

MINUTES OF STATE FISCAL ACCOUNTABILITY AUTHORITY MEETING

March 21, 2019 – 9:30 A. M.

The State Fiscal Accountability Authority (Authority) met at 9:30 a.m. on Thursday, March 21, 2019, in Room 252 in the Edgar A. Brown Building, with the following members in attendance:

Governor Henry McMaster, Chair;
Mr. Curtis M. Loftis, Jr., State Treasurer;
Mr. Richard Eckstrom, Comptroller General;
Senator Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee; and
Representative G. Murrell Smith, Chairman, Ways and Means Committee

Also attending were State Fiscal Accountability Authority Executive Director Grant Gillespie; Authority General Counsel Keith McCook; State Auditor George Kennedy; Governor's Deputy Chief of Staff Mark Plowden; Treasurer's Chief of Staff Clarissa Adams; Comptroller General's Chief of Staff Eddie Gunn; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Chief of Staff Daniel Boan; Authority Secretary Delbert H. Singleton, Jr., and other State Fiscal Accountability Authority staff.

Adoption of Agenda for State Fiscal Accountability Authority

Upon a motion by Senator Leatherman, seconded by Rep. Smith, the Authority adopted the agenda as proposed.

Department of Administration, Capital Budget Office: Permanent Improvement Projects (R1)

State Fiscal Accountability Authority approval was requested for the following permanent improvement project establishment requests and budget revisions which have been reviewed favorably by the Joint Bond Review Committee's staff. The Committee authorized its staff to make such review by way of Committee action taken on June 13, 2018 (see Harmon March 19, 2019, letter attached and incorporated in the exhibit for this item).

Phase II Budget Increase

- (a) Summary 5-2019: JBRC Item 1. (J12) Department of Mental Health
Project: 9739, State Veterans' Nursing Home Construction Northeast Region
Included in Annual CPIP: Yes – 2017 CPIP Priority 8 of 12 in FY20
(estimated at \$39,914,915) & 2018 CPIP Priority 5 of 13 in FY19 (estimated at \$55,600,000)
JBRC/SFAA Phase I Approval: March 2015 (estimated at \$37,000,000)
JBRC/SFAA Phase I Budget Increase Approval: May 2018 (estimated at \$39,900,000)

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JBRC/SFAA Phase II Approval: August 2018 (estimated at \$55,300,000)

CHE Recommended Approval: N/A

<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>
Appropriated State				14,624,629	14,624,629
Federal, VA State Home Construction Grant Program		28,539,164	28,539,164		28,539,164
Other – Capital Improv & Maint.	250,000	26,510,836	26,760,836	(12,790,616)	13,970,220
All Sources	<u>250,000</u>	<u>55,050,000</u>	<u>55,300,000</u>	<u>1,834,013</u>	<u>57,134,013</u>

*Per the Department of Mental Health, should the construction cost reach \$57,134,013, the state's share would be \$28,594,849. Should the state share requirement exceed the current funds which DMH reserved, DMH will seek funding from the General Assembly.

Funding Source: \$28,539,164 Federal, VA State Home Construction Grant Program.
 \$13,970,220 Other, Capital Improvement & Maintenance Funds, authorized by Proviso 35.7 (Act 97 of 2017) permitting deposit of amounts appropriated for deferred maintenance and other one-time funds from any source into an interest-bearing fund held by the State Treasurer for, among other purposes and subject to required approvals, capital projects and ordinary repair and maintenance. Up to \$14,624,629 in additional funding may be requested by DMH to address the remaining costs of the project.

Request: Increase budget to \$57,134,013 (add \$1,834,013 Appropriated State to be requested) for design and construction funding in order to complete all requirements necessary to receive a federal funding grant from VA in April 2019. Bids have been received and the funds are needed to award the construction contract for the construction of a veterans nursing home in Florence, which is in the northeast South Carolina region. Despite success in attracting multiple qualified bidders (5), the low bids came in higher than projected. Specific reasons for the increase are unknown but some factors include pressure on material pricing which is still related to the aftermath of last year's hurricanes in the south. Namely, copper has seen a 40% increase. Drywall companies such as Continental Building Products and National Gypsum have increased prices by 20%. Armstrong have increased all products within their Suspension Systems by 10%. There may have also been limited competition for mechanical and electrical subcontract bids. In order to reduce the budgetary impact, SCDMH is recommending removing furnishings and non-fixed equipment from the construction budgets, with the alternative being to

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include responsibility for furnishings and non-fixed equipment in the operations contracts, thereby increasing the cost of operations once the facilities open. Of the approximate \$5.6 million for equipment and furniture, SCDMH believes all but \$2 million, related to fixed equipment, can be moved from the construction budgets to a future contract. The FY18 Veterans Affairs Appropriations Bill contained funding for the construction of three South Carolina projects, based on community living center designs. The department received a conditional funding letter in October 2018 from VA, which required that the state submit construction bids for approval with the associated state funding match no later than April 2, 2019. The design for the central region facility has been adapted for the northeast and northwest South Carolina region sites. The design on which the cost estimate is based calls for steel framing, pitched roof and full emergency generators. The facility will be constructed to meet LEED Silver certification standards with anticipated energy savings of \$1,800,000 over a 30-year period. The new facility will be all private rooms and include all support functions required for a complete operation. The construction will include kitchen and dining facilities, treatment and therapy spaces, and a facility for mechanical and electrical equipment. The facility will be approximately 148,000 gross square feet and house 104 veterans and 100+ contract management staff. Under the existing contract model for Veterans Victory House and Campbell, the day to day maintenance will be handled by an outside contractor with assistance and oversight as needed by SCDMH Physical Plant Services staff. Bids received now indicate the completed project will cost approximately \$57,134,013. (See attachment 1 for additional annual operating costs.) The agency anticipates execution of the construction contract in April 2019 and completion of construction in June 2021.

- (b) Summary 5-2019: JBRC Item 2. (J12) Department of Mental Health
 Project: 9740, State Veterans’ Nursing Home Construction Northwest Region
 Included in Annual CPIP: Yes – 2017 CPIP Priority 9 of 12 in FY20 (estimated at \$41,135,915) & 2018 CPIP Priority 4 of 13 in FY19 (estimated at \$56,600,000)
 JBRC/SFAA Phase I Approval: March 2015 (estimated at \$37,000,000)
 JBRC/SFAA Phase I Budget Increase Approval: May 2018 (estimated at \$41,100,000)
 JBRC/SFAA Phase II Approval: August 2018 (estimated at \$56,800,000)

CHE Recommended Approval: N/A

<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>
Appropriated State	-	-	-	16,312,518	16,312,518
Federal, VA State Home Construction	-	29,412,179	29,412,179	-	29,412,179

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Grant Program					
Other, Capital Improv. & Maint	250,000	27,137,821	27,387,821	(12,990,251)	14,397,570
All Sources	<u>250,000</u>	<u>56,550,000</u>	<u>56,800,000</u>	<u>3,322,267</u>	<u>60,122,267</u>

*Per the Department of Mental Health, should the construction cost reach \$60,122,267, the state's share would be \$30,710,088. Should the state share requirement exceed the current funds which DMH reserved, DMH will seek funding from the General Assembly.

Funding Source: \$29,412,179 Federal, VA State Home Construction Grant Program. \$14,397,571 Other, Capital Improvement & Maintenance Funds, authorized by Proviso 35.7 (Act 97 of 2017) permitting deposit of amounts appropriated for deferred maintenance and other one-time funds from any source into an interest-bearing fund held by the State Treasurer for, among other purposes and subject to required approvals, capital projects and ordinary repair and maintenance. Up to \$16,312,518 in additional funding may be requested by DMH to address the remaining costs of the project.

Request: Increase budget to \$60,122,267 (add \$3,322,267 Appropriated State to be requested) for design and construction funding in order to complete all requirements necessary to receive a federal funding grant from VA in April 2019. Bids have been received and the funds are needed to award the construction contract for the construction of a veterans nursing home Cherokee County, which is in the northwest South Carolina region. Despite success in attracting multiple qualified bidders (8), the low bids came in higher than projected. Specific reasons for the increase are unknown but some factors include pressure on material pricing which is still related to the aftermath of last year's hurricanes in the south. Namely, copper has seen a 40% increase. Drywall companies such as Continental Building Products and National Gypsum have increased prices by 20%. Armstrong have increased all products within their Suspension Systems by 10%. There may have also been limited competition for mechanical and electrical subcontract bids, as well as for site work due to the ongoing I-85 expansion. In order to reduce the budgetary impact, SCDMH is recommending to remove furnishings and non-fixed equipment from the construction budgets, with the alternative being to include responsibility for furnishings and non-fixed equipment in the operations contracts, thereby increasing the cost of operations once the facilities open. Of the approximate \$5.6 million for equipment and furniture, SCDMH believes all but \$2 million, related to fixed equipment, can be moved from the construction budgets to a future contract. The FY18 Veterans Affairs Appropriations Bill contained funding for the construction of three South Carolina projects, based on community living center designs. The department received a conditional funding letter in October 2018 from

VA, which required that the state submit construction bids for approval with the associated state funding match no later than April 2, 2019. The design for the central region facility has been adapted for the northeast and northwest South Carolina region sites. The design on which the cost estimate is based calls for steel framing, pitched roof and full emergency generators. The facility will be constructed to meet LEED Silver certification standards with anticipated energy savings of \$1,800,000 over a 30-year period. The new facility will be all private rooms and include all support functions required for a complete operation. The construction will include kitchen and dining facilities, treatment and therapy spaces, and a facility for mechanical and electrical equipment. The facility will be approximately 148,000 gross square feet and house 104 veterans and 100+ contract management staff. Under the existing contract model for Veterans Victory House and Campbell, the day to day maintenance will be handled by an outside contractor with assistance and oversight as needed by SCDMH Physical Plant Services staff. Bids received now indicate the completed project will cost approximately \$60,122,267. (See attachment 2 with additional annual operating costs.) The agency anticipates execution of the construction contract in April 2019 and completion of construction in June 2021.

Mr. Eckstrom noted that a funding requirement for the project was that a specific mandated design had to be followed. He stated that is perhaps not in the best interest of the taxpayers. He noted that there are similar unmet needs in other areas of the State. He said his hope is that those needs will be addressed more efficiently than what is currently being done.

Upon a motion by Senator Leatherman, seconded by Rep. Smith, the Authority approved the permanent improvement project establishment requests and budget revisions as requested by the Department of Administration. Capital; Budget Office as noted herein.

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

Adjournment

The meeting adjourned at 9:40 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 Authority Secretary's office in the Wade Hampton Building, and in the lobbies of the Wade Hampton Building and the Edgar A. Brown Building at 9:10 a.m. on Monday, Wednesday, March 20, 2019.]