



## Economic Development Spending Hurts South Carolina's Economy

In South Carolina, economic incentive spending has been the emerging trend of the last 20 years. In 1994, the state spent \$32 million on economic incentives. In 2008, that figure climbed to more than \$500 million.

Over the past two decades, the legislature has awarded special tax breaks, job credits, exemptions, bonds, and other preferential treatment to particular businesses and industries. Economists have analyzed this trend and concluded that it has no net positive impact on the state economy.

In fact, the two stated goals of economic development spending are to create jobs and increase wealth. But today, South Carolina has the 4<sup>th</sup> highest unemployment rate and 5<sup>th</sup> lowest per capita income. A better approach would be to foster a stable economic environment with a low tax rate, fewer burdensome regulations, and reduced government spending.

Unfortunately, local governments have followed the same trend. Today, the Oconee County Council is considering giving \$3.5 million in bonds to a private developer and contractor. This \$3.5 million will provide special revenue bonds to the Pointe West development. Additionally, Pointe West will enter into a Fee in Lieu of Tax (FILOT) agreement with the county – replacing property taxes with a specially negotiated fee.

Some general Oconee budget figures:

- For FY 2007-2008, total government spending was \$42.9 million.
- Economic development spending was \$725,504.
- Between 2004 and 2008, total government spending increased by 21 percent. Yet economic development spending increased by 42 percent.
- The unemployment rate in Oconee County for Feb. 2010 was 14.1 percent. The annual rate has been climbing over the past 3 years:
  - 2007: 6.8 percent
  - 2008: 7.4 percent
  - 2009: 13.7 percent

In *Unleashing Capitalism*, economists from both South Carolina and across the country examined the state of our economy. Notably, they highlighted the unpredictable and unfair environment that is created from taxpayer-funded incentives.

### Costs of FILOT Programs

A \$3.5 million bond from the county comes directly out of taxpayers' pockets. Although funding will theoretically be paid back with FILOT funds, there are unintended consequences that harm taxpayers.

According to the Oconee budget document, the largest source of revenue is the property tax – about 69 percent of the total budget. Each new FILOT agreement places a heavier tax burden on other businesses.



Additionally, the Pointe West deal will hurt those other businesses even more. Instead of FILOT money streaming into the General Fund, that funding will have to be used to repay the special revenue bond. The new development will require increased services from the county – more infrastructure, police, etc. This creates an added cost to the county – one that should theoretically be paid for with property taxes or FILOT money. But if those funds are being used to repay the bond, then where will it come from? Either increased taxes on existing businesses, or the county will need to tighten its budget in order to use current levels of funding to serve a greater number of constituents.

As explained in *Unleashing Capitalism*, the fee will be tainted by political preferences and shifts the burden of taxes onto businesses that don't receive the tax breaks. To simplify:

There are 2 businesses that each pay \$50 for services. A third business opens and only pays \$15 for services. But there is now \$150 of services required. The existing businesses face a higher tax burden.

The state created FILOT agreements in 1987 as a mechanism to offset high assessments on industrial property. The original required investment was \$85 million to qualify – which was then lowered to \$45 million in the 1990s, \$5 million in 1995, and then \$1 million in 1999 for select counties.

### **Analyzing the Figures**

In Michigan, economic development spending has been a popular tool of government. Every year there are deals announced with predicted job increases and improvement for the state. But according to the Mackinac Center for Public Policy, only 29 percent of jobs announced in incentive packages actually arrive.

Mackinac conducted evaluations of 219 economic incentive deals that the state entered into before 2004. The analysis – completed in 2009 – checked to see if the 61,043 jobs promised were actually created. However, only 17,791 jobs were created.

We've heard for years that economic incentive packages will pay off. We've asked South Carolina for figures on their job creation totals – but the state has not produced evidence. We've requested their figures, but we've been told that it does not exist.

This once again portrays how unpredictable the market is – there is no such thing as a guarantee. When businesses pursue an opportunity, there is an inherent risk in the project. More often than not, these ventures fail – as market demand dictates consumers' preferences. The risk of such projects, falls upon the shoulders of the investors. But when taxpayers are forced to subsidize businesses, they suddenly share in that risk.

If the Pointe West development is such a guarantee to be successful, then it should not need taxpayer dollars. If the tax burden in Oconee is believed to be too high, then it should be lowered for everyone – and not just one entity.

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