



State of South Carolina

Office of the Governor

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June 27, 2007

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. 3749, R-177.

There are a host of changes in H. 3749 that I believe deserve consideration and proper debate. This bill, however, which started as a short bill with only one section, is now a very different bill with a laundry list of 70 sections that have not gotten the consideration they deserve in the legislative process.

We have already stated our objections to two of the provisions in this bill - one relating to the construction of an amusement park and another related to tax incentives for a tire manufacturing plant - in the vetoes of both S. 91 and S. 243. Unfortunately, there are two additional provisions in this bill that we find particularly objectionable with regard to incentives to retailers.

Most simply put, at what I would view as the very rotten core of this bill, it does what we should never do to small businesses in our state - take their money to subsidize a large corporate competitor that could well put them out of business.

This bill modifies a provision that I vetoed on two occasions during the last legislative session relating to incentives for Cabela's. We vetoed this provision because it effectively forced family-owned stores that have been in business for years to subsidize a large and well funded competitor. The unprecedented retail incentives that passed qualified Cabella's for job tax credits for every full-time position created and up to a possible 50 cents in rebates on every dollar generated in sales tax for stores in Horry or Charleston County. We have never before used sales taxes in this way, and in total, taxpayers would have been saddled with almost \$9 million in possible incentives in the first five years. Despite my objection, the provision became law.

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This is true special interest legislation and instead of coming back to repeal this legislation, this bill opens that incentive statewide in an effort to lure a Bass Pro Shop or Cabela's to another part of the state. As it does so companies like Sportsman's Warehouse are expanding to our state without these incentives. This bill lowers the standards necessary to qualify for state money to appeal to more than just a Cabela's facility - and maintains the same sales tax provision that would direct dollars back to a retailer that qualifies for the incentive.

I laid out some of these concerns last year, but they bear repeating, in hopes that the General Assembly will, at some point, stop these provisions from taking effect.

1. We believe the State must embrace a more coordinated approach to economic development – the kind of approach envisioned by Carroll Campbell. South Carolina's commercial strategy should be vetted by the Department of Commerce rather than by whichever House or Senate member happens to be interested in a specific initiative. With regard to the state's economic development, it's inefficient and ultimately disadvantageous to have 170 "secretaries of commerce" rather than one Secretary negotiating deals on behalf of the state. By removing the Department of Commerce from deals like the one proposed in this legislation, the Legislature forgoes the kind of full exploration needed to formulate an economic strategy beneficial to the entire state.
2. The legislation uses tax dollars to favor one retailer over another. We would welcome the company in question, but there are a lot of other great retailers operating in South Carolina who haven't been given the advantage of these kinds of tax incentives. It's extremely unfair to ask these retailers – who've been paying taxes in our state for a long time – to subsidize a competitor.
3. This bill "guarantees" a qualifying company will be rebated back 50 percent of all sales tax revenue generated from their store. The previous legislation at least left a portion of this rebate up to the approval of Commerce's Coordinating Council. The present bill, by contrast, would side-step that provision and mandate a possible \$1.4 million be returned to qualifying companies – an advantage not afforded to other retailers. This sales tax provision is unprecedented, and will open Pandora's box going forward regarding sales tax exemptions.
4. This bill grants these benefits before the store opens its doors and reaches any of the qualifying criteria. According to the bill, the Department of Parks, Recreation and Tourism may grant a conditional certification if it "looks like" the store may meet requirements such as attracting 3.5 million visitors per year, investing a least \$25 million, and reaching \$33 million in sales. In addition, once the store is certified under this hypothetical scenario, there is no further certification process in years to come. In other words, a targeted firm will receive tax incentives with absolutely no accountability.

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Consider this, by 2008, Cabela's and the store in question are on track to have a combined 82 stores across the country. If they each attract a minimum of three million visitors annually, as both companies claim, it would mean almost every man, woman, and child in the United States would have to visit one of their stores each year to fulfill the "tourism" criterion of this legislation. This seems extremely unlikely – and is not, in any case, the kind of standard on which the State ought to base its economic development policy.

Second, H. 3749 adds all retailers in counties that are "underdeveloped" and not traversed by interstate highways to the current list of retailers qualifying for an annual jobs tax credit. We believe retail investment follows disposable income: the more powerful a region's disposable income, the more likely a retailer will move into that region. North Carolina and Georgia have both espoused this philosophy by not adopting these incentives for retailers. Rather than incentives that are used to make the difference in whether or not an investment came to our state, this bill would go further down the path of incentivizing investments already destined to come our way. If we're interested in benefiting these "underdeveloped" regions, we ought to concentrate on the income issue rather than targeting certain favored regions.

In short, providing incentives for stores such as Cabela's and other retailers elevates short-term advantages over our State's long-term economic competitiveness. Other states have caught on to this idea. Kentucky, for example, recently considered legislation to provide \$20 million in tax incentives to Cabela's. That state's legislators rejected the proposal.

I would encourage the General Assembly to be more diligent when considering legislation of this kind. Making deals with specific firms is no substitute for formulating an economic development policy that benefits the whole state.

For these reasons, I am vetoing H. 3749, R-177.

Sincerely,



Mark Sanford