Property Tax Base Erosion: A South Carolina Study

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 Much has been learned in the literature about property tax base erosion in larger states. However for the most part, the research is limited to states with more urban populations than states like South Carolina. To address this gap, this research investigates two sources property tax base erosion in South Carolina including property tax incentives for business location and property tax exemptions for nonprofit organizations.

State and local governments use several types of property tax incentives to attract new and expanding firms. The use of property tax incentives has resulted in local governments foregoing billions of dollars in tax revenue annually with limited fiscal impact analysis. A survey method with embedded interview approach was utilized to determine that the local government impact analysis of property tax incentive use is not adequate in South Carolina. A study of two large scale development projects appears to support findings in the literature that businesses value attributes like infrastructure and the presence of a qualified labor force over property tax incentives.

Property tax exemptions for nonprofit organizations primarily impact municipalities. South Carolina municipalities have the authority to decide which organizations receive property tax exemptions. Many nonprofit organizations provide valuable charitable services while others serve a narrower client base. Some nonprofit organizations are large consumers of municipal services and others do not own property. This research finds a significant fiscal impact of property tax exempt land across the thirty most populated municipalities in South Carolina.
DEDICATION

This dissertation is dedicated to the following people:

- My Lord and Savior, Jesus Christ. Philippians 4:13 states, “I can do all things through Christ who strengthens me.” My achievements should serve as evidence of His strength and guidance in my life.

- My wife, Leanne Wickliffe Keisler, who has supported me through this process with grace, unfailing love, motivation, and encouragement when I needed it most. She is simply incredible.

- My child, Olivia, who has provided a lot of joy when I needed it and plenty of timely distraction. She is growing into a wonderful little girl.

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- My wife’s family, particularly Kay Price who has displayed patience and tireless assistance with our daughter while I commuted and conducted research.

- Holley Ulbrich in honor of her marvelous career in academia and her admirable commitment to her students and meaningful research.
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CHAPTER ONE

INTRODUCTION

The importance of the property tax to local governments, equity effects of tax base erosion, and the research gap in rural states are the motivating factors for this research. The property tax is important to local governments in South Carolina and base erosion reduces their ability to raise revenue. The property tax represents 27 percent of own-source local government revenue in South Carolina. Base erosion redistributes the burden of taxation in ways that are not always equitable and that lead to more resentment toward the tax.

A research gap on tax base erosion exists in rural states. The issues in South Carolina are similar to those in more urban states, but it plays out differently in a state of largely rural counties and small municipalities. There are six metropolitan, 90 urban, and 174 rural municipalities in South Carolina under Census Bureau guidelines. The 30 largest municipalities in the state have populations ranging from 12,000 to over 130,000 residents.

This research deals with urban counties in a rural state when studying property tax incentives for business location and the impact of property tax exemptions for nonprofit organizations on larger municipalities in a state of small towns. Nonprofit organizations tend to locate in more populated municipalities to achieve critical mass, but they also serve the surrounding rural areas. The fiscal costs associated with both policies are localized while the benefits are widely dispersed.
There are 270 incorporated municipalities in South Carolina. Only 19 municipalities have a population greater than 20,000 residents and 124 municipalities in the state have populations less than 1,000 residents. The overwhelming majority of municipalities in the state are rural. Metropolitan areas in the state quickly give way to urban and then rural areas.

One of the economic development projects studied in this research, BMW, is centrally located between two of the largest municipalities in the upstate of South Carolina. The City of Greenville is 16 miles away from the BMW facility and boasts a population of 58,409. The City of Spartanburg is 17 miles away from BMW and has a population of 37,013. The closest urban municipality is Greer, which is 5 miles away with a population of 25,515. However, more rural communities like Lyman (5 miles away, population 3,243), Duncan (4 miles away, population 3,181) and Wellford (6 miles away, population 2,378) are affected by BMW’s presence.

In South Carolina an interdependence is present between rural residents and more populated areas. Rural counties are often bedroom communities or locations for secondary suppliers to manufacturers in urban and metropolitan areas. South Carolina is demographically different from the places where base erosion has been studied but similar to a large number of states, especially in the South and the intra coastal West.

Much of the current literature about property tax base erosion has been completed in larger states with more metropolitan and urban areas. To address this gap, this research investigates two sources of property tax base erosion in South Carolina including
property tax incentives for business location and property tax exemptions for nonprofit organizations. These policies are evaluated for efficiency, equity, and revenue adequacy.

This research addresses four major research questions. Three research questions are addressed in Chapter Five, Property Tax Incentives for Business Location. The first question addresses whether firms value infrastructure and a qualified labor force over tax incentives when deciding where to locate and/or expand operations. The second question focuses on whether local governments in South Carolina conduct adequate impact analysis when using property tax incentives for business location. The third question is addressed in Chapter Five and asks whether incentives are primarily offered to new firms or existing/expanding firms. Chapter Six, Property Tax Exemptions for Nonprofit Organizations, addresses a singular quantitative research question: what is the fiscal impact of property tax exempt municipal land across the thirty most populated municipalities in South Carolina?

Before exploring the policies in South Carolina that lead to property tax base erosion, a firm understanding of property tax reform, the historical and institutional context, what constitutes a tax base, and the research methodology must be established. The remainder of this chapter focuses on property tax reform, features of the property tax, and how property tax revenue systems are evaluated. Chapter Two provides an overview of institutions that are relevant to this research, property tax revenue in the public sector, and the property tax revenue system in South Carolina. Chapter Three defines what constitutes a tax base and discusses forms of tax base erosion. Chapter Four provides detail of the research methodology utilized in this research. Property tax incentives for
business location and property tax exemptions for nonprofit organizations are then explored in Chapters Five and Six, respectively. Chapter Seven concludes this manuscript with policy recommendations based on the findings in this research.

Property tax reform

Property tax reforms over the last three decades have reduced state and local reliance on property tax revenues in many ways. California’s Proposition 13 in 1978 brought sweeping nationwide changes that have lasted for last 35 years with only limited modification. The initial movement reduced the escalation in real property assessments and placed limits on the rates that local governments could levy. Throughout the 1980s and 1990s, many states limited the growth of the property tax by enacting property tax relief programs such as assessment limits, expanded property tax exemptions, and expanded economic development programs that included property tax incentives for business location.

Many property tax reform policies transfer fiscal responsibilities from local governments to the state government, which fundamentally changes the relationship between the layers of government. As local governments become more dependent on state aid, local autonomy may suffer. This research examines two policies in South Carolina that lead to issues of policy efficiency, equity, and local government revenue adequacy as well as local autonomy challenges.
Property tax as a revenue source

Property taxes have consistently been used as a primary way to finance local governments in the United States. The property tax first appeared in South Carolina in 1865 (Fisher, 2002). By 1902, property taxes totaled 45 percent of state government revenues and 68 percent of combined state and local revenues in the United States. By 1992, property tax revenue represented only 1.2 percent of state revenues and 18 percent of combined state and local revenues (Wallis, 2001). However, from 1992 to 2010, the per capita property tax increased by 66 percent across the Southeast, 100 percent in the United States, and over 130 percent in South Carolina as illustrated in Table 1.1 (United States Census Bureau, 2011).

The property tax remains a significant source of local general revenue in South Carolina and throughout the United States. In 2010, the property tax accounted for 27 percent of local general revenue in South Carolina and over 29 percent for United States. Some states that place restrictions on property taxes have attempted to offset the revenue loss with increased state aid. Despite being a substantial local general revenue source, state aid has remained flat or decreased slightly over the last twenty years for the United States. State aid still represents approximately 30 percent of the municipal revenue base in South Carolina, but is not an area where revenue growth has occurred or is expected to occur in the near future.

The overall decline in the economy as a result of the Great Recession reduced revenue from local sales and income taxes. These taxes are generally less reliable in supplying own source revenue for local governments during economic downturns than
property taxes, which provide a more stable revenue source because property values are generally more stable. Thus, the anti-property tax measures enacted in the last three decades have undermined the fiscal stability of local governments.

**Salient features of the property tax**

Property taxes are different from other types of taxation. For all other taxes, lawmakers establish rates that change infrequently. Revenues will then fluctuate based upon changes in the size of the tax base and constituent behavior. Local governments set the property tax rate each year based upon revenue needs and the value of taxable real property. When property is removed from the tax base while the budgetary requirement remains the same, the mill rate must be increased for the remaining property (Brody, 2002). If rates were not increased, municipalities would not meet their revenue goals for service provision. With increases in the share of exempt property, nonexempt property owners observe increased property tax rates in order to maintain or expand service levels, and local governments rely on an increasingly narrow property tax base.

There are many different kinds of property that can be taxed. The three broad categories of property are land itself, improvements to land like buildings, movable personal property like vehicles, and intangible property like ownership in a firm. Land and land improvements can be combined into real property. This research focuses on erosion of the real property tax base.

Weaknesses of the property tax include taxing only a narrow base of wealth, benefits from services funded by property tax revenues that are not proportional to the value of property taxed, and rising home values that may also drive up taxes without
corresponding increases in the demand for or cost of public services. The property tax is also a salient tax that is billed annually, unlike the income and sales tax. This salience makes the property tax unpopular among property tax payers.

**Tax revenue system evaluation criteria**

The three most important qualities of a tax revenue system are efficiency, equity and revenue adequacy. Efficient systems minimize unintended distortions. Equitable systems are fair. Tax revenue systems should also be administered in a manner that controls collection and compliance costs to raise adequate funds to provide the desired level of public services.

Scholars have explored local revenue adequacy, efficiency, and equity in relation to tax base erosion for urban areas (Brody 1998, 2002, 2007, 2010 a, 2010 b; Cordes, Gantz, and Pollak, 2002; Kenyon and Langley 2010; Kenyon, Langley and Paquin 2012), but very little research has been undertaken in states the size of South Carolina. These issues have both commonalities and differences when explored in more rural areas. Local governments and their residents, regardless of population size, are affected by state restrictions on property taxes and state requirements for property tax incentives business location. Rural and suburban local governments often have fewer alternative resources to tap than more urban governments (Brody, 1998). Efficiency, equity, and local government revenue adequacy are central to the evaluation of the impacts of policies and programs that create property tax base erosion.
**Efficiency**

Policymakers must be careful not to distort citizen decision making processes in the market. Efficient policy is defined as policy that provides incentives or disincentives for citizens to behave in a desired manner without distorting other behaviors. The possibility of distortion resulting in inefficiency should temper the use of market intervention broadly. However, due to market failures, or the tendency of a market to overproduce certain goods while under producing others, the need for policy intervention exists. For example, throughout the last three decades, the housing market has had a tendency to overproduce luxury homes while affordable housing was under produced. In terms of economic efficiency, the quantity being produced was not an issue, but the variety of housing options created a market failure. In response, the federal government provided subsidies and incentives for affordable housing to prevent massive shortages and homelessness. This policy correction was successful because it resulted in the building of more affordable housing.

Efficiency in taxation requires that taxes minimize unintended influence on private economic decisions. An inefficient tax causes taxpayers to adjust their market behavior, which may shift the ultimate burden of the tax to others or may lead to them seeking to avoid the tax all together (Bell, 2012). Fisher (1996) adds that as economic actors adjust their behaviors to shift or avoid the tax, the tax has distorted private economic decisions and the economy is moved to a less efficient welfare situation. A simple tax system with a broad tax base and few tax exemptions, deductions, and credits with low rates is the best method to avoid inefficiencies (National Conference of State
Legislatures, 2011). The property tax does not distort short run market behavior relative to income and sales taxes because most property is immobile and cannot easily be hidden. As a tax becomes more complex, the odds of causing distortions increase (Bell, 2012). Administrative and compliance costs also increase with a more complicated tax system.

Efficient governments try to raise revenues at the lowest possible costs (Wallis, 2001). For local governments, the property tax has the lowest marginal cost because it can be utilized as a benefit tax. Local residents can see property tax revenue being used in local schools, roads, and other infrastructure projects and are more likely to approve of the taxation. Local government expenditures can also raise local property values and generate additional property tax revenues (Fischel, 2000).

Equity

Equity is defined as some agreed upon notion of fairness in the distribution of costs and benefits among groups of citizens while balancing the needs of present and future generations (Ulbrich, 2011). Equity is a normative concept and should not be confused with equality. Society allocates resources quite unequally. Some inequality is earned and some is inherited. Most movements toward less inequality, particularly movements that create opportunities for the disadvantaged, can be seen as a move to improve equity.

Markets are primarily driven by efficiency resulting in unequal outcomes. Government usually inherits the responsibility to address inequality and is inherently redistributive through its policymaking process (Whether the goal of any intentional
redistribution should focus on equality of opportunity or equality of results is the subject of great debate). Equality of opportunity means providing education, access to health care and other basic services that allow individuals to develop into and remain productive adults. Equality of results seeks to reduce the disparities in income and poverty. Some needs that arise from these disparities are immediate and cannot wait on education or training. Some needs are long run and can best be addressed with providing equal opportunities. A simultaneous approach of both strategies is ideal, but political and budget limitations cause policymakers to fill the most immediate needs while delaying many long run strategies (Ulbrich, 2011).

When policy is formed and adopted, there are policy winners and losers. Recipients of corporate handouts, farm subsidies, and special tax breaks gain benefits while the fiscal costs of those policies are more broadly distributed. There is also redistribution from the rich to the poor through income taxation. Government is a powerful tool for redistribution. This power must be guarded from groups that seek to affect policy to their advantage.

The concept of equity is rooted in the ethical concept of justice, which comes in the following three forms: retributive, restorative, and distributive (Ulbrich, 2011). Retributive justice requires penalties for acting in a manner that harms others. Restorative justice establishes a way to compensate a person harmed. Distributive justice involves providing access to the necessities of life without regard to ability to pay. This research examines equity through the lens of distributive justice.
Defining equity in policy has been a central debate among economists and policymakers with few definitive answers. Theoretical models have largely guided the process. Rawls (1971, 1993) provides a decision framework to design a system to distribute opportunities, resources, and rewards among workers, non-workers, old and young, productive and unproductive, skilled and unskilled. Rawls’ “veil of ignorance” requires decision makers to think about how to design a system of incentives and rewards without knowing where he or she will be located in the system once it is in place. This thought experiment results in protecting those that find themselves most vulnerable (Ulbrich, 2011). People with fewer skills, less education, or the disabled may be unable to provide for themselves and should be the initial recipients of policymaker focus when addressing issues of equity.

**Revenue adequacy**

While designing a tax system that achieves both equity and efficiency makes for a good revenue system, it is also important to design a system that draws from a diversity of sources to provide adequate funding for public goods and services. Public revenues are different from private sector revenues (Ulbrich, 2011). Private sector revenues and expenditures are closely linked. Funds come onto a balance sheet and are tied to expenditures and profits. Government revenue systems must generate adequate funds to pay for the desired level of public services. Public revenues are much more difficult to track as they are not directly tied to expenditures. Revenue in the public sector can meet, exceed, or fall short of the fiscal need to provide the desired level of public services. Public officials with excess funds are likely to find pet projects and face the possibility of
expenditure limitations placed on them by the public. Poor budgeting and lower than expected tax revenues can lead to budget shortfalls and the inability to provide the desired level of public services.

Service demand is tied to population growth and changes in income (Ulbrich, 2011). Citizens with increased income may begin to demand more services as private consumption rises. As areas increase in population, costs naturally rise across a broader service base. Economic factors like inflation also drive up public service costs. Each of these factors may cause service costs to outpace revenue levels. A disjunction between generating public revenues and public service demand only perpetuates the problem. When policymakers change the way public revenue is collected, it affects revenue adequacy. When shifting between revenue sources, policymaker’s most important role is to be good stewards of revenue and ensure that adequate funds are collected from reliable sources across a broad tax base in the most efficient and equitable manner.

Property tax base erosion in South Carolina

The impact of property tax exemptions as economic development incentives for business location, for nonprofit organizations, and property tax relief on the property tax base is an important and ongoing policy challenge in South Carolina. This research will examine issues of efficiency, equity, and local government revenue adequacy across two policies that create property tax base erosion in South Carolina. Property tax incentives for business location and property tax exemptions for nonprofit organizations have greatly expanded in South Carolina. As more property leaves the property tax base, the tax burden on remaining taxpayers increases.
Business location incentives

The use of property tax incentives for business location as a strategy for state and county government economic development has been a prevalent practice for the last thirty years (Wallis, 2001). Although incentive programs have continued to expand in the last 30 years, there is little evidence to support their validity and effectiveness. Research indicates that these incentives increasingly do not matter significantly in business location decisions (Bartik 1985, 1991, 1994; Papke, 1991; Zheng and Warner, 2010).

State economic development policies often drive tax incentive programs used in economic development projects, but local governments bear the brunt of the costs through services demand that may exceed any additional local property tax revenues captured from the incentivized project. The benefits of new businesses locating in an area may be widely dispersed across multiple jurisdictions. However, the costs of service provision are often concentrated in a smaller area, sometimes even a single jurisdiction. New development brings increased population, more students, and new demand for local public services.

Property tax incentives are one of the most common economic development strategies in South Carolina. Property tax incentives including preferential rates and exemptions have become a regular part of economic development strategies for local government. Business incentives are generally considered to be in two categories. The first group is tax instruments, which include property tax abatements, tax increment financing, sales tax exemptions and credits, and corporate income tax exemptions and credits for investments and job creation (Peters and Fisher, 2004). The second category of
business incentives used to attract new businesses is non-tax incentives. These incentives include business grants, loans and loan guarantees.

Several studies (Due, 1961; Oakland, 1978, Newman and Sullivan, 1988; Eisinger, 1988; Bartik, 1991; Waslenko, 1997) have found little evidence of a significant impact of property tax incentives on local economic development. State and local government officials maintain that property tax incentives are an essential part of any economic development strategy. The competitive environment between jurisdictions may not allow one local government to cease offering incentives without risking a loss of businesses to another area resulting in a zero sum competition between local governments (Zheng and Warner, 2010). Many local governments fear that discontinuing the use of incentives will lead to the loss of competitiveness against other communities that do offer tax incentives, which may lead to a zero sum game between communities.

This research employs a statewide survey of county, municipal, and economic development officials with embedded interviews of two large economic development projects to better understand the effect of property tax incentives for business location in South Carolina. The purpose of the survey and development project study was to illuminate a decision or set of decisions and uncover why decisions were made, how they were implemented, and with what result. More recent research methodological techniques (Eisenhardt, 1989; Yin, 2013) guide this research.

The first study examines the impact on Greenville and Spartanburg counties, and the City of Greer, as a result of property tax incentives offered to attract automobile manufacturer BMW to the Upstate of South Carolina in 1992. The second study will
examine the impact on Charleston County, and the cities of Charleston and North Charleston as a result of the property tax incentives offered to attract a Boeing manufacturing facility to the coastal region of South Carolina in 2004. The statewide survey and two case interview processes are utilized to better understand the issues and outcomes related to efficiency, revenue adequacy, and equity when using property tax incentives for business location.

Exempt property for nonprofit organizations

The intent of the exemption policy is to offer a tax exemption to charitable organizations, which are a subset of nonprofits. Not all nonprofit organizations are automatically exempt from property taxes, although the law varies from state to state. Charitable organizations can be defined as those registered under 501(c)(3) of the Internal Revenue Code. Examples of 501(c)(3) charitable nonprofits include nonprofit hospitals, public universities, museums, soup kitchens, churches, and housing developments for the elderly. The exemption was also extended in most cases to property owned by state and local government. Some organizations such as social and recreational clubs obtain nonprofit status, but serve a narrower group of individuals.

South Carolina is one of seventeen states that grant municipalities the power to decide which organizations can obtain property tax exemptions. Nationally, 1.14 million charitable nonprofits are registered with the Internal Revenue Service (IRS). The total number of nonprofits registered in South Carolina is 22,138 (National Center for Charitable Statistics, 2014).
Property tax exemptions for nonprofits primarily impact municipalities and create issues of revenue adequacy, efficiency, and equity. Property tax revenues finance municipal services and infrastructure like public safety and storm water management. As more property becomes property tax exempt, municipalities may be challenged to maintain adequate revenue to provide services.

This research uses statistical analysis to measure the fiscal impact of property tax exemptions for nonprofit organizations. This study focuses on the thirty most populated municipalities in South Carolina. Larger municipalities have a greater presence of tax exempt property and more valuable land holdings (Brody, 2002).

**Research importance**

The two policies studied in this research are critical factors in property tax base erosion in South Carolina. This research seeks to lay the groundwork for future research on property tax base erosion in smaller states like South Carolina. Property tax incentives for business location are widely used in economic development and may generate great economic benefits. But more evidence is needed to understand how benefits are evaluated against fiscal costs and the attractiveness of incentives to new and existing firms.

Property tax exemptions for nonprofit organizations assist organizations that provide critical services that might not otherwise be offered or would have to be offered by state and local governments at a higher cost. The benefits gained from nonprofit organizations come at a fiscal cost. Understanding the potential per capita cost of property tax exempt land may assist South Carolina municipalities when deciding to offer exemptions.
CHAPTER TWO

HISTORICAL AND INSTITUTIONAL CONTEXT

North (1990) defines institutions as the rules of the game or more formally as constraints that shape human interaction. These constraints can be either formal like political and legal rules, or informal like societal norms and conventions. Institutions provide structure to everyday life and reduce uncertainty. North advocates for using a historical perspective when taking into account the effect of institutions on the current status of policy.

Institutions affect the performance of the economy because of the incentives they create. Political rules lead to economic rules and consequences, including effects on the level and composition of economic activities, but the causality runs both ways (North, 1990). Poor economic performance has political implications, while policymakers unintentionally create economic ripples with each policy passed. The polity and economy are inextricably linked.

If government creates a policy that exempts some property types but not others, an incentive to own the exempted property type is created. These rules of the game, or institutions, affect what people do based on holding different types of property. Organizations seek to maximize wealth within existing institutional frameworks. These frameworks create incentives to behave in a certain way in order to maximize wealth. A property tax increase on industrial or commercial property increases costs for businesses,
which respond by adjusting their strategy. Special tax treatment of homeowners discourages investment in rental residential property. The revenue changes affect the quality of local public services.

**Institutional efficiency and Pareto improvements**

Institutions do not necessarily promote and sometimes undermine efficiency as defined in neoclassical economics. Neoclassical economics defines Pareto improvements as any policy change that makes everybody better off without making anyone worse off, thus increasing economic welfare. Such a change would be defined as efficient. Such measures would seem to invite unanimous support yet they are often not implemented. Stiglitz (1998) provides four reasons why Pareto improvements do not regularly occur.

The first reason is the inability of government to make credible commitments. Government through its code of laws can enforce agreements between private parties. However, government itself changes. Administrations and political environments change. Thus, a long term commitment to a particular policy is not credible. As elected officials turn over, existing policies are at risk.

Coalition formation and bargaining is the second reason why potential Pareto improvements do not always occur. When policy is negotiated and bargained, it is fraught with imperfect and asymmetric information. One side may possess more information than another such as a local government negotiating economic development incentives with a large corporation that employs relocation specialists. Neither side may have enough information for policy to reach efficient outcomes, which results in fallback alternatives as solutions.
The next reason that Pareto improvements are not reached is destructive competition. In the absence of perfect competition, competition among policies can become destructive. Political systems are more susceptible to this issue (Frank and Cook, 1995). A political party does not want to make a competing party look like a policy winner even if the policy proposed is for the good of the country. This destructive tendency places political wins and losses ahead of potential Pareto improvements.

The last reason Stiglitz (1998) offers for the failure to enact Pareto improvements are the uncertainty about the consequences of change. Political systems are set up to serve those that are heavily involved initially. The American political system initially favored white male landowners. Over time, constitutional amendments have granted more rights to minorities, women and non-landowners. However, this change has been slow. The abolition of slavery occurred in the United States in 1865, some 32 years after the United Kingdom outlawed it. Women did not receive the right to vote in the United States until 1920, which was 144 years after the Revolutionary War. Clearly, bad institutions can persist as long as the people that benefit from them can keep them going (Mantzavinos, 2001). Thus, the way in which a system is set up initially provides the institutional structure from which change can occur. Institutional change will occur when one or more of policy participants think that his or her interests are better served under a new approach (Mantzavinos, 2001). The challenge of this research is to examine the institutions that create property tax base erosion and the possible impacts.
Institutional change

The most difficult changes can be those that significantly alter the status quo. The inability to foresee all of the consequences of a policy change, combined with the desire for those in power to remain at an advantage hinders many potential Pareto improvements. With imperfect information, the consequences of policy change become less clear. Thus, the common response is to resist change in favor of the status quo. Even when change occurs, deciding on which policy to pursue and identifying the alternatives can be the most difficult aspect (Mantzavinos, 2001).

South Carolina political institutions

This research was primarily concerned with the erosion of property tax base in South Carolina. However, the property tax needs to be understood within the larger framework of public revenue. The remainder of this chapter will describe the current property tax in South Carolina from an institutional perspective.

The political environment from the mid-twentieth century to present day provides insight into the political institutions that shape policy in South Carolina today. The state Democratic Party controlled the government in South Carolina at almost all levels prior to the 1960s. The Republican Party did not gain a presence in the state until United States Senator Strom Thurmond switched parties in 1964. The Republican Party has gradually gained strength in the state since the 1960s. The state has supported all Republican presidential candidates since 1980. The state Republican Party has dominated the executive branch since 1990 with four out of the last five governors, lieutenant governors, and secretaries of state. The South Carolina Republican Party currently
controls eight of the nine statewide offices and holds majorities in the state Senate and House of Representatives.

The South Carolina Republican Party is anti-tax and supports less progressive taxation, limited property taxes, the reduction of income taxes, no new tax increases, maintaining tax cuts, and the repeal of the estate tax (South Carolina Republican Party State Convention, 2012). These positions help to provide context for the state’s tax policy over the last few decades.

The revenue system in South Carolina

The ideal tax system generates sufficient revenue, distributes tax burdens fairly, is not overly complicated or expensive to administer, and has an absence of distortions that affect market behavior. A good tax system relies on multiple sources at relatively low rates rather than few sources at relatively high rates. A broad based tax system is more stable and has the potential to grow as population, inflation, and service needs grow.

An evaluation of the South Carolina revenue system using these attributes reveals a middling score. The state does not regularly raise enough money to support public education, higher education, infrastructure, and health care at levels comparable to other states. Public education spending by the state has not kept pace with education costs, and the state’s roads and bridges need repair due to revenue adequacy issues. The South Carolina system is not always equitable across several dimensions between the rich and poor, the old and young, homeowners and non-homeowners, and brick-and-mortar sellers and online vendors. Distortion issues also exist in South Carolina. Property tax exemptions, incentives for business location and homeowner tax relief are not always
given to the citizens that need the most help. The policies can also send the wrong market signals and affect behavior in unintended or undesired ways.

When examining the distribution of tax burdens on the income group, the highest percent of income paid in taxes is on incomes from $27,000 to $44,000. The group paying the lowest percent is earning $390,000 or more. By age, income taxes for the elderly in South Carolina are 80 percent lower than for families of comparable income under the age of 65 (Edwards and Wallace, 2002).

**Revenue system issues in South Carolina**

The South Carolina revenue system faces several issues. These include limits on the taxation of internet sales, low gasoline tax rate, the need for a broader sales tax base to including more services, and reform of property tax relief. Each issue contributes to a narrowing of the tax base, revenue adequacy issues, equity issues and problems with inefficiency.

The Congressional restriction on collecting sales tax on internet purchases leads to discrimination against South Carolina retailers who must collect the tax and also pay income and property taxes and support local communities. However, the current legislative obstruction is in Congress and not South Carolina. Being able to collect sales taxes on internet purchases would broaden the tax base in South Carolina allowing for additional revenue and/or make it possible to lower overall rates.

South Carolina currently has one of the lowest gasoline taxes in the country. This reduces the share of state tax revenue gathered from truckers driving through the state. The tax is also not adjusted for inflation, which results in slow growth of tax revenue.
Gas tax revenues have not kept pace with inflation, while the cost of state roads and bridges has continued to rise.

The state currently has a number of sales tax exemptions that chip away at the revenue base. South Carolina only taxes 36 of a possible 160 services that are taxed in other states. Services are a major growth area for the economy. Broadening sales taxes on service taxes would allow for lower rates on currently taxed goods and services and/or more overall tax revenue. South Carolina is a manufacturing state, and manufactured goods are subject to sales taxes in most states. If buyers spend relatively more on services because they are not taxed, we are penalizing our own economic base.

Incentives are regularly offered by state and local governments to entice business location but are seldom evaluated for effectiveness. Property tax exemptions for nonprofit organizations are widely granted. Some exemptions allow the provision of services that might not otherwise be provided. Others subsidize organizations that only benefit a limited number of people in the taxing jurisdiction.

South Carolina has established several property tax relief measures for homeowners. In 1995, the state exempted the first $100,000 of market value of owner occupied property from school operating taxes. In 2006, Act 388 expanded the exemption to include the entire market value of owner occupied property from school operating expenses. The state also grants homestead exemptions for the first $50,000 in market value for the elderly and the disabled. Act 402, which was also enacted in 2006, created an assessment cap of 15 percent over any five year reassessment period. This legislation
slowed the growth of the local property tax base for cities and counties as well as school districts.

Act 388 guarantees that every South Carolina county will get at least $2.5 million in property tax relief funds. However, because counties differ vastly in terms of rich and poor, as well as number of students educated, the dollar guarantee per county has created windfall gains for some areas while distributing very little to others.

**How the property tax works in South Carolina**

The South Carolina property tax has several significant features. The state utilizes a classified tax system, which means that property is categorized based on its use and each classification is taxed differently. Classifications include commercial, residential, industrial, personal, and agricultural. Commercial and residential property represents the majority of property in South Carolina. The state’s property tax system also provides tax exemptions for certain types of properties. Assessments are based on market value multiplied by the assessment ratios for the property’s classification. Another important feature of the property tax in South Carolina is the state’s oversight of the system. Each system aspect is detailed more specifically in this section.

The purpose of property classification is to categorize property assessment ratios by property type. Classification in South Carolina also helps determine whether a property will be assessed by either a county assessor (for real property), county auditor (for personal property) or by the South Carolina Department of Revenue (for miscellaneous real and personal property as specified under SC Code §12 4 540). Real property includes not only land but also all structures attached to the land (S.C. Code §12
Personal property subject to property taxation in South Carolina includes business personal property, furnishings of rental property, cars, boats, and aircraft, but does not include assets such as money, bonds, stocks and company ownership.

This research focuses on real property. There are three major categories of real property in South Carolina. These categories are business property (including retail and service property, rental property, manufacturers, and utilities), agricultural land, and residential (including primary and secondary residential). Each category has unique attributes and varying rates of assessment. This research will focus on real property of an industrial, commercial and residential nature.

Business property

The South Carolina Department of Revenue and county auditors follow business classifications offered by the North American Industry Classification System Manuel when assessing the property of businesses (S.C. Code §12 43 335(A)). Under Article X of the South Carolina Constitution, manufacturing real or personal property is assessed at 10.5 percent of its fair market value. Commercial personal property is assessed at 10.5 percent, while commercial real property is assessed at six percent. The 10.5 percent assessment ratio can be, and often is, negotiated to six percent for new or expanded facilities, with four percent being possible for very large investments (South Carolina Department of Revenue, 2013). Property associated with manufacturing, but with no business headquarters or research and development facilities, is subject to an assessment rate equal to 10.5 percent in South Carolina (S.C. Code §12 43 220(A)). Utilities are also
assessed at 10.5 percent and include water companies, power companies, electric cooperatives, telephone companies, sewer companies, and cable television companies.

Some forms of commercial property qualify for a six percent assessment ratio (These properties include any real property that is owned by, or leased to, a manufacturer and used primarily for research and development and is not considered used by a manufacturer in the conduct of its manufacturing business for purposes of classification of property). The state clarifies that real property owned by, or leased to, a manufacturer and used primarily as an office building or warehouse and/or wholesale distribution is not considered used by a manufacturer in the conduct of the business of the manufacturer for purposes of classification of property, if the office building is not located on the premises of, or contiguous to, the plant site of the manufacturer (S.C. Code §12 43 220(A)). A right of way for a public road or an easement for a railroad running between a manufacturer’s plant site and its office building does not destroy contiguity (Sunoco v. S.C. Department of Revenue, (2008)).

Property tax incentives for economic development are regularly offered in South Carolina. These incentives include special assessment ratios and negotiated valuations, and some exemptions. South Carolina offers certain tax credits to encourage economic growth and revitalization as well as fee in lieu of property tax programs. The major exemptions and negotiated assessment ratios exist for new manufacturers, corporate headquarters, and research and development facilities.

All new manufacturing establishments are exempt from county property taxes for five years from the time of establishment. Further, all additions to existing manufacturing
establishments are exempt from county property taxes for five years from the time such additions are made, if the cost of such addition is $50,000 or more (S.C. Code §12 37 220(A)(7)). This exemption is only for county taxes and does not exempt the property from school or municipal taxes. Municipalities may agree to exempt this property from municipal property taxes for up to five years (S.C. Constitution Article X, §3).

All new corporate headquarters, corporate office facilities, distribution facilities, research and development facilities as well as all additions to those facilities are exempt from non-school county ad valorem taxes for a period of five years from the time of establishment, construction, or being placed in service if the cost of the new construction or additions is $50,000 or more and 75 or more new full time jobs are created in South Carolina (S.C. Code §12 37 220(B)(32) and S.C. Code §12 37 220(B)(34)). This exemption is only for county taxes and does not exempt the property from school or municipal taxes. However, municipalities can agree to exempt this property from municipal property taxes for up to five years as well (S.C. Code §12 37 220(B)(39)).

**Legal residence**

A legal residence with no more than five contiguous acres occupied by the property owner is taxed based on an assessment ratio of four percent. The owner must occupy the legal residence during the majority of the tax year (S.C. Code §12 37 620). The four percent assessment ratio does not apply to residences that are rented, or to any business for-profit located on the residential property (S.C. Code § 12 43 220(C) and S.C. Code § 12 43 221). While a primary residence is taxed based on a four percent assessment ratio, a secondary residence is taxed based on a six percent assessment ratio.
Residential real property is exempt from all property taxes imposed for school operating purposes in South Carolina. If only a portion of the property value qualifies for the four percent assessment ratio (i.e., parcels larger than five acres) that exemption is likewise limited. However, the exemption is limited to operating expenses and does not apply to millage imposed for the repayment of general obligation debt (S.C. Code § 12 37 220(B)(47) and S.C. Code § 12 43 220(C)(8)). Table 2.1 provides a summary of assessment ratios for commercial and residential property in South Carolina.

Table 2.1 Assessment Ratios by Property Type in South Carolina

<table>
<thead>
<tr>
<th>Property Classification</th>
<th>Property Tax Assessment Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing property</td>
<td>10.5% of fair market value</td>
</tr>
<tr>
<td>Utility property</td>
<td>10.5% of fair market value</td>
</tr>
<tr>
<td>Railroads, private carlines, airlines and pipelines</td>
<td>9.5% of fair market value</td>
</tr>
<tr>
<td>Primary residences (owner occupied)</td>
<td>4.0% of fair market value</td>
</tr>
<tr>
<td>Agricultural property (privately owned)</td>
<td>4.0% of use value</td>
</tr>
<tr>
<td>Agricultural property (corporate owned)</td>
<td>6.0% of use value</td>
</tr>
<tr>
<td>Other real estate (commercial/rental/second home)</td>
<td>6.0% of fair market value</td>
</tr>
<tr>
<td>Personal vehicle property tax</td>
<td>6.0% of fair market value</td>
</tr>
<tr>
<td>Personal property</td>
<td>10.5% of income tax depreciated value</td>
</tr>
</tbody>
</table>

Exemptions

In addition to the special considerations given to owner-occupied residential property in South Carolina, there are several broad categories of organizations that receive property tax exemptions. Nonprofit, charitable, religious, educational, and fraternal organizations are entitled to property tax exemptions when the qualifying owner uses the property to hold its meetings and conduct its business. Property held by these organizations that is deemed exempt from taxation is also exempt from assessment (S.C.
Code §12 43 330). However, if real property that is subject to a property tax exemption is leased for a definite term and the lessee does not qualify for an exemption, the leaseholder is subject to property tax (S.C. Code §12 37 950).

Property of all schools, colleges and other institutions of learning and all charitable institutions like hospitals and other institutions caring for the infirmed, the handicapped, the aged, children and indigent persons is exempt from property taxes, except where the profits of such institutions are applied to private use (South Carolina Department of Revenue, 2013; S.C. Code §12 37 220(A)(2); S.C. Code §12 37 222; S.C. Constitution Article X, §3). Property held by public libraries, churches, parsonages and burying grounds is exempt from property taxes as well (S.C. Code §12 37 220(A)(3); S.C. Constitution Article X, §3). All real property of churches that extends beyond the buildings and premises actually occupied by the churches is exempt from property taxes if no profit or benefit from any operation on the churches’ real property inures to the benefit of any private stockholder or individual and no income producing ventures are located on the property (S.C. Code §12 37 220(B)(31)).

Counties and municipalities may require the owners of all real property exempt from property taxation to pay reasonable fees for the provision of public safety services (S.C. Code §12 37 235). These fees are sometimes called fee in lieu of taxes (FILOT). FILOTs cannot exceed the amount of taxes that would be levied on the property if the property were subject to taxation and are negotiated between local government and exempted organizations.
Personal property taxes on motor vehicles

The structure of personal property taxes on motor vehicles varies widely across states. While many states utilize only fees and licenses, local property taxes based on value are applied to motor vehicles in 17 states (American Automobile Association, 2013). Research on the effects of motor vehicle property taxes has been somewhat limited in the last 20 years.

Personal property taxes based on the value or age of automobiles have a significant negative effect on the new car share of total vehicles (Beck and Bennett, 2003). Pritchard and DeBoer (1995) examined the effect of vehicle taxes and concluded that low-income people may be more likely to abandon auto ownership in response to property taxes on vehicles, whereas higher income people merely purchase a less expensive car. Two studies (Ott and Andrus, 2000; Craft and Schmidt, 2005) have conflicting findings over the effect of vehicle personal property taxes on the purchase of new vehicles. New car sales have decreased in South Carolina during the Great Recession, and the age of the average light motor vehicle on the road has increased over the last decade (American Automobile Association, 2013).

South Carolina motor vehicle personal property tax assessment ratios decreased from 10.5 percent in 2001 to six percent by 2006. While the number of vehicles on South Carolina roadways increased over this period, the average age of vehicles on the road rose. The population grew by 11.7 percent in South Carolina (U.S. Census Bureau, 2013), which may explain the increase in the number of vehicles. However, a prolonged economic downturn may have increased the average age of vehicles on the road as well.
The combination of lower assessment rates on vehicles and an aging fleet with lower assessed values led to lower growth, and in many cases decline, in revenue from personal property taxes. Table 2.2 illustrates the decrease in the average vehicle personal property tax bill from 2000 to 2008 in South Carolina. This legislative change is one of several additional sources of property tax base erosion not addressed in this research.

**Table 2.2 Average Vehicle Personal Property Tax Calculations**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Appraised Value (SC)</th>
<th>Assessment Ratio</th>
<th>Average Assessed Value</th>
<th>Average Total Millage</th>
<th>Average Tax Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6,308.81</td>
<td>0.105</td>
<td>662.42</td>
<td>272.3</td>
<td>180.38</td>
</tr>
<tr>
<td>2001</td>
<td>6,553.36</td>
<td>0.105</td>
<td>688.1</td>
<td>273.6</td>
<td>188.27</td>
</tr>
<tr>
<td>2002</td>
<td>6,170.83</td>
<td>0.105</td>
<td>647.94</td>
<td>284.4</td>
<td>184.27</td>
</tr>
<tr>
<td>2003</td>
<td>6,806.68</td>
<td>0.09</td>
<td>612.6</td>
<td>283.7</td>
<td>173.8</td>
</tr>
<tr>
<td>2004</td>
<td>6,951.12</td>
<td>0.083</td>
<td>576.94</td>
<td>277.8</td>
<td>160.27</td>
</tr>
<tr>
<td>2005</td>
<td>7,058.72</td>
<td>0.075</td>
<td>529.4</td>
<td>278.5</td>
<td>147.44</td>
</tr>
<tr>
<td>2006</td>
<td>7,769.34</td>
<td>0.068</td>
<td>528.32</td>
<td>278.5</td>
<td>147.14</td>
</tr>
<tr>
<td>2007</td>
<td>8,100.58</td>
<td>0.06</td>
<td>486.03</td>
<td>290.2</td>
<td>141.05</td>
</tr>
<tr>
<td>2008</td>
<td>7,768.11</td>
<td>0.06</td>
<td>466.09</td>
<td>297.6</td>
<td>138.71</td>
</tr>
</tbody>
</table>

**From valuation to revenue**

In South Carolina, property that is subject to property taxes include real property, personal property used in business, and certain other personal property such as motor vehicles, boats and airplanes. Property taxes are generally assessed and collected by local governments, but the South Carolina Department of Revenue assesses and collects some property taxes and oversees all property tax assessments to ensure equitable and uniform assessment throughout the state. There is no state or local tax on intangible personal property or inventories. There are three elements involved in calculating property taxes: valuation, classification, and millage.
Valuation

Real property, other than agricultural property and property subject to a negotiated fee in lieu of taxes, is appraised to determine fair market value. Real property is reappraised on a countywide basis every five years (S.C. Code §12 43 217). For purposes of reassessment, Article X, Section 6 of the South Carolina Constitution specifies that any increase in the fair market value of any parcel is limited to a cap of 15 percent. This cap on value remains in effect until there is an assessable transfer of interest (ATI). An ATI will result in a valuation that is not limited by a 15 percent cap (S.C. Code §12 37 315). The fair market value of improvements and additions are added to the fair market value of a parcel after completion. The 15 percent cap does not apply to the fair market value of improvements and additions in the year they are first subject to property tax (S.C. Code §12 43 217; S.C. Code §12 37 312 through S.C. Code §12 37 317). Such improvements would be subject to full value upon reassessment, which could possibly discourage improvements and additions, as well as sales or taxable transfers of interest. The assessment cap, implemented in 2007, is another source of property tax base erosion, or more accurately, legislative action that has slowed the growth of the property tax base.

Assessment ratios

The South Carolina state constitution establishes differential assessment based on property classification. Each different classification of property has independent assessment ratio. Manufacturing property, commercial personal property, and utility property is assessed at 10.5 percent unless otherwise exempted. A homeowner’s primary residence is assessed at four percent with any second (non-primary) residences and any
other real property is taxed at six percent. Rental properties are included in the higher six percent assessment classification. Thus, under differential assessment in South Carolina, primary homeowners pay the lowest real property tax when compared to manufacturing, commercial and rental properties.

There is some question among county tax assessors over whether the presence of different assessment ratios create an incentive to cheat and claim more valuable residences as primary owner-occupied when in fact, they are second homes (personal communication, September 15, 2014). Several of the tax assessors contacted for this research indicated that applications requesting a change to owner-occupied classification with a four percent assessment ratio have increased along the coast of South Carolina (personal communication, September 25, 2014). The addition of the exemption from school operating taxes for owner-occupied residential property but not other rental property has certainly increased the tax differential between owner-occupied and other rental residential property. Again, this is a third source of base erosion not addressed in this research because of the difficulties in developing an appropriate database.

Assessment caps limit the annual increase in assessed value of each individual property to a specified percentage of the prior year’s value or the value at the previous assessment. Act 402 (2006) established an assessment cap in South Carolina to provided property tax relief to owners of all categories of real property (S.C. Code §12-37-3140(B)). Reassessment occurs every five years on a rolling schedule across counties, and also when eligible properties are sold or undergo substantial improvements (e.g., new home construction or additions). While South Carolina limits the percentage increase at
reassessment to 15 percent every five years, the state does not implement revenue limits (Anderson, 2006).

True revenue loss attributed to the assessment cap was difficult to quantify because at reassessment, millage is recalculated to compensate for changes in value, which is required by statute. So if value (and assessment) does not rise as far it normally would due to the assessment cap (or goes down due to a decline in the market), then millage either goes up to compensate for the loss in tax base or does not fall as far as it otherwise would have due to the assessment cap. Therefore, counties report no tangible revenue loss. However, the assessment cap does have a fiscal impact in reducing revenue obtained from some properties, especially property with higher rates of value appreciation.

Assessed values are obtained by applying the appropriate assessment ratio to the fair market value Taxes are then levied based on that assessed value. Some properties are taxed under a Fee In Lieu of Taxes (FILOT) agreement. Businesses that invest $2.5 million or more in South Carolina by either relocating or expanding in the state can negotiate a reduction in the regular 10.5 percent assessment ratio down to six percent for 20 years with no increases in the value of their property over the same period. Some economically distressed areas of the state are permitted to offer the same program with a lower one than million dollar investment. Larger investments can obtain a four percent assessment ratio over thirty years on a case-by-case basis.
Millage

Individual taxing jurisdictions (i.e., counties, municipalities) determine their property tax rates, or millage, annually by dividing the cost of its annual budget (net of other projected revenues) by the total assessed value within the taxing jurisdiction. This calculation results in a millage rate, which is so many thousandths per dollar of valuation. The average millage rate for cities, counties and school districts combined in South Carolina is 298.7 mills (South Carolina Department of Revenue, 2013). Below is an example of a property tax calculations illustrating how millage rates work:

A manufacturing firm owns property with a value of $100,000. Commercial manufacturing property has an assessment ratio of 10.5 percent in South Carolina. The assessed value of that property is $10,500 ($100,000 x 10.5 percent). If a municipality has a total yearly budget requirement of $4 million from property tax revenue and a total assessed value of property of $50 million, then the annual millage rate would be 80 mills ($4 million / $50 million = .080). The property tax liability of the property owner would be $840 ($10,500 x .080).

Local budget needs change from year to year. However, any mill rate increases in a taxing jurisdiction are subject to legislative restrictions (S.C. Code §6 1 320 and S.C. Code §12 37 251(E)). Generally, millage rates can only be increased for general operating purposes from the previous year by the rate of change in the Consumer Price Index (CPI) plus increase in population. Special purpose increases above and beyond CPI
plus population change require governing body approval via a two-thirds vote (S.C. Code §6 1 320(B)).

During the year following reassessment, a special millage rate is used. Instead of using the previous year’s millage rate as a base rate, a “rollback millage” rate is used. Rollback millage rates are calculated by dividing the prior years property tax revenue by the adjusted total assessed value and is typically lower than the previous year’s millage rate to avoid shocks and windfalls related to significant increases in property values. Rollback millage rates include a countywide equalization and reassessment pattern. The amount of assessed value is adjusted by deducting assessments added for property or improvements not taxed previously like additions or new construction (S.C. Code §12 37 251(E)).

**State oversight**

The responsibility for valuation of property in South Carolina is divided between the state’s Department of Revenue and county assessors and auditors. The division of responsibility depends on the type of property owned and its use. The Department of Revenue generally values property held by manufacturers, utilities, mining companies and certain transportation companies such as railroads and airlines.

County assessors and auditors value all the remaining property, which includes commercial, residential and agricultural property. County assessors value real property in South Carolina (S.C. Code §12 37 90) while auditors value personal property (S.C. Code §12 39 340). Property taxes are levied by local government entities and are assessed uniformly across a classified system (S.C. Code §12 37 30). In the case of real and
personal property assessed by the Department, the Department generally certifies the assessment to the county auditor, who computes the tax and forwards the tax amount to the county treasurer for billing. The county assessor is responsible for appraising and assessing all real property in the county not appraised and assessed by the Department of Revenue (S.C. Code §12 37 90). The assessor also determines eligibility for the four percent assessment ratio applicable to owner occupied real property (S.C. Code §12 43 220(C)).

County assessors assess (i.e., determine the value and assessment ratio) of real property and county auditors assess personal property. The South Carolina Department of Revenue has the sole responsibility for the appraisal, assessment, and equalization of the taxable values of corporate headquarters, corporate office facilities, and distribution facilities and of all of the property owned by, or leased to, the following businesses and used in the conduct of their business (South Carolina Department of Revenue, 2013): manufacturing, railway, private carline, airline, water, heat, light and power, telephone, cable television, sewer, pipeline, and mining.

The property tax in public revenue

Revenue sources for local governments are somewhat limited because the personal income tax is too costly for local governments to administer. South Carolina has also trailed both the nation and regional averages for per capita intergovernmental revenues over the last 20 years (Lincoln Institute of Land Policy, 2014 b). The next most likely local revenue alternatives are local option taxes and property taxes. Local sales and excise taxes are less stable than property taxes (Ebel and Peterson, 2012; Ulbrich, 2011).
Stability is not as important for a central government that can run deficits during economic downturns. However, local governments have less fiscal leeway and many are constitutionally required balance budgets annually (Ulbrich, 2011).

State and local governments obtain the largest share of tax revenues from property taxes and sales and gross receipts taxes. Property taxes represent 34.1 percent of the total state and local government revenues nationally (U.S. Census Bureau, 2013). In South Carolina, property taxes represented 37.5 percent of revenues for local governments in 2012 (South Carolina Budget and Control Board, 2013). Property taxes are the most prominent source of local tax revenues in the United States. Taxes on residential and commercial real estate are often the largest revenue source for local governments (Prante, 2009).

The next largest source of revenue, sales and gross receipts taxes, provided 34 percent of state and local government tax revenue nationally in 2012 (Lincoln Institute of Land Policy, 2014 b). General sales and excise taxes are included in this category. General sales taxes are levied on all kinds of goods and services while excise taxes are collected on specific items consumed like alcohol, tobacco, and motor fuels. Local sales and excise taxes are less stable than property taxes, especially during economic downturns (Ebel and Peterson, 2012; Ulbrich, 2011).
Methods of comparing taxes

The Tax Foundation ranks states on two measures annually, state and local taxes as a percent of state personal income and taxes per capita (Tax Foundation, 2012). To measure the burden of taxation, how much income individuals and households have to sacrifice to the state in order to pay for public services, the percent of income is the correct measure. While the property tax is a tax on wealth, it must be paid out of personal income. Thus, the burden of the property tax is measured as a percentage of income required to pay annual property tax liabilities. However, the percent of income measure does not allow comparisons based on how much tax was collected for each person living in the state. Per capita taxes offer a measure of tax resources, or how much state and local governments have to work with to fund public services. A low income state may rank high in taxes as a percent of income but low in per capita taxes.

The number of people served largely drives the cost of public services. Other factors such as the age distribution, poverty, population density and climate may figure into the cost of public services. Areas with a larger number of elderly residents have a different public service demand than areas with a lot of school children. However, population is the primary driver of the cost of public services. The demand for services like public safety, public education, parks and recreation, environmental protection, libraries, and public health is affected by population size.

Over the last twenty years, the United States population has increased by 21 percent. Both the southeast (30 percent) and South Carolina (28 percent) have seen slightly higher population growth rates than the nation as a whole. It should be noted that
South Carolina (15 percent increase) has outpaced both the national (10 percent increase) and regional (14 percent increase) population growth rates in the last ten years (U.S. Census Bureau, 2012). Therefore, it is appropriate to compare resources by adjusting for differences in population from state to state. Low per capita taxes, unless supplemented by nontax revenue sources such as fees, charges, and revenue from natural resources, are likely to mean low levels of services.

Citizens would prefer to have a low tax burden and a high level of public services. In general, wealthier states tend to rank higher in per capita taxes than in taxes as a percent of income, while poorer states will be the opposite, South Carolina ranks 48th in per capita taxes collected and 42nd in taxes as a percent of income (Tax Foundation, 2014). States with higher per capita tax revenues generally have more public services.

Neither taxes as a percent of income or taxes per capita reveals how the tax burden is distributed across individuals and households, or how much more or less it may cost to serve different kinds of households or communities. Neither measure gives any indication of where taxes might be increased with relatively little hardship, or where tax cuts or adjustments would do the most good in terms of fairness or encouraging economic development. Neither measure tells us anything about the quality and mix of public services that those taxes are being used to fund (Ulbrich, 2010). With those limitations in mind, measuring the property tax as a percent of income and examining per capita property tax revenue can provide some context for the property tax in the United States, the Southeast, and South Carolina. This analysis has the caveat that any revenue changes reflect the combined effect of changes in the tax base and changes in tax rates.
Comparing taxes: South Carolina, the Southeast and the Nation

While state totals and national averages are straightforward, many features of the South Carolina property tax bear a regional imprint. In addition, the nature of the property tax base reflects regional patterns of lower income, fewer large cities, and large undeveloped areas. The Association of American Geographers defines the Southeastern region of the United States as Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. This analysis will utilize that geographical definition.

Taxes in the United States average 10.2 percent of income (Tax Foundation, 2013), or $4,245 per capita (Tax Foundation, 2012). State and local taxes in the Southeast region average 9.2 percent of income (Tax Foundation, 2013). The Southeastern per capita annual tax is lower than that national average at $3,281 (Tax Foundation, 2012). Per capita income for the nation in 2010 was $41,195 while the Southeast averaged $35,531.

South Carolina taxpayers do not pay high taxes when compared to the nation. Taxes in the state represent 8.6 percent of income, which is lower than the national and regional averages (Tax Foundation, 2013). The per capita taxes paid in South Carolina are $2,845, which is significantly lower than national averages (Tax Foundation, 2012). The per capita income in South Carolina is $33,044, which trails both the national and Southeastern averages.

If South Carolina increased taxes to the national average as a percent of income, the state would still only have $3,238 per capita to work with, which is 77 percent of the
national average. State and local governments in South Carolina have less tax revenue to work with in providing public services (Tax Foundation, 2014). Table 2.3 provides a summary of national, regional, and state tax revenues per capita and as a percent of income.

**Table 2.3 Per Capita Tax Revenues and Incomes (2012)**

<table>
<thead>
<tr>
<th></th>
<th>Total Tax Percent of Income</th>
<th>Per Capita Tax Paid</th>
<th>Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>9.8%</td>
<td>$4,217</td>
<td>$42,693</td>
</tr>
<tr>
<td>Southeast</td>
<td>8.9%</td>
<td>$3,237</td>
<td>$37,150</td>
</tr>
<tr>
<td>South Carolina</td>
<td>8.3%</td>
<td>$2,784</td>
<td>$33,044</td>
</tr>
</tbody>
</table>

Source: Tax Foundation, 2014

**Measuring property taxation in South Carolina, the Southeast and the Nation**

Property tax as a percentage of personal income declined nationally between 1972 and 1982, and held constant around 3 percent of personal income through 2008 (Bell, 2012). In the most recent data, the per capita property tax averaged $1,428 nationally and represented 3.3 percent of income in 2012 (Tax Foundation, 2014). The Southeastern per capita annual property tax of $939 was lower than that national average (Tax Foundation, 2014).

South Carolina property taxes are higher than the Southeast average, but are still lower than the national average. Property taxes in the state represent 3.1 percent of income, which is lower than the national percentage, but not the regional average (Tax Foundation, 2014). The per capita property taxes paid in South Carolina are $1,032 in 2012, which is significantly lower than national average, but higher than the Southeast average (Tax Foundation, 2014). Table 2.4 provides a summary of national, regional, and
state property tax revenues.

**Table 2.4 Property Tax Revenues (2012)**

<table>
<thead>
<tr>
<th></th>
<th>Property Taxes as a Percent of Income</th>
<th>Property Taxes Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3.3%</td>
<td>$1,428</td>
</tr>
<tr>
<td>Southeast</td>
<td>2.5%</td>
<td>$939</td>
</tr>
<tr>
<td>South Carolina</td>
<td>3.1%</td>
<td>$1,032</td>
</tr>
</tbody>
</table>

Source: Tax Foundation, 2014

**Property tax and local government**

Property tax revenue as a share of state and local government revenue has decreased in South Carolina from 2002 to 2012. Intergovernmental transfers have either remained flat or decreased. There has been an increased reliance on local option taxation, which is more volatile during economic downturns. The convergence of these factors places local governments under additional fiscal stress during a period where those local governments experienced a 47.6 percent increase in spending and a 44.7 percent increase in revenues (South Carolina Budget and Control Board, 2013).

**South Carolina counties**

Counties in South Carolina are more reliant on property tax revenues than municipalities and the state. The property tax share of county revenues has consistently hovered between 42 and 43 percent over the last ten years. The share of total county revenue generated by local option taxes have doubled in the last ten years, increasing from 7.5 percent in 2002 to 15.8 percent in 2012. This growth occurred because only six counties had local option taxes in 2002, but by 2012, 29 counties were utilizing them.
Revenue share generated from state aid transfers decreased from 16.9 percent in 2002 to 12.2 percent in 2012 while federal funds remained constant (around 3.6 percent). The use of fees and charges to generate revenue dropped over the same period, down from 27.7 percent of total revenue for counties in 2002 to 23.6 percent in 2012 (South Carolina Budget and Control Board, 2013).

**South Carolina municipalities**

Municipalities in South Carolina relied on property taxes for 28.8 percent of their total revenues in 2002. This figure decreased to 26.5 percent by 2012. The biggest change in sources of revenue for municipalities over the last ten years has been a shift towards the use of local option taxes including sales and excises (mainly accommodations and hospitality) taxes. Like counties, reliance on local option tax use by municipalities increased substantially since 2002. South Carolina municipalities received 7.7 percent of their revenues from local option taxes in 2002. This figure increased to 11.7 percent in 2012. The share derived from fees and charges decreased by 1.4 percentage points from 2002 to 2012. The share of revenue coming from property taxes also dropped by 2.2 percentage points from 2002 to 2012. Federal aid as a share of municipal revenue remained flat and state aid decreased from 8.9 percent of total revenue to 7.2 percent (South Carolina Budget and Control Board, 2013).
South Carolina school districts

South Carolina public school districts’ share of total revenues garnered from property taxes increased from 33.6 percent in 2002 to 38 percent in 2012. South Carolina school districts do not receive funding from local option taxes, but do receive funds from fees and charges that decreased from 8.9 percent in 2002 to 5.7 percent in 2012. School districts saw an increase in federal funding (8.7 percent to 11.1 percent) and decreases in stated funding (48.7 percent to 45.2 percent) over the same period. The heavy reliance on state aid is somewhat related to Act 388 passed in 2006, which exempted residential property owners from paying local public school operating costs. Act 388 shifted school operations funding to a penny sales tax administered by the state. The timing for the shift to a sales tax came right before the beginning of the Great Recession in 2007, which negatively affected consumer behavior and lowered the amount of revenue generated through sales taxes. The projected revenues for the penny tax fell short and the state has been forced to make up the difference. It should be noted that Act 388 also prevents school districts and other local governments from raising millage rates by more than a predetermined formula based on inflation plus population growth, and Act 402 caps increases in the assessed value of property at 15 percent every five years.
CHAPTER THREE

PROPERTY TAX BASE EROSION

Tax bases

The fundamental questions in this research center on two policy actions that lead to property tax base erosion in South Carolina. The effects of those policies on efficiency, equity and revenue adequacy are also evaluated. The use of property tax incentives for business location and property tax exemptions for nonprofit organizations are substantial contributors to property tax base erosion.

A tax base is the assessed value of a set of assets, investments, or income streams that is subject to taxation. The tax base is determined by the tax code of the appropriate jurisdiction and economic activity or value of a particular revenue source. There are three primary tax bases from which tax revenue is generated. These bases are wealth, income, and consumption. Wealth is subject to the property tax, earnings are subject to the income tax, and consumption is taxed through sales and excise taxes.

What bases measure

Each tax base measures some aspect of a taxpayer’s ability to pay as well as some level of benefit received from services financed by a particular tax source. Those with higher income have a higher ability to pay all kinds of taxes, but particularly income taxes. Taxpayers with higher wealth holdings are subject to higher property taxes and those who consume more pay more sales taxes. Ability to pay is the most widely used
criterion for tax fairness. Ability to pay implies that those who have more resources can and should make a larger contribution toward the cost of public services. The easiest way to measure ability to pay is by income level, followed by consumption and accumulated wealth, or property owned (Ebel and Petersen, 2012).

The benefit principle links tax obligation to the value of public services received in exchange (Ulbrich, 2011). This concept is not new. Adam Smith (1776, page 888) opined that tax obligation should be “proportional to the revenue enjoyed under the protection of the state.” An individual’s income is obtained within a framework created and maintained by government(s). Therefore, the income received is subject to an income tax and, in Smith’s vision, a proportional income tax wherein those earning more pay more than those earning less. A similar argument can be made for taxes on wealth as those with more property benefit more from property related services and usually have higher incomes, so they can and do pay more taxes. Excise taxes and fees like the gasoline tax target those that use more of the services like roads for the maintenance of highway infrastructure. Individuals that drive more pay more gasoline tax to maintain the roads they frequent.

**Tax base erosion**

Tax base erosion is not just a result of policy changes. Base erosion is also an issue of a revenue structure that fails to adapt to changes in the fundamental taxable wealth and activity of the economy that generates tax revenue. When tax policy fails to keep pace with the population growth, changes in market behaviors, and income levels, significant base erosion can occur. This erosion affects all tax bases in some form. Tax
bases are especially vulnerable to policy changes and citizen market behavior as a response to changes in policy.

The three bases are inextricably linked because wealth and economic activity are given expressions of not only the ownership of assets, but also in receiving income and consumption activities. Therefore, when erosion occurs in one tax base, there are ripple effects across others. A systematic review of each tax base will provide a theoretical foundation for this research.

**Sales and excise tax base**

Increasing costs of local government services combined with almost four decades of efforts to limit property taxes, have led local governments to rely more heavily on consumption taxation (Brunori, 2007). Local governments use two types of consumption taxes, sales and excise taxes, which generate billions of dollars in revenue. The sales tax is a broad based consumption tax collected on the sale of goods and services. The excise tax is imposed on a specific item or service like gasoline, tobacco or alcohol (Ulbrich, 2011). The sales tax is less salient than income or property taxes as individuals regularly make small purchases on which sales taxes are paid in very small sums. Sales and excise taxes account for 34 percent of state own source revenue and 22 percent of local government own source revenue (U.S. Census Bureau, 2013).

Consumption spending is a good measure of ability to pay taxes. The more an individual spends, the more willingness they are expressing to pay consumption taxes. Purchases cannot be easily hidden and consumption taxes are difficult to evade. However, sales and excise taxes tend to be regressive, because consumers with lower
incomes pay a higher percentage of their earnings in consumption taxes. Compliance and collection costs are also a higher percentage of revenue for small businesses. The ideal consumption tax system would have a broad base that allowed tax rates to be low with some adjustments to compensate for the higher percentage of low income earnings being used to pay consumption taxes.

Economic and demographic changes will directly influence tax bases. With consumption based taxation, the level of population will affect the total potentially taxable consumption and the age distribution of a population will affect the type of consumption (Wallace, 2012). Thus, state and local governments must consider these factors when creating and altering tax policy. The breadth of a consumption tax base for state and local governments determines how much revenue will fluctuate as demographics and the economy change.

Problems with the consumption tax base are multifaceted. Consumption taxes such as the retail sales tax are jurisdiction specific, which may cause consumers to seek to make purchases under the most favorable tax conditions. In that case, the tax has created market distortions and thus, inefficiency. This shift may move local consumption spending out of one area and into another. Increases in online purchases or consumption of more exempt items like food instead of taxed items like clothing also result from higher tax rates or increased competition.

Sales taxes are inherently regressive. Poorer residents pay a larger share of their income in sales taxes than do wealthier residents. A North Carolina study found that an increased local option sales tax resulted in an increase in the tax burden on less affluent
households that was up to twenty times greater the burden on the most affluent residents (Gardner, 1999). This regressivity becomes more pronounced when sales taxes are levied on necessities such as food, medicine, and utilities. Legislative action provides another form of erosion in the consumption tax base. Legislators in some states have attempted to alleviate regressivity by exempting certain goods and services that are deemed necessities, but this has further narrowed the consumption tax base. One response to this concern in some states has been consumption tax rebates to low income consumers in order to reduce regressivity.

The relationship between the rate and the base is challenging for tax policies of any kind, but this issue is particularly important for excise taxes (Ulbrich, 2011). The tax base for a specific good or service is already narrow. An increase in excise tax rate, levied on an already narrow base, will result in a greater reduction in consumption of the item taxed than an increase in a tax with a broader base, especially at lower rates.

Local option sales and excise taxes provide a direct source of local revenue that helps local governments maintain some autonomy over their fiscal affairs (Lee and Gordon, 2005). When local governments have some control over consumption tax rates and base, the tax serves as a continuous source of revenue that can be spent by the local governments with less reliance on yearly appropriations by state legislature (Brunori, 2007). However, even with some autonomy, states and local governments cannot control what goods and services are produced and consumed, and are thus subject to consumption taxation.
Sales taxes are relatively inexpensive to administer and collect. Vendors are required to collect consumptions taxes at the point of purchase and state governments typically collect for local governments and disburse revenues back to the local level. Thus local governments incur minimal costs to administer a local option sales tax. However, collection costs can be a burden for vendors, especially smaller retailers. Complications exist when vendors make sales to taxpayers from different jurisdictions. Sales to customers in other jurisdictions may be subject to tax in the jurisdiction of the vendor or the jurisdiction of the customer, depending on the conditions of sale. (McLure, 2001).

Consumption taxes are widely accepted, as a result taxpayers feel in control of their tax burden when they choose to purchase a good or service that is subject to a sales or excise tax (Brunori, 2005). This acceptance has led to political bias towards the use of sales and excise taxes over less popular income and property taxes. However, because U.S. retail sales taxes are largely levied on tangible goods with only limited coverage of services, the sales tax base has steadily decreased relative to the overall economy (Boyd, 2000; Ebel and Petersen 2012). This shift is largely attributed to a shift away from a more easily taxed manufacturing based economy in the United States towards a less easily taxed service based economy (Ulbrich 2011).

The rise in online purchases that are largely untaxed has caused the loss of billions of dollars in sales tax revenues in recent years (Bruce, Fox and Tuttle, 2006; Ulbrich 2011, Ebel and Petersen, 2012). The estimated cost to state and local governments by 2011 was over $54 billion (Bruce, Fox and Tuttle, 2006). This shift to
Increased (untaxed) electronic purchases has allowed some business to operate at a price advantage over businesses that have to charge consumption taxes and poses a significant threat to local option sales taxes (Bonnet, 1998), as well as to state and local revenue from property and income taxes paid by instate retailers.

**Income tax base**

Income taxes are based on the flow of money into a household or firm. Income taxes measure ability to pay directly with adjustments for different circumstances such as family size, generosity, and medical expense. Many states, and to a much lesser extent local governments, impose levies on personal income and wages. Local governments can also tax various business activities and several of these taxes can be levied on income. The personal income tax is the most widely recognizable income tax, but the income tax category also includes payroll taxes like Social Security contributions, corporate income taxes, and some business license taxes (mainly local) that are determined by the level of a firm’s gross receipts and income.

The total personal income in the United States is estimated to be over $13.4 trillion (U.S. Department of Commerce, 2013). This creates a strong revenue base for the personal income tax before exclusions, deductions, and credits. The United States relies almost exclusively on income taxes to fund its central government while forty-one state governments and over 4,000 local governments also rely on income tax revenues (Ulbrich, 2011). The personal income tax (26 percent in 2012) surpassed the general sales tax (22 percent in 2012) as the largest share of own source revenue for states in 2008 and accounted for $241 million in 2012 (U.S. Census Bureau, 2013).
Revenue from the income tax grows faster over the long term than sales or property taxes. Research by Bruce, Fox and Tuttle (2006) found that the average long run elasticity of personal income taxes is 1.832, which is more than double the elasticity of sales taxes. This elasticity is evident in research completed by the U.S. Government Accountability Office (2010), which found that state personal income taxes grew faster than income itself from 1977 to 2007. However, the high elasticity suggests that the income tax is more susceptible to loss during economic downturns in the long run. This elasticity is helpful in the long run, but raises a question of how state and local governments can adapt the structure of their income taxes to limit revenue declines during economic downturns.

The nationwide decline in employment during the most recent recession was approximately three times the drop observed in the previous four recessions (Dadayan and Boyd, 2011; Francis, 2012). Governors and state legislatures prefer to raise other taxes before increasing income taxes during economic downturns (Cordes and Juffras, 2012). The National Conference of State Legislatures (2011) found that legislators tend to delay tax increases during recessions because of potential harm to individuals and businesses that are already facing possible decreases in earnings. Elected officials do not want to seem insensitive to economic distress or act hastily if the recession turns out to be short lived. All of these factors lead to instability in the income tax base as a source of revenue.

Like any other form of taxation, taxing income has benefits and costs. Income taxes are quite visible on biweekly or monthly pay statements. This visibility leads to
political pressure to limit personal income tax rates. Business tax rates can be limited for the same reasons. This visibility also leads taxpayers to try to hold elected officials accountable for what is done with the tax dollars collected. Many economists and public finance experts see the income tax as more efficient than other taxes (Bird, 1993; Brunori, 2007). The costs of administration and collection of the state and federal income tax falls on those broad governments that are much more capable of collecting income taxes than local governments. Thus, a lower reliance on income taxes by local governments makes sense in terms of administration.

Income taxes distort the tradeoff between work and leisure time, as untaxed leisure time is substituted for taxed working hours. While taxpayers at different income levels will react differently, all of them are likely to respond to a change in the taxation of their earnings, some by increasing their work hours to maintain their income, others by reducing their work time because earnings are taxed and leisure is not (Ulbrich, 2011). Income taxes impose burdens on mobile bases that can and will move, especially between states (Brunori, 2007). Some taxpayers will seek tax advantages through tax avoidance or evasion, while other taxpayers will simply work less. Likewise, higher income tax rates in one area will lead to tax avoidance and business investments elsewhere. These distortions lead to further erosion of the income tax base. Therefore, the ideal income tax would be broad with relatively low rates with minimal exclusions (Ebel and Peterson, 2012).

State and federal income tax systems bring a degree of progressiveness to public finance (Strauss, 1995). As taxpayers earn more, they pay more income taxes, which
satisfies both ability to pay and benefit principles. In comparison, consumption taxes are inherently regressive because lower income citizens use a larger percentage of their earnings to pay sales and excise taxes.

The local option income tax was considered an alternative revenue source for local governments, but income taxes are unlikely to play a more important role in financing local government (Sheffrin, 1998). After the 1986 Federal Tax Reform Act, many thought that local option income taxes would become a vital source of local government revenue, but that potential was never realized (Brunori, 2007). Local governments in the United States raised only $20 billion from taxing personal income in 2005 and that number has failed to climb in the last decade (U.S. Census Bureau, 2013).

**Property tax base**

The property tax base measures a blend of wealth and consumption (especially for households). There are three kinds of wealth, or property, which are taxed by jurisdictions. They include real property, personal property and intangible property. The most universal type of wealth is real property, which consists of land and land improvements. In some states, including South Carolina, real property is classified into categories such as agricultural, owner occupied residential, rental, commercial, and utility. Taxes are then differentiated among categories either in the way they are assessed or the mill rate levied on that assessment.

Personal property consists of selected other kinds of tangible property other than land and land improvements. Examples include automobiles, boats, business equipment, farm equipment, and business inventory. How much of personal property is subjected to
taxation is highly jurisdiction specific. Over the past few decades, several states have reduced personal property taxes by eliminating taxes on merchants’ inventory and by reducing or eliminating property taxes on personal vehicles (Ulbrich, 2011).

The third property category is intangible property. Intangible property includes stocks, bonds, or other assets that offer a means of storing wealth. Taxation of intangible property is difficult. Collection and compliance costs are high when taxing intangible property because it can be moved, hidden, or changed into different forms when taxed. In many cases, the juice may not be worth the squeeze when it comes to intangible property.

The property tax remains a fixture in local government revenue with 97 percent of all property tax revenue going to local governments. However, over the last several decades, the property tax has declined in its relative share of local government revenue from 43 percent of local general revenue to 28 percent in the last 40 years (U.S. Census Bureau, 2013). The property tax’s share of local own source revenue has also declined from 56 percent in 1968 to 45 percent in 2008 (Bell, 2012).

A selective property tax is characterized by a lack of uniformity where some property types are given preferential rates or exclusions from the tax altogether. A general property tax is applied to all property uniformly. The original property tax in the early mostly agrarian United States was selectively imposed on certain classes of wealth that were easily identified such as land, improvements, and cattle (Lynn, 1969). By the mid nineteenth century, the property tax evolved into more of a general ad valorem tax that was uniformly applied to the value of a broader set of assets regardless of their form (Wallis, 2001). However, over the last several decades in the United States, the property
tax has reverted back to a more selective tax focused on real property in general and residential property more specifically, with less emphasis on personal property (Bell, 2012). Personal property taxation declined from 17.2 percent of local gross assessed value in 1956 to 9.8 percent in 1986 (Bowman, 1995).

In the mid to late twentieth century, residential property became increasingly important to the composition of the property tax (Bell, 2012). The United States Census reports that residential properties accounted for 54.1 percent of gross assessed values in 1956, but by 1986, that figure was 61.2 percent. Commercial share of gross assessed values increased only modestly over the same period—16.6 percent to 17.3 percent. The share for industrial property fell from 10.8 percent to 7 percent of gross assessed values from 1956 to 1986. The relative importance of personal property also fell from 17.2 percent to 9.8 percent by 1986 (Bowman, 1995).

As residential properties have played an increasingly important role in generating property tax revenue, homeowners have sought to reduce their tax burdens by seeking tax relief measures for residential property. Relief policies have moved the property tax farther away from a broad based tax that is rich in efficiency, equity, and revenue adequacy. When the property tax base is narrowed, it can distort private decisions by favoring some land uses over others. Relief policies that narrow a broad tax base move it away from being uniform and equitable (Bell, 2012). Witte (2009) believes that the property tax base is becoming less accountable in terms of stability, revenue adequacy, efficiency and equity due to the “confusing and opaque jumble of special provisions that accumulate as the broad base of the property tax is destroyed.”
Giertz (2006) finds that this trend toward homeowner tax relief is a result of a steady increase in residential property values along with a reduction in the importance of intensive manufacturing (using real property) in the United States. As the United States has moved to a knowledge-based economy, most businesses rely more on technology (Bonnet, 1998) and do not own significant amounts of real property. The result is decreased revenue from business property taxes that shifted property tax burdens from businesses to residential property (Strauss, 2001).

The increasing share of the property tax derived from residential property has led legislators and local officials to propose and support policy to alleviate the burden on those taxpayers. The last several decades have produced a movement towards both direct and indirect residential property tax relief. Direct property tax relief reduces the tax liability of residential homeowners while indirect relief shifts the local government’s reliance on the property tax to other areas like sales taxes and state grants (Bell, 2012).

**Base erosion and the property tax**

Several sources of property tax base erosion in the United States arose in part during the tax revolt that began in the late 1970s. These include assessment limits in the tax limitation movement, exemption proliferation, and certain forms of increased property tax relief. Base erosion is one way to reduce or slow the growth of property tax burdens and property tax revenue. Tax limitations are another. Legislative and statutory limits on property taxes erode the base in real terms by not letting it keep pace with inflation and population growth. The term base erosion is used when legislation (or a failure to legislate) removes items from the tax base, or reduces the taxable value of items
in the tax base. Therefore, a movement that places a ceiling on the growth of the property
tax base is base erosion. However, rate limitations that are used to control property tax
growth are not technically base erosion.

The genesis of the legislative and statutory tax revolt stems from Proposition 13
in California. During the 1970s, California experienced explosive growth in property
values. As values rose, so did the property tax burden. As burdens rose, so did the
political pressure to offer property owners some relief. Proposition 13 set the maximum
property tax rate at one percent, which hampered the ability of local governments in
California to raise property tax revenues. A myriad of constitutional and statutory
limitations emerged out of Proposition 13. From 1979 to 1984, 58 different ballot
initiatives aimed at reducing property taxes were put on the ballot (Sexton and Sheffrin,
1995). By 2007, 44 of the 50 states (88 percent) had some form of restriction on the
ability of local governments to impose property taxes and by the mid 2000s. These
restrictions reduced property tax revenue up to 15 percent (Brunori, 2007).

**Tax limitations**

Anderson (2007) argues that property tax limitations are similar to insurance
taken out by citizens who do not trust their government to restrain taxes leading to the use
of more tax limitations. Tax limitations take three forms including rate limitations, tax
revenue limits, and assessment limits. Examples of each type of limitation can be found
throughout the United States. Some are more prominent than others, while certain
limitations are altogether absent in South Carolina.
Rate limits

Rate limits prohibit the increase in tax rates over a predetermined level. In 2012, 37 states had such a limit in place nationwide (Lincoln Institute of Land Policy, 2014 a). That number was up from 34 states in 2007 (Anderson, 2007). South Carolina has a rate limit called a maximum millage cap (S.C. Code § 6 1 320; S.C. Code § 12 37 251(E), 2012). Under this policy, the increase in local millage rate for general operating purposes from the prior year’s rate is limited to the increase in the consumer price index plus the local entity’s percentage population increase in the previous year. During years when reassessment occurs, which is every five years in South Carolina, a five year rollback millage must be used in lieu of the previous year’s millage rate and the overall valuation increase is capped at 15 percent.

Revenue limits

The second type of tax limitation is property tax revenue limits. A property tax revenue limit is established by law and restricts the amount of revenue that can be raised to certain levels. Revenue limits can be implemented in two ways: a reduction in property tax rates if total revenue exceeds a certain amount or a reduction in property tax assessment rates when total revenue exceeds a certain amount. Some states allow voters to override revenue limits, but instances of that occurring have been few. Regardless, it has been established that as property tax revenue is limited, local governments lose autonomy because as control of funding leaves the local level, so does the power to make decisions (Mullins, 2004).
In 2007, 29 states had some form of revenue limits on the property tax (Anderson, 2007). This form of property tax limitation has decreased in popularity in the last five years. Only ten explicit property tax revenue limits were identified among states in 2012 (Lincoln Institute of Land Policy, 2014a). South Carolina does not currently use property tax revenue limits per se. However, the state does limit what funds can be used to finance the operating expenses of public education that acts similarly to a revenue limit. That policy is administered under the auspices of property tax relief.

**Assessment limits**

The final type of tax limitation, one that affects the tax base directly, is assessment limits. Limitations on increases of assessed property values prevent the annual property valuation from increasing beyond the established constitutional or statutory limit. These limitations can lead to the continuous undervaluation of property that has neither been reassessed or experienced a change in ownership. A natural benefit of the property tax is its ability to increase revenue automatically as property values increase, which allows for increased revenue flows as costs rise (Brunori, 2007). However, when assessment limits impede that increase, the strength and stability of the property tax is diminished.

Nineteen states impose some form of a property tax assessment limit (Lincoln Institute of Land Policy, 2014a). This number is up from twelve states in 2007 (Anderson, 2007). In South Carolina, the Real Property Valuation Reform Act limits any increase in the fair market value of real property attributed to periodic countywide
appraisal and equalization program and is limited to 15 percent within a five year period (S.C. Code § 12 37 3140(B); S.C. §12 37 3150; S.C. Constitution Article X, § 6).

Extensive research has shown that tax limitations reduce local government reliance on the property tax nationwide. The estimated loss of revenue from property tax limitations lies in the tens of billions of dollars in the United States (O’Sullivan, 2000) and reduces local government fiscal autonomy (Mullins, 2004). The likelihood of the political and legal limitations on the property tax is not likely to be rescinded in the near future (Brunori, 2007). The combined impact of these base restrictions is rarely debated or even calculated (Ingram and Wolman, 2009).

**Exemption proliferation**

While assessment limits have played some role in slowing the growth of the property tax base, an important source of property tax base erosion has been the proliferation of tax exemptions. Four distinct property tax exemptions have expanded over the last few decades across the United States. These include exemptions for charitable nonprofits, and the use of exemptions as an incentive for economic development, both of which have grown substantially over the last five decades. Additionally, there are numerous exemptions for farm property and government owned property. Almost all states have some level of exemption for agricultural property. The motivation around providing breaks for farmland is to preserve family owned farms, although the exemption has been also used politically to slow urban sprawl. Additionally, a large amount of land in the United States is exempt from local property taxes because it
is either federally or state owned. The Supremacy Clause of the United States Constitution exempts virtually all Federal government property.

This research is primarily concerned with base erosion resulting from the use of exemptions as economic development incentives and exemptions for nonprofit organizations. These exemptions have cost local governments billions of dollars annually (Brunori, 2007). Kenyon, Langley, and Paquin (2012) estimate that economic development incentives alone cost state and local governments five to ten billion dollars each year in forgone revenue.

**Exemptions as economic development incentives**

Exemptions for property taxes are a popular economic development policy (Youngman, 1998). To attract new firms or entice existing firms to expand, state and local governments offer exemption incentives that reduce or eliminate a firm’s obligations to pay property taxes on its land and land improvements (real property). These incentives can be attractive to firms because they lower costs, which may allow businesses to operate at a cost advantage. Property tax exemptions are the most common type of tax incentive offered by state and local governments (Brunori, 2007).

In 1969, there were 15 states that offered property tax exemptions as a form of economic development incentive. By 2005, there were 35 states offering exemptions (Brunori, 2007). In 2012, there were over 40 states offering some form of economic development related property tax exemptions (Lincoln Institute of Land Policy, 2014 a). There are currently six incentive programs for economic development used by the state of South Carolina. Of these, three programs involve property tax exemptions.
The exemptions in South Carolina are for entities that are expanding or choosing to locate their research and development operations within the state, manufacturing expansion and/or relocating exemptions, and exemptions for having corporate headquarters, main offices, and/or distribution centers within the state. The extensive use of property tax exemptions as economic development incentives creates a balancing act for state and local governments in South Carolina. Exemptions impact how much local government can rely on the property tax as a revenue generator and can create issues of equity between exempt and nonexempt property owners. More often the lure of attracting new industry can sometimes be viewed as more politically and economically important.

Only four states—Arizona, Iowa, Oregon, and Washington—have integrated evaluation of their major incentives like exemptions into the policy process. This evaluation ensures that the economic and fiscal impact of those investments is regularly reviewed. Of the nine states that have scheduled recurrent reviews, Arkansas, California, and Nebraska perform these reviews annually. Delaware’s reviews occur every two years, and Connecticut recently initiated a once every three years assessment. Arizona, Iowa, Oregon, and Washington have set a revolving evaluation schedule ranging from five to 10 years.

South Carolina does not disclose all tax incentives or measure the effectiveness and economic impact of the economic development incentives. Estimates using data from the Center on Budget and Policy Priorities, the nonprofit resource center Good Jobs First, and the National Association of State Budget Officers databases put the total cost of South Carolina economic development incentives around $896 million annually (Center
on Budget and Policy Priorities, 2014; Good Jobs First, 2014; National Association of State Budget Officers, 2014). The same sources reveal that the per capita cost of economic development incentives for South Carolina was $194 in 2012, which was higher than neighboring Georgia ($144) and North Carolina ($69). The Pew Center on the States (2012) considers South Carolina to be trailing behind other states in making informed decisions about the use of economic development incentives such as exemptions, and fails to properly evaluate the success level of using exemptions.

Research indicates that the use of property tax incentives does not matter significantly in business location decisions (Bartik 1985, 1991, 1994; Papke, 1991; Zheng and Warner, 2010). Several studies (Due, 1961; Oakland, 1978, Newman and Sullivan, 1988; Eisinger, 1988; Bartik, 1991; Wasylenko, 1997) have found little evidence of a significant impact of property tax incentives on local economic development. Bartik (1994) argues that tax cuts and exemptions do not provide enough leverage to attract new businesses. Bartik also found that while it is highly unlikely for the impact of incentive related revenues to be permanently negative, firm economic activity is not very sensitive to property tax incentives (Peters and Fisher, 2004).

**Exemptions for charitable nonprofits**

Increased use of charitable exemptions have provided another challenge for the property tax over the last three decades. Whole property categories have been exempted from the property tax. Property held by organizations like churches, schools, universities, and nonprofit and charitable entities has been removed from the property tax base and created significant political controversy (Youngman, 2003). In 2000, the total value of
exempt property held by exempt organizations was believed to exceed $990 billion (Netzer, 2002). Cordes, Gantz and Pollak (2002) believe the lost property tax revenue from charitable exemptions is as high as $13 billion. More recent estimates are difficult to find, but the foregone revenue is widely assumed to have grown along with the total number of exemptions offered.

Nationally, 1.14 million charitable nonprofits are registered with the Internal Revenue Service (IRS). The total number of nonprofits registered in South Carolina is 8,835 (National Center for Charitable Statistics, 2014). Some of these organizations are providing valuable public services, often on limited finances, and perhaps deserve to be subsidized by the rest of the community. Others benefit mainly their members or a limited and not particularly “needy” clientele. Some nonprofits are large users of municipal services, while others use very few services. Some own valuable property, while others rent their facilities, and do not benefit from the tax exemption. No apparent relationship exists between the value of the exemption and the value of the services provided.

Activities of these organizations are exempt from property taxes (or income taxes) only to the extent that they are in accordance to the organization’s nonprofit mission. Profits generated by activities deemed outside of this mission can be taxed. Regardless of the purpose of the tax exemption, the community subsidizes all property owning qualifying nonprofits through higher property taxes on nonexempt property without requiring or expecting an equitable distribution of services back to the community.
Hospitals and higher education institutions receive by far the largest absolute tax savings from property tax exemptions. These organizations control 51 percent of total nonprofit revenues and 42 percent of nonprofit assets, but account for only one percent of the number of charitable nonprofits registered with the IRS (Kenyon and Langley, 2010). In contrast, religious and human service organizations account for 43 percent of registered charitable nonprofits, but only a small fraction of total assets or revenues is reported to the IRS (Kenyon and Langley, 2010).

The property tax exemption for nonprofits can be seen as poorly targeted because it generally benefits those nonprofit organizations with the most valuable property holdings rather than the organizations that provide the greatest public benefit (Kenyon and Langley, 2010). While only one third of nonprofit organizations own real property, this fraction is much higher for larger organizations with higher revenues, and for nonprofits that need large amounts of property in order to carry out their core missions, such as retirement homes, hospitals, and higher education institutions (Cordes, Gantz, and Pollak, 2002). These properties tend to be located in larger municipalities with more valuable land holdings, which increases the impact on local property tax revenue (Brody, 2002).

Larger nonprofits sometimes offer services that compete with for-profit organizations that are not property tax exempt, which raises additional issues of competitive fairness. Private for-profit firms are at a disadvantage in offering the same kind of services as a tax exempt nonprofit, creating an incentive for consumers to choose a nonprofit over a for-profit form of organization and ultimately further eroding the
municipal property tax base. In response to these concerns, many states have moved toward definitions of organizations eligible for exemption that are more narrow than those used at the federal level. This narrowing of the kind of organizations eligible for tax exemption is an attempt to reclaim tax revenues (Brody, 2007). In South Carolina, local municipalities are allowed to determine which organizations are eligible for property tax exemptions (Kenyon and Langley, 2010).

**Property tax relief**

Another form of base erosion stems from certain kinds of property tax relief that removes property from the tax base or limits the assessed value. Research has shown that the poorest 20 percent of homeowners bear a relative property tax burden that is four times greater than the wealthiest one percent of homeowners (Coleman, Hughes, and Kehler, 2001). Reschovsky (1994) found that the property tax is regressive on younger households and the elderly—although the extent of the regressivity is widely debated (Brunori, 2007). Additional research by Youngman (1999) found that regardless of actual inequity between types of taxpayers, the perception of the property tax is that it unfairly burdens low and moderate income homeowners and the elderly. As a result of these perceptions, state and local governments have instituted programs to relieve homeowners’ property tax burdens through homestead exemptions, credits, deferrals and circuit breakers.

Property tax relief is either direct or indirect (Bell, 2012). Direct property tax relief targets a reduction in the amount of property taxes paid. Indirect property tax relief aims at creating revenue alternatives to the property tax. Forty-five states including South
Carolina have levy and assessment limits that seek to provide relief for certain groups of property owners.

South Carolina has a 15 percent assessment cap on the amount a property’s taxable value can increase during reassessment. Reassessment in the state occurs in five-year intervals and when property transfers ownership. Previous research of assessment caps in South Carolina has established a significant fiscal impact of the tax policy on the county level (Saltzman, 2004).

The classified property tax system in South Carolina utilizes differential assessment of various property categories including manufacturing property, utility property, transportation and pipeline property, primary (owner-occupied) property, agricultural property, personal property, and other real estate, such as second homes and commercial rental property. Residential properties in South Carolina fall into two categories: owner-occupied, which is assessed at four percent, and second homes or commercial rental property, which is assessed at six percent. Research on differential assessment programs for residential property is somewhat sparse. Much of the early work on differential assessment is largely focused on open land development and agriculture (Coughlin, Berry and Plaut, 1978; Anderson, 1993; Stockford, 1989). Some earlier research expanded into differential assessment in urban settings (Orr, 1968; Heinberg and Oates, 1970; King, 1977; Mieszkowski and Zodrow, 1989). More recent research (Kitchen, 2013; McMillen, 2013) has examined the fiscal impacts of differential assessment during the recent recession, but little work has been done in rural states like South Carolina.
Sources of property tax base erosion

Tax rate responsiveness

Taxes can discourage activities that increase the tax base and encourage activities that decrease the base. Research (Zodrow, 1986b; Mieszkowski and Zodrow, 1989) has established that taxes create inefficiencies by distorting resource allocation decisions resulting in capital being moved from high tax jurisdictions to low tax jurisdictions. The property tax burden tends to be borne by local residents, which leads to a view of the property tax being a benefit tax because it finances local projects that benefit local taxpayers. However, government officials seeking to attract capital investment in their jurisdictions with lower tax rates may underprovide public services, which affects housing consumption (Zodrow, 1986a). Housing consumption changes when residents are mobile and can choose the communities that provide them with the right combination of tax cost and public service provision (Tiebout, 1976).

Two important efficiency issues in property taxation include the creation of incentives to hold wealth in nontaxable forms and the impact on location decisions made by households and businesses. In general, taxation creates possible distortions of economic behavior. These efficiency issues are significant for the property tax because the effective tax rate is higher than it may appear. Property tax rates generally range one to two percent of the value of the property (Ulbrich, 2011). Property tax rates appear much lower than they actually are when compared to state income and sales tax rates. A large component of the property tax base is housing. A side effect of Act 388 was an increased incentive to convert six percent residential property to four percent residential
property because the elimination of school operating millage on owner occupied property greatly widened the tax differential.

Many state and local governments reduced their tax rates and narrowed their tax bases during the more prosperous 1990s. Most did so without understanding the comparative dynamics involved in taxation (Bruce, Fox and Tuttle, 2006). State and local governments have subsequently faced fiscal challenges during and after the Great Recession. As a result, governments have been tempted to adjust their revenue structures in order to stave off revenue instability. However, while government officials find it politically easier to lower tax rates, offer incentives and exemptions during good economic times, it is difficult to press for higher rates and reduced exemptions or incentives during economic downturns.

One of the most interesting dynamics of taxation is tax rate responsiveness, or specifically, incidence and elasticity. Economic incidence, or who actually bears the tax burden, is different from statutory incidence, which is who physically receives and pays the tax bill (Zodrow, 2006). A landlord may receive and pay a property tax bill, but in turn may respond to any tax increases by increasing rent, which shifts the economic burden of a tax increase onto the renter. In short, taxpayers will change their behavior to avoid paying taxes and the economic incidence of taxes is dependent on the responsiveness to changes in tax policy.

There are also capitalization effects to consider. If consumers anticipate a property to experience a higher rate of taxation, the value of that property will be discounted by the present value of the projected increase in future taxes (Zodrow, 2006).
The price or value of an asset is affected by changes in the taxes associated with that asset.

The responsiveness to property tax differentials for various kinds of property based decisions can be measured with elasticity. Certain types of properties, like residential property, receive preferential treatment by many states and local governments. This treatment shifts the tax burden onto other property types, like those used for business and rental properties. As property costs to hold higher rate property types rises, property owners begin to respond by shifting to property types with lower costs. The degree to which this migration occurs is a property’s elasticity.

The price and cost of land influences both buyers and sellers. The tax burden falls on the agent who responds the least, or has the most inelastic response to price and cost change. For example, if property holders are unwilling to sell their land assets, they will assume the property tax incidence. For state and local governments, taxing property with an elastic demand has lower revenue raising capacity because property owners will shift to other property types. Elected officials typically desire revenue sources that keep up with inflation for both revenue adequacy and political reasons. Governments desire a relatively elastic tax, which grows with the base. Real property provides a stable tax base that is relatively immobile. However, under a classification system, a property owner need not sell their asset, but merely change its use to seek lower tax costs. Thus, the property tax can affect both the mix and use of real property.
Mix of economic activities

Changes in the mix of economic activities affect the composition of wealth, income and consumption. The sales tax rates may dissuade consumers from consuming certain goods and services. Under a system with high income taxes, earners are incentivized to invest in nontaxed fringe benefits that might not otherwise be chosen. Individuals may also shift wealth holdings away from real estate to other less tangible forms of property that are not subject to taxation. Tax policy can substantially influence employment, output, investment and consumption (House and Shapiro, 2006).

The way labor is taxed affects workforce participation and changes to capital taxes affect saving and investment (Hemming, Kell and Mahfouz, 2002). Taxes can also affect the location of mobile labor and capital as well. Higher corporate and property tax rates can decrease economic growth rates (Lee and Gordon, 2005). The consequences of tax policy in a border state like Tennessee are much different than other states, like Florida, due to the proximity of other markets for workers and consumers. While real property like land is not mobile, the purchasers are mobile. This causes areas with no distinguishing attractions to be more susceptible to the consequences of higher tax rates. Coastal areas and metropolises can generally have higher property tax rates due to their amenities.

South Carolina and the nation have moved from manufacturing to a more service based economy. Accordingly, operations are less land and building intensive. This economic evolution leads to changes in the available property tax base. Given a higher property tax rate, households and business firms will alter their market behavior.
Household acquisition of assets may shift towards smaller homes and lots. There may also be a shift in consumption to more untaxed assets like home furnishings and less investment in land improvements that may increase property tax burdens. There is often state and federal deductions for mortgage interest and property taxes that somewhat offset these effects and make owning a home more attractive. Property taxes also make businesses consider what asset mix to use. Firms can alter plant size, property held, and the amount of land improvements made. Firms can also choose between different types of production processes, by substituting labor and capital depending on costs advantages.

An important policy aspect is the effect of property taxes on the location decisions of both households and firms. Tax differentials between different areas can attract or dissuade households and businesses to locate in a certain area. Each area has different attributes. Communities with attractions like beach proximity or those with proximities to conveniences like airports and interstate highways can levy higher property tax rates. However, in communities with comparable attributes, property tax differentials may encourage or discourage household and firm location. Thus, regardless of whether a property tax rate is perceived as high or low, it is likely to affect the behavior of households and businesses and thus, the mix of economic activities.
Legislative changes

Three types of legislative actions in South Carolina have led to property tax base erosion. Two policies, the use of property tax incentives for business location in economic development and property tax exemptions for nonprofit organizations, are studied in this research. The third type of legislative action centers on assessment issues in the state. These legislative actions include the use of differential assessment in the state, the implementation of a 15 percent assessment cap, and the adjustment assessment rates on motor vehicle personal property. However, because of difficulties generating sufficient data to study, assessment issues in South Carolina were not pursued in this research.

Economic development incentives for business location

The use of property tax incentives has become common in economic development. From 2000 to 2009, new job growth in the United States was slowed. State and local governments reacted by offering property tax incentives to stimulate economic growth and job development (Bell, 2012). Wassmer (2009) found that in 1963 fourteen states had “stand alone property tax abatement programs” that incentivized development. By 2007, that total had grown to thirty-five states with 7 additional states with similar programs, which totaled forty-two states with some form of incentive related property tax abatement.

Research indicates that these incentives increasingly do not matter significantly in business location decisions (Bartik 1985, 1991, 1994; Papke, 1991; Zheng and Warner, 2010). The use of incentives can result in inefficiency if local governments do not capture
the full benefit of offering property tax incentives. State economic development officials often drive incentive programs offered for economic development projects, but local governments bear the brunt of the costs, as they have to supply services that may exceed any additional property tax revenues from the project as a result of the incentives. The benefits of new businesses locating in an area are widely dispersed, but the cost of tax incentives is concentrated in a few local areas.

**Property tax exemptions for nonprofit organizations**

The purpose of property tax exemptions for nonprofit organizations is to encourage charitable entities to provide services that might not otherwise be provided or that the government would be forced to provide. However, this policy rewards nonprofit organizations that hold more valuable property as they receive the larger exemption. This encourages nonprofits to locate in areas with higher property values (Kenyon, Langley, and Paquin, 2012).

In South Carolina, property held by government, schools, colleges, and institutions of learning, nonprofit charitable institutions, such as hospitals those that care for the handicapped, the elderly, children, or the indigent, property of public libraries, churches, parsonages, burying grounds, property of charitable trusts and foundations are eligible for property tax exemptions. This research is primarily concerned with nonprofit organization defined as formal nonprofit and charitable organizations. The term “nonprofit sector” is generally intended to refer to organizations with federal tax exempt status and “charitable sector” refers to the subset of these organizations that have 501(c)(3) public charity status.
Research by Bowman, Cordes and Metcalf (2009) estimates that the value of real estate owned by nonprofit organizations has increased from $1.2 trillion in 2000 to almost $1.8 trillion in 2005, which was a 45 percent increase. By mid 2009, the value of all assets held by exempt organizations was over $2.6 trillion. The estimated revenue loss for governments from exemptions was estimated between $17 billion and $32 billion annually (Sherlock and Gravelle, 2009).

Property tax exemptions are widely provided to nonprofit organizations in South Carolina as long as the property is used exclusively for the organization’s purpose and no profit is realized. South Carolina is one of seventeen states that grant municipalities the power to decide which organizations can obtain property tax exemptions. Nationally, 1.14 million charitable nonprofits are registered with the Internal Revenue Service (IRS). The total number of nonprofits registered in South Carolina is 8,835 (National Center for Charitable Statistics, 2014).

Property tax exemptions for nonprofits primarily impact municipalities and create issues of revenue adequacy, efficiency, and equity. Property tax revenues finance municipal services and infrastructure like public safety, street maintenance, and sanitation. As more property becomes property tax exempt, municipalities are challenged to maintain adequate revenue to provide services. When more property qualifies for tax exempt status, local governments may account for this loss either by increasing property tax rates for nonexempt landowners or by reducing service levels. Either adjustment raises questions of efficiency, revenue adequacy, and equity between citizens.
CHAPTER FOUR

RESEARCH METHODOLOGY

The two policies studied in this research required different methodologies. This chapter details the qualitative and quantitative methods that were utilized.

Property tax incentives for business location

The study of property tax incentives for business location addresses the following three research questions:

- Do the firms studied value factors like infrastructure and a qualified labor force over tax incentives?
- Do the local governments studied conduct adequate impact analysis when offering property tax incentives for business location?
- Are the majority of tax incentives going to new firms or expanding firms already located in the jurisdiction?

Survey and interview methods were utilized to address the three research questions. The questions for the survey and interview of local government officials are drawn from previous research completed by the University of North Carolina’s Center for Competitive Economics (Morgan, 2009). That survey examined a broader topic: the role of local government in economic development. A subset of the original survey was dedicated to the use of property tax incentives for business location. Survey questions from that subset were utilized in this study. Utilizing the existing questions allows this
work to build upon previous research (Morgan, 2009) without reconstructing an entirely new survey.

Survey\(^1\)

The survey was conducted via an internet survey host, Survey Monkey. The use of an online survey method reduced the influence of a live surveyor, eliminated coding errors, and summarized data much more quickly (Nardi, 2014). The choice was made to use an online method in this research because it allowed the research participant to speak in their own words, was convenient, and was a common form of communication utilized by most local government officials. The internet survey host was chosen because it was widely known and commonly used in survey research. Additionally, Survey Monkey enables researchers to download results in multiple formats, which facilitated easier sorting of responses. The survey questions were divided into three categories to reflect the research questions that were addressed and results were reported based on frequency.

Recruitment of participants was completed with the assistance of the South Carolina Association of Counties and the Municipal Association of South Carolina. The survey was sent via email to the county administrator and economic development director for all 46 counties and to the municipal managers of all 270 municipalities in South Carolina.

The survey used in this research consisted of seven multi-part questions (22 overall questions) that participants completed in an average of 10 to 15 minutes. The survey invitation was initially distributed in mid June 2014 and the survey closed in early

\(^{1}\) The complete survey is presented in Appendix Three.
July 2014. Potential respondents received a weekly reminder email during the survey period. Responses of participants were completely anonymous unless the respondent voluntarily self-identified.

**Interviews**

Previous research (Morgan, 2009) on property tax incentives was largely limited to surveys of local government officials, but was expanded in this research to also include participants from two firms involved in large development projects in South Carolina: Boeing and BMW. BMW announced intentions to locate near Greer, South Carolina in 1992, which provides a mature example to study. Boeing announced a new manufacturing facility near Charleston, South Carolina in 2004, which provides an immature example to study.

Interviews are an essential source of evidence when studying human affairs and action. Interviews can corroborate findings in the existing literature and also provide important insights about research issues (Yin, 2014). This research utilized interviews from two categories of participants: company representatives and local government officials.

**Company representatives**

Participants in the first category of interviews were company representatives from Boeing and BMW. Interview requests were made through the office of the onsite general manager for each firm studied. Interviews with company representatives were held via

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1 The company representatives interview protocol is presented in Appendix Five.
telephone and averaged between 20 to 30 minutes in length and were conducted in June and July of 2014.

Interviews of company representatives are used to address the research question of whether firms value factors like infrastructure and a qualified labor force over tax incentives. Interview participants were provided upon request for the BMW site near the city of Greer and Boeing site near Charleston. Participants from both firms had working knowledge of the initial and existing property tax incentives offered to their respective firms.

**Local government officials**

Participants in the second category of interviews included local government officials from jurisdictions that were impacted by the Boeing or BMW development projects. The City of Greer as well as county officials from Greenville and Spartanburg counties were targeted for interviews related to the BMW project. Charleston County as well as municipal officials from the cities of Charleston and North Charleston were targeted for interviews related to the Boeing project. Local government interview participants include county administrators, municipal managers, and county economic development directors. The interview questions and protocol utilized were developed in previous research on economic development incentives (Morgan, 2009). Interviews with local government officials were held via telephone and averaged between 20 to 30 minutes in length and were conducted in June and July of 2014.

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3 The local government official interview protocol is presented in Appendix Four.
Interviews of local government officials were used to explore two research questions. The first research question focuses on whether local governments conduct adequate impact analysis before and after offering property tax incentives for business location. The second research question centers on whether local governments offer property tax incentives predominantly to new or existing firms. BMW or Boeing directly impacts the jurisdiction of each participant. Local government officials from three counties (Charleston, Greenville, and Spartanburg) and two municipalities were interviewed (Greer and Charleston). The State Department of Commerce and the City of North Charleston declined to participate in the interview process.

Property tax exemptions for nonprofit organizations

The study of property tax exemptions for nonprofit organizations addresses the following research question:

- What is the fiscal cost of property tax exempt land in the municipalities studied?

The research question for property tax exemptions sought to quantify the fiscal impact of property tax exempt land in the 30 most populated municipalities in South Carolina. Table 4.1 lists the 30 most populated municipalities in the state based on Census Bureau estimates (2013).
Table 4.1 The 30 Most Populated Municipalities in South Carolina

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Population</th>
<th>Municipality</th>
<th>Population</th>
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<tbody>
<tr>
<td>Columbia</td>
<td>133,358</td>
<td>Anderson</td>
<td>26,985</td>
</tr>
<tr>
<td>Charleston</td>
<td>127,999</td>
<td>Mauldin</td>
<td>24,525</td>
</tr>
<tr>
<td>North Charleston</td>
<td>104,054</td>
<td>Greenwood</td>
<td>23,379</td>
</tr>
<tr>
<td>Mount Pleasant</td>
<td>74,885</td>
<td>North Augusta</td>
<td>22,229</td>
</tr>
<tr>
<td>Rock Hill</td>
<td>69,103</td>
<td>Easley</td>
<td>20,300</td>
</tr>
<tr>
<td>Greenville</td>
<td>61,397</td>
<td>Simpsonville</td>
<td>19,615</td>
</tr>
<tr>
<td>Summerville</td>
<td>46,074</td>
<td>Hanahan</td>
<td>19,597</td>
</tr>
<tr>
<td>Sumter</td>
<td>41,190</td>
<td>Lexington</td>
<td>19,576</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>39,823</td>
<td>Conway</td>
<td>19,300</td>
</tr>
<tr>
<td>Hilton Head Island</td>
<td>39,412</td>
<td>West Columbia</td>
<td>15,824</td>
</tr>
<tr>
<td>Florence</td>
<td>37,792</td>
<td>North Myrtle Beach</td>
<td>14,827</td>
</tr>
<tr>
<td>Spartanburg</td>
<td>37,647</td>
<td>Clemson</td>
<td>14,276</td>
</tr>
<tr>
<td>Aiken</td>
<td>30,296</td>
<td>Orangeburg</td>
<td>13,891</td>
</tr>
<tr>
<td>Myrtle Beach</td>
<td>29,175</td>
<td>Bluffton</td>
<td>13,606</td>
</tr>
<tr>
<td>Greer</td>
<td>27,167</td>
<td>Cayce</td>
<td>12,860</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2013)

Analysis of covariance (ANCOVA) is used to quantify the potential per capita property tax exempt revenue cost of property tax exempt land in the municipalities studied. Per capita figures were used for scale due to the different populations of the municipalities studied. Per capita property tax revenue was the independent variable in this analysis and the following four variables were independent variables: municipal millage rates, per capita total assessed value, median per capita income, and the percent of property tax exempt land in each municipality. The next section provides an explanation of how data for each variable was collected.
Data collection

Property tax revenue totals by municipality were obtained from the South Carolina Revenue and Fiscal Affairs Office and divided by the estimated municipal population from the Census Bureau. Millage rates were available in Local Government Finance reports that each municipality studied posted to their municipal website. Total assessed value was calculated by dividing total property tax revenue by millage rate and converted to per capita using estimated municipal population. Median income was obtained through the Census Bureau. All figures are for the fiscal year ending 2013.

The percent of property tax exempt land was gathered from local government officials. The initial contacts for this information were primarily municipal geographic information system (GIS) offices. However, not all municipalities have GIS offices in South Carolina. Therefore, secondary sources were county GIS offices that can retrieve data from county maps within municipal boundaries. When a municipality has land in two or more counties and there were no municipal GIS office, the respective county GIS offices provide acreage figures in each county. Tax map boundaries for multiple county municipalities were confirmed with county tax assessors. Table 4.2 provides an overview of the sources for each municipality.
Table 4.2 Data Sources for Percent of Property Tax Exempt Land

<table>
<thead>
<tr>
<th>Municipality</th>
<th>GIS Source</th>
<th>Municipality</th>
<th>GIS Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>Aiken County</td>
<td>Hilton Head Island</td>
<td>Beaufort County</td>
</tr>
<tr>
<td>Anderson</td>
<td>City of Anderson</td>
<td>Lexington</td>
<td>Lexington County</td>
</tr>
<tr>
<td>Bluffton</td>
<td>Beaufort County</td>
<td>Mauldin</td>
<td>Greenville County</td>
</tr>
<tr>
<td>Cayce</td>
<td>Lexington and Richland County</td>
<td>Mount Pleasant</td>
<td>Charleston County</td>
</tr>
<tr>
<td>Charleston</td>
<td>City of Charleston</td>
<td>Myrtle Beach</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Clemson</td>
<td>City of Clemson</td>
<td>North Myrtle Beach</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Columbia</td>
<td>City of Columbia</td>
<td>North Augusta</td>
<td>Aiken County</td>
</tr>
<tr>
<td>Conway</td>
<td>Did Not Report</td>
<td>North Charleston</td>
<td>Berkley, Charleston, and Dorchester County</td>
</tr>
<tr>
<td>Easley</td>
<td>Pickens County</td>
<td>Orangeburg</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Florence</td>
<td>Florence County</td>
<td>Rock Hill</td>
<td>City of Rock Hill</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>Berkley County</td>
<td>Simpsonville</td>
<td>Greenville County</td>
</tr>
<tr>
<td>Greenville</td>
<td>City of Greenville</td>
<td>Spartanburg</td>
<td>Spartanburg County</td>
</tr>
<tr>
<td>Greenwood</td>
<td>Greenwood County</td>
<td>Summerville</td>
<td>Berkley, Charleston, and Dorchester County</td>
</tr>
<tr>
<td>Greer</td>
<td>Greenville and Spartanburg County</td>
<td>Sumter</td>
<td>City of Sumter</td>
</tr>
<tr>
<td>Hanahan</td>
<td>Berkley County</td>
<td>West Columbia</td>
<td>Lexington County</td>
</tr>
</tbody>
</table>

Each GIS office was contacted during an eight month period from August 2013 to April 2014. Data requests included the total property tax exempt acreage and total overall acreage in each municipality. The exempt municipal acreage was then divided by the total municipal acreage to determine the percent of property tax exempt land in each municipality. Any municipal acreage associated with large military bases like Shaw Air Force Base in Sumter and Fort Jackson in Columbia was not included in this calculation because that land is federally subsidized and receives little to no direct municipal services. While some GIS offices are able to drop different layers of exempt property like roads and highways from the exempt total, other offices with fewer resources are not as
capable. Therefore, total exempt municipal acreage over total municipal acreage was used to calculate the percent of property tax exempt land in this analysis.

**Sample size**

The target sample in this regression analysis was the 30 most populated municipalities in South Carolina. However, the percent of property tax exempt municipal land was obtained for only 26 municipalities. Initial outlier analysis revealed that the total assessed value for Hilton Head Island had a Cook’s D score of 5.87. A variable with Cook’s D scores greater than one have a large collective influence on the model and should be considered an outlier. One explanation for this finding was Hilton Head Island is a large resort community with exceptionally high property values and a small population size. Therefore, the observation for Hilton Head Island was not used in the analysis, which brings the analyzed observation total to 25 municipalities.

**Regression analysis**

The dependent variable in the regression analysis in this study was per capita property tax revenue ($PTR_{PC}$). The independent variable of interest in this analysis was the percent of tax exempt municipal land ($TaxExemptLand$). It was anticipated that per capita property tax revenue would be significantly negatively affected by the presence of tax exempt land. The coefficient for $TaxExemptLand$ variable is the per capita dollar amount of fiscal impact of a percent of tax exempt municipal land. Other independent variables considered in the model are population ($Population$), per capita median income ($Income_{PC}$), municipal millage rate ($Millage$), and per capita total assessed value.
(\(TAV_{pc}\)). The significance level in this analysis was set at five percent. The regression equation is written as follows:

\[ PTR_{pc} = b_0 + b_1 \text{TaxExemptLand} + b_2 \text{Income}_{pc} + b_3 \text{Millage} + b_4 TAV_{pc} + b_5 \text{Population} + e \]

This analysis examined several assumptions. Pairwise correlation analysis was used to analyze whether the independent variables were significantly correlated at a five percent level. The regression was conducted while controlling for several independent variables (covariates). Therefore, consideration was given to the interaction of the independent variable of interest, percent of tax exempt land, with the other covariates in the model to test the homogeneity of regression slopes assumption. If the interactions are significant at a five percent level, then the significant interaction terms must be included in the model. However, if interactions were not significant at a five percent level, the assumption of no interactions was satisfied and the interactions were not included in the final model. Variance inflation factor (VIF) scores for the percent of tax exempt land, per capita income, millage, per capita total assessed value, and population are also examined for issues with multicollinearity in the model. VIF scores higher than 10 would indicate the presence of multicollinearity.
Economic impact versus fiscal impact

The first form of policy examined in this research is the use of property tax incentives for business location. Tax incentives in economic development have been a leading tool employed by state and local governments. States offer tax credits, exemptions, and deductions to encourage business location, create jobs, and attract investment in the local economy.

This research has three research questions, including whether firms value tax incentives over other factors like infrastructure and a qualified labor force, whether local governments conduct adequate impact analysis when using property tax incentives, and if the incentives are primarily used to recruit new firms or retain existing firms. Each question was addressed through a statewide survey approach with embedded interview process. Interviews of company representatives from two large economic development projects in South Carolina are utilized to uncover what factors matter when making location decisions. Interviews of local government officials affected by two large economic development projects address the level of evaluation conducted when using tax incentives and whether incentives are offered to new or existing firms. When examining policy, it is important to clarify whether the research involves economic impact analysis or fiscal impact analysis.
Economic impact analysis

The purpose of an economic impact analysis is to estimate the changes in employment, income, and levels of business activity (typically measured by gross receipts or value added) that may result from a policy. The general approach involves projecting the levels of economic activity that would be expected to prevail in the study area with and without a policy. The difference between the two analyses measures the impact of the project.

The economic effects of a policy can be divided into direct effects (initial expenditures, persons directly employed, etc.) and secondary effects. To estimate the secondary effects of a policy, most analysts employ input output models, which quantify the linkages among sectors of the area economy. Others use employment or income multipliers derived by a variety of statistical methods. This research is focused on fiscal impact analysis.

Fiscal impact analysis

The purpose of fiscal impact analysis to project the costs and revenues of governmental units that is likely to occur as a result of a policy. The governmental units of primary interest are local jurisdictions that may experience substantial changes in population and/or service demands as a result of the policy. The fiscal implications of a policy are determined by a number of factors, including policy characteristics (e.g., the magnitude of investment) and area characteristics (e.g., state and local tax structure, the capacity of existing service delivery systems) and by the nature of the economic and demographic effects resulting from the policy.
Specific techniques employed to estimate the fiscal impacts of a policy differ somewhat in the details of the estimation procedure, and assessments differ substantially in the scope of costs and revenues addressed. In general, the revenues of local governments can be broadly classified as own source revenues (i.e., taxes and charges assessed and collected directly by local jurisdictions) and intergovernmental transfers (i.e., funds received from state and federal levels). Own source revenues can be further classified according to their primary determinants into those based on property valuation, those based on income or sales, those based on the level of production of some industry, and those based largely on changes in population. The techniques that are most appropriate for estimating revenues from these sources will differ depending on the revenue source (International Association for Impact Assessment, 2009).

Economic impact generally dominates the discussion during the economic development process. The number of jobs created, higher pay rates, and increased consumption levels are usually the benefits featured by development officials. However, little attention is given to the fiscal costs associated with creating economic development opportunities. Therefore, the focus of this research is on fiscal impact.

The costs and revenue impact on local governments as a result of property tax incentives for business location are examined. A statewide survey of local government and economic development officials was conducted. Additionally, interviews of officials involved in two of the state’s largest economic development projects involving the use of incentives are performed.
Literature review

Core component of modern economic development strategy

From 2000 to 2009, the United States experienced relatively slow job growth. State and local governments reacted by offering property tax incentives to stimulate economic growth and job development (Bell, 2012). Wassmer (2009) found that in 1963 fourteen states had “stand alone property tax abatement programs” that incentivized development. By 2007, that total had grown to thirty-five states with 7 additional states with similar programs, totaling forty-two states with some form of incentive related property tax abatement. All states now have some form of a tax incentive program (Brockmyer, et al, 2012). Many states have specific tax incentive programs aimed at attracting certain industries and manufacturers. Research indicates that billions of dollars are spent on tax incentives for business location annually (Mattera, et al, 2011). However, getting an exact figure was difficult because many governments do not fully disclose the value of incentives offered.

Many of the jobs lost due to the Great Recession have not yet been recovered, which has led to increased pressure on states to push for regional economic growth in jobs and investment. The use of tax incentives has been a leading tool in that effort (National Conference of State Legislatures, 2011). Incentives are frequently used as part of a bidding war between states seeking to attract relocating and expanding firms. If one state offers an incentive, a competing state often feels compelled to offer incentives or risk being left behind. By offering tax incentives, governments have less revenue to use for public services including education, infrastructure maintenance, healthcare, and
emergency services. Conversely, if a government does not offer incentives or fails to use them effectively, they may miss opportunities to create jobs by attracting new businesses.

There are two key questions surrounding the use of property tax incentives for business location. The first is whether the incentives are cost effective. The second question centers on how much offering incentives matters to businesses looking to relocate and expand.

**Types of incentives offered**

Business incentives are generally considered to be in two categories. The first category is tax instruments, which include property tax abatements, tax increment financing, sales tax exemptions and credits, and corporate income tax exemptions and credits for investments and job creation (Peters and Fisher, 2004). The second category of business incentives used to attract new businesses is nontax incentives. These incentives include business grants, loans and loan guarantees. Property tax incentives cost state and local governments five to ten billion dollars annually (Kenyon, Langley and Paquin, 2012).

Economic development incentives are important in the United States economy, which is relatively mobile. Economists have estimated that up to 14 percent of a metropolitan population moves between areas within a four year period (Peters and Fisher, 2004). Despite the relative “stickiness” of large scale migration, the threat of exit by both residents and businesses provides incentive for local governments to provide incentives for retention and attraction. These incentives include the property tax exemption.
When studying the effects of property tax incentives, a mingling of fiscal costs and economic gain often exists. A reduction in unemployment due to new jobs coming to an area is an economic gain. A change in population related to a development project is also an economic characteristic. Property tax incentives are fiscal costs that result in economic change. The fiscal revenue given up and economic gain can lead to recovered revenues, but the relationship is not straightforward or easily quantifiably compared. However, state and local officials must weigh the fiscal costs versus the potential economic gains.

Tax incentives have become an assumed basic part of the economic development package. Incentives are a highly visible piece of the economic development package for state and local politicians and viewed as a “tie breaker” for attracting and retaining companies. If incentives are strong enough, businesses and their workers simply move from one area without incentives to an area with incentives. An increased level of competition between local governments can result in a zero sum game as municipalities constantly reduce revenue streams to attract new firms.

The evaluation of the effectiveness of tax incentives

The use of business incentives as a development strategy for state and local government has been a widely used policy for the last thirty years. Although incentive programs continue to expand, there is very limited evidence to support their effectiveness. State and local governments create incentives for business location to influence firm relocation and expansion, rescue failing businesses and to remain competitive with other governments offering similar programs (Burnier, 1992).
Governments perceive tax incentives as foregone revenue, but expect that the economic benefits will outweigh the fiscal cost in the long run (Buss, 2001). However, the impact of tax incentive programs is frequently not evaluated, especially ex post.

A number of studies suggest that the relationship between employment growth and tax incentives is ambiguous (Gabe and Kraybill, 2002; Luger and Bae, 2005; Billings, 2008). Researchers have used various methods to study tax incentive effects including case study style interviews, survey, econometric regression, and simulation. Some models have adopted regression analysis to evaluate the correlation between state economic growth and tax incentives (Zhao, 2013). However, most models have problems in separating out nontax confounding variables, such as effects of agglomeration economy, firm establishment levels, and self selection of enterprise zones (Gabe and Kraybill, 2002). Additionally, static models can produce incoherent outcomes, given the dynamic nature of an economy.

A large portion of the literature suggests that the relationship between tax incentives and regional economic growth is weak at the state level (Zhao, 2013). There are two possible explanations for this finding. Tax effects are likely to be smaller in larger economies and incentives may induce a more significant new growth in poor and needy communities (Zhao, 2013). However, a careful analysis of costs and benefits is necessary in order to better understand this relationship. Few cost and benefit analyses of tax incentive programs have been carried out to evaluate these explanations.
**State evaluation of incentive programs**

State and local government evaluation of incentive programs varies widely. Ex ante approaches are sometimes used to attempt to understand the potential impact of a development project before incentives are offered. While ex poste analysis is more widely used, its’ use is not consistent across governments. In many cases, both forms of analysis are lacking (Brockmyer, et al, 2012).

All 50 states offer some form of tax incentives, but only 16 regularly evaluate the effects of tax incentive policies. Four states including Arizona, Iowa, Oregon, and Washington are evaluating incentives annually. Oregon has implemented a strategic investment evaluation component that includes tax incentive “sunsets” or expirations that require an evaluation of benefits versus costs of incentives. In that state, participants must justify the incentives received before they can be renewed. Washington conducts a broad evaluation of incentives offered instead of only evaluating a handful of benefits. During sporadic evaluations, other states have found that tax incentives do not necessarily create the projected number of jobs (Louisiana Economic Development, 2010) or that the costs associated with offering tax incentives for business location can be up to five times larger than most estimates (Minnesota Office of the Legislative Auditor, 2008).

The majority of the states are not regularly evaluating the effectiveness of tax incentive programs. The literature on tax incentives suggests the presence of a “knowledge gap” between the implementation of tax incentive policy and the evaluation of that policy’s cost effectiveness (Brockmyer et al, 2012). The Pew Research Center classifies South Carolina as “trailing behind” other states in evaluating the cost
effectiveness of tax incentives for business location (Brockmyer, et al, 2012). By failing to evaluate the use of tax incentives, governments in South Carolina are making decisions to offer tax incentives for business location based on incomplete information.

**Academic evaluation of incentive programs**

Researchers have utilized various methods to evaluate the cost and benefit of tax incentives. Some scholars find that certain types of tax incentive programs have positive impact on local job growth (Luger and Bae, 2005; Billings, 2008; Woodward and Guimaraes, 2008; Bartik, 1991). But other studies find an ambiguous relationship between tax incentives and positive economic development (Fisher and Peters, 1997; Gabe and Kraybill, 2002).

Academic evaluation of tax incentive use is broad and somewhat scattered. A case study in North Carolina by Luger and Bae (2005) focused on tax credit for job creation, machines and equipment, central administrative offices, and research and development. Studies of the BMW plant in South Carolina (Woodward and Guimaraes, 2008) and enterprise zones in Colorado (Billings, 2008) found that targeted tax incentives attract private firms to a new location, stimulating the economy and creating jobs through the multiplier effect. Several other studies have found very little evidence of a significant impact of tax incentives on local development. Table 5.1 provides a summary of some of this research.
Table 5.1 Studies of Impact of Development Tax Incentives

<table>
<thead>
<tr>
<th>Study</th>
<th>Study Methodology</th>
<th>Impact of Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due (1961)</td>
<td>Statistical</td>
<td>Minimal</td>
</tr>
<tr>
<td>Oakland (1978)</td>
<td>Econometric</td>
<td>Minimal</td>
</tr>
<tr>
<td>Eisinger (1988)</td>
<td>Econometric, survey, and case study</td>
<td>Minimal</td>
</tr>
<tr>
<td>Bartik (1991)</td>
<td>Econometric</td>
<td>Small but statistically insignificant</td>
</tr>
<tr>
<td>Wasylenko (1997)</td>
<td>Econometric</td>
<td>Small but statistically insignificant</td>
</tr>
<tr>
<td>Bartik (2005)</td>
<td>Econometric</td>
<td>Small but statistically insignificant</td>
</tr>
<tr>
<td>Kenyon, Langlely and Paquin (2012)</td>
<td>Case study and meta analysis</td>
<td>Minimal</td>
</tr>
</tbody>
</table>

Bartik (1994) argues that tax breaks do not provide enough leverage to attract new businesses. While Bartik states that it is highly unlikely for incentive related revenues to be permanently negative, he also finds that firm economic activity is not very sensitive to tax incentives (Peters and Fisher, 2004). Bartik adds that a firm’s elasticity is approximately 0.3. Therefore, a 10 percent cut in taxes would produce only a 3 percent increase in firm investment. Firms looking to relocate would need to spend much more than what the tax incentives can offer in benefit. Therefore, firms that do locate in the local area may have done so even without the tax exemptions, which result in the local government giving away revenue unnecessarily. Another problem with tax incentives is that firms do not always remain in a community once incentives expire. A firm may close or move before they pay the full tax rate.

New firms increasingly expect tax incentives in exchange for opening in a community, while existing firms may feel disadvantaged and investigate relocating to a neighboring community. These are unintended consequences of redistributing the
property tax burden unevenly across property owners by offering tax incentives and exemptions.

If tax incentives have little impact, why has their use by local governments grown? One possible explanation could be the competitive environment between local government that will not allow one local government to cease offering incentives without risking a loss of businesses to another area. Competition among jurisdictions contributes to a destruction cycle between local governments (Zheng and Warner, 2010). Another explanation could be that the jobs and, thus wages, that businesses bring to a community, are viewed as the real prize for local governments. Instead, could local government attract and retain businesses without foregoing valuable revenue sources, like property taxes? Are tax incentives important to businesses looking to relocate? An examination of what attracts businesses to a specific geographic location could provide an answer.

**Business location decisions**

Globalization and advancements in technology have increased the mobility of firms by lowering the costs of operating from multiple locations. Firms can now conduct live meetings from around the world and global markets are now available to small firms. Firms of all sizes now have extensive and inexpensive access to demographic and regional information, which has allowed firms to locate manufacturing in countries with low labor costs, house back office operations in cities with lower costs of living, and still place executive leadership in headquarters in large cities (Cohen, 2000). With the rise of the internet, it is no longer imperative for firms to be located near large cities to sell their product or services to a broad customer base. Attracting a firm’s entire operation is
becoming more difficult for local governments, so they must create an appealing environment for firms that are searching for a location for all or part of their business operations. While a high state and local marginal tax rate reduces firm start ups (Papke, 1991), there are other factors that a community may offer firms instead of automatically including or focusing on tax incentives in their economic development package.

A survey of business leaders revealed that the top priority of firms is workforce suitability (Arthur Andersen Company, 1995). As the business environment has become more dynamic, the demand for an educated workforce has increased. A focus on education and training systems by local government is attractive to businesses. An abundant and qualified workforce is necessary in order for firms to be able to recruit workers from the nearby region. Firms will inevitably bring some existing employees with them, and those employees will expect good elementary and secondary school systems for their children (Cohen, 2000). By reducing the property tax base through tax incentives and exemptions, these same communities may hinder their ability to offer a quality education.

Another priority for firms is minimal bureaucracy. Businesses are looking for areas where they can minimize start up and operation costs related to government regulation such as zoning, permit procedures, labor policies, and environmental regulations. New businesses generally have an operations timeline of six to nine months once a location has been selected (Cohen, 2000).

Infrastructure is the basic physical and organizational structures and facilities (e.g., buildings, roads, utilities, schools, etc.) needed for the successful operation of an
enterprise. Papke (1991) found that local governments that lack infrastructure or have a large amount of regulatory compliance mandates are less desirable. The presence of a suitable infrastructure is more important to businesses than marginal tax incentives (Papke, 1991).

Regardless of the approach a local government takes in attracting and retaining businesses, there are potential positives and negatives to offering development incentives in the form of property tax relief. Local government must not only consider the potential impact of the firm on the community but also the impact of tax redistribution on the community. Some firms may seek tax incentives just to gain a competitive edge. The possibility also exists that attracting a new firm to the area may crowd out existing firms in the market (Hansen and Rohlin, 2010). Larger firms may move into the area temporarily because of the advantage created by tax incentives and drive other local firms out of the market. More mobile firms may also leave the community in the future and weaken the local economy considerably.

Public monies could be spent more efficiently than by offering tax incentives (Buss, 2001). Local government must consider not only the costs of the incentive programs but also the opportunity costs of not collecting funds or shifting the burden to other taxpayers. State and local governments can offer more cost effective policies, such as customized job training, labor market intermediaries, and the provision of business services (Kenyon, Langley, and Paquin, 2012). Those programs are ranked highly among business leaders as reasons for locating in a specific community (Arthur Andersen Company, 1995). Communities with a high number of potentially attractive attributes and
a low number of potentially unattractive attributes are viewed as more suitable to
relocating and expanding businesses. A list of desirable community attributes is given in
Table 5.2.

**Table 5.2 Factors firms consider in choosing a location**

<table>
<thead>
<tr>
<th>Potentially Attractive Attributes</th>
<th>Potentially Unattractive Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate skill level and suitability for the labor market</td>
<td>High general taxation levels and tax policies of the state</td>
</tr>
<tr>
<td>High quality educational systems</td>
<td>Workers’ compensation costs</td>
</tr>
<tr>
<td>Availability and reasonable cost of housing</td>
<td>Presence of competitors</td>
</tr>
<tr>
<td>Adequacy of transportation systems</td>
<td>The presence of tax liens</td>
</tr>
<tr>
<td>Access to suppliers and contractors</td>
<td>Title complexities on property</td>
</tr>
<tr>
<td>Proximity to attractions (quality of life)</td>
<td>Cost and availability of water, sewer, and solid waste disposal</td>
</tr>
<tr>
<td>Road/train/air/truck access</td>
<td>Poor infrastructure (e.g., power, telecommunications) capacity</td>
</tr>
<tr>
<td>Sufficient market for the company’s product</td>
<td>Possible cost of environmental remediation</td>
</tr>
</tbody>
</table>

Source: Cohen, 2000

Table 5.3 provides additional location priorities and cost sensitivities based on the
age and type of product that a targeted firm or industry produces. By conducting asset
mapping and SWOT analysis, local governments can determine which product or service
industries are most appropriate to target.
Table 5.3. Location Priorities by Product Type

<table>
<thead>
<tr>
<th>Age of Product or Service</th>
<th>Product Example</th>
<th>Location Priorities</th>
<th>Cost Sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young</td>
<td>New media, Internet product development; Website design</td>
<td>Urban lifestyle High face to face interaction Availability of talent from multiple disciplines and skill levels</td>
<td>Less sensitive to cost</td>
</tr>
<tr>
<td>Mature</td>
<td>Small electronic goods, manufactured goods</td>
<td>Low cost entry level labor Low cost space Affordable housing</td>
<td>Heavy cost sensitivity</td>
</tr>
</tbody>
</table>

Source: Cohen, 2000

Table 5.4 provides business location priorities and cost sensitivities based on types of operations. Globalization and technological advances have allowed businesses to incorporate a more disjointed organizational structure and reduces the likelihood of attracting a firm’s entire operation. However, developers can target specific aspects of operations for which their area is more suitable. By conducting a community asset analysis, local government can determine which category the community best fits and recruit new business towards their existing strengths.
Table 5.4 Location Priorities by Business Function

<table>
<thead>
<tr>
<th>Business Function</th>
<th>Location Priorities</th>
</tr>
</thead>
</table>
| **Headquarters**          | • Accessible international air service  
                          | • High end hotels, restaurants, entertainment, cultural events; major league sports team/stadium with skyboxes to facilitate heavy inter-company face to face interaction  
                          | • Professional support services, good choice of office space or availability of land to build to suit  
                          | • Diverse professional employee base  
                          | • Attractive housing for executives, affordable housing for managers and support staff within reasonable commute  
                          | • Strong educational system for employee’s children and continuing adult education  |
| **Research and Development** | • Proximity to concentration of universities  
                          | • Clusters of highly educated workers, or alternatively, lifestyle amenities that are attractive to a pool of talent  
                          | • Control over physical environment to buffer company from nosy neighbors, sharing of secrets by employees  |
| **Back Office**           | • State of the art telecommunications capacity  
                          | • Affordable housing costs  
                          | • Quality labor force with technical skills  
                          | • Good schools for employee recruitment and their children  
                          | • On going available adult education and training  |
| **Manufacturing and Distribution** | • Good transportation system, near major interstates  
                          | • Strong utility systems: electric, water, wastewater, gas  
                          | • Well educated workforce  |

Source: Cohen, 2000
Mainstream criticisms of the use of tax incentives

Four mainstream criticisms of incentive focused development strategy can be found in the literature (Burnett, 2011). The first criticism is that incentives are a “zero sum” game because they create bidding wars among states. One state luring business away from another with the promise of tax benefits does not create any new economic activity, rather it just transfers existing activity into another geographic location.

The second criticism is that some studies find that a company’s decision to locate in a particular state has little to do with the incentives offered and more to do with the preexisting assets of a state, such as workforce education levels, transportation capacity and access, housing affordability and a geography that is appropriately located for the firm’s needs. A possible implication is that state policymakers should focus less on specialized incentives and more on improving attractive assets.

The third criticism is that incentives are used inappropriately to compensate for weak spots in the economic climate, tax or regulatory infrastructure of a state. Another strategy might be to engage in strategic planning to improve their overall business climates including a review and analysis of regulatory barriers, tax codes, business permitting systems, workers’ compensation systems and labor relations.

The final criticism of the use of tax incentives is that spending limited public dollars on incentives erodes the tax base, resulting in underfunding of critical services, such as transportation infrastructure or education. In addition, a loss of tax dollars to incentive programs could lead to the imposition of additional taxes on citizens or other businesses to make up the difference, which in turn leads to uncertainty, inequity or
instability in the tax system (Bruce, Carroll and Deskins, 2005).

The use of tax incentives in South Carolina

South Carolina offers an array of tax credits and development subsidies. Two of the largest recipients of property tax incentives for business location in South Carolina have been BMW and Boeing. To further examine the use of property tax incentives, this research will provide a brief overview of those development projects.

Obtaining data and impact analysis for economic development incentives in South Carolina can be difficult. Freedom of Information Act (FOIA) requests filed with the State Department of Commerce often include redacted figures as evidenced by the economic impact analysis reports obtained for two smaller projects involving Amazon⁴ and Spirit Pharmaceuticals⁵. Requests for additional details for the projects featured in this research, BMW and Boeing, did not receive a reply.

BMW and Boeing provide good studies for this research for multiple reasons. Each project has become a benchmark for future development in the state. BMW’s manufacturing facility was announced in 1992, which provides a mature example to study. Boeing’s plan to locate in South Carolina was announced in 2004, which provides a less mature case to study. Both projects involved a myriad of incentive and bond packages. Most importantly for our purposes, both projects involved multiple local governments (e.g., counties and municipalities).

South Carolina commonly uses fee in lieu of taxes (FILOT) to reduce the property

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⁴ A copy of the Amazon economic impact analysis report is presented in Appendix One.
⁵ A copy of the Spirit Pharmaceuticals economic impact analysis report is presented in Appendix Two.
taxes for new and expanding businesses. The FILOT incentive became law in 1987. Qualifying businesses can pay taxes based on lower assessment rates ranging between four and six percent depending on the investment size (U.S Department of Commerce, 2013). Due to Boeing’s large investment, it qualified for a four percent assessment rate with taxes fixed for 15 years.

Without a FILOT program, industrial property is assessed at 10.5 percent in South Carolina. Commercial and rental property is assessed at six percent. The 10.5 percent assessment on industrial property places South Carolina at a disadvantage compared to neighboring states like Georgia, where some counties offer full property tax exemptions for ten years. Compared to North Carolina business investors, South Carolina businesses may pay three to four times the property taxes due to high assessment rates on non-incentivized property (Miley and Associates, 2010). The presence of tax incentives in neighboring states necessitates the use of limits at home, which leads to a de facto war among the states for development (Burstein and Rolnick, 1995).

Research by the Minnesota Taxpayers Association found that South Carolina ranks among the highest states in property taxes on industrial property in the United States (Minnesota Center for Fiscal Excellence, 2014). The manufacturing sector in South Carolina pays 12.6 percent of all property taxes in South Carolina, but represents around five percent of the establishments in the state. Taxes for public school districts represented about 60 percent of the total tax burden (South Carolina Budget and Control Board, 2013). Manufacturing firms pay almost five times what a typical owner occupied resident would pay in total property taxes on a property of the same market value (Miley
and Associates, 2010). This revenue makes homeowner’s property taxes lower, but decreases South Carolina’s competitiveness with neighboring states in order to draw new facilities and jobs.

Critics of incentives offered in South Carolina believe that revenue lost by offering incentives have resulted in underfunding in key areas like public education, social services, and infrastructure, despite attracting new jobs (Good Jobs First, 2014). South Carolina consistently ranks low on educational attainment (U.S. Department of Education, 2012) and highway fatalities (Hartgen, Fields, and San Jose, 2013). Many public services, including education and road maintenance, are financed from property tax revenues.

**BMW project overview**

In 1992, German car manufacturer BMW received an incentive package valued at $150 million to open a new assembly plant near Greer, South Carolina. Construction of the plant began in April 1993 with the first production employees being hired in January 1994. In 2003, the manufacturer received additional incentives valued at $100 million for plant expansion (Good Jobs First, 2014).

The BMW facility is located in an unincorporated area of Spartanburg County near the border with Greenville County. The closest municipality is Greer. The population of Greer is estimated at over 26,000 (United States Census Bureau, 2013). Greer has experienced a housing boom since the BMW facility opened. BMW’s five year estimated impact on the local economy including much of Spartanburg and Greenville counties was $2 billion (Nash, 2011). The BMW facility produces over 30,000 vehicles
each month and has over 7,000 employees with thousands more working for associated suppliers. It has been estimated that BMW has invested over $6 billion in South Carolina in the last twenty years (Good Jobs First, 2014).

A University of South Carolina study found that less than a decade after opening its facility, the state’s BMW facility and its suppliers account for more than one percent of the states total workforce (Woodward and Guimaraes, 2008). About 50 plants in South Carolina provided parts to BMW. It has been estimated that those suppliers have added over 16,000 jobs. BMW was estimated to have received $325 million (2012 dollars) in public money and tax breaks, which has seemingly been a net positive for the state. However, while the per capita incomes for Greenville and Spartanburg counties are higher than the state average, they have not risen faster than the rate of inflation over the last 10 years, and the poverty level in both areas has increased (United States Census, 2013).

BMW pays no property taxes on land, and its taxes on buildings and equipment are 43 percent lower than what other firms pay in neighboring areas (Woodward and Guimaraes, 2008). While its fiscal contributions are limited, local governments still need to pay for public services and infrastructure to maintain and attract businesses. Incentive programs may make it harder for states to finance important functions, such as transportation systems, public education, and utilities programs (Kaye, 2008).

BMW has lobbied the state government in South Carolina extensively. The creation of the General Obligation Economic Development Act (GOEDA) was largely attributed to the efforts of BMW. The bond act specifies that in order to receive
incentives, participants must involve a $400 million investment and create at least 400 jobs, which are the precise numbers created with its latest expansion. That expansion qualifies BMW to receive as much as $80 million of the $250 million economic development pool created by the GOEDA legislation. BMW pays one dollar annually to lease a tract of land valued at $36 million from the state.

Any negative fiscal effects have been somewhat offset by BMW’s strategy of working with local suppliers, which has had a multiplier effect on the upstate of South Carolina that resulted in a positive economic impact. Not only have regional suppliers generated more jobs and revenue, but also employees have purchased more at local businesses. The spending leads to more jobs and income in other establishments. Woodward and Guimaraes (2008) found that BMW’s South Carolina plant supports 23,050 jobs and 40 suppliers across 11 counties through the multiplier effect. The value of property in the area, such as housing and land, has increased at a higher rate than the state average as well. In addition, Greenville, Spartanburg, and Laurens counties have received additional revenue of $2.4 million every year from the increase of property, income and sales taxes (Woodward and Guimaraes, 2009).

**Boeing project overview**

In 2004, Vought Aircraft Industries along with Alenia Aeronautic received initial subsidies worth over $100 million to build a manufacturing complex near Charleston, South Carolina. The plant produces components for Boeing. By 2009, Boeing received additional incentives and subsidies from the state valued up to $900 million to locate their new large aircraft production line at the same location (personal communication, July 16,

Boeing received a package of state and local tax breaks, land, and training assistance valued at $116 million (personal communication, July 16, 2014). The state also agreed to issue $160 million in bonds to finance the construction of the Boeing facility that the company will pay back. Boeing spent at least $750 million on the new production line and created over 3800 jobs in addition to the existing 2,200 Boeing employees already in the area (Miley and Associates, 2010).

Boeing’s initial property tax incentives are effective for 15 years. The company will pay an estimated $2.5 million annually to Charleston public schools. If the incentives are allowed to expire in 15 years, the estimated tax amount is over $5 million (Miley and Associates, 2010). Under the incentive plan offered, Boeing would be paying property taxes based on an assessment rate of four percent for 30 years. Boeing will receive a 50 percent credit against property taxes for the first 15 years, which reduces their assessment ratio to two percent. Beginning in the 16th year, Boeing will pay property taxes at the assessment ratio of four percent. The two percent assessment incentive is estimated to be worth approximately $53 million.

The Boeing facility will pay almost $3.5 million a year in local government property taxes. Once the 15 year tax incentive ends, the facility will pay an estimated $7 million a year in local government property taxes. For years 16 through 30, Boeing will pay more than $105 million in local property taxes to Charleston County and Charleston County schools (personal communication, July 16, 2014).

State officials determined Boeing’s incentive package with some input from
county officials. Municipal officials had little to no influence on the package, although it did impact their ability to raise funds locally via the property tax (personal communication, July 15, 2014). The Boeing project did include clawback provisions as a part of the incentive package. Should Boeing not meet certain investment and employment levels, the company is required to reimburse the state.

Boeing officials indicated that the reasons the company chose South Carolina centered largely on the presence of Vought, the skill level of the existing workers, overall business climate, attractive power pricing from SCANA and Santee Cooper, access to the Port of Charleston, Charleston International Airport and major interstate highways (personal communication, July 16, 2014). The Coordinating Council of Economic Development (CCED) found that the Boeing incentives will result in a net positive benefit once all incentive costs, local and state government are taken into account. Requests for a detailed copy of the CCED impact analysis were denied (personal communication, July 17, 2014). Boeing is regularly compared to BMW. The key question regarding the Boeing project is will the aerospace giant build the same type of auxiliary enterprises experienced with BMW.

Analysis

This chapter explores three research questions. The first question is whether firms value tax incentives over other factors like infrastructure and a qualified labor force. An incentive policy is created to attract new businesses and incentivize expansion of existing businesses. However, if firms do not value the policy’s incentives over other factors and would have chosen to locate and/or expand in South Carolina without them, then it can be
concluded that the policy is inefficient.

The second question is whether local governments conduct adequate impact analysis when property tax incentives for business location are offered. The literature ranks South Carolina as poor in tax incentive evaluation. The Great Recession has reduced some of the fiscal resources for local governments. Less consumption leads to lower local sales tax revenue, higher unemployment reduces both spending and state income taxes, and stagnant or declining property values can limit property tax revenues in the long run. Without adequate pre and post incentive cost benefit analysis of the tax incentive programs used to attract economic development, local governments could make decisions that result in revenue adequacy issues.

The third question explored in this chapter examines whether the majority of incentives are used to recruit new firms or incentivize expansion of existing firms. The tax base consists of different types of taxpayers. Among businesses, there are established firms and new firms recruited to the area. If one type of business receives more incentives than the other, issues of both efficiency and equity may emerge.

**Statewide survey**\(^6\) \(^7\) and **embedded interviews**\(^8\)

A statewide survey of local government and economic development officials was used to better understand the use of property tax incentives in South Carolina. Embedded interviews of local government officials and company representatives involved in two major economic development projects in South Carolina, BMW and Boeing, were also

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\(^6\) A copy of the survey is presented in Appendix Three.

\(^7\) Survey results are presented in Appendix Seven.

\(^8\) Copies of the interview protocols are presented in Appendix Four and Appendix Five.
conducted. Each economic development project utilized tax incentives for business location and expansion. Each firm also receives preferential property tax treatment, which make good examples to study.

**Local governments and BMW**

Representatives from three local governments involved with the BMW manufacturing site were interviewed to illustrate the use and perceived effectiveness of incentives used in the project. Officials from the City of Greer, Greenville County and Spartanburg County were contacted. All participants indicated that county government had lead responsibility with some assistance from third parties such as the Appalachian Council of Governments and other development agencies. The size of the BMW project also necessitated the involvement of state officials including the governor at the time and the state Department of Commerce.

Those interviewed indicate that the cooperation level across governments involved with the project were mostly positive, although one municipal official replied that cooperation was neither positive nor negative. County officials state that the overall use of tax incentives is balanced between attracting new firms and retaining existing businesses. Both counties only require written performance agreements in some cases and only Greenville County regularly performs pre and post project cost benefit analysis. The Spartanburg County official contacted indicated that they depend on state agencies for impact analysis due to budgetary limitations.

A county official interviewed during this research indicated that while the merits of offering tax incentives to BMW initially were not questioned, it was uniformly felt that
incentives must be offered to compete with other states (personal communication, June 24, 2014). “BMW has been a major win for the state of South Carolina” added a another county official who continued, “Clearly, whatever was done has worked” (personal communication, June 25, 2014).

Little debate can be had on the economic success of BMW in South Carolina. However, there is much academic debate as to whether firms are actually attracted to an area by incentives. The majority of the literature on the use of incentives is inconclusive (Gabe and Kraybill, 2002; Luger and Bae, 2005; Billings, 2008). Most governments perceive the fiscal cost of tax incentives are outweighed by the economic benefits (Buss, 2001), but incentive programs are not widely evaluated (Brockmyer, et al, 2012).

**BMW perspective**

BMW officials have cited the presences of a “good labor climate” and “availability of qualified workers, as well as numerous global firms already in the area”, as well as a solid local transportation infrastructure that includes interstate access, nearby airports, established rail systems, and port access as reasons for locating in the upstate of South Carolina (Good Jobs First, 2014). A commitment from state and local lawmakers in maintaining stable tax rates and an income tax credit of $1,500 per new job created was also a priority for BMW, but a company official maintained that “without the availability of an educated workforce, existing infrastructure, and conducive geography, the deal would not have materialized” (personal communication, June 26, 2014). While the incentives provided were attractive, they were “secondary factors” to more pressing needs like a capable labor pool and existing infrastructure (personal communication, June
The company official also added, “BMW is cognizant of the surrounding community and strategically encourages a local supply chain for its manufacturing operations. This practice is something unique that BMW brings to the local area: exponential growth through supply vendors” (personal communication, June 26, 2014). If such attributes are found with only certain manufacturers, then not all manufacturers will bring suppliers with them to obtain such exponential economic growth. Thus, not all firms will produce the results obtained by the BMW project, a factor that might be relevant in putting together a firm specific package of tax incentives for business location.

**Local governments and Boeing**

The cities of Charleston and North Charleston were the municipalities contacted to explore the Boeing project in coastal South Carolina. While the City of Charleston participated in the interview process, the City of North Charleston and the State Department of Commerce declined. Charleston County also participated. Similar to the findings in the BMW study, officials with the City of Charleston and Charleston County acknowledged that counties take the lead in economic development projects. And also like BMW, state and county officials spearheaded the Boeing project with heavy involvement of the governor’s office and the state Department of Commerce as well as numerous third party development organizations (e.g., councils of government, development consultants, etc.).

The participating local government officials indicated that the cooperation level
during the Boeing project was very positive. Each government offers tax incentives for economic development that are balanced between attracting new and retaining existing firms. The County of Charleston indicated that it sets written performance requirements for all incentive programs (personal communication, June 26, 2014). The county also indicated that it routinely runs impact analysis after offering incentives as a means to examine if performance agreements have been met, but do not always run the same analysis prior to offering incentives. One county official stated that impact analysis can be “tough to quantify,” but is a much easier task to complete as “a retrospective analysis” when outcomes are available (personal communication, June 26, 2014).

According to a City of Charleston official interviewed, impact analysis of the use of incentives is not regularly completed (personal communication, July 15, 2014). Given the lack of long run outcomes from the Boeing project, local government officials were asked of the project’s perceived success thus far. A municipal representative responded, “initial returns are extremely positive” and went on to cite increases in local sales and tax revenue as well as an uptick in the local housing market (personal communication, July 15, 2014). Charleston County representatives responded that Boeing has been an “unequivocal success” so far and that they are hopeful of creating an “aerospace cluster similar to the automotive cluster in the Upstate” (personal communication, June 26, 2014).
Boeing perspective

Before providing the details uncovered in interviews with Boeing officials, it is important to note the context in which the discussion occurred. The National Labor Relations Board (NLRB) sued Boeing in 2011, alleging that the company scrapped its plans for a new plant in the state of Washington to punish union workers for a recent strike. Instead, Boeing located its new manufacturing facility in non-union South Carolina. The original complaint was filed by a machinists’ union in 2010 and investigated by the NLRB. The lawsuit was eventually dropped in late 2011 when the machinist union and Boeing reached a four year contract extension for facilities in unionized Washington State. Given these circumstances, Boeing officials were understandably hesitant to comment on labor related reasons for locating in South Carolina.

Company officials did indicate that while the tax friendly environment of South Carolina included both tax incentives and bond agreements for building facilities, “these incentives alone would not qualify an area as suitable” (personal communication, July 16, 2014). When looking to relocate, an area “must have access to suitable infrastructure to handle the size of a Boeing plant” (personal communication, July 16, 2014). Additionally, “South Carolina’s willingness to provide resources to train workers in aerospace technologies and advanced manufacturing was a big selling point” (personal communication, July 16, 2014).

With local schools like Trident Technical College adding curriculum specific to Boeing’s operation, the firm feels it can “count on a steady stream of qualified workers”
as it expands its operations moving forward (personal communication, July 16, 2014). According to the personnel interviewed, the state of South Carolina “went above and beyond in their bond agreements to help build the new Boeing facilities.” The company believes it “will pay back the incentives received many times over by reinvesting in the community and hiring more workers” (personal communication, July 16, 2014).

**The value placed on tax incentives over other factors**

Whether firms value property tax incentives over other factors like infrastructure and a qualified labor force is the first issue examined in this section. To explore this issue, interviews were conducted with officials involved in two major economic development projects in South Carolina, BMW and Boeing. As a part of this study, company officials from both organizations as well as representatives from each relevant local government are interviewed. The interview findings are then compared to the existing literature, which finds ambiguity and limited importance of tax incentives in economic development and firm location and expansion decisions (Arthur Andersen Company, 1995; Cohen, 2000; Gabe and Kraybill, 2002; Luger and Bae, 2005; Billings, 2008; Kenyon, Langley, and Paquin, 2012).

Officials with both BMW and Boeing were clear that while tax incentives were attractive, neither organization would have located in South Carolina without existing infrastructure and a qualified labor pool. The findings seem to support a finding that firms do not value tax incentives over other factors like infrastructure and a qualified labor force and is consistent with the findings of ambiguity and indifference in the value firms place on tax incentives in the literature. If the intended effect of property tax
incentives for business location is to attract new and expanding businesses, then the policy is at least somewhat inefficient.

Local government officials in both cases believe that the incentives were justified and worth the cost given the benefits both received and projected. There is also a feeling among local government officials that incentives are necessary to compete with other locations, which is consistent with the findings detailed in the literature. This finding would suggest that the true intent of tax incentives for business location is not to attract new and expanding firms, but rather to remain competitive with other state and local governments. Such competition perpetuates the “war among the states” in economic development (Burstein and Rolnick, 1995).

**Local governments and impact analysis of tax incentives**

The second issue examined in this chapter seeks to uncover whether local governments conduct adequate impact analysis when using tax incentives for business location. To explore this issue, a survey of all municipal (270) and county governments (46) in South Carolina focusing on county administrators and municipal managers in addition to economic development directors was completed. The South Carolina Association of Counties and the Municipal Association of South Carolina agreed to distribute the surveys to their member jurisdictions. The survey received 68 responses, which included 45 municipalities and 23 counties.

The Census Bureau defines counties as urbanized areas with a population over 50,000, urban clusters with a population range from 2,500 to 50,000, and rural with a population under 2,500. South Carolina’s county populations range from just over 9,900
to over 466,000 across 46 counties. Of the county respondents in the survey conducted in this research, three are from urbanized areas with a population greater than 50,000, while 15 were from urbanized clusters with populations under 50,000. The per capita income for counties in South Carolina ranges from $12,924 to $32,731 with the average statewide per capita income at $23,443. Survey respondents in this research come from six counties that are above the state average per capita income (there are 11 total counties above the state average in the state) and 17 counties that are below the state average per capita income. Both population types (i.e., rural and urban) were well represented as well as counties that are above and below the state average per capita income.

Census guidelines for classifying a municipal population as rural (population less than 2,500), urban (population less than 50,000), or metropolitan (population greater than 50,000) areas are utilized. The population range for the municipalities surveyed in this research was from 45 to over 133,000. Of the municipal respondents, 16 are rural (out of 71 total rural municipalities in the state), 11 are urban (out of 193 total urban municipalities in the state), and four are metropolitan (out of 6 total metropolitan municipalities in the state). While 26 percent of South Carolina municipalities are rural, the rural response rate to the survey was 38 percent. Urban municipalities represent 71 percent of South Carolina municipalities and had 52 percent response rate in this survey research. South Carolina has six municipalities classified as metropolitan and four took part in this survey research.

Fifty-two percent$^9$ of the local government survey respondents indicated that their

$^9$ Survey results are presented in Appendix Seven.
jurisdiction specifically offered property tax incentives for business location. Fifty-seven percent of those governments either did not conduct cost benefit analysis of using incentives or were not aware of whether incentives were analyzed prior to offering them in economic development. Only 25 percent of the respondents performed a cost benefit analysis of incentives after offering business incentives. Twenty-eight percent of those surveyed had a formal policy for determining which businesses should be eligible to receive incentives.

Only 11 percent\(^{10}\) of respondents knew whether their jurisdiction required a certain percentage of new positions to be hired locally. Forty-two percent of survey respondents indicated that their local government included clawback provisions and/or performance targets in incentive agreements for businesses. However, 58 percent of the local government officials surveyed either never or only sometimes require written performance agreements as a condition for offering business incentives to attract economic development.

The survey results are also supplemented during the interviews of local government officials involved in the BMW and Boeing projects. As indicated in the previous section, local government officials associated with both the BMW and Boeing projects indicate a limited ability to conduct extensive impact analysis of tax incentives. While both projects had a mostly positive level of cooperation among state and local governments, only Charleston County indicated that it regularly required claw back provisions and performance targets for incentivized firms.

\(^{10}\) Survey results are presented in Appendix Seven.
This research appears to support the literature findings that local governments do not always conduct adequate impact analysis when using tax incentives. While the BMW and Boeing projects are perceived as unmitigated successes, it is unclear whether other smaller projects will produce the similar outcomes. Further study is needed in that area. The findings are consistent with the conclusions of other research (Minnesota Center for Fiscal Excellence, 2014; Pew Center on the States, 2012) that note the inadequacy of South Carolina’s ex post assessment of tax incentives.

This inadequacy is an important finding considering the strain on the state’s fiscal resources during the post Great Recession era. Revenue adequacy is very important to local governments that have limited ability to generate additional funds outside of the property tax. Combining the findings of the previous section that firms do not place a high value on property tax incentives with the inadequacy of ex post impact analysis in South Carolina, it appears that South Carolina state and local governments may be surrendering more property tax revenues than necessary and potentially creating issues of revenue inadequacy.

**Tax incentives, new industry, and existing firms**

Tax incentives can be offered to new and/or existing businesses. A common perception in economic development is that the majority of resources are used to attract outside firms to an area, which leads to increased competition among state and local governments (Burstein and Rolnick, 1995). The survey and interview process of local government officials and firms was used to examine whether tax incentives are predominantly offered to new or existing firms.
The survey of 68 South Carolina municipal, county, and economic development officials found that 53 percent of the jurisdictions believe tax incentives are used in a balanced manner to recruit new companies and retaining existing industry. Thirty-three percent of respondents use tax incentives mostly to recruit new industry. Only eight percent of those surveyed use tax incentives mostly for the retention and support of existing industry.

The local government officials interviewed during the BMW and Boeing project interviews indicate that a balanced approach is preferred “to encourage equal parts relocation to the state and expansion of existing industry” (personal communication, June 26, 2014). Another official added, “The end goal is job creation and income improvements. If an incentive will help ‘move that process down the tracks’ then we do not care if the firm is already located in our jurisdiction or not” (personal communication, June 24, 2014). Both BMW and Boeing officials indicated during the interview process that state and local governments have continued to provide stable tax rates and offer new incentives to encourage growth in their operations (personal communications, June 26, 2014 and July 16, 2014).

A majority of local government officials surveyed and interviewed indicate that they use economic development tax incentives in a balanced manner between recruiting new companies and retaining existing industry. The findings appear to support a sense of equity across different types of firms receiving tax incentives in South Carolina. The finding of the literature that tax incentives are predominantly offered to recruit new industry and are not given to existing firms cannot be validated in South Carolina.
However, given the limited information available on the incentives offered to relocating and expanding firms in South Carolina, further investigation involving additional local governments and firms may be necessary.

Findings

This chapter presents three findings from the research. Each finding is important to the efficiency, equity and revenue adequacy of the property tax system in South Carolina.

The firms studied value infrastructure and a qualified labor pool over tax incentives

The first finding is that while property tax incentives maybe attractive, firms may not locate in South Carolina without an adequate existing infrastructure and a qualified labor pool. While intended to attract business location, tax incentives could actually hurt infrastructure provision and labor pool development, resulting in inefficiency. Some surveyed also indicated that the true intent of tax incentives is to remain competitive with other locations that offer similar programs and not to attract new development.
Local governments appear to not conduct adequate impact analysis when using tax incentives

The second major finding is that local governments may not conduct adequate impact analysis when using tax incentives. Previous research (Minnesota Center for Fiscal Excellence, 2014 and Pew Center on the States, 2012) found that South Carolina is lacking in its evaluation of tax incentive programs. This research supports those findings.

Tax incentives appear to be used in a balanced manner in South Carolina

The survey and interviews of local government officials indicate that economic development tax incentives are used in a balanced manner between recruiting new companies and retaining existing industry in South Carolina. The findings seem to support a sense of equity across different types of incentivized businesses in South Carolina. Both BMW and Boeing officials indicated that state and local governments were willing to not only incentivize the firm’s initial location decisions, but also incentivize future expansion projects.

Business incentives, including tax breaks and financial assistance, can be strong policy levers for state government leaders. Over the past 30 years, the number and type of incentive programs utilized by states has changed significantly. As incentive programs grow and change, so must the efforts and methods to monitor them. Some states have started to implement increasingly sophisticated oversight and accountability procedures to ensure a clear return on investment. Given the serious impact of the Great Recession on the economic and fiscal vitality of states and local governments, reviewing tax incentive programs to ensure they are achieving their intent may be more important than
ever. Interstate competition for business and industries persists and the debate on the effectiveness and true cost of business incentive programs will continue.

Even though some studies show that targeted tax incentives are beneficial, more research needs to be conducted regarding fiscal costs and economic benefits. South Carolina currently may not have an adequate system for evaluating the effectiveness of tax incentives for economic development purposes. This issue is exacerbated by an inability to request and receive complete (non-redacted) data on tax incentive use to make an independent analysis.
CHAPTER SIX

PROPERTY TAX EXEMPTIONS FOR NONPROFIT ORGANIZATIONS

Property tax exemptions

The second policy leading to property tax base erosion studied in this research is property tax exemptions for nonprofit organizations. The research question with property tax exemptions in this study centered on the fiscal impact of property tax exempt land. This is an important question because very little research quantifying the fiscal impact of exempt municipal land has been undertaken in South Carolina. Property tax exemptions have regularly been used to support nonprofit organizations in order to encourage the provision of services that might not otherwise be provided or would have to be provided by state and local governments. Certain exemptions, such as state government property, religious organizations (with qualifications), and educational institutions, are beyond the discretion of local government, but even then, there are ways to ask or require them to contribute to local public revenue. Property tax exemptions are regularly granted in South Carolina and can be seen as a poor proxy for the social benefits realized from nonprofit organizations.

Area specific decision rules about granting exemptions are needed in order to determine which nonprofit organizations contribute the most benefit to the local host community. When that benefit fails to exceed the cost in property tax revenue and services provided, corrective policy may be required. However, very little quantification
of the fiscal costs in more rural states like South Carolina has been completed. This research is intended to begin to bridge that research gap.

**Literature review**

**Exempt organizations**

Exempt nonprofit organizations offer services that are indirectly subsidized by the remaining property owners through higher property tax payments (Stiglitz, 1998). Correcting for inequity becomes problematic because of the government’s inability to make credible commitments. Policy makers are largely short sighted due to election cycles, which makes creating policy that serves with long run optimal objectives more difficult. Instead, constituents are usually given next best policy options that meet more short term objectives that are best suited for the policymakers’ continued presence in office. The politician who proposes taxation or the use of fees on nonprofit organizations could hurt his or her short run electability, even if that action is optimal in the long run.

**Research challenges**

A relatively small amount of research has explored policy issues related to property tax exemptions for nonprofit organizations, in part due to lack of data availability and measurement issues. Exemptions are often promoted based on the social benefit of the services provided by nonprofit organizations (Diamond, 2002). However, determining actual values of those benefits can be quite difficult. Exemptions are also justified by the claim that nonprofits offer relief from expenditures that would otherwise have to be incurred by local governments. Difficulties arise in attempting to determine
the cost, efficiency, and necessity of services if government were charged with provision of such charitable services. Some services, like providing food and shelter for the homeless, naturally seem easy to justify, but other exempt nonprofits may not serve such a worthy cause. Comparing the value of the property tax exemption to the value of the services provided by a nonprofit organization is also difficult.

Data availability is limited because state and local governments, faced with limited resources, do not track the value of exempt land and buildings. Tax assessors do not regularly assess land that is property tax exempt because exempt land generates no tax revenues. Lack of assessment data on exempt land makes it difficult to analyze the cost of exempt property. A dearth of reliable data exists for both the value of exempt land and buildings and quantifiable benefits provided by exempt nonprofit organizations.

**Local government and exemptions**

For municipalities with a significant share of total property value owned by tax exempt nonprofits, and especially those that are also highly reliant on property tax revenues, the charitable property tax exemption can create fiscal challenges. The impact of the charitable property tax exemption on municipal revenues varies widely across municipalities. Some cities experience significant impact on the ability to raise sufficient revenue, while most municipalities are largely unaffected because they have small nonprofit sectors.

Most states follow federal tax rules and definitions for their own income taxes as a way to minimize confusion and administrative costs. As a result, nonprofit organizations that meet federal definitions for income tax exemptions are often exempt
from state income taxes and local property taxes as well (Lerch, 2004). State and local revenue shortfalls have led to research centered on the appropriateness of tax exemptions in general and tax exemptions for nonprofits in particular (Stokeld, 1995; Netzer, 2002; Brody, 2010a, 2010b). In the United States, the revenue lost from the property tax exemption for nonprofits was estimated up to $32 billion in FY2009 (Kenyon and Langley, 2011).

States use different rules to determine whether property owned by a nonprofit organization is exempt from property taxes (Turner, 1998). The following seventeen states grant local governments the authority to determine which nonprofits qualify for tax exemption within certain categories: Alabama, Arkansas, Hawaii, Kansas, Kentucky, Louisiana, Maine, Michigan, New Jersey, New Mexico, New York, North Dakota, Oklahoma, South Carolina, South Dakota, Utah, Vermont. In the states listed, subject to state mandates for state government entities and religious and educational institutions, local governments can determine which organizations are eligible for property tax exemptions and may be able to negotiate payment in lieu of tax (PILOT) programs.

Municipalities may not necessarily be aware of the costs in forgone revenue related to property tax exemption, which is a focus of this study. These municipalities may also be uncertain of the total direct and indirect benefits received by their citizens from tax exempt organizations. Nonprofit organizations in turn may not understand the impact of their exemption on their host cities and its taxpayers, or the impact on for-profit, nonexempt firms with whom they are in competition. If there were a better
understanding of costs and benefits, more nearly optimal outcomes could be obtainable through appropriate policy actions.

**Property tax exemptions for nonprofits**

Research on property tax exemptions and nonprofit organizations at the national level has largely been limited to large cities (examples include Brody, 1998 2002, 2007, 2010 a; Cordes, Gantz, and Pollak, 2002; Kenyon and Langley, 2011) and mainly explore the impacts of property tax exemptions as well as policy alternatives such as payment in lieu of taxes (PILOT) programs. PILOTs are defined as ad hoc or standard payments from a nonprofit to a local government as a means to offset property tax revenue forgone because of the nonprofit’s tax exemption. PILOTs cover a portion of the nonprofit’s share of the cost of public services provided by municipalities (Kenyon and Langley, 2010).

The issue of the property tax exemption for nonprofit organizations and the use of PILOTs has expanded beyond temporarily cash strapped cities asking nonprofits for money, which has led state and local governments to reexamine their relationship with local nonprofit organizations (Brody, Marquez, and Toran, 2012). The definition of a charity, which benefits from the nonprofit property tax exemption, and the best solutions to the current situation have become a focus of academic research.

Sherlock and Gravelle (2009) estimated that in fiscal year 2009, real (inflation adjusted) property tax revenues forgone due to the charitable exemption were between $17 and $32 billion nationally, or roughly 4 to 8 percent of total property taxes. While real GDP grew by 38 percent from 1995 to 2010, real total revenues reported by charitable nonprofits registered with the IRS grew by 65 percent (National Center for
Charitable nonprofit real revenues grew from $825 billion to $1.36 trillion over that period (Kenyon and Langley, 2011). Netzer (2002) found that large shares of the services produced by nonprofits were exported from the jurisdiction in which the exempt nonprofit was located. The costs of the property tax exemption are borne by the residents and property owners in the host municipality, but the benefits created by exempt organizations affect a wider geography beyond the local area (Brody, 2002). Requiring full property taxes or implementing PILOT programs is a way of exporting the relevant share of the local property tax burden to nonresidents who use those services.

**Nonprofits defined**

Charitable organizations can be defined as those registered under 501(c)(3) of the Internal Revenue Code. Examples of 501(c)(3) charitable nonprofits include nonprofit hospitals, public universities, museums, soup kitchens, churches, and housing developments for the elderly.

Nationally, 1.14 million charitable nonprofits are registered with the Internal Revenue Service (IRS). The total number of nonprofits registered in South Carolina is 22,050 (National Center for Charitable Statistics, 2014). Some nonprofit organizations provide valuable public services, often on limited finances, and perhaps deserve to be subsidized by the rest of the community. Others benefit mainly their members or a limited and not particularly “needy” clientele. Some nonprofits are large users of municipal services, while others use very few services. Some own property, while others rent their facilities, and do not benefit from the tax exemption. Furthermore, Grimm
(1999) used a case study analysis to examine the treatment of nonprofit organizations based on the extent of their production of collective or public goods. Grimm’s research found that many nonprofit organizations did not necessarily deserve exempt status based on the existing criterion.

**Nonprofit hospitals and exemptions**

Hospitals are by far the most studied nonprofit organization when examining property tax exemptions. Research by Hansmann (1987) studied the impact of tax exemptions on the market share of nonprofit and for-profit firms and found that exemptions significantly increase the market share of nonprofit firms compared to for-profits. Chang and Tuckerman (1990) found that the share of the health care market held by nonprofit hospitals was not increased by property tax exemptions. Hall and Colombo (1991) argue that Hansmann’s research does not properly account for the charitable services and deservedness of property tax exemptions, especially nonprofit organizations like hospitals.

With the expansion of social programs like Medicare, Medicaid, and the Affordable Care Act, the authors ponder whether the charitable exemption still serves its original intent, now that so many previously indigent patients are now paying patients under government support. Morrisey, Wedig, and Hassan (1996) found that, while the majority of nonprofit hospitals produce community dividends that exceed the value of the tax exemptions they receive, almost 20 percent of nonprofits do not meet that standard. They recommend that a new evaluative approach be taken, which incorporates the
amount of good a nonprofit organization brings to its community in order to justify receiving tax exemptions and subsidies.

Young, et. al. (2013) offered a national assessment of the level and pattern of benefits that tax exempt hospitals provided before the implementation of the Affordable Care Act requirements. On a national basis, they found that hospitals devoted, on average, less than eight percent of their operating expenditures to community benefits. However, the level of benefits provided varied widely among the hospitals. Moreover, hospitals that provided relatively high levels of one type of benefit were not likely to have provided high levels of other types of benefits to the community.

**Nonprofits competing with for-profit organizations**

Larger nonprofits sometimes offer services that compete with for-profit organizations that are not property tax exempt, which raises additional issues of competitive fairness. Private for-profit firms are at a disadvantage in offering the same kind of services as a tax exempt nonprofit, creating an incentive for consumers to choose a nonprofit over a for-profit form of organization and ultimately further eroding the municipal property tax base. Lakdawalla and Phillipson (2006) found that nonprofit organizations have a competitive advantage over for-profit firms and that there was little difference between the behaviors of nonprofit and for-profit firms in the marketplace. The marginal cost advantages given to nonprofit organizations can provide an advantage for exempt nonprofit organizations.
Nonprofit property tax exemptions, location, and equity

Many cities whose economies used to be dominated by manufacturing have seen relatively mobile for-profit businesses leave their cities, while property tax exempt colleges, universities, and medical centers that are tied to their location due to fixed capital investments and other factors remain in place (Penn Institute for Urban Research, 2009). Two studies (Hansmann, 1987 and Gully and Santerre, 1993) found that nonprofit firms account for a greater share of the market in areas where local property and corporate tax rates are highest if the organization receives tax exemptions. Gulley and Santerre (1993) also found that higher property tax rates tend to attract more nonprofit organizations.

Cordes and Weisbrod (1998) also found that exempt nonprofits locating in higher value areas tend to engage in more commercialized activity that competes with the services of for-profit organizations. The higher the property taxes are, the more valuable is the nonprofit’s exemption from property tax (Lerch, 2004). Thus, the combined findings from Hansmann (1987), Gully and Santerre (1993), and Lerch (2004) suggest that tax exemptions give nonprofits an incentive to locate in higher value areas with an economic advantage over for-profit firms. Calabrese and Carroll (2012) found that counties with a greater presence of nonprofit organizations tend to have higher homeowner tax burdens on average in the United States.
Challenges to nonprofit tax exemptions

Exempt organizations use public services that must be paid for by nonexempt taxpayers. Nonexempt property owners, as well as non-property owners (through rent and other taxes), face higher tax burdens, which further contributes to the public’s disdain for the property tax (Lerch, 2004). Local governments must choose to either increase the rates on nonexempt property owners or reduce service levels as more property is exempted.

Some governments have legally challenged nonprofit tax exemptions. However, the nonprofit sector has achieved remarkable success in state supreme courts and statehouses in defending property tax exemptions (Brody, 2010). Given the political costs, repealing exemptions for charitable organizations seems unlikely (Brunori, et al, 2006). Therefore, municipalities must develop better information about the costs of exempt property in order to better discern when new exemptions should be granted.

Analysis

Fiscal cost analysis

Little information is readily available about tax exempt property in South Carolina. The state does not possess a database with consolidated and specific data about tax exempt property across municipalities. Limited municipal and county budgets lessen any substantial and up to date record keeping on properties that do not generate revenue through taxation. Additionally, the quality and quantity of data varies from county to county. Some cities, like Greenville, have sophisticated electronic records and geographic information system (GIS) capabilities that other cities, or even entire counties, do not
possess. In some cities, the municipality is the key data holder, while in other areas counties are more knowledgeable.

This research was primarily concerned with quantifying the fiscal impact of property tax exempt land on municipalities, because a larger share of the nonprofit service providers are located in municipalities. As a first step, the percent of property tax exempt land by municipality was determined\(^\text{11}\). Various municipal and county officials ranging from county tax assessors to municipal GIS departments were contacted to collect this information. Local governments in the 30 most populated municipalities\(^\text{12}\) were contacted and asked to provide their total acreage and the total exempt acreage from which the percent of tax exempt land was determined.

Acreage statistics are derived without the inclusion of any federal land that was property tax exempt. Two municipalities studied, Columbia and Sumter, host large military bases that are exempt from local property taxes and receive undisclosed federal subsidies in lieu of property tax revenue. Also, military bases provide many of their own municipal services. Thus, that acreage was not included in either the total acreage or exempt acreage.

Regression analysis was conducted in order to determine if higher percentages of property tax exempt land results in decreases in per capita property tax revenue while controlling for population, per capita income, millage rate, and per capita total assessed value. If this is the case, then as municipalities grant more exemptions they will have

\(^{11}\) Data for the percent of land that is property tax exempt for the municipalities studied is presented in Table 6.4 in Appendix Seven.

\(^{12}\) Population data for the 30 largest municipalities in South Carolina is presented in Table 6.3 in Appendix Seven.
fewer fiscal resources to provide services. With fewer fiscal resources, municipalities must increasingly choose between raising tax rates on the remaining tax base or lower expenditures by reducing service levels.

The dependent variable in this study was per capita property tax revenue. Per capita revenue was used for scale due to the range of municipal populations studied. Data for property tax revenues was obtained from 2012-2013 municipal budgets. The percent of property tax exempt (municipal) land was the independent variable of interest. Data for the percent of property tax exempt land was collected from county and municipal GIS offices. The coefficient of this variable provides the per capita dollar amount of per capita revenue change for a one percent increase in tax exempt land across the municipalities studied. Other independent variables in this analysis include millage rate, population, median per capita income, and per capita total assessed valuation of property (TAV). TAV was calculated by dividing total property tax revenue by the municipal millage rate and then converted to a per capita figure.

It was anticipated that per capita property tax revenue would be negatively affected by tax exempt land ($\text{TaxExemptLand}$). The coefficient for the $\text{TaxExemptLand}$ variable represents the per capita dollar amount of fiscal impact of a percent of tax exempt municipal land. Because of the nature of the property tax, if land is removed from the taxable base, taxpayers should see an increase in tax burden. However, if per capita property tax revenue decreases, then the municipality will have fewer resources to provide the same level of services that would have been offered with fewer exemptions.

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13 Data for per capita property tax revenue can be found Table 6.5 in Appendix Seven.
14 Data for the independent variables can be found in Appendix Seven.
The target sample size in this regression analysis was the 30 most populated municipalities. However, the percent of property tax exempt municipal land was obtained for only 26 municipalities. The cities of Conway, Myrtle Beach, North Myrtle Beach, and Orangeburg did not provide data to calculate the percentage of property tax exempt municipal land. Initial outlier analysis revealed that the total assessed value for Hilton Head Island had a Cook’s D score of 5.87, which represents a large collective influence on the model. Observations with Cook’s D scores greater than one are considered outliers and are not considered in the model. Therefore, the final regression analysis included 25 of the 30 largest municipalities in South Carolina.

Pairwise correlation analysis revealed several significant correlations at a five percent level. The percent of tax exempt land was correlated with population (r=0.457, p=0.0214) and per capita income (r=-0.496, p=0.0116), which is not surprising since government facilities, hospitals, religious organizations and other charitable service providers tend to cluster in population centers that have higher income levels on average. Millage was correlated with per capita income (r=-0.523, p=0.0036). Per capita total assessed value was correlated with per capita income (r=0.4695, p=0.00102) and per capita property tax revenue (r=0.5879, p=0.0001). Variance inflation factor scores for the percent of tax exempt land (2.94), per capita income (3.55), millage (1.72), per capita total assessed value (1.72), and population (1.99) indicated that there are no issues with multicollinearity in the model.

The regression was conducted while controlling for several independent variables (covariates). Consideration was given to the interaction of the independent variable of
interest, percent of tax exempt land, with the other covariates in the model to test the homogeneity of regression slopes assumption. The interaction of the percent of tax exempt land with population (t(24)=-0.99, p=0.3364), per capita income (t(24)=0.46, p=0.6522), millage (t(24)=-0.64, p=0.5347), and per capita total assessed value (t(24)=-1.53, p=0.1471) were not significant at a five percent level. Therefore, the assumption of no interactions in the analysis was satisfied and these interactions were not included in the final model.

**Regression analysis**

Regression analysis suggested that including percent of tax exempt land, per capita income, millage, per capita total assessed value and population resulted in a statistically significant model for predicting per capita property tax (F(5)=85, p=0.001). The percent of property tax exempt land was a significant predictor of per capita property tax revenue at a five percent significance level (t(24)=-2.90, p=0.0093). The overall model can explain 95 percent of the variability in per capita property tax revenue. Table 6.1 provides an overview of the regression output.

**Table 6.1 Exemptions Regression Analysis Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>SE β</th>
<th>P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-5.91</td>
<td>82.25</td>
<td>0.9435</td>
</tr>
<tr>
<td>Percent of Tax exempt Land</td>
<td>-2.73</td>
<td>0.9435</td>
<td>0.0093</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>-0.0074</td>
<td>0.0031</td>
<td>0.0288</td>
</tr>
<tr>
<td>Millage</td>
<td>3170.19</td>
<td>309.05</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Per Capita Total Assessed Value</td>
<td>0.0635</td>
<td>0.0049</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Population</td>
<td>0.0005</td>
<td>0.0002</td>
<td>0.0225</td>
</tr>
</tbody>
</table>

Notes: $R^2=0.95$ (p value < 0.0001); β coefficients are expressed in terms of per capita property tax revenue dollars.
For each additional one percent of tax exempt property, holding the other variables in the model constant, the expected per capita property tax revenue decreases by $2.73 across the municipalities studied. Estimates of the total potential property tax revenue losses for each municipality were calculated by multiplying a municipality’s population by per capita dollar amount for a one percent increase in tax exempt land across the municipalities studied. That value represents the revenue lost for each one percent of property tax exempt acres.

For example, the state’s largest municipality, Columbia, had a population 133,358 in 2013. The potential property tax revenue loss for a one percent increase in exempt acres is $364,067. This figure was calculated by multiplying municipal population by the per capita dollar amount lost for a one percent increase in tax exempt land. Columbia reported that 42.3 percent of its municipal land as property tax exempt, which means the city is potentially losing up to over $15.4 million in property tax base annually. For the smallest municipality studied, Cayce, a one percent increase in property tax exempt land results in a revenue loss of $35,107 annually and a total potential lost property tax base of $951,421 annually. Table 6.2 provides the potential property tax revenue loss for each municipality studied.
Table 6.2 Potential Revenue Losses for One Percent Increase in Exempt Acres

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Potential Revenue Loss</th>
<th>Municipality</th>
<th>Potential Revenue Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>$82,708</td>
<td>Hanahan</td>
<td>$53,500</td>
</tr>
<tr>
<td>Anderson</td>
<td>$73,669</td>
<td>Lexington</td>
<td>$53,442</td>
</tr>
<tr>
<td>Bluffton</td>
<td>$37,144</td>
<td>Mauldin</td>
<td>$66,953</td>
</tr>
<tr>
<td>Cayce</td>
<td>$35,108</td>
<td>Mount Pleasant</td>
<td>$204,436</td>
</tr>
<tr>
<td>Charleston</td>
<td>$349,437</td>
<td>North Augusta</td>
<td>$60,685</td>
</tr>
<tr>
<td>Clemson</td>
<td>$38,973</td>
<td>North Charleston</td>
<td>$284,067</td>
</tr>
<tr>
<td>Columbia</td>
<td>$364,067</td>
<td>Rock Hill</td>
<td>$188,651</td>
</tr>
<tr>
<td>Easley</td>
<td>$55,419</td>
<td>Simpsonville</td>
<td>$53,549</td>
</tr>
<tr>
<td>Florence</td>
<td>$103,172</td>
<td>Spartanburg</td>
<td>$102,776</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>$108,717</td>
<td>Summerville</td>
<td>$125,782</td>
</tr>
<tr>
<td>Greenville</td>
<td>$167,614</td>
<td>Sumter</td>
<td>$112,449</td>
</tr>
<tr>
<td>Greenwood</td>
<td>$63,825</td>
<td>West Columbia</td>
<td>$43,200</td>
</tr>
<tr>
<td>Greer</td>
<td>$74,166</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The percent of property tax exempt municipal land studied ranged from 12.2 percent in North Augusta to 47.5 percent in Bluffton. The median percent of property tax exempt municipal land was 25.1 and the median population was 27,076. The median potential property tax revenue loss for a one percent increase in exempt acreage across the municipalities studied is $73,917 and the total potential median property tax base surrendered due to exemptions exceeds $1.8 million, which represents a significant cost in each of the municipal budgets studied. In order to make up for these losses, municipalities may need to shift a larger portion of the tax burden onto nonexempt property owners or reduce service levels.

Per capita median income was negatively associated with per capita property tax revenue ($t(24)=-2.37, p=0.0288). As per capita median income increases by one dollar, holding other variables constant, per capita property tax revenue decreases by $0.007 cents. The per capita total assessed value was, as one would expect, positively associated
with per capita property tax revenue ($t(24)=12.74, p=0.0001). As per capita total assessed value increases by one dollar, per capita property tax revenues increases by a little over $0.06. Municipal millage rate was also a significant positive independent variable ($t(24)=10.26, p=0.0001). As municipal millage rates rises one mill, an additional $3,170.19 is created in per capita property tax revenue on average across the municipalities studied. Population was a small, but significant predictor of per capita property tax revenue ($t(24)=2.48, p=0.0225).

Per capita property tax revenue does decrease as the percent of tax exempt land increases, which was the focus of this research. When additional property tax exemptions are granted, municipalities have fewer resources to provide the same level of services. Municipalities must choose whether to cut service levels or seek additional funding—resulting in revenue adequacy issues. Additional revenue is most likely to come in the form of additional taxes on nonexempt property—creating issues of equity between property holders.

There were several limitations in this analysis. The regression analysis only included 25 municipalities ($N=25$). The 95 percent confidence interval for the per capita revenue reduction for a one percent increase in tax exempt land ranged from negative $0.75 to negative $4.71, which might be narrowed if the number of participating municipalities could be expanded.

Columbia’s average potential loss in revenue was calculated at $364,067, but the city’s actual loss could range from $100,018 to $628,116. Cayce’s average potential loss in revenue was calculated at $35,107, but the city’s actual loss could range from $9,645
to $60,570. The evidence offered in this research supports the expectation that, as the percent of property tax exempt land increases, the per capita property tax revenue decreases.

Evaluation

Revenue adequacy

Based on 25 South Carolina municipalities, a one percent increase in the share of tax exempt property in the tax base reduces expected annual property tax revenue by $2.73 per capita, with a range from $35,107 in the Town of Cayce to $364,067 in the City of Columbia. The costs associated with property tax base erosion were significant in South Carolina. The potential loss for a one percent increase in the share of property tax exempt land was $364,067 for the most populated municipality studied, Columbia. Likewise, if Columbia were to reduce its share of tax exempt property by one percent, the city is estimated to gain an additional property tax base worth an average of $364,067.

For the least populated municipality studied, Cayce, the potential property tax base lost was $35,107 for each percent of its total acreage that is exempt from property tax.

Exempt properties tend to be located in more populated municipalities in South Carolina. More populated areas tend to have more valuable land holdings nationally, which increases the impact on local property tax revenue as property owned by nonprofits is removed from the taxable base.
Equity

Larger nonprofits frequently offer services that compete with for-profit organizations that are not property tax exempt, which raises the issue of competitive fairness. The costs of property tax exemption for nonprofits fall most heavily on the municipality, but the benefits created by exempt organizations accrue to a wider geographic area.

Nonprofit organizations tend to locate in more populated areas over less populated areas for many reasons, including a critical mass of donors and clients. The tax exemption, like tax breaks for business, may not be decisive, but it may make locating in higher rent areas more affordable. The equity issue with property tax exemptions for nonprofit organizations is focused on the impact of the exemption and inequity between property owners and not necessarily the location attraction aspect.

Efficiency

The efficiency issue with property tax exemptions for nonprofit organizations lies in the lack of relationship between the value of the tax exemption, the cost to the municipality in providing services to the tax exempt entity, and the value of services the exempt organization provides. Many exempt organizations offer valuable services with economic benefits that may justify the fiscal costs. For some exempt organizations, the gain to the local government and community is less clear.

Municipalities have the difficult task of asking nonexempt businesses and residential property owners to pay for infrastructure and municipal services through property taxes while nonprofit organizations are exempt. The benefits created by any
particular exempt nonprofit organization are not necessarily proportional to the property
tax revenue forgone, and the benefit of the tax exemption only applies to those nonprofits
that own real property.

Conclusion

Based on statistical evidence, the cost to municipalities and their nonexempt
property owners of property tax exempt land appears to be significant in South Carolina.
The benefits that charitable exemptions offer are highly variable and in specific instances,
may be modest relative to the value of the lost property tax revenue to municipalities and
the costs of providing municipal services to exempt properties.

Elected officials often are reluctant to introduce any new policy that requires
payments from nonprofit organizations because of its potential impact on their own long
term electability and, in some cases, concerns about the financial stress on the nonprofits.
However, under current policy, the delineation between organizations that provide the
most social good and those that provide only marginal good is not very clear and not
related to the value of the property tax exemptions. Equity issues among exempt and
nonexempt property owners are numerous and not all areas are serviced equally.

A clearer (and narrower) definition of exempt charitable organizations would
offer one approach to controlling revenue loss. Payments in lieu of taxes are another
possible avenue, particularly for municipalities that are heavily impacted by state owned
property as well as other exempt properties. While existing reliance on fees and charges
helps to alleviate the difference between exempt and nonexempt properties, those
programs could be expanded. Several municipalities have explored using fees and
charges more, but to date none have expanded beyond the most obvious categories of solid waste collection, water and sewer, and building inspection (personal communication, September 2, 2014).

Nonprofits are supposed to pay federal and state income taxes on unrelated business income, such as rental of their facilities, but most South Carolina municipalities have not collected business license tax revenues on activities to date (personal communication, September 2, 2014). The local business license is essentially an income tax and would be an obvious vehicle for collecting additional revenue from exempt nonprofits that are engaging in commercial type activities.

Nonprofit organizations are valuable partners in providing services and improving quality of life in South Carolina communities. But the value of their services bears no direct relationship to the value of their tax exemptions (which some do not receive because they do not own property) and the costs of providing them with municipal services. In difficult economic times, South Carolina municipalities need to rethink their fiscal relationship with nonprofit organizations in the interests of efficiency, revenue adequacy, and equity in the distribution of the cost of public services and provision of charitable services.
CHAPTER SEVEN

POLICY RECOMMENDATIONS

This research addressed four research questions centered on two sources of property tax base erosion. The first policy is the use of property tax incentives for business location. Three findings emerged on the tax incentive issue. First, firms appear to value factors like infrastructure and a qualified labor force over property tax incentives. This was an important finding because property tax revenue is very important to local governments in providing infrastructure and public education. A conflict emerges between losing revenue to incentives and the need to provide more public services and infrastructure to new or expanding firms. New development increases the demand on public education, highway infrastructure and public services like fire and police services. Incentives are important factors on the margin, but if a jurisdiction does not have infrastructure or a capable workforce, firms like Boeing and BMW may not consider locating in that area.

The next finding supports the perception that South Carolina local governments do not conduct adequate impact analysis of the use of tax incentives for business location. Increased ex ante and ex post analysis and transparency is necessary in South Carolina. Several local government officials surveyed in this research stated that they do not have the necessary resources to complete adequate impact analysis of tax incentives for business location. Third party analysis is difficult due to the level of redaction performed
on documents detailing the economic benefits and fiscal costs associated with existing property tax incentives for business location.

The third finding in this research suggests that property tax incentives for business location appear to be utilized in a balanced manner between new firms and existing firms in South Carolina. This finding requires further examination of additional economic development projects for confirmation. Additional research is also necessary to uncover the average size of firms receiving property tax incentives for business location. This analysis focused on two large corporations in urban areas. It would be interesting to see the level of incentives being offered in rural areas as well as smaller firms.

The second policy studied was property tax exemptions for nonprofit organizations in South Carolina. The study of this policy led to the fourth finding in this research. There was a significant fiscal cost associated with property tax exempt municipal land in the jurisdictions studied. Many nonprofit organizations provide valuable services that would not otherwise be provided, or would have to be provided by state and local governments, perhaps, at a higher cost. However, some nonprofits serve a much narrower purpose. The fiscal cost identified in this research should be considered against nonprofit organizations that provide more marginal social and economic benefits.

The remainder of this chapter focuses on policy recommendations. These policy recommendations are intended to serve as alternatives and improvements on the current practices involving property tax incentives for business location and property tax exemptions for nonprofit organizations. Each policy recommendation section was organized by the policy addressed.
Property tax incentives for business location

Property tax incentives for business location are one of the most common economic development strategies in South Carolina and across the nation. This research established that tax incentives for business location are used in a balanced approach with new and existing businesses. The literature raises concerns over the effectiveness and evaluation of tax incentives in economic development. This research had three main findings related to the use of incentives for business location. First, firms in this research value infrastructure and a qualified labor pool over tax incentives, which reinforce the findings in the literature. However, competition between local governments and states forces South Carolina counties to offer comparable incentives, especially to new firms. The provision of infrastructure including public services, highway maintenance, and public education is funded in part by property tax revenue. A portion of this revenue is offered as an incentive to entice new and expanding businesses to jurisdictions in South Carolina.

Because firms value infrastructure and a qualified labor pool over tax incentives, judicious use of property tax incentives for business location may need to be a priority for state and local governments to maintain and improve upon existing infrastructure. Evaluation of tax incentives is also important. A survey of municipal, county, and economic development officials in South Carolina found that local governments do not conduct adequate impact analysis when using tax incentives. The literature supports three recommended strategies to ensure that the benefits of tax incentives for economic development are worth the fiscal costs.
Recommended strategies

The first strategy is for local governments to specify qualifications for a property tax break and strengthen the approval process. States often require companies to meet certain criteria such as number of jobs created, wages paid and other benefits provided. There may also be stipulations based on the size of capital investment made and tax revenues created to qualify for a tax incentive. Forty-three states have a rule that at least one incentive program address this type of stipulation (Brockmyer, 2012).

The second strategy to ensure that tax incentives are effective is to require public disclosures and online accountability. This process largely employs the use of online transparency and accountability systems (Burnett, 2011). Transparent systems provide the public with company specific information on the amount of the tax subsidy, comparisons on the number of jobs promised and the number of jobs actually created, wage levels for employees, and the company’s compliance record with various state rules and regulations. Mattera, et al. (2010) singled out Illinois, Ohio and Wisconsin as having some of the most robust online disclosure systems in the nation. Mattera also found that 37 states provided online recipient disclosure for at least one key subsidy program, which is a significant improvement from 2007 when only about 23 states were doing so.

The third strategy to ensure that tax incentives are effective involves the use of clawbacks (Burnett 2011). Some states penalize businesses that fail to meet the requirements of the tax incentive. A good clawback program has two main attributes (Mattera et al., 2010). First, all state and local subsidy agreements must contain clawback provisions. Second, the tax incentive granting jurisdiction must be able to recapture all or
part of a subsidy, with interest, and any company that does not meet its contractual commitment also can be barred from future tax incentives. Presently, at least 37 states use some form of clawback provision, either written into their statutes or defined by program guidelines (Mattera et al., 2011). Other common mechanisms states use include placing sunset provisions in statutes so that property tax incentive programs cannot continue without further legislative action and close monitoring of programs using performance audits (Brockmyer, 2012).

State and local government officials in South Carolina feel strongly that property tax incentives for business location are a necessary strategy to remain competitive with other jurisdictions in economic development. The competitive environment between jurisdictions may not allow a jurisdiction to cease offering incentives without risking a loss of businesses to another area resulting in a zero sum competition between local governments (Zheng and Warner, 2010). However, the overall effectiveness of tax incentives is questionable in that firms in South Carolina appear to place more value on infrastructure and qualified workers. Thus, when state and local government officials feel that tax incentives must be used for competitive reasons, evaluation may be key.

Property tax incentives for business location are not currently adequately evaluated in the state. But possible solutions to improve the process do exist. By strengthening the qualification process, improving transparency, and including clawback provisions in future property tax incentive programs, evaluation improvement can be realized in South Carolina.
Property tax exemptions for nonprofit organizations

This research begins to quantify the fiscal impact associated with tax exempt land in South Carolina. For each additional one percent of tax exempt property, holding other factors constant, the expected per capita property tax revenue decreases by $2.73 across the municipalities studied. The potential tax revenue loss for a one percent increase in exempted acres in the municipalities studied ranges from $35,107 to $364,067 annually.

More research is necessary to build upon the foundation laid by this research. For example, the 95 percent confidence interval for the per capita revenue reduction for a one percent increase in tax exempt land ranges from negative $0.75 to negative $4.71, which might be narrowed if the number of participating municipalities could be expanded. The fiscal cost for municipalities could be lower than the impact found in this research, or the impact could be much more. Additional investigation is necessary.

While nonprofit organizations tend to locate in more populated areas in the municipalities studied, the organizations do not necessarily locate in higher value areas in South Carolina. There may be several reasons for nonprofit organizations to locate in areas with more population including maintaining a critical mass of donors and clients, as well as having access to necessary infrastructure.
Recommended strategies

The literature identifies four policy alternatives that municipalities can utilize to regain lost property tax revenue base due to nonprofit organization exemptions. Strategies include narrowing the definition of exempt organizations, utilizing payment in lieu of taxes, and shifting more of the cost of municipal services to targeted fees and charges.

Narrowing of the definition of exempt organizations

South Carolina law permits property tax exemptions for a variety of charitable nonprofit organizations. Some exemptions are for specific organizations like the American Legion, YMCA, and Salvation Army. Others are more generally allocated to religious organizations, museums, and other 501(c)(3) charitable organizations. Many exemptions for charitable organizations are justified on the basis that those organizations provide services to underserved groups that would not otherwise be provided. Hopkins (2011) offers the following explanation of why nonprofits are tax exempt:

Tax exemption is an acknowledgement of an organization performing an activity that relieves some burden that would otherwise fall to federal, state, or local government. The government, in fact, provides an indirect subsidy to nonprofits and receives a direct benefit in return. Nonprofits also benefit the society as a whole when they provide valuable services. The viability of some of these services would be threatened if they were subject to taxes (Hopkins, 2011, p. 176).

Over the last ten years, the number of nonprofit organizations in South Carolina has increased by 55 percent (National Center for Charitable Statistics, 2014). That growth, coupled with declining or slow growing property values, may be placing additional stress on municipal budgets. Nationally, some municipalities have begun to
narrow the definition of what constitutes a nonprofit organization (Kenyon and Langley, 2010). A redefinition of nonprofit organizations could lead to the loss of exempt status by some less charitable nonprofit organizations and in turn, help some South Carolina municipalities regain lost tax revenues.

**Payments in lieu of taxes (PILOTs)**

PILOTs are defined as ad hoc or standard payments from nonprofits to a local government as a means to offset property tax revenue forgone because of the nonprofit’s tax exemption. PILOTs cover the cost of the nonprofit’s share of public services, like road maintenance and fire services, provided by municipalities and normally funded by property taxes (Kenyon and Langley, 2010).

PILOT programs are negotiated agreements between a nonprofit and a municipality that can range from one time payments to recurring donations. PILOTs are voluntary (not required by law). Some municipalities negotiate such payments from existing nonprofits when the nonprofit expands operations or territory, or redefines their mission.

Payments are generally monetary, but some negotiations have yielded payment-in-kind agreements or service in lieu of taxes (SILOTs). Hospitals providing a social good such as free clinics for indigent patients or health care services for city employees would be an example of a SILOT program. PILOT programs seem to be growing due to rising scrutiny of the nonprofit sector, and increasing pressure on municipalities to find new sources of revenue (Kenyon and Langley, 2010).

In some states, state agencies also make payments in lieu of taxes to
municipalities for their facilities in recognition of the loss of property tax revenue and the expectation that those facilities use and benefit from municipal services (Minnesota Center for Fiscal Excellence, 2014). South Carolina was not one of those states. State owned property was included in the nontaxed property in our statistical analysis, and in some cases represented a significant part of the nontaxable property within municipal boundaries.

**Fees and charges**

South Carolina relies heavily on fees and charges as a revenue source at both the state and local levels. Local property taxes in South Carolina are only about 30 percent of local government own source revenue (funds raised locally) and 25 percent of total revenue (including federal and state aid). Licenses, permits, fees and other charges account for 54 percent of municipal own source revenue and 45 percent of all municipal revenue in South Carolina. (South Carolina Budget and Control Board, 2013). These other local revenue sources offer an opportunity to generate municipal revenue from non-property tax sources. User fees in particular are appropriate as long as the users can be clearly identified. Recreational services, water and sewer services, solid waste collection, municipal parking spaces, building inspections, and transit are among the more common municipal services for which a fee is charged to users. Sometimes municipal services are funded partly by taxes and partly by user fees, and often some subsidy provision is made for low income households.

While nonprofits may not use personal services such as recreation or public transit, they do use other services where the users can be clearly identified, including fire
and police protection, solid waste disposal, streets and parking. Charging a fee for some services rather than funding the service out of general taxation helps restore equity to the distribution of the cost of public services between nonprofits owning real estate, other nonprofits, for-profit firms and households. Otherwise, the last four categories are essentially subsidizing tax exempt owners of real property, which includes both state government entities and nonprofits.

Several South Carolina municipalities have explored the possibility of levying fees on nonprofits based on their use of specific services. In one municipality, the cost of fire and police calls to nonprofit agencies was determined and used in setting a proposed fee, although that proposal was never implemented (personal communication, April 12, 2012).

Many nonprofit organizations provide valuable services that may not otherwise be provided or services that would have to be provided by state and local government at a higher cost. Some nonprofit organizations employ a large workforce and offer substantial economic benefits. In many cases, the economic benefits easily outweigh the fiscal costs. However, other nonprofit organizations may not benefit a wider clientele, employ large numbers, or provide substantial economic benefit to a community.

South Carolina municipalities are able to choose which organizations receive property tax exemptions. Local governments looking for ways to reclaim revenues lost to nonprofit exemptions have several options, including narrowing the definition of the organizations that receive exemptions, implementing PILOT programs, utilizing fees and charges, and creating business license taxes. The fiscal impact identified in this research
establishes a foundation for future research of exempt property in South Carolina. This research also provides local government officials with a fiscal cost benchmark to compare with potential economic benefits realized from offering nonprofit organizations property tax exemptions.

Conclusions and future research

This research explores property tax base erosion in the form of two policies, including property tax incentives for business location and property tax exemptions for nonprofit organizations in South Carolina. Firms appear to value infrastructure and a qualified labor force over tax incentives when making location decisions. Further research is necessary to determine the percent that different factors matter in firm location decisions. The existing research needs to be expanded to include more firms of various sizes. One possible future research question would be whether tax incentives offered vary based on the size of the firm being recruited or retained. Those surveyed appear to indicate a balance between tax incentives being offered to new and existing firms. However, there is little research addressing the size of firms offered incentives. Additionally, the effects of agglomeration for large firms like Boeing and BMW need to be examined in more depth. Company officials interviewed in this research felt that the incentives they were offered will be paid back “many times over” (personal communication, July 16, 2014). Monitoring and evaluating this statement is an area for future research.

Local governments in South Carolina do not appear to be performing adequate impact analysis when using property tax incentives for business location. Further research
is needed to better understand this issue in more detail. This research was limited to interviews in three counties and two municipalities and a survey of 68 local government officials. A more thorough county-by-county analysis would provide a better understanding of how widespread the poor evaluation process is in the state.

The fiscal impact of property tax exempt municipal land studied in South Carolina was significant. Additional quantitative analysis of the fiscal costs and economic benefits offered by nonprofit organizations is necessary. Organizations may not currently receive relief from state and local governments that matches the economic and social benefits provided by their services. Particular interest should be paid to better defining what constitutes a charitable organization that is worthy of receiving property tax exemptions at significant fiscal costs.

This research has laid the groundwork for further research that may provide additional evidence on the economic benefits and fiscal costs of these policy strategies. Thus, it is hoped that local government officials and applied scholars will continue to seek reliable data and ask questions about the practice of the policies studied in this research. More research of this nature is needed in states like South Carolina.
APPENDICES
Appendix one: Redacted Amazon economic impact analysis

<table>
<thead>
<tr>
<th>ANNOUNCED CAPITAL INVESTMENT</th>
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</thead>
<tbody>
<tr>
<td>Land</td>
<td>$</td>
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<tr>
<td>Existing Building</td>
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<td>New Building</td>
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<td>Machinery &amp; Equipment</td>
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<td>Employment</td>
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<td>Annual Payroll</td>
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<td>Average Salary</td>
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<tr>
<td>Average Hourly Wage</td>
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<td>Employment -- Indirect</td>
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SOUTH CAROLINA, DEPARTMENT OF COMMERCE
# Cost/Benefit Analysis

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<th>PRESENT VALUE 10-YEAR TOTAL</th>
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<tr>
<td>AFDC Jobs Tax Credit</td>
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<tr>
<td>Job Development Credit (JDC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Schools</td>
<td>304,200</td>
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<td>Economic Development Set-Aside Fund</td>
<td>1,125,000</td>
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<td>750,000</td>
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<td>Increased State Education Costs</td>
<td></td>
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<td>Infrastructure Improvements</td>
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<td>Increased Local Education Costs</td>
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<td></td>
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<td>Other Costs</td>
<td>76,242</td>
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<td><strong>Total Public Costs</strong></td>
<td>$2,352,350</td>
<td>$12,161,993</td>
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<table>
<thead>
<tr>
<th>INCOME BENEFITS</th>
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</thead>
<tbody>
<tr>
<td>Total New Building (Direct &amp; Indir)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Machinery &amp; Equipment (Direct &amp; Indir)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Payroll (Direct &amp; Indir)</td>
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<tr>
<td>State Revenues</td>
<td></td>
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<td>Rural Infrastructure Fund</td>
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<td>Property Taxes from Project</td>
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<td>Property Taxes from New Housing</td>
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<td>Property Taxes from New Automobiles</td>
<td>43,512</td>
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<td><strong>Total Income Benefits</strong></td>
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<tr>
<td><strong>$28,651,241</strong></td>
<td></td>
<td><strong>$288,253,671</strong></td>
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</table>

### Present Values

#### Private

| Total Value of Private Benefits    | $22,459,900 | $230,079,404 |

#### State

| Present Value of State Benefits    | $1,974,360  | $20,105,814  |
| Present Value of State Costs       | 2,276,108   | 11,241,916   |
| **Total State Value**              | ($301,748)  | $8,863,898   |

#### Local

| Present Value of Local Benefits    | $2,396,881  | $19,413,366  |
| Present Value of Local Costs       | 154,617     | 1,865,839    |
| **Total Local Value**              | $2,242,263  | $17,547,478  |

### Overall Net Benefit

| $24,399,516 | $256,490,780 |

### Cost/Benefit Ratio

21:1
Appendix two: Redacted Spirit Pharmaceuticals economic impact analysis

SOUTH CAROLINA
COORDINATING COUNCIL FOR ECONOMIC DEVELOPMENT
ECONOMIC DEVELOPMENT GRANT IMPACT ANALYSIS

Spirit Pharmaceuticals, LLC
Clarendon County
2/28/2013

**PROJECT DATA**

<table>
<thead>
<tr>
<th>ANNOUNCED CAPITAL INVESTMENT</th>
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<tbody>
<tr>
<td>Land</td>
<td>$</td>
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<tr>
<td>Existing Building</td>
<td>$</td>
</tr>
<tr>
<td>New Building</td>
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<tr>
<td>Machinery &amp; Equipment</td>
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<td>Annual Payroll</td>
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<td>Average Salary</td>
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<td>Average Hourly Wage</td>
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<td>SIC Code</td>
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<td>Employment – Indirect</td>
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SOUTH CAROLINA DEPARTMENT OF COMMERCE

164
## Cost/Benefit Analysis

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<tr>
<td>Corporate Jobs Tax Credit</td>
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<td>Multi-County Industrial Park</td>
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<tr>
<td>AFDC Jobs Tax Credit</td>
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<td>-</td>
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<tr>
<td>Job Development Credit (JDC)</td>
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<td>3,245,092</td>
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<td>Special Schools</td>
<td>888,000</td>
<td>888,000</td>
</tr>
<tr>
<td>Economic Development Set-Aside Fund</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>State Grants</td>
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<td>-</td>
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<tr>
<td>Increased State Education Costs</td>
<td>76,492</td>
<td>923,003</td>
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<tr>
<td>Infrastructure Improvements</td>
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<td>-</td>
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<tr>
<td>Increased Local Education Costs</td>
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<td>726,247</td>
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<td>Other Costs</td>
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<td><strong>Total Public Costs</strong></td>
<td><strong>$2,596,945</strong></td>
<td><strong>$18,033,104</strong></td>
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### Income Benefits
- Total New Building (Direct & Indirect)
- Total Machinery & Equipment (Direct & Indirect)
- Total Payroll (Direct & Indirect)
- State Revenues
- Rural Infrastructure Fund
- Reduction of AFDC Costs
- Property Taxes from Project
- Property Taxes from New Housing
- Property Taxes from New Automobiles

| TOTAL INCOME BENEFITS                | $281,985,730 |

### Present Values

#### Private
- Total Value of Private Benefits

#### State
- Present Value of State Benefits
- Present Value of State Costs
- Total State Value

#### Local
- Present Value of Local Benefits
- Present Value of Local Costs
- Total Local Value

### Overall Net Benefit
- $24,172,083

### Cost/Benefit Ratio
- 14:1
Appendix three: Statewide survey

2014 Survey of Economic Development Incentives for Business Location in South Carolina

Jonathan Keisler at Clemson University is conducting a survey of local government economic development incentives for business location in South Carolina. Please respond to this brief survey on behalf of your jurisdiction or forward to the appropriate person. You may submit your completed questionnaire online in a matter of minutes. Your input is very valuable. The deadline for submitting your responses is Friday, June 27th, 2014.

1. Which of the following statements best describes the entity with primary responsibility for economic development in your jurisdiction (Check only one.)
   a. ___ A local government unit has primary responsibility for economic development in our jurisdiction.
   b. ___ A county government unit has primary responsibility for economic development in our jurisdiction.
   c. ___ A state government unit has primary responsibility for economic development in our jurisdiction.
   d. ___ A nonprofit development organization (i.e., Council of Government) has primary responsibility for economic development in our jurisdiction.
   e. ___ No single organization is primarily responsible for economic development in our jurisdiction.

2. Which other organization(s) have responsibility for economic development in your jurisdiction? (Exclude the primary organization from Question 1. Check all that apply.)
   a. ___ A local government unit also has responsibility for economic development in our jurisdiction.
   b. ___ A county government unit also has responsibility for economic development in our jurisdiction.
   c. ___ A state government unit also has responsibility for economic development in our jurisdiction.
   d. ___ A nonprofit development organization (i.e., Council of Government) also has responsibility for economic development.
   e. ___ No other organization(s) have responsibility for economic development in our jurisdiction.

3. How would you describe the level of cooperation among your jurisdiction’s economic development organizations?
   a. ___ Very Poor
b. ___ Poor  
c. ___ Neutral  
d. ___ Good  
e. ___ Very Good  

4. Please indicate your level of agreement with the following statements by circling the number that best corresponds to your viewpoint.

   | Strongly Agree | Strongly Disagree |
   ---|-----------------|-------------------|
   a. Our jurisdiction **competes** with other jurisdictions in the region for economic development.  | 1 2 3 4 |
   b. Our jurisdiction **collaborates** with other jurisdictions in the region on economic development.  | 1 2 3 4 |
   c. The roles of the various economic development organizations serving this jurisdiction are clearly defined.  | 1 2 3 4 |
   d. Our jurisdiction experiences **conflict** with other state and local organizations over economic development strategy  | 1 2 3 4 |
   e. The incentives offered by other jurisdictions **strongly influence** the types of incentives we provide.  | 1 2 3 4 |
   f. The incentives offered by other jurisdictions **increase** costs for our jurisdiction.  | 1 2 3 4 |
   g. Our jurisdiction has a voice in what incentives are offered in our area.  | 1 2 3 4 |

5. A. Does your jurisdiction offer **property tax** incentives for business location?  
   (Check only one)  
   a. ___ YES, we use property tax incentives for business location.  
   b. ___ NO, we use other types of incentives for business location  
   (Specify: ____________________________)  
   c. ___ NO, we do not use any incentives for business location.  

   B. How does your jurisdiction use incentives in its economic development efforts?  
   (Check only one.)  
   a. ___ Mostly to recruit new industry  
   b. ___ Balanced between recruiting new companies and retaining existing
6. A. Do you require a written performance agreement as a condition for providing business incentives?
   a. ___ Always
   b. ___ Sometimes
   c. ___ Never

   B. Does your jurisdiction perform a cost/benefit analysis prior to offering business incentives?  ___ YES  ___ NO

   C. Does your jurisdiction perform a cost/benefit analysis after to offering business incentives?  ___ YES  ___ NO

   D. Does your jurisdiction have a formal policy for determining eligibility for business incentives?  ___ YES  ___ NO

   E. Does your local government ever require a percentage of new employees to be hired locally?  ___ YES  ___ NO

   F. Do you require companies to return/repay incentives if they fail to meet performance targets?  ___ YES  ___ NO

   G. Please indicated any change in dollar value of the average size of any business incentive packages over the last five years. (Check the appropriate number.)
      1. ___ Much less
      2. ___ Slightly less
      3. ___ About the same
      4. ___ Slightly larger
      5. ___ Much larger

7. A. Would you like to expand upon any your responses to this survey?  ___ YES  ___ NO

   B. Would you like to be contacted by the researcher to expand upon your responses to this survey?  ___ YES  ___ NO

   C. You may also use the space below expand upon your responses to this survey.
      __________________________________________________________
      __________________________________________________________
Local Government/Jurisdiction Profile

1. Name: ________________________________

2. Title: ________________________________

3. Name of Jurisdiction: ________________________________

4. County/Municipality: ________________________________
Appendix four: Local government interview protocol

Local Government Interview Protocol

Government:

________________________

Interviewee (Title and Name):

________________________

Development Project: _____ BMW  _____ Boeing

Local Government Official type:

_____ A: State Department of Commerce Official

_____ B: County Administrator

_____ C: County Economic Development Official

_____ D: Municipal Administrator

_____ E: Municipal Economic Development Official

_____ F: Third Party Economic Development Official

Employed with Local Government at the time of the development project?

_____ YES  _____ NO

Direct knowledge of the incentives offered during the development project?

_____ YES  _____ NO

Other Topics Discussed:

________________________

Documents Obtained:

________________________

________________________

Post Interview Comments or Leads:

________________________

Interview Questionnaire

Introduction: Jonathan Keisler at Clemson University is conducting interviews of local government officials involved in economic development projects involving the use of incentives for business location in South Carolina. Your response is on behalf of your jurisdiction. If you feel another representative would be a more appropriate respondent, please notify the interviewer. This survey will require 10 to 15 minutes to complete. If at any point you wish to discontinue this interview, please let the interviewer know. Your input is very valuable.

1. Tell me about the entity with primary responsibility for economic development in your jurisdiction

__________________________________________________________________
2. What other organizations, if any, have responsibility for economic development in your jurisdiction?


3. How would you describe the level of cooperation among your jurisdiction’s economic development organizations?


4. Tell me about how your jurisdiction competes and collaborates with other jurisdictions (state/county/municipality) in economic development?


5. Tell me about the use of property tax incentives for business location in your jurisdiction (either independently or collaboratively with other levels of government). What level of input do you have in determining when and if incentives are used?


6. What are the primary reasons your jurisdiction uses tax incentives in economic development?


7. Tell me about how does your jurisdiction use incentives in its economic development efforts? Are they primarily used to recruit new firms or to retain and support existing/expanding industry?
8. How often do you require a written performance agreement as a condition for providing business tax incentives?

9. Please share with me how often your jurisdiction performs an impact analysis when offering tax incentives for business location. If impact analysis is completed, is it performed before or after incentives are offered?

10. Does your jurisdiction have a formal policy for determining eligibility for business incentives?

11. Would you like to expand upon any of your responses to this interview?

Thank you for participating in this interview!
Appendix five: Company representative interview protocol

Company Representative Interview Protocol

Company: _____ BMW    _____ Boeing

Interviewee (Title and Name):

Employed with the company at the time of the development project?
   _____ YES    _____ NO

Direct knowledge of the incentives offered during the development project?
   _____ YES    _____ NO

Other Topics Discussed:

________________________________________________________________________

Documents Obtained:

________________________________________________________________________

________________________________________________________________________

Post Interview Comments or Leads:

________________________________________________________________________

Interview Questionnaire

Interview Questionnaire

Introduction: Jonathan Keisler at Clemson University is conducting interviews of representatives of companies involved in economic development projects involving the use of incentives for business location in South Carolina. Your response is on behalf of your organization. If you feel another representative would be a more appropriate respondent, please notify the interviewer. This survey will require 10 to 15 minutes to complete. If at any point you wish to discontinue this interview, please let the interviewer know. Your input is very valuable.

1. Tell me about the entity that your organization primarily dealt with during the firm’s recruitment to the area. What other governments, if any, were involved in that process?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

2. Please tell me about what factors your firm found attractive when deciding to locate in the area you are in today in South Carolina.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
3. Tell me about the use of property tax incentives for business location in the recruitment process.

4. What are the primary reasons your firm located in South Carolina?

5. Tell me about the presence of infrastructure and the quality of labor force in the area you located in South Carolina. How would you rank infrastructure, labor force and tax incentives as determining factors for location decisions?

6. Was your firm required to sign a written performance agreement as a condition for providing tax incentives?

7. Were the incentives offered solely to recruit your firm’s location in South Carolina or were there also provisions for future expansion?

8. Would you like to expand upon any of your responses to this interview?

Thank you for participating in this interview!
Appendix six: Incentive survey results

1. Which of the following statements best describes the entity with primary responsibility for economic development in your jurisdiction (Check only one.)
   a. 13 (19.4%) A local government unit has primary responsibility for economic development in our jurisdiction.
   b. 36 (53.7%) A county government unit has primary responsibility for economic development in our jurisdiction.
   c. 0 (0.0%) A state government unit has primary responsibility for economic development in our jurisdiction.
   d. 8 (11.9%) A nonprofit development organization (i.e., Council of Government) has primary responsibility for economic development in our jurisdiction.
   e. 10 (14.9%) No single organization is primarily responsible for economic development in our jurisdiction.

Answered: 67 Skipped: 1

2. Which other organization(s) have responsibility for economic development in your jurisdiction? (Exclude the primary organization from Question 1. Check all that apply.)
   a. 30 (44.7%) A local government unit also has responsibility for economic development in our jurisdiction.
   b. 27 (40.3%) A county government unit also has responsibility for economic development in our jurisdiction.
   c. 27 (40.3%) A state government unit also has responsibility for economic development in our jurisdiction.
   d. 28 (41.7%) A nonprofit development organization (i.e., Council of Government) also has responsibility for economic development.
   e. 6 (8.96%) No other organization(s) have responsibility for economic development in our jurisdiction.

Answered: 67 Skipped: 1

3. How would you describe the level of cooperation among your jurisdiction’s economic development organizations?
   a. 1 (1.4%) Very Poor
   b. 3 (4.4%) Poor
   c. 11 (16.4%) Neutral
   d. 33 (49.2%) Good
   e. 19 (28.3%) Very Good

Answered: 67 Skipped: 1
4. Please indicate your level of agreement with the following statements by circling the number that best corresponds to your viewpoint.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither Disagree Nor Agree</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
<th>Average Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our jurisdiction competes with other jurisdictions in the region for economic development.</td>
<td>3 (4.5%)</td>
<td>6 (9.0%)</td>
<td>9 (13.6%)</td>
<td>34 (51.5%)</td>
<td>14 (21.2%)</td>
<td>66</td>
<td>3.76</td>
</tr>
<tr>
<td>Our jurisdiction collaborates with other jurisdictions in the region on economic development.</td>
<td>2 (2.9%)</td>
<td>5 (7.4%)</td>
<td>18 (26.8%)</td>
<td>33 (49.2%)</td>
<td>9 (13.4%)</td>
<td>67</td>
<td>3.63</td>
</tr>
<tr>
<td>The roles of the various economic development organizations serving this jurisdiction are clearly defined.</td>
<td>3 (4.4%)</td>
<td>13 (19.4%)</td>
<td>15 (23.3%)</td>
<td>31 (46.2%)</td>
<td>5 (7.4%)</td>
<td>67</td>
<td>3.33</td>
</tr>
<tr>
<td>Our jurisdiction experiences conflict with other state and local organizations over economic development strategy</td>
<td>7 (10.4%)</td>
<td>28 (41.7%)</td>
<td>17 (25.3%)</td>
<td>12 (17.9%)</td>
<td>3 (4.4%)</td>
<td>67</td>
<td>2.64</td>
</tr>
<tr>
<td>The incentives offered by other jurisdictions strongly influence the types of incentives we provide.</td>
<td>3 (4.4%)</td>
<td>11 (16.4%)</td>
<td>22 (32.8%)</td>
<td>22 (32.8%)</td>
<td>9 (13.4%)</td>
<td>67</td>
<td>3.34</td>
</tr>
<tr>
<td>The incentives offered by other jurisdictions increase costs for our jurisdiction.</td>
<td>4 (5.9%)</td>
<td>15 (22.3%)</td>
<td>24 (35.8%)</td>
<td>21 (31.3%)</td>
<td>3 (4.4%)</td>
<td>67</td>
<td>3.06</td>
</tr>
<tr>
<td>Our jurisdiction has a voice in what incentives are offered in our area.</td>
<td>5 (7.46%)</td>
<td>13 (19.4%)</td>
<td>10 (14.9%)</td>
<td>27 (40.3%)</td>
<td>12 (17.9%)</td>
<td>67</td>
<td>3.42</td>
</tr>
</tbody>
</table>

Answered: 67  Skipped: 1
4. **A.** Does your jurisdiction offer property tax incentives for business location?  
   (Check only one)  
   a. 35 (52.2%)  YES, we use property tax incentives for business location.  
   b. 7 (10.4%)  NO, we use other types of incentives for business location  
   c. 25 (37.3%)  NO, we do not use any incentives for business location.  

Answered: 67  Skipped: 1

**B.** How does your jurisdiction use incentives in its economic development efforts?  
   (Check only one.)  
   a. 20 (33.3%)  Mostly to recruit new industry  
   b. 32 (53.3%)  Balanced between recruiting new companies and retaining existing industry  
   c. 8 (13.3%)  Mostly to retain and support existing industry  

Answered: 60  Skipped: 8

5. **A.** Do you require a written performance agreement as a condition for providing business incentives?  
   a. 26 (41.9%)  Always  
   b. 14 (22.5%)  Sometimes  
   c. 22 (35.4%)  Never  

Answered: 62  Skipped: 6

**B.** Does your jurisdiction perform a cost/benefit analysis prior to offering business incentives?  
   a. 27 (42.8%)  YES  
   b. 22 (34.9%)  NO  
   c. 14 (22.2%)  UNKNOWN  

Answered: 63  Skipped: 5

**C.** Does your jurisdiction perform a cost/benefit analysis after to offering business incentives?  
   a. 16 (25.4%)  YES  
   b. 31 (49.2%)  NO  
   c. 16 (25.4%)  UNKNOWN  

Answered: 63  Skipped: 5
D. Does your jurisdiction have a formal policy for determining eligibility for business incentives?
   a. 18 (29.1%) YES
   b. 34 (53.1%) NO
   c. 12 (18.7%) UNKNOWN

Answered: 64 Skipped:4

E. Does your local government ever require a percentage of new employees to be hired locally?
   a. 7 (11.2%) YES
   b. 40 (64.5%) NO
   c. 15 (24.1%) UNKNOWN

Answered: 62 Skipped:6

F. Do you require companies to return/repay incentives if they fail to meet performance targets?
   a. 26 (41.9%) YES
   b. 19 (30.6%) NO
   c. 17 (27.4%) UNKNOWN

Answered: 62 Skipped:6

G. Please indicated any change in dollar value of the average size of any business incentive packages over the last five years. (Check the appropriate number.)

   1. 3 (5.3%) Much less
   2. 3 (5.3%) Slightly less
   3. 36 (64.2%) About the same
   4. 11 (19.6%) Slightly larger
   5. 3 (5.3%) Much larger

Answered: 56 Skipped:12

6. A. Would you like to expand upon any your responses to this survey?
   a. 11 (18.6%) YES
   b. 48 (81.3%) NO

Answered: 59 Skipped:9
B. Would you like to be contacted by the researcher to expand upon your responses to this survey?
   a. 7 (11.4%) YES
   b. 54 (88.5%) NO

Answered: 61 Skipped: 7

7. Which type of local government do you represent?
   a. 45 (66.1%) YES
   b. 23 (33.8%) NO

Answered: 68 Skipped: 0

8. (MUNICIPALITIES ONLY) Which population range best describes your municipality?
   a. 16 (38.1%) <2,500 residents
   b. 11 (26.1%) 2501 to 10,000 residents
   c. 11 (26.1%) 10,001 to 50,000 residents
   d. 4 (9.52%) over 50,000 residents

Answered: 42 Skipped: 3

9. (COUNTIES ONLY) Which population range best describes your county?
   a. 2 (9.5%) <2,500 residents
   b. 10 (47.6%) 2501 to 10,000 residents
   c. 3 (14.2%) 10,001 to 50,000 residents
   d. 6 (28.5%) over 50,000 residents

Answered: 21 Skipped: 2

10. (COUNTIES ONLY) The state average per capita income is $23,443. Which average per capita income range best describes your county?
   a. 17 (73.9%) Below the state average per capita income
   b. 6 (26.1%) Above the state average per capita income

Answered: 23 Skipped: 0
### Appendix seven: Regression data

#### Table 6.3 Estimated Populations for 30 Largest Municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Population</th>
<th>Municipality</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>30,296</td>
<td>Hilton Head Island</td>
<td>39,412</td>
</tr>
<tr>
<td>Anderson</td>
<td>26,985</td>
<td>Lexington</td>
<td>19,576</td>
</tr>
<tr>
<td>Bluffton</td>
<td>13,606</td>
<td>Mauldin</td>
<td>24,525</td>
</tr>
<tr>
<td>Cayce</td>
<td>12,860</td>
<td>Mount Pleasant</td>
<td>74,885</td>
</tr>
<tr>
<td>Charleston</td>
<td>127,999</td>
<td>Myrtle Beach</td>
<td>29,175</td>
</tr>
<tr>
<td>Clemson</td>
<td>14,276</td>
<td>North Myrtle Beach</td>
<td>14,827</td>
</tr>
<tr>
<td>Columbia</td>
<td>133,358</td>
<td>North Augusta</td>
<td>22,229</td>
</tr>
<tr>
<td>Conway</td>
<td>19,300</td>
<td>North Charleston</td>
<td>104,054</td>
</tr>
<tr>
<td>Easley</td>
<td>20,300</td>
<td>Orangeburg</td>
<td>13,891</td>
</tr>
<tr>
<td>Florence</td>
<td>37,792</td>
<td>Rock Hill</td>
<td>69,103</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>39,823</td>
<td>Simpsonville</td>
<td>19,615</td>
</tr>
<tr>
<td>Greenville</td>
<td>61,397</td>
<td>Spartanburg</td>
<td>37,647</td>
</tr>
<tr>
<td>Greenwood</td>
<td>23,379</td>
<td>Summerville</td>
<td>46,074</td>
</tr>
<tr>
<td>Greer</td>
<td>27,167</td>
<td>Sumter</td>
<td>41,190</td>
</tr>
<tr>
<td>Hanahan</td>
<td>19,597</td>
<td>West Columbia</td>
<td>15,824</td>
</tr>
</tbody>
</table>

*Source: United States Census Bureau (2013)*

#### Table 6.4 Percent of Land that is Property Tax Exempt

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Percent of Land Property Tax Exempt</th>
<th>Municipality</th>
<th>Percent of Land Property Tax Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>23.20</td>
<td>Hilton Head Island</td>
<td>16.10</td>
</tr>
<tr>
<td>Anderson</td>
<td>15.06</td>
<td>Lexington</td>
<td>15.00</td>
</tr>
<tr>
<td>Bluffton</td>
<td>47.50</td>
<td>Mauldin</td>
<td>26.20</td>
</tr>
<tr>
<td>Cayce</td>
<td>27.10</td>
<td>Mount Pleasant</td>
<td>23.67</td>
</tr>
<tr>
<td>Charleston</td>
<td>33.50</td>
<td>Myrtle Beach</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Clemson</td>
<td>14.60</td>
<td>North Myrtle Beach</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Columbia</td>
<td>42.30</td>
<td>North Augusta</td>
<td>12.20</td>
</tr>
<tr>
<td>Conway</td>
<td>Did Not Report</td>
<td>North Charleston</td>
<td>43.90</td>
</tr>
<tr>
<td>Easley</td>
<td>17.82</td>
<td>Orangeburg</td>
<td>Did Not Report</td>
</tr>
<tr>
<td>Florence</td>
<td>18.07</td>
<td>Rock Hill</td>
<td>44.56</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>36.40</td>
<td>Simpsonville</td>
<td>24.00</td>
</tr>
<tr>
<td>Greenville</td>
<td>23.80</td>
<td>Spartanburg</td>
<td>26.19</td>
</tr>
<tr>
<td>Greenwood</td>
<td>38.48</td>
<td>Summerville</td>
<td>18.18</td>
</tr>
<tr>
<td>Greer</td>
<td>28.80</td>
<td>Sumter</td>
<td>40.56</td>
</tr>
<tr>
<td>Hanahan</td>
<td>17.98</td>
<td>West Columbia</td>
<td>28.11</td>
</tr>
</tbody>
</table>

*Source: Original data collected from local government GIS offices*
Table 6.5 Per Capita Property Tax Revenue for the 30 Largest Municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Per Capita Property Tax Revenue</th>
<th>Municipality</th>
<th>Per Capita Property Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>$325.49</td>
<td>Hilton Head Island</td>
<td>$302.84</td>
</tr>
<tr>
<td>Anderson</td>
<td>$454.56</td>
<td>Lexington</td>
<td>$158.20</td>
</tr>
<tr>
<td>Bluffton</td>
<td>$303.07</td>
<td>Mauldin</td>
<td>$247.92</td>
</tr>
<tr>
<td>Cayce</td>
<td>$97.43</td>
<td>Mount Pleasant</td>
<td>$248.85</td>
</tr>
<tr>
<td>Charleston</td>
<td>$519.51</td>
<td>Myrtle Beach</td>
<td>$125.80</td>
</tr>
<tr>
<td>Clemson</td>
<td>$238.29</td>
<td>North Myrtle Beach</td>
<td>$769.45</td>
</tr>
<tr>
<td>Columbia</td>
<td>$336.93</td>
<td>North Augusta</td>
<td>$247.71</td>
</tr>
<tr>
<td>Conway</td>
<td>$254.59</td>
<td>North Charleston</td>
<td>$383.87</td>
</tr>
<tr>
<td>Easley</td>
<td>$136.19</td>
<td>Orangeburg</td>
<td>$242.04</td>
</tr>
<tr>
<td>Florence</td>
<td>$78.14</td>
<td>Rock Hill</td>
<td>$223.54</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>$60.35</td>
<td>Simpsonville</td>
<td>$363.66</td>
</tr>
<tr>
<td>Greenville</td>
<td>$478.70</td>
<td>Spartanburg</td>
<td>$363.99</td>
</tr>
<tr>
<td>Greenwood</td>
<td>$329.99</td>
<td>Summerville</td>
<td>$180.81</td>
</tr>
<tr>
<td>Greer</td>
<td>$343.95</td>
<td>Sumter</td>
<td>$303.32</td>
</tr>
<tr>
<td>Hanahan</td>
<td>$115.52</td>
<td>West Columbia</td>
<td>$255.92</td>
</tr>
</tbody>
</table>

Source: Municipal Comprehensive Annual Financial Reports (divided by municipal estimated population (U.S. Census Bureau, 2013))

Table 6.6 Municipal Millage Rates for the 30 Largest Municipalities in South Carolina

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Municipal Millage Rate</th>
<th>Municipality</th>
<th>Municipal Millage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>0.06200</td>
<td>Hilton Head Island</td>
<td>0.02083</td>
</tr>
<tr>
<td>Anderson</td>
<td>0.12500</td>
<td>Lexington</td>
<td>0.03514</td>
</tr>
<tr>
<td>Bluffton</td>
<td>0.04435</td>
<td>Mauldin</td>
<td>0.05630</td>
</tr>
<tr>
<td>Cayce</td>
<td>0.04417</td>
<td>Mount Pleasant</td>
<td>0.03830</td>
</tr>
<tr>
<td>Charleston</td>
<td>0.08230</td>
<td>Myrtle Beach</td>
<td>0.06610</td>
</tr>
<tr>
<td>Clemson</td>
<td>0.08340</td>
<td>North Myrtle Beach</td>
<td>0.03800</td>
</tr>
<tr>
<td>Columbia</td>
<td>0.09810</td>
<td>North Augusta</td>
<td>0.07720</td>
</tr>
<tr>
<td>Conway</td>
<td>0.07930</td>
<td>North Charleston</td>
<td>0.09500</td>
</tr>
<tr>
<td>Easley</td>
<td>0.05800</td>
<td>Orangeburg</td>
<td>0.09000</td>
</tr>
<tr>
<td>Florence</td>
<td>0.05670</td>
<td>Rock Hill</td>
<td>0.09350</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>0.03650</td>
<td>Simpsonville</td>
<td>0.06170</td>
</tr>
<tr>
<td>Greenville</td>
<td>0.08540</td>
<td>Spartanburg</td>
<td>0.10300</td>
</tr>
<tr>
<td>Greenwood</td>
<td>0.09870</td>
<td>Summerville</td>
<td>0.06240</td>
</tr>
<tr>
<td>Greer</td>
<td>0.09780</td>
<td>Sumter</td>
<td>0.10200</td>
</tr>
<tr>
<td>Hanahan</td>
<td>0.05390</td>
<td>West Columbia</td>
<td>0.06188</td>
</tr>
</tbody>
</table>

Source: South Carolina Revenue and Fiscal Affairs Office (2013)
### Table 6.7 Per Capita Total Assessed Value for the 30 Largest Municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Per Capita Total Assessed Value</th>
<th>Municipality</th>
<th>Per Capita Total Assessed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>$5,249.78</td>
<td>Hilton Head Island</td>
<td>$14,538.43</td>
</tr>
<tr>
<td>Anderson</td>
<td>$3,636.48</td>
<td>Lexington</td>
<td>$4,502.12</td>
</tr>
<tr>
<td>Bluffton</td>
<td>$7,059.05</td>
<td>Mauldin</td>
<td>$4,403.54</td>
</tr>
<tr>
<td>Cayce</td>
<td>$2,432.09</td>
<td>Mount Pleasant</td>
<td>$6,497.49</td>
</tr>
<tr>
<td>Charleston</td>
<td>$6,555.38</td>
<td>Myrtle Beach</td>
<td>$1,903.24</td>
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<tr>
<td>Clemson</td>
<td>$2,857.14</td>
<td>North Myrtle Beach</td>
<td>$20,248.71</td>
</tr>
<tr>
<td>Columbia</td>
<td>$3,536.51</td>
<td>North Augusta</td>
<td>$3,208.62</td>
</tr>
<tr>
<td>Conway</td>
<td>$3,210.45</td>
<td>North Charleston</td>
<td>$4,040.72</td>
</tr>
<tr>
<td>Easley</td>
<td>$2,348.12</td>
<td>Orangeburg</td>
<td>$2,689.35</td>
</tr>
<tr>
<td>Florence</td>
<td>$1,378.05</td>
<td>Rock Hill</td>
<td>$3,139.44</td>
</tr>
<tr>
<td>Goose Creek</td>
<td>$1,653.53</td>
<td>Simpsonville</td>
<td>$5,893.95</td>
</tr>
<tr>
<td>Greenville</td>
<td>$5,605.37</td>
<td>Spartanburg</td>
<td>$3,533.89</td>
</tr>
<tr>
<td>Greenwood</td>
<td>$3,343.35</td>
<td>Summerville</td>
<td>$2,897.55</td>
</tr>
<tr>
<td>Greer</td>
<td>$3,516.84</td>
<td>Sumter</td>
<td>$2,973.70</td>
</tr>
<tr>
<td>Hanahan</td>
<td>$2,143.26</td>
<td>West Columbia</td>
<td>$4,135.79</td>
</tr>
</tbody>
</table>

*Source: Calculation of total property tax revenue divided by millage rate in per capita terms*

### Table 6.8 Per Capita Median Income for the 30 Largest Municipalities

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Per Capita Median Income</th>
<th>Municipality</th>
<th>Per Capita Median Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aiken</td>
<td>$23,172</td>
<td>Hilton Head Island</td>
<td>$36,621</td>
</tr>
<tr>
<td>Anderson</td>
<td>$18,577</td>
<td>Lexington</td>
<td>$23,416</td>
</tr>
<tr>
<td>Bluffton</td>
<td>$17,327</td>
<td>Mauldin</td>
<td>$24,750</td>
</tr>
<tr>
<td>Cayce</td>
<td>$17,745</td>
<td>Mount Pleasant</td>
<td>$30,823</td>
</tr>
<tr>
<td>Charleston</td>
<td>$22,414</td>
<td>Myrtle Beach</td>
<td>$23,214</td>
</tr>
<tr>
<td>Clemson</td>
<td>$19,272</td>
<td>North Myrtle Beach</td>
<td>$27,006</td>
</tr>
<tr>
<td>Columbia</td>
<td>$18,853</td>
<td>North Augusta</td>
<td>$21,391</td>
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<tr>
<td>Conway</td>
<td>$16,611</td>
<td>North Charleston</td>
<td>$14,361</td>
</tr>
<tr>
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<td>$20,965</td>
<td>Orangeburg</td>
<td>$15,263</td>
</tr>
<tr>
<td>Florence</td>
<td>$20,336</td>
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<tr>
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<td>Simpsonville</td>
<td>$21,139</td>
</tr>
<tr>
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<td>Spartanburg</td>
<td>$18,136</td>
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<td>Summerville</td>
<td>$20,103</td>
</tr>
<tr>
<td>Greer</td>
<td>$17,546</td>
<td>Sumter</td>
<td>$16,949</td>
</tr>
<tr>
<td>Hanahan</td>
<td>$22,629</td>
<td>West Columbia</td>
<td>$18,135</td>
</tr>
</tbody>
</table>

*Source: United States Census Bureau (2013)*
REFERENCES


Lincoln Institute of Land Policy (2014 b) Significant Features of the Property Tax: Census of Governments Data. Available at: http://www.lincolnist.edu/subcenters/significant_features_property_tax/census/


S.C. Constitution Article X, §3

S.C. Constitution Article X, § 6

S.C. Code §6 1 320

S.C. Code §6 1 320(B)

S.C. Code §12 4 540

S.C. Code §12 37 10(1)

S.C. Code §12 37 30

S.C. Code §12 37 90

S.C. Code §12 37 220(A)(2)

S.C. Code §12 37 220(A)(3)

S.C. Code §12 37 220(A)(7)

S.C. Code §12 37 220(B)(31)

S.C. Code §12 37 220(B)(32)

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