

BOARD OF TRUSTEES' GUIDANCE REGARDING CHANCELLOR COMPENSATION

July 2016

It is the BOT's responsibility to help identify and retain a proven chief executive leader to advance NC State's mission, goals and values.

NC State's BOT encourages future trustees to consider proactively engaging in the establishment of a Chancellor's contract to ensure that outstanding performance is incentivized and rewarded in a manner that encourages the attraction and retention of outstanding leadership in the person designated as Chancellor. This Guidance is provided to advise future BOTs, as they may have to act quickly and assertively in order to have a contract negotiated that would contain competitive compensation elements for a Chancellor's retention. A good template would be Chancellor Woodson's current contract which includes both of these dimensions.

Deferred Non-Salary Compensation in the Form of Incentive Pay for Performance:

Current Incentive Plan

During the 2014-2015 academic year, the NC State Board of Trustees, the UNC System Board of Governors, and Tom Ross, President of the UNC System, reviewed and/or approved a Performance and Retention Plan (“Incentive Plan”) for Chancellor Randy Woodson.

The Incentive Plan focuses on achieving outstanding quantitative and qualitative performance in six important areas. The performance metrics of the incentive are closely aligned with NC State’s and the UNC System’s strategic plan. The Incentive Plan is designed to drive exceptional performance in areas most important to the University. Payout of the plan is formulaic, rather than subjective and is based on performance over a seven year time frame.

Upon the expiration of the Incentive Plan (June 30, 2021), the NC State Board of Trustees shall evaluate the performance results making such calculations as provided in the plan’s design and determining the amount of the performance award. The Chairman of the Board of Trustees provides then the full documentation of the performance, the appropriate calculations as provided in the plan, and the amount of the award for approval of the BOT and the President of the UNC System. It is anticipated that this calculation and recommendation of approval to the UNC President will be made within ninety (90) days of the expiration and no later than 9/30/21 – and that the award would be paid before 12/31/21. All monies paid out under this Incentive Plan must be from non-State funds, raised privately by the Board of Trustees.

Going Forward

After an appropriate time to evaluate the leadership abilities and accomplishments of a new Chancellor, the BOT should consider developing an Incentive Plan which would provide pay for performance and retention dimensions to the Chancellor’s compensation package. The Incentive Plan should contain stretch targets to incentivize exceptional performance over a long term. A logical performance model is the University’s Strategic Plan. The BOT should determine which elements of the Strategic Plan are the most critical for NC State’s success and discuss with the Chancellor those key elements, timeline, goals and measurable targets. Upon mutual agreement, the BOT will need to discuss with the President and BOG members both the structure of an Incentive Plan and the metrics upon which the Chancellor would be evaluated. There may be a component that is a qualitative assessment, rather than metric based. The elements will be negotiated and the achievement of the elements will need to be defined. The payout would likely be formulaic, occurring five to seven years from the start of the Incentive Plan and corresponding Strategic Plan.

Funds for this incentive compensation must come exclusively from non-state funds. The BOT will need to raise the private funds necessary to payout the full award.

Once an Incentive Plan is established, it is the duty of the BOT to evaluate the chancellor annually (in September) on the progress towards achievement and to inform the President of the status. Upon completion and/or expiration of the term, if the Chancellor remains employed, the BOT would then be in the position to create a new Plan and raise new private money for the award.

Annual Non-Salary Compensation for Retention

In June 2015, the NC State University Foundation, Inc. received privately funded gifts for the purpose of providing annual non-salary compensation to retain respected leaders for the position of NC State's Chancellor. One gift established a restricted fund intended to be disbursed over five fiscal years beginning in FY 2016. The amount of money in this fund available to payout is \$200,000 annually for five years. The second gift established a permanent endowment fund that will begin disbursement of endowment payout in FY 2021. These funds are designated as the University Leadership Funds. These gifts are a historical marker in NC State's history to ensure that the highest quality and most respected leader is retained. In the future, the potential amount of annual spending from the endowment fund could be more than \$200,000.

The BOT expects that a permanent feature of a Chancellor's contract will include supplemental non-salary compensation in the form of an annual stipend from these private gifts. Under current policy, any payment is subject to BOG approval upon the recommendation of the BOT and UNC President. In its May 2015 meeting, the BOG delegated authority to the UNC President regarding the determination of the stipend amount for Chancellor Woodson.

At the BOT meeting on April 17, 2015, the following protocol for disbursement of these private funds for this purpose was approved unanimously:

1. Annually and upon request of the Chair of the Board of Trustees, the Office of Foundations, Accounting and Investments (or similarly named office) will provide the Chair with a report that indicates the current value of the endowment fund and the income available for disbursement under the terms of the Gift Memoranda of Understanding with the Foundation.
2. At the September BOT meetings, the Chair will present the investment report to the Executive Committee of the Board of Trustees for a recommended payout of non-salary supplemental compensation with the Chancellor's satisfactory performance. The full Board will vote on the recommendation. It is understood that the payout is not automatic and the amount may vary from year to year.
3. The Chair of the Board of Trustees, in consultation with the UNC President, shall make the recommendation for approval to the Board of Governors.
4. It is expected that the Board of Governors will consider and make a decision about the recommendation in a timely manner so as to ensure that the payout will occur as promptly as possible and in the same calendar year.

The protocol makes clear that this stipend is discretionary and the amount may vary from year to year. The annual stipend amount is based on the BOT's qualitative assessment of the Chancellor's overall annual leadership in driving towards achievement (or establishment) of the strategic goals. The payout amount is variable at the discretion of the BOT, which should consider performance, momentum, compliance and peer group competitiveness among other factors.

Presumably, the stipend would not be awarded in a Chancellor's first year of employment since retention would not be an issue and would likely be delayed for a short period until such time that the Chancellor's performance could be appropriately assessed. The BOT recommends that the amount of the stipend be presented to the President after the September board meeting. The BOT Chair should use this opportunity to annually discuss performance and any issues from the BOT's perspective with the Chancellor. It would be expected that the President makes a timely approval of the recommendation so that the stipend is paid before the end of each calendar year.