

INTERNAL STAFF UPDATE*

Monday, December 14, 2015

Revenue – Richland County Audit: (Attachment)

The Department of Revenue recently audited the Richland County Transportation Program (“Penny Tax”). The review produced three major findings: 1) the procurement of certain services raised questions of potential public corruption and fraud; 2) some illegal activity related to tax filings by individuals requires additional legal action by DOR; and 3) some expenditures of penny tax revenue fall outside the transportation tax statutes and the Richland County ordinance authorizing the program.

DSS – DSNAP: (Attachment)

The latest report for DSNAP is attached.

Agenda – Education Reforms Phase III:

On Wednesday, Veldran, Josh, and Mottel will meet with Reps. Kenny Bingham and Rita Allison and their staff to discuss the concepts of our Education Plan. In addition, Veldran and Josh will meet with Sally Cauthen, the Senate K-12 Research Director, to discuss our plan for First Steps.

Commerce – Showa Denko Carbon, Inc.:

Robert Whitten, President and CEO of Showa Denko, wrote the Governor on November 9th to ask for assistance on modification of a grant agreement the company entered with the Department of Commerce. The company will not reach the job numbers required by the initial grant agreement, but while the job numbers will not be reached, the company will exceed its initial investment targets. The company and the Department of Commerce were able to agree upon a modified grant agreement to reflect the higher investment numbers, which will allow them to keep their grant. We received a copy of the modified agreement, signed by Mr. Whitten, and it appears the issue has been resolved.

Berkeley Delegation – Century Aluminum:

Representative Southard informed our office about a meeting today with members of the Berkeley County Legislative Delegation and leadership of Santee Cooper. It is the feeling of a majority of the members of the delegation that not enough is being done to keep the company open. Rep. Southard supports the Governor’s and Santee Cooper’s position and is against possible legislation that members of the delegation are proposing to send funding to Santee Cooper regarding Century’s utility rates.

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House – Higher Education Governance Ad Hoc Committee:

Last year, H.3249 was filed by Rep. M. Smith to create a Board of Regents. The bill led to the establishment of an Ad Hoc Committee to evaluate the best leadership structure for higher education governance. Members include Representatives Taylor (Chairman), Bradley, R. Brown, Clary, Felder, George, Johnson, and Mitchell.

Today, when the Committee met, Rep. Clary adjourned debate on the bill in committee, and the members voted not to move forward with sweeping changes in legislation but instead to address the obligations CHE is required to meet under current law. CHE provided the committee with clean up language and a compilation and analysis of applicable statutes.

- There are a total of 118 provisions in the Code and provisos relating to CHE.
- Tim Hofferth and other CHE representatives provided information to the Committee about its ongoing review of these provisions; CHE plans to give the committee a list of any obsolete or unnecessary provisions that could be amended to improve efficiency within the Commission.
- The current finance model for higher education was addressed, and CHE provided that they have no ability to redirect almost 99% of their funding. According to CHE they have discretionary spending for approximately \$200,000 of a \$358 million budget the rest is pass through dollars.

Senate Judiciary Sub – Car Dealership Closing Fee Bill:

Tomorrow, a Senate Judiciary Subcommittee will meet to discuss S.911 (L. Martin), a bill that addresses the Supreme Court's decision on closing fees for car dealerships in the state. Members include Chairman Martin (chair), Senator Hutto, and Senator Massey.

Boards and Commissions – Minority Affairs:

Today, Minority Affairs is also holding a two-hour orientation for all of its Commission members. The purpose is to cover the mission and enabling legislation of the agency, the Commissioners' roles and responsibilities, and an introduction to the budget and staff members.

Last Friday, the Commission for Minority Affairs met for two hours. Highlights from the meeting include outreach the CMA has been doing in conjunction with FEMA, plans to hire a consulting group to assist the agency with its strategic plan, and the impending publication of the agency's data and statistics report. More details on these items are below.

- Two FEMA employees presented an overview of the registration process and troubles they have been having in getting minorities to register for assistance. The CMA has been working with FEMA to get the word out and to encourage everyone affected to register. Chairman Ken Battle has also been working with church leaders to further spread the message.

- Executive Director Smith updated the Commission on the agency's plan to seek out a consultant to assist the agency create its first strategic plan in several years. The search will begin in January. Director Smith stated that the consultant will work in conjunction with the Commissioners and the staff in order to create a plan that reflects the agency's enabling legislation and issues reported in the recent OIG Report.
- The Agency will soon be publishing its report on the data and statistics related to minorities by county. Each county will have two pages in the report. The areas covered are population (ethnicity and race), median household income, health, education, business, and criminal incarceration. The report will be published on the CMA's website in January and will be released annually thereafter.

The Commission's next meeting will be held on March 27th.

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State of South Carolina
Department of Revenue

NIKKI R. HALEY
Governor



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December 3, 2015

Mr. W. Anthony McDonald
Richland County Administrator
2020 Hampton Street, Room 4058
Columbia, SC 29202

RE: Richland County Penny Transportation Program

Dear Mr. McDonald:

As you know, on April 15, 2015, the South Carolina Department of Revenue (the "Department") initiated a review of the Richland County Penny Transportation Program (the "Penny") for the period May 1, 2013 – October 31, 2015. The Department appreciates Richland County's cooperation throughout the review. The purpose of this letter is to update you on the matter. The review has given rise to three general areas of concern.

First, the manner in which the Project Development Team (the "PDT") was procured, including but not limited to Council's adoption of exemptions from established procurement procedures, and certain payments by or to the PDT raises questions of potential public corruption and fraud. Public corruption and fraud are beyond the scope of the Department's mission and, therefore, the Department has referred these matters to law enforcement.

Second, the Department has discovered multiple instances of illegal activity by individuals and/or companies associated with the Penny Program. These activities are within the scope of the Department's mission, and the Department is proceeding with these cases as is appropriate.

Finally, certain expenditures appear to fall outside the parameters of both the transportation tax statutes and the Richland County ordinance authorizing the program. Additional details regarding these areas of concern are outlined below.

Expenditures Outside the Transportation Tax Statute and Ordinance

Small Local Business Enterprise (SLBE) Program

Despite clear indication by both the referendum and ordinance that Penny revenue expenditures be limited to specific transportation-related projects, records outline Council's use of Penny revenue to fund the County's Small Local Business Enterprise (SLBE) program.

Council passed an ordinance creating the SLBE initiative in September 2014 to "provide a race and gender neutral procurement tool...to ensure that all segments of its local business community have a reasonable and significant opportunity to participate in County contracts for construction, architectural & engineering services, professional services, nonprofessional services, and commodities." Rich. Cnty. Code §2-639(a).

While this expressed purpose may be laudable, it falls outside the legally permitted expenditures established by the Penny referendum and ordinance because the SLBE is a countywide program applying to all facets of county operations – not just Penny expenditures. Therefore, the expenditures are not specifically for transportation projects as required by law.

An estimated \$619,457 in Penny revenue appears to have been used as the exclusive funding source for the SLBE personnel and program start-up costs outlined below.

\$219,378	in estimated personnel costs
\$250,231	in attorney fees to draft ordinance
\$122,760	for software management system
\$13,000	for website development
\$4,296	for assistance from Charleston County
\$9,792	for related consulting

These figures are from the audit period which was limited to the first 24 months of collections of the Penny Program. The Penny Program is scheduled for a 22-year term, and many of the recurring expenditures related to the SLBE program will likely increase over time.

In addition, the estimated personnel costs represent the annual salary cost for five full-time employees hired by Council to work exclusively for the SLBE, including: two Certification and Compliance Specialists; Assistant Procurement Director; Outreach Specialist; and Education Specialist. It should be noted that this estimate is based on annual salaries. As positions were filled at various points during the year, the full annual salary expenditure may not be relevant for all five positions.

Public Information Services

The PDT contract awards \$3 million over a period of five years for public information services. Two firms each receive monthly payments of \$25,000, or \$300,000 per year, for a combined expenditure of \$600,000 per year for public information services. This includes personnel costs only and does not account for additional amounts to be paid to both firms as reimbursement for such items as brochures, mailings, business cards, website maintenance, catering, mileage, and computer and cell phone allowances.

Firm invoices offer a breakdown of employee hours spent on public information activities related to the Penny Tax. One of the firms purportedly has one full-time employee dedicated to Penny Tax projects. One additional person from each firm records an average of 10-15 hours per week for a combined total of approximately 20-30 hours per week. It is unclear exactly what work has been actually performed as no documentation detailing the work has been provided.

In effect, the Penny Tax program is paying \$50,000 per month, \$600,000 per year, and \$3 Million over five years (before reimbursements) for the equivalent of fewer than two full-time employees – when an entire public information office already exists within Richland County government and other PDT members also provide public relations services.

In comparison, according to US Bureau of Labor statistics, the annual mean wage for a Public Relations and Fundraising Manager in South Carolina is \$85,890; the mean wage for a Public Relations Specialist salary is \$49,200 per year. The total annual cost for both employees would be \$135,090, excluding taxes and benefits.

As outlined above, Council has misappropriated a significant amount of Penny revenue and is scheduled to spend millions of additional dollars over the next several years for expenditures falling outside the parameters of the transportation tax laws. The County should take action to correct these expenses both prospectively and by reimbursement for previously paid amounts.

Thank you again for Richland County's cooperation on this matter. Please call me if you have any questions or wish to further discuss these issues. Of course, the Department will be unable to comment on ongoing criminal investigations.

Yours very truly,


Rick Reames III
Director

RRIII/afw

CC: The Honorable David A. Adams, Richland County Treasurer
The Honorable Torrey Rush, Chairman, Richland County Council

DSS DSNAP Report

All numbers are estimates until final reconciliation for federal report(s), and are subject to variation.

Total Estimates for DSNAP Implementation (Tuesday, October 27th through Friday, December 11th)

DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
210,033	184,173	25,860	88%

Onsite Estimates for Friday, December 11, 2015

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Greenville	2,021	1,746	275	86%
Marion	796	701	95	88%
Spartanburg	1,463	1,193	270	82%
TOTAL Estimate	4,280	3,640	640	85%

Week 6 Estimates (12/7 – 12/11)

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Greenville	12,741	1,0926	1,815	86%
Marion	6,616	5,978	638	90%
Spartanburg	9,389	7,471	1,918	80%
TOTAL Estimate	28,746	24,375	4,371	85%

Week 5 Estimates (12/1 – 12/3)

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Darlington	6,633	6,017	616	91%
Georgetown	6,420	5,648	772	88%
Greenwood	2,727	2,015	712	74%
Kershaw	4,302	3,595	707	84%
Orangeburg	10,077	8,957	1,120	89%
TOTAL Estimate	30,159	26,232	3,927	87%

Week 4 Estimates (11/16 – 11/20)

County	DSNAP Applications	DSNAP Applications Approved Onsite	DSNAP Applications	Estimated Approval Rate
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	Received		Denied Onsite	
Berkeley	13,808	12,263	1,545	89%
Charleston	28,575	24,367	4,208	85%
Florence	14,890	12,906	1,984	87%
Horry	17,397	16,013	1,384	92%
TOTAL Estimate	74,670	65,549	9,121	88%

Week 3 Estimates (11/12 – 11/14)

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Fairfield	2,163	1,785	378	83%

Week 2 Estimates (11/2 – 11/6)

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Dorchester	9,579	8,400	1,179	88%
Lexington	7,266	6,357	909	87%
Richland	31,256	27,681	3,575	89%
Sumter	11,453	10,286	1,167	91%
TOTAL Estimate	59,554	52,724	6,830	89%

Week 1 Estimates (10/27 – 10/29)

County	DSNAP Applications Received	DSNAP Applications Approved Onsite	DSNAP Applications Denied Onsite	Estimated Approval Rate
Bamberg	895	794	101	89%
Calhoun	1,416	1,309	107	92%
Clarendon	2,922	2,716	206	93%
Colleton	2,549	2,255	294	88%
Lee	2,692	2,542	150	94%
Newberry	615	547	68	89%
Williamsburg	3,652	3,345	307	92%
TOTAL Estimate	14,741	13,508	1,233	92%

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