

State of South Carolina
Department of Revenue



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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