MINUTES
COMMITTEE ON FINANCE AND FACILITIES
SEPTEMBER 7, 2017
10:00 A.M.

MAIN CONFERENCE ROOM
SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION
1122 LADY STREET, SUITE 300
COLUMBIA, SC 29201

Committee Members Present

Commissioner Dianne Kuhl, Chair
Commissioner Paul Batson
Commissioner Ken Kirkland
Commissioner Kim Phillips
Commissioner Louis Lynn

Guests Present
Chairman Tim Hofferth
Commissioner Allison Love
Commissioner Terrye Seckinger
Ms. Leslie Brunelli
Mr. Joe Collums
Mr. Dan Cooper
Mr. Derek Gruner
Mr. Harold Hawley
Mr. Michael Hughes
Mr. Rick Kelly
Mr. Rodney King
Mr. Gene Luna
Mr. John McArthur
Mr. Neil McCoy
Mr. Dennis Pruitt
Ms. Carol Routh
Mr. Phil Steele
Dr. Kyle Wagner
Mr. Ed Walton
Ms. Helen Zeigler

Staff Present
Mr. Jeff Schilz
Ms. Carrie Eberly
Dr. Rao Korrapati
Ms. Yolanda Myers
Mr. Morgan O'Donnell

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

1. Call to Order

Commissioner Batson called the meeting to order at 10:09 a.m. Ms. Myers introduced guests in attendance.

2. Approval of Minutes

A motion was made (Lynn), seconded (Phillips), and carried to approve the minutes of the August 3, 2017 Finance and Facilities Committee meeting.

3. Chair's Report

4. Interim Capital Projects

The following agenda items were discussed:

A. Northeastern Technical College

Industrial Training Center Renovations & Expansion (Bennettsville & Pageland)
– Revise Scope

A motion was made (Batson), seconded (Kirkland), and carried to approve the project.

B. Tri-County Technical College

Pendleton Campus Student Success Center/Central Plant
– Change Source of Funds

A motion was made (Batson), seconded (Phillips), and carried to approve the project as presented.

C. Horry-Georgetown Technical College

Advanced Manufacturing Center Construction- Georgetown
– Establish Construction Budget

A motion was made (Batson), seconded (Phillips), and carried to approve the project as presented.

Please refer to the attached transcription for additional information.

5. USC Campus Village Informational Presentation

Please refer to the attached transcription for further information.

6. Other Business

The following items were presented as information. No action was taken.

A. 2017 CPIP Instructions
B. List of Capital Projects & Leases Processed by Staff for August 2017
C. Other Business

Please refer to the attached transcription for further information.

A motion was made (Batson), seconded (Kuhl), and carried to adjourn the meeting at 11:59 a.m.

PAUL BATSON: Dianne Kuhl is on her way. She's going to be just a few minutes late but she just asked me to go ahead and call the meeting to order, which we will do at this moment to save time, to make sure we don't get pressed too badly later on.

I will ask Yolanda to go ahead and give our introductions.

YOLANDA MYERS: Good morning. We have with us this morning from Clemson University Ms. Carol Routh.

From the University of South Carolina: Mr. Derek Gruner, Ms. Leslie Brunelli, Mr. Rick Kelly, Ms. Helen Zeigler, Mr. Gene Luna, Mr. Rodney King, Mr. Joseph Collums, Mr. Dennis Pruitt, Mr. John McArthur, and Mr. Ed Walton.

From Horry-Georgetown Technical College: Mr. Harold Hawley, Mr. Phil Steele, Mr. Neil McCoy.

From Tri-County Technical College Mr. Dan Cooper; and from the Department of Administration, Mr. Michael Hughes.

Do we have anyone on the telephone? Please identify yourself.

TERRYE SECKINGER: Good morning. This is Terrye Seckinger. I'm unable to be there today. I'm down here in Hurricane Alley.

KIM PHILLIPS: Kim Phillips, is by phone also.

LOUIS LYNN: Louis Lynn, by telephone also.

YOLANDA MYERS: Thank you. This meeting is being held in accordance with the Freedom of Information Act.

PAUL BATSON: Thank you, Yolanda.

Welcome to all of you today. We're glad to have you with us and we're glad to have you fellow Commissioners-- Commissioner Seckinger by telephone, Commissioner Lynn, and Commissioner Phillips, thank you for being there.

We also have with us Commissioner Allison Dean Love, of course, our illustrious Chairman, Tim Hofferth, and our President Jeff Schilz is present here today. And as I mentioned, Dianne Kuhl will be with us shortly.

We do have a quorum of the Committee, even though there's only one Committee member here at this moment. We do have Commissioner Phillips and Commissioner Lynn on the telephone.

So, you had a chance and an opportunity to read the minutes from the prior meeting. Are there any comments or offers of edits to those minutes? If not, do I hear a motion?

LOUIS LYNN: [UNCLEAR] motion of approval.

PAUL BATSON: Thank you for the…

KIM PHILLIPS: Second.

PAUL BATSON: Thank you for the motion and the second. All in favor indicate by saying aye.

[Multiple Speakers, "Aye"]

PAUL BATSON: All right, the motion carries.

The Chair's Report I will not have. I will ask Dianne Kuhl to do that when she comes in.

We have three projects that are up today for consideration, in addition to a presentation from USC and some other business later on. Northeastern Technical College is up first for consideration, and I don't know if we have anybody from Northeastern Tech here with us today. Do we? No one by phone?

Carrie, if you have questions here-- I don't know who we're going to address those to.

CARRIE EBERLY: I have communicated with the State Tech Board as well to figure out if they have heard from them.

PAUL BATSON: I could not hear you.

CARRIE EBERLY: We're just waiting to hear if they'll be joining us or not at this time. So, it's up to the Committee. We can move forward and address the questions or we can move them to a later item on the agenda.

PAUL BATSON: I would say let's-- If there's no objection from the other Commissioners, I'm going to ask that we move the Northeastern project down to Item C and advance Tri-County up first, and Horry-Georgetown second in case Northeastern comes on. And then I'll ask Chairman Kuhl to do the business after that.

Thank you, Chairman Kuhl.

DIANNE KUHL: Thank you.

PAUL BATSON: Here's where we are. We have approved minutes and gone through introductions. We have determined that there's nobody here from Northeastern Technical College at this moment, on the phone or in person. This will be your prerogative. I just suggested that we move Northeastern to the end of the agenda in case somebody comes on the line before then, and advance Tri-County up first. But that's…

DIANNE KUHL: Okay.

PAUL BATSON: …your call and I yield to you.

DIANNE KUHL: Perfect. Thank you so very much. I apologize for being late. I got caught in some accident traffic on 26. So, I think that's an excellent idea.

And Carrie, would you like to go ahead with that one?

CARRIE EBERLY: The Committee is asked to consider Tri-County Technical College's request to change the source of funds for their Pendleton Campus Student Success Center/Central Plant project. This request changes one of the county's commitment from cash reserves to bond proceeds from the foundation issued revenue proceeds.

As a part of this project student tuition is not affected with this change and nor does it change the total approved budget. We have provided the approvals for the bond issuance and the materials for Committee review. And at this time, if anyone has any questions, Mr. Cooper is here as well.

PAUL BATSON: We have Dan Cooper with us from Tri-County Tech.

Dan, can you comment on the project and sources of funds?

DAN COOPER: Well, it's our Student Success Center, which is almost completed. And as you know from your information in the package, we funded it through the college and with the help of our three counties. They take two-thirds of the cost of the projects usually from the county. We had one county that was back and forth on how they were going to fund this and now they've opted to go into the JEDA bonds for the other two counties.

So the only thing that's changing is where they're getting-- they're going to pay the JEDA bonds back and increase that versus paying cash or a fee from students.

PAUL BATSON: My understanding was that this has been going on now for several years.

DAN COOPER: It's been a lot of back and forth. We had a huge change on that county council. They had four members out of six that were replaced and the new members have opted to go with the JEDA bonds and that's why we're here.

PAUL BATSON: And Madam Chair, I would suggest-- They've done a whole lot on this project here and getting three counties to think alike and do the same things, as you well know, is difficult. The fact that they put all the pieces of the equation here together, I think, is very good and I will make the motion that we approve this project.

DIANNE KUHL: Thank you. Do we have a second?

KIM PHILLIPS: Second.

DIANNE KUHL: Thank you. Does anyone else have any questions or comments? All right, we have a motion to approve. All in favor?

[Multiple Speakers, "Aye"]

DIANNE KUHL: Any objection? All right, motion is approved. Thank you very much.

DAN COOPER: Thank you all.

DIANNE KUHL: Our next project is Horry-Georgetown. Carrie?

CARRIE EBERLY: The Committee is asked to consider Horry-Georgetown's request to establish the construction budget and proceed with the Phase 2 for the Center for Advanced Manufacturing at its Georgetown campus. This request increases the budget to $13.5 million, of which $11.25 million, approximately 83 percent, is from external sources.

The college's investment of $2.25 million is from a combination of excess revenues and proceeds from a local penny sales tax. We did note that Phase 2 is presented with a budget of $1.5 million higher than the original budget estimate of $12 million and this is due to the increased size of the structure, higher equipment costs, and welding booth ventilation. As a part of this project it will be built to Two Green Globe standards.

The college will not incur any debt with this project. It is a great example of federal, state, and local investment in the Horry-Georgetown College community, and the new building will be built on Horry-Georgetown's Georgetown campus and will provide an additional 30,000 square feet of instructional space to address workforce development needs. Currently, the closest training facility is 50 miles from Georgetown at the Conway campus.

Mr. Hawley is here today with us to answer any additional questions the Committee might have.

DIANNE KUHL: Thank you. Do we have any questions?

PAUL BATSON: I'd like to ask Harold just to comment on a couple of things. I've looked into this project with Dr. Fore with a lengthy conversation about a number of things. They've got their financing in order. Your president feels very comfortable, as I presume you do…

HAROLD HAWLEY: Yes, sir.

PAUL BATSON: …with the financing package. And there's one thing that's kind of unusual with this that we don't see in a lot of other financial packages, and that is Georgetown's County School District. The school district has kicked in the K-12 program, $2 million on this project to support the purchase of equipment. Harold, comment on that and then comment on why they've cleared this.

HAROLD HAWLEY: Yes. Over the last 13 years I've brought a lot of projects before you, but as Miss Eberly mentioned, this is one of the most exciting and it is a true example of a great partnership between local, state, and federal resources.

On the local side, obviously we have the college, but we have the support both of Georgetown County, the county itself, and the Georgetown school district. The school district realized that this was desperately needed training that was not in their wheelhouse. They knew that it was in our wheelhouse. It's something that we excel at and they asked us to provide this training for them, and to reciprocate for that they've offered up $2 million in funding to make it a success. And we will, with your approval, do so.

In addition, on the economic development side, the county sees the benefit of this and they've also offered up approximately $2 million, as you see in the package.

PAUL BATSON: And the school district going further with that, if I understand it right from Dr. Fore, you all have about 1,000 headcount early college and dual enrollment students…

HAROLD HAWLEY: We do.

PAUL BATSON: …many of whom are coming out of Georgetown County.

HAROLD HAWLEY: We do. This is a real unmet need in the Georgetown County. They're really 47 to 50 miles anywhere from the closest training. It's being offered only sporadically now in the high school, so there's no high-end, advanced, sophisticated training that's taking place in Georgetown County. And these are incredibly high-paying jobs, not only in high demand but high-paying.

But they turned to us because we had the capability, and the proven history, and the capacity to do this training. But yes, there's an enormous pipeline in the school system for high school students that desperately want this kind of training.

PAUL BATSON: And I have one other question for Dr. Fore that I think maybe you all would find interesting; the answer to. When you think of Horry County-- And we know what goes on there. But if you think about Georgetown County and you say where are mechatronics jobs going in Georgetown.

HAROLD HAWLEY: Sure.

PAUL BATSON: Where is that going?

HAROLD HAWLEY: What you find in Georgetown is that Georgetown, unlike Horry, is a very industrialized community and it's really a plethora of the big smokestacks with international paper that you're all probably aware of. But there's a very large demographic of small and mid-sized, family-owned, second and third generation manufacturing entities down there. Many of them are very high tech and what they need is a specialized skill set. Industrial mechanics, robotics, automation and certainly advanced welding.

It's not just the old days of construction welding and stick welding. This is a very sophisticated, high-dexterity, automated welders that they need and that's what that economy is based on. And we're hoping to provide them with the much-needed pipeline of labor that they need; skilled labor.

Just so you know, in the Georgetown community we just placed a student who had-- I believe he had 18 months of training. Industry stole him before he could officially graduate. I believe he did finish up his coursework. Two years of school, $64,000 starting salary in Georgetown County.

PAUL BATSON: President Fore asked me to look up a couple of websites, one for a company called Agru America, which is an Austrian company located in Georgetown. Impressive with what they're doing, and American GYPSUM as well.

HAROLD HAWLEY: Yes.

PAUL BATSON: Those are places we don't normally hear about. So thank you, Harold.

HAROLD HAWLEY: Thank you.

PAUL BATSON: Madam Chair, I'll make the motion that we approve this project as presented.

KIM PHILLIPS: Second.

DIANNE KUHL: All right, we have a motion to approve with a second. Are there any additional questions or comments? All right, all those in favor?

[Multiple Speakers, "Aye"]

HAROLD HAWLEY: Thank you.

DIANNE KUHL: Any opposition?

HAROLD HAWLEY: Thank you.

DIANNE KUHL: Congratulations. Thank you.

HAROLD HAWLEY: Thank you again.

DIANNE KUHL: Okay.

CARRIE EBERLY: Chairman Kuhl, if I might add, Dr. Wagner from Northeastern Technical College is on his way.

DIANNE KUHL: Okay. Do we have an ETA?

CARRIE EBERLY: Not at this moment, no.

JEFF SCHILZ: He should be here momentarily. I think it was five minutes…

DIANNE KUHL: Okay.

JEFF SCHILZ: …five minutes ago.

DIANNE KUHL: Well, maybe the traffic's-- Well, I would not be surprised. The traffic coming both ways was pretty bad, but coming from the coastal side, it was much worse. So, he may be sitting on 26.

Okay. Well, that being the case, I would entertain a motion to move Northeastern to the end of the agenda and we can go ahead with our presentation from Carolina.

PAUL BATSON: [UNCLEAR] Second.

DIANNE KUHL: Are you making it a motion?

PAUL BATSON: There's a motion made for that, to put them at the end.

DIANNE KUHL: May I have a second on that?

KIM PHILLIPS: Second.

DIANNE KUHL: Thank you.

All right, let's go ahead with our presentation from Carolina and we will address this at the end of the meeting when our friends from Northeastern get here.

All right, we have-- For those of you on the phone and attending, the University of South Carolina has requested some time to come in and brief the Finance Committee on the USC Campus Village project that they will be bringing before this Committee in the very near future, I anticipate. And what we've asked them to do is specifically to focus on the financial and contractual aspects of this deal.

As I talked to Mr. Walton yesterday, one of the challenges that we face-- This is a P3, a public-private partnership, and one of the challenges that we will be facing as a Committee and a Commission, is determining the best way to actually process, vet, and review this project so that we can fulfill our duty to the State and to the taxpayers in making sure that we're doing our job.

And because this is a very unusual project, we acceded to their request to have a little bit of extra time in front of us and very much appreciate bringing this team in so that we can start to get our arms around how best that we need to proceed.

So, with that being said, Mr. Walton, I will…

ED WALTON: Thank you, Madam Chair.

DIANNE KUHL: …invite you up.

ED WALTON: I've got a group with me of people much-- let's just say much more knowledgeable than I. That's one of the ways I've tried to be somewhat successful in this business is to surround myself with people more knowledgeable than I.

JEFF SCHILZ: Do we have enough chairs?

ED WALTON: I'll give up [UNCLEAR].

JEFF SCHILZ: You can sit in these.

DIANNE KUHL: And Ed, I'm going to ask you to introduce your team.

ED WALTON: And I am. If you'll allow me, we have a little bit a PowerPoint just really to remind us as much as anything else of what we're doing.

And if you'll look at it and if you'll also allow, I'll do a bit of an introduction of the project, but I know what your focus is, being the contract and the finances, and that's why these people are here with us.

So if you'll tolerate my introductions, then I'll introduce everyone very clearly, where they're from, and what their purpose is, and they each have very small pieces to speak to, you know, in the presentation just to keep-- kind of like for information to get it started, and then I'll open for questions if you'll bear with us here in the beginning.

DIANNE KUHL: And I will remind you that--

KEN KIRKLAND: I hate to interrupt. I just want to let you know I just joined the call remotely.

TIM HOFFERTH: Thank you…

DIANNE KUHL: Okay.

TIM HOFFERTH: …Commissioner Kirkland.

DIANNE KUHL: Just remind you that we will have a hard stop on this because we have an executive session at noon, and we're going to have to preserve time to review this project with Northeastern. So I'd say we're looking 45 minutes to an hour at the most…

ED WALTON: All right, we'll…

DIANNE KUHL: …total.

ED WALTON: Our presentation is way pared down because I know what you're focused on so that's good.

DIANNE KUHL: You know how I love long presentations.

ED WALTON: And then your questions and… When you strike the gavel and give me the eye, we're out, okay?

DIANNE KUHL: Thank you very much.

MALE SPEAKER: Thank you.

ED WALTON: And we do appreciate all of you all having the time to listen to us because what we're going to talk about today is our Campus Village project and it's different. It's different mostly in size for USC, probably for anybody in the state. That's what makes it the most different. The actual construction, the actual financing, and all of that's relatively creative to what we might normally see, but nationally you'll find that it's not different.

So, at USC we don't just do things because we need to do them or somebody has a great idea to do them. We do them with a lot of study and a lot of science to back up whatever the decision is that needs to be made. In this case, at USC we have 26,000 undergraduates on campus. We have 6,750 beds on campus for those 26,000 students.

In our market study for the university, first done in 2010 and updated again this year, shows that we have a deficit on campus of 4,000 beds for our first-year students and upperclassmen.

What that means is we have students who don't live on campus. We have students right now that we're renting space for off of campus under leases. And we have a waiting list for students who want to live on campus for sure and then we have another group of students that will tell us that if we had space for them on campus, they'd very much like to be on campus.

Nationally, the trend is students want to live-- universities want the students to live not necessarily in a commuting situation at a University, like South Carolina, but to get to them to live on campus and that's what we're trying to get to. That's what the market says we should do. That's what our study says that we ought to do and we're heading down that path.

What we did for our location was we've decided on an area where we had previously thought that we would renovate the existing stock there. That existing stock is four existing buildings. It's the Cliff Apartments, Bates, Bates West, and Carolina Gardens. If you're familiar with Columbia, I call them the area on the hill. The buildings on the hill are really at Pickens Street and Whaley Street.

Now, those buildings are really over 45 years old. They probably, I would say with all respect, were maintained in maybe the more traditional style, which means they were fixed here and there, and then they were used until they broke again, and now they're just about broken beyond repair.

It would take almost $112,000 plus per bed to renovate those to first-class status, and what we're going to propose with our project is new construction, which is less than $90,000 per bed. And you can see, with all that, we get rid of $165 million in critical deferred maintenance. We get 1,213 current students get-- Well, those beds get replaced by new beds and we do it at a cost, again, that's less than what it would be to renovate. So, we think it's critical that we do that. We've studied it. Now, the market says we can do it, our trustees have said we should do it, and we're moving in that direction.

The project would incur—would involve really three phases. Phase 1 would-- Well, let's see. Phase 1 delivered in 2020 is the first of 3,750 beds total. All the beds are going to be in the range of student housing prices that we have now, which is important, so we're not just going to go out there and build something and hope they'll come.

We're not going to build something and make the price such that we can do whatever we want to and get them there. We're going to build something that is, again, less than what the cost of renovation *and* at a customer price that's the same as what it would be today-- or what the prices on the other campuses housing would be when this is delivered in 2020. So you can see how that goes.

Ultimately, the building sites, which are very, very important, the building sites are on ground leases, which means the university owns the land and we will be leasing it to a 501c3 that ultimately provides the money to do the project.

The project will be delivered not by University of South Carolina, but by a private developer that we've secured through a competitive procurement process the State requires. And that company right now is Education Realty Trust.

This is much (sic) important. The ground leases, which really the triggers to actually go to work, they're not signed for Phase 1 or the land added for Phases 2 and 3 until the financial closing. And at the closing times, we have a guaranteed price and we have a guaranteed delivery date with all the permits, proceeds to construct, and we’re ready to go.

So the whole point there is the university uses money-- frankly, other people’s money. We use our control so that we don’t lose as a state institution to control the project. And we use the expertise of private developers who can do a housing development much better than we do when we do it once every few years and they do it every day. And that’s the way it works and we think it’s an excellent idea, but we also think it’s evolving to the point that it will be the trend, especially for large universities, going forward.

It’s probably safe to say it’s already a bit of a trend. It'll probably become the majority way of doing business within our careers anyway. So you can see how this is going.

Back to where I hinted a little bit earlier, Phase 1 is going to deliver 1,822 beds. That’s going to be in four new buildings with new dining facilities. We’re going to also build a 945-car parking garage really to take the place of the parking spaces on the ground now that are being—that would be consumed really by the real estate for Phase 1. Estimated cost of Phase 1: $246 million. This will become the guaranteed maximum construction cost following the completion of the design this coming spring, I think.

When we get to Phase 2 that will add another 1,422 beds. That will be in two buildings. It'll also add 9,000 square feet of recreation space available to all students on the campus, but located in that area so that the students who are there have access to close-proximity recreation space. So we think that’s a good add.

And then, Phase 3 delivered finally in 2024, an additional 446 beds. That’s on the Carolina Gardens site. If you're unfamiliar with Carolina Gardens, it’s a 1940s, 1950s housing apartment complex at the top of Whaley Street in between Heyward and Pickens and Whaley; right up there in that area.

So all of that gets taken out on an 18-acre spot, replaced with new project, new real estate that is financed really with other people’s money over a period of 30 years.

The deal, you'll hear in just a minute, has renovation and replacement costs built into the current cash flow so that the buildings are always required to stay in Class A condition. When the university then gets ownership of the entire thing at the end, somewhere in the neighborhood of 30 years from beginning, we’ll have a good 20 to 30 years more useful life, debt free, and in Class A condition because the deal that we’re putting together requires that money to go back into the project to keep it in that condition. That’s [UNCLEAR]. We think it’s pretty much the best of all worlds.

The final part being this: We use private development, university oversight, and we use tax-exempt financing to build on a university project, on a university site, with current market rates the same as what we’re charging now, and we get it to cash flow positively to the university in year one. At the end of year one, definitely cash flowing to the university in year two and we get to use those positive cash flows back into the university to maintain the rest of our university housing stock as well.

When we put this whole thing together, it is just a continuing evolution of, at least the large universities, moving away from being… I would say, government bureaucratic organization to being businesses run on customer basis, run on business principles, generating the cash to survive and prosper in ways that-- When you're just relying on taxpayers and general fund appropriations, you don’t behave that way, but when you're relying on customers who have to show up every day and be willing and able to pay for the service they're getting, that’s the way you behave and that’s what we do.

So with that, that’s my introduction. And like I said earlier, and I say this probably to the point where most people get tired of hearing it, but in order to be successful at USC one of the very first things I had to do is surround myself with people smarter and more engaged than I. And at the table right now, we have our University Architect, Derek Gruner, on my left.

We have Joe Collums from the Brailsford & Dunlavey firm. We hired Brailsford really to be our independent financial advisors. Again, I grew up in the accounting world, but I don’t think you really want to hear my financial analysis of this thing because it probably would be interpreted as being jaded. So the first thing we do is we hire an independent analyst and that’s what we have with Brailsford & Dunlavey, and we use them often and we find them to be national leaders in this area.

We have John McArthur from Haynsworth Sinkler Boyd. John’s a shareholder in the firm. He reviews all of our legal documents and key legal terms. He’ll talk to you about anything to do with those documents and what the deal structure inside really is.

We have Rodney King, who is Vice President for Real Estate Development for Education Realty Trust. Rodney is the leader of the development company that we're going to contract with on this deal.

And Helen Ziegler is with us. Helen, you know her. If I had another chair, she'd be sitting right here. But she's it; and Helen knows everything about procurement and how we do business through the State's processes and if there are any questions on that, Helen will be here with us on that.

So the next piece goes to Derek, and Derek will talk to you about the existing stock conditions.

DEREK GRUNER: All right and I'll be brief. I understand the emphasis today is on the financial structure, but I think it is helpful to know what the tangible product of this project is anticipated to be.

You see here in the blue lines, that is the 18 acres that Ed mentioned. The Carolina Gardens at the lower right is 148 beds. Up at the upper right, you see Bates House. Bates House is about 47 years. Bates West and Cliff Apartments are both about 45 and Carolina Gardens is about seven years.

If you look in our five-year plan, and particularly CPIP, Bates House and Cliff Apartments have appeared four times since 2012 in CPIP because we've known that those buildings were reaching a point at which something had to be done.

I want to reaffirm what Ed said. I'm down to a level where I actually know which buildings are leaking, which buildings don't have sprinkler systems, and code-compliant fire hoods and elevators that don't work. And these buildings are really all at that tipping point, and that's where the $165 million number comes from.

We enlisted a third-party estimator, Gil Bane, a construction manager with a great deal of capacity and experience, to look at what a comprehensive renovation would cost along with some seismic upgrades and the things that would bring these buildings up to the standard of the buildings that are on our campus today.

PAUL BATSON: Can you help me geographically? I'm not familiar with these buildings. What the streets are?

DEREK GRUNER: Yes. This is Whaley Street that you see right here. It fronts the project. This is Pickens going north and south. This is actually Heyward down here.

PAUL BATSON: Okay.

DEREK GRUNER: And you have Sumter here, and then Main if you were to continue going to the west.

So this is really, I would almost say, a little bit of a forgotten area of our campus. Whereas most of our campus now is green, and lush, and pleasant this has six or seven acres of surface parking lot. This just does not reflect our design values any longer.

So there is this elevated bridge that brings students right up to campus that exits today. We'll be enhancing that, but this is how we'll foster pedestrian and bike movement back up to campus to make sure it's very connected to the campus.

So as we look at the phasing, it was imperative at the out start that we don't take beds off before we have new beds to put these students in. We just simply cannot afford to go negative on our bed count as we move through this process. So logically, Phase 1 was to take Cliff Apartments offline-- it only currently has 263 beds. It's one of the two housing buildings on our campus that is currently unsprinkled--- and do this first phase of development, 1882 beds where Cliff once stood and that parking lot.

Meanwhile, Bates West and Bates House will continue to be occupied until the Fall of '22, but Phase 1, the occupancy is targeted for Fall of 2020. Then immediately after the Fall of 2020 we do the demolition on Bates and Bates West and start the construction for Phase 2, while the 1882 students are living here.

So at this point in time, you have taken offline Bates House, Bates West, and Cliff Apartments which is 1213 beds, but you've added back 1882. So with this first phase we've already gone positive by 670 beds just in Phase 1.

So Phase 2 then gets built. This is what we call Buildings 5 and 6. They're some of the larger buildings. I will tell you that the bed count in these buildings vary between about 400 and 700 each. It's a nice targeted range that housing likes to manage.

And then the third phase, we move to the smaller buildings. These are actually apartment configurations over here-- lower density, lower bed-count out of respect for the neighborhoods—whereas, the majority of these beds in Phase 1 and Phase 2 are what we call suite style, which is the predominate style that our students like.

Currently Bates West and Cliff are apartment style, which is not very conducive for the freshman class. It's just not what our housing likes to offer, so also as part of this, aside from replacing buildings that at this point, we need to have comprehensive and costly renovations or be replaced. We're also bringing the style of the beds and align that with what we see is a trend or what's most desirable for the Department of Education mission.

So Phase 3 is 446 beds. These are lower rise buildings. Whereas, most of these are five- and six-story, these will be between two and four and they will be apartments coming online in 2024, which rounds out the total bed count of 3,750.

Then lastly, I'll just show you one of the many renderings that we have to illustrate that these are high-quality buildings. We stipulate in the RFP, the standards to which they would be built, which includes entirely noncombustible construction, steel, concrete, real brick skins.

These are buildings that are designed and constructed to last about 60 years, which, as Ed said, should give us 20 to 30 years or more of life after the debt is paid and when they transfer to university. They will meet our design standards and they will create a village aesthetic; meaning that it's not just housing. There's dining, there's a coffee shop, there's a living learning center, and it becomes a place for the students who live here to really enjoy the entire academic experience right here.

I am happy to answer any questions that you have. Like I said, I'm not going to get down into the architectural minutia, but I'll certainly answer questions that you might have.

PAUL BATSON: The total number of student-- This total number of rooms that are going to be put in how much?

DEREK GRUNER: The total number of beds is 3,750.

PAUL BATSON: Three thousand seven-fifty.

DEREK GRUNER: Right.

PAUL BATSON: You all had identified a shortage of 4,000 beds. So 3,750 you're attacking?

DEREK GRUNER: Yes. We…

ED WALTON: I heard it was less than that because you'll take 12 or 13 off-line.

JOHN MCARTHUR: Net gain of 2,500 or so.

ED WALTON: Net gain is 25.

DEREK GRUNER: Twenty-five hundred, that's right. Now, this doesn't solve the entire problem because our problem now is so extensive. But this is the number of beds that we felt like we could put on that 18 acres without overbuilding and still keeping the green space and the places for students to recreate. We felt like this was the correct tipping point. We desperately need the beds, but we want to keep the quality of this environment, and there's also zoning limitations on the height of the buildings and other things that came into play, of course, but this is as ambitious as we're comfortable getting on this site.

PAUL BATSON: And the design, the architectural design, is that all yours? Does that all come…

DEREK GRUNER: It's a combination of mine as well as the architectural consultants that are working for Mr. King; who had very strict guidelines from the university about what the buildings should look like and what materials should be employed.

I appreciate any comments, but as this point, early in the process, I'm very pleased with the level of detail brought. These buildings look like they belong on the University of South Carolina campus to me.

PAUL BATSON: It does look impressive.

DEREK GRUNER: Thank you.

LOUIS LYNN: This is Commissioner Lynn. Quick question. The City of Columbia has a-- thing called a design review board. Is the university exempt from that?

DEREK GRUNER: No, Dr. Lynn. We did not exempt this project from that. We have a Design Review Committee that implements design guidelines that have been in place since 2008, and this project will be subject to their review and approval. Probably at least three rounds of approval per phase on this project.

[CROSSTALK]

DEREK GRUNER: I'm sorry. Dr. Lynn, actually, this site falls just outside the purview of the DDRC, so the city does not have design oversight on this project.

LOUIS LYNN: Thank you.

ED WALTON: May as well talk about finances, right?

JOE COLLUMS: That's right. Again, I'm Joe Collums. Thank you for the opportunity to be here. I wanted to provide some context for nationally, the process of supporting institutions as they go through the public-private partnership process at this scale, and apply some of those lessons that we've learned to this Campus Village Project paradigm.

I thought it might be helpful to give you a very brief overview of Brailsford & Dunlavey. We have a nebulous title that doesn't immediately communicate what it is we actually do. We're development advisors over a 20-year history and we focus our services and efforts on supporting and advocating for the university's interests completely.

We're not developers, although we coordinate with developers and are familiar with the process, but we have no transactional interest in what the ultimate decisions are at the university. Our role is to be its partner and help it make decisions for the long-term that align with its objectives.

We have served over 500 higher education clients across the country with a real specialization in student housing; specifically, 440 student housing projects, more than $35 billion in completed projects. We have been fortunate to have a long history with the university. We developed the 2011 housing masterplan and since that point, on an annual basis we are at the table helping the university make strategic decisions that overlay an understanding of the market conditions off-campus, student housing demand, as well as financial analysis so that they can make very informed decisions, again, in the interest of serving its students and having a long-term viable strategy.

We also-- because of how things have evolved, as Ed alluded to, with public-private partnerships becoming a primary tool, especially for large public institutions to address deferred maintenance needs with its housing inventory, we have a national leadership profile in terms of navigating the public-private partnership process. We are not P3 disciples or advocates by any stretch.

In fact, most of my clients-- Frequently the news is that P3s, at least how you understand P3s, is not aligned with your financial or strategic objectives. That's often a message we send. But, in other cases it does seem to fit and in fact advance what the university is trying to accomplish.

And so, we try to come with a very-- We see our role as making sure the university understands with open eyes exactly how complicated these projects are, the level of commitment it takes across multiple divisions because we have seen a lot of universities dive into the P3 world without understanding exactly what's entailed.

One of the main hallmarks of a P3 project that goes well over the long-term is actually the upfront investment in understanding exactly why you would pursue a P3 in the first place. On the flipside, there have been a lot of stories about the long-term partnership not going well because one: The university itself doesn't understand what it's trying to accomplish. And then the developer, by connection, doesn't understand what its role is in advancing that mission and things can devolve.

And so, we spend a lot of time-- in fact, with this group a matter of months and even years-- in understanding exactly what USC is trying to accomplish in the range of P3 categories that are very important to understand. So to design, build, finance, operate, maintain over the long-term, we have found that you have to dive in and define the risks and responsibilities you want to keep or transfer in very great detail for a number of subcategories.

It sort-of creates a fingerprint that's very different for each institution. And if you do that well and understand it well, you can translate that into your procurement documents and that is so key in the development community; understanding and being able to respond to those key objectives. You see the list here of the subcategories and I'm happy to go into detail as it relates to this project.

The other piece of that that we do on the front end, is a lot of financial analysis that looks at the range of potential P3 delivery structures. A P3 is an umbrella term, but there are almost an infinite number of innovative ways that these can be structured. We want to make sure that the university understands, related to a self-development option, what would be the financial implications of any of those potential structures. And so, that's what we did on the front end.

When you start to integrate the strategic understanding with the financial possibilities, what starts to emerge is that certain structures tend to be a better fit for the university than others. And before we even issued the RFQ and RFP we understood that the national 501(c)(3) model looked like a financially viable option that also allowed for the university to maintain its desired level of control.

The university very much is committed to a seamless experience for its students. The Campus Village will primarily serve freshman students and so it sees it as a core market that has a high need in terms of support. And so, it was not willing to transfer that responsibility to a private developer. And so, there is a certain way to align the structure to meet that core objective.

The next piece and hallmark of a successful process and partnership, again, is on the front end. This is showing sort of the four steps that we believe are important to follow in detail. One is - define the project, which is what I've just mentioned, and then engage in a rigorous selection process and negotiation process to find the right partner. And so that’s what items number two and three relate to.

What the university did was issue an RFQ that got tremendous response from national and local experienced P3 developers. There were ten respondents that were reviewed, and then there was there a short list of five. They received the RFP, request for proposals, and that request for proposals gave a very detailed description of what the university was looking for.

Derek mentioned the design objectives. That’s one piece. There's the operational piece, the financial objectives, all of the student experience objectives were very-- in great detail laid out for the development community to understand in about a six- to eight-week process to turn around proposals.

So those five were evaluated for the responsiveness. They were interviewed. A financial analysis was conducted to ultimately select a primary developer, which is EdR, to go into more detailed negotiations with.

Where we’re at now-- And again, this is prior to financial close, but wanted to share one piece of what will hopefully define a very successful project is the financial metrics and objectives. What we have found in this project-- And I wanted to share some of the national context too. This is showing several key overarching objectives.

One is project cost management. The hope was that this project could be delivered in a very financially efficient way, and we were very glad to see that the proposals that came in-- And this is showing EdR’s proposal, $90,000 in project cost per bed versus-- These are similar 501(c)(3) structures in the southeast region that we pulled from our national database, were much higher than that.

So the scale of this project helps allow for that, but regardless, we believe that that outcome is being met. The operating expenses proposed are lower than what we typically see in a similar structure, which is also encouraging. And then the added fees that you have in a P3 partnership-- like the developer and foundation fees-- are at or below what are commonly found in the industry.

So we have a lot of-- One advantage we have in our firm is just a lot of current information about what fees are being offered and we can be sure to crosscheck that what is being proposed is beating the national standard.

PAUL BATSON: What…

DIANNE KUHL: May I interrupt you?

JOE COLLUMS: Yes.

DIANNE KUHL: Sorry, Paul. Go ahead.

PAUL BATSON: I'm sorry.

DIANNE KUHL: Go ahead.

PAUL BATSON: I was going to ask why is there-- That looks good. Why is there that significant differential in the cost and the maintenance?

JOE COLLUMS: Yeah, that's a great question. One of the main drivers of the lower cost is an understanding of the market opportunity. So with freshmen students required to live on campus you do not, as an off-campus developer would with an apartment community, you do not have to offer single bedrooms, space or amenities that are not necessary.

So the ability to have students live in double occupied units creates a lot of efficiencies, and so to the university's credit, it realized that it dictated that in the RFP. We see a lot of universities that don't go into that level of detail and what naturally happens is developers may propose apartments and full suites, other arrangements that end up costing you on the capital cost side.

JOHN McARTHUR: Probably worth talking about the types of units. Of the 3750 beds, roughly 400 of the old pod style bathroom down the hall, although that's a much improved version of that. And then-- I'm trying to get my math right—2,800 of the beds are suites where it's two rooms sharing one bathroom, separate sinks. So only 400 and something units with beds, which are in the last phase, are apartments. It's totally different than what you're seeing with the private developers building off campus.

PAUL BATSON: Okay.

DIANNE KUHL: I have a-- On your—On the 3,152 on that, over what timeframe?

JOE COLLUMS: That is…

DIANNE KUHL: Is that annual?

JOE COLLUMS: That is opening year, so 2020, and then that's-- The comparison is inflated to that number to give you kind of an apples to apples comparison of projected cost.

DIANNE KUHL: And that's an annual number?

JOE COLLUMS: Yes, I'm sorry. That's an annual…

DIANNE KUHL: Okay.

JOE COLLUMS: …per bed number.

DIANNE KUHL: Thank you.

JOE COLLUMS: Sure.

The other key-- And it's very related to project cost management. The reason it was important to manage cost is a commitment by the university to manage student rental rates. That's really the key financial driver in all of this is to make very clear to the development community that there are parameters that must be held to in terms of managing those rental rates.

So you see here the existing university rental rates per semester range from $2,800 to the very old stock to over $4,500 per semester for some of the new stock. This particular proposal from EdR is well within that range. It has been difficult and challenging, we know, for it to meet all the requirements in terms of expectations for quality within that range, but it's just something the university's not willing to sort of let get of control.

Now, that's somewhat unique. Some universities will have a little bit more flexibility and offer a bit more of a range, but we were glad to see that rental rates appear to be within the range both on campus as well as in the region for new projects. These rates compare very, very favorably.

In terms of university return, it's another key feature of this project. As Ed mentioned, the university retains 100 percent of the surplus cash flows in a national 501(c)(3) model. There is not an equity investor with a rate of return that must be repaid before the university recoups those funds. That's very important because there are other existing assets in the housing portfolio that are in desperate need of reinvestment, and so the university needs to capture those surplus funds to be able to reinvest in its system.

TIM HOFFERTH: Just two, real quick questions. I'm just curious on the cost for construction. You said you're using the number of 117,000 for similar P3 projects in the southeast. Where are you pulling that number from?

JOE COLLUMS: Yeah. So those are the most recent-- We wanted to use the most recent similarly, scaled public institutions. It's coming from an institution in Florida, Texas, and Louisiana. So we understand that those are different contexts, with different markets, and so there's a lot more information we can provide, but it's enough of a distinction, even in those different markets, that tells us that's a large difference in a positive way.

TIM HOFFERTH: I'm just curious because your bed makeup…

JOE COLLUMS: Mm-hmm.

TIM HOFFERTH: …may change from the, you know, the 250 rooms that, you know, share a common bath versus maybe a more state of the art suite concept. I'm just curious. I mean, how are you using that to point out a contrast? I mean…

JOE COLLUMS: Yeah.

TIM HOFFERTH: …are you comparing that to what?

JOE COLLUMS: Well, there's also a per square foot-- and I don't have the number in front of me that might speak to that. So that would standardize the cost on a space basis rather than the bed efficiency basis. And Campus Village also compares favorably on a per square foot basis to those projects, if that makes sense.

RODNEY KING: Just to reiterate what Joe is saying, we just delivered a project of about 6,000 beds at the University of Kentucky. It was a multi-phase project very similarly scaled to this project. We delivered our last phase this fall, about a week or two ago, and these costs are coming in line with that. So that gives us confidence that the contractor is being honest and we're vetting these calls, and like Joe said, the bed makeup really drives down cost of the construction also.

TIM HOFFERTH: And I had one other question. Again, this is just at a very micro level. But as it relates to the cash flow that's coming off of the individual dorm rooms over a period of time-- and I went through the information because there's a lot of it. Were there annual caps put on the cost for students to occupy these over the next, you know, 5, 10, 15 years? Are there caps on what can be charged or is that subject to review on an annual basis?

JOE COLLUMS: That's right. It's something to review on an annual basis. The commitment is that the university will have control over how those rates are set and it will do it consistent with the rental rate increases for other campus housing inventory which [unclear].

JOHN McARTHUR: Let me try to address that. Since these will be financed 100 percent with taxes and revenue bonds. There will be a bond trustee. There will bond documents, bond covenants. I'll talk about that in a minute. But part of that is since it's a revenue bond there's really no recourse against any party other than the property to pay the debt. And so, the bondholders are fine with that, but what they require for that is a 1.2 debt service coverage ratio.

So these rents are projected based on meeting that 1.2 debt service coverage ratio to meet it in the first year. It actually becomes easier to meet every year after that because your debt interest rate is fixed for 30 years. So there's a bond covenant, the trustee, and the lessee, the 501(c)(3), to keep the rental rates at a rate that will meet that 1.2 debt service coverage ratio and it doesn't have to be a dollar more.

And since USC gets net cash flow, USC doesn't have to make a dollar more unless they have a reason to. So subject to that one exception that you meet that debt service coverage ratio, the rents don't go up any more than what's necessary to meet that.

TIM HOFFERTH: And the overage, the difference, the cash flow…

JOHN McARTHUR: Mm-hmm.

TIM HOFFERTH: …is there anything in that model that puts that-- Where's the capital reserves coming from?

JOHN McARTHUR: I'll go through that too.

TIM HOFFERTH: Okay, okay.

RODNEY KING: I think that's the next slide.

PAUL BATSON: To that question, I presume you're going to cover this-- the 3.4 and the 2.5 annual cash flow. These are projections for the net incremental cash flow?

JOHN McARTHUR: Those are net cash flows. I think several hundred thousand of each is-- goes into a reserve, so I think it might be three or four hundred thousand less than that. But that net, $3 million plus $2.2 million, those numbers.

JOE COLLUMS: Well, to clarify though, that's after full payment of debt, reserves, ground lease. There's other elements. There's enhanced security as part of helping-- being a good partner in the neighborhood. So that's showing, end of the day, anticipated cash flow. And keep in mind, this is all integrated with the housing masterplan for the university, and so there are those existing capital needs that will be reliant on these cash flows in order to address some of their other older housing styles.

JOHN McARTHUR: So that is total net and it will grow each year, if the projections hold true, and as it grows that money can go into their four dorms that need substantial renovations. So you don't have to go out and borrow as much new money to do that renovation if you have this source of cash flow to keep up the housing.

PAUL BATSON: And on that same issue, I heard you say earlier that all during the 30-year bond payment process that the project would be kept up such that the deferred maintenance needs are being maintained year by year.

Is that through this cash flow or is that through other dedicated…

RODNEY KING: It's through…

PAUL BATSON: …money from the university?

RODNEY KING: …[unclear]. There's a bond covenant that requires a $200 per bed reserve that is set aside each year. USC has asked for an additional $150 per bed reserve each year. So we have $350 per bed each year that's set aside for replacement and reserves.

Obviously in the first few years of the project you won't need, you know, to replace an air conditioner, the carpet, and those things. So the first five or ten years of the project bed reserve has been built up anticipating needs in years seven, eight, nine, ten, and beyond. So that's how the project maintains itself. It's not…

JOHN McARTHUR: It's…

RODNEY KING: …relying on the university's funds or…

JOHN McARTHUR: It’s really like any, in effect, non-recourse lender. If you're lending money on a hotel non-recourse, you require the hotel owner to put reserves aside so they keep up that property so if you ever had to take it back, it’s in great shape. And the same philosophy applies here. The bond covenants will require that that money be set aside and require that it be spent on these buildings.

PAUL BATSON: But also, did I hear a requirement of the university outside of this to put $150 per bed…

JOE COLLUMS: Yes, that’s right. And it’s a very interesting component about educating the development community. They're mostly accustomed to building off campus properties and they're able to invest a bit less than what the university’s expectations are. So they typically will propose somewhere in the $190 to $210 per bed in reserves.

What we know from doing these types of projects, that that doesn’t account for some things like IT replacement, and so we apply the project life cycle cost for similar P3 projects and it’s more like $350 in reality per bed, escalated up. And so, what we did as part of negotiations with EdR has said, you know, as part of this analysis we need to build in a more robust reserve amount because we believe that that’s what it will take to keep those in A-condition, you know, for the long run.

RODNEY KING: And that’s not money from the university being injected into the project. That’s net of these cash flows. So if there's a waterfall, so to speak, and that $150 additional reserve is within that waterfall.

JOHN McARTHUR: So this building is privately owned by this 501(c)(3) and all the funds that it generates, until you get to the net cash flow of the university, before that the rents will pay operating expenses, debt service, and they’ll pay all these reserves, including the increased one for repair and replacement.

ED WALTON: Let me add to that specific question. The required reserves-- $200 plus the $150-- come out before the net cash flows. Am I right?

JOHN McARTHUR: Correct.

PAUL BATSON: Before?

RODNEY KING: Before.

JOHN McARTHUR: That is correct.

PAUL BATSON: And I presume you're going to talk about the 501(c)(3) building?

JOHN McARTHUR: Yes, sir.

JOE COLLUMS: And I’ll turn it over to John. The last point, just to intro your section, is the other lesson learned about the successful P3s. As you might be wondering, this all is going to pay for-- How are we held accountable? How do we make this long-term marriage work? What's the accountability structure for the developer, the owner, the university? How do we make sure long-term? And that's where there's a very detailed set of agreements that John and his firm are leading.

JOHN McARTHUR: And I'm the person who had the pleasure of drafting those ten documents that stack up to like this that you received. Again, my name's John McArthur. I'm with Haynsworth Sinkler Boyd. It's a South Carolina firm.

And actually, I guess the first point I would make is this is-- While this is a relatively new structure in South Carolina, it is market tested and been used for decades around the country. I actually have a law partner in Charleston who's a bond lawyer. This is what he's done for his career. For the last 25 years he's done this, in other states primarily.

So there are a set of documents that underwriters and bondholders and 501(c)(3)s are used to seeing that are just standard what you need to do, and that's important here because we're getting these documents approved now when our first closing won't be until next May and we'll be negotiating with-- or the lessee will be negotiating with bond underwriters to put the financing together. But we have documents that they've already accepted and they're accepted in the industry and have been used dozens of times.

We've conformed them to this transaction, but the reason you see they all fit together and have the same defined terms and work together is because they've been used before. And it's not a new market. We're not creating a wheel. We're doing something that's been done other places. It just hasn't been done as much in South Carolina. I'm not sure why because it's a very good model, I think.

So I want to explain the documents and explain the parties. First of all, the most important parties in this are the university and EdR. NCCD, which is National Campus and Community Development Company, is a 501(c)(3) foundation that operates all over the country. There are some other companies that do that. And one of their principal business, perhaps their principal business, is to do these type transactions.

And what they'll earn is a fee for managing this; for keeping up the 501(c)(3) entity to making reports to the bond trustee. But they are a fee entity that helps this structure occur because they can be the borrower for tax-exempt debt. But they don't have their own money in it. It's really the university's interest and the university gets all the cash flow so this a project that ultimately is for the university's benefit and the university is the primary player along with EdR.

And so I'll describe this-- It's a very-- a fairly simple slide and this'll just describe kind of the development structure. First of all, you'll see that initially on the left the university will ground lease this property. And let me say the ground leases will only be signed, as discussed before, at financial closing. We'll have building permits, construction plans. EdR will be the developer. They will be hired by the lessee to do the development. EdR will hire the general contractor, have a GMP contract from that contractor secured by a payment performance bond, and then

EdR on top of that, guarantees the total project cost to the lessee and in effect through that, the university, we're a third-party beneficiary of that contract.

So EdR is the main player in getting the project built on time, on budget, and I'll go through what the development agreement says in a minute. But normally we wouldn't have this part on the left. You would just have the ground lease directly with NCCD because it needs to be a tax exempt entity issue have tax exempt bonds.

Because of the way South Carolina procurement law works, since we issued the RFP, and interviewed the developers, and EdR was the developer who has the award conditional upon approvals but they're going to be awarded the transaction, the State engineer preferred that we first sign the lease with EdR. And then, EdR assign it to NCCD, and then we would actually amend and restate it to add some bond covenants other things that apply to NCCD that don't apply to EdR.

So you'll see in your stack an initial lease to EdR, an assignment assumption release agreement, and then a restated lease to NCCD. So that's how that will work.

JEFF SCHILZ: So why did the state engineer want to do it that way?

JOHN McARTHUR: Well, they just felt like since NCCD wasn't the bidder…

JEFF SCHILZ: Mm-hmm.

JOHN McARTHUR: …to the RFP, EdR was, that the lease should be directly to EdR. I will say because the RFP did say-- We asked all developers to propose in a 501(c)(3) structure. You could argue that is was implied that, of course, there would be a lease to a 501(c)(3) and we wouldn't need to go through that step, but that's fine. We've agreed to do that. The underwriters are fine with it.

What happens here is the ground lease does not get signed with EdR or signed with NCCD and proceed until we're ready for construction, until the bonds are closing. The money will be with the bond trustee to build the phase. As I said, there'll be a GNP contract, a guarantee from EdR. The plans are done. The permits are there.

So this is not a case where we're signing a ground lease and saying developer, go figure out if you can do this deal. We'll only do it for each phase when they're ready to go, so that's important.

I'll talk a little bit about design cost risks, but beyond that the university has no risk at all until we have a project that is starting construction. It's not a speculative thing.

PAUL BATSON: John?

JOHN McARTHUR: Yeah.

PAUL BATSON: I'm trying to grasp why the 501(c)(3) is needed for the ownership rather than the university owning.

JOHN McARTHUR: Well, to do a tax-exempt structure-- I mean, if the university were the owner then the debt would be issued by the university and it would on their books. One of the great advantages of this is the, you know, three phases. There's $450 million of debt. None of that is USC liable for.

PAUL BATSON: All right.

JOHN McARTHUR: This is a tax-exempt bond that'll be issued by an issuer. It'll be an entity. We can use entities in other states or wherever. We can use an entity that’s not self-liable. It’s like a JEDA. It would issue the bonds. The borrower would be NCCD and the revenues-- There would be a mortgage on the ground lease, and so the revenues of the project secure that debt and the bondholders are reliant on the revenues from the project, less the expenses, covering their debt service.

PAUL BATSON: So the bond obligation is not going to be on the…

JOHN McARTHUR: Right.

PAUL BATSON: …balance sheet of the university or the state balance sheet?

JOHN McARTHUR: The structure of this is the university is not liable for any debt, doesn’t have any legal obligation. It really doesn’t have any moral obligation. The bondholders are taking this risk. They're taking the risk because they got a 1.2 debt service coverage ratio and they feel real good about investing in a project that’s on a university campus, so they're willing to do that nonrecourse.

So the university is not even the borrower. NCCD is the borrower. The university isn't anywhere near the debt and has no responsibility for it.

PAUL BATSON: So…

JOHN McARTHUR: It won’t be on their books.

PAUL BATSON: That’s really helpful to me. So then, if there's a project problem or a repayment or debt service problem or any kind of problem with the generation of revenue…

JOHN McARTHUR: Mm-hmm.

PAUL BATSON: …it rests with the 501(c)(3)?

JOHN McARTHUR: It rests really with the bondholders.

PAUL BATSON: With the bondholders.

JOHN McARTHUR: Mm-hmm.

PAUL BATSON: But the 501(c)(3) is still obligated to maintain the lease back to the University…

JOHN McARTHUR: That's right.

PAUL BATSON: …of South Carolina?

JOHN McARTHUR: That's right. The lease requires NCCD to build the project on time and deliver it. They then hire a developer who promises EdR to do that for them. And so I guess there are two kinds of risk. We'll talk about-- Let me drill through the ground lease real quick, and then I'll get to the development agreement, just some comments on the ground lease.

The term of the lease will be-- for each phase-- 35 years for that phase. The proposed debt would be a fixed rate for 30 years. After ten years it's payable at par, okay? So you can repay it at any time or refund it. But the reason we have a 35-year lease term is to have five years of buffer in there in case we need it, but for each phase it will be 30 years.

One of the great things about that is the lease terminates if the debt's paid off. So if you get ten years out and USC decided-- goes back to the State and says let's issue debt and buy this, you pay off the debt, you own it, the lease goes away. So this isn't necessarily a 30-year deal. It's a 30-year deal if the university wants it to be one. So that's an aspect of it.

There's separate bond financing for each phase, so we would amend and restate. We'll have a master bond trustee and we can issue a series of bonds under it. So at each phase, bonds will be issued for the cost of that phase. They would be added.

The ground lease would be amended to add the new land for Phase 2, for example, and then both phases would secure both sets of bonds. And then Phase 3, you'd add a Phase 3 land. The ground lease on all three phases would secure all three bonds. However, when the debt for a particular phase pays off that phase can be released from the lease.

So if we close the-- If the CO and start of operations for Phase 1 is 2020 and in 2050 that debt is paid off, that rotates out of the lease. The university just owns it at that point. So that's that structure.

I think a lot of what I had here has already been covered by others, so I can move ahead a little quicker, which I know Ed wants me to do.

The tax-exempt entity, NCCD's role is to go obtain this financing working with the underwriter. To enter in the development agreement with EdR, they have to approve the operating budgets, but they'll approve them as long as it's meeting debt service coverage ratio, and then they do the financial and tax reporting to the bond trustee for the term.

Now, we can replace NCCD. At any time after three years, after the CO of the last phase we can replace them if we're not happy with them. If we find somebody to do it cheaper, we'll do that. Their fees are, like, $320,000 once all $450 million of debt is in place; annual fee to do that service. So they get a fee.

EdR also only gets a fee. EdR doesn't have any equity in the project. They don't have to satisfy any investor requirements of return. That's why it can be terminated by paying off the debt. EdR gets a four percent fee-- that'll be in my development agreement discussion-- for developing and delivering on time on budget, and I'll get to the management. They have a part of the management responsibilities and I'll go into that in a minute.

The development agreement, EdR is responsible for fronting the money, getting the design done, getting us to the financial closing. For Phase 1 that would be in May, we hope, of this coming year, okay? They get us to that point. They retain the general contractor. They get a guaranteed maximum price from that contractor. They retain the architects. They ensure that the project's bonded. All of this is required in the lease documents and in their development agreement. When I say they guarantee on time delivery, if they don't deliver on time for fall semester 2020 then we go ahead and collect the rents from students. They pay all expenses of putting those students wherever they have to put them and transporting them to the school until their dorms are ready.

And Rodney will talk about their financial wherewithal, but that's what they do.

JEFF SCHILZ: And that would have to be in some type of comparable situation?

JOHN McARTHUR: Well, it'll be wherever they can put them, but it'll be a tremendous expense to them because it'll be purely out of pocket. So they're motivated. And Rodney will say they've never missed a deliver date, but I'll let him get into that.

RODNEY KING: Just to, while we are on that topic. Our company is 52 years old and that has never happened. So we're experts in delivering this scale of a project within the timeframe. So, we're confident we can do it.

JOHN McARTHUR: Yeah.

DIANNE KUHL: And I hate to do this to you, but just-- I don't know how much more you've got going but we've got about ten minutes left.

JOHN McARTHUR: Okay. I'm going to stop.

Management, USC actually manages the project. They place the students and then they subcontract to EdR the management of the physical asset part of it, which is the janitorial, keeping the buildings up, and doing replacement budgets, and all that part. EdR gets a four percent development fee for developing the project-- four percent of hard and soft construction costs by phase-- and they get a two percent fee for managing that part of the management of the project and USC manages the rest.

And EdR, on their management agreement, three years after the CO of the last phase they can be replaced, so it's not a permanent relationship.

I'll stop there and we'll answer questions.

KEN KIRKLAND: Commissioner Hofferth?

TIM HOFFERTH: Yes, sir.

KEN KIRKLAND: Commissioner Kirkland.

TIM HOFFERTH: Go ahead.

KEN KIRKLAND: I'd like to interject a couple of things if I could if now's a good time.

TIM HOFFERTH: Now's a great time. Go ahead.

DIANNE KUHL: Go ahead, Ken.

KEN KIRKLAND: First off, I'd like to say: Wow. What an interesting project, interesting model and proposal. Obviously, USC has put a lot of time, a lot of effort, a lot of thought into this particular model. And I'll be honest. It's a very creative way that I see of trying to structure a project and a deal for the university.

A couple of things that I've noticed in conversation and in looking at some of the documents that I have. It looks like to me that, through a banker's set of eyes, that it lessens the exposure of the university by not leveraging the assets of the school. It looks like that in doing so it also has very little impact with the bond capacity of the university. It appears that most of the financial risk has been shifted toward the private sector away from the university, and certainly in doing so that provides the most of what protection that I see taxpayers and families in South Carolina, which our charge as a Commission is to certainly look at the big picture, so to speak, look at the macro, as we say, to protect taxpayers of South Carolina.

Another thing that was mentioned earlier-- and it certainly bears repeating-- it looks like there's a couple of tremendous benefits to the university that I see coming straight from this. Somebody just mentioned that the deal is very flexible to the university. It looks like financially the school has plenty of options that are available, whether it be year three, year five, year six, year ten. Whatever the case may be, they have some options that certainly creates some flexibility in the future, which I really, really like.

The other thing that helps the university that I see is early in the process in the summer it's a demand centered piece. This thing-- Basically, we're able to replace aging buildings with new, so it kind of helps on a two-prong approach. One, we don't have the maintenance issues that we may have and we're able to build new with what appears to be little impact to the university.

So I want to just say I'm very, very encouraged at what I hear. It is an extremely interesting model. I'm even of the opinion, what I've heard so far, that this really, as someone said, could be a benchmark that, you know, other institutions in our state could look at and should follow going forward because, again, of the exposure that it certainly limits with the university.

So kudos and congratulations for looking outside the box from a creative standpoint, and I'm extremely encouraged with what I've heard so far today.

TIM HOFFERTH: Commissioner Kirkland, thank you for those comments and thank you for staying away from the voodoo math.

[Laughter]

DIANNE KUHL: All right, do you guys have anything else you need to share with us or?

ED WALTON: If you-- And I would like for you to be able to hear from the developer. These people have really-- They know the business. Again, it's not Ed Walton and a crew of regular people trying to do this thing. These people do it for a living and if we could just take a minute to hear Mr. King that would be…

RODNEY KING: Sure. I'll keep it brief as I can. EdR, we're based out of Memphis, Tennessee. We've been in the student housing business 52 years. We're a national group. We're one of two public companies in the country. You can look up all the information you want about EdR. We're traded on the New York Stock Exchange under the ticker EDR. So you can go there and you can find our 10Qs, our AQs, our annual reports. Obviously, USC has vetted us, but we encourage any and everybody to go out and vet us and look at our company history.

Our financial strength, we're $3.6 billion company. We have assets all over the country, so this isn't new to us. We don't do hotels, self-storage or anything. All our company does is collegiate housing, so we're not some, you know, kind of-- We have our foot in this arena and our foot in that arena. This all we do.

And as the Commissioner said on the phone, we like to think of ourselves as a very flexible partner. We don't come in with our eyes closed trying to force a model down the university's throat. I hope Ed would attest to that. But we think we're a great partner with this university and we think this structure has been done nationally, and we're excited to see it be implemented here at the University of South Carolina.

DIANNE KUHL: All right.

RODNEY KING: That's it.

JEFF SCHILZ: Yeah. Let me just…

DIANNE KUHL: Jeff?

JEFF SCHILZ: I want to ask the consultant that's been helping the university. As we evaluate this what are the things that-- You know, you've seen these in numerous states, like you said. What are the key points that we need to be focusing on? That'd be the first question.

The second would be give us an example of the deal somewhere that maybe wasn't good or didn't work out. You know, what were the things that went wrong there and how have we addressed that in this deal?

JOE COLLUMS: Yeah, those are great questions. I think just from our perspective as university advocates, we firmly believe that when the developer drives the process it typically adds a lot more risk. And so, the ones that usual succeed long-term are the ones where the university understands its limitations and invites expertise, but it is the one that is maintaining control.

A lot of times the one-off projects that have failed have been the developer setting up a meeting, you know, with the business affairs folks. It's exciting, it's innovative, it helps address-- it appears to help address some key financial problems, and they sort of jump in without running through all the steps-- the long process it takes to vet and get the best partner.

So, that in a nutshell, to us, is what we always emphasize and try to equip the university to stay in that seat, not just at the outset but throughout. So things like the Advisory Committee that on an annual basis will control the project. It has to have majority university ownership. That's your accountability structure long-term.

A lot of the failed deals don't have any of those structures in place, and over time things happen, personnel changes with the original company, and they lose the vision, they lose the control. I mean, in a nutshell that's really our overarching lesson learned as consultants doing these nationwide.

JEFF SCHILZ: Mm-hmm. But what are the key terms? I mean, this is, like you said, a huge contract, lots of different terms. What are the ones that are problematic when deals go bad?

JOE COLLUMS: First fill agreements, guarantees…

TIM HOFFERTH: I'm sorry. What was that?

JOE COLLUMS: A first fill agreement, meaning the university commits to filling beds at the privately-owned development, and then sacrifices or adds risk to its own inventory. So to simplify it, understanding your market position, your demand position in great detail, helps you negotiate with the development team who-- Their default strategy is to protect their own interests, and so they will have a series of terms. If we struggle with our occupancy, you agree to fill our beds first.

We know that we don't need to do that at University of South Carolina. So there's a series of terms that by understanding your position has put you in a much stronger negotiating position.

JEFF SCHILZ: Go to the slide that he had, the key financial metrics. Yeah, right there. And I might be thinking about this completely wrong so-- It wouldn't be the first time. Tell me if I'm wrong. You talk about the project cost and there's a lot more efficiency here, right?

JOE COLLUMS: Right.

JEFF SCHILZ: So if that's the case, where is that benefit-- how is that benefit being split? Is the university getting that benefit or is that being split between the company and the University?

JOE COLLUMS: Yeah. The benefit of all these efficiencies, number one, it allows for a lower rental rate structure…

JEFF SCHILZ: Right.

JOE COLLUMS: …than what these other institutions have to set rental rates at in order to get their 1.2 debt coverage ratio. So that's number one.

JEFF SCHILZ: I guess-- I mean, is there a way to think about it-- You know, you got a $27,000 delta there. How is that 27 being split? You understand what I'm saying?

[Crosstalk]

ED WALTON: --falls to the bottom line and we get in-- the university only gets it in that revenue.

JEFF SCHILZ: Got you, okay.

JOE COLLUMS: So that's part of the reason why you can have manageable rental rates. You can have a $350 per bed reserve amount, and then you can still have some cash flow, which is why we feel like this deal is pretty-- It's a strong deal from a financial perspective based on what we see elsewhere.

ED WALTON: If I were just to answer probably both questions, when you listen to Commissioner Kirkland, you deal with this and you watch how the university manages. If they just turn a blind eye and let a developer do it, then that cost is going to be-- in this example-- $117,825 just because there's no motivation to not.

And then you have to watch the structure of the deal, an equity deal that cash flow is going to flow out, that's going to go back to the investor somewhere, so you have to watch that. You have to figure out some way to do it in tax-exempt financing or else there will be no cash flow because it's got to go to the investors. Both of those you got to watch out for.

DIANNE KUHL: Do we have any Commissioners on the phone who have any additional questions?

KIM PHILLIPS: This is Kim Phillips. I just want to make sure-- it's kind of hard to hear you sometimes-- that right now you have 3,700 people that can go into-- if these buildings were built tomorrow to go into these 3,000 rooms.

ED WALTON: The current demand, Commissioner, is 4,000 more than the existing capacity.

KIM PHILLIPS: Four thousand more?

ED WALTON: Four thousand.

KIM PHILLIPS: Okay. Well, that's good.

DIANNE KUHL: Ed, are those students who have actually said we want student housing or?

ED WALTON: They're either on a waiting list to get into student housing, and disappointed because they can't, or they say if you had more housing, I would. So they're kind of an A and B.

DIANNE KUHL: Okay.

ED WALTON: But the market's clear because if you notice what happened around Columbia when they built-- when the private sector built housing near the ones who used to have to drive and now they want to live and walk near campus. So it's even compounded by that reality that students, young people, they want to be together, they want to be on campus, and unlike when we were going to school, they don't expect to drive to the front door and then go to class. They want to walk, bike, be with their friends, and that sort of thing. It's a great phenomenon for [unclear]…

DIANNE KUHL: Well, when we went…

ED WALTON: …as far as I'm concerned

DIANNE KUHL: …to school we had concrete walls and cinder block buildings. We didn't have anything like this. At least I didn't.

Tim, did you have…

LOUIS LYNN: This is Commissioner Lynn. One quick question. How will security of the students-- Will that be shared? Will that be provided by one partner or will it be shared by the university? How will the student security and student behavior be managed?

ED WALTON: Go ahead. You do your part.

RODNEY KING: There's actually one unique caveat. In Phase 1 there's a 600-square feet police substation in the development. The university will manage all student behavior, all student code of conduct. EdR is only going to manage the physical asset.

From a student perspective, it will be seamless. They won't know that Campus Village is any different from any other housing solution on campus.

ED WALTON: The University has an accredited police department and that's who will have jurisdiction in the area, just like the rest of housing.

DIANNE KUHL: Tim, did you have another question?

TIM HOFFERTH: [UNCLEAR]

DIANNE KUHL: All right, anybody else on the phone?

KEN KIRKLAND: Yeah. This is Commissioner Kirkland again. I just got just a general question or a general comment. I know that we've got a lot of moving parts. There's a lot of entities that's touching everything, certainly all the multiple phases going through. Are you talking about demolition, raising lots of agreements? There's just a lot of things that are happening, a lot of moving parts. I just want to make sure that we, as a Commission, have the proper information, the proper tools, and whatnot to vet some of these project pieces.

To be honest, when you're talking about a half a billion dollars, you know, it's a situation too that we want to make absolutely sure we fulfill our obligation and properly vet those projects to give it the level that it needs. I'm just a little concerned that, you know, that we get the information that we need and certainly work together to have that.

Our tools, as you know, are somewhat limited, so I just have a question in vetting all of those things, if we get good information and then we're able to apply that.

RICK KELLY: Dianne, may I say one thing?

DIANNE KUHL: [UNCLEAR].

[Laughter]

RICK KELLY: We know this is a big project, but I hope by the explanations at least we've given today it becomes more understandable to you as the laypeople. We are on the cutting edge of how to do this in a better way, and I think that we can use this as a model for our state. But between now and October can we offer to be available to you or your staff to answer any and all questions that you have?

We can do it collectively. We can do it certainly with your staff present all the time. We can do it independently. We can take this show on the road. We can do whatever you need us to do. But we're willing to offer that if it would help and certainly anything following up to what Ken just said.

I mean, this is a big project and we want you to understand. We want you to have the answers to all the questions that you have.

DIANNE KUHL: Thank you, Rick. I appreciate that. And I think I can guarantee you that there will be quite a few more questions coming you all's way. This is a very substantial project. It's very unique. It's interesting. I find it fascinating sitting here listening to you all and I wish we had, you know, another two or three hours that we could sit and dig more deeply into this.

I think as we go through this-- I've had the opportunity, that some of the other Commissioners have not, to at least scan through the summary document, which was more than a couple of pages.

[Laughter]

I'm told that Carrie has about 300 pages on her desk. Now, I said, "Okay, don't count pages. Just tell me how many inches it is".

[Laughter]

DIANNE KUHL: But I think is one of those things that-- As I read through it, I find a lot more questions and I think this is one of those things that, you all know. We are committed as a body to thoroughly vet every project, and to make certain that we're doing our due diligence, and that we're doing our job in protecting the taxpayers, and in protecting the students, and in attempting to meet the needs of our universities. It's a delicate balance in there and we want to do it all.

But I was kind of laughing because when Ken's talking about our limited resources I'd like for you meet our limited resources, you know? We have very few people who are able to actually get into this, and as we have been saying for quite a few years.

So this is going to be an interesting project for us to work through together and I appreciate you coming. We'll do the best that we can and I know that you all will be there to provide information for us as best you can. So we appreciate this opportunity to work together with you.

So that being said, thank you so much for coming, especially those of you who came in from out of town. We really appreciate you being here. Look forward to seeing you probably again.

ED WALTON: We really appreciate it. When we did this yesterday, I mean, everybody confirmed to be around as often as needed especially over the next…

DIANNE KUHL: Awesome.

ED WALTON: …what; six weeks or seven? Whatever it is…

DIANNE KUHL: Thank…

ED WALTON …until we get to the next meeting. Thank you.

DIANNE KUHL: Thank you so very much.

All right, we have-- Dr. Wagner, I believe, is here.

CARRIE EBERLY: Yes.

DIANNE KUHL: Okay.

KYLE WAGNER: I'm sorry. I got hung in construction on Highway 1.

DIANNE KUHL: If it makes you feel any better, I got hung in accident traffic on 26.

KYLE WAGNER: As much as I like sitting in the middle of a state park, not whenever I'm late for a meeting.

DIANNE KUHL: I figured that Irma had gotten you because the traffic coming from the coast was just unbelievable.

KYLE WAGNER: Yeah, Highway 1-- They're widening it, which we really appreciate, but it was 45 minutes sitting on that road in different construction parts along the way.

DIANNE KUHL: You'll appreciate it more tomorrow.

KYLE WAGNER: Yeah.

DIANNE KUHL: All right, let's look at Northeastern. Carrie, would you like to introduce?

CARRIE EBERLY: Yes. Thank you, Commissioner Kuhl.

The Committee is asked to consider Northeastern Technical College's request to change the scope of the industrial training center renovation and expansion project. The change in scope involves changing the site of the renovation in Bennettsville from a former elementary school to a local Winn-Dixie building. The new site will provide a total of 35,000 square feet for the college, of which 14,000 square feet will be reconfigured during this renovation.

The Winn-Dixie building is currently in the process of being donated from the County of Marlboro to the Northeastern Technical College's foundation. Once that transaction is complete the college will lease the finances from the foundation and there will be no change to the current approved budget.

And we do have a couple of additional questions that we shared with the Commissioners, just about the ordinance that's in the process of being worked on and the lease's important progress as well.

DIANNE KUHL: Okay. Thank you, Carrie.

I've got a couple of questions to start out. The original site was going to be donated to the college, correct?

KYLE WAGNER: No. The original site was an elementary school that was going to be put on a 20-year lease, of which by the time funding had been acquired was about four years into that lease of a dollar; I think is what the lease was. And then at the end of that 20 years, the school district and the college would enter into negotiations to extend that lease beyond that.

If the lease was not extended, then the property would revert back to the school district and they would get it with the improvements that the college did on that property.

DIANNE KUHL: Okay. And the current-- Or the building that you're hoping to go to, the Winn-Dixie building, that's going to be donated to the foundation?

KYLE WAGNER: Yes. The county owns-- In 1999 Winn-Dixie built a facility at the corner of 48-- 38 and 9th Street—9th Highway and 38. Winn-Dixie operated the building for about nine months, and then they closed up their operations and vacated the building. The county bought the property as a spec building to be used. During that time period, it sat vacant up until this time period with some minor leases here and there for storage.

The county then offered the property as an alternative to the elementary school because when the-- I actually became the new president and the bids had closed to do the building at the elementary school and we got no bids. The building had deteriorated over that time period and extensive more costs would have to happen to keep that building and to renovate.

So, the county then-- Under the lease agreement between the city-- the school district and the college, we had the opportunity to go look at other properties if that happened. At that point, the county offered up this piece of property in conjunction with the city and we immediately started investigating the property because the building was about 50 years newer than the elementary school, *and* the opportunity for us to actually have control of the property and own the property was on the table.

Also, the elementary school had no parking lot. The Winn-Dixie building is almost seven acres and includes over five acres of parking lot that can be used for training, CDL, that kind of operations. So the property was more conducive to the type of training we wanted to do in Marlboro County.

So that’s why we backed up then and we investigated and vented the Winn-Dixie building as an alternative site. Through that venting process we discovered that the building already met earthquake requirements and hurricane requirements. So therefore, extensively cost reductions and no asbestos. And so therefore, it increased the amount of square footage we could do for the same amount of value at the other property.

DIANNE KUHL: Why is it being donated to the foundation as opposed to the college itself?

KYLE WAGNER: Under the-- The way the county and the college wanted to handle this was: We also own two properties in downtown Bennettsville. Both buildings are landlocked. They're adjacent properties in which our library is conjunction with, which is partnership between the county and the college.

The total square footage of that facility is about 9,000 square feet; those two buildings. Fifty percent or about 5,000 square feet of that is part of the library, in which we share that space. And it’s been a good partnership, but as Marlboro County is growing and with the port coming we have more and more demands for industrial type training and less of the transfer degree type training, and therefore, that facility was not capable of doing that kind of training for advanced manufacturing, logistics, those kinds of trainings. So being landlocked in that downtown facility, it just immediately eliminated that option.

With the Winn-Dixie bringing on board, it allowed us to replace all that square footage in the first phase and add in additional square footage on to that without having to share that resource. To also control costs, we entered into an agreement with the county that we would then give the library property and the other property to the county as excessive property because we will not need that square footage. Because we’re basically going from about 4,000 square feet that’s exclusively ours and 5,000 that’s shared to 50,000 square feet so we didn’t need that extra space that was landlocked and the cost of operating that.

In the proposal, having the foundation own the property instead of the college allows us more flexibility in continuing to leverage dollars in the future to expand the building and invest more money into Marlboro County. The way the lease agreement is agreed between the college and the foundation is that the college will pay approximately $40,000 a year to lease the space and that money will be held at the foundation, exclusively used for expanding programs in Marlboro County, and it allows me to safeguard that money for leveraging that money in the future and not come into operation expense at the college.

And it's secured that for leverage grants and continued expansion in Marlboro County.

PAUL BATSON: Madam Chair, that's a good question. In the technical college system, this is done frequently with the foundation. Every one of the colleges owns-- Many of the technical colleges have foundations, and the ownership of a lot of these facilities is domicile with foundations where that's appropriate to shrink the balance sheet, if you will, and the obligation financially down to a lease as opposed to a full-fledged asset support.

So I presume that's what you're…

KYLE WAGNER: Yes.

PAUL BATSON: …hearing in this case.

DIANNE KUHL: I guess one of my questions-- In looking at these documents, it appears that you all are releasing two pieces of property. Granted, it's a square footage benefit on your side. But the college currently owns these two pieces of property that you're releasing to the county and the property that you'll be getting in exchange will be going to the foundation. The college will in turn be paying lease payments to the foundation. So at least on paper, there's no net benefit. There's actually-- It appears to be a loss for the college itself.

So I know one of the questions that our staff has been looking at, and that Carrie's been talking with the Office of Administration, with Property Services. Have you all been given permission by Real Property Services to transfer these two pieces of property?

KYLE WAGNER: We are in that approval process and we have submitted all that paperwork that's required from them, and waiting for their answer on that particular item.

And the other piece of this is Marlboro County has done a $1.3 mil increase to help offset these costs to the college of taking on more square footage. So the millage increase with Marlboro County covers the lease payment and some maintenance costs on the building to make that not a net loss to the college. It's actually a net gain to the college. And we did that—and then Marlboro County agreed to do that to help with this exact question.

And then the vacating of those two properties frees up about $125,000 in operation costs that will be consolidated into one building instead of two buildings, which means I have less overhead for people in the buildings because it's not two separate buildings. It's just one complete building.

So we've done that actual analysis into the college with the increase from the foundation, and the increase of operation of one building versus two, and the age of buildings, it actually is a wash as far as expenses to the college.

PAUL BATSON: Onto your question, Madam Chair. When do you expect a decision to be made by Real Property Services to approve the transfer or do you have…

KYLE WAGNER: We don't know. We've submitted the paperwork and we're waiting for the answer back from that and...

PAUL BATSON: So the process here is what stops-- What is the transmission mechanism here? I guess does Real Property Services got to approve the transfer of the buildings before the foundation can pick up the ownership of the other property? What?

KYLE WAGNER: No. The property-- When the ordinance has its third reading the building is clear to come to the foundation. When that happens the transition for the transfer will happen at that point. And then, at such time that we get the permission to vacate the property-- It's actually a two-part request.

The first request is to vacate the library portion because the library portion is connected to the county already as library property, a shared space. We will not vacate the other building until the Winn-Dixie project is completed because we do not want to lose classroom space.

Once the property has completed the Phase 1 as the Winn-Dixie building, then we have the capability of replacing that space and therefore then we would ask for the request of the second building to be given to the county for doing that.

We will retain some rights in that building for doing adult education programs, and we are going to keep some distance equipment in that building for long-term, to assist with some of the projects that the county is wanting to do there for cultural education and senior education in the downtown Marlboro County area. So the partnership will continue in there. We just won't own the buildings, which means we won't have the upkeep. Both building down there do have-- are over 20 years old; and therefore, maintenance costs and everything will be coming in on those and that's why we're surrendering the properties. We don't need that liability bringing on 50,000 square feet of new property.

DIANNE KUHL: So what are the consequences to this project if Real Property does not approve the transfer of assets to the county?

KYLE WAGNER: Well, I'm hoping that won't happen but…

[Laughter]

DIANNE KUHL: Well, hope is not a strategy...

KYLE WAGNER: …it would not stop the project from moving forward. The project's going to move forward whether that happens. We would probably then go into some kind of sublease with the county and they would still take over the leasing of the property and responsibility of the property.

The key of getting rid of the downtown property is, one: It's landlocked. We can't do anything other than what we already do there, and what we do there is not conducive to the type of teaching that we do now that we're moved to the type of education that's required in Marlboro County for the businesses moving there.

So with those two factors in there, it would be more-- It would actually cost me more to keep the property than it would not to own the property. And that's why we're vacating the property. One: it's square footage we don't need, and two: there's costs associated with that as the age of the buildings that we would have to take on with roofs, bathroom upgrades, and especially the HVAC is what, you know, the big expense.

DIANNE KUHL: Mm-hmm.

KYLE WAGNER: And so therefore, it's not a liability that we want to continue. Plus, I would have to keep security there, people watching the building, and I would have that expense too.

DIANNE KUHL: All right, I've got one more question for you. So we have the outstanding question of Real Property Services' approval. The county still has to read this one more time before their approval is official, correct?

KYLE WAGNER: Yeah. The property's already been approved to move to Northeastern Technical College's foundation and we're going through another ordinance reread on it to tweak a little bit of the language to make that more clear cut.

DIANNE KUHL: But that still is in play.

KYLE WAGNER: Yeah.

DIANNE KUHL: So is there anything else that could potentially affect…

KYLE WAGNER: No. We've already got the money. The legislature has given us permission, as in the packet, to go ahead and fund the project. That was part of the agreement of pulling out of the Eastside project was to have permission to move that over. And we're ready to go to bid and the State Engineering Office has reviewed them preliminarily, and they're waiting for approval to move forward with the project, and our architect has been working with them closely to make sure that's done.

The other piece of this was the Pageland campus, and that was the other half of this that was talked about in the document. That project's complete and Marlboro County is really concerned because we're still on this-- trying to figure out what to do in that county.

DIANNE KUHL: Is there anybody or any of our Commissioners on the phone have any additional questions?

KIM PHILLIPS: Not at this time.

KEN KIRKLAND: I don't Dianne. Thank you.

DIANNE KUHL: Okay, thank you.

LOUIS LYNN: I don't. Louis Lynn. Thank you.

DIANNE KUHL: Thank you.

I'm going to suggest that we have a motion that our approval be contingent on Real Property Services' approval and the county's approval.

Carrie, do you think that would be appropriate for us to do?

CARRIE EBERLY: Just to make sure everyone else is in agreement as well.

DIANNE KUHL: Yeah.

PAUL BATSON: Could I ask? Will that contingent agreement cause any imposition on the technical college…

KYLE WAGNER: Well, the only thing on that is if they don't approve me giving-- surrendering the property to the county, we're still moving ahead with the project. So if your approval is a contingency on them approving it, then that means I still can't move ahead with the project.

CARRIE EBERLY: Well, the motion can be to recommend the project continues as the other parties continue to review. So it doesn't stop it. It just kind of moves the review process on to the next level.

PAUL BATSON: Right.

CARRIE EBERLY: So our condition would be to recommend that the next level continue to pursue these other two options, the other two moving parts during their consideration, to consider those parts as well as kind of what we're doing. We recognize that they're still open items, but we don't want to stop the process, so we're handing it onto the next level essentially.

PAUL BATSON: I need to understand then. I would not want to see us stop this project.

CARRIE EBERLY: Correct.

PAUL BATSON: Okay.

CARRIE EBERLY: That's not…

PAUL BATSON: So how will… I don't want to have a motion put us in a situation of stopping the progress of the project. So how can we protect, Dianne, your motion and still allow the project to move forward?

DIANNE KUHL: I haven't actually made a motion. I was just…

PAUL BATSON: Okay.

DIANNE KUHL: …suggesting that. So what we're really dealing with are two related, but separate components because even if you don't transfer-- if something happens and you're not allowed to transfer that property, you're still going to get the Winn-Dixie…

KYLE WAGNER: Yes.

DIANNE KUHL: …building and change the venue.

KYLE WAGNER: Yes.

DIANNE KUHL: That's kind of a cat of a different color.

KYLE WAGNER: We're moving ahead with this project and the problem is we haven't had very good advice on how to move this project forward because the money's already in place, the project's already been-- is a done deal. It's already identified property. It meets all the codes that everybody's told us to put on there. It's, I guess, a unique project, and so we don't really know what this approval process is because we've got four things approved that shouldn't have been approved before because of the situation we were in.

The key is we pulled out of a building that was not cost effective…

DIANNE KUHL: Right.

KYLE WAGNER: …for the college to deal with. We moved into a much more modern facility, better location, room to grow, room to expand in that county, and with that we want to reduce cost so we can afford to do this and that's why we're vacating the downtown property that is totally landlocked as a piece of property.

DIANNE KUHL: Carrie, let me ask you a question. Based on what we've been sent and what we're being asked to send over to JBRC…

CARRIE EBERLY: Mm-hmm.

DIANNE KUHL: …if we vote to approve this project, are we only approving the change of scope as it affects the venue or is part of what we're approving also dealing with the transfer of the additional property?

CARRIE EBERLY: As far as I'm aware, we do not have-- our recommendation would be separate from the Real Property transfer and the lease agreement. So we are only considering recommendation of the scope change, which is the change in location. That is our purview.

DIANNE KUHL: So then we could go ahead and approve the scope change and then just attach a note as we send it to JBRC that this…

CARRIE EBERLY: Mm-hmm.

DIANNE KUHL: …additional portion of the project is still…

CARRIE EBERLY: We would recommend that they continue to…

DIANNE KUHL: Okay.

CARRIE EBERLY: …process the other two items.

DIANNE KUHL: Okay, I think we can do that.

PAUL BATSON: I think that's a good move forward.

DIANNE KUHL: Yeah. All right so would you like to make a motion?

PAUL BATSON: I'll make a motion that we approve the project as presented with notation regarding our observations on Real Property Services and the third reading from the County council.

DIANNE KUHL: Perfect. All right, do we have a…

KEN KIRKLAND: I will second that. Commissioner Kirkland.

DIANNE KUHL: Thank you, Ken. Any additional questions or comments? All right, all in favor of the motion as presented?

[Multiple Speakers, "Aye"]

DIANNE KUHL: Any opposition? Congratulations.

KYLE WAGNER: Thank you.

DIANNE KUHL: I hope that was worth the drive down.

[Laughter]

KYLE WAGNER: It's been a project.

DIANNE KUHL: See, we had to ask you some questions. You came all the way here.

[Laughter]

KYLE WAGNER: That's okay. And those are good questions because it's been one of those deals where we really-- nobody's been able to give us real guidance on what we're supposed to be doing with this project because it's unique.

DIANNE KUHL: Yeah, but thank you so much.

We do have a couple of other items on the agenda, which I'm just going to make a note that we are going to have a meeting following the Commission meeting with the Office of Administration Executive Budget Office to talk about CPIP and how we move forward. So, I really don't think we have to address that here.

And since we have precisely one minute, Carrie, do we need to go over staff approvals or are we good?

CARRIE EBERLY: I would just say that the Committee has been presented a list of capital projects processed by staff during the month of August as information.

DIANNE KUHL: Fantastic. Do we have a motion to adjourn?

PAUL BATSON: So moved.

DIANNE KUHL: I'm going to second that. Ladies and gentlemen, we did it by 12:00 o'clock.

PAUL BATSON: Great.

DIANNE KUHL: Committee is adjourned. Mr. Hofferth, all yours.

[End of recording]