SOUTH CAROLINA INFRASTRUCTURE STUDY

— REPORT 3 (REVISED) —

REVENUE/FINANCING ALTERNATIVES AND PROJECTIONS FOR INFRASTRUCTURE DEVELOPMENT

STATE OF SOUTH CAROLINA
STATE BUDGET AND CONTROL BOARD
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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11 MARCH 1997

DRAFT: NOT FOR QUOTATION OR ATTRIBUTION

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PART I— REVENUE/FINANCING ALTERNATIVES

The South Carolina Commission on Intergovernmental Relations (SCACIR) has commissioned a study on infrastructure needs and costs in the state. The report which follows presents both a menu of county/local revenues to begin to address these infrastructure needs and projections of revenues at the state and local levels to determine how much revenues are needed.

Part I of the report presents state and local revenue-raising mechanisms both in South Carolina and elsewhere. This portion of the report begins with a discussion of the issues surrounding infrastructure revenue-raising and the two basic types of approaches to raising these revenues. These are "pay as you go" from local revenues or debt financing of a variety of types. Within these, two basic revenues are presented that: (1) currently exist in the state, and those that have (2) more or (3) less likelihood of being authorized by the state for local use. The latter two categories reflect a combination of both the "close-to-the-vest" nature of the state in authorizing local revenues and the risk associated with, or political acceptability of, implementing certain types of revenues.

Part II of the report provides specific existing and new revenues to meet infrastructure needs. Projections are examples of what has been done elsewhere as opposed to specific recommendations or a particular course of action for the State of South Carolina. Projections are for a full, as opposed to partial, finding of infrastructure need.

THE CHALLENGE OF INFRASTRUCTURE FINANCE

Overview

The current condition of infrastructure is defined by the availability of revenues to fund construction and replacement of needed facilities. In the past a substantial amount of infrastructure was financed with federal and state grants-in-aid in the form of highway funds, sewer and water construction grants, general revenue sharing, and dedicated funding, such as community block grant funds. For a variety of reasons, these funds have been declining over the last fifteen years and, increasingly, the cost of infrastructure has become a local financing obligation. Although there will continue to be federal and state funding for infrastructure, most experts agree that such funds are far less than the amounts needed to provide new and replacement facilities necessary to meet county or municipal needs.

The infrastructure finance problem is compounded by the fact that many of the original capital facilities financed by federal and state grants-in-aid are nearing the end of their useful lives and are in need of renovation or replacement. Thus, not only do local governments need to fund existing facilities' deficiencies and facilities' needs for new growth and development, but they must also fund replacement costs—all at the same time, and in an environment of increasing revenue constraints. The need numbers are usually big, and the scale and array of revenues from which to draw from are usually small.

Meeting the challenge of infrastructure finance is complicated by a number of factors. One of the most problematic of

these factors is the long-standing public perception that infrastructure is free and that adequate public facilities are a right. These perceptions took hold because the link between facilities and funding was so distant from local governments that it "appeared" that others—usually the federal government—paid for required facilities. In fact, for many years those sources of funding were, by and large, available at request. The reality, however, is that as state and federal funding has declined, local governments have become increasingly challenged to meet infrastructure needs. During the 1980s many communities in the United States attempted to meet anticipated infrastructure financing shortfalls by imposing development exactions or fees on new growth and development. Development exactions were popular because they were responsive to anti-growth/anti-developer sentiments and were politically expedient. However, as the cost of facilities and housing continues to escalate, these communities are realizing that there is a limit on the ability of the general population to withstand exactions. Currently, in the city of Econdido, California, the exaction amount collected per dwelling unit exceeds $25,000—and the city is looking for more!

Another factor complicating infrastructure finance is the fact that the cost of facilities continues to escalate, at least in part because of the predominant sprawling pattern of development. The classic American infrastructure model is that an area is developed with two-lane roads. Later, as farms on the periphery are developed, traffic congestion on the two-lane road becomes intolerable, and the road must be improved. The first step is to improve the intersections to relieve pressure points until the road is widened. Then, when the pressure for improvement overcomes the inertia of inaction, the intersection improvements are consumed in a road-widening project that is nominally very expensive because of much higher right-of-way costs in developed areas.

Further, infrastructure is often held hostage to the growth management debate as "no growth" or "slow growth" interests argue that infrastructure begets or accelerates growth. While it is undoubtedly true that infrastructure can stimulate the location and magnitude of growth, infrastructure is a relatively crude tool in terms of limiting growth. Indeed, experience around the country demonstrates that infrastructure decisions based on limiting growth have little impact on the rate or intensity of growth and often result in precipitous declines in levels of service and quality of life. On the other hand, the provision of infrastructure can be a powerful tool in terms of "guiding" development to locations where growth is best served.

Infrastructure finance is also impacted by guilt-by-association—a victim of anti-tax, anti-government sentiments. Although there are inefficiencies in public infrastructure projects, infrastructure is an area in which government has proven itself most cost-effective. Nevertheless, additional funding for infrastructure means more taxes (or whatever label is attached), and even modest efforts to raise additional funds for capital facilities are frequently "tarred" by anti-tax groups.

Finally, the relationship between land use and infrastructure has been too-long ignored. Every decision a local government makes in terms of land use has infrastructure implications. Nevertheless, most decisions are made in a vacuum with little or no understanding of cumulative effects and the necessary and incipient infrastructure commitments that attend land use decisions. This phenomenon is complicated by the tendency of local government to finance future needs on the basis of new revenues derived from growth. When the community is rapidly

growing, income generally exceeds demand (in part because the service needs of new growth and development take place in locations where adequate capacity is available for initial phases). However, as the community matures, revenue accounts begin to balance out, and inevitably the slowdown in the growth of revenues and the aging of infrastructure catch up with the community.

Education

Other states have found that there is a lack of general understanding regarding the relationship between the availability of infrastructure and a community's quality of life, and practically *no* understanding of the cost of infrastructure and the sources of revenue on which infrastructure depends. States have embarked on programs of educating the public and its appointed, employed, and elected officials about the nature of infrastructure and the cost of maintaining and improving it.

Unfortunately, infrastructure is not a particularly exciting subject to the average citizen. Except for those occasions when the sewer or street backs up or when water pressure drops, infrastructure is one of those unexciting topics to which someone else should pay attention.

The unfortunate fact is that the entire spectrum of players in the land use "game" need to be educated about the relationship of infrastructure and quality of life and the realities of infrastructure finance.

First and foremost, the general public must be educated if it is expected to support significant infrastructure initiatives. The history of infrastructure finance initiatives around the country is that they do not succeed unless the public understands the nature of the facilities' supply-and-demand relationship. It is easy to blame growth for traffic congestion; however, as discussed above, traffic congestion is the result of a whole host of forces, including increased travel by existing residents. The difficulty is that the general public has little interest in infrastructure matters except when fees or taxes are increased or when the level of service declines to a level that is unacceptable. At that point, the public is in no mood to be educated.

What it takes is a deliberate program of educational building blocks. These begin with simple concepts—for example, waste stream separation as a way of improving the cost effectiveness of solid waste disposal, then moving on to the more complex interrelationships that control traffic congestion. Many aspects of traffic movement are counter-intuitive and can be "brought home" only in the abstract. For example, the general public assumes that all additional development will result in more traffic. In reality, a new service use that serves an existing residential population from a more convenient location actually reduces traffic congestion. It takes time and deliberation to debunk the myths of infrastructure, and it requires that school-age children, their parents, and *all* segments of the community be educated in the basic concepts that underlie the infrastructure equation. To the extent that local media—print or television—can be induced to address the infrastructure issue, a newspaper series on infrastructure and quality of life has proven to be very effective, as is a local documentary that compares qualities of life in communities with effective infrastructure planning and finance programs versus those that lack such programs.

The education of the general public is also the first step in the education of its elected officials. Experience shows that it takes more than an enlightened public to achieve infrastructure finance objectives. Elected and appointed officials also need to be educated so

that they can winnow through the "heat" of infrastructure and land use debates and focus on the difficult choices that confront them. Brochures, pamphlets, and guides to infrastructure needs and finance are all useful tools that can be used to educate elected officials about the direct and indirect effects of public policy decision making. Symposia are another effective means of educating elected and appointed officials. Elected and appointed officials find comfort in the experience of others with similar obligations and responsibilities, and symposia are a meaningful opportunity for that kind of exchange. Moreover, symposia present a non-adversarial venue for elected and appointed officials to interact with their staff and constituents outside of the context of a particular issue or conflict.

Finally, it is important that local government staff have access to meaningful information about the infrastructure/quality of life paradigm. Professional staff have little time and even less capacity to collect information about other programs and experience regarding infrastructure finance. Ongoing duties make it difficult to focus on more global issues like new initiatives and programs. One way of assisting staff in this regard is to include them in the educational program—both as beneficiaries and as participants. One of the most effective educational experiences is actual involvement in teaching others. Involving professional staff in public presentations as a part of a speakers bureau or as symposia attendees are ideal opportunities for ensuring that all participants in the process are educated.

LONG-RANGE INFRASTRUCTURE FINANCING: A BUSINESS PLAN

In other states it has been found that the importance of both short- and long-term infrastructure planning and financing on the overall economic health and quality of life of the state cannot be over-emphasized. It is essential to both the fiscal integrity of the state and the character and quality of future development that a comprehensive effort be undertaken to identify future capital needs and to plan for these needs.

Infrastructure planning involves the identification of needed improvements along with a short- and long-term plan for financing those improvements. In other states it has been found that infrastructure planning often results in the adoption of a business plan that provides a framework for decision making. This plan addresses the spectrum of land use issues, including how and where growth will occur and who will pay for the infrastructure necessary to serve new development. The business plan balances the demands created by entering developments against the impacts, demands, and deficiencies resulting from existing development.

Taken separately, programming and financing infrastructure improvements are important but somewhat academic exercises. Communities can plan for capital facilities yet not be able to fund their plans, at which point the plans become unrealized. Viewed together, however, the two separate exercises assume new meaning, as the key is the interrelationship of long-range infrastructure planning and long-range infrastructure financing. By considering these two components as part of one effort, the built environment stands a much greater chance of being managed rather than responded to in ad hoc fashion.

Planning for Infrastructure

The array of infrastructure is the skeleton from which the built environment emerges. It is important that the community know what this framework looks like currently and how it is to develop. In an era of government

fiscal responsibility, it is up to the communities to operate in an efficient manner, much like a CEO runs a business. A corporation surely has a capital component included in its business plan. Current equipment needs are well documented, as are future needs for expansion. The business plan contains requirements for replacement equipment as well as for new equipment that would allow for corporate expansion. Financing provisions for replacement and acquisition of new equipment are not left to chance; a well-run corporation has a business plan in place for careful allocation of its capital. A business plan in the public context, like a business plan in the corporate context, is a process for informed and cost-effective decision making.

Other states have found that this kind of careful current assessment of infrastructure and projections of development allow the state to respond in terms of financial resources and directions for growth. By segmenting infrastructure needs into three categories—backlog, rehabilitation, and new growth—priorities begin to take shape. Admittedly, for the latter, the more distant the forecast, the less reliable it is likely to be. Nevertheless, for planning purposes, such projections provide a reference point for various development and funding scenarios. The critical point is that if annual decisions are made without a business plan, money inevitably will be diverted to the issue or crisis of the moment. A sound business plan and corresponding budgeting avoid these crises.

The advantages of a public-sector business plan include the following points:

- First, it creates a more predictable environment for public and private investment and avoids the creation of unrealistic expectations about the timing of development and level of service for needed facilities. If the private sector understands when facilities will be available to serve a particular area, the risk inherent in private-sector investment decisions in those areas and disappointments can be reduced if not avoided.

- Second, an infrastructure business plan and financing program ensure discipline in public-sector decisions. Each year, elected officials are challenged to allocate scarce financial revenues to competing interests. In the absence of a business plan, there is a natural tendency to make budget decisions on the basis of the political pressure of the moment, with the result that less pressing but equally important improvements are unmet.

- Third, infrastructure is provided to existing and planned future development in a manner that makes sense not only from a growth perspective but from a fiscal perspective as well. Too often, counties and municipalities have done the exact opposite: allowing additional development to occur and building needed public facilities at a time when they are much more expensive.

Unlike business planning, local government generally does not have to engage in competition with other local governments. Therefore, it has the advantage of being able to share and cooperate with neighboring jurisdictions. Infrastructure planning is often approached on a regional basis. Roadways do not stop at county boundaries, nor do sewer lines. With regional coordination as part of a multi-level business plan, more efficiency in terms of economies of scale can be achieved.

Three basic components are often found in an infrastructure business plan: 1. a plan for infrastructure development or rehabilitation and a time frame for its

implementation; 2. the ability to respond in the context of evolving circumstances; and 3. a monitoring program of ongoing activities and adapting the business to observed conditions.

Taken one at a time, these three components become part of the business plan.

First, identification of infrastructure needs is broken down by category: public works (sewer, water, roadways, bridges), utilities, parks and recreation, public transit, airport, schools, and libraries, for example. What the region currently has in terms of infrastructure and where it is going in terms of growth are the entries to this equation. Think of this as a spreadsheet, with infrastructure needs listed in rows along the left side, and columns along the top describing cost, financing plan, implementation schedule, and where each project fits relative to the other infrastructure projects.

Second, the business plan is a dynamic document. The state and its inclusive regions must be able to respond to unforeseen changes. Plans should be used as guides, not contracts. For example, if a sewer main were to break and require replacement, even though it was not scheduled for replacement until five years later, the infrastructure business plan must be flexible enough to adjust. Funding must be diverted from a scheduled improvement to respond to this urgent need.

Third, the effort includes annual reviews that analyze the demand placed on existing services and the capacity of these services to meet need. These reviews consider development actually approved versus projected development and adjust the projection for future infrastructure needs accordingly.

Financing Infrastructure

Infrastructure planning can maximize savings locally and within the region. With local budgets stretched thin, this savings is tantamount to garnering additional revenues without a concomitant tax increase. By planning ahead, local governments will save real dollars. For example, a two-lane road constructed this year, followed by construction of turning lanes on that same road three years hence, costs the community additional money. Even accounting for the time value of money in paying for the construction of those turning lanes three years ahead of time, the local government will experience a savings at the end of those three years if it installs the two-lane road with turning lanes at the same time.

- First, debt financing, which is done through bond issuance, allows a public jurisdiction to spend currently and spread out the repayment for the cost of an improvement over successive generations of service users or beneficiaries. This financing technique reduces the demand on the current cash flow of government and allocates the cost to those who will be using the infrastructure after it is built or replaced. Furthermore, if the economy expands and income increases, the cost to the individual taxpayer is less burdensome than full payment at the time of construction.

- Second, there are economies of scale that are realized in the context of an infrastructure plan. All too often, a particular improvement requires an expansion that ends up costing more money than if it had been constructed in its entirety at the outset.

- Third, avoiding crisis expenditures by good, sound, long-range planning produces savings. With a business plan in place, the community has a

better sense of when infrastructure will no longer be functional; thus, before an emergency arises, the infrastructure can be repaired or replaced.

The public jurisdiction carefully factors in the amount of time necessary to plan, fund, design, and construct the projected public facilities, in conjunction with a particular development being built. Typically, this takes place within the strictures of a 5-year near-term plan where the business plan is adopted in year 1; funding is identified in year 2; the public facility is designed in year 3; and the facility is actually built in the fourth year.

Once infrastructure needs have been identified and a time frame for their completion formulated, the public jurisdiction then examines the various funding mechanisms available to pay for these facilities. Accompanying this analysis is a calculation of the source and proportion of demand from existing development, new and projected development, and other factors, such as environmental regulations that make the provision of public services more expensive and should likely be shared by the citizenry at large.

The advantages of an infrastructure business plan are evident in an era of fiscal responsibility. First, decisions regarding incurring debt require a long-range perspective due to the length of repayment periods. What may seem like a beneficial decision to meet an immediate need may not be justifiable in the face of long-term revenue demands to meet overall, and perhaps more important, capital improvement needs.

Second, public support for revenue raising is enhanced by a regularized approach to infrastructure needs. Experience shows that public support for revenue increases is linked directly to perceived confidence about the benefits that will be forthcoming if additional revenues are made available. The more clearly the benefits of a proposed program of public investment are communicated to the public, the more likely the public will support their funding. In addition, an established schedule of improvements makes it easier for residents in one region to understand that monies are being committed in other parts of the state now, and that their area will be on line for funding in the future.

Finally, there are innumerable cases where stepping back and looking at the entirety of what has to be done is much more resource-efficient than approaching investments incrementally. This is particularly true with regard to road building, where expansions soon after the road has been completed require whole new intersection alignments that, had they been done at the time of original construction, might have been half the cost.

In devising an infrastructure business plan, care must be taken to identify the source of the demand and possible sources of funds—the proverbial question of "Who should pay?". Although the current public perception is that new residents should pay for necessary capital facilities and public services, the reality is that all citizens foot the bill one way or another.

Often, after various financing sources are identified, public jurisdictions adopt present (next two years), near-term (next five years), and long-term (next 20 years) financing documents to fund the improvements. Each infrastructure business plan has a section consisting of an annual budget. The annual budget section provides policymakers with an accessible reference point for funding coordination.

The Use of General Revenues

General revenues consist of money available to governments from taxation

and fees. This can be in the form of property, income, or sales taxes, building inspection and license fees, and the like. Once collected, the general revenue represents "money in the bank" to the public jurisdiction. There is no borrowing or creative finance involved with general revenue. Consequently, expenditures of general revenue are made at the discretion of public officials. How public officials choose to spend general revenue is critical in terms of infrastructure planning.

The goal is disciplined adherence to a long-range business plan. However, this is not always completely realistic. For example, should a public jurisdiction be faced with an unforeseen development opportunity that comports with the policies but not specifics of its comprehensive plan, the jurisdiction should not be so inflexible as to turn away such an opportunity. Rather, it should be able to adjust its business plan to accommodate change. Priorities should be set within the business plan that identify the most critical projects and allot the funds most readily available. This continuum of priorities is essential because it is the insurance that the highest priority projects remain on schedule if unforeseen development opportunity jostles the planned queue. Knowing ahead of time what it can more easily postpone versus what it absolutely cannot sacrifice in terms of capital improvements affords the jurisdiction an opportunity to plan in a way that responding to a capital funding crisis does not.

The Use of Debt Financing

One of the problems confronting infrastructure planning and programming is the reality that annual revenues are subject to periodic increases and decreases that relate to national and regional economic cycles. When times are good, funds are available for infrastructure improvements needed to serve new growth and development—a circumstance that takes advantage of the economy. On the other hand, when the economy takes a turn downward, revenues decrease and the allocation of limited financial resources to long-range capital needs become more difficult. The trouble is that if funding is allocated only to current budget items as opposed to long-term capital needs, a level-of-service dilemma arises when the economy begins to grow and the needed infrastructure is not available. Some public jurisdictions address this aspect of infrastructure financing by dedicating a set percentage of their annual revenues to capital improvements each year, no matter what the exigencies are. In fact, there are public jurisdictions where a set percentage for infrastructure is established in their charters.

Long-term infrastructure planning and financing require the strategic use of debt in order to ensure that required facilities are available when needed despite insufficient cash flow. If all available funds are annually budgeted for current needs, it is unlikely that long-term needs will ever be funded. Indeed, it is probable that there will always be a full menu of "immediate" needs, each with a constituency in support of immediate funding. On the other hand, not all future cash flow should be committed to debt, so that some revenues will be available for current and unanticipated future needs.

There are no magic formulae for allocating anticipated revenue to debt versus current budget. To a certain extent, legal and market limits will dictate the amount of debt that a particular unit of government can undertake; however, the real control is a business plan that depicts relative needs for the short-, mid-, and long-term periods.

Selected Use of User Fees

User fees are one of the most equitable forms of capital facilities financing: those who use pay a fee according to the quantum of use. Toll roads are a simple example of the "user pay" equation: each time a driver uses a toll road, the user pays a toll that is used, at least in part, to repay debt incurred to construct the toll road. The principal shortcomings of user fees are the administrative and convenience costs appurtenant to collection of the fees and the potentially disproportionate impact of user fees on the economically disadvantaged.

User fees are collected in a variety of ways. Jurisdictions collect sewer user fees by way of monthly bills for services based on historical or assumed volumes of discharges. Tolls are collected on roads in the form of payments to automatic or manual toll collectors or, increasingly, by electronic readers. Some user fees are very simple—collection of solid waste only in authorized containers that are purchased from the service provider.

The range of services that can be financed with a user fee is limited in several ways. For example, most state constitutions—including South Carolina—create a right to free and uniform local schools. These provisions have been routinely interpreted to prohibit tuition or other "access fees." It is possible in some states to finance special extracurricular programs with user fees, though the courts have been very cautious about the equal protection implications of these sorts of programs. The other primary limitation on user fees is the administrative and convenience costs imposed by user fee programs. In some states, for example, the inconvenience of periodic toll booths has proven to be an immutable obstacle to user fees for roads. This perspective is undoubtedly infected with constituent frustration with perceptions of the growing cost of government and diminishing levels of service: "Why should we have to pay for what we have always gotten free?" In other circumstances, the user fee involves complex data management problems—identifying users, the quantum of their use, and the cost of billing and collection.

User fees are currently used in the state for a variety of services including water, sewer, and solid waste. In addition, user fees are collected for recreational facilities like municipal golf courses.

The Building of Public–Private Partnerships

The timely provision of required public facilities is a complicated process that requires the public sector to anticipate national and regional economic trends, to match those trends to local development trends and entrepreneurial initiatives, and to raise the necessary funding to ensure that adequate public facilities are available when needed to serve new growth.

In some areas of the country, this complicated process is managed through adequate public facilities regulations. These programs involve the regulation of the timing of development and, in effect, require development to wait until public facilities are available. The "timing and sequencing" approach to managing the growth and development of a community begins from the premise that the community wishes to accommodate expected future growth, rather than to block it, but wishes to ensure that the timing and sequencing of new development are coordinated with the provision of adequate capital facilities and services to serve and support that new development. "Timing and sequencing" recognizes and draws on the inexorable link and interdependency between private development and public facilities and services. The growth and development of a region depends heavily on the public sector to provide a

range of capital facilities and services (roads, water supply, wastewater treatment, schools, and so on). Indeed, government decisions to build capital improvements have always played an important role in opening new lands to development and thus guiding patterns of development. Accordingly, government decisions about the nature and location of public facilities and services can play a strong role in guiding development to particular locations. On the other hand, government infrastructure decisions are often responsive to private development patterns, with the decision to open new lands to development coming from the private sector, with an expectation that the government will step in to provide or extend the necessary facilities and services into the area.

One of the most common forms of public-private partnerships is a concept that is sometimes referred to as "front-ending" agreements. Under this concept, the public sector establishes an infrastructure business plan that schedules improvements based on anticipated growth trends and available financial resources. If infrastructure to serve a particular development is not scheduled for installation in the near future, the developer has three alternatives: 1. wait until the needed infrastructure is installed according to the long-range capital facilities plan; 2. persuade the local government to amend the business infrastructure plan to give the needed infrastructure priority; or 3. agree to install the infrastructure at his own expense, with an understanding that he will be reimbursed when funding becomes available under the business plan.

At the other end of the spectrum of public-private partnerships is the privatization of infrastructure, whereby the public component of the partnership is limited to establishing level-of-service standards under which private operators provide service on a for-profit basis. Water and electricity are currently provided in South Carolina on a private basis, subject to regulations imposed by the state. In other parts of the country, sanitary sewer service, solid waste management, and—in some limited circumstances—roads are provided by private operators under franchise agreements with a local government.

The essence of the public-private partnership is maximizing the economic potential of both the public and private sectors. For example, it is a simple fact that the public sector has the ability to borrow money on more favorable terms than does the private sector.

On the other hand, the private sector has significant advantages in terms of competitive bidding and economies of scale in constructing improvements. For example, if a major arterial passes through a large parcel of land that is proposed for development, it is very likely that bidding the construction of the arterial along with the local improvements required for the development of the parcel will result in overall savings as bidders look at the project as a whole. And it is not just that the bidding process can be more effective: there are economies of scale that can be realized, as only one contractor incurs contain "soft" costs as opposed to multiple contractors. Similarly, the amount of "cutting and patching" that is required to meld separate public and private construction activities can be reduced when infrastructure is provided by a single contractor team.

Finally, public-private partnerships can be an effective means of promoting more efficient patterns of development. One of the most problematic aspects of real estate development is uncertainty—uncertainty in terms of development approval, availability of infrastructure, and the market. One of the benefits of a partnership approach to development is that much of the uncertainty of

development approval and infrastructure is eliminated.

STATE REVENUE-RAISING AND FINANCING MECHANISMS

A. STATE REVENUE-RAISING MECHANISMS

By far, most of South Carolina's general fund revenue is generated through the individual and corporate income tax and the state sales tax. The individual income tax is the top revenue-generating source for the state, responsible for more than 40 percent of the state general fund. The individual income tax and the state sales tax contribute more than three-quarters of the state general fund annually.

CURRENT TAX SOURCES

Income Taxes

Jurisdictions Currently Authorized: State.

Description: The income tax is one of the most attractive sources of revenue generation because it is so responsive to economic growth and inflation, and it is widely seen as equitable to the state's 46 counties. Sixteen metropolitan and major coastal counties contain about 72 percent of the population and contribute about 78 percent of the state's individual income tax revenues. Greenville, Charleston, and Richland counties account for about one-third of this 16-county total. The most populous 22 counties generate almost 88 percent of the state's individual income tax revenues. Total estimated fiscal year 1996-97 revenue from income taxes is about $2.1 billion.

Obstacles: High personal and corporate income tax rates tend to erode South Carolina's current image as a business-friendly state.

Remedies: Income tax rates should not significantly exceed those of other southeastern states.

Retail Sales Tax

Jurisdictions Currently Authorized: State.

Description: The retail sales tax is South Carolina's second most important source of general fund revenues. The current state sales tax is set at a rate of 6 percent and has broad coverage. It is particularly critical that South Carolina maintain a growing and viable retail sales base because all state revenue generated through the sales tax is earmarked for the state's educational system. Areas of the state that serve as major population and employment cores also serve as centers of retail sales activity. Data confirm that these areas serve as retail sales magnates, drawing in consumers from outlying counties to shop for goods. Almost 82 percent of the sales tax was generated in the 16 metropolitan and major coastal counties. The 22 most populous counties are responsible for almost 90 percent of the total net taxable sales. Total estimated fiscal year 1996-97 revenue from retail sales taxes is about $1.6 billion.

Obstacles: Merchants near state borders may suffer revenue loss if consumers opt to make their purchases in states with lower state sales taxes.

Remedies: State retail sales taxes cannot be raised to significantly higher rates than those of neighboring states.

State Motor Fuel Tax

Jurisdictions Currently Authorized: State.

The current tax of 17 cents per gallon has been in effect since January 1, 1989. A portion of this tax is currently shared with counties and municipalities. Gas

tax revenues are required to be spent for highway and road construction, improvements, and maintenance. South Carolina's 17 cents per gallon tax rate exceeds the rate in only five other states. Whereas Alaska, Florida, Georgia, New Jersey, and Wyoming have lower tax rates, they also have a much broader basis for revenue support provided to state highways. Total estimated fiscal year 1996-97 revenue from motor fuel sales taxes is approximately $375 million.

Obstacles: As in all retail sales taxes, vendors near state borders will likely experience "leakage" of revenue to lower-taxed states if the tax differential is great enough.

Remedies: Ensure that the South Carolina motor fuel tax is not significantly greater than those of the surrounding states.

Cigarette/Liquor Taxes

The state currently collects a 7-cent-per-pack tax on cigarettes and tobacco products, which is all remitted to the state. The state also collects taxes on alcohol. The amount of tax imposed varies with the type of beverage. The state of South Carolina shares 4.5% of general fund revenues (of which these two sources are a part) with cities and counties based on population.

Obstacles: State does not usually want to transfer more even if it collects more.

Remedies: Encourage increases in state collected revenues to be shared with locals.

LOCAL REVENUE-RAISING AND FINANCING MECHANISMS

One of the most common complaints from local officials is that when the 1975 *Local Government Act*, or *Home Rule Act*, became statute it provided structural home rule for local governments but did not address the issue of fiscal home rule. The Act gave localities forms, or structures, of government to select for self-governing but it did not broaden the ability of cities and counties to *raise revenue*. In other words, cities and counties can do practically anything necessary as far as determining what services they want to provide, but they have little latitude in deciding how they wish to pay for those services. This translates into a long-term dependence on the property tax as the local revenue mainstay.

South Carolina's cities and counties are very much dependent on the property tax as the major general fund revenue source. In fiscal year 1995, the property tax generated approximately 49.7 percent of all *county* general revenue in the state and 67.2 percent of all "own source," or locally generated revenue. Similarly, *municipalities* were dependent on the property tax for 38.6 percent of their general revenue and 47.4 percent of their locally generated revenue.

According to annual polls conducted by the U.S. ACIR, the property tax ranks consistently first or second as the least popular tax in the country based on citizen opinion of fairness. Evidence of this public attitude is easily seen in South Carolina as calls for property tax limits and alternatives continue to surface.

In addition to public attitudes regarding the property tax, one must also question the ability of the property tax, or any single tax for that matter, to generate sufficient local government revenue on a long-term basis. In 1984, the SCACIR authored the original *Local Government Finance Act* in an attempt to provide cities and counties with general revenue alternatives to the property tax. The Commission operated on the assumption that unprecedented future service demands could not be funded adequately through dependence on a narrow general revenue base. A

diversified local tax base was viewed as the best means by which local governments could finance their futures. Most importantly, varying local governments have different needs and preferences. No single alternative revenue option is attractive to all localities in all areas of the state. For this reason, the *Local Government Finance Act* offered a menu of six local option revenue sources. These sources included:

- Local Option Sales Tax
- Local Income Tax
- Local Occupational (payroll) Tax
- Local Admissions Tax
- Motor Vehicle License Tax
- Coin Operated Device Tax

Of these revenue sources, only the Local Option Sales Tax was enacted for use by cities and counties as a general revenue source. This legislation passed during the 1990 General Assembly Session. An adequate state growth policy usually offers multiple fiscal options for use by cities and counties to finance their future. Only through the use of a diversified tax mix will the state's fastest-growing communities meet increased service demands. Additional revenue options would also be useful in those areas of the state that are not experiencing substantial growth and must depend on a stagnant or declining property tax base to generate operating revenue. A menu of existing and alternative revenues is discussed below.

A. LOCAL REVENUE-RAISING MECHANISMS

The revenue sources available for new infrastructure at the local level are quite varied, but the diverse sources can, in principle, be placed in a few general categories. First, general revenues in the form of taxes and fees may be used to finance infrastructure. The most common source at the local level is the property tax, but other sources of general revenue might also be used. The money may be used to build infrastructure directly or to pay back bonds that are used to finance it. This mechanism can be used by special assessments on a subset of taxpayers. Second, a charge may be levied for a service, such as water provision, and part of the revenue from the charge may be used for infrastructure finance, again either directly or as a revenue source for bond funding. Finally, a charge may be levied based on the anticipated cost of providing new service to development. Typically, such fees are accumulated to provide future capacity expansion rather than used to fund bond measures.

CURRENT TAX AND FEE REVENUE SOURCES

Property Taxes

Jurisdictions Currently Authorized: Municipalities, counties, school districts, special districts.

Description: The property tax is used by South Carolina cities, counties, schools and special districts primarily to raise revenue to fund the general operations of local government. Property tax administration, governed by the South Carolina Constitution, the state's taxation laws, and regulations of the Department of Treasury, involves the process of assessment, equalization, levy and collection.

South Carolina assessment ratios are set by statute at either 4%, 6%, 9.5%, or 10.5% of market value. These are as follows:

a. Owner-occupied residential property assessed at 4% of market value.
b. Agricultural property assessed at 4% for private and 6% for corporate based on a use value.
c. Manufacturing, business personal property, and utility property assessed at 10.5% of market value.

d. Private carlines, airlines, railroads, and pipelines assessed at 9% of market value.
e. All other property (commercial and residential nonowner-occupied) assessed at 6% of market value.

Property tax proceeds may be used for any purpose for which the unit of government can lawfully expend funds. Property taxes can help finance infrastructure development, either as:

- a direct funding source for capital projects, or
- a repayment source to pay debt service on municipal bonds, or
- a source of security on General Obligation Bonds retired by another revenue source, such as sewer fees.

As with any local tax source that requires voter approval, the degree to which property taxes are a viable option for funding infrastructure projects is subject to the political and economic climate of the requesting entity.

Obstacles: Property taxes are subject to voter approval. Since property taxes have been heavily utilized by local jurisdictions, there tends to be strong voter resistance to the extension of this tax.

Local property taxes are also increasingly the target of anti-tax forces and are vulnerable to caps and other kinds of voter-initiated limits (e.g., Proposition 13 in California and Amendment 1 to the Colorado Constitution).

Much of the property in the state is exempt from taxation, such as federally owned lands, government owned real property at any level, and land held by churches and charities.

Remedies: Jurisdictions can evaluate the potential of other sources of revenue. Municipalities and counties have clear taxing powers; special districts may require legislative authorizations.

Local Option Sales Tax

Jurisdictions Currently Authorized: Municipalities and counties.

Description: In order to enact a local option sales tax, a successful county-wide referendum must be held. When the tax is adopted, it applies on a county-wide basis. Both municipal and county governments are required to use 71 percent of all revenue generated by the tax to roll back real and personal property taxes. The remaining 29 percent may be used at the discretion of the city or county as general revenue. This requirement may diminish the ability of this revenue source to assist localities in meeting new infrastructure needs, addressing increased service demands, and complying with federally mandated expenditures. In addition, many local officials have also had to commit more than 71 percent of generated revenue towards rolling back property taxes in order to gain political support for the tax. In some cases, 100 percent of sales tax revenue received has been applied to replace property tax revenue. In addition to the expenditure requirement, counties that generate more than $5 million in sales tax revenue must contribute up to 5 percent of their revenue to a supplemental fund. This fund is used to supplement those counties that generate less that $2 million in sales tax revenue. Only those counties that have adopted the tax are eligible to receive these funds. Total estimated fiscal year 1996-97 revenue from local option sales taxes: $35 million.

Obstacles: Merchants claim that local option sales taxes drive retail business elsewhere.

Remedies: A small sales tax (1% or less) piggy-backed onto a state sales tax and collected by the state is often unnoticed by local consumers.

Business License Fee

Jurisdictions Currently Authorized: Municipalities and counties.

Description: A business license fee is often required of businesses that operate within a municipality. The fee, which is nominal and paid annually, is applied to both businesses that are physically located within the taxing jurisdiction and enterprises that conduct business within the jurisdiction. It is used to supplement general revenues, some share of which can purchase facilities directly or pay off bonded debt.

Obstacles: Business license fees are often characterized as anti-business although the amount of most business fees is such that they do not have that effect. In addition, the administrative cost of collection can be problematic unless there are other taxing or collection incidents to which collection of the fee can be appended.

Local Admissions or Amusement Taxes

Jurisdictions Currently Authorized: Municipalities and counties.

Description: This local income is often not collected on the local level. The state collects an amusement device tax, a share of which (typically 20%) is distributed among counties based on population. Municipalities over a certain population size may also levy an amusement device tax.

Obstacles: Each new tax requires some system of collection. Both the cost and the administration can be burdensome to jurisdictions. Special local taxes can make the levying jurisdiction less attractive than its neighbors as a place to do business, or simply to live.

Local Accommodations Tax

Jurisdictions Currently Authorized: Municipalities and counties having hotel/motel accommodations.

Description: This tax provides that a two percent tax be charged on all lodging bills. Proceeds, minus the cost of administration, are returned quarterly to the municipality or county in which they are collected. Cities and counties, however, are restricted in how this revenue is spent. The first $25,000 received goes to the general fund of the city or county and is exempt from any regulation of expenditure; 25 percent of the balance is allocated to a special fund for advertising and promotion of tourism; and the remaining 75 percent must be used for "tourism-related expenditures." Some of these expenditures include the promotion of tourism, arts and cultural events, and the construction and maintenance of facilities for civic and cultural activities. Expenditure mandates tied to the accommodations tax limit the ability of the tax to be viewed as a "general" revenue source. The law also contains an equalization provision that requires localities that generate substantial amounts of revenue to share revenue with areas that generate minimal amounts. Total estimated fiscal year 1996-97 revenue from local accommodations taxes is about $125 million.

Obstacles: Historically, local accommodations taxes are used for tourism promotion and not for general purposes. Although they are popular with the general public, they are hotly contested by the tourism industry, which does a good job of ascribing anti-competitive effects to such impositions.

Rental Car Tax

Jurisdictions Currently Authorized: Municipalities and counties.

Description: Some jurisdictions currently levy a 5% rental car tax to offset local property tax liability on automobiles.

Obstacles: Each new tax requires some system of collection. Both the cost and the administration can be burdensome to jurisdictions.

Remedies: Require collecting business to forward revenues to a special account in the municipality or county.

ALTERNATIVE TAX AND FEE REVENUES—MORE LIKELIHOOD OF ACCEPTANCE

Business Income Tax

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: Counties and municipalities, upon voter approval, may impose a business income tax on the net income of the business. The mechanics of a business income tax are similar to a business license fee.

Obstacles: A business income tax is generally viewed as anti-business and may have an adverse impact on business recruitment. The economic implications of a business income tax may not be sufficient to constitute a real deterrent, but in the highly competitive world of business recruitment, competitors find it easy to cast a competitor's tax environment in a negative light.

Franchise Taxes or Fees

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: Franchise taxes or fees are increasingly used to fund local government revenue needs. Cable TV has been a particularly fertile arena for local government revenues.

Obstacles: Almost none if tax rates are low.

Utility Taxes

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: Utility taxes are a common source of revenue that is used in other states for local general revenue (and thus infrastructure payment) purposes.

Obstacles: To the extent that utility taxes make such facilities less competitive, utility fees may be unpopular with economic development interests. Utility taxes can be particularly problematic when imposed on customers with high energy-consumption needs.

ALTERNATIVE TAX AND FEE REVENUES—LESS LIKELIHOOD OF ACCEPTANCE

Local Gasoline Taxes

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: A county or city-wide gasoline tax applies to the sale of petroleum products. Proceeds from a local gasoline tax are usually restricted to fund highway and road construction, improvements, and maintenance.

Obstacles: Local option motor fuels taxes have been effective in a number of states; however, they are difficult to pass at referendum, unless the purpose for the levy is limited and clearly described. In addition, local option gas taxes can have a dislocating effect if they are not imposed uniformly throughout a region. If county A imposes a levy, but county B does not, then there will be some shift in the locus of fuel purchases, as well as the location of transportation-dependent uses, which tend to concentrate in areas with the lowest fuel costs.

Remedies: Specify carefully the purpose of the tax and keep the rate increase as low as possible.

Local Vehicle Registration Fees

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: Some states permit municipalities and counties, upon voter approval, to impose a local vehicle registration fee. This fee is added to the vehicle registration fee currently collected by the state. Revenues from this source are restricted to highway and road construction, improvements and maintenance.

Obstacles: Although significant for infrastructure finance, local vehicle registration fees are regressive for lower-income families. This could be overcome with a sliding registration fee: "x" dollars for the first vehicle per household and 2 or 3 times "x" for additional vehicles, under the assumption that poorer households have fewer vehicles.

Remedies: Careful crafting of the registration fee to account for both uniformity and equity of application.

CURRENT SPECIAL ASSESSMENT AND DEVELOPER EXACTION REVENUE SOURCES

Special Assessments

Jurisdictions Currently Authorized: Municipalities and counties.

Description: To fund and finance infrastructure projects that directly benefit specific properties, South Carolina law allows cities, counties, and special districts to utilize special assessments. Since special assessments are levied on property, they are similar to property taxes. However, unlike property taxes, special assessments are specifically designed to recover part or all of the cost of an improvement that specially benefits an individual property.

Special assessments are not generally used for projects such as sewer or water treatment facilities, or community centers, since the community as a whole rather than specific property owners benefits from the project. It should be noted, however, that so long as the subject matter of an assessment is authorized, special assessments can be imposed if the benefit received is equal to or greater than the assessment imposed. Special assessments can be levied against properties to fund infrastructure such as:

- streets
- sidewalks
- water and sewer improvements
- neighborhood recreational facilities and equipment

Costs associated with improvements are assessed against properties based on formulas that relate the charge against the parcel of property to the services or benefits received. Formulas are usually based upon frontage, square footage, or a combination of the two. Infrastructure projects financed through special assessments may be structured on a "pay-as-you-go" basis, or special assessment proceeds may be used to pay the debt service on bonds. The decision regarding which financing mechanism to use depends on the type and cost of project and how property owners remit their assessments—either in lump sum or installment payments.

Obstacles: The principal obstacle to the use of special assessments is public resistance to the imposition of assessments on existing properties and the due process implications of the approach. Under most special assessment laws, those assessed must have a meaningful opportunity to contest the reasonableness (the relationship between the benefit and the

assessment) of a special assessment. In many states, the practicality and usefulness of special assessments are frustrated by individual hearing requirements.

Remedies: Careful attention paid to who is benefiting from the improvement versus who is being assessed.

Developer Exactions

Legal Authorization: Established by local ordinance.

Jurisdictions Currently Authorized: Municipalities and counties.

Description: Established by local ordinance, developer exactions, which are similar to system development charges, are cash or in-kind payments made by real estate developers to a local government to help defray some or all of the added public infrastructure costs resulting from a particular development. Developer exactions differ from impact fees in that they may be negotiated on a project-by-project basis and vary as to the amounts collected, the timing of payment collections, and the uses of funds.

Exactions are most common among smaller communities that lack the sophistication to impose schedules of impact fees or enact other revenue sources. Exactions are also used in combination with special assessments in areas that face rapid growth and the consequent strain on public facilities. Exactions can come in the form of a dedication of land for park facilities and open space, road construction, or construction of sewer and water facilities needed to serve new residential development.

Obstacles: Law requires that exactions be earmarked and maintained in separate accounts for each type of exaction. The income stream from exactions is uncertain and therefore difficult to predict.

A recent U. S. Supreme Court decision may place a burden on the government to demonstrate rough proportionality in the amount of the exaction in some sort of "individualized determination."

Remedies: Provide statutory or other clarification of "exactions" and their permitted uses.

INCREASED PROPERTY VALUE PAYING FOR IMPROVEMENTS

Economic Improvement Districts (EIDs)

Jurisdictions Currently Authorized: Municipalities and counties.

Description: Cities and counties in other states are authorized to establish economic improvement districts under state statute. A city may make assessments "upon the lots which are specifically benefited by all or part of the improvement" for the cost of economic development projects such as:

- parking lot improvements
- landscaping of public areas
- business promotional activities

Economic improvement district assessments are often levied for a maximum term (e.g., 5 to 10 years). Levies may not exceed in any one year a percentage of the equalized value of the property within the district (typically 1%). Usually only properties zoned for industrial or commercial uses are assessed; no residential properties are assessed.

Obstacles: Special assessments are applied according to the benefit derived from a project. Therefore, any project that is of general benefit, such as a wastewater treatment plant, cannot utilize special assessments.

Not all assessed parties will accept the assessment.

Not all assessed parties pay their assessment on time or at all. Recessions have a noticeable effect upon the rate of delinquency; strong growth periods cause increases in prepayments. These factors make EIDs a somewhat unreliable revenue source requiring a large reserve or "guaranty" fund (as used in the state of Washington through its Special Assessment Bonds).

There has been increasing scrutiny of these kinds of districts from the federal level regarding their use in obtaining tax-free financing for private activities.

Remedies: Most state laws nationally limits assessments to the cost of the improvement only. They should be expanded to include the cost of establishing reserves and/or a percentage over the cost to provide greater protection from delinquencies and negative arbitrage (investment loss relative to interest cost). Economic Improvement Districts should be permitted to apply their special assessments to special assessment financing, if so desired. Current law appears to prohibit this.

Tax Increment Financing (Urban Renewal Districts)

Jurisdictions Currently Authorized: Municipalities and counties.

Description: Unlike special assessments, which are established to make infrastructure improvements that benefit specific properties, an urban renewal district is established to remedy "blighted" conditions that may exist within a specified area of a community. Most state laws define those conditions that constitute "blighted" and establish an administrative structure known as an urban renewal agency to oversee the process. Tax increment financing can be used for infrastructure needs such as streets and rights-of-way, utilities, property acquisition and development, and housing.

At the time a tax increment financing district is created, property tax values within the district are "frozen." As these properties are developed and their assessed value increases, the urban renewal agency keeps the property tax difference, or increment, between the new tax proceeds resulting from the development and the frozen base. The property tax increment revenues can then be used to pay the cost of infrastructure improvements within the district.

Tax increment financing districts are often limited to a maximum amount of the assessed valuation of the municipality.

Obstacles: Extremely vulnerable to variations in the tax rate, whether natural or imposed by changes in law.

Tax increment financing may be unpopular with other downtown or redeveloping areas that believe they are denied revenues that would otherwise be made available to them. Their opposition makes it difficult to establish an urban renewal district.

Most statutes limit tax increment financing to areas that contain slums or are blighted.

The host taxing authorities who give up the increment are generally opposed to tax increment financing unless there is otherwise a clear benefit to allowing the diversion of future taxes. This is particularly true when the host taxing authority's obligations increase as a result of the development.

Since these are funded by property tax increments, all of the problems discussed above relating to property taxes apply to these districts with the exception of the voter approval

requirement. Although not required, voter approval is still solicited by some jurisdictions, since urban renewal districts are usually referred by petition if not offered to a vote initially.

Remedies: Assure that tax increment financing is utilized only where growth would not occur without public investment.

USER CHARGES

User Fees

Jurisdictions Currently Authorized: Virtually all local public corporations, i.e., municipalities, counties, special districts, ports, and the like.

Description: User fees are another common method of paying for infrastructure improvements such as water, sewer, and storm drainage. System user fees are used to pay the ongoing operating and maintenance cost of a public facility; they also may be used to pay bonded indebtedness for construction and improvements.

Unless a program has been established for some time and has an existing rate-payer base, the cash flow from user fees generally does not permit direct financing of infrastructure projects, except where a portion of the user fee is accumulated over time for future projects. In most cases, accumulation of user fees requires rate increases that are both well beyond immediate cash needs and are politically unpopular. Therefore, a user fee system for large infrastructure projects may support the debt service of a financing resource such as a bond issue (General Obligation or Revenue Bond).

User fees are particularly desirable because they promote conservative behavior due to the direct relationship between the quantum of use and the amount of the fee.

Obstacles: Certain methods of collecting user fees involve a significant amount of user inconvenience. For example, toll roads require periodic interruptions of user movements to collect tolls.

User fees are normally set by an appointed or elected body; as a result, they tend to lag actual costs because constituents resist any increase in costs—whether a "tax" or other charge.

Rates that significantly exceed neighboring rates will decrease competitiveness or make an area less attractive to development. Rate payers resist as fees escalate.

Major increases in rates can affect the utilization of the service (e.g. elasticity of demand) and thus not produce as much revenue as expected.

Remedies: Many major capital projects cost more than reasonable rates can deliver, especially in small areas. State assistance may be needed.

Wholesale Service Contracts

Jurisdictions Currently Authorized: Special districts.

Description: Utilities such as water and sewer that may have excess capacity provide service to other public entities located outside their service area boundaries through wholesale service contracts. These agreements set forth the terms and conditions under which operating and capital costs are allocated to the wholesale customers. Wholesale service contracts are a cost recovery mechanism and can be combined with other funding and financing resources to meet the cash flow requirements for infrastructure construction and operations.

Obstacles: Selling outside may become more lucrative than pooling service within boundaries.

Remedies: Regular monitoring of sales accounts.

Impact Fees

Jurisdictions Currently Authorized: Cities, counties, and certain special districts.

Description: Impact fees are charges assessed against new properties to provide for both current and future infrastructure capacity needs. Impact fees can be used only to fund capital improvements in connection with water supply treatment and distribution; waste water collection, transmission and disposal; drainage and flood control; transportation; public building construction; and parks and recreation. Impact fees cannot be used for the costs of operations or routine maintenance.

Obstacles: Developers resist paying these fees, which add to their up-front costs. These revenues can vary widely from year to year and often do not produce sufficient revenue for major projects like treatment plants.

Revenues are not available until growth occurs. Impact fees cannot fund major infrastructure in advance of growth.

Remedies: Ensure that fees bear a strong relationship to the cost of the infrastructure that is being provided.

B. FINANCING MECHANISMS

One of the most critical challenges facing local governments as they strive to meet new growth demands is the *financing* of required capital projects. Assuming a city or county council does identify funding sources for a project, they may then face another major impediment—their debt ceiling. This problem is not critical if a project is one that generates revenue to pay for itself, such as a water system. Rather, debt limitations for local governments in South Carolina pertain to general obligation debt, debt that is backed by the full taxing power of the issuing locality. Projects typically funded by incurring this debt include non-revenue generators such as city halls, county courthouses, and administration buildings.

The local government general obligation debt limitation in South Carolina is the same for cities, counties, and school districts. This "debt ceiling" is equivalent to 8 percent of the assessed value of the taxable property in the jurisdiction. Any general obligation debt that would exceed the 8 percent limit may be incurred only by a favorable referendum of the voters of a jurisdiction, an action that has become increasingly more difficult to achieve.

In 1989, the SCACIR issued a comprehensive report examining the issue of local government debt and state constraints. The report found that high growth areas—such as the state's urban and major tourism counties—found debt limits burdensome as they attempted to reinvest in community facilities to deal with their present and future growth. Most importantly, the Commission concluded that local government debt levels should be limited, but that the demand for new public facilities required that the present constitutional debt limit, and debt issues in general, be reexamined to determine their impact on infrastructure development.

In examining the present debt limit, the Commission noted that, although localities are heavily reliant on property taxes, only 40 to 45 percent of the average local government budget was funded through the property tax. Cities and counties also rely on business licenses, user fees, and intergovernmental funds to add to their revenue picture. The Commission concluded that for a debt limitation to be meaningful and equitable, it should be imposed on the entire local government's revenue composition, rather than being based solely on property values. The

recommendation was adopted to continue to limit local borrowing, but that the limit should be expressed as a percentage of a local government's total operating revenue.

The state's low debt limit has resulted in many local governments electing to use lease-purchase agreements to meet capital needs. These agreements do not count toward their general obligation debt limit. In general, this practice is more costly to localities and taxpayers, as interest rates are higher than for conventional bonds.

DEBT FINANCING

Infrastructure *debt financing* is distinguished from *pay-as-you-go funding* in that, with the former, money is borrowed by issuing debt obligations and then repaid over time.

Tax-Exempt or Taxable?

The municipal bonds described in this section can be either tax-exempt or taxable. The interest on *tax-exempt* municipal bonds is free from federal and state income taxation; therefore, interest rates paid by the municipal issuer are lower than those paid on taxable bonds. This can result in substantial cost savings for local jurisdictions undertaking infrastructure development.

In general, federal law specifies that projects which serve a "public purpose" qualify for the lower-cost tax-exempt financing. Since most local infrastructure projects, such as streets, sewer, water, and schools serve a "public purpose," they qualify for the more appealing tax-exempt option.

There are private activity limitations that are imposed which generally mean that the revenues by which the bonds are repaid must be derived from public sources. Under some interpretations of federal law, the beneficiary of a particular program must not be controlled by a single entity; thus, the practical effect of the program is public subsidies to what is otherwise a private undertaking.

The *taxable* bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

The market for taxable municipal debt has generally been more responsive to large issues and recognized municipal issuers. Moreover, the interest rate on taxable municipal bonds generally ranges from 200 to 300 basis points (2% to 3%) above tax-exempt rates.

CURRENT DEBT FINANCING MECHANISMS

General Obligation Bonds

Jurisdictions Currently Authorized: Municipalities, counties, and special service districts.

Description: Commonly used for infrastructure development, General Obligation Bonds (GOs) are a long-term borrowing backed by the "full faith and credit" pledge of the municipality's available general fund revenues and unlimited taxing power. Because these GOs have the unlimited taxing pledge of the municipal issuer, they are also referred to as Unlimited Tax General Obligation Bonds.

There are two primary types of General Obligation Bonds:

GO Bonds paid *solely from property taxes.*

GO Bonds paid *from another revenue source*—such as sewer fees (often called "double-barreled" or "self-supporting"

GO Bonds)—provide the general obligation taxing power of the issuer as security if the revenues are not sufficient to retire the bonds.

General Obligation Bonds have been used to fund a variety of infrastructure needs and have been relied on almost exclusively by small- and medium-sized issuers lacking a strong revenue base to back Revenue Bonds. The full faith and credit pledge helps to achieve the lowest possible borrowing costs for municipalities.

General Obligation Bonds' advantages include:

- The overall costs to issue are the least of any type of bond.
- The interest cost is the least of any type of bond.
- Property taxes can be levied outside a municipality's operating levy to pay debt service.

Obstacles:

- Voter approval is required.
- General obligation debt, which applies to the jurisdiction's debt limit, is increased.

Remedies: Effectively communicate the importance of the bond issue to local residents. Keep debt obligations as low as possible.

Limited Tax General Obligation Bonds

Jurisdictions Currently Authorized: Municipalities, counties, and special districts.

Description: Limited Tax General Obligation Bonds (LTGOs) are the same as Unlimited Tax General Obligation Bonds except that the issuer does not have the legal ability to levy unlimited taxes as a pledge of security. Rather, the bonds are secured by available general fund revenues and whatever existing taxing power a jurisdiction has (such as any unlevied tax base amounts).

LTGOs are perceived to have a higher risk and therefore carry a higher interest rate than full GOs. The magnitude of this difference in interest rates depends on the financial condition of the issuer.

Obstacles: Even GOs fully supported by revenues that are not "taxes" cannot be issued for other than capital construction and improvements.

Very small or poor jurisdictions may have insufficient debt capacity (derived from statutory debt limitations) for certain types of projects. Utility GOs (such as for water and sewer purposes) are exempted from limitations, but police/fire stations, parks, open space, recreational facilities, libraries, and the like are subject to the limitation.

Remedies: Obtain a legislative or court definition of what is contained in "capital construction and improvements," especially:

- land,
- equipment necessary to the functioning of the facility,
- equipment normally a part of a similar facility,
- easements.

Revenue Bonds

Jurisdictions Currently Authorized: Municipalities, counties, and special districts.

Description: Revenue Bonds are long-term obligations that are payable solely from a designated source of revenue generated by the project that was financed. No taxing power or general fund pledge is provided as security. Unlike General Obligation Bonds, Revenue Bonds are not subject to a

jurisdiction's statutory debt limitation, nor is voter approval required.

The interest rate paid on Revenue Bonds reflects the quality of the revenue stream supporting repayment of the bonds. Revenue Bonds have been used to fund projects such as water, sewer, and storm drainage facilities and improvements, and revenue-producing facilities such as electric facilities.

To enhance the marketability of Revenue Bonds, issuers typically establish debt reserves and agree to maintain rates and charges at levels that are more than sufficient to meet all operating and debt service requirements. Because of the limited security offered to bond holders, Revenue Bonds usually carry a higher rate of interest than that paid on General Obligation Bonds.

Advantages of Revenue Bonds:

- Voter approval is generally not required.
- Property taxes may not be used to pay debt service, nor is there any risk to the general fund of a municipality.

Disadvantages of Revenue Bonds:

- Interest rates can be substantially higher than General Obligation Bonds.
- There is a greater risk of default, which would seriously impair a local government's ability to issue any type of bonds in the future.
- Due to the higher risk, there are many more bond "covenants" and other restrictions on the use of revenues that secure the bonds and on operation of the facility.

Obstacles: Usually the most risky of debt financings and therefore require additional security and costs. These come in the form of:

- Reserve funds,
- Higher interest and issuance costs,
- Rate coverage,
- Covenants, including insurance and limitations on use and sale, and
- Sometimes, security interest or lien on land and facility.

Small municipalities often experience a lack of market receptivity for their Revenue Bond issues without extensive security.

Remedies: Clarify authority for Revenue Bonds for all jurisdictions.

Types of Revenue Bonds

Enterprise Revenue Bonds

Description: This is the standard Revenue Bond, which is secured and paid by an identified revenue stream and is issued under specific statutory authorization.

Special Assessment Bonds

Description: Special Assessment Bonds are secured by assessments made against properties that benefit from local infrastructure improvements. Because Special Assessment Bonds are not secured by a general obligation pledge, they are less marketable than other types of bonds and carry a higher interest rate.

In addition, because of the lack of property tax support, Special Assessment bond interest rates may vary by bond issue, based on the property values that serve to secure the bonds. Significant reserve funds are often required to secure the bonds.

Lease Rental Revenue Bonds

Description: This financing technique involves a jurisdiction leasing a facility

from a governmental "authority" that has issued debt for the facility's construction. The annual lease payments from the jurisdiction match the debt service due on the bonds. The lease operates as long as the bonds are outstanding. The jurisdiction may have the option to purchase the facility at any time by paying an amount sufficient to pay the principal and interest on the bonds.

Industrial Development Revenue Bonds

Description: These bonds are issued on behalf of private entities in order to achieve some public purpose, such as pollution control, economic development, etc. Extensive abuse forced Congress to severely restrict the use of this type of bonding.

Short-Term Debt Financing Options

Jurisdictions Currently Authorized: Municipalities and counties.

Description: Various types of tax-exempt notes, such as bond anticipation notes (BANs), revenue anticipation notes (RANs), and tax anticipation notes (TANs), are issued in anticipation of, and secured by, some other financing source. A local government may receive a commitment of state grant funds at a future time and may in turn issue grant anticipation notes (GANs). In periods of market instability, the generation of jurisdiction anticipation notes allows a public to delay a long-term debt issue until the market climate is more favorable, thereby potentially saving on interest costs.

Obstacles: Short-term borrowing is generally available, but bank rates may be higher than tax-exempt rates if borrowings are excessive during the calendar year.

Remedies: Permit jurisdictions to borrow in the short term, for longer than one year, from other funds of the jurisdiction. For instance, a jurisdiction may have a large utility fund that could provide two-year interim financing for a nonutility project at rates comparable to federal taxable rates, thereby saving issuance costs and flexible repayment terms.

ALTERNATIVE DEBT FINANCING MECHANISMS—MORE LIKELIHOOD OF ACCEPTANCE

Tax Increment Bonds

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: This type of debt security is secured by the growth in property tax revenues that results from urban renewal districts. The bonds can be used to finance infrastructure improvements within an urban renewal district established by a city's or county's urban renewal agency.

The necessary growth in assessed value is not guaranteed. Consequently, tax increment bonds are often riskier than revenue bonds secured by a more dependable revenue stream, and thus require higher interest rates in order to attract investors.

For *"Obstacles and Remedies"* see discussion on Tax Increment Financing (Urban Renewal Districts) earlier in this report.

ALTERNATIVE DEBT FINANCING MECHANISMS—LESS LIKELIHOOD OF ACCEPTANCE

Certificates of Participation (Lease Purchase Bonds)

Jurisdictions Potentially Authorized: Cities, counties, and special districts.

Description: Certificates of Participation (COPs) are a financing technique for facilities, property, and equipment that utilizes the leasing

power of local governments. Unlike General Obligation Bonds, there is no new tax levy authorized; therefore, there is no voter approval requirement. COPs are also not subject to statutory debt limits.

In general, Certificates of Participation represent "participation" in a tax-exempt lease, which is an agreement between a municipal government and a governmental agency, authority or commercial bank trust department. If a governmental authority is used, the authority performs the initial financing, and the municipality retires and secures the debt through lease payments. If a commercial bank trust department is used, the municipality performs the initial financing and then assigns the ownership of the facility to the trustee to whom the municipality makes the lease payments. Revenues to pay the COPs can come from a number of sources depending on the type of project financed. For example, COPs issued to finance a community facility or convention center may be paid back from the revenues generated by the facility that are not needed for operations, as well as by special taxes such as hotel/motel taxes or business license fees.

In both cases the local government owns the project financed by the COPs when they are retired, thus the name Lease Purchase Bonds.

Bond counsels have frowned upon COPs as a financing instrument for major distribution infrastructure projects such as for water and sewer systems. Municipal buildings such as city halls, public service buildings, fire or police stations are better suited to COPs because they conform to the leasing concept.

Advantages of Certificates of Participation:

No voter approval is required.

General fund revenues that are not otherwise obligated can be used to pay debt service if needed, especially if the projections of special taxes or revenues are overly optimistic. This is at the option of the governing body in charge when the need arises, and therefore is not a legally binding commitment.

Disadvantages of Certificates of Participation:

A non-appropriation clause is required for the general fund support, which carries an interest rate penalty.

The overall costs to issue are more than General Obligation Bonds.

The interest cost is more than General Obligation Bonds.

The types of infrastructure projects that can be financed with COPs is limited because of the leasing concept.

Obstacles: A security interest is usually provided where possible. The ability to transfer or assign ownership of public property may be unclear or cumbersome.

Since COPs are structured in a similar manner to LTGOs in that they are often secured by the unrestricted funds of the issuer, they are subject to the same limitations as LTGOs.

Remedies: Legislate authority to enter into long-term leases without voter approval. Clarify ability to transfer ownership as needed for lease-purchase purposes. Permit the use of a non-substitution clause where it would further enhance the issue.

Taxable Bonds of Any Type

Jurisdictions Potentially Authorized: Municipalities, counties, and special districts.

Description: Taxable bonds can be issued for any purpose and be of any

type listed earlier. The taxable bond option exists for an issuer if, for some reason, the infrastructure project under consideration cannot be financed with tax-exempt debt. This is most common where the project is deemed to be "private purpose" under federal arbitrage law and is not an "exempt purpose."

Obstacles: With the loss of the tax exemption on interest, the interest cost is substantially higher.

There is a relatively small market for taxable municipal bonds, especially of a small size.

Remedies: Well-secured taxable municipal bonds are an excellent investment opportunity for jurisdictions. The state may have to provide some secondary market assurances to provide the liquidity necessary to trade the bonds prior to maturity, or most bonds will be too long-term for investment.

ALTERNATIVE PRIVATIZATION TECHNIQUES—MORE LIKELIHOOD OF ACCEPTANCE

The term "privatization" is popular within the financial industry but has produced less favorable treatment in Congress, which has severely limited tax-exempt Industrial Development Revenue Bonds and sale-leasebacks through the recent succession of tax reform acts.

Privatization of debt is a means to enable taxable individuals or corporations to realize tax benefits (investment tax credit, depreciation, business interest tax deductions, etc.) not available to public entities when financing public facilities. Presumably, the tax benefits would be sizable enough to lower the cost to the public body, exceeding the cost benefits of publicly issued tax-exempt financing. However, privatization is more commonly utilized not for cost savings, but for the purpose of:

- avoiding the issuance of debt to finance facilities, even if the cost is greater; or
- sharing risk, especially on technologically or financially riskier enterprises such as a resource recovery or solid waste facility.

Types of Privatization Techniques

True Leases or Vendor Leases

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: The private enterprise owns the facility and/or equipment and leases it to a public agency. The lease payment is usually set equal to the cost of paying for the facility or equipment plus a pre-determined rate of interest. The amount of the interest rate charged by the private body will be reflective of the riskiness of the project. A tax benefit to the private lessor with a lease arrangement is the depreciation which accrues.

However, these leases are not installment sales contracts (as are Certificates of Participation and Lease Purchase Bonds) and therefore do not have a tax-exempt interest component. If the municipality wishes to purchase the leased asset at the end of the lease, it must pay full market value.

Service or Operating Contracts

Jurisdictions Potentially Authorized: Municipalities and counties.

Description: In a true lease the public agency purchases the right to use a facility over a specified period of time. A service contract with the private entity simply pays the owner to manage and operate the facility. Private owners benefit from a service contract because

they may be able to receive sizable tax benefits using Investment Tax Credits and accelerated depreciation.

Where the private entity constructs, owns, and operates a facility leased by a public agency, the contract is usually referred to as "full service."

Obstacles: Higher costs of capital for private entities entail higher costs for jurisdictions.

Remedies: Provide methods by which to lower front-end and/or capital costs for private financier. Some programs include tax abatement, land swaps or lease of public land, special utility or assessment rates, and the like. Land swaps or leases may require liberalization of some laws relating to the lease or sale of public property.

ADDITIONAL REVENUE-RAISING MECHANISMS THAT CAN BE EXPANDED OR CONSIDERED

TAX OPTIONS—MORE LIKELIHOOD OF ACCEPTANCE

Municipalities across the country have lessened their dependence on property taxes by making greater use of fees and by using other types of taxes. This section focuses on tax options. The three main types of non-property taxes that local governments can adopt are sales, income, and excise taxes.

Sales

Nationally, local option sales taxes are second only to property taxes in the amount of revenue raised for local governments. More than 5,000 cities and 1,200 counties levy a local sales tax, with rates usually between one and three percent. According to the 1992 Census of Governments, cities with a sales tax had average property tax rates 50 percent less than those without a sales tax. Sales tax revenue may be dedicated to special purposes, such as building infrastructure, or revenues may go into the general fund. Sales taxes may be levied for a specified period of time. Levying taxes at the county or regional level and distributing a share to cities on a per capita basis provides for efficient administration and reduces competition for retail activity. Most local sales taxes are collected along with a state sales tax. Although it is currently feasible to use local option sales taxes in South Carolina, few counties or municipalities do so.

Excise

Local excise taxes, or selected sales taxes, are more prevalent than local income taxes. Typical types are utility taxes, hotel-motel taxes, gas taxes, and "sin" taxes. Cities derive the most revenue from utility taxes, whereas counties rely mainly on "sin" taxes. South Carolina's cities and counties use these types of taxes only limitedly.

Local governments can impose excise taxes on a variety of other transactions. For example, some cities and counties in the state of Washington collect a real estate transfer tax with proceeds dedicated to capital projects. Many of these taxes are costly to administer and produce only minor amounts of revenue.

TAX OPTIONS—LESS LIKELIHOOD OF ACCEPTANCE

Income

Local income taxes are not as common as local sales taxes. They are used most often in larger cities nationally where they provide a way for cities to tax workers who reside in the suburbs. Cities that levy an income tax generally rely on it more than on the property tax. However, when single jurisdictions adopt income taxes they may become less attractive to businesses and residents than nearby jurisdictions without income taxes.

SPECIAL ASSESSMENTS—MORE LIKELIHOOD OF ACCEPTANCE

Transportation Development Districts

One concept growing in use is a package of state, local, and private funding for roads. These packages combine the traditional mix of state and local financing of roads with special assessment districts that raise money from those who most directly benefit from road improvements. Colorado, New Jersey, Pennsylvania, and Virginia have laws encouraging the formation of these districts in growth areas.

The districts are formed to provide public-private partnerships to pay for major road and interchange improvements necessitated by growth. For example, in New Jersey, transportation development districts may be formed in rapidly growing areas with projected traffic growth of 50 percent or more in five years. Substantial commercial/retail development is required as these establishments pay the bulk of the fees. New Jersey's fees are similar to impact fees. They are based on the amount of traffic a new development is expected to generate and can pay only for additional capacity. Fees are collected when building permits are issued and must be spent on highway projects within ten years or refunded (New Jersey Transportation Development District Act of 1989). New Jersey developers supported the bill establishing Transportation Development Districts because it clarified the permissible fee structure for them.

SPECIAL ASSESSMENTS—LESS LIKELIHOOD OF ACCEPTANCE

Mello-Roos Community Facility Districts

California local governments have another option, the Mello-Roos Community Facility District, since the passage of enabling legislation in 1982. These districts can be used for various purposes and take many forms.

Mello-Roos districts are formed by cities, counties, special districts, or school districts to provide certain services or levy special taxes to finance public facilities. They may be as small as a subdivision or as large as an entire city. They are frequently formed at the request of developers to finance infrastructure in new developments. Mello-Roos districts can provide police, fire, recreation, library, and storm water services. They can be used to finance parks, schools, libraries, any other governmental facility, and also the installation of gas, telephone, and electric utility lines. Use of Mello-Roos bonds has risen from one issue of $8.5 million in 1983 to 58 issues totaling $751 million in 1989. Although most often used for non-school purposes, school construction use has been increasing, and in 1989 about one-third of the bond issues were for school buildings.

Unlike regular assessment districts, Mello-Roos districts do not have to be contiguous, and the assessments need not be based on benefits received. They do require a two-thirds vote of the affected residents if the area has twelve or more registered voters. If the district has fewer than twelve registered voters, the land owners are the voters.

There is considerable flexibility in establishing the Mello-Roos tax rate and formula. Different rates may apply to residential and commercial properties, new and old residents, developed and undeveloped land. For example, the City of Belmont, California, created the first city-wide Mello-Roos district in 1987 to finance a storm drainage system after a public outcry about a previously proposed system. Both ad valorem taxes and special assessment districts were rejected as means of financing the

system because they did not meet politically acceptable criteria. With the Mello Roos district, two levels of tax were adopted—a base rate paid by all landowners in the city and a supplemental rate paid by landowners directly benefiting from the system. Different types of land uses were assessed at different rates based on flood-related claims against the city.

USER CHARGES AND FEES—MORE LIKELIHOOD OF ACCEPTANCE

Selling Access Rights

Escondido, California; Houston, Texas; and Upper Merion Township (King of Prussia area), Pennsylvania, have used the sale of access rights to finance sewage treatment plant construction. The charges are like impact fees paid in advance. Land owners and developers may buy guarantees that sewerage treatment will be available for their projects. Those who do not buy access rights may be denied service or will have to pay higher prices for access to the system. This prepayment of costs generates the funds to build the needed treatment facilities. The jurisdictions have different rules about whether the access rights can be sold on the open market or must be sold back to the jurisdiction if no longer wanted.

Toll Roads

Toll roads, once a common form of financing in eastern states, are returning. A toll road is being built in Virginia from Dulles Airport to Leesburg, two are being discussed in Colorado, and the U.S. Department of Transportation is encouraging greater use of this mechanism. Toll roads are another mechanism for charging users directly but are often objectionable to a society accustomed to "free ways."

USER CHARGES AND FEES—LESS LIKELIHOOD OF ACCEPTANCE

Congestion Pricing

According to economic theory, road users would make more efficient use of roads if they paid the full cost of road use. Under current pricing policies, a driver who uses roads at peak periods pays only the personal cost of going slower and not the social cost of slowing down everyone else. If drivers were charged for the congestion they cause, some would shift their trips to less costly driving times. Toll roads could readily collect congestion charges by having higher tolls during peak periods. Collecting congestion charges without toll roads is technologically possible but fraught with administrative and political problems.

EXPANDED AND MORE INNOVATIVE USE OF EXISTING REVENUE-RAISING MECHANISMS

Although jurisdictions in South Carolina use special assessments, their use is often restricted to upgrading developed areas where they finance projects such as sewer installations or road improvements. Tacoma, Washington, uses special assessments to help developers finance the required infrastructure for their developments. Developers use special assessments if they can obtain cheaper financing than they can obtain directly.

Special Assessments for Arterial Streets

Another potential use of special assessments is to help finance arterial street improvements necessitated by growth. The city of Bellevue, Washington, did this for 25 years. Theoretically, commercial land owners

benefit from street improvements because the value of their property increases. Commercial property owners, however, complained that they received no direct, immediate benefits from the improvements they paid for and were beginning to refuse to form special assessment districts. Bellevue now uses a variety of taxes and fees to finance street improvements, including a 1/2 cent local sales tax dedicated to capital improvements, a wage tax, impact fees, and the city's portions of the county vehicle registration charge and state gas tax.

This case study illustrates that using special assessments for major streets has problems. Creating transportation development districts, which were discussed earlier, may be one way to deal with some of the issues.

Storm Water and Street Utilities

Another concept that is gaining acceptance is the storm water and street utility. Water and sewer departments were the first to be treated as utilities. Utilities are permanent organizations that operate and maintain specific public works and raise revenues from user charges. Utilities insulate public works from the uncertainties of general revenue budgeting, tie costs to benefits received, and sometimes collect fees from tax-exempt properties.

Fort Collins, Colorado, has had a storm water utility since 1981 and a street utility since 1984. Both charge new development a connection fee and all users a monthly use fee along with their water and sewer bills. Storm water charges are based on the amount of runoff expected and the cost of operating the utility in that drainage. Street utility fees are based on the amount of traffic a building generates and its street frontage.

EXTENDING FEES TO NEW DEVELOPMENT

South Carolina's local governments could use a variety of mechanisms to finance the infrastructure needed to service new growth. This section describes a variety of mechanisms that raise funds for infrastructure from new development.

Washington County's Traffic Impact Fee (The Oregon Experience)

In 1986 Washington County, Oregon, adopted a Traffic Impact Fee (TIF) to pay partially for the extra capacity needed on arterials and major collectors because of new growth. The fee replaced previous county systems development charges and was collected only in the unincorporated areas of the county. In September 1990 Washington County voters approved a new ordinance providing for the uniform collection of TIFs throughout the county.

The fees charged depend on the type of new development and the number of trips it generates. Rates per weekday trip for each type of use are specified in the ordinance. These rates may increase up to 6 percent per year. The Institute of Traffic Engineers standards are used to determine the number of trips a use generates. For example, the current fee for single-family residences is $1,350 ($135 times 10.0 average trips); for business and commercial buildings it is $34 times the average number of weekday trips for the type and size of place.

In 1988 road impact fees in the United States ranged from $130 to $4,271 per single-family house with a mean of $946 and median of $804. Washington County's TIF is therefore slightly above average. Nonetheless, the County estimates that the fee generates only about one-fourth of the revenue needed to add new transportation capacity due to growth.

TIF proceeds are used to fund off-site improvements on county and city roads and for transit capacity improvements. TIF money can be used only to add capacity, not to bring roads up to standards. Other funding sources must be used to solve existing needs. All revenue collected within any jurisdiction must be spent within that jurisdiction or on projects that directly benefit that jurisdiction. A base report lists the arterials and major collectors that are eligible for TIF funding and prioritizes projects on these streets within each jurisdiction.

The new TIF involves a high degree of city-county cooperation. Countywide application eliminates inequalities in payments based on jurisdiction, provided cities do not charge additional systems development charges for roads. Funds go to the jurisdiction in which they are collected.

Storm Sewer Utility Fees

The Unified Sewerage Agency of Washington County assumed responsibility for surface water management in the Tualatin River Basin in July 1990, becoming the storm water as well as the sewer utility for that area. It is using service charges and connection fees to finance this function. In FY 94-95 the agency collected $5,540,000 in surface water service charges and $1,950,000 in surface water connection fees.

Fees for individual properties are $3.00 per Equivalent Service Unit (E.S.U.) per month, where one E.S.U. is the average amount of impervious area of a single-family home. All other developments, ranging from apartment buildings to an airport, were assigned a number of E.S.U.s by measuring their impervious area on aerial photos. New development pays a connection fee of $375 per E.S.U. because it adds to the load that must be served by storm sewers. Adjustments to the connection charge may be made for large developments depending on the drainage provided within the development.

Street Utility Fees

Several cities in Oregon now charge street utility fees along with water and sewer bills. Ashland has had a fee since 1986; Tualatin adopted one in 1990; and Medford is currently considering one. Tualatin's fee will raise about $350,000 annually for preventive maintenance of streets and street lighting. Fees are based on the amount of traffic generated by each use according to the Institute of Transportation Engineers standards. These standards consider type of use and size of building. Single-family homes pay $1.42 on their monthly utility bill, whereas large traffic generators like fast food restaurants pay $72.73 per 1,000 square foot of space.

CONCLUSION

The menu of revenues presented here represents potential alternatives that can be considered to raise revenues for, or to finance, infrastructure. In the next part of this report, primary revenues will be fit to various categories of infrastructure need to determine the ability to satisfy this need.

PART II-REVENUE PROJECTIONS

This portion of the report deals with revenue projections as they relate to infrastructure need. Calculations contained here reflect what has been done in other states to raise money for infrastructure purposes. While these revenue-raising mechanisms certainly apply in South Carolina, it should be realized that only one alternative is being shown here—full funding of infrastructure need. Other possibilities that exist are partial funding of infrastructure or funding infrastructure via different methods. It is evident from this exercise that infrastructure need is large, and a variety of sources must be tapped to raise revenues to meet this need. Revenue-raising requirements are based on a $40 billion infrastructure need after all potential savings have been taken into account. This report begins with a discussion of issues surrounding the revenue projections that ultimately follow.

ISSUES IN REVENUE PROJECTION

Annualization

One way to approach a $40 billion infrastructure bill over a 20-year period is to express the infrastructure amount in billions per year. In this case, it is an average of $2 billion per year for twenty years. Obviously, the actual infrastructure amount will be more or less at any point in time, but over the 20-year period, it will average approximately $2 billion annually. The mid-period year 2005 is used as the state/local infrastructure demand and revenue supply year.

Financing

Because infrastructure costs may be held over from a prior period and occur, in addition, in a subsequent period, an initial assumption of this analysis is that no infrastructure need occurs from or is transmitted to another period. In other words, no infrastructure is financed or paid for in any other way in another period. Infrastructure is paid for from current funding with no fiscal obligations extending from the prior period and no fiscal obligations extending into the future. This allows funding reservations from mid-period-level (2005) state and local (county, municipal, and school district) budgets to address average infrastructure need. Mid-period-level revenues are assumed to be the average amount of revenues delivered over the period reflecting 2005 conditions.

Current Dedications of Revenues

Current dedications of infrastructure resources is the amount of money from 2005 mid-period-level state and local budgets dedicated for infrastructure purposes. A percentage is applied to total revenues from these revenue sources at this time period to determine the share of funds allocated to infrastructure. This percentage—10 percent applied to state and local revenues—comes from current amounts assigned to infrastructure purchases and finance in these budgets. Not all current sources of state and local revenue are assumed to have a share dedicated for infrastructure. Only slightly over 60 percent of general fund revenues have a share of their revenues designated for infrastructure support purposes.

New Increases in Revenues

New increases in revenues represent the amounts that are raised to cover the average or mid-period infrastructure funding gap. Funding selections are made at both state and local governmental levels and involve revenues that are likely candidates to fund infrastructure. Again, only one scenario is shown here—that is, the full funding of infrastructure. As indicated previously, a partial revenue increase could be opted for, or other sources of revenue identified.

TABLE 1
CURRENT STATE BUDGET DEDICATIONS: GENERAL FUND AND OTHER REVENUES

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	1995-2005 Difference	1995-2005 % Annual Growth
Regular Sources				
Sales & Use Tax	$ 1,427,058,377	$ 1,589,940,934	$ 162,882,557	1.1%
Casual Excise Tax	$ 13,153,298	$ 14,654,598	$ 1,501,300	1.1%
Individual Income Tax	$ 1,658,439,985	$ 1,847,732,133	$ 189,292,148	1.1%
Corporate Income Tax	$ 229,786,380	$ 264,088,501	$ 34,302,121	1.5%
Subtotal	$ 3,328,438,040	$ 3,716,416,166	$ 387,978,126	1.2%
Other Revenue				
Gasoline Tax (Allocated to Counties)	$ 61,058,026	$ 74,419,013	$ 13,360,987	2.2%
Business License Tax	$ 30,070,289	$ 34,559,131	$ 4,488,842	1.5%
Corporate License Tax	$ 45,543,778	$ 52,342,476	$ 6,798,698	1.5%
Motor Vehicle Licenses	$ 96,930,875	$ 107,994,437	$ 11,063,562	1.1%
Soft Drinks Tax*	$ 25,575,484	$ 12,787,742	$ (12,787,742)	-5.0%
Other	$ 223,127,983	$ 248,595,516	$ 25,467,533	1.1%
Subtotal	$ 482,306,435	$ 530,698,314	$ 48,391,879	1.0%
General Fund Revenue				
Education Improvement Fund	$ 359,725,666	$ 400,784,278	$ 41,058,612	1.1%
Gasoline Tax (Allocated for State Uses)	$ 323,423,906	$ 394,196,953	$ 70,773,047	2.2%
Local Option Sales Tax	$ 64,542,483	$ 71,909,277	$ 7,366,794	1.1%
Other	$ 131,793,574	$ 146,836,319	$ 15,042,744	1.1%
Subtotal	$ 879,485,629	$ 1,013,726,826	$ 134,241,197	1.5%
Grand Total	$ 4,690,230,104	$ 5,260,841,307	$ 570,611,203	1.2%

* Soft drink tax to be repealed by 2001.

Year	Summary of Annual Revenues: In Dollars	Summary of Annual Revenues: In Billions	62.5% for Infrastructure (Billions)	10% Allocation (Billions)
1995	$ 4,690,230,104	$ 4.69	$ 2.93	$ 0.293
2000	$ 4,975,535,705	$ 4.98	$ 3.11	$ 0.311
2005	$ 5,260,841,307	$ 5.26	$ 3.29	$ 0.329
2010	$ 5,546,146,908	$ 5.55	$ 3.47	$ 0.347
2015	$ 5,831,452,509	$ 5.83	$ 3.64	$ 0.364

Sources: State of South Carolina Department of Revenue, "Tax Collections for 1994-1995"; SEA, Inc.

Multiple and Individual Revenues

If a grouping of revenues is used for current dedication, for instance general fund revenues at the state or local level, and an individual component of these revenues is selected to be projected separately to increase, all grouped revenues are used for current dedications and the specific revenue selected for increase is projected separately.

The Array of Revenues

Revenues emerge from two basic groups: *current budget dedications* and *necessary revenue increases* for both state and local governments. The first category, *budget dedications,* involves state and local general fund revenues as well as intergovernmental transfers. The second category, *revenue increases,* applies to several categories of state and local revenues: sales tax, user charges, gasoline tax, and the property tax (local revenues only).

State and Local Sources of Infrastructure Revenue

Current Budget Dedications
State/Local

(1) General Fund Revenues
(2) Intergovernmental Transfers

Revenue Increases

(1) Sales Tax
(2) User Charges
(3) Property Tax

Projecting Infrastructure Revenues

The general methodology for revenue projections is to obtain revenue information for 1995 as the base year. Based on population, household, and employment projections developed by Rutgers' Center for Urban Policy Research (CUPR), each revenue is converted to a per capita, per household, or per job amount (depending on the type of revenue) for a given year. These values per unit are multiplied by future projections to obtain revenue amounts for both 2005 and 2015. Values for 2000 and 2010 are interpolated from midpoints of the 1995–2005 and 2005–2015 projections. All revenues are in 1995 dollars; inflation is assumed to be equal on the cost *(infrastructure need)* and revenue *(infrastructure finding)* sides of the equation.

Current Budget Dedications

State General Fund Revenues (Table 1)

State revenues for FY 1994-1995 are obtained from the summary of revenues of the South Carolina Department of Revenue. Future values for the gasoline tax allocated to counties, the gasoline tax for state uses, and the local option sales tax are taken from Tables 4 and 5 (see below). The phasing out of the soft drink tax is based upon information contained in the South Carolina Governor's Executive Budget for FY 1997-1998. Projections for the other line items are based on 1995 per capita or per employee revenues multiplied by the population and employment projections of Report #1 of this study. It is determined that of the 62 percent future growth in revenues, a share can be tapped for capital expenditures. Ten percent of this figure is allocated specifically toward the $2 billion annual funding requirement for new infrastructure need and maintenance. The 62 percent specification acknowledges that not all revenues can have a component dedicated to fund capital projects; the

TABLE 2

CURRENT COUNTY/MUNICIPAL/SCHOOL DISTRICT BUDGET DEDICATIONS: GENERAL FUND AND OTHER REVENUES

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	1995-2005 Difference	% Annual Growth
County Sources				
Locally Generated				
Current Property Tax	$ 512,477,471	$ 581,215,563	$ 68,738,091	0.7%
Local Option Sales Tax	$ 33,879,005	$ 59,574,787	$ 25,695,782	3.8%
Licenses and Permits	$ 35,744,344	$ 41,080,199	$ 5,335,855	0.7%
Service Charges				
Sewer & Water	$ 5,516,797	$ 6,146,477	$ 629,680	0.6%
Parking Facilities	$ 65,353,060	$ 72,812,372	$ 7,459,312	0.6%
Development Impact Fees	$ 25,027,109	$ 28,328,823	$ 3,301,714	0.7%
Other	$ 134,939,005	$ 150,340,765	$ 15,401,760	0.6%
Subtotal Service Charges	$ 230,835,971	$ 257,628,437	$ 26,792,466	0.6%
Miscellaneous	$ 53,475,174	$ 59,578,760	$ 6,103,586	0.6%
Subtotal	$ 866,411,965	$ 988,291,538	$ 121,879,572	0.7%
Intergovernmental				
Federal	N/I	N/I	N/I	N/I
State	N/I	N/I	N/I	N/I
Other Local Governments	$ 15,973,400	$ 17,796,583	$ 1,823,183	0.6%
Subtotal	$ 15,973,400	$ 17,796,583	$ 1,823,183	0.6%
Total County	$ 882,385,365	$ 1,006,088,120	$ 123,702,755	0.7%
Municipal Sources				
Locally Generated				
Current Property Tax	$ 238,632,687	$ 265,869,906	$ 27,237,219	0.6%
Local Option Sales Tax	$ 21,621,474	$ 24,089,320	$ 2,467,846	0.6%
Licenses and Permits	$ 150,311,651	$ 172,749,919	$ 22,438,268	0.7%
Service Charges	$ 100,758,830	$ 112,259,310	$ 11,500,480	0.6%
Miscellaneous	$ 46,964,362	$ 52,324,812	$ 5,360,450	0.6%
Subtotal	$ 558,289,004	$ 627,293,268	$ 69,004,264	0.6%
Intergovernmental				
Federal	N/I	N/I	N/I	N/I
State	N/I	N/I	N/I	N/I
Other Local Governments	$ 18,128,296	$ 20,197,436	$ 2,069,140	0.6%
Subtotal	$ 18,128,296	$ 20,197,436	$ 2,069,140	0.6%
Total Municipal	**$ 576,417,300**	**$ 647,490,704**	**$ 71,073,404**	**0.6%**
School District Sources				
Locally Generated				
Current Property Tax	$ 1,503,892,995	$ 1,704,144,220	$ 200,251,225	0.7%
Other Sources	$ 150,389,299	$ 170,414,422	$ 20,025,122	0.7%
Intergovernmental				
Other Local Governments	$ 353,000	$ 393,291	$ 40,291	0.6%
Total School District	**$ 1,654,635,294**	**$ 1,874,951,932**	**$ 220,316,638**	**0.7%**
Grand Total	**$ 3,113,437,959**	**$ 3,528,530,757**	**$ 415,092,797**	**0.7%**

Year	Summary of Annual Revenues: In Dollars	In Billions	62.5% for Infrastructure (Billions)	10% Allocation (Billions)
1995	$ 3,113,437,959	$ 3.113	$ 1.946	$ 0.195
2000	$ 3,320,984,378	$ 3.321	$ 2.076	$ 0.208
2005	$ 3,528,530,757	$ 3.529	$ 2.205	$ 0.221
2010	$ 3,736,077,214	$ 3.736	$ 2.335	$ 0.234
2015	$ 3,943,623,632	$ 3.944	$ 2.465	$ 0.246

Notes: NI=Not Included. Revenues generated in a separate table.

Sources: State of South Carolina Department of Revenue, County and Municipal Revenues; SEA, Inc.

10 percent figure specified is reasonable for a responsible capital facilities program.

State general fund revenues are projected using 1995 as the budget year base. As of 1995, the state of South Carolina general fund budget was $4.69 billion. This consisted of revenues such as the personal and business income tax, business and corporate license tax, state sales tax, gasoline tax, drivers license fees, and others. The revenue sources will average $5.26 billion for the period 1995-2015 (2005 is used as the average or mid-period). Assuming that about 62.5% of these revenues have a share dedicated for infrastructure, i.e., $3.3 billion, with a 10 percent dedication of general fund revenues, this amounts to $0.33 billion annually for infrastructure purposes.

Local General Fund Revenues (Table 2)

Total county and municipal revenues for the state for 1995 are obtained from computer printouts provided by individual regional councils of government. These sources provide only aggregate county and municipal costs and revenues. More specific breakdowns for county service charges are obtained from 1994 Annual County Financial Reports for South Carolina. Values for sewer and water fees, parking facility charges, and development impact fees for 1994 are projected to the 1995 base using growth in population, households, and jobs. All future revenues for county and municipal sources are based on multiplying future projections for population, households, and jobs by their 1995 per capita values.

For school district revenues, 1995 revenue information for current property tax and other local government revenues comes from the South Carolina Department of Education's *Financial Report, 1994–1995*. Future values for the current property tax are taken from Table 8 (see below). Revenues from other local governments are projected into the future on a per capita basis. Other sources of school district revenue are estimated as 10% of the value for current property tax.

It was previously determined that a share of the 62 percent of revenues could be dedicated to capital purposes. Ten percent of this amount was allocated specifically toward the $2 billion annual funding required for future infrastructure growth and maintenance.

Local general fund revenues of counties, municipalities, and school districts amount to $3.11 billion as of 1995. Average general fund revenues for the period 1995 to 2015 are $3.52 billion (2005 or mid-period figure). Again, only 62.5% of these revenues is used to support infrastructure. Sixty-two percent of $3.52 billion amounts to $2.21 billion. At 10 percent reservation for capital facilities, this is $221 million, or $0.221 billion for infrastructure purposes.

State and Local Intergovernmental Transfers (Table 3)

State

Federal funds transferred to state and funds earmarked for state were obtained from the South Carolina *State Budget Recapitulation (Section 70)*, which is accessed through the Internet.

State and local intergovernmental transfers consist of federal to state, state to local, and federal to local revenue disbursements. State and local government infrastructure projections are limited by the amounts that actually flow to these jurisdictions annually. In the case of state intergovernmental transfers, revenues consist of unrestricted federal transfers ($3.45 billion-1995) and federally earmarked transfers ($2.30 billion-1995). These revenues amount to $3.85 billion and $2.57 billion, respectively, in 2005. At

TABLE 3
CURRENT BUDGET DEDICATIONS: STATE AND LOCAL INTERGOVERNMENTAL TRANSFERS

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	1995-2005 Difference	1995-2005 % Annual Growth
Population	3,684,715	4,105,284	420,569	1.1%
Funds Transferred to State				
Federal Transfers to State	$ 3,454,733,320	$ 3,849,052,015	$ 394,318,695	1.1%
Per capita	938	938	-	0.0%
Earmarked Funds for State	$ 2,303,192,242	$ 2,566,075,560	$ 262,883,318	1.1%
Per capita	$ 625	$ 625	$ -	0.0%
Funds Transferred to Counties				
Federal Transfers to Counties	$ 51,837,504	$ 57,754,168	$ 5,916,664	1.1%
Per capita	$ 14	$ 14	$ -	0.0%
State Transfers to Counties	$ 218,566,288	$ 243,513,155	$ 24,946,867	1.1%
Per capita	$ 59	$ 59	$ -	0.0%
Funds Transferred to Municipalities				
Federal funds received	$ 47,050,380	$ 52,420,648	$ 5,370,268	1.1%
Per capita	$ 13	$ 13	$ -	0.0%
State funds received	$ 56,036,466	$ 62,432,394	$ 6,395,928	1.1%
Per capita	$ 15	$ 15	$ -	0.0%
Funds Transferred to School Districts				
Federal funds received	$ 296,825,645	$ 330,704,932	$ 33,879,287	1.1%
Per capita	$ 81	$ 81	$ -	0.0%
State funds received	$ 1,503,775,369	$ 1,675,414,302	$ 171,638,933	1.1%
Per capita	$ 408	$ 408	$ -	0.0%

Year	Summary of Intergovernmental Transfers to State: Federal	Summary of Intergovernmental Transfers to State: Earmarked	Total (Billions)	5 to10% Allocation (Billions)
1995	$ 3,454,733,320	$ 2,303,192,242	$ 5.76	$ 0.461
2000	$ 3,651,892,668	$ 2,434,633,901	$ 6.09	$ 0.487
2005	$ 3,849,052,015	$ 2,566,075,560	$ 6.42	$ 0.513
2010	$ 4,046,211,363	$ 2,697,517,220	$ 6.74	$ 0.539
2015	$ 4,243,370,710	$ 2,828,958,879	$ 7.07	$ 0.566

Year	Summary of Intergovernmental Transfers to Counties and Municipalities: Federal	Summary of Intergovernmental Transfers to Counties and Municipalities: State	Total (Billions)	10% Allocation (Billions)
1995	$ 51,837,504	$ 218,566,288	$ 0.27	$ 0.027
2000	$ 54,795,836	$ 231,039,722	$ 0.29	$ 0.029
2005	$ 57,754,168	$ 243,513,155	$ 0.30	$ 0.030
2010	$ 60,712,500	$ 255,986,589	$ 0.32	$ 0.032
2015	$ 63,670,832	$ 268,460,022	$ 0.33	$ 0.033

Year	Summary of Intergovernmental Transfers to School Districts: Federal	Summary of Intergovernmental Transfers to School Districts: State	Total (Billions)	10% Allocation (Billions)
1995	$ 1,800,601,014	$ 1,503,775,369	$ 3.30	$ 0.330
2000	$ 1,903,360,124	$ 1,589,594,836	$ 3.49	$ 0.349
2005	$ 2,006,119,234	$ 1,675,414,302	$ 3.68	$ 0.368
2010	$ 2,108,878,344	$ 1,761,233,769	$ 3.87	$ 0.387
2015	$ 2,211,637,454	$ 1,847,053,235	$ 4.06	$ 0.406

Sources: State of South Carolina, State and Local Budgets, 1995; Sandstone Environmental Associates, Inc.

TABLE 4
REVENUE INCREASES -- SALES TAX

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	2005-1995 Difference	Modified 2005 Conditions	2005-1995 Difference
State Sales Tax					
Population	3,684,715	4,105,284	420,569	4,105,284	$ 420,569
Rate	5.0%	5.0%	-	5.5%	$ 0
Revenues	$ 1,427,058,377	$ 1,589,940,934	162,882,557	$ 1,748,935,027	$ 321,876,650
Per capita revenues	$ 387	$ 387	-	$ 426	$ 39
Sales Volume	$ 28,541,167,540	$ 31,798,818,680	$ 3,257,651,140	$ 31,798,818,680	$ 3,257,651,140
Per capita sales	$ 7,746	$ 7,746	-	$ 7,746	$ -
County Local Option Sales Tax					
Population Taxed	736,900	1,509,700	772,800	4,105,284	$ 3,368,384
Revenues	$ 33,879,005	$ 59,574,787	25,695,782	$ 123,009,387	$ 89,130,382
Per capita revenues	$ 45.98	$ 39.46	(7)	$ 29.96	$ (16)
Sales Volume	$ 28,541,167,540	$ 31,798,818,680	$ 3,257,651,140	$ 31,798,818,680	$ 3,257,651,140
Per capita sales	$ 7,746	$ 7,746	-	$ 7,746	$ -
City Local Option Sales Tax					
Revenues	$ 21,621,474	$ 38,020,441	$ 16,398,967	$ 78,504,202	$ 56,882,728
% of county revenues	63.8%	63.8%	-	63.8%	-

Year	Sales Volume	Summary of Annual State Sales Tax Revenues		Difference (In Billions)	100% Allocation
		Trend Extended	Tax Increase		
1995	28,541,167,540	$ 1,427,058,377	$ 1,569,764,215	$ 0.143	$ 0.143
2000	30,169,993,110	$ 1,508,499,656	$ 1,659,349,621	$ 0.151	$ 0.151
2005	31,798,818,680	$ 1,589,940,934	$ 1,748,935,027	$ 0.159	$ 0.159
2010	33,427,644,250	$ 1,671,382,213	$ 1,838,520,434	$ 0.167	$ 0.167
2015	35,056,469,820	$ 1,752,823,491	$ 1,928,105,840	$ 0.175	$ 0.175

Year	Summary of Annual County Local Option Sales Tax Revenues		Difference (Billions)	29% Allocated to Infrastructure (Billions)
	Trend Extended	Tax Expansion		
1995	$ 33,879,005	$ 110,407,595	$ 0.077	$ 0.022
2000	$ 57,513,115	$ 116,902,024	$ 0.059	$ 0.017
2005	$ 59,574,787	$ 123,009,387	$ 0.063	$ 0.018
2010	$ 61,636,460	$ 129,116,749	$ 0.067	$ 0.020
2015	$ 63,698,132	$ 135,224,111	$ 0.072	$ 0.021

Year	Summary of Annual Municipal Local Option Sales Tax Revenues		Difference (Billions)	29% Allocated to Infrastructure (Billions)
	Trend Extended	Tax Expansion		
1995	$ 21,621,474	$ 70,461,778	$ 0.049	$ 0.014
2000	$ 36,704,688	$ 74,606,503	$ 0.038	$ 0.011
2005	$ 38,020,441	$ 78,504,202	$ 0.040	$ 0.012
2010	$ 39,336,194	$ 82,401,901	$ 0.043	$ 0.012
2015	$ 40,651,947	$ 86,299,601	$ 0.046	$ 0.013

Sources: State of South Carolina , State and Local Revenues, 1995; Sandstone Environmental Associates, Inc.

10 percent and 5 percent reservation levels for capital purposes, unrestricted and earmarked federal transfers in year 2005 provide $0.385 and $0.128 billion respectively, or a total of $0.513 billion for infrastructure purposes.

Local

1995 state totals of funds transferred to counties and municipalities are taken from computer printouts provided by regional councils of government (COGs). Funds transferred to school districts are obtained from the South Carolina Department of Education's *Financial Report, 1994–1995*. All values are projected into the future on a per capita basis.

For local governments, federal and state transfers to counties and municipalities amounted to $270 million in 1995 and will grow to $306 million in 2005. Federal and state transfers to school districts amounted to $3.30 billion in 1995 and will grow to $3.68 billion in 2005. With county and municipal intergovernmental transfers, they amount to $3.98 billion in 2005. With 10 percent reservation for capital funding this produces $0.398 billion for infrastructure purposes.

Increases in Existing Revenues

Sales Tax Increase (Table 4)

State

The state sales tax in South Carolina is currently 5.0 percent. Most items except for food are included in this tax. Revenue for the 1995 state sales tax is taken from *FY 1994–1995 Summary of Revenues* provided by the South Carolina Department of Revenue. These figures are divided by the 5% state sales tax to obtain annual sales volume. Per capita sales volume is then projected annually into the future. Future revenues are based on either a 5% tax (trend extended) or a 5.5% tax (reflecting the increase). All of the state sales tax increase is considered to be available for infrastructure funding (primarily educational).

The state sales tax produced about $1.43 billion in state revenues in 1995. This will increase to $1.59 billion by the mid-point year 2005. If the state sales tax is increased by one-half point or 10 percent, it will yield $159 million more in revenues or $0.159 billion. All of this increase is earmarked for educational infrastructure need purposes.

Local

The local option sales tax currently is used in 25 counties in South Carolina. County local option sales tax revenues, including per capita amounts, are obtained for each county for 1995 from computer printouts supplied by the regional councils of government. These are combined with county population projections to develop projections of future county revenues. State totals for current revenues extended to the mid-period year 2005 and the increase in the local option sales tax are based on the assumption that all counties will have a local option sales tax soon after 1995. Where no per capita value is available for projecting revenues for the additional counties, a value of $25 per capita is used, as this reflects a mid-range value based on review of other counties' per capita receipts. Twenty-nine percent of the revenue growth created by extending the local option sales tax to all counties is considered to be available for infrastructure purposes.

This percentage allocation is governed by current state law, which requires most of the revenues collected from this source to be devoted to reducing the property tax. The local option sales tax yielded $33.9 million in revenues as of 1995. It will increase to $59.6 million by the mid- or average-projection year (2005). If this sales tax is expanded to the remaining 21 counties, at the same rate, the revenue yield will increase to

TABLE 5
REVENUE INCREASES -- GASOLINE TAX

Variable	1995 Existing Conditions	2005 Trend Extended	1995-2005 Difference	2005 Tax Increase	1995-2005 Tax Increase Difference
Households	1,330,368	1,482,838	152,470	1,482,838	152,470
Drivers/Household	2.8	2.8	-	3	-
Drivers Licenses	3,763,990	4,195,371	431,381	4,195,371	431,381
Registered Vehicles	2,852,990	3,179,964	326,974	3,179,964	326,974
Vehicles/Household	2.1	2.1	-	2.1	-
VMT	38,723,000,000	50,711,500,000	11,988,500,000	50,711,500,000	11,988,500,000
Annual Miles/Vehicle	13,573	15,726	2,153	15,726	2,153
1995 State Share of Gasoline Tax	$ 0.1409	$ 0.1409	-	$ 0.1409	$ -
1995 Gallons/Year	2,295,414,519	2,797,707,260	502,292,740	2,797,707,260	502,292,740
1995 MPG	17	18	1	18	1
1995 Gas Tax Revenues to State	**$ 323,423,906**	**$ 394,196,953**	**$ 9,715,021**	**$ 394,196,953**	**$ 9,715,021**
County Share of Gas Tax	$ 0.0266	$ 0.0266	-	$ 0.03660	$ 0.010
1995 Gas Tax Revenues to Counties	**$ 61,058,026**	**$ 74,419,013**	**$ 13,360,987**	**$ 102,396,086**	**$ 41,338,059**
Total Gasoline Tax	$ 0.1675	$ 0.1675	$ -	$ 0.1775	$ 0.0100
Total Gasoline Tax Revenues	**$ 384,481,932**	**$ 468,615,966**	**$ 23,076,008**	**$ 496,593,039**	**$ 51,053,080**

Year	Gallons	Summary of Annual State Gas Tax Revenues			100% Allocation to Infrastructure (Billions)
		Trend Extended	Tax Increase	Difference (Billions)	
1995	2,295,414,519	$ 323,423,906	$ 323,423,906	$ -	$ -
2000	2,546,560,890	$ 358,810,429	$ 358,810,429	$ -	$ -
2005	2,797,707,260	$ 394,196,953	$ 394,196,953	$ -	$ -
2010	3,048,853,630	$ 429,583,476	$ 429,583,476	$ -	$ -
2015	3,300,000,000	$ 464,970,000	$ 464,970,000	$ -	$ -

Year	Gallons	Summary of Annual County Gas Tax Revenues			100% Allocation to Infrastructure (Billions)
		Trend Extended	Tax Increase	Difference (Billions)	
1995	2,295,414,519	$ 61,058,026	$ 84,012,171	$ 0.023	$ 0.023
2000	2,546,560,890	$ 67,738,520	$ 93,204,129	$ 0.025	$ 0.025
2005	2,797,707,260	$ 74,419,013	$ 102,396,086	$ 0.028	$ 0.028
2010	3,048,853,630	$ 81,099,507	$ 111,588,043	$ 0.030	$ 0.030
2015	3,300,000,000	$ 87,780,000	$ 120,780,000	$ 0.033	$ 0.033

Sources: State of South Carolina Department of Revenue, Department of Transportation, and Division of Motor Vehicles; SEA, Inc.

$123 million or an additional $63 million. This will produce about $18 million for infrastructure purposes because, again, only 29 percent of this revenue can be used for infrastructure purposes. The amount for revenue finance from this source is $.018 billion.

Gasoline Tax Revenues (Table 5)

State

The state gasoline tax at 16.75 cents per gallon currently yields $323 million in state revenues. By 2005, it will yield $394 million. If this tax is increased by 1 cent or 6 percent, revenues in 2005 will increase by $28 million. All of the $28 million increase will be used to fund *local* infrastructure. This amounts to $0.028 billion in the average year passed to counties and municipalities.

Local

A local gasoline tax does not exist currently in South Carolina. If an increase in the state gasoline tax is passed directly to counties in the amount of 1 cent across the board, this would produce $28 million in annual infrastructure revenues, or $.028 billion.

User Charges (Tables 6–7)

User charges consist of fees paid for services or capital items. In the former case, they take the form of tolls (at the state level) and water/sewer fees (at the local level); for the latter purpose, in the form of impact fees primarily at the local level.

State: Tolls on Interstates (Table 6)

Currently there are no tolls on any roads in South Carolina. If tolls are added to major interstates with full dedication for transportation infrastructure purposes, significant capital funds could be garnered.

Vehicle miles traveled (VMT) for 1995 and 2015 is obtained from the South Carolina Department of Transportation. An estimate of 10% is used to derive the share of VMT on tolled interstates for 1995 and future years. Assuming that drivers have an average trip length of 20 miles, an estimate of 193.6 million toll road trips is derived by dividing toll road VMT by average trip length. Future revenues were calculated by assuming that *EZ Pass* collection systems would be 20 miles apart, and that drivers would be assessed $0.25 at each EZ Pass monitoring point. This is a conservative approach to projecting revenues, since all vehicles are assumed to be passenger vehicles. Toll roads typically charge higher tolls for trucks, which may consume as much as one-third of the vehicle miles traveled. All new revenues are allocated for infrastructure purposes. Total VMT in the state as of 1995 is about 38 billion. By 2005, it will be 51 billion. Trips on interstate roads represent about 10 percent of all vehicle miles traveled on all roads, or 5.1 billion. At 20 miles per trip in 2005, trips subject to new interstate tolling will amount to 253.5 million. At 25 cents per trip this produces $63.4 million, or $0.063 billion in 2005 for infrastructure purposes.

Local: Water/Sewer Fees (Table 7)

Average water and sewer fees paid by households in South Carolina are obtained from the South Carolina Department of Health and from local water district records. They are approximately $30 per month per household, or $360 per year. Since about half of South Carolina's dwelling units use septic systems and/or wells, only half the annual fees are applied to household projections to obtain future revenues. The increase in this source of revenue is based on a 15% upward adjustment of sewer and water fees, but no increase in the proportion of homes using public water and sewer systems. Thus, this is also a conservative estimate of future revenues from this source. All revenues from the increased water and sewer fees are allocated to

TABLE 6
REVENUE INCREASES -- STATE USER CHARGES

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	1995-2005 Difference	2005 Increased Tax Conditions	1995-2005 Difference
Toll Roads					
VMT	38,723,000,000	50,711,500,000	11,988,500,000	50,711,500,000	11,988,500,000
% on Toll roads	10%	10%	-	10%	-
Toll road VMT	3,872,300,000	5,071,150,000	1,198,850,000	5,071,150,000	1,198,850,000
Avg. trip length	20	20	-	20	-
Number of trips	193,615,000	253,557,500	59,942,500	253,557,500	59,942,500
Avg. toll/trip	-	-	-	$ 0.25	0
Annual Revenues	$ -	$ -	$ -	$ 63,389,375.00	63,389,375

Year	Vehicular Trips on Toll Roads	Summary of Annual State Toll Road Revenues			100% Allocation to Infrastructure (Billions)
		Trend Extended	Toll Increase	Difference (Billions)	
1995	193,615,000	$ -	$ 48,403,750	$ 0.048	$ 0.048
2000	223,586,250	$ -	$ 55,896,563	$ 0.056	$ 0.056
2005	253,557,500	$ -	$ 63,389,375	$ 0.063	$ 0.063
2010	283,528,750	$ -	$ 70,882,188	$ 0.071	$ 0.071
2015	313,500,000	$ -	$ 78,375,000	$ 0.078	$ 0.078

Sources: State of South Carolina Department of Transportation and Department of Revenue; SEA, Inc.

TABLE 7
REVENUE INCREASES -- COUNTY AND MUNICIPALITY USER CHARGES

Variable	1995 Existing Conditions	2005 Trend Extended Conditions	1995-2005 Difference	Modified 2005 Conditions	1995-2005 Difference
Households	1,330,368	1,482,838	152,470	1,482,838	152,470
Jobs	1,609,678	1,849,968	240,290	1,849,968	240,290
Development Impact Fees			-		-
Annual household increase	15,168	15,247	79	15,247	79
Residential revenues	$ 8,198,732	$ 8,241,434	$ 42,702	$ 30,494,000	22,295,268
Avg. fee/new household	$ 541	$ 541	-	$ 2,000	1,459
Nonresidential revenues	$ 16,828,376	$ 23,389,103	6,560,727	$ 29,396,353	12,567,977
Annual job increase	17,289	24,029	6,740	24,029	6,740
Annual square footage increase	4,322,195	6,007,250	1,685,055	6,007,250	1,685,055
Avg. fee/sq. foot	$ 3.89	$ 3.89	$ -	$ 4.89	$ 1.00
Total impact fee revenues	$ 25,027,109	$ 31,630,537	$ 6,603,429	$ 59,890,353	$ 34,863,245
Water & Sewer Fees					
1995 Revenues	$ 239,466,240	$ 266,910,840	$ 27,444,600	$ 306,947,466	$ 40,036,626
Average revenues/household	$ 180	$ 180	$ -	$ 207	$ 27
Fee increase				15.0%	15.0%

Year	New Households	Summary of Annual Residential Development Impact Fee Revenues: Trend Extended	Fee Increase	Difference (Billions)	100% Allocation to Infrastructure (Billions)
1995	15,168	$ 8,198,732	$ 8,198,732	$ -	$ -
2000	15,247	$ 8,241,434	$ 30,494,000	$ 0.022	$ 0.022
2005	15,247	$ 8,241,434	$ 30,494,000	$ 0.022	$ 0.022
2010	15,247	$ 8,241,434	$ 30,494,000	$ 0.022	$ 0.022
2015	15,247	$ 8,241,434	$ 30,494,000	$ 0.022	$ 0.022

Year	New Square Feet of Development	Summary of Annual Nonresidential Development Impact Fee Revenues: Trend Extended	Fee Increase	Difference (Billions)	100% Allocation to Infrastructure (Billions)
1995	4,322,195	$ 16,828,376	$ 21,150,571	$ 0.004	$ 0.004
2000	6,007,250	$ 23,389,103	$ 29,396,353	$ 0.006	$ 0.006
2005	6,007,250	$ 23,389,103	$ 29,396,353	$ 0.006	$ 0.006
2010	6,007,250	$ 23,389,103	$ 29,396,353	$ 0.006	$ 0.006
2015	6,007,250	$ 23,389,103	$ 29,396,353	$ 0.006	$ 0.006

Year	Total Households	Summary of Annual Water & Sewer Fee Revenues: Trend Extended	Fee Increase	Difference (Billions)	100% Allocation to Infrastructure (Billions)
1995	1,330,368	$ 239,466,240	$ 275,386,176	$ 0	$ 0.036
2000	1,406,603	$ 253,188,540	$ 291,166,821	$ 0.038	$ 0.038
2005	1,482,838	$ 266,910,840	$ 306,947,466	$ 0.040	$ 0.040
2010	1,559,073	$ 280,633,140	$ 322,728,111	$ 0.042	$ 0.042
2015	1,635,308	$ 294,355,440	$ 338,508,756	$ 0.044	$ 0.044

Sources: State of South Carolina Department of Revenue; Sandstone Environmental Associates, Inc.

infrastructure funding. In 1995, these water and sewer fees produced about $240 million in annual revenue. In the year 2005, they will produce $267 million. If water and sewer fees are raised by 15 percent, this amounts to an additional $40 million, or $0.040 billion, for infrastructure purposes.

Local: Development Impact Fees (Table 7)

Development impact fees are used sporadically in local governments in South Carolina. They are applied to new housing or nonresidential space as this development comes on-stream. Approximately 10 counties of South Carolina's 46 currently have limited impact fees.

Revenues for development impact fees for *1994 are obtained from the 1994 Annual County Financial Reports for South Carolina.* One-third of the revenue is attributed to 1994 residential (household) growth, and the remainder to 1994 business (job) growth. Revenues from residential sources are projected to 1995 and future years based on a per household value and the projected number of additional households.

Impact fees are set at an average increase of $2,000 per residential unit. Revenues from 1994 nonresidential sources are converted into a per square foot value based on 250 square feet per new job. Nonresidential impact fee revenues are then proved to 1995 and projected to future years based on the amount of new employment and a space allocation of 250 square feet per employee. Nonresidential impact fees are increased by $1.00 per square foot, and all revenues are allocated to infrastructure funding.

Impact fees raised $25 million in infrastructure revenues as of 1995. They vary significantly, but in most cases are about $200 per unit and an equivalent amount per 1,000 square feet of nonresidential space. If these fees are raised by $2,000 per unit and $1,000 per 1,000 square feet of nonresidential space, or about $1 per square foot in each case, and taken to the average year 2005, about $28 million or $0.028 billion of additional revenues can be raised via this source for infrastructure purposes.

Local Property Tax (Table 8)

The local property tax in South Carolina is based on an assessment ratio of 4 percent for residential properties and 5-6% for nonresidential properties. Higher rates are applied to personal and business property.

Assessment ratios are obtained from the South Carolina Department of Revenue. Adjusted market value and adjusted assessed valuation by county and type of property are obtained from the *Index of Taxpaying Ability and Summary of Education Finance Act Funding Formulas* published by the South Carolina Department of Education. (The multifamily residential category is derived from further calculations based on the *1994 Annual County Financial Reports*). Assessed values for municipalities are obtained from the South Carolina State Budge and Control Board. The state total for municipal assessed valuation is divided into the additional categories of real and personal property according to observed ratios at the county level. Market values for municipalities, by property type, is calculated by dividing assessed valuations by their respective assessment ratios.

Property tax rates for 1995 for each municipality, county, and school district are obtained from the South Carolina Department of Commerce in their 1995 Property Tax Survey publication. State totals for property tax revenues from counties and municipalities are obtained from computer printouts of regional councils of governments (COGs). Average county and municipal tax rates derived from the *Index of Taxpaying*

LOCAL PROPERTY TAX REVENUES

County Property Taxes	1995 Existing Conditions: Adjusted Market Value	Assessment Ratio	Adjusted Assessed Valuation	Local Revenues (W/O School Districts)	Local Revenues (School Districts)	Total Local Property Tax Revenues
Average County Tax Rates				0.0513	0.1665	
Type of Property						
Owner Occupied Residential	$ 58,957,336,562	0.040	$ 2,358,293,462	$ 120,888,748	$ 270,080,682	$ 390,969,430
Multifamily Residential (est.)	$ 5,050,000,000	0.060	$ 303,000,000	$ 15,532,117	$ 34,700,705	$ 50,232,823
Commercial Property	$ 41,823,597,980	0.060	$ 2,509,415,879	$ 128,635,451	$ 287,387,793	$ 416,023,244
Private Agricultural	$ 2,212,279,925	0.040	$ 88,491,197	$ 4,536,157	$ 10,134,346	$ 14,670,504
Corporate Agricultural	$ 414,755,151	0.060	$ 24,885,309	$ 1,275,649	$ 2,849,960	$ 4,125,608
Personal Property	$ 15,208,917,543	0.105	$ 1,596,936,342	$ 81,860,734	$ 182,887,187	$ 264,747,921
Manufacturing Property	$ 14,828,509,171	0.105	$ 1,556,993,463	$ 79,813,218	$ 178,312,777	$ 258,125,995
Utility Property	$ 10,112,145,478	0.105	$ 1,061,775,275	$ 54,427,782	$ 121,598,518	$ 176,026,301
Business Personal Property	$ 4,739,063,448	0.105	$ 497,601,662	$ 25,507,615	$ 56,987,223	$ 82,494,838
Total	**$ 153,346,605,258**	**0.065**	**$ 9,997,392,590**	**$ 512,477,471**	**$ 1,144,939,192**	**$ 1,657,416,663**
Municipal Property Taxes						
Average Municipal Tax Rates				0.0640	0.1399	
Type of Property						
Owner Occ. Residential & Priv. Agr.	$ 27,346,036,338	0.040	$ 1,093,841,454	$ 69,992,564	$ 105,283,553	$ 175,276,117
Multifamily Residential	$ 2,257,615,650	0.060	$ 135,456,939	$ 8,667,598	$ 13,037,893	$ 21,705,491
Commercial & Corporate Agr.	$ 18,882,765,757	0.060	$ 1,132,965,945	$ 72,496,056	$ 109,049,332	$ 181,545,388
Subtotal Real Property	**$ 48,486,417,746**	**0.049**	**$ 2,362,264,338**	**$ 151,156,219**	**$ 227,370,777**	**$ 378,526,996**
Personal Property	$ 2,631,564,464	0.105	$ 276,314,269	$ 17,680,756	$ 26,595,580	$ 44,276,336
Business Personal Property	$ 5,135,414,222	0.105	$ 539,218,493	$ 34,503,433	$ 51,900,427	$ 86,403,860
Subtotal Personal Property	**$ 7,766,978,686**	**0.105**	**$ 815,532,762**	**$ 52,184,189**	**$ 78,496,007**	**$ 130,680,196**
Motor Vehicles	$ 5,252,824,381	0.105	$ 551,546,560	$ 35,292,279	$ 53,087,018	$ 88,379,297
Total	**$ 56,370,806,591**	**0.066**	**$ 3,729,343,660**	**$ 238,632,687**	**$ 358,953,802**	**$ 597,586,489**
Grand Total	**$ 209,717,411,849**	**0.065**	**$ 13,726,736,250**	**$ 751,110,158**	**$ 1,503,892,995**	**$ 2,255,003,153**

Year	Summary of Annual Revenues without School Districts: Trend Extended	Assessment Ratio Increase	Difference (Billions)	100% Available for Infrastructure
1995	$ 751,110,158	$ 790,404,161	$ 0.039	$ 0.039
2000	$ 800,996,205	$ 853,965,257	$ 0.053	$ 0.053
2005	$ 850,882,253	$ 917,526,353	$ 0.067	$ 0.067
2010	$ 900,768,318	$ 971,243,548	$ 0.070	$ 0.070
2015	$ 950,654,383	$ 1,024,960,743	$ 0.074	$ 0.074

Year	Summary of Annual Revenues for School Districts Only: Trend Extended	Assessment Ratio Increase	Difference (Billions)	100% Available for Infrastructure
1995	$ 1,503,892,995	$ 1,592,781,928	$ 0.089	$ 0.089
2000	$ 1,604,018,607	$ 1,714,807,118	$ 0.111	$ 0.111
2005	$ 1,704,144,220	$ 1,836,832,308	$ 0.133	$ 0.133
2010	$ 1,804,269,868	$ 1,944,597,300	$ 0.140	$ 0.140
2015	$ 1,904,395,516	$ 2,052,362,292	$ 0.148	$ 0.148

Sources: State of South Carolina Department of Revenue; Sandstone Environmental Associates, Inc.

LOCAL PROPERTY TAX REVENUES

County Property Taxes	2005 Trend Extended: Adjusted Market Value	Local Revenues (W/O School Districts)	Local Revenues (School Districts)	Total Property Tax Revenues	2005 Assessent Increase: Adjusted Market Value	Assess-ment Rato	Adjusted Assessed Valuation	Local Revenues (W/O School Districts)	Local Revenues (School Districts)	Total Revenues
Average County Tax Rates										
Type of Property										
Owner Occupied Residential	$ 65,714,282,840	$ 134,743,491	$ 301,033,924	$ 435,777,415	$ 65,714,282,840	0.045	$ 2,957,142,728	$ 151,586,428	$ 338,663,164	$ 490,249,592
Multifamily Residential (est.)	$ 5,628,767,303	$ 17,312,213	$ 38,677,663	$ 55,989,875	$ 5,628,767,303	0.065	$ 365,869,875	$ 18,754,897	$ 41,900,801	$ 60,655,698
Commercial Property	$ 48,066,953,706	$ 147,837,933	$ 330,288,555	$ 478,126,487	$ 48,066,953,706	0.065	$ 3,124,351,991	$ 160,157,760	$ 357,812,601	$ 517,970,361
Private Agricultural	$ 2,465,823,546	$ 5,056,034	$ 11,295,817	$ 16,351,852	$ 2,465,823,546	0.045	$ 110,962,060	$ 5,688,039	$ 12,707,795	$ 18,395,833
Corporate Agricultural	$ 476,669,096	$ 1,466,075	$ 3,275,397	$ 4,741,472	$ 476,669,096	0.065	$ 30,983,491	$ 1,588,248	$ 3,548,347	$ 5,136,595
Personal Property	$ 16,944,841,226	$ 91,204,199	$ 203,761,664	$ 294,965,863	$ 16,944,841,226	0.110	$ 1,863,932,535	$ 95,547,256	$ 213,464,600	$ 309,011,856
Manufacturing Property	$ 17,042,083,854	$ 91,727,600	$ 204,931,006	$ 296,658,606	$ 17,042,083,854	0.110	$ 1,874,629,224	$ 96,095,580	$ 214,689,625	$ 310,785,206
Utility Property	$ 11,621,669,393	$ 62,552,669	$ 139,750,539	$ 202,303,208	$ 11,621,669,393	0.110	$ 1,278,383,633	$ 65,531,368	$ 146,405,326	$ 211,936,694
Business Personal Property	$ 5,446,502,797	$ 29,315,349	$ 65,494,179	$ 94,809,528	$ 5,446,502,797	0.110	$ 599,115,308	$ 30,711,317	$ 68,612,950	$ 99,324,267
Total	**$ 173,407,593,762**	**$ 581,215,563**	**$ 1,298,508,743**	**$ 1,879,724,306**	**$ 173,407,593,762**	**0.070**	**$ 12,205,370,844**	**$ 625,660,894**	**$ 1,397,805,209**	**$ 2,023,466,103**
Municipal Property Taxes										
Average Municipal Tax Rates										
Type of Property										
Owner Occ. Residential & Priv. Agr.	$ 30,480,094,103	$ 78,014,229	$ 117,349,825	$ 195,364,054	$ 30,480,094,103	0.045	$ 1,371,604,235	$ 87,766,008	$ 132,018,554	$ 219,784,561
Multifamily Residential	$ 2,516,355,081	$ 9,660,969	$ 14,532,132	$ 24,193,101	$ 2,516,355,081	0.065	$ 163,563,080	$ 10,466,050	$ 15,743,143	$ 26,209,193
Commercial & Corporate Agr.	$ 21,701,552,983	$ 83,318,145	$ 125,328,031	$ 208,646,176	$ 21,701,552,983	0.065	$ 1,410,600,944	$ 90,261,323	$ 135,772,034	$ 226,033,357
Subtotal Real Property	**$ 54,698,002,167**	**$ 170,993,343**	**$ 257,209,988**	**$ 428,203,331**	**$ 54,698,002,167**	**0.054**	**$ 2,945,768,259**	**$ 188,493,381**	**$ 283,533,730**	**$ 472,027,111**
Personal Property	$ 2,931,927,397	$ 19,698,812	$ 29,631,161	$ 49,329,973	$ 2,931,927,397	0.110	$ 322,512,014	$ 20,636,851	$ 31,042,168	$ 51,679,019
Business Personal Property	$ 5,902,020,141	$ 39,654,047	$ 59,648,035	$ 99,302,081	$ 5,902,020,141	0.110	$ 649,222,216	$ 41,542,334	$ 62,488,417	$ 104,030,752
Subtotal Personal Property	**$ 8,833,947,538**	**$ 59,352,859**	**$ 89,279,195**	**$ 148,632,054**	**$ 8,833,947,538**	**0.110**	**$ 971,734,229**	**$ 62,179,185**	**$ 93,530,586**	**$ 155,709,771**
Motor Vehicles	$ 5,852,374,100	$ 39,320,488	$ 59,146,293	$ 98,466,782	$ 5,852,374,100	0.110	$ 643,761,151	$ 41,192,893	$ 61,962,783	$ 103,155,676
Total	**$ 69,384,323,805**	**$ 269,666,690**	**$ 405,635,477**	**$ 675,302,166**	**$ 69,384,323,805**	**0.066**	**$ 4,561,263,639**	**$ 291,865,459**	**$ 439,027,099**	**$ 730,892,558**
Grand Total	**$ 242,791,917,567**	**$ 850,882,253**	**$ 1,704,144,220**	**$ 2,555,026,472**	**$ 242,791,917,567**	**0.069**	**$ 16,766,634,483**	**$ 917,526,353**	**$ 1,836,832,308**	**$ 2,754,358,660**

Sources: State of South Carolina Departme

Ability are adjusted slightly so that calculated 1995 total state revenues matches the 1995 state revenues shown on the computer printouts from the COGs. An additional adjustment is necessary for the school district revenues, as some school districts are dependent on their counties or municipalities and are already included in county or municipal budgets. This additional adjustment factor was .6888 times the share of the school budgets derived from local property taxes.

Market values of residential and nonresidential property (including real and personal property) are calculated for the future based on projections of households and employment. The relevant assessment ratios and property tax rates are applied to obtain future property tax revenues. Increased property tax revenues are composed of an assessment increase of 0.005 for all real and personal property tax categories. All of the revenue from the assessment increase is allocated for infrastructure funding.

The local (county, municipal, and school districts) property tax yields $2.25 billion annually in South Carolina. Two thirds of this comes from school districts; one-third from counties and municipalities. By mid-period (2005), combined property tax yields will approach $2.55 billion annually. If all assessments are raised by one-half percentage point, property tax yields will increase, on average, by 20 percent. This will produce $199 million, or $0.199 billion, for infrastructure purposes.

Total Revenues for Infrastructure Purposes (Summary Table)

The total amount to be raised for infrastructure purposes is $2 billion annually. About 73% of this can be raised from existing sources of general fund and intergovernmental transfers ($1.46 billion). About 27 percent may have to come from new revenues ($0.64 billion). Other states have turned to additional taxes and user charges to respond to this funding gap; full funding requires significant sums from multiple sources of revenue. Most local revenues would come from a small property tax or local options sales tax increase; most state revenues from a sales tax increase. Another significant source of revenue would be a small gasoline tax increase at the state level passed wholly to the local level. Without these additional sources of revenue, a portion of infrastructure need clearly will have to be deferred.

CONCLUSION

The example calculation for full funding of infrastructure needs, based on the experience of other states, represents a difficult pill to swallow at both state and local levels. Significant revenues must be dedicated from existing sources of revenue, and new revenues must be found to fill the gap. Neither of these are popular choices—especially the latter. However, in order to grow predictably without overutilitizing existing infrastructure, most infrastructure expenditures should be funded. While the example shown in this portion of the report may not prove to be the chosen path of South Carolina legislators, some new sources of revenue will have to be dedicated to infrastructure finance in the future.

ALLOCATIONS TO INFRASTRUCTURE GROWTH (BILLIONS) IN 2005

Table No.	State Budget: Item	Mid Period (2005) Revenues	% Available for Funding	Funds for Infra-structure	Table No.	County/Municipal Budgets: Item	Mid Period (2005) Revenues	% Available for Funding	Funds for Infra-structure	Total Funds for Infra-structure
	Current Budget Dedications					**Current Budget Dedications**				
1	State General Fund and Other Revenues	$ 3.288	10.0%	$ 0.329	2	County/Municipal/School District Revenues	$ 2.205	10.0%	$ 0.221	$ 0.549
3	Intergovernmental Transfers				3	Intergovernmental Transfers				
	Federal Funds	$ 3.849	10.0%	$ 0.385		Federal Funds to Counties/Municipalities	$ 0.058	10.0%	$ 0.006	
	Earmarked Funds	$ 2.566	5.0%	$ 0.128		State Funds to Counties/Municipalities	$ 0.244	10.0%	$ 0.024	
						Federal & State Funds to School Districts	$ 3.682	10.0%	$ 0.368	
	Subtotal	$ 6.415		$ 0.513		Subtotal	$ 3.983		$ 0.398	$ 0.911
	Increases					**Increases**				
4	Sales Tax Increase (0.5%)	$ 0.159	100.0%	$ 0.159	4	Local Option Sales Tax Expansion				
						Counties	$ 0.063	29.0%	$ 0.018	
						Municipalities	$ 0.040	29.0%	$ 0.012	
	Subtotal	$ 0.159		$ 0.159		Subtotal	$ 0.104		$ 0.030	$ 0.189
5	State Gas Tax Increase ($0.01) (For Counties)	$ -	-	$ -	5	State Gasoline Tax Increase ($0.01)	$ 0.028	100.0%	$ 0.028	$ 0.028
6	New User Charges				7	New User Charges				
	Toll Road Fees ($0.25/Trip)	$ 0.063	100.0%	$ 0.063		Development Impact Fee Increases				
						Residential ($2,000/Residence)	$ 0.022	100.0%	$ 0.022	
						Nonresidential ($1/Square Foot)	$ 0.006	100.0%	$ 0.006	
						Sewer/Water Fee Increase (15%)	$ 0.040	100.0%	$ 0.040	
	Subtotal	$ 0.063		$ 0.063		Subtotal	$ 0.068		$ 0.068	$ 0.132
					8	Local Property Tax Increase (0.5%)	$ 0.199	100.0%	$ 0.199	$ 0.199
	Total	$ 9.926		$ 1.065		Total	$ 6.547		$ 0.945	$ 2.009

Sources: See Tables 1 through 8.