

## Quantifying the Machine

### *Economic Development Spending by State Agencies in South Carolina*

What do the Commission on Higher Education, Department of Agriculture, and Department of Parks, Recreation, and Tourism all have in common? They're all agencies with massive multi-million dollar budgets, and each one of them siphons off a yearly multi-million dollar appropriation for economic development. The Commission on Higher Education is responsible for running universities, the Department of Agriculture for ensuring food safety and quality, and the Department of Parks, Recreation, and Tourism for protecting our natural resources and common spaces. So why are they spending money on economic development?

In 2009-2010 those agencies, along with a handful of others, spent over **\$300 million** on economic development programs, including direct grants, workforce training, university hiring, marketing, and the funding of various development centers. This number does not include direct incentives, tax credits, bonds, or debt service, the total of which would amount to countless other millions of lost state revenue and additional spending per year. Rather, this number is an approximation of the recurring appropriations that each agency is allocated simply to run South Carolina's economic development machine.

### **Economic Development Agencies**

What is state-sponsored economic development? In South Carolina, it can include anything from a bond package sold to fund a parking structure for a new manufacturing plant to the Endowed Chairs program at the Commission on Higher Education (CHE), which hires research-focused faculty members to develop new technologies. Whether or not economic development is an appropriate activity for state government, South Carolina's system is unusually opaque and difficult to understand. A recent [report](#) from the Pew Center on the States describes the state as "trailing behind" by failing to meet any of their criteria for "scope or quality of evaluation" of various economic development incentives. South Carolina does not adequately measure the economic impact of its credits or programs, nor does it separate economic incentive packages out for specific debate in the legislature. Economic development programs and incentives are often [funded through provisos](#) or hidden deep within the budgets of agencies that have little traditional role in the matter.

The Policy Council has published extensive and [detailed recommendations](#) on how to reform the state's economic development process by making incentive packages transparent, fair, and up for open debate in the legislature. We've also shown how mismanaged economic development spending can [hurt the economy](#) and examples of hastily pushed-through [deals that fail](#).

We've counted the yearly expenditures of every economic development program in state government, from agricultural commodity boards to destination-specific marketing grants. The programs listed below do not cover the full extent of economic development spending in the state, since no single document outlining economic development expenditures exists. What is covered includes direct programmatic funding, funds that give grants to local government and nonprofits, and workforce training.

<b>Detail-Based Budget 2011-2012</b>	<b>09-10 Actual Total</b>	<b>10-11 Est. Total</b>	<b>11-12 Est. Federal</b>
<b>Commission on Higher Education</b>			
South Carolina Manufacturing Extension Partnership	851,917	705,387	0
Centers of Excellence	533,900	537,526	0
Education and Economic Development Act	1,167,026	1,213,065	0
Endowed Chairs	29,579,279	NR**	
<b>Technical &amp; Comprehensive Education Board</b>			
Economic Development	6,668,946	3,943,388	0
<b>Department of Agriculture</b>			
Marketing Services	2,550,590	4,149,573	314,168
Commodity Boards	1,344,796	1,828,450	0
<b>Department of Parks, Recreation and Tourism</b>			
Tourism Sales & Marketing	15,147,642	11,425,950	0
Community and Economic Development	802,062	NR	NR
Heritage Corridor	NR	905,800	905,800
Tourism and Recreation Development	NR	9,667,860	3,589,580
Advertising- Statewide	1,027,103	NR	NR
Destination Specific Grants	8,000,000	NR	NR
State Film Office	8,205,603	10,010,000	NR
<b>Department of Commerce</b>			
Global Business Development	1,887,879	1,631,065	NR
Community & Rural Development	1,166,961	845,000	
Business Development and Marketing	538,350	270,000	NR
Coordinating Council on Economic Development	22,249,819	38,950,000	NR
Workforce Investment	107,645,373	NR	NR
Regional Economic Development	1,453,208	NR	NR
Deal Closing Fund	3,649,983	NR	NR
Proviso 90.16 Deal Closing Fund	NR	5,000,000	
<b>Jobs and Economic Development Authority</b>			
Total JEDA	737,072	407,650	64,000
<b>Department of Employment and Workforce</b>			
SC Occupational Information Coordinating Committee	449,332	446,443	NR
Workforce Investment Act	89,500,000	70,899,492	70,689,492
<b>University of South Carolina</b>			
Small Business Development Center	662,179	523,121	NR
<b>Source: Agency Activity Inventories, 09-10</b>			
<b>Budget &amp; Control Board</b>			
State Energy - Renewable Energy/Transportation	2,037,550		242,842
<b>South Carolina State PSA</b>			
Community Leadership & Economic Development	946,628		598,949
<b>Clemson PSA</b>			
Rural Community Enhancement and Improvement	556,069		238,639
Rural Community Economic Development	1,643,556		542,593
Community and Economic Affairs Research and Education	46,089		0
<b>Total</b>	<b>\$311,048,912</b>	<b>\$162,822,244</b>	<b>\$77,186,063</b>

\*Source: [2009-2010 Detail Based Budget](#), from the Budget and Control Board website.

\*\*Where marked "NR," information has not been reported.

There is only one “official” economic development agency in the state of South Carolina: the Jobs and Economic Development Authority. Its paltry \$700,000 budget seems like a drop in the bucket compared to the \$22 million spent by the Coordinating Council on Economic Development at the Department of Commerce or the \$30 million Endowed Chairs program at the Commission on Higher Education. It’s never obvious where economic development spending is coming from because, in most cases, the agencies doing the spending aren’t those formally associated with economic development.

Take, for example, the Department of Parks, Recreation, and Tourism. In 2009, it received over \$15 million for tourism marketing and over \$8 million for destination specific marketing grants, which is money given over to local policymakers who hire advertising agencies to bring tourists to the state. Why hotels, restaurants, and other businesses that benefit from tourist traffic should get free, ample advertising courtesy of the taxpayer while others get nothing is rarely questioned.

One agency that is directly involved in economic planning, the much maligned Department of Employment and Workforce, spends a large percentage of economic development money each year: a whopping \$90 million, \$70 million of which is from the federal government. There’s also the Workforce Investment Act funded through the Department of Commerce at over \$100 million per year. Combined, training South Carolinian workers accounts for almost half the total of economic development spending. ReadySC, part of the technical college system, often works with corporate partners like Boeing to [train workers for specific roles](#) at specific companies. The steps toward becoming a corporate beneficiary of a taxpayer-provided worker training are opaque, and typically involve an incentive deal.

These incentive deals are often arranged on a smaller scale using grants from the Coordinating Council on Economic Development at the Department of Commerce, which is charged with disbursing money from the Deal Closing Fund (ranging from \$7 million to \$25 million annually – [read more](#) about their special \$25 million dollar grant for next year) and various regional economic development programs. The Coordinating Council is no longer required to file an annual report for the General Assembly that lists all its grants in detail, and it has been unresponsive to FOIA requests for a list of grantees.

## **Economic Development Nonprofits**

State resources aren’t the only resources regularly wasted on central economic planning. The Palmetto State is home to a vast host of “nonprofit” economic development corporations and organizations funded by a combination of public and private funding. These nonprofits often receive state money, though they are not required to report from which agency or body the grant was made. Below is just a sample of some “private” economic development organizations and the government funding they were awarded in a single year.

Nonprofit Organization	FY09/10 Direct Government Grants	5 Year Public Funding Total
New Carolina (Council on Competitiveness)	31500	4258704
Palmetto Biotechnology Alliance	NR	242460
SC Technology Alliance	NR	1415529
Upstate SC Alliance	426836	NR
Central Carolina Economic Development Alliance	964,000	8309736
Charleston Regional Development Alliance	1380519	NR
North Eastern Strategic Alliance	429333	6088417
Southern Carolina Regional Development Alliance	2893141	5365439
South Carolina Hydrogen Fuel Cell Alliance	NR	1667408
Columbia Regional Technology Council	63431	NR
Engenuity SC	250851	1509809
Economic Development Alliance of Pickens County	NR	1854887
Partnership for a Greater Greenwood County	0	4866884
Economic Development Partnership (Aiken)	1426357	NR
<b>FY 2009-2010 Total</b>	<b>\$7,865,968</b>	<b>\$35,579,273</b>

\*Source: IRS 990 filings publicly available at <http://www.guidestar.org>.

These organizations are not required to perform any specific functions, nor are they required to justify their program expenses and spending to taxpayers. In addition to these (relatively) private nonprofits that receive state funds, there are also a number of organizations that were granted significant founding grants from the state, like the South Carolina Research Authority, that now [claim total autonomy](#) from the government. SCRA's initial grant from the state included \$500,000 and 1,400 acres of state owned land.

## Tax Incentives

The programs and organizations listed above represent just a tiny fraction of the economic development machine in the state of South Carolina. For instance, tax incentives specifically for economic development led to the loss of over \$1.5 billion dollars of state revenue from 2002-2009.

Economic Development Tax Incentives Fiscal Years 2002 – 2009			
Year	Corporate	Individual	Total
2002	63,592,331	70,244,330	151,836,661
2003	58,617,396	75,520,895	152,138,291
2004	63,897,421	93,752,226	175,649,647
2005	66,387,257	94,144,708	182,636,009
2006	62,068,598	99,222,876	185,439,957
2007	100,266,577	113,554,325	257,610,950
2008	76,915,054	111,259,535	225,943,732
2009	103,895,929	118,222,392	261,253,438
<b>Total</b>	<b>\$ 595,640,563</b>	<b>\$ 775,921,287</b>	<b>\$ 1,592,508,685</b>

\* Source: June 23, 2011 Board of Economic Advisors [report](#) on corporate and individual income tax credits.

If the tax incentive figure above were combined with the cost of the “machine” it would total out to a stunning **\$572,302,350 for the year of 2009**, nearly 3% of the state budget. For reference, **by eliminating these expenses and incentives, we could eliminate the entire corporate income tax, plus the bank tax, motor vehicle license tax, business license tax, insurance tax, and corporation license tax.** Eliminating these taxes would benefit all businesses – and therefore the state as a whole – not just those who keep up a stable of statehouse lobbyists.

Keep in mind that this \$500 million plus figure doesn’t even approach a total for economic development *spending* in that year, given that it doesn’t include direct incentives like bonds. Nor does it include the projected losses of business forced to compete with one another fairly: the 97% of businesses in South Carolina that employ less than 100 workers and that [don’t receive state favors](#), for example.

## Moving Forward

In the midst of a recession, it’s worth questioning whether rapidly decreasing state revenue is well spent on projects whose outcomes are, at best, entirely opaque to the taxpayers who are funding them. The clear first priority is to make economic development spending transparent, accountable, and results focused: clear expectations for job creation and capital investment must be adhered to, followed up on, and made public by state officials engaging in investment projects on behalf of taxpayers. This can be easily accomplished by:

- Requiring recorded votes on economic development plans
- Mandating that incentive bills pass or fail on their own merits in separate legislation
- Requiring that economic development policies be subject to independent cost-benefit analysis
- Requiring companies to file annual statements explaining progress in meeting goals
- Producing an annual report explaining how much has been spent on economic development
- Forcing all targeted incentives and legislation to expire, or “sunset,” after 5 years

**By eliminating all economic development expenditures and special tax favors, we could scrap the entire corporate income tax, plus the bank tax, motor vehicle license tax, business license tax, insurance tax, and corporation license tax.**

These simple reforms will do a great deal to make the workings of the machine more transparent, but they won’t suddenly make economic development spending effective. Every dollar that’s wasted by these agencies—propping up an industry doomed to fail or marketing a product no one wants—is a dollar that can’t be spent by the citizen who paid it in taxes.

If state politicians simply can’t live without the opportunity to claim that they’ve “created jobs” with taxpayer money, they must be held accountable for the way in which they transfer that money to corporations.