

MINUTES
COMMITTEE ON FINANCE AND FACILITIES
APRIL 7, 2016
9:30 A.M.
MAIN CONFERENCE ROOM
SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION
1122 LADY STREET, SUITE 300
COLUMBIA, SC 29201

Committee Members Present

Commissioner Hood Temple, Chair
Commissioner Dianne Kuhl
Commissioner Louis Lynn
Commissioner Clark Parker
Commissioner Kim Phillips
Commissioner Paul Batson

Ms. Kathleen Dille
Mr. Charlie Fitzsimons
Col. Joseph Garcia
Mr. Wyatt Henderson
Mr. Matt Hogue
Mr. Chris Johnson
Mr. Rick Kelly
Ms. Carla McIntyre
Ms. Sharon Sluys
Mr. Oran Smith
Mr. Greg Thompson
Col. Ben Wham

Members Absent

None

Guests Present

Chairman Tim Hofferth
Vice Chair Allison Dean Love
Commissioner Charles Munns
Commissioner Terrye Seckinger
Ms. Beth Bell
Ms. Terry Booth (via phone)
Ms. Stacie Bowie
Mr. Ralph Byington
Dr. David DeCenzo

Staff Present

Ms. Julie Carullo
Ms. Carrie Eberly
Mr. Gary Glenn
Ms. Yolanda Myers
Mr. Morgan O'Donnell
Ms. Vickie Pratt

For the record, notification of the meeting was made to the public as required by the Freedom of Information Act.

I. Call to Order

Commissioner Temple called the meeting to order at 9:40 a.m. Ms. Pratt introduced guests in attendance.

II. Approval of Minutes of Meeting on March 3, 2016

A motion was made (Phillips), seconded (Parker) and carried to approve the minutes of the March 3, 2016 meeting.

III. Interim Capital Projects

The following projects were presented and discussed:

A) Central Carolina Technical College

1. CCTC Industrial Technology Building Renovation

Mr. Glenn presented the project stating that the Central Carolina Technical College requests approval to renovate the CCTC Industrial Technology Building. He further stated that the request recognized additional funding that was proposed for the project and was funded from an appropriated state amount of \$750,000 and Central Carolina has also received \$1M from local sales tax to supplement those funds from the state to provide the funding sufficient to renovate the Industrial Technology Building. Renovations will include upgrades to the HVAC, plumbing and lighting, new fire protection and sprinkler systems as well as some specific renovations in restrooms labs and stairs to meet current code requirements. This particular building houses programs that support the automotive, HVAC, and welding programs, as well as workforce development.

With no further questions, it was moved (Batson), seconded (Phillips), and voted to approve the Central Carolina Technical College project as proposed.

B) The Citadel

1. Bastin Hall – School of Business

Mr. Glenn presented the project stating that The Citadel requests approval to construct the new School of Business. Mr. Glenn stated that the Committee already approved Phase 1 and that the request of \$19,500,000 recognized the construction phase. He further stated that this project is to build a 43,950 School of Business. Once this building is completed, the school of business will relocate to the new building and the School of Education will move out of Capers Hall and backfill the space that is currently occupied by the School of Business in Bond Hall in preparation for the renovations and additions to Capers Hall. Mr. Glenn shared with the Committee that Bastin Hall will be constructed solely with private donations provided by The Citadel Foundation.

With no further questions, it was moved (Phillips), seconded (Kuhl), and voted to approve the School of Business project as proposed.

C) Coastal Carolina University

1. Brooks Stadium Additions

Mr. Glenn presented the project stating that the University returns the Brooks Stadium project for consideration to increase the budget and change the source of funds. Mr. Glenn shared with the Committee that the project was initially considered at \$38M and that 100% of the funding was proposed from revenue bonds. The change in the source of funds was to recognize a \$2M gift from the Chanticleer Athletic Foundation. This project was brought to the Committee without a staff recommendation.

Commissioner Batson asked for clarification on the University's debt service. Ms. Bowie referred to Tab 2, Page 4 of the materials regarding excess debt service and gave an explanation of the excess debt service and athletic revenue. She further explained that debt service set aside allocates a portion of tuition to be set aside to pay debt service of the institution. In Fall 2009, the tuition set aside was \$525. It was then lowered to \$475 and now it is currently \$445. Ms. Bowie stated that the current debt service fee will generate \$7,562,000. The max annual debt service on the current general obligation bonds, which is the maximum highest level of debt service between now and the time that debt is retired, is \$5,109,845. The difference between what is set aside now and that maximum annual debt service amount is \$2,452,675. Ms. Bowie noted that the institutions must send to the State an amount such that

the maximum debt service doesn't exceed 90% of what you send. She further noted that the institution intends to send \$5,677,606. That leaves excess debt service of \$1,884,914, and of that amount the institution plans to use \$1,513,000 for the debt service payment on this particular revenue bond. That leaves a residual of \$371,000.

Commissioner Lynn asked for clarification as to whether the students can opt-out of paying that portion of tuition. Ms. Bowie stated that they cannot opt-out because the institution does not do a list of tuition fees for various things. She explained that the institution has one set tuition and the student government voted in 2009 that they wanted this amount of tuition to go toward building projects at the institution. Ms. Bowie further explained that of the \$445 that's currently set aside, only \$89 per semester will be used to fund this particular project. Commissioner Batson asked if the fee of \$445 is considered to be a voluntary fee. Ms. Bowie explained that it is allocated by the Board of Trustees. The board votes on one tuition and fee amount which is allocated among debt service, building maintenance, operating expenses, etc. She further explained that is where the change from \$525 to \$475 to \$445 came from; it was a reallocation from debt service set aside to operating funds. Commissioner Batson asked if the students vote every year, and have the students had a voice in this particular project.

Mr. Glenn asked for clarification on the institutional debt vs. revenue debt. He stated that the fee that is being discussed has supported institutional debt in the past and this debt that the fee is taking on is revenue debt. Mr. Glenn stated that there is about \$1.5M in existing institutional bond debt that has been accumulating in an ICPF account at the State Treasurers office. She further explained that there is general obligation debt which is backed by the State. That money is sent to the State, and the State pays on behalf of the institution and then returns any excess. There is also revenue supported debt in which the institution can use any and all revenue that the institution brings in with the exception of appropriations. Ms. Bowie stated that the University planned to send to the State \$5.6M and will retain \$1.9M that can be used to pay a different debt.

Commissioner Kuhl referred to the project manual and expressed concern that it did not include a maintenance survey. She asked for clarification as to whether a maintenance survey has been completed. Ms. Bowie stated that the University set aside renovation reserve maintenance funds every year, have accumulated ICPF, have a rolling 20 year plan, and additionally, have \$58M in uncommitted sales tax funds.

Mr. Matt Hogue referred to Tab 6 of the manual and stated that as noted in the projections, the University would have \$200,000 coming from athletic revenue sources. He further stated that they have the opportunity to have access to revenue streams that they did not have in the current athletic conference. The two major areas are 1) the guaranteed games that they can now begin playing and 2) the guaranteed revenue share from the Sunbelt Conference. The University would be directing the debt service line items from those new revenues. Mr. Hogue added that they are scheduled to play the University of Arkansas in 2017 for a guaranteed amount of \$1.5M, they currently have a contract pending with USC for 2 games in 2018 and 2020 for a combined total of \$2.6M, and are very close to locking down an agreement in 2019. Commission Temple asked why Coastal Carolina University feels that they will make money when the other 11 schools currently in the Sunbelt Conference had lost money. Mr. Hogue explained that what Coastal is trying to accomplish is to look at the overall athletic department becoming self-supporting by getting access to revenues that they do not currently have. He stated that the goal of the athletic department is to relieve some of the burden on the University. Mr. Byinton stated that the goal is to control tuition and have less of the tuition dollars allocated to athletics.

Commissioner Kuhl asked whether the game guarantees are an absolute certainty. Mr. Hogue stated that the games are guaranteed revenue. Commissioner Lynn asked if the university subsidies to athletics were in the form of tuition reduction, tuition forgiveness, etc. Mr. Hogue shared that whatever the budget shortfall was for the year is what the university pays. Commissioner Lynn asked if the athletes' tuition is paid via full scholarship. Mr. Hogue stated that CCU's scholarship program is like the other colleges.

Commissioner Hofferth stated that the Commissioners want to be supportive of the initiative and certainly understand how important the University and the Board find this initiative. He stated that in the past, he had helped institutions explore possibilities of conference realignment. He noted that the generalities in the conference realignment world is that in the super 5 conferences, the ability to back stop in the numbers on the revenue side are very good. He shared that the payouts are in excess of \$25M per institution from just the conferences. Commissioner Hofferth stated that the commissioners have to get over the downside risks, and if they can get over that and are okay with it, then the initiative advances. The downside risks are outside of the Big 5 power conferences, the generalities are that expenses are grossly understated and the revenues are overstated. He added that there's no question relative to the individual lines that game guarantees are the greatest incremental revenue guarantee of anything in the report. He stated that the power 5 need to schedule non-conference games and they're going to pay a premium for that. Conversely on the expense side, relative to taking 19 individual programs to a broader geographic area is part of the reason that attracts institutions is that they're paying more in sponsoring those programs in the way of scholarships—i.e. football salaries for coaches, recruiting lines and alike; how they travel. Commissioner Hofferth stated further that the institution will see the full impact on the operating lines relative to what it takes to compete after it has made a significant investment, which in this case can be pushing \$40M on the individual line items. He added that the reason conference realignment happens is because institutions in the Big East Conference that were 1AA wanted to go to the ACC or SEC or any place that would take them is because of the guaranteed payment of the \$25M that was payable to each institution as part of that conference, and there is a list of institutions that are hemorrhaging because of the recent transition down to the next conference level because they underestimated what the impact was going to be on the operating side. He stated that the reason it matters is because the institution is doubling down in regards to the capital and reverse annuity which are payments made on the bonds and the commitment that is made on the operating side. He added that when the dust settles and if there is ever a hiccup, there is massive exposure on the downside. That is the part the Committee questions as to how to get over that hurdle—how to address that in today's environment. He further stated that he see the initiative as being one way for the University to separate itself from its peers in the industry and gain more market share on a declining enrollment and it's an expensive way to do it. Commissioner Hofferth suggested that the institution go line item by line item to know how comfortable the institution is with the capital vs. operating expenses.

Commissioner Seckinger inquired if anyone has asked the Sunbelt if they can give a deferment on up-fitting the stadium. Mr. Byington stated that it is an NCAA rule, and the institution cannot start collecting on the payments without having the seating capacity. He added that the two members (Idaho and Mexico State) that were voted out of the Conference, were the two furthest travel points, and are no longer part of the Conference. Commissioner Temple asked once the University incurs the debt, what happens if the League votes them out of the Conference. Mr. Henderson stated that CCU has \$58M of unallocated one cent sales tax revenue, and that CCU will pledge to the Commissioners that they will accrue the first \$36M of that to offset or service this bond debt. Commissioner Hofferth stated that he was under the impression that the one cent sales tax could only be used for academic projects and could not be pledged toward anything auxiliary. Mr. Henderson stated that the university would pay the existing debt service with the one cent and free up institution funds to pay for the stadium. Commissioner Hofferth stated that he is not sure that is a good use of those funds. Ms. Bowie added

that CCU can use the one cent sales tax as backup funding in case something goes wrong or the funds don't come in as anticipated. She added that CCU can use that money to pay debt service on academic buildings that's already incurred, and that frees up the debt service money that can be used to pay for athletics.

Commissioner Temple stated that back in 2008 the student fees were approximately \$350, and according to the abstract listing the repayment of the debt, about 68% has been allocated from the student fee. In 2008, the student fee was increased to \$1,050 after a student vote. In 2013, the student fee was reduced to \$950, and in 2014 it was reduced to \$890. Commissioner Temple referred to a copy of the resolution the students voted on and read the last section that states: "An increase to the student fee that will exclusively be utilized for the funding of the building and/or renovation of the student union and student recreation center, and the fee will also be used to facilitate the expansion of programming and cover part of the increase in cost to run the new facility." He further read Section 2 that was voted on and approved February 11, 2008 that states: "This fee will be removed when the buildings are fully paid off." He stated that what the students voted on was for two specific projects and not the overall student experience. Commissioner Temple shared a copy of the resolution with Mr. Henderson for his review. Mr. Oran Smith explained that the students voted for the increase and it was great that the students wanted to do that, but the trustees have to own their decisions, and cannot have a referendum on everything they want for the students. He added that the comfort level at the time of the vote of the resolution was that the institution was looking at the revenue that was coming in from the one cent sales tax. There has to be another vote on the resolution because it has to be renewed.

Commissioner Temple referred to Coastal Athletic Foundation's financial statement on Tab 2, Page 2 of the manual and stated that from his understanding \$2M will be given from the Foundation. He further stated that according to the June 2015 financial statements, the total cash on hand was \$1.7M. Mr. Greg Thompson noted that the most current financial statement has a balance of approximately \$1.9M. He added that most of the funding goes toward capital projects such as the new baseball stadium that was recently built. Commissioner Temple expressed concern that when looking at the Foundation's cash on hand, if money is pledged against the current balance, it would place the Foundation in a deficit. Additionally, his concern was the Foundation's pledge of \$500,000 per year for 25 years based on the size of the fund. Mr. Thompson stated that the Foundation's annual revenue is approximately \$2.2M and continues to trend upward. He added that the Foundation currently has approximately \$4.9M in pledges for the project. Commissioner Kuhl referred to the Foundation's commitment letter of \$2M and inquired as to whether there is a letter in reference to the \$500,000 per year for 25 years. Mr. Thompson stated that the Foundation was not asked to write a letter regarding the \$500,000.

The Commissioners discussed whether to table the discussion until the May 5 meeting in order for CCU to meet the deadline for the project to go before JBRC at the June 2016 meeting. Ms. Bowie stated that the project is already behind schedule and that in order for CCU to meet the August 2017 date, JBRC had agreed to call a special meeting if the Commissioners were to approve the project. She added that the project had gone through Phase 1 and the architects had run out of money. They are waiting to move to Phase 2 to get construction documents and get the project moving. Commissioner Love asked if there are any other documents that the Commissioners need to make an informed decision. Commissioner Hofferth stated that there are still questions and that the Commissioners are held accountable on the decisions that they make with limited tools. He added what would help is to show where the institution fits in, what tools the coaches will need to be successful, and provide CHE with the master plan. Additionally, review the source of funds and make sure that it was properly vetted. Commissioner Batson stated that he knows that the Commissioners have reservations about reliability, but if CHE can get a set of criteria, get a list together, the Commissioners could set a special meeting later in April. Commissioner Hofferth stated that CHE has to be careful with setting precedence in these situations

because they do not want to send the wrong message. Commissioner Temple stated that he would like to continue to explore the answers to the questions.

A motion was moved (Lynn), seconded (Kuhl), and voted to table considerations of the project.

V. Other Business (*For Information, No Action Required*)

Projects & Leases Processed by staff for March, 2016.

With no further business, Commissioner Temple adjourned the meeting at 11:15 a.m.

Respectfully submitted,

Vickie Pratt
Recorder

**Attachments are not included in this mailing but will be filed with the permanent record of these minutes and are for review upon request.*