The Revenue Impact of Corporate Tax Incentives on South Carolina Public Schools

By
Christine Wen
Kasia Tarczynska
Greg LeRoy

Good Jobs First

September 2020

Executive Summary

Public school districts in South Carolina suffered a sharp increase in lost tax revenue in FY 2019 due to tax breaks granted to private corporations by county governments. Their revenue losses in just the one year totaled $423 million.

This represents an increase of nearly $100 million, or 31 percent, from FY 2017—the first year for which tax revenue reduction data became available as the result of a new accounting rule, GASB Statement No. 77 on Tax Abatement Disclosures.

Already-poor school districts lost the most. Six school districts each lost more than $2,000 per pupil; they also have some of the highest student poverty rates in the state as measured by the share of students eligible for free or reduced-price lunch. And all but two of the six districts have a Black plus Hispanic majority. These school districts are located in Dorchester, Greenwood, Chester, Orangeburg, Barnwell, and Calhoun Counties.

In addition to worsening inequality, there are troubling trend lines, as some school districts experienced sharp spikes in lost revenue. Seven districts' reported losses more than tripled from 2017 to 2019 and the losses in another eight districts more than doubled. In other words, 15 districts' losses doubled or even tripled.

By absolute dollars: Greenville and Berkeley counties' schools each suffered losses more than $10 million bigger in 2019; Chester County schools lost $9.6 million more; Charleston County schools lost $6.9 million more; those in Lancaster County lost $6 million more; and the Fort Mill School District of York County lost $5.1 million more. Nineteen of South Carolina's school districts lost at least $2 million more in 2019, with 11 of those reporting losses of more than $4 million greater.

The revenues of South Carolina's school districts are reduced via programs that grant businesses tax abatements for extremely long periods of time—up to 40 years—which could effectively be permanent exemptions. Moreover, some of the largest per-student revenue losses are being reported by school districts with the highest student poverty; and deals with large corporations that entail hundreds of millions of dollars in tax abatements over multiple decades have been granted by counties that are already in economic distress.

These locally granted abatements have such costly terms only because state law permits them. And at the state government itself, a recent audit of the Commerce Department makes it clear that the state is not tracking the costs or benefits of its own deals. With no disclosure by counties about specific tax-break deals, and no state tracking of deal outcomes, South Carolina can be fairly described as conducting tax policy in the dark.

We offer a menu of policy options to protect the state's most foundational economic development investment—its public education system—from corporate tax abatements. By entirely shielding school finance, or by strictly capping its losses, the state can improve its schools and thus its business climate. We also recommend a robust county-based disclosure system to ensure that costs and benefits are fully visible for each employer granted an abatement.

The Revenue Impact of Corporate Tax Incentives on South Carolina Public Schools

Although it is less true today in some states, local property taxes remain the largest single source of revenue for public schools in the U.S. That means that economic development tax abatement programs (which may also abate other local revenue sources for schools such as sales taxes and others) can put severe stress on school budgets.

South Carolina is an outlier: in FY 2019 its public school districts reported combined losses of $423 million in property tax revenue to abatements, even after accounting for payments made by businesses in lieu of taxes and reimbursements from the state.[1] These programs include Fee in Lieu of Taxes (FILOT), Special Source Revenue Credit (SSRC), and Multi-County Industrial Park (MCIP).

Out of the 81 public school districts in South Carolina, at least 72 suffered some negative revenue impact. The largest revenue losses by dollar amount were reported by Berkeley County School District and Greenville County School District—at $54 million and $41 million, respectively. Eleven others lost more than $10 million each: They are located in the counties of (in descending order of amount of tax abatements) Greenville, Charleston, Anderson, Aiken, Lexington, Spartanburg, Chester, Florence, Richland, Lancaster, and York.

The Poor Pay More

Many of the school districts suffering the largest losses can ill afford them because their students live in poverty. Indeed, the six school districts with per-pupil revenue losses greater than $2,000 have some of the highest student poverty rates in the state as measured by the share of students eligible for free or reduced-price lunches. And four of those six districts have a Black plus Hispanic Majority. These school districts are located in Dorchester, Greenwood, Chester, Orangeburg, Barnwell, and Calhoun Counties.

Property tax abatements tend to harm school districts disproportionately. Chester County School District, for example, lost $15.2 million, or $2,874 per student, last year. Its financial report did not specify the programs that resulted in that loss, but the County's financial report (separate from the school district's) cites several

FILOT, SSRC, and MCIP agreements. It also discloses their revenue impacts on the various taxing entities in the County. The school district is by far the biggest "loser" among them, across every program.

Though it was Chester County that granted these agreements, the County itself lost only $2.6 million. The School District, on the other hand, had no say in the abatement awards yet lost six times as much. Similarly, Orangeburg County—one of the poorest in the state—lost $3.6 million to agreements made under FILOT and SSRC, while its three consolidated school districts lost $15.8 million in total.

Troubling Trend Lines: Some Districts' Losses Double or Triple

In addition to worsening inequality, there are troubling trend lines, as some school districts experienced sharp spikes in lost revenue. Seven districts' losses more than tripled from 2017 to 2019, with Rock Hill District 3's losses rising by more than 900 percent, to more than $4 million. Another eight districts lost more than twice as much revenue in 2019 compared to 2017. In other words, 15 districts' losses doubled or even tripled.

On an absolute-dollar basis, both Greenville and Berkeley counties' schools each suffered losses more than $10 million bigger in 2019 than in 2017 and the two school districts' losses combined now total more than $95 million per year. Chester County schools lost $9.6 million more in 2019. Charleston County schools lost $6.9 million more (and now total $32.3 million); those in Lancaster County lost $6 million more; and losses to Fort Mill School District of York County doubled, from $5.1 to $10.3 million. Orangeburg #3 and #5 did not report any losses in 2017, but each lost at least $7.6 million in 2019.

Altogether, 19 of South Carolina's school districts reported losing at least $2 million more in 2019 than in 2017, with 11 of those reporting losses of more than $4 million greater.

New Accounting Rule Reveals Previously Hidden Revenue Losses

South Carolina's schools' total revenue loss of $423 million in FY 2019 is $99 million more, or 31 percent higher, than FY 2017 when governments everywhere first began including tax abatement disclosures in their financial reports. Then, Good Jobs First tallied $324 million lost from South Carolina school districts in its study *The New Math on School Finance*. While a small part of this increase stems from more districts newly reporting revenue-loss data, the overwhelming majority—$83 million—stems from costlier tax abatement packages. Appendix A shows reported revenue losses for each school district in 2017 and 2019.

This new form of tax-break analysis is made possible by a new accounting rule, Governmental Accounting Standards Board (GASB) Statement No. 77 on Tax Abatement Disclosures. It requires state and local governments that abide by Generally Accepted Accounting Principles (GAAP, to which Statements are amendments) to disclose their revenue losses resulting from economic development tax abatement programs.

This obligation applies whether the government is the actively granting entity—such as South Carolina's counties—or a second government that loses revenue *passively*, such as the state's school districts. Each jurisdiction reports its own portion of the foregone tax revenue in its audited financial statement, a report of the prior fiscal year's income and spending.

This new disclosure system only succeeds if the school district complies with the rule by obtaining this information from the city or the county tax assessor and then reporting. Unfortunately, some states have yet to send clear compliance signals about GASB Statement 77 reporting, so that there is little to no data from their localities.

Fortunately, South Carolina is among those states we have found to be an exemplary complier. When the rule first came out, the South Carolina Association of Counties (SCAC) was proactive, ensuring that local governments had the information they needed to abide by the rule. Thanks to SCAC's laudable effort, taxpayers are able to know exactly how much tax incentives in South Carolina are costing its cities, counties, and school districts.

Yet the $423 million figure is still incomplete: a few districts reported having tax abatements but said they were unable to obtain information on the amount of abated taxes from their counties. Additionally, six districts did not mention tax abatements at all. It is possible that they did not experience any reduction in revenue (and thus permissibly omitted posting a Statement No. 77 note), but we do not know for certain. Therefore, the true total figure is almost certainly larger. A closer look at the programs that reduce school district revenue reveals why these annual losses are so damaging.

A Closer Look at South Carolina's Business Incentives

School districts in South Carolina are losing close to half a billion dollars each year to the FILOT, SSRC, and MCIP programs. Below, we unpack these three state-enabled, county-granted programs. The biggest problems are that these tax abatements can last for decades, and there are no transparency provisions in any of the statutes—i.e. nothing that requires counties to report deal-specific, company-specific information, even such basics as the size of the award, how many jobs were promised and then actually created, what wages and benefits were pledged and then actually paid, or how much capital investment was promised and then delivered. Hence, neither policymakers nor taxpayers have any way to assess these costly projects and programs.

Fee in Lieu of Taxes (FILOT): FILOT agreements are ubiquitous in South Carolina; almost every school district is affected by them. Established in 1988, the program allows businesses that make a certain minimum investment in a project to negotiate an agreement with the county in which the project is located to pay a fee in lieu of ad valorem property taxes (based on a reduced assessment ratio and fixed millage rate).[2] Under this arrangement, businesses (or "sponsors" in South Carolina laws) receive deep discounts on their property taxes.

FILOT comes in three forms. The first, created in 1988, is intended for very large projects with at least $45 million in new investment and involves the issuance of industrial revenue bonds (IRBs) by counties. The county uses the bond proceeds to acquire and own the project, leasing it to corporate entities, or "sponsors." Since property held by a county is tax-exempt (like a school or library), the sponsor's rent bill is only enough to pay off the bonds.[3]

The second form was introduced in 1995 to allow for FILOT agreements for sponsors investing more than $5 million in a project ($1 million in distressed counties) within five years plus up to five years in extension; this investment minimum was halved by a 2006 amendment and has been $2.5 million since.[4] The third form is a simplified FILOT arrangement that does not involve the use of industrial revenue bonds; instead, it allows a sponsor to hold the title of the property and negotiate with the county for a lower assessment ratio and fee-payment structure.[5]

FILOT agreements cause revenue losses for localities for years on end. Not only do companies get up to ten years to make the investment, but their FILOTs usually are far less than they would otherwise pay in property taxes—for up to 30 years, with a possible 10-year extension. Furthermore, all three versions of the FILOT program have special provisions for "megadeals"—i.e. especially large projects—to extend both the time to complete the project and the length of the agreement (and thus the property tax discount).

Special Source Revenue Credit (SSRC): The property tax abatements don't end with the FILOT program. Under the SSRC program, South Carolina's counties can use a portion of their FILOT revenues to issue special source revenue bonds. They can then award credits to taxpayers to be applied against their property taxes for acquiring, building, or improving infrastructure or real properties for the purposes of manufacturing located in a multi-county industrial or business park (see next section).[6] In other words, instead of applying those reduced property tax revenues under a FILOT agreement to public education or other services, SSRC allows counties to divert those funds for even more subsidization (as debt service).

The SSRC program can be stand-alone, in which case there is no minimum investment required, but counties often award SSRC credits to FILOT sponsors as part of combined incentive packages, meaning that SSRC credits could be awarded for as long as the FILOT agreements are in place. The amount of credits is determined solely by the abating county.

Two school districts in South Carolina reported losing revenue to the Infrastructure Program which, like SSRC, uses FILOT revenues to subsidize infrastructure improvement by awarding credits and grants to new businesses. It is a provision in the FILOT Simplification Act of 1997 (the third option of FILOT described in the previous section) and often included in FILOT agreements as an alternative or an addition to the SSRC add-on.

Multi-County Industrial Park (MCIP) Program: Since 1989, South Carolina's counties can enter into agreements with contiguous counties—with the consent of encompassed municipalities—to create multi-county industrial or business parks for which revenues and expenses will be shared among the member counties.[7] Counties can designate certain properties to be included in the industrial park and qualify them for SSRC. FILOT projects don't have to be in an industrial park, but they qualify for additional tax savings if they are.

Examples of Major Deals and Their Cost to Public Services

Tracking down individual agreements is not easy in South Carolina. Counties do not provide company-specific, deal-specific information in an easy and accessible way, and most of time they leave out important information such as the size of the award or project status. But as is evident that in recent decades, South Carolina and counties within the state have awarded large corporations with massive, multi-year property tax abatements. Here are a few examples:

Google in Berkeley County

In 2007, Google announced that Berkeley County was to be the home to a large data center complex. Since then, the complex has been expanded—most recently in 2019—and it now encompasses more than 500 acres. The County provided the company with tax abatements via FILOT, cost reimbursement for infrastructure via SSRC, and additional benefits of a Multi-County Industrial Park. The deal's details are hidden from the public view behind nondisclosure agreements. Even Google's name can be hard to find in the official documents. In 2006, Google applied for subsidies under Pyrite, LLC, a subsidiary specifically created for this project (later the subsidiary name was changed to Maguro Enterprises, LLC).

An investigative article in the *Post and Courier* from January 2020 found that "the assessed and appraised value of the massive campus is $0, according to public land tax records." Over 10 years, "Maguro Enterprises paid $275,946 on four parcels of land—or an average of about $28,000 a year. Some parcels of Google's campus had a yearly tax payment as small as $10," the article found.[8] For the $600 million expansion in 2019, Berkley County provided Google with similar tax breaks: it lowered the assessment ratio for real and personal property to four percent, froze the millage rate as of June 30. 2017, provided Special Source Revenue Credits equal to one hundred percent for FILOT payments for personal property investment and 85 percent for FILOT payments related to real property investment. The county also agreed to designate the site as a Multi-County Park, which allowed Google to access enhanced state tax breaks. The local subsidies are for 50 years.[9]

Michelin in Lexington and Anderson Counties

Michelin has been present in South Carolina since 1975 and it has 13 facilities located in the state, including manufacturing facilities, North America Headquarters, and research facilities. Many have received state and local subsidies.

For example, in 2012, Michelin announced the expansion of a facility in Lexington County and construction of a new facility in Anderson County. The projects received state and local subsidies. However, as with other projects located in South Carolina, the costs of those deals are hidden. Both counties provided the company with FILOT agreements and Special Source Revenue Credits and placed the projects in a Multi-County Industrial Park, which allowed the company to access enhanced state tax breaks.

Lexington County's FILOT was set for 30 years and Andersons's for 40 years.

An online publication linked to the free-market South Carolina Policy Council did extensive research piecing together subsidies for this expansion. The publication estimated that the Lexington County FILOT lowered Michelin's property taxes by $73 million, or 72 percent, over 31 years. Anderson County subsidies were to provide $78.6 million to the company, of which $52 million would come out of SSRC.[10]

In addition, Lexington County froze the millage rate for the facility at 434.680 mills for the first 20 years and provided the company with up to $3.37 million in Special Source Revenue Credits, paid from company's FILOT payments.[11]

Conclusion and Policy Recommendations

In this report, we demonstrate the harm of development incentives to school districts in South Carolina. The $423 million in lost revenue in just one year represents a real opportunity cost; it is also a significant increase from earlier years. Some of the poorest and majority Black plus Hispanic school districts also have the highest revenue loss per student. Even though it is the counties that legally control and award tax abatement agreements with businesses, they lose relatively little compared to school districts. It is what we have long called an "intergovernmental free lunch."

In light of our findings, we recommend the following policy options:

Policy Option #1: Exclude School Revenue from Abatements: The State of South Carolina could best address this growing problem by simply taking the school increment of property taxes off of the table. A few states either prohibit property tax abatements altogether (typically by constitutional provision) or they effectively exclude or shield schools from property tax abatements or other common tax breaks. With state revenues declining and no prospect of additional federal aid to schools after the CARES Act, local revenues are more vital than ever. A skilled workforce is the state's most foundational "business climate" investment.

Policy Option #2: Cap Duration and Cost of Abatements: The state could reduce the duration of FILOT and SSRC deals to five years, with no extensions allowed. Or it could cap the duration at 10 years with a sliding scale of value: 100 percent the first year, 90 percent the second year, and so forth. By ending 30- and 40-year abatements, such a change would ensure that newly arriving industries become contributing members of their local communities and not shift the entire tax burden onto longstanding employers and working families.

Policy Option #3: Robust County Disclosure: The state can require each county to post online the specific costs and benefits of every tax-break deal in all county-controlled programs (with the name of the company, address of the project, total and each-year's dollar value of the award, pledged and actual number of new jobs, pledged and actual wages and benefits paid, and expected and actual amount of capital investment). That way, for example, Charleston County taxpayers would know exactly how much Boeing is not contributing each year to public services under its county agreements. As Good Jobs First has documented, nearly every state and some large cities and counties already disclose such information online. And as we report here, South Carolina counties stand out positively for their compliance with GASB Statement 77 on Tax Abatement Disclosures, so there is evidently a public will for tax-break sunshine.

Appendix:

Revenue Losses for South Carolina's School Districts in 2017 and 2019

These numbers are net foregone revenue after accounting for offsets in the forms of FILOT payments and/or state reimbursements.

School District	Taxes Abated in 2017 ($)	Taxes Abated in 2019 ($)
Abbeville County School District	45,207	10,056
Aiken County Public Schools	25,562,690	24,068,222
Allendale County School District	No data	No data
Anderson County School District 1	3,420,000	6,251,000
Anderson County School District 2	674,000	707,000
Anderson County School District 3	1,531,396	1,855,149
Anderson County School District 4	3,122,819	3,827,142
Anderson County School District 5	21,086,000	25,085,000
Bamberg School District 1	115,396	232,280
Barnwell School District 19	0	No data
Barnwell School District 45	0	4,841,038
Beaufort County School District	0	No data
Berkeley County School District	43,552,509	54,021,717
Calhoun County Public Schools	1,465,000	3,536,000
Charleston County School District	25,347,694	32,250,847
Cherokee County School District 1	4,742,178	7,167,906
Chester County School District	5,556,000	15,147,000
Chesterfield County School District	2,797,122	4,045,824
Clarendon County School District 1	No data	No data
Clarendon County School District 2	No data	0
Clarendon County School District 3	No data	No data
Clover School District 2	410,000	522,000
Colleton County School District	268,473	226,894
Darlington County School District	4,911,663	4,394,777
Denmark-Olar (Bamberg) School District 2	472,757	358,789
Dillon County School District 3	489,354	728,336
Dillon County School District 4	No data	No data
Dorchester County School District 2	4,672,000	5,578,000
Dorchester County School District 4	3,858,724	8,483,703
Edgefield County School District	281,797	190,507

School District	Taxes Abated in 2017 ($)	Taxes Abated in 2019 ($)
Fairfield County School District	1,667,084	860,452
Florence County School District 1	12,433,340	13,143,664
Florence County School District 2	No data	No data
Florence County School District 3	No data	770,972
Florence County School District 4	1,193,000	803,000
Florence County School District 5	7,874	28,757
Fort Mill School District 4	5,078,802	10,276,989
Georgetown County School District	3,104,743	1,849,010
Greenville County Public Schools	30,422,000	41,342,000
Greenwood County School District 50	3,113,039	5,517,566
Greenwood County School District 51	No data	274,656
Greenwood County School District 52	6,324,686	5,594,117
Hampton County School District 1	0	No data
Hampton County School District 2	0	(47,272)
Horry Public Schools	493,414	472,921
Jasper County School District	No data	3,407,000
Kershaw County School District	4,224,000	5,433,000
Lancaster County School District	5,420,596	11,452,008
Laurens County School District 55	2,114,428	2,351,999
Laurens County School District 56	826,393	1,594,405
Lee County School District	34,370	248,077
Lexington County School District 1	15,988,475	16,549,616
Lexington County School District 2	10,792,609	5,666,000
Lexington County School District 3	118,386	233,844
Lexington County School District 4	364,147	443,351
Lexington County School District 5	815,724	1,313,630
Marion County School District	No data	335,000
Marlboro County School District	687,000	1,708,000
McCormick School District 1	No data	No data
Newberry County School District	3,152,000	4,366,000
Oconee County School District	2,749,000	975,000
Orangeburg Consolidated School District 3	No data	7,789,227
Orangeburg Consolidated School District 4	420,000	424,000
Orangeburg Consolidated School District 5	No data	7,618,324
Pickens County School District	879,000	1,013,000
Richland County School District 1	13,087,617	11,600,607
Richland County School District 2	9,002,747	9,533,129
Rock Hill School District 3	443,221	4,496,011
Saluda County School District 1	0	0
Spartanburg County School District 1	69,075	296,397

School District	Taxes Abated in 2017 ($)	Taxes Abated in 2019 ($)
Spartanburg County School District 2	758,709	2,387,342
Spartanburg County School District 3	1,285,000	3,051,000
Spartanburg County School District 4	56,082	307,937
Spartanburg County School District 5	16,803,501	15,586,572
Spartanburg County School District 6	2,594,361	3,071,900
Spartanburg County School District 7	4,335,728	716,313
Sumter School District	6,900,000	8,900,000
Union County Schools	1,607,792	2,839,554
Williamsburg County School District	0	2,327,144
Williston School District 29	0	0
York School District 1	161,066	543,937
TOTAL	**323,911,788**	**422,995,343**

Endnotes

1 This total excludes the cases where the district reported only the offset and not the gross revenue loss.

2 Millage rate is fixed for either the entire duration of the agreement or five years at a time.

3 South Carolina Code of Laws Unannotated Title 4 Chapter 29 "Industrial Development Project." https://www.scstatehouse.gov/code/t04c029.php.

4 South Carolina Code of Laws Unannotated Title 4 Chapter 12 "Fee in Lieu of Property Taxes." https://www.scstatehouse.gov/code/t04c012.php.

5 South Carolina Code of Laws Unannotated Title 12 Chapter 44 "Fee in Lieu of Tax Simplification Act." https://www.scstatehouse.gov/code/t12c044.php.

6 South Carolina Code of Laws Unannotated Title 4 Chapter 1 Section 175 "Special source revenue bonds authorized; pledging of revenues; determination of debt limitation." https://www.scstatehouse.gov/code/t04c001.php.

7 South Carolina Code of Laws Unannotated Title 4 Chapter 1 Section 170 "Joint development of industrial or business park; consent of municipality." https://www.scstatehouse.gov/code/t04c001.php.

[8] Thomas Novelly, "Google has a big economic presence in Berkeley County. But is it creating more jobs?" *Post and Courier*, January 11, 2020; https://www.postandcourier.com/news/google-has-a-big-economic-presence-in-berkeley-county-but-is-it-creating-more-jobs/article_6ad56830-30ab-11ea-bc6c-2734720bc164.html

[9] Additional deal details are taken from: Berkeley County Council Regular Meeting, 8/27/2018; see documents under "V. Third Reading": Bill No. 18-45, FILOT Ordinance (Project Linden, Maguro) 2018, and FILOT Fee Agreement (Project Linden, Maguro) 2018; at
http://berkeleycountysc.iqm2.com/Citizens/Detail_Meeting.aspx?ID=3619
Berkeley County Council Special Meeting, 11/13/2006; see under Bill No. 06-78:
http://berkeleycountysc.iqm2.com/Citizens/FileOpen.aspx?Type=12&ID=1168&Inline=True

[10] Rick Brundrett, "Why the Michelin Man is Smiling in S.C.," The Nerve, may 14, 2012; https://thenerve.org/why-the-michelin-man-is-smiling-in-s-c/

[11] Additional details are taken from: Lexington County Council, Agenda for a Special Called Meeting on May 5, 2011
http://lexingtoncountysc.iqm2.com/Citizens/FileOpen.aspx?Type=1&ID=1517&Inline=True