Minutes
Lease Agreement Planning Subcommittee of the LGC Board
Meeting – March 9, 2015

The first meeting of the Lease Agreement Planning Subcommittee of the Lowcountry Graduate Center (LGC) appointed by Board Chair Brian McGee at the February 19, 2015 Board of Directors meeting took place by teleconference on Monday, March 9, 2015, beginning at 4:00 p.m. The Subcommittee was tasked in accordance with the following motion made by McGee that was passed at the February 19th meeting:

"The construction of an ad hoc committee of the LGC Board, to be chaired by Love and including Hines and Stavrinakis as voting members of the committee and including McGee and Muller as non-voting members charged with the task of negotiating a satisfactory multi-year agreement with the management team of the College of Charleston for the allocation of lease payments between the two parties, to conclude its work by April 30, 2015, so that it might report to the full LGC Board as soon as possible thereafter, recognizing the approaching date of June 30, 2015 as the end of the fiscal year."

On the March 9th call were Love, Hines, Stavrinakis, McGee, and Muller. Also on the call were LGC staff members Patty Simpson and Donna Johnson. Public notice was given > 24 hours in advance and the media was notified of the Subcommittee meeting by teleconference, in accordance with FOIA laws of the State.

Love opened the meeting by confirming such compliance, and suggested that the meeting be held as an Open Meeting rather than in Executive Session since there were no action items and no formal agenda other than discussion, having conferred with chief counsel for The Citadel. No objection was expressed by anyone on the call. As background, Love said that the LGC had been paying in recent years equal to 43% of the rent in a building owned by SCRA, with the College of Charleston (The College) paying 57% for the shared space. The 43% figure, while inherited from the past of an unknown derivation, is the starting point for discussions with The College aimed at determining a fair allocation of lease expense in the new facility first occupied last summer. She added that the LGC is now faced with spending more than it is receiving in recurrent funding by the State. She asked McGee to summarize The College's position on the subject of lease expense allocation.

McGee stated that The College wants the LGC to pay 43% of the lease costs in the current (FY 2014-2015) year, declining to 36% in the following year, and stepping down further to 30% by Year 3 into the new lease. At 43%, the dollar obligation of the LGC translates to $550,000. He said that The College's Board of Trustees had already approved its current year consolidated budget, in which the 43% allocation had been assumed, and The College's senior management did not wish to return to the Board to approve a different amount from the LGC.

Muller stated that it is important to look at the dollar figures when discussing the matter rather than speaking strictly in abstract percentage terms, given the large difference in the size of the LGC in comparison to The College. She stressed the fact that in going from 20,000 square feet in the previous facility to 50,000 square feet, the configuration of space had changed dramatically, also impacting its usage, including that by third parties. She reported that Dean Gibbison told her he was confident that he had been instructed the dollar rent would stay the same for the LGC in the first year of the new lease and therefore the LGC's 2014-2015 budget approved by the LGC Board assumed a lease payment to The College of $210,000. In the Fall of 2014, when Muller prepared for a meeting with Steve Osborne, Amy Orr, and Brian McGee, she analyzed various means of deriving a new percentage allocation based on usage of classroom space or headcount throughout the facility. The LGC's classroom usage based on percentage of hours of space utilization is 28% (Spring 2015) – 29% (Fall 2014). The LGC's usage of space based on percentage of class enrollment, as a proxy for body traffic in the facility and including that of third parties renting space is currently 18.6% (Spring 2015) – 20.1% (Fall 2014). If office space utilization is used as the determining variable, of the 20 permanent offices on the North Campus, 4.5 FTEs are devoted to LGC operations, or 22.5%. Therefore, regardless of how a percentage is derived from the data, Muller maintains that the LGC's fair share falls between 20 and 30% but nothing close to the realm of 43%. She added that current usage of the North Campus is overwhelmingly driven by factors other than graduate student enrollments which have actually declined in recent years mainly due to The College's decision to pull its classes back to the Main Campus. Meanwhile, The College's undergraduate class enrollments on the North Campus have increased 60%, from 936 in FY 2011-2012 to 1,500 in FY 2013-2014. Third party traffic and rentals in the new facility have also greatly increased body count, so much so that The College has added additional staff to manage reservations, food orders, etc. She noted that 100% of the dollar rental income continues to be paid to The College.

Acknowledging The College's substantial investment in IT equipment for the new facility, Muller said that she was told by the North Campus business manager that the LGC paid for 100% of the IT equipment and software in the former facility in addition to 100% of the annual maintenance contract on the equipment. In FY 2013-2014 alone, the LGC paid $39,528 for this IT maintenance support which is no longer needed under the warranty on the new equipment installed at 3800 Paramount. She also noted that during the time there was no permanent LGC director – in which LGC advertising was cut 90% and no new academic graduate programs were launched – carryover funds increased only 11%, from $703,000 to $780,000 while annual recurrent appropriations remained constant at $785,099 each year. During this time and continuing to the present, at least half of all personnel costs associated with marketing, IT support, student services, campus librarian, campus registrar, the Dean's administrative assistant, Director of The College's Continuing Education, and The College's consultant on the North Campus were charged against the LGC budget. In addition to these sums, the LGC has paid annually to The College a management fee in the amount of $55,000. If a 29% allocation of known occupancy expenses were imposed including the base lease, as reflected in the financial present to the LGC at its October 2014 meeting, the LGC would be paying over half of its annual State appropriations to The College, before considering the LGC's subsidy of some North Campus personnel costs.

Muller pointed out that the new lease is structured so the lessee is obligated not only for base rent of $830,000 per year and escalating at 2% annually but all utilities, repairs and maintenance, security, and even the cost of the lessor's site manager. The LGC still doesn't know even an estimate of all of these charges. There are also other charges that fall outside of the lease but which are naturally tied to occupancy, such as sharing telephone charges, Xerox copying expense, general office supplies, etc. She estimates based on what is known and already identified in the LGC's budget that if the LGC were required to pay The College 43% of occupancy expenses plus the $55,000 management fee, approximately 75% of the State's annual, recurrent appropriations to the LGC would be turned over to The College. Muller stated that she did not believe that such a structure is indeed what the State Legislature had in mind when it created the LGC and linked it to The College as its fiscal agent.

In summary, Muller stated that many more details need to be unearthed in actual, current expenses associated with charges from Holder Property above the base rent, as per the lease agreement, before a fixed, multi-year allocation agreement is reached between the LGC and The College. Based on what is known from the facts and information that exist and are known to the LGC, Muller's recommendation is that the LGC pays 20% of all occupancy charges occurring this current fiscal year and agrees to pay no more than 30% for each of the next several years. Costs and facility usage can be then reassessed after there is more history in the building and additional new programs – both by The College's new School of Professional Studies housed on the North Campus and hopefully by the LGC – are launched and generating additional enrollments.

Hines asked what amount is contained in the LGC's original budget approved by the LGC Board. Muller stated it is $210,000 based on the amount paid to SCRA in the last year of its International Boulevard facility.

Stavrinakis said that in his recent conversation with Paul Patrick about this subject, Paul was not educated on the expenses that the LGC has historically paid or is still paying to The College. He added that The College thinks the LGC has "money in the bank" and is not aware that the entity is running an operating deficit. Muller agreed, saying she was surprised in meeting with

Osborne in early October when he claimed that at least part of the $300,000 non-recurrent funding received by the LGC in the current year was for the new, more costly lease. Muller said that she pulled out written notes and Power Point presentations given to House Speaker Bobby Harrell to help secure that request for the LGC, and there was no mention whatsoever of lease payments. Instead, the justification was for the new web site and its support, new program development, and related marketing expenses. McGee objected to this discussion and said that The College is not looking at the LGC "as a cash cow," adding that the College of Charleston management is fully aware of the LGC's structural deficit.

Love asked McGee to get the information on all occupancy expenses in the new facility so that a fair and accurate allocation between the parties could be reached in time for preparation of the new fiscal year budget. McGee said he would get the total costs and distribute the numbers to the Subcommittee. Hines added that the Subcommittee needs to see the facility rental numbers too. Love asked if McGee could have the numbers to everyone by the week of March 16th so that another teleconference by the Subcommittee could be arranged then. McGee agreed this was sufficient time.

Hines stated that it is obvious the LGC needs more money. The 43% allocation "does not work" in a new facility. We need to plan for what expenses are likely to look like for 2-3 years. He felt that 30-35% should be the maximum range moving forward. His feeling was that 30% of total costs of the campus operation seemed reasonable and doable as a commitment by the LGC to cover its share of the lease, utilities, phones, and such. Stavrinakis said that based on what he had heard and read that 25-30% appears to be the place to be and a solution that allows the LGC to survive. Muller said that utilizing a moving average allows one to smooth changes from year to year. Hines agreed but stated that more than two years of actual data is needed for a moving average to be reasonably calculated and applied.

Love stated that the budgeted revenue from the State is half of where it once was. She didn't previously know what the lease payment amount was until recently. Muller explained that the lease arrangement with SCRA was entirely different from the build-to-suit lease agreement with Holder Property. With SCRA, a lump sum was paid that included HVAC and even telephone charges. With Holder, there are still unknowns until we are invoiced. She added that some of the confusion is due to growing pains. McGee said that each institution is expected to pay its fair share. Love said that the State Legislature needs to understand what we are doing with the funds we ask for.

There being no further discussion, Love adjourned the meeting shortly after 5:00 p.m.

Patty Simpson and Nancy Muller
March 19, 2015 – Revised March 22, 2015 as per Brian McGee