

THE
COMMUNITY
LEADER'S
LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS

Questions & Uncertainty Surround November '98 Tobacco Settlement

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

Six months after the attorneys general of forty-six states struck a \$206 billion settlement related to tobacco litigation with the five major tobacco manufacturers, states have not yet seen any settlement funds. Nor have many of them made decisions about where to spend settlement dollars.

In South Carolina, as in other states, questions surround how to view this money. Should the state's \$2.3 billion dollars, to be received over twenty-five years, be considered a windfall to spend on any items on legislators' wish lists?

Should settlement monies be spent largely on health-related needs since the original suits were based on recovering Medicaid costs for monies states paid out to cover tobacco-related illnesses? What about funding smoking cessation programs and programs discouraging starting to smoke in the first place? The tax burden for tobacco-

related illnesses reaches \$440 million a year in South Carolina or about \$320 per household.

Often lost in these discussions is the impact of changing tobacco policies on tobacco growers. As consumption of tobacco products has been falling, so too have the pounds of tobacco that manufacturers purchase from growers under one of the few agricultural commodity support systems remaining. Not only are farmers under economic stress, but the effects of changing policies are also felt in the communities in which tobacco production is concentrated.

In South Carolina, for example, from 1992 to 1997 the number of farms growing tobacco fell from 1,965 to 1,275. Part of the decline is due to an increase in farms growing over 100 acres as some farmers growing under 10 acres are no longer planting tobacco. However, over the past two years pounds purchased by the tobacco manufacturers have declined 30 percent.

The consequences for the farmer as poundage purchased by companies has fallen are that as farmers vie to buy or rent allotments enabling them to grow tobacco, prices for these allotments rise. In addition, costs of production continue to increase. This means narrower profit margins for the farmer who often uses tobacco profits to cover losses in other crops.

The settlement does guarantee some relief to farmers under a part of the settlement known as phase two. The settlement specified that tobacco companies should negotiate with governors, attorneys general, and agricultural commissioners of tobacco states to provide some relief to tobacco farmers. The four major tobacco companies have agreed to pay out \$5.2 billion dollars over twelve years to compensate farmers for economic hardship. For a South Carolina

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ECONOMIC BRIEF NO. 35

Fiscal Changes & Asset Prices

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

Suppose a person is considering buying one of two identical houses in neighboring communities with much the same amenities and public services. While the buyer is meditating, the city council in City A approves a mill rate increase that adds \$500 a year to the tax bill without any appreciable increase in services. What will the buyer do? Buy the house in City B, of course. And so would anyone else. The housing market in City B will be booming, while houses in City A will languish for months in the real estate ads.

But that's not the end of the story. Market forces are at work. Over time, housing prices will decline in City A as desperate sellers cut their selling prices and savvy buyers offer lower bids. This price decline reflects the fact that each house in City A now comes with a bigger tax burden than before, and a bigger tax burden relative to houses in other nearby cities. That tax burden is incorporated in the price of the house, a process called capitalization.

Capitalization is not unique to houses. It can apply to any asset, such as a piece of land, a business, or an airplane. And it is not unique to taxes.

Changes in labor costs, gasoline costs, zoning, utility rates, road access, or dozens of other things change the stream of future income or amenities or costs associated with owning and using any asset.

So how much will the value of a house fall in this particular case? The answer lies in the concept of present value. The cost of owning the house has risen \$500 a year for the indefinite future. That's \$500 this year. It's not quite \$500 next year, because \$500 a year from now is less than \$500 today. You could put less than \$500 in the bank, earn interest, and have \$500 a year from now. If the interest rate was 6 percent, for example, only \$472 is needed today to have \$500 in a year and only \$445 to have \$500 in two years. So the amount that one would need right now to make tax payments of \$500 a year for 20 years is not $\$500 \times 20$ or \$10,000. It's only \$6,079.

If the \$500 goes on forever, the formula for the present value of all those future tax payments becomes very simple. It's just the annual \$500 tax payment divided by the interest rate, that is, $\$500 / .06$ or \$8,333. So this tax

increase will, other things being equal, reduce the value of the house in City A by \$8,333.

The burden of any change, such as a tax increase, affects the owner of the asset when the change is made, not future owners. Future owners will get to purchase the house at a lower price that reflects the obligation for future tax payments. Those who buy the house have little ground for complaint about high property taxes, because the burden of those taxes was absorbed by the previous owner whose house declined in market value.

Of course, if the tax increase were accompanied by better services, the fall in the house's value would be less. And if taxes were increased in City B at the same time, a buyer would have fewer alternatives, so the house's value would fall less. If a buyer deducts property tax on his income tax, the net payment in each future year will be smaller, and the impact on the price of the house will be less. But capitalization offers a rough guide to how much a particular change that will continue into the indefinite future can be expected to affect the value of an asset such as a house.

Turning Point Initiative Seeks Comments On Proposals to Improve Public's Health

As the country's health care system is changing, the demands on the system are changing, too. So, how does South Carolina meet the challenge of strengthening its public health system to meet these changes and new demands?

What happens as the state's population ages? What are the answers when HIV/AIDS becomes a chronic disease? How does the state respond to increased concerns about the effect of the environment on health? How can the public health system promote healthy lifestyles?

For the past year, Turning Point, a collaborative strategic planning process coordinated by the Department of Health and Environmental Control (DHEC), has been addressing these and other public health priorities along with public and private partners. Community advocates, state health officials, governmental leaders and members of the business, faith, medical, and academic communities have come together to study critical issues and to identify areas of cooperation and common interest among stakeholders. The planning initiative envisions a future with healthy South Carolinians living in healthy communities in a healthy environment.

Seven work groups, gathering the perspectives of over 140 state and community leaders, spent months researching, discussing, and proposing recommendations on critical issues. They focused

on community use of data, community involvement in setting priorities, the link between the environment and health, promoting health through partnerships with the faith community, population health improvement, and the medical and public health care systems.

A statewide public input process included a statistical survey of over 800 South Carolinians, twenty-six focus groups with community organizations, thirteen focus groups with DHEC district public health management staff, and 130 key informant interviews. Nine national experts also provided consultation.

Finally, the Turning Point steering committee reviewed and organized committee recommendations into a draft report. Now it is time to hear from the citizens of South Carolina.

The steering committee wants to know by October 1, 1999:

- Will the recommendations improve the public's health?
- How can they be implemented?
- Are there obstacles to implementation?
- What needs to be added to the list?
- What needs to be changed?
- What is already going on that Turning Point can build on?
- What measures will help to track change?
- What commitment organizations and individuals are willing to make in support of the recommendations?

The draft report is located on Turning Point's Web page at www.state.sc.us/dhec/turnmain.htm. It's possible to comment through the Web page. For a printed copy of the draft report, contact Turning Point liaison, Jerry Dell Gimarc, Office of Planning, DHEC, 2600 Bull Street, Columbia, SC, 29201; phone 803.898.3325; e-mail gimarcjd@columb20.dhec.state.sc.us.

The report's nine pages of recommendations are followed by well-organized comment sheets for the reader's convenience. A margin note is provided with each recommendation, so readers can easily understand the focus of the statement.

Major themes emerging from the Turning Point effort are:

Agencies and organizations must change how they work with and within communities and how they work together.

Some programs should be changed to allow more timely and substantive community involvement.

Community members, community organizations, and health agencies need better data and access to data in order to guide and monitor health improvement in local communities and in the state.

All agencies and organizations that influence a community's health share responsibility for improving the public's health. The state must have overarching goals to improve health,

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Turning Point's vision:

To transform and strengthen South Carolina's capacity to protect and improve the public's health by merging professional expertise and community wisdom with political will.

The Turning Point initiative is part of an ongoing state and national process to strengthen the basic supports for improving community health.

South Carolina's 1996 "Study of the Future of Public Health" provided a platform for concrete planning on how to get to where the state needs to be in the 21st Century to ensure a healthy South Carolina.

COMMUNITY
AND
ECONOMIC
DEVELOPMENT
PROGRAM

CLEMSON
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THE COMMUNITY LEADER'S LETTER

The Community Leader's Letter is the quarterly newsletter of the Economic and Community Development Initiative at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, the S.C. Agricultural Experiment Station, the College of Business and Public Affairs, and the Office of Public Affairs. Program offices are in the Institute building.

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Questions and Uncertainty Surround . . . (From p. 1)

producer, that amounts to about 30 cents a pound per year to be divided between the grower and allotment holder by a yet-to-be-developed formula. The state's total is \$360.7 million.

Turning . . . (From p. 3)

and state agencies and organizations must work as partners with communities to attain them.

Leaders in public health, both professional and lay, must be equipped with the knowledge and skills critically needed to improve community health through expanded training.

Turning Point has been dedicated to seeing that the policy-making process for improving the public's health has been an open one. South Carolinians now have the opportunity to respond to important questions about the future of the public's health. Will their voices be heard?

Health groups were hoping for some such guarantee of funds for their concerns as the federal government recently debated whether to exercise its prerogative to claim some settlement funds. The federal government provides states with 57 cents of every Medicaid dollar. Efforts by health groups to have Congress require that states earmark 25 percent of the settlement funds for health-related expenditures failed recently as Congress waived the federal right to claim part of the settlement dollars.

So, when will the states see the money? Farmers' phase two money was expected about now, but tobacco companies have now backed off presenting final agreements

to the states until December. Although South Carolina's attorney general signed off on all settlement documents early on, complications in other states are delaying the state's money. States must receive the money by July 1 of 2000.

Meanwhile in South Carolina, supporters of tobacco interests have filed a bill to allocate 60 percent of the state's \$2.3 billion dollars: 50 percent for relief to farmers and 10 percent for programs to discourage youth smoking. State health groups are advocating a comprehensive tobacco use prevention program, expansion of medical coverage for underinsured children, support for health issues surrounding education, and establishment of a foundation for health-related grants to local communities.