

*Analysis of
Residential and Commercial
Development Incentives
in Hardeeville and Jasper County*

**Prepared
For the**

**The City of Hardeeville
And
Jasper County**

Prepared by

Miley & Associates, Inc.

Columbia, SC



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1. Introduction

This report is intended to provide the City of Hardeeville and Jasper County development options that could potentially help stimulate residential and commercial development in the City and County.

The City and County are concerned that the growth of new residential housing units in the City and County has still not recovered from the 2007-08 housing crisis. This is particularly a concern with several large residential developments in the Hardeeville area. The growth in new home construction at these large developments is well below the anticipated absorption rates assumed when the projects were first begun. The County and City are concerned that the slow growth in residential construction has also impeded the growth in new commercial development in these developments and elsewhere in the City and County. This slower than anticipated growth in residential and commercial properties has also had spillover negative impacts on overall commerce in the area and local government tax revenues.

There are many factors that have contributed to the slow growth in residential construction in the area and many of the factors are outside the control of the City and County. These factors include the overall slow recovery of the national economy, the continued credit and foreclosure issues and the slower than expected job growth. However, one concern of the City and County is the differential in property taxes between home of comparable value in the City of Hardeeville and nearby unincorporated Beaufort County. Developing an approach to address this property tax differential is the focus of this analysis.

2. Differential Property Tax Burdens

As seen in Table 1, millage rates in Hardeeville are more than double those in nearby unincorporated Beaufort County. The main contributors to the differential are the higher County operating millage in Jasper County schools, the County operating millage and the City of Hardeeville millage. Of course, the primary contributing factor to the higher millage rates in Jasper County and the City of Hardeeville is the difference in the assessed value in the jurisdictions. The higher property values in Beaufort County in Hilton Head and other resort areas, results in higher assessed values in Beaufort County compared to the City and Jasper County. The City of Hardeeville and Jasper County simply have to have higher millage rate in order to raise the same amount of tax dollars compared to Beaufort County.

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**Table 1
Millage Rate Comparison
Hardeeville vs. Beaufort County**

	<u>City of Hardeeville</u>	<u>Beaufort County</u>
School Operating	165.25	97.45
School Debt Service	25	31.71
County Operating	86.5	46.48
County Debt Service	12	5.48
City of Hardeeville*	142	NA
Other	0	4.34
Total Millage	430.75	185.46

* Operating + Debt Service Millage

Residential Property Taxes

As seen in Table 2, these higher millage rates result in higher property taxes in Hardeeville than those in nearby unincorporated Beaufort County. For example, a new, owner-occupied home with a market value of \$250,000 would pay an estimated \$2,655 in Hardeeville (due to the 2007 Act 388, owner occupied housing is exempt from School Operating millage) but a home owner in Beaufort County would only pay an estimated \$880, and \$1,800 a year differential. Assuming all other factors are equal (such as quality of life, transportation, quality of schools, fire protection, etc.) the \$1,800 differential is difficult for the sellers of new homes to compete with the same home seller in Beaufort County. The main contributors to the differential are the higher County operating millage in Jasper County and the City of Hardeeville millage.

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**Table 2
Residential Property Tax Comparison
Hardeeville vs. Beaufort County**

	<u>Tax Millage</u>	<u>City of Hardeeville</u>	<u>Tax Millage</u>	<u>Beaufort County</u>
Market Value of Home		\$250,000		\$250,000
Assessment Rate		4%		4%
Assessed Value		\$10,000		\$10,000
Tax Liability				
School Operating	165.25	\$0	97.45	\$0
School Debt Service	25	\$250	31.71	\$317
County Operating	86.5	\$865	46.48	\$465
County Debt Service	12	\$120	5.48	\$55
City of Hardeeville*	142	\$1,420	0	\$0
Other		\$0	4.34	\$43
Total Millage	430.75		185.5	
Total Tax Liability		\$2,655		\$880
Difference		\$1,775		
* Operating + Debt Service Millage				

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Commercial Property Taxes

As seen in Table 3, property taxes for commercial property in Hardeeville are substantially higher than those in nearby unincorporated Beaufort County. For example, a commercial property with a market value of \$1,000,000 would pay an estimated \$25,800 in Hardeeville (commercial property as well as non-owner occupied residential property is not exempt from school operating millage) but the same \$1,000,000 property in Beaufort County would only pay an estimated \$11,100, a \$14,000+ a year differential. Assuming all other factors are equal (such as quality of life, transportation, quality of schools, fire protection, etc.) the \$14,000 differential is difficult for the sellers/operators to compete with the same investment in Beaufort County. The main contributors to the differential are the higher County and school operating millage in Jasper County and the City of Hardeeville millage.

**Table 3
Commercial Property Tax Comparison
Hardeeville vs. Beaufort County**

	<u>Tax Millage</u>	<u>City of Hardeeville</u>	<u>Tax Millage</u>	<u>Beaufort County</u>
Market Value of Property		\$1,000,000		\$1,000,000
Assessment Rate		6%		6%
Assessed Value		\$60,000		\$60,000
Tax Liability				
School Operating	165.25	\$9,915	97.45	\$5,847
School Debt Service	25	\$1,500	31.71	\$1,903
County Operating	86.5	\$5,190	46.48	\$2,789
County Debt Service	12	\$720	5.48	\$329
City of Hardeeville*	142	\$8,520	0	\$0
Other		\$0	4.34	\$260
<u>Total Millage</u>	<u>430.75</u>		<u>185.46</u>	
Total Tax Liability		\$25,845		\$11,128
Difference		\$14,717		
* Operating + Debt Service Millage				

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3. Options to Offset the Property Tax Differential

Residential Property Plan

The City of Hardeeville has been very deliberate and forward planning in terms of the impacts of new development on the costs of delivering services to new residents. As such, all of the major housing developments now suffering from slow growth were managed by the City in comprehensive Development Agreements. All of these development agreements include a series of impact and development fees that are paid to the City as new residential homes are permitted. While they vary somewhat, they are fairly consistent across all the affected large-tract projects. Table 4 summarizes the types and amounts of the fees that are paid for residential properties.

**Table 4
Residential Impact Fees in Hardeeville**

Fees Per Residential Dwelling Unit	
Type of Fee	\$ Amount
Road	\$4,295
Police	\$320
Fire	\$320
School	\$500
Library	\$100
Park	\$636
Total Fees	\$6,171

The recommendation in this analysis is that 50% of these fees would be allocated to a special fund for three years to help compensate new home owners for the higher property taxes in Hardeeville compared to Beaufort County. That is, the developers would still pay all of the fees as stipulated in their respective development agreements, but 50% of the fees would be allocated to a special fund for the incentive program and the other 50% would be allocated to the City as stipulated by the development agreements. The developers would contribute a dollar for dollar match of these fees from their own resources to the incentive program fund.

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For example, based on a home of \$250,000 market value, the offset of roughly \$6,000 could be offered to the potential home buyer by the developer/City to completely offset the \$1,800 annual difference in property taxes for the first three years. Three years may not be enough to make a difference but the program could be re-evaluated at that time. In addition, the incentive program could also be supplemented with other incentives provided by the developer, such as reduce home owner associate fees, enhanced amenity packages, and other offers.

Of course, implementing this recommendation would not be without some costs to the City. The City of Hardeeville designed these development agreements and fee schedules to help offset the costs of providing services to new residents. These developments have generated substantial fees since they were begun. Table 5 provides estimates of the fees generated to date by the major developments. It is estimated that these developments have generated a total of \$3.6 million in fees.

And there is potential for these developments to generate more revenues for the City. For example, there are approximately 1,100 new home sites permitted and for sale by the four major developers. But they only generate new fee revenue (and property tax revenue) if they are sold and developed.

**Table 5
Estimated Residential Impact Fees
Collected in Hardeeville to Date**

Type of Fee	Per Dwelling Unit \$ Amount*	Traditions	Sun City	Hampton Pointe	HH Lakes	Total To Date
Road	\$4,295	\$197,570	\$1,726,590	\$485,335	\$81,605	\$2,491,100
Police	\$320	\$14,720	\$128,640	\$36,160	\$6,080	\$185,600
Fire	\$320	\$14,720	\$128,640	\$36,160	\$6,080	\$185,600
School	\$500	\$23,000	\$201,000	\$56,500	\$9,500	\$290,000
Library	\$100	\$4,600	\$40,200	\$11,300	\$1,900	\$58,000
Park	\$636	\$29,256	\$255,672	\$71,868	\$12,084	\$368,880
Total Fees	\$6,171	\$283,866	\$2,480,742	\$697,323	\$117,249	\$3,579,180
Total Lots		400	730	379	191	1,700
Total Lots Sold		91	441	123	103	758
Total DU built		46	402	113	19	580
Total Lots Sold but not built		45	39	10	84	178
Total Lots less lots built		354	328	266	172	1,120

* Note: Not all fees collected can be spent city-wide, i.e., some fees are designated specifically for the respective development

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However, the long run costs to the City may be even more than the potential loss of the development fees. If these residential communities fail or stop developing new homes, the City and County will not realize new fees and may actually suffer negative impacts due to the loss of reputation, image and momentum that the City and County are proud of and expecting to continue. If the fees are temporarily suspended and new growth is stimulated, the City and County will enjoy enhanced property taxes and the community will experience increased commerce. If these developments falter, the new tax revenues, development fees and new commerce will all evaporate.

Commercial Property Taxes

The property tax differential between the City of Hardeeville and unincorporated Beaufort County is too large to make up by offsetting development fees or business licenses – or at least too large to make up by these fees alone.

It is recommended that the City and County, in conjunction with the affected developers jointly designate several prime commercial sites as Multi-County Business Parks (MCBP) or designate them to be added to existing MCBP agreements that the County may already have established. Once these areas are designated as MCBP, the County could, if desired, provide Special Resource Tax Credits for these areas that could substantially offset the differential tax burden. These tax credits could be for a set period of time and a set percentage of the property's tax burden.

For example, for the example in Table 3 where there is a \$1.0 million commercial investment, there is a differential of \$14,000. If the County were to provide this investment a 58% tax credit for 10 years, the property tax differential would be eliminated and the property would be competitive on a property tax basis with unincorporated Beaufort County. Table 6 provides an example of a commercial property in a MCBP that received a 58 % tax credit.

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**Table 6
Commercial Property Tax Comparison
Hardeeville vs. Beaufort County
With MCBP Tax Credit**

	<u>Tax Millage</u>	<u>City of Hardeeville</u>	<u>Tax Millage</u>	<u>Beaufort County</u>
Market Value of Property		\$1,000,000		\$1,000,000
Assessment Rate		6%		6%
Assessed Value		\$60,000		\$60,000
Tax Liability				
		<i>With 58% Credit</i>		
School Operating	165.25	\$4,162.77	97.45	\$5,847
School Debt Service	25	\$629.77	31.71	\$1,903
County Operating	86.5	\$2,179.00	46.48	\$2,789
County Debt Service	12	\$302.29	5.48	\$329
City	142	\$3,854.18	0	\$0
Other		\$0.00	4.34	\$260
Total Millage	430.75		185.46	
Total Tax Liability		\$11,128		\$11,128
Difference		\$0		

The County, School District and City could then share the \$11,000 in new property taxes on a pro rata basis. Obviously collecting \$11,000 is not as attractive as collecting \$26,000, but it is more attractive than collecting \$0 taxes if the investment is made on the other side of the County line.

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4. Return to the City of Hardeeville

Assuming the City of Hardeeville implements the residential incentive program outlined in this report for five years and the program is successful in stimulating new housing development.

Based on the current millage rates and assuming the average value of a home assumed in this analysis (\$250,000), the City would “give up” an estimated \$3.5 million (50% of the total \$6.9 million in one-time impact fees. (Total fees would equal \$6.9 mil = \$6,171 * 1,120 units).

However, if the program stimulates the development of the available 1,120 lots platted in the City in five years, the City would generate a cumulative total of \$4.8 million in new operating and bond revenues in the first five years and \$6.4 million (\$1.6 million per year) incremental tax collections due to the new housing in the 6th year. Once the City reached the 5th year, the City would be in a positive return financially.

5. Summary

This report is intended to provide the City of Hardeeville and Jasper County development options to that could potentially help stimulate residential and commercial development in the City and County.

The City and County are concerned that the growth of new residential housing units in the City and County has still not recovered from the 2007-08 housing crisis.

There are many factors that have contributed to the slow growth in residential construction in the area and many of the factors are outside the control of the City and County. These factors include the overall slow recovery of the national economy, the continued credit and foreclosure issues and the slower than expected job growth.

However, one concern of the City and County is the differential in property taxes between home of comparable value in the City of Hardeeville and nearby unincorporated Beaufort County. Developing an approach to address this property tax differential is the focus of this analysis.

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To help stimulate residential development, it is the recommendation in this analysis that 50% of the current development impact fees would be allocated to a special fund for three years to help compensate new home owners for the higher property taxes in Hardeeville compared to Beaufort County. The developers would still pay all of the fees as stipulated in their respective development agreements, but 50% of the fees would be allocated to a special fund for the incentive program and the other 50% would be allocated to the City as stipulated by the development agreements. The developers would contribute a dollar for dollar match of these fees from their own resources to the incentive program fund. Once the City reached the 5th year, the City would be in a positive return financially.

To help stimulate commercial development, it is recommended that the City and County, in conjunction with the affected developers jointly designate several prime commercial sites as Multi-County Business Parks (MCBP) or designate them to be added to existing MCBP agreements that the County may already have established. Once these areas are designated as MCBP, the County could, if desired, provide Special Resource Tax Credits for these areas that could substantially offset the differential tax burden. These tax credits could be for a set period of time and a set percentage of the property's tax burden.

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MILEY & ASSOCIATES, INC.

Miley & Associates is one of the Southeast's leading economic and financial consulting firms. The firm specializes in economic impact analyses, fiscal impact analyses, feasibility reports, impact fee studies and benefit/cost modeling. Our clients include national and prominent local real estate developers, school districts, local governments, regional development agencies, and other private sector development firms. Miley & Associates partners appear regularly before decision-makers at all levels of government and understand the values, needs and desires of the clients they represent. With offices located in Columbia, South Carolina, the firm is well positioned to provide clients with hands-on service for projects throughout the entire Southeast region.

Miley & Associates appreciates that every research project is unique and deserves a custom solution. Public policy decisions are not made overnight, and we excel at providing advice and counsel along the way. We represent our clients. Our business plan is simple: we focus on exceeding our client's expectations and building long-term relationships.

Miley & Associates, Inc. was founded in 1993 by Harry W. Miley, Jr. Ph. D. The Company is an economic and financial consulting firm providing a range of analytical services to public and private sector clients. Miley & Associates conducts fiscal and economic impact analyses of proposed new developments and has extensive experience in assisting clients with their economic development and community revitalization projects.

Dr. Miley served as Chairman of the South Carolina Board of Economic Advisors (BEA) under two Governors. The BEA is responsible for estimating the State's revenues for the Governor and the General Assembly to use in formulating the State's annual budget. Dr. Miley was originally appointed as Chairman by Governor Carroll Campbell and continued to serve as Chairman for Governor David Beasley.

Dr. Miley was the Senior Executive Assistant for Economic Development to Governor Campbell from 1987 to 1989. Dr. Miley served as principal advisor to Governor Carroll Campbell on the state's policies for economic development, employment and training, work force and adult illiteracy, technical education and transportation issues.

Prior to joining the Governor's Office, Dr. Miley was on the faculty of the Moore School of Business at the University of South Carolina and Associate Director of the Division of Research at the School.