

State Budget Outlook A Presentation to the:

SC Association for Institutional Research Conference

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Craig H. Parks, MPA

Assistant Director for Tax Policy

Senate Finance Committee

South Carolina's Budget and Revenues

Appropriations & Revenues



FY 2017-18

Appropriation Sources

• General Fund (Gross)	\$8,533,988,000
<i>Less Tax Relief Trust Fund</i>	<i>(\$583,649,169)</i>
<i>Less Homestead Exemption Shortfall</i>	<i>(\$25,735,247)</i>
General Fund (Net Available)	\$7,924,603,584
• Federal Funds	\$8,623,469,730
• Other Funds	<u>\$10,855,586,746</u>
Total	\$27,429,395,307*

**SC Total Personal Income in 2016 is \$192.6 Billion. So, the State Budget represents about 14% of economic activity in SC.

FY 2017-18
Net General Fund Revenue Available

Sales Tax	\$3,041,207,000
Individual Income Tax	\$4,295,400,000
Corporation Income Tax	\$ 329,486,000
Other Sources	<u>\$ 868,270,000</u>
TOTAL (Gross)	\$8,534,363,000
<i>Less Tax Relief Trust Fund</i>	<i>(\$583,649,169)</i>
<i>Less Homestead Exemption Shortfall</i>	<u><i>(\$25,735,247)</i></u>
Total (Net Available)	\$7,924,603,584

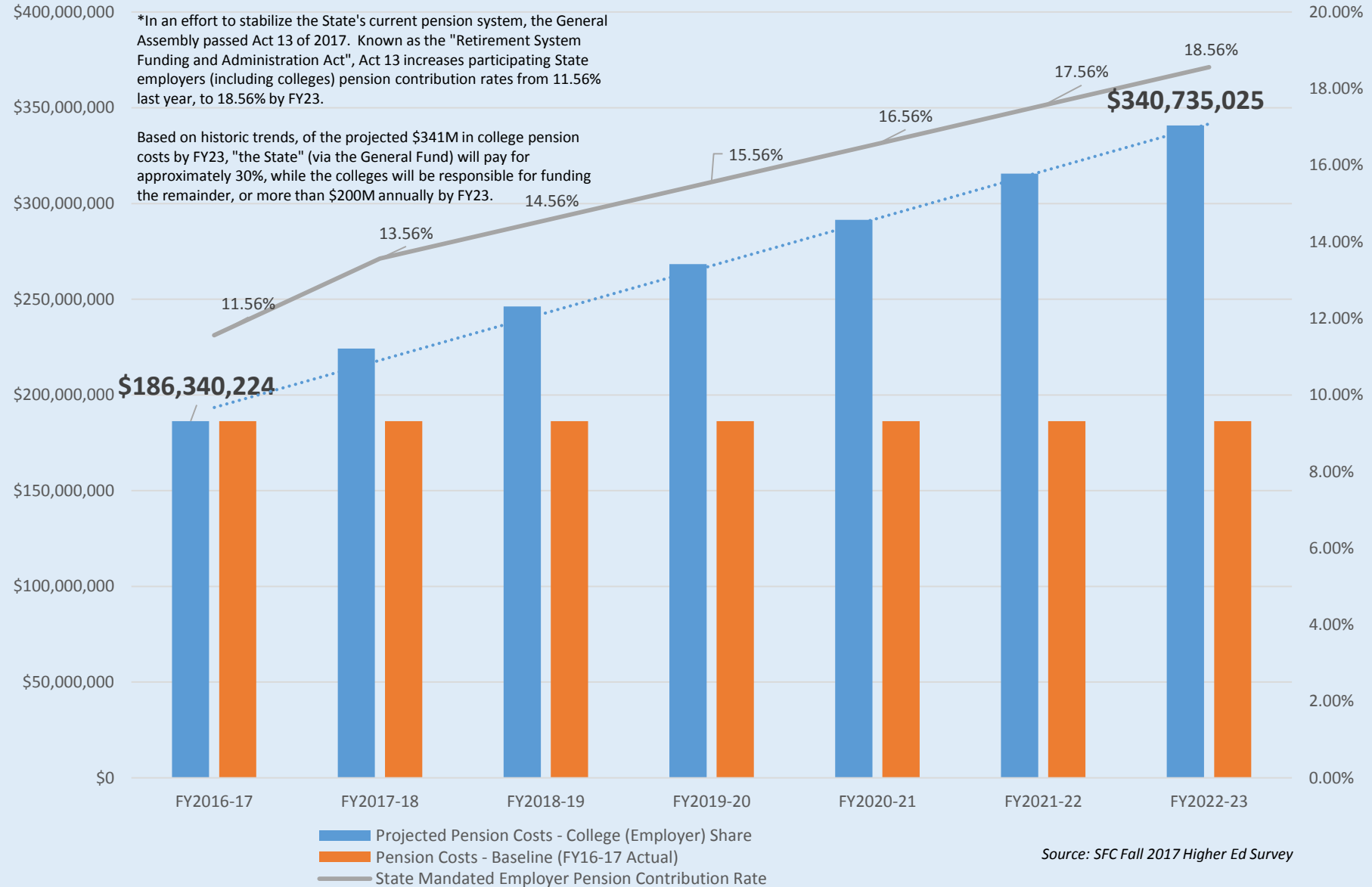


A Banner Year? *Roads and Pensions in 2017*

Road Funding...and Tax Cuts

<i>\$ millions</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
New Funding for Roads										
New Road Funding (prior to rebate)	\$177	\$281	\$367	\$450	\$537	\$622	\$625	\$627	\$630	\$633
Motor Fuel User Fee Rebate (<i>max</i> DOT portion) (1)(2)	\$0	(\$40)	(\$65)	(\$85)	(\$110)	(\$114)	\$0	\$0	\$0	\$0
Minimum (recurring) New Road Funding @ max Rebate	\$177	\$241	\$302	\$365	\$427	\$508	\$625	\$627	\$630	\$633
Tax Relief for Individuals										
Motor Fuel User Fee Rebate (1)	n/a	\$40	\$65	\$85	\$110	\$114	0*	0*	0*	0*
Earned Income Tax Credit (non-refundable) (3)	n/a	\$20	\$28	\$33	\$37	\$40	\$43	\$45	\$47	\$49
Enhanced Two-Wage Earner Tax Credit (non-refundable) (4)	n/a	\$3	\$7	\$10	\$13	\$16	\$19	\$20	\$20	\$21
Enhanced College Tuition Tax Credit (refundable) (5)	n/a	\$6	\$6	\$7	\$7	\$7	\$7	\$7	\$7	\$7
Subtotal, Tax Relief for Individuals (including Rebate)	n/a	\$70	\$106	\$135	\$166	\$177	\$69	\$71	\$74	\$76
Tax Relief for Industry										
Manufacturing Property Tax Exemption (6)	n/a	\$6	\$12	\$18	\$24	\$30	\$36	\$36	\$35	\$35
Subtotal, Tax Relief for Industry	n/a	\$6	\$12	\$18	\$24	\$30	\$36	\$36	\$35	\$35
TOTAL, Tax Relief for Individuals and Industry	n/a	\$76	\$118	\$153	\$190	\$207	\$105	\$107	\$109	\$111
GENERAL FUND PORTION OF TAX RELIEF	n/a	(\$36)	(\$53)	(\$68)	(\$80)	(\$93)	(\$105)	(\$107)	(\$109)	(\$111)
Notes:										
(1) - Effective Tax Year 2018, adds a refundable tax rebate equal to the lesser of 100% of the increase in fuel user fee or required maintenance expenses, capped at \$114M statewide by FY22-23 (Sunset in FY23-24, unless reauthorized).										
(2) - The rebate is first paid from a separate DOT account funded by the out of state registration fee; remainder from DOT, not to exceed caps.										
(3) - Effective Tax Year 2018, phases-in over six years a new non-refundable "Earned Income Tax Credit" (EITC) based on the federal EITC tax credit, capped at 125% of the federal credit by FY23-24.										
(4) - Effective Tax Year 2018, increases the current non-refundable "Two-Wage Earner" tax credit wage limitation from \$30,000 (not increased since 1987) to a max of \$50,000 by FY23-24 when fully phased-in (six years).										
(5) - Effective Tax Year 2018, increases the current refundable "College Tuition" tax credit (not increased since 1998) from 25% of tuition not to exceed \$350 for tech colleges and \$850 for 4-year colleges, to 50% of tuition not to exceed \$1,500 for BOTH tech and 4-year colleges. Credit capped at \$40M/yr.										
(6) - Effective Tax Year 2018, phases-in over six years a reduction in the assessment ratio of manufacturing property from 10.5% currently, down to 9% when fully phased-in.										
Sources: South Carolina Revenue and Fiscal Affairs Office and Senate Finance Staff.										

Projected Pension Cost Increases on College Operating Budgets FY17 through FY23*



Where is the State Money Spent?

Pre and Post Great Recession

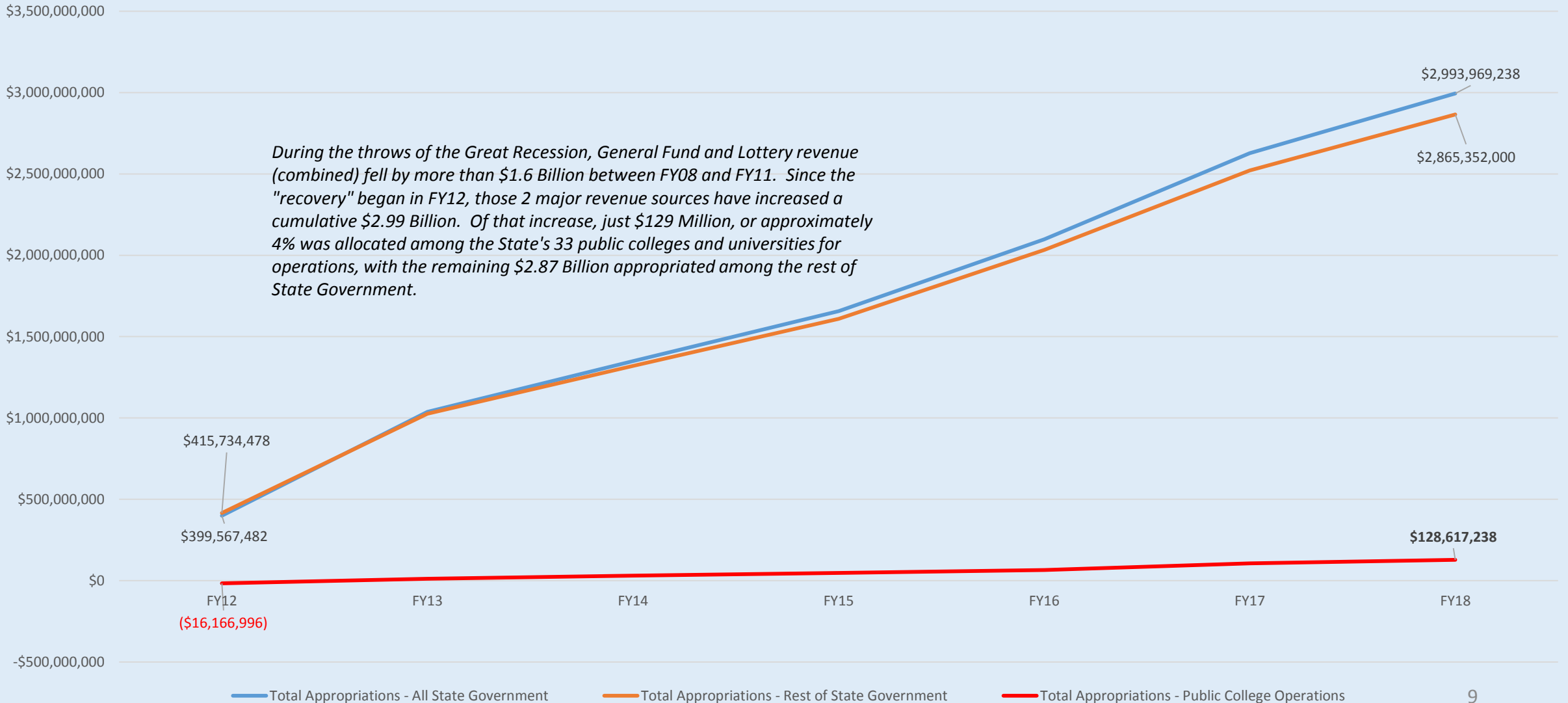
	FY07-08	FY17-18	Difference
K-12 Education	\$2,467,599,084	\$3,046,997,096	\$579,398,012
Health and Social	\$1,685,415,369	\$2,138,683,647	\$453,268,278
Higher Education - College Operations & Other	\$839,703,577	\$614,817,055	(\$224,886,522)
Higher Education - Scholarships & Grants	\$299,490,939	\$425,472,350	\$125,981,411
Correctional and Public Safety	\$593,358,615	\$709,943,818	\$116,585,203
Transportation (DOT)	\$186,590	\$137,861,654	\$137,675,064
All Other	\$1,129,360,663	\$1,293,728,566	\$164,367,903
Total	\$7,015,114,837	\$8,367,504,186	\$1,352,389,349

**Note: "State Money" includes recurring Part 1A "General Funds" and Lottery. Excludes EIA, CRF and other non-recurring appropriations.*

Source: Executive Budget Office

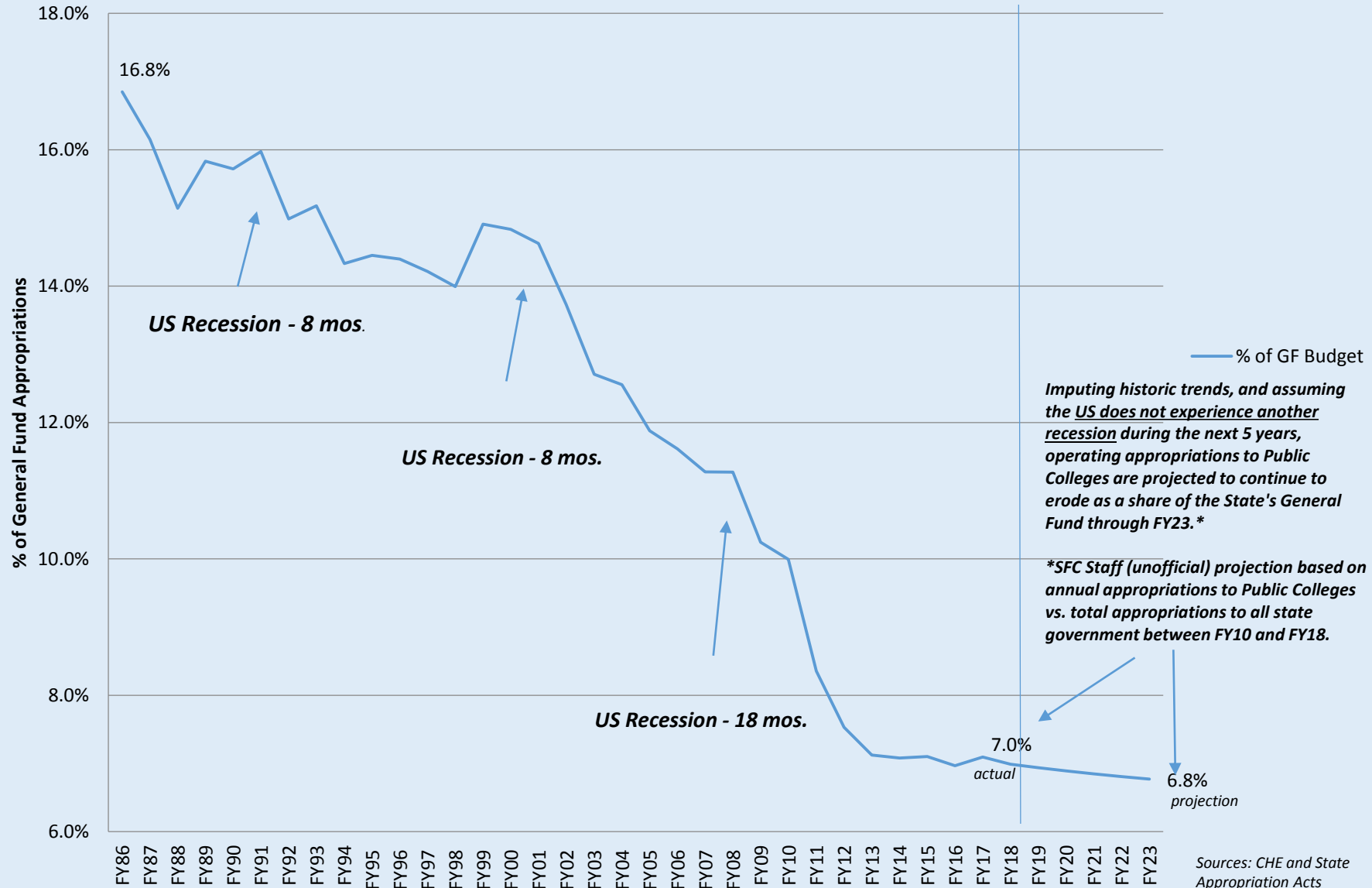
Higher Education's "Recovery" - A Look at Appropriation Trends Since the Recovery (from the Great Recession) Began FY2011-12 - FY2017-18*

*General Fund and Lottery Combined



Sources: CHE and State Appropriation Acts

General Fund Operating Appropriations to Public Colleges as a Share of Total General Fund Appropriations



Sources: CHE and State Appropriation Acts

When First is (Near) Last?

A Comparison of Tuition and State Support

State	Median Tuition 4-Year Public College (FY15)	Rank	State	Rank	State Support (Per Capita FY15)*
South Carolina	\$10,383	1	North Carolina	1	\$388
Virginia	\$10,317	2	Maryland	2	\$358
Delaware	\$9,839	3	Mississippi	3	\$355
Alabama	\$9,088	4	Arkansas	4	\$344
Kentucky	\$8,388	5	Alabama	5	\$303
Tennessee	\$8,024	6	Texas	6	\$301
Maryland	\$8,018	7	Georgia	7	\$284
Texas	\$7,648	8	Oklahoma	8	\$281
Arkansas	\$7,609	9	West Virginia	9	\$274
Georgia	\$6,857	10	Kentucky	10	\$271
Louisiana	\$6,728	11	Delaware	11	\$240
West Virginia	\$6,417	12	Louisiana	12	\$240
Mississippi	\$6,401	13	Tennessee	13	\$239
Florida	\$6,359	14	Virginia	14	\$219
North Carolina	\$6,277	15	South Carolina	15	\$212
Oklahoma	\$5,688	16	Florida	16	\$208

Sources: SREB and SHEEO *Note: State support includes 2 and 4 year colleges, public and private

Economic and Budget Outlook

FY2017-18*
&
FY2018-19

*A Potential for a Mid-Year Cut – In a Growing Economy?

Yes.



FY 2017-18 RECOMMENDATIONS

- Recognize the potential of a \$45.8 million shortfall in FY18 (Option B) due to the revenue shortfall in final FY17 collections and slightly slower growth for FY18 than previously estimated.
- Include the potential \$45.8 million shortfall in the base for projecting FY19 estimates.
- At this time, however, continue to use the total revenue estimate in the Appropriation Act as the official estimate. Do not adopt a lower estimate this meeting.
 - A reduced estimate would automatically trigger an across-the-board budget cut of 0.6 percent.
 - The Governor and budget committee chairmen have expressed a preference to address a shortfall in the legislative process because it provides more flexibility and options.



Show Me the Money

A Review of FY18-19 Available “New” Revenues

Recurring

• General Fund (Unofficial):	\$342.0 Million
• DOT “Transfer Back”:	\$50.0 Million
• HEX Fund Requirement Reduction:	\$5.7 Million
• Road Bill Tax Cuts (Year 1):	<i>(\$29.9 Million)</i>
• Other Tax Cuts:	<i>(\$19.8 Million)</i>
• Net “New Money”:	\$348.0 Million

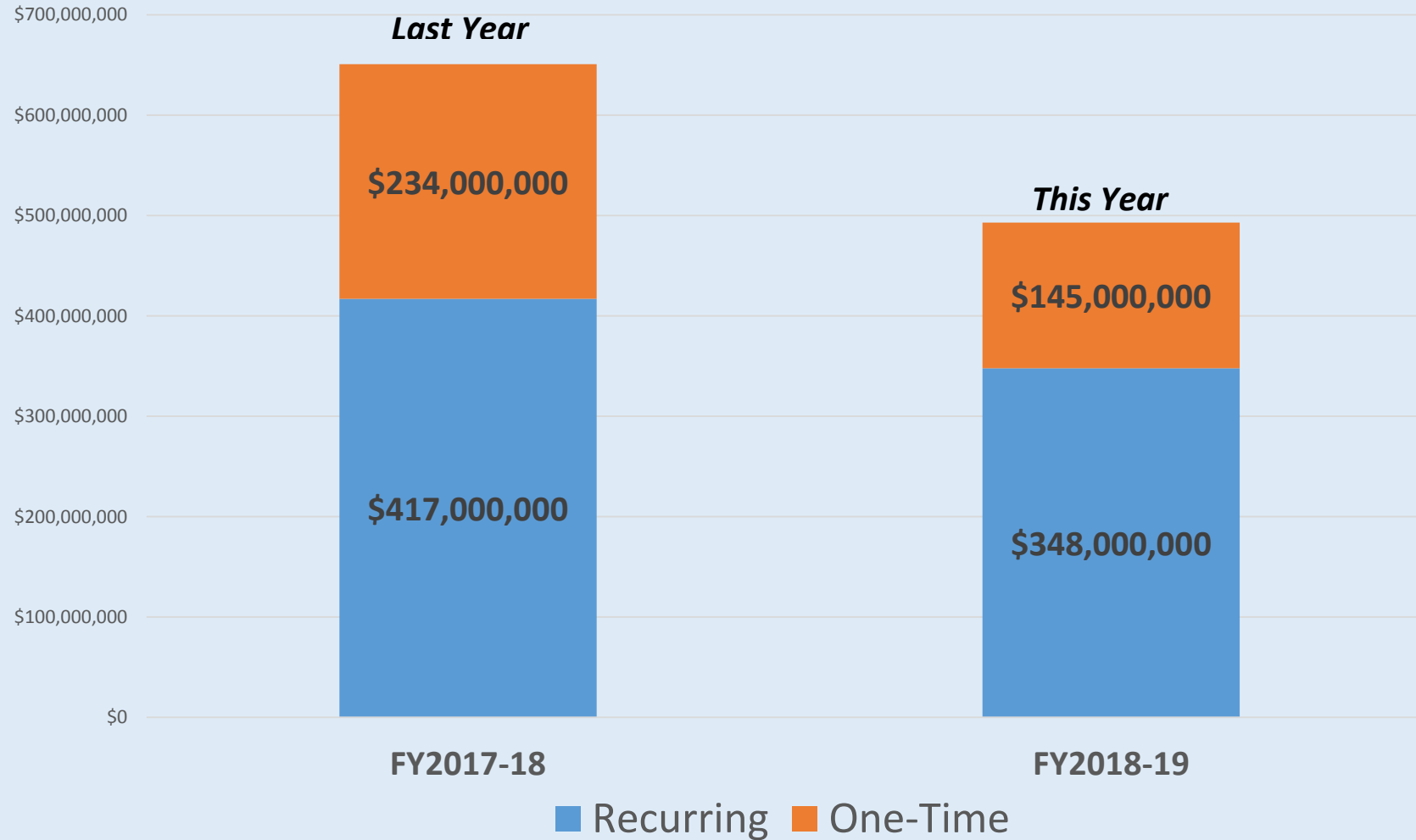
Non-Recurring

• FY17 Surplus:	\$0
• CRF:	<u>\$145.4 Million</u>
• Net “Non-Recurring”:	\$145.4 Million

Source: BEA estimate 11/9/17

What a Difference a Year Makes...

"New Money" Comparison



“Supply vs.Demand” ...in FY2018-19

“Supply”: Revenue –

New “Recurring” Funds:	\$348 Million
New “Non-Recurring” Funds:	<u>\$145 Million</u>
Total:	\$493 Million

“Demand”: Potential “Obligations”

- Education Finance Act Funding \$94M (SDE request is \$125M) – *still would be \$350M+ below statute*
- State Health Plan Costs \$79M (Annualization and cost increases)
- Pension Reform (Year 2) \$32M (General Fund positions only)
- Medicaid MOE \$26M (Annualization)
- Reserve Fund Requirements \$22M (General and Capital Reserves)
- School Bus Replacement \$17M (SDE request is \$70M)
- Scholarships (LIFE, Palmetto, HOPE) \$17M (Normal growth + Yr. 2 of SDE grade change)
- Local Government Fund \$9M – *still would be \$100M+ below statute*

SUBTOTAL “DEMAND”  **\$296 Million**

REVENUE REMAINING: *...and there’s still...* **\$197 Million**

- State Pay Raise? ??? (1% = \$20M – General Fund positions only)
- Public Safety? ???
- Natural Resources? ???
- Commerce and Economic Development? ???
- Higher Education? ???

Lookout! More Budget Outlook...things to Watch

- Impact of Federal Tax Reform on South Carolina Taxpayers...and the General Fund?
- Phase-in of additional tax cuts from Roads Bill over multiple years ***(plus Executive Budget's call for \$2.2 Billion more in tax cuts?)***
- Pension – Implementation of Phase 1 – increasing employer costs.
- Pension – Phase 2? A new plan for new workers?
- Abbeville Equity Lawsuit (and School Bus Funding)?
- ***College Scholarships and Funding Impact of SDE grade scale change.***
- It's a Disaster - - - Natural Disaster Recovery requirements?
- “Shaken, Not Stirred” - - - is 2018 finally the “Year of Bond”? (Bond Bill, that is!)

Table 3

Five-Year General Fund Financial Outlook

FY 2018-19 to FY 2022-23

Incremental Impact of Income Tax Rate Reductions

(Dollars in Millions)

	Projections				
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Summary:					
Revenue after Tax Reductions	\$126.0	\$143.0	\$187.3	\$146.8	\$254.4
Expenditures	\$265.7	\$290.4	\$295.2	\$297.0	\$318.5
Balance (Revenue Less Expenditures)	(\$139.7)	(\$147.4)	(\$107.9)	(\$150.2)	(\$64.1)
Notes:					
* Expenditure Categories and Functional areas are based on the Three-Year Financial Outlook					
¹ Reserve funds calculated based on General Fund revenue after proposed tax reductions					
² Education: Projections are for EFA funded at an annual 2.0 percent inflation rate, WPU growth of 0.4 percent, and public charter school district WPU growth of 9.2 percent in FY 19 followed by 8.0 percent growth each following year. Additional funding as a result of the Abbeville Equity Lawsuit is NOT projected as well school bus replacement.					
³ Annualization and maintenance of effort for Medicaid and Mental Health					
⁴ DSS: Continued implementation of child support enforcement system					
⁵ Scholarships: Historical Growth plus increases due to the 7 to 10 pt UGP change by SDE					
⁶ Health increases as projected by PEBA in consultation with its actuaries and consultants					
⁷ Pension Reform Act 13 of 2017: General Fund and EIA portion of an annual 1 percent employer contribution increase.					
Additional Amount Needed to Fully Fund Local Government Fund	\$118.6	\$135.2	\$141.0	\$147.3	\$155.6
Additional Amount Needed to Fully Fund EFA	\$499.8	\$517.5	\$535.5	\$554.6	\$574.3
Projected CRF Funds Available for Nonrecurring Expenditures	\$145.4	\$151.7	\$159.0	\$161.5	\$164.4
Projected General Reserve Fund Balance	\$379.1	\$397.5	\$405.0	\$412.0	\$421.3

Taxpayer SC (CURRENT LAW) vs. GA vs. NC:

Adjusted Gross Income: **\$50,000**

Married, Filing Jointly? Yes.

Both Work? Yes.

2 Children? Yes (Ages 5 and 2)

How Much Income Tax Do They Owe to Each State?

	<u>South Carolina</u>	<u>Georgia</u>	<u>North Carolina</u>
Top Marginal Tax Rate:	7%	6%	5.499%
Adjusted Gross Income:	\$50,000	\$50,000	\$50,000
Less:			
Standard Deduction:	(\$12,700)	(\$3,000)	(\$17,500)
Personal Exemptions (Parents):	(\$8,100)	(\$7,400)	\$0
Personal Exemptions (Children):	<u>(\$8,100)</u>	<u>(\$6,000)</u>	\$0
Equals:			
State Tax Base:	\$21,100	\$33,600	\$32,500
Less State Adjusts:			
Exemptions for Children ages 0-5:	<u>(\$8,100)</u>	<u>\$0</u>	<u>\$0</u>
Equals:			
Tax Base (aka "Taxable Income"):	\$13,000	\$33,600	\$32,500
<u>TAX DUE:</u>	\$428*	\$1,756*	\$1,787*
<i>Effective Tax Rate</i>	0.86%	3.51%	3.57%

**Before Tax Credits which could further reduce taxes due. Also, in SC and GA, itemizing could further lower tax liability in those States. While partially true in NC, since that State's reforms, NC taxpayers do not have unlimited ability to itemize due to new restrictions imposed by NC on charitable contributions, mortgage interest and property taxes paid.*

Note: SC, GA, and NC tax calculations based on 2017 tax rates and law.

Trends in SC Higher Education State Finance

How SC's Higher Education Funding - - - and Funding Model - - - Has
Changed Over Time and How SC Compares to its Neighbors, Region and
the Nation

Craig H. Parks, MPA
Assistant Director for Tax Policy
Senate Finance Committee
Senate of South Carolina

State \$\$\$ = In-State Students

It Just Makes Sense...and it's the Law.

- **SECTION 59-101-55.** State appropriated funds restriction.

State appropriated funds shall not be used to provide out-of-state subsidies to students attending state-supported institutions of higher learning.

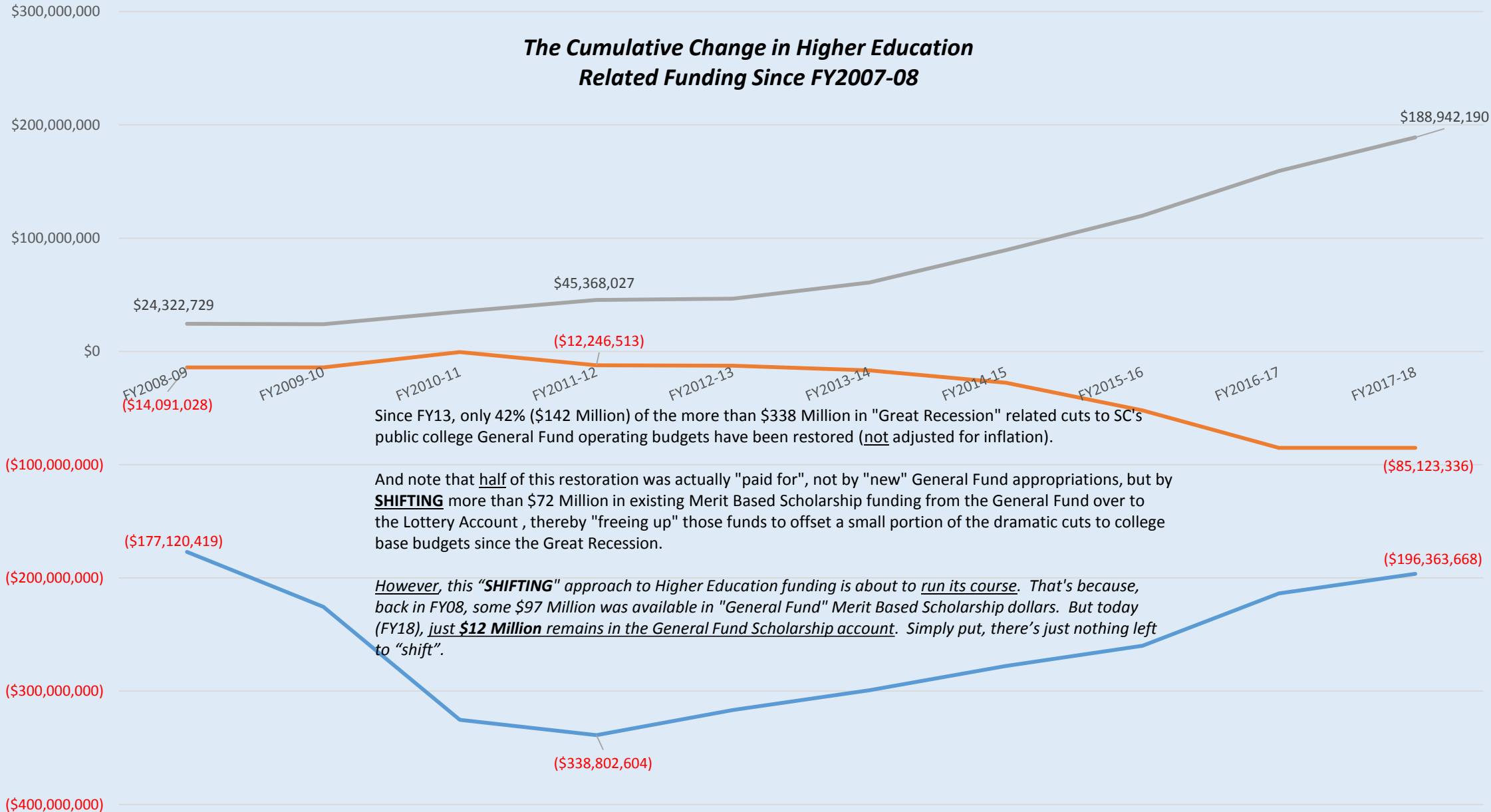
Put another way, the State's tax dollars, including lottery funds, go entirely towards underwriting the college education of State, not Out-of-State, students. Period.

But, over time, less and less of the State funds are going towards underwriting the college education of ALL In-State students enrolled at one of the State's 33 public colleges, but to select students based on "merit" instead.

A Seismic "Shift"...but with *What Effect?*

A Closer Look at Higher Education's "Recovery" Since the Great Recession

**The Cumulative Change in Higher Education
Related Funding Since FY2007-08**

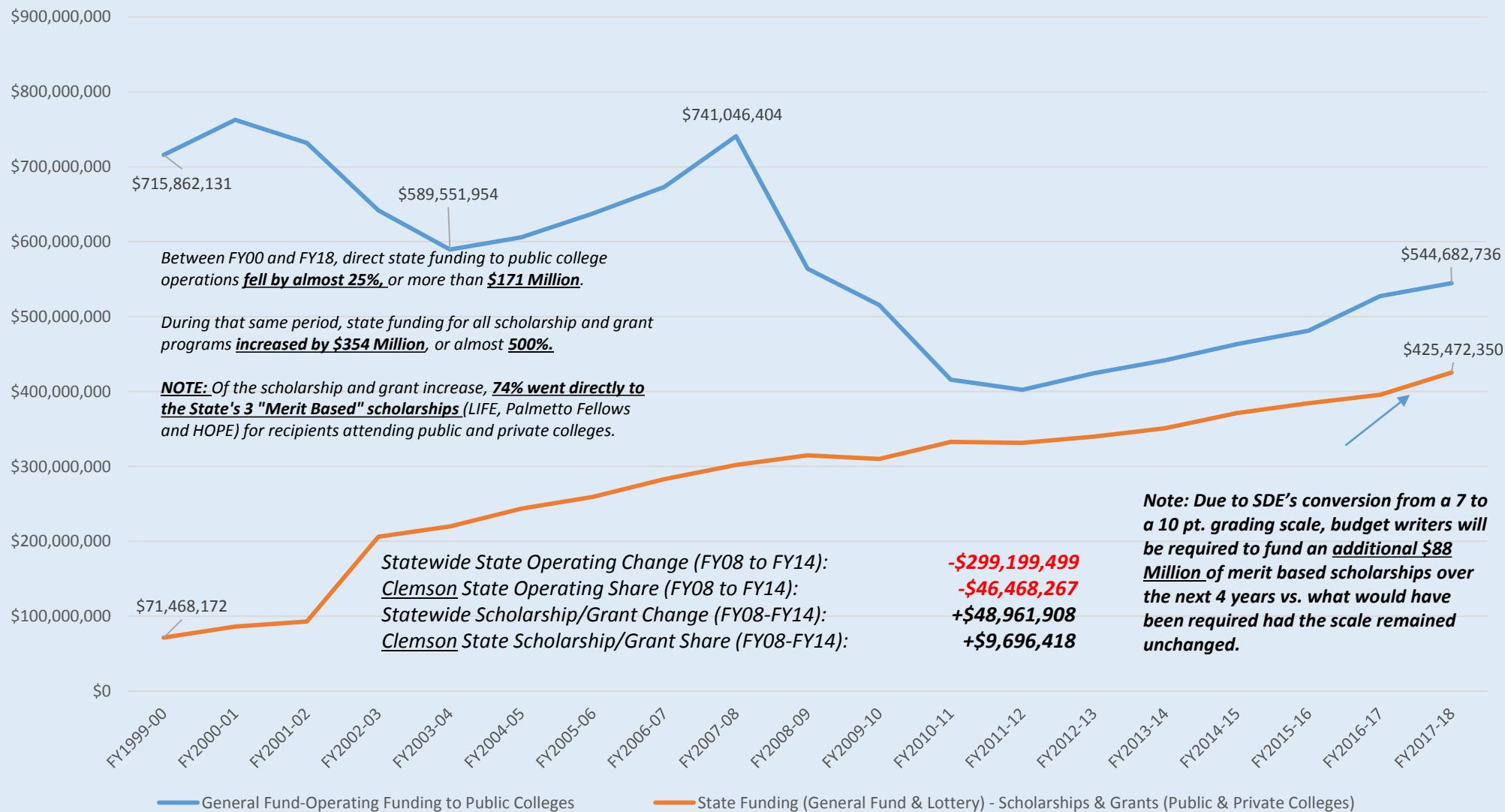


Since FY13, only 42% (\$142 Million) of the more than \$338 Million in "Great Recession" related cuts to SC's public college General Fund operating budgets have been restored (not adjusted for inflation).

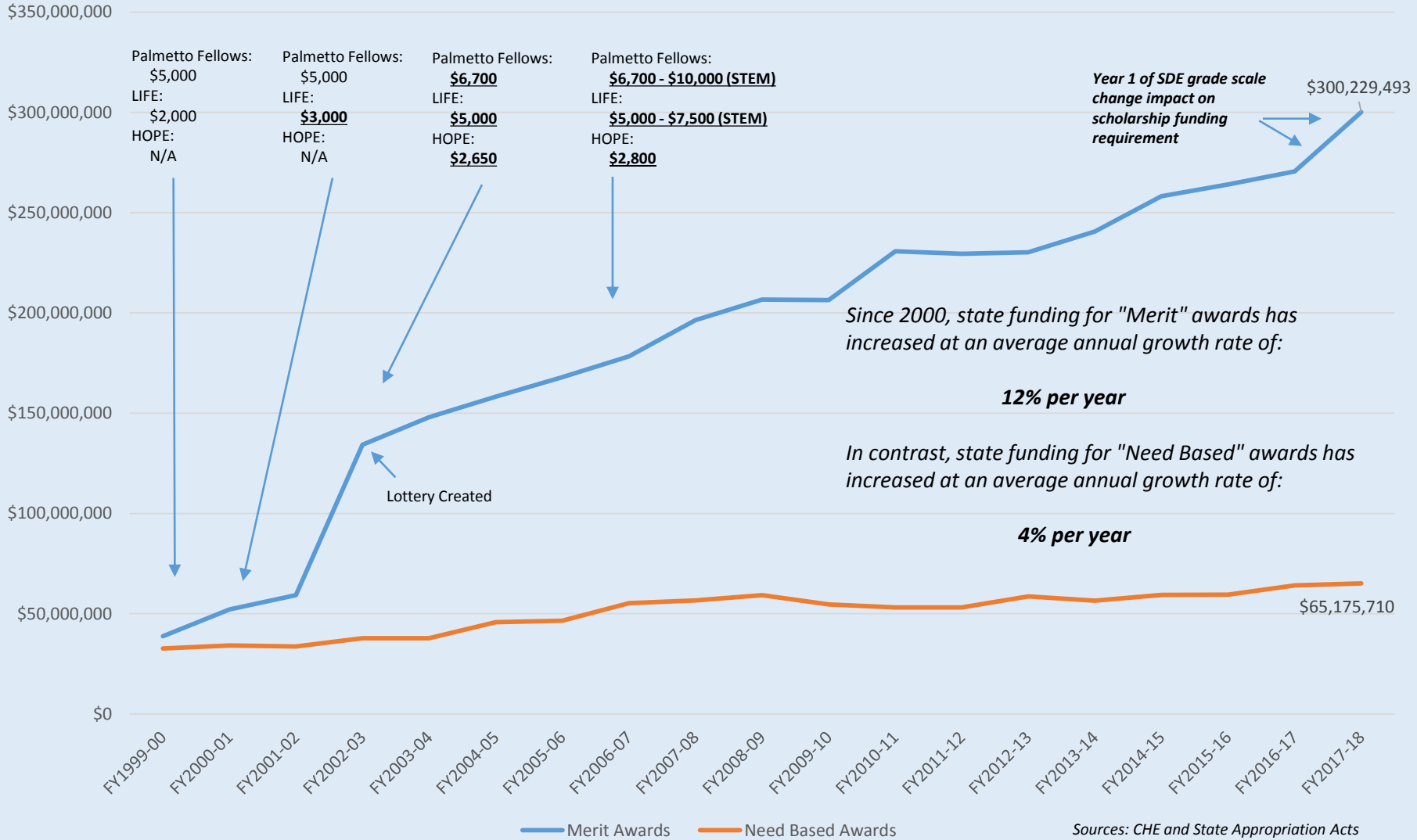
And note that half of this restoration was actually "paid for", not by "new" General Fund appropriations, but by **SHIFTING** more than \$72 Million in existing Merit Based Scholarship funding from the General Fund over to the Lottery Account, thereby "freeing up" those funds to offset a small portion of the dramatic cuts to college base budgets since the Great Recession.

However, this "SHIFTING" approach to Higher Education funding is about to run its course. That's because, back in FY08, some \$97 Million was available in "General Fund" Merit Based Scholarship dollars. But today (FY18), just \$12 Million remains in the General Fund Scholarship account. Simply put, there's just nothing left to "shift".

Direct State Support for Public College Operating Budgets
vs.
State Scholarship and/or Grant Awards to Students (Public and Private Colleges)
FY00 - FY18



Merit Based Scholarship Funding vs. College Grants based on Financial Need FY00 - Present (FY18) Public and Private Colleges

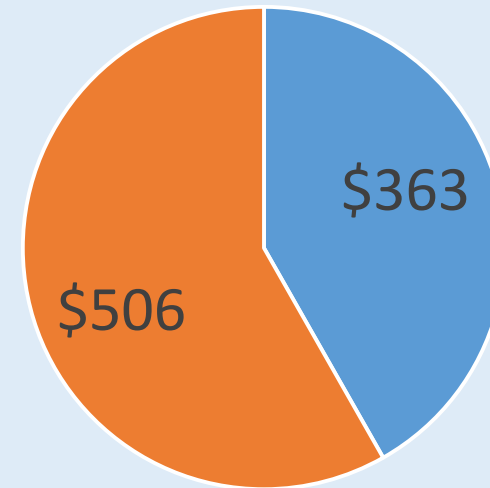
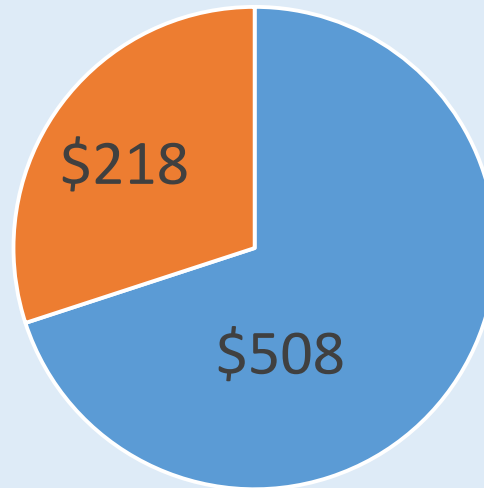
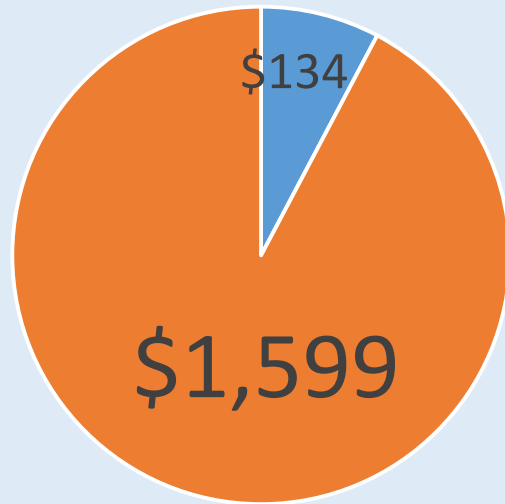


Sources: CHE and State Appropriation Acts

College Aid from States...How Does SC Compare?

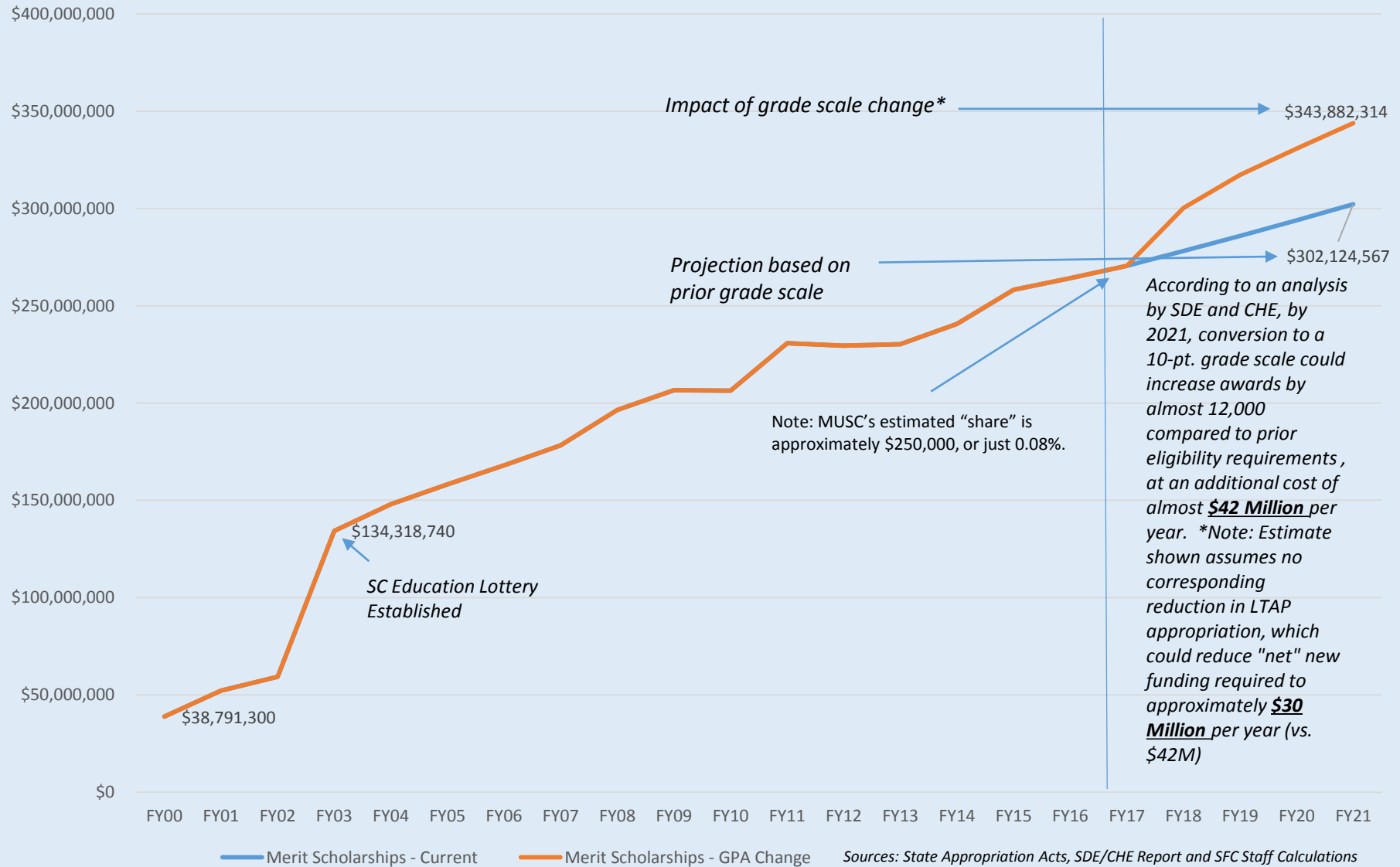
Per Student Aid – 2014

According to SREB data, SC spends between 3 and 7 times more per student on merit and/or other non need-based aid compared to the region and nation, while spending between 60 and 70% less on aid based on financial need, respectively.



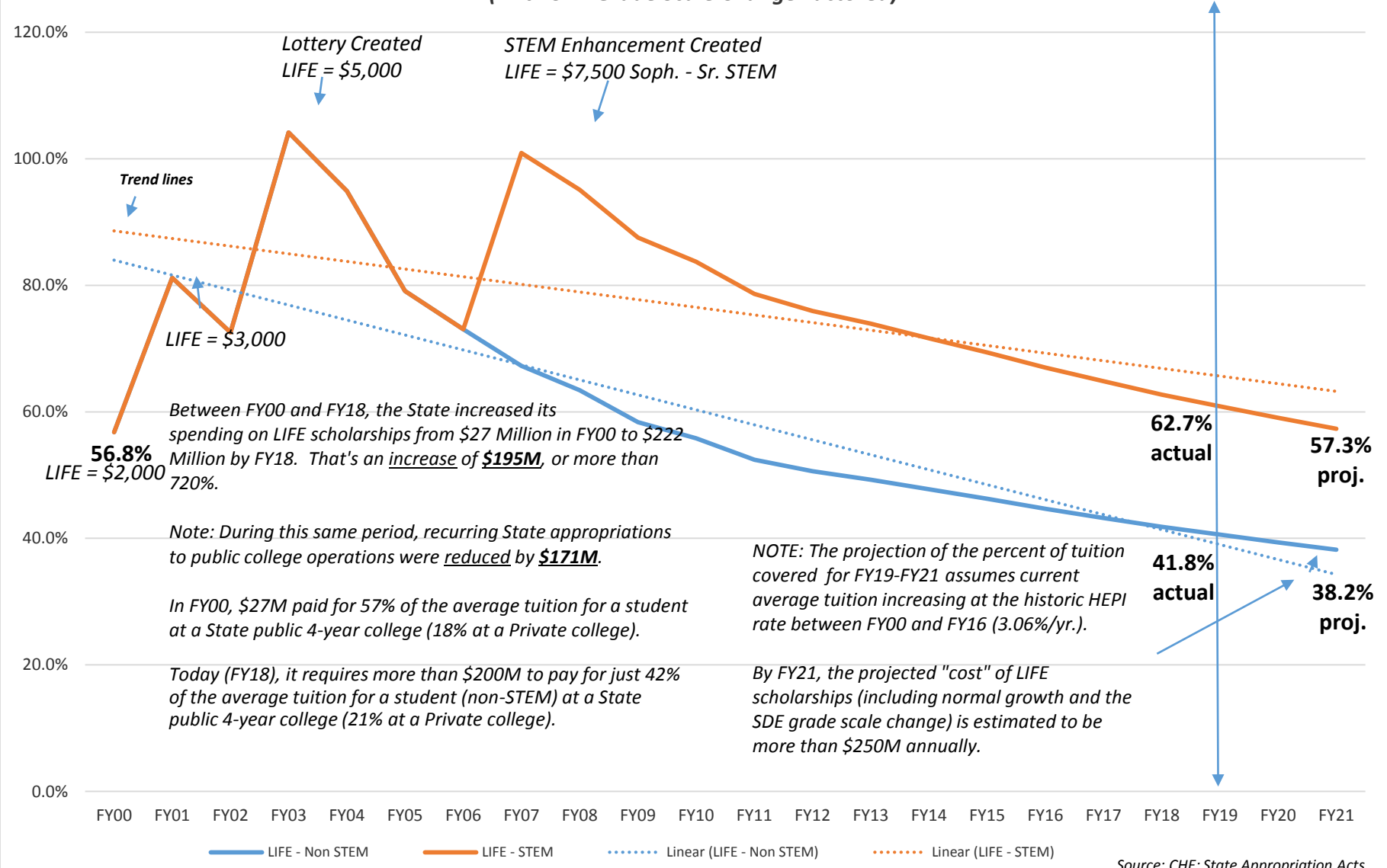
■ SC - Need-Based Aid ■ SC - Merit/Non-Need ■ US - Need-Based Aid ■ US - Merit/Non-Need ■ SREB - Need-Based Aid ■ SREB - Merit/Non-Need

SC Merit Scholarships LIFE, Palmetto Fellows and HOPE Historic and Projected Funding Requirements



Spending More for Less? The "Value" of LIFE

The Percent of Tuition that LIFE Scholarships "Cover" at a Public 4-Year College (With SDE Grade Scale Change Factored)



Between FY00 and FY18, the State increased its spending on LIFE scholarships from \$27 Million in FY00 to \$222 Million by FY18. That's an increase of \$195M, or more than 720%.

Note: During this same period, recurring State appropriations to public college operations were reduced by \$171M.

In FY00, \$27M paid for 57% of the average tuition for a student at a State public 4-year college (18% at a Private college).

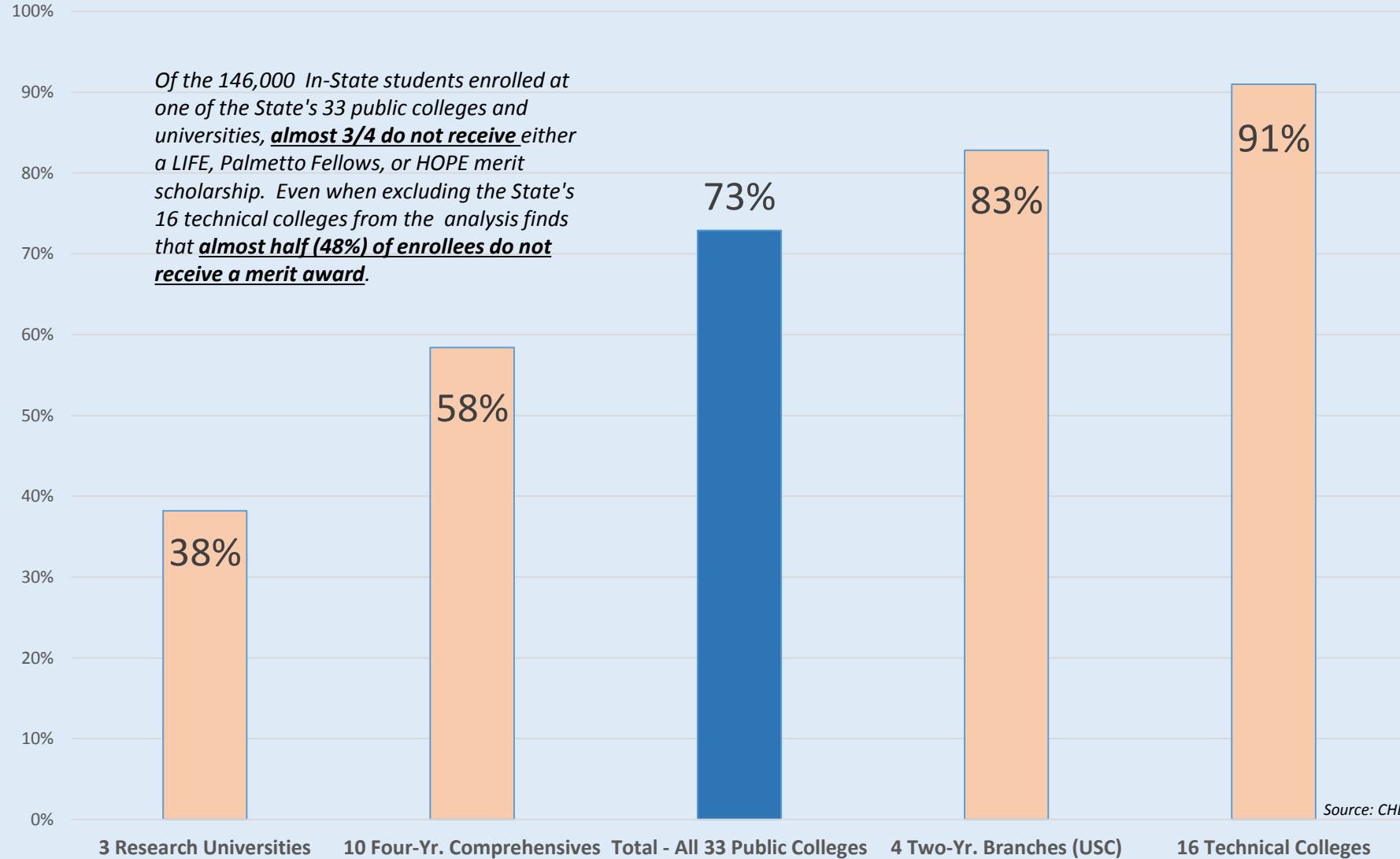
Today (FY18), it requires more than \$200M to pay for just 42% of the average tuition for a student (non-STEM) at a State public 4-year college (21% at a Private college).

NOTE: The projection of the percent of tuition covered for FY19-FY21 assumes current average tuition increasing at the historic HEPI rate between FY00 and FY16 (3.06%/yr.).

By FY21, the projected "cost" of LIFE scholarships (including normal growth and the SDE grade scale change) is estimated to be more than \$250M annually.

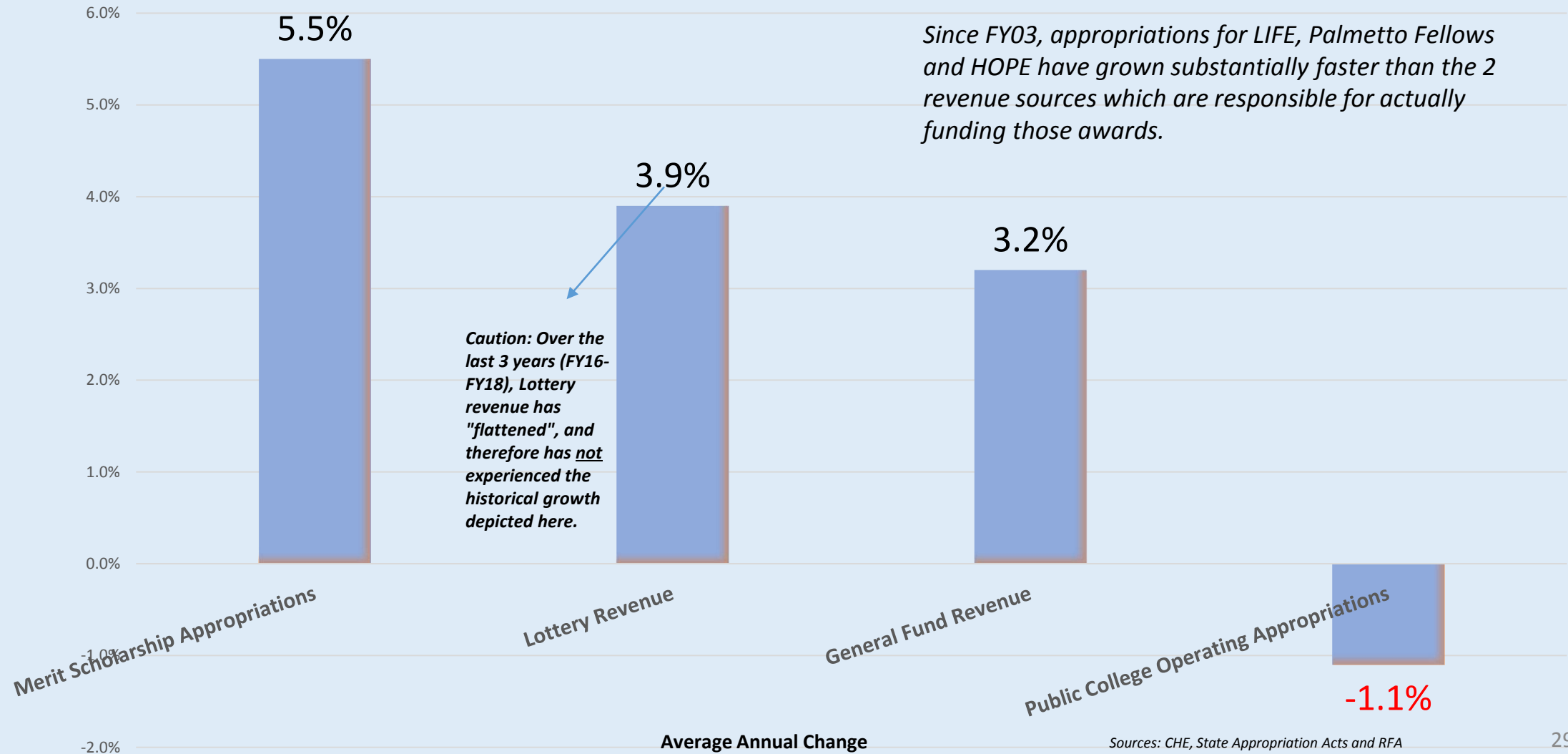
Source: CHE; State Appropriation Acts

Percent of In-State Public College Students ***Without*** a State Merit Scholarship
By Sector
Fall 2016



Sustainable?

Merit Scholarship Growth vs. Funding Sources FY03 - FY18



Thank You!

craigparks@scsenate.gov