

Blueprint for Service Excellence

Chief Financial Officer

Fiscal Year 2012-2013



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MISSION

The Office of Business and Finance exists to enable the University of South Carolina to meet its mission by providing essential support services that create a sound financial and physical environment in a professional, cost-effective, and customer-focused manner.

DISCUSSION

With the 2011-12 transition in the Office of the Chief Financial Officer, our staff is committed to assisting the President and the Board to assure the success of USC. The University needs dedicated teamwork across the academic units and the general administration, the development of creative financing decisions, the cooperation of state regulators, and a steady economy. With those factors in place, the University can use known or planned resources to complete the Moore School, build a Law School, institutionalize the School of Medicine in Greenville, jumpstart Innovista, enhance student housing, finance faculty hiring initiatives, build Leadership and Rule of Law Institutes, and make USC Connect our quality enhancement program reality. The challenges are steep, but not overwhelming. We need a steady hand and unwavering dedication to success and completion.

Rather than requiring individual blueprint documents for each of the units within the Business & Finance Division, we manage from top down and infuse units with the President's vision. Our units respond by adapting practices and offering initiatives to better carry out the overall mission of the Division. We use the adaptations and initiatives to adjust our Division-level vision and mission and develop the performance characteristics and core competencies for use in developing unit plans for the following fiscal year.

As you know from briefings to Board of Trustees, the information requirements of the Board coupled with the reporting requirements of regulatory bodies following on the heels of steady reductions in resources have made it near impossible for us to comply with all the data requirements, reports, briefings, and conversations to keep interested parties engaged with our success. For that reason, staff will be added to the finance and accounting operations.

Similarly, and as briefed before, the campus is in dire need of physical plant maintenance and repair. The budget proposal this year shows significant contributions from the State of South Carolina toward physical plant maintenance. For the Columbia campus, we are proposing long-term that we dedicate additional funding to maintenance so that we can be assured our campus functions as required to meet the obligations to students and other constituencies. Our facilities plans as adopted by you and the Board provide us with the opportunity to address deferred maintenance, install a preventative maintenance program, and grow the Columbia campus to address what will be an ever-increasing demand for a USC education.

As with so many realities that arose from the Great Recession, the faculty at USC suffered from attrition since 2008, and now our University suffers from other universities poaching our faculty ranks. When combined with the current and planned growth of the student body, the faculty must be increased in both numbers and quality. The Provost has plans for faculty replenishment. Those plans will require a significant investment, and our staff will be describing build-up plans to finance faculty hiring.

OneCarolina must become reality. The budget was reduced during the state budget cuts so that the University could maintain the core mission in a time of great uncertainty. At least two important years of development of this critical technological and administrative re-engineering were lost. The people and skills required to maintain the legacy system have become so outdated that the University risks a catastrophic failure. After suffering a planning and implementation set-back this year, for the first time now we can see the entire institution has come to understand the necessity and urgency of this long overdue update to our systems and processes. The administration must continue to act with an urgent focus to complete the transition and bring administrative systems and processes into the 21st Century.

The University invested in a comprehensive external assessment of key business areas last year with Huron Consulting. It is time to make use of the information gathered to strengthen the operation of the institution. This Division will guide the solicitation and implementation to enhance procurement, the budget model and the organization of the system campuses. Further, the direct cost study dating from 1990 will be updated.

Throughout the coming year and going forward as far as we can see, the University business model will be in transition. No longer can USC operate as a “state institution” working from year to year on appropriations from the State of South

Carolina as the core funding source for the academic mission. Indeed, after the Great Recession, appropriations are expected to comprise less than 10% of total funding and only 20% of funding for education and general expenses. The University now relies on tuition as the primary source of funding. The proposed tuition increase for FY2012-13 and the accompanying analyses prepared and briefed throughout the year prove that point. Both the regulatory and the market environments will not tolerate future large tuition increases as a mechanism for funding core mission. The University must gain access to new funding streams while enhancing existing streams to more capably support the core mission.

CFO units manage base budgets in excess of \$70M in operating budgets with more than 200 department/fund accounts in addition to all capital project budgets and the General Fund. The units had a combined carryforward of approximately \$11.7M after the surtax for FY12. This is expected to reduce to \$7.5M for next year. The Division employs nearly 600 FTE positions and more than 400 temporary positions.

CFO - Unit "A Fund Operating Budgets	FY2013 Base Operating Budget
Office of the CFO	\$ 2,702,120
Finance	\$ 8,101,500
Law Enforcement & Safety	\$ 5,256,843
Business Affairs	\$ 4,430,838
Facilities Planning	\$ 981,437
Environmental Health and Safety	\$ 4,007,550
Facilities	\$20,245,922
Utilities	\$24,417,246
Vehicle Management & Parking Services	\$ 1,375,776
Total "A" Fund Operating Base	\$71,519,232

ACCOMPLISHMENTS – FY2012

We identified major opportunities to refinance certain bonded debts of the University. Those efforts together saved the university's housing, athletics, and general operations a combined amount in excess of \$8M over the life of the debts. Additionally, taking advantage of low interest rates and the fact that USC does not earn interest on its general deposits, we used available cash to pay off Bank of America energy management debt of \$30M, yielding a present value savings of \$1M for energy plant operations.

In an era of increased debt load and intense pressure by debt rating agencies, our management philosophy, business knowledge, executive leadership, balance sheet and revenue streams combined to keep our debt ratings high and borrowing costs low.

In effort to think ahead and plan for the future needs of facilities and facilities maintenance to support the growing academic mission of the university, we developed and received President and Board approval of the University's Capital Renewal Plan and the Five-Year Facilities Plan.

USC has always worked on the basis of capital project budgeting. This year we will present the first ever University Capital Budget to describe and authorize the budgets for all projects on a continuing basis.

We initiated a reorganization of the Facilities Department. Using existing personnel, we created an environment that will allow facilities managers to focus on facilities work by incorporating the planning, human resources, purchasing, finance, and information technology into existing institutional support activities.

Acknowledging the gold-standard in financial reporting, we prepared the University's first ever Comprehensive Annual Financial Report to bring our reporting in line with the quality USC deserves.

We realized our finance division was not only working with outdated systems and processes, but it also was confronted with a lack of depth in leadership positions. That is, the staff could get the job done today, but there was no way to plan and implement changes or develop talent for tomorrow. We were able to hire a new associate budget director and reassign the current controller and the current director of financial reporting. We have posted ads for a controller and a financial reporting director. When those positions are filled we will have the talent and the depth to continue current operations as we transition to newer systems and processes.

Recognizing there is a great need for career paths and business expertise in academic units as well as the central administration, and there is no reliable way to consistently develop finance and administration talent at USC using current structures, we developed our training associates program. This will allow four new entry-level associates each year to go through a two-year program of training and practice that will create the administrative leaders of tomorrow in the fields of

finance, accounting, HR, and business management. Once trained, these leaders will take positions across the university.

Our management focus is on service and technical excellence. We uphold the Carolinian Creed as our guiding principles with teamwork, knowledge, and expertise forming the framework for our service. Our leadership team understands these concepts, and we are on a long term mission to infuse all levels of management and staff with our principles and framework. We held a retreat for more than 60 management leaders in the division to introduce the concepts, and we are now working those concepts into our daily activities and practices.

OPPORTUNITIES & CHALLENGES – FY2013

Few things are more important to our business and administrative systems than the implementation of OneCarolina. This project has been in the background during its development and planning stages, but now it is racing to the forefront. It must be brought forward quickly and accurately in the Divisions of HR and in Business and Finance.

We must incorporate the system campuses into Five Year Facilities Plan, Capital Renewal Plan and Capital Budget document. We see USC as one University system with one President and one Board of Trustees all using common practices.

Within the five year plan we must implement the strategies for student housing and Innovista development.

We must deepen our commitment to facilities maintenance and custodial services.

We must work Law Enforcement and Safety into new space and provide it with the ability to serve the University in a manner our students and our staff deserve.

Our Finance Dashboard is in development. Our focus is not on what other institutions do. Our focus is on what we can do to facilitate movement in the measures of academic success.

Our external engineering consultants are reviewing the latest proposal for the energy plant now. We will likely conclude negotiations with JCI in May. After that we will either construct a new natural gas fired turbine plant or complete the biomass plant.

GOALS –FY2013

1. Institutionalize reorganization strategies in finance and in facilities that were begun in 2011-12.
2. Institutionalize the facilities plans.
3. Institutionalize health and safety plans.
4. Begin implementation of OneCarolina in HR/Payroll and finance.
5. Complete the Division of Business and Finance Dashboard.
6. Begin the energy plant (biomass) upgrade/replacement.
7. Make BOT meeting materials and presentations standard and succinct.

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INITIATIVES**

Initiatives – FY2012

The Business and Finance Division requested and received \$1.9M in funding from the 2011 fiscal year enrollment growth funds, not from the annual tuition or enrollment increase for the current year. The funds were directed to the Budget Office, Controller's Office, Payroll and Bursar's Office for additional personnel needs including the first phase of training associates and the Associate Budget Director – a position held vacant since the 2007/2008 fiscal year. Due to delays in hiring additional personnel including a new University Controller and Director of Financial Reporting Finance units anticipate increased carryforward in anticipation of filling vacancies in Summer 2012.

No initiative funds were received for Facilities, Environmental Health and Safety, Utilities or Law Enforcement and Safety. Budgets were reallocated to preserve core activities and carryforward funds have been utilized to meet University needs throughout the current year.

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INITIATIVES**

Initiatives – FY2013

New funds are requested for the 2013 fiscal year across the Business and Finance Division. For the second year, there is no increase requested for utilities.

Facilities –ETV Operating Adjustment

Requested - \$548,207 recurring; \$58,500 non-recurring

CFO Recommendation - \$0 for FY2013, but fully fund in FY2014

The Board of Trustees made a commitment in the early 2000's to fully support increases to the Facilities operating budget for maintenance, custodial and utilities as facilities were brought online. Although the BOT commitment covers this facility, the operations are not expected to be fully online in the 2013 fiscal year.

Environmental Health & Safety – Tort, Property & Casualty Insurance

Requested - \$211,148 - recurring

CFO Recommendation - \$211,148

Funding required for increase in premiums due to the Insurance Reserve Fund.

Law Enforcement & Safety

Requested - \$1,714,709 - recurring

CFO Recommendation - \$600,000 per year for three years

Funding will provide additional law enforcement staffing resources in response to the growth of the campus, student enrollment and increased responsibilities and calls for service experienced in the last fifteen years.

Facilities – Capital Renewal

Requested - \$2,500,000 - recurring

CFO Recommendation - \$2,500,000

Original request was \$5M following release of the Capital Renewal Plan in February 2012. The funds are directed to preventive maintenance in Facilities and to debt service for future State Institution Bonds. The exact split is to be determined.

Facilities – Custodial Staffing Request Initiative

Requested - \$2,183,081 recurring; \$110,000 non-recurring

CFO Recommendation - \$500,000 for FY2013, consider additional increase for FY2014.

New funds are requested to provide additional custodial support, primarily in University classrooms. Funds are earmarked for outsourced activities, not to hire new University employees.

Facilities – Horizon Budget Operating Adjustment

Requested - \$184,342 – recurring; \$15,000 non-recurring

CFO Recommendation - \$184,342 – recurring; \$15,000 non-recurring

Funding requested to support operation of additional space in Horizon building. The Board of Trustees made a commitment in the early 2000's to fully support increases to the Facilities operating budget for maintenance, custodial and utilities as facilities were brought online.

Vehicle Management and Parking Services – Buses for Gateway Program; Assembly Street Crossing and Genesis 2015 Vehicle Replacement

Requested - \$1,180,000 non-recurring

CFO Recommendation-To Be Determined from funds available.

New funds are requested to purchase additional buses to add routes to the campus shuttle system and to accommodate the Gamecock Gateway program with Midlands Technical College. Additional funds are also requested to replace 47 vehicles that are 10 years or older.

Finance – Staffing Initiative

Requested - \$350,000 recurring

CFO Recommendation - \$215,658

New funds are requested to provide for an additional cohort of four training associates to learn finance roles across the Business and Finance Division.

Environmental Health & Safety – Research Safety

Requested - \$107,393 - recurring

CFO Recommendation - \$0 from tuition and enrollment increase; funded from IDC if available.

Funding requested to add staff to support the Research Safety function. Funds were requested to hire a full-time Research Technician to further expand research support funding due to the increased number of research labs, increased use of biological materials, increased use of hazardous materials, increased number of external collaborations, and increase in regulations.

Environmental Health & Safety – Asbestos Compliance

Requested - \$69,393 - recurring

CFO Recommendation - \$0

Funding requested to add staff to support asbestos audit and compliance response.

Facilities – Asbestos Management

Requested - \$372,213 – recurring; \$50,000 non-recurring

CFO Recommendation - \$0

Funding requested to add staff to support asbestos management and abatement.

SUMMARY

	<u>Request</u>	<u>Recommendation</u>
Business & Finance Unit - Recurring		
Law Enforcement & Safety	\$1,714,709	\$ 600,000
Environmental Health & Safety	\$ 387,934	\$ 211,148
Facilities	\$5,787,843	\$3,184,342
Finance	\$ 350,000	\$ 215,658
VMPS	\$0	\$0
Business Affairs	\$0	\$0

	<u>Request</u>	<u>Recommendation</u>
Business & Finance Unit NON - Recurring		
Law Enforcement & Safety	\$0	\$0
Environmental Health & Safety	\$0	\$0
Facilities	\$233,500	\$15,000
Finance	\$0	\$0
VMPS	\$1,180,000	\$TBD
Business Affairs	\$0	\$0

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Tuition and Fees

Tuition and Fee Changes are requested to the Board Mandated Fees for University Debt Service for future State Institution Bonds and for the transportation fee to operate the University Shuttle System.

The Debt Service increase is part of the \$2.5M request for capital renewal, with the split to be determined before the June 15, 2012 meeting of the Executive Committee of the Board of Trustees.

Vehicle Management and Parking Services requests an increase of \$10 per student per semester of each full-time student tuition. The current charge is \$15 per semester. The transportation fee was created in the 2007/2008 fiscal year at \$10 per student per semester and was increased to \$15 in 2010/2011 at the request of the Student Government Association to increase the number of buses available. Due to the increase in the price of gasoline, an increase is necessary, but a \$10 increase is a 67% change in one year's time. The increase would generate approximately \$500,000 in new funds annually.

The Postal Services operation requests an increase of \$5 per semester per student over the current \$20 fee. The increase will generate revenue to hire additional personnel and cover current costs such as software and operating systems. The fee is expected to generate approximately \$67,000 annually.

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User Fees

Business and Finance units requesting changes to the User Fees Schedule for fees charged across University units are the Carolina Card office, Postal Services, Facilities and Vehicle Management and Parking Services.

The Carolina Card Office requires only permission to pass along costs incurred for door access systems installation, activation and annual licensing. Additionally, the Carolina Card Office requests updates to current user fee descriptions.

Postal Services requests a fee for Campus Departments that require large freight shipments to such events as conferences or conventions. These types of shipments require much preparation and labor to be successful and efficient. Revenue is expected to be approximately \$1,000 and will cover costs of personnel.

Facilities requests changes to hourly fee rates due to changes in the pay package, retirement and health fringe costs. These additional costs must be passed along to units requesting services in order to maintain the same level of operations.

Vehicle Management and Parking Services requests changes to fee and service rates due to changes in the pay package, retirement, and health fringe costs in addition to increases in the cost of gasoline that impact all vehicle maintenance expenses. Additionally VMPS is realigning all rental rates for University vehicles.