

“The Big Picture for Fiscal Year 2016-17”
A Presentation to the:
South Carolina School Boards Association
Legislative Advocacy Conference

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Hilton Head Island, SC

Mike Shealy
Senate Finance Committee Staff

A Long Run Viewpoint

- Long run is a misleading guide to current affairs. In the long run we are all dead.

- *John Maynard Keynes*

Select Annual Average Percent Changes 2000 to 2014

	2000	2014	Annual Average
Total Expenditures All Sources	\$13.4 B	\$20.2 B	2.95%
General Fund Revenues	\$5.387 B	\$7.033 B	1.92%
SC Population	4.024 M	4.832 M	1.32%
Consumer Price Index	172.2	236.7	2.30%

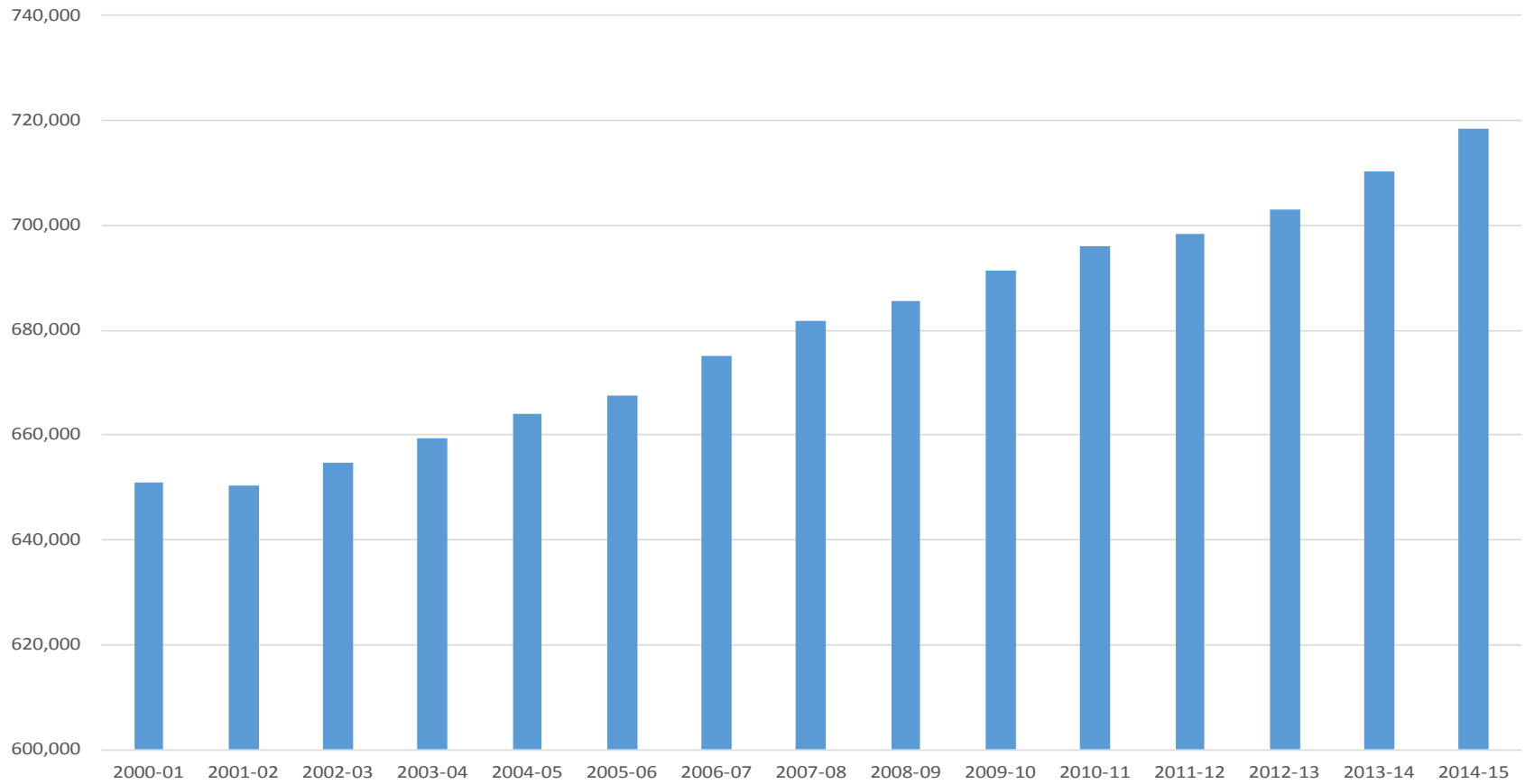
Core Government Tasks Funded through the State Budget

- Public Education from Pre-Kindergarten through High School.
- Higher Education from Technical Colleges through Research Universities.
- Health and Social Services (Medicaid & State Health Plan).
- Public Safety from the Highway Patrol through Corrections.
- Transportation from road maintenance through highway construction.

Driver Variables

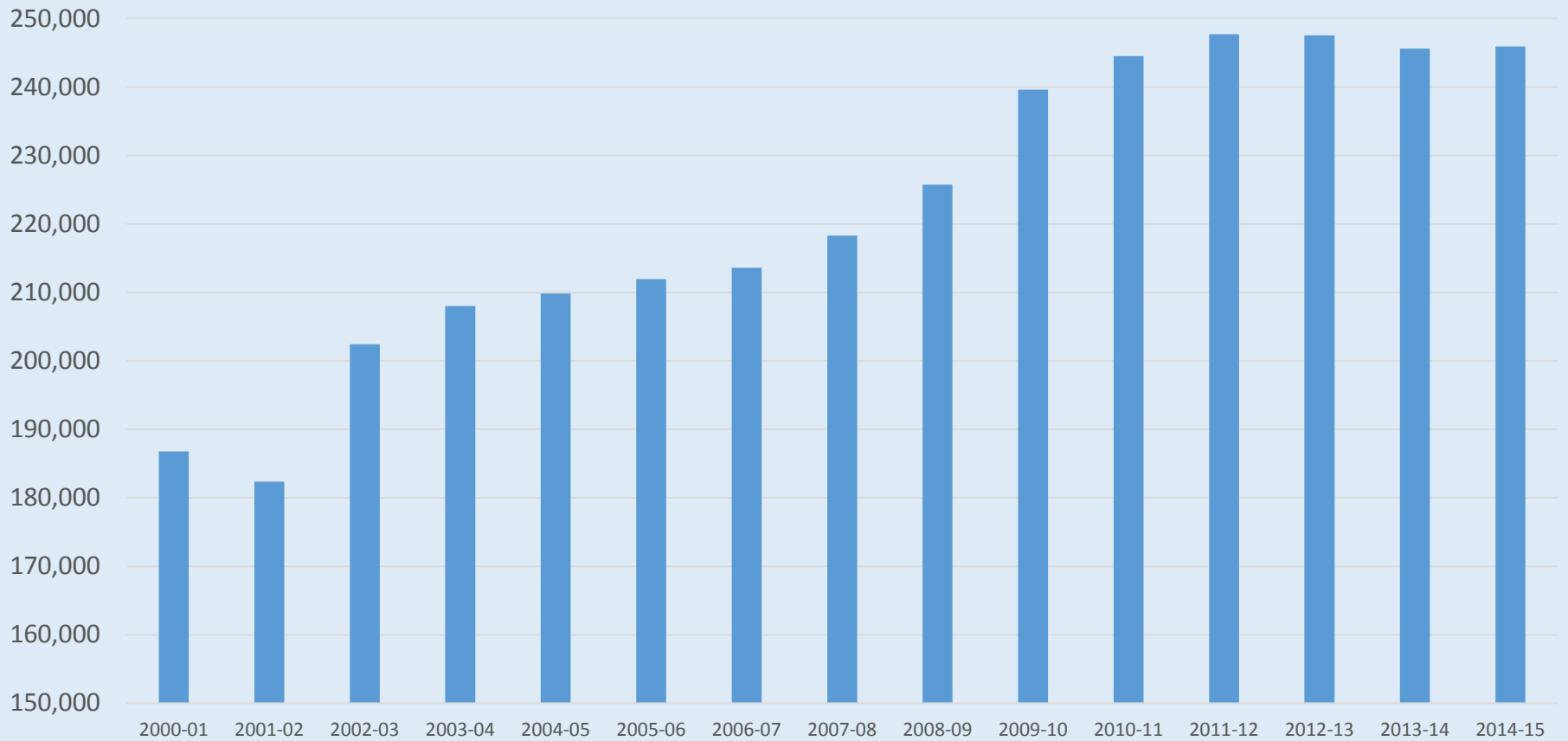


K-12 Enrollment
Avg. Annual Increase 0.66%



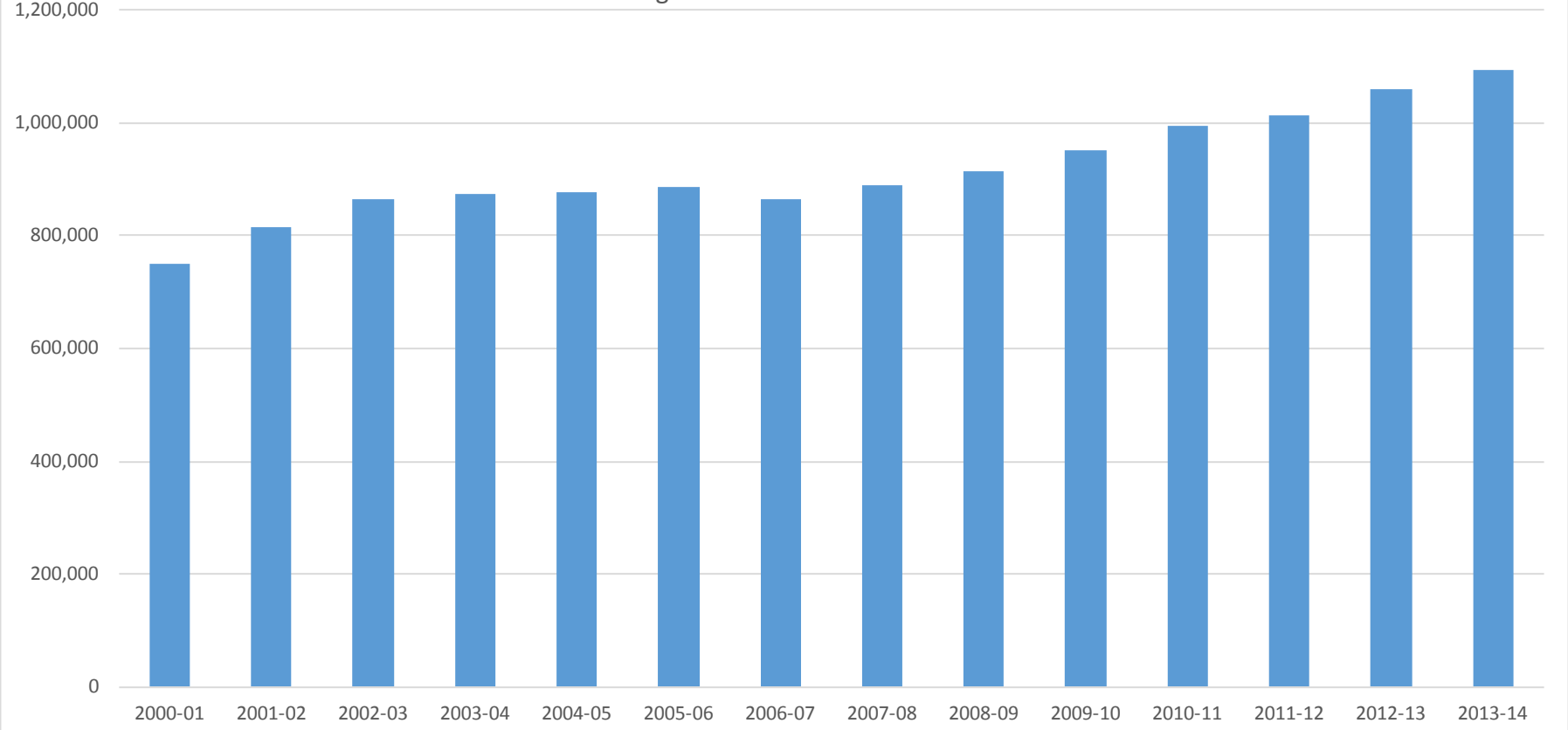
Higher Education Enrollment

Avg. Annual Increase 1.92%



Medicaid Recipients Unduplicated

Avg. Annual Increase 2.72%



Budget Facts



FY 2015-16 Appropriations

• General Fund	\$ 7,045,290,837	**
• Federal Funds	\$ 8,079,143,889	
• Other Funds	\$ 9,339,189,128	
Total	\$24,463,623,854	

** Includes Revenue recognized for the Supplemental Appropriations Bill (H.4230)
SC Total Personal Income in 2015 is \$183.7B. So, the State Budget represents about 13% of economic activity in SC.

FY 2015-16
General Fund Revenue

• Sales Tax	\$2,714,293,000
• Individual Income Tax	\$3,251,314,112
• Corporation Income Tax	\$ 307,790,725
• Other Sources	\$ 733,595,000
• Miscellaneous Sources	\$ 38,298,000
Total	\$7,045,290,837

** Includes Revenue recognized for the Supplemental Appropriations Bill
(H.4230)

Top 10 Statewide Other Revenue Sources Fiscal Years 1994-95 and 2013-14

Description	Amounts			Avg. Annual
	1994-95	2013-14	Differences	% Change
<u>Other Funds - Earmarked/Restricted</u>				
1. University Fees (College Tuition)	428,475,336	2,594,021,657	2,165,546,321	9.9%
2. Sales Tax - EIA (Earmarked for Education)	366,650,309	643,210,977	276,560,668	3.0%
3. Medicare and Medicaid Reimbursements (Earmarked Healthcare)	375,563,268	547,634,363	172,071,095	2.0%
4. Gasoline Tax (Earmarked DOT)	214,376,940	424,710,662	210,333,722	3.7%
5. Lottery Proceeds (Education - Largely Scholarships)	-	324,990,099	324,990,099	
6. Contributions Hospitals/Medicaid Hospital MIAA (Earmarked Healthcare)	93,746,470	255,889,516	162,143,046	5.4%
7. Medicaid CPE (Earmarked Healthcare)	-	169,113,136	169,113,136	
8. Motor Vehicle Licenses (Earmarked DMV)	-	153,630,583	153,630,583	
9. Cigarette Tax - Medicaid (Earmarked Healthcare)	-	122,000,000	122,000,000	
10. Tobacco Master Settlement Agreement (Earmarked Healthcare)	-	112,186,009	112,186,009	
Totals (Top 10)	1,478,812,323	5,347,387,001	3,868,574,678	

** Top 10 Other Funds represent 63% of Total Other Funds Appropriations

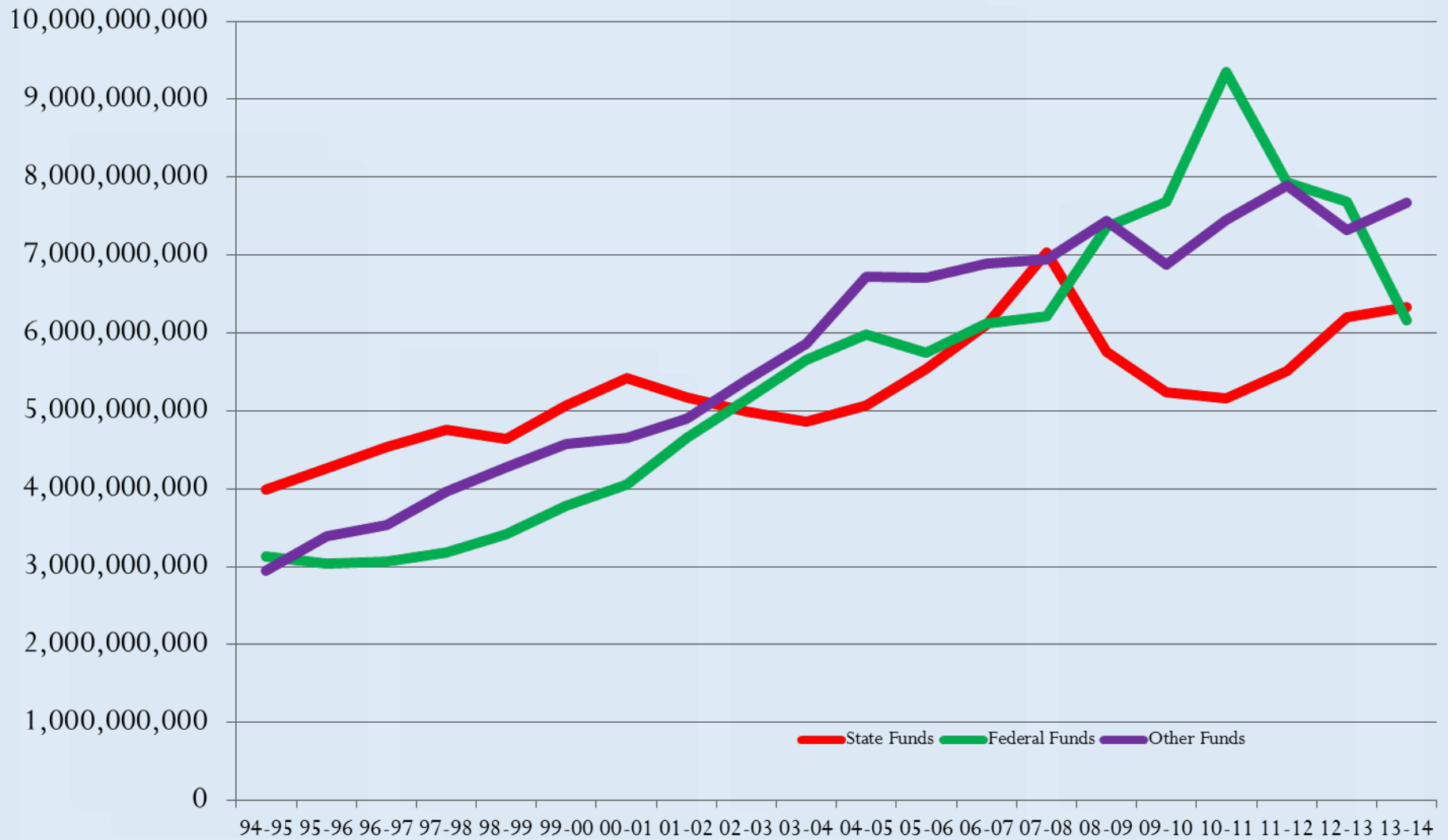
Top 10 Statewide Federal Revenue Sources Fiscal Years 1994-95 and 2013-14

Description	Amounts			Avg. Annual
	1994-95	2013-14	Differences	% Change
<u>Other Funds - Earmarked/Restricted</u>				
1. DHHS Medicaid (MAP) Assistance Payments	1,443,188,191	3,480,473,899	2,037,285,708	4.7%
2. DSS Food Stamp Coupons	301,893,005	1,283,613,972	981,720,967	7.9%
3. DOT Federal Grants	245,045,118	639,633,136	394,588,018	5.2%
4. Universities Federal Grants and Indirect Cost Recovery	206,374,744	466,405,159	260,030,415	
5. DHHS Disproportionate Share (DISH)	93,746,470	332,909,443	239,162,973	6.9%
6. SDE School Food Services - District	93,806,685	268,995,760	175,189,075	
7. DHHS Medicaid Asst Pymts - Refund Prior Yr Expenditure	-	221,715,375	221,715,375	
8. SDE Chapter I - Low Income □	87,104,395	204,115,375	117,010,980	4.6%
9. SDE Title VI Part B Handicapped	29,305,979	178,257,080	148,951,101	10.0%
10. DSS Temporary Assistance to Needy Families	-	98,475,734	98,475,734	
Totals (Top 10)	2,500,464,587	7,174,594,933	4,674,130,346	

**** Top 10 Federal Funds represents 94% of Federal Funds Appropriations**

Source : Executive Budget Office

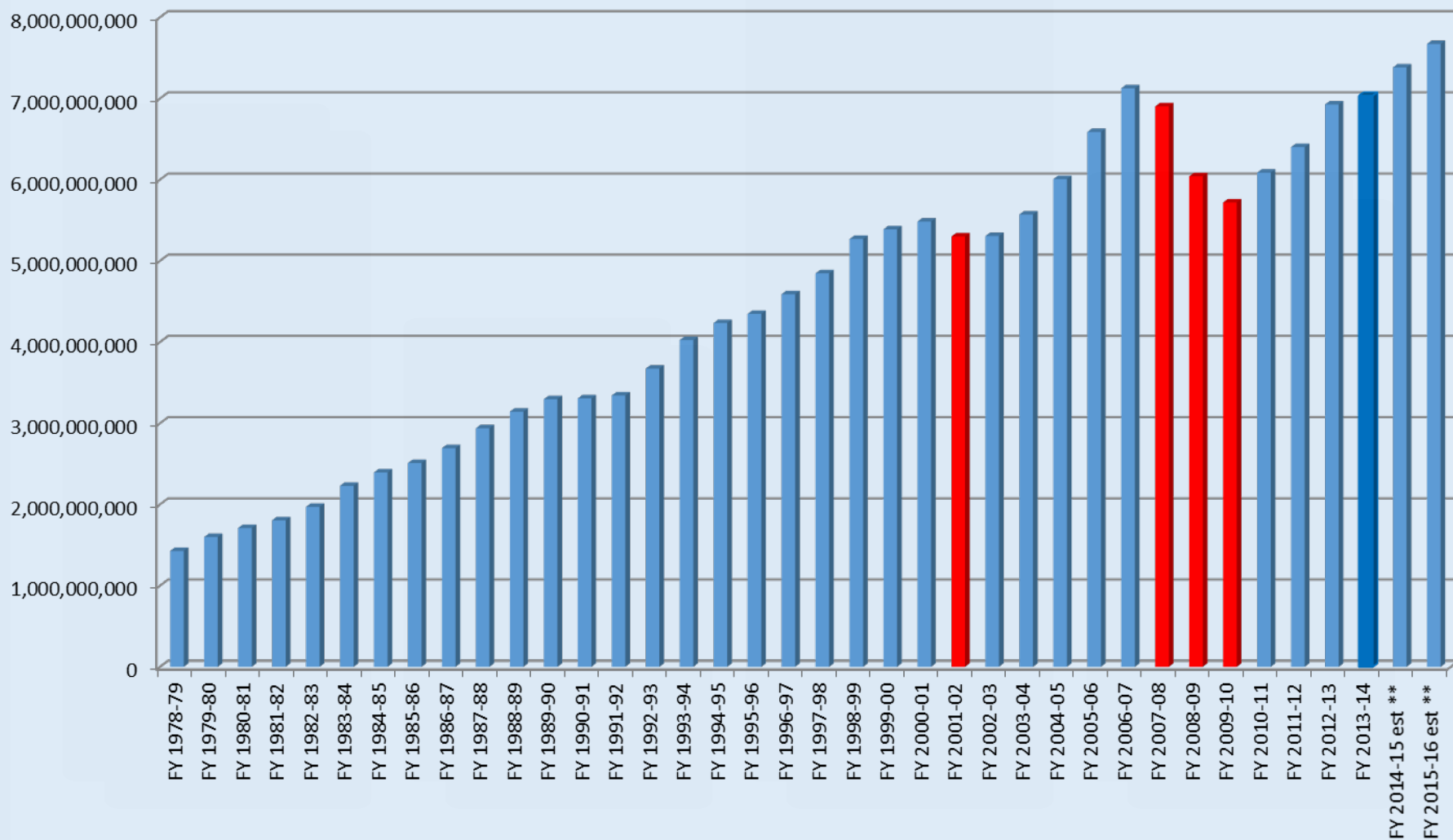
Actual Expenditures by Source





The Impact of the Great Recession on State Government was Profound and Severe.

Total General Fund Revenue



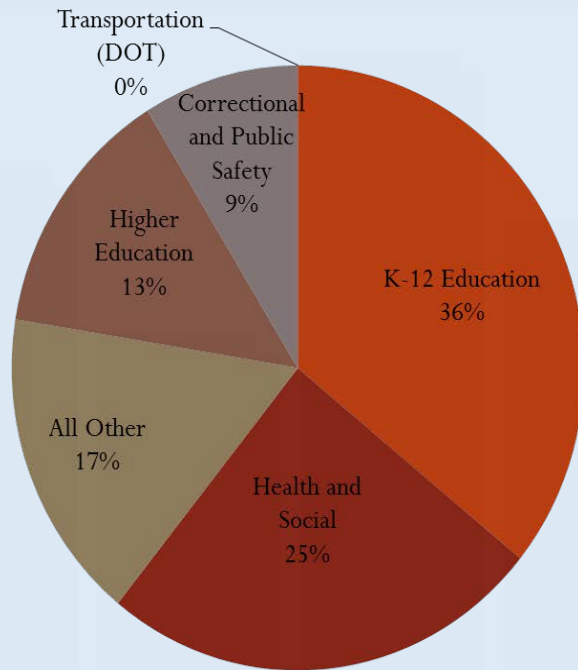
Where is the Money Spent?

Pre and Post Great Recession

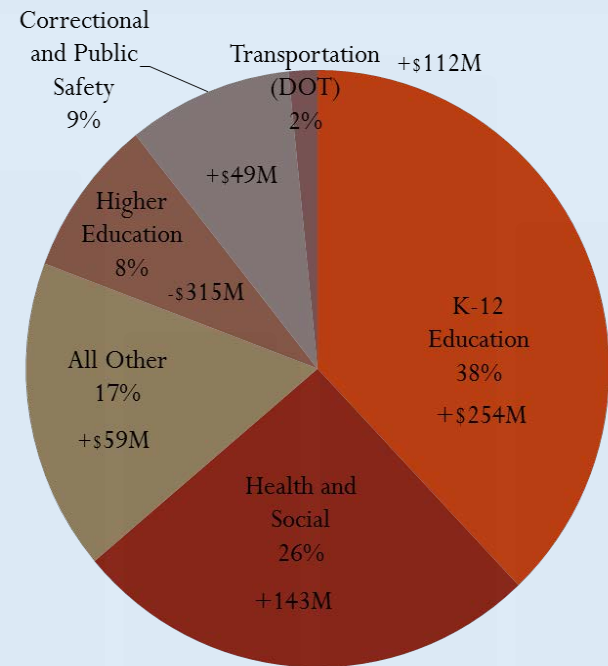
FY 2007-08

General Funds

FY 2015-16



Total: \$6.743 Billion



Total: \$7.045 Billion

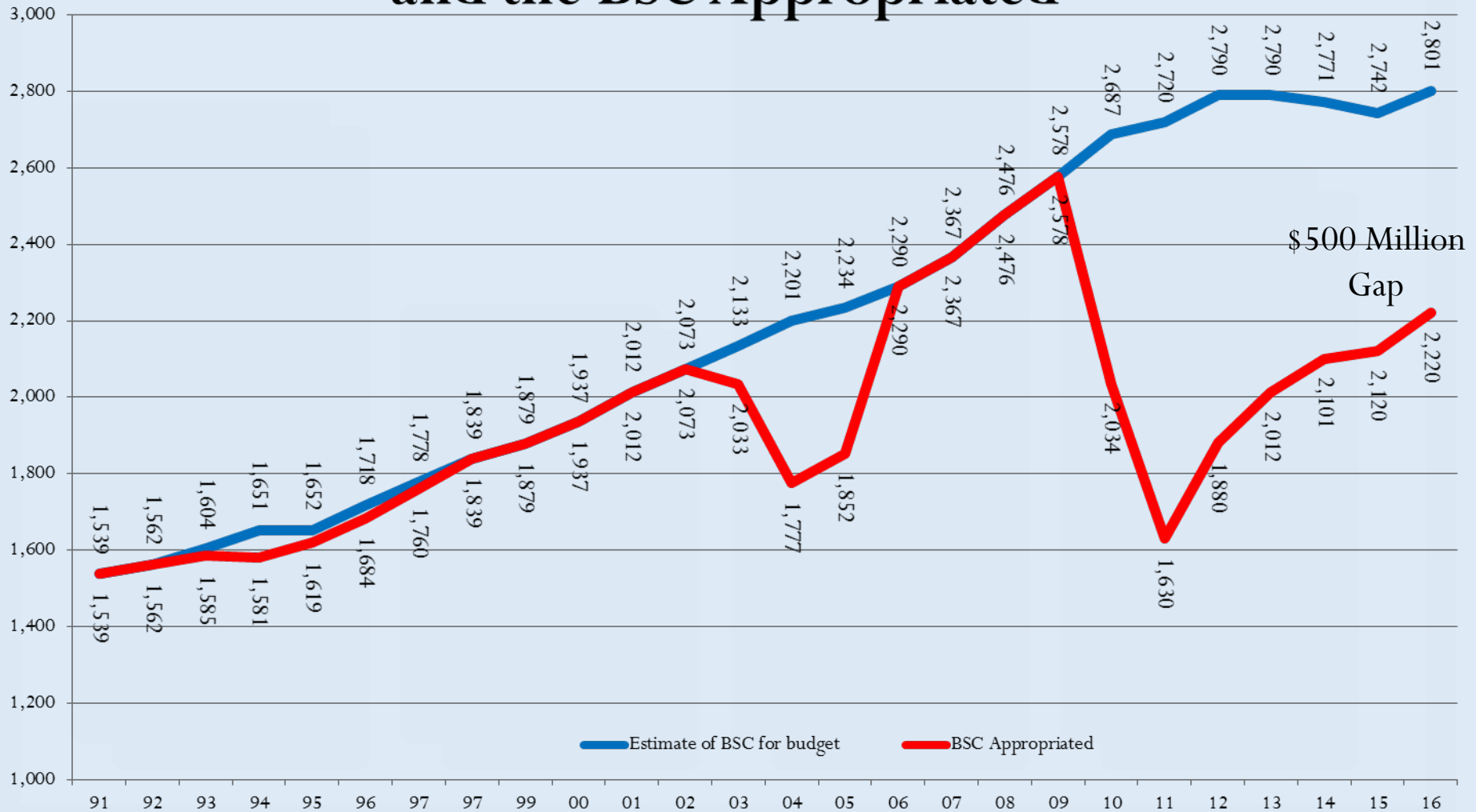
Where is the General Fund Money Spent?

Pre and Post Great Recession

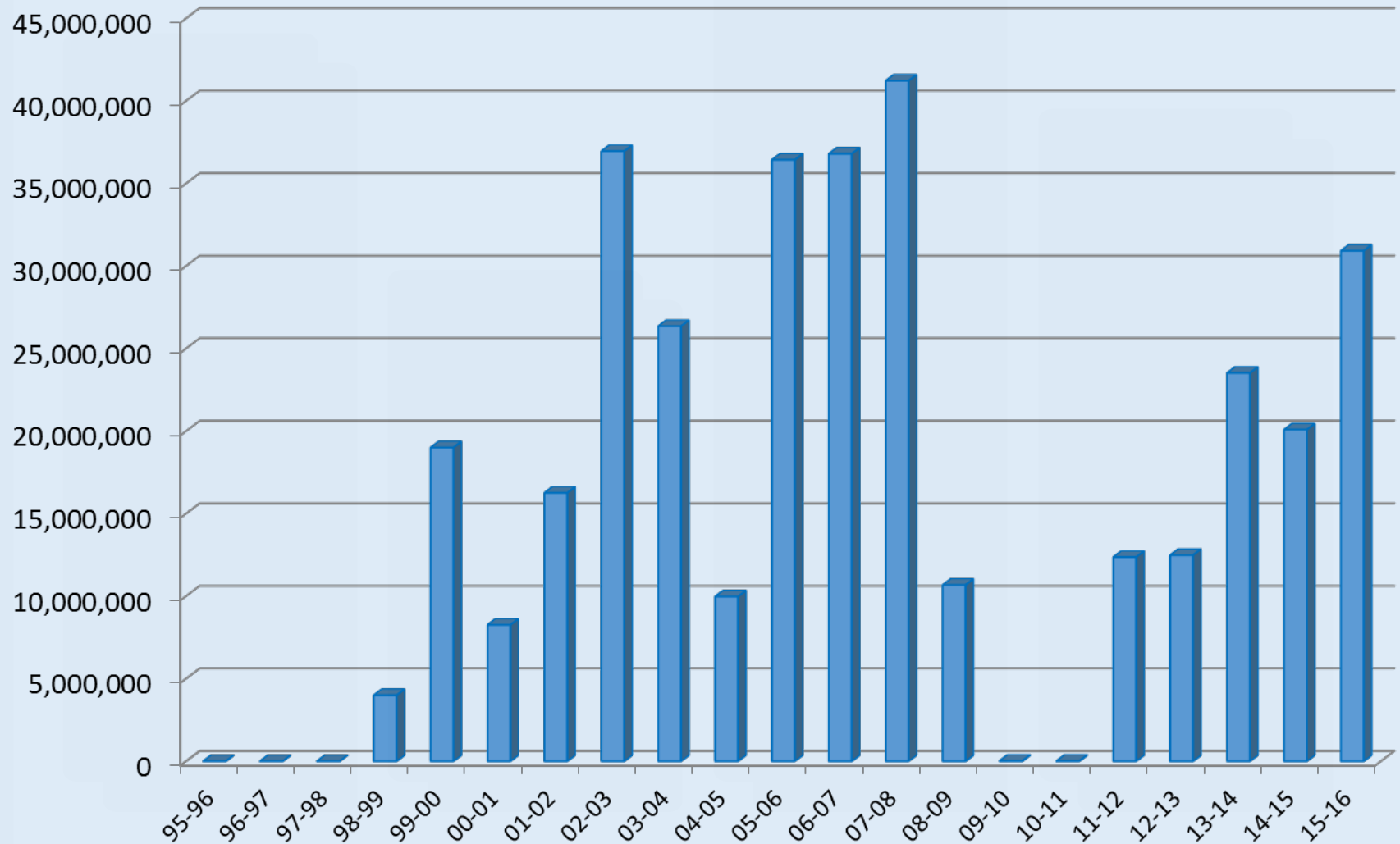
	FY07-08	FY15-16	Difference
K-12 Education	2,416,284,557	2,670,753,301	254,468,744
Health and Social	1,684,915,369	1,828,181,316	143,265,947
Higher Education	918,880,772	603,771,331	-315,109,441
Correctional and Public Safety	593,358,615	641,893,799	48,535,184
Transportation (DOT)	186,590	112,587,400	112,400,810
All Other	1,129,360,663	1,188,028,690	58,668,027
Total	6,742,986,566	7,045,215,837	302,229,271

Source: Executive Budget Office

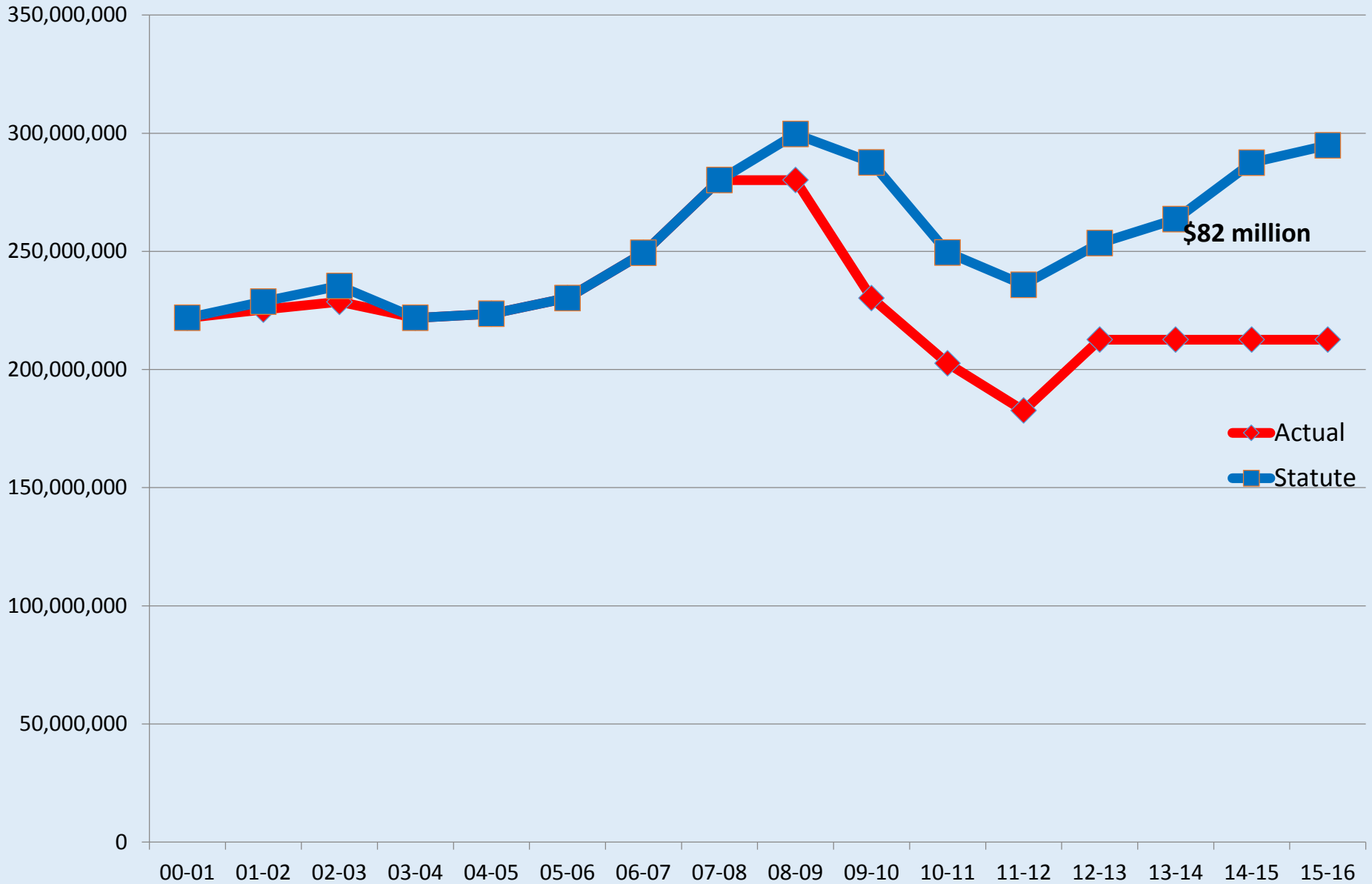
BSC Estimate Provided for the Budget and the BSC Appropriated



School Bus Purchase Total Appropriations



Local Government Fund



The Fiscal Year 2015-16 Budget & Fiscal Year 2016-17 Outlook



FY 2015-16 General Fund Appropriations

"New Money"

Recurring	386 Million
Non-recurring	388 Million
TOTAL	774 Million

Statewide Appropriations

Employee Benefits / Pay	58 Million
Reserve Funds	12 Million
Local Gov't Fund	25 Million
IT Security ("Breach")	5 Million
Debt Service	16 Million
SUBTOTAL	<u>116 Million</u>

State Agency Appropriations

K-12 Education	139 Million
Health and Environment	68 Million
Econ Develop & Tourism	106 Million
Higher Education	89 Million
Dept of Revenue	6 Million
Criminal Justice & Judicial	16 Million
Natural Resources	3 Million
Transportation	<u>218 Million</u>
SUBTOTAL	645 Million
All Other	13 Million

FY 2016-17 General Fund Revenue Outlook Summary

Non-Recurring Funds

Projected Surplus Available for Use in FY 2016-17

Contingency Reserve Fund	\$ 86.8 Million
BEA Revenue Estimate Adjustment for FY 2015-16	\$239.8 Million
Capital Reserve Fund	\$131.0 Million
TOTAL PROJECTED NON-RECURRING REVENUES	<u>\$457.6 Million</u>

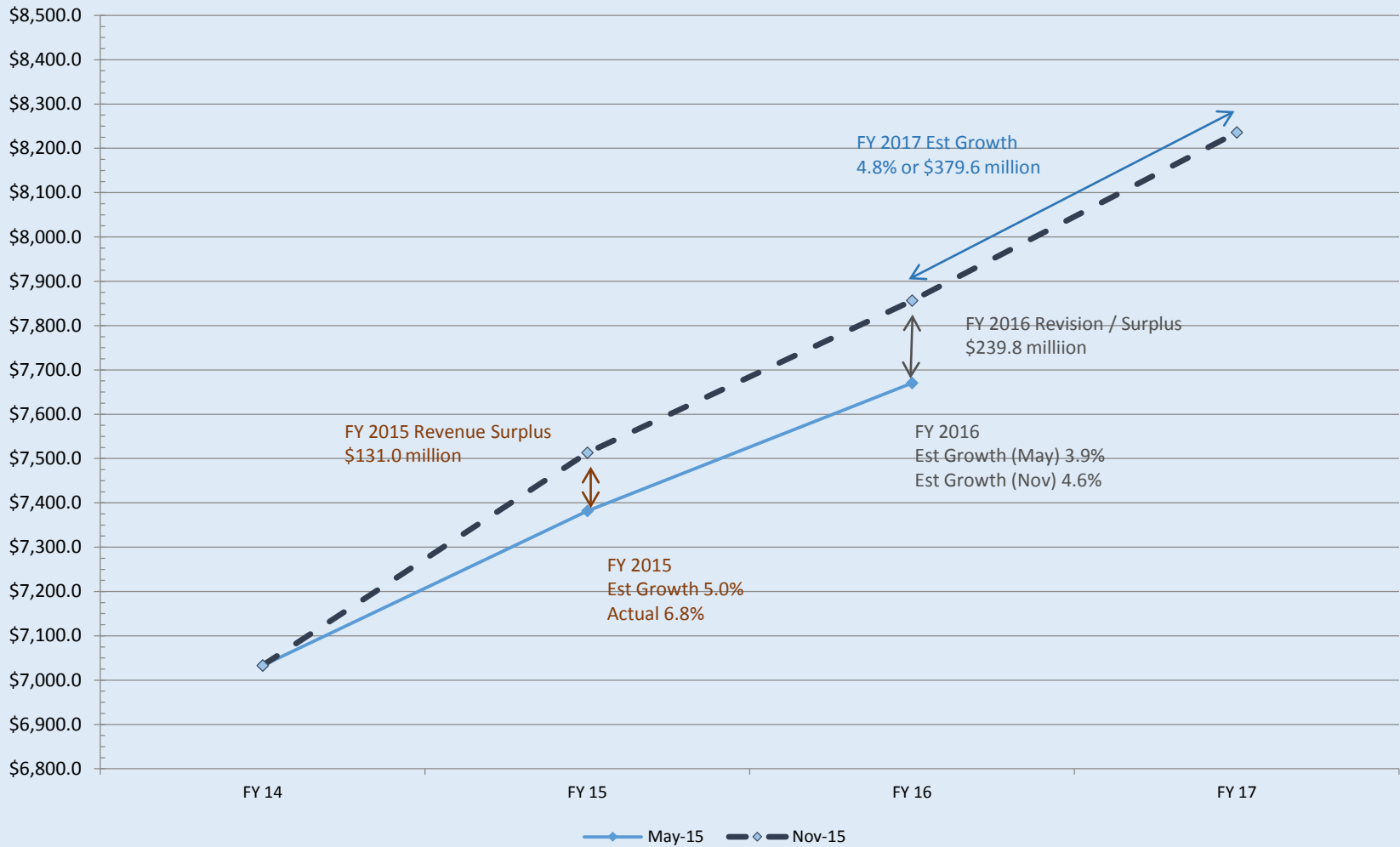
Recurring Funds

General Fund Revenue Available for Appropriation	\$562.5 Million
FY 2015-16 Recurring Funds not included in FY 2016-17 Recurring base (\$23.5 million \$800 one time bonus, \$70 million Volvo, \$70.5 million CTC roads and \$50 million from \$300 car sales tax)	\$204.0 Million
Projected New EIA Revenue (Restricted Account)	\$ 55.0 Million
Projected New Lottery Funds (Restricted Account)	\$ 20.4 Million
TOTAL PROJECTED RECURRING REVENUES	<u>\$841.9 Million</u>

TOTAL UNOBLIGATED FUNDS AVAILABLE FOR FY 2016-17 **\$1, 299.5 BILLION**

FY 2016 REVENUE ESTIMATES & FY 2017 PRELIMINARY ESTIMATES

May 2015 and November 2015

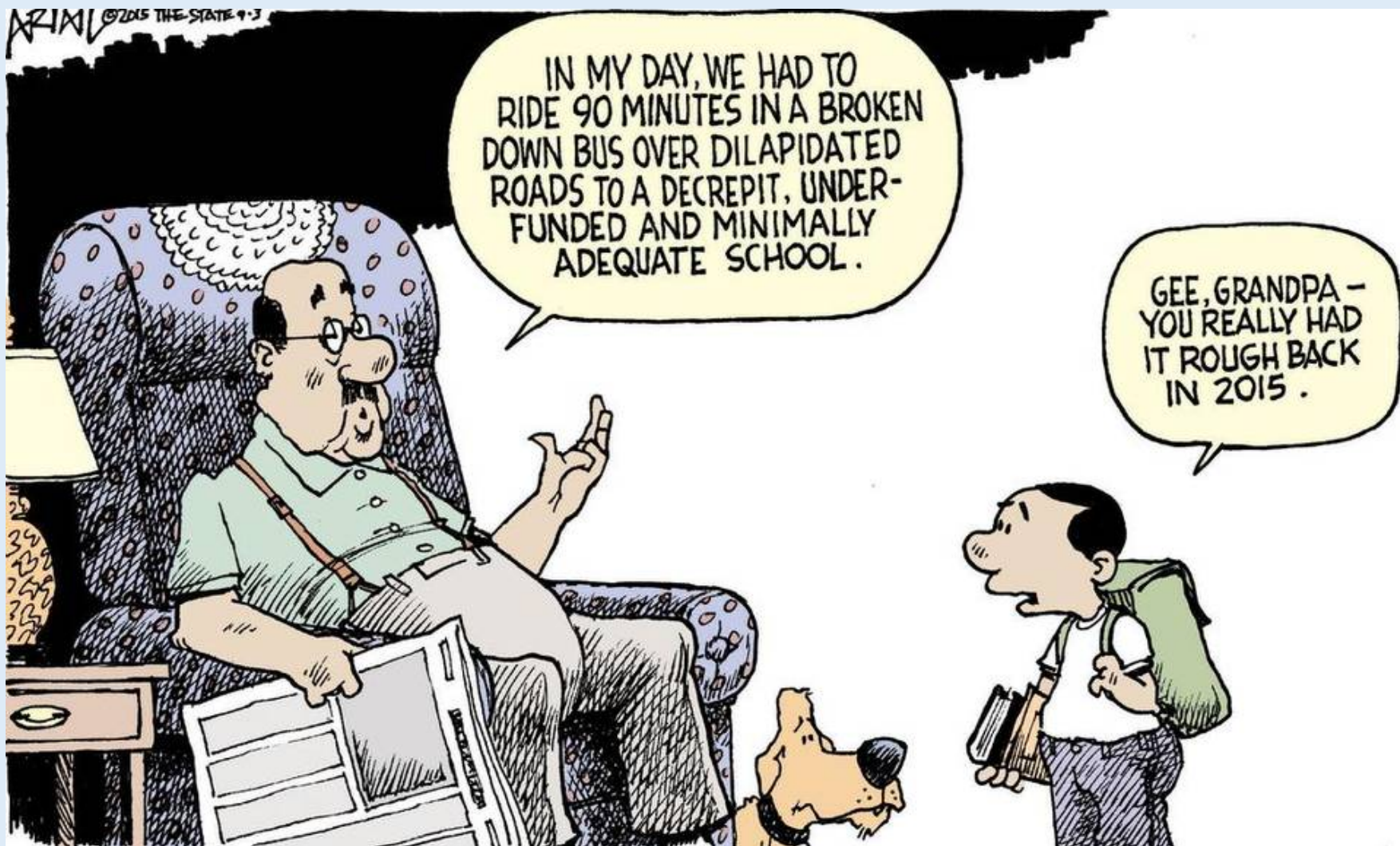


General Fund Revenue Outlook

- **FY 2013-14** was: 1.6% growth
- **FY 2014-15** was: 6.8% growth
- **BEA's Forecast(s)** indicates
 - FY 2015-16: 4.6% growth*
 - FY 2016-17: 4.8% growth*

FYI : Population + Inflation is projected to be 3.04%

*BEA 11/10/15



Funding Issues for FY 2016-17

- Flood (FEMA General Cost Share Match is 25%).
\$250M=\$67.5M, \$500M=\$125, \$1B=\$250M.
- Base Student Cost (K-12 Education) Funding/Abbeville.
\$500M Gap, Buses \$32M Recurring, Bus Salaries,
Distance Learning, Plaintiff Construction.
- Local Government Fund (Revenue Sharing with Locals).
\$82M Gap.
- Medicaid (Match Requirements as Eligibles Grow).
\$129M (Net Request).
- DSS Child Caseworker Funding (LAC Audit).
\$32M, Child Support Enforcement System included.
- Employee Pay and Benefits.
\$50M for 3% BPI, \$35M Health Insurance.
- Bond Bill for Capital Improvements.
Policy Decision.
- Transportation Funding (Gas Tax, General Fund redirect).
Policy Decision.

2016 Legislative Session

H.3579 –South Carolina Infrastructure Finance Reform and Tax Relief Act,
On the Senate Calendar in the Status of Interrupted Debate.





A Fork in the Road: Using General Funds for Transportation

	<u>Recurring</u>	<u>Non-Recurring</u>	<u>Total</u>
FY 2012-13	\$57,270	\$0	\$57,270
FY 2013-14*	\$111,457,270	\$50,000,000	\$151,457,270
FY 2015-16*	\$161,457,270	\$286,329,114	\$447,786,384

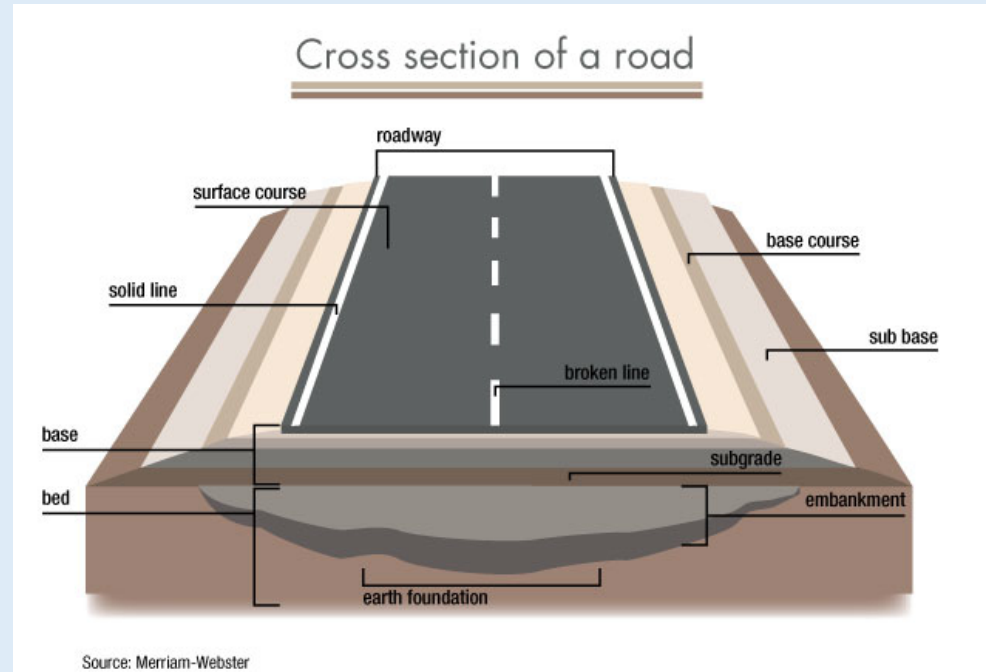
*Recurring includes prior year "base" plus increase

The Road to “Good”

Rural 2 Lane Road Milling and Resurfacing, Cost per Mile \approx \$416K.

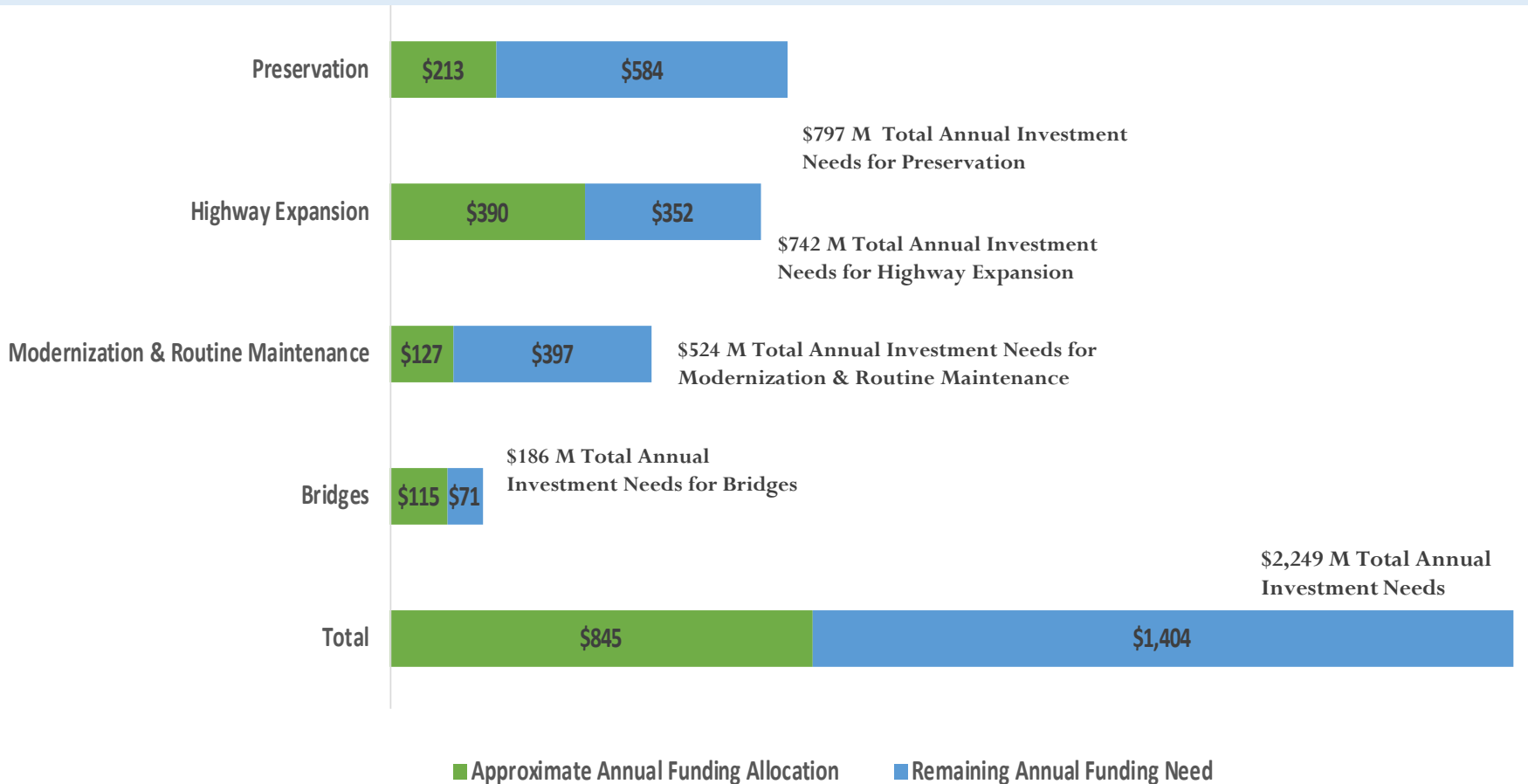
Suburban New Construction 4 Lane with Paved Shoulders and Curbs per Mile \approx \$3.438M.

Point: Road Construction and Maintenance is expensive.

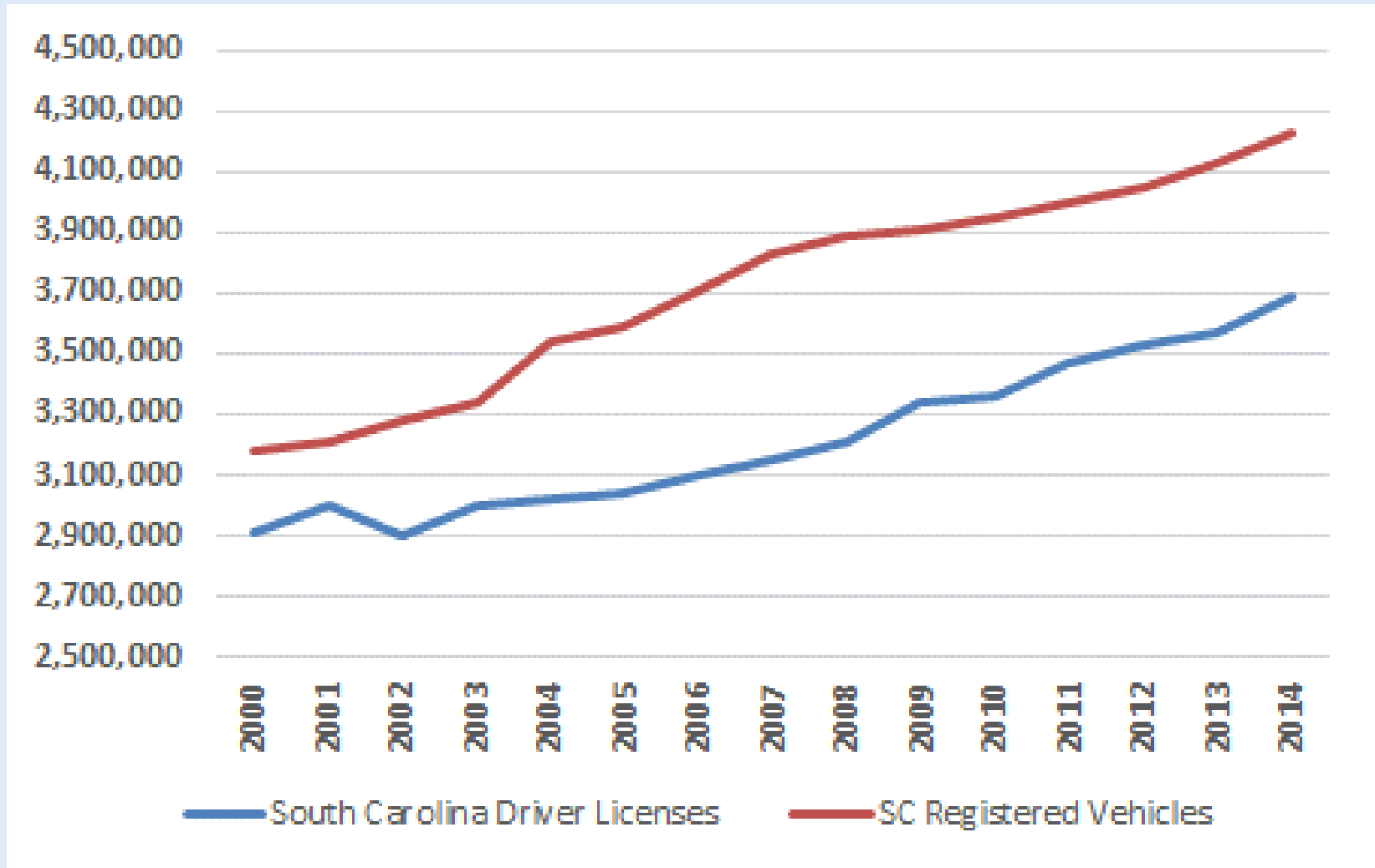


Annual Road Funding Gap (Preliminary Estimate)

(\$2.25B Total Need, \$845 Current Investment, Gap=\$1.4B)



Number of Driver Licenses & Registered Vehicles in South Carolina

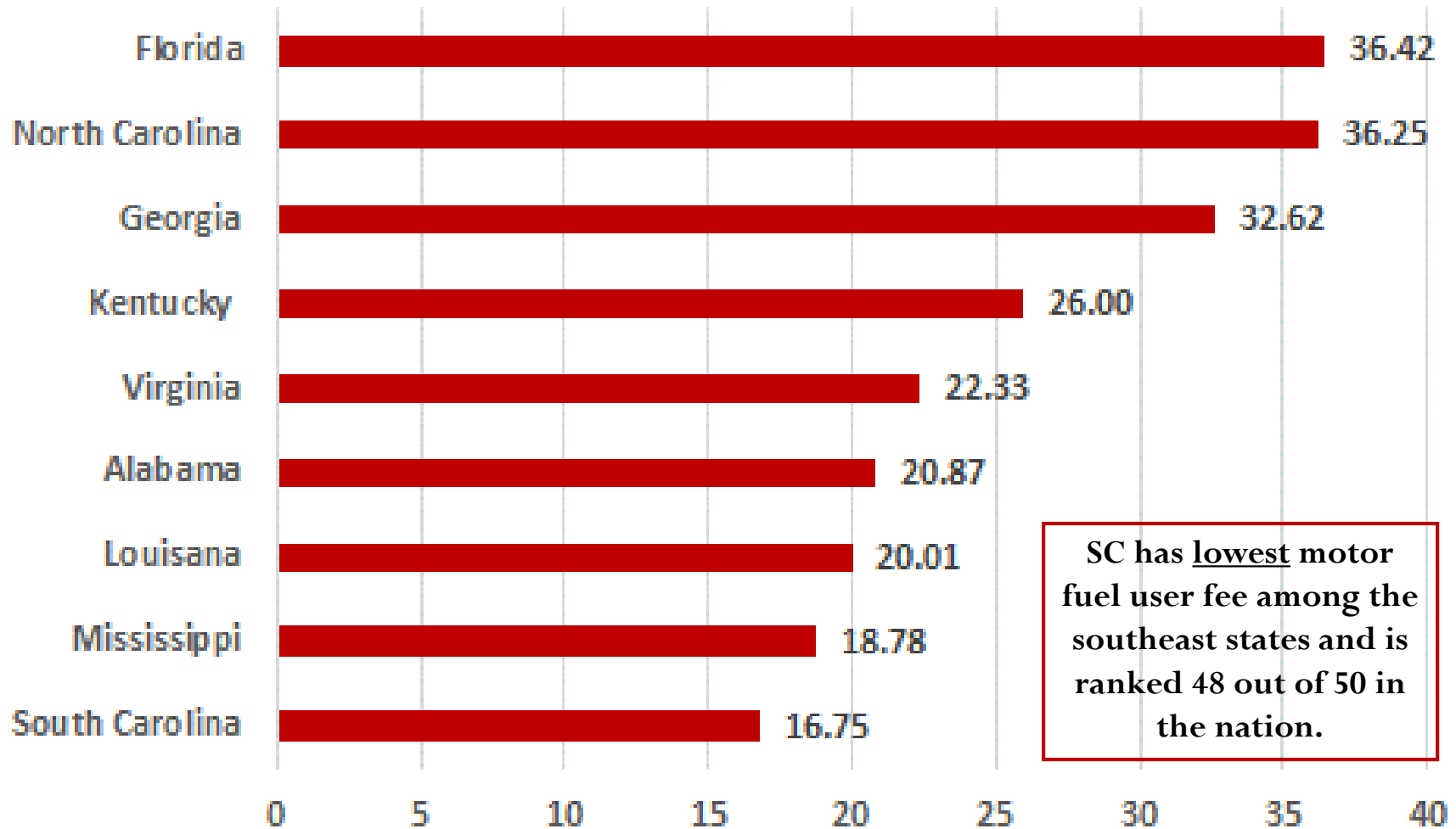


The Effect of Inflation

- Today's 16 cent per gallon gas tax user fee structure was last significantly increased by Act 136 of 1995 (Title 12, Chapter 28, Code of Laws of SC).
- The gas tax user fee is a “Per Unit” levy at a flat rate regardless of the price of a gallon of gas.
- Since 1995, because of inflation, \$1 from that year is only worth about 64¢ today.

Southeast States Motor Fuel Fee Comparison

(Cents Per Gallon of Gasoline)



The Proposed Solutions

Legislative Perspectives

- ❖ Some Legislators prefer to fund the need for road improvements with existing revenues and not raise any taxes.
- ❖ Some Legislators prefer to raise the gas tax user fee and lower the individual income tax to achieve revenue neutrality.
- ❖ Some Legislators prefer to raise the gas tax user fee without an offsetting tax cut.

Road Funding Plans

Recurring Funding Increases*

	<u>Gas Tax</u>	<u>Car Tax</u>	<u>Other Fees</u>	<u>Total/year</u>
Governor	\$339.2M	\$61.4M	\$0	\$400.6M
House	\$335.6M	\$120.3M	\$0	\$455.9M
Senate Finance	\$496.2M	\$149.3M	\$44.0M	\$689.5M
Senate “Amend 22”	\$496.2M	\$149.3M	\$57.3M	\$702.8M

** Whatever solution emerges likely will be done via H.3579.

*Amounts shown are estimates when respective plans are fully implemented

Road Funding Plans

Recurring Revenue Decreases*

Income Tax Cut(s)

Governor	\$1,700,000,000 per year
House	\$51,500,000 per year
Senate Finance	\$0 per year
Senate “Amend 22”	\$709,000,000 per year

*Amounts shown are estimates when respective plans are fully implemented

A VERY IMPORTANT POINT

- In each plan, **ALL** of the tax increases are appropriated to the Department of Transportation for road maintenance and improvements.
- In each plan that cuts taxes, **ALL** of the reductions in revenue are assigned to the General Fund which underwrites the costs of K-12 Education, Higher Education, Health and Social Services, Public Safety and General Government.
- From a budgetary standpoint, this policy decision is as impactful as Act 388 of 2006.

Theories of Taxation

(courtesy of my graduate education at the University of North Carolina at Chapel Hill)

$$f(x) = \sum_{k=-\infty}^{\infty} a_k e^{ikx}, \quad a_k = \frac{1}{2\pi} \int_{[-\pi, \pi]} f(t) e^{-ikt} dt$$

TAXES & FEES

To determine whether a charge is a tax, one must look at its primary purpose. A charge is not a tax if it is not imposed by the government, collected from those receiving particularized benefits to pay for those benefits, or collected for a primary purpose other than raising revenue.

- **Taxes** are imposed for the primary purpose of raising revenue, with the resultant funds spent on general government services.
- **Fees** are imposed for the primary purpose of covering the cost of providing a service, with the funds raised directly from those benefitting from a particular provided service.
- **Penalties** are imposed for the primary purpose of penalizing or regulating behavior, generally imposed as part of judicial proceedings, with resultant revenue a secondary consideration.
- Some taxes, known as *Pigouvian taxes*, are justified on grounds that they will discourage behavior, but their primary purpose remains revenue raising.
- Revenues from some taxes, known as *user taxes*, are deposited in a special dedicated fund and not the general fund. If their purpose is revenue generation for general government functions, these are still taxes although they can be mischaracterized as fees.

Reality of the Policy Choices

(courtesy of my real life education sitting on the benches in front of Derrick's Gas Station in Chapin SC).



Right now,
three “big
dogs” (K-12,
Higher Ed &
Health)
consume
80% of
General
Fund
Revenue.



The State Budget Process: Policy Decisions

The State Budget Process: Policy Decisions

DOT is VERY HUNGRY
and everybody wants
it to have more.



The State Budget Process: Policy Decisions

The General Assembly holds the scoop. The options are:

1. Feed DOT from the Big Bowl, the General Fund, but don't put any more food in the bowl.
2. Give DOT more in its own bowl, a Gas Tax increase.
3. Give DOT more in its own bowl, a Gas Tax increase, but take that same amount or more from the Big Bowl. This is the tax swap, increasing the Gas Tax but cutting the Income Tax.



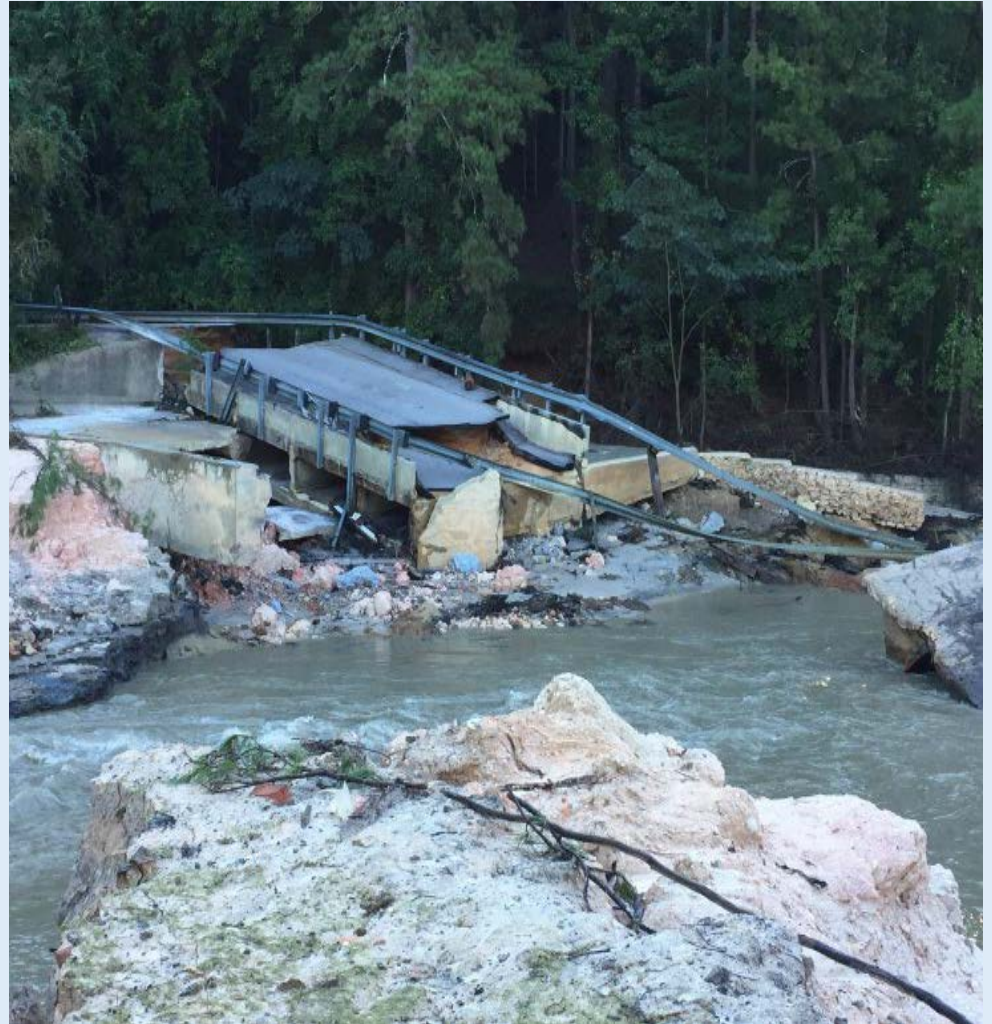
The Takeaway

- FY 2016-17 is probably the “fat” year. Since the end of the great recession, there have not been mid-year cuts. Those cuts are painful. And, now you determine how cuts are made (if above 2%).
- \$1.3 Billion of unobligated (not growth) funds is a lot of money. But, you have a backlog of needs in core areas of education, health and social services and transportation. Appropriate wisely, because revenue growth rates will likely diminish as the forecast catches up with reality and the economy slows.

Job 1

Picture taken October 7, 2015, at Cary's Lake Dam in Dentsville, near Columbia.

EVERYTHING
changed on
October 3, 4 &
5 of 2015.



“Don’t tell me what you value.
Show me your budget,
and I’ll tell you what you value.”

Vice President Joe Biden

Thank You

MikeShealy@scsenate.gov