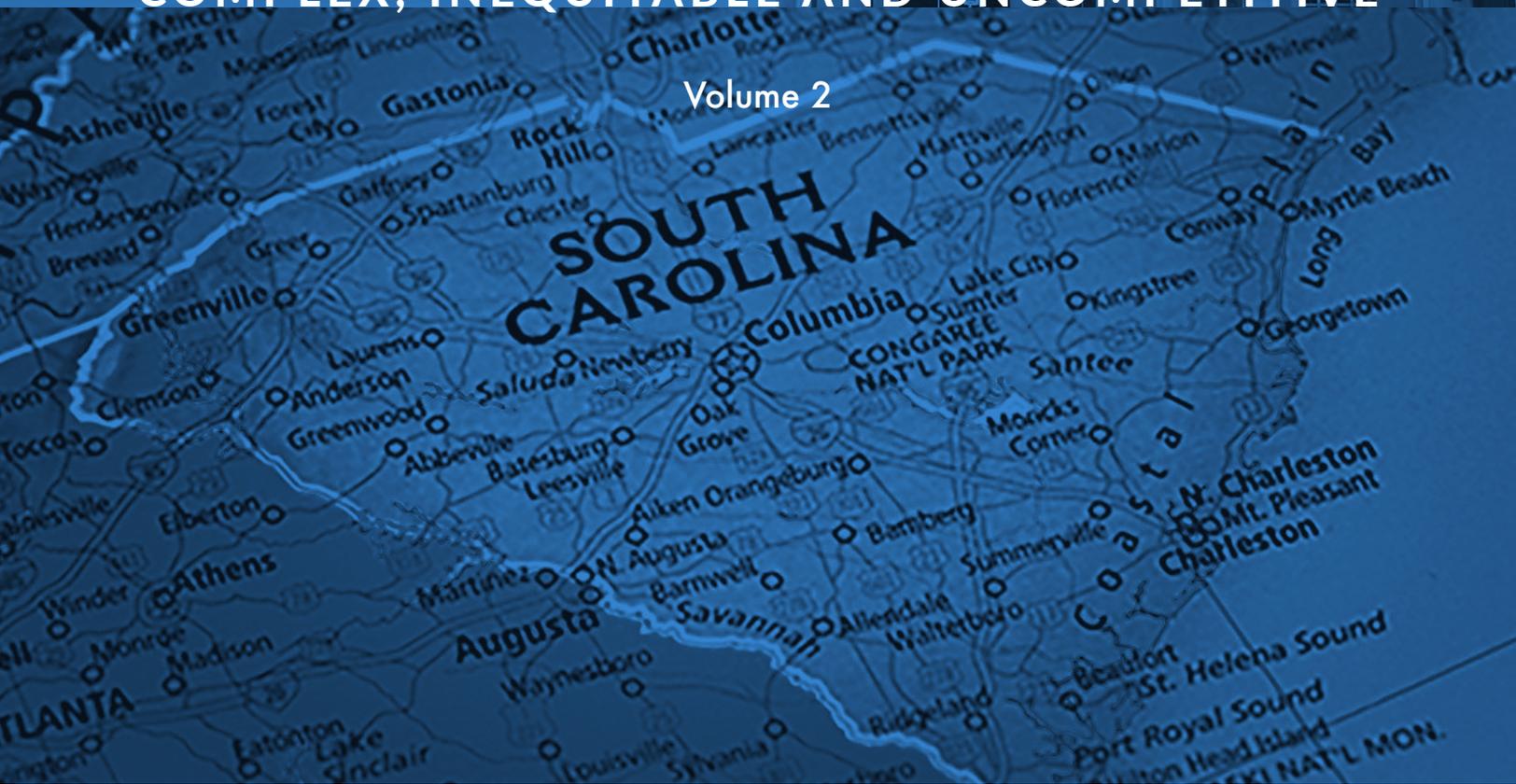


A DEEP DIVE ON SOUTH CAROLINA'S PROPERTY TAX SYSTEM

COMPLEX, INEQUITABLE AND UNCOMPETITIVE

Volume 2



A Deep Dive on South Carolina's Property Tax System

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113 Brattle Street

Cambridge, MA 02138

(617) 661-3016

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A Deep Dive on
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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 6:
Nonprofit and Government Properties
Exempt from Real Property Taxes in South Carolina

by

Daphne A. Kenyon, Ph.D. and Semida Munteanu

Introduction

Chapter 6 concerns property that is exempt from property taxation because it is owned by government or nonprofits. This chapter looks at policies regarding tax exemption of federal and state-owned property but mostly focuses on property owned by nonprofits.

Governments can benefit when nonprofits provide services that might otherwise be the government’s responsibility. Conversely, because nonprofits do not pay taxes, the cost of public services they consume (such as fire and police protection), falls to other property owners. The exemption can alter decisions about where a nonprofit locates and is concentrated among land-owning nonprofits. These issues have led to a growing interest in nonprofit payments in lieu of taxes (PILOTs). One municipality in South Carolina and neighboring states currently use this policy mechanism.

This chapter first summarizes property tax treatment of government and nonprofit property across the United States, and then it briefly describes South Carolina’s practices. After describing issues that arise from tax exemption, this chapter explores various policies that offset the loss to local governments, including PILOTs and payments by state and federal governments. We also lay out policy recommendations for nonprofit PILOTs. Throughout this chapter, the focus is on real property; personal property, whether owned by individuals or business, will not be covered here.¹

Table 6.1 State Exemptions from the Real Property Tax, 2017

Type of Exempt Property	States with Exemption*
Government	51
Religious	50
Charitable/Benevolent	50
Educational	49
Parks, Open Space, Cemeteries	50
Health and Care Facilities	48
Membership	41
Infrastructure, Transportation, and Communication Facilities	41
Housing for Vulnerable Populations	38
Art and Cultural	26
Emergency Protection Facilities	26
Literary	25
Scientific	24
Private Economic Activity**	19
Nonresidential Historic	15

Source: *Significant Features of the Property Tax*, <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax>

*Includes District of Columbia

**Examples of private economic activity include concessions in municipal locations, facilities operated as multi-tenant business incubators that are owned by an exempt nonprofit corporation, and alcohol production facilities.

¹ Real property is generally considered to be land and permanent improvements to land such as buildings. Personal property is generally considered to be movable items that are not permanently affixed to or part of the real estate.

Tax Treatment of Government and Nonprofit Property: United States and South Carolina

Every state in the United States exempts government property and nonprofit property from real property taxes. Policies for taxing nonreligious nonprofits vary from state to state. Table 6.1 lists tax exemption categories from most to least common. As shown, most states exempt nonprofit charitable/benevolent associations; educational organizations; parks, open space, cemeteries; health and care facilities; membership organizations; and housing for vulnerable populations. About half the states exempt nonprofit property used for arts and cultural organizations, emergency protection facilities, literary organizations, and scientific organizations. Less than half the states exempt property for nonresidential historic properties. Some exempt property that is considered private economic activity, such as concessions in municipal locations. Of the categories listed, the only categories to which South Carolina does not extend property tax exemption are scientific organizations and private economic activity. Compared to the United States generally, South Carolina has a rather expansive tax exemption policy for nonprofits. However, it is important to note that even states that do not explicitly exempt all these categories in their constitutions or statutes, often exempt them in practice because the courts have broadly interpreted what constitutes a charitable/benevolent organization.

Section 3 of Article X of the South Carolina Constitution mandates exemption for government property, certain categories of nonprofits, and even specific organizations, such as The Boy Scouts of America and The Girl Scouts of America. These exemptions are codified in South Carolina Code 12-37-220. The Constitution names certain broad categories of property as tax exempt, for example, “all property of the State, counties, municipalities, school districts and other political subdivisions, if the property is used exclusively for public purposes,” and “all property of all public libraries, churches, parsonages and burying grounds.”

The Constitution is unusual in that it authorizes county and municipal governments to charge nonprofits fees for fire protection (Section 12-37-235) and to collect payments in lieu of taxes from nonprofit housing corporations (Section 12-37-240).²

Government and Nonprofit Property in South Carolina

Data on exempt property in South Carolina is difficult to find. In the absence of a centralized state database, a 2016 Clemson University dissertation was used (see Table 6.2). It provided data on exempt property in the 26 most populous South Carolina municipalities – this data was calculated by obtaining the total acreage of state and nonprofit property from government officials in these jurisdictions. The dissertation was used to analyze the importance of exempt property to South Carolina local governments in the focus counties (Keisler 2016). Among the 17 cities included in the Keisler analysis that were located in our focus counties, the share of land owned by state government, local governments, or nonprofit entities was substantial, exceeding 40 percent of all property in four cities. It is important to note that these figures do not include any acreage of federal government property that is also exempt from property taxes.

² Langley, Kenyon, and Bailey (2012) identified 11 other jurisdictions where housing authorities made PILOTs to local governments. These are based on a federal law that requires tax-exempt public housing authorities that receive federal funding to make PILOTs to the local governing body (42 U.S.C. Section 1437d).

Table 6.2 Percentages of Tax Exempt Land in Select South Carolina Municipalities, 2013*

Municipality	Percent of Land Property Tax Exempt (%)
Aiken	23.2
Anderson	15.06
Bluffton	47.5
Cayce	27.1
Charleston	33.5
Clemson	14.6
Columbia	42.3
Conway	NA
Easley	17.82
Florence	18.07
Goose Creek	36.4
Greenville	23.8
Greenwood	38.48
Greer	28.8
Hanahan	17.98
Hilton Head Island	16.1
Lexington	15
Mauldin	26.2
Mount Pleasant	23.67
Myrtle Beach	NA
North Myrtle Beach	NA
North Augusta	12.2
North Charleston	43.9
Orangeburg	NA
Rock Hill	44.56
Simpsonville	24
Spartanburg	26.19
Summerville	18.18
Sumter	40.56
West Columbia	28.11

Source: Keisler (2016)

*Cities shaded in gray are located in our focus counties. The City of North Charleston is located in three different counties, including Charleston.

Although assessors in some jurisdictions, like Boston, value property owned by tax-exempt entities, SC Code 12-43-330 explicitly exempts tax exempt property from the assessment process. Because South Carolina law does not require assessors to appraise tax exempt property, we received no information on

the value of exempt property from assessors except from Allendale County, the least populous of our focus counties.

Issues Raised by Exemption of Government and Nonprofit Property

Exemption of government and nonprofit property from the real property tax in the United States dates back to the beginning of the property tax. There are good reasons for this exemption. As Woods Bowman (2003) states, “Government-owned property traditionally has been exempt from taxation to avoid an empty ritual whereby the sovereign taxed itself...Exemptions for private, nonprofit entities grew out of the government exemption.” Nonprofits often take on responsibilities that would otherwise be fulfilled by government, so if government is tax-exempt, one can argue that nonprofits should be exempt from the property tax as well.

Governments benefit when nonprofits provide services to the public that would otherwise be the responsibility of government. The nonprofit exemption can be viewed as a subsidy to encourage these activities. However, the property tax is used to fund services that benefit all properties—for example, public safety, fire protection, and street and road maintenance. When government and nonprofit properties fail to contribute funding for such services, other property owners bear an increased property tax burden. This is particularly problematic when a well-funded nonprofit, such as an elite college, is located in a city with many low-income residents. It may not seem fair for the low-income residents to pay higher property taxes because the college is exempt from property taxation, particularly if the college enrolls students from across the country or around the world.

When the exemption of nonprofits from the real property tax is viewed as a subsidy, one can raise questions regarding the efficiency of that subsidy. Because nonprofits are not liable for property taxes, they may be more likely to locate in areas where property is expensive, such as in city centers. Also, the exemption from real property taxation benefits only those nonprofits that own property, such as colleges and hospitals, and not small nonprofits, with meager budgets, that are more likely to rent, such as soup kitchens.

Nonprofits and PILOTs

To address the issues that arise from the nonprofit exemption, some local governments ask nonprofits to make voluntary payments in lieu of taxes, commonly referred to as PILOTs. The most recent comprehensive survey of PILOTs across the United States found that at least 218 localities in at least 28 states had received PILOTs from 2000 to 2012. Their annual value was estimated at \$92 million (Langley, Kenyon, and Bailin 2012).

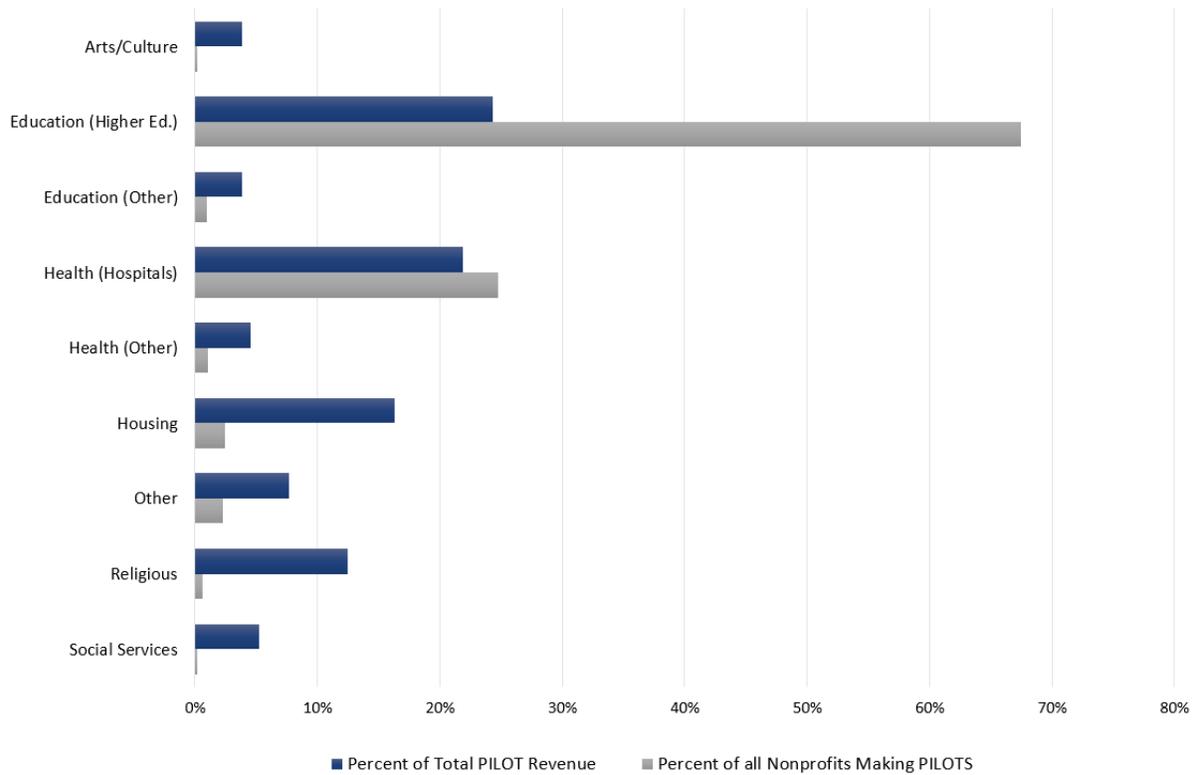
Table 6.3 U.S. Cities That Receive the Most PILOT Revenue

City	State	Year	PILOT Revenue		Number of Nonprofits Making PILOTs
			Total Revenue	% of General Revenue	
Boston	MA	2017	32,401,655	1.08	49
New Haven	CT	2018	8,133,664	1.06	8
Providence	RI	2018	7,506,799	1.54	7
Cambridge	MA	2018	7,820,725	1.18	15
Princeton	NJ	2018	4,310,000	6.63	4

Source: Information compiled from city budgets that are publicly available.

The five cities receiving the most PILOT revenue are all in the Northeast (Table 6.3). Boston, which has the longest standing and most revenue productive PILOT program in the United States, received a total of \$32 million in PILOT revenue in 2017 from 49 different nonprofits, which contributed about one percent of the city’s general revenue. Princeton, New Jersey received a lower dollar total (about \$4 million), but this accounted for over 6 percent of the city’s general revenue.

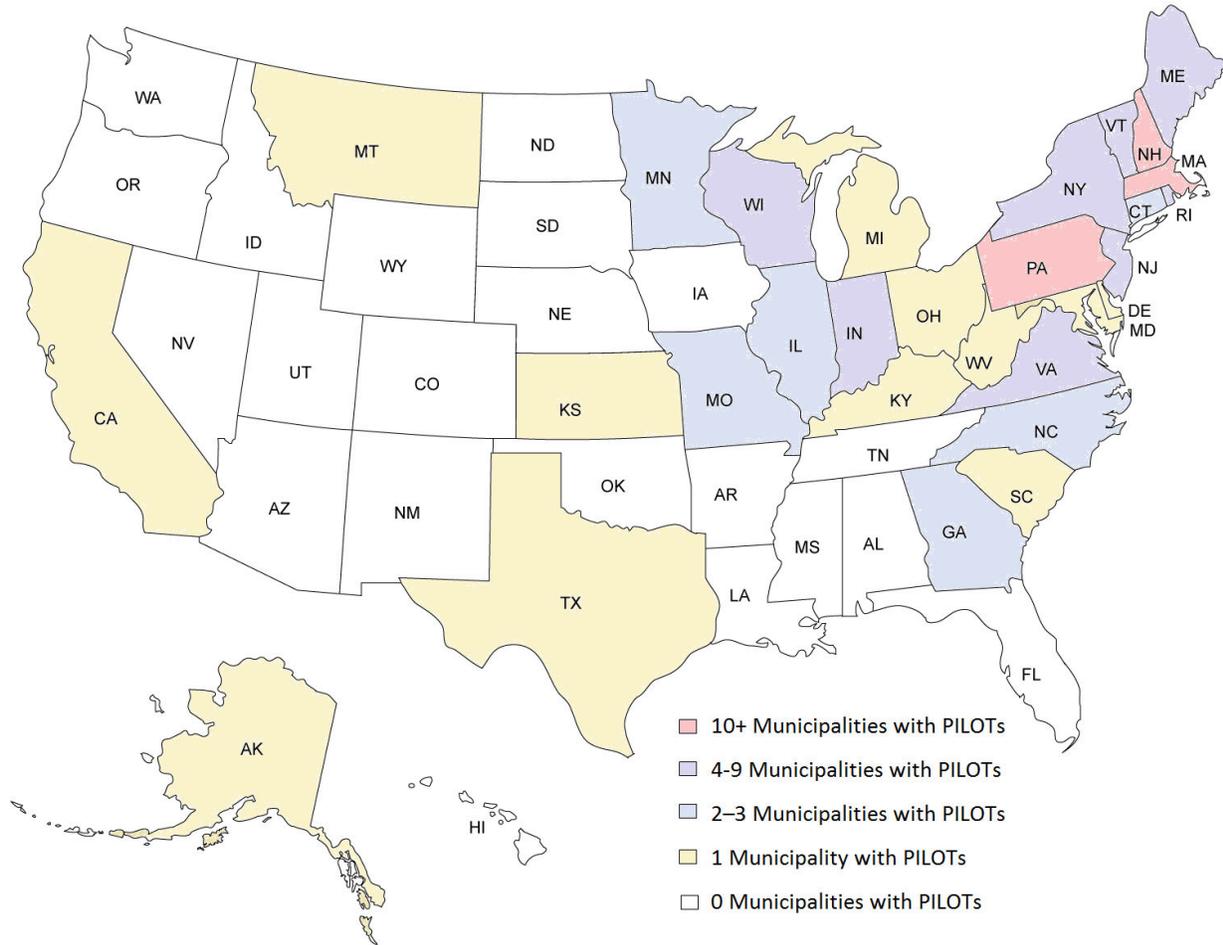
Figure 6.1 Types of Nonprofits that Make PILOTs



Source: Kenyon and Langley 2016

Figure 6.1 shows the types of nonprofits that make PILOTs across the United States. Colleges, universities, and hospitals are the types of nonprofits that most often contribute PILOTs; they are also the types of nonprofits that contribute the greatest percentage of total PILOT revenue.

Figure 6.2 PILOTs in Each State



Although the Northeast is the region with the greatest incidence of PILOTs, as Figure 6.2 shows, South Carolina has one city that receives PILOTs (Greenwood in Greenwood County), both Georgia and North Carolina have two municipalities that receive PILOTs, and three localities in Virginia receive PILOTs. Contributions by nonprofits in these three states range widely from \$120 paid by the Shenandoah Arts Council to the city of Winchester, Virginia to a \$2.5 million contribution by Emory University to DeKalb County Schools in Georgia (Table 6.4). The largest PILOT payments are from health and educational organizations.

To our knowledge Greenwood City is the only municipality in South Carolina that receives PILOTs from nonprofits (Cranney 2018). The city enacted a PILOT program in 2011. Currently, four health-related nonprofits contribute a total of just under \$200,000 annually to help fund city services.³

³ See Appendix A for a description of how and why Greenwood City enacted a PILOT program in 2011.

Table 6.4 PILOT Activity in South Carolina and Comparison States*

State	Locality	Nonprofit	Sector	Revenue (\$)	Year
Georgia	Decatur	Clairemont Oaks	Housing	36,500	2018
	Decatur	Philips Towers	Housing	23,500	2018
	DeKalb County Schools	Emory University	Educational	2,500,000	2010
North Carolina	Davidson	Davidson College	Educational	45,000	2016
	Davidson	The Pines at Davidson	Housing	87,561	2012
	Durham	Duke University	Educational	400,000	2016
South Carolina	Greenwood	Carolina Health Centers	Health	9,500	2019
	Greenwood	Self Regional Healthcare	Health	175,000	2019
	Greenwood	Wesley Commons	Health	9,500	2019
	Greenwood	Greenwood Genetic Center	Health	3,000	2019
Virginia	Lexington	Washington & Lee University	Educational	132,021	2011
	Lexington	Virginia Military Institute	Educational	35,882	2011
	Lynchburg	Westminster Canterbury	Housing	52,900	2018
	Winchester	Crisis Pregnancy Center	Health	516	2011
	Winchester	Feltner Community Foundation	Social Services	180	2011
	Winchester	French & Indian War Foundation	Arts/Culture	326	2011
	Winchester	Habitat for Humanity	Housing	154	2011
	Winchester	Our Health	Health	3,187	2011
	Winchester	Shenandoah Arts Council	Arts/Culture	120	2011
	Winchester	Westminster-Canterbury of Winchester	Housing	45,876	2011
	Winchester	Valley Health System	Health	351,865	2011

Source: Langley, Kenyon, and Bailin (2012)

*The data in the original source has been updated based on information from city budgets that are publicly available.

Although Greenwood’s PILOT program appears to be a successful one, not all analysts or policy makers would agree that instituting a PILOT program is a good idea. While one can argue that nonprofits, particularly those with substantial resources, should help pay for the public services they consume, there are good arguments against enacting a PILOT program. Three of the most important arguments against PILOTs are:

- (1) PILOTs provide limited revenue. As previously described, even in successful, longstanding programs they provide a small fraction of the revenue needed to fund a local government;
- (2) PILOTs could lead nonprofits to raise fees or to cut services. In other words, if a nonprofit provides valuable services in a community, it may not be a good idea to require a payment that will reduce those services.
- (3) PILOT negotiations can be contentious, ad hoc, and secretive. While Greenwood appears to have enacted PILOTs through a win-win negotiation between municipal and nonprofit leaders, not all PILOT negotiations are so civilized or so productive (see Kenyon and Langley 2010).

Best Practices for Nonprofit PILOTs

While PILOTs provide compensation for revenue lost due to the charitable nonprofit exemption, they are not appropriate for all municipalities and not appropriate for all nonprofits. PILOTs are more appropriate for municipalities that are highly reliant on property taxes and have a high share of nonprofit property value. PILOTs are best applied to nonprofits that: own a large amount of property, are financially secure, and predominantly serve clients outside of the municipality where they are located. In any case, municipalities and nonprofits should work closely together to negotiate PILOT agreements that consider the individual financial constraints of each nonprofit.

Municipalities interested in developing PILOT programs that are efficient and equitable should consider the following recommendations. While small municipalities, such as Greenwood City, might find that individual agreements with nonprofit organizations are the most reasonable approach, large municipalities with a lot of nonprofit property would be best served to adopt a systematic, multi-year program. This should establish clear criteria for the type of nonprofits that would be invited to participate—either by identifying a list of general principles and targeting nonprofits that do not meet them, or by setting a threshold level of assessed value or operating revenues for inclusion in the program. Municipalities with strong PILOT programs have used different methods for calculating the PILOT amount; for example, Boston considers the assessed value of nonprofits, Cambridge uses square footage as the basis, and Baltimore relies on a nonprofit's operating income as a measure of ability to pay. If participating nonprofits can demonstrate that they provide specific community benefits to local residents, the PILOT amount should be reduced by the value of those services (Kenyon & Langley 2010, 38-40).

Since PILOT programs are not recommended for all municipalities, often it is best to consider alternatives such as state grants and user fees when seeking the best means of compensating for lost revenue (Kenyon and Langley 2010).

Both Connecticut and Rhode Island state governments have long made payments to municipalities to help compensate for exempt property owned by nonprofit medical and educational institutions. Sometimes these programs are referred to as GILOTs (grants-in-lieu-of-taxes) to distinguish them from PILOTs that nonprofits themselves pay.

Connecticut's program provides a payment in lieu of taxes for private colleges, general hospitals, and free-standing chronic disease hospitals. It aims to pay 77 percent of the real property taxes that these institutions would have paid if their property was not exempt from taxation. In recent years, these state payments have decreased because of budget problems. In FY2008, these payments totaled \$122 million (Kenyon and Langley 2010). For FY2020 this program will distribute \$110 million to 60 Connecticut municipalities (State of Connecticut 2019).

Arguments in favor of a state funded PILOT program such as Connecticut's are that the property tax exemption for nonprofits is created by the state and typically provides benefits to citizens beyond municipal borders. Also, a state-run program can be more systematic than local PILOTs paid by nonprofits themselves. On the other hand, as Connecticut's experience has shown, state-run PILOT programs are vulnerable to cuts when state budgets are tight.

The last option we will consider whereby nonprofits make some payments for municipal services is fees. These fees are of two kinds. One is user fees that are applied to all property owners, including nonprofits. The other is municipal service fees or parcel fees that are sometimes charged only to nonprofits.

Nonprofits are generally exempt from paying property taxes as described previously. However, they are not generally exempt from paying user fees for services like garbage collection, water, and sewer. Thus, a municipality can obtain more revenue from the nonprofit sector by shifting the financing of some services from the property tax, which nonprofits do not pay, to user fees, which nonprofits generally do pay. A survey of four types of nonprofits—child and family services, elderly housing and services, community and economic development, and arts and culture—found that about 42 percent of these nonprofits paid user fees to state or local governments (Salamon, Geller, and Sokolowski 2011).

The more controversial type of fee is the municipal service fee, which is rarely used because of legal challenges. For many years St. Paul, Minnesota levied a right-of-way fee paid by many nonprofits. This fee was used to “cover street sweeping, snow plowing, car towing during snow emergencies, sanding, tree trimming, street-light maintenance, [and] litter pick-up,” among other city services (Melo 2016). But a suit was filed by two churches which paid over \$10,000 annually in right-of-way charges. This suit went to the Minnesota Supreme Court, which found that the right-of-way fee was a tax, and not a fee, implying that it could not be levied on nonprofits (*First Baptist Church of St. Paul v. City of St. Paul* 2016).

The possibility for nonprofits to contribute to the financing of local services through a fee is of special interest in South Carolina due to the language in the state statutes concerning a fire service fee. This issue has come up in other states and rulings vary by state:

In the case of fire protection fees, the highest court in West Virginia ruled that a fire and flood protection fee was not a tax, but the highest court in Massachusetts ruled a Boston fire protection fee to be an unconstitutional tax (Youngman 2016, 25-26).

It is unclear whether any fire protection fees are paid by nonprofits in South Carolina but a recent letter ruling provides some insight (Office of the South Carolina Attorney General 2014). This letter found that Greenville County could not permissibly levy a fire service fee on behalf of a special purpose district. Furthermore, the letter opined that it was an open question whether such a fire service fee was a tax or a fee and whether the South Carolina statute permitting such a fire service fee was constitutional.⁴

Payments in Lieu of Taxes on State and Federal Property

State Property

Tax-exempt state property also presents a revenue issue for local governments. There are various state programs that compensate local governments for the loss of their tax base due to state ownership of land. The most recent compilations of state PILOT programs across the United States were completed in 1990 and 1994. They are no longer accessible but were consolidated and described by the New York State Department of Taxation and Finance (1996). According to that report 34 states had some type of program to at least partially reimburse local governments for the revenue loss due to state-owned property. These programs fall into three categories: (1) state payment of property taxes such as Vermont’s requirement that lands held by the Department of Natural Resources be subject to local taxation, (2) state payment of service costs incurred by local governments, such as Wisconsin’s requirement that state facilities pay user

⁴ Exempt organizations are generally required to pay special assessments that apply to all property owners in a given area. However, special fees imposed on exempt organizations alone, to cover services paid for by taxes in the cases of non-exempt property owners, can be characterized as a disguised tax. A fire protection fee is particularly vulnerable to this charge if it is not adjusted according to the need for services. Nevertheless, the explicit provision for “reasonable fees for fire protection” in Section 12-37-235 provides strong grounds for attempting to meet the legal requirements for a reasonable fee.

fees for water, sewer, electricity, garbage and trash collection, and (3) state payments in lieu of taxes (PILOTs or PILTs). We will focus on that third category.

The New York State Department of Taxation reports that at least 22 states had some sort of state PILOT program in the early 1990s. None of South Carolina's comparison states had such a program, but South Carolina was reported to have three state programs compensating local governments for state-owned property, with an annual cost of approximately \$1.5 million (U.S. Advisory Commission on Intergovernmental Relations 1991, 143).⁵

According to the New York State Department of Taxation and Finance (1996):

The range of specific [state] PILOT arrangements is also large, but the following features are commonly found:

1. Payment equals the taxes that would be due if the property were not exempt;
2. Payment equals the tax paid on the land before it was acquired;
3. Payment is initially the pre-acquisition tax, but is phased out over time;
4. Payment is made only if a threshold percentage of total acreage or value is state-owned;
5. Payment is at a flat rate per acre;
6. Payment is a lump sum, determined through negotiation or other method.

Through a web search we found evidence of current use of state PILOT or PILT programs in Connecticut, Massachusetts, Michigan, North Dakota, and Vermont. Brief descriptions of Connecticut's and Vermont's programs follow to give some idea of the variety in such programs.

In Connecticut, the state pays local governments a percentage of what they would have been paid if the state-owned property was not exempt from local property taxes (State of Connecticut). This payment applies to real property only and not personal property. The payment also excludes property used for highway purposes. The percentage reimbursement varies from 100 percent for correctional facilities, Mashantucket Pequot Tribal land, and towns in which more than 50 percent of all property in the town is state-owned real property, to 65 percent for the Connecticut Valley Hospital facility and 45 percent for all other property. But in recent years budget challenges have led the state to cut these PILOT payments. For example, New Haven's PILOT for state property has dropped by millions of dollars (O'Leary 2018).

Vermont's PILOT is meant to compensate municipalities for the inability to collect property taxes on state-owned buildings (Vermont Agency of Administration). The state-owned buildings are valued, and an adjusted municipal tax rate is applied to calculate a full PILOT. However, the full PILOT is then prorated based on available funding. In FY2019 the proration factor was 76 percent as full PILOTs totaled \$10 million and available funding was only \$8 million.

Federal Property

We now turn to the last type of exempt property we will consider, federal real property. The United States Supreme Court has recognized that the Supremacy Clause of the United States Constitution, which

⁵ Experts that follow this literature indicate that there have been no comprehensive studies of state PILOT programs since the 1996 NY State Department of Taxation and Finance report cited here.

declares federal laws as “the supreme Law of the land”⁶ implies immunity of federal property from state and local taxation.

The city most affected by the presence of federal property in the United States is likely Washington, DC. A study prepared for the DC Tax Commission estimated that in 2013 properties owned by the federal government in DC made up 18.6 percent of all properties and 53.9 percent of total property value, costing the District approximately \$823 million in foregone tax revenue (Bell and Muhammad 2013). This raises the question of how the federal government compensates the District for the loss of property revenues on federal property. Although the federal government does not make PILOTs per se it has taken over responsibility for some services that would be typically provided by city governments (such as prisons, funding and administration of local courts, and liability for most of DC’s unfunded public employee pension liabilities) amounting to approximately \$247 million in FY2011.

The last comprehensive examination of payments in lieu of taxes on federal real property appears to have been a study by the U.S. Advisory Commission on Intergovernmental Relations published in 1981. That study noted that, “Congress has recognized a responsibility to some local governments for making some form of tax or in lieu of payment to account for the federal presence, but the result has been the creation of a patchwork of uncoordinated and ad hoc special tax payment programs which have developed over the years.” At that time there were 57 different federal programs that could be characterized as payment in lieu of tax programs, divided into three different categories: (1) revenue or receipts sharing, such as sharing revenue from grazing land; (2) formula payments that attempt to compensate local governments for the cost of federal presence, such as the Education Impact Aid Program, and (3) payment in lieu of taxes programs that also attempt to compensate local governments for the presence of tax exempt federal programs within their boundaries. The most commonly known program in the last category is the Payments in Lieu of Taxes (PILT) program, managed by the U.S. Department of the Interior (DOI).

The federal government owns about 640 billion acres of land across the country and 95 percent of this land is managed by four agencies: the Bureau of Land Management, the National Park Service, the Fish and Wildlife Service within the DOI, and the Forest Service within the Department of Agriculture (Gorte and Corn 2012, 11). The DOI makes annual PILT payments for land managed by these agencies, as well as for federal water projects and some military installations. These annual payments are calculated based on a formula that considers population, revenue-sharing payments, and the amount of federal land within the local government. In FY2019, the DOI paid South Carolina \$845,000 for approximately 800,000 acres of federal land through the PILT program.

As Table 6.5 shows, only half of our focus counties received funding in 2019 from the PILT program, and the amounts they received were small. The focus county receiving the most funding from PILT in 2019 was Charleston, with almost \$127,000 received.

⁶ U.S. Constitution, Article VI, clause 2.

Table 6.5 Federal PILTs to South Carolina, FY2019*

County	Payment (\$)	Total Acres
Abbeville	37,733	46870
Aiken	0	9
Anderson	90,588	32728
Beaufort	7,854	0
Berkeley	197,076	197532
Charleston	126,961	68091
Cherokee	5,722	2067
Chester	4,954	12714
Colleton	0	26
Edgefield	12,576	32273
Fairfield	4,311	11061
Georgetown	764	276
Greenwood	4,642	11913
Hampton	0	0
Horry	260	94
Jasper	1,354	489
Laurens	8,163	20946
McCormick	89,366	89145
Newberry	22,964	58927
Oconee	114,835	117052
Pickens	15,434	5576
Richland	65,810	23453
Saluda	1,754	4501
Union	24,733	63466
Williamsburg	0	1
York	7,000	2529
TOTAL	844,854	801,739

Source: U.S. Department of the Interior, 2019

Note: These PILTs are administered by the U.S. Department of Interior. Other federal agencies such as the Department of Education and the Department of Energy administer different programs that also provide financial assistance to state and local governments to compensate for the presence of tax-exempt federal property in their jurisdictions.

*Cities shaded in gray are located in our focus counties.

Ferretting out data on the various types of payment in lieu of tax programs beyond the DOI PILT program was beyond the scope of this report, but two more issues of federal land use impact bear mentioning. Allendale, together with Aiken and Barnwell counties, is home to Savannah River Site, a nuclear plant built in the 1950s which now serves as a nuclear waste storage facility.⁷ Congress is currently considering a bipartisan bill (S1985) that would compensate local governments storing nuclear waste that the federal government failed to move to a permanent disposal facility.⁸

A 2017 report on the economic impact of the Savannah River Site mentions the site's contribution to the local economy through the federal Payment in Lieu of Taxes (PILT) program. The federal government compensates local governments to offset lost property tax revenue from nontaxable federal land. In 2017, the federal government paid \$6.5 million to Barnwell, Aiken, and Allendale counties. Allendale received \$89,508 of the \$6.5 million that was allocated to the counties (Tip Strategies 2017, 22). This amount is small compared to Barnwell and Aiken because Allendale only holds 4,211 of 198,000 Savannah River County acres. The total funding provided under this PILT has increased from \$6.2 million to \$6.5 million between 2010 and 2017, but it appears that the amount allocated to Allendale has not changed. Note that this PILT is a different type of federal PILT than the one described above – it is administered by the U.S. Department of Energy (DOE) which has been authorized to make PILTs to certain state and local governments under section 168 of the Atomic Energy Act of 1954. The DOE provides discretionary payments on a case-by-case basis to applicant jurisdictions that meet certain guidelines (DOE Directive 143.1, 2003).

Introduced in 2019, bipartisan bill S1985, known as the Stranded Act, would further compensate the counties that house the Savannah River Site by providing \$15 per kilogram of spent nuclear waste to eligible communities. There are approximately 30,000 kilograms of spent nuclear waste being stored at the Savannah River Site (U.S. Nuclear Waste Technical Review Board 2017, 2). This means that if the bill were to pass, the counties would receive an additional \$450,000 per year in federal funds.

The federal government also owns 59,129 acres of land for military bases in South Carolina, that accounts for 31 percent of the state's total land area. This places South Carolina as 25th in the country in terms of the share of military base land (Business Insider 2014). Five military bases are located in three of our focus counties: the Shaw Air Force Base in Sumter, the Coast Guard Base and the Joint Base in Charleston, and Fort Jackson and McEntire Joint National Guard Base in Richland (SCIWAY 2019). Military land is generally not eligible for the DOI PILT program because the military bases generally provide their own local infrastructure services. However, communities with military bases receive financial assistance for other local services, such as education. School districts that serve students in counties with military bases receive funding for the "financial burden" resulting from tax-exempt federal land and enrollment of the children of military employees (Gorte and Corn 2012, 23). The Impact Aid Program, administered by the U.S. Department of Education, provides funding for schools in Charleston, Richland, and Sumter counties. In 2018, Charleston County School District received \$106,861, Richland School District 1 received \$10,000, Richland School District 2 received \$250,000, and Sumter School District received \$330,000.

Conclusion

South Carolina does not tax property owned by the federal government, state government, religious nonprofits, and most other nonprofits. Because South Carolina does not maintain a centralized database of

⁷ See Savannah River Site [annual report for 2016](#) (2016 is the most recent year available on the SRS website)

⁸ See Senate Bill 1985: <https://www.govinfo.gov/content/pkg/BILLS-116s1985is/pdf/BILLS-116s1985is.pdf>.

exempt property or require assessors to appraise exempt property, we know little about the effect of the exemption on local governments. However, among the focus counties, several have cities in which over 40 percent of property is exempt from taxation because the property is owned by state government, local government, or nonprofits. South Carolina has one municipality that receives payments in lieu of taxes from nonprofits. PILOTs, when designed properly, can address some issues arising from nonprofit tax exemption.

Appendix A: PILOTs in Greenwood, South Carolina

After the Great Recession, the City of Greenwood was strapped for cash. In 2011, the city council, city manager, and finance director got together to discuss how difficult it was to provide services and figure out a solution. One third of property within city limits is nontaxable and healthcare industry trends are exacerbating this problem (Cranney 2018). The local non-profit hospital has been buying up private practices, and the city loses tax revenue each time for-profit practices became nonprofit.

One option was to eliminate the current exemption from the business license tax for certain nonprofits. The city's legal team crafted a proposal establishing criteria for an expanded business license tax that would apply only to nonprofits that were in direct competition with for profit businesses. They presented this as a measure to level the playing field, in addition to raising new revenues.

After crafting this proposed business license tax ordinance, the city went to three large local health care and health-care related nonprofits – Self Regional Healthcare, Carolina Health Centers, and Wesley Commons – and told them they would prefer not to pass the ordinance, but they must do it in order to continue providing city services. The city invited the nonprofits in question to come to the table and contribute to the city budget in order to avoid passing the ordinance. Wesley Commons agreed to do this on the condition that all three healthcare-related nonprofits do it, but Self Regional Healthcare, the local hospital, did not want to contribute. The city proceeded to pass the first reading of the ordinance. On the day the city council was preparing to pass the second ordinance reading, they received an early morning call from the hospital. The three nonprofits agreed to jointly pay the city a total of \$1 million over five years, with the expectation that by the end of that time the city would not need the extra revenue.

It is important to note that all Greenwood businesses are required to pay an annual business license tax based on gross receipts, with rates varying according to different types of businesses.⁹ Currently, the state allows municipalities to apply the business license tax to nonprofits, but the majority of municipalities across the state have not done this.

The PILOTs that Greenwood received from these nonprofits are probably significantly lower than the tax on gross receipts the nonprofits would have paid if the city had passed the ordinance removing the business license tax exemption for nonprofits. The city doesn't know the exact amount the nonprofits would have paid under the tax because it was not able to obtain current financial records. But based on old financial records, the city estimates business license tax revenue would have been two to three times higher than the PILOTs the group of nonprofits are currently making.

After five years, the city's financial position had not improved so in 2016 the city reopened negotiations to extend the agreement and receive donations for another five years. The three nonprofits agreed with the condition that other nonprofits be brought on board. The city now has four participating organizations that are jointly paying \$197,000 per year until 2021, with Greenwood Genetic Center joining the group. These institutions agreed that they were receiving city services they were not paying for. They felt that they also provided important community services, but they understood these were in direct competition with other for-profit entities that had to pay the business license tax. As the largest of the four nonprofits, Self Regional Healthcare is contributing the bulk of the total payment amount.¹⁰

⁹ See [City of Greenwood Ordinances, Chapter 10, Article II – Business License Taxes](#).

¹⁰ The city entered into a joint agreement with the three organizations in 2012, with higher payments in the first years (i.e. Year 1-\$250,000, Year 2-\$225,000, Year 3-\$200,000, Year 4-\$175,000, Year 5-\$150,000). In 2016 the city entered into individual agreements with each of the four entities, for a combined total of \$197,000 per year (Self

At the end of 2021 the city will need to negotiate again if there are no other changes. City officials are currently lobbying the county to put a local option sales tax referendum on the 2020 ballot, and if this passes it could potentially bring in revenues that would allow the city to lower the amount contributed by these four nonprofits.

Regional - \$175,000; Carolina Health Centers - \$9,500; Wesley Commons - \$9,500; Greenwood Genetic Center - \$3,000).