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**OUR MISSION**  
is to educate members and all South Carolinians about state and local public policy based on the traditional South Carolina values of individual liberty and responsibility, free enterprise and limited government.

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## BUDGET AND CONTROL BOARD BILLING SHOULD BE TRANSPARENT, COMPETITIVE

As the Budget & Control Board prepares to meet next week to discuss how to respond to the state's current revenue shortfall of \$92 million, they might consider making some cuts closer to home – namely at the BCB itself. In fact, a thorough audit of the Board's activities and expenditures would uncover several ways to cut costs for many agencies, including Education, Health & Environmental Control, and the University of South Carolina. Take, for instance, the Budget & Control Board's billing practices for state-owned property management.

A Policy Council analysis of the BCB's billing practices finds the Board currently charges state agencies rent for space occupied in state-owned buildings. The BCB justifies charging rent to support building maintenance, upkeep and utility costs; however, the BCB was unable to provide the method it uses to formulate these fees. The BCB was also unable to meet a request to produce a comprehensive list of property owned by taxpayers. This suggests the Budget & Control Board is either unaware of how much property it oversees or refuses to publicly release the information.

Created in 1950, the Budget & Control Board is a government entity unique to South Carolina. The Board's mission is to “make government better” by exercising centralized control over many of the administrative and personnel functions of separate state agencies. As such, the BCB controls \$1.2 billion in state funds – an amount equivalent to almost one-fifth of the General Fund budget. The agency consists of six divisions, among which include a general services branch charged with providing facilities management for state-owned buildings.

*While agencies think of their monthly payments to General Services as rent, it is different from a lease situation with a private property owner, as the state already owns the buildings debt-free. Therefore, agencies are just paying for property management services at a very expensive rate.*

S.C. Government Efficiency and Accountability Report, 2007

### Why Are State Agencies Paying Rent?

- For FY07-2008, the Budget & Control Board collected \$18 million in rent payments from 23 state agencies, including the governor's office (Table I). According to the BCB, these rental charges are for maintenance, utility and custodial costs (Table II). The charges, however, also cover such items as debt service (\$1.6 million) that are more difficult to explain. Likewise, the BCB bills agencies for certain services that appear already to be covered by its property management fees.

Consider the following. For FY07-2008, the Department of Health & Environmental Control (DHEC) paid \$4,977,869.05 in rent to the Budget & Control Board. In addition, DHEC was billed \$714,739.91 for separate services, such as grounds maintenance, security, general repairs and electricity (see Appendix A). While these charges may be legitimate, the problem here is a lack of transparency regarding the BCB's billing practices. As a result, questions remain unanswered:



1) What formula is the BCB using to set its rental rates?

Without knowing how the Budget & Control Board sets its rates, it is impossible to determine whether the BCB is overbilling state agencies for various services or why some agencies, such as DHEC, are being charged supplemental fees. The Board did not respond to repeated requests from the Policy Council to provide the method it uses to formulate its rates. In July 2007, however, the Government Efficiency and Accountability Review (GEAR) Committee indicated the Budget & Control Board was charging agencies \$11.29 a square foot for management fees.

2) Are rental rates being set at artificially high levels?

The GEAR Committee found that the BCB's rental/management fee of \$11.29 per square foot was far higher than comparable government sector fees. Accordingly, some agency heads believe they can manage their own facilities more efficiently than the Budget & Control Board. In fact, the State Museum estimated it could maintain its own property for \$8.88 a square foot, with \$250,000 set aside in a capital reserve fund. The annual savings for taxpayers would be \$682,973.

Moreover, the Budget & Control Board ended 2008 with a \$25.9 million budget surplus. Given that the BCB was able to realize a surplus, even as other agencies were struggling with budget cuts, it seems rental payments could be reduced.

3) Why are agencies being charged for debt service on buildings the state already owns?

Nine percent of the \$18 million in rent collected by the BCB is allocated to "debt service." Yet because the state owns these buildings there should be no debt to repay. When asked to explain this inconsistency, the Budget & Control Board failed to produce an answer. What is worse is that the Board was unable to provide a comprehensive list of property owned by taxpayers.

4) Why pay "rent" to the Budget & Control Board at all?

It is important to realize that state agencies are not paying \$11.29 per square foot for "rent," but for maintenance and operational costs. After all, state taxpayers already own these buildings. The question, then, becomes whether the Board is providing these services in the most efficient manner possible. If it is, then every state agency should contract with the Board for maintenance and upkeep. Currently, though, the majority of the state's 80-plus agencies do not depend on the Budget & Control Board for these services. Instead, these agencies rely on private providers. But if these providers can do the job better than the BCB, it makes little sense for taxpayers to assume the higher cost of BCB's management services.

The lack of transparency is troubling, and so too is the fact the board cannot provide a list of the property it holds title to. Current state law (Appendix B) obliges the BCB to compile a partial list of state-owned real property. In turn, these properties are supposed to be entered into the Real Property Management System, an internet-based property management database implemented at the Budget & Control Board in 2005. The law, however, exempts many agencies, including higher educational institutions and the Department of Transportation, from its reporting requirements.



## Conclusion

The current recession should prompt the legislature to implement every cost-cutting measure possible for taxpayers. There appears to be an opportunity to save money at the Budget & Control Board, and the General Assembly should explore whether the BCB should continue to serve as a pass-through for the maintenance and upkeep of state-owned buildings. In addition, lawmakers should consider the following reforms:

- An independent audit of the Budget & Control Board's rental billing practices. The audit should include a comparative analysis aimed at determining whether agencies that rely on the Board for maintenance and operational services are being charged more than the majority of agencies who use private contractors.
- Legislation requiring all state agencies to provide a comprehensive and uniform list of real property that will then be entered into the Real Property Management System.
- A review of all available office space, followed by the sale of surplus or underutilized properties.
- Creation of an online database South Carolina citizens can use to view a complete list of state-owned real property.

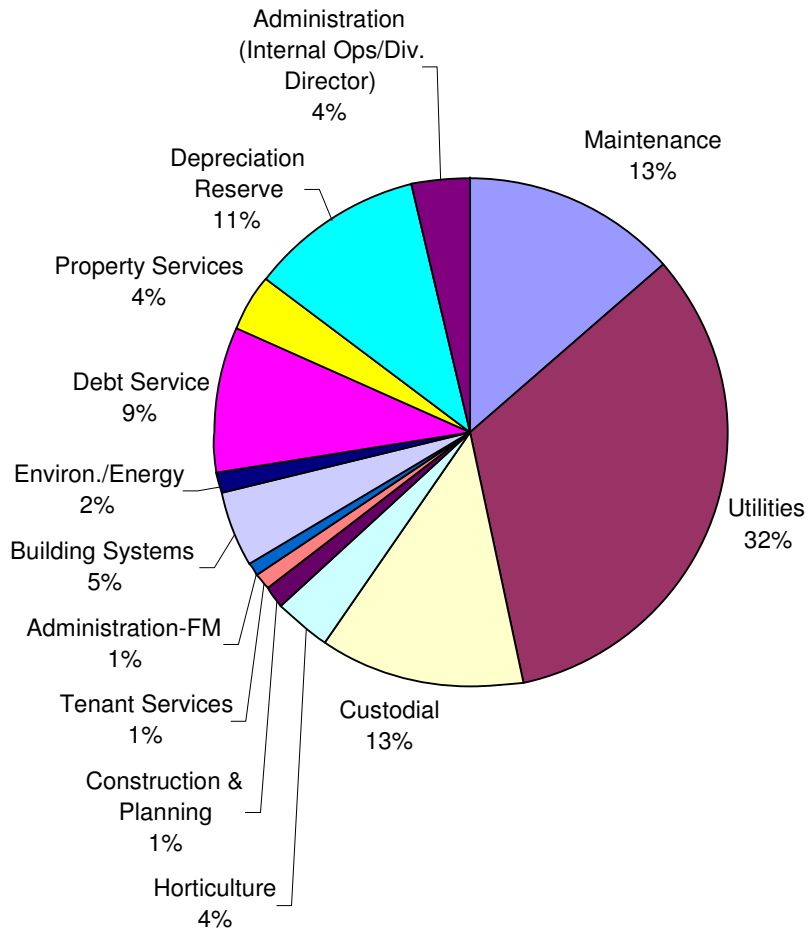
**Table I**

Amount Billed to State Agencies in FY07-2008 by BCB for Rent of State-owned Buildings

<u>Agency</u>	<u>Annual Rent</u>	<u>Agency</u>	<u>Annual Rent</u>
Adjutant General	\$609,660.00	Governor's Office	\$436,448.82
Agriculture	\$426,953.93	Health & Environmental Control	\$3,979,209.71
Archives & History	\$953,568.40	Library State	\$881,057.66
Arts Commission	\$301,644.50	Medical University of SC	\$9,799.72
Attorney General	\$625,375.68	Museum Commission	\$3,015,000.00
Base Closure Commission	\$2,755.00	Natural Resources	\$672,756.19
Bureau of Protective Service	\$15,907.61	Parks, Recreation and Tourism	\$409,025.41
Children's Trust Fund	\$4,952.70	Probation, Pardon & Parole	\$478,278.27
Comptroller General	\$206,934.41	Revenue	\$1,320,545.28
Education	\$1,045,013.69	Secretary of State	\$102,705.13
Election Commission	\$64,093.33	Social Services	\$2,202,487.14
Financial Institutions Co.	\$53,593.63	Treasurer's Office	\$239,325.42
University of South Carolina	\$203,569.99	<b>Total Rent Collected</b>	<b>\$18,260,661.62</b>



**Table II**  
 FY07-2008 Budget and Control Board Expenditure of Rent Collections



■ Maintenance	■ Utilities
■ Custodial	■ Horticulture
■ Construction & Planning	■ Tenant Services
■ Administration-FM	■ Building Systems
■ Environ./Energy	■ Debt Service
■ Property Services	■ Depreciation Reserve
■ Administration (Internal Ops/Div. Director)	



## Appendix A

### Department of Health & Environmental Control 2008 Payments to Budget & Control Board

<b><u>Property Rental Payment to Budget &amp; Control Board</u></b>	<b><u>3,977,869.05</u></b>
<b>Other Payments to Budget &amp; Control Board</b>	
Office Equipment Service	29,634.40
Data Processing Services	2,137,231.05
<b><u>Household Laundry, Grounds Maintenance, and Security Services</u></b>	<b><u>114.34</u></b>
Motorized Vehicle Services	162,354.86
Motorized Vehicle Services Internal	577.21
<b><u>Utilities</u></b>	<b><u>63.27</u></b>
Freight Express and Deliveries	177,757.47
Telephone and Telegraph	933,570.58
Building Renovations	664,971.28
Construction and Renovation	23,946.91
Auditing Accounting Finance Services	11,972.59
Research Surveys and Appraisal Services	1,250.00
Other Professional Services	32,737.50
Intergovernmental	31,295.84
Education and Training State	4,570.00
<b><u>General Repairs</u></b>	<b><u>2,748.89</u></b>
Non State Employee Travel	66.85
Temporary Services	18,483.13
Telecommunications Services	46,929.31
Other Contractual Services	140,000.00
Office Supplies Non State	565.00
Controllable Office Supplies	1,520.39
Data Processing Supplies and Computer Software (Under 1000)	6,040.19
<b><u>Household Laundry, Grounds Maintenance, Janitorial, and Security Supplies</u></b>	<b><u>708.00</u></b>
Educational Supplies	40.00
Motor Vehicle Supplies	102.00
Postage	148,450.80
Building Construction and Renovation	8,899.89
<b><u>Maintenance</u></b>	<b><u>2,961.99</u></b>
Communications Supplies	6,710.00
Rental Other	13,920.12
Dues and Membership Fees	942.62
Insurance State	1,263,291.24
Fees and Fines	1,291.00
Other Fixed Charges	11,758.75
In State Meals	103.00
In State Auto Mileage Regular Rate	156.60
In State Other Transportation	703.52
In State Registration Fees	24,207.00
Leased Cars State Owned	641,374.09
Motor Vehicle Passenger (Capitalized)	18,710.00
Renovations Utilities	35,000.00
Health Insurance Employer Contribution	15,978,037.88
Dental Insurance Employer Contribution	617,510.66
<b><u>Electricity</u></b>	<b><u>708,143.42</u></b>
Gasoline	21,178.42
Motor Vehicle Passenger (Non Capitalized)	9,200.00
Agricultural Marine and Forestry (Non Capitalized)	15,000.00
Total 2008 payments to the Board	<b>27,934,671.11</b>



## Appendix B

### *Proviso 90.4 of the FY08-2009 Appropriations Act (H 4800)*

(SR: Titling of Real Property) It is the intent of the General Assembly to establish a comprehensive central property and office facility management process to plan for the needs of state government agencies and to achieve maximum efficiency and economy in the use of state owned or state leased real properties. The Budget and Control Board is directed to identify all state owned properties whether titled in the name of the state or an agency or department, and all agencies and departments of state government are upon request to provide the Board all documents related to the title and acquisition of the real properties that are occupied or used by the agency or titled in the name of the agency. Except for any properties where the Board determines title should not be in the name of the State because the properties are subject to reverter clauses or other restraints on the property, or where the Board determines the state would be best served by not receiving title, and with the exception of properties, highways and roadways owned by the Department of Transportation, title of any property held by or acquired by a state agency or department shall be titled in the name of the state under the control of the Budget and Control Board. Titling in the name of the state shall not affect the operation or use of real property by an agency.

This provision applies to all state agencies and departments except: institutions of higher learning; the Public Service Authority; the Ports Authority; the South Carolina Division of Public Railways; the MUSC Hospital Authority; the Myrtle Beach Air Force Redevelopment Authority; the Department of Transportation; the Midlands Technical College Enterprise Campus Authority, the Trident Technical College Enterprise Campus Authority; the Area Commission of Tri-County Technical College; and the Charleston Naval Complex Redevelopment Authority.

This provision is comprehensive and supersedes any conflicting provisions concerning title and acquisition and disposition of state owned real property whether in permanent law, temporary law or by provision elsewhere in this act.



