

STATE BUDGET AND CONTROL BOARD

Meeting of Wednesday, December 12, 2012 -- 8:30 A. M.

Room 252, Edgar A. Brown Building

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STATE BUDGET AND CONTROL BOARD
Meeting of Wednesday, December 12, 2012 -- 8:30 A. M.
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WATER QUALITY REVOLVING FUND AUTHORITY

Meeting of Wednesday, December 12, 2012 – 8:30 A. M.

Room 252, Edgar A. Brown Building

REGULAR SESSION AGENDA INDEX

Item

No.	Agency	Subject
A.	ADOPTION OF AGENDA	
B.	REGULAR SESSION	
1.	Water Quality Revolving Fund Authority	FY 13 Clean Water State Revolving Fund Loan Policies
C.	ADJOURNMENT	

AGENCY: Water Quality Revolving Fund Authority

SUBJECT: South Carolina Water Quality Revolving Fund Authority FY 13 Clean Water State Revolving Fund Loan Policies

The Clean Water State Revolving Fund is a long-term low-interest loan program capitalized by EPA and administered by the Budget and Control Board Office of Local Government to provide affordable financing for local sewer facilities. Through a series of stakeholder meetings and a review of nationwide best practices in state administration of the Clean Water State Revolving Fund, the Office of Local Government is proposing two new components to the policies governing the program, extended term financing for disadvantaged communities and refinancing of existing debt in conjunction with a new SRF loan.

Extended term financing was determined allowable by the EPA in 2008 and since that time, multiple states have designed programs to offer this service to their customers. Communities with populations less than 20,000 and with an MHI less than 80% of the state MHI often cannot afford the debt service on SRF loans with standard 20 year terms. This would allow borrowers in this situation to extend their term up to 30 years based on the useful life of the facilities to make the loan affordable.

The refinancing of existing debt in conjunction with a new SRF loan will allow borrowers with current debt with high interest rates to lower their overall debt service when pursuing new projects and will facilitate the takeover of non-viable systems with debt at high interest rates. The Office of Local Government is requesting allowance of up to \$5 million per year of the available funding be eligible for refinancing, not to exceed more than 25% of new project costs and prohibiting partial refinance of Rural Development debt.

AUTHORITY ACTION REQUESTED:

Approve the inclusion of Extended Term Financing and Refinancing of Existing Debt in the Clean Water State Revolving Fund according to the parameters defined in the attached policies, and allow the Office of Local Government to adjust these initial parameters annually based on experience and available funding.

ATTACHMENTS:

Agenda item worksheet; FY 13 Clean Water State Revolving Fund Loan Policies

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Agenda: Regular

1. Submitted By:

(a) Agency: *B&C Bd. – Office of Local Government*

(b) Authorized Official Signature: 

2. Subject:

*Meeting of the South Carolina Water Quality Revolving Loan Authority
FY 13 Clean Water State Revolving Fund Loan Policies*

3. Summary and Background Information:

The Clean Water State Revolving Fund is a long-term low-interest loan program capitalized by EPA and administered by the Budget and Control Board Office of Local Government to provide affordable financing for local sewer facilities. Through a series of stakeholder meetings and a review of nationwide best practices in state administration of the Clean Water State Revolving Fund, the Office of Local Government is proposing two new components to the policies governing the program, extended term financing for disadvantaged communities and refinancing of existing debt in conjunction with a new SRF loan.

Extended term financing was determined allowable by the EPA in 2008 and since that time, multiple states have designed programs to offer this service to their customers. Communities with populations less than 20,000 and with an MHI less than 80% of the state MHI often cannot afford the debt service on SRF loans with standard 20 year terms. This would allow borrowers in this situation to extend their term up to 30 years based on the useful life of the facilities to make the loan affordable.

The refinancing of existing debt in conjunction with a new SRF loan will allow borrowers with current debt with high interest rates to lower their overall debt service when pursuing new projects and will facilitate the takeover of non-viable systems with debt at high interest rates. The Office of Local Government is requesting allowance of up to \$5 million per year of the available funding be eligible for refinancing, not to exceed more than 25% of new project costs and prohibiting partial refinance of Rural Development debt.

4. What is Board asked to do?

Acting in its capacity as the South Carolina Water Quality Revolving Loan Authority, approve the inclusion of Extended Term Financing and Refinancing of Existing Debt in the Clean Water State Revolving Fund, according to the parameters defined in the attached policies, and allow the Office of Local Government to adjust these initial parameters annually based on experience and available funding.

5. What is recommendation of Board Division involved?

Approve the inclusion of Extended Term Financing and Refinancing of Existing Debt in the Clean Water State Revolving Fund according to the parameters defined in the attached policies, and allow the Office of Local Government to adjust these initial parameters annually based on experience and available funding..

6. Recommendation of other Division/agency (as required)?

(a) Authorized Signature: _____

(b) Division/Agency Name: _____

7. Supporting Documents

(a) List Those Attached:

FY 13 Clean Water State Revolving Fund Loan Policies.

(b) List Those Not Attached But Available From Submitter:

SOUTH CAROLINA WATER QUALITY REVOLVING FUND AUTHORITY

CWSRF

STATE WATER POLLUTION CONTROL REVOLVING FUND

MAJOR FINANCIAL POLICIES FOR FY 2013 LOANS

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Note: Inquiries should be directed to the Office of Local Government, SC Budget and Control Board, which administers the Fund for the Authority.

SOUTH CAROLINA WATER QUALITY REVOLVING FUND AUTHORITY

CWSRF

STATE WATER POLLUTION CONTROL REVOLVING FUND

MAJOR FINANCIAL POLICIES FOR FY 2013 LOANS

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CWSRF

STATE WATER POLLUTION CONTROL REVOLVING FUND

MAJOR FINANCIAL POLICIES FOR FY 2013 LOANS

I. ELIGIBILITY

Loan applications may be submitted to the Authority in care of the Budget and Control Board, Office of Local Government, for any eligible project that appears on the DHEC Priority List. No loan application will be considered complete until DHEC approves a CWSRF preliminary engineering report and issues a construction permit for the project, or alternative approval, as appropriate to the type of project.

All eligible and reasonable costs associated with completing a project, including 20 year reserve capacity, engineering expenses for the planning, design and construction phases, and legal and appraisal fees may be included in a loan. Specific determinations of eligibility will be made by DHEC. Under certain limited circumstances, refinancing of existing debt may be allowable for inclusion in a loan. See Section IV.

Loans will only be approved by the Authority for creditworthy applicants that can adequately demonstrate the ability to repay the requested loan.

II. INTEREST RATES

Fixed rate financing for up to 100% of total eligible project costs is available according to the following interest rates and criteria for all FY 2013 loans, regardless of when closed.

1. Standard Rate - 50% discount to the January through August, 2012 average of the Bond Buyer 20-Bond GO Index, rounded to the nearest tenth percent.
The resulting Standard Rate for FY 2013 is 1.90%.

The Standard Rate is set prior to the beginning of the federal fiscal year and will remain in effect until July 31, 2013, the deadline to qualify for a FY 2013 loan. Under extraordinary circumstances (significant changes in the municipal bond market), the Authority reserves the right to alter the standard rate within a given fiscal year.

2. Small System Rate - .50 percentage point below Standard Rate

The Small System Rate is available to project sponsors according to the following criteria:

- (a) Total service area population less than 10,000, with total service area being defined as the project sponsor's legal boundaries plus all areas beyond such boundaries where the entity provides sewer service and water service, if applicable;
- (b) Total service area median household income (MHI), not project area MHI, less than the state MHI (\$43,939) based on the 2006-2010 5-year American Community Survey (ACS) estimates; and

- (c) The annual residential user charge (inside rate), including any adopted rate increase, based on 6,000 gallons monthly usage, is at least 1.00% of the applicants MHI, an index called the level-of-effort (LOE).

The Authority will make population determinations based on the latest figures and estimates available from the Budget and Control Board's Office of Research and Statistics (ORS), and other sources, as appropriate. The service area population and MHI must be calculated by ORS for any county or special purpose district, and for any municipality with more than 25% of its customers outside of its incorporated area. When a loan is requested for a jointly owned facility (including purchasers of capacity in a facility) by the legal owner of the facility, population shall include all such joint owners. This paragraph also applies to the Hardship Rate.

3. Hardship Rate - 1.00 percentage point below Standard Rate

The Hardship Rate, available for a revenue or general obligation security pledge, applies only when the loan term is set at the maximum allowable length and under the following conditions.

- (a) Total service area median household income (MHI), not project area MHI, is less than \$35,151 (80.00% of the state MHI) based on the 2006-2010 5-year American Community Survey (ACS) estimates;
- (b) Total service area population is less than 20,000, with total service area being defined as the project sponsor's legal boundaries plus all areas beyond such boundaries where the entity provides sewer service and water service, if applicable; and
- (c) The annual residential user charge (inside rate), including any adopted rate increase, based on 6,000 gallons monthly usage, is at least 1.50% of the applicants MHI (a 1.50% LOE index).

See last paragraph of the immediately preceding section on the Small System Rate for information concerning population and MHI calculations applicable to the Hardship Rate.

All systems qualifying for the Hardship Rate are also deemed to be Disadvantaged Community Systems and may be eligible for extended term financing addressed in Section III.

4. Green Rate - Constant 1.00%

The Green Rate is available for projects, or portions of projects, meeting EPA Green Project Reserve criteria, or for nonpoint source projects where at least 25% of the costs apply to best management practices. Such rate is not applicable to new collector lines in unsewered areas.

5. Takeover Rate - Constant 1.00%

The Takeover Rate is available to any project sponsor, regardless of size and MHI, that assumes legal ownership of an entire non-viable wastewater system serving residential customers. Such rate applies to the cost of replacing or upgrading infrastructure necessary to ensure compliance with the Clean Water Act, but only that portion of costs directly attributable to serving the existing population is eligible for this rate. Any purchase price involved in acquiring a system is not eligible.

III. LOAN TERM

The loan term may not exceed 20 years from the project completion date or the payment initiation date, whichever occurs first. A shorter term is available, but it does not reduce the interest rate.

Upon approval by EPA of extended term financing (ETF) for South Carolina, the loan term may be extended up to 30 years for a Disadvantaged Community System (defined as meeting the Hardship Interest Rate requirements), not to exceed the useful life of the project and when necessary for affordability. For such systems, use of the extended term financing option will add .10% to the interest rate.

IV. REFINANCING EXISTING DEBT

For FY 2013, a maximum of \$5 million will be made available to refinance existing debt for one or more project sponsors according to the following criteria.

- (a) Refinancing may only occur in conjunction with a new SRF loan, is limited to no more than 25% of new project costs, does not apply to existing SRF loans or prior SRF loans that were refunded by bank or market issues, and is necessary for affordability of the new project.
- (b) Any debt to be refinanced must have been issued after March 7, 1985 and met federal requirements as if the project had received SRF funding at the time. Requirements governing the use of Davis-Bacon will be based on EPA guidance.
- (c) Any refinancing of Rural Development (RD) loans must constitute the entirety of a system's RD debt (existing and committed) and be within the above parameters. The CWSRF will not be used to partially refund RD debt.

V. LOAN FEE

A nonrefundable loan closing fee of one-fourth percentage point (0.25% of loan amount) will be assessed on all FY 2013 loans to support the costs of administering the CWSRF. This fee, which is due in full with the project sponsor's executed closing documents, compares very favorably to total costs associated with issuing revenue bonds in the market, but it can not be financed within the loan.

VI. SECURITY PROVISIONS

Loans may be secured by a pledge of user charge revenues, special assessments, general taxes, or, under limited circumstances, other revenues legally pledged to a system over the term of a loan. However, loans may not be secured by Special Source Revenue Bonds pursuant to Title 4, Chapter 29, Code of Laws of South Carolina, 1976, as amended.

The following applies to all loans secured by revenues of a system.

A. Debt Service Coverage

The following policies represent minimum coverage requirements to be considered for a loan secured by system revenues and to be maintained over the life of the loan. Debt service coverage will serve as a key indicator in the financial analysis, but it will not be the sole

determinant for loan approval. Various other factors which affect credit quality and ability to repay debt will be evaluated carefully in making loan decisions.

1. When a CWSRF loan is on a parity with existing revenue bonds, the additional bonds test and coverage requirements (rate covenant) of the governing bond ordinance/resolution shall apply to the CWSRF loan, except, in such cases where the rate covenant is less than 110% of all debt and calculated before transfers out of the system, the Authority may, as it deems appropriate to the particular circumstances, impose a higher coverage requirement.
2. When a CWSRF loan is not on a parity with existing revenue bonds either due to the absence of revenue debt or an inability to meet the financial requirements for issuance of parity debt, the following apply.
 - (a) The minimum debt service coverage level required to be considered for a loan is 110% of all debt secured by or paid from the revenues of the system.
 - (b) Once a loan has been approved, rates must be established, maintained and adjusted as frequently as necessary to produce net earnings each year equal to at least 110% of the annual principal and interest requirement on all debt paid from or secured by system revenues.
 - (c) In cases where a significant portion of the existing debt is paid from but not secured by system revenues and the CWSRF loan is secured by a first lien on the system revenues, the Authority may consider deviations from the eligibility and rate covenant requirements as it deems appropriate to the particular circumstances.

For purposes of determining debt service coverage in the CWSRF, net revenues available for debt service are defined as the system's gross operating revenues plus special assessments, impact fees, and interest income less OM&R expenses (exclusive of depreciation and bond interest expense). Interest income shall not include earnings that are restricted to a purpose inconsistent with the payment of operating expenses or debt service, such as earnings that accrue on any construction fund or account created with the proceeds of any borrowings.

B. Debt Service Reserve Funds

A debt service reserve fund is required for all loans secured by system revenues, except as provided in the following number 6.

1. Except as provided in the following number 5, the Debt Service Reserve Fund requirement (the "Reserve Requirement") equals the maximum amount due on the Promissory Note during any full calendar year. Modifications to the Reserve Requirement may be considered by the Authority as it deems appropriate to specific circumstances if a CWSRF loan is a parity debt obligation under a bond ordinance/resolution with dissimilar provisions.
2. The Debt Service Reserve Fund must be in the complete custody and control of a Trustee or Custodian approved by the Authority.
3. The time period available to meet the Reserve Requirement may range from immediate to no later than the end of the deferral period. The duration will be determined by the Authority based on the circumstances of each individual loan and the specific provisions identified in the Loan Agreement.

4. A surety bond, letter of credit or insurance policy may not be substituted initially, or at any time after loan closing, for cash funding of a debt service reserve fund without the prior written approval of the Authority.
5. The Reserve Requirement may be reduced to the level of one-half of maximum annual debt service on a CWSRF loan if the following criteria of 5(a) and 5(b) are met and maintained.
 - (a) The project sponsor has a current underlying revenue bond rating, or reaffirmation thereof, on its utility system, the revenues of which are to be pledged for loan repayment, from Standard & Poor's and/or Moody's and each such rating is within the "A" category and still in effect at the time of loan closing. The project sponsor will be required to immediately notify, and submit to, the Authority any commentaries, updated outlooks, CreditWatch placements, rating downgrades, or other actions issued by the rating agencies on the system or its debt.
 - (b) The project sponsor's governing bond ordinance/resolution permits parity bonds to have a debt service reserve fund at such reduced level.
 - (c) If a project sponsor receives any ratings downgrade on a revenue bond or on its utility system by Standard & Poor's or Moody's below the levels cited in 5(a) above, the Reserve Requirement will immediately rise to maximum annual debt service, and the project sponsor will be required to meet such Reserve Requirement within one year through 12 equal monthly deposits, beginning in the month following any such downgrade.
6. A debt service reserve fund will not be required on a CWSRF loan if the following criteria of 6(a) and 6(b) are met and maintained.
 - (a) The project sponsor has a current underlying revenue bond rating, or reaffirmation thereof, on its utility system, the revenues of which are to be pledged for loan repayment, from Standard & Poor's and/or Moody's and each such rating is within the "AA" or "Aa" category respectively, or the next higher category, and each such rating is still in effect at the time of loan closing. The project sponsor will be required to immediately notify, and submit to, the Authority any commentaries, updated outlooks, CreditWatch placements, rating downgrades or other actions issued by the rating agencies on the system.
 - (b) The project sponsor's governing bond ordinance/resolution permits parity bonds to not have a debt service reserve fund.
 - (c) If a project sponsor receives any ratings downgrade on a revenue bond or on its utility system by Standard & Poor's or Moody's below the level cited in 6(a) above, a debt service reserve fund will immediately be required and the Reserve Requirement amount shall conform to the requirements above for the new rating level. The project sponsor will be required to meet such Reserve Requirement within 6 months for a downgrade to the "A" category, or 12 months for a lesser rating category, through equal monthly deposits, beginning in the month following any such downgrade.

C. Lien Position

The Authority requires the best lien position on the pledged revenue stream that is reasonably available from and affordable to the applicant; provided, however, if the project sponsor has any debt held by Rural Development, United States Department of Agriculture (RD) in an open lien position, then a CWSRF loan must be on a parity with such RD debt.

Loans may be secured by a general obligation pledge of the full faith, credit and taxing power of the applicant. Such general obligation loans do not require a debt service reserve fund or debt service coverage, but must be issued pursuant to applicable State law for this type of debt.

VII. LOAN AMOUNT CHANGES

A. After Issuance of a Conditional Loan Commitment Letter

The primary adjustment to the loan commitment amount involves the construction component. All construction portions of a project are required to be bid prior to loan closing. Based on bid results, the construction portion of the loan commitment may be adjusted downward to bid(s) plus contingency or increased by a maximum of 10% exclusive of contingency, depending on the availability of funds. Such adjustments will result in proportional changes to the loan fee prior to closing. Any bid amount exceeding 10% of the construction portion of the loan commitment is the sole responsibility of the project sponsor.

B. After Loan Closing

The total loan amount may be increased after closing only for capitalization of interest. Change orders that exceed the contingency allowance are not eligible for additional loan funds. The loan may be reduced at any time there is a determination of excess funds.

VIII. DISBURSEMENT POLICIES

Loan funds will be disbursed to project sponsors on a monthly basis only after adequate documentation has been submitted to evidence obligation of the requested monies. No advances will be provided. Further details on disbursement requirements and procedures are contained in the loan agreement and a CWSRF disbursement information package.

IX. REPAYMENT POLICIES

A. Deferrals

- I. The maximum duration for principal and interest deferral is limited to whichever of the following occurs first.
 - (a) The estimated date of DHEC's final permit to operate for the project.
 - (b) Thirty (30) months from the date of the loan agreement.

The payment initiation date is the first day of the month following the end of the deferral

period. The first payment is due on the first day of the third month after the month of the payment initiation date.

Notwithstanding the above provisions, the Authority may consider extending the deferral period for up to one additional year, but only under extraordinary circumstances involving certain existing bond structures of a borrower. In such cases, the loan amortization period shall be reduced as needed to insure that the time period between the project's permit-to-operate and the final loan repayment does not exceed 20 years or the extended term, as applicable.

2. The project sponsor will be offered the following two options for repaying interest that accrues during the deferral period.
 - (a) Lump sum payment of accrued interest on the payment initiation date.
 - (b) Addition of the accrued interest to the principal amount on the payment initiation date (capitalization of interest).

B. Payment Frequency

Payment of principal and interest will be due quarterly on the first day of the payment month, unless the Authority otherwise specifies monthly payments for certain loans.

C. Payment Provisions

The Project Sponsor is responsible for repaying the loan according to the payment schedule shown in the loan agreement. All disbursements made after the Payment Initiation Date will be considered to have been made on the Payment Initiation Date for purposes of repayment. If the final disbursement occurs after one or more payments have been made and the full loan amount is not used, the Authority will calculate a new repayment schedule based on the final loan amount retroactive to the Payment Initiation Date and apply a simple credit for any overpayment to the next payment or payments due on the revised repayment schedule.

D. Prepayments

There is no penalty for early pay-off of the full outstanding principal amount of a loan or for partial prepayments. Partial prepayments may be submitted based on the following conditions.

- (a) Partial prepayments will only be accepted once during a calendar year on one of the borrower's regular quarterly payment due dates and only in even multiples of \$5,000.
- (b) Advance notice of a partial prepayment with the amount and source of remittance is required to be provided to the Office of Local Government (and trustee, as applicable) at least 10 days prior to the due date of the regular payment.
- (c) All such partial prepayments shall be applied to the then current outstanding principal balance, but the level debt quarterly payment amount will not change.

E. Late Charge on Overdue Payments

A late charge of 3% of the payment amount will be assessed on, and due with, any payment that is not received in the Office of Local Government by the 10th day of the payment month.

F. Payment Default

A payment default will be declared on any loan if the payment is not received within 30 days of the due date. If no payment has been received at the end of the 30th day, the Authority will activate procedures contained in state law which provide for withholding state appropriations and exercise other remedies available to it in the loan agreement, as may be needed.

X. LOAN CANCELLATION POLICIES

Since readiness to proceed is a dominant factor in securing a loan, substantial delays in initiating projects are not anticipated. However, with considerable needs for wastewater facilities, loan monies should be utilized for their intended purpose expeditiously, or be provided to other projects that can do this. Consequently, if a loan has not been closed within three months of the date of a loan commitment letter, the loan commitment may be canceled, and if all construction contracts have not been executed within three months of the loan agreement date, the loan may be rescinded. Under extraordinary circumstances, the project sponsor may submit a time extension request for consideration by the Authority.

XI. FINANCIAL REQUIREMENTS

The following identifies major financial requirements that apply to all loan recipients. Additional financial requirements and responsibilities governing loans from the Fund are defined in the loan application package, the loan agreement and other program materials.

1. Each loan applicant must establish one or more dedicated repayment sources that contain sufficient revenues to operate and maintain the system and cover debt service payments for the duration of the loan. Dedicated sources of revenue may be user charges, special assessments, general taxes, or other sources available to the project sponsor.
2. All loan recipients must maintain separate project accounts in accordance with generally accepted governmental accounting standards. Unless otherwise directed by the Authority, these standards are defined as those contained in the U. S. General Accounting Office publication "Standards for Audit of Governmental Organizations, Programs, Activities and Functions".
3. Each loan recipient is required to conduct an annual audit and submit it to the Authority. Audit guidelines are set forth in the Single Audit Act of 1984, as amended, OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations", as last amended, and the U. S. General Accounting Office's "Standards for Audit of Governmental Organization, Programs, Activities and Functions".
4. Each project sponsor must comply with all terms and conditions set forth in the legally binding loan agreement which will be executed between the loan recipient and the Authority. Among other things, the loan agreement will require the loan recipient to impose, collect and, if necessary to ensure repayment of the obligation according to the terms of the agreement, increase user charges, taxes or other dedicated revenue sources identified for the loan repayment.

XII. NEW INITIATIVES

In FY 2013, the Office of Local Government may provide special initiatives to fund new and innovative pilot programs. As developed, these initiatives will be evaluated and incorporated, as appropriate, into the annual policies and procedures.

STATE BUDGET AND CONTROL BOARD
Meeting of Wednesday, December 12, 2012 -- 8:30 A. M.
Governor's Conference Room, Wade Hampton Building
BLUE AGENDA INDEX

<u>Item</u>	<u>Agency</u>	<u>Subject</u>
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2.	Division of General Services	Real Property Conveyances
3.	Division of General Services	State Ports Authority – Port Royal Property
4.	Division of Procurement Services	Procurement Audits and Certifications
5.	Executive Director	Revenue Bonds
6.	Executive Director	Economic Development (2012 Ceiling Allocations)
7.	Executive Director	Economic Development – 2012 Ceiling Allocations (2012 Volume Cap Carryforward)
8.	Executive Director	Qualified Public Educational Facilities (2012 Volume Cap Carryforward)

STATE BUDGET AND CONTROL BOARD
MEETING OF December 12, 2012

BLUE AGENDA
ITEM NUMBER 1

AGENCY: State Treasurer

SUBJECT: Bond Counsel Selection

The State Treasurer's Office has provided the following notification of the assignment of bond counsel for conduit issues and other revenue issues for which Board approval is requested:

CONDUIT ISSUES: (For ratification of Issuer's Counsel only)

Description of Issue	Agency/Institution (Borrower)	Borrower's Counsel	Issuer's Counsel
\$25,000,000 SC JEDA	CHS Development Company	McNair	Parker Poe
\$10,000,000 SC JEDA	Grace Community Development Inc.	Haynsworth Sinkler Boyd	Howell, Linkous & Nettles
\$4,700,000 SC JEDA	Carolina Senior Solutions	Haynsworth Sinkler Boyd	Nexsen Pruet

BOARD ACTION REQUESTED:

Approve the referenced bond counsel assignment.

ATTACHMENTS:

Bond Counsel Selection Approved by the State Treasurer's Office

Items for December 12, 2012 Budget & Control Board Meeting
 Bond Counsel and Issuer Counsel Selections by the State Treasurer's Office are as follows:

CONDUIT ISSUES: (For ratification of Issuer's Counsel only)				
Description of Issue	Agency/Institution (Borrower)	Borrower's Counsel	Issuer's Counsel	Date STO Approved
\$25,000,000 SC JEDA	CHS Development Company	McNair	Parker Poe	09/12/2012
\$10,000,000 SC JEDA	Grace Community Development Inc.	Haynsworth Sinkler Boyd	Howell, Linkous & Nettles	11/16/2012
\$4,700,000 SC JEDA	Carolina Senior Solutions	Haynsworth Sinkler Boyd	Nexsen Pruet	11/19/2012

OTHER REVENUE ISSUES:

Description of Issue	Agency/Institution	Approved Bond Counsel	Date STO Approved

SPECIAL ASSIGNMENT OF BOND COUNSEL:

Description of Issue	Agency/Institution	Approved Bond Counsel	Date STO Approved

AGENCY: Division of General Services

SUBJECT: Real Property Conveyances

The Division of General Services recommends approval of the following property conveyances:

- (a) **Agency:** **Budget and Control Board (Forestry Commission)**
Acreage: 9.1± acres
Location: 1246 Simpson Circle, Ridgeway
County: Fairfield
Purpose: To dispose of surplus real property.
Appraised Value: \$68,000 as of 2/18/12.
Price/Transferred To: \$65,000/Michael L. Williams
Disposition of Proceeds: To be retained by Forestry Commission pursuant to Proviso 80A.27.
Additional Information: On December 14, 2010, the Board approved the sale of the former Simpson Fire Tower Site for not less than the appraised value which was \$68,000. The property has remained unsold since that time. Mr. Williams has made an offer to purchase the property at less than the appraised value and the Forestry Commission feels it would be in the agency's best interest to accept this offer as it is the only firm offer received since the property has been on the market.
- (b) **Agency:** **State Board for Technical & Comprehensive Education**
Acreage: 5.46± acres
Location: 215 Kentucky Road & 2960 Banny Jones Avenue, West Columbia
County: Lexington
Purpose: To transfer the old SC Fire Academy property to Midlands Technical College. The property will be used to further the College's industrial education program.
Price/Transferred To: No consideration/Midlands Technical College

BOARD ACTION REQUESTED:

Approve the property conveyances as requested.

ATTACHMENTS:

Agenda item worksheet and attachments

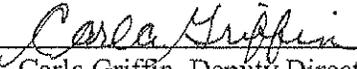
BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Blue Agenda

1. Submitted by:

- (a) Agency: Division of General Services
(b) Authorized Official Signature:


Carla Griffin, Deputy Director

2. Subject: REAL PROPERTY CONVEYANCES

3. Summary Background Information:

- (a) **Agency:** Budget and Control Board (Forestry Commission)
Acreage: 9.1± acres
Location: 1246 Simpson Circle, Ridgeway
County: Fairfield
Purpose: To dispose of surplus real property.
Appraised Value: \$68,000 as of 2/18/12
Price/Transferred To: \$65,000/Michael L. Williams
Disposition of Proceeds: To be retained by Forestry Commission pursuant to Proviso 80A.27.
Additional Information: On December 14, 2010, the Board approved the sale of the former Simpson Fire Tower Site for not less than the appraised value which was \$68,000. The property has remained unsold since that time. Mr. Williams has made an offer to purchase the property at less than the appraised value and the Forestry Commission feels it would be in the agency's best interest to accept this offer as it is the only firm offer received since the property has been on the market.
- (b) **Agency:** State Board for Technical & Comprehensive Education
Acreage: 5.46± acres
Location: 215 Kentucky Road & 2960 Banny Jones Avenue, West Columbia
County: Lexington
Purpose: To transfer the old SC Fire Academy property to Midlands Technical College. The property will be used to further the College's industrial education program.
Price/Transferred To: No consideration/Midlands Technical College
-

4. What is Board asked to do? Approve the property conveyances as requested.

5. What is recommendation of Board Division involved? Recommend approval of the property conveyance as requested.

6. List of Supporting Documents:

1. SC Code of Laws Section 1-11-65
2. 2012 S.C. Act No. 288, Part 1B, §80A.27
3. (a) Budget and Control Board (Forestry Commission) – Fairfield County
(b) State Board for Technical & Comprehensive Education – Richland County

SOUTH CAROLINA CODE OF LAWS

SECTION 1-11-65. Approval and recordation of real property transactions involving governmental bodies.

(A) All transactions involving real property, made for or by any governmental bodies, excluding political subdivisions of the State, must be approved by and recorded with the State Budget and Control Board. Upon approval of the transaction by the Budget and Control Board, there must be recorded simultaneously with the deed, a certificate of acceptance, which acknowledges the board's approval of the transaction. The county recording authority cannot accept for recording any deed not accompanied by a certificate of acceptance. The board may exempt a governmental body from the provisions of this subsection.

(B) All state agencies, departments, and institutions authorized by law to accept gifts of tangible personal property shall have executed by its governing body an acknowledgment of acceptance prior to transfer of the tangible personal property to the agency, department, or institution.

South Carolina General Assembly
119th Session, 2012-2013
H. 4813
General Appropriations Bill for fiscal year 2012-2013
As Ratified by the General Assembly

PART IB

OPERATION OF STATE GOVERNMENT

SECTION 80A - F03-BUDGET AND CONTROL BOARD

80A.27. (BCB: Sale of Surplus Real Property) Up to fifty percent of the proceeds, net of selling expenses, from the sale of surplus real properties shall be retained by the Budget and Control Board and used for the deferred maintenance of state-owned buildings. The remaining fifty percent of the net proceeds shall be returned to the agency that the property is owned by, under the control of, or assigned to and shall be used by that agency for non-recurring purposes. This provision applies to all state agencies and departments except: institutions of higher learning; the Public Service Authority; the Ports Authority; the MUSC Hospital Authority; the Myrtle Beach Air Force Redevelopment Authority; the Department of Transportation; the Columbia State Farmers Market; the Department of Agriculture's Columbia Metrology Lab building and property; the Charleston Naval Complex Redevelopment Authority; the Department of Commerce's Division of Public Railways; the Midlands Technical College Enterprise Campus Authority; the Trident Technical College Enterprise Campus Authority; the Commissioners residence at the Department of Corrections and the Educational Television Commission's Key Road property.

The Educational Television Commission shall be authorized to retain the net proceeds from the sale of its property on Key Road, and such proceeds shall only be used for the renovation of the ETV Telecommunications Center. If it is determined that sufficient net proceeds are not to be derived from the sale of its property on Key Road to cover the cost of all renovations of the Telecommunications Center, the property on Key Road shall not be sold. Any proposed sale hereunder shall, prior to said sale, be submitted to the Budget and Control Board for approval as being in compliance with the requirements of this subsection.

The Department of Corrections shall be authorized to retain the net proceeds from the sale of the residence provided for the Commissioner of the Department of Corrections and use such proceeds for deferred maintenance needs at the Department of Corrections.

The Forestry Commission shall be authorized to retain the net proceeds from the sale of surplus land for use in firefighting operations and replacement of firefighting equipment.

The Department of Mental Health shall be authorized to retain the net proceeds it receives for sale of the property sold in accordance with, and identified in Exhibit A of the Sale and Purchase Agreement dated December 16, 2010 between the Department of Mental Health and Hughes Development Corporation for the sale of 165.79± acres on the Bull Street Campus, as approved by the Budget and Control Board on June 14, 2011.

The Department of Natural Resources shall be authorized to retain the net proceeds from the sale of existing offices originally purchased with a federal grant or with restricted revenue from hunting and fishing license sales for the improvement, consolidation, and/or establishment of regional offices and related facilities.

The Department of Agriculture, the Educational Television Commission, the Department of Corrections, the Department of Natural Resources, the Department of Mental Health and the Forestry Commission shall annually submit a report, within sixty days after the close of the fiscal year, to the Senate Finance Committee and the House Ways and Means Committee on the status of the sale of the identified property and a detailed accounting on the expenditure of funds resulting from such sale.

This provision is comprehensive and supersedes any conflicting provisions concerning disposition of state owned real property whether in permanent law, temporary law or by provision elsewhere in this act.

Any unused portion of these funds may be carried forward into succeeding fiscal years and used for the same purposes.

(a) Budget and Control Board (Forestry Commission)
Fairfield County

List of Supporting Documents:

1. Letter from SC Forestry Commission
2. Map



PO Box 21707
Columbia, SC 29221
(p) 803.896.8800
(f) 803.798.8097
www.trees.sc.gov

Henry E. (Gene) Kodama, State Forester

Nov. 26th 2012

Linda Gordon
General Services
SC Budget & Control Board
Wade Hampton Building, Suite 460
Columbia, SC 29201

Re: Simpson Tower Site

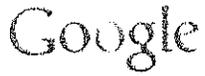
Linda,

I am writing in regards to the sale of the Simpson Fire Tower Site which is located in Fairfield County. This is a 9.1 acre tract that was approved for sale by the Budget & Control Board on Dec. 14th 2010. Since that time we have had no inquiries or offers on that tract until recently. Mr. Michael Williams recently offered to purchase the property for \$65,000.00. The appraisal was updated in February of 2012 and the property appraised for \$68,000.00. The Forestry Commission feels that it is in the best interest of the agency and the State to accept this offer as this is the only firm offer we have had on this property since it has been approved for sale. Upon approval by the Budget & Control Board we would like to proceed with this sale.

Sincerely,

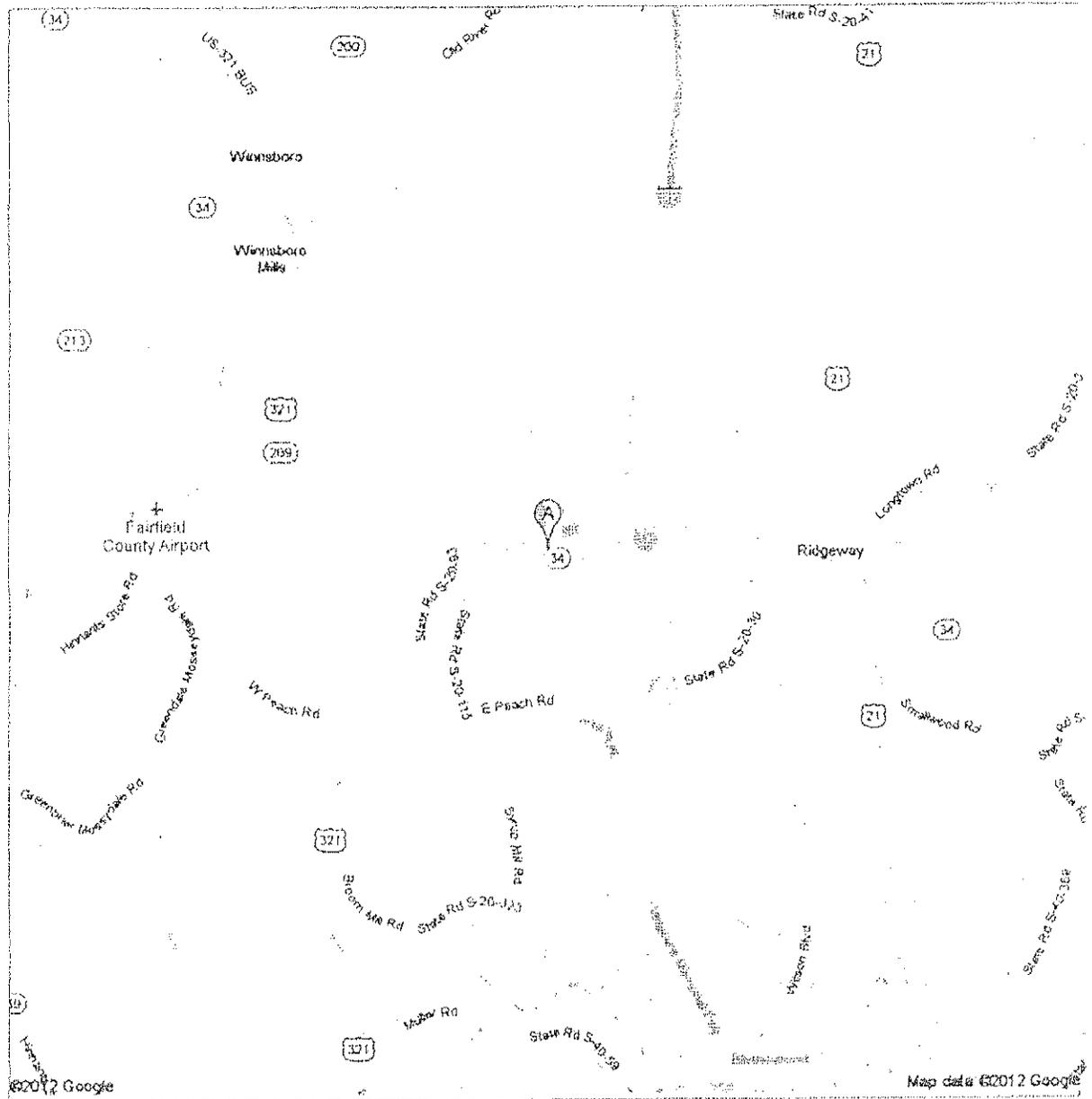
A handwritten signature in cursive script that reads "David P. Owen".

David P. Owen
Construction & Property Manager
SC Forestry Commission
803-896-8829



Address Simpson Cir
Ridgeway, SC 29130

Get Google Maps on your phone
Text the word "GMAPS" to 466453

**(b) State Board for Technical & Comprehensive Education
Richland County**

List of Supporting Documents:

1. Letter from SC State Board for Technical & Comprehensive Education
2. Letter from Midlands Technical College
3. Map



November 20, 2012

Dr. Darrel W. Staat
System President

Ms. Linda Gordon
South Carolina Budget and Control Board
Division of General Services
Real Property Services
Wade Hampton Building
1200 Senate Street, Suite 460
Columbia, SC 29201

Ralph A. Odum, Jr.
Chairman
Fifth Congressional District

Dan P. Gray
First Congressional District

Dear Ms. Gordon:

Wm. Branley Harvey, Jr.
Second Congressional District

On behalf of the South Carolina State Board for Technical and Comprehensive Education (State Board), we are requesting the transfer of property described below to Midlands Technical College (MTC). This property will be used to further the Industrial Education program of the College and has been used by the college over the last several years exclusively.

Bettis C. Rainsford
Third Congressional District

Vacant
Fourth Congressional District

Property known as the "Academy Building" and the "Warehouse Building" located at 215 Kentucky Road and 2960 Banny Jones Avenue, West Columbia, County of Lexington, South Carolina.

Vacant
State Congressional District

Gwendolyn A. Bright
At-Large

Prior to 2008, the State Board used both the Academy Building and Warehouse Building for our readySC program, which provides customized direct training to expanding or new companies. The Academy Building housed our readySC staff and the Warehouse was used to house our equipment for projects. After the budget reductions began in 2008, the State Board began to explore transferring these two properties to MTC as costs saving measures and also due to the changing business operations of readySC since the acquiring these buildings. readySC staff was able to move to the System Office due to our reduction in staff which led to available space. The business operations of readySC have changed over the years by training onsite at company locations or with the technical colleges. This change has all but eliminated the need for us to warehouse equipment and training supplies and materials. The costs savings realized has been lost to budget reductions since 2008 and MTC assumed the buildings in 2010 for their educational needs and assumed all operational costs of the buildings and grounds. In addition, should we need space to provide training we would partner with MTC, like we do with other colleges, to provide space and equipment necessary to ensure delivery of the customized direct training.

Bruce Herbert Ellis
At-Large

Montez C. Martin, Jr.
At-Large

Vacant
At-Large

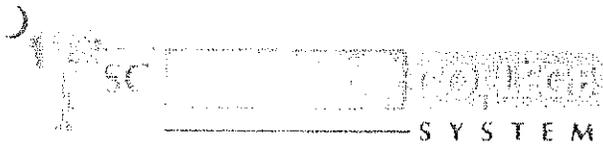
Dr. Mitchell M. Zais
Ex Officio

Robert M. Hitt III
Ex Officio



South Carolina State Board for Technical and Comprehensive Education

111 Executive Center Drive Columbia, SC 29210 (803) 896-5130 Fax (803) 896-5201 www.scsystem.edu



Dr. Darrel W. Staat
System President

In addition, in the General Appropriations Acts of 1991 and 1998, gave MTC the first right to acquire the parcels of land from the State Board. In 1999, the State Board and MTC agreed that at a mutually agreed upon time the properties would transfer from the State Board to MTC.

Thank you in advance for your attention to this matter. Please contact me at (803) 896-5316 if you require additional information about this matter.

Ralph A. Odom, Jr.
Chairman
Fifth Congressional District

Sincerely,

Dan P. Gray
First Congressional District

Wm. Brantley Harvey, Jr.
Second Congressional District

Mandy M. Kibler
Vice President

Bettis C. Kainsford
Third Congressional District

Vacant
Fourth Congressional District

Vacant
Sixth Congressional District

Gwendolyn A. Bright
At-Large

Bruce Herbert Ellis
At-Large

Montez C. Martin, Jr.
At-Large

Vacant
At-Large

Dr. Mitchell M. Zais
Ex Officio

Robert M. Lim III
Ex Officio



South Carolina State Board for Technical and Comprehensive Education

111 Executive Center Drive Columbia, SC 29210 Phone 803 896-5320 Fax 803 896-5281 www.techsystem.edu



November 20, 2012

Ms. Linda Gordon
South Carolina Budget and Control Board
Division of General Services
Real Property Services
Wade Hampton Building
1200 Senate Street, Suite 460
Columbia, SC 29201

Dear Ms. Gordon:

On behalf of the Midlands Technical College, I support the transfer of property described below from South Carolina State Board for Technical and Comprehensive Education to Midlands Technical College. This property will be used to further the Industrial Education program of the College.

Property known as the "Academy Building" and the "Warehouse Building" located at 215 Kentucky Road and 2960 Banny Jones Avenue, West Columbia, County of Lexington, South Carolina.

Thank you in advance for your attention to this matter. Please contact me at (803) 822-3261 if you require additional information about this matter.

Sincerely,

A handwritten signature in cursive script that reads "Ronald L. Rhames".

Dr. Ronald L. Rhames
Senior Vice President and Chief Operating Officer

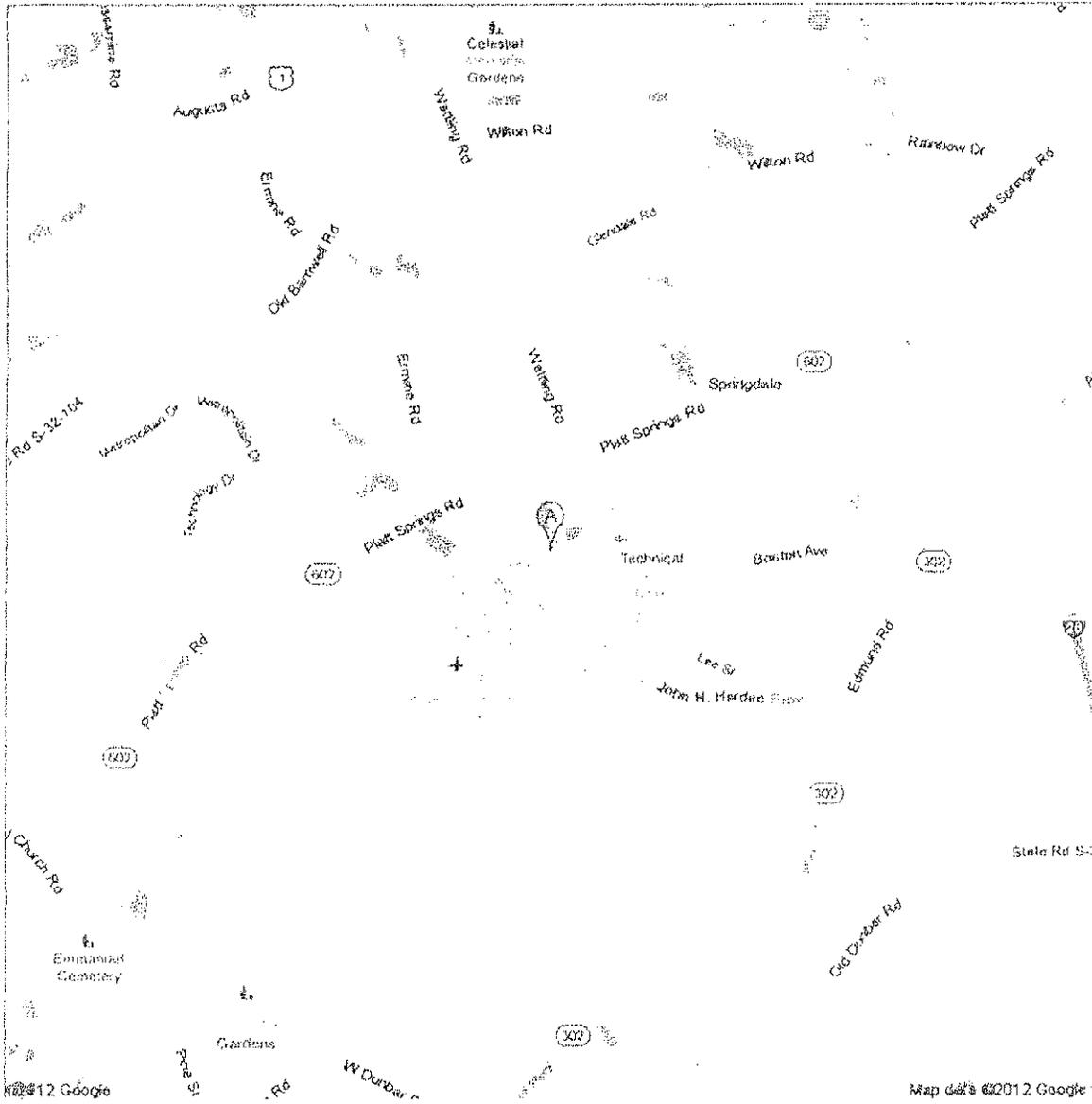
Attachments

C: Dr. Marshall White, Jr., President
Ms. Mandy Kibler, Vice President for Finance
Mr. Craig Hess, Director of Operations



Address 2960 Banny Jones Ave
West Columbia, SC 29170

Get Google Maps on your phone
Text the word "GMAPS" to 466453



Map data ©2012 Google

Map data ©2012 Google

AGENCY: Division of General Services

SUBJECT: State Ports Authority – Port Royal Property

The SC Code of Laws Section 54-3-700 requires certain actions concerning the State Ports Authority (SPA) and its marine terminal at Port Royal consisting of 51.6 acres of highland and 265 acres of marshlands. In addition to the cessation of marine operations, the statute directs the SPA to sell its real and personal property in Port Royal in a “manner that is financially responsible and advantageous to the State Ports Authority.” Since the property was not sold by December 31, 2009, the property was transferred to the Board for sale. The Board is vested with all of the SPA’s fiduciary duties to the SPA and SPA bondholders. The sale proceeds are to be retained by the SPA unless, upon petition by the Town of Port Royal, the Board allocates up to five percent of the funds to pay for infrastructure needs directly associated with and necessitated by the closing and sale of the terminal. At its meeting on December 15, 2009, the Board authorized the SPA and its staff to serve as agents of the Board and to work with the Division of General Services to continue the effort to market the Port Royal property, effective December 31, 2009. At its meeting on February 8, 2011, the Board approved the SPA’s request to continue marketing the Port Royal Property.

The properties were put out for bid by the SPA in 2007 and one bidder met the minimum criteria. A contract was negotiated, approved by the Board and executed by the SPA; however a closing of the sale failed to occur. In March 2008, following the failed sale, the property was placed with NAI Avant to market and sell. Since that time, NAI Avant’s national marketing efforts have resulted in two negotiated contracts. The first contract was approved by the Board at its September 29, 2010 meeting, but ultimately failed to close. The second contract was approved by the Board at its August 11, 2011 meeting, which also ultimately failed to close.

The current listing agreement with NAI Avant for the Port Royal property will expire December 31. NAI Avant has submitted a renewal Listing Agreement to the State Ports Authority for execution. Over the past 5 years they have succeeded in obtaining executed contracts; however these failed to close due to the continued difficulties in the financial markets – especially in funding Brownfield properties such as the closed marine terminal at Port Royal. NAI Avant has funded all of the marketing expense out of pocket and they have not received any of the earnest monies forfeited to the State Ports Authority as the result of the prospective Buyer’s defaulting on their contracts. The State Ports Authority is prepared to execute the renewal Listing Agreement, upon approval by the Budget and Control Board to continue marketing the property.

The listing agreement renewal is for the calendar year 2013 and provides for a 2% commission at Closing if NAI Avant secures the Buyer, and 3% if the Buyer is represented by a duly authorized agent.

AGENCY: Division of General Services

SUBJECT: State Ports Authority – Port Royal Property

Additionally, the Property is currently being re-appraised, which should be completed in mid-December so that full scale marketing can commence without delay.

BOARD ACTION REQUESTED:

Approve the State Ports Authority's request to continue marketing the Port Royal Terminal, which will include the SPA's use of NAI Avant for calendar year 2013.

ATTACHMENTS:

Agenda item worksheet; Letter from the State Ports Authority dated November 26, 2012; Listing Agreement Renewal from NAI Avant

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Blue Agenda

1. Submitted by:

- (a) Agency: Division of General Services
- (b) Authorized Official Signature:


Carla Griffin, Deputy Director

2. Subject: State Ports Authority – Port Royal Property

3. Summary Background Information:

The SC Code of Laws Section 54-3-700 requires certain actions concerning the State Ports Authority (SPA) and its marine terminal at Port Royal consisting of 51.6 acres of highland and 265 acres of marshlands. In addition to the cessation of marine operations, the statute directs the SPA to sell its real and personal property in Port Royal in a “manner that is financially responsible and advantageous to the State Ports Authority.” Since the property was not sold by December 31, 2009, the property was transferred to the Board for sale. The Board is vested with all of the SPA’s fiduciary duties to the SPA and SPA bondholders. The sale proceeds are to be retained by the SPA unless, upon petition by the Town of Port Royal, the Board allocates up to five percent of the funds to pay for infrastructure needs directly associated with and necessitated by the closing and sale of the terminal. At its meeting on December 15, 2009, the Board authorized the SPA and its staff to serve as agents of the Board and to work with the Division of General Services to continue the effort to market the Port Royal property, effective December 31, 2009. At its meeting on February 8, 2011, the Board approved the SPA’s request to continue marketing the Port Royal Property.

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The current listing agreement with NAI Avant for the Port Royal property will expire December 31. NAI Avant has submitted a renewal Listing Agreement to the State Ports Authority for execution. Over the past 5 years they have succeeded in obtaining executed contracts; however these failed to close due to the continued difficulties in the financial markets – especially in funding Brownfield properties such as the closed marine terminal at Port Royal. NAI Avant has funded all of the marketing expense out of pocket and they have not received any of the earnest monies forfeited to the State Ports Authority as the result of the prospective Buyer’s defaulting on their contracts. The State Ports Authority is prepared to execute the renewal Listing Agreement, upon approval by the Budget and Control Board to continue marketing the property.

The listing agreement renewal is for the calendar year 2013 and provides for a 2% commission at Closing if NAI Avant secures the Buyer, and 3% if the Buyer is represented by a duly

authorized agent.

Additionally, the Property is currently being re-appraised, which should be completed in mid-December so that full scale marketing can commence without delay.

4. What is the Board asked to do? Approve the State Ports Authority's request to continue marketing the Port Royal Terminal, which will include the SPA's use of NAI Avant for calendar year 2013.

5. What is the recommendation of the Division of General Services? Approval of the State Ports Authority's request to continue marketing the Port Royal Terminal, which will include the SPA's use of NAI Avant for calendar year 2013.

6. List of Supporting Documents:

- (a) Letter from the State Ports Authority dated November 26, 2012
- (b) Listing Agreement Renewal from NAI Avant

South Carolina State **PORTS AUTHORITY**

JAMES L. NEWSOME, III
President and Chief Executive Officer

P.O. Box 12447
CHARLESTON, S.C. 29413-2487 USA
TEL: (843) 577-8600
FAX: (843) 577-8626

November 27, 2012

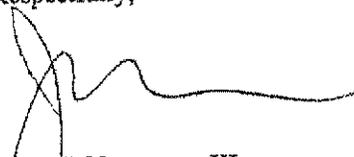
Ms. Marcia Adams
Executive Director
State Budget and Control Board
612 Wade Hampton Building
Box 12444
Columbia, South Carolina 29211

RE: Port Royal Listing Agreement

Pursuant to S.C. Code Ann. § 54-3-700 (1976 as amended), the Ports Authority, with approval of the State Budget and Control Board entered a listing agreement with NAI Avant, LLC, to act as agent in marketing the property designated in the statute. That listing agreement will expire December 31, 2012. NAI Avant has provided a renewal Listing Agreement, a copy of which is attached, which will authorize its continued service as the exclusive agent for marketing the subject property.

This is to request State Budget and Control Board approval for the Ports Authority to execute the new Listing Agreement with NAI Avant, LLC, as attached hereto.

Respectfully,



James L. Newsome, III
JLN, III:mar



1901 Main Street
Suite 200
Columbia, South Carolina 29201
803.254.0100
1.888.251.0102

Exclusive Right to Sell Listing Agreement

THIS AGREEMENT entered into this 1st day of January, 2013 by and between the undersigned Owner and **NAI Avant, LLC** ("Agent").

WITNESSETH:

1. In consideration of the efforts of Agent to obtain a purchaser for the property described below, (the "Property"), Owner hereby appoints Agent as the sole and exclusive agent with the exclusive right to sell for a period commencing on the date above and terminating at midnight on December 31, 2013 the property of Owner, including any and all improvements thereon, described as follows:

All that certain piece, parcel or lot of land with any improvement thereon, situate lying and being in the City of Port Royal, South Carolina, consisting of approximately 316.5 acres owned by the State Ports Authority.

2. Owner agrees to sell, for a total sales price (or prices if more than one sale), acceptable to Owner including commission described below, payable in cash at closing (the "Price"), Agent acknowledges that Owner and Agent will work together to determine the optimal strategy in terms of offering approach and pricing.
3. Owner agrees that a commission of two percent (2.0%) of the sales price shall be earned by Agent if the Property, or any portion thereof, is contracted for during the listing period and subsequently closes. The commission will be deemed earned and payable at closing (or closings if more than one sale) from proceeds received by Owner from the purchaser. In addition, Agent shall be entitled to a commission, if the property is contracted for within six (6) months from the expiration date of this Agreement with anyone to whom the Property was presented by Agent during the listing period and subsequently closes. Agent shall submit to Owner a list of said prospects within ten (10) days of the expiration or termination of this Agreement. A prospect shall be defined as a potential buyer who has received a full marketing package and has visited the site. In the event that a buyer is represented by a duly authorized buyer representative agent, the commission shall be three percent (3.0%).
4. Owner agrees to disclose to Agent complete and accurate information regarding

Initials O _____ A JA

the specifications and operation of the Property and any mortgages, liens or other encumbrances affecting it. Owner authorizes anyone having such an encumbrance on the Property to furnish current and complete information regarding it to the Agent. Owner authorizes Agent to disclose information about the Property to its sales personnel, co-brokers, prospective purchasers and other inquiring parties. Owner agrees to permit and arrange various inspections and showings of the Property as needed. Agent shall not be responsible or liable in any way for vandalism, theft or damage of any kind whatsoever occurring at the Property during the period of this Agreement.

5. Owner agrees to inform Agent of any inquiries or negotiations concerning the Property and to refer to Agent the names of all prospective purchasers and any other brokers, real estate agents or other persons contacting Owner during the listing period.
6. Except as otherwise disclosed in writing to Agent, to Owner's actual knowledge and without inquiry or inspection, there are no designated wetlands nor material defects or hazardous conditions, including asbestos or toxic materials, either visible or unseen, in or at the Property. Agent shall have no duty to conduct an environmental audit or other inspection of the Property.
7. Seller acknowledges receiving an explanation of the types of agency relationships that are offered by brokerage and an Agency Disclosure Form at the first practical opportunity at which substantive contact occurred between the agent and seller. Seller acknowledges that after entering into this written agency contract, agent might request a modification in order to act as a **dual agent** or a **designated agent** in a specific transaction. If asked (Please initial all issues that apply):

 X Permission to act as a **dual agent** will not be considered.

 Permission to act as a **dual agent** may be considered at the time I am provided with information about the other party to a transaction. If I agree, I will execute a separate written **Dual Agency Agreement**.

 Permission to act as a **designated agent** will not be considered.

 X Permission to act as a **designated agent** may be considered at the time I am provided with information about the other party to a transaction. If I agree, I will execute a separate written **Designated Agency Agreement**.

8. Owner shall retain the right to terminate this Agreement at any time during the listing period with five (5) days written notice to Agent.

Initials O A AA

9. Agent shall, at a minimum, perform services as outlined in Exhibit A, as attached. Agent shall be responsible for the cost of preparation and distribution of all marketing materials and advertising.

10. Agent acknowledges and agrees that the negotiations for the sale of the Property are to be treated confidentially in all respects, and that any and all information regarding any potential purchaser, including the identify of the parties, and the terms of any offer or counter offer are to be divulged or discussed only with such representatives or agents of Owner, as may be designated by Owner from time to time. This provision shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date shown above.

WITNESS:

OWNER: South Carolina State Ports Authority

By: _____ (Seal)

AGENT: NAI Avant, LLC

Nancy Hoffmann

[Signature]

LEO (Seal)

Initials O _____ A *JA*

EXHIBIT A

SCOPE OF SERVICES

Agent will perform the following services:

- I. Review all appraisal, due diligence, development agreement, environmental information, and other related site materials available from Owner as well as prior offers received
- II. Consult with Owner, Owner's representatives and advisors on offering structure and finalization of marketing plan
- III. Prepare a comprehensive marketing package to be available on the website, on CD, and hard-copy format
 - A. Up-to-date aerial and ground photography
 - B. Location maps
 - C. Site plans
 - D. Site description and features
 - E. Synopsis of significant materials
 - F. Demographics/market data
 - G. Other relevant material
 - H. An introductory marketing brochure
 - I. Print advertising
- IV. Market the property through a comprehensive list of marketing channels
 - A. Direct contact with NAI Avant's and NAI Global's proprietary databases of known developers and investors
 - B. Mail and email contact with targeted developer/investor groups from secondary research
 - C. Internet marketing on NAI Avant, NAI Global and Loopnet websites
 - D. An active international co-brokerage program with other major commercial real estate companies
 - E. Direct mail to specialty mailing lists
 - F. Print media advertising to include the Wall Street Journal and Urban Land Institute

Initials O _____ A TA

V. Provide on-going updates to all Owner directed parties and advise on recommendations for offering modifications, as appropriate

VI. Work directly with prospects

- A. On-site tours
- B. Response coordination for prospect property questions
- C. Market area tours
- D. Market research for prospect market data needs
- E. Consultation with Owner/contract negotiations
- F. Qualify prospects' experience and capabilities to perform

VII. Work directly with Buyer

- A. Assist with due diligence information request coordination
- B. Assist with closing information needs

Initials O _____ A JA

AGENCY: Division of Procurement Services

SUBJECT: Procurement Audits and Certifications

The Division of Procurement Services, in accord with Section 11-35-1210, has audited the following agencies and recommends certification within the parameters described in the audit reports for the following limits (total potential purchase commitment whether single-or multi-year contracts are used):

- a. Forestry Commission (for a period of three years): supplies and services, \$100,000* per commitment; major firefighting equipment per commodity codes 065, 071, 072, 073, 760 and 765, \$1,000,000* per commitment; consultant services, \$75,000* per commitment; information technology, \$75,000* per commitment.

*Total potential purchase commitment whether single or multi-term contracts are used.

The audit confirms the South Carolina Forestry Commission has the internal controls and expertise to ensure compliance with the requirements of the South Carolina Consolidated Procurement Code and ensuing regulations for the certification limits requested. Further, the Commission requested a certification level of \$1 million for Major Fire Fighting Equipment noting a complete unit (tractor, transport and plow) costs between \$240,000 and \$250,000. This certification level allows the agency to buy three to four units a year depending on Commission needs. Procurement Services' audit results support the certification requested. The recommendation addresses the needs of the Commission and strategically targets its expertise for procurements of Major Fire Fighting Equipment.

- b. Winthrop University (for a period of three years): supplies and services, \$100,000* per commitment; consultant services, 100,000* per commitment; information technology, none recommended; construction services, \$100,000 per commitment; construction contract change order, \$50,000 per change order; architect/engineer contract amendment, \$25,000 per amendment.

*Total potential purchase commitment whether single or multi-term contracts are used.

The reduction in certification results from Winthrop University's failure to follow the State's Procurement Code. Procurement Services will perform an examination within one year to determine if Winthrop's certification should be restored to its previous levels.

AGENCY: Division of Procurement Services

SUBJECT: Procurement Audits and Certifications

BOARD ACTION REQUESTED:

In accord with Section 11-35-1210, grant the following procurement certification within parameters described in the audit reports for the following limits (total potential purchase commitment whether single-or multi- year contracts are used) for the following agency:

- a. Forestry Commission (for a period of three years): supplies and services, \$100,000* per commitment; major firefighting equipment per commodity codes 065, 071, 072, 073, 760 and 765, \$1,000,000* per commitment; consultant services, \$75,000* per commitment; information technology, \$75,000* per commitment.

*Total potential purchase commitment whether single or multi-term contracts are used.

- b. Winthrop University (for a period of three years): supplies and services, \$100,000* per commitment; consultant services, 100,000* per commitment; information technology, none recommended; construction services, \$100,000 per commitment; construction contract change order, \$50,000 per change order; architect/engineer contract amendment, \$25,000 per amendment.

*Total potential purchase commitment whether single or multi-term contracts are used.

The reduction in certification results from Winthrop University's failure to follow the State's Procurement Code. Procurement Services will perform an examination within one year to determine if Winthrop's certification should be restored to its previous levels.

ATTACHMENTS:

Agenda item worksheets and attachments

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

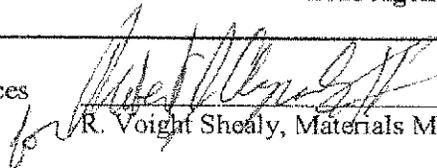
Meeting scheduled for: December 12, 2012

Blue Agenda

1. Submitted by:

(a) Agency: Division of Procurement Services

(b) Authorized Official Signature:


R. Voight Shealy, Materials Management Officer

2. Subject: Procurement Certification for the South Carolina Forestry Commission

3. Summary Background Information:

In accordance with Section 11-35-1210 of the South Carolina Consolidated Procurement Code, the Division of Procurement Services has reviewed the procurement system of the South Carolina Forestry Commission and recommends its certification within the parameters described in the audit report for the following limits for a period of three years.

	<u>Current Certification</u>	<u>Certification Recommended</u>
I. Supplies and Services	*\$ 100,000 Per Commitment	*\$ 100,000 Per Commitment
II. Major Fire Fighting Equipment Per Commodity Codes 065, 071, 072, 073, 760 & 765	*\$1,000,000 Per Commitment	*\$1,000,000 Per Commitment
III. Consultant Services	*\$ 75,000 Per Commitment	*\$ 75,000 Per Commitment
IV. Information Technology	*\$ 75,000 Per Commitment	*\$ 75,000 Per Commitment

*Total potential purchase commitment whether single year or multi-term contracts are used.

The audit confirms the South Carolina Forestry Commission has the internal controls and expertise to ensure compliance with the requirements of the South Carolina Consolidated Procurement Code and ensuing regulations for the certification limits requested. Further, the Commission requested a certification level of \$1 million for Major Fire Fighting Equipment noting a complete unit (tractor, transport and plow) costs between \$240,000 and \$250,000. This certification level allows the agency to buy three to four units a year depending on Commission needs. Our audit results support the certification requested. We believe the recommendation addresses the needs of the Commission and strategically targets its expertise for procurements of Major Fire Fighting Equipment.

4. What is Board asked to do?

Grant procurement certification for the South Carolina Forestry Commission by approval of the Blue Agenda.

5. What is recommendation of Board division involved? Approve.

6. Recommendation of other office (as required)?

(a) Authorized Signature: _____

(b) Division/Agency Name: _____

7. List of supporting documents:

(a) Section 11-35-1210 of the Consolidated Procurement Code

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting scheduled for: December 12, 2012

Blue Agenda

1. Submitted by:

(a) Agency: Division of Procurement Services

(b) Authorized Official Signature:

R. Voight Shealy

R. Voight Shealy, Materials Management Officer

2. Subject: Procurement Certification for Winthrop University

3. Summary Background Information:

In accordance with Section 11-35-1210 of the South Carolina Consolidated Procurement Code, the Division of Procurement Services has reviewed the procurement system of Winthrop University and recommends its certification be reduced within the parameters described in the audit report for the following limits for a period of one year.

	<u>Current Certification</u>	<u>Certification Recommended</u>
I. Supplies and Services	*\$200,000 Per Commitment	*\$100,000 Per Commitment
II. Consultant Services	*\$200,000 Per Commitment	*\$100,000 Per Commitment
III. Information Technology	*\$200,000 Per Commitment	None Recommended
IV. Construction Services	\$100,000 Per Commitment	\$100,000 Per Commitment
V. Construction Contract Change Order	\$50,000 Per Change Order	\$50,000 Per Change Order
VI. Architect/Engineer Contract Amendment	\$ 25,000 Per Amendment	\$ 25,000 Per Amendment

*Total potential purchase commitment whether single year or multi-term contracts are used.

The reduction in certification results from Winthrop University's failure to follow the State's Procurement Code. We will perform an examination within one year to determine if Winthrop's certification should be restored to its previous levels.

4. What is Board asked to do?

Grant procurement certification for Winthrop University by approval of the Blue Agenda.

5. What is recommendation of Board division involved? Approve.

6. Recommendation of other office (as required)?

(a) Authorized Signature: _____

(b) Division/Agency Name: _____

7. List of supporting documents:

(a) Section 11-35-1210 of the Consolidated Procurement Code

South Carolina Consolidated Procurement Code

Auditing and Fiscal Reporting

§ 11-35-1210. Certification

- (1) Authority. The board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The designated board office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.
- (2) Policy. Authorizations granted by the board to a governmental body are subject to the following:
 - (a) adherence to the provisions of this code and the ensuing regulations, particularly concerning competitive procurement methods;
 - (b) responsiveness to user needs;
 - (c) obtaining of the best prices for value received.
- (3) Adherence to Provisions of the Code. All procurements shall be subject to all the appropriate provisions of this code, especially regarding competitive procurement methods and nonrestrictive specifications.

AGENCY: Executive Director

SUBJECT: Revenue Bonds

The required review on the following proposal to issue revenue bonds has been completed with satisfactory results. The project requires approval under State law. Ceiling allocation requests are included in a separate agenda item.

Issuing Authority: Jobs-Economic Development Authority
Amount of Issue: N/E \$30,000,000 (2012A Tax-Exempt) and N/E 3,000,000 (2012B Taxable) Economic Development Revenue Bonds (\$12,500,000 previously approved March 6, 2012)
Allocation Needed: \$30,000,000
Name of Project: LowCountry Biomass, LLC
Employment Impact: maintain 1 job and add 14 within 12 months and 28 within 24 months
Project Description: acquiring, renovating, and equipping a facility for recycling wood pellets for power fuel source, bedding and litter material for small animals, horses and chickens and associated fees and costs
Note: private sale or underwriting
Bond Counsel: E. Tyler Smith, Haynsworth Sinkler Boyd, P. A.

BOARD ACTION REQUESTED:

Adopt a resolution approving the referenced proposal to issue revenue bonds.

ATTACHMENTS:

Resolution

A RESOLUTION APPROVING THE ISSUANCE BY THE SOUTH CAROLINA JOBS-ECONOMIC DEVELOPMENT AUTHORITY THROUGH PRIVATE SALE (OR UNDERWRITING) OF (A) NOT EXCEEDING \$30,000,000 AGGREGATE PRINCIPAL AMOUNT TAX-EXEMPT ECONOMIC DEVELOPMENT REVENUE BONDS (LOWCOUNTRY BIOMASS, LLC PROJECT) SERIES 2012A, AND (B) NOT EXCEEDING \$3,000,000 AGGREGATE PRINCIPAL AMOUNT TAXABLE ECONOMIC DEVELOPMENT REVENUE BONDS (LOWCOUNTRY BIOMASS, LLC PROJECT) SERIES 2012B, PURSUANT TO THE PROVISIONS OF SECTION 41-43-110 OF SOUTH CAROLINA CODE ANNOTATED, TITLE 41, CHAPTER 43 (1976), AS AMENDED.

WHEREAS, the South Carolina Jobs-Economic Development Authority (the "*Authority*") has heretofore under and pursuant to the provisions of Section 41-43-110 of South Carolina Code Annotated, Title 41, Chapter 43 (1976), as amended (the "*Act*"), requested approval by the State Budget and Control Board of the issuance by the Authority pursuant to the Act of its (a) not to exceed \$30,000,000 Tax-Exempt Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012A; and (b) not to exceed \$3,000,000 Taxable Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012B (such Series 2012A and Series 2012B Bonds, collectively, the "*Bonds*"), through private sale (or underwriting) which the Authority has determined to be most advantageous; and

WHEREAS, the Authority represents to the State Budget and Control Board that the Bonds will be placed by a financial institution through a private placement (or underwriting) acceptable to the Authority;

NOW, THEREFORE, BE IT RESOLVED, by the State Budget and Control Board of the State of South Carolina, as follows:

Section 1. It is hereby found, determined and declared by the Board that the Petition, as amended, filed by the Authority contains all matters required by law and the rules of this Board to be set forth therein, and that in consequence thereof the jurisdiction of this Board has been properly invoked under and pursuant to Section 41-43-110 of the Act.

Section 2. In consequence of the foregoing, the proposal of the Authority to issue the Bonds through private sale (or underwriting) acceptable to the Authority be and the same is hereby in all respects approved.

Section 3. This Resolution shall take effect immediately.

AGENCY: Executive Director

SUBJECT: Economic Development (2012 Ceiling Allocations)

The initial balance of the 2012 state ceiling allocation is \$444,526,850. In accord with Code Section 1-11-520, \$177,810,740 (40% of the total) was designated as the state pool and \$266,716,110 (60% of the total) was designated as the local pool. There is presently a state ceiling balance of \$428,826,850 remaining for 2012. Allocation requests for 2012 totaling \$72,500,000 have been received thus far.

The recommendation from the Department of Commerce for allocations for this cycle totals \$30,000,000. The Department of Commerce makes the following recommendation for allocation from the local pool:

JEDA LowCountry Biomass, (Jasper County), \$30,000,000.

If the Board approves the recommended request, this will leave an unexpended state ceiling balance of \$398,826,850 (state pool - \$177,810,740; local pool - \$221,016,110) to be allocated later in the calendar year.

Additionally, in accord with S.C. Code of Laws Section 1-11-560, JEDA has requested the allocation to LowCountry Biomass be designated as carryforward for use in subsequent years. The project is for a solid waste recycling facility and, therefore, qualifies for carryforward designation for the next three calendar years.

BOARD ACTION REQUESTED:

In accord with Code Section 1-11-500 et seq. and upon the recommendation of the Department of Commerce, grant the following tentative ceiling allocation from the local pool, designate the allocation for carryforward for the next three calendar years, and authorize the filing of a carryforward election with the Internal Revenue Service:

JEDA LowCountry Biomass, (Jasper County), \$30,000,000.

ATTACHMENTS:

2012 Ceiling Allocation Requests; Young 11/29/12 Memo; Smith 12/4/12 letter with amended petition; Code Section 1-11-500 et seq.

2012 South Carolina State Ceiling Allocations

Summary, CY 2012

2012 State Ceiling **444,526,850**
 Initial Allocations 72,500,000
 Expired/Relinquished 26,800,000
 Actual Allocations **45,700,000**
 Certified for Issue **15,700,000**
 Carried Forward 0

Balance Available: **398,826,850**

Issuer	Name of Project	Allocation Amount	Expired/Relinquished	Certified for Issue	Issue Date	Attorney
Allocation: 3/6/12 Expiration: 6/4/12						
JEDA	LowCountry BioMass, LLC	12,500,000	12,500,000		expired	Smith
Allocation: 5/9/12 Expiration: 8/7/12 (reinstated 8/8/12)						
JEDA	Viva Recycling of South Carolina, LLC	20,000,000	4,300,000	15,700,000	8/31/12	McKinney
Allocation: 8/8/12 Expiration: 11/6/12						
JEDA	BauschLinnemann North America, Inc.	10,000,000	10,000,000		expired	Lucas
Allocation: 12/12/12 Expiration: 12/31/12						
JEDA	LowCountry BioMass, LLC	30,000,000				Smith

2012 South Carolina State Ceiling
Balance remaining as of December 12, 2012, if ceiling allocation is granted

State Pool (40%) 177,810,740
 Total State Pool (40%) 177,810,740
 Local Pool (60%) 266,716,110
 Total Local Pool (60%) 266,716,110
Certified State Ceiling 2012 444,526,850

Date Allocated	Governmental Unit	Name of Project	Pool Total	Amount Allocated	Balance Available	Certified for Issue	Issue Date	Attorney
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01/04/12	STATE POOL		177,810,740					
TOTAL, STATE POOL			177,810,740	0	177,810,740	0		

01/04/12	LOCAL POOL		266,716,110					
03/06/12	JEDA	LowCountry BioMass, LLC		0		0	expired	Smith
05/09/12	JEDA	Viva Recycling of South Carolina, LLC		15,700,000		15,700,000	expired	Jones
08/08/12	JEDA	Bauschlinnemann North America, Inc.		0		0	expired	Lucas
12/12/12	JEDA	LowCountry BioMass, LLC		30,000,000				Smith

TOTAL, LOCAL POOL			266,716,110	45,700,000	221,016,110	15,700,000		
GRAND TOTAL			444,526,850	45,700,000	398,826,850	15,700,000		



Nikki R. Haley
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Robert M. Hitt III
Secretary

MEMORANDUM

To: Delbert Singleton
From: Daniel Young *ADY*
Date: November 29, 2012
Re: December 12, 2012 meeting

Upon the request of the Budget & Control Board, the South Carolina Department of Commerce evaluates allocation requests that pertain to economic development.

After reviewing the information provided by the law firm of Haynesworth Sinkler Boyd PA, Commerce recommends approval of Economic Development bonds at the December 12, 2012, Budget & Control Board meeting. The company is committing to create 28 new jobs within 24 months.

Name	Amount	Score	County
LowCountry BioMass	\$30,000,000	3	Jasper

Please let me know if you have any questions.

Thank you.

Haynsworth
Sinkler Boyd, P.A.

ATTORNEYS AND COUNSELORS AT LAW

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DOROTHY C. PRY
PARALEGAL
DIRECT DIAL NUMBER 864.240.3245
dpry@hsblawfirm.com

December 4, 2012

Mr. Delbert H. Singleton, Jr.
State Budget and Control Board
604 Wade Hampton Building
Columbia, South Carolina 29201

Re: *Not Exceeding \$30,000,000 South Carolina Jobs-Economic Development Authority Tax-Exempt Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012A, and Not Exceeding \$3,000,000 South Carolina Jobs-Economic Development Authority Taxable Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012B (the "Bonds")*

Dear Mr. Singleton:

Enclosed kindly find:

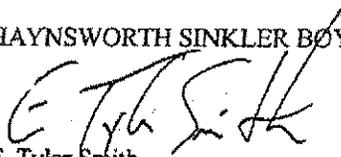
- An amended petition from JEDA in which paragraph 6 requests the \$30 million of state ceiling be allocated with the request for carryforward into 2013.
- The original JEDA inducement resolution in which paragraphs 4 and 8 authorize the inducement agreement as well as providing the JEDA Executive Director generally to take actions in respect of the financing. (As you know, this resolution was subsequently amended as to the bond / project amounts and descriptions.)
- The original JEDA inducement agreement in which paragraphs 3.02(d), 2.01 and 2.04 provide for similar authority. (Again and as you know, this agreement was likewise subsequently amended as to the bond / project amounts and descriptions.)

One helpful item that I do note, is that it appears that in the JEDA resolutions we have typically not included an express reference to ceiling cap allocation, but rather have included the broad authority for JEDA to include that information in the petition (now amended as attached to request the \$30 million carryforward).

Also, Delbert, in case it may be of any assistance to you, you may consider this letter to constitute the legal opinion of this firm that no further action is required, under South Carolina or federal statutes, for the request for carryforward of the \$30 million of ceiling allocation requested in the accompanying petition.

As always, kindly call Dorothy or me with any questions.

HAYNSWORTH SINKLER BOYD, P.A.


E. Tyler Smith

STATE OF SOUTH CAROLINA)
)
COUNTY OF RICHLAND)

TO THE STATE BUDGET AND CONTROL)
)
BOARD OF SOUTH CAROLINA)

AMENDED
PETITION OF SOUTH
CAROLINA JOBS-ECONOMIC
DEVELOPMENT AUTHORITY

This Amended Petition of the South Carolina Jobs-Economic Development Authority (the "Authority"), pursuant to South Carolina Code Annotated, Title 41, Chapter 43 (1976), as amended (the "Act"), and specifically Section 41-43-110 thereof, respectfully shows:

1. The Authority on July 18, 2011, approved a Petition with respect to the not exceeding \$8,600,000 of its Economic Development Revenue Bonds (LowCountry Biomass, LLC Project) (the "Originally Authorized Bonds"), the proceeds of which would be used to defray the cost, as applicable, of the acquisition, renovation, equipping, and installation of a wood pellet mill manufacturing facility for use as a biomass manufacturing and recycling facility using wood residue generated from local sawmills (and other sources to the extent applicable) as a source of fiber feedstock for the manufacturing of wood pellets to be used as a fuel source for the production of electricity or heat, as bedding material for horses and chickens, and as litter material for small animals, to be located at 523 and 579 Nimmer Turf Road in Ridgeland, Jasper County, South Carolina; and to pay certain costs of issuance.

2. The Authority on February 24, 2012, approved an Amended Petition with respect to the bifurcation and increase in the principal amount of the Originally Authorized Bonds resulting in the authorization of (a) not exceeding \$12,500,000 aggregate principal amount Tax-Exempt Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012A, and (b) not exceeding \$1,500,000 aggregate principal amount Taxable Economic Development Revenue Bonds (LowCountry BioMass, LLC Project) Series 2012B.

3. The Authority on September 11, 2012, approved an Amended Petition with respect to a change in the scope of the Project and financing structure which necessitated modifying the financing as follows: (1) tax-exempt Series 2012A Bonds in a principal amount not exceeding \$30,000,000 to be used to defray the costs of the acquisition, equipping, renovation, rehabilitation and installation of a wood pellet mill manufacturing facility, including the addition of one or more dryers, mills presses and other equipment, for use as a biomass manufacturing and recycling facility using wood residue generated from local sawmills (and other sources to the extent applicable) as a source of fiber feedstock for the manufacturing of wood pellets to be used as a fuel source for the production of electricity or heat, as bedding material for horses and chickens, and as litter material for small animals (the "Project"), to be located at 523 and 579 Nimmer Turf Road in Ridgeland, Jasper County, South Carolina, and in financing certain costs of issuance of and relating to the Bonds; and (2) taxable Series 2012B Bonds in a principal amount not exceeding \$3,000,000 to assist in financing certain costs of issuance of and relating to the Bonds and, if applicable, additional Project costs. Portions of the proceeds of the bonds would also be applied, to the extent applicable, in financing in whole or in part (i) debt service reserve fund (if applicable) deposits; and (ii) capitalized interest and additional debt service payments in relation to the bonds.

4. The Borrower has informed the Authority that a change in the scope of the Project necessitates restating the description of the Project as follows:

(1) tax-exempt "Series 2012A Bonds" in a principal amount not exceeding \$30,000,000 to be used to finance, reimburse and/or refinance, as applicable, costs of the acquisition, equipping, renovation, rehabilitation and installation of a wood pellet mill manufacturing facility (including any acquisition, construction and/or expansion of one or more buildings or other structures if ultimately a part of the facility), including the addition of one or more energy and drying systems, pellet presses and other equipment for use as a biomass manufacturing and recycling facility using wood residue generated from local sawmills (and other sources to the extent applicable) as a source of fiber feedstock for the manufacturing of wood pellets to be used as a fuel source for the production of electricity or heat, as bedding material for horses and chickens, and as litter material for small animals (the "Project"), to be located at 523 and 579 Nimmer Turf Road in Ridgeland, Jasper County, South Carolina and in financing certain costs of issuance of and relating to the Bonds; and (2) taxable "Series 2012B Bonds" (together with the Series 2012A Bonds, the "Bonds") in a principal amount not exceeding \$3,000,000 to assist in financing certain costs of issuance of and relating to the Bonds and, if applicable, additional Project costs. Portions of the proceeds of the Bonds may also be applied, to the extent applicable, in financing in whole or in part (i) debt service reserve fund (if applicable) deposits; and (ii) capitalized interest and additional debt service payments in relation to the Bonds.

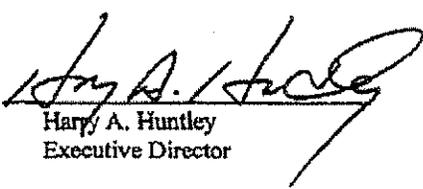
5. The Board of the Authority on November 13, 2012, approved a resolution amending the resolution adopted on July 18, 2011, and amended on February 24, 2012, and September 11, 2012, so as to amend the description of the Project as stated above, and authorized the Executive Director to execute and deliver this amended petition.

6. The Authority, at the request of the Borrower, hereby requests that the State Budget and Control Board (i) allocate to the Bonds such portion of the state ceiling as established by the Tax Reform Act of 1986 and the Internal Revenue Code of 1986, as amended, as is necessary for the issuance of the Bonds to finance the Project (not exceeding \$30,000,000) and (ii) permit the carryforward of such allocation into the calendar year 2013 in the event that the Bonds do not close in the calendar year 2012.

7. All other aspects of the Project will remain as stated in the Petition dated July 18, 2011, and amended on February 24, 2012, and September 11, 2012.

Respectfully submitted,

SOUTH CAROLINA JOBS-ECONOMIC
DEVELOPMENT AUTHORITY

By: 

Harry A. Huntley
Executive Director

Dated: December 4, 2012

ARTICLE 3.

ALLOCATION OF STATE CEILING ON ISSUANCE OF PRIVATE ACTIVITY BONDS

SECTION 1-11-500. Calculation and certification of state ceiling.

The state ceiling on the issuance of private activity bonds as defined in Section 146 of the Internal Revenue Code of 1986 (the Code) established in the act must be certified annually by the Budget and Control Board secretary based upon the provisions of the act. The board secretary shall make this certification as soon as practicable after the estimates of the population of the State of South Carolina to be used in the calculation are published by the United States Bureau of the Census but in no event later than February first of each calendar year.

SECTION 1-11-510. Allocation of bond limit amounts.

- (A) The private activity bond limit for all issuing authorities must be allocated by the board in response to authorized requests as described in Section 1-11-530 by the issuing authorities.
- (B) The aggregate private activity bond limit amount for all South Carolina issuing authorities is allocated initially to the State for further allocation within the limits prescribed herein.
- (C) Except as is provided in Section 1-11-540, all allocations must be made by the board on a first-come, first-served basis, to be determined by the date and time sequence in which complete authorized requests are received by the board secretary.

SECTION 1-11-520. Private activity bond limits and pools.

- (A) The private activity bond limit for all state government issuing authorities now or hereafter authorized to issue private activity bonds as defined in the act, to be known as the "state government pool", is forty percent of the state ceiling less any amount shifted to the local pool as described in subsection (B) of this section or plus any amount shifted from that pool.
- (B) The private activity bond limit for all issuing authorities other than state government agencies, to be known as the "local pool", is sixty percent of the state ceiling plus any amount shifted from the state government pool or less any amount shifted to that pool.
- (C) The board, with review and comment by the Joint Bond Review Committee, may shift unallocated amounts from one pool to the other at any time.

SECTION 1-11-530. Authorized requests for allocation of bond limit amounts.

- (A) For private activity bonds proposed for issue by other than state government issuing authorities, an authorized request is a request included in a petition to the board that a specific amount of the state ceiling be allocated to the bonds for which the petition is filed. The petition must be accompanied by a copy of the Inducement Contract, Inducement Resolution, or other comparable preliminary approval entered into or adopted by the issuing authority, if any, relating to the bonds. The board shall forward promptly to the committee a copy of each petition received.
- (B) For private activity bonds proposed for issue by any state government issuing authority, an authorized request is a request included in a petition to the board that a specific amount of the state ceiling be allocated to the bonds for which the petition is filed. The petition must be accompanied by a bond resolution or comparable action by the issuing authority authorizing the issuance of the bonds. The board shall forward promptly to the committee a copy of each petition received.
- (C) Each authorized request must demonstrate that the allocation amount requested constitutes all of the private activity bond financing contemplated at the time for the project and any other facilities located at or used as a part of an integrated operation with the project.

SECTION 1-11-540. Limitations on allocations.

(A) The board, with review and comment by the committee, may disapprove, reduce, or defer any authorized request. If it becomes necessary to exercise this authority, the board and the committee shall take into account the public interest in promoting economic growth and job creation.

(B) Authorized requests for state ceiling allocations of more than ten million dollars for a single project are deferred until after July first unless the board, after review and comment by the committee, determines in any particular instance that the positive impact upon the State of approving an allocation of an amount greater than ten million dollars is of such significance that approval of the allocation is warranted.

SECTION 1-11-550. Certificates by issuing authority and by board.

(A) An allocation of the state ceiling approved by the board is made formal initially by a certificate which allocates tentatively a specific amount of the state ceiling to the bonds for which the allocation is requested. This tentative allocation certificate must specify the state ceiling amount allocated, the issuing authority and the project involved, and the time period during which the tentative allocation is valid. This certificate must remind the issuing authority that the tentative allocation is made final after the issuing authority chairman or other duly authorized official or agent of the issuing authority, before the issue is made, certifies the issue amount and the projected date of issue, as is required by subsection (B) of this section. It also may include other information considered relevant by the board secretary.

(B) The chairman or other authorized official or agent of an issuing authority issuing any private activity bond for which a portion of the state ceiling has been allocated tentatively shall execute and deliver to the board secretary an issue amount certificate setting forth the exact amount of bonds to be issued and the projected bond issue date which date must not be more than ten business days after the date of the issue amount certificate and it must be before the state ceiling allocation involved expires. The issue amount certificate may be an executed copy of the appropriate completed Internal Revenue Service form to be submitted to the Internal Revenue Service on the issue or it may be in the form of a letter which certifies the exact amount of bonds to be issued and the projected date of the issue.

(C) In response to the issuing authority's issue amount certificate required by subsection (B) of this section, the board secretary is authorized to issue and, as may be necessary, to revise a certificate making final the ceiling allocation approved previously by the board on a tentative basis, if the secretary determines that:

- (1) the issuing authority's issue amount certificate specifies an amount not in excess of the approved tentative ceiling allocation amount;
- (2) the issue amount certificate was received prior to the issue date projected and that the certificate is dated not more than ten days prior to the issue date projected;
- (3) the issue date projected is within the time period approved previously for the tentative ceiling allocation; and
- (4) the bonds when issued and combined with the total amount of bonds requiring a ceiling allocation included in issue amount certificates submitted previously to the board by issuing authorities do not exceed the state ceiling for the calendar year. Except under extraordinary circumstances, the board secretary shall issue this certificate within two business days following the date the issue amount certificate is received.

(D) In accordance with Section 149(e)(2)(F) of the Code, the secretary of the Budget and Control Board is designated as the state official responsible for certifying, if applicable, that certain bonds meet the requirements of Section 146 of the Code relating to the volume cap on private activity bonds.

(E) Any tentative or final state ceiling allocation granted by the board before the effective date of this act remains valid as an allocation of a portion of the volume cap for South Carolina provided under Section 146 of the Code. The allocations expire in accordance with the regulations under which they were granted or extended and their validity may be extended or reinstated in accordance with the provisions of Sections 1-11-500 through 1-11-570.

SECTION 1-11-560. Time limits on allocations.

(A) Any state ceiling allocation approved by the board is valid only for the calendar year in which it is approved, unless eligible and approved for carry-forward election or unless specified differently in the board certificates required by Section 1-11-550.

(B) Unless eligible and approved for carry-forward election or unless specified differently in board certificates required by Section 1-11-550, each state ceiling allocation expires automatically if the bonds for which the allocation is made are not issued within ninety consecutive calendar days from the date the allocation is approved by the board.

(C) In response to a written request by the chairman or other duly authorized official or agent of an issuing authority, the board, acting during the period an approved allocation is valid, may extend the period in which an allocation is valid in a single calendar year by thirty-one consecutive calendar days to a total of not more than one hundred twenty-one consecutive calendar days.

(D) In response to a written request by the chairman or other authorized official or agent of an issuing authority, the board may reinstate for a period of not more than thirty-one consecutive calendar days in any one calendar year part or all of an allocation approved but not extended previously in accordance with subsection (C) of this section in that same calendar year which has expired. The reinstatement request must certify that the authorized request submitted previously is still true and correct or a new authorized request must be submitted.

(E) A tentative ceiling allocation is canceled automatically if the chairman or other authorized official or agent of the issuing authority involved fails to deliver the issue amount certificate required by Section 1-11-550 to the board secretary before the bonds for which the allocation is made are issued.

(F) The chairman or other authorized official or agent of an issuing authority shall advise the board secretary in writing as soon as is practicable after a decision is made not to issue bonds for which a portion of the state ceiling has been allocated. All notices of relinquishment of ceiling allocations must be entered promptly in the board's records by the board secretary.

(G) Ceiling allocations which are eligible and approved for carry-forward election are not subject to the validity limits of this section. The board shall join with the issuing authorities involved in carry-forward election statements to meet the requirements of the Internal Revenue Service.

AGENCY: Executive Director

SUBJECT: Economic Development - 2012 Ceiling Allocations (2012 Volume Cap Carryforward)

The initial balance of the 2012 state ceiling allocation was \$444,526,850. In accord with Code Section 1-11-520, \$175,763,832 (40% of the total) was designated as the state pool and \$263,645,748 (60% of the total) was designated as the local pool. There is presently a state ceiling balance of \$428,826,850 remaining for 2012. Allocation requests for 2012 totaling \$72,500,000 have been received thus far.

In accord with S.C. Code of Laws Section 1-11-500, et seq., the South Carolina State Housing Finance and Development Authority has requested that any unallocated state ceiling balance remaining at the end of the calendar year be designated to the Authority as carryforward for use in subsequent years. The Board is asked to allocate any remaining 2012 state ceiling balance at year-end to the South Carolina State Housing Finance and Development Authority for use in the issuance of bonds to provide housing to the members of State Housing's "beneficiary classes" (i.e., mortgage revenue bonds/mortgage credit certificates, and qualified residential rental bonds) for carryforward for the next three calendar years.

BOARD ACTION REQUESTED:

Authorize the allocation of any remaining 2012 state ceiling balance at year-end to the South Carolina State Housing Finance and Development Authority for use in the issuance of bonds to provide housing to the members of State Housing's "beneficiary classes" (i.e., mortgage revenue bonds/mortgage credit certificates, and qualified residential rental bonds) for carryforward for the next three calendar years and authorize the filing of a carryforward election with the Internal Revenue Service.

ATTACHMENTS:

2012 Ceiling Allocations; State Housing Petition; Section 1-11-500 et seq.

Balance remaining as of December 12, 2012

2012 South Carolina State Ceiling

State Pool (40%)	177,810,740
Total State Pool (40%)	<u>177,810,740</u>
Local Pool (60%)	286,716,110
Total Local Pool (60%)	<u>286,716,110</u>
Certified State Ceiling 2012	<u>444,526,850</u>

Date	Governmental Unit	Name of Project	Pool Total	Amount Allocated	Balance Available	Certified for Issue	Issue Date	Attorney
01/04/12	STATE POOL		177,810,740					
TOTAL, STATE POOL			<u>177,810,740</u>	0	<u>177,810,740</u>	0		
01/04/12	LOCAL POOL		286,716,110					
03/06/12	JEDA	LowCountry BioMass, LLC		0		0	expired	Smith
05/09/12	JEDA	Viva Recycling of South Carolina, LLC		15,700,000		15,700,000	expired	Jones
08/08/12	JEDA	BauschlImmermann North America, Inc.		0		0	expired	Lucas

TOTAL, LOCAL POOL	<u>286,716,110</u>	15,700,000	<u>251,016,110</u>	15,700,000
GRAND TOTAL	<u>444,526,850</u>	15,700,000	<u>428,826,850</u>	15,700,000

STATE OF SOUTH CAROLINA

COUNTY OF LEXINGTON

TO THE STATE BUDGET AND CONTROL)

BOARD OF SOUTH CAROLINA)
_____)

P E T I T I O N

This Petition of the South Carolina State Housing Finance and Development Authority (the "Authority") respectfully shows:

1. The Authority is an "issuing authority," as such term is used in Act No. 117 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina of 1987 (the "Allocation Act") establishing a plan for the allocation of the State of South Carolina's volume limitation with respect to private activity bonds (as defined in Section 141 of the Internal Revenue Code of 1986) imposed by the Tax Reform Act of 1986.

2. The Allocation Act authorizes the Authority to submit its request to the State Budget and Control Board of South Carolina (the "State Board") that a portion of the State Ceiling established by the Tax Reform Act (the "State Ceiling") be allocated to bonds proposed to be issued by the Authority.

3. The Authority is informed and believes that a portion of the 2012 State Ceiling has not yet been allocated and will, unless allocated on a carryforward basis, be lost to the State at the end of the current calendar year.

4. Based upon the need which it has found to exist, the Authority has determined it may issue one or more series of its revenue bonds or mortgage credit certificates pursuant to the authorizations granted to it under Title 31, Chapter 13, Code of Laws of South Carolina, 1976, as amended, which will be new issues and which will require allocations of the State Ceiling.

5. In order to preserve the unallocated portion of the State's 2012 Private Activity Bond Ceiling, and in order further to lessen the demand for the State's 2013 Private Activity Bond Ceiling, the Authority respectfully requests that it be allocated on a carryforward basis, such of the State's 2012 Private Activity Bond Ceiling as shall remain unallocated at the end of 2012, such ceiling to be apportioned between the issuance of Mortgage Revenue Bonds/Mortgage Credit Certificates and Qualified Residential Rental Bonds in such amounts as shall be requested by the Authority prior to the filing by the State Board of its IRS Form 8328, "Carryforward Election of Unused Private Activity Bond Volume Cap".

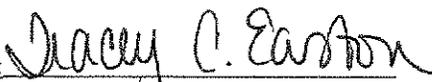
6. This Petition constitutes an "authorized request," within the meaning of Section 4 of the Allocation Act.

Upon the basis of the foregoing, the Authority respectfully prays:

That the State Board accept the filing of the Petition presented herewith, that it allocate to the Authority on a carryforward basis, such of the State's 2012 Private Activity Bond Ceiling as shall remain unallocated at the end of 2012, such ceiling to be apportioned between the issuance of Mortgage Revenue Bonds/Mortgage Credit Certificates and Qualified Residential Rental Bonds in such amounts as shall be requested by the Authority prior to such allocation.

November 15, 2012.

Respectfully submitted,
SOUTH CAROLINA STATE HOUSING
FINANCE AND DEVELOPMENT
AUTHORITY

By: 
Tracey C. Easton
General Counsel

ARTICLE 3.

ALLOCATION OF STATE CEILING ON ISSUANCE OF PRIVATE ACTIVITY BONDS

SECTION 1-11-500. Calculation and certification of state ceiling.

The state ceiling on the issuance of private activity bonds as defined in Section 146 of the Internal Revenue Code of 1986 (the Code) established in the act must be certified annually by the Budget and Control Board secretary based upon the provisions of the act. The board secretary shall make this certification as soon as practicable after the estimates of the population of the State of South Carolina to be used in the calculation are published by the United States Bureau of the Census but in no event later than February first of each calendar year.

SECTION 1-11-510. Allocation of bond limit amounts.

(A) The private activity bond limit for all issuing authorities must be allocated by the board in response to authorized requests as described in Section 1-11-530 by the issuing authorities.

(B) The aggregate private activity bond limit amount for all South Carolina issuing authorities is allocated initially to the State for further allocation within the limits prescribed herein.

(C) Except as is provided in Section 1-11-540, all allocations must be made by the board on a first-come, first-served basis, to be determined by the date and time sequence in which complete authorized requests are received by the board secretary.

SECTION 1-11-520. Private activity bond limits and pools.

(A) The private activity bond limit for all state government issuing authorities now or hereafter authorized to issue private activity bonds as defined in the act, to be known as the "state government pool", is forty percent of the state ceiling less any amount shifted to the local pool as described in subsection (B) of this section or plus any amount shifted from that pool.

(B) The private activity bond limit for all issuing authorities other than state government agencies, to be known as the "local pool", is sixty percent of the state ceiling plus any amount shifted from the state government pool or less any amount shifted to that pool.

(C) The board, with review and comment by the Joint Bond Review Committee, may shift unallocated amounts from one pool to the other at any time.

SECTION 1-11-530. Authorized requests for allocation of bond limit amounts.

(A) For private activity bonds proposed for issue by other than state government issuing authorities, an authorized request is a request included in a petition to the board that a specific amount of the state ceiling be allocated to the bonds for which the petition is filed. The petition must be accompanied by a copy of the Inducement Contract, Inducement Resolution, or other comparable preliminary approval entered into or adopted by the issuing authority, if any, relating to the bonds. The board shall forward promptly to the committee a copy of each petition received.

(B) For private activity bonds proposed for issue by any state government issuing authority, an authorized request is a request included in a petition to the board that a specific amount of the state ceiling be allocated to the bonds for which the petition is filed. The petition must be accompanied by a bond resolution or comparable action by the issuing authority authorizing the issuance of the bonds. The board shall forward promptly to the committee a copy of each petition received.

(C) Each authorized request must demonstrate that the allocation amount requested constitutes all of the private activity bond financing contemplated at the time for the project and any other facilities located at or used as a part of an integrated operation with the project.

SECTION 1-11-540. Limitations on allocations.

(A) The board, with review and comment by the committee, may disapprove, reduce, or defer any authorized request. If it becomes necessary to exercise this authority, the board and the committee shall take into account the public interest in promoting economic growth and job creation.

(B) Authorized requests for state ceiling allocations of more than ten million dollars for a single project are deferred until after July first unless the board, after review and comment by the committee, determines in any particular instance that the positive impact upon the State of approving an allocation of an amount greater than ten million dollars is of such significance that approval of the allocation is warranted.

SECTION 1-11-550. Certificates by issuing authority and by board.

(A) An allocation of the state ceiling approved by the board is made formal initially by a certificate which allocates tentatively a specific amount of the state ceiling to the bonds for which the allocation is requested. This tentative allocation certificate must specify the state ceiling amount allocated, the issuing authority and the project involved, and the time period during which the tentative allocation is valid. This certificate must remind the issuing authority that the tentative allocation is made final after the issuing authority chairman or other duly authorized official or agent of the issuing authority, before the issue is made, certifies the issue amount and the projected date of issue, as is required by subsection (B) of this section. It also may include other information considered relevant by the board secretary.

(B) The chairman or other authorized official or agent of an issuing authority issuing any private activity bond for which a portion of the state ceiling has been allocated tentatively shall execute and deliver to the board secretary an issue amount certificate setting forth the exact amount of bonds to be issued and the projected bond issue date which date must not be more than ten business days after the date of the issue amount certificate and it must be before the state ceiling allocation involved expires. The issue amount certificate may be an executed copy of the appropriate completed Internal Revenue Service form to be submitted to the Internal Revenue Service on the issue or it may be in the form of a letter which certifies the exact amount of bonds to be issued and the projected date of the issue.

(C) In response to the issuing authority's issue amount certificate required by subsection (B) of this section, the board secretary is authorized to issue and, as may be necessary, to revise a certificate making final the ceiling allocation approved previously by the board on a tentative basis, if the secretary determines that:

- (1) the issuing authority's issue amount certificate specifies an amount not in excess of the approved tentative ceiling allocation amount;
- (2) the issue amount certificate was received prior to the issue date projected and that the certificate is dated not more than ten days prior to the issue date projected;
- (3) the issue date projected is within the time period approved previously for the tentative ceiling allocation; and
- (4) the bonds when issued and combined with the total amount of bonds requiring a ceiling allocation included in issue amount certificates submitted previously to the board by issuing authorities do not exceed the state ceiling for the calendar year. Except under extraordinary circumstances, the board secretary shall issue this certificate within two business days following the date the issue amount certificate is received.

(D) In accordance with Section 149(e)(2)(F) of the Code, the secretary of the Budget and Control Board is designated as the state official responsible for certifying, if applicable, that certain bonds meet the requirements of Section 146 of the Code relating to the volume cap on private activity bonds.

(E) Any tentative or final state ceiling allocation granted by the board before the effective date of this act remains valid as an allocation of a portion of the volume cap for South Carolina provided under Section 146 of the Code. The allocations expire in accordance with the regulations under which they were granted or extended and their validity may be extended or reinstated in accordance with the provisions of Sections 1-11-500 through 1-11-570.

SECTION 1-11-560. Time limits on allocations.

(A) Any state ceiling allocation approved by the board is valid only for the calendar year in which it is approved, unless eligible and approved for carry-forward election or unless specified differently in the board certificates required by Section 1-11-550.

(B) Unless eligible and approved for carry-forward election or unless specified differently in board certificates required by Section 1-11-550, each state ceiling allocation expires automatically if the bonds for which the allocation is made are not issued within ninety consecutive calendar days from the date the allocation is approved by the board.

(C) In response to a written request by the chairman or other duly authorized official or agent of an issuing authority, the board, acting during the period an approved allocation is valid, may extend the period in which an allocation is valid in a single calendar year by thirty-one consecutive calendar days to a total of not more than one hundred twenty-one consecutive calendar days.

(D) In response to a written request by the chairman or other authorized official or agent of an issuing authority, the board may reinstate for a period of not more than thirty-one consecutive calendar days in any one calendar year part or all of an allocation approved but not extended previously in accordance with subsection (C) of this section in that same calendar year which has expired. The reinstatement request must certify that the authorized request submitted previously is still true and correct or a new authorized request must be submitted.

(E) A tentative ceiling allocation is canceled automatically if the chairman or other authorized official or agent of the issuing authority involved fails to deliver the issue amount certificate required by Section 1-11-550 to the board secretary before the bonds for which the allocation is made are issued.

(F) The chairman or other authorized official or agent of an issuing authority shall advise the board secretary in writing as soon as is practicable after a decision is made not to issue bonds for which a portion of the state ceiling has been allocated. All notices of relinquishment of ceiling allocations must be entered promptly in the board's records by the board secretary.

(G) Ceiling allocations which are eligible and approved for carry-forward election are not subject to the validity limits of this section. The board shall join with the issuing authorities involved in carry-forward election statements to meet the requirements of the Internal Revenue Service.

AGENCY: Executive Director

SUBJECT: Qualified Public Educational Facilities (2012 Volume Cap Carryforward)

Internal Revenue Code Section 26 U.S.C. Section 142(k) for qualified public educational facilities and Section 142(a)(13) were added by Section 422(a) and (b) of P.L. 107-16 in 2001. Section 142(k) provides a separate and independent volume cap for qualified public educational facilities to be used for the issuance of bonds for public educational facilities. These bonds are not subject to the general volume limitation under Code Section 146 but are subject to a separate volume limitation set forth in Code Section 142(k). No regulations for this provision have been promulgated.

The volume cap for qualified public educational facilities is governed by Section 142(k)5. That Section provides, in part, the following:

(B) Allocation rules.

....

(ii) Rules for carryforward of unused limitation. A State may elect to carry forward an unused limitation for any calendar year for 3 calendar years following the calendar year in which the unused limitation arose under rules similar to the rules of section 146(f), except that the only purpose for which the carryforward may be elected is the issuance of exempt facility bonds described in subsection (a)(13).

The volume cap for calendar year 2012 was \$46,729,300 and has been unused. The Board is asked to elect to carryforward the entire volume cap for 2012 to be used for the issuance of bonds for qualified public educational facilities as described in Section 142(a)(13) and authorize the filing of a carryforward election with the Internal Revenue Service in connection with such allocation. Pursuant to Section 142(k)(5)(B)(ii) the carryforward will be valid for the next three calendar years.

BOARD ACTION REQUESTED:

Approve the carryforward of the unused volume cap allocation for qualified public educational facilities for calendar year 2012 to be used for the issuance of bonds of such bonds and authorize the filing of a carryforward election with the Internal Revenue Service in connection with such allocation to be valid for the next three calendar years.

ATTACHMENTS:

Internal Revenue Code 26 U.S.C. Section 142; Certification of 2012 State Ceiling for Qualified Public Educational Facilities Bonds

(not later than 6 months after the close of such period) to redeem bonds which are part of such issue.

(j) Environmental enhancements of hydro-electric generating facilities.

(1) **In general.** For purposes of subsection (a)(12), the term "environmental enhancements of hydroelectric generating facilities" means property—

(A) the use of which is related to a federally licensed hydroelectric generating facility owned and operated by a governmental unit, and

(B) which—

(i) protects or promotes fisheries or other wildlife resources, including any fish by-pass facility, fish hatchery, or fisheries enhancement facility, or

(ii) is a recreational facility or other improvement required by the terms and conditions of any Federal licensing permit for the operation of such generating facility.

(2) **Use of proceeds.** A bond issued as part of an issue described in subsection (a)(12) shall not be considered an exempt facility bond unless at least 80 percent of the net proceeds of the issue of which it is a part are used to finance property described in paragraph (1)(B)(i).

(k) Qualified public educational facilities.

(1) **In general.** For purposes of subsection (a)(13), the term "qualified public educational facility" means any school facility which is—

(A) part of a public elementary school or a public secondary school, and

(B) owned by a private, for-profit corporation pursuant to a public-private partnership agreement with a State or local educational agency described in paragraph (2).

(2) **Public-private partnership agreement described.** A public-private partnership agreement is described in this paragraph if it is an agreement—

(A) under which the corporation agrees—

(i) to do 1 or more of the following: construct, rehabilitate, refurbish, or equip a school facility, and

(ii) at the end of the term of the agreement, to transfer the school facility to such agency for no additional consideration, and

(B) the term of which does not exceed the term of the issue to be used to provide the school facility.

(3) **School facility.** For purposes of this subsection, the term "school facility" means—

(A) any school building,

(B) any functionally related and subordinate facility and land with respect to such building, including any stadium or other facility primarily used for school events, and

(C) any property, to which section 168 applies (or would apply but for section 179), for use in a facility described in subparagraph (A) or (B).

(4) **Public schools.** For purposes of this subsection, the terms "elementary school" and "secondary school" have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as in effect on the date of the enactment of this subsection.

(5) **Annual aggregate face amount of tax-exempt financing.**

(A) **In general.** An issue shall not be treated as an issue described in subsection (a)(13) if the aggregate face amount of bonds issued by the State pursuant thereto (when added to the aggregate face amount of bonds previously so issued during the calendar year) exceeds an amount equal to the greater of—

(i) \$10 multiplied by the State population, or

(ii) \$5,000,000.

(B) **Allocation rules.**

(i) **In general.** Except as otherwise provided in this subparagraph, the State may allocate the amount described in subparagraph (A) for any calendar year in such manner as the State determines appropriate.

(ii) **Rules for carryforward of unused limitation.** A State may elect to carry forward an unused limitation for any calendar year for 3 calendar years following the calendar year in which the unused limitation arose under rules similar to the rules of section 146(f), except that the only purpose for which the carryforward may be elected is the issuance of exempt facility bonds described in subsection (a)(13).

[Last amended by P.L. 107-16]

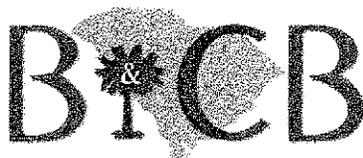
[2]—Statutory History

2001—P.L. 107-16 (Economic Growth and Tax Relief Reconciliation Act of 2001)

NIKKI HALEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

SC BUDGET AND CONTROL BOARD

Office of the Executive Director
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EXECUTIVE DIRECTOR

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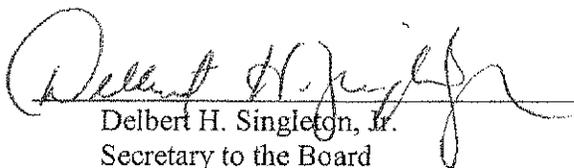
January 4, 2012

**CERTIFICATION OF
2012 STATE CEILING ON ISSUANCE OF QUALIFIED PUBLIC EDUCATIONAL FACILITIES
BONDS ESTABLISHED IN THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION
ACT OF 2001**

In accord with Code Section 142(k) of the Economic Growth and Tax Relief Reconciliation Act of 2001, I have determined that the most recent census estimate of the resident population of the State of South Carolina published by the Bureau of the Census before the beginning of 2012 is 4,679,230.

That population estimate is included in Census Bureau release CB11-215 dated December 21, 2011.

On that basis, I have calculated and I certify the 2012 state ceiling on the issuance of qualified public educational bonds for the State of South Carolina, as established in Economic Growth and Tax Relief Reconciliation Act of 2001, to be \$46,729,300.


Delbert H. Singleton, Jr.
Secretary to the Board

STATE BUDGET AND CONTROL BOARD
 MEETING OF December 12, 2012

REGULAR SESSION
 ITEM NUMBER 1

AGENCY: Department of Revenue

SUBJECT: DOR Update/Inter-Agency Loan Request

The Board will receive an update on the Department of Revenue security breach.

Additionally, the Department of Revenue has an immediate need for additional funds to cover expenses related to the security of its information technology infrastructure and the recent breach of its information technology systems. The Board is requested to approve an inter-agency loan agreement pursuant to S.C. Code Ann. §§ 11-9-230; 11-9-240; 11-9-250; and 11-9-260, in an amount not to exceed \$20,170,000 for the Department of Revenue to be used to support the Department's efforts in addressing the security of its information technology infrastructure and the recent breach of its information technology systems. The inter-agency agreement establishing the loan will contain terms and conditions for repayment of these funds. The Board has made the following inter-agency loans in previous years:

Borrower	Amount	Date	From	Payment Terms	Purpose
The Citadel	\$400,000	3/11/97	BCB-Office of Information Resources	2 years	Expense related to federal decision to allow females to attend The Citadel
SC State	\$2,100,000	6/18/98	USC	On or before 9/18/98	General operating expenses
PRT	\$2,000,000	10/30/01	BCB-Office of Local Government	7/31/02	Advertising campaign to promote State's tourism attractions
House/Senate	\$500,000 FY 02; \$500,000 FY 03	12/13/01	BCB-IRF	By July 1 st of 2 nd FY following final disposition of litigation	Abbeville County School District, et al., v. State, et al.
Commerce	\$3,000,000	3/1/02	BCB-Office of Local Government	1 year	Economic Development Initiatives
SC Military Base Task Force	\$200,000	4/8/03	BCB-Office of Local Government	1 year	Address Base Closure Issues
Patriot's Point Development Authority	\$9,225,360	6/29/09	Bond Proceeds Account	12/1/10	<i>USS Laffey</i>

AGENCY: Department of Revenue

SUBJECT: DOR Update/Inter-Agency Loan Request

BOARD ACTION REQUESTED:

1. Receive the update as information.

2. Approve the Department of Revenue's interagency loan request and the related inter-agency loan agreement in an amount not to exceed \$20,170,000, to be used by the Department in addressing the security of its information technology infrastructure and the recent breach of its information technology systems, and authorize the Board's Executive Director to execute the loan agreement on behalf of the Board.

ATTACHMENTS:

S.C. Code Ann. §§ 11-9-230; 11-9-240; 11-9-250; 11-9-260

SECTION 11-9-230. Borrowing money prohibited except by State Budget and Control Board.

It shall be unlawful for any officer or employee or departmental or institutional head, except the State Budget and Control Board, to borrow any money for State purposes.

HISTORY: 1962 Code Section 1-763; 1952 Code Section 1-763; 1942 Code Section 2083; 1932 CodeSection 2083; Civ. C. '22 Section 45; 1921 (32) 114; 1950 (46) 3605.

SECTION 11-9-240. Budget and Control Board may borrow from departments of state government.

For the purpose of facilitating the business of the State and in the interest of economy, the State Budget and Control Board may in its discretion borrow from any department of the state government, with the written consent of such department, for the use of the State any surplus which may be on hand in the office of the State Treasurer to the credit of any such department; provided, however:

(1) That no money shall be borrowed from any department of the state government for the general appropriation act without first obtaining from the Attorney General an opinion holding in effect that the revenues of the State when collected will be sufficient to repay such loan;

(2) That nothing herein shall be construed as authority to confuse or consolidate any of the accounts that are now carried on the books and records in the office of the Comptroller General and State Treasurer and all expenditures shall be charged against the separate accounts as now provided in the office of the Comptroller General and State Treasurer; and

(3) That the authorization contained in this section shall not apply to sinking funds.

HISTORY: 1962 Code Section 1-765; 1952 Code Section 1-765; 1942 Code Section 2203; 1932 CodeSection 2203; 1930 (36) 1343; 1950 (46) 3605.

SECTION 11-9-250. Interest on loans by departments of state government.

If the State Budget and Control Board should exercise the power provided in Section 11-9-240, any such loan shall be negotiated at a rate of interest equivalent to that paid to the State by banks in which such funds are deposited.

HISTORY: 1962 Code Section 1-766; 1952 Code Section 1-766; 1942 Code Section 2203; 1932 CodeSection 2203; 1930 (36) 1343; 1950 (46) 3605.

SECTION 11-9-260. Evidences of loans by departments of state government.

The State Budget and Control Board shall, upon making any loan under Section 11-9-240, execute and deliver call promissory notes or other call evidences of indebtedness to the State Treasurer, which shall draw interest, from date until paid. Such interest shall accrue to the benefit of the department whose money may be used in making such loan to the State. Such call notes or call evidences of indebtedness shall run until the department whose funds have been used shall call for the payment of such notes or evidences of indebtedness, but in no event longer than such period as the board may decide.

HISTORY: 1962 Code Section 1-767; 1952 Code Section 1-767; 1942 Code Section 2203; 1932 CodeSection 2203; 1930 (36) 1343; 1950 (46) 3605.

AGENCY: Inspector General

SUBJECT: Review of Statewide Information Security Report

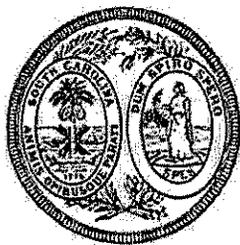
The Board will be asked to do the following with regard to the Inspector General's Statewide Information Security Report:

1. Accept the Inspector General's Statewide Information Security Report as information;
2. Authorize the Executive Director to issue an RFP (Request for Proposals) to develop a statewide program for information security and risk management and authorize the Executive Director to designate a coordinator to work with the vendor chosen in the RFP process;
3. Authorize the Board's Executive Director to use as funding for the contract excess appropriations for the current fiscal year, as determined by the Director of the Office of State Budget, designated for statewide employer contributions for other statewide purposes; and
4. The Executive Director will report back to the Board at its January 2013 meeting with a status report.

BOARD ACTION REQUESTED:

1. Accept the Inspector General's Statewide Information Security Report as information;
2. Authorize the Executive Director to issue an RFP (Request for Proposals) to develop a statewide program for information security and risk management and authorize the Executive Director to designate a coordinator to work with the vendor chosen in the RFP process;
3. Authorize the Board's Executive Director to use as funding for the contract excess appropriations for the current fiscal year, as determined by the Director of the Office of State Budget, designated for statewide employer contributions for other statewide purposes; and
4. The Executive Director will report back to the Board at its January 2013 meeting with a status report.

ATTACHMENTS: Maley 12/3/12 letter; Interim Report – State Government Information Security Initiative



State of South Carolina Office of the Inspector General

December 3, 2012

Honorable Nikki R. Haley
Governor of South Carolina
1205 Pendleton Street
Columbia, SC 29201

Re: State Government Information Security Initiative

Dear Governor Haley,

Enclosed with this letter is the Office of the Inspector General's interim report on the State Government Information Security Initiative titled, "Current Situation & A Way Forward."

South Carolina statewide government has a less than adequate information security (INFOSEC) posture. Currently, there are no statewide INFOSEC standards or policies. By default, each agency decides its own risk tolerance for data loss and its own INFOSEC plan. This decentralized approach undermines an effective statewide security posture, as well as creates unmanaged and uncontrolled statewide INFOSEC risks having a potential impact on the entire state government.

This less than adequate statewide INFOSEC assessment is based on data collected from 18 state agency Chief Information Officers, the Division of State Information Technology, and experts in the private and public sectors. The data was consistent and compelling. Given the state's low risk tolerance for absorbing another significant data loss, the current level of statewide INFOSEC risk is not acceptable. Further, regardless of the assessment of statewide risk, the current decentralized INFOSEC environment provides no visibility of INFOSEC risks within agencies, which is incompatible with state government's due diligence responsibility to do everything possible to protect citizens' information.

The data for a way forward was equally consistent and compelling. The direction, to meet the goal of doing everything possible to protect citizens' information, starts with establishing a statewide INFOSEC program led by a statewide Chief Information Security Officer. Moving from a decentralized environment to a statewide model is a common challenge for states, and there are ample consultants with the expertise and experience to assist the state in this effort. It will require developing a statewide governance mechanism with authority to establish statewide solutions and a standard policy framework for all agencies. This standard policy framework can then be delegated, in most areas, to agencies to tailor statewide policies to their operational environment, yet still be subject to oversight and audit.

While the state deliberates on a way forward, to include this report's recommendation for a statewide program for long-term INFOSEC health, state agencies are still conducting INFOSEC activities every day. Every agency CIO fully understands the duty to protect information and implement INFOSEC protective measures. Since the recent breach, agencies have created a more proactive posture to aggressively identify and address risks. These agencies just need the leadership and support from a statewide INFOSEC program to systematically improve their capabilities to the security threshold to meet our goal---to do everything possible to protect our citizens' information.

The next interim report will focus on implementation options and recommendations, in terms of cost and schedule, to develop a long term sustainable statewide INFOSEC program to reduce agency and statewide risk.

If you or your staff needs any additional information, please do not hesitate to call me.

Sincerely,

Patrick J. Maley
Inspector General

cc: Glenn McConnell, Lieutenant Governor,
John E. Courson, President Pro Tempore
Hugh Leatherman, Senator
Robert W. Harrell, Jr., House Speaker
Brian White, Representative

Office of the Inspector General

Patrick J. Maley



State Government Information Security Initiative Current Situation & A Way Forward Interim Report

November 30, 2012

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I. Executive Summary

The newspaper headline, "Millions of Taxpayer Records Exposed," captures the triggering event to initiate a review of state government's information security (INFOSEC) posture. This report does not examine the recent Department of Revenue (DOR) breach of taxpayer information; law enforcement is addressing that issue. The DOR breach raised the immediate due diligence concern about the level of information security at other state agencies. This review examines the current condition of the statewide INFOSEC posture, and provides a way forward to ensure the state does everything possible to reduce the risk of a future data loss and protect our citizens' information.

Currently, South Carolina does not have statewide INFOSEC standard policies. There is no state entity with the authority, or responsibility, to provide leadership, standards, policies, and oversight. The Division of State Information Technology (DSIT), which is led by the state's Chief Information Officer (CIO), has no authority to mandate INFOSEC standard policies to agencies. The DSIT only provides "suggested" policy and ad hoc support to help interested agencies, and it does not provide any oversight to agencies' individual INFOSEC plans. By default, authority has been delegated to each agency to decide its own risk tolerance for data loss and its own INFOSEC plan.

This decentralized INFOSEC environment inherently produces less than an adequate statewide INFOSEC posture. The lack of standard policies produces uneven quality in individual agency security postures. This decentralized approach also prevents the state from understanding, let alone managing, statewide INFOSEC risk which has the capacity to impact the entire state government.

INFOSEC activities are carried out every day in every agency. Many agencies are required to meet federal INFOSEC standards due to maintaining categories of personally identifiable information (PII), such as health, tax, or credit card information. Further, every agency CIO fully understands the duty to protect information and implement INFOSEC protective measures. The question is—do these independent INFOSEC judgments carried out in an uncoordinated manner without any common standard policies in more than 100 state agencies, universities, and commissions, all add up to meet the post-DOR risk threshold of protecting our citizens' information? No.

The review interviewed 18 agency CIOs, primarily members of the Information Technology Solutions Committee (ITSC), which is a DSIT advisory board of CIOs representing the various sectors of state agencies. There was near universal agreement for the need for statewide standard policies, and a candid assessment that statewide INFOSEC is less than adequate. Resources were an issue, but not to the extent anticipated. There was a sense agencies were conducting mission critical INFOSEC, but had little capacity to be proactive in an increasing threat and vulnerability environment. The uneven INFOSEC staffing, skill, and experience among agencies raised concern, particularly small agencies with limited IT staff. According to CIOs, the aggregate issues pertaining to resources, staffing, expertise, and statewide standards creates a less than adequate statewide

INFOSEC posture, particularly in an environment of increasingly complex threats and vulnerabilities.

The DSIT agreed with the CIOs' less than adequate assessment of statewide INFOSEC. All data sources, CIOs, DSIT and experts, recommended transitioning from a decentralized environment to a statewide program with a standard policy framework to reduce agency and statewide INFOSEC risk.

South Carolina is not alone. A 2012 national survey of State Chief Information Security Officers determined only 24% were very confident in protecting information assets against external threats. The top two survey issues were: INFOSEC funding; and working in highly decentralized environments with little central authority over individual agency security. The motivation to address these same two issues now in South Carolina looks completely different through the prism of the post-DOR breach. We recognize security breaches can be far more costly than robust INFOSEC programs, especially when coupled with the incalculable cost of regaining lost citizen trust.

Given the state's low risk tolerance for another significant data loss, the current level of statewide INFOSEC risk is not acceptable. Further, regardless of the assessment of statewide risk, the current decentralized INFOSEC environment provides no visibility of risks within agencies, which is incompatible with state government's due diligence responsibility to do everything possible to protect citizens' information. The first step towards a statewide INFOSEC program is establishing a governance model. According to an expert, "the governance structure is the defining activity that serves as the foundation and sustains all others (activities)." All sources highlighted the need for a consultant, with prior statewide INFOSEC implementation experience, to assist in governance development, statewide strategy, and individual agency risk assessments and mitigation strategies.

Governance starts with leadership. Establishing a statewide Chief Information Security Officer (CISO) is required to take ownership of a statewide INFOSEC program. The governance framework has many components, such as strategies, structure, resource and technical support, risk management, authorities, policies, and audit. A key governance component decision is the level of centralized authority. The vast majority of data sources, to include agency CIOs, recommended a traditional federated model with responsibility for the statewide INFOSEC program and comprehensive strategies. A federated model has authority to establish a standard policy framework for all agencies. This standard policy framework can then be delegated, in most areas, to agencies to tailor statewide policies to their operational environment, yet still be subject to oversight and audit.

If approved, a CISO, a federated model, and the use of a consultant with expertise in implementing INFOSEC statewide programs should construct a governance framework in a collaborative manner with agency representation, as well as develop implementation plans. The next interim report will focus on implementation options and recommendations, in terms of cost and schedule, to develop a long term sustainable statewide INFOSEC program to reduce agencies and statewide risk.

II. Background

A. Objective

On October 26, 2012, Governor Nikki R. Haley issued Executive Order 2012-10 and requested the State Inspector General make recommendations, on a comprehensive and holistic basis, to improve information security policies and procedures in state agencies. The Governor noted that throughout state government, information technology policy for security procedures and protocols have been largely uncoordinated and outdated exposing our state to greater risks of internal and external cyber-attacks.

Governor Haley's request was in response to the announcement the same day of a network breach at the DOR resulting in millions of stolen records containing taxpayer personal information. This breach, one of the largest of its kind, directly diminished the trust and confidence of the public in state government, and elevated concerns about the security of data at other state agencies.

B. Description of INFOSEC

INFOSEC, also called Cyber security, can seem overwhelming to many. The technical definition is, "safe-guarding an organization's data from unauthorized access or modification to ensure its availability, confidentiality, and integrity." In non-technical terms, it is a business decision using a variety of control procedures to protect an organization's information needed to conduct business, as well as its obligation to protect information entrusted from others. No single control procedure provides adequate INFOSEC, nor can deploying every possible control completely eliminate the risk of a data loss. The general approach is to build controls in a layering process, which when aggregated, provide a "depth of defense" to reduce the risk of a data loss. Controls include, but not limited to, passwords, data compartmentalization, encryption, mobile device access, Internet firewalls, operating system patches, systems monitoring, data loss protection technology tools, and employee training. Ideally, all these controls act in an additive, overlapping, and dynamic manner to provide an effective INFOSEC program. INFOSEC is a continuous process, rather than a single solution.

The starting point in developing an INFOSEC program is understanding an organization's unique vulnerabilities to threats, which when combined add up to an organization's risk. Only after this analysis can the appropriate controls be designed and implemented in the most cost effective manner. INFOSEC has a fundamental operating framework, but it takes substantial technical skill and professional judgment to find that appropriate balance of addressing vulnerabilities with the appropriate cost/effective controls.

Organizations' vulnerabilities to cyber threats have been dramatically escalating over the past several years, and this trend will continue, if not accelerate. The cyber threats from individual "hobbyist" hackers have evolved to organized Cybercriminals and a new breed of hacker known as hacktivism, which has political or social agendas. Both use increasingly sophisticated methods to target computer systems for monetary gain and to make political statements. Nation states continue

their advanced persistent efforts in economic espionage and stealing national security secrets. INFOSEC security measures will protect us from most threats. However, the level of hacker sophistication is clearly increasing at a faster rate than our ability to comfortably defend.

At the same time, organizations are becoming more vulnerable as the amount of data within and flowing between companies is increasing exponentially. Access to these systems is increasing in numbers and complexity as more employees access agency networks and files from remote locations on a 24/7 basis with non-traditional devices, such as smart-phones and tablets. This volume, complexity, and velocity of information increases the risks associated with maintaining citizens' data, held in trust. These increased vulnerabilities translate into a startling statistic from a recent 2012 cyber security study where government agencies have lost more than 94 million records of citizens since 2009 (Rapid7 report on the "Data Breaches in the Government Sector").

As evidence of the significance of this threat level, FBI Director Robert Mueller anticipates cyber threats could unseat terrorism as the Bureau's top priority in the near future. Director Mueller said, "there are only two types of companies: those that have been hacked, and those that will be. Even that is merging into one category: those that have been hacked and will be hacked again."

INFOSEC has a tendency to be viewed as only an expense to avoid the pain of a data loss, which certainly is a prime objective. However, the benefits of an effective INFOSEC program are now being recognized as a key productivity "driver" to leverage technology in e-business, which is an important avenue to add efficiency and effectiveness in state government delivering services. Leveraging technology to interface with customers streamlines government operations, best characterized as citizens doing business from their kitchen tables rather than standing in line.

C. Short Term Statewide Efforts

After the DOR breach, each agency was tasked with completing a list of short term statewide protective measures. These tasks were:

- **Conduct short term remediation steps**: Each Agency "double checked" specific INFOSEC procedures having the highest impact on lowering INFOSEC risk. Emphasis was on reviewing these fundamentals in each agency through the new optic of the post-DOR breach world in which we now operate.
- **Agency self-assessment**: Each Agency CIO completed an electronic INFOSEC self-assessment survey, as did each Agency Head from their perspective. Then, the Agency Head and CIO met to discuss the results to ensure Agency Heads were fully engaged in this statewide issue.
- **Data Classification**: Each agency located all high risk data, primarily personal identifying information (PII) and protected health information (PHI). Additionally, agencies were tasked to request help on any PII or PHI not sufficiently secured.

Agencies addressed these tasks, as well as self-generated initiatives based on their own internal identified vulnerabilities.

III. Current Assessment of Statewide INFOSEC Risk

From basic passwords to high technology network monitoring, every agency performs INFOSEC activities daily. The problem is that each agency decides its own risk tolerance for a data loss and determines what it thinks is an appropriate INFOSEC plan. Each agency sets up its own INFOSEC plan because there is no statewide INFOSEC program providing leadership, support, and establishing statewide INFOSEC expectations in the form of standards, policies, and procedures.

In today's environment, a critical component of every organization's governance is INFOSEC, particularly protecting personal identity information (PII) due to the potential of catastrophic organizational damage if compromised. South Carolina has no governance mechanism for statewide INFOSEC; it has been, by default, delegated to each agency to decide its own INFOSEC plan. This decentralized approach prevents the state from understanding, let alone managing, statewide INFOSEC risk, which creates potentially negative consequences for all of state government.

The DSIT, which is led by the state CIO, lacks the authority to lead statewide INFOSEC. The DSIT's role has been to provide "suggested" policy and ad hoc support to help interested agencies. For example, the Information Technology Solutions Committee (ITSC), an advisory board to DSIT, recently set forth a recommended security policy template in October 2012 requesting all state government entities to develop and publish an individual agency IT Security Policy no later than February 1, 2013. This proactive step is good, but it is still just "requesting" without the authority to monitor compliance.

To obtain a time sensitive assessment of statewide INFOSEC risk, information was obtained from the following groups: state agency CIOs, DSIT, universities, experts from the private sector, and professional research and literature.

A. State Agency Chief Information Officers

To give decision makers the best evidence in a time sensitive manner of the current INFOSEC conditions "on the ground," 18 agency CIOs, primarily members of the ITSC, were systematically interviewed. The ITSC is composed of CIOs representing the various sectors of state government agencies. Given their unique positions on the front line, their aggregated input was considered a good barometer of the INFOSEC risk in statewide government.

An aspect of these interviews was asking the 18 agency CIOs the same questions on a "1" (low/decreasing) to "5" (high/increasing) scale, which provided an overview of their collective perspectives:

QUESTION:	Responses From 1 (Low) to 5 (High)					Average
	1	2	3	4	5	
What is the current threat level of breaches?			5	5	8	4.2
How has the threat level changed in last 5 years?			1	10	7	4.3
What is the threat forecast for next 5 years?		1	2	6	9	4.3
Rate your agency's INFOSEC capabilities?	1	7	6	1	3	2.9
Rate the statewide INFOSEC capabilities? *	7	8	2			1.7

*one CIO did not answer this question

The CIOs rated their own agencies' INFOSEC capabilities, which averaged just marginally below adequate (2.9). Their assessment of statewide INFOSEC capabilities was clearly less than adequate (1.7). This statewide assessment is inherently subjective and limited to each CIO's unique vision on the issue from their personal experience and agency's perspective. However, when a cross section of INFOSEC leadership on the front line rates statewide capabilities at 1.7, to include 15 (88%) of the 18 CIOs' ratings were less than adequate, it has meaning. Comments illustrating this issue were:

- An agency's Information Security Officer (ISO) with unique access into other state agencies INFOSEC postures reported that agencies are clearly less than adequate in their INFOSEC. There are many instances where agencies have a false sense of security by having a policy covering a vulnerability, yet their procedures to implement the policy don't work.
- A CIO with large amounts of personal identifying information (PII) in a complex operation with employees and contractors with remote accesses described his concern, echoed by many others, 'what scares me is what I don't know.' The factors described raise the risk of increasing vulnerabilities not being fully understood, let alone mitigated.
- A CIO with unique access to related state agencies, described statewide INFOSEC "as a 2 on a good day." Small agencies have challenges in terms of expertise and resources.

The CIOs' assessments were underpinned from a variety of perspectives, and certainly no one issue drove their less than adequate statewide assessment. Areas causing concern included deficiencies in standard policies, resources, staffing, and INFOSEC expertise, as well as the recent significant breach. It was clearly the aggregate of these factors that created a less than adequate statewide INFOSEC posture.

CIOs recognized the benefits of statewide standards. Almost without exception, the state needs to move away from its current decentralized approach to INFOSEC. A few leaned towards full

centralization of this statewide function, but the vast majority favored a federated model with central governance with authority to set standard policies, yet allow agencies to tailor policies to their operational environment while subject to oversight and audit. Ideally, a federated model would provide support in many ways, including resources, expertise, threat intelligence, and lessons learned from other state agencies, all in a timely manner. Further, as agencies become mutually interconnected, use third party processors, and move toward providing citizens with convenient web based services, there is a critical need for statewide policy decisions addressing these new challenges.

Illustrating the need for statewide standard policies, the Executive Branch Inspector General initiated an April 2012 policy compliance review of 10 state agencies, which noted four (40%) did not have an employee INFOSEC awareness training program. DSIT offers a computer based employee training program for a nominal cost. During CIO interviews, one CIO was completely unaware of this DSIT program, while another learned about it from a third party, not DSIT. Employee training is a well known component of INFOSEC programs, yet without clear mandatory standards, translating "knowing" into "doing" is problematic. Mandatory annual computer based employee security awareness training was a pattern in other states contacted.

Most state agencies have in place the basic technical hardware and software needed to control access to their agency-level networks and data, as well as provide some protection from malware and viruses. More comprehensive security requires complete network monitoring, which many agencies have through DSIT or through an outside third-party vendor. However, many agencies have technical obstacles to overcome, such as aging, legacy applications and hardware that do not support necessary information security measures. These types of obstacles require multi-year planning initiatives and capital infusion that current funding levels inhibit.

Resource funding was a concern to CIOs, but to a lesser extent than anticipated by this review. CIOs were asked how resource funding correlates with adequate INFOSEC using a five point scale [1 (weakly correlated), 3 (correlated), and 5 (strongly correlated)]. The CIOs average response was 2.96, which seemed reasonable and certainly not extreme. This data seems consistent with practices cited by many interviewees of enhancing INFOSEC through low-cost or no-cost procedural and employee attitudinal changes. There was not a sense of dire resource constraints, but rather of barely adequate resources to match their perception of adequate INFOSEC capabilities.

CIOs cited the lack of employee awareness training and developing a culture of security with unusual frequency and intensity. This was the second highest rated strategy to improve and was deemed to be a low cost and high return INFOSEC investment. The lack of executive support was noted to a much lesser extent, with only one CIO identifying it as a top tier issue.

The CIOs repeatedly affirmed the need for INFOSEC training and expertise for their IT staff. The consensus is that a higher level of proficiency is required to move from a reactionary stance to a proactive posture in regards to INFOSEC. A casual conversation with a front-line IT person highlighted this issue. After the DOR breach, this agency, like all agencies, re-examined their INFOSEC with focused effort, which led to several potential improvements at minimal cost. The difference between pre and post DOR breach was the agency's priority to create a proactive posture, which then enhanced their INFOSEC posture. This reinforces the reality with the press of business and tight staffing, short term operational needs will always tend to draw IT attention at the expense of proactive INFOSEC. The remedy for this condition is for an enterprise to develop policies, processes, and staffing levels to create a proactive work space to develop and mature its INFOSEC expertise.

The IT departments of many state agencies have lost positions in recent years due to statewide budget cuts. By adding INFOSEC to the tasks assigned to an already busy application developer or database administrator, or by splitting INFOSEC duties among multiple staff, a comprehensive view of the agency's data security vulnerability and mitigation strategy can be blurred.

Even among agencies with the funding capacity for a dedicated Information Security Officers (ISO), hiring has been difficult. Two of the larger agencies have been attempting unsuccessfully to hire a full-time ISO for over a year due to the inability to provide a competitive salary. A state CIO from the east coast echoed the challenge of hiring qualified ISOs due to short supply and competitive salaries. That state had to create a separate pay structure for INFOSEC and IT personnel to attract qualified candidates. Creative solutions also emerged, such as two smaller agencies sharing a full-time ISO.

Part of the resource and technical skills discussion was the role of consultants in a new statewide INFOSEC program. Almost universally, the use of consultants was recommended for several reasons. First, they have unique subject matter expertise and experience in implementing enterprise wide INFOSEC programs, which the state lacks. Second, consultants add a level of needed objectivity, which is critical at a time when trust has been eroded. Consultants will be costly, but the state can't develop this government-wide initiative without their assistance. Many experts encouraged the use of technical advisory boards to assist the state in managing the consultant's plans and deliverables.

CIOs were in near full agreement that the risk of breaches can be controlled and reduced, but the risk can never be zero. At the same time, they were nearly unanimous that the statewide risk tolerance for another significant breach is near zero. This tends to reinforce the common theme, 'we have to do everything possible to protect our citizens' information.' The 18 CIOs were asked to rank their top three strategies to reduce INFOSEC risks, which were (frequency cited) as follows: statewide standards/governance (14); employee awareness training (7); agency risk assessments (4); INFOSEC

expertise (4); audits (4); PII classification (3); resources (3); computer hardware (2); network monitoring (2); network architecture (1); hardening procedures (1); determine role of DSIT (1); penetration testing (1); physical protection (1); personal security (1); DOR debrief (1); and communications (1). Even though "resources" were itemized by only three CIOs, many of the other categories tend to require some level of additional resources to execute the strategy. The priority of strategies may vary based on each CIO's unique agency culture and experience, which further illustrates the need for the proposed federated governance model to allow flexibility to agencies to meet their operational needs and risk, yet still be accountable to a common statewide strategy, oversight, and review.

CIOs viewed their challenge to secure their data with INFOSEC pragmatically. There was a sense each was accomplishing basic INFOSEC, but there was uneasiness about risks they might be missing. Ideally, INFOSEC is a function of applying standards to operations, which then identifies risks to be addressed. In the real world of state government, resource limitations and demand for IT resources for operations may be subtly, or possibly not so subtly, driving INFOSEC decisions more than risk. But we know for sure, there are no standards against which to measure an agency, nor recurring processes for agencies to conduct systematic risks assessments. Under these conditions, it is difficult to see how all 100 agencies, universities, and commissions can accurately understand their respective risks, or how the state has any capability to meet its due diligence responsibility to understand and manage statewide risk.

B. The Division of State Information Technology

The DSIT viewed their role as an information technology service provider and not as a traditional state CIO with authority and oversight for state agencies' IT or INFOSEC. DSIT offers a federally funded INFOSEC network monitoring system to agencies, which, when fully developed, could play an integral role in a statewide INFOSEC program. The DSIT maintains an Internet site offering policy templates, as well as threat and vulnerability information which agencies can elect to access. DSIT also offers INFOSEC services, such as risk and vulnerability assessments, for a fee. Through all these activities, the DSIT staff develops many professional relationships with agency personnel providing lines of communication for informal advice. Even with this level of engagement, DSIT's statewide INFOSEC role is only ad hoc support to agencies who seek assistance, since agencies are responsible for their own individual INFOSEC programs and not subject to oversight.

Interview responses at DSIT were similar to CIO's perspectives. With DSIT's daily interaction with a wide variety of state agencies, it possesses a unique insight into assessing statewide INFOSEC. DSIT, as did CIOs, assesses statewide INFOSEC as less than adequate for similar reasons. DSIT also supports the need for a federated statewide INFOSEC model with statewide standard policies, tailored at the agency level, and subject to oversight and audit.

DSIT was fully conscious of agencies' skepticism and distrust toward DSIT owing to a history of friction, primarily related to the cost of services provided. Throughout this review, many see DSIT transitioning to a stronger customer orientation, but DSIT still suffers from a substantial trust deficit among state agency CIOs. Therefore, having DSIT "drive" any change initiative comes with some historical trust baggage.

C. Experts from Private Sector, Universities, and INFOSEC Research and Literature

The review interviewed experts from the National Association of State CIOs, Multi-State Information Sharing and Analysis Center, Gartner, Deloitte, CISCO, University of South Carolina, and Clemson; CIOs and officials from six other states, including three states with experience in significant data losses; and INFOSEC literature from a variety of sources to include, but not limited to, CERT-Carnegie Mellon, Sans Institute, and Information Security Audit and Control Association. The data was consistent with interview responses of state agency CIOs and DSIT. The direction for long-term success is to establish a statewide INFOSEC program with statewide standard policies.

Most states implementing statewide programs relied on assistance from expert consultants. The one exception identified did not use a consultant due to lack of funds, but would have if funds were available. Consultants with the experience implementing INFOSEC statewide have much to offer in terms of unique knowledge, skill, speed, and avoiding pitfalls, as well as the independence and objectivity needed following a significant breach where questions of confidence and trust linger. It was fully recognized such a change initiative will have consulting costs, but these can be mitigated through a hybrid approach by adding state employees to the project. This will build the state's capabilities, leverage existing personnel to reduce the consultant's footprint, and ultimately allow the state to mature internal IT staff to fully operate the resulting statewide program.

INFOSEC threats and vulnerabilities are increasing. Some measure worldwide hack attempts in the billions per year. The sheer volume of exploits creates risk, but the major concern is the increasing sophistication of hacking attacks as nation states conduct espionage; criminals realize how to exploit information; and groups leverage the Internet to promote political ends.

Comments illustrating these issues and other important advice were:

- According to a CIO who led a change from a decentralized environment to a statewide INFOSEC program: In today's environment of dramatically escalating risks from hackers, proportionally escalating vulnerabilities of agencies connected to one another, large amounts of data, web-based commerce, and an increase use of mobile devices, not having a central INFOSEC framework amounts to "abdicating responsibility."

- A state CIO reinforced his advice for the need for common statewide standards because most agencies are linked through networks, “it only takes one; once in, we are all exposed.” Mobile device applications are not going away and create new levels of risk and vulnerability. We need statewide consistency to address this threat to our networks.
- All agencies are connected in some degree with each other through information sharing networks, so an agency with inadequate INFOSEC exposes all agencies in these networks. ‘A state government is like a house with many windows, and each window represents an agency. It only takes one agency leaving the window open to expose all agencies to a threat.’ A second expert provided an example of an Eastern European hacker who entered a city’s network through its Transportation Department, and then, once “inside”, escalated his privileges in the network in order to enter the Finance Department and steal \$400,000 via an on-line bank account.
- An expert who led his state’s efforts to move from a decentralized environment to a statewide INFOSEC program described the decentralized environment as “some good and not so good; there was no common security posture. The days of going it alone are over.” The consequences for the entire enterprise are too great, the threats are too great, and the risks are too high.
- One expert reported, “as leaders in your organization, you are responsible for protecting the information in your care.” This concept was reiterated by another expert who stated that leadership’s due diligence is inhibited in a decentralized environment because they have no visibility on what is going on in the enterprise.
- A nationally recognized INFOSEC expert was asked to assess the INFOSEC risk in an entity, such as the state of South Carolina, with over a hundred agencies, universities, and commissions developing their own INFOSEC programs without any central governance policy, standards, or expectations? The response was pessimistic.
- An expert commented, “you must assume someone is in your system” when developing your INFOSEC plan. Continuous monitoring of networks was deemed critical by repeated experts to address the reality that hackers will penetrate our systems. At a state level, seeing across the enterprise with a common set of eyes reduces INFOSEC risks by seeing threat patterns, something that is nearly impossible for individual agencies operating in their own monitoring silos. This risk was highlighted by DSIT, which frequently identifies computers on agencies’ networks under a hacker’s control after the initial installation of its network monitoring equipment.

- An experienced CIO who has built several enterprise-wide INFOSEC programs advised that such efforts should focus on building relationships, communities, and education among agency directors, IT components, and users to promote a “culture” of information security. INFOSEC education should be a centralized function due to its critical role in program success. A state CIO who suffered a major data loss emphasized the relationship approach in building an INFOSEC community to raise capabilities and reduce risk, rather than an authoritarian approach, to gain state agency compliance. Having the authority is important, but CISO leadership skills to connect to state agencies to gain their interest, commitment, and build a community among agencies are vital to success.
- A state, with a highly decentralized INFOSEC, initiated its statewide efforts by empowering a Cabinet level CIO to exercise authority over statewide INFOSEC. The initial cost was not technology, but primarily hiring staff with INFOSEC expertise, which required new authority to hire above state pay scales to compete with the private sector for this needed skill set. Another expert weighed in on this topic stating that an enterprise-wide implementation is “90% management (staffing, roles & responsibilities, policy, procedures, audit, and training) and 10% technical.” A third expert agreed that resources will be required more for establishing policy and procedures through staff enhancements and training, rather than procurement of hardware and technology.

Several national Cyber security firms provided overviews of a typical process to implement a statewide INFOSEC plan. The process begins with establishing a governance model with standards, as well as gaining a high level situational awareness of statewide agencies to develop a priority order for action plans. One firm slightly emphasized performing a risk based assessment cutting across all state agencies to develop short-term tactical plans to impact all agencies, while developing a longer term strategy. The other slightly emphasized prioritizing agencies, then conducting full risk assessments by agency while helping lower priority agencies self-develop through education, training, and tools. Their processes may vary a bit, but the philosophy was the same—conduct risk assessments to identify gaps and weakness; develop mitigation plans with resource requirements and time frames; and execute plans to mature agencies’ INFOSEC postures and capabilities to be self-sustaining over the long-term. This allows the state to monitor individual agencies to understand its INFOSEC risk posture, and manage it to continually lower levels of statewide risk assuring everything possible is done to protect citizens’ information.

The experts were consistent in their advice to avoid the temptation of a single solution or short term reactionary fix. INFOSEC must be an enterprise-wide process led by executive management because its success or failure affects the entire organization. A significant loss of

data can disrupt the effectiveness of an entire organization or government, both monetarily and, more importantly, the intangible loss of citizens' trust and confidence. Executive management can no longer delegate INFOSEC responsibility or allow it to be fragmented in various operations throughout an enterprise.

IV. A Way Forward

A. Leadership Through Governance

Given the state's risk tolerance for absorbing another significant data loss, the current INFOSEC risk level, assessed at less than adequate, is not acceptable. Further, regardless of the assessment of statewide risk, the current decentralized INFOSEC environment provides no visibility of risks in agencies, which is incompatible with state government's due diligence responsibility to do everything possible to protect citizens' information. The first step in a statewide INFOSEC program is to establish a governance model. This model provides a sustainable statewide platform for leadership, structure, processes, and assurance that INFOSEC risk, policy, and resource needs are addressed at the state level. According to one expert, "the governance structure is the defining activity that serves as the foundation and sustains all others (activities)."

Governance starts with leadership. A Chief Information Security Officer (CISO) position should be established to take ownership to lead a statewide INFOSEC program. There is no one model of how to locate the CISO within a state. Currently, the vast majority of CISOs in other states report to their CIO. The rationale behind placing the CISO outside of the CIO office is a basic organizational segregation of duties practice; the individual implementing security (CIO) can't be the same as the person responsible for testing security, conducting audit, and reporting on security weaknesses. Two factors in South Carolina impact this decision. First, the South Carolina state CIO leads DSIT. The agency CIO community has a long history of friction and trust issues with DSIT. Second, given the post-DOR world where state government is fully committed to doing everything possible to protect citizens' information, making the CISO independent of the CIO provides a higher level of objectivity and independence which may be beneficial at this time. Regardless of the CISO's location in the organizational chart, the CISO will need relationships with statewide governance executives to fully incorporate INFOSEC governance into the fabric of statewide governance.

The INFOSEC governance framework is simply the structure, strategies, policies, and practices put in place at the state level to provide support and ensure INFOSEC expectations and controls are adequately communicated to all agencies in state government, implemented, and enforced. It allows the executives responsible for state government to have visibility into agencies INFOSEC, and assurance the state, collectively, is doing everything possible to protect our citizens' information. The benefits of this approach include:

- A foundation for effective organization-wide risk management;
- Business needs are balanced against information security requirements to find that cost/effective tipping point to maximize the value of information security resources;
- Assurance of effective information security policy and execution;
- Protection from the increasing potential for civil or legal liability as a result of data loss, particularly if there is an absence of due care;
- A framework to optimize the allocation of limited security resources;
- Increased predictability and reduced uncertainty of business operations; and
- Improving trust in citizen relationships and protecting the state's reputation.

A legal review determined legislation would be required to establish a CISO with the authority to require agencies to comply with statewide INFOSEC standards and policies, as well as defining its role in the various branches of state government. In the near term, regardless of title, the state needs to designate a leader on an interim basis to take the lead on statewide INFOSEC issues while legislative alternatives are weighed. This leader's responsibility will include facilitating legislative proposals, preparation and planning for retaining a consultant with necessary expertise, engaging agency CIOs and ISOs, and additional short-term tactical INFOSEC initiatives as deemed appropriate.

Essential to the process and the success of this interim leader is the simultaneous creation of a steering committee of executives, such as human resources, finance, agency CIOs, and experts from the university community and private sector. The state has tremendous talent wanting to contribute; a steering committee mechanism at the highest level of government facilitates opening the communication pipes for input and relationship building. This steering committee may be modified as the governance model develops, but the right people need to be at the table at the same time to expedite decisions, in a timely manner, to address this crisis.

During the course of the review, the broader issue of overall statewide Information Technology governance was raised. This issue is one of the top issues under discussion by State CIOs across the country. However, statewide Information Technology governance was not within the scope of this review.

B. Federated Model

A key governance component issue among state CIOs is the desirable level of centralized INFOSEC authority. Without question, the current highly decentralized model needs to be eliminated. South Carolina needs a traditional federated model with central responsibility for the statewide INFOSEC program and authority to establish a statewide umbrella framework and policies, and then delegate authority, in most areas, to agencies to tailor statewide policy to fit

their operational environment subject to oversight and audit. This general approach was near overwhelmingly endorsed by CIOs, DSIT personnel, and experts. Moving even farther along the centralization spectrum was recommended by a few CIOs. Successful implementation of any statewide INFOSEC program requires the full commitment of CIOs, so consideration of moving along the authority spectrum beyond the federated model to a more drastic change environment of centralization is not considered wise. Such a development remains an option as the INFOSEC program matures and evolves.

C. Programmatic Approach

Despite the complexity of INFOSEC, the statewide solution is fundamental program management. There has been some expectation this review would develop a laundry list of policies, procedures, and technology to improve INFOSEC. Before a solution can be designed, the problem needs to be understood. The first step in understanding the problem is developing statewide standards so we know what success looks like. Then, standards can be applied to individual agency operations through the risk assessment process, which will expose gaps or weaknesses. Only after looking at an agency's weaknesses in a holistic manner, can the optimum cost/effective mitigation plan be developed, along with resource requirements and timelines. Even with a mitigation plan, the plan is only unique to each individual agency because agencies have different types of operations leading to different risk issues and corresponding mitigation plans.

After all this front end planning effort through risk assessments and mitigation plans are completed, statewide governance provides technical and resource support to agencies on an ongoing basis, as well as coordinates periodic audits. These audit results provide feedback for both individual agency actions and statewide reassessment of policies and practices. The cycle repeats continually, resulting in improved INFOSEC maturity and capabilities over the long-term. Statewide INFOSEC is a process, and not a single solution.

Initially, it will not be easy to coordinate this new programmatic approach. It will take more resources in terms of staffing, expertise, technology, and hardware. However, there are two worthy goals to keep in mind during this urgent effort. First, a world class INFOSEC program creates the enabling platform to leverage technology to dramatically increase the state's service delivery at much lower cost. Second, and most important by far, regain some of the lost trust from our citizens by doing everything possible to protect their information entrusted to the state.

V. Findings & Recommendations

Finding # 1: The state does not have a statewide INFOSEC program, which undermines an effective statewide security posture, as well as creating unmanaged and uncontrolled statewide INFOSEC risks having potential impact on the entire state government.

Recommendation #1a: Establish a statewide INFOSEC program.

Recommendation #1b: Establish a federated governance model.

Finding #2: The state has not fixed responsibility, accountability, and authority for statewide INFOSEC.

Recommendation #2a: Establish a Chief Information Security Officer (CISO) position outside of DSIT to lead the development and implementation of a statewide INFOSEC program.

Recommendation #2b: Immediately, on an interim basis, designate a leader to take responsibility for proactively driving statewide INFOSEC issues while legislative alternatives pertaining to the statewide CISO position are weighed.

Recommendation #2c: Establish a Steering Committee to expedite and provide oversight of the development of a statewide INFOSEC program.

Finding #3: A consultant, with expertise in developing and implementing a statewide INFOSEC programs, will be required to assist in establishing a statewide INFOSEC governance framework and develop statewide INFOSEC implementation options.

Recommendation #3: Identify and procure the use of a consultant to assist building the governance framework and developing statewide INFOSEC implementation options.

VI. Next Phase of Review

If approved, a CISO, a federated model, and the use of a consultant with expertise in implementing INFOSEC statewide programs should construct a governance framework in a highly collaborative manner with state executive leadership and agency representation. The next interim report will focus on implementation options and recommendations, in terms of cost and schedule, to develop a long term sustainable statewide INFOSEC program to reduce agency and statewide risk.

AGENCY: Public Employee Benefit Authority ("PEBA")

SUBJECT: Actuarial Valuation of the South Carolina Retirement System ("SCRS")

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the South Carolina Retirement System ("SCRS") and the South Carolina Police Officers' Retirement System ("PORS"), prior to July 1, 2015, the rates for employee and employer contributions to those plans are preliminarily set by a statutory schedule. However, if the actuarial valuation shows that those scheduled rates are insufficient to maintain a thirty-year amortization period for the plans, the PEBA Board of Directors is required to increase the scheduled employee and employer contribution rates in equal amounts to maintain an amortization period not exceeding thirty years. See Sections 9-1-1085(A), (C), 9-11-225(A), (C) (as added by Act 278 of 2012).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for SCRS as of July 1, 2011. Because the valuation found that the employee and employer contributions scheduled for SCRS for July 1, 2013, by Section 9-1-1085(A) were sufficient to maintain an amortization period not exceeding thirty years for the plan, the PEBA Board was not required to make any adjustments in employee or employer contribution rates for SCRS for July 1, 2013

BOARD ACTION REQUESTED:

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Because there were no adjustments in employee or employer contribution rates for SCRS for July 1, 2013, from the scheduled rates set out in Section 9-1-1085(A), there is no action required by the Budget and Control Board regarding those rates, and the actuarial valuation for SCRS as of July 1, 2011, is attached solely for the Budget and Control Board's information.

ATTACHMENTS:

Agenda item worksheet; Blume 12/5/12 letter; Minutes from the November 21, 2012 PEBA Board Meeting; SCRS Actuarial Valuation as of July 1, 2011; Letter from Gabriel Roeder Smith of August 27, 2012; Section 9-1-1085 of the South Carolina Code of Laws; Summary Information for Valuations

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

December 12, 2012

Blue Agenda
 Regular Session
Executive Session

1. Submitted by:

(a) Agency: Public Employee Benefit Authority ("PEBA")

(b) Authorized Official Signature:



William M. Blume, Jr, CPA, Director

2. **Subject:** Actuarial Valuation of the South Carolina Retirement System ("SCRS")

3. Summary Background Information:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the South Carolina Retirement System ("SCRS") and the South Carolina Police Officers' Retirement System ("PORS"), prior to July 1, 2015, the rates for employee and employer contributions to those plans are preliminarily set by a statutory schedule. However, if the actuarial valuation shows that those scheduled rates are insufficient to maintain a thirty-year amortization period for the plans, the PEBA Board of Directors is required to increase the scheduled employee and employer contribution rates in equal amounts to maintain an amortization period not exceeding thirty years. See Sections 9-1-1085(A), (C), 9-11-225(A), (C) (as added by Act 278 of 2012).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for SCRS as of July 1, 2011. Because the valuation found that the employee and employer contributions scheduled for SCRS for July 1, 2013, by Section 9-1-1085(A) were sufficient to maintain an amortization period not exceeding thirty years for the plan, the PEBA Board was not required to make any adjustments in employee or employer contribution rates for SCRS for July 1, 2013.

4. What is Board asked to do?

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Because there were no adjustments in employee or employer contribution rates for SCRS for July 1, 2013, from the scheduled rates set out in Section 9-1-1085(A), there is no action required by the Budget and Control Board regarding those rates, and the actuarial valuation for SCRS as of July 1, 2011, is attached solely for the Budget and Control Board's information.

5. What is recommendation of the Board division involved? N/A.

6. Recommendation of other office (as required)? N/A.

Office Name _____ Authorized
Signature _____

7. Supporting Documents:

List those attached:

- Minutes from the November 21, 2012 PEBA Board Meeting.
- SCRS Actuarial Valuation as of July 1, 2011.
- Letter from Gabriel Roeder Smith of August 27, 2012.
- Section 9-1-1085 of the South Carolina Code of Laws.

List those not attached but available:

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director

December 5, 2012

Delbert H. Singleton, Jr.
Secretary, South Carolina Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211

RE: Agenda Items for the Approval of Contribution Rates Adopted by the Board of Directors
for the South Carolina Public Employee Benefit Authority

Dear Mr. Singleton:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the Board of Directors for the South Carolina Public Employee Benefit Authority ("PEBA") is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary. Further, as provided in Section 9-4-45 of the Code as added by Act 278, adjustments in employer and employee contribution rates made by the PEBA Board are policy determinations that are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information valuations prepared by the plans' actuary, Gabriel Roeder Smith, for SCRS, PORS, JSRS, GARS, and NGRS as of July 1, 2011, and adopted the contribution rates recommended therein. It should be noted, however, that no adjustment to the statutorily scheduled contribution rates for SCRS was necessary. As required by Section 9-4-45, the adjustments in the contribution rates adopted by the PEBA Board are now subject to approval by the Budget and Control Board. Accordingly, please place five items on the agenda of the Budget and Control Board's December 12, 2012 meeting for the approval of these contribution rate adjustments, as reflected in more detail on the attached Agenda Item Worksheets.

Thank you for your attention to this matter. If you need any additional information, please do not hesitate to contact me.

Sincerely,



William M. Blume, Jr., CPA
Executive Director

Enclosures

Street Address:
202 Arbor Lake Drive
Columbia, South Carolina 29223

www.retirement.sc.gov
803-737-6800
800-868-9002 (within S.C. only)

Mailing Address:
Post Office Box 11960
Columbia, South Carolina 29211-1960

PEBA

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.
2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.
3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.
4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.
5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.

South Carolina Retirement System (SCRS)

Executive Summary (Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active Members	187,611	190,239
- TERI Members	5,254	5,164
- Retirees and Beneficiaries	110,296	106,230
- Inactive Members	158,086	156,871
- Total	461,247	458,504
• Projected payroll of active members	\$7,687,558	\$7,769,820
• Projected payroll for all members, including members in ORP, TERI, and working retirees	\$9,379,634	\$9,641,717
Contribution Rates		
• Employer contribution rate ¹	12.23%	10.60%
• Member	6.50%	6.50%
Assets		
• Market value	\$22,395,029	\$19,681,137
• Actuarial value	25,604,823	25,400,331
• Return on market value	18.6%	14.6%
• Return on actuarial value	4.3%	3.3%
• Ratio of actuarial to market value of assets	114.3%	129.1%
• External cash flow %	-4.1%	-3.9%
Actuarial Information		
• Normal cost %	10.68%	10.01%
• Actuarial accrued liability (AAL)	\$40,015,772	\$38,774,029
• Unfunded actuarial accrued liability (UAAL)	14,410,949	13,373,698
• Funded ratio	64.0%	65.5%
• Funding period (years)	30	30
Reconciliation of UAAL		
• Beginning of Year UAAL	\$13,373,698	\$11,967,253
- Interest on UAAL	999,625	957,380
- Amortization payment with interest	(618,048)	(662,414)
- Assumption/method changes ²	(45,359)	0
- Asset experience	802,448	1,212,929
- COLA	154,945	0
- Salary experience	(477,773)	(344,630)
- Other liability experience	221,413	168,477
- Incidental death benefit	0	74,703
• End of Year UAAL	\$14,410,949	\$13,373,698

¹ The contribution rate determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.

² Includes the change in liability due to the change in automatic COLA provisions.



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Irving, TX 75038-2631

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August 27, 2012

South Carolina Public Employee Benefit Authority
South Carolina Retirement System
P.O. Box 11960
Columbia, SC 29211-1960

Dear Members of the Authority:

Re: **Certification of the Employer Contribution Rates for Fiscal Year 2014 that reflect H. 4967 as Enacted**

H. 4967 as amended was enacted on June 26, 2012. Prior to the enactment of the legislation, the results of the July 1, 2011 actuarial valuation would determine the actuarial and financial information that is disclosed in the Retirement System's accounting information under the Governmental Accounting Standards, as well as the identify the employer contribution requirements that would be adopted by the South Carolina Budget and Control Board and become effective for Fiscal Year 2014 (i.e. effective July 1, 2013). The enactment of the pension reform bill changes the results disclosed in the 2011 actuarial valuation. Therefore, the information below documents the FY 2014 employer contribution rates for the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) that reflects the legislative changes. The Retirement System will also use this updated liability and cost information for disclosure and financial reporting under the Governmental Accounting Standards Board Statement No. 25 (GASB 25).

FY 2014 Contribution Rates

Sections 9-1-1085 and 9-11-225 of South Carolina Code establish the policy for determining the employer and member contribution rates for SCRS and PORS respectively. Under these statutes, the scheduled contribution rate as of July 1, 2013 for the employer is 10.60% for SCRS and 12.50% for PORS. The member contribution rate will be 7.50%. However, if these scheduled contribution rates are insufficient to maintain a 30-year amortization period, both the member and employer contribution rates will increase to an amount sufficient to satisfy the 30-year amortization period requirement. Based on the actuarial valuation as of July 1, 2011 that recognizes the changes enacted by the pension reform bill, the following table documents the member and employer contribution rates for fiscal year 2014.

Table 1. - Contribution Rates in Effect for Fiscal Year 2014

System	SCRS	PORS
Members	7.50%	7.84%
Employers	10.60%	12.84%
Funding Period	25 years	30 years

The scheduled employer and member contribution rates in the Code are sufficient to satisfy the 30-year funding period requirement for SCRS. However, the scheduled employer and members contribution rates for PORS would result in a 38-year amortization period, thus are not sufficient and must be increased by an additional 0.34% to decrease the amortization period to 30 years.

Funding Liabilities and Assets

The following is a table with a summary of the key funded status measures as of July 1, 2011. Also attached is an exhibit providing additional financial information for each of the retirement system.

Table 2. – Summary of Key Funded Status Measurements as of July 1, 2011

System	SGRS	PORS
Actuarial Value of Assets (AVA)	\$25,604,823	\$3,728,318
Actuarial Accrued Liability (AAL)	38,011,610	5,122,501
Unfunded Actuarial Accrued Liability (UAAL)	12,406,787	1,394,183
Funded Ratio	67.4%	72.8%
Annual Covered Payroll	\$7,687,558	\$1,087,587
UAAL as a % of Payroll	161.4%	128.2%

\$ in thousands.

Basis of Calculations

The calculations and analysis disclosed in this letter are based on the member and financial data provided by the System used to perform the actuarial valuation as of July 1, 2011. Except where noted otherwise, the actuarial assumptions and methods are based on those recommended in our Experience Study Report dated September 2011 and adopted by the Budget and Control Board in November 2011.

For purposes of this analysis, we adjusted the rate of retirement assumption for members impacted by the proposed legislation. It was assumed the change in the disability eligibility provisions would result in a 20% reduction in the number of members who receive a disability allowance. Those members who would not meet the qualification requirements are assumed to continue employment.

It is our opinion that the recommended assumptions are internally consistent and are reasonably based on past and anticipated future experience of the System. The actuarial assumptions and method used in this report comply with the parameters for disclosure that appear in GASB 25.

General Comments

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can, and almost certainly will, differ as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rate, and funding periods. The actuarial calculations are intended to provide information for rational decision making.

All of our work conforms with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. We certify that the

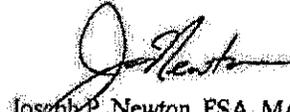
William M. Blume Jr., CPA
August 27, 2012
Page 3

undersigned are members of the American Academy of Actuaries and that we meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, both of the undersigned are experienced in performing valuations for large public retirement systems. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either of us.

Sincerely,



Daniel J. White, FSA, MAAA, EA
Senior Consultant



Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Enclosure

K:\3285\2012\Leg\Conference Committee\YY2014 Contribution Rates for SCRS and PORS.docx

SECTION 9-1-1085.

(A) As provided in Sections 9-1-1020 and 9-1-1050, the employer and employee contribution rates for the system beginning in Fiscal Year 2012-2013, expressed as a percentage of earnable compensation, are as follows:

Fiscal Year	Employer Contribution	Employee Contribution
2012-2013	10.60	7.00
2013-2014	10.60	7.50
2014-2015 and after	10.90	8.00

The employer contribution rate set out in this schedule includes contributions for participation in the incidental death benefit plan provided in Sections 9-1-1770 and 9-1-1775. The employer contribution rate for employers that do not participate in the incidental death benefit plan must be adjusted accordingly.

(B) After June 30, 2015, the board may increase the percentage rate in employer and employee contributions for the system on the basis of the actuarial valuation, but any such increase may not result in a differential between the employee and employer contribution rate for the system that exceeds 2.9 percent of earnable compensation. An increase in the contribution rate adopted by the board pursuant to this section may not provide for an increase in an amount of more than one-half of one percent of earnable compensation in any one year.

(C) If the scheduled employer and employee contributions provided in subsection (A), or the rates last adopted by the board pursuant to subsection (B), are insufficient to maintain a thirty year amortization schedule for the unfunded liabilities of the system, then the board shall increase the contribution rate as provided in subsection (A) or as last adopted by the board in equal percentage amounts for employer and employee contributions as necessary to maintain an amortization schedule of no more than thirty years. Such adjustments may be made without regard to the annual limit increase of one-half percent of earnable compensation provided pursuant to subsection (B), but the differential in the employer and employee contribution rates provided in subsection (A) or subsection (B), as applicable, of this section must be maintained at the rate provided in the schedule for the applicable fiscal year.

(D)(1) After June 30, 2015, if the most recent annual actuarial valuation of the system shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 percent differential between employer and employee contribution rates provided pursuant to subsection (B) of this section.

(2) If contribution rates are decreased pursuant to item (1) of this subsection and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates as provided pursuant to subsection (B) of this section until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than ninety percent.

1) Regarding Agenda Items Nos. 3 – 7 (SCRS, PORS, JSRS, GARS, NGRS Valuations), you requested that PEBA “[e]xpress all [contribution increases] in terms of \$ and % for both employee and employer.

SCRS

<u>Employee %</u>		<u>*Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.5	\$552M	\$611M	\$59 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.6	10.6	\$968 M	\$993 M	\$25 M

PORS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.84	\$77.4 M	\$89.5 M	\$12.1 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
12.3	12.84	\$146 M	\$156 M	\$10 M

GARS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	11.0	\$390 K	\$429 K	\$39 K

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
73.4	105.4	\$2.8 M	\$4.06 M	\$1.26 M

JSRS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	10.0	\$1.87 M	\$1.87 M	\$---

<u>Employer %</u>		<u>Employer \$</u>		<u>***Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
45.09	47.33	\$8.4 M	\$8.8 M	\$400 K

*Employee \$ figures are based on projected active employee payroll for FYs 2012 and 2013

**NGRS cannot be expressed as a percentage of payroll because it is non-contributory and is funded by direct appropriation.

*** all \$ figures are based on projected payrolls for FYs 2012 and 2013

2) Regarding Agenda Item Number 3 (SCRS Valuation), you requested “[g]iven the alleged FY12 fund performance, please prepare an updated estimate, in graph form, of the UAL, as of June 30, 2013, and for the 4 prior fiscal years, which show the effects on the UAL with smoothing and without smoothing.”

The chart below sets out the market value of assets (MVA), the actuarial value of assets (AVA), the actuarial accrued liability (AAL), the unfunded actuarial accrued liability-market value (UAAL[MV]) and the unfunded actuarial liability-actuarial value (UAAL[AV]). The market value numbers reflect amounts that do not apply smoothing. The numbers below for 2012 and 2013 reflect the FY12 fund performance. The numbers for 2009 – 2011 are not affected by the FY12 fund performance.

<u>2009</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$17.7 B	\$25.2 B	\$37.2B	\$19.5 B	\$12 B
<u>2010</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$19.7 B	\$25.4 B	\$38.8 B	\$19.1 B	\$13.4 B
<u>2011</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$38.0 B	\$15.6 B	\$12.4 B
<u>2012</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$21.6 B	\$25.6 B	\$39.2 B	\$17.6 B	\$13.6 B
<u>2013</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$40.5 B	\$18.1 B	\$14.9 B

- 3) Regarding Agenda Items Nos. 3, 4, 5, 6 and 7, you requested:
- a. 5 year graph of both proposed employee and proposed employer contributions for FY13 and 4 prior fiscal years
 - b. Explain when only the employee or employer contributions apply when that is the case
 - c. What happens if the B&CB does not approve increase in these employer contributions and/or employee contributions.

a) The table below shows the employee and employer contribution rates for the upcoming fiscal year beginning July 1, 2013 (FY 2014), and the four preceding fiscal years.

	July 1, 2009 (FY 2010)	July 1, 2010 (FY 2011)	July 1, 2011 (FY 2012)	July 1, 2012 (FY 2013)	July 1, 2013 (FY 2014)
<u>SCRS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.5%
Employer	9.39%	9.39%	9.535%	10.6%	10.6%
<u>PORS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.84%*
Employer	11.05%	11.53%	11.763%	12.30%	12.84%*
<u>JSRS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	10.0%
Employer	45.09%	45.09%	45.09%	45.09%	47.33%*
<u>GARS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	11.0%
Employer	\$2.598M	\$2.414M	\$2.532M	\$2.831M	\$4.063M*
<u>NGRS</u>					
Employee	N/A	N/A	N/A	N/A	N/A
Employer	\$3.945M	\$3.904M	\$3.937M	\$4.539M*	Pending

The rates marked with an asterisk are adjustments in contribution rates that have been approved by the PEBA Board of Directors, and are currently pending approval by the Budget and Control Board.

b) For SCRS and PORS, prior to July 1, 2012, the employee contribution rate was fixed by statute and the employer rate was determined by the Budget and Control Board based upon the actuarial valuations of the systems and the Board's funding policies. For the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014, the employee and employer contribution rates for SCRS and PORS are set by a statutory schedule pursuant to Act 278 of 2012, and may

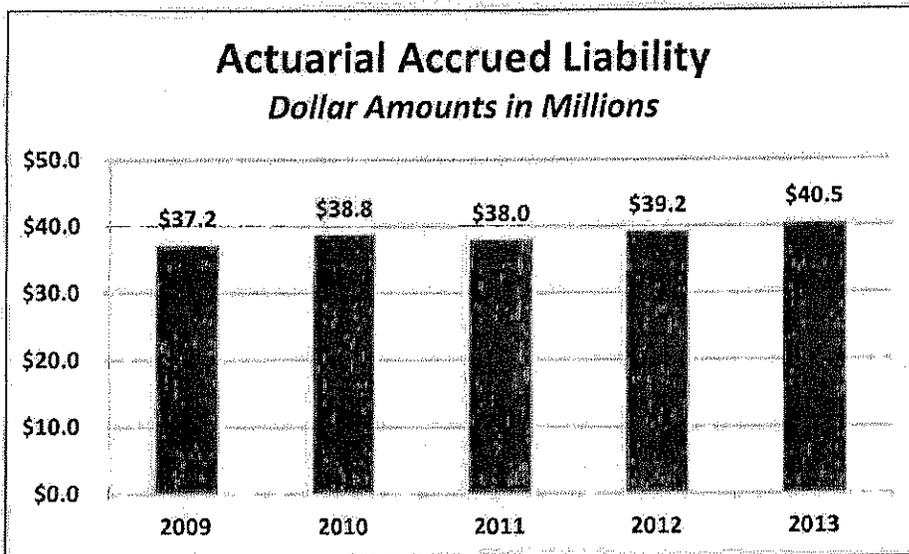
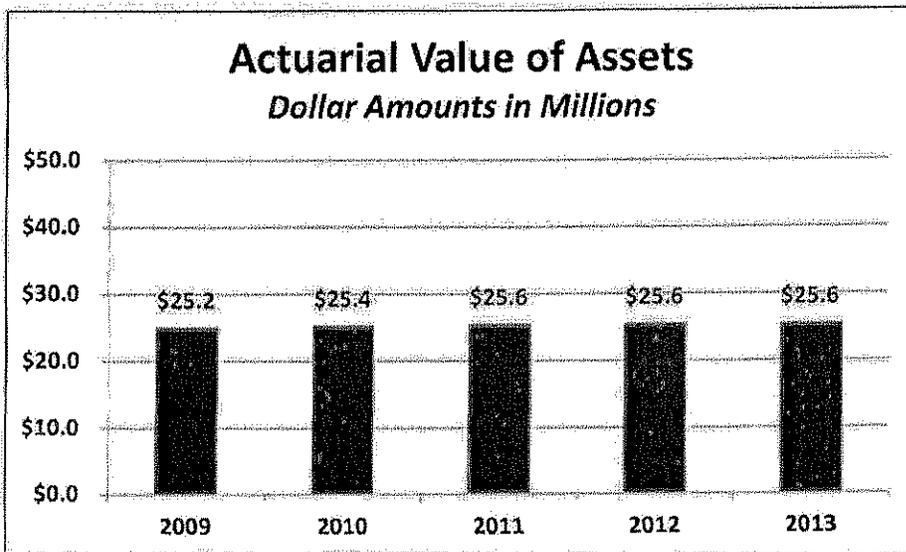
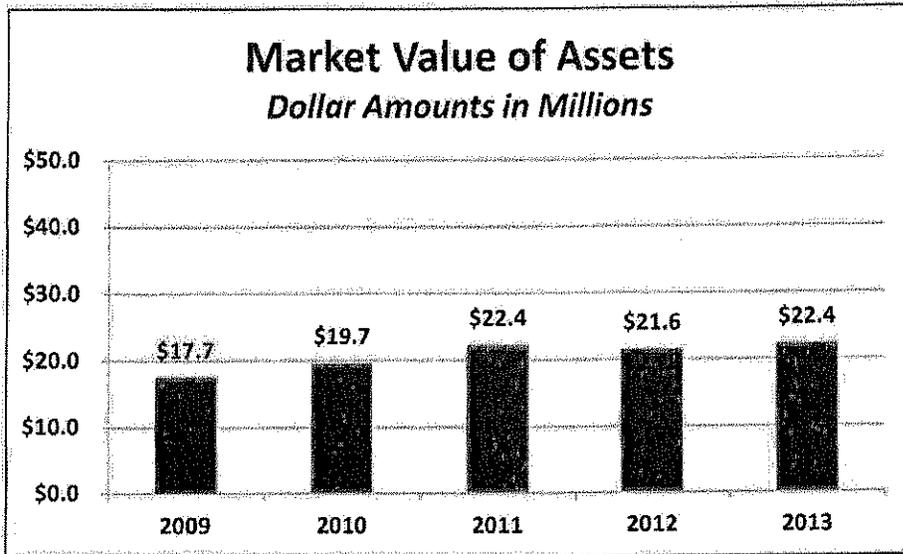
only be increased in order to prevent the amortization period for the plans' unfunded liability from exceeding thirty years.

For JSRS and GARS, the employee contribution rates are fixed by statute, and the employer contributions are set by the PEBA Board of Directors (and the Budget and Control Board prior to July 1, 2012) based upon the actuarial valuations of those plans. The JSRS employer contribution is collected as a percentage of covered payroll from the applicable employers, while the GARS employer contribution is paid in a lump-sum appropriation from the General Assembly.

NGRS does not require employee contributions, and is funded entirely by direct appropriations from the General Assembly. The PEBA Board of Directors (and formerly the Budget and Control Board) certifies the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. Unlike the other plans, which operate on a two-year lag between the valuation date and the effective date of the required contributions recommended therein, the contributions requirements reported in the NGRS actuarial valuation take effect the following fiscal year.

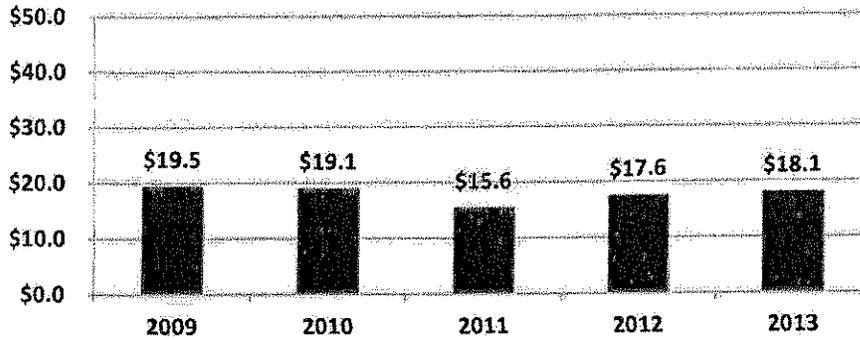
c) For SCRS, no increase in the statutorily scheduled contribution rates was required for the fiscal year beginning July 1, 2013, and, therefore, no action is required by the Budget and Control Board with regard to those rates. For PORs, the increase in the employee and employer contribution rates for the fiscal year beginning July 1, 2013, to maintain the plan at an amortization period not exceeding thirty years is required by law; the failure to approve the increase would violate that law, as well as result in a failure to adequately fund the plan under the applicable accounting standards and funding policies. See S.C. Code Ann. § 9-11-225(C) (as added by Act 278 of 2012).

For JSRS, GARS, and NGRS, the failure to approve the contribution increases recommended by the plans' actuary would, in general terms, result in a failure to adequately fund the plans under the applicable accounting standards and funding policies. This failure would also require future contribution increases necessary to meet adequate funding requirements to be greater than they would have been had the required contribution increases been approved this year. A precise calculation of the detrimental effect to the funded status of the plans caused by failing to increase contributions as recommended by the actuary would have to be determined by the actuary and would require additional information regarding the extent to which the recommended contribution increases are not made.



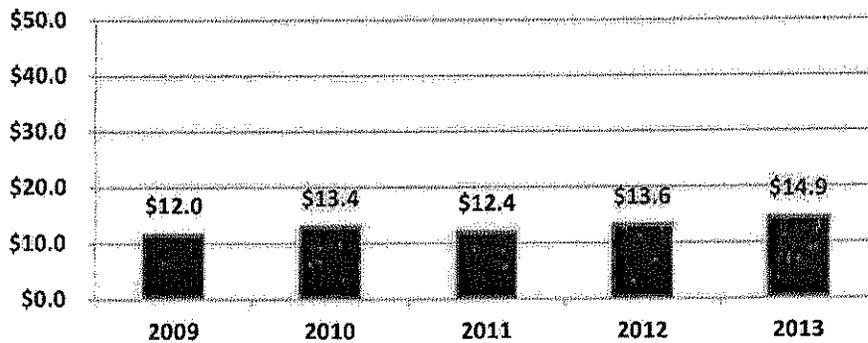
Unfunded Actuarial Accrued Liability Market Value

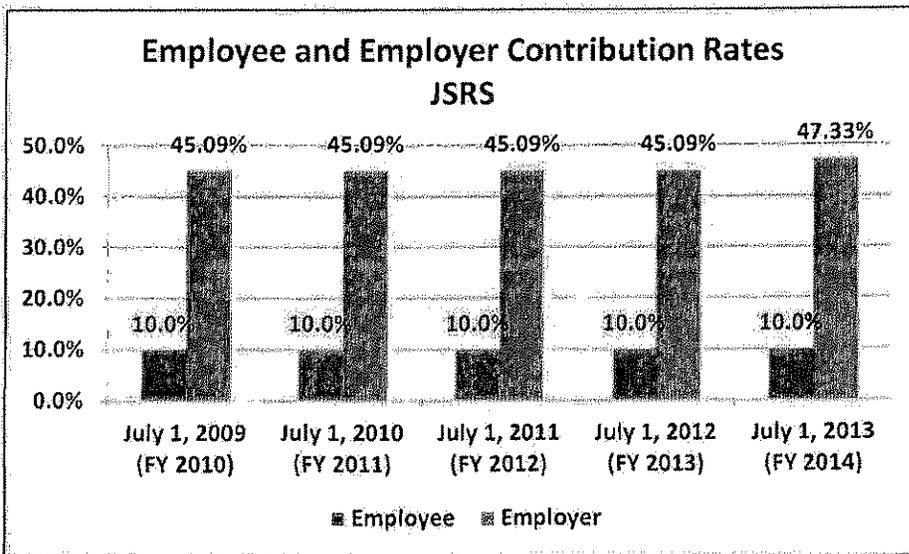
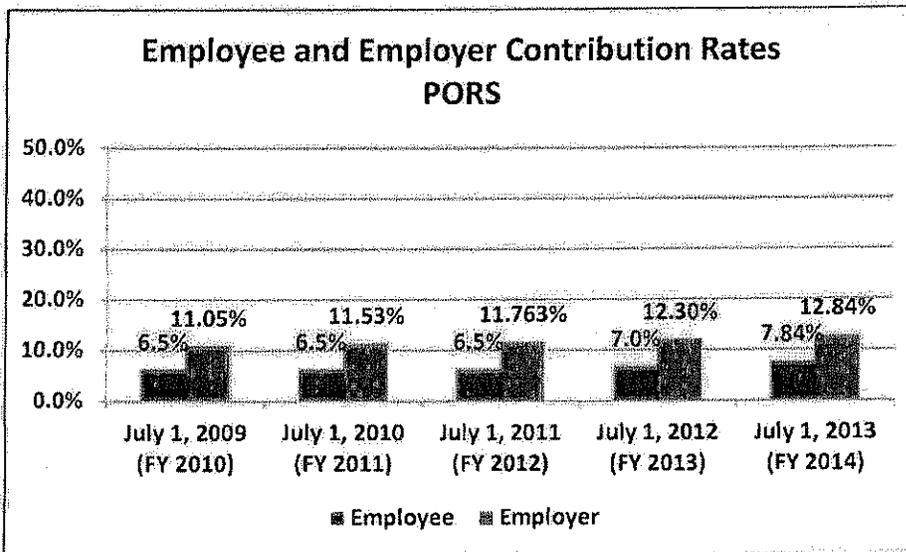
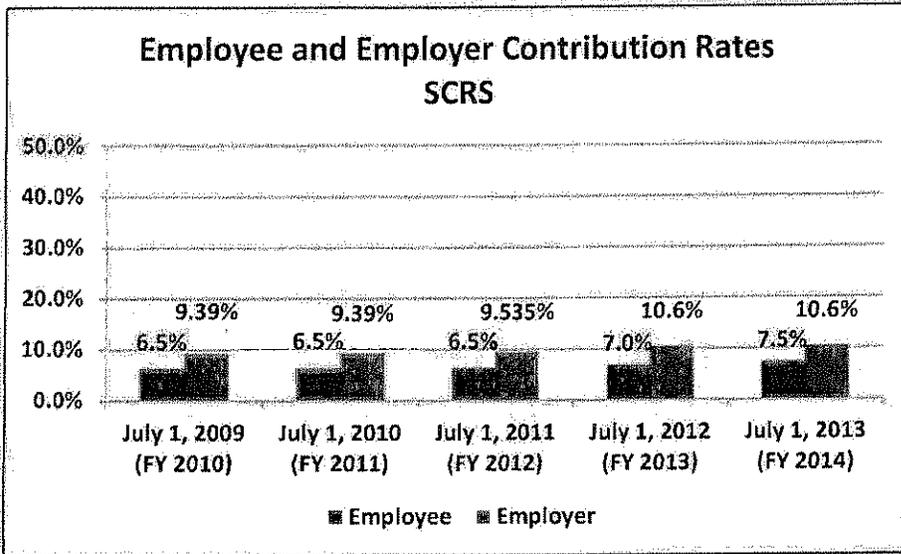
Dollar Amounts in Millions

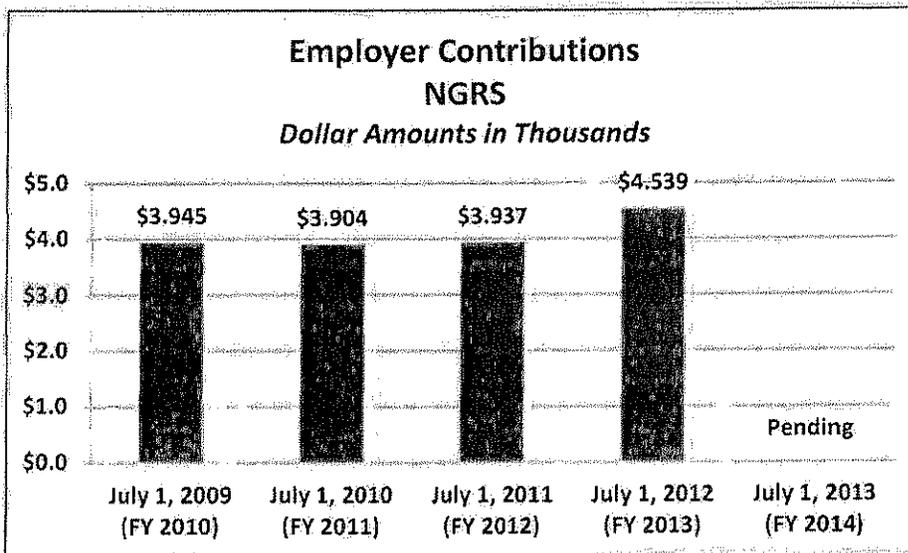
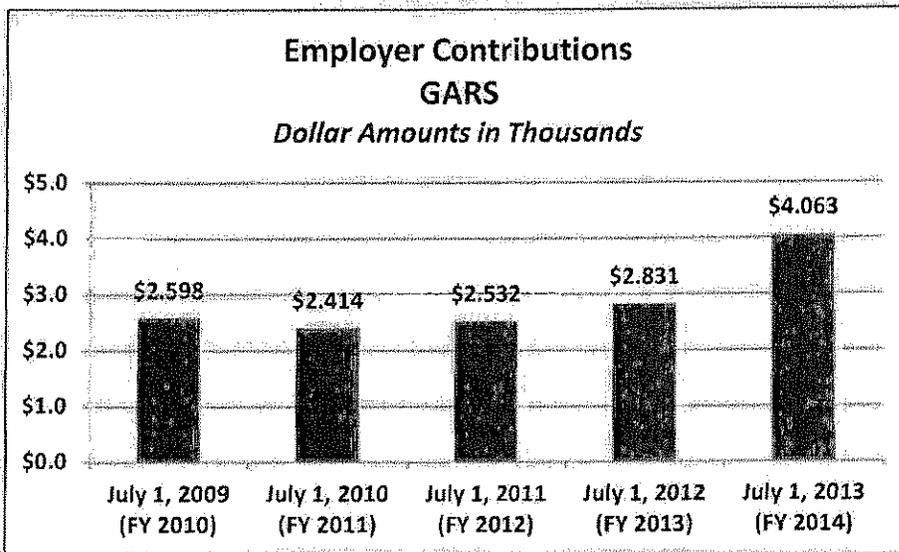
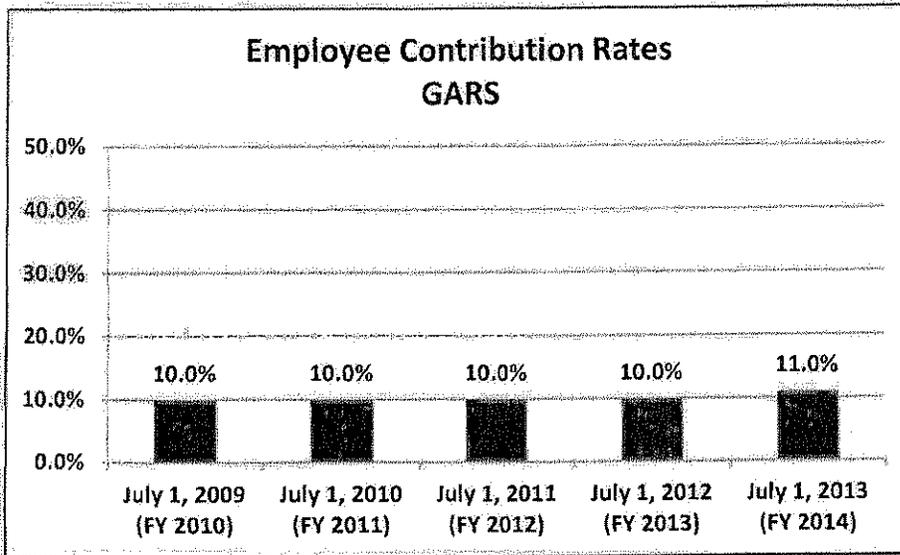


Unfunded Actuarial Accrued Liability Actuarial Value

Dollar Amounts in Millions







AGENCY: Public Employee Benefit Authority ("PEBA")

SUBJECT: Approval of PEBA Policy Determination for the South Carolina Police Officers' Retirement System

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the South Carolina Retirement System ("SCRS") and the South Carolina Police Officers' Retirement System ("PORS"), prior to July 1, 2015, the rates for employee and employer contributions to those plans are preliminarily set by a statutory schedule. However, if the actuarial valuation shows that those scheduled rates are insufficient to maintain a thirty-year amortization period for the plans, the PEBA Board of Directors is required to increase the scheduled employee and employer contribution rates in equal amounts to maintain an amortization period not exceeding thirty years. See Sections 9-1-1085(A), (C), 9-11-225(A), (C) (as added by Act 278 of 2012).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for PORS as of July 1, 2011, and adopted the contribution rates recommended therein. In particular, because the valuation found that the PORS contribution rates scheduled in Section 9-11-225(A) for July 1, 2013, were not sufficient to maintain an amortization period not exceeding thirty years for the plan, the PEBA Board adopted the recommendation of the actuary that PORS contribution rates be increased under Section 9-11-225(C) from the scheduled rates of 7.5% for employees and 12.5% for employers to 7.84% for employees and 12.84% for employers for July 1, 2013, to maintain a thirty-year amortization period for the plan.

BOARD ACTION REQUESTED:

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustments in employer and employee contributions adopted by the PEBA Board for the South Carolina Police Officers' Retirement System ("PORS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase PORS employee contribution rate from 7.5% to 7.84% and the PORS employer contribution rate from 12.5% to 12.84%.

ATTACHMENTS:

Agenda item worksheet; Blume 12/5/12 letter; Minutes from the November 21, 2012 PEBA Board Meeting; PORS Actuarial Valuation as of July 1, 2011; Letter from Gabriel Roeder Smith of August 27, 2012; Section 9-11-225 of the South Carolina Code of Laws; Summary Information for Valuations

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

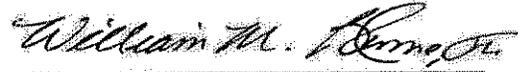
December 12, 2012

Blue Agenda
X Regular Session
Executive Session

1. Submitted by:

(a) Agency: Public Employee Benefit Authority ("PEBA")

(b) Authorized Official Signature:



William M. Blume, Jr, CPA, Director

2. **Subject:** Approval of PEBA Policy Determination for the South Carolina Police Officers' Retirement System

3. Summary Background Information:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the South Carolina Retirement System ("SCRS") and the South Carolina Police Officers' Retirement System ("PORS"), prior to July 1, 2015, the rates for employee and employer contributions to those plans are preliminarily set by a statutory schedule. However, if the actuarial valuation shows that those scheduled rates are insufficient to maintain a thirty-year amortization period for the plans, the PEBA Board of Directors is required to increase the scheduled employee and employer contribution rates in equal amounts to maintain an amortization period not exceeding thirty years. See Sections 9-1-1085(A), (C), 9-11-225(A), (C) (as added by Act 278 of 2012).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for PORS as of July 1, 2011, and adopted the contribution rates recommended therein. In particular, because the valuation found that the PORS contribution rates scheduled in Section 9-11-225(A) for July 1, 2013, were not sufficient to maintain an amortization period not exceeding thirty years for the plan, the PEBA Board adopted the recommendation of the actuary that PORS contribution rates be increased under Section 9-11-225(C) from the scheduled rates of 7.5% for employees and 12.5% for employers to 7.84% for employees and 12.84% for employers for July 1, 2013, to maintain a thirty-year amortization period for the plan.

4. What is Board asked to do?

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustments in employer and employee contributions adopted by the PEBA Board for the South Carolina Police Officers' Retirement System ("PORS") for the fiscal year beginning July 1,

2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase PORS employee contribution rate from 7.5% to 7.84% and the PORS employer contribution rate from 12.5% to 12.84%.

5. What is recommendation of the Board division involved? N/A.

6. Recommendation of other office (as required)? N/A.

Office Name _____ Authorized Signature _____

7. Supporting Documents:

List those attached:

- Minutes from the November 21, 2012 PEBA Board Meeting.
- PORS Actuarial Valuation as of July 1, 2011.
- Letter from Gabriel Roeder Smith of August 27, 2012
- Section 9-11-225 of the South Carolina Code of Laws

List those not attached but available:

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director

December 5, 2012

Delbert H. Singleton, Jr.
Secretary, South Carolina Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211

RE: Agenda Items for the Approval of Contribution Rates Adopted by the Board of Directors
for the South Carolina Public Employee Benefit Authority

Dear Mr. Singleton:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the Board of Directors for the South Carolina Public Employee Benefit Authority ("PEBA") is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary. Further, as provided in Section 9-4-45 of the Code as added by Act 278, adjustments in employer and employee contribution rates made by the PEBA Board are policy determinations that are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information valuations prepared by the plans' actuary, Gabriel Roeder Smith, for SCRS, PORS, JSRS, GARS, and NGRS as of July 1, 2011, and adopted the contribution rates recommended therein. It should be noted, however, that no adjustment to the statutorily scheduled contribution rates for SCRS was necessary. As required by Section 9-4-45, the adjustments in the contribution rates adopted by the PEBA Board are now subject to approval by the Budget and Control Board. Accordingly, please place five items on the agenda of the Budget and Control Board's December 12, 2012 meeting for the approval of these contribution rate adjustments, as reflected in more detail on the attached Agenda Item Worksheets.

Thank you for your attention to this matter. If you need any additional information, please do not hesitate to contact me.

Sincerely,



William M. Blume, Jr., CPA
Executive Director

Enclosures

Street Address:
202 Arbor Lake Drive
Columbia, South Carolina 29223

www.retirement.sc.gov
803-737-6800
800-868-9002 (within S.C. only)

Mailing Address:
Post Office Box 11960
Columbia, South Carolina 29211-1960

PEBA

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.
2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.
3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.
4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.
5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.

Police Officers Retirement System (PORS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active members	26,650	26,568
- Retirees and beneficiaries	13,358	12,566
- Inactive members	11,980	11,899
- Total	51,988	51,033
• Projected payroll of active members	\$1,087,587	\$1,076,467
• Projected payroll for all active members, including working retirees	\$1,173,772	\$1,158,390
Contribution Rates		
• Employer contribution rate	12.30%	12.30%
• Member	6.50%	6.50%
Assets		
• Market value	\$3,317,533	\$2,851,474
• Actuarial value	3,728,241	3,612,700
• Return on market value	18.3%	14.3%
• Return on actuarial value	4.6%	3.2%
• Ratio - actuarial value to market value	112.4%	126.7%
• External cash flow %	-1.6%	-1.5%
Actuarial Information		
• Normal cost %	13.39%	13.74%
• Actuarial accrued liability (AAL)	\$4,824,941	\$4,850,457
• Unfunded actuarial accrued liability (UAAL)	1,096,700	1,237,757
• Funded ratio	77.3%	74.5%
• Funding period (years)	22.2	30.0
Reconciliation of UAAL		
• Beginning of Year UAAL	\$1,237,757	\$1,081,891
- Interest on UAAL	71,369	86,551
- Amortization payment with interest	(64,459)	(52,536)
- Assumption/method changes ¹	(286,171)	0
- Asset experience	102,677	167,396
- COLA	40,124	0
- Salary experience	(41,879)	(80,056)
- Other liability experience	37,282	34,524
- Incidental death benefit	0	(13)
• End of Year UAAL	\$1,096,700	\$1,237,757

¹ Includes the change in liability due to the change in automatic COLA provisions.



August 27, 2012

South Carolina Public Employee Benefit Authority
South Carolina Retirement System
P.O. Box 11960
Columbia, SC 29211-1960

Dear Members of the Authority:

Re: Certification of the Employer Contribution Rates for Fiscal Year 2014 that reflect H. 4967 as Enacted

H. 4967 as amended was enacted on June 26, 2012. Prior to the enactment of the legislation, the results of the July 1, 2011 actuarial valuation would determine the actuarial and financial information that is disclosed in the Retirement System's accounting information under the Governmental Accounting Standards, as well as the identify the employer contribution requirements that would be adopted by the South Carolina Budget and Control Board and become effective for Fiscal Year 2014 (i.e. effective July 1, 2013). The enactment of the pension reform bill changes the results disclosed in the 2011 actuarial valuation. Therefore, the information below documents the FY 2014 employer contribution rates for the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) that reflects the legislative changes. The Retirement System will also use this updated liability and cost information for disclosure and financial reporting under the Governmental Accounting Standards Board Statement No. 25 (GASB 25).

FY 2014 Contribution Rates

Sections 9-1-1085 and 9-11-225 of South Carolina Code establish the policy for determining the employer and member contribution rates for SCRS and PORS respectively. Under these statutes, the scheduled contribution rate as of July 1, 2013 for the employer is 10.60% for SCRS and 12.50% for PORS. The member contribution rate will be 7.50%. However, if these scheduled contribution rates are insufficient to maintain a 30-year amortization period, both the member and employer contribution rates will increase to an amount sufficient to satisfy the 30-year amortization period requirement. Based on the actuarial valuation as of July 1, 2011 that recognizes the changes enacted by the pension reform bill, the following table documents the member and employer contribution rates for fiscal year 2014.

Table 1. - Contribution Rates in Effect for Fiscal Year 2014

System	SCRS	PORS
Members	7.50%	7.84%
Employers	10.60%	12.84%
Funding Period	25 years	30 years

The scheduled employer and member contribution rates in the Code are sufficient to satisfy the 30-year funding period requirement for SCRS. However, the scheduled employer and members contribution rates for PORS would result in a 38-year amortization period, thus are not sufficient and must be increased by an additional 0.34% to decrease the amortization period to 30 years.

Funding Liabilities and Assets

The following is a table with a summary of the key funded status measures as of July 1, 2011. Also attached is an exhibit providing additional financial information for each of the retirement system.

Table 2. -- Summary of Key Funded Status Measurements as of July 1, 2011

System	SCRS	PORS
Actuarial Value of Assets (AVA)	\$25,604,823	\$3,728,318
Actuarial Accrued Liability (AAL)	38,011,610	5,122,501
Unfunded Actuarial Accrued Liability (UAAL)	12,406,787	1,394,183
Funded Ratio	67.4%	72.8%
Annual Covered Payroll	\$7,687,558	\$1,087,587
UAAL as a % of Payroll	161.4%	128.2%

\$ in thousands

Basis of Calculations

The calculations and analysis disclosed in this letter are based on the member and financial data provided by the System used to perform the actuarial valuation as of July 1, 2011. Except where noted otherwise, the actuarial assumptions and methods are based on those recommended in our Experience Study Report dated September 2011 and adopted by the Budget and Control Board in November 2011.

For purposes of this analysis, we adjusted the rate of retirement assumption for members impacted by the proposed legislation. It was assumed the change in the disability eligibility provisions would result in a 20% reduction in the number of members who receive a disability allowance. Those members who would not meet the qualification requirements are assumed to continue employment.

It is our opinion that the recommended assumptions are internally consistent and are reasonably based on past and anticipated future experience of the System. The actuarial assumptions and method used in this report comply with the parameters for disclosure that appear in GASB 25.

General Comments

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can, and almost certainly will, differ as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rate, and funding periods. The actuarial calculations are intended to provide information for rational decision making.

All of our work conforms with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. We certify that the

Gabriel Roeder Smith & Company

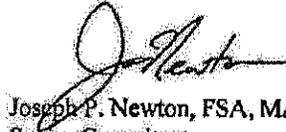
William M. Blume Jr., CPA
August 27, 2012
Page 3

undersigned are members of the American Academy of Actuaries and that we meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, both of the undersigned are experienced in performing valuations for large public retirement systems. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either of us.

Sincerely,



Daniel J. White, FSA, MAAA, EA
Senior Consultant



Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Enclosure

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SECTION 9-11-225.

(A) As provided in Sections 9-11-210 and 9-11-220, the employer and employee contribution rates for the system beginning in Fiscal Year 2012-2013, expressed as a percentage of earnable compensation, are as follows:

Fiscal Year	Employer Contribution	Employee Contribution
2012-2013	12.30	7.00
2013-2014	12.50	7.50
2014-2015 and after	13.00	8.00

The employer contribution rate set out in this schedule includes contributions for participation in the incidental death benefit plan provided in Sections 9-11-120 and 9-11-125 and for participation in the accidental death benefit program provided in Section 9-11-140. The employer contribution rate for employers that do not participate in these programs must be adjusted accordingly.

(B) After June 30, 2015, the board may increase the percentage rate in employer and employee contributions for the system on the basis of the actuarial valuation, but any such increase may not result in a differential between the employee and employer contribution rate for that system that exceeds 5.00 percent of earnable compensation. An increase in the contribution rate adopted by the board pursuant to this section may not provide for an increase in an amount of more than one-half of one percent of earnable compensation in any one year.

(C) If the scheduled employer and employee contributions provided in subsection (A), or the rates last adopted by the board pursuant to subsection (B), are insufficient to maintain a thirty year amortization schedule for the unfunded liabilities of the system, then the board shall increase the contribution rate as provided in subsection (A) or as last adopted by the board in equal percentage amounts for employer and employee contributions as necessary to maintain an amortization schedule of no more than thirty years. Such adjustments may be made without regard to the annual limit increase of one-half percent of earnable compensation provided pursuant to subsection (B), but the differential in the employer and employee contribution rates provided in subsection (A) or subsection (B), as applicable, of this section must be maintained at the rate provided in the schedule for the applicable fiscal year.

(D)(1) After June 30, 2015, if the most recent annual actuarial valuation of the system shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 5.0 percent differential between employer and employee contribution rates provided pursuant to subsection (B) of this section.

(2) If contribution rates are decreased pursuant to item (1) of this subsection and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates as provided pursuant to subsection (B) of this section until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than ninety percent.

1) Regarding Agenda Items Nos. 3 – 7 (SCRS, PORS, JSRS, GARS, NGRS Valuations), you requested that PEBA “[e]xpress all [contribution increases] in terms of \$ and % for both employee and employer.

SCRS

<u>Employee %</u>		<u>*Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.5	\$552M	\$611M	\$59 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.6	10.6	\$968 M	\$993 M	\$25 M

PORS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.84	\$77.4 M	\$89.5 M	\$12.1 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
12.3	12.84	\$146 M	\$156 M	\$10 M

GARS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	11.0	\$390 K	\$429 K	\$39 K

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
73.4	105.4	\$2.8 M	\$4.06 M	\$1.26 M

JSRS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	10.0	\$1.87 M	\$1.87 M	\$---

<u>Employer %</u>		<u>Employer \$</u>		<u>***Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
45.09	47.33	\$8.4 M	\$8.8 M	\$400 K

*Employee \$ figures are based on projected active employee payroll for FYs 2012 and 2013

**NGRS cannot be expressed as a percentage of payroll because it is non-contributory and is funded by direct appropriation.

*** all \$ figures are based on projected payrolls for FYs 2012 and 2013

2) Regarding Agenda Item Number 3 (SCRS Valuation), you requested “[g]iven the alleged FY12 fund performance, please prepare an updated estimate, in graph form, of the UAL, as of June 30, 2013, and for the 4 prior fiscal years, which show the effects on the UAL with smoothing and without smoothing.”

The chart below sets out the market value of assets (MVA), the actuarial value of assets (AVA), the actuarial accrued liability (AAL), the unfunded actuarial accrued liability-market value (UAAL[MV]) and the unfunded actuarial liability-actuarial value (UAAL[AV]). The market value numbers reflect amounts that do not apply smoothing. The numbers below for 2012 and 2013 reflect the FY12 fund performance. The numbers for 2009 – 2011 are not affected by the FY12 fund performance.

<u>2009</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$17.7 B	\$25.2 B	\$37.2B	\$19.5 B	\$12 B
<u>2010</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$19.7 B	\$25.4 B	\$38.8 B	\$19.1 B	\$13.4 B
<u>2011</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$38.0 B	\$15.6 B	\$12.4 B
<u>2012</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$21.6 B	\$25.6 B	\$39.2 B	\$17.6 B	\$13.6 B
<u>2013</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$40.5 B	\$18.1 B	\$14.9 B

- 3) Regarding Agenda Items Nos. 3, 4, 5, 6 and 7, you requested:
- a. 5 year graph of both proposed employee and proposed employer contributions for FY13 and 4 prior fiscal years
 - b. Explain when only the employee or employer contributions apply when that is the case
 - c. What happens if the B&CB does not approve increase in these employer contributions and/or employee contributions.

a) The table below shows the employee and employer contribution rates for the upcoming fiscal year beginning July 1, 2013 (FY 2014), and the four preceding fiscal years.

	July 1, 2009 (FY 2010)	July 1, 2010 (FY 2011)	July 1, 2011 (FY 2012)	July 1, 2012 (FY 2013)	July 1, 2013 (FY 2014)
<u>SCRS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.5%
Employer	9.39%	9.39%	9.535%	10.6%	10.6%
<u>PORS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.84%*
Employer	11.05%	11.53%	11.763%	12.30%	12.84%*
<u>JSRS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	10.0%
Employer	45.09%	45.09%	45.09%	45.09%	47.33%*
<u>GARS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	11.0%
Employer	\$2.598M	\$2.414M	\$2.532M	\$2.831M	\$4.063M*
<u>NGRS</u>					
Employee	N/A	N/A	N/A	N/A	N/A
Employer	\$3.945M	\$3.904M	\$3.937M	\$4.539M*	Pending

The rates marked with an asterisk are adjustments in contribution rates that have been approved by the PEBA Board of Directors, and are currently pending approval by the Budget and Control Board.

b) For SCRS and PORS, prior to July 1, 2012, the employee contribution rate was fixed by statute and the employer rate was determined by the Budget and Control Board based upon the actuarial valuations of the systems and the Board's funding policies. For the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014, the employee and employer contribution rates for SCRS and PORS are set by a statutory schedule pursuant to Act 278 of 2012, and may

only be increased in order to prevent the amortization period for the plans' unfunded liability from exceeding thirty years.

For JSRS and GARS, the employee contribution rates are fixed by statute, and the employer contributions are set by the PEBA Board of Directors (and the Budget and Control Board prior to July 1, 2012) based upon the actuarial valuations of those plans. The JSRS employer contribution is collected as a percentage of covered payroll from the applicable employers, while the GARS employer contribution is paid in a lump-sum appropriation from the General Assembly.

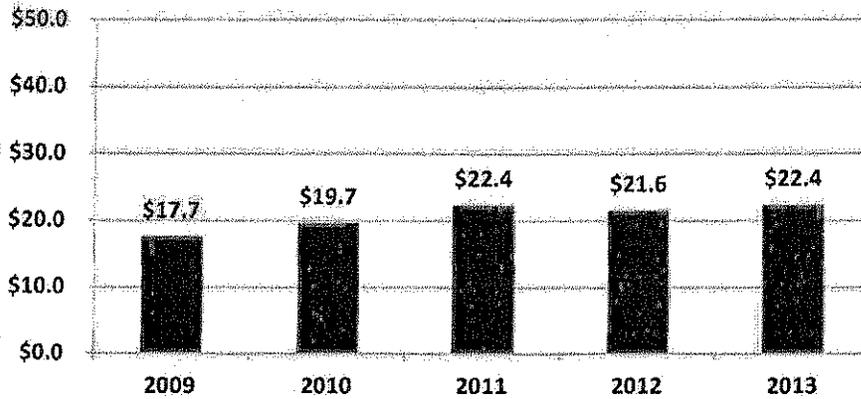
NGRS does not require employee contributions, and is funded entirely by direct appropriations from the General Assembly. The PEBA Board of Directors (and formerly the Budget and Control Board) certifies the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. Unlike the other plans, which operate on a two-year lag between the valuation date and the effective date of the required contributions recommended therein, the contributions requirements reported in the NGRS actuarial valuation take effect the following fiscal year.

c) For SCRS, no increase in the statutorily scheduled contribution rates was required for the fiscal year beginning July 1, 2013, and, therefore, no action is required by the Budget and Control Board with regard to those rates. For PORs, the increase in the employee and employer contribution rates for the fiscal year beginning July 1, 2013, to maintain the plan at an amortization period not exceeding thirty years is required by law; the failure to approve the increase would violate that law, as well as result in a failure to adequately fund the plan under the applicable accounting standards and funding policies. See S.C. Code Ann. § 9-11-225(C) (as added by Act 278 of 2012).

For JSRS, GARS, and NGRS, the failure to approve the contribution increases recommended by the plans' actuary would, in general terms, result in a failure to adequately fund the plans under the applicable accounting standards and funding policies. This failure would also require future contribution increases necessary to meet adequate funding requirements to be greater than they would have been had the required contribution increases been approved this year. A precise calculation of the detrimental effect to the funded status of the plans caused by failing to increase contributions as recommended by the actuary would have to be determined by the actuary and would require additional information regarding the extent to which the recommended contribution increases are not made.

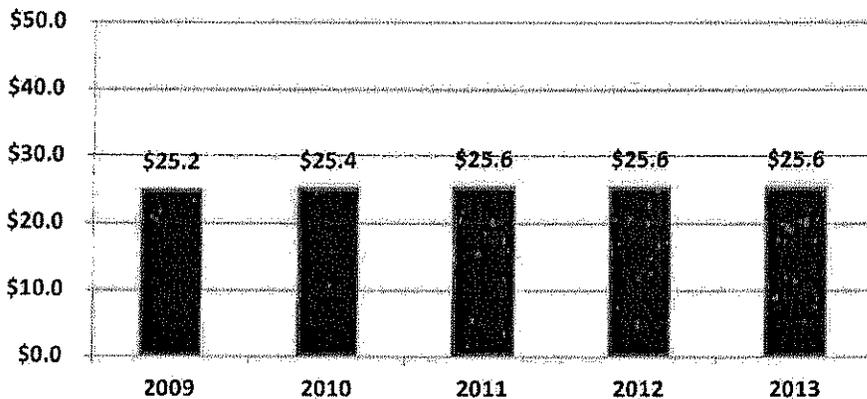
Market Value of Assets

Dollar Amounts in Millions



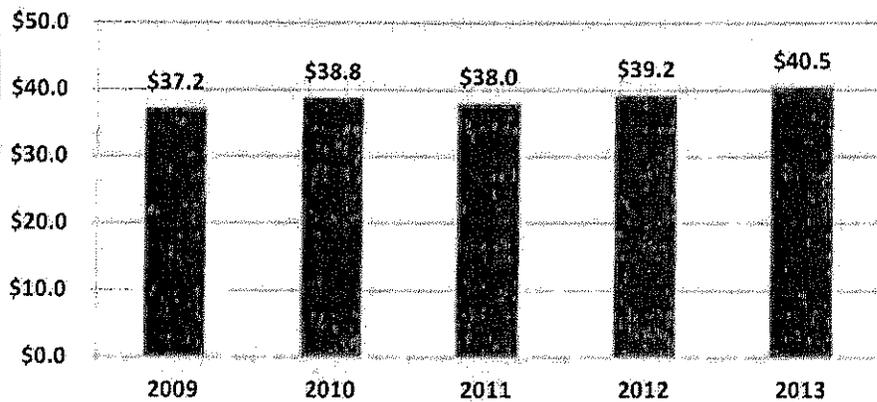
Actuarial Value of Assets

Dollar Amounts in Millions



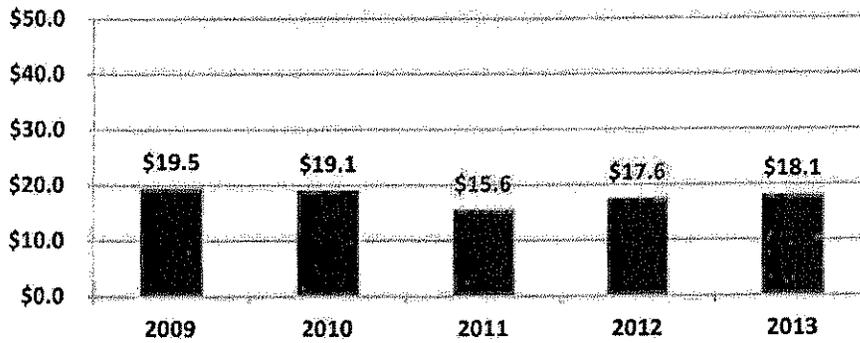
Actuarial Accrued Liability

Dollar Amounts in Millions



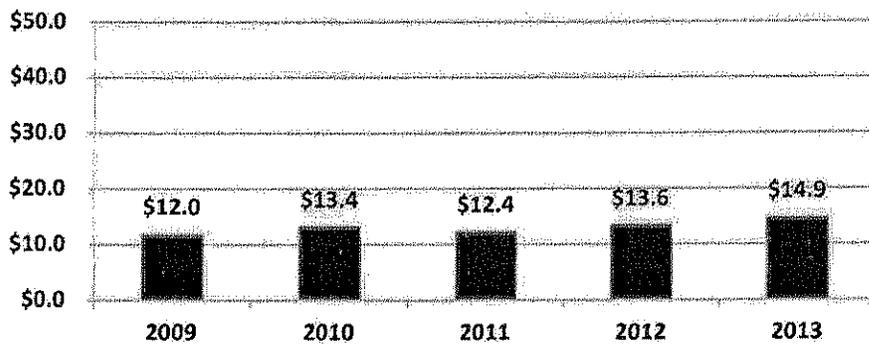
Unfunded Actuarial Accrued Liability Market Value

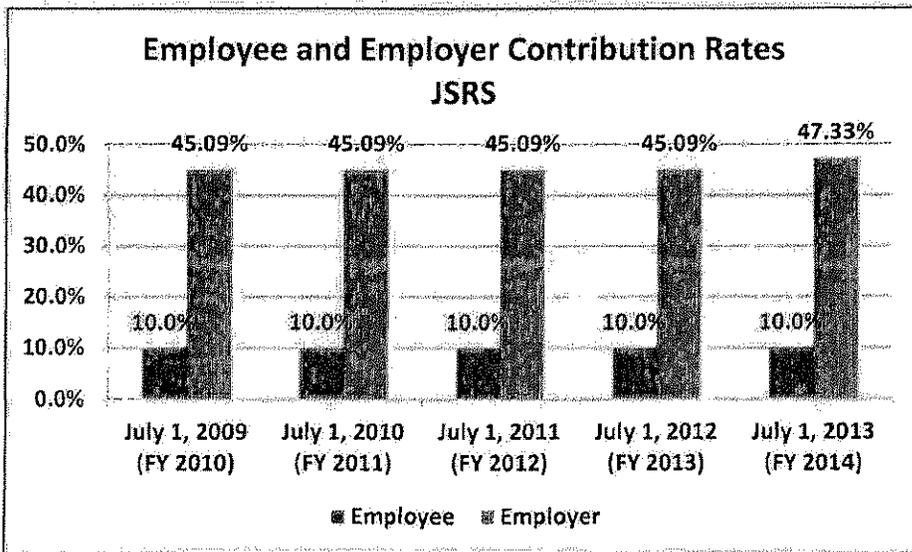
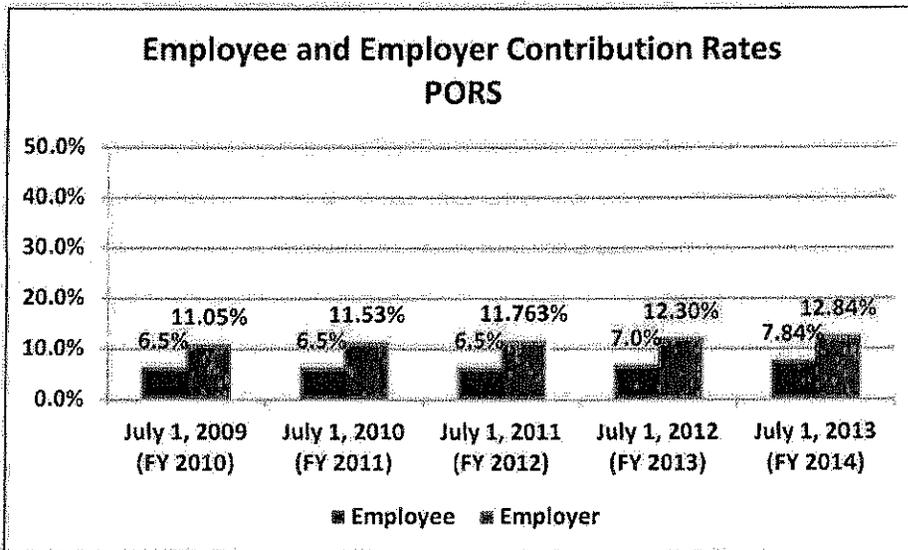
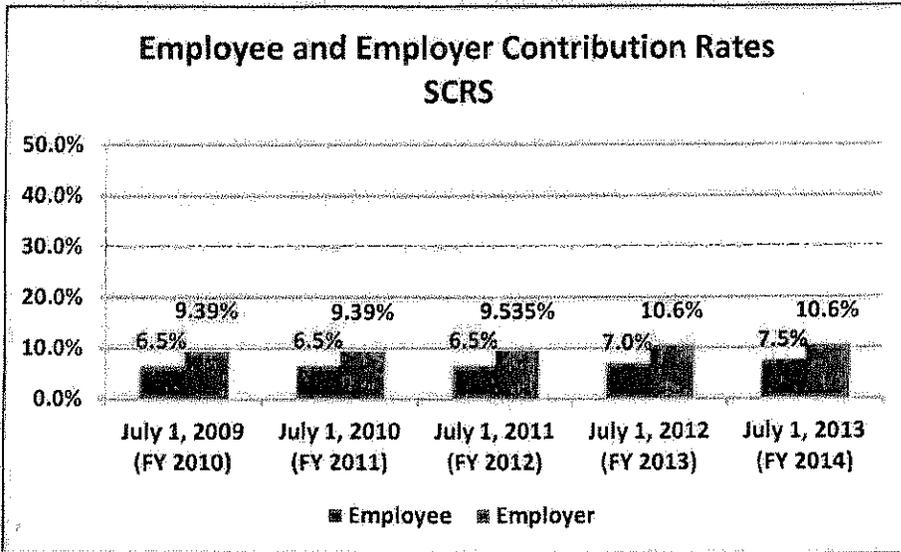
Dollar Amounts in Millions

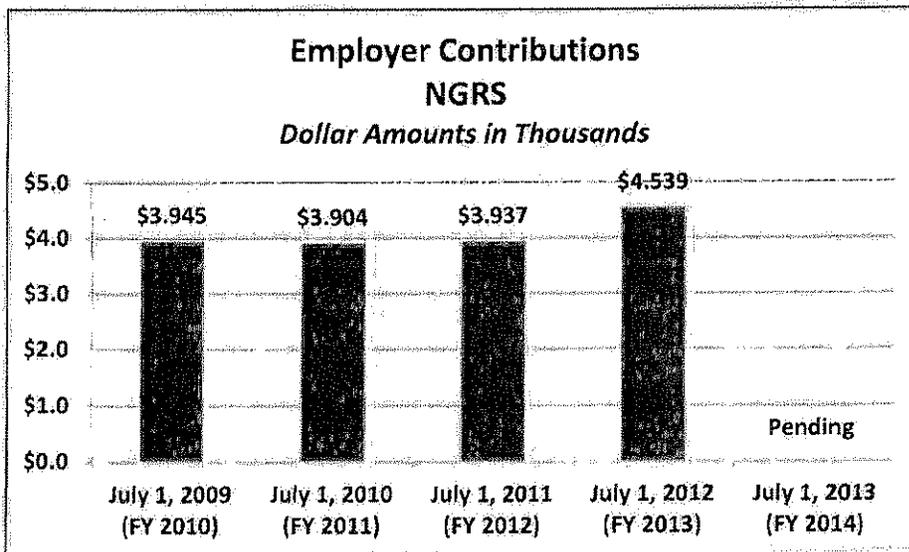
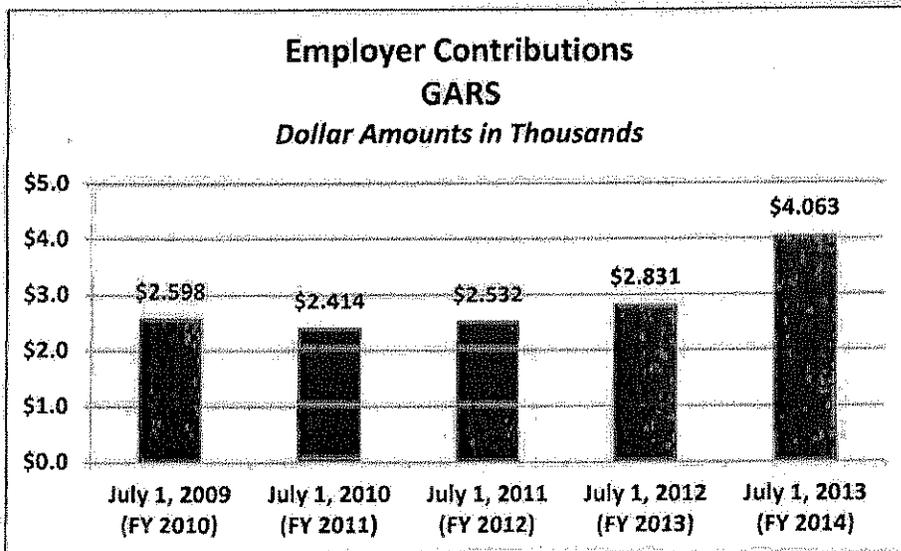
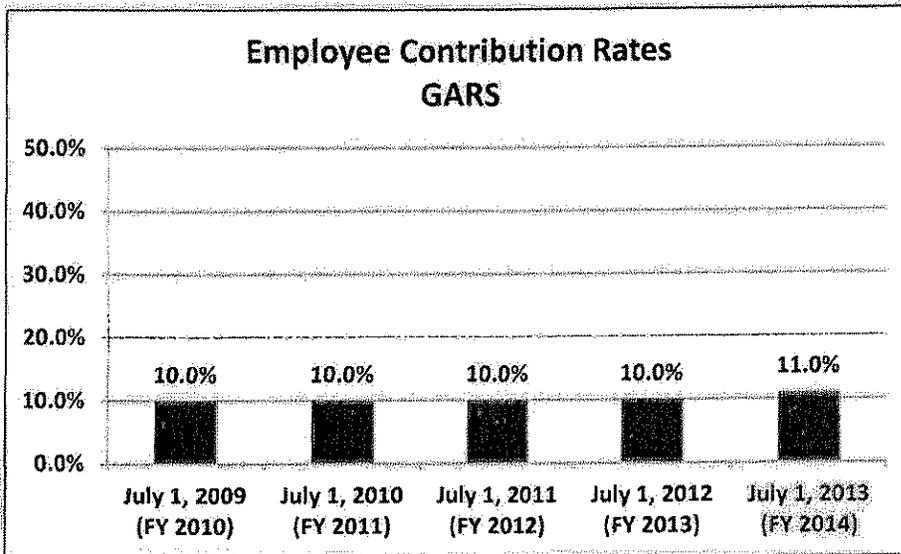


Unfunded Actuarial Accrued Liability Actuarial Value

Dollar Amounts in Millions







AGENCY: Public Employee Benefit Authority ("PEBA")

SUBJECT: Approval of PEBA Policy Determination for the Retirement System for Judges and Solicitors

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the Retirement System for Judges and Solicitors ("JSRS"), the employee contribution rate is fixed by statute, and the PEBA Board is required to annually certify the amount of contributions required from the State as an employer contribution to the plan based upon the actuarial valuation of the plan. See Section 9-8-140.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for JSRS as of July 1, 2011, and adopted the employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, as recommended therein.

BOARD ACTION REQUESTED:

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the Retirement System for Judges and Solicitors ("JSRS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase JSRS employer contribution rate from 45.09% to 47.33%.

ATTACHMENTS:

Agenda item worksheet; Blume 12/5/12 letter; Minutes from the November 21, 2012 PEBA Board Meeting; JSRS Actuarial Valuation as of July 1, 2011; Section 9-8-140 of the South Carolina Code of Laws; Summary Information for Valuations

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

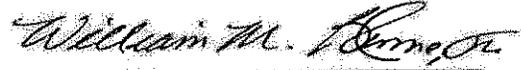
December 12, 2012

Blue Agenda
 Regular Session
Executive Session

1. Submitted by:

(a) Agency: Public Employee Benefit Authority ("PEBA")

(b) Authorized Official Signature:



William M. Blume, Jr, CPA, Director

2. Subject: Approval of PEBA Policy Determination for the Retirement System for Judges and Solicitors

3. Summary Background Information:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the Retirement System for Judges and Solicitors ("JSRS"), the employee contribution rate is fixed by statute, and the PEBA Board is required to annually certify the amount of contributions required from the State as an employer contribution to the plan based upon the actuarial valuation of the plan. See Section 9-8-140.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for JSRS as of July 1, 2011, and adopted the employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, as recommended therein.

4. What is Board asked to do?

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the Retirement System for Judges and Solicitors ("JSRS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase JSRS employer contribution rate from 45.09% to 47.33%.

5. What is recommendation of the Board division involved? N/A.

6. Recommendation of other office (as required)? N/A.

Authorized

Office Name _____

Signature _____

7. Supporting Documents:

List those attached:

- Minutes from the November 21, 2012 PEBA Board Meeting.
- JSRS Actuarial Valuation as of July 1, 2011.
- Section 9-8-140 of the South Carolina Code of Laws

List those not attached but available:

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director

December 5, 2012

Delbert H. Singleton, Jr.
Secretary, South Carolina Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211

RE: Agenda Items for the Approval of Contribution Rates Adopted by the Board of Directors
for the South Carolina Public Employee Benefit Authority

Dear Mr. Singleton:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the Board of Directors for the South Carolina Public Employee Benefit Authority ("PEBA") is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary. Further, as provided in Section 9-4-45 of the Code as added by Act 278, adjustments in employer and employee contribution rates made by the PEBA Board are policy determinations that are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information valuations prepared by the plans' actuary, Gabriel Roeder Smith, for SCRS, PORS, JSRS, GARS, and NGRS as of July 1, 2011, and adopted the contribution rates recommended therein. It should be noted, however, that no adjustment to the statutorily scheduled contribution rates for SCRS was necessary. As required by Section 9-4-45, the adjustments in the contribution rates adopted by the PEBA Board are now subject to approval by the Budget and Control Board. Accordingly, please place five items on the agenda of the Budget and Control Board's December 12, 2012 meeting for the approval of these contribution rate adjustments, as reflected in more detail on the attached Agenda Item Worksheets.

Thank you for your attention to this matter. If you need any additional information, please do not hesitate to contact me.

Sincerely,



William M. Blume, Jr., CPA
Executive Director

Enclosures

Street Address:
202 Arbor Lake Drive
Columbia, South Carolina 29223

www.retirement.sc.gov
803-737-6800
800-868-9002 (within S.C. only)

Mailing Address:
Post Office Box 11960
Columbia, South Carolina 29211-1960

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.
2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.
3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.
4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.
5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.

Retirement System for Judges and Solicitors (JSRS)

Executive Summary (Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active members ¹	144	144
- Retirees and beneficiaries	184	180
- DROP and Retired-in-Place members	14	14
- Inactive members	4	4
- Total	332	328
• Projected payroll of active members	\$18,661	\$18,661
Contribution Rates		
• Employer contribution rate ²	47.33%	45.09%
• Member	10.00%	10.00%
Assets		
• Market value	\$127,152	\$111,226
• Actuarial value	144,927	142,871
• Return on market value	18.3%	14.8%
• Return on actuarial value	4.3%	2.9%
• Ratio of actuarial to market value of assets	114.0%	128.5%
• External cash flow %	-3.4%	-3.1%
Actuarial Information		
• Normal cost %	27.90%	22.16%
• Actuarial accrued liability (AAL)	\$243,514	\$215,823
• Unfunded actuarial accrued liability (UAAL)	98,587	72,952
• Funded ratio	59.5%	66.2%
• Funding period (years)	30	16
Reconciliation of UAAL		
• Beginning of Year UAAL	\$72,952	\$72,566
- Interest on UAAL	7,277	5,805
- Amortization payment with interest	(5,271)	(6,821)
- Assumption/method changes	24,079	0
- Asset experience	4,444	7,151
- COLA	(5,121)	(4,623)
- Salary experience	(2,141)	(1,942)
- Other liability experience	2,368	816
- Legislative Changes	0	0
• End of Year UAAL	\$98,587	\$72,952

¹ Active member counts include unfilled positions and counts for members in DROP or Retired-in-Place.

² The contribution rate determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.

SECTION 9-8-140. Contributions of State to System.

The contributions of the State to the System shall be determined by the Board each year on the basis of annual actuarial valuations of the System. Each year the Board shall certify to the State the amount of its contribution due the System. The State's contributions shall be appropriated annually from the general fund to the System and shall include such sums as are found necessary in order to create reserves in the System sufficient to cover the cost of the allowances currently accruing under this chapter, to include a contribution each year toward the cost of prior service credits and to cover any administrative expenses which the Board may incur in the operation of the System.

The employer contribution shall be remitted to the System within thirty days after the beginning of each fiscal year.

1) Regarding Agenda Items Nos. 3 – 7 (SCRS, PORS, JSRS, GARS, NGRS Valuations), you requested that PEBA “[e]xpress all [contribution increases] in terms of \$ and % for both employee and employer.

SCRS

<u>Employee %</u>		<u>*Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.5	\$552M	\$611M	\$59 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.6	10.6	\$968 M	\$993 M	\$25 M

PORS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.84	\$77.4 M	\$89.5 M	\$12.1 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
12.3	12.84	\$146 M	\$156 M	\$10 M

GARS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	11.0	\$390 K	\$429 K	\$39 K

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
73.4	105.4	\$2.8 M	\$4.06 M	\$1.26 M

JSRS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	10.0	\$1.87 M	\$1.87 M	\$---

<u>Employer %</u>		<u>Employer \$</u>		<u>***Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
45.09	47.33	\$8.4 M	\$8.8 M	\$400 K

*Employee \$ figures are based on projected active employee payroll for FYs 2012 and 2013

**NGRS cannot be expressed as a percentage of payroll because it is non-contributory and is funded by direct appropriation.

*** all \$ figures are based on projected payrolls for FYs 2012 and 2013

2) Regarding Agenda Item Number 3 (SCRS Valuation), you requested “[g]iven the alleged FY12 fund performance, please prepare an updated estimate, in graph form, of the UAL, as of June 30, 2013, and for the 4 prior fiscal years, which show the effects on the UAL with smoothing and without smoothing.”

The chart below sets out the market value of assets (MVA), the actuarial value of assets (AVA), the actuarial accrued liability (AAL), the unfunded actuarial accrued liability-market value (UAAL[MV]) and the unfunded actuarial liability-actuarial value (UAAL[AV]). The market value numbers reflect amounts that do not apply smoothing. The numbers below for 2012 and 2013 reflect the FY12 fund performance. The numbers for 2009 – 2011 are not affected by the FY12 fund performance.

<u>2009</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$17.7 B	\$25.2 B	\$37.2B	\$19.5 B	\$12 B
<u>2010</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$19.7 B	\$25.4 B	\$38.8 B	\$19.1 B	\$13.4 B
<u>2011</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$38.0 B	\$15.6 B	\$12.4 B
<u>2012</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$21.6 B	\$25.6 B	\$39.2 B	\$17.6 B	\$13.6 B
<u>2013</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$40.5 B	\$18.1 B	\$14.9 B

3) Regarding Agenda Items Nos. 3, 4, 5, 6 and 7, you requested:

- a. 5 year graph of both proposed employee and proposed employer contributions for FY13 and 4 prior fiscal years
- b. Explain when only the employee or employer contributions apply when that is the case
- c. What happens if the B&CB does not approve increase in these employer contributions and/or employee contributions.

a) The table below shows the employee and employer contribution rates for the upcoming fiscal year beginning July 1, 2013 (FY 2014), and the four preceding fiscal years.

	July 1, 2009 (FY 2010)	July 1, 2010 (FY 2011)	July 1, 2011 (FY 2012)	July 1, 2012 (FY 2013)	July 1, 2013 (FY 2014)
<u>SCRS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.5%
Employer	9.39%	9.39%	9.535%	10.6%	10.6%
<u>PORS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.84%*
Employer	11.05%	11.53%	11.763%	12.30%	12.84%*
<u>JSRS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	10.0%
Employer	45.09%	45.09%	45.09%	45.09%	47.33%*
<u>GARS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	11.0%
Employer	\$2.598M	\$2.414M	\$2.532M	\$2.831M	\$4.063M*
<u>NGRS</u>					
Employee	N/A	N/A	N/A	N/A	N/A
Employer	\$3.945M	\$3.904M	\$3.937M	\$4.539M*	Pending

The rates marked with an asterisk are adjustments in contribution rates that have been approved by the PEBA Board of Directors, and are currently pending approval by the Budget and Control Board.

b) For SCRS and PORS, prior to July 1, 2012, the employee contribution rate was fixed by statute and the employer rate was determined by the Budget and Control Board based upon the actuarial valuations of the systems and the Board's funding policies. For the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014, the employee and employer contribution rates for SCRS and PORS are set by a statutory schedule pursuant to Act 278 of 2012, and may

only be increased in order to prevent the amortization period for the plans' unfunded liability from exceeding thirty years.

For JSRS and GARS, the employee contribution rates are fixed by statute, and the employer contributions are set by the PEBA Board of Directors (and the Budget and Control Board prior to July 1, 2012) based upon the actuarial valuations of those plans. The JSRS employer contribution is collected as a percentage of covered payroll from the applicable employers, while the GARS employer contribution is paid in a lump-sum appropriation from the General Assembly.

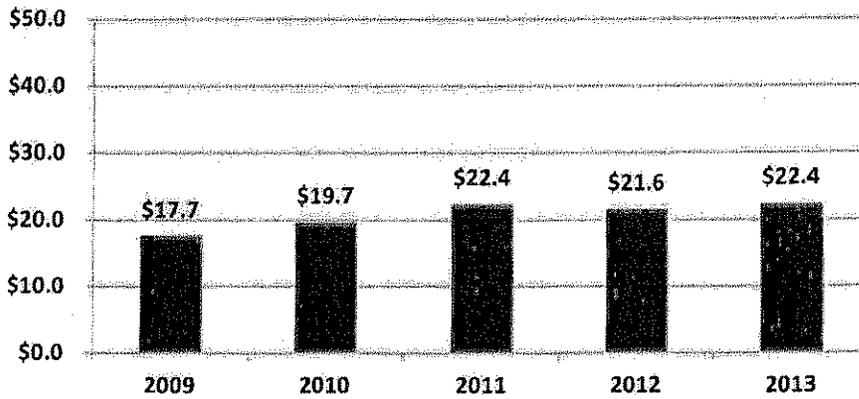
NGRS does not require employee contributions, and is funded entirely by direct appropriations from the General Assembly. The PEBA Board of Directors (and formerly the Budget and Control Board) certifies the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. Unlike the other plans, which operate on a two-year lag between the valuation date and the effective date of the required contributions recommended therein, the contributions requirements reported in the NGRS actuarial valuation take effect the following fiscal year.

c) For SCRS, no increase in the statutorily scheduled contribution rates was required for the fiscal year beginning July 1, 2013, and, therefore, no action is required by the Budget and Control Board with regard to those rates. For PORs, the increase in the employee and employer contribution rates for the fiscal year beginning July 1, 2013, to maintain the plan at an amortization period not exceeding thirty years is required by law; the failure to approve the increase would violate that law, as well as result in a failure to adequately fund the plan under the applicable accounting standards and funding policies. See S.C. Code Ann. § 9-11-225(C) (as added by Act 278 of 2012).

For JSRS, GARS, and NGRS, the failure to approve the contribution increases recommended by the plans' actuary would, in general terms, result in a failure to adequately fund the plans under the applicable accounting standards and funding policies. This failure would also require future contribution increases necessary to meet adequate funding requirements to be greater than they would have been had the required contribution increases been approved this year. A precise calculation of the detrimental effect to the funded status of the plans caused by failing to increase contributions as recommended by the actuary would have to be determined by the actuary and would require additional information regarding the extent to which the recommended contribution increases are not made.

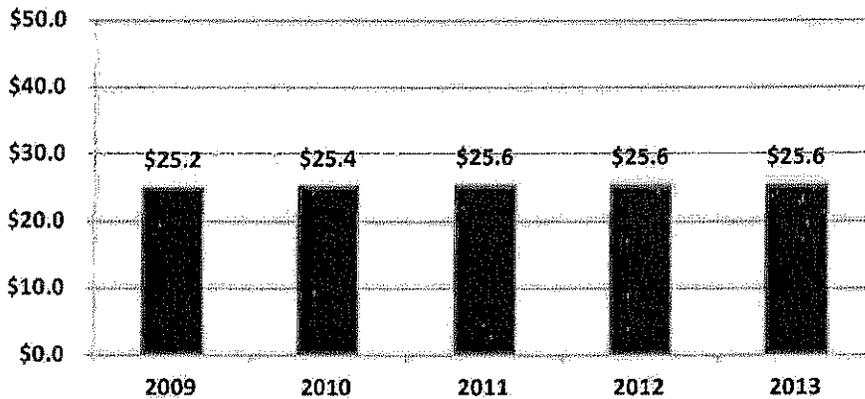
Market Value of Assets

Dollar Amounts in Millions



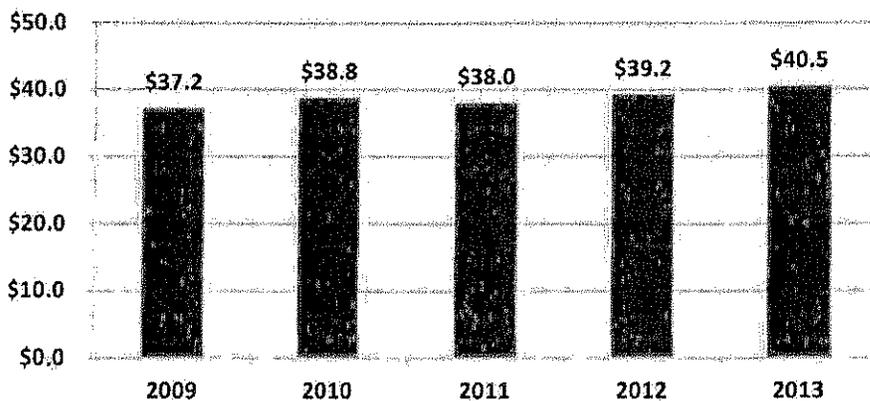
Actuarial Value of Assets

Dollar Amounts in Millions



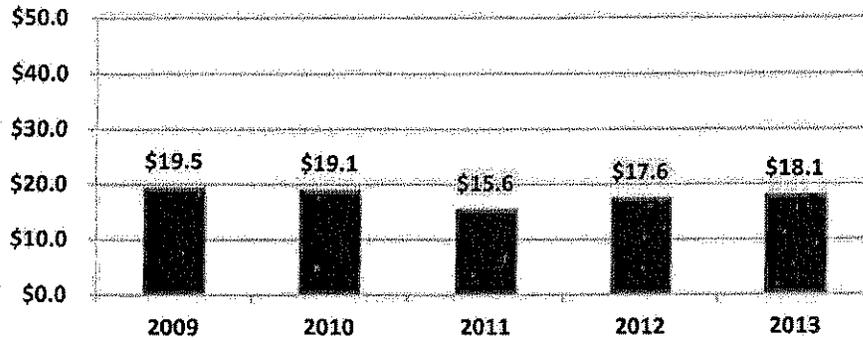
Actuarial Accrued Liability

Dollar Amounts in Millions



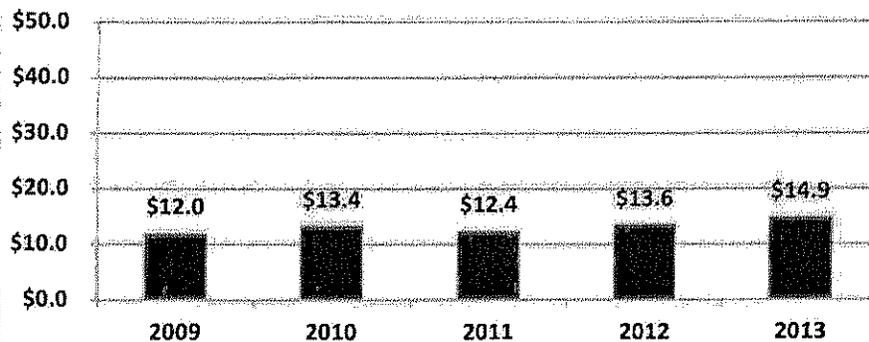
Unfunded Actuarial Accrued Liability Market Value

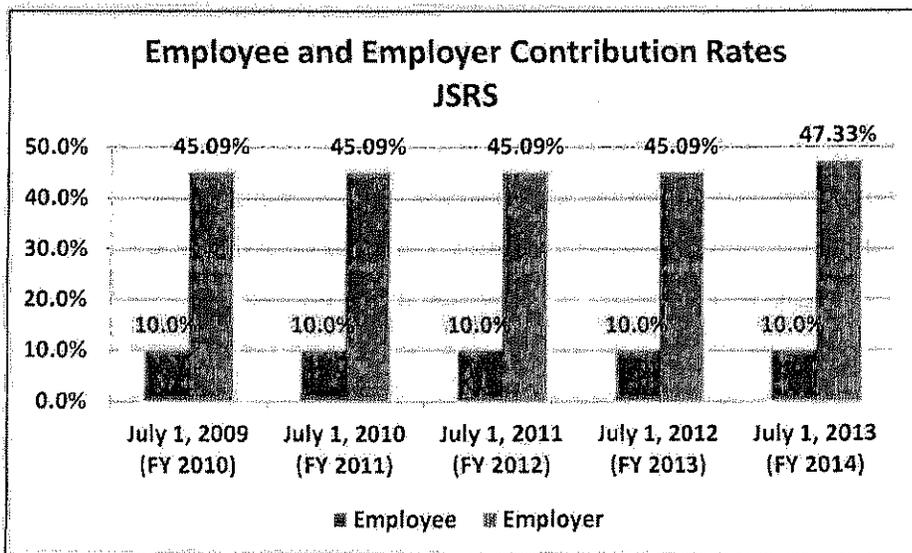
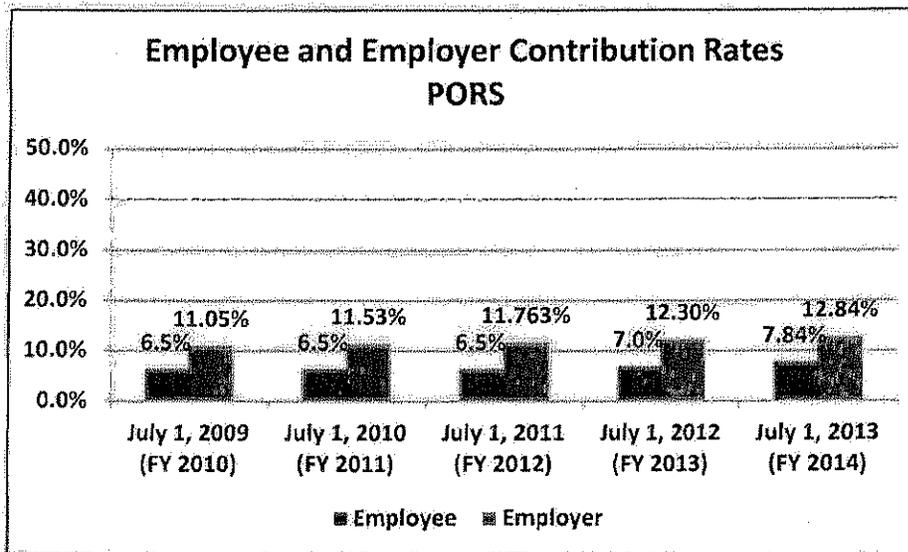
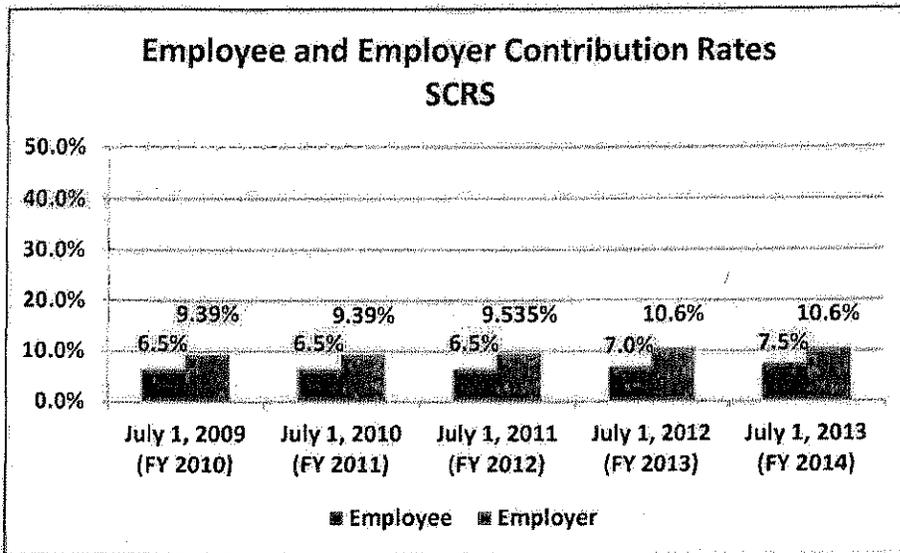
Dollar Amounts in Millions

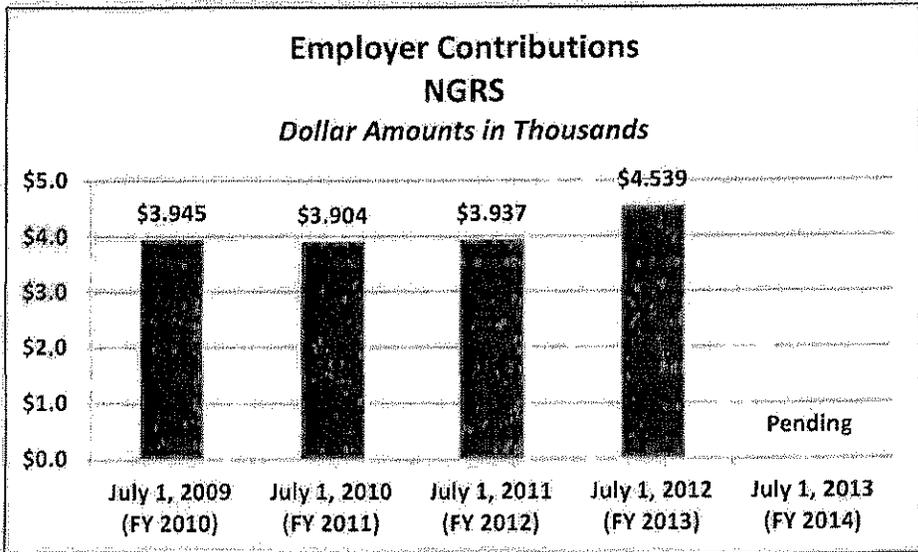
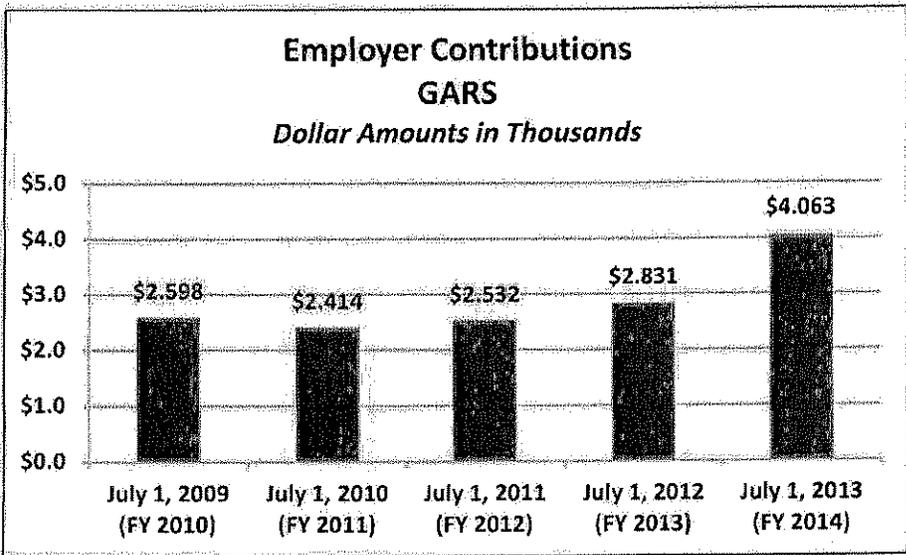
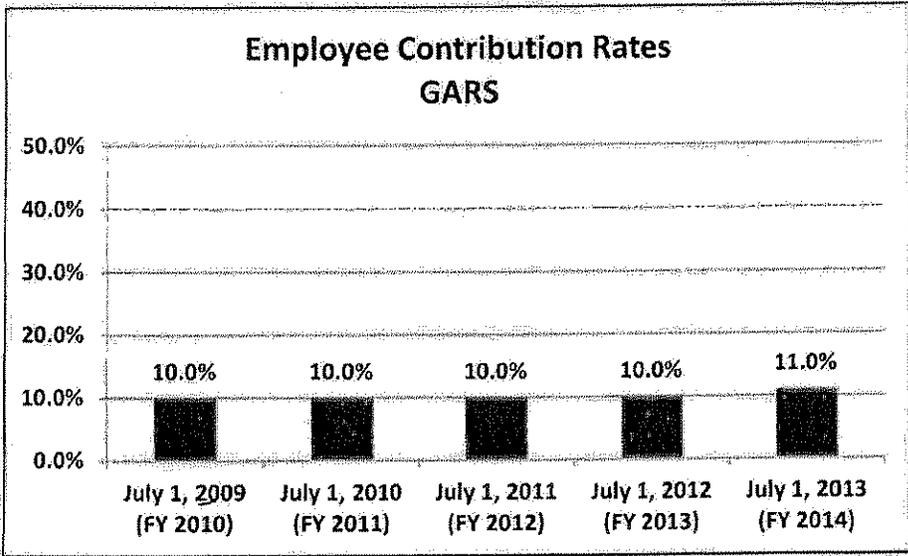


Unfunded Actuarial Accrued Liability Actuarial Value

Dollar Amounts in Millions







AGENCY: Public Employee Benefit Authority ("PEBA")

SUBJECT: Approval of PEBA Policy Determination for the Retirement System for Members of the General Assembly

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the Retirement System for Members of the General Assembly ("GARS"), the employee contribution rate is fixed by statute, and the PEBA Board is required to annually certify the amount of contributions required from the State as an employer contribution to the plan based upon the actuarial valuation of the plan. See Section 9-9-130.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for GARS as of July 1, 2011, and adopted the employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, as recommended therein

BOARD ACTION REQUESTED:

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the Retirement System for Members of the General Assembly ("GARS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase GARS employer contribution from \$2.831 million to \$4.063 million

ATTACHMENTS:

Agenda item worksheet; Blume 12/5/12 letter; Minutes from the November 21, 2012 PEBA Board Meeting; GARS Actuarial Valuation as of July 1, 2011; Letter from Gabriel Roeder Smith of October 16, 2012; Section 9-9-130 of the South Carolina Code of Laws; Summary Information for Valuations

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

December 12, 2012

Blue Agenda
X Regular Session
Executive Session

1. Submitted by:

(a) Agency: Public Employee Benefit Authority ("PEBA")

(b) Authorized Official Signature:



William M. Blume, Jr, CPA, Director

2. Subject: Approval of PEBA Policy Determination for the Retirement System for Members of the General Assembly

3. Summary Background Information:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the Retirement System for Members of the General Assembly ("GARS"), the employee contribution rate is fixed by statute, and the PEBA Board is required to annually certify the amount of contributions required from the State as an employer contribution to the plan based upon the actuarial valuation of the plan. See Section 9-9-130.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for GARS as of July 1, 2011, and adopted the employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, as recommended therein.

4. What is Board asked to do?

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the Retirement System for Members of the General Assembly ("GARS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase GARS employer contribution from \$2.831 million to \$4.063 million.

5. What is recommendation of the Board division involved? N/A.

6. Recommendation of other office (as required)? N/A.

Office Name _____ Authorized
Signature _____

7. Supporting Documents:

List those attached:

- Minutes from the November 21, 2012 PEBA Board Meeting.
- GARS Actuarial Valuation as of July 1, 2011.
- Letter from Gabriel Roeder Smith of October 16, 2012.
- Section 9-9-130 of the South Carolina Code of Laws.

**List those not attached but
available:**

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director

December 5, 2012

Delbert H. Singleton, Jr.
Secretary, South Carolina Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211

RE: Agenda Items for the Approval of Contribution Rates Adopted by the Board of Directors
for the South Carolina Public Employee Benefit Authority

Dear Mr. Singleton:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the Board of Directors for the South Carolina Public Employee Benefit Authority ("PEBA") is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary. Further, as provided in Section 9-4-45 of the Code as added by Act 278, adjustments in employer and employee contribution rates made by the PEBA Board are policy determinations that are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information valuations prepared by the plans' actuary, Gabriel Roeder Smith, for SCRS, PORS, JSRS, GARS, and NGRS as of July 1, 2011, and adopted the contribution rates recommended therein. It should be noted, however, that no adjustment to the statutorily scheduled contribution rates for SCRS was necessary. As required by Section 9-4-45, the adjustments in the contribution rates adopted by the PEBA Board are now subject to approval by the Budget and Control Board. Accordingly, please place five items on the agenda of the Budget and Control Board's December 12, 2012 meeting for the approval of these contribution rate adjustments, as reflected in more detail on the attached Agenda Item Worksheets.

Thank you for your attention to this matter. If you need any additional information, please do not hesitate to contact me.

Sincerely,



William M. Blume, Jr., CPA
Executive Director

Enclosures

Street Address:
202 Arbor Lake Drive
Columbia, South Carolina 29223

www.retirement.sc.gov
803-737-6800
800-868-9002 (within S.C. only)

Mailing Address:
Post Office Box 11960
Columbia, South Carolina 29211-1960

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.
2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.
3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.
4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.
5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active positions	170	170
- Special contributors	26	26
- Retirees and beneficiaries	353	346
- Inactive members	40	36
- Total	589	578
• Projected payroll	\$3,854	\$3,854
Contribution Requirement		
• Member contribution rate	10.00%	10.00%
• Employer contribution requirement ¹	\$4,063	\$2,831
Assets		
• Market value	\$34,669	\$32,770
• Actuarial value	41,484	43,712
• Return on market value	17.6%	15.4%
• Return on actuarial value	3.5%	2.6%
• Ratio - actuarial value to market value	119.7%	133.4%
• External cash flow %	-11.1%	-10.4%
Actuarial Information		
• Normal cost %	21.67%	17.73%
• Actuarial accrued liability (AAL)	\$74,604	\$68,671
• Unfunded actuarial accrued liability (UAAL)	33,120	24,959
• Funded ratio	55.6%	63.7%
• Funding period from the valuation date	16 years	17 years
Reconciliation of UAAL		
• Beginning of Year UAAL	\$24,959	\$22,600
- Interest on UAAL	2,296	1,808
- Amortization payment with interest	(2,241)	(2,263)
- Assumption change	5,715	0
- Asset experience	1,704	2,373
- Liability experience	687	441
- Legislative changes	0	0
• End of Year UAAL	\$33,120	\$24,959

¹ The contribution requirement determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by the Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.



Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

October 16, 2012

South Carolina Public Employee Benefit Authority
South Carolina Retirement System
P.O. Box 11960
Columbia, SC 29211-1960

Re: **Fiscal Year 2014 Recommended Employer Appropriation for the General Assembly Retirement System**

Dear Members of the Authority:

The results of the July 1, 2011 actuarial valuation for the Retirement System for the Members of the General Assembly of the State of South Carolina (GARS) determines the actuarial and financial information that is disclosed under the Governmental Accounting Standards as well as the identify the employer contribution requirement for Fiscal Year 2014 (i.e. fiscal year beginning July 1, 2013).

Act 278 was enacted on June 26, 2012, which included modifications to GARS that will become effective January 1, 2013. Specifically, this legislature (1) closed GARS to new members by requiring individuals who are first elected in the General Assembly at or after the general election of 2012 to participate in SCRS, and (2) increase the member contribution rate from 10% to 11% of earnable compensation (a \$224 increase in the member's annual contribution).

Changes enacted after the valuation date and before the effective date of the contribution requirements may be reflected if determined appropriate based on facts and circumstances and the actuary's judgment¹. Since the changes enacted by Act 278 did not change the actuarial accrued liability as of the valuation date, and the change in the member contribution rate would decrease the FY 2014 employer appropriation by less than \$32k (less than a 1.00% of the total employer appropriation), we recommend the State to continue to budget the contribution requirement documented in the July 1, 2011 actuarial valuation documented in the report dated June 11, 2012.

Please do not hesitate to contact either of us if you have any questions.

Sincerely,

Daniel J. White, FSA, MAAA, EA
Senior Consultant

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

K:\3285\2012\Leg\Conference Committee\Recommended FY 2014 Appropriation GARS.docx

¹ Paragraph 31 of the Guide to Implementation of GAS Statements #25, #26, and #27

SECTION 9-9-130. Contributions of State to Retirement System for members of General Assembly.

The contributions of the State to the System shall be determined by the Board each year on the basis of annual actuarial valuations of the System.

Each year the Board shall certify to the State the amount of its contribution due the System. The State's contributions shall be appropriated annually from the general fund to the System, and shall include such sums as are found necessary in order to create reserves in the System sufficient (i) to cover the cost of the allowances currently accruing under this chapter, (ii) to include a contribution, each year, toward the cost of prior service credits, and (iii) to cover any administrative expenses which the Board may incur in the operation of the System.

1) Regarding Agenda Items Nos. 3 – 7 (SCRS, PORS, JSRS, GARS, NGRS Valuations), you requested that PEBA “[e]xpress all [contribution increases] in terms of \$ and % for both employee and employer.

SCRS

<u>Employee %</u>		<u>*Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.5	\$552M	\$611M	\$59 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.6	10.6	\$968 M	\$993 M	\$25 M

PORS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.84	\$77.4 M	\$89.5 M	\$12.1 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
12.3	12.84	\$146 M	\$156 M	\$10 M

GARS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	11.0	\$390 K	\$429 K	\$39 K

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
73.4	105.4	\$2.8 M	\$4.06 M	\$1.26 M

JSRS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	10.0	\$1.87 M	\$1.87 M	\$---

<u>Employer %</u>		<u>Employer \$</u>		<u>***Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
45.09	47.33	\$8.4 M	\$8.8 M	\$400 K

*Employee \$ figures are based on projected active employee payroll for FYs 2012 and 2013

**NGRS cannot be expressed as a percentage of payroll because it is non-contributory and is funded by direct appropriation.

*** all \$ figures are based on projected payrolls for FYs 2012 and 2013

2) Regarding Agenda Item Number 3 (SCRS Valuation), you requested “[g]iven the alleged FY12 fund performance, please prepare an updated estimate, in graph form, of the UAL, as of June 30, 2013, and for the 4 prior fiscal years, which show the effects on the UAL with smoothing and without smoothing.”

The chart below sets out the market value of assets (MVA), the actuarial value of assets (AVA), the actuarial accrued liability (AAL), the unfunded actuarial accrued liability-market value (UAAL[MV]) and the unfunded actuarial liability-actuarial value (UAAL[AV]). The market value numbers reflect amounts that do not apply smoothing. The numbers below for 2012 and 2013 reflect the FY12 fund performance. The numbers for 2009 – 2011 are not affected by the FY12 fund performance.

<u>2009</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$17.7 B	\$25.2 B	\$37.2B	\$19.5 B	\$12 B
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<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$19.7 B	\$25.4 B	\$38.8 B	\$19.1 B	\$13.4 B
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<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
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<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$40.5 B	\$18.1 B	\$14.9 B

3) Regarding Agenda Items Nos. 3, 4, 5, 6 and 7, you requested:

- a. 5 year graph of both proposed employee and proposed employer contributions for FY13 and 4 prior fiscal years
- b. Explain when only the employee or employer contributions apply when that is the case
- c. What happens if the B&CB does not approve increase in these employer contributions and/or employee contributions.

a) The table below shows the employee and employer contribution rates for the upcoming fiscal year beginning July 1, 2013 (FY 2014), and the four preceding fiscal years.

	July 1, 2009 (FY 2010)	July 1, 2010 (FY 2011)	July 1, 2011 (FY 2012)	July 1, 2012 (FY 2013)	July 1, 2013 (FY 2014)
<u>SCRS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.5%
Employer	9.39%	9.39%	9.535%	10.6%	10.6%
<u>PORS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.84%*
Employer	11.05%	11.53%	11.763%	12.30%	12.84%*
<u>JSRS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	10.0%
Employer	45.09%	45.09%	45.09%	45.09%	47.33%*
<u>GARS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	11.0%
Employer	\$2.598M	\$2.414M	\$2.532M	\$2.831M	\$4.063M*
<u>NGRS</u>					
Employee	N/A	N/A	N/A	N/A	N/A
Employer	\$3.945M	\$3.904M	\$3.937M	\$4.539M*	Pending

The rates marked with an asterisk are adjustments in contribution rates that have been approved by the PEBA Board of Directors, and are currently pending approval by the Budget and Control Board.

b) For SCRS and PORS, prior to July 1, 2012, the employee contribution rate was fixed by statute and the employer rate was determined by the Budget and Control Board based upon the actuarial valuations of the systems and the Board's funding policies. For the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014, the employee and employer contribution rates for SCRS and PORS are set by a statutory schedule pursuant to Act 278 of 2012, and may

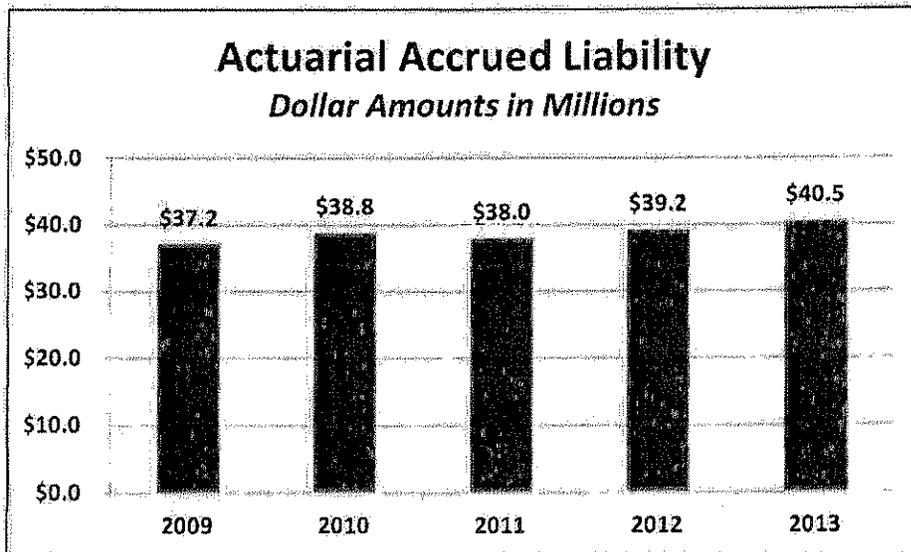
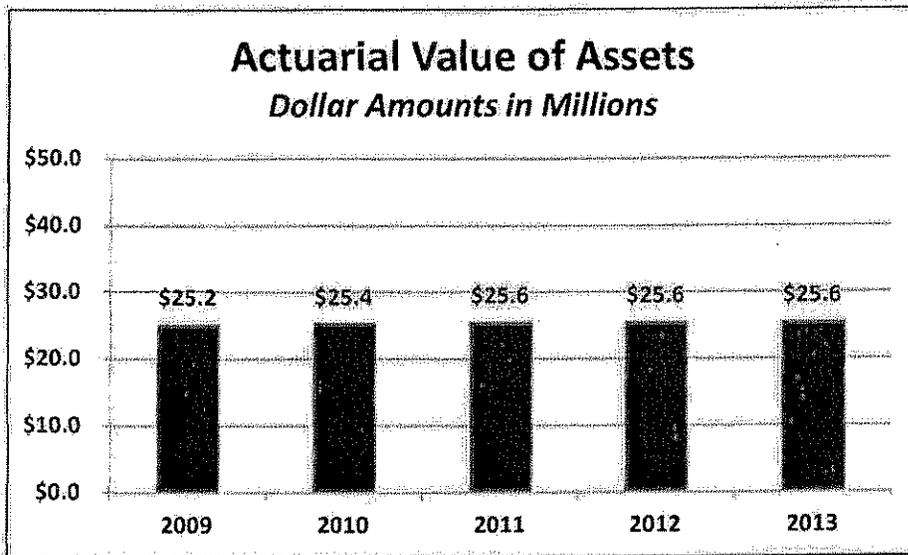
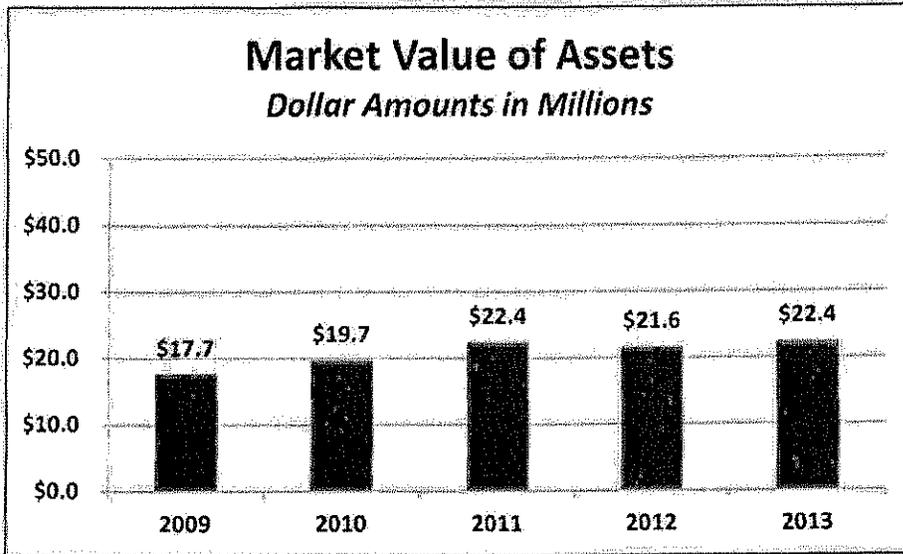
only be increased in order to prevent the amortization period for the plans' unfunded liability from exceeding thirty years.

For JSRS and GARS, the employee contribution rates are fixed by statute, and the employer contributions are set by the PEBA Board of Directors (and the Budget and Control Board prior to July 1, 2012) based upon the actuarial valuations of those plans. The JSRS employer contribution is collected as a percentage of covered payroll from the applicable employers, while the GARS employer contribution is paid in a lump-sum appropriation from the General Assembly.

NGRS does not require employee contributions, and is funded entirely by direct appropriations from the General Assembly. The PEBA Board of Directors (and formerly the Budget and Control Board) certifies the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. Unlike the other plans, which operate on a two-year lag between the valuation date and the effective date of the required contributions recommended therein, the contributions requirements reported in the NGRS actuarial valuation take effect the following fiscal year.

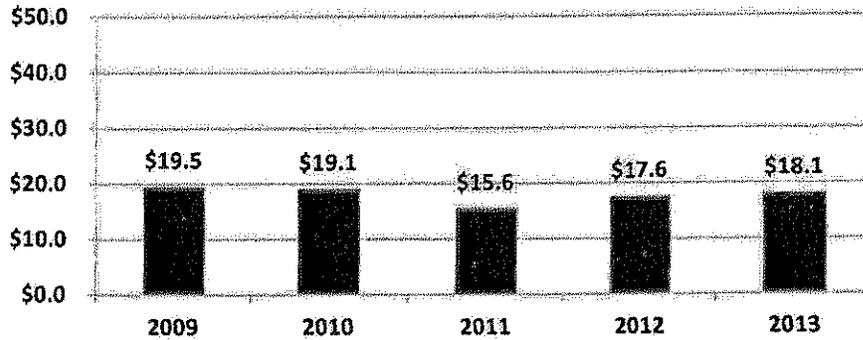
c) For SCRS, no increase in the statutorily scheduled contribution rates was required for the fiscal year beginning July 1, 2013, and, therefore, no action is required by the Budget and Control Board with regard to those rates. For PORs, the increase in the employee and employer contribution rates for the fiscal year beginning July 1, 2013, to maintain the plan at an amortization period not exceeding thirty years is required by law; the failure to approve the increase would violate that law, as well as result in a failure to adequately fund the plan under the applicable accounting standards and funding policies. See S.C. Code Ann. § 9-11-225(C) (as added by Act 278 of 2012).

For JSRS, GARS, and NGRS, the failure to approve the contribution increases recommended by the plans' actuary would, in general terms, result in a failure to adequately fund the plans under the applicable accounting standards and funding policies. This failure would also require future contribution increases necessary to meet adequate funding requirements to be greater than they would have been had the required contribution increases been approved this year. A precise calculation of the detrimental effect to the funded status of the plans caused by failing to increase contributions as recommended by the actuary would have to be determined by the actuary and would require additional information regarding the extent to which the recommended contribution increases are not made.



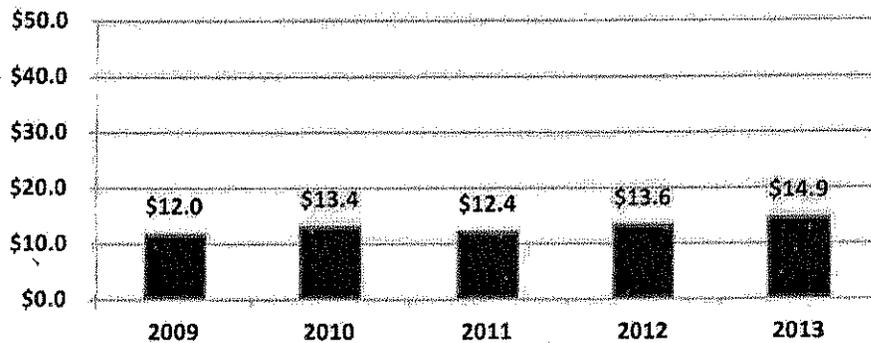
Unfunded Actuarial Accrued Liability Market Value

Dollar Amounts in Millions

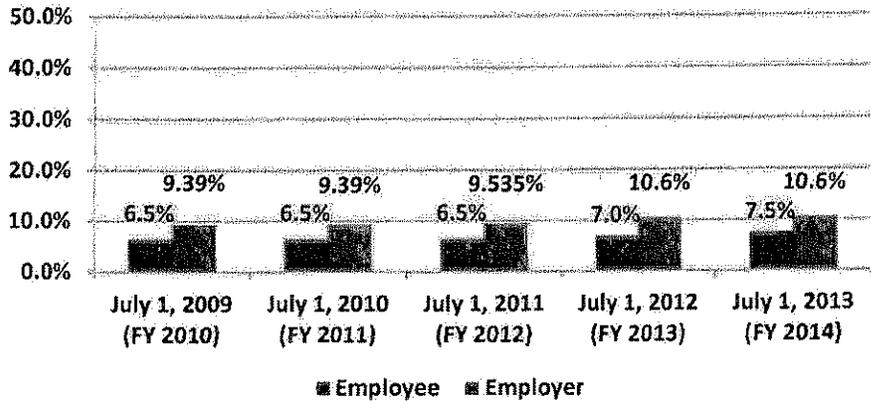


Unfunded Actuarial Accrued Liability Actuarial Value

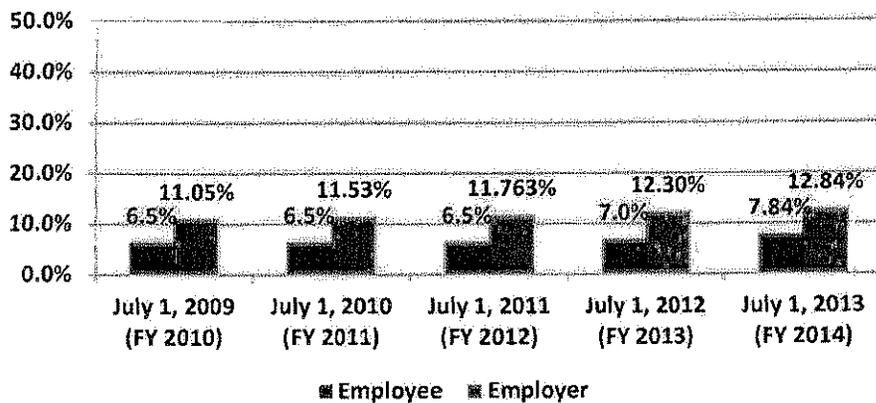
Dollar Amounts in Millions



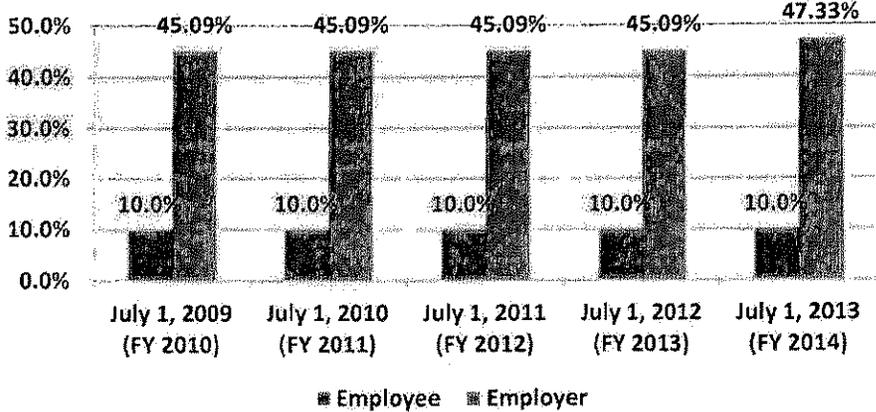
Employee and Employer Contribution Rates SCRS

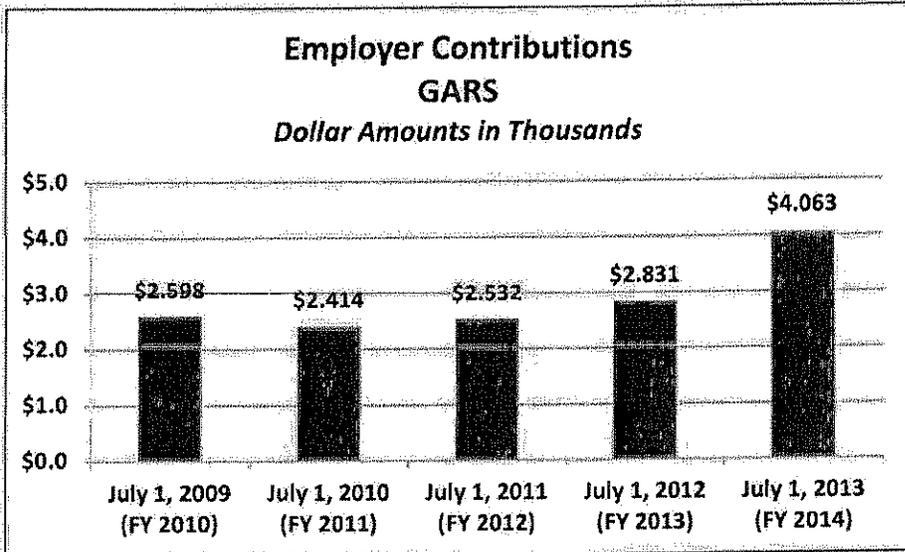
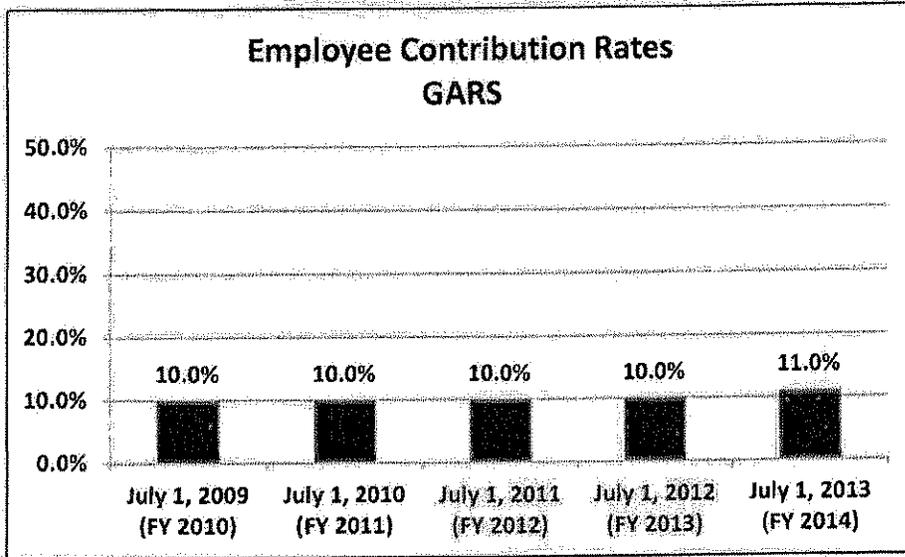


Employee and Employer Contribution Rates PORS



Employee and Employer Contribution Rates JSRS





AGENCY: Public Employee Benefit Authority ("PEBA")

SUBJECT: Approval of PEBA Policy Determination for the National Guard Retirement System

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the National Guard Retirement System ("NGRS"), which does not require employee contributions, the PEBA Board is required to certify the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. See Section 9-10-60(D).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for NGRS as of July 1, 2011, and adopted the employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, as recommended therein.

BOARD ACTION REQUESTED:

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the National Guard Retirement System ("NGRS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase NGRS employer contribution from \$3.9 million to \$4.539 million.

ATTACHMENTS:

Agenda item worksheet; Blume 12/5/12 letter; Minutes from the November 21, 2012 PEBA Board Meeting; NGRS Actuarial Valuation as of July 1, 2011; Section 9-10-60(D) of the South Carolina Code of Laws; Summary Information for Valuations

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

For meeting scheduled for:

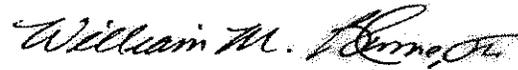
December 12, 2012

Blue Agenda
 Regular Session
Executive Session

1. Submitted by:

(a) Agency: Public Employee Benefit Authority ("PEBA")

(b) Authorized Official Signature:



William M. Blume, Jr, CPA, Director

2. Subject: Approval of PEBA Policy Determination for the National Guard Retirement System

3. Summary Background Information:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the PEBA Board of Directors is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary.

For the National Guard Retirement System ("NGRS"), which does not require employee contributions, the PEBA Board is required to certify the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. See Section 9-10-60(D).

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"), for NGRS as of July 1, 2011, and adopted the employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, as recommended therein.

4. What is Board asked to do?

Pursuant to Section 9-4-45(A) (as added by Act 278 of 2012), policy determinations made by the PEBA Board are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board. Adjustments in employer and employee contribution rates are policy determinations subject to Budget and Control Board approval. See Section 9-4-45(B).

Accordingly, pursuant to Section 9-4-45, the Budget and Control Board is asked to approve the following adjustment in employer contributions adopted by the PEBA Board for the National Guard Retirement System ("NGRS") for the fiscal year beginning July 1, 2013, based upon the actuarial valuation of the system as of July 1, 2011:

1. Increase NGRS employer contribution from \$3.9 million to \$4.539 million.

5. What is recommendation of the Board division involved? N/A.

6. Recommendation of other office (as required)? N/A.

Authorized

Office Name _____

Signature _____

7. Supporting Documents:

List those attached:

- Minutes from the November 21, 2012 PEBA Board Meeting.
- NGRS Actuarial Valuation as of July 1, 2011.
- Section 9-10-60(D) of the South Carolina Code of Laws.

List those not attached but available:

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director

December 5, 2012

Delbert H. Singleton, Jr.
Secretary, South Carolina Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211

RE: Agenda Items for the Approval of Contribution Rates Adopted by the Board of Directors
for the South Carolina Public Employee Benefit Authority

Dear Mr. Singleton:

Pursuant to the Retirement Code, as amended by Act 278 of 2012, the Board of Directors for the South Carolina Public Employee Benefit Authority ("PEBA") is authorized to adopt the necessary employer, and, in certain cases, employee, contribution rates for the five defined benefit plans administered by PEBA based upon the annual valuations of those plans performed by the plans' actuary. Further, as provided in Section 9-4-45 of the Code as added by Act 278, adjustments in employer and employee contribution rates made by the PEBA Board are policy determinations that are subject to approval by the Budget and Control Board, as evidenced by a majority vote of the Board.

At the regular meeting of the PEBA Board of Directors on November 21, 2012, the PEBA Board accepted as information valuations prepared by the plans' actuary, Gabriel Roeder Smith, for SCRS, PORS, JSRS, GARS, and NGRS as of July 1, 2011, and adopted the contribution rates recommended therein. It should be noted, however, that no adjustment to the statutorily scheduled contribution rates for SCRS was necessary. As required by Section 9-4-45, the adjustments in the contribution rates adopted by the PEBA Board are now subject to approval by the Budget and Control Board. Accordingly, please place five items on the agenda of the Budget and Control Board's December 12, 2012 meeting for the approval of these contribution rate adjustments, as reflected in more detail on the attached Agenda Item Worksheets.

Thank you for your attention to this matter. If you need any additional information, please do not hesitate to contact me.

Sincerely,



William M. Blume, Jr., CPA
Executive Director

Enclosures

Street Address:
202 Arbor Lake Drive
Columbia, South Carolina 29223

www.retirement.sc.gov
803-737-6800
800-868-9002 (within S.C. only)

Mailing Address:
Post Office Box 11960
Columbia, South Carolina 29211-1960

PEBA

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.
2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.
3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.
4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of \$4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.
5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of \$4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.

South Carolina National Guard Retirement System (NGRS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active Members	12,271	12,445
- Retirees and Beneficiaries	4,252	3,951
- Inactive Members	2,458	2,683
- Total	18,981	19,079
GASB No. 25 Annual Required Contribution		
• Member	\$0	\$0
• Employer contribution ¹	\$4,539	\$3,937
Assets		
• Market value	\$17,466	\$15,053
• Actuarial value	20,138	19,458
• Return on market value	14.9%	14.4%
• Return on actuarial value	4.5%	2.4%
• Ratio - actuarial value to market value	115.3%	129.3%
• External cash flow %	-0.7%	3.1%
Actuarial Information		
• Normal cost	\$703	\$524
• Actuarial accrued liability (AAL)	60,388	54,153
• Unfunded actuarial accrued liability (UAAL)	40,250	34,695
• Funded ratio	33.3%	35.9%
• Amortization period (blended)	21	22
Reconciliation of UAAL		
• Beginning of Year UAAL	\$34,695	\$34,821
- Interest on UAAL	3,010	2,785
- Amortization payment with interest	(3,670)	(3,576)
- Assumption/method changes	5,441	0
- Asset experience	668	1,062
- Other liability experience	106	(397)
- Legislative changes	0	0
• End of Year UAAL	\$40,250	\$34,695

¹ The contribution amount determined by the actuarial valuation is effective for the following fiscal year.

SECTION 9-10-60. Eligibility, appropriation and use of funds.

(A) Notwithstanding any other provision of this chapter, a person who becomes a member of the National Guard of South Carolina after June 30, 1993, is ineligible to receive the pension authorized by this chapter.

(B) Persons with a break in service remain eligible for pension benefits under this chapter if the person was a member of the National Guard of South Carolina before July 1, 1993.

(C) RESERVED

(D) The General Assembly annually shall appropriate sums sufficient to establish and maintain the National Guard Retirement System on a sound actuarial basis as determined by the board.

(E) Assets and funds of the National Guard Retirement System must be used to pay obligations to persons entitled to receive benefits under this chapter and may not be diverted or used for any other purpose.

1) Regarding Agenda Items Nos. 3 – 7 (SCRS, PORS, JSRS, GARS, NGRS Valuations), you requested that PEBA “[e]xpress all [contribution increases] in terms of \$ and % for both employee and employer.

SCRS

<u>Employee %</u>		<u>*Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.5	\$552M	\$611M	\$59 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.6	10.6	\$968 M	\$993 M	\$25 M

PORS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
7.0	7.84	\$77.4 M	\$89.5 M	\$12.1 M

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
12.3	12.84	\$146 M	\$156 M	\$10 M

GARS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	11.0	\$390 K	\$429 K	\$39 K

<u>Employer %</u>		<u>Employer \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
73.4	105.4	\$2.8 M	\$4.06 M	\$1.26 M

JSRS

<u>Employee %</u>		<u>Employee \$</u>		<u>Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
10.0	10.0	\$1.87 M	\$1.87 M	\$---

<u>Employer %</u>		<u>Employer \$</u>		<u>***Increase in \$</u>
<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>from 2012-13</u>
45.09	47.33	\$8.4 M	\$8.8 M	\$400 K

*Employee \$ figures are based on projected active employee payroll for FYs 2012 and 2013

**NGRS cannot be expressed as a percentage of payroll because it is non-contributory and is funded by direct appropriation.

*** all \$ figures are based on projected payrolls for FYs 2012 and 2013

2) Regarding Agenda Item Number 3 (SCRS Valuation), you requested “[g]iven the alleged FY12 fund performance, please prepare an updated estimate, in graph form, of the UAL, as of June 30, 2013, and for the 4 prior fiscal years, which show the effects on the UAL with smoothing and without smoothing.”

The chart below sets out the market value of assets (MVA), the actuarial value of assets (AVA), the actuarial accrued liability (AAL), the unfunded actuarial accrued liability-market value (UAAL[MV]) and the unfunded actuarial liability-actuarial value (UAAL[AV]). The market value numbers reflect amounts that do not apply smoothing. The numbers below for 2012 and 2013 reflect the FY12 fund performance. The numbers for 2009 – 2011 are not affected by the FY12 fund performance.

<u>2009</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$17.7 B	\$25.2 B	\$37.2B	\$19.5 B	\$12 B
<u>2010</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$19.7 B	\$25.4 B	\$38.8 B	\$19.1 B	\$13.4 B
<u>2011</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$38.0 B	\$15.6 B	\$12.4 B
<u>2012</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$21.6 B	\$25.6 B	\$39.2 B	\$17.6 B	\$13.6 B
<u>2013</u>				
<u>MVA</u>	<u>AVA</u>	<u>AAL</u>	<u>UAAL(MV)</u>	<u>UAAL(AV)</u>
\$22.4 B	\$25.6 B	\$40.5 B	\$18.1 B	\$14.9 B

3) Regarding Agenda Items Nos. 3, 4, 5, 6 and 7, you requested:

- a. 5 year graph of both proposed employee and proposed employer contributions for FY13 and 4 prior fiscal years
- b. Explain when only the employee or employer contributions apply when that is the case
- c. What happens if the B&CB does not approve increase in these employer contributions and/or employee contributions.

a) The table below shows the employee and employer contribution rates for the upcoming fiscal year beginning July 1, 2013 (FY 2014), and the four preceding fiscal years.

	July 1, 2009 (FY 2010)	July 1, 2010 (FY 2011)	July 1, 2011 (FY 2012)	July 1, 2012 (FY 2013)	July 1, 2013 (FY 2014)
<u>SCRS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.5%
Employer	9.39%	9.39%	9.535%	10.6%	10.6%
<u>PORS</u>					
Employee	6.5%	6.5%	6.5%	7.0%	7.84%*
Employer	11.05%	11.53%	11.763%	12.30%	12.84%*
<u>JSRS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	10.0%
Employer	45.09%	45.09%	45.09%	45.09%	47.33%*
<u>GARS</u>					
Employee	10.0%	10.0%	10.0%	10.0%	11.0%
Employer	\$2.598M	\$2.414M	\$2.532M	\$2.831M	\$4.063M*
<u>NGRS</u>					
Employee	N/A	N/A	N/A	N/A	N/A
Employer	\$3.945M	\$3.904M	\$3.937M	\$4.539M*	Pending

The rates marked with an asterisk are adjustments in contribution rates that have been approved by the PEBA Board of Directors, and are currently pending approval by the Budget and Control Board.

b) For SCRS and PORS, prior to July 1, 2012, the employee contribution rate was fixed by statute and the employer rate was determined by the Budget and Control Board based upon the actuarial valuations of the systems and the Board's funding policies. For the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014, the employee and employer contribution rates for SCRS and PORS are set by a statutory schedule pursuant to Act 278 of 2012, and may

only be increased in order to prevent the amortization period for the plans' unfunded liability from exceeding thirty years.

For JSRS and GARS, the employee contribution rates are fixed by statute, and the employer contributions are set by the PEBA Board of Directors (and the Budget and Control Board prior to July 1, 2012) based upon the actuarial valuations of those plans. The JSRS employer contribution is collected as a percentage of covered payroll from the applicable employers, while the GARS employer contribution is paid in a lump-sum appropriation from the General Assembly.

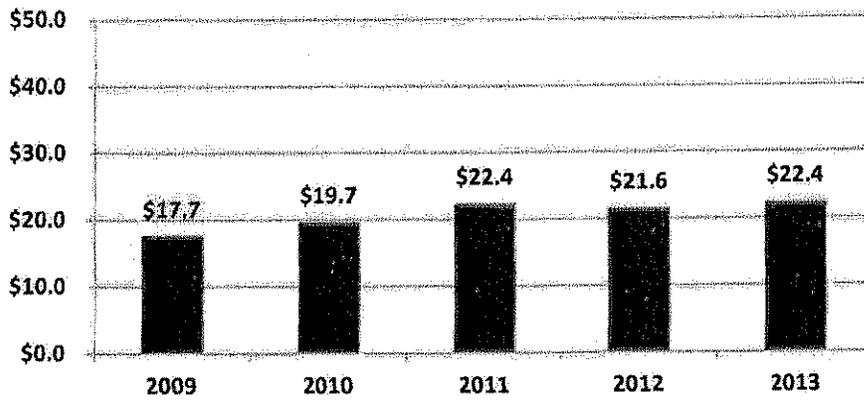
NGRS does not require employee contributions, and is funded entirely by direct appropriations from the General Assembly. The PEBA Board of Directors (and formerly the Budget and Control Board) certifies the amount of the appropriation required from the State to maintain the plan on a sound actuarial basis as determined by the annual actuarial valuation of the plan. Unlike the other plans, which operate on a two-year lag between the valuation date and the effective date of the required contributions recommended therein, the contributions requirements reported in the NGRS actuarial valuation take effect the following fiscal year.

c) For SCRS, no increase in the statutorily scheduled contribution rates was required for the fiscal year beginning July 1, 2013, and, therefore, no action is required by the Budget and Control Board with regard to those rates. For PORs, the increase in the employee and employer contribution rates for the fiscal year beginning July 1, 2013, to maintain the plan at an amortization period not exceeding thirty years is required by law; the failure to approve the increase would violate that law, as well as result in a failure to adequately fund the plan under the applicable accounting standards and funding policies. See S.C. Code Ann. § 9-11-225(C) (as added by Act 278 of 2012).

For JSRS, GARS, and NGRS, the failure to approve the contribution increases recommended by the plans' actuary would, in general terms, result in a failure to adequately fund the plans under the applicable accounting standards and funding policies. This failure would also require future contribution increases necessary to meet adequate funding requirements to be greater than they would have been had the required contribution increases been approved this year. A precise calculation of the detrimental effect to the funded status of the plans caused by failing to increase contributions as recommended by the actuary would have to be determined by the actuary and would require additional information regarding the extent to which the recommended contribution increases are not made.

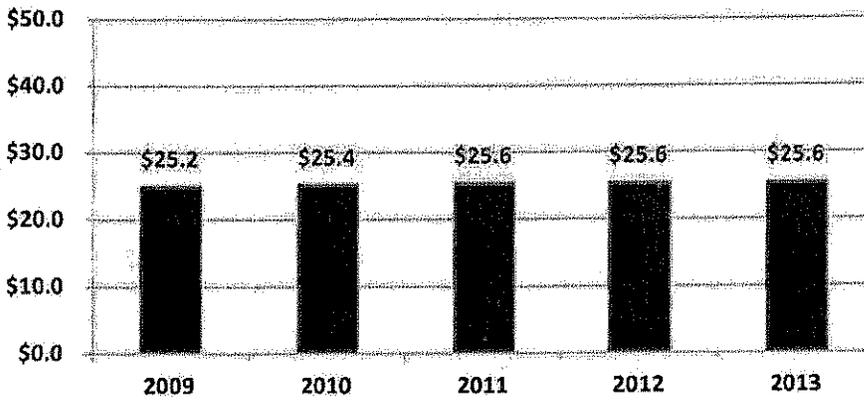
Market Value of Assets

Dollar Amounts in Millions



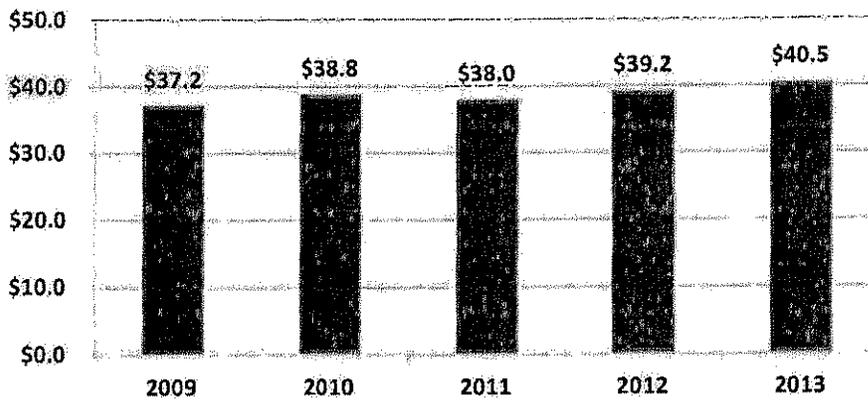
Actuarial Value of Assets

Dollar Amounts in Millions



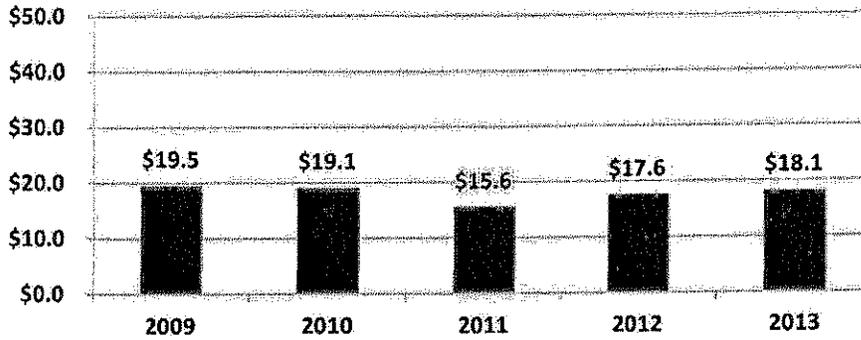
Actuarial Accrued Liability

Dollar Amounts in Millions



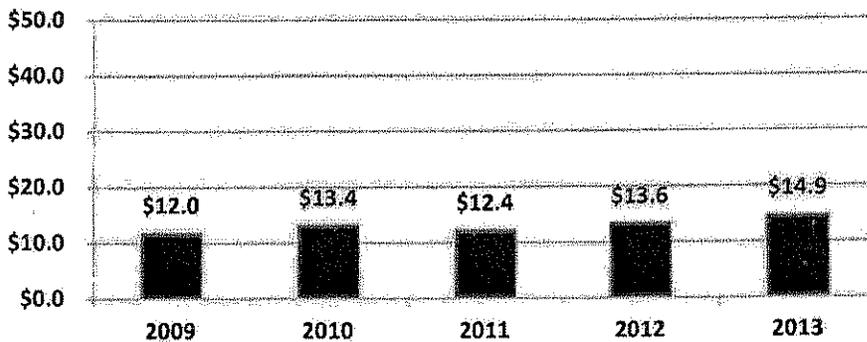
Unfunded Actuarial Accrued Liability Market Value

Dollar Amounts in Millions

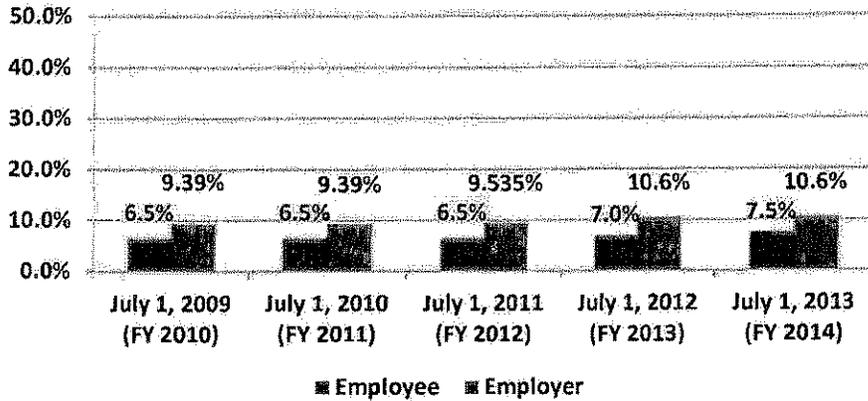


Unfunded Actuarial Accrued Liability Actuarial Value

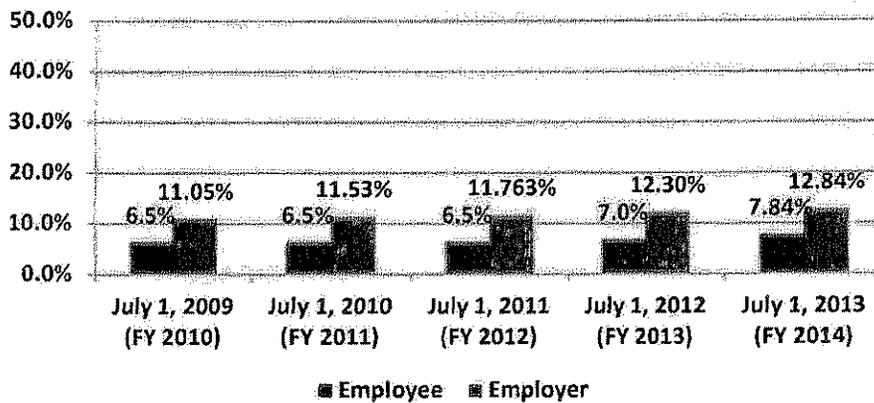
Dollar Amounts in Millions



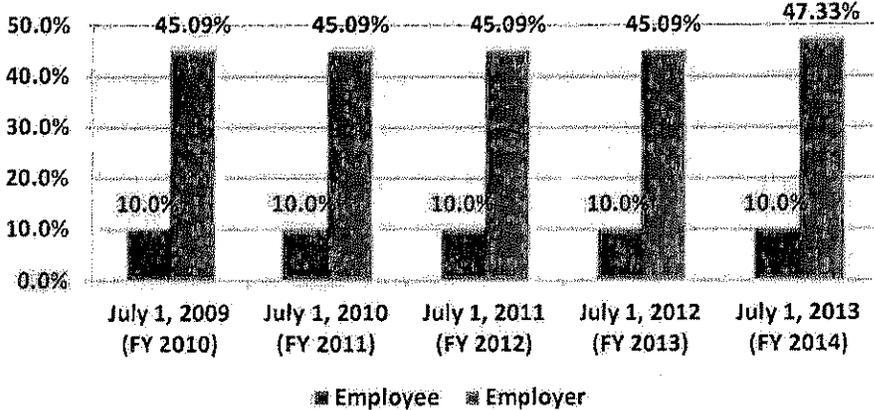
Employee and Employer Contribution Rates SCRS

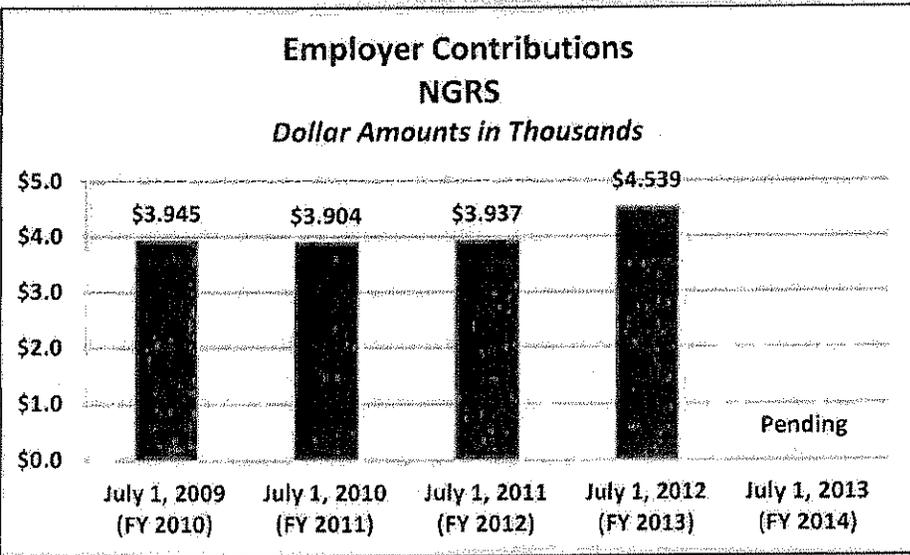
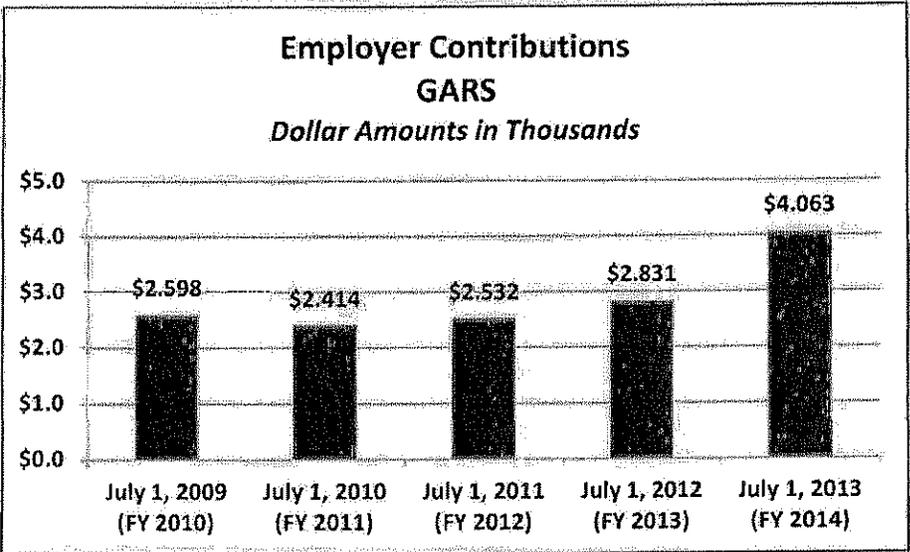
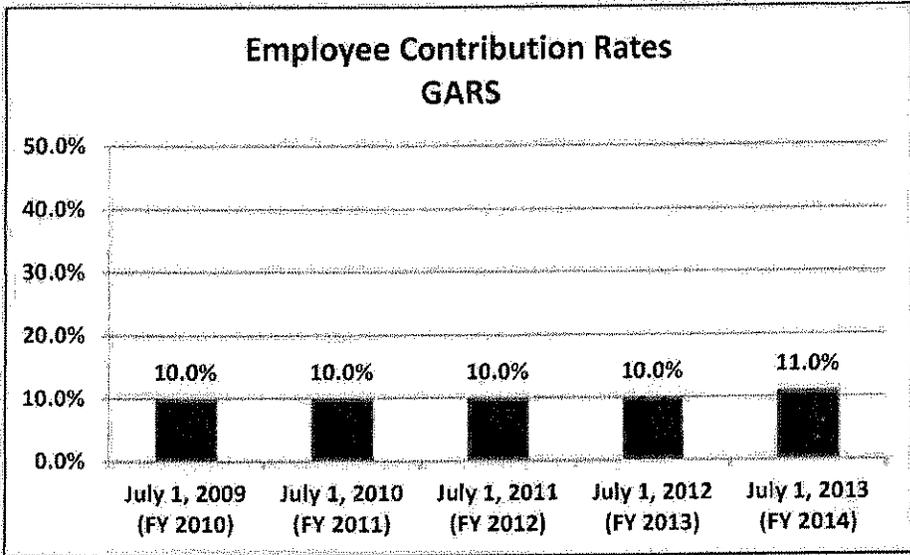


Employee and Employer Contribution Rates PORS



Employee and Employer Contribution Rates JSRS





AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

Budget and Control Board approval is requested for the following permanent improvement project establishment requests and budget revisions which have been reviewed favorably by the Joint Bond Review Committee:

Establish Project for A&E Design

- (a) Summary 3-2013: JBRC Item 1. Clemson University
Project: 9906, Core Campus Development
Funding Source: \$1,440,000 Other, Housing Improvement funds which result from bond-covenant required transfers from Housing Operations to allow for the maintenance and replacement of capital assets funded by bond issues.
Request: Establish project and budget for \$1,440,000 (Other, Housing Improvement funds) to begin design work to construct an approximately 260,000 square foot mixed use housing and dining facility at Clemson. The facility will include approximately 700 beds in the approximately 179,000 square foot residential portion, a dining facility, convenience store, retail restaurant, and administrative support spaces in the approximately 76,000 square foot dining portion, and approximately 5,000 square feet of shared-use academic seminar and meeting space for faculty and students. The facility will replace the Johnstone complex and Harcombe Dining Hall, both built in 1953. Johnstone is worn out, incapable of being renovated to meet the needs and expectations of students and parents, and has rooms that are too small with inadequate infrastructure. Harcombe was created for a different population, does not have efficient layouts, and is not energy efficient. Construction of this facility, in combination with others, will allow for Johnstone, Harcombe and a majority of the Union to be demolished by 2020.
- (b) Summary 3-2013: JBRC Item 2. Clemson University
Project: 9907, Lehotsky Hall Renovation
Funding Source: \$350,000 Other, Institutional Capital Project Funds which are excess debt service funds held by the State Treasurer's Office and required to be expended for capital projects.
Request: Establish project and budget for \$350,000 (Other, Institutional Capital Project Funds) to begin design work to renovate Lehotsky Hall which houses the School of Agriculture, Forestry and Environmental Sciences at Clemson. The work will include installing new HVAC and sprinkler systems, making structural reinforcements, improving the electrical, plumbing and information technology systems, upgrading the building envelope, and installing ADA-accessible features. The renovation will also include reprogramming some existing space to meet anticipated academic needs and priorities. The 94,000 square foot building is 38 years old and has not had a comprehensive renovation since construction. Most building systems are original to the building, are inefficient and do not meet current building code requirements. The renovation will bring the building up to current codes.

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

- (c) Summary 3-2013: JBRC Item 3. University of South Carolina
Project: 6098, Sumwalt Laboratory Renovations
Funding Source: \$28,500 Other, Institutional funds which are funds available to the university from a variety of sources, including tuition and fees, sales and services activities, and other miscellaneous sources.
Request: Establish project and budget for \$28,500 (Other, Institutional funds) to begin design work to renovate approximately 5,100 square feet of space in the Sumwalt Building at USC. The renovation will provide three additional teaching labs. The work will include demolishing existing partitions and fixtures and installing new partitions, ceilings, finishes, lab furniture and equipment. It will also include reconfiguring and updating the mechanical, electrical and plumbing systems to accommodate the new laboratory functions and installing new rooftop mechanical units to provide heating and cooling to the labs. Additional lab space is needed to meet current student demands for introductory and intermediate science lab courses in the College of Arts and Sciences.
- (d) Summary 3-2013: JBRC Item 4. University of South Carolina
Project: 6099, Broadcast Studio Construction
Funding Source: \$22,500 Other, Institutional funds which are funds available to the university from a variety of sources, including tuition and fees, sales and services activities, and other miscellaneous sources.
Request: Establish project and budget for \$22,500 (Other, Institutional funds) to begin design work to construct a broadcast studio at USC. The studio will be constructed adjacent to the Health Sciences Building which will be renovated to house the College of Mass Communications and Information Studies. The proposed studio will be operated in conjunction with the broadcast program in the renovated Health Sciences multimedia newsroom. It will also act as the communications hub that will serve the university as a whole while enhancing the curriculum and student experience by creating additional opportunities for practicing the live reporting techniques demanded of television reporters. The university's existing studio is used by numerous programs and classes which creates scheduling challenges. The addition of this studio will also allow expansion of studio production capability to courses that do not currently have access due to the limited time the existing studio is free.
- (e) Summary 3-2013: JBRC Item 5. State Board for Technical and Comprehensive Education
Project: 6078, Greenville - Barton Campus Technical Resource Center Renovation
Funding Source: \$150,000 Other, Local College Plant funds which are funds, primarily from County appropriations, that are accumulated over time and ultimately used for capital projects.
Request: Establish project and budget for \$150,000 (Other, Local College Plant funds) to begin design work to renovate the Technical Resource Center at the Barton campus of Greenville Tech. The work will include constructing a 5,900 square foot addition to the library to include tutoring rooms, student rooms, media lab

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

and collaborative areas, reconfiguring interior spaces to create a printing center, cyber café/events area, testing center, learning center, Center for Teaching Excellence and other areas, renovating the auditorium, and installing new energy efficient lighting, plumbing, and HVAC systems, exterior windows and doors. Most building systems are original to the 20 year-old building and past their useful lives. The renovation is needed to address deferred maintenance, to develop locations for students to study in small groups and non-traditional learning environments, and to provide a single location for training faculty in updated methodologies and technologies for teaching and learning.

- (f) Summary 3-2013: JBRC Item 6. Adjutant General
Project: 9770, Greenville Readiness Center Construction
Funding Source: \$300,366 Federal funds which come from the National Guard Bureau's Military Construction (MilCon) program funds.
Request: Establish project and budget for \$300,366 (Federal funds) to begin design work to construct a joint use readiness center building for the National Guard and Greenville Tech in Greenville. The approximately 94,000 square foot building will house two units of the Army National Guard that will use the new Army Aviation Support Facility under construction at the SC Technology and Aviation Center and will also house the Aviation Mechanical School of Greenville Tech. The facility will include an assembly hall, classrooms, library, learning center, simulation center and related support spaces. The existing Greenville Readiness Center is too small and inadequate to house the aviation units that will support the new Army Aviation Support Facility and co-locating with Greenville Tech's Aviation School that teaches mechanics to repair various aircraft will provide the on-site training required for the National Guard's mechanics.

Establish Construction Budget

- (g) Summary 3-2013: JBRC Item 7. Clemson University
Project: 9905, Greenville One Building Upfit
Funding Source: \$6,700,000 Other, Institutional Capital Project Funds which are excess debt service funds held by the State Treasurer's Office and required to be expended for capital projects.
Request: Increase budget to \$6,700,000 (add \$6,599,500 Other, Institutional Capital Project Funds) to upfit shell space in the Greenville One Building in downtown Greenville for Clemson. The project was established in October 2012 for pre-design work which is now complete. The work will include upfitting floors five through eight and a portion of the first floor in the Greenville One Building leased long-term by Clemson from the Clemson Land Stewardship Foundation. The work will include completing the mechanical, electrical and information technology systems, installing internal wall spacing on the leased floors, and

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

furnishing and equipping the space to meet programmatic needs for the Masters in Business Administration and other business programs. Clemson made the decision in 2001 to develop a major presence by expanding targeted programming efforts in the Greenville community. The upfit will be constructed to LEED Commercial Interiors certification and will include sustainable sites, energy and atmosphere, and other measures. The LEED cost benefit analysis shows a negative cost benefit of \$413,400 at this phase of design based on preliminary figures, but Clemson staff anticipate the negative benefit will be negligible once the design nears completion. The agency reports the total projected cost of this project is \$6.7 million and additional annual operating costs ranging from \$488,246 to \$512,000 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is April 2013 and for completion of construction is December 2013. (See Attachment 1 for additional annual operating costs.)

- (h) Summary 3-2013: JBRC Item 8. University of South Carolina
Project: 6086, Preston College Bathroom and Flooring Renovations
Funding Source: \$1,500,000 Other, Housing Maintenance Reserve funds which are derived from the Housing operating budget which includes housing fees and revenues generated by laundry operations, conferences, and interest.
Request: Increase budget to \$1,500,000 (add \$1,477,500 Other, Housing Maintenance Reserve funds) to do bathroom and flooring renovations in Preston College residence hall at USC. The project was established in March 2011 for pre-design work which is now complete. The work will include completely renovating the 80 bathrooms by replacing showers and water closets, correcting water leaks, ensuring exhaust, ventilation and drain systems are adequate and working properly, installing new ceiling and wall tiles, and painting. The work will also include replacing vinyl floor tiles in 129 student rooms with durable no-finish vinyl tiles. The renovation will address deferred maintenance in plumbing systems which are well past their expected lives, correct damage from past plumbing leaks, and protect institutional assets from normal usage and past damage. Energy savings and conservation measures will include the installation of low flow plumbing fixtures and energy efficient lighting. The agency reports the total projected cost of this project is \$1.5 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is April 2013 and for completion of construction is July 2013.
- (i) Summary 3-2013: JBRC Item 9. Medical University of South Carolina
Project: 9823, Basic Science Building Craniofacial Biology Research Renovation
Funding Source: \$2,600,000 which includes \$39,000 Other, College of Dental Medicine Clinical Revenue funds already approved for use in the project and \$2,561,000 Other, Indirect Cost Recovery funds which derive from reimbursements from the Federal sponsor for overhead costs incurred to support the research mission.

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

Request: Increase budget to \$2,600,000 (add \$2,561,000 Other, Indirect Cost Recovery funds) to renovate approximately 9,000 square feet on the second floor of the Basic Science Building at MUSC. The project was established in May 2012 for pre-design work which is now complete. The renovation will create 190 feet of wet lab bench space and support areas for the College of Dental Medicine including tissue culture rooms, an autoclave room, a dark room, a microscopy room and lab technician areas. It will include reconfiguring space, installing new walls, floors, and ceilings, and modifying the existing HVAC, lighting, plumbing and fire protection systems in the space. The renovation is needed to provide sufficient consolidated research space to foster collaborative research within the Department of Craniofacial Biology. Energy savings and conservation measures will include the installation of energy efficient lighting and HVAC equipment, a lighting control system, and water-conserving plumbing fixtures. The agency reports the total projected cost of this project is \$2.6 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is July 2013 and for completion of construction is June 2014.

(j) Summary 3-2013: JBRC Item 10. State Board of Technical and Comprehensive Education

Project: 6059, Central Carolina - Advanced Manufacturing Training Center Renovation
Funding Source: \$8,315,656 which includes \$2,550,000 Appropriated State funds from FY 11-12 supplemental appropriations, \$2,000,000 Other, Note Payable Loan funds which will be borrowed if EDA federal funds are not forthcoming as anticipated, and \$3,765,656 Other, College Capital Project funds which are college fund balances from previous years not committed to other projects or required for current operations.

Request: Increase budget to \$8,315,656 (add \$8,248,156 - \$2,482,500 Appropriated State, \$2,000,000 Other, Note Payable Loan and \$3,765,656 Other, College Capital Project funds) to renovate property being purchased on Broad Street in Sumter to provide a new training center for Central Carolina Tech. The project was established in July 2012 for pre-design work which is now complete. The work will include renovating approximately 54,700 square feet of the interior, abating asbestos, installing new roofing, HVAC, electrical and plumbing systems, upfitting infrastructure, and repairing parking and sitework. The renovation is needed to provide training space for Continental Tire and to move and expand the college's Basic and Advanced Mechatronics and Industrial Maintenance credit programs. The existing training facility is at capacity and has no room to expand. The facility will be renovated to Green Globes certification and will include water use reduction, recycling, and refrigerant management measures and energy efficient lighting, controls and HVAC systems. The agency reports the total projected cost of this project is \$8,315,656 and additional annual operating costs of \$153,860 will result in the three years following project completion. The

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

agency also reports the projected date for execution of the construction contract is August 2013 and for completion of construction is March 2014. (See Attachment 2 for additional annual operating costs.)

- (k) Summary 3-2013: JBRC Item 11. State Board of Technical and Comprehensive Education
Project: 6077, Midlands - Morris Hall Addition
Funding Source: \$1,100,000 Other, College funds which are derived from a \$75 per semester capital fee for providing additional facilities and improvements that has not increased in more than 11 years.
Request: Increase budget to \$1,100,000 (add \$1,083,500 Other, College funds) to add an addition to Morris Hall on the Airport campus of Midlands Tech. The project was established in June 2011 for pre-design work which is now complete. The work will include adding a 3,757 square foot addition with educational technology labs, offices and student support spaces and renovating approximately 954 square feet of the existing building to create a corridor to the new addition. The addition will provide instructional training spaces needed for faculty to learn state-of-the-art instructional delivery methods and will provide student support spaces needed because of increased enrollment. Because enrollment is up 12% at the college and 10% on the Airport campus since 2005, more space is needed to provide support services to students and for the faculty who serve the students. Energy savings and conservation measures will include the installation of insulated glass, roof and walls and an energy efficient HVAC system. The agency reports the total projected cost of this project is \$1.1 million and additional annual operating costs ranging from \$21,600 to \$23,200 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is September 2013 and for completion of the construction is October 2014. (See Attachment 3 for additional annual operating costs.)

Increase Budget

- (l) Summary 3-2013: JBRC Item 13. Medical University of South Carolina
Project: 9819, College of Nursing Floors 2-5 Interior Renovation
Funding Source: \$9,000,000 which includes \$5 million Other, Institutional Capital Project Funds and \$3 million Other, College of Nursing Tuition funds which have already been approved for use in the project and \$1 million Capital Reserve Funds from a FY 2011-12 appropriation for deferred maintenance.
Request: Increase budget to \$9,000,000 (add \$1,000,000 Capital Reserve Funds) to increase the scope to renovate the elevators in the College of Nursing Building at MUSC. The project was established in November 2011 for pre-design work and increased in May 2012 to establish the construction budget. Replacing the two elevators was included in the conceptual scope of work because the existing elevator doors and cabs were small and antiquated. However, funding limitations required the proposed elevator work to be reduced to minor interior

AGENCY: Division of State Budget

SUBJECT: Permanent Improvement Projects

finishes for construction budget approval. Since that time, Capital Reserve Funds appropriated for deferred maintenance have become available to address this concern. The project will now include reconfiguring and renovating floors two through five, replacing the HVAC, plumbing, electrical and fire alarm systems on each floor, and replacing elevators that serve the entire building. Energy savings and conservation measures will include the installation of energy efficient lighting and HVAC systems and water-conserving plumbing fixtures. The agency reports the total projected cost of this project is \$9 million and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is March 2013 and for completion of construction is June 2014.

(m) Summary 3-2013: JBRC Item 14. Budget and Control Board

Project: 9899, Sumter Street Building Upfit

Funding Source: \$1,283,615 which includes \$9,263 Capital Reserve Funds already approved for use in the project and \$1,274,352 Other, Depreciation Reserve funds which are derived from the rent account, which receives rent charged to state agencies for use of Budget and Control Board buildings.

Request: Increase budget to \$1,283,615 (add \$1,037,950 Other, Depreciation Reserve funds) to revise the scope and upfit space in the Sumter Street Building to house a new tenant. The project was established in May 2011 for pre-design work and increased in June 2011 to establish the construction budget to renovate the north portion of the building for the Department of Education. Since that time, Education decided not to move into the building and the building will now be upfitted to accommodate the Human Affairs Commission. The work will include installing new ceilings, walls, floor finishes and light fixtures, renovating toilets to comply with ADA requirements, replacing three HVAC units, and doing minor electrical and wall reconfigurations. In addition, new fire alarm and fire sprinkler systems will be added throughout the building to bring it up to current standards. The last major renovation in the building was in 1970. Energy savings and conservation measures will include the installation of energy efficient lighting and HVAC units and motion sensors. The agency reports the total projected cost of this project is \$1,283,615 and annual operating cost savings of \$2,233 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is March 2013 and for completion of construction is July 2013. (See Attachment 5 for annual operating cost savings.)

BOARD ACTION REQUESTED:

Approve permanent improvement project establishment requests and budget revisions. All items have been reviewed favorably by the Joint Bond Review Committee.

ATTACHMENTS: Attachments

**ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS
RESULTING FROM PERMANENT IMPROVEMENT PROJECT**

1. AGENCY CODE: H12 NAME: Clemson University

2. PROJECT #: 9905 NAME: Greenville One Building Upfit

3. ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS. (Check whether reporting costs or savings.)

COSTS SAVINGS NO CHANGE

4. TOTAL ADDITIONAL OPERATING COSTS/SAVINGS
Projected Financing Sources

(1)	(2)	(3)	(4)	(5)
Fiscal Year	General Funds	Federal	Other	Total
1) 2015-16	\$488,246			\$488,246
2) 2016-17	\$502,000			\$502,000
3) 2017-18	\$512,000			\$512,000

5. If "Other" sources are reported in Column 4 above, itemize and specify what the other sources are (revenues, fees, etc.)

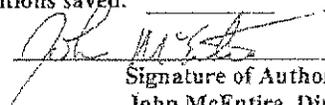
6. Will the additional costs be absorbed into your existing budget? Yes No
If no, how will the additional funds be provided?

Please note that the operating cost is included with the lease agreement.

7. Itemize below the cost factors that contribute to the total costs or savings reported above in Column 5 for the first fiscal year.

<u>COST FACTORS</u>	<u>AMOUNT</u>
1. <u>Utilities</u>	<u>\$110,000</u>
2. <u>Maintenance</u>	<u>\$378,246</u>
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
TOTAL	<u>\$488,246.</u>

8. If personal services or costs are reported in section 7 above, please indicate the number of additional positions required or positions saved.

9. Submitted By:  10/23/12
Signature of Authorized Official and Title Date
John McEntire, Director Capital Projects

**ADDITIONAL ANNUAL OPERATING COSTS / SAVINGS
RESULTING FROM PERMANENT IMPROVEMENT PROJECT**

1. AGENCY Code HS9 Name Central Carolina Technical College

2. PROJECT Project # 6059 Name CCTC-Sumter-Adv Mfg Tech Training Center Renovation

3. ADDITIONAL ANNUAL OPERATING COSTS / SAVINGS. (Check whether reporting costs or savings.)

COSTS SAVINGS NO CHANGE

4.

TOTAL ADDITIONAL OPERATING COSTS / SAVINGS				
Projected Financing Sources				
(1)	(2)	(3)	(4)	(5)
Fiscal Year	General Funds	Federal	Other	Total
1) 2014(partia	\$	\$	\$ 75,680.00	\$ 75,680.00
2) 2015	\$	\$	\$ 153,860.00	\$ 153,860.00
3) 2016	\$	\$	\$ 153,860.00	\$ 153,860.00

5. If "Other" sources are reported in Column 4 above, itemize and specify what the other sources are (revenues, fees, etc.).
Tuition and fees from new enrollment

6. Will the additional costs be absorbed into your existing budget? YES NO
If no, how will additional funds be provided?

It is expected that the additional enrollment will fund the additional costs; otherwise, additional plant O&M funds will be requested from the service area counties

7. Itemize below the cost factors that contribute to the total costs or savings reported above in Column 5 for the first fiscal year.

<u>COST FACTORS</u>	<u>AMOUNT</u>
1. Utilities	\$40,000.00
2. Telecommunications	5,370.00
3. Personal services (custodial, security, grounds maint)	25,180.00
4. Supplies	2,500.00
5. Repairs	500.00
6. Contractual services	1,510.00
7. Insurance	620.00
8. _____	_____
TOTAL	\$75,680.00

8. If personal services costs or savings are reported in 7 above, please indicate the number of additional positions required or positions saved. 0 FTEs

9. Submitted By:  VP for Business Affairs October 22, 2012
Signature of Authorized Official and Title Date

**ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS
RESULTING FROM PERMANENT IMPROVEMENT PROJECT**

1. AGENCY
Code H59 Name Midlands Technical College

2. PROJECT
Project # 6077 Name Midlands - Morris Hall Addition

3. ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS. (Check whether reporting costs or savings.)

COSTS SAVINGS NO CHANGE

4.

TOTAL ADDITIONAL OPERATING COSTS/SAVINGS				
Projected Financing Sources				
(1)	(2)	(3)	(4)	(5)
Fiscal Year	General Funds	Federal	Other	Total
1) 2013-14	\$	\$	\$21,600	\$ 21,600
2) 2014-15	\$	\$	\$22,400	\$ 22,400
3) 2015-16	\$	\$	\$23,200	\$ 23,200

5. If "Other" sources are reported in Column 4 above, itemize and specify what the other sources are (revenues, fees, etc.).

Local County funds.

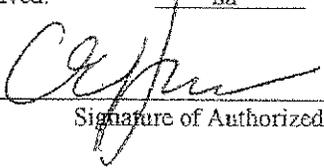
6. Will the additional costs be absorbed into your existing budget? YES NO
If no, how will additional funds be provided?

Costs will be paid by Local County Funds within the Operations budget.

7. Itemize below the cost factors that contribute to the total costs or savings reported above in Column 5 for the first fiscal year.

<u>COST FACTORS</u>	<u>AMOUNT</u>
1. <u>Utilities</u>	<u>\$12,000</u>
2. <u>Maintenance</u>	<u>\$3,000</u>
3. <u>Custodial</u>	<u>\$6,000</u>
4. <u>Insurance: Bldgs & Contents</u>	<u>\$600</u>
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
TOTAL	<u>\$21,600</u>

8. If personal services costs or savings are reported in 7 above, please indicate the number of additional positions required or positions saved. na

9. Submitted By:  Director of Operations 10/17/12
Signature of Authorized Official and Title Date

**ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS
RESULTING FROM PERMANENT IMPROVEMENT PROJECT**

1. AGENCY
Code F03 Name: South Carolina Budget & Control Board / Department of General Services

2. PROJECT
Project # 9899 Name: Sumter Street Building Upfit

3. ADDITIONAL ANNUAL OPERATING COSTS/SAVINGS. (Check whether reporting costs or savings.)

COSTS SAVINGS NO CHANGE

4.

TOTAL ADDITIONAL OPERATING COSTS/SAVINGS				
Projected Financing Sources				
(1)	(2)	(3)	(4)	(5)
Fiscal Year	General Funds	Federal	Other	Total
1) 2013-14	\$	\$	\$2,233.00	\$2,233.00
2) 2014-15	\$	\$	\$2,233.00	\$2,233.00
3) 2015-16	\$	\$	\$2,233.00	\$2,233.00

5. If "Other" sources are reported in Column 4 above, itemize and specify what the other sources are (revenues, fees, etc.).
Rent Account

6. Will the additional costs be absorbed into your existing budget? YES NO
If no, how will additional funds be provided?

7. Itemize below the cost factors that contribute to the total costs or savings reported above in Column 5 for the first fiscal year.

<u>COST FACTORS</u>	<u>AMOUNT</u>
1. <u>Electricity Savings</u>	<u>\$2,233.00</u>
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
6. _____	_____
7. _____	_____
8. _____	_____
TOTAL	<u>\$2,233.00</u>

8. If personal services costs or savings are reported in 7 above, please indicate the number of additional positions required or positions saved.

9. Submitted By: Carla Griffin Deputy Director - Department of General Services
Signature of Authorized Official and Title

11/5/12
Date

Permanent Improvement Project Information for December 12, 2012 B&CB Meeting

Agency/ Project No.	Agency/Project Name	Original Approved Budget	Date of Original Approval	Phase I Amount	Date of Phase I Approval	Included in CPIP	Total Projected Project Cost
H12-9906	Clemson University - Core Campus Development	\$1,440,000 for pre-design	12/12/12	\$1,440,000	12/12/12	2012 CPIP Year 1	To Be Determined
H12-9907	Clemson University - Lehotsky Hall Renovation	\$350,000 for pre-design	12/12/12	\$350,000	12/12/12	2012 CPIP Year 1	To Be Determined
H27-6098	University of South Carolina - Sumwalt Laboratory Renovations	\$28,500 for pre-design	12/12/12	\$28,500	12/12/12	No	To Be Determined
H27-6099	University of South Carolina - Broadcast Studio Construction	\$22,500 for pre-design	12/12/12	\$22,500	12/12/12	No	To Be Determined
H59-6078	Greenville Tech - Barton Campus Technical Resource Center Renovation	\$150,000 for pre-design	12/12/12	\$150,000	12/12/12	No	To Be Determined
E24-9770	Adjutant General - Greenville Readiness Center Construction	\$300,366 for pre-design	12/12/12	\$300,366	12/12/12	No	To Be Determined
H12-9905	Clemson University - Greenville One Building Upfit	\$100,500 for pre-design	10/30/12	\$100,500	10/30/12	2012 CPIP Year 1	\$6,700,000
H27-6086	University of South Carolina - Preston College Bathroom and Flooring Renovations	\$22,500 for pre-design	3/22/11	\$22,500	3/22/11	2012 CPIP Year 1	\$1,500,000
H51-9823	Medical University of South Carolina - Basic Science Building Craniofacial Biology Research Renovation	\$39,000 for pre-design	5/9/12	\$39,000	5/9/12	2012 CPIP Year 1	\$2,600,000
H59-6059	Central Carolina Tech - Advanced Manufacturing Technology Training Center Renovation	\$67,500 for pre-design	7/16/12	\$67,500	7/16/12	No	\$8,315,656

Permanent Improvement Project Information for December 12, 2012 B&CB Meeting

Agency/ Project No.	Agency/Project Name	Original Approved Budget	Date of Original Approval	Phase I Amount	Date of Phase I Approval	Included in CIP	Total Projected Project Cost
H59-6077	Midlands Tech - Morris Hall Addition	\$16,500 for pre-design	6/14/11	\$16,500	6/14/11	2011 CIP Year 1	\$1,100,000
H51-9819	Medical University of South Carolina - College of Nursing Floors 2-5 Interior Renovation	\$120,000 for pre-design	11/3/11	\$8,000	5/9/12	2012 CIP Year 1	\$9,000,000
F03-9899	Budget and Control Board - Sumter Street Building Upfit	\$8,250 for pre-design	5/3/11	\$245,665	6/28/11	No	\$1,283,615

Attachment 6
Additional Information on Funding Sources for
Higher Education Permanent Improvement Projects

Item (a) - Clemson University Core Campus Development

The source of funds for A&E pre-design is \$1,440,000 Other, Housing Improvement Funds. Housing Improvement funds result from bond covenant-required transfers from Housing Operations to allow for the maintenance and replacement of capital assets funded by bond issues. The current uncommitted balance of Housing Improvement funds is \$3,077,669 as of September 30, 2012.

The proposed sources of funds for construction are Other, Housing Improvement funds, Other, Dining Improvement funds and Revenue Bond funds.

1) Housing Improvement funds are defined above. The current uncommitted balance of Housing Improvement funds is \$3,077,669.

2) Dining Improvement funds result from bond covenant-required transfers from Dining Operations to allow for the maintenance and replacement of capital assets funded by bond issues. In addition to these transfers from dining operations, the Dining Improvement Fund has been augmented by approximately \$8 million in contributions from ARAMARK, the university's food service provider. These contributions are contractually negotiated and required for the replacement of university dining facilities. The current uncommitted balance of Dining Improvement funds is \$19,269,870.

3) Revenue bonds are bonds issued by the institutions and supported by auxiliary revenues collected. Until such factors are construction costs, interest rates, and market liquidity are known, it would not be prudent for the university to commit to or adhere to a pre-determined funding model for these three revenue sources to fund the estimated \$96 million project. The current uncommitted balance of Revenue Bonds, which will have to be issued once the needed amount is determined, is zero.

The University reports that no increase in any student fee or tuition will be required for pre-design or construction of this facility.

Item (b) - Clemson University Lehotsky Hall Renovation

The source of funds for A&E pre-design is \$350,000 Other, Institutional Capital Project Funds. Institutional Capital Project Funds are excess debt service funds held by the State Treasurer's Office and required to be expended for permanent improvement projects. The current uncommitted balance of Institutional Capital Project Funds is \$36,595,647 as of September 30, 2012.

The proposed source of funds for construction is State Institution Bond funds. Institution Bond funds are general obligation debt of the State backed by a pledge of University tuition and fees. The current uncommitted balance of Institution Bond funds is zero. A bond resolution is anticipated to be submitted to the Budget and Control Board in February 2013 and will be followed by the bond issuance.

The University reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility. The fee structure currently in place will suffice to cover principal and interest payments once the bonds are issued.

Item (c) - University of South Carolina Sumwalt Laboratory Renovations

The source of funds for A&E pre-design is \$28,500 Other, Institutional Funds. Institutional Funds are funds available to the University from a variety of sources including tuition and fees, sales and services

activities, and other miscellaneous sources. After funding of this project for both A&E and construction budget, estimated at \$1.9 million, there are no uncommitted Institutional Funds. All funds have been allocated to University capital projects and operating needs.

The proposed source of funds for construction is Other, Institutional Funds which are defined above. After full funding of this project, there are no uncommitted Institutional Funds. All funds have been allocated to University capital projects and operating needs.

The University reports that no increase in any student fee or tuition is directly related to funding of this project.

Item (d) - University of South Carolina Broadcast Studio Construction

The source of funds for A&E pre-design is \$22,500 Other, Institutional Funds. Institutional Funds are funds available to the University from a variety of sources including tuition and fees, sales and services activities, and other miscellaneous sources. After funding of this project for both A&E and construction budget, estimated at \$1.5 million, there are no uncommitted Institutional Funds. All funds have been allocated to University capital projects and operating needs.

The proposed source of funds for construction is Other, Institutional Funds which are defined above. After full funding of this project, there are no uncommitted Institutional Funds. All funds have been allocated to University capital projects and operating needs.

The University reports that no increase in any student fee or tuition is directly related to funding of this project.

Item (e) – Greenville Tech Barton Campus Technical Resource Center Renovation

The source of funds for A&E pre-design is \$150,000 Other, Local College Plant funds. Local College Plant funds are funds, primarily from County appropriations, that are accumulated over time and ultimately used for capital projects. The current uncommitted balance of Local College Plant funds is \$11,856,621.

The proposed source of funds for construction is Other, Local College Plant funds which are defined above. The current uncommitted balance of Local College Plant funds is \$11,856,621.

The College reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility.

Item (g) - Clemson University Greenville One Building Upfit

The source of funds for construction is \$6.7 million Other, Institutional Capital Project Funds. Institutional Capital Project Funds are excess debt service funds held by the State Treasurer's Office and required to be expended for capital projects. The current uncommitted balance of Institutional Capital Project Funds is \$36,462,297.

The University reports that no increase in any student fee or tuition will be required for pre-design or upfit of this facility.

Item (h) - University of South Carolina Preston College Bathroom and Flooring Renovations

The source of funds for construction is \$1,500,000 Other, Housing Maintenance Reserve funds. Housing Maintenance Reserve funds are derived from the Housing operating budget which includes housing fees and revenues generated by laundry operations, conferences and interest. When existing project commitments and projected increases to the funds are taken into account for the anticipated construction period, the total Housing Maintenance Reserve has an uncommitted balance of \$4,707,000 available for use in funding this project.

The University reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility.

Item (i) - Medical University of SC Basic Science Building Craniofacial Biology Research Renovation

The source of funds for construction is \$2.6 million, including \$39,000 Other, College of Dental Medicine Clinical Revenue funds which has already been approved for pre-design work and \$2,561,000 Other, Indirect Cost Recovery funds. Indirect Cost Recovery funds represent the reimbursement from the Federal sponsor for overhead costs incurred to support the research mission. The current uncommitted balance of Indirect Cost Recovery funds committed by the College of Dental Medicine for this project is \$2,561,000. All FY 2012-13 University Indirect Cost Recovery funds are committed to operating and capital needs which have been approved by the MUSC Board of Trustees.

The University reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility.

Item (j) - Central Carolina Technical College Advanced Manufacturing Training Center Renovation

The sources of funds for construction, totaling \$8,315,656, include \$2,550,000 Appropriated State funds, \$2,000,000 Other, Note Payable Loan funds, and \$3,765,656 Other, College Capital Project funds.

1) Appropriated State funds in the amount of \$2,550,000 are derived from two state appropriations from supplemental funds in FY 11-12. \$300,000 comes from a \$1,250,000 appropriation for Central Carolina Tech Training Facility Purchase and Upfit under Proviso 90.20 non-recurring revenue, of which \$950,000 has already been committed to purchase of the training facility. The current uncommitted balance of the Proviso 90.20 funds is \$300,000. \$2,250,000 comes from another state appropriation of \$2,250,000 for Central Carolina Tech College Training under non-recurring appropriations through the State Board for Technical and Comprehensive Education. The current uncommitted balance of these non-recurring funds is \$2,250,000.

2) Other, Note Payable Loan funds are funds that will be borrowed by the college under the authority of Code Section 59-53-53. The college has applied and been recommended for a federal Economic Development Administration (EDA) grant of \$2,500,000. However, the award cannot be made until Congress passes a budget, therefore, the College has committed to taking out a loan if the EDA funding does not materialize. The loan has not been processed and will only be processed if federal EDA grant funding is not received as expected. Therefore, the uncommitted balance of Note Payable Loan funds at this time is zero.

3) Other, College Capital Project funds are defined as the College's fund balance from previous years not committed for other projects or required for current operations. A portion of tuition, approximately \$14 per credit hour, is recorded in the capital projects fund. This is not a separate fee, but has been part of tuition recorded in a separate fund that has been in place for over ten years and has not increased. The current uncommitted balance of College Capital Project funds is \$4,250,059.

The College reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility.

Item (k) - Midlands Technical College Morris Hall Addition

The source of funds for construction is \$1.1 million Other, College funds. College funds come from a \$75 per semester capital fee for providing additional facilities and improvements that has not increased in more than 11 years. The statutory authority for the use of these funds is Code Sections 59-53-150 and 59-53-151. The current uncommitted balance of College funds is \$1.1 million. The balance of all other College funds has been committed to other projects.

The College reports that no increase in any student fee or tuition will be required for pre-design or construction of this addition.

Item (l) - Medical University of SC College of Nursing Floors 2-5 Interior Renovation

The sources of funds for construction, totaling \$9 million, includes \$5 million Other, Institutional Capital Project Funds and \$3 million Other, College of Nursing Tuition funds which have both already been approved for use in this project. This budget increase of \$1 million comes from a Capital Reserve Fund Act appropriation of \$3.2 million in FY 11-12 for deferred maintenance. MUSC has already committed \$2.2 million of that amount to a deferred maintenance project at the campus. The current uncommitted balance of these Capital Reserve Funds for use in this project is \$1 million.

The University reports that no increase in any student fee or tuition will be required for pre-design or renovation of this facility.

AGENCY: Division of State Budget

SUBJECT: Real Property Acquisitions

The Division of State Budget recommends approval of the following real property acquisitions:

- (a) **Agency:** **University of South Carolina**
Acreage: 1.14± acres
Location: At the corner of Williams and Catawba Streets in Columbia.
County: Richland
Purpose: To consolidate ownership of property in the block where Carolina Stadium is located and provide control for future development to complement athletic operations.
Appraised Value: \$570,000
Price/Seller: \$570,000 / Housing Authority of the City of Columbia, SC
Source of Funds: Athletic Operating
Project Number: H27-6097
Environmental Study: Approved
Building Condition Assessment: N/A
Additional Annual Op Cost/SOF: Additional annual operating costs for grounds maintenance are estimated to be \$6,500 and will be paid from Athletic Operating funds.
Current Year Property Tax: N/A - Exempt
Approved By: CHE on 10/18/12; JBRC on 12/4/12
Additional Information: This request also includes approval of a budget increase to the permanent improvement project of \$550,000 from the fund source noted above.
- (b) **Agency:** **Department of Natural Resources**
Acreage: 79.5± acres
Location: Adjacent to DNR's Santee Delta Wildlife Management Area on the North Santee River south of Georgetown.
County: Georgetown
Purpose: To protect habitat for waterfowl and offer additional hunting opportunities for the public.

AGENCY: Division of State Budget

SUBJECT: Real Property Acquisitions

Appraised Value:	N/A
Price/Seller:	Donation / The Nature Conservancy, Arlington, Virginia
Source of Funds:	N/A
Project Number:	P24-9924
Environmental Study:	Approved
Building Condition	N/A
Assessment:	
Additional Annual Op Cost/SOF:	No additional annual operating costs are anticipated as DNR currently manages the adjacent area.
Current Year Property Tax:	N/A - Exempt
Approved By:	JBRC on 12/4/12

BOARD ACTION REQUESTED:

Approve the real property acquisitions as requested.

ATTACHMENTS:

Agenda item worksheet and attachments

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Regular Agenda

1. Submitted by:

- (a) Agency: State Budget Division
- (b) Authorized Official Signature:


Les Boles, Director

2. Subject: REAL PROPERTY ACQUISITIONS

3. Summary Background Information:

- (a) **Agency:** University of South Carolina
- Acreage:** 1.14± acres
- Location:** At the corner of Williams and Catawba Streets in Columbia.
- County:** Richland
- Purpose:** To consolidate ownership of property in the block where Carolina Stadium is located and provide control for future development to complement athletic operations.
- Appraised Value:** \$570,000
- Price/Seller:** \$570,000 / Housing Authority of the City of Columbia, SC
- Source of Funds:** Athletic Operating
- Project Number:** H27-6097
- Environmental Study:** Approved
- Building Condition Assessment:** N/A
- Additional Annual Op Cost/SOF:** Additional annual operating costs for grounds maintenance are estimated to be \$6,500 and will be paid from Athletic Operating funds.
- Current Year Property Tax:** N/A - Exempt
- Approved By:** CHE on 10/18/12; JBRC on 12/4/12
- Additional Information:** This request also includes approval of a budget increase to the permanent improvement project of \$550,000 from the fund source noted above.

(b) **Agency:** Department of Natural Resources
Acreage: 79.5± acres
Location: Adjacent to DNR's Santee Delta Wildlife Management Area on the North Santee River south of Georgetown.
County: Georgetown
Purpose: To protect habitat for waterfowl and offer additional hunting opportunities for the public.
Appraised Value: N/A
Price/Seller: Donation / The Nature Conservancy, Arlington, Virginia
Source of Funds: N/A
Project Number: P24-9924
Environmental Study: Approved
Building Condition Assessment: N/A
Additional Annual Op Cost/SOF: No additional annual operating costs are anticipated as DNR currently manages the adjacent area.
Current Year Property Tax: N/A - Exempt
Approved By: JBRC on 12/4/12

4. What is Board asked to do?

Approve the real property acquisitions requested.

5. What is recommendation of Board Division involved?

Recommend approval of the real property acquisitions as requested.

6. Recommendation of other Division/Agency (as required)?

(a) Authorized Signature: _____
(b) Division/Agency Name: _____

7. List of Supporting Documents:

1. Code Section 1-11-65
 - (a) University of South Carolina
 - (b) Department of Natural Resources

SECTION 1-11-65. Approval and recordation of real property transactions involving governmental bodies.

(A) All transactions involving real property, made for or by any governmental bodies, excluding political subdivisions of the State, must be approved by and recorded with the State Budget and Control Board. Upon approval of the transaction by the Budget and Control Board, there must be recorded simultaneously with the deed, a certificate of acceptance, which acknowledges the board's approval of the transaction. The county recording authority cannot accept for recording any deed not accompanied by a certificate of acceptance. The board may exempt a governmental body from the provisions of this subsection.

(B) All state agencies, departments, and institutions authorized by law to accept gifts of tangible personal property shall have executed by its governing body an acknowledgment of acceptance prior to transfer of the tangible personal property to the agency, department, or institution.

(a) University of South Carolina
Richland County

List of Supporting Documents:

1. Letter from Agency
2. Appraisal Results
3. Map
4. Environmental Results
5. Cost Implications



Facilities Planning and Programming

743 Greene Street
Columbia, SC 29208

PHONE 803-777-1184
FAX 803-777-0484

RECEIVED

OCT 18 2012

Budget & Control Board
OFFICE OF STATE ACCOUNTS

October 16, 2012

Carol Routh
Assistant Director
Capital Budgeting
1205 Pendleton Street
Edgar A. Brown Building, Suite 529
Columbia, SC 29201

Re: H27-6097 Williams Street Acquisition

Dear Carol Routh

On October 5, 2012, the University Board of Trustees approved the purchase of the Williams Street property with a purchase price of \$570,000. This acquisition will consolidate ownership of the property in the block where Carolina Stadium is located, providing control of future development on the site.

It is requested that the necessary action be taken to obtain all required approvals for this transaction. The Property Acquisition Information form, the appraisal of the property, and the Level I Environmental Survey are enclosed.

You will be copied with the Form A-1 and the Form A-49 when they are sent to the Commission on Higher Education for approval.

Your assistance in this matter will be greatly appreciated. If you have any questions, please do not hesitate to contact me.

Sincerely

Derek S. Gruner, LEED AP, AIA, NCARB
Director of Facilities Planning and Programming
University Architect

Carter Commercial Appraisal Group, Inc.

1620-A Lady Street
Columbia, South Carolina 29201
Phone (803) 799-1776
Facsimile (803) 799-2345

August 10, 2012

Mr. Gus Hoffmeyer, III
Property Manager
University of South Carolina
743 Greene Street
Columbia, South Carolina 29201

RE: Appraisal of a 1.14 Acre Land Tract
Located at Williams and Catawba Streets
Columbia, Richland County, South Carolina

Dear Mr. Hoffmeyer:

The above referenced property is a land tract with an area of 1.14 acres. It is located at the northwest corner of Williams and Catawba Streets, right beside the Carolina Baseball Stadium.

In accordance with your request, we have inspected the property, including any available plats or surveys. The purpose of these inspections was to estimate the Market Value "As Is" and to report our findings to you in an appraisal of appropriate scope.

It is our understanding that the sole function of this report is to assist you, the client of this report, with internal due diligence matters. The intended users of this report are you and your assigns.

After gathering and analyzing all of the pertinent data and applying the methods and techniques prescribed by the Uniform Standards of Professional Appraisal Practice, and subject to the Assumptions and Limiting Conditions found later in this report, it is our opinion that the property had a value of:

Asset Condition	Effective Date	Value
"As Is"	August 2, 2012	\$570,000

Mr. Hoffmeyer
Page Two

The facts and data that led to the above stated value conclusion can be found in the appraisal report attached hereto. If you have any questions or comments regarding this report, please contact me at your convenience.

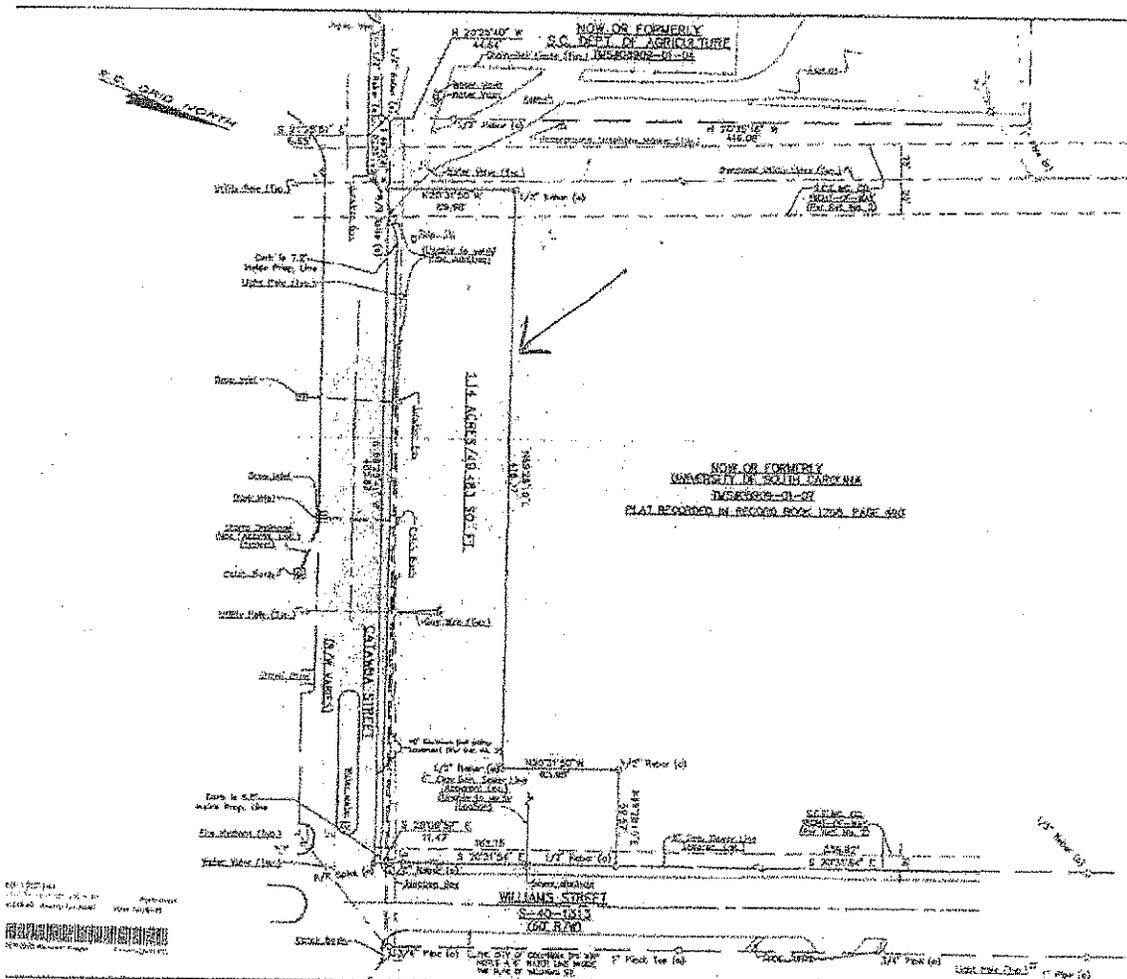
Respectfully submitted,

Carter Commercial Appraisal Group

A handwritten signature in black ink, appearing to read "Joseph J.T. Carter, II". The signature is stylized with a large, looping initial "J" and a long, horizontal flourish extending to the right.

Joseph J.T. Carter, II
State Certification #CG646

PLAT



PLAT	CERTIFICATION:	REFERENCES:
<p>PREPARED FOR COLUMBIA HOUSING AUTHORITY DEVELOPMENTS, INC.</p>	<p>I hereby certify that the plat is a true and correct copy of the original as shown to me by the surveyor and that the same has been filed in the office of the Register of Deeds for the County of South Carolina, and that I am a duly qualified and acting Register of Deeds for the County of South Carolina.</p>	<p>1. DEPARTMENT OF AGRICULTURE, RECORDS OF THE STATE OF SOUTH CAROLINA, 1908, PLAT NO. 1200, PAGE 400. 2. DEPARTMENT OF AGRICULTURE, RECORDS OF THE STATE OF SOUTH CAROLINA, 1908, PLAT NO. 1200, PAGE 400. 3. DEPARTMENT OF AGRICULTURE, RECORDS OF THE STATE OF SOUTH CAROLINA, 1908, PLAT NO. 1200, PAGE 400. 4. DEPARTMENT OF AGRICULTURE, RECORDS OF THE STATE OF SOUTH CAROLINA, 1908, PLAT NO. 1200, PAGE 400.</p>

* The subject property is outlined in red *



Schnabel
ENGINEERING

October 23, 2012

Mr. Gus Hoffmeyer, III – Property Manager
University of South Carolina
Facilities Planning and Programming
743 Greene Street
Columbia, SC 29201

**Subject: Phase I ESA Report – Parcel at Williams Street and Catawba Street
SE JOB # 12619042.00**

Dear Mr. Hoffmeyer:

Schnabel Engineering Consultants (Schnabel) has reviewed the referenced report prepared by Schnabel Engineering dated August 13, 2012. In response to your email of October 23, 2012 we are comfortable reiterating the opinion offered in Section 9.0 of the report. No recognized environmental conditions were identified on the site property or on properties immediately adjacent to the site that could pose an actual or potential impact to the site. Neither our records research nor our site visit indicates the need for additional historical research or collection and analysis of environmental samples (a Phase II Investigation) at the site.

Please contact me if there are any questions.

Sincerely,
Schnabel Engineering Consultants



Raymond L. Knox, P.G. (SC #311)
Senior Associate

schnabel-eng.com

PROPERTY ACQUISITION INFORMATION FORMAT

PART I

1. Project Number: H27-6097 Williams Street Acquisition
2. County: Richland
3. Description of Property: The site is a 1.14 acre land tract located at the NW corner of Williams and Catawba Streets in Columbia, SC. The site is undeveloped and covered with grass and a few small trees.
4. Grantor(s) Name and Address: Housing Authority of the
City of Columbia, SC
1917 Harden Street
Columbia, SC 29204
5. Grantee(s) Name and Address: University of South Carolina
Columbia, SC 29208
6. County Location: The site is located in Richland County, one block south of Blossom Street in downtown Columbia, SC.
7. Acreage: 1.14 acres
8. Purpose for Acquisition: To consolidate ownership of property in the block where Carolina Stadium is located
9. Demonstrate the need to acquire the property: Location of the property (adjacent to the University's Carolina Stadium) provides the opportunity to control future development of the property to complement Athletic operations.
10. Purchase Price: \$570,000
11. Current Year Property Tax Amount:
2011 Tax Value/Tax Amount: \$247,000; not taxed

PART II

1. How many sites were evaluated?
No other sites were evaluated. The location, adjacent to the University's Carolina Stadium, provides the opportunity to consolidate ownership of property in the block and to control future development of the property.
2. Please list the selection criteria used to evaluate sites.
See No. 1
3. How was the final selection of the site made?
See No. 1
4. Why was this specific site selected?
See No. 1
5. What is the estimated costs of any construction or renovations to be done on the property and the anticipated source of funds for such work?
No immediate construction or renovation costs are associated with the acquisition of the property.
6. What are the estimated additional annual operating costs which will result from acquisition of the property and the anticipated source of funds? Explain the factors that determine the cost. If no costs, explain why not.
Projected additional annual operating costs: \$6,500
Anticipated source of funds: Athletic Operating Funds
Cost factors: Grounds maintenance
7. What are the estimated additional annual operating costs which will result from construction/renovation on the property and the anticipated source of funds? Explain the factors that determine the costs. If no costs, explain why not.
No immediate additional operating costs will result from construction/renovation on the property.

(b) Department of Natural Resources
Georgetown County

List of Supporting Documents:

1. Letter from Agency
2. Map
3. Environmental Results
4. Cost Implications

South Carolina Department of
Natural Resources



DNR

Alvin A. Taylor
Director

October 22, 2012

Carol Routh
Office of State Budget
1201 Main Street
Columbia, SC 29201

RE: Project P24-9924 - Georgetown County - Santee Delta WMA Property Acquisition (Donation)

Dear Carol:

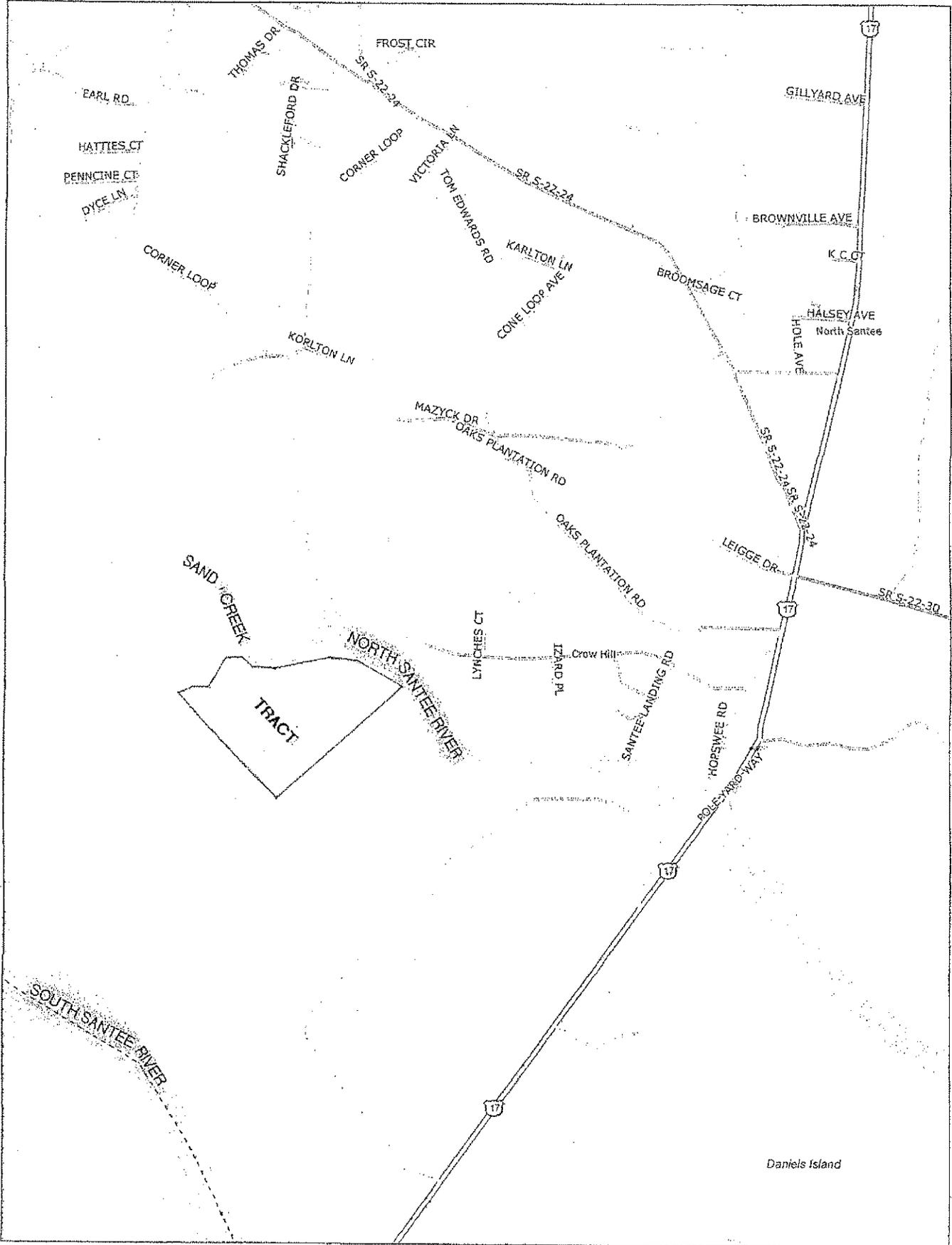
With the receipt of a favorable environmental report, the Department of Natural Resources is seeking Budget & Control Board approval to complete the acquisition of +/- 79.5 acres that adjoins the agency's Santee Delta Wildlife Management Area (WMA) in Georgetown county. This property, which has been valued at \$159,000, is being donated by The Nature Conservancy to the agency. The total cost of this acquisition is estimated to be \$5,000.00.

Acquisition of this property will protect water quality, conserve wildlife habitat, and provide public recreation opportunities.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Speares".

Scott Speares
Assistant Deputy Director - Outreach & Support Services



Data use subject to license.

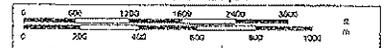
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www.delorme.com

PLAT SLIDE 77, PAGE 2A



Scale 1 : 25,000



1" = 2,083.3 ft Data Zoom 13-0

SITE VICINITY MAP

PHASE I ENVIRONMENTAL SITE ASSESSMENT79.5-ACRE PORTION OF SANTEE DELTA WMA ADDITION
SANTEE RIVER, SAND CREEK, AND PUSH & GO CREEK
GEORGETOWN COUNTY, SOUTH CAROLINAGEORGETOWN COUNTY TMS #01-1007-007.00.00

A. SUMMARY

F&ME CONSULTANTS has performed this Phase I Environmental Site Assessment on the approximately 79.5-acre Portion of Santee Delta WMA Addition located along the south reaches of the North Santee River, Sand Creek, and Push & Go Creek in Georgetown County, South Carolina, for the South Carolina Department of Natural Resources.

This assessment was conducted in general compliance with the procedures and guidelines outlined in the South Carolina State Budget and Control Board Guidelines for Obtaining Studies for Land Acquisitions (11-16-10), ASTM E1527-05, and ASTM E2247-08. The investigation consisted of reasonably ascertainable: title search, historical records review, historical photographs review, and review of South Carolina Department of Health and Environmental Control (SCDHEC) records.

The tract was visually inspected on June 11, 2012. The site inspection also included a visual inspection of the present usage of adjoining and surrounding properties within the approximate recommended minimum search distance. During the site inspection, the ASTM E1528-06 Transaction Screen Questionnaire and ASTM E2247-08 User Questionnaire were completed as required.

We have recorded our findings, recommendations, and responses to the ASTM Questionnaires herein. No Phase II Environmental Site Assessment is recommended at this time. Refer to Section H Findings, and Section J Conclusions.

If there are any questions concerning this Phase I Environmental Site Assessment, or if we can be of any further assistance on this project, please do not hesitate to contact us at (803) 254-4540. We appreciate the opportunity to provide this service.

Sincerely,

F&ME CONSULTANTS


Robert S. Powell, P.G.
Senior Environmental Consultant

WWW.FMECOL.COM

COLUMBIA OFFICE
3112 Devine Street
Columbia, SC 29205
P 803.254.4540
F 803.254.4542

BEAUFORT OFFICE
26 John Galt Road, Suite A
Beaufort, SC 29906
P 843.522.0246
F 803.254.4542



AASHTO ACCREDITED
LABORATORY

BUDGET AND CONTROL BOARD PROPERTY INFORMATION

Part I

1. PROJECT NUMBER: P24-9924
2. COUNTY: Georgetown
3. DESCRIPTION: Fee-simple donation of 79.5 acres adjoining the DNR's Santee Delta Wildlife Management Area.
4. GRANTOR(S): The Nature Conservancy, 4245 North Fairfax Drive, Suite 100, Arlington, VA 22203.
5. GRANTEE(S): South Carolina Department of Natural Resources, 1000 Assembly Street, PO Box 167, Columbia, SC 29202.
6. COUNTY LOCATION: South side of the North Santee River west of U.S. Highway 17 approximately 14 miles south of Georgetown.
7. ACREAGE: 79.5 acres.
8. PURPOSE/PROJECT: To accept a property donation of 79.5 acres to protect habitat for waterfowl and offer additional hunting opportunities for the public.
9. NEED TO ACQUIRE PROPERTY: See above. The property is a donation that originated as a gift from a family estate and via mutual agreement will be transferred from The Nature Conservancy to DNR.
10. PURCHASE PRICE: \$0.00. The property will be donated to DNR by The Nature Conservancy.
11. CURRENT YEAR PROPERTY TAX AMOUNT: \$0.00. No property taxes are currently being paid by The Nature Conservancy.

Part II

1. HOW MANY SITES WERE EVALUATED? Numerous sites are evaluated throughout the year for participation in DNR's Heritage Trust and Wildlife Management Area Programs.
2. SELECTION CRITERIA USED TO EVALUATE SITES? Eligibility criteria for the Heritage Trust Program and Forest Legacy Program were used to evaluate the site. They include scenic values, forest production potential, fish and wildlife habitat values, threatened and endangered species values, water quality issues, level of conversion threat, and links to other habitat protection initiatives.

BUDGET AND CONTROL BOARD PROPERTY INFORMATION

3. HOW WAS THE FINAL SELECTION MADE? Approval by the DNR Board.
4. WHY WAS THIS SPECIFIC SITE SELECTED? The land contains waterfowl habitat, adjoins DNR property and has been offered to the agency as a donation.
5. ESTIMATED COST OF ANY CONSTRUCTION COST OR RENOVATIONS TO BE DONE ON THE PROEPRTY AND THE ANTICIPATED SOURCE OF FUNDS FOR SUCH WORK. No construction or renovations will be done on the property.
6. ESTIMATED ADDITIONAL ANNUAL OPERATING COSTS WHICH WILL RESULT FROM ACQUISITION OF THE PROPERTY AND THE ANTICIPATED SOURCE OF FUNDS. IF NONE, EXPLAIN WHY. No additional annual operating costs are anticipated for the acquisition because DNR is currently managing the adjoining area and this acquisition does not constitute a large increase in acreage.
7. ESTIMATED ADDITIONAL ANNUAL OPERATING COSTS WHICH WILL RESULT FROM CONSTRUCTION/RENOVATION OF THE PROPERTY AND THE ANTICIPATED SOURCE OF FUNDS. EXPLAIN FACTORS THAT DETERMINE THE COSTS. IF NONE, EXPLAIN WHY. N/A

AGENCY: Division of General Services

SUBJECT: Department of Parks, Recreation and Tourism (PRT) Sublease to Sanctuary Pointe, LLC

PROJECT BACKGROUND:

- The area known as Sanctuary Pointe is located near the SC/GA border behind the SC Welcome Center at Lake Hartwell off US I-85 on SC Hwy 11.
- The U.S. Army Corps of Engineers (USACE) owns the property known as Lake Hartwell State Park consisting of 686.68 acres, and leases it to PRT by lease dated January 30, 2008 for a fifty (50) year term ending January 29, 2058. The development of the property as a resort with a hotel(s) and conference center, golf course, and resort harbor complex to be used for public recreational purposes is part of the Hartwell Lake Master Plan dated 1980.
- In 2008, PRT did an RFP to identify and contract with a developer for the resort project. The only participant in the RFP was Sanctuary Pointe, LLC (LLC).
- The project never moved forward when the economy slowed down. The LLC is now in a position to obtain financing, which is contingent on finalizing a sublease of the property between PRT and the LLC. No public funds will be expended for the project.

SUBLEASE:

- As part of the contract with the LLC, PRT will sublease approximately 325 acres at Lake Hartwell State Park to the LLC for a term of 46 years ending January 29, 2058. The term of the sublease must be consistent with the term of the prime lease between the USACE and PRT. There is an option to extend the lease term and/or to renew upon the approval of the USACE and PRT. The USACE intends to extend the lease term between USACE and PRT to 2062 upon approval by the Budget and Control Board of the sublease to the LLC. The sublease will then immediately be amended to extend the term to 50 years with an end date of January 29, 2062.
- For rent, PRT will receive 1% in years 1-3 and 1.5% in years 4-46 of the gross receipts derived from the operation of the resort development payable quarterly on January 30, April 30, July 30 and October 30 of each year.
- The sublease complies with certain restrictions and obligations placed upon PRT in the master lease with USACE and has been approved by USACE, as evidenced by their signature on the sublease.
- The sublease incorporates requirements of the LLC per the RFP (proformas, marketing studies, environmental studies, animal/habitat studies).

AGENCY: Division of General Services

SUBJECT: Department of Parks, Recreation and Tourism (PRT) Sublease to Sanctuary Pointe, LLC

- The Development Time Table requires that Phase One of the Master Element Concept Plan which includes the infrastructure, hotel(s) and conference center, golf course and resort harbor complex is to be completed or in the process of completion by December 2020. Phase Two is dependent on economic and market conditions.
- The LLC can be considered in default and the sublease terminated if the LLC fails to make progress so as to endanger the performance of the contract or if it fails to use its best efforts, in a good and workmanlike manner to achieve completion of Phase One by 2020. An annual progress review is required.
- The LLC can be considered in default and the sublease terminated if the LLC fails to make progress so as to endanger the performance of the contract or if it fails to use its best efforts, in a good and workmanlike manner.

BOARD ACTION REQUESTED:

Approve the current proposed 46 year lease-out by the SC Department of Parks, Recreation and Tourism to Sanctuary Pointe, LLC and the extension of the sublease to 50 years upon approval of extension of the prime lease to 2062 by the USACE.

ATTACHMENTS:

Agenda item worksheet; SC Department of Parks, Recreation and Tourism letter dated November 14, 2012; SC Department of Parks, Recreation and Tourism, Executive Summary, Sanctuary Pointe Project; SC Department of Parks, Recreation and Tourism, Sublease Summary of Terms and Conditions; SC Code of Laws Sections 1-11-55 and 1-11-56; SC Code of Regulations 19-447.1000

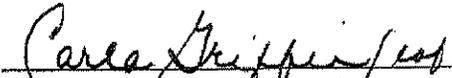
BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Regular Agenda

1. Submitted by:

- (a) Agency: Division of General Services
(b) Authorized Official Signature:


Carla Griffin, Deputy Director

2. Subject: SC Department of Parks, Recreation and Tourism (PRT) sublease to Sanctuary Pointe, LLC

3. Summary Background Information:

PROJECT BACKGROUND:

- The area known as Sanctuary Pointe is located near the SC/GA border behind the SC Welcome Center at Lake Hartwell off US I-85 on SC Hwy 11.
- The U.S. Army Corps of Engineers (USACE) owns the property known as Lake Hartwell State Park consisting of 686.68 acres, and leases it to PRT by lease dated January 30, 2008 for a fifty (50) year term ending January 29, 2058. The development of the property as a resort with a hotel(s) and conference center, golf course, and resort harbor complex to be used for public recreational purposes is part of the Hartwell Lake Master Plan dated 1980.
- In 2008, PRT did an RFP to identify and contract with a developer for the resort project. The only participant in the RFP was Sanctuary Pointe, LLC (LLC).
- The project never moved forward when the economy slowed down. The LLC is now in a position to obtain financing, which is contingent on finalizing a sublease of the property between PRT and the LLC. No public funds will be expended for the project.

SUBLEASE:

- As part of the contract with the LLC, PRT will sublease approximately 325 acres at Lake Hartwell State Park to the LLC for a term of 46 years ending January 29, 2058. The term of the sublease must be consistent with the term of the prime lease between the USACE and PRT. There is an option to extend the lease term and/or to renew upon the approval of the USACE and PRT. The USACE intends to extend the lease term between USACE and PRT to 2062 upon approval by the Budget and Control Board of the sublease to the LLC. The sublease will then immediately be amended to extend the term to 50 years with an end date of January 29, 2062.
- For rent, PRT will receive 1% in years 1-3 and 1.5% in years 4-46 of the gross receipts derived from the operation of the resort development payable quarterly on January 30, April 30, July 30 and October 30 of each year.
- The sublease complies with certain restrictions and obligations placed upon PRT in the master lease with USACE and has been approved by USACE, as evidenced

by their signature on the sublease.

- The sublease incorporates requirements of the LLC per the RFP (proformas, marketing studies, environmental studies, animal/habitat studies).
- The Development Time Table requires that Phase One of the Master Element Concept Plan which includes the infrastructure, hotel(s) and conference center, golf course and resort harbor complex is to be completed or in the process of completion by December 2020. Phase Two is dependent on economic and market conditions.
- The LLC can be considered in default and the sublease terminated if the LLC fails to make progress so as to endanger the performance of the contract or if it fails to use its best efforts, in a good and workmanlike manner to achieve completion of Phase One by 2020. An annual progress review is required.

4. What is the Board asked to do? Approve the current proposed 46 year lease-out by the SC Department of Parks, Recreation and Tourism to Sanctuary Pointe, LLC and the extension of the sublease to 50 years upon approval of extension of the prime lease to 2062 by the USACE.

5. What is the recommendation of the Division of General Services? As requested by the SC Department of Parks, Recreation and Tourism, consider approving the proposed 46 year lease-out by the Department to Sanctuary Pointe, LLC, to sublease and develop property that the Department currently leases from the U.S. Army Corps of Engineers at Lake Hartwell in Oconee County and the extension of the sublease to 50 years upon approval of extension of the prime lease to 2062 by the USACE.

6. List of Supporting Documents:

- (a) SC Department of Parks, Recreation and Tourism letter dated November 14, 2012
- (b) SC Department of Parks, Recreation and Tourism, Executive Summary, Sanctuary Pointe Project
- (c) SC Department of Parks, Recreation and Tourism, Sublease Summary of Terms and Conditions
- (d) SC Code of Laws Sections 1-11-55 and 1-11-56
- (e) SC Code of Regulations 19-447.1000

File

 COPY

South Carolina
Department of Parks, Recreation & Tourism

Nikki R. Haley
Governor

Duane N. Parrish
Director

November 14, 2012

Marcia Adams
Executive Director
South Carolina Budget and Control Board
Wade Hampton Bldg., 6th Floor
PO Box 2444
Columbia, SC 29211

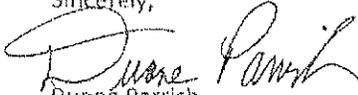
Dear Ms. Adams:

The South Carolina Department of Parks Recreation and Tourism requests the South Carolina Budget and Control Board at the December 12, 2012 meeting to consider its request for approval of a proposal from Sanctuary Point, LLC to sub-lease and develop property that SCPRT currently leases from the U.S. Army Corps of Engineers. The property is approximately 325 undeveloped acres of mostly high ground east of Interstate 85 at Exit 1 in Oconee County. The property is a peninsula that extends into Lake Hartwell.

In keeping with the original intent of the site, (commercial development for public recreation) the proposal is for Sanctuary Pointe LLC to develop or assist with the development of the property as was originally intended. Proposed features include a 4 Star Resort Hotel associated with an International Brand Operation, Resort Spa and Conference Center. In addition a Limited Services Hotel associated with an International Brand Operation and a Resort Golf Course, Resort Restaurants, Resort Harbor Area and Special Events Venues.

PRT and the Corps agree and will insist that the project be sustainable, both financially and for the utilization of the natural and recreational resources of the site for a proposed term of 50 years. It is anticipated that this project will bring much needed jobs and new economic vitality to Oconee County as well as the adjoining areas.

Thank you for your favorable consideration of this proposed project.

Sincerely,

Duane Parrish



Executive Summary

Sanctuary Pointe Project

The Property

The property at the center of this project is approximately 325 undeveloped acres of beautiful, pristine, mostly high ground east of Interstate 85 at Exit 1 in Oconee County. The property constitutes a peninsula that extends into Lake Hartwell near the Georgia and South Carolina state line. It is located on one of the main corridors of traffic between the metropolitan areas of Charlotte, North Carolina and Atlanta, Georgia.

The History

In 1978, the South Carolina Department of Parks, Recreation and Tourism (SCPRT) and the US Army Corps of Engineers (USACE) began discussion and lease negotiations for the above described property. In 1979, the SCPRT and the USACE signed a 50 year lease for the property based on a feasibility study and master plan prepared by the SCPRT in 1978. This plan was continually refined resulting in a plan, the core elements of which were a hotel, rental cottages, a lodge, golf course, shopping complex, and various marina associated elements. In 2000, the SCPRT issued a Request for Proposal (RFP) for a developmental proposal, but there were no interested parties. In 2007, the SCPRT and the USACE renewed the Prime Lease with a provision for it to be extended to a 50 year lease with the approval of a new Master Plan. In 2008, the SCPRT again issued an RFP for the development of this property.

The Project

In keeping with the original intent of the site, (commercial development for public recreation) it was also intended that the proposal have the previously mentioned core elements. Sanctuary Pointe, LLC, the sole respondent, has committed to develop or assist with the development of the property as was originally intended. Proposed features include a 4 Star Resort Hotel associated with an International Brand Operation, Resort Spa and Conference Center. In addition a

Limited Services Hotel associated with an International Brand Operation and a Resort Golf Course, Resort Restaurants, Resort Harbor Area and Special Events Venues.

SCPRT and USACE have worked diligently with Sanctuary Pointe, LLC. over the last four years to reach an agreement on a Sub-lease of the property which fairly addresses the concerns of SCPRT and the USACE that the project be sustainable, both financially and for the utilization of the natural and recreational resources of the site for a proposed term of 50 years. Sanctuary Pointe's foundation for resort sustainability is economically independent, self-supporting elements. Each development element has to have a base by which it can sustain itself as an economically stand-alone operation. At the same time, Sanctuary Pointe's multi-use approach has each element utilizing the other as an amenity and attraction. Sanctuary Pointe's Resort Concept Master Plan is based on years of experience and successful developments of this nature by its principals. Sanctuary Pointe has put together a quality plan consisting of a quality financial package, internationally recognized brands, and a solid development management team.

The Future

It is anticipated that this project will bring much needed jobs and new economic vitality to Oconee County as well as the adjoining counties of the South Carolina upstate. It will serve the most desired use for public benefit by creating facilities and services to meet public recreational demand at fair and reasonable costs. In keeping with the original intent of the site, (commercial development for public recreation) the Sanctuary Pointe proposal meets all of the criteria and comes at a time when the economics appear to be beneficial for construction.

This project will be totally financed and developed by the private sector; there will be no expenditure of public funds. It is projected that Sanctuary Pointe will create approximately 400 construction jobs during the Phase I construction of the project. Once Phase I is operational, it is projected that approximately 500 permanent new jobs directly related to the project will be created. The entire Upstate will benefit from this project not only in new jobs, but in business opportunities created by Sanctuary Pointe Resort.

Summary of Terms and Conditions

Sublease between Sanctuary Pointe, LLC and SC PRT

The Sublease is by and between the South Carolina Department of Parks, Recreation & Tourism (SCPRT) and Sanctuary Pointe, LLC (SP) for approximately 325 acres of property out of the original approximately 686.68 acres of federally owned land leased to the SCPRT by the Secretary of the Army (USACE). The Prime Lease is incorporated in the Sublease.

Purpose. The Sublease is also the culmination of the solicitation of the Request for Proposal by SCPRT through the Office of Materials Management (MMO) for the development of the acreage into a resort area to include a hotel(s) and conference center, golf course and resort harbor complex to be used for public recreational purposes. The RFP is incorporated in the Sublease.

The Term of the Sublease will be 50 years and there is an option to renew upon the approval of the USACE and SCPRT. (Paragraphs 3 and 4)

The Rent is years 1-3 of the production of gross receipts, 1% of the gross receipts; and years 4 through the term of the Sublease, 1.5% of the gross receipts. (Paragraph 6 iii)

Development Time Table. Phase One of the Master Element Concept Plan which includes the infrastructure, hotel(s) & conference center, golf course and resort harbor complex is to be completed or in the process of completion by December 2020. Phase Two is dependent on economic and market conditions. (Paragraph 7(b))

SP can be considered in Default and the Sublease terminated if SP fails to make progress so as to endanger the performance of the contract or if it fails to use its best efforts, in a good and workmanlike manner to achieve completion of Phase One by 2020. An annual progress review is required. (Paragraph 14)

Insurance. SP will obtain and maintain for the term of the Sublease, at its sole cost and expense, all liability insurance coverage required by SCPRT and will include SCPRT as an additional named insured on all policies. SP will also obtain and maintain for the term of the Sublease, at its sole cost and expense, insurance coverage for property damage. To the extent SP subleases a portion of the Subleased Premises to other sub- sublessees, the insurance coverage will be provided by the sub- sublessees as long as coverage complies with the previous terms and SCPRT is named as an additional insured. (Paragraph 11)

Indemnity. SP agrees to indemnify SCPRT against, and to defend and hold harmless SCPRT from, any and all losses, damages, costs, expenses, including attorney's fees, relating to any claim, demand, action or lawsuit of any kind or nature arising from SP's use of occupancy of the Subleases Premises unless such loss or damage is the result of the negligence or willful act of SCPRT or USACE. Also all further subleases of SP must contain a provision for the indemnification of SCPRT. (Paragraph 15)

Indemnification of SCPRT by SP also extends to any penalty, fine, claim etc. by reason of SP's failure to comply the environmental laws and requirements. (Paragraph 20(c))

Subletting. All sub-Sublease agreements between SP and others are subject to approval by SCPRT and USACE. (Paragraph 16(c))

Financing Agreements are subject to review and approval of the State Budget and Control Board, Division of General Services, SCPRT, and USACE. (Paragraph 23)

Choice of Law. Any dispute, claim, or controversy relating to the Sublease, and all rights and obligations of the parties shall, in all respects, be interpreted, construed, enforced and governed by and under the laws of the State of South Carolina, except its choice of law rules. (Paragraph 21)

SECTION 1-11-55. Leasing of real property for governmental bodies.

(1) "Governmental body" means a state government department, commission, council, board, bureau, committee, institution, college, university, technical school, legislative body, agency, government corporation, or other establishment or official of the executive, judicial, or legislative branches of this State. Governmental body excludes the General Assembly, Legislative Council, the Office of Legislative Printing, Information and Technology Systems, and all local political subdivisions such as counties, municipalities, school districts, or public service or special purpose districts.

(2) The Budget and Control Board is hereby designated as the single central broker for the leasing of real property for governmental bodies. No governmental body shall enter into any lease agreement or renew any existing lease except in accordance with the provisions of this section.

(3) When any governmental body needs to acquire real property for its operations or any part thereof and state-owned property is not available, it shall notify the Office of General Services of its requirement on rental request forms prepared by the office. Such forms shall indicate the amount and location of space desired, the purpose for which it shall be used, the proposed date of occupancy and such other information as General Services may require. Upon receipt of any such request, General Services shall conduct an investigation of available rental space which would adequately meet the governmental body's requirements, including specific locations which may be suggested and preferred by the governmental body concerned. When suitable space has been located which the governmental body and the office agree meets necessary requirements and standards for state leasing as prescribed in procedures of the board as provided for in subsection (5) of this section, General Services shall give its written approval to the governmental body to enter into a lease agreement. All proposed lease renewals shall be submitted to General Services by the time specified by General Services.

(4) The board shall adopt procedures to be used for governmental bodies to apply for rental space, for acquiring leased space, and for leasing state-owned space to nonstate lessees.

(5) Any participant in a property transaction proposed to be entered who maintains that a procedure provided for in this section has not been properly followed, may request review of the transaction by the Director of the Office of General Services or his designee.

SECTION 1-11-56. Program to manage leasing; procedures.

The State Budget and Control Board, in an effort to ensure that funds authorized and appropriated for rent are used in the most efficient manner, is directed to develop a program to manage the leasing of all public and private space of state agencies. The board's regulations, upon General Assembly approval, shall include procedures for:

- (1) assessing and evaluating agency needs, including the authority to require agency justification for any request to lease public or private space;
- (2) establishing standards for the quality and quantity of space to be leased by a requesting agency;
- (3) devising and requiring the use of a standard lease form (approved by the Attorney General) with provisions which assert and protect the state's prerogatives including, but not limited to, a right of cancellation in the event of:
 - (a) a nonappropriation for the renting agency,
 - (b) a dissolution of the agency, and
 - (c) the availability of public space in substitution for private space being leased by the agency;
- (4) rejecting an agency's request for additional space or space at a specific location, or both;
- (5) directing agencies to be located in public space, when available, before private space can be leased;
- (6) requiring the agency to submit a multi-year financial plan for review by the board's budget office with copies sent to Ways and Means Committee and Senate Finance Committee, before any new lease for space is entered into; and requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period; and
- (7) requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period.

19-447.1000. Leasing of Real Property.

A. LEASE OF NON STATE-OWNED REAL PROPERTY

No governmental body shall contract for the lease, rental, or use of non state-owned real property without approval of the Office of General Services, except as specified in subsection C. Requests shall be directed to the Office of General Services. The Office of General Services shall negotiate or approve the terms of all leases of non state-owned real property unless the governmental body has been exempted.

1. GENERAL REGULATIONS

(a) The Office of General Services shall be accountable for the procurement of leased real property for governmental bodies in accordance with the regulations promulgated by the Board.

(b) All leases shall require the written approval of the Office of General Services, except when such lease is exempt from approval by the Budget and Control Board.

(c) Before approving any lease, Office of General Services shall:

- (1) assure that all appropriate approvals have been obtained.
- (2) verify that adequate funds exist for the lease payments;
- (3) verify that lease payments represent no more than fair market rental;
- (4) verify that upfitting costs represent no more than current market costs;
- (5) verify that a multi-year financial plan has been submitted by the requesting agency for review by the Budget and Control Board's budget office.

(d) All requests for leased real property by governmental bodies and agencies shall be submitted to the Office of General Services on a "Request for Space Form" provided by General Services.

(1) This form shall include, but not be limited to:

- (a) The purpose for which the space will be used.
 - (b) Any special requirements or needs with written justification (computer rooms, etc.).
 - (c) Parking requirements and justification.
 - (d) The general location or area desired.
 - (e) A multi-year financial plan for review by the Board's budget office.
- (2) The amount of office space desired shall be computed and justified using the standards specified in Code Section 1-11-55.
- (3) Other types of space (warehouse, laboratory, etc.) shall require a written letter of justification from the requesting agency or governmental body and shall include documentation of market standards for use of this type space. The Office of General Services shall be accountable for investigating the existing space or any other information given in the justification.

(4) The "Request for Space Form" or any other document requesting space or justifying the need for space shall be certified by the Director of the requesting agency or governmental body.

(e) An agency or governmental body desiring to renew an existing lease is responsible for notifying the Office of General Services in writing of its intention to do so at least 60 days before the renewal deadline as stated in the lease. Upon approval by appropriate boards and the Office of General Services, the governmental body or agency shall notify the Lessor that it has elected to exercise its right of renewal pursuant to the lease. The Office of General Services may send each a renewal request form and a reminder notice well in advance of these deadlines.

(f) Under no circumstances will the requesting governmental body or state agency contact or negotiate lease terms with any real estate agency, broker, builder, owner, or representative in reference to space needs without the prior written consent of the Office of General Services.

(g) The Office of General Services will begin investigation of available rental space within ten (10) working days after receiving the "Request for Space Form".

(h) When processing requests for space, the Office of General Services will first determine whether appropriate state-owned or state-leased space is available before exploring commercial space alternatives. If such space is available, the Office of General Services will direct the requesting agency or governmental body to occupy said space. If state-owned or state-leased space is unavailable or

inappropriate, the Office of General Services shall begin a solicitation process to secure proposals for commercial space from as many qualified developers and/or brokers as is practicable.

(i) Rental rates will be determined by the Office of General Services for all leases by use of standard acceptable market rent analysis methods.

2. TYPES OF LEASE TRANSACTIONS

All state leases will be categorized as one of the following five types:

(a) Exempt Leases. Those leases exempted in accordance with subsection C or otherwise exempted by the Budget and Control Board.

(b) Standard Lease. All leases which commit less than \$1 million in a five year period and which do not involve equity accrual.

(c) Major Leases. Any lease which commits \$1 million or more in a five year period but which is otherwise standard in all respects.

(d) Lease/Purchases. All lease transactions which include clauses providing for equity accrual.

(e) Other Leases. All leases which are not encompassed by the first four categories. At its discretion, the Office of General Services may place any proposed lease transaction in this category if it involves complex issues or methodologies which warrant special handling.

3. EXEMPT LEASES

All exempt leases will be administered in accordance with regulations and procedures outlined in subsection C or Budget and Control Board directives.

4. STANDARD LEASES

(a) The Office of General Services will be responsible for managing all aspects of soliciting lease proposals from commercial entities. In all solicitations, the Office of General Services is required to assure that equitable competition occurs in the broadest market practicable.

(b) The Office of General Services will review all proposals from prospective Lessors with the agency or governmental body. The Office of General Services will recommend the proposal which offers the most cost effective terms and conditions to the agency or governmental body after satisfying subjective criteria such as parking, location requirements, special needs, etc. If the agency accepts the recommendation, General Services will make the selection and begin negotiations to finalize the lease transaction.

(c) If the agency or governmental body cannot accept the Office of General Services' recommendation, the dispute shall be referred to the Budget and Control Board, which will make the final determination.

(d) Evaluation criteria shall include total cost (including rental payments, upfitting costs, escalations, additional rents, operating, and all other costs) and location. Other subjective criteria such as parking and other special needs may be included. Total cost shall be given the highest weight of any single factor.

(e) Before making a recommendation, the Office of General Services shall verify that:

(1) all prior approvals have been obtained;

(2) adequate funds exist for the lease payments;

(3) lease payments are no more than fair market rental; and

(4) upfitting costs are no more than reasonable market costs.

(f) The Office of General Services may reject the agency's request for additional space and/or space at a specific location.

5. MAJOR LEASES

(a) All regulations and procedures for standard leases will apply to all major leases.

(b) All major leases must be reviewed by the Joint Bond Review Committee and approved by the Budget and Control Board before a final lease becomes effective.

6. LEASE/PURCHASES

All regulations and procedures for major leases will apply to lease/purchase transactions.

7. OTHER LEASES

(a) At its discretion, the Office of General Services may place any proposed lease transaction in this category if it involves complex issues or methodologies which warrant special handling.

(b) The Office of General Services shall determine which of the above regulations are applicable to any special lease situation and may adopt additional procedures to meet special needs on a case by case basis.

8. STANDARD LEASE DOCUMENTS

(a) The Office of General Services will be responsible for drafting and updating the state standard lease document.

(b) The state standard lease document will be used in all lease negotiations unless a substitute document is approved in advance by the Office of General Services.

(c) The state lease document will incorporate cancellation provisions including a right to cancel in the event of a (a) non-appropriation of funds for the renting agency, (b) dissolution of the agency and (c) the availability of public space in substitution for private space being leased by the agency.

B. LEASE OF STATE-OWNED REAL PROPERTY

No governmental body shall contract with any commercial entity or other governmental body for the lease, rental, or use of state-owned real property whether it be titled in the name of the State of South Carolina or any governmental body, without approval of the Office of General Services, except as specified in subsection C. Requests shall be directed to the Office of General Services. The Office of General Services shall negotiate or approve the terms of all leases of state-owned real property unless the governmental body has been exempted.

C. EXEMPTIONS

The Budget and Control Board may exempt governmental bodies from leasing state-owned and non state-owned real property through the leasing procedure herein required provided, however, that annual reports be filed with the Office of General Services, prior to July 1 of each year. Annual reports shall contain copies of all existing leases of state-owned and non state-owned real property. The Budget and Control Board may limit or withdraw any exemptions provided for in this Regulation.

HISTORY: Added by State Register Volume 23, Issue No. 5, eff May 28, 1999.

AGENCY: Division of General Services

SUBJECT: College of Charleston Lease at 4750 Goer Drive in North Charleston

The College of Charleston requests approval to lease from Virgie C. Simmons Family, LLC (Landlord) 44,318 square feet at 4750 Goer Drive, Suites D & E in North Charleston. Landlord is a South Carolina limited liability company with its principal office in Charleston, South Carolina.

The College currently occupies the leased space at an annual cost of \$236,658.12 (\$5.34 per square foot) by lease agreement which expired October 14, 2011 and is currently in holdover status. In addition to rent, the College is responsible for electricity, janitorial and security charges of approximately \$23,477 annually. The College's total annual cost for the present year under the current lease is approximately \$260,135.12 (\$5.87 per square foot). The leased space is used to house the College's central warehouse and receiving department.

The new lease was negotiated after a solicitation for space was issued. The lease term will be ten years commencing December 15, 2012. Rent will be \$18,465.83 per month or \$221,590.00 per year (\$5.00 per square foot annually) for the first two years of the lease; thereafter, the annual rate per square foot will increase to \$5.10 for years three (3) and four (4), \$5.20 for years five (5) and six (6), \$5.30 for years seven (7) and eight (8), and \$5.40 for years nine (9) and ten (10). In addition to rent, the College will continue to be responsible for its electricity, janitorial and security charges. All other operating costs are included with rent and the College is not responsible for any increases of such expenses.

Landlord will continue to provide adequate surface parking adjacent to the building. The proposed lease will save the College \$15,068.12 in the first year of the lease and an estimated \$62,045.20 over ten years. The proposed lease further avoids moving, network wiring and other costs associated with relocating to a new facility.

The maximum rent over the term of the lease with estimated electricity, janitorial and security charges (other charges) is as follows:

Year	Rent	Rent Rate/SF	Other Charges (est.)	Total Cost (estimated)	Total Cost/SF
1	\$ 221,590.00	\$ 5.00	\$ 23,477.00	\$ 245,067.00	\$ 5.53
2	\$ 221,590.00	\$ 5.00	\$ 23,477.00	\$ 245,067.00	\$ 5.53
3	\$ 226,021.80	\$ 5.10	\$ 23,477.00	\$ 249,498.80	\$ 5.63
4	\$ 226,021.80	\$ 5.10	\$ 23,477.00	\$ 249,498.80	\$ 5.63
5	\$ 230,453.60	\$ 5.20	\$ 23,477.00	\$ 253,930.60	\$ 5.73
6	\$ 230,453.60	\$ 5.20	\$ 23,477.00	\$ 253,930.60	\$ 5.73
7	\$ 234,885.40	\$ 5.30	\$ 23,477.00	\$ 258,362.40	\$ 5.83
8	\$ 234,885.40	\$ 5.30	\$ 23,477.00	\$ 258,362.40	\$ 5.83
9	\$ 239,317.20	\$ 5.40	\$ 23,477.00	\$ 262,794.20	\$ 5.93
10	\$ 239,317.20	\$ 5.40	\$ 23,477.00	\$ 262,794.20	\$ 5.93
Ten year total	\$2,304,536.00			\$2,539,306.00	
Ten year average	\$ 230,453.60	\$ 5.20		\$ 253,930.60	\$ 5.73

AGENCY: Division of General Services

SUBJECT: College of Charleston Lease at 4750 Goer Drive in North Charleston

Comparables of similar commercial warehouse space leased in the Charleston area are as follows:

Lease Date	Agency/Location	Rate
Commercial	Shalom Byit, LLC (Owner), 1026 Legrand Blvd., Charleston	\$8.00
Commercial	311 Huger, LLC (Owner), 311 Huger Street, Charleston	\$7.28
Commercial	Amstar/CK Charleston LLC, 2345 Charleston Regional Parkway	\$6.13

The College has adequate funds for the lease according to a Budget Approval Form dated November 16, 2012, which also includes a multi-year plan. The leased space includes 28,492 square feet of non-climate-controlled warehouse space and 11,094 square feet of climate-controlled warehouse space. The remaining 4,732 square feet is office space to accommodate 6 employees and includes a restroom, entry area, break room, kitchen, and receiving area.

No option to purchase the property is included in the lease. The warehouse building at 4750 Goer Drive was constructed in 1979. An environmental assessment dated November 11, 2008 recommends no further assessment is necessary. The lease was approved by Stephen C. Osborne, Executive Vice President for Business Affairs on behalf of the College of Charleston and by Virgie C. Simmons, sole member of Landlord. The lease was approved by the Commission on Higher Education on May 26, 2011.

The lease was presented to JBRC for approval on June 1, 2011, at which time the College of Charleston was asked to consider space on the Charleston Naval Base. The only available space on the Naval Base is the South Carolina Public Railways warehouse. Upon visiting the site, the College of Charleston determined that the site was not suitable for its needs due to its location, the extensive renovations that would be required to make the space usable, and the higher rent rate. No terms of the original lease presented on June 1, 2011 have changed with the exception of an additional reduction in rent from a ten year average of \$5.93 per square foot to \$5.73 per square foot. The lease was presented again and approved by the Joint Bond Review Committee at its December 4, 2012, meeting.

BOARD ACTION REQUESTED:

Approve the proposed ten year lease for the College of Charleston at 4750 Goer Drive in North Charleston.

ATTACHMENTS:

Agenda item worksheet; Letters from the College of Charleston dated May 9, 2011 and November 13, 2012; SC Code of Laws Sections 1-11-55 and 1-11-56

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: December 12, 2012

Regular Agenda

1. Submitted by:

- (a) Agency: Division of General Services
- (b) Authorized Official Signature:


Carla Griffin, Deputy Director

2. Subject: College of Charleston Lease at 4750 Goer Drive in North Charleston

3. Summary Background Information:

The College of Charleston requests approval to lease from Virgie C. Simmons Family, LLC (Landlord) 44,318 square feet at 4750 Goer Drive, Suites D & E in North Charleston. Landlord is a South Carolina limited liability company with its principal office in Charleston, South Carolina.

The College currently occupies the leased space at an annual cost of \$236,658.12 (\$5.34 per square foot) by lease agreement which expired October 14, 2011 and is currently in holdover status. In addition to rent, the College is responsible for electricity, janitorial and security charges of approximately \$23,477 annually. The College's total annual cost for the present year under the current lease is approximately \$260,135.12 (\$5.87 per square foot). The leased space is used to house the College's central warehouse and receiving department.

The new lease was negotiated after a solicitation for space was issued. The lease term will be ten years commencing December 15, 2012. Rent will be \$18,465.83 per month or \$221,590.00 per year (\$5.00 per square foot annually) for the first two years of the lease; thereafter, the annual rate per square foot will increase to \$5.10 for years three (3) and four (4), \$5.20 for years five (5) and six (6), \$5.30 for years seven (7) and eight (8), and \$5.40 for years nine (9) and ten (10). In addition to rent, the College will continue to be responsible for its electricity, janitorial and security charges. All other operating costs are included with rent and the College is not responsible for any increases of such expenses.

Landlord will continue to provide adequate surface parking adjacent to the building. The proposed lease will save the College \$15,068.12 in the first year of the lease and an estimated \$62,045.20 over ten years. The proposed lease further avoids moving, network wiring and other costs associated with relocating to a new facility.

The maximum rent over the term of the lease with estimated electricity, janitorial and security

charges (other charges) is as follows:

Year	Rent	Rent Rate/SF	Other Charges (est.)	Total Cost (estimated)	Total Cost/SF
1	\$ 221,590.00	\$ 5.00	\$ 23,477.00	\$ 245,067.00	\$ 5.53
2	\$ 221,590.00	\$ 5.00	\$ 23,477.00	\$ 245,067.00	\$ 5.53
3	\$ 226,021.80	\$ 5.10	\$ 23,477.00	\$ 249,498.80	\$ 5.63
4	\$ 226,021.80	\$ 5.10	\$ 23,477.00	\$ 249,498.80	\$ 5.63
5	\$ 230,453.60	\$ 5.20	\$ 23,477.00	\$ 253,930.60	\$ 5.73
6	\$ 230,453.60	\$ 5.20	\$ 23,477.00	\$ 253,930.60	\$ 5.73
7	\$ 234,885.40	\$ 5.30	\$ 23,477.00	\$ 258,362.40	\$ 5.83
8	\$ 234,885.40	\$ 5.30	\$ 23,477.00	\$ 258,362.40	\$ 5.83
9	\$ 239,317.20	\$ 5.40	\$ 23,477.00	\$ 262,794.20	\$ 5.93
10	\$ 239,317.20	\$ 5.40	\$ 23,477.00	\$ 262,794.20	\$ 5.93
Ten year total	\$2,304,536.00			\$2,539,306.00	
Ten year average	\$ 230,453.60	\$ 5.20		\$ 253,930.60	\$ 5.73

Comparables of similar commercial warehouse space leased in the Charleston area are as follows:

Lease Date	Agency/Location	Rate
Commercial	Shalom Byit, LLC (Owner), 1026 Legrand Blvd., Charleston	\$8.00
Commercial	311 Huger, LLC (Owner), 311 Huger Street, Charleston	\$7.28
Commercial	Amstar/CK Charleston LLC, 2345 Charleston Regional Parkway	\$6.13

The College has adequate funds for the lease according to a Budget Approval Form dated November 16, 2012, which also includes a multi-year plan. The leased space includes 28,492 square feet of non-climate-controlled warehouse space and 11,094 square feet of climate-controlled warehouse space. The remaining 4,732 square feet is office space to accommodate 6 employees and includes a restroom, entry area, break room, kitchen, and receiving area.

No option to purchase the property is included in the lease. The warehouse building at 4750 Goer Drive was constructed in 1979. An environmental assessment dated November 11, 2008 recommends no further assessment is necessary. The lease was approved by Stephen C. Osborne, Executive Vice President for Business Affairs on behalf of the College of Charleston and by Virgie C. Simmons, sole member of Landlord. The lease was approved by the Commission on Higher Education on May 26, 2011.

The lease was presented to JBRC for approval on June 1, 2011, at which time the College of Charleston was asked to consider space on the Charleston Naval Base. The only available space on the Naval Base is the South Carolina Public Railways warehouse. Upon visiting the site, the College of Charleston determined that the site was not suitable for its needs due to its location, the extensive renovations that would be required to make the space usable, and the higher rent rate. No terms of the original lease presented on June 1, 2011 have changed with the exception of an additional reduction in rent from a ten year average of \$5.93 per square foot to \$5.73 per square foot. The lease was presented again and approved by the Joint Bond Review Committee at its December 4, 2012 meeting.

-
4. **What is the Board asked to do?** Approve the proposed ten year lease for the College of Charleston at 4750 Goer Drive in North Charleston.

5. What is the recommendation of the Division of General Services? Approval of the proposed ten year for the College of Charleston at 4750 Goer Drive in North Charleston.

6. List of Supporting Documents:

- (a) Letters from the College of Charleston dated May 9, 2011 and November 13, 2012
- (b) SC Code of Laws Sections 1-11-55 and 1-11-56

COLLEGE of
CHARLESTON

May 9, 2011

Lisa H. Catalanotto
Program Manager/Attorney, Real Property Management
South Carolina Budget and Control Board
General Services Division
Property Services
1201 Main Street, Suite 420
Columbia, SC 29201

RE: Lease Number 002753/4750 Goer Drive Units D & E

Dear Ms. Catalanotto:

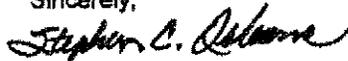
The College requests approval to renew lease number 002753 for 4750 Goer Drive Units D & E for a ten year period beginning October 15, 2011 and ending on October 14, 2021.

This lease provides the College with 44,318 SF of rentable office and warehouse space as well as thirteen (13) parking spaces, which is used to house our central warehouse and receiving department.

A recent solicitation was conducted by the Office of General Services and indicated that this lease is the best value. There are no facilities with a comparable number of storage, office and parking spaces available at lower rental rates.

We appreciate your assistance in obtaining JBRC and Budget and Control Board approval for the requested renewal of this lease.

Sincerely,



Stephen C. Osborne
Executive Vice President for Business Affairs

COLLEGE of
CHARLESTON

November 13, 2012

Ashley Lancaster
South Carolina Budget and Control Board
General Services Division
Property Services
1201 Main Street, Suite 420
Columbia, SC 29201

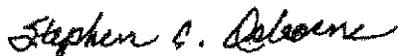
RE: Warehouse Space

Dear Ms. Lancaster:

The College conducted an in-depth review of South Carolina Public Railways' lease proposal and its warehouse space. We believe that it is in the best interest of the College and the State for us to renew our current lease for warehouse space based on the proposal from Simmons Realty Company dated August 23, 2011.

We respectfully request that this lease be included on the agenda for the Budget and Control Board meeting in December.

Sincerely,



Stephen C. Osborne
Executive Vice President for Business Affairs

SECTION 1-11-55. Leasing of real property for governmental bodies.

(1) "Governmental body" means a state government department, commission, council, board, bureau, committee, institution, college, university, technical school, legislative body, agency, government corporation, or other establishment or official of the executive, judicial, or legislative branches of this State. Governmental body excludes the General Assembly, Legislative Council, the Office of Legislative Printing, Information and Technology Systems, and all local political subdivisions such as counties, municipalities, school districts, or public service or special purpose districts.

(2) The Budget and Control Board is hereby designated as the single central broker for the leasing of real property for governmental bodies. No governmental body shall enter into any lease agreement or renew any existing lease except in accordance with the provisions of this section.

(3) When any governmental body needs to acquire real property for its operations or any part thereof and state-owned property is not available, it shall notify the Office of General Services of its requirement on rental request forms prepared by the office. Such forms shall indicate the amount and location of space desired, the purpose for which it shall be used, the proposed date of occupancy and such other information as General Services may require. Upon receipt of any such request, General Services shall conduct an investigation of available rental space which would adequately meet the governmental body's requirements, including specific locations which may be suggested and preferred by the governmental body concerned. When suitable space has been located which the governmental body and the office agree meets necessary requirements and standards for state leasing as prescribed in procedures of the board as provided for in subsection (5) of this section, General Services shall give its written approval to the governmental body to enter into a lease agreement. All proposed lease renewals shall be submitted to General Services by the time specified by General Services.

(4) The board shall adopt procedures to be used for governmental bodies to apply for rental space, for acquiring leased space, and for leasing state-owned space to nonstate lessees.

(5) Any participant in a property transaction proposed to be entered who maintains that a procedure provided for in this section has not been properly followed, may request review of the transaction by the Director of the Office of General Services or his designee.

SECTION 1-11-56. Program to manage leasing; procedures.

The State Budget and Control Board, in an effort to ensure that funds authorized and appropriated for rent are used in the most efficient manner, is directed to develop a program to manage the leasing of all public and private space of state agencies. The board's regulations, upon General Assembly approval, shall include procedures for:

(1) assessing and evaluating agency needs, including the authority to require agency justification for any request to lease public or private space;

(2) establishing standards for the quality and quantity of space to be leased by a requesting agency;

(3) devising and requiring the use of a standard lease form (approved by the Attorney General) with provisions which assert and protect the state's prerogatives including, but not limited to, a right of cancellation in the event of:

(a) a nonappropriation for the renting agency,

(b) a dissolution of the agency, and

(c) the availability of public space in substitution for private space being leased by the agency;

(4) rejecting an agency's request for additional space or space at a specific location, or both;

(5) directing agencies to be located in public space, when available, before private space can be leased;

(6) requiring the agency to submit a multi-year financial plan for review by the board's budget office with copies sent to Ways and Means Committee and Senate Finance Committee, before any new lease for space is entered into; and requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period; and

(7) requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period.

STATE BUDGET AND CONTROL BOARD
MEETING OF December 12, 2012

REGULAR SESSION
ITEM NUMBER 12

AGENCY: Procurement Services Division

SUBJECT: Waiver to Extend the Maximum Time on a Multi-Term Contract for Lander University

Section 11-35-2030(4), of the SC Consolidated Procurement Code limits the maximum time for any multi-term contract to seven years unless otherwise approved by the Board. Lander University has asked the Materials Management Office (MMO) to assist in seeking Board approval to authorize MMO to solicit on Lander's behalf a contract for up to ten (10) years for its food service operations. Lander officials believe a contract term of ten years will attract greater capital investment by the offerors, which the university intends to use to renovate existing food service venues by renovating the kitchen, remodeling dining areas, enhancing the Bearcat Café and/or construct new venues such as increasing the size of the dining hall by enclosing the patio and expanding dining options at the library

BOARD ACTION REQUESTED:

Under authority of SC Consolidated Procurement Code Section 11-35-2030(4), consider Lander University's request for a multi-term contract for food service operations and authorize the solicitation of proposals and award of a contract for up to ten (10) years.

ATTACHMENTS:

Agenda item worksheet; Letter of request from Lander University; Follow up Email from Lander University; Section 11-35-2030(4) of the SC Consolidated Procurement Code

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting scheduled for: December 12, 2012

Regular Agenda

Submitted by:

- (a) Agency: Procurement Services Division
- (b) Authorized Official Signature:

R. Voight Shealy

R. Voight Shealy, Materials Management Officer

2. Subject: Waiver to extend the maximum time on a multi-term contract for Lander University

3. Summary Background Information:

Section 11-35-2030(4), of the SC Consolidated Procurement Code limits the maximum time for any multi-term contract to seven years unless otherwise approved by the Board. Lander University has asked the Materials Management Office (MMO) to assist in seeking Board approval to authorize MMO to solicit on Lander's behalf a contract for up to ten (10) years for its food service operations. Lander officials believe a contract term of ten years will attract greater capital investment by the offerors, which the university intends to use to renovate existing food service venues by renovating the kitchen, remodeling dining areas, enhancing the Bearcat Café and/or construct new venues such as increasing the size of the dining hall by enclosing the patio and expanding dining options at the library.

4. What is Board asked to do?

Under authority of SC Consolidated Procurement Code Section 11-35-2030(4), consider Lander University's request for a multi-term contract for food service operations and authorize the solicitation of proposals and award of a contract for up to ten (10) years.

5. What is recommendation of Board division involved? As stated in Item 4. above.

6. Recommendation of other office (as required)?

- (a) Authorized Signature: _____
 - (b) Division/Agency Name: _____
-

7. List of supporting documents:

- (a) Letter of request from Lander University
- (b) Follow up Email from Lander University
- (b) Section 11-35-2030(4) of the SC Consolidated Procurement Code



founded in 1872

LANDER UNIVERSITY

Office of the Vice President for Business and Administration

August 29, 2012

Mr. Delbert H. Singleton, Jr.
SC Budget and Control Board
Procurement Services Division
1201 Main St., Suite 600
Columbia, SC 29201

Dear Mr. Singleton:

Lander University's Food Service Operations contract expires May 15, 2013. We are working diligently to complete the specifications to begin the RFP process to form a new contract. This last contract was for a seven (7) year term and we feel that it would be most effective for our University to respectfully request approval for a maximum contract term of ten (10) years.

In the next two or three years we will ask our food services contractor to partner with us in the expansion of our current dining facility to take in a current outdoor space. It is also our plan to bring a national brand sandwich shop (for example Subway or Blimpie) to our campus to enhance the current grill. The University Master Plan, Phase II has a proposed Atheneum, which will include a dining facility as part of that construction project. Lastly, all of the current dining facilities will require updating and refurbishment on a routine basis.

The magnitude and complexity of providing these services to an institution of higher education confirm that longer term contracts are both manageable and prudent. To encourage participation in this offer, a 10-year contract would enable the University to negotiate for future capital investments as well as allow for amortization of these capital investments throughout the contract period.

Thank you for your consideration. If you should have any questions, please do not hesitate to give me a call.

Sincerely,

Glenda E. Riddely
Vice President for Business and Administration

Fuller, Laurie

From: Mary McDaniel <mmcdaniel@lander.edu>
Sent: Tuesday, November 20, 2012 10:20 AM
To: Stevens, John
Cc: Shealy, Voight; Glenda E. Ridgely
Subject: Lander University Food Service Contract

Follow Up Flag: Follow up
Flag Status: Flagged

Hi John and Voight,

I hope all is well with you both. In talking with you, John, I understand that Voight is putting together the agenda item for the December Budget and Control Board meeting. I thought it may be necessary for me to add to the original items that I sent requesting this 10-year term contract.

The Food Services program at Lander has evolved over the past decade to its current status as an industry recognized program that enjoys an extremely loyal/satisfied customer base and a sound financial foundation. This evolution did not happen by accident. Rather, it is the result of the institution's commitment to providing the best educational experience to its students while doing everything possible to maximize each student's opportunity to succeed in his/her educational pursuits. Food services at Lander is not viewed as simply a necessary service required by the student body, but as a strategic asset that plays a significant role in pursuing its mission of acting with integrity, dignity and competence in our service to residents and the university community. Thus, continued investment in this program is not an option, but a necessity as the institution continues its pursuit of excellence in accomplishing its mission.

The financial success of the Food Services program has benefited the institution in several ways. Over the past 5 years, more than 27.5% of Food Services revenue has been allocated to other program needs of the institution, including debt service, facilities maintenance, and student financial aid. These allocations have been made possible through the efficient, profitable operation of the Food Services program, while providing a program that is high quality, nutritious, and competitively priced.

Currently, the institution has identified at least 5 areas within the Food Service program that will require approximately \$ 2M - \$ 2.5M capital investment during the next 10 years. These investments are necessary to ensure that the Food Services program continues its high quality offerings in facilities that are both functional and aesthetically pleasing. The useful life of these investments exceeds, in most instances, the requested 10 year term of the Food Service contract. For this reason, a 10 year contract which will allow a financially responsible amortization within accepted accounting principles is, in the opinion of the institution, both reasonable and justified. A shorter amortization period would put unnecessary financial pressure on the Food Services program, which could result in reduced funds being available for other institutional needs.

If you should need additional information from me, please do not hesitate to let me know. I hope you both have a great Thanksgiving!

Mary

Mary W. McDaniel
Director
Procurement and Retail Services
Lander University
Phone 864.388.8242
Fax 864.388.8891
mmcdaniel@lander.edu

EXCERPT FROM THE CONSOLIDATED PROCUREMENT CODE

SECTION 11-35-2030. Multi-term contracts.

(1) Specified Period. Unless otherwise provided by law, a contract for supplies, services, or information technology must not be entered into for any a period of more than one year unless approved in a manner prescribed by regulation of the board. The term of the contract and conditions of renewal or extension must be included in the solicitation and funds must be available for the first fiscal period at the time of contracting. Payment and performance obligations for succeeding fiscal periods must be subject to the availability and appropriation of funds for them.

(2) Determination Prior to Use. Before the utilization of a multi-term contract, it must be determined in writing by the appropriate governmental body that:

(a) estimated requirements cover the period of the contract and are reasonably firm and continuing; and

(b) such a contract serves the best interests of the State by encouraging effective competition or otherwise promoting economies in state procurement.

(3) Cancellation Due to Unavailability of Funds in Succeeding Fiscal Periods. When funds are not appropriated or otherwise made available to support continuation of performance in a subsequent fiscal period, the contract must be canceled.

(4) The maximum time for a multi-term contract is five years. Contract terms of up to seven years may be approved by the designated board officer. Contracts exceeding seven years must be approved by the board.

STATE BUDGET AND CONTROL BOARD
MEETING OF December 12, 2012

REGULAR SESSION
ITEM NUMBER 13

AGENCY: Budget and Control Board

SUBJECT: Future Meeting

The next regular meeting of the Budget and Control Board will be held at 9:00 a.m. on Tuesday, January 29, 2013, in Room 252, Edgar A. Brown Building.

Schedule of Remaining Meetings in 2013

March 5, 2013
May 7, 2013
June 18, 2013
August 13, 2013
October 22, 2013
December 10, 2013

BOARD ACTION REQUESTED:

Agree to meet at 9:00 a.m. on Tuesday, January 29, 2013, in Room 252, Edgar A. Brown Building.

ATTACHMENTS:

AGENCY: Division of State Information Technology

SUBJECT: Update on Monitoring for State Agencies

The Division of State Information Technology will provide an update on the project to extend network monitoring services to all cabinet agencies. The update will include the following discussion topics:

- Overview of Network Monitoring Services
- Key Tasks and Activities Required to Implement Service
- Progress to Date
- Next Steps

BOARD ACTION REQUESTED:

Receive as information an update from the Division of State Information on the project to extend network monitoring services to all cabinet agencies.

ATTACHMENTS: