State of South Carolina

Office of the Governor

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June 13, 2006

The Honorable Robert W. Harrell, Jr.
Speaker of the House of Representatives
Post Office Box 11867
Columbia, South Carolina 29211

Dear Mr. Speaker and Members of the House:

I am hereby vetoing and returning without my approval H. 4874, R-437, to become law without my signature.

There are a host of very important changes in H.4874 all of which I applaud, and on balance we believe this bill was of benefit to the taxpayers of South Carolina. There were certainly pieces we did not like as this bill included two bills we had previously vetoed. In addition, there is one more provision that was added to help one retailer in the last hours of the session that we find so agregious that I am left with no other alternative than to veto the bill. Here is our reasoning:

If enacted this bill would have long term negative implications for economic development in this state because of what this provision includes and the way it came about.

1. It undermines the Secretary of Commerce. Since Carroll Campbell's time and the creation of the Department of Commerce, the Secretary has run point on behalf of the state in negotiating deals that use state incentives. In fact, the recent Duke study stressed the importance of maintaining that chief negotiator position if South Carolina is to stay competitive in economic development. In this instance, the Secretary was in discussion with this firm about a distribution facility and this bill undermines his negotiating position. In fact, one could very reasonably make the case that passage of this bill moves us toward 170 "secretaries of commerce" because if any firm can strike a better deal and larger incentives by working through a member of the House or Senate, who then sponsors supporting legislation, then why bother with the Secretary of Commerce?

2. Without determining appropriate rates of return to the state, as is consistently done with manufacturing investment in our state – *and* without a comprehensive debate by those in the economic development community or legislative body - *this bill moves us into incentivizing*

retail investment for the first time in our state's history. We have not in the past because retail investment follows disposable income. The greater the buying power of a region, the greater the number of retailers who will move into that region to capture a portion of that region's consumer spending. This bill would break from the underlying philosophy that has driven our state's incentive structure for decades. Rather than incentives being used to make the difference in whether or not an investment came to South Carolina (that would both raise incomes and wealth), we would get into the business of incentivizing investments already destined to come our way. Additionally, because retailing often-times uses part-time and lower paying jobs, it's more difficult to quantify the level of economic impact than in the jobs we have incentivized to date.

3. It involves government picking one retailer over others. While the company in question is certainly a great retailer who we would indeed love to see come to South Carolina, it needs to be remembered that there are other new retailers in our state that are themselves destinations. People come from a long way to go to the Bass Pro Shop in Myrtle Beach. People will come from a long way to go to the new Tanger Outlet Center in North Charleston. It would be a mistake to disadvantage these vendors for the sake of another.

   In addition, there are a lot of other family businesses that have been paying taxes in South Carolina for a long time that would now be called on to subsidize a loss in their sales. In the Charleston area alone, businesses like Dumas and Sons, Luden's, Carolina Rod and Gun, Haddrells Point Tackle and Supply, the Charleston Angler, Henry's Sporting Goods, Hanckel Marine, Toby's Bait and Tackle and many others would fall into this category.

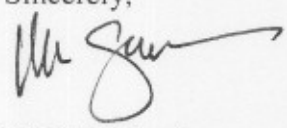
4. In addition to job credits, this bill rebates a portion of sales tax revenue back to the company. This is as well groundbreaking policy and in the long run I suspect would lead to a very large list of other retail supplicants ranging from car dealers to furniture stores arguing for similar sales tax rebates.

5. We believe it would weaken manufacturing which has already been hard hit in dealing with the global changes afoot in our nation's economy. If one accepts the premise that we have a finite number of dollars available for incentives, then the bidding war and eventual opening of the flood gates to incentivizing the thousands of retail establishments across our state will result in fewer dollars available for manufacturing, distribution or tourism investment incentives.

Finally, the creation of these special incentives opens the door for a long overdue discussion. Currently, our tax code has far too many incentives carved out for only one area of the state or for one business that might come to our state. This arrangement is getting us further away from being globally competitive by not looking at more ways to create a tax structure composed of incentives that will broadly help all of South Carolina. Too often we look at things in a vacuum instead of stepping back and looking at it from a holistic approach. The special incentives created in this bill may be alright if they were shaped in this way. But these special "carve-outs" add one more item to the already cluttered piecemeal legislation in our tax code. So, bottom line,

I believe it is time we stop singling counties or businesses out and take a look at this section of our code in a much broader perspective. Specifically, I am asking the Department of Commerce before the beginning of next session to look at and report the current tax incentives that no longer serve their purpose.

Sincerely,



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