

Impact Study

**An Analysis of the Impacts of
Property Tax-Based Economic Development Incentives
on
School Districts in South Carolina**

**Prepared for the
South Carolina School Boards Association**

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March 3, 2000

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I. Introduction

This report summarizes a study of education finance and economic development for the South Carolina School Boards Association. It extends research conducted during the summer of 1999 by the same research team for

the Horry County School Board. The SCSBA wanted to expand the research conducted for Horry County and explore the statewide implications of a potential conflict between the financing of education and local economic development.

In June, 1999, the Horry County Board of Education commissioned a review and analysis of a proposal for a large-scale economic development project and its impacts on the School District. The proposal, presented to Horry County Council and the City of Myrtle Beach by a local development company, calls for the creation of a Multi-County Business Park (MCBP) in the county covering approximately 8,300 acres. The proposal would create a MCBP for up to 30 years with an option to renew for another 30 years, facilitate the annexation of several thousand acres of land into the City of Myrtle Beach, freeze zoning and limit impact fees in the Park and use 100% of commercial property tax revenues for non-educational purposes.

The Horry County Board of Education was concerned about the long-term implications of this proposal on the ability of the District to fund educational services in the District. The developer's proposal would remove over \$2 billion in commercial property from the School District's tax base. Locked into a 30-60 year plan, the District was concerned that this could have a detrimental impact on the District's ability to fund education in Horry County in the future. By removing such a large and important component from the tax base, the District faces shifting the tax burden to other property owners in the County in order to maintain the quality of education.

To address these issues and others, the School district selected a team of researchers from across the state to review and analyze the Horry County development proposal. The team included the following members:

- Holley Hewitt Ulbrich, Alumni Distinguished Professor Emerita of Economics at Clemson University and Senior Fellow at Strom Thurmond Institute and USC's Institute of Public Affairs
- Edward Lewis Bryan, Professor of Accounting at Clemson.
- Frank L. Hefner, Associate Professor, Department of Economics and Finance at the College of Charleston.
- Douglas P. Woodward, Director of the Division of Research and Associate Professor of Economics at the University of South Carolina's Darla Moore School of Business.
- Harry W. Miley Jr., President, Miley & Associates, Inc.
- Randolph C. Martin, Professor of Economics and Associate Dean, Darla Moore School of Business, University of South Carolina.

The present study was conducted by the same team of researchers except Dr. Lewis Bryan of Clemson University. This report presents the results of the research team's analysis. Section II begins with an overview of the use of development incentives in economic development. Section III reviews of the major economic development incentives used in South Carolina that affect a school district's tax base.

Section IV provides an analysis of the relationship between economic growth in

school districts and property tax rates and other fiscal variables. Section V provides a review of South Carolina's neighboring states' property tax related incentives. To conclude, Section VI provides recommendations and identifies further issues to be explored.

II. Historical Overview of Economic Development Incentives

During the past two decades, state and local government involvement in promoting economic development has expanded significantly. In earlier, post-WWII years, the federal government had taken it upon itself to assist in the economic development of the most distressed areas in the country through a variety of programs. The best know of which were administered by the Economic Development Administration (EDA). Such programs included low interest rate loans for firms locating in qualified areas plus a variety of technical assistance activities. During the Reagan years, however, a conservative turn in political philosophies plus growing budget deficits resulted in a significant reduction in federal funding of programs for lagging or distressed regions. Thus, state and local governments were left to fill what was perceived as a gap in programs designed to assist those living these distressed areas. In addition, competition among states and localities over the last 30 years has also contributed to this growth in state and local incentives. The extent of this expansion has been documented by Chi and Leathery and Fisher and Peters.

Much of South Carolina as well as much of the Southeastern United States has qualified as distressed areas for many of the early federal programs. While the list of programs is long, the focus of this section is with those programs designed to directly assist businesses (either new or existing) in the area. Economist Timothy Bartik provides a useful "topology" of state and local economic development policies that directly aid businesses. Included in the more traditional category of such policies are financial and other incentives, which are designed to attract new industry and expand existing area industries. Much of this is accomplished through the state and local tax system and has been traditionally targeted at attracting new manufacturing plants. A second and more recent summary of economic development programs focus more on smaller or existing businesses. Such programs include capital market programs (e.g., government financed equity or loan programs), information, education and technical assistance for small business, research and high technology (e.g., research parks), and export assistance programs. In all, the list of state and locally provided economic development programs is quite extensive.

Are economic development incentives effective?

The growth in state and local government offers of direct economic incentives to businesses over the past decades reflects an intense competition as areas vie for new plants and other economic development opportunities. This kind of competition was especially apparent in the Southeast during the 1980s and early 1990s, as states and localities vied for the location of highly visible Japanese and European automobile producers into U.S. greenfield sites. Such high profile events and the rapid growth in state and local subsidies to the business sector has raised the obvious question; are such programs worthwhile or effective?

The answer to this question may depend on how one defines "worthwhile or effective" and how one views the evidence available on this subject.

In recent years, the more vocal of those concerned with such issues have been the opponents of using business incentives for economic development purposes. Chi and Leatherby provide a useful "check-list" of the pros and cons associated with such business incentives. Included in the list of arguments used to discourage the use of incentives are:

- Tax and financial incentives are not the only factors included in business location decisions.
- Incentives raise questions of equity.
- Empirical studies show that business incentives are not cost-effective.
- Incentives pull dollars away from the improvement of public services and infrastructure.
- Incentives create a self-defeating zero-sum game.

Consider the first item. It is argued that many other factors (labor cost, proximity to markets, unions, etc.) play a more important role in determining the location of a firm than do marginal differences in taxes or other financial considerations. Thus, such policies have little impact on location decisions. In a recent study of industrial location in Puerto Rico, the researchers found that a targeted incentive policy affected the decisions of relatively few greenfield plants investments.

Opponents of such incentives are also able to point to selected studies in the literature which raise some real questions about the effectiveness of business incentives in creating employment opportunities, especially for the locally unemployed. It is often argued that with a mobile labor force, new jobs are filled by more skilled immigrants, leaving the unemployed in the area no better off than before the new plant opening.

Critics also point out that public funds used for incentives often have a very high opportunity cost. In states with lagging infrastructure and below average school systems, such incentives may come at a very high cost in terms of other uses of the tax revenue foregone. Finally, there is the "zero-sum game" argument. If it is assumed that state and local governments compete for a fixed number of new firms, then a plant that decides to locate in one area is lost to the others. From a national perspective, the net effect of local incentives on job creation is zero and the opportunity cost of using local public resources is very high. The issue of the net impact of economic development, with or without incentives, on local public services (including schools) is an important and controversial one. Part III of this report explores that question in the specific context of South Carolina school districts.

The other side of the coin is a similar list of positive arguments. These items include reasons that business incentives should be provide by state and local governments. The "pros" list contains the following items:

- Incentives have a positive effect on business location decisions.

- Incentives fund job creation.
- Incentives are cost-effective.
- Incentives help foster competition.
- Incentives have a political element.

In this view, tax and financial incentives do have an impact on firm location. Specifically, the argument is that many state and metropolitan areas are close substitutes as potential industrial sites from a business perspective. Thus, even a small cost differential provided by tax or financial incentives can prove to be decisive in the location decision.

The second item represents the argument that new firms attracted by the incentives create net additional jobs for the local area. From a local perspective the "zero sum game" argument is irrelevant. Even from a national perspective, it can be argued that it is desirable if jobs are "taken" from low unemployment areas and "given" to high unemployment areas because the social benefits of these jobs is higher in the high unemployment area. It is also possible that competition for jobs between states and areas may actually reduce overall unemployment and increase national output.

The third item in the "pro" list indicates a belief that such incentives are cost-effective, which means that the benefits (wages earned, taxes paid, etc.) outweigh the costs (opportunity cost of incentives given). A positive cost/benefit ratio is even more likely when the multiplier or spillover benefits of an expanded industrial base are included in the calculation.

The last two items are concerned with the competitive nature of state and local incentives to business. First, the competition between areas can be viewed as a positive factor as noted in the discussion of job creation. The wisdom of one area unilaterally withdrawing from this competition is also certainly questionable. Also, local leaders unquestionably feel pressure to attract business, especially in areas of high unemployment. Thus, the political process leads to the desirable result that those areas that stand to gain the most from such incentives are most motivated to provide those incentives.

To summarize this brief review of economic development incentives, it is apparent that:

- Incentives were originally intended to promote jobs and income creation for economically distressed areas.
- Incentives were originally a federal government activity but their use by local and state governments has substantially grown over the last 20 years.
- Incentives were originally intended for relatively, footloose manufacturing plants.

- Incentives were originally intended to act as a locational attraction factor to reduce costs that would help entice industry to move to an area.
- Incentives are generally intended to encourage economic activity that would otherwise locate elsewhere.
- Incentives raise questions of equity.
- Incentives may pull dollars away from the improvement of public services and infrastructure.
- Incentives may or may not be cost-effective.
- Incentives can help job creation.
- Incentives can help attract new industry.

As a leader in using incentives, South Carolina demonstrates both the pro and cons of using a targeted industrial policy approach to economic development. Over time, the programs used both at the state and local level to attract industry have proliferated. In some cases, the scope of the incentive programs have expanded considerably beyond their original intent. The promise has always been, however, that the benefits to the local community will appear over time. The next section examines whether this has been the case for the state's school districts.

III. Growth and schools

Value of economic growth

There is little dispute about the value and importance of economic growth and development for South Carolina. The state remains near the bottom of the fifty states in such measures as personal income, health status, SAT scores, infant mortality, and other measures of quality of life that are highly correlated with the quality and diversity of the state's economic base. Economic growth offers the incentive, the opportunities, and the resources to change these measures of economic and social well-being.

Schools and school districts are important players in economic growth in several dimensions. The quality of the public schools is an important factor in locational decisions for business firms in deciding to move in, expand, contract, or shut down plants. Firms need educated workers. Management and workers want quality education for their own children. School millage is often an important factor in locational choice as well, because the correlation between local taxes and school quality or even school spending is weak. A district that is already well endowed with a tax base can raise more revenue with a low mill rate than another district can with a much higher rate. State equalization through formula funding is not adequate to significantly alter that situation which handicaps poorer districts both in attracting industry and in providing quality

education. So school districts are an important factor in fostering economic growth.

On the other side of the equation, economic growth affects schools. Nationally, there is evidence that rapid growth puts strains on both operating and capital budgets for local governments, including schools, even in the absence of any tax incentives that might drain potential revenue from schools. Residential development in particular tends to add more to the cost than the revenue side of local government budgets. Loudon County, Virginia, just outside Washington D.C., offers one good example:

"In Loudon County, Virginia, officials in 1994 estimated that a new home must sell for at least \$400,000 to bring in sufficient property taxes to cover the cost of all the services the county provides. By contrast, the average home sold that year for less than \$200,000. The fastest selling properties in 1995 were town homes averaging between \$120,000 and \$160,000."

This estimate confirmed an earlier study in Culpepper County, Virginia, which found that residential development cost \$1.25 in county services (including schools) for every \$1 of revenue, while service costs were only 19 cents per dollar of revenue generated for industrial, commercial, or agricultural land. Likewise, a study by the American Farmland Trust found a revenue-to-cost ratio for residential property is 1:1.11, while the ratios are 1:0.29 for commercial and industrial property and 1:0.31 for farmland, forests and open space. In other words, residential property generates 11% more in costs than it produces in revenue, while commercial and industrial property only costs 29 cents and farmland and open space 31 cents in services for every dollar generated in revenue. However, these ratios may overstate the benefits of nonresidential development. According to one researcher:

"A 1991 study by the DuPage County, Illinois Development Department found that, between 1986 and 1989, areas of the county with significant nonresidential development experienced a *greater* increase in taxes than did areas without nonresidential development . . . commercial development may create a demand for additional nearby residential development which . . . brings a fiscal drain that offsets the benefits."

The impact of nonresidential development on school finances is the central question of this chapter.

Sources of school district revenue

What happens to school funding as new plants open and new pupils come into a school district? In order to answer that question, it is helpful to consider the sources of school funding. Schools get their funding from two major sources: the property tax (28%) and various kinds of state aid (44%). There are also three

minor sources: fees and charges (5%), miscellaneous revenue (6%), and federal aid (7%). In addition, they can issue bonds for capital improvements subject to constraints on their bonded indebtedness, which in 1996-97 accounted for the remaining 10%. For purposes of this study, we focus entirely on property tax revenue and state aid because the other sources are minor and also much less likely to increase in response to either new industry or more pupils.

Total Revenue	Revenues	Per cent of total
Total Revenue	\$4,424,572,449	
Own source revenue	2,167,535,700	49.0
current property taxes	1,239,054,910	28.0
service charges	222,607,331	5.0
bonds and leases	443,678,449	10.0
miscellaneous	262,195,010	5.9
Revenue from state sources	1,955,667,895	44.2
property tax relief reimb.	212,936,953	4.8
aid to subdivisions	17,430,034	0.4
homestead exemption reimb.	19,295,990	0.4
state grants	416,207,647	9.4
Education Finance Act	942,170,022	21.3
Education Improvement Act	301,368,854	7.9
Federal aid	301,368,854	6.8

State aid. New pupils will generate more state aid. In the current year, one weighted average pupil would, in the average district in 1996-7, bring in an additional \$2,650 in Education Finance Act (EFA) funding and some additional EIA funding, depending on available funds. In 1996-97, the average per pupil EIA funding was \$530, for a total of \$3,180 in state funds per pupil. However, the average per pupil expenditure in that same year was \$6,526. Additional state aid covers less than half the additional cost on average. Clearly additional local revenues must be generated if the school districts are to fund the additional cost of new pupils generated by economic development. A district that is experiencing rapid growth in its tax base will also see an increase in its index of

taxpaying ability, which is part of the EFA funding formula. Its per pupil allotment, relative to the state average, will decline, because its enhanced property tax base is expected to make up some of the difference.

Property taxes. Most of the local share of school funding comes from property taxes, a base that is shared with cities and counties. Over the period 1990 to 1996, the assessed value of property grew at an average annual rate of 4.9%. The combined demands of inflation and pupil growth required a growth in tax revenue of 3.6%. Any increase in costs over and above those two sources had to come out of the difference of 1.3% between tax-base growth and inflation/pupil growth, or in the form of higher millage, or some of each. School millage rates have increased at an average rate of 1.6% from 1990-91 to 1996-97.

Legislative changes in property tax structure in the early 1990s were designed to protect school revenue while reducing the tax burden on specific groups, such as new and expanding industry and homeowners. Currently, school district revenues are at risk in at least two respects: the potential effect on school districts from existing and future county-negotiated property tax breaks to business firms, and the proposed change in the assessment rate on automobiles. Personal vehicles account for 18% of the property tax base. A reduction in the assessment rate on automobiles from 10.5% to 6% would, other things equal, reduce the property tax base by almost 8%.

The concern in this report is only with the changing property tax implications of business firms. The next section presents an analysis of industrial (and utility) property in recent years.

Industrial Property and School Revenue: 1997 comparisons

Using data from South Carolina Department of Education and the Department of Revenue, it is possible to sort school districts into those with high, low, and average shares of industrial and utility property in the appraised values of property that goes into their tax bases. This sorting makes it possible to explore differences in educational finance--mill rates, per pupil local and state revenues, and per pupil expenditures--in relation to the degree of industrial development. This industrial development measure, rather than one that also included commercial development, was chosen for several reasons:

1. Manufacturing, utility, and associated business personal property is assessed annually by the Department of Revenue and is therefore not subject to variations in county reassessments.
2. Most of the business tax incentives are aimed at and used for industrial and utility development.
3. It is difficult to separate commercial from residential rental property in the available data.

District size. It is difficult to make meaningful comparisons among districts of vastly different sizes. Some of this problem is overcome by making percentage share comparisons or by measuring everything on a per pupil basis, but even those corrections do not fully capture the differences between small and large districts. For some of our analysis, therefore, the state's districts were sorted into

four size classes as shown in Table 2.

Size Class	Number of Districts in Class
Under 2000 ADM	16
2000 - 6000 ADM	25
6000 -12000 ADM	18
Over 12000 ADM	14

Sorting districts by degree of industrialization. Sorting by degree of industrialization yields meaningful categories for all but the coastal districts, which have a low percentage of their tax bases in industrial and utility property but still have high per capita or per pupil values of property because of extensive commercial development and high values for residential property. In a second sort that identified districts with very low shares of industrial and commercial property but per pupil total property values well above the state average, two groups of school districts fell out. One group was, as expected, the coastal districts of Beaufort, Horry, and Charleston. The others were generally urban or bedroom communities-- Lexington 3 and 5, Richland 2, Clarendon1, and Dorchester 2. These eight districts were analyzed separately as Subgroup E.

Because of recent consolidation of school districts in Orangeburg County, it is difficult to find satisfactory comparison data for the old and new Orangeburg County districts. These three districts were therefore not included in the study.

What remains are a total of 76 districts with two different property tax-base mixes, each divided into two subgroups: There are 33 districts below the state average of 21.22% of assessed value in the tax base from state-assessed property.

Subgroup A consists of 13 districts (noncoastal/bedroom) with less than 15% of the value in state-assessed property: These are the least industrialized noncoastal, nonbedroom districts. Within this group, there are seven very small districts (less than 2,000 students) and six small districts (2-6,000 students).

Subgroup B consisted of the other 20 districts with 15-21.1% of their property tax bases consisting of state-assessed property.

There are 43 districts above the state average of 21.22% of value in the tax base from state-assessed property (37 districts).

Subgroup C consists of 29 districts with 21.3% to 33.7% of their property tax bases consisting of state-assessed property.

Subgroups B and C contain a cross section of size classes, as might be expected: 5 in the smallest size class, 21 in the second size class, 15 in the middle size class, 4 in the 12-24,000 class, and 3 of the state's five very large districts.

Subgroup D consists of 14 districts with more than 35% of the appraised value in state-assessed property. These districts are the most industrialized districts. A large industrial share often reflects a low commercial share, so the state's largest districts are not represented in this category because they are in urban counties with extensive commercial development. This group contained only three of the very small districts, 7 small districts, 3 medium sized districts and one in the second largest size class (12-24,000 ADM). A listing of the districts in the least and most industrialized classes is provided in [Appendix B](#).

Differences between groups. There are some notable differences between subgroups relative to state averages in some important fiscal characteristics: mill rates, local revenue per pupil, state revenue per pupil, operating expenditures per pupil, and per pupil local revenue per mill. The mill rate is a measure of the tax burden on the average household or firm. Local revenue per pupil reflects both the mill rate and the tax base. State revenue per pupil reflects both local taxpaying ability and special needs in terms of pupil mix, and would normally be expected to be lower in districts that had a large amount of DOR assessed property in the tax base. Finally, revenue per pupil per mill is an index of the tax capacity of the district, adjusted for district size.

Table 3 shows the average values for each of these fiscal measures for each of the subgroups.

	Mill rate per pupil	Local revenue per pupil	State revenue per pupil	Operating expenditures per pupil	Local revenue per pupil per mill
Subgroup A (Least industrial)	149.2	\$1493	\$3556	\$5691	11.15
Subgroups A and B (Below average industrial)	141.1	\$1497	\$3047	\$5029	11.50
State Average	141.4	\$1872	\$2880	\$5155	13.24
Subgroups C and D	146.9	\$1888	\$2885	\$5185	17.09

(Above average industrial)					
Subgroup D (Most industrial)	146.8	\$2622	\$2729	\$5626	18.72
Subgroup E (Coastal and urban/bedroom)	141.2	\$1817	\$2513	\$4797	13.12

The highest average mill rate, as expected, was in the least industrial districts (A), where residential, commercial, and personal vehicle property taxes had to carry the cost of paying for schools. But mill rates were also substantially above the state average in *more* industrialized districts (C and D), while the average mill rate was lower in slightly less than average industrial districts (B) and in coastal and bedroom districts (E).

Other results are much more consistent with expectations. Lower local revenue per pupil and revenue per mill and higher state revenue per pupil are found in the least and less industrial districts, compared to average figures for both in the more industrial districts. Somewhat surprising are below average figures for all fiscal categories in coastal and urban/bedroom districts. These districts have lower millage, lower per pupil expenditures, lower state revenue per pupil, and slightly lower than average local revenue per pupil and revenue per pupil per mill.

These figures suggest that in general a strong industrial base makes it possible to generate more school revenue. The most industrial group had the highest local revenue per pupil, in part because of an above average mill rate but also because each mill generated more revenue per pupil than in any of the other size classes.

It is likely that district size within subgroups is influencing these results, so districts were sorted into four groups (see Table 2) according to ADM. Within each group we computed average millage in the low-industrial and high-industrial group, and also examined the correlation between the degree of industrialization and other fiscal measures. Table 4 summarizes the average millage by size class and extent of industrialization.

Size Class	Percent Industrial	Average Millage
1 (< 2000 ADM)	< 15.2%	189
	19.6% to 52.3%	169
2 (2 - 6000 ADM)	< 15.1%	165
	16.6% to 67.9%	148
3 (6 - 12000 ADM)	all above 15%	141
4/5 (12000 + ADM)	< 12%	142
	17% to 89%	151

It appears that in very small districts a larger industrial base is associated with lower average school millage, but in the largest size classes the opposite is true. These figures suggest that a strategy of seeking industry to fund the schools remains attractive to smaller districts, but may be of less benefit in larger districts with a more diversified tax base and perhaps more problems of congestion.

Correlation analysis yielded some interesting insights in terms of local revenue per pupil. There is a high and positive correlation (.84 for size class 1, .70 for size class 2) between the share of DOR-assessed property in the tax base and local revenue per pupil in the two smallest size classes. However, there is a very *low* correlation in the middle size class and a weak but *negative* relationship in the largest size class. This finding reinforces the suggestion that *there is greater benefit in seeking industrial development in the smaller, less industrialized districts than larger ones*. This factor should be taken into account in the differential incentives offered at the state level for industrial location.

Fiscal autonomy

Next, there is the issue of whether fiscal autonomy interacts with the composition of the tax base in any significant way. To explore this issue, we sorted districts into those with no, limited, or full fiscal authority. Districts with limited fiscal autonomy in the lowest size class had higher average mill rates than those with no fiscal autonomy (there was only one district in the smallest size class with full fiscal autonomy). In the second smallest size class, 2-6,000 ADM, the average mill rate was lowest in the districts with no fiscal autonomy (141), slightly higher in those with limited autonomy (147), and considerably higher in those with full fiscal autonomy (173), the pattern one might expect. However, the pattern did not hold for districts with more than 6,000 ADM. Among these districts, the differences in average mill rates were small, and the

lowest average mill rate (139) was in the limited autonomy districts, followed by the no autonomy districts (average mill rate, 144), with the highest mill rate in the full autonomy districts (average mill rate, 157). In summary, there is no clear pattern linking fiscal autonomy and mill rates in relation to degree of industrialization, but fiscal autonomy does appear to be related to mill rates after adjusting for district size.

Growth, change, and fiscal indicators

While the snapshot across districts in 1996-97 offers some insights into the relationship between industrialization and fiscal variables, our primary concern is with the *changes* that take place when economic growth occurs in the form of expanding the industrial base. The expectation that expansion of a district's industrial base will lower school mill rates does *not* appear to be justified. Regression analysis confirms this finding. Neither growth in the industrial share of the tax base (1987-97) nor growth in per pupil DOR-assessed property is related in any statistically significant way to the 1997 school millage rate. Likewise, neither industrial growth nor industrial share of the tax base contributed in any identifiable way to explaining growth in school millage over the same period.

There *is* a positive relationship between the growth in the industrial/utility share of the tax base and growth in local revenue per pupil. The relationship is statistically robust, but the magnitude is rather small. *A one percentage point growth in the industrial/utility share of the tax base results in just a 0.3% increase in per pupil local revenue.* The same is true of growth in DOR-assessed (industrial/utility) property per pupil: there is a small but statistically significant positive relationship of about the same magnitude, a 0.3% increase in per pupil local revenue for every 1% increase in DOR-assessed property in the district. This small effect may be partly the result of the use of industrial location incentives, which could not be determined from the statistical model. However, *the growth in DOR-assessed property has a statistically significant and negative effect on state aid to local districts that is larger in magnitude than the effect on local revenue.* A 1% increase in DOR-assessed property in a district results in a decline ranging from 1% to 3% in state aid per pupil, depending on the model specification. If state aid constitutes 44% of a district's revenues, then *on average, a 1% increase in DOR-assessed property will increase local revenues and decrease state aid per pupil so that there is a net revenue loss, ranging from 0.3% to 1.2% of per pupil revenue.*

Moreover, one might ask about the impact of industrial growth on school spending. Several factors enter into spending, including both cost factors of serving a larger population and industry demands for quality schools. The regression results on this question are difficult to interpret, because growth in industrial share of the tax base and growth of DOR-assessed property per pupil appear to have opposite effects on total expenditures per pupil. Growth in DOR-assessed property per pupil has a significant positive (but modest) effect on per pupil spending, about a 0.1% increase for every 1% increase in the industrial/utility tax base per pupil. However, growth in the share of DOR-assessed property in the tax base has a significant *negative* effect on per pupil spending, also quite modest (0.15% for every one percentage point

increase in the tax-base share). The first finding is in keeping with national studies that find rising school costs with pupil growth as transportation routes must be extended, teachers attracted, and more classrooms constructed, as well as the need to accommodate new industry's demands for better prepared workers. The increase share of industry in the tax base is somewhat different, because it implies that industry has been growing faster than other categories of property associated with population (and pupil) growth--houses, rental property, commercial facilities, and personal vehicles. If industry is growing faster than student population in some districts, then these cost factors are not as strong and spending per pupil could decline.

In summary, the regression results do not offer any insight into millage growth, but they do suggest that industrial growth *does not necessarily or clearly increase the per-pupil resources of the school district*, and in fact may result in a decline if reductions in state aid because of higher taxpaying ability more than offset the increases in local per pupil revenue.

District size and growth of the industrial base

Somewhat similar conclusions emerge by re-sorting districts in terms of both size and growth of the industrial base. A composite variable was created that weighted the growth rate of DOR-assessed property by the 1997 share of that property in the tax base. A low score reflects either a limited industrial base, a slow growth rate, or usually both, while a high score means a large industrial share with rapid growth. There were fourteen districts with scores less than half the state average on this weighted industrial growth measure, 30 that were more than half but less than the state average, eighteen that were above the state average by up to 50%, and 21 that were more than 50% above the state average. Again, no clear pattern emerged for millage growth; average millage growth from 1987-97 was actually much lower in the slowest growth/least industrialized group of districts than the others. While there is no evidence that industrial growth lowers the mill rate, there is some sketchy but inconclusive evidence that faster industrial growth may raise the average mill rate. [Table 6](#) summarizes the growth rates for both millage and per pupil local revenue by size class in relation to the industrial growth measure just discussed. [Table 7](#) provides the same information by level of fiscal autonomy.

The per pupil local revenue results are also consistent with the regression findings. Per pupil revenue grew fastest in the group of counties that was up to 50% above the state average in weighted measure of industrial growth (up 80% between 1987 and 1997). The fastest growing group saw an average 42% increase in per pupil local revenue, while the slower-growing group of districts saw per pupil local revenue grow only 16% over the decade, and the slowest-growing group 33%. Again, the offsetting effect of distribution of state aid probably accounts for the fact that per pupil revenue grew faster with growth of the industrial base but was not translated into slower than average increase in the mill rate.

Mill rate growth generally is lower for larger districts than for smaller ones, but that pattern is much more pronounced for the mid-growth districts than for the slowest and fastest growth counties. It is particularly noteworthy that this

pattern reverses in the counties with larger industrial bases and/or faster industrial growth, where the millage rate grows more rapidly in larger districts than in smaller ones. If larger districts are more urban, this tentative finding may suggest that the state's more densely populated districts are closer to the national pattern observed earlier, where industrial development may actually increase rather than decrease property tax rates.

The pattern of local revenue growth per pupil is more consistent, with the most rapid growth in the smallest districts, regardless of what is happening to the industrial base. However, the growth rate is also consistently higher for districts with more rapid industrial growth, regardless of size, which is consistent with the regression results described earlier.

Growth and fiscal autonomy

The impact of industrial growth is likely to be different in districts with different degrees of fiscal autonomy. [Table 7](#) summarizes the findings on this question. Fiscal autonomy by itself does not have a great deal of explanatory power for either the local mill rate or the growth in per pupil revenue. Mill rate growth is actually *lowest* for the full autonomy districts, a finding that contradicts the expectations that unrestricted ability to raise tax rates will result in higher rates than in districts that do not enjoy that freedom. Local revenue growth, likewise, has been slower in districts with full autonomy than in those with limited or no autonomy. It is noteworthy, however, that the districts with the weakest/slowest growing industrial base showed more willingness to raise mill rates to fund schools than those with limited or no autonomy (up 43% compared to 26-27% over the ten year period).

In situations of rapid industrial growth, local revenue per pupil has increased more slowly in districts with full autonomy than in those with limited or no autonomy. For other size groups, no clear pattern linking growth rates and fiscal autonomy is evident.

Summary

This section examined a great deal of data to consider the impact of having a large industrial component to the tax base and/or experiencing industrial growth in a school district on such fiscal variables as the mill rate, local revenue per pupil, total revenue per pupil, and per pupil spending. These factors were considered overall as well as in relation to district size and degree of fiscal autonomy. In general, having more industry in the tax base appears to have a moderately positive impact in terms of lower mill rates and more local revenue per pupil, but the effects are not strong. In the case of economic growth, the benefits of additional local revenue are modest and more than offset by reduced state aid as a result of a higher index of taxpaying ability. Small, less industrialized districts appear to benefit more from new industry than larger, more industrialized ones. The relationship between fiscal autonomy and any of these effects of growth is tenuous at best, although there is some tendency to higher mill rates in districts with full autonomy.

Table 6			
Industrial Growth, Fiscal Variables and District Size			
Size Class	Mill Rate Increase 1987-1997	Growth in Per Pupil Local Revenue 1987-1997	Number in Class
1 (< 2000) ADM	46%	85%	16
2 (2 - 6000) ADM	47	75	36
3 (6 - 12000) ADM	35	67	18
4 (12 - 24000) ADM	46	60	8
5 (> 24000) ADM	35	48	5
3-5 combined (> 6000) ADM	38	62	31
By Weighted Growth Rate:			
Slowest Growth			
1 (< 2000 ADM)	26%	68%	5
2 (2 - 6000)ADM	41	65	4
3-4 (> 6000)ADM	27	53	5
Below Average Growth			
1 (< 2000 ADM)	61%	103%	6
2 (2 - 6000)ADM	41	52	12
3-4 (> 6000)ADM	44	54	13
Above Average Growth			
1 (< 2000 ADM)	78%	92%	3
2 (2 - 6000)ADM	67	93	9
3-4 (> 6000)ADM	23	62	6
Fastest Growth			
1 (< 2000 ADM)	34%	105%	3
2 (2 - 6000)ADM	40	98	11

3-4 (> 6000)ADM

47

85

7

Table 7**Industrial Growth, Fiscal Variables and Fiscal Autonomy**

Fiscal Autonomy	Mill Rate Increase 1987-1997	Local Revenue Growth 1987-1997	Growth in Per Pupil Number in Class
None	42%	77%	31
Limited	52	78	30
Full	37	69	22
By Weighted Growth Rate:			
Slowest Growth			
No Autonomy	26%	62%	9
Limited Autonomy	27	58	2
Full Autonomy	43	64	3
Below Average Growth			
No Autonomy	47%	64%	12
Limited Autonomy	60	54	10
Full Autonomy	27	66	8
Above Average Growth			
No Autonomy	27%	61%	4
Limited Autonomy	67	91	10
Full Autonomy	50	82	4
Fastest Growth			
No Autonomy	52%	105%	6

Limited Autonomy	36	97	8
Full Autonomy	39	68	7

IV. Property Tax-Based Economic Development Incentives

South Carolina's economic development program includes many types of incentives to help encourage a company to locate or expand in the state. Some incentives are designed to reduce a company's corporate income tax liability. Other incentives allow exemptions that can reduce sales and use taxes on various types of equipment and purchases. Still other incentives reduce a company's worker training costs. The list of incentives is quite extensive. South Carolina is well known in the economic development industry as being very successful and very aggressive in its economic development incentive packages.

Although the list of incentives in South Carolina is long and varied, the focus of this study is the state's incentives that affect property taxes and in particular, the property tax base of a school district. The impact on property taxes is critically important to schools because property taxes are the primary source of local revenue for schools. Other local governments, especially cities and counties, also depend on property taxes are affected by these incentives, but not to the same extent as schools. These other governments only rely on property taxes for an average of 50% to 60% of their local revenue portion of their budgets.

School districts in South Carolina receive a large portion of their funds from state sources, so property taxes only support a portion of total school funding. The average school district in South Carolina receives about 60% of the funds required for its operations from the state. This percentage varies according to how wealthy a district is, ranging from a low of about 1% for the wealthiest district to about 95% for the poorest district. But regardless of what proportion of funds are provided by the state, nearly all of the funds that are required to be generated locally must come from property taxes. In addition, almost all of the debt service and capital improvement expenditures for schools must come from local funds.

Therefore, since schools must rely heavily on property taxes to fund the local share of their operating costs and most of their capital improvement costs, any business incentive that affects the flow of property tax revenues is extremely important to school districts.

Relevant economic incentives

The following economic development incentives can affect the property tax base of a school district:

- Tax Increment Financing Districts (TIF's)
- Fee In Lieu of Taxes (FILOT)

- Special Source Revenue Bonds in Multi-County Industrial Parks

Tax Increment Financing Districts will only be addressed briefly in this report for two reasons. The first is that while TIF's are an important economic development tool, they are generally used for community development in cities and counties rather than direct incentives offered to attract new industry. (The original intent of the law was to redevelop blighted areas in decaying inner cities.)

Second and perhaps more importantly, the state laws for TIF's were amended in 1999 to allow school districts the ability to choose whether to participate in a TIF. Prior to 1999, a municipality could create a TIF and use school tax revenues for up to fifteen years without the consent of the affected school district. This opt-out provision gives school districts protection from having any property tax revenues generated by millage assessed by the school district being used for non-school purposes without the school district's consent. This change has not eliminated the use and effectiveness of TIF's. Several TIF's have been created in South Carolina since these changes were implemented. These TIFs have included some where the school districts have participated and some where they have declined.

The other incentives are used as direct incentives to attract new and expanding industry and schools have no voice or vote in their use.

The following outline summarizes the detailed descriptions provided in [Appendix A](#). The major elements of these incentives are as follows:

- **Tax Increment Financing (TIFs)**
 - Originally a potential loss of revenue to school districts
 - State law was amended in 1999 to allow School Districts the ability to choose to participate in a TIF or not
 - School Districts protected and have a "vote" in negotiations
- **Fee-in-lieu-of-Taxes (FILOT) --- Outside a MCIP**
 - Applies to manufacturing, not other classifications of property
 - Allows County Councils to lower Assessment Ratio from 10.5% to 6% (and as low as 4% in large transactions) without the consent of the affected school district.
 - Suspends ad valorem taxes and imposes "fees"
 - Can freeze millage rates for up to 30 years
 - School Districts generally protected but do not have a "vote" in negotiations
 - Tax revenue is distributed in same manner and proportion as millage rate, which generally protects school district's revenue from use by the County.

- **Multi-county industrial or business park (MCIP)**
 - Multi-county agreement; many have one dominant and one nominal county
 - No restriction on land area, time limit, or type of "industry or business"
 - Can have FILOT in MCIP
 - All real and personal property is exempt from ad valorem taxes, but "amount equivalent" to property tax is owed
 - County Councils assert the authority to determine how the "equivalent amount" is distributed among taxing districts, including all of FILOTS in the MCIP
 - School Districts are not protected

- **Special Source Revenue Bonds**
 - Are available in MCIPs and FILOTs
 - Can lower tax revenues to all taxing entities through "credits"
 - School Districts do not have a "vote" in negotiations
 - County Councils assert the authority to determine how the reductions affect taxing districts
 - School Districts are not protected

Illustrations of impact of incentives on school districts

As the following examples demonstrate, the FILOT within a MCIP and the Special Source Revenue Bond incentives pose the greatest threat to a school district's tax base. These two incentives can allow a county to redistribute the "fees" (tax revenues) generated by the taxing entities in any way they want, regardless of the relative share of the millage assessed by the taxing entities. That is, the school district is not guaranteed that it will receive its fair share (pro-rated share) of taxes from the property (regardless of the assessment ratio).

The following example may help illustrate this concept of "pro-rated" share. First, assume a manufacturing company invests \$10 million and the property is outside any municipality, is not in a MCIP and does not negotiate a FILOT agreement. Assume the mill rate in the county is 70 mills and the school district's millage is 140 mills for a total of 210 mills. The county's share of the total millage assessed on property is 33% ($70/210 = 33\%$) and the school district's share is 67% ($140/210 = 67\%$). Without a FILOT agreement, the company's property will be assessed at the constitutionally established 10.5% rate. The company's property will have an assessed value of \$1,050,000 ($\$10,000,000 * .105 = \$1,050,000$). The company will pay a total of \$220,500 in county property taxes -- \$73,500 in county taxes ($\$10,000,000 * .105 * .070 = \$73,500$) and \$147,000 in local school taxes ($\$10,000,000 * .105 * .140 = \$147,000$). The school district will receive 67% of the taxes paid by the company -- exactly in proportion to its prorated share of the total millage rate in the county.

If it is assumed that the company negotiates a FILOT agreement and the company's property is assessed at 6.0%, the company's property will have an

assessed value of \$600,000 ($\$10,000,000 * .06 = \$600,000$). The company will pay a total of \$126,000 in county property taxes -- \$42,000 in county taxes and ($\$10,000,000 * .06 * .070 = \$42,000$) and \$84,000 in local school taxes ($\$10,000,000 * .06 * .140 = \$84,000$).

Even though the company's assessment ratio is reduced so that it pays 43% less taxes, the school district will still receive 67% ($\$84,000/\$126,000 = 67\%$) of the taxes paid by the company --- exactly in proportion to its prorated share of the total millage rate in the county (67%).

The ability to reduce the overall property tax liability of the manufacturing company is the intent of the law, because South Carolina's property taxes on manufacturing property are the highest among our neighboring states. Even when a company negotiates an assessment ratio of 6%, the firm's property taxes will still be higher in South Carolina than in North Carolina or Georgia.

Originally, when the law was first passed in the late 1980s, the incentive was only available to companies investing at least \$85 million or more. However, the minimum amount of investment for a company to be eligible has been lowered several times over the last ten years and now is only \$5 million. In fact, in six extremely distressed counties, a minimum investment of only \$1 million is enough to be eligible for incentives. This reduction in the minimum investment level has led to a proliferation of FILOT agreements across the State.

The Horry County experience

The proliferation of FILOT agreements would not be as big a concern to the school districts and as big a threat to their tax base if school districts were guaranteed that they would always receive their prorated share of the property tax revenues. The FILOT within a MCIP and the SSRB incentives do not provide school districts this protection. The Ho Horry County case offers a good illustration of how the current laws allow a county government to unilaterally decide how the total property tax revenues are to be distributed and ultimately to divert school funds from school purposes and keep the schools from receiving their prorated share of taxes.

In the spring of 1999, the Horry County Council received a proposal by a large, local development company to create a MCIP. The proposal called for the creation of a Multi-County Industrial Park (MCIP) in the county and the City of Myrtle Beach covering approximately 4,000 acres. The proposal would create a MCIP for up to 30 years with an option to renew for another 30 years, facilitate the annexation of several thousand acres of land into the City of Myrtle Beach, freeze zoning and limit impact fees in the Park. However, the most important aspect of the proposal to the Horry County School District was that it called for the use 100% of commercial property tax revenues from the \$2 billion of investment to be diverted to non-educational purposes.

Under the original proposal, the school district would not receive their prorated share of revenues from the property (estimated to be 56.1%) but was to receive zero revenues (0%). Using the MCIP and SSRB laws, the proposal called for

the county to redistribute tax revenues generated by the school district's millage (113 mills) away from the school district and use them for non-school purposes such as road, sewer, water and other infrastructure improvements. It was estimated by the county that if the school district received their prorated share of the property tax revenues, the school district would receive over \$214 million during the first 20 years of the MCIP. However, under the county's plan, the district would receive nothing, *i.e.*, would lose a potential \$214 million. The original proposal has been amended and the county now proposes to redistribute only a share of the school district's revenue away from the district, not all of it. Under the current proposal, about \$25 million of the school district's prorated share would be redistributed by the county to non-school purposes (during the first 20 years of the 35-year MCIP). However, the school district is not protected from future amendments to the agreement by the county council.

Other Agreements

The Horry County case is a good example of how the school districts are not guaranteed that they will receive their prorated share of revenues from an economic development project as these laws are currently written. But Horry County is not the only current example. Another county in South Carolina was recently successful in attracting a major economic development project to their area. The company reportedly invested over \$600 million. Because the investment was more than \$400 million, the company was eligible to negotiate a FILOT assessment ratio of 4%, which it did (see Appendix A). Assuming \$600 million in capital investment, an assessment ratio of 4% and the 1998 average millage rate in the county of 225 mills, the company would pay approximately \$5.4 million a year in FILOT fees (property taxes). Of this \$5.4 million, the school district would receive approximately \$3.0 million.

However, the FILOT agreement negotiated by the county council requires the company to pay a net amount of only \$900,000 in fees to the county a year for the next 20 years and no fees at all for years 21-30. This fee agreement is equivalent to an assessment ratio of about 6/10ths of 1%. The county issued about \$15 million in SSRB's for improvements for the company. In essence, the county allowed the company to use its own tax payments to pay for some of its development costs. And the school district's millage was used to generate about two-thirds of these funds. According to the documents filed with the county, it is unclear if the school district will receive any revenues from the \$600 million investment. By comparison, Union Camp invested about \$600 million in a facility in Richland County in 1992. This firm has paid over \$41 million in fees in the seven years since it signed a FILOT, an average of almost \$6 million a year.

As part of this research project, the 46 counties in South Carolina were requested through a Freedom of Information Request (FOI) to provide documentation on all FILOT, MCIP and SSRB agreements that have been negotiated in their respective counties. To date, only 50% of the counties have responded to the request. However, based on the responses, the above examples are not exceptions but are fairly typical of many of the agreements counties are negotiating.

Growth in Use of FILOTs

The fiscal impacts on the state's school districts from these incentives are very difficult to determine. At the present time, there are no statewide requirements for counties to report the creation and use of multi-county industrial parks or the use of special source revenue bonds. The South Carolina Department of Revenue (SCDOR) collects data regarding FILOT agreements but does not publish detailed data on the agreements.

The frequency of companies negotiating FILOT agreements has increased dramatically in recent years. According to data from the SCDOR, there have been over 320 FILOT agreements negotiated since the law was passed in 1987. Since that time, the state has received approximately \$226 million from companies who have entered into FILOT agreements. In 1998, the state received about \$61 million in fees. The SCDOR reports that there are about 50 new agreements a year.

The minimum amount of investment required to be eligible to enter into a FILOT has been reduced from the original \$85 million, first \$45 million in the early 1990s and then in 1995 to \$5 million. This change has led to more widespread use of the incentive and has, for most practical purposes, eliminated the 10.5% assessment on new industrial property. At \$5 million, nearly any new capital investment by a manufacturer will be eligible for a FILOT. With the tremendous competition for new investment, most county councils will not be able to keep from offering the lower 6% assessment ratio.

Based on data from the SCDOR, during the five-year period from 1989 and 1994, there were about five FILOT agreements negotiated per year. The average amount of capital investment for these projects was about \$157 million and the average fee paid by these companies in 1998 was about \$1 million. This contrasts dramatically with the four-year period from 1995 and 1998 during which there has been an average of about 75 FILOT agreements negotiated per year. The average amount of capital investment for these 300 or so FILOT's was about \$15 million and the average fee paid by these companies in 1998 was about \$130,000.

SSRBs in South Carolina

Unfortunately, there is not much information on the use of SSRB's in South Carolina. At this time, it is unknown how many SSRB's have been used and how deeply they have impacted on the tax base of school districts. The information gathered from the FOI requests does not provide much detail as to amounts of SSRB's granted by the counties. However, the data do indicate that their use is increasing and that most counties are granting SSRB credits to new and expanding companies.

As the \$600 million example above demonstrates, SSRB's can be used to reduce a company's effective assessment ratio to less than 1% and legally can be used to reduce it to zero. Based on information collected from some of the counties, the use of SSRB's and credits is increasing in a similar manner to the use of FILOT's. For example, one county granted SSRB's for a five-year period equal

to 25% of the annual revenues to a company that was investing about \$20 million. However, in the first year, they granted a special, one-time credit of \$125,000. This effectively reduced the company's tax payment to zero for the first year. Thus, neither the county nor the school district received any tax revenue from this company for the first year.

The same county negotiated another agreement for a company making a \$200 million expansion. The company's facility was not in a MCIP so the county created one for the expansion. Since the company invested \$200, it was eligible to negotiate a 4% assessment ratio. Had the county not placed the company in a MCIP, the school district would have received its prorated share of the "fees" on the \$200 million assessed at 4%. Based on the district's 1998-99 millage rate, this would have generated about \$1.24 million a year for the school system. However, the county specified in the MCIP agreements that no other taxing entity except the county would receive any revenues from the new project in the MCIP. Therefore the school system will receive zero tax revenues from a \$200 million investment in the county.

Originally, the law allowed a bond to be issued by the county to fund infrastructure improvements for a new industry or an expansion. However, counties now have switched to the practice of reducing a company's annual property tax payment by giving the company a credit against their property taxes due. In some cases this has been as little as 10% of the tax liability and in others as much as 100%.

Since a school district's millage normally represents about two-thirds of a company's tax liability, this credit has the effect of reducing the school's property tax revenues. The extent of the reduction statewide is unknown but is obviously growing.

A major issue is whether schools have lost revenue because of these incentives. It is very difficult to say for certain. It is clear that the use of the incentives are widespread, and that many companies are paying lower taxes than they would if the FILOT and SSRB laws did not require the county to include the school district in its negotiations around the mill rate. However, many of the companies that have invested in South Carolina since 1989 and have taken advantage of these laws, may not have invested here and would have located in another state if these incentives had not been available. Hence, it is very difficult to determine the amount of school revenues that would have been collected statewide if the industrial property currently assessed at less than 10.5% rather than the lower FILOT levels.

Estimated revenue losses from FILOT agreements

Unfortunately, the lack of sufficient data prohibits a comprehensive analysis of the tax revenues that school districts have not received. At this time, the only data available are the approximate number of agreements and the total fees collected. To accurately determine the lost revenues, it is necessary to know the exact assessment ratios negotiated, the exact length of terms of the agreements, the exact mill rates incorporated in the agreements, etc.

A preliminary estimate of the total school revenues that would have been collected in the state can be made using available data. The methodology incorporated in this analysis assumes average mill rates for school districts, counties and cities. These averages are those published in the South Carolina Budget and Control Board's June 1999 edition of "1998 Local Government Finance Report, Fiscal Years 1991 to 1997." This analysis assumes that all fee agreements were negotiated from 10.5% to 6%. It also assumes that all of the property included in the FILOT was in unincorporated areas of the counties (industrial property is generally outside city limits).

Statewide, the average county mill rate in FY 1997 was 54.5 mills. The average school mill rate in FY 1997 was 136.3 mills. The school millage represents 71.4 percent of the total millage burden on real property. Of the \$226 million in fees collected to date, roughly 71.4% was generated by the mill rates assessed by the schools. Assuming the school districts received their prorated share of the fees generated from the total millage applied to the FILOT (71.4%), the schools would have received approximately \$161.4 million of the \$226 million in fees. The county governments would have received 28.6% or approximately \$64.6 million over the last ten years or so.

However, if there were no FILOT agreements in place, the real and personal property would have been assessed at the 10.5% ratio rather than the FILOT lowered ratio of 6%. If this had been the case, the property that has generated the \$226 million in fees since 1987 would have generated \$395.5 million instead of \$226 million. Of the \$395 million, school districts would have collected 71.4% or \$282.4 million – about \$121 million more than they received under the FILOT agreements. In 1998 alone, school districts would have received an additional \$52.5 million more than they actually did.

It must be noted however, that the economic development community argues that the schools did not forego any revenue. They argue that if the incentives had not been offered to the companies, then the companies would have located in another state, and the school districts would have received none of the roughly \$161 million that they did receive. There is substantial evidence that this is the case in many of the larger economic development projects. South Carolina's property taxes on manufacturing investments are substantially higher than our neighboring states. Without some method of offsetting the higher property tax burden on manufacturing, South Carolina would be in distinct disadvantage relative to its neighbors.

It appears that as long as the school districts receive their prorated share of the fees a company pays, regardless of whether the assessment ratio is 10.5%, 6% or even 4%, the burden on the school districts from any reduction in assessment ratios will be on a relatively equitable basis with the other local taxing entities. However, even this statement needs to be qualified since as was stated earlier, other local governments such as counties and cities are less dependent on property taxes than schools do. In addition, any incentive that lowers a company's tax payments needs to be evaluated on a cost benefit basis to the incremental burden placed on the schools and the local government by the new company and their employees.

V. Overview of other States' Incentives

From the information provided to this point, it is clear that concern is growing in South Carolina over the potential adverse effects of various economic development incentives used by state and local governments to stimulate economic expansion. In particular, the possibility of such programs impacting the ability of these governments to provide needed public infrastructure, including public schooling, has reached the level of public discussion. This heightened awareness has been partially stimulated by the on-going and much publicized discussion in Horry County between the Horry County Board of Education and the Boroughs and Chapin Company over a proposed long term Multi-County Development Project. Also, a recent five part series of articles in the *Baltimore Sun* focusing on the proliferation of state and local economic development projects, featured South Carolina as an example of excesses in this area. To quote:

"On its current course, South Carolina will deliver what incentives critics have been expecting for years: a striking case of incentives trauma. As the job war escalated, critics figured, eventually some state would give away so much tax revenue in the name of luring companies that it would jeopardize its fiscal health. South Carolina is that state."

With such dramatic prose being printed on the subject, it is not surprising that the discussion has risen to a new level in recent months.

Not only do the incentives remove potential revenue sources for funding infrastructure needs, but the associated employment and population growth generates ever-expanding pressures on existing facilities and programs. The question being asked is whether local governments have been utilizing the appropriate cost/benefit formulation when examining the desirability of such incentives. Current methods of evaluation tend to ignore the fact that new jobs in an area generate new residents to fill them, which is then followed by the need for new schools, roads, police, fire protection and other governmental services.

Of particular concern in the above discussion is the potential impact of the state's economic development incentives programs on the ability to provide adequate funding for public education. Recent occupants of the Governor's Office have made K-12 education a cornerstone of their administrations. Much discussion, planning and policy initiatives have centered on improving South Carolina's standing in various measures of success in public education. Such efforts are often discussed in terms of the positive impact that improvements in education will have on economic development. The potential conflict is thus obvious. Certain economic development tools (incentive programs) may adversely effect the success of efforts to improve another important element in this process (K-12 education). This is indeed the heart of the issue currently being played out in Horry County.

The purpose of this section of the report is to provide a summary of the evidence available on whether the above issue is viewed as significant for South

Carolina's neighboring states. Also, evidence was collected to see if any steps have been taken in these areas to protect school revenues from being eroded by development incentives. Information is provided for Georgia, North Carolina and Tennessee. To set the stage, trends in the financing of K-12 education are examined in the following section. Information is provided for the country as a whole, South Carolina, and the three neighboring states mentioned above. Following this, the situation is considered for each neighboring state in turn--Georgia, North Carolina, and Tennessee. We then consider the implication of this information for South Carolina.

Revenues and Expenditures for Public Elementary and Secondary Education

The average expenditure per student in U.S. public schools rose significantly during the late 1980's. Between 1985-1986 and 1990-1991, current expenditures per student in average daily attendance grew by 14 percent. This growth slowed significantly during the first part of the 1990's, increasing by 5 percent between 1990-1991 and 1996-1997. By 1996-1997, the estimated current expenditure per student in average daily attendance was \$6,564.

Revenues raised for public elementary and secondary education totaled about \$305 billion for the 1996-1997 school year. This revenue ranged from a high of \$34 billion in California, which serves, about one in every eight students in the country, to \$643 million in North Dakota, which serves about one in every 380 students. Nationally, revenues increased an average of 6% over the previous year. In the 1996-1997 school year, South Carolina had a total of about \$3.9 billion available for K-12 education from all sources. This total is smaller than that found for any of the neighboring states. Georgia had total revenues of 48.9 billion, North Carolina had \$6.5 billion and Tennessee totaled \$4.4 billion. However, these states had larger student populations.

On a per pupil basis, South Carolina's expenditures compare more favorably to its neighbors than do the total available revenue data. For the 1996-1997 school year, South Carolina spent \$5,050 per student as measured by the Fall 1996 student membership. This figure compares to \$5,369 for Georgia, \$4,929 for North Carolina, and \$4,581 for Tennessee. Thus, on a per student basis, South Carolina lags behind only Georgia in terms of K-12 spending among neighboring states.

Of particular interest to this study is the source of revenues for funding public (K-12) education. The U.S. Department of Education reports data on four specific sources of revenues for educational funding. These are:

Federal revenues include direct grants-in-aid to schools or agencies, funds distributed through a state or intermediate agency, and revenues in lieu of taxes to compensate a school district for nontaxable federal institutions within a district's boundary.

Intermediate revenues come from sources that are not local or state agencies but operate at an intermediate level between local and state educational agencies and possess independent fund-raising capability.

Local revenues include revenues from such sources and local property and non property taxes, investments, and revenues from student activities, textbook sales, transportation and tuition fees, and food service revenues.

State revenues include both direct funds from state governments and revenues in lieu of taxation. Revenues in lieu of taxes are paid to compensate a school district for nontaxable state institutions or facilities within the district's boundary.

Nationally, the state share of revenues for public elementary and secondary schools had grown steadily for many decades. This trend, however, began to reverse in the late 1980s. Between 1986-1987 and 1994-1995, the state share of total revenues dropped from 49.7 percent to 46.8 percent. At the same time local (and intermediate) share increased from 43.9 percent to 46.4 percent. The federal share also rose slightly during this period, from 6.4 percent to 6.8 percent.

The distribution of revenues by source for the states surrounding South Carolina varies a fair amount from these national averages. For example, school districts in all four states rely more on state revenues for K-12 revenues than the 46.8 percent national average for 1996-1997. North Carolina schools receive 65.4 percent of their revenues from state sources; Georgia's state share is 53.7 percent; South Carolina schools average 52.5 percent from state funds; and Tennessee gets 48.5% from state coffers. To a somewhat lesser extent, school districts in these states also rely more heavily on federal funding than do all schools nationally. For example, 8.5 percent of Tennessee's school funding and 8.4 percent of South Carolina's come from federal sources. The national average is 6.8 percent. North Carolina and Georgia follow with 7.2 percent and 6.8 percent respectively.

With state and federal sources playing a larger role in funding K-12 education in these southern states, it follows that the local shares are smaller than the 46.4 percent national average. Indeed, North Carolina drew on local sources for only 27.4 percent of primary and secondary funding during the 1996-1997 school year. South Carolina schools average 39.1 percent from local sources and Georgia total 39.4 percent locally. Tennessee was closest to the national average at 42.9 percent from local taxes.

While financial support for public elementary and secondary education has grown significantly in the U.S. in the past, the rate of growth has decreased during the 1990s. Also, there appears to have been a reversal in the trend for an expanding reliance on state funds for public schools to more responsibility falling on local taxpayers. However the four southern states reviewed all rely more heavily on state and federal dollars for support than do the rest of the country.

Development Incentives and School Financing: The State of Georgia

The State of Georgia lists a number of traditional economic development incentives on the home page of the Georgia Department of Industry, Trade and Tourism. Included are Income Tax Credits for job creation, investment

generation and other activities such as child care, retraining and skills education. These programs are based on a "tier" system which ranks the state's counties from the least to most developed and the tax credits being scaled accordingly. The state also offers sales tax exemptions for manufacturing materials and machinery, inventory, pollution control equipment, material handling equipment and electricity if it total 50 percent of product manufacturing costs.

With the traditional reliance of local funding for schools coming from ad valorem taxes on property, in particular real property, much of the concern about development incentives and public education funding is focused on those incentives that lower property tax payments to entice business development. In Georgia, there is no statewide property tax abatement program. The only property tax exemptions listed among the state's incentives are those that apply to computer software and manufacturer's inventories. In the case of industrial development bond financing, local communities in Georgia are sometimes able to offer companies property tax relief, depending on the type of Development Authority established and its legal powers. Such exemptions can occur if the Development Authority is a Constitutional Development Authority (set up by local constitutional amendments and given such power) and if the Authority is the legal owner of the property under a "sale and leaseback" arrangement. If the Development Authority does not have the power to grant exemption but does have legal title to the property, the property financed by industrial development bonds is exempt from ad valorem taxation, but the leasehold estate owned by the company is subject to property taxes. These taxes are lower than if the company actually had title to the property since the leasehold estate is assessed at a lower rate than titled property.

Given the Development Authority option, local governments in Georgia are able to employ property tax reductions and abatements to attract employers to their communities. It also appears that such incentives are used quite frequently by localities. In a report to the Georgia Budgetary Responsibility and Oversight Committee, Keith Ihlanfeldt listed four major concerns over local use of the property tax as a development incentive. These are:

The system pits local communities against each other which enhances the companies bargaining power relative to the communities. Thus, local areas may give away more than they would have without this competition.

The "playing field" is not even. Communities vary significantly in their ability to offer property tax incentive. Thus, communities which stand to gain most from job creation are those who can least afford the loss of property tax revenue.

There is at least a perception that some communities are offering abatements without the legal authority to do so.

There is a concern that some communities are trading better schools and other public services for jobs. This will adversely impact the long term future of the community and state.

The extent and nature of local property tax abatements and reductions for economic development purposes in Georgia is not known since there is no organized or central reporting mechanism. It is clear from the above, however, that the possible trade off between job creation and funding public schools is an issue of concern with the current development efforts in the state of Georgia. All four of the points highlighted above reflect this possibility.

In discussions with several individuals who follow educational financing issues in Georgia, it did not appear that this was a controversial item for debate or concern. One individual mentioned that in Georgia, areas could pass a local sales tax option with the proceeds to be used for building new schools. This option was viewed as a potential offset to any taxes lost through property tax abatements. Several of these same individuals were aware, however, of the discussion of these issues in South Carolina.

Development Incentives and School Financing: The State of North Carolina

Economic development incentives offered in North Carolina are outlined in the *William S. Lee Quality Jobs and Business Expansion Act* and administered by the North Carolina Department of Commerce. This legislation, passed in 1996, currently serves as the blueprint for economic development efforts in the state. Like Georgia, North Carolina has a tiered development strategy, which ranks counties by their development level and scales the development incentives accordingly. The incentives offered involved state level tax credits for investing firms based on such items as employment creation, investment in machinery and equipment, investing in central administrative office property, expenditures on research and development, plus credits for development zone projects.

At the local level, abatements or reductions in property taxes for development purposes are illegal and virtually non-existent. There have been a few situations where local governments have attempted to circumvent this law by offering partial rebates of tax payments to firms locating in their jurisdiction. It is believed, however, if this practice expands, its legality will certainly be tested in court.

Local governments are able to offer other forms of incentives to attract business to their area. They can and do offer land, roads, utility connections and other infrastructure support as economic development incentives. Local areas also benefit from the statewide income or franchise tax credits outlined in the first paragraph of this section. It is the case, however, that property tax abatements or reductions are not allowed in North Carolina.

Local infrastructure needs, including support for public schools, could be an issue as resources are diverted to support the location of new firms in North Carolina communities. However, the connection is less direct than a situation where property taxes are reduced to promote economic development. In discussions with individuals who are knowledgeable about economic development incentives in North Carolina, the pressure of local incentives on funding of public schools is not currently an issue of concern in this state.

Development Incentives and School Financing: The State of Tennessee

The State of Tennessee offers a variety of tax incentives for firms locating in the state. Included are a 1% corporate excise tax credits for the purchase, installation and/or repair of qualified industrial machinery, the purchase of qualified equipment associated with the required \$500,000 capital investment by a distribution or warehouse facility, and the purchase of computers, computer networks, and the like purchased to reach the required capital investment in order to qualify for the jobs tax credit. The state also provides a tax credit of \$2,000 (or \$3,000 in economically distressed counties) per new full-time employee for businesses that meet requirements of a minimum 25 new full-time jobs and additional capital investment of \$500,000 and offer at least a minimal health care plan. Reduced (or elimination of) sales and use taxes are also granted on a variety of business purchases such as certain industrial machinery and equipment and use of energy fuel and water.

The situation with respect to local incentives involving property taxes in Tennessee is similar to that found in Georgia. A local Industrial Development Authority can issue industrial bonds a project. As the legal owner, the Authority is exempt from property taxes. The local government then negotiates a fee-in-lieu-of-taxes with the firm which is below the prevailing real property tax rate. This practice is widespread in Tennessee with an estimated 90% of such activity involving manufacturing facilities.

Unlike Georgia, however, Tennessee has had a "disclosure law" covering such activities since 1992. Specifically, legislation passed in Tennessee requires:

"All economic development agreements should be reduced to writing and submitted to the chief executive officer of each jurisdiction in which the property is located and to the comptroller of the treasury, for review, but not approval. The agreement may be submitted in advance of its execution but must be submitted within ten days after its execution. The name of private business entities which are parties to the agreement may be obscured on copies of agreements submitted in advance of their execution. (Acts 1992, ch. 1000, para 3.)"

While this reporting requirement does not involve approval of such agreements, it could provide a method of keeping track of the pervasiveness of such activities and identify those areas where the funding for other local needs (such as public schools) might be at risk.

Thus, like Georgia, Tennessee has a local economic development system which could potentially endanger the ability to fund schools from local property tax revenues. Such discussion has recently occurred in Nashville where a package of both state and local incentives was put together to attract a Dell Computer plant. Concern centered on the relatively low average wage of the plant and the opportunity costs of the concessions given. To this point, however, the issue of school financing and local development incentives has not become an issue of major concern in Tennessee.

Summary

This section examined the relationship between local economic development incentives and funding of local schools for several southern states. The intent was to provide a brief overview of the economic development scene for South Carolina's neighbors and the degree to which public education funding may be at risk because of these programs.

All of South Carolina's neighbors have a similar portfolio of state level economic development incentives. In terms of local economic development incentives and property taxes in particular, differences do exist between this group of states. First, in North Carolina, abatements or reductions in real property taxes for development purposes do not exist. Other incentives can be offered, but tapping the local property tax base, which is a major source of school revenues, is not one of the choices. In Georgia and Tennessee, local development authorities become "owners" of the property and as such are not subject to property taxes. Reduced fees are assessed which in essence lowers the actual tax rate on the property of concern. None of the states contacted, however, had an economic development incentive program similar to South Carolina's multi-county business park with special source revenue bonds.

In terms of special protection for schools from local development efforts, no evidence of such regulations or policies were found. Discussions with local and state development officials did not turn up a real feeling of concern of this issue. As noted, Tennessee has had some discussion over the wisdom of certain large scale, high profile projects but none where the specific focus was on funding of local public education. Also, as one individual from North Carolina noted, South Carolina plays the economic development game with a much larger and varied set of development tools than any of its neighbors.

VI. Summary

The purpose of this report is to examine economic development incentives in South Carolina that reduce property taxes and in so doing so, may adversely affect a school district's ability to provide adequate funding for public education.

These incentives and their associated diversion of funds for economic development are one of the more recent economic development tools employed in South Carolina. Over the years, first the federal government and then state governments have utilized a variety of incentives to create economic opportunities for less developed or distressed regions. South Carolina is well known in the economic development industry as being very successful and very aggressive in its economic development incentive packages.

As noted in Chapter II, the efficiency and equity of such activities have come under increasing scrutiny and the study reviews the various arguments associated with this discussion. Of particular relevance is the observation that such incentives have historically been for distressed regions with low incomes and high unemployment. This may be less true today with more well-to-do areas

utilizing incentives to attract additional economic activity. Further, critics point out that such activities divert dollars from the improvement of public services which may have a greater social benefit than that associated with the development activity. This possibility could be particularly relevant for public education needs in rapidly growing regions of the state. In these areas, the pressure on public infrastructure (including public schools) is already significant. The additional demand created by the development activities plus the diversion of financial resources could potentially create significant problems for the future of school districts in these areas.

One way to approach this issue is to empirically examine the relationship between economic development and school finances. Since the objective of all development incentives is to promote economic expansion of the area, such data yields important insights into the process. Thus, Chapter III focuses on the impact of nonresidential development on school finances in South Carolina. Nonresidential (industrial and utilities) development is used since these are the sectors that economic development incentives are generally intended to impact.

A great deal of data is analyzed to determine if there is any strong statistical relationship between the size of an area's industrial base and /or growth of that base on fiscal variables such as mill rate, local revenue per pupil, and per pupil spending. It is observed that having a large industrial base seems to have a modest but positive impact with lower mill rates and higher revenue per pupil. In terms of industrial growth, the positive benefits of additional local revenue are modest and more than offset by reductions in state aid resulting from the higher index of tax paying ability. One of the more interesting results of this statistical work is that school districts in small, less industrialized areas appear to benefit more from growth than those in larger, more industrialized areas. The end result of this analysis is that little evidence exists supporting the notion that industrial development per se has a major impact on school financial variables.

As noted above, the focus of this report is on economic development incentives directed toward reducing the property tax liability of firms. This involves reducing the tax rate on local property for firms who are willing to invest in the area. By doing so, the property tax liability is reduced, the cost of doing business is lowered and firms are attracted to the area. The concern for schools is that basically all funds that are required to be generated locally must come from property taxes. In addition, the majority of capital improvement expenditures are similarly funded from property tax revenues.

The key property tax-based economic development incentives, which are examined in Chapter IV of the report, are Fee In Lieu of Taxes (FILOT) and Special Source Revenue Bonds (SSRB) in Multi-County Industrial Parks. To promote economic development, counties have interpreted that Article X of the South Carolina Constitution allows them to negotiate with a company to pay a Fee instead of paying property taxes. So manufacturing firms, who would normally be assessed at 10.5%, can enter into an agreement with a county to reduce its assessment ratio down to 6% without the knowledge or consent of the affected school district. This could even be as low as 4% for a very large investment. Originally, the law concerning FILOTs allowed such reductions for only very large investments (\$85 million or more). This amount has be lowered

over the years so that now such tax breaks are available for investment levels of only \$5 million (and as low as \$1 million in six counties).

However, research for this study found one South Carolina County had given a company such a large SSRB credit that it effectively lowered the company's assessment ratio to less than 1%. Another County negotiated a FILOT agreement with a company that was investing \$200 million and in the agreement, the county prohibited the school district from receiving any of the tax revenues from the project -- a loss to the school district of over \$1.24 million a year.

As the numerical example in Chapter IV shows, even though a negotiated FILOT incentive lowers the overall level of taxes paid by the company, school districts will still receive the same share of the "fees" paid as they would have received without the incentive. So a school district whose mill rate is 67% of the total will receive 67% of the Fees collected from the company. FILOTs have become a very popular economic development tool in South Carolina.

Of more concern to school financing in South Carolina is the use of FILOT agreements within Multi-County Industrial Parks (MCIP) and SSRB incentives. Here, school districts are not guaranteed that they will always receive their prorated share of the property tax revenues since the County Council negotiates the agreement and doesn't have to notify or have consent from the school district. Instead, it is possible to divert all or a portion of revenues that would have gone to the schools to support Special Source Revenue Bonds (SSRB) or other county expenditures. With SSRBs, funds from the bonds are then used to support the infrastructure investment associated with the development project (roads, sewerage, etc.). A much-publicized case in Horry County involves just this type of development proposal.

It is very difficult to estimate the impact of these incentives on the state's school districts. Preliminary projections in this study estimate that school district revenues would have been more than \$121 million greater than they were had all manufacturing property been assessed at the normal 10.5% rather than the lower 6% allowed by FILOTs. At the present time, there are no statewide requirements for counties to report the creation and use of multi-county industrial parks or the use of special source revenue bonds. Data is thus unavailable to even begin such an effort. Further, there is no definitive answer to the development community's argument that without the incentive, the schools would have received no funds since the companies would have located in other states. It is clear, however, that the use of FILOTs within MCIPs and using SSRBs puts the schools in double jeopardy in that not only is the pie smaller, but they are likely to receive a smaller share of that pie -- all without the school board's knowledge or consent.

The last topic covered in the report is a review of South Carolina's neighboring states' property tax related incentives (Chapter V). All of neighboring states examined (Georgia, North Carolina and Tennessee) have a similar portfolio of state level economic development incentives. This includes a variety of state business income or franchise tax credits tied to either investment levels and/or job creation. Also they implement a similar tiered or layered approach where the

size of the tax credit is inversely related to the economic vitality of the locale. That is, the tax credit increases for firms that locate in poorer regions of the state.

In terms of local economic development incentives and property taxes in particular, differences do exist between this group of states. First, in North Carolina, abatements or reductions in real property taxes for development purposes do not exist. Other incentives can be offered, but tapping the local property tax base, which is a major source of school revenues, is not one of the choices. In Georgia and Tennessee, local development authorities become "owners" of property and as such are not subject to property taxes. Reduced fees are assessed which in essence lowers the actual tax rate on the property of concern. None of the state contacted, however, had an economic development program similar to South Carolina's multi-county business park with special source revenue bonds.

The above results should serve as an alert to those concerned with public education in South Carolina. The study recognizes the many benefits that the citizens of the state have enjoyed as the result of past economic development efforts. Investment in public education has also been one of the tools of economic development and should be recognized as such. Thus, funding public education and economic development packages should be complements, not competitors, in this effort. What is needed is a more careful evaluation of the growing number of incentive packages in a true public cost/benefit framework so that the opportunity costs of foregone revenues and the additional demands on public infrastructure (including schools) are given appropriate weight in the decision process. An important first step in this process would be a more formalized reporting process involving the use of FILOT and SSRB so that such decisions can be made in the light of better data.

A second step should be to seek legislative changes in the economic development incentives law so that school districts will be better protected from the involuntary loss of revenues. A well-balanced incentive program should ensure this protection to the school districts while still preserving the State's highly successful economic development programs.

Appendix A

The following descriptions are verbatim excerpts from the South Carolina Department of Revenue publication; South Carolina Tax Incentives for Economic Development 1999 Edition, pp. 69-133.

1. Fee In Lieu of Taxes

Under Article X of the South Carolina Constitution, manufacturing real or personal property is assessed at 10.5% of its fair market value. Commercial personal property is assessed at 10.5%, while commercial real property is assessed at 6%. To promote the growth of manufacturing within this State, the Legislature enacted three Fee in lieu of property tax statutes (referred to as "Fee in lieu" or "Fee".) The first Fee in lieu statute was enacted in South Carolina

Code #4-29-67 and is commonly referred to as the "Big Fee." The second statute is contained in Chapter 12 of Title 4 and is commonly referred to as the "Little Fee." The third statute was enacted in the "Fee in Lieu of Tax Simplification Act of 1997" and is referred to as the "Simplified Fee." Special Fee in lieu provisions exist for very large investments. These provisions are known as the "Super Fee" with respect to the Little and Big Fee and as the "Enhanced Investment Fee" with respect to the Simplified Fee. Property subject to the Fee usually consists of land, improvements to land, and/or machinery and equipment (excluding some mobile property) located at a project. See South Carolina Revenue Rulings #93-7 and #97-21. The Fee statutes permit a company to negotiate to pay a Fee instead of paying property taxes. The 10.5% assessment ratio can be, and often is, negotiated to 6% (4% for very large investments under the Super Fee or Enhanced Investment Fee.) In addition, the company and the county can agree to freeze the millage rate applicable to the property at the current millage rate, or adjust the millage rate every five years, for the period the Fee is in effect. During the period of the Fee, the value of personal property is deemed to decrease each year by a statutory depreciation rate (subject to a 10% floor) while the value of real property remains constant, and therefore, is not subject to inflation. The period of the Fee is 20 years for each item of property (30 years for the Super and Enhanced Investment Fee) with an overall limit of 27 years (37 years or 40 years for the Super and Enhanced Investment Fee, respectively). The additional 7 years allows for a 7-year period to complete the project and have property at the project subject to the Fee and still obtain the maximum 20 or 30 years for each item of property.

Super And Enhanced Investment Fee

Both the Little and Big Fee contain a provision that allows certain entities to apply for a Super Fee. The Simplified Fee contains an equivalent provision, but calls it an

Enhanced Investment Fee. The Super or Enhanced Investment Fee may be equal to what the property tax would have been if the property was assessed at 4%. In addition to a possible assessment ratio of 4%, if a company qualifies for the Super Fee, the company has 8 years from the end of the property tax year in which the lease agreement is executed to make the investment required by the statute and may obtain 10 years to complete the project. If the company is under the Enhanced Investment Fee, the company has from 60 days before the county takes action identifying the project until 8 years from the last day of the property tax year in which the first piece of economic development property is placed in service to make the required level of investment and may obtain up to 10 years to complete the project. The first piece of property must be placed in service no later than 3 years from the end of the property tax year in which the company and the county enter into a Fee agreement. If the property is subject to the Super or Enhanced Investment Fee, qualifying property may be subject to the Fee for 30 years. For those projects placed in service in more than one year, the Fee is available for a maximum of 37 years for the Super Fee, and 40 years for the Enhanced Investment Fee. South Carolina Code ##4-12-30(C)(3) and (D)(4), 4-29-67(C)(3) and (D)(4), 12-44-30(9), (13), and (20), and 12-44-40(D).

The following types of companies may qualify for the Super or Enhanced Investment Fee:

1. A company which invests at least \$200 million, which when added to the previous investments, results in a total investment of at least \$400 million, and which is creating at least 200 new full-time jobs at the site qualifying for the Fee.
2. A company which invests at least \$400 million and creates at least 200 new full-time jobs at the site qualifying for the Fee.
3. A limited liability company in conjunction with one or more of its members which makes a \$400 million investment in a least developed or under developed county and which creates at least 100 new jobs with an annual average compensation of \$40,000 at the site subject to the Fee. (See South Carolina Code #12-6-3360, the job tax credit statute.) The company has four years from the date of the millage rate agreement to hire the new employees.

Additionally, a company which invests at least \$600 million in South Carolina can qualify for the Super Fee if it is using the provisions of the Big Fee for its Fee transaction. For purposes of the Little and Big Fee, the new full-time job requirements described in items 1-3 above do not apply to any company which for more than 25 years ending on the date of the agreement paid more than 50% of all property taxes actually collected in the county where it is seeking the Fee. For purposes of the Simplified Fee, if a company paid more than 50% of the property tax in the county for the 25-year period and invests \$400 million at the site (item 2 above), then it does not have to meet any new job requirement.

2. Multi-County Industrial Parks

South Carolina Code #4-1-170 provides that a multi-county industrial park can be established by two or more counties pursuant to a written agreement between those counties as provided in Section 13 of Article VIII of the South Carolina Constitution. That agreement must include provisions which address the development of the park, the sharing between the participating counties of the expenses and revenues relating to the park, and the manner in which such revenues must be distributed to each of the taxing entities within each of the participating counties. The park area is exempt from property tax. The owners or lessees of any property situated in the park must pay an amount equivalent to the property taxes or other fee in lieu of payments that would have been due and payable.

3. Special Source Revenue Bonds

In connection with a Little or Big Fee, a county (or municipality or special purpose district) where the project will be located may issue special source revenue bonds. These special source revenue bonds allow the political subdivision to generate revenue for infrastructure projects usually at or surrounding the project that enhance its economic development, and then to pay back the bonds with money it receives from the Fee payments from the project.

The rules regarding special source revenue bonds are contained in South Carolina Code #4-29-68. Special source revenue bonds cannot be used with the Simplified Fee.

To issue special source revenue bonds, the governing body of the issuer (or county) must adopt an ordinance calling for the issuance of the special source revenue bonds, hold a public hearing, and then pass a resolution authorizing the issuance of the bonds. The bonds must be issued solely for the purpose of providing infrastructure that benefits the issuer's economic development. Bonds may be issued for improved and unimproved real property on which the project will be located. The face of the bonds must provide that they are payable solely from the proceeds of the Fee, are not secured by the full faith and credit of the issuer, are not payable from any tax or license, and are not a pecuniary liability of the issuer or a charge against the issuer's general credit or taxing power. The bonds can be issued as a single issue or several issues. The bonds can be payable in installments. The bonds may be sold at public or private sale, and the expenses of the issuance of the bonds may be paid out of the bond proceeds. A county, municipality or special purpose district that receives and retains revenues from a Fee can also use a portion of the revenue received from the Fee for the purposes of providing infrastructure or providing unimproved or improved real estate for the project without the requirement of issuing special source revenue bonds. If the special source revenue bonds are issued to a third party, and the project should fail to generate the necessary Fee payments to pay off the bonds, the company that is subject to the Fee must make up any shortfall.

Appendix B

Most and Least Industrialized School Districts

District	Percent Industrial
Subgroup A	
Clarendon 3	7.2
Clarendon 2	8.5
Marion 3	8.8
Marion 4	9.4
Jasper	9.9
Florence 4	10.7
Barnwell 19	12.1
Saluda	12.4
Dillon 1	13.1
Lexington 4	13.2
York 4	14.0
McCormick	14.3
Spartanburg 1	14.5
Subgroup D	

Lexington 1	88.6
York 2	66.9
Fairfield	58.0
Greenwood 52	52.3
Spartanburg 3	50.3
Allendale	48.1
Spartanburg 5	45.0
Florence 5	44.0
Calhoun	42.4
Oconee	41.1
Cherokee	39.4
Darlington	39.2
Anderson 3	37.6
Barnwell 29	36.2
