

The official minutes of the University of South Carolina Board of Trustees are maintained by the Secretary of the Board. Certified copies of minutes may be requested by contacting the Board of Trustees' Office at trustees@sc.edu. Electronic or other copies of original minutes are not official Board of Trustees' documents.

University of South Carolina
BOARD OF TRUSTEES

Executive Committee

October 16, 2015

The Executive Committee of the University of South Carolina Board of Trustees met at 11:45 a.m. on Friday, October 16, 2015, in the Board Room at 1600 Hampton Street.

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

Other Trustees present were: Mr. Chuck Allen; Mrs. Paula Harper Bethea; Mr. J. Egerton Burroughs; Mr. Thomas C. Cofield; Mr. A. C. "Bubba" Fennell III; Mr. William W. Jones Jr.; Mr. Hubert F. Mobley; Ms. Leah B. Moody; Dr. C. Dorn Smith; Mr. Thad H. Westbrook; Mr. Mack I. Whittle Jr.; and Mr. Charles H. Williams.

Also present were faculty representative August E. "Augie" Grant and student representative Jonathan Kaufman.

Others present were: President Harris Pastides; Secretary Amy E. Stone; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Provost Joan T.A. Gabel; 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; Vice President for Facilities and Transportation Derrick Huggins; Chief Communications Officer Wes Hickman; Athletics Director Ray Tanner; Vice President for System Planning Mary Anne Fitzpatrick; Palmetto College Chancellor Susan Elkins; USC Aiken Chancellor Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Thomas Moore; USC Lancaster Dean Walt Collins; Senior Vice Provost and Dean of Undergraduate Studies Helen Doerpinghaus; Senior Vice Provost and Dean of Graduate Studies Lacy Ford; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; Executive Director of Audit & Advisory Services Pam Doran; University Treasurer Pat Lardner; University Controller Jennifer Muir; University Budget Director Harry S. Bell Jr.; Chief Financial Officer, Athletics Department, Jeff Tallant; Director of Strategic Planning Cameron Howell; Senior Associate Dean, Darla Moore School of Business, Kendall Roth; Director, Business Study Abroad, Darla Moore School of Business, Sara Easler; Assistant Dean for Administration, College of Arts and Sciences, Mary Ann Byrnes;

Director of Graduate Admissions, College of Arts and Sciences, Hanno zur Loye; USC Upstate Vice Chancellor for Administrative and Business Affairs Sheryl Tuner-Watts; USC Aiken Vice Chancellor for Finance and Administration Joe Sobieralski; Director of Capital Budgets and Financing, Division of Administration and Finance, Charlie Fitzsimons; Director of Business Process Improvement, Division of Administration and Finance, Janis Hoffman; Audit & Advisory Services Assistant Director Glenn Murray; Director of Financial Reporting, Controller's Office, Sandy Smith; Senior Audit Consultant, Audit & Advisory Services, Mark LaBruyere; Financial Analyst, Controller's Office, Lindsay Tedrick; Tom McNeish and Brian D'Amico with the audit firm of Elliott Davis Decosimo, LLC; Jeff Minch and Steve Kantor with FirstSouthwest Company; Chief of Staff, President's Office, J. Cantey Heath Jr.; Trustee Emeritus Herbert C. Adams; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Terri Saxon.

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: Andy Shain of *The State*, Hannah Jeffrey with *Free Times*, Chris Cox with *Columbia Business Report*, and John Whittle with TheBigSpur.com.

Chairman Warr called for a motion to enter Executive Session for a proposed contractual matter related to facility naming rights. Mr. Lister so moved and Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

Chairman Warr invited the following persons to remain: President Pastides, Secretary Stone, Mr. Parham, Mr. Tanner, Mr. Byrd, Ms. Gabel, Mr. Walton, Mr. Hickman, Mr. Heath and Mr. Adams.

EXECUTIVE SESSION

RETURN TO OPEN SESSION

II. Contracts

Chairman Warr called on Mr. Parham to present several contracts.

A. MOUs for Darla Moore School of Business Double Degree Programs

1. Chonnam National University, South Korea
2. ESAN Graduate Business School, Peru
3. National Taiwan Normal University

Mr. Parham said approval was sought by the Darla Moore School of Business (DMSB) for graduate dual degree agreements with three international institutions: National Taiwan Normal University (NTNU); ESAN Graduate Business School in Lima, Peru; and Chonnam National University in South Korea. The essential terms of each agreement are the same. The international institution will select a cohort of up to 30 graduate students per year. These students must meet all requirements for admission to both the DMSB graduate school and their host institution. These students will then undertake a program of study that will lead to them receiving both an Executive International Master of Business Administration (EIMBA) from USC and a Master of Business Administration (MBA) from the host institution.

Mr. Parham said that USC and the host institution will each teach 50% of the courses. The cohort of students from each institution will come to USC for at least one course, and will take the remainder of the required coursework at the host institution. DMSB faculty will travel to the host institution to teach the USC courses. Each institution is responsible for determining if the student meets the progression requirements for its degree.

Under the financial terms of the agreements, tuition is paid to the host institution. The tuition will be set at the amount approved by the USC Board of Trustees for the EIMBA program, which currently is approximately \$41,000. The host institution will pay DMSB \$20,000 for each three-hour course taught by USC, and a stipend to cover the travel expenses, room and board for each USC faculty member travelling to the host institution to teach. Additionally, the host institution will pay DMSB a percentage of the tuition it collects from the students.

The student tuition split with each international institution will be:

- From NTNU, USC will receive 20% of the tuition fee for each student during the first year and 25 percent of the tuition for each year thereafter.

- From ESAN Graduate Business School, USC will receive 15% of the tuition during the first two years of the program and 25% for each year thereafter.
- From Chonnam National University, USC will receive 25% of the tuition.

Mr. Parham said that the Chonnam agreement is for three years, while the agreements with NTNU and ESAN are for five years. USC and the host institution may terminate the agreement upon 12 months written notice; however, students currently enrolled in the program will be afforded the opportunity to complete their dual degrees. The agreements will automatically renew unless notice is given by December 31 of the final year of the contract term.

Chairman Warr called for a motion to approve the three double degree programs as described by Mr. Parham. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

B. Private Jet Services Group, LLC Flight Agreements

1. Women's Basketball

Mr. Parham said approval was sought by the Athletics Department to enter into a charter flight agreement with Private Jet Services Group, LLC under which the Women's Basketball Team will be transported to eight away games this season. The total cost of the contract is \$333,024.00.

Chairman Warr called for a motion to approve the Private Jet Services Group flight agreement for the Women's Basketball program as described by Mr. Parham. Dr. Floyd so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

2. Men's Basketball

Mr. Parham said approval was sought by the Athletics Department to enter into a charter flight agreement with Private Jet Services Group, LLC under which the Men's Basketball Team will be transported to nine away games this season. The total cost of the contract is \$369,191.25.

Chairman Warr called for a motion to approve the Private Jet Services Group flight agreement for the Men's Basketball program as described by Mr. Parham. Mr. Loadholt so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

C. Baseball Stadium Naming Rights Agreement

Mr. Parham said approval was sought by the Athletics Department of a Naming Rights Agreement with Founders Federal Credit Union of Lancaster under which the baseball stadium will be named "Founders Park." The contract is a 10-year agreement starting November 1, 2015, and ending October 31, 2025. Over the life of the contract, Founders will pay the University \$7,237,430.20. The total

is broken into two pieces – the naming rights portion is \$450,000 per year and the additional signage, advertising and sponsorship rights portion is \$250,000 per year. The \$250,000 amount will increase by 2% per year under the contract.

Chairman Warr called for a motion to recommend approval by the full Board of the Baseball Naming Rights Agreement with Founders Federal Credit Union. Mr. Hubbard so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

D. ESPN Regional Television, Inc. Production Services Agreement

Mr. Parham said approval was sought by the Athletics Department of a Master Production Services Agreement with ESPN Regional Television, Inc. The SEC has granted ESPN linear and digital production and broadcast rights to SEC athletics events. That SEC–ESPN agreement is the basis for the content that is shown on the SEC Network. As part of that agreement, each SEC school is responsible for producing a certain number of full digital events. This is a cost-saving measure for ESPN because a school can produce an event at a lower cost than ESPN. The SEC–ESPN agreement doesn't address fully the terms and conditions associated with the events produced by the SEC schools. So the agreement that the Board is being asked to approve is a supplement to the SEC–ESPN agreement, and the two documents must be read together to be fully understood. He said that each school in the SEC will be signing essentially the same Production Services Agreement with ESPN.

Under the agreements, each SEC school is required to produce a certain number of full digital events for which the school will be paid directly by ESPN. For 2014-2015, ESPN will pay USC's Athletics Department \$283,500 for the events USC produced that were broadcast. The amount for linear events has increased to \$15,000 for 2015-2016. In June of each fiscal year, USC will invoice ESPN for the events USC produced, and ESPN will pay USC within 45 days.

Chairman Warr called for a motion to recommend approval by the full Board of the ESPN Regional Television Production Services Agreement. Mr. Lister so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

E. Lease between USC Lancaster and the Educational Foundation of USC Lancaster

Mr. Parham said approval was sought by USC Lancaster of a Master Lease Agreement with the Educational Foundation of USC Lancaster. The buildings and real estate that comprise the USC Lancaster campus are owned by the USC Lancaster Educational Foundation, which allows the campus to use the property. Dean Walt Collins and the foundation recognized that the terms and conditions of that use had never been codified in a master agreement. Both parties agreed that sound

business practice dictates that an agreement be created, which resulted in the lease that was before the Board for approval. The form of the lease was the standard S.C. Governmental Real Estate Lease.

Under the lease, the foundation agrees to make the buildings and real estate it owns – as identified in Exhibit A – available to USC Lancaster for a term of 30 years at a rental cost of \$1 per year. USC Lancaster is responsible for maintaining property insurance on the facilities with the State Insurance Reserve Fund. USC Lancaster has been doing this already at an annual premium cost of \$35,000. USC Lancaster also will be responsible for reimbursing the foundation for the cost of liability insurance obtained by the foundation that protects it from claims related to USC Lancaster's use of the facilities. USC can't obtain this insurance from the Insurance Reserve Fund because additional third-party insureds cannot be named on its policies. So the foundation purchases the policy. The cost of this premium is \$10,000 per year.

USC Lancaster also is responsible for any property taxes assessed on the property, although there are not any because both parties are exempt, as well as telephone, electricity, water, and other utilities.

Chairman Warr called for a motion to recommend approval by the full Board of the lease between USC Lancaster and the Educational Foundation of USC Lancaster. Mr. Loadholt so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

F. Lease between USC Upstate and Hughes Land Company

Mr. Parham said approval was sought by USC Upstate of a lease agreement with Hughes Land Company for 5,606 rentable square feet on the second floor of a building located at 101 Falls Park Drive, Suite 700, in downtown Greenville. USC Upstate may extend the three-year lease for up to two additional three-year terms. Hughes Land Company can terminate the lease at any time upon 150 days' notice. Under the lease, USC Upstate will pay \$82,688.52 per year, which is \$10 per square foot plus a building operating cost of \$4.75 per square foot.

The building operating cost represents USC Upstate's pro rata payment of real estate taxes, utilities, maintenance, insurance and repairs on the building. The building operating cost is fixed for years one and two of the lease, but may increase in year three, not to exceed 3%. USC Upstate is also responsible for the cost of electricity, which is separately metered, and any up-fit costs.

Chairman Warr called for a motion to approve the lease between USC Upstate and Hughes Land Company. Mr. Hubbard so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion carried.

G. USC Beaufort and the Beaufort-Jasper Higher Education Commission Memorandum of Understanding

Mr. Parham said approval was sought by USC Beaufort (USCB) and the Beaufort Jasper Higher Education Commission (BJHEC) of a Memorandum of Understanding (MOU). The purpose of the MOU is to document the existing relationship between USCB and the BJHEC, and the services and benefits provided by the commission to USCB – specifically, housing, food service, and bookstore operations.

Working with external auditors, the University's Chief Financial Officer determined that the BJHEC is a component unit of USCB under applicable accounting principles due to the significant contributions it makes to the campus. This MOU is the result of that determination. In addition to documenting the existing relationship, the University will use the MOU to address SACS accreditation standard 3.2.13 that requires documentation to confirm certain aspects of the relationship between an institution and "any entity organized separately from the institution and formed primarily for the purpose of supporting the institution or its programs." The MOU confirms the existing relationship between USCB and BJHEC with regard to ownership of property, student housing, food service and bookstore operations.

Chairman Warr called for a motion to recommend approval by the full Board of the MOU between USC Beaufort and the Beaufort-Jasper Higher Education Commission. Mr. Lister so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

III. Fiscal Year 2015 Year End Report

Chairman Warr called on Ms. Brunelli who indicated that the year-end report was backed up by a 200-page document that had been provided for review on the Board Portal prior to the meeting. Ms. Brunelli indicated that, as had been done prior to this meeting with Trustee Fennell, she was willing to meet individually with any Trustee and go over financial documents and statements. Before offering her overview, she recognized several individuals from the University's Controller's Office who helped compile the financial information and manage the audit process.

Ms. Brunelli noted that with implementation of a new financial system, all of the reporting that was done in the old system no longer exists and all of the reporting processes must be recreated. She said that the financial statement presented by Tom McNeish at the Audit and Compliance Committee meeting earlier in the day was a one-point in time, June 30, 2015, snapshot that would not match what was done on a daily basis, while the budget document was a document in daily use that matched the general ledger and

showed the University's financial status at all times. The year-end review is laid out to look like the budget document. It compares the final year-end financial position to what was budgeted for the fiscal year, and shows the variance. Also included is a snapshot of enrollment and information about the large Columbia auxiliaries – Athletics, Housing, Parking, and the Student Health Center. The year-end report also includes information from campuses throughout the system that is not obvious from the financial data.

In summary, Mr. Brunelli said, all campuses and auxiliary enterprises operated within budget expectations for Fiscal Year 2015. She said that total revenue was up 5.1% over the budget, which was driven primarily by two things – the \$31.5 million received from the U.S. Department of Justice (DOJ) for the termination agreement on the Close-Hipp Building; and significant tuition and fees received above the budget primarily for Columbia, but also for Aiken and Beaufort.

On the expenditure side, there was an increase of 3.9% over budget. The largest percentage change in expenditures came from Public Service and Academic Support, which represented the expenditure of restricted dollars. There was a 1.1% increase in operating expenditures, which was matched by revenue. Auxiliary enterprises also were above budget for revenue by 7% and expenditures by 9%, a lot of which was driven by Athletics, since it does not budget SEC distribution dollars before the amount is known.

Ms. Brunelli said that fund balances increased overall for 2015, despite a budgeted reduction. FY15 was a good year, she said, indicating that the University had a much better year than anticipated. The administration had anticipated a reduction to the University's net position. However, tuition and fees not budgeted increased across the system by \$14 million; \$1.9 million less was expended for OneCarolina's Phase II; debt dollars instead of institutional funds were used to initiate the new Student Health building construction project; and there was the \$31.5 million increase in quasi endowment due to termination of the Close-Hipp lease with DOJ. Thus, the net position increased by \$41.5 million across the University system before the reduction for the pending GASB 68 pension liability.

She called the Trustees' attention to the back of the year-end review document where there was a five-year history of both the Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position. More analysis with ratios will be provided in December with the Comprehensive Annual Financial Report (CAFR) presentation. Ms. Brunelli recapped the University's bond indebtedness by campus, which totaled \$594,645,000; an increase of about \$71 million over Fiscal Year 2014 as debt, which was issued for the Law School, Student Health Center and Athletics, was offset by refunding and the payment of about \$20 million in principal.

Trustee Fennell noted that while the bulk of the \$41.5 million increase in net position was attributable to the Columbia campus, the University's other campuses also had good years with growth. All but two, he said, had small decreases or losses for the year compared to the past.

Chairman Warr stated that Ms. Brunelli's report was received as information.

IV. Debt Capacity Review

Chairman Warr called on Ms. Brunelli who introduced Steve Kanter, Managing Director of FirstSouthwest, and his associate Jeff Minch. She said the University entered into the debt capacity engagement with FirstSouthwest through the State Treasurer's Office in June because the new Municipal Advisor Rule limited discussions that could be had with Barclays Capital, the University's financial underwriter, when there was not a "deal" on the table. This became significant because the University is at an unusual point in its capital finance life – there is no project that requires debt working its way through Phase I or Phase II approval.

Mr. Kanter said that the University system has significant capacity to issue additional debt of approximately \$150 million to \$250 million and maintain its current ratings. He discussed the analysis behind this conclusion, stating that "the rating agencies have noted the increased debt load as a potential challenge, however, the rating agencies recognize that borrowing for mission-critical and/or revenue-producing projects can result in credit strengths over the long term."

"As the University considers future debt, it will be essential to convey the strategic necessity of projects and how they will drive enrollment or revenue growth," Mr. Kanter said. He noted there are several ways to evaluate the debt burden from an enterprise risk management and strategy perspective and that the University fares well in traditional metrics and is well within the median of its credit rating.

Chairman Warr stated that Mr. Kanter's report was received as information.

V. Off-Cycle Fee Request: USC Upstate School of Education "LiveText" Fee

Chairman Warr called on Ms. Brunelli who presented an off-cycle fee request for a \$10 per credit hour fee assessed to all "ED" and "EX" prefix courses for the School Education at USC Upstate to support the LiveText system. LiveText was implemented for the fall term, she said, but the fee request and supporting information was not available in time to include in the 2015 fee schedule. Approval was requested to implement the fee in January 2016.

LiveText is a web-based subscription that allows teachers in training to develop, submit and store education projects, syllabi, and other similar material, as well as assessment tools. The fee is expected to generate between \$100,000 and \$130,000, depending on the number of credits generated each year. The

cost to implement the system is \$124,000 per year and includes the maintenance cost and contracts for system coordinators.

Chairman Warr called for a motion to recommend approval by the full Board of USC Upstate's off-cycle fee request. Mr. Lister so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

VI. Adjournment

There being no other matters to come before the committee, Chairman Warr declared the meeting adjourned at 1:24 p.m.

Respectfully submitted,

Amy E. Stone
Secretary