



FY 2012-13 Executive Budget Overview

January 31, 2012

State of South Carolina
Office of the Governor





Overview and Approach

High-Level Priorities



- Improve transparency
- Unwind flexibility and close structural deficits
- Use recurring dollars for recurring expenses
- Meet our obligations
- Replenish our reserves
- Provide a sustainable level of tax relief

Spending Cap



- Allowable growth is 5.23% or \$293.3M
 - Population + inflation
- Baseline is \$5.608B, which is FY 2011-12 GF appropriations, plus nonrecurring, but minus debt relief
- The FY 2012-13 proposal is well within this cap, under any definition

Budget Summary

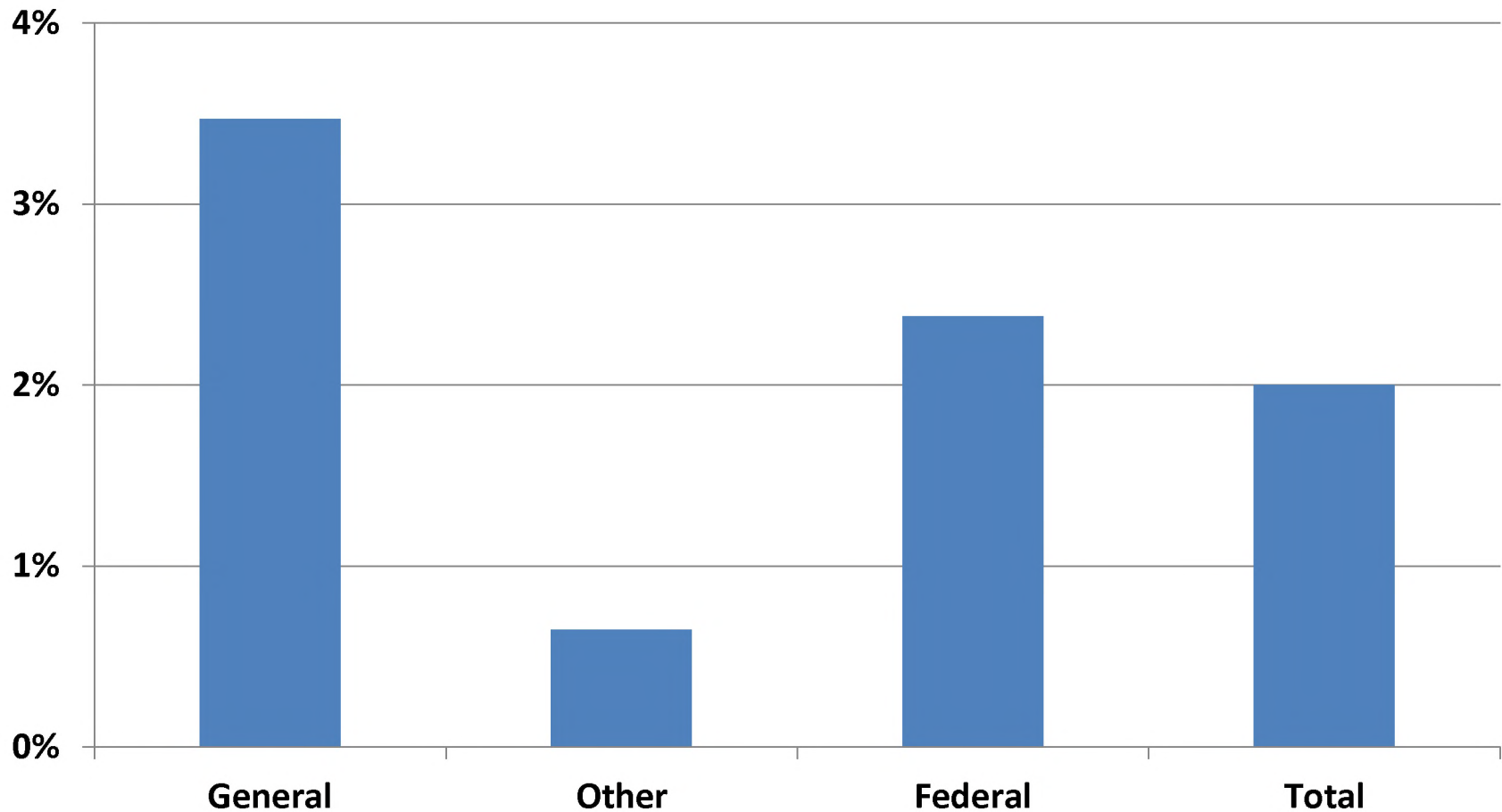


- Total budget: \$21.9B to \$22.8B (4.3%)
 - After adjustment: \$22.4B to \$22.8B (2.0%)
 - General Fund: \$5.5B to \$5.7B (4.5% raw vs. < 3.5% adj.)
- ~\$500M of apparent growth is accounting issues
 - BEA folded Enforced Collections into the General Fund (inflating the annual increase by \$53.8M)
 - SCDOT underprojected FY 2011-12 revenues by \$264.4M
 - SCDE did not seek federal appropriation authority for \$169.9M that appears in FY 2012-13
- Other accounting issues not addressed here
 - DVR sought \$4M in new Other Funds authorization to account for inventory costs

Budget Summary



FY 2012-13 Growth, by Fund Type



Nonrecurring Revenues and Reserves



- \$382.1M in nonrecurring revenue
 - Fully fund the General Reserve Fund
 - Highway Turnback Initiative, Ports Development
- FY 2012-13 proposal puts \$317M in reserve
 - \$154M recurring surplus
 - \$65M nonrecurring surplus
 - \$98M to the General Reserve Fund

Flexibility



- The FY 2012-13 Executive Budget does not contain the flexibility proviso
- General Fund impact in very round numbers:
 - Commerce: \$3M
 - PRT: \$3M
 - Forestry: \$1.8M
 - Insurance: \$1.6M
 - Others...

“Conversion”



- Major challenge – dealing with the extensive use of NR funds this year
 - \$256M in the core NR revenue proviso alone
 - Millions more scattered throughout the budget
- After FY 2012-13, “only” a year’s worth of cigarette tax money for Medicaid each year
 - Medicaid in FY 2011-12: \$157.3M Cigarettes, \$45.6M NR, \$28.1M Enforced Collections

Structural Deficits



- In addition to the cost of unwinding flexibility, the budget spends millions to close structural deficits
- Examples:
 - Adjutant General: Armories, EMD
 - Elections Commission: \$2M permanent baseline
 - Agriculture: Farmer's Market
 - Aeronautics: Living off asset sale proceeds
 - Budget & Control Board: Balances depleted, SCEIS



Initiatives

Tax Proposal: \$140M in Year 1



- Corporate Income Tax (\$61.6M)
 - 4-year phase-out, with 25% cut in 2013
- Individual Income Tax (\$78.2M)
 - Collapse 6 brackets into 3
 - Existing 3%, 4%, 5%, and 6% brackets all go to 3.75% (no harm)
- Property Tax
 - Amend constitution to have rates be set by statute instead
- Sales/Use Tax
 - Recurring reporting on cost, beneficiaries of tax expenditures

Accountability-Based Funding



- FY 2012-13 is the “learning year”
 - Followed by 5-year phase-in
- Funding model
 - Built on in-state undergraduate student counts
 - Accounts for institutional class and performance
- Four categories of measures
 - Completion (30%), Affordability & Access (30%), Educational Quality (25%), Economic Development & Institutional Mission (15%)

Local Choice for Student Transportation



- Current approach has many drawbacks
 - Yellow fleet vs. white fleet (due to funding model)
 - Impenetrable finances
 - No local choice
- Proposed new approach
 - State divests of buses over 4 years
 - More time/complexity with maintenance facilities
 - Local districts must choose for themselves
 - Direct operation, or some form of privatization? (spectrum)
 - Go it alone, or participate in a consortium?

Highway Turnback Initiative



- \$75M of NR revenue into a new dedicated fund
 - No expenditures without enabling legislation
- Proceeds to be used for incentive payments, to divest of undesirable road segments
 - 485 miles of state-owned, non-federal aid dirt roads
- Concept: SCDOT would conduct a reverse auction
 - Locals would bid on what we would have to pay them to take various segments
 - Voluntary participation for the locals



Policy Areas

Health & Welfare



- DHHS
 - Conversion of last year's nonrecurring funds
 - Wary eye on 2014
- DMH
 - \$16-17M in new recurring funds to maintain services and fund previously unfunded programs
- DDSN
 - Over \$5M to maintain service levels for existing clients
- DHEC
 - Over \$2M for public health initiatives (immunizations)

Education



- K-12
 - Increase in recurring support for K-12
 - “Hidden” increases for weighted pupil units (LEA and EIA excess)
 - \$10M more for charter schools
 - No funds to buy buses; \$4.8M for leases in LEA
 - Lower overhead costs – more money for programs
 - \$42.5M EIA revenue growth
 - Administration’s recommendations draw heavily on EOC’s
- Higher Education
 - Palmetto/LIFE/HOPE scholarships are fully funded
 - 2.3% HEPI for higher education institutions
 - Accountability-Based Funding

Public Safety / Justice



- DPS: 7% GF growth, ~ \$10M CRF
- SLED: 23% GF growth, 36% overall, ~ \$5M CRF
- Corrections / DJJ / PPP
 - Sentencing Reform, \$15M+ CRF
- Forestry: New firefighters, \$3M CRF
- Judiciary
 - 3 Family Court judges and associated staff
 - Fully-funded statewide rotation
 - Over \$2.3M in CRF

Other Major Initiatives



- Pension Reform
 - Expensive now, significant long-term ramifications
- Ports Development
 - \$25M: Charleston, Jasper, Georgetown – match req'd
- Restructuring
 - Department of Administration
 - Department of Education
 - Corrections / PPP
 - Governor / Lieutenant Governor



Closing Thoughts

Taking Our Medicine



- Nearly all General Fund growth is attributable to the following:
 - Bringing enforced collections into the General Fund
 - Mandatory spending (state and federal)
 - Growth in the employer share of pensions & benefits
 - Unwinding flexibility
- Discretionary spending is limited
 - Public Safety, Health & Welfare are major drivers
 - Less glamorous items: SCEIS, SCITS, etc.

Some Clouds on the Horizon



- Even the federal government can't run \$1.5T annual deficits forever
 - The obvious release valve is to push deficits onto states
 - Medicaid match ratio
 - Transportation funding
- Healthcare reform will dramatically increase our costs under any foreseeable scenario
 - This budget is essentially a transition year for HHS
- Employee health and pension costs will continue to be major cost drivers, along with the homestead shortfall

The Way Forward



- Adopt sustainable budgeting practices this year
 - Use recurring dollars for recurring programs
 - Use the Capital Reserve Fund for NR capital needs
- Make significant commitments to funding reserves
 - Fully-fund the General Reserve Fund
 - Leave money on the table
 - The rating agencies are watching
- Change our structure and approach
 - Pass a pension reform package that constrains COLAs
 - Create a Department of Administration so we can reduce overhead



Questions?