



SUMMARY



A Management Review of Patriots Point Development Authority

INTRODUCTION

The former President Pro Tempore of the South Carolina Senate requested a management and performance review of Patriots Point Development Authority (PPDA). Based on this request, our audit objectives included:

- Adequacy of the agency business plan.
- Agency revenue projections.
- Repayment of the \$9.2 million state loan.
- Plans for development of its land.
- Current and future costs to repair the vessels.
- Compliance with the Navy's requirements for maintenance of the vessels.
- Fundraising efforts.
- Human resources issues.
- Compliance with FOIA.
- Use of consultants/contractors.
- Operations of the gift shop, ticket sales, and parking.

DECEMBER
2012

BACKGROUND

Patriots Point Development Authority is located in the town of Mt. Pleasant on the Charleston Harbor. It functions as a naval museum for overseeing the U.S.S. Yorktown, an aircraft carrier, the U.S.S. Laffey, a destroyer, and the U.S.S. Clamagore, a submarine. The agency was given approximately 450 acres to develop, lease, or sell to fulfill its mission. Currently, PPDA leases land for a hotel/resort/marina, a golf course, College of Charleston athletic facilities, and there is a Cold War Memorial and property under a conservation easement. The agency receives funding from admissions, lease revenue, parking, the gift shop, overnight camping, vending, and event rentals, but it does not receive state appropriations.

REVENUE AND FUNDRAISING

BUSINESS PLAN

Patriots Point Development Authority has a comprehensive, three-year business plan; however, the plan does not completely address the maintenance costs for the agency vessels. While PPDA generates enough funds to cover its operating expenses, it can cover neither the expenses needed for current critical repairs to the three vessels in its fleet, nor can it allocate to savings the needed funds to escrow for scheduled future maintenance.

WITHOUT FUNDING FROM AN OUTSIDE SOURCE, SUCH AS FEDERAL OR STATE GOVERNMENT, PPDA CANNOT BRING THE VESSELS INTO SUSTAINABLE CONDITION.

REVENUE

We reviewed the agency's revenue streams to determine how each can be maximized to increase profits for the agency. We recommend the agency designate a business or commercial development director, who may help the agency oversee the profit generation in the commercial operations of the agency.

MAJOR INCOME STREAMS		
REVENUE STREAM	FY 10-11	FY 11-12
Admissions*	\$3,393,395	\$3,580,179
Camping	1,513,477	1,503,605
Gift Shop**	1,647,295	1,630,524
Leases	1,445,645	1,543,629
Parking	498,198	530,042
Minor Streams	499,850	604,363
TOTAL***	\$8,997,860	\$9,392,342

* Includes education, memberships, group sales, and gross revenue for helicopter rides.
 ** Includes cost of goods sold.
 ***Totals do not include one-time revenue, such as special events.

Camping

After admissions, the camping program for scouts is PPDA's largest revenue stream. In FY 11-12, it generated \$1.5 million. We found that PPDA could improve this area by considering renovations to the U.S.S. Laffey for additional berthing space and by creating a more effective marketing program, including brochures/packages to feature education and merit badge offerings.

Parking

The agency generates, on average, \$411,616 per year in parking revenue. We found that, although all parking fees are \$5 per vehicle, monthly parking revenue rarely totaled to numbers divisible by 5 over the last 24 months. Only 4 of 24 months had total parking revenue divisible by 5. We recommend that PPDA install a traffic counter to verify the number of vehicles entering as a check and balance against the tickets issued. Also, PPDA should track all categories of non-paying vehicles, with the possible exception of PPDA employees.

Food Services

We found that PPDA contracts out its catering services, which include the snack bars, the galley on the Yorktown, some event rentals, and the vending machines on the museum campus. The caterer also gets a 50% venue rental discount, if it handles the catering for an event. Depending on the venue and the type of event, the total income to PPDA (rental plus catering percentage) can be less than using an outside caterer that pays full price for the venue and remits no dollars to PPDA for food service. We recommend that PPDA determine if hiring an in-house caterer and part-time staff to cover events and snack bars could yield a better return than using outside contractors.

Event Rentals

PPDA's event rental revenue has increased 106% from \$88,905 in FY 10-11 to \$183,105 in FY 11-12. The event coordinator does not have any staff except for volunteers. We point out some conflicts between the camping department and events, such as blocked dates for campers or negative feedback to the camping department due to occasional rowdy and/or intoxicated event attendees. PPDA has a significant opportunity to increase event rentals into a viable minor income source; however, we found that some events get deeply-discounted rates and/or services, including free parking. Discounting some charitable events may be reasonable.

Donations

PPDA receives donations and labor from volunteers, but does not generally receive unrestricted donated dollars from related associations. While these associations are helpful for obtaining grant money, it seems advantageous to have undesignated donated dollars received directly by Patriots Point, which could be used for capital maintenance.

We identified several new opportunities for additional income, including education programs, memberships, e-commerce, joint ticketing referrals, and grants.

Memberships

The membership program at PPDA generates little revenue. There was a total of 253 memberships in FY 11-12 generating only \$17,825 in revenue. We found that the agency should consider separately recruiting corporate memberships, develop the agency's website to allow online membership purchases and direct donations, and increase its membership costs to make them more uniform.

During our review, we also identified several areas where the agency is losing revenue to outside sources.

Fort Sumter Tours

Fort Sumter Tours is a boat tour company which runs boats from the campus of PPDA to the Fort Sumter National Park. Fort Sumter Tours leases both ticket booth space to sell its tickets and docking space at the agency pier to moor its boats. There are no joint ticketing ventures between Fort Sumter Tours and PPDA. According to PPDA, Fort Sumter Tours offsets most of its minimal rent by performing dredging services from the pier where its boats are moored. Only Fort Sumter Tours has need for the dredging to occur. The effect of this offset is that the agency only receives revenue (\$29,000 in FY 11-12 and an estimated \$65,000 in FY 12-13) from this company every few years on off cycles from the dredging expenses. Our recommendations include PPDA determining if there are more cost-efficient options for dredging available through entities, such as the U.S. Army Corps of Engineers or the S.C. Ports Authority.

Medal of Honor Museum

In August 2012, PPDA announced the proposed landside Medal of Honor Museum (MOHM), which will occupy up to 36 acres of valuable harbor-front property. The proposal cited one benefit for building the museum is that the MOHM will help make PPDA a national tourist destination. However, the proposal includes no rental payments to PPDA and the Medal of Honor Museum Foundation has asked for the land to be gifted to them at no cost. We recommend that PPDA should receive lease revenue based on the fair market value of the land.

By building a competitive venture on its own property, PPDA visitors may opt to visit one museum over the other, which could result in a loss in admissions revenue to the agency. We could not estimate what the cost to admissions revenue might be, but we did identify some areas where PPDA could lose revenue to the MOHM: parking, event rentals, and gift shop sales.

Coastal Carolina Council Boy Scouts of America

From 1991 to 2010, PPDA paid the Coastal Carolina Council Boy Scouts of America one dollar for every scout that camped at PPDA, no matter from which council or state the camper came. No other scout council or other organization receives funds from PPDA for campers, and campers from this local council account for only 2.44% of the total campers. According to agency management, no agreement has been made as to what services this council will provide for these funds. We recommend PPDA discontinue paying fees to the Coastal Carolina Council Boy Scouts of America.

Other areas where PPDA may be losing revenue include tourist photos, where funds currently go to the foundation, the sweet grass basket vendor, and the proposed ropes course. We also reviewed the agency's current fundraising and marketing approaches.

FUNDRAISING

Donations made directly to PPDA are not a significant source of revenue. While the average amount in donations over the last four years was \$16,444, the total in FY 11-12 was only \$1,942. In 1974, PPDA was granted a 501(c) (3) tax-exempt charitable organization designation from the Internal Revenue Service; however, the agency is not listed in the active database because the appropriate forms have not been filed annually with the federal government. We recommend that PPDA have this status reinstated so funds can be donated directly to PPDA.

We also found additional opportunities for fundraising including:

- Specialized South Carolina license plates.
- Check-off South Carolina (donations made through income tax form).
- Direct donations (monetary and in-kind, such as Save Our Ship kiosks)
- New interactive exhibits (with live webcams showing ongoing projects).
- Corporate sponsors.

MARKETING

PPDA needs to improve its marketing efforts to earn funds needed to pay for the vessels by restructuring the marketing department within the agency, using the outside consultant, and expanding marketing through the agency's website and the media. The current marketing department relies heavily on the marketing consultant to develop plans for the department. Since the agency awarded a new marketing contract in August 2012 to the same consultant it had been using, the agency position currently slated for marketing at PPDA may be better utilized in another department.

Other areas needing improvements we identified in this area are the lack of package plans with the lessees at Patriots Point, including the hotel, golf course, marina, and Fort Sumter Tours. The group sales area of the marketing department will put together packages for bus groups that include hotels or create referrals for groups planning to visit the museum, but receives no referral fees for this. We also found that there are no traffic surveys of walk-in and bus tour visitors at PPDA by staff to determine important marketing data. By contrast, both the camping and education departments survey every group coming through their respective programs and use this information to improve their programs.

MAINTENANCE OF VESSELS

We were asked by the requestor if PPDA is complying with the U.S. Navy's requirements for maintenance of the ships and what the cost would be to restore and adequately maintain the vessels on an ongoing basis. We found that the U.S. Navy has identified problems with PPDA's fleet over the years, which the agency has not corrected. Also, PPDA cannot provide an accurate estimate of the cost to restore and maintain the vessels in its care until the environmental and structural assessments are completed, which are scheduled to be no earlier than 2014 to 2015. The cost of the environmental assessment study is \$379,978. PPDA's August 2012 capital improvement plan lists \$87,480,000 in needed funds to cover repairs, renovations, and improvements both to the vessels and to the campus of PPDA.

The Navy has consistently requested comprehensive maintenance plans that include plans for dry-docking the vessels at Patriots Point. While PPDA maintained annual maintenance schedules, no comprehensive plans were created until one was written for the U.S.S. Laffey in June 2010, following the completion of her hull replacement in dry-dock. While some inspection reports document the existence of the requested plans, according to a PPDA official, a similar plan does not exist for the U.S.S. Yorktown or U.S.S. Clamagore.

In its inspection reports, the Navy has repeatedly cited maintenance concerns for the U.S.S. Yorktown, the U.S.S. Laffey, and the U.S.S. Clamagore. PPDA consistently deferred some repairs until they were major issues with costs well beyond what a timely repair would have cost. Fundraising efforts do not exist beyond requesting funds from state and federal government. The agency is postponing fundraising efforts until an environmental and a structural assessment are finalized, while capital project projections indicate repairs may not start until 2015 to 2023. Current plans will take the U.S.S. Yorktown to half a century without major repairs.

The U.S.S. Clamagore is currently in a state of disrepair and may be in jeopardy of sinking. PPDA's current year's work plans list reefing the U.S.S. Clamagore as one of the special projects slated for completion this fiscal year. There is an outside fundraising effort by the submariners, but it is far short of meeting the estimated repair costs of \$3.5 million.

U.S.S. LAFFEY LOAN

We were asked to review PPDA's plan to repay the remainder of the \$9.2 million loan from the state for repairs to the U.S.S. Laffey. These funds were from "unspent bond proceeds" raised for other state agencies' projects which were not forecasted to be expended in the near future; however, they will need to be repaid. On October 1, 2012, PPDA's executive director informed the LAC that the PPDA board had authorized him to speak with appropriate officials in state government about the concept of requesting an amortization schedule for repayment of the loan. The agency has determined that it can support a debt service payment of between \$400,000 and \$500,000 per year over a possible 25-year period, with a deferment of 3 years. PPDA would like the plan to be submitted to the appropriate officials no later than November 2012. This proposal, according to PPDA, would likely involve some type of joint resolution between the House and the Senate to reimburse the State Treasurer's Office for the loan amount.

LEASES

A major revenue source for PPDA is rent received from its leases. For future leases, we identified several issues that PPDA should address in order to ensure that the lease terms enhance PPDA's ability to fulfill its mission. We found that PPDA should provide for more frequent rent review provisions in its leases. In California, leases of public land typically include a rent review provision that allows for the increase of rent in times of increased land value. For example, a rent review in California of property leased to Chevron resulted in an increase of annual rent from \$319,140 in 1993 to \$1.3 million in 2008. Similar provisions in PPDA leases could allow the agency to achieve a better return from its leases while protecting PPDA in the event of decreases in land value.

SUMMARY OF PATRIOTS POINT DEVELOPMENT AUTHORITY LEASES					
PARCEL	ACRES	LEASE ENDS	DEVELOPMENT	LEASE REVENUE	
				FY 10-11	FY 11-12
A	35.6*	2095	HOTEL	\$317,366	\$387,417
A-1			COTTAGES	\$41,057	\$41,281
B-1			MARINA	\$105,608	\$111,769
BCD			UNDEVELOPED	\$360,000	\$360,000
E			UNDEVELOPED	\$120,000	\$120,000
GOLF COURSE	197	2041	GOLF COURSE	\$347,517	\$365,397
ATHLETIC FACILITIES	35	2062	COLLEGE OF CHARLESTON ATHLETIC FACILITIES	\$154,097	\$157,765

*Parcels A, A-1, B-1, BCD, and E are subdivisions that total 35.6 acres.

We also found that PPDA needs to consider establishing higher base rental amounts for future tenants to help minimize fluctuations based on economic conditions, designate an employee to monitor the leases, and issue statements of landlord interest.

REVENUE FROM REMAINING LAND

We found that PPDA needs to ensure that the Medal of Honor Museum pay fair market value rent to PPDA for the use of the land and PPDA should ensure that the museum offers potential visitors a joint ticket option where visitors can buy a ticket to the museum and to Patriots Point. The MOHM can be beneficial to PPDA; however, it will also be a potential rival attraction that could draw visitors away from the U.S.S. Yorktown and other attractions at PPDA.

PPDA owns six parcels, totaling 56 acres, that have not yet been leased or developed. Some of these parcels are subject to the terms of the conservation grant fund, and 28.79 acres are used by PPDA for its gift shop, ticket sales facilities, and parking.

We reviewed administrative issues including the agency's compliance with the Freedom of Information Act (FOIA), retail operations, the artifact inventory, and use of procurement cards. We also report on the status of the parking lot project questioned by our requestor.

ADMINISTRATIVE ISSUES

COMPLIANCE WITH FREEDOM OF INFORMATION ACT

We were asked to examine whether PPDA complies with this act in its executive sessions and with the public. We found that PPDA needs to inform interested parties of its meeting times, to announce the correct times for board meetings, and to publicly post meeting agendas in its offices. We observed numerous executive sessions of the board and found that the board is generally compliant with FOIA in executive session. We also examined PPDA's response to FOIA requests, and found that it is substantially compliant in responding to information requests from the general public.

RETAIL OPERATIONS

We found that the agency can improve its internal controls in the retail operations of its gift shop. A PPDA official stated that inventory shrinkage was within "industry standards," and described the standard as ten percent. With the current 2012 physical inventory value identified as \$271,698 at cost, PPDA would remain within "industry standards" until a loss of \$27,169 was achieved. The store manager and assistant managers are all allowed to adjust the quantity on hand of any inventory item within the computer "at will" throughout the year. Even with these adjustments, the inventory taken in June 2012 showed a shrinkage of \$10,696. We were unable to identify the total value of quantity adjustments from listings provided by PPDA due to insufficient data. We found that PPDA should create a separation of duties, regularly use purchase orders, eliminate the at-will reduction of merchandise, and develop the necessary inventory listings in advance of the end-of-year processing.

AGENCY EMPLOYEES AND CONTRACTORS

CONTRACT LEGAL SERVICES

PPDA contracts with a local attorney for its legal services. In the past four years, the agency paid this attorney \$648,484, which averages to \$162,121 annually. In FY 11-12, the amount paid was significantly less than in years past; however, the agency may still benefit from hiring a full-time attorney, with a mid-range salary for the highest level state classification for an attorney being less than \$120,000.

During our review, we found that a second attorney had billed PPDA \$5,760, based on an hourly rate of \$150. According to the S.C. Attorney General's office, there is no record of this attorney being authorized to serve as counsel for PPDA. In addition, based on the established billable rates, this attorney, with only three years of experience, could only charge a maximum of \$90 per hour. We recommend that PPDA request repayment of the \$5,760 from the unauthorized legal counsel.

EMERGENCY PROCUREMENTS

One of our objectives was to review PPDA's use of consultants/contractors. We reviewed PPDA's sole source and emergency procurement of contractors and found that the agency is not correctly procuring contractors under the emergency procurement regulation in state law. S.C. Reg 19-445.2110 states that an emergency procurement may be used in a "...situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or such other reason...."

We found that PPDA procured a lobbyist firm in February 2009 as an emergency procurement. Other emergency procurements included \$146,789 for advertising services, \$157,314 for land clearing and grubbing, and \$13,750 for mowing services. We also found that procurements for U.S.S. Laffey repairs were handled as emergencies. While the PPDA board decided, in its June 17, 2009 meeting, that it was appropriate to handle the work using emergency procurements, an agency's board or commission cannot declare an emergency if the conditions of state law are not met.

TEMPORARY EMPLOYEES

PPDA has not complied with state law by employing long-term temporary employees. We reviewed the human resources files of a nonstatistical sample of 20 of 48 temporary employees and found that the agency had not required a break in service for any of the 10 employees who had worked at least one year. We also found that PPDA does not have written policies regarding the administration of temporary employees.

OPERATIONS STAFF

We were asked to determine if PPDA's staff was adequate to maintain ongoing operations on the ships. Because PPDA does not know all the maintenance needs of the vessels to bring them into good condition, we cannot determine if the staff is a sufficient size; however, we found that four operations employees had naval experience, with another seven having had direct work experience for the positions they currently hold.

EMPLOYEE COMPENSATION

We were asked to determine if employees are compensated at generally recognized adequate compensation for duties performed. In our 1998 audit, we recommended that PPDA obtain an entity with appropriate credentials in personnel management to address classification and compensation issues. No study has been conducted.

FOR MORE
INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

LAC.SC.GOV

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Independence, Reliability, Integrity

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