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MEMORANDUM

To: South Carolina Tax Realignment Commission
From: Ashlie Lancaster, Deputy Director
Re: Sales Tax Incentives for Energy Efficient Manufactured Homes
Date: November 12, 2009

In 2008 the General Assembly established two incentives to encourage the purchase of ENERGY STAR qualified manufactured homes. Sales tax on the homes was eliminated and home buyers could qualify for a \$750 nonrefundable state tax credit. These incentives just went into effect in July of 2009 and should be retained.

The sales tax exemption for manufactured homes is based on the fact that approximately 20% of homes in SC are manufactured homes and these homes are among the least energy efficient housing stock in the country. Most of these homes are found in economically depressed, rural areas and shelter a majority of South Carolinians who are near the poverty level, causing an additional burden on folks with limited resources. Because these homes are occupied by families with lower than average incomes and because these homes use more energy per square foot than site-built homes, residents of all manufactured housing pay a larger percentage of their household income for utilities than residents of site built homes. Local community action agencies, electric cooperatives, and social service agencies know of many instances where foreclosure occurred, not because the resident could not pay the mortgage, but because they could not pay the electric bills. A 30% reduction would yield around \$400/year savings—money that would make a huge difference in the budgets of low to moderate income families.

To earn an ENERGY STAR label, a manufactured home must meet strict guidelines for energy efficiency set by the U.S. Environmental Protection Agency and be at least 15 percent more energy efficient than homes built to the minimum energy code. They include additional energy-saving features and appliances that usually make them 20 to 30 percent more efficient than most homes built today, whether factory built or site-built. This is accomplished through effective insulation, high-performance windows, tight construction and ducts, high efficiency heating and cooling equipment, lighting and appliances.

Moreover, this incentive is part of a tiered approach to support the replacement of older manufactured homes with energy efficient models. The federal government values the ENERGY STAR label for manufactured homes so much that it provides a tax credit to manufacturers of these homes. Some utilities—Progress is one—value the ENERGY STAR label so highly that they offer incentive payments to dealers who sell these homes. The state does its part by providing incentives to individuals who buy them. This frees up expendable income which goes back into our economy and stimulates commerce as folks are able to use the money saved on their energy bills to buy things like groceries, clothing, and automobiles.

As such, anything we can do to encourage people to purchase the most energy efficient manufactured housing they can is important. It helps our utilities by lowering energy demand, it helps our citizens stay in their homes, and it helps the state by increasing the amount of disposable income available for in-state purchases of goods and services.

The ENERGY STAR manufactured housing sales tax elimination and the \$750 non-refundable income tax credit began this July. Clearly, due to the short time frame and the recession, we have not had a chance to gauge how much these incentives will be used. However, we feel very strongly that they have enormous potential to influence buying habits and encourage home buyers to purchase the most energy efficient homes possible. The incentives should be retained.