

THE STATE OF SOUTH CAROLINA

In The Court of Appeals

APPEAL FROM JASPER COUNTY

Court of Common Pleas

Thomas A. Russo, Circuit Court Judge

Case No. 2014-CP-27-468

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SC Court of Appeals

South Carolina Public Interest Foundation and Edward D. Sloan, Jr., Denise G. Davidson, and Milton Woods, Jr., individually, and on behalf of all others similarly situated, Appellants,

v.

Jasper County School District and the Hon. Berty Riley, in her official capacity as Chairman of the Board of Trustees of the Jasper County School District, Respondents.

APPELLANTS' INITIAL BRIEF

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Table of Contents

Table of Authorities ii

Statement of the Case.....1

Procedural History2

Statement of Facts.....2

Argument4

I. PROCUREMENT CODES ARE TO BE CONSTRUED FOR THE
BENEFIT OF THE TAXPAYERS.....4

II. THE CIRCUIT COURT ERRED ON THE MERITS.....5

III. THE ALLEGED RATIFICATION WAS INEFFECTIVE.....10

IV. AFTER THE BOARD SUSPENDED ALL ACTIONS ON THE
CONTRACT, THE MATTER WAS NOT RIPE FOR DECISION.....13

Conclusion15

Table of Authorities

Cases

<i>Eastern Missouri Laborers Dist. Council v. St Louis</i> , 781 S.W.2d 43, 46 (Mo. 1989)...	5, 6
<i>Mauldin v. City Council</i> , 33 S.C. 1, 11 S.E. 434 (1890).....	4
<i>Mayor and City Council of Baltimore v. Gill</i> , 31 Md. 375, 394 (1869)	5
<i>Newmeyer v. Missouri & Miss. R.R. Co.</i> , 52 Mo. 81 (1873)	4-5
<i>Sloan v. Greenville County</i> , 356 S.C. 531, 556, 590 S.E.2d 338 (Ct. App. 2003)	4, 7, 9
<i>South Carolina Dep't of Mental Health v. Hanna</i> , 270 S.C. 210, 213, 241 S.E.2d 563, 564 (1978)	4
<i>Spencer v. Barnwell County Hosp.</i> , 314 S.C. 405, 408, 444 S.E.2d 538, 540 (Ct.App.1994)	4
<i>Sloan v. School District of Greenville County</i> , 342 S.C. 515, 519-20, 537 S.E.2d 299 (Ct. App. 2000)	5, 6
<i>Glasscock Company v. Sumter County</i> , 361 S.C. 483, 604 S.E.2d 718 (2004)	14

Statutes

S.C. Code Ann. § 15-77-300.....	16
S.C. Code Ann. § 15-35-1520.....	6
S.C. Code Ann. § 11-35-50.....	14
Jasper County School District Procurement Code Policy § 2-102(1).....	1,6,10,12
Jasper County School District Procurement Code Policy § 2-102(2).....	6
Jasper County School District Procurement Code Policy § 2-102(3).....	6
Jasper County School District Procurement Code Policy § 2-102(4).....	6
Jasper County School District Procurement Code Policy § 2-102(7).....	6
Jasper County School District Procurement Code Policy § 2-103	6,7,15

Jasper County School District Procurement Code Policy § 2-103(1).....1,7,12
Jasper County School District Procurement Code Policy § 2-103(6).....8
Jasper County School District Procurement Code Policy § 2-103(7).....9,10,11,12
Jasper County School District Procurement Code Policy § 4-10112
Jasper County School District Procurement Code Policy § 4-3011
Jasper County School District Procurement Code Policy § 6-40310

STATEMENT OF THE CASE

Appellants (“Taxpayers”) filed this action alleging that the Respondents (“School District”) had procured nearly \$3 million of design services and construction services in violation of the School District Procurement Policy.

District’s Procurement Code Policy § 2-102(1) requires, “Contracts of \$50,000 or more **must be awarded by competitive sealed bidding** . . . except as provided herein” (emphasis added). Competitive sealed bidding requires an Invitation for Bids, but the School District did not issue an Invitation for Bids for this procurement of \$50,000 or more.

The District’s Procurement Code Policy § 4-301 requires the District to use negotiations to select its source of procurement of professional architectural services. The School District contract (**Exhibit E**) procured professional architectural services.

Because the selection of the source of procurement of construction services must use the competitive sealed bidding method, but the selection of the source of procurement of architectural services must be procured through the competitive sealed proposal method, the simultaneous use of competitive sealed bidding method **and** the competitive sealed proposal method to select the source of procurement for a single procurement of design services and construction services is impossible. The procurement of construction services in excess of \$50,000 by **Exhibit E** violates the District’s Procurement Code Policy, and is unlawful.

Under certain circumstances, the District Procurement Code allows procurement by competitive sealed proposals. The District Procurement Code Policy § 2-103(1) states:

Conditions for use: When the school district determines in writing that the use of competitive sealed bidding is either not practicable or not advantageous to the school district, **a contract may be awarded** by competitive sealed proposals. . . . Proposals must be solicited through a **request for proposals** (emphasis added).

Id. (Emphasis added).

PROCEDURAL HISTORY

The School District filed Motions to Dismiss the Complaint and the Amended Complaint. The Court denied the Motions to Dismiss. The Taxpayers moved for a Preliminary Injunction, and the Court denied the Motion.

The School District moved for Summary Judgment. The Taxpayers served a Motion to file a Second Supplemental Complaint to allege matters that had transpired after the filing of the earlier Complaints. The School District consented to the filing of the Second Supplemental Complaint.

The Circuit Court granted summary judgment to the School District by Order entered November 18, 2015. On or about November 24, 2015, Taxpayers moved to Alter or Amend. The Court denied the Motion by Order entered April 27, 2016.

The Taxpayers served Notice of Appeal May 26, 2016.

STATEMENT OF FACTS

July 14, 2014, the District issued Request for Proposals 14-06-01 (**Exhibit C**), soliciting nearly \$3 million of design-build services to renovate its Bees Creek facility, which included more than \$50,000 of construction services; it also included architectural services.

On September 10, 2014, the District issued an intent to award letter (**Exhibit F**).

On October 10, 2014, nearly 3 months after the District issued the Request for Proposals, and a month after it had issued a notice of intent to award the contract, the District drafted and posted a written determination purporting to authorize the use of competitive sealed proposals (**Exhibit D**).

On November 10, 2014, the School District procured construction services with a

guaranteed maximum price of \$2.9 million, having selected the source of the procurement using a method other than competitive sealed bidding (**Exhibit E**). The Taxpayers contend this procurement was unlawful.

On or about May 11, 2015, School District resolved, purporting to ratify their procurement and all of its processes (**Exhibit G**). The Taxpayers contend this attempted ratification was unlawful and insufficient.

After the Motion for Summary Judgment was filed, but before the Court ruled, the School District held an election that substantially changed the composition of the Board of Trustees. After the election, on October 12, 2015, the new Board voted to suspend all actions on the Bees Creek property, including any actions on the contract at issue. The new Board resolved that “**no further actions be taken** on Bees Creek Property’s contract and **that the contract be suspended.**”

By email on October 21, 2015, the Taxpayers notified the Court of the Resolution, as reported in a newspaper. After the Board adopted and publicized the minutes of the October 12, 2015 meeting, the Taxpayers again notified the Court of the actual wording of the Board’s Resolution by email dated November 6, 2015. Nevertheless, the Circuit Court issued the November 18, 2015, Summary Judgment Order.

The Taxpayers respectfully suggest that the October 12, 2015, Resolution suspended all actions on the contract at issue, and made this civil action unripe for decision by the Circuit Court. Therefore, the November 18, 2015, Order was improper.

ARGUMENT

I. PROCUREMENT CODES ARE TO BE CONSTRUED FOR THE BENEFIT OF THE TAXPAYERS.

This Court has ruled that local procurement codes are to be construed for the benefit of the taxpayers.

The County's procurement code is remedial in nature, and its provisions should be construed liberally to carry out its purposes. See *South Carolina Dep't of Mental Health v. Hanna*, 270 S.C. 210, 213, 241 S.E.2d 563, 564 (1978) ("A remedial statute should be liberally construed in order to effectuate its purpose."); *Spencer v. Barnwell County Hosp.*, 314 S.C. 405, 408, 444 S.E.2d 538, 540 (Ct.App.1994) ("In considering a remedial act designed to protect a class of persons or the public at large, the courts liberally construe the act to carry out its purposes."). Because **the express purpose of the procurement code is to ensure the "efficient and economical use of revenues" provided by the taxpayers** (§ 7-192), the bonding requirements of section 7-238 should be read **to afford the greatest protection to the citizens** of Greenville County.

Sloan v. Greenville County, 356 S.C. 531, 565, 590 S.E.2d 338, 356 (Ct. App. 2003) (emphasis added).

This Court ruled that taxpayers were subset of citizens specifically harmed by the wrongful expenditure of taxpayer funds.

In *Mauldin v. City Council*, 33 S.C. 1, 11 S.E. 434 (1890), the South Carolina Supreme Court examined the issue of taxpayer standing. In *Mauldin*, taxpayers challenged the purchase of an electric plant by the city council as *ultra vires*, claiming the purchase increased their tax burden. *Id.* at 15, 11 S.E. at 434. The Court explained how **taxpayers differ from other members of the general public** and how **taxpayers suffer harm from ultra vires acts**. *Id.* at 18-21, 11 S.E. at 435-36. The *Mauldin* court stated:

"The injury charged as the result of the acts complained of is a private injury in which the tax-payers of the county . . . are the individual sufferers, rather than the public. The people out of the county bear no part of the burden; nor do the people within the county, except the tax-payers, bear any part of it. It is therefore an injury peculiar to one class of persons, namely the tax-payers of the county . . ."

Id. at 20, 11 S.E. at 436 (quoting *Newmeyer v. Missouri & Miss. R.R. Co.*, 52 Mo.

81 (1873)). The Court held the taxpayers were “not the whole public, but comparatively a small part of it.” *Id.* at 18, 11 S.E. at 435. **The taxpayers “constitute a class specially damaged by the alleged unlawful act,”** and therefore have “a **special interest in the subject-matter** of the suit, distinct from that of the general public.” *Id.* at 19, 11 S.E. at 436 (quoting *Mayor and City Council of Baltimore v. Gill*, 31 Md. 375, 394 (1869)).

Sloan v. School District of Greenville County, 342 S.C. 515, 519-20, 537 S.E.2d 299, 301 (Ct. App. 2000) (footnote omitted) (emphasis added).

This Court also reasoned:

In this case, the public interest involved is the prevention of the unlawful expenditure of money raised by taxation. “**Public policy demands** a system of checks and balances whereby **taxpayers can hold public officials accountable** for their acts **Taxpayers must have some mechanism of enforcing the law.**” *Eastern Missouri Laborers Dist. Council*, 781 S.W.2d at 47.

Sloan v. School District of Greenville County, 342 S.C. 515, 523, 537 S.E.2d 299, 303 (Ct. App. 2000) (emphasis added).

II. THE CIRCUIT COURT ERRED ON THE MERITS.

The Taxpayers respectfully suggest that the Circuit Court erred on the merits of its decision.

Under the School District Procurement Code, the presumption is that its source of procurement of large construction services must use competitive sealed bidding method.

This Court has stated:

The expenditure of public funds pursuant to a competitive bidding statute is of immense public importance. Requiring that contracts only be awarded through the process of competitive sealed bidding demonstrates the lengths to which our government believes it should go to maintain the public’s trust and confidence in governmental management of public funds. The integrity of the competitive sealed bidding process is so important that in some states “**once a contract is proved to have been awarded without the required competitive bidding, a waste of public funds [is] presumed . . . without showing that the municipality suffered any alleged injury.**” 18 Eugene McQuillin, *The Law of Municipal Corporations* § 52.26 (3d ed.1993); see 5 Sandra M. Stevenson, *Antieau on Local Government Law* § 73.04 [11] (2d ed.1999) (stating that **where a bid statute has been disregarded,**

injury to taxpayers is almost conclusively presumed). The Missouri Supreme Court went a step further and held, “**Even though an expenditure might produce a net gain**, if the expenditure is not contemplated by the enabling legislation, **it is illegal and should be enjoined.**” *Eastern Missouri Laborers Dist. Council*, 781 S.W.2d at 47.

Sloan v. School District of Greenville County, 342 S.C. 515, 524, 537 S.E.2d 299, 303-304 (Ct. App. 2000) (emphasis added). After the funds are spent illegally, the taxpayers have little or no chance to recover the misspent funds.

a. The School District Did Not Use the Competitive Sealed Bidding Method.

The School District Procurement Code requires that selection of source of procurement of \$50,000 or more be procured using competitive sealed bidding. *Id.* § 2-102(1). Unlike the comparable section in the South Carolina Consolidated Procurement Code (S.C. Code Ann. § 15-35-1520), the District’s Procurement Code Policy § 2-102(1) does not contain an exception. Thus, § 2-102(1) is mandatory for procurements of “Contracts of \$50,000 or more.” *Id.* It is undisputed that the School District did not use competitive sealed bidding to select its source of procurement of this construction service. It did not **issue** an invitation for bids (District Procurement Policy § 2-102(2)); it did not **publish** an invitation for bids in a local newspaper (*Id.* §2-102(3)); it did not conduct a **public bid opening** (*Id.* §2-102(4)); it did not **record the** amount of each bid and make them available for **public inspection** (*Id.* §2-102(4)); it did not **publish a notice of intent to award** to the lowest responsive and responsible bidder (*Id.* §2-102(7)). They simply did not use the required method at all.

b. The School District Did Not Properly Use the Request for Proposal Method.

If the Court determines that contrary to Procurement Code Policy § 2-102(1), District’s Procurement Code Policy § 2-103 enables School District to select its source of procurement of

construction services of \$50,000 or more using the competitive sealed proposal method (instead of sealed bids), the Taxpayers contend that School District's determination (**Exhibit D**) is insufficient to satisfy the requirements of Procurement Code Policy § 2-103. Section 2-103 (1) states:

- (1) Conditions for use: When the school district **determines in writing** that the use of competitive sealed bidding is either **not practicable or not advantageous** to the school district, a contract may be awarded by competitive sealed proposals. Competitive sealed proposals should be used when both the needs of the school District and the costs to satisfy those needs are important, and the methods or items to satisfy those needs are not clear and precise. While price is an important factor, it is considered less significant than fully meeting the district's needs. The ultimate purpose of this method of procurement is to provide flexibility to the district, while taking into consideration various options and the costs of each. Proposals must be solicited through a request for proposals.

This procurement, using competitive sealed proposals, violates the District's Procurement Code Policy, and is unlawful as set out more fully below.

1. The written determination was issued after the fact.

The purpose of the written determination is to justify the use of the Request for Proposals process to select the source of procurement. *Sloan v. Greenville County*, 356 S.C. 531, 556, 590 S.E.2d 338, 351-52 (Ct. App. 2003). A written determination must establish that "the use of competitive sealed bidding is either not practicable or not advantageous to the school district," District Procurement Code Policy § 2-103(1), and establish that the better course of action is the request for proposal method to select the source of procurement. Accordingly, the written determination should have been issued **prior to** the issuance of the Request for Proposals. *Sloan v. Greenville County*, 356 S.C. 531, 556, 590 S.E.2d 338, 351-52 (Ct. App. 2003).

However, in this case, the District attempted to justify the use of competitive sealed

proposals long after the process was begun. The language of the written determination (**Exhibit D**) indicates that the District issued the written determination **subsequent to** the selection process:

From the competition it has been determined that both of the finalist qualified entities were able to propose a solution in accordance with the design requirements. The Board of Trustees **has selected** its preferred solution.

For the above stated reasons, **the District is therefore proceeding** with a design-build delivery of the Bees Creek site within the design requirements established in consultation with the Board.

(**Exhibit D**, p. 3) (emphasis added).

The evidence developed in this case, and agreed to by the School District, indicated that School District issued written determination on October 10, 2014, **nearly 3 months after** the District issued the Request for Proposals, and **one month after** the notice of intent to award letter, meaning that when the District issued the Request for Proposals and when the District issued the intent to award letter, **it had made no written determination** to enable the use of a Request for Proposals, in violation of § 2-103(1). Accordingly, from the beginning, the use of a Request for Proposals was unlawful.

2. The school district neither evaluated nor ranked the proposals.

The School District also violated its Procurement Policy by failing to evaluate or rank the proposals. The District Procurement Policy § 2-103(6) requires:

Evaluation factors: The request for proposals shall state the evaluation factors in relative order of importance. Price may but need not be an initial evaluation factor. **Each** responsive and responsible offeror's **proposal must be evaluated**. The proposal **must then be ranked** in accordance with the results of such evaluation (emphasis added).

The School District **neither evaluated nor ranked** the proposals received, in violation of § 2-103(6). It is undisputed that the School District simply selected one of the proposers, without

any semblance of an objective evaluation or ranking process. This is a further violation of the School District Procurement Code.

3. The school district did not “determine[] in writing” which proposal was “the most advantageous to the school district.”

Third, the School District Procurement Code requires the School District to “determine in writing” which proposal is the most advantageous. District Procurement Code Policy § 2-103(7) requires:

Award: The award **must be made** to the responsible offeror whose proposal is **determined in writing** to be the most advantageous to the school district, **taking into consideration the evaluation factors** set forth in the request for proposals. No other factors or criteria must be used in the evaluation. **The contract file shall contain the basis** on which the award is made (emphasis added).

The School District did **not** “determine[] in writing” which proposal was “the most advantageous to the school district,” in violation of § 2-103(7). A written determination requires an analysis, and an articulation of the rationale that led to the selection of one of the proposers. A written determination allows the subsequent evaluation of the decision-making process.

This Court explained the purpose of the written determination in the context of using design-build source selection.

In light of the Code’s express mandate and guiding policy, it is apparent the written determination required under section 7-242.5 must serve a dual function: The determination must first effectively **inform county council of the reasons** why design-build source selection works to the County’s best advantage for the project at issue. Equally important, the determination must **provide the citizens of Greenville County a window into the County’s decision-making process**—safeguarding the quality and integrity of the contract awards through public accountability. If the written determination provides **sufficient factual grounds and reasoning** for the County Council and the public to make an informed, objective review of these decisions, then it has accomplished its purpose.

Sloan v. Greenville County, 356 S.C. 531, 556, 590 S.E.2d 338, 351-52 (Ct. App. 2003) (emphasis

added). In the case at bar, the School District made no written determination to explain its reasoning to the members of the School Board or to the public. It failed to articulate “sufficient factual grounds and reasoning.” *Id.*

4. School District Did Not Keep a Copy of the Written Determination in the Contract File.

The School District Procurement Policy requires, “The contract file shall contain the basis on which the award is made.” *Id.* § 2-103(7). However, the School District did not issue a written determination, it did not show any rationale for the selection of one contractor over another, and finally, the contract file does **not** “contain the basis on which the award [was] made,” all in violation of § 2-103(7).

For all these reasons, the School District totally failed to follow this section of its own Procurement Policy.

III. THE ALLEGED RATIFICATION WAS INEFFECTIVE.

Having repeatedly violated its own Procurement Policy, the School District, nevertheless, attempted to ratify its unlawful procurement. School District’s procurement policy allows for a ratification of an otherwise unlawful act by the School District Board. The District Procurement Policy § 6-403 states the following:

If after an award it is **determined** that a solicitation or award of a contract is in **violation** of this policy, then:

- (1) if the person awarded the contract has not acted fraudulently or in bad faith:
 - (a) the contract may be ratified and affirmed, provided it is **determined** that doing so is in the **best interest of the school district**; . . .

Id., (emphasis added).

Exhibit G fails to comply with the District Procurement Policy ratification process and is unlawful and ineffective for several reasons:

First, the District Procurement Policy requires, as a precondition to a ratification, a *determination* that “the solicitation or award was in violation of [the District Procurement] policy;” but the School District failed to make such a determination, and indeed contended just the opposite throughout their purported Ratification Resolution. Throughout the alleged ratification, the School District repeatedly stated that the procurement of the construction contract was perfectly legal and lawful.

In paragraph 1 of the Resolution, “the Board confirms the contract for design-build delivery of services for the Bees Creek Facility project is acceptable and proper to the board.” In paragraph 6 of the Resolution, “the Board does not interpret its District Procurement Code § 2-102(1) to require competitive sealed bidding for all construction procurement over \$50,000.” This paragraph continues to state a validation of the process that the District used.

In paragraph 7 of the Resolution, the Board states that the written minutes of the Board satisfied the District Procurement Code § 2-103 (7). In paragraph 9 of the Resolution the Board states, “the Board in no way admits that any element of procedure under Solicitation #14-06-01 was defective, and in no way admits that the contract between the District and M. B. Khan is anyway ultra vires.” This Resolution falls short of determining that the solicitation violated the Policy.

The Board definitively states that it fails to meet the first criteria for a ratification under the School District Procurement Code. If it were legal and lawful, there would be no need for a ratification. Ratification is not useful or effective unless there has been an illegal procurement. The School District refused to admit any illegality. Therefore, the alleged ratification fails for lack

of a condition precedent.

Second, the District Procurement Policy requires a separate, written “determination” to ratify “the solicitation or award of a contract,” and the School District did not make a separate, written “determination.” The School District issued a Resolution, but not a separate written determination. Under School District Procurement Policy, the Ratification is distinct from a written determination. The School District attempted to dedicate one document to two separate purposes, thereby failing to meet the requirements of the School District Procurement Policy.

Third, if the School District contends that the Resolution amounts to a written determination, the Resolution fails to comply with the District Procurement Policy in that it makes no written “determination” that ratifying the unlawful solicitation or award is “in the best interest of the school district.” Because the School District utterly failed to follow its ratification process, the alleged ratification is ineffective and the illegalities of the transaction remain, unratified.

Finally, in the Resolution, the Board attempts to usurp the judicial functions of this Court. The interpretation of legislation is a judicial function, and yet the Board purports to give a judicial interpretation of the School District Procurement Code of § 2-102 (1) and § 4-101 in paragraph 6. Furthermore, paragraph 7 of the Resolution purports to be a judicial interpretation of the School District Procurement Code § 2-103 (7); and paragraph 8 of the Resolution purports to be a judicial interpretation of the District Procurement Code § 2-103 (1). All these interpretations of the Procurement Code usurp the jurisdiction of this Court. These interpretations are inaccurate and do not bind this Court.

IV. AFTER THE BOARD SUSPENDED ALL ACTIONS ON THE CONTRACT, THE MATTER WAS NOT RIPE FOR DECISION.

After the parties had briefed and argued the Motion for Summary Judgment and the issue of ratification, but before the Court actually ruled on the Motion for Summary Judgment, the School District held an election that substantially changed the composition of the School District Board of Trustees. The new Board of Trustees resolved to **suspend all actions** on the Bees Creek property, including any actions on the contract, which is the subject of this lawsuit. The minutes record a motion that states as follows:

12.2 BEES CREEK PROPERTY TIMELINE (*Enclosed In Separate Binder*)

After discussion and questions a motion was made by Dr. Butler that **no further actions be taken** on Bees Creek Property's contract and **that the contract be suspended** until the board has a chance to review all pertinent documents. Before a vote was made another discussion took place in which the board members, and the Superintendent expressed their questions, concerns and comments.

Mr. Moyd entertained that a motion was on the floor. A request was made to have motion repeated. Dr. Butler repeated her motion that **no further actions be taken on Bees Creek Property's contract and that the contract be suspended** until the board has a chance to review all pertinent documents. Dr. Butler also asked to amend her motion to add that the district staff ensure that the property is appropriately marked with the no trespass signs and secured so people cannot get into the building, seconded by Mr. Horton.

THE MOTION PASSED 5-4.
(AYES – HORTON/BUTLER/MURRAY/GREEN/KARG)
(NAYS – RILEY/MODD/MITCHELL/HAZEL)

Jasper County School District Board Meeting Minutes October 12, 2015, Section 12.2 (emphasis added). Since the Resolution, the School District has taken no further action to go forward with the Bees Creek Project contract. As stated above in the Statement of the Case, the Taxpayers gave the Circuit Court notice of the Board's action, and suggested because the Board had reversed course on the unlawful contract, that the case was not ripe for a decision by the Circuit Court.

Nevertheless, in an Order entered November 18, 2015, the Circuit Court ruled, in effect, that it should defer to the earlier discretion and decision-making responsibility of the Board, but not as it decided more recently. The Circuit Court ruled as follows:

The Board has the legislative power and discretion to interpret its own Procurement Code, and has the legislative power and discretion to exercise all of the powers noted in the Resolution. (See “Discretion of the Defendants” *supra*). S.C. Code § 11-35-50 “does not impose a specific requirement that all public procurement be carried out by way of a single, narrowly defined procedure. ... We find no logic or consistency in recognizing some flexibility at the state level while handcuffing local governments with none.” *Glasscock Company v. Sumter County*, 361 S.C. 483, 604 S.E.2d 718 (2004). Procurement decisions are “a function of [the governing body’s] discretion, the exercise of which they are accountable for as publicly elected officials.” *Id.*

In both the regular course of the procurement activity and in the Board Resolution, **the Board itself made the decision** to proceed with design-build delivery, and **the Board itself made the decision** to award the contract to M.B. Kahn. These are not mere administration decisions. Thus, even if the administration of the JCSD somehow misconstrued the Board’s procurement policies in the manner alleged by the plaintiffs, **the Board’s direct participation**, and later its Resolution, were each effective to cement the validity of the contract.

Order entered November 18, 2015, p. 8 (emphasis added).

The Taxpayers respectfully suggest that the Circuit Court erred. Using the articulated rationale, the Circuit Court should have continued its reasoning and ruled that the Board subsequently utilized its “legislative power and discretion to interpret its own Procurement Code” and decided to **suspend all activities related to the contract**. Furthermore, the Circuit Court reasoned, “**the Board itself made the decision**” to suspend all actions related to the contract, itself. Just as with the **earlier** action, the Board’s **later** action to suspend all activities and the contract itself, involved **the Board’s direct participation**.

This Court should defer to the subsequently exercised discretion and judgment of the newly elected Board and rule that because the Board had reversed its decision, the matter was not ripe

for review. However, if this Court determines that the case is ripe for review, this Court should reverse the Circuit Court on the merits.

CONCLUSION

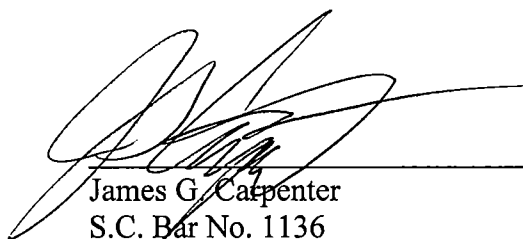
WHEREFORE, Taxpayers pray the Court to reverse the Circuit Court's order granting the School District' Motion for Summary Judgment, and rule that the matter is not ripe for determination, because the Board had reversed its decision to continue the contract.

In the event the Court determines that the matter is ripe for decision, this Court should:

- (1) declare that the procurement by contract dated November 10, 2014 (**Exhibit E**), in which the School District procured design services and construction services of \$50,000 or more using a method of source selection other than competitive sealed bidding violates the District's Procurement Code Policy, and is unlawful;
- (2) declare that School District is not authorized to procure design-build services which include construction services of \$50,000 or more;
- (3) declare that School District's undated determination (**Exhibit D**) is insufficient to satisfy the requirements of Procurement Code Policy § 2-103;
- (4) declare that the School District unlawfully failed to rank and evaluate the Proposals;
- (5) declare that the School District unlawfully failed to "determine[] in writing" which proposal was "the most advantageous to the school district," in violation of § 2-103(7);
- (6) declare that the Resolution dated May 11, 2015 (**Exhibit G**) is ineffective to ratify the unlawful solicitation and award of the contract at issue;

- (7) enjoin School District from procuring design-build services through the contract **(Exhibit E)**;
- (8) award the Taxpayers attorneys' fees and costs of litigation pursuant to S.C. Code Ann. § 15-77-300 *et seq.*;
- (9) and grant Taxpayers such other and further relief as the Court deems just and proper.

Respectfully submitted,
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