

THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS



Economic Future of Some S.C. Counties Now More Tied to N.C. & Georgia Cities

*Economic Brief:
Circuit Breakers and
Tax Relief — Page 2*

*Fiscal Impacts of
Growth — Page 3*
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A quick glance at the U.S. Department of Commerce's new maps of the country's 172 economic subareas reveals that many South Carolina communities now have more in common economically with communities in neighboring states than with other communities in South Carolina.

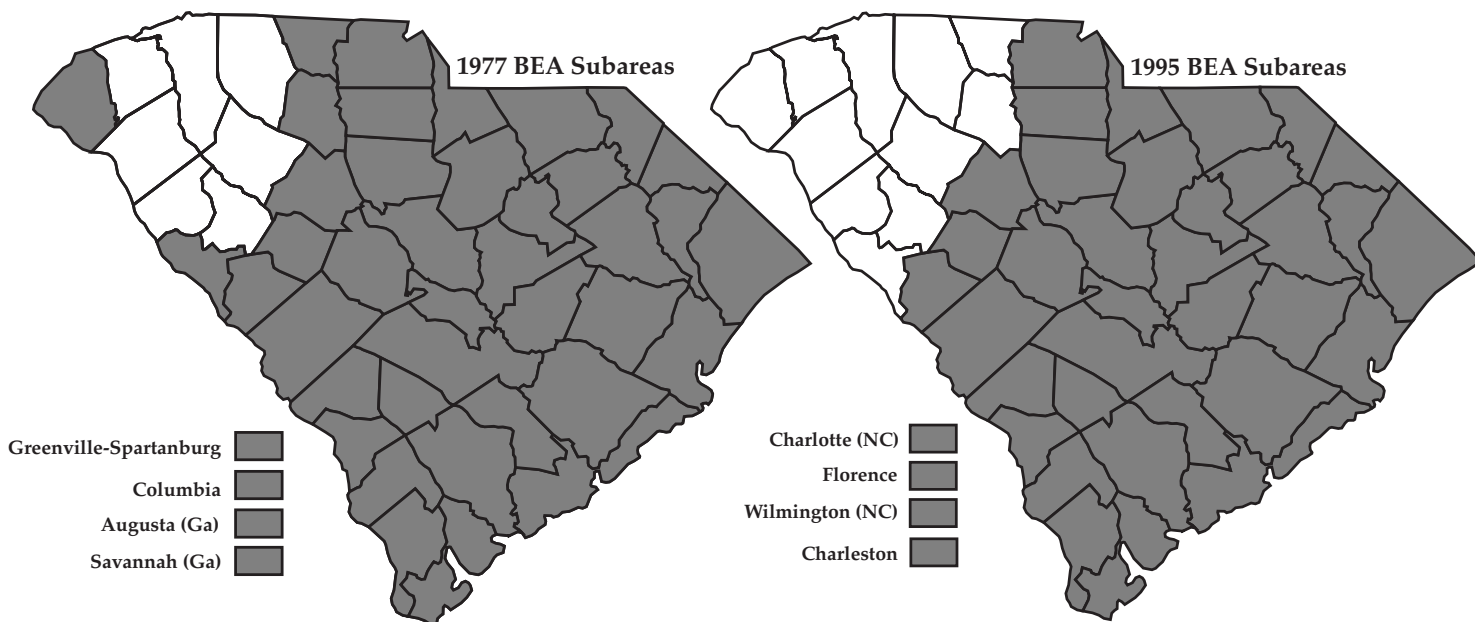
For the first time since 1977, the department's Bureau of Economic Analysis (BEA) has

redrawn the boundaries of the nation's 172 economic subareas—groups of U.S. counties with interlinked economies. Typically, a subregion is made up of a metropolitan node and its hinterland without consideration of state lines. Subarea boundaries are drawn to minimize the amount of cross commuting that occurs between subareas. Newspaper circulation and television markets

also play a role in defining the regions.

Greenville-Spartanburg, Columbia, Charleston, Charlotte, Augusta, Savannah, and Wilmington are the new metro nodes for South Carolina's subareas, a substantial change for the state. The biggest change is the elimination of the subarea around the city of Florence. Florence County along with most

*Continued p.4*



ECONOMIC BRIEF NO. 19

## *Circuit Breakers & Tax Relief*

This series of economic briefs explores fundamental concepts in economics and community and economic development.

The property tax is a tax on wealth and not on income. That can cause problems. Older homeowners with limited or fixed incomes sometimes have wealth in the form of houses or land that is worth a great deal on paper. If the house is taxed on the basis of its fair market value, they may have difficulty coming

short of eliminating property taxes. One alternative used in 35 states is something called a circuit breaker.

How does a circuit breaker work? It sets an upper limit on the percent of income that a residential homeowner is required to pay in taxes on an owner-occupied residence. If the

whose property taxes are high relative to income.

The present South Carolina homestead exemption for the elderly provides tax relief to everyone over 65, but not everyone over 65 has low incomes and high property taxes. Those younger than 65 get no relief whatever their need. Targeting property tax relief to those who need it is much less expensive than cutting everyone's property taxes in order to reach the poor.

Circuit breakers do not solve all the problems with the property tax. The property tax still can be inequitable, and it still would be payable annually in a lump sum. Circuit breakers can be hard to explain because they are more complicated than homestead exemptions or tax credits. But if the big concern over property taxes is lower income young families or retired couples whose taxes are out of line with their incomes, the circuit breaker is an efficient way to address the problem.

The following example illustrates one way a circuit breaker might be structured. Suppose the threshold for the circuit breaker is two percent of income and a homeowner has an annual income of \$30,000. Under the circuit breaker this taxpayer's property tax liability could not exceed \$600 ( $\$30,000 \times .02$ ). The homeowner would pay the \$1,000 and then file for a refund of \$400, the amount above the circuit breaker, on his or her state income tax.

up with the cash to pay the taxes. At the extreme, they may have to put the house on the market to obtain the cash needed for taxes.

No one likes to see people forced out of their homes of a lifetime because they cannot afford the property taxes. That possibility is one reason there is so much political activity to eliminate property taxes in South Carolina.

But there are alternatives that address this problem

property tax bill is in excess of that percentage, the homeowner gets a refund for the excess. The actual outlay in property taxes is limited to whatever percentage of income is below the circuit breaker threshold.

There are all kinds of bells and whistles that can be attached to circuit breakers, including relief for renters or a ceiling on the refunded amount. Each state's circuit breaker is a little bit different, but all target persons

***In furtherance of Clemson University's land-grant mission, the Community & Economic Development Program at Clemson provides access for community leaders in South Carolina to expertise in all branches of knowledge on the University campus.***

# Growth Not Always a Win-Win Situation

Your local Chamber of Commerce is undoubtedly interested in growth. More people, more sales, more jobs get the business community excited.

But is growth always a win-win situation for communities? The answer is: *not always*.

The old economic truism that there is no free lunch applies. Growth always entails costs to communities, and sometimes the costs are greater than the benefits.

According to Duke University economist Helen Ladd, a key factor in determining the impact of growth on local government—county, city and school—costs is population density. Ladd found that new residents do tend to reduce the per capita costs of current operations for local governments up to a density of about 250 persons per square mile. Beyond that level of density, per capita costs start to rise. And they rise very rapidly as population density increases.

The average population density in South Carolina is 115 persons per square mile, well below the density level that minimizes the cost of local government services. So growth in much of South Carolina can actually help hold down taxes.

Yet the largest and fastest growing South Carolina counties are close to or above the 250 person threshold [see

map]. If Ladd's research holds, one explanation for rising taxes in Charleston, Greenville, Richland and Spartanburg counties is that population densities have already reached levels where growth produces increasing per capita local government costs. And Lexington County is rapidly approaching such a density.

Ladd finds a lag between rising revenues, which come first, and rising expenditures. Thus there is often a brief "honeymoon" during which new residents seem like a bargain. The perception that growth helps hold down taxes, therefore, may persist for a while after the magic threshold has been crossed.

Ladd's research is probably not the last word on this matter. There is a need for more research on the subject. But what little economists know about the economics of growth suggests a caution flag should be raised.

Putting a lid on growth is not easy. Even when the total costs of growth are greater than the total benefits,

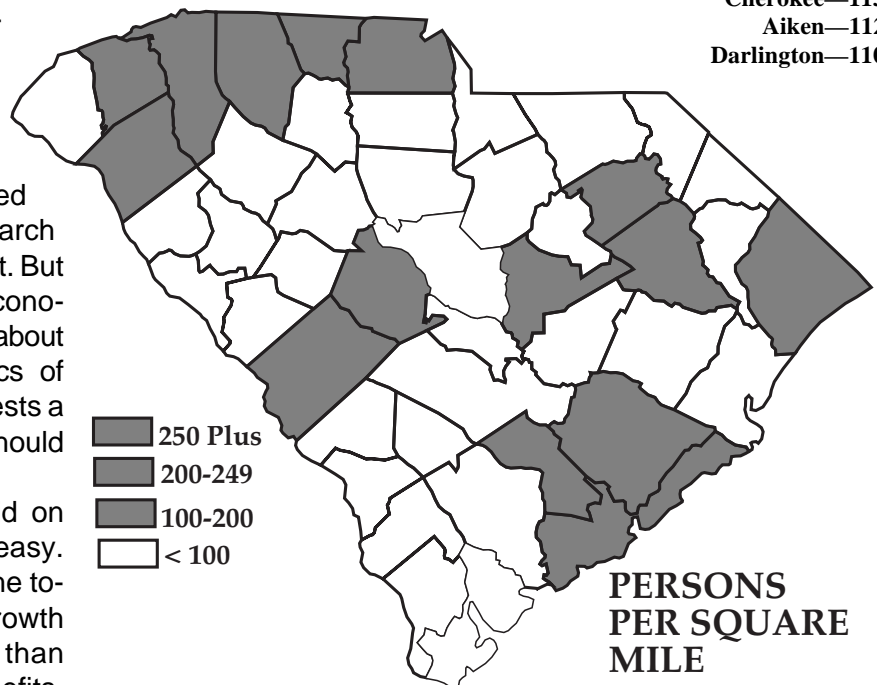
there are almost always some parts of the community that continue to get net benefits from growth. And even if a community was of one mind about stopping growth, there is no easy way to prevent newcomers from moving in.

Still, it is one thing to turn newcomers away, and another to aggressively try to attract them. If the state's policy is to roll out the red carpet, market South Carolina as a retirement destination, and lure more industrial and commercial development, citizens should be aware that their taxes are likely to increase unless the new growth is funneled to counties where population densities are still relatively low.

Source: Helen F. Ladd, "Population Growth, Density and the Costs of Providing Public Services," *Urban Studies*, Vol. 29, No. 2, 1992.

**PERSONS PER SQUARE MILE**

|                 |
|-----------------|
| Greenville—404  |
| Richland—378    |
| Charleston—321  |
| Spartanburg—280 |
| Lexington—239   |
| Anderson—202    |
| York—193        |
| Pickens—189     |
| Sumter—154      |
| Beaufort—147    |
| Dorchester—145  |
| Florence—143    |
| Horry—127       |
| Berkeley—117    |
| Cherokee—113    |
| Aiken—112       |
| Darlington—110  |



## Counties' Economic Future—From p.1

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of the Pee Dee counties including Horry and four North Carolina counties are now combined into a large subarea called Wilmington with Wilmington, North Carolina, as the node city. Chesterfield and Marlboro counties from the old Florence subarea have been reassigned to the Charlotte subarea.

McCormick County has become part of the Greenville-Spartanburg subarea, and Saluda County part of the Columbia subarea, both having been removed from the Augusta subarea. Beaufort and Hampton counties have been moved from the Charleston to the Savannah subarea.

What accounts for the changes? The completion of the interstate highway system has been a major factor, according to BEA officials who draw the maps. Changes in

air travel and airport service have also played a significant role. As a result the economic prospects of some South Carolina counties will rise or fall with what happens in Augusta, Charlotte, or Savannah and be little influenced by what happens in Charleston, Columbia or Greenville.

The new subarea configurations are a reminder that neither counties nor states have much significance in economic geography. Rather, economic regions consist of cities and their hinterlands.

Hinterland communities are limited in their economic possibilities unless the city to which they are attached prospers, and a city is limited unless its hinterland prospers. These facts must be taken into account in framing economic development strategies.

## Lovable and Livable Communities Theme For Oct. Conference

A *Lovable Communities* conference will bring together for the first time S.C. government agencies, nonprofits, and professional groups and their constituencies with a concern for improving the quality of life in the state. The conference will explore the ingredients and steps necessary to create not only livable communities but lovable ones.

Officials from Mt. Pleasant will discuss the city's efforts to deal with the challenges of sprawl. Mayor Joe Riley of Charleston and Randall Arendt, author of *Rural by Design* are confirmed speakers. John Gardner, founder of Common Cause, is an invited speaker.

The conference is scheduled for Charleston, October 25 to 27, 1995. For information contact the S.C. Downtown Development Association, P.O. Box 11637, Columbia, SC 29211 or call 803 256-3560.

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