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University of South Carolina
BOARD OF TRUSTEES

Executive Committee

December 15, 2015

The Executive Committee of the University of South Carolina Board of Trustees met at 11:25 a.m. on Tuesday, December 15, 2015, in the Alumni Center Boardroom.

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

Other Trustees present were: Mr. Chuck Allen; Mrs. Paula Harper Bethea; Mr. J. Egerton Burroughs; 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; 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; Chief Financial Officer Leslie Brunelli; Provost Joan T.A. Gabel; Vice President for Student Affairs Dennis A. Pruitt; Vice President for Research Prakash Nagarkatti; Vice President for Development and Alumni Relations Jancy Houck; Vice President for Information Technology William F. Hogue; Vice President for Human Resources Chris Byrd; Vice President for Facilities and Transportation Derrick Huggins; Associate Vice President for Administration and Finance and Medical Affairs Jeffrey L. Perkins III; Executive Director of Audit & Advisory Services Pam Doran; 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; Darla Moore School of Business Dean Peter Brews; South Carolina College of Pharmacy Interim Executive Dean/USC Campus Dean Randall C. Rowen; Executive Director for the Office of Economic Engagement William D. "Bill" Kirkland; University Controller Jennifer Muir; University Treasurer Pat Lardner; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; Assistant Director, Facilities Design and Construction, Thomas Opal; Director of Academic Programs,

Provost's Office, Kristia Finnigan; Director of Financial Reporting, Controller's Office, Sandy Smith; Senior Associate Dean, College of Arts & Sciences, Robert Thunell; Director of School of Earth, Ocean and Environment, College of Arts & Sciences, Carol Boggs; Assistant Dean, College of Arts & Sciences, Mary Ann Byrnes; Sport and Entertainment Management Department Chair, College of Hospitality Retail and Sports Management, Matt Brown; Director of the Walker Institute of International and Area Studies Robert Cox; Chief of Staff, President's Office, J. Cantey Heath Jr.; Executive Vice Chancellor for Academic Affairs, USC Aiken, Jeff Priest; USC Trustee Emeritus William Bethea; Ann Loadholt, wife of Trustee Miles Loadholt; Cynthia Lister, wife of Trustee Toney Lister; Lee Bussell, a former President of My Carolina Alumni Association; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen, Terri Saxon and Ina Wilson.

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* and David Caraviello of *The Post and Courier*.

II. Contracts

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

A. S.C. Department of Social Services

Mr. Parham said approval was sought by University Technology Services (UTS) to renew a contract with the South Carolina Department of Social Services (DSS), which was first approved by the Board of Trustees in 2001 and was last approved in 2011. Under the agreement, DSS will pay UTS to provide independent verification and validation services for the automated child support enforcement system that DSS is trying to develop. UTS verifies completion of each portion of the project as required by federal law.

The proposed contract provides for a one-year term beginning November 1, 2015. Mr. Parham clarified that the current agreement with DSS extends through April, 2016, so the past month has been covered by an existing agreement, with all legal rights protected. The contract will renew automatically for up to four additional one-year periods. If the contract continues for the full five-year period, USC will receive approximately \$4,540,000. The contract may be terminated by either party if there is a breach of any of the material provisions of the agreement.

Chairman Warr called for a motion to recommend approval by the full Board of the contract for University Technology Services to provide independent verification and validation services to the S.C. Department of Social Services in support of the development of the S.C. Child Enforcement System Project. Mr. von Lehe so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

B. Darla Moore School of Business Lease, Charlotte, N.C.

Mr. Parham said the Darla Moore School of Business (DMSB) sought approval of an office lease in Charlotte, North Carolina, to serve as a location for its Professional MBA (PMBA) program. The DMSB has offered its PMBA program in Charlotte since 2007 at various locations. Dean Brews is interested in offering the program in the financial district of uptown Charlotte and has located 4,963 rentable square feet of space in the BB&T Center at 200 South College Street in Charlotte.

The 124-month lease will begin after the landlord, CIM Urban REIT Properties VIII, LP, has substantially completed the renovations to the space required by the DMSB. Renovations are estimated to cost \$650,000 to \$700,000 and will be paid by the landlord. The rental cost of the lease is \$18.65 per square foot in year one, increasing by approximately .85% per year to \$20.31 during the final four-month period. Over the full 124-month lease, the DMSB will pay rent totaling \$965,118.33. The DMSB also is responsible for paying its pro rata share of janitorial, security, taxes, insurance, common area maintenance and electricity costs based on its square footage. These costs are estimated at \$41,441.05 per year. The landlord is responsible for maintaining and repairing the systems and equipment, the common areas, and the structural elements of the facility.

Other possible costs under the lease include the option to rent parking spaces in the adjacent parking facility. If the DMSB opts to rent parking spaces, private funds will be used to pay for the parking. The lease provides that the DMSB can terminate the lease at the end of year five, but must pay a termination penalty equal to the landlord's unrecovered costs of up-fitting the space. This amount would be \$64,413.78 per year for years 6-10 for a total cost of \$322,068.90 to terminate early. The DMSB will pay for the costs associated with the lease from tuition dollars paid by students who currently pay \$690 per credit hour for the 48-hour degree program.

In response to Trustee questions, Dean Peter Brews said 192 students were enrolled in the PMBA program offered in Charlotte. An additional 25 PMBA students will need to enroll each year for the program to cover the rental costs associated with relocating to the enhanced facility. Enrollment is estimated to exceed this number. Since the PMBA program is offered at night, Dean Brews said that other

executive development programs could be offered during business hours that would further amortize the cost of the facility. The DMSB also is exploring a part-time master's in finance for banking students to be offered in Charlotte.

Chairman Warr called for a motion to recommend approval by the full Board of the lease of space at 200 South College Street in Charlotte as described by Mr. Parham. Mr. von Lehe so moved. Mr. Lister seconded the motion. The vote was taken and the motion carried.

C. Palmetto Health Richland Pharmacy

Mr. Parham said approval was sought by the Columbia Campus College of Pharmacy to renew its Pharmacy Faculty Agreement with Palmetto Health Richland. The Board last approved this agreement on December 17, 2013. Under the agreement, the College of Pharmacy agreed to provide to Palmetto Health nine clinical pharmacy faculty members, eight clinical pharmacists and one hospital pharmacist on a part-time basis to provide pharmacy services at the hospital.

The eight clinical faculty will provide pharmacy consulting services and the one hospital pharmacist will work in the hospital pharmacy processing prescriptions and medications. In exchange for receiving these pharmacy services, Palmetto Health pays the College of Pharmacy \$256,000 annually. Additionally, the agreement provides that Palmetto Health will continue to provide University pharmacy students with education training, clinical opportunities and space for those opportunities at Palmetto Health. This is a five-year contract, ending December 31, 2020. The contract will automatically renew for a new term of five years unless either party provides 90-day notice of termination.

Chairman Warr called for a motion to recommend approval by the full Board of the five-year agreement with Palmetto Health Richland as described by Mr. Parham. Mr. Loadholt so moved. Dr. Floyd seconded the motion. The vote was taken and the motion carried.

D. Greenville Health System Pharmacy

Mr. Parham said the South Carolina College of Pharmacy (SCCP) sought approval of an amendment to its existing agreement with the Greenville Health System (GHS) under which GHS would provide clinical pharmacy training opportunities to PharmD students in Greenville. That agreement, which was originally approved by the Board in 2010 and amended in 2013, is scheduled to expire December 31, 2015.

Under the proposed amendment, the agreement will be extended for an additional one-year period and will end December 31, 2016. During this one-year period, SCCP is obligated to reimburse GHS for all expenses it incurs related to providing clinical training to University pharmacy students, not to exceed

\$380,000. The costs associated with this educational program are actually funded by GHS, because GHS, under the amendment, is obligated to contribute \$380,000 to SCCP.

This includes the cost of the SCCP Clinical Associate Dean for GHS and the GHS Pharmacy Education Coordinator – both administrative positions are GHS employees. Either party may terminate the agreement upon 90 days written notice; provided, that any pharmacy student engaged in clinical education at GHS shall be allowed to complete the rotation or class.

Chairman Warr called for a motion to approve the amendment to the agreement with the Greenville Health System extending the term of the agreement for one year, through December 31, 2016, as described by Mr. Parham. Mr. Lister so moved. Mr. Hubbard seconded the motion. The vote was taken and the motion carried.

III. Comprehensive Annual Financial Report for Fiscal Year 2015

Chairman Warr called on Ms. Brunelli to present the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2015, which she noted had been placed on the Board Portal. She said that a hard copy would be provided to any Trustee who requested one. She also called attention to a second report that was provided in the Resource Center of the Board Portal, the 2015 Bond Indebtedness Report. This report, which provides detailed information about every bond issuance and each payment coming up over the next 30 years, is an important companion piece to the CAFR.

The CAFR includes three sections: introductory material, financial statements and statistical information. She said that the information in the introductory section is intended for an audience that is not knowledgeable of the University.

She said the strategic planning information in this section would be updated following the upcoming Board retreat. Ms. Brunelli also said the Chief Financial Officer Transmittal Letter in this section would provide Trustees an overview of how the financial operation worked during fiscal year 2015. The financial section includes information presented to the Board in October. She noted that the Elliott Davis Decosimo Opinion Letter was “unmodified,” which is the good opinion to receive. She also said that this section contained notes to the financial statements including an updated 10-page note on the GASB 68 Pension Liability. The information in the financial section of the CAFR is included in the CAFR for the State of South Carolina, which shows the University as a component unit not in the main body of the financial statements for the state.

The statistical section of the CAFR provides 10 years of system data including financial trends, enrollment numbers, tuition and fees, faculty and staff data, deb capacity, and demographic and economic

information. Ms. Brunelli noted that the CAFR had been submitted to the Government Finance Officers Association (GFOA), which encourages and assists state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The University has received the GFOA's Certificate of Achievement for Excellence in Financial Reporting for Fiscal Years (FY) 2011, 2012, 2013 and 2014. The FY 2015 CAFR was submitted to GFOA earlier in December and will take six months to review.

Following her introductory remarks about the CAFR, Ms. Brunelli cited financial performance highlights found in the document. She presented a graph showing five years of net tuition and fee revenues, the University's primary source of revenue, which have increased by about 35% since 2011 due to enrollment growth, an increase in non-resident enrollments, adjustments to abatements, as well as tuition increases.

In response to a Trustee question, Mr. Brunelli said that of the \$11,482 Columbia campus undergraduate tuition bill, a resident student would actually pay about \$5,600 per year after their gifts and aid whether it was lottery, Pell or other scholarship they might receive. She noted this number did not include housing or meal plan costs.

She also summarized in graph format the total operating revenues and expenditures from 2011-2015, noting that the operating expenditures include about \$60 million in system wide depreciation. Ms. Brunelli noted an anomaly in public higher education accounting that does not include state appropriations, federal grants and gifts. Thus, operating expenditures total more than revenue in the summary CAFR graphs.

The unrestricted net position would have increased \$41.5 million if it were not for the GASB 68 Pension Liability. With implementation of GASB 68, the University's unrestricted net position is now a negative \$333 million despite the positive impact of a higher than expected enrollment and the lease settlement from the U.S. Department of Justice.

As part of her CAFR report, Ms. Brunelli addressed ratio analysis, which she indicated would be provided in more detail at a future date. While ratio analysis has been done for years, it has not been reported to the Board. At the recommendation of the Executive Director of Audit & Advisory Services, this information will be included among the University's financial reports to the Board.

There are four primary ratios that are tracked, all of which have significant debt components. They are primary reserve ratio, return on net position ratio, net operating revenue ratio and viability ratio. These ratios make up the Composite Financial Index (CFI), which is used throughout higher education, and include the 10 component units of the University. They are impacted by the GASB 68 implementation in 2015. The analysis has been done since 2009, and in evaluating the CFI, the higher the score, the better. In 2009, the score was 1.51. That score increased in 2010 and 2011 as a result of federal stimulus dollars. After dropping to 2.69 in 2012 as state budget dollars continued to be cut, the score increased to 3.14 and 3.71, respectively, in 2013 and 2014. The score dropped back to 2.92 for 2015 as a result of one of the University's component units, the Development Foundation, issuing a large amount of debt last year to build 650 Lincoln; for which revenue will not be seen until this year.

Traditionally ratios have been used by the rating agencies to determine financial health. Because of that, rating agencies are always looking to see what has happened. The challenge moving forward, she said, is to see if ratio analysis can be used in a thoughtful way to plan.

In response to a Trustee question as to how GASB 68 would affect the CFI and thus the University's financial rating, Ms. Brunelli said she thought Moody's would rely on different ratios, specifically some liquidity measures that the rating agency developed three to four years ago. The CFI also might have to change because of GASB 68.

In summary, Ms. Brunelli noted the following highlights from 2015: implemented GASB 68; resolved GASB 61, finding that system campus commissions were not component units of the University; implemented the Affordable Care Act; completed the lease termination agreement for the U.S. Department of Justice. She then noted the following challenges for 2016 and beyond: stabilizing OneCarolina and implementing the remaining modules; balancing enrollment and net tuition revenue; controlling costs; identifying alternative revenue sources; managing system campus enrollment; evaluating ongoing and new operating and capital needs.

In response to a Trustee question about financial advisors, Ms. Brunelli said that the University's Director of Capital Budgets and Financing Charlie Fitzsimons was meeting that day with the State Treasurer's Office to discuss the issue.

President Pastides told Trustees that he had asked Ms. Brunelli, Mr. Walton and Ms. Gabel to look at how the University priced its education product, majors in particular. "If the University looked at a degree as a commodity, there are high end expensive programs to deliver with great earning possibilities when students graduate while there are others in the liberal arts that are less so; but the charge is exactly

the same for both products. This is the standard across higher education in America, and I think it is time that we look at that differently.” There are many ways to look at this, he said, noting that he would bring the topic to the Board for further discussions after having it researched. “This could help us and it could help students,” he said.

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

IV. Adjournment

There being no other matters to come before the committee, Chairman Warr declared the meeting adjourned at 12:05 p.m.

Respectfully submitted,

Amy E. Stone
Secretary