

RESEARCH REPORT



July 2011

State of Local Government Fiscal Conditions in South Carolina

Local governments across the nation for the past few years have struggled in the face of declining revenues and increased expenses. While the Great Recession was officially deemed over in June 2009, many city and county budgets are still feeling the impact of the economic downturn that began in December 2007 (National Bureau of Economic Research [NBER], n.d.).

To study the effect of the recession on South Carolina local governments, the University of South Carolina's Institute for Public Service and Policy Research (IPSPR) first conducted a survey in 2010 of counties and municipalities in the state to determine the true impact on revenues and the fiscal strategies local governments have used to reduce expenditures. IPSPR conducted a follow-up study in 2011. The key findings of both surveys are summarized in this report. Given the difference in the scales for the responding municipalities and counties, most of the data in this report are illustrated on separate charts. The FY2011 data provided by the respondents are estimates. The actual figures for FY2011 will likely vary slightly from what was reported.

State of Local Government Revenues

Analyzing general fund budgets of local governments may give an indication of the impact the national recession has had on municipalities and counties. During this period, local governments have faced rising health insurance costs, retirement costs, and operating costs such as fuel. The following charts illustrate the municipal and county revenue sources for FY2011. In FY2011, municipalities anticipated relying more heavily on property taxes and local option sales taxes as a result of the decline of license and permit fees. Counties also predicted a greater reliance on property tax, mostly due to the reduction in aid to local subdivisions.

Figure 1

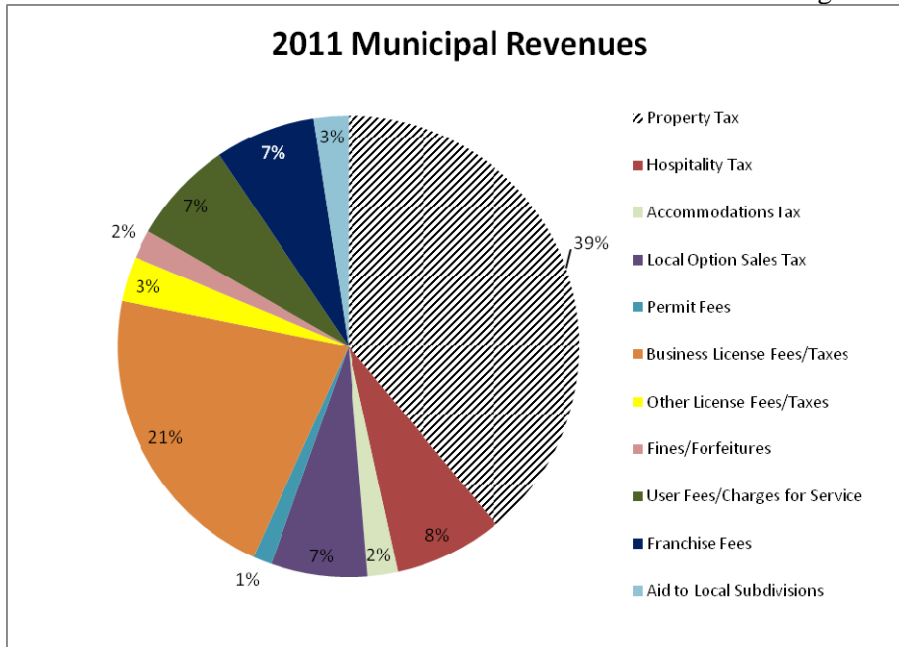
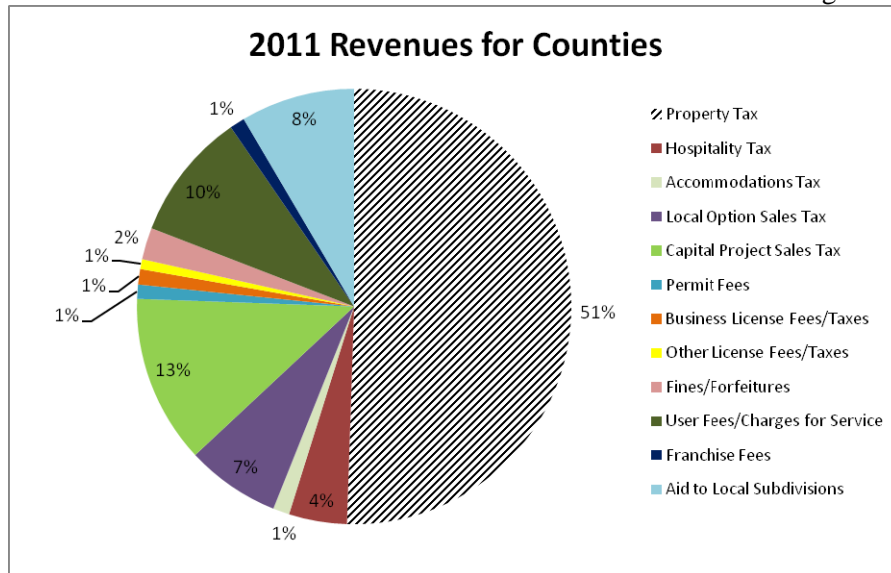


Figure 2



During the survey period, the participating cities and towns have had more fluctuation in general fund budgets than counties. Since FY2008, municipalities have experienced a net change of 3.04% in general fund budgets, and counties have had a 1.71% change.

Figure 3

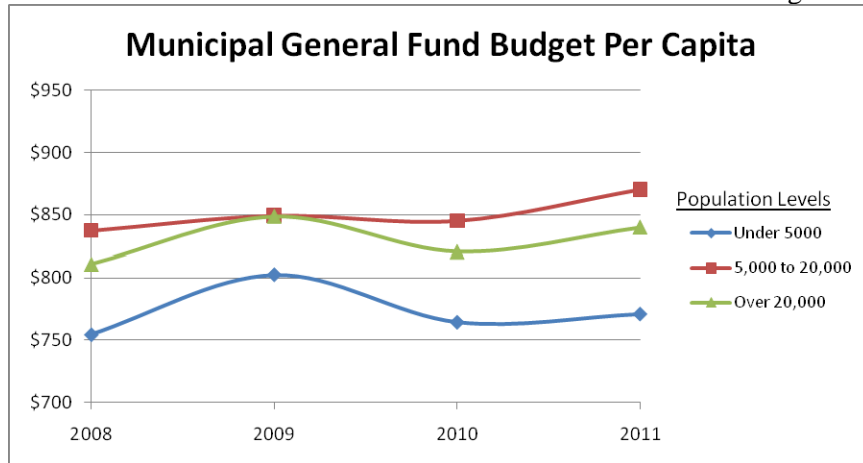
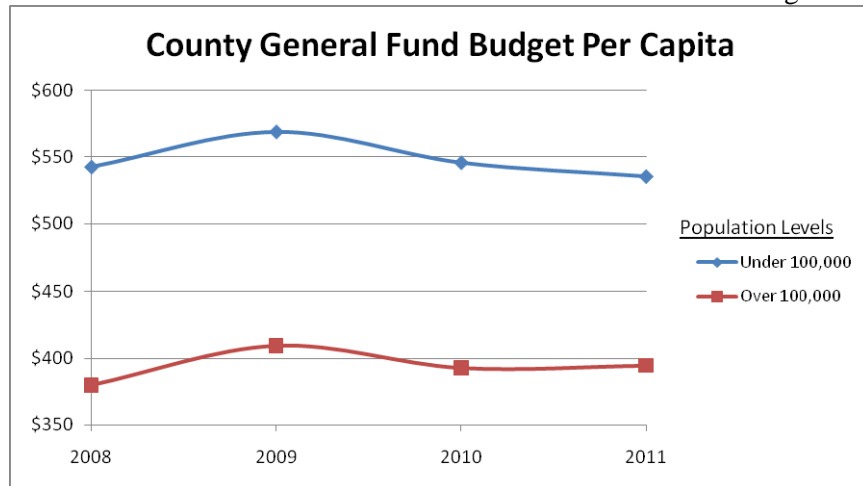


Figure 4



Another indicator to consider when determining the impact of the economy on local governments is the change in the number of full-time equivalent positions. Overall, the number of FTEs has remained relatively unchanged from FY2008-FY2011. The participating municipalities had a 0.67% decrease in the number of FTE positions, and counties had a 1.67% increase.

Figure 5

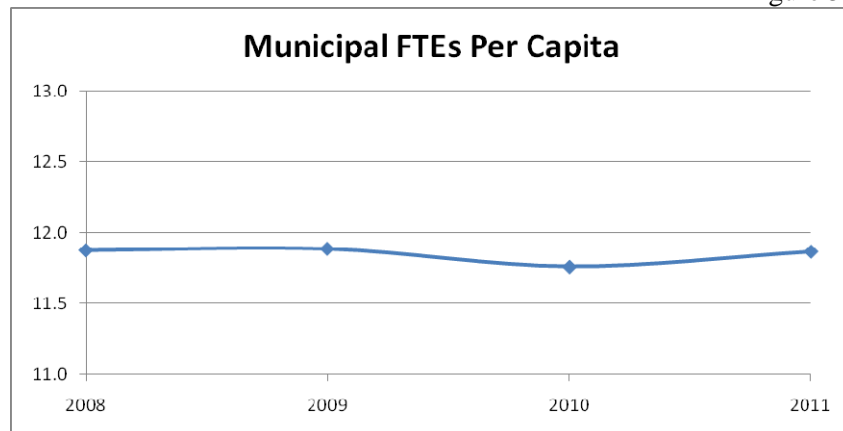
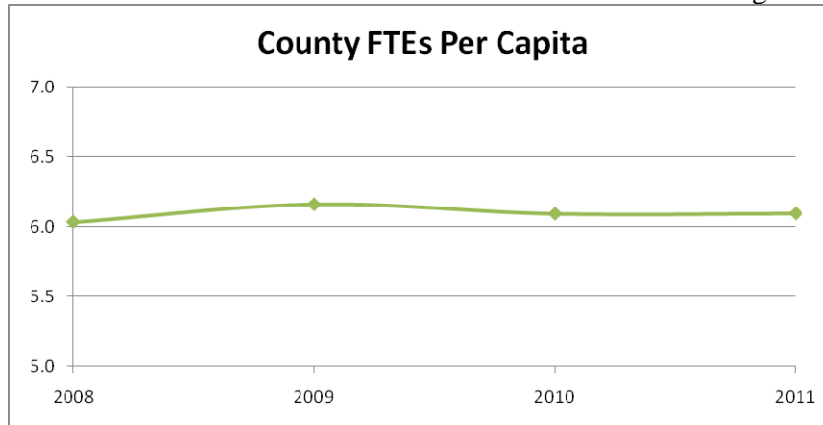
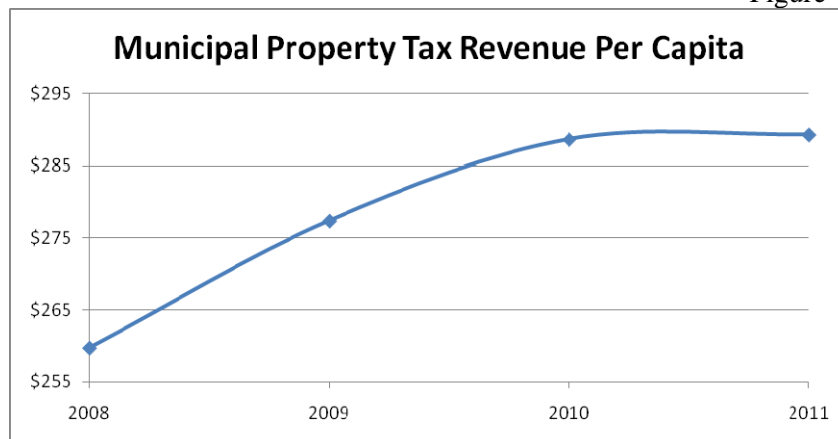


Figure 6



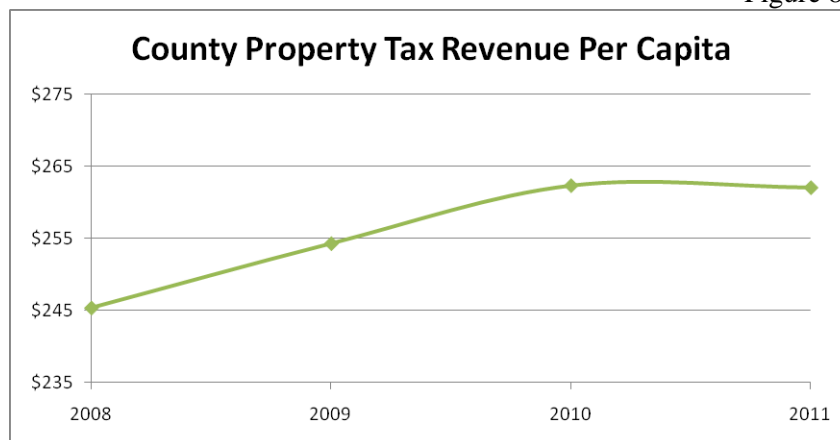
The following section provides highlights of changes in revenue sources since FY2008. Following the graphs are more detailed tables of revenue changes by population category. On average, municipalities estimated \$289 per capita in property tax revenue for FY2011. This is an 11.4% increase from FY2008. Counties predict a 6.8% change in this revenue source. There was very little change from FY2010 to FY2011 due to fewer jurisdictions raising property taxes in FY2011 than in the previous three years and the declining real estate market.

Figure 7



N = 36

Figure 8



N = 15

Many local governments in South Carolina rely on hospitality and accomodation taxes to help fund basic services. Not surprisingly, these revenue sources have declined since FY2008. Although the graphs indicate the hospitality taxes in FY2011 are lower, some of the participating jurisdictions provided conservative estimates for this category. Anecdotal evidence indicates that hospitality tax revenues have actually increased for FY2011.

Figure 9

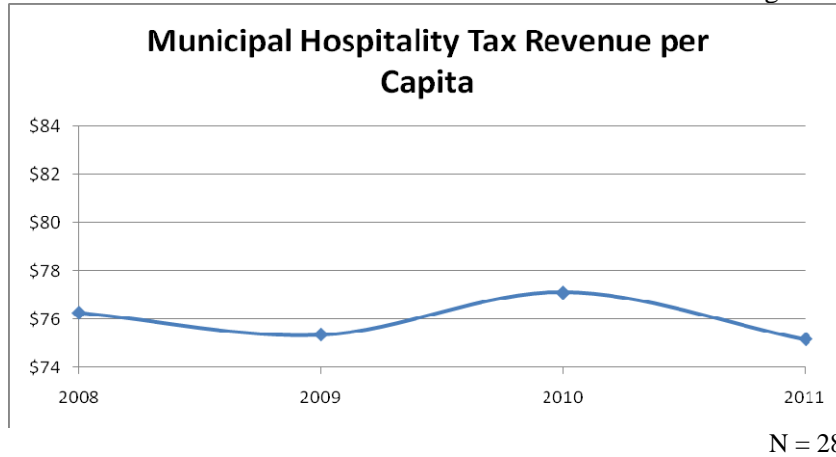


Figure 10

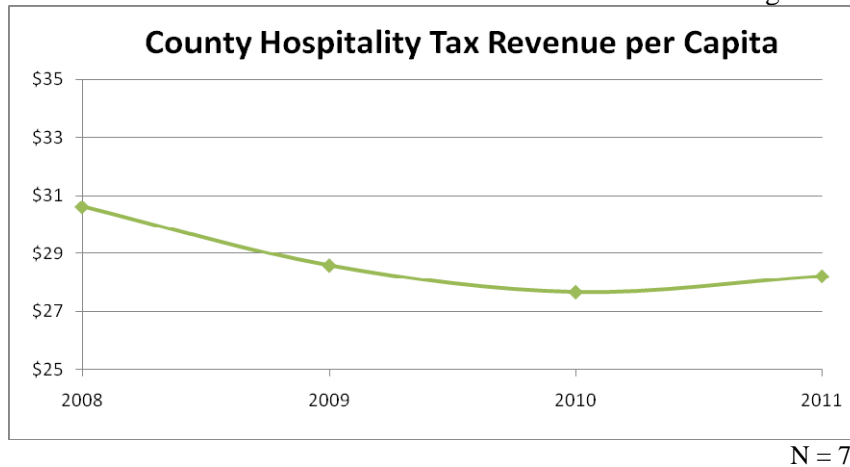


Figure 11

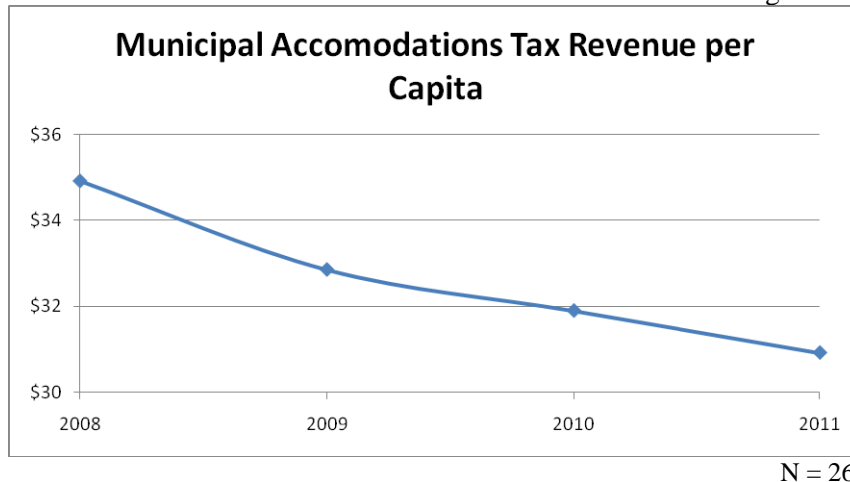
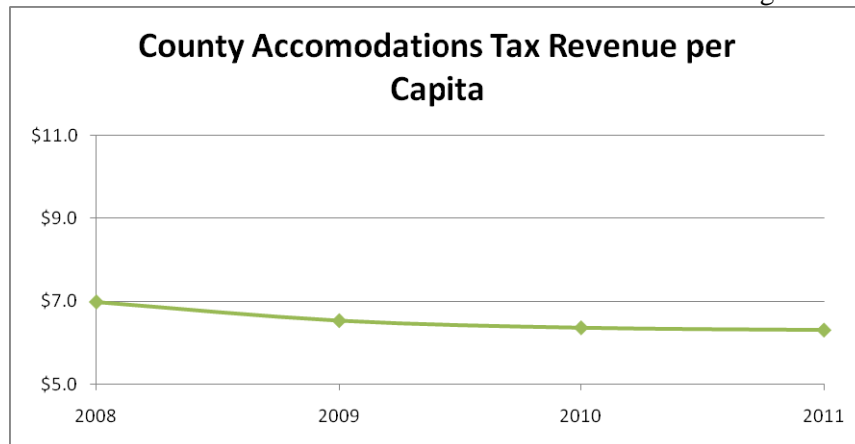


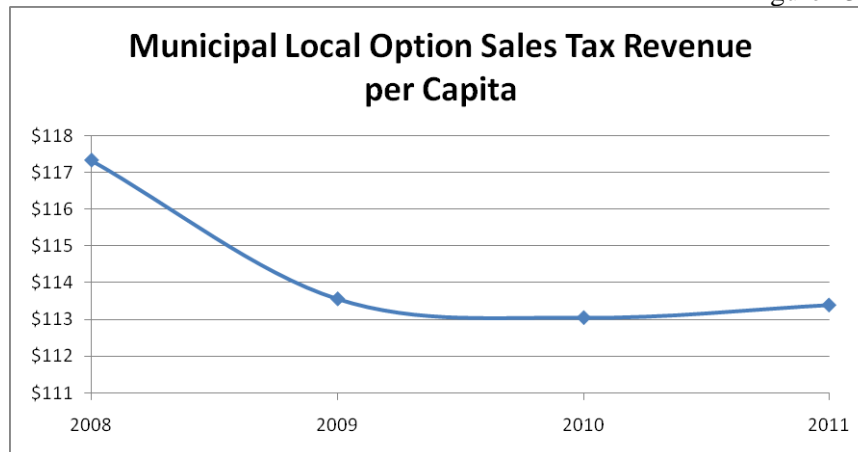
Figure 12



N = 13

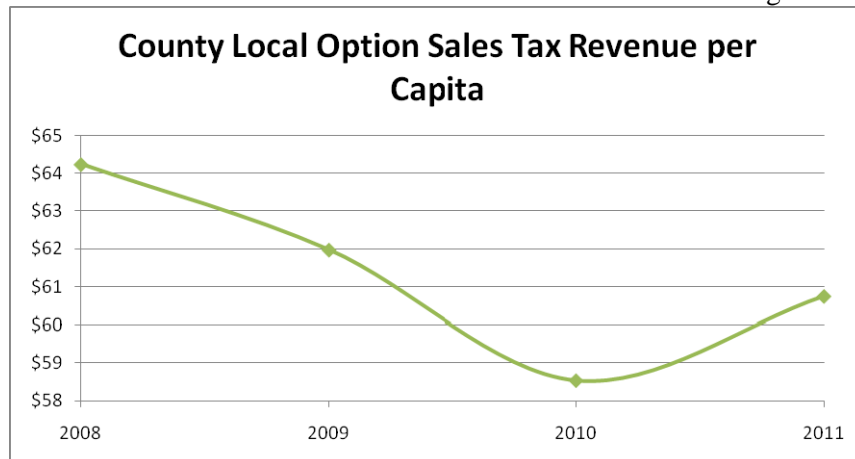
The responding municipalities have had an average decrease of 3.4% in local option sales tax revenue. Forecasted sales tax revenues for FY2011 indicated a slight increase from FY2010. Counties experienced a decline between FY2008 and FY2010 of 8.9% and then an expected increase from FY2010 to FY2011 of 3.8%.

Figure 13



N = 18

Figure 14



N = 10

High unemployment and the struggling real estate market have resulted in reduced consumer spending and fewer business transactions with municipal and county governments. One illustrative indication of this is the significant decline in the number of commercial and residential building permits for new construction since FY2008.¹ As shown in Figure 15, the largest percent change over a year period occurred from FY2010-2011 for both types of permits.

The next three graphs illustrate the decline in both the number of building permits and the related revenue. Since FY2008, municipal permit revenue has decreased an average of 30.8%, and county permit revenue has declined by 45.3%.

Figure 15

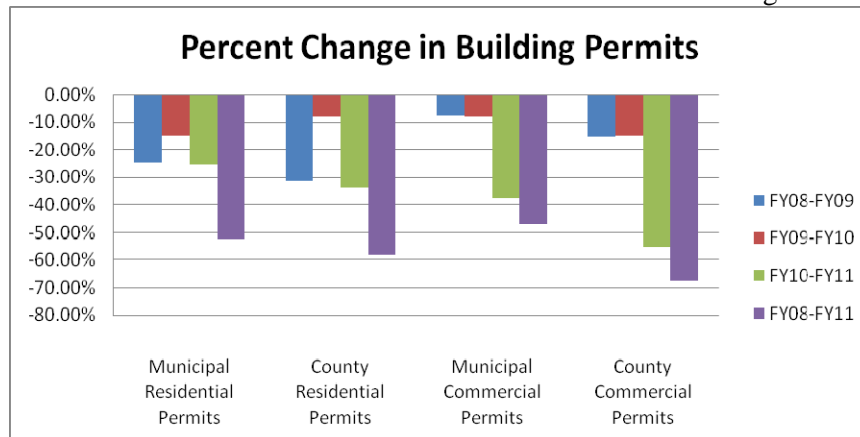
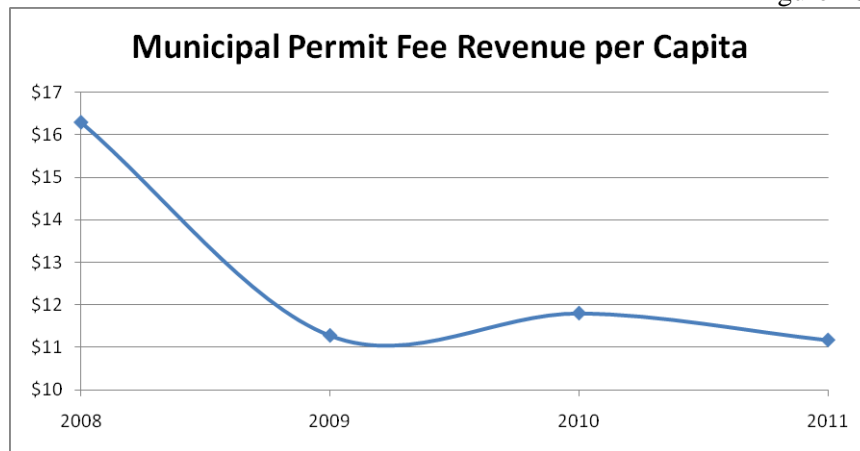


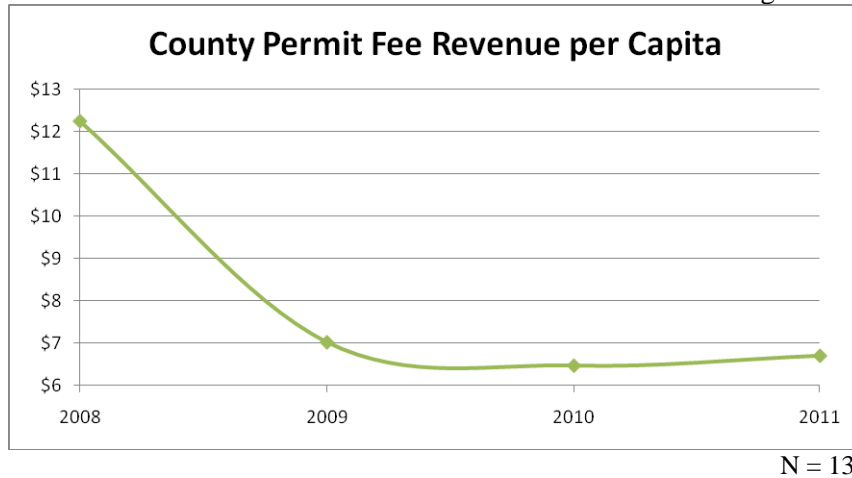
Figure 16



N = 32

¹ All data reported for FY2011 are based on projections or estimates provided by the responding local governments.

Figure 17



Business license fees are paid on gross receipts, and therefore give an indication of economic activity in communities. Although it is common for municipalities to collect business license fees in South Carolina, only eight counties have business license fees. Since FY2008, the responding municipalities reported an average decline of 3.8% in business license fees. Of the 18 counties that responded to the survey, five had business license ordinances. These counties indicated a decrease of 35.0% in business license revenue since FY2008. This decrease in revenue may be attributed to both businesses bringing in less revenue and a decline in the number of businesses in those jurisdictions.

Figure 18

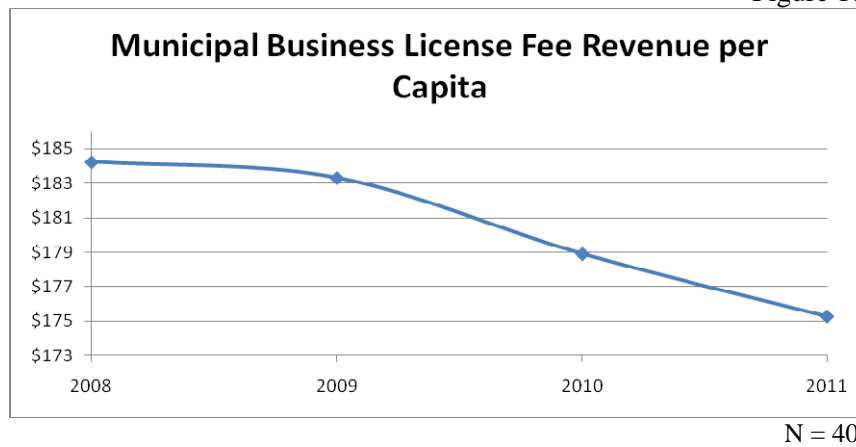
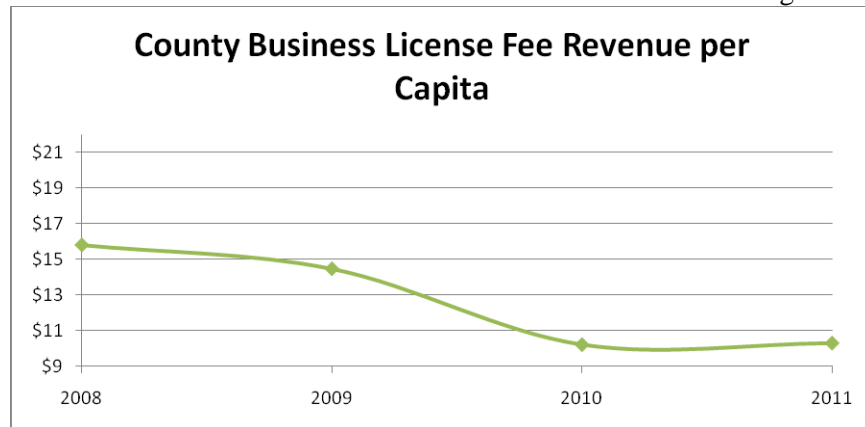


Figure 19



N = 5

The following tables contain the percent change in revenue categories for the survey period. The data are presented by population categories for those jurisdictions that responded.

Figure 20: Municipal Revenues

Revenue Category	Percent Change in Municipal Revenues from FY2008 to FY2011			
	<i>Below 5,000</i>	<i>5,001 to 20,000</i>	<i>20,001 and Above</i>	<i>All</i>
Property Taxes	2.60%	17.17%	11.93%	11.39%
Hospitality Taxes	-6.04%	4.49%	-1.96%	-1.43%
Accommodations Taxes	-16.08%	8.91%	-10.35%	-11.82%
Local Option Sales Taxes	-5.58%	0.00%	-5.10%	-3.37%
Permit Fees	-47.41%	-0.16%	-40.37%	-30.76%
Business License Fees/Taxes	4.80%	-3.39%	-8.78%	-3.83%
Other License Fees/Taxes	-38.20%	-15.08%	3.67%	-3.87%
Fines/Forfeitures	-8.21%	-5.37%	-3.23%	-5.87%
User Fees/Charges for Service	1.34%	4.50%	13.59%	5.36%
Franchise Fees	7.74%	13.91%	22.61%	15.61%

Note – Several municipalities added new fees or increased existing fees during the survey period and had a significant increase that skewed the data. Therefore, these results are not included in the table above.

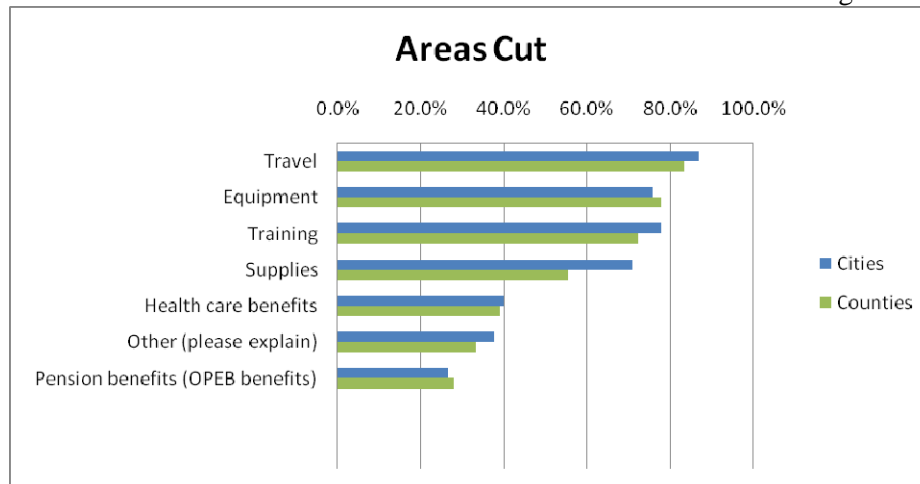
Figure 21: County Revenues

Revenue Category	Percent Change in County Revenues from FY2008 to FY2011		
	<i>Below 100,000</i>	<i>100,001 and Above</i>	<i>All</i>
Property Taxes	4.24%	10.44%	6.80%
Hospitality Taxes	-5.03%	-8.48%	-7.84%
Accommodations Taxes	-4.94%	-15.46%	-10.32%
Local Option Sales Taxes	1.97%	-13.11%	-5.44%
Permit Fees	-46.5%	-42.24%	-45.29%
Business License Fees/Taxes	-49.65%	-29.74%	-34.95%
Other License Fees/Taxes	-12.70%	-26.89%	-13.01%
Fines/ Forfeitures	-2.23%	-14.57%	-9.05%
User Fees/Charges for Service	13.46%	-2.15%	-2.08%
Franchise Fees	6.99%	21.50%	7.73%

Spending Cuts and Revenue Actions

Local governments have fewer resources from which to operate. Due to this reality, cities and counties are taking various actions to reduce expenditures and increase revenues. Jurisdictions reported implementing various cost saving actions and expenditure reductions. The following graph shows the different areas impacted. The most common “other” responses were fuel, deferred maintenance, and personnel actions, which are addressed in Figure 23.

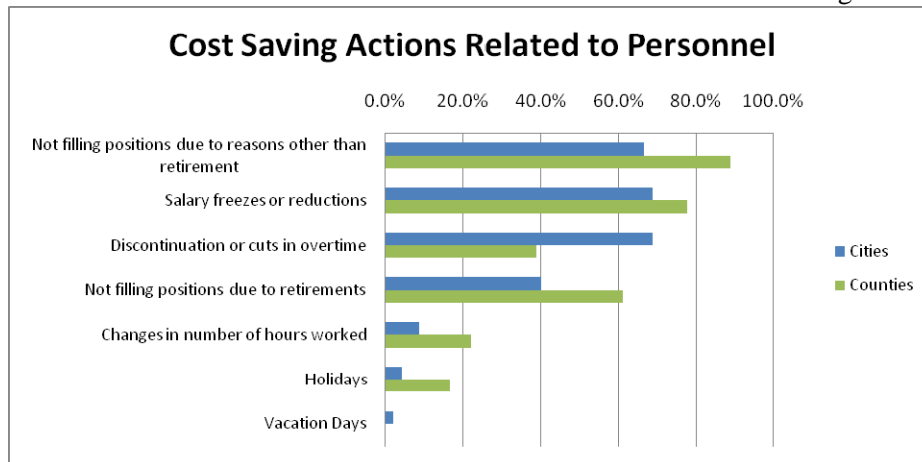
Figure 22



There are other strategies local governments can use to reduce costs in times of budgetary shortfalls. Thirty-four percent of municipalities and 35% of counties indicated cancelling or postponing planned capital projects in FY2011. Only a small percentage (4.7% of municipalities and 5.8% of counties) reported cancelling or postponing capital projects already underway in FY2011.

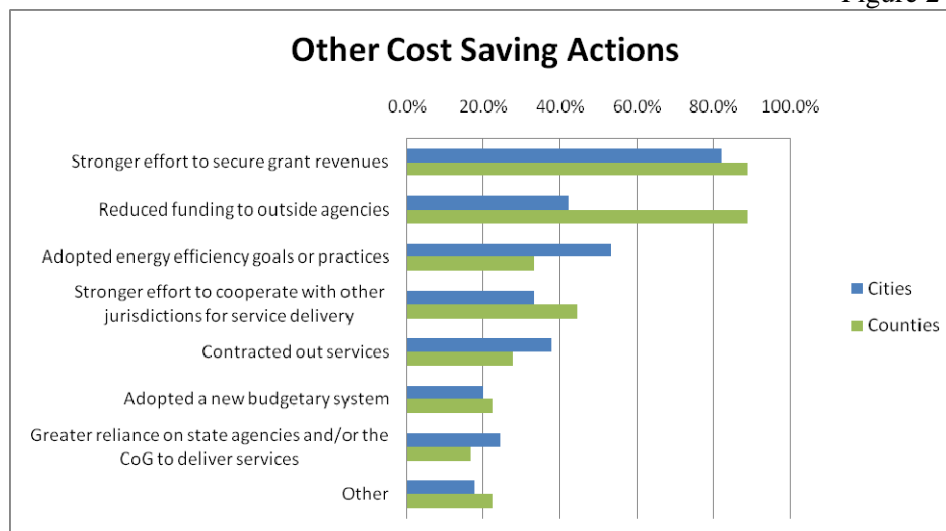
Personnel costs are a significant portion of any local government’s budget and are typically impacted in times of fiscal stress. According to three national surveys, the two most common actions taken by local governments across the nation to reduce personnel costs are hiring freezes and salary freezes (Byers, 2011; Center for State & Local Government Excellence, 2011; Hoene & Pagano, 2010). As illustrated in the survey data in Figure 23, jurisdictions tend to take actions that minimize the negative impact on current employees. Layoffs, furloughs, and reduced work hours are used less often than other actions for reducing personnel costs. These actions are similar to those reported in the surveys conducted by the National League of Cities and the National Association of Counties (Byers, 2011; Hoene & Pagano, 2010).

Figure 23



The following graph shows other actions taken to reduce costs or generate revenue. The most common of these actions, for both cities and counties, was making a stronger effort to secure grants. Reducing funding to outside agencies was reported by most of the counties, while a majority of the cities have adopted new energy efficient goals.

Figure 24



Since the inception of state mandated limits on local governments' ability to raise property taxes, some local governments have raised property taxes a small amount each year in an effort to keep up with growth and increased expenses. However, in FY2011, fewer jurisdictions raised property taxes than in the previous three fiscal years.

Figure 25

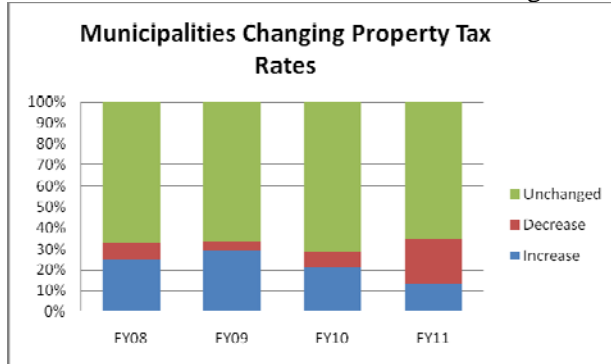
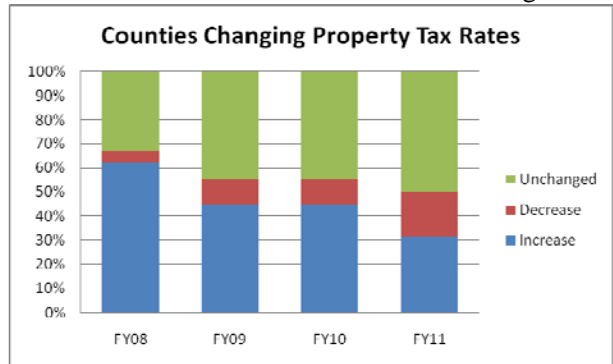


Figure 26



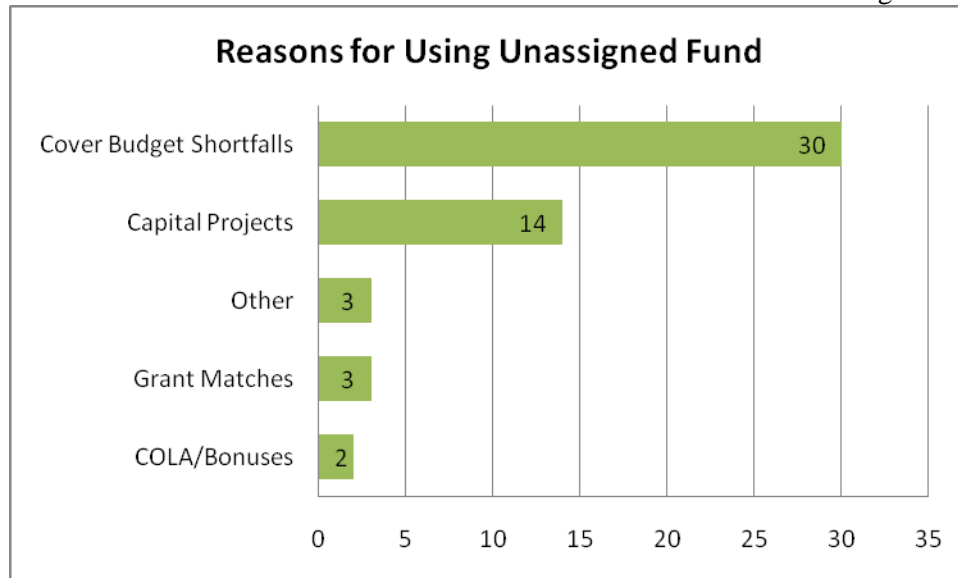
Twenty-two percent of municipalities reported instituting new fees over the past two years, while 44.6% increased existing fees. The most common fees initiated or increased were solid waste collection, utility fees, franchise fees, and recreation fees. These results are very similar to the findings of the National League of Cities' *City Fiscal Conditions Survey 2010*. Thirty-five percent of counties reported instituting new fees over the past two years, while 68.2% increased existing fees. The most common fee increased was for EMS services.

Fund Balance

A total of 70 South Carolina local governments (47 municipalities and 23 counties) responded to the fund balance questions in either the 2010 or the 2011 surveys. Seventy percent (61.7% of the municipalities and 87% of the counties) reported using their unassigned fund balances at least once between FY2008 and FY2011. Thirty-three percent of the respondents used their unassigned fund balances at least twice during the period between FY2008 and FY2011.

Respondents were asked why they elected to use the fund balance. Figure 27 summarizes these responses. Some respondents listed multiple reasons. "Other" responses included loss in the local government fund, refund of fire service fee, and using the fund balance instead of issuing bonds or tax anticipation notes. The average amount of the unassigned fund balance used was 11.58%, but the amount used ranged from 0.95% to 45.88%.

Figure 27



Fund Balance Policies

While some may view the fund balance as unnecessary and something that should be used to reduce taxes, financial management experts agree that some level of fund balance is needed. The Government Finance Officers Association (GFOA, 2009) recommends that governments establish a fund balance policy and maintain a fund balance of no less than two months (or 16.67%) of general fund operating expenditures. The International City/County Management Association uses bond-rating firms’ rule-of-thumb figure of maintaining at least five percent of annual operating expenditures as an acceptable fund balance (Fabian & Johnson, 2009).

Forty-nine local governments responded to the question about whether their jurisdiction had a fund balance policy. Twenty-nine respondents, or 59%, indicated they did have a policy. Of those 29, 16 jurisdictions had policies that required replenishment of the funds if the balance dropped below the amount required by the policy. A summary of responses regarding fund balance policies is presented below:

Figure 28

	Actual Fund Balance		Policy Requirement	
	<i>Municipalities</i>	<i>Counties</i>	<i>Municipalities</i>	<i>Counties</i>
Average	33.82%	30.55%	21.22%	23.41%
Range	2% - 100%	5% - 58%	10% - 35%	10% - 47%

IPSPR staff conducted a more in-depth analysis on the use of unassigned fund balances. Please see *Using Unassigned Funds to Balance the Budget*, which is available at <http://www.ipspr.sc.edu/>

Conclusion

As illustrated in these survey findings, South Carolina local governments continue to be affected by the national recession that ended in 2009. The resulting economic conditions have caused local governments to implement a wide range of cutback measures. Options on the revenue side are limited – the ability to raise property taxes is limited and initiating new fees or increasing existing fees may not be acceptable to citizens, or the city or county council.

Even with the end of the recession, most experts believe it will take time for local governments to feel the full impact and for revenues to stabilize (Hoene & Pagano, 2010). Based on past recessions, that time period could be anywhere from 18 months to several years. With projections of continued cuts in aid to local subdivisions and declining tax and fee revenues, the old adage of “doing more with less” is no longer possible. Hoene and Pagano predict that property tax revenues will decline further in FY2011 and FY2012 as housing values will be reflected in tax assessments and collections (Hoene & Pagano, 2010).

The current short-term impacts of the recession have become the normal operating conditions for the foreseeable future (Purcell, 2009). Local governments that continue to experience economic distress may be required to make difficult decisions on those changes they have avoided in the past, such as eliminating employees and services, consolidating services, and partnering with other governments to provide services.

ABOUT THE SURVEY

Methodology and Response Rate

IPSPR staff constructed a 39-item survey asking a wide range of questions regarding recent budget history, expenditure adjustments, and revenue changes from FY2008 to FY2011. All 46 South Carolina counties and 144 of South Carolina’s 270 municipalities were selected to receive the survey. Cities and towns with less than five employees or below a population of 1,000 were not included in the survey. Forty-five municipalities responded to the survey, yielding a response rate of 32%. Eighteen counties responded to the survey, for a response rate of 39%.

Profile Information

The majority of the cities and towns that responded to the survey are full service jurisdictions (see Figure 29). The average FY2011 general fund budget for the responding jurisdictions was \$21,011,806 with a range of \$642,890 to \$107,395,624. The average number of FTE (full-time equivalent) positions in FY2011 for those responding was 267, with a range of 8 to 1,682.

In general, counties in South Carolina provide the same core services, including law enforcement and court functions, emergency medical services, road maintenance, and tax assessments and collections. The average FY2011 general fund budget for the responding counties was \$63,932,503 with a range of \$8,394,279 to \$134,823,817. The average number of FTE positions in FY2011 was 838 with a range of 112 to 1,804.5. The responding municipalities and counties are listed on the following page.

Figure 29 – Services Provided by Municipal Respondents

Service Provided	Number	Percentage
Police	45	100%
Business License	45	100%
Codes Enforcement	45	100%
Sanitation	44	99%
Fire	41	91%
Sewer	28	62%
Water	27	60%
Electric	7	16%

Responding Jurisdictions

Figure 30 – Municipal Respondents

Abbeville, City of	Greenwood, City of	North Augusta, City of
Anderson, City of	Greer, City of	North Charleston, City of
Beaufort, City of	Hanahan, City of	Orangeburg, City of
Bluffton, Town of	Hilton Head Island, Town of	Pageland, Town of
Camden, City of	Inman, City of	Pamplico, Town of
Charleston, City of	Isle of Palms, City of	Pickens, City of
Clinton, City of	Jackson, City of	Ridgeville, Town of
Columbia, City of	Kingstree, Town of	Rock Hill, City of
Conway, City of	Lancaster, City of	Springdale, Town of
Dillon, City of	Lexington, Town of	Summerville, Town of
Easley, City of	Mauldin, City of	Surfside Beach, Town of
Florence, City of	McCormick, Town of	Union, City of
Forest Acres, City of	Mount Pleasant, Town of	Walterboro, City of
Goose Creek, Town of	Myrtle Beach, City of	Williamston, Town of
Greenville, City of	Newberry, City of	West Columbia, City of

Figure 31 – County Respondents

Beaufort, County of	Horry, County of
Calhoun, County of	Jasper, County of
Charleston, County of	Lancaster, County of
Dorchester, County of	Laurens, County of
Edgefield, County of	Oconee, County of
Florence, County of	Richland, County of
Georgetown, County of	Spartanburg, County of
Greenville, County of	Williamsburg, County of
Hampton, County of	York, County of

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