

## **MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING**

**November 3, 2011 -- 10:00 A. M.**

The Budget and Control Board (Board) met at 10:00 a.m. on Thursday, November 3, 2011, in Room 252 in the Edgar A. Brown Building, with the following members in attendance:

Governor Nikki R. Haley, Chair;  
Mr. Curtis M. Loftis, Jr., State Treasurer;  
Mr. Richard Eckstrom, Comptroller General;  
Senator Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee; and  
Representative W. Bryan White, Chairman, Ways and Means Committee.

Also attending were Budget and Control Board Executive Director Marcia Adams; Chief of Staff Steve Elliott and Division Directors William Blume, Les Boles, and Sam Wilkins; Acting General Counsel Paul Koch; Governor's Deputy Chief of Staff for Policy, Budget, and Cabinet Affairs Ted Pitts; Treasurer's Chief of Staff Bill Leidinger; Comptroller General's Chief of Staff James M. Holly; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Committee Chief of Staff Beverly Smith; Board Secretary Delbert H. Singleton, Jr., and other Budget and Control Board staff.

### ***Adoption of Agenda for Budget and Control Board***

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board adopted the agenda as proposed.

### ***Minutes of Previous Meeting***

Upon motion by Mr. Eckstrom, seconded by Mr. White, the Board approved the minutes of the September 20, 2011, Budget and Control Board meeting.

### ***Blue Agenda***

Upon a motion by Senator Leatherman, seconded by Mr. White, the Board approved the blue agenda items, except as otherwise noted herein.

### ***State Treasurer: Bond Counsel Selection (Blue Agenda Item #1)***

The Board approved the following notification of the assignment of bond counsel for conduit issues (for ratification of issuer's counsel only) for which Board approval was requested:

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 2**

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

Description of Issue	Agency/Institution (Borrower)	Borrower’s Counsel	Issuer’s Counsel
\$10,000,000 SC JEDA	TechPrecision Corporation	Haynsworth Sinkler Boyd	Parker Poe
\$11,100,000 SC JEDA	Pharmaceutical Associates, Inc.	Haynsworth Sinkler Boyd	McGuire Woods Law Firm

Information relating to this matter has been retained in these files and is identified as Exhibit 1.

***Division of State Budget: Report of FTE Positions Recommended for Deletion in Accordance with Proviso 80A.7 (Blue Agenda Item #2)***

Proviso 80A.7 of the FY 2011-12 Appropriation Act authorizes the Board to delete FTE positions that have been vacant for more than one year. As of September 30, 2011, state agencies had 8,910.70 vacant positions and 1,493.24 have been vacant for more than one year. These numbers reflect adjustments made for positions previously filled and positions that are being actively recruited. The criteria used by the Board for the last four years is to allow agencies a 5% vacancy rate/10 position minimum before any positions would be deleted. Special Exemptions to allow flexibility for agencies with new directors are also included in the recommendations.

The following is a summary of FTE information as of September 30, 2011:

	<u>TOTAL</u>
FTE Positions Authorized	66,352.70
FTE Positions Currently Vacant	8,910.70
FTE Positions Vacant Over 1 Year	1,493.24
FTE Exemptions Allowing Agencies a 5% Vacancy Rate/10 Position Minimum.	98.24
Recommended Special Exemptions	158.65

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 3**

---

Total Positions Recommended for Deletion                      1237.00

Schedule A that was attached to the agenda item summarized by agency the FTE positions that were recommended for exemptions and/or deletion. Deleted positions are rounded to whole positions.

Information relating to this matter has been retained in these files and is identified as Exhibit 2.

***Division of General Services: Easement (Blue Agenda Item #3)***

The Board approved the following easement in accordance with the SC Code of Laws as requested by the Division of General Services:

County Location:	Laurens
From:	Budget and Control Board
To:	City of Clinton
Consideration:	\$1
Description/Purpose:	To transfer title to power grid together with an easement for the purpose of ingress, egress, operation and maintenance of said power grid serving the Department of Disabilities and Special Needs' Whitten Center.

Information relating to this matter has been retained in these files and is identified as Exhibit 3.

***Division of General Services: Real Property Conveyance (Blue Agenda Item #4)***

The Board approved the following property conveyance as requested by the Division of General Services:

<b>Agency:</b>	<b>Department of Employment and Workforce</b>
Acreage:	0.803± acre and 4,895 sf office building
Location:	440 North Duncan Bypass, Union
County:	Union
Purpose:	To dispose of surplus real property.
Price/Transferred To:	Not less than appraised value/To be determined
Disposition of Proceeds:	To be divided between Budget and Control Board and Department of Employment and Workforce pursuant to Proviso 80A.33.

Information relating to this matter has been retained in these files and is identified as Exhibit 4.

***Division of Procurement Services: Procurement Audit and Certification (Blue Item #5)***

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

Department of Juvenile Justice (for a period of three years): supplies, \$250,000\* per commitment; services, \$100,000\* per commitment; construction change order, \$25,000 per change order; architect/engineer contract amendment, \$5,000 per amendment.

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

The audit confirms the Procurement Office has the internal controls and expertise to ensure compliance with the application requirements for the certifications. The Department requested to remain at its current certification levels.

Information relating to this matter has been retained in these files and is identified as Exhibit 5.

***Division of Procurement Services: Ninety Day Report – John de la Howe School (Blue Agenda Item #6)***

At the June 14, 2011, Budget and Control Board meeting, the Division of Procurement Services (the Division) presented a ninety day report of John de la Howe School's procurement practices requested by the Board at its February 8, 2011, meeting. The report revealed the School had not complied with the Board's directive because not all procurements for the School had been submitted to the Division for approval.

As directed by the Board, the Division:

- continued suspension of the John de la Howe School's procurement authority until the Board approves that it be restored

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 5**

---

- completed an audit of the paperwork from order point to payment for the procurements that are missing supporting documentation or that have not been approved by the Division as directed by the Board in the February 8, 2011, meeting
- approved all purchases for the school using the SCEIS system
- approved all invoices for the school prior to payment using the SCEIS system
- conducted another complete 90 day audit and by way of this agenda item, report the results to the Board
- conducted customized procurement training for the School's financial and procurement staff

The School and the Division complied with the Board's directives. There are no audit findings to report.

The Division of Procurement Services recommended the Division perform a follow-up review of 100% of the School's procurements in 90 days and report to the Board the results of that review.

Mr. Eckstrom commended the John de la Howe School for the results of its most recent audit. He said there is improvement at the school and the role the Board assumed to help the school has borne much fruit. Governor Haley commented the school has been through a lot and she is pleased with its response to the direction the Board has given.

The Board approved the recommendation.

Information relating to this matter has been retained in these files and is identified as Exhibit 6.

***South Carolina Energy Office: Barnwell County Economic Development Fund – Project Funding Request (Blue Agenda Item #7)***

The South Carolina Energy Office advised of the following project funding request:

- |                             |   |
|-----------------------------|---|
| a. <i>Recipient:</i>        | Barnwell County Economic Development Corporation  |
| <i>Funding Request:</i>     | \$80,000  |
| <i>Purpose/Description:</i> | Barnwell County Economic Development Corporation (BCEDC) is requesting funds for the construction of a new well in the City of Blackville's industrial park. This well will replace the old, nonfunctioning L'Artique well. BCEDC feels this improvement will aid in the recruitment of new businesses to replace the outgoing Allied Air which is preparing to vacate the site.. |
| <i>Project Impact:</i>      | Completion of this project will provide replacement of an old, nonfunctioning well with a new well and help with the  |

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 6**

---

*Cost of Project:* recruitment of businesses to the industrial park.  
\$600,000  
*SCEO recommendation:* \$80,000, federal (CDBG) and town of Blackville will provide the remainder.

b. *Recipient:* Barnwell County Economic Development Corporation  
*Funding Request:* \$100,000  
*Purpose/Description:* Barnwell County Economic Development Corporation (BCEDC) is requesting funds for the renovation of an existing building (previously occupied by Allied Air) for Project Hurricane. This project is relocating an existing company from Miami, FL to Blackville, SC. The company will produce product display cases and retail store fixtures for clients worldwide. This will create 212 jobs for the area. The renovations include roof and dock repairs, a complete renovation of all office space to include new carpet, tile, paint and fixtures as well as cleaning and scrubbing all floors and walls of the 350,000 square foot facility.

*Project Impact:* Completion of this project will provide a repaired and updated facility for the relocation of the company to Blackville, SC which will create 212 jobs for the area.

*Cost of Project:* \$2,800,000  
*SCEO recommendation:* \$100,000, SC Department of Commerce (\$200,000) and the relocating company (\$2,500,000) will provide the remainder of the funding needed for the project.

The Board approved the following project request as recommended by the South Carolina Energy Office: Barnwell County Economic Development Corporation, \$80,000 for the construction of a new well in the City of Blackville's industrial park; and Barnwell County Economic Development Corporation, \$100,000 for the renovation of an existing building for Project Hurricane.

Information relating to this matter has been retained in these files and is identified as Exhibit 7.

***Executive Director: Revenue Bonds (Blue Agenda Item #8)***

The Board approved the following proposals to issue revenue bonds:

a. *Issuing Authority:* Beaufort County  
*Amount of Issue:* N/E \$50,000,000 Hospital Revenue Bonds (\$20,000,000 refunding involved)

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 7**

---

Allocation Needed: - 0 -  
Name of Project: Beaufort County Memorial Hospital d/b/a Beaufort Memorial Hospital

Employment Impact: n/a  
Project Description: to acquire, construct and renovate hospital facilities and refund outstanding Series 1997 bonds.

Bond Counsel: Kathleen Crum McKinney, Haysworth Sinkler Boyd, P. A..  
(Exhibit 8)

- b. Issuing Authority: Greenville County  
Amount of Issue: N/E \$8,000,000 Special Source Revenue Refunding Bonds (\$8,000,000 refunding involved)  
Allocation Needed: - 0 -  
Name of Project: Greenville County Not Exceeding \$8,000,000 Special Source Revenue Refunding Bond, Series 2012  
Employment Impact: n/a  
Project Description: refunding of all or a portion of the callable maturities of Greenville County's outstanding (i) original principal amount of \$8,990,000 Special Source Revenue Bonds (Series 2003 Roads Improvement Project), Series 2003 , such Series 2003 bonds being originally issued for the purpose of financing the costs of constructing roads, bridges and such other infrastructure within the County necessary for the continued economic development of the Count and (ii) paying certain costs of issuance of the bond.  
Bond Counsel: Bradford L. Love, Haynsworth Sinkler Boyd, P. A..  
(Exhibit 9)

- c. Issuing Authority: Sumter County  
Amount of Issue: N/E \$1,500,000 Special Source Revenue Bonds  
Allocation Needed: - 0 -  
Name of Project: Sumter County Special Source Revenue Bonds  
Employment Impact: n/a  
Project Description: acquisition, for economic development purposes, of certain land (473.03 acres +/-) identified on the tax maps for the county as tax parcel #231-00-01-004  
Bond Counsel: Francenia B. Heizer, McNair Law Firm  
(Exhibit 10)

- d. Issuing Authority: Jobs-Economic Development Authority  
Amount of Issue: N/E \$18,000,000 Economic Development Revenue Refunding Bonds (\$18,000,000 refunding involved)  
Allocation Needed: - 0 -  
Name of Project: CPF Properties II, LLC  
Employment Impact: maintain 32 jobs for USC Upstate

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 8**

---

Project Description: refunding of Series 2008 bonds used to construct an academic facility for the University of South Carolina Upstate, including costs of issuance

*Note:* private sale

Bond Counsel: Kathleen Crum McKinney, Haynsworth Sinkler Boyd, P.A.  
(Exhibit 11)

- e. Issuing Authority: Jobs-Economic Development Authority  
Amount of Issue: Not Exceeding \$4,000,000 Economic Development Revenue Bonds  
Allocation Needed: \$4,000,000  
Name of Project: Confluence Holdings Corp. and Confluence Real Estate Holdings, LLC  
Employment Impact: maintain 363 jobs and add 16 within 12 months and 37 within 24 months  
Project Description: undertaking certain leasehold improvements, including acquisition of equipment therefor, for the manufacture of canoes and kayaks, paddles and accessories  
*Note:* private sale (or underwriting)  
Bond Counsel: Kathleen Crum McKinney, Haynsworth Sinkler Boyd, P.A.  
(Exhibit 12)
- f. Issuing Authority: Jobs-Economic Development Authority  
Amount of Issue: N/E \$15,000,000 Healthcare Facilities Revenue Bonds (\$5,350,000 refunding involved)  
Allocation Needed: -0-  
Name of Project: Rolling Green Village  
Employment Impact: maintain 207 (154 FTE) and add 33 (21 FTE) within 12 months  
Project Description: acquire, construct, expand, renovate and equip retirement, healthcare and related facilities for the continuing care retirement community and refund the outstanding Series 1997 bonds  
*Note:* private sale  
Bond Counsel: E. Tyler Smith, Haynsworth Sinkler Boyd, P.A.  
(Exhibit 13)
- g. Issuing Authority: Jobs-Economic Development Authority  
Amount of Issue: \$80,000,000 Refunding Revenue Bonds (80,000,000 refunding involved)  
Allocation Needed: - 0 -  
Name of Project: The Woodlands at Furman  
Employment Impact: 72  
Project Description: a continuing care retirement community consisting of 145 independent living apartments, 48 assisted living apartments, and 30 private pay nursing suites, with associated common and support areas to be located in Greenville County and to be owned and

operated by Upstate Senior Living, Inc. d/b/a The Woodlands at Furman on the campus of Furman University  
*Note:* *negotiated private sale*  
Bond Counsel: F. Mitchell Johnson, Jr., Haynsworth, Sinkler Boyd  
(Exhibit 14)

- h. Issuing Authority: Jobs-Economic Development Authority  
Amount of Issue: \$18,000,000 Economic Development Revenue Bonds (18,000,000 refunding involved)  
Allocation Needed: - 0 -  
Name of Project: WUREF Development, LLC  
Employment Impact: 2  
Project Description: a 406-bed student housing facility  
*Note:* *negotiated private sale*  
Bond Counsel: F. Mitchell Johnson, Jr., Haynsworth, Sinkler Boyd  
(Exhibit 15)

***Executive Director: Economic Development (2011 Ceiling Allocation) (Blue Item #9)***

The initial balance of the 2011 state ceiling allocation is \$439,409,580. 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 \$384,809,580 remaining for 2011. Allocation requests for 2011 totaling \$61,207,000 have been received thus far.

The recommendation from the Department of Commerce for allocations for this cycle totaled \$4,000,000. The Department of Commerce made the following recommendation for allocation from the local pool:

JEDA Confluence Holdings, Corp. and Confluence Real Estate Holdings, LLC (Greenville County), \$4,000,000.

Board approval of the recommended request will leave an unexpended state ceiling balance of \$380,809,580 (state pool - \$175,763,832; local pool - \$205,045,748) to be allocated later in the calendar year.

In accord with Code Section 1-11-500 et seq. and upon the recommendation of the Department of Commerce, the Board granted the following tentative ceiling allocation from the local pool and deferred all remaining ceiling allocation requests:

JEDA Confluence Holdings, Corp. and Confluence Real Estate Holdings, LLC

(Greenville County), \$4,000,000.

Information relating to this matter has been retained in these files and is identified as Exhibit 16.

***Division of State Budget: Permanent Improvement Project (Regular Session #1)***

Governor Haley asked whether there were any fee or tuition increases related to any of the permanent improvement projects to which Ms. Adams responded that there were none.

Upon a motion by Senator Leatherman, seconded by Mr. White, the Board approved 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 3-2012: JBRC Item 1. University of South Carolina  
Project: 6090, Indoor Practice Facility Construction  
Funding Source: \$210,000 Athletic Operating funds which are athletic revenues derived from ticket sales, SEC Conference distributions, Gamecock Club contributions, seat premiums, and corporate sponsorships.  
Request: Establish project and budget for \$210,000 (Athletic Operating funds) to begin design work to construct a new football indoor practice facility at USC. The approximately 86,000 square foot facility will be located on the site of the former Farmer's Market. It will be large enough to contain a full length football field and tall enough to accommodate field goal kicking. The facility will also include minimal support facilities including a training room for injuries, restrooms and storage. Construction of the new building will provide the university with a facility that is already an existing athletic component at a majority of other SEC schools. It will serve as an important recruiting tool, provide functional benefits associated with being able to conduct practice in inclement weather, and will be available for use by other teams when not being used for football.
- (b) Summary 3-2012: JBRC Item 2. University of South Carolina  
Project: 6091, Student Health Center Construction  
Funding Source: \$682,500 Other, Health Center Capital Reserve funds which are derived from the student health services operating budget, including student health fees, ancillary services fees and interest.  
Request: Establish project and budget for \$682,500 (Other, Health Center Capital Reserve funds) to begin design work to construct a new student health center at USC. The approximately 100,000 square foot facility will include clinics, labs,

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 11**

---

pharmacy, health education, counseling and disability services spaces. The facility will be constructed in phases with a 60,000 square foot addition to be constructed initially. When it is completed, the existing health center will relocate to the new facility, the existing center will be demolished, and a 40,000 square foot replacement facility will be constructed. The existing health center has been cited in the past four accreditation reports as inadequate for the size of the student body. It was built in 1972 when enrollment was approximately 19,000 students and enrollment today totals nearly 30,000. The facility is inefficient and has significant deferred maintenance and building code issues.

- (c) Summary 3-2012: JBRC Item 3. Medical University of South Carolina  
Project: 9819, College of Nursing Floors 2-5 Interior Renovation  
Funding Source: \$120,000 Other, Institutional Capital Project Funds which are excess debt service funds transferred each June from MUSC's State Treasurer's Office General Debt Service Account.  
Request: Establish project and budget for \$120,000 (Other, Institutional Capital Project Funds) to begin design work to renovate floors two through five of the College of Nursing building at MUSC. The work will include demolishing and completely reconfiguring the interior floor space of the four floors, increasing classroom seating by 70, creating a student services area, a computer lounge, conference and research space, and offices, and replacing the HVAC, plumbing, electrical, and fire alarm systems, and elevators. The building was constructed in 1956 and initially designed as a nursing dormitory with shared bathrooms between rooms. Except for the simulation lab on the first floor, the building has had no substantial renovation since its construction. The deteriorated condition of the building's systems and the lack of efficient space threaten the growth of the college.
- (d) Summary 3-2012: JBRC Item 4. Budget and Control Board  
Project: 9904, DEW - David Building Chiller Replacement  
Funding Source: \$8,600 Other, Miscellaneous Revenue funds transferred to the Budget and Control Board from the Department of Workforce and Revenue's Contingency Assessment Fund, which is a portion of the unemployment insurance tax used to fund administrative costs and employment services.  
Request: Establish project and budget for \$8,600 (Other, Miscellaneous Revenue from DEW funds) to begin design work to replace the chiller in the Department of Workforce and Employment's Robert E. David Building. The work will include replacing the chiller, associated piping, valves, and pumps and making any structural modifications that may be needed to ensure an efficient and maintainable installation. The chiller is 35 years old and at the end of its service life. Because this is the building's only chiller, the building would not be habitable most times during the year if the chiller failed. The chiller is also inefficient and uses an obsolete, environmentally restricted coolant. Replacing it will result in operational cost savings and will enhance the environment.

- (e) Summary 3-2012: JBRC Item 5. Department of Corrections  
Project: 9702, Kirkland Correctional Chiller System Replacement  
Funding Source: \$12,500 Capital Improvement Bond funds which is part of a balance remaining of a 1997 bond authorization for construction and allowed by Proviso 51.14 to be also used for renovations and repairs.  
Request: Establish project and budget for \$12,500 (Capital Improvement Bond funds) to begin design work to replace the chiller system at Kirkland Correctional Institution for the Department of Corrections. The work will include replacing the existing chiller, cooling tower, condenser water pumps and condenser water piping in the boiler house. The chiller system is original to the institution, which is more than 35 years old. It has undergone numerous costly repairs in the past few years and has worked well beyond its useful life. The new system will be more energy efficient.

**Establish Construction Budget**

- (f) Summary 3-2012: JBRC Item 6. University of South Carolina  
Project: 6088, Softball Stadium Construction  
Funding Source: \$7,880,000 Athletic Revenue Bond funds which are authorized by act of the General Assembly, the debt service of which is paid by the admissions fee, special student fee and net revenues of the Athletics Department operations, and \$120,000 Athletic Operating funds which are athletic revenues derived from ticket sales, SEC Conference distributions, Gamecock Club contributions, seat premiums, and corporate sponsorships.  
Request: Increase budget to \$8,000,000 (add \$7,880,000 Athletic Revenue Bond funds) to construct a new women's softball stadium at USC. The project was established in June 2011 for pre-design work which is now complete. The work will include demolishing the existing softball stands and support structures and constructing a new top-loading, 1,350-seat stadium with restrooms, a press box, concession facilities, lighting, dugouts, batting cages, and locker rooms. The existing support facilities are inadequate, the press box is too small, and there is not adequate seating to host a major tournament. A new stadium will provide a competitive venue for women's softball, addressing equity in athletic facilities for women with amenities similar to and of the same quality as those in the baseball stadium. Energy savings and conservation measures will include the installation of low flow plumbing fixtures, high-efficiency water heaters, a dedicated outdoor air system, and a distributed refrigerant fan coil system. The agency reports the total projected cost of this project is \$8 million and additional annual operating costs of \$136,000 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is May 2012 and for completion of construction is February 2013. (See Attachment 1 for additional annual operating costs.)

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 13**

---

- (g) Summary 3-2012: JBRC Item 7. University of South Carolina  
Project: 6089, Williams-Brice Stadium Video Board Support Construction  
Funding Source: \$6,500,000 Other, Private funds which are donations or gifts to the USC Athletics Department.  
Request: Increase budget to \$6,500,000 (add \$6,462,500 Other, Private funds) to install a new video board at Williams-Brice Stadium for USC. The project was established in September 2011 for pre-design work which is now complete. The work will include removing the existing scoreboard, constructing a self-supporting structural frame, foundation and electrical and data infrastructure, and installing the video board above the north end zone of the stadium. The video board will be larger than the existing board and will have high definition quality to provide better visibility throughout the stadium. It will provide for live action and instant replays to be viewed and will serve as the official scoreboard. Energy savings and conservation measures will include the installation of energy efficient LED lighting. The agency reports the total projected cost of this project is \$6.5 million and additional annual operating costs of \$526 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is February 2012 and for completion of construction is August 2012. (See Attachment 2 for additional annual operating costs.)
- (h) Summary 3-2012: JBRC Item 8. Budget and Control Board  
Project: 9897, Columbia Mills Building Fire Suppression System Repairs  
Funding Source: \$397,580 Other, Depreciation Reserve funds which are revenues derived from the rent account which receives rent charges from state agencies.  
Request: Increase budget to \$397,580 (add \$380,580 Other, Depreciation Reserve funds) to repair the fire suppression system in the Columbia Mills Building. The project was established in April 2011 for pre-design work which is now complete. The work will include adding heat detectors, replacing damaged sprinkler heads, adding or relocating sprinkler heads, and replacing obsolete pre-action system control panels which are at the end of their service life. The work is needed to address areas of inadequate sprinkler coverage, to maintain the status of a fully sprinkled building, and to ensure the code-required level of fire protection for the facility. Energy savings and conservation measures are not applicable to this fire suppression system repair project. The agency reports the total projected cost of this project is \$397,580 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 2012 and for completion of construction is October 2012.

Information relating to this matter has been retained in these files and is identified as Exhibit 17.

*Division of State Budget: Real Property Acquisition (Regular Session Item #2)*

The Division of State Budget recommended approval of the following real property acquisition:

<b><u>Agency:</u></b>	<b>Department of Parks, Recreation and Tourism</b>
Acreage:	190.89± acres
Location:	Adjacent to Jones Gap State Park in the Mountain Bridge Wilderness Area of northern Greenville County.
County:	Greenville County
Purpose:	To protect and conserve a natural area and connect mountain lands between Table Rock watershed and Poinsett watershed.
Appraised Value:	\$1,434,000
Price/Seller:	\$250,000 / The Nature Conservancy, Arlington, Virginia
Source of Funds:	Federal
Project Number:	P28-9717
Environmental Study:	Approved
Building Condition Assessment:	N/A
Additional Annual Op Cost/SOF:	No additional annual operating costs are anticipated because management of the land will be conducted by existing park staff.
Current Year Property Tax:	N/A
Approved By:	JBRC on 10/26/11
Additional Information:	Title to all property held in a state agency or department name has been transferred to the State under the control of the Budget and Control Board. These properties must be titled to the State of South Carolina. Also, this request includes approval of the establishment of a permanent improvement project of \$250,000 from the fund source noted above.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board approved the property acquisition and permanent improvement project establishment as requested as recommended by the State Budget Division.

Information relating to this matter has been retained in these files and is identified as Exhibit 18.

***Division of General Services: Department of Commerce Savannah Valley Development  
Division Transfer of All Property, Leases, Assets and Obligations (Regular Session Item #3)***

In accordance with 2011 S.C. Act No. 73, Part 1B, §40.17, the South Carolina Department of Commerce requested approval to transfer its Savannah Valley Development Division's (SVDD) remaining various assets and obligations consisting of a lease with the United States Army Corps of Engineers (USACE) for the Blue Hole Recreation Area in Abbeville County; a lease with USACE for lands known as the Abbeville Tract, Hester Tract and Manor Tract lying south of SC Highway 72 in Abbeville County; the balance of funds in the SVDD account; ownership of 690 acres of state-owned land in Abbeville County; and ownership and easement rights to the Anderson Branch right-of-way (ROW) in Abbeville and McCormick Counties.

SVDD became a division of the Department of Commerce in 1993 and had the following primary functions: (1) to support a residential real estate development at Richard B. Russell Lake in Abbeville County (Lake Russell Project), (2) to serve as a cost-share partner with USACE as to public amenities on lands leased to SVDD by USACE, (3) to hold certain railroad rights-of-way acquired from Seaboard Railroad (Anderson Branch ROW), and (4) to serve as a conduit for a \$20 Million loan to McCormick County to support the development of Savannah Lakes Village. SVDD has no remaining contractual or other obligations concerning the Lake Russell Project. Additionally, since 2007, McCormick County has been remitting payments towards its loan obligations with the Insurance Reserve Fund for the development of Savannah Lakes Village directly to the State Treasurer's Office, and the Treasurer's Office has agreed to continue administering the loan. SVDD still has assets and obligations concerning property along the Anderson Branch ROW, and property leased from USACE and owned between Highway 81 and Lake Russell; however, with no appropriations being provided to it, SVDD lacks the financial resources to maintain its remaining assets and meet its ongoing obligations and, therefore, requests the transfer of these various assets and obligations in order to preserve those assets for public use and enjoyment as follows:

1. SVDD has a 50-year lease with USACE dated November 12, 1997, for the Blue Hole Recreation Area in Abbeville County consisting of 123 acres (Blue Hole Recreation Area Lease). SVDD requests approval to terminate the lease so that USACE can enter into a new lease with the Town of Calhoun Falls. The Town of Calhoun Falls has requested and USACE has approved entering into a new lease with the Town upon termination of its

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 16**

---

lease with SVDD, and the Town has been approved to receive a \$250,000 grant to refurbish the public infrastructure at the Blue Hole Recreation Area.

2. SVDD has a 99-year lease with USACE dated July 5, 1994, for various tracts of land lying south of Highway 72 in Abbeville County (Abbeville, Hester and Manor Tracts Lease) consisting of a total of 1,675 acres. SVDD requests approval to terminate the lease so that USACE can enter into a new lease with the South Carolina Department of Natural Resources (DNR), and further requests to transfer the balance of funds remaining in SVDD accounts to DNR. Under its new lease with USACE, DNR will assume the same cost-share obligations SVDD currently has to maintain public amenities and DNR will apply the funds its receives from the SVDD accounts for this purpose. The lease between USACE and DNR will be reviewed by and subject to the approval of the Division of General Services.
3. SVDD controls three tracts of state-owned land containing approximately 690 acres in Abbeville County that is currently under DNR management for public hunting and recreation. SVDD requests approval to transfer control of the state-owned property to DNR for nominal consideration so that they may continue to maintain the property for public use.
4. SVDD controls approximately 194.3 acres of easement rights and state-owned land consisting of a railroad ROW and related parcels known as the Anderson Branch ROW. The property lies between the Town of Calhoun Falls and the Town of McCormick in Abbeville and McCormick Counties. SVDD requests approval to divide and transfer the property to two separate entities as follows:
  - a. SVDD proposes transferring all rights in the largest portion of the ROW spanning approximately 19.3 miles in McCormick County to the Ninety-Six District Resource Conservation and Development Council, Incorporated (Ninety-Six District RCDC), a 501(c)(3) focused on conservation, development and utilization of area natural resources to improve social, economic and environmental conditions for area citizens in the counties of Abbeville, Edgefield, Greenwood, Laurens, McCormick and Saluda. The transfer of rights in the ROW was offered to the County of McCormick; however, they declined acceptance of the ROW property. The possibility of transferring rights in the ROW was not discussed with any local municipality of McCormick County because the portion of the ROW lying in McCormick County does not lie within or near the town limits of any municipality in the county. The Ninety-Six District RCDC has already established a public recreational trail on a portion of the ROW and would like to continue to maintain the trail. SVDD requests to transfer to property to the Ninety-Six District RCDC for nominal consideration due to the significant funding and resources required to improve and/or maintain the ROW.
  - b. SVDD proposes transferring all rights in the portion of the ROW located in Abbeville County spanning approximately 4.3 miles to the Town of Calhoun Falls.

The Town would like the opportunity to acquire the property from SVDD in order to attract commercial businesses to the area and establish “greenways” for public recreational activities. SVDD requests to transfer to property to the Town of Calhoun Falls for nominal consideration due to the significant funding and resources required to improve and/or maintain the ROW.

The Department of Commerce requested the transfer of SVDD assets as outlined above due to the lack of funding to continue its financial obligations. If approved, the assets will be transferred to those entities best positioned and motivated to preserve and keep these assets available for public use and enjoyment.

Mr. Eckstrom commended the Department of Commerce for its caretaker role for the many years it did so with regard to the property.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, as recommended by the Division of General Services, the Board:

- (a.) Approved the termination of SVDD’s 50-year Blue Hole Recreation Area Lease with USACE;
- (b.) Approved the termination of SVDD’s 99-year Abbeville, Hester and Manor Tracts lease with USACE;
- (c.) Approved the transfer of the balance of the SVDD account to DNR;
- (d.) Approved the transfer of 690 acres in Abbeville County to DNR for nominal consideration;
- (e.) Approved the transfer of the portion of the Anderson Branch ROW in McCormick County to the Ninety-Six District Resource Conservation and Development Council, Incorporated for nominal consideration; and
- (f.) Approved the transfer of the portion of the Anderson Branch ROW in Anderson County to the Town of Calhoun Falls for nominal consideration;

Information relating to this matter has been retained in these files and is identified as Exhibit 19.

***Division of Human Resources: Approval of Sales Incentive Pay Plan for the Department of Commerce (Regular Session #4)***

Section 8-1-190 of the South Carolina Code of Laws, 1976, provides as follows:  
“Notwithstanding other provisions of law, the Budget and Control Board is authorized to enter into pilot programs with individual agencies or groups of agencies in order to create innovations in State Government.” Pursuant to that statute, the Secretary of Commerce, Mr. Robert M. Hitt

III, requested approval for a Sales Incentive Pay Plan for the Global Business Development Department. The Department will use the incentive plan to help recruit, retain and motivate staff members with direct responsibility for recruiting industry to South Carolina.

In addition, the Division of Human Resources requested that the Board delegate to it the authority to approve revisions to the pilot program that do not substantially alter the fundamental components of the approved program.

An annual assessment will be reported to the Board.

Mr. Hitt appeared before the Board on this matter. Governor Haley said she applauds Mr. Hitt for the Sales Incentive Pay Plan. She noted that there have been three indicators in the past that have been given incentives: the number of jobs, the total invested, and the number of projects closed. She noted that the plan changes the pay scale for the people in Commerce. She said the incentive will now be based on the number of jobs, total invested, and the number of jobs created in rural counties. She said this is in line with what she and Mr. Hitt are trying to accomplish in bringing economic development to rural areas. Governor Haley also noted that the plan will also allow for teams to be paid rather than individuals.

Mr. Hitt noted that another difference in the plan is that in the past management was also compensated and that will no longer be the case. He said only project staff will be compensated.

Senator Leatherman asked whether the incentives were for individual teams or the Department as a whole. Mr. Hitt stated the plan is just for their global development (sales) team. He said that working as a team they are better able to blend the talents of the team members. Senator Leatherman further commented that he did not see that an opportunity for competition among individuals or core groups of individuals was included in the plan. Mr. Hitt responded there is a component of the plan that uses the EPMS scores to factor into how the team members' bonuses are done. He said team members will have to perform well on all of their goals to participate in the team bonuses. He noted that they are trying to create a team environment where people can advance at their different levels.

Mr. Loftis noted that the trigger for the bonus is when a company issues a press release or public announcement. Mr. Loftis asked whether the pay scale this year is based on the 15,000 to 20,000 jobs that are announced. In response, Mr. Hitt said this year is under the current plan and next year is under the new plan. Mr. Loftis said that the "kick-in" clause, that says if a press

release is issued and that leads to jobs being created, has not changed. Mr. Hitt acknowledged that has not changed. Mr. Loftis further asked when the jobs would have to materialize for the employees to be paid or would the team members be paid when the announcement is made. He asked whether there was a “claw back” provision to which Mr. Hitt responded that there was no claw back provision. Mr. Loftis questioned whether that was a wise thing to do. Mr. Hitt noted that performance agreements with the companies can be five to seven years. He said that with the turnover in his office, people would be employed somewhere else and getting a bonus. Mr. Hitt said that the team members have managed the project to the point of a letter of intent and a performance agreement. He said the team members’ job is to recruit the company and aid them in making their decision and not supply the jobs. He said that is a different function than the claw back which is a function of his office to make sure that the companies perform. He noted that the companies do not get a benefit until they perform. Mr. Loftis further commented that he does not think the barometer should be that someone gets paid when a press release is sent out. Mr. Hitt said that is only one of the criteria and the others are investment, job creation, and whether the companies are located in tier 1 and tier 2 counties. Mr. Loftis inquired whether the press release or the letter of intent is legally binding. Mr. Hitt said they are not legally binding, but that the performance agreement is legally binding. In further discussion, Mr. Loftis said that he applauds what Commerce does and that he likes incentive pay, but he does not see how one is paid on a promise and not on the fulfillment of that promise. He noted that the average South Carolinian cannot get paid this way; they have to have something concrete.

Governor Haley asked Mr. Hitt how many of the deals have pulled out over the past few months once a deal has been closed. Mr. Hitt said that he is only aware of one major deal where money moved forward and it had to be clawed back.

Mr. Loftis asked Mr. Hitt whether the Board could get a list of the jobs the State would be paying for this year. Governor Haley commented that the Department of Employment and Workforce has that list and that the list can be given at any time. Mr. Loftis said that he would like to have a copy of that list.

Senator Leatherman asked whether it was possible for the State to pay an incentive for a project that did not materialize. Mr. Hitt responded that an individual who closed a contract deal for the Department could have gotten an incentive related to a project that did not materialize.

Mr. Hitt noted that would be just one portion of the individual's entire compensation. Senator Leatherman further asked whether the entire team would get their share of the incentive if the project did not materialize. Mr. Hitt said if incentives are being looked at from the standpoint of the incentives being based on the number of jobs being created, total aggregate investment, and the impact that is had in rural counties, the entire team would benefit from the aggregate totals. He said, for example, that within that aggregate job total of 15,000 if a hundred jobs did not materialize the bonus would have been paid in part because of that number of jobs. He noted that would be very marginal. He said they are trying to incentivize people to work as a team and to work with companies to help them build a business plan and bring them to a point of fruition. In further discussion, Senator Leatherman said he is concerned if people are being paid incentives and the company does not materialize.

Mr. Eckstrom commented that this is a business risk. He said that he wanted to know what the dollar amount is that is expected to be committed to the plan next year. Mr. Hitt said the amount is \$50,000 to \$75,000. Mr. Eckstrom said that this amount would be for eight to nine staff members. He asked what the general compensation level is for this group. Mr. Hitt said the average salary for the group was around \$64,000. Mr. Eckstrom noted that these are the people who are making phone calls and finding the companies. Mr. Hitt said they are the ones who are going out and finding the companies. Mr. Eckstrom noted that the team is doing a tremendous service to the State and are not highly compensated. He said what is being talked about is a \$64,000 commitment for which the State can receive millions of dollars in benefit. Governor Haley commented that this is not a new plan, but a change to an element of the plan that allows for a switch from jobs created to focus on rural areas. Mr. Eckstrom commented this is a tremendous change that meets the need where the need is greatest. Mr. Hitt responded that the current incentive plan was approved by the Board a few years ago and is not in tune with where their commission is at the moment with regard to working as a team and focusing on rural areas. Mr. Hitt pointed out that he is only asking that adjustments be made to the old plan and that issues concerning compensation exist with the old plan and will exist with the new plan. He commented that is why the Department is asking that this be a pilot program.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board approved the Sales Incentive Pay Plan for the Department of Commerce as a two year pilot program,

beginning in January 2012; and delegated to the Division of Human Resources the authority to make revisions to this pilot program that do not substantially alter the fundamental components of the approved program;

Information relating to this matter has been retained in these files and is identified as Exhibit 20.

***Retirement Division: Appointments to the Retirement and Pre-Retirement Advisory Board (Regular Session #5)***

Section 9-2-20 of the South Carolina Code of Laws governs membership of the Retirement and Pre-Retirement Advisory Board (Advisory Board) and includes guidelines for its terms of office, vacancies, and appointment of officers. All seats on the Advisory Board are based on four-year terms, with each member being allowed to serve two consecutive four-year terms. To comply with the provisions of Section 9-2-20(a), four members of the Advisory Board must either be reappointed or replaced, two of which are included in this item. The statute also requires that at least one appointment must be an individual receiving benefits from the Police Officers Retirement Systems, either in an active or retired capacity, and two members representing public school teachers, one of whom shall be retired (one public school teacher seat is currently filled).

Members must wait four years from the end of their second consecutive term to be eligible for reappointment as provided in Section 9-2-20 (b).

New appointments must be made to fill the following seats, with terms to expire April 2014.

<b>Appointment Capacity</b>	<b>Incumbent</b>	<b>Nominee</b>	<b>Recommendation</b>
Municipal Employee	Melissa Carter	Melissa Carter	Municipal Association of South Carolina
Retired State Employee (PORS)	Charley McDonald	J. Douglas Connelly	SC Law Enforcement Officers

Upon a motion by Mr. White, seconded by Senator Leatherman, the Board appointed the following two members to the Retirement and Pre-Retirement Advisory Board:

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 22**

---

<b>Appointment Capacity</b>	<b>Appointee</b>	<b>Recommendation</b>
Municipal Employee	Melissa Carter	Municipal Association of South Carolina
Retired State Employee (PORS)	J. Douglas Connelly	SC Law Enforcement Officers

Information relating to this matter has been retained in these files and is identified as Exhibit 21.

***Retirement Division: System Valuations and Parallel Systems Valuations as of July 1, 2010; and Experience Study for the Period Ending June 30, 2010 (Regular Session Item 6)***

A) The laws governing the operation of the South Carolina Retirement Systems (Retirement Systems) provide that actuarial valuations of the assets and liabilities of the Systems shall be made annually (Sections 9-1-260 [SCRS], 9-8-30 [JSRS], 9-9-30 [GARS], 9-11-30 [PORS], 9-10-20 [NGRS]).

Each year a valuation is conducted on the five defined benefit plans administered by the Retirement Division. The purpose of these valuations is to, in the opinion of the consulting actuary, correctly present the condition of the Retirement Systems as to those benefits that are funded on an actuarial reserve basis. Cavanaugh Macdonald performed System valuations as of July 1, 2010. Based on volatile economic and market conditions, a second independent valuation for the Cavanaugh Macdonald valuations of SCRS and PORS was sought.

Accordingly, an RFP was issued and contractual arrangements were entered with Gabriel, Roeder, Smith and Co.(GRS) to conduct parallel valuations of SCRS and PORS for the July 2010 principal valuation results provided by Cavanaugh Macdonald. The parallel valuations performed by GRS confirm the results reached by Cavanaugh Macdonald and confirm the required employer contribution rate increases necessary to maintain a 30 year funding period for purposes of the 2010 valuations. As described below, the Cavanaugh Macdonald valuations gives the Board two options for implementing the required increases to employer contribution rates for SCRS and PORS. It should also be noted that, should the General Assembly amend the retirement code such that the valuation is affected, the Board may consider implementing changes to employer contribution rates as needed.

(B) In addition to the requirement for annual valuations, at least once every five years an experience study is conducted for the Retirement Systems. Again based on volatile economic and market conditions and as part of the above mentioned RFP and contract with GRS, the Board had GRS perform an experience study in the summer of 2011 for SCRS and PORS rather than waiting five years from the last experience study done in 2007. GRS has now completed the experience study for the Board's consideration for the period ending June 30, 2010. GRS has recommended adjustments to several actuarial assumptions, methods and policies related to the funding of SCRS and PORS. Some of the more significant changes recommended by GRS include changing the assumed annual inflation rate from 3% to 2.75%; reducing the payroll growth rate assumption from 4% to 3.5%; changing the assumed rate of return from 8% to 7.5%; updating the mortality tables to reflect continuous increases by projecting future mortality improvements; and changing the smoothing period for recognizing investment gains/losses from 10 years to 5 years. A complete listing of the recommended assumptions, methods and policies is attached hereto. GRS has indicated that the recommended assumptions, methods and policies as part of the experience study must be taken as a set. If any single assumption, method or policy change or group consisting of less than the entire set of changes is not accepted by the Board, the entire set would have to be re-examined for appropriateness. If accepted by the Board, the assumptions, methods and policies will be applied to future actuarial valuations for SCRS and PORS beginning with the valuation for the fiscal year ending June 30, 2011. Finally, as the assets of all five plans that make up the Retirement Systems are pooled for investment purposes in a group trust, the recommended changes to the assumed rate of return and the period for smoothing the recognition of investment gains and losses will also be applied to future actuarial valuations for GARS, JSRS and NGRS beginning with the valuation for the fiscal year ending June 30, 2011.

Mr. Blume, Division Director for the Retirement Division, appeared before the Board on this matter along with Joe Newton of Gabriel Roeder Smith & Company and Neal Rue of Pension Consulting Alliance, Inc. Mr. Newton provided the Board with a summary of the assumptions. He noted that there were two significant strategies that were taken with the new assumptions. He said that one is an estimate of lower future economic growth across the board in all of the economic assumptions to include lower investment returns, lower salaries, lower

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 24**

---

growth in the State's budget, and lower growth in the general economy. Mr. Newton said the second thing to consider is that people are living longer and that when a pension plan is being funded the length of payment to an individual is a significant portion of the cost. He stated that if the assumption is that someone is going to receive an annuity for 20 years but receives it for 22 years that is a 10% difference in underestimating the cost. He said this is a national trend and not just a South Carolina trend and since people are living longer, increases are expected. He stated that more needs to be contributed to the plan to cover the beneficiaries.

Mr. Loftis asked whether the Board action requested was two different motions. Governor Haley said that it is one motion that has two elements to the motion. Mr. Loftis asked for discussion on the Cavanaugh Macdonald recommendation. Mr. Newton said the Board is looking at the contribution rate for fiscal year 2013 and that is what the Board is to consider. Mr. Loftis asked what the rates are. Mr. Newton said the rate is 10.6 for the SCRS plan and 12.3 for PORS.

Mr. Loftis stated that he does not see the wisdom in putting this matter in one motion and that it should be two different motions. He noted that the Cavanaugh Macdonald proposal was based on a set of data which the Board has had a lot of time to discuss and the public to digest, but the second part is very much different and there should be a conversation about it. He said that one motion sets the Retirement System right and puts it back to square one. He said the other motion sets the Retirement System forward. He stated that he would not want to see one part of the motion put the other part in jeopardy.

Mr. Loftis made a motion to separate the Board action requested so that part "A)" is one motion and part "B)" is another motion. Governor Haley commented that the Board has known from the beginning that this year was going to hurt. She said the Board has agreed that it will not bury its head in the sand. She said that those who are retired should get what they are supposed to get and that there must be stability for current state employees so they know there will be something for them when they retire. She said this is something the Board can piecemeal and put off the inevitable, but this is something that should be done and done right the first time. She said she has full faith in her conversations with Mr. White and Senator Leatherman that the legislature is committed to a solution. She stated that she offers her guidance along with Mr. Blume's to ensure stability and predictability to the plan. Governor Haley further stated that this

should be done to be in accord with federal requirements, to protect the State's rating agency rankings, and to give the taxpayers of the State predictability. Senator Leatherman asked for a second to Mr. Loftis' motion before it is discussed. Governor Haley asked for a second to Mr. Loftis' motion. There was no second to the motion to split the question. The motion failed.

In further discussion, Mr. Eckstrom asked whether those issues were linked with regard to the valuations and parallel valuations which tells the Board what has to be done with contribution rates but in order to continue to deal with plan management the Board has to deal with the matter of assumptions, estimates, policies, and those sorts of things in order for the next annual valuation to be performed. Mr. Eckstrom asked whether an experience study is done every five years and whether that is what has been done in this case to which Mr. Blume responded that is correct. Mr. Eckstrom asked whether the practice has been to rely on advice of the actuarial firms in preparing the experience studies. Mr. Blume said the practice is that the Board relies on whoever does the study. Mr. Blume noted that the experience study should have been done in 2012, but it was moved up to the end of 2010. He also stated that the valuations and the experience study are connected. He said this is not saying that the 10.6 has to be met and then go out and consider another set of assumptions. He said there are another set of assumptions now. Mr. Eckstrom stated that the 10.6 is based on current assumptions to which Mr. Blume said it was based on current assumptions for 2010. Mr. Eckstrom asked whether the recommended assumption changes would apply from that point forward to which Mr. Blume said that is correct. Mr. Eckstrom said one of the reasons the assumptions needed to be revisited is that one of the results of the annual actuarial valuation shows that the assumptions continue to miss the mark yearly. Mr. Blume said since 2000 there has been nothing but actuarial losses or investment losses. He said investment losses cannot be changed, but the actuarial losses and assumptions can be changed. He said the only gain that has been seen since that period of time is when the investment rate was changed from 7.25% to 8%. He said this is an unusual situation. Mr. Eckstrom said this shows the assumptions that are in place have not been reliable. Mr. Eckstrom said the fact that the assumptions produce losses year after year indicates that the inevitable is being forestalled. He said the inevitable is that the retirement system is in worse shape than what has been acknowledged. He stated that the Board has managed the bad news by assuming that the news is not so bad.

In further discussion, Mr. Loftis said that the Cavanaugh Macdonald valuation is 18 months away looking back. He said that is being added to the assumptions for two of five systems and that not all assumptions can be spread across all five systems. He said that he has not heard the kind of academic conversation about the underlying assumptions that he wants to have. He said one concern is whether the Board should take inflation from 3.0% to 2.5%. He said he has talked to three world class economists one of which said that 2.5% is too low. He said the same economist said that he would not bet on 30-year or 10-year. He said the Board is about to accept the assumptions and has not worked through them. Mr. Loftis stated that if 2.5 is defensible, is 2.75 defensible. He said he has looked at the charts for major states pension plans across the country and most of them are still at 8%, but each of them is defensible. He said what the Board is about to do is to accept the assumptions without looking at them. He said his fear is that overstating the State's liabilities is as bad as understating the liabilities. He commented that he has had a problem with Retirement's charts and that the charts do not reflect the current status. He said when linking the two issues together legitimacy is given to one that is not deserved. Mr. Loftis said looking at the issue from Mr. Eckstrom's standpoint, he does not know why the Board does not take the assumptions and apply them to the Cavanaugh Macdonald valuations. He said if the point is to right the system now then that is what should be done, but he does not think that is prudent. He said the Board has not had public comment and that this action requires a lot of thought and consideration and does not need to happen now. He said the Board should wait until the charts and other information are available so that the public can understand it.

Senator Leatherman stated that the Board members are sitting as trustees of the Retirement System and they have a fiduciary responsibility to the system, but more importantly to the State employees and retirees to make absolutely sure that the system will ensure they get what they are supposed to get. He said he will not be a party to anything the State does that does not live up to its promises. He said the Board has to do what it needs to in order to get the system healthy and keep it healthy. He noted that the Board also has to take into account the State's credit rating because the rating agencies look at the State's credit rating. Senator Leatherman further commented that over the past five years there has been a 3.97% rate of return and over the past ten years a 5.02% rate of return. He said to think that there is going to be an

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 27**

---

8% rate of return is foolish. He said he met with State employees and some retirees and posed the question that if someone is getting \$100 and receives \$102 this year based on the current 2% COLA increase which is based on 8% and if the rate of return is dropped from 8% causing the COLA to go to a guaranteed 1% and they get \$101, would they be willing to jeopardize the long term integrity of the Retirement System for a dollar. He said the employees and the retirees he talked to have said no and they understand the situation when explained that way. He said the system is in trouble and he has a subcommittee working and Mr. White has an ad hoc committee working to find a solution that will fix the Retirement System. Senator Leatherman said the Board has to move forward to give current employees and retirees what was promised to them.

Mr. Eckstrom commented that he agrees with Senator Leatherman and said that the Board's task is to act upon the actuarial advice that has been given to make adjustments in employer contribution rates. He said the Board will also need to take a second step to act on the advice the actuarial experts have given and decide whether to adjust the estimates that are used. He said there is ample evidence in place that shows those estimates need to be adjusted. He said that the estimates the Board has been given are defensible and move in a direction that experience shows need to be moved in adjusting the estimates. He noted that the data the Board is using is 18 months old because the Board has been studying the data for six months and that is something the Board has not done before. He commented that the Board has an obligation to act by the end of the year so that as of the next fiscal year the employer contribution rates are changed. Mr. Eckstrom said that is the Board's responsibility and there is no reason to forestall making those changes. He stated that the actuaries need to begin work now to prepare the next valuations and that new assumptions need to be made to do the valuations. Mr. Eckstrom stated that the Board needed to adopt the action now to sure up the estimates. He said that he wanted to so move.

Governor Haley said to Mr. Eckstrom that as accountants they are conservative by nature and always assume the worst and not count on the best. She stated that if the Board is going to fix the Retirement System it has to be fixed right and it has to be fixed this year.

Governor Haley recognized Mr. Eckstrom's motion. Mr. Eckstrom asked to clarify his motion. He moved that the Board adopt the Cavanaugh Macdonald 2010 annual actuarial valuation that includes the need to increase the employer contribution rates for the South

Carolina Retirement System by .92% and for the Police Officers Retirement System by .305%, which is just under a third of a percent. He further stated that the valuation, as Mr. Loftis noted, is based on the old assumptions and he moved that the Board proceed to accept that valuation and adjust the employer contribution rates accordingly; then, secondly, that the Board receive the experience study performed by Gabriel-Roeder and apply those assumption changes to the South Carolina Retirement System, because it was only the South Carolina Retirement System and the Police Officers System that the experience study related to; apply the investment recommendation to the other three plans as well because the State invests as a pool and any practice in one would affect the other three as well; and then come back and do an experience study on the other three plans. Mr. Eckstrom reiterated that that was his motion. Governor Haley asked for a second to Mr. Eckstrom's motion.

Mr. White said that he would second the motion so the Board could have discussion on Mr. Eckstrom's motion. Governor Haley asked Mr. White if he wanted discussion to which Mr. White responded yes. Mr. White said that Senator Leatherman is correct that the Board has to go with Cavanaugh Macdonald. He said he knows this is painful and is hard on everyone. He said that as Trustees of the Retirement System the Board has a fiduciary duty to the Retirement System and its solvency. He noted that he has a committee working on this issue as well and that he is certain that the House will work to make changes within the system to keep it solvent.

Senator Leatherman asked for clarification of whether the Board action requested is a one-step annual employer increase. Mr. Eckstrom said that it is the one step.

Upon a motion by Mr. Eckstrom, seconded by Mr. White, the Board:

- A) Adopted the Cavanaugh Macdonald 2010 Systems Valuations of the five retirement systems, including the employer contribution increases of .92% for South Carolina Retirement System (SCRS) and .305% for the Police Officers Retirement System (PORS) recommended as a one step annual employer contribution rate increase; and
- B) Received the experience study performed by Gabriel Roeder Smith and Company and adopted the changes in actuarial assumptions as recommended by the Experience Study performed by GRS for the period ending June 30, 2010, and apply those changes to the valuations for the period ending June 30, 2011. The assumptions related to assets will apply to all five retirement systems;

Governor Haley, Mr. Eckstrom, Mr. White, and Senator Leatherman voted for the

motion. Mr. Loftis did not vote on the motion.

Information relating to this matter has been retained in these files and is identified as Exhibit 22.

***State Treasurer's Office: Department of Transportation Cash Flow (Regular Session #7)***

At its September 20, 2011, meeting the Budget and Control Board requested that the Secretary of the Department of Transportation provide the Board members and the Board Secretary with the following information in a written report no later than October 14, 2011. The Secretary of the Department of Transportation was further requested to attend the November 3, 2011, Board meeting to make a brief and concise report.

1. As of August 15, 2011, what were the totals of all DOT outstanding payables due to all parties and entities, including contractors, consultants and the State Infrastructure Bank, that were overdue by 30 days, 45 days, 60 days and 90 days?
2. What were the sources and amounts of the financial ‘infusion’ from all sources utilized by DOT to assist in resolving the DOT cash flow deficiency, including but not limited to the \$12 million from the State Infrastructure Bank projects which were “under runs”, the \$52 million advance from the Federal government, interdepartmental “borrowing” from other projects and programs not in need of current funding and delayed and/or postponed projects or programs?
3. Identify each project and program that has been delayed or postponed, the dollar amount from each that will assist in resolving the cash flow problem, the location of each delayed or postponed project and program and the length of the delay or postponement.
4. What are DOT’s current cash flow forecasts by month for the next 12 and 24 months?
5. A discussion of the State’s capacity for and the Department’s April, 2011, action to pursue issuance of up to \$344 million General Obligation State Highway Bonds, with particular emphasis on the following considerations:
  - a. How much of the Department’s capacity will be depleted, and for what period of time, following issuance of this indebtedness?
  - b. Are each of the projects to be funded from the proceeds of this issuance included in the Department’s Statewide Transportation Improvement Plan, and if so, what is each project’s priority ranking?

- c. In view of recent concerns about the Department's cash flow, and particularly in view of observations that tax revenues that would be pledged to the bonds are declining, what is the impact of debt service associated with the bonds on the cash flow of the operation of the Department, and what comfort can be given that the Department is in a position to absorb this additional, ongoing liability? What effect does this have on road and bridge maintenance and repair, as well as repaving?
  
- 6. A discussion of the State Transportation Infrastructure Bank's capacity and its collaboration with the Department of Transportation's Statewide Transportation Improvement Plan, and particularly:
  - a. What is the Bank's current capacity to issue additional revenue indebtedness, and when does the Bank anticipate that additional capacity will become available?
  
  - b. What process does the Bank follow in prioritizing its funding commitments? Is the Bank's approval process collaborative or otherwise integrated with the Statewide Transportation Improvement Plan?
  
  - c. What is the total value of projects approved by the Bank for funding, both in terms of those that have present commitments to funding, and those that have been approved but are not funded because of limited bank resources?
  
  - d. What portion of the Bank's financial resources are dependent on its funding and reimbursement agreements with the Department of Transportation, and how does or would the Bank address delays or disruptions in those reimbursements over the short and longer term?

The Secretary of the Department of Transportation provided his response to the questions raised. The response was attached and incorporated as part of this agenda item.

Secretary of the Department of Transportation (DOT) Robert St. Onge and Debra Rountree appeared before the Board on this matter. Mr. St. Onge commented that in the last few months they have worked to have clear identification of what the problem was with DOT's cash flow challenge, what the causes were and what were the potential solutions. He said the potential solutions come down to whether one has the right procedures in place, effective organization, and the right people. He said they have focused on those three areas to determine solutions and this continues to be a work in progress. He said with regard to procedures he has found that there is a lack of good synchronization and coordination between DOT's engineering staff and those that do the work and work the lettings and the finance folks. He said a weekly

**Minutes of Budget and Control Board Meeting**  
**November 3, 2011 – Page 31**

---

meeting (program, resource, and analysis meeting) has been established to generate answers and decisions as to what can be let from month to month in terms of work. He said that DOT is dealing with an over commitment that was made some time ago and that is coming to fruition. He acknowledged that the Department has a tremendous backlog of work that has been done and needs to be paid for. Mr. St. Onge said they are working hard to pay for that work on a schedule that is appropriate. Mr. St. Onge further stated that he has established a task force to look at the organizational design of DOT and he has talked to numerous people about the right people to refer or assist him in finding the right people to help him populate the Department. He said they have made adjustments and changes and what is being done is a work in progress.

Mr. Loftis commented that he has had an extremely difficult time getting information from DOT. He stated he is not going to be happy with anything Mr. St. Onge has to say. He said that he does not see that there is any commitment from DOT to transparency and accountability. He said every single test DOT has been given it has failed. Mr. Loftis stated that this is not a matter of whether DOT has staff that can add or subtract, build roads, or run the back-office functions of DOT. He pointed out that DOT has a lot of talent and said that someone was conveniently demoted because of this situation. Mr. Loftis stated that this issue came about because contractors started calling him and that he read an article where contractors in the Pee Dee were calling Mr. Eckstrom. He said that it has been learned that contractors are not being paid, DOT cannot give an aging accounts payable, and DOT does not know what 30, 60, or 90 days are. He said the problem is that DOT believes it is above State government. He noted that the credit rating agencies have told the State to not overly rely on federal dollars and contrary to that DOT has obtained a \$52 million advance from the federal government. Mr. Loftis also pointed out that Mr. St. Onge has indicated in his plan that there will be an additional \$52 million advance. He said that was initially said to be a \$25 million dollar problem which has mushroomed to something far greater than that. He asked Mr. St. Onge has DOT quantified how much money has been over committed. Mr. St. Onge replied that they have all kinds of numbers and that DOT has commitments on the street over the next three years that are in the \$1.3 billion range. He stated that of that amount over half of it has been paid and the rest of it is to be paid. He said he did not have the exact numbers with him at the meeting. He said he admits that DOT has a bubble of work that was let early and that they are doing their best to pay that down.

In further discussion, Mr. Loftis said there is a system at DOT that has internal auditors reporting back to the DOT Commission and not to anyone on the outside. He said there is a problem with the internal audits going back and forth in DOT. He said in August it was discovered that for four days DOT's prime contract account had \$2.48 in it. He said that these things were found out and were not volunteered by Mr. St. Onge. Mr. Loftis said he also found out that DOT has not paid the State Infrastructure Bank in two and half to three months. He said that DOT has not been forthcoming with any usable information.

Mr. Eckstrom asked how the State Infrastructure Bank is paid. Mr. St. Onge said that Ms. Rountree can best tell him, but the payment is made monthly on the debt. Mr. Eckstrom asked who gets the money to which Mr. St. Onge replied that it goes into the State Infrastructure Bank's bank account. He stated that it is documented that DOT was two months in arrears and that was rectified. Mr. Eckstrom further asked whether the money that goes into the account goes to bondholders. Mr. St. Onge said that it is used by the bank to pay its debt service. Mr. Eckstrom asked whether there is a trust account established for those payments. Senator Leatherman said that the State Infrastructure Bank loaned DOT some money for Highway 17 and the payment goes to repay that loan. Mr. Eckstrom asked whether the State Infrastructure Bank directly repays the bondholders. Ms. Rountree said the account is held with the State Treasurer and the State Infrastructure Bank has issued revenue bonds and there are several sources to repay those bonds. Mr. Eckstrom asked if payments did not go into the trust account why was there not an issue at that point. He asked Mr. Loftis if the trust account is in his office. Mr. Loftis responded that his office handles all of the money and, that like Mr. Eckstrom, he does not verify every penny that goes around. He said that Mr. Eckstrom should not try to hang DOT's problem on him. He said that Mr. Eckstrom does not audit every single bill that comes through his office and neither does he.

Mr. Loftis asked Ms. Rountree what happens once the payment is made to the State Infrastructure Bank. Ms. Rountree stated that the payment is deposited with the State Treasurer's Office in a debt service account. She said that that account has sufficient funds and there were no late payments on any bond payments. She said DOT's June and July payments were delayed a few weeks for a total of about \$4.2 million per month. She said that each month since then has been currently paid.

After further discussion, Senator Leatherman noted that in 1982 the General Assembly established a joint House and Senate highway oversight committee. He said he chaired that committee and knows something about the workings of DOT. He said prior to the action Mr. St. Onge took in the past month or two, DOT would have a project it wanted to build, establish a timeframe, go out for bids, and the contractor would bid and start the work. He said the contractor had to finish the work within the established timeframe. He said that DOT would not have control over money that would need to be paid. He noted that the payment required during the first half of the contract period may be zero or all of it. He said there was no way for DOT to determine how much money would be required. He said that he has listened to Mr. St. Onge and he understands DOT now goes out for bids and DOT asks the low bidder for a draw schedule for payment. Senator Leatherman said that the schedule allows DOT to determine whether they can meet the draw schedule and whether to ask the contractor to delay starting the construction to help DOT manage its cash flow. Senator Leatherman stated that he believes Mr. St. Onge is on the right track.

Mr. Loftis noted in further discussion that his office administers the transfer of payments among DOT, the State Infrastructure Bank, and the bondholders. He further pointed out that the State Infrastructure Bank was able to pay the bondholders because it had extra funds to do so. He said that DOT has taken that money and the State Infrastructure Bank no longer has the cash flow cushion which with it was comfortable. Mr. Loftis said that he thinks if DOT did not pay now that there would be repercussions. He stated that the issues are serious and they directly affect the State's credit rating. He also stated that he trusts the legislature is watching DOT and will take the issue up during the legislative session. He said his recommendation to the General Assembly is for the team of internal auditors to report to some outside entity and not internally. He said he does not believe the Board knows the bottom line of what is going on at DOT. Mr. Loftis stated that he cannot continue to put in the time he has on this matter, but he is willing to help in any way he can. He commented that had he not undertaken this travail and spent the last three miserable months dealing with DOT the people of the State would not know about this issue. He said the people of the State are mad about their roads, bridges, and tax dollars and they do not like what is going on at DOT. Mr. St. Onge responded that the internal audit office at DOT is not under his control. Mr. Loftis said that it reports to the Commission. Mr. St. Onge

also said the internal audit office does not respond to him, does not set their agenda, nor does he tell them what to look at. Mr. St. Onge said the internal audit office works for the Commission. He said that he welcomes the outside audits and that DOT has just completed the state directed audit of DOT's financial reporting. He said he has received the report and that in the face of a cash flow dilemma the report indicates they are generally doing a fine job. He also noted that they are passing audits from the Inspector General.

Mr. St. Onge advised the Board its funding from the federal government through federal reimbursement accounts for two-thirds of DOT's budget. He noted that half of the roads in the State are not federal aid eligible and are eligible only for the other one-third of DOT's budget which also pays the match to get federal money back. He said it is a tightrope for DOT and depending on the federal government is by design. He said the \$52 million DOT received from the federal government is for projects that have been completed and paid for. He said that it made a lot of sense to take the money from the federal government and pay down the debt to contractors and stabilize that situation as much as possible. He said that they have also postponed some lettings and are taking a hard look at their cash flow on a regular basis. He said that if he does not answer questions as completely as some may like, it is because he wants to make sure that he is telling the truth when he says it. He stated that the times when he has said something that was not true, he has had to go back and correct that as rapidly as possible. Mr. St. Onge said there is absolutely no intent to deceive the Board or the public or do anything that would be considered malfeasance.

Mr. Eckstrom commented that it is most important that internal audit does not report to management because it is management that is being audited. He said in the case of DOT it has a board of directors, the Commission, who are responsible and the internal auditors need to report to the Commission. Mr. St. Onge pointed out that by design the Commission is management and he is the administrator and internal audit reports to management.

Upon a motion by Senator Leatherman, seconded by Mr. White, the Board received as information the Secretary of the Department of Transportation's report on the Department's cash flow.

Information relating to this matter has been retained in these files and is identified as Exhibit 23.

*Future Meeting*

The Board agreed to meet at 10:00 a.m. on Thursday, December 15, 2011, in Room 252, Edgar A. Brown Building.

*Adjournment*

The meeting adjourned at 11:30 a.m.

[Secretary's Note: In compliance with Code Section 30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room, near the Board Secretary's office in the Wade Hampton Building, and in the lobbies of the Wade Hampton Building and the Edgar A. Brown Building at 3:00 p.m. on Tuesday, November 1, 2011.]