SOUTH CAROLINA ASSOCIATION OF COUNTIES WEBINAR

Reporting Requirements for Local Governments Under GASB 77

Edward Kluiters

Haynsworth Sinkler Boyd, P.A.

Columbia, SC

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GASB 77 and Economic Development Incentives

GASB-77 Disclosure Requirements

1. Existence of an agreement
   - Must be identifiable
   - Contains promises by government and specific individual/entity
   - Precedes reduction of taxes and fulfillment of promise by individual (a prior application, not after the fact)

   Note: does not have to be legally enforceable

2. Purpose of the agreement is economic development or another governmental purpose (historic preservation, LMI housing, environmental remediation)
3. The agreement reduces tax revenues
   - Customer charges and other exchange transactions are excluded

Note: Other commitments as part of the tax agreement must be disclosed also

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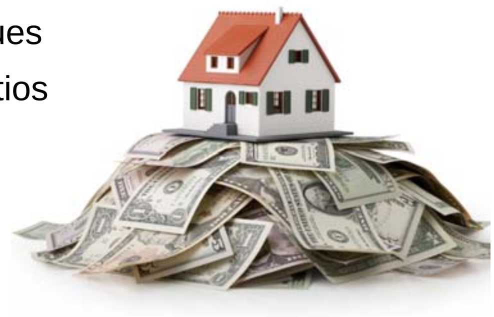
Property Taxes

Property Taxes Generally: Three Factors

- Fair Market Values
- Assessment Ratios
- Millage Rates



Key Property Tax Abatements

These 5 year abatement incentives impact the millage rate part of the equation:

- Manufacturing
- Research and Development
- Corporate Headquarters, Corporate Office Facilities, and Distribution Facilities
- Environmental Cleanup

Disclosure Required?

Generally Automatic – no disclosure required

GASB 77 and Economic Development Incentives

Examples of Other Automatically Applicable Property Tax Exemptions in South Carolina:

- Inventory
- Pollution Control Equipment
- Fire Sprinkler System
- Personal Property of Banks and Savings and Loan Associations

Miscellaneous Property Tax Matters

Manufacturer's, R&D, Corporate Headquarters, Corporate Office and Distribution abatement for unrelated purchasers:

12-37-220(C): Governing body of <u>county</u> may approve five-year exemption being extended to unrelated purchaser who acquires facilities in arms-length transaction and preserves facilities/jobs

Distinguish from someone buying an empty facility – that is possibly a <u>new</u> 5 year abatement

Disclosure required?

Abatement for Brownfields sites:

12-37-220(B)(44): <u>County</u> governing body may by r<u>esolution</u> approve five-year exemption for property subject to a VCC upon issuance of a certificate of completion

Disclosure required?

GASB 77 and Economic Development Incentives

FILOT Transactions

- FILOT Incentive (Code Sections 12-44-10; 4-29-67; and 4-12-10)
  - Impacts all three aspects of Property Tax Calculation
    - Fair Market Value
    - Assessment Ratio
    - Millage Rate
- Super and Enhanced Investment Fees (Code Sections 4-12-10; 4-29-67; and 12-44-10)
  - Longer investment period
  - Lower assessment ratio

Implemented through an agreement with individual taxpayer which reduces property taxes in return for investment/jobs; disclosure required.

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GASB 77 and Economic Development Incentives

Project X – South Carolina County

Year	2013 Inv. 30,000,000	2014 Inv. 15,000,000	Gross Ad Val Tax	Abate-ment	Net Ad Val Tax	FILOT 0.2153	FILOT Savings	Annlzd. FILOT
2014	26,700,000		603,594	199,609	403,984	344,911	59,074	125,803
2015	23,400,000	13,350,000	839,097	277,490	561,606	474,737	86,870	188,704
2016	20,100,000	11,700,000	733,336	242,515	490,821	410,792	80,029	188,704
2017	16,800,000	10,050,000	625,377	206,813	418,564	346,848	71,716	188,704
2018	13,500,000	8,400,000	515,185	170,372	344,812	282,904	61,908	188,704
2019	10,200,000	6,750,000	402,726	53,037	349,689	218,960	130,729	188,704
2020	6,900,000	5,100,000	287,967		287,967	155,016	132,951	188,704
2021	3,600,000	3,450,000	170,872		170,872	91,072	79,801	188,704
2022	3,000,000	1,800,000	117,502		117,502	62,006	55,496	188,704
2023	3,000,000	1,500,000	111,260		111,260	58,131	53,129	188,704
2024	3,000,000	1,500,000	112,372		112,372	58,131	54,241	188,704
2025	3,000,000	1,500,000	113,496		113,496	58,131	55,365	188,704
2026	3,000,000	1,500,000	114,631		114,631	58,131	56,500	188,704
2027	3,000,000	1,500,000	115,777		115,777	58,131	57,646	188,704
2028	3,000,000	1,500,000	116,935		116,935	58,131	58,804	188,704
2029	3,000,000	1,500,000	118,105		118,105	58,131	59,974	188,704
2030	3,000,000	1,500,000	119,286		119,286	58,131	61,155	188,704
2031	3,000,000	1,500,000	120,478		120,478	58,131	62,347	188,704
2032	3,000,000	1,500,000	121,683		121,683	58,131	63,552	188,704
2033	3,000,000	1,500,000	122,900		122,900	58,131	64,769	188,704
2034		1,500,000	41,376		41,376	19,377	21,999	62,901
		Total	5,623,956	1,149,837	4,474,118	3,046,064	1,428,054	3,774,079
		NPV (5%)	4,222,404	994,504	3,227,900	2,314,340	913,560	2,314,340

Assumptions:
1. No real property included.
2. Machinery and equipment = $45,000,000, depreciation @ 11%/yr to maximum total depreciation of 90%.
3. Assessment Ratio = 6% for FILOT, 10.5% for ad valorem taxation.
4. Millage Rate for FILOT = 0.2153, fixed for 20 years.
5. Initial Millage Rate for Ad Val = 0.2153, abatable portion for five-year abatement = 0.0712; 1% annual millage growth thereafter.
6. Special source revenue credits (SSRCs) reduce the FILOT payments by 10% and 25% per year in alternative scenarios.
7. An annualized FILOT stream includes a level payment for 20 years with respect to each year's investment.

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SSRB/SSRC/Infrastructure Credits

SPECIAL SOURCE REVENUE FINANCING

- Credits provide further reduction in property tax burden
  - May be needed for investment under statutory minimum that cannot qualify for FILOT
  - Useful to provide more value to non-manufacturing businesses like distribution centers (whose assessment ratio on real property is already 6%)
  - Can be targeted for specific needs of a site or a project (i.e., road, water, sewer)

  Implemented through an agreement with individual taxpayer which reduces taxes in return for investment/jobs; disclosure required
- Multi-County Industrial Parks ("MCIPs")
  - Statutory formality, but property should be in an MCIP in order to use special source financing

  Implemented through an agreement between counties; not individual taxpayer

  What about the MOU or Fee Agreement which mentions the MCIP?

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Project X – South Carolina County

Year	2013 Inv. 30,000,000	2014 Inv. 15,000,000	Gross Ad Val Tax	Abate-ment	Net Ad Val Tax	FILOT 0.2153	FILOT Savings	FILOT - 10% SSRC	FILOT - 25% SSRC
2014	26,700,000		603,594	199,609	403,984	344,911	59,074	310,420	258,683
2015	23,400,000	13,350,000	839,097	277,490	561,606	474,737	86,870	427,263	356,052
2016	20,100,000	11,700,000	733,336	242,515	490,821	410,792	80,029	369,713	308,094
2017	16,800,000	10,050,000	625,377	206,813	418,564	346,848	71,716	312,163	260,136
2018	13,500,000	8,400,000	515,185	170,372	344,812	282,904	61,908	254,614	212,178
2019	10,200,000	6,750,000	402,726	53,037	349,689	218,960	130,729	197,064	164,220
2020	6,900,000	5,100,000	287,967		287,967	155,016	132,951	139,514	116,262
2021	3,600,000	3,450,000	170,872		170,872	91,072	79,801	81,965	68,304
2022	3,000,000	1,800,000	117,502		117,502	62,006	55,496	55,806	46,505
2023	3,000,000	1,500,000	111,260		111,260	58,131	53,129	52,318	43,598
2024	3,000,000	1,500,000	112,372		112,372	58,131	54,241	58,131	58,131
2025	3,000,000	1,500,000	113,496		113,496	58,131	55,365	58,131	58,131
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2034		1,500,000	41,376		41,376	19,377	21,999	19,377	19,377
		Total	5,623,956	1,149,837	4,474,118	3,046,064	1,428,054	2,801,527	2,434,720
		NPV (5%)	4,222,404	994,504	3,227,900	2,314,340	913,560	2,111,159	1,806,386
						Total SSRC Savings		244,538	611,344
						NPV (5%) SSRC Savings		203,182	507,954

Assumptions:

1. No real property included.
2. Machinery and equipment = $45,000,000, depreciation @ 11%/yr to maximum total depreciation of 90%.
3. Assessment Ratio = 6% for FILOT, 10.5% for ad valorem taxation.
4. Millage Rate for FILOT = 0.2153, fixed for 20 years.
5. Initial Millage Rate for Ad Val = 0.2153, abatable portion for five-year abatement = 0.0712; 1% annual millage growth thereafter.
6. Special source revenue credits (SSRCs) reduce the FILOT payments by 10% and 25% per year in alternative scenarios.
7. An annualized FILOT stream includes a level payment for 20 years with respect to each year's investment.

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GASB 77 Information on Property Tax Incentives

Required Disclosures About Tax Abatement Programs

Disclosure Item	FILOT	SSRC
Name and Purpose	Fee in Lieu of Taxes to Encourage Investment	Special Source Revenue Credits or Infrastructure Credits to Encourage Investment
Specific Taxes Being Abated	Property Taxes	Property Taxes
Authority	SC Code Title 12, Chapter 44, Title 4, Chapter 29, or Title 4, Chapter 12	SC Code Sections 4-29-68, 4-1-170, and 12-44-70
Eligibility	Generally must invest $2,500,000 within a 5-6 year investment period (beginning with date property is placed in service, ending five years after the last day of the property tax year in which the property is initially placed in service)	Must incur costs of designing, acquiring, constructing, improving, or expanding improved or unimproved real estate or personal property used in the operation of a manufacturing or commercial enterprise, infrastructure servicing the project, or certain aircraft

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GASB 77 Information on Property Tax Incentives

Required Disclosures About Tax Abatement Programs

Disclosure Item	FILOT	SSRC
Mechanism of Abatement	Reduction of Assessed Value, reduction in millage rate and elimination of (or reduction in) number of times millage rates are changed. Also, possible use of net present value method over term of FILOT to equalize payments. (Taxpayer files PT-300, Schedule S, SC DOR calculates FILOT, issues PT-310 notice to county, county sends FILOT bill)	Credit against property taxes in the form of a percentage reduction or a dollar amount reduction. County manually applies SSRC to reduce applicable property tax bill

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GASB 77 Information on Property Tax Incentives

Required Disclosures About Tax Abatement Programs

	FILOT	SSRC
Recapture Provisions	Repayment of savings required by state law if taxpayer fails to meet statutory minimum investment requirement; other recapture provisions may be negotiated (i.e., pro rata clawback for failure to meet and/or maintain jobs/investment)	If SSRCs are used for personal property which is removed from the project, state law requires payment of two additional years of property tax; other recapture provisions may be negotiated (i.e., pro rata clawback for failure to meet and/or maintain jobs/investment)
Commitments by Recipients	Generally, taxpayer agrees to invest statutory minimum; higher amount may be negotiated; job commitments may be included as well	Recipient commitments would be negotiated for each project
Commitments by Government other than tax abatement	Generally none	Generally none

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GASB 77 – Calculating Gross Amount of Tax Abated

Key points for calculating gross amount of taxes abated during period

1. Values may be different (i.e., real estate outside of a FILOT is generally valued at fair market value and subject to periodic appraisal/reassessment, while real estate within a FILOT is generally valued at cost, with no depreciation, although law now allows FMV within a FILOT as well)
2. If property was agricultural use, rollback taxes would apply outside of the context of a FILOT
3. Five-year abatement may apply outside of the context of a FILOT
4. Assessment ratio would normally be 10.5% for all property for manufacturers, millage rate would be current year's rate
5. If property is in a MCBP, a portion of FILOT payments goes to the other county.

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Rehabilitation Incentives

- Historic Property Rehabilitation (Bailey Bill)
- Big Box Credits
- Textile Revitalization Credits
- Abandoned Buildings

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Historic Property Rehabilitation – Bailey Bill

- **Purpose:** Amended in May 2013, the "Bailey Bill" enhances incentives to restore historic structures by making renovation projects more economically feasible for home and business owners.
- **How it Works**: Property taxes are assessed on the pre-rehabilitation fair market value. This means that a property owner will continue to pay property taxes on the *pre-rehabilitation* value of the property, and not the increased value due to the renovations, for up to 20 years. The county must establish minimum expenditures (20% - 100% of the FMV of the building) and designate the reviewing authority.
- **What Properties Qualify:**
  - Properties listed in the National Register of Historic Places
  - The property is designated as an historic property by the governing county body and is at least 50 years old; OR
  - The property is at least 50 years old and resides in a historic district so designated by the county governing body.
- **SC Code 4-9-195** (counties)
- **SC Code 5-21-140** (cities)

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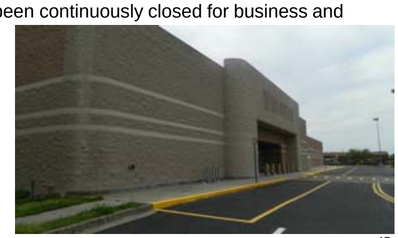
GASB 77 and Economic Development Incentives

Big Box Retail Credits

- **SC Code § 6-34-40**
- **Purpose**: To create meaningful incentives for the renovations, improvement, and redevelopment of abandoned retail facility sites in South Carolina.
- **How it Works**: A taxpayer who renovates, improves, or redevelops an eligible site may choose between one of the two available tax credits:
  1. Property tax credit equal to 25% of the rehabilitation expenses times the local tax entity ratio of each local taxing entity (taken against up to 75% of property taxes due for up to eight years); OR
  2. An income tax credit equal to 10% of the rehabilitation expenses.
- **What Properties Qualify:**
  - Eligible Sites include: a shopping center, mall, or free standing site, at least 40,000 sq. ft. in size, that was used primarily as a retail sales facility. For the site to qualify, it must have been "abandoned."
    - Abandoned – 80% of the retail site has been continuously closed for business and otherwise inoperable for at least 1 year



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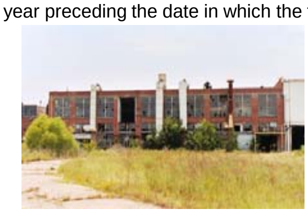
GASB 77 and Economic Development Incentives

Textile Revitalization Credit

- **SC Code § 12-65-30**
- **Purpose:** Primary purpose is to incentivize rehabilitation, renovation, and redevelopment of abandoned textile mill sites located in South Carolina.
- **How it Works**: A taxpayer who rehabilitates a textile mill is eligible for either:
  - Property tax credit levied by local taxing entities equal to 25% of rehabilitation expenses (taken against up to 75% of property taxes due each year for up to eight years); OR
  - A credit against income tax, license fees, or insurance premium taxes, or any of them equal to 25% of eligible rehabilitation expenses.
  - 80%-125% limitation (interestingly, 80% not applicable for income tax credits)
- **What Properties Qualify:**
  - Textile Mill – means a facility used for textile manufacturing, dying, finishing operations.
  - Textile Mill Site – includes the textile mill, the land, and any improvements on it which were used directly for textile manufacturing operations or ancillary purposes.
  - Must be abandoned – 80% or more of the textile mill has been continuously closed for business and operation for at least one year preceding the date in which the taxpayer files the "Notice of Intent to Rehabilitate."



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Abandoned Buildings Credit

- **SC Code § 12-67-100**
- **Purpose**: this Act provides a tax incentive for the restoration, rehabilitation, and redevelopment of abandoned buildings because of the economic, social, and public welfare detriment caused by the presence of abandoned buildings in our communities.
- **How it Works**: A taxpayer who rehabilitates a textile mill is eligible for either:
  - o Property tax credit levied by local taxing entities equal to 25% of rehabilitation expenses (taken against up to 75% of property taxes due each year for up to eight years); OR
  - o A credit against income tax, license fees, or insurance premium taxes, or any of them equal to 25% of eligible rehabilitation expenses.
  - o 80%-125% limitation
- **What Properties Qualify**:
  - A building is considered "abandoned" if 66% of the space in the building has been vacant and nonoperational for five years.
  - Taxpayer must have incurred the following expenses:

    (a) $250,000+ in the unincorporated areas of a county or municipalities of a county where the population exceeds 25,000 people, (b) $150,000+ in the unincorporated areas of a county or municipalities of a county where the population is at least 1,000 persons, (c) $75,000+ located in an municipality with less than 1,000 persons.

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GASB 77 and Economic Development Incentives

Disclosure of Rehabilitation Incentives

If income tax credit, no GASB disclosure. If property tax . . .

KEY QUESTION FOR GASB 77:

- Is there an "agreement"?
- Usually not, although there could be an Incentive and Inducement Agreement, Site Development Agreement, or MOU

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GASB 77 and Economic Development Incentives

GASB 77 Information on Rehabilitation Incentives

Required disclosures

	Bailey Bill	Big Box	Abandoned Textile	Abandoned Buildings
Name and Purpose	LMI and encourage historic rehab	Retail facilities, Revitalization Act; redevelopment of abandoned "big box" stores	Textile Communities Revitalization Act; redevelopment of abandoned textile mills	Abandoned Buildings Revitalization Act; redevelopment of abandoned buildings
Authority	SC Code 4-9-195 (5-21-140/cities)	SC Code Title 6, Chapter 34	SC Code Title 12, Chapter 65	SC Code Title 12, Chapter 67
Eligibility	Preliminary certification, historic designation, final certification, minimum expenditures	80% aband. >= 1 year, 40,000 sqft (may be reduced to 25,000), resolution by city/county, notice other taxing entities, public hearing	80% aband. >= 1 year, textile use, notice of intent, resolution by city/county, notice other taxing entities, public hearing	66% aband. >= 5 years, minimum expenditures ($250k if county with > 25k ppl), otherwise same as Aband. Textile
Mechanism	Pre-rehab value locked in for up to 20 years	If property tax credit, 25% of rehab expenses, up to 75% of tax, up to 8 years	If property tax credit, 25% of rehab expenses, up to 75% of tax, up to 8 years (80-125 rule)	If property tax credit, 25% of rehab expenses, up to 75% of tax, up to 8 years (80-125 rule)

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GASB 77 Information on Rehabilitation Incentives

Required disclosures

	Bailey Bill	Big Box	Abandoned Textile	Abandoned Buildings
Recapture Provisions	N/A (property only qualifies after certification complete)	N/A (credits only received after expenses incurred)	N/A (credits only received after expenses incurred)	N/A (credits only received after expenses incurred)
Commitments by Recipients	Commitments must be satisfied on the front end, but any unauth. alternations/ renovations can trigger loss of incentive	Commitments must be satisfied on the front end	Commitments must be satisfied on the front end	Commitments must be satisfied on the front end
Commitments by Government other than tax abatement	N/A	N/A	N/A	N/A

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DOR Guidance

DOR Draft Guidance – Supplemental schedule to PT-300 package would be sent by the company to county but not to DOR; schedule asks company to include some basic information; county would apply total millage rate to determine taxes that otherwise would be due. County should disclose it is relying on company supplied information.

GASB 77 and Economic Development Incentives

DOR Guidance

STATE OF SOUTH CAROLINA
SCHEDULE G
FEE IN LIEU OF TAX SUPPLEMENTAL

2017

PT-300G
(Rev. 12/11/15)
7096

This form (PT-300G) should be sent to the County Auditor, where the FILOT project is located, at the same time the PT-300 is filed at the Department of Revenue. A separate PT-300G should be completed for each Schedule S or Schedule T filed.

Owner Name ____________________ SID Number ____________

Date of Agreement ____________________ Schedule Letter ____________

Project Site Location ____________________ Schedule Number ____________

(Address) ____________________

1. Fair Market Value of **Real** property (appraised value) ____________
2. Assessment ratio for **Real** property X ____________ %
3. Total Assessed Value of **Real** property ____________
4. Fair Market Value of **Personal** property (income tax basis less depreciation allowable by law) ____________
5. Assessment ratio for **Personal** property X 10.5 %
6. Total Assessed Value of **Personal** property ____________
7. Add lines 3 (Total Assessed Value of **Real** property) and line 6 (Total Assessed Value of **Personal** property) ____________

TO BE COMPLETED BY COUNTY OFFICIAL

8. Multiply by current Millage rate X ____________
9. Property tax amount that would be due if property were not subject to fee ____________

Thank You!

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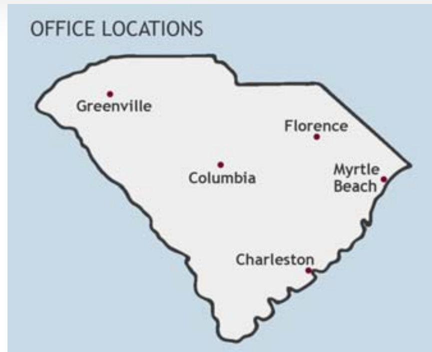

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QUESTIONS?

Edward Kluiters
Haynsworth Sinkler Boyd, P.A.
1201 Main Street, Suite 2200
Columbia, SC 29201
Telephone (803) 540-7955
ekluiters@hsblawfirm.com

Haynsworth Sinkler Boyd, P.A.

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