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**Our Mission**
*is to educate members and all South Carolinians about state and local public policy based on the traditional South Carolina values of individual liberty and responsibility, free enterprise and limited government.*

# SCPC Issue Analysis

## The House Budget's Five Worst Economic Development Provisos

### The Runaway Closing Fund

Next year, the state of South Carolina will receive around $25 million dollars from the **National Mortgage Settlement**, a joint federal-state lawsuit against loan servicers awarded to parties affected by illegal housing foreclosures. In the House Budget's **Proviso 90.19**, state legislators have decided, confusingly, to apportion this entire settlement to economic development. Despite attempts by legislators to introduce provisos that would use the money for its intended purpose, this proviso sends the entire award to the Deal Closing Fund at the Department of Commerce, a yearly appropriation used to "sweeten the pot" for economic incentive deals that ranges from $5 million to $10 million.

It's unclear how this generous payout from the "largest consumer financial protection settlement in US history" will do anything to protect consumers in the hands of economic planners at the Department of Commerce. Instead of using the money to relieve homeowners, give a rebate to struggling taxpayers, refinance mortgages, assist housing development programs, or improve the state's ability to keep an eye on mortgage lending, lawmakers are doing exactly what they always do when they get their hands on cash: stashing it away in a fund that isn't accountable to anyone in particular for corporate welfare.

**Proviso 40.3** is another prime example of how the Deal Closing Fund has mutated into an oversight-free economic development spending account. It gives the Coordinating Council on Economic Development the authority to transfer its funds to the Closing Fund *without approval from anyone except its own council members*. The "maximum flexibility" this proviso claims to provide is a gross understatement: it gives full freedom to the Coordinating Council to apportion whatever percentage of its $40 + million to the Closing Fund it so chooses. But if legislators are keen on apportioning even more money to the Deal Closing Fund than this year's $10 million appropriation, they should do so in a transparent and accurate Department of Commerce budget, not by allowing the agency to freely and quietly transfer huge sums of cash from one program to another.
But the cash transfer, a recurring permission, isn't even the worst part of this particular proviso. For the first time this year, it strikes a blow against economic development spending accountability and transparency as well. Until now, the Coordinating Council has been required to provide a report to the General Assembly detailing each expenditure from its funds, including totals and recipients. Thanks to this proviso, it is no longer required to report expenditures to the General Assembly, leaving its grant-making decisions accountable only to itself.

### SC LightRail (and Actual Light Rails)

Did you know that the state of South Carolina is currently engaged in building an "advanced high performance communications infrastructure"? We didn't either, but recurring **Proviso 89.70** frees the project, which is shared among the state's three research universities, from any oversight or management by the Budget and Control Board and Division of State Information Technology. SC LightRail's progress so far? Their website claims that the universities have been "engaged in extensive planning and due diligence for over two years, including site visits to similar research networking operations in Georgia, North Carolina, and Florida." We've already spoken about the mission creep that South Carolina Universities happily engage in when spending significant portions of their research budgets on economic development projects. Rather than empowering them to pursue projects targeted at favored industries, perhaps lawmakers should remind universities that their primary role is education.

Meanwhile, state funds are being freed up to fund research on actual light rails, a technology South Carolinians are highly unlikely to ever benefit from. That didn't stop House lawmakers from passing **Proviso 89.36**, which allows the State Transportation Infrastructure Bank and Railroad Commission to make grants for the development of "light rail, mono-rail, or mono-beam" technology. **Our research** into state transportation funding makes clear that state transportation spending is already distracted from its core mission: to provide top quality roads and bridges to the state. Using badly-needed transportation funding to pursue Quixotic economic development projects is an even bigger distraction. There are no conditions set by the legislature on these grant awards, either, meaning little accountability or transparency can be expected in the process.

**Destination Specific Marketing and Motion-Picture Rebates**

As seen above, horse-trading between various state economic development programs is becoming increasingly common, a trend we'd like to see reversed by better agency accountability standards. **Proviso 39.9**, however, makes it quite explicit that state lawmakers are unwilling to let a single dime of potential economic development money be used for any other purpose. This proviso mandates that, in the event that the Motion Picture Incentive Wage Rebate (a program that **our research has shown** doesn't work particularly well in the first place) fails to expend all of its appropriated funds, those funds will be transferred to the Destination Specific Tourism Marketing program. Similarly, if the Motion Picture Incentive Supplier Rebate has unexpended funds, those will be transferred to the Department of Parks, Recreation and Tourism as well, for "marketing."

Regardless of the (debatable) merits of state-funded marketing programs, when lawmakers appropriate money for a program, they ought to do it once, clearly, and stick by the number they appropriated. Any "excess" funding the state possesses should either be returned to the Capital Reserve Fund or returned to taxpayers. Taxpayer money "left over" isn't extra money to be used for pet projects: if unused, it should go back into the hands of those taxpayers, where it belongs.

We'll be keeping a careful eye on the state's economic development spending as the budget passes from the House into the Senate in the coming month. What's clear is that looking at agency budgets without provisos couldn't begin to uncover the twisted workings of the ever-growing economic development machine. Whether the state should spend money on economic planning *at all* is a question worth debating: but a look at the *way* in which that money is spent makes clear that the process, at least, is in dire need of a change.