

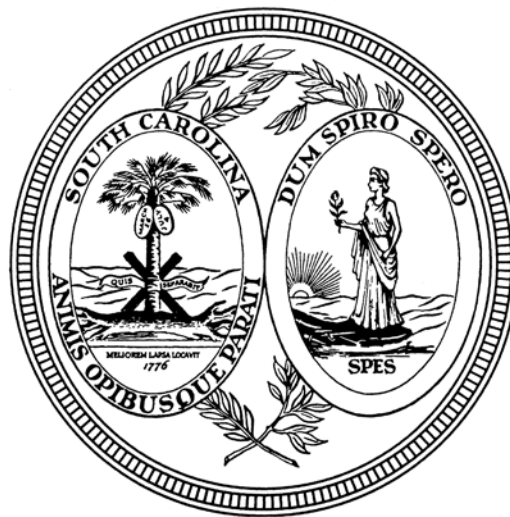


SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

August 2015

A REVIEW OF THE FARMERS' MARKET LAND DEAL, LEASES, REVENUES, AND EXPENDITURES



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Legislative Audit Council

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Introduction and Background

Audit Objectives

Members of the General Assembly requested the Legislative Audit Council to conduct a review of the S.C. Department of Agriculture's (SCDA) relocation, revenues, expenditures, and leases regarding the Farmers' Market. Our objectives for this review were to:

- Update the status of the Farmers' Market since publication of the LAC 2010 report.
- Review land purchases, leases, and other records to determine if appropriate.
- Report on the income and expenditures of the Farmers' Market, how transactions are processed, and if records are properly maintained.

Scope and Methodology

We reviewed the operations of the S.C. Department of Agriculture, only as they pertain to the Farmers' Market located in Lexington County, including the move to this location, and revenue and expenditures of the market.

The period of our review was generally FY 09-10 through FY 14-15, with consideration of earlier and more recent periods when relevant. To conduct this review, we used a variety of sources of evidence, including the following:

- Interviews of SCDA employees, employees of other state agencies, officials with other states' farmers' markets, and private individuals.
- Land, vendor, and other leases.
- Financial documentation regarding revenues and expenditures.
- State laws and regulations.
- Appraisal of the Lexington County land housing the Farmers' Market.
- Agency policies/guidelines/procedures.
- SCDA's budget requests.

Criteria used to measure performance included state laws, regulations, agency policies, practices of other states, and principles of good business practices. We reviewed internal controls in areas including SCDA's financial management. Our findings are detailed in the report.

Background

In April 2010, we published a report entitled *A Review of the Relocation of the South Carolina Farmers' Market and Related Expenditures*. In this report, we found the following:

- After spending more than \$4.4 million to develop a Farmers' Market in Richland County, the S.C. Department of Agriculture (SCDA) decided the project was not viable primarily because of vendors' lack of support for the plan and wanted another site.
- Plans for the Lexington County relocation site were in place before the Joint Bond Review Committee authorized funding for the project and before the SCDA officially notified Richland County that it was terminating its agreement.
- The General Assembly passed a resolution to relocate the site to Lexington County on May 8, 2008. SCDA officials and a General Services official with the Budget and Control Board stated that there was no official commitment to the Lexington County site until after the resolution was passed. However, an incentive agreement between the developer and Lexington County was signed on December 15, 2007 which indicated that SCDA would be occupying the "state parcel" and a state grant of \$2.6 million would fund a portion of the public improvements.
- The General Assembly's Joint Bond Review Committee authorized SCDA to purchase 46.2 acres from a private developer. The market moved two months after its scheduled date; however, the private developer did not officially notify SCDA of this delay or request a waiver of damages until the LAC inquired in February 2010. The agreement required the developer to pay the state significant financial damages for this delay. We found no reason why financial damages should not be imposed against the developer.
- SCDA used state funds to pay for certain expenses incurred by the developer before the state agreed to relocate to Lexington County. For example, more than \$49,000 of state funds were used to pay to survey the developers' 174.12 acres for the site. We could not determine why the state paid for the entire surveying cost.
- We noted several immaterial concerns related to documentation and recordkeeping. For example, invoices for the Farmers' Market expenditures had not been reviewed by SCDA accountants for reasonableness and documentation because management had designated three other SCDA officials to approve payments. We also found insufficient documentation in several transactions that we reviewed.

Land Purchases

Summary and Background

We were requested to examine purchases of land made by SCDA in 2013 for the Farmers' Market in Lexington County. We found that the appraisal for the purchases relied on information from the seller of the land that was not verified by the appraiser. Additionally, the appraiser did not take into account land use restrictions that arose from the status of neighboring property as a Superfund (a federal program which oversees the cleanup of hazardous waste) site. Finally, the fact that the seller of the land to the SCDA was a contributor to the Commissioner of Agriculture's election campaign in 2010 was not disclosed in the minutes of the Joint Bond Review Committee when the seller's property was approved for purchase by the State of South Carolina.

On October 31, 2013, the S.C. Department of Agriculture purchased two properties from a private entity. SCDA purchased the first tract of 9.73 acres for \$6,078,000 (Lot 25). That property included a multi-tenant building, completed in 2011, that contains 31,090 square feet, a produce shed that consists of 27,885 square feet, and another produce shed that consists of 10,881 square feet. These buildings and other improvements were constructed after the property was purchased by the developer and before the sale to the state. In addition, the buildings were leased by tenants and the sale included those leases. The property was part of a 26.68 acre tract that was purchased by the previous owner in 2010 for \$1,570,800, resulting in a \$4,507,200 difference between the 2010 purchase of the property and the 2013 sale of just a portion of the original purchase to the state. The \$1,570,800 purchase price did not include the cost of buildings and improvements. Also on October 31, 2013, SCDA bought a gatehouse, including 0.08 acres of land, located on Farmer's Market Drive from the same seller for \$980,126.

The 2012 tax value for the purchased properties was \$1,175,000. Tables 2.1 and 2.2 summarize the history of the purchased properties.

Table 2.1: History of Purchases

	SHEDS/VENDOR BUILDING (LOT 25)	PURCHASE/SALE PRICE	TRANSACTION DATE	ACRES	PRICE PER ACRE
Purchaser	Department of Agriculture	\$6,078,000	10/31/2013	9.73	\$624,665
Seller	Stern Market Properties, LLC				
Purchaser	Stern Market Properties, LLC	\$1,570,800	09/16/2010	26.68	\$58,876
Seller	321 Lexington Associates, LLC				

Source: Lexington County Property Records

Table 2.2: History of Gatehouse Purchase

	GATEHOUSE	PURCHASE/ SALE PRICE	TRANSACTION DATE	ACRES	PRICE PER ACRE
Purchaser	Department of Agriculture	\$980,216	10/31/2013	N/A	N/A
Seller	Stern Market Properties, LLC				

Source: Lexington County Property Records

Appraisal of Purchased Properties

SCDA hired a firm to conduct an appraisal of the properties purchased, and the appraisal was dated January 25, 2013. Although the appraisal of the properties was conducted by a professional appraisal firm, SCDA should consider multiple appraisals before purchasing properties in the future.

The appraiser concluded that the value of the land with the sheds and vendor building (Lot 25) totaled \$6,085,000 and that the value of the gatehouse was \$990,000.

The appraiser utilized the “income approach” in order to value the subject properties. The income approach values property based on the potential, future financial benefits of property ownership. In order to use the income approach to value the properties, the appraiser relied on information provided to them by relevant parties. The owner of Lot 25 provided leases to the appraiser as well as some other income estimates but did not provide written financial statements. A representative from the State of South Carolina provided gate receipts for the gatehouse. The appraiser stated that, “Extraordinary assumptions include reliance that the income and expense information received is accurate.”

For Lot 25, the appraiser reviewed the leases for the wholesale vendor building and relied on verbal information from the owner regarding income from sheds rented to produce sellers and the expenses. The appraisers also relied on leases for the wholesale vendor building. They were not provided with financial statements. By estimating the income from the vendor building and sheds, the appraisers determined that the value of Lot 25 totaled \$6,085,000.

Since the appraiser was not able to look at income statements from the seller, it is not possible to determine if the estimated income of Lot 25 was correct. Although the leases for the vendor building contained rental fees, it is not clear whether those fees were collected by the owner. In Chapter 5 of this report, we discuss the fact that SCDA had not collected rent it was due from the restaurant in the Corbett Building.

Based on estimated rental income, the appraiser determined the effective annual gross income of Lot 25 to be \$672,519. However, according to financial statements received from SCDA, the wholesale buildings and sheds which produce the income on Lot 25 generated a total of \$342,931 over 16 months during FY 13-14 and FY 14-15.

In determining the value of the gatehouse, the appraiser considered financial information provided to them verbally by the owner as well as historical data from the state. The appraisers received unaudited, verbal information regarding gate receipts from the previous owner which showed annualized 2012 gate receipts as \$62,904. Given projected future gate receipts, the appraiser determined that \$175,000 was a reasonable estimate of future gate receipts. According to financial statements received from SCDA, \$101,236 was collected from the gatehouse over 16 months during FY 13-14 and FY 14-15. This compares to \$176,741 that was collected by SCDA at the gate of the Richland County location in FY 07-08.

The appraiser assumed that the properties it reviewed had never been used for the storage or disposal of hazardous waste and that no such substances were currently on the premises. The appraiser did note that a nearby parcel was designated as a Superfund site. The appraiser concluded that, “[the Superfund site] is not included in the overall tract of the Farmers’ Market and has not appeared to hinder development.” Although the site borders, but is not part of, the Farmers’ Market, the market does have some developmental restrictions due to its proximity to the site. Pursuant to a June 16, 2009 declaration of covenants and restrictions, Lot 25 cannot be used for:

- Planting and growing crops for human consumption.
- Recreational purposes.
- Drilling of underwater wells.
- Groundwater for consumptive use or other purposes.

Those restrictions cannot be lifted without the consent of the United States Environmental Protection Agency and the S.C. Department of Health and Environmental Control. The fact that the purchased property is subject to use restrictions was not mentioned in the appraiser’s report.

Given the unique nature of the Farmers' Market, as the only one of its kind in the Columbia area, a second appraisal could have provided additional information which SCDA could have used to make its purchasing decision. A second opinion could better ensure that a fair market value was paid for the property and that issues relevant to property valuation, which may have been missed by one appraiser, are adequately examined.

Recommendation

1. The S.C. Department of Agriculture should consider commissioning at least two appraisals, which include reviews of written financial statements, when purchasing future properties for the South Carolina Farmers' Market or similar projects.

Seller Donation to Commissioner of Agriculture

The seller of Lot 25 and the gatehouse contributed to all three of the Commissioner of Agriculture's election campaigns. In 2010, the seller contributed \$3,500 to the Commissioner of Agriculture's campaign, which occurred prior to the purchase of the seller's land by the State of South Carolina. Although this donation was made available to the public on the S.C. State Ethics Commission website, it was not mentioned in the documentation presented to the Joint Bond Review Committee (JBRC) or the Budget and Control Board when the decision to purchase the land was finalized. Although no laws were broken and we could not find information that this donation impacted the purchase of the land, such information should be publicly disclosed before the JBRC in the future. The disclosure of campaign donations of sellers of land to parties involved in the purchase of that land will contribute to a more transparent vetting process.

Recommendation

2. Donations made by parties to elected officials who have projects before the Joint Bond Review Committee or other agencies approving projects should be disclosed publicly by the elected official to the Joint Bond Review Committee.

Leases

Review of Farmers' Market Leases

We were asked by our requestors to examine the leases for the tenants of the Farmers' Market property. We looked at the terms of each lease and compared lease terms. We found that some of the leases were not specific on when or how a payment must be made to SCDA.

The Farmers' Market had 10 leases in which over \$1,000 per year is paid by a tenant. Additionally, SCDA rents a building from a landowner and is the license holder for a restaurant in that building. Table 3.1 lists those leases.

Table 3.1: Current Leases

TENANT	MONTHLY RENT	PROPERTY	LEASE TERM	LEASE DATES
Clayton Rawl Farms	\$4,500.00	Produce Shed Units 1, 2, 3	5 years	09/28/10–09/31/15*
Watsonia at the Market	\$3,000.00	Produce Shed Units 4 & 5	5 years	01/01/11–12/31/15
Williams Produce	\$10,500.00	Warehouse Unit	5 years	01/01/15–12/31/20
Jackson Brothers	\$5,885.00	Warehouse Unit	1 year	01/01/15–12/31/15
Catherine Porth	\$166.66 (Total: \$2,000)	N. Farmer Shed, Stall N-1	1 year	04/01/14–03/31/15
Titan Farms	\$333.33 (Total: \$4,000)	N. Farmer Shed, Stalls N-16 & N17	1 year	05/01/14–04/30/15
Cotton Hope	\$166.66 (Total: \$2,000)	N. Farmer Shed, Stall N-15	1 year	05/01/14–04/30/15
Super Sod	\$420.00 (Total: \$5,040)	One Office in Admin Building	1 year	07/01/14–06/30/15
USDA-NASS	\$1,024.20 (Total: \$10,242)	Office Space	10 months	12/01/13–09/30/14
USDA-AMS	\$2,500 (Total: \$30,000)	One Building	1 year	12/01/14–11/30/15
Dupre's at the Market	5%** of adjusted gross revenue	Corbett Building	5 years	12/16/13–12/16/18

* The assumption is that the date should be 09/30/15.

**As of April 2015, the percentage increased from 4%.

Source: SCDA & LAC

We examined all of SCDA's major leases involving tenants at the Farmers' Market. The leases for the tenants engaged in the buying and selling of produce (Clayton Rawl Farms, Watsonia, Williams Produce, and Jackson Brothers) are all five-year leases. The leases require the tenant to pay charges for utilities such as water, power, and waste disposal.

Additionally, those leases require the tenant to maintain the property and prevent overgrown vegetation and accumulated waste. SCDA has the right to enter and inspect the premises of those tenants. These leases also state that rent must be paid in advance by the 10th day of each month. If rent is not paid promptly, the leases stipulate SCDA may immediately re-enter and take possession of the premises.

In addition to the produce vendors and wholesalers, other businesses and government agencies also leased Farmers' Market property. Although these leases specify rental amounts, they do not describe the terms of payment, the due date for the rental money, or recourse for SCDA if the rent is not paid. For example, Titan Farms and Cotton Hope Packing, LLC were leased stalls under a shed at the Farmers' Market from May 1, 2014 to April 30, 2015. The entire rental amounts were \$4,000 and \$2,000 for Titan Farms and Cotton Hope Packing, LLC, respectively. The premises were to be used for storing and selling primarily South Carolina grown produce and other agricultural products. Although these agreements note that Titan Farms and Cotton Hope Packing were to be penalized for failure to remit payment, it does not specify when or how payment must be made.

Super-Sod Corporation was leased office space in the Farmers' Market administrative building for conducting business activity. The agreement was dated July 1, 2014 and was scheduled to end on June 30, 2015. The rental amount for the entire agreement was \$5,040. However, Super-Sod vacated the space before the end of the lease. Although this agreement notes that Super-Sod was to be penalized for failure to remit payment, it does not specify when or how payment must be made.

SCDA has entered into two leases with the U.S. Department of Agriculture (USDA). One agreement began December 1, 2013 and ended September 30, 2014 and leased office space for the USDA's National Agricultural Statistics Service. The rental amount for that agreement was \$10,242. That agreement stipulated that payments to SCDA were to be made annually upon submission of an invoice. In a separate contract, SCDA leased another building to the U.S. Department of Agriculture for its Agricultural Marketing Services fruit and vegetable inspections. The lease began December 2014 and will end on November 30, 2015. The rental amount is \$30,000 for the entire agreement.

The agreement allows the USDA to use the same space or equivalent facilities each year as long as a new rental agreement may be reasonably negotiated from year to year between the parties. Although this agreement notes that USDA is to be penalized for failure to remit payment, it does not specify when or how payment must be made. We asked SCDA for documentation showing rental payments from the tenants on Lot 25 of the Farmers' Market, which was the lot purchased in 2013; however, no documentation was provided.

Recommendation

3. When leasing property at the Farmers' Market, the S.C. Department of Agriculture should ensure that lease agreements include specific information on when rental payments must be made and recourse for the S.C. Department of Agriculture if rental payments are not made on time.
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Environmental Status of the Farmers' Market Properties

We were asked to examine the environmental status of the Farmers' Market properties. The Farmers' Market properties are located near a site that has been the location of environmental cleanup projects. Due to the proximity of that property to a federal Superfund site, there are several use restrictions, such as a prohibition on the use of groundwater for drinking and irrigation. According to reports by the federal government and according to S.C. Department of Health and Environmental Control (DHEC) officials, the Farmers' Market property is currently safe for customers, and the use restrictions may be lifted by the Environmental Protection Agency (EPA).

The Farmers' Market properties are located near the former site of a recycling and waste disposal company. In the late 1970s, poor handling of drums that contained hazardous materials by the company resulted in environmental contamination of the site. The EPA placed the site on its National Priorities List (NPL) in 1983 as a Superfund site. Superfund is an EPA program that oversees the cleaning of the nation's hazardous waste sites. For over 20 years, the site that includes the Farmers' Market properties has been the subject of cleanup projects that have involved the pumping and treating of groundwater. Additionally, in recent years, solvents have been injected into the grounds of the site in order to neutralize the underground pollution.

According to officials with DHEC, the cleanup efforts at the Farmers' Market site have successfully reduced or eliminated the pollution at the site. The entire site is expected to be cleaned up within a year and will be removed from the EPA's NPL as a Superfund site. According to DHEC officials, the site on which the Farmers' Market property is located does not pose health risks for customers and employees at the market. However, the Farmers' Market properties are subject to restrictions that prohibit the use of the property for several activities and operations, including:

- Using groundwater for irrigation and drinking.
- Using the land as a playground.

Currently, the City of Cayce provides water to the market. According to DHEC officials, the restricted activities and operations can now occur at the Farmers' Market property without risk. In order to engage in those activities, SCDA will be required to petition DHEC and the EPA to lift the restrictions on those activities.

Lifting the restrictions on the Farmers' Market property could allow for SCDA to more efficiently use the property. Nurseries and other members of the South Carolina agricultural community could benefit from being able to use the Farmers' Market property in ways that are currently restricted, such as agriculture demonstration plots. SCDA should investigate the feasibility of lifting use restrictions on the Farmers' Market property and consider petitioning DHEC and the EPA to lift those restrictions if SCDA and DHEC determine that the property is clean enough for such use.

Recommendation

4. The S.C. Department of Agriculture should petition the S.C. Department of Health and Environmental Control and the Environmental Protection Agency to lift use restrictions on the Farmers' Market if it is determined that lifting those use restrictions is safe for all parties at the Farmers' Market.

Public-Private Partnership

The Farmers' Market has been described by SCDA as a "public-private partnership." This description is somewhat accurate, but we found that SCDA should work more closely with owners of privately-owned properties at the Farmers' Market to further enhance viability. Specifically, SCDA should ensure that neighboring properties adhere to covenants that require upkeep of properties. Additionally, SCDA should communicate more closely with privately-owned neighboring properties to ensure that neighboring properties are allowed to prepare for and take advantage of opportunities at the Farmers' Market.

SCDA owns only a portion of the land that makes up the Farmers' Market. The property owned by SCDA is used for the following purposes:

- Wholesale sheds leased to South Carolina farmers.
- Wholesale sheds leased to out-of-state farmers.
- Warehouses leased to produce companies.
- Agricultural testing facility.
- Building leased to the U.S. Department of Agriculture.
- Gatehouse used to admit visitors to the Farmers' Market.

The rest of the Farmers' Market property (approximately 60% of the site) is owned privately. Some of these properties are currently being actively utilized as:

- Privately-owned produce distribution centers.
- The Corbett Building is a privately-owned building that contains a restaurant, an exhibition kitchen, and room for additional tenants. SCDA currently has a sublicensing agreement with the restaurant.

Although some of the privately-owned properties are being used, approximately 70% of the privately-owned property at the Farmers' Market site is not being used for any specific purposes. According to SCDA officials, SCDA has little interaction or partnership with the unused properties or their owners, and SCDA does not have a plan for improving its partnership with those property owners. There are some agreements between SCDA and the privately-owned properties that require those properties to be kept litter-free and allow for parking. However, in multiple observations of those properties over time, we observed a lack of landscaping (including weeds and overgrown grass) and litter on those properties.

SCDA hosts several events for the general public each year at the Farmers' Market. These events attract as many as 45,000 visitors to the market. However, according to a private property owner at the Farmers' Market, SCDA does not inform them of these events. In one instance, that property owner faced logistical challenges due to traffic and parking that impacted the delivery of produce for that property owner.

Closer interaction between SCDA and owners of nearby privately-owned properties could result in a more attractive Farmers' Market site, which could attract more visitors and tenants. Apart from the requirements of their current agreements, the private properties in the Farmers' Market area are not required to work in conjunction with SCDA. However, if the Farmers' Market is to be a true public-private partnership, SCDA should take the initiative to make agreements with privately-owned neighboring properties in order to achieve a mutually-beneficial master plan. During the exit process, SCDA developed an event notification policy for communication with private landowners at the Farmers' Market.

Additionally, SCDA should ensure that neighboring private properties adhere to their duties to upkeep their landscaping and litter control. By increasing the attractiveness of the Farmers' Market and the nearby privately-owned properties, the Farmers' Market can better fulfill its mission.

Other States

We reviewed some farmers' markets in the other Southeastern states, including Georgia, North Carolina, and Florida. We found many similarities, including space for wholesale vendors, rental rates, and execution of leases for wholesale vendors. However, none of the other markets reviewed had a public-private management partnership like the S.C. State Farmers' Market. The specific state-owned markets we reviewed in Georgia, North Carolina, and Florida are completely run by the state government and there is no section that is under private management. The completely public structure may better promote optimal management of daily operations and the sustainability of the market.

Recommendations

5. The S.C. Department of Agriculture should implement a plan to better coordinate and communicate with private property owners at the Farmers' Market.
6. The S.C. Department of Agriculture should ensure that covenants of privately-owned properties at the Farmers' Market site are enforced.

Expenditures

Cost of Relocation to Lexington County

In May 2008, the General Assembly authorized up to \$22.5 million to the SCDA for the relocation of the Farmers' Market to its current location in Lexington County. We reviewed expenditure data provided by SCDA as well as the Office of the State Engineer to determine how this money was spent. According to the Office of the State Engineer official who oversaw the project, all of the expenditures related to the project were strictly monitored. As of June 2015, \$3,785.54 of the \$22.5 million had not been expended. According to SCDA management, the balance due is lower than the funds remaining. However, no documentation was provided to support this statement.

Table 4.1 is a breakdown of the money into four categories — land, escrow, soft costs, and construction costs. The land category only consists of SCDA's initial land purchase of two plots of land in 2008 and the additional plot of land purchased in 2010. The escrow category includes 18 payments made to 321 Lexington Associations, the developer, from May 20, 2009 to December 12, 2011. The soft costs category encompasses expenditures such as inspections, legal fees, permits, landscape master plan, and fees associated with connecting to the sewer and water systems. The construction costs category consists of the lab, S.C. Farmer Fresh Sheds, conference center, maintenance building, and horticulture building.

Table 4.1: Expenditures of \$22.5 Million for Relocation

	BUDGETED	CONTRACTED	PAID	BALANCE DUE
Land	\$2,664,550	\$2,664,550	\$2,664,550	\$0
Escrow	5,157,052	5,246,853	5,157,052	89,801
Soft Costs	1,396,872	1,396,872	1,404,230	-7,358
Construction Costs	13,270,383	13,334,979	13,270,383	64,596
TOTAL	\$22,488,857	\$22,643,254	\$22,496,215	\$147,039

Source: Office of the State Engineer

Signage on U.S. Highway 321

The S.C. Department of Agriculture (SCDA) will be contracting to construct a sign on the east side of U.S. Highway 321 at the Farmers' Market in Lexington County for an estimated \$363,779. Initially, SCDA paid for the design of two signs — one sign on I-26 and the other sign on U.S. Highway 321. According to SCDA officials, the department was financially unable to move forward with constructing both signs. Even though I-26 averages more than twice the traffic count per day as U.S. Highway 321, it was decided that the sign on U.S. Highway 321 would be completed because the current sign at the market entrance is not visible to traffic.

The sign will be a double-sided electric sign with a full color message board. There will be lettering designating the location of the market. The message board will display information including activities, events, advertisements, and other information of consumers' interest. SCDA reported that the annual operating costs will be negligible. However, the sign will need electricity and possible maintenance.

The original budget for signage submitted in June 2014, and approved July 15, 2014, was \$241,069. SCDA submitted a request to the Joint Bond Review Committee (JBRC) for its April 22, 2015 meeting to increase the budget for the capital project by almost 51% to \$363,779. This budget increase for the signage project was approved by the JBRC at the June 3, 2015 meeting. According to SCDA management, the request for the budget adjustment is the result of a rise in design costs and increased estimated contingency, inspection, and construct costs due, in part, to a rise in the cost of steel. SCDA initially estimated that design costs would be \$3,750. The design costs were significantly underestimated and actually amounted to \$41,830.

In addition, SCDA included a contingency cost of 20% of the project budget. According to an official at the Budget and Control Board, contingency costs for capital projects brought before the JBRC are usually 10% of project costs. According to the Contingency Allowance Guide for the Office of the State Engineer, the construction bid phase should allow for a contingency from 10% to 20%.

The Joint Bond Review Committee approved the expenditure of \$760,000 in accrued interest from the sale of the Farmers' Market in 2009. The approval designated \$250,000 for signage, \$150,000 for equipment and \$360,000 for marketing. As of April 15, 2015, SCDA had spent \$497,154 on equipment, marketing, and the design phase of the signage project.

SCDA reported in the Permanent Improvement Project Budget request submitted February 27, 2015 that the remaining balance of approximately \$262,000 is to be spent on the signage project. SCDA is requesting the use of tobacco funds to cover the remaining signage expenses.

The design phase is completed and the bid for construction had not been released as of June 3, 2015. SCDA estimates completion of the construction of the sign by December 2015.

Security System

SCDA could improve its security at the Farmers' Market by having functioning surveillance cameras installed on the premises. Surveillance cameras could be installed for the safety, security, and accountability of the employees, vendors, and consumers.

The gatehouse generated \$53,538 in FY 13-14 and \$47,698 for the first eight months of FY 14-15. With a large income stream, it is important that a monitoring system be in place to deter criminal activity. Furthermore, during the peak season, the market is open all day, every day leading it to be vulnerable to theft at any time of the day.

There is a visible camera at the gatehouse, but it does not function. An official from SCDA reported that SCDA is currently obtaining quotes for surveillance cameras to be installed at the gatehouse, farmer sheds, and the maintenance building.

Recommendation

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7. S.C. Department of Agriculture should install a functioning surveillance system at the gatehouse and consider any other necessary locations at the Farmers' Market.

Chapter 4
Expenditures

Revenues

Market's Sustainability

We were asked to review the income and expenses at the Farmers' Market. We found that the market is unable to sustain itself with the revenue generated from leases, events, and activities at the market. The Corbett Building and the horticulture building did not produce any income for approximately one year and for four months, respectively. These buildings can potentially be utilized to produce necessary revenue to help sustain market operations.

In FY 12-13, the market ended the fiscal year with a deficit of \$137,985. In FY 13-14, the market generated a surplus of \$42,639 due to the revenue generated from newly-purchased property and buildings at the market. The acquisition in FY 13-14 included wholesale buildings, farmers' sheds for out-of-state vendors, and the gatehouse at the entrance of the market. As of February 2015, the market posted a deficit of \$64,544 for the first eight months of FY 14-15.

The General Assembly approved SCDA's budget request in FY 13-14 for an additional \$300,000 in recurring funds to cover operating costs for Market Services. Table 5.1 shows that the market was not self-sustaining without this additional appropriation. The amount listed for each fund, by fiscal year, represents expenses subtracted from income. The original buildings fund consists of the Produce Building, Administration Building, Maintenance Building, and Certified S.C. Farmers' Sheds. The table does not include the additional \$300,000 in appropriations that SCDA is now receiving.

Table 5.1: Surplus/Deficit for Farmers' Market Funds

	FY 12-13	FY 13-14	FY 14-15*	TOTAL SURPLUS OR DEFICIT
Original Buildings	-\$143,309	-\$57,793	-\$44,612	-\$245,714
Corbett Building	\$5,992	-\$7,425	-\$90,943	-\$92,376
Horticulture Building	-\$668	\$1,403	-\$5,521	-\$4,786
Wholesale Building	N/A	\$90,455	\$117,030	\$207,485
Out-of-State Sheds	N/A	\$38,967	\$14,054	\$53,021
Gatehouse	N/A	-\$22,968	-\$54,552	-\$77,520
TOTAL	-\$137,985	\$42,639	-\$64,544	-\$159,890

* As of February 2015
These figures include depreciation.
Source: LAC & SCDA

For one year since February 2014, the Corbett Building had produced no revenue, while expenses continued to accrue. SCDA currently leases the Corbett Building from F.M. Building C, LLC. In April 2014, Judy's Restaurant was replaced by Dupre's Restaurant, which is housed in the Corbett Building (see *Restaurant Rent*).

In the Corbett Building, Five Rivers Market left in January 2015 when its lease expired and Jacob's Country Store closed in November 2013. SCDA will have the space previously occupied by Five Rivers Market and Jacob's County Store converted into offices for the S.C. Department of Natural Resources (DNR). SCDA and DNR will be completing the lease arrangements in June 2015 and DNR will begin paying annual rent of \$77,583 starting July 1, 2015. According to an SCDA official, DNR is paying for the renovations to the space. Also, SCDA stated that DNR will be handling hunting and fishing licenses from this location and officials hope this will increase customer traffic in the market.

From November 2014 to February 2015, the horticulture building did not produce revenue nor did it incur any expenses. Super-Sod, a turfgrass retailer, had previously occupied the building. An official from SCDA reported that Super-Sod closed the office due to the industry's economic downturn. SCDA currently has relocated its fruit and vegetable inspection division into the horticulture building.

Recommendation

8. The S.C. Department of Agriculture should utilize the Corbett Building and the horticulture building to produce revenue that will help the market sustain itself.
-

Gatehouse Fees

The Farmers' Market now collects gate fees from vehicles entering the market in varying amounts, depending on whether they are wholesalers or daily renters. These fees are collected at the small building at the entrance of the market known as the gatehouse. Until November 2013, fees collected for entry to the Farmers' Market were not going to the S.C. Department of Agriculture, but to a private developer who owned the gatehouse building.

The annual revenue from the gatehouse was estimated to be \$119,635 in the appraisal of the land. According to SCDA, the revenue for November 2013 through June 2014 was \$53,538. For FY 14-15, as of May 2015, \$67,638 was collected.

According to SCDA management, the agency said it "...felt like money collected was falling through the cracks before our building manager could arrive and collect.... Purchasing the gatehouse made collection of money more efficient." There was no explanation from SCDA management why some type of agreement between the Farmers' Market and this private developer for the market to retain some portion of the fees was not reached. Those entering the Farmers' Market were paying under the belief that money paid was going towards the support of the Farmers' Market, not a private developer.

Restaurant Rent

Since July 2010, there has been a restaurant in the Corbett Building on the grounds of the Farmers' Market. In December 2013, a new restaurant replaced the restaurant which had been in that building since 2010. SCDA had not collected any rent from this new restaurant until we requested documentation of that income.

In a sublicense agreement between the current restaurant and SCDA, there is a provision for rent to be paid to SCDA. Initially, the rent was 4% of the adjusted gross revenues. As of April 1, 2015, that amount increased to 5% of the adjusted gross revenue. When asked for documentation of the rent SCDA had collected from this restaurant, we were provided three invoices dated October 2014, January 2015, and April 2015; however, no deposits were provided. According to SCDA, this restaurant "...did not take over the facility rent until September 2014." In response to our May 2015 inquiry, SCDA provided a copy of a check dated May 20, 2015 from the restaurant, based on an October 2014 invoice. No other documentation of payments was provided.

According to SCDA management, there was a need for flexibility and SCDA tried to "bridge the gap" and have "forbearance to help him out until we have put things in place to serve him better, like DNR moving in the building..." and constructing the sign. SCDA management stated that it was "...better to work with the current management than to start over and try to attract a new restaurant."

In that SCDA had to request an additional \$300,000 in state appropriations to sustain the Farmers' Market, the agency should have first capitalized on the income streams already in place. According to SCDA management, the agency is working with the restaurant owner on a "catch up plan" to recoup the monies due to the agency. According to SCDA, the restaurant reports its revenue figures based on the honor system and SCDA does not verify these figures upon which the rent amount is determined. Revenues should be verified to ensure that the state is receiving the proper rental payments.

Recommendations

9. The S.C. Department of Agriculture should obtain all funds due to it per the agreement between the agency and the restaurant and ensure timely payments are made going forward.
 10. The S.C. Department of Agriculture should periodically verify the restaurant's revenue by reviewing monthly receipts.
-

Admission/Parking Fees

The Farmers' Market does not and should not collect admission fees from the public for visiting the market. However, we found that, for special events, the market could charge an admission or parking fee to increase its revenue potential to sustain the market.

SCDA holds many special events throughout the year at the Farmers' Market. These events include:

- Midlands Plant and Flower Festivals (twice a year)
- BBQ Cook Off
- Country Christmas Celebration
- Touch a Truck
- Family Fun Day

There is some revenue generated from some of these events, such as shed rent (\$500) or vendor registration fees. The Midlands Plant & Flower Festivals bring in the majority of that revenue.

Table 5.2: Revenue from Special Events

FY 12-13	\$51,024
FY 13-14	\$60,936
FY 14-15	\$57,963

According to SCDA, approximately 45,000 people attend each plant and flower festival. Based on four people per car, a minimum charge of \$3 per car would increase revenue by \$30,000 for each event. This would automatically increase the yearly revenue by \$60,000 just for that event.

We asked SCDA management why, since the market needs income to sustain itself, visitors to special events are not charged a small admission or parking fee. According to SCDA management, charging an admission or parking fee has been considered, but the agency wants to pursue other avenues first, such as increasing the amount charged to vendors. The events are held to “enhance and open the market up to new people” according to an SCDA official.

Many South Carolina state parks charge a “per person” admission fee to enter the parks. While there are some parks for which there is no admission fee, other parks charge amounts varying from \$2 to \$5 per person. Since one of the criticisms of the market has been that an increase in state appropriations was needed to make the market self-sustaining, SCDA should seriously consider all revenue streams.

Recommendation

11. The S.C. Department of Agriculture should charge an admission fee or parking fee for attendees of special events hosted at the Farmers’ Market.

Possible New Income Streams

In addition to charging a small admission/parking fee for special events, SCDA should consider other possible income streams to help the market be self-sustaining. Other suggestions include renting out advertising space on the new message board, holding demonstration cooking classes in the Corbett Building, and working with local schools on a farm-to-table school program.

SCDA provided a copy of a customer survey from its 2015 Midlands Spring Plant and Flower Festival. While many of the respondents were complimentary of the show, some had suggestions for improvements, including better and/or closer parking. If all of the land at the Farmers' Market was properly maintained, there would be more parking areas for special events.

Another suggestion from that survey was that the Farmers' Market should utilize wagons for carrying plants to cars during festivals and possibly charge a nominal fee.

Since SCDA has decided to spend \$363,779 on a new sign, including a message board, SCDA should consider selling advertising space on this message board as a means to increase income for the market. The advertisements should be in line with the goals and mission of the market.

An August 2012 consultant's assessment also noted that the Farmers' Market needed to produce greater operating revenue for SCDA by improving retail and wholesale shopping opportunities. Since this report, the Corbett Building has lost both the Five Rivers Market and Jacob's Country Store. SCDA has, however, rented this space to DNR for some of its offices.

The consultant suggested weekly festival events targeting families, cooking classes and demonstrations in the Corbett Building, and advertised daily specials. The consultant also suggested improving integration with local schools by including farm-to-table school programming such as demonstration gardens (which should be viable since the site has been cleaned), wholesaler processor tours, and continuing education for teachers.

According to information provided by SCDA, some of these projects or suggestions have been partially implemented. SCDA does provide tours to school groups and holds regular special events throughout the year.

Recommendation

12. The S.C. Department of Agriculture should implement fees and programs to increase its income at the Farmers' Market.
-

Policies and Procedures

SCDA does not have formal policies and procedures for revenue collection and deposits, gatehouse guidelines for attendants, and gatehouse collection procedures. The agency has some written guidelines for these procedures; however, they do not include implementation dates or revision dates. Furthermore, the gatehouse collection procedures do not adequately address the steps to complete the collection of revenue at the gatehouse. The gatehouse collection procedures are a list of duties and responsibilities of the gatehouse attendants and supervisor. The gatehouse collection procedures should outline the steps gatehouse attendants must complete to properly collect the correct amount of money from each farmer or truck. It is important that dates are noted and the procedures are clearly defined so that all employees are aware of which guidelines are in effect.

During the exit process, SCDA provided revised versions of the gatehouse policies and the gatehouse collection procedures. The revised versions include a revision date, signature line for the employee to acknowledge receipt of the policy, and updated procedures.

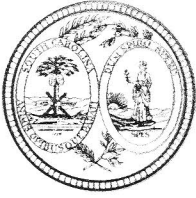
Recommendation

13. The S.C. Department of Agriculture should continue to maintain updated policies and procedures for the gatehouse and revenue collection at the Farmers' Market.

Chapter 5
Revenues

Agency Comments

State of South Carolina
Department of Agriculture



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August 25, 2015

Director K. Earle Powell
SC Legislative Audit Council
1331 Elmwood Ave. Suite 315
Columbia, SC 29201

Dear Director Powell,

The "Review of the Farmers' Market Land Deal, Leases, Revenues, and Expenditures" (Review) has been analyzed thoroughly by the South Carolina Department of Agriculture (SCDA). The Review, which required the Legislative Audit Council (LAC) six months to complete, does not present a complete picture of the State Farmers' Market background, purchases and operations, and should not be presented to the public as such. SCDA's public comments, which we were allowed five days to complete, consist of this letter addressed to you, as well as our attached SCDA Response.

The SCDA Response is intended to present to the taxpayers a more complete picture than that of the LAC Review, as well as bring value to the process of the Legislative Audit in the future. Given the expectations of the public for full transparency, any auditing process must be thorough, accurate, and above reproach and political influence. This review falls short on all of these standards, as summarized below and detailed in the SCDA Response:

1. **A predisposition toward negative findings of this matter before beginning the audit:** Evidence of this is the fact of no inquiries regarding inaccurate conclusions from the 2010 LAC report. There were several that will be illustrated.
2. **Insufficient fact gathering efforts leading to erroneous conclusions:** There was no effort by LAC to learn the total cost basis in Lot 25 by Stern Market Properties, therefore implying an erroneous profit on the sale to the State. There is no evidence of LAC actually comprehending the Act 1066 of 2008, governing all aspects of the relocation to Lexington County. LAC made no effort to study the long-standing track record of the appraisal firm, Marshall Dodd Company, with the State.
3. **An alarming lack of basic working knowledge of business principles that should concern members of the General Assembly and the public:** For example, table 5.1 of the Review implies a deficit operation by having included depreciation as a cash expense, which it is not.
4. **Not understanding or recognizing the answers to questions already made available to the public or supplied more than once by SCDA:** The most glaring being that, at least

three times SCDA explained to LAC the audit trail of calculating fees due from the restaurant, yet the Review still indicates that SCDA relies solely on the honor system.

5. **Questionable interpretation of the scope of work:** The Review dedicates over a page to the sign yet to be built on Highway 321, which has been approved by the Joint Bond Review Committee and Budget and Control Board, giving the blatant appearance of a fishing expedition. LAC also chose to include in its Review, in the opening paragraph no less, the shortcomings of JBRC in not requiring all political contributions made by any individual appearing before it to be included in the minutes.
6. **Numerous inconsistencies within the Review itself:** There are several contradicting statements, such as Table 3.1 showing income from 'One Building' (which is the Horticulture Building), but later reporting no income from this building during a portion of the same period of time.

The SCDA Response contains much of the same information that has been previously provided to LAC. That information refuted a large number of the findings, implications and conclusions of LAC, yet this final Review includes many of them with no changes made. This reinforces the predisposition of LAC prior to the audit work, as well as unwillingness to acknowledge the errors and omissions in its work.

While focusing on the minutia of issues such as the electricity cost to operate a sign, LAC staff never grasped the bigger picture. Some of the obvious issues were never raised. In the opinion of SCDA, LAC would have been better capable of generating an accurate report to the public had it expressed interest in any of the following: 1. The decades-long political history of the farmers market relocation initiative; 2. Why did SCDA see the need to purchase the income-producing properties that it did; or 3. What was the financial history of the original developers of the private investment component of the farmers market.

By taking the time to read the SCDA Response, the reader is able to reach his/her own conclusion from all the facts, and not rely solely on the flawed process of the LAC Review. Given what SCDA found lacking in this Review and what should be obvious to any reader, the work of the LAC in this matter was of minor benefit to the public. It is critical that the public have confidence in its leadership as well as the checks and balances incorporated in our system of state government. The auditing process is vital to that end.

It is an honor as Commissioner of Agriculture to serve both the state of South Carolina and our farmers while leading this 135 year old state agency. While maintaining complete transparency to the taxpayer, SCDA will continue to work toward its mission to promote and nurture the growth and development of South Carolina's agriculture industry and its related businesses, while assuring the safety and security of the buying public.

Sincerely,



Hugh E. Weathers

South Carolina Department of Agriculture Response

This response follows the order of presentation of the LAC review. The errors, omissions, and incorrect conclusions are illustrated in the order presented in the LAC Review.

Background: The LAC Review includes information from the 2010 report, *A Review of the Relocation of the South Carolina Farmers' Market and Related Expenditures*. While the history behind this issue is pertinent, it is misleading that this information has been presented as factual, straight from the 2010 report. That report contained numerous errors that were refuted in our 2010 response. Relying on the 2010 report as the sole background source causes the Review to be incorrect from the start, as it does not provide an accurate picture of the history of the Farmers Market.

Two examples illustrate the misrepresentation of the previous audit and the predisposition of LAC staff by not reviewing it for this audit.

The Review is critical on the issue of delays on a contract between SCDA and the developer for the construction of farmers' sheds, and incorrectly states that financial damages were not imposed against the developer for the two month delay in relocation. In actuality, the terms of the August 2011 settlement agreement between SCDA and the developer awarded \$62,000 to SCDA

Payment of the developer's survey costs is also questioned. Payment of those costs was based on the fact that the language of S.1066 refers to the entirety of the 174 acres to comprise the State Farmers Market, and that all acreage included would be subject to restrictions developed for the new market, as clearly outlined in the agreement between the State and the private developer. A boundary plat was essential to incorporating all the acreage into the State Farmers Market and subjecting it to the restrictions and purpose.

As much of the provided background information is irrelevant and inaccurate, we encourage readers to examine our 2010 response, as well.

Summary and Background: As demonstrated later in this Response, the *Summary and Background* section presents a misleading impression of the State Farmers Market, with no evidence of the extensive background of market development over the last nearly two decades. The move from the Richland County site designated by the General Assembly to the location in Lexington County coupled with private investment afforded the State a savings of approximately \$20 million.

There is a strong indication of impropriety regarding a political contribution to the campaign for re-election for the Commissioner of Agriculture. Yet, on page six, the report states "no laws were broken and we could not find information that this donation impacted the purchase of the land." As this clearly has no relevance to the State Farmers Market, any reader of the LAC Review would question the motivation for its inclusion.

The report implies in its summary a \$4,507,200 profit earned by the seller on Lot 25 purchased by the State. The \$58,875/acre price purchased from the original developer was for pad-ready raw land. It is comparable to public-record per acre prices that the original developer sold to

other entities on the Market. The State purchased property with improvements completed and an established income stream. The State bought an on-going business entity; the seller only bought acreage. To make this comparison and an implication of a 300% profit indicates a lack of comprehension of a return on a business investment.

Appraisal of the Purchased Properties: The first recommendation of the Review is to commission at least two appraisals when purchasing future projects for the Farmers' Market. To our knowledge there is no requirement for multiple appraisals. However, the seller provided an appraisal, which SCDA decided was too high; therefore the capital reserve fund for FY11-12 appropriated \$50,000 for a state-commissioned appraisal. SCDA did have, in actuality, the benefit of two appraisals, both conducted by MAI agencies. The state of S.C. purchases, sells, and trades thousands of acres of property every year under this standard process all governed by JBRC and B&CB. The use of two appraisals was clearly made known to LAC staff.

Seller Donation to Commissioner of Agriculture: Statements with blatant political overtones have no place in an unbiased review. As all campaign contributions are listed on submitted ethics reports and available for anyone to view, the associated recommendation is not specific to SCDA, but is a suggestion more appropriate for JBRC and the legislature's ethics committees, and is an example of overreach in the scope of work assigned to the LAC staff.

Review of Farmers' Market Leases: One example of not comprehending the information provided to LAC as well as inconsistencies within the LAC Review is the statement that Super Sod vacated rented office space before the end of its lease. Super Sod has not terminated this lease, as depicted in Table 3.1 prepared by LAC staff.

The Review suggested that leases to tenants should include revisions that better outline due dates of payment and recourse for SCDA should payments not be made on time. We will have all leases revised and reviewed by legal staff and implemented as new leases are signed.

Environmental Status of the Farmers' Market Properties: The Review accurately depicts that hazardous materials once present on a small portion of the Market property have been successfully mitigated and remediated. SCDA is proud to have been involved "where the system has worked"; working with DHEC and the EPA, SCDA has transformed a previously troubled and essentially unmarketable tract of land to an economically viable enterprise.

Per recommendation number four, SCDA has written DHEC and contacted EPA to expedite lifting the noted restrictions on groundwater use; however, it should be noted that these restrictions are very narrow and are the customary restrictions when dealing with a Superfund site. SCDA was and is comfortable with the imposition of those restrictions as neither of the impacted uses were contemplated at the Market. The Review falsely implies that SCDA purchased property without regard to the effects of the neighboring Superfund site. In a June 2008 letter, a DHEC official stated "the Department (DHEC) knows of no reason that the past contamination ...should prevent the Department of Agriculture's plans to move the Farmers' Market to the parcels as proposed." It is important to reiterate that SCDA does not own the Superfund site and that SCDA was in consultation with EPA and DHEC throughout the purchase of the Farmers' Market properties.

Public Private Partnership: We have developed and implemented a policy to ensure better communication with private property owners before special events. This will also allow them to take advantage of the event traffic in terms of sales and promotion of their facilities that are open to the public.

In accordance with recommendation six, SCDA is working with other property owners as outlined under established covenants to address issues of general landscape maintenance. Our legal team is determining how to best address serious or continuing infractions with other property owners to be in compliance with the covenants.

The Review references examination of markets in other nearby states, which are completely state-owned and operated, as noted. It is important to note that all markets originally operated under significant annual state appropriations as those markets built their business and matured. In addition, the Review includes no evidence that “the completely public structure may promote optimal management of daily operations and the sustainability of the market.” The theory and practice of public-private partnerships is an incredibly complex subject that cannot possibly be boiled down into one cursory sentence.

Cost of Relocation to Lexington County: The Review shows that SCDA contracted over budget for the relocation to Lexington County. This was refuted by SCDA with supporting documents before the final Review was published. The conclusions presented are completely false and indicative of the unwillingness of LAC to acknowledge its errors in judgment throughout this entire process. Since December 2012, \$39,161.29 has been spent, which brings the project balance to \$3,785.54. Since the full amount of funds set aside for payment to 321 Lexington Associates was not expended, the remaining \$242,948.02 was transferred to the Sale of Market fund. This covers the contracted amounts over the \$22.5 million, and therefore, the balance due is not greater than the funds remaining.

Signage on U.S. Highway 321: SCDA did not pay for the design of two signs. Two signs were envisioned in the master plan, including one along I-26 and one at the entrance of the market. However, SCDA determined early on there was not sufficient funding to construct both signs. Since SCDOT had installed directional signs at both of the interchanges on I-26 that lead to the market, the entrance sign took on a greater priority than a location sign along the interstate.

There is nothing unusual about the process of developing the sign project. The staff originally believed the sign could be designed and constructed for under \$250,000. The original A-1 form calls for estimating (guessing) at design and construction estimates and often results in very conservative figures. As the project proceeded through the standard A/E process for programming, schematic drawings, construction drawings, and specifications, etc. the cost estimate changed several times. The State Engineer’s Office recommended SCDA consider a 20% contingency due to the unusual nature of the project and the volatility of bids currently being received on state projects. As with several unsubstantiated statements the Review incorrectly states that SCDA significantly underestimated the design costs. As was pointed out to LAC staff, SCDA followed the State Engineer’s Office policy to initially allocate 1.5% of project cost to design and adjust as the project progresses. Since these changes resulted in the cost exceeding the authority of the Budget and Control Board staff, SCDA worked through the standard review and approval process of the JBRC and B&CB. Both entities approved the increase in cost and the process for moving forward with bidding and construction. As the report

properly notes in the section dealing with “Cost of Relocation to Lexington County,” the Office of State Engineer reviews, approves, and oversees every step of the process.

The amount of interest in the yet-to-be-built sign is another example of the questionable scope of work that the LAC chose to pursue in this audit and is indicative of their avoidance of the more significant issues.

Security System: Surveillance cameras for the gatehouse, farmers sheds, and the maintenance building are being installed in phases. SCDA staff had been working to repair surveillance cameras located at the gatehouse, but it was determined that they are no longer functional; therefore a new camera has been installed. A plan has been in development over the past several months for additional security camera placement throughout areas managed by SCDA. Specifications for the required system to handle overall needs have been determined and IT staff is in the procurement process.

Market’s Sustainability: The table created by LAC staff depicting a deficit for Farmers’ Market funds is incorrect. First, LAC did not include cash carried forward from previous fiscal years in their totals. Depreciation for all three years was included in the cash expenses, which anyone with a basic understanding of business accounting knows is not correct. The only year that actually had a deficit was FY12-13, which was the year before SCDA acquired the new property. Since the new property has been acquired, there has been no deficit. As of the close of FY14-15, cash on hand for the market fund is over \$230,000, not including carry forward from FY13-14, which totals nearly \$150,000.

The Review mentions the \$300,000 appropriation in the SCDA budget. What the Review fails to include is the information provided to LAC staff that referenced these funds as replacing the non-market income stream at the old market site from football game parking. The Review also does reflect that these funds are utilized at more than just this state farmers market

The Review indicates on page seventeen that the Corbett Building and the horticulture building did not produce any income for approximately one year and for four months, respectively. This is incorrect. The Review states that Fruit and Vegetable Inspectors (USDA) are utilizing the horticulture building, and clearly shows on pages seven and eight that the USDA-AMS annual income of \$30,000 is listed for LAC has called “one building.” The contracted period commenced in December 2014, therefore, there was no four-month gap. This is just of numerous examples of the inconsistencies contained in the LAC Review. In addition, SCDA leases the outside space seasonally to a plant vendor. The Review also indicates anticipated revenue of over \$77,000 from SCDNR beginning in July, but this is not just office space as the Review states. This will be a customer oriented facility where customers come to purchase all hunting and fishing licenses. This will result in both a steady income for SCDA and consistent traffic at the market. This customer base will be new to the market, and we expect that they will visit other areas of the market and the restaurant while on-site.

SCDA received \$1,275 this past month for October sales from the restaurant. Annualized, SCDA would generate an estimated \$15,000 income each year. Combined with the estimated \$77,000 from DNR, \$92,000 annual income from the Corbett Building is expected

In addition, although the data was provided to them, the financial reports LAC is using do not include the total revenue for the spring plant and flower festival. That total is \$38,085, not the \$22,010 that is included in the report LAC staff was told by SCDA that revenue for the market typically increases in the spring. Every farmers market experiences this obvious seasonality.

Gatehouse Fees: The “Gatehouse Fees” section states that “Those entering the Farmers’ Market were paying under the belief that money paid was going towards the support of the Farmers’ Market, not a private developer.” First, there are no interviews or evidence to justify LAC speaking on behalf of “those entering the Farmers’ Market.” Secondly, if people did have this belief, they are correct. Prior to SCDA’s purchase of the gatehouse in November 2013, fees were collected to pay for the utilities in the common areas, based upon an agreement reached by all of the vendors.

Restaurant Rent: The report suggests in recommendation nine that SCDA should obtain all funds due from the restaurant located in the Corbett Building. This is an issue staff have been working on for several months and actually finalized in May of 2015. SCDA provided LAC a detailed plan, agreed upon by SCDA and the restaurant tenant that outlines how the restaurant will repay rents that are in arrears and how future scheduled invoicing will be handled. The tenant will be current on all payments as of October, based on the plan we provided to LAC staff. The fact that the plan was in place prior to completing the Review should have been outlined in the Review. The statement that the restaurant reports its revenue figures based on the honor system and SCDA does not verify these figures based upon which the rent amount is determined is completely false. LAC was told, and actual point of sale statements provided, at least three times that the restaurant provides this information with daily receipts and adjusted gross income.

This exchange of restaurant information and the steadfast opinion of LAC clearly reflect a predisposition, a refusal to recognize errors when made, and inattention in gathering facts.

Admission/Parking Fees: Recommendation eleven states that SCDA should charge an admission fee or parking fee for attendees of special events hosted at the Farmers Market, which we have considered since moving to the new market location. However, our goal has been to attract as many consumers as possible to the market during normal operating hours and special events to highlight all that the new complex and new location have to offer and, therefore, it was decided that we should refrain from considering additional fees until a later date. The report also states in this section that S.C. state parks charge an admission fee to enter parks. However, their enabling legislation gives them the authority to do so.

Possible New Income Streams: Recommendation twelve suggests that SCDA should implement additional fees and programs to increase income as noted in the Agricultural & Community Development Services (ACDS) report. We have in fact implemented many of their suggestions, in whole or in part, that were feasible based on the fact that we have public and private interest on the market. SCDA has used the ACDS report to help develop overall long term plans, including the purchase of revenue producing improved properties as noted earlier in this report. SCDA manages up to nine events at the market annually and also rents space to private entities for additional events, which is in line with the consultant’s proposal while in the growth stage. In addition, the restaurant leases the demonstration kitchen from SCDA. While it is used for seating during normal operating hours, several cooking demonstrations and food-based events have already been held for the public and more are scheduled by the tenant that will

produce income to SCDA based on adjusted gross revenue from each event. Family friendly events are held regularly and we continue to try to capture more consumers via these events. We also promote the market in an effort to reach the entire Midlands region to encourage shoppers to visit the campus as suggested. In addition, we host tours for education based groups from kindergarten through college as well as community based organizations.

Policies and Procedures: Recommendation thirteen suggests that SCDA should continue to maintain updated policies and procedures for the gatehouse and revenue collection at the Farmers' Market. Prior to this audit, the written guidelines for gatehouse collection policies were posted in the gatehouse and understood by trained staff, but they have now been formalized and acknowledged in writing by all gatehouse personnel.

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