



SUMMARY

Review of Incentive Programs Administered by the S.C. Department of Commerce



OBJECTIVES

Members of the General Assembly requested that we conduct an audit of economic incentive programs administered by the S.C. Department of Commerce (DOC). Our objectives were to:

- Evaluate the effectiveness and transparency of the incentive programs administered by the Department of Commerce to determine whether desired economic results were achieved.
- Review the process for determining the award of incentives to assess the validity of the process.
- Determine what processes exist for monitoring the compliance of companies with incentive requirements.
- Evaluate the accuracy and appropriateness of methodologies for estimating the economic and financial impacts of proposed projects.

BACKGROUND

The Department of Commerce is a cabinet agency that promotes economic development in South Carolina. DOC staff provide support to the S.C. Coordinating Council for Economic Development, which consists of eleven state agency heads and is chaired by the Secretary of Commerce. The Coordinating Council approves the economic incentives that are the primary focus of this audit:

- Job Development Credits
- Business Development Grants

JUNE 2020

OVERVIEW OF INCENTIVE PROGRAMS

JOB DEVELOPMENT CREDITS (JDC)

JDCs refund companies for certain qualifying and eligible expenditures as a credit on their employee withholding taxes. In order to claim JDCs, companies must receive approval to participate in the program from the S.C. Coordinating Council for Economic Development (Coordinating Council) and create a specific number of jobs and capital investment as specified in a revitalization agreement.

BUSINESS DEVELOPMENT GRANTS

The Coordinating Council approves grants to companies that are interested in locating or expanding business activity in South Carolina. Companies are required to meet certain job creation and capital investment goals, as outlined in performance agreements, and are reimbursed with grant funds as the projects are completed. The grants are financed by three separate funds—Economic Development Set-Aside, Governor’s Closing Fund, and Rural Infrastructure Fund.

PROGRAM EFFECTIVENESS

APPROVED INCENTIVES

During the scope of our audit, January 2009 through September 2019, incentives were approved for 676 different companies.

	JDC PROGRAM	GRANT PROGRAM
Number of Project Approved	415	557
Amount of Incentives Approved	\$6.2 billion (\$223 million actually claimed)	\$526 million

PROGRAM PERFORMANCE

Of the 415 JDC projects, 31 are closed, 174 are open and have been certified as having met the job and investment requirements, and the rest of the projects have yet to certify. A total of 34,562 new jobs were created and approximately \$8.4 billion invested by the certified JDC projects, 100% of their collective goal; however, DOC does not record the actual jobs created in excess of the project’s minimum requirement.

Of the 557 grant projects, 309 projects are still open and active. The remaining 248 projects are either closed, pending closeout, or in maintenance status. These 248 projects have created 31,298 new jobs, 92% of their collective goal, and invested approximately \$11.8 billion, exceeding their collective goal of \$10 billion.

FOR MORE
INFORMATION

Our full report,
including comments from
relevant agencies,
is published on our website.
Copies can also be obtained by
contacting our office.

LAC.SC.GOV

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TRANSPARENCY

We found that DOC and the Coordinating Council do not include actual figures related to the projects' performances or the number of projects that were not successful in job creation efforts in annual reports. Additionally, DOC does not conduct any fiscal impact analyses after the initial cost-benefit analysis performed prior to an award to determine if the projects were successful.

OVERSIGHT

VERIFICATION OF JOBS

We found that DOC does not verify that the figures the grant recipients submit are accurate other than by using the recipient's own documents. We identified and recommended two different ways DOC can verify a grant recipient's claimed job figures.

GRANT REPAYMENTS

The Coordinating Council could have issued nearly \$17 million in repayment requests (clawbacks) to recipients who did not meet job or investment requirements, and the agency has issued approximately \$9.3 million in repayment requests. In addition, the Coordinating Council has written off over \$5 million in grant funds for companies that went bankrupt or committed fraud, among other reasons.

AUDITS OF JDC RECIPIENTS

The S.C. Department of Revenue is not completing audits of all JDC recipients with claims in excess of \$10,000 per year at least once every three years as statutorily-required.

EVALUATION OF PROPOSED INCENTIVES

OUTDATED COST-BENEFIT MODEL

The cost-benefit model that DOC uses to estimate the economic and fiscal impacts of a proposed project was adopted 25 years ago in the mid-1990s. DOC has not updated various components of the model. Using outdated economic data could lead to DOC approving incentives for projects that would have fewer estimated benefits to costs if the analyses were conducted using current data.

POTENTIALLY INFLATED STATISTICS

All 32 impact analyses we reviewed indicated that DOC's use of outdated data potentially inflated new employment numbers for companies seeking incentives and provided an inaccurate evaluation of the economic effects of a proposed project.

RELIANCE ON COMPANY-PROVIDED FIGURES

The model relies on job creation numbers provided by the prospective company with little documentation required to support the numbers and no research conducted by DOC to determine the feasibility of the numbers.

CAROLINA PANTHERS

An economist who specializes in public finance and taxation noted potential problems with the cost-benefit analysis for the Panthers' project. Our report summarizes the economist's concerns and DOC's responses to her concerns.

DECISION-MAKING PROCESS

Applications for grants and JDCs are not open to the public and DOC only provides applications to companies for which DOC's Secretary will recommend approval of incentives.