

South Carolina Development Financing Toolbox

South Carolina Association of Counties

Institute of Government

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What is Development Finance?

- Effort by local communities to support, encourage, and catalyze economic growth through public and private investments in infrastructure, business, and industry.
- Comes in a variety of forms: tax credits, tax abatements, loans, etc. in order to leverage public funds to generate private investment.
- Not intended to be a hand-out and should include accountability measures to protect public investment.



Source: Rittner, Toby. *Practitioners Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox*. Columbus, OH: Council of Development Finance Agencies, 2016. Print. Pages 15-16

Before Talking Money...

- Know where you are going: Have a vision on what the community wants to become and a plan to achieve.
- Don't go alone: Economic and community development is a team sport.
- It's more than money: Economic and community development hinges on location, workforce, infrastructure, and the unique character of a community. Incentives do not make a bad site good, however they can make a good site better.
- Don't get naked on the first date: Protect public resources and be wary if a prospect is only interested in incentives.



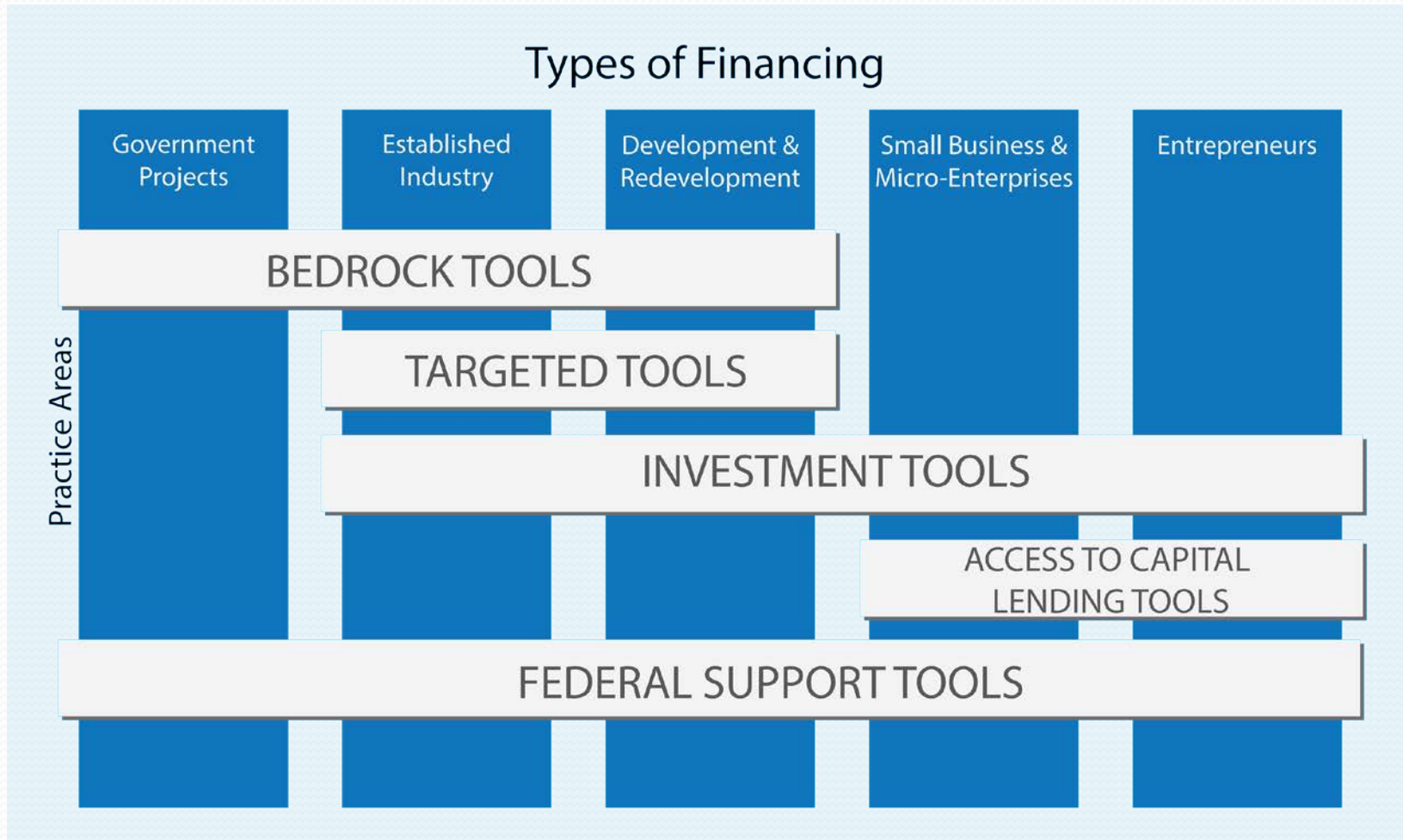
Development Finance Toolbox

- Hundreds of development finance programs exist at federal, state, and local level. Individually, they are not a silver bullet solution to every development finance problem.
- Using a “toolbox approach” allows local governments to consider a variety of tools to financing projects and priorities.



Source: Rittner, Toby. *Practitioners Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox*. Columbus, OH: Council of Development Finance Agencies, 2016. Print.

Development Finance Spectrum



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Bedrock Tools: Bonds

- Bonds are the bedrock of public finance to fund infrastructure and facilities.
- Federal law generally makes the interest on bonds by governments tax-exempt, meaning they have a lower interest rates.
- Two types of bonds:
 - Governmental Bonds: Used to finance essential public facilities such as schools and roads.
 - Qualified Private Activity Bonds: Used to finance private facilities such as certain nonprofits, manufacturing, and clean energy.



Bedrock Tools: Bonds in South Carolina

- Counties can issue two types of bonds:
 - General Obligation Bonds: Secured by the full faith and credit of the county (the taxing power) and used for county purposes like roads and buildings.
 - Revenue Bonds: Secured by a particular security like water or sewer revenues (typically to finance a utility), or from a special non-tax source like hospitality taxes.
- Jobs-Economic Development Agency: JEDA issues qualified private activity bonds in South Carolina for non-profits, small manufacturers, and clean energy.
 - Counties get routinely asked to hold a public hearing on a particular project.
 - There is (generally) no financial impact to the county.



Using Bonds in Development Finance

- Not Free Money: Remember the bondholder wants to be paid back. Understand how the bonds are secured and will be repaid.
- Have Professionals: Deals can be complex. Have good bond counsel and independent financial advisors.
- Check Assumptions: Not all projections come out as rosy as forecast. Make sure you understand if/how the bonds will be repaid if the projections don't come out according to plan.
- Don't Forget Compliance: Tax-exempt debt comes with significant strings attached from the IRS, SEC, and others. Make sure your Finance Director, Treasurer, and Auditor are aware of ongoing responsibilities.



Targeted Tools

- Targeted tools aim to provide specific benefits to areas or industries through:
 - Special District Financing: Utilizing revenue from an area to finance additional improvements in an area.
 - Tax Assessments: Assessment on top of normal taxes and fees to provide improvements to a particular area.
 - Abatements: Removes tax liability from a particular project in exchange for particular investment.



Targeted Tools in SC: Special District Financing

- Uses tax or fee revenue generated in a particular and redirects it to benefit a particular investment in that area.
 - Multi-County Business Park (MCBP): Allows a county to designate a particular area as a MCBP with a partner county and convert the taxes into a fee. Fee revenue can then be redirected into the project if desired by County through mechanisms like a special source revenue bond or a special source revenue credit. Also makes business eligible for Jobs Tax Credit at state level.
 - Tax Increment Financing (TIF): Allows a city or county to take all growth in taxes in a particular area and reinvest them into an area to encourage growth and development.



Targeted Tools in SC: Tax Assessments

- Tax Assessments: Allow for a special surcharge that provide improvements or an enhanced level of service to a particular project or area. Can be used to provide benefits to one particular area without burdening other taxpayers with the costs.
 - Special Tax Districts
 - County Public Works Improvement Assessments
 - Residential Improvement Districts



Targeted Tools in SC: Tax Abatements

- Tax Abatements: Provide relief from certain taxes to encourage particular projects and investment.
 - Fee-in-Lieu of Taxes (FILOT): Property tax reduction via a change in assessment ratio for large projects (\$2.5M+), typically on industrial projects.



Using Targeted Tools

- But-For Test: Be willing to use only on projects where the investment would not occur, *but for* the use of a target tool.
- Don't Wear Rose-Colored Glasses: Targeted tools rely upon future assumptions. Make sure that it is based on realistic expectations of the future.
- Consider Needs of Other Governments: Using a targeted tool often means another level of government gives up revenue. Working with schools and cities early can avoid conflict.



Investment Tools

- Investment tools aim to encourage an investor to make a particular investment, typically through a credit on taxes.
 - Federal Tax Credits: Provides a credit on federal taxes, typically on income tax in exchange for particular investments.
 - State and Local Tax Credits: Provides a credit on either state or local taxes, typically on income or property taxes in South Carolina.



Source: Rittner, Toby. Practitioners Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox. Columbus, OH: Council of Development Finance Agencies, 2016. Print.

Investment Tools: Federal Tax Credits

- Federal Government provides numerous tax credits to encourage particular investments.

Common tax credits:

- New Markets Tax Credit: Provides income tax credit for investments in low-income census tracts.
- Historic Preservation Tax Credit: Provides income tax credits for preserving and restoring historic structures.
- Low-Income Housing Tax Credit: Provides income tax credits for developing affordable housing for low-income individuals.



Source: Rittner, Toby. Practitioners Guide to Economic Development Finance: Building and Utilizing the Development Finance Toolbox. Columbus, OH: Council of Development Finance Agencies, 2016. Print.

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Something New: Opportunity Zones

- Created by Tax Cuts and Jobs Act to encourage private sector investment in “left behind” communities by favorable treatment of realized capital gains.
- Idea put forward by Senators Tim Scott (R-SC) and Cory Booker (D-NJ).
- Governor McMaster nominated 135 Census tracts to Department of Treasury in March. Every county in South Carolina has at least one Opportunity Zone.



How Do Opportunity Zones Work?



Investment Tools: State and Local Credits

- State law provides for a number of state and local tax credits to facilitate particular investments. Common South Carolina tax credits are:
 - Bailey Bill: Provides for property tax assessment freeze on historic structures subject to city or county approval.
 - Abandoned Buildings: Provides property or income tax credits on repurposing vacant commercial structures.
 - Textile Communities Revitalization: Provides property or income tax credits on repurposing former textile mills.



Using Investment Tools

- Federal Tax Credits Aren't for the Feint of Heart: A select number of cities in South Carolina have used federal tax credits for local projects. Transactions are complex and require substantial technical assistance.
- But-For Test: When being asked to approve a tax credit, be willing to use only on projects where the investment would not occur, *but for* the use of a target tool.
- Consider Needs of Other Governments: Like targeted tools, approving a tax credit often means another level of government gives up revenue. Working with schools and cities early can avoid conflict.



Access to Capital Tools

- Access to capital tools aims to encourage small and emerging businesses get the money to grow and sustain their enterprises through loans and seed money. Common at federal level through Small Business Administration, however, counties do get involved through:
 - Revolving Loan Programs: Helps provide additional capital to businesses to supplement their funds.
 - Loan Guarantees: Providing a back-stop to guarantee credits for businesses.
 - Incubators: Funding programs and space to help grow businesses.



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Using Capital Access Tools

- Know Risk Tolerance: Small businesses fail. Be cognizant of the potential to lose public funds.
- Don't Compete with Private Sector: If you get into this business, make sure you are not competing with banks and other lending sources.



Federal and State Support Tools

- Federal and state governments offer numerous grants and loans to support development finance projects.
- Common federal government sources:
 - HUD: CDBG and HOME
 - USDA: Rural Development
 - Economic Development Administration
- Common state government sources:
 - Rural Infrastructure Authority
 - Department of Commerce



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Using Federal and State Support Tools

- There is Not a Guy in Cubicle Waiting to Give You Money: Federal and state agencies have a variety of missions. They are looking to advance their programmatic goals and will often help if you have a good project.
- Follow The Rules: Each agency has a number of compliance requirements, many that do not make sense. Be sure that you are able to comply with all the requirements.



Bringing It All Together: Bucksport Marine Park

- Partnership to build 45-acre first phase of a marine industrial park in Bucksport:
 - Grand Strand Water and Sewer (GSWSA): Project developer
 - Santee Cooper: \$1M grant and \$5M loan to Grand Strand Water and Sewer
 - MBREDC: Marketing agent
 - Horry County: MCP Agreement to reimburse GSWSA and agreed to enter into FILOT for eligible projects.



Questions

