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University of South Carolina
BOARD OF TRUSTEES

Executive Committee

February 20, 2015

The Executive Committee of the University of South Carolina Board of Trustees met at 1:45 p.m. on Friday, February 20, 2015, in the Board Room at 1600 Hampton Street.

Members present were: Mr. Eugene P. Warr, Jr., Chairman; Mr. John C. von Lehe, Jr.; Dr. C. Edward Floyd; Mr. William C. Hubbard; Mr. Toney J. Lister; and Mr. Miles Loadholt.

Other Trustees present were: Mrs. Paula Harper Bethea; Mr. Mark W. Buyck, Jr.; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. William W. Jones, Jr.; Mr. Hubert F. Mobley; Ms. Leah B. Moody; Mr. Thad H. Westbrook; and Mr. Mack I. Whittle, Jr.

Also present were faculty representative Dr. James H. Knapp and student representative Lindsay Richardson.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Provost Michael D. Amiridis; Chief Financial Officer Leslie Brunelli; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Information Technology William F. Hogue; Vice President for Human Resources Chris Byrd; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Jane Upshaw; USC Upstate Chancellor Tom Moore; Palmetto College Chancellor Susan Elkins; Executive Director of Audit & Advisory Services Pam Doran; College of Arts and Sciences Dean Mary Anne Fitzpatrick; Associate Vice President for Business Affairs, Division of Administration and Finance, Helen T. Zeigler; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Associate Athletics Director Kevin O'Connell; Associate Director of Strategic Planning and Assessment Cameron Howell; University Budget Director, Division of Administration and Finance, Harry Bell; Director of Capital Budgets and Financing, Division of Administration and Finance, Charlie Fitzsimons; Vice Provost and Director of International Affairs P. Allen Miller; University Controller Jennifer Muir; University Treasurer Pat Lardner; USC Alumnus and Clinical Associate Professor of Surgery Jim C. Chow, M.D., Major General Retired, S.C. Air National

Guard; Vice Chancellor for Finance and Operations, USC Beaufort, Earle Holley; Facilities Director, USC Beaufort, Mike Parrott; Chief of Staff, President's Office, J. Cantey Heath, Jr.; the Reverend Frank Anderson, Lutheran Campus Ministry; Gary Pope, Pope Zeigler LLC; Managing Director, Barclays Capital, Christoph Muelbert; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Leah Kososki.

I. Call to Order

Chairman Warr called the meeting to order and stated that 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 introduced members of the media in attendance: Lauren Shirley and Hannah Jeffrey with the *Daily Gamecock*.

Chairman Warr called for a motion to enter Executive Session in order to receive legal advice and to discuss proposed contractual matters. Mr. von Lehe so moved and Mr. Lister seconded the motion. The vote was taken and the motion carried.

Chairman Warr invited the following persons to remain: President Pastides, Secretary Stone, the President's Executive Council, Ms. Doran, Dr. Knapp, Ms. Richardson and Dr. Miller.

Return to Open Session

II. Legal Agreements

Chairman Warr called on Mr. Parham to present two legal settlement agreements.

A. U. S. Department of Justice

Mr. Parham said that approval was sought for an agreement between the University and the U.S. Department of Justice (DOJ). The motion was to approve a rescission agreement with the DOJ under which the University would be paid \$31.5 million in lump sum within 30 days and the parties would agree to rescind the February 2010 agreement regarding the DOJ's use of the Close-Hipp building.

Chairman Warr called for a motion to recommend approval by the full Board of the Agreement to Rescind Addendum H to the Operating Agreement Between the United States Department of Justice and the University of South Carolina as described in the agenda materials and presented by Mr. Parham. Mr. Lister so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

B. Baseball Stadium Repair Agreement

Mr. Parham said that approval was sought for an agreement to resolve the pending claims involved in the repair of the Carolina baseball stadium. The motion being proposed was to accept the settlement agreement between the University and the eight companies listed in the handout provided that listed the settlement amounts to be paid by each company. The Carolina Stadium Repairs Settlement will award the University \$2,015,000 from the following: Cherokee Inc. \$415,000; Contract Construction \$75,000; SM&E \$75,000; Schnabel Engineering \$325,000; Curt Davis & Associates \$475,000; HOK/Populous \$150,000; Kyzer-Timmerman \$250,000; and Cox and Dinkins \$250,000.

Mr. Loadholt so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

III. Vice President for System Planning

Chairman Warr called on President Pastides who proposed the establishment of a new position, Vice President for System Planning and asked approval of the appointment of Dr. Mary Anne Fitzpatrick as VP for System Planning with a base salary of \$273,764, effective July 1, 2015. President Pastides said it was extremely important that the University become more efficient and cost effective in operating as a system. Currently there are no senior officials in the University whose job it is to work to bring increased cohesion, collaboration and cost effectiveness throughout the system. This would be a great step forward, he said, in asking for the board's endorsement.

Chairman Warr called for a motion to recommend approval by the full Board of the appointment

described by President Pastides. Mr. Lister so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

IV. Contracts

A. USC Beaufort/Hilton Head Island MOU

Mr. Parham said that approval was sought of a Memorandum of Understanding (MOU) between USC Beaufort and the Town of Hilton Head pursuant to which the parties would work together for the construction of a facility on Hilton Head Island that would be used by USC Beaufort for teaching and educational purposes. Under the agreement the Town of Hilton Head would donate the land to the University of South Carolina and commit \$22 million towards the project. USC Beaufort would obtain \$2.5 million in funding from the Beaufort-Jasper Commission on Higher Education. There would be no state funding involved in the project. Once the land has been donated to the University and following all approvals, USC Beaufort will be responsible for coordinating construction of the facility, then operating and maintaining the facility. The MOU is subject all necessary approvals from the state and the USC Board of Trustees and either party has the right to walk away from the project without liability if it is determined not to be feasible.

Chairman Warr called for a motion to recommend approval by the full Board of the USC Beaufort/Hilton Head Island MOU as described in the agenda materials and presented by Mr. Parham. Mr. von Lehe so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

B. Wiley Subscription Services, Inc.

Mr. Parham said approval was sought for an amendment to a five-year license agreement with Wiley Subscription Services, Inc. that provided access to 468 subscription titles and 909 full collection databases for the total sum of \$3,653,177. The amendment would modify slightly the titles and databases being provided and reduce the total fees to be paid by University Libraries over the remaining four years of the agreement. The fees for the four-year period of 2015-2018 originally totaled \$2,962,362. Under the proposed amendment, the fees for the same four-year period will be \$2,851,061, a savings of \$111,301.

Chairman Warr called for a motion to recommend approval by the full Board of the amendment to contract with Wiley Subscription Services as described in the agenda materials and presented by Mr. Parham. Mr. von Lehe so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

C. Shorelight Education, LLC

Mr. Parham said approval was sought for an agreement between USC Columbia and Shorelight Education, LLC and Shorelight Palmetto, LLC under which the University would authorize Shorelight to recruit international undergraduate and graduate students as outlined in the materials provided to Trustees for the meeting.

Chairman Warr called for a motion to recommend approval by the full Board of the agreement. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried. Mr. von Lehe, Mr. Hubbard and Mr. Westbrook abstained.

D. Academic Partnerships, LLC

Mr. Parham said approval was sought for an amendment to the existing agreement between the University and Academic Partnerships (AP). The amendment would extend the term of the agreement for four additional one-year periods. It also would change the fees to be paid so that AP would receive 40 percent (instead of the current hourly fee for graduate classes) of the tuition charged by USC for any course, graduate or undergraduate, offered through Academic Partnerships.

Chairman Warr called for a motion to recommend approval by the full Board of the amendment to the 2012 Service Agreement between the University and Academic Partnerships. Mr. von Lehe so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

E. Adobe Systems, Inc.

Mr. Parham said approval was sought for an Adobe Enterprise License Agreement. The agreement would allow University Technology Services to purchase an array of Adobe acrobat and creative suite products for use by USC faculty and staff on all campuses. The term of the license agreement is three years, with a total cost of \$516,248.58. The license fee would be paid by University Technology Services, which will resell the Adobe software as individual licenses to USC departments, faculty and staff.

Chairman Warr called for a motion to recommend approval by the full Board of the license agreement as described in the agenda materials and presented by Mr. Parham. Mr. Loadholt so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

F. Lease, 800 Huger Street

Mr. Parham said approval was sought for a five-year lease agreement between the USC College of Social Work and the South Carolina State Federal Credit Union for use by the college's Center for Children and Family Studies. The center has outgrown its current space in Benson School. Under the lease, the center would receive 7,677 rentable square feet on the first floor of the credit union's

building at 800 Huger Street. The annual rental will be \$99,900, with a total value of \$499,500 to be paid entirely from grant funds that support the center.

Chairman Warr called for a motion to recommend approval by the full Board of the lease agreement as described in the agenda materials and presented by Mr. Parham. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

V. Barclays Capital Debt Update

Chairman Warr called on Ms. Brunelli who invited Christoph Muelbert, Managing Director of Barclays Capital, to come forward to provide additional context for the ongoing discussion about the University's debt prior to her presentation on State Institution Bond Refunding. Mr. Muelbert has worked with the University since 2006, she said, providing valuable knowledge during a time when the University changed how it financed facilities. Mr. Muelbert then presented an annual update showing how the University is viewed in the context of Moody's medians and how the University compares to other institutions, including SEC institutions as well as the University's peer and peer-aspirant groups.

Mr. Muelbert provided an overview of the University's debt capital program in the context of credit ratings and how capital markets and rating agencies look at the University. He described the University's debt portfolio as conservative, indicating that the University's current debt is in a fixed-rate mode that is front-loaded and is repaid quickly.

Addressing how the University's debt is viewed by the capital markets and rating agencies, Mr. Muelbert outlined Moody's and Fitch ratings. He said both view credit on the basis of affordability, net tuition growth, stabilization of state funding, pressure on federal funding, health care and pension liabilities. Institutions such as USC that are diversified flagship institutions with significant research programs are better positioned to navigate today's environment, compared to a highly tuition-dependent liberal arts school. Responding to a Trustee question, he said that the state's unfunded pension liability was an accounting change about which the rating agencies have been aware and that it was not expected to impact ratings.

Both rating agencies continue to emphasize the University's strong leadership, recognizing the difficult steps taken to successfully navigate the changing environment. Other factors noted by the rating agencies include the University's status as a flagship institution with strong demand; some improvement in state appropriations, even given the new norm compared to several years ago; consistently strong operating cash flow margins; the University's diverse revenue base; a balance sheet that covers the University's debt as well as its operations; a conservative debt structure; and the University's public-private partnership,

although it is too early to fully assess. In response to a question about trends in Barclays' analysis, Mr. Muelbert identified the University's resources to debt and operations, which showed a steady positive trend for the past five years. He further noted that higher rated institutions often have a higher debt service to operations because they can afford it. Ms. Brunelli noted that total financial resources per student appeared low because in some of Moody's comparisons the University was viewed as a system while in others only Columbia campus numbers were used. This made the University a hybrid compared to institutions reporting single campus data.

Moody's rates 226 public higher education institutions that have an aggregate of about \$440 billion in outstanding debt. The median rating is the A1 rating, and only about 25 percent of the schools are rated AA2, the University's level, or higher, which places the University among a select group of institutions. He then compared the University to its peer institutions before touching briefing on the current market environment. Mr. Muelbert cautioned that in comparing institutions one must realize that there were very different credit structures in place among them that could result in misinterpretation of comparative data.

He compared USC with its peer and peer-aspirant groups in the context of Moody's AA1, AA2 and AA3 medians based on four ratios that are most closely correlated with credit ratings – total financial resources to debt, expendable financial resources to debt, expendable financial resources to operations, and debt service to operations. The "key takeaways," he said, were that the incremental debt only has a marginal impact on USC's ratios if FY14 is compared to FY19. Based on these four ratios, USC aligns well with its peers and with Moody's medians. USC also has experienced healthy growth in those four ratios since 2010.

Any market update he offered would be quickly outdated, Mr. Muelbert said. He noted that "the impact of the geopolitical unrest abroad mixed with domestic economic data and the uncertainty with the feds plans have led to tax and tax exempt rates hitting all-time historic bottoms about a month ago;" thus, resulting in a tremendous interest rate environment. He concluded that the market again is calling for a rise in interest rates, not a spike, but a gradual increase over time.

Chairman Warr thanked Mr. Muelbert for the outstanding information presented in his update.

VI. State Institution Bond Refunding

Chairman Warr called on Ms. Brunelli who recognized Gary Pope of the Pope Zeigler Law Firm who authored the resolution to issue State Institution Bond Refunding and Mr. Fitzsimons who handles the University's capital financing.

The University, she said, had the opportunity to refund \$34.16 million worth of state institution bond debt because of lower interest rates. The opportunity involved the Series 2006B State Institution Bond issuance for projects on the Columbia, Upstate and Aiken campuses. On the Columbia campus, the issuance was for about \$40 million and included several projects such as the Band and Dance Hall, the Gambrell operation, and portions of the Public Health building, Discovery, and Horizon. The issuance covered Aiken's Convocation Center and the health education facility at USC Upstate.

With about 12 years remaining on the bonds, the refunding will offer a net present value savings of \$2.16 million and an annual debt service savings of about \$218,000. Following the board's approval, the resolution would go to the State Budget and Control Board in March 2015 with plans to issue the bonds in April with a May closing date. The refunding would be combined with the University's \$48.1 million Law School issuance. Ms. Brunelli said that consideration is still being given as to whether to bring forward the debt for the Student Health Center.

Chairman Warr called for a motion to recommend full Board approval of a resolution to issue State Institution Refunding Bonds for \$37 million to be used to refund outstanding Series 2006B State Institutions Bonds, which are projected to result in substantial debt service savings. Mr. Hubbard so moved. Mr. Lister seconded the motion. The vote was taken and the motion carried.

VII. Mid-Year Financial Review

Chairman Warr called on Ms. Brunelli for the mid-year financial review, comparing December 31, 2014, to the budget document approved by the Board in June for FY2015. She noted that this was the fifth mid-year review, and that the 140-page document mirrored the budget document for ease in making comparisons to the current budget and to the prior year's budget. She said that the biggest part of the budget was monitoring all aspects of enrollment on approximately a weekly basis because that is what drives the budget. The campuses and the auxiliaries were operating within their budget expectations, she said, noting that some campuses had to align their budget to actual because their enrollments were down. Lancaster and Sumter were down in the fall and spring, while Salkehatchie was down in the spring but up in the fall.

Ms. Brunelli pointed out that the University was still holding more than \$1.1 million in funds that the state set aside for a Higher Education Efficiency Effectiveness and Accountability Review as there had been no effort to expend those dollars. The University was awaiting a state proviso directing how this money was to be used. Coming out of the previous day's S.C. House Ways and Means Committee meeting

was information that the state had about \$454 million in new money available, but that higher education was not at the top of the list to receive this funding.

She said that an in-depth recap of the Ways and Means budget had been sent to Trustees earlier in the day, noting that it contained \$2 million in recurring funds allocated for On Your Time and \$373,010 in parity funding for Palmetto College campuses. In all, the Ways and Means budget has \$3.5 million in recurring funds earmarked for University campuses and \$930,000 in non-recurring funding from the Capital Reserve for the Honors College. There also have been numerous provisos attached to the budget that must still be analyzed.

Ms. Brunelli then highlighted items related to the University that were included in a \$497 million state bond bill that had been announced the previous day. The bond bill included \$31.5 for USC projects. The big winner was the technical education system that was slated to receive \$111 million of the \$257 million allocated for all of higher education. The budget is slated for discussion before the S.C. House of Representatives the week of March 9.

In summary, Ms. Brunelli listed the financial challenges facing the University as: implementing plans coming out of the Board of Trustees retreat; managing system enrollment; complying with increased regulatory requirements; balancing operating and capital needs; and completing conversion and operationalizing OneCarolina.

VIII. Succession Planning

Due to the lateness of the day, the topic was postponed until the committee's next meeting.

IX. Other Matters

There being no other matters to come before the committee, Chairman Warr declared the meeting adjourned at 3:58 p.m.

Respectfully submitted,

Amy E. Stone
Secretary