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University of South Carolina  
BOARD OF TRUSTEES

Executive Committee

June 23, 2017

The Executive Committee of the University of South Carolina Board of Trustees met at 10:00 a.m. on Friday, June 23, 2017, in the Alumni Center's C. Edward Floyd Boardroom.

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

Other Trustees present were: Mr. Chuck Allen; Mr. J. Egerton Burroughs; Mr. Mark W. Buyck Jr.; Mr. Thomas C. Cofield; Mr. A.C. "Bubba" Fennell; Mr. William C. Hubbard; Ms. Leah B. Moody; Mr. Tommy Preston Jr.; Dr. C. Dorn Smith III; Mr. Thad H. Westbrook; and Mr. Charles H. Williams; with Mr. Mack I. Whittle Jr. joining by telephone.

Also present was Columbia Faculty Senate Chairman Augie Grant and Columbia Student Government President Ross Lordo.

The Board of Visitors (BOV) was invited to join Trustees for lunch and to attend the June 23 meetings. Those in attendance were: Mr. Chip Felkel, Chair; Ms. Julia G. Mims, Vice Chair/Chair-elect; Mr. Moe Brown; Dr. Johnny L. Bruce Jr.; Mr. Mike Collins; Mr. O. Wayne Corley; Mr. Kent M. Eddy; Mr. John W. Fields; Mr. Timothy H. "Tim" Hallman; Mr. John P. Harloe; Mr. Richard C. Litwin; the Reverend R. Tomlinson "Tommy" McGill; Mr. A. Boyd McLeod; Mr. David Miller; Mr. E. Warren Moïse; Ms. Patricia Moore-Pastides; Mr. J. Terry Poole; Mr. W. Norwood Smith; Ms. Carmen Harper Thomas; Ms. Cathy L. Weaver; and Ms. Cheryl S. Wingard.

Others present were: President Harris Pastides; Secretary J. Cantey Heath Jr.; General Counsel Walter "Terry" H. Parham; Chief Operating Officer Edward L. Walton; Provost Joan T.A. Gabel; Chief Financial Officer Leslie Brunelli; Vice President for Student Affairs Dennis A. Pruitt; Athletics Director Ray Tanner; Vice President for Development Jancy Houck; Vice President for Research Prakash Nagarkatti; Vice President for Human Resources Chris Byrd; Vice President for Information Technology Doug Foster; Vice President for Facilities and Transportation Derrick Huggins; Chief Communications Officer Wes Hickman; Vice President for System Planning Mary Anne Fitzpatrick; USC Aiken Chancellor

Sandra Jordan; USC Beaufort Chancellor Al Panu; USC Upstate Chancellor Brendan Kelly; Palmetto College Chancellor Susan Elkins; Senior Associate Vice President for Student Affairs and Academic Support Stacey Bradley; Executive Director for the Office of Economic Engagement William D. “Bill” Kirkland; University Treasurer Pat Lardner; Columbia Budget Director Joe Sobieralski; Director of Capital Budgets and Financing Charlie FitzSimons; Audit & Advisory Services Assistant Director Glenn Murray; USC Aiken School of Business Administration Dean Michael J. “Mick” Fekula; USC Aiken Vice Chancellor for Finance and Administration Cam Reagin; Associate Provost of Palmetto College Campuses and Dean of Extended University Chris Nesmith; Palmetto College Executive Vice Chancellor and Chief Operating Officer Elliot Vittes; Associate Athletics Director, Ticket Operations & Customer Relations, Lance Grantham; College of Arts and Sciences Dean Lacy Ford; Division of Information Technology’s Chief Data Officer Michael C. Kelly; Director of Facilities Planning and Programming and University Architect Derek S. Gruner; USC Columbia Student Government Treasurer J. Merritt Francis; Alan Lipsitz of Nexsen Pruet and Michael Seezen of the McNair Law Firm; University Technology Services Production Manager Matt Warthen; and Board staff members Debra Allen and Leah Kososki.

I. Call to Order

Chairman von Lehe called the meeting to order and stated notice of the meeting had been posted and the press notified as required by the Freedom of Information Act; the agenda and supporting materials had been circulated; and a quorum was present to conduct business.

Mr. Hickman introduced members of the media in attendance: Avery Wilks with *The State*; Mike Woodel with *The Daily Gamecock*; Chandler Mack with WLTX-TV; Russ Congdon and Jack Kuenzie with WIS-TV.

Before proceeding to the agenda items, Chairman von Lehe recognized Dr. Augie Grant, who was attending his last meeting as chairman of the Columbia Campus Faculty Senate.

II. Contracts

Chairman von Lehe called on Mr. Parham to present contracts for approval.

A. Lease Agreement, USC Development Foundation

Mr. Parham said USC Facilities sought Board approval of a lease agreement with the USC Development Foundation. Under the lease, which is the standard State Governmental Real Estate Lease document, USC will acquire the use of 16,000 square feet of space at 1300 Pickens Street for a five-year term beginning August 1, 2017. The rental expense is \$198,400 per year, will be paid monthly, and will total \$992,000 over the five-year term. Parking is included in the lease.

USC Facilities will use this space to replace its current Facilities Center located at 743 Greene Street behind the Colonial Life Arena. Facilities is vacating this location so that UTS can move into it from its current location in the old Law School, which is being converted to classroom/laboratory space.

Chairman von Lehe called for a motion to recommend Board approval of the lease agreement. Mr. Mobley so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

B. Athletics Department

1. Coca-Cola (Coke) Sponsorship Agreement

Pursuant to the multi-media rights contract the Board previously approved between the Athletics Department and IMG d/b/a Gamecock Sports Properties (GSP), Mr. Parham said, the right to negotiate a pouring rights agreement with a soft drink beverage company was provided to GSP. However, the multi-media contract stipulates any pouring rights agreement must be approved by the University. Thus, GSP negotiated and recommended to the Athletics Department that Coke continue to be the pouring rights vendor. The Athletics Department agreed, and Board approval of the contract is requested.

Mr. Parham said Coke has held the pouring rights since August 1, 2001. The term of this agreement is 10 years, beginning August 1, 2017. In exchange for receiving the pouring rights, Coke will pay sponsorship fees totaling \$12,291,979 over the 10-year term, which is a substantial increase over the existing contract.

Additionally, Mr. Parham said, Athletics negotiated an increase in the final year of the existing contract with Coke. Under the existing contract, Coke was supposed to pay a sponsorship fee of \$811,000. The new agreement provides that Coke agrees to pay \$1,041,000 – an increase of \$230,000 – for the final contract year ending July 31, 2017.

The new agreement contains the same rights and responsibilities as the current contract, including certain advertising and sponsorship rights. Under the contract, the Athletics Department agrees to require its concessionaire to sell Coca-Cola products exclusively at all Athletics facilities. No other beverages may be sold or dispensed at Athletics facilities except unbranded fresh squeezed juices, hot coffee or hot tea, while Gatorade sports drinks may be made available to players, coaches, support personnel and other staff on the sidelines and in the locker rooms.

Mr. Parham confirmed the contract needs were discussed with other beverage companies before Coke was selected and the new sponsorship fee reflected a \$300,000 to \$400,000 per year increase over the existing agreement.

Chairman von Lehe called for a motion to recommend Board approval of the Coca-Cola Sponsorship Agreement. Mr. Loadholt so moved. Dr. Floyd seconded the motion. The vote was taken and the motion was approved.

2. IMG Stadium Seating

Mr. Parham said the Athletics Department sought approval of an agreement granting IMG the right to rent Stadium Seat Chair Backs for fans attending USC home football games. The contract grants the right to rent stadium chairs for a five-year term, beginning upon approval of the Board and ending March 31, 2022. Athletics has the right to extend the term for up to two additional one-year periods. The contract can be terminated in the event of a material breach, and will terminate automatically if the Athletics Department's Multi-Media Agreement with IMG is terminated or expires.

Under the contract, IMG is responsible for all aspects of the stadium chair rental program. Any changes in price must be approved by the Athletics Department. Athletics expects to receive approximately \$400,000 per year from IMG for seat rentals under this program.

Chairman von Lehe called for a motion to recommend Board approval of the agreement with IMG to rent stadium seating. Mr. Warr so moved. Mr. Mobley seconded the motion. The vote was taken and the motion was approved.

3. Ticketmaster Extension

Mr. Parham said the Athletics Department sought approval of a new Software and Services Agreement with Ticketmaster under which Ticketmaster will be granted the exclusive right to sell tickets for all events in Athletics Department venues. The contract is the result of a competitive solicitation pursuant to the S.C. Procurement Code. Ticketmaster has been the Athletics Department's ticketing system pursuant to a five-year agreement that ends June 30, 2017, and will continue to provide the full range of services it currently provides. The initial term of the new agreement is three years, beginning July 1, 2017. The Athletics Department has the right to extend the term for up to two additional one-year periods.

Under the agreement, USC will pay Ticketmaster approximately \$80,000 per year for its services (excluding credit card fees). The Athletics Department will recoup these costs from consumers through the price Athletics sets for the tickets. By way of comparison, Mr. Parham said, in the last year of the current contract with Ticketmaster, Athletics paid approximately \$150,000 to Ticketmaster. The reduction in cost is due to the negotiating efforts of Associate Athletics Director for Ticket Operations Lance Grantham. He added that the Athletics Department processes \$60 million annually through the Ticketmaster system.

Chairman von Lehe called for a motion to recommend Board approval of the contract extension with Ticketmaster. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

4. Aramark Sports and Entertainment Services, LLC Agreement

Mr. Parham said the Athletics Department sought approval of a new concessions service agreement with Aramark Sports and Entertainment Services, LLC. Aramark was selected using a competitive solicitation in accordance with the S.C. Procurement Code. Under the agreement, Aramark will be granted the sole and exclusive right to operate concession sales at all Athletics Department venues except for premium areas and suites at Williams-Brice Stadium, which is covered by a separate catering contract.

On the effective date of the 10-year contract, which begins July 1, 2017, Aramark will make an investment of \$3.1 million to be used for leasehold improvements including facility upgrades and equipment. Aramark also will pay the Athletics Department the greater of either (i) a guaranteed commission of \$1.2 million per year, or (ii) a commission based on gross receipts at each athletics venue. The commission for each athletics venue is stipulated in the contract. For example, Athletics will receive 50% of gross receipts at Williams-Brice Stadium. Aramark must allocate 1% of gross receipts for repair, maintenance and equipment replacement, plus an additional infusion of \$20,000 cash annually.

The total value of the contract – using the guaranteed commission rate and the required contribution for improvements, facility upgrades and equipment – is a minimum of \$15.1 million.

Chairman von Lehe called for a motion to recommend Board approval of the concessions agreement with Aramark. Dr. Floyd so moved. Mr. Warr seconded the motion. The vote was taken and the motion was approved.

5. Southern Way Catering

Mr. Parham said the Athletics Department sought approval of an agreement with Southern Way Catering. Under the agreement, Southern Way will provide catering services to the premium areas of Williams-Brice Stadium. These areas were specifically excluded from the Aramark Concessions contract. This contract is the result of a competitive solicitation pursuant to the S.C. Procurement Code.

The term of the contract is three years, beginning July 1, 2017, and can be extended for two additional one-year periods. Under the contract, the suite holder selects the menu and pays Southern Way directly for the 18 suites on the 200 Level of Williams-Brice. For all other premium areas controlled by the

Athletics Department – such as the Zone, the Champion Clubs, Executive Clubs on the 200 Level, 600 Level areas, 700 Level (Visiting AD Suite) – the department will pay Southern Way \$80,000 per home game for all food, beverages and catering services. Thus, for a seven-game home season over a five-year contract, the total cost to Athletics will be \$2.8 million.

In response to a question as to whether there are many complaints about food service, Athletics Director Ray Tanner said the department received its “fair share” of complaints, but that it also received compliments. The department does not get “inundated” with complaints, but when complaints are received the issue is quickly addressed.

Chairman von Lehe called for a motion to recommend Board approval of the contract with Southern Way Catering. Mr. Mobley so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion was approved.

C. Hyatt Regency Seattle Conference Event Contract

Mr. Parham said USC is the founder of the University 101 concept designed to ease high school students’ transition into college. That University 101 concept has evolved over the years into what USC now calls the National Resource Center for the First Year Experience and Students in Transition. To fulfill its mission, the center provides opportunities for the exchange of practical and scholarly information as well as the discussion of trends and issues by convening of conferences and other professional development events, nationally and internationally. One such event will be held at the Hyatt Regency Seattle on February 10-17, 2021.

Therefore, the National Resource Center for the First Year Experience and Students in Transition sought approval of an event contract.

Under the event contract, which is a standard event contract, the Hyatt Regency Seattle Palace will hold the rooms described in the contract (3,516 room nights) and individuals attending the event will pay for the rooms directly. The center guarantees that at least 80% of the reserved rooms will be used (2,813). In the event 80% of the rooms are not utilized, the center is obligated to pay the difference. The center is obligated under the contract to spend at least \$245,000 in food and beverages during the event, which it will pay from the conference fees paid to it by registrants. If the center cancels the conference after the agreement has been signed by the parties, there are cancellation fees based on when the cancellation occurs. Mr. Parham noted the center has never had an event in which the minimum number of rooms were not utilized, nor has it ever had to cancel a conference.

The center estimates 1,800 to 2,000 people will register for the conference at a cost of approximately \$545 each, increasing for registrations closer to the conference date. Additionally, vendors who want exhibits at the conference will pay a fee for space. The center is self-supporting, receiving no state appropriations, and expects to make approximately \$500,000 on this annual conference.

In response to a question about insurance coverage in case a cancellation had to occur, Vice President for Student Affairs Dennis Pruitt said he would check into it, although it would be an expensive option. He added that hotels were more interested in receiving assurances that a conference would rebook at a future date. As to why the conference was not hosted in South Carolina, Dr. Pruitt said it had been at one time, but as the conference had grown, South Carolina no longer had the infrastructure to support it. Instead, he said, smaller regional seminars were held in Columbia. Chairman von Lehe thanked Dr. Pruitt on selection of the conference venue.

President Pastides asked Dr. Pruitt about the reputational gain for the University in this field. “We are the Center for the First Year Experience and University 101 has an international reputation, which is why we host this conference and people come to learn from us.” It is an interesting phenomenon, he added, noting that as the President goes places and introduces himself, people respond, “Oh that is where University 101 is.”

Chairman von Lehe called for a motion to approve the event contract with the Hyatt Regency Seattle. Mr. Warr so moved. Mr. Mobley seconded the motion. The vote was taken and the motion was approved.

D. Verscend Technologies, Inc. Software License Agreement, Addendums

Mr. Parham said the College of Social Work sought approval to purchase two additional software packets from Verscend Technologies, Inc. at a cost of \$413,000, allowing the Institute for Families in Society to fulfill its obligations under a contract with the S.C. Department of Health and Human Services (DHHS) to conduct health services and policy research related to healthcare data. The DHHS contract requires the use of Verscend Technologies software and provides funding for the purchase of the software.

Chairman von Lehe called for a motion to approve the addendums to the Verscend Technologies, Inc. Software License Agreement. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

E. EM Lyon Business School Collaboration Agreement

Mr. Parham said the Darla Moore School of Business (DMSB) sought approval of an academic cooperation agreement with EM Lyon Business School in Ecully, France. Under the agreement, the schools will develop a dual degree doctoral program in business administration. Students will take course work, conduct research and complete a dissertation under the supervision of faculty at both institutions. Upon completion of all degree requirements, students will receive a Ph.D. from each university. Students must meet all admissions requirements and all academic requirements at both schools.

The five-year contract will begin July 1, 2017. DMSB estimates it may have two students per year participate in the program, receiving tuition revenue of approximately \$411,120 over the five-year term.

Mr. Parham confirmed this was a student exchange program and that students would come under the vetting process previously discussed by the Board.

Chairman von Lehe called for a motion to approve the collaboration agreement with EM Lyon Business School. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

F. U.S. Army Chaplain Center and School Agreement

Mr. Parham said Palmetto College sought approval to contract with the U.S. Army Chaplain Center and School to develop an introductory Religious Affairs course that will be offered to U.S. Army Chaplain Assistants. The course will be designed to promote the advancement of knowledge of major world religions, and develop skills in research methodologies related to world religions. It will qualify for undergraduate level college credit towards a degree in Religious Studies. The agreement protects the University's intellectual property rights in the course materials developed by Palmetto College, and ensures faculty teaching the courses are approved by the USC Department of Religious Studies.

Palmetto College will be paid \$4,188.75 per student who successfully completes the course. It is estimated that the U.S. Army will expend \$270,000 per year under this agreement, which equates to approximately 64 students per year.

Chairman von Lehe called for a motion to approve the agreement with the U.S. Army Chaplain Center and School. Dr. Floyd so moved. Mr. Warr seconded the motion. The vote was taken and the motion was approved.

G. USC Upstate

1. NIKE USA, Inc. Agreement

Mr. Parham said USC Upstate sought Board approval of two related Athletics Department apparel and accessories agreements: (1) with NIKE USA, Inc.; and (2) with BSN Sports, LLC. Both of the proposed agreements are for five-year terms, beginning July 1, 2017.

Under the NIKE USA contract, NIKE will be the exclusive outfitter of athletics apparel, footwear and accessories, and equipment for USC Upstate athletics, and USC Upstate agrees to use only NIKE products. He added NIKE usually does not have outfitter agreements with schools the size of USC Upstate. This agreement was the result of the relationship the NIKE representative has with USC Upstate Athletics Director Lee Fowler and Chancellor Brendan Kelly.

USC Upstate will purchase not less than \$100,000 per year of NIKE products and will buy all NIKE products from NIKE's designated team dealer, which is BSN Sports. In exchange, NIKE will give USC Upstate certain annual purchase credits and provide free apparel and equipment each year. Specifically, the women's basketball team will receive 20 pairs of basketball shoes, 20 bags and 20 warm-ups; and NIKE will provide one baseball uniform free for each baseball uniform USC Upstate purchases, up to 40. USC Upstate will provide NIKE four tickets to each regular season home game involving USC Upstate teams, and two tickets to any championship game in which a USC Upstate team participates.

In response to a question about the feasibility of expanding the University's contract with Under Armour to other campus athletic programs, Mr. Parham said President Pastides charged Mr. Tanner and others with looking into this possibility going forward.

Chairman von Lehe called for a motion to approve the agreement with NIKE USA, Inc. Mr. Mobley so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion was approved.

## 2. BSN Sports, LLC Agreement

Under the second contract, Mr. Parham said USC Upstate agrees to buy all NIKE products from BSN Sports. In exchange, BSN Sports will sell NIKE products at certain discounted costs, and provide certain annual branding product credits and product rebates. The BSN Sports contract will terminate automatically if BSN Sports ceases to be NIKE's designated team dealer, or if the NIKE contract is terminated.

Chairman von Lehe called for a motion to approve the agreement with BSN Sports. Dr. Floyd so moved. Mr. Warr seconded the motion. The vote was taken and the motion was approved.

## III. University Risk Assessment and Three-Year Audit Plan

Chairman von Lehe said Audit & Advisory Services had provided the Executive Committee a copy of its annual audit plan for review and approval. The plan was approved by the Audit and

Compliance Committee (A&C) on June 9 – a meeting at which members of the Executive Committee were in attendance and heard Ms. Doran’s presentation of the plan. He called for a motion and second to approve the plan as required by Board Policy 1.06. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

Mr. Fennell noted several audit findings had yet to be resolved. A&C Committee Chairman Dorn Smith said most of the findings related to implementation of PeopleSoft and he assured Trustees A&C would see that these findings were resolved.

#### IV. Revenue Refunding Bonds Resolutions

##### A. Higher Education Revenue Bonds

##### B. Athletic Facilities Revenue Bonds

Chairman von Lehe called on Ms. Brunelli who said the first item was the quarterly debt update. In addition to the debt update, she said there were two refunding opportunities and recognized bond counsel Michael Seezen of the McNair Law Firm and Alan Lipsitz of Nexsen Pruet, along with the University’s Director of Capital Budget and Financing Charlie FitzSimons.

Ms. Brunelli presented a summary of bond indebtedness by category showing an outstanding total of \$582,495,000 as of May 31, 2017. There would be another payment prior to the end of the fiscal year, bringing the outstanding debt to \$579,760,000. She added that there had been several refunding opportunities during the year, which saved more than \$10 million; a debt issuance of \$40.3 million for the Football Operations Center; and \$22 million in principal was paid. Thus, the year-end debt total was only \$8 million more than it was June 30, 2016.

State Institution Bonds for \$43,495,000 would be issued in July by the S.C. Treasurer’s Office, which would provide the funding for the classroom/laboratory renovation of the old Law School. Planning continued for the FY 2019 issuance of Revenue Bonds for the Parking Master Plan and the Housing Master Plan on the Columbia Campus.

Ms. Brunelli then presented current refunding opportunities. First, she described a reissuance opportunity for \$22,585,000 of Higher Education Revenue Bonds to take advantage of lower interest rates. This would offer net present value savings of \$2.1 million, with expected annual savings of \$115,000. The refunding of \$50,595,000 of Athletic Facilities Revenue Bonds would offer net present value savings of \$4.5 million and expected annual savings of \$255,000.

She noted the recent increase in interest rates would cause expected savings to decrease, but that refunding would take place later in the summer when savings may be up again. However, refunding will not go forward unless savings can be realized.

Chairman von Lehe called for a motion to recommend Board approval of the Higher Education Revenue Bonds. Mr. Loadholt so moved. Mr. Lister seconded the motion. The vote was taken and the motion was approved.

Chairman von Lehe called for a motion to recommend Board approval of the Athletic Facilities Revenue Bonds. Dr. Floyd so moved. Mr. Warr seconded the motion. The vote was taken and the motion was approved.

V. University's FY 2017-2018 Annual Operating Budget

Chairman von Lehe called on Ms. Brunelli to present the University's Fiscal Year (FY) 2017-2018 Annual Operating Budget.

Ms. Brunelli said she appreciated the Board's time and counsel as the budget plan was developed. She noted her presentation was a brief version of the materials provided to Trustees. The budget document includes all unit and campus schedules, tuition and fee detail, and information on debt service. Once approved by the Board, the document will be completed and made available on the Board Portal. Printed copies also would be available on request.

The total current funds budget proposed was \$1.58 billion, which is a 3.6% increase over FY 2017. Nearly 50% of budget revenue is composed of tuition and fees, followed by grants, contracts and gifts, auxiliary enterprises (of which athletics is the largest) and then state appropriations. Total state funding is operating funding and special funding for items such as the lottery technology funding for the University's system campuses.

To add perspective to the FY 2018 state appropriation, Ms. Brunelli recalled the University's largest ever state funding of \$230 million in FY 2008. The University's total budget in FY 2008 was \$996 million, making state funds 26% of the University's budget compared to 10.4% for the coming year.

For FY 2018, more than \$900 million will be used to support directly the University's instructional mission. State operating funding does include an increase for FY 2018 of \$3 million across the USC system. There is no new state pay package for FY 2018; however, there is an employer fringe and benefit increase for retirement and health insurance.

Very important for University campuses outside of Columbia is a pool of state funding for technology that is provided to non-research institutions in South Carolina from the lottery. Each Palmetto

College campuses will receive an increase of about \$54,000 this year. She reminded Trustees the state budget contains no money for capital improvements this year.

Ms. Brunelli next detailed the impact of the fringe benefit increases on the University's campuses, which represents only 1% of the 2% increase approved. The retirement and health increases will cost A Funds \$4.6 million, of which USC must cover \$2.7 million. When all employees (auxiliary enterprise, grants and all other funded employees) are included, the estimated fringe increase is \$6.2 million, of which USC must cover \$4.3 million.

The state pension liability is now \$24 billion. A law was passed this year to start addressing this problem by increasing the employer contribution by 2% this year followed by 1% increases over the next five years, which the S.C. Senate has estimated will result in an impact of \$3.2 billion.

Ms. Brunelli said that a 3.46% increase was proposed for tuition and fees for in-state undergraduate students on the Columbia campus, representing a \$408 annual increase. She provided Trustees a comparison chart showing the amount of tuition increases approved at other South Carolina institutions, which ranged from 2.98% to 5.38%. She then provided a breakdown of the proposed 3.46% increase for graduate, law, pharmacy and medical students. The University's comprehensive campuses were requesting a 3% increase. The increase requested for Palmetto College campuses for students earning above 75 hours was 3%, while the increase for students earning under 75 hours was 3.46%.

Changes for auxiliary enterprises (housing and meal plans) are impacted by market and contractual arrangements with food service vendors. For the Columbia campus, Ms. Brunelli said the average increase in housing was 4% and the average increase for the required meal plan was 1.88%. At USC Aiken, the housing increase was 1.27%, with meal plans increasing 2.5%. At USC Upstate, 1.95% for housing and 3% for the meal plan. USC Beaufort has housing and meal plans, but these are controlled and operated by the Beaufort Jasper Higher Education Commission.

Ms. Brunelli noted the entire tuition and fee schedule was provided in the budget materials provided Trustees; however, she detailed for Trustees the colleges which were entering year two of multi-year fee increases approved in FY 2017, along with the Greek Village Student Fee.

The budget process yields many worthy requests that the administration is unable to fund. This year such requests exceeded \$80 million. However, only \$37.5 million is available to address required costs increases and strategic priorities, with some of this funding earmarked for specific projects like the \$1.4 million in state appropriations to partially cover the increased fringe benefits cost. Of that amount, \$17.8

million will come from creation of a 3% Reallocation Fund from service and academic units, with the tuition increase making up \$12.9 million.

Required cost increases include \$3.9 million for increases in fringe benefits and increase associated with the Scholarship 4% Fee Waiver for in-state undergraduates. Another \$2.2 million will be allocated as Board mandated fees to address debt service and for projects associated with the Student Union, Student Health Center and Student Recreation. A total of \$21.3 of the \$37.5 million will support academic initiatives associated with academic instruction, research and academic support such as the Advising Center operations and reducing the faculty/student ratio at the DMSB. Another \$1.5 million will support programs and services requested by Student Affairs including enrollment growth support, student disability services and an early alert initiative for Gamecock Gateway; and \$8.5 million will be allocated for service and administrative programs such as \$3.6 million for implementation of the Human Capital Management portion of PeopleSoft, \$1 million for strategic identity and branding, and \$1.1 million for Law Enforcement and Safety.

Ms. Brunelli said the full draft budget document provided Trustees contained sources and uses schedules for each of the University's system campuses detailing changes to "A" fund operating budgets. Of note are the enrollment gains this year at USC Aiken and USC Beaufort. USC Upstate experienced a slight decline in enrollment, but is projecting stabilized enrollments and an increase in its fund balance for FY 2018. Palmetto College revenues are increasing with new programs coming online in FY 2018, while enrollment at the four regional Palmetto College campuses continue to be stressed.

She concluded the budget proposal, noting the full Capital Budget was available on the Board Portal along with the CPIP, the Five-Year Plan, and a summary debt report.

Chairman von Lehe called on President Pastides who addressed the proposed tuition increase.

The world is a changed place and will continue to change. Taxpayers in South Carolina and in some other states have shifted the financial burden of college to their neighbors who have children in college. We would love college to be free for all, as unrealistic as that is, but increasingly we are passing the costs of this most important human infrastructure to the users. Certainly if it can't be free, and we know it can't be free, we hope that it would be better subsidized. We have in the past tried to request project-based funding; [the State] provided none. We tried proposing a tuition time out, i.e., a tuition freeze; that didn't work. We tried asking for strategic investments. Again, to no

avail. The State of South Carolina is a close third behind only Arizona and Louisiana in higher education cuts over the past decade.

Of the annual \$1.59 billion enterprise, USC was appropriated just \$3 million in new taxpayer support this year. While we are grateful for that, the other side of that coin is the mandated increase in fringe benefits will take out \$4.3 million from non-state resources so the net is actually a negative.

It is important to recognize that even with the proposed increases today, tuition for South Carolinians is still about half what it actually costs to educate them. That is a great deal even when you factor in program fees. And it pays off in the long run. Only half of our students borrow money. Of those who do they borrow less than the national average; about the cost of a car. They get jobs when they graduate and they will make on average \$18,000 a year more than those who do not graduate from college. Over a lifetime they will earn between \$1 and \$2 million more in lifetime wages than those who do not get a degree.

With a proposed tuition increase of 3.46%, a South Carolina resident will pay \$204 more per semester and a non-resident will pay \$540 more. At our Comprehensive Campuses, the increases are 3%, so somewhat less. And still we will have fewer resources than Clemson per students, fewer resources than any other school in the Southeastern Conference and fewer resources than any peer aspirant public university in the United States.

Clemson's tuition next year, they haven't announced what their increase will be, but it will be approximately \$15,000. For the year now ending, the difference between Clemson tuition and the USC Columbia tuition was \$2,462. As a measure of affordability, I'm glad we charge less. But on the other hand, it's a measure of perceived quality. Had we had the Clemson tuition, we would have had \$57 million more this past year in our budget. And, boy could we have used that money in our drive to excellence.

We had over \$80 million in initiative requests this year from the deans and other units. We can barely fund one-fifth of those legitimate needs. You asked us at the Board Retreat to make a new investment toward academic excellence and we are doing that. We are reallocating and the provost will oversee the reallocation of \$17 million from existing funds. These are real internal reallocations. We are doing it with less money. Make no mistake there will be pain felt from those reductions.

So I ask for your support. I want to particularly thank Ross Lordo for his supportive message to the student body. Nobody is particularly happy about raising tuition, I wish it could be zero, but I think this is a prudent increase and we ask for your support.

Chairman von Lehe called for a motion to recommend Board approval of the University's FY 2017-2018 Annual Operating Budget. Mr. Mobley so moved. Mr. Loadholt seconded the motion. The vote was taken and the motion was approved by members of the Executive Committee after discussion by all members of the Board, a summary of which follows.

In response to Trustee Williams' question as to how Clemson's tuition is so much higher, Ms. Brunelli said that in 2000 Clemson had a 40% tuition increase and jumped ahead of USC's tuition level.

Trustee Fennell applauded the 3% Excellence Initiative and asked how it would be allocated. President Pastides said Provost Gabel had appointed a committee to review requests and the administration will bring recommendations back to the Board. He said a representative from the Board also will be requested to serve as a liaison with that committee.

Trustee Fennell asked if faculty/student ratios could be maintained with the growth in enrollment and the impact of faculty leaving who were in the TERE Program. He also wanted to know whether resources were allocated to meet the demands necessary to keep moving toward the University's strategic goals. President Pastides confirmed that nothing in the Excellence Initiative would interfere with accomplishing the University's strategic goals. He went on to note the importance of the additional out-of-state tuition to pay for the required increase in academic and instructional support, as well as facilities, so the \$17 million would not be necessary to take care of the new students. Efforts had been underway for months to plan for the increased enrollment, Provost Gabel said.

Trustee Allen asked about the change from a 3% to a 3.46% tuition increase. Mr. Walton said the initial draft materials included the 3%, but discussions early in the process had identified priorities like relocating the medical school and addressing construction of student activity centers, which led to a recalculation that increased the initial percentage by nearly one-half percent. Chairman von Lehe underscored that budget discussions were underway prior to knowing what the legislature would do with the state budget.

Trustee Buyck asked how high out-of-state tuition could be set before seeing a reduction in the number of students. Ms. Brunelli said that was a concern, noting recent comments of Law School Dean Rob Wilcox addressing this issue.

Trustee Floyd said he felt this was a modest increase for what the University was trying to accomplish. He continued:

In my opinion, the recommendation is low. We have to grow this University. I would like to let everybody know that we are not looking at this budget for the first time. This administration goes around and informs every Trustee about the budget. This is a well thought out budget and an unbelievably good process that we go through to develop it. I've been on this board probably 35 years and you can't imagine how great this looks compared to the process we used to go through. I would like to compliment the administration.

Trustee Williams said since his election to the Board, he had argued that the job of the University was to educate South Carolinians and that he would vote in favor of a tuition increase before bringing in more out-of-state students.

Trustee Mobley asked about the liability down the road related to the Medical School facility, if something was not done to address the situation. Mr. Walton said he could provide specific numbers later, but that ultimately it will cost the University about \$9.5 million per year to maintain the School of Medicine at its current location and about \$6.5 to \$7 million a year to build a new facility. Referring to the bond bill that eventually was not approved by the state this year and which would have helped the University move toward resolving the Medical School needs, Mr. Mobley said, "If we don't address the health system job market, we're going to fall behind in our obligation to the State of South Carolina," noting the \$75 to \$100 million the University would be placing into a facility it did not own.

Trustee Cofield said:

The legislature has failed higher education in South Carolina; and they've failed the University of South Carolina. We find ourselves in a conundrum. The legislature is getting more and more comfortable with giving less and less to higher education. We're like that speck in the rear view mirror that is getting smaller and smaller.

But, we know the old model of simply increasing the tuition and increasing the admission numbers or tinkering around with non-residents; that is not a sustainable model. Yet, every year I have been on the Board we seem to always default back to that basic model. I hope we will have further discussion today before we actually vote. I am quite shocked to hear some express here today they would even want a higher tuition than what is being proposed by the administration.

Trustee Smith responded that no one wants a higher tuition, other than to fund the University's liabilities and its growth. He said the funding model had changed, as state funding for the University had

dropped from 60% to 10% since 1999, which was not sustainable. Mr. Walton confirmed he was correct in stating that after investing about \$100 million to maintain facilities at the Veterans Administration campus for the School of Medicine, the University's lease would expire in 2030 and the University would be faced with renewing the lease at market rates for space requiring major renovation to be serviceable.

Trustee Westbrook agreed with Dr. Smith as to the priority of the Medical School, adding the Board needed to continue seeking legislative support for this strategic initiative. He thanked President Pastides for the Excellence Initiative, which he said was a wonderful idea.

As to the process in which the administration talked with Trustees about what was contained in the budget, Trustee Westbrook said:

We talked about a 3% increase and there was a list of fees that were going to be assessed. At that time, I expressed concern. Frankly, at 3% with the additional fees, I had concerns about where we were going with tuition and required fees. I share Mr. Williams' concern about access. I look at it a bit differently. I worry about access financially. I read a lot about families who are borrowing money for their children to go to school. We are looking at students who are taking on student debt. We are all troubled by this and it is heartening to hear that our students often are below average in the amount of debt they have to incur.

I looked back at last year and the administration proposed a tuition increase that was lower for residents and higher for non-residents, although we didn't go with that. I would be interested going forward in looking at a model where we are trending lower for resident students. We're all talking about a tuition increase, there is no one here saying let's cut our revenue. We are all talking about some type of additional revenue because that is the position we are in. However, can we go to 2.9% or even 2.95% and have a little bit higher increase for out-of-state? This is a model I would be interested in; I am uncomfortable with the current proposal.

Chairman von Lehe interjected that he would like to hear from members of the Executive Committee if they had comments since they were to vote on the budget motion. The budget discussion then continued.

Trustee Burroughs said "the legislature cannot be blamed for our problems." He said legislators ran for office and were elected based on platforms to reduce the state budget, reduce operating costs, and be more efficient. This is what the University should look at doing as well, he said. The cost of the

University's operations had not been addressed as it should. All costs should be examined – the academic side and administrative side – as well as revenue, he said. “If we know we've cut expenses the best we can, then raising the price is easier to do. Every dollar we add on to tuition costs makes it more difficult in today's environment.”

Trustee Loadholt agreed with Dr. Floyd, noting he would support the budget. Trustee Lister agreed with Dr. Floyd, noting, “If anyone here knows of a cost-cutting procedure, we need to address it now.” He added, “We have been forgotten at the Statehouse.”

Trustee Warr said the comments expressed by Trustees were the best he had heard on any issue considered by the Board during his tenure. He continued:

Obviously, everybody here worries about this and has put a lot of thought into it, cares a lot about what is best for the University, and what is best for the people of this state, what can we afford to do, what kind of position are we putting students and their families in.

It is great that we sit here and struggle with it, but we do have to make difficult decisions. I will soon have a child here, paying his tuition. I hear from parents who get on me when we have this vote every year. I wish we could reduce tuition, but we know that is not possible when we look at what we have to do to move forward. I feel like I must go along with the proposal. I don't like it, I struggle with it, but I feel like I have to support it. I appreciate all of the work and thought that has gone into it, and I appreciate all of the comments that have been given here today.

In regard to the process, Chairman von Lehe said, 3% was written in but it was also discussed that it was going to go up to 3.46%. “I do intend to support the motion,” he said.

Trustee Hubbard said he was briefed in regard to a 3% proposal and did not receive any analysis on the precipitating force to go to 3.46%. Therefore, he questioned the budget analysis for the difference. Ms. Brunelli cited the Student Union need, the medical school need, and the needs for Law Enforcement and Safety. The additional \$1.7 million generated by the additional 0.46% would cover the School of Medicine debt service, the bonus funds for Facilities, Law Enforcement and Safety, and the funding for the Student Union.

Chairman von Lehe called on Student Government President Ross Lordo who said he was disheartened by having to raise tuition, and was disappointed that the University continuously received less money from the state. However, he said after being walked through the budget and its different elements

that everything was necessary to continue to push the student experience forward.

Trustee Moody said she did not want to increase tuition, but felt it was necessary after looking at the revenue sources. “We have our hands tied behind our backs as we try to give the best to our students,” she said, noting her support of the proposed budget.

Trustee Preston said a new model going forward needed to be found without relying on the Legislature. He noted he was still paying back student loans, so the discussion was very real to him. There are people who choose not to attend institutions like USC because they can’t afford it, he said, adding that the access issue also was very real, one that he saw day-to-day. “We need to work together to make sure going forward we don’t have to continue having these conversations. And if we do have them, we need to be as prudent as possible to make sure we are not placing financial burdens on the backs of the people of South Carolina. Our mission is to educate the people of South Carolina and provide access to the people of our state. We are doing the best job we can to get to that point, but we must do better.”

Columbia Faculty Senate Chairman Augie Grant expressed appreciation to the Board for all of the work going into ensuring resources to provide educational opportunities. He cited the budget issues as an opportunity to be innovative by working with students to include financial literacy as part of their training.

President Pastides said the discussion had been healthy and extremely positive, noting each Trustee would vote their conscience. Regardless of the comments about the lack of legislative funding and support of higher education, he said he sensed more hope this year about future years than he had before.

As the discussion concluded, Trustee Fennell said he wanted to go on the record as being disappointed the Legislature had not provided a bond bill and was not providing USC the same per student appropriation as Clemson received. Mr. Lordo added that in August, all student body presidents from state institutions would come together to develop a unified advocacy effort for higher education. “The power of the student voice goes a long way and I hope as a University we provide the leadership to shape the message we want to send this coming year.”

## VI. Adjournment

Chairman von Lehe called for any other matters to come before the committee. There being none, he welcomed President Pastides’ wife, Patricia Moore-Pastides, before declaring the meeting adjourned at 11:50 a.m.

Respectfully submitted,

J. Cantey Heath, Jr.  
Secretary