



# South Carolina Commission on Higher Education

Mr. Tim M. Hofferth, Chair  
Ms. Dianne C. Kuhl, Vice Chair  
Mr. Paul O. Batson, III  
Mr. Devron H. Edwards  
Dr. Bettie Rose Horne  
Mr. Kenneth W. Kirkland  
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Dr. Louis B. Lynn  
Vice Admiral Charles Munns, USN (ret.)  
Mr. Kim F. Phillips  
Ms. Terrye C. Seckinger  
Dr. Jennifer B. Settlemeyer  
Dr. Evans Whitaker

Mr. Gary S. Glenn  
Interim Executive Director

## **MEMORANDUM**

DATE: November 2, 2016

FROM: Gary Glenn, Interim Executive Director

RE: Questions raised in October 25, 2016 Joint Bond Review Committee meeting

During the October 25, 2016 Joint Bond Review Committee meeting, questions were raised regarding the Commission on Higher Education's project vetting process. The attached document is a response which directly answers those questions and is being passed along for your information.

The included examples of collaboration between CHE and our institutions represent a positive step toward meeting the needs of higher education in South Carolina, while also protecting the interests of students and taxpayers.

Should you have any questions or requests for further information, I can be reached via email at [gglenn@che.sc.gov](mailto:gglenn@che.sc.gov) or by phone at (803) 737-2275.

Enclosure



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*During the JBRC meeting on October 25, 2016 Representative Murrell Smith asked how the Commission on Higher Education and USC arrived at the conditions agreed to by the two parties. In his remarks, he stated that the conditions appeared to be arbitrary.*

1. CHE has been very clear over the past several months that we are in the process of implementing a set of financial evaluation metrics relating to the review of capital projects. These tools will allow for a more comprehensive, streamlined evaluation procedure based on objective data, providing a clearer indication of the financial health of our public colleges and universities and allowing us to comply with our statutory mandate to thoroughly vet all capital projects.
2. The requirement for fiscal accountability applies to all capital projects, whether academic, ancillary, or athletic. It is CHE's responsibility to evaluate institutional requests to ensure the mitigation of any potentially negative impact to South Carolina's students and taxpayers.
3. The USC Athletic program includes student fees that support athletic debt as well as operating funds. As long as this is the case, the program at USC cannot be considered wholly self-supporting and decisions concerning athletic spending will continue to affect the cost of attendance.
4. The initial funding plan for USC's Football Operations Center included \$1 million in athletic revenue (which we understood would be replaced with bond funds), a \$2 million up-front cash contribution, and \$47 million in Athletic Revenue Bonds. During deliberations relative to approval of Phase I for this project, commissioners made it clear that there was a significant shortage of private funding in this project and strongly encouraged USC to increase their level of investment and private support when they returned for Phase 2 approval.
5. The Phase 2 submission returned with \$3 million in private funds and \$47 million in athletic revenue bonds. Once again, commissioners made it clear that they were unwilling to support a \$50 million project with 94% of the funding coming from bond indebtedness.
6. As with Clemson's Football Operations Center and Coastal Carolina's stadium expansion, commissioners asked USC to make it possible for them to say "yes." At this point, CHE and USC began conversations focused on finding funding alternatives that would provide additional up-front or guaranteed private investment. USC offered to increase the up-front cash amount to \$6 million and they identified an additional \$13.5 million in private pledges (later increased to \$14 million) that could be applied towards the bond repayment. State regulations prohibit the inclusion of "soft money" in the project proposal, so CHE suggested that these funds be backstopped through new and unencumbered contract revenue, guaranteeing the availability of funds, even in the event of an economic downturn and uncollected pledges. USC agreed to this suggestion. Additionally, we agreed that all private funds collected or contract funds assessed would be placed in an interest bearing account with the principle and all accrued interest earned used toward the payment of the revenue bonds when callable (after 10 years). By USC's estimate, this amount could be upward of \$20M.
7. CHE and USC also reached an agreement to use this opportunity to positively affect the cost of attendance for our in-state students by decreasing athletic fees in the amount of \$1 million per year over a \$10 year period, netting a \$10 million savings over that time period for USC-Columbia's in-state students. This fee reduction

will become effective in the Fall of 2017. Additionally, the university has agreed that in-state athletic related fees will not be increased during the 10 year period.

8. The decision on whether it is necessary to recapture these funds through other means and if so, how to do so, is an institutional decision. CHE did not advise the university to transfer this fee to out-of-state students, and would prefer to see athletic operations funded through athletic revenue.

9. This collaborative effort to both advance the goals of USC's athletic department and protect the interests of South Carolina's students and taxpayers shows great promise for future relationships between CHE and our state's institutions of higher education.

*Representative Smith also asked if this was the first time CHE had negotiated with an institution on a capital project.*

CHE has recently provided the same level of review with athletic proposals submitted by Clemson and Coastal Carolina.

## **1. Clemson University - Football Operations Center**

a. Clemson submitted a very similar Football Operations Facility proposal to CHE for Phase I consideration in October, 2014. The project originally included \$1.5 million in private funding for a \$62.5 million facility. Commissioners questioned the cost of the project and expressed concern over the absence of significant private funding.

b. When Clemson returned to CHE for approval of Phase 2, they amended the request by lowering the cost to \$55 million, and supporting the project with \$35.5 million in private funds. This change represented a 12% decrease in overall project cost and a private investment of 65%. As amended, the project received unanimous approval and Clemson was lauded for their overwhelming responsiveness to the commissioners' concerns.

## **2. Coastal Carolina University - Brooks Stadium Renovation**

a. Earlier this year, Coastal Carolina submitted a proposal to renovate Brooks Stadium in order to meet requirements associated with their move to the SunBelt Conference. Concerns with this project centered on the absence of reliable data concerning the costs of moving to the SunBelt Conference (based on industry norms), as well as the funding sources that would be used to support the project. Athletics at Coastal are not (primarily) self-supporting like the programs at Clemson and USC, and Coastal did not have the contracts, ticket sales, and benefactor support available to provide the revenue enjoyed by Clemson and USC.

b. As Coastal could not issue athletic revenue bonds supported by athletics department operations, their proposal was to issue revenue bonds supported by tuition.

c. According to Coastal's own data for this past academic year, students were already paying \$1,082 per in-state student, per year, in mandatory fees to support Coastal's athletic programs.

d. Against industry norms, Coastal insisted that the transition to their new conference would be cost neutral, an argument that the commissioners did not accept.

e. CHE invested many hours and several committee and commission meetings in negotiations with Coastal, which ultimately resulted in four separate "No" votes by the majority of commissioners. At this point, Coastal determined that legislative intervention was the best way around the commission and further negotiations ended.

f. Although Coastal's stadium expansion ultimately received state approval, one of CHE's concerns has already been validated, as this year alone, Coastal is estimating that mandatory athletic fees charged to each

in-state student will increase to \$1,224, an increase of \$142 (over 13%) with the majority of these new fees needed to support the increased travel and salary expenses the commissioners had projected.

### **3. FY 2016-17 Comprehensive Permanent Improvement Plan (CPIP)**

- a. The effect of the Commission's mandate to implement a more comprehensive vetting process is also evident in the processing of the FY 2016-17 CPIP where \$113 million in proposed capital projects and land purchases were withdrawn from consideration as part of Year 1 CPIP (projects that would be initiated in the current fiscal year) or moved to Year 2 so that institutions could provide additional information when the project was brought back for initial review. This \$113 million reduction resulted from CHE's increased level of project review and our commitment to fiscal accountability and responsibility throughout the state's public colleges and universities.