STATE OF THE CITIES 1998
Municipal Finances in South Carolina, 1995-96

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This report is the fourth in a series of reports analyzing the finances of South Carolina's cities. The report examines municipal revenues, expenditures, employment, and financial assets for fiscal year 1995-96 and changes over the five-year period from 1990-91 through 1995-96. Five-year (instead of four-year) growth measures for revenues and expenditures are a new addition to this year's report. Revenue and expenditure growth is adjusted for inflation.

The financial data analyzed in this report is derived from the Annual Municipal Financial Reports collected by the South Carolina State Budget and Control Board. These detailed questionnaires collect information from each South Carolina municipality on the prior fiscal year's revenues, expenditures, employment, and financial assets. Municipal finance statistics provided in this report may differ somewhat from those reported by other state agencies and organizations due to data corrections and adjustments made after these data were first released.

Two hundred and thirty-eight of South Carolina's 269 cities filed financial reports for the 1995-96 fiscal year ending on or before June 30, 1996. Three medium-sized cities—Bennettsville (population 9,415), Batesburg-Leesville (6,189), and Conway (10,115)—did not file reports. The other 28 missing cities are all quite small, with 20 in the 1,000-and-under population size class and 8 in the 1,001-5,000 size class. Reporting cities represented 1,269,631 residents, which account for 96% of the state's municipal population. Populations used to calculate per capita revenues and expenditures are from the U.S. Bureau of the Census estimates for July 1, 1996. Recent revisions to the state’s intercensal population estimates have resulted in lower municipal populations in recent years than previously estimated.

Financial data from the Annual Municipal Financial Reports shows *actual* (but not necessarily audited) rather than *budgeted* revenues and expenditures. For this reason, spending in excess of revenues for particular cities (or reflected in averages) should not be taken to indicate deficit spending. Likewise, when there is a surplus of revenues over expenditures, a large share of these monies is often encumbered for purchases in the next fiscal year, or represents grant monies received in the current year that will be spent over several fiscal years.

This report was prepared by Clemson University's Strom Thurmond Institute of Government and Public Affairs for the Municipal Association of South Carolina. The authors are Holley H. Ulbrich, Alumni Professor Emerita of Economics, and Ellen W. Saltzman, Research Associate. The Office of Research and Statistics of the South Carolina State Budget and Control Board supplied the financial and population data.

INTRODUCTION

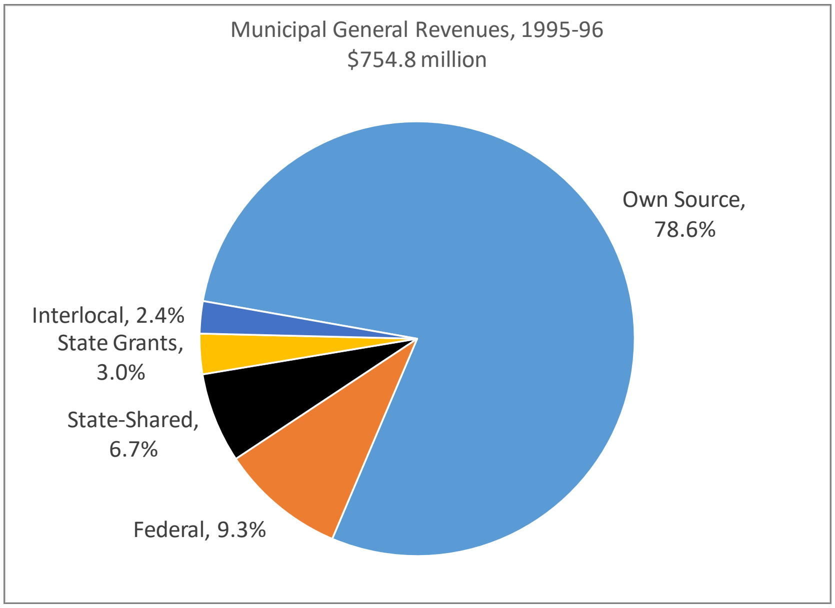
Good decisions need to be based on good data. In order to evaluate performance and plan for the future, elected municipal officials and city administrators, state legislators and agency heads need quick and clear answers to questions such as: Where do city revenues come from, and how are they being spent? How do a particular city's revenues and expenditures compare to those of other cities in South Carolina? Are local taxes really growing? Where are the big spending demands for cities in our state, and how are they changing? This report, like the three earlier editions of *State of the Cities*, is intended to answer those questions. While financial data represent only one dimension of the quality of life in our incorporated municipalities, they do offer some useful measures of emerging trends and recent performance.

The mix of revenue sources and expenditure allocations for South Carolina cities remains focused on local self-reliance and revenue diversification while holding the line on spending and employment. In response to a need for greater self-reliance, cities have continued to broaden the variety of revenue sources they tap. The share of the property tax in municipal revenue has continued to decline, although it remains the single largest revenue source for cities as well as counties. Property tax relief has come from two sources: the steady growth of revenue from the local option sales tax and increased reliance on fees, charges, licenses, and permits that ensure that beneficiaries of services pick up a larger share of their cost. The local option sales tax will continue to grow as a local revenue source in the next few years as revenues are reported from the municipalities in the nine counties who implemented the tax beginning in mid-1996 and later. These more diverse sources do not mean substantially greater spending, however; spending has risen by an average of only 1.7% a year from 1990-91 to 1995-96, and non-utility employment is up only 1.5% per year, on average, over the same time period.

This report is divided into three parts. The first part examines overall trends, averages, and growth rates for all cities. The second part—City Size & City Finances—identifies trends and averages for six different-sized profile cities. The third part contains tables of per capita revenues and expenditures for individual municipalities for fiscal year 1995-96. Utility finances and transfer of utility surplus to the general fund are excluded from the discussion except where specifically indicated. Median values—the middle value in a ranked list—of per capita revenues and spending are sometimes used to compare to average values when exceptionally high or low numbers in a few cities significantly affect the overall average. Median values are calculated for only those cities reporting any positive dollar amount for that revenue or expenditure item.

REVENUES

In 1995-96, 238 reporting municipalities collected nearly $755 million in **general revenues** from all sources, or $595 per capita. Adjusted for inflation, municipal revenues rose 7.6% in 1995-96, the largest increase in the last four years. Of the total, 78.6% were **own-source** (locally-generated) revenues, while the remaining 21.4% came from **intergovernmental** sources. These totals exclude transfers of utility surpluses to the general fund, which added another $40.7 million for 69 municipalities.



Municipal General Revenues, 1995-96

General Revenues	Total Revenues (in millions)	Revenue Per Capita	Percent Share of Total	One Year Growth	Average Annual Growth
Property Tax	$240.5	$189.43	31.9%	-2.3%	1.8%
Local Option Sales Tax	$25.0	$19.66	3.3%	11.9%	30.0%
Licenses & Permits	$163.2	$128.52	21.6%	5.2%	6.3%
Service Revenue	$107.7	$84.83	14.3%	3.6%	6.7%
Miscellaneous	$57.1	$44.96	7.6%	17.8%	-1.3%
Own-Source	**$593.4**	**$467.41**	**78.6%**	**3.0%**	**4.4%**
Federal	$70.2	$55.27	9.3%	44.5%	12.5%
State-Shared	$50.7	$39.93	6.7%	5.5%	0.2%
State Grants	$22.5	$17.69	3.0%	130.3%	23.9%
Interlocal	$18.1	$14.23	2.4%	-3.5%	2.2%
Intergovernmental	**$161.4**	**127.12**	**21.4%**	**29.0%**	**7.4%**
Total	**$754.8**	**$594.52**	**100.0%**	**7.6%**	**5.0%**

Detail may not sum to totals due to rounding. Revenue growth adjusted for inflation. One-year growth is for 1995-96; average annual growth rate is for the five-year period 1990-91 to 1995-96 except for local option sales tax, which is for the four-year period 1991-92 to 1995-96.

Other than the local option sales tax, which grew rapidly with new adoptions, the fastest growing source of local revenue (adjusted for inflation) in 1995-96 and over the period 1990-91 to 1995-96 was state and federal grants. These grants, however, still represent a relatively small share of total municipal revenue (9.3% federal, 3.0% state). State grants were up 130% in 1995-96 and up nearly 200% over the five-year period from 1990-91 after adjusting for inflation, but still only provided $22.5 million in revenue to cities in 1995-96. Federal grants to cities also grew rapidly, up 45% in 1995-96 alone and up 81% since 1990-91. Interlocal revenue—payments from other local governments—actually declined slightly in 1995-96 (down 3.5% after adjusting for inflation) but rose 11.4% over the longer period.

A total of 130 South Carolina cities received $70.2 million in **federal aid** in 1995-96. The largest single source of federal aid was Community Development Block Grants (CDBG) of $27.1 million, followed by HUD grants of $10.8 million. Federal aid tends to be distributed very unevenly among municipalities. Five small municipalities (Pelzer, Ulmer, McCormick, Lodge, and Lynchburg) received more than $1,000 per capita, and only 35 cities received more than $100 per capita. Of the 35, there was only one large city (Charleston) and only three additional cities over 10,000 population (Greer, Myrtle Beach, and Florence). At the opposite end of the spectrum, 108 cities reported no federal aid at all.

State aid to municipalities is distributed in two very different ways: state-shared revenue and state grants. In total, state aid to municipalities came to $73.2 million, a bit more than federal aid. Since 1990-91, state aid to municipalities has grown 4.8% per year on average, after adjusting for inflation. About two-thirds of the growth in this revenue source has come from grants. (While the homestead reimbursement for property tax exemptions for elderly and disabled homeowners comes from state funds, it is included with the property tax figures in this report rather than with state revenue as this revenue would otherwise have been locally generated.)

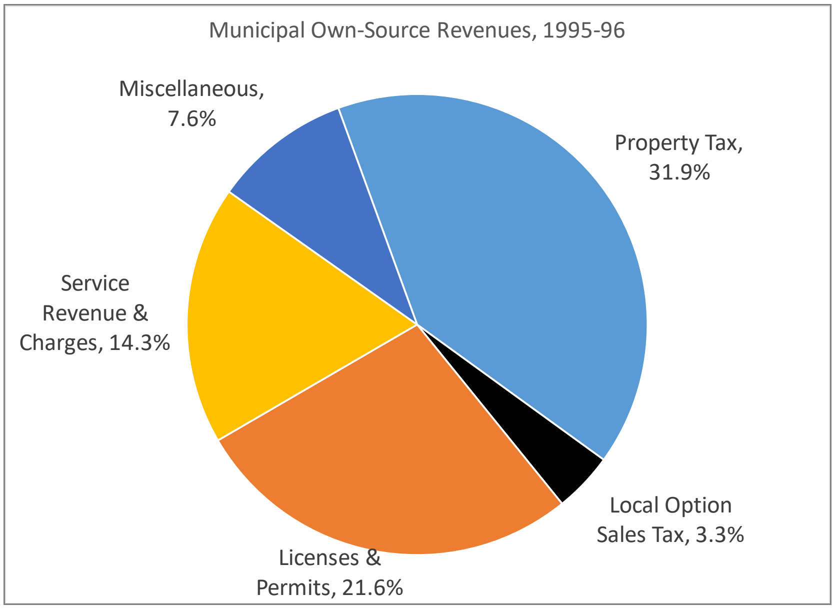
State-shared revenue has three components. The largest is the local government fund (4.5% of the preceding year's state general fund revenue split on a formula basis between cities and counties), which is distributed on the basis of population. Almost $29 million in local government fund revenue was reported in 1995-96, or $23 per capita. A strong economy generated a 7.3% increase in local government fund distributions in 1995-96.

The other two components of state-shared revenue are accommodations taxes and the merchant's inventory tax reimbursement, the latter replacing the revenue from a tax formerly collected by local governments. Inventory tax revenue has remained relatively constant in dollar terms at about $6.3 million per year, which means that the inflation-adjusted value has declined each year. The accommodations tax generated $15.5 million in 1995-96 ($12 per capita), an inflation-adjusted increase of 6.5% over the previous year. Accommodations tax revenue was reported by 175 municipalities, with a median per capita distribution of only $2.55. Sixty-two percent of the total ($9.6 million) went to just four coastal cities—Myrtle Beach, North Myrtle Beach, Hilton Head Island, and Charleston. The tiny resort towns of Kiawah Island and Pawleys Island headed the list in accommodations tax revenue per capita with $686 and $319, respectively.

State grants to municipalities more than doubled in 1995-96. Total dollar funding was $22.5 million, compared to $9.5 million in 1994-95. Nearly all of that dollar increase was in highway grants ($4.6 million in 1995-96) and miscellaneous grants ($15.9 million). Unlike state-shared revenue, state grants are a volatile source of revenue, and the distribution among cities varies greatly from year to year. Adjusted for inflation, state grants rose by 130% in 1995-96 after falling 32% the previous year. Eight municipalities reported more than $100 per capita in state grants, while more than half the reporting municipalities did not report any revenue from state grants.

Interlocal revenue reflects contracting for services such as fire protection as well as highway reimbursements, payments in lieu of taxes, and a variety of smaller items that generated $18 million in local government revenue in 1995-96. The largest item in this category is contracts for fire protection at almost $8 million, representing 44% of all interlocal payments in 1995-96. Four municipalities reported over $100 per capita in interlocal revenue—Edisto Beach, Kiawah Island, Chester, and Newberry. Ninety-eight of the 238 reporting cities indicated at least some interlocal revenue, but just six municipalities—Newberry, Union, Columbia, Sumter, Chester and North Charleston—accounted for over half of the total of $18 million.

Municipalities continue to depend much more heavily on **own-source revenues** than either counties or school districts, with almost four dollars out of every five raised locally. The share of the property tax in municipal revenues has continued its slow but steady decline from a high of 38.6% of the total in 1991-92 to 31.9% in 1995-96. All other own-source revenue categories except miscellaneous revenue have grown in relative importance.



The **property tax** is the bedrock of municipal finances in South Carolina as it is in most states, bringing in $240.5 million in 1995-96. Almost all (93%) of the revenue in this category is from current property tax collections, which accounted for $223 million in 1995-96. There were smaller contributions from delinquent property tax ($8.8 million), penalties ($1.5 million), homestead reimbursement ($4.9 million), and fee in lieu of tax ($2.2 million).

Property taxes raised $189 per capita in 1995-96. However, this average conceals considerable differences between municipalities. A few cities with high per capita property tax revenue (often because of substantial commercial property and high service demands from tourism or business activity) pull the statewide average well above what is typical for most places. Ten of the cities with per capita property tax revenue above $275 were coastal resort destinations. The median per capita property tax collected (the level with half the reporting cities higher and half lower) was only $110. Thirty-three cities reported no revenue from this source.

The property tax is one of the slowest growing of all municipal revenue sources. Municipal property tax revenue fell by 2.3% in 1995-96 and rose only 9.3% over the entire period 1990-91 to 1995-96, or 1.8% per year on average after adjusting for inflation. Most of this slow growth can be accounted for by the gradual and partial displacement of property taxes by local option sales taxes, discussed below.

The **local option sales tax** has been available to South Carolina counties and municipalities beginning in the 1991-92 fiscal year. Only six counties (and their municipalities) opted for the tax in the first year, but by 1995-96, the tax was being collected in 16 counties.[1]

Revenue from this source has shown substantial growth as new counties have been added. From $7.8 million in 1991-92, local option sales tax revenue to the state's municipalities grew to $25 million in 1995-96. The inflation-adjusted growth rate over this four-year period was a phenomenal 186%, but much of this growth reflects new adoptions. Even with such rapid growth, local option sales taxes still represent only 3.3% of all municipal revenue and 4.2% of own-source revenue.

Statewide average revenue figures from this tax are somewhat misleading because they include a large number of cities that do not impose the tax. Seventy-two municipalities reported local option sales tax revenue in 1995-96, ranging from less than $10 per capita in four cities to more than $100 per capita in eight cities. The median per capita local sales tax revenue in these 72 cities was $54.

The local option sales tax has a significant impact on municipal revenue. Local sales taxes averaged 10.1% of revenue in cities where the tax is used, reducing the property tax share to 26.8% (compared to 34.3% in cities without the tax). Per capita property tax revenue is lower in cities with local sales taxes, $181 versus $193 in cities without local sales taxes. Total revenue per capita is also higher in cities with local sales tax revenue, $675 compared to $562, with sales tax revenue accounting for $68 of the $113 difference.

Licenses and permits are a solid and dependable second to the property tax as a mainstay of municipal revenues, accounting for $163 million in 1995-96. This category is dominated by business licenses, which generated about 68% of all license and permit revenue in 1995-96. Remaining components of this category are building permits (5%), utility franchise fees (25%), and other (2%). Licenses and permits have risen slightly in their share of municipal general revenue from 20.3% in 1990-91 to 21.6% in 1995-96. The increased share is more noticeable as a fraction of own-source revenue, where it grew from 25.1% in 1990-91 to 27.5% in 1995-96.

Licenses and permits are another revenue source that varies greatly among municipalities depending on size, local business development, growth, and other factors. The statewide average of $129 per capita contrasts with a median of only $70 per capita, which suggests that a few cities with high revenue from this source are pulling up the average. Indeed, 16 municipalities—ten of them on the coast—reported more than $200 per capita. This revenue source is very widely used, even in small municipalities; only seven reported no revenue at all from licenses and permits.

Building permits were the fastest growing subcategory of licenses and permits, up 13.5% in 1995-96 after adjusting for inflation. Building permits, however, constitute a relatively small and very volatile source of revenue, rising sharply when the local economy is strong and plunging when the local economy is weak. Business licenses, in contrast, are somewhat more stable. They grew 7.1% in 1995-96 and 43.4% (7.5% per year on average) over the period since 1990-91 after adjusting for inflation. Utility franchise fees grew less than one percent in 1995-96.

Service revenue ranked third as a municipal revenue source behind property taxes and licenses and permits. By relying more heavily on fees for service, municipalities have shifted some of the costs of operating city government to those who require particular services or create particular costs. This category includes law enforcement fees and fines, waste disposal fees, fire protection fees, parking fines and charges, airport fees, impact fees, recreation fees, and other miscellaneous charges.

Service revenue ($107.7 million) has risen from 13.1% of municipal general revenues in 1990-91 to 14.3% in 1995-96. As a share of own-source revenues, service revenue is up from 16.2% in 1990-91 to 18.2% in 1995-96. Adjusted for inflation, service revenue grew only 3.6% in 1995-96, but increased 6.7% per year on average over the longer period from 1990-91 to 1995-96.

Service revenue varies greatly from municipality to municipality. While the average city collected $85 per capita in 1995-96, 15 cities collected more than $200 per capita, a list that includes both Myrtle Beach and North Myrtle Beach as well as a number of very small towns. The median city collecting service charges took in only $63, and 41 of 238 municipalities reported no revenue from this source.

Law enforcement fees and fines and waste disposal fees continue to dominate this category, accounting for 54% of all service revenue. Close to three-quarters of all reporting cities had revenue from law enforcement fees.[2] Over the longer period from 1990-91 to 1995-96, recreation fees showed the fastest growth of the larger subcategories, up 13.6% per year on average (89% total), followed by waste disposal at 12.5% per year (80% total) and law enforcement at 6.4% per year (36% total).

Although the four categories of property tax, local sales tax, licenses and permits and service revenue represent the major local revenue sources and account for 90% of own-source revenues, cities have a variety of minor local revenue sources that they can tap. Interest was the largest subcategory of **miscellaneous revenue** at $30.4 million in 1995-56 out of a total of $57.1 million ($45 per capita). Property sales and rent brought in another $8.3 million. Large cash holdings by municipalities produced an impressive 21.5% growth in inflation-adjusted interest earnings in 1995-96. Of the 238 reporting cities, 220 reported miscellaneous revenue, ranging from $78 in Silverstreet to more than $11 million in Columbia. Miscellaneous revenue per capita ranged from $1,048 in Kiawah Island to 32 cents in Cross Hill, with a median of $16.

Many of South Carolina's municipalities operate utilities—water, sewer, gas, and electricity being the most common. These utilities are operated through separate funds rather than the general fund, so the revenues and expenditures for these funds are not reflected in the numbers discussed in this report. However, 69 municipalities were able to transfer surplus funds from utility operations to their general funds. These **utility transfers** added close to $41 million to municipal revenue in 1995-96, a figure that has remained relatively stable in current dollars and declined slowly in inflation-adjusted dollars since 1990-91.

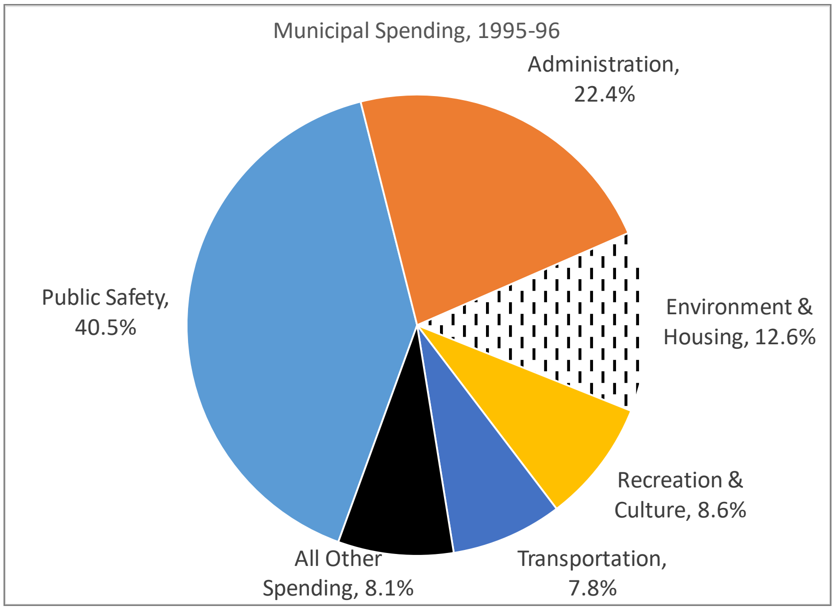
Statewide, transfers boost municipal revenue by about 5% and bring in $32 per capita. However, with only 69 municipalities reporting transfers, those numbers do not adequately reflect the importance of utility surplus transfers to particular communities. Fourteen communities transferred $1 million or more in utility surplus, headed by Rock Hill at $7.5 million. For 19 municipalities, utility transfers were over $100 per capita. At the opposite extreme, 19 communities transferred $20,000 or less, and 27 of the 69 municipalities transferred less than $20 per capita.

Municipal financial assets changed significantly in 1995-96. Cities placed over $110 million in additional funds into cash assets in 1995-96. As a result, asset levels rose 15.9% (inflation-adjusted) in 1995-96 to $675.8 million from their previous level of $565 million. Per capita assets in 1995-96 were $532. And in 1995-96, cities not only moved money into safekeeping for reserves or later spending, but also moved their funds out of time deposits, federal securities and repurchase agreements, and into cash and the state investment pool. Low prevailing interest rates may have encouraged this large shift toward cash holdings, from 23.6% of the total in 1994-95 to a 34.7% share in 1995-96. With this shift, the largest share of municipal assets is now in cash, followed by federal securities (28.1%), and the state investment pool (16.5%). Time deposits, repurchase agreements, money market funds, state and local obligations, and other each represented less than 10% of the total.

EXPENDITURES

In 1995-96, the 238 reporting municipalities examined in this report spent $678.6 million, averaging $535 per capita. **Total general spending** declined 0.2% in 1995-96 after adjusting for inflation, and grew only 8.6% over the entire period from 1990-91 to 1995-96, or 1.7% per year on average—much more slowly than general revenues.

Public safety continues to dominate municipal spending at 40.5% of outlays. Adding administration (22%) and environment and housing (12.6%) together accounted for three-quarters of all municipal spending. City spending per capita averaged $217 for public safety, $120 for administration, $68 for environment and housing, $46 for recreation and culture, $42 for transportation, and $43 for everything else.



Only three categories of municipal spending—administration, public safety, and health and human services—saw an increase in inflation-adjusted spending during 1995-96. Spending on environment and housing, transportation, recreation and culture, interest on debt, and other expenditures all declined in 1995-96 after adjusting for inflation.

Municipalities spent $275.1 million on **public safety** in 1995-96. While the average municipality spent $217 per capita on public safety, median spending per capita was only $157 among 197 cities reporting any spending in this category, and $139 among all 238 reporting cities. The average for this category tends to be pulled up by the 20 cities that spend more than $300 per capita, including twelve coastal cities with high tourism-related costs. The small resort city of Edisto Beach (population 359) ranked first at $1,081 per capita. Forty municipalities reported no spending on public safety; all but two have populations of 1,000 or less.

Within the category of public safety, law enforcement continues to outweigh fire protection and all other spending, accounting for 56% of the total. One hundred sixty-nine municipalities report some spending on law enforcement, with a median per capita expenditure of $117. Fire protection was 33% of public safety spending in 1995-96. Spending on public safety rose 3.2% (inflation-adjusted) in 1995-96, led by

4.5% growth in law enforcement spending. Over the longer period since 1990-91, law enforcement spending rose 3.4% per year on average, rising from $114.3 million to $154.0 million. While a smaller percentage of the total, spending for fire protection grew more rapidly than law enforcement—30.0% over the five-year period, or 5.4% per year on average.

Municipal General Expenditures by Function, 1995-96

General Spending	Total Spending (in millions)	Spending Per Capita	Percent Share of Total	One Year Growth	Average Annual Growth
Administration	$152.2	$120	22.4%	8.7%	6.5%
Public Safety	$275.1	$217	40.5%	3.2%	3.1%
Transportation	$52.8	$42	7.8%	-1.7%	-0.7%
Health & Human Svcs.	$2.8	$2	0.4%	4.1%	5.7%
Environment & Housing	$85.7	$68	12.6%	-6.0%	-0.9%
Recreation & Culture	$58.6	$46	8.6%	-1.4%	-2.9%
Interest on Debt	$12.3	$10	1.8%	-13.9%	-2.2%
All Other Spending	$39.0	$31	5.8%	-25.4%	-4.8%
Total Spending	**$678.6**	**$535**	**100.0%**	**-0.2%**	**1.7%**

Detail may not sum to totals due to rounding. Spending growth is adjusted for inflation. One-year growth is for 1995-96; average annual growth rate is for the five-year period 1990-91 to 1995-96.

Administration ($152.2 million) is a broad, catch-all category that includes central administration, city buildings, economic development, financial administration, judicial and legal administration, planning and zoning, engineering, registration and elections, and other. The average per capita spending on administration was $120, but 26 cities spent $200 or more. Median per capita spending on administration was $75. Seven small towns reported no spending on administration.

Spending on administration is the fastest growing component of municipal spending, up 8.7% in 1995-96 and up 37.1% over the five-year period since 1990-91 (6.5% per year on average). Central administration is the largest subcategory, accounting for 25.1% of the total, followed by financial administration (15.2%) and city buildings (10.5%).

The **environment and housing** category ($85.7 million) includes building inspection, drainage, environmental protection and housing and community development. Spending in this category came to an average of $68 per capita in 1995-96 and was reported by 151 municipalities. The median outlay was $58 per capita. Spending on environment and housing declined 6.0% in 1995-96 after adjusting for inflation. Over the five-year period since 1990-91, spending on environment and housing declined 4.2%, or slightly below one percent per year on average.

Solid waste collection and disposal ($63.6 million) continues to account for most (74%) of this category of spending. South Carolina's cities averaged $50 per person spent to collect and dispose of solid wastes. Twelve communities spent more than $100 per capita on solid waste, including five beach resort cities. One hundred and thirty-five cities reported spending for refuse collection and disposal services for their citizens, with median per capita spending of $53. Adjusted for inflation, however, spending on solid waste collection and disposal actually declined 3.9% in 1995-96 and rose only 3.0% over the entire period from 1990-91 to 1995-96.

Recreation and culture takes 8.6% of the average municipal budget, totaling $58.6 million in 1995-96 ($46 per capita). The largest component is parks and recreation, 89% of the category, with small outlays for libraries and tourism. Overall, municipal spending for recreation and culture declined 1.4% in 1995-96 and declined 13.7% (2.9% per year on average) since 1990-91 after adjusting for inflation.

Only 129 cities reported spending for recreation and culture, with a median per capita outlay of $24. This category is another area in which resort cities tend to top the list. Of the 11 cities that spent more than $100 per capita, five were coastal resort cities. Kiawah Island headed the list with per capita spending of $612.

Transportation is a relatively modest expenditure area for cities because much of the cost in this area falls on counties and the state. Total municipal spending for transportation in 1995-96 was $52.8 million, of which $46.9 million was for streets and highways ($42 and $37 per capita). The remainder went for airports and parking facilities. Adjusted for inflation, spending on streets and highways fell 4.9% in 1995-96 and decreased 3.5% over the entire period from 1990-91 to 1995-96.

Individual cities show great year-to-year fluctuations in spending on transportation, particularly smaller municipalities. One hundred and forty-one cities reported some spending on transportation, but only 17 spent more than $100 per capita. Median spending was $37. Among larger municipalities, North Myrtle Beach, Myrtle Beach, Clinton, Marion, Orangeburg, Georgetown and Laurens all spent over $100 per capita for transportation.

Municipalities spent $12.3 million on **interest on debt** (non-utility) in 1995-96, less than 2% of all municipal spending. Only about one-third of reporting communities had any debt interest to report. The top six communities in per capita spending on debt interest were all beach resort destination cities—Edisto Beach, Myrtle Beach, Surfside Beach, North Myrtle Beach, and Isle of Palms. Total municipal general obligation debt outstanding of $185.9 million on June 30, 1996 was at its lowest dollar level of any of the five previous years.[3]

Cities have a variety of **other spending** that does not fit into the above six categories. Health and human services in 25 cities accounted for $2.7 million in municipal spending in 1995-96, less than one percent of statewide municipal spending, while a variety of miscellaneous outlays added up to $39 million, or almost 6% of the total. All other spending has declined by 21.6% since 1990-91 (4.8% per year on average), but it is not clear whether this change reflects a different spending mix or improved accounting for spending, so that it is more correctly assigned to the listed categories.

Most comparisons of municipalities look at spending by functional categories, such as administration or public safety. But it is also possible to describe spending by the kinds of inputs purchased, an approach called **expenditures by use**. Looked at this way, the largest municipal outlay was for wages and salaries, which came to $371.7 million, or 54.8% of the total. Operations, including utilities and supplies cost another $234.1 million, with smaller outlays for capital purchases ($45.4 million) land and construction ($20.5 million), and intergovernmental ($6.9 million). In 1995-96, spending increased for wages and salaries (up 2.5%) and operations (up 2.3%) but declined in the other three categories after adjusting for inflation.

Municipal General Expenditures by Use, 1995-96

General Spending	Total Spending (in millions)	Spending Per Capita	Percent Share of Total	One Year Growth	Average Annual Growth
Wages, Salaries, & Fringes	$371.7	$293	54.8%	2.5%	2.9%
Operations	$234.1	$184	34.5%	2.3%	1.3%
Capital Purchases	$45.4	$36	6.7%	-16.0%	5.1%
Land & Construction	$20.5	$16	3.0%	-23.3%	-14.6%
Intergovernmental	$6.9	$5	1.0%	-10.6	19.1%
Total	**$678.6**	**$535**	**100.0%**	**-0.2%**	**1.7%**

Detail may not sum to totals due to rounding. Spending growth is adjusted for inflation. One-year growth is for 1995-96; average annual growth rate is for the five-year period 1990-91 to 1995-96.

With wages and salaries as the largest single component of spending by use, it is not surprising to note that the 238 cities examined for this report had 12,992 employees in 1995-96, or 10.23 workers per 1,000 population. As in other revenue and expenditure categories, relatively high **employment** in a few cities pulled up the average employment level; *median* city employment was 8.17 per 1,000 population.

Public safety was the largest single employer of municipal workers with 6,819 workers, of whom 3,917 were in law enforcement, 2,140 in fire protection, and 762 in other public safety areas. Administration was a distant second with 2,430 workers, including 772 in central administration and 417 in financial administration. The 1,731 workers in environment and housing included 1,359 involved in solid waste collection and disposal.

Municipal employment has grown slowly, increasing by only 117 workers in 1995-96 and by 943 since 1990-91. Including utility employees brings the total to 15,789. The number of utility employees has grown faster than non-utility employment, increasing by 484 in 1995-96 alone and by 580 since 1990-91.

Administration is the fastest growing major employment category, up 18% since 1990-91, or 3.4% per year on average. Employment in recreation and culture increased almost as much over this period (17.2%) despite spending declines in this category. The largest employment category, public safety, grew 11.4% since 1990-91, or 2.2% per year on average.

Municipal General Employment by Function, 1995-96

General Employment	Total Employees	Employees Per 1,000 Residents	Percent Share of Total	One Year Growth	Average Annual Growth
Administration	2,430	1.91	18.7%	0.9%	3.4%
Public Safety	6,819	5.37	52.5%	0.9%	2.2%
Transportation	877	0.69	6.8%	-4.3%	-2.4%
Health & Human Services	47	0.04	0.4%	14.6%	28.4%
Environment & Housing	1,731	1.36	13.3%	-2.4%	-2.1%
Recreation & Culture	1,069	0.84	8.2%	16.4%	3.2%
All Other	17	0.01	0.1%	-68.1%	-7.6%
Total Employment	**12,992**	**10.23**	**100.0%**	**0.9%**	**1.5%**

Detail may not sum to totals due to rounding. One-year growth is for 1995-96; average annual growth rate is for the five-year period 1990-91 to 1995-96.

CITY SIZE AND CITY FINANCES

Size has a significant effect on how a city raises revenue and what mix of services it provides. Although the majority of city residents live in cities of 20,000 or more, the state has many small municipalities. Nearly half of South Carolina cities are below 1,000 residents. Only six have more than 40,000 residents.

As a general rule, a larger population is associated with higher per capita revenues and expenditures. Larger cities can generate more tax revenue because they have more diversified tax bases and higher per capita assessed property values. They can also make better use of such nontax revenue sources as licenses and service charges, and those with local option sales taxes can generate considerable revenue from their retail base.

On the other hand, many city services are beyond the reach of very small towns. Cities must reach a critical size before they can provide curbside trash collection or a recreation program. Often counties provide some of these services to smaller cities, such as law enforcement, recreation, and animal control.

Because of such county services, one should not conclude that a small city that reports no or very low outlays in a particular category is depriving its residents of that service.

A financial profile of cities of similar size offers local officials a benchmark against which to compare their city's performance. To develop such a profile, South Carolina cities were sorted into six size categories on the basis of 1996 estimated population. Average per capita revenues and expenditures were calculated for each size class for 1995-96. These values create a financial profile for a typical city in each size class that can be used for comparison purposes. Finances of individual cities are reported in the tables in the appendix.

Cities may move from one size category to another from year to year as resident population grows or declines, distorting growth figures. In 1995-96, the Middletown size class has four more cities in it than last year, because the revised population estimates place Beaufort, Hartsville, Laurens, and Union below the 10,000 mark. Metropolis also lost Sumter to Central City, as that city's population dropped below 40,000. Missing cities (those failing to file a financial report in a given year) can also distort growth figures. Thus, it is difficult to report meaningful figures on growth of revenues and expenditures, especially for the four largest size classes that have less than 30 cities each. For these reasons, the profile city section focuses on per capita and percentage distribution measures for the current year only.

South Carolina Profile Cities 1996

Profile City	Size Class	Cities in Size Class	Average City Size	Population in Size Class	Cities Filing Financial Rept.
Tinytown	1,000 or less	125	412	51,543	105
Smallville	1,001 to 5,000	85	2,444	207,728	77
Middletown	5,001 to 10,000	28	7,332	205,289	26
Grandville	10,001 to 20,000	16	13,332	213,319	15
Central City	20,001 to 40,000	9	28,571	257,140	9
Metropolis	Over 40,000	6	64,501	387,009	6
All Cities		269	4,915	1,322,028	238

Per Capita General Revenues, 1995-96
South Carolina Profile Cities

General Revenue	Tiny-Town	Small-Ville	Middle-Town	Grand-Ville	Central City	Metro-polis
Property Tax	$74.83	$138.60	$180.42	$116.30	$202.87	$261.23
Local Option Sales Tax	20.18	17.07	17.66	7.64	19.57	28.21
Licenses & Permits	83.00	80.02	122.08	87.14	145.83	170.72
Service Revenue	80.51	66.86	93.97	57.14	73.77	111.47
Miscellaneous	39.57	21.73	37.95	22.03	33.18	80.16
Own-Source	**$298.08**	**$324.28**	**$452.09**	**$290.24**	**$475.22**	**$651.80**
Federal	$77.77	$62.99	$34.53	$24.81	$45.12	$81.82
State-Shared Revenue	44.37	32.03	37.68	30.74	54.92	39.22
State Grants	21.92	5.29	34.93	4.90	6.63	28.85
Interlocal	9.85	4.42	16.90	20.04	12.09	16.54
Intergovernmental	**153.91**	**104.73**	**124.04**	**80.49**	**118.76**	**166.43**
Total	**$451.99**	**$429.01**	**$576.13**	**$370.73**	**$593.98**	**$818.23**

Detail may not add to totals due to rounding.

General Revenue Shares, 1995-96
South Carolina Profile Cities

General Revenues	Tiny-Town	Small-Ville	Middle-Town	Grand-Ville	Central City	Metro-polis
Property Tax	16.6%	32.3%	31.3%	31.4%	34.2%	31.9%
Local Option Sales Tax	4.5%	4.0%	3.1%	2.1%	3.3%	3.5%
Licenses & Permits	18.4%	18.7%	21.2%	23.5%	24.6%	20.9%
Service Revenue	17.8%	15.6%	16.3%	15.4%	12.4%	13.6%
Miscellaneous	8.8%	5.1%	6.6%	5.9%	5.6%	9.8%
Own-Source	**66.0%**	**75.6%**	**78.5%**	**78.3%**	**80.0%**	**79.7%**
Federal	17.2%	14.7%	6.0%	6.7%	7.6%	10.0%
State-Shared Revenue	9.8%	7.5%	6.5%	8.3%	9.3%	4.8%
State Grants	4.9%	1.2%	6.1%	1.3%	1.1%	3.5%
Interlocal	2.2%	1.0%	2.9%	5.4%	2.0%	2.0%
Intergovernmental	**34.1%**	**24.4%**	**21.5%**	**21.7%**	**20.0%**	**20.3%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Detail may not add to totals due to rounding.

Per Capita General Expenditures, 1995-96
South Carolina Profile Cities

General Expenditures	Tiny-Town	Small-Ville	Middle-Town	Grand-Ville	Central City	Metro-polis
Administration	$123.52	$85.96	$121.68	$72.03	$120.25	$160.15
Public Safety	94.66	174.58	239.20	150.19	216.81	275.07
Transportation	24.01	32.55	59.08	37.94	40.19	42.35
Health & Human Services	0.52	1.38	0.25	1.18	0.99	5.00
Environment & Housing	29.61	48.69	76.37	46.74	66.19	88.47
Recreation & Culture	19.63	16.90	31.80	31.96	66.56	64.47
Interest on Debt	3.18	4.07	6.18	1.48	12.17	17.62
All Other Spending	5.54	5.85	13.90	7.59	33.94	64.07
Total	**$300.68**	**$369.98**	**$548.45**	**$349.10**	**$557.10**	**$717.20**

Detail may not add to totals due to rounding.

General Expenditure Shares, 1995-96
South Carolina Profile Cities

General Expenditures	Tiny-Town	Small-Ville	Middle-Town	Grand-Ville	Central City	Metro-polis
Administration	41.1%	23.2%	22.2%	20.6%	21.6%	22.3%
Public Safety	31.5%	47.2%	43.6%	43.0%	38.9%	38.4%
Transportation	8.0%	8.8%	10.8%	10.9%	7.2%	5.9%
Health & Human Services	0.2%	0.4%	0.1%	0.3%	0.2%	0.7%
Environment & Housing	9.9%	13.2%	13.9%	13.4%	11.9%	12.3%
Recreation & Culture	6.5%	4.6%	5.8%	9.2%	12.0%	9.0%
Interest on Debt	1.2%	1.1%	1.1%	0.4%	2.2%	2.5%
All Other Spending	1.8%	1.6%	2.5%	2.2%	6.1%	8.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Detail may not add to totals due to rounding.

Tinytown

Although the Tinytown size class (cities with 1996 population 1,000 and under) contains close to half the state's municipalities, these 125 cities have a combined population of only 51,543. Cities in this size class differ from larger ones in that their revenue base is narrower and they typically provide fewer services to their residents. Tinytown's 105 reporting municipalities averaged $452 in general revenues per capita, considerably below the average of $595 for all cities. Tinytown was much more dependent on state and federal aid than the larger profile cities, raising only 66% of its revenues from local sources. Eleven Tinytown cities received federal grants over $100,000—85% of all federal funds received by cities in this size class.

These smallest towns receive a much smaller share of their general revenues from property taxes (16.6%) than any other size class. Property taxes ranked fourth behind licenses and permits, service charges, and federal aid as a share of general revenue in 1995-96. Low property values, few local commercial taxpayers, and limited service demands plus the availability of local option sales tax revenue in some cities probably explain the small property tax share as well as low per capita property taxes ($75) in this size class. Thirty-two of these cities, or about 30% of cities reporting, received local option sales tax revenue totaling $902 thousand. Eleven of these 32 cities collected no property tax revenue.

Even very small municipalities can raise significant amounts of revenue from a few specific sources. Business licenses brought in about $49 per capita in Tinytown, utility franchises another $29, and law enforcement fines and fees $50. In 1995-96, 18 Tinytown municipalities transferred a total of almost $2.9 million in utility surplus to their general funds. Most transfers were small, except for Pinewood's $2.2 million transfer.

Tinytown municipalities spent $301 per capita on average in 1995-96.[4] Tinytown was the only profile city with more spending on administration than on public safety. Fifty-six towns in this size class reported no outlays for public safety, and 66 reported no spending for environment and housing. Pawleys Island and Edisto Beach, both Tinytown-sized beach resorts, headed the list in per capita spending on public safety.

Smallville

The Smallville size class consists of the 85 communities with populations between 1,001 and 5,000. Smallville's 77 reporting municipalities had average general revenues of $429 per capita, a little less than Tinytown. Unlike Tinytown, however, Smallville raised three-quarters of this amount from local sources. With $139 per capita in property taxes, Smallville received one-third of its revenues from this source, almost twice as large a share as Tinytown. Like the other four larger profile cities, property taxes were Smallville's top revenue source, far ahead of licenses and permits, service revenue, and federal aid. Like Tinytown, Smallville raised significant amounts of revenue from business licenses, utility franchises, law enforcement fees and fines, and solid waste disposal fees. Together, these sources accounted for 30% of all general revenue in Smallville, or $128 per capita.

Twenty-six Smallville cities, or about one-third of cities reporting, received local option sales tax revenue totaling $3.2 million. In these cities, property tax's share of general revenues averaged 24% compared to 38% in the group without local sales taxes. Twenty cities in this size class also reported utility transfers to their general funds. This group of cities received an average of $45 per capita from utility transfers.

Spending in Smallville averaged $370 per capita in 1995-96. Like Tinytown, most of Smallville's spending went for public safety and administration, but in Smallville public safety spending was about twice as much as administration. Environment and housing was the only other category to account for more than 10% of outlays. Smallville cities provide more municipal services than do Tinytowns. Only one of the 77 Smallville cities reported no spending on public safety, and all but 17 reported spending for environment and housing, which was dominated by outlays for solid waste.

Middletown

The third, and in many ways most typical, of the profile cities is Middletown, which represents the 28 cities (26 reporting) with 5,001 to 10,000 population. Middletown averaged $576 per capita in general revenues, close to the state average of $595. At $35 per capita, state grants were more important in Middletown than in the other profile cities, but this average value was pulled up by a large grant to North Myrtle Beach, which represented 65% of the state grant total.

With $180 per capita in property taxes, Middletown received 31% of its revenues from this source, both figures being very close to the state average for all cities. Middletown raised significant amounts of revenue from business licenses, utility franchises, and law enforcement fees and fines, and raised relatively more than Tinytown and Smallville from waste disposal fees. Together, these four sources accounted for one-third of all general revenue in Middletown, or $188 per capita. Only seven Middletown-sized cities received local option sales tax revenue totaling $3.4 million. Utility transfers increased general revenues in 14 cities by an average of $97 per capita.

Middletown spent $548 per capita, close to the state average of $535. Middletown is representative of South Carolina cities in its spending pattern as well as revenues, with per capita outlays for public safety ($239) and administration ($122) close to the state averages of $217 and $120. Middletown spends more of its public safety budget on fire protection than the two smaller profile cities, with per capita outlays of $139 for law enforcement and $73 for fire protection. Every city in this size class reported at least some spending for public safety, but four cities reported no spending for refuse collection and disposal.

Grandville

Grandville profiles the 16 municipalities in the 10,001-20,000 size class, which contain 213,319 residents. Grandville continues to defy the general pattern of increasing per capita revenues and expenditures as cities grow. Per capita revenues in Grandville were the lowest of all the profile cities, and per capita spending exceeded only that of Tinytown.

Grandville's 15 reporting municipalities had general revenue of $371 per capita, the lowest per capita figure for all profile cities. This pattern has persisted for a number of years. The average is pulled down by four cities in this size class with per capita revenues of less than $250 (James Island, $119; Irmo, $175; Simpsonville, $204; and Hanahan, $244). However, these four cities do not completely explain Grandville’s low per capita revenues and expenditures.

Although Grandville's $116 per capita in property taxes are lower than that of any other profile city except Tinytown, property taxes accounted for a fairly typical 31% of general revenues. Grandville's property taxes ranked as the number one source of general revenues, followed by licenses and permits, service revenue, and state aid. Only two of the municipalities in this size class—Clemson and Easley—reported local option sales tax revenue totaling $1.6 million in 1995-96. In these two cities, property tax’s share of general revenue was only 22% compared to 34% in the remaining group of 13 cities. Federal aid was 7% of general revenue, but close to 90% of that total went to Greer, Orangeburg and Clemson. Eleven cities in this size class received state grants, but only four received amounts exceeding $100,000. Utility transfers to the general fund in nine Grandville cities totaled $7.4 million in 1995-96. Utility transfers increased available revenues in this group of cities by an average of $62.

The lower-than-average revenues reported by Grandville municipalities are also reflected in the spending levels for these cities, only $349 per capita. Per capita spending on law enforcement ($67) and fire protection ($38) were low, partly because one of the cities in this size class (James Island) reported no spending for public safety. Three Grandville cities—Irmo, Simpsonville, and James Island—also reported no spending for refuse collection and disposal.

Central City

Central City profiles the nine municipalities with populations between 20,001 and 40,000. Central City had general revenues of $594 per capita, nearly equal to the average for all cities. Central City raised an impressive 80% of its revenues locally. With $203 in per capita property taxes, Central City received 34% of its revenues from this source, the highest share of the six profile cities. Service revenue in Central City was the lowest share of the profile cities. Two cities in this size class, Florence and Mount Pleasant, are in local sales tax counties and reported combined sales tax revenue of $5 million. Property tax's share of general revenues in these two cities averaged 29% compared to 37% in the remaining group.

Federal and state grants were important Central City revenue sources, but the lion's share of federal aid ($7.4 out of $11.6 million) went to just two cities, Myrtle Beach and Florence. Myrtle Beach received over half the state grant funds. Five cities in this size class also had utility transfers totaling $6.2 million, which raised available revenue in these five cities by $43 on average.

Central City's nine municipalities spent $557 per capita. Public safety spending of $217 per capita was considerably higher than for Grandville ($150) but well below Metropolis ($275), with a relatively high share (41%) going to fire protection. Myrtle Beach ranked highest in per capita spending on refuse collection and disposal ($150) in this size group, while two Central City municipalities (Hilton Head Island and Summerville) reported no spending at all for refuse collection and disposal.

Metropolis

Metropolis is the profile city for the state's six largest municipalities (Charleston, Columbia, Greenville, North Charleston, Rock Hill, and Spartanburg) with populations over 40,000. Sumter moved from this size class to the Central City size class in 1995-96. Metropolis spans a wide population range from 42,100-112,800.

The six cities in the Metropolis size class had general revenues of $818 per capita, the highest of the six size classes. Metropolis raised 80% of general revenues from local sources. With $261 per capita in property taxes, Metropolis received 32% of its revenues from this source, about the state average. Charleston and North Charleston are the only cities in the largest size class reporting local sales tax revenue totaling $10.9 million. In these two cities, property tax's share of general revenues averaged 30% compared to 34% in the remaining Metropolis cities.

Like the other size classes, Metropolis raised significant amounts of revenue from business licenses, utility franchise fees, and law enforcement fees and fines. These largest cities also had significant revenue from parking fees, fire protection, and waste disposal. Together, these six kinds of licenses and service charges accounted for 30% of all general revenues in Metropolis, or $244 per capita. Charleston and Columbia accounted for most of the federal aid in this profile city ($23.2 out of $31.7 million). Utility transfers of $11.7 million (mostly in Rock Hill and Columbia) provided an average of $59 per capita in additional available revenue in three cities.

These six large cities spent $717 per capita, well above the average for all cities. Like Central City, Metropolis spreads its spending over more categories. Although spending on health and human services was relatively low ($1.9 million), three of the state's largest cities (Charleston, Greenville, and Columbia) were among the only 25 cities that reported some spending in this area. Likewise, four of these large cities were among the top 25 in per capita spending for recreation and culture. Cities in this size class spent considerably more than smaller cities on both law enforcement and fire protection ($154 and $102 per capita). While Metropolis spends only slightly less than Central City per capita on recreation and culture ($64 versus $67), its spending is much more concentrated on parks and recreation with very little going to libraries or tourism.

CONCLUSION

South Carolina's cities continue to respond to the challenges of growth and constraints on tax rates and revenue sources in a variety of creative ways. Over the past five years, they have diversified their own-source revenue to rely less on property taxes and more on local sales taxes, fees, permits, charges and other sources. With the help of increased federal aid and state grants in 1995-96, revenue growth has averaged 5% per year since 1990-91, after adjusting for inflation.

South Carolina’s cities have also held down employment growth to free up funds for operations and provide salary increases for their leaner work forces. They have shifted resources into public safety and administration by holding the line in other areas, with overall inflation-adjusted spending growth averaging only 1.7% per year for the past five years. South Carolina’s cities will have to continue to search for ways to be more creative, flexible and efficient in providing and financing local government services to meet the challenges that lie ahead.

The Municipal Association of South Carolina and the Strom Thurmond Institute of Government and Public Affairs will continue to monitor the fiscal condition of South Carolina municipalities as they approach the turn of the century.

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[1] Counties with local option sales tax revenue in 1995-96: Abbeville, Allendale, Bamberg, Charleston, Chester, Colleton, Edgefield, Florence, Hampton, Jasper, Lancaster, McCormick, Marion, Marlboro, Pickens, and Saluda.
[2] These figures reflect all law enforcement and legal charges collected. Some assessments are returned to the state of South Carolina, however, so total revenue in this category overstates actual revenue available to cities. Total rather than net law enforcement revenue is used in this report due to inconsistencies in some cities’ reporting and to maintain comparability with prior years’ data.
[3] South Carolina, Office of State Treasurer, *Local Government Debt Report*, assorted years (Columbia, S.C.: Office of State Treasurer), p. 1.
[4] Town of Aynor expenditures excluded from Tinytown calculations due to unusually low 1995-96 reported expenditures.