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ULI – Lightning Talks

PROPERTY TAX BASICS AND INCENTIVES

AUG 29, 2017

John F. Wall IV

jwall@nexsenpruet.com

AGENDA

I. Company Site Selection Goals

II. Basic Property Taxes – how calculated

III. State Tax Rankings – why incentives imperative

IV. Fee in Lieu of Tax ("FILOT")

V. Multi-County Industrial or Business Park ("MCP") / Special Source Revenue Credit ("SSRC")

VI. Bailey Bill (Historic Preservation)

VII. Developer's Infrastructure Credit / ATI Alternative Valuation Credit / Port Volume Increase Tax Credit / Utility Tax Credits / JDCs / JTCs / State Grants (<u>all not covered in this presentation</u>)

I. COMPANY SITE SELECTION GOALS

- Business Fundamental – highest priority

  -distance from market & suppliers / qualified labor pool / infrastructure & utilities / overall cost of doing business / timing reqs / general business climate

- Quality of Life

  -mgmt. preference for urban or rural community / education system / responsiveness of state and local gov't to business needs / cultural amenities / local leadership

- Economic Development Incentives

  -reduction of up-front costs to ease cash flow problems ASW start up / availability of low-cost financing / employee training and retraining programs / minimization of tax burden / equalization of costs compared to other sites

II. BASIC PROPERTY TAXES

Property Subject to Tax:

- Real Property – land and all structures and other things contained in the land or annexed or attached to the land (e.g., buildings and other improvements)
- Personal Property – all things, other than real estate, which have any pecuniary value (e.g., M&E)
- Intangible personal property and inventories not subject to tax.
- See S.C. Code § 12-37-10 & 12-37-210 and S.C. Code of Regulations 117-1700.1
- Example – Air Conditioning
  - Building air conditioning, incl. refrigeration equipment – Real Property
  - Air condition window units & package units – Personal property

II. BASIC PROPERTY TAXES

Equation to calculate your property tax bill

FMV * Assessment Ratio * Millage = 

II. BASIC PROPERTY TAXES

- FMV – Real Property (other than agricultural real property and FILOT real property) – appraised to determine FMV
  - Generally, reappraised every 5 years, though county can delay reassessment by 1 year
  - Maximum increase in FMV due to countywide reassessment is 15% in 5 year period
  - FMV of improvements added to FMV of land upon completion – not subject to 15% cap
  - Can also be reassessed for assessable transfer of interest – not subject to 15% cap
  - See S.C. Code §§ 12-37-3120 – 12-37-3170; § 12-43-217

II. BASIC PROPERTY TAXES

- FMV – Personal Property
  - Manufacturers – from cost, fixed annual statutory depreciation down to residual value – S.C. Code §12-37-930

    Examples: Default – 11%, Aerospace – 15%, Life Sciences and Renewable Energy – 20%
  - Merchants and other businesses – from cost, income tax depreciation down to residual value

II. BASIC PROPERTY TAXES

Assessment ratios are found in the State Constitution:

- <u>Manufacturing and Utility</u>: 10.5%
  - The Gas Tax bill provides that the assessment ratio for manufacturers goes from 10.5% to 9% over a four-year period commencing 2018
- <u>Commercial Personal Property</u>: 10.5%
- <u>Warehouse & Distribution</u>: 6%
- <u>Commercial Real Property</u>: 6%
- Primary Residences: 4%
- Farm: 4%
- Personal Motor Vehicles: 6%

II. BASIC PROPERTY TAXES

Manufacturer's Assessment Ratio:

- Generally, 10.5% on real and personal property
- Exceptions for real property owned by, or leased to, a manufacturer and used primarily for:
  - R&D;
  - Office building – if not located on premises of, or contiguous to, plant site; or
  - Warehouse and wholesale distribution – if property not physically attached to plant unless area is separated by a permanent wall

II. BASIC PROPERTY TAXES

- Millage includes the combined millage for all taxing entities within jurisdiction
  - Always includes county and school district; sometimes includes municipalities or special purpose districts
  - Determined by each taxing jurisdiction by dividing cost of its annual budget by the total assessed value within taxing jurisdiction
  - Restrictions in millage increases
  - the millage for Richland County, City of Columbia is 536.7 mills; the millage for Beaufort County is 278.05 – 48% lower.

II. BASIC PROPERTY TAXES

Manufacturer's Abatement:

- All new manufacturing establishments as well as all additions of at least $50,000
- Abates (exempts) the county portion of the millage for five years for manufacturers – Automatic (county consent NOT required)
- Typically between 20% (in a city) and 40% (not in a city) of the millage
- Cities (by ordinance) may also abate their portion of the millage
- Not available if benefiting from a negotiated FILOT
- Similar abatements available for corporate headquarters, distribution facilities, and R&D facilities
  - Corporate HQ and distribution facilities also required to create 75 or more new full-time jobs (or 150 substantially equivalent) in State

III. STATE TAX RANKINGS

	SC Ranking	Other State Rankings
*Commercial Property Taxes – Urban (largest city in the state)	7th highest (Columbia, SC)	Highest - Michigan (Detroit), 5th lowest - NC (CLT), 14th lowest - AL (B'ham),
*Commercial Property Taxes – Rural (rural area in the state)	6th highest (Mullins – Marion Cnty)	Highest - Kansas (Iola), 5th lowest - AL (Monroeville), 7th lowest - TN (Savannah), 14th lowest - NC (Edenton)
**Retail – Mature Facility (clothing store, $2mm capex, 25 employees)	14th highest	Highest – NY, lowest – Wyoming, 5th lowest – NC, 8th lowest – AL, 18th lowest – GA
**Retail – New Facility	2nd highest	Highest – RI, lowest – Alaska, 10th lowest – NC, 19th lowest – AL, 23rd lowest GA
**Dist. Ctr - mature (warehouse, 95 ee, leases 350k SF Class B, $11mm)	2nd highest	Highest – NJ, lowest – Wyoming, 3rd lowest – AL, 4th lowest – GA, 8th lowest – NC, 27th lowest - TN
**Dist. Ctr – new	HIGHEST	Lowest – GA, 7th lowest – AL, 11th lowest – NC, 18th lowest – TN
*Industrial Property (Urban / Rural)	HIGHEST in both	NC – 7th lowest / 11th lowest, AL – 10th lowest / 3rd lowest

*Source: Lincoln Institute – 50-State Property Tax Comparison Study (June 2017 – for taxes paid in 2016)

**Source: KPMG – Tax Foundation 'Location Matters' (2015)

III. STATE TAX RANKINGS

How can SC remain competitive with these high property tax rankings:

- FILOT
- MCBP / SSRCs
- Bailey Bill (Historic Preservation)
- Abandoned Building / Textile Revitalization Credits

IV. FILOT

Equation to calculate your property tax bill:

FMV * Assessment Ratio * Millage = 

- FILOTs affect all 3 variables in property tax formula – (1) FMV; (2) AR; and (3) Millage

IV. FILOT

- Investment Period
  - Standard FILOT – 5th anniversary of end of property tax year in which FILOT property initially placed in service
  - Super Fee/Enhanced Investment FILOT – 8th anniversary of end of property tax year sin which FILOT property initially placed in service
  - Extensions – up to 5 more years (but NOT to reach statutory minimums)
  - 15 year investment available for very large investors in SC
- FILOT Term
  - Up to 30-year rolling payment period for Standard FILOTs (40-year period for Enhanced Investment FILOTs)
  - Possible extension of 10 years
- Again, FILOT affects all 3 variables in property tax calculation

IV. FILOT

Assessment Ratio:

- Outside of FILOT
  - Manufacturing – 10.5% on both real and personal property (chiefly M&E)
  - Commercial – 10.5% on personal property and 6% on real property
- Inside of FILOT
  - Down to 6% on both real and personal property
  - 4% for Super Fees/Enhanced Investment FILOTs

IV. FILOT

Millage:

- Outside of FILOT
  - Millage is set annually – can actually go down in reassessment years but tends to increase
- Inside of FILOT
  - Millage is fixed for the life of the FILOT or subject to 5-year rate reset

IV. FILOT

Advantages of FILOT to Taxpayers:

- ✓ Reduction of assessment ratio
- ✓ Elimination of agricultural rollback taxes (if real estate is AG use)
- ✓ Freezing of millage rate
- ✓ Greater predictability in forecasting FILOT payments

Advantages of FILOT to County:

- ✓ Eliminates 5-year abatements (manufacturing, corporate HQ, R&D)
  - County does not lose first 5 years of property taxes

IV. FILOT

Example of Savings - $20mm investment ($4mm in real property & $16mm in M&E):

- 30 year reduction of AR to 6%, fixed millage, and 25% SSRC for 10 years

= $3,746,369 in NET savings (difference b/w traditional *ad valorem* taxes and FILOT payments)

Example of Savings - $42mm investment ($17mm in real property & $25mm in M&E):

- 30 year reduction of AR to 6%, fixed millage, and 25% SSRC for 10 years

= $13,422,503 in NET savings (difference b/w traditional *ad valorem* taxes and FILOT payments)

IV. FILOT

Disadvantages of FILOT to Taxpayers:

- ✓ Possible clawback (although clawback is negligible if no SSRC)
- ✓ Normally, freezes the FMV of the real property
- ✓ Lose extraordinary obsolescence
- ✓ Generally, can't include property previously subject to tax
  - Limited exceptions
  - May be addressed through special source revenue credit

V. MCP/SSRC

- Established pursuant to Article VIII, Section 13(D) of the State Constitution and Title 4, Ch. 1 of the S.C. Code
- Counties may jointly development MCP within the geographical boundaries of one or more of the member counties
- Written agreement to share expenses and revenues of the park
- If the MCP encompasses property in a municipality, the municipality must consent prior to creation of the MCP
- All MCPs must consist of contiguous counties – enacted in 1995

V. MCP/SSRC

- "Industrial" or "Business" parks are NOT always MCPs
- Area comprising the parks and all property located therein is exempt from ad valorem taxes
- Owners or lessees of park MCP property pay an amount equal to property taxes or FILOT that would have been due and payable except for exemption
- Why bother with a MCP?

V. MCP/SSRC

- MCPs facilitate taxpayer benefitting from SSRCs
- County may use SSRCs to equalize (or lower) its property tax rate with any other county or state
- FILOT NOT a requirement for SSRCs
- Typically, presented as a % of FILOT payment or a flat $ amount for a defined period of time
- Both real and personal property expenditures may be reimbursed
- Examples:
  - ✓ 25% SSRC for 10 years
  - ✓ $50,000 SSRC per year for 20 years
  - ✓ 33% SSRC per year until SSRC cap of $250,000

V. MCP/SSRC

Advantages of SSRCs

- Additional decrease of FILOT or tax payments – especially helpful for cash flow in early years
- Hard dollar incentive
- Allows high millage counties flexibility to be competitive

Disadvantage of SSRCs

- Clawbacks can be severe
  - Retroactive or prospective?
  - Complete or partial? Pro-rata?
- Can be difficult to track and calculate

VI. BAILEY BILL (HISTORIC PRESERVATION)

S.C. Law allows the governing body of any County (4-9-195) or any Municipality (5-21-140) to grant a special property tax assessment to real property which qualifies as "rehabilitated historic property"

- 11 Counties have enacted a Bailey Bill (Aiken, Beaufort, Edgefield, Georgetown, Greenville, Horry, Laurens, Marlboro, Pickens, Spartanburg, & Richland
- At least 10 Cities have enacted a Bailey Bill (*i.e.* Beaufort, Chester, Dillon, Columbia, etc.
- 35 Counties do NOT have a Bailey Bill (*i.e.* Charleston, Berkeley, Dorchester, Lexington, etc.)

VI. BAILEY BILL (HISTORIC PRESERVATION)

<u>Advantages of Bailey Bill</u>

- Locks in the value of a taxpayer's property value, prior to rehabilitation work, for up to 20 years
- For example, if an historic structure is purchased for $1mm in the City of Columbia, the owner spends $5mm to improve the structure, under the normal assessment the structure would be valued at $6mm
- But, b/c Columbia has a Bailey Bill, if the taxpayer meets all qualifications the structure is assessed at $1mm value for 20 years!

<u>Disadvantage of Bailey Bill</u>

- 3 part application requiring approval by SHPO & NPS that can be cumbersome (take up to 90 days just for Part 1 & Part 2)
- Structure becomes protected (hence "historic preservation") so can limit future uses or modifications to the property

Example Spreadsheet:

Standard Property Taxes vs. FILOT plus SSRC

John F. Wall IV

1230 Main Street, Suite 700

803-253-8207

jwall@nexsenpruet.com