe called for a motion to recommend full Board approval of the employment contract for Caroline Agardy as Vice President for Human Resources at an annual salary of \$236,000, effective August 1, 2018. Dr. Floyd so moved. Mr. Lister seconded the motion. The vote was taken, and the motion was approved.

III. University’s FY 2018-2019 Annual Operating Budget

Chairman von Lehe called on Mr. Walton who thanked Trustees for their support and participation in the budget development process. He noted this was the tenth budget on which he and Ms. Brunelli had worked with President Pastides. In that time, he said, USC has grown financially by nearly 60% from a barely \$1 billion annual revenue entity with 40,000 students to a \$1.6 billion financial entity with more than 50,000 students and still growing.

During the past 10 years, the University grew from an operation in which Mr. Walton was the only CPA on the executive staff to an institution that is winning awards for financial reporting and best practices. Ms. Brunelli has equipped the University with a financial staff that includes individual CPAs and MBAs at the executive level managing budget, financial control, accounting, and reporting, he said. The

Budget Office serves the President and Board well, and while there will always be difficult times, the University is prepared to deal with those, and the future looks manageable, he said.

This year, Mr. Walton said the Board's budget briefing plans were adapted to provide Trustees an open look into the processes during the month of June. The budget staff met with Trustees on June 8 and June 22 to describe where the budget stood and explain the challenges of securing a University budget with tuition levels sensitive to both market and political forces, uncertain enrollment, and an uncompleted state budget. In considering the 2019 budget, he said numerous tuition scenarios were modeled to most effectively and efficiently enable the University's financial plan to meet strategic planning objectives. He thanked Trustees for their participation and counsel during discussions.

The General Assembly completed the state budget on June 28, after which the University finalized its effort, Mr. Walton said, noting several positive things happened this year. First, the USC System received \$11,156,151 in new recurring state General Fund appropriations for fiscal year 2019 including \$8.2 million for operations. While that is good, a great deal of the new money will be consumed by state-required increases of \$8,695,000 in recurring retirement and health insurance costs to the University. "Much of that increase will have to be paid by student tuition," he added. The system also was appropriated \$20,948,434 from the state's Capital Reserve Fund, which is a one-time appropriation for academic facilities maintenance and repairs that will not have to be paid by tuition.

Mr. Walton said the Senate was able to provide through conference and past the Governor's vetoes, \$500,000 in appropriations from the South Carolina Education Lottery accounts for two of the University's campuses. This was on top of the \$97,942 additional recurring lottery funds appropriated to the Regional Palmetto Colleges and the Comprehensive Universities.

The budget document posted on the Board Portal is complete and in balance, Mr. Walton said. The path to balancing the budget for the Columbia campus, he said, required President Pastides to deal with over \$80 million in demands for new money in the operating budget and to pare those demands down to the \$25,506,081 reflected in the budget document. That amount matches the \$25,506,081 in additional recurring resources available, which he said consists primarily of additional state General Funds, tuition revenue generated by increases in enrollment, and additional revenue generated by a tuition price increase.

This same scenario plays out across the campuses and the auxiliary enterprises, Mr. Walton said. He continued his presentation, noting:

Any additional spending must be met with additional resources or expenditure reductions in other areas to stay in balance.

To reach balance in this budget, we first estimated the additional tuition revenue available through enrollment growth. More paying customers equals more revenue, and last year, we took care of funding the recurring costs of the latest enrollment push, so this year the added revenue can offset the added costs of initiatives. There are \$8,400,000 new recurring dollars for Columbia in this budget that are sourced by enrollment growth. That's enrollment growth encouraged by this Board of Trustees. Without it, there would be great pressure to increase tuition prices by that same amount of \$8,400,000 or more than two whole percentage points above what we are requesting. Without new resources, USC will struggle under the combined burdens of increased costs and stagnant or decreased revenue.

As mentioned earlier, we were fortunate to have the added state General Fund appropriations. This money is critical to each campus, and we saw a greater appropriation this year than any year in our time together. Still, the \$11,156,151, new funds are partly offset by legislated cost increases. That leaves us to consider tuition price increases to fill the gaps.

As you know, tuition price increases are rife with market and political stresses. We are proposing the lowest tuition price increase for USC Columbia since 1998, and it is equivalent to our price increase in 2016. Our other campuses are following suit with proposed increases below 3%. Perhaps most important, we will initiate the expansion of the Palmetto College with Palmetto Pathways and create the lowest entry price point in South Carolina to a four-year baccalaureate degree, and that degree will say University of South Carolina.

So, USC is doing much to make a degree both accessible and affordable in South Carolina. We considered and vetted many tuition price options to generate the additional resources required. We considered resident and non-resident price increase differentials. We considered the politics of having the lowest tuition price increase ever. We considered the revenue and the politics of increasing prices by a much greater amount just to get closer to Clemson in per-student resources. We also considered that the Higher Education Price Index indicated that operating costs across the board increased at a rate of 3.7% and consumes almost all new money for initiatives.

In the end, we decided the differentials are already built into the resident and non-resident base prices, so there is nothing to gain there. We recognized a double-digit price increase would have too much of a negative effect on USC students and their families. And while we considered for weeks a price increase below what we are proposing today, we recognized the foregone revenue and the negative impact on the President's initiatives was

too great a price to pay for what we determined was no measurable positive impact on students, families, or politics.

As you know, USC operates efficiently with less combined resources from tuition and state revenue per student when compared to the other public institutions in the Southeastern Conference and with our designated peer and peer-aspirant groups. Of the SEC peers, we are aware that tuition price increases vary widely this year, with institutions that receive greater state support having no increase or minimal increases. Other SEC peers with increases above our proposal include Auburn, LSU, Ole Miss, Mississippi State and Texas A&M. Within our state, tuition price increases also vary from as high as 3.5% for South Carolina residents at the College of Charleston to a low of 0% at Lander and 2% at Francis Marion, with Clemson and the tech schools undecided.

For Columbia, we are proposing a price increase of \$177 per semester for South Carolina residents and \$468 per semester for non-residents. This will generate an estimated \$11,220,000 to cover the balance of the required costs increases and presidential initiatives. As I said before, this proposed price increase is necessary, it is reasonable and as low as any in the past 20 years. We are reworking our access to provide even lower costs for South Carolinians at our two-year campuses, and we will maintain and even improve on the quality demanded of a USC degree.

Similarly, food service prices are required by contract to change commensurate with the change in Consumer Price Index or 3.5% and housing rates are proposed to increase by 4%, consistent with community pricing.

With the implementation of the new budget model on deck, our deans in Columbia did not request as many fee changes as we have seen in prior years. We are in the third year of the three-year planned phase-in for the program fees for the School of Law, Engineering and Computing and for the Greek Parking Fee. The budget document provides the full tuition and fee schedule for the USC System.

In addition to the 2019 document we now refer to as the legacy budget document, we are providing a total current funds budget for the USC System at the unit level. This document was prepared from the ground up by each academic, service and auxiliary unit as well as by each campus. The two budget documents tie together and provide more explicit detail as has been requested by members of the Board. This document is an interim step between our legacy budget methodology and the full new budget model implementation, which is being developed now as the largest fiscal retooling we've ever done.

We are constantly changing to meet the demands of South Carolina's taxpayers, the University's customers, and this Board. All the while guided by the leadership of our President, we are honored to be a part of it all. The new

budgeting model will require more management and process change, so this is just the beginning. We look forward to that in preparing for the future.

Just this spring in the South Carolina Senate, the Higher Education Opportunity Act was introduced as the first major higher education legislation since the South Carolina Education Lottery was enacted nearly 20 years ago. This act looks to be the first opportunity in a generation to develop our long-sought partnership with the General Assembly seeking to restore higher education funding and keep tuition prices low. We will be eagerly watching and participating as this legislation moves through the General Assembly.

At the end of Mr. Walton's presentation, Chairman von Lehe asked for a motion to recommend full Board approval of the proposed total current funds budget for the USC System for fiscal year 2019, including the operating budgets, the tuition and fees schedules, the budgets for all auxiliary enterprises, and the designated funds budget. Mr. Loadholt so moved. Mr. Mobley seconded the motion.

Responding to Trustee Williams, Mr. Walton said the proposed tuition on the Columbia campus represented a 2.9% increase. Asked by Trustee Whittle if the administration thought the model was sustainable, Mr. Walton said it was not sustainable for the unforeseeable future, but short-term it was sustainable while the University made necessary adjustments.

Noting the complexity of the budget process, especially with the lateness in receiving state budget details, Trustee Cofield thanked the staff for the work which went into preparing the University budget. He said he wanted to be persuaded the 2.9% tuition increase is the best that can be done, asking if it was the lowest increase possible while still sustaining the budget. Mr. Walton said the staff spent six months going through the budget process to determine the best option, which ranged from 0% to matching Clemson's tuition rates to fully fund academic initiatives. "This is the minimum percent increase to fill the gap created by what needs to be done and what resources are available."

Trustee Smith asked what increase going forward would be necessary to maintain the University at its current operations level. From where the University is now and if it did not grow, Mr. Walton said, the higher education inflation is about 3.7%. However, he noted the question deserved a more in-depth analysis, which would be part of the new budget model under development.

Trustee Mobley asked the dollar difference between the University and the next two highest tuition rates in the state. Ms. Brunelli answered that Clemson's tuition is \$2,400 a year higher than USC Columbia and Winthrop University, which has the highest tuition in the state, is \$2,450 or \$2,460 higher. If the University increased its tuition by \$2,400 per year and had the same size student body as Clemson, she said an additional \$60 million a year would be generated.

Regarding a question from Trustee Fennell, Mr. Walton confirmed the University's fund balances are adequate for the next several years based on current and known future commitments due to the conservative nature of its current operations, debt, long-term commitments, and its four- to five-year business cycle. He did express concern if the economy was to experience the shock of another recession, which would have to be handled through cost management and shrinkage. Ms. Brunelli added that cash balances were monitored daily and work had been done over the past several months to help campuses outside of Columbia reinforce their fund balances to ensure they were operating in the black constantly.

Noting the Governor had not vetoed recurring funds and additional revenue was received from the Legislature as described earlier, Trustee Cofield asked, "wasn't that money designed to hold tuition in check and how would you address the criticism that the University is not holding its tuition in check?" Mr. Walton said there was discussion about holding tuition in check if there were increased General Fund appropriations. However, tuition was held in check as the Higher Education Price Index was 3.7% and a 2.9% tuition increase was requested. The increase was not just to cover basic costs, but to provide funds to improve the academic excellence and to cover the required costs.

In response to Trustee Buyck's request for a semester breakdown of the 2.9% increase, Ms. Brunelli said the requested increase was \$177 for resident students and \$468 for non-resident students, which totals \$6,308 for tuition and the tech fee per semester for resident students and \$16,649 for non-resident students. She further clarified the dollar amount of the 4% housing increase would vary depending on the type of housing. The traditional hall-bath housing would increase by \$110 per semester and the suite-style living would increase by \$145. She also confirmed for Trustee Buyck that the Law School tuition per semester would be \$13,304 for resident students and \$25,751 for non-resident students.

Trustee Fennel asked if increased funding for law enforcement and safety was adequate to protect University students on all campuses. Mr. Walton said \$500,000 to the Columbia campus law enforcement and safety operation was sufficient to help the campus remain the safest place in Columbia, while the \$105,000 to Regional Palmetto Colleges would help get previously discussed improvements in law enforcement and safety started.

There being no other questions from members of the Executive Committee, Chairman von Lehe called for the vote to recommend full Board approval of the budget, and the motion was approved.

IV. Adjournment

There being no other matters on the agenda, Chairman von Lehe adjourned the meeting at

9:46 a.m.

Respectfully submitted,

J. Cantey Heath, Jr.
Secretary