




# SOUTH CAROLINA SCHOOL BOARDS ASSOCIATION

December 3, 2016  
Sonesta Hotel  
Hilton Head Island



# Presentation Outline

- Demographics
- Total Personal Income and General Fund Revenue
- Fiscal Year 2015-16 Close Out
- Transportation Infrastructure Funding
- Public Education, EFA & Abbeville Lawsuit
- Pensions
- Fiscal Year 2017-18 Budget Outlook



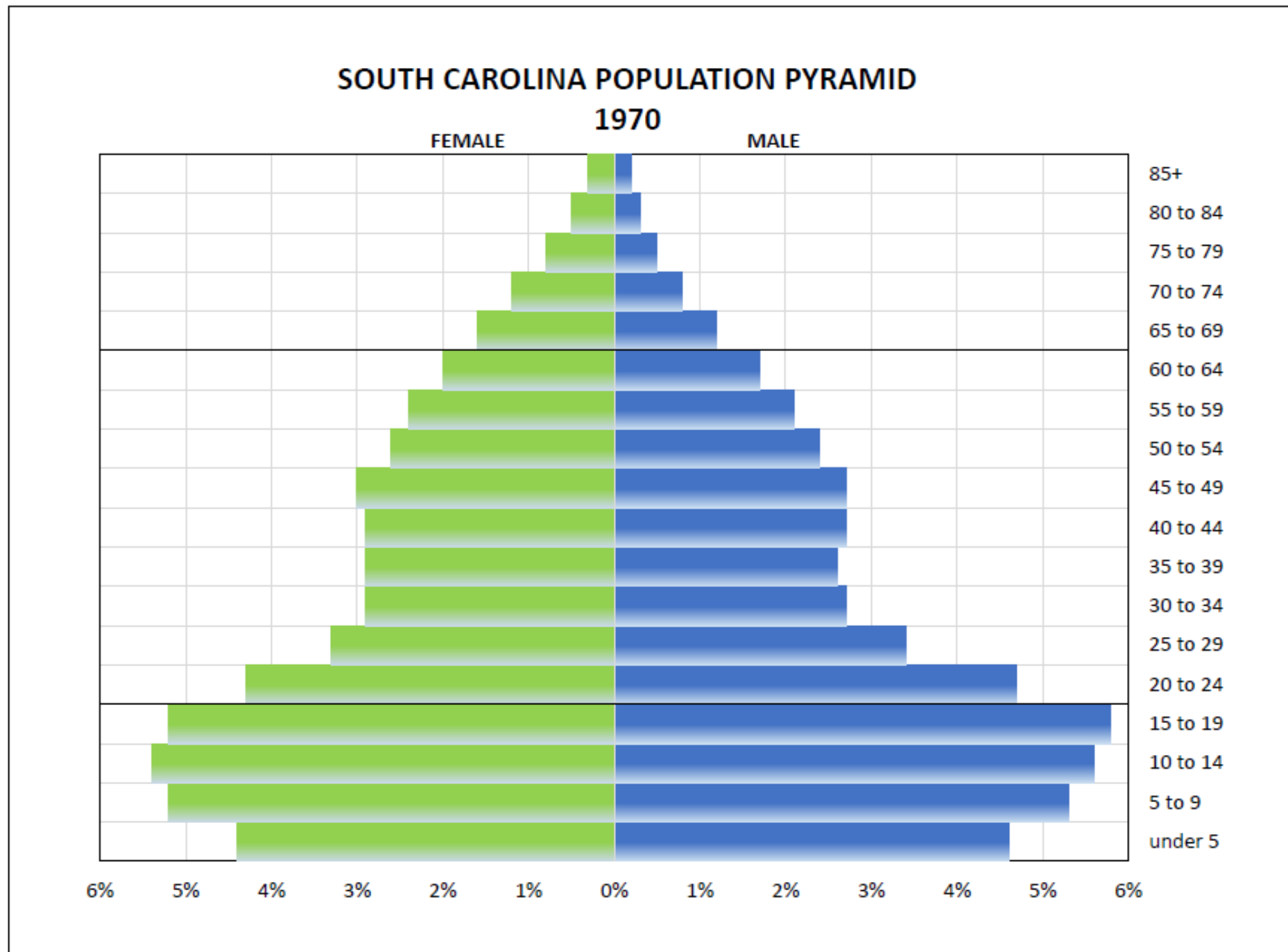
# DEMOGRAPHICS



# Demographics

	South Carolina	Georgia	North Carolina	U.S.
Population (est. 2015)	4,896,146	10,214,860	10,042,802	321,418,820
Population (1990)	3,486,703	6,478,216	6,628,637	248,709,873
Population Growth (since 1990)	40.42%	57.68%	51.51%	29.23%
Average Annual Percent Change (since 1990)	1.37%	1.84%	1.68%	1.03%
<i>U.S. Average Annual Percent Change in Population (since 1960):</i>				<b>1.09%</b>

In 1970, the Baby Boomer Generation was between 24 and 6 years old.



In four years, the Baby Boomer Generation will be between 74 and 56 years of age.

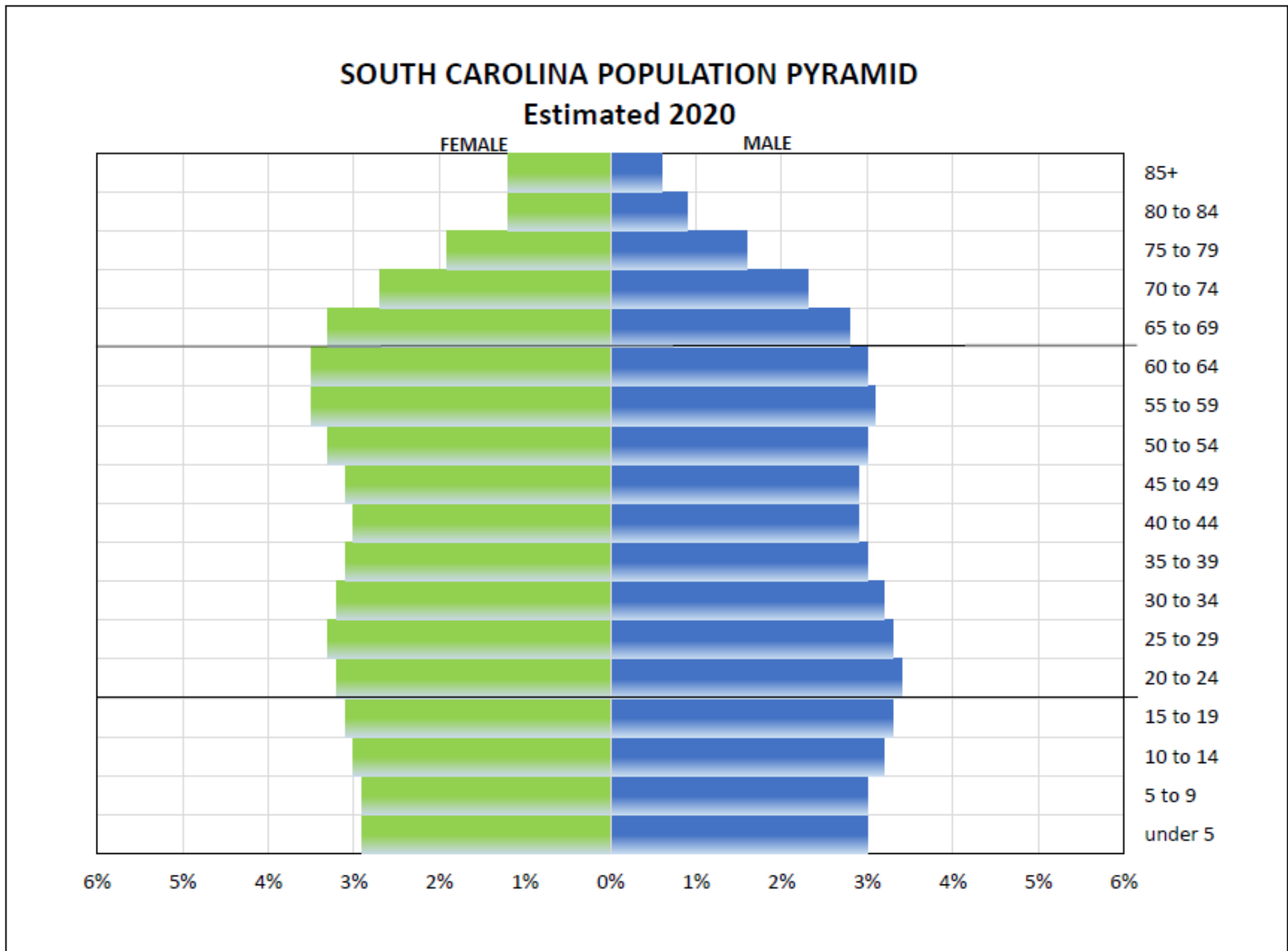
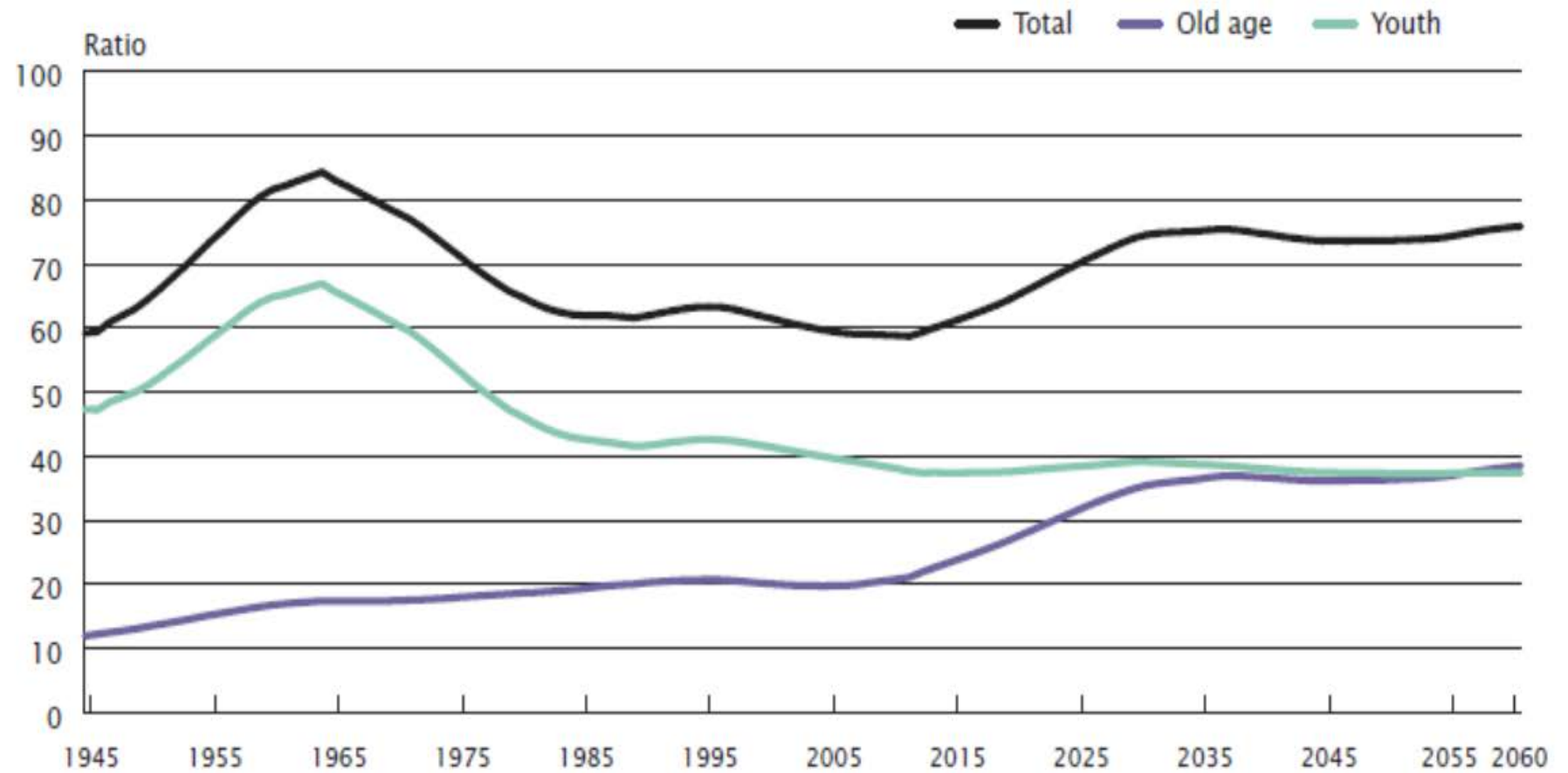


Figure 8.  
Dependency Ratios for the United States: 1945 to 2060



Source: US  
Census  
Bureau.

Note: Total dependency =  $((\text{Population under 18} + \text{Population aged 65 and over}) / (\text{Population aged 18 to 64})) * 100$ .

Old-age dependency =  $(\text{Population aged 65 and over} / \text{Population aged 18 to 64}) * 100$ .

Youth dependency =  $(\text{Population under 18} / \text{Population aged 18 to 64}) * 100$ .

Source: U.S. Census Bureau, 1945 to 2012 Population Estimates and 2012 National Projections.

# WAPO, Samuelson - Are Aging and the Economic Slowdown Linked? August 22, 2016

- We've known for decades, of course, that the retirement of the huge baby-boom generation — coupled with low birthrates — would make the United States an older society. Similarly, we've known that this would squeeze the federal budget. Social Security and Medicare spending would grow rapidly, intensifying pressures to cut other programs, raise taxes or accept large budget deficits. All this has come to pass.
- But the study goes a giant step further, (co-authored by economists Nicole Maestas of Harvard Medical School and Kathleen Mullen and David Powell of the Rand Corp.) claiming that the very fact that the United States is an aging society weakens economic growth. “The fraction of the United States population age 60 or over will increase by 21 percent between 2010 and 2020,” says the study. **This aging shaves 1.2 percentage points off the economy's present annual growth rate, the study estimates.**



# Robert Gordon's Forecast

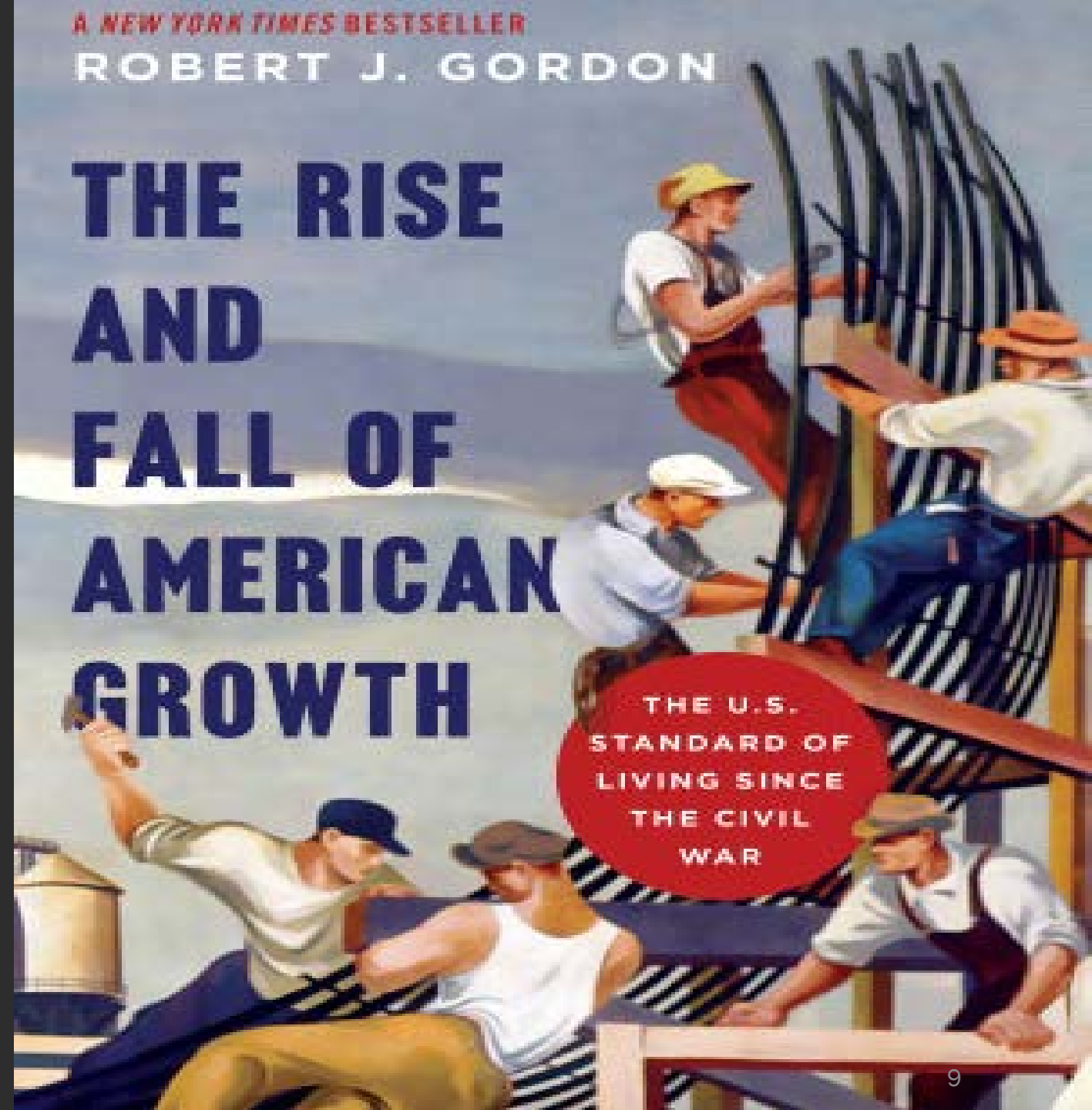
(page 637)

Real Per Capita GDP

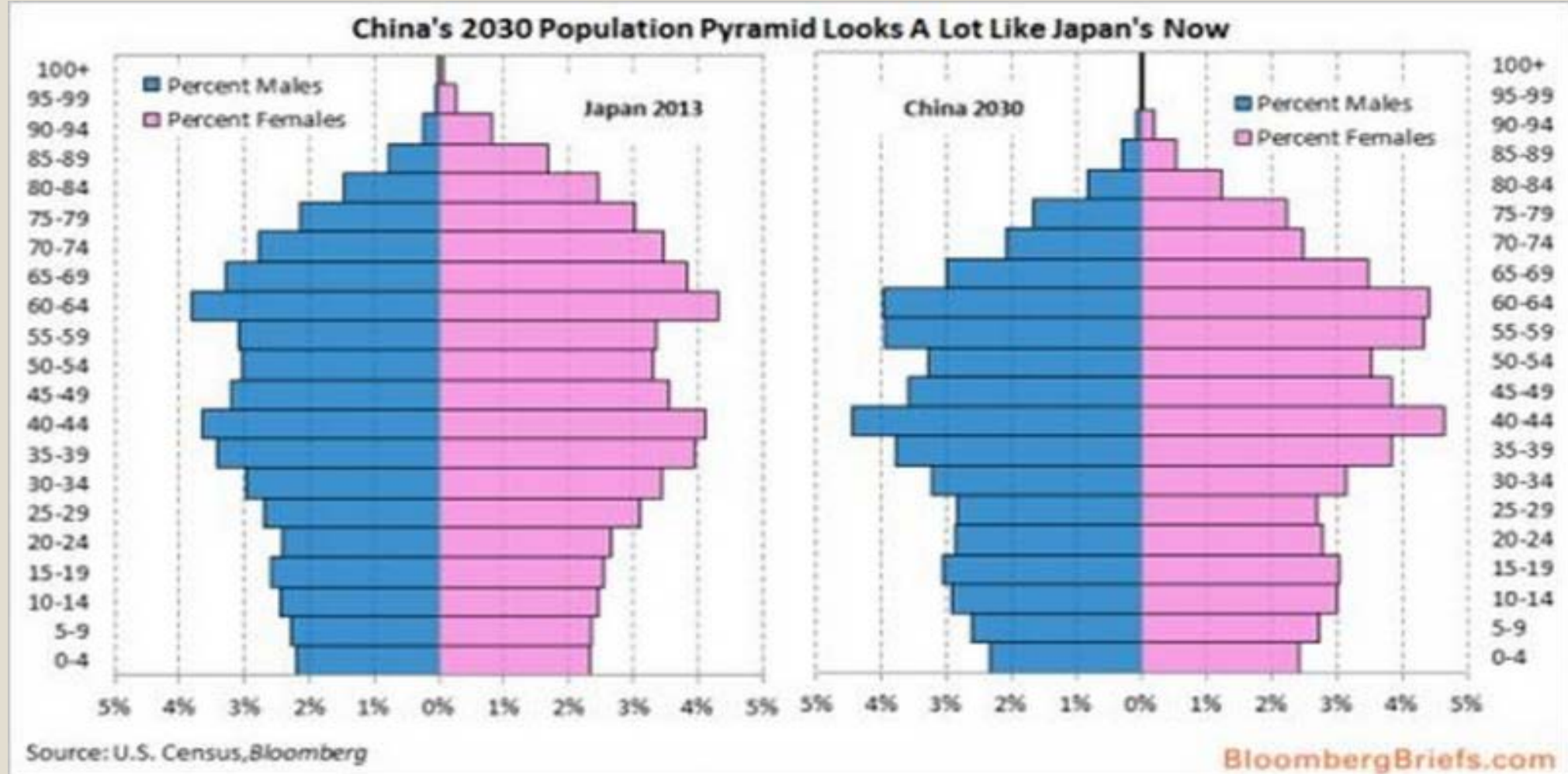
1920-1970      2.41%

1970-2014      1.77%

2014-2040      0.80%



# Demographics Influence Economics



# “Demography is destiny.”

This quote is generally attributed to the French sociologist Auguste Comte (1798-1857).

Google “Disruptive Demographics”  
by Dr. Jim Johnson of UNC-CH.

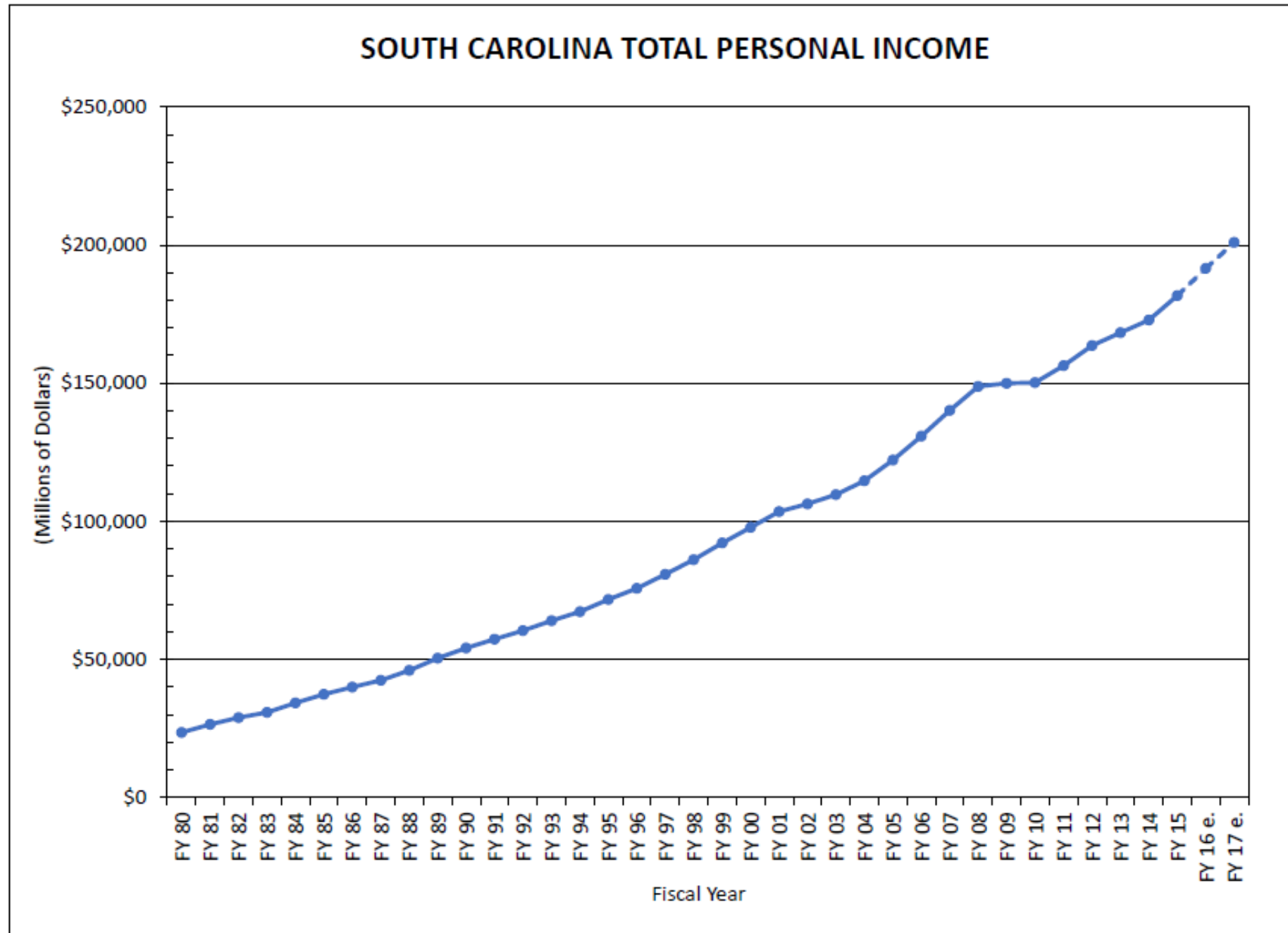


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TOTAL PERSONAL  
INCOME & GENERAL  
FUND REVENUE

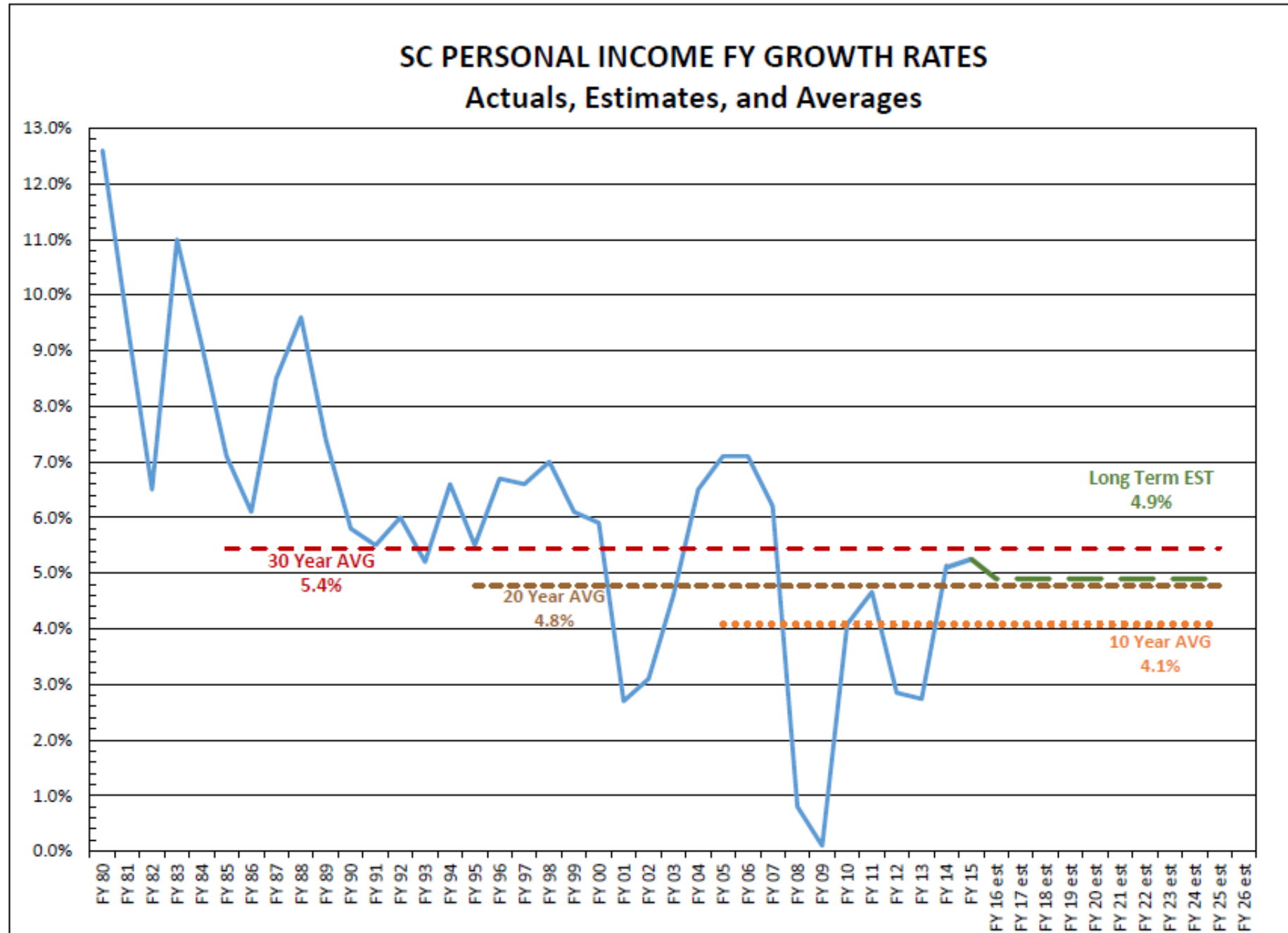
National Total Personal Income is \$16T.

So, SC's share of the national economy is about 1.25%.



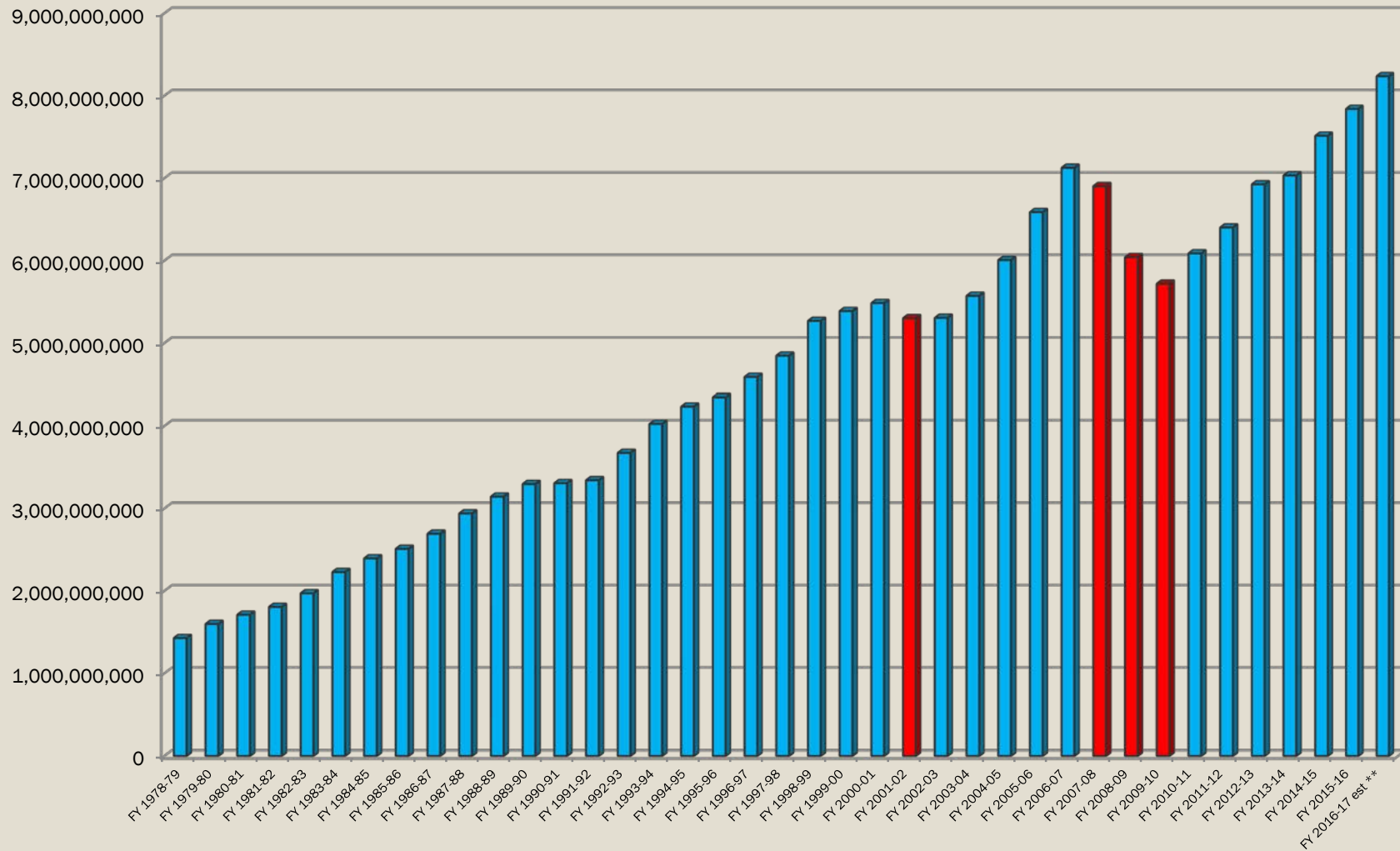
The 10-year trend for SC Personal Income Growth is 4.1%.

The BEA estimate is 4.9%.

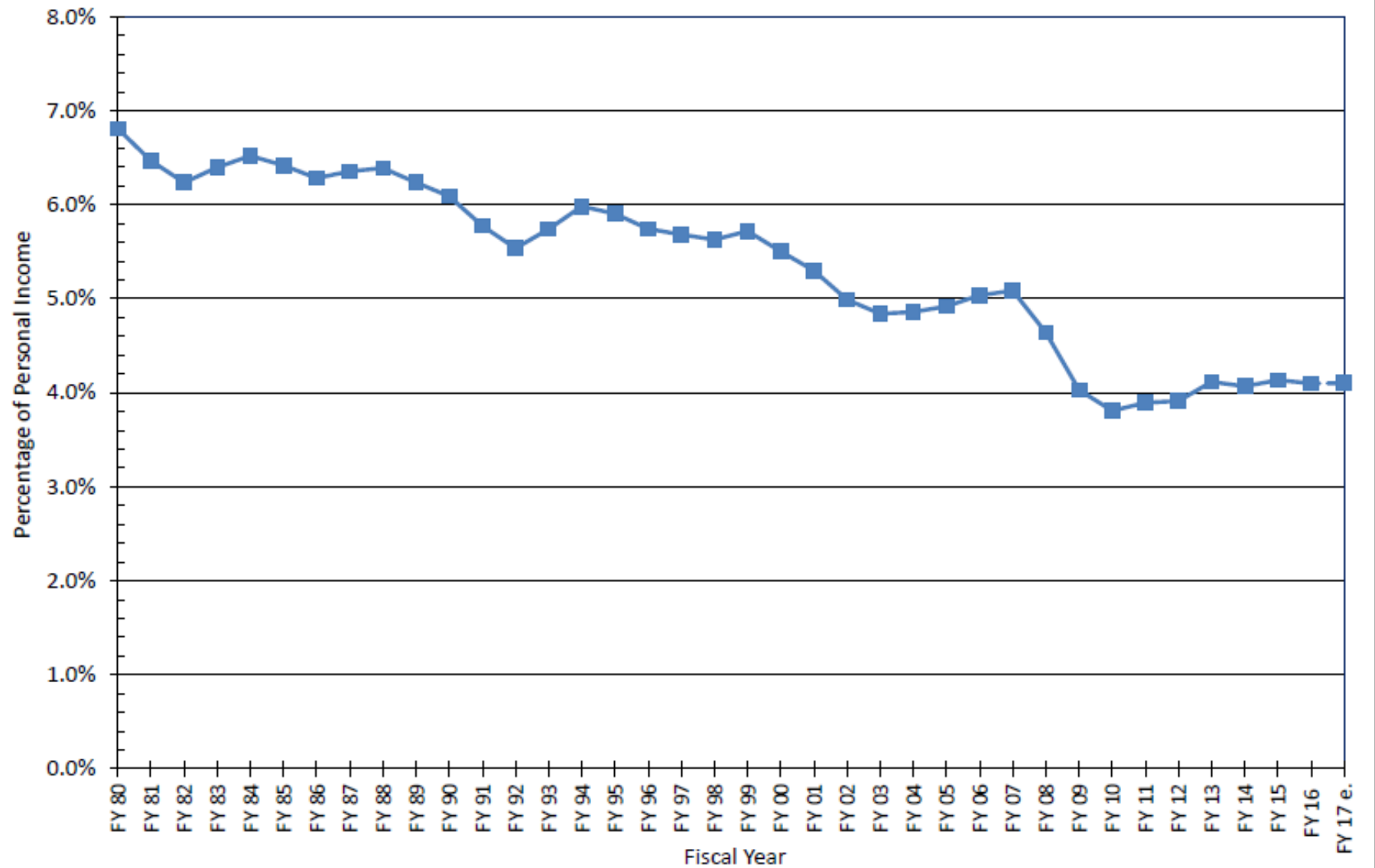


Source: US Department of Commerce, Bureau of Economic Analysis RFA-LJ/08/19/16

# Total General Fund Revenue



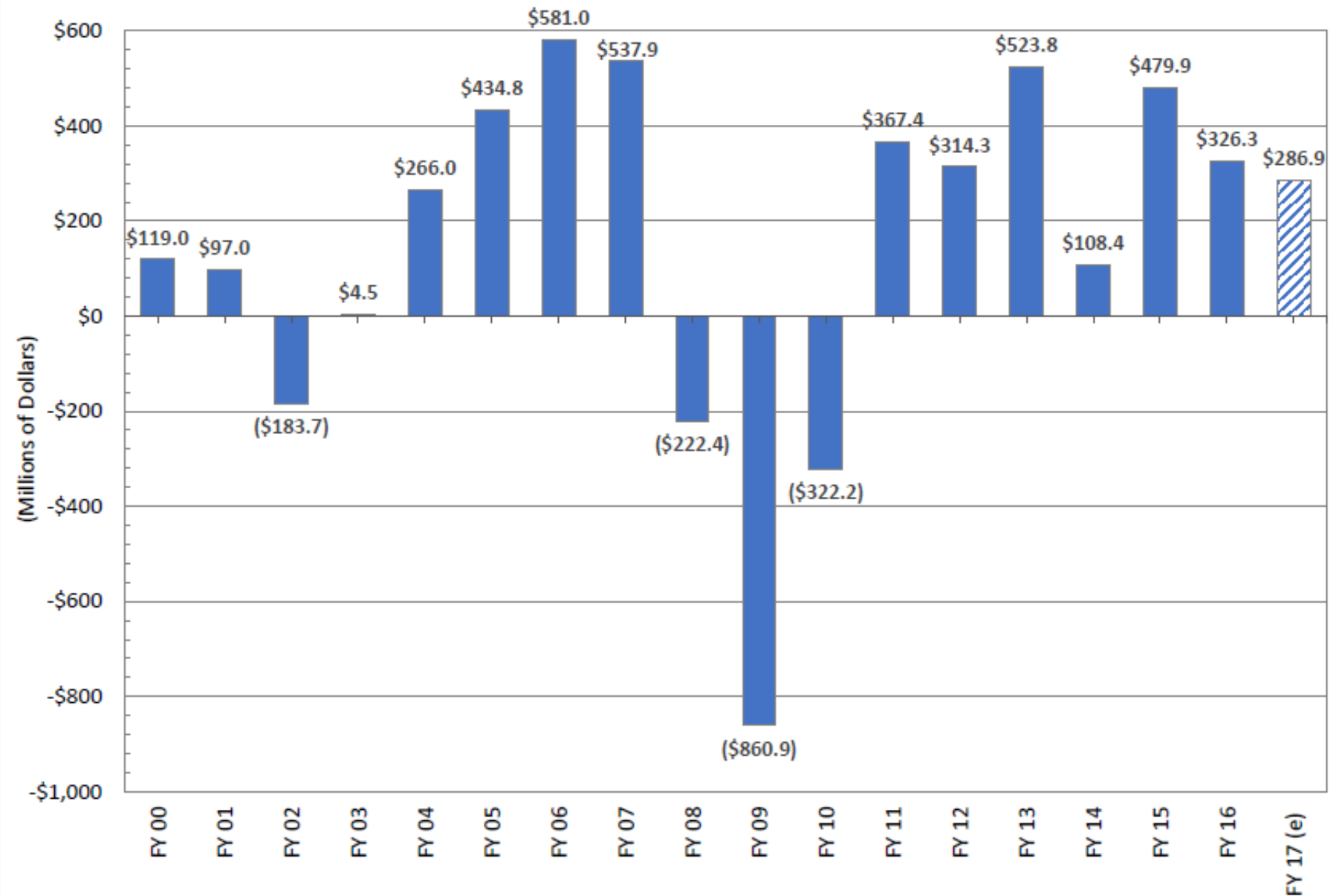
## SOUTH CAROLINA GENERAL FUND REVENUE as a Percentage of Total Personal Income



Sources U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Revenue and Fiscal Affairs Office LJ/08/22/16



## ANNUAL GENERAL FUND REVENUE GROWTH



Source: S.C. Revenue and Fiscal Affairs Office – 169 LJ/08/24/16

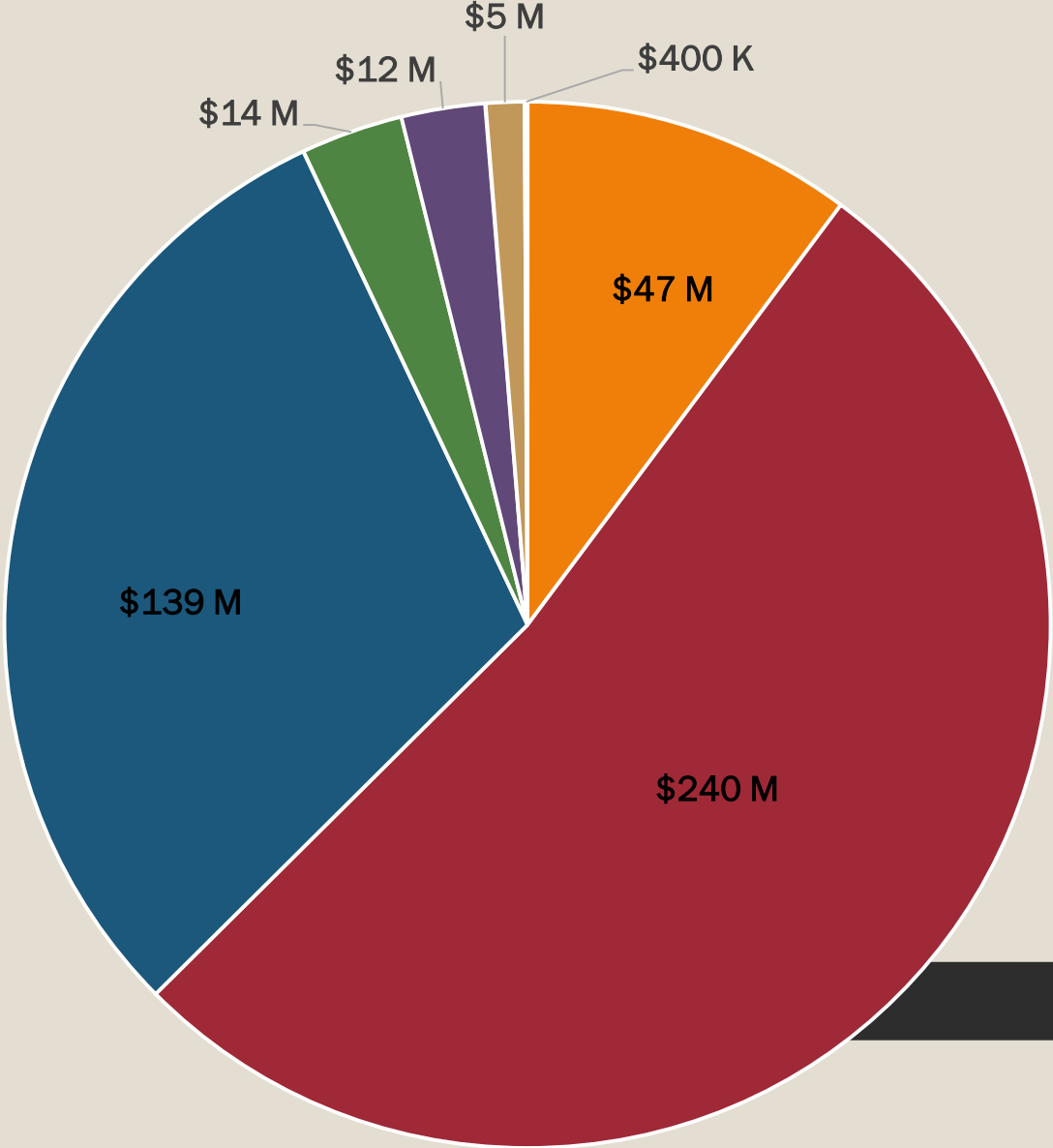


FISCAL YEAR 2015-16  
FINANCIAL CLOSE-OUT



# FY 16-17 H.5001, Proviso 118.16 (SR: Nonrecurring Revenue)

- FY 14-15 Contingency Reserve Fund
- Unobligated GF Revenue
- Litigation Recovery Account
- Excess Debt Service
- Excess Homestead Exemption
- Carry Forward & Bonus Lapse
- DOR Identity Theft Reimbursement Lapse



**Total: \$458,014,862**

1. Figures are rounded

## FY 16-17 H.5001, Proviso 118.16 (SR: Nonrecurring Revenue)

### Items not Receiving Funding Based on Surplus Shortfall

#### Department of Administration

<u>Pendleton Street Safety Upgrades</u>	<u>\$2,400,000*</u>
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#### Office of Adjutant General

<u>EMD – Continuity of Operations and Government Plan</u>	<u>\$250,000</u>
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<u>Emergency Commodities</u>	<u>\$100,000</u>
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<u>Transitional Workforce Educational Assistance Collaborative</u>	<u>\$200,000</u>
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<u>Shaw Encroachment Zone</u>	<u>\$200,000</u>
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<u>SC Military Museum</u>	<u>\$380,000</u>
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#### State Ethics Commission

<u>New Auditors Equipment</u>	<u>\$10,000</u>
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#### Division of Aeronautics

<u>Airport Facilities Security System Replacement</u>	<u>\$100,000</u>
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<u>State Aviation Fund</u>	<u>\$7,000,000</u>
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<u>Capital Improvements</u>	<u>\$200,000</u>
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<u>Airline Recruitment and Retention</u>	<u>\$150,000</u>
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#### Office of State Treasurer

<u>ABLE Savings Program</u>	<u>\$100,000</u>
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**TOTAL SHORTFALL**

**\$10,328,000**

\*This item was partially funded at \$762,000

# Why is this important?

Because the General Fund revenue forecast and actual collections are now in alignment.

- This means for the FY17-18 budget process, the likelihood of additional surplus dollars is small.
- Because the General Fund revenue forecast tracks actual collections, any economic downturn could lead to mid-year budget cuts.
- Remember Act 121 of '14 (S22 Restructuring Act): §11-9-890B 3% Threshold.



Revenues vs. Appropriation Act of \$8,157.5 Million in FY 2016-17 1/

	JULY - OCTOBER FY 2016-17			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate Full Fiscal Yr.	Actual Yr. to Date
	Actual Revenues	Expected Revenues	Excess / (Shortfall)		
<b>Total General Fund Revenue</b>	<b>2,684.8</b>	<b>2,683.5</b>	<b>1.3</b>	<b>4.1</b>	<b>6.5</b>
Sales Tax	715.1	705.9	9.1	2.0	3.3
Individual Income Tax	1,687.5	1,684.9	2.6	6.0	8.2
Corporate Income Tax	54.7	95.9	(41.3)	(5.7)	(46.3)
Other Revenue Sources	227.6	196.8	30.8	7.0	36.1
<b>Select Tax Revenues, Sub-Total</b>	<b>201.1</b>	<b>173.9</b>	<b>27.2</b>	<b>6.8</b>	<b>40.4</b>
Admissions Tax - Total	2.4	2.6	(0.1)	10.2	3.7
Alcoholic Liquors Tax	17.3	15.4	1.9	0.7	14.0
Bank Tax	10.6	8.6	2.0	14.9	41.0
Beer and Wine Tax	29.3	28.2	1.1	0.7	4.5
Corporation License Tax	33.8	13.1	20.7	18.9	206.1
Documentary Tax	13.3	12.4	0.9	2.3	9.6
Earnings on Investments	9.2	3.8	5.4	(32.5)	58.9
Insurance Tax	78.8	82.6	(3.8)	13.2	43.3
Tobacco Tax	6.4	5.7	0.7	(12.1)	(0.7)
<b>Residual Revenue, Sub-Total 2/</b>	<b>26.5</b>	<b>24.3</b>	<b>2.2</b>	<b>8.1</b>	<b>13.5</b>

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

2/: Refer to p. 15, Residual Revenue, for list of components in this subcategory.

Note: Detail may not sum to total due to rounding.

A decorative graphic consisting of thick black lines forming an L-shape. It starts with a vertical line on the left side, extends horizontally to the right at the top, and then continues vertically down on the right side, ending with a horizontal line extending to the left at the bottom.

TRANSPORTATION  
INFRASTRUCTURE  
FUNDING

# Two Slides from Last Year's Presentation:

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





# FY 2017 Road Funding

## Recurring

### **\$216,360,000** DOT → SIB

- ACT 275 (2016): S. 1258, which sends the sales tax on cars and DMV fees and fines to the DOT for the DOT to transfer to the SIB for bonding.
  - Sales Tax on Cars (\$131,360,000): Remaining 80% of the revenues (holding 20% EIA harmless) from sales, use and casual excise taxes regarding motor vehicle purchases was transferred to the State Highway Fund (SHF) at DOT.
  - DMV Fees and Fines (\$85,000,000): DMV is to transfer all fees and fines collected for its operations—e.g. charges for the licensing, registering and titling of vehicles—to the DOT.
  - **1<sup>st</sup> \$50,000,000 BRIDGES**
  - **>\$50,000,000 INTERSTATES**
  - ***\$1.6B to interstates, \$700M to bridges over 10-15 years. \$400M to resurfacing from freed up funds.***

## Non-Recurring

### **\$49,000,000** DOT

- ACT 284 (2016): Allocation to DOT for Storm Recovery (Flood) match; \$11.7M is to be transferred from the FEMA state match sent to the Adjutant General.

### **\$50,000,000** DOT

- ACT 284 (2016): Backfill of Non-Federal Aid Highway Fund (NFAHF) as 50% sales tax on cars redirected to SHF via Act 275.

### **\$50,000,000** CTCs

- ACT 284 (2016): Transfer of Act 92 (2015) SIB funds to the CTCs for use on the state-owned highway system for paving, rehabilitation, resurfacing, and/or reconstruction, and bridge repair, replacement, or reconstruction (proviso 117.135).

**\$150,680,000**

General Fund dollars redirected to roads annually via ACT 275 through backfill of DMV operations and half the sales tax on cars.

# Long Term Funding for Transportation

<b>SCDOT Multimodal Plan Annual Needs Gap</b>		<i>9/9/2016 Preliminary Update</i>
<b>Infrastructure Element</b>	<b>Annual Gap in Millions</b>	<b>Capacity Concerns for the next 10 years?</b>
Pavements	\$500	<b>Yes</b> , based on current market conditions and planned program levels. Any additional investments on pavements should be phased-in.
Bridges	\$46	<b>Yes</b> , Act 275 significantly ramps up the Bridge Replacement program for SC. Any additional investments on bridges should be phased-in.
Modernization and Routine Maintenance	\$397	<b>No</b> , there is capacity available to make roadside safety improvements and to select day-to-day maintenance items for increased service delivery. Specific items could be targeted to maximize dollars invested.
Widening of Existing Roads	\$109*	<b>Yes</b> , Act 275 significantly ramps up the Interstate Widening program for SC. Any additional investments on Interstates should be phased-in.
New Location Roads	\$182	<b>No</b> , but these type of projects tend to be complex.
Mass Transit	\$95	<b>No</b> , if phased-in to allow for planning and equipment purchase.
<b>TOTAL</b>	<b>\$1,329</b>	
<i>* Estimated based on preliminary Act 275 Interstate Investment levels</i>		

## UNMET NEEDS

- Act 275 covers interstates and bridges. Still have the primary and secondary systems to consider.
- About 400 structurally deficient bridges on primary system.
- 1/3 of 10-year interstate widening needs.
- Investment in pavements → ACT 275 geared towards capital improvements.
- Safety on rural roads: 30% of our fatalities are happening on less than 4% of state mileage.

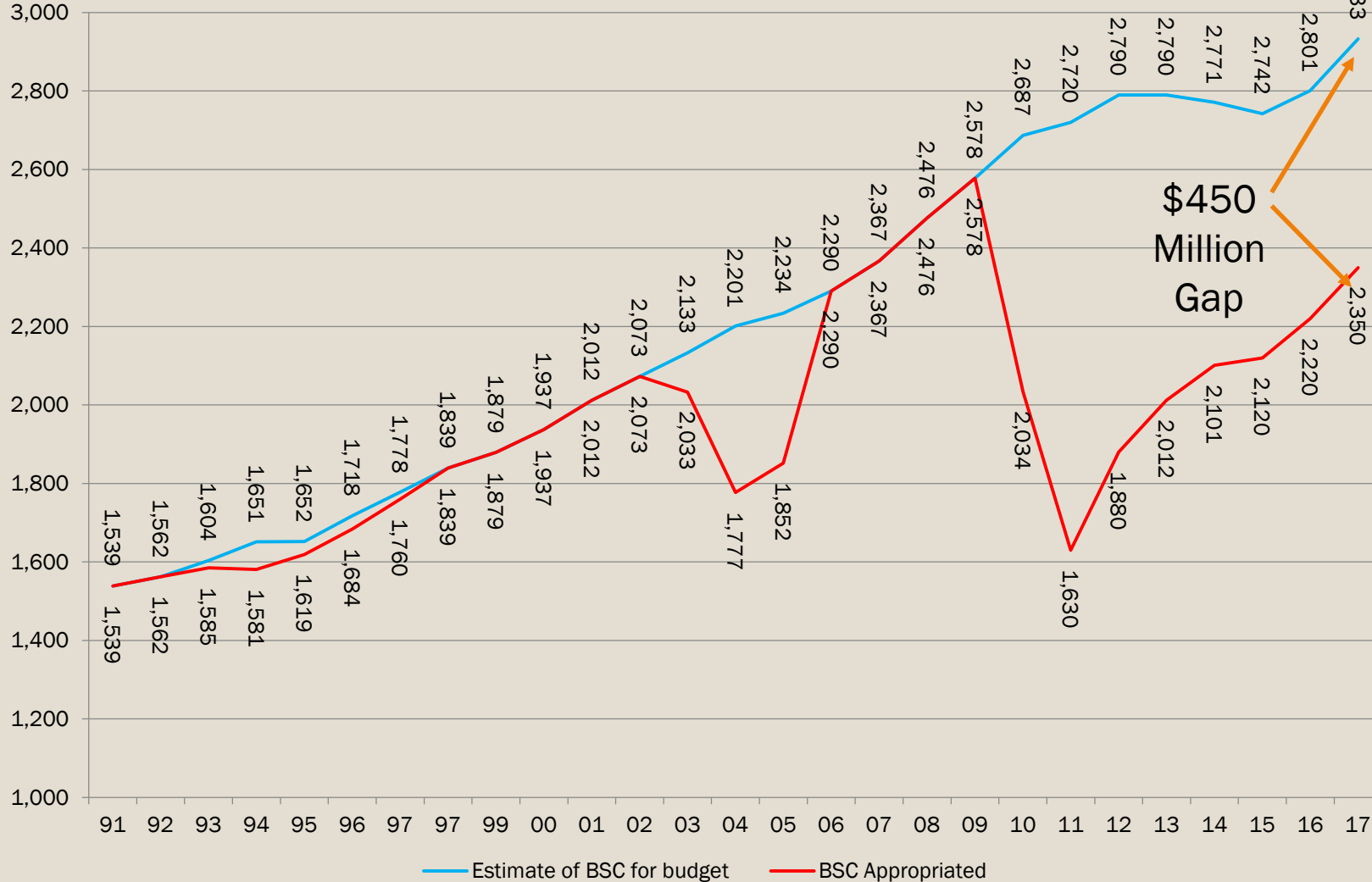
# What is the Net Effect of This Policy Decision?

- There still is no long-term stream of dedicated new revenue to address the gap between resources and baseline needs for road infrastructure. Instead, the redirection of \$216M in recurring General Funds leveraged over \$2B in bonds that will underwrite critical repairs and improvements for somewhere between 3 years and 6 years.
- The redirection of the sales tax on autos (with \$300 cap) from General Funds to restricted funds for road improvements continues the erosion of General Fund net taxable sales compare to total sales.
- In FY 2000, Net Taxable Sales were 47.9% of Gross Sales. In FY16, that ratio has dropped to 33.7%.

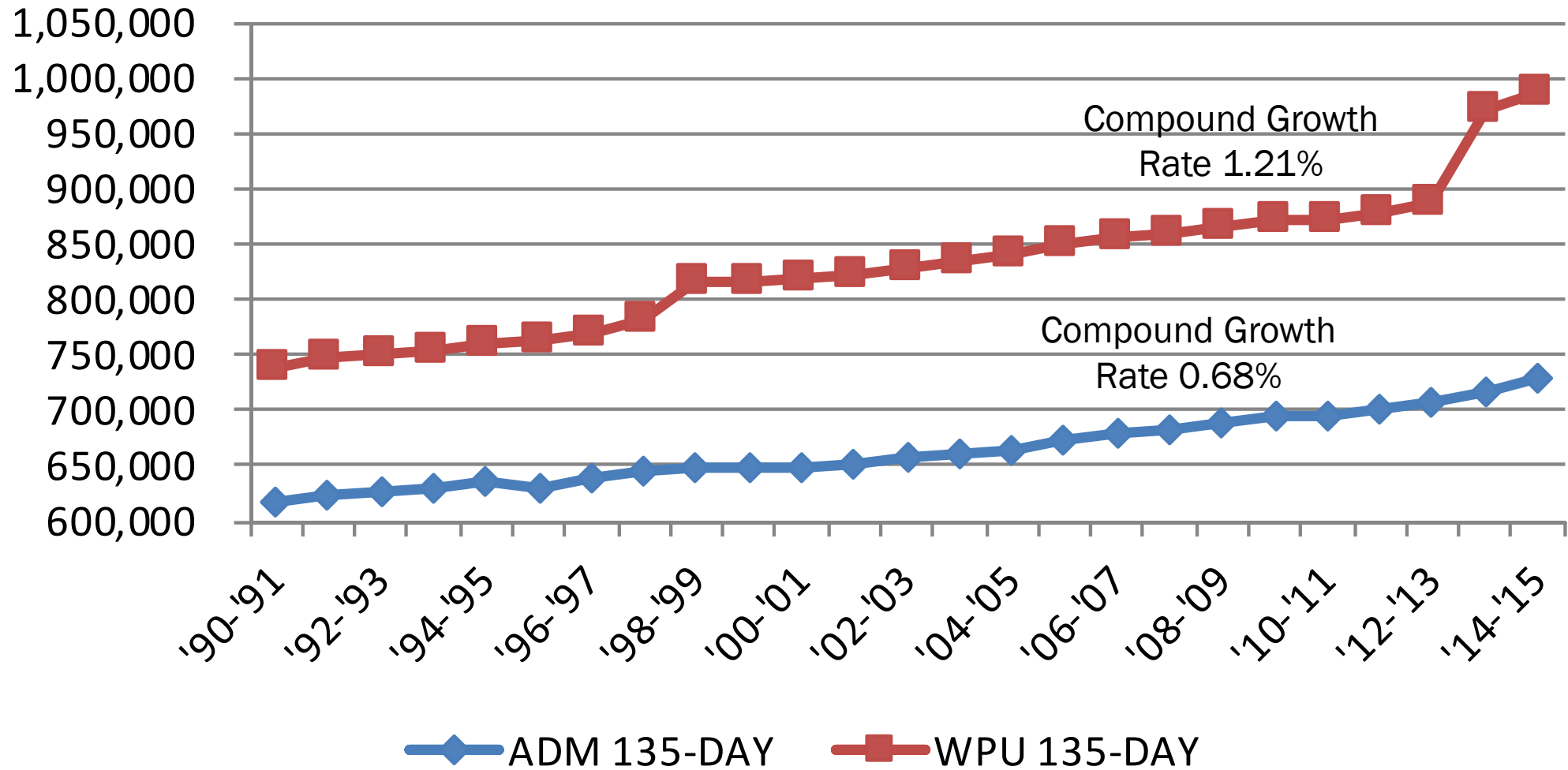


PUBLIC EDUCATION,  
EFA AND ABBEVILLE  
LAWSUIT

## BSC Estimate Provided for the Budget and the BSC Appropriated



# Historical ADMs and WPU



\*\* Does not include Special Schools but does include Public Charter District beginning in FY 2009

# Additional weights in the EFA Formula from Proviso 1.3

- (4) Additional weights for personalized instruction:
  - (A) Gifted and Talented 0.15 18,695 added
  - (B) Academic Assistance 0.15 14,073 added
  - (C) Limited English Proficiency 0.20 9,147 added
  - (D) Pupils in Poverty 0.20 100,922 added
  - (E) Dual Credit Enrollment 0.15 1,652 added
  
- In effect, this added 144,500 Weighted Pupil Units (WPU's) bringing the total without these additional weights from 825,400 to roughly 969,900 WPU's in FY 2016-17 that go into the EFA formula
  
- For reference; Student Headcount (ADM) is roughly 716,400 students

# Abbeville Items in FY 2016-17 Budget

## *Statewide:*

- \$218 million to increase the BSC to \$2,350 per pupil.
- Current Appropriation is over \$1.7 Billion (roughly 21% goes to Plaintiff districts).
- 2% pay increase for all teachers on top of the STEP increase and an increase in the state salary schedule from 22 to 23 years.



# Abbeville Items in FY 2016-17 Budget

## *Specific to Rural and/or Plaintiff Districts:*

- \$8.2 million to expand the **Rural Teacher Initiative** bringing total allocation to \$9.7 million (turnover rate of 12% or greater last 3 years).
- \$16.8 million in **Technology Technical Assistance** to provide technology upgrades in the Plaintiff school districts to prepare for online testing and access.
- \$3.1 million to pay for **efficiency studies** in all Plaintiff districts and \$1.5 million for facility assessments beginning with the Plaintiff districts.
- Additional \$4 million in **technical assistance** funds to provide support to SDE for schools and districts performing below expectations (total appropriation is now \$12.8 million).
- \$9 million for Plaintiff districts or districts with a poverty index of 80% or higher to provide for **teacher recruitment and retention**.
- \$3 million for Mobile Device Access and Management to fund **high-speed mobile internet service for students** that do not have such internet services at home.

# Abbeville Items in FY 2016-17 Budget

## *Transportation:*

- \$23 million for new school buses with an added recurring appropriation of \$2 million.
- \$19.2 million to reimburse school district expenses for bus driver pay to address bus driver shortages and reduce student ride times (approximately 21% goes to Plaintiff districts).
- \$3.5 million to reduce school district's costs providing transportation services to students who would otherwise have to walk in hazardous conditions.



**PENSIONS**



# Joint Committee Membership

**Joint Committee on  
Pension Systems Review**  
*12 members*

**Rep Bill Herbkersman**  
*Co-chair*

**Sen. Kevin Bryant**  
*Co-chair*

**Rep. Mike Anthony**

**Sen. Sean Bennett**

**Rep. Jeff Bradley**

**Sen. Mike Gambrell**

**Rep. Gilda Cobb-Hunter**

**Sen. Darrell Jackson**

**Rep. Tommy Stringer**

**Sen. Floyd Nicholson**

**Rep. Bill Whitmire**

**Sen. Vincent Sheheen**

# Membership and annuitant composition as of June 30, 2015

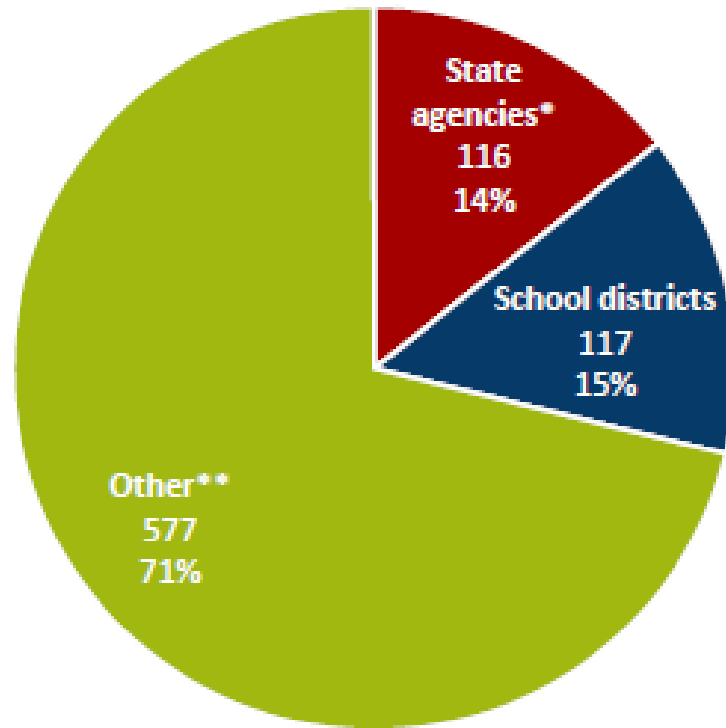
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	SCRS	PORS
<b>Total membership</b>		
Active	187,386 <sup>1</sup>	26,582
Inactive	160,259	12,705
Retirees & Beneficiaries <sup>2</sup>	134,634	16,810
<b>Active members</b>		
Average Age	45	39
Average Years of Service	10	9
Average Annual Salary	\$37,724	\$37,776
<b>Annuitants and beneficiaries</b>		
Average Current Age	69	65
Average Age at Retirement <sup>3</sup>	59	55
Average Years of Service at Retirement	23	19
Average AFC <sup>4</sup> at Retirement	\$42,677	\$44,201
Average Current Annual Benefit <sup>5</sup>	\$19,774	\$19,638

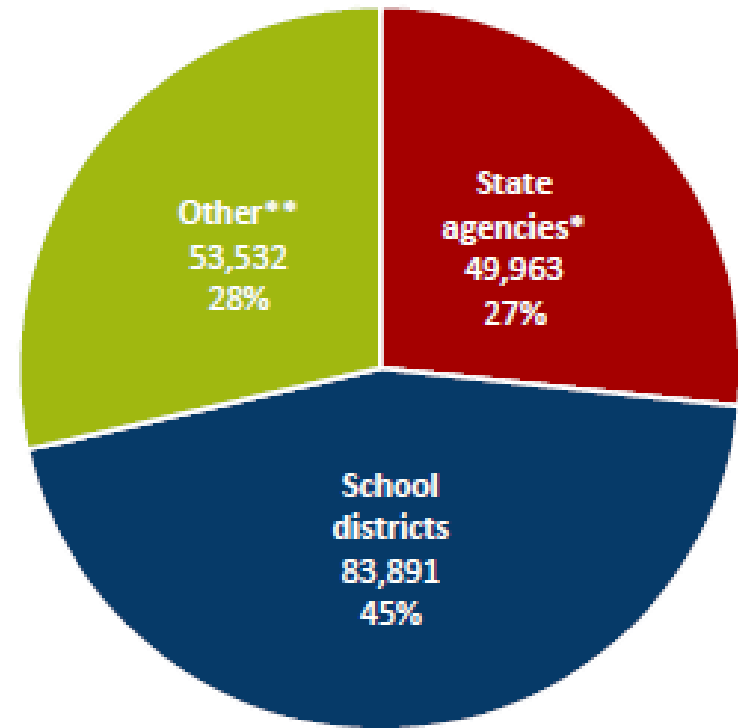
# SCRS employers, active members as of June 30, 2015



## Participating employers



## Active members



\*Includes higher education institutions.

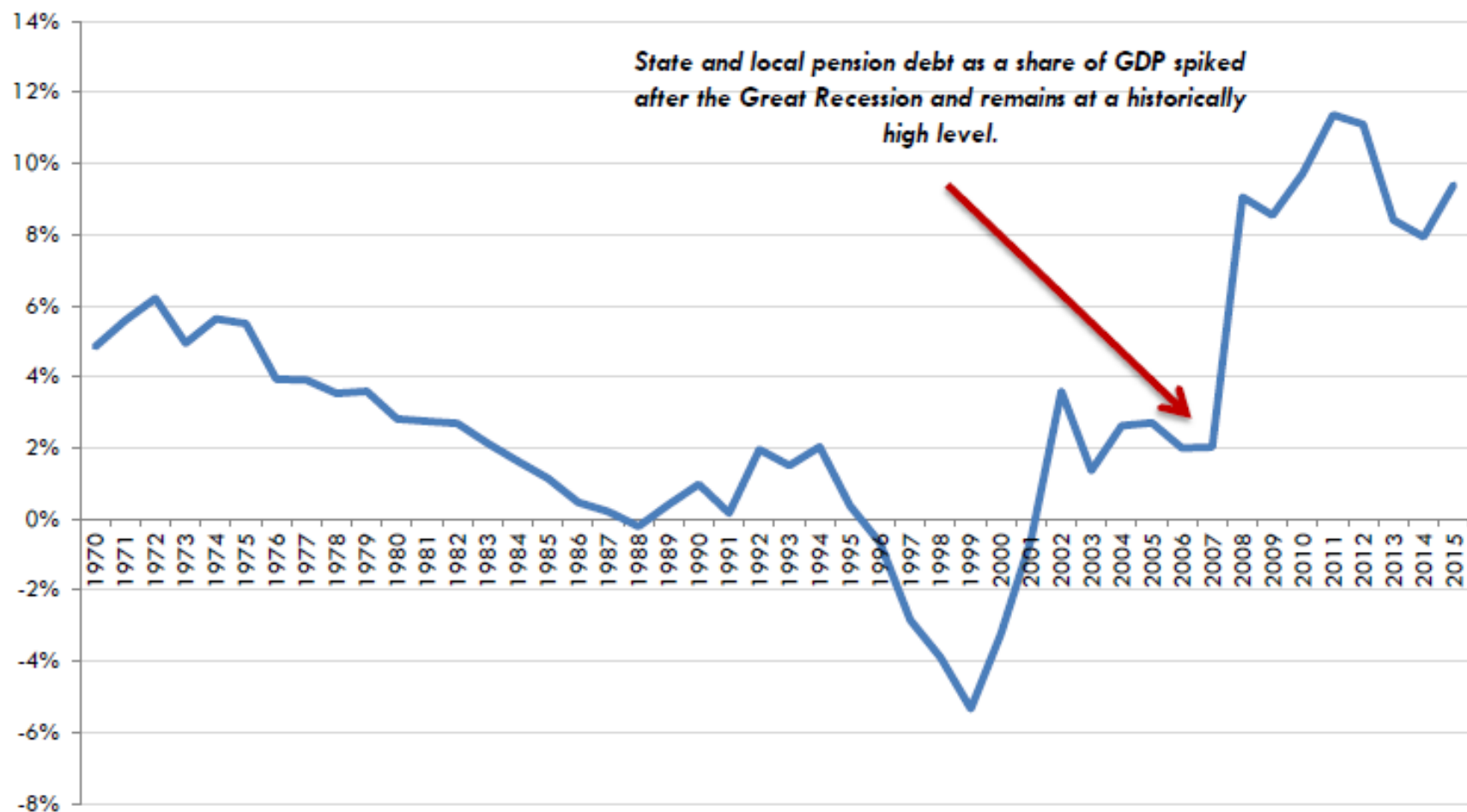
\*\*This category is comprised of cities, counties and other local subdivisions of government.

# 50 State and Regional Report Card

	South Carolina	50 State Rank	Southeast Region Rank	Comments
<b>Funded Ratio</b>	61% (2014 - for comparison)	43	7/7	
<b>% of ARC Paid (2004-2013)</b>	100%	8	1	AL, GA and TN also contributed 100% of ARC
<b>Net Amortization as a share of Payroll</b>	-5%	39	6/7	NC, TN achieved positive net amortization
<b>10 Year Investment Return</b>	5.1%	40 /41 (reporting net of fees)	5/5	41 report annual returns net of fees, as of 6/30 AL and TN not among the 41
<b>Assumed Rate of Return</b>	7.5%	US Median	Average	VA lowest in US/region at 7%
<b>Investment Transparency</b>	Reports returns net of fees and by asset class	National leader on investment fee disclosure	Regional leader	Fee levels are third highest among 73 largest state funds
<b>Pension Benefits</b>	Defined Benefit Plan with a 1.82% multiplier per year of service	The average general employee DB plan multiplier is 1.8%	Average Multiplier = 1.7 TN and VA now offer DB/DC hybrid plan	South Carolina has one of the most significant cost sharing policies in US and a robust optional DC plan
<b>OPEB Liability as a % of Personal Income</b>	5.98%	11 <sup>th</sup> largest	5/7 (3 <sup>rd</sup> highest)	State provides workers with percentage of premium benefit, based on YOS

Note: Southeast region includes AL, FL, GA, NC, SC, TN, VA.

# State and Local Pension Debt as a Share of Gross Domestic Product

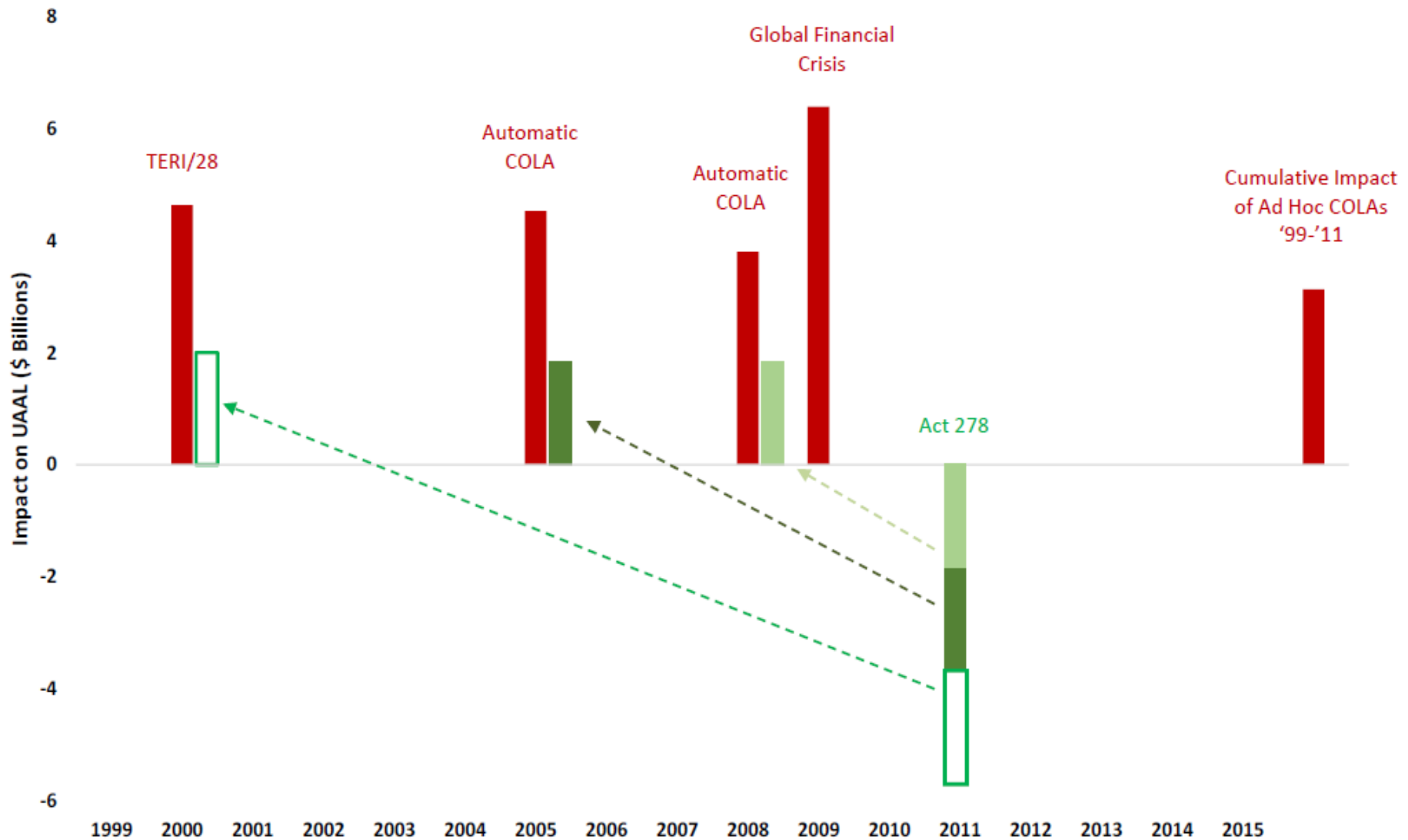


Source: The Federal Reserve and U.S. Department of Commerce Bureau of Economic Analysis



# SCRS UAAL: Key Events

## SCRS: Timeline and Impact of Major Events Affecting the UAAL



# SCRS Trust Fund

## Comparison of Payroll Contributions Received and Regular Benefits Paid



# Pensions – The solution is \$\$\$

## Options:

- Employee Contribution Increase (as a % of payroll)
- Employer Contribution Increase (as a % of payroll)
- Direct Appropriation (recurring or non-recurring)
- Reduce benefits (limitations related to Supreme Court precedent)

# Pensions

## Other Considerations

- Lower the Assumed Rate of Return (currently 7.5%)
- Implement a modified closed amortization period
- Migrate to some form of a hybrid system for non-vested employees
- Structural changes to the Public Employee Benefits Authority and the Retirement Investment Commission



FISCAL YEAR 17-18  
BUDGET OUTLOOK



Budget Outlook - Fact Sheet

FY 2017-18

November 10, 2016

FY17-18  
“New”  
Money

	Recurring Funds	Non-Recurring Funds
FY 2016-17		
Capital Reserve Fund		\$139,207,789
<b>Total Projected Non-Recurring Funds</b>		<b>\$139,207,789</b>
FY 2017-18		
General Fund Revenue Available for Appropriation* (Incremental Increase Over Appropriation Base)	\$307,382,939	
Projected New EIA Revenue	\$39,475,000	
Projected New Lottery Funds (Total Available FY2017-18 Lottery Funds - \$376,300,000)	-	
<b>Total Projected Recurring Funds</b>	<b>\$346,857,939</b>	
<b>Total Unobligated Funds Available in FY 2017-18</b> (Includes recurring and non-recurring funding sources)		<b>\$486,065,728</b>

\*Recurring General Fund budget growth for FY 2017-18 is 4.1%

# OBLIGATIONS

■ Education Finance Act Funding	\$88M (SDE increase of BSC by \$150 to \$2500)
■ Medicaid	\$50M (Annualization)
■ Pensions	\$??M (As much as possible)
■ State Health Plan Costs	\$27M (Annualization and cost increases)
■ Reserve Fund Requirements	\$22M (General and Capital Reserves)
■ Local Government Fund	\$11M (Annualization)
■ Hurricane Matthew Costs	\$33M (early EMD estimate)
■ School Bus Replacement	\$10M (SDE request recurring)
■ Scholarships (LIFE, Palmetto, HOPE)	\$14M (Increased costs from grade scale to 10 points)
■ SUBTOTAL	\$255M

# Conclusion

- The FY16-17 budget process could be characterized as the “Year of Plenty.” This was due to a number of one-time occurrences but primarily due to a downward bias in the revenue forecasting error. In FY17-18, the revenue forecasting error is erased.
- As a result, the \$307M in “new” recurring General Fund revenue above the previous year’s appropriation base is the return of the norm. So, FY17-18 will be a “back to basics” budget year.



Questions?

My email address is:

[mikeshealy@scsenate.gov](mailto:mikeshealy@scsenate.gov)