

South Carolina School Boards Association Legislative Advocacy Conference Budget Briefing

SATURDAY, DECEMBER 8TH, 2018

CHARLESTON MARRIOTT

SENATE FINANCE COMMITTEE, HUGH K. LEATHERMAN, SR., CHAIRMAN

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Board of Economic Advisors Report Fiscal Year 2017-18 Close-Out

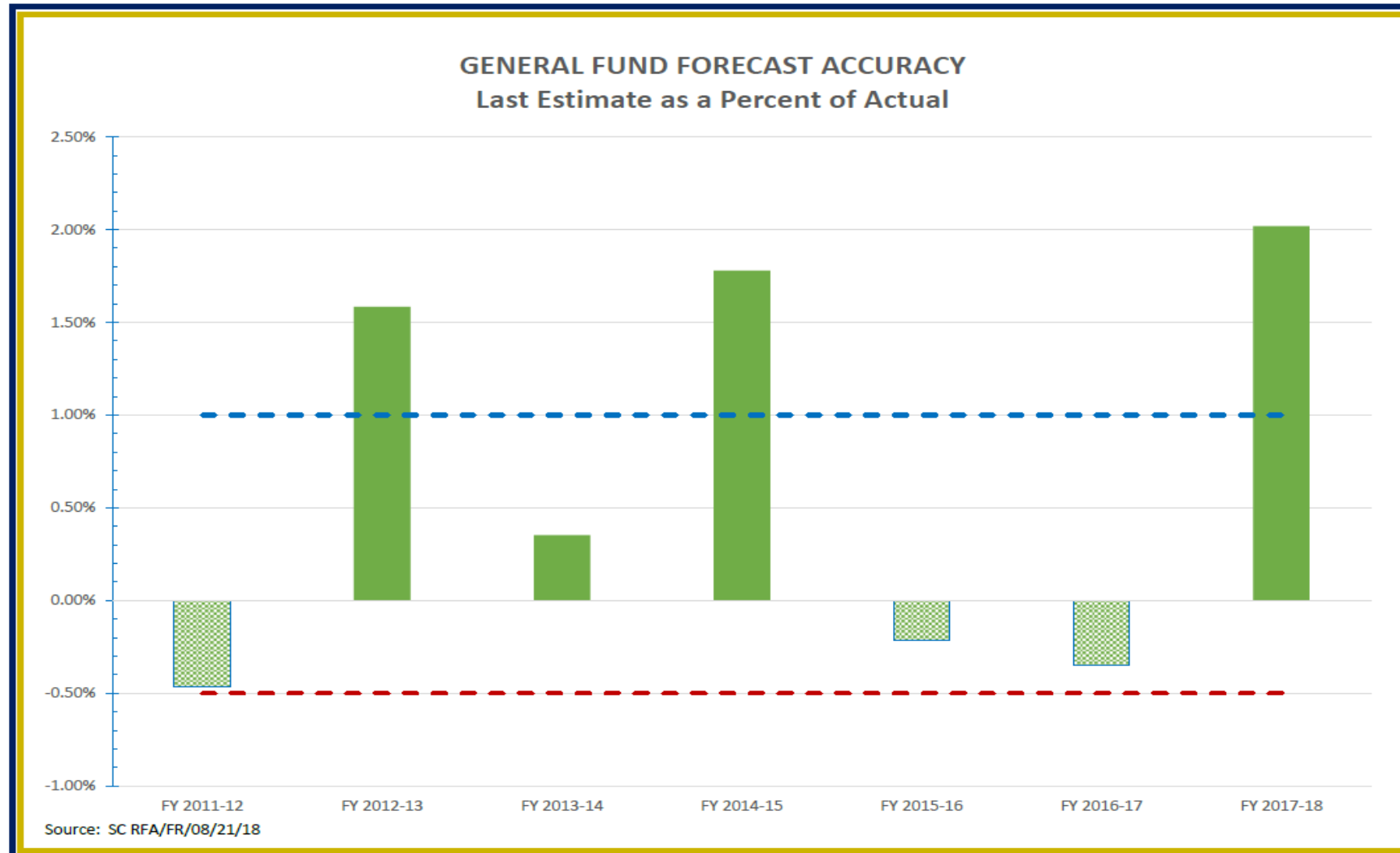
Overview Final FY 2017-18

Revenue Surplus of \$172.2 million; 2 percent excess outside of target range

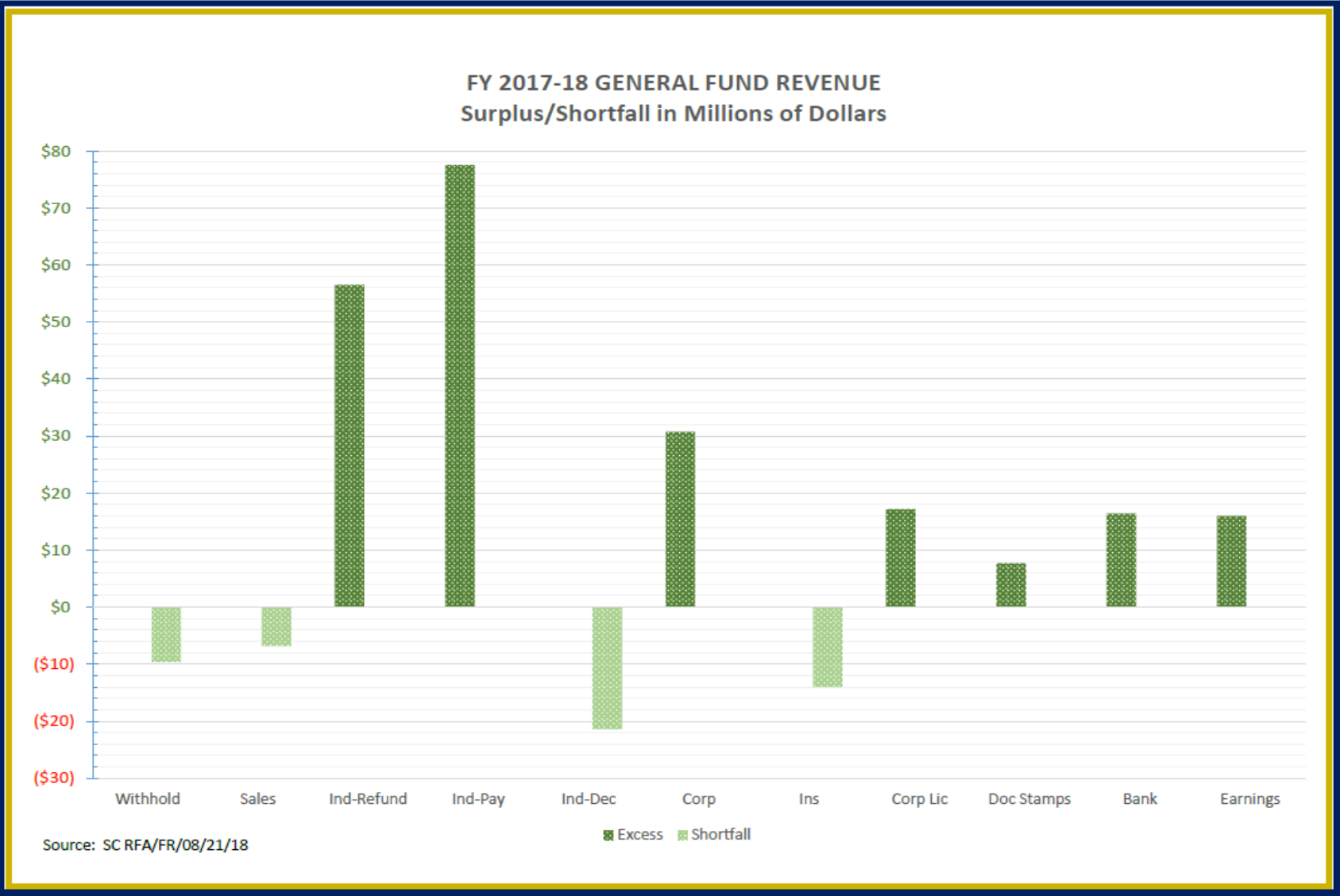
- Higher than expected Individual Income Tax payments and lower than expected Refunds accounted for most of the surplus
- Stock Market rally in December 2017 contributed to surplus (NASBO – May 2018)

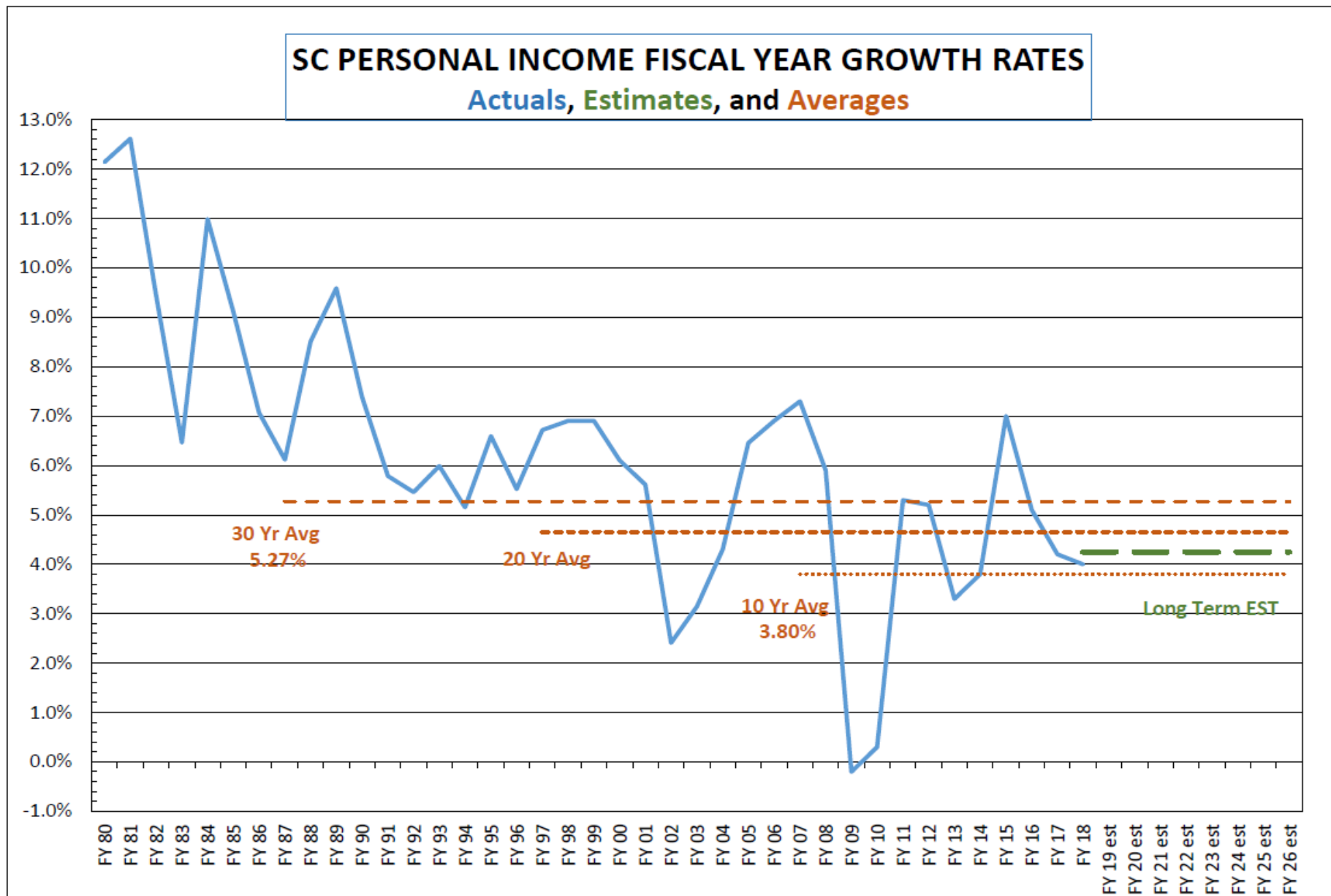
Other Budget items added \$4.9 million which resulted in a total budget surplus of \$177.1 million

BEA Forecast Accuracy – February 15th Forecast versus Actual Final Revenue Collections Fiscal Year 2011-12 through Fiscal Year 2017-18



Category Sources of Excess Revenues Compared to the BEA Revenue Forecast





Source: US Department of Commerce, Bureau of Economic Analysis RFA-173 LJ/10/05/17

Core Growth in General Fund Revenues

Actions by the Board of Economic Advisors on 11/8/18.

- FY17-18 Revenue Base adjusted upward by \$171.6 Million.
- FY18-19 Revenue Base adjusted upward by \$217.7 Million.
- Comparison of growth from FY17-18 to FY18-19 is \$350.2 Million or 4.0%.
- FY19-20, expected revenue growth is \$274.5 Million above the Board of Economic Advisor's Revenue Base for FY18-19, or a growth rate of 3.0%.

NOTE: The BEA forecast for the State's Total Personal Income is 4.25% for both FY18-19 and FY19-20.

FY 2019-20 General Fund Recurring Revenue Growth

	Recurring Funds
BEA Revenue Estimate 11-8-2018	9,330,674,000
-Tax Relief Trust Fund	(614,053,000)
-FY 18-19 Appropriation Act (SCD Total)	(8,221,032,289)
Projected FY 19-20 “New” General Fund Revenue	495,588,711
+FY 2019-20 Vetoes (Part 1A Recurring)	2,208,596
“New” Revenue Available for Appropriation	497,797,307

Note: The new revenue is a growth rate of 6.0% above the Appropriation Base.

Non-Recurring Revenue Sources

FY 2017-18 Contingency Reserve Fund	177,146,326
Projected FY 2018-19 Capital Reserve Fund	151,649,393
Projected FY 2018-19 General Fund Surplus	217,734,000
Subtotal	<hr/> 546,529,719

Revenues Available for Expenditure in Fiscal Year 2019-20

Recurring	497,797,307
Non-Recurring	546,529,719
Total	1,044,327,026

APPROPRIATIONS

Reserve Fund Contributions (Constitutional)

General Reserve Fund (5%)	27,089,778
Capital Reserve Fund (2%)	<u>10,835,912</u>
Total	37,925,690

Note: General Reserve Fund balance currently at \$363,552,089.

APPROPRIATIONS

Statewide Issues

Employee Health Insurance (no subscriber increase, General Fund teachers and state employees)	49,708,000
State Employee Pay Plan 1% (General Funds Only)	20,700,00
Retirement Employer Contribution Increase (General Funds Only)	36,600,000

Public Education Issues

Education Finance Act (Full Funding)	496,800,000
School Resource Officers (personnel costs for those schools without an SRO)	20,600,000
Move Teacher Pay 1%	32,000,000
Bus Replacement Cycle (<i>to replace 1/15th of the fleet</i>)	34,000,000

APPROPRIATIONS

Higher Education Issues

Scholarships (cost related to the 10 point grading scale)	13,000,000
Base General Fund Budget Increases per 1%	6,135,000
ReadySC	7,604,400

Health & Social Services Issues

DSS - Child Support Enforcement (final implementation September 2019)	28,600,000
DSS - Federal Consent Agreement/Child & Family Services Review (caseload reductions, foster care system improvements)	45,000,000
DHHS - Medicaid Match Fund (Medicaid & CHIP)	70,200,000
DMH - VA Nursing Homes (state match for capital costs)	37,100,000

APPROPRIATIONS

Additional Issues

Elections Commission – Voting Machine Replacement	60,000,000
Adjutant General – FEMA Hurricane Match Funds	33,700,000
Local Government Fund – Full Funding	119,000,000

BASELINE APPROPRIATIONS FY19-20

Issue

Employee Health Insurance	49,708,000
State Employee Pay Plan 1%	20,700,000
Retirement Employer Contribution Increase	36,600,000
School Resource Officers	20,600,000
Move Teacher Pay 1%	32,000,000
Bus Replacement Cycle	34,000,000
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Base General Fund Budget Increase	6,135,000
ReadySC	7,604,400
Child Support Enforcement	28,600,000
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Medicaid Match Fund	70,200,000
VA Nursing Homes	37,100,000
Elections Commision	60,000,000
FEMA Hurricane Match	33,700,000

Subtotal \$494,947,400

**EFA and Local Government Funding not included above*

Economic Data

SOUTH CAROLINA IS CHANGING.

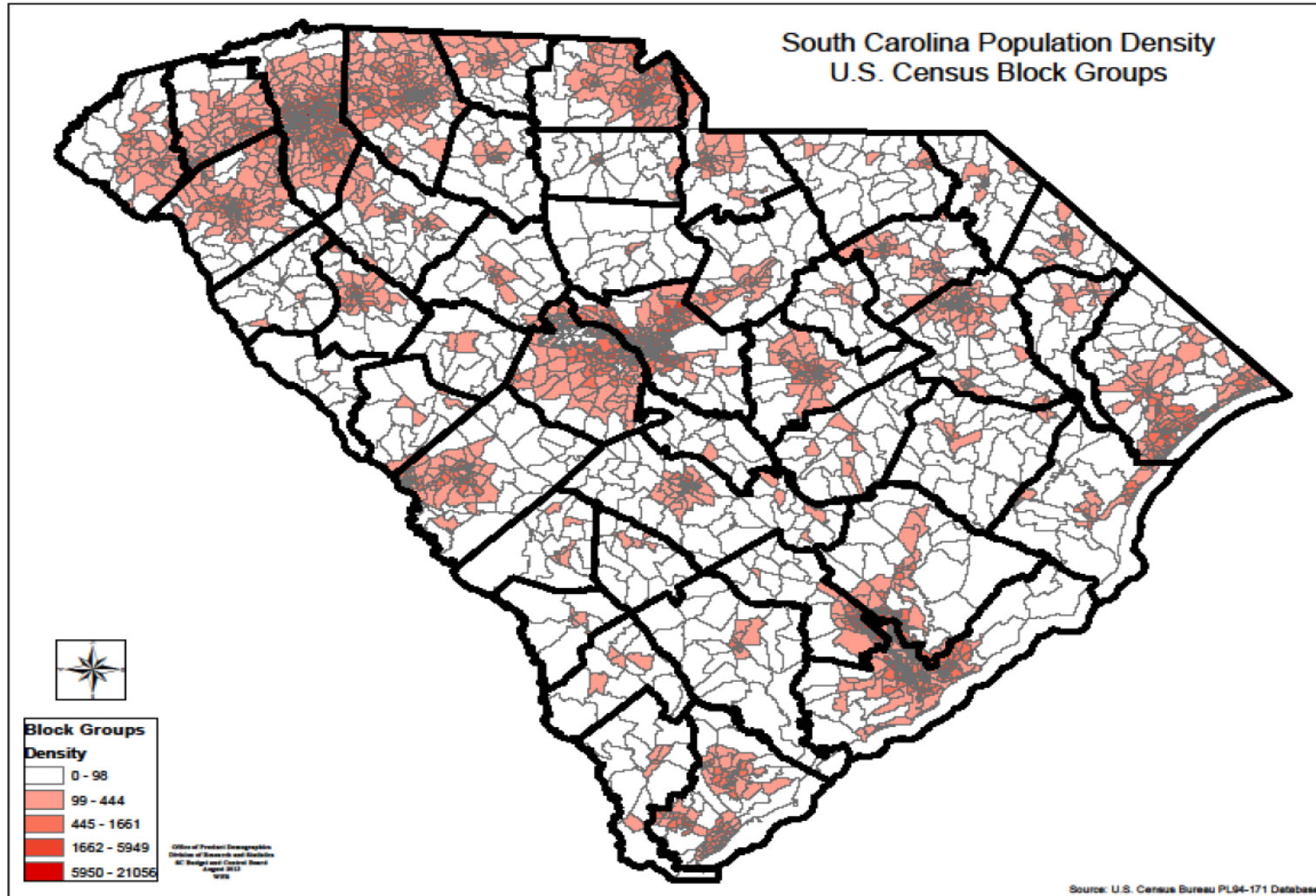
ECONOMIC DASHBOARD

Selected Economic Indicators	2017	% Change (2000-2010)	% Change (2010-2017)
US Population <i>(in millions)</i>	325.7	0.9%	0.5%
SC Population <i>(in millions)</i>	5.024	1.4%	0.8%
US Real Gross Domestic Product <i>(in billions of chained 2012 dollars)</i>	18,050.70	1.7%	1.5%
US Total Personal Income <i>(in billions)</i>	16,820.25	3.8%	3.0%
SC Total Personal Income <i>(in millions)</i>	209,179.60	4.0%	4.8%
US Consumer Price Index <i>(1982 = 100)</i>	245.1	2.4%	1.7%
US Total Non-Farm Employment <i>(in thousands)</i>	146,624	-0.1%	1.7%
SC Total Non-Farm Employment <i>(in thousands)</i>	2,091	-0.2%	2.1%
US Labor Force Participation Rate	62.8%	-0.4%	-0.4%
SC Labor Force Participation Rate	58.6%	-0.9%	-0.5%

Population Data

SOUTH CAROLINA IS GROWING. BUT THE GROWTH IS UNEVEN AND OCCURRING IN DENSELY POPULATED AREAS.

The Population Centers of South Carolina



South Carolina Population: 2010 Diennial Census 4,625,364

50% OF POPULATION BY COUNTIES

First Quartile: Greenville, Richland, Charleston (3)

Second Quartile: Spartanburg, Horry, Lexington, York, Anderson (5)

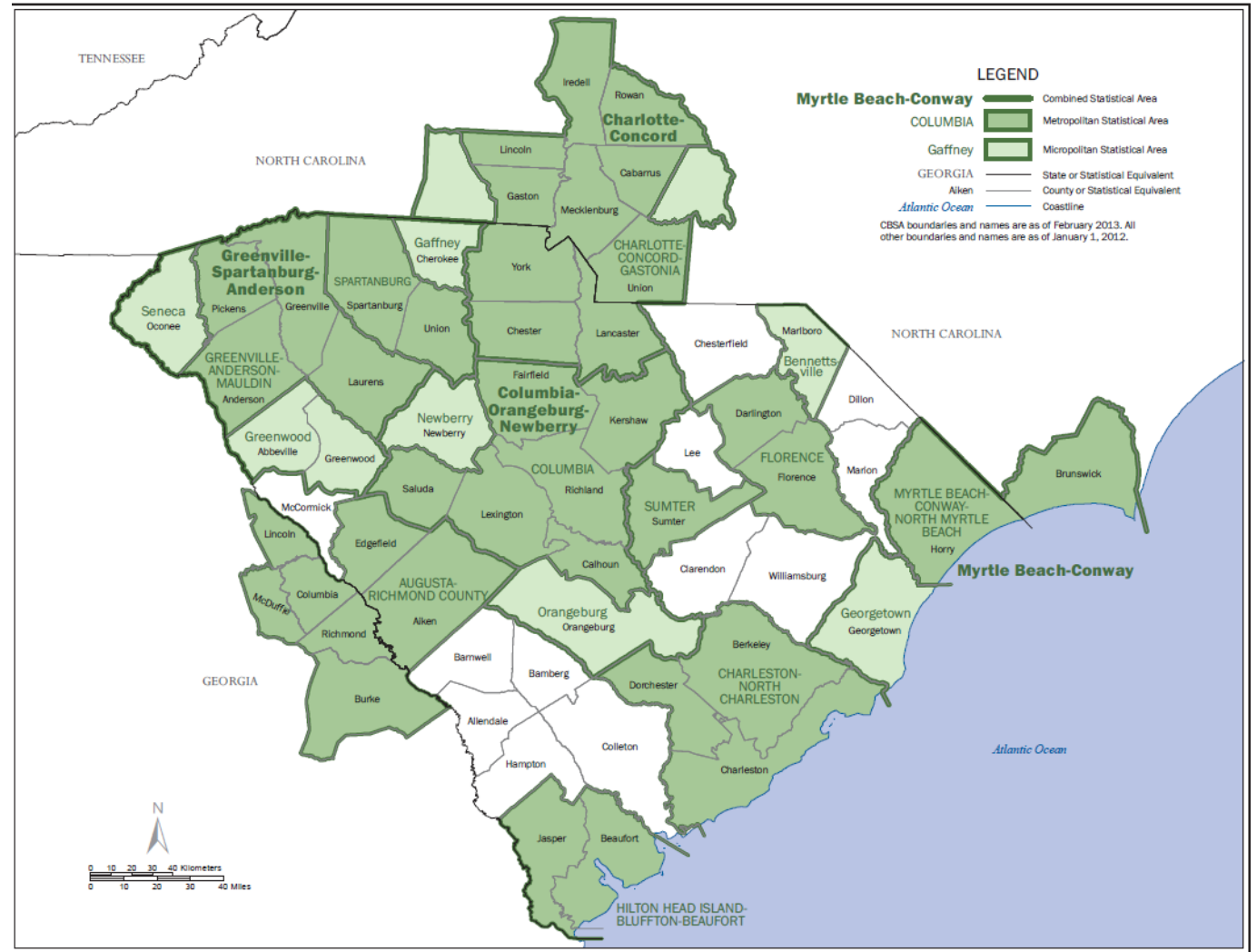
50% OF POPULATION BY COUNTIES

Third Quartile: Berkeley, Beaufort, Aiken, Florence, Dorchester, Pickens, Sumter, Orangeburg (8)

Fourth Quartile: Lancaster, Oconee, Greenwood, Darlington, Laurens, Kershaw, Georgetown, Cherokee, Chesterfield, Colleton, Newberry, Clarendon, Williamsburg, Chester, Marion, Dillon, Union, Marlboro, Edgefield, Abbeville, Jasper, Fairfield, Barnwell, Hampton, Saluda, Lee, Bamberg, Calhoun, Allendale, McCormick (30)

Metropolitan Statistical Areas

South Carolina is 40th in land mass size, 25th in population and 22nd in population density.



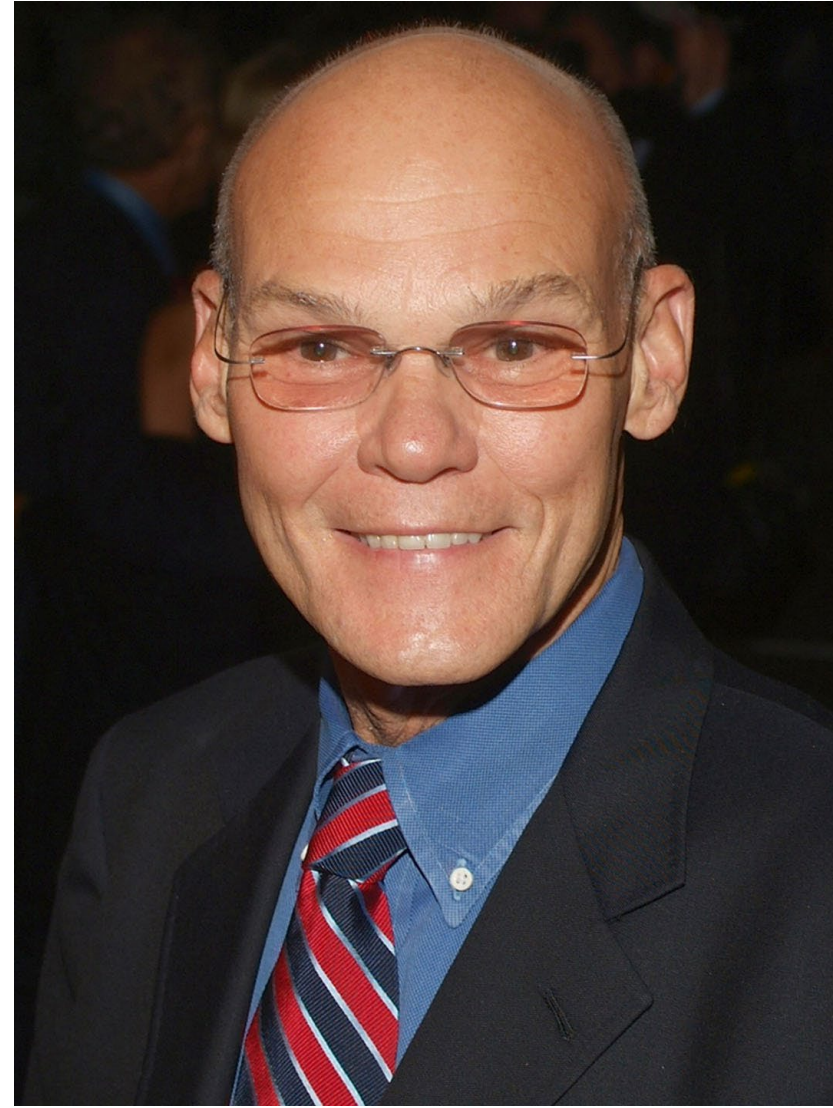
Source: U.S. Department of Commerce

Why is this concentration of population accelerating?

Chester James Carville, Jr.:

“It’s the economy, stupid,” was the mantra of the Clinton presidential campaign in 1992.

Economic forces are important in the concentration of population worldwide, in the US and an SC.



by Richard
Florida and Ian
Hathaway

Harvard
Business
Review

November 27,
2018

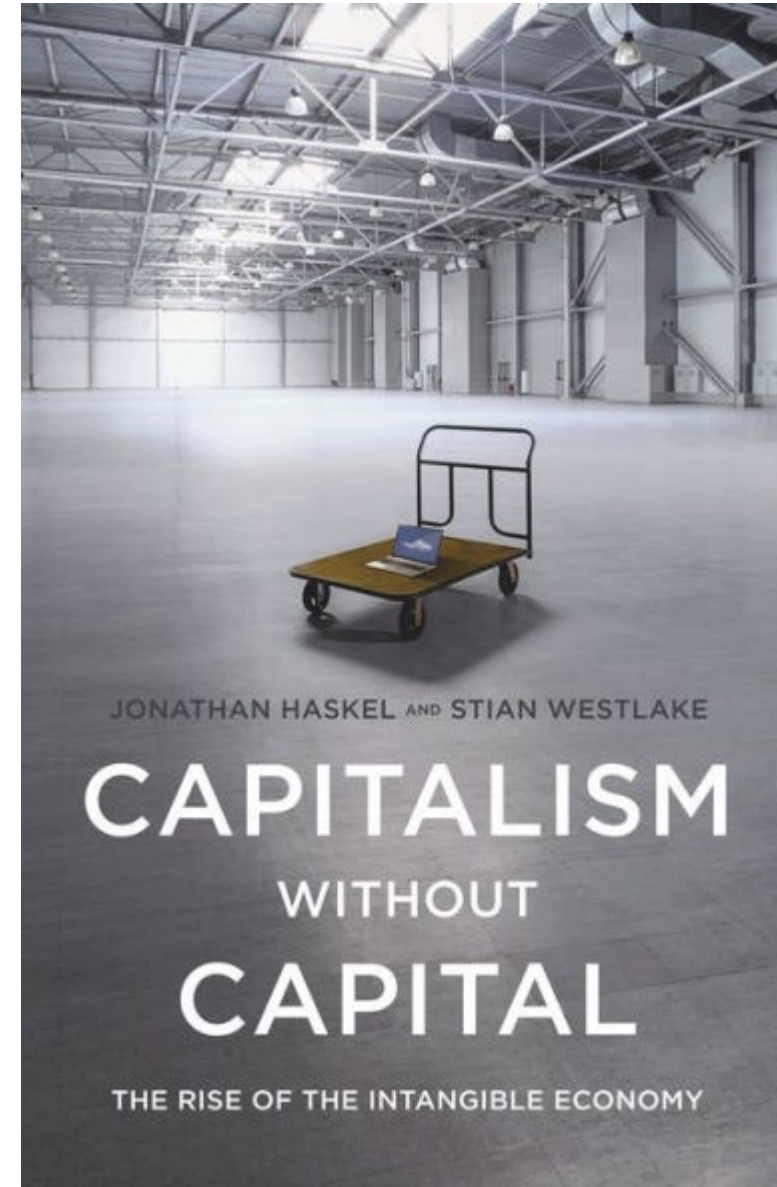
“How the Geography of Startups and Innovation is Changing”

Four Transformative Shifts in Startups and Venture Capital

- 1) The Great Expansion (a large increase in volume of venture deals and capital invested).
- 2) Globalization (growth in startups and venture capital across the world).
- 3) Urbanization (the concentration of startups and venture capital investment in cities).
- 4) Winner – Take – All Pattern (with leading cities pulling away from the rest).

A Bigger Picture

Capitalism
Without Capital:
The Rise of the
Intangible
Economy
by Jonathan
Haskel and Stian
Westlake



Capitalism Without Capital

The Rise of the Intangible Economy

by Jonathan Haskel and Stian Westlake

“Our central argument in this book is that there is something fundamentally different about **intangible investment**, and that understanding a steady move to intangible investment helps us understand some key issues facing us today: innovation and growth, inequality, the role of management, and financial and policy reform.”

Investment – the traditional tangible viewpoint.

SOUTH CAROLINA BMW FACILITY



HEAVY MACHINERY



Not all investments
are things you can
touch.

One example is drug
patents.

Dapagliflozin is a drug of the gliflozin
class, used to treat type 2 diabetes. It
was developed by Bristol-Myers
Squibb in partnership with
AstraZeneca.

In FY17, AstraZeneca's gross revenue
was \$22B. In FY17, Bristol-Myers
Squibb's gross revenue was \$20B.

In May of '18, the makers of Farxiga
were sued by users claiming the drug
caused kidney damage.



Examples of Tangible and Intangible Business Investments

TANGIBLE INVESTMENTS

Buildings

IT Equipment

Machinery

Vehicles

INTANGIBLE INVESTMENTS

Software

Databases

Research and Development

Creating entertainment, literary or artistic originals

Design

Training

Market Research and Branding

Business Process reengineering

What is Different About Intangible Investment?

Four properties of Intangible Investments:

1) Scalability

2) Sunkness

3) Spillovers

4) Synergies

Intangible Investments: 3.) Spillovers

Why Do Spillovers Matter?

- 1) When companies are not sure they will obtain the benefits of their investment, they have a tendency to invest less.
- 2) A premium is placed on the ability to manage a spillover whether it is making the most of their own investment or exploiting the spillovers of others' investments.
- 3) Spillovers affect the geography of modern economics (more living together in cities).

Spillovers:

A tendency to invest less.

These companies develop strong patents to keep their intellectual property.

Would You Have
Invested in this
Company in 1978?

The first 11 employees
of Microsoft



Spillovers:

These companies also attempt to copy others ideas.

ConnectU's founders -- Cameron Winklevoss, Tyler Winklevoss, and Divya Narendra created a social networking site founded at Harvard in 2002.

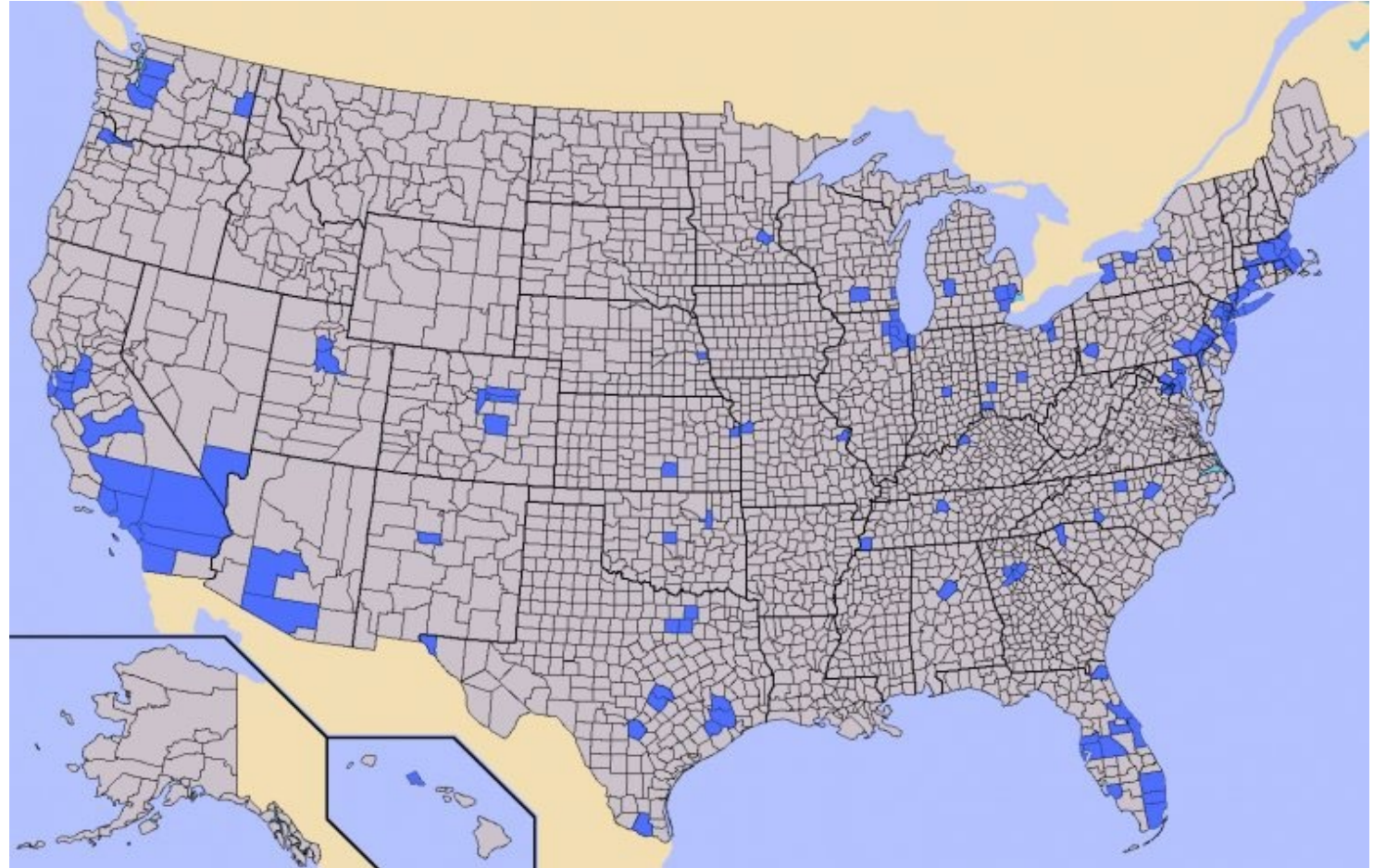
In 2008, Judge James Ware enforced a February 2008 settlement between the company and Facebook. Their company sued Mr. Mark Zuckerberg, a classmate at Harvard, for stealing their ideas.



Spillovers: Businesses with large intangible investments tend to gather in cities where interactions and collaborations are plentiful. In certain cases, they locate near academic institutions performing applied research.

Of the over 3000 counties in the US, half (in blue) live in the 146 most populated counties.

Source: Business Insider



“Silicon Harbor has become a tech landing spot for some weary city dwellers,” USA Today, July 29, 2017

It may be 2,740 miles away, as the crow flies, but Charleston seems like a million miles away from the hustle, bustle and stress of Silicon Valley.

An idyllic beachfront on the Carolina coast, drawing 7 million tourists annually. Horse-drawn carriages and pastel antebellum houses with roots to the American Revolution. Fort Sumter in the distance, a reminder of where the first shots were fired in the Civil War.

And yet the economic formula is decidedly 21st Century after decades of relying extensively on the military, automotive and textile industries. The focus today is on high-wage jobs in an affordable, lifestyle-friendly setting.

Welcome to Silicon Harbor: Home to more than 250 tech companies employing 11,000. This port city has quietly become the No. 1 mid-sized U.S. metro area (500,000 to 1 million) for IT job growth, adding 4,000 jobs the past five years, according to the U.S. Bureau of Labor Statistics.



Clemson University's International Center for Automotive Research (CU-ICAR)

7 Strategic Research Areas:

- *Advanced Powertrain Systems*
- *Automotive Systems Integration*
- *Human Factors/HMI*
- *Manufacturing and Materials*
- *Vehicle Performance*
- *Vehicle-to-Vehicle Connectivity and Vehicle-Infrastructure Integration*
- *Vehicular Electronics*



Evidence of the Trends

RECENT ECONOMIC DEVELOPMENT ANNOUNCEMENTS

Economic Development – Investment and Jobs

July 2nd - October 4th of 2018

Nupi Americas to expand Hampton County Operations – Oct. 4, 2018

- The company will invest \$6.2 million in an expansion of its current manufacturing and distribution facility at the Southern Carolina Industrial Campus in Hampton County (Fiberglass Piping).

MAHLE Behr expanding its Charleston County operations – Oct. 3, 2018

- MAHLE Behr Charleston Inc., a leading supplier of air conditioning and radiator assemblies, is expanding its manufacturing operations in Charleston County. The company's \$36 million investment is projected to create 115 new jobs.

Green Cloud Technologies Greenville County headquarters– Sept. 25, 2018

- Green Cloud Technologies announced the opening of its new Greenville County headquarters. The \$7.8 million investment is projected to create approximately 50 new jobs over the next five years.

JTEKT North America expands Greenville County headquarters – Sept. 5, 2018

- JTEKT has completed a \$5.8 million expansion of its headquarters on the campus of the Clemson University International Center for Automotive Research. The expansion will continue to create 100 positions in Greenville to be filled by 2020.

Economic Development – Investment and Jobs

Google Investing \$600 million in Berkeley County Operations– Aug. 28, 2018

- Google confirmed plans to expand its campus in Berkeley County, bringing approximately \$600 in capital investment. The total investment in Berkeley County will reach approximately \$2.4 billion.

Organic Standard Solutions Int. expanding in Charleston County – Aug. 23, 2018

- Organic Standard Solutions International announced expansion plans for Charleston County facility. The company's \$2.4 million capital investment is expected to create approximately 20 new jobs (Chemicals).

Capgemini expanding operations in Richland County - Aug. 23, 2018

- Capgemini announced it is expanding Richland County operations with the opening of an advanced technology and development center. The new center is projected to create at least 200 jobs, with potential for additional positions in the future (Technology).

Materials Sciences Corporation expanding in Greenville County– Aug. 16, 2018

- Materials Sciences Corporation has announced plans to expand its presence in Greenville County with the addition of a second facility. The company's \$2.7 million capital investment is projected to create 23 new jobs over the next 5 years (Composites).

Economic Development – Investment and Jobs

Sharonview Federal Credit Union headquarters in Lancaster County – *Jul. 25, 2018*

- Sharonview Federal Credit Union, a provider of financial services, announced it is relocating and expanding its corporate headquarters in Lancaster County. The company's \$42 million capital investment is projected to create more than 115 new jobs.

Ingevity establishing new corporate headquarters in Charleston County – *Jul. 25, 2018*

- Ingevity Corporation announced it is establishing new corporate headquarters in Charleston County. Ingevity will invest \$5 million in the project, which is projected to create at least 100 new jobs (Specialty Chemicals).

Samsung to open Connected Customer Care Center in Greenville County– *Jul. 12, 2018*

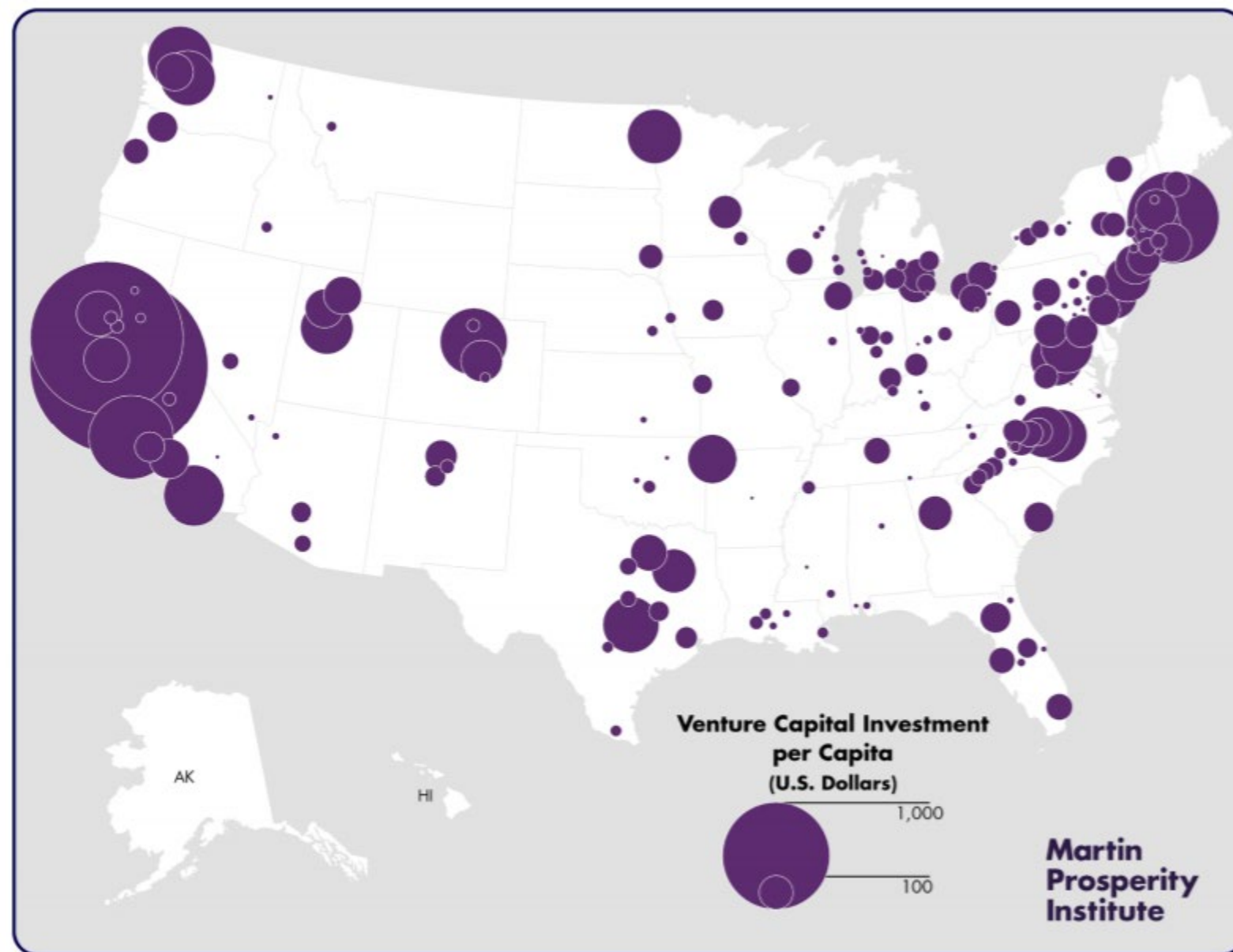
- Samsung Electronics America, Inc. announced plans to open a customer care center in Greenville County. The new Connected Customer Care Center will bring 400 additional jobs to the region by 2020.

FUJIFILM expanding its Greenwood County production operations – *Jul. 2, 2018*

- FUJIFILM Manufacturing USA announced plans to expand its existing operations in Greenwood County. The company's \$3.9 million investment is projected to create 67 new jobs.

The Geography of Venture Capital Investment in the US, 2010

Source: Spiky Venture
Capital: The Geography of
Venture Capital Investment
by Metro and Zip Code,
Martin Prosperity Institute
By Richard Florida and
Karen M. King



The Takeaway

- 1) Intangible investments are increasingly more prevalent in international commerce due in part to the technology age.
- 2) Because of the characteristics of these types of investments, the economy pushes the locations of these jobs to cities.
- 3) This trend is now evident in South Carolina's population growth as larger cities continue to expand while rural counties continue to lose population.

Why is this important to School Boards in South Carolina?

- 1) The national and world economies have transitioned to a more intangible form of investment. The pace of change will likely accelerate.
- 2) Agriculture and manufacturing will continue to be productive. But, with the application of technology, fewer people are needed in these industries compared to our economic history. So, the organizing force will be the city.
- 3) As a result, cities will become more populated and rural areas less populated. This has direct implications for your local tax revenues, infrastructure, planning and zoning, housing, recreation, economic development.

LBJ

“Education is not
a problem.
Education is an
opportunity.”

President Lyndon B.
Johnson, 36th President
of the United States

