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LOCAL REVENUE Projections to 2010

By

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Projections to 2010**

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Working Paper 2

**in a five-paper series on
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South Carolina Revenue and Expenditure System
1997-2010**

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LOCAL REVENUE Projections to 2010

While the focus of the fiscal sustainability project is on state finances, it is not possible to divorce the state revenue picture from the local revenue picture because state and local finances are so closely intertwined. For example, the state of South Carolina provides about 40 percent of the funding for elementary and secondary education and a substantial share of city and county funding through state aid to subdivisions and state grants. Service responsibilities and funding are also shared between the state and local governments—particularly counties—in such areas as health, law enforcement, and corrections. This paper examines historical and projected local government revenue and the role of the state as a partner in generating that revenue.

Counties, municipalities, and school districts in South Carolina get their general revenue from three major sources. Property taxes, state aid, and user fees (fees, licenses, charges, and service revenues) accounted for 83 percent of all local revenue in South Carolina in 1994-95. The local sales tax, which is growing in importance as it is adopted by more counties, federal aid, and an assortment of smaller revenue sources provided the remainder (Table 1). Total general revenue to South Carolina local governments in fiscal year 1994-95 was nearly \$5.5 billion: \$679 million to municipalities, \$1.1 billion to counties, and \$3.7 billion to school districts.¹

Table 1
Local Government Revenue in S.C. by Source, 1994-95

	Cities	Counties	School Districts	All Local Gov't
Property Tax ^a	35.1%	44.6%	36.0%	37.7%
State Aid ^b	8.3%	18.7%	41.1%	32.3%
Fees & Charges ^c	36.9%	23.2%	5.4%	13.0%
Local Sales Tax	3.2%	3.0%	N/A	1.0%
Federal Aid	6.9%	4.5%	8.1%	7.2%
All Other ^d	9.6%	6.0%	9.4%	8.8%

^a Not adjusted for state homestead exemption.

^b Excludes state reimbursement for homestead exemption.

^c Revenue from licenses, permits, and service charges.

^d Revenue from bonds and leases, intergovernmental agreements and miscellaneous sources.

N/A = not applicable.

¹ Local government finance data from *Local Government Finance Report, Fiscal Years 90 to 95* (Columbia, SC: Office of Research and Statistics, State Budget and Control Board, 1996). Revenue from enterprise activities is excluded.

South Carolina local governments have limited fiscal home rule. The state determines what kinds of taxes local governments may collect and puts some light constraints on increasing taxes and fees. Fiscal home rule was broadened somewhat by passage of the Local Government Fiscal Authority Act in the General Assembly's 1997 session. The act authorized some new taxes and fees, allowing local governments to diversify their revenue sources. However, the act also placed stricter requirements on local governments when raising millage or adopting new service charges or user fees.

Of the state's three local governments, municipalities have the highest degree of fiscal autonomy and the lowest dependence on the property tax. However, South Carolina's municipalities have less fiscal autonomy than cities in many other states and are particularly constrained in their ability to grow through annexation.

Counties are somewhat more constrained in their fiscal affairs than municipalities. County government in South Carolina is just over twenty years old, and counties are still more dependent on the property tax than municipalities and school districts. In addition, the state requires counties to serve as its agent for many functions and gives more aid to counties than to cities.

School districts have the least fiscal autonomy. School districts receive over three-quarters of their revenue from state aid and the property tax and are not allowed to use any other taxes as a revenue source. Many school districts are also constrained in their ability to raise the mill rate to meet their budgets.

Cities and counties are in somewhat better fiscal shape than school districts. Revenue to cities and counties combined grew at an average annual rate of 7.9 percent between 1989-90 and 1994-95. This revenue growth rate has been sufficient to accommodate both the state's population growing at about 1.1 percent per year and inflation growing at 3 percent per year² with some increase in the quality and variety of services provided. Revenue to school districts grew more slowly at 4.2 percent per year over this same period. With 3 percent annual inflation and slow growth in the student population between 1990 and 1995,³ school district revenue growth has stayed slightly ahead of enrollment and inflation, but with little margin for improved services.

Revenue to all local governments combined grew at an average annual rate of 5.4 percent between 1989-90 and 1994-95. If this annual growth rate continues to 2009-10, combined local government revenue will be \$12.0 billion, more than sufficient to maintain the current level of services after allowing for anticipated population growth and inflation of 4 percent per year.

But there are several factors that are likely to affect the growth of specific revenue sources in different ways. Therefore, separate projections were developed for the various components of

² See table 2 in *State Revenue: Projections to 2010* by Holley Hewitt Ulbrich, working paper 1 in this series.

³ US, Bureau of the Census, 1990 Census of Population, General Population Characteristics, South Carolina (Washington, DC: Bureau of the Census, June 1992), Table 17; Campbell, Paul R., *Population Projections for States by Age, Sex, Race, and Hispanic Origin: 1995 to 2025*, Bureau of the Census, Population Division, PPL-47 (Washington, DC: Bureau of the Census, October 1996), Table 4.

local revenue. Then these projections were combined to give an alternative projection of local government revenue in 2009-10.

Property Tax

The property tax is a significant revenue source for South Carolina local governments. In 1994-95, the property tax generated nearly \$2.07 billion in revenue for cities, counties, and school districts. The \$2.07 billion includes current real and personal property tax revenue, special tax district revenue, fee in lieu of taxes, and reimbursement provided by the state to cities and counties for property taxes foregone under the homestead exemption. Revenue from the local sales tax, which is mostly used to roll back property taxes, was an additional \$55 million.

Property tax revenue to local governments comes from taxing eight classifications of property: owner-occupied residential; agricultural (private); agricultural (corporate); commercial, rental, and all other real property; manufacturing (real and personal property); utilities (real and personal property); personal property; and railroads, airlines, and pipelines (real and personal property). These classifications of property are assessed at rates which range from 4 percent to 10.5 percent of fair market value. Local millage is then applied to the assessed value to generate tax revenue.

Between 1989-90 and 1994-95, revenue to local governments from the property tax, as defined above, grew at an average annual rate of 7.3 percent per year. This higher-than-average revenue growth rate is due to increased assessed property values (up 4.9 percent per year) and increased millage (up 1.9 percent per year) over this period. Between 1989 and 1994, real property in 27 of the state's 46 counties was reassessed.

A straight-line projection of total property tax revenue to all local governments in 1994-95 at its recent 7.3 percent annual growth rate results in a projection of nearly \$6 billion in 2009-10. Over the long term this growth rate may be unrealistically high; thus, actual property tax revenue in the final year is likely to be lower. In addition, the eight components of the property tax base have been growing in value at different rates. Therefore, a more detailed projection of property tax revenue in 2009-10 was made based on assessed value by category of property.

To project property tax revenue by category, first the 1994 assessed value of property in each category was projected to 2009 using its historical growth rate. Then, average millage for cities, counties, and school districts combined was applied to each tax base to generate projected revenue for 2009-10. In 1994, total assessed property value in the state was over \$9.6 billion.

Average millage for counties, cities, and school districts combined was calculated as follows.⁴ Because tax revenue is equal to the millage times the assessed value of taxable property, that relationship was applied in reverse. For 1994, an average millage of 207 was computed by

⁴ Millage growth was calculated using estimated total average millage for counties, cities, and school districts combined reported in the *Local Government Finance Report: Fiscal Years 90 to 95*. However, because the 1994 value for millage of 270 in the report yielded significantly higher revenue than actually estimated when applied to 1994 assessed value, the millage used for revenue projection was revised downward as described in the text to more closely reflect the close relationship between millage, assessed value and property tax revenue.

dividing total estimated property tax revenue in all categories in 1994-95 by the assessed value of taxable property in all categories in 1994. This average millage was then used to calculate projected revenue in 2009-10, first at 1994 levels and then assuming 1.9 percent annual millage growth.

Because the property tax revenue projections are based on assessed value and not revenue, they implicitly include local option sales tax revenue that is used for property tax rollbacks. For the same reason, projected owner-occupied residential property tax revenue implicitly includes the value of the homestead exemption reimbursement and also school property tax relief which the state funds.

At 1994 mill rates, total property tax revenue is projected to grow to \$4.1 billion in 2009-10 (Table 2). If mill rates continue to grow at 1.9 percent per year, property tax revenue will rise to \$5.5 billion in 2009-10. The school share and city and county combined share of total projected property tax revenue in 2009-10 are allocated with two-thirds going to school districts and one third going to cities and counties. This allocation is based on the distribution of property tax revenue in 1994-95.

Taxes on Automobiles and Other Personal Property The personal property tax applies to automobiles as well as boats over a certain horsepower, trucks, airplanes, and business personal property. It generated an estimated \$431 million in revenue in 1994-95.⁵ Personal property is subject to the state’s highest assessment rate of 10.5 percent of market value.

Table 2
Projected Property Tax Revenue in 2009-10
(in millions of dollars)

	Based on 1994 Millage	Mills Increase 1.9% Per Year
Owner-Occupied Residential ^a	\$1,470	\$1,946
Commercial/Rental	932	1,233
Personal	916	1,213
Industrial	790	1,102
Agricultural	34	45
Total Property Tax	\$4,143	\$5,539
School Share	\$2,762	\$3,693
City/County Share	\$1,381	\$1,846

^a Not adjusted for homestead exemption and school property tax relief or local sales tax revenue used for property tax rollbacks.

⁵ Assessed property value and estimated tax revenue by class of property from *Local Government Finance Report, Fiscal Year 90 to 95*.

Personal vehicles accounted for \$329 million in property taxes or 16.5 percent of all property tax revenue in South Carolina in 1994-95. Business personal property (equipment, fixtures, and machinery) added another \$102 million or 5.1 percent of the total. Personal vehicles have been the second fastest growing category of taxable property with a growth rate in assessed value of 5.9 percent from 1989 to 1994. Business personal property is the slowest growing category with an average growth rate in assessed value of 1.9 percent per year over the same period.

If the value of personal and business personal property continued to grow at their historical rates and millage was held at its 1994 level, the projected revenue to local governments in 2009-10 from these two categories would be a total of \$916 million, of which \$779 million would be from personal vehicles and \$137 million from business personal property. If mill rates continue to grow at an average of 1.9 percent per year as they have in the past five years, revenue from this source would be \$1,213 million in 2009-10, \$1,032 million from personal vehicles and \$181 million from business personal property.

Despite the recent rapid growth in property tax revenue from personal vehicles, South Carolina shows indications of a serious problem of underregistration. Anecdotal evidence reports a large number of vehicles on the road with dealer tags or no tags at all, escaping property taxes. South Carolina has a lower ratio of registered vehicles to population and to licensed drivers than the U.S. average (Table 3). The gap is even more noticeable for three of its four peer states. It is not clear how much of this difference is due to South Carolina's high property tax assessments and how much to less effort at enforcement of registration than in other states or high automobile insurance rates.

The debate over the future of the property tax on personal automobiles poses the largest policy threat to future property tax revenue. This tax has been a bone of contention in South Carolina

Table 3
Vehicle Registrations in SC
and Surrounding States

	Per Person	Per Licensed Driver
South Carolina	0.753	1.101
Georgia	0.849	1.244
Tennessee	0.977	1.322
North Carolina	0.769	1.125
Alabama	0.752	1.110
United States	0.761	1.129

Source: US, Dept. of Commerce, Bureau of the Census, *Statistical Abstract of the United States 1996*, 116th ed. (Washington, DC: US Government Printing Office, 1996), Tables 27, 1000.

because it is high compared to taxes on real property—more than 2.5 times the rate on owner-occupied residential property relative to market value. Proposals frequently surface to eliminate this tax; but as a substantial source of property tax revenue and revenue growth, it is hard to replace.

The General Assembly came close to action on this issue in the 1997 session and is likely to act in 1998. The proposal that surfaced in 1997 recommended phasing out the tax over six years. If the proposal had passed without a proviso to reimburse local governments for their losses, local governments would have needed an increase in the average mill rate on other property of about 34 mills to offset the loss of revenue from personal vehicles.

If the property tax on cars is reduced rather than eliminated or if a reduction is phased in as is currently proposed, the reduction in revenue will probably be less than proportional to the reduction in the tax because there will be less incentive to keep a vehicle unregistered. It should also be noted that the state would face the same problem as it encountered with property tax relief for homeowners: escalation of the cost of relief as mill rates are adjusted by cities and counties as well as school districts. On the other hand, further spread of the local sales tax—most of which is dedicated to property tax relief—may keep mill rates from rising enough for this possibility to become a serious threat.

Owner-Occupied Residential Property. Owner-occupied residential property, assessed at 4 percent of market value, is the fastest growing category of property with assessed value growing at 8.2 percent per year between 1989 and 1994. In 1994-95, owner-occupied residential property generated an estimated \$445 million in revenue. Projecting 1994 assessed value in this category at its recent growth rate yields a value of \$7.1 billion in 2009. Holding millage at its 1994 level would generate revenue of nearly \$1.5 billion in 2009-10 from this category of property. If millage grows at its recent growth rate of 1.9 percent per year, revenue in 2009-10 would be \$1.9 billion.

Taxation of owner-occupied residential property is projected to account, directly through property taxes and indirectly through credits for the local option sales tax and state property tax relief, for about one third of total property tax revenue in 2009-10. State property tax relief for school taxes, enacted in 1994, would pay for 25 percent to 35 percent of projected school taxes for homeowners.

Commercial and Rental Property. Commercial and rental property is assessed at 6 percent, half again the rate used for owner-occupied property. This category accounted for \$546 million in estimated property tax revenue in 1994-95 or 27 percent of the total. Assessed property value in this category is growing more slowly at 3.6 percent per year from 1989 to 1994 than the average of all taxable property at 4.9 percent per year.

Projecting 1994 assessed value in this category to 2009-10 at 3.6 percent growth per year will yield \$932 million at 1994 mill rates. If the average mill rate continues to rise at its recent annual rate of 1.9 percent, tax revenue from commercial and rental property would be \$1,233 million in 2009-10.

Industrial Property. The assessment rate for industrial property under South Carolina's constitution is 10.5 percent, however this rate can be lowered for industries meeting the criteria of various state incentive programs for recruiting industry. In 1994-95, taxes on industrial property (manufacturing and utilities) came to \$546 million. Between 1989 and 1994 assessed property value on industrial property has been growing at below-average rates—3.0 percent per year for utilities and 4.6 percent per year for manufacturing property. After adjusting for projected revenue losses from the fee-in-lieu program⁶ and holding 1994 mill rates constant, a projection of utility and manufacturing property tax revenue at a combined rate of 3.9 percent per year at current mill rates gives \$790 million in 2009-10. If the mill rate continues to rise at its recent pace (1.9 percent a year), tax revenue from industrial property would be \$1,102 million in 2009-10.

Agricultural Property. Taxes on private and corporate agricultural property, assessed at 4 percent and six percent respectively, were \$23 million in 1994-95 or only one percent of total property tax revenue collected. Between 1989 and 1994, assessed property value of agricultural property grew at only about half the rate of assessed value statewide. At 2.5 percent annual growth in this tax base, tax revenue from agricultural property would be \$34 million in 2009-10. With 1.9 percent growth in millage, revenue would be \$45 million.

Local Option Sales Tax

Most revenue from the local option sales tax is earmarked for property tax relief. Thus, in all 2009-10 property tax projections, local option sales tax revenue is implicitly included as an offset of property tax revenue.

Beginning in 1990, counties were allowed to adopt a one percent local sales tax by referendum, with the proceeds shared between counties and their cities according to a formula. Seventy-one percent of the revenue was required by law to be used for property tax relief; however, most counties have elected to use 100 percent of the proceeds for property tax relief. Initially, six counties adopted the tax, with the number rising to 25 in 1997. In 1994-95, this tax provided 3 percent of all local revenue statewide, but almost 11 percent of revenue in those counties and cities imposing the tax.

Two assumptions were made to project local sales tax revenue in 2009-10. First, it was assumed that all 46 counties will be using the local sales tax as a supplementary revenue source in 2009-10. Second, it was assumed that local sales tax revenue would be derived from the state sales tax base with a slight adjustment for potential reduction in consumer spending due to the higher average tax rate.⁷ The 2009-10 projection for local sales tax revenue is \$572 million, compared to \$55 million in 1994-95.

⁶ See *Business Incentives: Projected Fiscal Costs* by Daniel V. Rainey, working paper 4 in this series.

⁷ This effect will probably be quite small, since most of the impact of a higher rate is to shift sales across state lines to border areas with lower rates and no tax. The rate in many Georgia counties and all North Carolina counties is already 6 percent (5 percent in other Georgia counties).

State Aid

State aid is a significant source of revenue to local governments, particularly counties and school districts. On average, local governments received about 30 percent of their 1994-95 revenue from the state.

State aid to school districts consists of the funds appropriated according to formula under the Education Finance Act (EFA), the Educational Improvement Act (EIA) monies, state grants, reimbursement for homestead exemptions, and homeowners' property tax relief funds. While school property tax relief for the first \$100,000 of market value is currently fully funded at \$234 million (at 1995 mill rates), it is likely to be capped in the future. This relief appears as an expenditure line in the state budget and is counted as property tax revenue at the local level rather than state aid. Because school property tax relief does not directly affect the mix or level of revenue reported, it is treated in the working paper on state expenditures in this series.⁸

State aid to education is almost never fully funded at the level required by the EFA formula. Total EFA and EIA formula funding to school districts, which was \$1,164 million in 1994-95, has been growing at only 2.5 percent per year and, using this growth rate, is projected to be \$1,694 million in 2009-10. State grants to school districts were \$340 million in 1994-95 and have been growing 5.4 percent annually since 1989-90. State grants to school districts and the homestead exemption reimbursement are discussed later.

State aid to cities and counties comes in four parts: the Local Government Fund, other state-shared revenue, state grants, and homestead exemption reimbursement. The Local Government Fund currently receives 4.5 percent off the top of state general fund revenue before consideration of any other state priorities. It is projected to be \$324 million in 2009-10.⁹ Other state-shared revenue includes the merchant's inventory tax reimbursement, accommodations tax revenue, and other direct appropriations for counties. The accommodations tax revenue is included as other state-shared revenue because it is collected by the state and because of data reporting conventions; however, most is returned to the place of origin and is generally considered to be a local tax rather than a state tax. Based on past growth rates, accommodations tax revenue is projected to be \$63 million in 2009-10, and the remaining state-shared revenue is projected to come \$29 million. Collectively, the Local Government Fund and all other state-shared revenue to cities and counties is frequently used interchangeably with the term *state aid to subdivisions*. Together, the Local Government Fund and other state-shared revenue is projected to grow to \$416 million by 2009-10 from its 1994-95 level of \$198 million.

State grants to cities, counties, and school districts have grown at a higher-than-average rate of 6.9 percent per year in recent years. Although cities and counties received less than 20 percent of all state grant funds in 1994-95, revenue growth since 1989-90 has been over twice the overall rate, with nearly all that increase due to grants to counties. Grants to school districts

⁸ State expenditures are discussed in *State Expenditures: Projections to 2010* by James C. Hite, working paper 3 in this series.

⁹ This figure is 4.5 percent of the 2007-08 state general fund revenue projection by revenue components discussed in *State Revenue*, working paper 1 in this series by Holley H. Ulbrich.

grew more slowly at 5.4 percent per year over that period. If state grants to all local governments continue to grow at their recent rate of 6.9 percent per year, they would come to \$1,128 million in 2009-10. Maintaining this high growth rate over the next decade and beyond is very unlikely, however. Thus, for the purposes of projection it was assumed that state grants to local governments will keep pace with future population growth and inflation at 4 percent per year. Under this assumption, projected state grant revenue to local governments in 2009-10 would be \$743 million—\$131 million to cities and counties and \$612 million to school districts.

Reimbursement to local governments for the state property tax homestead exemption for homeowners 65 years of age is treated as property tax income by cities, counties, and school districts. Reimbursement for the homestead exemption is included implicitly in the owner-occupied residential property tax projections discussed earlier because they are based on assessed property value.

Total state aid to South Carolina local governments is projected to be over \$2.8 billion in 2009-10 (Table 4), with \$2.3 billion to school districts and \$547 million to cities and counties. This projection assumes full formula funding of the Local Government Fund and no policy changes.

Even though the Local Government Fund has been fully funded in recent years, state aid to local governments could be vulnerable to one or more difficult budget years. State grants to local governments are highly variable and likely to be cut if revenue is down. Thus, the one-quarter of local government funding that depends on the state could be at risk if revenue falls short of what is needed to meet expenditure demands over the next thirteen years.

Table 4
Projected State Aid to Local Governments, 2009-10
(in millions of dollars)

	Projected Revenue
School Districts	\$2,306
Cities and Counties	547
Total	\$2,853

Note: Homestead exemption and property tax relief excluded.

Other Local Revenue Sources

The state's local governments derive revenue from a variety of other sources, including federal aid, licenses, fees, and service charges, and other local governments. The 2009-10 projections for these revenue sources were made by projecting 1994-95 revenue at its historic growth rate.

At a level of \$396 million, federal aid supplied less than 10 percent of local government revenue in 1994-95. Three-quarters went to school districts. Federal revenue has grown more slow-

ly in recent years at 2.6 percent per year than most other forms of local revenue and is expected to continue to do so. Using this growth rate, federal aid to local governments is projected to increase to \$581 million by 2009-10, with three-quarters going to school districts and one quarter to cities and counties combined. Using recent growth rates to project federal revenue may understate revenue to school districts and overstate revenue to cities and counties, which have seen declines in federal revenue since 1989-90 due to cessation of disaster funding.

Revenue to local government from licenses, permits, service revenue, charges, leases, bonds, miscellaneous sources, and interlocal agreements is difficult to predict. The revenue stream depends not only on service demands (more customers mean more revenue) and population growth (especially business licenses and building permits), but also on budgetary pressures that force local governments to look for a quick and convenient way to raise more revenue. Based on the recent average revenue growth rate of 5.2 percent per year for all local governments, revenue from these sources is projected to be nearly \$2.5 billion in 2009-10.

Recognizing that the recent average revenue growth rate in this category for cities and counties combined at 11.4 percent a year is probably too high to be sustainable, the 2009-10 projection may also be too high. The school district's share of revenue in this category in 2009-10 is projected to be \$719 million. The school district projection is based on an average revenue growth of 1.9 percent between 1989-90 and 1994-95, which was calculated using revenue in this category minus bonds and leases, which cause large annual fluctuations in revenue.

Summary

Projected Local Revenue by Components

Total revenue to local governments in 2009-10 is projected to range from \$10.1 billion to \$11.5 billion. These figures were computed by adding together the projected revenue from the various revenue components (Table 5). Note that this range is lower than that derived from projecting combined total local government revenue at its recent average growth rate (\$12.0 billion).

Using individual revenue components to project total revenue yields a projected average revenue growth rate for combined local governments of about 4.6 percent per year—4.2 percent for the lower bound projection and 5.1 percent for the upper bound projection. These rates are a little better than those needed to keep pace with future inflation plus population growth. But even the upper bound rate of 5.1 percent revenue growth per year provides little allowance for any expanded or improved public services.

Projected revenue growth rates for school districts and cities and counties are quite different from overall local government revenue growth. Projected school district revenue in 2009-10 of \$6.2 billion to \$7.1 billion yields a projected average revenue growth rate of 3.6 percent per year to 4.6 percent per year. Annual revenue growth rates in this range are in the range of those needed to accommodate inflation and expected growth in student enrollment.

Cities and counties look better than school districts, with a range in projected revenue growth of between 5.2 percent per year and 6.0 percent per year. However, these projected growth rates

Table 5
Projected Local Government Revenue, 2009-10
Revenue Components Method
(in millions of dollars)

Local Government	Projected Revenue
School Districts	
State Aid	\$2,306
Federal Aid	436
Property Tax	2,762 - 3,693
Other Revenue	719
Total	\$6,223 - 7,154
Cities and Counties	
State Aid/State-Shared Revenue	\$547
Federal Aid	145
Property Tax	1,381 - 1,846
Other Revenue	1,826
Total	\$3,899 - 4,364
School Districts, Cities, and Counties	
State Aid/State-Shared Revenue	\$2,853
Federal Aid	581
Property Tax/Local Sales Tax	4,143 - 5,539
Other Revenue	2,545
Total	\$10,122 - 11,518

depend critically on continued expansion of revenue from licenses, fees, and charges. These sources have been an engine for revenue growth over the last five years, growing at an annual rate of 13.2 percent since 1989-90 for cities and counties combined.

Prospects for Local Governments

The range of 2009-10 revenue projections generated for South Carolina local governments is \$10.1 billion to \$12.0 billion. The lower *sum-of-the-components* projection (\$10.1 to 11.5 billion depending on the property tax revenue projection) is more credible because it carefully examines the individual revenue components and uses historical growth rates from the period 1989-90 to 1994-95, which includes one mild recession.

The components projections put cities and counties in reasonably good shape. With projected 2009-10 revenue ranging from \$3.9 billion to \$4.4 billion, cities and counties are expected to be able to address community needs out of available revenue. These revenue projections assume

that cities and counties can maintain past high growth rates for *other* revenue—mostly licenses, fees, and service charges. However, city and county spending demands have been growing at a rate of 7.3 percent per year between 1989-90 and 1994-95, much faster than projected future revenue growth. Spending has been growing as cities and counties attempt to supply infrastructure, law enforcement, and solid waste collection, among other services, to their growing populations. In addition, two of their major sources of revenue growth, fees and charges and state grants, are likely to grow much more slowly in the future than they have in the past.

Through 2009-10, school districts are at greater financial risk than cities and counties. Projected school district revenue of \$6.2 billion to \$7.1 billion in 2009-10 may be only barely adequate to meet the base demands of inflation and expected school-age population growth. Although spending by school districts grew more slowly than city and county spending at 4.4 percent per year between 1989-90 and 1994-95, continued spending growth at similar rates may still exceed projected future revenue growth of less than 5 percent per year. School districts' spending primarily supports instruction and administration, with instructional spending growing faster than administrative. In addition, school districts, unlike cities and counties, have very few discretionary sources of funding other than the property tax and are often very constrained in their ability to raise property tax rates. Thus, any tax policy changes—such as tax relief for automobiles—could make the task of funding public schools even more difficult.

Both school districts and other local governments will need to continue to rely on state aid, state grants, and state property tax relief in order to ensure adequate provision of local public services. If the state budget is constrained, these local governments will need to be protected in order to ensure delivery of basic services—solid waste collection, public safety, education, street maintenance—to South Carolina citizens.