




MEMORANDUM

MICHAEL D. AMIRIDIS
VICE PRESIDENT FOR ACADEMIC AFFAIRS AND PROVOST

TO: Academic Deans
USC Columbia

FROM: Michael Amiridis 
Vice President for Academic Affairs and Provost

DATE: June 4, 2010

SUBJECT: USC Columbia Budget Model

In a few days you, along with vice presidents and others with budget authority for units with responsibility codes, will be informed of budget cuts that have been reviewed by the President and will soon be presented to the Board of Trustees for approval along with the tuition increase and initiative recommendations. This process is typical each year about this time, although the steps leading up to this phase have been far from typical this year and last. In this memorandum, I will describe the process used to develop the FY 2011 budget, and will report to you an immediate-term decision on our budget model reached by the President upon recommendation by CFO Ted Moore and me.

Budget Development for FY 2011

In applying reductions in our budgets, President Pastides and I, in discussions with his financial advisors, began with base FY 2011 budgets for various units, and identified some expenditures that were “held harmless” such as utility bills and insurance. Then state mandated travel cuts were applied as part of the 21% reduction in state appropriation. Next, additional cuts were assigned following annual *Blueprint* presentations in order to achieve the reduction of approximately \$23.5 million in state funding, net of the amount that was “overcut” in FY 2010 and held centrally (about \$1.4 million).

This year some of the proposed tuition increase will be dedicated to partially offsetting reductions in our operating budgets; this is the principle behind the “Baseball Bat,” our budget model that helps identify a tuition level, size of student population, and expenditure reductions needed to meet the cut in state funding, while maintaining enough funding to continue to achieve our core mission. Net reductions for academic and academic service

units were proposed by me and reviewed and approved by the President. The President also reviewed and approved reductions for operating service units that report directly to him. The cuts reflect strategic priorities to the extent possible. The President and all of us well appreciate the significance of such cuts, particularly as they follow earlier dramatic reductions. Moreover, we must recognize that we could face another significant cut in state funding in FY 2012 or even additional mid-year reductions during FY 2011. So far the USC system has lost about 46% of its state funding in the past two budget cycles.

The Model

As you know, as part of our strategic planning effort *Focus Carolina*, we have begun a review of our "VCM" model. This was long overdue and would have been launched even without *Focus Carolina*. The model has been with us for several years, and the experience of many institutions is similar to ours – these models need to be reviewed and recalibrated from time to time. The University Finance Committee was tasked formally by the President to undertake the review, and the Faculty Budget Committee has had keen interest in improving the model for some time. As we've worked through the various steps in budget development this year, it has become clear that the resulting allocations are the same as would have resulted from an explicitly centralized allocation process. This clearly is not where we'd like to be, but the truth is this is where we find ourselves. Just as you, vice presidents, chancellors and others with budget authority have experienced, cuts totaling \$103 million constitute an emergency, and responsibly planning and managing our way through this demands that we acknowledge that unfortunate reality.

Accordingly, the President has decided that we must institute partial recentralization of our budget model effective July 1, 2010, to remain in effect for FY 2011 and FY 2012. What does this mean? This emergency measure is not a throwback to the pre-VCM era entirely in that the temporary model will preserve many of the good incentive features of a decentralized approach. The tremendous magnitude of cuts so far has left the institution's resources poorly calibrated to mission. Now that the President and I have examined all plans and budgets, we have the perspective necessary to improve allocations from an institutional perspective.

Here's how we plan for it to work.

- All fall and spring E & G tuition and state appropriations would come to the general fund, and would be offset by the combined budgets placed in all the units. Changes from the FY10 amounts for the academic and academic service units will be determined by the Provost with the approval of the President.
- Academic units will receive their portion of the tuition and state funds as a single budget item, and they will continue to receive other revenues – including fees, sales proceeds, Education Foundation transfers, research funding, etc.
- An important feature that may ease some minds is that units would no longer have a "tax-in" or a "tax-out." The impact of overhead is still there, but there is no longer the complicated allocation methodology. In other words, units will receive budget amounts

net of the tax. This simplification is one we hope will carry over when we emerge with a new model in two years.

- Deans and other units will keep carryforward, less a nominal surcharge to be explained separately. This will be used to solve immediate one-time needs across the institution.
- Deans will continue to capture Maymester, Summer I and Summer II tuition. (This is the way it worked pre-VCM.)
- The Provost can reallocate if tuition collections exceed expectations and make reductions if tuition collections are below expectations. Tuition reports will continue to run so unit credit hour and revenue production are still known and would be used to inform the allocation decision.
- An important feature of this hybrid model is that it will reduce enterprise risk. That is, as we put the units, both academic and service, back into a portfolio, risk in the system is reduced for the same reason that the volatility of the Dow Index is about half the average volatility of the 30 stocks that are included in the index. This is not an illusion.

We'll refine it as necessary as we gain experience with this approach. The first year promises to be a little messy in execution – as was the first year of VCM.

Next Steps

We ask for your help in reviewing the plan described above. We will set a meeting next week to discuss the emergency change with you and answer specific questions. While it is a two-year emergency measure, the ideas behind the plan are the result of several years of experience with the original model.

Thank you for your understanding and your support in these unusual and difficult times.

- c: Hon. Miles Loadholt, Chairman, USC Board of Trustees
President Harris Pastides
William T. Moore, Vice President for Finance & Planning
Thomas L. Stepp, Secretary
Christine Curtis, Senior Vice Provost
Helen Doeringhaus, Vice Provost
Chris Plyler, Vice Provost
Leslie Brunelli, Associate Vice President for Finance & Planning
Ed Walton, Associate Vice President for Resource Planning