

## **MINUTES OF STATE FISCAL ACCOUNTABILITY AUTHORITY MEETING**

**January 26, 2016 – 9:30 A. M.**

The State Fiscal Accountability Authority (Authority) met at 9:30 a.m. on Tuesday, January 26, 2016, 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. Brian White, Chairman, Ways and Means Committee.

Also attending were State Fiscal Accountability Authority Director Grant Gillespie; Acting General Counsel Keith McCook; Governor's Deputy Chief of Staff Austin Smith; Treasurer's Chief of Staff Clarissa Adams; Comptroller General's Chief of Staff Eddie Gunn; Senate Finance Committee Budget Director Mike Shealy; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Budget Analyst Blythe Littlefield; Authority Secretary Delbert H. Singleton, Jr., and other State Fiscal Accountability Authority staff.

[Secretary's Note: The Authority met immediately following a meeting of the Tobacco Settlement Revenue Management Authority, the members of which are State Fiscal Accountability Authority members, ex officio.]

### ***Adoption of Agenda for State Fiscal Accountability Authority***

Upon a motion by Senator Leatherman, seconded by Mr. Loftis, the Authority adopted the State Fiscal Accountability Authority agenda as proposed.

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

Upon motion by Mr. White, seconded by Mr. Eckstrom, the Authority approved the minutes of the December 15, 2015, State Fiscal Accountability Authority meeting.

### ***Blue Agenda***

The Authority approved the blue agenda items as noted herein.

***Department of Administration, Executive Budget Office: Bank Account Transparency and Accountability (Blue Agenda Item #1)***

Proviso 117.84 of the Fiscal Year 2015-16 Appropriations Act requires agencies with composite reservoir bank accounts or other accounts which are not included in the South Carolina Enterprise Information System (SCEIS) to prepare a report disclosing transaction information from the prior fiscal year. State institutions of higher learning are exempted from this requirement. The proviso also provides for an agency to petition the State Fiscal Accountability Authority for an exemption from the detailed reporting requirements if release of the information would be detrimental to the state or agency. Agencies exempted from the detailed transaction reporting by action of the former Budget and Control Board must provide the following information for each account: 1) Name of the account; 2) Names and titles of each person responsible for making withdrawals and deposits in the account; 3) Names and titles of each person responsible for reconciling each account; 4) the beginning balance, total deposits, total expenditures and year-end balance of the account.

The Executive Budget Office requested state agencies to provide the required reports by October 1, 2015. The reports received from the various state agencies have been submitted to the Comptroller General's Office to be posted on its website. A list of agencies which submitted a report in accordance with Proviso 117.84 of the FY 2015-16 Appropriations Act was attached to the agenda item.

Mr. Eckstrom said that he is uncomfortable with the number of agencies that have requested to process their own checks and be able to not disclose to whom they have written the checks. He said that the proviso requires that the Authority approve the exemptions requested by this item with a majority vote and not to receive the item as information as stated in the agenda item. He noted that one of the agencies on the list in recent years has had a fraud detected and its finance director who oversaw an account for which an exemption was granted was convicted of absconding with \$5 million dollars. He said that he is concerned that there are so many agencies that are processing their own checks. He stated that it is inefficient to have so many check processing units around the State when the State has a central check processing unit that is overseen by two constitutional offices. He said he has a meeting scheduled with the State Auditor and members of the State Treasurer's Office to discuss the process of granting

exemptions. He said the State Auditor should go into the agencies and perform verification work. He said this is something that the Authority should rethink because it is the kind of thing that once an exemption is granted it continues to go forward and the list of exemptions grow longer. Governor Haley said that she agrees with Mr. Eckstrom.

Upon a motion by Senator Leatherman, seconded by Mr. White, the Authority received as information the list of agencies which have submitted reports in accordance with Proviso 117.84, concerning bank account transparency and accountability.

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

***Department of Administration, Division of General Services: Easement (Blue Item #2)***

Upon a motion by Senator Leatherman, seconded by Mr. Eckstrom, the Authority approved granting the referenced easement as recommended by the Department of Administration, Division of General Services.

- |     |                      |                                                                                                                                                                                                                                                                                                                 |
|-----|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | County Location:     | Dillon                                                                                                                                                                                                                                                                                                          |
|     | From:                | State of South Carolina, through the Department of Administration                                                                                                                                                                                                                                               |
|     | To:                  | AT&T Southeast                                                                                                                                                                                                                                                                                                  |
|     | Consideration:       | \$700                                                                                                                                                                                                                                                                                                           |
|     | Description/Purpose: | To grant a 0.796 acre easement for the installation, operation and maintenance of a 4" telecommunication conduit beneath the Little Pee Dee River at SC 41. The easement will expand the service area. Consideration is \$500 plus \$200 per acre for easements across navigable waterways and submerged lands. |

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

***Department of Administration, Division of General Services: Real Property Conveyance (B3)***

The Department of Administration, Division of General Services requested approval of a real property conveyance for the Medical University of South Carolina.

Mr. Eckstrom stated that he has no problem with the project. He said that MUSC is in effect selling the property to itself. He noted that MUSC has indicated it wants to monetize the asset by selling it to its Foundation. He said the Foundation is a part of MUSC and it is

monetizing MUSC's investment in the real estate to the tune of \$10.25 million dollars to be available for MUSC operations. He noted that the foundation will issue debt to fund the project and MUSC will reimburse the foundation through lease payments with appropriated funds. He stated that the instant case involves revenue that really is not revenue that MUSC is asking to spend. He said that this does not come under the purview of the budget writers of the General Assembly. Mr. Eckstrom stated that he has concerns with how the money flows back and forth between the Foundation and the University.

Senator Leatherman noted that JBRC reviews the project before approving or denying it. Mr. Eckstrom said his point is that a capitol asset is being converted into operating funds.

Mr. Eckstrom said that he supports the project, but is abstaining from voting because he is uncomfortable with the transaction.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Authority approved the following real property conveyance as requested by the Department of Administration, Division of General Services. Mr. Eckstrom abstained from voting on the item.

<b>Controlling Agency:</b>	<b>Medical University of South Carolina</b>
Acreage:	1.47± acres
Location:	165 Cannon Street, Charleston
County:	Charleston
Purpose:	To convey property known as the "M Lot" to the MUSC Foundation to be developed as a parking garage to support additional traffic at the Medical University Hospital Authority's Shawn Jenkins Children's Hospital, as well as future growth of MUSC's clinical enterprise. The Foundation will construct the garage and lease parking spaces to the University's Parking Management Services, who manages parking for both the University and the Hospital Authority.
Price/Transferred To:	\$10,250,000/MUSC Foundation
Disposition of Proceeds:	To be retained by MUSC.

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

***Executive Director: Qualified Public Educational Facilities (2015 Volume Cap Carryforward (Blue Agenda Item #4)***

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 2015 was \$48,324,820 and has been unused. The Authority is asked to elect to carryforward the entire volume cap for 2015 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.

Upon a motion by Senator Leatherman, seconded by Mr. White, the Authority approved the carryforward of the unused volume cap allocation for qualified public educational facilities for calendar year 2015 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.

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

***Department of Administration, Executive Budget Office: Permanent Improvement Projects  
(Regular Session Item #1)***

The Authority was asked to approve permanent improvement project establishment requests and budget revisions as requested by the Department of Administration, Executive Budget Office. All items were reviewed favorably by the Joint Bond Review Committee (JBRC).

Upon a motion by Senator Leatherman, seconded by Mr. White, the Authority approved the following permanent improvement project establishment requests and budget revisions as requested by the Department of Administration, Executive Budget Office. As noted above, all items were reviewed favorably by JBRC.

- (a) Summary 4-2016: JBRC Item 1. University of South Carolina - Columbia  
Project: 6114, Football Operations Facility Construction

<u>Source of Funding</u> <u>Detail</u>	<u>Original Budget</u> <u>Amount</u>	<u>Cumulative</u> <u>Changes Since</u> <u>Original Budget</u>	<u>Current Budget</u>	<u>Current Budget</u> <u>Adjustment</u> <u>Requested</u>	<u>Total Budget</u> <u>After Current</u> <u>Adjustment</u>
Athletic, Operating Funds	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,000,000.00</u>	<u>1,000,000.00</u>
All Sources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,000,000.00</u>	<u>1,000,000.00</u>

Funding Source: \$1,000,000 Athletic, Operating Funds, which are those revenues generated by ticket sales, SEC conference distributions, Gamecock Club contributions, seat premiums, and corporate sponsorships. Athletic funds are auxiliary funds of the University and are self-supporting.

Request: Establish project and budget for \$1,000,000 (Athletic, Operating Funds) to begin design work to construct a new football operations facility at the University of South Carolina. The facility will be located at the west end of Gamecock Park that is adjacent to the existing indoor football practice facility. The proposed building will be approximately 105,000-gross-square-feet and will consolidate all training, coaching, operational and administrative activities associated with the football program. The building will contain public spaces, locker rooms, meeting rooms, a weight room, a nutrition area, training rooms with hydrotherapy, and an equipment storage area and administrative/coaches offices. Site utilities, parking and associated landscaping and hardscaping will also be included as part of the project. Consolidation will enhance operational efficiency and eliminate the need for student athletes to cross Bluff Road going from locker rooms at Williams-Brice Stadium to the practice fields. This facility will be an important component of the football recruiting process. The

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agency estimates that the complete project will cost approximately \$50,000,000.

- (b) Summary 4-2016: JBRC Item 2. University of South Carolina - Columbia  
Project: 6115, Close-Hipp Renovation

<u>Source of Funding Detail</u>	<u>Original Budget Amount</u>	<u>Cumulative Changes Since Original Budget</u>	<u>Current Budget</u>	<u>Current Budget Adjustment Requested</u>	<u>Total Budget After Current Adjustment</u>
Other, Institutional Capital Project Funds	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>220,500.00</u>	<u>220,500.00</u>
All Sources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>220,500.00</u>	<u>220,500.00</u>

Funding Source: \$220,500 Other, Institutional Capital Project Funds, which are those funds generated from the portion of tuition and fees designated for Bond and Renovation Reserve. These funds pay debt service first and the remainder is used for capital improvements.

Request: Establish project and budget for \$220,500 (Other, Institutional Capital Project Funds) to begin design work to renovate the Close-Hipp building at the University of South Carolina. The Close building is 42 years old, while the Hipp building 32 years old. The combined gross-square-feet of the buildings is 340,978. The renovations will include replacing original mechanical and some plumbing and electrical systems that are at the end of their serviceable life. This project will also focus on life safety by installing a sprinkler system and an updated fire alarm system to comply with current building codes. Water intrusion issues will be addressed and the roof will be replaced. The College of Hospitality, Retail, and Sports Management will be relocated to Close-Hipp and will occupy approximately one-third of the building. Classrooms will also be renovated to include replacement of finishes, new classroom furniture as required, and installation of new A/V smart classroom technology. Other academic and student support services will occupy the building. This project will address the most serious maintenance needs and enhance energy efficiency of the building while providing significant academic and student support space. The agency estimates that the complete project will cost approximately \$14,700,000.

- (c) Summary 4-2016: JBRC Item 3. Medical University of South Carolina  
Project: 9831, Parking Garage #1 Structural, Waterproofing and Masonry Repairs

<u>Source of Funding Detail</u>	<u>Original Budget Amount</u>	<u>Cumulative Changes Since Original Budget</u>	<u>Current Budget</u>	<u>Current Budget Adjustment Requested</u>	<u>Total Budget After Current Adjustment</u>
Other, Parking Revenue	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,250.00</u>	<u>26,250.00</u>
All Sources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>26,250.00</u>	<u>26,250.00</u>

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Funding Source: \$26,250 Other, Parking Revenue, which are those revenues generated from operation of the MUSC parking system.

Request: Establish project and budget for \$26,250 (Other, Parking Revenue) to begin design work to repair the Jonathon Lucas Street Parking Garage at the Medical University of South Carolina. The parking garage is 42 years old, and is 191,670-gross-square-feet, of which 137,000-gross-square-feet will be renovated. This project will address structural and deferred maintenance issues on floors one through five in order to prevent further deterioration of the support structure. The work will repair/replace waterproofing systems, reinforce/repair masonry wall systems, upgrade vehicular impact systems to meet current code, and repair/paint structural support steel. Floors six and seven of this garage were previously repaired. The agency estimates that the complete project will cost approximately \$1,750,000.

(d) Summary 4-2016: JBRC Item 5. Department of Transportation

Project: 9734, HQ Building Fire Sprinkler Installation and Waterproofing

<u>Source of Funding Detail</u>	<u>Original Budget Amount</u>	<u>Cumulative Changes Since Original Budget</u>	<u>Current Budget</u>	<u>Current Budget Adjustment Requested</u>	<u>Total Budget After Current Adjustment</u>
Other, State Highway Fund	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>60,000.00</u>	<u>60,000.00</u>
All Sources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>60,000.00</u>	<u>60,000.00</u>

Funding Source: \$60,000 Other, State Highway Fund, which are those revenues derived from the state motor fuel user fee.

Request: Establish project and budget for \$60,000 (Other, State Highway Fund) to begin design work to install a fire sprinkler system and to fireproof certain building components at the Department of Transportation headquarters building. This building is 38 years old and 228,000-square-feet. In 2002, building code violations were found within the headquarters building that affected the ability for persons to safely exit the building in the event of a fire. The State Engineer wrote a memo in 2002 regarding code deficiencies at this building. At a minimum, the agency was directed to install a fire sprinkler system to mitigate the code violations found. Fireproofing the steel columns and beams in the building with a spray-on coating will be evaluated. The exterior of the building has not been sealed since it was constructed, and the building leaks when it rains. This creates the potential for moisture damage and mold growth. This project will include sealing the joints in the limestone panels and windows. The agency estimates that the complete project will cost approximately \$3,748,500.



**Establish Construction Budget**

- (e) Summary 4-2016: JBRC Item 7. University of South Carolina – Beaufort Campus  
Project: 9516, Hilton Head Island Hospitality Management Facility Construction

<u>Source of Funding Detail</u>	<u>Original Budget Amount</u>	<u>Cumulative Changes Since Original Budget</u>	<u>Current Budget</u>	<u>Current Budget Adjustment Requested</u>	<u>Total Budget After Current Adjustment</u>
Other, Town of Hilton Head Island	0.00	0.00	0.00	18,435,000.00	18,435,000.00
Other, Beaufort-Jasper County HEC	0.00	0.00	0.00	1,500,000.00	1,500,000.00
Other, Private Funds	<u>367,500.00</u>	<u>0.00</u>	<u>367,500.00</u>	<u>632,500.00</u>	<u>1,000,000.00</u>
All Sources	<u>367,500.00</u>	<u>0.00</u>	<u>367,500.00</u>	<u>20,567,500.00</u>	<u>20,935,000.00</u>

Funding Source: \$18,435,000 Other, Town of Hilton Head Island Funds, which are Tax Increment Financing from the Town of Hilton Head Island; \$1,500,000 Other, Beaufort-Jasper County HEC Funds, which are funds the Beaufort-Jasper Higher Education Commission receives annually from Beaufort and Jasper County; and \$1,000,000 Other, Private Funds, which are donations or gifts for the USC Beaufort campus.

Request: Increase budget to \$20,935,000 (add \$18,435,000 Other, Town of Hilton Head Island Funds, \$1,500,000 Other, Beaufort-Jasper County HEC Funds, and \$632,500 Other, Private Funds) to construct the Hospitality Management Facility on Hilton Head Island for the University of South Carolina Beaufort. The project was established for pre-design in April 2015, which is now complete. This project will provide for the site development and construction of an approximately 39,752-square-foot facility to house the USC Beaufort third and fourth year Hospitality Management academic program on Hilton Head Island. The building will provide classrooms, a culinary lab, a library, office and support spaces and space for the Osher Lifelong Learning Institute. Hilton Head Island regards the presence of USC and a Hospitality Management program as a vital component to expanding their hospitality-driven economy. This project will be LEED Silver certified for energy savings. The Town of Hilton Head is committed to investing \$22,000,000 to substantially assist in the creation of this academic facility on Hilton Head Island, of which \$3,565,000 is a gift of 9.721 acres of property. The Beaufort-Jasper Higher Education Commission will add \$1,500,000 and \$1,000,000 will be privately gifted. The agency reports the total projected cost of this project is \$20,935,000 with additional annual operating costs of \$430,000. The agency also reports the projected date for execution of the construction contract is March 2017, and the projected date for completion of construction is July 2018.

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- (f) Summary 4-2016: JBRC Item 10. Department of Transportation  
Project: 9733, HQ Parking Garage Structural Repairs

<u>Source of Funding</u> <u>Detail</u>	<u>Original Budget</u> <u>Amount</u>	<u>Cumulative</u> <u>Changes Since</u> <u>Original Budget</u>	<u>Current Budget</u>	<u>Current Budget</u> <u>Adjustment</u> <u>Requested</u>	<u>Total Budget</u> <u>After Current</u> <u>Adjustment</u>
Other, State Highway Fund	<u>15,750.00</u>	<u>0.00</u>	<u>15,750.00</u>	<u>1,149,250.00</u>	<u>1,165,000.00</u>
All Sources	<u>15,750.00</u>	<u>0.00</u>	<u>15,750.00</u>	<u>1,149,250.00</u>	<u>1,165,000.00</u>

Funding Source: \$1,165,000 Other, State Highway Fund, which are those revenues derived from the state motor fuel user fee.

Request: Increase budget to \$1,165,000 (add \$1,149,250 Other, State Highway Fund) to perform structural repairs and maintenance on the Headquarters Parking Garage at the Department of Transportation. The project was established for pre-design in June 2015, which is now complete. The 38-year-old, 207,900-square-foot facility provides 802 parking spaces. The last major repairs to the facility were performed in 2012, with annual maintenance being performed since that time. The repairs would include repairs to cracked and spalling concrete decking and structural tee sections, sealing deck joints. They would also include a concrete surface coating on the top level of the parking structure to help prevent water intrusion and repairing shear cracks on exterior beams. The agency reports the total projected cost of this project is \$1,165,000 with no additional annual operating costs. The agency also reports the projected date for execution of the construction contract is April 2016, and the projected date for completion of construction is July 2016.

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

***Department of Administration, Division of General Services: Department of Mental Health Amendment of Sale and Purchase Agreement between Department of Mental Health and Bull Street Development, LLC in Connection with Sale of Approximately 16 Acre Parcel of the Bull Street Property, the William S. Hall Psychiatric Institute (Regular Session Item #2)***

On June 14, 2011, the former South Carolina Budget and Control Board approved the request of the Department of Mental Health (“DMH”) to approve the Sale and Purchase Agreement dated December 16, 2010 (the “Sale Agreement”) between DMH and Hughes Development Corporation for the sale of 165.79± acres on the Bull Street Campus (the “Campus”) for not less than \$15,000,000. The Sale Agreement did not include the William S.

Hall Psychiatric Institute (the “Hall Institute”) and surrounding land, which DMH then intended to renovate and continue to operate as a children’s psychiatric hospital.

On June 16, 2014, Hughes Development Corporation thereafter assigned all its right title and interest in the Sale Agreement to and the responsibilities and obligations of same were assumed by Bull Street Development, LLC (“Buyer”).

Although DMH had initially desired to retain and renovate the Hall Institute for the purposes of continuing hospital operations, DMH subsequently changed the project to one to relocate the children’s psychiatric hospital services provided at Hall Institute to its G. Werber Bryan Psychiatric Hospital. DMH now desires to sell the approximate 16.11± Hall Institute parcel to Buyer by amending the Sale Agreement.

Following an appraisal of the Hall Institute parcel and an analysis of other factors relating to the Campus, Buyer has agreed, as additional consideration, to amend the Sale Agreement (the “Amendment”), to purchase the Hall Institute parcel at the full appraised value of \$220,000 per acre less the cost of demolition and abatement, estimated at \$600,000, and to provide DMH additional economic incentives in the form of profit sharing.

DMH sought and received an order from the Court of Common Pleas in Richland County approving the sale of the Hall Institute parcel. The order in Case No. 2015-CP-40-07184 captioned “South Carolina Department of Mental Health, as Trustee, Plaintiff/Petitioner vs. Alan Wilson, Attorney General of South Carolina, and Bull Street Development, LLC Defendants/Respondents” approving the sale under the terms of the Amendment with all proceeds to be held in trust for the benefit of DMH for the care and treatment of persons with mental illness was filed on December 17, 2015.

Mr. Eckstrom asked if the \$220 per acre is a current appraisal. Shawn DeJames with the Department of Administration, Division of General Services (General Services), said that the appraisal was current and was done within the last year. Mr. Eckstrom asked why no value has been assigned to the Hall Institute Building. Department of Mental Health Director John Magill said that the value of Hall Institute Building would not add appreciably to the value because of the condition of the building and that they have given approval to the developer to demolish the Hall Institute Building. Mr. Eckstrom said that not adding the building is taking away from the value because the developer is being provided a \$600,000 allowance from the appraised value to

demolish the building. Mr. Eckstrom asked if the only way for the developer to buy the building was for him to be paid to take it. Mr. Magill said that he was not sure about that. Mark Brinkley, General Counsel for the Department, stated that the value of the property is based on the intended use and the property has been rezoned for development for commercial, retail, and residential use. He said the appraiser used the current zoning for the property and based on the zoning the building has no value. He said although the building has no value there is a cost to raze the building in terms of asbestos abatement.

Upon a motion by Mr. Loftis, seconded by Senator Leatherman, and upon the request of the Department of Mental Health, the Authority unanimously approved the First Amendment to Sale and Purchase Agreement between the Department of Mental Health and Bull Street Development, LLC, assignee from Hughes Development Corporation to sell approximately 16± acres at \$220,000.00 per acre, less cost of demolition and abatement, estimated at \$600,000, adjusted for Present Value.

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

***Department of Administration, Division of General Services: Tri-County Technical College Ground Lease and Lease Associated with the Tri-County Technical College Student Success Center Project (Regular Session Item 3)***

In October 2015, the Joint Bond Review Committee (“JBRC”) approved the construction of a new Student Success Center to house a Learning Commons and associated group study space, computer labs, campus store, café and a shipping and receiving facility as well as the refurbishment of Ruby Hicks Hall and the construction of a new Central Plant to provide cooling (the project was named the “Tri-County Technical College Student Success Center Project” and will hereafter be referred to as the “Project”). In connection with the Project, the State Fiscal Accountability Authority (“SFAA”) authorized JEDA to issue Not Exceeding \$33,000,000 Education Facilities Revenue Bonds (the “Bonds”), expected to be repaid on or about June 30, 2037. The total estimated Project cost is approximately \$42,000,000, of which the College is providing approximately 36% of the Project-cost directly from funds on hand. The Bond financing represents the remaining 64% in an approximate amount of \$27,920,000. Relating to the Bonds and to facilitate the financing of the Project, the Tri-County Technical College

Commission (the “Commission”) desires to enter into certain leases between the Commission and the TCTC Foundation, LLC (the “Foundation”) and requested approval of these leases. Upon approval by SFAA, the Commission will enter into a Base Lease and Conveyance Agreement (the “Ground Lease”) wherein the Commission will lease certain real property as depicted on the attached survey (the “Land”), performed by 3D Land Surveying, dated December 8, 2015, at Tri-County Technical College’s Pendleton Campus located at 7900 US Highway 76, Pendleton, South Carolina for thirty (30) years, with the right to extend the term for five (5) years. The Ground Lease is anticipated to begin February 2, 2016. The rent will be \$1.00 per year. Concurrent with the lease term, the Commission will grant, general, non-exclusive easements for the benefit of the Commission as may be necessary and at the Commission’s discretion for the construction and maintenance of utility services, surface and storm water drainage, and property access.

Following the completion of the Project, anticipated to be no later than February 2019, and receipt of a certificate of occupancy, the Foundation will lease to the Commission (the “Lease”) the Land together with any and all improvements located on or to be constructed on the Land for thirty (30) years with the right to extend the term for five (5) years, which extension will be subject to and conditioned upon receipt of certain approvals by governmental authorities, including but not limited to the State of South Carolina or an agency thereof. The rent for the Lease will be determined by the final cost and the final financing terms of the Bonds, but in any event is not anticipated to exceed \$1,816,000 per year for twenty years. The difference between the Lease term and the Bond term is to provide the lender with adequate security against the Foundation’s leasehold interest. Upon payment of rent which totals repayment of the Bonds, the Foundation shall at the Commission’s election: (i) surrender to the Commission the Land and sell, for nominal consideration to the Commission, the Project, including all buildings, other structures and improvements constructed on and/or located on the Land (the Project and all buildings, structures and improvements will be in the same condition as when construction of the Project was completed, with only natural and normal wear and tear excepted); (ii) continue to lease the Land and the Project to the Commission with rental not to exceed \$1 per year; or (iii) terminate the Lease and the Ground Lease and return the Land to the Commission in the same condition as it was on the date the lease term began, with only natural and normal wear and tear

excepted.

Additionally, the Lease includes an option which allows the Commission to purchase the Project at a price equal to the outstanding Base Rent, plus any direct costs incurred by the Foundation in the administration of the Lease and outstanding, due through the date of purchase plus any other outstanding indebtedness (excluding all amounts owed on Bonds which are covered by Base Rent), fees or expenses of any nature, owed by the Foundation with respect to the Land and the Project at the time of the Foundation's purchase of the Project. In essence, if the Commission provided the Foundation with funds sufficient to retire the Bonds prior to their stated maturity, then the Commission could terminate both leases prior to their expiration, retake possession of the Land, and acquire title to all improvements (including the Project).

Any acquisition of the Project by the Commission will be subject to and conditioned upon receipt of certain approvals by governmental authorities, including but not limited to the State of South Carolina or an agency thereof.

The Commission will request operational costs and lease payments from Anderson, Oconee and Pickens Counties (in accordance with SC Code §59-53-250). The operational costs are estimated to be in the range of \$60,122 to \$136,302 annually, which costs are similar to the current operating costs of the two existing facilities.

The Lease and the Ground Lease were approved by the respective governing bodies of the Tri-County Technical College on December 1, 2015, and the Foundation on October 9, 2015, and JBRC on January 20, 2016. The Commission on Higher Education ("CHE") approved the Project on August 21, 2015 and we have been informed by the College that leasing arrangement does not require additional CHE consideration.

Mr. Eckstrom asked why the transaction is structured as it is. Gracen Kelly, Executive Director for the Foundation, and Michael Kozlarek, bond counsel for the Foundation, appeared before the Authority. Mr. Kozlarek said that this transaction is not meant to monetize. He said the Foundation is borrowing the funds, providing for construction of improvements on the land owned by the College, and leasing the improvements back to the College for exactly what the financing costs are to pay back the Foundation and the Foundation will pay back what was borrowed. Mr. Eckstrom asked if it was possible for a state bonding authority to issue revenue bonds for the project rather than JEDA. He said that would probably have provided the College

with a lower rate. Mr. Kozlarek said that he could not speak to the rate, but that it is a similar structure to what the College used in 2005 when it built an additional Anderson campus. He noted that this is a financing structure the College is comfortable with and that JEDA is familiar with this type of financing structure. Mr. Eckstrom said the State is familiar with this type structure and that he probably voted against it in 2005.

Mr. Eckstrom further stated that there is too much use of foundations to get these transactions put together. He said that may be necessary at times when an agency is in financial duress, but in this case the campus is very vibrant and has grown significantly. He said it seems as if that by using this approach the objection is to not be transparent. He said by saying that he is not impeaching the integrity of Mr. Kozlarek or the College. He said he is just uncomfortable about these types of transactions.

Mr. Loftis said that he feels the same as Mr. Eckstrom. He said this is something that Mr. Eckstrom, Governor Haley, and he does not have any control over. He said this unneeded complexity does away with reasonable transparency and allows third parties to make money. Governor Haley said that it is a concern to her because it is starting to become a habit. She said seeing the use of South Carolina State University's Foundation in ways that started to muddy the waters has raised concern for her. She the schools cannot be transparent enough in doing these types of transactions. She said when what is being done with the transaction cannot be plainly seen one can get into trouble and care should be taken.

Senator Leatherman commented that the situation with South Carolina State University was not so much the process as its Board. Governor Haley stated that the Board used the foundation for transactions related to the University. Senator Leatherman said that all of the boards throughout the State are not operating the way South Carolina State University operated.

Mr. White noted that there is nothing wrong with the practice and it is legal. He said that the schools are using what they are allowed to do. He stated that it is something all the schools are doing because they have to have financing. He said, however, that this is something that does need to be looked at. He said the practice needs to be cleaned up.

Mr. Eckstrom noted that issuance costs are higher using this type of transaction and going through JEDA. He said he believes the cost would be lower if the State were to issue the debt. He further stated that the financing was initially approved in October 2015. He said what was

presented to the Authority was that the counties were going to be participants in the deal by providing \$7 million dollars toward the deal. Mr. Kozlarek said the counties have still offered to participate. Mr. Eckstrom noted that was not noted in the agenda materials. Mr. Kozlarek said that one of the counties has asked that the foundation borrow for the county's portion up front and the county would provide the payments for its portion to the foundation. Mr. Eckstrom stated that is not described in the agenda materials. Mr. Kozlarek said that the statute reflected the participation of the counties.

Mr. Eckstrom and Mr. Loftis commended the work of President Booth at the College. However, they stated that their concern is for the transaction and not the project itself.

Upon a motion by Senator Leatherman, seconded by Mr. Loftis, as recommended by the Department of Administration, Division of General Services, the Authority approved the thirty-year Ground Lease from the Tri-County Technical College Commission to the TCTC Foundation, LLC and related easements and approved the attached thirty-year Lease from the Foundation to the Commission. The right to extend the leases for five (5) years is conditioned upon the parties obtaining all necessary approvals from appropriate governmental authorities, including but not limited to, the State of South Carolina or an agency thereof, prior to exercising the right to extend the leases. Material modifications to the leases prior to execution will require further Authority approval. Nonmaterial revisions to the leases prior to execution will be conditioned upon approval by SFAA staff.

Mr. Eckstrom and Mr. White abstained from voting on the item.

Information relating to this matter has been retained in these files and is identified as Exhibit 7. [Secretary's Note: The executed leases are part of this exhibit.]

***Department of Administration, Division of General Services: Workers' Compensation Commission Lease for Space at 1333 Main Street, Columbia (Regular Session Item #4)***

The Workers' Compensation Commission ("WCC") requested approval to continue to lease space at 1333 Main Street, Columbia, SC from Vista Investments, LLC located at 1333 Main Street. The WCC will lease 22,719 rentable square feet (RSF), which is a reduction of 6,244 RSF from their previous lease. Continuing to lease this space will eliminate any downtime or relocation costs.



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A solicitation was conducted, listing the requirement on SC Business Opportunities network, as well as sending requests for proposals to 390 commercial property owners and agents and all state agencies, and only two (2) responses were received, of which the selected location represents the least costly bid over the term. The term of the lease will be slightly more than six (6) years beginning on February 1, 2016 after approved by the State Fiscal Accountability Authority, which allows the WCC to begin receiving the benefit of the savings from reducing its square footage prior to the end of the term of the current lease. This reduction in square footage for this partial year represents a savings of approximately \$16,390 for the remainder of the previous lease term and over the entire term of the new lease represents a savings of \$662,644.18 compared to the previous lease. Rent for the partial year will be charged at a rate of \$15.75 per rentable square foot with an annual escalation of base rent of approximately \$.40 per RSF. This is a gross lease. The WCC will pay as additional rent its pro rata share of increases in building operating cost above the base year ending March 31, 2018. The pro rata share of building operating cost increases will be capped at 3% per year over the previous year, a savings compared to the previous lease, which was capped at 4% per year. Assuming operating expense increases at three percent per year, the maximum rent over the term of the lease is as follows:

<b>TERM</b>	<b>PERIOD: FROM-TO</b>	<b>RENT/RSF</b>	<b>ANNUAL RENT</b>	<b>MONTHLY RENT</b>	<b>MAXIMUM OPERATING COST</b>
Partial Year	2/1/2016 - 3/31/2016	\$15.75	\$59,637.88	\$29,818.69	0
YEAR 1	4/1/2016 - 3/31/2017	\$16.25	\$369,183.72	\$30,765.31	0
YEAR 2	4/1/2017 – 3/31/2018	\$16.65	\$378,271.32	\$31,522.61	0
YEAR 3	4/1/2018 – 3/31/2019	\$17.05	\$387,358.92	\$32,279.91	\$4,600.60
YEAR 4	4/1/2019 – 3/31/2020	\$17.45	\$396,446.52	\$33,037.21	\$4,738.62
YEAR 5	4/1/2020 – 3/31/2021	\$17.85	\$405,534.12	\$33,794.51	\$4,880.78
YEAR 6	4/1/2021 – 3/31/2022	\$18.25	\$414,621.72	\$34,551.81	\$5,027.20

Below are tables representing rates paid by some state agencies in the Columbia area.

Additionally, the Colliers International 2015 Third Quarter Market Report indicates an average commercial lease rate per square foot of \$19.58 in the Columbia central business district and \$14.82 in the suburban market area.

Agency	Address	Lease Term	Rate/SF
Education Lottery	1333 Main St. Suite 400	8/1/2014 – 7/31/2021	\$15.95
Lieutenant Governor's Office	1301 Gervais St. Suite 350	7/1/2015 – 6/30/2020	\$14.95
Department of Insurance	1201 Main Street, Suite 1000	3/1/2014 – 2/28/2021	\$15.50

Lease payments will be made from revenue primarily from fines and hearing fees. Landlord is offering 55 requested parking spaces (46 garage and 9 surface) at a cost to the WCC of \$25 per parking space per month. The normal rate for the offered parking spaces is between \$45-65 for garage parking spaces and \$105 per for surface parking spaces. At Landlord's cost, Landlord will make renovations to the premises in accordance with construction drawings as agreed to by WCC. There are adequate funds for the lease according to a Budget Approval Form and multi-year plan submitted by WCC.

The lease was approved by Gary M. Cannon, Executive Director of WCC. This lease was approved by JBRC on December 8, 2015.

Mr. Eckstrom asked if there is any information from CB Richard Ellis (CBRE) on this property and others. Governor Haley said that the process was reviewed. Ms. DeJames, General Services, said the space solicitation was sent to all state agencies and 390 commercial property owners and agents. She said only two responses were received. She said their review determined that remaining at the present location was the least costly for the agency. She said that CBRE reviewed the process and advised that it did fit within the strategic plan. Mr. Eckstrom asked what does it mean to fit within the strategic plan. Ms. DeJames said it means that they followed the models and did what CBRE recommended with regard to such things as decreased space utilization by the agencies. Governor Haley commented that there is now a

process in place that looks at utilization of people within spaces.

Governor Haley said she understands that Mr. Eckstrom was asking if vacant state property is considered. Austin Smith, Governor's Office, said if there was a space available after reviewing the State's entire portfolio that was suitable to meet the agency's needs that would have been the first property reviewed. Mr. Eckstrom noted that the Student Loan Corporation (SLC), a quasi-state agency has vacant space available. He said it is probably not in the data base because the SLC is not a "full blown" state agency. He said the SLC's available space could accommodate the Commission's needs.

In further conversation, Mr. Eckstrom stated that there is the likelihood that the specifications are drawn too tightly. He said that may be the case since the solicitation was sent out to 390 people and the responses were as they were. He said going forward the State should look to see if the specifications are too tightly drawn. Mr. Loftis said he asked that question. He stated that he asked the Commission why it was staying down town and that the response was that they were not told they could not. He said the small number of people responded because that was the number of people who had space downtown. He said agencies should be directed to more user friendly places near interstates. Ms. DeJames noted that there was no requirement listed in the solicitation that the Commission remains downtown, although it was listed as a preference.

Upon a motion by Mr. Loftis, seconded by Senator Leatherman, the Authority As recommended by the Department of Administration, Division of General Services, upon a motion by Mr. Loftis, seconded by Senator Leatherman, the Authority approved the proposed multi-year lease at 1333 Main Street, Columbia, for Workers' Compensation Commission.

Information relating to this matter has been retained in these files and is identified as Exhibit 8.

### ***Future Meeting***

Upon a motion by Mr. White, seconded by Senator Leatherman the Authority agreed to meet at 9:30 a.m. on Tuesday, March 1, 2016, in Room 252, Edgar A Brown Building.

*Adjournment*

The meeting adjourned at 10:30 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 4:00 p.m. on Friday, January 22, 2016.]