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Improving the Equitable Distribution of Revenue  
From the Sale of South Carolina Surplus Property

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General Services Division

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**STATE DOCUMENTS**

The South Carolina Surplus Property Office (SPO) is part of the Division of General Services of the State Budget and Control Board and is responsible for the disposition of all surplus property. Pursuant to the South Carolina Code 11-35-3810, the Budget and Control Board is responsible for promulgating regulations governing the disposal of surplus property, one of the many roles of the board. The SPO operates under the authority of the South Carolina Consolidated Procurement Code (R-19-445-2150) which defines surplus property as “all State-owned supplies and equipment, not in actual public use, with remaining useful life and available for disposal. The Mission of SPO is, “to receive, warehouse and dispose of the State’s surplus property in the best interest of the state. The central warehousing of State surplus property will allow all state governmental bodies and other political subdivisions one location to acquire needed property.” Those items not needed or wanted by governmental bodies or other political subdivision may be sold to the general public. A link to the South Carolina Surplus Property Agency Users Guide is included to give more background on the process and procedures of SPO (See *Appendix 3*)

## **CURRENT SITUATION**

State agencies are required to maintain inventories of property and to declare all items they no longer need or use as surplus. Other governmental and political subdivisions may also decide to use the State Surplus Property Office to sell their surplus inventory. SPO requires this be accomplished by use of a turn-in document (TID). At the time the entity submits the TID they must elect whether they will

receive reimbursement from SPO or if they will allow the funds to be returned to the state's general fund.

The SPO is responsible for physically viewing all identified state-owned property to determine if it has a remaining useful life with another governmental body or political subdivision or is saleable to the general public. If this criterion is met the items will be scheduled for relocation to SPO, for transfer or sale to governmental agencies, or sale to the general public. The SPO has the option to sell State-owned property on-site at the agency, public auction sales at the SPO facility on Boston Avenue in West Columbia, through one of our online sales tools, or through sealed bid to the highest bidder, whichever is more beneficial to the state. SPO handles all of the logistics of the sale including marketing. Once the sale has taken place the SPO generates a monthly notice of sale document and sends the complete listing of items sold for that agency.

Upon the sale or disposal of the State-owned property, the proceeds from the sale less cost of disposition (determined by fee schedules), will be returned to the owning agency once the owning agency's authorized revenue center requests the funds. These funds returned to the owning agency are determined by the total original acquisition cost submitted on the turn in document (TID) as applied to the SPO fee schedule. The fee schedules were set about 10 years ago by the Budget and Control Board. A copy of the Fee Schedules is attached.

If the agency is "live" with the SCIES system they can then request the money through SCIES and be paid through IDT. For "non-live" agencies, including towns, counties, and municipalities, the process is the same except they will request the

funds from the Office of the State Treasurer which will create a check for the proceeds to be returned.

The Surplus Property Office is required by statute to be self-supporting. The fees collected from sales according to the fee schedules cover operating costs for the office. The SPO has instituted cost saving methods, marketed its services to those governmental entities not currently using its services, and used a variety of methods to sell goods. Currently SPO is seeing a marked increase in the amount of on-line sales and a reduction in the number of walk-in sales at our warehouse.

One of the performance measures for SPO is the amount of revenue returned to entities and this figure is reported on our annual Accountability Report. Another measure is the costs avoided by state agencies that use surplus property to purchase items rather than buying new. The SPO would like to make sure that state agencies and other government entities are receiving an equitable return on the property they declare as surplus and that agencies use SPO as a source of purchases. *Appendix 3* shows a copy of the SPO data used in the Accountability Report.

## **DEFINITIONS**

1. "Notice of Sale" means the documentation sent to a state agency, county, town or municipality when their surplus property is sold. The Notice of Sale identifies the property sold for the agency, the fee retained by Surplus Property, and the amount that will be returned to the owning agency.

2. "TID" means the Turn in Document created by the owning agency to identify items that are surplus to that agency and require screening to determine if Surplus Property considers those items saleable. This document is used by Surplus Property to identify the owning agency, track and identify whether the owning agency requires reimbursement or whether the proceeds from the sale should be returned to the General Fund.
3. "Service Charge" means the amount of revenue that Surplus Property retains from the sale of state owned property.
4. "Fee Schedule B" means Schedule B (Original Cost of less than \$5,000):  
Service charge will be the first \$45.00 of the sales proceeds. Items included under Schedule B are miscellaneous property with a useful life of two or more years at the date of purchase and a unit acquisition cost of \$5000 or less. Examples are furniture, office equipment and machines, food service equipment, lawn mowers and other items not covered under Schedule A.
5. "Fee Schedule E" means the fee schedule for Special Public Sales. While Schedule E is mainly to be used for items where the acquisition cost exceeded \$25,000. Examples are airplanes, ships, computer and related high tech equipment. It also has a provision that covers public auctions both online and live and currently allows SPO to recoup 10% of the final sales price.
6. "Original Acquisition Cost" The original cost of any item purchased by state, county, town or municipality when it was new.
7. "Online Sales" means state, county, town or municipal property that is sold on the internet to the general public in direct fixed price sale or online auction

sites such as eBay and Gov Deals which both are currently used by the Surplus Property office.

## **PROBLEM STATEMENT**

State agencies and other governmental subdivisions are suffering from increasing budget cuts and are looking for ways to decrease costs and increase revenues without increasing taxes. Those entities with surplus equipment and vehicles to sell can obtain considerable returns on the sale of these items based on Fee Schedule E whereby Surplus Property Office receives 10% and the remaining 90% is returned to the entity. However, the majority of Surplus Property Office sales (61%) are for items valued less than \$50 which are covered under Fee Schedule B and which charges a flat fee of \$45 for each item of inventory sold. On-line sales of items valued less than \$100 have increased and Fee Schedule E charges are not reflective of recouping associated costs. This gives entities little incentive to comply with the procurement and disposal codes of law, causes some entities to decide to return the proceeds of sales to the general fund because their revenue is minimal, and causes SPO to show revenue which may not reflect an accurate picture of how well we serve our constituents.

Concerns about state budget reductions have give SPO staff new opportunities to recruit more agency participation in reporting and selling property. The team began to think of ways they might improve service to constituents so they could receive more income from items they no longer need or use as well as give agencies incentives to participate in the Surplus Property program. Several issues

were determined to be of importance in order for agencies to increase their income while maintaining an appropriate level of funding for SPO:

- SPO should review their fee schedules to make sure they are currently relevant to operations
- SPO should determine what a reasonable return on sales should be for agencies so that they might improve reporting of surplus items and increase the inventory available to sell

During the last four years the Surplus Property manager has conducted interviews, collected feedback sheets from conferences, and held individual meetings with both large and small state agencies throughout the state. The feedback that was given by these entities was that property turned in and sold by SPO for items with original cost valued at less than \$5,000 returned very little of the proceeds to those owning agencies. Due to the current fee schedule SPO retains the first \$45 of every item sold, which in most cases returned very little to nothing on the bulk of the Surplus collected from these agencies. It was determined that data and further analysis of the fee schedules could possibly obtain the results that the SPO needed.

## **DATA COLLECTION**

The following methods were used to gather information to conduct a more thorough study of possible causes.

### *Interviews*

Interviews were conducted with the State Warehouse Manager, Business Manager and the person responsible for the Information Technology support at SPO to research historical data, determine percentage points, and verify the impact both to the agency and SPO of any changes to the fee schedule.

### *Information System Documentation*

A chart was created by the SPO team and IT support person to allow a comparison of current data and proposed data to determine what percentage was equitable to the agency but also allowed the SPO office to cover its cost of operation. Additional Data was collected from the SPO system to determine the amount of revenue that was generated from fiscal year 2006 until year-to-date fiscal year 2011 on items sold from \$0-50 (*See Appendix 2*) to determine baseline data.

### *Review Statutory Authority*

The South Carolina Consolidated Procurement Code and Code of Regulations were reviewed to obtain an understanding of the authority and regulations governing the SPO. The authority of the office must be considered when a fee schedule change is proposed.

## **DATA ANALYSIS**

Data was collected from reports of the past five full fiscal years using the Surplus Property Office computer system. This data showed that the amount of revenue collected on sales of surplus state property less than \$50 to be 61.18

percent of the total sales during that time period. This category would fall under the Fee Schedule B (See *Appendix 1*), which includes any sale with an original acquisition cost below \$5000. The total number of items sold at SPO from FY 06 through FY 10 was 147,522, and of that total, those items valued less than \$50 totaled 90,260 items. This represents the largest portion of SPO property sold for agencies. Having identified the area of greatest possible improvement, a baseline was established to see what SPO had been returning to agencies under the current fee structure. Data was gathered on monthly returns to agencies from FY 06 until FY 11 and used to determine what the percentage returned was to agencies on a yearly basis (see *Appendix 2*).

Through the data in *Appendix 2*, it was determined that returns to agencies on sales less than \$50 from FY 06 until FY 2011 using the current flat fee based schedule ranged from a low in FY 09 of 4.4576% to a high of 14.1790% in FY 06. It was also noted that FY06 had some significant outliers that should be further researched to determine root cause, but could be used during this sample. When taking the average of all the fiscal years, it was determined that, on average for the five full years, SPO returned 7.5282% of the final sales price to agencies when the sales price was less than \$50. The total sales for the time period were \$1,529,136.75 and of that SPO returned to agencies \$157,138.84, which is 10.2763% of the total sales for the period. Once an actual percentage returned was determined from the sales data the total overhead must be determined to allow a new percentage return to agencies to be formulated and continue to allow SPO to cover its costs.

One of the primary missions at SPO is to cover its operating cost because it receives no allocated funds. SPO is 100% funded by its fees. These operating costs must cover salaries and fringe benefits for all employees, utilities, all board allocations, maintenance for buildings, equipment, logistics and grounds as well as future improvements to the above listed. Using the overhead costs and final totals from the state warehouse sales the Information Technology person responsible for creating reports for surplus was asked to create a table that would utilize data from the system to determine the most equitable percentage to return to agencies on every sale of those items under \$50. To do this, the Surplus Property Manager met with the Surplus Property business manager and reviewed the final cash balances for SPO state warehouse revenue for each of the fiscal years from FY 06 to FY 10.

One of the major problems with using Schedule B is that the \$45 service charge can conceivably be applied to only one item thereby giving the agency a return of only \$5 if they have only one item sold that month. The data in *Appendix 2* also contains the totals for all fiscal years by year with the ability to change the percentage returned to agency on items with a final sales price below \$50. This allowed SPO to determine a new percentage-based fee schedule for items less than \$50 and returning money to the agencies we sell for on **every** sale and not just the on sales above the first \$45 which is currently how schedule B is written. SPO determined that when 20% was applied to the final sales price of items sold for under \$50. It would have returned \$148,688.45 in additional revenue to all the agencies over the five full years used in *Appendix 2*. This would be an average of \$29,737.69 dollars per year in additional revenue to the agencies. More importantly, for every item surplus picks up and sells, the owning agency will receive proceeds

back for that item. This would hopefully give agencies more of an incentive to carefully manage and report surplus property.

Additionally, it was determined that the online auction sales fee schedule should also be updated to more effectively cover costs of listing items, taking phone calls, logistics, loading and unloading property. Schedule E should be modified so that SPO would receive 20% of the final sales price on items that sell for under \$100. All sales above \$100 dollars should remain at 10%. This will continue to return a larger share to the owning agency and still allow SPO to cover its operational costs as online sales continue to expand due to market shifts from warehouse sales to more online sales.

## **Recommendations**

1. Fee schedule B (*Appendix 1*) should be changed to allow a percentage to be returned on all items sold for under \$50. It should further be changed so that any item over \$50 the regular \$45 fee would apply. Adjusting the current fee schedule would allow SPO to more equitably distribute funds back to the owning agency on every sale.
2. Fee schedule E should also be modified so that online sales should be allowed to cover its costs by receiving 20% on items sold for under \$100. and 10% on any sale over 100 dollars.

## **Implementation Plan**

In researching the authority to change the SPO fee schedule, it was found that the Budget and Control Board and its executive director must approve all fee

schedule changes. The proposed change would need to be presented before the assistant director of business services as well as the finance manager for General Services to provide assurance and to check data to verify that the fee schedule adjustment would still allow SPO to cover its cost on a yearly basis. Once approved, it would be presented to the Director of General Services for approval. Once approval from the Director of General services has been achieved, an agenda item must be submitted six weeks in advance of a Budget & Control Board meeting. During this six-week time frame, the Director of General Services will submit the agenda item to General Counsel and once they approve it, it will move to review by the Executive Director of the board. From the Executive Director's office it will be reviewed by the Board staff review and finally if approved by all those bodies, it will be submitted for a vote at the Budget an Control Board meeting if approved within the six week time frame. In all, this whole process should take no less than three months starting with the assistant director of business services and ending with approval of the Board.

The potential obstacle that faces this plan is a clear understanding of the overall impact to SPO and a guarantee that no change would cause SPO to not be able to cover its costs. SPO would have to clearly define the total impact to the bottom line and show where the additional 20% return to agencies is within Surplus Properties carry forward each year and the revenue retained per year in the last four years was substantial enough to cover all costs.

Once the project is approved by the Budget and Control Board, we would communicate to stakeholders via the South Carolina Business Opportunities Page, SPO website and the South Carolina Surplus Property Agency Users' Guide. The

Surplus Property Manager would send a letter to all agency heads, procurement personnel and agency property managers. In addition, the property screeners would communicate the information to all of the state agencies they come in contact with. To confirm that the change in a percentage return on every sale is returning more to the agencies., the surplus property manager will track the accountability report to assure that the amount returned to agency rises as a result of the change to the percentage returned on every sale.

## **Conclusion**

The Surplus Property Office, in most cases, returns little to no revenue on items sold for less than \$50 per fee schedule B allowing SPO to collect the first \$45 of every sale. It is also seeing an increase in online sales and is in need of adjusting the fee schedule for those sales so that there is equity in the sales of items under and over \$100. It is SPO's mission to cover its costs and sell state property for the highest amount possible in order to return money to the state agencies it serves. Approval of the recommendations made in this project will allow SPO to cover its costs while returning a portion of every sale back to the agency that owns the property and making surplus property a continuous revenue stream for every agency.

*Appendix 1*

*Current Fee Schedule*

## From the *South Carolina Surplus Property Agency Users Guide*

### VIII. Fee Schedule

The State Surplus Property program shall operate solely from service charges retained from the sale of surplus property. The following fee schedule is established by the South Carolina Budget and Control Board to fund all program costs and may be reviewed on a periodic basis to ensure adequacy and equity in the program:

a. Schedule A (Original Cost Over \$5,000): Service charge is the first \$175.00 of sale proceeds. Items included under Schedule A: all vehicles, boats, boat motors, farm tractors, farm equipment and other equipment with a unit acquisition cost in excess of \$5,000 except as enumerated in Schedule E.

b. Schedule B (Original Cost Less than \$5,000): Service Charge will be the first \$45.00 of sale proceeds. Items included under Schedule B: miscellaneous property with a useful life of two or more years at date of purchase and a unit acquisition cost of \$5,000 or less. Examples are furniture, office equipment and machines, food service equipment, lawn mowers and other items not covered under Schedule A.

c. Schedule C (Expendable Supplies): Service charge shall be the first \$20.00 of sale proceeds. Items included are expendable supplies. Examples are paper, office supplies, hardware, custodial supplies, etc.

d. Schedule D (Confiscated property): Service charges shall be 5% plus SPO program administrative costs after deduction of law enforcement agency expenses.

e. Schedule E (Special Public Sales): Service charges shall be 5% of the first \$250,000 of sale proceeds, plus expenses. Items included under Special Sale: Airplanes, ships, computer and related high tech equipment or any item which would require a public sale solicitation from a highly specialized market, or whose unit acquisition cost exceeded \$25,000. When determined to be in the best interest of the State by the SPO, Schedule E may also be used to recoup additional costs incurred by SPO or generating agency to facilitate equitable disposal of surplus property. Public Auctions both online and live shall be 10% of the final sales price.

*Appendix 2*

*Excel Spreadsheet*

*Total Monthly Sales with Unite Price Less Than \$50*

Total Monthly Sales with Unit Price LE \$50 for the Following Fiscal Years							
Year	Month	Month Name	Total_Acq_Cost	Total_Sales_Price	Total_SPO_Rev	Total_Due_Agen	% RETURNED TO AGENCY
2005	7	July	684,766.48	22,673.29	21,918.43	754.86	3.3293%
2005	8	August	1,101,440.08	35,765.45	34,658.31	1,107.14	3.0956%
2005	9	September	925,939.07	29,637.05	28,929.04	708.01	2.3889%
2005	10	October	1,181,254.28	35,181.68	33,840.97	1,340.71	3.8108%
2005	11	November	763,590.76	24,726.49	23,031.99	1,694.50	6.8530%
2005	12	December	584,902.25	23,500.99	22,960.99	540.00	2.2978%
2006	1	January	599,266.50	23,204.69	21,995.40	1,209.29	5.2114%
2006	2	February	442,269.37	22,157.34	20,831.45	1,325.89	5.9840%
2006	3	March	620,151.68	64,748.82	34,820.71	30,128.11	46.5307%
2006	4	April	383,907.76	49,695.49	21,589.77	28,105.72	56.5559%
2006	5	May	801,808.58	33,269.60	28,904.25	4,365.35	13.1211%
2006	6	June	1,438,717.91	50,987.32	40,295.41	10,691.91	20.9697%
Totals FY 2006			\$9,528,014.70	\$415,548.21	\$333,576.72	\$81,971.49	19.7200%
					\$353,215.98	\$62,332.23	15.0000%
					\$382,436.61	\$69,166.60	20.0000%
					\$311,681.18	\$103,887.05	25.0000%
2006	7	July	191,674.95	11,153.11	10,995.11	158.00	1.4166%
2006	8	August	403,243.92	28,500.21	27,764.51	735.70	2.5814%
2006	9	September	187,037.08	15,334.52	14,322.28	1,012.24	6.8011%
2006	10	October	801,325.69	22,927.04	20,831.38	2,095.66	9.1406%
2006	11	November	250,485.84	15,309.65	14,840.39	469.26	3.0651%
2006	12	December	159,874.89	12,393.54	12,145.28	248.26	2.0031%
2007	1	January	831,988.37	24,665.47	23,913.96	751.51	3.0468%
2007	2	February	242,226.10	17,025.27	16,416.16	609.11	3.5777%
2007	3	March	358,345.66	24,727.59	23,762.59	965.00	3.9025%
2007	4	April	474,113.86	31,531.97	27,953.18	3,578.79	11.3497%
2007	5	May	370,900.80	24,600.43	23,752.43	848.00	3.4471%
2007	6	June	492,712.65	17,139.33	16,553.33	586.00	3.4190%
Totals FY 2007			\$4,763,929.81	\$245,308.13	\$233,250.60	\$12,057.53	4.9150%
					\$208,511.92	\$36,796.21	15.0000%
					\$196,246.51	\$49,061.69	20%
					\$183,981.10	\$61,327.03	25%
2007	7	July	797,812.58	18,686.44	18,364.75	321.69	1.7215%
2007	8	August	689,905.58	22,200.59	20,875.79	1,324.80	5.9674%
2007	9	September	425,034.05	28,614.73	25,844.73	2,770.00	2.8931%
2007	10	October	252,993.12	18,204.17	17,894.17	310.00	1.7029%
2007	11	November	250,360.89	13,513.89	12,945.87	568.02	4.2032%
2007	12	December	1,105,571.72	22,195.15	21,395.98	799.17	3.6007%
2008	1	January	645,898.06	23,242.67	22,405.27	837.40	3.6029%
2008	2	February	591,659.16	33,236.98	29,146.98	4,090.00	12.3056%
2008	3	March	778,325.33	22,631.10	21,421.52	1,209.58	5.3448%
2008	4	April	685,772.84	22,420.94	21,615.04	805.90	3.5944%
2008	5	May	608,991.73	22,363.47	18,048.07	4,315.40	19.2966%
2008	6	June	1,138,548.14	26,737.93	26,369.73	368.20	1.3771%
Totals FY 2008			\$7,970,873.19	\$272,048.06	\$256,327.90	\$15,720.16	5.7780%
					\$231,240.86	\$40,807.20	15.0000%
					\$217,638.45	\$59,469.61	20%
					\$204,036.05	\$68,012.01	25%
2008	7	July	516,545.46	20,949.55	19,820.33	1,129.22	5.3902%
2008	8	August	581,383.08	20,130.22	19,666.96	463.26	2.3013%
2008	9	September	467,993.83	19,105.86	18,205.86	900.00	4.7106%
2008	10	October	892,028.98	29,268.96	25,104.16	4,164.80	14.2294%
2008	11	November	670,949.03	17,638.82	16,544.24	1,094.58	6.2055%
2008	12	December	705,547.63	23,331.05	22,926.05	405.00	1.7359%
2009	1	January	1,810,831.36	24,126.03	23,596.03	530.00	2.1968%
2009	2	February	530,683.97	23,491.09	22,942.59	548.50	2.3349%
2009	3	March	596,209.98	25,233.89	24,436.13	797.76	3.1615%
2009	4	April	385,489.13	17,876.85	16,986.24	890.61	4.9819%
2009	5	May	492,495.93	20,750.89	20,206.20	544.69	2.6249%
2009	6	June	1,594,949.02	28,495.37	27,464.40	1,030.97	3.6180%
Totals FY 2009			\$9,245,107.41	\$270,398.58	\$257,899.19	\$12,499.39	4.6220%
					\$229,838.80	\$40,559.78	15.0000%
					\$218,318.87	\$54,079.71	20%
					\$202,798.94	\$67,599.63	25%
2009	7	July	615,118.04	18,629.33	18,106.88	522.45	2.8044%
2009	8	August	728,011.12	28,526.13	27,432.84	1,093.29	3.8326%
2009	9	September	386,008.62	24,915.14	23,614.33	1,300.81	5.2210%
2009	10	October	979,672.28	35,875.62	33,694.12	12,181.50	33.9548%
2009	11	November	590,148.16	20,580.77	19,789.09	791.68	3.8467%
2009	12	December	425,286.05	18,595.19	16,934.86	1,660.33	8.9288%
2010	1	January	522,882.54	23,464.85	22,101.10	1,363.75	5.8119%
2010	2	February	781,635.78	21,543.21	20,032.97	1,510.24	7.0103%
2010	3	March	543,889.96	29,408.07	26,724.59	2,683.48	9.1250%
2010	4	April	758,463.57	26,632.23	24,689.26	1,942.97	7.2956%
2010	5	May	5,663,277.00	28,249.17	27,491.17	758.00	2.6833%
2010	6	June	2,744,146.46	49,414.06	40,332.29	9,081.77	18.3789%
Totals FY 2010			\$14,738,540.58	\$325,833.77	\$290,943.50	\$34,890.27	10.7000%
					\$276,958.71	\$48,875.06	15.0000%
					\$260,667.02	\$65,166.75	20%
					\$244,375.33	\$81,498.44	25%
Current				Total_Sales_Price	Total_SPO_Rev	Total_Due_Agen	% RETURNED TO AGENCY
				\$1,529,136.75	\$1,371,997.91	\$157,138.84	10.2763%
							average of all years 7.5282%
proposed 20% return				\$1,529,136.75	\$1,223,309.46	\$305,827.29	20.0000%
proposed 25% return				\$1,529,136.75	\$1,146,852.57	\$382,284.18	25.0000%

## Appendix 3

### State Budget & Control Board Accountability Report

#### Performance Measure of Surplus Property Office

Link to performance measures for SPO in SC Budget & Control Board Accountability

Report: <http://www.bcb.sc.gov/BCB/show-aar2010.php>

Look at page 34

## Appendix 4

### South Carolina Surplus Property Agency Users Guide

Link to Users Guide: [http://surplus.sc.gov/webfiles/SPO\\_MAIN/Agency\\_Docs/1 -  
\\_SPO\\_Agency\\_Users\\_Guide.pdf](http://surplus.sc.gov/webfiles/SPO_MAIN/Agency_Docs/1_-_SPO_Agency_Users_Guide.pdf)