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# Act 388 and School Funding in Beaufort County, South Carolina

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## KEY FINDINGS

The purpose of this study is to evaluate the impact of Act 388 of 2006 on Beaufort County School District (BCSD) funding and Beaufort County, South Carolina taxpayers. Act 388 made major changes to the way South Carolina school districts are funded. In part, this legislation raised the state retail sales tax by one cent (to six percent) and directed that this new revenue be used to reimburse school districts for property taxes formerly collected for school operations on owner-occupied residential property. This sales-for-property-tax swap affected school district budgets beginning in fiscal year 2007-08.

### School District and County Finance Overview

- Public schools and counties in South Carolina receive revenues for school operations, debt service and other non-capital improvement activities from local, state, and federal sources.
- The relative importance of these three revenue sources in school budgets has changed over time, especially in response to two school tax relief programs for homeowners: 1995 tax relief and Act 388 of 2006 tax relief.
- The only state-funded tax relief received by county and municipal governments is the homestead exemption for the elderly and disabled.
- In fiscal year 2010-11, the average school district in South Carolina received about 43 percent of its non-capital funding from both local and state sources. About 14 percent of total funding came from federal sources.
- In 2010-11, BCSD got 63 percent of its noncapital funding from local sources, 27 percent from state sources, and 10 percent from federal sources.
- Counties rely more heavily on local revenue than school districts. In 2010-11, the average county received 81.5 percent of its non-capital revenue from local sources. In Beaufort County, the local share was higher at 87.3 percent.
- Between 2005-06 and 2010-11, funds from local sources grew at an average annual rate of 6.6 percent a year in Beaufort County, but only 3.2 percent a year in BCSD.
- BCSD saw a large one-year jump in funding from state sources in 2007-08 because of Act 388's homeowner school tax exemption reimbursement. But between 2009-10 and 2010, BCSD revenue from all state sources combined increased only 1.5 percent.

### The Property Tax Base and School Funding from Local Sources

- The local property tax is an important revenue source for schools in South Carolina. Since 1992-93, property taxes have provided about 80 percent or more of the local funding for the average school district in South Carolina.
- Property taxes provide an above average share of total local funding for BCSD, with about 90 percent or more of local funding coming from the property tax.
- The importance of owner-occupied residential and commercial and rental property in the tax base has increased as other types of property (such as manufacturing and personal vehicles) have declined in importance. Combined, these two classes of property comprised almost 50 percent of the state tax base in tax year 1992. By 2010, they made up 71 percent of the state tax base.
- Beaufort County has a larger than average share of its taxable property value in commercial and rental property—around 60 percent of the total since reassessment in 2004.

- In South Carolina, assessed property value per pupil more than doubled between 1992 and 2010, from \$14,454 per pupil to \$31,709 per pupil. In BCSD, assessed property value per pupil more than tripled, increasing from \$33,035 per pupil in 1992 to \$102,652 per pupil in 2010.
- In 2010, BCSD had the largest per pupil tax base in South Carolina. The county's tax base benefits from high property values in the owner-occupied residential and commercial/rental categories.

### **Act 388 and the Property Tax Base**

- State-funded homeowner school tax relief provided by Act 388 has shifted the school tax burden away from owner-occupied residential property toward other classes of property, especially commercial and rental real property.
- In the average South Carolina school district, the estimated share of total school property tax funding (operating and debt service millage combined) coming from commercial and rental property increased from 38 percent in 2006-07 to 47 percent in fiscal year 2010-11.
- In Beaufort County, the estimated share of total school property tax funding (operating and debt service millage combined) coming from commercial and rental property increased from 61 percent in 2006-07 to 74 percent in 2010-11.
- In 2010-11, about 83 percent of the property tax raised for BCSD *school operations alone* is estimated to come from commercial and rental property. Manufacturing, utility, and business personal property combined is estimated to contribute seven percent of the total with 10 percent from all other real and personal property combined.
- Act 388's exemption of owner-occupied residential property from school operating taxes has given owners of rental residential property an incentive to switch their property from the 6 percent commercial and rental assessment class to the 4 percent, owner-occupied, assessment class.
- The Beaufort County Assessor's Office reports that between tax years 2006 and 2009, 15,174 properties were added to the 4 percent tax rolls and 16,590 properties were removed from the 6 percent tax rolls.
- Act 402 of 2006 imposed a 15 percent cap on the increase in assessed value of real property at periodic reassessment. Over time, this cap will shift local government tax burdens—including schools—toward more slowly appreciating property and away from more quickly appreciating property.
- Beaufort County tax officials estimated that as of the 2009 countywide reassessment, \$1.1 billion in assessed property value (all property classifications combined) was no longer included in the county tax base as a result of the 15 percent reassessment cap.
- Act 388 placed a more restrictive cap on annual local government millage increases. The cap is well below historical rates of increase in assessed property value and in property tax revenue to schools.

### **School Funding from State Sources**

- In the early 1990s, state funds to school districts consisted mainly of three programs: Education Finance Act (EFA), Education Improvement Act (EIA), and grants.
- EFA funding to school districts is based on an annual base student cost adopted by the legislature, adjusted for each school district according to the relative cost of students in the district and the district's ability to raise local revenue from its property tax base.
- In 1994-95, prior to the two tax relief programs, EFA provided 57 percent of state aid to the average South Carolina school district and 20 percent of state aid to schools in Beaufort County.

- In the early 1990s, no broad school tax relief for homeowners existed. The homestead exemption for the elderly and disabled was the only state-funded tax relief program for homeowners. This program provided about one percent of state funding to school districts.
- With the 1995 tax relief program, state-funded homeowner school tax relief jumped to just over 12 percent of state funding for schools in the average district. This program exempted the first \$100,000 in market value of owner-occupied residential property from school operating taxes.
- By 2010-11, school tax relief to homeowners from these two programs plus Act 388 was 29 percent of total state funding in the average district, or \$1,400 per pupil.
- Since implementation of Act 388, BCSD has received nearly twice as much state funding per pupil from state-funded homeowner school tax relief (all programs combined) as the average district. In 2010-11, BCSD received \$2,655 in tax relief per pupil.

### **Act 388 and the BCSD Budget**

- The General Fund is the largest of BCSD's fund types and accounts for the majority of both local property taxes and state aid. Revenue in the General Fund is used to support general school district operations. It is the only one of the BCSD's budgetary funds that is directly affected by the local and state funding changes resulting from Act 388 of 2006.
- In 2006-07, local property taxes were nearly 88 percent of the BCSD General Fund.
- Since implementation of Act in 2007-08, the property tax has supplied about 67 percent of BCSD's General Fund revenue and state-funded tax relief for homeowners has supplied about 30 percent of General Fund revenue.
- In 2010-11, commercial and rental property in the Beaufort County tax base generated an estimated \$93 million of the \$112 million in property tax revenues in BCSD's General Fund. Owner-occupied residential property generated no tax revenue for BCSD's General Fund.

### **Who Pays for Act 388's School Operating Tax Relief for Homeowners in Beaufort County?**

- The tourism and real estate sectors combined accounted for over 34 percent of commodity sales in Beaufort County between 2007 and 2010.
- One in four Beaufort County jobs is estimated to be related to the tourism industry.
- Net taxable sales in Beaufort County are estimated at \$2.1 billion in 2011. Visitors to Beaufort County accounted for 55 percent of these sales.
- Beaufort County's taxable sales generated approximately \$124.5 million in sales tax revenue for the state in 2011 (at a rate of 6 percent, local sales taxes excluded).
- Act 388's sixth penny on the state sales tax generated about \$20.7 million in Beaufort County in 2011. Visitors contributed 55 percent, or about \$11.4 million.
- BCSD received \$41 million in 2010-11 from the state as reimbursement for Act 388 homeowner school tax relief, or about twice as much as the county generated in sales tax revenue earmarked for Act 388 tax relief.



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# Act 388 and School Funding in Beaufort County, South Carolina

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## INTRODUCTION

The purpose of this study is to evaluate the impact of Act 388 of 2006 on Beaufort County School District (BCSD) funding and Beaufort County, South Carolina taxpayers. This report examines trends over time in school district revenues from local, state and federal sources. In order to evaluate the effect of Act 388 on the school tax burden faced by different classes of taxpayers, particular attention is devoted to changes in the level and composition of local and state revenues and the tax bases from which they are obtained.

Act 388 made major changes to the way South Carolina school districts are funded. In part, this legislation raised the state retail sales tax by one cent (to six percent) and directed that this new revenue be used to reimburse school districts for property taxes formerly collected for school operations on owner-occupied residential property. This sales-for-property-tax swap affected school district budgets beginning in fiscal year 2007-08. The analysis is complicated by the fact that Act 388 of 2006 was implemented shortly before the state and nation descended into a major recession, which adversely affected both state and local tax receipts used for school funding.

This analysis is also made both easier and more difficult because of its focus on Beaufort County. The county is located on South Carolina's Atlantic coast and certain areas, especially the municipalities of Hilton Head Island and Beaufort, cater to tourists and have large numbers of—and high value in—rental residential and commercial real estate. The county's tourism industry also contributes to state sales tax revenue, including the Act 388 penny that funds homeowner school operating tax relief.

Beaufort County's high value tax base ensured that state funding was a much smaller than average share of BCSD's overall revenue before Act 388, and a much higher than average share after the legislation's passage. BCSD's atypical state and local school funding reveals elements of Act 388 funding that pose concern for the district and the state over the long run.

This report is organized as follows. First, data sources and methodology are identified. The second, third, and fourth sections of the report compare long term local and state funding trends in the average South Carolina school district and BCSD, including the impact of 1995 (and earlier) tax relief for homeowners and Act 388 of 2006 tax relief for homeowners. County government finances are also contrasted with school district finances. Fifth, recent funding trends for BCSD's General Fund are examined and used to illustrate the shifts in tax burden caused by Act 388 homeowner tax relief. The sixth section examines gross and taxable sales—and their associated sales tax revenue—generated by visitors to Beaufort County and compares them to state-funded homeowner school tax relief received by BCSD. The final section concludes the report.

## METHODOLOGY AND DATA SOURCES

Data on school district revenue data was obtained from the *Local Government Finance Report* and audited and approved budget data by fund from BCSD annual budget documents. The *Local Government Finance Report (LGFR)* is prepared annually by the South Carolina Budget and Control Board's Office of Research and Statistics.<sup>1</sup> The LGFR contains annual revenues, expenditures and tax base data for school districts, counties, and municipalities. Data is summarized by county by major tax base and revenue and expenditure categories. LGFR data is available for fiscal years 1992-93 to 2010-11. The LGFR allows us to examine long term trends in the Beaufort County School District's revenues and tax base and compare them to trends in the average school district statewide. This report does not emphasize dollar growth trends due to the recent recession and recover and the impact of the housing crisis on property values in Beaufort County and elsewhere.

BCSD annual budget documents and financial statements<sup>2</sup> were used to provide additional detail on how Act 388 affected funding in the district's General Fund. Revenue from bonds and leases used for capital purchases is excluded. The assessed (taxable) value of property in Beaufort County was obtained from the County Assessor and Finance Department and from the LGFR.

A broader perspective on the impact of Act 388 of 2006 on school funding in South Carolina is available in the publication *Act 388 Revisited*, as are citations to legislation and other resources.<sup>3</sup>

## SCHOOL DISTRICT AND COUNTY FINANCES IN SOUTH CAROLINA: OVERVIEW

This section examines school district revenues and spending trends from 1992-93 to 2010-11 for the average South Carolina school district and BCSD. School district finances are contrasted with county finances.

### School Districts

Public schools in South Carolina receive funds for school operations, debt service and other noncapital improvement activities from local, state, and federal sources. The relative importance of these three revenue sources in school budgets has changed over time.

Two school tax relief programs for homeowners had a noticeable impact on the shares of total school district funding coming from local and state sources: 1995 tax relief and Act 388 tax relief (Figures 1 and 2). Since 2008-09, the recession and slow recovery also took a toll on state revenue and its contribution to school district funding, especially Education Finance Act (EFA) funding. The American Recovery and

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<sup>1</sup> S.C. Budget and Control Board, Office of Research and Statistics, *Local Government Finance Report*, (most recent version located at: <http://ors.sc.gov/economics/localgov.html>). Revenue from bonds and leases excluded from data used in this report.

<sup>2</sup> Recent BCSD budgets and financial statements are located at [http://www.beaufort.k12.sc.us/pages/BCSD/Departments/School\\_and\\_Community\\_Services/Public\\_Information](http://www.beaufort.k12.sc.us/pages/BCSD/Departments/School_and_Community_Services/Public_Information).

<sup>3</sup> Ellen W. Saltzman and Holley H. Ulbrich, *Act 388 Revisited*, Strom Thurmond Institute, Clemson University, November 2012 ([http://sti.clemson.edu/component/docman/cat\\_view/29-jim-self-center-on-the-future/67-education?orderby=dmdatecounter&ascdesc=DESC](http://sti.clemson.edu/component/docman/cat_view/29-jim-self-center-on-the-future/67-education?orderby=dmdatecounter&ascdesc=DESC)).

Reinvestment Act of 2009 raised the average South Carolina school district's federal share above historical levels in 2009-10 and 2010-11.

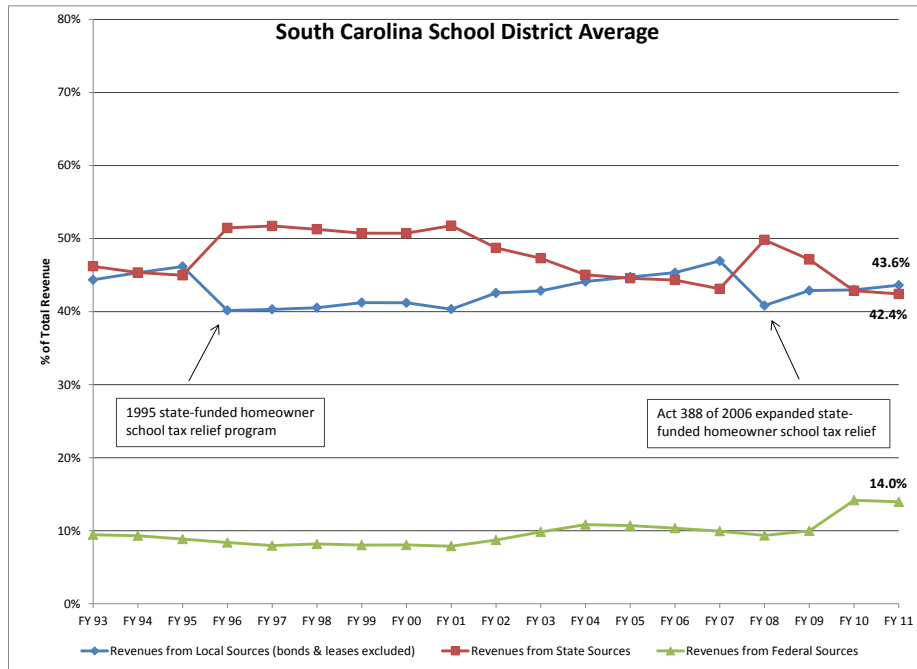


Figure 1. South Carolina school district funding shares

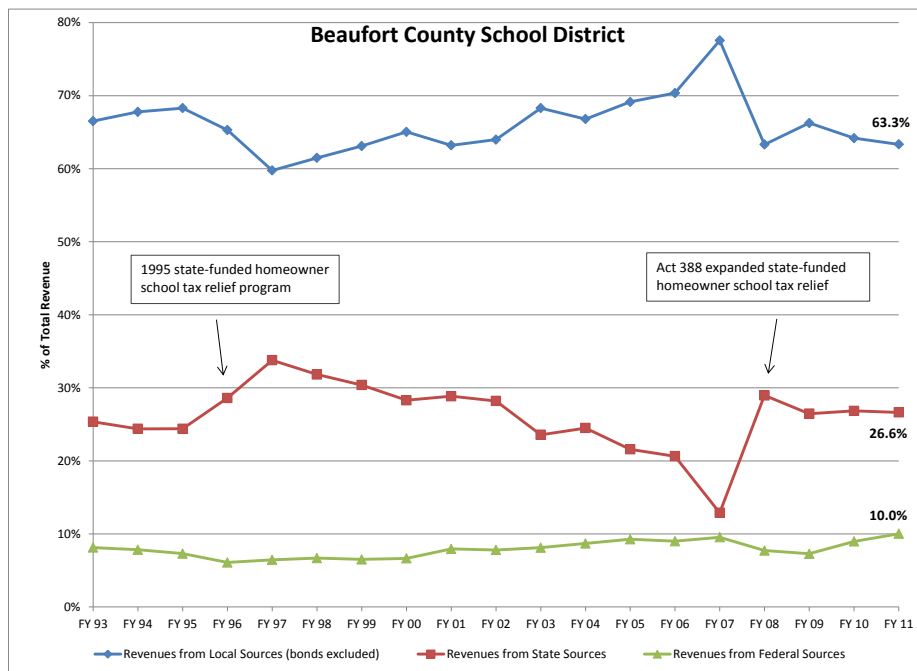


Figure 2. Beaufort County School District funding shares

State and local shares of school funding in Beaufort County have followed the same trends over time as the average South Carolina school district. Local and state funding shares for BCSD are very different, however. Because of the high value of the Beaufort County property tax base, BCSD receives less funding from the state than the average district and relies more heavily on property tax revenue. In most years since 1992-93, BCSD has obtained between 60 percent and 70 percent of its overall noncapital funding from local sources.

School districts have only three major spending categories: instruction, administration, and debt service on school bonds. Instruction includes spending on personnel and other materials for pre-Kindergarten through grade 12 classroom activities as well as special education and adult education students. Administration includes general administration (superintendent and school board), pupil services, instructional staff services, finance and operations, and other support services (information technology, planning, and enterprise services). Shares of spending on instruction and administration have remained fairly stable over time. In comparison to the average school district, BCSD has a larger share of spending going to debt service on bonds. The debt service share has risen in recent years as the district has embarked on a large building program. Spending levels on debt service can vary considerably over time as school districts retire old bonds and issue new bonds (Figures 3 and 4).

Another way to examine school district revenues and expenditures is using dollars per pupil. In this comparison, BCSD takes in more revenue per pupil and spends more per pupil than the average South Carolina school district (Table 1). BCSD raises a larger share of its funding for operations from local sources (mostly the property tax). And as will be discussed in more detail below, because of the county's high value property tax base, BCSD gets much less funding per pupil from some state sources. The district also gets a very small amount of funding per pupil from federal sources. Most federal funding for schools supports programs in high poverty schools and special needs education.

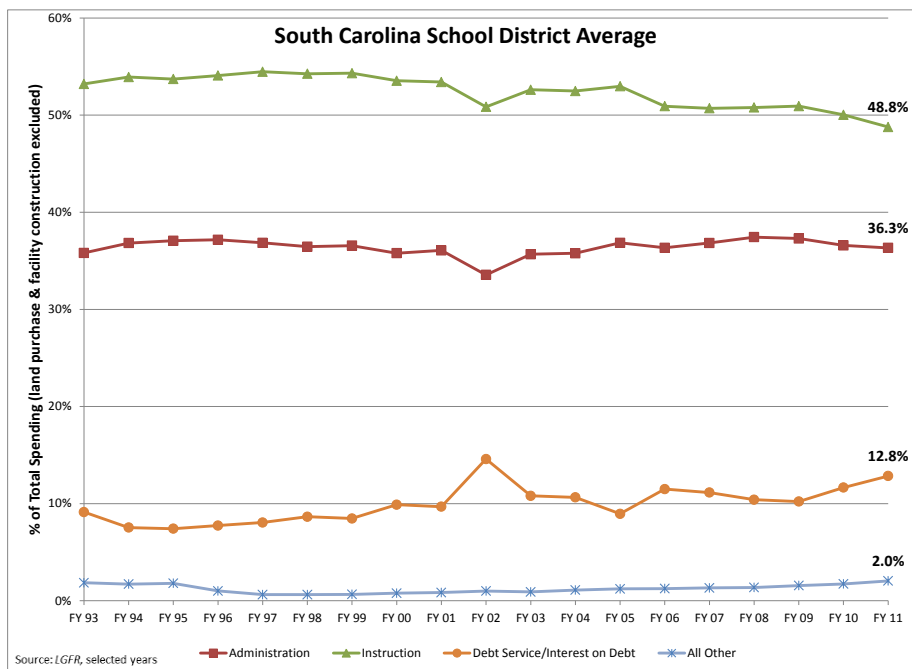


Figure 3. South Carolina school district average spending shares

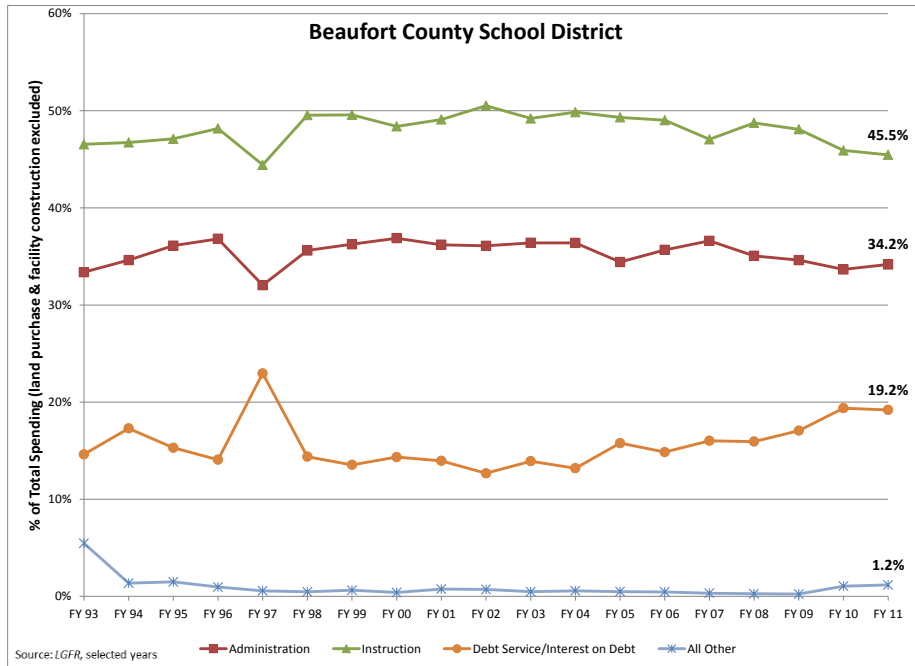


Figure 4. Beaufort County School District spending shares

Table 1. School District Funding Per Pupil, FY 2011  
(revenue from bonds & leases excluded)

	SC School District Average	Beaufort County School District
Revenue from Local Sources	\$4,925	\$8,865
Revenue from State Sources	\$4,790	\$3,728
Revenue from Federal Sources	\$1,577	\$1
Total	\$11,292	\$13,996

Sources: LGFR 2011 and SC Dept. of Education.

On the spending side, BCSD also spends more per pupil than the average district (Table 2). School district spending is driven by local priorities and the ability of the district to raise revenue for those priorities from local, state, and/or federal sources. BCSD spent \$982 more per pupil on administration than the average district and \$1,257 more per pupil on instruction in 2011-11. BCSD spent almost twice as much per pupil on debt service for school facility bonds. This level of spending reflects the district’s recent investment in major capital improvements and does not predict future spending levels in this area.

## County Governments

From a local government perspective, school district finances can be compared with county government finances. Like school districts, counties obtain funding from local, state, and federal sources. Counties also get some revenue from interlocal agreements with other local governments. A common example in South Carolina is a small municipality paying the county for additional sheriff patrols rather than maintaining a separate police force of its own. School districts do not have interlocal revenue.

Table 2. School District Spending Per Pupil, FY 2011  
(purchase of land and building construction excluded)

	SC School District Average	Beaufort County School District
Administration	\$3,996	\$4,978
Instruction	\$5,366	\$6,623
Debt Service on Bonds	\$1,413	\$2,796
All Other Spending	\$225	\$170
Total	\$10,999	\$14,567

Source: LGFR 2011 and SC Dept. of Education.

Counties in South Carolina—and Beaufort County in particular—are very dependent on funds from local sources, as are school districts (Figures 5 and 6). Counties have many more local revenue sources than school districts, including three local taxes (Table 3). In 2010-11, the property tax supplied the average county government with 50.6 percent of its local funding (revenue from bonds and leases excluded). In contrast, the average school district relied on the property tax to supply 85.1 percent of its local funding. In Beaufort County, county government derived 60 percent of its local revenue from the property tax while BCSD depended on the property tax for nearly 96 percent of its local revenue.

Counties may choose to adopt the one cent local option sales tax by referendum. Funds from this tax are shared 71/29 percent between the county and its municipal governments. The majority of this locally-raised revenue is required to be used for property tax relief. Counties also have fewer state revenue sources to tap than school districts (Table 4).

School districts' more limited selection of local funding sources than counties ensures that the property tax rate remains a key element of budget discussions. It also heightens taxpayer scrutiny of the property tax and the tax rate. As is discussed in more detail below, Act 388's exemption of owner-occupied residential property from the property tax for school operations has shifted the tax burden for future school operations funding to non-exempt types of property, especially commercial and rental property.

Beaufort County government raises considerably more funding per capita from local sources than the average county (Table 5). Most of these local funds are from the property tax. All counties' ability to raise revenue from state, federal and interlocal sources is limited in South Carolina, so Beaufort County revenue per capita in these areas is similar to that in the average county.

On the spending side, counties are very different than school districts. Although their function is very important, school districts are limited purpose local governments: they educate children and youth. However varied a district's educational offerings are, education is what school districts do. Counties, on the other hand, provide a wide variety of services to their residents. Counties provide public safety, waste disposal, road and bridge maintenance, parks and recreation, and health services, among other services. Several important functions are part of county administration spending: the auditor maintains the rolls of taxable property in the county, the assessor determines the taxable value of property, and the treasurer collects property tax revenues for the county and its local governments, including the school district(s).

In share and per capita, public safety and administration are the largest spending areas in the average county, as they are in Beaufort County (Figures 7 and 8, Table 6). Beaufort County, however, spends a larger share of its budget on public safety, health and human services, and recreation than the average county. Beaufort County also spends considerably more per capita in these areas than the average



county. These differences are likely due in part to Beaufort County Council priorities and the fact that Beaufort County government serves a large transient population of tourists throughout the year.

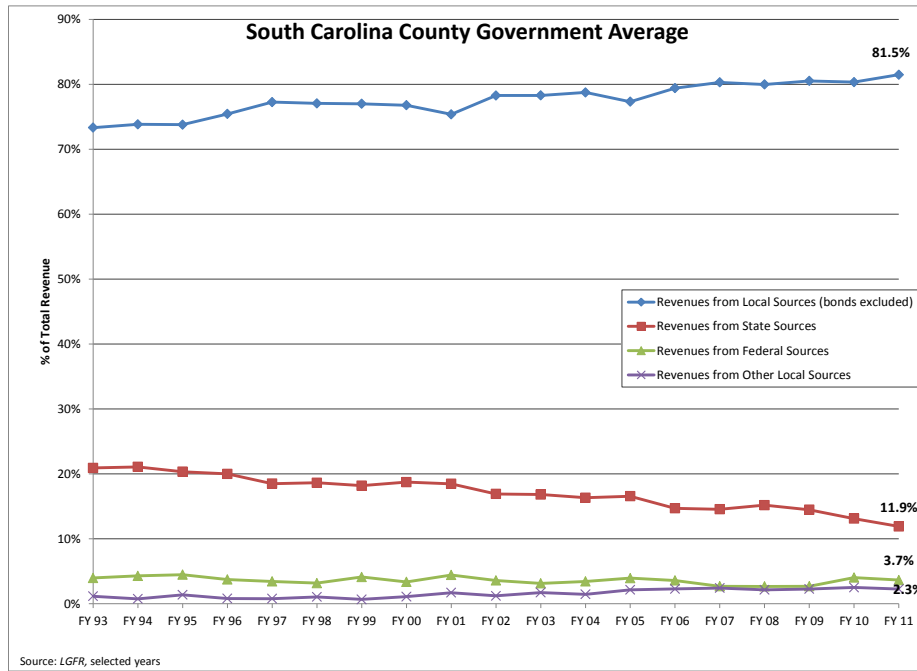


Figure 5. South Carolina county government average funding shares

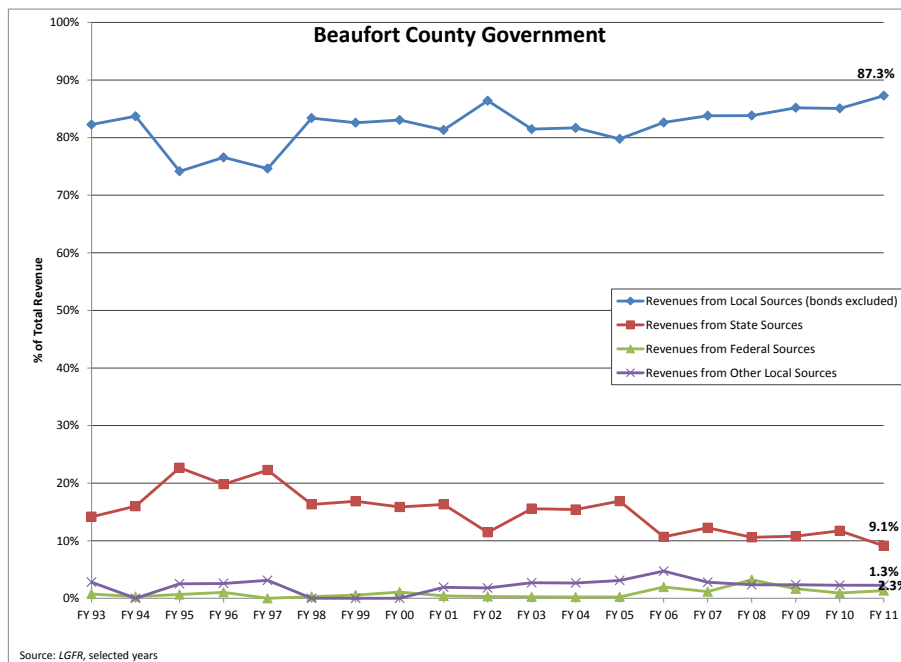


Figure 6. Beaufort County government funding shares

Table 3. South Carolina County and School District Local Revenue Sources  
(revenue from bonds & leases excluded)

Counties	School Districts
Property tax (including fee in lieu of taxes)	YES
Local Option Sales Tax	NO
Local Hospitality Tax	NO
Local Accommodations Tax	NO
Capital Projects/Transportation Tax	YES
Licenses & Permits	NO
Service Revenues & Charges	YES
Miscellaneous	YES

Source: LGFR 2011.

Table 4. South Carolina County and School District State Revenue Sources

Counties	School Districts
NO	Reimbursement for property tax relief (1995 tax relief)
YES	Homestead exemption for elderly & disabled
NO	Reimbursement for property tax relief (Act 388 of 2006)
NO	\$2.5 million minimum disbursement (Act 388 of 2006)
YES	Manufacturers depreciation reimbursement
YES	Merchants inventory tax reimbursement
YES	State grants
NO	Education Finance Act
NO	Education Improvement Act
NO	Education Lottery
State-shared revenue (Local Government Fund)	NO

Source: LGFR 2011.

Table 5. County Government Funding Per Capita, FY 2011  
(revenue from bonds & leases excluded)

	SC County Average	Beaufort County
Revenue from Local Sources	\$565	\$947
Revenue from State Sources	\$83	\$99
Revenue from Federal Sources	\$25	\$15
Revenue from Interlocal Sources	\$16	\$25
Total	\$689	\$1,085

Source: LGFR 2011 and SC Dept. of Education.

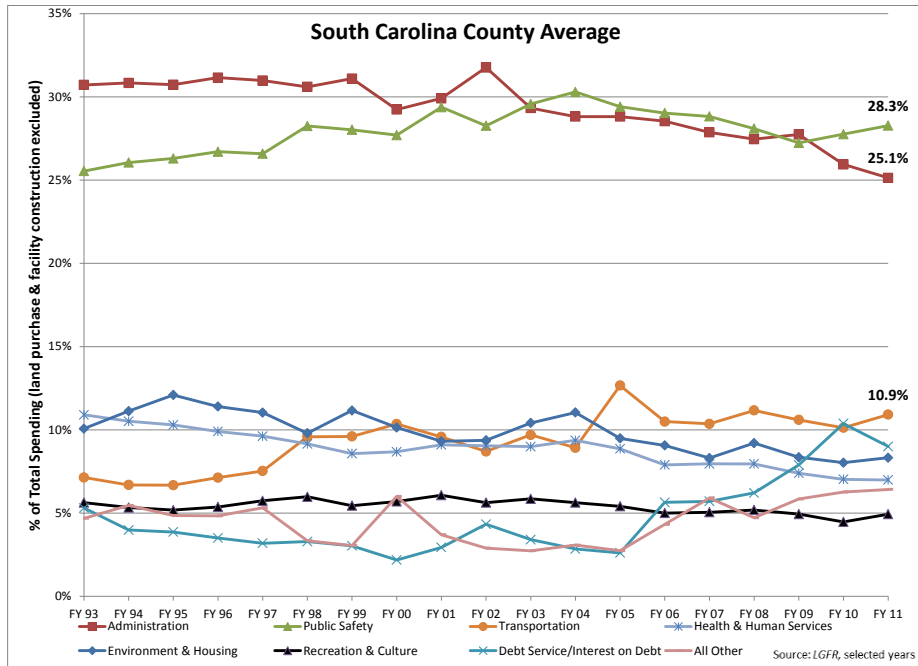


Figure 7. South Carolina county government average spending shares

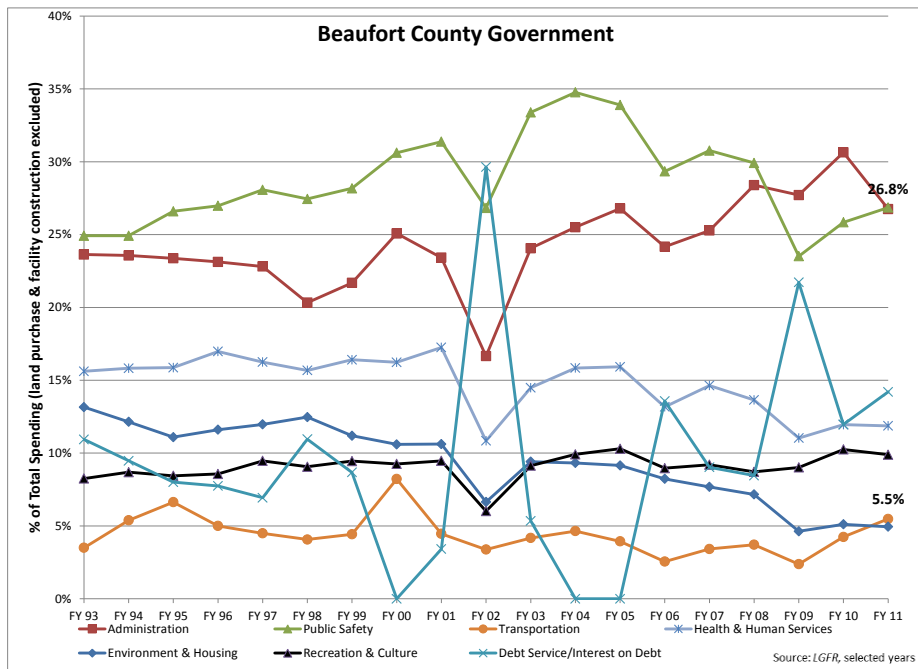


Figure 8. Beaufort County government spending shares

Table 6. County Government Spending Per Capita, FY 2011  
(purchase of land and building construction excluded)

	SC County Average	Beaufort County
Administration	\$163	\$252
Public Safety	\$183	\$252
Transportation	\$71	\$52
Health & Human Services	\$45	\$112
Environment & Housing	\$54	\$47
Recreation & Culture	\$32	\$93
Interest on Debt	\$58	\$134
All Other Spending	\$42	\$0
Total	\$648	\$940

Source: LGFR 2011 and SC Dept. of Education.

Tables 7 and 8 provide detail on six years of revenue to the BCSD and Beaufort County government. In these tables, revenue from the property tax includes taxes received for both operations and bonded indebtedness. Grand totals and local revenue subtotals are provided including and excluding revenue from bonds and leases. During this period, BCSD reported about \$525 million in proceeds from bonds and leases; Beaufort County government reported no revenue from these sources. Elsewhere in this report we have excluded revenue from bonds and leases and spending on capital projects from financial data reported. Large annual swings in bond proceeds and capital outlays distort trends in funding and outlays for general operations. For example, between 2009-10 and 2010-11, total BCSD revenue including bonds and leases declined 16.8 percent, but this decline is not a true representation of district revenue trends. When bonds and leases are excluded, total revenue from all sources increased 2.4 percent over the year.

Between 2005-06 and 2010-11, both BCSD and Beaufort County government funding from all sources grew about 5.4 percent a year, excluding revenue from bonds and leases. But the similarities end there. Property tax revenues to the county are unaffected by Act 388's homeowner exemption from property taxes for school operations and grew at an average rate of 4.4 percent a year. BCSD property tax revenue for operations and debt service combined grew more slowly at 3.2 percent a year. Beaufort County also can tap more local funding sources than the school district, such as a local option sales tax, licenses and service charges, among others. As a result, Beaufort County's funds from local sources grew at an average annual rate of 6.6 percent a year since 2005-06, while BCSD local funds grew at only half that rate, or 3.2 percent a year.

Act 388's effect on state funding to school districts is apparent when BCSD and Beaufort County finances are compared. Between 2005-06 and 2010-11, revenue from state sources to the school district increased 10.9 percent a year on average, while it increased only 2.2 percent a year in the county's budget. This period covers the implementation of Act 388, when Tier 1 tax relief alone brought over \$39 million state dollars to BCSD in 2007-08. But the one year change in funding from state sources between 2009-10 and 2010-11 is more predictive of the future. In this year, state funding to BCSD increased only 1.5 percent.

On the spending side, county spending grew more quickly than spending by BCSD—8.9 percent a year on average for the county compared to 6.9 percent for BCSD (purchase of land and facility construction excluded). It is less useful to compare spending than revenue trends in different types of governments because of the different services they provide.

Beaufort County School District		Table 7. Beaufort County School District Revenue Sources FY 2006 to FY 2011					5 year		FY 10	
Source: Local Government Finance Report 2011								Avg. Annual	Percent	
SC State Budget & Control Board		FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	Growth Rate	Change	
<b>Total Revenues (School District only)</b>		<b>\$225,778,884</b>	<b>\$328,448,731</b>	<b>\$291,219,970</b>	<b>\$344,527,027</b>	<b>\$322,664,749</b>	<b>\$268,338,439</b>	<b>3.5%</b>	<b>-16.8%</b>	
<b>Total Revenues: Bonds &amp; Leases Excluded</b>		<b>203,028,003</b>	<b>216,355,684</b>	<b>246,025,064</b>	<b>258,772,759</b>	<b>258,070,770</b>	<b>264,142,831</b>	<b>5.4%</b>	<b>2.4%</b>	
Revenues from Local Sources		165,596,672	279,894,728	200,973,775	257,205,856	230,224,307	171,501,116	0.7%	-25.5%	
<b>Local Revenues: Bonds &amp; Leases Excluded</b>		<b>142,845,791</b>	<b>167,801,681</b>	<b>155,778,869</b>	<b>171,451,588</b>	<b>165,630,328</b>	<b>167,305,508</b>	<b>3.2%</b>	<b>1.0%</b>	
Current Property Taxes		131,865,964	154,724,828	142,855,717	162,129,894	156,768,062	159,909,079	3.9%	2.0%	
Current Real & Personal Property Taxes		131,746,198	154,584,298	142,689,283	161,952,575	156,619,844	159,794,306	3.9%	2.0%	
Fee In Lieu of Property Tax		0	0	0	0	0	0		n/a	
All Other		119,766	140,530	166,434	177,319	148,218	114,773	-0.8%	-22.6%	
Local Options Sales Tax		0	0	0	0	0	0	n/a	n/a	
Local Hospitality Tax		0	0	0	0	0	0	n/a	n/a	
Local Accommodations Tax		0	0	0	0	0	0	n/a	n/a	
Capital Projects/Transportation Tax		0	0	0	0	0	0	n/a	n/a	
Licenses, fees, Charges, Bonds, etc.		33,730,708	125,169,900	58,118,058	95,075,962	73,456,245	11,592,037	-19.2%	-84.2%	
<b>Licenses, etc: Bonds &amp; Leases Excluded</b>		<b>10,979,827</b>	<b>13,076,853</b>	<b>12,923,152</b>	<b>9,321,694</b>	<b>8,862,266</b>	<b>7,396,429</b>	<b>-7.6%</b>	<b>-16.5%</b>	
Licenses & Permits		0	0	0	0	0	0	n/a	n/a	
Service Revenue & Charges		5,522,090	8,306,020	7,956,308	4,227,054	3,250,423	2,386,262	-15.4%	-26.6%	
Bonds & Leases		22,750,881	112,093,047	45,194,906	85,754,268	64,593,979	4,195,608	-28.7%	-93.5%	
Miscellaneous		5,457,737	4,770,833	4,966,844	5,094,640	5,611,843	5,010,167	-1.7%	-10.7%	
Revenues from State Sources		41,906,595	27,912,857	71,254,151	68,484,398	69,288,554	70,358,264	10.9%	1.5%	
<b>Homeowner Tax Relief Subtotal</b>		<b>9,133,250</b>	<b>9,475,891</b>	<b>48,329,104</b>	<b>48,966,244</b>	<b>49,868,642</b>	<b>50,097,006</b>	<b>40.6%</b>	<b>0.5%</b>	
Reimbursements for Property Tax Relief (Tier 1)		7,036,261	7,036,261	7,036,261	7,036,261	7,036,261	7,036,261	0.0%	0.0%	
Homestead Exemption (Tier 2) /1		2,096,989	2,439,630	2,045,867	2,045,867	2,045,867	2,045,867	-0.5%	0.0%	
Reimbursements for Property Tax Relief (Tier 3) /2		0	0	39,246,976	39,884,116	40,786,514	41,014,878	n/a	0.6%	
\$2.5 Million Minimum Disbursement /3		0	0	0	0	0	0	n/a	n/a	
State-Shared Taxes (Aid to Subdivisions) /5		418,067	418,067	418,067	418,067	418,067	418,067	0.0%	0.0%	
Manufacturer's Depreciation Reimbursement		0	0	0	0	0	0	n/a	n/a	
State Grants 4/		10,688,427	3,872,077	5,072,440	4,971,799	4,656,542	5,685,085	-11.9%	22.1%	
Education Finance Act (EFA)		6,518,827	1,219,954	2,539,184	0	0	0	-100.0%	n/a	
Education Improvement Act (EIA)		13,701,176	11,886,707	14,136,281	13,338,489	13,027,014	12,854,461	-1.3%	-1.3%	
Education Lottery		1,446,848	1,040,161	759,075	789,799	1,318,289	1,303,645	-2.1%	-1.1%	
Revenues from Federal Sources		18,275,617	20,641,146	18,992,044	18,836,773	23,151,888	26,479,059	7.7%	14.4%	
Revenues from Other Local Sources		0	0	0	0	0	0	n/a	n/a	

1/ FY01 the exemption was increased from \$20,000 to \$50,000.

2/ Additional property tax reimbursements from elimination of school operating property taxes on homes from Act 388 of 2006.

3/ Additional payment required to meet the \$2.5 million minimum floor for Tier 3 reimbursements to each county.

4/ FY 00 increase in State Grants is due to the State School Facilities Bond Act, \$125MM given to School Districts for building funds.

5/ For school districts this represents the Merchants' Inventory Tax Exemption Reimbursement, not Aid to Subdivisions

Table 8. Beaufort County Government Revenue Sources FY 2006 to FY 2011

Beaufort County Government							5 Year	FY 10
Source: Local Government Finance Report 2011							Avg. Annual	Percent
SC State Budget & Control Board	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	Growth Rate	Change
<b>Total Revenues (County only)</b>	<b>\$135,177,985</b>	<b>\$137,129,897</b>	<b>\$175,676,661</b>	<b>\$176,016,787</b>	<b>\$170,148,348</b>	<b>\$176,061,219</b>	<b>5.4%</b>	<b>3.5%</b>
<b>Total Revenues: Bonds &amp; Leases Excluded</b>	<b>135,177,985</b>	<b>137,129,897</b>	<b>175,676,661</b>	<b>176,016,787</b>	<b>170,148,348</b>	<b>176,061,219</b>	<b>5.4%</b>	<b>3.5%</b>
Revenues from Local Sources	111,705,872	114,913,538	147,279,125	149,933,486	144,738,621	153,646,379	6.6%	6.2%
Current Property Taxes	74,744,474	75,958,483	76,878,758	91,626,459	87,175,153	92,881,343	4.4%	6.5%
Current Real & Personal Property Taxes	70,367,250	74,640,923	66,902,778	86,714,176	82,021,010	81,661,463	3.0%	-0.4%
Fee In Lieu of Property Tax	0	0	0	0	0	0		n/a
All Other	4,377,224	1,317,560	9,975,980	4,912,283	5,154,143	11,219,880	20.7%	117.7%
Local Options Sales Tax	0	0	0	0	0	0		n/a
Local Hospitality Tax (2%)	1,143,668	1,243,228	1,066,743	1,283,257	1,153,119	1,338,394	3.2%	16.1%
Local Accommodations Tax (3%)	899,161	763,036	668,287	605,400	562,867	704,703	-4.8%	25.2%
Capital Projects/Transportation Tax (1%)	0	5,989,765	27,076,388	31,697,153	29,311,579	30,502,729		4.1%
Licenses, fees, Charges, Bonds, etc.	34,918,569	30,959,026	41,588,949	24,721,217	26,535,903	28,219,210	-4.2%	6.3%
Licenses & Permits	5,439,402	5,220,496	7,016,393	4,604,463	4,140,044	3,954,119	-6.2%	-4.5%
Service Revenue & Charges	24,129,939	19,386,261	21,042,577	13,455,684	17,481,717	21,648,408	-2.1%	23.8%
Bonds & Leases	0	0	0	0	0	0		n/a
Miscellaneous	5,349,228	6,352,269	13,529,979	6,661,070	4,914,142	2,616,683	-13.3%	-46.8%
Revenues from State Sources	14,437,606	16,784,914	18,607,874	18,990,157	19,956,704	16,059,759	2.2%	-19.5%
Reimbursements for Property Tax Relief (Tier 1)	0	0	0	0	0	0		n/a
Homestead Exemption (Tier 2)	1,077,918	1,166,690	605,659	1,982,741	2,056,885	1,387,705	5.2%	-32.5%
Reimbursements for Property Tax Relief (Tier 3)	0	0	0	0	0	0		n/a
\$2.5 Million Minimum Disbursement	0	0	0	0	0	0		n/a
State-Shared Taxes (Aid to Subdivisions)	6,800,033	7,517,516	7,904,450	7,562,665	7,952,108	6,451,704	-1.0%	-18.9%
Manufacturer's Depreciation Reimbursement	32,890	36,815	42,928	45,750	45,750	28,828	-2.6%	-37.0%
State Grants	6,526,765	8,063,893	10,054,837	9,399,001	9,901,961	8,191,522	4.6%	-17.3%
Education Finance Act (EFA)	0	0	0	0	0	0		n/a
Education Improvement Act (EIA)	0	0	0	0	0	0		n/a
Revenues from Federal Sources	2,650,000	1,598,452	5,649,908	2,928,132	1,582,545	2,368,026	-2.2%	49.6%
Revenues from Other Local Sources	6,384,507	3,832,993	4,139,754	4,165,012	3,870,478	3,987,055	-9.0%	3.0%

Table 9. Beaufort County School District Expenditures FY 2006 to FY 2011

<b>Beaufort County School District</b>							<b>5 Year</b>	<b>FY 10</b>
<i>Source: Local Government Finance Report 2011</i>							<b>Compound</b>	<b>Percent</b>
<i>SC State Budget &amp; Control Board</i>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>	<b>Growth Rate</b>	<b>Change</b>
<b>Total Expenditures (School District only)</b>	<b>\$209,063,274</b>	<b>\$250,596,640</b>	<b>\$248,853,383</b>	<b>\$339,793,003</b>	<b>\$376,389,504</b>	<b>\$317,094,656</b>	<b>8.7%</b>	<b>-15.8%</b>
<b>Total Exps: Land &amp; Facility Constr. Excluded</b>	<b>196,849,768</b>	<b>220,674,764</b>	<b>229,760,634</b>	<b>243,426,957</b>	<b>266,789,794</b>	<b>274,915,365</b>	<b>6.9%</b>	<b>3.0%</b>
Administration	70,221,675	80,776,133	80,542,115	84,276,410	89,799,111	93,953,728	6.0%	4.6%
Instruction	96,502,835	103,839,879	112,008,956	117,066,260	122,500,387	124,987,223	5.3%	2.0%
Public Safety	0	0	0	0	0	0	n/a	n/a
Transportation	0	0	0	0	0	0	n/a	n/a
Health & Human Services	484,611	364,735	318,551	328,127	240,815	230,449	-13.8%	-4.3%
Environment & Housing	0	0	0	0	0	0	n/a	n/a
Recreation & Culture	131,684	44,302	1,990	1,708	8,953	4,282	-49.6%	-52.2%
Debt Service/Interest on Debt	29,238,178	35,356,046	36,612,866	41,524,987	51,701,894	52,759,130	12.5%	2.0%
Purchase of Land & Facility Construction	12,213,506	29,921,876	19,092,749	96,366,046	109,599,710	42,179,291	28.1%	-61.5%
All Other	270,785	293,669	276,156	229,465	2,538,634	2,980,553	61.6%	17.4%

Table 10. Beaufort County Government Expenditures FY 2006 to FY 2011

<b>Beaufort County Government</b>							<b>5 Year</b>	<b>FY 10</b>
<i>Source: Local Government Finance Report 2011</i>							<b>Avg. Annual</b>	<b>Percent</b>
<i>SC State Budget &amp; Control Board</i>	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>	<b>Growth Rate</b>	<b>Change</b>
<b>Total Expenditures (County only)</b>	<b>\$134,607,826</b>	<b>\$142,732,351</b>	<b>\$168,080,619</b>	<b>\$192,105,055</b>	<b>\$207,326,697</b>	<b>\$190,955,722</b>	<b>7.2%</b>	<b>-7.9%</b>
<b>Total Exps: Land &amp; Facility Constr. Excluded</b>	<b>99,700,853</b>	<b>103,509,199</b>	<b>119,654,947</b>	<b>167,748,187</b>	<b>154,550,269</b>	<b>152,525,201</b>	<b>8.9%</b>	<b>-1.3%</b>
Administration	24,095,580	26,168,152	33,978,035	46,488,292	47,349,904	40,806,269	11.1%	-13.8%
Instruction	0	0	0	0	0	0		n/a
Public Safety	29,247,122	31,842,884	35,793,955	39,444,746	39,936,824	40,958,603	7.0%	2.6%
Transportation	2,545,965	3,535,015	4,437,981	3,986,838	6,560,974	8,360,752	26.8%	27.4%
Health & Human Services	13,132,466	15,149,385	16,329,612	18,501,673	18,475,903	18,107,450	6.6%	-2.0%
Environment & Housing	8,205,494	7,950,453	8,571,805	7,767,120	7,894,834	7,546,019	-1.7%	-4.4%
Recreation & Culture	8,938,684	9,523,731	10,424,314	15,125,229	15,840,366	15,084,114	11.0%	-4.8%
Debt Service/Interest on Debt	13,535,542	9,339,579	10,119,245	36,434,289	18,491,464	21,661,994	9.9%	17.1%
Land Purchase & Facility Construction	34,906,973	39,223,152	48,425,672	24,356,868	52,776,428	38,430,521	1.9%	-27.2%
All Other	0	0	0	0	0	0	n/a	n/a

# THE PROPERTY TAX BASE AND SCHOOL FUNDING FROM LOCAL SOURCES

The local property tax base is an important source of revenue for schools in South Carolina. Since 1992-93, property taxes have provided around 80 percent or more of the local funding for the average school district in South Carolina. Property taxes have provided an even higher share of total local funding for the Beaufort County School District, with around 90 percent or more of local funding coming from the property tax. Tax base data discussed in this section is from the LGFR, unless otherwise specified.

## Assessment Ratios

The amount of revenue collected from the property tax base is a function of the different types of taxable property in the tax base, the market and taxable value of those properties, and the tax rate, or mill rate.<sup>4</sup> In South Carolina, the fair market value of real and personal property is converted into an assessed value, or taxable value, using an assessment ratio. These assessment ratios range from 4 percent to 10.5 percent depending on the type of property.<sup>5</sup> Owner-occupied residential property is assessed at 4 percent of market value and commercial and residential rental property is assessed at 6 percent of market value.

Assessment ratios matter. At a given market value, the assessment ratio can make a big difference in the amount of tax collected. For example, on real property with a market value of \$100,000, owner-occupied residential property would have a taxable value of \$4,000 and rental residential property would have a taxable value of \$6,000. At any tax rate, a rental property will always generate 50 percent more in taxes than an owner-occupied property with the same market value.

## Composition of the Tax Base

The composition of county and school district tax bases varies widely around the state. Even within a single county, school districts can each have a very different tax base profile depending on the type of development in the county.

The average county in South Carolina has seen the combined assessed value of manufacturing, utility and agricultural real property decline from 29 percent of the tax base in tax year 1992 to 16 percent in 2010 (Figure 9). The contribution of personal vehicles to the tax base also has declined since tax year 1999 because the assessment ratio was gradually lowered from 10.5 percent prior to 2000 to 6 percent in 2006.<sup>6</sup> In 1999, personal vehicles were 18 percent of the tax base compared to only 7 percent in 2010.

The importance of owner-occupied residential and commercial and rental property increased as these other types of property were declining in importance in the tax base. Combined, these two classes of property comprised almost 50 percent of the state tax base in 1992. By 2010, they made up 71 percent

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<sup>4</sup> The mill rate is applied to the assessed valuation in a given jurisdiction to determine the amount of revenue that will be raised from the property tax. It is commonly expressed as cents per \$1,000 of assessed value. For example, a tax rate of 125 mills would mean a tax of \$125 on \$1,000 of assessed value.

<sup>5</sup> Manufacturing, commercial personal property and utility property is assessed at 10.5%. Personal motor vehicles are assessed at 6%. Agricultural property is assessed at 4% or 6%, depending on the structure of the business, although agricultural land may be granted a special valuation based on its use value.

<sup>6</sup> The state did not reimburse school districts, counties, or municipalities for the revenue they lost due to the change in personal vehicle assessment ratio.



of the tax base. Historically Beaufort County has had a much larger than average share of its taxable property value in commercial and rental property—around 60 percent of the total since reassessment in 2004. The contribution of manufacturing, utility, and agricultural property to the county’s tax base was low in 1992 and has remained so (Figure 10).

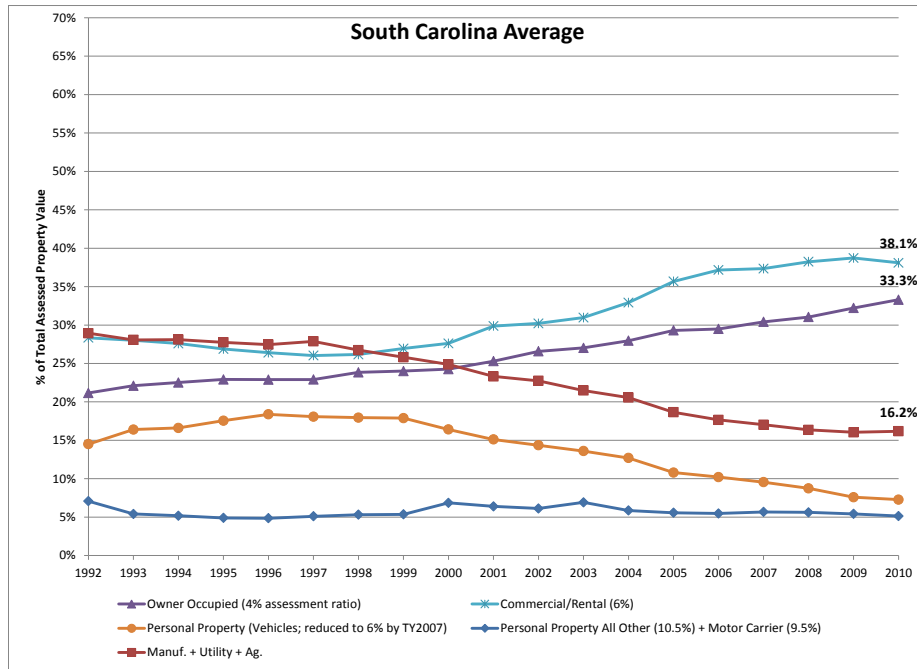


Figure 9. South Carolina assessed property value shares by classification

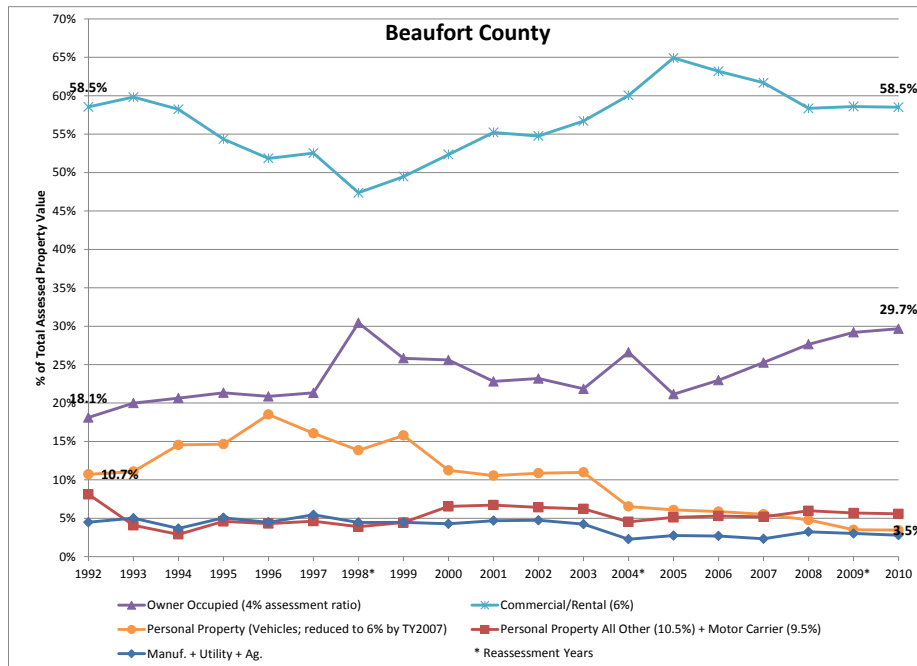


Figure 10. Beaufort County assessed property value shares by classification

## Assessed Property Value Per Pupil

Assessed property value per pupil in South Carolina more than doubled between 1992 and 2010, increasing from \$14,454 per pupil in 1992 to \$31,709 per pupil in 2010 (Figure 11). On average, South Carolina school districts had a tax base valued at \$29,731 per pupil in tax year 2010.<sup>7</sup> The school district with the lowest value in 2010 was Greenwood 51, at only \$6,330 per pupil.

The Beaufort County School District was the South Carolina school district with the highest valued tax base in 2010, with an assessed valuation of \$102,652 per pupil (Figure 12). Beaufort County's tax base benefits from high property values in the owner-occupied residential and commercial/rental categories. Because BCSD is a single-county school district, the school district's tax base is the county. In tax year 1992, Beaufort County's tax base was slightly over twice the value of the state tax base, per pupil. By tax year 2010, the county's tax base was more than three times the value of the state tax base, per pupil.

## The Tax Base and the Tax Rate

The higher the value of a school district's tax base, the lower its tax rate can be set to raise a specified amount of revenue. Property owners in Beaufort County have benefitted from the high value of the county tax base because it has kept school tax rates low compared to rates in the average school district in the state.

Figure 13 shows implicit school tax rates for the average school district in South Carolina and for BCSD, including millage for operations and debt service. Implicit tax rates are calculated by backing them out of the value of the tax base and the property tax revenue collected. This method is used in the *Local Government Finance Report*, and generates estimates of countywide tax rates, even when there are multiple school districts, cities or towns in a county.<sup>8</sup> As a result, the BDSC implicit rates differ somewhat from the actual tax rates levied. Over the long term, implicit school tax rates in Beaufort County (operations and debt service combined) have increased at a slower rate than those in the average district.<sup>9</sup>

Actual BCSD tax rates for school operations and debt service have fluctuated over time in response to two factors (Figure 14). First, the combined tax rate decreased as expected in response to periodic reassessment in tax years 1999, 2004 and 2009. In South Carolina, all taxing entities are required to roll back tax rates on existing property that is revalued to avoid windfall revenue gains from reassessment.

Second, the combined BCSD tax rate increased over time between reassessments to cover state-mandated teacher salary increases and other increased costs of providing education, which include a growing student population and the operating and debt service costs of new facilities, among others. For example, in 2010 and 2011, BCSD opened two elementary schools, one middle school, one high school, and one charter school.<sup>10</sup>

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<sup>7</sup> South Carolina has 85 school districts in 46 counties.

<sup>8</sup> The *Local Government Finance Report* aggregates school district and municipal finances by county.

<sup>9</sup> Annual average growth in implicit school mill rates was 1.5% a year statewide and 1.3% a year in Beaufort County.

<sup>10</sup> Beaufort County School District. 2011. *Comprehensive Annual Financial Report for the Year Ended June 30, 2011*. Pp. 10, 124-127. [http://www.beaufort.k12.sc.us/pages/BCSD/Departments/Operational\\_Services/Finance/1108173511856067762/Financial\\_Statements](http://www.beaufort.k12.sc.us/pages/BCSD/Departments/Operational_Services/Finance/1108173511856067762/Financial_Statements)

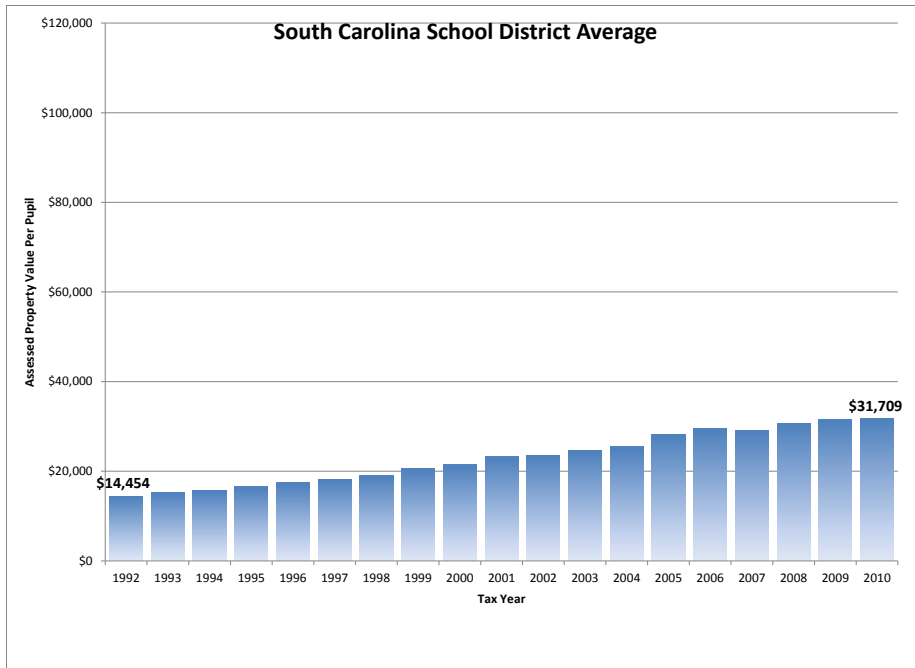


Figure 11. SC average school district assessed property value per pupil

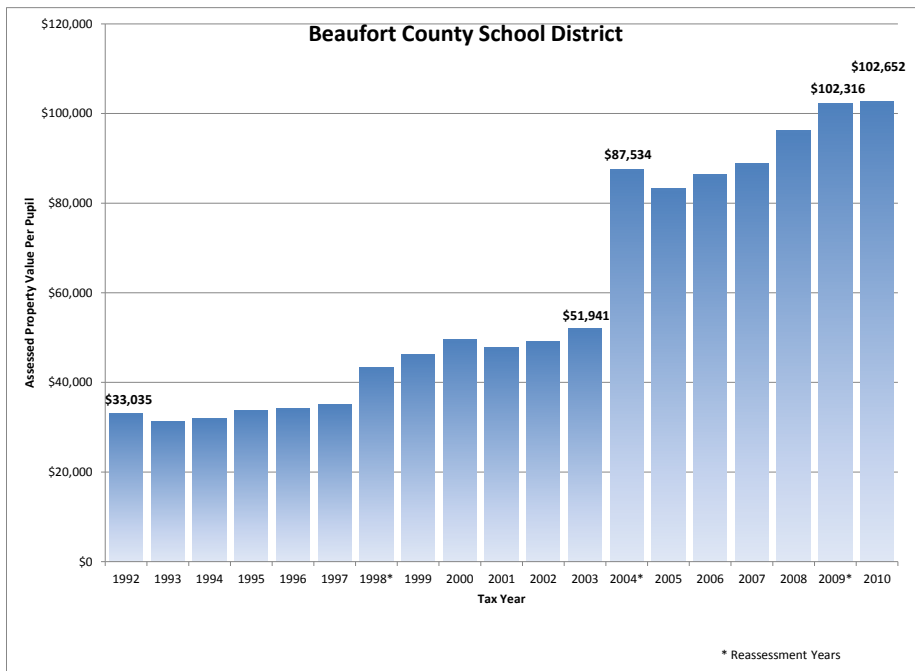


Figure 12. BCSD assessed property value per pupil

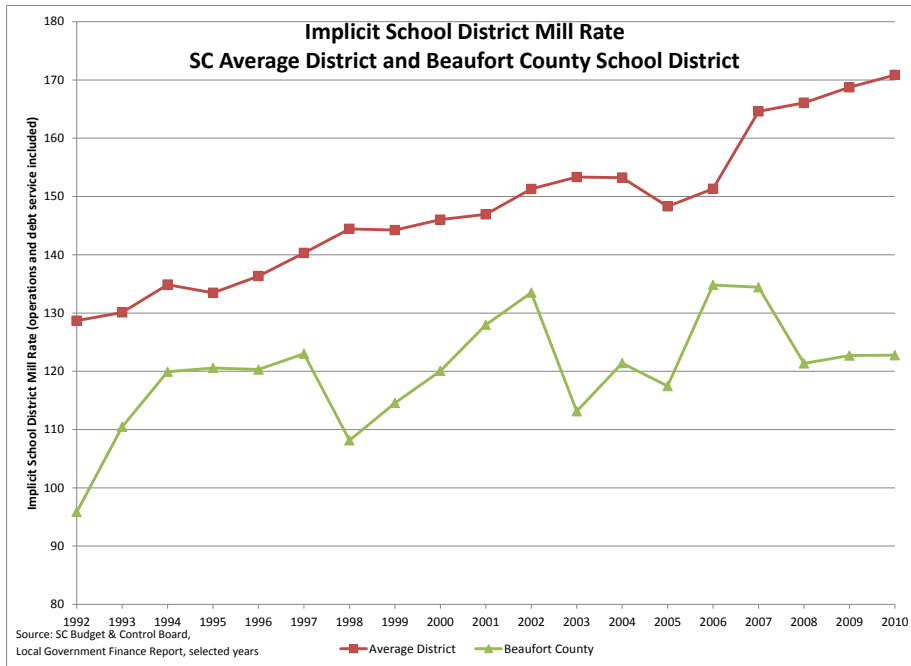


Figure 13. Implicit school district mill rate (operations + debt service) SC average district and Beaufort County School District

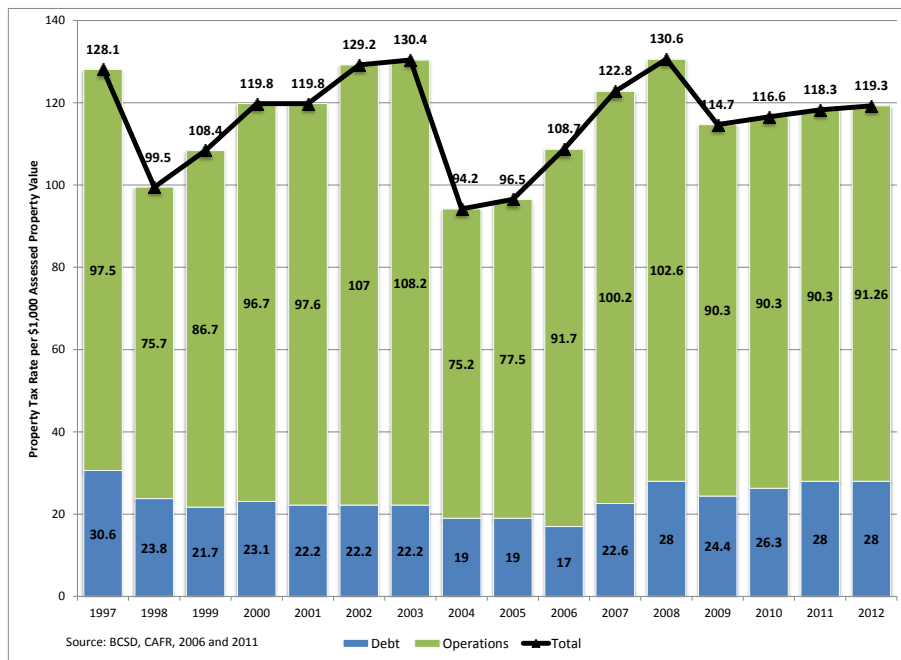


Figure 14. Beaufort County School District tax rates

## Act 388 and the Property Tax Base

Over time, provisions of Act 388 are changing the composition of school tax bases in South Carolina and the amount of school funding derived from them.

### The Shifting Tax Burden

State-funded homeowner school tax relief provided by Act 388 is shifting the school tax burden away from owner-occupied residential property toward other classes of non-exempt property, especially over time. In its first year of implementation, Act 388 reimbursed school districts for estimated tax revenue that would have been collected from owner-occupied residential property in a given district's tax base with that district's tax rate. After the first year, Act 388 school tax reimbursement has been determined by formula increases, which are based on that first year amount. The formula takes into account inflation and school population growth.

To the extent that Act 388's formula funding increase and other state funding does not adequately address future district funding needs associated with pupil growth, new facilities, and new or expanded programs, local funds from the property tax will be targeted to provide that additional needed revenue. Because owner-occupied residential property (4 percent assessment) no longer contributes to school operating revenue, other real and personal property subject to the property tax (6 to 10.5 percent assessment) will see their school tax burden increase over time.

There are two ways to examine the shifting tax burden caused by Act 388—the overall burden of taxes for school operations and debt service combined, and the tax burden from taxes exclusively for school operations.

Table 11 shows estimated funding shares from the property tax for *school operations and debt service combined* since 2006-07, the year before the implementation of Act 388. (Recall that Act 388 does not exempt owner-occupied residential property from school taxes for repayment of bonded indebtedness.) In the average South Carolina school district, the estimated share of total school property tax funding from commercial and rental property increased from 37.8 percent in 2006-07 to 46.5 percent in 2010-11. In Beaufort County, this increase was even larger, from 61.4 percent in 2006-07 to 73.6 percent in 2010-11.

Table 11. Estimated Share of School District Revenue from the Property Tax by Classification  
(combined revenue from taxes for school operations & debt service)

Real Property Assessment Classification	2006-07	2007-08	2008-09	2009-10	2010-11
<b>School Districts—SC Average</b>					
Owner-occupied residential	23.8%	9.6%	11.3%	13.1%	14.5%
Commercial & rental	<b>37.8%</b>	45.8%	46.4%	47.1%	<b>46.5%</b>
All other	38.4%	44.7%	42.4%	39.9%	39.0%
<b>Beaufort County School District</b>					
Owner-occupied residential	24.8%	10.2%	7.4%	12.5%	10.8%
Commercial & rental	<b>61.4%</b>	74.0%	74.9%	73.3%	<b>73.6%</b>
All other	13.8%	15.8%	17.7%	14.1%	15.5%

Source: LGFR, selected years.

Figures 15 and 16 illustrate the large difference in assessed value and composition of the Beaufort County tax base that can be taxed for school operations and for school debt service. Figure 15 shows the

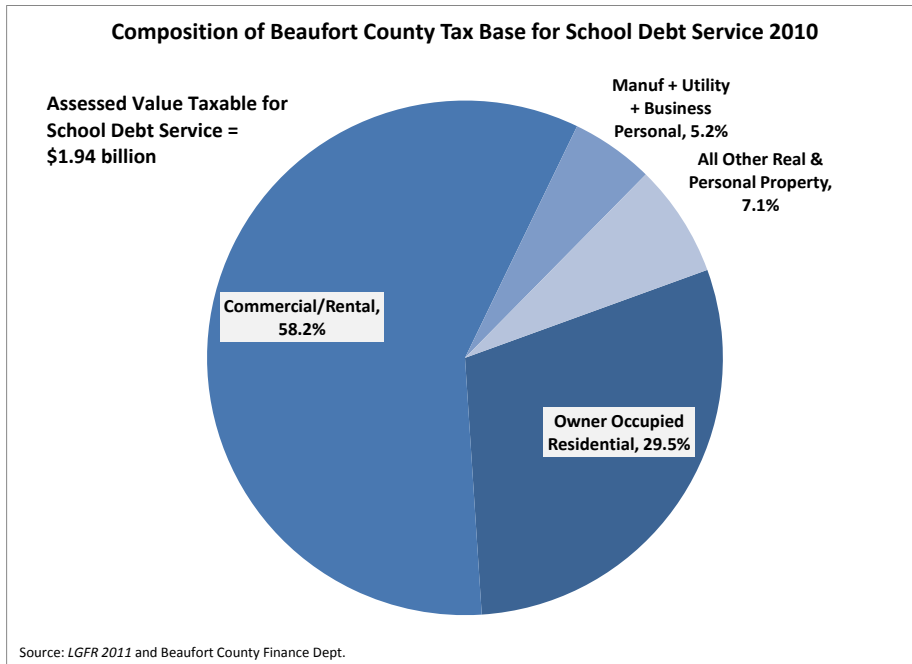


Figure 15. Composition of BCSD tax base for school debt service TY 2010 (percent of total)

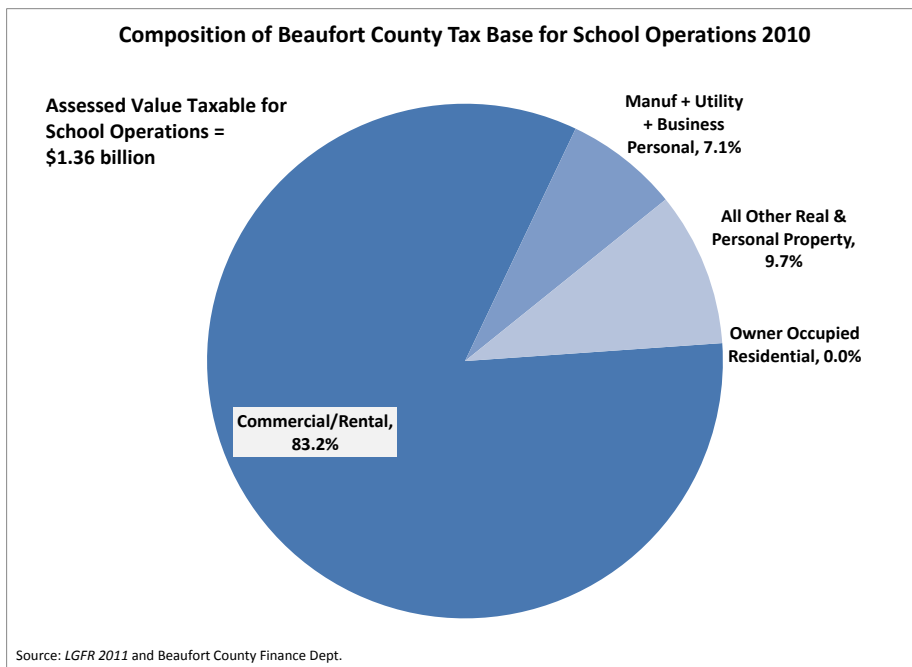


Figure 16. Composition of BCSD tax base for school operations TY 2010 (percent of total)

composition of the 2010 tax base upon which taxes for debt service could be levied. Total assessed value is \$1.94 billion, which is the entire county tax base. In Beaufort County, property taxes for school debt service are shared roughly sixty-thirty: 60 percent by commercial and rental property and 30 percent by

owner-occupied residential property. In tax year 2010, manufacturing, utility, and business personal property assessed at 10.5 percent generated about five percent of the revenue used for school debt service.

In contrast, Figure 16 shows the composition of the county’s 2010 tax base that is subject to taxes for school operations. Because Act 388 exempts owner-occupied residential property from taxes for school operations, now commercial and rental property comprises over 80 percent of the Beaufort County tax base on which taxes for school district operations can be levied.<sup>11</sup> This means that in fiscal year 2010-11 (ignoring the tax delinquencies and penalties paid for prior years), about 83 percent of the property tax revenue raised for school operations is estimated to be derived from commercial and rental property. Manufacturing, utility, and business personal property combined is estimated to contribute 7 percent of the total, with close to 10 percent from all other real and personal property combined. Total assessed value taxable for school operations was \$1.36 billion in tax year 2010.

With the exemption of owner-occupied residential property from school operating taxes, Act 388 “eliminated” close to 30 percent of the taxable value in the Beaufort County available for funding school operations. Although BCSD tax rates for school operations have increased only slightly since the last reassessment in tax year 2009, the burden of future tax increases will be shouldered most heavily by commercial and rental property simply because it comprises the largest share of the tax base. This general result also will occur in school districts around the state, although the relative shift in tax burden to other types of property will depend on the specific composition of each district’s tax base.

Table 12 shows how the composition of the tax base changes the impact of Act 388 on different taxpayers. The counties with relatively higher shares of property value in manufacturing, utilities, and business personal property—Aiken, Anderson, Greenville, Greenwood and Spartanburg—have a smaller

Table 12. County Property Tax Base Comparisons: School Operations and Debt Service, TY 2010

	Aiken	Anderson	Beaufort	Charleston	Georgetown	Greenville
<b><i>Taxable for School Operations</i></b>						
Owner Occupied (4% assessment ratio)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial/Rental (6%)	40.4%	48.4%	83.2%	76.7%	75.1%	52.2%
Manuf + Utility + Business Personal (10.5%)	39.9%	34.5%	7.1%	12.2%	15.2%	22.1%
All Other Real & Personal Property (6% - 9.5%)	19.7%	17.1%	9.7%	11.1%	9.7%	25.7%
Total Taxable Assessed Property Value	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b><i>Taxable for School Debt</i></b>						
Owner Occupied (4% assessment ratio)	36.8%	37.1%	29.5%	32.9%	27.7%	38.9%
Commercial/Rental (6%)	25.6%	30.5%	58.2%	51.5%	54.2%	31.9%
Manuf + Utility + Business Personal (10.5%)	25.3%	21.7%	5.2%	8.2%	11.0%	19.8%
All Other Real & Personal Property (6% - 9.5%)	12.4%	10.8%	7.1%	7.4%	7.0%	9.4%
Total Taxable Assessed Property Value	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>11</sup> Figure 16 does not imply that taxes on an individual commercial, rental, or other nonexempt property suddenly increased in tax year 2007. It does, however, show the shift in the tax burden for school operations going forward to those types of property as a group.

Table 12, continued. County Property Tax Base Comparisons: School Operations and Debt Service

	Greenwood	Horry	Lexington	Richland	Spartanburg	SC AVERAGE
<b><i>Taxable for School Operations</i></b>						
Owner Occupied (4% assessment ratio)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial/Rental (6%)	29.8%	78.0%	49.3%	53.9%	42.6%	57.1%
Manuf + Utility + Business Personal (10.5%)	57.0%	10.1%	31.1%	32.0%	41.5%	28.4%
All Other Real & Personal Property (6% - 9.5%)	13.2%	11.8%	19.6%	14.1%	15.9%	14.5%
Total Taxable Assessed Property Value	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b><i>Taxable for School Debt</i></b>						
Owner Occupied (4% assessment ratio)	26.0%	22.6%	43.7%	36.9%	36.1%	33.3%
Commercial/Rental (6%)	22.1%	60.4%	27.7%	34.0%	27.2%	38.1%
Manuf + Utility + Business Personal (10.5%)	42.2%	7.8%	17.5%	20.2%	26.5%	18.9%
All Other Real & Personal Property (6% - 9.5%)	9.8%	9.2%	11.0%	8.9%	10.1%	9.6%
Total Taxable Assessed Property Value	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

shift of the tax burden to taxpayers with commercial and rental property than in those counties with a smaller industrial base. The tourist-dependent economies in Beaufort, Charleston, Georgetown, and Horry Counties all show a larger shift of the tax burden to commercial and rental properties. In these four counties, commercial and rental property is expected to bear 75 percent or more of the school operating tax burden in the foreseeable future.

### Incentives Matter

Act 388's full exemption of owner-occupied residential property from school operating taxes has also given owners of rental residential property an incentive to switch their property from the 6 percent assessment class to the 4 percent, owner-occupied, assessment class. The Beaufort County Assessor's Office reports that between tax years 2006 and 2009, 15,174 properties were added to the 4 percent tax rolls, while 16,590 properties were removed from the 6 percent tax rolls (Table 13). Not all this movement can be attributed to the tax provisions of Act 388, of course, but the amount of activity around the time that the legislation passed and was implemented is highly suggestive. Declines in the number of owner-occupied residential properties in 2010 and 2012 are more likely attributed to changes in ownership and/or rental status as a result of the housing bubble and recession.<sup>12</sup>

<sup>12</sup> In South Carolina, when residential properties are sold they are automatically assigned the 6 percent assessment classification. It is the new owner's responsibility to request a change to the 4 percent assessment.



Table 13. Beaufort County 4% and 6% Assessment Comparison

Tax Year	Change in 4% Count	Change in 6% Count
2006	4,093	-4,349
2007	4,477	-4,730
2008	5,322	-5,872
2009	1,282	-1,639
2010	-1,345	1,785
2011*	103	-434
2012*	-1,259	1,107

Source: Beaufort County Assessor and Finance Dept.

\*Appeals outstanding as of December 31, 2012.

### The Millage Cap

In many school districts, Act 388's formula for reimbursement of homeowner school operating tax relief may add to future pressure on school operating tax rates as well. Since 2008-09, annual millage increases have been limited to the change in the Consumer Price Index (CPI) plus the estimated change in the population of the taxing entity, whether school district, county, or municipality. The CPI factor for the millage rate cap in 2011-12 was 1.64 percent, for example. Adding in an annual population growth factor of 1.71 percent for BCSD,<sup>13</sup> the district's millage cap was 3.35 percent.

In contrast, over the ten year period prior to the implementation of Act 388, overall school district funding from the property tax increased at an average rate of 8.0 percent a year, with more of that increase coming from the increase in value of the tax base than the tax rate. In Beaufort County, revenue from the property tax to the school district increased 11.1 percent a year on average between 1996 and 2006.

### The 15 Percent Assessment Cap

Act 402 of 2006 was passed about the same time as Act 388. It imposed a 15 percent cap on the increase in the value of real property at every five year reassessment. Over the long term, this assessment cap will shift the school, county and municipal tax burden away from rapidly appreciating property of any type toward property that is appreciating more slowly.

There are two ways in which this shift in tax burden will occur. First, at each five year county reassessment, the full value of slowly appreciating real property will be taxed, while only the partial value of rapidly appreciating real property will be taxed. Second, in order to raise the same amount of revenue before and after reassessment, property tax rates will be higher with the 15 percent cap than they would have been without it. All property owners of taxable real and personal property will pay these higher prevailing tax rates.

The Beaufort County Assessor's Office estimated that as of the 2009 reassessment, \$1.1 billion in assessed property value (all property classifications combined) was no longer included in the county tax base as a result of the 15 percent reassessment cap.<sup>14</sup> At that reassessment, 91 percent of parcels in Beaufort County were capped.<sup>15</sup>

<sup>13</sup> Only 12 districts had a higher population growth factor than BCSD in 2011-12.

<sup>14</sup> South Carolina Association of Counties, *The Fiscal Impact of Selected State Mandates on County Governments*, December 2012 (<http://www.sccounties.org/publications>).

<sup>15</sup> Ed Hughes, "Reassessment Market Value Analysis Tax Year 2013 Fiscal Year 2014," Beaufort County Council Workshop October 8, 2012 (<http://www.bcgov.net/departments/Real-Property-Services/assessor/Reassessment-documents/pp-hughes-reassessment.pdf>)

## SCHOOL FUNDING FROM STATE SOURCES

In the early 1990s, state funds to school districts came primarily through three program areas: Education Finance Act (EFA) funds, Education Improvement Act (EIA) funds, and grant funds. These programs continue to the present day.

### Education Finance Act

EFA funding to school districts is based on an annual base student cost adopted by the legislature, adjusted for each school district according to the relative cost of students in the district and the district's ability to raise local revenue from its property tax base. By providing more state revenue per pupil to districts with lower-valued tax bases and less state revenue per pupil to districts with higher-valued tax bases, EFA helps to equalize overall school funding among districts in the state. In 1994-95, prior to the two tax relief programs, EFA provided 57.4 percent of all state aid to school districts. The South Carolina General Assembly appropriates EFA funding from the General Fund. Because Beaufort County's tax base has a relatively high value when compared to the tax bases of other school districts in the state, the district receives little or no EFA formula funding.

### Education Improvement Act

EIA funds are distributed among districts on a per pupil basis and are dedicated to legislative spending priorities, which change over time. EIA funds are derived from one cent of the state's retail sales tax and are held in the EIA Fund, which is separate from the state's General Fund. Annual EIA distributions to school districts fluctuate in response to revenue collections. In 1994-95, before implementation of the two school tax relief programs, EIA provided 20 percent of state aid in the average school district and 32 percent of state aid in BCSD. In 2010-11, EIA funding was 13.1 percent of state aid in the average school district and 18.3 percent of state aid in BCSD.

### State Grants/Other State Funds

The state provides grants to school districts for employee benefits, transportation, and other programs. Grant funds are appropriated annually by the legislature from the General Fund. The South Carolina Education Lottery did not begin to contribute to state funding for schools until 2002-03.

### 1995 School Tax Relief

The first widely available school tax relief program for South Carolina homeowners was implemented in fiscal year 1995-96. In some publications, the 1995 school tax relief program is also referred to as Tier 1 tax relief. This program exempted the first \$100,000 of market value of owner-occupied residential property from school operating taxes. The legislature capped state funding for the 1995 school tax relief program at \$249.1 million beginning in 2001-02. School districts then were responsible for making up any tax revenue shortfall arising from the homeowner exemption. New home construction and/or increased home values for properties that had been worth less than \$100,000 were the primary sources of added revenue demands on school districts.

The 1995 school tax relief for homeowners was integrated with the existing \$20,000 homestead exemption for the elderly and disabled, which was expanded to \$50,000 in 2000. The homestead exemption for the elderly is also called Tier 2 tax relief.<sup>16</sup>

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<sup>16</sup> Tier 2 tax relief is the only state-funded property tax relief received by counties and municipalities in South Carolina.

The balance between state and local school operating revenue shifted toward state funding with implementation of the 1995 school tax relief program (Figure 1 and 2, above). The state share of total school funding remained over 50 percent until 2001-02, when it began six years of steady decline. Several factors contributed to this declining share, including a recession affecting state revenues more than local revenues in the early 2000s, EFA base student cost funding appropriations below formula, and poor sales tax collections resulting in stagnant funding for EIA programs.

### Act 388 School Tax Relief

Act 388 of 2006 expanded the 1995 tax relief program by exempting the full market value of owner-occupied residential property from school operating taxes. Implementation began in 2007-08, with school districts receiving state funding as reimbursement for their estimated property loss resulting from the new exemption. Since 2008-09, school districts have been reimbursed by formula, which reflects statewide population growth and inflation. Individual school districts receive their share of the state pot based on the number of pupils in the district. Act 388 school tax relief adds to state funds annually appropriated for Tier 1 and Tier 2 tax relief (Figure 17). Act 388 tax relief is also referred to as Tier 3 tax relief.<sup>17</sup>

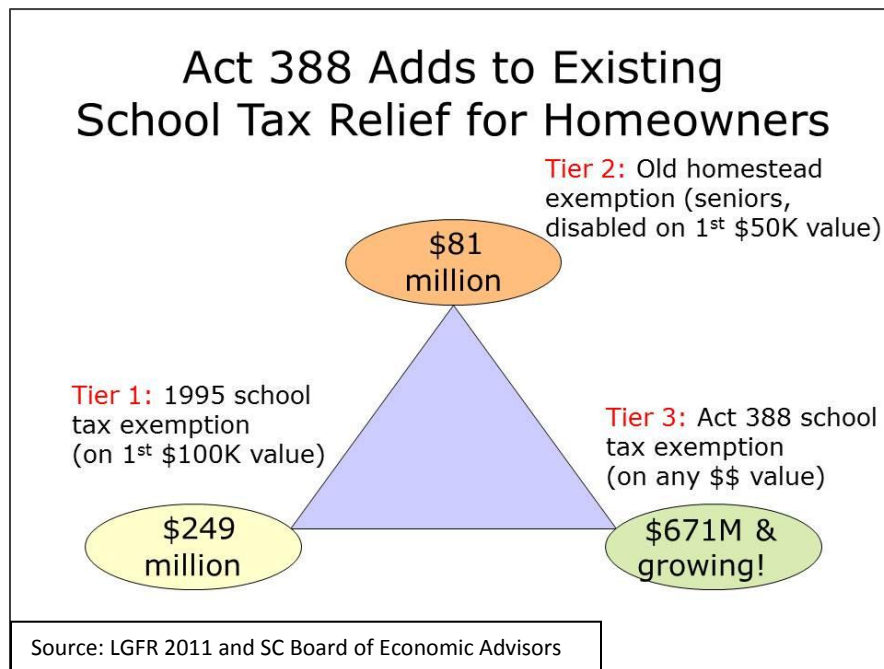


Figure 17. South Carolina: homeowner property tax relief Tiers 1, 2, and 3

In order to fund the expanded school tax relief, Act 388 raised the state’s retail sales tax by one penny—from 5 percent to 6 percent. Revenue from this tax increase was earmarked for a special revenue fund, the Homestead Exemption Fund (HEF). Additional Act 388 tax relief must be provided by appropriations from the South Carolina General Fund in the event that the sales tax does not fully fund the tax relief formula. Because the implementation of Act 388 occurred just before the economy experienced a

<sup>17</sup> Act 388 also sets the minimum homeowner school tax relief *per county* at \$2.5 million. When there are multiple school districts in an eligible county, the additional funds are shared out by district enrollments. These funds are included in reported Tier 3 tax relief. BCSD does not receive this additional funding.

serious recession, the law's sales tax increase has not generated sufficient funds to cover the formula and the HEF has been supplemented annually with appropriations from the General Fund. In 2010-11, the HEF had to be supplemented with \$110.4 million from the General Fund.

Figure 1 (above) shows the clear impact of Act 388 funding on the overall balance of local and state funding for schools starting in 2007-08. However, because the recent recession adversely affected state funding for EFA and EIA programs, among others, overall state funding for school districts declined as a share of total funding through 2010-11. Figure 18 shows how the two school tax relief programs changed the mix of state revenues to school districts.

In the early 1990s, there was no broad school tax relief for homeowners. The only tax relief program for homeowners was the homestead exemption for the elderly and disabled, which was about one percent of state funding to school districts. With the 1995 tax relief program, homeowner school tax relief jumped to just over 12 percent of state funding for schools. By 2010-11, school tax relief to homeowners was 29 percent of total state funding, or \$1,400 per pupil.

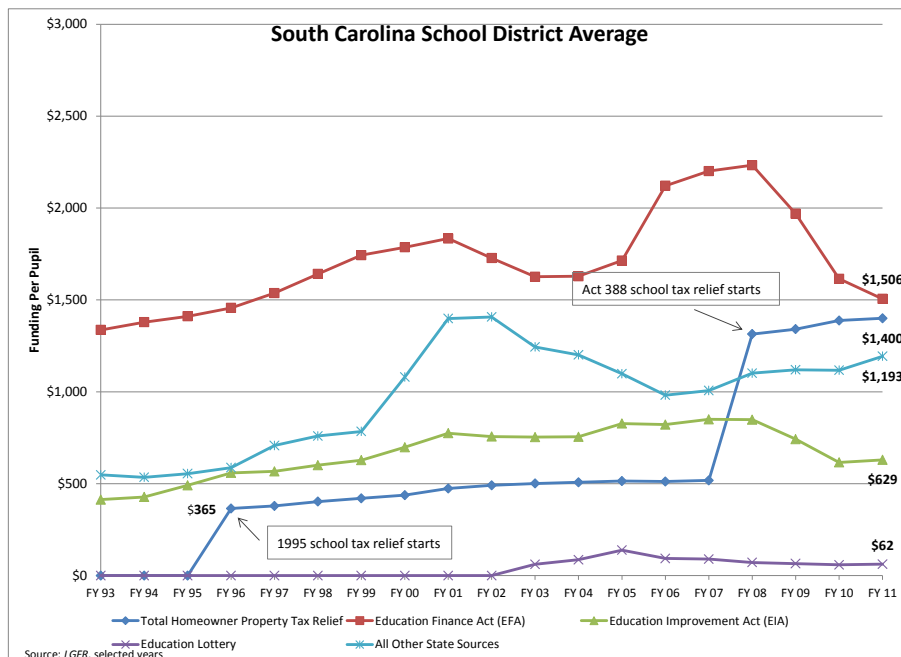


Figure 18. South Carolina school district average state aid per pupil

The BCSD's state funding profile is different than that in the average school district. Most of this difference is the result of the following interrelated factors:

- Low (or in some years no) EFA funding for BCSD due to the high value of its property tax base.
- BCSD's heavy reliance on the property tax for school funding, and
- Act 388's formula replacement of property taxes formerly collected on owner-occupied residential property, which in the case of BCSD is very high.

Since implementation of Act 388, BCSD has received close to twice the state funding per pupil for homeowner school tax relief (all programs combined) than the average district (Figure 19). In 2010-11,

homeowner school tax relief in BCSD was \$2,655 per pupil, compared to \$1,400 per pupil in the average district. In BCSD, homeowner school tax relief makes up 71 percent of state aid (Figure 20).

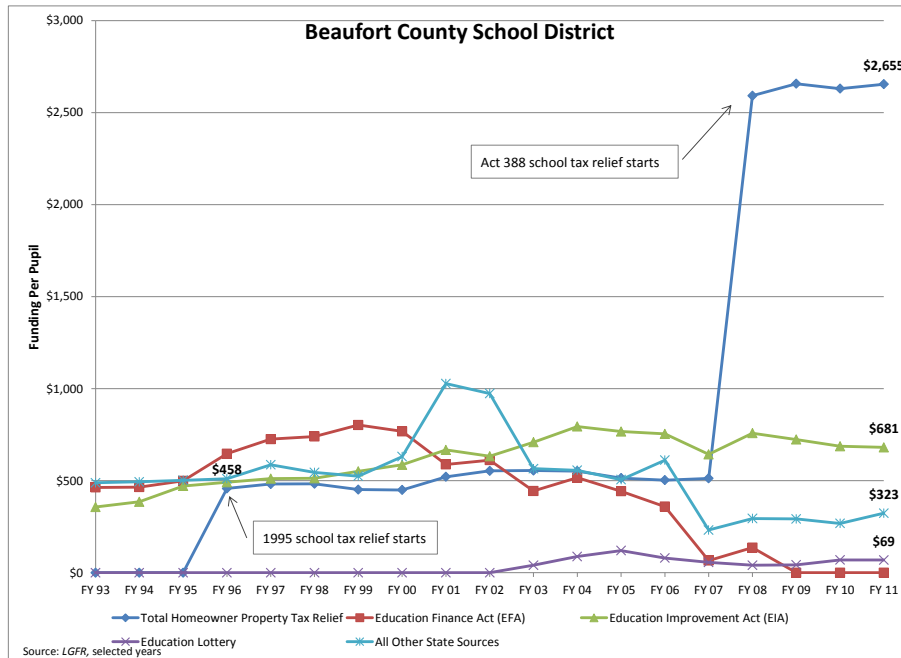


Figure 19. Beaufort County School District state aid per pupil

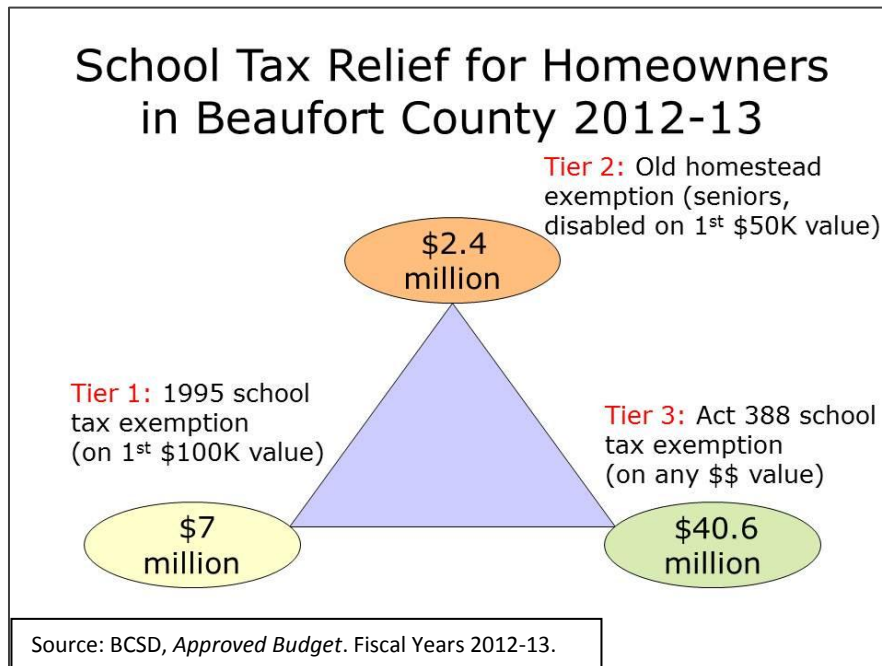


Figure 20. BCSD: Homeowner property tax relief Tiers 1, 2, and 3

## ACT 388 AND THE BCSD BUDGET

As the preceding discussion made clear, school funding shares in BCSD are somewhat different than in the average South Carolina school district. Beaufort County's tax base is dominated by high property values, particularly in commercial and rental residential real property. As a result, BCSD receives very little in the way of state funds for EFA and relies on the local property tax instead.

On the other hand, because of the district's relatively heavy reliance on the property tax, it receives a much higher than average amount of state funding for homeowner school tax relief, particularly tax relief from Act 388 of 2006. In this section we take a closer look at components of the BCSD budget and how it has been affected by Act 388. Data are from BCSD annual budget documents.

The BCSD's annual Comprehensive Budget contains eight separate funds. The General Fund is the largest of BCSD's fund types and accounts for local property tax revenue and a majority of state funding. It is used to support general school district operations. The General Fund is the only one of the BCSD's funds that is directly affected by the local and state funding changes resulting from Act 388 of 2006. The remaining seven funds account for specific types of revenue and spending, such as those for debt service on bonds and capital projects. They are: Special Revenue Funds, Education Improvement Act Fund, Debt Service Fund, School Building Fund, Internal Service Fund, School Food Service Fund and Pupil Activity Fund.<sup>18</sup>

The BCSD Comprehensive Budget, developed over many months, is the district's best estimate of how anticipated funding will provide for planned spending. BCSD uses unassigned fund balances, especially in the General Fund, to cover unexpected funding shortfalls and to ease the budgetary impact associated with opening new school facilities. The Beaufort County Council approves the district's General Fund and Debt Service Fund budgets, including the annual millage rates that generate the property taxes that provide the majority of funding for school district operations and debt service. However, the county council may not exceed Act 388's annual millage cap, unless special conditions are met.

### BCSD General Fund Budget

BCSD's General Fund relies heavily on local revenue from the property tax. In 2006-07, local property taxes were nearly 88 percent of the BCSD General Fund. Even after Act 388's state sales tax for local property tax revenue swap that began in 2007-08, the district's main source of funding for school operations has remained local revenue (Figure 21). Since implementation of Act 388, the property tax has supplied about 67 percent of BCSD General Fund revenue and state-funded tax relief has supplied about 30 percent of General Fund revenue (Figure 22). Between 2006-07 and 2007-08, BCSD General Fund revenue from the property tax dropped \$20.2 million in response to Act 388's full exemption of owner-occupied residential property from taxes for school operations.

BCSD's large first year reimbursement for Act 388 homeowner tax relief of \$39.2 million resulted from three key factors: an increase in the tax rate, an increase in the value of the tax base, and Act 388's first year reimbursement formula:

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<sup>18</sup> BCSD's General Fund budget cannot be compared directly to revenue data from the SC Budget and Control Board's *Local Government Finance Report*, which was used to illustrate differences between BCSD's funding profile and the profile of the average school district. For instance, LGFR data includes revenue from EIA, lunch fees, and state and federal grants, which are not included in BCSD's General Fund and are in special funds instead. Nor does the LGFR account for use of fund balances and transfers between funds to balance the budget.

1. *Tax rate increase.* In 2006-07, the state reduced EFA funding to the district. Budgeting for this anticipated lower revenue and also planning for increased outlays associated with the operation of new school facilities in the coming years, BCSD raised its tax rate for school operations to make up the difference—from 77.5 mills in tax year 2005 to 91.7 mills in tax year 2006.
2. *Tax base increase.* The value of the county’s tax base also increased \$55 million between tax years 2005 and 2006.
3. *Act 388 first year reimbursement formula.* Under the law, first year Act 388 reimbursements for were based on the revenue that would be raised given the district’s tax base and the higher millage.

After the first year, Act 388 reimbursement for school tax relief for homeowners is increased by formula and is shared out to school districts on a per pupil basis. Each year’s reimbursement adds to the base year amount from 2007-08. Tables 14 and 15 contain BCSD General Fund budget detail for the fiscal years 2005-06 through 2011-12.

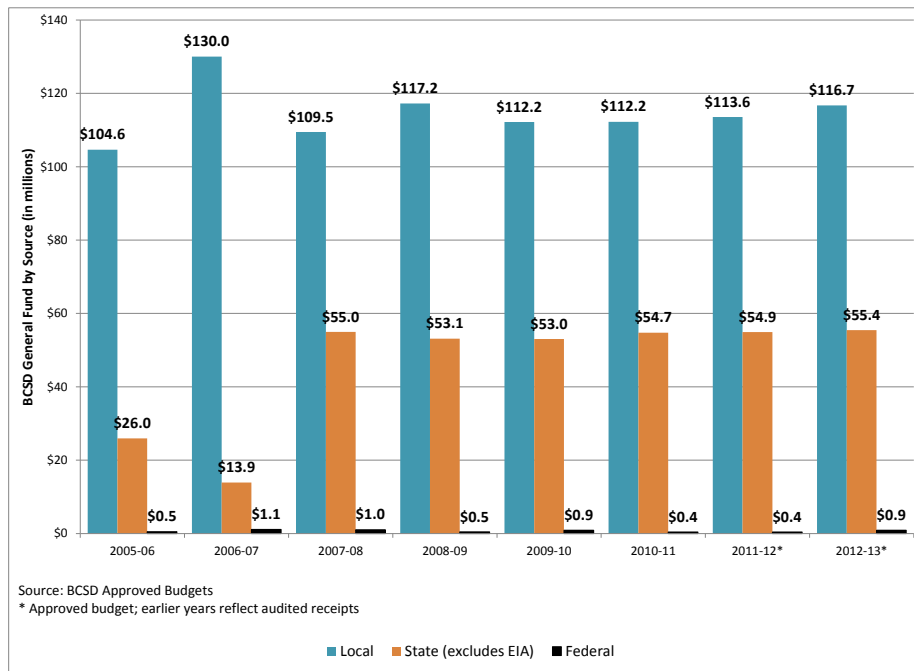


Figure 21. BCSD General Fund revenue

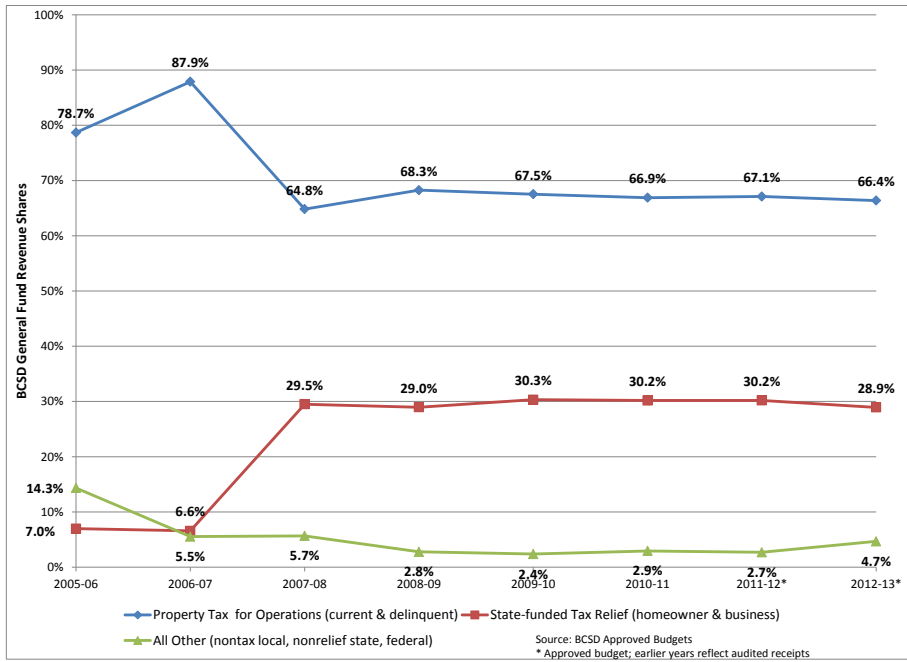


Figure 22. BCSO General Fund funding shares (property tax and tax relief detail)



Table 14. BCSD General Fund Budget (in millions of dollars)

	Audited	Audited	Audited	Audited	Audited	Audited	Approved	Approved
	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Property tax (current & delinquent taxes for operations)	\$103.2	\$127.5	\$107.3	\$116.6	\$112.2	\$112.0	\$113.4	\$114.9
All other local sources	1.5	2.5	2.2	0.6	0.4	0.2	0.2	1.8
<b>Total funds from local sources</b>	104.6	130.0	109.5	117.2	112.2	112.2	113.6	116.7
Property tax reimbursement (Tier 3)	0.0	0.0	39.2	39.9	40.8	41.0	41.5	40.6
Property tax reimbursement (Tier 1)	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Other state property tax (Tier 2 homestead exemption plus 2 others)	2.1	2.5	2.5	2.6	2.5	2.5	2.4	2.4
EFA	6.5	1.2	2.6	0.0	0.0	0.6	0.0	1.4
Fringe benefits & retiree insurance	3.6	2.0	2.5	3.6	1.7	2.7	2.7	3.9
Other state revenue	6.7	1.2	1.1	0.0	0.9	0.9	1.3	0.0
<b>Total funds from state sources</b>	26.0	13.9	55.0	53.1	53.0	54.7	54.9	55.4
<b>Total funds from federal sources</b>	0.5	1.1	1.0	0.5	0.9	0.4	0.4	0.9
<b>Total General Fund revenue</b>	\$131.1	\$145.1	\$165.5	\$170.8	\$166.1	\$167.4	\$168.9	\$173.1

Source: Beaufort County School District *Approved Budget*. Fiscal Years 2007-08 through 2012-13.

Table 15. BCSD General Fund Budget Shares

	Audited	Audited	Audited	Audited	Audited	Audited	Approved	Approved
	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Property tax (current & delinquent taxes for operations)	78.7%	87.9%	64.8%	68.3%	67.5%	66.9%	67.1%	66.4%
All other local sources	1.1%	1.7%	1.3%	0.4%	0.2%	0.1%	0.1%	1.1%
<b>Total funds from local sources</b>	<b>79.8%</b>	<b>89.6%</b>	<b>66.1%</b>	<b>68.6%</b>	<b>67.5%</b>	<b>67.0%</b>	<b>67.2%</b>	<b>67.4%</b>
Property tax reimbursement (Tier 3)	0.0%	0.0%	23.7%	23.3%	24.6%	24.5%	24.6%	23.5%
Property tax reimbursement (Tier 1)	5.4%	4.8%	4.3%	4.1%	4.2%	4.2%	4.2%	4.1%
Other state property tax (Tier 2 homestead exemption plus 2 others)	1.6%	1.7%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%
EFA	5.0%	0.8%	1.5%	0.0%	0.0%	0.4%	0.0%	0.8%
Fringe benefits & retiree insurance	2.7%	1.4%	1.5%	2.1%	1.0%	1.6%	1.6%	2.3%
Other state revenue	5.1%	0.8%	0.7%	0.0%	0.6%	0.5%	0.8%	0.0%
<b>Total funds from state sources</b>	<b>19.8%</b>	<b>9.6%</b>	<b>33.2%</b>	<b>31.1%</b>	<b>31.9%</b>	<b>32.7%</b>	<b>32.5%</b>	<b>32.0%</b>
<b>Total funds from federal sources</b>	<b>0.4%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>0.3%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.5%</b>
<b>Total General Fund Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Beaufort County School District, *Approved Budget*. Fiscal Years 2007-08 through 2012-13.

## WHO PAYS FOR ACT 388'S SCHOOL OPERATING TAX RELIEF FOR HOMEOWNERS IN BEAUFORT COUNTY?

The tourism industry is a primary economic contributor to Beaufort County's economy. Can we estimate how much Act 388 sales tax revenue tourists and residents in Beaufort County contribute to the state? And how much of the additional revenue collected from the Act 388 penny in Beaufort County does the school district get back in the form of homeowner tax relief?

Utilizing IMPLAN economic impact modeling software<sup>19</sup> and economic data,<sup>20</sup> the Lowcountry and Resort Islands Tourism Institute at USC-Beaufort estimates that for the years 2007 through 2010, tourism-related businesses directly account for approximately 14 percent of the total \$14 billion in commodity sales in the county. When the real estate sector is added to the analysis, the tourism and real estate sectors combined account for over 34 percent of the commodity sales over that same four year period.<sup>21</sup> In 2008 USC-Beaufort and Clemson researchers reported that one in four Beaufort County jobs is related to the tourism industry. Consequently, tourism's impact on Beaufort County gross and taxable sales is expected to be large. But what is it and how much has it contributed to receipts from Act 388's sixth penny on the state's retail sales tax?

Visitors to Beaufort County accounted for 25.3 percent of gross sales in 2005 and 30.3 of gross sales in 2011. Likewise, visitors accounted for 57.5 percent of county taxable sales in 2005 and for 55.0 percent of taxable sales in 2011 (Figure 23, Table 12 and Appendix A).

Using data from Table 16, we estimated Beaufort County's contribution to the sales tax revenue received by the state for Act 388 homeowner tax relief. Table 17 shows that in 2011, Beaufort County residents and visitors together paid about \$21 million in sales tax revenue that can be attributed to the one cent of sales tax revenue earmarked for Act 388 tax relief. In 2010-11, BCSD received \$41.0 million from the state for Act 388 tax relief reimbursement, or nearly double the amount of its contribution.

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<sup>19</sup> Using input-output analysis in combination with regional specific Social Accounting Matrices and Multiplier Models, IMPLAN provides highly accurate and adaptable economic impact models. The IMPLAN database contains county, state, zip code, and federal economic statistics which are specialized by region, not estimated from national averages and can be used to measure the effect on a regional or local economy. It was developed by the University of Minnesota and is sold by the Minnesota IMPLAN Group (MIG, Inc.). IMPLAN is used by the federal and local governments, universities, corporations, and a variety of other organizations including Clemson University's Strom Thurmond Institute and USCB.

<sup>20</sup> South Carolina Department of Revenue Annual Reports (<http://www.sctax.org/Publications/default.htm>) and South Carolina Department of Parks, Recreation and Tourism *Economic Impact of Tourism* reports. (2011 report at <http://www.scrpt.com/files/Research/SC%202011%20Report%20-%20Email%20to%20Dudley%20on%20Aug%2019%202012.pdf>, 2010 at <http://www.hrsm.sc.edu/CoEETourismandED/PDFs/SCTourismStats/SC%202010%20Report%2009-30-2011.pdf>, 2009 at <http://www.scrpt.com/files/Research/SC%202009%20Report%2012-16-2010.pdf>, 2008 at <http://www.scrpt.com/files/Research/Economic%20Impact%20of%20Travel%20on%20SC%20Counties%202008.pdf>, 2007 at <http://www.statelibrary.sc.gov/scedocs/P2375/001266.pdf>, 2006 at <http://www.scrpt.com/files/Research/2006SCReport8-20-07.pdf>, and 2005 at <http://www.statelibrary.sc.gov/scedocs/P2375/000667.pdf>.

<sup>21</sup> This analysis is conservative because it does not include business-to-business and indirect spending as a consequence of direct spending of visitors.

Table 16. Beaufort County Gross and Taxable Sales:  
Estimated Visitor and Resident Shares 2011

	2011 (millions)
Total Gross Sales <sup>a</sup>	\$3,400.9
Visitor Gross Spending <sup>b</sup>	\$1,029.0
Resident Gross Spending <sup>c</sup>	\$2,371.9
Resident Net Taxable Sales <sup>d</sup>	\$934.5
Visitor Net Taxable Sales	\$1,140.4
Net Taxable Sales <sup>a</sup>	\$2,074.9
Visitor Share of GROSS SALES <sup>d</sup>	30.3%
Visitor Share of TAXABLE SALES	55.0%

<sup>a</sup>SCDOR Annual Reports FY2005-2011

<sup>b</sup>SCPRT Economic Impact of Tourism on SC Counties 2005-2011

<sup>c</sup>Resident Spending = Gross - Visitor Spend

<sup>d</sup>Resident Net Taxable Sales=State Average 39.4%\*Resident Gross Sales  
(D. Schunk, personal communication).

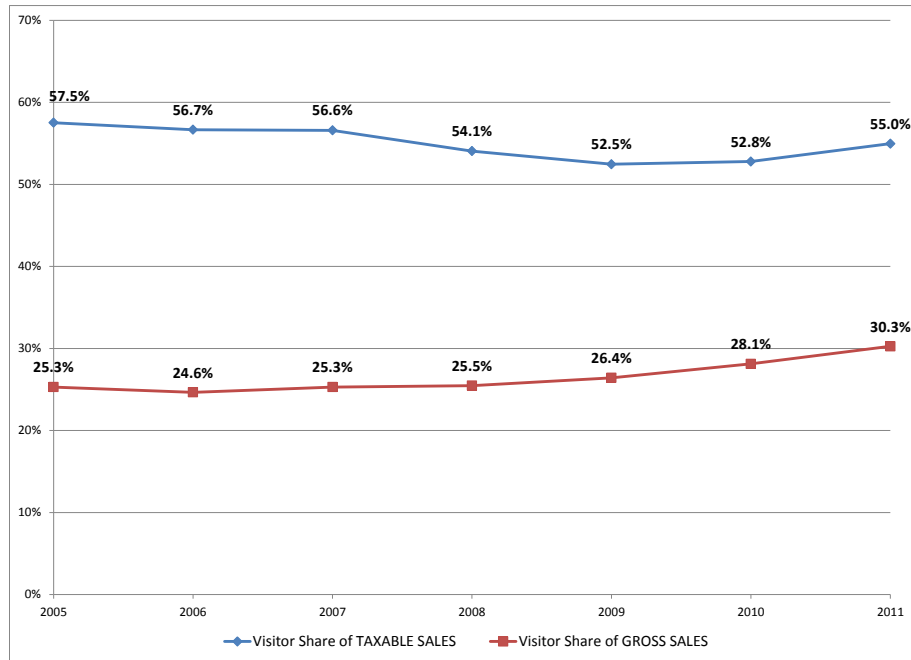


Figure 23. Beaufort County visitor share of gross and taxable sales

Table 17. Estimated Sales Tax Generated by Beaufort County for Act 388 Homeowner School Tax Relief, 2011

	Sales Tax Revenue (in millions)
Net Taxable Sales =	\$2,074.9
(Net Taxable Sales * .06) = Estimated state sales tax revenue generated in Beaufort County	\$124.5
(Estimated BC sales tax revenue) / 6 = Estimated BC contribution to Act 388 tax relief	\$20.7
(BC contribution to Act 388 tax relief) * 0.55 = Visitor share of Act 388 sales tax revenue generated	\$11.4
(BC contribution to Act 388 tax relief) * 0.45 = Resident share of Act 388 sales tax revenue generated	\$9.3

Sources: SC Dept. of Revenue.

Individuals are not the only entities to pay sales taxes. In fact, nationwide about 40 percent of sales taxes are paid by businesses.<sup>22</sup> In South Carolina, even the state government and local governments—including school districts—pay sales taxes on taxable purchases.

Recent research supported by the Council on State Taxation estimates that in South Carolina, the highest shares of all state and local taxes paid by business in 2010-11 are the property tax (51.5 percent) and state and local sales taxes combined (14.4 percent).<sup>23</sup> . On average in the United States, businesses pay 38 percent of state and local property taxes combined, and 20.1 percent of sales taxes.

In South Carolina, Act 388 increased the sales tax burden on both households and businesses by raising the rate by one percent. Act 388 also has shifted more of the future school property tax burden onto businesses by eliminating taxes on owner-occupied residential property. Unfortunately, it is beyond the scope of this analysis to estimate the share of Beaufort County sales tax revenue generated by resident spending at local businesses as opposed to visitor spending at local businesses.

<sup>22</sup> Raymond J. Ring, Jr. "Consumers' share and producers' share of the general sales tax," *National Tax Journal*, March 1, 1999, pp. 79-90.

<sup>23</sup> Andrew Phillips et al., 2012. *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2011*. Washington, DC: Council on State Taxation and Ernst & Young LLC.

## CONCLUSION

Act 388 of 2006 changed how property is taxed to pay for school operations and how school districts are funded. These changes have created gainers and losers. But in the long term, will anyone—schools, homeowners, or businesses—come out ahead?

**Homeowners.** South Carolina’s homeowners gained from Act 388. The 2006 law gave all homeowners in the state full relief from property taxes for school operations. In other words, homeowners pay no property taxes for school operations. Earlier state-funded tax relief for homeowners only exempted the first \$100 thousand in market value from school operating taxes. In Beaufort County and other areas with high value residential real estate, the tax savings for a given homeowner could be considerable.

**Property conversions.** The tax savings from Act 388 gave some property owners an incentive to convert their rental residential property to their primary residence. In Beaufort County, 15,174 properties were added to the owner-occupied residential tax rolls between 2006 and 2009. Over the same four year period, 16,950 properties were removed from the commercial/rental assessment tax rolls. Losers include the Beaufort County School District, which lost the entire taxable value of rentals converted to owner-occupied homes. Beaufort County and other local governments also lost the higher taxable value of these rentals in the tax base, because commercial and rental property is assessed at six percent of market value and owner-occupied residential property is assessed at four percent of market value.

**Tax burden shifts.** Act 388 shifted a sizable portion of the future property tax burden for school operations from owner-occupied residential property to commercial/rental and other real and personal property. In Beaufort County, commercial/rental property now comprises over 80 percent of the tax base for school operations. Manufacturing, utility, and other real and personal property combined is the remainder, less than 20 percent. Before Act 388, commercial/rental property was about 60 percent of the school tax base. In 2010-11, for example, commercial/rental property generated about \$93 million of the \$112 million in property tax revenue in BCSD’s General Fund.

**Millage caps.** Act 388’s stricter annual millage cap has made it more difficult for local governments, including school districts, to raise the mill rate when needed. In some cases, the millage cap may give local governments an incentive to raise the rate in most years in anticipation of future needs, because annual millage caps cannot be stockpiled. In Beaufort County, recent annual millage caps have been in the three percent range. That rate is well below historical rate of increase in school district revenue from the property tax (operating and debt service combined) of 11 percent a year for the decade before Act 388.

**Sales taxes.** Act 388 increased the sales tax burden on homeowners, businesses, renters, and governments around the state. Everyone purchasing a taxable item pays the one cent increase in the state retail sales tax that is earmarked for homeowner school tax relief. Losers include non-homeowners, who all pay the tax increase but get no direct benefit from that revenue. On the other hand, Beaufort County residents and visitors together paid about \$21 million in sales taxes earmarked for Act 388 tax relief in 2010-11. But BCSD got nearly twice that amount in reimbursement for Act 388 tax relief, or \$41 million.

**School budgets.** Do schools have more money because of Act 388? Not necessarily. The law was designed to replace anticipated property tax revenue from owner-occupied residential property only in fiscal year 2007-08. Since that time, the reimbursement amount is based on a formula increase, not a school district’s tax base or budgetary needs. The only clear winners are some districts receiving additional reimbursement based on the \$2.5 million county minimum. If Beaufort County continues to

grow, and if a large share of that growth is in owner-occupied residential property that generates no additional taxes for school operations and no increases in state property tax relief, which then must be funded by the school district, the school district's present healthy fiscal position is likely to deteriorate. At that point the pressure will turn to the mill rate.

**Economic development.** The municipality of Hilton Head Island is responsible for the majority of Beaufort County tourism revenues. In 2010, 9,767 homes were available for seasonal, recreation, and occasional use on Hilton Head Island. In 2011, the Island hosted 2.3 million visitors and 72 percent of the overnight visitors to the Island stayed in rental properties categorized as second homes, villas, and timeshares. The perception of an unfair tax burden caused by Act 388 could jeopardize some future rental and business development, especially in resort destinations such as Hilton Head Island, the city of Beaufort, and other coastal communities.

**Unbalanced taxation.** Act 388 has increased our state's reliance for school funding on the sales tax, which is a volatile revenue source, particularly in economic expansions and recessions. The state retail sales tax also generates revenue for Education Finance Act and Education Improvement Act funding. Those two important school funding sources took a major hit during the recent recession. While Act 388 was written to safeguard the annual tax relief from economic downturns, the extra money required from the South Carolina General Fund has increased budget pressures on other state programs.

Act 388 of 2006 changed the way in which property is taxed to pay for school operations and school districts are funded. Act 388's intended—and unintended—consequences will ensure that conversation continues around the state about how best to fund schools. Ultimately, Act 388 gave tax relief to homeowners and placed tighter restrictions on school districts' use of property taxes—their primary local funding source. The Act did not address deeper questions about how school funding at an appropriate level can be equitably distributed among the state's pupils given large differences in access to local revenue sources.

Appendix A. Beaufort County Gross and Taxable Sales: Estimated Visitor and Resident Shares

	2011	2010	2009	2008	2007	2006	2005
Total Gross Sales <sup>a</sup>	\$3,400,903,379	\$3,402,673,803	\$3,506,948,982	\$4,004,958,326	\$4,058,389,971	\$3,887,259,912	\$3,555,090,040
Visitor Gross Spend <sup>b</sup>	\$1,029,000,000	\$956,900,000	\$926,500,000	\$1,020,000,000	\$1,026,300,000	\$958,110,000	\$899,310,000
Resident Gross Spend <sup>c</sup>	\$2,371,903,379	\$2,445,773,803	\$2,580,448,982	\$2,984,958,326	\$3,032,089,971	\$2,929,149,912	\$2,655,780,040
Resident Net Taxable Sales <sup>d</sup>	\$934,529,931	\$963,634,878	\$1,016,696,899	\$1,176,073,580	\$1,194,643,449	\$1,154,085,065	\$1,046,377,336
Visitor Net Taxable Sales	\$1,140,403,152	\$1,077,105,438	\$1,121,627,319	\$1,384,016,720	\$1,556,804,207	\$1,508,632,939	\$1,416,447,720
Net Taxable Sales <sup>a</sup>	\$2,074,933,083	\$2,040,740,316	\$2,138,324,218	\$2,560,090,300	\$2,751,447,656	\$2,662,718,004	\$2,462,825,056
Visitor Share of GROSS SALES <sup>d</sup>	30.3%	28.1%	26.4%	25.5%	25.3%	24.6%	25.3%
Visitor Share of TAXABLE SALES	55.0%	52.8%	52.5%	54.1%	56.6%	56.7%	57.5%

<sup>a</sup>SCDOR Annual Reports FY2005-2011; <sup>b</sup>SCPRT Economic Impact of Tourism on SC Counties 2005-2011; <sup>c</sup>Resident Spending = Gross - Visitor Spend; <sup>d</sup>Resident Net Taxable Sales=State Average 39.4%\*Resident Gross Sales (D. Schunk, personal communication).