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Agenda Item 3.04

Commission on Higher Education

February 19, 2003

TO: Members, Commission on Higher Education

FROM: Rosemary Byerly, Chair,
Committee on Finance and Facilities

SUBJECT: Facilities Agenda Items for Consideration on March 6, 2003, Coastal Carolina

Attached are the Interim Facilities Projects for consideration at the Commission meeting on March 6, 2003. The Committee is scheduled to meet at 9:00 a.m. on March 6, prior to the Commission meeting, to consider these items.

Summary of Interim Projects

College of Charleston	Craig HVAC and Interior Renovation	$ 1,250,000
MUSC	Children's Research Institute Construction (BSB)	10,000,000
	Walton Research Bldg. Exterior Renovation	(1,000,000)
USC	South Campus Housing Phase III	1,900,000
USC-Beaufort	New River Property Transfer	-0-
USC-Spartanburg	Campus Life Center Addition and Renovation	5,500,000
Winthrop University	Water Street Loop around Johnson Hall, and Johnson Parking Improvements	1,000,000
Lease:		
MUSC	Master Lease Agreement Combining Seven Properties Including Renewal of 4295 Arco Lane	

A. Interim Projects - Descriptions

College of Charleston

Craig Residence Hall Cafeteria HVAC and Interior Renov. — $ 1,250,000 -establish project

Source of Funds: $ 1,250,000 -revenue bonds

Description:
This request is to replace the HVAC equipment servicing the residence hall and cafeteria. Additionally, some interior renovations will be made.

Recommendation:
Staff recommends approval of this project as proposed.

MUSC

Children's Research Institute Constr. $ 10,000,000 -increase budget
($35,140,000 funded previously)

Source of Funds:	$ 9,000,000	-Foundation (letter of guarantee on file)
	1,000,000	-funds trans. from Walton Res. Bldg. Proj.
	$ 10,000,000	

Discussion
The current budget of $35,140,000 would result in four of the seven floors of the Children's Research Institute (CRI) having to be "shell" space with upfits to research space occurring only as funds materialize. This request is to complete the CRI in its entirety, leaving no "shell" space. The Health Science Foundation has committed $9 million for this project, and MUSC plans to transfer $1 million from the Walton Research Building Exterior Renovation Project in to the CRI project. The Walton project was completed under-budget. The $1 million will be used to provide a back-up boiler, a back-up generator and associated switchgear and paralleling equipment as part of the mechanical expansion.

Recommendation
Staff recommends approval of this project as proposed.

MUSC

Walton Research Building Exterior Renovation — $ (1,000,000)-decrease budget/transfer to CRI
($1,600,000 previously funded)

Discussion
MUSC requests approval to transfer $1 million from this project into the CRI Project (described above). This project was completed under-budget, and the $1 million is needed to complete the CRI.

Recommendation:
Staff recommends approval of this project as proposed.

USC-Columbia

South Campus Housing. Ph. III ($29,000,000 previously approved)	$1,900,000	-increase budget
Source of Funds:	$1,900,000	-housing revenue bonds

Discussion:
Phase III of the South Campus Housing Corridor along Wheat Street consists of three buildings arranged around a courtyard and will provide 500 private student rooms in a combination of apartments and suites. Academic and common space will also be provided to allow the residence areas to serve as true living and learning communities. The increase will fund the construction of a learning center on the same site and incorporate it into the overall project plan.

Recommendation
Staff recommends approval of this project as proposed.

USC-Beaufort

New River Property Transfer	-0-	-donation

Discussion:
This project is to accept the transfer of 49.078 acres from the USC Development Foundation. No costs are associated with the transfer. An eighty acre parcel was donated by Union Camp Corporation in 1994 for the development of a campus in Beaufort/Jasper Counties. The transfer of a portion of this property is necessary to enable USC-Beaufort to lease the land to Beaufort County, for the funding of structures and other improvements with county TIF funds. The transfer will also provide for the use of state funds allocated to the New River Campus for construction of facilities and improvements on the property. A map of the property is on file at CHE.

Recommendation:
Staff recommends approval of this project as proposed.

USC-Spartanburg

Campus Life Center Addition and Renovation	$ 5,500,000	-establish project
Source of Funds:	$ 5,000,000	-revenue bonds
	500,000	-institutional capital project funds (ICPF)
Total:	$ 5,500,000	

Discussion:
This project is for a 25,000 to 30,000 SF addition to the Campus Life Center, and renovation of approximately 15,000 SF of existing space. The Center was opened in the fall of 1995 already having a space deficit after having been reduced from its original design due to budget constraints. USC-Spartanburg has grown at a very rapid rate and the programs located in the facility are being severely impacted by the lack of space. The project was originally included as a capital improvement bond request in year 3 of USC-Spartanburg's Comprehensive Permanent

Improvement Plan. However, due to the critical need, the institution has decided to fund the project as described above.

Recommendation
Staff recommends approval of the project as proposed.

Winthrop University

Water Street Loop around Johnson Hall, and Johnson Parking Impr.	$ 1,000,000	-establish project
Source of Funds:	$ 1,000,000	-institution bonds

Discussion:
In May 2003, Winthrop University will begin renovations of its Johnson student parking lot. These renovations will include improvement from a gravel lot to an asphalt paved parking lot. Other improvements will include security lighting, painted vehicle spaces, and appropriate shrubbery buffers. The renovation is expected to last 3-6 months and will require the displacement of student vehicles on campus during this period. Additionally, with the gifting of Water Street to Winthrop by the City of Rock Hill, this street has become the outer-loop road along the western side of the campus. It is vital that Water Street be tied-in to the existing campus street system to improve traffic flow and provide pedestrian safety.

Recommendation
Staff recommends approval of this project as proposed.

LEASES

MUSC

Master Lease Agreement, including	
New lease for 57 Bee Street,	$ 34,344/annually for five years
and Renewal of 4295 Arco Lane	$ 136,800/annually for five years

Discussion
MUSC leases several properties from its Health Science Foundation. The Foundation recently refinanced the debt on some of the properties resulting in a lower payment for the Foundation with the savings passed through to MUSC. The existing leases on the properties were combined into one lease with the payment structure detailed within the lease on each property. All combined leases were existing leases except one, 57 Bee Street. The Bee street property is in a strategic location and fits in with the University's Master Plan for future development. The Foundation also financed a major renovation to the University's warehouse on Arco Lane in North Charleston, consolidating all of the warehouse needs to one location. This enabled MUSC to eliminate lease costs for two other warehouse locations. The consolidation of the warehouse space, and the combining of existing leases into a master lease results in cost savings of $195,120 annually for MUSC. A list of each lease and the annual savings, along with a map of the locations of the lease properties, is on file at CHE.

Recommendation
Staff recommends approval of the Master Lease, including the new lease at 57 Bee Street and the renewal lease the Arco Lane warehouse, provided the rates and terms are found acceptable by the Budget and Control Board's Leasing Office.

Information Item

USC-Aiken
This project is being constructed through independent means and does not require CHE approval. It is presented for information only.

A tax-exempt independent Housing Foundation (501c3) will develop a 300-bed residence hall adjacent to USC-Aiken's existing Pacer Down's apartments and northwest of the current Soccer/Softball complex on property owned by the Aiken County Commission on Higher Education (ACCHE). The project will include a 108,000 SF three-story residence hall with approximately 75 units accommodating four students each. The total estimated cost of the project is $12.3 million. The project will be owned and financed by the Housing Foundation. To develop the project, the Foundation would enter into a long-term lease ground lease with the ACCHE and secure tax-exempt bonds. The property will be managed by USC-Aiken and ownership of the residence hall will revert to the ACCHE upon satisfaction of the debt.

Allocation Methodology Discussion

Each year, as a part of the budget request development process, the Commission on Higher Education reviews the Mission Resource Requirements model (MRR) and the plan for allocating appropriations among the pubic institutions (allocation methodology). The MRR was reviewed in the fall of 2002, with no changes made at that time. The only change under consideration is the continued implementation of the MGT of America recommendation to modify the Student/Faculty Ratios used in the MRR so that the same ratios would be used for all sectors. That recommendation is currently in a phase-in implementation process, with the issue also being reviewed by an ad hoc study committee. The consideration of the allocation methodology was deferred until the spring due to the state's economy and the uncertainty of the fiscal outlook for the upcoming year. The Commission staff and the Funding Advisory Committee were charged with reviewing the allocation methodology, with specific emphasis on the possibility of including a component to address the parity funding issue.

Parity Funding:

The "Parity Funding" issue developed over the past decade due to the following series of events:

- During the late 1980's, as a result of an economic slowdown, increases in state appropriations became severely limited.
- The Commission instituted a "Hold Harmless" policy, whereby institutions with increasing enrollment would forego increases in funding so that institutions with level or declining enrollment would not face a reduction in funding.
- In the early to mid 1990's, as modest funding increases began to occur, the Commission began to address the resulting funding variances. However, prior to achieving parity in levels of funding, Performance Funding was instituted. As a component of instituting Performance Funding, appropriations levels were frozen at the FY 1996 levels, with increases in funding being designated for allocation based on performance.
- In FY 1999-2000, a one-time equity adjustment allocation was made in an effort to address the funding level inequities.
- The current status of allocations includes the vestiges of the funding inequities resulting from the hold harmless policy, with levels of funding ranging from a low of 38 percent to a high of 67 percent based on appropriations compared to MRR amounts. The range of funding levels is not a direct result of differences in performance.

During the fall of 2002, the Committee on Finance and Facilities agreed parity should be addressed, but not until an increase in state appropriations is realized. As mentioned previously, the Finance and Facilities Committee charged the Commission staff and the Funding Advisory Committee with developing a plan for addressing parity funding when an increase in state appropriations occurs.

Commission staff and the Funding Advisory Committee have met numerous times to discuss the issue. More specifically, the discussions included: 1) What is the appropriate definition of parity? 2) Should parity be based on the existing MRR, or should actual tuition and fee revenues be considered? 3) Does a parity problem actually exist? 4) When is the most appropriate time to develop a plan to address parity? And, 5) how do we address the possibility that parity could be a moving target? After considerable discussion of these and other issues, the

Funding Advisory Committee adopted the following recommendation postponing the development of a Parity Allocation Plan:

> In consideration of numerous variables, including: prospective lack of increases in higher education funding, potential changes to the MRR relating to student/faculty ratios and unforeseeable legislative actions, the Funding Advisory Committee respectfully recommends that no changes be made to the existing Commission on Higher Education Allocation Methodology to address Parity at this time.

The recommendation passed on a vote of eight to five. The representatives from the Technical Colleges and the USC Regional Campuses opposed the measure and have submitted a minority report (attached).

As an additional consideration, since the last meeting of the Funding Advisory Committee, the General Assembly has begun deliberations of the budget for the 03-04 fiscal year. As this time, it is clear that higher education will not be receiving any funding increases for operating funds, but rather will be facing significant budgetary reductions.

Recommendation:

Therefore, in consideration of all of the issues discussed above, the Commission staff recommends that the Finance and Facilities Committee reaffirm the existing Commission allocation methodology, which states:

1. All funds are to be allocated based on performance.
2. The rating system and resulting scores, as determined by the Planning and Assessment Committee, will be applied to both the current and previous year's appropriations.
3. In the event of a reduction in current year's appropriations, each institution will receive a pro rata share of the reduction, unless otherwise defined by the legislature. (If the appropriation reduction is 10 percent, then each institution will be reduced by 10 percent, unless the General Assembly dictates exemptions or exceptions.)
4. Total appropriations for each institution will be the combination of previous year's appropriations and their respective share of the current year's appropriations. The two sets of appropriations will be considered as follows:

Previous Year's Appropriation

- Institutions that score an "achieves" or higher on their performance rating will receive their previous year's appropriation.
- An institution scoring less than "achieves" will be subject to the following disincentives:
  - Three percent of its appropriation will be deducted for a "does not achieve" and five percent will be deducted for "substantially does not achieve."
  - The disincentive funds will be added to the current year's appropriation for distribution to the institutions.

Current Year's Appropriation

- Current Year's appropriation is defined as the "new dollars" appropriated by the legislature, plus the disincentive funds from institutions that scored less than "achieve."
- The Current Year's appropriations will be allocated using the following methodology:
  - Funds will be preliminarily allocated based on each institution's share of the total MRR.
  - The preliminary allocation amount will be multiplied by the highest possible percentage score for the performance category earned by the institution (100% for Substantially Exceeds, 94% for Exceeds, 86% for Achieves, 66% for Does Not Achieve, and 48% for Substantially Does Not Achieve) to determine a "performance allocation"
  - Any residual amounts will be allocated among all institutions with a score of at least Achieves, on a pro rata basis.
  - Each institution's share of the current year's appropriations will be the combination of the institution's performance allocation amount and their share of the residual amount.