EXECUTIVE SUMMARY

July 2011

State of Local Government Fiscal Conditions in South Carolina 2011

To study the effect of the national recession on South Carolina local governments, the University of South Carolina’s Institute for Public Service and Policy Research (IPSPR) conducted a survey of counties and municipalities in the state to determine the true impact on revenues and the fiscal strategies local governments have used to reduce expenditures. Forty-five municipalities responded to the survey, yielding a response rate of 32%. Eighteen counties responded to the survey, for a response rate of 39%. The key findings are summarized below. The full report can be accessed at http://www.ipspr.sc.edu/

State of Local Government Revenues

Over the past few years, local governments have faced rising health insurance costs, retirement costs, and operating costs such as fuel. In FY2011, municipalities anticipated relying more heavily on property taxes and local option sales taxes as a result of the decline of license and permit fees. Counties also predicted a greater reliance on property tax, mostly due to the reduction in aid to local subdivisions.

Growth of city and county governments has been relatively flat since FY2008. Municipalities have experienced a net change of 3.04% in general fund budgets, and counties have had a 1.71% change. The participating municipalities had a 0.67% decrease in the number of FTE positions, and counties had a 1.67% increase.

Typically, property tax revenues grow regardless of economic conditions. Based on FY2011 revenue estimates provided by respondents, municipalities experienced an increase of 11.4% in property tax revenue since FY2008. Counties predict a 6.8% increase for the same time period. However, there was very little change in property tax revenue from FY2010 to FY2011 due to fewer jurisdictions raising property taxes in FY2011 than in the previous three years and the declining real estate market.

Local governments have experienced a decline in most revenue categories. Figure 1 and Figure 2 illustrate the decline in the major local government revenue sources since FY2008.
The responding municipalities have had an average decrease of 3.4% in local option sales tax revenue. Forecasted sales tax revenues for FY2011 indicated a slight increase from FY2010. Counties experienced a decline between FY2008 and FY2010 of 8.9% and then an expected increase from FY2010 to FY2011 of 3.8%.
Residential and commercial growth continues to suffer in most of the responding jurisdictions. Since FY2008, municipal permit revenue has decreased an average of 30.8%, and county permit revenue has declined by 45.3%.

**Spending Cuts and Revenue Actions**
Local governments have fewer resources from which to operate. Due to this reality, cities and counties are taking various actions to reduce expenditures and increase revenues. Jurisdictions reported implementing various cost saving actions and expenditure reductions. The most common areas cut were travel, equipment, training, and supplies.

Personnel costs are a significant portion of any local government’s budget and are typically impacted in times of fiscal stress. The two most common actions taken by local governments to reduce personnel costs are hiring freezes and salary freezes.

Twenty-two percent of municipalities reported instituting new fees over the past two years, while 44.6% increased existing fees. Thirty-five percent of counties reported instituting new fees over the past two years, while 68.2% increased existing fees.

**Fund Balance**
Seventy percent (61.7% of the municipalities and 87% of the counties) reported using their unassigned fund balances at least once between FY2008 and FY 2011. The average amount of the unassigned fund balance used was 11.58%, but the amount used ranged from 0.95% to 45.88%.

**Conclusion**
Even with the end of the recession, most experts believe it will take time for local governments to feel the full impact and for revenues to stabilize. Based on past recessions, that time period could be anywhere from 18 months to several years. With projections of continued cuts in aid to local subdivisions and declining tax and fee revenues, the old adage of “doing more with less” is no longer possible. Budgets are likely to remain tight through 2012, and the current short-term impacts of the recession have become the normal operating conditions for the foreseeable future.