

## Report Summary

# LAC

September 2000

# A Management Review of the Charleston Naval Complex Redevelopment Authority

Since 1994, the Charleston Naval Complex Redevelopment Authority (RDA) has been responsible for redeveloping property at the former Charleston Naval Base, which was closed in 1996. Because the U. S. Navy still owns the complex, the RDA enters into master leases with the Navy and then subleases the properties to other organizations. One of the primary goals of the RDA is to replace the jobs lost by the closing of the base.

Members of the General Assembly were primarily concerned about the methods by which the RDA leases out land, buildings, and equipment at the naval complex. We were also asked to review the RDA's relationship with another state agency, the S.C. State Ports Authority (SPA), as well as the RDA's compliance with the S.C. Freedom of Information Act.

## SUBLEASING OF PROPERTIES

### PROPERTIES NOT MARKETED

The RDA has not adequately marketed the properties at the naval complex, and in general does not use advertising. As a result, properties have been subleased without determining the level of interest from other potential tenants, which may have reduced the pool of qualified businesses able to bring new jobs and economic development to the area.

In February 1995, the RDA issued a request for proposals to companies interested in subleasing all or part of the naval complex. Since then, however, the RDA has leased out significant properties without formal marketing. These properties include:

- # A machine shop described by the RDA as one of the important properties at the naval complex.
- # Piers, buildings, and other properties throughout the complex.

Industrial parks in South Carolina and closed military bases in Pennsylvania and California have used a variety of methods to market their properties. Examples of these methods include websites, brochures, ongoing advertising in print media, and the use of real estate brokers. None of these marketing methods have been used by the RDA except for advertising in the print media, which the RDA did only in 1995.

### COMPLIANCE WITH STATE LAW

The State Budget and Control Board, which is responsible for overseeing state government leasing, reports that the RDA has complied with state laws and policies concerning subleases for property.

### PROPOSALS NOT COMPARABLE

The RDA, in its 1995 request for proposals, allowed companies to submit proposals for different combinations of property and with different methods for determining rent. It is therefore not clear how the RDA was able to rank the companies.

### NO WRITTEN "ASKING RENTS"

The RDA has not established written asking prices when renting its available properties. Without written "asking rents," the number of prospective tenants interested in the naval complex may be reduced because the degree to which the RDA's rents are lower than those at alternative locations may not be widely known.

### INADEQUATE CONTROLS OVER SECONDARY SUBLEASES

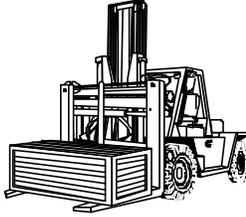
The RDA has not adequately controlled the process by which its tenants sublease properties to other organizations. Tenants have sometimes not obtained the required prior approval. The RDA has not sufficiently controlled the rental rates charged by its tenants to other organizations.



1975 - 2000

## CONTROLS OVER EQUIPMENT

When the RDA took over the management of Navy equipment, the Navy's inventories were inaccurate and incomplete. The RDA, however, did not immediately conduct a more complete inventory of its own. While theft may have occurred during the early years of the RDA's management of the naval complex, poor record-keeping has made it impossible to determine what was stolen.



We found no material problems with the RDA's current inventory tracking system, taking into consideration the inaccuracy of the Navy's initial inventory and the difficulty of monitoring equipment that is constantly being relocated over a wide-spread area. However, the agency does not charge for the use of extra equipment relocated by tenants from other facilities, and tenants have not been held accountable for Navy-owned equipment that is damaged or missing. For example:

- # The RDA found that four items were missing from the inventory of equipment leased to a tenant; the items were a mower, tiller, a test pump, and a forklift. According to the RDA, the tenant had produced only one of the missing items as of June 2000. And although the tenant is preparing to vacate the complex as of November 30, 2000, there are no plans to charge a fee or otherwise hold the tenant accountable for the equipment.
- # In April 1997, a tenant company had two Navy boats, 19-foot Boston Whalers, re-registered in its name and taken to Florida. The RDA traced the location of the boats and requested that they be returned. According to documentation, the boats were returned in May 1999. We found no evidence that the Navy pressed charges or otherwise held the tenant accountable.

In addition, reports of theft and break-ins indicate that the RDA may need to improve overall security at the complex.

Our first report on the RDA was titled *A Review of the Charleston Naval Complex Redevelopment Authority's 1999 Lawsuit Settlement with Braswell Services Group*. In December 1999, the RDA agreed to pay \$4 million in damages to settle a lawsuit filed by Braswell Services Group, Inc., a ship repair company. Braswell had sued the RDA in 1997 for violating the terms of a prior agreement. In January 2000, members of the Charleston legislative delegation held a public hearing to air concerns about the Braswell lawsuit settlement and to receive testimony from the Redevelopment Authority. During the hearing, an audit requester expressed the need for immediate information on the lawsuit settlement. In response, we released, in March 2000, a limited-scope report reviewing the lawsuit and the RDA's settlement.

---

## OTHER ISSUES



### RELATIONSHIP WITH THE STATE PORTS AUTHORITY

In April 1999 the RDA awarded a sublease with an option to purchase to the State Ports Authority (SPA) for a large portion of the complex. The Ports Authority is using the property — which includes 4 piers and 38 buildings — as a noncontainerized cargo terminal. In some aspects the RDA has treated the Ports Authority the same as most other tenants at the complex. For example, the RDA did not adequately market the properties before subleasing them to the Ports Authority. In other aspects, however, the relationship between the RDA and the Ports Authority is unique:

- # When the Ports Authority sublease was executed, six small companies were occupying some of the property under secondary subleases. When these subleases expire, the companies will not be able to renew them and will have to leave the property.
- # While the Ports Authority in its sublease is “obligated” to “conduct operations” on the premises, day-to-day operations of the cargo terminal facility will be handled by a private company called Charleston International Ports (CIP), a start-up company. CIP and the Ports Authority signed a license agreement in August 1999. Under this agreement, CIP will operate the cargo terminal and pay the rent plus half its annual earnings to the SPA. The Ports Authority has agreed to create at least 40 jobs and spend \$7 million in capital improvements through CIP as its licensee.

### POSSIBLE CONFLICT OF INTEREST

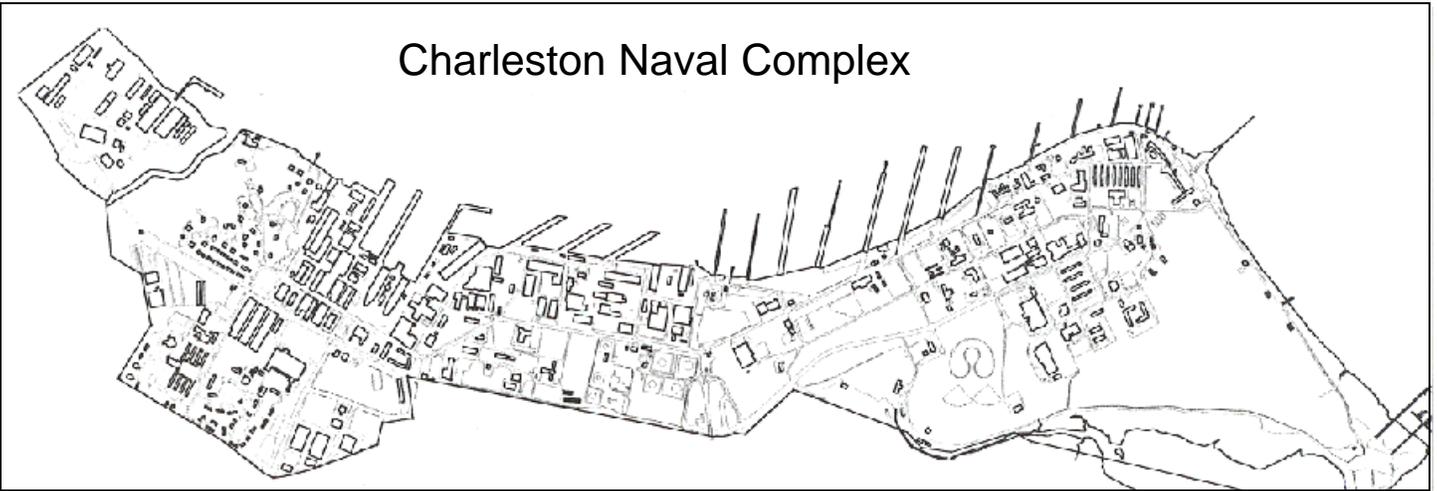
Negotiations for the sublease between the RDA and the Ports Authority, and for the license between the Ports Authority and CIP, were primarily handled by the SPA’s chief operating officer at that time. In January 2000, the SPA official resigned after receiving a job offer from the owner and president of CIP. While not directly employed by CIP, the former SPA chief operating officer is directly involved in matters concerning the CIP license he helped negotiate.

The former SPA official had obtained an advisory opinion from the State Ethics Commission, which found no prohibition to his accepting this employment. This opinion remains confidential, and we were not allowed to review it. Since the situation described above could be allowable under current state ethics law, we have concluded that the law needs to be strengthened. When it is legal for a public official to accept employment from an individual who recently benefitted from a contract negotiated by that public official, there is increased potential for conflict of interest.

### COMPLIANCE WITH THE FREEDOM OF INFORMATION ACT

The RDA is generally in compliance with the state Freedom of Information Act (FOIA) regarding public access to agency meetings and records. We question why the RDA and the State Ports Authority, both state agencies, needed to keep lease negotiations during 1998 and 1999 confidential. Keeping the negotiations closed to the public was technically in compliance with FOIA, but the purpose of the FOIA is to ensure government activities are conducted in public.

# Charleston Naval Complex



## Overview of the Naval Complex

The Charleston Naval Base was targeted for closure in 1993 under the federal Defense Base Closure and Realignment Act, and full closure occurred in 1996. According to the U.S. Department of Defense, this resulted in the loss of 6,272 civilian and 8,722 military jobs at the base. As of March 2000, a total of 4,086 workers were employed at the complex. Therefore, about 65% of the 6,272 civilian jobs lost when the base closed have been replaced. In addition, 60% of all the facilities at the complex are subleased, under license, or owned by tenants, which include private businesses, government agencies, and non-profit groups. More than 80 tenants and subtenants are currently at the naval complex.

### Percent of Naval Complex Occupied

	Buildings	Piers	Dry Docks	Utility Infrastructure	Other*	TOTAL
TOTAL	566	27	5	73	198	869
Leased, Licensed, or Owned	394 (70%)	22 (82%)	3 (60%)	36 (49%)	75 (38%)	530 (61%)

\* "Other" includes structures such as bus shelters, quay walls, etc.

This document summarizes our full report, ***A Management Review of the Charleston Naval Complex Redevelopment Authority***. Responses from the Redevelopment Authority are included in the full report. All LAC audits are available free of charge. Audit reports and information about the LAC are also published on the Internet at [www.state.sc.us/sclac](http://www.state.sc.us/sclac). If you have questions, contact George L. Schroeder, Director.