

Element: Economics

The Economics Element traditionally focuses on data and analysis related to unemployment, employment by industry, and labor force characteristics of a community. For the *Comprehensive Plan 2015*, these items will be discussed less extensively, because the economy of Folly Beach is dependent on tourism rather than major industry or direct labor force. Similar to the 2015 *Comprehensive Plan*, the 2020 Update will review the City's primary revenue sources and the impact of tourism on the community and the economy.

Employment

According to the 2014-2018 American Community Survey 5-Year Estimates by the US Census Bureau, approximately 1,650 (75.5% of the residents of Folly Beach aged 16 years or older are considered to be in the labor force. The unemployment rate is calculated at 1.8% which is significantly lower than both the state and national averages.

Most workers on Folly Beach commute to work alone in their personal car. Only 2.5% of workers reported carpooling and 6.1% reported walking to work. Of note is a 0% response rate for commute by public transit. This reflects the fact that there is no convenient, regular transit from Folly Beach to regional employment centers.

The residents on Folly Beach trends towards professional level occupations with 53% of the workers listed as working in management positions. Just over 16% are employed in the service industry and 10% work in sales or office positions. Natural resources, construction, and transportation trades complete the employment picture with 22% of the workers.

The City initiated conversations with the Berkeley-Charleston-Dorchester Council of Government that operates CARTA regarding the possibility of a seasonal hospitality shuttle to alleviate parking concerns and increase the Folly Beach service industry's ability to recruit and retain employees. The City partnered with BCD-COG on a survey of service industry employees and results indicated that 59% of employees drove themselves to work and 50% would consider shared transportation. The CARTA staff recommended that the City consider working with local hospitality employers to encourage a van pool based on the outcome of employee responses.

Income

The median household income of \$86,660 on Folly Beach outpaces the county, state, and federal averages (\$76,236, \$62,432, and \$63,179 respectively).

Municipal Revenues

Property Taxes

In Folly Beach, owner-occupied homes are assessed for property tax at 4% of their fair market value and second homes or investment properties are taxed at 6%. The millage rate that Folly Beach sets for property tax is based on the total market value of all properties. Although the millage rate paid by Folly Beach residents (.03690) is higher between Isle of Palms (.02470) and Sullivan's Island (.05090), a simple

comparison doesn't take into account the fact that millage rates are based on total tax value. The total taxable property value in those communities is much higher than Folly Beach. As a result, they are able to lower the millage rate but still collect more in property taxes. Property tax payments on Folly Beach are also offset by a credit that is generated by the local option sales tax. The sales tax credit on Folly Beach is higher than both Sullivan's Island and the Isle of Palms. [For future reference: <https://www.sccounties.org/sites/default/files/uploads/publications/propertytax2018.pdf>]

Since 2012, property taxes have held steady at approximately 35-38% of total revenues for the City. In 2015 property taxes paid by full time residents on owner occupied homes are projected to account for approximately 40% of the total property tax collected. This means that property taxes paid by full time, resident owners equal approximately 15% of total revenues coming into the City.

Since 2015, property tax revenue increased as a result of additional development coupled with two millage increases. During the same period property taxes accounted for an average of approximately 40% of overall City revenues. As of the latest tax billing for calendar year 2019, part time resident or investor properties assessed at 6% accounted for 69% of the overall assessed real property valuation for the City. This means that annual real property taxes collected on 6% properties are 26% of the City's overall budgeted revenues.

Although property taxes remain a major revenue source, property taxes as a source of revenue growth for municipalities have generally diminished since 2007 due to the South Carolina General Assembly ratifying a property tax assessment cap approach. The law allows the City to raise property taxes by a certain amount each year (calculated based on population growth and the Consumer Price Index). Since the passage of this law, property tax collections as a percentage of total local government revenue have declined while local government expenditures have generally increased. Over the past 10 years, the City has raised millage rates within the allowable cap in FY15 and FY19.

Sales and Other Taxes

Sales and Excise taxes (most importantly the Accommodations tax or A-tax) are a major revenue source for both the City's General Operating Fund and the Beach Preservation Fund, which pays for beach renourishment. The share of total revenue generated by these taxes has steadily increased since 2005. In 2009, A-tax accounted for 21.5% of the total City revenue. This increased to 35.3% in 2014. In 2019 (as in years past), the majority of the Local, County, and State Accommodations taxes were dedicated to the City's Beach Preservation fund to ensure that the City is saving \$1 million annually towards beach maintenance and restoration. The remainder is applied to the General Fund and comprises 11% of the City's general operating revenues to support tourism accommodation.

Taken together with Hospitality Taxes, and Sales Tax, these three taxes comprise 24% of the City's operating revenue. This reflects both an increase in total visitors and an increase in the underlying prices that determine the taxes. Although the City has benefited greatly from steadily climbing tax receipts, the increases cannot be guaranteed in the future. The collection of these taxes is highly dependent on factors such as weather and the economy. Unlike property taxes, which are generally steady and can be adjusted

through millage rates, these taxes cannot be adjusted to compensate for off years. The City already relies heavily on this money to fund ongoing, tourism related expenses. Without high collection rates, these services would need to be cut or funded from other sources.

The following is a brief description of the Folly Beach tax rates and the services or goods subject to each tax.

State Accommodation Tax (SC A-tax)

All accommodations are subject to a statewide sales tax rate of 5% plus a 2% State Accommodations tax. This 2% tax is returned to the counties/municipalities in which it is collected and can only be spent on accommodation, advertising, promotion, and tourism related expenditures, which can include funding of beach renourishment and access projects. The funds collected through the State Accommodation Tax are returned to the City in three pots: 30% for promotion of tourism, 65% for accommodation of tourism or tourism-related events, and 5%+ \$25,000 to the City's general operating fund.

The 30% Fund is required by state law to be spent on tourism promotion, and the funds are distributed to the City's Tourism & Visitor Promotion Committee. In recent years, the Committee has shifted their focus away from general tourism promotion and has instead targeted efforts to off-season tourism and enhancing the visitor experience to encourage repeat visitors.

Folly Beach has a history of disbursing the 65% Fund money to local organizations for tourism related expenditures. However, over the last few years, the City itself has applied for an increasing share of the State A-tax funds to pay for city services that are tourism related. In 2019, distributions to the City for various services totaled 80% of all applications for State A-tax distributions. It is appropriate that tourism revenue should be used to support tourism services including needed Police, Fire, and Public Works.

Local Accommodation Tax (Local A-tax)

This tax is imposed on the short term rental of any accommodation within the City and is also legally restricted to accommodation, advertising, promotion, and tourism related expenditures. After a referendum in December 2014, the City's Local A-tax was increased from 1% to 2%. The additional money collected by the new A-tax must be earmarked for beach preservation. That is not correct – TVPC is funded through 30% of State A Tax.

Hospitality Tax

This is a 2% excise tax that the City levies on prepared meals and beverages. The hospitality tax is used to fund tourism related expenditures within the City, most notably the additional Police, Fire, and Public Works personnel and equipment required to respond to tourism calls.

Local Option Sales Taxes (LOST)

This general 1% sales tax is levied on all retail sales. The municipal half of the tax is directly remitted to the City's General Fund revenues and a portion of the other half is credited back to the residents as a break on property taxes. State law requires that at least 71% be used for this purpose. The amount of tax

credited from this half can change from year to year by vote of Council and can range from the 71% required by law to 100%.

Short Term Rentals

Short term rental accommodations are the highest taxed service in Folly Beach. As noted, a majority of RSF and multiple family units are rentals. The following breakdown shows the total taxes paid on accommodations in the City.

- 6.0% State Sales Tax
- 1.0% Local Option Sales Tax
- 1.0% Charleston County School Board Sales Tax
- 1.0% Charleston County Transportation Tax
- 2.0% State Accommodations Tax
- 2.0% Charleston County Accommodations Tax
- 2.0 % City of Folly Beach Accommodation Tax (As of January 1, 2015)
- Total: 15%

The high number of visitors causes an increased need for increased services beyond what a town of 2600 people would ordinarily require. This allows the City to partially recoup the expenses created from adding 1 million people each year to its numbers. These tax revenues can also be used to enhance tourism related economic development including amenities such as beach renourishment that both attract and benefit visitors.

Economic Impact of Folly Beach

The beachfront is the primary economic asset of Folly Beach. The costs to maintain the beach in the face of increased erosion are daunting. The City has partnered with Charleston County, the State of South Carolina, and the federal government to fund the beach projects. In order to quantify the economic benefit that Folly provides, the City commissioned the *2015 Folly Beach Economic Impact Study*. Highlights of the study, prepared by the College of Charleston Office of Tourism Analysis are included below.

- The City of Folly Beach's economy has had an average annual growth rate of about 11% since the end of Great Recession in 2009; a robust rate much higher than that of similar Charleston area beach communities as well as that of Charleston County.
- Based upon an analysis and subsequent extrapolation of data from a periodic Charleston area visitor survey conducted by the Office of Tourism Analysis (OTA) at the College of Charleston, the number of annual Charleston area visitor trips that included visiting Folly Beach was estimated to be nearly 1 million and this total represented about 21% of all Charleston area visitor trips during 2014. The overall average traveling party size of 2.5 adults remained consistent with recent OTA survey results. Moreover, beach activities remained among the important reasons to visit as well as one of the most enjoyable aspects of a Charleston area

visit.

- Estimated spending by Charleston visitors attributable to the Folly Island beach area generated approximately \$117 million in business revenues that supported about 1,200 jobs and provided nearly \$40 million in income including employee benefits for South Carolina residents in 2014.
- It was also estimated that Charleston area visitor spending attributable to the City, including its beach areas, generated approximately \$22 million in annual tax revenues for the federal, state, and local governments during 2014. These tax revenues not only include the usual tourist type taxes (e.g. accommodation taxes, etc.) but include various property taxes and other indirect taxes paid by tourism oriented businesses.
- Just as important as economic impacts, beaches also generate other benefits with values that can be monetized. For example, the economic value of one recreational beach day was conservatively estimated at about \$6.15 per person, and the extrapolation of this value leads to an estimated annual total economic recreational value of the City's beach area as being \$4.5 million in 2014, which includes both non-resident and resident recreational beach users.
- It is projected that Charleston area households would collectively place an annual \$4.2 million value on protecting the marine turtle species that depend upon Folly Island's front beach area as nesting habitat.
- Additional economic values related to Folly Island beach renourishment projects include providing storm damage reduction/protection of oceanfront properties and structures that had an approximate total market value of \$465.2 million (2013 dollars). This total value includes important government infrastructure assets vital to public beach access, such as Charleston County's popular Folly Beach County Park and the Folly Beach Fishing Pier, and oceanfront parking lots, restrooms, changing facilities and walkovers that the City has been proactively maintaining.
- The periodic renourishment of the Folly Island front beach area has helped maintain, if not improve, appreciation rates of the City's front beach private property value.

The study's findings clearly indicate that substantial economic impacts and related tax revenues are generated by Folly Beach. These economic impacts flow far beyond the City's jurisdiction and therefore benefit Charleston area, South Carolina, and Folly Beach residents alike.

Charleston County Parks and Recreation Properties

As previously noted, the Charleston County Parks and Recreation Commission owns several important properties on Folly Beach. Four of these properties, (the Pier, the Coast Guard Base, the County Park, and the Boat Landing) draw significant numbers of visitors to Folly Beach. The undeveloped oceanfront

property that the Parks and Recreation Commission owns near the Pier has the potential to become another heavily visited site. The existing impact of these properties in terms of daily traffic is notable. While, these properties contribute greatly to the community as amenities, they bring in very little money directly to the City. The CCPRC contributes \$70,000 per year toward the Beach Preservation Fund which pays for renourishment and other beach management expenses. The agreement which determines this contribution amount has not been renegotiated in several years despite the increased presence of CCPRC on the island.