

Effects on the City of Myrtle Beach of H3490, the Business License Tax Reform Act, if approved

If H3490, the Business License Tax Reform Act now under consideration in the General Assembly, passes as proposed, it would result in either massive cuts or a massive deficit for the City of Myrtle Beach. The city currently receives \$19.1 million per year in business license fees, or 30.7 percent of the city's General Fund revenue. For 2015-16, that's equivalent to approximately 65 mills of property tax.

Alternatives for responding to the catastrophic effects of H3490 are few. One response would be to cut \$19 million in city services, since the city is prohibited by existing law from raising the property tax rate by that much to cover the loss of business license revenues. Under Act 388, the city could only raise taxes by about 3.8 mills, which would raise approximately \$1.1 million. Likely service cuts to achieve a catastrophic \$19 million reduction are outlined below.

The other alternative to massive service cuts would be to operate at a \$19 million deficit during the year in which H3490 takes effect, then raise property taxes by 130 mills the following year to cover the resulting deficit, as required by law. The estimated tax rate in the first year would be 204 mills. In the second year, once the deficit had been covered, the tax rate would drop by approximately 65 mills, but would still be 65 mills greater than today.

Further, since business license revenues would no longer arrive in the spring, the city also would be forced to borrow \$19 million or more at short-term rates to cover the shortfall, assuming a financial institution would loan money that was to be repaid in the following year's as-yet-unapproved budget. In any case, whether the city cuts \$19 million in spending or operates at a deficit for one year, such a sharp reduction in revenues also would have an immediate, negative effect on the city's credit rating.

How much is 65 mills worth?

- For owner-occupied home valued at \$200,000... ***an additional \$520 per year.***
- For rental or second home valued at \$200,000.... ***an additional \$780 per year.***
- For commercial property valued at \$500,000... ***an additional \$1,950 per year.***

Is it even possible to cut \$19 million from city services? Not without a drastic reduction in services. Here are sample cuts and their associated savings in order to reach a \$19 million target. Note that these would eliminate roughly 261 fulltime jobs.

Eliminate Recreation Centers and Programs	\$ 9,000,000 savings (<i>net of revenue</i>)
Eliminate Chapin Memorial Library	\$ 1,000,000 savings (<i>net of revenue</i>)
Cut 20 percent of Police Department	\$ 4,300,000 savings
Cut 20 percent of Fire Department	\$ 2,500,000 savings
Cut 50 percent of Planning Department	\$ 400,000 savings
Cut 50 percent of Construction Services	\$ 800,000 savings (<i>net of revenue</i>)
Eliminate all Outside Agency funding	\$ 250,000 savings
Eliminate all Humane Society funding	\$ 280,000 savings
<u>Eliminate all Business License collections</u>	<u>\$ 400,000 savings (<i>net of revenue</i>)</u>
TOTAL VALUE OF SERVICE CUTS	\$18,930,000 savings (<i>net of revenue</i>)

Cutting Fire Department staffing and resources by 20 percent (which requires closing at least one fire station) would seriously compromise coverage, causing the city to lose its ISO 1 rating for fire protection services. That, in turn, would result in increased fire insurance premiums for homes and businesses within the city.

In considering H3490, the General Assembly may wish to take into account the financial support that all cities and counties receive from business license revenues and what the loss of those revenues will mean for their residents and businesses. Local jurisdictions are prohibited by state law from creating any new revenue sources, so the loss of such a fundamental (and quite common) income stream as the business license fee will be disastrous for both residents and businesses.

For comparison, here are the dollar amounts and percentages of 2014 business license fee revenues which would be affected by H3490 in other South Carolina cities:

Charleston	\$26.3 million	<i>18.7 percent of General Fund revenues</i>
Greenville	\$22.5 million	<i>30.1 percent of General Fund revenues</i>
North Charleston	\$19.9 million	<i>20.0 percent of General Fund revenues</i>
Columbia	\$19.5 million	<i>15.6 percent of General Fund revenues</i>
Myrtle Beach	\$19.1 million	<i>30.7 percent of General Fund revenues</i>
Rock Hill	\$ 8.7 million	<i>15.0 percent of General Fund revenues</i>

The City of Myrtle Beach's permanent population is 27,109, according to the 2010 Census, but it serves 10 times that many during the busy tourism season. The funding received from business license fees, thanks to Myrtle Beach's dynamic business climate, makes that increased service level possible without severely taxing local residents. Further, that dynamic business climate in the City of Myrtle Beach is worth roughly \$144,000,000 per year to the State of South Carolina in sales tax receipts on goods and services sold within city limits.

Ironically, the sales tax on retail activity also is a tax on gross receipts, just as the current business license fee is levied on gross receipts. While the proposed H3490 legislation instead would levy business license fees on net receipts, under the argument that it's fairer to the business, there's been no concomitant proposal to levy the state's six percent sales tax solely on net receipts, rather than gross sales. Why not? Because such a change to the long-standing and commonly-used sales tax system would seriously cripple South Carolina's budget, just as the proposed change to existing business license fees would cripple cities' and counties' budgets.

**Service cuts required to save \$19 million
if H3490, Business License Tax Reform Act,
is approved by the General Assembly**



Eliminate all recreation programs and centers
\$9,000,000



Eliminate Chapin Memorial Library
\$1,000,000



Cut 20 percent of Police Department
\$4,300,000



Cut 20 percent of Fire Department
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Cut 50 percent of Planning Department
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Cut 50 percent of Construction Services Department
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Eliinate all Outside Agency funding
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Eliminate all Humane Society funding
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Eliminate all Business License collections
\$400,000