

State of South Carolina

# GOVERNOR'S ECONOMIC DEVELOPMENT TASK FORCE REPORT

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**Member, Governor Sanford's Transition Team**

**March 17, 2003**

**GOVERNOR’S ECONOMIC  
DEVELOPMENT TASK  
FORCE REPORT**

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## I. INTRODUCTION

Shortly after the Gubernatorial election in November, then Governor-Elect Mark Sanford appointed a number of task force transition teams, including the fifty-one (51) member Economic Development Task Force (Task Force) comprised of business leaders, economic development professionals, educators, and three (3) legislators (House and Senate) from across the State. The purpose of the Task Force was to study various economic development issues which it believed to be important to the State and to develop specific recommendations for the review and consideration of both Governor Sanford and Secretary of Commerce Bob Faith. The Committee was chaired by Clarence Davis, a partner at Nelson, Mullins, Riley & Scarborough, LLP. Following the selection of the Task Force membership, Mr. Davis developed appropriate subcommittees to address the economic development issues facing South Carolina. He then appointed individual Task Force members to the various subcommittees based on their background, desire, and interest. The subcommittees formed were named as follows: Department of Commerce; Knowledge-Based Industry; Venture Capital; Small Business; Education; Transportation, Distribution and Logistics; Tourism; Film; Agribusiness; and Tax/Financial Incentives. An Executive Summary of the subcommittees work has been compiled as a single report divided into the various categories, or issues addressed by each subcommittee.

The Task Force general membership was as follows:

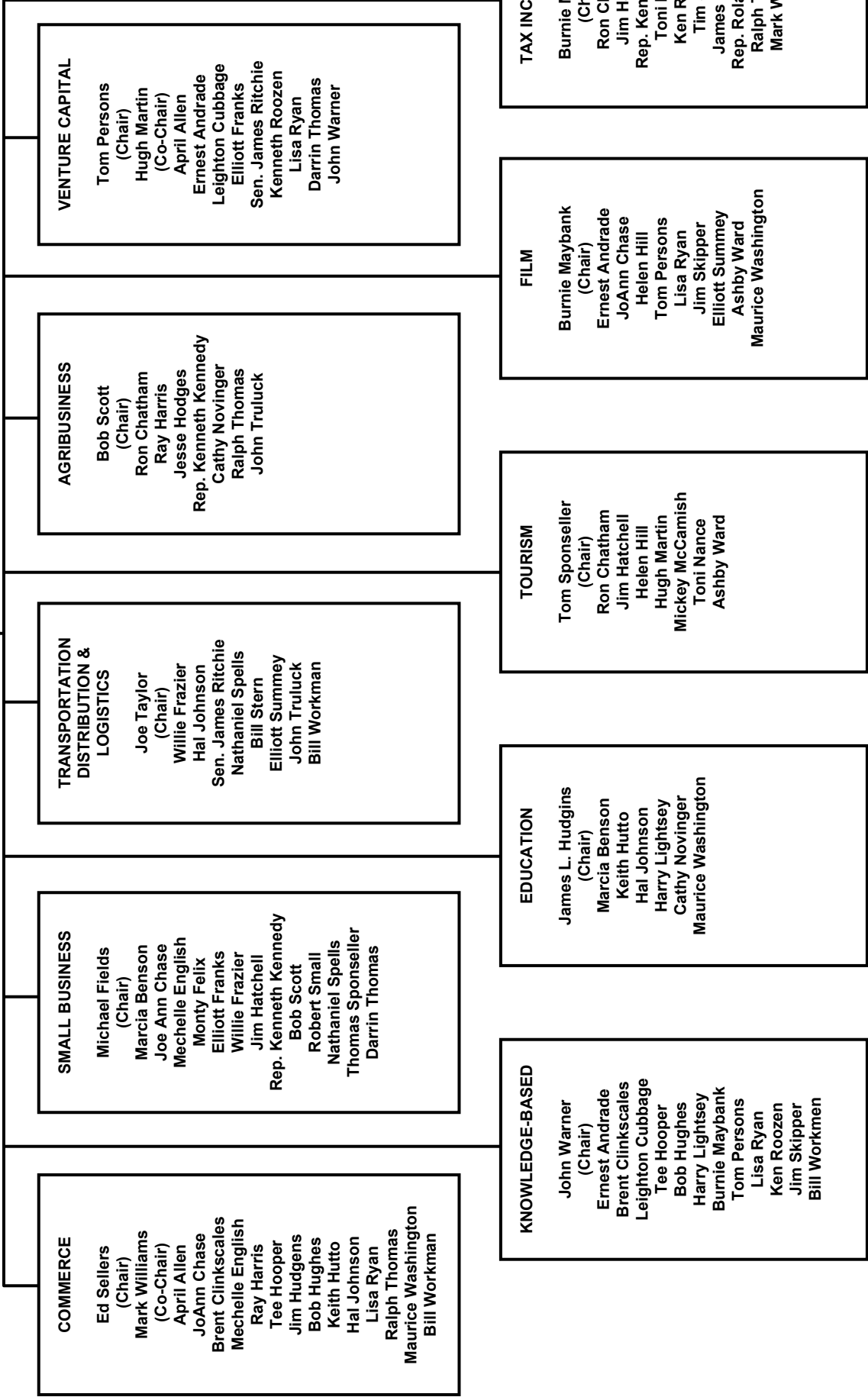
April Allen	Mickey McCamish
Ernest Andrade	Toni Nance
Marcia Benson	Cathy Novinger
JoAnn Chase	Tom Persons
Ron Chatham	Sen. James H. Ritchie, Jr.
Brent Clinkscale	Kenneth Roozen, Ph.D.
Leighton Cubbage	Lisa Ryan
Mechelle English	Bob Scott
Secretary of Commerce Bob Faith (advisory)	Tim Scott
Monty Felix	Ed Sellers
Michael Fields	Jim Skipper
Elliot Franks	Robert Small
Willie Frazier	Rep. Roland Smith
Ray Harris	Nathaniel Spells
Jim Hatchell	Thomas Sponseller
Helen Hill	Bill Stern
Jesse Hodges	Elliott J. Summey
Tee Hooper	Joe Taylor
James L. Hudgins, PhD	Darrin Thomas
Bob Hughes	Ralph Thomas
Keith Hutto	John Truluck
Henry H. Johnson, III	Ashby Ward
Rep. Ken Kennedy	John Warner
Harry M. Lightsey, III	Maurice Washington
Hugh Martin	Mark Williams
Burnie Maybank	Bill Workman.

The Task Force subcommittee membership appointments, are found the chart on the next page.

# THE SUBCOMMITTEE MEMBERSHIP

**Bob Faith**  
Sec. of Commerce  
(Advisory)

**Clarence Davis**  
Chair



## II. EXECUTIVE SUMMARY

Some of the major recommendations of the ten Economic Development Task Force sub-committees are highlighted in this Executive Summary. Key recommendations as set forth in this Summary are structured under the following categories:

1. The role of government in the State's economic development efforts;
2. Key focus areas for strategic economic development in South Carolina;
3. The Development of a strong foundation to sustain success in economic development;
4. Recommended focus areas for potential legislative considerations; and
5. Evaluation of South Carolina's competitive landscape.

Be advised, though, that this Executive Summary does not supplant, nor is it a substitute for the specific recommendations of each subcommittee. As a result, detailed recommendations from the painstaking subcommittee work are set forth immediately following the Executive Summary in the Economic Development Task Force Report.

### 1. THE ROLE OF GOVERNMENT IN THE STATE'S ECONOMIC DEVELOPMENT EFFORTS.

The State must create, communicate and implement a strategic plan for long term economic development.

- The State of South Carolina needs to develop and communicate a strategic vision and plan for long term economic development, with a heavy focus on the clustering concept as developed in the Palmetto Business Institute report. It is recommended that an outside expert be retained and that the expertise of South Carolina based economic development experts also be utilized to develop this plan. This plan, however, does not need to be developed from "scratch," as previous administrations have already commissioned studies and recommendations for strategic plans (see Appendix). Pulling from these prior existing studies, the State should shift its focus to developing an **implementation plan** that incorporates the best recommendations from these studies.
- The State should assign responsibility for finalizing and implementing a strategic economic development plan to one of its agencies. The Economic Development Task Force recommends that the Department of Commerce serve as the accountable agency for finalizing and implementing this plan. The State should determine and clearly communicate the expected timeframe for phased implementation of the plan.
- State government should be a catalyst for developing South Carolina technology companies (knowledge-based industries, which includes computer science, telecommunications, and biotech, among others) and in recruiting major life science projects – especially biotechnology and biopharmaceuticals, as well as semiconductor, computer software and hardware design and development, advanced manufacturing and telecommunication, to our State. The State government can be one of South Carolina's largest economic drivers through collaborative public-private efforts regarding various university research efforts. At the same time, though, the State cannot ignore the continued recruitment of large traditional manufacturers into South Carolina, nor can it ignore fostering the expansion of existing industry already present in the State.
- The State should encourage the formation of venture capital to support economic development efforts. This can be done through incentives to encourage the formation of venture capital, targeted at professionally managed "seed capital," which is essential in the earliest stages of these companies' development.

The Department of Commerce should lead the State's economic development efforts.

- The Department of Commerce should be responsible for assuming the leadership role in the effective communication of a central vision and strategic plan for economic development throughout South Carolina.
- The Department of Commerce must create and encourage collaborative and open relationships between state agencies, local and regional community leaders, business and industry leaders, educational institutions, etc. to facilitate implementation of economic development goals. The department should be

the facilitator of planning for economic development and should seek input and involvement from various entities throughout the State.

- The Department of Commerce must finalize and **implement** a Marketing Plan that promotes the State of South Carolina nationally, internationally, and within South Carolina.
- The Department of Commerce should collaborate with the State's congressional delegation to target and find available federal funding to benefit economic development efforts from research efforts or programs, to infrastructure, to small business development, among others.

The Department of Commerce should modify its co-organizational structure to support the State's vision for statewide economic development.

- The Department should develop an organizational structure that supports its statewide vision of economic growth for all segments in South Carolina (i.e., rural, urban, suburban, etc.).
- Create an organizational structure that supports the following:
  - Continuous cluster development throughout the state;
  - Constant focus on business creation, development, expansion of existing business, and diversification in South Carolina through recruitment, spin-offs, creation of new business units of existing companies, or through start-ups of new business ventures.
  - Creation of a Small Business Ombudsman function, which would serve as a statewide resource for the maintenance and start-up of new businesses. It would monitor and report any unfriendly business practices, e.g. regulatory, etc. This function would also maintain statewide statistics on small business development, both successes and failures, in South Carolina to monitor our progress.
  - Absorption of the Small and Minority Business Office from the Governor's Office to enhance the focus and maintain continuity in developing small and minority owned businesses within the State.
  - Since agribusiness represents one-fourth of South Carolina's economy and has great potential for growth, it deserves a place of prominence when decisions and policy affecting commerce are made. There should be a statewide vision for agriculture; a media campaign to promote the benefits of agriculture and natural resources; and comprehensive education and research programs to develop technologies and products to meet future demand. The Department of Agriculture's mission as an advocate for agribusiness should be re-examined and clarified in view of global competition and market trends. Action is required to improve liaison, communication, and coordination between the Department of Commerce, the Department of Agriculture, and the Forestry Commission. *Agribusiness encompasses all businesses that provide people with the three most essential elements of life: food, clothing, and shelter. Incorporating the latest technological advances, it includes forestry, row crop farmers, dairies, livestock operations, horticulture, processing plants, distribution and transportation systems, financial institutions, and many other businesses that support the products and services related to food, fiber, and shelter.*
- Resources should be available to enact a state venture capital plan that would support a capital program to allow for matching funds from state and federal grants, and other funding sources, to be used by the still developing, high-tech, knowledge-based business sector.
- Establish a function in the form of a venture capital management committee or the board of a venture capital foundation that would be made up of representatives from a professional capital management team, an investor group, as well as selected members who represent various knowledge-based businesses to ensure proper oversight. This group would be under the sponsorship of the Department of Commerce, which is designated to increase economic growth in knowledge-based companies around our state.
- Develop a South Carolina Technology Innovation Fund that would be managed by one of the organizations that work with the incubators and universities. This fund would be used to award some small grant dollars for the best and most creative ideas from our university technology incubators, some of the awards may go to students or to other high tech start-ups that are located in our research universities incubators. These should be fairly small grants; however, to these companies the value would be substantial and could inspire and encourage technology transfers out of the Work done by our students and professors.
- Establish a function to work with the Research Centers of Excellence Review Board to ensure there is a comprehensive economic development strategy in place for each funded Center of Economic Excellence.

This function should also be proactive in establishing partnerships between industry and academia, as well as prioritizing support for those Centers of Excellence that have the highest long-term potential to the State.

The Department of Parks, Recreation and Tourism should enhance its role in developing the State's tourism industry.

- Department of Parks, Recreation and Tourism should remain a separate agency; however, it should be restructured to operate more efficiently and allow the availability of more dollars for paid-space tourism advertising. The Tourism Sub-Committee reviewed several options that could increase services while lowering overhead costs. The Tourism Marketing Partnership grant program (TMPP) should be restructured and expanded to provide matching grant money by “branding down” to local communities. This could at least double the amount of funds available for out-of-market paid-space advertising to attract tourists.

## 2. KEY FOCUS AREAS FOR STRATEGIC ECONOMIC DEVELOPMENT IN SOUTH CAROLINA.

Strengthen and develop the State's economic clusters.

- The concept of “clustering” is not new. Many resources exist to facilitate the development of a clustering strategy for South Carolina (see Appendix). It is important to remember that clustering does not mean just focusing on the brand new exciting high tech, knowledge-based industries. South Carolina needs to continue to intentionally focus on maximizing the value of existing clusters while simultaneously finding and developing new clusters. In South Carolina, clusters already account for a significant part of the traded sector, with textiles and fibers, forest products, tourism, and advanced manufacturing such as automotive assembly and components accounting for more than \$10 billion of the State's \$23 billion traded gross state product.
- The starting point for the cluster development program should be the identification and evaluation of the strategic position of each current, emerging, and potential cluster within the State. This exercise, to be conducted with participation from the recommended retained outside expert, local economic development officials and the private business sector, is the basis for the initial allocation of the State's cluster promotion resources. The evaluation process should be repeated annually so that the level and type of resources devoted to each cluster can be adjusted up or down in accordance with each cluster's needs at each point in its development. The annual evaluation should also be an occasion for assessing the effectiveness of the cluster program itself. Effectiveness should be measured by tracking outcomes that reflect cluster strength.
- The State needs to strategically target industries with both long term and short-term payback in mind in order to achieve sustainable economic growth. South Carolina's **existing manufacturing** base is a strength that **should not be ignored**, yet there are opportunities for new cluster development that could produce positive short- and long-term economic effects for the State.
- South Carolina's film and entertainment cluster which has emerged over the years was a focus of the Economic Development Task Force. The State has achieved considerable success in the past decade in attracting location shoots, but has had little success in developing a production studio or postproduction facilities.
  - Recent trends have shown Canada to be a popular destination for both location shoots and production/postproduction facilities. Canada has a daunting advantage both in terms of hard dollar tax incentives and the high cost of the American dollar in relation to the Canadian dollar.
  - Although the competitive landscape indicates that South Carolina will never likely be a mecca for large scale movie production or post production facilities, the Film Sub-Committee believes the State should continue to focus on attracting location shoots to South Carolina and to potentially cultivate a market niche for small production facilities.
  - The Film sub-committee recommends that the marketing budget for the Commerce Film Office be increased and that Commerce consider filming and production studio creation in their evaluations for disbursing highway set-aside funds, Tourism infrastructure funds, and special events funds. They also recommend setting aside a portion of the funds from Admissions taxes received from movie theatre ticket sales and directing those funds back to the Film Office.
  - The State should encourage its agencies to utilize South Carolina production firms and talent by including them in bid processes for film or video production projects commissioned by the State.

### Focus on increasing the number and quality of “traded businesses”<sup>1</sup>

- In any regional economy, traded businesses generate income by trading with the outside world (other states or other countries). Jobs in the traded sector have higher incomes than jobs in the local sector.
- The goal of increasing the capacity of South Carolina’s businesses to generate wealth can be served generically by focusing on traded businesses, promoting movement up the value-added scale, and emphasizing the role of home-based companies.
- Traded sector businesses must, by definition, compete with rivals outside the State. Additionally, some traded businesses draw their competitive advantage from low cost labor. Regrettably, these businesses will likely make an ever-diminishing contribution as our economy advances. For them, high wages and competitiveness are directly opposing values. (As their wages increase, their competitiveness decreases.) Other traded businesses draw their competitive advantage from low-cost natural resources. These businesses can and do make a significant economic contribution, but are limited in their growth potential by the finite character of the natural resources on which they are based. In South Carolina, the natural resource-based sector has grown at one-fourth the rate of the rest of the traded sector over the last three decades.

### Enhance existing and develop new knowledge-based industries

- It is absolutely critical that Commerce continue to pursue the development of the knowledge-based industry sector to become an established economic engine to the State, and can do so through existing South Carolina businesses and university (public and private)<sup>2</sup> research collaborations and incubator programs, automotive design research, hydrogen fuel cell-related technologies, optical fiber networking and photonics, nanotechnology research, etc.
- Commerce needs to actively and aggressively recruit bulk biotech and life sciences research, development, and manufacturing facilities from top tier multi-national biotech and pharmaceutical companies.
- A biotech or life science top-tier recruit can form the core this knowledge-based, growth center.
- Standard & Poor forecasts that biotechnology sales will grow at a 20% rate for the next few years and continue in double digits for the remainder of the decade.
- Biotech companies have an urban and rural component, as many products utilize plants and animals.
  - As the Agribusiness section of the Economic Development Task Force Report sets forth, biotechnology can help farmers produce hardier, more nutritious, more disease resistant plants and can by spawning new research such as biopharming, bioinformatics and nanotechnology, previously mentioned.
- Pharmaceutical industry employment has exceeded the national average for the past five (5) years, with the production worker earning 29% more than in other manufacturing industries.
- As set forth or recommended later in this Summary, and in the Task Force Report staff, Commerce will need to be empowered with the utilization of various tax and other financial incentives and/or credits to likely include an amendment to the Economic Development Bond Act of 2002.

### Turn South Carolina into a State known for its research and innovation

- What creates wealth and high paying jobs in a knowledge-based economy is innovation – the process of creating new markets by converting knowledge into products and services valued by customers in the marketplace.
- The focus of the State’s research and innovation efforts should include both existing State industries and new high potential strategically targeted industries. For example, South Carolina’s Agribusiness industry, which currently represents one-fourth of the State’s economy by producing \$35.7 billion in gross sales each year, is a great existing industry to target for research/innovation efforts that would improve the State’s competitive advantage. The State should encourage development of new crops and products such as nutraceuticals, which align with current consumer trends. The State should identify and dedicate at least

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<sup>1</sup> “Traded Business” is defined as those companies which sell goods and services outside of the State, which in turn brings in foreign dollars into the State, thereby creating additional state wealth, which was not already in existence.

<sup>2</sup> U.S. News & World Report ranked Furman University as number 4 in undergraduate research/creative projects behind the likes of the University of Michigan, Massachusetts Institute of Technology and Stanford University.



one research university endowed chair to agribusiness. Other ways to direct research efforts toward enhancing the State's competitive position in existing agribusinesses include:

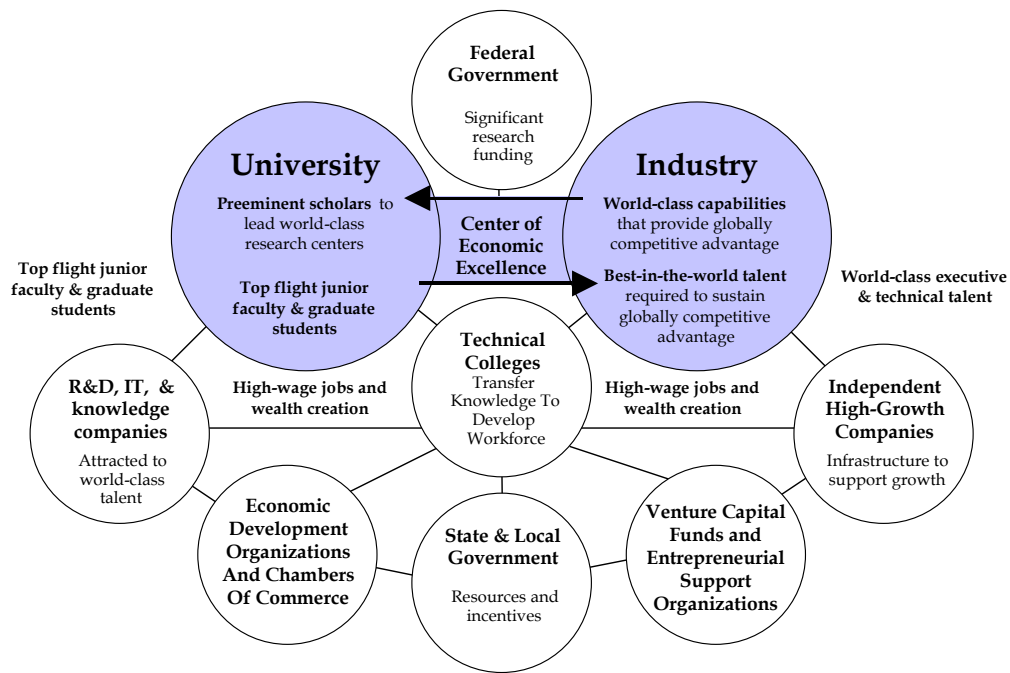
- Encourage research in the horticultural areas of nutrition, pest management, water use, and cultural practices.
- Direct research (customer and market driven) to create and improve secondary manufacturing of wood and paper products.
- Apply biotechnology to help farmers produce hardier, more nutritious, and more disease resistant plants by spawning entirely new research areas such as bioinformatics, nanotechnology, and biopharming.<sup>3</sup>
- Support initiatives that deal with animal and plant pests that cost agribusiness millions of dollars each year, such as the Southern Pine Beetle that attacks timber, which is the State's number one cash crop.
- Seek funding to provide for a competitive grants program for new and innovative enterprises.

#### Encourage development of Centers of Economic Excellence (CoEE)

- South Carolina's knowledge-based economic development strategy should be based on creating Centers of Economic Excellence (CoEE), which are comprehensive collaborations for meeting the needs of major industry and universities to attract and develop best-in-the-world talent, developing partnerships with community and technical colleges to broadly disseminate the benefits to a skilled work force, leveraging traditional industrial recruitment organizations to attract other knowledge-based entities, and fostering the development of independent, high-growth companies.
- To maximize the benefits of Centers of Economic Excellence, a proactive, multi-pronged strategy should be executed by partnerships not only of universities and major industry, but also of technical and community colleges, economic developers, chambers of commerce (local and state) and entrepreneurial support organizations, and independent companies. This strategy should be marketed, not only externally to attract existing knowledge-based industry facilities – biotech, pharmaceuticals, automotive engineering and research, needed talent to conduct the research, and private-public financial and equipment resources, but also internally so South Carolinians can buy into a shared “path to prosperity.”
- Key elements that should be a part of all comprehensive strategies for developing a CoEE include:
  - **Knowledge transfer through attracting and developing top talent** — The core of a CoEE is a partnership between major industry and a research university to recruit preeminent scholars that can attract the nation's best students in areas strategic to industry. Knowledge is transferred from the university to industry as students become employed. A proactive CoEE plan should ensure top-flight students build relationships with South Carolina based companies, so significant numbers of them remain in the state upon graduation.

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<sup>3</sup> Biopharming is the production of biopharmaceutical and biologic products for human medicine in transgenic plants. The products of biopharming are plant-made pharmaceuticals (PMPS), such as antibodies, and plant-made biologics (PMBs), such as vaccines. Plant crop cultivation may also prove to be a highly viable option for producing biotherapeutic proteins.



### Focus on Small Business Development.

- Small Business is one of the keystones to creating and sustaining the economic viability of South Carolina, from both a per capita income and wealth creation standpoint. Building small businesses helps build our tax base. Creating a viable state environment that attracts, retains and grows small businesses will help keep our top talent in the state and attract back those who have left. Small businesses often also have a generational component, where the business is handed down to family members over the years. As the business leadership changes over the years, it is important for South Carolina to remain attractive as a home base for these businesses.
- In a recent entrepreneurial development presentation given by the Carolina Crescent Coalition, it was stated that one-third of U.S. job creation from 1990 to 1998 was generated by new businesses. And, fifty percent of the difference in economic growth among developed countries (internationally) is attributed to entrepreneurial activities.
- The State needs to ensure that small businesses have access to capital and resources to help them through various phases of the small business development life-cycle.

### Develop and implement a Marketing Plan for the State.

- The State needs to finalize and **implement** a Marketing Plan that educates and increases awareness both nationally and internationally of all the rich amenities and qualities South Carolina can offer businesses and families who make this state their home.
- The Marketing Plan must reference and include the industries targeted for further development in the economic development plan.
- The State should design a major education and public relations program to ensure South Carolina citizens and legislative leaders understand and support the deep need for venture capital and grant funding for deserving entrepreneurs and knowledge-based high tech start-ups.
- The Marketing Plan should also recommend the creation of alliances in supporting regional development of the trade corridor. The State's role as a trade gateway, particularly through the South Carolina State Ports Authority, should be leveraged with neighboring states.
- Utilize the South Carolina State Ports Authority user list as well as Department of Transportation registration lists as a prospect list for commerce. Businesses that are already using our states' transportation and distribution facilities should be excellent prospects. International port users should be of particular interest to recruit for US headquarters locations in and around Charleston. Further, to make the state more attractive for distribution facilities, encourage the development of intermodal facilities.

### Focus on increasing tourism and trade.

- South Carolina needs to establish long-term tourism development plans and a state tourism policy to help plan for future growth statewide.
- Promoting international tourism is another significant way to increase the flow of foreign dollars into the State. International tourism has, on average, a higher per-person expenditure impact than domestic tourism. The State can encourage increased international tourism through three (3) key efforts. First, consumer market intelligence on travel trends, potential markets, and visitor profiles can be the basis of a targeted and proactive international tourism marketing strategy. The data can also help tourism businesses develop their own marketing initiatives. Second, the State can assist with direct marketing through consumer and trade shows, as well as through meetings with travel providers and brokers. Finally, the State can play a role in addressing key issues of international tourism trade, such as international currency exchange, multilingual services, targeted air charters, and improved international air service.
- Commerce and PRT need to work in collaboration to determine if and or how South Carolina can become a destination point for major convention and trade shows.

### **3. DEVELOP A STRONG FOUNDATION TO SUSTAIN SUCCESS IN ECONOMIC DEVELOPMENT.**

In order to achieve and sustain strategic economic development objectives, the State must continuously evaluate and invest in its existing resources that support both small and large businesses throughout the State. These existing resources include: technology infrastructure, highways, waterways, railways, workforce development programs, education institutions, natural resources, ports, airports, supply chain and distribution networks, etc.

#### Infrastructure

- The State must encourage investment in highways, airports, rail service, seaports, people, brain power, natural resources, and rural areas, as well as the telecommunications infrastructure.
- The road network in the State's most economically active regions are now barely capable of handling the current flow of commerce.
- A given cluster develops as a result of a particular set of location-specific strengths. Some of these strengths are inherent in a given place. They include readily available raw materials or proximity to a market with unique characteristics. Other strengths can be acquired with enough effort, investment, and commitment. Most prominent in this category of strengths is a concentration of knowledge in a particular discipline.
- Encourage development of a technology infrastructure that will enable education and training to be delivered on site to small business and rural areas.
- Support immediate expansion of the Port of Charleston to the former Charleston Naval Base location.
- Consider commissioning a statewide infrastructure study to identify the strengths and weaknesses of the State's existing infrastructure. The study should identify both current and future needs to accommodate projected growth.
- Reconsider the policy on containment areas and develop new reservoirs to expand the state's water resource supply.

#### Education and Workforce Development

- Education levels are key to improving incomes. The higher the proportion of college graduates, the more income a state economy earns.
- The State must focus efforts on decreasing the school drop-out rates of our children. Encourage support of local, regional, and state programs with initiatives to reduce teen pregnancy, teen drug and alcohol abuse, teen gang involvement and other activities that have been shown to increase school dropout rates.
- The State's universities have a number of roles to play in the development of the State's economy, including educating managers and professionals, providing extension services, and housing a pool of experts in a diverse array of disciplines. In the ideal situation, each of the State's economic development priorities should be an area of active interest and learning in the universities and the technical colleges.
- An advanced, knowledge-oriented economy is critically dependent on its skilled and degreed workforce. Businesses in some parts of the State are currently having trouble finding enough qualified workers. The State's average level of educational attainment is below that of neighboring states, such as North Carolina and Georgia, and well below the U.S. average. Spending per pupil, while it has increased, is still below the national average.

- The State should require our universities, colleges, and high schools to teach entrepreneurship, and find ways to work with start-ups to assure that these entrepreneurs get the best possible educational opportunities and development.
- The State should support the enhancement of the Center for Accelerated Technology Training to train for new clusters.
- Ensure that the investment of Workforce Investment Act (WIA) funds correlate with the State's economic development plan.
  - Implement the core recommendations of Steps to Prosperity, which was developed by a Work Force Task Force, chaired by Don Herriott, President of Roche Carolina after a two-year study.
  - Develop an education plan and funding source for adult education.
  - Increase articulation between all sectors of education.
  - Because of the perception by parents and students that they do not value attendance at a "tech school," conduct a study to determine if a name change would enhance articulation between K-12, the Technical Colleges, and Universities.
  - Provide incentive scholarships for those who choose critical need degrees.
  - Fund Endowed Chairs to support clusters of the Palmetto Institute and include technical colleges in developing technical personnel to support the clusters.
  - Support the enhancement of the Center for Accelerated Technology Training to train for new clusters.
  - Legislature should pass regulatory reform that will enable colleges and universities greater flexibility in supporting economic development.

#### Venture Capital and Small Business Loans

- Venture capital and small business loans are of paramount importance to our state's new entrepreneurial start-up companies.
- The state should provide incentives to encourage the formation of venture capital to support the creation, recruitment, and development of independent, high-growth companies, and the incentives should be targeted at professionally managed seed capital which is essential at the earliest stages of these companies' development.
- Many of South Carolina's neighboring states have made significant strides in filling the needs of their technology entrepreneurial start-ups. Some states have even implemented their own small investment pools or investment loans and/or matching tech grant programs for their most promising new or existing high potential small tech companies. These types of resources have allowed small companies to focus on innovation, growth, and long-term profitability rather than on hunting for capital to invest in operations improvements or working capital to fund a payroll cycle.
- A small business loan program should be implemented. An estimated \$27 million in community block grants have been awarded to South Carolina. \$10 million was spent on economic development to attract larger (mostly foreign) businesses. This program could operate within a mechanism already in place, such as Business Carolina (a/k/a the Jobs-Economic Development Authority).
- The State should support and reward technology transfers from our Centers of Economic Excellence, endowed chairs and our other colleges and universities that are not part of the state supported Commission on Higher Education, as well as, from other technology companies that make up the high tech, knowledge-based business communities of our State, which will have an everlasting impact.
- The State should request and support the use of SBA FAST TRACK MICRO LOAN as a method to increase availability of small loans to prospective start-up companies. Companies or their individual owners should be required to guarantee their loans.

#### Support and cultivate an Endowed Chairs program across the State.

- Continuing the existing Endowed Chairs Program must be one of the highest priorities of South Carolina. Changing course at this early juncture would devastate the spirit of collaboration that has developed in South Carolina over the past several years.
- The existing Endowed Chairs Program is serving its purpose as a catalyst to bring companies, universities, and economic development organizations together in collaborations to recruit and develop best-in-the-world talent in South Carolina.

- Many states have initiatives under way to accomplish similar objectives with regard to their knowledge economies. Those states that are the most successful will be the ones that execute the best and stick with their commitments over the long term. Because other states which began much earlier than South Carolina are not standing still, we must work harder to catch up.

Simplify tax filing and business registration procedures.

- Encourage small business friendly regulatory legislation submitted by the SBA, Office of Advocacy, to reduce the excessive regulatory burden placed on small business.
- Develop an optional statewide business license to alleviate the existing complications and confusion of conducting business in multiple counties.
- Allow hospitality taxes from restaurants to be filed along with local city/county taxes. Currently, hospitality taxes must be filed separately.
- Review and develop a system for “One Stop” tax payment and regulatory approvals for small and tourism-related business. Tourism-related businesses are regulated by more agencies than most other industries. In addition to the normal, they deal with the Department of Revenue, SLED and other agencies, including local governments. A single sales tax form should be developed for filing state and local sales taxes of all types, including accommodation and hospitality taxes. The policies of regulatory agencies, such as ABC licensing, DHEC and others, should be reviewed as to the complexity on small and/or tourism-related businesses.

**4. RECOMMENDED FOCUS AREAS FOR LEGISLATORS.**

- The Economic Development Bond Act of 2002 should be amended to lower the investment and employment requirements for the Life Sciences Cluster.
- Consider re-directing tourism-related tax revenue toward the economic development of tourism and tourism-related facilities.
- Tort Reform:
  - The abundance of frivolous lawsuits is a major contributing factor to the increased cost of health and malpractice insurance causing many to go out of business.
- Modernize tax credit policies to increase benefits to small businesses and developing industry clusters.
- Create tax related incentives that will ensure support and success as the State develops high growth businesses such as biotech, nanotech, fuel cells, artificial intelligence, new communications methods, etc. Following are several examples that are currently being used successfully by other states:
  - Reduction of capital gain taxes for investors in early stage companies or angel and seed funds.
  - Change the laws that prevent our state from investing state pension funds and other public funds into well-managed venture capital and special funds for substantially higher financial returns.
  - Consider exemptions from sales taxes on all knowledge-based technology equipment purchases and research and development. This would be similar to the elimination of sales taxes on infrastructure for technology development that was passed by the legislature during the 2000 session.
  - Provide refunds of state taxes for companies that create new technology jobs that have compensation packages and incomes that are over \$65,000 annually.
  - Consider a special corporate income tax credit for corporations that are providing research funds or investments in our research universities.

**5. COMPETITIVE LANDSCAPE EVALUATION**

As part of South Carolina’s strategic planning process for economic development, the State needs to conduct a competitive analysis of its neighboring states. States such as North Carolina, Georgia, and Florida are actively proceeding with cluster development and industry enhancement efforts that will increase their competitive advantage in attracting high potential industries to their states. The Appendix includes recent economic development strategies and reports from North Carolina, Georgia, Virginia, and Florida.

**III. ECONOMIC DEVELOPMENT TASK FORCE REPORT**

**A. DEPARTMENT OF COMMERCE**

**Preface**

The Commerce Committee was asked to provide recommendations to help guide the South Carolina Department of Commerce as it implements strategic planning strategies and other initiatives to significantly improve the State's economy. Any plan(s) of action developed by Commerce should be designed to span more than one governor's administration in order to preserve momentum and preserve scarce resources. The following recommendations are provided as a proposed work plan and task list for Commerce to reverify and enhance the agency's core objectives and mission and to evaluate and implement strategies to best meet these objectives.

## **RECOMMENDATIONS:**

**Recommendation #1** –Review and revise, the Mission Statement for the DOC, making it the “heart” of its departmental culture and develop a Statement of Core Values and Objectives to be used as a framework and a vision from which all departmental employees shall operate. This will serve to unify the department and enhance its effectiveness as the economic development leader of this State.

- The Committee's research indicates that the Department of Commerce has an existing Mission Statement. This statement should be re-evaluated to verify its current relevance and be enhanced, if necessary.

The following is a sample mission statement for consideration:

### **PROPOSED REVISED MISSION STATEMENT FOR SOUTH CAROLINA DEPARTMENT OF COMMERCE:**

To improve the economic well-being of South Carolina's citizens – particularly as measured by worker's income and the number and geographic distribution of well-paid jobs – through our service to existing industries, the recruitment of new industries, and promotion of the formation and growth of targeted small businesses.

- Develop key Commerce objectives including, but not limited to, measures of the following:
  - Enhanced economic performance, i.e., growth in per capita income and gross state product per capita;
  - Increases in per capita income;
  - Growth in innovation output, i.e., patents;
  - Investment and job growth in industrial sectors;
  - Growth of state exports;
  - Increase in small business starts; and
  - Statewide economic growth, among others.

**Recommendation #2** – Retain Experts to Develop a Strategic Plan.

- Commerce should retain an outside expert and utilize the expertise of South Carolina based economic development experts to develop a multi-year strategic plan. This outside expert should reference the existing strategic plans and studies that have been created for the department and local and regional economic development organizations and from those, begin to develop a cohesive plan that specifically addresses the economic development needs of South Carolina and provides specific goals and timelines. Most importantly, Commerce, utilizing the outside expert, should create an implementation plan and abide by it. The following recommendations are provided as a suggested guide to develop a strategic plan:
- It is our recommendation that Commerce focus on a strategic plan that is simple, yet specific regarding the future of our state. Each of the past three (3) Governors has invested time and money in creating statewide economic development strategic plans, but, for whatever reason, the commitment and passion to implement these plans have been lacking. As a result, little or no action has ever been taken to successfully implement these plans. Instead of commissioning new studies or creating new strategic plans from the “ground up,” we recommend an outside expert conduct a complete evaluation of each of the existing plans, utilizing the best ideas from each to create a single plan that is for the greater long-

term good for the state of South Carolina. This single plan should establish a strict timeline for implementation, evaluation, process improvement, reevaluation and measurement of the State's successes and programs, as well as its lack of programs or failure(s) of any implementation objective failure or success.

**Recommendation #3** – Re-examine the South Carolina business climate.

- Any plans for future economic growth must consider the most current and projected business environment conditions in South Carolina. Much work has already been performed on this topic, as evidenced by numerous reports compiled in the appendix to this document. **This work should be updated and expanded upon, not recreated.**

This analysis should include, but not be limited to, the following South Carolina Business climate issues:

- Business Issues
  - Existing business clusters in South Carolina;
  - Existing business clusters along or near South Carolina's borders;
  - Existing incentive strategies and their suitability for Commerce's objectives;
  - Rural and urban characteristics; and,
  - The state's geographic position in US and global markets.
- Education and Labor
  - Education issues and assets, K-12, 2-year and 4-year degree and above;
  - Availability and readiness of the workforce.
- Other Issues Critical to South Carolina's Economic Growth
  - State and local budgets;
  - Availability of venture capital funds;
  - South Carolina's incentive packages for knowledge-based and industrial business development;
  - Perception of Commerce's style and method of operation;
  - Transportation issues;
  - Environmental issues; and, among others,
  - Availability of natural resources.

**Recommendation #4** – Re-examine the US and global business climate.

- Akin to the examination of the opportunities and challenges unique to the South Carolina business climate, Commerce needs to examine the US and global business climate since it is absolutely critical to the reformulation of strategies for South Carolina's business development. These strategies should be formulated to take advantage of business opportunities that are the best fit for the existing assets of South Carolina.

Suggested US and global business climate issues to examine include:

- US and global economic trends;
- Geographic growth and concentration of industry clusters;
- Emerging industries;
- US and global incentive packages; and
- US and global labor climate.

**Recommendation #5** – Develop specific business strategies that provide the most efficient means of accomplishing the core objectives of Commerce.

- These strategies should take into consideration South Carolina, US and global business conditions verified through Recommendations 3 and 4.

It is recommended that Commerce evaluate business development opportunities, to include but not be limited to, the following:

- Traded business clusters
- Local and regional clusters
- Natural resource clusters
- High growth or emerging industries
- Existing industry growth
- Foreign growth opportunities
- Small business and entrepreneurial development
- Regional development opportunities
- Rural development strategies

**Cluster Development:** The concept of cluster development in South Carolina is quite valuable, but not new. In fact, our research indicates that Commerce has considered cluster strategies numerous times over the past fifteen (15) years. South Carolina's current position in the global and national economy is based on a set of mature, and regrettably in some instances, declining industry clusters like basic materials and textiles which rely on relative advantage in lower labor costs.

It is time for the State to move to the next level of development. South Carolina needs to start emulating the performance of other successful states and regions around the country, rather than adopting a backward looking defense of the state's current competitive position. While it is up to the people and businesses of the State to figure out exactly how to do this, there is an evolving economic development framework that can provide some guidance.

Part of this framework involves the development of stronger **industry clusters** and the associated networks that connect businesses with one another as well as sources of technology, governments, and social, cultural, and educational institutions. Another key element of the framework is the development of a more vigorous **system of innovation** in the state.

- In South Carolina, clusters already account for a significant part of the traded sector, with textiles and fibers, forest products, tourism, and even automotive assembly and components accounting for more than \$10 billion of the State's \$23 billion traded gross state product.
- Clusters often play an important role in the development of state and regional economies. They can be a prolific source of new business formation. The competitive boost that a business receives from being part of a cluster has a "flip side." New businesses in a cluster-oriented sector are well-advised to set up shop within an existing cluster, if they want to survive and prosper.
- The starting point for the cluster development program should be the identification and evaluation of the strategic position of each current, emerging, and potential cluster within the State. This exercise, to be conducted with participation from the private sector, is the basis for the initial allocation of the State's cluster promotion resources. The evaluation process should be repeated annually so that the level and type of resources devoted to each cluster can be adjusted up or down in accordance with each cluster's needs at each point in its development. The annual evaluation should also be an occasion for assessing the effectiveness of the cluster program itself. Effectiveness should be measured by tracking outcomes that reflect cluster strength.

**Recommendation #7** – Identify critical infrastructure needs and foster their development.

- Based on the specific strategies developed through Recommendation 6, identify infrastructure needs that are critical to success. Examples of critical infrastructure include highways, water sewer systems, ports, airports, and communication networks.
- Infrastructure is expensive. South Carolina should identify methods to consolidate infrastructure to be more efficient. The merging of regional water and sewer systems is as an example of a potential initiative that can preserve precious financial resources.



**Recommendation #8** – Identify resource groups in South Carolina that are critical.

- Innovative development strategies developed by Commerce cannot be implemented without the vigorous support of numerous economic development allies throughout the State. Commerce should identify those allies that are critical to the success of development strategies, **COMMUNICATE** plans to them and enlist their input and support.
- Key allies that should be involved in this process include but, are not limited to:
  - The Governor’s Office;
  - The Local Economic Developer’s Network;
  - The Technical College System;
  - The University System;
  - The Budget and Control Board;
  - The Department of Revenue;
  - Department of Health and Environmental Control (DHEC);
  - The State Ports Authority;
  - The South Carolina Economic Developers Association; and
  - The public and private utilities – Santee Cooper, SCANA, and Duke Power.

**Recommendation #9** – Implement Business Development Strategies.

- Based on available resources and the determination of the most effective and efficient strategies for economic development – – – **IMPLEMENT THE PLAN.**

The Commerce organizational structure should be evaluated and enhanced, if necessary, to best accomplish its core objectives. Available resources should be allocated to their most efficient uses to ensure the highest positive impact results. Measures of success should also be determined and monitored. Communication of status and success to State economic development allies will be critical.

**Recommendation #10** – Vigorously continue existing business development and recruiting efforts.

In the midst of strategic planning initiatives, it is essential that Commerce continue to actively recruit new business to South Carolina. The recommended planning process should not dilute and distract the agency from ongoing business development efforts.

## **B. KNOWLEDGE-BASED INDUSTRY**

### **Preface**

The objective of developing South Carolina’s knowledge economy is to create wealth and increase per capita income by increasing innovation — the process of creating new markets by converting knowledge into products and services valued by global customers. Innovation is a social process, which is concentrated in specific places where high-value networks and relationships with the following critical elements exist:

- Strong, diverse, and tech-savvy talent pool;
- Presence of established pillar companies with global reach;
- Strong knowledge infrastructure, such as research universities, government labs, and R&D based companies;
- Specialized support services, such as tech savvy law, accounting, and investment banking firms;
- Risk tolerant venture capital and angel investors;
- Entrepreneurial culture and public policy framework that supports innovation; and
- Institutions of collaboration led by civic entrepreneurs.

South Carolina’s traditional economic development paradigm is based primarily on recruiting branch manufacturing, which is and should continue to be a key component of the state’s strategy. The primary focus of a knowledge-

based strategy should be enhancing the capacity for innovation of existing SOUTH CAROLINA industry, recruiting innovation driven companies, and creating an economic culture that fosters the creation of independent, high-growth companies in the state. In order for this to occur, it will be necessary to ensure a sustained effort from and adequate funding of each state-wide and regional organization necessary to achieve these objectives.

## **RECOMMENDATIONS:**

**Recommendation #1** – It is imperative that the Endowed Chairs Program continue to exist to recruit and develop top talent in South Carolina.

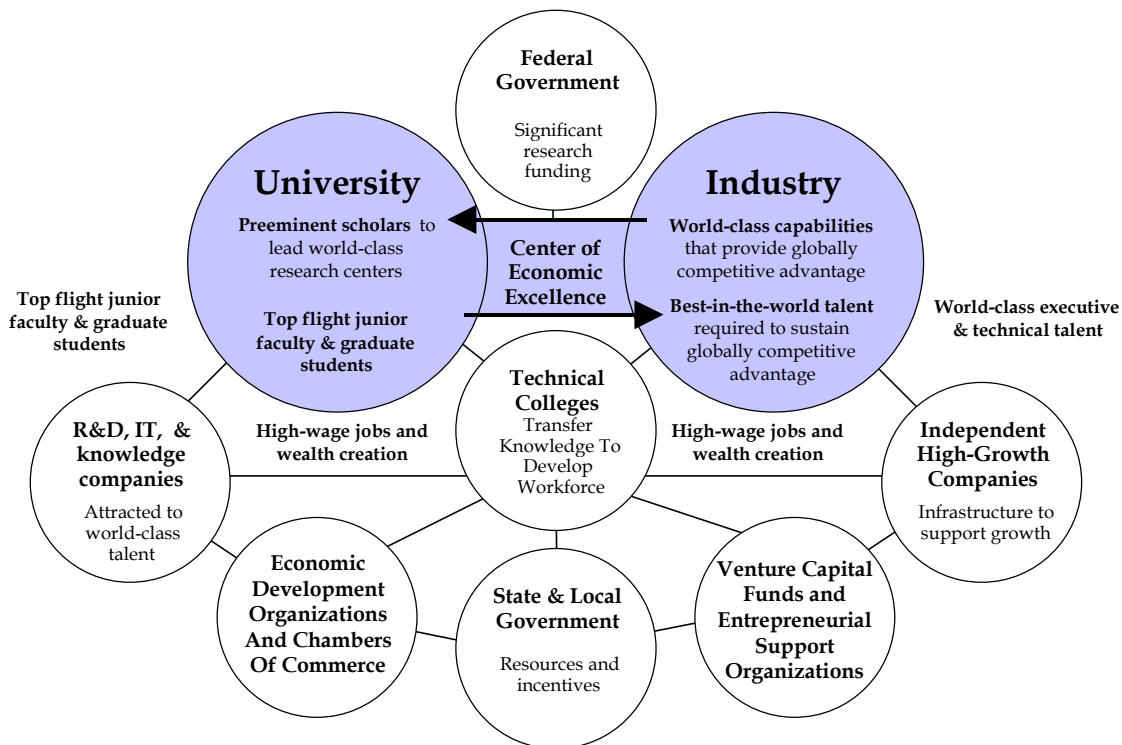
- Continuing the existing Endowed Chairs Program must be one of the highest priorities of South Carolina. Changing course at this early juncture would devastate the spirit of collaboration that has developed in South Carolina over the past several years.
- The existing Endowed Chairs Program is serving its purpose as a catalyst to bring companies, universities, and economic development organizations together in collaborations to recruit and develop best-in-the-world talent in South Carolina.
- Many states have initiatives under way to accomplish similar objectives with regard to their knowledge economies. Those states that are the most successful will be the ones that execute the best and stick with their commitments over the long term. Because other states which began much earlier than South Carolina are not standing still, we must work harder to catch up.

**Recommendation #2** – The South Carolina Department of Commerce should facilitate the development of Centers of Economic Excellence.

- Commerce should work with the Research Centers of Excellence Review Board to ensure there is a comprehensive economic development strategy in place for each funded CoEE, the ultimate objective of which is for the CoEE to develop into a successful, self-sustaining community based on shared, specialized knowledge and relationships.
- While grounding an overall approach in facts such as those provided in the Palmetto Institute Report, it is critical that CoEEs be driven by the key companies and universities involved, with the understanding that the public benefits provided by CoEEs arise from these organizations acting in their enlightened self-interest. Commerce should be proactive in establishing CoEE partnerships between industry and academia, and prioritizing support for those that have the highest long-term potential to the state.
- Commerce should be a facilitator of planning for the organizations involved, and should refrain from central planning that dictates the areas of focus or clusters or any specific approaches.
- Recognizing that the largest source of funding for university research is from the Federal government, Commerce should play a supportive role with the state's congressional delegation for targeting federal funding of benefit to South Carolina CoEEs.

**Recommendation #3 – Centers of Economic Excellence.**

- South Carolina’s knowledge-based economic development strategy should be based on creating CoEE, which are comprehensive collaborations for meeting the needs of major industry and universities to attract and develop best-in-the-world talent, developing partnerships with community and technical colleges to broadly disseminate the benefits to a skilled work force, leveraging traditional industrial recruitment organizations to attract other knowledge-based entities, and fostering the development of independent, high-growth companies.
- Enlightened government can serve as a catalyst to provide the initial resources and organization of CoEEs, with the objective of CoEEs developing into successful, self-sustaining communities based on shared, specialized knowledge and relationships. To maximize the benefits of a CoEE, the Department of Commerce should coordinate a proactive, multi-pronged strategy executed by partnerships not only of universities and major industry, but also of technical and community colleges, economic developers, chambers and entrepreneurial support organizations, and independent companies. We must market this strategy not only externally to attract needed talent and resources, but also internally so South Carolinians can buy into a shared path to prosperity.
- Key elements that should be a part of all comprehensive strategies for developing a CoEE include:
  - **Knowledge transfer through attracting and developing top talent** — The core of a CoEE is a partnership between major industry and a research university to recruit preeminent scholars that can attract the nation’s best students in areas strategic to industry. Knowledge is transferred from the university to industry as students become employed. A proactive CoEE plan should ensure top-flight students build relationships with South Carolina companies so significant numbers of them remain in the state upon graduation.
  - **Knowledge transfer through development of skilled workforce** — Benefits from the endowed chairs must be shared broadly. Technical and community colleges should be included from inception as full partners in any comprehensive CoEE plan to use the CoEE’s knowledge-base to develop curriculum to train a skilled workforce.
  - **Transfer of technology** — Opportunities to transfer intellectual property through the direct licensing to companies that can commercialize it should also be explored.
  - **Recruitment of knowledge companies** — In partnership with regional economic development organizations, companies, and research universities, Commerce should develop strategies for recruiting knowledge-based facilities of companies with whom South Carolina already has a relationship.



Recruitment incentives should be aligned with the investments these facilities would make in the state.

- **Development of high-impact spin-offs** — Perhaps long-term the most significant impact for South Carolina is the development of independent, high-growth companies founded on knowledge-based innovations. Incentives are needed to attract seed and early-stage venture capital investments in independent, high-growth companies in South Carolina.

**Recommendation #4** – State government procurement should be a catalyst for developing South Carolina technology companies.

- State government is one of South Carolina's largest economic drivers and one of the largest technology customers.
- The state government should have the most advanced deployment and use of new technology that it can, and there should be a strong bias for the state procuring this technology from companies in the state.
- Where needed expertise or technology does not exist in state, Commerce should work to develop and/or recruit companies to South Carolina that do have the needed expertise.

**Recommendation #5** – Commerce should measure and market the South Carolina knowledge economy.

- Recognizing that people do what is measured, Commerce should develop and regularly publish metrics for measuring the progress in developing South Carolina's knowledge economy, such as the metrics used by the Southern Growth Policies Board's Southern Innovation Index.
- Commerce should develop and execute a marketing campaign to communicate its success and to attract and develop knowledge-based talent and resources. While packaged as a campaign targeted outside the state, a key target audience should be those inside the state so that all South Carolinians can buy into a shared path to prosperity.

**Recommendation #6** – The state should encourage the formation of venture capital.

- The most significant opportunity for wealth creation that will stay in the state is the development of independent, high-growth companies based in South Carolina.
- The state should provide incentives to encourage the formation of venture capital to support the creation, recruitment, and development of independent, high-growth companies, and the incentives should be targeted at professionally managed seed capital which is essential at the earliest stages of these companies development.

**Recommendation #7** – The Commerce should create a high level executive position to ensure a constant focus on South Carolina venture development.

- Commerce should create an executive position responsible for venture development, including the creation, development, expansion, and diversification of South Carolina business ventures through recruitments, spin-offs or creation of new business units of existing companies, or through de novo start-ups.
- This executive should develop and maintain a working list of the most critical knowledge assets and requirements of major organizations in the state, in order to proactively seek to form collaborations between South Carolina organizations which may evolve into CoEEs.
- This executive should develop a "Governors List" of knowledge professionals in the state, such as VPs of Research and Chief Information Officers of major organizations, and should facilitate regular meetings of this group or subsets of the group to develop relationships. Members of these groups should serve as ambassadors to help recruit other knowledge-professionals or knowledge-based companies to the state with whom they have relationships.
- This executive should work with chambers of commerce and other entrepreneurial support organizations to enhance their capabilities to support the development of independent, high growth companies.

- This executive should commission a comprehensive study of the organization of the Department of Commerce and the relationship of regional economic development organizations in the state in order to align them more closely with knowledge-based economic development strategies, and to identify and support new entities, such as business incubators, research facilities, venture capital funds, and venture development assistance groups, which are necessary to support knowledge-based companies.

## C. VENTURE CAPITAL

### Preface

Angel, Seed and Mezzanine venture capital, as well as traditional methods of raising capital such as securing funds from local banks and investment banks are of paramount importance to our state's new entrepreneurial start-up companies.

South Carolina has the chance to learn from the very best of those states that have implemented successful Venture Capital Programs in their states or regions. We can analyze and study the best of those in the market, structure a plan around them, and take advantage of their success, knowledge, and experience. They have already dealt with the legislative challenges of working the process and drafting the necessary laws. This legislation does not require millions of dollars, but it does require that we create the necessary flexibility and funds to "kick start" our small high tech, knowledge-based start-ups with capital. The business, educational and legislative leaders must understand the importance of this funding. One need only look at the University of Texas, Stanford, MIT, Howard, Boston University, and Research Triangle Park (NC), Charlotte, Atlanta, and Virginia to see the benefits of these kinds of investments. We have researched other states and have found that Oklahoma, Arkansas, Iowa and Virginia have developed and passed model legislation that would best meet the needs of our state.

### RECOMMENDATIONS:

#### **Recommendation #1** - Enact "THE VENTURE CAPITAL INVESTMENT ACT OF SOUTH CAROLINA"

- It is imperative that a venture capital fund be created. This fund should be in the range of \$100 million to \$125 million over ten years where the state "guarantees" tax credits if loans and interest to form the venture capital pool does not meet minimum returns. This will fund programs backed by banks, insurance companies and other financial investors. The fund's appointed Internal Revenue Code, Rule 501(c)(3) board must invest \$25 million in South Carolina based and headquartered venture capital or venture capital funds with a managing general partner based and living in South Carolina. It should not invest more than 25% of the committed capital in any one fund and the amount invested in the fund must be invested by the fund in South Carolina based headquartered companies. Professionally managed venture capital firms will be selected by the 501(c)(3) board, and must manage the funds. These firms will also be required use local companies to support their businesses. The need for seed capital for our state has been well documented; there should be a preference for seed funds in order to facilitate the needs of the spin offs from our universities as well as the needs of our existing young companies. The benchmark number for seed funds should not be more than 10%. There, however, may be grants and other matching funds for any of the additional needs for seed or angel requirements. The venture capital company and the board must make the final determination, but our expectation is that they should make every effort to find quality small companies for this early stage capital (nationally seed investments average is 2%).

**Recommendation #2** - There should be a vehicle in the form of a management committee or the board of a foundation that would be made up of representatives from the professional capital management team, the investor group, as well as selected members who represent these knowledge-based businesses to ensure proper oversight.

- This group would be under the sponsorship of the South Carolina Department of Commerce who is designated to increase economic growth in knowledge-based companies around our state.

**Recommendation #3** - Enact a state venture capital plan that will support a capital program that would also allow for matching funds from state and federal grants, and other funding sources, to be used by our developing high tech knowledge-based companies, as well as those existing knowledge-based companies found across our state.

**Recommendation #4** - The state should also request and support the use of the SBA FAST TRACK MICRO LOAN as another method to increase availability of small loans to prospective start-up companies. These companies' individual owners will likely be required to guarantee these loans.

**Recommendation #5** - Request that capital remaining in the Palmetto Seed Capital Fund and the portfolio companies be transferred to the group that will be formed in recommendation #2.

- This capital, as well as the capital already invested under the auspices of the Palmetto Seed Capital Fund, would be under the same management committee for review and oversight.

**Recommendation #6** - Commerce should assign a "project manager" the responsibilities of working through our Congressional delegation searching out matching dollars from various federal agencies, and any other sources to create additional capital grant program and other dollars for the purpose of supporting those small requirements for small amounts of capital that are sometimes necessary to help get these small, yet promising young entrepreneurial companies to the next level or payroll until the angel source is found.

**Recommendation #7** - Develop a South Carolina Technology Innovation Fund that would be managed by one of the organizations that work with the incubators and universities.

- This fund would be used to award some small grant dollars for the best and most creative ideas from our university technology incubators, some of the awards may go to students or to other high tech start-ups that are located in our research universities incubators. Although the grants would be fairly small, to these companies the value would be substantial and could inspire and encourage technology transfers out of the tech work done by our students and professors.

**Recommendation #8** - Commerce should review and analyze all economic incentives, development grants and any of the other capital incentives offered by our State, to determine if these dollars can be used in a manner that will best support the growth of our knowledge-based companies.

- This would ensure the best use of this capital toward helping establish South Carolina as a new technology leader for this decade.
- Re-define and redistribute these incentives and dollars for the future.
- There should also be new measurements created to track our progress as our state moves further into knowledge-based economic development and support of small companies with high growth potential.

**Recommendation #9** - Design a major education and public relations program to ensure that our citizens and legislative leaders understand and support its requirements and the deep need for venture capital funding and grant support for deserving entrepreneurs and knowledge-based, high tech start-ups.

**Recommendation #10** - Create tax related incentives and credits that will ensure support and success as the state creates next economy technology high growth businesses such as biotech, nanotech, fuel cells, artificial intelligence, new methods for communications and others. A list of only a few of these incentives that are currently being used successfully by other regions and states are items such as:

- Reduction of capital gain taxes for investors in early stage companies or angel and seed funds;
- Change the laws that prevent our state from investing state pension funds and other public funds into well-managed venture capital and special funds for substantially higher financial returns. This was attempted last year but the explanation regarding what to vote for or against at the ballot box was confusing;
- Consider exemptions from sales taxes on all knowledge-based technology equipment purchases and research and development. This would be similar to the elimination of sales taxes on infrastructure for technology development that was passed by the legislature during the 2000 session;

- Provide refunds of state taxes for companies that create new technology jobs that have compensation packages and incomes that are over \$65,000 annually;
- Consider a special corporate income tax credit for corporations that are providing research funds or investments in our research universities;
- Acknowledge and reward new technology or knowledge-based patents that are created by South Carolina companies, individuals, or our universities and colleges across our state.

**The measurements for the next economy that we recommend are as follows:**

<i>South Carolina Benchmarks</i>	<i>CURRENT</i>	<i>TARGET</i>	<i>US AVG</i>
Students per Internet-connected computer			
Percentage of households with computers			
Percentage of households with Internet access			
Percentage of ZIP codes with broadband providers			
Percentage of total employment in “gazelle” firms			
New business starts			
Technology-intensive employment as a percentage of total			
Technology-intensive establishments as a percentage of total			
Number of Small Business Innovation Research (SBIR)			
Number of <i>Inc .Magazine’s</i> best 500 companies			
Industry-performed R&D per \$1,000 gross state product			
Federally-performed R&D expenditures per \$1,000 GSP			
University-performed R&D expenditures per \$1,000 GSP			
% of recent science and engineering Ph.D.s in the workforce			
Number of patents issued per 10,000 business			
Number of patent attorneys and agents per 10,000 business			
Venture capital disbursements, in millions YOY			
Small Business Investment Companies (SBIC) awards			
Small Business Administration 7(a) business loans			
Number of SBDC’s, per 10,000 establishments			
Minority-owned firms as a percentage of total businesses, % of VC			
Women-owned firms as a percentage of total businesses, % of VC			
# of new venture capital companies with offices in South Carolina			
# of new venture capital companies investing in South Carolina			
# of IPO’s year over year			

## **D. SMALL BUSINESS**

### **Preface**

The mission of the Small Business Subcommittee was to identify areas of improvement to the current system; develop innovative ideas for the support and maintenance of small business; and increase the growth and expansion of small businesses in South Carolina. The recommendations below should help ensure the continued existence of current small business owners and attract new small business owners.

### **RECOMMENDATIONS:**

**Recommendation #1** – Creation of Small Business Ombudsman. This position would answer all questions concerning start-up and maintenance of small businesses; Provide resources for each county; report to the

Department of Commerce; maintain, outline, and report important statistical data, such as taxes paid and number of employees hired by each small business.

**Recommendation #2 – Health Insurance.** Allow small business owners to qualify for and unite as a large group in order to obtain coverage at affordable rates. One of the biggest issues for small businesses is the high cost of health insurance premiums and lack of coverage. (i.e., Associated Health Plan or State-Supported Insurance Company).

**Recommendation #3 – Access to Capital.** A small business loan program should be made available. An estimated \$27 million in community block grants have been awarded to South Carolina. \$10 million was spent on economic development to attract larger (mostly foreign) businesses. This program could operate within a mechanism already in place, such as Business Carolina (a/k/a Jobs-Economic Development Authority).

**Recommendation #4 – Tax Incentives.** Incentives should be offered to small business as they are offered to big business.

**Recommendation #5 – Transfer the Office of Small & Minority Business from the Governor’s Office to the Department of Commerce.** This Office should not potentially change personnel every gubernatorial election cycle.

**Recommendation #6 – Support tort reform legislation in favor of limitations on damage awards, joint and several liability reform and medical malpractice.** The abundance of frivolous lawsuits is a major contributing factor to the increased cost of health and malpractice insurance causing many to go out of business. There are inconsistencies with awards within the counties. Some counties offer larger settlements.

**Recommendation #7 – The culture and attitude need to change within Commerce.** Currently, Commerce places a larger emphasis on manufacturing and big business. Small businesses are not given the same attention and support.

**Recommendation #8 – Small business friendly regulatory legislation submitted by the SBA, Office of Advocacy.** To reduce the excessive regulatory burden placed on small business.

**Recommendation #9 – There needs to be an equalization of the tax rates for S Corporations and Small C Corporations.** Currently, the tax rate for an S Corp, which most businesses fall under, is higher than for a C Corp. The tax credit policies should be reviewed to determine how small businesses could be included.

**Recommendation #10 – An optional statewide business license should be made available.** Conducting business in multiple counties is a complicated and confusing process. Optional statewide business license should be available to alleviate this problem.

**Recommendation #11 – Full account of how procurement is awarded in this state should be disclosed (i.e., GSA, low bid, sole source, etc.).** According to The State Newspaper, approximately 50% of all procurement dollars are awarded through the state procurement code process. Identify how and where the other dollars are being awarded.

**Recommendation #12 – Allow hospitality taxes from restaurants to be filed along with local city/county taxes.** Currently, hospitality taxes must be filed separately by the restaurant.

**Recommendation #13 – The mandate that restaurants use mini-bottles should be repealed.** Restaurants should be allowed to decide the size of bottle they want to serve.

**Recommendation #14 – A message should be sent from the Governor and Commerce to the private sector stressing the importance of the inclusion of local small, women and minority business enterprises in his effort to build and strengthen the state’s economy.**

**Recommendation #15 – Define Small Business.** A definition of small business is needed to eliminate the confusion as to what is considered a small business and for the purpose of maintaining statistical data and qualifications for incentives offered to small businesses.



**Recommendation #16** – Recommend adoption of new terminology (HUB’s), which implies a more positive and accurate perception of minorities in business. Several regions of the country have adopted “Historically Underutilized Businesses (HUB’s)” to refer to minority-owned businesses.

**Recommendation #17** – The SCDOT authorized MGT of Florida to conduct a disparity study. It is alleged that the study was reviewed and censored by the Executive Director. The study should be reassessed and a determination made as to the study’s validity. If the study is proven to be valid, the issues within it should be forthrightly addressed.

**Recommendation #18** – Bonds are issued based on equity and track record. It is recommended that small businesses, in accord with strict qualifications, be allowed to work together to obtain bonds from one large account.

## **E. EDUCATION**

### **Preface**

The mission of the Education Subcommittee was to develop recommendations related to the actions required within the education system in order to enhance the economic development of the state.

### **INTRODUCTION**

Volumes have been written to demonstrate the symbiotic relationship between education/training and economic development. In order for South Carolina to prosper in the new economy, it must insure it has an appropriately educated and trained workforce:

A Workforce Task Force, Chaired by Don Herriott, President of Roche Carolina and current chair of the South Carolina State Chamber of Commerce, after a two-year study concluded that South Carolina faces a “workforce crisis.” The conclusions of this blue ribbon task force are confirmed by the research of the Education Subcommittee and data from the 2000 census.

The Education subcommittee, upon review of these reports and data, share the following concerns about the South Carolina workforce:

- Too many high school graduates do not possess the personal and academic skills required by business and industry.
- A large segment of the adult population (approximately 24%) does not have a high school diploma and many are functionally illiterate. This group cannot participate in the new economy without significantly furthering their education.
- A large percentage of the current workforce does not have the basic education skills essential to grow in their jobs to support the new economy.
- The high school dropout rate (30-40%) is annually adding to this underclass of under educated adults. Dropouts usually spend from 6-8 years before settling into any stable low-skill employment.
- Too few high school graduates are enrolling in associate degree career programs essential to sustain economic growth.
- The South Carolina workforce is aging, especially among skilled workers. Adequate replacements are not in the “pipeline.”
- Only 50.9% of students pursuing a college education graduate. Among those who graduate, their fields of study do not match the employment needs of business and industry.
- Business and industry need significant numbers of bachelor degree graduates in the field of math, science, engineering and a limitless number of skilled technicians.

- The sectors of education (K-20) in South Carolina are not articulating their programs so as to best support economic development.
- Small business owners need a mechanism for education and training their workforce.
- South Carolina Research Universities are not incubating a sufficient number of new business and industries.
- According to the American Society for Training and Development, 70% of the current workforce needs continuing education.
- The 37 Performance measures of Act 359 measures performance that is only tangentially related to economic development.

**RECOMMENDATIONS:**

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**Recommendation #1** – Implement the core recommendations of Pathways to Prosperity.

**Recommendation #2** – Develop an education plan and funding source for adult education.

**Recommendation #3** – Increase communication between all sectors of education.

**Recommendation #4** – Because of the perception by parents and students that they do not value attendance at a “tech school,” conduct a study to determine if a name change would enhance articulation between K-12, the Technical Colleges, and Universities.

**Recommendation #5** – Provide incentive scholarship for those who choose critical need degrees.

**Recommendation #6** – Provide lottery tuition for continuing education for small business.

**Recommendation #7** – Fund endowed chairs to support clusters of Palmetto Institute and include technical colleges in developing technical personnel to support the clusters.

**Recommendation #8** – Support the enhancement of the Center for Accelerated Technology Training to train for new clusters.

**Recommendation #9** – Assure that the investment of WIA funds correlate with the economic development plan for South Carolina.

**Recommendation #10** – Provide a technology infrastructure that will enable education and training to be delivered on site to small business and rural areas.

**Recommendation #11** – Legislature should pass regulatory reform that will enable colleges and universities greater flexibility in supporting economic development.

**F. TRANSPORTATION, DISTRIBUTION AND LOGISTICS**

**Preface**

Greater cooperation between the Department of Commerce, South Carolina State Ports Authority and Department of Transportation must occur to facilitate economic growth in South Carolina. The Coordinating Council for Economic Development was previously charged with this responsibility and we feel that while this concept is good, the reality is that there is little or no contact, cooperation or exchange of information between state agencies on a regular basis. The Department of Commerce should be the facilitator of a joint effort, and a new attitude with regard to interagency cooperation must be implemented. Whether it is by assigning member(s) of the Department of Commerce staff to each agency, assignment of agency staff person(s) to the Department of Commerce or by redefining of the members of the Coordinating Council, and having meetings on a more regular

basis, the three (3) groups responsible for transportation issues in our state must work with one another more closely than ever rather than completely independently which has occurred for the last several years.

## **RECOMMENDATIONS:**

**Recommendation #1** – Immediate expansion of the Port of Charleston must be accomplished.

**Recommendation #2** – Re-write the State Procurement Code, giving bid priority to local contractors, along with greater use of the design-build process for state transportation projects.

**Recommendation #3** – Compel the State Insurance Fund or other agency, to develop a bond program that will allow smaller South Carolina based quality contractors to bid a greater percentage of the work on South Carolina construction projects

**Recommendation #4** – Implement Tort reform in South Carolina. Our current system is keeping companies from expanding or locating operations in the poorest areas of our state. By becoming one of the first to implement Tort reform in the Southeast, it will make South Carolina an attractive expansion or headquarters location.

**Recommendation #5** – Utilize the South Carolina Ports Authority user list as well as the Department of Transportation registration lists as a prospect list for commerce. Businesses that are already using our states' transportation and distribution facilities should be excellent prospects. International port users should be of particular interest to recruit for US headquarters locations in and around Charleston.

**Recommendation #6** – Develop industrial parks geared toward distribution on Interstates 95, 77, 20, 26 and provide property tax incentives on vehicles not just buildings.

**Recommendation #7** – Redefine the State's message as "it being a prominent strategic location with modern ports and a fully developed interstate highway system." Feature inland freight savings benefits that companies receive by having their factories located close to the port.

**Recommendation #8** – Promote transportation and logistic educational courses currently being taught at the College of Charleston and State Technical Schools.

**Recommendation #9** – Department of Commerce expansion on annual South Carolina Transportation Conference involving the South Carolina State Ports Authority, Department of Transportation, Airport Commissions, trucking, industry professionals, warehouse industry professionals, freight forwarders and railroads to open commitments between public and private groups, and between the issues and quick solutions to Transportation, Distribution and Logistic issues.

**Recommendation #10** – Insure adequate funding is available to maintain our existing transportation assets. For many years in the 1950s there were signs at all the state lines welcoming visitors to our State with the motto "See The Best State On The Best Roads." We need to keep it that way.

**Recommendation #11** – A statewide infrastructure study would identify the strengths and weaknesses regarding infrastructure within our state. This study should not only identify today's needs for infrastructure but also what we will need in the future. This would include any and all projected growth. The infrastructure plan should identify existing infrastructure, determine areas where infrastructure should be greatly improved, added, or even deleted. We also must make sure that the infrastructure plan actually defines infrastructure and explains the additional need for infrastructure in detail and in a non-political view.

## **G. TOURISM**

### **Preface**

The mission of the Tourism Subcommittee was to develop proposals to expand the economic development of tourism and increase visitation to South Carolina. The goal and results of these proposals will benefit the entire State and raise the standard of living for all its citizens.

## **RECOMMENDATIONS:**

**Recommendation #1** – Department of Parks, Recreation and Tourism should remain a separate agency; however, it should be restructured to operate more efficiently and allow the availability of more dollars for paid-space tourism advertising. The committee reviewed several options that could increase services while lowering overhead costs. The Tourism Marketing Partnership grant program (TMPP) should be restructured and expanded to provide matching grant money by “branding down” to local communities. This could at least double the amount of funds available for out-of-market paid-space advertising to attract tourists.

**Recommendation #2** – Utilize tourism-related tax revenue for the economic development of tourism and tourism-related facilities.

- Currently there is approximately \$160 million annually dedicated by law to be used for tourism-related purposes, this includes state accommodations taxes; local accommodations taxes; local hospitality (restaurant taxes); and Sunday local option permit (liquor license) fees. This could significantly increase tourism by focusing on marketing, advertising and facilities to attract visitors. A prime example is Newberry’s use of tourism-related funds to renovate the Opera House, which has not only increased tourism, but also developed new restaurants and a hotel in their downtown area.

**Recommendation #3** – Interval ownership (time-share) should be required to collect state and local taxes.

- “Time-share” properties are not required to collect and pay state and local sales and accommodations taxes and property taxes on FF&E (furniture, fixtures and equipment) when someone “exchanges” the use of their property in some other location or state and uses a property in South Carolina. Many tourists to South Carolina’s coast stay in time-share facilities in exchange for the use of their facilities someplace else. This loss of tax revenue costs the state lost revenue from sales and accommodation taxes and local governments lose local sales accommodation and property taxes. In addition local school districts lose revenue from property and sales taxes.

**Recommendation #4** – Compromise on a late school start for PACT testing during 3rd week of May.

- A compromise that would discourage early school starts would generate additional tax revenue to state and local governments and provide tourism-related businesses a revenue increase with a larger available workforce.

**Recommendation #5** – The mandate that restaurants use minibottles should be repealed.

- Tourists are not accustomed to the large amount of alcohol in a minibottle (almost 40% more than the national restaurant standard). After just a few drinks, they are subjected to a DUI and don’t realize why. Many tourists complain about the high price and quality of the beverage, as compared to what they are accustomed to in the rest of the world.

**Recommendation #6** – “Robin Hood” receipts from accommodations taxes into receiving municipalities or counties should only be used for out-of-market advertising, under the same rules and guidelines as imposed on the donor counties.

- Municipalities and counties with high state accommodation tax collections provide "Robin Hood" receipts into receiving counties with low accommodation tax collections. Donor counties are required to spend revenue in out-of-state markets. This could increase tourism in rural areas, increase tourism-related businesses, and also state tax revenue.

**Recommendation #7** – Allow a percentage of admissions tax be used to conduct/attract professional sporting events.

- These events attract many visitors throughout the year, as result of television and other media exposure. The growth factor would exceed percent of admissions tax used. This would include sponsorship of on-going events such as NASCAR races, golf and/or tennis tournaments.

**Recommendation #8** – Utilize local advisory committees for all tourism-related taxes.

- Currently, only the state accommodations tax requires a local advisory committee to recommend uses of the revenue. Local advisory committees understand what attracts tourists and help eliminate the politics of fund distribution.

**Recommendation #9** – Develop a definition for a “tourist” to eliminate confusion as to what is a tourism-related expenditure.

- Current state law does not define a “tourist.” Industry research and industry standards say a tourist is someone who has traveled at least 50 miles one way for anything other than work, or is spending the night in an area outside their usual environment.

**Recommendation #10** – When using tourism-related tax revenue to fund facilities or events, the percentage of tourism-related funds used should not exceed the percentage of tourists that use or attend the facility or event.

- In other words, if 50% of the cost of a facility is funded from a tourism-related tax source, at least 50% of the people using the facility should either live at least fifty (50) miles away or be spending the night in the facility’s local marketplace.

**Recommendation #11** – Car rental surcharge should only be returned to Department of Transportation.

- Current law imposes a sales tax or surcharge on the rental of automobiles that is used as an offset against the rental company’s property taxes. While the concept is to increase registration of rental cars in our state, most cars are still registered in other states. This revenue should be used by DOT for highways.

**Recommendation #12** – Require tourist information center signs to include the name of the sponsoring organization or business.

- Many “tourist information centers” are operated by businesses attempting to sell something to unsuspecting visitors. These facilities confuse tourists who think they are operated by local communities or non-profit organizations, when they are actually operated to entice buyers and at times do not provide correct and/or adequate visitor information.

**Recommendation #13** – Review and develop a system for “One stop” tax payment and regulatory approvals for small and tourism-related business.

- Tourism-related businesses are regulated by more agencies than most other industries. In addition to the normal, they deal with the Department of Revenue, SLED and other agencies, including local governments. A single sales tax form should be developed for filing state and local sales taxes of all types, including accommodation and hospitality taxes. The policies of regulatory agencies, such as ABC licensing, DHEC and others, should be reviewed as to the complexity on small and/or tourism-related businesses.

**Recommendation #14** – Foster and promote legislation to adopt the industry cluster concept and the Education and Economic Development Act.

- Both the Palmetto Institute and Pathways to Prosperity reports identify industry clusters as a method to improve education and advance the state’s economy.

**Recommendation #15** – South Carolina needs to establish long-term tourism development plans and a state tourism policy to help us plan for future growth statewide.

- Policy makers, agencies and other state government officials should embrace tourism because of the dynamics of the economy and tax revenue the tourism industry creates.

## **H. FILM**

### **Preface**

South Carolina has achieved considerable success in the past decade in attracting location “shoots” in this State and has done exceptionally well in the past year. In large part this is a function of South Carolina’s natural beauty. South Carolina does offer at least some cost advantages over many other states, but such cost advantages are often “eaten up” by the lack of a trained indigenous work force or an established production facility.

South Carolina has had little to no success in developing a production studio or postproduction facilities. Both location “shoots,” as well as production facilities, have migrated to Canada and other low cost foreign countries. Canada has a daunting advantage both in terms of hard dollar tax incentives as well as currency advantages. The high cost of the American dollar continues to make filming in Canada very cost-effective.

Given the foregoing realities, the Subcommittee opined that the state should continue its focus on attracting location “shoots” in this state and tailor its tax incentive package for the purpose of attracting independent or niche film production and post-production work. South Carolina will probably never succeed in competing with either Canada or California for large scale movie production or post production facilities. Consequently, it is important that we identify a market or niche (if any) which would be willing to use a small production facility in this state.

### **RECOMMENDATIONS:**

#### **TAX INCENTIVES**

**Recommendation #1** – Modify the Enterprise Zone Act.

- The Enterprise Zone Act contains an employee withholding, hard-dollar, credit. While the Act would work well for a Movie Production Studio, it does not fit film production in this state. (For example, employees are required to work a full year under the Enterprise Zone Act.) The Act should be tailored (or a new Act created) which applies to the realities of production shoots in South Carolina. For example, employees who work for less than a year should qualify and the concept of “employer” should be expanded to include employees of independent contractors. “Eligible Expenditures” under the Enterprise Zone Act should be expanded to include all South Carolina direct expenditures. In addition, the Jobs Tax Credit (JTC) amount must be competitive. For example, Louisiana now rebates between 10 - 20%, based upon total labor expenditures. Canada rebates 22 - 48% of Canadian labor wages.

**Recommendation #2** – Eliminate production company sales and use taxes on all items incurred during production.

- Currently production companies are exempted from sales and use taxes only for the supplies, rentals and materials that actually appear in front of the camera. The current exemption is a pitfall for the unwary, difficult to enforce and raises little revenue. The exemption should apply to all items purchased or leased for use in South Carolina by production companies licensed by the Film Commission and the Commission should be empowered to issue exemption certificates.

**Recommendation #3** – Modify the existing Tax Credit Legislation (Act 385, passed 1998, section 12-6-3510) for the creation of a production/post production facility and the production of a qualified South Carolina motion picture project.

- South Carolina law currently contains two (2) specialized film tax incentives: (1) one for the creation of a production studio; and (2) one for filming qualified film projects in this state. In addition, the JTC Act (and this the Enterprise Zone Act) explicitly applies to the creation of a film production studio.
- Production Facility
  - The dollar credits allowed for the creation of a production studio are probably adequate but the carry forward to use the credit should be extended from 5 to 10 years
- Motion Picture Project
  - The dollar ceiling on the tax credits per investor are so restrictive and inadequate that it appears not one taxpayer has ever taken the credit. Simply put the credit is not working. The credit should either be abolished or increased per investor/per film from \$15,000 to \$100,000. In addition, the minimum project cost should be reduced from \$1 million to \$250,000, with the total credits taken statewide capped in any year to \$2 million. The definition of ‘taxpayer’ should be amended to include investors, partners, LLC’s, subchapter ‘S’ corporations. The Department of Revenue should give timely letter Rulings to effectively utilize the Tax Credit(s).

**Recommendation #4** – Waive the Accommodations (Bed) Tax after 30 aggregate days in South Carolina.

- Currently, the Bed Tax is waived after 90 consecutive days. Production companies often shoot in different South Carolina cities and do not stay in one location for that period of time, thus losing tax credits even for stays longer than 90 days.

## STATE OWNED PROPERTY

**Recommendation #5** – Utilize surplus or under-utilized state property as production support offices and stage space.

- The state should take steps to utilize surplus or under-utilized state property for the creation of production support offices and stage space in order to offer financed, qualified, filmmakers free office space, warehouse space and furnishings to set-up shop anywhere in the state. This could also act as an incubator for indigenous production especially when combined with the modified Motion Picture Tax Legislation Incentive.

**Recommendation #6** – Utilize the former Charleston Naval Base for production facilities.

- Currently, production facilities that meet minimum production requirements exist in only one place: the former Charleston Naval Base. Rental rates for the Base’s furnished facilities were previously very inexpensive, and acted as an incentive. Soon, the State will lose this invaluable incentive as the buildings are deeded over to the Ports Authority. It will take at least two (2) years however for the South Carolina State Ports Authority to obtain the necessary permits to operate as a Port at the former Naval Base. The Budget and Control Board or Commerce should request that the South Carolina State Ports Authority honor the same lease and other terms as was extended by the RDA for the past ten (10) years for filmmaking until the South Carolina State Ports Authority is able to fully utilize the facility as a Port.

**Recommendation #7** – Utilize state property at a reduced, capped or at no cost.

- Most of the other states with extensive filming activity have a provision in place which allows filming to take place on state owned property at a reduced, capped, or no cost. For example, the 2002/2003 Charlotte Regional Film & Video Guide states: “Film permits and fees are practically unheard of statewide [in North Carolina.] [North Carolina] State law prohibits charging permit fees for shooting on state property.” California has separate caps on the amount state and local governments can charge for (1) permits, as well as leasing (2) real and (3) personal property to filmmakers. Unfortunately, perhaps as an inevitable byproduct of budget cuts, state (e.g., Colleges and Universities) and local governments are making it more expensive to film on their locations in this State. Legislation should be passed which make State properties available as filming locations for free,

charging only for costs directly attributable to the production and placing caps on direct costs to assure costs are reasonable and customary.

## STATE ASSISTANCE

**Recommendation #8** – The South Carolina Film Office should continue to be located at Commerce and its marketing budget should be increased.

- The current marketing budget allows for minimal marketing initiatives and minimal exposure to key markets. In addition, filming and the creation of a production studio should receive parity with manufacturing, tourism and other Commerce functions for purposes of utilizing (1) Highway Set-aside Funds; (2) Coordinating Council’s Tourism Infrastructure Funds; and (3) the Commerce Special Events Fund. A portion of the funds from the Admissions Tax (which is collected every time a movie or event ticket is sold) that currently goes into the General Fund should be redirected to finance the Film Office. Commerce should seek a budget proviso which allows the Film Office to certify film productions in this state and retain the license fee.

**Recommendation #9** – Encourage state agencies to utilize South Carolina production firms and talent.

- A system should be developed that automatically includes indigenous production companies in the bid process for any film or video production by a state agency or advertising agency acting on the State’s behalf. In addition, state agencies should be encouraged to employ South Carolina crew and talent whenever possible.

**Recommendation #10** – Expand current film related training programs at South Carolina colleges and technical colleges.

- Trident Tech, for example, currently offers five (5) distinct film production certificates: Film Design; Film Equipment; Filmmaking; Film Production; and non-linear Film Editing. Testimony presented to the Subcommittee was unanimous in stating that a trained, indigenous workforce is essential to recruiting location “shoots.” In addition, the cost of importing trained work crews from other states eliminates much of our cost of living advantages.

**Recommendation #11** – Create a marketplace for films and television projects created in South Carolina.

- Producers, education, product distributors, and Commerce’s International Trade Division should be unified under the umbrella of a film festival to showcase South Carolina product with the goal of developing a market for our product. A South Carolina presence should be developed at targeted film markets to further exploit market niches for South Carolina product.

## SITE LOCATION PROFESSIONALS

**Recommendation #12** – Commerce should annually host one event yearly for production professionals from across the country similar to what Commerce hosts for manufacturers at the Heritage Golf Tournament. By offering reduced cost or complimentary airfare and accommodations (financed in part by a local match) South Carolina should be able to entice site location professionals to visit and become familiar with the state.

# I. AGRIBUSINESS

## Preface

Since agribusiness represents one-fourth of South Carolina’s economy and has great potential for growth, it deserves a place of prominence when decisions and policy affecting commerce are made. There should be a statewide vision for agriculture; a media campaign to promote the benefits of agriculture and natural resources; and comprehensive education and research programs to develop technologies and products to meet future demand. The Department of Agriculture’s mission as an advocate for agribusiness should be re-examined and clarified in view of global competition and market trends. Action is required to improve liaison, communication, and coordination



between the Department of Commerce, Department of Agriculture, and Forestry Commission, as well as with our major research universities.

### **What is Agribusiness?**

*Agribusiness encompasses all businesses that provide people with the three most essential elements of life: food, clothing, and shelter. Incorporating the latest technological advances, it includes forestry, row crop farmers, dairies, livestock operations, horticulture, processing plants, distribution and transportation systems, financial institutions, and many other businesses that support the products and services related to food, fiber, and shelter.*

### **RECOMMENDATIONS:**

#### **MARKET DEVELOPMENT**

**Recommendation #1** – In addition to traditional crops, the state should encourage development of new crops/products, such as nutraceuticals, to satisfy consumer trends.

- Promote value-added products by attracting secondary processing facilities.
- Through clustering, promote partnerships of existing processing facilities to create value added products and further support Centers of Excellence around these clusters.
- State and local governments should be encouraged to purchase South Carolina products, materials, and services.

**Recommendation #2** - Establish marketing roundtable of agribusiness leaders to identify emerging trends and opportunities. Inform public of results via website or other communication channels.

#### **TAX CREDITS/INCENTIVES**

**Recommendation #3** – Provide tax credits for small business to expense machinery, technology upgrades, and conservation practices so that South Carolina remains competitive.

**Recommendation #4** – South Carolina tax laws should include accelerated depreciation for business equipment that is consistent with federal tax laws.

**Recommendation #5** – Offer tax credits to encourage use of wood waste and other renewable biomass to generate electricity or gasification.

**Recommendation #6** – To conserve open “green space” by sustainable management of South Carolina’s forests, the state should offer incentives such as reforestation tax credits to encourage forest landowners to retain and manage their forestland for current and future generations.

**Recommendation #7** – Provide financial incentives and tax credits to landowners who voluntarily set aside buffers along streams and roads, and adhere to Best Management Practices.

#### **VENTURE CAPITAL**

**Recommendation #8** – Venture capital investments in South Carolina were only 5% of the amount invested in NC or GA. Banks and other lenders should be encouraged to invest in the state’s agribusiness.

- Attract greater federal grants and guarantees.
- Reduce time constraints on SBA loans and lessen SBA origination fees.
- Promote growth of existing businesses to encourage new job creation.
- Agribusiness should have equal access to any venture capital fund organized by the State.
- Clemson University can assist the state in designing a venture capital program that meets the needs of small businesses and minimizes the risk or burden to the State’s budget.

## DEPARTMENT OF COMMERCE

**Recommendation #9** – Improve dialogue with Commerce officials to generate greater domestic and offshore sales.

- Inform all agencies about available fiber/timber supply.
- Commerce staff should include an agribusiness liaison.

**Recommendation #10** – Expand focus on technology-related industries to include forestry, horticulture, and other agricultural operations.

**Recommendation #11** – In recognition of the depressed economy, Commerce should focus greater attention on sustaining existing forestry and farming business rather than on just attracting new facilities.

**Recommendation #12** – Agribusiness must have a place of prominence in Commerce and overall economic development efforts of the State. For example, state law should be amended to allow the Commissioner of Agriculture to serve on the Executive Committee of Commerce’s Coordinating Council for Economic Development.

**Recommendation #13** – In addition to job creation and capital investment, expand criteria to gauge growth of non-traditional industries.

## EDUCATION/TRAINING/TECHNICAL COLLEGES

**Recommendation #14** – South Carolina’s Technical College system should expand its ornamental horticulture programs in order to meet the needs of a rapidly growing industry.

## LABOR/IMMIGRATION

**Recommendation #15** – The State should recognize the growing dependence on migrant workers.

- State laws should not discourage the employment of legal immigrants.
- Immigration laws should be addressed at the federal level.

## RESEARCH/EXTENSION SERVICES

**Recommendation #16** – Recommendation #16 – Clemson University’s Public Service Activities (PSA) must fulfill its mission to deliver services to producers of timber, fruit, vegetable, ornamentals, and specialty crops like herbs and pharmaceuticals.

**Recommendation #17** – Further research is required in the horticultural areas of nutrition, pest management, water use, and cultural practices.

**Recommendation #18** – Identify and dedicate at least one research university endowed chair to agribusiness.

**Recommendation #19** – Direct research (customer and market driven) to create and improve secondary manufacturing of wood and paper products.

**Recommendation #20** – Apply biotechnology to help farmers produce hardier, more nutritious, and more disease resistant plants by spawning entirely new research areas such as bioinformatics, nanotechnology, and biopharming.

**Recommendation #21** – Support initiatives that deal with animal and plant pests that cost agribusiness millions of dollars each year, such as the southern pine beetle that attacks timber--the state’s number one cash crop.

**Recommendation #22** – Develop the capability of small, rural firms to successfully export their products.

**Recommendation #23** – South Carolina should seek funding to provide for a competitive grants program for new and innovative enterprises.

- Identify and assemble a team of experts in business development, technical, production, environmental, food technologies, etc, to assist applicants in the development and feasibility of their business plans.

## LAND USE

**Recommendation #24** – Agribusiness should be a priority in land use planning.

- State and county regulations/ordinances should not restrict the farmer’s ability to grow and harvest crops for profit.
- When a sector of agribusiness is regulated beyond profitability, create incentives for new and improved uses of the product.
- When property rights are violated there should be an appeals process that allows the property owner to seek a variance from the regulation or compensation.
- Require economic impact statements on state regulations.
- Regulations should be science-based.

## WATER

**Recommendation #25** – During extreme drought conditions that call for government mandated restrictions, agribusiness should rank second only to human consumption because without water the commodity dies.

- Establish a water use policy for processors of food and fiber.

**Recommendation #26** – Encourage the Natural Resources Conservation Service to give greater priority to funding conservation based irrigation systems through the Environmental Quality Incentives Program (EQIP) portion of the Farm Bill.

- South Carolina should join with other southern states to seek its share of federal funding for conservation irrigation.

**Recommendation #27** – Reconsider policy on containment areas and develop new reservoirs to expand the state’s water resource supply.

- Commerce should take an active role in relicensing of all hydroelectric facilities.

## TRANSPORTATION

**Recommendation #28** – Support the South Carolina Business Alliance for Transportation proposal to fund maintenance and safety of state’s highway system.

**Recommendation #29** – Because the Port of Charleston is not properly equipped for break-bulk cargo, encourage inland staging and distribution points that break the bulk shipment down to smaller units thereby, lowering freight costs.

**Recommendation #30** – Establish rail staging points throughout the state for plants without such capability.

**Recommendation #31** – Maintain maximum weight limits on secondary or farm-to-market roads and bridges that are a vital link from producer to processor.

**Recommendation #32** – South Carolina’s role as a trade gateway should be leveraged with neighboring states whose trade corridors depend on the continued maintenance and development of South Carolina’s transportation infrastructure.

- Strategic partners and incentives need to be identified and a marketing plan developed for creating alliances in supporting regional development of the trade corridor.

**AGRIBUSINESS ECONOMIC IMPACTS**

- Over 460,000 jobs in the state are agribusiness related jobs, 22.1% of all jobs in South Carolina.
- These jobs result in a \$35.7 billion in gross sales each year, representing about one fourth of South Carolina’s total economy.
- The agribusiness industry provides \$15.1 billion in income (over 17% of the state’s total income).
- Total cash receipts for crops and livestock in South Carolina average \$1.7 billion a year.
- The top commodities for cash receipts are:

COMMODITY	VALUE IN MILLIONS
Timber	\$548
Broilers	\$342
Greenhouse	\$200
Turkeys	\$137
Tobacco	\$131
Cattle	\$106
Cotton	\$84
Eggs	\$65
Milk	\$60
Soybeans	\$46

- Individuals or families, not large corporations, own 90% of the state’s farms.
- Of the 19.9 million land acres in South Carolina, 12.4 million are forested and 4.7 million in farmland. Private non-industrial landowners own 74% of forest land, corporations 16%, and government 10%.

**J. TAX FINANCIAL INCENTIVES**

**Preface**

Although they have come somewhat under fire in recent years, tax incentives play a vital role in both attracting new industry to South Carolina as well as expanding existing industry. In fact, according to testimony by Ernst & Young, based upon a national survey, tax incentives have grown in importance as a site selection consideration over the past two years.

Below are recommendations designed for a multi-year plan, realizing that the state’s present budgetary crisis could hinder the ability to adopt some of these recommendations.

## **RECOMMENDATIONS:**

### **TAX INCENTIVES**

#### **Recommendation #1 – LIFE SCIENCES**

- Life Sciences, which incorporate many groups of knowledge-intensive industries, is one of the few bright spots in the US economy today. South Carolina has historically had success with targeting industrial clusters. Our tax incentives should be modified to explicitly encourage the formation and growth of life sciences. Specifically, the JTC and the Enterprise Zone Act should be amended to include the following NAICs Codes: 3254 (Pharmaceutical and medicine manufacturing; NAICs 334516 (analytical lab instrument manufacturing); NAICs 334517 (Irradiation Apparatus Manufacturing). In addition, the Enterprise Zone Act should be amended to grant the Enterprise Zone Committee the discretion to allow qualifying employers (as defined above) to retain 95% of their Jobs Tax Credit (JTC). The Economic Development Bond Act of 2002 should be amended to lower the investment and employment requirements for the Life Sciences Cluster. Lastly, the state should consider a refundable JTC for this cluster.

#### **Recommendation #2 - LOWER THE THRESHOLD FOR THE JOBS TAX CREDIT FOR CERTAIN SMALL BUSINESSES**

- The great majority of domestic South Carolina businesses never become eligible for our principal corporate income tax incentive, the JTC, because that incentive requires the creation of 10 jobs in a single year. The 10 jobs threshold should be lowered to just 5 jobs for certain eligible employers (excluding retail and service jobs), with a corresponding reduction in the credit.

#### **Recommendation #3 - TECHNOLOGY ZONES**

- The state should designate no more than three technology zones for which preference should be given to communities and institutions, which provide a local match. (Examples would include the Digital Corridor and the ThinkTech initiative in the city of Charleston). New or expanding high technology businesses which are certified by the state should receive a income tax credit amount equal to the sum of the real and personal property taxes, income and sales, and sales and use taxes, which the businesses pay to locate in the Zone.

#### **Recommendation #4 – DIGITAL BROADBAND EQUIPMENT**

- Effective through 2004, the state should establish an income tax credit or equivalent for qualifying investments in digital broadband equipment, which must be capable of transmitting signals at a rate of 200,000 bits per second to a subscriber and at least 125,000 bits a second from a subscriber. Specific requirements must be met by telecoms, commercial mobile service carriers, cable and open video system operators, satellite or wireless carriers, packet switching equipment, and multiplexing and demultiplexing equipment.

#### **Recommendation #5 – TELECOMMUNICATIONS INDUSTRY**

- The telecommunications industry is critical to the establishment of the new high-tech, knowledge-based economy in South Carolina and yet it is largely excluded from our economic development incentives. In addition, until recently, South Carolinians have historically paid some of the highest access charges in the U.S. in order to make a long distance call, and there is less competition in the local telephone market here than most other states. Telecommunications should be eligible for traditional incentives and competition should be fostered in the local telephone market.

**Recommendation #6 – EXTEND THE ECONOMIC IMPACT ZONE PROVISIONS TO THE TEXTILE INDUSTRY**

- The General Assembly responded to the base closures in Charleston and Aiken by establishing several incentives for certain Economic Impact Zones, which were defined as counties within 50 miles of Charleston and Aiken. These incentives included tax credits for hiring displaced textile workers; for investing in small businesses; and a state investment tax credit. These incentives should be extended to those businesses and persons negatively affected by the severe decline in the textile industry.

**Recommendation #7 – 100% SALES FACTOR FOR MULTISTATE INCOME**

- Corporate income taxes for manufacturers which pay taxes in more than one state are calculated according to a formula which compares their payroll, property, and sales in South Carolina versus elsewhere. Some years ago, the General Assembly changed the formula to double weigh the sales factor. The formula can still penalize businesses with substantial property and payroll in South Carolina, i.e., domestic corporations. The formula should be changed to a 100% sales factor so as to reward corporations which invest capital and create new jobs in this state. In addition, under current law only manufacturers are entitled to factor apportionment. (Other businesses are required to use gross receipts.) The high tech sector should also be allowed to use 100% sales factor.

**Recommendation #8 – REFUNDABLE CREDITS**

- The JTC eliminates up to 50% of an entity's income tax liability. Our JTC statute is a soft dollar, and largely illusory, income tax credit for the simple reason that many businesses do not have an income tax liability. This is particularly so in the start up years. The state should consider adopting a refundable and assignable JTC credit for certain targeted industries. (Both KPMG and E & Y testified at our subcommittee meeting that this should be one of the state's top priorities.) Examples of what other states have done in this regard include:
  - GA - job tax credits in most distressed counties are refundable against employment withholding tax regardless of industry
  - NM - refundable credit for film production
  - OK - the ability to transfer to unrelated parties % of Wind Turbine credits
  - CT - transfer of unused R&D credits
  - NJ - transfer of unused R&D credits
  - Iowa - refund of ITC for ethanol production
  - KS - refund of ITC for certain M&E purchases
  - LA - transfer technology commercialization credits for targeted industries
  - OR - transfer of Child Care credits
  - Because of revenue implications, the statute should be (1) limited to certain targeted core industries (such as life sciences); (2) contain an overall tax cap; (3) require preapproval by the DOR; and (4) contain a sunset provision.

**Recommendation #9 – NEXUS FOR DISTRIBUTION FACILITIES**

- South Carolina needs to expand its ability to compete with Georgia for quality distribution projects. State law should be clarified to explicitly state that an out- of- state manufacturer or shipper which owns or utilizes a South Carolina distribution facility is not, by that fact, subjecting itself to nexus (i.e. taxation) in this state.

**Recommendation #10 – PORT INCENTIVES**

- Both North Carolina and Georgia have targeted tax incentives to foster their ports. North Carolina allows companies to earn tax credits on certain fees for cargos, which exceed the average of feed paid on cargo handled through the ports at Morehead City and Wilmington for the previous three years. The amount is credited up to 50% of the total tax liability. Georgia provides an increased Job Tax Credit for companies which have increased their port traffic tonnage through Georgia Ports during the previous 12 months by more than 10%

over the 1997 base year port traffic or by more than 10% over the previous 12 month period. In such cases the JTC is increased by \$1,250 per job. South Carolina should consider adopting similar incentives.

#### **Recommendation #11 – FLOW-THROUGH ENTITIES**

- While most of our tax incentives are available to flow-through entities, three apparently are not: R&D credit; Corporate Headquarters Credit; and Infrastructure Credit. These incentives should be amended to allow Sub S corporations and LLCs to be eligible for such credits.

#### **INCENTIVE SIMPLIFICATION**

##### **Recommendation #12 – THE DEPARTMENT OF REVENUE SHOULD PREPARE FEE-IN-LIEU RETURNS**

- Historically, the Department of Revenue prepared the fee-in-lieu property tax returns. This assisted both the taxpayer as well as the county. Because of a persistent budget cuts, last year the DOR discontinued preparing these returns and now requires tax payers to prepare this extremely complicated form. We should go back to the former practice, with the DOR given the resources to do the job.

##### **Recommendation #13 – FEE-IN-LIEU SIMPLIFICATION**

- Fee-in-lieu is one of the state's most important tax incentives. The incentive is far too complex, full of pitfalls for the unwary, and generally requires the taxpayer to pay two sets of attorneys (his own as well as the County Attorney). The incentive can, and must, be simplified.

##### **Recommendation #14 – LOCAL SALES TAX**

- The DOR should explore collecting local sales taxes from restaurants and hotels and remitting to local governments. A single sales and use tax form would simplify reporting and would probably increase tax collections.

#### **OTHER**

##### **Recommendation #15 – SUNSET PROVISIONS**

- Experience teaches that once a tax credit incentive is signed into law, it is never repealed even if the reason for the adoption of the tax credit has long disappeared. (For example, we have a property tax exemption for Spanish American War Veterans groups!) Every new tax credit which is adopted should have a time certain sunset provision, and the DOR and Commerce should be required to bi-annually review the effectiveness of credits to the Joint Committee on Taxation.

##### **Recommendation #16 – ELIMINATION OF CONTINGENCY FEES FOR INCENTIVES**

- Economic development incentives are designed to create additional private investment and new jobs. Incentives were never designed to be put into the pockets of consultants who may receive up to 20-30% of an incentive package. If our incentives are so complex so as to justify the engagement of a consultant on a contingency fee, then the incentives should be simplified. In addition, "bounty hunters" have no place in our tax system.

### **Recommendation #17 – ANNUAL INCENTIVES COMPARISON REPORTS**

- Commerce should annually compare the availability and use of incentives by the 3-5 states with which we most competed against for industrial prospects with the incentives available and used in this state.

### **Recommendation #18 – ANNUAL FEE IN LIEU REPORT**

- One reason why economic development has slowed so much in this state is the distrust and misinformation, which has grown between state and local governments, specifically state government, county council and local school districts. One source of distrust has been the relative lack of information available regarding one tax property tax incentive, fee-in-lieu. The State newspaper reported some two years ago that experts hired by the School Boards Association were unable, even by filing FOIA requests, to obtain information on this incentive. The DOR should be given the resources to annually prepare a fee-in-lieu report which discloses details on every new fee-in-lieu executed by the County, which should be freely available to local government and the public.

### **Recommendation #19 – DISTRIBUTION OF MULTI COUNTY BUSINESS PARK REVENUES**

- As stated above, the growing distrust which our school districts have developed towards economic development has the real potential to hinder the state's economic development. One of the major reasons for the distrust concerns the distribution of MCBP revenues within the various taxing entities (county, city, schools and special purpose districts). Revenues from MCBPs should be distributed to the taxing entities in the same proportion as the millage. (An exception should be made for very large projects).

### **Recommendation #20 – RENAMING “DISTRESSED” COUNTIES FOR JTC PURPOSES**

- For public relations purposes, Tier One counties should be renamed.

## **K. CONCLUSION AND ACKNOWLEDGEMENT**

Special thanks and admiration are extended by the Chair to the 51-member Task Force. The passion, enthusiasm, devotion and love for this great State was overwhelming. Usually in such a large group, it is not uncommon for only a few to perform the majority of the work. Not so, as it relates to the future economic development and well-being of South Carolina. When once asked by Secretary of Commerce Faith, “Who is doing the lion's share of the work?” (or words to that effect), I responded, “All 51 members.” Further a special thanks must be extended to the staff of the Department of Commerce who, whenever asked, always freely provided input, recommendations and ideas of how it can improve and the direction or path our State needs to go to insure its future. Additionally, I want to extend my appreciation to Blue Cross Blue Shield of South Carolina and particularly Jill Davis, Special Assistant to its Chairman and CEO, a University of Virginia Darden School of Business graduate, who patiently provided her time, energy and devotion to this project. To the Palmetto Institute, we appreciate your more than capable collective brainpower, energy and foresight. Next to Bob Faith for his insight, wisdom, and patience (well, sometimes patient!). Then, to Governor Mark Sanford, who entrusted me with this massive project and who provided the vision, compassion, courage and leadership to embark on this journey during a time of budget strife and national economic woe in some business sectors.

Finally, a special, special thanks to my wife and friend, Katherine, who tolerated me over the past few months and who often deprived herself of sleep while providing me a guiding hand and support during this process.

Hopefully, this Report can assist us in laying a new foundation for our future and the future of my children and grandchildren. Once again, Thank You Governor Sanford for humbling me with the honor of working with such wonderful South Carolinians. As my Managing Law Partner instructed, “Do whatever you need to do in the best interests of South Carolina.” Hopefully this project will assist in some small way to further those interests.



Clarence Davis

## **APPENDIX**

1. The South Carolina Challenge & Regional Economic Analysis – The Palmetto Institute.
2. Approaching 2000: An Economic Development Vision for South Carolina (S.C. Dept. of Commerce and South Carolina Dept of Parks, Recreation & Tourism)
3. Strategic Plan for Economic Development in South Carolina, Growth Strategies Organization, Inc. (Nov. 1999)
4. South Carolina Profile of the State Economy by Michael Porter, Institute for Strategy and Competitiveness
5. Commonwealth of Virginia Strategic Plan for Technology 2002 – 2006
6. “Partnering to Shape Florida’s Economic Future:” Florida Strategic Plan for Economic Development
7. Rural Knowledge Cluster: The Challenge of Rural Economic Prosperity, August 2002, Lee W. Munich, Greg Schrock and Karen Cook, Hubert H. Humphrey Institute of Public Affairs – University of Minnesota.
8. We Are Changing The Way We Do Business: North Carolina’s 2002 Economic Development Strategic Plan
9. The New Challenge for the Charleston Region: Building on Innovation Economy, August 2002 – Ed Morrison
10. Pathways To Prosperity – Success for Every Student in the 21<sup>st</sup> Century Workplace, October 2001