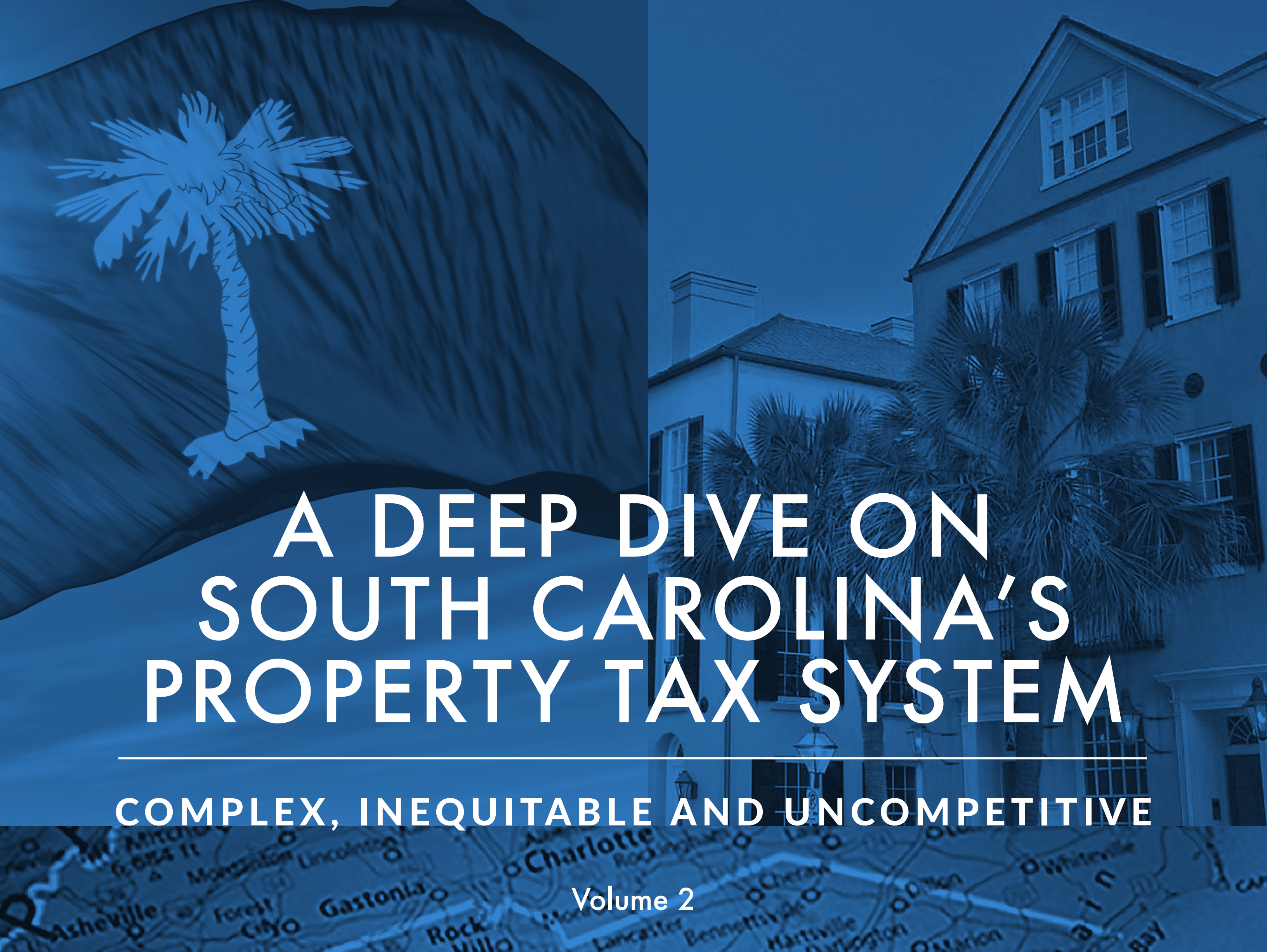

A DEEP DIVE ON SOUTH CAROLINA'S PROPERTY TAX SYSTEM

COMPLEX, INEQUITABLE AND UNCOMPETITIVE

Volume 2

SOUTH CAROLINA CHAMBER FOUNDATION

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LINCOLN INSTITUTE OF LAND POLICY

A Deep Dive on South Carolina's Property Tax System

Complex, Inequitable and Uncompetitive

Volume 2

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A Deep Dive on South Carolina's Property Tax System

Complex, Inequitable and Uncompetitive

Volume 2[1]

[1] Volume 1 summarizes the chapters in Volume 2. Volume 1 also includes key findings, the executive summary, and policy options. Some material, such as the definitions section, appears in both volumes.

Chapter 5:

Property Tax Abatements, Focusing on FILOTs

by

David Merriman, Ph.D. and Daphne A. Kenyon, Ph.D.

Introduction

As noted previously, South Carolina's effective business property tax rates—particularly manufacturing and utility--are high relative to homestead property taxes and neighboring states' business property taxes.[1] These relatively high taxes are largely the product of two factors:

(1) South Carolina's system of classification, which assesses manufacturing and utility parcels at 10.5 percent of market value (effectively a bit lower for manufacturing due to recently passed legislation), other business properties at six percent of market value, and owner-occupied homes at four percent of market value and;

(2) Act 388, which exempts the primary residences of homeowners from property taxes for school operating costs.

Together these two factors have the effect of shifting the responsibility for property tax payments away from homeowners and toward business—especially manufacturing and utilities.

Certain provisions of South Carolina law make it possible for local governments to level the playing field to an extent by reducing the property tax liabilities of firms operating in the state. South Carolina has prepared a number of publications that describe the many business tax incentives that may be available.[2] Here we briefly summarize some of the property tax incentives described in these publications before providing an extended discussion of the most widely used business tax abatement, known as a fee-in-lieu of property taxes or FILOT.

Property tax exemptions or abatements allowed by South Carolina law include:

1. Several categories of business personal property are exempted from taxation. These include inventories, intangible properties, and pollution control equipment.
2. Recent legislation exempts 14.3 percent of manufacturing property from property taxation which will reduce the effective assessment rate on manufacturing property to 9 percent. This reduction will be phased in over six years and faces certain limitations. Also, the reduction does not apply to manufacturing property benefiting from FILOT.
3. There are specific credits for renovation of sites formerly used as textile mills but currently abandoned. These credits can significantly lower property taxes owed on activity at those sites.
4. There are additional credits available for the renovation of any abandoned building if significant investments are made. The required investment varies with the population of the municipality in which the abandoned structure is located and ranges from $75,000 to $250,000 per building.
5. South Carolina provides a five-year exemption or abatement from county property taxes for the facilities of all new enterprises engaged in manufacturing, research and development activities, new corporate headquarters, corporate office facilities, distribution facilities, and all additions to existing corporate headquarters, corporate office facilities, or distribution facilities. There are minimum investment and, in some cases, job creation requirements to qualify for the credits. The abatement does not include the school portion of the local millage. Beginning in year six the abatement terminates. Also, the reduction does not apply to property benefiting from FILOT.

[1] See Chapter 1 for extensive data on how effective property tax rates for manufacturing compare to those for homesteads.
[2] See South Carolina Department of Commerce 2019a, 2019b and 2019c, South Carolina Department of Revenue 2018 and South Carolina Department of Revenue 2015 for more detail. See also Lincoln Institute of Land Policy's property tax database *Significant Features of the Property Tax*.

6. South Carolina allows a local taxing entity to give a property tax credit to a taxpayer who installs a new or existing fire sprinkler system in a new or existing commercial or residential structure if the system is not required by law, regulation, or code.
7. South Carolina Code allows two or more counties to establish a joint industrial or business park, referred to as a multicounty industrial park (MCIP). Property in the industrial park is exempt from the property tax but property owners in the park must pay a fee that is equal to the amount that would have been due in property taxes unless a fee-in-lieu of property taxes has been negotiated.[3]
8. Special Source Revenue Credits (SSRCs) are a discretionary property tax abatement tool used by counties, often in conjunction with MCIP and FILOT, to reimburse companies for costs related to infrastructure, real estate, and personal property.[4]
9. Tax increment finance, which is more of an earmarking device than a tax exemption or abatement device, is also used to promote economic development.[5]

While a number of publications carefully explain these provisions of South Carolina law, it is difficult to tell how widespread their use is, as we could not locate any comprehensive data source documenting use. Our phone interviews with individuals working in the economic development and property tax administration fields in South Carolina suggested that the most widely used and important business property tax incentive was the FILOT sometimes combined with the multicounty industrial park and Special Source Revenue Credits.

Fees in Lieu of Taxes (FILOTs)

FILOT agreements make it possible for South Carolina county governments to reduce the property tax liability of firms that make new investments and create jobs in the state. In many cases, FILOT agreements require payment of a fee in place of the property tax payment and effectively reduce the assessment level of new manufacturing (and in some cases nonmanufacturing) property to six percent. FILOTs can also freeze the property tax millage rate for an extended period. Property subject to the fee usually consists of land, improvements to land, and/or machinery and equipment (excluding some mobile property) located at a project. An in-depth technical description of the rules for FILOT agreements is readily available elsewhere.[6]

A brief nontechnical description is provided for readers that may be unfamiliar with FILOTs. Although there are several flavors of FILOT the basic idea behind each of them is similar—a potential investor agrees to make a substantial new investment in productive capacity (generally, but not always, manufacturing) in South Carolina during a five-year period. The county where the new investment is located signs an agreement with the investor that lowers the assessment rate to six percent for a period of up to 40 years. The county and the investor may also agree to freeze the property tax millage on the new investment at its current level. For very large (so called "super") investments of $500 million or more the investment period may be lengthened to eight years, the assessment ratio may be lowered to four percent, and there is an added requirement that at least 1,000 jobs must be created.

Such an arrangement can significantly reduce the property tax liability of a firm. For example, under a FILOT agreement between York County and Oerlikon Balzers Coating Inc., dated March 7, 2016, the investor agreed to invest at least $15 million and create 18 jobs by investing in an industrial park located

[3] Multicounty industrial parks are described in more detail in Appendix C.
[4] Special source revenue credits are described in more detail in Appendix C.
[5] The use of tax increment finance in South Carolina is described in Appendix B.
[6] See for example South Carolina Department of Revenue (2018) *South Carolina Tax Incentives for Economic Development.*

in York County over the five-year period beginning the day the agreement was put into effect.[7] The county agreed that the assessment ratio would be lowered to six percent and the tax rate would be frozen at 391.6 mills for a period of 30 years.

To understand the significant benefits of such an agreement, a simplified example is provided. Assume the entire $15 million investment was committed to a project on the first day the agreement went into effect, and no further investments were made after that date. Under existing law, the $15 million investment would be assessed at 10 percent or $1,500,000.[8] Applying the tax rate of 391.6 mills the tax liability on the investment would be $587,400. If the assessment ratio were reduced to just 6 percent the assessed value would be $900,000 and, applying the millage rate of 391.6, the tax liability on the investment would be $352,440 saving the company $234,960 as shown in Table 5.1. If we assume that the firm would achieve these same savings in each year and assume that future savings are discounted at a rate of five percent the present value of 30 years of savings would be approximately $4 million. Therefore, in this simplified example, the FILOT mechanism has reduced the effective cost of the initial investment from about $15 million to about $11 million, a reduction of about 25 percent.

Table 5.1 Property Tax Calculation Example

	Normal Calculation	**Fee-in-Lieu Calculation (Simplified)**
Total Investment	$15,000,000	$15,000,000
Assessment Ratio	10.0%	6%
Assessed Value	$1,500,000	$900,000
Millage	391.6	391.6
Tax Due	$587,400	$352,440
Savings Relative to Normal		$234,960

Source: Author's calculation

Of course, the example is simplified in a number of ways: the investor is unlikely to make the entire $15 million investment on the day the agreement is culminated. A delay in making the investment could reduce the investors' savings. The five percent discount rate may be either too high or too low to represent the real opportunities facing this investor. The frozen millage rate of 391.6 mills could change over time in the absence of the FILOT and the assumption—implicit in this calculation—that it does not, is likely to understate the benefit to the investor. It is, therefore, difficult to measure precisely the benefits of a FILOT agreement to an investor, but it is reasonable to suggest that, for many investors, FILOTs may reduce the cost of investment by as much as 25 percent.

[7] See Fee-in-Lieu of Tax Agreement by and among York County, South Carolina and Oerlikon Balzers Coating USA Inc., as Sponsor and Beacon Waterford LLC, as Sponsor Affiliate Dated as of March 7, 2016.
[8] Although the assessment ratio for manufacturing is nominally 10.5 percent, Act 40 of 2017 created a special exemption for manufacturing which reduces the effective assessment ratio, on a phased in schedule from 2018 to 2023. In 2019 the effective assessment ratio for manufacturing is 10 percent (SC Revenue Ruling #18-13).

See Table 5.2 for a comparison of the major features of the Simplified FILOT and the Enhanced Simplified FILOT. There are basically three types of FILOTs available in South Carolina: Big Fee, Little Fee, and Simplified Fee. But since each of the main types of FILOT can be turned into a Super or Enhanced FILOT, one might consider there to be six types of FILOTs. However, both interviews and data available from the Department of Revenue indicate that for our focus counties simplified FILOTs are the most often used.

Table 5.2 Key Features of Two FILOT Programs

	Simplified FILOT	**Enhanced Simplified FILOT**
Purpose	To help compensate for South Carolina's high property tax	
Industry Focus	Manufacturing	
Minimum Required Investment	$2.5 million or $1 million	$150 million plus 125 jobs or $400 million
Eligible Property	Land, improvements to land, machinery & equipment	
Assessment Ratio	No lower than 6%	No lower than 4%
Maximum Length of Agreement	50 years	65 years
Millage Rate 1st Year	No lower than cumulative property tax millage of all relevant taxing entities	
Millage Rate in Succeeding Years	Can be frozen or adjusted up or down every 5 years	
Valuation of Property 1st Year	Either original income tax basis without regard for depreciation or appraised value	
Valuation of Property in Succeeding Years	Either value is frozen or subject to reappraisal no more than once every 5 years	
Approved By	County commission	
School Board Notification or Approval Required?	No	
Accountability Mechanism	Unclear	
Grounds for Revocation	Investment not achieved within required time period	

Sources: Department of Revenue 2018, SC code Chapter 44

The original FILOT, enacted in 1976, is now known as “Big Fee.” Under that program, a business receiving a fee-in-lieu of taxes had to transfer ownership of its property to the county and lease it back as well as issue bonds. The most recently enacted FILOT, known as Simplified Fee, was enacted in 1997. This FILOT structure eliminated the requirements to transfer title or to issue bonds.

Estimates of Property Taxes Abated

In 2015, the Governmental Accounting Standards Board issued GASB Statement No. 77 in order to provide more transparency around tax abatements. The first filings by local governments in South Carolina were expected in late 2017 (Klinger 2017). It is important to note, though, that not all tax abatements are covered under GASB 77 and the use of tax increment finance (TIF, which is typically a way to earmark funds for dedicated use rather than a tax abatement device) is not covered by GASB77. It is also important to note that preliminary reporting in local government CAFRs (Comprehensive Annual

Financial Reports) is spotty. This is the first time that many tax abatement programs throughout the country have had any estimates of tax revenue foregone.

Table 5.3 Property Tax Abatements, County Governments, 2018

County	Property Taxes Abated ($)	Total Property Tax Levy ($)	Amount Abated as a % of Total Property Tax
Allendale	NA	NA	NA
Charleston	3,061,712	126,556,746	2.4
Edgefield	89,073	27,926,438	0.3
Florence	948,780	34,850,908	2.7
Greenville	6,699,788	598,191,409	1.1
Horry	177,567	149,757,000	0.1
Orangeburg	4,100,000	39,438,463	10.4
Richland	4,249,673	769,604,459	0.6
Sumter	3,200,000	28,048,465	11.4
York	3,433,000	119,500,000	2.9

Source: County Comprehensive Annual Financial Reports

See Table 5.3 for reported property tax abatements for nine of the ten focus counties. Reported property taxes abated vary widely from $89,000 in Edgefield to $4.2 million in Richland. One reason for the variation in dollars reported may be a quirk of South Carolina property tax abatement features in combination with a perhaps peculiar interpretation of the GASB 77 requirement. As noted in the introduction, in the absence of FILOT, there is an automatic five-year abatement of county property taxes for many new investments. Apparently, some local government officials reasoned that by providing a FILOT instead of the automatic five-year abatement, the county could say that it raised property taxes rather than abated them (Wren 2018). This could account for some of the suspiciously low numbers in the "property taxes abated column."

The table also reports property taxes abated as a percentage of total property tax revenue. Again, the percentages vary widely. However, two counties report that 2018 property taxes abated exceeded 10 percent of total property taxes.

See Table 5.4 for estimates by school district. Several school districts did not report property taxes abated in their CAFRs or annual audit reports, and the reported numbers vary widely. However, it is of interest to note that the largest property tax abatement numbers in the school district table far exceed the largest property tax abatement numbers in the county table. Greenville School District and Charleston School District report over $30 million in property taxes abated in 2018. Some, but not all, of the difference in the reported property tax abatements for school districts compared to county governments can be explained by the fact that school district mills are about twice county government mills in our focus counties (South Carolina Association of Counties 2018).

Table 5.4 Property Tax Abatements, School Districts, 2018

County	School District	Property Taxes Abated ($)
Allendale	Allendale	NA
Charleston	Charleston	30,297,939
Edgefield	Edgefield	230,613
Florence	Florence 1	12,839,651
	Florence 2	NA
	Florence 3	NA
	Florence 4	NA
	Florence 5	7,874
Greenville	Greenville	37,542,000
Horry	Horry	502,846
Orangeburg	Orangeburg 3	NA
	Orangeburg 4	449,000
	Orangeburg 5	NA
Richland	Richland 1	11,529,903
	Richland 2	9,965,699
Sumter	Sumter	6,000,000
York	York 1	54,832
	York 2	436,000
	York 3	463,976
	York 4	873,198

Source: School District Annual Audit Reports and Comprehensive Annual Financial Reports

Growth in Use of FILOTs

FILOT has been a popular tool and the assessed value of property under FILOT has grown dramatically over time. Figure 5.1 shows the nominal assessed value of property in South Carolina that is assessed as manufacturing[9] and is assessed under FILOT.[10]

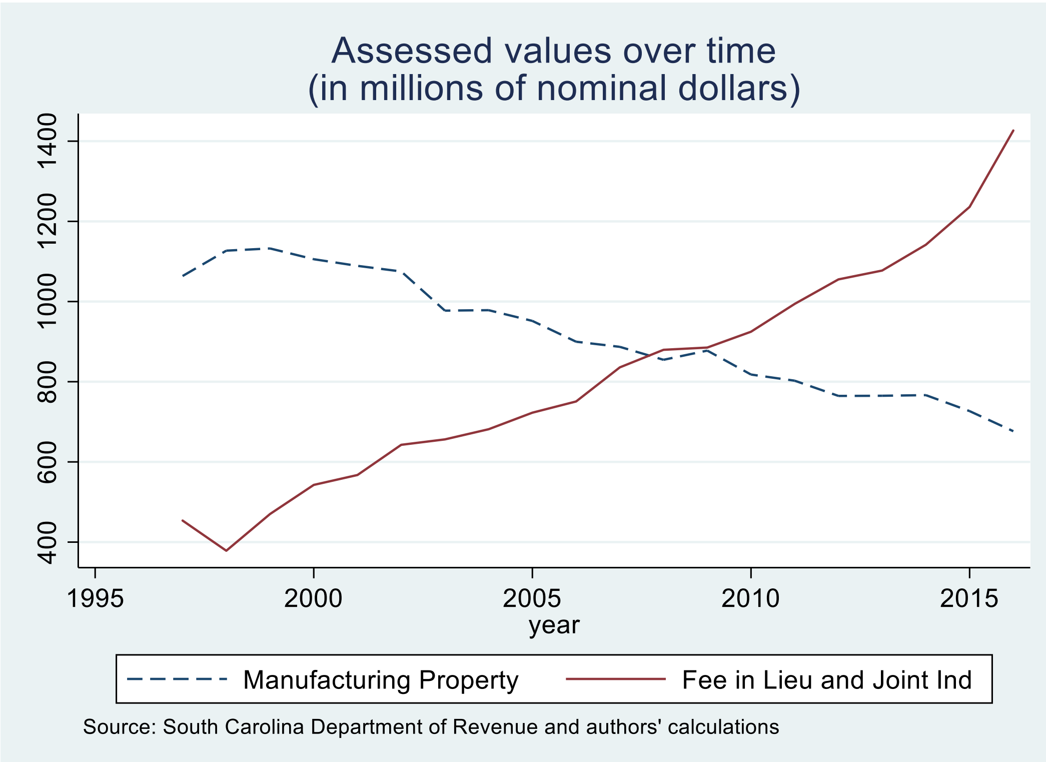
As shown in Figure 5.1, the assessed value of non-FILOT manufacturing property has fallen over time in South Carolina from about $1.1 billion dollars in 1997 to around $700 million in 2016 (most recent data available). During the same period, the amount of property assessed under FILOT has grown from a little over $400 million dollars in 1997 to more than $1.4 billion in 2016. The value of property under FILOT actually surpassed the value of manufactured assessed properties in 2008.[11]

[9] Non-manufacturing properties are sometimes included in FILOT arrangements. Unfortunately, we were unable to obtain any information about what share of FILOT properties are manufacturing versus non-manufacturing. Local informants told us that they believed most FILOT properties are manufacturing.

[10] The South Carolina Department of Revenue (DOR) determines assessments for properties subject to FILOT. The process for determining such assessments differs in substantial ways from the method of determining assessments for other properties of the same class (usually manufacturing) and may be related to the fair market value of the property in complex ways. Appendix A explains this in more detail. Another potential source of error in our FILOT time series is that it includes both FILOT and multicounty industrial parks. Many multicounty industrial parks use FILOT, however, we do not know how close to 100 percent that number is.

[11] The rate of growth in FILOT assessments was slightly greater after enactment of Act 388. The annual rate of growth from 1997 to 2006 was 6.3 percent, and from 2007 to 2016 was 6.7 percent.

Figure 5.1

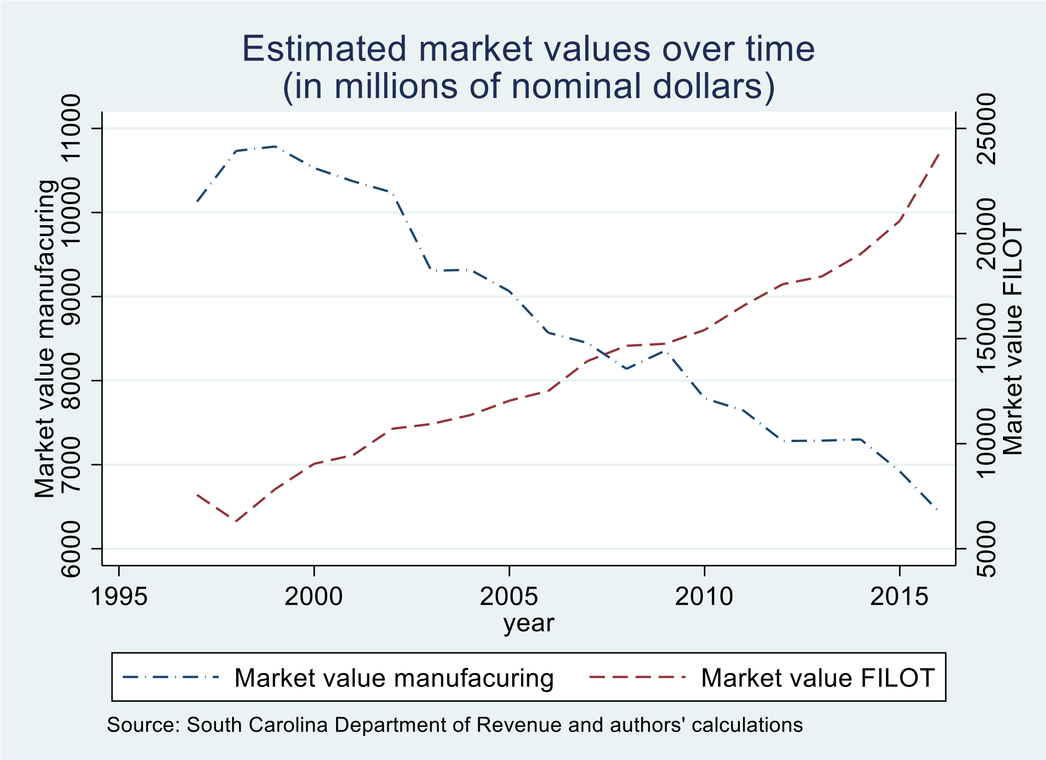


This graph may understate the relative change in market values of manufacturing and FILOT properties since during this period manufacturing parcels were generally assessed at 10.5 percent of market value while FILOT parcels were most often assessed at six percent or even four percent of market value.[12] Unfortunately, we do not know what share of FILOT parcels were assessed at each level. If we assume that all FILOT parcels are assessed at six percent of market value and all manufacturing parcels are assessed at 10.5 percent of market value, we obtain figure 5.2.

As shown in Figure 5.2 the market value of FILOT parcels may have exceeded the market value of manufacturing parcels as early as 2003 and by 2016 the market value of FILOT parcels may have been more than three and half times as large as the market value of manufacturing parcels and valued at more than $25 billion.

[12] As mentioned above, under current legislation the assessment level of non-FILOT manufacturing property will be gradually reduced to about nine percent but the calculations in Figure 5.2 represent the assessment level during the years prior to 2016. We were not able to obtain comprehensive data on the assessment levels used in FILOT agreements. Local informants told us that in the vast majority of cases assessment levels of six percent are used.

Figure 5.2



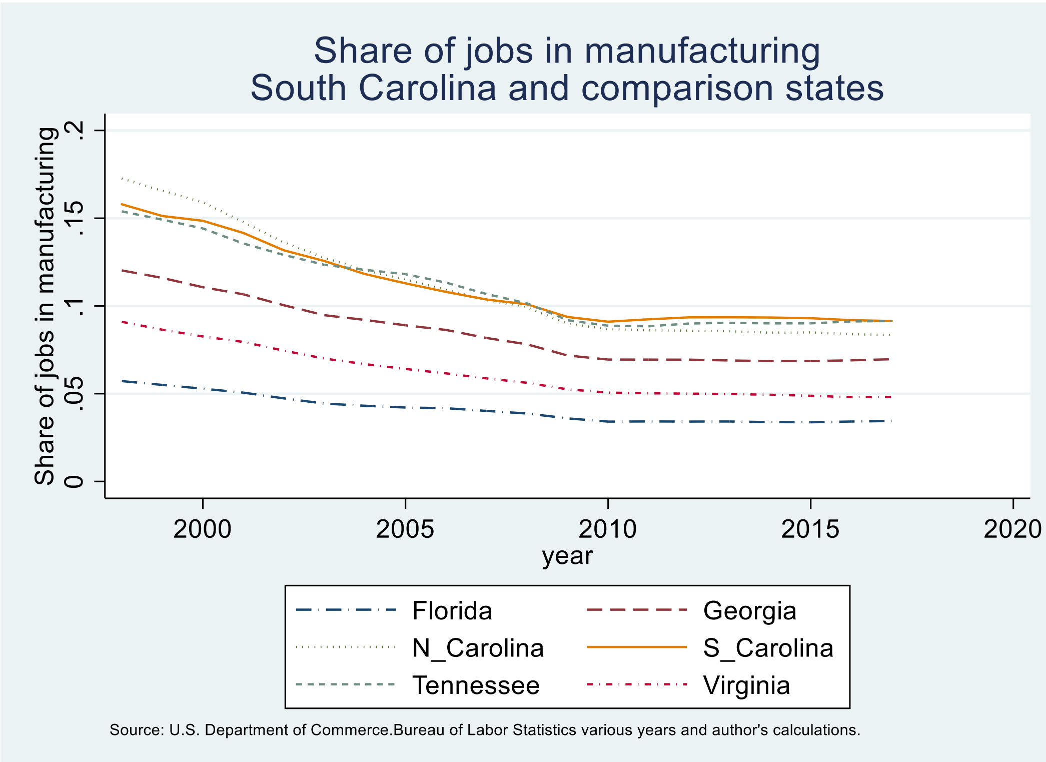
What Economic Effects Does Growth in FILOTs Have?

The FILOT program might be thought of as an attempt to counter South Carolina's relatively unfavorable property tax treatment of manufacturing activity.[13] One might ask whether the use of FILOTS has allowed South Carolina to "level the playing field" for economic development given its high statutory effective tax rates for business or whether the state's *growing* use of FILOTs has led to an improvement in South Carolina's ability to attract and retain economic activity. Although it is difficult to isolate a specific factor that is responsible for a state's economic environment, we can provide some relevant information by comparing South Carolina's economic performance to the economic performance of nearby states as follows: Florida, Georgia, North Carolina, Tennessee, and Virginia.

Figure 5.3 shows South Carolina's share of manufacturing employment over time and compares it to several other states.

[13] See Chapter 1 for extensive data on how effective property tax rates for manufacturing compare to those for homesteads.

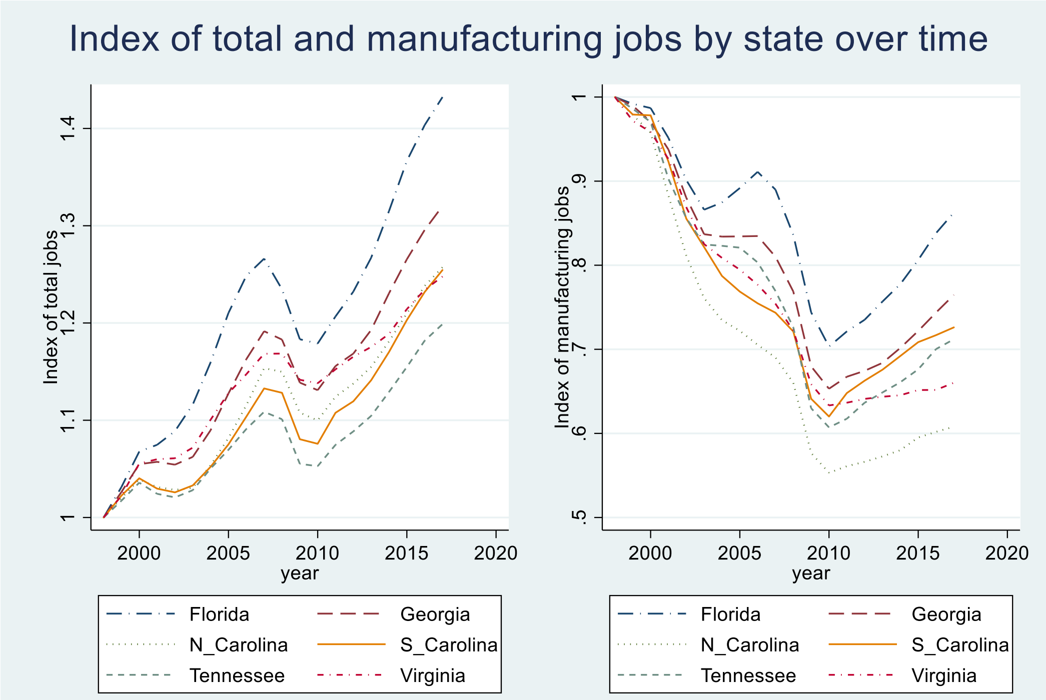
Figure 5.3



As shown in the figure, South Carolina has a very high share of its total employment in the manufacturing sector. Going back to 1997, the only comparison state with a higher share of employment in manufacturing was North Carolina. Consistent with national and international trends, all of the states have seen some decline in the share of employment in manufacturing but the decline in the share of jobs in manufacturing in South Carolina has not been very different from the declines experienced by North Carolina or Tennessee. In 2016, South Carolina has a share of jobs in manufacturing equal to that in Tennessee, and greater than Florida, Georgia, North Carolina, and Virginia.

The left-hand side of Figure 5.4 shows an index of total and manufacturing employment in South Carolina and comparison states. The growth of total employment in all of the states has been positive but was noticeably slowed by the recessions that began in 2001 and the great recession that began in 2007. South Carolina's total employment grew by about 25 percent between 1997 and 2016. This rate of growth placed it above Tennessee, about equal with Virginia and North Carolina, but below Florida and Georgia.

Figure 5.4



Source: U.S. Department of Commerce.Bureau of Labor Statistics various years and author's calculations.

The right-hand side of Figure 5.4 shows an index of manufacturing employment in South Carolina and comparison states. As noted above South Carolina's manufacturing employment has fallen like all of the comparison states. Again, South Carolina is in the middle of the pack and had less relative decline than North Carolina, Virginia and Tennessee but more decline than Florida and Georgia.

The bottom line when looking at these figures is that South Carolina's total and manufacturing employment performance looks very similar to its neighboring states. Macroeconomic factors such as recessions and recovery strongly influence all states' performance. These graphs are consistent with the hypothesis that FILOT, possibly together with other tax abatements, has allowed South Carolina to "level the playing field" despite high statutory business effective tax rates. The evidence in these graphs is not consistent with the hypothesis that growing use of FILOT has led to an improvement in South Carolina's ability to attract and retain economic activity.

We can also ask whether the use of FILOT has stimulated the growth of manufacturing jobs or the growth of total jobs in our ten focus counties. Figure 5.5 shows thousands of total jobs (right axis) and manufacturing jobs (left axis) over time in each county.

Figure 5.5

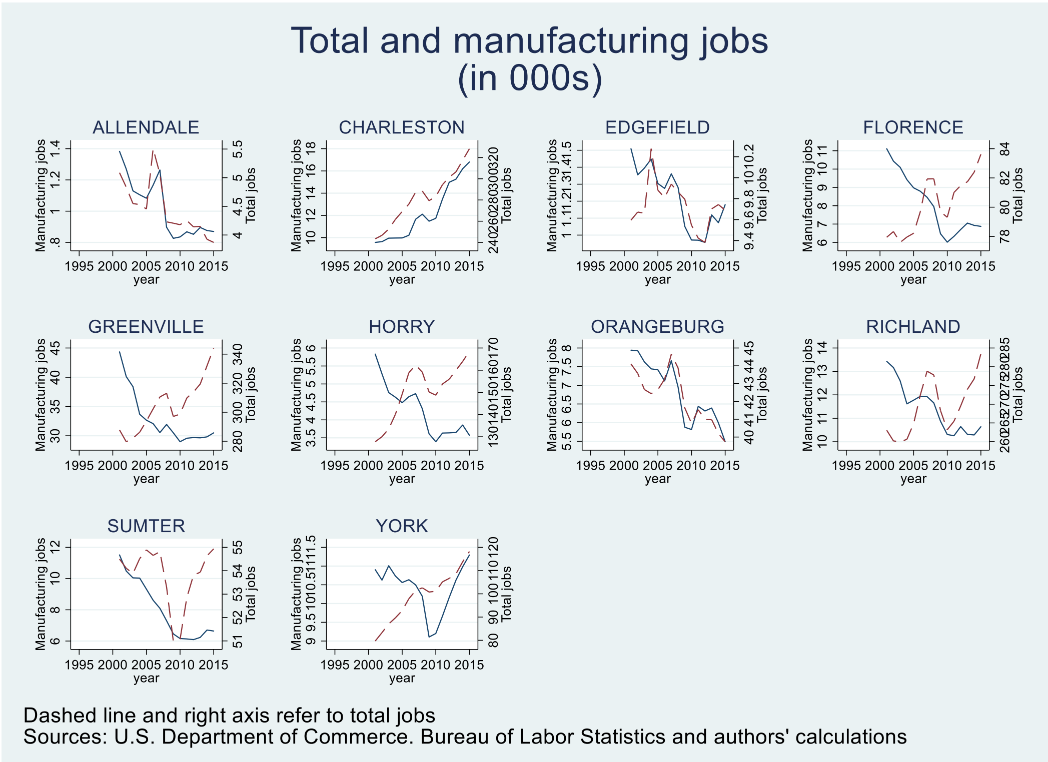


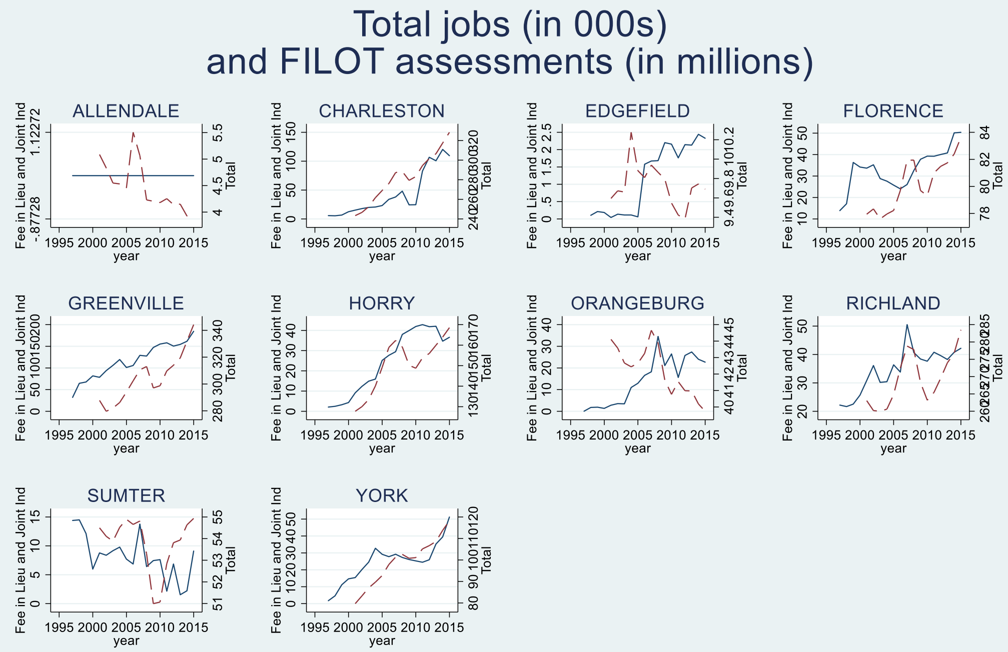
Figure 5.5 shows total and manufacturing jobs over time in each our focus counties.[14] Total jobs have risen in Charleston, Edgefield, Florence, Greenville, Horry, Richland, Sumter and York but fallen in Allendale and Orangeburg. Manufacturing jobs have fallen in both of the counties in which total jobs have fallen and also have fallen in Edgefield, Florence, Greenville, Horry, Richland and Sumter. The only counties that have gained manufacturing jobs have been Charleston and York.

To what extent are county-specific losses or gains in total and manufacturing jobs explained by the use of FILOT?

With the exception of Allendale, which has had constant FILOT assessments and Sumter which has had falling FILOT assessments since the mid-2000s each of our focus counties has had increasing FILOT assessments (figure 5.6). In Allendale the total number of jobs has fallen while in Sumter jobs rose substantially especially following the end of the great recession. Charleston, Edgefield, Florence, Greenville, Horry, Richland and York saw increases in both FILOT assessments and jobs, however, Orangeburg saw increases in FILOT assessments without increases in jobs.

[14] Larger versions of the graphs in Figure 5.5 are shown in Appendix D.

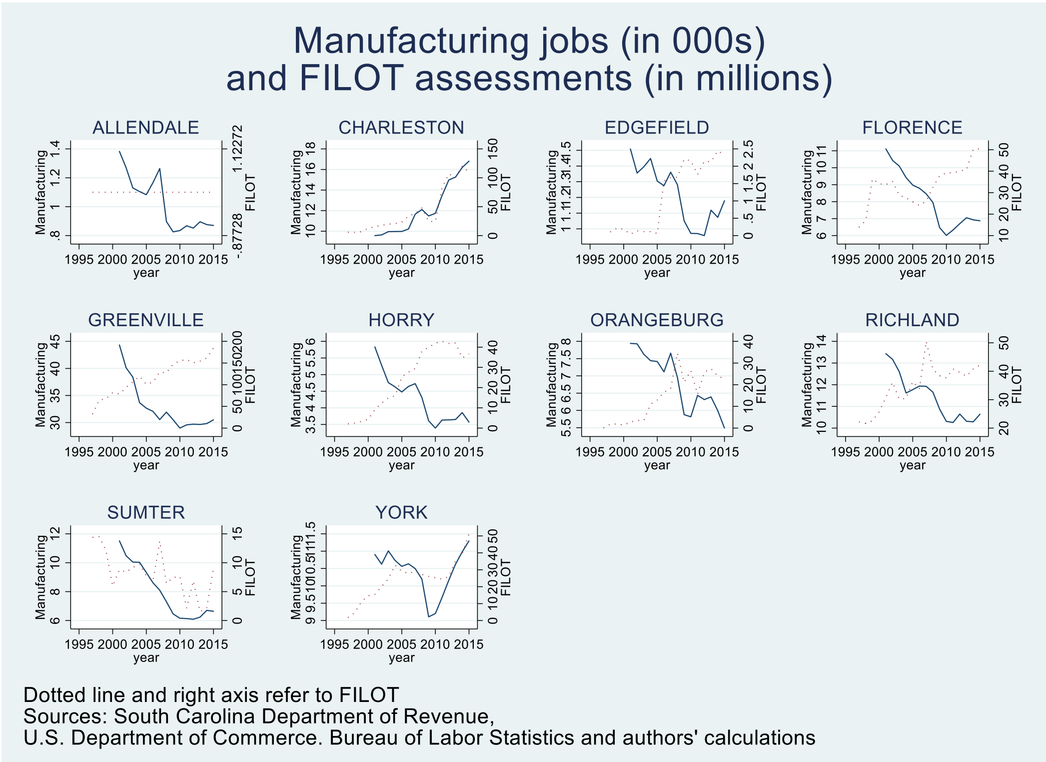
Figure 5.6



Dashed line and right axis refer to total jobs
Sources: South Carolina Department of Revenue,
U.S. Department of Commerce. Bureau of Labor Statistics and authors' calculations

Figure 5.7 shows the same graph of FILOT assessments as the previous figure but substitutes manufacturing jobs for total jobs. Recall that manufacturing jobs are of particular interest here because FILOT is primarily used to attract manufacturing employment. As we saw above, only Charleston and York have gained manufacturing jobs and for these counties there does seem to be a close alignment between the increase in FILOT assessments and the growth in manufacturing jobs. For other counties the pattern is unclear. For example, Florence's and Greenville's FILOT assessments have risen rapidly but that has not stemmed the fall in manufacturing jobs. Even in counties that have had both increased FILOT assessments and increased manufacturing jobs it is not clear which is the cause and which is the effect. A firm wishing to increase manufacturing jobs in a county might obtain a new FILOT agreement so that the data would show increases in both FILOT and manufacturing jobs but that does not necessarily indicate job growth would not have occurred in the absence of FILOT. On the other hand, in counties seeing both increased FILOT assessments and declines in manufacturing jobs (e.g., Edgefield or Horry) the jobs stimulated by new FILOT agreements could simply be insufficient to replace jobs lost at other locations in the county.

Figure 5.7



In summary, South Carolina has seen a very large increase in FILOT assessments and a large decline in non-FILOT manufacturing assessments. While South Carolina has seen overall job gains this is not extraordinary and has mostly tracked other comparison states. South Carolina has a disproportionate share of its employment in manufacturing and has experienced declines in manufacturing employment that closely tracks comparison states. Eight of our ten focus counties have seen increases in total employment but eight have seen declines in manufacturing employment. There is no clear relationship between a county's increases in FILOT assessments and either total or manufacturing employment growth.

This information on relative job growth in South Carolina and comparison states is consistent with our hypothesis that FILOTs help the state "level the playing field" compared to the disadvantage South Carolina would have had if its estimated effective property tax rates were not offset by some property tax abatements. The evidence on job growth in our ten focus counties is not consistent with that hypothesis, but this may be because focus counties rely on other property tax abatements that we do not measure, or because some focus counties have other advantages that attract industry and jobs other than tax abatements.

Table 5.5 presents some additional information consistent with the hypothesis that FILOTS together with Special Source Revenue Credits help the state "level the playing field." In the course of one interview with the tax director of a large multistate company that does business in Alabama, Georgia, Indiana, North Carolina, and Oklahoma in addition to South Carolina we were able to obtain confidential information on that company's effective property tax rates in those states. As noted in the table, once FILOTs and SSRCs are taken into account, South Carolina's effective property tax rate is not out of line with its competitor states. South Carolina's effective property tax rate, taking SSRCs into account, is higher than the rate in Alabama, North Carolina, and Oklahoma, but lower than the rate in Georgia, and Indiana.

Table 5.5 Average Effective Property Tax Rates for a Large Multistate Company

State	Average Effective Tax Rate (%)
South Carolina*	1.42
Alabama	0.7
Georgia	1.62
Indiana	1.63
North Carolina	1.05
Oklahoma	1.09

Source: Confidential
Note: Effective tax rates are calculated by dividing property taxes by appraised value
*This includes FILOTs and SSRCs

Conclusion

South Carolina’s effective business property tax rates are high relative to homestead property and neighboring states’ business property taxes. Fee-in-lieu of property taxes or FILOT makes it possible for South Carolina county governments to reduce the property tax liabilities of firms that make new investments and create jobs. Because FILOTs are complex and involve more than a reduced assessment ratio, the property tax benefits they provide are not very transparent. Nevertheless, recent CAFRs provide some information on property tax foregone due to FILOT. In 2018, two counties reported property tax abatements exceeding 10 percent of total property taxes collected. FILOT has grown a great deal in recent years, with the assessed value of property under FILOT now surpassing the assessed value of manufacturing properties. Information on total and manufacturing job growth in South Carolina compared to its neighboring states is consistent with the hypothesis that FILOTs help the state to “level the playing field” in its efforts to attract business and jobs, despite high statutory effective property tax rates.

Appendix A

Assessed values of FILOT property and estimates of market value of FILOT property

The South Carolina Department of Revenue (DOR) determines assessments for properties subject to FILOT in the following manner. The auditor in the county in which the FILOT property is located reports the FILOT fee paid by the sponsor (owner) of the FILOT property and the millage that would have been charged on that parcel were it not subject to a FILOT agreement (*millage absent FILOT*). The DOR calculates *assessments* of FILOT property as

$$assessment = \frac{FILOT\ Fee}{millage\ absent\ FILOT} \quad (1)$$

Although no data source tracks the formula by which FILOT fees are calculated local informants told us that in their experience in most cases, the FILOT fee is equal to:

$$FILOT\ Fee = market\ value\ of\ investment * 6\% * negotiated\ tax\ rate \quad (2)$$

and that the *negotiated tax rate* is generally less or equal to the current millage on the property.

Equation (1) and (2) together imply that:

$$market\ value\ of\ investment = \frac{FILOT\ Fee}{6\% * negotiated\ tax\ rate} = \frac{assessment * millage\ absent\ FILOT}{6\% * negotiated\ tax\ rate} \quad (3)$$

Rewriting equation (3)

$$market\ value\ of\ investment = \left(\frac{assessment}{6\%}\right) * \left(\frac{millage\ absent\ FILOT}{negotiated\ tax\ rate}\right) \quad (4)$$

In the absence of data on the ratio $\left(\frac{millage\ absent\ FILOT}{negotiated\ tax\ rate}\right)$ our calculations (in figure 5.2) assume it is equal to one. Our discussions with local informants suggest that in some cases $\left(\frac{millage\ absent\ FILOT}{negotiated\ tax\ rate}\right) > 1$ so our estimates of *market value of investment* may understate the true market value of investments made under the FILOT program. Unfortunately, with available data we are unable to quantify the amount by which investment is understated.

Appendix B

Tax increment finance in South Carolina

Chapter 6 of Title 31 of South Carolina's Code of Laws provides for tax increment financing (TIF) for redevelopment projects.

In many respects, the basic setup of South Carolina's tax increment finance districts is quite similar to the set-up in other states (see Flynn 2017 and Lincoln Institute of Land Policy, 2019). South Carolina law authorizes municipalities (and counties) to adopt redevelopment plans for areas that are blighted, in need of conservation or agricultural areas. In South Carolina, like in other states, once the municipality adopts a redevelopment plan it can create a TIF district. The assessed value within the boundaries of the district at the time of the creation of the district becomes the base (or frozen) value of the district. Revenues from property taxation of this portion of the tax base continue to be allocated among overlapping governments according to their relative tax rates. However, like other states, the increment created by increases in value in the tax base of the TIF district are deposited into a special tax allocation fund.

However, in other ways South Carolina's TIF program is somewhat unusual. For one thing revenues deposited into a TIF district's special allocation tax fund cannot be used for redevelopment until after bonds (secured by TIF revenue) are issued. Furthermore, the revenues in this fund can only be used to service that debt and cannot be used on a pay-as-you-go basis. In addition, the TIF bonds must be issued within ten years of the adoption of the municipality's redevelopment plan. Even more significantly, South Carolina unlike many other states requires that overlapping taxing districts that would otherwise receive revenue from the increment must consent. Unlike many other states South Carolina law restricts the expenditure of TIF revenues to publicly owned projects.[15] Furthermore, unlike in many other states in South Carolina the municipality may not deviate from the originally proposed TIF budget and must rebate any excess funds to overlying governments. Any deviations from the original plan require formal legal amendments.

Compared to other states, South Carolina imposes these relatively onerous restrictions on the creation of TIF districts and the use of TIF funds. Despite these restrictions there were reported to be more than one hundred TIF districts in South Carolina in 2015.[16] Because South Carolina prohibits use of TIF funds to support private sector activity and because it gives overlying local governments the ability to opt out of TIF districts it is relatively less attractive for municipalities than in other states.

Despite these restrictions, both Greenville and Charleston South Carolina use TIF and have websites devoted to the TIF district in their city.[17] Greenville's TIF districts cover its central business district and other areas adjacent to downtown. All three of these districts are long standing—one has already expired and the other two were started in the late 1980s. Greenville's site does not include a comprehensive list of improvements but does enumerate several million dollars' worth of improvements to public parks and streets. Charleston's web site covers TIF districts created in 2016 and 2018 but provides little detail about the precise spending plans. Local informants told us that the ability of overlapping local governments to opt out of TIF had diminished its use in recent years, but we were not able to obtain comprehensive data about the use of TIF and could not independently verify that claim.

[15] See Municipal Association of South Carolina 2017
[16] Merriman, Qiao, and Zhao 2018.
[17] See Greenville's web site at https://gvltoday.6amcity.com/tif-districts-greenville-sc/ 1/ and Charleston's at https://www.charleston-sc.gov/1492/West-Ashley-TIF-District

Appendix C

Special Source Revenue Credits and Multicounty Industrial Parks

Although there is no official state-wide data source that compares property taxes abated from FILOTs to those abated through Special Source Revenue Credits (SSRCs), both interviews and narratives in the CAFRs led us to believe that SSRCs are the second most important property tax abatement tool after FILOTs. Although some CAFRs assign property tax abatement amounts to multicounty industrial parks (MCIP) the main advantage of MCIPs appears to be greater flexibility in distribution of property tax receipts.

Special Source Revenue Credits

SSRC is a discretionary property tax abatement tool used by counties, often in conjunction with MCIP and FILOT. Although SSRCs are sometimes referred to as "infrastructure credits" they can actually be used for a wide range of purposes, including "for the purpose of paying the cost of designing, acquiring, constructing, improving, or expanding:

(a) the infrastructure serving the issuer or the project,
(b) for improved or unimproved real estate and personal property including machinery and equipment used in the operation of a manufacturing or commercial enterprise," or
(c) for expenses associated with certain qualifying aircraft projects.[18]

The county has discretion over the amount and the form of the credit. The credit can be a percentage, a flat dollar amount, or a percentage amount up to a specified cap. Although an agreement between the county and the company is not required, often a county will enter into an agreement with a company whereby the county agrees to provide a property tax credit for a period of years and the company agrees to meet certain investment or job creation targets.

According to a Nexsen/Pruet economic development seminar, two advantages of SSRCs are that they are an avenue for tax abatement on top of FILOTs and they allow high millage counties the flexibility to be competitive (Chikhliker 2016). Disadvantages that Nexsen/Pruet cites in connection with SSRCs are that clawbacks can be severe and SSRCs can be difficult to track and calculate.

Although most of the tax abatement sections of the nine-county government CAFRs we examined mentioned SSRCs, only two (Horry County and Richland County) report revenue loss from SSRCs separately from the revenue loss from FILOTs. In each case the reported revenue loss from SSRCs was much less than the amount attributed to FILOTs.

School district CAFRs in our focus counties had less complete information on estimated revenue loss from tax abatements. Thirteen of the twenty school districts had some tax abatement information in their CAFRs. Four of those mentioned SSRCs and three of them broke out revenue loss from SSRCs separately. In each case in which estimated revenue loss from SSRCs was stated, it was much less than the reported revenue loss from FILOTs.

[18] S.C. Code Ann. Sec. 4-1-175 and 4-29-68(A)(2)(i). Instead of providing SSRCs, the county can also directly fund such expenditures by issuing special source revenue bonds.

Multicounty Industrial Parks

Two or more contiguous counties can establish a MCIP.[19] When they do, property in the multicounty park becomes exempt from the property tax. The property owners are then required to pay a fee equal to the amount of property taxes that would have been due, unless the county and property owners agree to a FILOT (South Carolina Department of Revenue 2018). Given that stipulation, one might ask: why bother with a MCIP?

The main advantage of a MCIP appears to be the capability it extends to the county of allocating the fee revenue (which used to be property tax revenue) in a more flexible manner. Property taxes must be allocated by the county in proportion to the respective mill rates of the various governments levying the tax. But fee revenue can be allocated differently.

Consider a hypothetical MCIP and two ways in which property tax revenues can be reallocated as fees under a MCIP. In each case, assume that without an MCIP there would be $1 million in annual property tax revenue for the area, with the school district receiving $600 million and the county receiving $400 million.

Under the business incentives MCIP alternative allocation, the $1 million is reallocated as follows: partner county $10,000 (1%), SSRC $100,000, school district $534 million (60% of remainder), and county government $356,000 (40% of remainder) (Pope Flynn Group 2018).

Under the funding county economic development MCIP alternative allocation, the $1 million is reallocated as follows: partner county $10,000 (1%), county economic development fund $50,000, school district $564 million (60% of remainder), and county government $376,000 (40% of remainder) (Pope Flynn Group 2018).

Although the MCIP name might imply that the mechanism is used only for industrial development, it can be used more broadly as this news article of the Municipal Association of South Carolina describes:

> An often underutilized economic development tool for downtown or commercial development is designating property (or a group of properties) as a multicounty business park. While counties have been using the approach for years to promote industrial development, local governments are finding opportunities to use the multicounty approach to incentivize commercial development and fund public infrastructure projects to support commercial development (Municipal Association of South Carolina 2013).

If the MCIP is located within the boundaries of a municipality, the municipality has the power to consent to the MCIP. Apparently this power of consent does not extend to school districts or other taxing entities (Municipal Association of South Carolina 2013).

In addition to the increased revenue allocation flexibility, another advantage of a MCIP is that a business locating in a MCIP becomes eligible for an additional $1,000 job tax credit if it creates new full time jobs.

Another advantage of creating an MCIP concerns a special provision of the property tax code. Ordinarily converting property from agriculture to commercial or manufacturing use subjects the property owner to certain rollback taxes. However, if the property is in a MCIP it becomes exempt from the rollback taxes.

[19] S.C. Code Ann. Sec. 4-1-170 and Article VIII, Section 13(D) of the S.C. Constitution. A MCIP is also called a joint industrial park, a joint industrial or business park, a multi-county business park, or simply a multi county park.

Although MCIPs require participation by two or more counties, in practice a single county might account for 99 percent of the revenue and expenditures of a MCIP. In addition, despite the name, MCIPs should not be considered industrial parks in the traditional sense. Instead, a MCIPs should be considered "a property tax revenue-sharing agreement entered into between county governments" (Doerring 2016).

Appendix D

Figure 5.4a

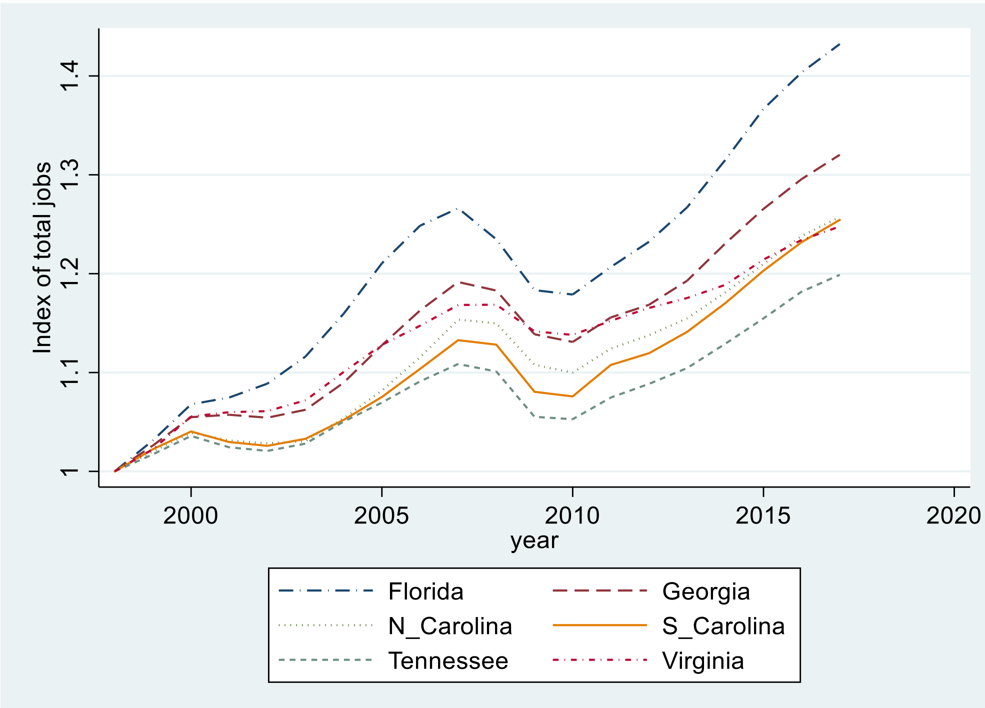


Figure 5.4b

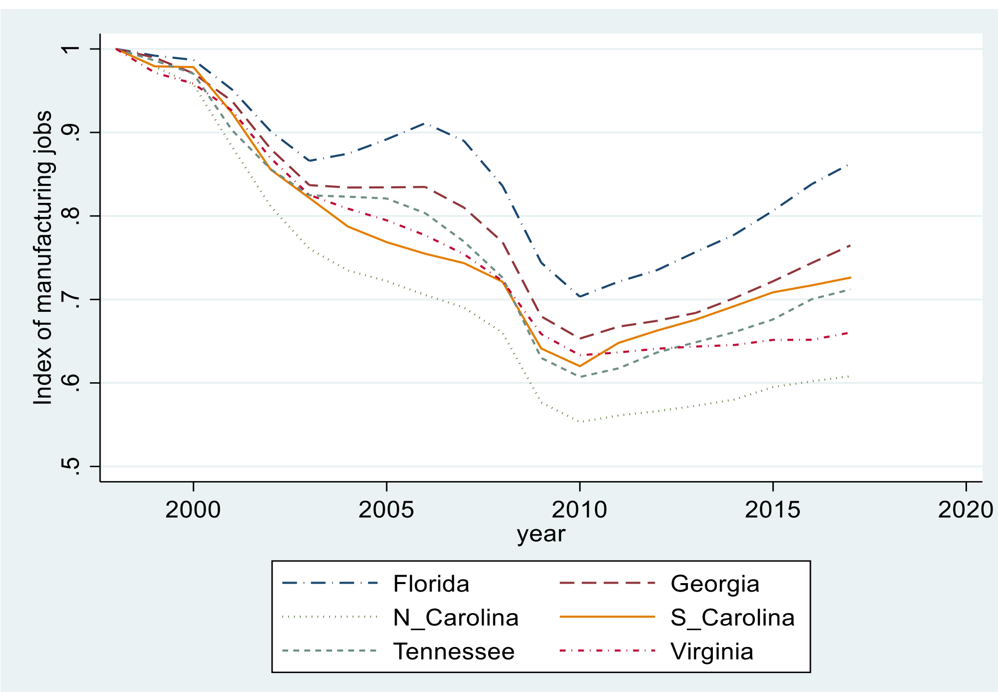
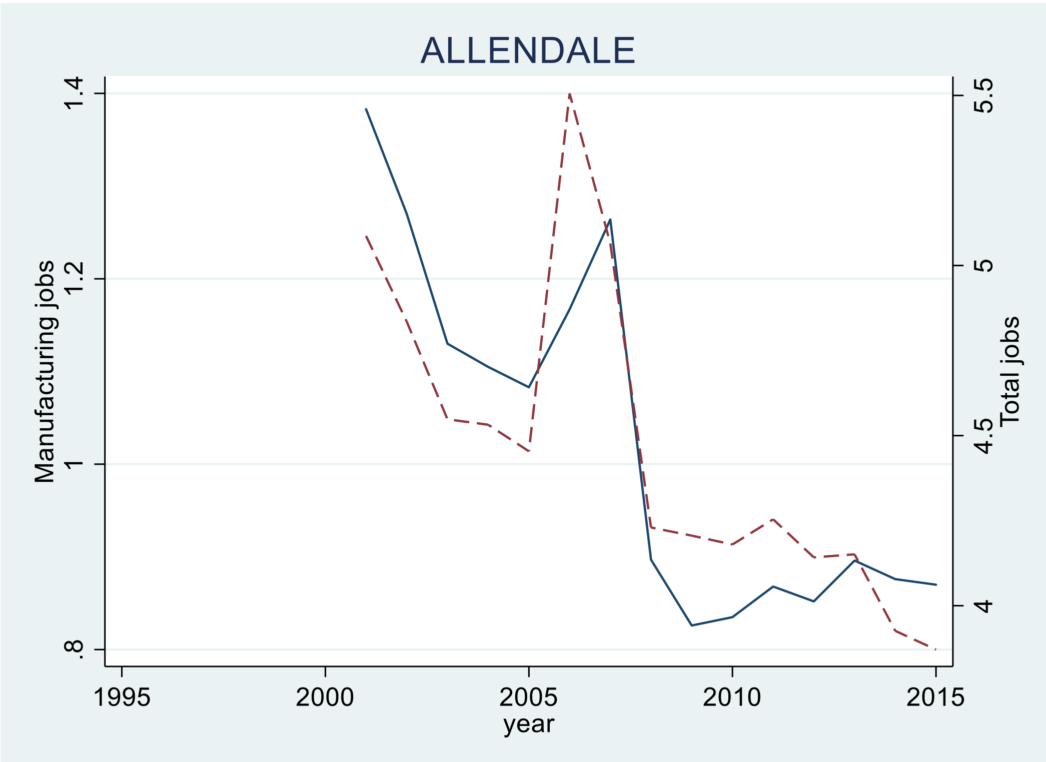
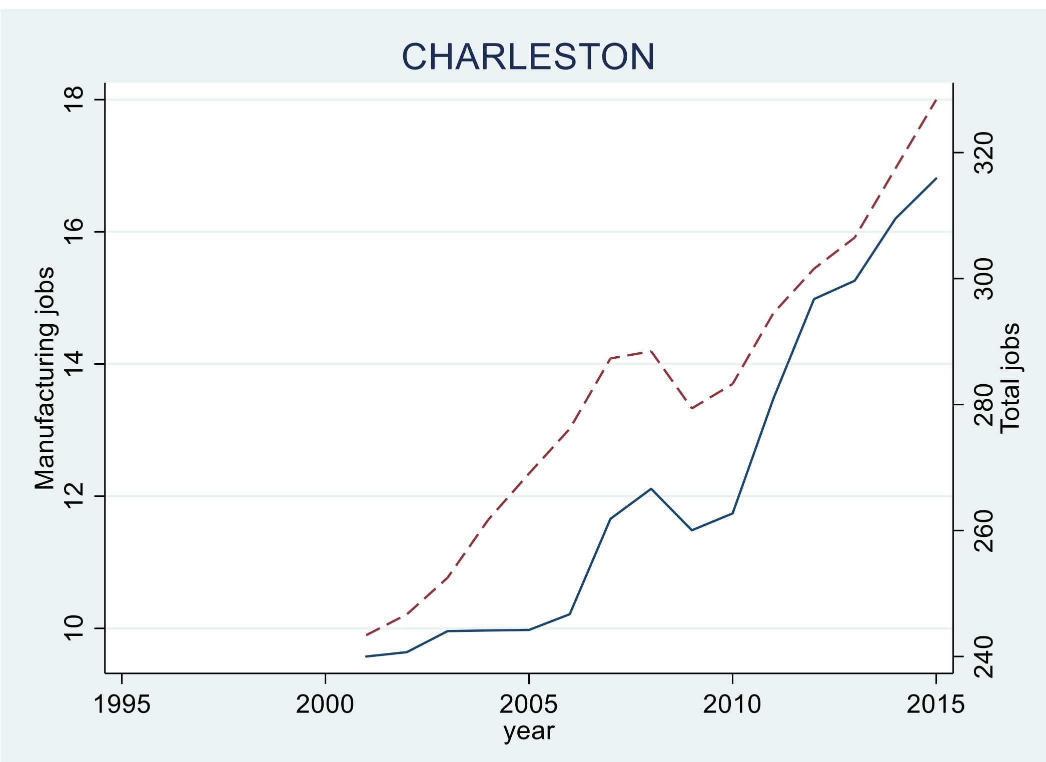
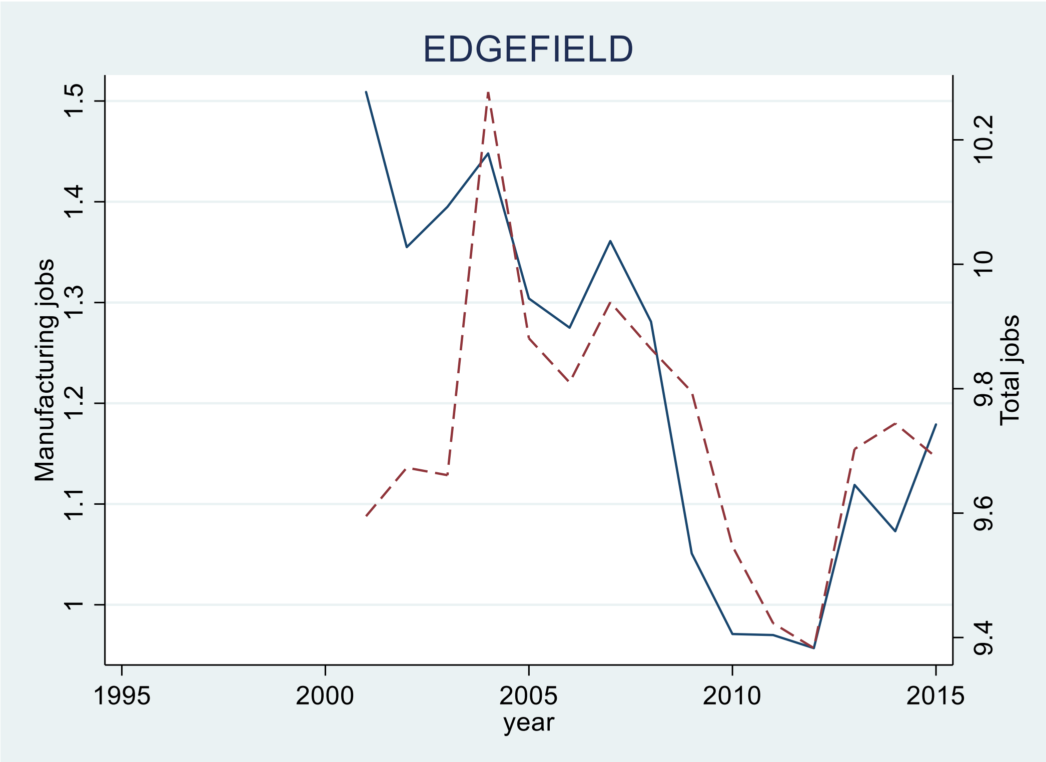


Figure 5.5 Individual Counties



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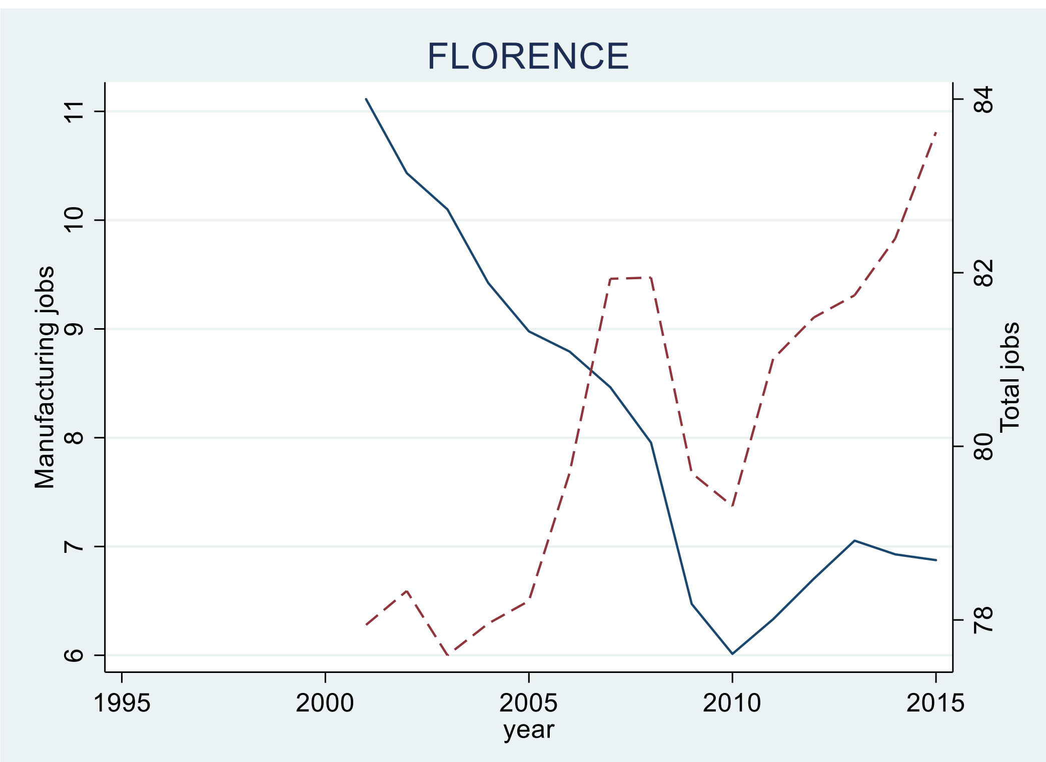
1
1.1
1.2
1.3
1.4
1.5
Total jobs
9.4
9.6
9.8
10
10.2
1995
2000
2005
2010
2015
year


FLORENCE
Manufacturing jobs
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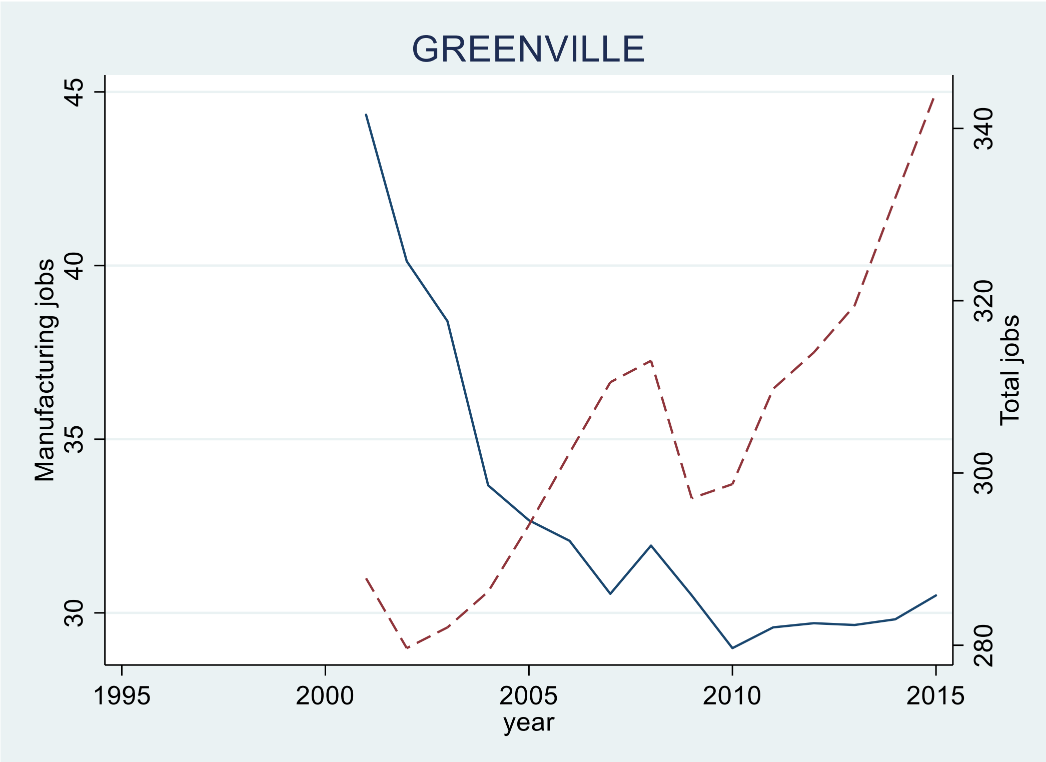
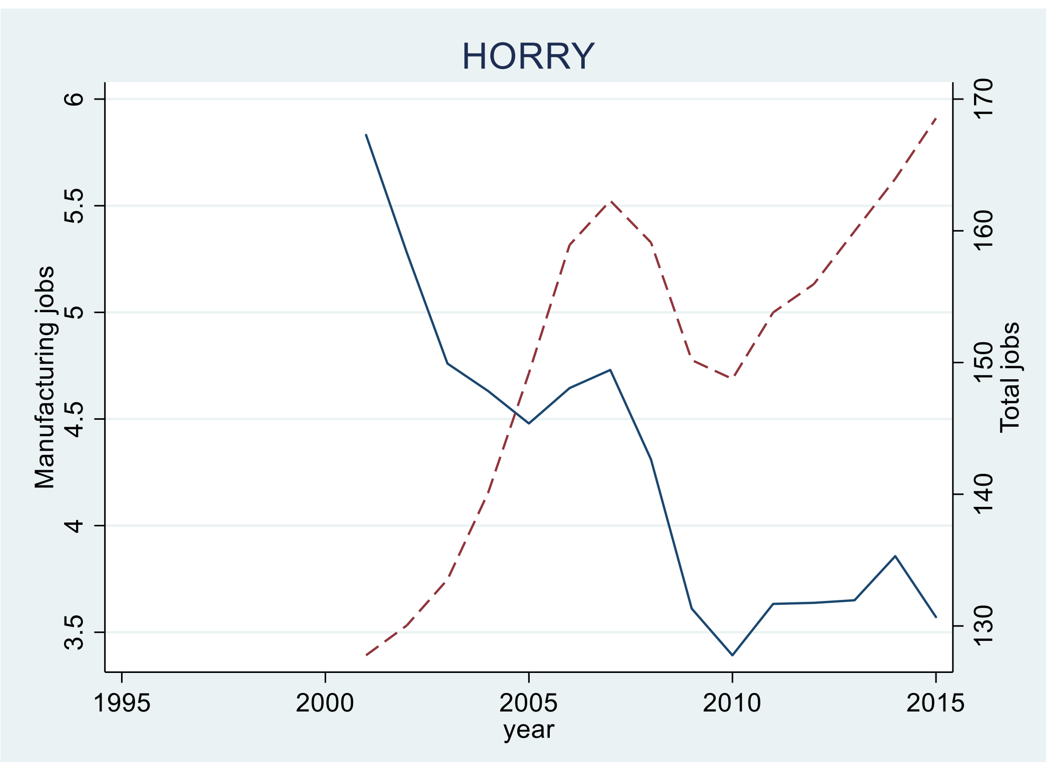
7
8
9
10
11
Total jobs
78
80
82
84
1995
2000
2005
2010
2015
year


GREENVILLE
Manufacturing jobs
Total jobs
year
45
40
35
30
340
320
300
280
1995
2000
2005
2010
2015


HORRY
Manufacturing jobs
Total jobs
year
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5.5
5
4.5
4
3.5
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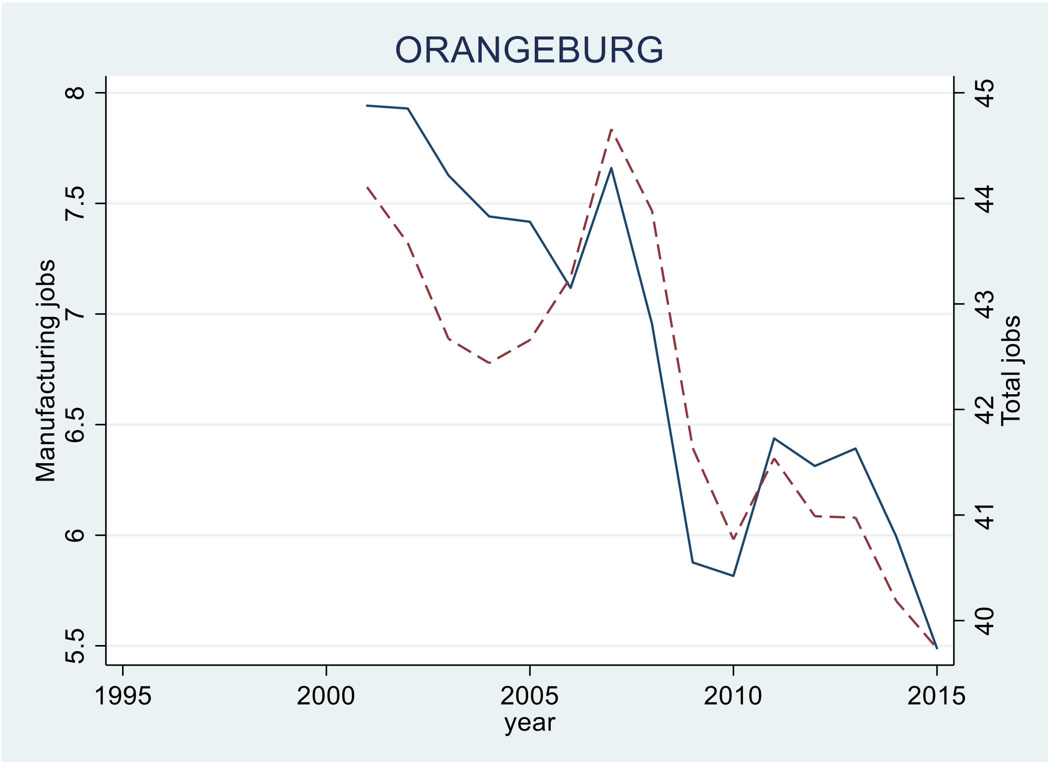
160
150
140
130
1995
2000
2005
2010
2015


ORANGEBURG
Manufacturing jobs
Total jobs
year
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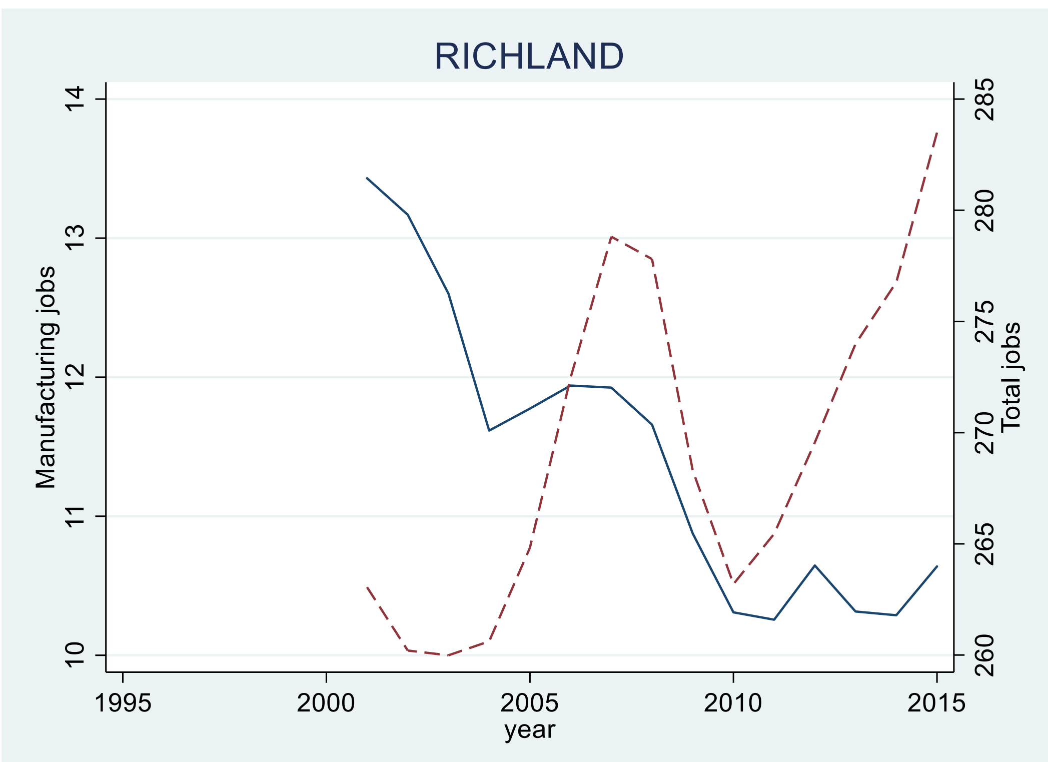
7
6.5
6
5.5
45
44
43
42
41
40
1995
2000
2005
2010
2015


RICHLAND
Manufacturing jobs
Total jobs
year
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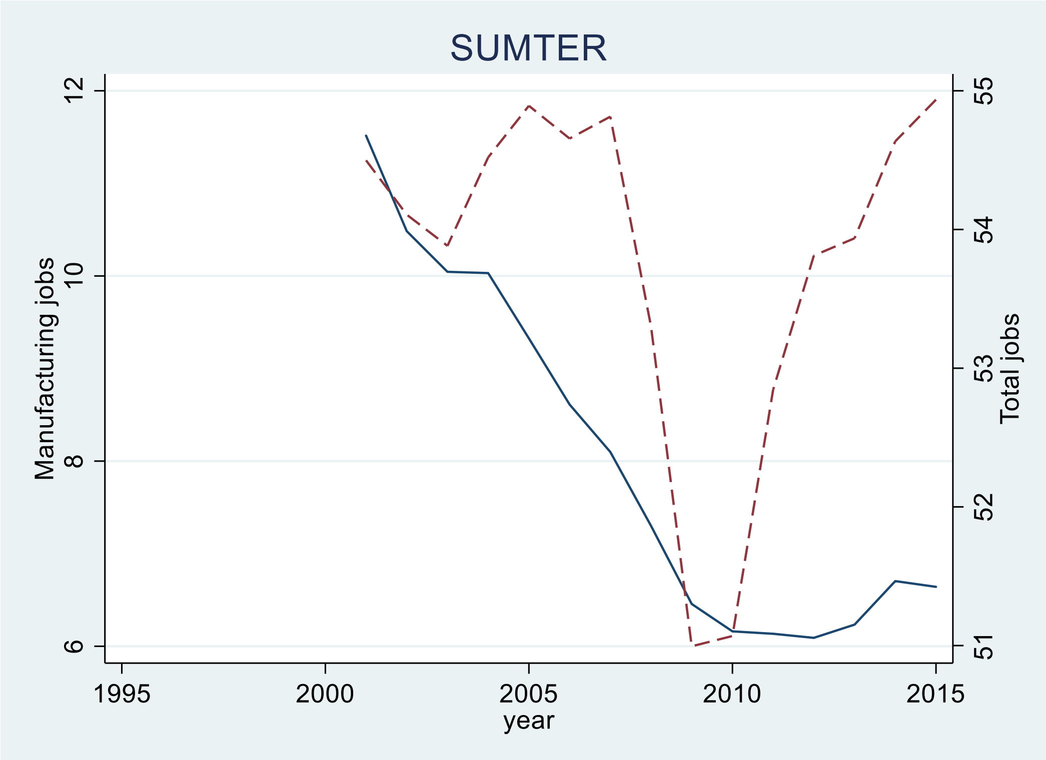
13
12
11
10
285
280
275
270
265
260
1995
2000
2005
2010
2015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Manufacturing jobs
Total jobs
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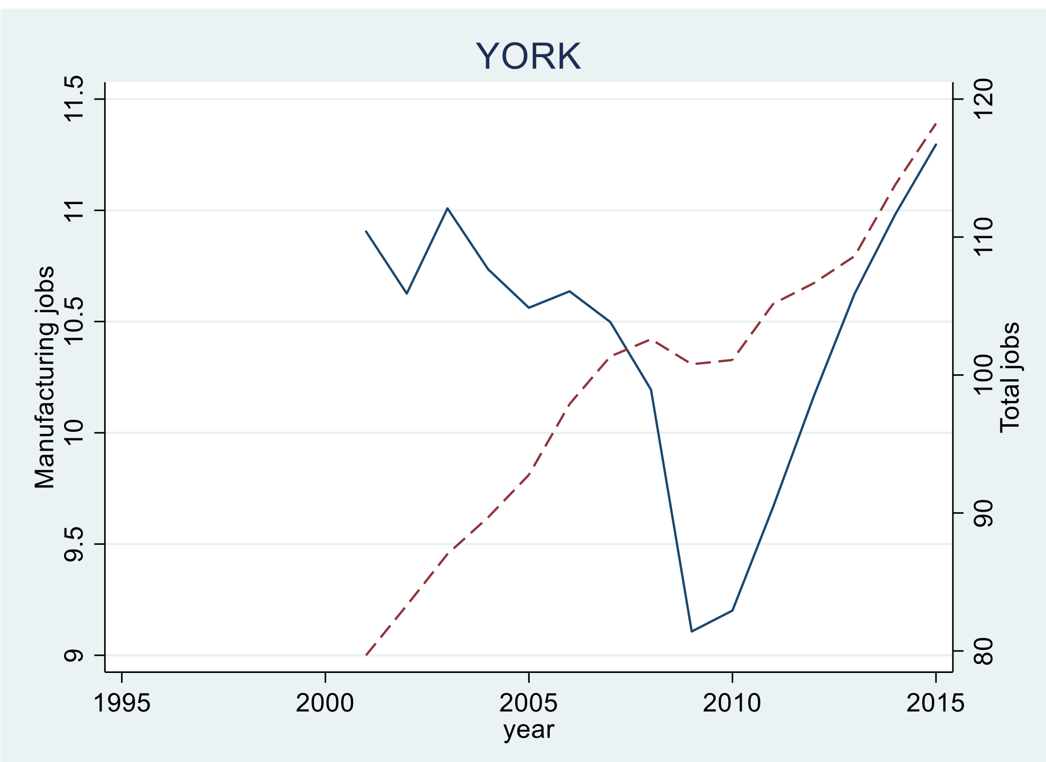
55
54
53
52
51
1995
2000
2005
2010
2015
year


YORK
Manufacturing jobs
Total jobs
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10.5
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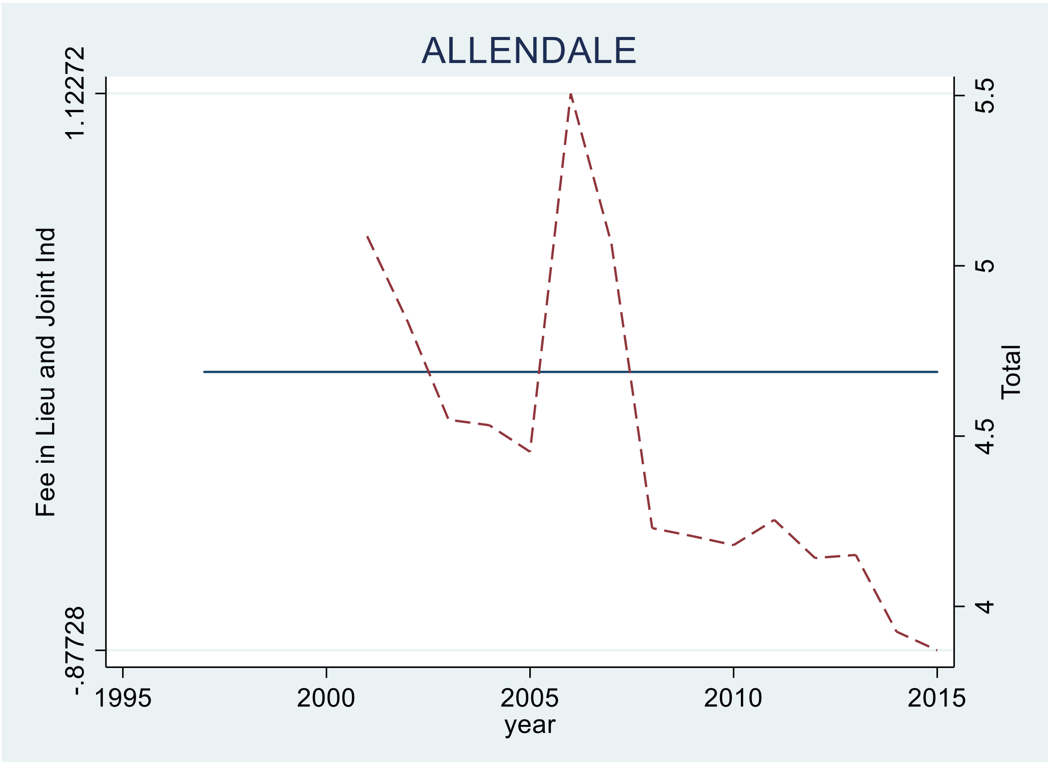
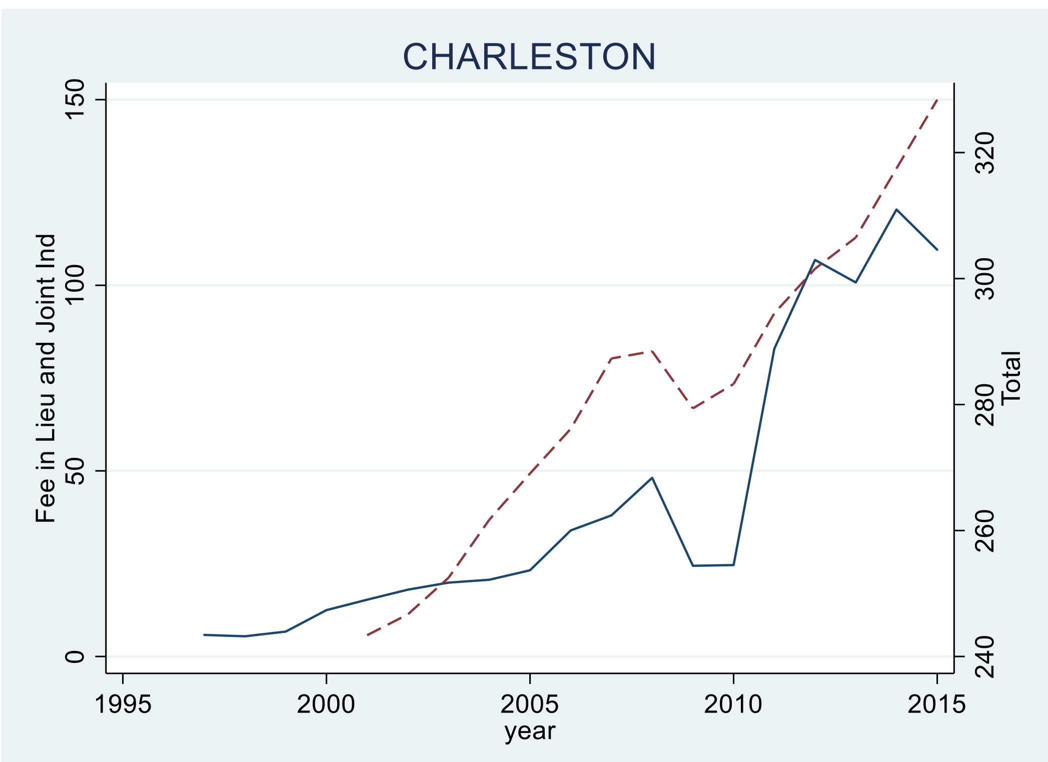
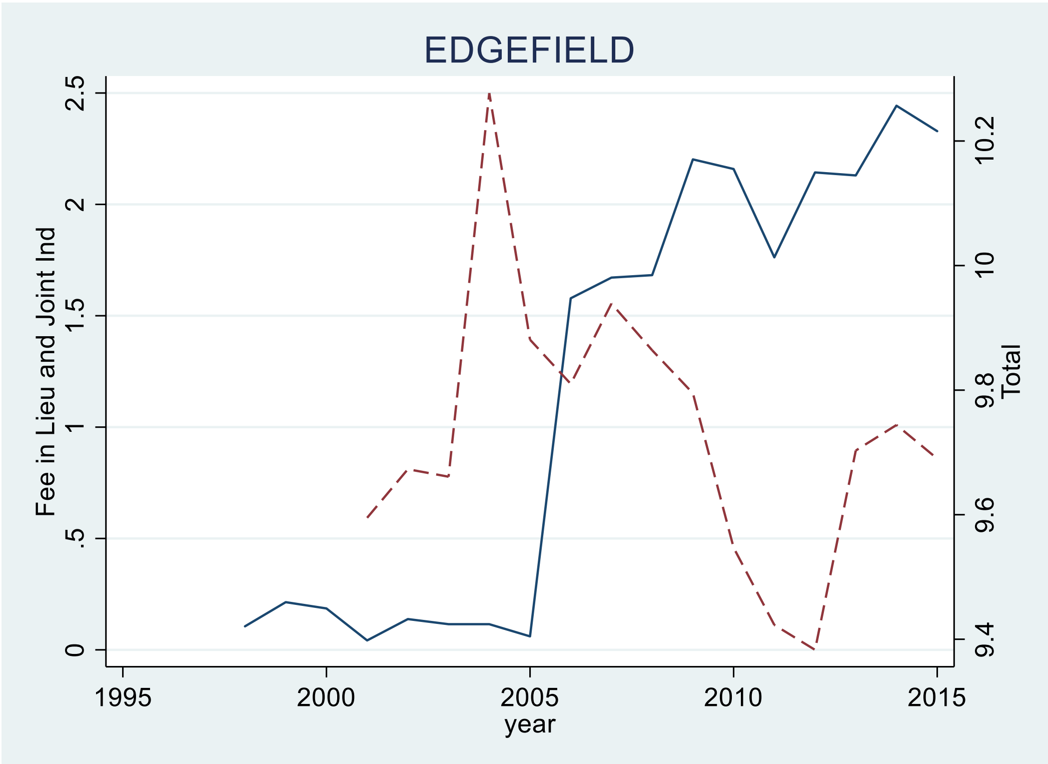
9.5
9
120
110
100
90
80
1995
2000
2005
2010
2015
year

Figure 5.6 Individual Counties



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Fee in Lieu and Joint Ind
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.5
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1.5
2
2.5
Total
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9.6
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10
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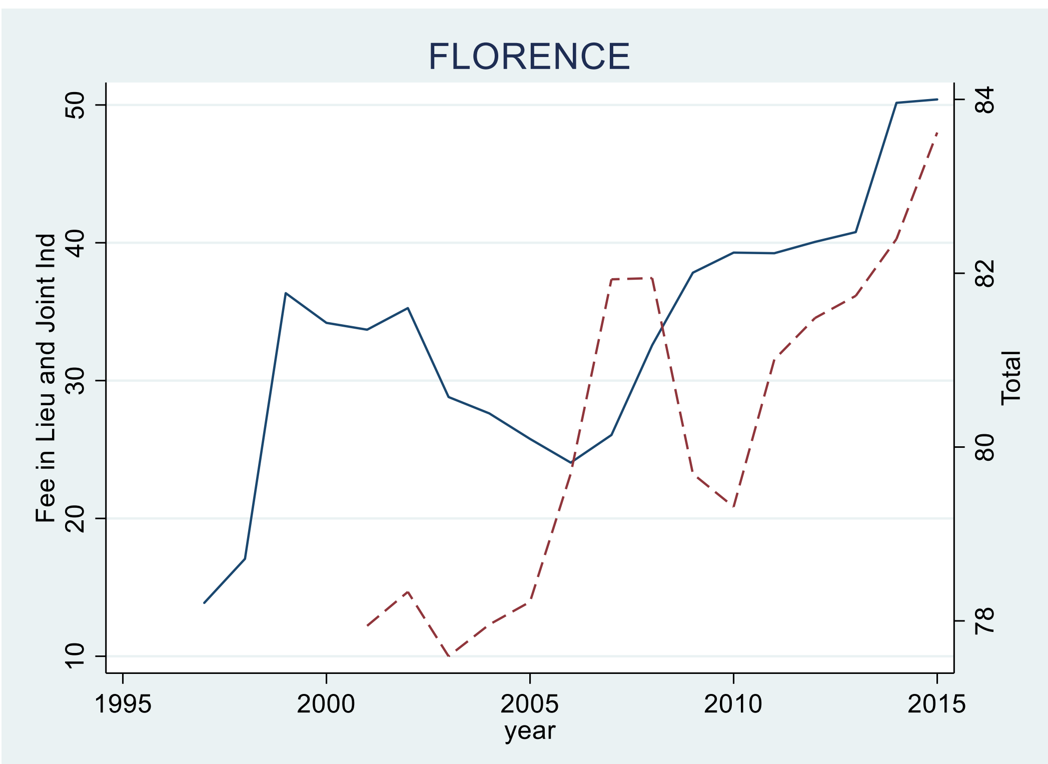
1995
2000
2005
2010
2015
year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Fee in Lieu and Joint Ind
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20
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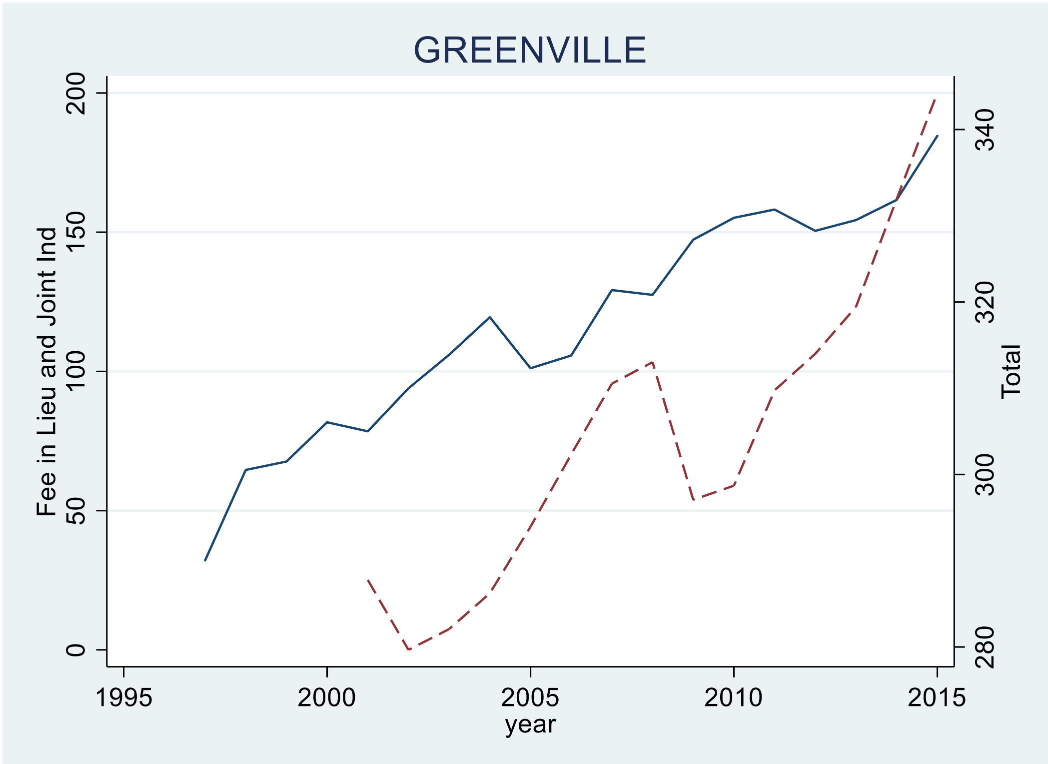
40
50
Total
78
80
82
84
1995
2000
2005
2010
2015
year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Fee in Lieu and Joint Ind
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100
150
200
Total
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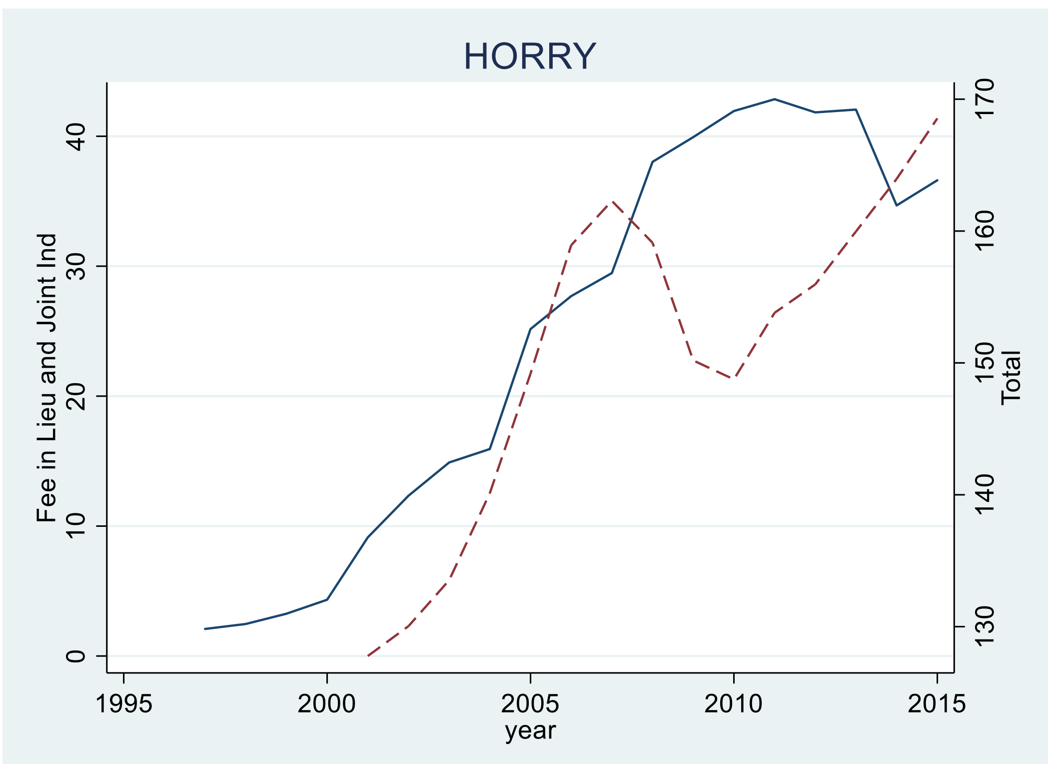
300
320
340
1995
2000
2005
2010
2015
year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Fee in Lieu and Joint Ind
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40
Total
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170
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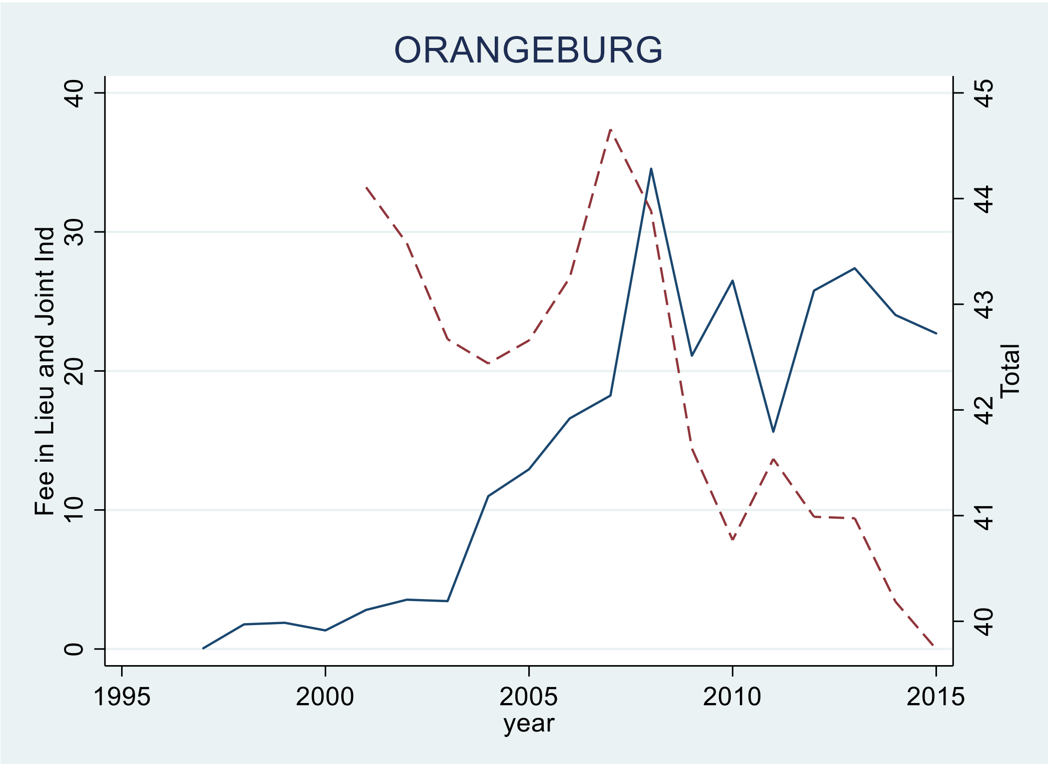
2000
2005
2010
2015
year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Fee in Lieu and Joint Ind
Total
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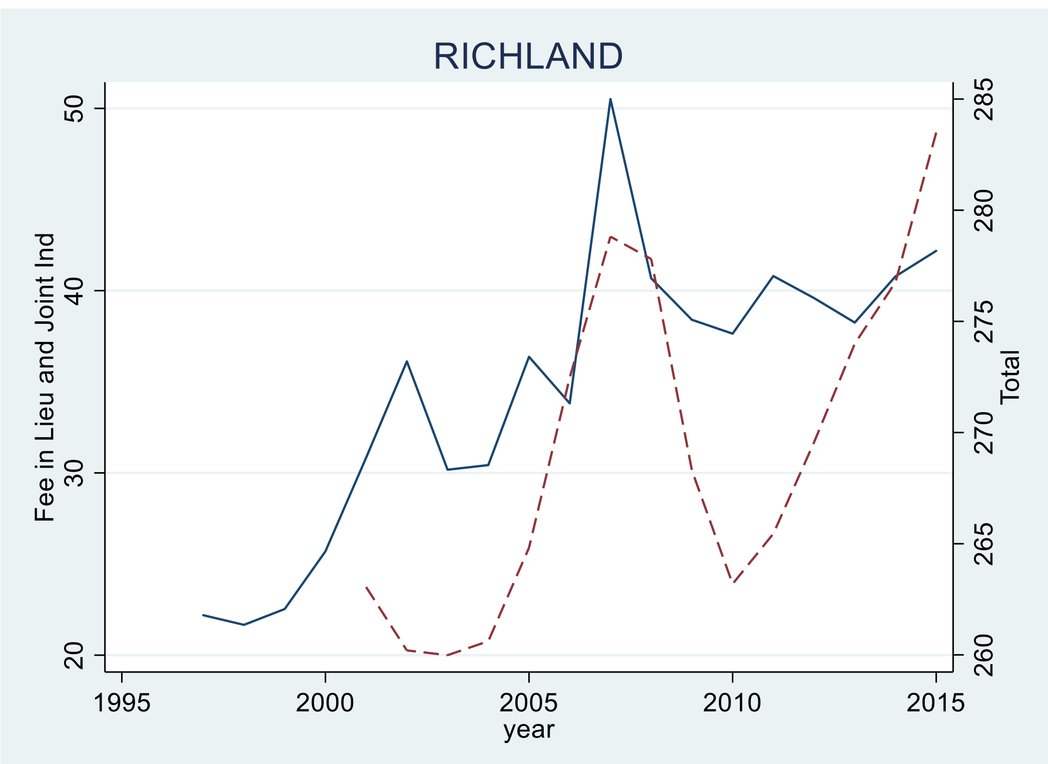
2005
2010
2015


RICHLAND
Fee in Lieu and Joint Ind
Total
year
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30
40
50
260
265
270
275
280
285
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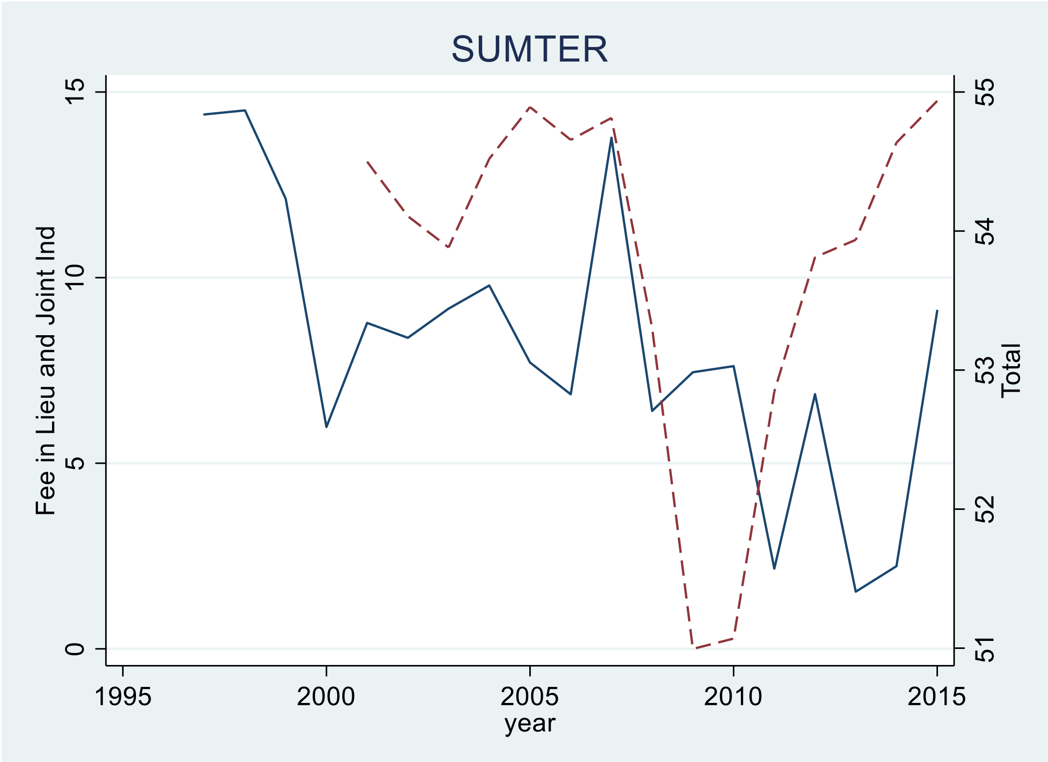
2000
2005
2010
2015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Fee in Lieu and Joint Ind
Total
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1995
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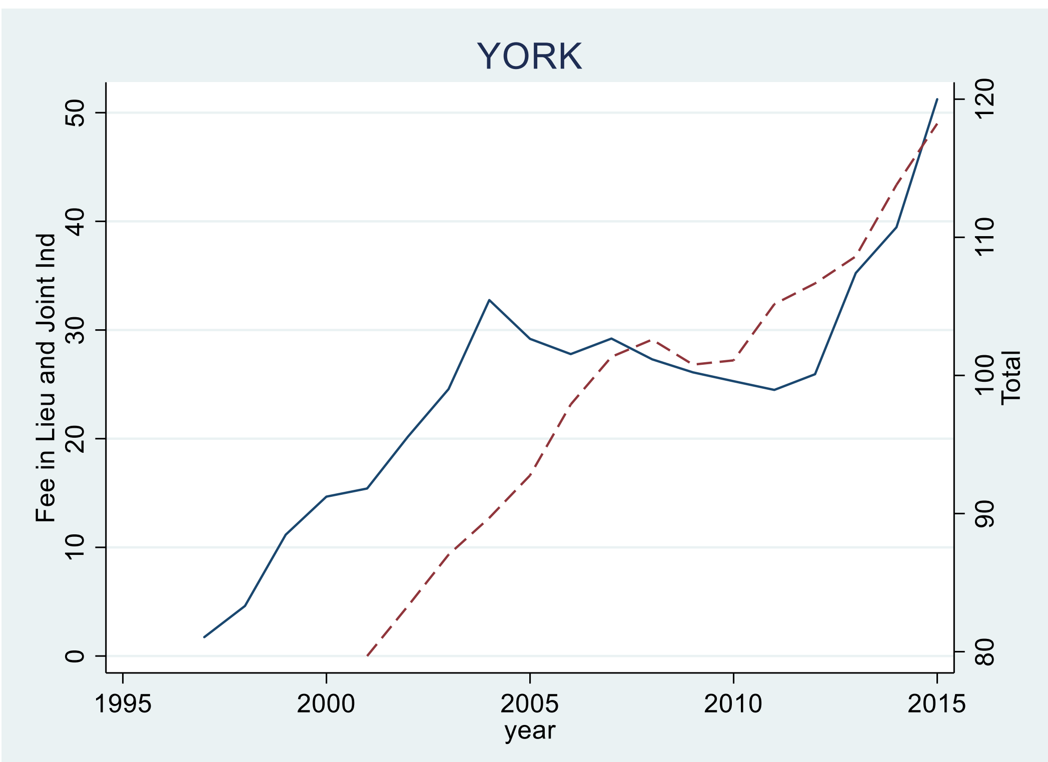
2015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Fee in Lieu and Joint Ind
Total
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100
110
120
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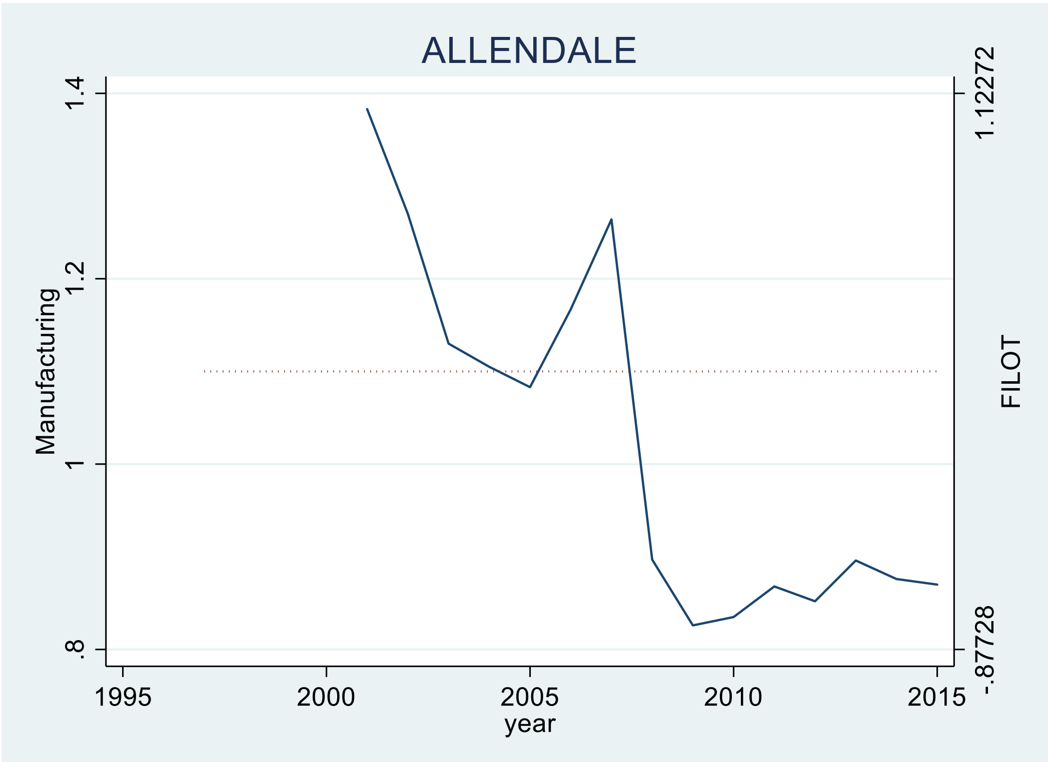
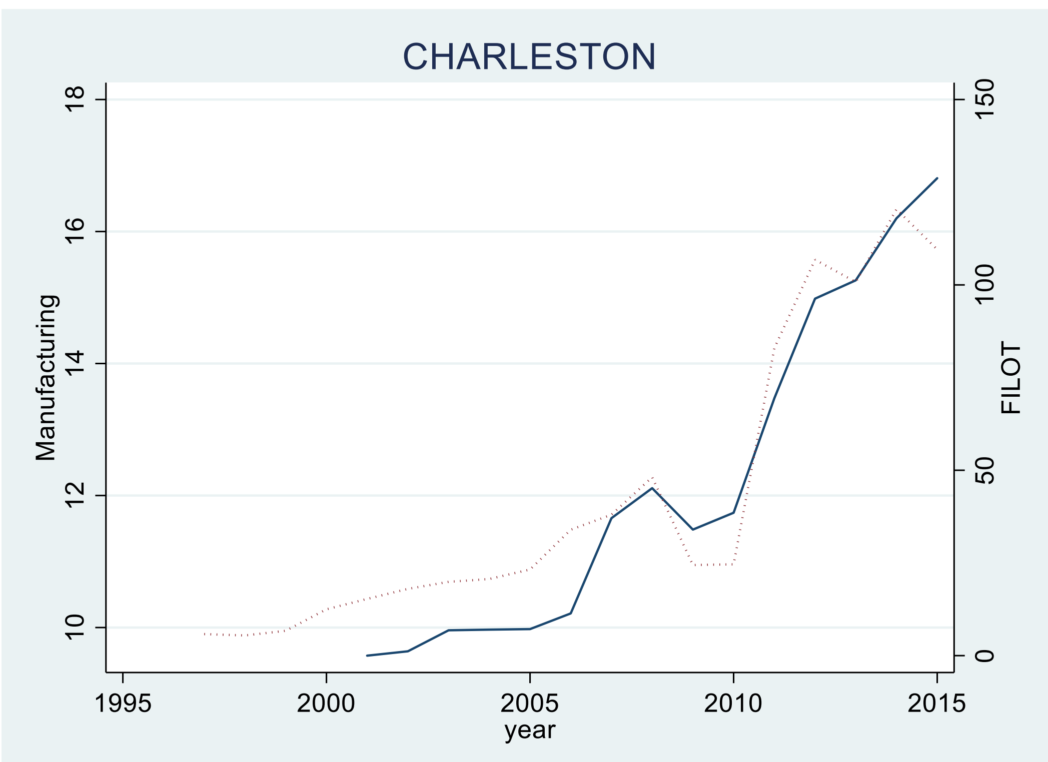
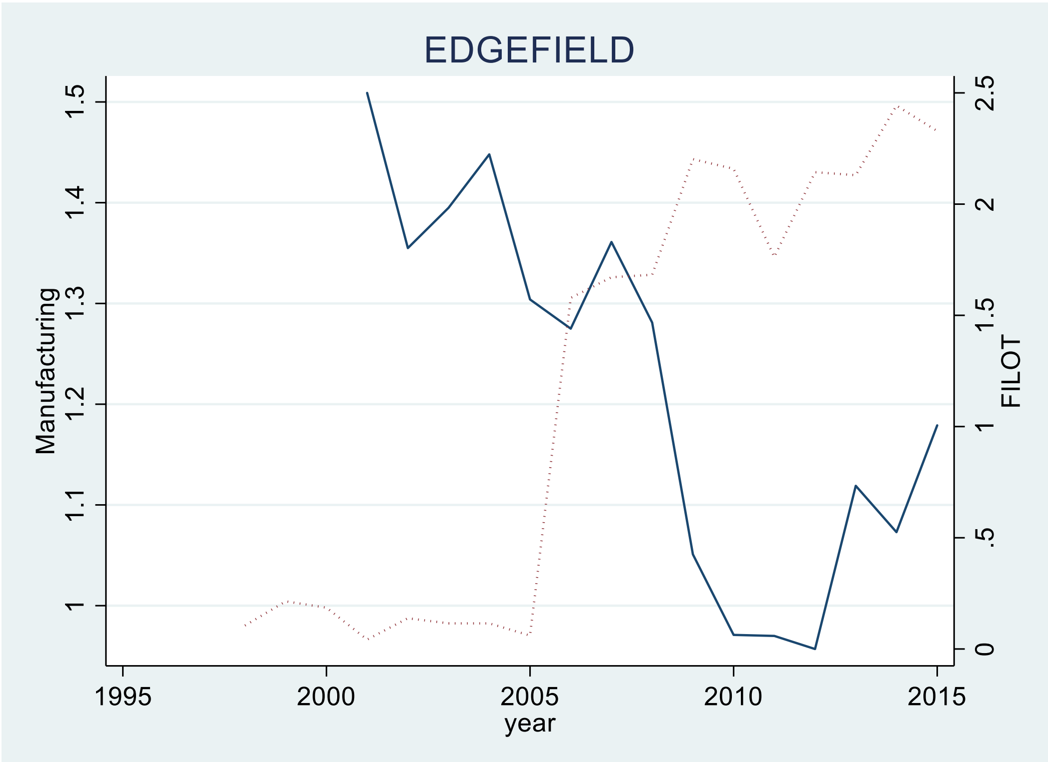
2000
2005
2010
2015

Figure 5.7 Individual Counties







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1.4
1.3
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1
FILOT
2.5
2
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.5
0
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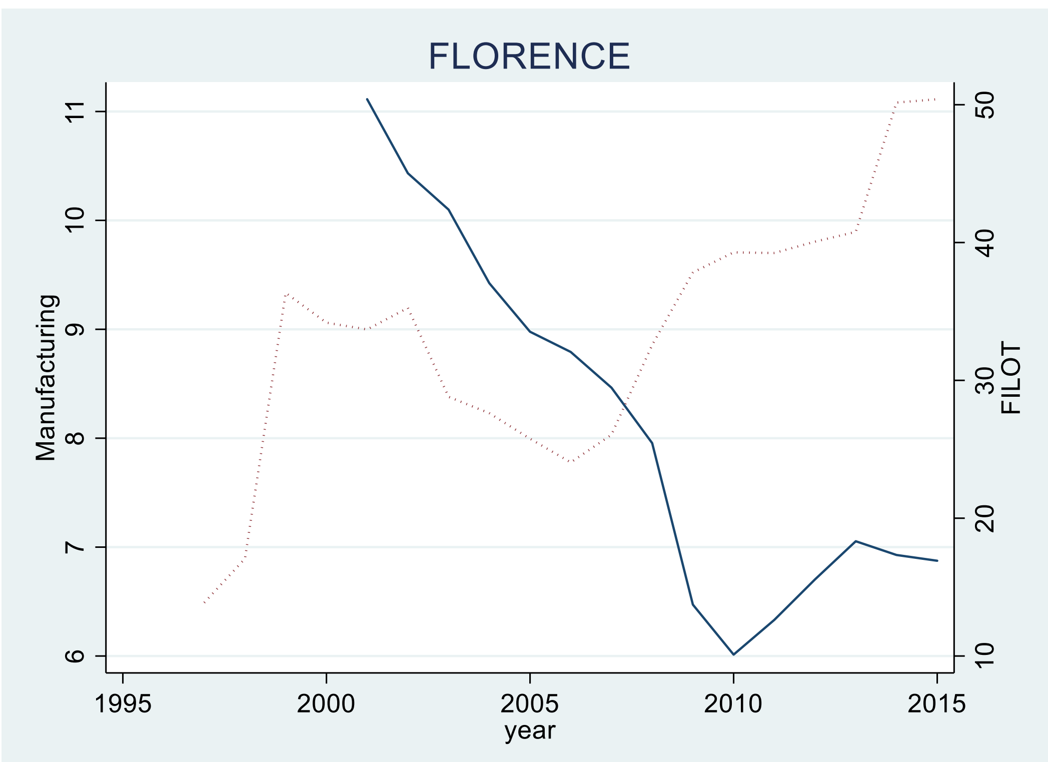
2000
2005
2010
2015
year



FLORENCE
Manufacturing
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FILOT
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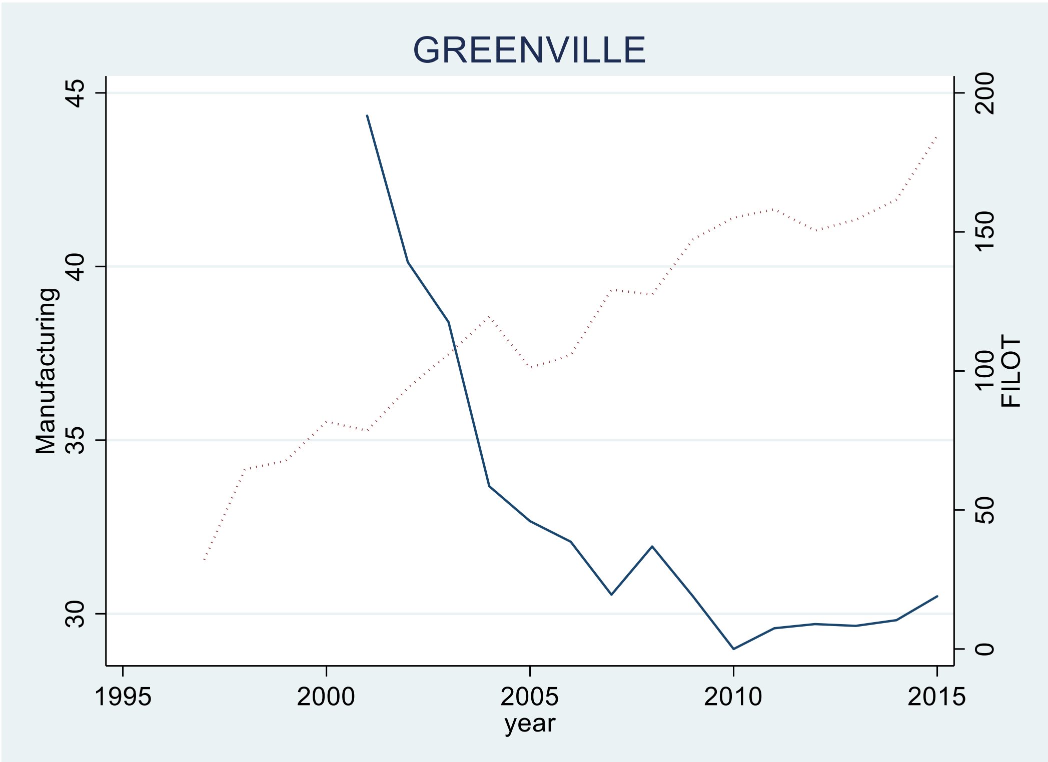
2015
year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Manufacturing
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FILOT
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50
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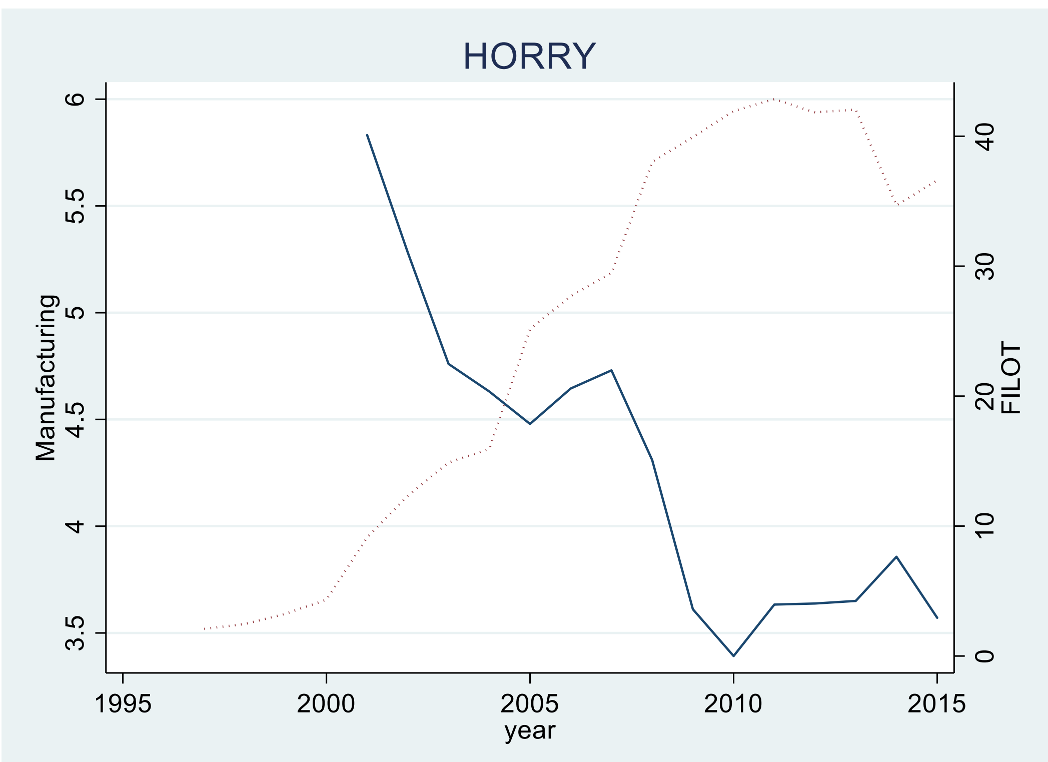
2005
2010
2015
year


HORRY
Manufacturing
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FILOT
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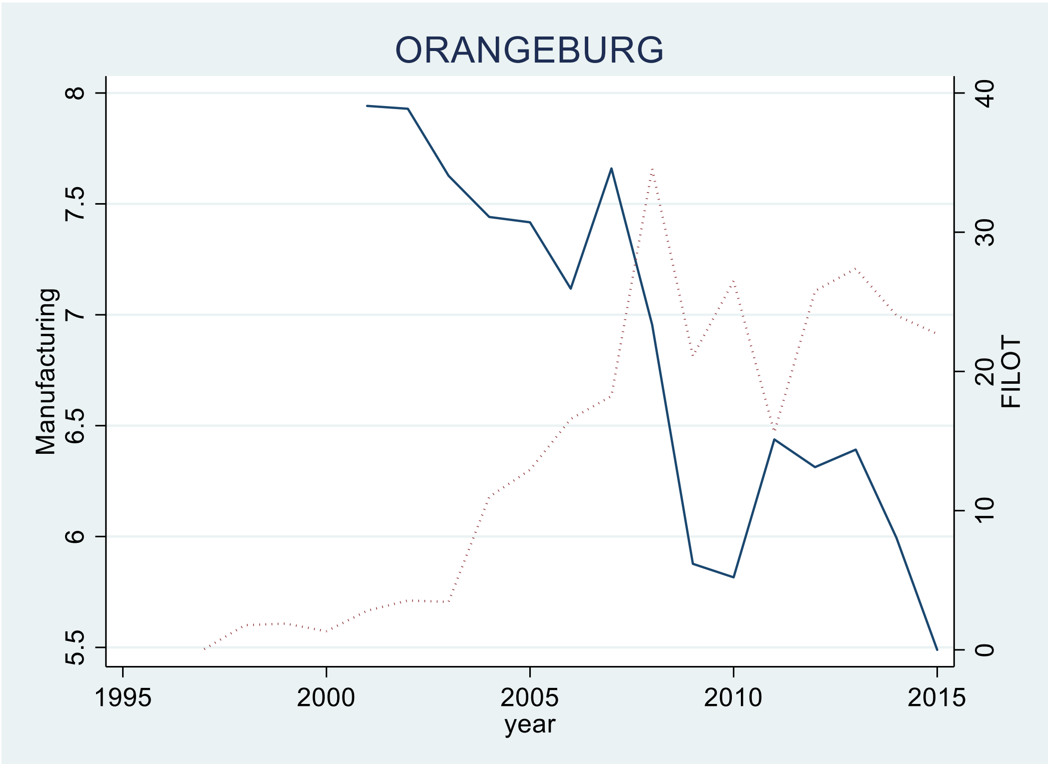
2010
2015
year


ORANGEBURG
Manufacturing
FILOT
year
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6
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7
7.5
8
0
10
20
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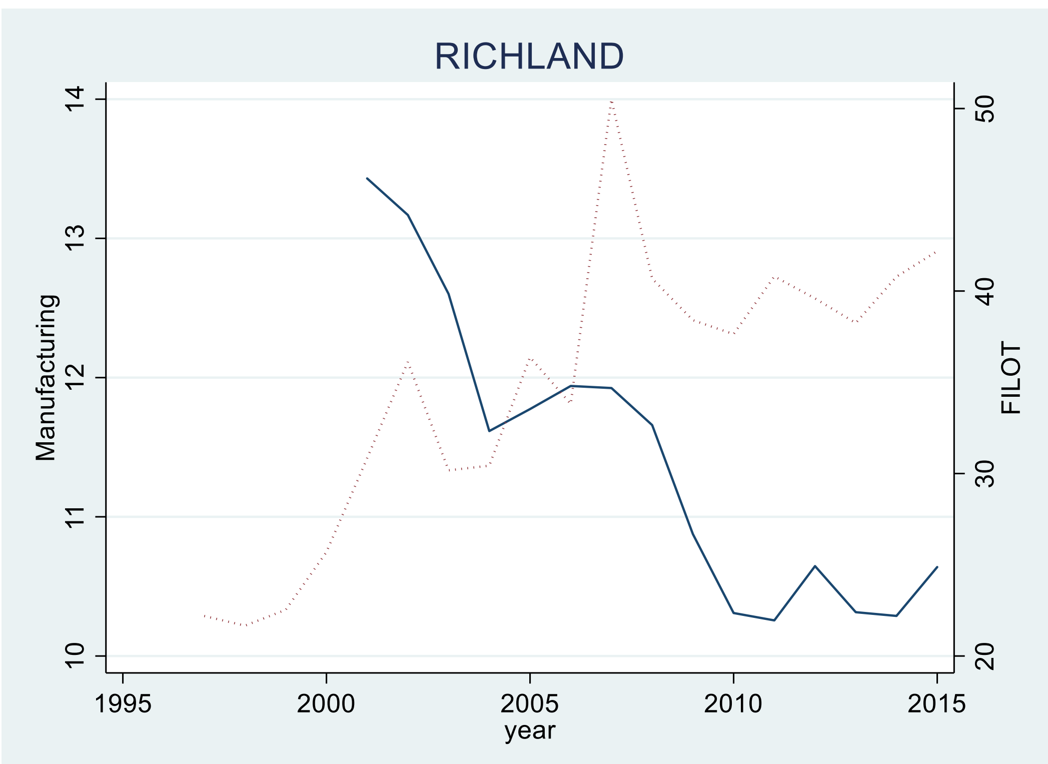
1995
2000
2005
2010
2015


RICHLAND
Manufacturing
FILOT
year
10
11
12
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30
40
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1995
2000
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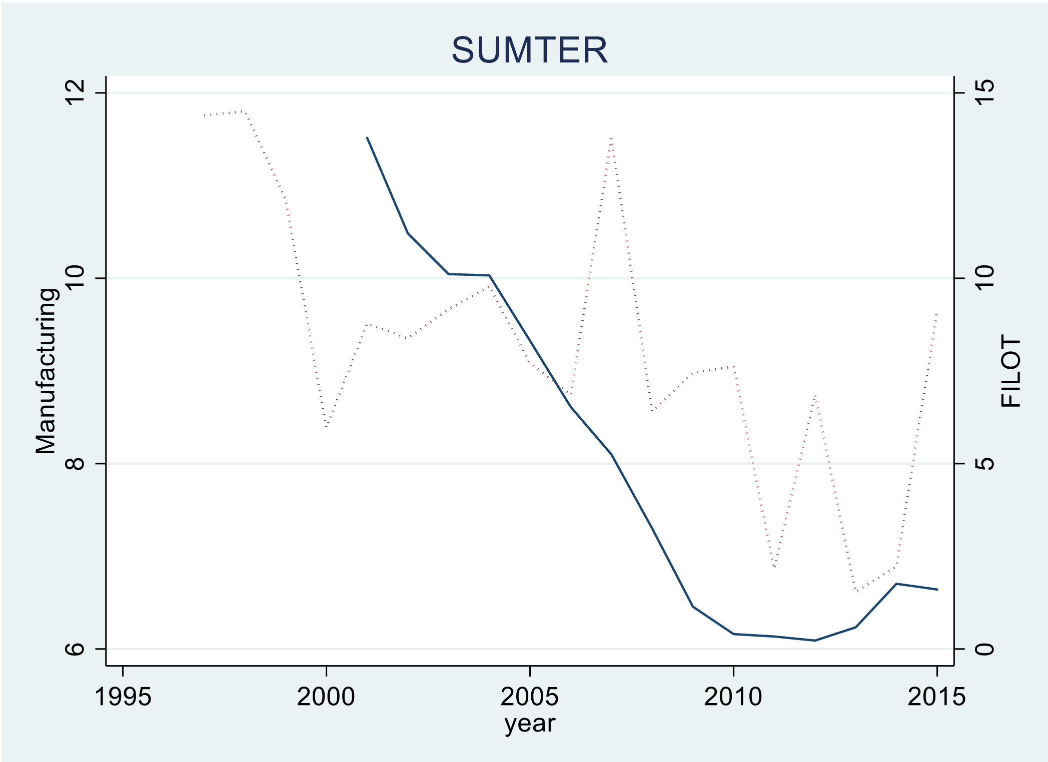
2010
2015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FILOT
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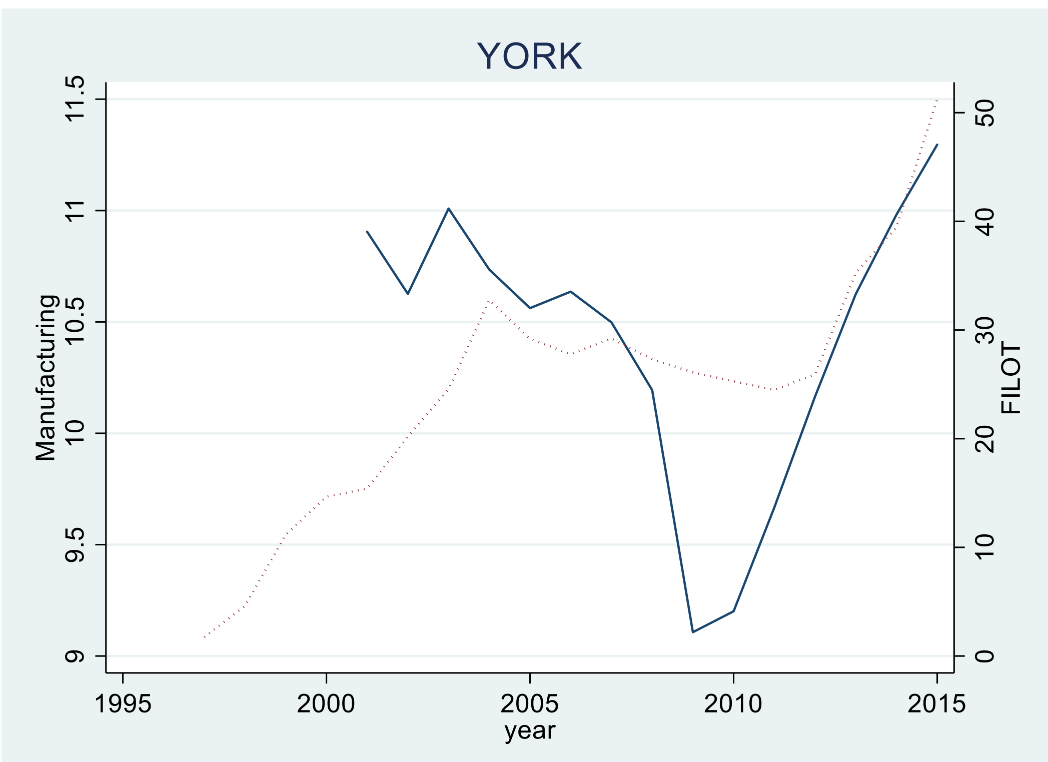
YORK
Manufacturing
FILOT
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2015
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20
30
40
50