MINUTES OF

BUDGET AND CONTROL BOARD

MEETING

October 24, 1991

002531

STATE OF SOUTH CAROLINA

State Budget and Control Board

OFFICE OF THE EXECUTIVE DIRECTOR

P.O. BOX 12444
COLUMBIA, SOUTH CAROLINA 29211
(803) 734-2320

November 1, 1991

MEMORANDUM

TO: Budget and Control Board Division Directors

FROM: Donna K. Williams, Assistant Executive Director DKW

SUBJECT: Summary of Board Actions at October 24, 1991, Meeting

This listing of actions is an unofficial **summary** of the Board actions taken at the referenced meeting. The minutes of the meeting are presented in a separate, more detailed document which becomes official when approved by the Board at a subsequent meeting.

1. Adopted the agenda as proposed;

2. Recognized the 27 individuals and agencies who have completed the first year of the Executive Institute;

3. In accord with Code Section 1-11-560 (D), reinstated for a period of not more than 31 consecutive calendar days the $10,000,000 tentative allocation for the Charleston County CIGNA Corporation project;

4. Relating to the 1992-93 budget preparation process, heard presentations on the following topics:

   Improving Educational Quality and Effectiveness
   Potential Impacts of Restructuring on the State Budget
   State Economic Outlook
   National Economic Outlook
   1992-93 Revenue Forecast
   State Budget Division Overview

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002532

FAX (803) 734-2117

MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING

OCTOBER 24, 1991 9:00 A. M.

The Budget and Control Board met at 9:00 a.m. on Thursday, October 24, 1991, in 105 Gressette Office Building in Columbia, with the following members in attendance:

Governor Carroll A. Campbell, Jr., Chairman;
Mr. Grady L. Patterson, Jr., State Treasurer;
Mr. Earle E. Morris, Jr., Comptroller General;
Senator James M. Waddell, Jr., Chairman, Senate Finance Committee;
Representative William D. Boan, Chairman, Ways and Means Committee.

Also attending were Executive Director Jesse A. Coles, Jr.; Board Secretary Donna K. Williams; Chief Deputy Attorney General Joseph D. Shine; Governor's Senior Executive Assistants Luther F. Carter and William McCain; Senior Assistant State Treasurer C. C. "Chuck" Sanders, Jr.; Assistant Comptrollers General George M. Lusk and Kinsey Jenkins; Finance Committee Director of Research Susan K. Hooks; Ways and Means Committee Director of Research Frank Fusco; and other Board staff.

Adoption of Agenda

Upon a motion by Senator Waddell, seconded by Mr. Patterson, the Board adopted the agenda as proposed.

South Carolina Executive Institute: Recognition of 1991 Participants (R#1)

The Executive Institute is a major initiative of the Board to improve the overall performance of state government by upgrading the management and leadership skills of state agency heads and deputies. The Institute is administered by the Division of Human Resource Management. Its programs are designed to address the needs of those who direct entire agency operations or those with substantial responsibility at deputy level.

Programs offered by the Institute are developed in coordination with the University of South Carolina, Clemson University, and the College of Charleston, all of which offer graduate academic courses and which have specific research capabilities in the areas of public administration and public affairs. The Institute also offers programs in leadership development which are presented by faculty from the Kennedy School of Government at Harvard University.

The 1991 Executive Institute had 27 participants who represented a broad cross-section of state government operations including agencies providing services in criminal justice, human services, central management, economic development, natural resources, and regulatory functions.

A list of the participants in the 1991 session was included in the agenda materials.

At the meeting, Governor Campbell advised that, two and a half years ago, before the state began experiencing the current budget difficulties, he had addressed state agency heads on the topic of professionalism and had said that, like our counterparts in the private sector, we in government must be smart enough and tough enough to find better ways to do our jobs.

Governor Campbell said he had advised agency heads that state government must replace money with ingenuity, energy, and innovation, and that he had issued the following three challenges:

1. That agency heads must never stop learning;
2. That agency heads must discover new ways to work together and share their resources; and
3. That agency heads must never stop improving the way their organizations function.

Governor Campbell noted that, since he had addressed that group, things have gotten a lot tougher and more challenging, and many significant ideas have come to light on improving government operations.

Governor Campbell called attention to the new Executive Institute of the Budget and Control Board, which he characterized as a new development that goes right to the idea of professionalism in government. He pointed out that government executives literally have gone back to school to learn about the changing nature of government, to learn management and leadership techniques, and to learn how South Carolina fits into the world around it. He noted that successful corporations have been supporting this type of education for years, and that it's equally important for government.

In recognizing the individuals and agencies who have completed the first year of the Executive Institute, Governor Campbell pointed out that they have invested time and resources in support of the idea that those of us in government must never stop learning to do our jobs better.

Governor Campbell then introduced Phil Grose, Director of the Executive Institute. Mr. Grose recognized the participants and awarded each with a certificate of completion. He acknowledged the support of Professors Douglas Dobson and Brian Fry, University of South Carolina; Professor Bruce Yandle, Clemson University; and Professor Andy Felts, College of Charleston.

Mr. Grose also expressed appreciation to legislators who have supported the Institute, including Senator Drummond and Representative Kirsch. He then recognized Mr. Tom Sheatlze and Mr. Steve Pine of the Xerox Corporation, who designed and produced certificates for Institute graduates and who had provided other professional support.

Governor Campbell congratulated the participants in the 1991 Executive Institute, and led a round of applause for the group.

Mr. Patterson expressed his appreciation to Mr. Grose for his contribution to the program. He said the Institute is one of the best programs in state government, and noted that it adds to the professionalism of upper management.

Information relating to this matter has been retained in these files and is identified as Exhibit 1.

Charleston County: Ceiling Allocation Reinstatement (Regular Session #2)

On July 17, the Board tentatively had allocated $10,000,000 to the Charleston County CIGNA Corporation project. That allocation expired on October 15, 1991.

Bond counsel advised by letter that the project is expected to close on or about November 14, and requested that, in accord with Code Section 1-11-560 (D), the Board reinstate for a period of not more than 31 consecutive calendar days the $10,000,000 allocation.

Upon a motion by Mr. Patterson, seconded by Senator Waddell, the Board, in accord with Code Section 1-11-560 (D), reinstated for a period of not more than 31 consecutive calendar days the $10,000,000 tentative allocation for the Charleston County CIGNA Corporation project.

Information relating to this matter has been retained in these files and is identified as Exhibit 2.

[Secretary's Note: Upon a motion by Mr. Patterson, seconded by Mr. Morris, then Board adjourned the regular session portion of the Board meeting at 9:20 a.m. The Board then launched the 1992-93 budget preparation process.]

1992-93 Budget Preparation Process

The Board heard presentations on the following topics:

Improving Educational Quality and Effectiveness	Dr. Chester Finn Education Excellence Network
Potential Impacts of Restructuring on the State Budget	Lt. Governor Nick Theodore Representative David H. Wilkins Governor's Restructuring Commission
State Economic Outlook	Dr. Bruce Yandle, Director The Strom Thurmond Institute
National Economic Outlook	David A. Wyss, Research Director DRI/McGraw-Hill
1992-93 Revenue Forecast	Board of Economic Advisors
State Budget Division Overview	Charles A. Brooks, Jr.

Information relating to these matters has been retained in these files and is identified as Exhibit 3.

[Secretary's Note: In compliance with Code §30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room in the State House, near the Board Secretary's office in the Wade Hampton Building, and in the lobby of the Wade Hampton Office Building at 10:45 a.m. on Monday, October 21, 1991.]

EXHIBIT

OCT 2 4 1991 1

STATE BUDGET & CONTROL BOARD

STATE BUDGET AND CONTROL BOARD REGULAR SESSION

MEETING OF October 24, 1991 ITEM NUMBER 1

AGENCY: South Carolina Executive Institute

SUBJECT: Recognition of 1991 Participants

The Executive Institute is a major initiative of the Board to improve the overall performance of state government by upgrading the management and leadership skills of state agency heads and deputies. The Institute is administered by the Division of Human Resource Management. Its programs are designed to address the needs of those who direct entire agency operations or those with substantial responsibility at deputy level.

Programs offered by the Institute are developed in coordination with the University of South Carolina, Clemson University, and the College of Charleston, all of which offer graduate academic courses and which have specific research capabilities in the areas of public administration and public affairs. The Institute also offers programs in leadership development which are presented by faculty from the Kennedy School of Government at Harvard University.

The 1991 Executive Institute had 27 participants who represented a broad cross-section of state government operations including agencies providing services in criminal justice, human services, central management, economic development, natural resources, and regulatory functions.

A list of the participants in the 1991 session is attached.

BOARD ACTION REQUESTED:

Recognize the 1991 Executive Institute participants.

ATTACHMENTS:

List of 1991 Executive Institute Participants

EXHIBIT

OCT 24 1991

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STATE BUDGET & CONTROL BOARD

EXECUTIVE INSTITUTE

Participants in 1991 Session

Charles W. Ballentine	Executive Director Public Service Commission
Hubert A. J. Bonneau	Technical Services Supervisor Employment Security Commission
E. Anthony Buzzetti	Executive Director Housing Finance & Development Authority
Francis M. Canavan	Associate Vice President Communications and External Relations Clemson University
G. Dean Cleghorn	Executive Director Area Health Education Consortium Medical University of South Carolina
James E. Clyburn	Commissioner, Human Affairs Commission
John J. Connery	Senior Executive Director Community Mental Health Services Department of Mental Health
Douglas P. Crossman	Director, Second Injury Fund
James D. Dubs	Deputy Director, Commission on Aging
Marilyn J. Edelhoch	Assistant Director - Audits Legislative Audit Council
Paula B. Finley	Executive Director, Continuum of Care for Emotionally Disturbed Children
E. Gregorie Frampton	Executive Director, Tax Commission
Steven W. Hamm	Administrator/Consumer Advocate Department of Consumer Affairs
Sandra A. Huey	Deputy State Treasurer State Treasurer's Office
Henry L. Jolly	Commissioner, Real Estate Commission
James C. Jones	Field Supervisor Employment Security Commission
P. Charles LaRosa	Assistant Commissioner Vocational Rehabilitation Department

J. William Lawrence	Deputy Director, Department of Parks, Recreation and Tourism
Michael G. LeFever	Executive Director Workers Compensation Commission
Phyllis M. Mayes	Director, Division of Human Resource Management, Budget & Control Board
Richard E. McLawhorn	Commissioner Department of Youth Services
Charles M. Mungo	Support Services Manager Employment Security Commission
John W. Parris	Executive Director Land Resources Conservation Commission
Cheryl A. Ridings	Assistant Director Legislative Audit Council
Robert W. Taylor	Associate Director Economic Development Technical and Comprehensive Education
Donna K. Williams	Assistant Executive Director and Secretary to the Board Budget and Control Board
John N. Wilson	Associate Vice President Facilities Planning and Management Clemson University

EXHIBIT
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STATE BUDGET & CONTROL BOARD

EXHIBIT

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REGULAR SESSION

STATE BUDGET & CONTROL BOARD

STATE BUDGET AND CONTROL BOARD
MEETING OF October 24, 1991

ITEM NUMBER 2

AGENCY: Charleston County

SUBJECT: Ceiling Allocation Extension

On July 17, the Board tentatively allocated $10,000,000 to the Charleston County CIGNA Corporation project. That allocation expired on October 15, 1991.

Bond counsel advises that the project is expected to close on or about November 14, and requests that, in accord with Code Section 1-11-560 (D), the Board reinstate for a period of not more than 31 consecutive calendar days the $10,000,000 allocation.

BOARD ACTION REQUESTED:

In accord with Code Section 1-11-560 (D), reinstate for a period of not more than 31 consecutive calendar days the $10,000,000 tentative allocation for the Charleston County CIGNA Corporation project.

ATTACHMENTS:

Johnson October 10 letter; Code Section 1-11-560 (D)

EXHIBIT

OCT 2 4 1991 2

STATE BUDGET & CONTROL BOARD

§ 1-11-560. Time limits on allocations.

(A) Any state ceiling allocation approved by the board is valid only for the calendar year in which it is approved, unless eligible and approved for carry-forward election or unless specified differently in the board certificates required by § 1-11-550.

(B) Unless eligible and approved for carry- forward election or unless specified differently in board certificates required by § 1-11-550, each state ceiling allocation expires automatically if the bonds for which the allocation is made are not issued within ninety consecutive calendar days from the date the allocation is approved by the board.

(C) In response to a written request by the chairman or other duly authorized official or agent of an issuing authority, the board, acting during the period an approved allocation is valid, may extend the period in which an allocation is valid in a single calendar year by thirty-one consecutive calendar days to a total of not more than one hundred twenty-one consecutive calendar days.

(D) In response to a written request by the chairman or other authorized official or agent of an issuing authority, the board may reinstate for a period of not more than thirty-one consecutive calendar days in any one calendar year part or all of an allocation approved but not extended previously in accordance with subsection (C) of this section in that same calendar year which has expired. The reinstatement request must certify that the authorized request submitted previously is still true and correct or a new authorized request must be submitted.

(E) A tentative ceiling allocation is canceled automatically if the chairman or other authorized official or agent of the issuing authority involved fails to deliver the issue amount certificate required by § 1-11-550 to the board secretary before the bonds for which the allocation is made are issued.

(F) The chairman or other authorized official or agent of an issuing authority shall advise the board secretary in writing as soon as is practicable after a decision is made not to issue bonds for which a portion of the state ceiling has been allocated. All notices of relinquishment of ceiling allocations must be entered promptly in the board's records by the board secretary.

(G) Ceiling allocations which are eligible and approved for carry-forward election are not subject to the validity limits of this section. The board shall join with the issuing authorities involved in carry-forward election statements to meet the requirements of the Internal Revenue Service.

HISTORY: 1987 Act No. 117 § 7, eff May 26, 1987.

Editor's Note—

As used in §§ 1-11-500 through 1-11-570, the words "the act" refers to the Tax Reform Act of 1986, Public Law 99-514, and the words "the Code" refers to the Internal Revenue Code of 1986, 26 USCS §§ 1 et seq.

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OCT 1 5 1991

SINKLER & BOYD, P.A.

ATTORNEYS AT LAW

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COLUMBIA, SOUTH CAROLINA 29201
TELEPHONE (803) 779-3080
CABLE ADDRESS: PALMETTO
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MAILING ADDRESS:
POST OFFICE BOX 11889
COLUMBIA, SOUTH CAROLINA 29211

WRITER'S DIRECT DIAL NUMBER

October 10, 1991

EXHIBIT
OCT 2 4 1991 2
STATE BUDGET & CONTROL BOARD

VIA FAX (734-2117)

Ms. Donna K. Williams
Secretary
South Carolina State Budget and Control Board
Post Office Box 12444
Columbia, South Carolina 29211-2444

Re: $10,000,000 Charleston County, South Carolina Industrial Revenue Bonds, Series 1991 (General Graphics, Inc. Project)

Dear Donna:

On July 17, 1991, the Budget and Control Board tentatively allocated $10,000,000 to the Charleston County CIGNA Corporation Project, which allocation is scheduled to expire on October 15. On behalf of the Issuer, I request that a thirty (30) day extension be granted. It is our intention to submit a petition for consideration at the October 31 meeting of the Budget and Control Board and to close on or about November 14.

If you have any questions, please call me.

Very truly yours,

Mitchell

F. Mitchell Johnson, Jr.

FMJjr/glm
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STATE OF SOUTH CAROLINA

State Budget and Control Board

STATE BUDGET DIVISION

EXHIBIT

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STATE BUDGET & CONTROL BOARD

EDGAR BROWN BUILDING, SUITE 525
1205 PENDLETON STREET
COLUMBIA, SOUTH CAROLINA 29201
(803) 734-2280

CHARLES A. BROOKS, JR.
DIVISION DIRECTOR

MEMORANDUM

TO: Members of the Budget and Control Board

FROM: Charles A. Brooks, Jr.

DATE: October 23, 1991

SUBJECT: FY 1992-93 Budget Hearings

Enclosed for your information is a copy of the booklet which will be distributed at the Budget and Control Board's FY 1992-93 Hearings. I think we have put together an informative session and hope that you will find the presentations enlightening.

Enclosure

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BUDGET HEARINGS

Fiscal Year 1992-93

EXHIBIT
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STATE BUDGET & CONTROL BOARD

October 24, 1991

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EXHIBIT

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STATE BUDGET & CONTROL BOARD

FY 1992-93 STATE BUDGET HEARINGS

October 24, 1991

9:00 - 9:15	**Recognition of Participants in the 1991 Executive Institute** Governor Carroll A. Campbell, Jr.
9:15 - 10:15	**Improving Educational Quality and Effectiveness** Dr. Chester Finn Education Excellence Network
10:15 - 10:30	Questions
10:30 - 11:00	**Potential Impacts of Restructuring on the State Budget** Lt. Governor Nick Theodore Representative David H. Wilkins Governor's Restructuring Commission
11:00 - 11:15	Break
11:15 - 12:00	**State Economic Outlook and Comments on the Findings of *Financing Government in the Palmetto State, A Study of Taxation in South Carolina*** Dr. Bruce Yandle, Director The Strom Thurmond Institute
12:00 - 12:15	Questions
12:15 - 2:00	Break
2:00 - 3:00	**National Economic Outlook** David A. Wyss, Research Director DRI/McGraw-Hill
3:00 - 3:15	Questions
3:15 - 3:45	**Revenue Forecast for Fiscal Year 1992-93** Board of Economic Advisors
3:45 - 4:00	Break
4:00 - 4:30	**State Budget Division Overview** Charles A. Brooks, Jr.

Recognition of Participants in the 1991 South Carolina Executive Institute

Governor Carroll A. Campbell, Jr.

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SOUTH CAROLINA EXECUTIVE INSTITUTE
Philip G. Grose, Director
1201 Main Street, Suite 1016
Columbia, South Carolina 29201
(803) 737-0833

A Description of the South Carolina Executive Institute

The Executive Institute of the State of South Carolina provides programs for senior governmental officials to improve their overall leadership skills and capabilities. It has been authorized by the General Assembly of the State of South Carolina, and receives public funding from the State for a large part of its activities.

The Institute is administered under the Human Resource Management Division of the Budget and Control Board, the central government management agency in South Carolina.

Programs offered by the Institute are developed in coordination with the University of South Carolina, Clemson University and the College of Charleston, all state-supported colleges in South Carolina which offer graduate academic courses and have specific research capabilities in the areas of public administration and public affairs. The Institute also offers programs in leadership development which are presented by faculty from the Kennedy School of Government at Harvard University.

PARTICIPANTS. The Executive Institute is open to senior level executives in government. Its programs are designed to address the needs of those who direct entire agency operations, or those with substantial responsibility at a deputy level. Beginning with its 1991-92 session, the Institute hopes to bring together a broad cross-section of governmental leadership from all three branches of government (Executive, Legislative and Judicial), as well as corporate leadership in South Carolina.

The 1991 Executive Institute had 27 participants, representing a broad cross-section of state government operations, including agencies which provides services in criminal justice, human services, central management, economic development, natural resource management and regulatory functions.

CURRICULUM. The Executive Institute believes that the effective performance of governmental executives is influenced by three major considerations:

(l) Their ability to lead people and organizations;

(2) Their working knowledge of how government functions.

(3) Their knowledge of world activities influencing their agencies, their state and their nation;

Based on these considerations, the Institute curriculum is designed in three tracks, as follows:

Leadership Development. In conjunction with faculty from the Kennedy School of Government at Harvard, the Institute offers a series of sessions on effective leadership in government. The sessions use actual case studies of government experience in the U. S. to strengthen participants' abilities to make difficult decisions on a day-to-day basis, and to cope with internal and external influences on their jobs. Leadership Development programs are provided in a series of three two-day sessions.

Governmental Processes. The changing nature of government and the evolving expectations and demands of the public place ongoing pressure on governmental leaders to strengthen their knowledge of governmental operations. In conjunction with the Masters of Public Administration program at the University of South Carolina, the Executive Institute offers a series of 10 programs addressing specific governmental skills in such areas as (1) strategic planning, (2) cutback management, (3) program evaluation, (4) ethics, (5) legal issues confronting managers, (6) organizational options in government, (7) managerial communication, and (8) conflict resolution.

Global Issues. Working with the Institute of Public Affairs at the University of South Carolina and the Strom Thurmond Institute of Government and Public Affairs at Clemson University, the Institute provides, the Executive Institute provides one-day symposiums on issues influencing nations and their governments on a global scale. Programs last year focused on (1) International Economic and Political Development, (2) Challenges for Cities and Urban Governments and (3) Government's Response to Environmental Conditions.

LOCATIONS. All Executive Institute activities are carried out on campuses of the state-supported colleges and universities involved in providing Institute programs, including the University of South Carolina and Clemson University.

SCUEDULE. The 1991-92 Executive Institute begins September 17 and will be completed March 8. There are three two-and-onehalf day sessions (September 18-20, December 4-6, and March 6-8), and eight sessions of two-and-one-half hours each every other Thursday between 4 and 6:30 p. m. The attached schedule gives specific dates for all sessions.

ACADEMIC LINKAGE. Upon successful completion of the Executive Institute, including attendance at Institute sessions and completion of assignments, holders of undergraduate degrees from accredited colleges and universities will qualify to receive three hours of course credit from the Masters of Public Administration program at the University of South Carolina.

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SOUTH CAROLINA EXECUTIVE INSTITUTE

Philip G. Grose, Director
1201 Main Street, Suite 1016
Columbia, South Carolina 29201
(803) 737-0833

PARTICIPANTS LIST
1991 Session

Ballentine, Charles W., Executive Director, Public Service Commission

Bonneau, Hubert A. J., Technical Services Supervisor, Employment Security Commission

Buzzetti, E. Anthony, Executive Director, Housing, Finance and Development Authority

Canavan, Francis M., Associate Vice President for Communications and External Relations, Clemson University

Cleghorn, G. Dean, Executive Director, Area Health Education Consortium, Medical University of S. C.

Clyburn, James E., Commissioner, Human Affairs Commission

Connery, John J., Senior Executive Director, Community Mental Health Services, Department of Mental Health

Crossman, Douglas P., Director, Second Injury Fund

Dubs, James D., Deputy Director, Commission on Aging

Edelhoch, Marilyn J., Assistant Director-Audits, Legislative Audit Council

Finley, Paula B. Executive Director, Continuum of Care for Emotionally Disturbed Children

Frampton, E. Gregorie, Executive Director, State Tax Commission

Hamm, Steven W., Administrator/Consumer Advocate, Department of Consumer Affairs

Huey, Sandra A., Deputy State Treasurer, State Treasurer's Office

Jolly, Henry L., Commissioner, Real Estate Commission

Jones, James C., Field Supervisor, Employment Security Commission

LaRosa, P. Charles, Assistant Commissioner, Vocational Rehabilitation Department

Lawrence, J. William, Deputy Director, Parks, Recreation and Tourism Department

LeFever, Michael G., Executive Director, Workers Compensation Commission

Mayes, Phyllis M., Director, Human Resource Management Division, Budget and Control Board

McLawhorn, Richard E., Commissioner, Department of Youth Services

Mungo, Charles M., Support Services Manager, Employment Security Commission

Parris, John W., Executive Director, Land Resources Conservation Commission

Ridings, Cheryl A., Assistant Director, Legislative Audit Council

Taylor, Robert W., Associate Director, Economic Development, State Board for Technical and Comprehensive Education

Williams. Donna K., Assistant Executive Director, Budget and Control Board

Wilson, Jack N., Associate Vice President, Facilities Planning and Management, Clemson University

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Improving Educational Quality and Effectiveness

Dr. Chester Finn
Education Excellence Network

CHESTER E. FINN, JR.
Biographical Summary

June 1991

Chester E. Finn, Jr. is professor of education and public policy at Vanderbilt University and director of the Educational Excellence Network, based in the university's Washington office. He is also a Senior Fellow of the Vanderbilt Institute for Public Policy Studies.

A native of Ohio with an undergraduate degree in American history, a master's degree in social studies teaching and a doctorate in education policy and administration from Harvard University, Finn has made his career in education and government service, most recently as Assistant Secretary for Research and Improvement and Counselor to the Secretary of the U.S. Department of Education from 1985 to 1988. Earlier positions include Staff Assistant to the President of the United States; Special Assistant to the Governor of Massachusetts; Counsel to the American Ambassador to India; Research Associate in Governmental Studies at the Brookings Institution; and Legislative Director for Senator Daniel Patrick Moynihan.

He serves on a number of boards and committees, including the President's Education Policy Advisory Committee, the Interim Council on Standards and Testing and the National Assessment Governing Board, which he chaired from 1988 to 1990. He is also President of the Madison Center for Educational Affairs.

Dr. Finn has been a visiting lecturer in Japan, Korea, India, Germany, Poland, Czechoslovakia, Hungary, Romania, Nicaragua and the United Kingdom. He has also traveled extensively in this country and abroad.

His involvement in seminars, conferences and hearings has brought him to colleges, education and civic groups, foundations and government organizations throughout the country. The most recent of his seven books is <u>We Must Take Charge: Our Schools and Our Future</u>, published by the Free Press in May, 1991. Previous books include <u>What Do Our 17-Year-Olds Know?</u> written with Diane Ravitch; <u>Challenges to the Humanities</u>, with Ravitch and P. Holley Roberts; and <u>Scholars, Dollars and Bureaucrats</u>.

Author of more than 150 articles, his work has appeared in such publications as <u>Change</u>, <u>The Christian Science Monitor</u>, <u>The Wall Street Journal</u>, <u>Commentary</u>, <u>The Public Interest</u>, <u>The Washington Post</u>, <u>The Chronicle of Higher Education</u>, <u>Harvard Business Review</u>, <u>The American Spectator</u>, <u>Comparative Education Review</u>, <u>The Boston Globe</u>, and <u>The New York Times</u>. Finn has received citations and awards for his work from the Educational Press Association of America, <u>Choice</u> magazine, the Education Writers Association and the Freedom Foundation at Valley Forge.

He and his wife, Renu Virmani, a physician, have two children. They live in Chevy Chase, Maryland.

Potential Impacts of Restructuring on the State Budget

Lt. Governor Nick Theodore
Representative David H. Wilkins
Governor's Restructuring Commission

State Economic Outlook and Comments on the Findings of *Financing Government in the Palmetto State, A Study of Taxation in South Carolina*

Dr. Bruce Yandle, Director
The Strom Thurmond Institute

BRUCE YANDLE

Bruce Yandle is Alumni Distinguished Professor of Economics and Director of the Strom Thurmond Institute of Government and Public Affairs at Clemson University. He received his A.B. degree from Mercer University (Macon, Georgia) and his MBA and PhD degrees from Georgia State University. A member of Clemson's faculty since 1969, Bruce has served as Head of the Department of Economics and has twice been on leave to serve in Washington. In 1976-78, he was Senior Economist on the President's Council on Wage and Price Stability. In 1982-84, he was Executive Director of the Federal Trade Commission.

Bruce is a member of the Academic Advisory Board of the James Madison Institute, a Senior Scholar with Clemson University's Center for Policy Studies and is an Adjunct Scholar at the American Enterprise Institute in Washington. He is a member of the National Advisory Council of the S.C. State Board of Economic Advisors. Bruce is author/editor of nine books and 75 scholarly articles in economics. His books include <u>Environmental Use and the Market</u> (1978), <u>Regulatory Reform in the Reagan Era</u> (1989), <u>The Political Limits of Environmental Regulation</u> (1989), and <u>The Economic Consequences of Liability Rules</u> (1991).

Prior to entering a career in university teaching and research, Bruce was in the industrial machinery business for 15 years in Georgia, rising to the position of executive vice president of his firm. He is a member of First Savings Bank's Clemson Regional Board, writes a regular column for the Columbia (S.C.) <u>State</u> newspaper and is actively engaged in forecasting national and regional economic activity.

National Economic Outlook

David A. Wyss, Research Director
DRI/McGraw-Hill

David A. Wyss
Research Director

DRI/McGraw-Hill
24 Hartwell Avenue
Lexington, Massachusetts 02173

Tel: (617) 860-6751

David Wyss counsels corporate clients on financial issues, helping to make investment, asset allocation, financing, and leveraged buyout valuations. He and his staff are also responsible for all of DRI's financial forecasts. His solid track record and comprehensive knowledge of the linkages between economic and business issues make him a leading specialist in the financial field.

Recent engagements with which Mr. Wyss has been involved have included an assessment of a U.S. recession on financial markets, an analysis of the behavior of high yield corporate bonds under alternative business conditions, and an assessment of liquidity of stocks listed on alternative exchanges.

Mr. Wyss frequently provides expert testimony to Congress and in matters of litigation. He publishes extensively on financial matters, and is quoted regularly in the major national and financial press.

On joining DRI in 1979, Mr. Wyss directed DRI's European service, working with clients to assess the impact of exchange rate fluctuations, financial market volatility, economic fluctuations, and government policy changes on their prospects for growth. In 1983, he moved to Lexington as Chief Financial Economist.

Previously, Mr. Wyss was a senior staff member of the president's Council of Economic Advisers, where he was responsible for economic forecasting and analysis. He was also a Senior Economist for the Federal Reserve Board, Economic Advisor to the Bank of England, and an instructor in economics at Harvard University.

Mr. Wyss holds a Ph.D. from Harvard University and a B.S. from the Massachusetts Institute of Technology.

DRI/McGraw-Hill

THE RELUCTANT RECOVERY

* * * * * * * * *

Presented by
Dr. David A. Wyss
Senior Vice President and Research Director
DRI/McGraw–Hill

* * * * * * * * *

Prepared for
The Budget and Control Board
Columbia, South Carolina
October 24, 1991

002558

Forces Shaping the Recovery

- Interest rates will move up as a recovery gives more power to the inflation hawks at the Fed.
- But for the moment, weak economic data and a falling money supply could cause one more easing.
- Bond yields will remain high because of international pressures.
- But inflation will slow as labor market slack takes pressure off wages.
- Auto producers will be in trouble, with slowing demand and excess capacity.
- These problems extend to much of consumer durables.
- Housing will remain soft because of overbuilding and the slower rise in number of new households.
- The single-family market is healthier than multis, implying more lumber and less brick and steel.
- Nonresidential construction is in even worse oversupply than housing.
- Export markets are a bright spot, since the dollar remains very competitive.
- But foreign demand will slow in late 1991 and 1992.

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DRI/McGraw-Hill Forecast for the U.S. Economy: CONTROL1091

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Composition of Real GNP (Annual rate of change)												
Gross National Product....................	-2.8	-0.5	2.9	2.4	4.2	4.1	2.9	1.0	-0.4	3.1	2.9	2.8
Final Sales................................	-2.9	0.3	0.7	2.1	3.4	2.6	2.2	1.6	0.0	2.2	2.9	2.8
Excluding CCC Transactions.............	-3.0	-0.5	1.5	2.0	3.3	2.6	2.2	1.6	-0.1	2.3	2.9	2.8
Total Consumption..........................	-1.5	2.5	3.9	2.1	2.9	2.3	1.4	0.9	0.4	2.5	2.4	2.3
Nonresidential Fixed Investment..........	-16.3	1.4	-2.4	4.7	4.9	12.9	15.0	1.8	-3.4	7.0	11.2	7.0
Equipment.................................	-18.4	6.3	2.7	6.3	7.3	14.8	17.7	2.8	-1.1	9.6	11.5	7.3
Buildings.................................	-11.0	-16.9	-20.2	-4.3	-8.9	3.8	5.8	-2.3	-13.9	-5.0	9.0	7.3
Other Structures..........................	-4.3	-7.5	-16.1	4.9	7.1	9.7	2.4	1.1	-4.3	3.0	12.8	2.1
Residential Fixed Investment.............	-25.3	1.6	13.9	11.6	11.3	11.4	5.2	-5.4	-11.9	9.8	7.1	7.8
Exports....................................	0.5	4.5	-0.5	3.1	5.6	6.3	9.3	6.4	3.6	4.9	7.3	6.0
Imports....................................	-8.8	17.7	4.6	4.4	2.3	11.3	11.5	2.8	0.2	7.1	8.6	5.6
Federal Government........................	-0.5	5.5	-12.7	-2.9	-4.1	-3.4	-6.8	2.6	0.8	-4.8	-4.9	-4.0
Excluding CCC Transactions.............	-1.6	-4.0	-4.2	-3.3	-4.7	-3.5	-6.9	1.7	0.1	-4.5	-5.0	-4.0
State and Local Governments..............	-1.9	-0.8	-0.7	1.5	2.7	2.1	2.4	3.0	0.5	1.6	2.6	3.2
Billions of Dollars												
Real GNP (1982 $).........................	4124.1	4118.9	4148.6	4173.7	4217.3	4259.7	4290.7	4157.3	4141.3	4270.9	4395.5	4516.7
Gross National Product....................	5557.7	5612.4	5675.4	5750.4	5857.2	5961.0	6043.7	5465.2	5649.0	5995.8	6341.3	6703.1
Prices and Wages (Annual rate of change)												
GNP Price Deflator (Implicit)............	5.2	4.5	1.5	2.9	3.3	3.1	2.6	4.1	3.8	2.9	2.8	2.9
GNP Price Index (Fixed-Weight)...........	5.1	3.1	2.0	3.4	4.4	3.8	3.6	4.6	4.0	3.5	3.6	3.7
CPI—All Urban Consumers..................	3.5	2.1	2.8	3.7	3.9	3.7	3.7	5.4	4.2	3.6	3.7	3.7
Producer Price Index—Finished Goods.....	-2.5	-0.7	-0.4	3.2	3.3	2.7	2.9	4.9	2.1	2.4	3.1	3.5
Employment Cost Index - Total Comp.......	5.7	4.9	4.0	3.4	5.2	4.5	3.7	5.0	4.4	4.3	4.1	4.2
Output per Hour...........................	0.0	0.7	4.7	2.7	3.4	2.6	1.1	-0.5	0.8	2.7	1.1	1.2
Production and Other Key Measures												
Industrial Production (1987=1.000).......	1.058	1.064	1.083	1.094	1.109	1.121	1.131	1.092	1.075	1.125	1.163	1.198
Annual Rate of Change....................	-9.6	2.4	7.2	4.3	5.5	4.4	3.7	1.0	-1.6	4.7	3.3	3.0
Nonfarm Inven Accum (Billion 1982 $).....	-28.1	-27.2	-12.4	-8.2	0.5	16.0	23.6	-5.1	-19.0	16.4	18.3	15.0
Housing Starts (Mil units)...............	0.915	0.998	1.060	1.093	1.130	1.139	1.138	1.203	1.017	1.140	1.219	1.326
Retail Unit Car Sales (Mil units)........	8.2	8.5	8.6	9.0	9.3	9.5	9.5	9.5	8.6	9.5	10.0	10.2
Civilian Unemployment Rate (%)...........	6.5	6.8	6.9	6.9	6.7	6.5	6.3	5.5	6.8	6.4	6.0	5.7
Nonfarm Empl. (Estab. survey, % change)..	-2.3	-1.2	0.0	0.7	1.6	1.8	1.9	1.5	-0.9	1.1	2.0	2.3
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-106.0	-122.0	-36.6	-91.3	-220.5	-273.1	-355.9	-271.2	-222.3
Foreign Trade												
Current Account Balance (Billion $)......	42.0	11.9	-32.3	-38.2	-44.4	-52.8	-58.0	-92.1	-4.2	-56.6	-83.8	-104.0
Merch. Trade Balance (c.v.b., bil. $)....	-67.8	-52.3	-69.8	-71.3	-69.1	-75.2	-83.3	-101.7	-65.3	-80.2	-111.7	-132.1
Foreign Crude Oil ($ per barrel).........	19.43	18.02	18.68	19.45	19.70	19.57	19.77	22.22	18.89	19.83	21.38	23.30
U.S. Dollar Exchange Rate (% change).....	6.4	25.4	-0.7	-7.1	15.2	4.8	-4.0	-5.2	-0.6	3.6	-1.6	-0.1
Foreign GDP (% change)...................	2.5	2.4	2.9	3.4	3.4	3.6	3.9	3.0	2.2	3.4	3.9	3.6
Financial Markets												
Money Supply (M2, billion $).............	3354.3	3394.5	3390.9	3435.8	3481.4	3523.4	3566.0	3325.6	3435.8	3615.7	3808.1	4026.9
Percent Change vs Year Ago (Q4/Q4)......	3.1	3.4	2.5	3.3	3.8	3.8	5.2	3.8	3.3	5.2	5.3	5.7
AA Corp Utility Rate (%).................	9.26	9.19	9.09	8.93	9.00	9.17	9.18	9.66	9.12	9.10	9.11	8.98
Thirty-Year Treasury Bond Rate (%).......	8.20	8.32	8.19	7.86	7.93	8.29	8.22	8.61	8.14	8.12	8.10	7.88
Treasury Bill Rate (%)...................	6.02	5.56	5.38	4.96	5.33	5.94	6.13	7.49	5.48	5.86	6.24	6.09
Federal Funds Rate (%)...................	6.43	5.86	5.65	5.09	5.57	6.13	6.30	8.10	5.76	6.06	6.64	6.75
Prime Rate (%)...........................	9.19	8.67	8.42	8.00	8.23	8.74	9.00	10.01	8.57	8.69	8.80	9.00
S&P Index of 500 Common Stocks...........	353	379	386	380	388	391	389	335	374	390	397	412
Incomes												
Personal Income (% Change)...............	1.5	4.2	3.2	4.7	7.1	6.0	5.5	6.0	3.4	5.5	6.5	6.2
Real Disposable Income (% change)........	-1.5	2.3	1.9	1.0	3.3	2.0	1.6	0.9	-0.4	2.1	2.8	2.4
Saving Rate (%)..........................	4.2	4.2	3.8	3.5	3.7	3.6	3.7	4.6	3.9	3.7	4.1	4.2
Profits After Tax (Year Ago Change)......	-0.4	-3.3	-0.6	14.1	30.0	41.4	29.0	0.0	2.6	26.8	-4.0	-0.7
Post-Tax Corp Cash Flow (Billion $)......	546.6	543.7	553.2	563.9	583.7	603.5	614.0	529.1	551.9	604.3	628.9	657.7
Percent Change vs Year Ago...............	4.4	2.0	5.0	5.9	6.8	11.0	11.0	1.2	4.3	9.5	4.1	4.6

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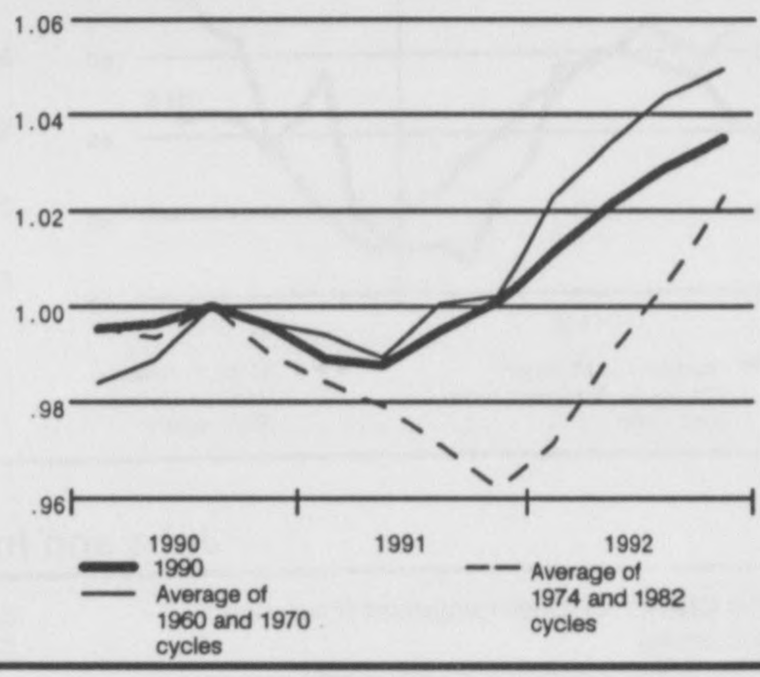
The 1990 Recession Has Gross Similarities to Those in 1960 and 1970, But All Cycles Are Unique

Cyclical Turning Points

Peaks	Troughs
1990:3	1991:2
1960:1	1960:4
1969:3	1970:2
1973:4	1975:1
1981:3	1982:3

Real GNP
(Cyclical peak = 1.0)



This Recession Is Concentrated in Consumer Durables
(Percent change peak to trough)

	History								Control
Recession of:	1949	1954	1958	1960	1970	1975	1980	1982	1991
Gross National Product	-2.0	-3.0	-3.5	-1.0	-1.1	-4.3	-2.4	-3.4	-1.2
Consumption	1.8	1.3	-0.7	1.1	1.9	-0.6	-2.0	1.0	-0.6
Durable Goods	13.2	0.4	-5.3	-0.5	-1.2	-9.5	-11.0	-1.5	-6.6
Nondurable Goods	1.2	-0.1	-1.4	0.6	1.9	-1.8	-0.9	1.1	-1.6
Services	0.1	3.2	1.2	1.9	2.7	2.9	-0.6	1.6	1.9
Nonresidential Fixed Investment	-16.8	-1.6	-8.4	-2.2	-3.5	-12.3	-6.2	-11.1	-4.0
Equipment	-21.1	-6.8	-13.7	-7.4	-3.2	-12.0	-7.6	-12.4	-2.0
Structures	-10.3	4.7	-2.1	3.7	-3.9	-12.8	-3.8	-9.0	-10.5
Residential Fixed Investment	11.3	2.7	-2.7	-10.9	-12.4	-29.9	-19.9	-18.2	-11.9
Federal Government	-1.2	-17.3	-1.6	2.9	-8.6	1.1	3.4	4.2	2.4
State and Local Governments	15.1	8.8	5.1	4.9	1.6	3.2	-0.3	0.3	0.5
Exports	-9.5	6.8	-13.0	5.8	6.4	2.3	-1.5	-8.1	3.9
Imports	-1.7	-1.4	3.6	-6.1	1.0	-12.3	-5.9	-0.3	-1.4
Nonfarm Inventory Accumulation (a)	-25.7	-21.2	-46.4	-54.7	-28.5	-61.2	0.8	-43.3	-42.5
Industrial Production	-6.3	-8.1	-9.7	-6.1	-3.5	-12.8	-3.8	-6.1	-3.7
Output per Hour	0.2	0.8	-0.2	-0.3	0.1	-1.7	-0.8	-1.4	-0.1
Payroll Employment	-4.2	-2.9	-2.6	-0.9	0.5	-1.3	-0.6	-2.3	-1.2

Note: All peak-to-trough movements calculated using peak and trough quarters in real GNP.
a. Difference, billions of 1982 dollars.

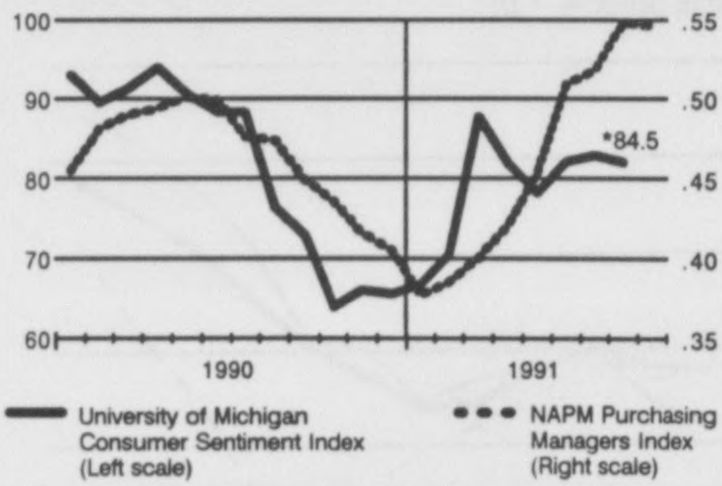
EXHIBIT 3
OCT 2 4 1991
STATE BUDGET & CONTROL BOARD

002561

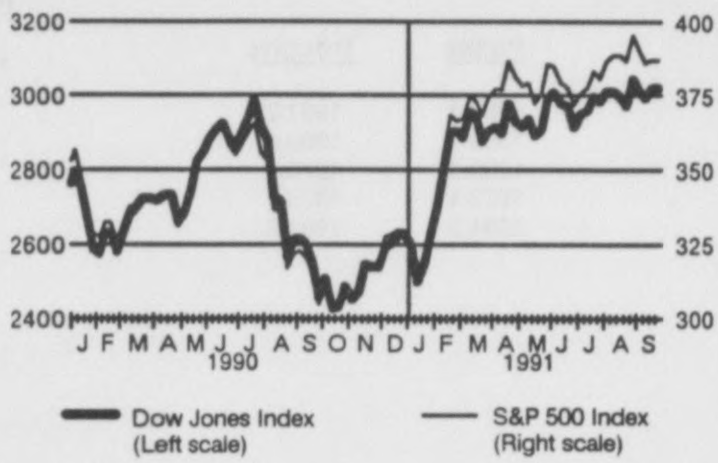
Taking the Economy's Pulse

Attitudes

Consumer Sentiment and Purchasing Managers Survey

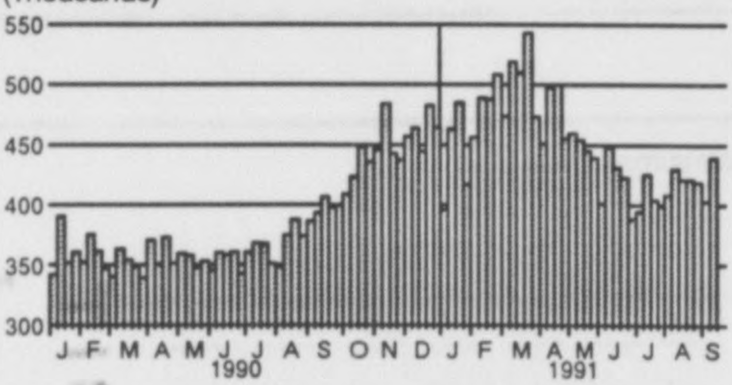


Stock Market

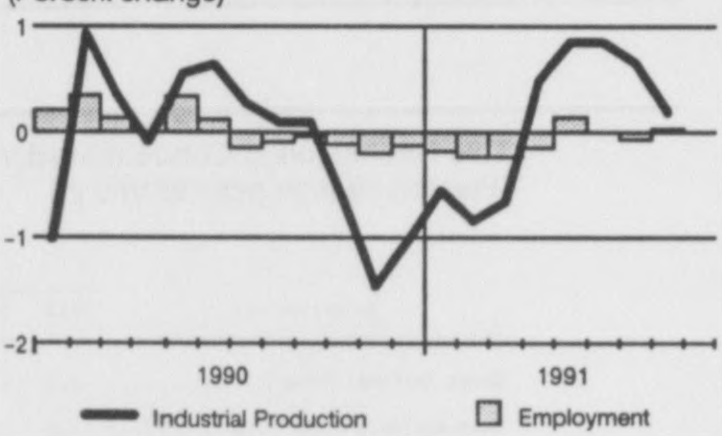


Jobs and Income

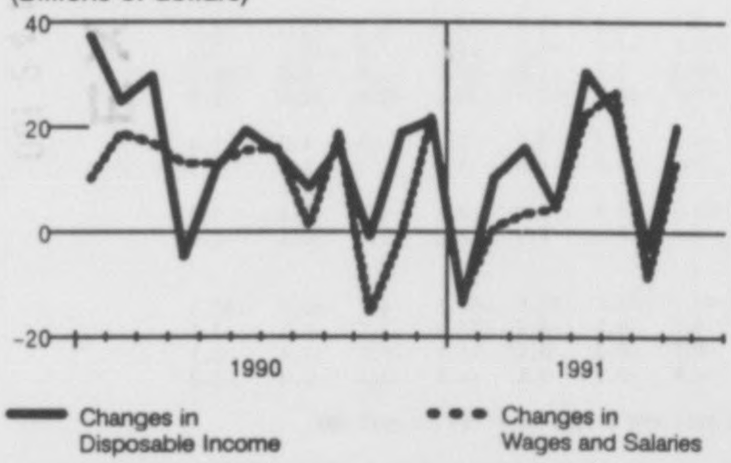
Initial Claims for Unemployment Insurance
(Thousands)



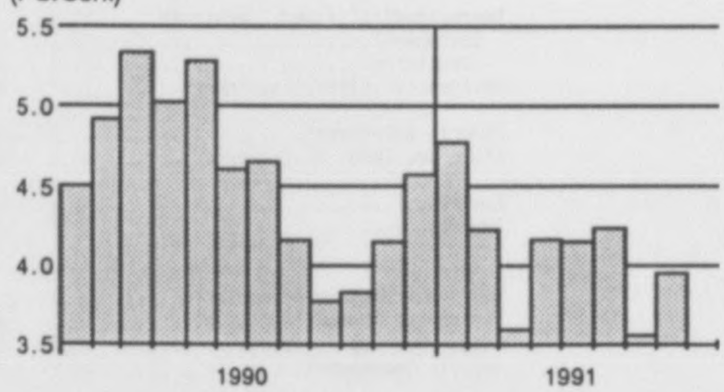
Employment and Industrial Production
(Percent change)



Income and Wages
(Billions of dollars)



Savings Rate
(Percent)



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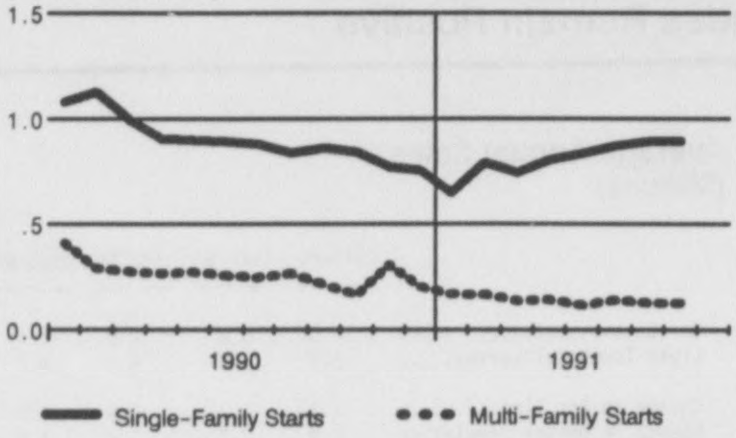
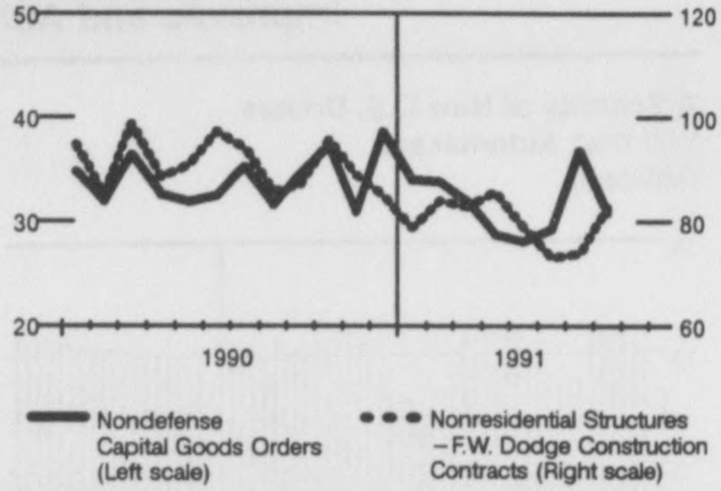
Investment

Housing Starts
(Millions of units)

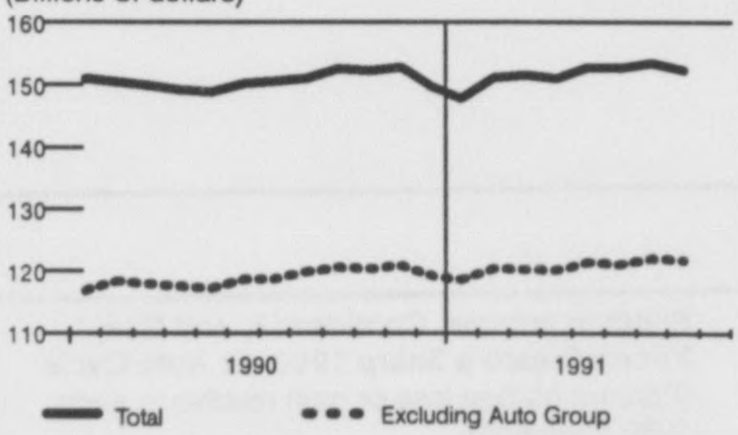


Orders and Contracts
(Billions of dollars)

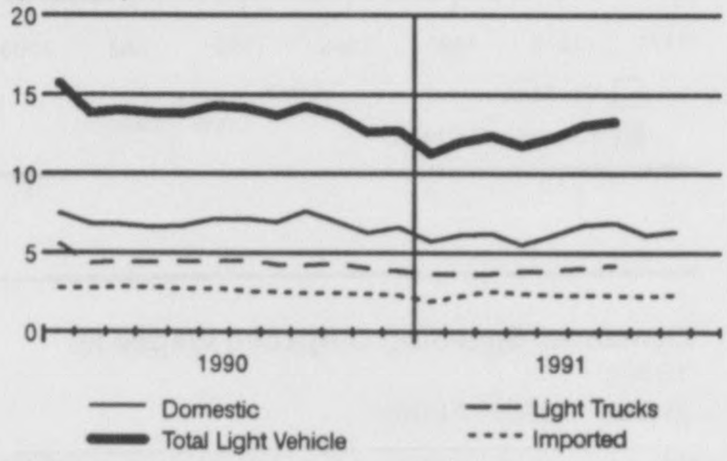


Retail Sales

Retail Sales
(Billions of dollars)

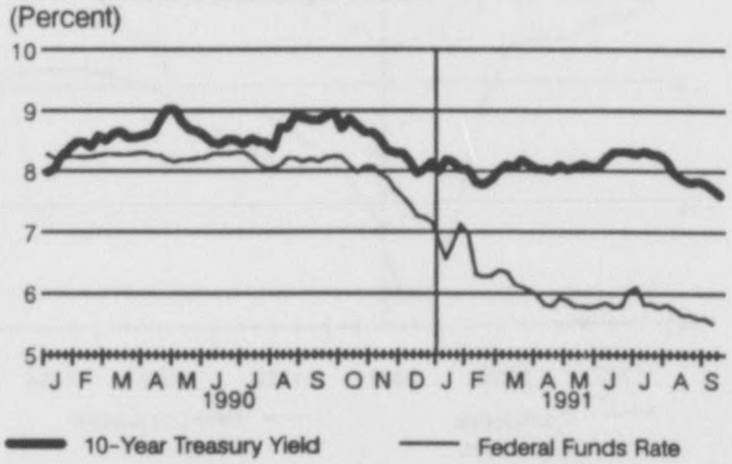


Light Vehicle Sales
(Millions)

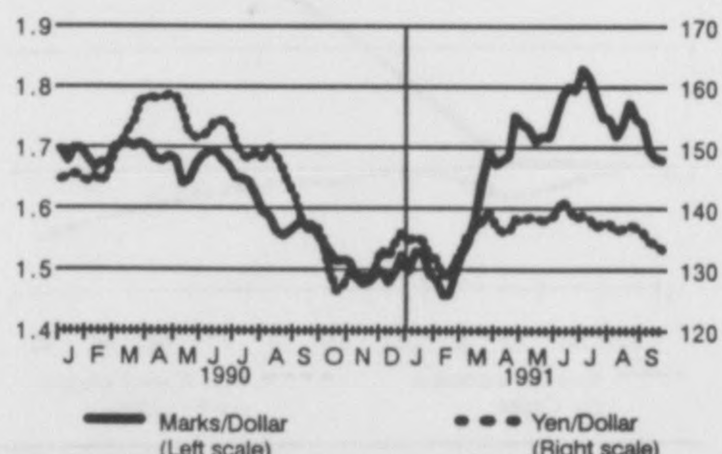


Finance

Bond Yields and Interest Rates
(Percent)



Currency Exchange Rates

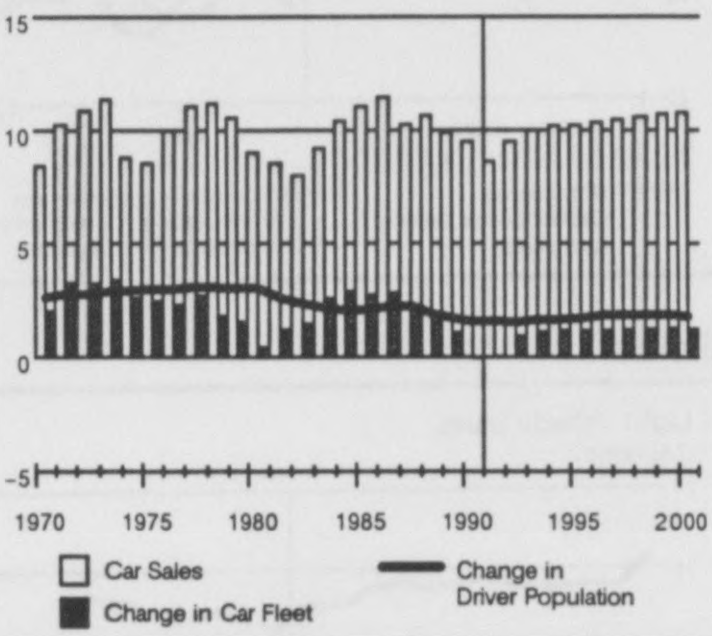


002563

FOCUS ON THE CONSUMER

Auto Sales, Like All Consumer Durables, Will Recover as Income Improves and Attitudes Remain Positive

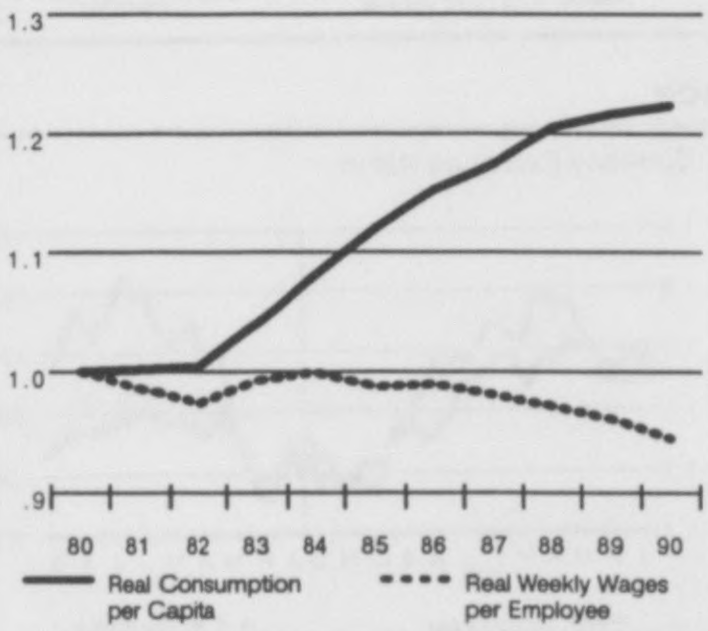
A Scarcity of New U.S. Drivers Will Hurt Automakers
(Millions)



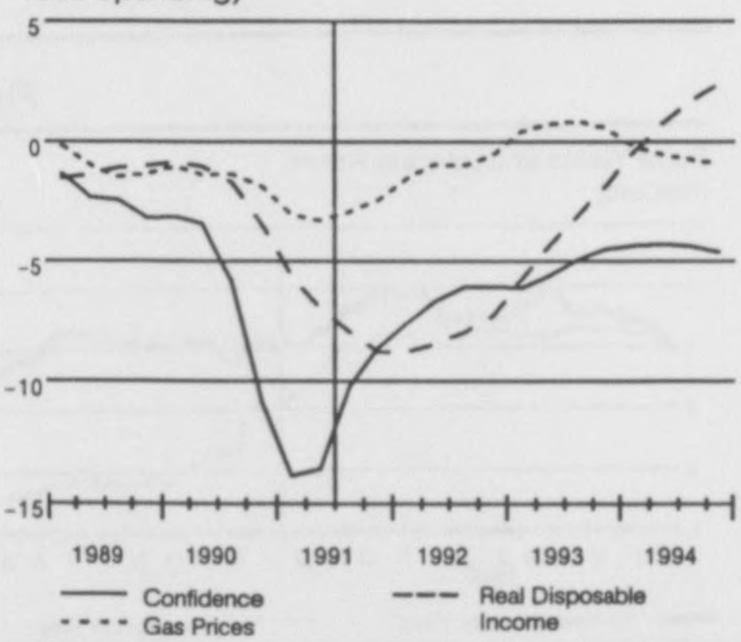
Average Annual Sales
(Millions)

	1970–80	1981–87	1988–90	1991–95
Car Sales..................	10.0	9.8	10.0	9.7
Light Truck Deliveries.....	2.5	3.6	4.6	4.7
Change in Car Fleet........	2.3	2.2	0.9	0.9
Change in Driver Population	2.9	2.2	1.7	1.6

Consumer Spending Outpaced Wages in 1980s
(Index: 1980 = 1.000)



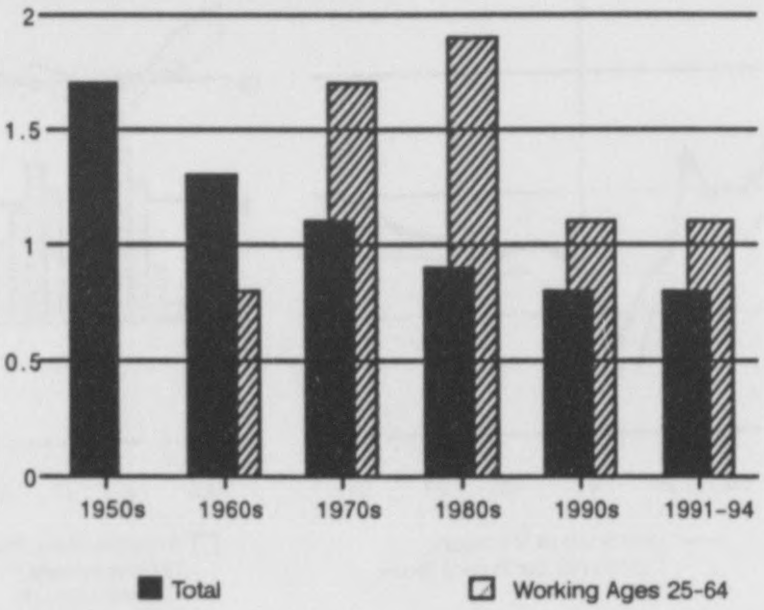
Shifts in Income, Confidence, and Gas Prices Create a Sharp 1990–92 Auto Cycle
(Percent market loss or gain relative to early 1989 spending)



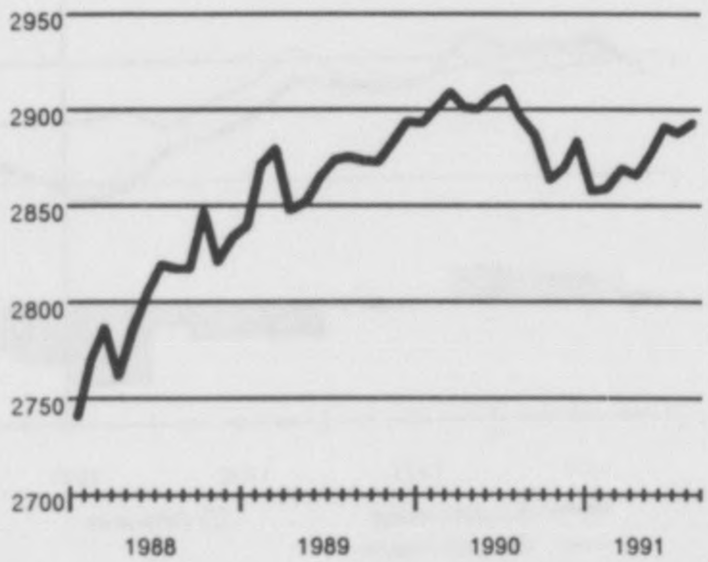
002564

Demographics Limits the Recovery

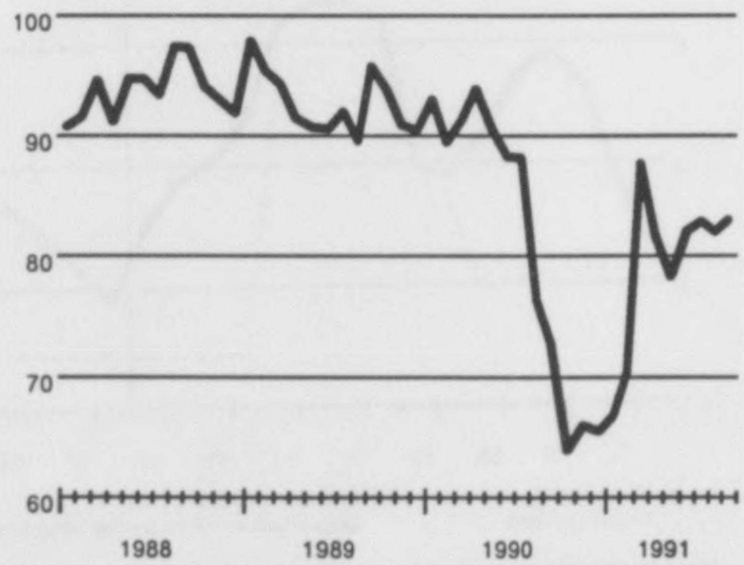
Population Growth Continues to Slow, Retarding the Growth of the Labor Force and Key Buying Groups
(Average annual growth)



Real Disposable Income Is Recovering and...
(Billions of dollars 1982 prices)



Consumer Sentiment Is Improving.
(University of Michigan Consumer Sentiment Index)

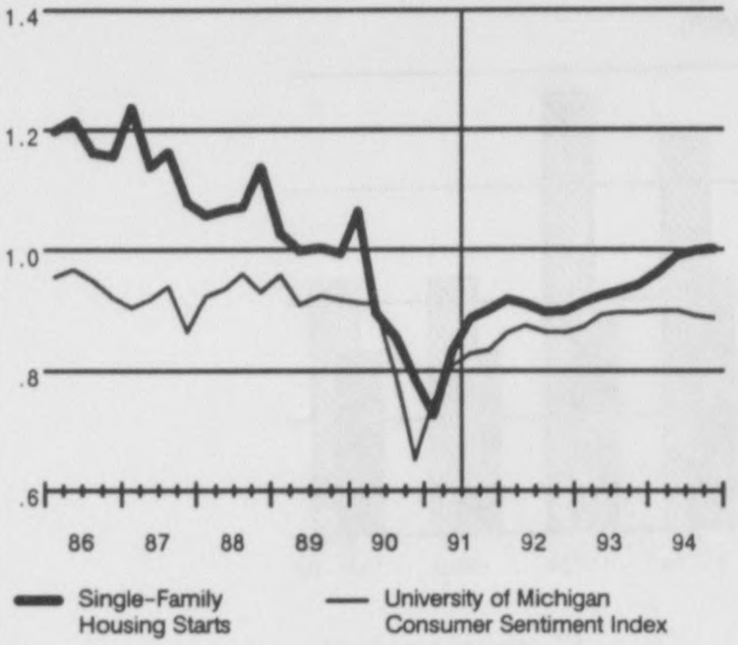


002565

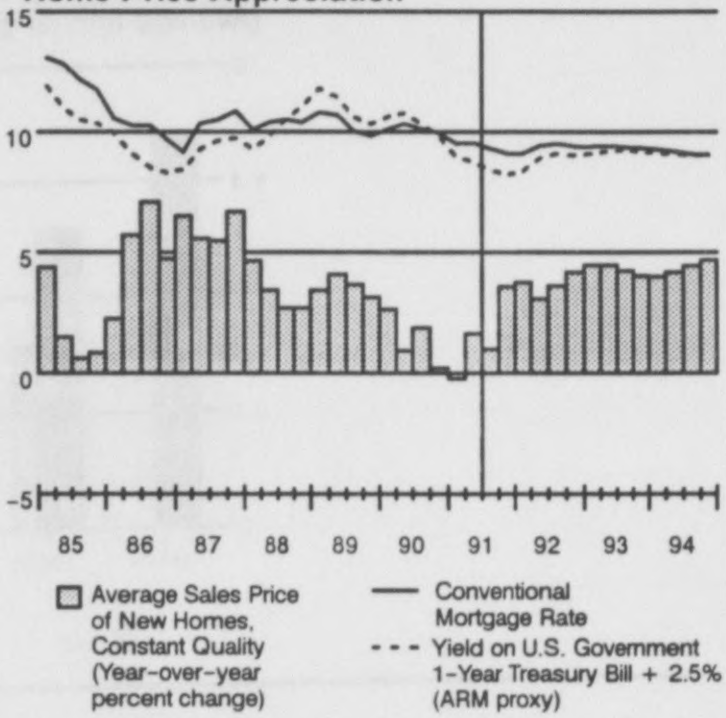
FOCUS ON HOUSING

Housing Needs Help from Many Sources

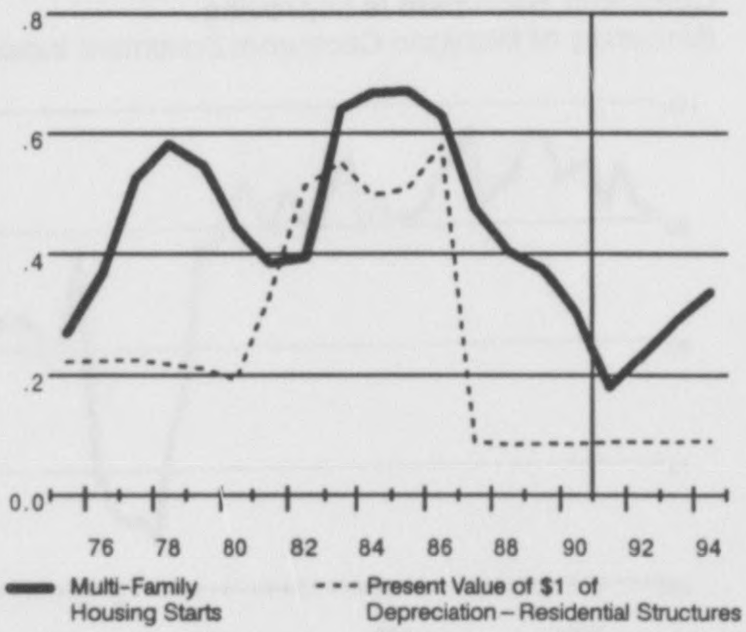
Late 1991: Confidence Must Recover



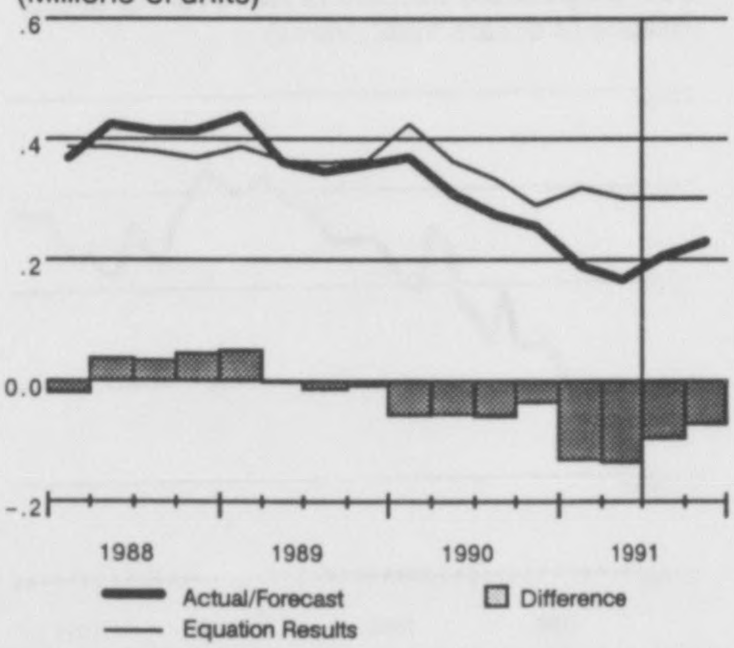
1991–94: Prices Must Improve and Mortgage Rates Must Look Moderate Compared With Home Price Appreciation



The Tax Law, Not the Credit Crunch, Killed Apartments/Condos



The Credit Crunch Has Cut Multi-Family Construction by Approximately 100,000 Units
(Millions of units)



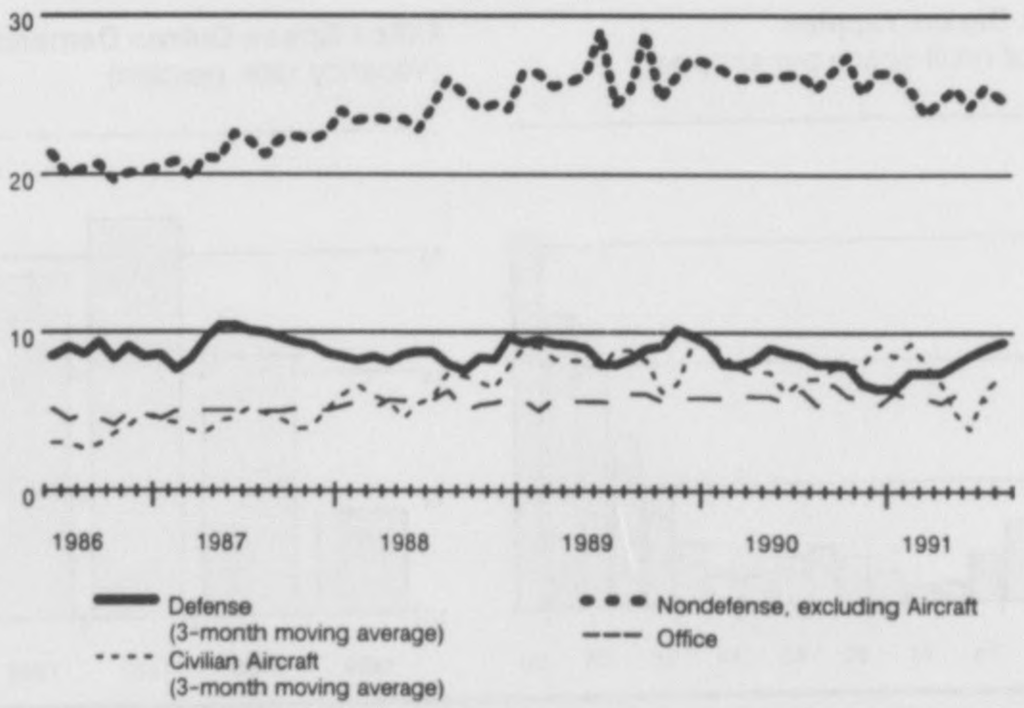
002566

Business Spending Plans Have Been Trimmed, Not Slashed

Capital Spending Drivers

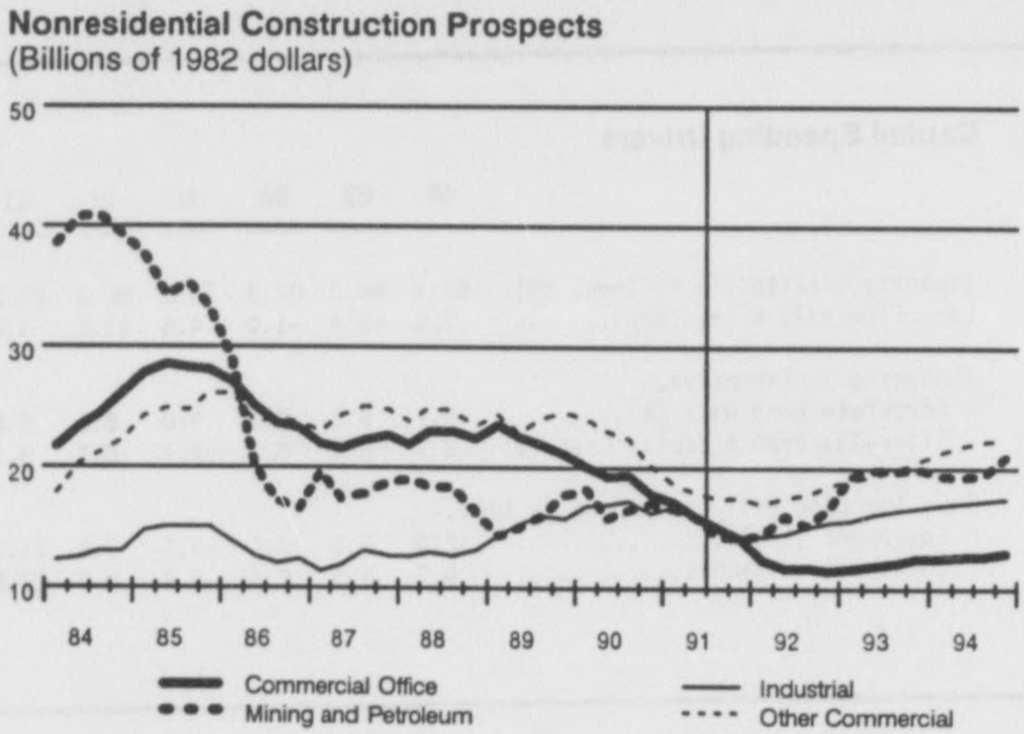
	88	89	90	91	92	93
Capacity utilization is Down, (%).	83.9	84.0	82.3	78.5	80.8	81.6
Cash Flow Will Rise, (%ch)........	7.0	-3.4	-1.0	4.8	11.2	3.4
Financing is Expensive,						
Corporate Bond Rate (%).........	9.7	9.3	9.3	8.8	8.8	8.8
After-Tax Debt & Equity Cost (%)	8.3	8.3	8.6	8.4	8.2	8.1
Thus Spending Will Cycle Down in 1991.						
Equipment (%ch).................	12.0	5.0	3.1	-3.3	7.3	11.7
Construction (%ch)..............	4.7	4.5	0.5	-9.4	0.0	12.8

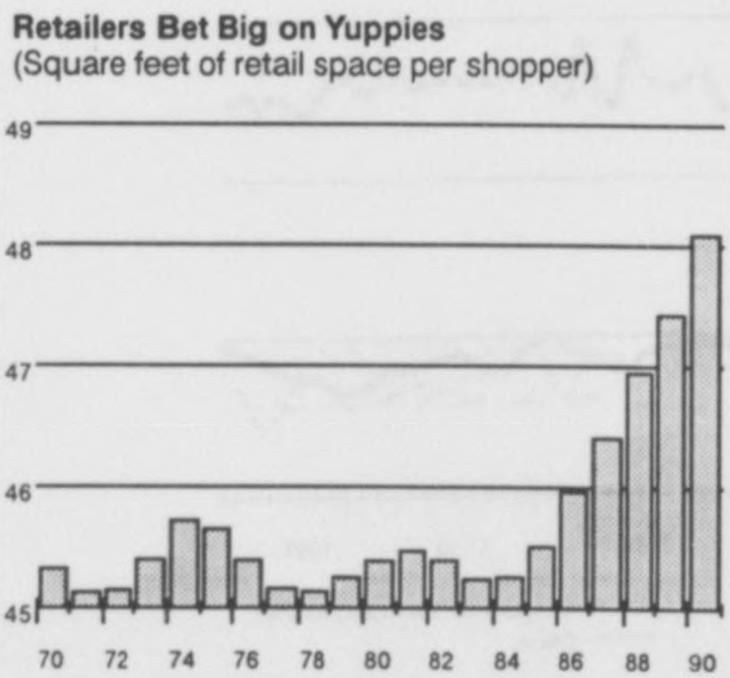
Capital Goods Orders
(Billions of dollars)

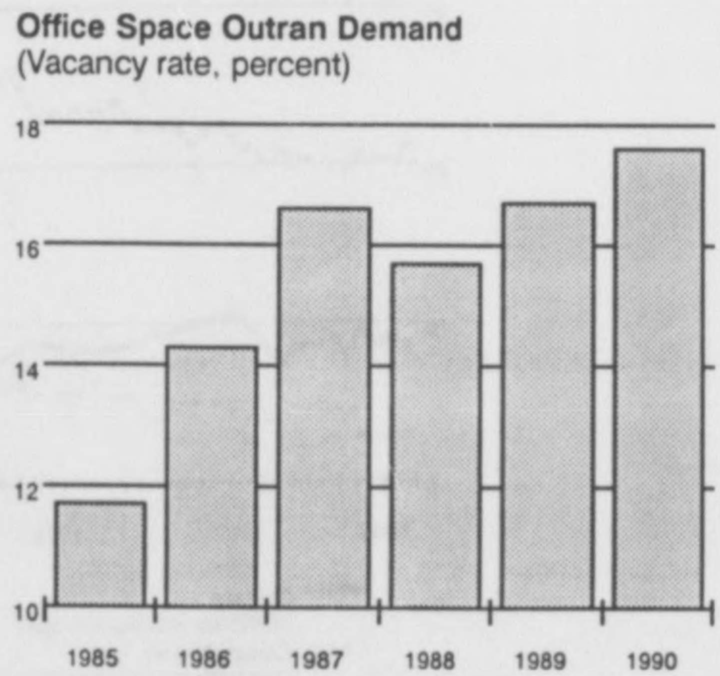


002567

But Construction Remains Weak



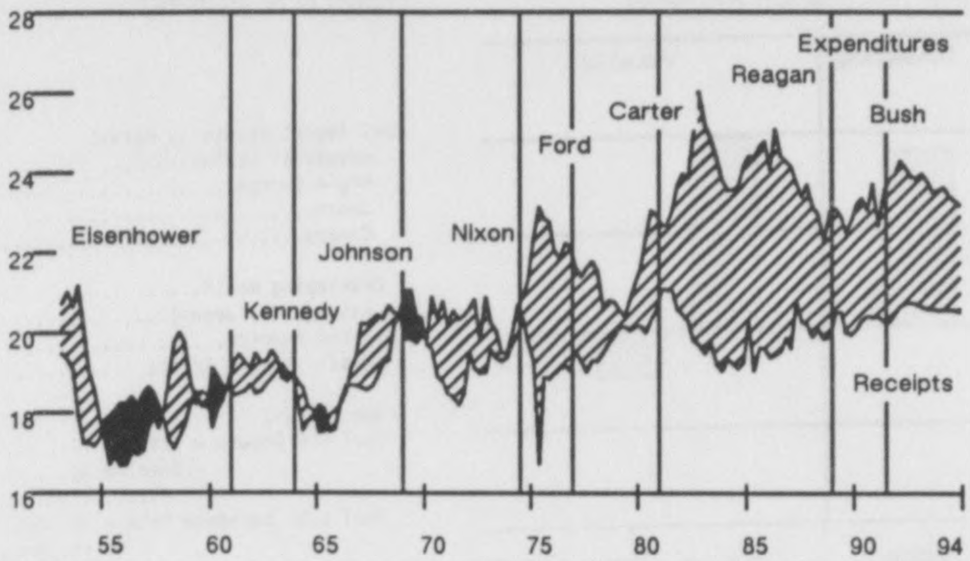




002568

Budget Realities

Government Receipts and Expenditures
(Percent of GNP)



The U.S. Does Not Save Enough To Finance Government Borrowing

Net Saving and Investment
(Percents of GNP)

	Net Personal Saving	Net Business Saving	State and Local Surplus or Deficit	Federal Surplus or Deficit	Net National Saving *	Capital Outflow (–) or Inflow (+) from Abroad	Net Domestic Investment **
1976	5.4	2.6	0.9	-3.0	5.8	–0.5	5.4
1977	4.6	3.1	1.4	-2.3	6.7	0.4	7.3
1978	4.9	3.1	1.3	-1.3	7.9	0.4	8.5
1979	4.7	2.5	1.1	–0.6	7.6	–0.1	7.7
1980	5.0	1.4	1.0	-2.2	5.1	–0.4	4.7
1981	5.2	1.4	1.1	-2.1	5.7	–0.3	5.2
1982	4.9	0.6	1.1	–4.6	2.0	0.0	2.0
1983	3.8	1.9	1.4	-5.2	2.0	1.0	3.0
1984	4.4	2.5	1.7	–4.5	4.1	2.4	6.5
1985	3.1	2.6	1.6	–4.9	2.4	2.8	5.2
1986	3.0	2.0	1.5	–4.9	1.5	3.2	4.8
1987	2.0	1.8	1.1	-3.5	1.5	3.4	4.9
1988	3.0	1.9	1.0	-2.9	2.9	2.4	5.4
1989	3.3	1.0	0.9	-2.6	2.6	1.9	4.5
1990	3.3	0.6	0.6	-3.0	1.5	1.6	3.1
1991	2.8	0.6	0.7	-3.2	1.1	0.1	1.1
1992	2.7	1.2	1.1	-3.3	1.6	1.0	2.6
1993	3.0	1.1	1.1	-3.1	2.1	1.4	3.5
1994	3.1	1.0	1.0	-2.8	2.3	1.6	3.9
1950–54	4.7	2.6	–0.2	0.1	7.3	0.1	7.6
1955–59	4.7	2.9	–0.3	0.1	7.5	–0.4	7.3
1960–64	4.4	3.3	0.1	–0.3	7.5	–0.8	6.7
1965–69	4.8	3.7	0.0	–0.3	8.2	–0.4	7.8
1970–74	6.0	2.2	0.6	-1.2	7.6	–0.3	7.5
1975–79	5.2	2.7	1.0	-2.3	6.6	–0.2	6.5
1980–84	4.7	1.6	1.3	-3.7	3.8	0.5	4.3
1985–89	2.9	1.9	1.2	-3.8	2.2	2.8	5.0
1990–94	3.0	0.9	0.9	-3.1	1.7	1.1	2.8

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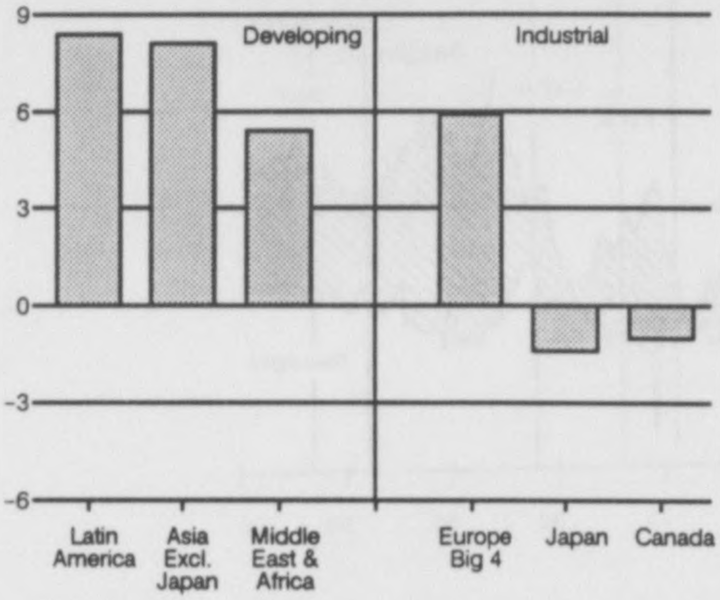
* Net national saving is the sum of columns 1 through 4.
** A statistical discrepancy is omitted from this table.

FOCUS ON INTERNATIONAL OUTLOOK

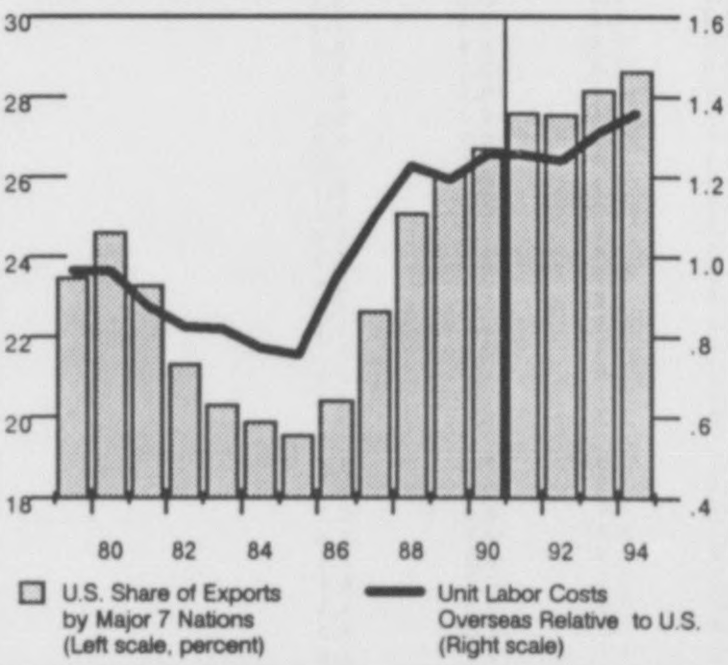
1991 Growth in the Trade Pie
(Real import growth by region, percent)



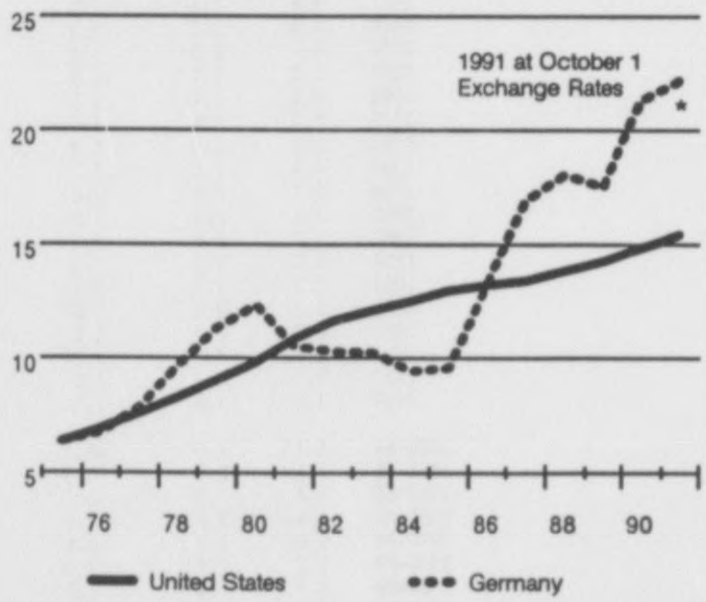
Market Planning for International Sales
(1980 U.S. dollars)

	89	90	91	92
Real Import Growth by Market				
Industrial World	10	5	4	5
Big-4 Europe	8	6	6	6
Japan	13	7	-1	5
Canada	5	0	-1	7
Developing World	10	11	7	9
Asia (excl. Japan)	11	9	8	9
Latin America	-1	22	8	13
Middle East & Africa	9	11	5	9
Trade Drivers				
Real GDP Growth - Industrial	3.3	2.4	1.1	3.0
- Developing	3.5	4.0	4.5	4.9
- Asia	5.2	5.6	6.2	6.3
Real U.S. Exchange Rate - vs. Ind.	6.6	-7.4	1.3	2.9
- vs. Dev.	2.3	-2.0	-2.6	3.6

The Recovery of the U.S. Global Market Share Continues, But More Slowly



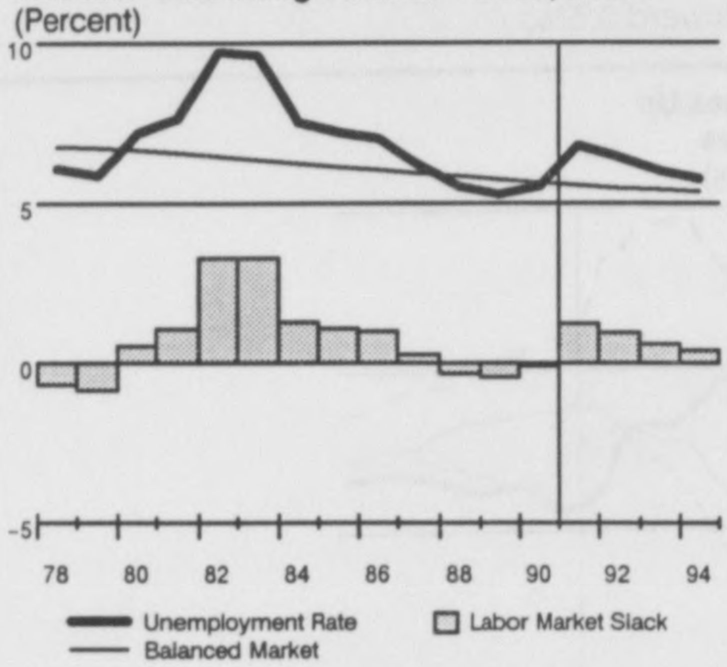
Overvalued Currencies and Overpriced Labor: Germany Resembles the U.S. in 1985
(Manufacturing hourly wages, U.S. dollars per hour)



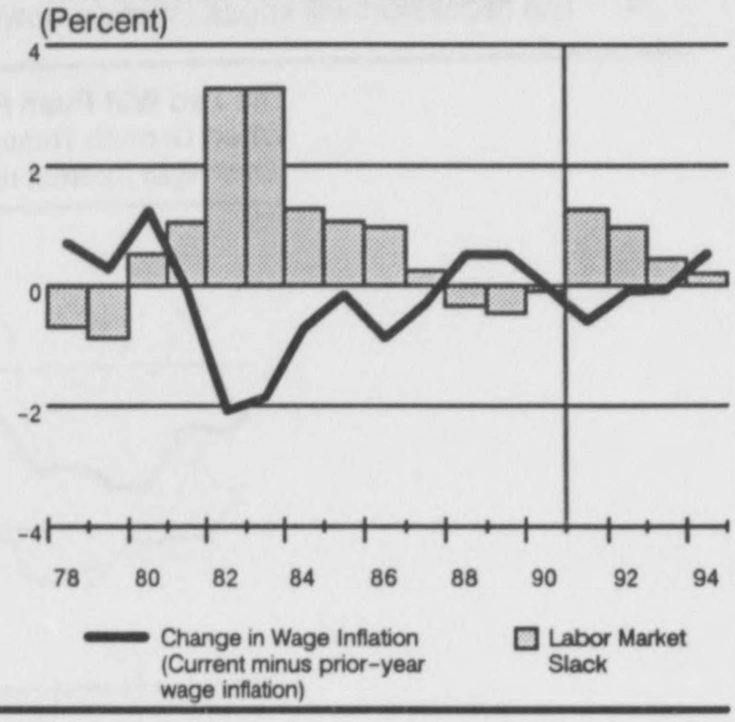
002570

Inflation Will Decelerate

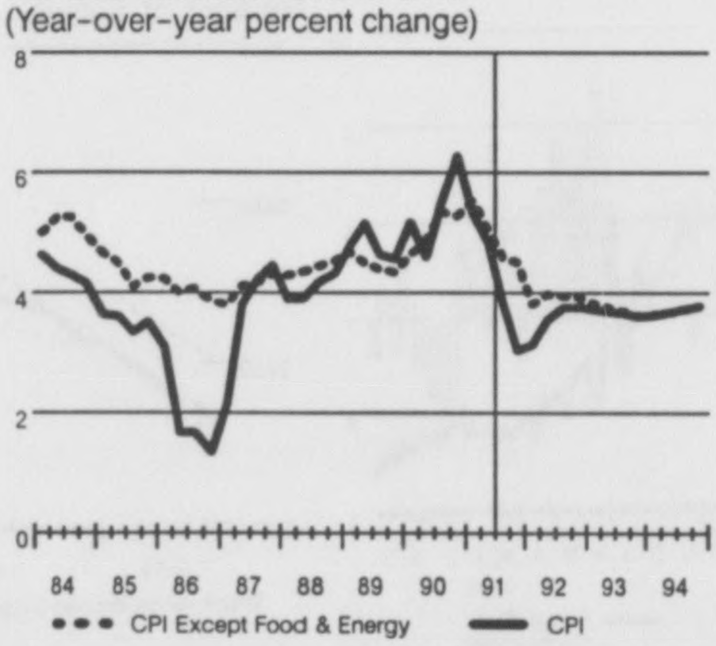
Unemployment Has Cycled About Its Inflation-Stabilizing Balance Points, and...
(Percent)



...Wage Inflation Falls and Rises Primarily with the Slack in Labor Markets
(Percent)



The Bad Inflation News Is Over
(Year-over-year percent change)

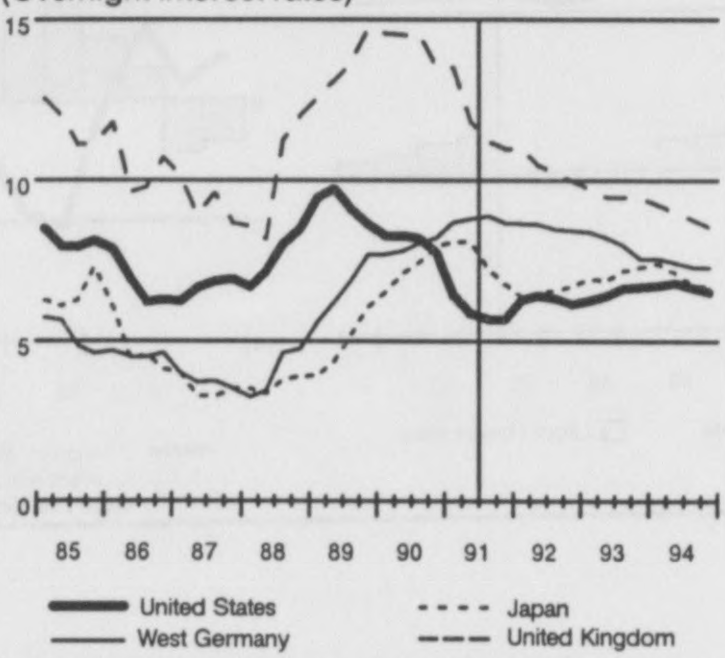


002571

FOCUS ON FINANCE

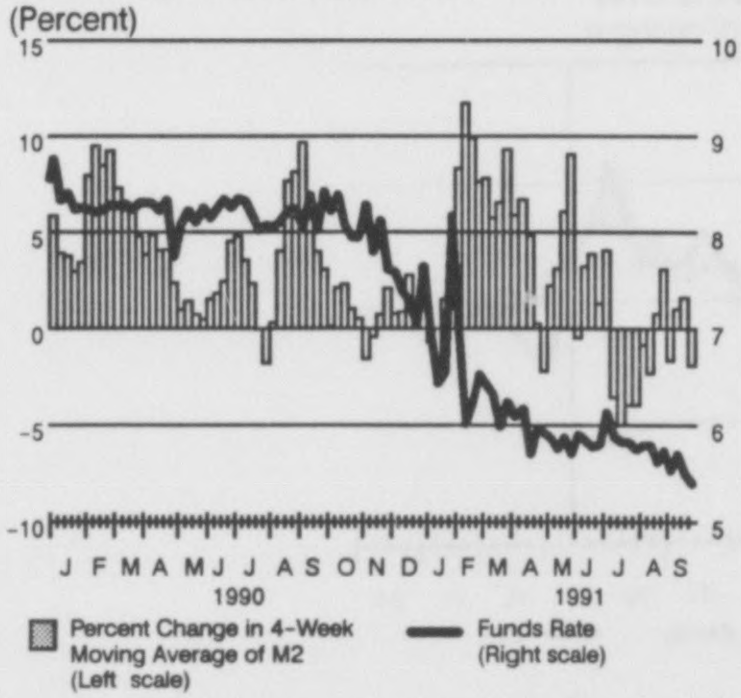
- The Fed is predicted to allow short-term rates to move with the economy.
- The recession will knock inflation down toward 3.5%.

The Fed Will Push Rates Up When Growth Resumes
(Overnight interest rates)

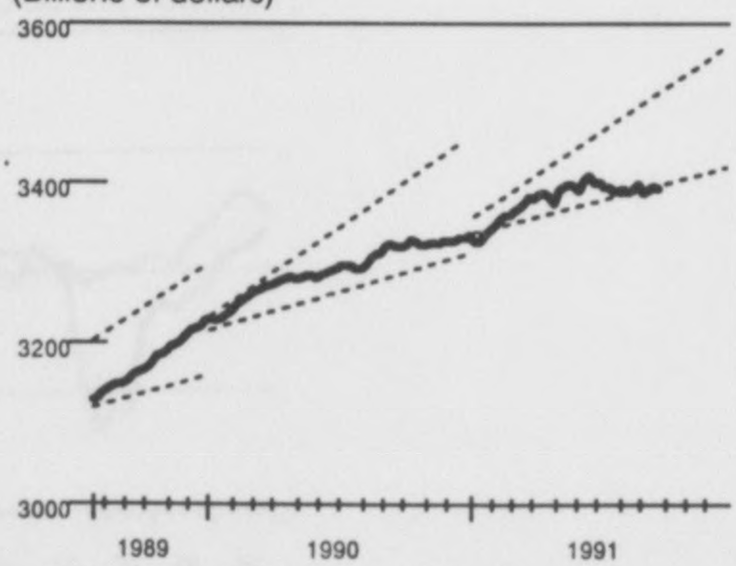


The Fed Will Ease While M2 Is Weak

M2 and the Federal Funds Rate
(Percent)



M2 and Targets
(Billions of dollars)



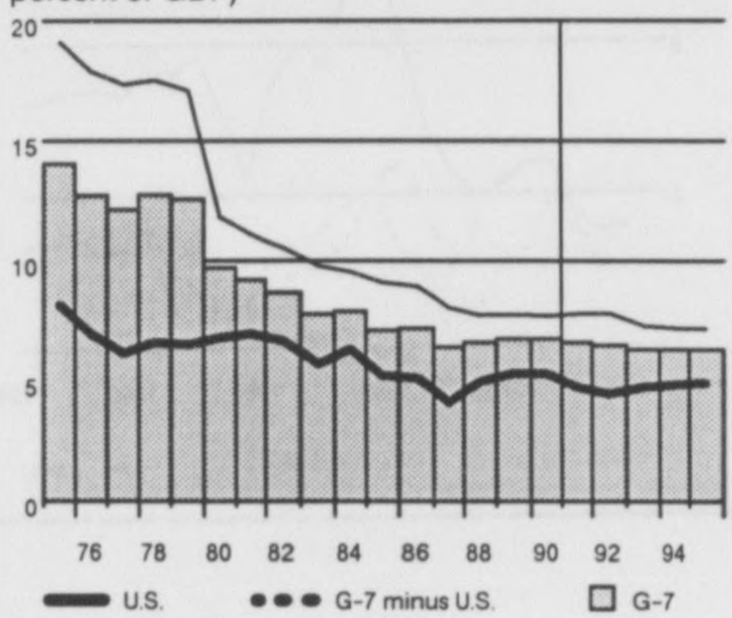
Target range implied by annual growth targets.

002572

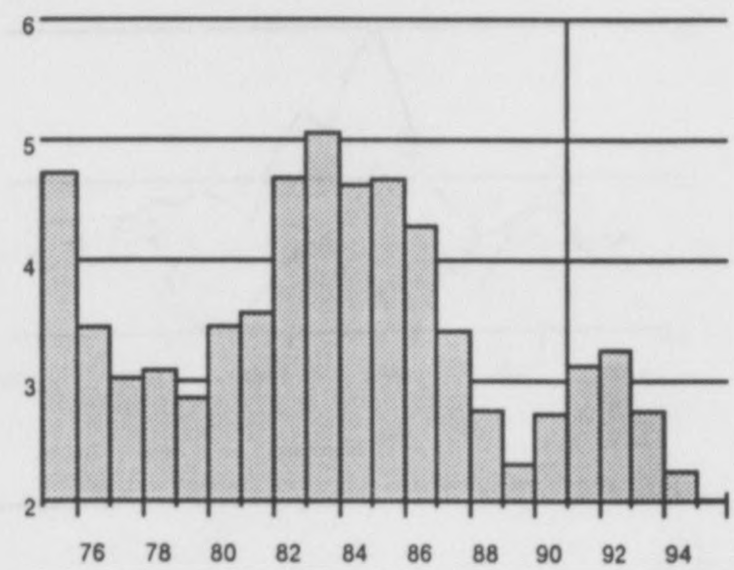
Sustained Pressure on Capital Markets

In the G-7 Nations, the Early 1990s Should Resemble the Late 1980s

Personal Saving Remains Low
(Disposable income less consumption, percent of GDP)

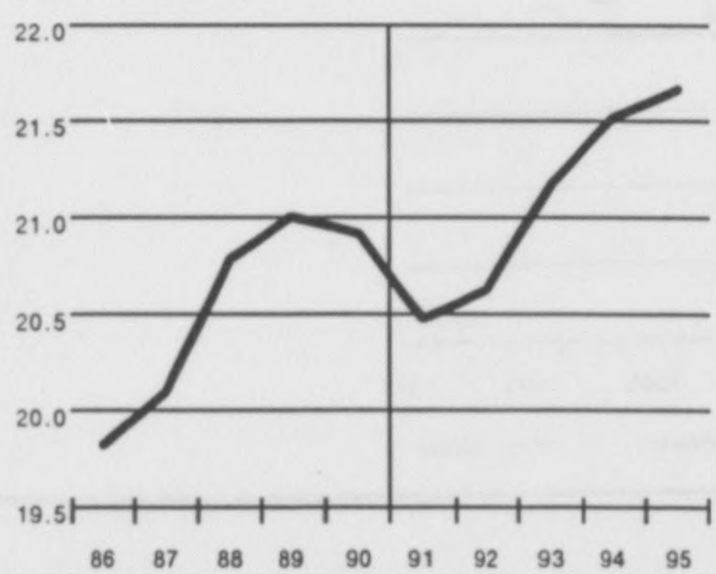


Government Deficits are 2–3% of GDP

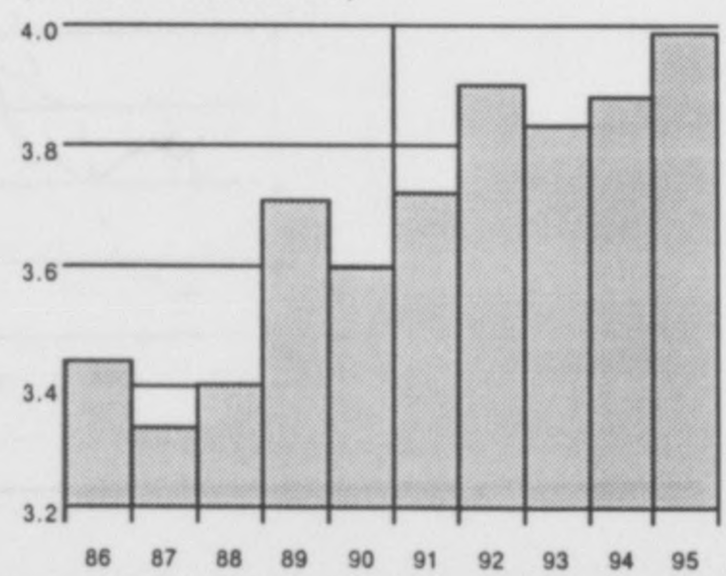


But Global Investment Demands Are Rising

World Fixed Investment
(Percent of GDP)



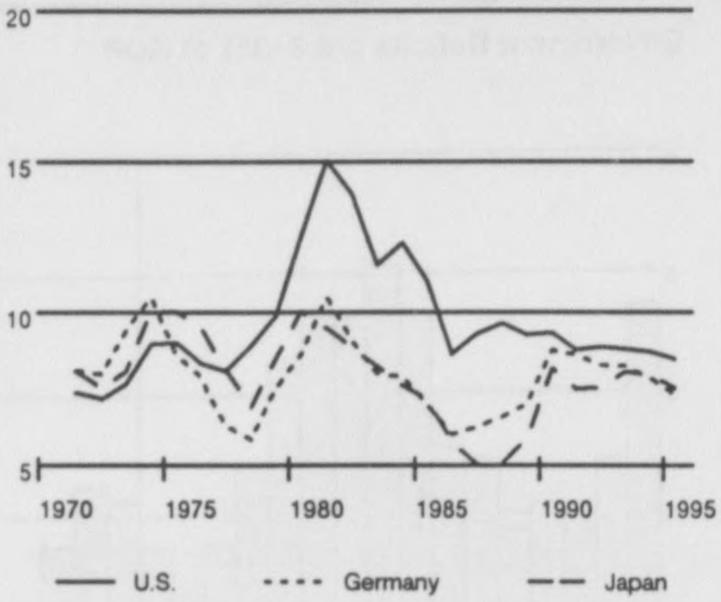
Non-OECD Investment
(Percent of world GDP)



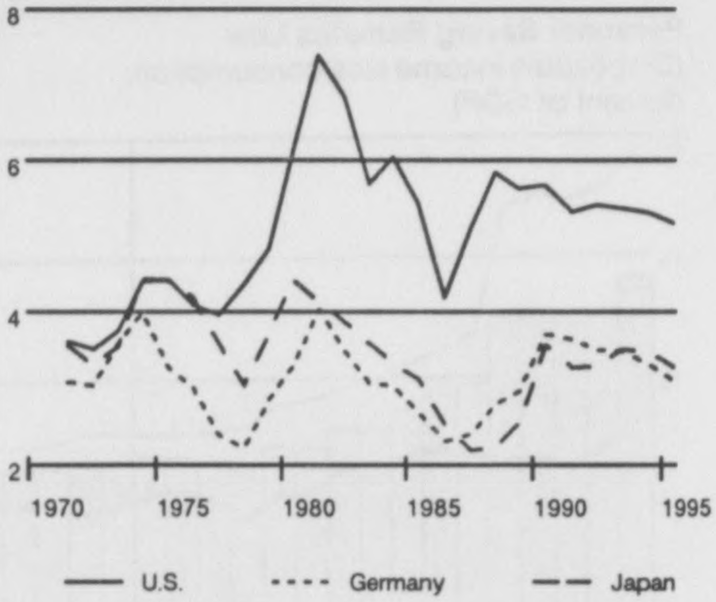
002573

Real Cost of Debt

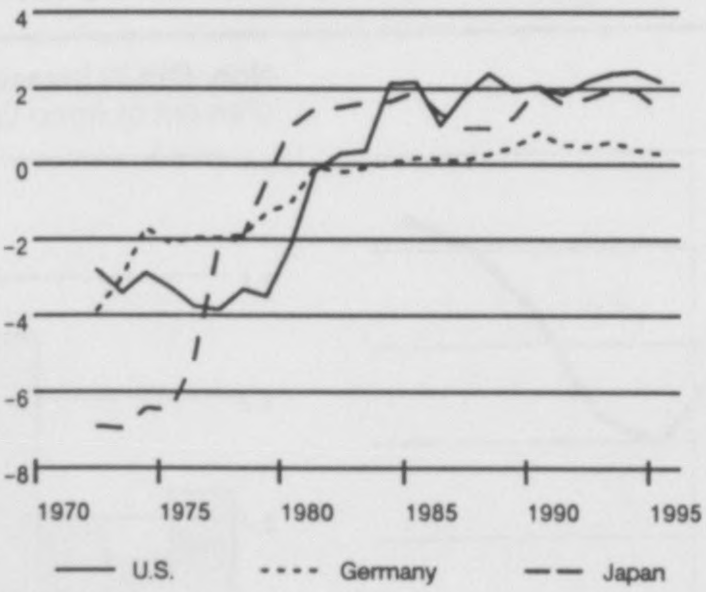
Nominal Corporate Bond Yields
(Percent)



After-Tax Bond Yields
(Percent)



Inflation-Adjusted, After-Tax Bond Yields



002574

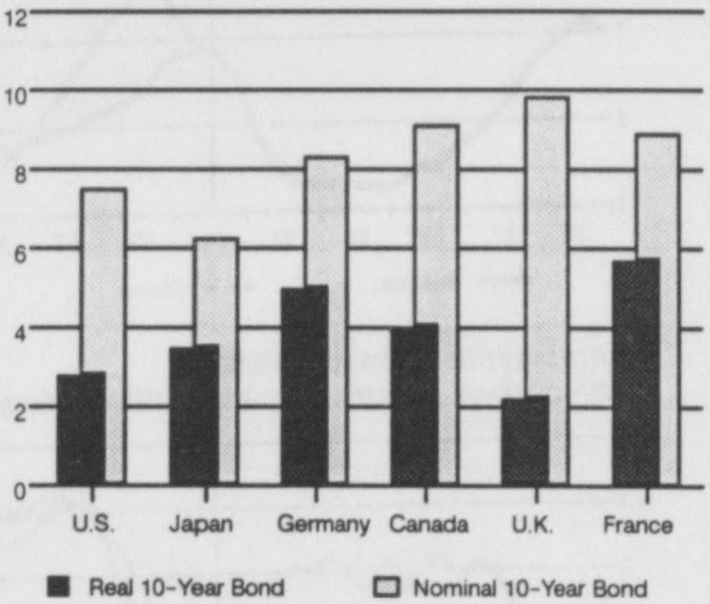
EXHIBIT

OCT 2 4 1991 3

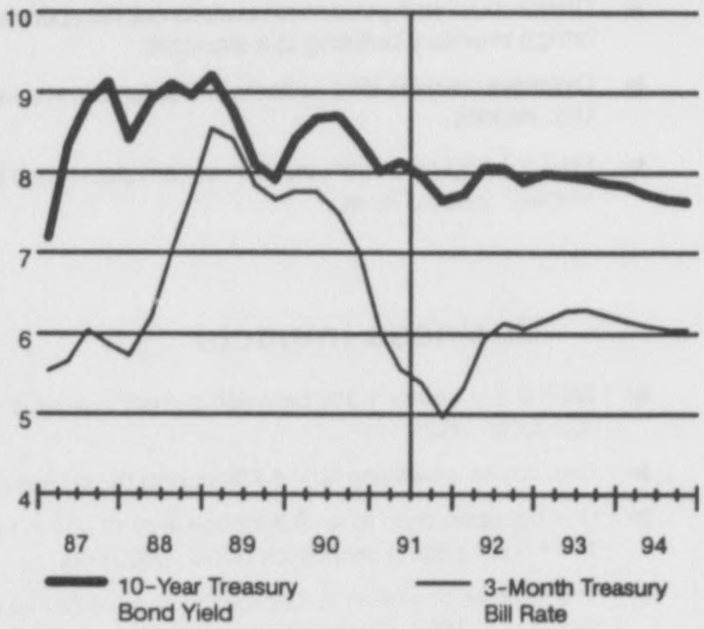
STATE BUDGET & CONTROL BOARD

U.S. Bond Yields Will Be Pulled Up By Year End

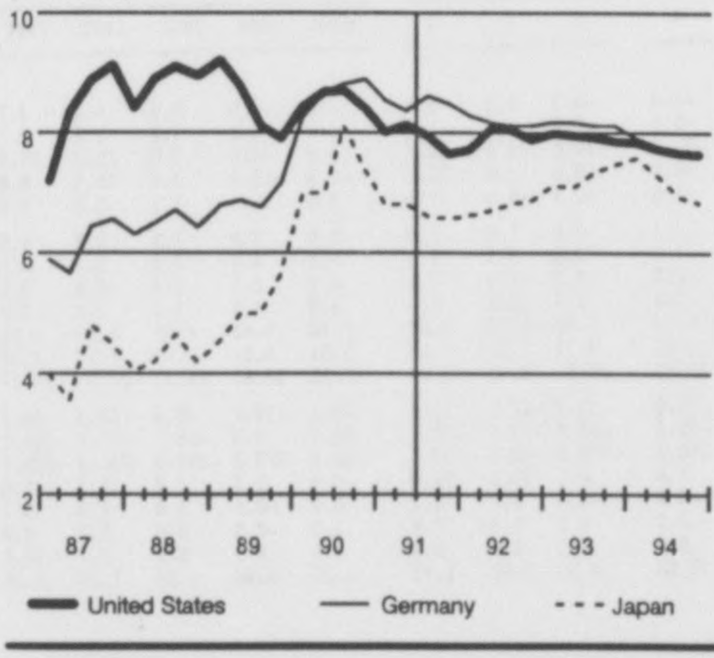
Foreign Bond Yields Are High, Especially in Real Terms
(Current data, percent)



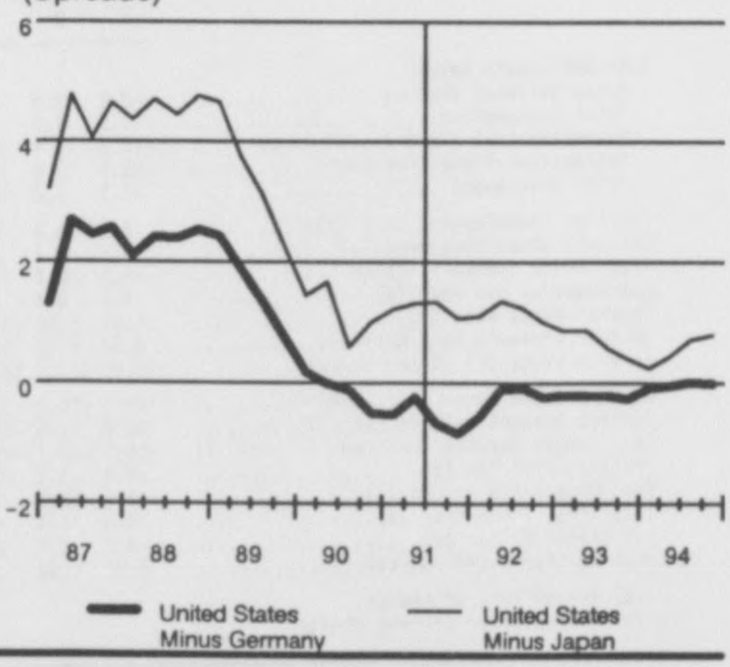
U.S. Bond Yields Will Not Rise as Much as Short-term Rates
(Percent)



Foreign Yields Will Drop
(Percent)



Thus U.S. Yields Will Rise Relative to Germany or Japan
(Spreads)



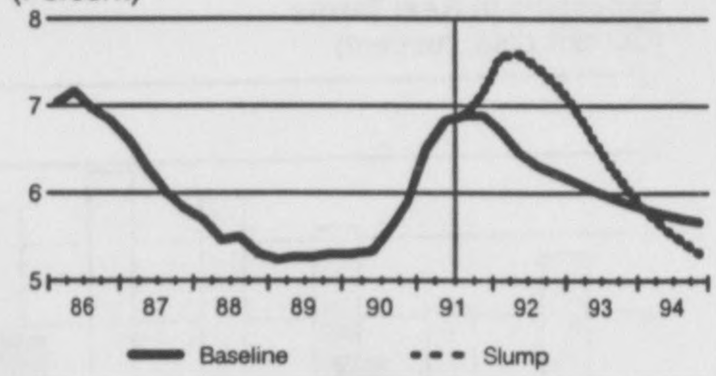
002575

A Lack of Confidence:
The Pessimistic Scenario (SLUMP1091)

Key Assumptions

- Consumer anxiety increases over the fall and winter, causing spending to slip.
- Greater business pessimism curtails capital spending and brings inventory building to a standstill.
- Overseas markets also suffer from recession, weakening U.S. exports.
- Housing and other construction remain depressed in spite of lower interest rates.

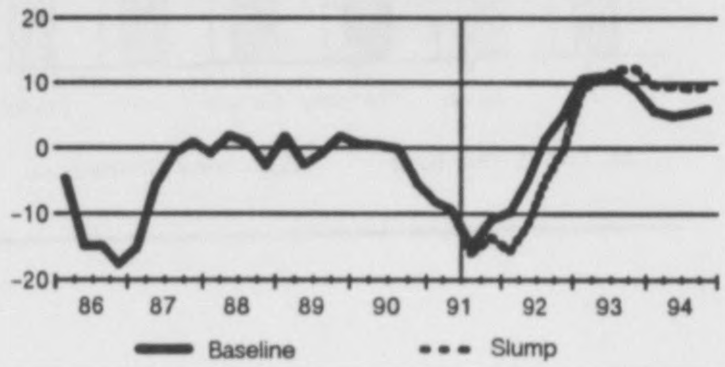
Unemployment Rate
(Percent)



Business Impacts

- GNP falls a further 1.3% between current quarter and first quarter of 1992.
- Real capital spending falls 4.7% during the recession.
- Unit car sales drop to an 8.3 million annual rate in late 1991 and housing starts drop back under 1,000,000.
- The sharper downturn is followed by a more pronounced rebound in 1992-93, leaving core inflation weaker than in the baseline.

Nonresidential Construction
(Year-over-year percent change, 1982 dollars)



Summary of the Pessimistic Scenario (SLUMP1091)

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	2.8	-1.3	-3.9	3.1	5.5	1.0	-0.6	0.6	4.7	3.7
Total Consumption	-1.5	2.5	3.8	-0.3	-0.6	1.3	1.5	0.9	0.3	1.0	2.8	2.7
Nonresidential Fixed Invest	-16.3	1.4	-5.1	-11.8	-10.8	10.5	25.4	1.8	-4.7	0.0	15.7	10.5
Residential Fixed Investment	-25.3	1.6	13.1	-0.8	-8.6	6.4	19.6	-5.4	-12.6	3.9	15.6	8.6
Total Government	-1.3	1.8	-6.0	-0.5	-0.4	-0.5	-1.9	2.8	0.6	-1.3	-0.8	0.2
Civilian Unemployment Rate (%)	6.5	6.8	6.9	7.1	7.6	7.6	7.5	5.5	6.8	7.5	6.5	5.5
CPI—All Urban Consumers (a)	3.5	2.1	2.8	3.4	3.6	3.3	3.1	5.4	4.2	3.2	3.1	3.1
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.5	2.0	2.3	1.9	2.1	4.9	2.1	1.6	2.6	3.1
Compensation per Hour (a)	4.1	4.6	4.9	3.0	2.9	3.2	2.8	3.9	4.4	3.3	3.2	3.6
Federal Funds Rate (%)	6.43	5.86	5.64	4.70	4.27	4.57	5.07	8.10	5.66	4.87	5.89	6.05
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.60	7.17	7.36	7.52	8.61	8.07	7.44	7.74	7.54
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	18.55	18.95	18.96	19.34	22.22	18.67	19.31	21.21	23.17
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-10.6	-8.9	-33.3	-17.5	1.5	-5.1	-18.7	-8.5	28.3	28.2
Current Account Balance (Bil. $)	42.0	11.9	-31.8	-35.4	-43.4	-53.4	-57.5	-92.1	-3.3	-56.7	-91.2	-114.1
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-110.2	-135.0	-50.6	-103.1	-220.5	-273.2	-399.0	-296.2	-225.7
Profits After Tax (b)	-0.4	-3.3	0.1	7.8	6.3	19.3	19.9	0.0	1.1	15.9	14.5	-1.9
Real Disposable Income (a)	-1.5	2.3	1.6	-0.8	-0.4	0.2	0.7	0.9	-0.5	0.4	2.9	3.1
Industrial Production (a)	-9.6	2.4	6.8	-2.0	-6.5	1.9	7.8	1.0	-2.0	0.6	6.7	4.9
Car Sales (Mil units)	8.2	8.5	8.6	8.6	8.3	8.6	8.9	9.5	8.5	8.7	9.7	10.0
Housing Starts (Mil units)	0.92	1.00	1.05	0.96	0.93	1.01	1.11	1.20	0.98	1.06	1.27	1.36

(a) Annual rate of change.
(b) Four-quarter percent change.

002576

A Short Recovery
The W-Recession Scenario

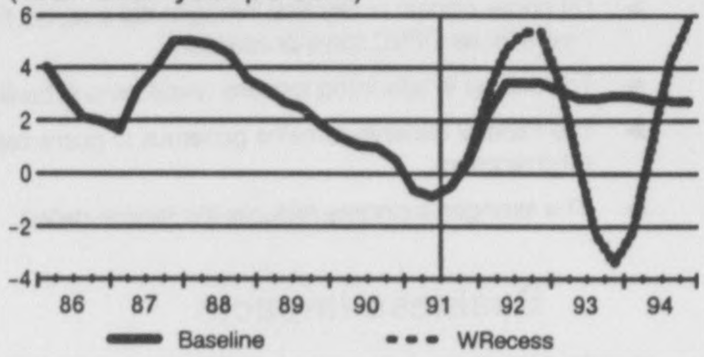
Key Assumptions

- The Federal Reserve keeps interest rates low through the election, then pushes them up sharply.
- Bond yields soar because of world capital demands.
- Consumer euphoria evaporates in late 1992 as financial problems intensify and inflation worsens.
- The recovery last only 21 months.
- The economy moves back into recession in early 1993.

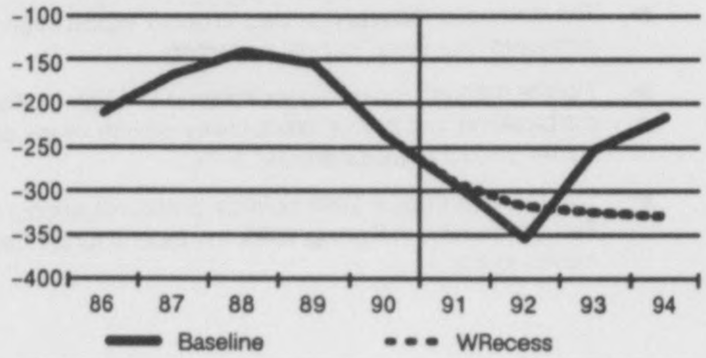
Business Impacts

- Real GNP falls 1.1% in the 1991 recession, but this is followed by a steeper 3.2% drop in 1993.
- Domestic auto sales collapse again in 1993 after a 1992 recovery.
- The unemployment rate falls below 5.5% in late 1992, triggering inflation and higher interest rates.
- Construction rebounds temporarily, but credit stringency hits again after the 1993 recession.
- The credit-sensitive sectors bear the brunt of the second recession.

Real GNP Growth
(Year-over-year percent)



Federal Budget Deficit



Summary of the WRecess Scenario

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	2.9	3.3	6.3	6.3	5.6	1.0	-0.3	4.6	-0.5	2.2
Total Consumption	-1.5	2.5	3.9	2.9	4.1	3.5	2.6	0.9	0.5	3.3	0.5	2.0
Nonresidential Fixed Invest	-16.3	1.4	-2.4	4.7	7.4	18.0	20.8	1.8	-3.4	9.7	8.1	-0.6
Residential Fixed Investment	-25.3	1.6	13.9	17.2	21.7	20.5	11.0	-5.4	-11.6	14.9	-11.1	18.3
Total Government	-1.3	1.8	-6.0	-0.3	-0.2	-0.2	-1.3	2.6	0.6	-1.0	-0.3	0.2
Civilian Unemployment Rate (%)	6.5	6.8	6.9	6.7	6.3	5.9	5.5	5.5	6.7	5.7	6.8	7.1
CPI—All Urban Consumers (a)	3.5	2.1	2.8	4.4	5.1	5.3	5.5	5.4	4.3	4.6	5.1	4.2
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.4	5.6	6.5	6.2	6.6	4.9	2.3	4.9	4.7	3.1
Compensation per Hour (a)	4.1	4.6	4.9	4.5	5.5	7.3	7.2	3.9	4.5	5.8	5.5	4.2
Federal Funds Rate (%)	6.43	5.86	5.65	4.85	4.85	5.00	5.50	8.10	5.70	5.96	7.81	6.45
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.75	7.49	7.57	7.65	8.61	8.11	8.05	8.87	8.01
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	21.11	22.12	22.30	22.70	22.22	19.31	22.58	23.43	23.66
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-12.4	-6.3	7.4	28.3	42.3	-5.1	-18.5	31.7	-7.7	-3.9
Current Account Balance (Bil. $)	42.0	11.9	-32.3	-43.2	-57.0	-71.0	-74.5	-92.1	-5.4	-68.0	-78.4	-85.4
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-104.6	-118.0	-29.1	-79.6	-220.5	-273.1	-331.3	-291.3	-354.7
Profits After Tax (b)	-0.4	-3.3	-0.6	16.2	36.8	53.3	45.0	0.0	3.1	38.4	-32.1	29.6
Real Disposable Income (a)	-1.5	2.3	1.9	1.3	3.8	2.9	2.7	0.9	-0.4	2.7	2.2	0.9
Industrial Production (a)	-9.6	2.4	7.2	5.6	8.2	8.1	8.2	1.0	-1.5	7.0	-1.8	1.3
Car Sales (Mil units)	8.2	8.5	8.6	9.1	9.7	10.2	10.4	9.5	8.6	10.2	9.0	9.5
Housing Starts (Mil units)	0.92	1.00	1.06	1.14	1.21	1.25	1.25	1.20	1.03	1.20	0.93	1.33

(a) Annual rate of change.
(b) Four-quarter percent change.

002577

The Optimistic Scenario

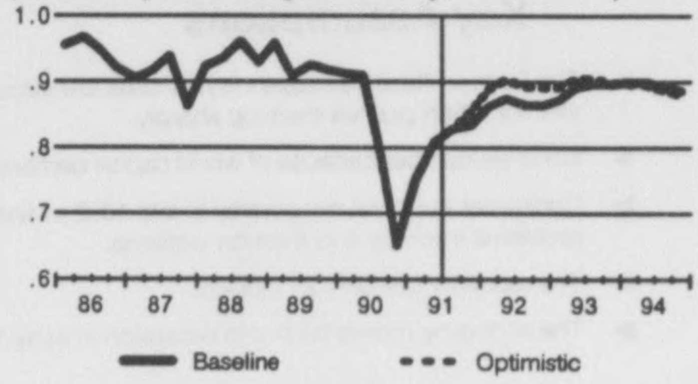
Key Assumptions

- Consumer sentiment rebounds, followed quickly by spending.
- Oil prices remain under $19 through year end, but firm thereafter as OPEC trims production.
- The pickup in spending loosens credit reins at banks.
- The Federal Reserve remains generous to guarantee a solid recovery.
- The stronger economy reduces the federal deficit.

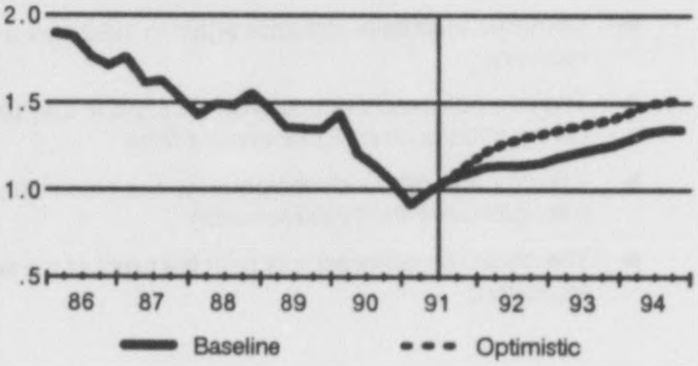
Business Impacts

- The economy recovers quickly from the mini-recession.
- Big-ticket items and housing lead the charge, spurred by the sharp recovery in confidence.
- The domestic recovery, added to better export strength, motivates increased capital spending.
- Tighter markets mean higher inflation in 1992-93 than in the baseline, but higher productivity growth keeps consumer price increases around 3.7%.
- Stable inflation plus 1992 political pressures encourage Fed generosity; in Spring 1993, the federal funds rate moves to 7%.

Consumer Sentiment Index
(University of Michigan Survey, 1966=1.0)



Housing Starts
(Millions of units)



Summary of the Optimistic Scenario

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	3.0	3.8	6.2	5.8	4.6	1.0	-0.3	4.5	3.6	2.7
Total Consumption	-1.5	2.5	4.0	2.4	3.4	2.8	1.9	0.9	0.4	2.9	2.7	2.5
Nonresidential Fixed Invest	-16.3	1.4	-2.4	8.0	9.0	17.2	18.6	1.8	-3.2	10.1	13.9	6.8
Residential Fixed Investment	-25.3	1.6	13.9	17.8	22.5	21.1	13.5	-5.4	-11.6	16.8	9.2	7.3
Total Government	-1.3	1.8	-5.7	0.5	-0.3	0.0	-1.2	2.8	0.7	-0.8	-0.2	0.7
Civilian Unemployment Rate (%)	6.5	6.8	6.9	6.8	6.5	6.1	5.8	5.5	6.8	6.0	5.3	5.2
CPI—All Urban Consumers (..)	3.5	2.1	2.8	3.7	3.9	3.7	3.6	5.4	4.2	3.5	3.7	3.9
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.4	3.2	3.4	2.9	3.1	4.9	2.1	2.5	3.2	3.5
Compensation per Hour (a)	4.1	4.6	4.9	3.3	3.6	4.3	3.9	3.9	4.4	4.0	4.3	4.6
Federal Funds Rate (%)	6.43	5.86	5.65	5.14	5.67	6.28	6.50	8.10	5.77	6.24	6.98	7.10
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.87	8.01	8.36	8.31	8.61	8.14	8.20	8.25	7.94
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	19.45	19.70	19.57	19.77	22.22	18.89	19.83	21.38	23.30
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-12.4	-6.0	7.1	27.2	38.3	-5.1	-18.4	28.4	28.1	15.0
Current Account Balance (Bil. $)	42.0	11.9	-32.4	-39.8	-46.1	-53.9	-57.1	-92.1	-4.6	-56.9	-77.5	-91.6
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.6	-102.6	-113.7	-26.4	-79.1	-220.5	-273.0	-321.9	-231.7	-184.5
Profits After Tax (b)	-0.4	-3.3	-0.4	17.6	37.6	53.4	42.1	0.0	3.5	37.0	-3.2	-2.2
Real Disposable Income (a)	-1.5	2.3	1.9	1.2	3.8	2.7	2.4	0.9	-0.4	2.5	3.3	2.6
Industrial Production (a)	-9.6	2.4	7.3	6.2	8.8	7.6	6.6	1.0	-1.5	6.9	4.4	2.6
Car Sales (Mil units)	8.2	8.5	8.6	9.1	9.5	9.7	9.8	9.5	8.6	9.7	10.2	10.4
Housing Starts (Mil units)	0.92	1.00	1.06	1.14	1.22	1.27	1.30	1.20	1.03	1.27	1.37	1.49

(a) Annual rate of change.
(b) Four-quarter percent change.

002578

Regional Markets Face Diverse Prospects

- Protracted Downturns – New England
- "Typical" Recession - Middle Atlantic
- Mild Recessions – East South Central, East South Central, West North Central
- Growth Recessions – Pacific Southwest, Pacific Northwest, South Atlantic, West South Central

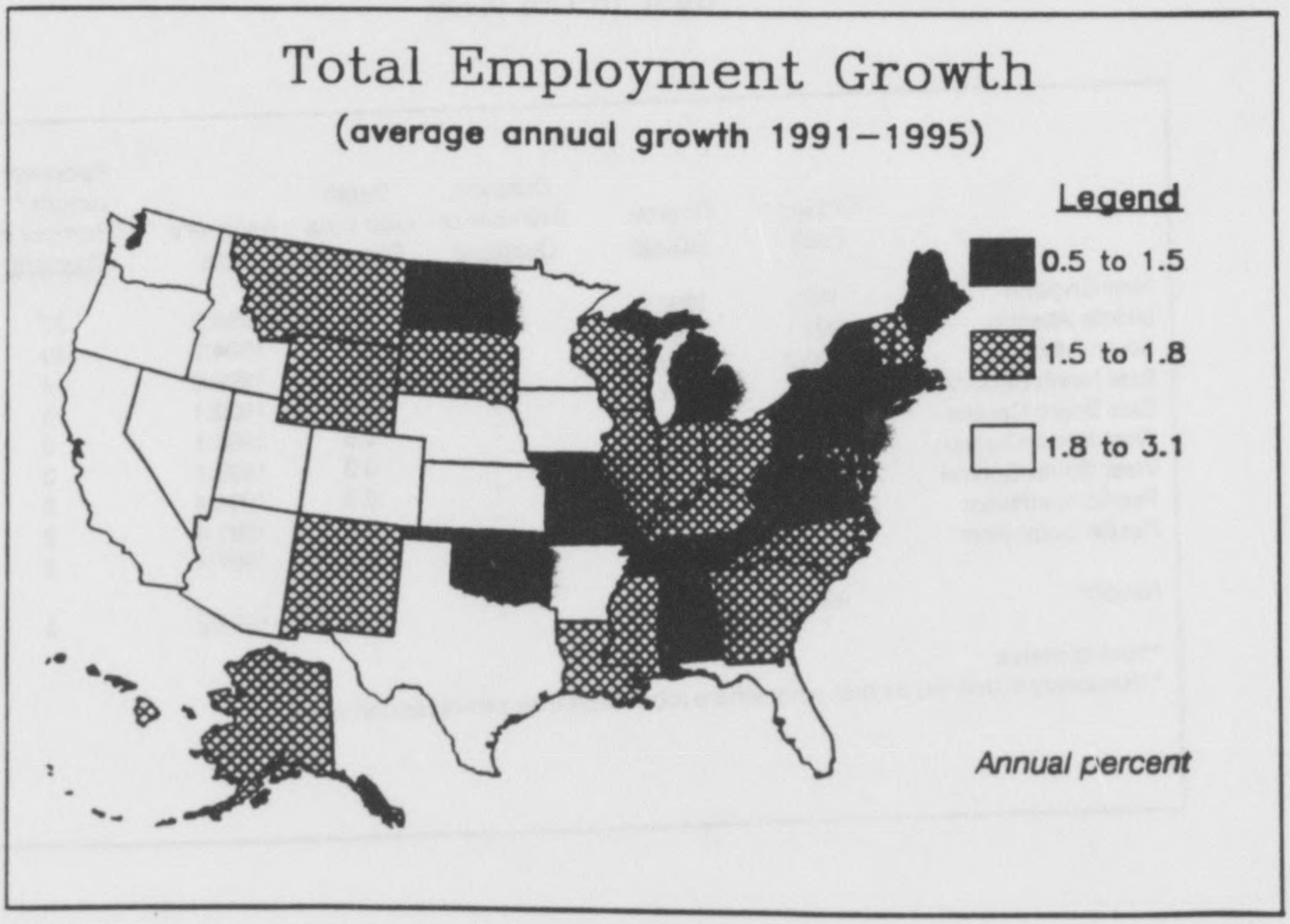
Best In The West

	Employ. Peak	Employ. Trough	Duration (Number of Quarters)	Depth (Job Loss, Percent)	Recovery Date	Recovery Length ** (Number of Quarters)
New England	1989:1	1991:4	11	8.4	1998:3	27
Middle Atlantic	1990:1	1991:4	7	2.3	1994:2	10
South Atlantic	1990:3	1991:2	3	1.0	1992:2	4
East North Central	1990:3	1991:2	3	0.3	1992:1	3
East South Central	1991:1	1991:2	1	0.6	1992:1	3
West North Central	1991:1	1991:2	1	0.3	1992:1	3
West South Central	1991:1	1991:2	1	0.3	1991:4	2
Pacific Northwest	1991:1	1991:2	1	0.6	1991:4	2
Pacific Southwest	1991:1	1991:2	1	0.2	1991:4	2
Nation*	1990:3	1991:3	4	0.5	1992:2	3

*Sum of states
**Recovery is defined as that point where jobs reach their pre-recession peak..

Total Nonfarm Employment
Compound Annual Rates

	1990:3-1991:2		1991:2-1992:4		1992-1995		1995-2000	
	%Gr	Rank	%Gr	Rank	%Gr	Rank	%Gr	Rank
Total U.S	-0.7	-	1.0		1.9		1.2	
New England	-4.4	9	-0.3	9	1.6	7	1.2	4
Middle Atlantic	-1.8	8	-0.1	8	1.4	9	0.8	9
South Atlantic	-1.3	7	1.4	4	2.1	4	1.5	2
East North Central	-0.5	5	1.0	7	1.8	5	0.9	8
East South Central	-0.5	6	1.2	5	1.6	6	1.0	7
West North Central	0.4	3	1.1	6	1.7	8	1.0	6
West South Central	1.0	2	1.6	1	2.4	1	1.2	3
Pacific North West	1.4	1	1.6	2	2.1	3	1.1	5
Pacific South West	0.0	4	1.4	3	2.2	2	1.6	1



Revenue Forecast for Fiscal Year 1992-93

Dr. Thomas E. Snider
Board of Economic Advisors

002581

STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

Walter R. Pettiss, Chairman
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To: South Carolina Budget and Control Board

Subject: First Official Estimate for FY 1992-93

In accordance with Section 11-9-880 of the 1976 S.C. Code of Laws, as amended, the Board of Economic Advisors submits the first official estimate for Fiscal Year 1992-93. A review of actual revenues in FY 1990-91 compared with the Appropriation Act estimates for FY 1990-91, and an update of revenue estimates for FY 1991-92 as compared with the Appropriation Act estimates for FY 1991-92 will follow at the conclusion of this Report.

The estimate is being made in an environment of unusual uncertainty and skepticism on the part of the general public as to the path of the recession and the strength and timing of recovery. The general consensus of most mainstream economists is that the recession has run its course and, with the exception of areas such as the Northeast, it was a relatively mild one lasting three quarters, with the turnaround occurring in the third quarter of this year. Growth in real GNP for this fiscal year and in FY 1992-93 is expected to be at less than three percent with inflation as measured by the Consumer Price Index in the 3.5% range. This puts the pace of the recovery at half the rate of the last eight recoveries. Personal Income is forecast to rise at sluggish rates with consumer spending only keeping pace with income growth this fiscal year and in FY 1992-93.

The forecasts of the members of the BEA National Advisory Council presented to the BEA at the October 4th meeting held in Columbia were basically in agreement. While the recovery seemed solid, Council members agreed it was an appraisal that should be tempered with caution. The forces which had spurred growth for the past thirty years were no longer operating domestically or internationally. Problem areas include the growing federal deficit, the overhanging personal debt situation, a lack of fiscal stimulus, credit restraints, and growth slowdowns in major industrial nations. Caution was advised not just for the period of cyclical recovery in the short term, but for the longer term outlook of the United States as well.

Given this outlook, the economy of South Carolina should expand at national rates with recovery following the national pattern. The increase in nominal personal income should be in the 4% range this fiscal year and the 6% range in FY 1992-93. Unlike previous periods of recovery, no single sector of the South Carolina economy seems to be providing a significant thrust for greater growth. With the timing and path of recovery in South Carolina uncertain and current indications of a recovery at half the normal rate in South Carolina as well as in the nation, caution was stressed in looking some 20 months into the future. This was particularly essential in translating future economic increments into revenue projections following a period in which long-term income and revenue relationships had been so thoroughly disrupted.

On this basis, the Board of Economic Advisors estimates no change in the forecast of revenues for FY 1991-92 from the July 26, 1991 estimate of $3,440 million, or $148.3 million below the FY 1991-92 Appropriation Act of $3,588.3 million. Revenues of $3625.0 million are estimated for FY 1992-93. This is an increase of $185.0 million, or 5.4% from the $3,440 million 1991-92 BEA revenue estimate and an increase of $36.7 million or 1.0% over the FY 1991-92 Appropriation Act of $3,588.3 million.

Board of Economic Advisors

W.R.P.

October 10, 1991

TABLE I

GENERAL FUND REVENUES
FISCAL YEARS 1991-92 AND 1992-93
(In Millions of Dollars)

	ACTUAL FY 1990-91	BEA 10/9/91 REVISED ESTIMATE FY 1991-92	BEA 10/9/91 ESTIMATE FY 1992-93
TOTAL GENERAL FUND (1)	3305.4	3440.0	3625.0
Total Regular Sources (1)	3258.1	3377.5	3580.0
Sales Tax (1)	1155.4	1201.0	1271.0
Individual Income Tax	1386.6	1461.0	1581.0
Corporation Income Tax	142.7	153.0	165.0
All Other	573.4	562.5	563.0
Miscellaneous Sources	47.2	62.5	45.0
Education Improvement Fund	290.519	300.250*	317.750*
Interest on Education Improvement Fund	1.988	1.800	1.800
TOTAL	292.507	302.050	319.550
		RATES OF	CHANGE**
TOTAL GENERAL FUND		4.1%	5.4%
Total Regular Sources		3.7	6.0
Sales Tax		3.9	5.8
Individual Income Tax		5.4	8.2
Corporation Income Tax		7.2	7.8
All Other		-1.9	0.1
Miscellaneous Sources		32.3	-28.0
Education Improvement Fund		3.3	5.8
Interest on Education Improvement Fund		-9.5	0.0
TOTAL		3.3	5.8

(1) Net of Education Improvement Fund.
* One-fifth of total sales tax.
** Percent change based on unrounded figures.

Board of Economic Advisors
October 10, 1991

TABLE II

STATE OF SOUTH CAROLINA
TOTAL BUDGETARY GENERAL FUND
QUARTERLY ESTIMATES
Fiscal Years 1991-92 and 1992-93
(In Millions of Dollars)

	FY 1991-92	FY 1992-93
FIRST QUARTER	790.2 *	841.0
SECOND QUARTER	1659.7	1753.0
THIRD QUARTER	2459.0	2601.3
FOURTH QUARTER	3440.0	3625.0

PERCENT OF TOTAL REVENUES
COLLECTION BY QUARTER

	FY 1991-92	FY 1992-93
FIRST QUARTER	23.0 **	23.2
SECOND QUARTER	25.3	25.2
THIRD QUARTER	23.2	23.4
FOURTH QUARTER	28.5	28.2

*: Actual.
**: Actual quarterly data as percent of total estimate.
Note: Tax collections for June sales accrue in the month of June.

Board of Economic Advisors
October 10, 1991

REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEAR 1992-93

The procedures and methodology of the Board of Economic Advisors in the preparation of the first official revenue forecast for Fiscal Year 1992-93 involved three major stages: 1) providing the economic background and setting at the national and State levels for the revenue forecasts; 2) interpreting recent and historical revenue relationships; and 3) interacting with officials of other states with responsibility for revenue forecasting.

The Board members consulted as in the past with business and financial experts and professional economists for economic intelligence gathering. This included a meeting held on October 4, 1991 in Columbia with the National Advisory Council to the Board of Economic Advisors. Present at the meeting were: J. Alfred Broaddus, Jr., Ph.D., Senior Vice President and Director of Research, Federal Reserve Bank of Richmond; Ben E. Laden, Ph.D., Director of Financial Institutions Regulations Staff, Department of Housing and Urban Development; James A. Morris, Ph.D., Distinguished Professor of Economics Emeritus, University of South Carolina; Ronald P. Wilder, Ph.D., Chairman, Department of Economics, University of South Carolina; David A. Wyss, Ph.D., Senior Vice President and Research Director, Data Resources, Inc.; and Bruce Yandle, Jr., Ph.D., Alumni Professor of Economics and Acting Director of the Strom Thurmond Institute, Clemson University.

The resources of the national forecasting groups by which the SCOPE model and other forecasts are driven, Data Resources, Inc., Evans Economics, Inc., and WEFA, Inc., were available weekly and monthly to Board members and staff. Materials from a variety of sources--international, national and State publications--were also made available to Board members and staff.

Board of Economic Advisors
October 10, 1991

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office). It was designed and operated as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity with approximately 85 exogenous national variables provided by leading national forecasting services such as Data Resources, Inc., the WEFA Group, and Evans Economics, Inc.

The SCOPE core econometric model consists of 51 equations, of which 37 are stochastic* and 14 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 19 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income and unemployment.

Durable Manufacturing Employment

The durable manufacturing employment block consists of ten stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Wood Products, Stone, Clay and Glass, Primary and Fabricated Metal Products, Electrical and Nonelectrical Machinery and Other Durables which includes Furniture and Fixtures, Transportation, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of seven stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into eight stochastic equations: Mining, Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 12 equations, one equation for the unemployment rate, one equation to adjust for nonresidents, and ten additional equations for each of the ten major components of personal income as published by the Bureau of Economic Analysis, U.S. Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

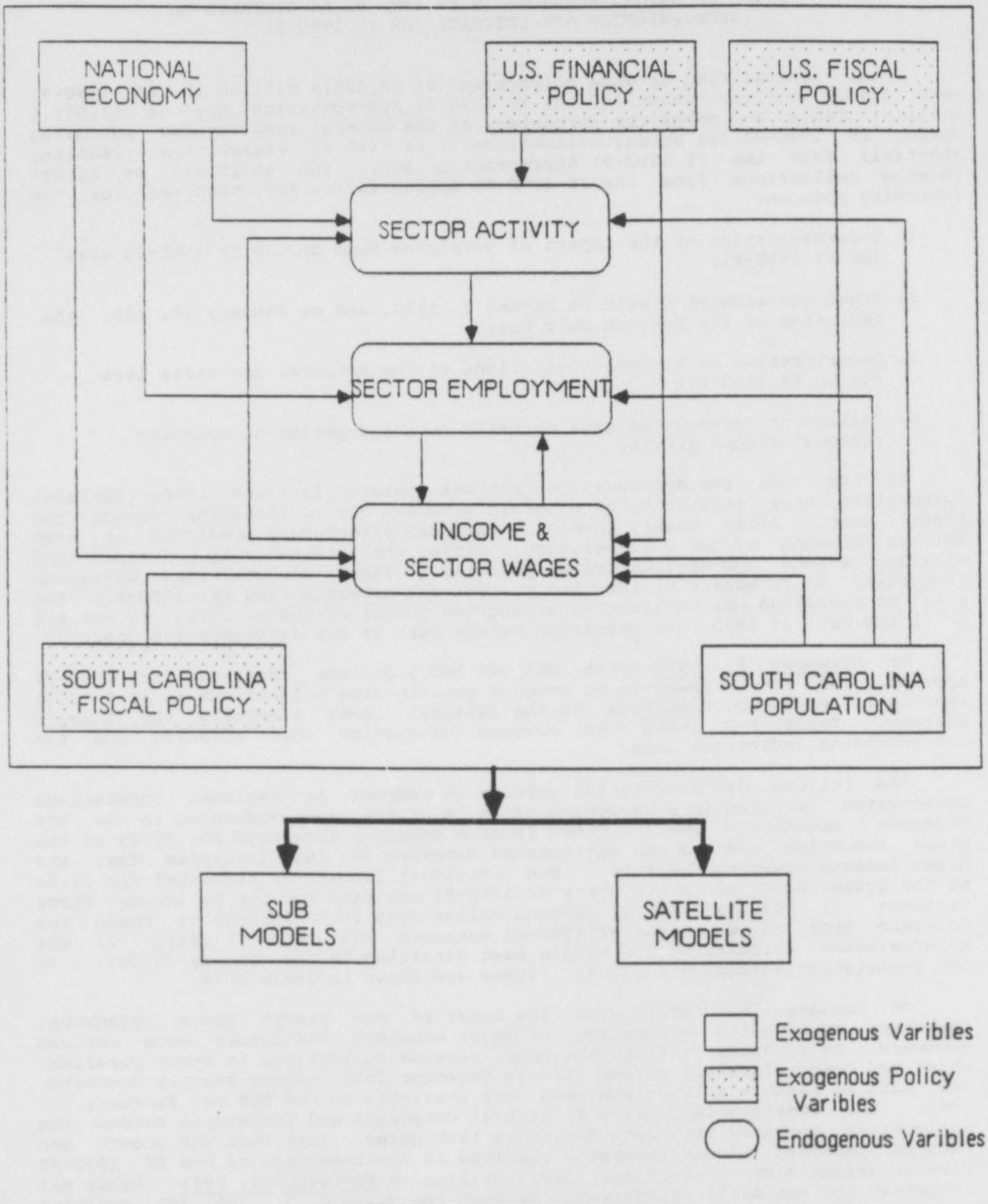
The revenue section of the model is being structured to emphasize four major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales tax, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are two stochastic equations for taxable sales and refunds.

Equations of the model are continuously respecified to account for revisions in historical data. Reformulation and respecification of the model continues as an ongoing process. Forecasts from the SCOPE core and revenue models were made available for deliberations in the first official estimate of FY 1992-93 by the Board of Economic Advisors.

Board of Economic Advisors
October 10, 1991

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL



Board of Economic Advisors
October 10, 1991

002590

A REVIEW OF ACTUAL REVENUES IN FY 1990-91 AS COMPARED TO APPROPRIATION ACT ESTIMATE FOR FY 1990-91

Total General Fund Revenue collections of $3,305.4 million in FY 1990-91 were $287.2 million short of the FY 1990-91 Appropriation Act of $3,592.6 million. Table A-1 shows the chronology of BEA General Fund revenue estimates during FY 1990-91 and actual collections in FY 1990-91 versus the resulting shortfall from the FY 1990-91 Appropriation Act. The shortfall of actual revenue collections from the FY 1990-91 Appropriation Act occurred for the following reasons:

1. Underestimation of the impact of Hurricane Hugo on the FY 1989-90 base for FY 1990-91;

2. Iraqi invasion of Kuwait on August 2, 1990, and on January 16, 1991, the beginning of the Persian Gulf War;

3. Deterioration of economic conditions at the national and state level during FY 1990-91;

4. Failure of revenues to grow normally during a period of moderate personal income growth.

At the time the Appropriation Act was passed in June 1990, national forecasters were predicting an economic slowdown but no recession during the fiscal year. After Desert Shield, national forecasters predicted an even further slowing of the U.S. economy, citing the international political and military events and various trade policies. These uncertainties warranted reductions in forecasts of the rate of real GNP growth during FY 1990-91, but still no recession was anticipated during the Summer months of 1990. It was not until the Fall of 1990 that recession became part of the consensus forecast.

On November 9, 1990, the BEA cut $82.3 million from the FY 1990-91 Appropriation Act in response to reduced year-to-date collections in FY 1990-91 and lower economic forecasts at the national level affecting the State's economy. Table A-2 shows the revenue categories most affected and the corresponding reductions made.

The failure of corporation profits to respond as national forecasters anticipated resulted in a reduction of 56.3% of the gross reduction in the BEA November 9 estimate. The All Other revenue category accounted for 20.3% of the gross reduction due to an anticipated decrease in the Insurance Tax, and Miscellaneous revenues for 2.2%. The Individual Income tax accounted for 21.2% of the gross reduction in the BEA's FY 1990-91 estimate for the following three reasons: 1) the failure of revenue collections in FY 1989-90 to reach the economic base on which the FY 1990-91 estimate was made (13.4%); 2) the uncertainties surrounding the Middle East situation on the economy (4.2%); 3) net legislative adjustments (3.6%). These are shown in Table A-2A.

On January 16, 1991, with the onset of the Desert Storm offensive, forecasts by leading economists of major economic indicators were revised downward. As consumer confidence dipped, revenue collections in South Carolina, which had been relatively strong through December 1990, turned sharply downward. The data on January collections were made available to the BEA on February 7, 1991. The weakness in January FY 1990-91 Corporate and Individual Income tax collections combined with weak Christmas 1990 sales, flat real GNP growth and reduced personal income forecasts resulted in the reduction of the FY 1990-91 revenue estimate by an additional $50.3 million on February 15, 1991. Table A-3 compares the net dollar differences between the November 9, 1991 BEA estimate and the revised BEA estimate in February 1991.

In the Spring of 1991, the economic slowdown, now being recognized as a recession, further caused revenues to lag expectations. According to the consensus of national forecasters, the economy would not have slipped into recession had the Persian Gulf War not occurred. Although economic forecasters were predicting a second quarter turnaround, no evidence of such a turnaround in the economy was apparent in May 1991 or in May revenue receipts issued in June.

This softness in May receipts was anticipated by the BEA at the end of May when the BEA received advance May 1991 tax collection information prior to official data, subsequently released by the Comptroller General on June 7, 1991. On the basis of the advanced data, the BEA reduced the FY 1990-91 revenue estimate on June 4, 1991 to $3,370 million in response to the poor May FY 1990-91 revenue collections, shown in Table A-4 below, and continuing uncertain economic conditions. Forecasts for FY 1990-91 showed minimal growth in real GNP and weaker personal income growth as wage and salaries flattened and total hours worked were lessened. The $90.0 million reduction on June 4, 1991 brought the FY 1990-91 revenue estimate to $3,370 million from $3,460 million and was $222.6 million below the FY 1990-91 Appropriation Act of $3,592.6 million.

Actual FY 1990-91 revenue collections totaled $3,305.4, or $64.6 million below the June 4, 1991 BEA estimate, and $287.2 million below the FY 1990-91 Appropriation Act.

In summary: FY 1990-91 General Fund revenues resulted in a $287.2 million shortfall from the FY 1990-91 Appropriation Act, because the impact of Hurricane Hugo was underestimated causing the FY 1989-90 economic base to be overstated, State revenues did not grow in pace with a climate of moderate personal income growth, economic conditions deteriorated at both the national and state levels, and the Persian Gulf War turned what was to have been a moderate slowdown on the basis of forecasts of mainstream economists into a depression of three quarters duration. These three negative quarters coincided with three of the four quarters of the fiscal year. The result was an increase of three-tenths of one percent in actual collections in FY 1990-91 over FY 1989-90, the smallest increase in at least three decades.

EXHIBIT 3
OCT 24 1991
STATE BUDGET & CONTROL BOARD

TABLE A
REVIEW OF ACTUAL FY 1990-91 REVENUES VERSUS FY 1990-91 APPROPRIATION ACT

A-1. BEA General Fund Revenue Estimates and Final Collections FY 1990-91 Versus FY1990-91 Appropriation Act

Reference: FY1990-91 ACT	Cumulative Shortfall BEA from FY91 ACT	BEA Estimate	BEA Estimate Reduction	Date of BEA Revised Est.
$3592.6				
	$ -82.3 mil.	$3510.3 mil.	$ -82.3 mil.	11/9/90
	-132.6	3460.0	-50.3	2/15/91
	-222.6	3370.0	-90.0	6/4/91
	-287.2	3305.4 actual		

A-2. Share Differences Appropriation Act and 11/9/90 BEA Estimate

	Net Dollar Differences FY90-91 ACT and BEA 11/9/90	Gross Dollar Reduction FY90-91 ACT and BEA 11/9/90	Percent of Gross Dollar Reduction
Sales	$18.9 mil.	--	--
Individual	-21.5	$-21.5 mil.	21.2% *
Corporate	-57.0	-57.0	56.3
All Other	-20.5	-20.5	20.3
Miscellaneous	-2.2	-2.2	2.2
	$-82.3	$-101.2	100.0%

A-2A. Composition of Net Individual Reduction* in BEA FY 1990-91 Estimate

Failure to reach FY90 base	-13.4%
Lower Individual growth rate	-4.2
Net legislative adjustments	-3.6
Total net Individual income decrease	-21.2% *

A-3. Net Dollar and Percent Change Between BEA 11/9/90 and 2/15/91 Estimates

Category	BEA 11/9/90 Estimate	BEA 2/15/91 Estimate	Net Dollar Change	Percent of Net Dollar Change
Sales	$ 1224.2	$ 1198.0	$ -26.2	-52.1%
Individual	1491.0	1477.0	-14.0	-27.8
Corporate	150.0	152.0	2.0	4.0
All Other	599.5	590.0	-9.5	-18.9
Miscellaneous	45.6	43.0	-2.6	-5.2
Total	$ 3510.3	$ 3460.0	$ -50.3	100.0%

A-4. Net Dollar and Percent Change Between BEA 2/15/91 and 6/4/91 Estimates

Category	BEA 2/15/91 Estimate	BEA 6/4/91 Estimate	Net Dollar Change	Percent of Net Dollar Change
Sales	$ 1198.0	$ 1172.5	$ -25.5	-28.3%
Individual	1477.0	1437.7	-39.3	-43.7
Corporate	152.0	146.5	-5.5	-6.1
All Other	590.0	571.3	-18.7	-20.8
Miscellaneous	43.0	42.0	-1.0	-1.1
Total	$ 3460.0	$ 3370.0	$ -90.0	100.0%

002593

AN UPDATE ON REVENUE ESTIMATES FOR FY 1991-92
AS COMPARED TO THE APPROPRIATION ACT ESTIMATES FOR FY 1991-92

On June 4, 1991 (26 days before the end of FY 1990-91) without the benefit of final collections for the fiscal year, the BEA was asked to provide an updated General Fund Revenue estimate for FY 1991-92 to facilitate the passage of the Appropriation Act for FY 1991-92. That revised estimate reduced the FY 1990-91 estimate base by $90 million from $3,460 million to $3,370 million. As a result of this lower base and the economic outlook the FY 1991-92 estimate was reduced by $100 million from $3,624 million to $3,524 million. The Appropriation Act estimate of $3,588.3 million was passed and included legislative additions of $64.3 million to this $3,524 million estimate.

Final collections for FY 1990-91 of $3,305.4 million were not released until August 9, 1991 and they were $64.6 million less than the June 4, 1991 BEA estimate of $3,370 million. Weakness in collections continued during June and into July of FY 1991-92. The BEA was again requested to provide a revenue update for FY 1991-92 on July 26, 1991. This revision brought the FY 1991-92 estimate down to $3,440 million or a $148.3 million total reduction from the FY 1991-92 Appropriation Act estimate.

The BEA was aware of approximately $63 million in shortfall from the FY 1990-91 economic base. The final audited figures revealed a shortage of $64.6 million. The bulk of this shortfall, $51.1 million, was in Individual Income tax. Sales taxes were down $17.1 million and Corporate Income taxes were down $3.8 million. Individual Income taxes were down because of a more pronounced slowdown in business activity than expected when the forecast was originally made, and the Sales tax results were down for the same reason plus the adverse effect of the movement of people from South Carolina during and after "Operation Desert Storm".

During the deliberations of the FY 1991-92 Act the BEA reduced the effect of the Medicaid multiplier on Sales tax revenue by $1.2 million and $4.2 million on Individual Income taxes, for a total $5.4 million.

Downward revision of agency estimates during FY 1991-92 were as follows:

All Other Revenue:	
Insurance and Workers' Compensation	$ 7.8
Earnings on Investment	11.0
Taxes on Coin-Operated Devices	8.0
Miscellaneous Sources:	
Indirect Cost Recoveries	1.3
Total	$ 28.1

Additional weakness in the South Carolina economy affecting FY 1991-92 is expected to result in an $8.9 million reduction in Sales Tax, $26.2 million reduction in Individual Income tax, $0.8 million reduction in Corporate Income tax, $7.8 million reduction in All Other Revenue and $0.3 million reduction in the Miscellaneous category.

The BEA met again on October 9, 1991 to provide an updated General Fund Revenue estimate for FY 1991-92 as a revised base for FY 1992-93. Revenue trends through the July-September period of FY 1991-92 were tracking within the $3,390 million to $3,470 million range specified upon release of the $3,440 million estimate on July 26, 1991. The BEA made internal offsetting adjustments totaling $14 million. Individual Income taxes and Corporate Income taxes were adjusted up $4.0 million and $10.0 million, respectively. All Other revenues and Miscellaneous revenues were adjusted down $11.1 million and $2.9 million, respectively, to provide a realistic base for FY 1992-93 revenue growth, with no change warranted to the $3,440 million total estimate. A listing by major category of the FY 1991-92 BEA estimate of $3,440 million, as revised, is shown in Table I of this Report.

Board of Economic Advisors
October 10, 1991

002594

TABLE B

CAUSES UNDERLYING $148.3 MILLION REDUCTION BY BEA
OF FY 1991-92 APPROPRIATION ACT ESTIMATE
OF $3,588.3 MILLION ON JULY 26, 1991

AMOUNT (MILLIONS)	DESCRIPTION OF CAUSE BY REVENUE SOURCE					PERCENT DISTRIBUTION
$ -64.6	1) FY 1990-91 BASE REDUCTIONS: $3305.4 ACTUAL VS. $3370 BEA 6/4/91 ESTIMATE AS BASE FOR FY 1991-92 APPROP. ACT					43.6
		SALES	-17.1			
		INDIV	-51.1			
		CORP	-3.8			
		ALOTHR	2.1			
		MISC	5.3			
-6.2	2) FY 1990-91 BASE REDUCTION FOR NON-RECURRING REVENUE NOT PREVIOUSLY INCLUDED BY AGENCIES FOR BEA 6/4/91 ESTIMATE					4.2
		ALOTHR	-1.2	DHEC Infectious Waste Fee		
		MISC	-5.0			
				-4.0	HHSFC (J02) Medicaid fund lapse	
				-1.0	Insurance Services (F30) prior year surplus	
-5.4	3) FY 1991-92 REDUCTION IN ENHANCEMENTS BY BEA 7/26/91 OF LEGISLATIVE ADDITIONS OF $64.3 MILLION					3.6
		SALES	-1.2	Multiplier Effect		
		INDIV	-4.2	Multiplier Effect		
-28.1	4) FY 1991-92 AGENCY REVISIONS BY BEA 7/26/91					18.9
		ALOTHR	-26.8			
				-7.8	Insurance/Workers Comp.	
				-11.0	Earnings on Investment	
				-8.0	Coin-Operated Devices	
		MISC	-1.3	Indirect Cost Recoveries		
-44.0	5) FY 1991-92 REDUCTIONS FROM WEAKER ECONOMIC CONDITIONS BY BEA 7/26/91					29.7
		SALES	-8.9			
		INDIV	-26.2			
		CORP	-0.8			
		ALOTHR	-7.8			
		MISC	-0.3			
$ -148.3						100.0

Board of Economic Advisors
October 10, 1991

State Budget Division Overview

Charles A. Brooks, Jr.
Director, State Budget Division

DATE= 10/21/91
TIME= 10:55:52

STATE BUDGET DIVISION
1992-93 BUDGET REQUESTS

AGY	AGENCY NAME	1991-92 ADJUSTED BASE				1992-93 REQUESTED INCREASES				1992-93 TOTAL BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
A01	LEG. DEPT-THE SENATE	7,303,974	7,303,974							7,303,974	7,303,974		
A05	LEG. DEPT-HOUSE OF REPRESENTATIVES	8,253,296	8,253,296							8,253,296	8,253,296		
A10	LEG. DEPT-SPECIAL SERVICES FOR BOTH	302,988	302,988			8,217	8,217			311,205	311,205		
A15	LEG. DEPT-CODIFICATION OF LAWS & LE	2,048,597	2,048,597			84,920	84,920			2,133,517	2,133,517		
A17	LEG. DEPT-LEG PRINTING & INF. TECH.	2,572,842	2,572,842							2,572,842	2,572,842		
A20	LEG. DEPT-LEG AUDIT COUNCIL	1,057,685	1,057,685			69,418	69,418			1,127,103	1,127,103		
A25	LEG. DEPT-LEG INFORMATION SYSTEMS	864,113	864,113							864,113	864,113		
A27	REORGANIZATION COMMISSION	998,081	998,081			179,201	179,201			1,177,282	1,177,282		
A28	S. C. INTERGOVERNMENTAL RELATIONS A	245,008	245,008							245,008	245,008		
A30	JOINT LEGISLATIVE COMMITTEES	3,048,730	2,843,730		205,000					3,048,730	2,843,730		205,000
	TOTAL LEGISLATIVE DEPARTMENT	26,695,314	26,490,314		205,000	341,756	341,756			27,037,070	26,832,070		205,000
B04	JUDICIAL DEPARTMENT	26,934,511	26,884,511		50,000	3,881,359	3,881,359			30,815,870	30,765,870		50,000
B06	SENTENCING GUIDELINES COMMISSION	87,388	87,388			4,368	4,368			91,756	91,756		
	TOTAL JUDICIAL DEPARTMENT	27,021,899	26,971,899		50,000	3,885,727	3,885,727			30,907,626	30,857,626		50,000
D05	GOVERNOR'S OFF-EXECUTIVE CONTROL OF	1,481,769	1,481,769							1,481,769	1,481,769		
D10	GOVERNOR'S OFF-STATE LAW ENFORCEMEN	25,354,150	22,697,793	530,000	2,126,357	830,856	830,856			26,185,006	23,528,649	530,000	2,126,357
D17	GOVERNOR'S OFF-EXECUTIVE POLICY & P	212,393,388	6,046,191	188,313,712	18,033,485					212,393,388	6,046,191	188,313,712	18,033,485
D20	GOVERNOR'S OFF-MANSION AND GROUNDS	263,344	263,344							263,344	263,344		
E04	LIEUTENANT GOVERNOR'S OFFICE	266,507	266,507			17,593	17,593			284,100	284,100		
E08	SECRETARY OF STATE'S OFFICE	1,343,405	1,323,405		20,000	87,378	87,378			1,430,783	1,410,783		20,000
E12	COMPTROLLER GENERAL'S OFFICE	4,263,926	4,263,926			281,470	281,470			4,545,396	4,545,396		
E16	STATE TREASURER'S OFFICE	8,116,901	3,516,901		4,600,000					8,116,901	3,516,901		4,600,000
E20	ATTORNEY GENERAL'S OFFICE	6,333,346	6,333,346			971,805	971,805			7,305,151	7,305,151		
E21	PROSECUTION COORDINATION COMMISSION	5,458,679	5,458,679			2,330,910	2,330,910			7,789,589	7,789,589		
E22	COMMISSION ON APPELLATE DEFENSE	829,466	829,466			62,388	62,388			891,854	891,854		
E24	ADJUTANT GENERAL'S OFFICE	12,993,100	5,358,179	6,289,122	1,345,799	868,285	635,563	215,222	17,500	13,861,385	5,993,742	6,504,344	1,363,299
E28	ELECTION COMMISSION	1,844,991	1,672,847		172,144	1,952,208	1,952,208			3,797,199	3,625,055		172,144
F01	GENERAL RESERVE FUND					33,054,277	33,054,277			33,054,277	33,054,277		
F02	B & C-OFFICE OF EXECUTIVE DIRECTOR	1,640,261	1,395,779		244,482	571,614	571,614			2,211,875	1,967,393		244,482
F04	B & C-DIV OF INTERNAL OPERATIONS	2,915,018	2,030,300		884,718	56,898	46,842		10,056	2,971,916	2,077,142		894,774
F05	B & C-FINANCIAL DATA SYSTEMS	3,654,050	2,533,069		1,120,981	78,272	78,272			3,732,322	2,611,341		1,120,981
F06	B & C-STATE BUDGET DIVISION	1,391,679	1,391,679			95,825	95,825			1,487,504	1,487,504		
F08	B & C-RESEARCH AND STATISTICAL SERV	4,051,955	3,389,968		661,987	237,160	207,860		29,300	4,289,115	3,597,828		691,287
F10	B & C-INFORMATION RESOURCES MANAGEM	35,537,068	1,729,330		33,807,738	952,449	562,974		389,475	36,489,517	2,292,304		34,197,213
F12	B & C-GENERAL SERVICES DIVISION	28,551,380	6,307,399		22,243,981	1,330,102	1,103,061		227,041	29,881,482	7,410,460		22,471,022
F14	B & C-FIRE MARSHAL'S OFFICE	3,095,053	2,253,309		841,744	232,660	112,660		120,000	3,327,713	2,365,969		961,744
F16	B & C-MOTOR VEHICLE MANAGEMENT DIVI	6,498,424	73,486		6,424,938					6,498,424	73,486		6,424,938
F20	B & C-INSURANCE SERVICES DIVISION	7,381,834			7,381,834	120,000			120,000	7,501,834			7,501,834
F24	B & C-HUMAN RESOURCE MANAGEMENT	5,053,175	3,117,024		1,936,151	239,677	239,677			5,292,852	3,356,701		1,936,151
F26	B & C-LOCAL GOVERNMENT DIVISION	39,125,006	12,834,471		26,290,535	405,202	405,202			39,530,208	13,239,673		26,290,535
F27	B & C-AUDITOR'S OFFICE	3,918,048	3,918,048			715,468	715,468			4,633,516	4,633,516		
F28	B & C-BOARD OF ECONOMIC ADVISORS	355,618	355,618			36,400	36,400			392,018	392,018		
F29	B & C-RETIREMENT SYSTEMS	6,886,593			6,886,593	654,772			654,772	7,541,365			7,541,365
F30	B & C-EMPLOYEE BENEFITS	9,997,803	9,708,159		289,644	84,324,840	49,804,224	9,587,840	24,932,776	94,322,643	59,512,383	9,587,840	25,222,420
F31	B & C-CAPITAL RESERVE FUND	65,895,420	65,895,420			213,135	213,135			66,108,555	66,108,555		
	TOTAL EXECUTIVE AND ADMINISTRATIVE	506,891,357	176,445,412	195,132,834	135,313,111	130,721,644	94,417,662	9,803,062	26,500,920	637,613,001	270,863,074	204,935,896	161,814,031

002597

		1991-92 ADJUSTED BASE				1992-93 REQUESTED INCREASES				1992-93 TOTAL BUDGET REQUEST			
AGY	AGENCY NAME	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
H03	COMMISSION ON HIGHER EDUCATION	6,639,335	3,678,096	464,993	2,496,246	522,757	522,757			7,162,092	4,200,853	464,993	2,496,246
H06	HIGHER EDUCATION TUITION GRANTS COM	17,307,868	16,530,649	777,219		852,090	852,090			18,159,958	17,382,739	777,219	
H09	THE CITADEL	41,515,365	12,818,224	577,450	28,119,691	5,197,608	5,197,608			46,712,973	18,015,832	577,450	28,119,691
H12	CLEMSON UNIVERSITY (EDUCATIONAL & G	242,226,554	76,958,580	19,055,214	146,212,760	28,775,526	28,775,526			271,002,080	105,734,106	19,055,214	146,212,760
H15	COLLEGE OF CHARLESTON	50,306,491	20,408,004	2,624,391	27,274,096	6,652,969	6,652,969			56,959,460	27,060,973	2,624,391	27,274,096
H18	FRANCIS MARION COLLEGE	24,089,511	11,929,652	1,483,338	10,676,521	3,488,877	3,488,877			27,578,388	15,418,529	1,483,338	10,676,521
H21	LANDER COLLEGE	16,915,318	7,823,173	115,000	8,977,145	2,155,942	2,155,942			19,071,260	9,979,115	115,000	8,977,145
H24	SOUTH CAROLINA STATE COLLEGE	42,337,987	18,290,780	6,943,456	17,103,751	7,044,845	7,044,845			49,382,832	25,335,625	6,943,456	17,103,751
H27	UNIV OF SOUTH CAROLINA	318,097,819	118,492,466	47,842,920	151,762,433	37,221,275	37,221,275			355,319,094	155,713,741	47,842,920	151,762,433
H28	U S C - MEDICAL SCHOOL	28,108,847	18,129,481	5,057,654	4,921,712	6,191,285	6,191,285			34,300,132	24,320,766	5,057,654	4,921,712
H29	U S C - AIKEN CAMPUS	19,211,855	7,225,671	3,635,472	8,350,712	2,717,812	2,717,812			21,929,667	9,943,483	3,635,472	8,350,712
H32	U S C - COASTAL CAROLINA CAMPUS	26,635,440	10,013,928	3,520,135	13,101,377	3,257,861	3,257,861			29,893,301	13,271,789	3,520,135	13,101,377
H34	U S C - SPARTANBURG CAMPUS	20,877,772	9,143,942	2,342,551	9,391,279	3,091,919	3,091,919			23,969,691	12,235,861	2,342,551	9,391,279
H36	U S C - BEAUFORT CAMPUS	3,578,177	1,692,561	545,076	1,340,540	660,619	660,619			4,238,796	2,353,180	545,076	1,340,540
H37	U S C - LANCASTER CAMPUS	4,741,234	2,308,332	681,844	1,751,058	936,256	936,256			5,677,490	3,244,588	681,844	1,751,058
H38	U S C - SALKEHATCHIE CAMPUS	3,270,931	1,683,780	622,347	964,804	705,383	705,383			3,976,314	2,389,163	622,347	964,804
H39	U S C - SUMTER CAMPUS	6,627,359	3,175,127	1,092,694	2,359,538	1,097,006	1,097,006			7,724,365	4,272,133	1,092,694	2,359,538
H40	U S C - UNION CAMPUS	1,817,293	895,877	342,318	579,098	245,278	245,278			2,062,571	1,141,155	342,318	579,098
H47	WINTHROP COLLEGE	47,380,447	18,846,857	1,449,370	27,084,220	5,427,890	5,231,490		196,400	52,808,337	24,078,347	1,449,370	27,280,620
H51	MEDICAL UNIVERSITY OF SOUTH CAROLIN	233,779,414	78,429,414	60,350,000	95,000,000	83,374,821	83,374,821			317,154,235	161,804,235	60,350,000	95,000,000
H52	MEDICAL UNIVERSITY OF S C HOSPITAL	278,732,169	18,232,169	500,000	260,000,000	78,780,797	18,780,797		60,000,000	357,512,966	37,012,966	500,000	320,000,000
H53	S. C. CONSORTIUM OF COMM. TEACHING	16.309,509	14,149,509	1,610,000	550,000	1,057,970	1,057,970			17,367,479	15,207,479	1,610,000	550,000
H55	STATE COUNCIL ON VOCATIONAL & TECHN	271,697	80,397	191,300						271,697	80,397	191,300	
H59	ST. BD. FOR TECHNICAL & COMPREHENSI	210,613,768	113,883,924	17,452,498	79,277,346	72,965,527	72,965,527			283,579,295	186,849,451	17,452,498	79,277,346
	TOTAL HIGHER EDUCATION	1,661,392,160	584,820,593	179,277,240	897,294,327	352,422,313	292,225,913		60,196,400	2,013,814,473	877,046,506	179,277,240	957,490,727
H63	STATE EDUCATION DEPARTMENT	1,703,674,152	1,144,838,169	245,013,861	313,822,122	153,428,726	154,086,952		-658,226	1,857,102,878	1,298,925,121	245,013,861	313,163,896
H67	EDUCATIONAL TELEVISION COMMISSION	26,116,097	18,023,191	46,480	8,046,426	7,486,900	7,236,900		250,000	33,602,997	25,260,091	46,480	8,296,426
H71	WIL LOU GRAY OPPORTUNITY SCHOOL	3,545,293	2,683,629	208,632	653,032	783,320	686,181		97,139	4,328,613	3,369,810	208,632	750,171
H73	VOCATIONAL REHABILITATION	66,709,541	14,774,726	42,248,283	9,686,532	976,448	976,448			67,685,989	15,751,174	42,248,283	9,686,532
H75	SCHOOL FOR THE DEAF AND THE BLIND	14,035,125	10,220,139	1,007,061	2,807,925	1,938,557	1,324,174	614,383		15,973,682	11,544,313	1,621,444	2,807,925
H79	DEPARTMENT OF ARCHIVES AND HISTORY	5,317,258	4,138,457	251,500	927,301	716,881	716,881			6,034,139	4,855,338	251,500	927,301
H83	CONFEDERATE RELIC ROOM	198,781	198,781			14,000	14,000			212,781	212,781		
H87	S. C. STATE LIBRARY	8,158,469	5,957,772	2,190,197	10,500	395,169	395,169			8,553,638	6,352,941	2,190,197	10,500
H91	S. C. ARTS COMMISSION	4,960,520	3,560,713	1,173,676	226,131	183,000	183,000			5,143,520	3,743,713	1,173,676	226,131
H95	STATE MUSEUM COMMISSION	6,073,436	5,278,891		794,545	517,603	517,603			6,591,039	5,796,494		794,545
	TOTAL EDUCATION	1,838,788,672	1,209,674,468	292,139,690	336,974,514	166,440,604	166,137,308	614,383	-311,087	2,005,229,276	1,375,811,776	292,754,073	336,663,427
	TOTAL EDUCATIONAL DIVISION	3,500,180,832	1,794,495,061	471,416,930	1,234,268,841	518,862,917	458,363,221	614,383	59,885,313	4,019,043,749	2,252,858,282	472,031,313	1,294,154,154
J02	STATE HEALTH & HUMAN SERVICES FINAN	1,643,891,605	186,455,297	1,204,055,308	253,381,000	51,840,334	12,370,452	34,379,610	5,090,272	1,695,731,939	198,825,749	1,238,434,918	258,471,272
J03	CONT OF CARE - EMOTIONALLY DISTURBE	10,070,503	2,306,642		7,763,861	3,366,463	130,324		3,236,139	13,436,966	2,436,966		11,000,000
J04	DEPARTMENT OF HEALTH & ENVIRONMENTA	276,317,448	96,337,353	95,054,557	84,925,538	12,537,685	12,537,685			288,855,133	108,875,038	95,054,557	84,925,538
J12	DEPARTMENT OF MENTAL HEALTH	248,813,991	175,155,205	6,598,041	67,060,745	21,504,502	12,568,875	555,896	8,379,731	270,318,493	187,724,080	7,153,937	75,440,476
J16	DEPARTMENT OF MENTAL RETARDATION	209,964,914	85,561,680	2,971,164	121,432,070	14,321,876	9,742,276		4,579,600	224,286,790	95,303,956	2,971,164	126,011,670
J20	S. C. COMMISSION ON ALCOHOL & DRUG	25,417,437	9,818,304	12,405,071	3,194,062	838,121	505,835	150,000	182,286	26,255,558	10,324,139	12,555,071	3,376,348
	TOTAL HEALTH DIVISION	2,414,475,898	555,634,481	1,321,084,141	537,757,276	104,408,981	47,855,447	35,085,506	21,468,028	2,518,884,879	603,489,928	1,356,169,647	559,225,304
L04	DEPARTMENT OF SOCIAL SERVICES	547,793,619	107,663,482	418,182,359	21,947,778	68,079,161	24,926,492	42,811,464	341,205	615,872,780	132,589,974	460,993,823	22,288,983

AGY	AGENCY NAME	1991-92 ADJUSTED BASE				1992-93 REQUESTED INCREASES				1992-93 TOTAL BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
L12	JOHN DE LA HOWE SCHOOL	3,806,345	3,289,475	146,849	370,021	217,235	217,235			4,023,580	3,506,710	146,849	370,021
L16	CHILDREN'S FOSTER CARE REVIEW BOARD	1,181,512	1,098,722	82,790		99,834	94,483	5,351		1,281,346	1,193,205	88,141	
L24	COMMISSION FOR THE BLIND	7,078,756	3,263,783	3,745,473	69,500	670,129	670,129			7,748,885	3,933,912	3,745,473	69,500
L28	COMMISSION ON AGING	16,438,884	2,440,303	12,110,081	1,888,500	432,067	262,067	170,000		16,870,951	2,702,370	12,280,081	1,888,500
L32	STATE HOUSING FINANCE & DEVELOPMENT	16,676,878	469,306	14,057,708	2,149,864	432,775		270,714	162,061	17,109,653	469,306	14,328,422	2,311,925
L36	HUMAN AFFAIRS COMMISSION	2,145,389	1,772,389	335,000	38,000	117,075	117,075			2,262,464	1,889,464	335,000	38,000
L40	DEPARTMENT OF VETERANS' AFFAIRS	1,240,647	1,240,647			73,680	73,680			1,314,327	1,314,327		
L44	COMMISSION ON THE STATUS OF WOMEN	84,998	76,515		8,483	42,268	42,268			127,266	118,783		8,483
	TOTAL SOCIAL REHABILITATION SERVICE	596,447,028	121,314,622	448,660,260	26,472,146	70,164,224	26,403,429	43,257,529	503,266	666,611,252	147,718,051	491,917,789	26,975,412
N04	DEPARTMENT OF CORRECTIONS	248,542,675	199,181,927	2,350,320	47,010,428	54,517,497	54,463,583		53,914	303,060,172	253,645,510	2,350,320	47,064,342
N08	PROBATION, PAROLE AND PARDON SERVIC	25,130,558	14,231,170	436,500	10,462,888	4,625,022	4,420,055		204,967	29,755,580	18,651,225	436,500	10,667,855
N12	DEPARTMENT OF YOUTH SERVICES	38,273,742	33,691,609	2,111,816	2,470,317	9,909,706	9,909,706			48,183,448	43,601,315	2,111,816	2,470,317
N20	LAW ENFORCEMENT TRAINING COUNCIL	7,145,859		226,648	6,919,211	787,916		76,132	711,784	7,933,775		302,780	7,630,995
N24	LAW ENFORCEMENT OFFICERS' HALL OF F	175,231			175,231					175,231			175,231
	TOTAL CORRECTIONAL DIVISION	319,268,065	247,104,706	5,125,284	67,038,075	69,840,141	68,793,344	76,132	970,665	389,108,206	315,898,050	5,201,416	68,008,740
P04	WATER RESOURCES COMMISSION	8,312,000	4,139,619	3,699,630	472,751	213,308	213,308			8,525,308	4,352,927	3,699,630	472,751
P08	STATE LAND RESOURCES CONSERVATION C	3,244,285	3,165,085	25,000	54,200	192,867	192,867			3,437,152	3,357,952	25,000	54,200
P12	STATE FORESTRY COMMISSION	22,649,255	16,260,717	5,704,537	684,001	838,912	838,912			23,488,167	17,099,629	5,704,537	684,001
P16	DEPARTMENT OF AGRICULTURE	10,507,869	6,223,733	23,300	4,260,836	968,766	968,766			11,476,635	7,192,499	23,300	4,260,836
P20	CLEMSON UNIVERSITY-PUBLIC SERVICE A	59,268,836	42,502,319	14,303,870	2,462,647	6,389,373	6,389,373			65,658,209	48,891,692	14,303,870	2,462,647
P22	MIGRATORY WATERFOWL COMMITTEE	239,471	29,471		210,000					239,471	29,471		210,000
P24	WILDLIFE & MARINE RESOURCES DEPARTM	41,473,784	18,997,994	6,253,219	16,222,571	2,720,000	2,720,000			44,193,784	21,717,994	6,253,219	16,222,571
P25	COASTAL COUNCIL	4,117,470	1,512,470	2,605,000		92,269	92,269			4,209,739	1,604,739	2,605,000	
P26	SEA GRANT CONSORTIUM	2,151,926	497,176	1,185,000	469,750	51,247	51,247			2,203,173	548,423	1,185,000	469,750
P28	DEPARTMENT OF PARKS, RECREATION & T	37,513,321	15,004,421	500,000	22,008,900	713,577	326,827		386,750	38,226,898	15,331,248	500,000	22,395,650
P32	STATE DEVELOPMENT BOARD	8,550,024	8,247,024	50,000	253,000	473,000	473,000			9,023,024	8,720,024	50,000	253,000
P33	S. C. ECONOMIC DEVELOPMENT COORD CO	213,000			213,000					213,000			213,000
P34	JOBS-ECONOMIC DEVELOPMENT AUTHORITY	9,567,830	657,042	8,870,788	40,000	45,866	33,845	12,021		9,613,696	690,887	8,882,809	40,000
P36	PATRIOTS POINT DEVELOPMENT AUTHORIT	3,220,338			3,220,338					3,220,338			3,220,338
P40	SAVANNAH VALLEY AUTHORITY	1,536,460	1,536,460							1,536,460	1,536,460		
P45	COLUMBIAN QUINCENTENNIAL COMMISSION	2,677	-3,027		350					2,677	-3,027		350
P48	OLD EXCHANGE BUILDING COMMISSION	120,500	120,500			175,500	175,500			296,000	296,000		
	TOTAL CONSERVATION, NATURAL RESOURC	212,683,692	118,891,004	43,220,344	50,572,344	12,874,685	12,475,914	12,021	386,750	225,558,377	131,366,918	43,232,365	50,959,094
R04	PUBLIC SERVICE COMMISSION	7,046,230	7,046,230			465,264	465,264			7,511,494	7,511,494		
R08	STATE WORKERS' COMPENSATION COMMISS	4,175,769	3,665,953		509,816	183,217	183,217			4,358,986	3,849,170		509,816
R12	STATE WORKERS' COMPENSATION FUND	4,371,309	604,261	423,000	3,344,048	1,265,579			1,265,579	5,636,888	604,261	423,000	4,609,627
R14	PATIENTS' COMPENSATION FUND	221,126			221,126					221,126			221,126
R16	SECOND INJURY FUND	1,047,259			1,047,259	100,000			100,000	1,147,259			1,147,259
R20	DEPARTMENT OF INSURANCE	5,213,924	5,135,924		78,000	1,066,496	1,066,496			6,280,420	6,202,420		78,000
R23	BOARD OF FINANCIAL INSTITUTIONS	24,560	24,560							24,560	24,560		
R24	FINANCIAL INST BD-BANK EXAMINING DI	1,088,469	1,088,469			55,247	55,247			1,143,716	1,143,716		
R25	FINANCIAL INST BD-CONSUMER FINANCE	448,758	448,758			15,676	15,676			464,434	464,434		
R28	DEPARTMENT OF CONSUMER AFFAIRS	2,209,471	2,178,171	10,600	20,700	484,788	484,788			2,694,259	2,662,959	10,600	20,700
R36	DEPARTMENT OF LABOR	6,011,391	4,061,398	1,943,993	6,000	421,279	421,279			6,432,670	4,482,677	1,943,993	6,000
R44	STATE TAX COMMISSION	35,548,810	34,318,810		1,230,000	1,766,904	1,766,904			37,315,714	36,085,714		1,230,000
R48	ALCOHOLIC BEVERAGE CONTROL COMMISSI	4,140,340	4,015,340		125,000	200,692	200,692			4,341,032	4,216,032		125,000

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AGY	AGENCY NAME	1991-92 ADJUSTED BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
R52	STATE ETHICS COMMISSION	263,923	263,923			348,318	348,318			612,241	612,241		
R60	EMPLOYMENT SECURITY COMMISSION	92,856,907	192,632	82,874,810	9,789,465	260,753	260,753			93,117,660	453,385	82,874,810	9,789,465
R64	BOARD OF ACCOUNTANCY	360,327	360,327			27,970	27,970			388,297	388,297		
R68	BOARD OF ARCHITECTURAL EXAMINERS	281,434	281,434			47,800	47,800			329,234	329,234		
R69	AUCTIONEERS' COMMISSION	155,399	155,399			11,232	11,232			166,631	166,631		
R72	BOARD OF BARBER EXAMINERS	199,483	199,483			35,078	35,078			234,561	234,561		
R74	STATE ATHLETIC COMMISSION	27,998	27,998			3,481	3,481			31,479	31,479		
R76	CEMETERY BOARD	22,969	22,969							22,969	22,969		
R80	BOARD OF CHIROPRACTIC EXAMINERS	70,849	70,849							70,849	70,849		
R82	CONTRACTORS LICENSING BOARD	423,561	423,561			40,967	40,967			464,528	464,528		
R84	BOARD OF COSMETOLOGY	501,599	501,599							501,599	501,599		
R88	BOARD OF DENTISTRY	297,858	297,858			73,365	73,365			371,223	371,223		
R92	BOARD OF ENGINEERS AND LAND SURVEYO	453,907	453,907			114,955	114,955			568,862	568,862		
R94	ENVIRONMENTAL CERTIFICATION BOARD	200,541	200,541			46,748	46,748			247,289	247,289		
R96	BOARD OF FORESTERS REGISTRATION	25,765	25,765			1,704	1,704			27,469	27,469		
R99	BOARD OF FUNERAL SERVICE	107,869	107,869			5,500	5,500			113,369	113,369		
S02	BOARD OF GEOLOGISTS REGISTRATIONS	55,245	55,245							55,245	55,245		
S04	BOARD OF MEDICAL EXAMINERS	819,797	819,797			30,310	30,310			850,107	850,107		
S08	BOARD OF NURSING	796,838	796,838			121,648	121,648			918,486	918,486		
S10	NURS HOME ADMIN-RES CARE FAC ADMIN	67,720	67,720							67,720	67,720		
S14	BOARD OF OCCUPATIONAL THERAPY	21,191	21,191							21,191	21,191		
S17	BOARD OF OPTICIANRY EXAMINERS	43,415	43,415			2,872	2,872			46,287	46,287		
S18	BOARD OF OPTOMETRY EXAMINERS	52,216	52,216			3,078	3,078			55,294	55,294		
S20	BOARD OF PHARMACY	284,715	284,715			52,967	52,967			337,682	337,682		
S24	BOARD OF PHYSICAL THERAPY EXAMINERS	70,816	70,816			5,796	5,796			76,612	76,612		
S28	BOARD OF PODIATRY EXAMINERS	4,696	4,696							4,696	4,696		
S30	BOARD OF PROF. COUNSELORS & THERAPI	64,452	64,452							64,452	64,452		
S32	BOARD OF PSYCHOLOGY EXAMINERS	51,558	51,558			10,411	10,411			61,969	61,969		
S36	REAL ESTATE COMMISSION	1,858,931	1,858,931							1,858,931	1,858,931		
S40	RESIDENTIAL HOME BUILDERS COMMISSIO	948,361	948,361			595,628	595,628			1,543,989	1,543,989		
S44	BOARD OF REGISTERED SANITARIANS EXA	5,662	5,662							5,662	5,662		
S48	SOCIAL WORK EXAMINERS BOARD	96,519	96,519			35,000	35,000			131,519	131,519		
S52	SPEECH PATHOLOGY & AUDIOLOGY EXAM B	17,209	17,209							17,209	17,209		
S56	BOARD OF VETERINARY MEDICAL EXAMINE	46,561	46,561			3,374	3,374			49,935	49,935		
S60	PROCUREMENT REVIEW PANEL	117,553	117,553			10,157	10,157			127,710	127,710		
	TOTAL REGULATORY DIVISION	173,221,260	71,597,443	85,252,403	16,371,414	7,914,254	6,548,675		1,365,579	181,135,514	78,146,118	85,252,403	17,736,993
V04	DEBT SERVICE	119,350,067	119,350,067			39,878,837	39,878,837			159,228,904	159,228,904		
	TOTAL DEBT SERVICE	119,350,067	119,350,067			39,878,837	39,878,837			159,228,904	159,228,904		
X22	AID TO SUBDIVISIONS	221,872,674	221,872,674			18,751,469	18,751,469			240,624,143	240,624,143		
	TOTAL MISCELLANEOUS DIVISION	221,872,674	221,872,674			18,751,469	18,751,469			240,624,143	240,624,143		
X40	AERONAUTICS COMMISSION	3,534,966	2,685,796	538,000	311,170					3,534,966	2,685,796	538,000	311,170
X50	DEPARTMENT OF HIGHWAYS/PUBLIC TRANS	673,297,652	625,962	193,313,188	479,358,502					673,297,652	625,962	193,313,188	479,358,502
	TOTAL TRANSPORTATION DIVISION	676,832,618	3,311,758	193,851,188	479,669,672					676,832,618	3,311,758	193,851,188	479,669,672
	GRAND TOTALS	8,794,940,704	3,483,479,441	2,763,743,384	2,547,717,879	977,644,635	777,715,481	88,848,633	111,080,521	9,772,585,339	4,261,194,922	2,852,592,017	2,658,798,400

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STATE BUDGET DIVISION
1992-93 BUDGET REQUESTS
FTE'S

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AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 FTE REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL FTE BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
A01	LEG. DEPT-THE SENATE	166.00	166.00							166.00	166.00		
A05	LEG. DEPT-HOUSE OF REPRESENTATIVES	358.00	358.00							358.00	358.00		
A10	LEG. DEPT-SPECIAL SERVICES FOR BOTH	22.00	22.00							22.00	22.00		
A15	LEG. DEPT-CODIFICATION OF LAWS & LE	44.00	44.00							44.00	44.00		
A17	LEG. DEPT-LEG PRINTING & INF. TECH.	16.00	16.00							16.00	16.00		
A20	LEG. DEPT-LEG AUDIT COUNCIL	25.00	25.00							25.00	25.00		
A25	LEG. DEPT-LEG INFORMATION SYSTEMS	17.00	17.00							17.00	17.00		
A27	REORGANIZATION COMMISSION	15.00	15.00			2.00	2.00			17.00	17.00		
A28	S. C. INTERGOVERNMENTAL RELATIONS A	4.00	4.00							4.00	4.00		
A30	JOINT LEGISLATIVE COMMITTEES	47.50	45.50		2.00					47.50	45.50		2.00
	TOTAL LEGISLATIVE DEPARTMENT	712.50	710.50		2.00	2.00	2.00			714.50	712.50		2.00
B04	JUDICIAL DEPARTMENT	446.47	446.47			17.00	17.00			463.47	463.47		
B06	SENTENCING GUIDELINES COMMISSION	2.00	2.00							2.00	2.00		
	TOTAL JUDICIAL DEPARTMENT	448.47	448.47			17.00	17.00			465.47	465.47		
D05	GOVERNOR'S OFF-EXECUTIVE CONTROL OF	21.00	21.00							21.00	21.00		
D10	GOVERNOR'S OFF-STATE LAW ENFORCEMEN	477.25	469.25		8.00					477.25	469.25		8.00
D17	GOVERNOR'S OFF-EXECUTIVE POLICY & P	208.10	120.23	76.86	11.01					208.10	120.23	76.86	11.01
D20	GOVERNOR'S OFF-MANSION AND GROUNDS	5.00	5.00							5.00	5.00		
E04	LIEUTENANT GOVERNOR'S OFFICE	6.00	6.00							6.00	6.00		
E08	SECRETARY OF STATE'S OFFICE	40.00	40.00							40.00	40.00		
E12	COMPTROLLER GENERAL'S OFFICE	98.00	98.00							98.00	98.00		
E16	STATE TREASURER'S OFFICE	71.99	71.99							71.99	71.99		
E20	ATTORNEY GENERAL'S OFFICE	118.75	118.75			4.00	4.00			122.75	122.75		
E21	PROSECUTION COORDINATION COMMISSION	35.00	35.00							35.00	35.00		
E22	COMMISSION ON APPELLATE DEFENSE	18.39	18.39			18.00	18.00			36.39	36.39		
E24	ADJUTANT GENERAL'S OFFICE	207.00	60.50	131.25	15.25	1.00	.25	.75		208.00	60.75	132.00	15.25
E28	ELECTION COMMISSION	18.50	17.50		1.00					18.50	17.50		1.00
F01	GENERAL RESERVE FUND												
F02	B & C-OFFICE OF EXECUTIVE DIRECTOR	19.56	17.00		2.56					19.56	17.00		2.56
F04	B & C-DIV OF INTERNAL OPERATIONS	65.30	45.93		19.37					65.30	45.93		19.37
F05	B & C-FINANCIAL DATA SYSTEMS	47.00	41.00		6.00					47.00	41.00		6.00
F06	B & C-STATE BUDGET DIVISION	28.00	28.00							28.00	28.00		
F08	B & C-RESEARCH AND STATISTICAL SERV	78.42	67.67		10.75					78.42	67.67		10.75
F10	B & C-INFORMATION RESOURCES MANAGEM	187.75	30.00		157.75					187.75	30.00		157.75
F12	B & C-GENERAL SERVICES DIVISION	374.85	134.27		240.58					374.85	134.27		240.58
F14	B & C-FIRE MARSHAL'S OFFICE	59.00	56.50		2.50					59.00	56.50		2.50
F16	B & C-MOTOR VEHICLE MANAGEMENT DIVI	30.00	9.50		20.50					30.00	9.50		20.50
F20	B & C-INSURANCE SERVICES DIVISION	115.00			115.00					115.00			115.00
F24	B & C-HUMAN RESOURCE MANAGEMENT	100.00	72.38		27.62					100.00	72.38		27.62
F26	B & C-LOCAL GOVERNMENT DIVISION	10.00	6.00	4.00						10.00	6.00	4.00	
F27	B & C-AUDITOR'S OFFICE	79.00	79.00			5.00	5.00			84.00	84.00		
F28	B & C-BOARD OF ECONOMIC ADVISORS	5.00	5.00							5.00	5.00		
F29	B & C-RETIREMENT SYSTEMS	125.00			125.00	7.00			7.00	130.00			130.00
F30	B & C-EMPLOYEE BENEFITS												
F31	B & C-CAPITAL RESERVE FUND												
	TOTAL EXECUTIVE AND ADMINISTRATIVE	2,646.86	1,673.86	212.11	760.89	35.00	27.25	.75	7.00	2,681.86	1,701.11	212.86	767.89

002601

AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE				1992-93 FTE REQUESTED INCREASES				1992-93 TOTAL FTE BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
H03	COMMISSION ON HIGHER EDUCATION	28.25	28.25							28.25	28.25		
H06	HIGHER EDUCATION TUITION GRANTS COM	5.00	5.00							5.00	5.00		
H09	THE CITADEL	537.17	328.73		208.44					537.17	328.73		208.44
H12	CLEMSON UNIVERSITY (EDUCATIONAL & G	3,290.72	1,418.99	79.80	1,791.93					3,290.72	1,418.99	79.80	1,791.93
H15	COLLEGE OF CHARLESTON	678.34	486.98	4.10	187.26	16.00	16.00			694.34	502.98	4.10	187.26
H18	FRANCIS MARION COLLEGE	411.11	310.18	.50	100.43					411.11	310.18	.50	100.43
H21	LANDER COLLEGE	261.41	172.70		88.71					261.41	172.70		88.71
H24	SOUTH CAROLINA STATE COLLEGE	788.63	573.22	56.52	158.89					788.63	573.22	56.52	158.89
H27	UNIV OF SOUTH CAROLINA	4,408.01	2,444.77	428.69	1,534.55	2.50	2.50			4,410.51	2,447.27	428.69	1,534.55
H28	U S C - MEDICAL SCHOOL	334.36	193.74	58.50	82.12					334.36	193.74	58.50	82.12
H29	U S C - AIKEN CAMPUS	238.13	147.55	2.90	87.68					238.13	147.55	2.90	87.68
H32	U S C - COASTAL CAROLINA CAMPUS	395.10	152.74	10.90	231.46					395.10	152.74	10.90	231.46
H34	U S C - SPARTANBURG CAMPUS	298.33	178.15	25.60	94.58					298.33	178.15	25.60	94.58
H36	U S C - BEAUFORT CAMPUS	43.68	20.70	.20	22.78					43.68	20.70	.20	22.78
H37	U S C - LANCASTER CAMPUS	63.80	26.66	4.20	32.94					63.80	26.66	4.20	32.94
H38	U S C - SALKEHATCHIE CAMPUS	56.00	25.20	4.48	26.32					56.00	25.20	4.48	26.32
H39	U S C - SUMTER CAMPUS	92.12	55.74	.35	36.03					92.12	55.74	.35	36.03
H40	U S C - UNION CAMPUS	32.24	17.67	3.78	10.79					32.24	17.67	3.78	10.79
H47	WINTHROP COLLEGE	708.83	462.36	29.00	217.47	13.00	8.00		5.00	721.83	470.36	29.00	222.47
H51	MEDICAL UNIVERSITY OF SOUTH CAROLIN	2,445.00	1,680.34	240.36	524.30	75.00		40.00	35.00	2,520.00	1,680.34	280.36	559.30
H52	MEDICAL UNIVERSITY OF S C HOSPITAL	3,301.01	234.00	4.90	3,062.11	340.00			340.00	3,641.01	234.00	4.90	3,402.11
H53	S. C. CONSORTIUM OF COMM. TEACHING	63.52	62.74	.78						63.52	62.74	.78	
H55	STATE COUNCIL ON VOCATIONAL & TECHN	4.00	2.00	2.00						4.00	2.00	2.00	
H59	ST. BD. FOR TECHNICAL & COMPREHENSI	3,597.19	2,965.50	299.22	332.47	593.00	593.00			4,190.19	3,558.50	299.22	332.47
	TOTAL HIGHER EDUCATION	22,081.95	11,993.91	1,256.78	8,831.26	1,039.50	619.50	40.00	380.00	23,121.45	12,613.41	1,296.78	9,211.26
H63	STATE EDUCATION DEPARTMENT	1,112.80	845.26	151.59	115.95	2.00	2.00			1,114.80	847.26	151.59	115.95
H67	EDUCATIONAL TELEVISION COMMISSION	400.55	347.45		53.10					400.55	347.45		53.10
H71	WIL LOU GRAY OPPORTUNITY SCHOOL	88.45	80.37	4.15	3.93	2.00			2.00	90.45	80.37	4.15	5.93
H73	VOCATIONAL REHABILITATION	1,169.70	469.65	686.65	13.40					1,169.70	469.65	686.65	13.40
H75	SCHOOL FOR THE DEAF AND THE BLIND	383.89	313.25	23.62	47.02	10.40	10.40			394.29	323.65	23.62	47.02
H79	DEPARTMENT OF ARCHIVES AND HISTORY	124.50	118.50		6.00					124.50	118.50		6.00
H83	CONFEDERATE RELIC ROOM	5.00	5.00							5.00	5.00		
H87	S. C. STATE LIBRARY	53.00	44.00	9.00						53.00	44.00	9.00	
H91	S. C. ARTS COMMISSION	41.56	35.21	6.21	.14					41.56	35.21	6.21	.14
H95	STATE MUSEUM COMMISSION	72.00	66.00		6.00	1.00	1.00			73.00	67.00		6.00
	TOTAL EDUCATION	3,451.45	2,324.69	881.22	245.54	15.40	13.40		2.00	3,466.85	2,338.09	881.22	247.54
	TOTAL EDUCATIONAL DIVISION	25,533.40	14,318.60	2,138.00	9,076.80	1,054.90	632.90	40.00	382.00	26,588.30	14,951.50	2,178.00	9,458.80
J02	STATE HEALTH & HUMAN SERVICES FINAN	528.67	215.95	311.72	1.00	2.00	1.00	1.00		530.67	216.95	312.72	1.00
J03	CONT OF CARE - EMOTIONALLY DISTURBE	119.00	11.00		108.00	15.00	3.00		12.00	134.00	14.00		120.00
J04	DEPARTMENT OF HEALTH & ENVIRONMENTA	4,649.62	2,211.45	1,095.72	1,342.45	47.00	47.00			4,696.62	2,258.45	1,095.72	1,342.45
J12	DEPARTMENT OF MENTAL HEALTH	6,547.46	5,081.45	219.87	1,248.14	154.00	82.00		72.00	6,703.46	5,163.45	219.87	1,320.14
J16	DEPARTMENT OF MENTAL RETARDATION	4,526.51	2,812.68	16.00	1,697.83					4,526.51	2,812.68	16.00	1,697.83
J20	S. C. COMMISSION ON ALCOHOL & DRUG	83.51	72.35	7.66	3.50					83.51	72.35	7.66	3.50
	TOTAL HEALTH DIVISION	16,456.77	10,404.88	1,650.97	4,400.92	218.00	133.00	1.00	84.00	16,674.77	10,537.88	1,651.97	4,484.92
L04	DEPARTMENT OF SOCIAL SERVICES	4,878.70	2,035.17	2,725.24	118.29	203.00	.50	192.39	10.11	5,081.70	2,035.67	2,917.63	128.40

AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE				1992-93 FTE REQUESTED INCREASES				1992-93 TOTAL FTE BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
L12	JOHN DE LA HOWE SCHOOL	116.06	105.62	1.97	8.47	3.00	3.00			119.06	108.62	1.97	8.47
L16	CHILDREN'S FOSTER CARE REVIEW BOARD	19.00	17.46	1.54		1.00	1.00			20.00	18.46	1.54	
L24	COMMISSION FOR THE BLIND	133.50	56.71	76.79						133.50	56.71	76.79	
L28	COMMISSION ON AGING	34.01	19.49	12.52	2.00	1.00	1.00			35.01	20.49	12.52	2.00
L32	STATE HOUSING FINANCE & DEVELOPMENT	75.00	8.00	26.00	41.00	3.00		1.00	2.00	78.00	8.00	27.00	43.00
L36	HUMAN AFFAIRS COMMISSION	54.00	42.55	11.45		2.00	2.00			56.00	44.55	11.45	
L40	DEPARTMENT OF VETERANS' AFFAIRS	22.00	22.00							22.00	22.00		
L44	COMMISSION ON THE STATUS OF WOMEN	2.00	2.00							2.00	2.00		
	TOTAL SOCIAL REHABILITATION SERVICE	5,334.27	2,309.00	2,855.51	169.76	213.00	7.50	193.39	12.11	5,547.27	2,316.50	3,048.90	181.87
N04	DEPARTMENT OF CORRECTIONS	6,257.65	5,938.22	30.97	288.46	905.00	891.00		14.00	7,162.65	6,829.22	30.97	302.46
N08	PROBATION, PAROLE AND PARDON SERVIC	770.00	491.20	7.00	271.80	76.00	76.00			846.00	567.20	7.00	271.80
N12	DEPARTMENT OF YOUTH SERVICES	1,058.00	973.75	57.50	26.75	106.00	106.00			1,164.00	1,079.75	57.50	26.75
N20	LAW ENFORCEMENT TRAINING COUNCIL	113.95		5.00	108.95	4.00			4.00	117.95		5.00	112.95
N24	LAW ENFORCEMENT OFFICERS' HALL OF F	3.00			3.00					3.00			3.00
	TOTAL CORRECTIONAL DIVISION	8,202.60	7,403.17	100.47	698.96	1,091.00	1,073.00		18.00	9,293.60	8,476.17	100.47	716.96
P04	WATER RESOURCES COMMISSION	73.00	64.00	7.00	2.00	2.00	2.00			75.00	66.00	7.00	2.00
P08	STATE LAND RESOURCES CONSERVATION C	72.25	70.25	2.00						72.25	70.25	2.00	
P12	STATE FORESTRY COMMISSION	599.55	578.54	21.01						599.55	578.54	21.01	
P16	DEPARTMENT OF AGRICULTURE	213.13	158.00		55.13	2.50	2.50			215.63	160.50		55.13
P20	CLEMSON UNIVERSITY-PUBLIC SERVICE A	1,373.11	910.51	419.15	43.45	2.30	2.30			1,375.41	912.81	419.15	43.45
P22	MIGRATORY WATERFOWL COMMITTEE												
P24	WILDLIFE & MARINE RESOURCES DEPARTM	773.55	432.00	100.75	240.80					773.55	432.00	100.75	240.80
P25	COASTAL COUNCIL	42.00	21.00	21.00						42.00	21.00	21.00	
P26	SEA GRANT CONSORTIUM	12.00	9.00	3.00						12.00	9.00	3.00	
P28	DEPARTMENT OF PARKS, RECREATION & T	531.67	361.47		170.20	16.00	5.00		11.00	547.67	366.47		181.20
P32	STATE DEVELOPMENT BOARD	88.00	88.00							88.00	88.00		
P33	S. C. ECONOMIC DEVELOPMENT COORD CO	1.00			1.00					1.00			1.00
P34	JOBS-ECONOMIC DEVELOPMENT AUTHORITY	14.00	13.00	1.00						14.00	13.00	1.00	
P36	PATRIOTS POINT DEVELOPMENT AUTHORIT	39.00			39.00					39.00			39.00
P40	SAVANNAH VALLEY AUTHORITY	8.00	8.00							8.00	8.00		
P45	COLUMBIAN QUINCENTENNIAL COMMISSION												
P48	OLD EXCHANGE BUILDING COMMISSION												
	TOTAL CONSERVATION, NATURAL RESOURC	3,840.26	2,713.77	574.91	551.58	22.80	11.80		11.00	3,863.06	2,725.57	574.91	562.58
R04	PUBLIC SERVICE COMMISSION	159.00	159.00							159.00	159.00		
R08	STATE WORKERS' COMPENSATION COMMISS	92.10	90.48		1.62	1.00	1.00			93.10	91.48		1.62
R12	STATE WORKERS' COMPENSATION FUND	78.00			78.00	9.00			9.00	87.00			87.00
R14	PATIENTS' COMPENSATION FUND	3.00			3.00					3.00			3.00
R16	SECOND INJURY FUND	19.00			19.00					19.00			19.00
R20	DEPARTMENT OF INSURANCE	119.00	119.00			4.00	4.00			123.00	123.00		
R23	BOARD OF FINANCIAL INSTITUTIONS												
R24	FINANCIAL INST BD-BANK EXAMINING DI	26.00	26.00							26.00	26.00		
R25	FINANCIAL INST BD-CONSUMER FINANCE	9.50	9.50							9.50	9.50		
R28	DEPARTMENT OF CONSUMER AFFAIRS	54.00	54.00							54.00	54.00		
R36	DEPARTMENT OF LABOR	152.50	109.49	43.01						152.50	109.49	43.01	
R44	STATE TAX COMMISSION	828.00	828.00							828.00	828.00		
R48	ALCOHOLIC BEVERAGE CONTROL COMMISSI	90.00	90.00							90.00	90.00		

EXHIBIT

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STATE BUDGET & CONTROL BOARD

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AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 FTE REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL FTE BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
R52	STATE ETHICS COMMISSION	6.00	6.00			3.00	3.00			9.00	9.00		
R60	EMPLOYMENT SECURITY COMMISSION	1,252.33		1,092.33	160.00					1,252.33		1,092.33	160.00
R64	BOARD OF ACCOUNTANCY	5.00	5.00							5.00	5.00		
R68	BOARD OF ARCHITECTURAL EXAMINERS	4.45	4.45			.25	.25			4.70	4.70		
R69	AUCTIONEERS' COMMISSION	3.00	3.00							3.00	3.00		
R72	BOARD OF BARBER EXAMINERS	5.00	5.00							5.00	5.00		
R74	STATE ATHLETIC COMMISSION												
R76	CEMETERY BOARD	1.00	1.00							1.00	1.00		
R80	BOARD OF CHIROPRACTIC EXAMINERS	1.00	1.00			.75	.75			1.75	1.75		
R82	CONTRACTORS LICENSING BOARD	10.00	10.00							10.00	10.00		
R84	BOARD OF COSMETOLOGY	13.00	13.00							13.00	13.00		
R88	BOARD OF DENTISTRY	5.25	5.25			.75	.75			6.00	6.00		
R92	BOARD OF ENGINEERS AND LAND SURVEYO	10.00	10.00			2.00	2.00			12.00	12.00		
R94	ENVIRONMENTAL CERTIFICATION BOARD	5.00	5.00							5.00	5.00		
R96	BOARD OF FORESTERS REGISTRATION	.50	.50							.50	.50		
R99	BOARD OF FUNERAL SERVICE	1.75	1.75							1.75	1.75		
S02	BOARD OF GEOLOGISTS REGISTRATIONS												
S04	BOARD OF MEDICAL EXAMINERS	16.24	16.24							16.24	16.24		
S08	BOARD OF NURSING	20.00	20.00							20.00	20.00		
S10	NURS HOME ADMIN-RES CARE FAC ADMIN	2.00	2.00							2.00	2.00		
S14	BOARD OF OCCUPATIONAL THERAPY												
S17	BOARD OF OPTICIANRY EXAMINERS	.50	.50							.50	.50		
S18	BOARD OF OPTOMETRY EXAMINERS	.35	.35							.35	.35		
S20	BOARD OF PHARMACY	6.50	6.50							6.50	6.50		
S24	BOARD OF PHYSICAL THERAPY EXAMINERS	1.00	1.00							1.00	1.00		
S28	BOARD OF PODIATRY EXAMINERS												
S30	BOARD OF PROF. COUNSELORS & THERAPI	1.75	1.75							1.75	1.75		
S32	BOARD OF PSYCHOLOGY EXAMINERS	1.00	1.00							1.00	1.00		
S36	REAL ESTATE COMMISSION	38.00	38.00							38.00	38.00		
S40	RESIDENTIAL HOME BUILDERS COMMISSIO	* 25.00	25.00			12.00	12.00			37.00	37.00		
S44	BOARD OF REGISTERED SANITARIANS EXA												
S48	SOCIAL WORK EXAMINERS BOARD												
S52	SPEECH PATHOLOGY & AUDIOLOGY EXAM B												
S56	BOARD OF VETERINARY MEDICAL EXAMINE												
S60	PROCUREMENT REVIEW PANEL	2.00	2.00							2.00	2.00		
	TOTAL REGULATORY DIVISION	3,067.72	1,670.76	1,135.34	261.62	32.75	23.75		9.00	3,100.47	1,694.51	1,135.34	270.62
V04	DEBT SERVICE												
	TOTAL DEBT SERVICE												
X22	AID TO SUBDIVISIONS												
	TOTAL MISCELLANEOUS DIVISION												
X40	AERONAUTICS COMMISSION	44.00	44.00							44.00	44.00		
X50	DEPARTMENT OF HIGHWAYS/PUBLIC TRANS	7,756.00	2.16	8.09	7,745.75					7,756.00	2.16	8.09	7,745.75
	TOTAL TRANSPORTATION DIVISION	7,800.00	46.16	8.09	7,745.75					7,800.00	46.16	8.09	7,745.75
	GRAND TOTALS	74,042.85	41,699.17	8,675.40	23,668.28	2,686.45	1,928.20	235.14	523.11	76,729.30	43,627.37	8,910.54	24,191.39

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SOUTH CAROLINA BUDGET & CONTROL BOARD
STATE BUDGET DIVISION

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STATE BUDGET & CONTROL BOARD

BUDGET HEARINGS

Fiscal Year 1992-93

October 24, 1991

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STATE BUDGET & CONTROL BOARD

FY 1992-93 STATE BUDGET HEARINGS

October 24, 1991

9:00 - 9:15	**Recognition of Participants in the 1991 Executive Institute** Governor Carroll A. Campbell, Jr.
9:15 - 10:15	**Improving Educational Quality and Effectiveness** Dr. Chester Finn Education Excellence Network
10:15 - 10:30	Questions
10:30 - 11:00	**Potential Impacts of Restructuring on the State Budget** Lt. Governor Nick Theodore Representative David H. Wilkins Governor's Restructuring Commission
11:00 - 11:15	Break
11:15 - 12:00	**State Economic Outlook and Comments on the Findings of *Financing Government in the Palmetto State, A Study of Taxation in South Carolina*** Dr. Bruce Yandle, Director The Strom Thurmond Institute
12:00 - 12:15	Questions
12:15 - 2:00	Break
2:00 - 3:00	**National Economic Outlook** David A. Wyss, Research Director DRI/McGraw-Hill
3:00 - 3:15	Questions
3:15 - 3:45	**Revenue Forecast for Fiscal Year 1992-93** Board of Economic Advisors
3:45 - 4:00	Break
4:00 - 4:30	**State Budget Division Overview** Charles A. Brooks, Jr.

Recognition of Participants
in the 1991
South Carolina Executive Institute

Governor Carroll A. Campbell, Jr.

SOUTH CAROLINA EXECUTIVE INSTITUTE
Philip G. Grose, Director
1201 Main Street, Suite 1016
Columbia, South Carolina 29201
(803) 737-0833

A Description of the South Carolina Executive Institute

The Executive Institute of the State of South Carolina provides programs for senior governmental officials to improve their overall leadership skills and capabilities. It has been authorized by the General Assembly of the State of South Carolina, and receives public funding from the State for a large part of its activities.

The Institute is administered under the Human Resource Management Division of the Budget and Control Board, the central government management agency in South Carolina.

Programs offered by the Institute are developed in coordination with the University of South Carolina, Clemson University and the College of Charleston, all state-supported colleges in South Carolina which offer graduate academic courses and have specific research capabilities in the areas of public administration and public affairs. The Institute also offers programs in leadership development which are presented by faculty from the Kennedy School of Government at Harvard University.

PARTICIPANTS. The Executive Institute is open to senior level executives in government. Its programs are designed to address the needs of those who direct entire agency operations, or those with substantial responsibility at a deputy level. Beginning with its 1991-92 session, the Institute hopes to bring together a broad cross-section of governmental leadership from all three branches of government (Executive, Legislative and Judicial), as well as corporate leadership in South Carolina.

The 1991 Executive Institute had 27 participants, representing a broad cross-section of state government operations, including agencies which provides services in criminal justice, human services, central management, economic development, natural resource management and regulatory functions.

CURRICULUM. The Executive Institute believes that the effective performance of governmental executives is influenced by three major considerations:

(1) Their ability to lead people and organizations;

(2) Their working knowledge of how government functions.

(3) Their knowledge of world activities influencing their agencies, their state and their nation;

Based on these considerations, the Institute curriculum is designed in three tracks, as follows:

Leadership Development. In conjunction with faculty from the Kennedy School of Government at Harvard, the Institute offers a series of sessions on effective leadership in government. The sessions use actual case studies of government experience in the U. S. to strengthen participants' abilities to make difficult decisions on a day-to-day basis, and to cope with internal and external influences on their jobs. Leadership Development programs are provided in a series of three two-day sessions.

Governmental Processes. The changing nature of government and the evolving expectations and demands of the public place ongoing pressure on governmental leaders to strengthen their knowledge of governmental operations. In conjunction with the Masters of Public Administration program at the University of South Carolina, the Executive Institute offers a series of 10 programs addressing specific governmental skills in such areas as (l) 'strategic planning, (2) cutback management, (3) program evaluation, (4) ethics, (5) legal issues confronting managers, (6) organizational options in government, (7) managerial communication, and (8) conflict resolution.

Global Issues. Working with the Institute of Public Affairs at the University of South Carolina and the Strom Thurmond Institute of Government and Public Affairs at Clemson University, the Institute provides, the Executive Institute provides one-day symposiums on issues influencing nations and their governments on a global scale. Programs last year focused on (l) International Economic and Political Development, (2) Challenges for Cities and Urban Governments and (3) Government's Response to Environmental Conditions.

LOCATIONS. All Executive Institute activities are carried out on campuses of the state-supported colleges and universities involved in providing Institute programs, including the University of South Carolina and Clemson University.

SCUEDULE. The 1991-92 Executive Institute begins September 17 and will be completed March 8. There are three two-and-onehalf day sessions (September 18-20, December 4-6, and March 6-8), and eight sessions of two-and-one-half hours each every other Thursday between 4 and 6:30 p. m. The attached schedule gives specific dates for all sessions.

ACADEMIC LINKAGE. Upon successful completion of the Executive Institute, including attendance at Institute sessions and completion of assignments, holders of undergraduate degrees from accredited colleges and universities will qualify to receive three hours of course credit from the Masters of Public Administration program at the University of South Carolina.

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SOUTH CAROLINA EXECUTIVE INSTITUTE
Philip G. Grose, Director
1201 Main Street, Suite 1016
Columbia, South Carolina 29201
(803) 737-0833

PARTICIPANTS LIST
1991 Session

Ballentine, Charles W., Executive Director, Public Service Commission

Bonneau, Hubert A. J., Technical Services Supervisor, Employment Security Commission

Buzzetti, E. Anthony, Executive Director, Housing, Finance and Development Authority

Canavan, Francis M., Associate Vice President for Communications and External Relations, Clemson University

Cleghorn, G. Dean, Executive Director, Area Health Education Consortium, Medical University of S. C.

Clyburn, James E., Commissioner, Human Affairs Commission

Connery, John J., Senior Executive Director, Community Mental Health Services, Department of Mental Health

Crossman, Douglas P., Director, Second Injury Fund

Dubs, James D., Deputy Director, Commission on Aging

Edelhoch, Marilyn J., Assistant Director-Audits, Legislative Audit Council

Finley, Paula B. Executive Director, Continuum of Care for Emotionally Disturbed Children

Frampton, E. Gregorie, Executive Director, State Tax Commission

Hamm, Steven W., Administrator/Consumer Advocate, Department of Consumer Affairs

Huey, Sandra A., Deputy State Treasurer, State Treasurer's Office

Jolly, Henry L., Commissioner, Real Estate Commission

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Jones, James C., Field Supervisor, Employment Security Commission

LaRosa, P. Charles, Assistant Commissioner, Vocational Rehabilitation Department

Lawrence, J. William, Deputy Director, Parks, Recreation and Tourism Department

LeFever, Michael G., Executive Director, Workers Compensation Commission

Mayes, Phyllis M., Director, Human Resource Management Division, Budget and Control Board

McLawhorn, Richard E., Commissioner, Department of Youth Services

Mungo, Charles M., Support Services Manager, Employment Security Commission

Parris, John W., Executive Director, Land Resources Conservation Commission

Ridings, Cheryl A., Assistant Director, Legislative Audit Council

Taylor, Robert W., Associate Director, Economic Development, State Board for Technical and Comprehensive Education

Williams. Donna K., Assistant Executive Director, Budget and Control Board

Wilson, Jack N., Associate Vice President, Facilities Planning and Management, Clemson University

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STATE BUDGET & CONTROL BOARD

Improving Educational Quality and Effectiveness

Dr. Chester Finn

Education Excellence Network

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STATE BUDGET & CONTROL BOARD

CHESTER E. FINN, JR.
Biographical Summary

June 1991

Chester E. Finn, Jr. is professor of education and public policy at Vanderbilt University and director of the Educational Excellence Network, based in the university's Washington office. He is also a Senior Fellow of the Vanderbilt Institute for Public Policy Studies.

A native of Ohio with an undergraduate degree in American history, a master's degree in social studies teaching and a doctorate in education policy and administration from Harvard University, Finn has made his career in education and government service, most recently as Assistant Secretary for Research and Improvement and Counselor to the Secretary of the U.S. Department of Education from 1985 to 1988. Earlier positions include Staff Assistant to the President of the United States; Special Assistant to the Governor of Massachusetts; Counsel to the American Ambassador to India; Research Associate in Governmental Studies at the Brookings Institution; and Legislative Director for Senator Daniel Patrick Moynihan.

He serves on a number of boards and committees, including the President's Education Policy Advisory Committee, the Interim Council on Standards and Testing and the National Assessment Governing Board, which he chaired from 1988 to 1990. He is also President of the Madison Center for Educational Affairs.

Dr. Finn has been a visiting lecturer in Japan, Korea, India, Germany, Poland, Czechoslovakia, Hungary, Romania, Nicaragua and the United Kingdom. He has also traveled extensively in this country and abroad.

His involvement in seminars, conferences and hearings has brought him to colleges, education and civic groups, foundations and government organizations throughout the country. The most recent of his seven books is We Must Take Charge: Our Schools and Our Future, published by the Free Press in May, 1991. Previous books include What Do Our 17-Year-Olds Know? written with Diane Ravitch; Challenges to the Humanities, with Ravitch and P. Holley Roberts; and Scholars, Dollars and Bureaucrats.

Author of more than 150 articles, his work has appeared in such publications as Change, The Christian Science Monitor, The Wall Street Journal, Commentary, The Public Interest, The Washington Post, The Chronicle of Higher Education, Harvard Business Review, The American Spectator, Comparative Education Review, The Boston Globe, and The New York Times. Finn has received citations and awards for his work from the Educational Press Association of America, Choice magazine, the Education Writers Association and the Freedom Foundation at Valley Forge.

He and his wife, Renu Virmani, a physician, have two children. They live in Chevy Chase, Maryland.

Potential Impacts of Restructuring on the State Budget

Lt. Governor Nick Theodore
Representative David H. Wilkins
Governor's Restructuring Commission

South Carolina Commission On Government Restructuring

EXECUTIVE SUMMARY

MODERNIZING SOUTH CAROLINA STATE GOVERNMENT FOR THE TWENTY-FIRST CENTURY

September 1991

002615

Modernizing South Carolina State Government
For The Twenty-First Century

EXECUTIVE SUMMARY

002616

EXECUTIVE SUMMARY

RESTRUCTURING FOR REFORM: A MODEL FOR SOUTH CAROLINA

The "democratic wish" is for a simple and efficient government. This popular emphasis and desirability for simple and efficient government has been an attribute of American government since its inception. But, today, life's burdens and public issues seem so much more numerous and complex than, for example, America in the early nineteenth-century. Social and personal problems today often require solutions by full-time professionals in permanent organizations. For government - local, State or Federal - to be "effective," it must, out of sheer necessity "modernize," that is, undertake reform efforts or restructure to accomplish the established tenets or principles of sound public policy-making, management and administrative science.

What Is Reorganization?

Reorganization or restructuring governmental agencies is a way to change the architecture and operations of "bureaucratically-administered" programs and services so they are suitably designed and effectively operated for the public interest.

A flexible governmental structure becomes a tool through which the policies of lawmakers and executives may be faithfully and economically implemented. An affordable bureaucracy makes sure that public service is more important than narrow interests. If maintaining a specific organizational structure, regardless of cost or result, becomes the sole purpose of government, then truly, the "tail wags the dog." Carried too far, unwieldy bureaucratic governmental structures may actually consume the scarce and critical resources intended for citizens through public programs.

Reformers have come to advocate reorganization as a way to integrate the more "desirable values" of bureaucratic or governmental performance, such as efficiency and accountability, into the fragmented, unresponsive governmental structures they have often found. They have been guided in their efforts by an expanding body of reorganization literature. Scholars and government leaders have fine-tuned the structural features of organizations. They have done so with an eye toward developing structures that conform to their perceptions of an "ideal model," based on the goals they wish to achieve through their organizations. ***One such model, the subject of close examination and refinement over the years, which embraces accepted principles of "good government," is defined by the following characteristics:***

- ***Division of labor and of authority.*** Distributing the tasks necessary to do the job yields ***economies of scale and results*** in workers who become specialists in their jobs. Specialization is the basis for expertise, but all specialties ***work together to achieve the general mission and goals of the organization;***

- ***Hierarchy of authority.*** Hierarchical organizational levels, defined by ***a clear chain of command, coordinate the activities*** of the many different specialists. Ideally, the structure is headed by a single authority, or chief executive;

- ***Stable approach.*** The model benefits from the stability arising from the enforcement of formal rules, equally applied, imposed through a chain of command. Authority and responsibility are vested in positions, not personalities. Thus, ***coordination and an overall directing authority*** remain constant regardless of the flow of individuals into or out of the bureaucracy;

- ***Career structure.*** Merit qualifications and seniority are the guiding values for the performance of professional civil servants and their career mobility. They are paid according to a planned compensation system and the results of regular performance appraisals, so they do not have to dabble in petty politics or rely on patronage; and,

- ***Large scale.*** Bureaucracies need exclusive responsibilities for specific functions or groups of functions in order ***to allow sufficient concentration of resources necessary to deal with assigned areas of responsibility.*** To deliver programs successfully may require many levels in the hierarchy and a wide range of specialties.

The lessons from practical experience and scholarly research on the "best" way to organize people "to get the job done," have revealed that there is no one best way for all circumstances and for all time. Instead, the structure must change if we are to realize certain desired values, such as efficiency and effectiveness. Furthermore, the structure must change to meet the service need that the organization is mandated to address. ***Reorganization, then, is the restructuring of the way governmental agencies are designed and a renewal of the processes by which these agencies operate. Reorganization seeks to update the bureaucratic architecture of South Carolina's State government to help State agencies function in today's context as close to an "ideal" as is politically acceptable to the people of the State.***

<u>Why Do Reorganizations Occur?</u>

New political demands for the expansion and contraction of public services often result in unplanned additions to existing governmental structures and in the development of special procedures to deal with a single problem. Restructuring occurs to restore governmental organizations to their original missions and to refocus their functions and operations through more streamlined relationships.

Bureaucratic or governmental structures have been created to deal with society's varied social interests and concerns. The bureaucracy has become a fixture in a society that is constantly changing. Sometimes, bureaucratic structures change in response to societal changes. Sometimes those bureaucratic changes are haphazard. Over time, the bureaucratic structure begins to resemble a house with a succession of added-on rooms. The architecture varies; the plumbing is difficult to maintain; the electrical circuits are not readily combined; and the hallways do not exactly connect. The old house begins to lose its appeal; it certainly begins to lose its once functional value. A newly restored structure promises greater livability and hospitality, along with renewed economies and efficiencies.

Adding layer upon new layer of bureaucracy in State government is just like adding new rooms to an old house. Growth without an overall architectural plan for South Carolina's State government has resulted in a disjointed, rambling design that requires constant attention to the malfunctions that always seem to occur. Thus, government seems always to be reacting, rather than posturing itself in a more proactive position. Responsibility and accountability may be as difficult to find as the most recently added back room. ***Therefore, restructuring occurs because it is necessary to improve the accountability, responsiveness, economy and efficiency in State government. Restructuring is a thoughtful and positive effort to answer the enduring question, "What is the most desirable structure of government for all South Carolinians?"***

<u>Achieving Better Government Through Reorganization</u>

Improved efficiencies and economies in the Executive Branch are best achieved through a structure that is hierarchical (has many levels of responsibility defined by a formal chain of command); has one authority in the elected Governor; relies on formal rules (public standards of accountability); and, is equitable in dealings between employees and clients (no special deals or political meddling). Through the control that the Legislature has over enabling legislation and budget appropriations, and the authority ***the Chief Executive has over the actions of subordinates in State government, a restructured government is better able to hold public employees accountable.*** Adherence to these principles does not mean that government becomes machine-like and is staffed by people with no concern for individual needs. Instead, ***it is one which can promote responsiveness*** when those who do the work know what is expected and are accountable for their actions.

Reorganized government is better government because it is the government closest to currently expressed needs of the people. A more efficient and a more accountable government reflects the general public interest in the achievement of better administration through reshaped government agencies.

<u>A Framework For Better Government: The Proposed South Carolina Commission On Government Restructuring Approach</u>

The Commission on Government Restructuring believes that a prescription for better government is an overall structure for the Executive Branch that establishes clear lines of authority, responsibility, and accountability; creates a manageable span of control; integrates functions into a smaller number of "departments;" and enhances the responsiveness of State government to the needs of South Carolina's citizens. The

Commission believes that such a structure will ensure accountability, clarify lines of authority within the Executive Branch, and be more responsive to citizens' needs.

Therefore, the Commission proposes a model for restructuring that incorporates the following principles:

- **Recognition of a Governor's Cabinet** - ***A relatively small number of departments organized around broad goals, gubernatorial appointment of cabinet secretaries, and a single executive for each department are among the major attributes of a cabinet structure.*** Such a structure will have the effect of consolidating many fragmented agencies in order to limit the Governor's span of control, and thereby, placing the Governor in a better position from which to manage the Executive Branch.

- **Concentration of Authority and Responsibility** - ***Concentration of Executive Branch authority in the Governor, combined with a clearly defined administrative hierarchy, will allow the administrative structure to function with unity.*** The risk of "power failure" can be reduced. The Governor is the power center of the Executive Branch on whom the people can focus and from whom administrative authority can be delegated.

- **Departmentalization, or Functional Integration** - ***The sprawling number of separate agencies, over 145 by one count, should be consolidated into a smaller number of departments organized around common functions or common activities.*** There is no "magic number," so long as the span of control that emerges from the consolidation effort approximates one that is manageable. The benefits of consolidation are several. For example, consolidation forces specific answers to the questions of uncertain authority and responsibility that so often plague the more than 145 separate departments and agencies and their multi-member governing boards. Functional consolidation encourages coordinated performance of logically related activities and can lead to elimination of costly duplication where it exists.

- **Undesirability of Boards for Purely Administrative Work** - ***Boards and commissions are ill-suited for administrative work.*** As well-intentioned as many board members are, the boards are usually comprised of people with different views, professions, levels of training, opinions, and political agendas. These characteristics often make it difficult for boards to act decisively and single-mindedly. The result is delay in decision-making and diffusion of accountability. When administrators want or need a variety of perspectives and opinions, a better approach is to use advisory boards that can bring advice and counsel, but do not interfere with, or reduce the authority of, the single, responsible administrator. In addition, an increasing number of board members can suffer legal liability. It is unfair and unwise to subject part-time board members to such liability.

- **Coordination of the Staff Services of Administration** - ***Staff agencies are "the arms of the Governor" who is the single, elected head of administration in the Executive Branch.*** The major administrative staff units include: **A functioning cabinet**, comprised of cabinet secretaries responsible to the Governor; **A personal office staff to the Governor**, that includes major policy advisors, administrative assistants, and other technical support; **a central budget office**, which prepares the executive budget proposal; **a central human resource office**, that connects the merit system to the Governor's Office to coordinate personnel matters; **a central purchasing agency**; and **a planning agency**, which advises the Governor on trends and needs, evaluates programs, and conducts general research in support of executive program proposals.

- **Provision of an Independent Audit** - ***The structure should include an auditor, independent of the Governor, responsible for post-fiscal year financial audits.*** The auditor should report all findings directly to the General Assembly.

- **Better Management of Government Resources** - ***The architectural framework of a restructured State government should incorporate the generally accepted management principles, so often recalled by students and "professional practitioners" of administration through the use of the acronym POSDCORB.*** **Each letter in POSDCORB stands for a significant aspect of management: Planning, organizing, staffing, directing, coordinating, reporting, and budgeting.** Restructuring requires attention to these operational concerns, and should, therefore, be undertaken with an eye toward improving management's performance in each area.

- **Professionalizing State Service (Maintaining Competent Personnel)** - ***The cabinet system has a special need for accountable, qualified political appointees and politically responsive senior civil servants in the critical positions between the elected Chief Executive and the permanent civil service.*** Senior level positions are positions of vision and action. They are the "breath of fresh air" that brings new life to the policy process and renewed motivation to the careerists in the bureaucracy. A restructured State government is one that recognizes the value of its human resources. An energized Executive Branch needs the talents of competent careerists at all levels of the bureaucracy.

- **Citizen Participation** - ***Citizens can participate in administration through working, advising, and supporting.*** Citizens can volunteer on a part-time basis to supplement the efforts of those with the special training and expertise to do the jobs that they do full-time. Citizens can also serve on advisory boards. ***Citizen input is invaluable; citizens who participate in government are more likely to feel involved. The more involved, the more likely they are to be supportive and to make a "positive, dynamic contribution to civic affairs." Restructuring can and does mean renewed opportunities for citizen participation.***

- **Economy, Efficiency, and Effectiveness** - ***Regular operational economies and efficiencies in government are achieved through competent organizing, staffing, directing, and coordinating.*** **A more effective and efficient government is one that is capable of identifying policy priorities, is capable of evaluating programs and using the result of that analysis to improve operational strategies for implementation, and manages information, human, and fiscal resources as valued resources.** Moreover, effective government is one that is conducted in full view of the public. By "letting the sun shine in," through meaningful disclosure of the policy debate and critical decisions, citizens know more about government and have a stake in mutually positive outcomes.

- **Commitment to Total Quality Management** - The Commission on Government Restructuring recognizes that the most efficient, effective and economical government possible should be a primary objective of any restructuring efforts. To this end, the Commission is committed to the principles of "Total Quality Management" (TQM) and recommends that application of these principles be emphasized and incorporated into the implementation phase of the restructuring plan of the Governor. The complete commitment to the quality of, and continuous improvement in, government processes and work procedures, and particularly, client relations and management of public enterprises, should be the foundation upon which better government is built in South Carolina.

In sum, it is the overwhelming consensus of the Commission on Government Restructuring that the best chance to realize "the characteristics of a truly effective government" in South Carolina is through the development of a cabinet structure.

BACKGROUND AND METHODOLOGY

The Commission on Government Restructuring was created by Executive Order 91-01, and charged with the responsibility of reviewing and "fine-tuning" the Governor's plan for restructuring South Carolina's State government, developing a long-term plan for achieving restructuring, reviewing existing legislative proposals for reorganizing, examining other states' restructuring efforts, and suggesting potential areas of budget savings as a result of restructuring. (Subsequently, Executive Order 91-07 was filed on March 6, 1991, which authorized the expansion of the Commission on Government Restructuring's membership.) The Governor's initial restructuring plan suggested the consolidation of Executive Branch agencies into ten cabinet departments: Public Education, Higher Education, Cultural Affairs, Natural Resources, Commerce, Transportation, Health, Human Services, Criminal Justice, and Administration.

The Commission sought to achieve the most efficient and effective government possible for the State's citizens. To guide the research efforts, the Commission adopted as ***its mission:***

- To promote the more ***effective management*** of South Carolina State agencies, boards, and commissions, and their functions;
- To champion the ***expeditious administration*** of the public's business;
- To review approaches which might reduce State government expenditures and promote the overall ***economy*** of State government to the fullest extent, consistent with the ***efficient operation of the government,*** in order to slow down the ever-spiraling growth of State government;
- To propose the grouping and consolidation of State agencies, boards, and commissions, by major purposes of State government, in order to ensure the ***coordination and effective implementation of the policies*** set forth by the Governor, the General Assembly, and ultimately, the citizens of South Carolina;
- To propose the ***reduction of State agencies, boards, and commissions*** by consolidating those having similar functions under a single head, in order to eliminate costly overlapping and unnecessary duplication of efforts;
- Finally, and most importantly, to enable State government to do ***a better job of providing services to the citizens of South Carolina,*** and solving the problems which South Carolina presently faces, and will face in the future.

The Commission's objective was to propose a State government structure that would provide for more efficiency, effectiveness, and accountability in State services to the people. Guided by the theoretical or "hallmark" principles of sound administrative science, ***the Commission sought the:***

- ***Establishment of clear lines of authority, responsibility, and accountability;***
- ***Concentration of governmental authority, responsibility, and accountability;***
- ***Creation of a manageable span of control;***
- ***Departmentalization and functional integration of State government; and,***
- ***Enhancement of the responsiveness of State government to the needs of South Carolina's citizens.***

To accomplish the enormous task of analyzing the State's Executive Branch agencies in the short period of time available, the Commission divided responsibilities among four Subcommittees, defined in the bounds of the following "functional areas:"

- Natural Resources/Commerce/Transportation;
- Public Education/Higher Education/Cultural Affairs;
- Health/Human Services; and,
- Criminal Justice/Administration/Regulatory Agencies.

There were four major aspects to the Subcommittees' work: (1) a review of scholarly literature on government organization and reorganization, and an assessment of other states' restructuring efforts; (2) the development and analysis of agency surveys; (3) hearing agency presentations; and (4) holding a public hearing.

With regard to the first task, the Commission on Government Restructuring adopted, as a review of the literature on government reorganization, the State Reorganization Commission's report, *"On Reorganization - An Overview of Theory, Practice, and the South Carolina Experience,"* published in April 1991. This comprehensive report reviewed theories on government reorganization, described reorganization attempts in South Carolina from 1920 - 1989, and provided the most recent state-by-state comparison of experiences in restructuring government.

In an effort to get current information of relevance to the Commission on Government Restructuring's task, ***a survey was developed and mailed to each Executive Branch agency. The survey requested that agencies provide information regarding the agency's mission, policy objectives, major programs (in order of priority), administrative costs, and organizational structure*** (including the number of Full-Time Equivalent positions, or FTE's, and the budget for each organizational unit).

For each program, agencies were asked to describe the program mission, program enabling legislation, clientele served, number and location of regional offices for the program, number of program FTE's and program operating budget. In addition, agencies were asked to describe program objectives and program measures (efficiency, effectiveness, and workload). Finally, agencies were asked to describe their relationships with State and local government agencies, the federal programs administered by their agency, management studies conducted over the past 10 years on the agency, the agency's management information systems, the agency's plans for expansion or curtailment of programs, and current or potential avenues for privatizing services.

Each Subcommittee also scheduled agency presentations. This served as another opportunity for agency views on the reorganization or restructuring effort to be heard. Agencies were given an opportunity to discuss their missions and major programs, and then to answer questions from Subcommittee members regarding similarities between agency programs and the most logical placement of the agency within the cabinet form of government proposed by the Governor. Eighty presentations were made to the Commission's Subcommittees, addressing about 95 agencies, commissions, and divisions.

On June 10, 1991, approximately 40 people addressed the full Commission at a public hearing. This allowed State agencies, private groups, and the general public to provide their views on restructuring State government.

Data obtained through the agency survey, agency presentation, and public hearing was reviewed, and, ***together with information from other sources,*** was thoroughly analyzed. Other information collected included: Academic literature on reorganizations, other states' reorganization experiences, fiscal and programmatic audit reports, agency annual reports, Sunset reports, and legal documents. **Six primary analyses were performed on the data:**

- **Functional Analysis**: In this analysis, agencies were compared in terms of their missions, policy objectives, enabling legislation, and major programs ***to provide an indication of the degree of similarity between agencies, and to provide a rationale for grouping agencies within functional categories.***

- **Program Analysis**: The program analysis consisted of a comparison between all agency programs within a functional grouping (and in some cases, across all Executive Branch agencies) in order to ***determine where there may be program duplication or "similarity."*** The analysis focused on major program activities (law enforcement, research, regulation), program purpose, program objectives, clients served, and state and federal mandates.

- **Administrative Analysis**: In this analysis, ***the administrative functions of agencies within a functional grouping were compared to provide an indication of the amount of resources being utilized and "potential areas" for savings.*** Specifically, the operating budget and FTE's for agencies were compared in each of the following administrative areas: Program planning and evaluation, personnel administration, budget and finance, information resource management, purchasing, and internal auditing.

- **Accountability Analysis**: The accountability analysis ***assessed the level of agency accountability to the State's Chief Executive*** by examining such factors as the number of members appointed by the Governor to the agency's governing body, the number of legislative members on the governing body, and the role of the body (policymaking, administrative, quasi-judicial).

- **Efficiency and Effectiveness Analysis**: In this analysis, more limited in scope, agency efficiency, effectiveness, and workload measures for each program were analyzed using the following criteria: Relevance, validity, significance, uniqueness, clarity, timeliness, reliability, quantification, practicality, completeness, and control. This analysis ***provided an indication of the extent to which***

agencies were measuring their programs, and the quality of those measures.

- **Organizational/Management Analysis**: This analysis examined, from agency organizational charts, ***management's span of control, and the potential limits in managerial effectiveness within the current organizational structure.***

The Commission, through a systematic process and methodology, has attempted to develop a restructuring plan that would provide for the most efficient, effective, and accountable State government possible. Although the analyses were limited by the data that was readily available, and by time constraints, the research has been described, by two nationally recognized experts, Dr.'s James Conant and James Garnett, as "the most systematic, comprehensive state study of reorganization efforts in other states." The Commission's goal has been to provide the Governor, the General Assembly, and the electorate of the State with a restructuring proposal that would best meet the needs of the State's citizens.

OVERVIEW OF THE PROBLEMS WITH SOUTH CAROLINA STATE GOVERNMENT

The Governor's Commission on Government Restructuring has heard testimony during its public hearing, that suggests, in many cases, **the average person, sees State Government as big; highly fragmented and inflexible; and, unapproachable. Fragmented government sometimes seems unable to respond to the very real critical needs of its citizenry...be it a small child, an adolescent, an adult and/or an elderly person.**

The Commission has studied the organizational structures, enabling legislation, and detailed program descriptions submitted by 138 state agencies responding to the Commission's survey. ***The Commission finds that there is a substantial absence of formal administrative accountability to its elected Chief Executive. The Commission has taken testimony from citizens who have found the mosaic of existing State agencies, their governing boards, and the autonomous regional and county governing boards and departments to be confusing, emotionally burdensome, and an impediment to obtaining the services to which they are entitled.*** South Carolina has many dedicated, competent public servants whose service to citizens is hindered by obsolete governmental structures.

The Commission has also found evidence of a serious need to coordinate government programs that deliver, in some instances, virtually the same services to the same or similar clientele. Where duplication of effort occurs, it is especially troublesome given the State's economic circumstances. South Carolina does not enjoy a surplus of funds with which to support unnecessary duplication of effort. Therefore, coordination among government agencies allowing the State to target its scarce resources at programs designed for the complexities of today's social and economic ills, has become, for South Carolina, even more critical than in the past.

Most importantly, the Commission finds that the Governor must oversee a bureaucracy of more than 145 autonomous organizations, a span of control that far exceeds anyone's abilities to manage effectively. The State has assumed responsibility for a vast array of functions. The agencies or departments responsible for those functions, are organized around multi-member governing boards or commissions appointed by one of as many as eighteen different appointment methods. Many of those boards and commissions have the authority to establish policies, hire administrators, and, in some cases, act as judicial bodies able to resolve disputes. One result of this arrangement is that the Governor has little, and in some cases, no direct influence over the agencies that fall within the Executive Branch of government. No modern corporation, and few other states, attempt to function with such lack of Executive accountability.

Under the present, fragmented structural arrangement, State government cannot plan strategically to guide South Carolina's future. Certainly, given the lack of "an overall coordinating mechanism," it is evident further that cohesive, comprehensive, substantive, and "results-producing" planning, even at the operational level, among autonomous agencies, is needed. Lack of coordinated strategic and operational planning means that programs suffer because cutbacks, when necessary to avoid financial deficits, are likely to fall equally on everyone rather than being carefully targeted at specific programs that might be of a lower priority or programs that might simply require fewer resources than at first expected. Furthermore, autonomous agencies pursue their individual program goals and objectives and often do not coordinate their efforts.

Left uncorrected, South Carolina State government's current administrative or governmental structure may lead to more fragmentation, duplication of effort, and ineffective allocation of scarce resources, conditions which may lead to inadequate responses to ever-worsening social and economic conditions. Among the major problems the Commission believes must be resolved now, are the following:

<u>There Is A Need For Effective, Administrative Accountability Within The Executive Branch...</u>

- The Superintendent of Education is independently elected and, along with a 17-member governing Board (sixteen of whose members are elected by the legislative delegations from each of the State's sixteen judicial circuits) oversees the State Department of Education.

- Example #2: The State Advisory Committee on the Regulation of Child Day Care facilities has the power to disapprove any regulation of child care proposed by the Department of Social Services, ***despite the fact that the Department of Social Services is responsible for licensing and inspecting day care facilities.***

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There is no direct chain of command between the Governor, as the constitutional executive, and the agencies of the Executive Branch. The lines of authority, accountability , responsiveness, and answerability are confusing, and are made more so because of the prevalence of multi-member governing boards at the State and sub-state levels. The virtual absence of a coordinated approach to management direction in the Executive Branch combined with the "devolution" of authority to governing boards has led to a contest of wills that results in unnecessary conflicts over compliance with statewide standards for performance and adherence to statewide policies.

<u>State Government Agencies Are Too Numerous And Often Share Functional Jurisdictions And Clientele...</u>

- Example #1: The State has 59 regulatory agencies, including eleven that deal with natural resources and two that license people who cut hair.

- Example #2: In 1989-90, alone, proposals for the creation of more than 30 new agencies, committees, and coordinating commissions were before the General Assembly.

There are more than 145 agencies, boards, and commissions with some authority to deliver services, make decisions, and/or to study and make recommendations on a multitude of topics. "Some are so obscure as to defy recognition even among the most astute experts of South Carolina State government."

<u>State Government Is Run By Part-Time Governing Boards Whose Members Are Appointed By One Of So Many Different Methods That The Average Citizen Cannot Possibly Be Expected To Know Or Even Care Who They Are...</u>

There are at least eighteen different categories of methods for appointing members to the various governing boards and commissions in State government. In some instances, boards are selected from the State at-large; in others, the membership is appointed from judicial circuits; in still others, the members come from each of the six congressional districts. The members of some boards are appointed by the Governor upon the recommendation of a legislative delegation or an interest group. In still other cases, the General Assembly selects the membership. In every case, the boards meet periodically, perhaps three or four times per year. Some, such as the Department of Social Services governing board and the Department of Highways and Public Transportation, meet more frequently. Governing boards that meet so infrequently cannot adequately supervise the agencies. Conversely, where boards are too intrusive, they needlessly risk undermining the efficient operation of the agency by interfering with professional staff who must balance their good judgement against what they believe will be the most acceptable to a part-time governing board. ***The board structure impedes administrative accountability because they insulate the agency from the direct influence of the Governor. Numerous, complex methods of appointment detract from, rather than enhance, opportunities for involvement by the average citizen.***

Agency Heads Report First To Part-Time Boards That Are Expensive To Maintain...

Most of the directors of the State's agencies are hired by the agencies' governing boards. The boards range in size from as few as four to as many as twenty members. Consequently, an agency director can have as few as four, and as many as twenty, "bosses."

The points of accountability in the Executive Branch are so diffused that no one is accountable because so many are accountable. Governing boards promulgate the rules; they hire the administrators; and, in some cases, as in the case of the Department of Health and Environmental Control, they exercise quasi-judicial authority as well. Identifying points of accountability and control is even more difficult when agency operations are decentralized. ***Under such a system in which boards appoint the chief administrators for agencies of the Executive Branch, an agency director can have as few as four, or as many as twenty, "bosses."*** Where there is sub-state diversification of responsibility, the average person does not know whom to contact with a problem and whom to hold accountable for whatever bureaucratic resistance they encounter. **What is especially discomforting is that, sometimes, the system is structured to ensure that no one is ultimately responsible.** Bits and pieces of responsibility are assumed by individual offices; but no one feels the ultimate responsibility - or feel they have the authority - to make things right. Clearly, in the name of representative government, the State has perpetuated an administrative structure that is neither representative nor capable of governing effectively.

Boards are expensive. The Board of Registration for Geologists, over a three and one-half year period, spent more than $29,000 on six out-of-state meetings and six in-state meetings at resort locations. Press reports have revealed FY 90-91 expenditures, to cover personal expenses of board members, of $49,000, for the State Development Board; $100,000 for the 17-member Board of Education; and as of April 1991, $70,500 to cover personal expenses for the 20-member Highway Commission.

Existing State Agencies Duplicate Efforts, Consuming Resources Necessary For More Direct Service Delivery...

- Example #1: There are more than nine agencies providing social services to specific clientele groups.

- Example #2: At least fifteen agencies with missions associated with environmental and natural resources issue permits for construction.

- Example #3: At least three agencies are involved in the treatment of alcohol and drug abuse.

In the area of human services, alone, the total administrative costs exceed $40 million. The present configuration of more than 145 separate, autonomous agencies, boards, and commissions, fails to take advantage of economies of scale in delivering administrative support to line personnel who are in more direct contact with the

average citizens of this State. Moreover, unnecessarily large administrative structures, unnecessarily monopolize shrinking financial resources that could be reallocated for more direct client services. The planning and evaluation functions of the more than 145 agencies, boards, and commissions necessarily mean a lack of coordination in identifying social and economic problems and evaluating alternative courses of action. Strategic planning suffers because agencies are not encouraged to take a holistic approach to a problem. Furthermore, the fragmentation in the Executive Branch and the absence of a chain of command to the Governor means that there is no single coordinating influence who can enforce such a holistic perspective in problem identification and policy analysis.

There Are Disparities In The Quality And Overall Utility Of The Efficiency, Effectiveness, And Workload Measures Reported By The Agencies...

The Commission asked agencies to list efficiency, effectiveness, and workload measures for each major program they administer. In many cases, the agencies reported no measures at all. Some even questioned the need for measures. The Commission is unable to pass judgement on the efficiency, and effectiveness with which programs are administered. However, poor measures, if they exist at all, detract from the ability of administrators to know for themselves, the efficiency and effectiveness with which the programs they administer provide services to the public.

The Current Structure In State Government Discourages Coordination, Wastes Resources, And Encourages Gaps In Services Availability...The Result? People Suffer...

What do we do about the estimated 3,500 children in this State who are emotionally disturbed and are being ignored, are placed into institutions where they get little of the intensive care they desperately need, or are being remanded into the custody of the Department of Youth Services by the Family Courts? Budget constraints allow the Continuum of Care for Emotionally Disturbed Children to care for just a fraction of the children who need its help. The Department of Youth Services says that as many as twenty percent of the children in its custody are diagnosed as emotionally disturbed, some of them severely. Community psychiatric care is maldistributed. Institutions are overcrowded, and ill-suited for long term care. Institutionalization is expensive. ***The problems that South Carolina State government must address are often multi-dimensional; they are often incapable of being adequately addressed by fragmented, narrowly-focused, autonomous agencies.*** "Pieces" of problems of poverty, homelessness, environmental protection, health care, transportation, and education are attacked by individual agencies through specific, well-intended programs. ***However, there is no central coordinating influence in the Executive Branch that can compel coordination and cooperation between agencies that choose not to collaborate. Moreover, the current span of control is so large as to detract from the Governor's ability to bring separate agencies together for purposes of policy formulation and development.*** What is interesting is that agencies recognize the fact that problems are, indeed, multi-dimensional. Yet, traditionally, they have responded with requests for additional funds and Full-Time Equivalent positions (FTE's) to support expansions of their activities. In so doing, they are competing with one another rather than working together through a common organizational framework to accomplish those same ends.

The current structure in the Executive Branch is obsolete. Separate, autonomous, and "uncoordinated" agencies can no longer be tolerated when the State budget approaches $8 billion, from all sources. No longer can the State support more than 145 separate agencies, boards, and commissions responsible for such diverse functions as highway construction and maintenance, occupational licensing, certification and regulation of health care facilities, child protection, law enforcement, job training, environmental protection, economic development, natural resource conservation, education, and promotion of the fine arts and our State's cultural heritage. ***The structure which was first organized in 1895, almost 100 years ago, belongs to another age. As South Carolinians, we need not live in the past to continue to appreciate our State's rich heritage and traditions. The time for change is long overdue. The fragmented structure of the State's Executive Branch is no longer appropriate for a "modern state government" on the eve of the twenty-first century, just nine short years away.***

CABINET OVERVIEW

Cabinets have been defined as ***"a system whereby key State agency officials are grouped together into an organizational structure to advise the Governor and to perform other functions."*** Cabinet members usually include "department heads" appointed by the Governor, with input from the state legislature. **The cabinet type of government calls for strong executive or "single point" leadership, clear lines of authority and responsibility, a manageable span of control, personnel procedures based on merit and modern techniques for management.**

Forty states now have a cabinet structure, although there is considerable variability between them. For comparison purposes, only 26 states had a cabinet structure in 1969. Since then fourteen other states have "modernized," adopting cabinet configurations. These cabinets have been created constitutionally, statutorily, and by executive order, while others have their roots in tradition. The size of the cabinets also varies, with an average at about fifteen members, typically speaking, bearing no relation to the size of the state.

Across the states these cabinets are mostly "a binding decision-making authority." The National Governor's Association has listed the numerous roles that cabinets play: Ceremonial; information dissemination; communications; teaching; policy development; problem solving; interagency coordination; and, accountability. The particular role of a cabinet, in many cases, will depend on the Governor's given authority "to make things happen."

The cabinet form of government that the Commission on Government Restructuring proposes will lead to a unity in direction and purpose of State government through a clearly defined hierarchial structure, headed by the State's highest elected official. An elected Chief Executive, responsible for administration and with the

power to make the bureaucracy work, is in the best position to achieve administrative effectiveness and political accountability.

In the following pages, the Commission on Government Restructuring proposes that the South Carolina Executive Branch be comprised of fifteen cabinet departments. The departments are:

- Public Instruction
- Literary and Cultural Resources
- Higher Education
- Transportation
- Public Safety
- Employment Services
- Commerce
- Natural Resources
- Health and Human Services
- Environmental and Health Services Regulation and Enforcement
- Corrections/Rehabilitation
- Administration
- Licensing and Regulation
- Agriculture
- Adjutant General

The decisions regarding the number and types of departmental structures for recommendation were based on conclusions drawn from nine different types of analyses. Central to this work was the focus on achieving direct accountability to the Governor for all Executive Branch agencies. Full accountability to the Governor will provide for integration and unity in policy setting, direction and purpose through a clearly defined administrative hierarchy. The Governor will be the focal point of this hierarchy, and will be in the best position to achieve administrative effectiveness. ***Briefly, the missions of each of these fifteen cabinet departments, defined by the Commission, and the agencies (and functional areas) included in each cabinet department are as follows:***

1) **The Public Instruction Cabinet Department**

<u>Mission:</u> *To provide elementary, secondary, and secondary vocational education in the State.*

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Affected agencies/functional units for proposed cabinet department:

- **Department of Education**
- **Educational Television**
- **John de la Howe School**
- **School for the Deaf and Blind**
- **Wil Lou Gray Opportunity School**

2) **The Literary and Cultural Resources Cabinet Department**

Mission: *To preserve the State's cultural heritage, and to promote the cultural and literary resources within the State.*

Affected agencies/functional units for proposed cabinet department:

- **Arts Commission**
- **Department of Archives and History**
- **Old Exchange Building Commission**
- **State Library**
- **State Museum**

3) **The Higher Education Cabinet Department**

Mission: *To coordinate post-secondary education (colleges, universities, and technical schools) in the State; to prevent unnecessary duplication in the post-secondary institutions; and, to ensure that new and existing programs at the post-secondary institutions are in line with institutional missions.*

Affected agencies/functional units for proposed cabinet department:

- **Commission on Higher Education**
- **Higher Education Tuition Grants Commission**
- **State Board for Technical and Comprehensive Education**

4) **The Transportation Cabinet Department**

Mission: *To provide transportation for people and goods by road, air, and railroad; to construct and maintain roads, highways, airports, railroads, etc.; and to assist agencies in the provision of public transportation for people and goods.*

Affected agencies/functional units for proposed cabinet department:

- **South Carolina Aeronautics Commission**
- **South Carolina Public Railways Commission**
- **South Carolina Department of Highways and Public Transportation:**
  - **Division of Engineering**
  - **Division of Public Transportation**
  - **Division of Administration**

5) **The Public Safety Cabinet Department**

Mission: *To protect the public through the enforcement of traffic, criminal, and fire laws of the State; and to provide highway and traffic safety programs.*

Affected agencies/functional units for proposed cabinet department:

- **The South Carolina Alcohol Beverage Control Commission: Enforcement Division**
- **The South Carolina Criminal Justice Academy**
- **The South Carolina Criminal Justice Hall of Fame**
- **The State Fire Marshal**
- **The State Law Enforcement Division**
- **The Enforcement Division of the South Carolina Department of Highways and Public Transportation, Motor Vehicle Registration Division, and the Public Safety Program**
- **The Motor Carrier Safety Program, Registration of For-Hire Intrastate Motor Carriers, Economic Enforcement Program, Interstate Motor Carrier Registration Program, and Railroad Safety Program of the Public Service Commission**

6) **The Employment Services Cabinet Department**

Mission: *To provide employment services to the employees and employers of the State, which includes regulatory functions, mediation and conciliation services, job services and training for the unemployed and underemployed, and the maintenance of the unemployment insurance system.*

Affected agencies/functional units for proposed cabinet department:

- **Department of Labor**
- **South Carolina Employment Security Commission**
- **South Carolina Workers' Compensation Commission**

7) **The Commerce Cabinet Department**

Mission: *To stimulate economic development in the State through the creation of jobs and by attracting and supporting business and investment.*

Affected agencies/functional units for proposed cabinet department:

- **S.C. Coordinating Council for Economic Development**
- **State Development Board**
- **S.C. Department of Parks, Recreation and Tourism:**
  Division of Tourism
  Division of International Marketing Services
  Division of Community Development
- **S.C. Jobs-Economic Development Authority**
- **S.C. Housing, Finance and Development Authority**
- **Budget and Control Board:**
  Division of Local Government

8) **The Natural Resources Cabinet Department**

Mission: *To protect and maintain South Carolina's natural resources.*

Affected agencies/functional units for proposed cabinet department:

- **South Carolina Wildlife and Marine Resources Department**
- **The South Carolina Forestry Commission**
- **The South Carolina Land Resources Conservation Commission**
- **The South Carolina Water Resources Commission**
- **The South Carolina Coastal Council**
- **The South Carolina Sea Grant Consortium**
- **The South Carolina Migratory Waterfowl Commission**
- **The South Carolina State Geologist**
- **Patriots Point Development Authority**
- **The Parks and Recreation Divisions of the South Carolina Department of Parks, Recreation, and Tourism**
- **The Cooperative Extension Service, Agricultural Research, Forest and Recreation Resources and Livestock-Poultry Health Divisions of the Clemson Public Service Activities.**

9) **The Health and Human Services Cabinet Department**

Mission: *To provide family and children's services; direct economic assistance; direct health care delivery; and the treatment and rehabilitation of the physically and mentally disabled.*

Affected agencies/functional units for proposed cabinet department:

- **Commission on Aging**
- **Commission for the Blind**
- **Children's Foster Care Review Board System**
- **Continuum of Care for Emotionally Disturbed Children**
- **Department of Mental Health**
- **Commission on Alcohol and Drug Abuse**
- **Department of Social Services**
- **Department of Mental Retardation**
- **Department of Health and Environmental Control:**
  Preventive Health Services
  Maternal and Child Health
  Center for Health Promotion
  Home Health and Long-Term Care
- **Health and Human Services Finance Commission**
- **Department of Vocational Rehabilitation**

10) **The Environmental and Health Services Regulation and Enforcement Cabinet Department**

Mission: *To provide health and environmental programs and services, through regulation and enforcement, for the protection and promotion of the health and well-being of the State's citizens.*

Affected agencies/functional units for proposed cabinet department:

- **Department of Health and Environmental Control:**
  Bureau of Health Facilities and Services Development
  Bureau of Health Facilities Regulations
  Bureau of Certification
  Bureau of Environmental Health
  Bureau of [Health Services] Laboratories
  Bureau of Drug Control
  Vital Records and Public Health Statistics
  Bureau of Air Quality Control
  Bureau of [Environmental Quality Control]
  District Services

Bureau of Water Pollution Control
Bureau of Solid and Hazardous Waste Management
Bureau of Drinking Water Protection
Bureau of Radiological Health
Bureau of Environmental Quality Control Laboratories

11) **The Corrections/Rehabilitation Cabinet Department**

Mission: *To oversee the youths and adults of the State who become wards of the correctional system, and to supervise youths and adults paroled or placed on probation.*

Affected agencies/functional units for proposed cabinet department:

- **South Carolina Department of Corrections**
- **South Carolina Department of Probation, Parole, and Pardon Services**
- **South Carolina Department of Youth Services**

12) **The Administration Cabinet Department**

Mission: *To provide centralized staff services and administrative su ort to other state agencies.*

Affected agencies/functional units for proposed cabinet department:

- **Budget and Control Board: Office of the Executive Director**
  - Internal Operations Division
  - State Budget Division
  - Human Resource Management Division
  - General Services Division:
    - Administration
    - Materials Management
    - Agency Services
    - Property Management
  - Information Resource Management Division
  - Financial Data Systems Division
  - Motor Vehicle Management Division
  - Insurance Services Division
  - Research and Statistical Services Division
  - Information Technology and Policy Management
- **Second Injury Fund**
- **Workers' Compensation Fund**
- **Patients' Compensation Fund**

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13) **The Licensing and Regulation Cabinet Department**

Mission: *To license and regulate professions, occupations, or companies which require government oversight, in order to protect the public's health, welfare, and safety.*

Affected agencies/functional units for proposed cabinet department:

- **Alcoholic Beverage Control Commission: Licensing Division**
- **Board of Accountancy**
- **Board of Architectural Examiners**
- **Athletic Commission**
- **Auctioneers' Commission**
- **Board of Barber Examiners**
- **Board for Barrier Free Design**
- **Building Code Council**
- **Board of Chiropractic Examiners**
- **Department of Consumer Affairs**
- **Contractors' Licensing Board**
- **Board of Cosmetology**
- **Board of Dentistry**
- **Board of Registration for Professional Engineers and Land Surveyors**
- **Environmental Certification Board**
- **Board of Registration for Foresters**
- **Board of Funeral Service**
- **Board of Registration for Geologists**
- **Harbor Pilots**
- **Commission for Hearing Aid Dealers and Fitters**
- **Board of Registration for Landscape Architects**
- **Manufactured Housing Board**
- **Board of Medical Examiners**
- **Modular Appeals Board**
- **Board of Nursing**
- **Board of Examiners for Nursing Home Administrators and Community Residential Care Facility Administrators**
- **Board of Occupational Therapy**
- **Board of Examiners in Opticianry**
- **Board of Examiners in Optometry**
- **Board of Pharmacy**
- **Board of Physical Therapy Examiners**
- **Board of Podiatry Examiners**
- **Board of Examiners for Professional Counselors, Associate Counselors and Marital and Family Therapists**
- **Board of Examiners in Psychology**
- **Board of Pyrotechnic Safety**

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- Real Estate Appraisers
- Real Estate Commission
- Residential Builders Commission
- Board of Social Work Examiners
- Board of Registration for Professional Soil Classifiers
- Board of Examiners for Speech-Language Pathology and Audiology
- Board of Veterinary Medical Examiners

14) **The Agriculture Cabinet Department**

Mission: *To market and promote the State's agricultural products; protect the public from unsafe agricultural goods; and, to assure the abundance of these products.*

Affected agencies/functional units for proposed cabinet department:

- South Carolina Department of Agriculture
- Clemson's Public Service Activities:
  - Regulatory Programs
  - Meat/Poultry Inspection Program

15) **The Adjutant General Cabinet Department**

Mission: *To prepare and maintain a trained force of State Militia to protect the safety of the State and its citizens in times of disaster or civil disobedience.*

Affected agencies/functional units for proposed cabinet department:

- Office of the Adjutant General

Additionally, the Commission on Government Restructuring has recommended that the cabinet secretaries be appointed by the Governor, with the consent of the Senate. It is the Commission's belief that the ***cabinet secretaries should be appointed based on the individual's qualifications in terms of administrative and professional expertise. By granting the Governor the authority to appoint cabinet secretaries, the cabinet secretaries become responsible to the Governor. Requiring the Senate to approve the cabinet secretaries will provide a check on the appointment process, and can ensure that the position is held by an individual who has the knowledge, skills and abilities necessary to do the job.*** Because of the importance of these positions, cabinet secretaries should be recognized leaders in their fields and should possess the needed administrative skills to be successful in their positions, including knowledge of fiscal matters. By requiring that the cabinet secretaries meet minimum qualifications, the Senate can ensure that competent individuals fill these positions. In addition, the Commission recommends that a study be undertaken to review if the appointment process should extend below the cabinet secretary.

Once the nomination has been received by the Lieutenant Governor, the confirmation process for each cabinet secretary should begin by referring the nomination to the appropriate standing committee in the Senate. At this time, confirmation hearings should be held to allow for public input into the process, and to allow the Senate to inquire regarding the abilities of each candidate. This type of approval process provides a mechanism for ensuring that the individuals who will lead the Cabinets are qualified for their positions.

If direct accountability to the Governor is to operate, this will require a change in the role of boards and commissions, and the appointment of cabinet secretaries. The potential for uncoordinated policies is present when policy is set by numerous boards and commissions, and these boards and commissions do not report to the Chief Executive, who is also responsible for setting policy. Board-based administration is often delayed and indecisive, and it diffuses accountability and responsibility for decision making. ***Replacing boards and commissions with a cabinet official, who is directly responsible to the Governor, will ensure that policy is being set in a coherent and comprehensive fashion. The recommended role for boards and commissions is as an advisory or quasi-judicial body, in order to ensure that citizen participation is a part of the process, while also providing for a direct line of accountability to the Governor for Executive Branch agencies.*** Those advisory and quasi-judicial boards that the Commission recommends be maintained, are detailed within each cabinet area. Advisory boards should also ensure adequate representation of women and minorities.

The Commission on Government Restructuring has worked to provide a system that will improve the administration, i.e. the efficiency and effectiveness of State services, and will provide for increased accountability to, and greater management authority for, the Governor. Functional consolidation encourages the coordinated performance of logically-related functions. It will eliminate costly overlapping or duplication of bureaucratic programs, where either exists. Functional consolidation forces answers to the questions of uncertain authority and responsibility that plague South Carolina's traditional, fragmented governmental structure.

The proposed organizational chart* (see page 26), when compared to the State's current organizational chart (see page 27), ***demonstrates visually the direct lines of accountability to the Governor that will be achieved with restructuring. Consolidating Executive Branch agencies into a smaller number of functional groupings will provide a more practical number of agencies for the Governor to oversee, and will allow for consistency in policy development and implementation. The proposed cabinet structure will allow for better management of the State government's resources, and will allow the Governor to be more responsive to the needs of the State's citizens. This has been the motivation for the effort undertaken.***

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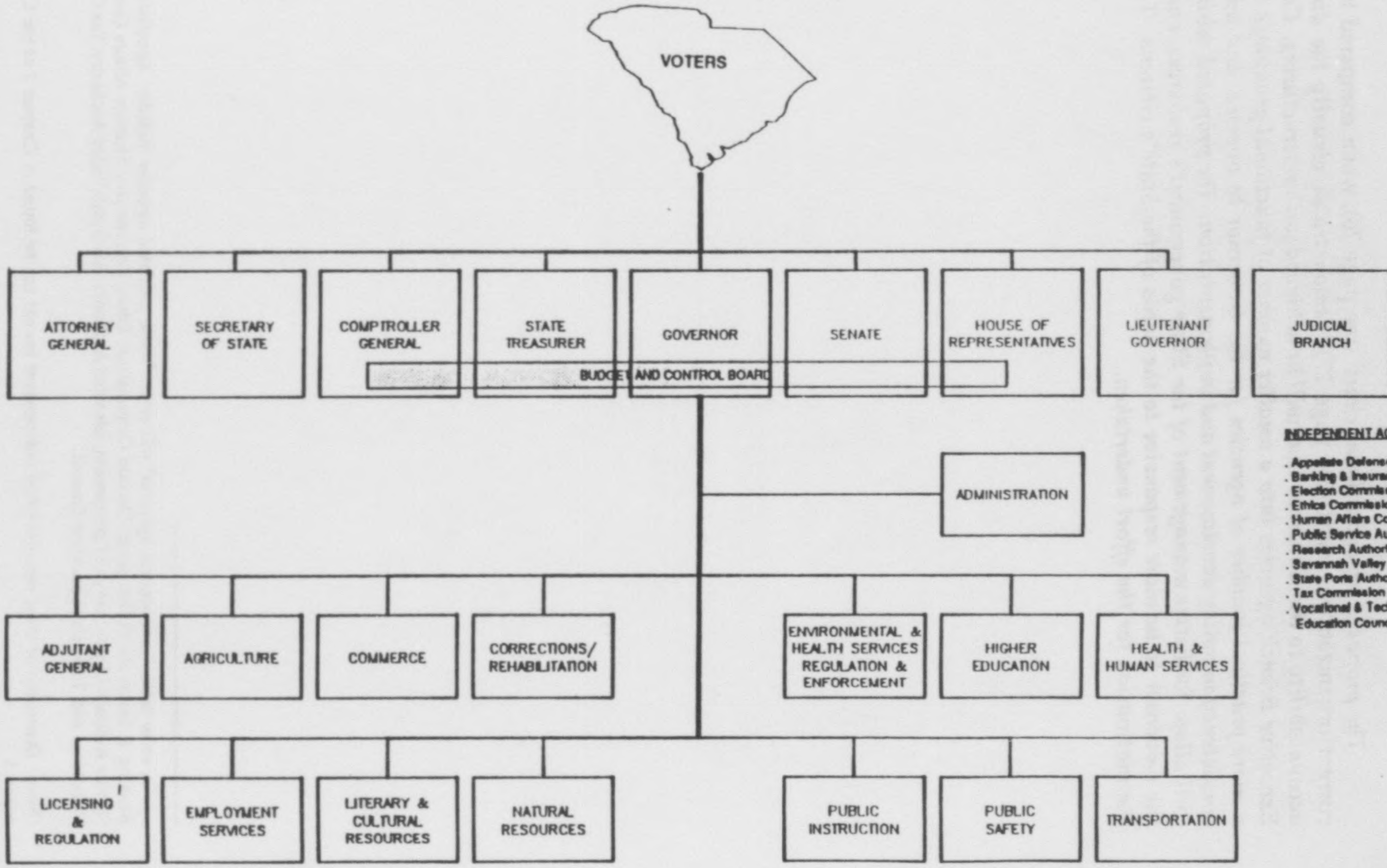
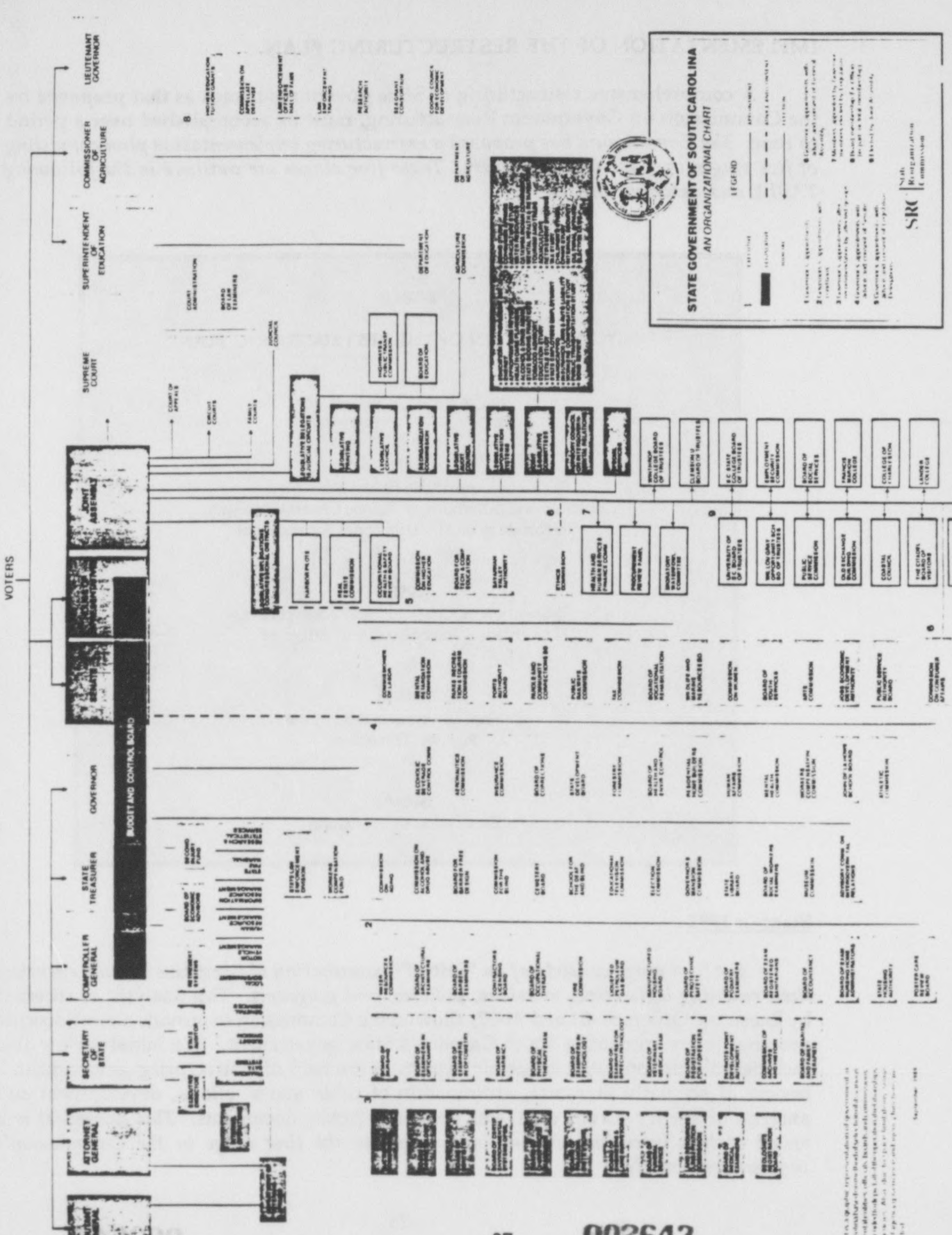
*In some cases, "independent agencies" will exist. These proposed agencies include: Appellate Defense Office; Banking & Insurance Commission; Election Commission; Ethics Commission; Human Affairs Commission; Public Service Authority; Public Service Commission; Research Authority; Savannah Valley Authority; Tax Commission; and, Vocational and Technical Education Council.

(Note: Discussion of these recommended independent boards can be found in Chapter 7 of the Commission's full report.)



INDEPENDENT AGENCIES

. Appellate Defense Office
. Banking & Insurance Commission
. Election Commission
. Ethics Commission
. Human Affairs Commission
. Public Service Authority
. Research Authority
. Savannah Valley Authority
. State Ports Authority
. Tax Commission
. Vocational & Technical Education Council


VOTERS
ADJUTANT GENERAL
ATTORNEY GENERAL
SECRETARY OF STATE
COMPTROLLER GENERAL
STATE TREASURER
GOVERNOR
SENATE
JOINT ASSEMBLY
BUDGET AND CONTROL BOARD
SUPREME COURT
SUPERINTENDENT OF EDUCATION
COMMISSIONER OF AGRICULTURE
LIEUTENANT GOVERNOR
STATE GOVERNMENT OF SOUTH CAROLINA
AN ORGANIZATIONAL CHART
LEGEND
SRC

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IMPLEMENTATION OF THE RESTRUCTURING PLAN

A comprehensive restructuring of State government, such as that proposed by the Commission on Government Restructuring, must be accomplished over a period of time. *The Commission has proposed a restructuring implementation plan consisting of five stages over the next five years. These five stages are outlined in the following TABLE and described below.*

TABLE

IMPLEMENTATION OF THE RESTRUCTURING PLAN

1991
Commission Report

1992
Consultant Fieldwork
Constitutional Amendment Before General Assembly
Referendum on Constitutional Amendment

1993
Ratification of Constitutional Amendment
Legislation Introduced and Adopted

1994-95
Cabinet Government Initiation
Agency Transition

1995-96
Evaluation of Transition

Stage 1: 1991

The first stage consists of an "initial" examination of Executive Branch agencies, their enabling legislation, missions, policies, and programs. This analysis, as directed by Executive Orders 91-01 and 91-07, allowed the Commission to provide a more specific proposal for restructuring South Carolina's State government. The initial review also included discussions with academic experts in the field of restructuring government, a review of scholarly literature, examination of other states' efforts, development and analysis of agency survey data, and review of public documents. ***This document is a result of this intensive review, and represents the first stage in the Commission's implementation plan.***

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Stage 2: 1992

Since the South Carolina Constitution requires that any amendment to the Constitution be placed before the voters, the Commission recommends a 1992 referendum as part of the second stage in the restructuring process. The referendum would propose a change in the State Constitution to provide for a maximum number of executive cabinets. In addition, the referendum would propose an amendment to the State Constitution to allow for the appointment, rather than election, of the Adjutant General, the Superintendent of Education, and the Commissioner of Agriculture. As part of the second stage in the Commission's implementation plan, a more detailed examination of agencies would also be accomplished. As in many other states' restructuring efforts, management consulting groups would be requested to review the initial proposal for restructuring State government, and to make recommendations for accomplishing the actual transition, taking into account the impact on the people affected by the changes. In addition, the Commission is committed to the principles of "Total Quality Management" (TQM) and recommends that application of these principles be emphasized and incorporated into the implementation phase of the Governor's restructuring plan.

Stage 3: 1993

The third stage in the Commission's implementation plan would involve tification of the State Constitutional Amendments, if the 1992 referendum passes. The onstitution would be amended to specify "a maximum number of cabinet departments" for the State, and to change the positions of the Adjutant General, the State Superintendent of Education, and the Commissioner of Agriculture from constitutionally-elected offices to appointed offices. The General Assembly would then need to decide how many cabinet departments are necessary, up to the maximum allowed by the amended State Constitution. Both the Commission's initial report and the consultants' reports will be valuable resources at this point. In addition, the General Assembly would need to determine which agencies should comprise the cabinet departments. Legislation will need to be introduced to modify existing laws, and to allow restructuring to be accomplished.

Stage 4: 1994-1995

In the fourth stage of the implementation plan, the actual transition will occur. The process to be followed, including the dates for specific agency transitions, should be outlined by the General Assembly. The transition plan should allow time for the people affected to adapt to the changes and for adjustments to the plan to be made.

Stage 5: 1995-1996

The Commission proposes that, in the fifth stage, the cabinet departments be examined to determine what additional adjustments are needed to allow for a smooth transition to the new cabinet form of government. This examination will provide an initial review of what has been accomplished through restructuring.

State Economic Outlook and Comments on the Findings of *Financing Government in the Palmetto State, A Study of Taxation in South Carolina*

Dr. Bruce Yandle, Director
The Strom Thurmond Institute

BRUCE YANDLE

Bruce Yandle is Alumni Distinguished Professor of Economics and Director of the Strom Thurmond Institute of Government and Public Affairs at Clemson University. He received his A.B. degree from Mercer University (Macon, Georgia) and his MBA and PhD degrees from Georgia State University. A member of Clemson's faculty since 1969, Bruce has served as Head of the Department of Economics and has twice been on leave to serve in Washington. In 1976-78, he was Senior Economist on the President's Council on Wage and Price Stability. In 1982-84, he was Executive Director of the Federal Trade Commission.

Bruce is a member of the Academic Advisory Board of the James Madison Institute, a Senior Scholar with Clemson University's Center for Policy Studies and is an Adjunct Scholar at the American Enterprise Institute in Washington. He is a member of the National Advisory Council of the S.C. State Board of Economic Advisors. Bruce is author/editor of nine books and 75 scholarly articles in economics. His books include Environmental Use and the Market (1978), Regulatory Reform in the Reagan Era (1989), The Political Limits of Environmental Regulation (1989), and The Economic Consequences of Liability Rules (1991).

Prior to entering a career in university teaching and research, Bruce was in the industrial machinery business for 15 years in Georgia, rising to the position of executive vice president of his firm. He is a member of First Savings Bank's Clemson Regional Board, writes a regular column for the Columbia (S.C.) State newspaper and is actively engaged in forecasting national and regional economic activity.

THE SOUTH CAROLINA ECONOMY: CURRENT PICTURE AND FUTURE PROSPECTS

A Presentation to the S.C. Budget and Control Board

October 24, 1991

Bruce Yandle
Alumni Professor of Economics
Clemson University

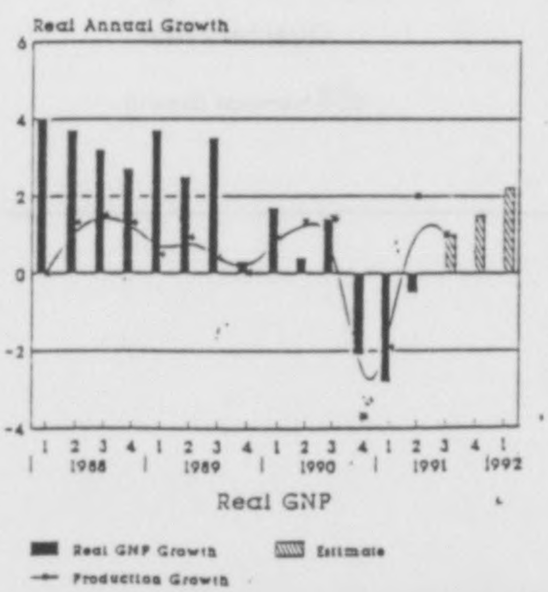
1. THE CURRENT PICTURE

The Transition

The South Carolina economy is currently in a transition that reflects a combination of three forces: 1. A national economy that is recovering from a mild recession; 2. An adjustment from the stimulus of hurricane Hugo's construction effects; and 3. A mixture of the forces of demographic and structural changes playing through the national and world economy.

The recovery from the 1990-91 recession is reflected in national GNP and Industrial Production data, which show an economy that is moving slowly but positively. Monthly Industrial Production data show five recent months of positive growth. At first reflecting a surge of consumer confidence following the end of the Gulf War, growth of industrial production has diminished sharply in the last three months. Even so, that and other data support a forecast for slow recovery of GNP for 1991. GNP growth for 1992 and 1993 is predicted to be positive but at a relatively low level. Adjusted for inflation, GNP growth for 1991 will likely be close to zero. The same measure of growth for 1992 and 1993 is predicted to come in at 2.5% to 3.0%.

GROSS NATIONAL PRODUCT
Annual Growth Rate, 1Q87 - 2Q91

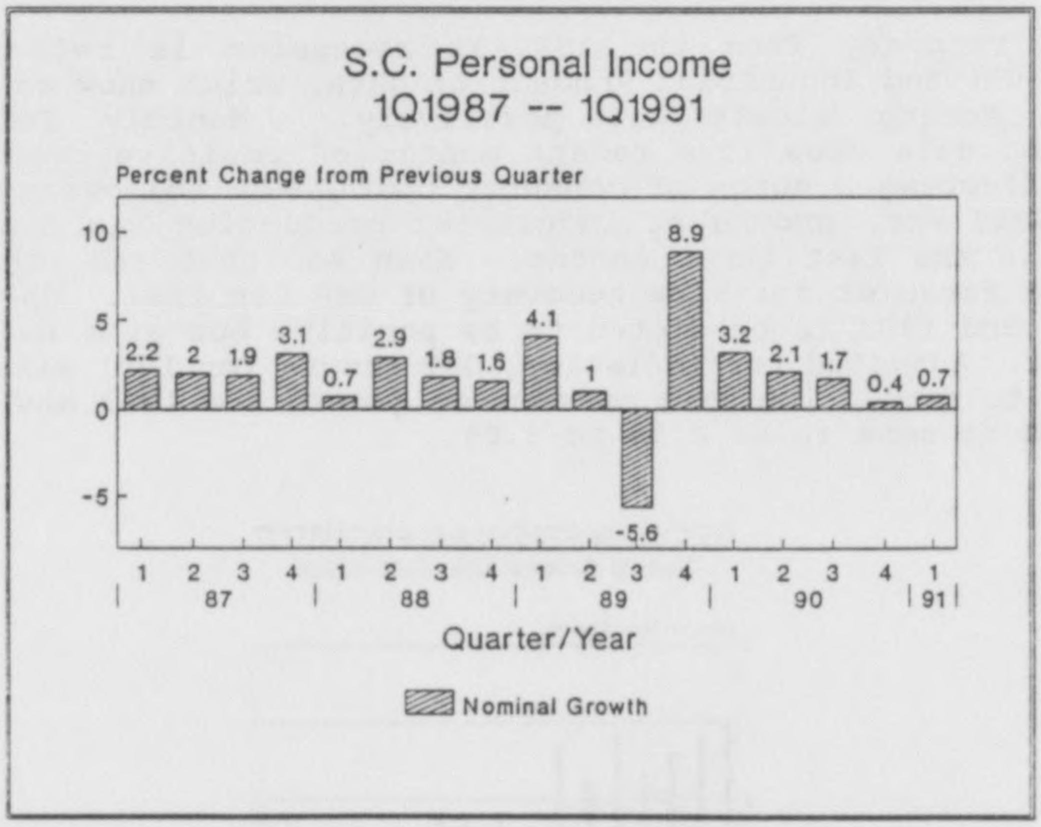


Estimate for 3Q1991-1Q1992

Playing from Strength

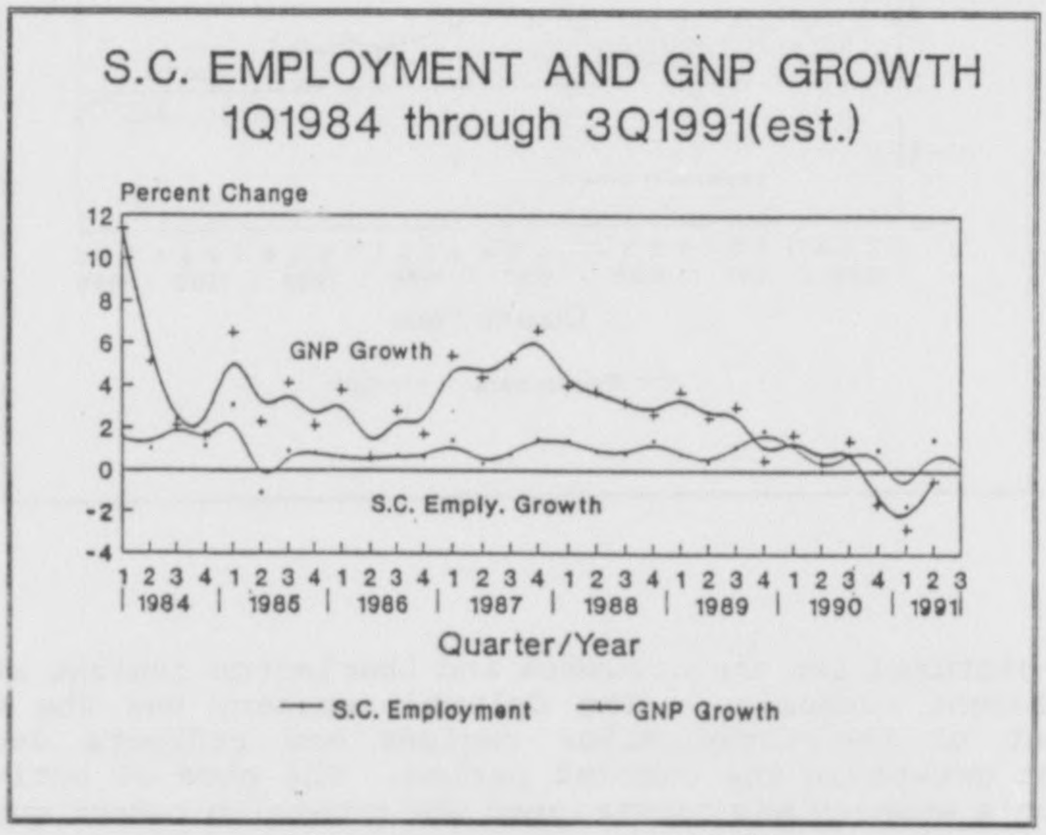
South Carolina's economy was one of the strongest east of the Mississippi when the recession took hold. The state had enjoyed substantial growth in population and personal income in the 1970s and 1980s that exceeded that of the nation. While the pace of the national economy was being deliberately reduced by Federal Reserve action in the late 1980s, the S.C. economy continued to produce employment and income gains.

Hurricane Hugo brought a sharp loss in actual and imputed income growth in 3Q1989 that was followed by a sharp increase in income in 4Q1989 and additional stimulus in the first three quarters of 1990. By 4Q1990 the effects of Hugo had worn thin. Meanwhile, the national recession was still taking its toll on the S.C. economy.

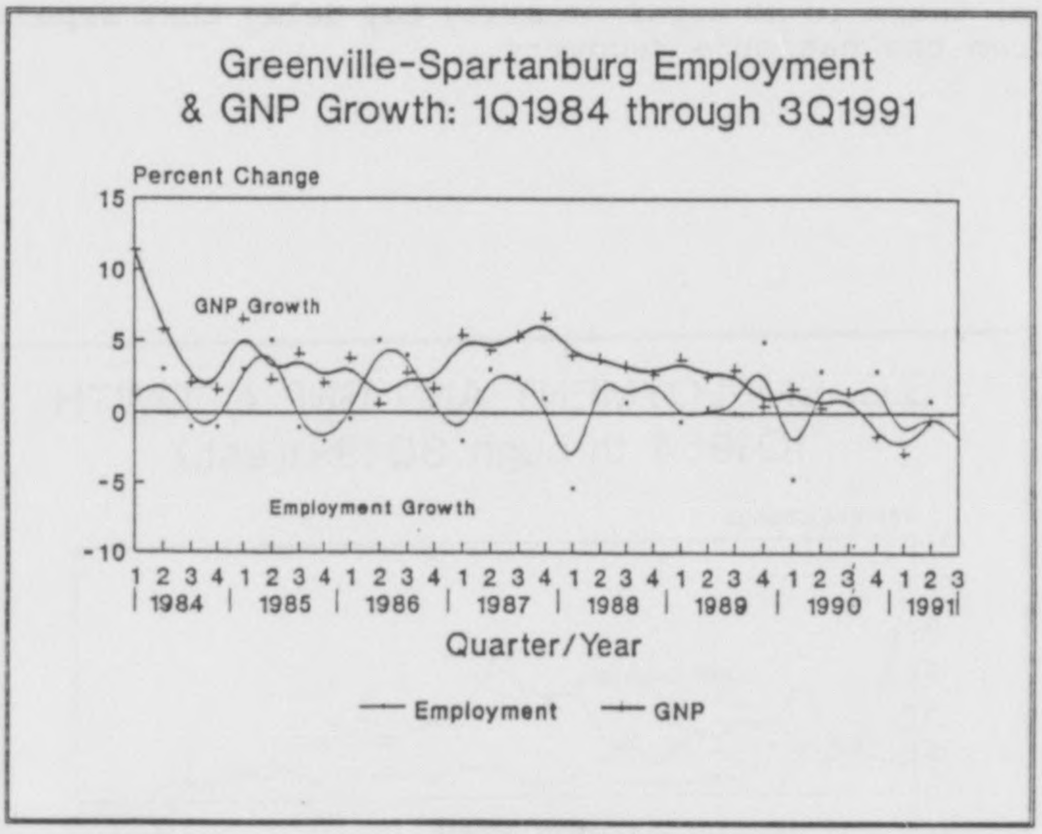


The State and Regional Employment Effects

The performance of the S.C. economy relative to the nation can be observed by comparing growth in national GNP and growth in S.C. employment. That reveals a picture of positive state employment growth in 1987, 1988, and 1989 in the face of declining GNP growth. The recent low point of the recession observed in 1Q1991 coincides with a low point in state employment growth. Unlike previous recessions, there is no apparent sixty day delay that separates the state's from the nation's recovery.

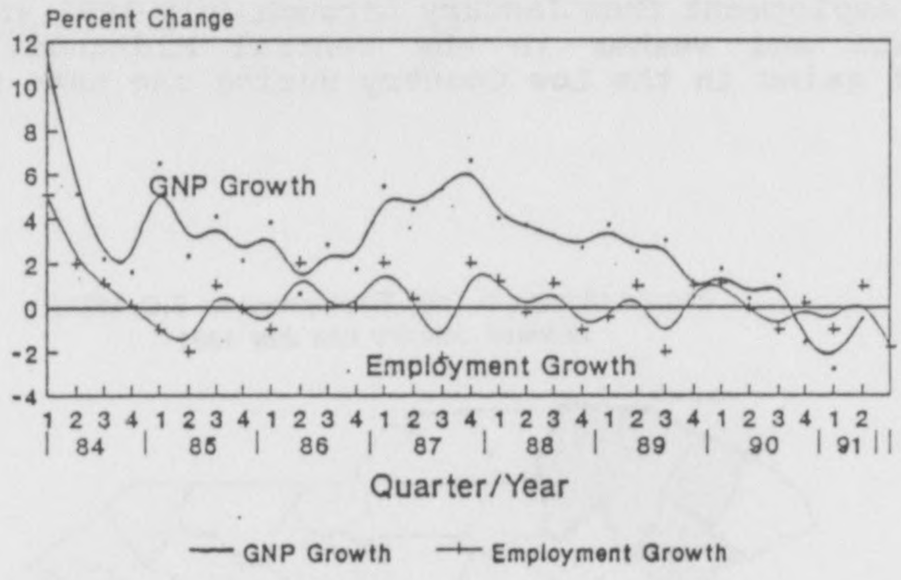


Strikingly different pictures emerge when similar data are compared for the state's major regional economies. The industrial concentration in the Piedmont shows an economy with a lag. Employment growth appears to be declining in the most recent quarter.

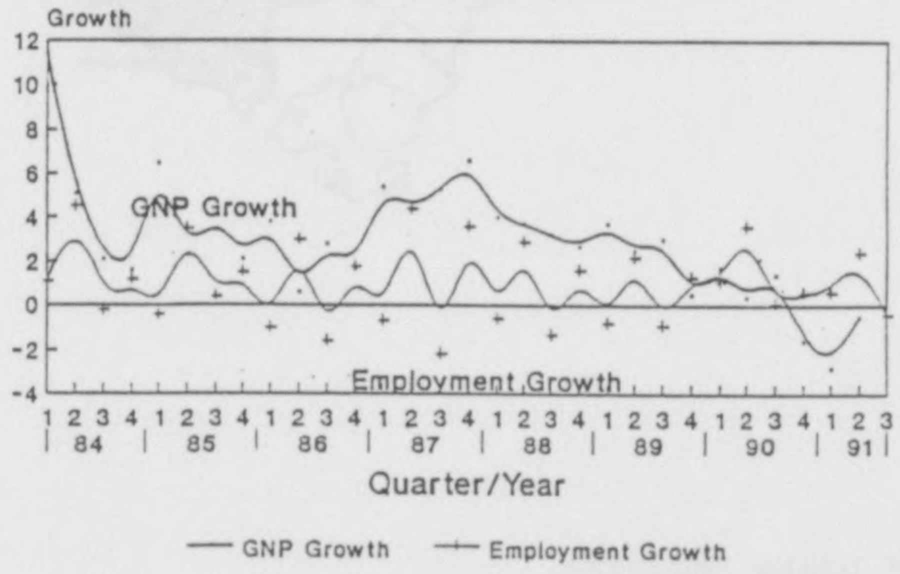


The pictures for the Columbia and Charleston regions show two very different economies. The Columbia economy has the weakest pulse beat of the three major regions and reflects declining employment growth in the current period. The pace of activity in Charleston's economy has outstripped GNP growth in recent quarters, but is showing weakness in the current period.

COLUMBIA EMPLOYMENT & GNP GROWTH
1Q1984 through 3Q1991

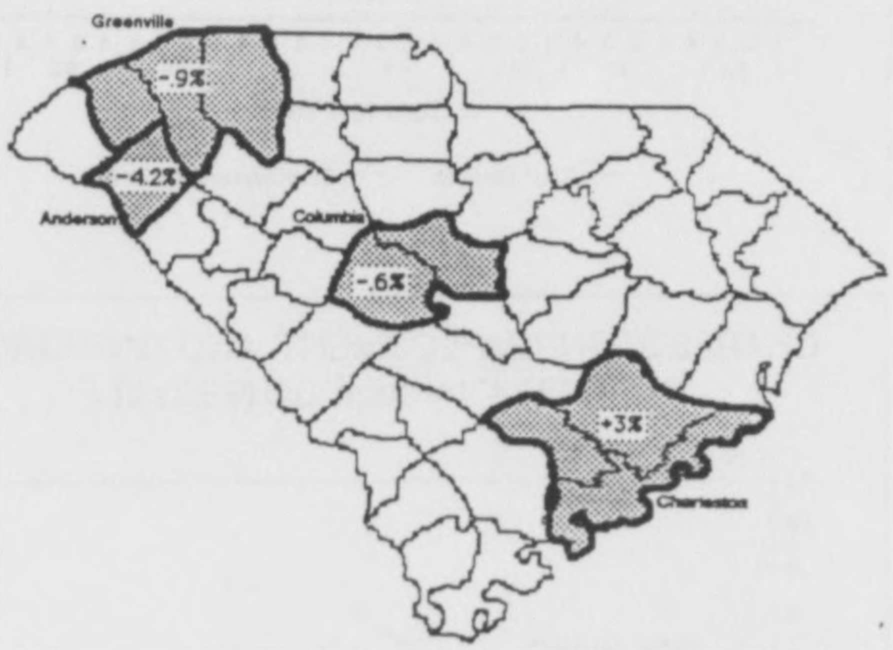


CHARLESTON EMPLOYMENT AND GNP GROWTH
1Q1984 through 3Q1991(est.)



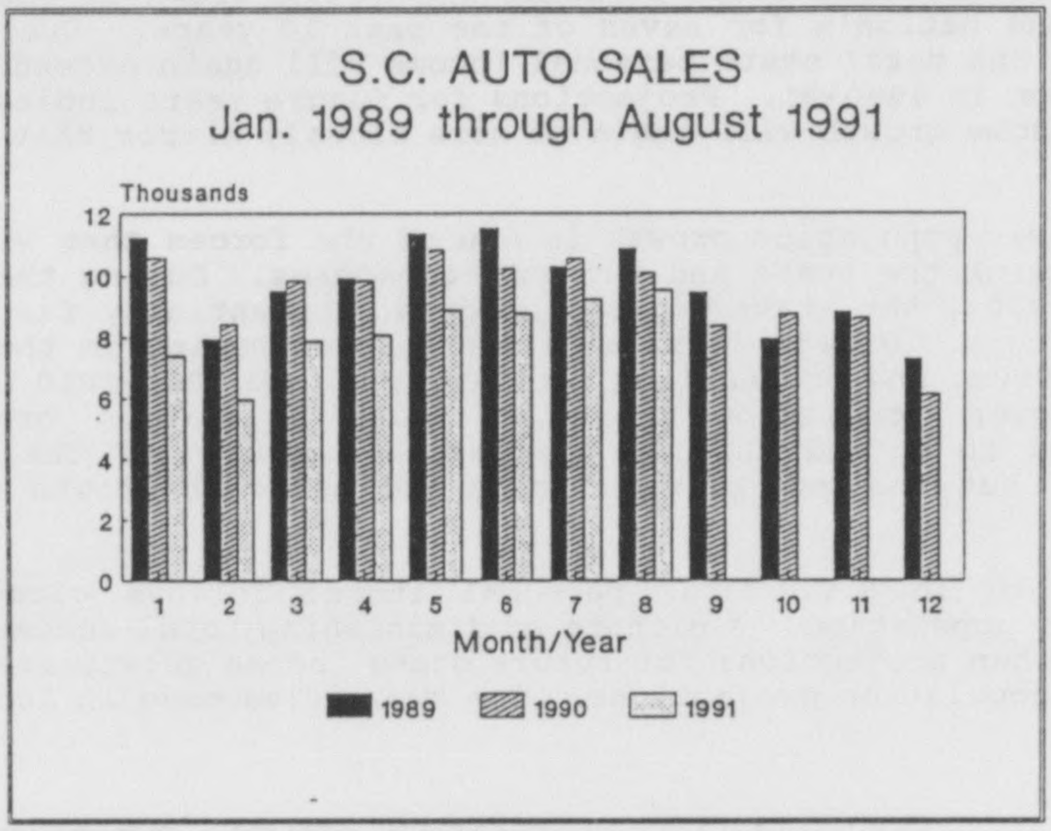
A summary picture of the recovery effects across the state is seen when changes in employment are compared for the three MSAs. Losses in employment from January through July 1991 are heaviest in the Upstate and weaker in the Central Midlands. There are employment gains in the Low Country during the same period.

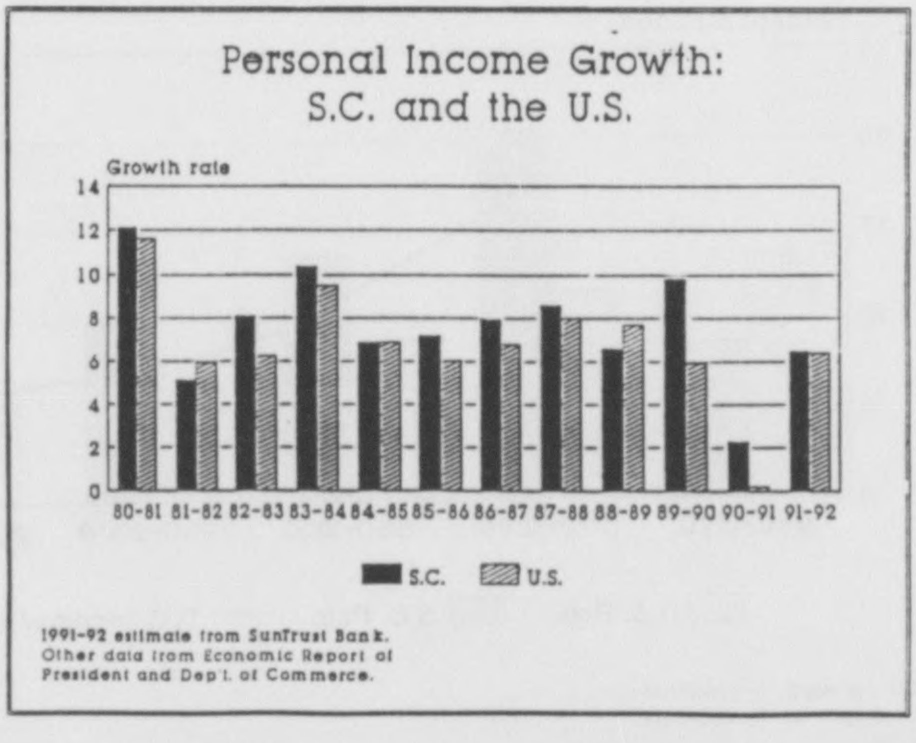
Percent Change in Total Employment for S.C. MSAs
between January and July 1991



Signals of State Recovery

Along with some evidence of employment gains, data on state retail and auto sales send signals of recovery. Nominal retail sales are up since March 1991, and auto sales across the state continue to rise on a month-to-month basis. Even though the trend for autos is positive, the level of sales for 1991 is substantially below that of 1990 and 1989.





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2. FUTURE PROSPECTS

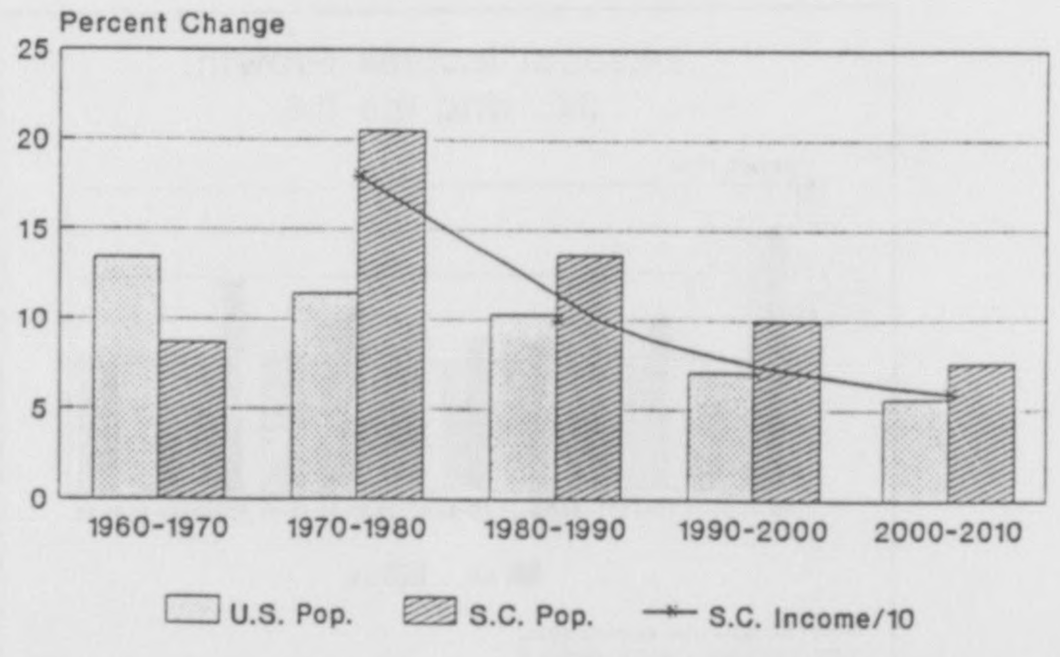
Future Income Growth

South Carolina total personal income has grown at rates that exceed the nation's for seven of the past 10 years. Due to Hugo effects, the total state personal income will again exceed that of the nation in 1990-91. Projections for future years indicate that state income growth will begin to more closely mirror that of the nation.

Slower population growth is one of the forces that will more closely link the state and national economies. During the decade of the 1970s, the state population grew substantially faster than the nation's. Growth diminished for both economies in the decade of the 1980s, and projections for 1990-2000 and 2000-2010 indicate even slower population growth. State population growth is predicted to exceed that of the nation for each of the distant decades, but the gap between state and national growth will be smaller.

Growth in S.C. total personal income follows closely the growth in population. A picture of diminishing total income growth is seen when projections for future state income growth are mapped against population projections. The two series move in lock step.

S.C. AND U.S. POPULATION GROWTH
S.C. Total Personal Income Growth

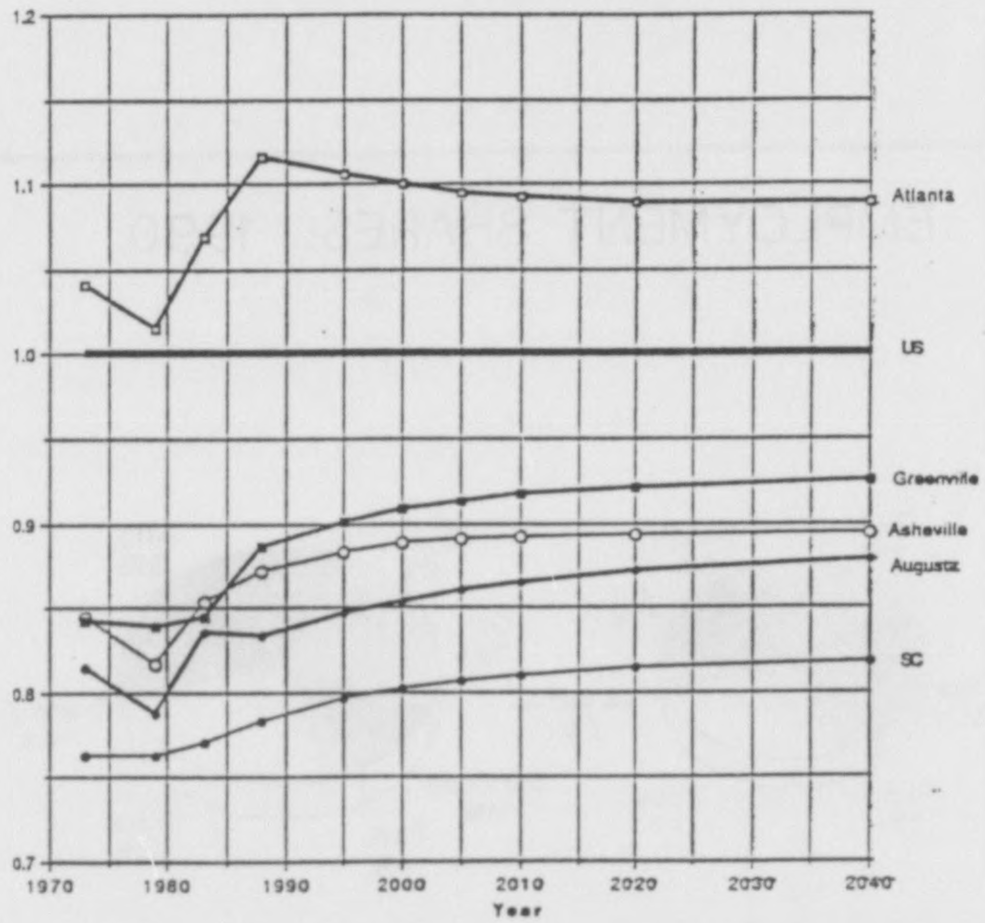


1990 forward, projections.
U.S. Dep't. of Commerce.

Closing the Income Gap

From 1980 through 1995, state per capita income is expected to show significant but diminishing gains on national per capita income. Gains are predicted to diminish further to the year 2010 and then to be even smaller. All along, the gap that separates S.C. per capita income from that of the nation will get smaller. Similar patterns are seen for major regions in the state.

Per capita Incomes as a Percentage of the United States Mean Per capita Income



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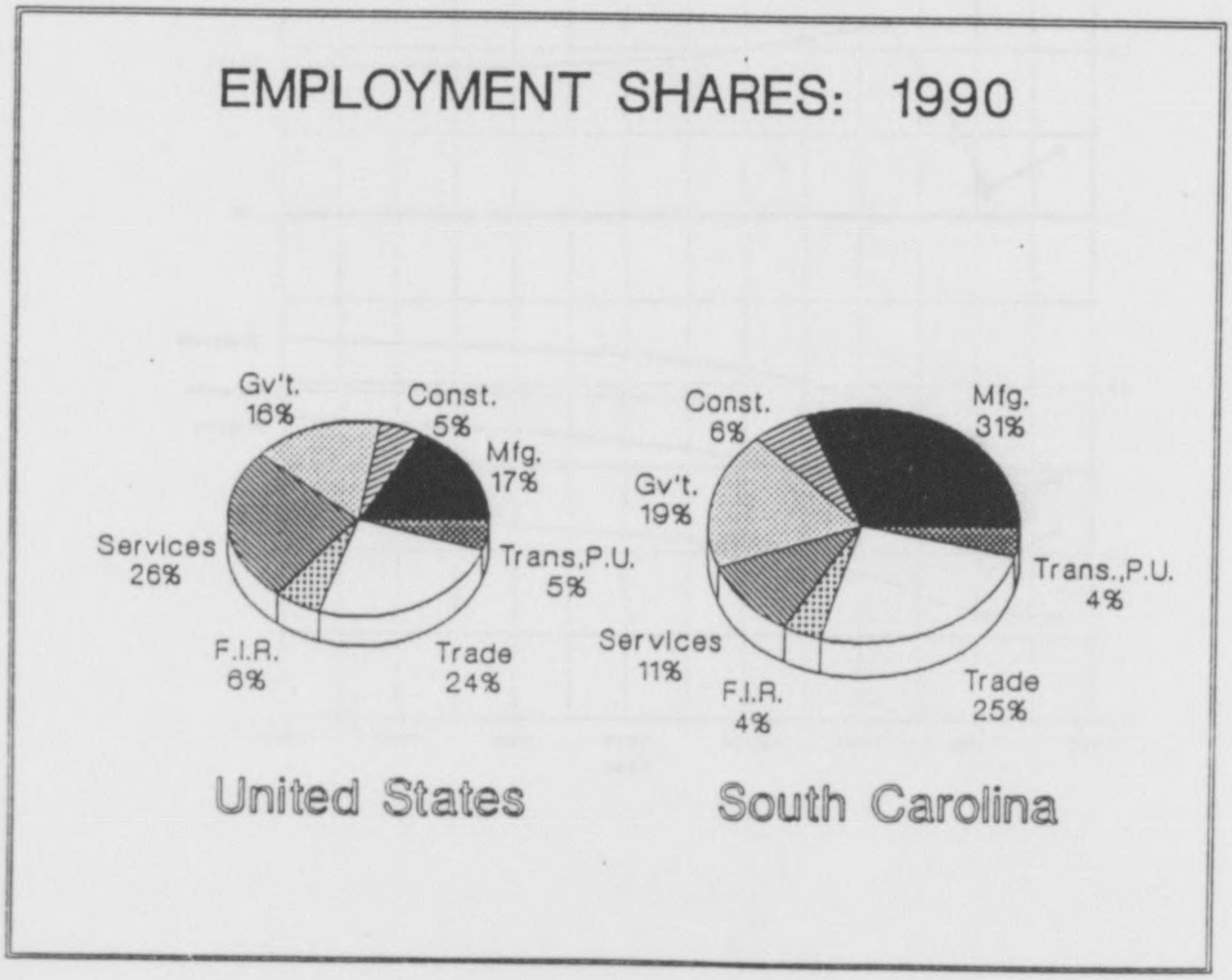
The Ultimate Target

The notion of convergence tells us that smaller economies contained in a nation will through time become more like the nation. At the same time, the idea of path dependency reminds us that specialized features of those economies can sharply color the differences that remain. In that sense, the make-up of the national economy provides a basis for forecasting the future make-up of the state economy. Observing shares of employment by sector for the nation and state indicates that S.C. manufacturing will be a smaller component of the state economy in future decades. The services sector will be the faster growing sector. Employment in the finance, insurance and real estate category (F.I.R.) will grow more rapidly. Government will be relatively smaller.



3. THOUGHTS ON STATE REVENUES

Preliminary considerations of the S.C. fiscal picture can be made in light of where the state stands today and the prospects for future growth in total personal income. The thoughts presented here are for the longer run. They do not focus on the possibilities for adjustments that might be made to handle current fiscal stress. Indeed, what might appear to be logical in the short run may not be so compelling when viewed in a long run setting.

State Taxes per $1000 of Personal Income

S.C. citizens carry a heavier state tax burden than the average U.S. citizen.[1] Tax burden is measured by total taxes paid per $1000 of personal income. The total state taxes paid per $1000 of personal income across all states is $70.31. For S.C., the total is $82.85.

When compared to the national average, the ratio of total state taxes is 1.178, which indicates S.C. citizens carry a heavier burden than the average U.S. citizen. By comparison, the ratio for total state taxes paid by citizens of Georgia is 0.93. For North Carolina, 1.12. Alabama, 0.988. Virginia, 0.885. Tennessee, 0.851. The ratio for citizens of Massachusetts, 1.05, is lower than that for S.C. Connecticut, with a ratio of 0.91, is even lower, and New Jersey's ratio of 0.879 is lower yet.

When specific tax categories are examined, the ratio of a S.C. citizen's taxes per $1000 of personal income to the share of income for the average U.S. citizen for the general sales tax is 1.30, which means that the average S.C. citizen carries a 30% heavier burden for that tax. For motor fuels, the ratio is 1.64, and for personal income taxes, 1.26.

Tax Effort and Capacity

Additional consideration of the possibility of enhancing revenues can be made on the basis of a state's tax capacity, which has to do with the application of a representative tax system (national average) to what a state is actually doing in a particular year.[2] The national average for tax capacity is set at

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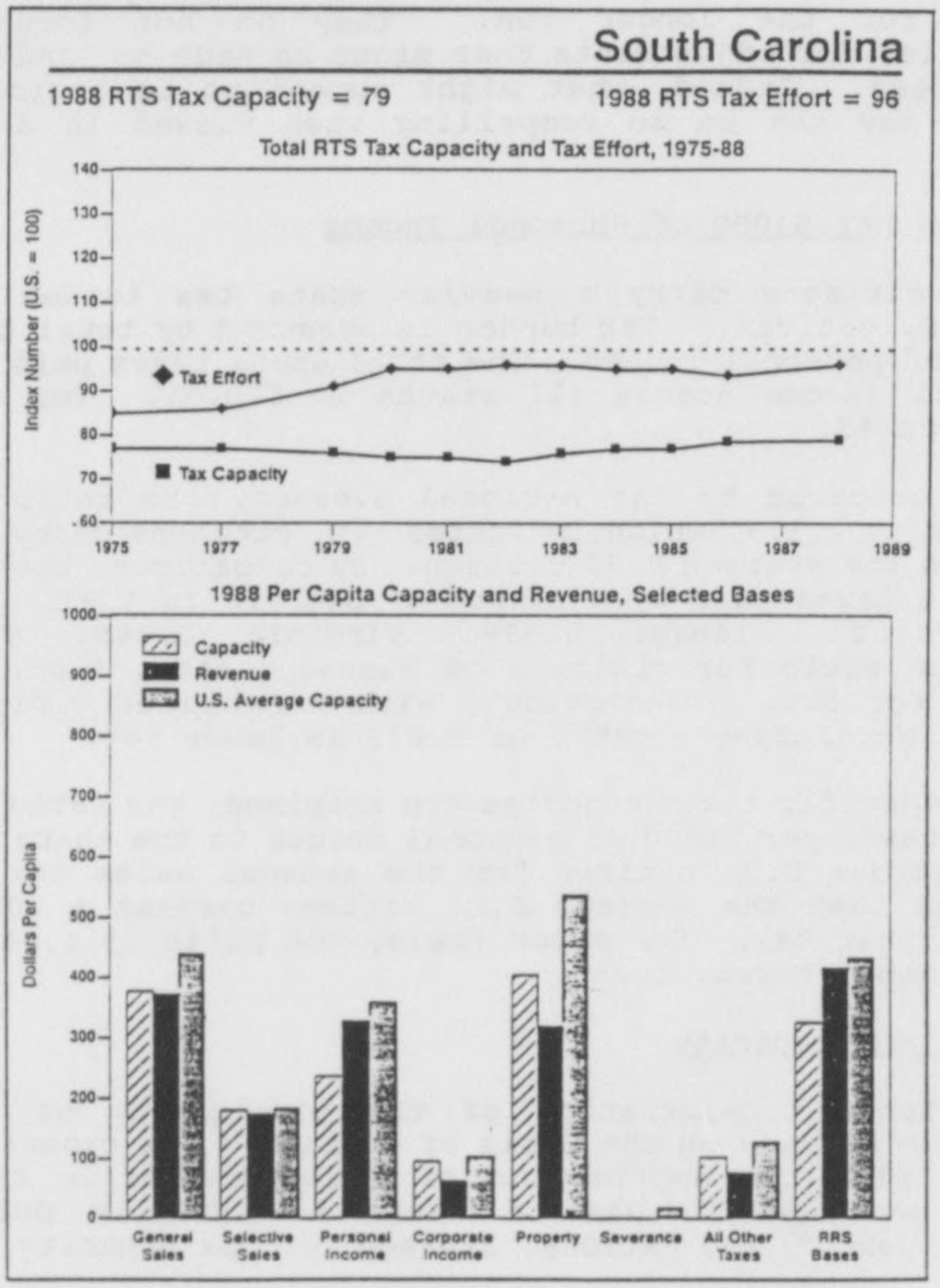
[1]. The data referred to here are from U.S. Department of Commerce, State Government Finances in 1989, Bureau of the Census, GF 89 3, August 1990, p. 47.

[2]. For discussion of the concepts and source of data to be reported, see Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, M-170, Washington: Advisory



U.S. Advisory Commission on Intergovernmental Relations

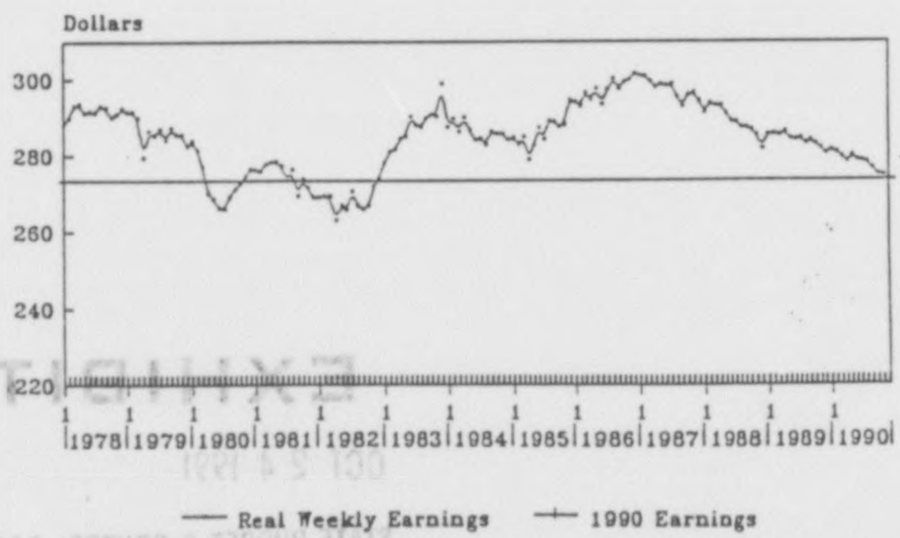
100. The same index is used for national tax effort. In 1988, S.C. tax effort was 96, which is close to national average. S.C. tax capacity that year was 79, substantially below the national average. The ratio of S.C. effort to capacity for 1988 is 1.215, which is 21.5% above the national average.

Examination of S.C.'s tax system on the basis of effort and capacity indicates the state is hitting close to capacity with the general sales tax; above capacity for the personal income tax; and below capacity for the corporate income tax and property tax. Graphical presentation of the relationship between S.C. Tax Effort and Tax Capacity for the years 1975-1988 shows that capacity has fallen in association with increased tax effort. Examination of similar data for the 50 states reveals a similar relationship for 36 other states. That is, increases in tax efforts are accompanied by losses in tax capacity.

<u>Final Thoughts</u>

Harking back to the earlier discussion of the economic outlook for S.C., we recall the forecast of a declining rate of growth in population and total personal income. The national economy will be generating positive income, but at a lower rate of growth than observed in the recent past. That picture is coupled with declining real weekly earnings in S.C. manufacturing that has occurred since late 1986. As shown here, the average S.C. factory worker is earning about what was earned in 1982.

Real Weekly Earnings
South Carolina



Commission on Intergovernmental Relations, August 1990.

In summary, the decade of the 1990s is not likely to be recorded as one of record income growth for the nation and state. Total income growth relies on growth in the workforce and gains in productivity. Moderately positive prospects are expected for the two components. Of course, there are always surprises, which can go either way. On a positive note, long run forces that might offset the forecast and assessment include the possibilities that:

- o S.C. will outstrip other states in attracting major employers to the state, which will induce greater in-migration.
- o Investments in education at all levels will yield a more productive workforce.
- o S.C.'s relative strength as a fertile place for sprouting small and medium size businesses will be strengthened.
- o Spillover activity from the growth of Charlotte and Atlanta will induce major expansions of services-related activities.

The list can go on, but these are major possibilities to consider.

EXHIBIT

OCT 2 4 1991 3

STATE BUDGET & CONTROL BOARD

National Economic Outlook

David A. Wyss, Research Director
DRI/McGraw-Hill

DRI/McGraw-Hill

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David Wyss counsels corporate clients on financial issues, helping to make investment, asset allocation, financing, and leveraged buyout valuations. He and his staff are also responsible for all of DRI's financial forecasts. His solid track record and comprehensive knowledge of the linkages between economic and business issues make him a leading specialist in the financial field.

Recent engagements with which Mr. Wyss has been involved have included an assessment of a U.S. recession on financial markets, an analysis of the behavior of high yield corporate bonds under alternative business conditions, and an assessment of liquidity of stocks listed on alternative exchanges.

Mr. Wyss frequently provides expert testimony to Congress and in matters of litigation. He publishes extensively on financial matters, and is quoted regularly in the major national and financial press.

On joining DRI in 1979, Mr. Wyss directed DRI's European service, working with clients to assess the impact of exchange rate fluctuations, financial market volatility, economic fluctuations, and government policy changes on their prospects for growth. In 1983, he moved to Lexington as Chief Financial Economist.

Previously, Mr. Wyss was a senior staff member of the president's Council of Economic Advisers, where he was responsible for economic forecasting and analysis. He was also a Senior Economist for the Federal Reserve Board, Economic Advisor to the Bank of England, and an instructor in economics at Harvard University.

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THE RELUCTANT RECOVERY

* * * * * * * * *

Presented by
Dr. David A. Wyss
Senior Vice President and Research Director
DRI/McGraw–Hill

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Prepared for
The Budget and Control Board
Columbia, South Carolina
October 24, 1991

Forces Shaping the Recovery

- Interest rates will move up as a recovery gives more power to the inflation hawks at the Fed.
- But for the moment, weak economic data and a falling money supply could cause one more easing.
- Bond yields will remain high because of international pressures.
- But inflation will slow as labor market slack takes pressure off wages.
- Auto producers will be in trouble, with slowing demand and excess capacity.
- These problems extend to much of consumer durables.
- Housing will remain soft because of overbuilding and the slower rise in number of new households.
- The single-family market is healthier than multis, implying more lumber and less brick and steel.
- Nonresidential construction is in even worse oversupply than housing.
- Export markets are a bright spot, since the dollar remains very competitive.
- But foreign demand will slow in late 1991 and 1992.

DRI/McGraw-Hill Forecast for the U.S. Economy: CONTROL1091

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Composition of Real GNP (Annual rate of change)												
Gross National Product	-2.8	-0.5	2.9	2.4	4.2	4.1	2.9	1.0	-0.4	3.1	2.9	2.8
Final Sales	-2.9	0.3	0.7	2.1	3.4	2.6	2.2	1.6	0.0	2.2	2.9	2.8
Excluding CCC Transactions	-3.0	-0.5	1.5	2.0	3.3	2.6	2.2	1.6	-0.1	2.3	2.9	2.8
Total Consumption	-1.5	2.5	3.9	2.1	2.9	2.3	1.4	0.9	0.4	2.5	2.4	2.3
Nonresidential Fixed Investment	-16.3	1.4	-2.4	4.7	4.9	12.9	15.0	1.8	-3.4	7.0	11.2	7.0
Equipment	-18.4	6.3	2.7	6.3	7.3	14.8	17.7	2.8	-1.1	9.6	11.5	7.3
Buildings	-11.0	-16.9	-20.2	-4.3	-8.9	3.8	5.8	-2.3	-13.9	-5.0	9.0	7.3
Other Structures	-4.3	-7.5	-16.1	4.9	7.1	9.7	2.4	1.1	-4.3	3.0	12.8	2.1
Residential Fixed Investment	-25.3	1.6	13.9	11.6	11.3	11.4	5.2	-5.4	-11.9	9.8	7.1	7.8
Exports	0.5	4.5	-0.5	3.1	5.6	6.3	9.3	6.4	3.6	4.9	7.3	6.0
Imports	-8.8	17.7	4.6	4.4	2.3	11.3	11.5	2.8	0.2	7.1	8.6	5.6
Federal Government	-0.5	5.5	-12.7	-2.9	-4.1	-3.4	-6.8	2.6	0.8	-4.8	-4.9	-4.0
Excluding CCC Transactions	-1.6	-4.0	-4.2	-3.3	-4.7	-3.5	-6.9	1.7	0.1	-4.5	-5.0	-4.0
State and Local Governments	-1.9	-0.8	-0.7	1.5	2.7	2.1	2.4	3.0	0.5	1.6	2.6	3.2
Billions of Dollars												
Real GNP (1982 $)	4124.1	4118.9	4148.6	4173.7	4217.3	4259.7	4290.7	4157.3	4141.3	4270.9	4395.5	4516.7
Gross National Product	5557.7	5612.4	5675.4	5750.4	5857.2	5961.0	6043.7	5465.2	5649.0	5995.8	6341.3	6703.1
Prices and Wages (Annual rate of change)												
GNP Price Deflator (Implicit)	5.2	4.5	1.5	2.9	3.3	3.1	2.6	4.1	3.8	2.9	2.8	2.9
GNP Price Index (Fixed-Weight)	5.1	3.1	2.0	3.4	4.4	3.8	3.6	4.6	4.0	3.5	3.6	3.7
CPI—All Urban Consumers	3.5	2.1	2.8	3.7	3.9	3.7	3.7	5.4	4.2	3.6	3.7	3.7
Producer Price Index—Finished Goods	-2.5	-0.7	-0.4	3.2	3.3	2.7	2.9	4.9	2.1	2.4	3.1	3.5
Employment Cost Index - Total Comp	5.7	4.9	4.0	3.4	5.2	4.5	3.7	5.0	4.4	4.3	4.1	4.2
Output per Hour	0.0	0.7	4.7	2.7	3.4	2.6	1.1	-0.5	0.8	2.7	1.1	1.2
Production and Other Key Measures												
Industrial Production (1987=1.000)	1.058	1.064	1.083	1.094	1.109	1.121	1.131	1.092	1.075	1.125	1.163	1.198
Annual Rate of Change	-9.6	2.4	7.2	4.3	5.5	4.4	3.7	1.0	-1.6	4.7	3.3	3.0
Nonfarm Inven Accum (Billion 1982 $)	-28.1	-27.2	-12.4	-8.2	0.5	16.0	23.6	-5.1	-19.0	16.4	18.3	15.0
Housing Starts (Mil units)	0.915	0.998	1.060	1.093	1.130	1.139	1.138	1.203	1.017	1.140	1.219	1.326
Retail Unit Car Sales (Mil units)	8.2	8.5	8.6	9.0	9.3	9.5	9.5	9.5	8.6	9.5	10.0	10.2
Civilian Unemployment Rate (%)	6.5	6.8	6.9	6.9	6.7	6.5	6.3	5.5	6.8	6.4	6.0	5.7
Nonfarm Empl. (Estab. survey, % change)	-2.3	-1.2	0.0	0.7	1.6	1.8	1.9	1.5	-0.9	1.1	2.0	2.3
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-106.0	-122.0	-36.6	-91.3	-220.5	-273.1	-355.9	-271.2	-222.3
Foreign Trade												
Current Account Balance (Billion $)	42.0	11.9	-32.3	-38.2	-44.4	-52.8	-58.0	-92.1	-4.2	-56.6	-83.8	-104.0
Merch. Trade Balance (c.v.b., bil. $)	-67.8	-52.3	-69.8	-71.3	-69.1	-75.2	-83.3	-101.7	-65.3	-80.2	-111.7	-132.1
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	19.45	19.70	19.57	19.77	22.22	18.89	19.83	21.38	23.30
U.S. Dollar Exchange Rate (% change)	6.4	25.4	-0.7	-7.1	15.2	4.8	-4.0	-5.2	-0.6	3.6	-1.6	-0.1
Foreign GDP (% change)	2.5	2.4	2.9	3.4	3.4	3.6	3.9	3.0	2.2	3.4	3.9	3.6
Financial Markets												
Money Supply (M2, billion $)	3354.3	3394.5	3390.9	3435.8	3481.4	3523.4	3566.0	3325.6	3435.8	3615.7	3808.1	4026.9
Percent Change vs Year Ago (Q4/Q4)	3.1	3.4	2.5	3.3	3.8	3.8	5.2	3.8	3.3	5.2	5.3	5.7
AA Corp Utility Rate (%)	9.26	9.19	9.09	8.93	9.00	9.17	9.18	9.66	9.12	9.10	9.11	8.98
Thirty-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.86	7.93	8.29	8.22	8.61	8.14	8.12	8.10	7.88
Treasury Bill Rate (%)	6.02	5.56	5.38	4.96	5.33	5.94	6.13	7.49	5.48	5.86	6.24	6.09
Federal Funds Rate (%)	6.43	5.86	5.65	5.09	5.57	6.13	6.30	8.10	5.76	6.06	6.64	6.75
Prime Rate (%)	9.19	8.67	8.42	8.00	8.23	8.74	9.00	10.01	8.57	8.69	8.80	9.00
S&P Index of 500 Common Stocks	353	379	386	380	388	391	389	335	374	390	397	412
Incomes												
Personal Income (% Change)	1.5	4.2	3.2	4.7	7.1	6.0	5.5	6.0	3.4	5.5	6.5	6.2
Real Disposable Income (% change)	-1.5	2.3	1.9	1.0	3.3	2.0	1.6	0.9	-0.4	2.1	2.8	2.4
Saving Rate (%)	4.2	4.2	3.8	3.5	3.7	3.6	3.7	4.6	3.9	3.7	4.1	4.2
Profits After Tax (Year Ago Change)	-0.4	-3.3	-0.6	14.1	30.0	41.4	29.0	0.0	2.6	26.8	-4.0	-0.7
Post-Tax Corp Cash Flow (Billion $)	546.6	543.7	553.2	563.9	583.7	603.5	614.0	529.1	551.9	604.3	628.9	657.7
Percent Change vs Year Ago	4.4	2.0	5.0	5.9	6.8	11.0	11.0	1.2	4.3	9.5	4.1	4.6

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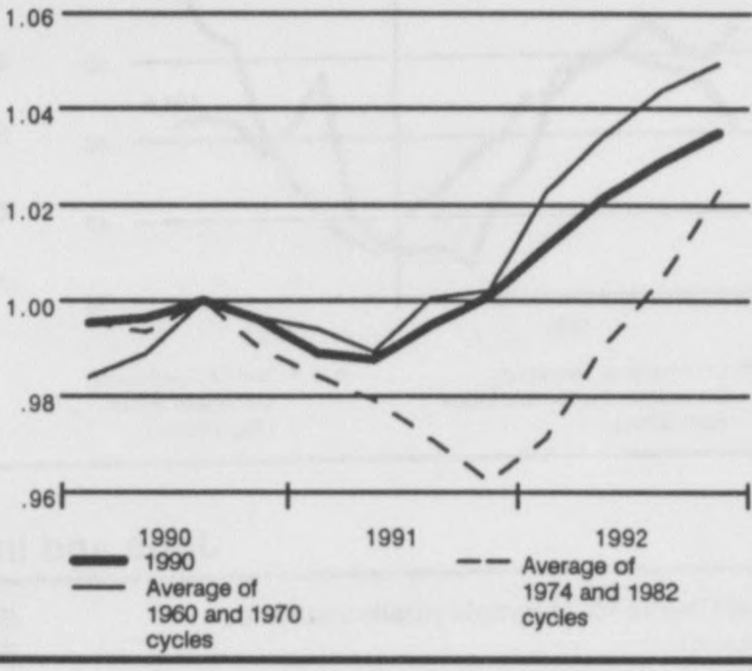
The 1990 Recession Has Gross Similarities to Those in 1960 and 1970, But All Cycles Are Unique

Cyclical Turning Points

Peaks	Troughs
1990:3	1991:2
1960:1	1960:4
1969:3	1970:2
1973:4	1975:1
1981:3	1982:3

Real GNP
(Cyclical peak = 1.0)



This Recession Is Concentrated in Consumer Durables
(Percent change peak to trough)

Recession of:	History								Control
	1949	1954	1958	1960	1970	1975	1980	1982	1991
Gross National Product............	-2.0	-3.0	-3.5	-1.0	-1.1	-4.3	-2.4	-3.4	-1.2
Consumption......................	1.8	1.3	-0.7	1.1	1.9	-0.6	-2.0	1.0	-0.6
Durable Goods..................	13.2	0.4	-5.3	-0.5	-1.2	-9.5	-11.0	-1.5	-6.6
Nondurable Goods...............	1.2	-0.1	-1.4	0.6	1.9	-1.8	-0.9	1.1	-1.6
Services.......................	0.1	3.2	1.2	1.9	2.7	2.9	-0.6	1.6	1.9
Nonresidential Fixed Investment...	-16.8	-1.6	-8.4	-2.2	-3.5	-12.3	-6.2	-11.1	-4.0
Equipment......................	-21.1	-6.8	-13.7	-7.4	-3.2	-12.0	-7.6	-12.4	-2.0
Structures.....................	-10.3	4.7	-2.1	3.7	-3.9	-12.8	-3.8	-9.0	-10.5
Residential Fixed Investment......	11.3	2.7	-2.7	-10.9	-12.4	-29.9	-19.9	-18.2	-11.9
Federal Government...............	-1.2	-17.3	-1.6	2.9	-8.6	1.1	3.4	4.2	2.4
State and Local Governments.......	15.1	8.8	5.1	4.9	1.6	3.2	-0.3	0.3	0.5
Exports..........................	-9.5	6.8	-13.0	5.8	6.4	2.3	-1.5	-8.1	3.9
Imports..........................	-1.7	-1.4	3.6	-6.1	1.0	-12.3	-5.9	-0.3	-1.4
Nonfarm Inventory Accumulation (a)	-25.7	-21.2	-46.4	-54.7	-28.5	-61.2	0.8	-43.3	-42.5
Industrial Production............	-6.3	-8.1	-9.7	-6.1	-3.5	-12.8	-3.8	-6.1	-3.7
Output per Hour..................	0.2	0.8	-0.2	-0.3	0.1	-1.7	-0.8	-1.4	-0.1
Payroll Employment...............	-4.2	-2.9	-2.6	-0.9	0.5	-1.3	-0.6	-2.3	-1.2

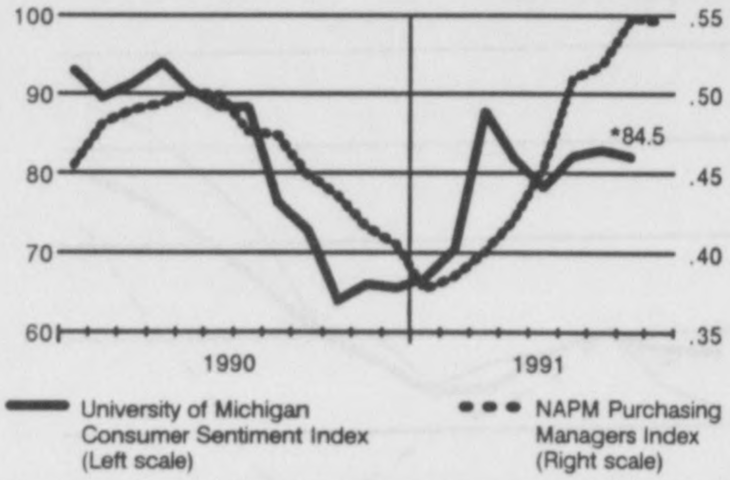
Note: All peak-to-trough movements calculated using peak and trough quarters in real GNP.
a. Difference, billions of 1982 dollars.

002667

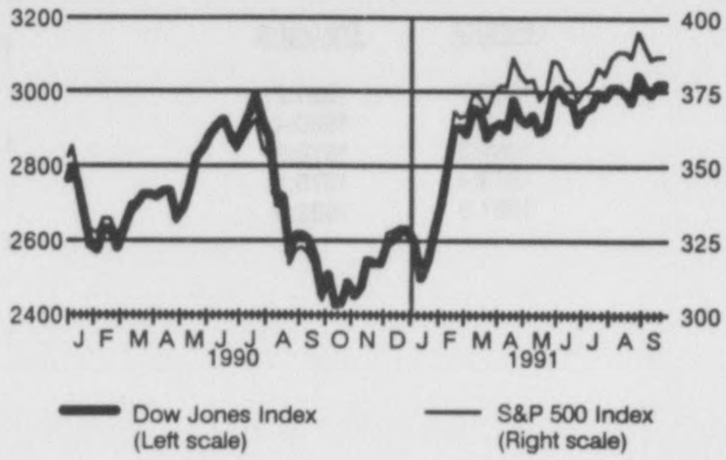
Taking the Economy's Pulse

Attitudes

Consumer Sentiment and Purchasing Managers Survey

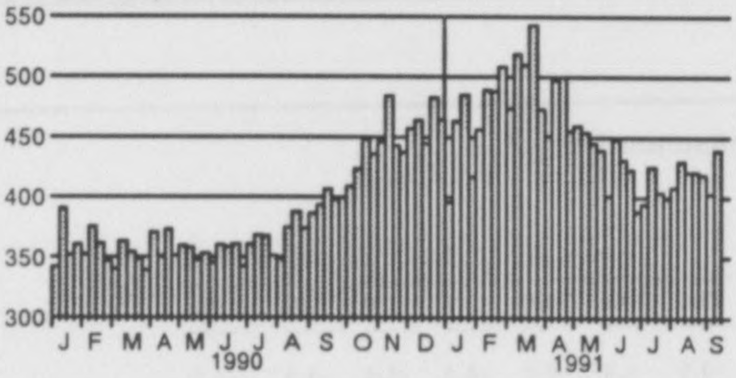


Stock Market

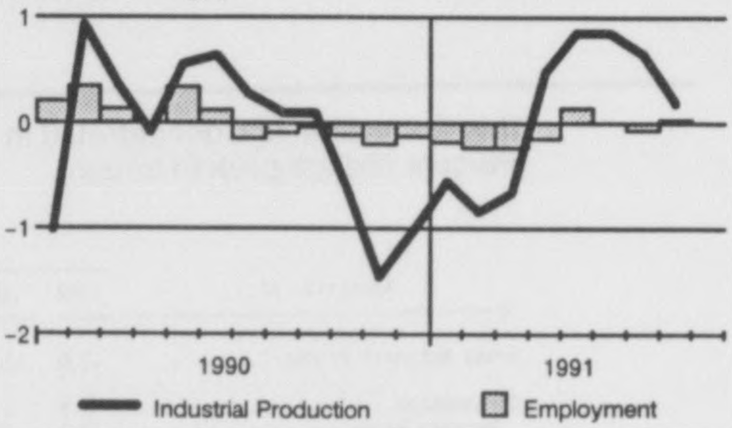


Jobs and Income

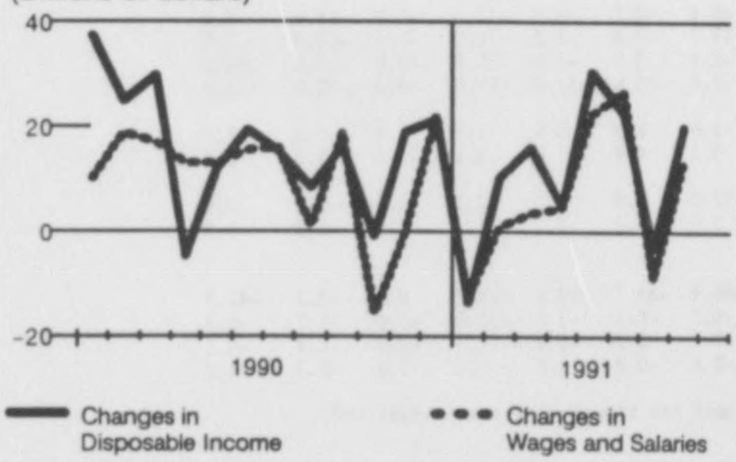
Initial Claims for Unemployment Insurance
(Thousands)



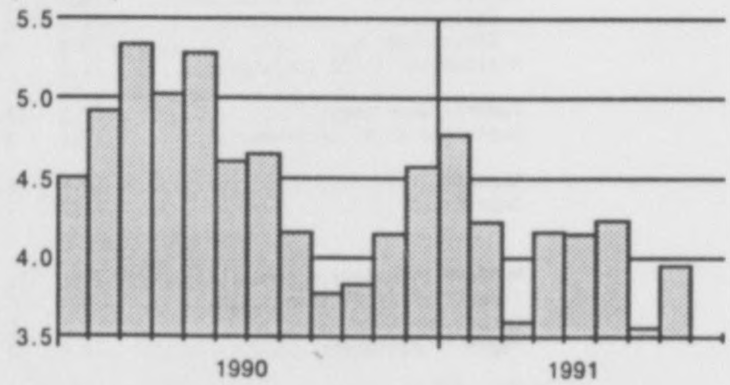
Employment and Industrial Production
(Percent change)



Income and Wages
(Billions of dollars)

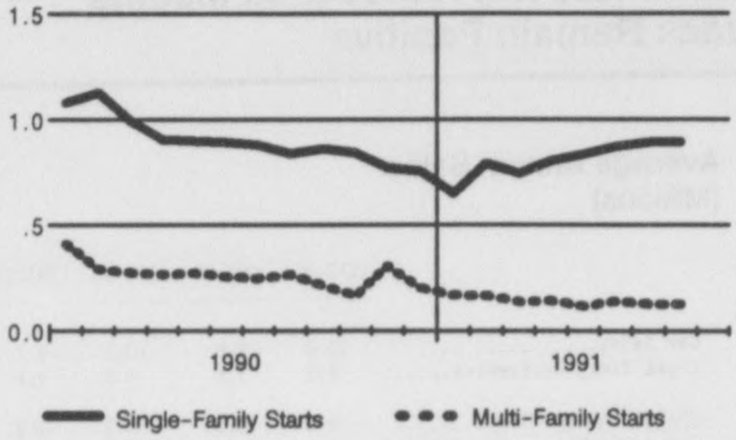


Savings Rate
(Percent)

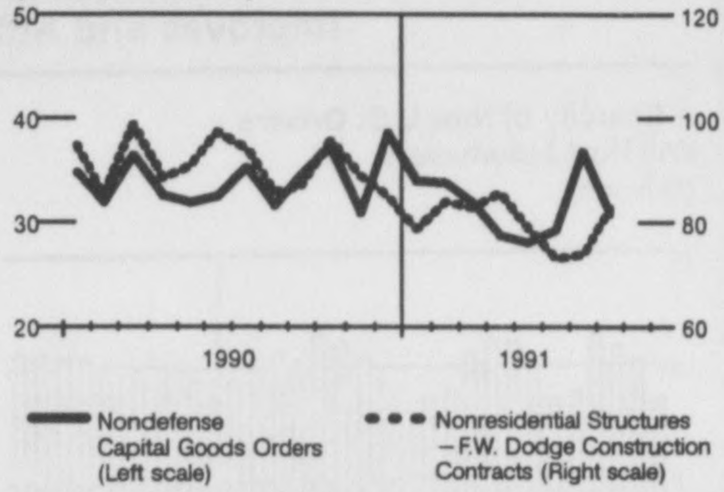


Investment

Housing Starts
(Millions of units)

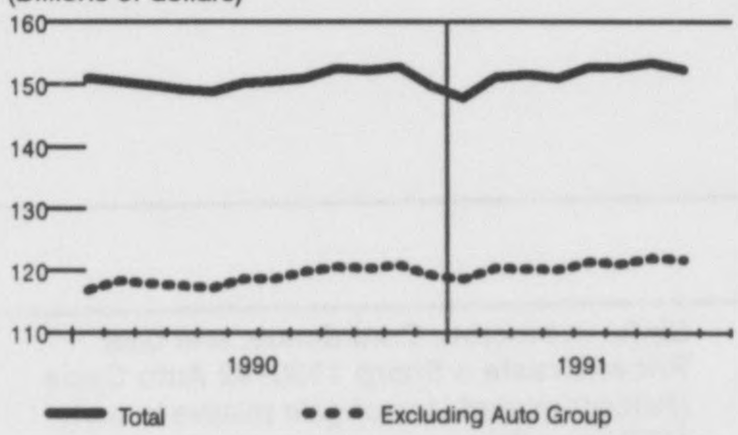


Orders and Contracts
(Billions of dollars)

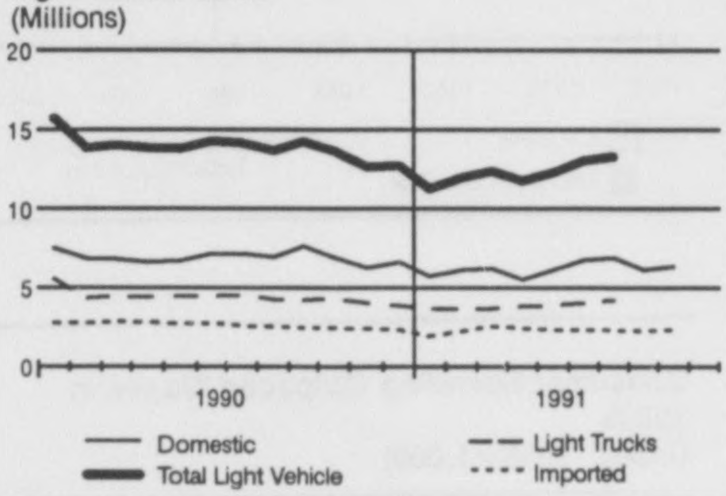


Retail Sales

Retail Sales
(Billions of dollars)

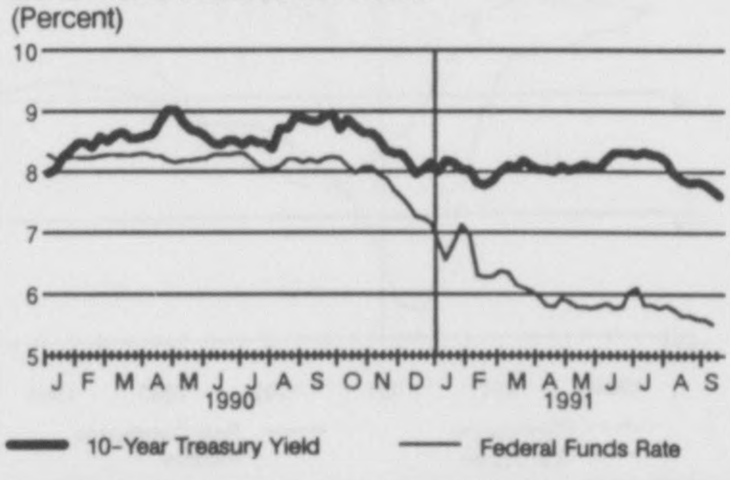


Light Vehicle Sales
(Millions)

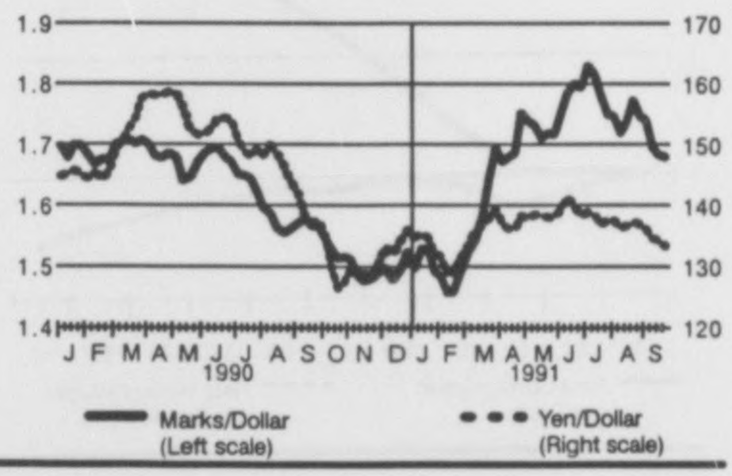


Finance

Bond Yields and Interest Rates
(Percent)



Currency Exchange Rates

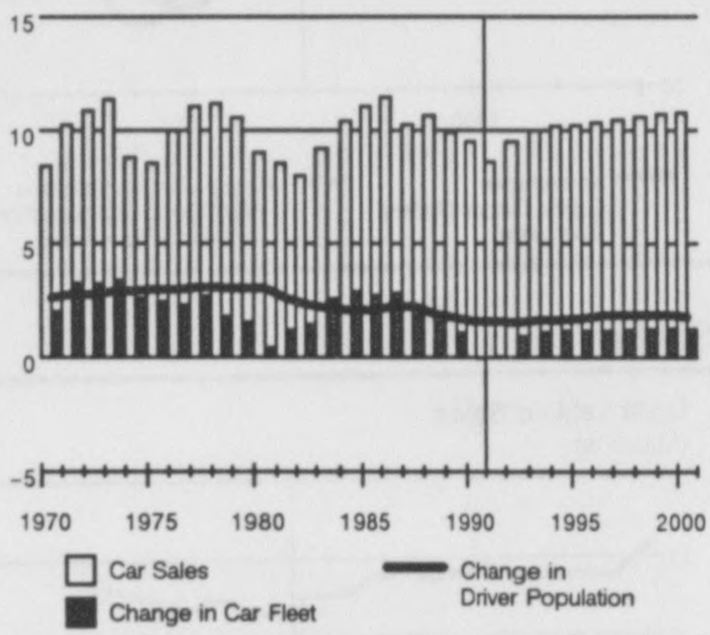


002669

FOCUS ON THE CONSUMER

Auto Sales, Like All Consumer Durables, Will Recover as Income Improves and Attitudes Remain Positive

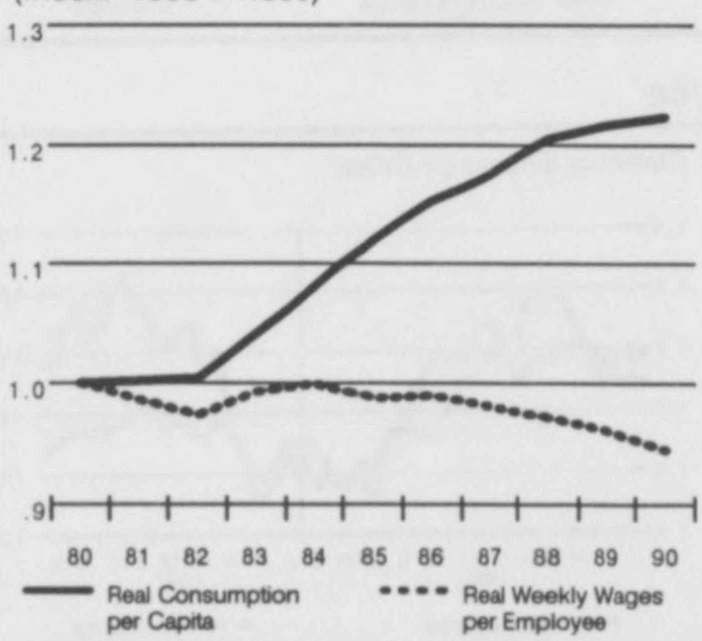
A Scarcity of New U.S. Drivers Will Hurt Automakers
(Millions)



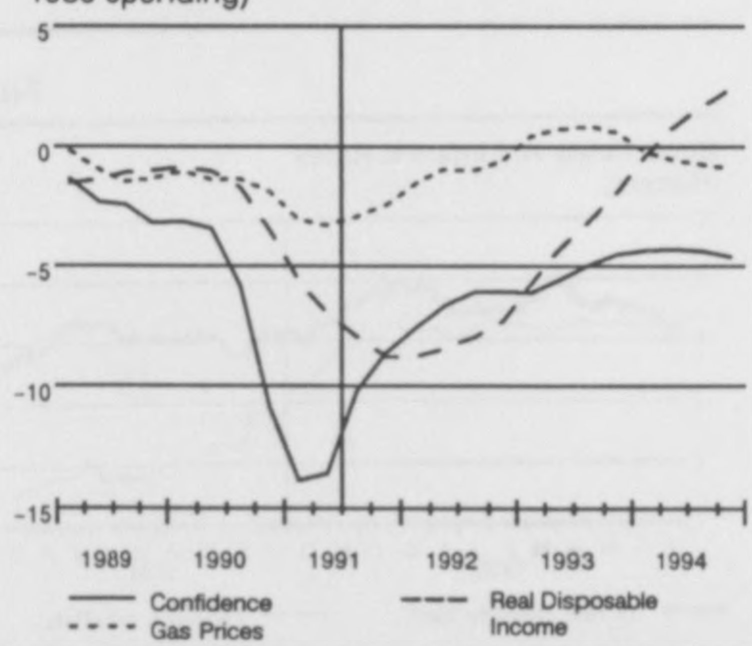
Average Annual Sales
(Millions)

	1970–80	1981–87	1988–90	1991–95
Car Sales..................	10.0	9.8	10.0	9.7
Light Truck Deliveries.....	2.5	3.6	4.6	4.7
Change in Car Fleet........	2.3	2.2	0.9	0.9
Change in Driver Population	2.9	2.2	1.7	1.6

Consumer Spending Outpaced Wages in 1980s
(Index: 1980 = 1.000)



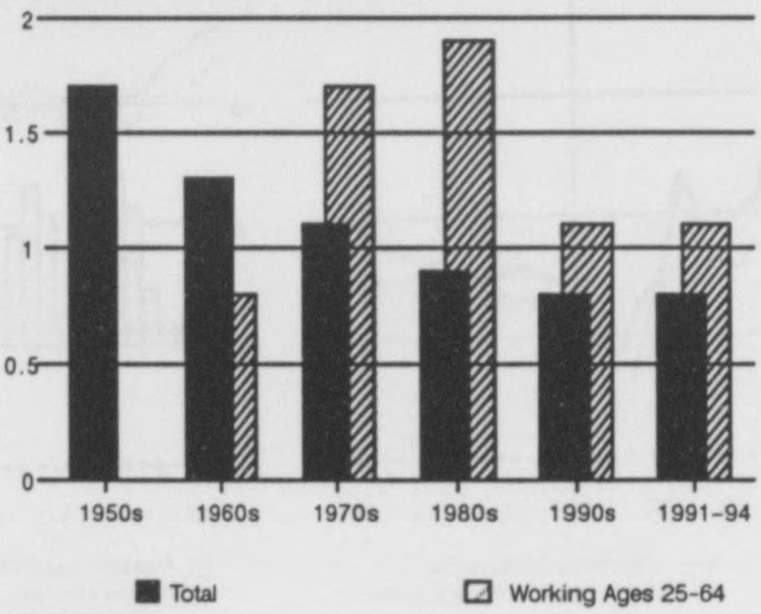
Shifts in Income, Confidence, and Gas Prices Create a Sharp 1990–92 Auto Cycle
(Percent market loss or gain relative to early 1989 spending)



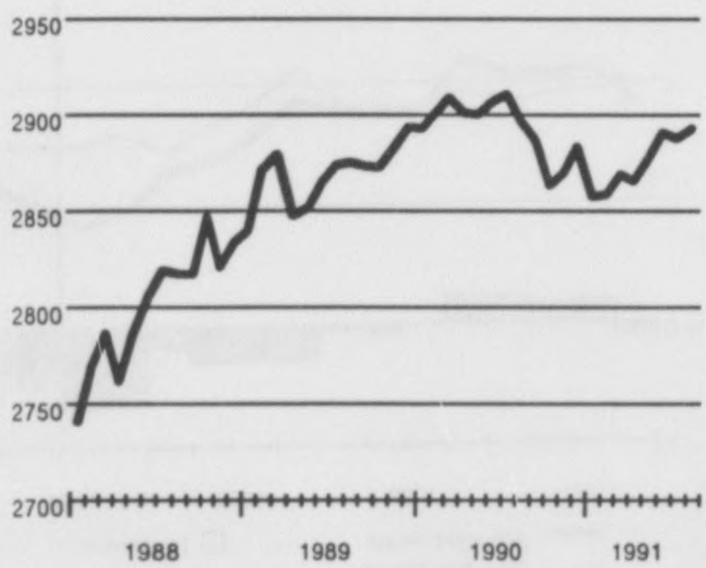
002670

Demographics Limits the Recovery

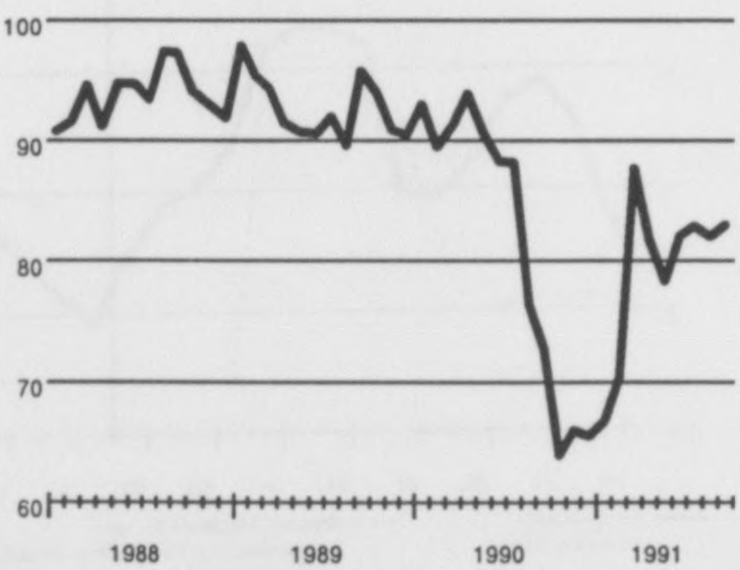
Population Growth Continues to Slow, Retarding the Growth of the Labor Force and Key Buying Groups
(Average annual growth)



Real Disposable Income Is Recovering and...
(Billions of dollars 1982 prices)



Consumer Sentiment Is Improving.
(University of Michigan Consumer Sentiment Index)

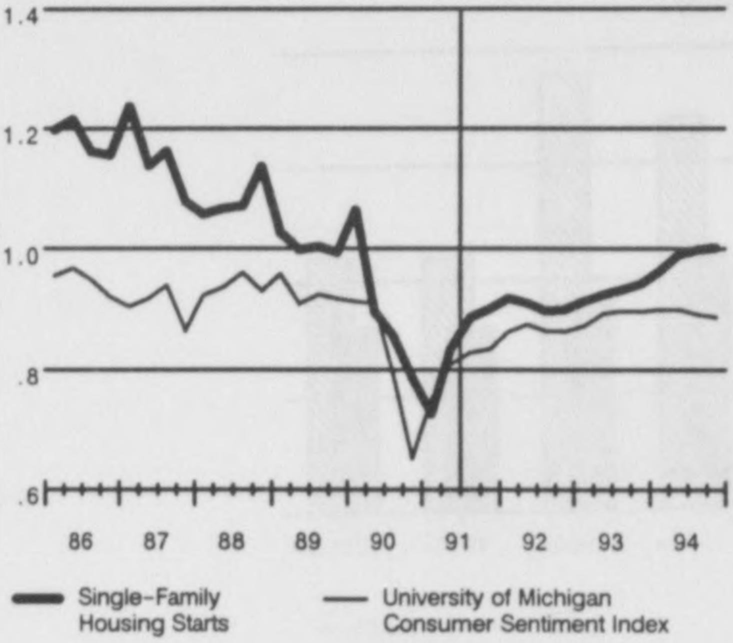


002671

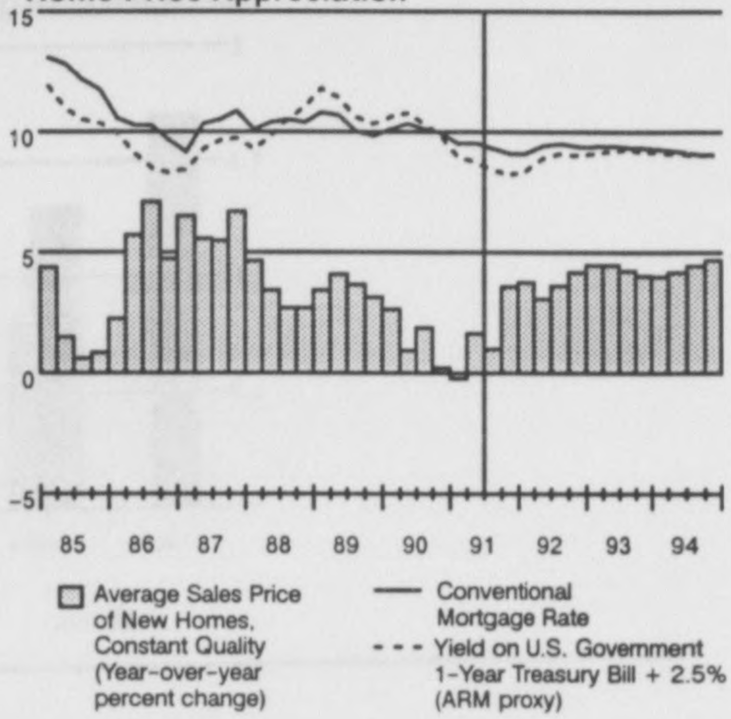
FOCUS ON HOUSING

Housing Needs Help from Many Sources

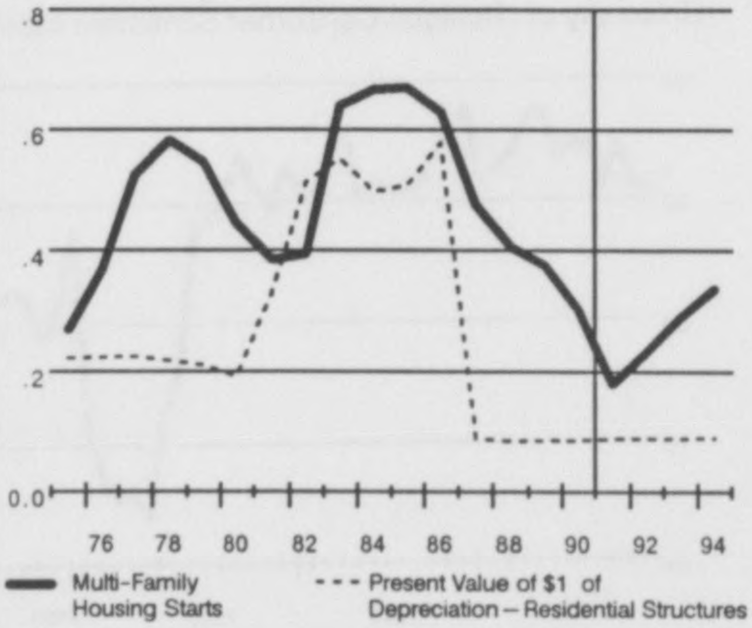
Late 1991: Confidence Must Recover



1991–94: Prices Must Improve and Mortgage Rates Must Look Moderate Compared With Home Price Appreciation

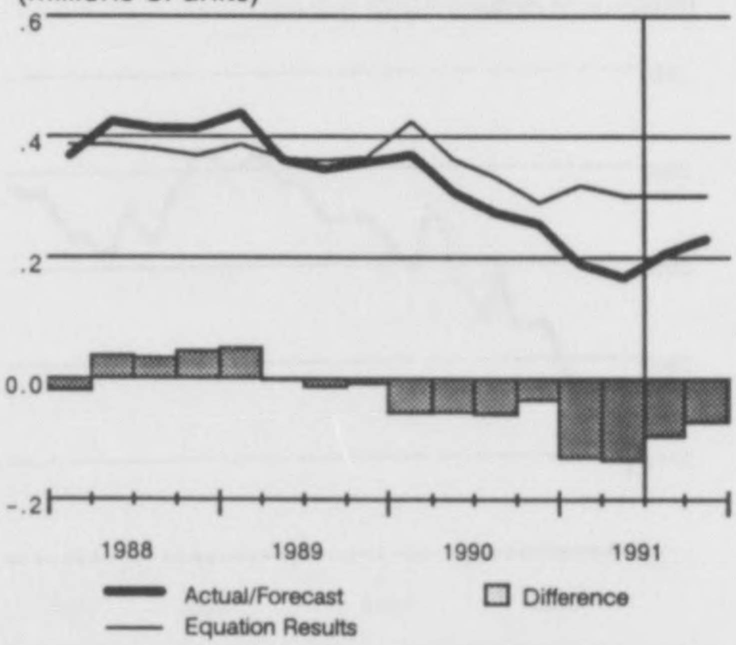


The Tax Law, Not the Credit Crunch, Killed Apartments/Condos



The Credit Crunch Has Cut Multi-Family Construction by Approximately 100,000 Units

(Millions of units)



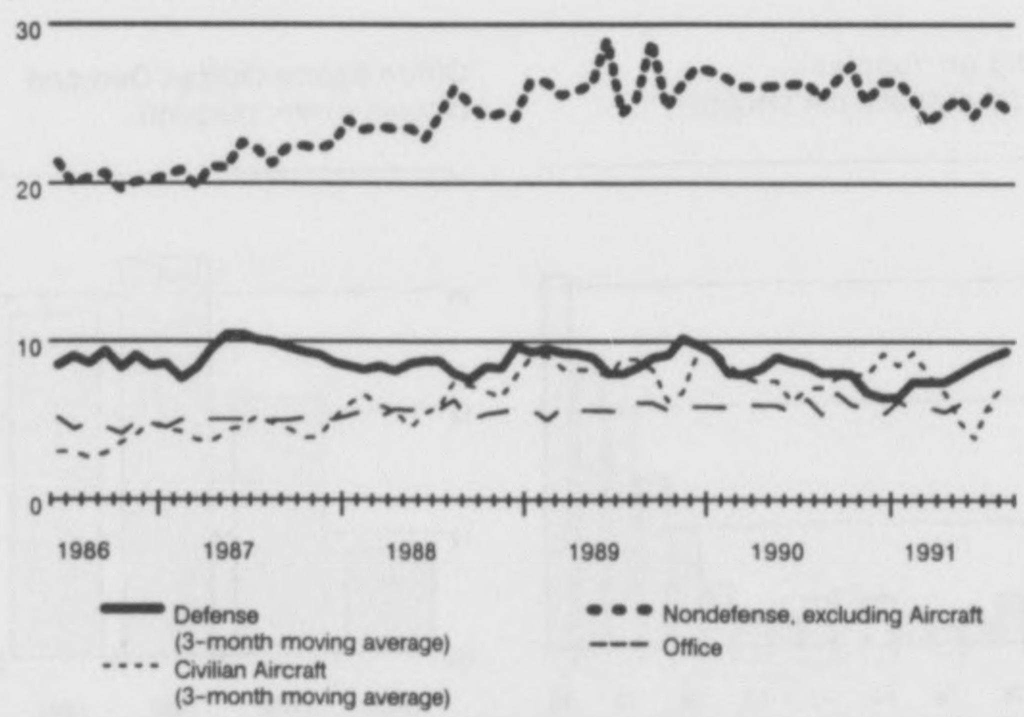
002672

Business Spending Plans Have Been Trimmed, Not Slashed

Capital Spending Drivers

	88	89	90	91	92	93
Capacity utilization is Down, (%).	83.9	84.0	82.3	78.5	80.8	81.6
Cash Flow Will Rise, (%ch)........	7.0	-3.4	-1.0	4.8	11.2	3.4
Financing is Expensive,						
Corporate Bond Rate (%).........	9.7	9.3	9.3	8.8	8.8	8.8
After-Tax Debt & Equity Cost (%)	8.3	8.3	8.6	8.4	8.2	8.1
Thus Spending Will Cycle Down in 1991.						
Equipment (%ch).................	12.0	5.0	3.1	-3.3	7.3	11.7
Construction (%ch)..............	4.7	4.5	0.5	-9.4	0.0	12.8

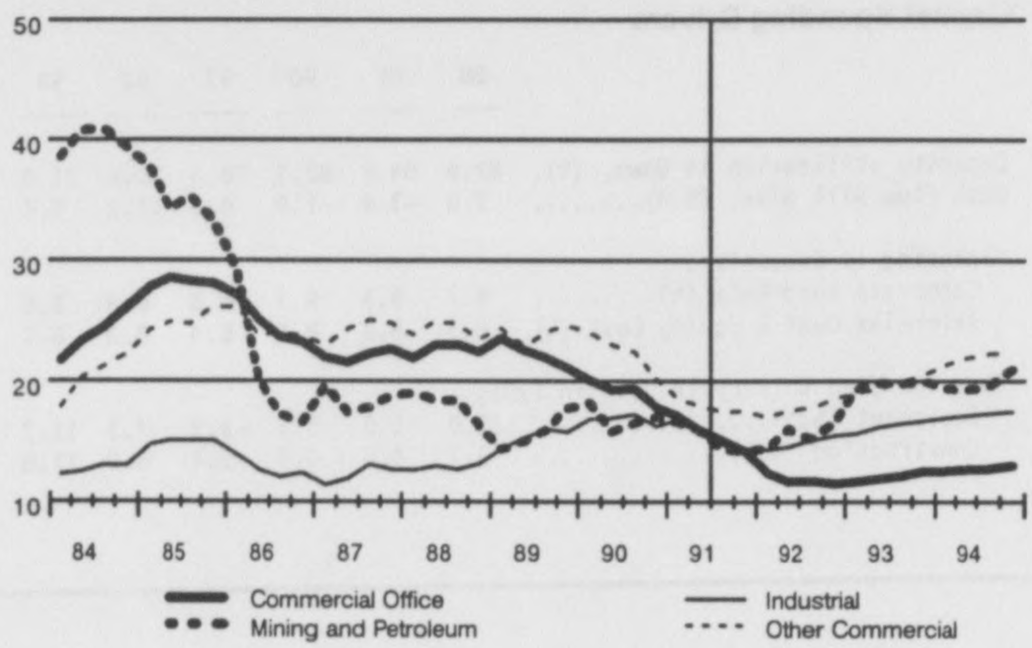
Capital Goods Orders
(Billions of dollars)



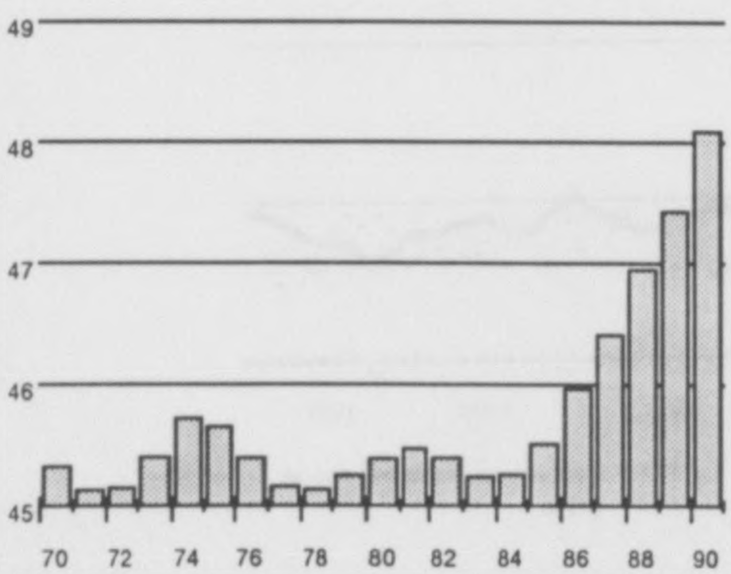
002673

But Construction Remains Weak

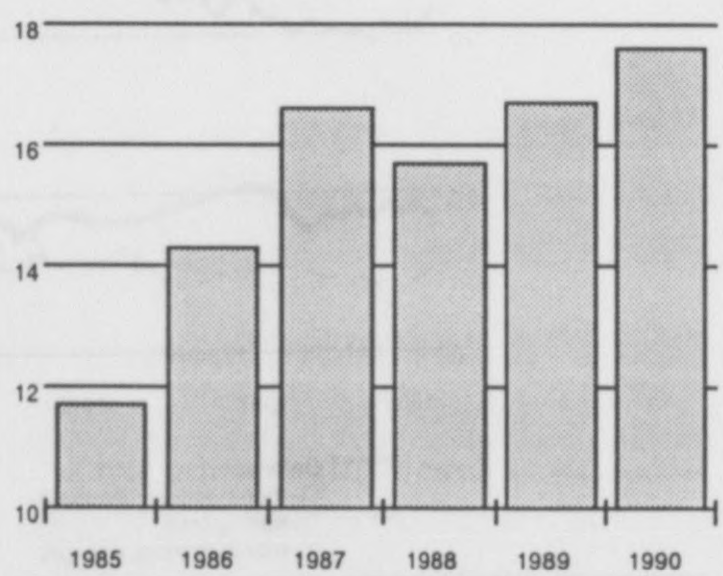
Nonresidential Construction Prospects
(Billions of 1982 dollars)



Retailers Bet Big on Yuppies
(Square feet of retail space per shopper)



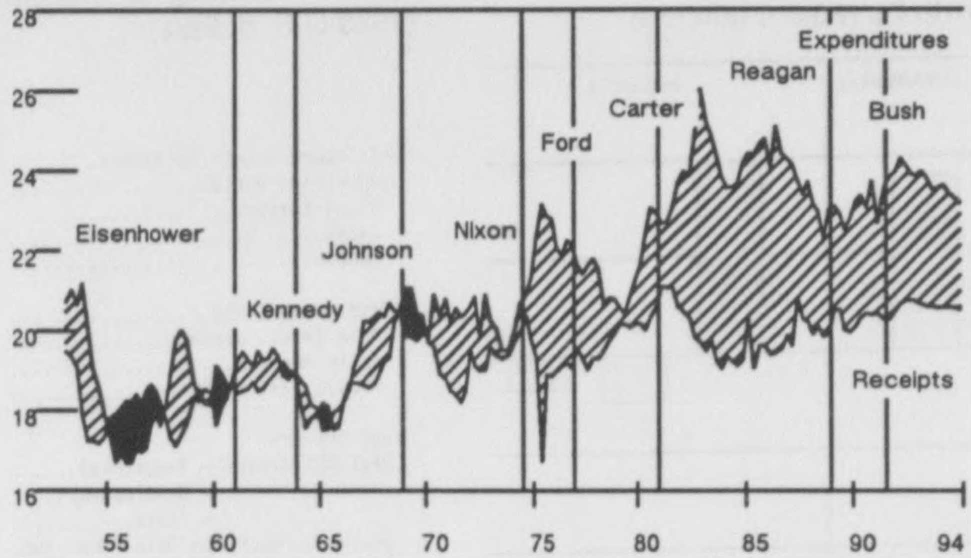
Office Space Outran Demand
(Vacancy rate, percent)



002674

Budget Realities

Government Receipts and Expenditures
(Percent of GNP)



The U.S. Does Not Save Enough To Finance Government Borrowing

Net Saving and Investment
(Percents of GNP)

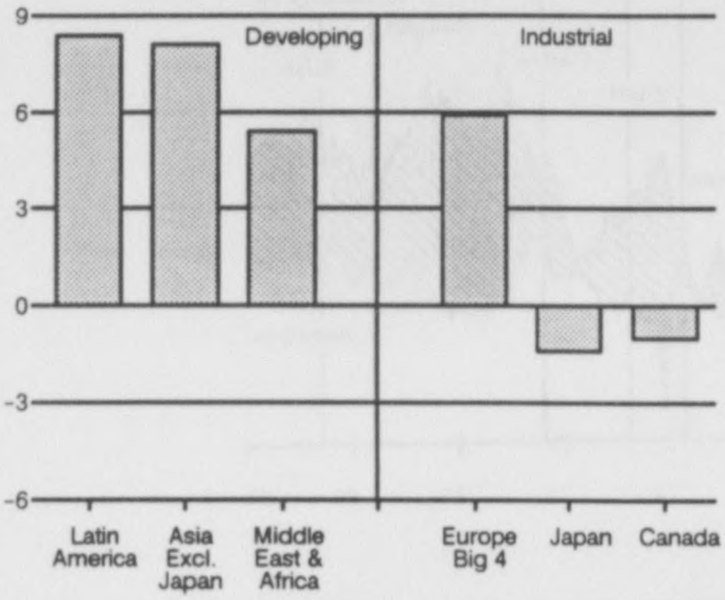
	Net Personal Saving	Net Business Saving	State and Local Surplus or Deficit	Federal Surplus or Deficit	Net National Saving *	Capital Outflow (–) or Inflow (+) from Abroad	Net Domestic Investment **
1976	5.4	2.6	0.9	-3.0	5.8	-0.5	5.4
1977	4.6	3.1	1.4	-2.3	6.7	0.4	7.3
1978	4.9	3.1	1.3	-1.3	7.9	0.4	8.5
1979	4.7	2.5	1.1	-0.6	7.6	-0.1	7.7
1980	5.0	1.4	1.0	-2.2	5.1	-0.4	4.7
1981	5.2	1.4	1.1	-2.1	5.7	-0.3	5.2
1982	4.9	0.6	1.1	-4.6	2.0	0.0	2.0
1983	3.8	1.9	1.4	-5.2	2.0	1.0	3.0
1984	4.4	2.5	1.7	-4.5	4.1	2.4	6.5
1985	3.1	2.6	1.6	-4.9	2.4	2.8	5.2
1986	3.0	2.0	1.5	-4.9	1.5	3.2	4.8
1987	2.0	1.8	1.1	-3.5	1.5	3.4	4.9
1988	3.0	1.9	1.0	-2.9	2.9	2.4	5.4
1989	3.3	1.0	0.9	-2.6	2.6	1.9	4.5
1990	3.3	0.6	0.6	-3.0	1.5	1.6	3.1
1991	2.8	0.6	0.7	-3.2	1.1	0.1	1.1
1992	2.7	1.2	1.1	-3.3	1.6	1.0	2.6
1993	3.0	1.1	1.1	-3.1	2.1	1.4	3.5
1994	3.1	1.0	1.0	-2.8	2.3	1.6	3.9
1950–54	4.7	2.6	-0.2	0.1	7.3	0.1	7.6
1955–59	4.7	2.9	-0.3	0.1	7.5	-0.4	7.3
1960–64	4.4	3.3	0.1	-0.3	7.5	-0.8	6.7
1965–69	4.8	3.7	0.0	-0.3	8.2	-0.4	7.8
1970–74	6.0	2.2	0.6	-1.2	7.6	-0.3	7.5
1975–79	5.2	2.7	1.0	-2.3	6.6	-0.2	6.5
1980–84	4.7	1.6	1.3	-3.7	3.8	0.5	4.3
1985–89	2.9	1.9	1.2	-3.8	2.2	2.8	5.0
1990–94	3.0	0.9	0.9	-3.1	1.7	1.1	2.8

* Net national saving is the sum of columns 1 through 4.
** A statistical discrepancy is omitted from this table.

002675

FOCUS ON INTERNATIONAL OUTLOOK

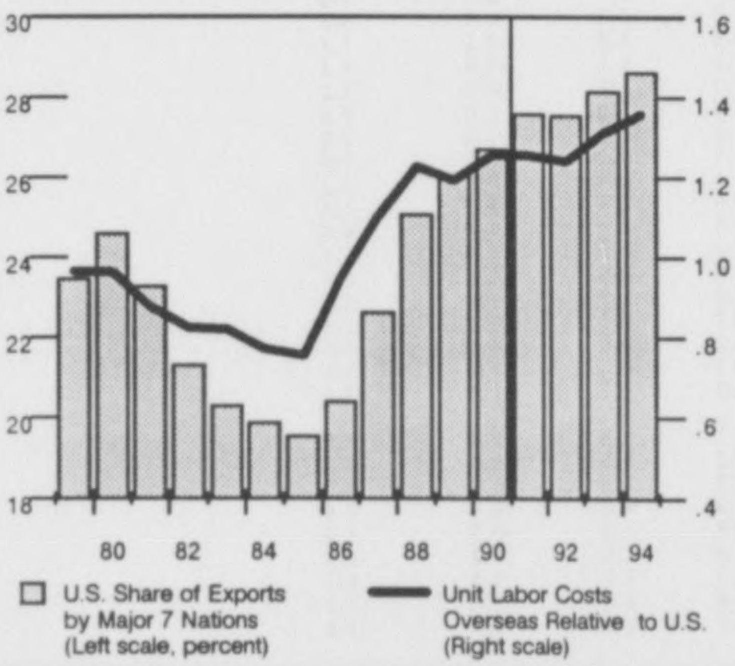
1991 Growth in the Trade Pie
(Real import growth by region, percent)



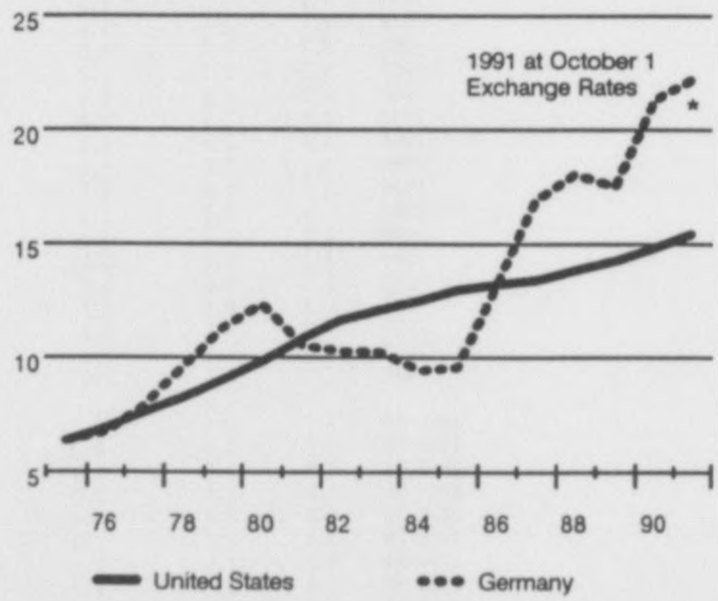
Market Planning for International Sales
(1980 U.S. dollars)

	89	90	91	92
Real Import Growth by Market				
Industrial World	10	5	4	5
Big-4 Europe	8	6	6	6
Japan	13	7	-1	5
Canada	5	0	-1	7
Developing World	10	11	7	9
Asia (excl. Japan)	11	9	8	9
Latin America	-1	22	8	13
Middle East & Africa	9	11	5	9
Trade Drivers				
Real GDP Growth - Industrial	3.3	2.4	1.1	3.0
- Developing	3.5	4.0	4.5	4.9
- Asia	5.2	5.6	6.2	6.3
Real U.S. Exchange Rate - vs. Ind.	6.6	-7.4	1.3	2.9
- vs. Dev.	2.3	-2.0	-2.6	3.6

The Recovery of the U.S. Global Market Share Continues, But More Slowly



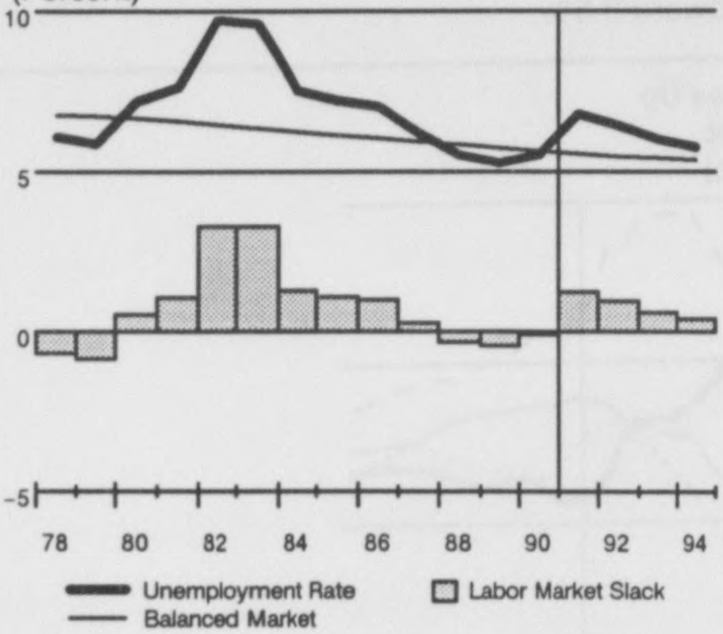
Overvalued Currencies and Overpriced Labor: Germany Resembles the U.S. in 1985
(Manufacturing hourly wages, U.S. dollars per hour)



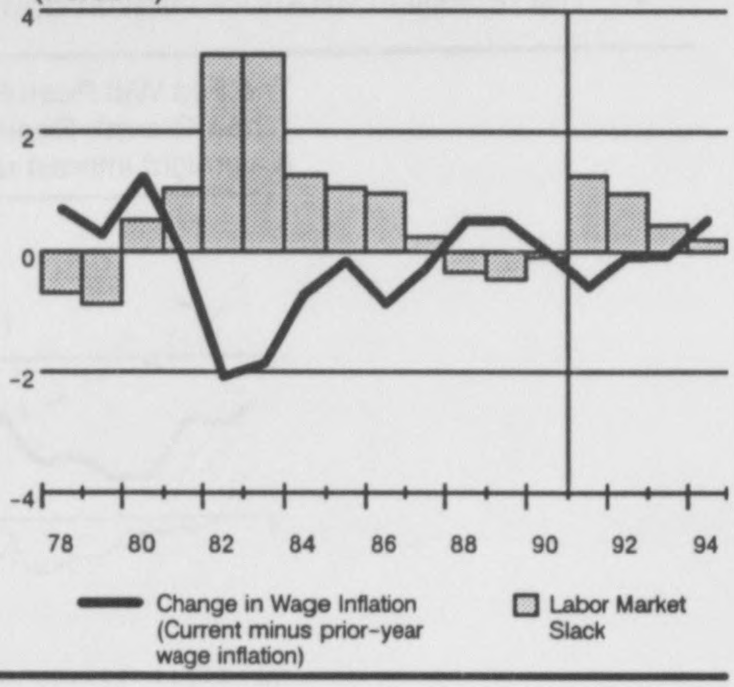
002676

Inflation Will Decelerate

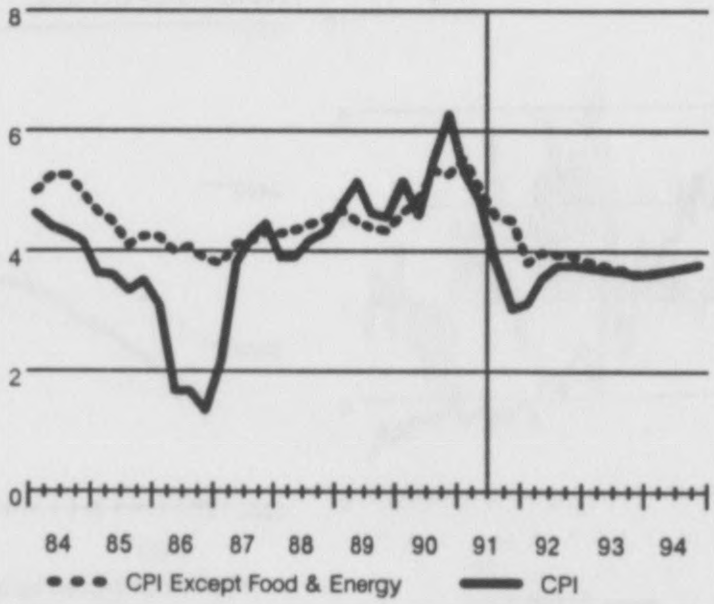
Unemployment Has Cycled About Its Inflation-Stabilizing Balance Points, and...
(Percent)



...Wage Inflation Falls and Rises Primarily with the Slack in Labor Markets
(Percent)



The Bad Inflation News Is Over
(Year-over-year percent change)

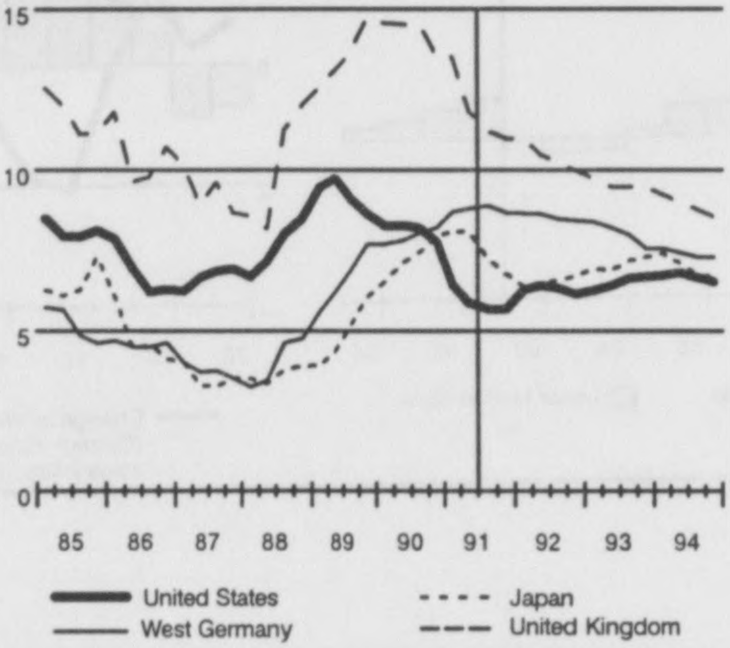


002677

FOCUS ON FINANCE

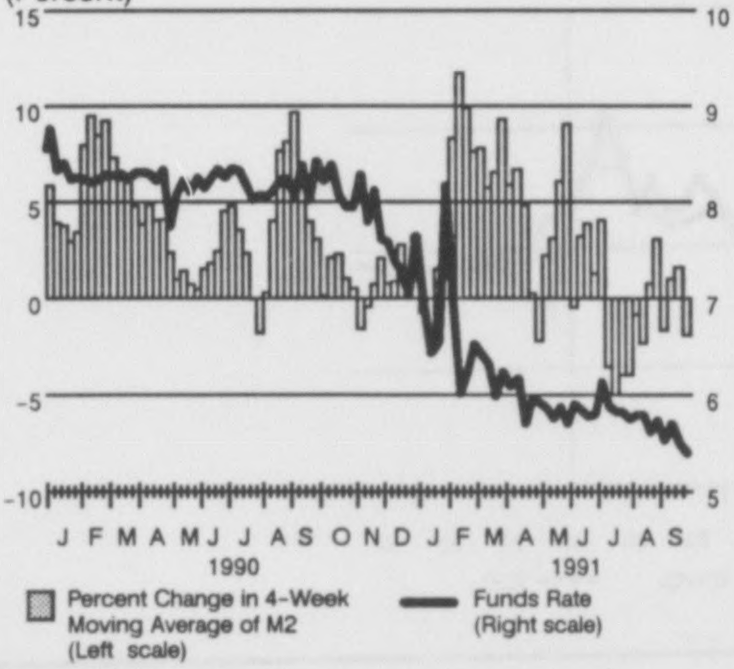
- The Fed is predicted to allow short-term rates to move with the economy.
- The recession will knock inflation down toward 3.5%.

The Fed Will Push Rates Up When Growth Resumes
(Overnight interest rates)

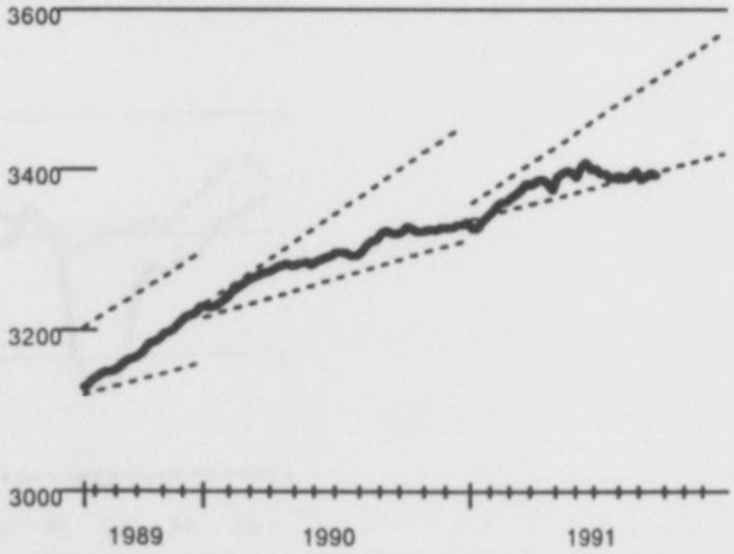


The Fed Will Ease While M2 Is Weak

M2 and the Federal Funds Rate
(Percent)



M2 and Targets
(Billions of dollars)



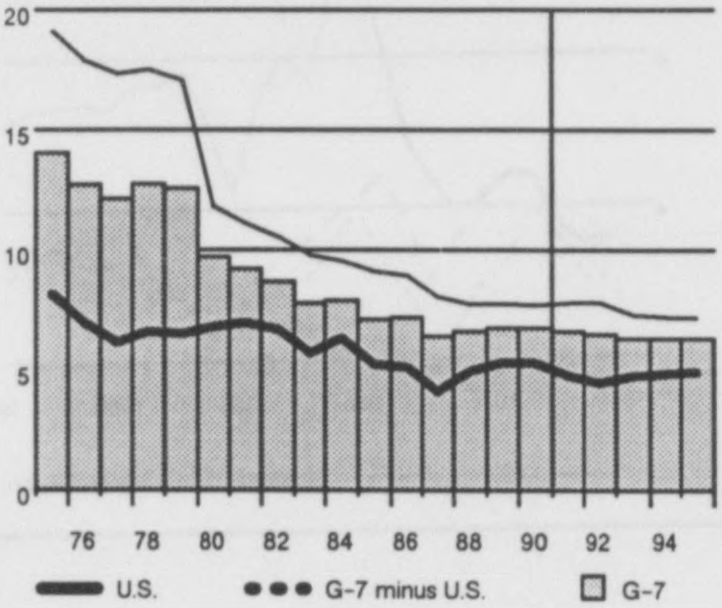
Target range implied by annual growth targets.

002678

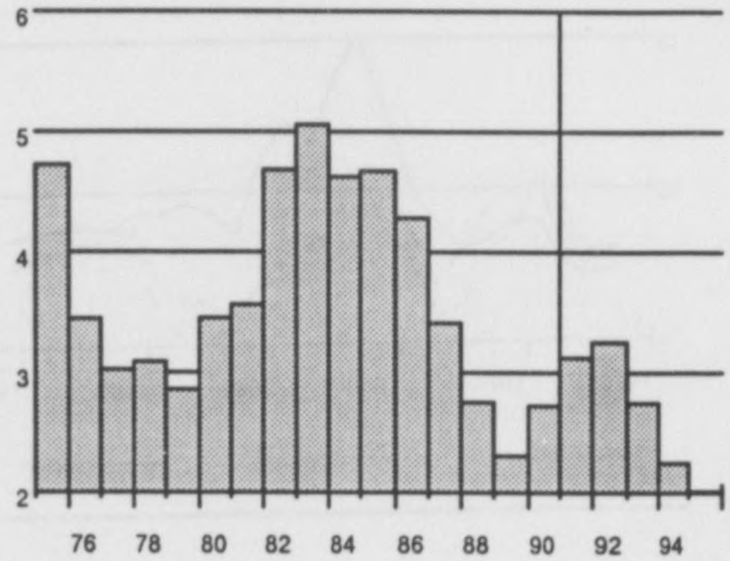
Sustained Pressure on Capital Markets

In the G-7 Nations, the Early 1990s Should Resemble the Late 1980s

Personal Saving Remains Low
(Disposable income less consumption, percent of GDP)

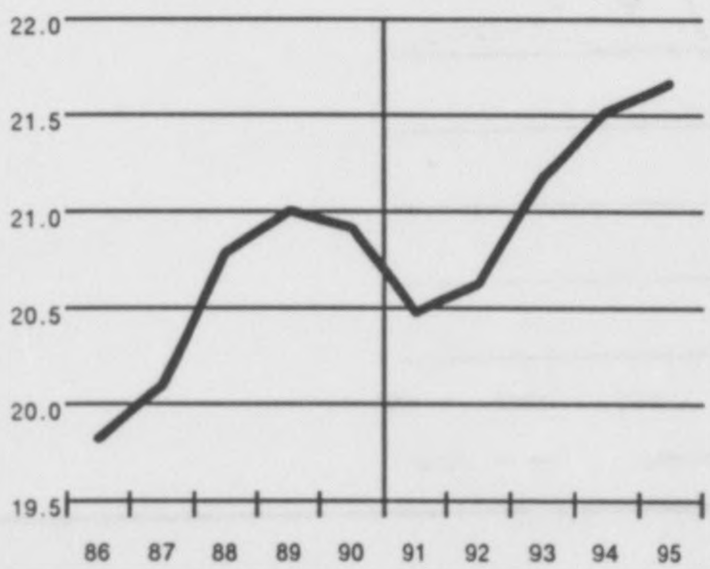


Government Deficits are 2–3% of GDP

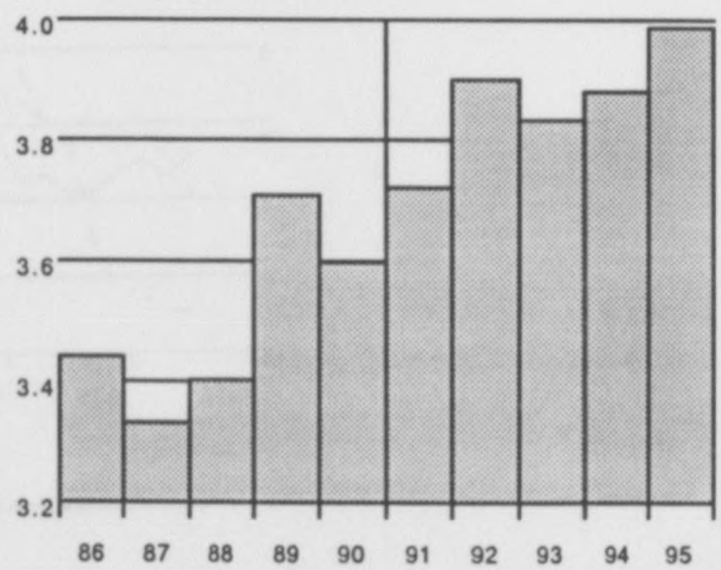


But Global Investment Demands Are Rising

World Fixed Investment
(Percent of GDP)

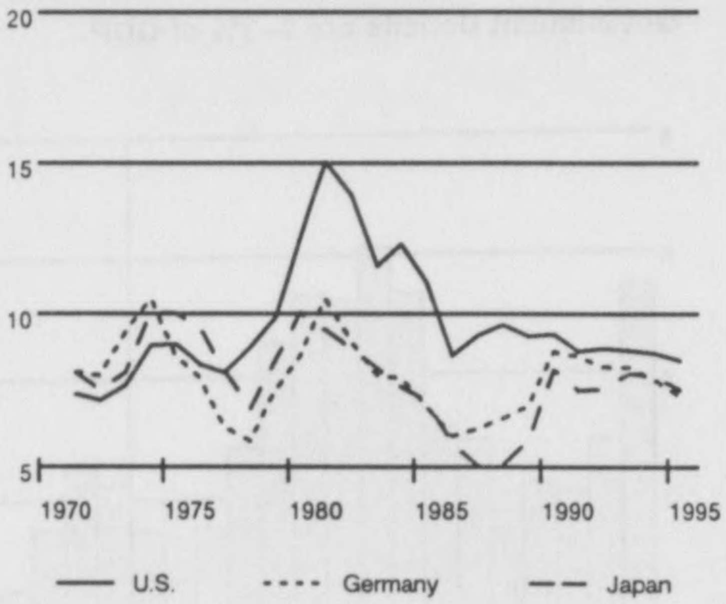


Non-OECD Investment
(Percent of world GDP)

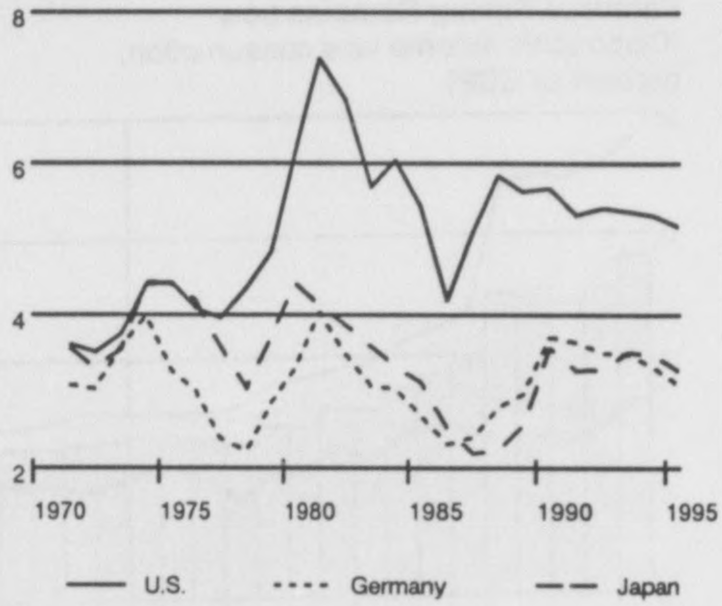


Real Cost of Debt

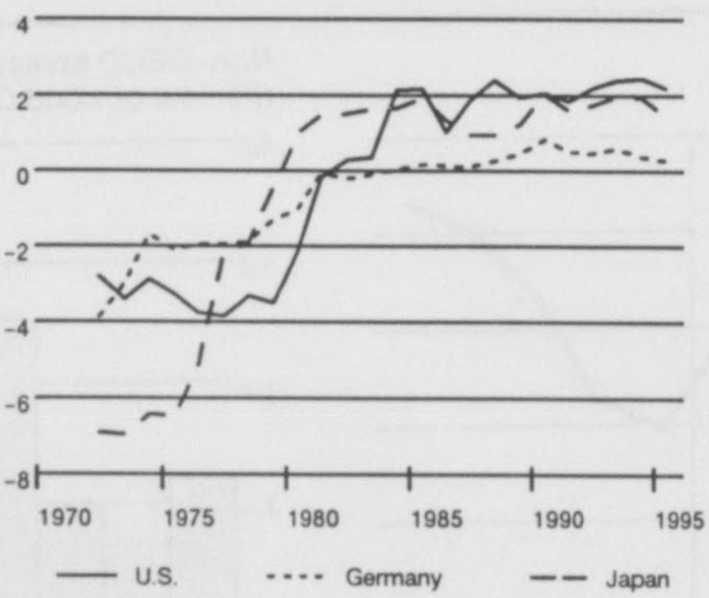
Nominal Corporate Bond Yields
(Percent)



After-Tax Bond Yields
(Percent)



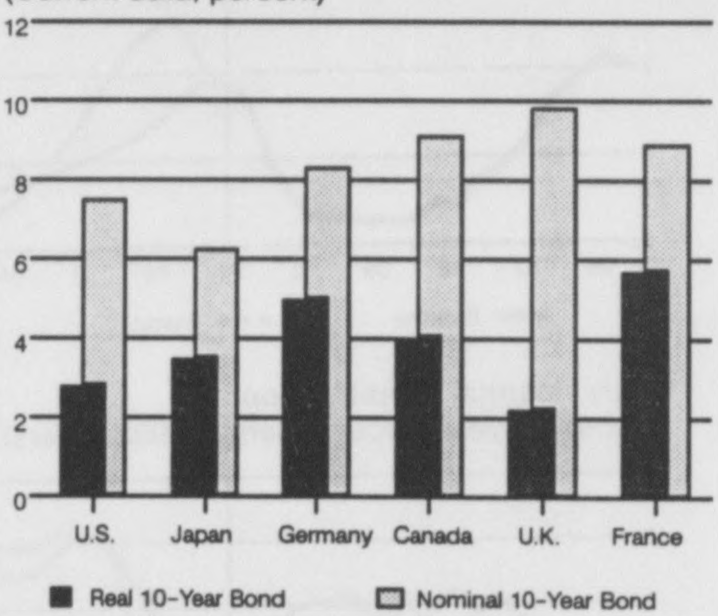
Inflation-Adjusted, After-Tax Bond Yields



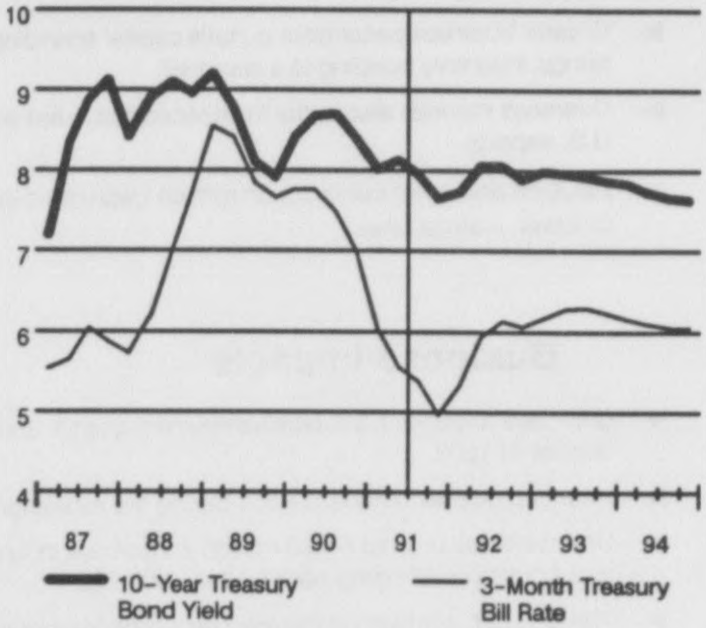
002680

U.S. Bond Yields Will Be Pulled Up By Year End

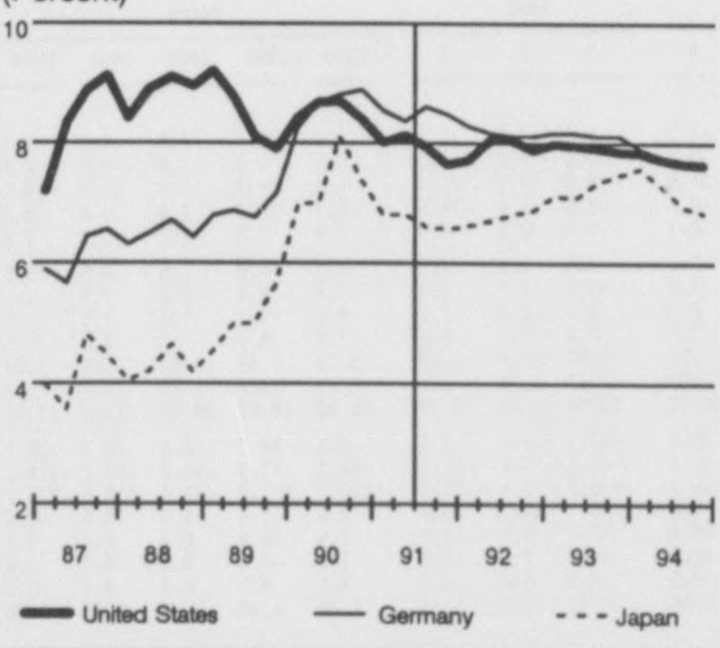
Foreign Bond Yields Are High, Especially in Real Terms
(Current data, percent)



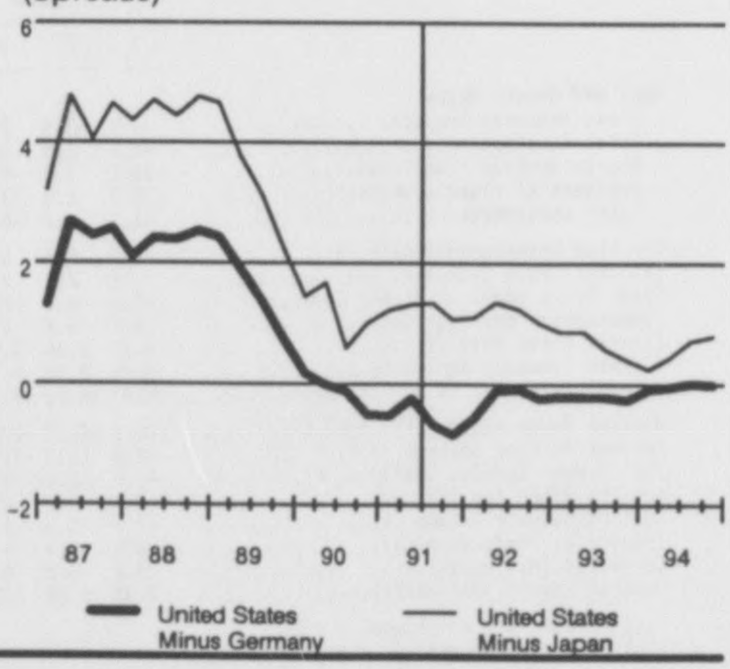
U.S. Bond Yields Will Not Rise as Much as Short-term Rates
(Percent)



Foreign Yields Will Drop
(Percent)



Thus U.S. Yields Will Rise Relative to Germany or Japan
(Spreads)



002681

A Lack of Confidence: The Pessimistic Scenario (SLUMP1091)

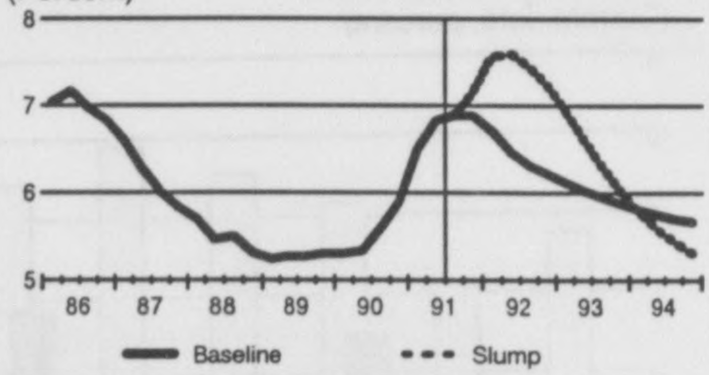
Key Assumptions

- Consumer anxiety increases over the fall and winter, causing spending to slip.
- Greater business pessimism curtails capital spending and brings inventory building to a standstill.
- Overseas markets also suffer from recession, weakening U.S. exports.
- Housing and other construction remain depressed in spite of lower interest rates.

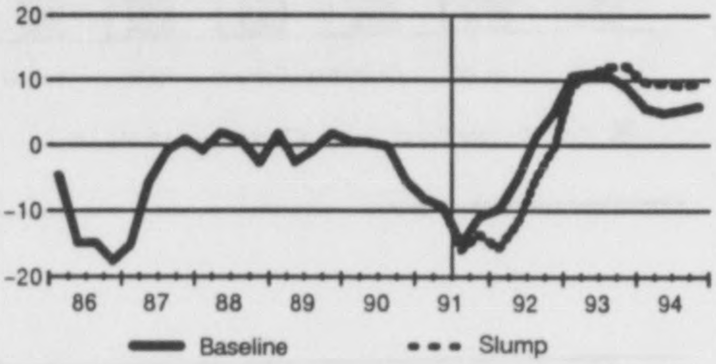
Business Impacts

- GNP falls a further 1.3% between current quarter and first quarter of 1992.
- Real capital spending falls 4.7% during the recession.
- Unit car sales drop to an 8.3 million annual rate in late 1991 and housing starts drop back under 1,000,000.
- The sharper downturn is followed by a more pronounced rebound in 1992-93, leaving core inflation weaker than in the baseline.

Unemployment Rate
(Percent)



Nonresidential Construction
(Year-over-year percent change, 1982 dollars)



Summary of the Pessimistic Scenario (SLUMP1091)

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	2.8	-1.3	-3.9	3.1	5.5	1.0	-0.6	0.6	4.7	3.7
Total Consumption	-1.5	2.5	3.8	-0.3	-0.6	1.3	1.5	0.9	0.3	1.0	2.8	2.7
Nonresidential Fixed Invest	-16.3	1.4	-5.1	-11.8	-10.8	10.5	25.4	1.8	-4.7	0.0	15.7	10.5
Residential Fixed Investment	-25.3	1.6	13.1	-0.8	-8.6	6.4	19.6	-5.4	-12.6	3.9	15.6	8.6
Total Government	-1.3	1.8	-6.0	-0.5	-0.4	-0.5	-1.9	2.8	0.6	-1.3	-0.8	0.2
Civilian Unemployment Rate (%)	6.5	6.8	6.9	7.1	7.6	7.6	7.5	5.5	6.8	7.5	6.5	5.5
CPI—All Urban Consumers (a)	3.5	2.1	2.8	3.4	3.6	3.3	3.1	5.4	4.2	3.2	3.1	3.1
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.5	2.0	2.3	1.9	2.1	4.9	2.1	1.6	2.6	3.1
Compensation per Hour (a)	4.1	4.6	4.9	3.0	2.9	3.2	2.8	3.9	4.4	3.3	3.2	3.6
Federal Funds Rate (%)	6.43	5.86	5.64	4.70	4.27	4.57	5.07	8.10	5.66	4.87	5.89	6.05
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.60	7.17	7.36	7.52	8.61	8.07	7.44	7.74	7.54
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	18.55	18.95	18.96	19.34	22.22	18.67	19.31	21.21	23.17
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-10.6	-8.9	-33.3	-17.5	1.5	-5.1	-18.7	-8.5	28.3	28.2
Current Account Balance (Bil. $)	42.0	11.9	-31.8	-35.4	-43.4	-53.4	-57.5	-92.1	-3.3	-56.7	-91.2	-114.1
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-110.2	-135.0	-50.6	-103.1	-220.5	-273.2	-399.0	-296.2	-225.7
Profits After Tax (b)	-0.4	-3.3	0.1	7.8	6.3	19.3	19.9	0.0	1.1	15.9	14.5	-1.9
Real Disposable Income (a)	-1.5	2.3	1.6	-0.8	-0.4	0.2	0.7	0.9	-0.5	0.4	2.9	3.1
Industrial Production (a)	-9.6	2.4	6.8	-2.0	-6.5	1.9	7.8	1.0	-2.0	0.6	6.7	4.9
Car Sales (Mil units)	8.2	8.5	8.6	8.6	8.3	8.6	8.9	9.5	8.5	8.7	9.7	10.0
Housing Starts (Mil units)	0.92	1.00	1.05	0.96	0.93	1.01	1.11	1.20	0.98	1.06	1.27	1.36

(a) Annual rate of change.
(b) Four-quarter percent change.

A Short Recovery
The W-Recession Scenario

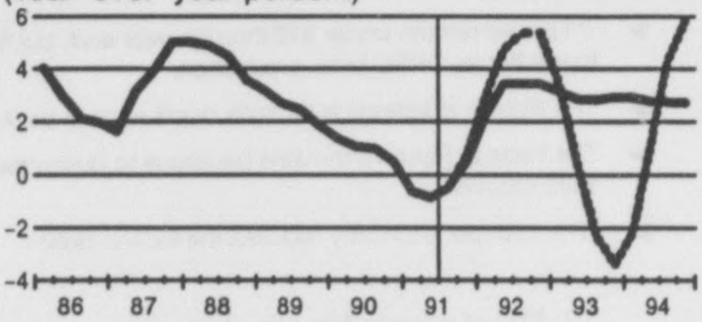
Key Assumptions

- The Federal Reserve keeps interest rates low through the election, then pushes them up sharply.
- Bond yields soar because of world capital demands.
- Consumer euphoria evaporates in late 1992 as financial problems intensify and inflation worsens.
- The recovery last only 21 months.
- The economy moves back into recession in early 1993.

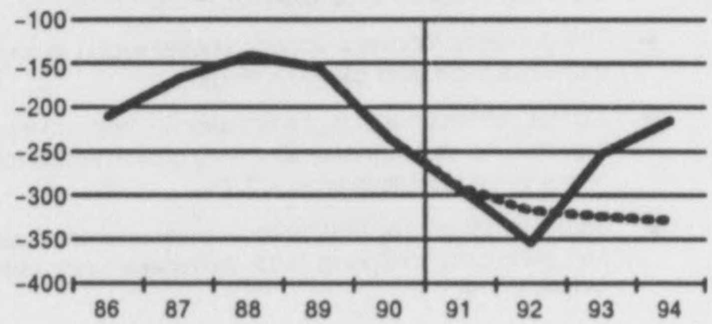
Business Impacts

- Real GNP falls 1.1% in the 1991 recession, but this is followed by a steeper 3.2% drop in 1993.
- Domestic auto sales collapse again in 1993 after a 1992 recovery.
- The unemployment rate falls below 5.5% in late 1992, triggering inflation and higher interest rates.
- Construction rebounds temporarily, but credit stringency hits again after the 1993 recession.
- The credit-sensitive sectors bear the brunt of the second recession.

Real GNP Growth
(Year-over-year percent)



Federal Budget Deficit



Summary of the WRecess Scenario

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	2.9	3.3	6.3	6.3	5.6	1.0	-0.3	4.6	-0.5	2.2
Total Consumption	-1.5	2.5	3.9	2.9	4.1	3.5	2.6	0.9	0.5	3.3	0.5	2.0
Nonresidential Fixed Invest	-16.3	1.4	-2.4	4.7	7.4	18.0	20.8	1.8	-3.4	9.7	8.1	-0.6
Residential Fixed Investment	-25.3	1.6	13.9	17.2	21.7	20.5	11.0	-5.4	-11.6	14.9	-11.1	18.3
Total Government	-1.3	1.8	-6.0	-0.3	-0.2	-0.2	-1.3	2.8	0.6	-1.0	-0.3	0.2
Civilian Unemployment Rate (%)	6.5	6.8	6.9	6.7	6.3	5.9	5.5	5.5	6.7	5.7	6.8	7.1
CPI—All Urban Consumers (a)	3.5	2.1	2.8	4.4	5.1	5.3	5.5	5.4	4.3	4.6	5.1	4.2
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.4	5.6	6.5	6.2	6.6	4.9	2.3	4.9	4.7	3.1
Compensation per Hour (a)	4.1	4.6	4.9	4.5	5.5	7.3	7.2	3.9	4.5	5.8	5.5	4.2
Federal Funds Rate (%)	6.43	5.86	5.65	4.85	4.85	5.00	5.50	8.10	5.70	5.96	7.81	6.45
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.75	7.49	7.57	7.65	8.61	8.11	8.05	8.87	8.01
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	21.11	22.12	22.30	22.70	22.22	19.31	22.58	23.43	23.66
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-12.4	-6.3	7.4	28.3	42.3	-5.1	-18.5	31.7	-7.7	-3.9
Current Account Balance (Bil. $)	42.0	11.9	-32.3	-43.2	-57.0	-71.0	-74.5	-92.1	-5.4	-68.0	-78.4	-85.4
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.7	-104.6	-118.0	-29.1	-79.6	-220.5	-273.1	-331.3	-291.3	-354.7
Profits After Tax (b)	-0.4	-3.3	-0.6	16.2	36.8	53.3	45.0	0.0	3.1	38.4	-32.1	29.6
Real Disposable Income (a)	-1.5	2.3	1.9	1.3	3.8	2.9	2.7	0.9	-0.4	2.7	2.2	0.9
Industrial Production (a)	-9.6	2.4	7.2	5.6	8.2	8.1	8.2	1.0	-1.5	7.0	-1.8	1.3
Car Sales (Mil units)	8.2	8.5	8.6	9.1	9.7	10.2	10.4	9.5	8.6	10.2	9.0	9.5
Housing Starts (Mil units)	0.92	1.00	1.06	1.14	1.21	1.25	1.25	1.20	1.03	1.20	0.93	1.33

(a) Annual rate of change.
(b) Four-quarter percent change.

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The Optimistic Scenario

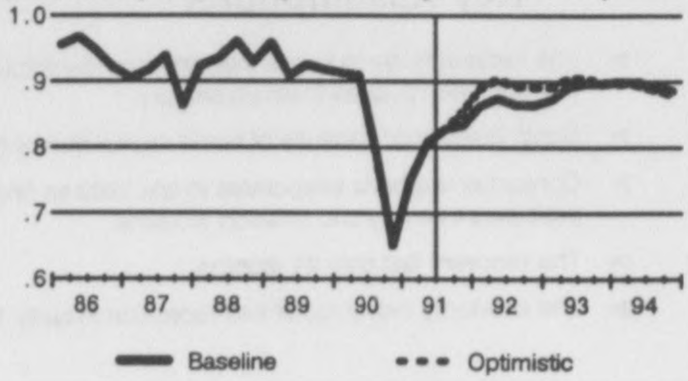
Key Assumptions

- Consumer sentiment rebounds, followed quickly by spending.
- Oil prices remain under $19 through year end, but firm thereafter as OPEC trims production.
- The pickup in spending loosens credit reins at banks.
- The Federal Reserve remains generous to guarantee a solid recovery.
- The stronger economy reduces the federal deficit.

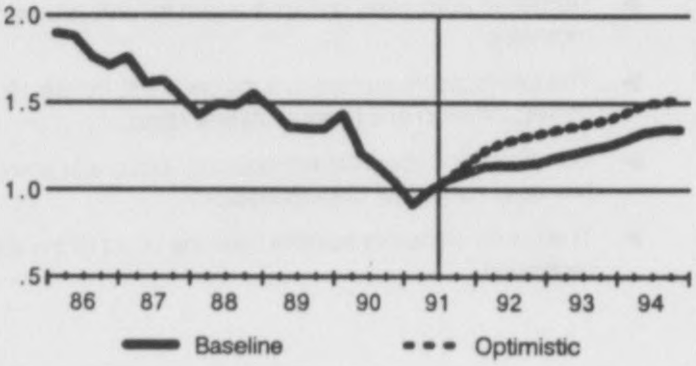
Business Impacts

- The economy recovers quickly from the mini-recession.
- Big-ticket items and housing lead the charge, spurred by the sharp recovery in confidence.
- The domestic recovery, added to better export strength, motivates increased capital spending.
- Tighter markets mean higher inflation in 1992-93 than in the baseline, but higher productivity growth keeps consumer price increases around 3.7%.
- Stable inflation plus 1992 political pressures encourage Fed generosity; in Spring 1993, the federal funds rate moves to 7%.

Consumer Sentiment Index
(University of Michigan Survey, 1966=1.0)



Housing Starts
(Millions of units)



Summary of the Optimistic Scenario

	1991				1992			Years				
	1	2	3	4	1	2	3	1990	1991	1992	1993	1994
Real GNP Growth Rates												
Gross National Product	-2.8	-0.5	3.0	3.8	6.2	5.8	4.6	1.0	-0.3	4.5	3.6	2.7
Total Consumption	-1.5	2.5	4.0	2.4	3.4	2.8	1.9	0.9	0.4	2.9	2.7	2.5
Nonresidential Fixed Invest	-16.3	1.4	-2.4	8.0	9.0	17.2	18.6	1.8	-3.2	10.1	13.9	6.8
Residential Fixed Investment	-25.3	1.6	13.9	17.8	22.5	21.1	13.5	-5.4	-11.6	16.8	9.2	7.3
Total Government	-1.3	1.8	-5.7	0.5	-0.3	0.0	-1.2	2.8	0.7	-0.8	-0.2	0.7
Civilian Unemployment Rate (%)	6.5	6.8	6.9	6.8	6.5	6.1	5.8	5.5	6.8	6.0	5.3	5.2
CPI—All Urban Consumers (a)	3.5	2.1	2.8	3.7	3.9	3.7	3.6	5.4	4.2	3.5	3.7	3.9
Prod. Price Index—Finished Goods	-2.5	-0.7	-0.4	3.2	3.4	2.9	3.1	4.9	2.1	2.5	3.2	3.5
Compensation per Hour (a)	4.1	4.6	4.9	3.3	3.6	4.3	3.9	3.9	4.4	4.0	4.3	4.6
Federal Funds Rate (%)	6.43	5.86	5.65	5.14	5.67	6.28	6.50	8.10	5.77	6.24	6.98	7.10
30-Year Treasury Bond Rate (%)	8.20	8.32	8.19	7.87	8.01	8.36	8.31	8.61	8.14	8.20	8.25	7.94
Foreign Crude Oil ($ per barrel)	19.43	18.02	18.68	19.45	19.70	19.57	19.77	22.22	18.89	19.83	21.38	23.30
Nonfarm Inven Accum (Bil. 1982 $)	-28.1	-27.2	-12.4	-6.0	7.1	27.2	38.3	-5.1	-18.4	28.4	28.1	15.0
Current Account Balance (Bil. $)	42.0	11.9	-32.4	-39.8	-46.1	-53.9	-57.1	-92.1	-4.6	-56.9	-77.5	-91.6
Fed. Budget Surplus (Unified, FY, bil. $)	-65.6	-25.7	-95.6	-102.6	-113.7	-26.4	-79.1	-220.5	-273.0	-321.9	-231.7	-184.5
Profits After Tax (b)	-0.4	-3.3	-0.4	17.6	37.6	53.4	42.1	0.0	3.5	37.0	-3.2	-2.2
Real Disposable Income (a)	-1.5	2.3	1.9	1.2	3.8	2.7	2.4	0.9	-0.4	2.5	3.3	2.6
Industrial Production (a)	-9.6	2.4	7.3	6.2	8.8	7.6	6.6	1.0	-1.5	6.9	4.4	2.6
Car Sales (Mil units)	8.2	8.5	8.6	9.1	9.5	9.7	9.8	9.5	8.6	9.7	10.2	10.4
Housing Starts (Mil units)	0.92	1.00	1.06	1.14	1.22	1.27	1.30	1.20	1.03	1.27	1.37	1.49

(a) Annual rate of change.
(b) Four-quarter percent change.

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Regional Markets Face Diverse Prospects

- Protracted Downturns – New England
- "Typical" Recession - Middle Atlantic
- Mild Recessions – East South Central, East South Central, West North Central
- Growth Recessions – Pacific Southwest, Pacific Northwest, South Atlantic, West South Central

Best In The West

	Employ. Peak	Employ. Trough	Duration (Number of Quarters)	Depth (Job Loss, Percent)	Recovery Date	Recovery Length ** (Number of Quarters)
New England	1989:1	1991:4	11	8.4	1998:3	27
Middle Atlantic	1990:1	1991:4	7	2.3	1994:2	10
South Atlantic	1990:3	1991:2	3	1.0	1992:2	4
East North Central	1990:3	1991:2	3	0.3	1992:1	3
East South Central	1991:1	1991:2	1	0.6	1992:1	3
West North Central	1991:1	1991:2	1	0.3	1992:1	3
West South Central	1991:1	1991:2	1	0.3	1991:4	2
Pacific Northwest	1991:1	1991:2	1	0.6	1991:4	2
Pacific Southwest	1991:1	1991:2	1	0.2	1991:4	2
Nation*	1990:3	1991:3	4	0.5	1992:2	3

*Sum of states
**Recovery is defined as that point where jobs reach their pre-recession peak..

Total Nonfarm Employment
Compound Annual Rates

	1990:3-1991:2 %Gr	Rank	1991:2-1992:4 %Gr	Rank	1992-1995 %Gr	Rank	1995-2000 %Gr	Rank
Total U.S	-0.7	-	1.0		1.9		1.2	
New England	-4.4	9	-0.3	9	1.6	7	1.2	4
Middle Atlantic	-1.8	8	-0.1	8	1.4	9	0.8	9
South Atlantic	-1.3	7	1.4	4	2.1	4	1.5	2
East North Central	-0.5	5	1.0	7	1.8	5	0.9	8
East South Central	-0.5	6	1.2	5	1.6	6	1.0	7
West North Central	0.4	3	1.1	6	1.7	8	1.0	6
West South Central	1.0	2	1.6	1	2.4	1	1.2	3
Pacific North West	1.4	1	1.6	2	2.1	3	1.1	5
Pacific South West	0.0	4	1.4	3	2.2	2	1.6	1

Total Employment Growth
(average annual growth 1991–1995)

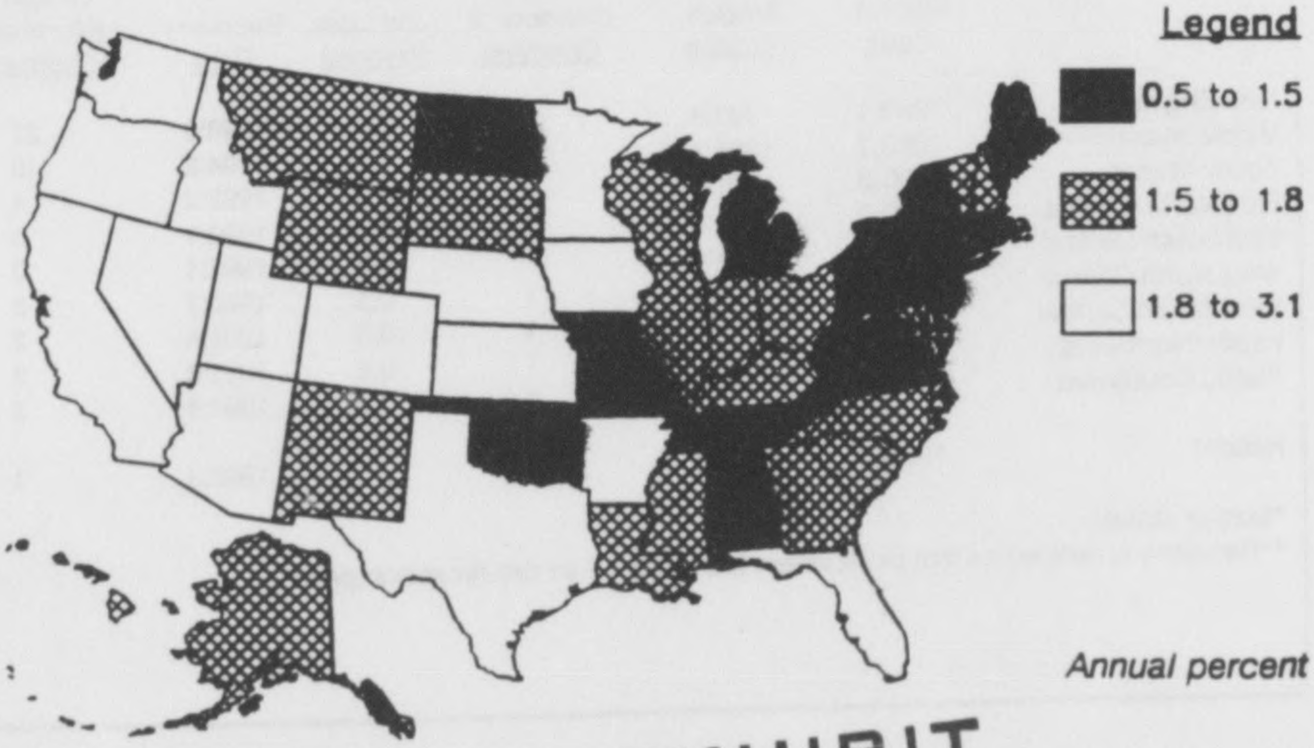

EXHIBIT
3
OCT 24 1991
STATE BUDGET & CONTROL BOARD

Revenue Forecast for Fiscal Year 1992-93

Dr. Thomas E. Snider
Board of Economic Advisors

STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

Walter R. Pettiss, Chairman
Andrew J. Crane
Thomas E. Snider, Ph.D.
S. Hunter Howard, Jr., Ex officio
Barbara A. Feinn, Ph.D., Executive Director

Edgar A. Brown Building
Suite 535
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Columbia, S. C. 29201
803/734-1510

To: South Carolina Budget and Control Board

Subject: First Official Estimate for FY 1992-93

In accordance with Section 11-9-880 of the 1976 S.C. Code of Laws, as amended, the Board of Economic Advisors submits the first official estimate for Fiscal Year 1992-93. A review of actual revenues in FY 1990-91 compared with the Appropriation Act estimates for FY 1990-91, and an update of revenue estimates for FY 1991-92 as compared with the Appropriation Act estimates for FY 1991-92 will follow at the conclusion of this Report.

The estimate is being made in an environment of unusual uncertainty and skepticism on the part of the general public as to the path of the recession and the strength and timing of recovery. The general consensus of most mainstream economists is that the recession has run its course and, with the exception of areas such as the Northeast, it was a relatively mild one lasting three quarters, with the turnaround occurring in the third quarter of this year. Growth in real GNP for this fiscal year and in FY 1992-93 is expected to be at less than three percent with inflation as measured by the Consumer Price Index in the 3.5% range. This puts the pace of the recovery at half the rate of the last eight recoveries. Personal Income is forecast to rise at sluggish rates with consumer spending only keeping pace with income growth this fiscal year and in FY 1992-93.

The forecasts of the members of the BEA National Advisory Council presented to the BEA at the October 4th meeting held in Columbia were basically in agreement. While the recovery seemed solid, Council members agreed it was an appraisal that should be tempered with caution. The forces which had spurred growth for the past thirty years were no longer operating domestically or internationally. Problem areas include the growing federal deficit, the overhanging personal debt situation, a lack of fiscal stimulus, credit restraints, and growth slowdowns in major industrial nations. Caution was advised not just for the period of cyclical recovery in the short term, but for the longer term outlook of the United States as well.

Given this outlook, the economy of South Carolina should expand at national rates with recovery following the national pattern. The increase in nominal personal income should be in the 4% range this fiscal year and the 6% range in FY 1992-93. Unlike previous periods of recovery, no single sector of the South Carolina economy seems to be providing a significant thrust for greater growth. With the timing and path of recovery in South Carolina uncertain and current indications of a recovery at half the normal rate in South Carolina as well as in the nation, caution was stressed in looking some 20 months into the future. This was particularly essential in translating future economic increments into revenue projections following a period in which long-term income and revenue relationships had been so thoroughly disrupted.

On this basis, the Board of Economic Advisors estimates no change in the forecast of revenues for FY 1991-92 from the July 26, 1991 estimate of $3,440 million, or $148.3 million below the FY 1991-92 Appropriation Act of $3,588.3 million. Revenues of $3625.0 million are estimated for FY 1992-93. This is an increase of $185.0 million, or 5.4% from the $3,440 million 1991-92 BEA revenue estimate and an increase of $36.7 million or 1.0% over the FY 1991-92 Appropriation Act of $3,588.3 million.

Board of Economic Advisors

W.R.P.

October 10, 1991

TABLE I

GENERAL FUND REVENUES
FISCAL YEARS 1991-92 AND 1992-93
(In Millions of Dollars)

	ACTUAL FY 1990-91	BEA 10/9/91 REVISED ESTIMATE FY 1991-92	BEA 10/9/91 ESTIMATE FY 1992-93
TOTAL GENERAL FUND (1)	3305.4	3440.0	3625.0
Total Regular Sources (1)	3258.1	3377.5	3580.0
Sales Tax (1)	1155.4	1201.0	1271.0
Individual Income Tax	1386.6	1461.0	1581.0
Corporation Income Tax	142.7	153.0	165.0
All Other	573.4	562.5	563.0
Miscellaneous Sources	47.2	62.5	45.0
Education Improvement Fund	290.519	300.250*	317.750*
Interest on Education Improvement Fund	1.988	1.800	1.800
TOTAL	292.507	302.050	319.550
		RATES OF CHANGE**	
TOTAL GENERAL FUND		4.1%	5.4%
Total Regular Sources		3.7	6.0
Sales Tax		3.9	5.8
Individual Income Tax		5.4	8.2
Corporation Income Tax		7.2	7.8
All Other		-1.9	0.1
Miscellaneous Sources		32.3	-28.0
Education Improvement Fund		3.3	5.8
Interest on Education Improvement Fund		-9.5	0.0
TOTAL		3.3	5.8

(1) Net of Education Improvement Fund.
* One-fifth of total sales tax.
** Percent change based on unrounded figures.

Board of Economic Advisors
October 10, 1991

TABLE II

STATE OF SOUTH CAROLINA
TOTAL BUDGETARY GENERAL FUND
QUARTERLY ESTIMATES
Fiscal Years 1991-92 and 1992-93
(In Millions of Dollars)

	FY 1991-92	FY 1992-93
FIRST QUARTER	790.2 *	841.0
SECOND QUARTER	1659.7	1753.0
THIRD QUARTER	2459.0	2601.3
FOURTH QUARTER	3440.0	3625.0

PERCENT OF TOTAL REVENUES
COLLECTION BY QUARTER

	FY 1991-92	FY 1992-93
FIRST QUARTER	23.0 **	23.2
SECOND QUARTER	25.3	25.2
THIRD QUARTER	23.2	23.4
FOURTH QUARTER	28.5	28.2

*: Actual.
**: Actual quarterly data as percent of total estimate.
Note: Tax collections for June sales accrue in the month of June.

Board of Economic Advisors
October 10, 1991

REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEAR 1992-93

The procedures and methodology of the Board of Economic Advisors in the preparation of the first official revenue forecast for Fiscal Year 1992-93 involved three major stages: 1) providing the economic background and setting at the national and State levels for the revenue forecasts; 2) interpreting recent and historical revenue relationships; and 3) interacting with officials of other states with responsibility for revenue forecasting.

The Board members consulted as in the past with business and financial experts and professional economists for economic intelligence gathering. This included a meeting held on October 4, 1991 in Columbia with the National Advisory Council to the Board of Economic Advisors. Present at the meeting were: J. Alfred Broaddus, Jr., Ph.D., Senior Vice President and Director of Research, Federal Reserve Bank of Richmond; Ben E. Laden, Ph.D., Director of Financial Institutions Regulations Staff, Department of Housing and Urban Development; James A. Morris, Ph.D., Distinguished Professor of Economics Emeritus, University of South Carolina; Ronald P. Wilder, Ph.D., Chairman, Department of Economics, University of South Carolina; David A. Wyss, Ph.D., Senior Vice President and Research Director, Data Resources, Inc.; and Bruce Yandle, Jr., Ph.D., Alumni Professor of Economics and Acting Director of the Strom Thurmond Institute, Clemson University.

The resources of the national forecasting groups by which the SCOPE model and other forecasts are driven, Data Resources, Inc., Evans Economics, Inc., and WEFA, Inc., were available weekly and monthly to Board members and staff. Materials from a variety of sources--international, national and State publications--were also made available to Board members and staff.

Board of Economic Advisors
October 10, 1991

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office). It was designed and operated as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity with approximately 85 exogenous national variables provided by leading national forecasting services such as Data Resources, Inc., the WEFA Group, and Evans Economics, Inc.

The SCOPE core econometric model consists of 51 equations, of which 37 are stochastic* and 14 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 19 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income and unemployment.

Durable Manufacturing Employment

The durable manufacturing employment block consists of ten stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Wood Products, Stone, Clay and Glass, Primary and Fabricated Metal Products, Electrical and Nonelectrical Machinery and Other Durables which includes Furniture and Fixtures, Transportation, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of seven stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into eight stochastic equations: Mining, Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 12 equations, one equation for the unemployment rate, one equation to adjust for nonresidents, and ten additional equations for each of the ten major components of personal income as published by the Bureau of Economic Analysis, U.S. Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

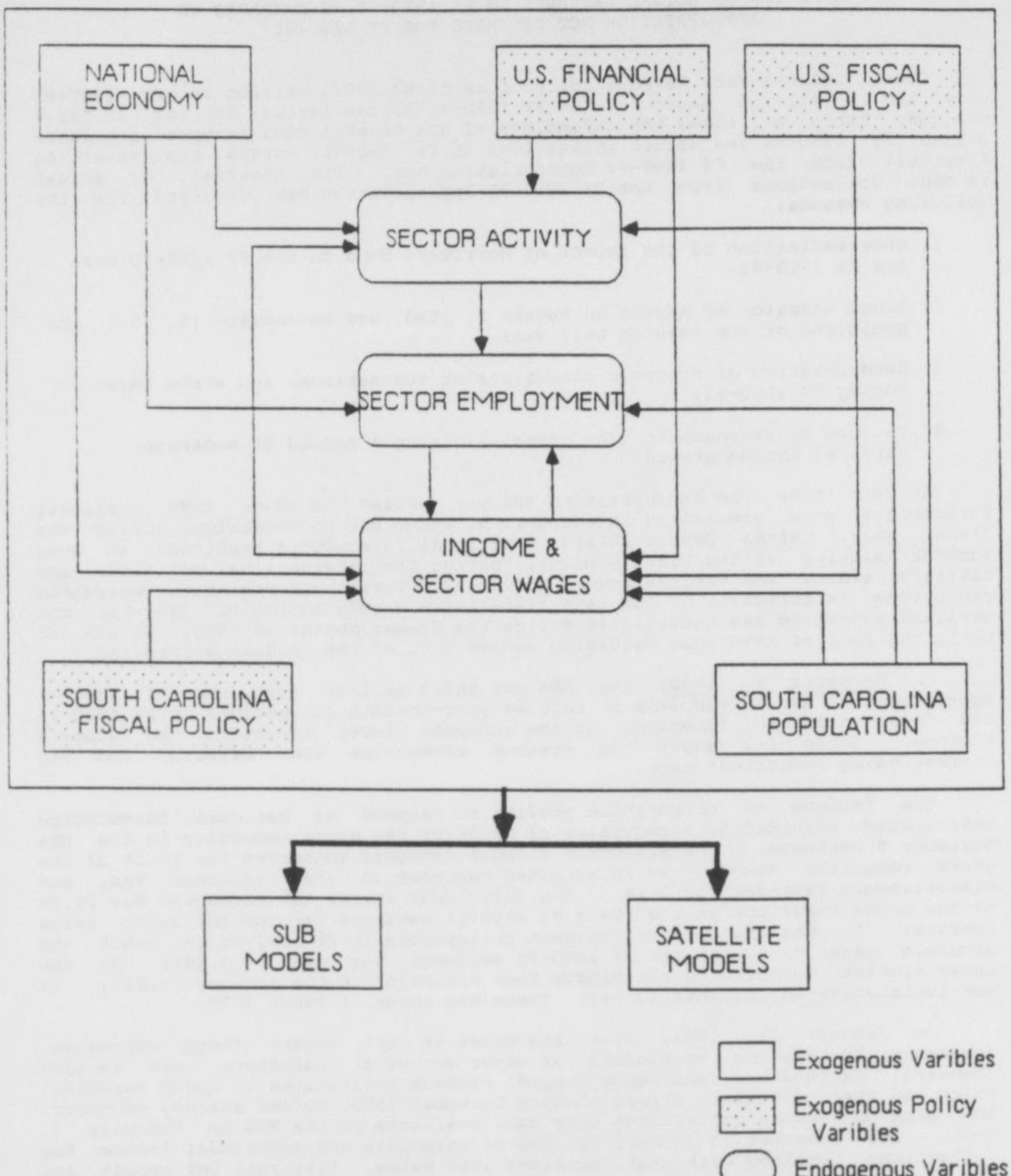
The revenue section of the model is being structured to emphasize four major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales tax, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are two stochastic equations for taxable sales and refunds.

Equations of the model are continuously respecified to account for revisions in historical data. Reformulation and respecification of the model continues as an ongoing process. Forecasts from the SCOPE core and revenue models were made available for deliberations in the first official estimate of FY 1992-93 by the Board of Economic Advisors.

Board of Economic Advisors
October 10, 1991

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL



Board of Economic Advisors
October 10, 1991

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A REVIEW OF ACTUAL REVENUES IN FY 1990-91 AS COMPARED TO APPROPRIATION ACT ESTIMATE FOR FY 1990-91

Total General Fund Revenue collections of $3,305.4 million in FY 1990-91 were $287.2 million short of the FY 1990-91 Appropriation Act of $3,592.6 million. Table A-1 shows the chronology of BEA General Fund revenue estimates during FY 1990-91 and actual collections in FY 1990-91 versus the resulting shortfall from the FY 1990-91 Appropriation Act. The shortfall of actual revenue collections from the FY 1990-91 Appropriation Act occurred for the following reasons:

1. Underestimation of the impact of Hurricane Hugo on the FY 1989-90 base for FY 1990-91;

2. Iraqi invasion of Kuwait on August 2, 1990, and on January 16, 1991, the beginning of the Persian Gulf War;

3. Deterioration of economic conditions at the national and state level during FY 1990-91;

4. Failure of revenues to grow normally during a period of moderate personal income growth.

At the time the Appropriation Act was passed in June 1990, national forecasters were predicting an economic slowdown but no recession during the fiscal year. After Desert Shield, national forecasters predicted an even further slowing of the U.S. economy, citing the international political and military events and various trade policies. These uncertainties warranted reductions in forecasts of the rate of real GNP growth during FY 1990-91, but still no recession was anticipated during the Summer months of 1990. It was not until the Fall of 1990 that recession became part of the consensus forecast.

On November 9, 1990, the BEA cut $82.3 million from the FY 1990-91 Appropriation Act in response to reduced year-to-date collections in FY 1990-91 and lower economic forecasts at the national level affecting the State's economy. Table A-2 shows the revenue categories most affected and the corresponding reductions made.

The failure of corporation profits to respond as national forecasters anticipated resulted in a reduction of 56.3% of the gross reduction in the BEA November 9 estimate. The All Other revenue category accounted for 20.3% of the gross reduction due to an anticipated decrease in the Insurance Tax, and Miscellaneous revenues for 2.2%. The Individual Income tax accounted for 21.2% of the gross reduction in the BEA's FY 1990-91 estimate for the following three reasons: 1) the failure of revenue collections in FY 1989-90 to reach the economic base on which the FY 1990-91 estimate was made (13.4%); 2) the uncertainties surrounding the Middle East situation on the economy (4.2%); 3) net legislative adjustments (3.6%). These are shown in Table A-2A.

On January 16, 1991, with the onset of the Desert Storm offensive, forecasts by leading economists of major economic indicators were revised downward. As consumer confidence dipped, revenue collections in South Carolina, which had been relatively strong through December 1990, turned sharply downward. The data on January collections were made available to the BEA on February 7, 1991. The weakness in January FY 1990-91 Corporate and Individual Income tax collections combined with weak Christmas 1990 sales, flat real GNP growth and reduced personal income forecasts resulted in the reduction of the FY 1990-91 revenue estimate by an additional $50.3 million on February 15, 1991. Table A-3 compares the net dollar differences between the November 9, 1991 BEA estimate and the revised BEA estimate in February 1991.

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In the Spring of 1991, the economic slowdown, now being recognized as a recession, further caused revenues to lag expectations. According to the consensus of national forecasters, the economy would not have slipped into recession had the Persian Gulf War not occurred. Although economic forecasters were predicting a second quarter turnaround, no evidence of such a turnaround in the economy was apparent in May 1991 or in May revenue receipts issued in June.

This softness in May receipts was anticipated by the BEA at the end of May when the BEA received advance May 1991 tax collection information prior to official data, subsequently released by the Comptroller General on June 7, 1991. On the basis of the advanced data, the BEA reduced the FY 1990-91 revenue estimate on June 4, 1991 to $3,370 million in response to the poor May FY 1990-91 revenue collections, shown in Table A-4 below, and continuing uncertain economic conditions. Forecasts for FY 1990-91 showed minimal growth in real GNP and weaker personal income growth as wage and salaries flattened and total hours worked were lessened. The $90.0 million reduction on June 4, 1991 brought the FY 1990-91 revenue estimate to $3,370 million from $3,460 million and was $222.6 million below the FY 1990-91 Appropriation Act of $3,592.6 million.

Actual FY 1990-91 revenue collections totaled $3,305.4, or $64.6 million below the June 4, 1991 BEA estimate, and $287.2 million below the FY 1990-91 Appropriation Act.

In summary: FY 1990-91 General Fund revenues resulted in a $287.2 million shortfall from the FY 1990-91 Appropriation Act, because the impact of Hurricane Hugo was underestimated causing the FY 1989-90 economic base to be overstated, State revenues did not grow in pace with a climate of moderate personal income growth, economic conditions deteriorated at both the national and state levels, and the Persian Gulf War turned what was to have been a moderate slowdown on the basis of forecasts of mainstream economists into a depression of three quarters duration. These three negative quarters coincided with three of the four quarters of the fiscal year. The result was an increase of three-tenths of one percent in actual collections in FY 1990-91 over FY 1989-90, the smallest increase in at least three decades.

TABLE A
REVIEW OF ACTUAL FY 1990-91 REVENUES VERSUS FY 1990-91 APPROPRIATION ACT

A-1. BEA General Fund Revenue Estimates and Final Collections FY 1990-91 Versus FY1990-91 Appropriation Act

Reference: FY1990-91 ACT	Cumulative Shortfall BEA from FY91 ACT	BEA Estimate	BEA Estimate Reduction	Date of BEA Revised Est.
$3592.6				
	$ -82.3 mil.	$3510.3 mil.	$ -82.3 mil.	11/9/90
	-132.6	3460.0	-50.3	2/15/91
	-222.6	3370.0	-90.0	6/4/91
	-287.2	3305.4 actual		

A-2. Share Differences Appropriation Act and 11/9/90 BEA Estimate

	Net Dollar Differences FY90-91 ACT and BEA 11/9/90	Gross Dollar Reduction FY90-91 ACT and BEA 11/9/90	Percent of Gross Dollar Reduction
Sales	$18.9 mil.	--	--
Individual	-21.5	$-21.5 mil.	21.2% *
Corporate	-57.0	-57.0	56.3
All Other	-20.5	-20.5	20.3
Miscellaneous	-2.2	-2.2	2.2
	$-82.3	$-101.2	100.0%

A-2A. Composition of Net Individual Reduction* in BEA FY 1990-91 Estimate

Failure to reach FY90 base	-13.4%
Lower Individual growth rate	-4.2
Net legislative adjustments	-3.6
Total net Individual income decrease	-21.2% *

A-3. Net Dollar and Percent Change Between BEA 11/9/90 and 2/15/91 Estimates

Category	BEA 11/9/90 Estimate	BEA 2/15/91 Estimate	Net Dollar Change	Percent of Net Dollar Change
Sales	$ 1224.2	$ 1198.0	$ -26.2	-52.1%
Individual	1491.0	1477.0	-14.0	-27.8
Corporate	150.0	152.0	2.0	4.0
All Other	599.5	590.0	-9.5	-18.9
Miscellaneous	45.6	43.0	-2.6	-5.2
Total	$ 3510.3	$ 3460.0	$ -50.3	100.0%

A-4. Net Dollar and Percent Change Between BEA 2/15/91 and 6/4/91 Estimates

Category	BEA 2/15/91 Estimate	BEA 6/4/91 Estimate	Net Dollar Change	Percent of Net Dollar Change
Sales	$ 1198.0	$ 1172.5	$ -25.5	-28.3%
Individual	1477.0	1437.7	-39.3	-43.7
Corporate	152.0	146.5	-5.5	-6.1
All Other	590.0	571.3	-18.7	-20.8
Miscellaneous	43.0	42.0	-1.0	-1.1
Total	$ 3460.0	$ 3370.0	$ -90.0	100.0%

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AN UPDATE ON REVENUE ESTIMATES FOR FY 1991-92
AS COMPARED TO THE APPROPRIATION ACT ESTIMATES FOR FY 1991-92

On June 4, 1991 (26 days before the end of FY 1990-91) without the benefit of final collections for the fiscal year, the BEA was asked to provide an updated General Fund Revenue estimate for FY 1991-92 to facilitate the passage of the Appropriation Act for FY 1991-92. That revised estimate reduced the FY 1990-91 estimate base by $90 million from $3,460 million to $3,370 million. As a result of this lower base and the economic outlook the FY 1991-92 estimate was reduced by $100 million from $3,624 million to $3,524 million. The Appropriation Act estimate of $3,588.3 million was passed and included legislative additions of $64.3 million to this $3,524 million estimate.

Final collections for FY 1990-91 of $3,305.4 million were not released until August 9, 1991 and they were $64.6 million less than the June 4, 1991 BEA estimate of $3,370 million. Weakness in collections continued during June and into July of FY 1991-92. The BEA was again requested to provide a revenue update for FY 1991-92 on July 26, 1991. This revision brought the FY 1991-92 estimate down to $3,440 million or a $148.3 million total reduction from the FY 1991-92 Appropriation Act estimate.

The BEA was aware of approximately $63 million in shortfall from the FY 1990-91 economic base. The final audited figures revealed a shortage of $64.6 million. The bulk of this shortfall, $51.1 million, was in Individual Income tax. Sales taxes were down $17.1 million and Corporate Income taxes were down $3.8 million. Individual Income taxes were down because of a more pronounced slowdown in business activity than expected when the forecast was originally made, and the Sales tax results were down for the same reason plus the adverse effect of the movement of people from South Carolina during and after "Operation Desert Storm".

During the deliberations of the FY 1991-92 Act the BEA reduced the effect of the Medicaid multiplier on Sales tax revenue by $1.2 million and $4.2 million on Individual Income taxes, for a total $5.4 million.

Downward revision of agency estimates during FY 1991-92 were as follows:

All Other Revenue:	
Insurance and Workers' Compensation	$ 7.8
Earnings on Investment	11.0
Taxes on Coin-Operated Devices	8.0
Miscellaneous Sources:	
Indirect Cost Recoveries	1.3
Total	$ 28.1

Additional weakness in the South Carolina economy affecting FY 1991-92 is expected to result in an $8.9 million reduction in Sales Tax, $26.2 million reduction in Individual Income tax, $0.8 million reduction in Corporate Income tax, $7.8 million reduction in All Other Revenue and $0.3 million reduction in the Miscellaneous category.

The BEA met again on October 9, 1991 to provide an updated General Fund Revenue estimate for FY 1991-92 as a revised base for FY 1992-93. Revenue trends through the July-September period of FY 1991-92 were tracking within the $3,390 million to $3,470 million range specified upon release of the $3,440 million estimate on July 26, 1991. The BEA made internal offsetting adjustments totaling $14 million. Individual Income taxes and Corporate Income taxes were adjusted up $4.0 million and $10.0 million, respectively. All Other revenues and Miscellaneous revenues were adjusted down $11.1 million and $2.9 million, respectively, to provide a realistic base for FY 1992-93 revenue growth, with no change warranted to the $3,440 million total estimate. A listing by major category of the FY 1991-92 BEA estimate of $3,440 million, as revised, is shown in Table I of this Report.

Board of Economic Advisors
October 10, 1991

TABLE B

CAUSES UNDERLYING $148.3 MILLION REDUCTION BY BEA
OF FY 1991-92 APPROPRIATION ACT ESTIMATE
OF $3,588.3 MILLION ON JULY 26, 1991

AMOUNT (MILLIONS)	DESCRIPTION OF CAUSE BY REVENUE SOURCE	PERCENT DISTRIBUTION
$ -64.6	1) FY 1990-91 BASE REDUCTIONS: $3305.4 ACTUAL VS. $3370 BEA 6/4/91 ESTIMATE AS BASE FOR FY 1991-92 APPROP. ACT	43.6
	SALES -17.1	
	INDIV -51.1	
	CORP -3.8	
	ALOTHR 2.1	
	MISC 5.3	
-6.2	2) FY 1990-91 BASE REDUCTION FOR NON-RECURRING REVENUE NOT PREVIOUSLY INCLUDED BY AGENCIES FOR BEA 6/4/91 ESTIMATE	4.2
	ALOTHR -1.2 DHEC Infectious Waste Fee	
	MISC -5.0	
	-4.0 HHSFC (J02) Medicaid fund lapse	
	-1.0 Insurance Services (F30) prior year surplus	
-5.4	3) FY 1991-92 REDUCTION IN ENHANCEMENTS BY BEA 7/26/91 OF LEGISLATIVE ADDITIONS OF $64.3 MILLION	3.6
	SALES -1.2 Multiplier Effect	
	INDIV -4.2 Multiplier Effect	
-28.1	4) FY 1991-92 AGENCY REVISIONS BY BEA 7/26/91	18.9
	ALOTHR -26.8	
	-7.8 Insurance/Workers Comp.	
	-11.0 Earnings on Investment	
	-8.0 Coin-Operated Devices	
	MISC -1.3 Indirect Cost Recoveries	
-44.0	5) FY 1991-92 REDUCTIONS FROM WEAKER ECONOMIC CONDITIONS BY BEA 7/26/91	29.7
	SALES -8.9	
	INDIV -26.2	
	CORP -0.8	
	ALOTHR -7.8	
	MISC -0.3	
$ -148.3		100.0

EXHIBIT

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STATE BUDGET & CONTROL BOARD

Board of Economic Advisors
October 10, 1991

State Budget Division Overview

Charles A. Brooks, Jr.
Director, State Budget Division

002702

SOUTH CAROLINA BUDGET & CONTROL BOARD

STATE BUDGET DIVISION

EXHIBIT

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STATE BUDGET & CONTROL BOARD

OVERVIEW OF FY 1992-93 BUDGET REQUESTS

by

Charles A. Brooks, Jr.

Director, State Budget Division

October 24, 1991

FY 1991-92 BASE

FY 1991-92 PART I APPROPRIATION		3,582,512,939
FY 1991-92 ADJUSTMENTS		(99,033,498)
ANNUALIZATION - HEALTH INSURANCE	1,569,467	
TOTAL 3% BASE REDUCTION	(100,602,965)	
FY 1991-92 BASE ALLOCATION		3,483,479,441

002704

FY 1992-93 REQUESTS

FY 1991-92 BASE ALLOCATION		3,483,479,441
REQUESTED OPERATING INCREASES		711,812,650
PERCENTAGE OF TOTAL	20.4%	
GRAND TOTAL (OPERATING REQUESTS ONLY)		4,195,292,091
REQUESTED TOTAL INCREASES (OPERATING REQUESTS & NON-RECURRING REQUESTS)		777,715,481
PERCENTAGE OF TOTAL	22.3%	
GRAND TOTAL (BASE + TOTAL REQUESTED INCREASES)		4,261,194,922

FY 1992-93 AVAILABLE FUNDS

FY 1990-91 BUDGETARY GENERAL FUND	3,305,427,735
PERCENTAGE GROWTH FROM FY 1989-90	0.32%
FY 1991-92 ESTIMATED TOTAL GENERAL FUND REVENUE (APPROPRIATION ACT)	3,583,546,443
PERCENTAGE GROWTH FROM FY 1990-91	8.41%
FY 1991-92 REVISED ESTIMATE	3,440,025,147
PERCENTAGE GROWTH FROM FY 1990-91	4.07%
FY 1992-93 ESTIMATED REVENUE (BEA 10-10-91)	3,625,000,000
PERCENTAGE GROWTH FROM FY 1991-92 REVISED ESTIMATE	5.4%
FY 1992-93 ALLOCATION BASE	3,483,479,441
"NEW FUNDS ABOVE BASE"	141,520,559

002706

FY 1992-93 MAJOR EXPENDITURE COMMITMENTS

CONSTITUTIONAL		
General Reserve Fund Replacement		
1% of FY 1990-91 Revenue	33,054,277	
Capital Reserve Fund		
to 2% of FY 1990-91 Revenue	213,135	
SUBTOTAL CONSTITUTIONAL		33,267,412
STATUTORY		
Constitutional Officers Pay	16,417	
Debt Service		
Bonds	9,310,427	
Hugo Note Pay-off (non-recurring)	30,568,410	
Aid to Subdivisions		
Local Government Fund	7,580,838	
Inventory Tax Restoration	2,509,169	
Homestead Exemption Restoration & Growth	8,563,333	
Education Finance Act		
Restoration of 3% Base Reduction	31,289,666	
1.8% Underfunding FY 1991-92		
Formula	14,851,850	
Related Employee Benefits	4,044,303	
4.1% Inflation Factor FY 1992-93		
Formula	42,525,882	
Related Employee Benefits	9,212,024	
Ethics Law Implementation	235,259	
1992 Elections	1,166,000	
SUBTOTAL STATUTORY		161,873,578
TOTAL MAJOR EXPENDITURE COMMITMENTS		195,140,990

002707

COMPELLING ITEMS

EMPLOYEE BENEFITS		
State Pay Plan, 4.0% Payout	49,804,224	
Health Insurance Cost Increase		
Agencies	6,091,058	
School Employees	7,221,767	
Retirees	6,212,011	
JUDICIAL DEPARTMENT		
Retirement Contribution Increase	46,235	
BUDGET AND CONTROL BOARD		
Statewide Rental Increase	908,163	
HIGHER EDUCATION		
Formula, 3 points at 8m per point	24,000,000	
Southeastern Manufacturing Technology Ctr.	1,400,000	
Tuition Grants	500,000	
PRIMARY AND SECONDARY EDUCATION		
School Buses	16,369,550	
Textbooks	14,523,476	
Bus Driver Raises	4,197,877	
HEALTH AND SOCIAL SERVICES		
Maintenance at Current Service Levels	20,946,929	
DEPARTMENT OF CORRECTIONS		
Facilities Annualization	13,154,628	
SUBTOTAL COMPELLING ITEMS		**165,375,918**
TOTAL COMMITMENTS & COMPELLING ITEMS		**360,516,908**

002708

THE RELATIONSHIP BETWEEN PERSONAL INCOME AND GENERAL FUND REVENUE GROWTH

	1987	1993	Average Annual % Change
U.S. Total Personal Income ($Billions)	3,766.0	5,390.0	6.16%
S.C. Total Personal Income ($Billions)	41.4	60.0	6.40%
S.C. Total General Fund Revenue ($Billions)	2.938	3.625	3.56%

Ratio of S.C. Income Growth to U.S. Income Growth	1.04
Ratio of S.C. General Fund Growth to S.C. Income Growth	0.56

002709

SCENARIO OF REVENUE GROWTH AND EXPENDITURES

	1993	1994	1995	1996	1997	1998
U.S. Total Personal Income ($Billions)	5390	5723	6068	6446	6836	7262
% change		6.2%	6.0%	6.2%	6.1%	6.2%
S.C. Total Personal Income ($Billions)	59.0	62.8	66.7	71.0	75.5	80.4
% change		6.4%	6.3%	6.5%	6.3%	6.5%
REVENUES						
Total General Fund Revenue ($Billions)	3.625	3.755	3.885	4.025	4.166	4.317
		3.6%	3.5%	3.6%	3.5%	3.6%
Incremental Revenue Growth ($Millions)	185.0	129.5	130.9	140.0	140.9	150.2

SCENARIO OF REVENUE GROWTH AND EXPENDITURES

	1994	1995	1996	1997	1998
EXPENDITURES ($Millions)					
General Reserve Fund @	36.7	5.6	3.9	3.9	4.2
Capital Reserve Fund @	2.9	3.7	2.6	2.6	2.8
Debt Service #	8.5	8.5	8.5	8.5	8.5
Health Insurance *	16.3	15.3	16.0	17.8	19.5
Education Finance Act *	52.3	52.7	59.6	67.5	75.2
Pay Plan (Inflation Only) *	39.0	38.4	42.0	47.0	50.1
Aid to Subdivisions-Local Government Fund @	2.8	8.3	5.8	5.9	6.3
Homestead Exemption	4.4	4.9	5.4	5.9	6.5
Higher Education #	18.0	18.0	18.0	18.0	18.0
Health and Social Services #	15.0	15.0	15.0	15.0	15.0
Corrections & Probation #	15.0	15.0	15.0	15.0	15.0
TOTAL Expenditures	210.8	185.3	191.7	207.2	221.0
Structural Deficit	(81.3)	(54.4)	(51.7)	(66.3)	(70.8)

@ Expenditure scenario based on constitutional/statutory formula

* Expenditure scenario based on applicable inflation forecast as published by Data Resources, Inc. TREND25YR0891

\# Expenditure scenario based on historical trend of funds necessary to maintain current service levels

ALTERNATIVES FOR ACTION

* Eliminate Certain Governmental Services

* Increase Revenue

002712

ALTERNATIVES FOR ACTION

MAJOR POINT #1

Reducing expenditures by an "across-the-board" or "budget code" method is no longer viable because agencies will be severely effected. This causes inefficiency.

Since the beginning of Fiscal Year 1990-91, most state agencies have been assessed the following permanent budget reductions:

FY 1990-91
* 10% Travel Reduction
* 16% Equipment Reduction
* 1% Personal Services Reduction
* 0.43% Base Reduction

FY 1991-92
* 3% Personal Service Deallocation
* 3.3% Base Reduction

FY 1992-93
* 1% Base Reduction
* 2% "Sequestered Account" Base Reduction

002713

ALTERNATIVES FOR ACTION

MAJOR POINT #2

Virtually all of the General Fund budget is being spent for things most citizens consider “high priority” items.

002714

FY 1992-93 BASE ALLOCATION

	Percent of Total		
Non-Discretionary Items:			
Capital Reserve Fund	1.9%		
Debt Service	3.4		
Aid to Subdivisions	6.4	11.7%	
Education:			
K-12 Education	32.9%		
Higher Education	16.8		89.9%
Other Education	1.9		
Correctional	7.1		
Health	16.0		
Social Services	3.5	78.2%	
Legislative	0.8%		
Judicial	0.8		
Executive	3.2		
Natural Resources	3.4		
Regulatory	2.1		
Transportation	0.1	10.4%	

002715

LIKELY OUTCOME IF THE PROBLEM IS NOT ADDRESSED

* The real cost of tuition will increase.

* Medicaid likely will be rationed.

* Employee health benefits will diminish.

* Governmental permitting will take longer.

* Federal standards may be violated; thus federal intervention will be likely.

* Upward pressure will be placed on the local property tax system.

002716

SOUTH CAROLINA ADVISORY COMMISSION FOR INTERGOVERNMENTAL RELATIONS
FINANCING GOVERNMENT IN THE PALMETTO STATE
(February 1991)

Suggested Criteria for South Carolina's Tax System:

- Logical
- Neutral
- Reliable
- Diversified
- Equitable
- Understandable
- Accountable
- Professionally Administered
- Adequate to Provide Local Services
- Enhanced Business Competitiveness

RECOMMENDATIONS FOR REFORM

#5 Review Structure and Rates of Selective Sales Taxes

#6 Expand the Use of Licenses, Fees, and Charges

#8 Review the Cap of $300 on Sales of Autos

#9 Levy Taxes on Tobacco Products at Higher Rates

AN EXAMINATION OF EXEMPTIONS IN
SOUTH CAROLINA SALES AND USE TAX,
A Report to the South Carolina Tax Study Commission
(January 1991)

EXEMPTIONS THAT ARE CANDIDATES FOR ELIMINATION

Recommendations:

1. Cap on Tax Due on Motor Vehicles - Eliminate

2. Exemption on Wrappings and Bags - Eliminate

3. Special Treatment on Mobile Homes - Modify

4. Exemption on Telephone and Telegraph Tolls - Eliminate

5. Exemption on Movie Theater Purchases and Rentals - Eliminate

6. Discount to Vendors - Eliminate

7. Exemption on Textbooks - Modify

8. Concession Sales at Festivals - Eliminate

FY 1992-93 LIMITATION ON EXPENDITURES

FY 1992-93 SPENDING LIMIT		5,186,430,000
FY 1992-93 GENERAL FUND BASE ALLOCATION	3,582,512,939	
FY 1992-93 HIGHWAY TRUST FUND REVENUE	450,510,000	
TOTAL FY 1992-93 BASE SUBJECT TO LIMITATION		4,033,022,939
FY 1992-93 ALLOWABLE GROWTH (DIFFERENCE)		1,153,407,061

002719

FY 1992-93 LIMITATION ON NUMBER OF STATE EMPLOYEES

FY 1992-93 STATE FTE LIMIT	44,467.02
FY 1991-92 CERTIFIED FTE BASE	41,692.12
FY 1992-93 ALLOWABLE GROWTH	2,774.90
TOTAL FY 1992-93 REQUESTED FTE's	1,928.20

002720

AGY	AGENCY NAME	1991-92 ADJUSTED BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
A01	LEG. DEPT-THE SENATE	7,303,974	7,303,974							7,303,974	7,303,974		
A05	LEG. DEPT-HOUSE OF REPRESENTATIVES	8,253,296	8,253,296							8,253,296	8,253,296		
A10	LEG. DEPT-SPECIAL SERVICES FOR BOTH	302,988	302,988			8,217	8,217			311,205	311,205		
A15	LEG. DEPT-CODIFICATION OF LAWS & LE	2,048,597	2,048,597			84,920	84,920			2,133,517	2,133,517		
A17	LEG. DEPT-LEG PRINTING & INF. TECH.	2,572,842	2,572,842							2,572,842	2,572,842		
A20	LEG. DEPT-LEG AUDIT COUNCIL	1,057,685	1,057,685			69,418	69,418			1,127,103	1,127,103		
A25	LEG. DEPT-LEG INFORMATION SYSTEMS	864,113	864,113							864,113	864,113		
A27	REORGANIZATION COMMISSION	998,081	998,081			179,201	179,201			1,177,282	1,177,282		
A28	S. C. INTERGOVERNMENTAL RELATIONS A	245,008	245,008							245,008	245,008		
A30	JOINT LEGISLATIVE COMMITTEES	3,048,730	2,843,730		205,000					3,048,730	2,843,730		205,000
	TOTAL LEGISLATIVE DEPARTMENT	26,695,314	26,490,314		205,000	341,756	341,756			27,037,070	26,832,070		205,000
B04	JUDICIAL DEPARTMENT	26,934,511	26,884,511		50,000	3,881,359	3,881,359			30,815,870	30,765,870		50,000
B06	SENTENCING GUIDELINES COMMISSION	87,388	87,388			4,368	4,368			91,756	91,756		
	TOTAL JUDICIAL DEPARTMENT	27,021,899	26,971,899		50,000	3,885,727	3,885,727			30,907,626	30,857,626		50,000
D05	GOVERNOR'S OFF-EXECUTIVE CONTROL OF	1,481,769	1,481,769							1,481,769	1,481,769		
D10	GOVERNOR'S OFF-STATE LAW ENFORCEMEN	25,354,150	22,697,793	530,000	2,126,357	830,856	830,856			26,185,006	23,528,649	530,000	2,126,357
D17	GOVERNOR'S OFF-EXECUTIVE POLICY & P	212,393,388	6,046,191	188,313,712	18,033,485					212,393,388	6,046,191	188,313,712	18,033,485
D20	GOVERNOR'S OFF-MANSION AND GROUNDS	263,344	263,344							263,344	263,344		
E04	LIEUTENANT GOVERNOR'S OFFICE	266,507	266,507			17,593	17,593			284,100	284,100		
E08	SECRETARY OF STATE'S OFFICE	1,343,405	1,323,405		20,000	87,378	87,378			1,430,783	1,410,783		20,000
E12	COMPTROLLER GENERAL'S OFFICE	4,263,926	4,263,926			281,470	281,470			4,545,396	4,545,396		
E16	STATE TREASURER'S OFFICE	8,116,901	3,516,901		4,600,000					8,116,901	3,516,901		4,600,000
E20	ATTORNEY GENERAL'S OFFICE	6,333,346	6,333,346			971,805	971,805			7,305,151	7,305,151		
E21	PROSECUTION COORDINATION COMMISSION	5,458,679	5,458,679			2,330,910	2,330,910			7,789,589	7,789,589		
E22	COMMISSION ON APPELLATE DEFENSE	829,466	829,466			62,388	62,388			891,854	891,854		
E24	ADJUTANT GENERAL'S OFFICE	12,993,100	5,358,179	6,289,122	1,345,799	868,285	635,563	215,222	17,500	13,861,385	5,993,742	6,504,344	1,363,299
E28	ELECTION COMMISSION	1,844,991	1,672,847		172,144	1,952,208	1,952,208			3,797,199	3,625,055		172,144
F01	GENERAL RESERVE FUND					33,054,277	33,054,277			33,054,277	33,054,277		
F02	B & C-OFFICE OF EXECUTIVE DIRECTOR	1,640,261	1,395,779		244,482	571,614	571,614			2,211,875	1,967,393		244,482
F04	B & C-DIV OF INTERNAL OPERATIONS	2,915,018	2,030,300		884,718	56,898	46,842		10,056	2,971,916	2,077,142		894,774
F05	B & C-FINANCIAL DATA SYSTEMS	3,654,050	2,533,069		1,120,981	78,272	78,272			3,732,322	2,611,341		1,120,981
F06	B & C-STATE BUDGET DIVISION	1,391,679	1,391,679			95,825	95,825			1,487,504	1,487,504		
F08	B & C-RESEARCH AND STATISTICAL SERV	4,051,955	3,389,968		661,987	237,160	207,860		29,300	4,289,115	3,597,828		691,287
F10	B & C-INFORMATION RESOURCES MANAGEM	35,537,068	1,729,330		33,807,738	952,449	562,974		389,475	36,489,517	2,292,304		34,197,213
F12	B & C-GENERAL SERVICES DIVISION	28,551,380	6,307,399		22,243,981	1,330,102	1,103,061		227,041	29,881,482	7,410,460		22,471,022
F14	B & C-FIRE MARSHAL'S OFFICE	3,095,053	2,253,309		841,744	232,660	112,660		120,000	3,327,713	2,365,969		961,744
F16	B & C-MOTOR VEHICLE MANAGEMENT DIVI	6,498,424	73,486		6,424,938					6,498,424	73,486		6,424,938
F20	B & C-INSURANCE SERVICES DIVISION	7,381,834			7,381,834	120,000			120,000	7,501,834			7,501,834
F24	B & C-HUMAN RESOURCE MANAGEMENT	5,053,175	3,117,024		1,936,151	239,677	239,677			5,292,852	3,356,701		1,936,151
F26	B & C-LOCAL GOVERNMENT DIVISION	39,125,006	12,834,471		26,290,535	405,202	405,202			39,530,208	13,239,673		26,290,535
F27	B & C-AUDITOR'S OFFICE	3,918,048	3,918,048			715,468	715,468			4,633,516	4,633,516		
F28	B & C-BOARD OF ECONOMIC ADVISORS	355,618	355,618			36,400	36,400			392,018	392,018		
F29	B & C-RETIREMENT SYSTEMS	6,886,593			6,886,593	654,772			654,772	7,541,365			7,541,365
F30	B & C-EMPLOYEE BENEFITS	9,997,803	9,708,159		289,644	84,324,840	49,804,224	9,587,840	24,932,776	94,322,643	59,512,383	9,587,840	25,222,420
F31	B & C-CAPITAL RESERVE FUND	65,895,420	65,895,420			213,135	213,135			66,108,555	66,108,555		
	TOTAL EXECUTIVE AND ADMINISTRATIVE	506,891,357	176,445,412	195,132,834	135,313,111	130,721,644	94,417,662	9,803,062	26,500,920	637,613,001	270,863,074	204,935,896	161,814,031

002721

AGY	AGENCY NAME	1991-92 ADJUSTED BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
H03	COMMISSION ON HIGHER EDUCATION	6,639,335	3,678,096	464,993	2,496,246	522,757	522,757			7,162,092	4,200,853	464,993	2,496,246
H06	HIGHER EDUCATION TUITION GRANTS COM	17,307,868	16,530,649	777,219		852,090	852,090			18,159,958	17,382,739	777,219	
H09	THE CITADEL	41,515,365	12,818,224	577,450	28,119,691	5,197,608	5,197,608			46,712,973	18,015,832	577,450	28,119,691
H12	CLEMSON UNIVERSITY (EDUCATIONAL & G	242,226,554	76,958,580	19,055,214	146,212,760	28,775,526	28,775,526			271,002,080	105,734,106	19,055,214	146,212,760
H15	COLLEGE OF CHARLESTON	50,306,491	20,408,004	2,624,391	27,274,096	6,652,969	6,652,969			56,959,460	27,060,973	2,624,391	27,274,096
H18	FRANCIS MARION COLLEGE	24,089,511	11,929,652	1,483,338	10,676,521	3,488,877	3,488,877			27,578,388	15,418,529	1,483,338	10,676,521
H21	LANDER COLLEGE	16,915,318	7,823,173	115,000	8,977,145	2,155,942	2,155,942			19,071,260	9,979,115	115,000	8,977,145
H24	SOUTH CAROLINA STATE COLLEGE	42,337,987	18,290,780	6,943,456	17,103,751	7,044,845	7,044,845			49,382,832	25,335,625	6,943,456	17,103,751
H27	UNIV OF SOUTH CAROLINA	318,097,819	118,492,466	47,842,920	151,762,433	37,221,275	37,221,275			355,319,094	155,713,741	47,842,920	151,762,433
H28	U S C - MEDICAL SCHOOL	28,108,847	18,129,481	5,057,654	4,921,712	6,191,285	6,191,285			34,300,132	24,320,766	5,057,654	4,921,712
H29	U S C - AIKEN CAMPUS	19,211,855	7,225,671	3,635,472	8,350,712	2,717,812	2,717,812			21,929,667	9,943,483	3,635,472	8,350,712
H32	U S C - COASTAL CAROLINA CAMPUS	26,635,440	10,013,928	3,520,135	13,101,377	3,257,861	3,257,861			29,893,301	13,271,789	3,520,135	13,101,377
H34	U S C - SPARTANBURG CAMPUS	20,[illegible]77,772	9,143,942	2,342,551	9,391,279	3,091,919	3,091,919			23,969,691	12,235,861	2,342,551	9,391,279
H36	U S C - BEAUFORT CAMPUS	3,578,177	1,692,561	545,076	1,340,540	660,619	660,619			4,238,796	2,353,180	545,076	1,340,540
H37	U S C - LANCASTER CAMPUS	4,741,234	2,308,332	681,844	1,751,058	936,256	936,256			5,677,490	3,244,588	681,844	1,751,058
H38	U S C - SALKEHATCHIE CAMPUS	3,270,931	1,683,780	622,347	964,804	705,383	705,383			3,976,314	2,389,163	622,347	964,804
H39	U S C - SUMTER CAMPUS	6,627,359	3,175,127	1,092,694	2,359,538	1,097,006	1,097,006			7,724,365	4,272,133	1,092,694	2,359,538
H40	U S C - UNION CAMPUS	1,817,293	895,877	342,318	579,098	245,278	245,278			2,062,571	1,141,155	342,318	579,098
H47	WINTHROP COLLEGE	47,380,447	18,846,857	1,449,370	27,084,220	5,427,890	5,231,490		196,400	52,808,337	24,078,347	1,449,370	27,280,620
H51	MEDICAL UNIVERSITY OF SOUTH CAROLIN	233,779,414	78,429,414	60,350,000	95,000,000	83,374,821	83,374,821			317,154,235	161,804,235	60,350,000	95,000,000
H52	MEDICAL UNIVERSITY OF S C HOSPITAL	278,732,169	18,232,169	500,000	260,000,000	78,780,797	18,780,797		60,000,000	357,512,966	37,012,966	500,000	320,000,000
H53	S. C. CONSORTIUM OF COMM. TEACHING	16,309,509	14,149,509	1,610,000	550,000	1,057,970	1,057,970			17,367,479	15,207,479	1,610,000	550,000
H55	STATE COUNCIL ON VOCATIONAL & TECHN	271,697	80,397	191,300						271,697	80,397	191,300	
H59	ST. BD. FOR TECHNICAL & COMPREHENSI	210,613,768	113,883,924	17,452,498	79,277,346	72,965,527	72,965,527			283,579,295	186,849,451	17,452,498	79,277,346
	TOTAL HIGHER EDUCATION	1,661,392,160	584,820,593	179,277,240	897,294,327	352,422,313	292,225,913		60,196,400	2,013,814,473	877,046,506	179,277,240	957,490,727
H63	STATE EDUCATION DEPARTMENT	1,703,674,152	1,144,838,169	245,013,861	313,822,122	153,428,726	154,086,952		-658,226	1,857,102,878	1,298,925,121	245,013,861	313,163,896
H67	EDUCATIONAL TELEVISION COMMISSION	26,116,097	18,023,191	46,480	8,046,426	7,486,900	7,236,900		250,000	33,602,997	25,260,091	46,480	8,296,426
H71	WIL LOU GRAY OPPORTUNITY SCHOOL	3,545,293	2,683,629	208,632	653,032	783,320	686,181		97,139	4,328,613	3,369,810	208,632	750,171
H73	VOCATIONAL REHABILITATION	66,709,541	14,774,726	42,248,283	9,686,532	976,448	976,448			67,685,989	15,751,174	42,248,283	9,686,532
H75	SCHOOL FOR THE DEAF AND THE BLIND	14,035,125	10,220,139	1,007,061	2,807,925	1,938,557	1,324,174	614,383		15,973,682	11,544,313	1,621,444	2,807,925
H79	DEPARTMENT OF ARCHIVES AND HISTORY	5,317,258	4,138,457	251,500	927,301	716,881	716,881			6,034,139	4,855,338	251,500	927,301
H83	CONFEDERATE RELIC ROOM	198,781	198,781			14,000	14,000			212,781	212,781		
H87	S. C. STATE LIBRARY	8,158,469	5,957,772	2,190,197	10,500	395,169	395,169			8,553,638	6,352,941	2,190,197	10,500
H91	S. C. ARTS COMMISSION	4,960,520	3,560,713	1,173,676	226,131	183,000	183,000			5,143,520	3,743,713	1,173,676	226,131
H95	STATE MUSEUM COMMISSION	6,073,436	5,278,891		794,545	517,603	517,603			6,591,039	5,796,494		794,545
	TOTAL EDUCATION	1,838,788,672	1,209,674,468	292,139,690	336,974,514	166,440,604	166,137,308	614,383	-311,087	2,005,229,276	1,375,811,776	292,754,073	336,663,427
	TOTAL EDUCATIONAL DIVISION	3,500,180,832	1,794,495,061	471,416,930	1,234,268,841	518,862,917	458,363,221	614,383	59,885,313	4,019,043,749	2,252,858,282	472,031,313	1,294,154,154
J02	STATE HEALTH & HUMAN SERVICES FINAN	1,643,891,605	186,455,297	1,204,055,308	253,381,000	51,840,334	12,370,452	34,379,610	5,090,272	1,695,731,939	198,825,749	1,238,434,918	258,471,272
J03	CONT OF CARE - EMOTIONALLY DISTURBE	10,070,503	2,306,642		7,763,861	3,366,463	130,324		3,236,139	13,436,966	2,436,966		11,000,000
J04	DEPARTMENT OF HEALTH & ENVIRONMENTA	276,317,448	96,337,353	95,054,557	84,925,538	12,537,685	12,537,685			288,855,133	108,875,038	95,054,557	84,925,538
J12	DEPARTMENT OF MENTAL HEALTH	248,813,991	175,155,205	6,598,041	67,060,745	21,504,502	12,568,875	555,896	8,379,731	270,318,493	187,724,080	7,153,937	75,440,476
J16	DEPARTMENT OF MENTAL RETARDATION	209,964,914	85,561,680	2,971,164	121,432,070	14,321,876	9,742,276		4,579,600	224,286,790	95,303,956	2,971,164	126,011,670
J20	S. C. COMMISSION ON ALCOHOL & DRUG	25,417,437	9,818,304	12,405,071	3,194,062	838,121	505,835	150,000	182,286	26,255,558	10,324,139	12,555,071	3,376,348
	TOTAL HEALTH DIVISION	2,414,475,898	555,634,481	1,321,084,141	537,757,276	104,408,981	47,855,447	35,085,506	21,468,028	2,518,884,879	603,489,928	1,356,169,647	559,225,304
L04	DEPARTMENT OF SOCIAL SERVICES	547,793,619	107,663,482	418,182,359	21,947,778	68,079,161	24,926,492	42,811,464	341,205	615,872,780	132,589,974	460,993,823	22,288,983

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AGY	AGENCY NAME	1991-92 ADJUSTED BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
L12	JOHN DE LA HOWE SCHOOL	3,806,345	3,289,475	146,849	370,021	217,235	217,235			4,023,580	3,506,710	146,849	370,021
L16	CHILDREN'S FOSTER CARE REVIEW BOARD	1,181,512	1,098,722	82,790		99,834	94,483	5,351		1,281,346	1,193,205	88,141	
L24	COMMISSION FOR THE BLIND	7,078,756	3,263,783	3,745,473	69,500	670,129	670,129			7,748,885	3,933,912	3,745,473	69,500
L28	COMMISSION ON AGING	16,438,884	2,440,303	12,110,081	1,888,500	432,067	262,067	170,000		16,870,951	2,702,370	12,280,081	1,888,500
L32	STATE HOUSING FINANCE & DEVELOPMENT	16,676,878	469,306	14,057,708	2,149,864	432,775		270,714	162,061	17,109,653	469,306	14,328,422	2,311,925
L36	HUMAN AFFAIRS COMMISSION	2,145,389	1,772,389	335,000	38,000	117,075	117,075			2,262,464	1,889,464	335,000	38,000
L40	DEPARTMENT OF VETERANS' AFFAIRS	1,240,647	1,240,647			73,680	73,680			1,314,327	1,314,327		
L44	COMMISSION ON THE STATUS OF WOMEN	84,998	76,515		8,483	42,268	42,268			127,266	118,783		8,483
	TOTAL SOCIAL REHABILITATION SERVICE	596,447,028	121,314,622	448,660,260	26,472,146	70,164,224	26,403,429	43,257,529	503,266	666,611,252	147,718,051	491,917,789	26,975,412
N04	DEPARTMENT OF CORRECTIONS	248,542,675	199,181,927	2,350,320	47,010,428	54,517,497	54,463,583		53,914	303,060,172	253,645,510	2,350,320	47,064,342
N08	PROBATION, PAROLE AND PARDON SERVIC	25,130,558	14,231,170	436,500	10,462,888	4,625,022	4,420,055		204,967	29,755,580	18,651,225	436,500	10,667,855
N12	DEPARTMENT OF YOUTH SERVICES	38,273,742	33,691,609	2,111,816	2,470,317	9,909,706	9,909,706			48,183,448	43,601,315	2,111,816	2,470,317
N20	LAW ENFORCEMENT TRAINING COUNCIL	7,145,859		226,648	6,919,211	787,916		76,132	711,784	7,933,775		302,780	7,630,995
N24	LAW ENFORCEMENT OFFICERS' HALL OF F	175,231			175,231					175,231			175,231
	TOTAL CORRECTIONAL DIVISION	319,268,065	247,104,706	5,125,284	67,038,075	69,840,141	68,793,344	76,132	970,665	389,108,206	315,898,050	5,201,416	68,008,740
P04	WATER RESOURCES COMMISSION	8,312,000	4,139,619	3,699,630	472,751	213,308	213,308			8,525,308	4,352,927	3,699,630	472,751
P08	STATE LAND RESOURCES CONSERVATION C	3,244,285	3,165,085	25,000	54,200	192,867	192,867			3,437,152	3,357,952	25,000	54,200
P12	STATE FORESTRY COMMISSION	22,649,255	16,260,717	5,704,537	684,001	838,912	838,912			23,488,167	17,099,629	5,704,537	684,001
P16	DEPARTMENT OF AGRICULTURE	10,507,869	6,223,733	23,300	4,260,836	968,766	968,766			11,476,635	7,192,499	23,300	4,260,836
P20	CLEMSON UNIVERSITY-PUBLIC SERVICE A	59,268,836	42,502,319	14,303,870	2,462,647	6,389,373	6,389,373			65,658,209	48,891,692	14,303,870	2,462,647
P22	MIGRATORY WATERFOWL COMMITTEE	239,471	29,471		210,000					239,471	29,471		210,000
P24	WILDLIFE & MARINE RESOURCES DEPARTM	41,473,784	18,997,994	6,253,219	16,222,571	2,720,000	2,720,000			44,193,784	21,717,994	6,253,219	16,222,571
P25	COASTAL COUNCIL	4,117,470	1,512,470	2,605,000		92,269	92,269			4,209,739	1,604,739	2,605,000	
P26	SEA GRANT CONSORTIUM	2,151,926	497,176	1,185,000	469,750	51,247	51,247			2,203,173	548,423	1,185,000	469,750
P28	DEPARTMENT OF PARKS, RECREATION & T	37,513,321	15,004,421	500,000	22,008,900	713,577	326,827		386,750	38,226,898	15,331,248	500,000	22,395,650
P32	STATE DEVELOPMENT BOARD	8,550,024	8,247,024	50,000	253,000	473,000	473,000			9,023,024	8,720,024	50,000	253,000
P33	S. C. ECONOMIC DEVELOPMENT COORD CO	213,000			213,000					213,000			213,000
P34	JOBS-ECONOMIC DEVELOPMENT AUTHORITY	9,567,830	657,042	8,870,788	40,000	45,866	33,845	12,021		9,613,696	690,887	8,882,809	40,000
P36	PATRIOTS POINT DEVELOPMENT AUTHORIT	3,220,338			3,220,338					3,220,338			3,220,338
P40	SAVANNAH VALLEY AUTHORITY	1,536,460	1,536,460							1,536,460	1,536,460		
P45	COLUMBIAN QUINCENTENNIAL COMMISSION	2,677	-3,027		350					2,677	-3,027		350
P48	OLD EXCHANGE BUILDING COMMISSION	120,500	120,500			175,500	175,500			296,000	296,000		
	TOTAL CONSERVATION, NATURAL RESOURC	212,683,692	118,891,004	43,220,344	50,572,344	12,874,685	12,475,914	12,021	386,750	225,558,377	131,366,918	43,232,365	50,959,094
R04	PUBLIC SERVICE COMMISSION	7,046,230	7,046,230			465,264	465,264			7,511,494	7,511,494		
R08	STATE WORKERS' COMPENSATION COMMISS	4,175,769	3,665,953		509,816	183,217	183,217			4,358,986	3,849,170		509,816
R12	STATE WORKERS' COMPENSATION FUND	4,371,309	604,261	423,000	3,344,048	1,265,579			1,265,579	5,636,888	604,261	423,000	4,609,627
R14	PATIENTS' COMPENSATION FUND	221,126			221,126					221,126			221,126
R16	SECOND INJURY FUND	1,047,259			1,047,259	100,000			100,000	1,147,259			1,147,259
R20	DEPARTMENT OF INSURANCE	5,213,924	5,135,924		78,000	1,066,496	1,066,496			6,280,420	6,202,420		78,000
R23	BOARD OF FINANCIAL INSTITUTIONS	24,560	24,560							24,560	24,560		
R24	FINANCIAL INST BD-BANK EXAMINING DI	1,088,469	1,088,469			55,247	55,247			1,143,716	1,143,716		
R25	FINANCIAL INST BD-CONSUMER FINANCE	448,758	448,758			15,676	15,676			464,434	464,434		
R28	DEPARTMENT OF CONSUMER AFFAIRS	2,209,471	2,178,171	10,600	20,700	484,788	484,788			2,694,259	2,662,959	10,600	20,700
R36	DEPARTMENT OF LABOR	6,011,391	4,061,398	1,943,993	6,000	421,279	421,279			6,432,670	4,482,677	1,943,993	6,000
R44	STATE TAX COMMISSION	35,548,810	34,318,810		1,230,000	1,766,904	1,766,904			37,315,714	36,085,714		1,230,000
R48	ALCOHOLIC BEVERAGE CONTROL COMMISSI	4,140,340	4,015,340		125,000	200,692	200,692			4,341,032	4,216,032		125,000

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ACY	AGENCY NAME	1991-92 ADJUSTED BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
R52	STATE ETHICS COMMISSION	263,923	263,923			348,318	348,318			612,241	612,241		
R60	EMPLOYMENT SECURITY COMMISSION	92,856,907	192,632	82,874,810	9,789,465	260,753	260,753			93,117,660	453,385	82,874,810	9,789,465
R64	BOARD OF ACCOUNTANCY	360,327	360,327			27,970	27,970			388,297	388,297		
R68	BOARD OF ARCHITECTURAL EXAMINERS	281,434	281,434			47,800	47,800			329,234	329,234		
R69	AUCTIONEERS' COMMISSION	155,399	155,399			11,232	11,232			166,631	166,631		
R72	BOARD OF BARBER EXAMINERS	199,483	199,483			35,078	35,078			234,561	234,561		
R74	STATE ATHLETIC COMMISSION	27,998	27,998			3,481	3,481			31,479	31,479		
R76	CEMETERY BOARD	22,969	22,969							22,969	22,969		
R80	BOARD OF CHIROPRACTIC EXAMINERS	70,849	70,849							70,849	70,849		
R82	CONTRACTORS LICENSING BOARD	423,561	423,561			40,967	40,967			464,528	464,528		
R84	BOARD OF COSMETOLOGY	501,599	501,599							501,599	501,599		
R88	BOARD OF DENTISTRY	297,858	297,858			73,365	73,365			371,223	371,223		
R92	BOARD OF ENGINEERS AND LAND SURVEYO	453,907	453,907			114,955	114,955			568,862	568,862		
R94	ENVIRONMENTAL CERTIFICATION BOARD	200,541	200,541			46,748	46,748			247,289	247,289		
R96	BOARD OF FORESTERS REGISTRATION	25,765	25,765			1,704	1,704			27,469	27,469		
R99	BOARD OF FUNERAL SERVICE	107,869	107,869			5,500	5,500			113,369	113,369		
S02	BOARD OF GEOLOGISTS REGISTRATIONS	55,245	55,245							55,245	55,245		
S04	BOARD OF MEDICAL EXAMINERS	819,797	819,797			30,310	30,310			850,107	850,107		
S08	BOARD OF NURSING	796,838	796,838			121,648	121,648			918,486	918,486		
S10	NURS HOME ADMIN RES CARE FAC ADMIN	67,720	67,720							67,720	67,720		
S14	BOARD OF OCCUPATIONAL THERAPY	21,191	21,191							21,191	21,191		
S17	BOARD OF OPTICIANRY EXAMINERS	43,415	43,415			2,872	2,872			46,287	46,287		
S18	BOARD OF OPTOMETRY EXAMINERS	52,216	52,216			3,078	3,078			55,294	55,294		
S20	BOARD OF PHARMACY	284,715	284,715			52,967	52,967			337,682	337,682		
S24	BOARD OF PHYSICAL THERAPY EXAMINERS	70,816	70,816			5,796	5,796			76,612	76,612		
S28	BOARD OF PODIATRY EXAMINERS	4,696	4,696							4,696	4,696		
S30	BOARD OF PROF. COUNSELORS & THERAPI	64,452	64,452							64,452	64,452		
S32	BOARD OF PSYCHOLOGY EXAMINERS	51,558	51,558			10,411	10,411			61,969	61,969		
S36	REAL ESTATE COMMISSION	1,858,931	1,858,931							1,858,931	1,858,931		
S40	RESIDENTIAL HOME BUILDERS COMMISSIO	948,361	948,361			595,628	595,628			1,543,989	1,543,989		
S44	BOARD OF REGISTERED SANITARIANS EXA	5,662	5,662							5,662	5,662		
S48	SOCIAL WORK EXAMINERS BOARD	96,519	96,519			35,000	35,000			131,519	131,519		
S52	SPEECH PATHOLOGY & AUDIOLOGY EXAM B	17,209	17,209							17,209	17,209		
S56	BOARD OF VETERINARY MEDICAL EXAMINE	46,561	46,561			3,374	3,374			49,935	49,935		
S60	PROCUREMENT REVIEW PANEL	117,553	117,553			10,157	10,157			127,710	127,710		
	TOTAL REGULATORY DIVISION	173,221,260	71,597,443	85,252,403	16,371,414	7,914,254	6,548,675		1,365,579	181,135,514	78,146,118	85,252,403	17,736,993
V04	DEBT SERVICE	119,350,067	119,350,067			39,878,837	39,878,837			159,228,904	159,228,904		
	TOTAL DEBT SERVICE	119,350,067	119,350,067			39,878,837	39,878,837			159,228,904	159,228,904		
X22	AID TO SUBDIVISIONS	221,872,674	221,872,674			18,751,469	18,751,469			240,624,143	240,624,143		
	TOTAL MISCELLANEOUS DIVISION	221,872,674	221,872,674			18,751,469	18,751,469			240,624,143	240,624,143		
X40	AERONAUTICS COMMISSION	3,534,966	2,685,796	538,000	311,170					3,534,966	2,685,796	538,000	311,170
X50	DEPARTMENT OF HIGHWAYS/PUBLIC TRANS	673,297,652	625,962	193,313,188	479,358,502					673,297,652	625,962	193,313,188	479,358,502
	TOTAL TRANSPORTATION DIVISION	676,832,618	3,311,758	193,851,188	479,669,672					676,832,618	3,311,758	193,851,188	479,669,672
	GRAND TOTALS	8,794,940,704	3,483,479,441	2,763,743,384	2,547,717,879	977,644,635	777,715,481	88,848,633	111,080,521	9,772,585,339	4,261,194,922	2,852,592,017	2,658,798,400

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STATE BUDGET DIVISION
1992-93 BUDGET REQUESTS
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AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE				1992-93 FTE REQUESTED INCREASES				1992-93 TOTAL FTE BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
A01	LEG. DEPT-THE SENATE	166.00	166.00							166.00	166.00		
A05	LEG. DEPT-HOUSE OF REPRESENTATIVES	358.00	358.00							358.00	358.00		
A10	LEG. DEPT-SPECIAL SERVICES FOR BOTH	22.00	22.00							22.00	22.00		
A15	LEG. DEPT-CODIFICATION OF LAWS & LE	44.00	44.00							44.00	44.00		
A17	LEG. DEPT-LEG PRINTING & INF. TECH.	16.00	16.00							16.00	16.00		
A20	LEG. DEPT-LEG AUDIT COUNCIL	23.00	23.00							23.00	23.00		
A25	LEG. DEPT-LEG INFORMATION SYSTEMS	17.00	17.00							17.00	17.00		
A27	REORGANIZATION COMMISSION	15.00	15.00			2.00	2.00			17.00	17.00		
A28	S. C. INTERGOVERNMENTAL RELATIONS A	4.00	4.00							4.00	4.00		
A30	JOINT LEGISLATIVE COMMITTEES	47.50	45.50		2.00					47.50	45.50		2.00
	TOTAL LEGISLATIVE DEPARTMENT	712.50	710.50		2.00	2.00	2.00			714.50	712.50		2.00
B04	JUDICIAL DEPARTMENT	446.47	446.47			17.00	17.00			463.47	463.47		
B06	SENTENCING GUIDELINES COMMISSION	2.00	2.00							2.00	2.00		
	TOTAL JUDICIAL DEPARTMENT	448.47	448.47			17.00	17.00			465.47	465.47		
D05	GOVERNOR'S OFF-EXECUTIVE CONTROL OF	21.00	21.00							21.00	21.00		
D10	GOVERNOR'S OFF-STATE LAW ENFORCEMEN	477.25	469.25		8.00					477.25	469.25		8.00
D17	GOVERNOR'S OFF-EXECUTIVE POLICY & P	208.10	120.23	76.86	11.01					208.10	120.23	76.86	11.01
D20	GOVERNOR'S OFF-MANSION AND GROUNDS	5.00	5.00							5.00	5.00		
E04	LIEUTENANT GOVERNOR'S OFFICE	6.00	6.00							6.00	6.00		
E08	SECRETARY OF STATE'S OFFICE	40.00	40.00							40.00	40.00		
E12	COMPTROLLER GENERAL'S OFFICE	98.00	98.00							98.00	98.00		
E16	STATE TREASURER'S OFFICE	71.99	71.99							71.99	71.99		
E20	ATTORNEY GENERAL'S OFFICE	118.75	118.75			4.00	4.00			122.75	122.75		
E21	PROSECUTION COORDINATION COMMISSION	35.00	35.00							35.00	35.00		
E22	COMMISSION ON APPELLATE DEFENSE	18.39	18.39			18.00	18.00			36.39	36.39		
E24	ADJUTANT GENERAL'S OFFICE	207.00	60.50	131.25	15.25	1.00	.25	.75		208.00	60.75	132.00	15.25
E28	ELECTION COMMISSION	18.50	17.50		1.00					18.50	17.50		1.00
F01	GENERAL RESERVE FUND												
F02	B & C-OFFICE OF EXECUTIVE DIRECTOR	19.56	17.00		2.56					19.56	17.00		2.56
F04	B & C-DIV OF INTERNAL OPERATIONS	65.30	45.93		19.37					65.30	45.93		19.37
F05	B & C-FINANCIAL DATA SYSTEMS	47.00	41.00		6.00					47.00	41.00		6.00
F06	B & C-STATE BUDGET DIVISION	28.00	28.00							28.00	28.00		
F08	B & C-RESEARCH AND STATISTICAL SERV	78.42	67.67		10.75					78.42	67.67		10.75
F10	B & C-INFORMATION RESOURCES MANAGEM	187.75	30.00		157.75					187.75	30.00		157.75
F12	B & C-GENERAL SERVICES DIVISION	374.85	134.27		240.58					374.85	134.27		240.58
F14	B & C-FIRE MARSHAL'S OFFICE	59.00	56.50		2.50					59.00	56.50		2.50
F16	B & C-MOTOR VEHICLE MANAGEMENT DIVI	30.00	9.50		20.50					30.00	9.50		20.50
F20	B & C-INSURANCE SERVICES DIVISION	115.00			115.00					115.00			115.00
F24	B & C-HUMAN RESOURCE MANAGEMENT	100.00	72.38		27.62					100.00	72.38		27.62
F26	B & C-LOCAL GOVERNMENT DIVISION	10.00	6.00	4.00						10.00	6.00	4.00	
F27	B & C-AUDITOR'S OFFICE	79.00	79.00			5.00	5.00			84.00	84.00		
F28	B & C-BOARD OF ECONOMIC ADVISORS	5.00	5.00							5.00	5.00		
F29	B & C-RETIREMENT SYSTEMS	123.00			123.00	7.00			7.00	130.00			130.00
F30	B & C-EMPLOYEE BENEFITS												
F31	B & C-CAPITAL RESERVE FUND												
	TOTAL EXECUTIVE AND ADMINISTRATIVE	2,646.86	1,673.86	212.11	760.89	35.00	27.25	.75	7.00	2,681.86	1,701.11	212.86	767.89

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AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE				1992-93 FTE REQUESTED INCREASES				1992-93 TOTAL FTE BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
H03	COMMISSION ON HIGHER EDUCATION	28.25	28.25							28.25	28.25		
H06	HIGHER EDUCATION TUITION GRANTS COM	5.00	5.00							5.00	5.00		
H09	THE CITADEL	537.17	328.73		208.44					537.17	328.73		208.44
H12	CLEMSON UNIVERSITY (EDUCATIONAL & G	3,290.72	1,418.99	79.80	1,791.93					3,290.72	1,418.99	79.80	1,791.93
H15	COLLEGE OF CHARLESTON	678.34	486.98	4.10	187.26	16.00	16.00			694.34	502.98	4.10	187.26
H18	FRANCIS MARION COLLEGE	411.11	310.18	.50	100.43					411.11	310.18	.50	100.43
H21	LANDER COLLEGE	261.41	172.70		88.71					261.41	172.70		88.71
H24	SOUTH CAROLINA STATE COLLEGE	788.63	573.22	56.52	158.89					788.63	573.22	56.52	158.89
H27	UNIV OF SOUTH CAROLINA	4,408.01	2,444.77	428.69	1,534.55	2.50	2.50			4,410.51	2,447.27	428.69	1,534.55
H28	U S C - MEDICAL SCHOOL	334.36	193.74	58.50	82.12					334.36	193.74	58.50	82.12
H29	U S C - AIKEN CAMPUS	238.13	147.55	2.90	87.68					238.13	147.55	2.90	87.68
H32	U S C - COASTAL CAROLINA CAMPUS	395.10	152.74	10.90	231.46					395.10	152.74	10.90	231.46
H34	U S C - SPARTANBURG CAMPUS	298.33	178.15	25.60	94.58					298.33	178.15	25.60	94.58
H36	U S C - BEAUFORT CAMPUS	43.68	20.70	.20	22.78					43.68	20.70	.20	22.78
H37	U S C - LANCASTER CAMPUS	63.80	26.66	4.20	32.94					63.80	26.66	4.20	32.94
H38	U S C - SALKEHATCHIE CAMPUS	56.00	25.20	4.48	26.32					56.00	25.20	4.48	26.32
H39	U S C - SUMTER CAMPUS	92.12	55.74	.35	36.03					92.12	55.74	.35	36.03
H40	U S C - UNION CAMPUS	32.24	17.67	3.78	10.79					32.24	17.67	3.78	10.79
H47	WINTHROP COLLEGE	708.83	462.36	29.00	217.47	13.00	8.00		5.00	721.83	470.36	29.00	222.47
H51	MEDICAL UNIVERSITY OF SOUTH CAROLIN	2,445.00	1,680.34	240.36	524.30	75.00		40.00	35.00	2,520.00	1,680.34	280.36	559.30
H52	MEDICAL UNIVERSITY OF S C HOSPITAL	3,301.01	234.00	4.90	3,062.11	340.00			340.00	3,641.01	234.00	4.90	3,402.11
H53	S. C. CONSORTIUM OF COMM. TEACHING	63.52	62.74	.78						63.52	62.74	.78	
H55	STATE COUNCIL ON VOCATIONAL & TECHN	4.00	2.00	2.00						4.00	2.00	2.00	
H59	ST. BD. FOR TECHNICAL & COMPREHENSI	3,597.19	2,965.50	299.22	332.47	593.00	593.00			4,190.19	3,558.50	299.22	332.47
	TOTAL HIGHER EDUCATION	22,081.95	11,993.91	1,256.78	8,831.26	1,039.50	619.50	40.00	380.00	23,121.45	12,613.41	1,296.78	9,211.26
H63	STATE EDUCATION DEPARTMENT	1,112.80	845.26	151.59	115.95	2.00	2.00			1,114.80	847.26	151.59	115.95
H67	EDUCATIONAL TELEVISION COMMISSION	400.55	347.45		53.10					400.55	347.45		53.10
H71	WIL LOU GRAY OPPORTUNITY SCHOOL	88.45	80.37	4.15	3.93	2.00			2.00	90.45	80.37	4.15	5.93
H73	VOCATIONAL REHABILITATION	1,169.70	469.65	686.65	13.40					1,169.70	469.65	686.65	13.40
H75	SCHOOL FOR THE DEAF AND THE BLIND	383.89	313.25	23.62	47.02	10.40	10.40			394.29	323.65	23.62	47.02
H79	DEPARTMENT OF ARCHIVES AND HISTORY	124.50	118.50		6.00					124.50	118.50		6.00
H83	CONFEDERATE RELIC ROOM	5.00	5.00							5.00	5.00		
H87	S. C. STATE LIBRARY	53.00	44.00	9.00						53.00	44.00	9.00	
H91	S. C. ARTS COMMISSION	41.56	35.21	6.21	.14					41.56	35.21	6.21	.14
H95	STATE MUSEUM COMMISSION	72.00	66.00		6.00	1.00	1.00			73.00	67.00		6.00
	TOTAL EDUCATION	3,451.45	2,324.69	881.22	245.54	15.40	13.40		2.00	3,466.85	2,338.09	881.22	247.54
	TOTAL EDUCATIONAL DIVISION	25,533.40	14,318.60	2,138.00	9,076.80	1,054.90	632.90	40.00	382.00	26,588.30	14,951.50	2,178.00	9,458.80
J02	STATE HEALTH & HUMAN SERVICES FINAN	528.67	215.95	311.72	1.00	2.00	1.00	1.00		530.67	216.95	312.72	1.00
J03	CONT OF CARE - EMOTIONALLY DISTURBE	119.00	11.00		108.00	15.00	3.00		12.00	134.00	14.00		120.00
J04	DEPARTMENT OF HEALTH & ENVIRONMENTA	4,649.62	2,211.45	1,095.72	1,342.45	47.00	47.00			4,696.62	2,258.45	1,095.72	1,342.45
J12	DEPARTMENT OF MENTAL HEALTH	6,549.46	5,081.45	219.87	1,248.14	154.00	82.00		72.00	6,703.46	5,163.45	219.87	1,320.14
J16	DEPARTMENT OF MENTAL RETARDATION	4,526.51	2,812.68	16.00	1,697.83					4,526.51	2,812.68	16.00	1,697.83
J20	S. C. COMMISSION ON ALCOHOL & DRUG	83.51	72.35	7.66	3.50					83.51	72.35	7.66	3.50
	TOTAL HEALTH DIVISION	16,456.77	10,404.88	1,650.97	4,400.92	218.00	133.00	1.00	84.00	16,674.77	10,537.88	1,651.97	4,484.92
L04	DEPARTMENT OF SOCIAL SERVICES	4,878.70	2,035.17	2,725.24	118.29	203.00	.50	192.39	10.11	5,081.70	2,035.67	2,917.63	128.40

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STATE BUDGET DIVISION
1992-93 BUDGET REQUESTS
FTE'S

PROG= AB1710NP
PAGE= 3

AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE TOTAL	STATE	FEDERAL	OTHER	1992-93 FTE REQUESTED INCREASES TOTAL	STATE	FEDERAL	OTHER	1992-93 TOTAL FTE BUDGET REQUEST TOTAL	STATE	FEDERAL	OTHER
112	JOHN DE LA HOWE SCHOOL	116.06	105.62	1.97	8.47	3.00	3.00			119.06	108.62	1.97	8.47
116	CHILDREN'S FOSTER CARE REVIEW BOARD	19.00	17.46	1.54		1.00	1.00			20.00	18.46	1.54	
124	COMMISSION FOR THE BLIND	133.50	56.71	76.79						133.50	56.71	76.79	
128	COMMISSION ON AGING	34.01	19.49	12.52	2.00	1.00	1.00			35.01	20.49	12.52	2.00
132	STATE HOUSING FINANCE & DEVELOPMENT	75.00	8.00	26.00	41.00	3.00		1.00	2.00	78.00	8.00	27.00	43.00
136	HUMAN AFFAIRS COMMISSION	54.00	42.55	11.45		2.00	2.00			56.00	44.55	11.45	
140	DEPARTMENT OF VETERANS' AFFAIRS	22.00	22.00							22.00	22.00		
144	COMMISSION ON THE STATUS OF WOMEN	2.00	2.00							2.00	2.00		
	TOTAL SOCIAL REHABILITATION SERVICE	5,334.27	2,309.00	2,855.51	169.76	213.00	7.50	193.39	12.11	5,547.27	2,316.50	3,048.90	181.87
N04	DEPARTMENT OF CORRECTIONS	6,2,7.65	5,938.22	30.97	288.46	905.00	891.00		14.00	7,162.65	6,829.22	30.97	302.46
N08	PROBATION, PAROLE AND PARDON SERVIC	770.00	491.20	7.00	271.80	76.00	76.00			846.00	567.20	7.00	271.80
N12	DEPARTMENT OF YOUTH SERVICES	1,058.00	973.75	57.50	26.75	106.00	106.00			1,164.00	1,079.75	57.50	26.75
N20	LAW ENFORCEMENT TRAINING COUNCIL	113.95		5.00	108.95	4.00			4.00	117.95		5.00	112.95
N24	LAW ENFORCEMENT OFFICERS' HALL OF F	3.00			3.00					3.00			3.00
	TOTAL CORRECTIONAL DIVISION	8,202.60	7,403.17	100.47	698.96	1,091.00	1,073.00		18.00	9,293.60	8,476.17	100.47	716.96
P04	WATER RESOURCES COMMISSION	73.00	64.00	7.00	2.00	2.00	2.00			75.00	66.00	7.00	2.00
P08	STATE LAND RESOURCES CONSERVATION C	72.25	70.25	2.00						72.25	70.25	2.00	
P12	STATE FORESTRY COMMISSION	599.55	578.54	21.01						599.55	578.54	21.01	
P16	DEPARTMENT OF AGRICULTURE	213.13	158.00		55.13	2.50	2.50			215.63	160.50		55.13
P20	CLEMSON UNIVERSITY-PUBLIC SERVICE A	1,373.11	910.51	419.15	43.45	2.30	2.30			1,375.41	912.81	419.15	43.45
P22	MIGRATORY WATERFOWL COMMITTEE												
P24	WILDLIFE & MARINE RESOURCES DEPARTM	773.55	432.00	100.75	240.80					773.55	432.00	100.75	240.80
P25	COASTAL COUNCIL	42.00	21.00	21.00						42.00	21.00	21.00	
P26	SEA GRANT CONSORTIUM	12.00	9.00	3.00						12.00	9.00	3.00	
P28	DEPARTMENT OF PARKS, RECREATION & T	531.67	361.47		170.20	16.00	5.00		11.00	547.67	366.47		181.20
P32	STATE DEVELOPMENT BOARD	88.00	88.00							88.00	88.00		
P33	S. C. ECONOMIC DEVELOPMENT COORD CO	1.00			1.00					1.00			1.00
P34	JOBS-ECONOMIC DEVELOPMENT AUTHORITY	14.00	13.00	1.00						14.00	13.00	1.00	
P36	PATRIOTS POINT DEVELOPMENT AUTHORIT	39.00			39.00					39.00			39.00
P40	SAVANNAH VALLEY AUTHORITY	8.00	8.00							8.00	8.00		
P45	COLUMBIAN QUINCENTENNIAL COMMISSION												
P48	OLD EXCHANGE BUILDING COMMISSION												
	TOTAL CONSERVATION, NATURAL RESOURC	3,840.26	2,713.77	574.91	551.58	22.80	11.80		11.00	3,863.06	2,725.57	574.91	562.58
R04	PUBLIC SERVICE COMMISSION	159.00	159.00							159.00	159.00		
R08	STATE WORKERS' COMPENSATION COMMISS	92.10	90.48		1.62	1.00	1.00			93.10	91.48		1.62
R12	STATE WORKERS' COMPENSATION FUND	78.00			78.00	9.00			9.00	87.00			87.00
R14	PATIENTS' COMPENSATION FUND	3.00			3.00					3.00			3.00
R16	SECOND INJURY FUND	19.00			19.00					19.00			19.00
R20	DEPARTMENT OF INSURANCE	119.00	119.00			4.00	4.00			123.00	123.00		
R23	BOARD OF FINANCIAL INSTITUTIONS												
R24	FINANCIAL INST BD-BANK EXAMINING DI	26.00	26.00							26.00	26.00		
R25	FINANCIAL INST BD-CONSUMER FINANCE	9.50	9.50							9.50	9.50		
R28	DEPARTMENT OF CONSUMER AFFAIRS	54.00	54.00							54.00	54.00		
R36	DEPARTMENT OF LABOR	152.50	109.49	43.01						152.50	109.49	43.01	
R44	STATE TAX COMMISSION	828.00	828.00							828.00	828.00		
R48	ALCOHOLIC BEVERAGE CONTROL COMMISSI	90.00	90.00							90.00	90.00		

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EXHIBIT

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STATE BUDGET & CONTROL BOARD

DATE= 10/21/91
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STATE BUDGET DIVISION
1992-93 BUDGET REQUESTS
FTE'S

PROG= ABT710NP
PAGE= 4

AGY	AGENCY NAME	1991-92 APPROPRIATED FTE POSITION BASE				1992-93 FTE REQUESTED INCREASES				1992-93 TOTAL FTE BUDGET REQUEST			
		TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER	TOTAL	STATE	FEDERAL	OTHER
R52	STATE ETHICS COMMISSION	6.00	6.00			3.00	3.00			9.00	9.00		
R60	EMPLOYMENT SECURITY COMMISSION	1,252.33		1,092.33	160.00					1,252.33		1,092.33	160.00
R64	BOARD OF ACCOUNTANCY	5.00	5.00							5.00	5.00		
R68	BOARD OF ARCHITECTURAL EXAMINERS	4.45	4.45			.25	.25			4.70	4.70		
R69	AUCTIONEERS' COMMISSION	3.00	3.00							3.00	3.00		
R72	BOARD OF BARBER EXAMINERS	5.00	5.00							5.00	5.00		
R74	STATE ATHLETIC COMMISSION												
R76	CEMETERY BOARD	1.00	1.00							1.00	1.00		
R80	BOARD OF CHIROPRACTIC EXAMINERS	1.00	1.00			.75	.75			1.75	1.75		
R82	CONTRACTORS LICENSING BOARD	10.00	10.00							10.00	10.00		
R84	BOARD OF COSMETOLOGY	13.00	13.00							13.00	13.00		
R88	BOARD OF DENTISTRY	5.25	5.25			.75	.75			6.00	6.00		
R92	BOARD OF ENGINEERS AND LAND SURVEYO	10.00	10.00			2.00	2.00			12.00	12.00		
R94	ENVIRONMENTAL CERTIFICATION BOARD	5.00	5.00							5.00	5.00		
R96	BOARD OF FORESTERS REGISTRATION	.50	.50							.50	.50		
R99	BOARD OF FUNERAL SERVICE	1.75	1.75							1.75	1.75		
S02	BOARD OF GEOLOGISTS REGISTRATIONS												
S04	BOARD OF MEDICAL EXAMINERS	16.24	16.24							16.24	16.24		
S08	BOARD OF NURSING	20.00	20.00							20.00	20.00		
S10	NURS HOME ADMIN-RES CARE FAC ADMIN	2.00	2.00							2.00	2.00		
S14	BOARD OF OCCUPATIONAL THERAPY												
S17	BOARD OF OPTICIANRY EXAMINERS	.50	.50							.50	.50		
S18	BOARD OF OPTOMETRY EXAMINERS	.35	.35							.35	.35		
S20	BOARD OF PHARMACY	6.50	6.50							6.50	6.50		
S24	BOARD OF PHYSICAL THERAPY EXAMINERS	1.00	1.00							1.00	1.00		
S28	BOARD OF PODIATRY EXAMINERS												
S30	BOARD OF PROF. COUNSELORS & THERAPI	1.75	1.75							1.75	1.75		
S32	BOARD OF PSYCHOLOGY EXAMINERS	1.00	1.00							1.00	1.00		
S36	REAL ESTATE COMMISSION	38.00	38.00							38.00	38.00		
S40	RESIDENTIAL HOME BUILDERS COMMISSIO	• 25.00	25.00			12.00	12.00			37.00	37.00		
S44	BOARD OF REGISTERED SANITARIANS EXA												
S48	SOCIAL WORK EXAMINERS BOARD												
S52	SPEECH PATHOLOGY & AUDIOLOGY EXAM B												
S56	BOARD OF VETERINARY MEDICAL EXAMINE												
S60	PROCUREMENT REVIEW PANEL	2.00	2.00							2.00	2.00		
	TOTAL REGULATORY DIVISION	3,067.72	1,670.76	1,135.34	261.6[illegible]	32.75	23.75		9.00	3,100.47	1,694.51	1,135.34	270.62
V04	DEBT SERVICE												
	TOTAL DEBT SERVICE												
X22	AID TO SUBDIVISIONS												
	TOTAL MISCELLANEOUS DIVISION												
X40	AERONAUTICS COMMISSION	44.00	44.00							44.00	44.00		
X50	DEPARTMENT OF HIGHWAYS/PUBLIC TRANS	7,756.00	2.16	8.09	7,745.75					7,756.00	2.16	8.09	7,745.75
	TOTAL TRANSPORTATION DIVISION	7,800.00	46.16	8.09	7,745.75					7,800.00	46.16	8.09	7,745.75
	GRAND TOTALS	74,042.85	41,699.17	8,675.40	23,668.28	2,686.45	1,928.20	235.14	523.11	76,729.30	43,627.37	8,910.54	24,191.39

The South Carolina
Advisory Commission
on
Intergovernmental Relations

EXHIBIT

OCT 24 1991 3

STATE BUDGET & CONTROL BOARD

Financing Government in The Palmetto State

A Study of Taxation in South Carolina

February 1991

A Commission Report

Financing Government in The Palmetto State

A Study of Taxation in South Carolina

A Report of

The South Carolina Advisory Commission
on
Intergovernmental Relations

February 1991

Prepared by the:

United States Advisory Commission on Intergovernmental Relations

Clemson University, The Strom Thurmond Institute

South Carolina Advisory Commission on Intergovernmental Relations

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REGIONAL COUNCILS

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PREFACE

The South Carolina Advisory Commission on Intergovernmental Relations (SCACIR) has keen interest in the forms, capabilities and relationships of all levels of government in the Palmetto State. The thread of continuity weaving through the entire public sector, affecting their interdependence upon each other and their ability to function, is the tax structure.

In the summer of 1989 the SCACIR initiated discussion with the United States Advisory Commission on Intergovernmental Relations (U.S. ACIR) in Washington, D.C. about the possibility of a joint research project which would examine the system of taxation in South Carolina. Both Commissions agreed to undertake the project and deliberations began in September. This was the first time that the U.S. ACIR had worked with a state ACIR in a project of this nature.

The purpose of this report is to present South Carolina legislators and other policymakers with a document which provides the framework for designing intergovernmental tax policy as the state enters the decade of the 1990's.

The study begins with an introductory discussion of why the state and local fiscal system is an important topic for debate. South Carolina is entering a decade that will be characterized by dramatic and sometimes rapid economic change in the state's (as well as in the nation's) economy. Subsequent chapters provide a framework to help think about the South Carolina tax system, how it evolved, constraints on state/local tax policy, expenditures, revenues, measures of performance, a description of the major components of the system, intergovernmental implications and a summary of findings and recommendations.

The Commission wanted to answer the questions: Why care about South Carolina's taxes? What is the role of the public sector in South Carolina? Why must citizens pay taxes? How does our state compare to our neighboring states in the Southeast? How do we compare to the nation? Are there areas for improvement and reform?

The Commission offers this study of South Carolina's system of taxation to our state's leaders with appreciation and optimism. The Commission hopes that this will stimulate further thought and action to modernize and improve our tax system.

Dan B. Mackey
Executive Director
South Carolina Advisory Commission
on Intergovernmental Relations

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STATE BUDGET & CONTROL BOARD

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STATE BUDGET & CONTROL BOARD

Chapter 1
Executive Summary

Taxes are what we pay for a civilized society.

---Oliver Wendell Holmes, Jr.

Introduction

Ours is fundamentally a market economy in which the basic economic problems are solved through the interaction of decisions made by individuals, households, businesses, and other collectively organized private activities. On most any issue, in the nation as well as in South Carolina, the presumption is to let the market operate. One result has been the creation of an economic system that is at the same time the world's most mobile, productive, efficient, and fair. Indeed, the presumption for "letting the market decide" is so strong among most public finance economists that one canon of policy making is that a "neutral" tax system is one that interferes least with the operations of the market. To put it another way, unless there are good reasons to interfere with the market mechanism, one had better not do it.

In an ideal world, that would be the end of the story. But there is a catch. The market is not ideal. There are market failures. When market failures occur, the economic system falls short of achieving not only its optimum efficiency but also the goals of fairness and equal opportunity, which are fundamental elements in maximizing our economic and social welfare.

Examples of market failure abound. A major reason for this is the difficulty in properly assigning a cost or price to an economic action. In technical jargon, an effect external to the market occurs. These "externalities" can be negative, in which case the task is to stop or regulate the activity, or they can be positive, thus requiring more of the activity.

The fish kills and human illnesses that are created when one dumps toxic wastes into a stream, the loss of vegetation from "acid rain," and the ozone damage due to chlorofluorocarbons released into the atmosphere are examples of negative externalities.

In the case of positive externalities, the problem is not that the private sector fails to provide the particular good or service, but rather that it fails to supply the good or service to the degree that benefits society most. Thus, in an efficiency sense, the activity or product

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is undersupplied or underproduced. Examples include the benefits that accrue to society from an education system that increases people's productivity and thereby adds to the competitiveness of the local work force, road and transportation systems that promote the flexibility and mobility by which the market operates, and the presence of police and fire operations that provide a safe living and working environment.

In addition, the market fails if private activities create a situation whereby society's scarce resources are underutilized due to institutional barriers. Here, the classic example is the loss of output that results from discrimination in the labor markets. There is ample evidence to indicate, for example, that race and sex discrimination are economically inefficient and that, over time, their presence will reduce a state or nation's ability to achieve its full productive potential. Similarly, the market often fails to automatically provide adequate time for people to adjust to the rapidly changing circumstances of world product and money markets, thereby creating an important role for governments to play in a transition. An unemployed textile worker who must retrain for a "hi-tech" job illustrates this kind of market failure.

In short, although the presumption lies in favor of the market as good and desirable, the goals of equity and efficiency in our society cannot be achieved without some form of collective intervention in the economy. That intervention, in turn, almost always involves some form of governmental or "public sector" activity. Government involvement will range from subsidies to encourage activities that have a large degree of "private" goods characteristics (e.g., tax exemptions and/or grants to charitable groups, urban land grants or "write downs" for developers of low income housing) to public procurement and production of specific services, which if left to the private sector would be inadequately supplied (e.g., K-12 education, health care for the poor, off-site infrastructure in support of local economic development, parks and recreation areas).

Why We Pay Taxes

Government provision of services is where taxes and tax systems come into the picture. Taxes are the prices we pay to satisfy our public sector needs that the private market, if left to itself, would fail to provide. As the quote at the top of this chapter much more eloquently puts it, taxes are a price we pay for a civilized society. And, like prices in general, taxes perform the dual function of paying for public goods and services and sending "signals" that there are social as well as private characteristics of an activity or item of value. Examples of the former would include the broad based income and sales taxes used to support those general government services that can not be divided up easily among individual taxpayers (e.g., cost of the legislature). Examples of the latter would be "corrective" taxes on polluters, special charges in cases for which users can be identified, such as toll roads, and "shadow" prices designed to reflect the true market worth of certain assets (e.g., property taxes levied at highest and best use value, preservation of historic buildings).

Unlike private sector prices, however, taxes (even user charges, to some extent) are compulsory. Imposed collectively, they interfere with private decisions. Accordingly, it is appropriate and necessary that the effects of these public prices be carefully and evenhandedly examined for their effects on economic behavior and for the fairness of their distribution among different classes of taxpayers. Tax laws and tax systems are more than compendia of arcane data and complicated rules and regulations. They are expressions of community relationships among individuals and between the people and their government.

Need for a Study

In keeping with the premise that a state's fiscal arrangements reflect the character of its economy and its people, and that taxes are an expression of community and individual relationships and values, this report provides an overview of the South Carolina economy and the key features of the state and local tax system.

There are three reasons why this study is needed. The first reason is intergovernmental. In recent years, federal cutbacks have led to increased fiscal demands on for state and local governments, intensifying concern about how well the state and local fiscal system is operating. Not only has direct federal to state/local aid been reduced dramatically in recent years, but so has the level of other indirect financial subsidies, such as the revenue sharing generated by deductibility provisions of federal tax law. In addition, as a response to an era of federal fiscal austerity, the President and Congress are adding to the list of federal regulatory requirements and direct orders that state governments must carry out and pay for while preempting the authority of state and local governments to design their own regulatory and revenue generating responses. In short, the heat is on.

Second, South Carolina is experiencing dramatic changes in its demographic makeup and its economic structure. The population is getting older at the same time that the State is moving from an economy based on agriculture and durable goods manufacturing (although these sectors remain important) to one more heavily engaged in by financial and other services, transportation and utilities, and wholesale trade. These changes will have profound effects on how South Carolina raises and spends its public monies. This book provides a background and framework for understanding and debating these fiscal issues.

Third, the fact is that it is simply important that taxpayers and tax policy makers alike periodically take a look at how their fiscal arrangements are working out and how well the system is operating as a whole. Over the years, small tax adjustments made in response to specific needs have become an unwieldy collection of rules, resulting in policies that may inhibit the achievement of long range economic and fiscal goals. Fueling these concerns is the intergovernmental competition among states to offer tax advantages that will attract new development, and, with it, new residents. At the same time, states are aware that they must sustain a tax base high enough to provide public services that will make them attractive places in which to live and work.

Criteria for Judging South Carolina's Tax System

Debate on fiscal policy seldom makes clear the basis for selecting one revenue source over another. Several factors may be at work to discourage explicit statements for example, lack of data as to the economic effects of a tax; uncertainty as to who will bear the tax "burden"; and the complexity and multiplicity of tax effects. Nevertheless, when a subnational (state/local) government makes the political decision to use one tax form rather than another, a clearly stated set of criteria is needed by which to make policy choices. The following are generally accepted criteria by which the South Carolina fiscal (revenue) system maybe evaluated.[1]

1. A high quality revenue system should be composed of elements that function well together as a logical system, including the finances of both local and state governments.

The South Carolina state and local revenue system should function as an integrated whole. Too often the tax system develops incrementally without an overall vision of how all parts relate to one another. Some inconsistency of provisions is inevitable because a tax system must pursue multiple objectives, but conflicts should be consciously recognized and minimized.

One of the major areas where state policy makers often fail to consider the revenue structure as a system involves local taxes and charges. The state is responsible for determining the functions of local governments and the taxes that they may employ, and it should recognize that its actions may interfere with or enhance the effective and equitable financing of local services.

2. The tax system should be neutral with respect to its impacts on the workings of the private market system.

Neutrality in taxation requires that although some taxes may be designed to accomplish certain intended objectives, beyond this taxes should minimize interference with private economic decisions. Special emphasis must be placed on the word "intended." Sometimes a government deliberately chooses to raise some prices through taxation and thus discourage the production or consumption of an activity. Thus, for example, taxes can provide a useful mechanism for discouraging socially undesirable activities such as air and water pollution, smoking, and illegal drug sales. In some situations, taxes are a better method of discouraging activity than outright prohibition because they preserve a degree of freedom of choice.

Thus, the neutrality criterion requires that such distortion be deliberate and not merely inadvertent. It is also important to be aware that, even though a given tax may have an intended and "desirable social purpose" (and, in fact, may even accomplish that purpose), it can also have unintended side effects that, on balance, make it a poor policy tool.

3. A high quality revenue system should produce revenue in a reliable manner. Reliability involves stability, certainty, and sufficiency.

Reliability encompasses a number of desirable characteristics. First of all, revenue should be relatively stable. Some instability is inescapable because of the volatility of the economy, but South Carolina can design its revenue system so that this instability is mitigated. For example, the state can levy taxes on bases that do not fluctuate any more than the economy as a whole. A second aspect of reliability is certainty. Taxpayers should not have to cope with year to year changes in statutory tax rates and bases. Certainty goes hand in hand with the stability: If revenue is highly unstable, frequent changes in tax rates will be necessary. If revenue is stable, citizens can have greater certainty about the taxes they will have to pay from one year to the next. Finally, the system must produce sufficient revenue to fund the level of spending that citizens want and can afford. This requires not only that revenue be adequate to balance the state budget in the short run but also that revenue should grow at approximately the same rate as desired state spending; in other words, taxes whose revenue grows relatively slowly should be offset by taxes that tend to grow more rapidly than income.

4. A high quality revenue system should have substantial diversification of revenue sources over reasonably broad bases.

A diversified revenue system would normally raise substantial revenues from six sources: the general sales tax, the personal income tax, the property tax, excise taxes (particularly on tobacco, alcoholic beverages, gasoline and motor vehicles), business taxes, and user charges. Reliance on each of these revenue bases makes it possible to keep tax rates on each particular object of taxation at a relatively low level. Low rates are important because every tax has some undesirable effects, and those effects are magnified when rates are high.

Broad tax bases are desirable for many of the same reasons as a diversified revenue structure. In fact, a broad base may be viewed as diversification of burdens for a particular tax. Avoiding specific exemptions makes it possible to maintain lower rates and also contributes to fairness because a narrow base tends to cause people with similar incomes to pay different amounts of tax.

5. A high-quality revenue system should be equitable. A fair system is not regressive (vertical equity) and imposes approximately the same tax burden on all households with the same income (horizontal equity).

Few questions of public finance are more judgmental, and therefore, political, than the question of "who should pay?" Nevertheless, tax equity is a proper concern of economic policy and must be addressed as objectively as possible. Some persons may have more expansive concepts of equity, incorporating the idea of progressivity (that is, the principle that taxes should represent an increasing proportion of income as household income rises). Since the present South Carolina system is regressive (the tax burden falls as income rises), moving to a proportional tax system and one in which all tax burdens on subsistence income are eliminated would represent a change from the *status quo.*

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It is important to note, however, that the progressivity or regressivity of *any particular tax* is not of great importance. What is significant is how the burden of the *entire tax system* is distributed (global incidence). Thus, levying some regressive taxes is not inconsistent with good tax policy, provided that the overall tax system is proportional.

An equally important concept of equity is that of horizontal equity, *viz*, that "equals be treated equally." Thus, for example, horizontal equity would require that individuals or households with equal income and/or wealth bear the same level of the tax burden.

6. A high-quality revenue system should be easy to understand, minimize compliance costs for taxpayers, and be as simple to administer as possible.

While avoiding reliance on an overly complex maze of taxes, forms, and filing requirements is clearly desirable, some level of complexity and some administrative and compliance expenses are inevitable. These principles will sometimes conflict with other principles discussed in this statement and thus force policymakers to make difficult trade-offs. For example, shielding poverty-level households from taxes while maintaining broad tax bases may require provision of tax credits that are targeted at those with low incomes, even though provision of such credits necessarily entails an increased degree of complexity.

Policymakers have often not paid sufficient attention to the difficulty of administering tax provisions and to compliance burdens, particularly on business. Provisions of existing taxes should be reexamined to eliminate complexities whose costs outweigh their benefits, and administrative and compliance problems should be given serious consideration in future tax reforms. Tax provisions should be unambiguous, so that their meaning does not have to be negotiated by taxpayers and tax collectors.

7. A high-quality revenue system should promote accountability.

The essence of accountability is that tax policy should be explicit. Hidden tax increases should be avoided. If a government wants to increase the tax burden, this increase should result from explicit action rather than an automatic process. Likewise, decisions about tax breaks should be overt rather than obscure.

One way of enhancing accountability is to adopt truth-in-taxation policies for the property tax. Such policies inform property owners in clearly written statements about reasons for proposed changes in their tax bills and provide an opportunity through special public hearings for the public to challenge proposed tax increases. They can help taxpayers to understand why their tax bills are rising, for example, by distinguishing between higher valuations and increased statutory tax rates.

A second way to promote accountability is to require that assessments of property be based on full value rather than on a fraction of value. Fractional assessments are confusing and detract from accountability for assessors.

Accountability is often taken to imply that a personal income tax should be indexed because, if it is not, effective rates will increase due to inflation even though no increase had been legislated. A possible problem with drawing such a conclusion is that indexation would cause total state tax revenue to lag behind the growth of expenditures. Many other state taxes increase more slowly than inflation, and the above average growth of the income tax pulls up the total revenue increase.

8. **A high-quality revenue system should be administered professionally and uniformly both throughout the State and within individual jurisdictions.**

Poor tax administration results in inequalities in the distribution of taxes. To the extent that one group of taxpayers is not fully and fairly taxed, the level of taxation will rise for another, less favored group.

An important but often neglected aspect of tax administration is compiling and distributing reports that show how the tax system is operating.

9. **A high-quality revenue system must result in enough equalization of the resources available to local governments that they are able to provide an adequate level of services.**

The State has a responsibility to equalize resources so that cities, counties, and other local taxing jurisdictions are able to finance services that are mandated by the State. The virtues of fiscal decentralization should be preserved, but states should not be blind to the difficulties of excessive burdens in poor communities . This criterion does not mean that resources have to be completely equalized, but rather that extreme inequalities should be avoided. This issue is especially important now that the federal government is reducing its aid to local governments.

10. A high-quality revenue system should enhance the ability of South Carolina's business community to compete in national and world markets.

Businesses are adept at playing one state off against another to extract tax concessions. Too often, lobbyists for businesses emphasize the least attractive aspects of a state's tax system for lobbying purposes, ignoring the positive aspects.

If South Carolina imposes a tax burden far out of line with those of the states with which it competes for residents and jobs, it runs the risk of hurting its economy. It does not follow, however, that every tax advantage offered by a competitor state must be matched. In comparison with factors such as labor costs, access to markets, and availability of capital, taxes are not a particularly important factor in most business location decisions. The total package of business and personal taxes should be considered, not any specific provision in isolation.

Taxes should provide a "level playing field" with similar treatment for all industries and all firms within each industry. This implies avoidance of industry specific tax incentives or special taxes on selected industries.

Summary of Major Findings

The following chapters of this report address a variety of topics, and a complete reading of the full report is required in order to gain clear perspective on the South Carolina state and local fiscal structure. The major findings and recommendations of the report are as follows:

South Carolina's Economy

1. South Carolina is growing faster than the nation as a whole. Between 1969 and 1987, South Carolina's personal income grew 22 percent faster than that of the average U.S. state. Total employment increased 17 percent above the national average.

2. South Carolina can no longer be characterized as the rural and textile dominated economy it was in the 1970's. The state's economy is becoming increasingly urban and diversified. Whereas farm and agricultural activities and nondurable manufacturing have declined in importance, there has been a rapid growth of employment in the sectors of transportation and utilities, trade, services and finance.

3. The shift toward services will continue. By the end of the decade, tourism and retirement related activities will replace manufacturing as the largest component of the economy.

4. The residential location preference is also changing. The shift in population is generally away from the central areas and toward the Atlantic Coast, and from city to suburb. Retirees will continue to be an important factor in demographic change.

5. This change in the demographic and economic mix of the State will force South Carolinians to review their state and local fiscal system. Special attention will focus on the ability of the present tax system to automatically capture the fiscal benefits provided to growing parts of the population and economic base.

The Intergovernmental System

1. Federal budget austerity is impacting South Carolina's governments to a greater degree than for the U.S. as a whole. Between 1983 and 1988, federal grants to all state and local governments declined by 14.5 percent. For South Carolina, the grants declined by 22.4 percent.

2. South Carolina has a highly centralized state and local tax system. The state's dominant role is revealed by a look at revenue collections. In 1987, 65.3 percent of all South Carolina state and local revenue was collected by the State, compared to a national average of 55.5 percent.

3. A similar story of centralization of power is exhibited on the spending side of the budget. In 1987, 52.8 percent of state plus local funds were spent by the State, and 47.2 percent of spending occurred locally. Nationally, the ratio was 41.2 percent state and 58.8 percent local.

4. The State is also very controlling in other intergovernmental areas: it maintains a ceiling on local bonded indebtedness, sets property tax classification ratios, and under the proposed local sales tax option, has established legislative constraints with respect to the use of sales tax revenues. (A property tax rollback is required, and some counties are required to share their tax collections with other jurisdictions).

Interstate Fiscal Comparisons

1. By making interstate comparisons of revenue and expenditure levels and tax capacity and spending relative to measures of state/local "needs," one can get a good picture as to how South Carolina's fiscal performance compares to other states in the southern region and in the U.S. as a whole. This information can be particularly useful in discussions of relative overutilization vs. underutilization of certain types of revenues.

2. Such numbers only provide a "first glance" at how South Carolina's fiscal system is working. It would be hasty to conclude, for example, that a low (high) rank among the states with respect to various tax and spending means that the State is spending and taxing at "too low" ("too high") a rate. As the discussion above relating to the criteria for judging a tax system notes, there are several competing objectives of a state and local fiscal system. It is the job of the policymaker to weigh the pros and cons of the trade-offs among these objectives.

3. When one does take this first glance, it is clear that relative to the U.S., South Carolina is a low tax and spending state. For the eight state southern region, however, South Carolina is about average.

4. Relative to the fifty states and the District of Columbia, South Carolina is average in its effort to tap its general sales and selected sales tax capacity, and an above average personal income tax state. The state's effort in taxing corporate income and property is well below the U.S. average.

5. In terms of its spending record relative to the amount required to meet an average level of public service needs, South Carolina spends more than the average state on health and hospitals, just above the average for higher education, and below the national average on K-12 education, highways, police and corrections, and especially, public welfare.

The Total Revenue System

1. South Carolina governments collect the bulk of their revenues from the "big three" of state/local taxes: income, sales, and property. In general, the tax system still has a strongly rural influence, as exhibited by its low property tax effort.

2. The South Carolina Constitution places few constraints on the state's taxing powers, but imposes substantial limitations on local governments. From a tax perspective, the key limits are related to the classification of the property tax and the lack of access to local non-property taxes.

3. In addition to its constitutional constraints, the State exercises other forms of local fiscal control. A particularly important form of fiscal control is the limited fiscal autonomy given to school districts in the State while counties and municipalities are free to set their own rates.

4. Overall, the state/local revenue system is regressive in effect. That is, the tax burden (ratio of taxes paid to income) tends to fall (rise) as income increases (decreases). This is true since the regressiveness of the taxes on sales (general retail purchases as well as excises such as that on alcoholic beverages) and property outweighs the effect of the mildly progressive personal income tax.

5. In terms of automatic responsiveness to economic growth (ability to automatically generate new revenues as the state income grows), the personal income tax performs rather well. It has a tax elasticity of about 1.5. In contrast, the sales and property taxes exhibit low elasticities or relative tax stability.

State Taxes

1. South Carolina employs two major state taxes: the general sales tax and the income (personal plus corporate) income tax in about equal proportions in terms of dollars collected. In addition, the State levies a number of selective sales taxes and other minor taxes, including the insurance tax, bank tax, and inheritance tax.

2. The personal income tax ranks high on the criterion of simplicity for taxpayer and tax administrator alike. This ranking is due largely to the fact that South Carolina law conforms to the federal definition of taxable income as a starting point for computing state tax due.

3. A major issue for the 1990's will be the tax treatment of the income of retirees. As noted, the retired elderly are making up an increasing proportion of the South Carolina population profile. Yet, at present, many taxpayers are allowed to exclude from taxable income most of their Social Security as well as part of the income from state retirement plans and from IRAs and Keogh plans.

4. The South Carolina sales tax is relatively broad based with respect to its taxation of "goods," but taxes services narrowly. Whereas the broad nature of the "goods" portion of

the tax base (e.g., food for home consumption) tends to contribute to the regressivity of the tax, it promotes the overall horizontal equity of the sales tax. Horizontal equity and revenue productivity of the tax would be enhanced by a broader taxation of services. This is particularly true in view of the increasing importance of the service sector to the South Carolina economy.

Local Taxation

1. Until recently, the property tax had been the sole tax source for local governments in South Carolina. Since 1985, local governments have received revenue from a state administered accommodations tax. In 1990, cities and counties were authorized to enact a local option sales tax, contingent upon a rollback of property taxes and some revenue sharing among counties.

2. South Carolina classifies property by value into four categories: owner-occupied real estate and agricultural land, commercial property, industrial property, and personal property. The spread of assessment valuations across types of property is from 4 percent to 10.5 percent.

3. School district revenues are limited to property taxes (with millage rates constrained by the State) and state aid, which is determined by an equalizing formula.

4. South Carolina has no general program of state reimbursement for exemption of local property taxes on state property.

5. South Carolina's homestead exemption is not tied to income; nor does the State have a circuit breaker.

6. State aid to local governments in South Carolina is determined by a complex formula involving multiple tax sources, allocated almost exclusively on a population basis, and subject to state legislative discretion as to the level of funding.

Recommendations for Reform

Recommendation #1. The degree of centralization in South Carolina's revenue system may have been appropriate for a rural/agricultural state, but should be reexamined in the light of growing urbanization. Alternate local revenue sources and debt limitations are two items particularly worth reviewing.

Recommendation #2. While the federal government has not been consistent in indexing the income tax, South Carolina has opted to do so starting in 1989. Indexing for inflation preserves the distributional structure of the tax and reduces the automatic increases in revenues that would otherwise result from inflation. We strongly support the concept of indexation and would resist the temptation to drop indexing, temporarily or permanently, in response to perceived revenue needs.

Recommendation #3. The tax treatment of business in South Carolina represents, as it does in all states, a trade-off between short-term revenue needs and the desire to attract industry to the State by offering a competitive tax package. Tax provisions intended to help with recruiting industry should be reviewed regularly to weigh the revenue loss against the benefits.

Recommendation #4. The tax treatment of retirement income and the effort devoted to capturing revenues from passive income (interest and dividends) should be carefully examined in the light of a growing retired population.

Recommendation #5. The structure and rates for selective sales taxes in South Carolina should be carefully reviewed to determine why revenue from those sources has grown so slowly and what rates are appropriate. Since most selective sales taxes are stated in specific terms, their real value declines with inflation. All such taxes should be subject to regular review so that there is not an unintended tax reduction as a result of inflation.

Recommendation #6. Licenses, fees and charges are a source of income that can be used to generate additional revenue and assign the cost of supporting certain services to those who use them the most. Expanded use of these revenue sources should be explored, but with caution in a context of the equity of the overall revenue system.

Recommendation #7. With the addition of local option sales taxes, South Carolina will be raising a disproportionate share of its state and local revenue from the sales tax. Any proposed expansion or narrowing of the base of the sales tax needs to be carefully examined from the standpoint of the distributional burden in the next decade.

Recommendation #8. The cap of $300 on sales of automobiles and similar items has been the subject of heated debate and will continue to be, both as an equity issue and a revenue issue. Possible reforms include elimination, a higher cap, or an exemption of a minimum purchase level with the tax applied beyond that level.

Recommendation #9. Taxes on tobacco products could be levied at higher rates to generate more revenue, since they are among the lowest in the nation. The added revenue can either go into the general fund or be used to reduce other taxes in the state system.

Recommendation #10. The taxation of distilled liquors is quite complex, with one or more taxes at each stage. While the overall tax burden may or may not be appropriate, depending on the objectives of the General Assembly, it should be possible to collect the same amount of revenue with fewer taxpayers and lower administrative costs by simplifying the structure of the tax and reducing the number of stages of production and distribution at which these taxes are collected.

Recommendation #11. If the distribution of the burden of the property tax is considered to be too regressive, several options can be explored. One option is to add a circuit breaker, or property tax credit, to the state income tax. This option will reduce state revenues without affecting property tax collections. A second option is to modify the present homestead exemption so as to include all families below the poverty level, either in addition to or in place of the present exemptions for the elderly and disabled (in order to minimize the revenue impact). A third approach is to combine these two methods. An extension of the homestead exemption will reduce revenues of school districts, which are not reimbursed. In addition, broadening the homestead exemption will result in revenue losses for the State due to reimbursement of cities and counties for property tax revenue losses.

Recommendation #12. Most local elected school boards have little flexibility on the revenue side of their budgets. Since most school boards are elected and therefore accountable to the voters, the General Assembly may want to explore granting more autonomy in setting the mil rate for school purposes.

Recommendation #13. Heavy reliance on the property tax creates large gaps between poor areas and wealthy areas in the ability to finance local public services. South Carolina has relied less on the property tax and more on state aid to finance these services than many other states. When the General Assembly considers funding of state aid to subdivisions, alternative local revenue sources, and mandating local government programs and services, the property tax impact of such actions should be considered as an important aspect of the decision. A local property tax impact statement for each such proposal would keep the General Assembly mindful of how the proposal would affect fiscal equalization.

Recommendation #14. To the extent that local governments need more flexible and responsive revenue instruments, and need to reduce dependence on fees and charges, the General Assembly should continue to explore providing local governments with additional revenue options. While the accommodations tax was passed and a modified local option sales tax is now available, other options that derived from the 1977-78 Local Revenue Diversification Study, a local piggyback income tax, local amusements tax, local admissions tax, and local motor vehicle tax should be considered.

Recommendation #15. As presently designed, neither the accommodations tax nor the local option sales tax is truly a local tax. Consideration should be given to whether cities and counties should be given more discretion in the use of accommodations tax revenues. After the initial experience, the legislature may wish to review the property tax rollback requirement and the fiscal equalization aspect of the local sales tax.

Recommendation #16. South Carolina's tourism industry operates in a competitive market, so the accommodations tax rate must be kept in line with those of other states. Nevertheless, the rate for this tax should be reviewed periodically in the light of what is happening to rates in other states.

Recommendation #17. The present system of state aid to subdivisions needs to be carefully reviewed, considering which taxes to include, what basis to use for distribution, the appropriate shares for counties and municipalities, and the degree of certainty that can be provided about the level of funding.

In addition to the recommendations cited in this report, the SCACIR has also included "Options for Reform" which were offered by the authors but not adopted as recommendations.

ENDNOTES

[1] This set of criteria is based on Principles of a High Quality State Revenue System developed by the Task Force on State and Local Relations of the National Conference of State Legislatures, December 1987.

Chapter 2: The South Carolina Economy

Economic Structure

Historical Background

In the twentieth century, and particularly since World War II, South Carolina has undergone a transformation from an agricultural to an industrial economy. That transformation has also been associated with change from a largely rural to an urban society. Because such changes take place gradually over time, they are not readily recognized. Nevertheless, these changes have significant implications for tax policy in South Carolina.

A plausible case can be made that commercial agriculture was invented in colonial Virginia and South Carolina. In eighteenth century South Carolina, an economy was built around large-scale production of rice for export. Rice production continued to be important in the coastal areas of the state until after the Civil War. But the invention of the cotton gin soon after the Revolution made the development of cotton agriculture in the Piedmont possible. As a result, the economy of South Carolina was based on cotton production well into the twentieth century.

Even before the Civil War, some manufacturing had developed in South Carolina. In the late 1800s, a movement got under way to develop cotton textile manufacturing in the state, and, by fits and starts, the industrialization of South Carolina proceeded throughout the first half of the twentieth century. Yet South Carolina remained relatively poor. Not until 1948 did the state achieve per capita income levels equal to 50 percent of the national average or approach the relative level of economic well-being enjoyed in South Carolina on the eve of the Civil War.[1]

The transformation of the South Carolina economy in the second half of the twentieth century was made possible by a number of factors. The first, and most important, of these, was general growth in the national economy. In a landmark study published in 1951, Hoover and Ratchford showed that a national economy operating at, or near, full employment was the most important condition for overcoming the economic problems of South Carolina and other southern states. With much of the world's industrial capacity destroyed in World War II, U.S. industry had an unparalleled historic opportunity to expand and exploit world markets in the period from approximately 1945 to 1965. A generally expansionist federal fiscal policy tended to stimulate national economic expansion centered on using American mass-production techniques to fuel a high-consumption society.

Given such a set of policies, South Carolina had only then to mechanize its agriculture in order to release large quantities of useful labor to manufacturing. Accordingly, the state pursued an aggressive strategy of rural industrialization, using the attraction of low-cost labor to lure branch plants to small towns and rural counties.

The strategy was generally successful. Indeed, measured by percent of the workforce employed in manufacturing, South Carolina became, after North Carolina, the second most heavily industrialized state in the nation. Much of the new manufacturing industry locating in South Carolina had an orientation to textiles. In 1970, textile and apparel employment totaled 193,000, or about 57 percent of manufacturing employment and 23 percent of total non-farm employment.[2]

The new jobs were not high paying jobs by national standards, but they were jobs that South Carolinians with relatively low educational attainment and industrial skills could do, and they provided more income than had been possible on South Carolina farms.

The heavy dependence upon textiles made South Carolina vulnerable to economic cycles that affected the textile and apparel industry, and the state suffered from periodic recessions. The most severe of these recessions occurred in 1973-74 when OPEC instituted an embargo on petroleum shipments. While the non-textile parts of the South Carolina economy soon recovered from that recession, the effects lingered on in the textile industry. A strategy of attracting industry by selling low-cost labor became increasingly untenable as advances in communications and transportation technology made it feasible for American industry to develop branch plants offshore where labor was available at costs much below those in South Carolina. In response to increasing competition from lower priced foreign imports, the textiles and apparel industry began a massive program of retooling to improve efficiency and reduce cost. This retooling involved substitution of capital for labor. As a result of both import penetration and its induced effects on plant modernization, the 1970's was a period when textile and apparel employment declined in South Carolina.

The feeling began to grow in the 1980's that South Carolina had exhausted its potential for growth based on investments in manufacturing. The postwar economy was evolving as the nations of Europe regained their economic muscle and Japan emerged as a world economic power. The pursuit of profit from greater world trade had become the driving force that South Carolina would need to harness. Viewed on a global scale, there are many places where unskilled, low-cost labor is available in even greater supplies than in South Carolina. It seemed reasonable to conclude that South Carolina would have difficulty competing if it remained in the low-cost labor pool. Escaping from this trap meant a large and sustained investment in human capital to upgrade the labor pool, but that would take time, and there was cause for worry over how South Carolina could purchase that time without economic distress.

Recent Trends in Income and Employment

Despite the structural problems faced by the South Carolina economy in the 1970's and 1980's, the South Carolina economy has continued to grow at faster rates than the national economy. The story of this impressive growth is told in the numbers presented in Tables 1-4.

Table 1 shows the sources of personal income in South Carolina in 1969 and 1987 (the latest year for which such data are available). Consistent with the discussion above, the data in Table 1 show that about 72 percent of personal income in South Carolina in 1969 was accounted for by salaries and wages. By far the largest part of those salaries and wages -- almost 30 percent of all personal income -- was earned in manufacturing. About 10 percent of all personal income was received as salaries and wages by workers in service industries, and an equal share was received as earnings by proprietors. Roughly one-quarter of proprietors' income was accounted for by the earnings of farm operators.

Although salaries and wages remained the largest source of income in South Carolina in 1987, the relative importance of salaries and wages has declined significantly. In 1987, about 63 percent of all personal income came from salaries and wages, and the portion of income arising from manufacturing salaries and wages had declined to about 21 percent. These declines are offset by rather dramatic increases in the percentage of income arising from passive sources -- dividends, interest and rent, and transfer payments -- and by smaller, but significant, increases in the percentage of income arising from salaries and wages earned in the services and state and local government sectors.

Table 2 shows that in all but one case personal income in South Carolina grew faster during the period 1969-1987 than in the nation as a whole. The single exception is farm income, for which the rate of growth was only about one-third of that realized in farm income nationally. Overall, personal income rose in nominal terms at a rate 1.22 times faster than achieved nationwide.

Table 1
Personal Income, by Source In South Carolina 1969 and 1987

Source	Total ($1,000) 1969	Total ($1,000) 1987	Percentage 1969	Percentage 1987
Dividends, Interest & Rent	$625,300	$5,409.478	8.75%	13.19%
Transfers Payments	631,078	6,325,160	8.83	15.35
Wages & Salaries	5,120,619	25,810,891	71.68	62.64
Farm	200,210	174,541	2.80	0.42
Agr Srvc., Forestry, Fish, & Other	27,730	147,753	0.39	0.36
Mining	12,732	62,096	0.18	0.15
Construction	379,020	2,138,109	5.31	5.19
Manufacturing	2,098,173	8,606,472	29.37	20.89
Transportation & Utilities	286,630	1,845,777	4.01	4.48
Wholesale Trade	251,194	1,389,901	3.52	3.37
Retail Trade	603,725	3,137,964	8.45	7.62
Finance, Insurance & Real Estate	215,419	1,381,863	3.02	3.35
Services	728,969	5,307,472	10.10	12.88
Federal Government				
Civilian	277,437	1,033,541	3.88	2.51
Military	428,554	1,435,989	6.00	3.49
State & Local Government	532,998	3,930,455	7.97	9.54
Other Labor Income	237,777	2,231,210	3.33	5.44
Proprietors' Income	684,395	2,697,109	9.58	6.55
Farm	150,115	242,144	2.10	0.59
NonFarm	534,280	2,454,965	7.48	5.96
Total Personal Income	$7,143,844	$41,204,465	100.00%	100.00%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Table 2
Income Growth South Carolina and U.S. By Source, 1969-1987

Source	U. S. Increase (%)	South Carolina Increase (%)	S.C. Increase/ U.S. Increase
Dividends, Interest & Rent	523.3	765.1	1.46
Transfer Payments	668.8	902.2	1.34
Wages & Salaries	337.0	404.0	1.20
By Sector:			
NonFarm	391.0	476.7	1.23
Farm	174.3	60.7	0.35
Agriculture Services, Forestry, Fish & Other	419.4	432.8	1.03
Mining	371.8	387.7	1.04
Construction	341.9	464.1	1.36
Manufacturing	223.9	310.1	1.38
Transportation & Utilities	336.5	543.9	1.62
Wholesale Trade	374.6	453.3	1.35
Retail Trade	295.3	419.7	1.42
Finance, Insurance, & Real Estate	473.3	541.4	1.14
Services	590.8	628.0	1.06
Federal Government			
Civilian	247.3	272.5	1.10
Military	194.6	235.0	1.21
State & Local Government	399.8	637.4	1.60
Other Labor Income	631.0	838.3	1.33
Proprietor's Income	293.6	294.0	1.00
Total Personal Income	391.0	476.7	1.22

Source: Calculated from unpublished data, U.S. Department of Commerce, Bureau of Economic Analysis.

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Particularly rapid relative growth in income within South Carolina can be observed as a result of higher salaries and wages in transportation and public utilities, state and local government, and wholesale trade, in dividends, interest and rent, and in transfer payments. The latter two sources of growth are closely associated with movement of retirees to South Carolina, particularly to the coastal areas and the foothills of the Blue Ridge.

Tables 3 and 4 provide similar information focused on changes in the employment structure of the South Carolina economy. Table 3 shows a continuing a decline (both absolute and relative) in farm employment, as well as a decline in the number of farm proprietors. Consistent with the decline in the percentage of personal income arising from manufacturing, the period 1969-87 also saw a decline in the percentage of employment accounted for by manufacturing from about 30 percent to about 22 percent. A smaller but significant decline in the share of total employment accounted for by the military is also observable. The relative share of employment in services, wholesale and retail trade, and state and local government increased to offset the decline in the share accounted for by manufacturing and the military. There was also a notable increase in the share of employment represented by nonfarm proprietors.

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Table 3
Employment, by Source In South Carolina 1969 and 1987

Sector	Total 1969	Total 1987	Percentage 1969	Percentage 1987
Employees:				
Farm	73,151	39,831	6.31%	2.26%
NonFarm	1,086,658	1,722,683	93.69	97.74
Agriculture Service, Forestry, Fish, & Other	5,639	14,364	0.49	0.81
Mining	1,764	2,011	0.15	0.11
Construction	62,514	114,131	5.39	6.48
Manufacturing	346,925	381,319	29.91	21.63
Transportation & Utilities	38,629	65,743	3.33	3.73
Wholesale Trade	32,278	61,825	2.78	3.51
Retail Trade	127,986	291,765	11.04	16.55
Finance, Insurance, & Real Est	35,185	102,666	3.03	5.82
Services	187,279	342,704	16.15	19.44
Federal Government-				
Civilian	35,513	38,564	3.06	2.19
Military	100,852	95,015	8.70	5.39
State & Local Government	112,094	212,571	9.66	12.06
Proprietors:				
Farm	41,331	27,280	3.61	1.55
NonFarm	84,533	198,303	7.29	11.25
Total Employment	1,159,809	1,762,514	100.00%	100.00%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Rates of growth in employment by sector in the national and South Carolina economies in the period 1969-1987 are presented for comparison in Table 4. Overall, employment in South Carolina grew at 1.17 times the national rate in this time period. Three sectors showed declines in employment both nationwide and in South Carolina -- farm proprietors, farm workers, and military. In the farm sectors, employment declined in South Carolina at a rate that was greater than twice that in the national farm economy, but the decline in military employment in South Carolina was slower than that experienced nationally. The most notable difference between the national and South Carolina economies concerns manufacturing: there was an absolute decline nationally in manufacturing employment, but a small increase in manufacturing employment within the state.

Table 4 shows that the state outperformed the national economy in employment growth most notably in three sectors: transportation and public utilities, retail trade, and state and local government. In all three of these cases, South Carolina employment grew more than twice as fast as nationwide. Two sectors in South Carolina, mining and services, displayed positive employment growth, but grew at slower rates than nationwide.

The latter is particularly interesting because reference to Table 2 shows that income from services grew faster than the national average in South Carolina during the 1969-1987 period.

Table 4
Employment Growth U.S. and South Carolina By Sector 1969-1987

Sector	U.S. Change	S.C. Change	S.C. Change/ U.S. Change
Farm Proprietors	-16.3%	-34.7%	-2.13
Non-Farm Proprietors	120.6	134.5	1.12
Farm Workers	-16.9	-45.5	-2.69
Agriculture, Forestry, & Fish Services	147.1	154.7	1.05
Mining	38.9	14.0	0.36
Construction	55.4	82.4	1.49
Manufacturing	-4.7	9.9	3.11
Transportation & Utilities	27.9	70.1	2.51
Wholesale Trade	53.6	91.5	1.71
Retail Trade	58.6	127.9	2.18
Finance, Insurance & Real Estate	203.4	191.7	0.94
Services	106.6	82.9	0.78
Federal Government -			
Civilian	7.7	8.5	1.10
Military	-17.0	-5.7	-0.34
State & Local Government	44.1	89.6	2.03
Total Employment	44.5	51.9	1.17

Source: Calculated from unpublished data, U.S. Department of Commerce, Bureau of Economic Analysis.

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With slower than the national average growth in service employment and faster than the national average growth in service sector income, there is a strong implication that, on average, the service sector jobs added in South Carolina tend to be relatively higher paying service jobs than elsewhere.

Implications of Structural Change

During the past twenty years, employment and per capita income in South Carolina have grown faster than the national average. The income and employment trends in South Carolina during the period 1969-1987 suggest that the state is successfully navigating the transition in its economic structure from that of a relatively narrow base in textile manufacturing to a more diversified and broader base in manufacturing and services. While agriculture continues to play an important role in the economies of many South Carolina communities, it has ceased to be of major significance in the economy statewide.

Significant growth in the trade and service sectors reflects a growing tourist industry centered on the Atlantic beach resorts and the historic city of Charleston. Related to, but distinct from, the growth in tourism, has been dramatic growth in retirement-related economic activities, as reflected in the substantial growth in percentage of personal income in South Carolina arising from dividends, interest and rent and from transfer payments. Military bases, while still important to the economic health of some South Carolina communities, account for only about half the relative share of income in South Carolina as twenty years ago.

Because, as it enters the 1990's, the South Carolina economy is more diversified than at any time in the state's history, it is perhaps correct to conclude that South Carolina is less vulnerable to economic cycles than in the past. Yet it would not be correct to conclude that the state is immune to the effects of economic cycles. The manufacturing sector remains the largest single component of the South Carolina economy and is subject to adverse impacts of currency fluctuations and interest rate increases that affect the overall health of the national and global economies. Particular manufacturing sectors are also subject to cycles associated with inventory adjustments. Moreover, the growing dependence upon dividends, interests and rents as a source of personal income makes income levels in the state sensitive to macroeconomic policies. General downturns in the national economy will continue to have adverse effects on the level of income and business activity in South Carolina. Of particular significance to the South Carolina economy are:

(1) future national policy affecting tobacco and (2) future national policies affecting international trade.

While, as noted above, agriculture no longer is a major force in the South Carolina economy as a whole, it remains an important element of the economies of parts of the state. The Pee Dee section of northeastern South Carolina is particularly dependent upon tobacco production. The decline in tobacco use and selective sales taxes on tobacco products in the United States has not had serious adverse impacts on the profitability of tobacco production because of federal supply control programs and the aggressive marketing of American-made tobacco products overseas. But, as concern over the effects of tobacco use on health continue to grow, both the federal government's supply control program and the exporting of tobacco products may come under intense political pressure in the 1990's. Should the federal government move to discontinue the tobacco program or restrict exports of tobacco, the economy of the Pee Dee section of South Carolina would encounter substantial adjustment problems that have statewide implications.

In addition, much of the remaining manufacturing in South Carolina, particularly in rural counties, remains vulnerable to import penetration by foreign competitors. A high exchange rate on the American dollar that increases the overseas price of South Carolina-made products and reduces the price in domestic markets of foreign goods has serious adverse effects on the South Carolina economy. Changes in the international political and economic situation could intensify the competitive pressures on some South Carolina manufacturers and cause income and employment problems in the state.

Assuming that any policy changes affecting tobacco production and international trade can be achieved in an orderly and gradual way, and that the national economy remains healthy, the prospects seem promising that the South Carolina economy will continue to grow throughout the 1990's at a rate in excess of national economic growth. The trends observed in the period 1969-1987 can be expected to continue throughout the 1990's. These trends suggest a declining relative role for manufacturing, particularly textile and apparel manufacturing, while, at the same time, there occurs increasing diversification of manufacturing within the state.

Demographic Changes

The most significant growth in the state's economy in the 1990's is likely to be associated with the changing demography of the United States as the population ages and more and more Americans are able to seek out comfortable, pleasant communities for retirement. The trends of the 1969-1987 period indicate that South Carolina enjoys some comparative competitive advantage in attracting this growing population of retirees who can fuel growth in the trade and service sectors with income realized from dividends, interest and rent, and from transfer payments. In summary, it does not seem unreasonable to expect that by the end of the 1990's the tourism and retirement related sectors will be challenging manufacturing as the largest component of the South Carolina economy.

Demographic Change: Population Growth

In 1987, the population of South Carolina was estimated to be 3.4 million, and the state ranked 24th among the fifty states in total population. During the period 1980-1987, the state's population was estimated to have increased by 9.7 percent, making South Carolina the 15th most rapidly growing state in the union.[3] Mean population density in the state in 1987 was estimated to be 113 persons per square mile, with the state ranking 20th among the states in population density.

As noted above, South Carolina has become a destination for retirees moving in from other states in recent years. In addition, the relatively rapid growth of the South Carolina economy has made the state something of a magnet for persons still in the workforce looking for economic opportunity. Consequently, net total migration into South Carolina has been positive in both the 1970's and 1980's. An estimated 97,000 more persons migrated into South Carolina than left in the period, 1969-1987, and the state ranked 12th among the states in number of net in-migrants.[4]

The 1990 Census is expected to show that South Carolina has a total population of 3,598,000, of which about 60 percent will reside in the eleven metropolitan (Statistical Metropolitan Area-SMA) counties. During the decade of the 1990's, the state's population is expected to grow by 16 percent, reaching 4,175,500 by 2000. The eleven SMA counties are expected to grow at about the same rate as the state as a whole, and will continue to contain about 60 percent of the state's population as South Carolina enters the new century.

Table 5 presents estimated population in South Carolina, by county, in 1990 and 2000. Eight counties are expected to experience population growth greater than the statewide average in the 1990's. They are, in order of rate of growth, Dorchester (48.7%), Beaufort (44.3%), Berkeley (41.4%), Horry (42.1%), Lexington (31.1%), Georgetown (22.5%), Jasper (19.1%), and York (16.6%). It is worth noting that six of these eight counties are located along the coast. The remaining two are suburban counties -- Lexington is a part of the Columbia SMA and York a part of the Charlotte (NC) SMA. Hence, the net result of the expected population growth during the 1990's is a shift of population to the coast and the suburbs with some reduction in the percentage of the population in the upper Piedmont.

These expected changes in population distribution have political ramifications as a result of the impact they will have on apportionment of the General Assembly and the alignment of Congressional districts in the 1990's. The very rapid rates of growth in the eight most rapidly growing counties will also place intense pressures on local governments. Those pressures can be expected to be most intense in those coastal counties that are, or were a few years ago, rural and agricultural in orientation. Since in-migration, particularly retirees, account for much of the growth in these counties, much of the population growth will consist of persons who are elderly, who have substantial amounts of leisure time, and who come from a variety of backgrounds and lack familiarity with local social and political institutions and customs.

As in the U.S. as a whole, the population of South Carolina is aging. Figure 1 presents three population pyramids for South Carolina that illustrate the changing age distribution of the population during the twentieth century.

Table 5
Estimated Population, by County, South Carolina 1990 and 2000

County	1990 Population	2000 Population	% Change
Abbeville	25,100	26,900	7.1
Aiken	125,200	140,300	12.0
Allendale	11,600	12,200	5.1
Anderson	151,200	167,600	10.8
Bamberg	18,600	19,100	2.6
Barnwell	21,900	24,600	12.3
Beaufort	104,900	151,400	44.3
Berkeley	146,000	206,500	41.4
Calhoun	13,000	13,800	6.1
Charleston	300,000	324,600	8.2
Cherokee	44,200	48,400	9.5
Chester	31,500	31,600	0.3
Chesterfield	40,100	41,200	2.7
Clarendon	31,100	34,700	11.5
Colleton	36,800	41,900	13.8
Darlington	66,300	68,400	3.1
Dillon	34,900	39,200	12.3
Dorchester	92,900	138,200	48.7
Edgefield	20,600	23,800	15.5
Fairfield	21,800	23,100	5.9
Florence	126,900	140,500	10.7
Georgetown	53,100	65,100	22.5
Greenville	319,700	343,000	7.2
Greenwood	63,600	69,200	8.8
Hampton	20,000	21,400	7.0
Horry	158,800	225,800	42.1
Jasper	17,200	20,500	19.1
Kershaw	45,600	52,400	14.9
Lancaster	58,300	62,900	7.8
Laurens	55,300	57,300	3.6

Table 5

Estimated Population, by County, South Carolina 1990 and 2000

County	1990 Population	2000 Population	% Change
Lee	19,400	19,700	1.5
Lexington	162,600	213,300	31.1
McCormick	7.800	7,800	0.0
Marion	35,600	36,400	2.2
Malboro	34,200	36,500	6.7
Newberry	33,100	34,700	4.8
Oconee	56,400	63,800	13.1
Orangeburg	91,300	98,400	7.7
Pickens	93,400	104,300	11.6
Richland	298,400	327,300	9.6
Saluda	17,700	19,100	7.9
Spartanburg	219,800	237,300	7.9
Sumter	100,600	111,700	11.0
Union	31,700	32,100	1.2
Williamsburg	41,600	45,700	9.8
York	130,500	152,200	16.6
State	3,598,300	4,175,500	16.0

Source: E. L. McLean, C. Withington and J. B. London. Forecasts of Population for South Carolina's Census County Divisions Through the Year 2015. S.C. Sea Grant Consortium, Charleston, 1989. These estimates represent the highest of three estimates; those made by the Division of Research and Statistical Services, those from the Bureau of the Census, and those used by local planners in each county.

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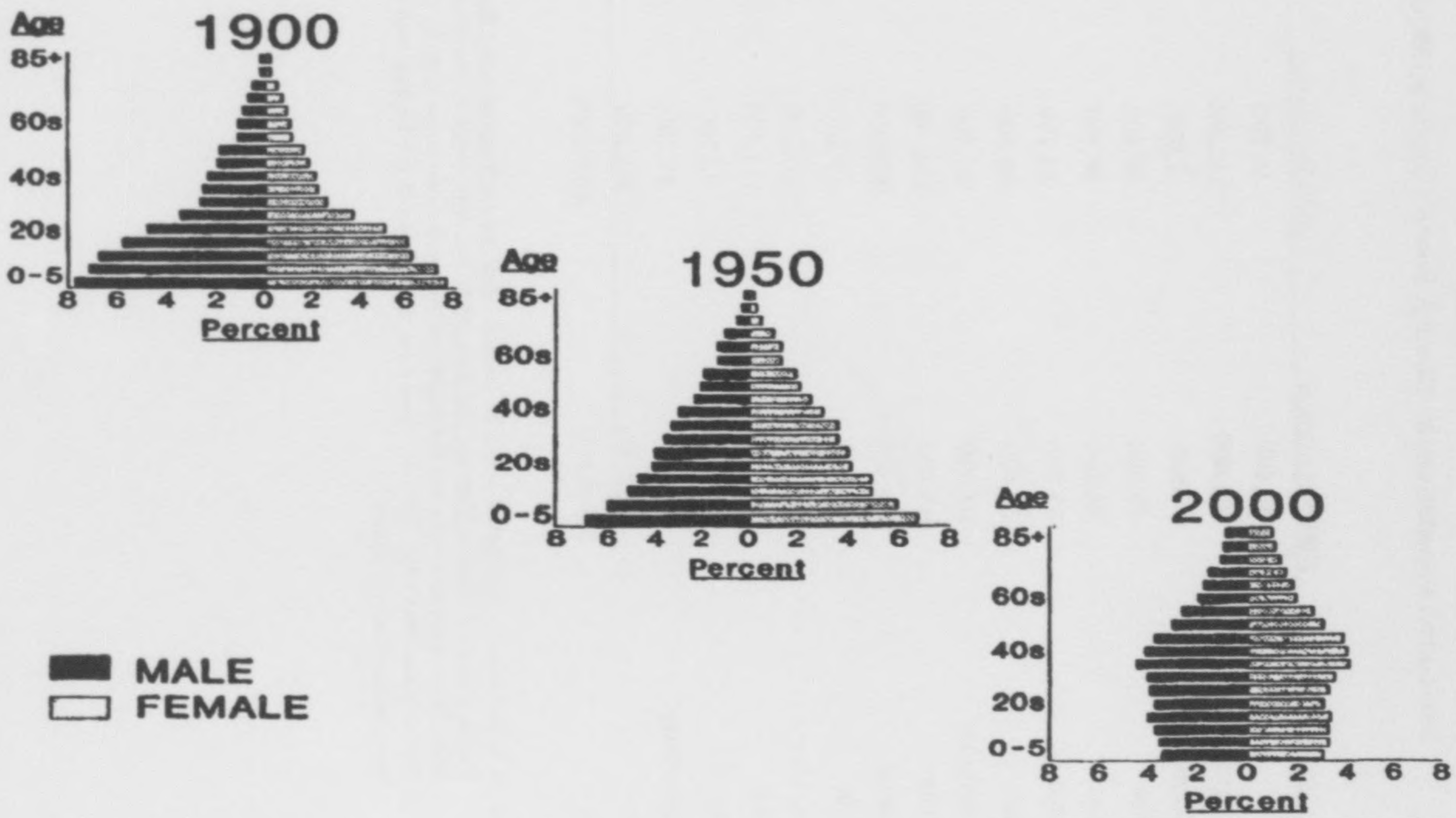
Figure 1

POPULATION OF SOUTH CAROLINA BY AGE AND SEX



In the upper left hand corner of Figure 1 is the population pyramid for 1900. The pyramid has a broad base, since about 54 percent of the population was under 20 years of age. The peak of the pyramid is almost a spire, reflecting the fact that only about 2 percent of the population was over 65 years of age.

The lower right hand corner of Figure 1 shows the projected population pyramid for South Carolina in 2000. The change during the century has been dramatic. By the year 2000, the estimates indicate that only about 27 percent of South Carolina's population will be under 20, and more than 12 percent will be over 65 years of age. In 2000, well over half of the state's population will be of working age.

This major demographic change has important implications for the South Carolina economy and for public finance. The first of these implications is that the largest segment in the population will be in their late thirties and early forties, or near the peak of their productive work lives. While the number of young adults seeking entry to the labor force will remain substantial, there could be a seller's market for labor at the entry level. Second, the in-state market for youth-oriented products and services will be declining and the market for products and services oriented toward the elderly will be growing. And finally, South Carolina will have the largest percentage of its population earning and paying taxes at any time in more than a century (and perhaps more than at any time for several decades to come). This latter fact should ease some of the population-based pressures on public education and corrections costs and, perhaps, free some state resources to address other needs.

All in all, the demographic projections offer positive implications. But there is at least one dark cloud on the demographic horizon. As the baby-boomers causing the middle-age bulge in the population pyramid continue to age, the population pyramid for South Carolina in the early decades of the twenty-first century will be inverted. Constraints on labor supply could become a factor in the state's economy early in the next century at a time when a growing elderly population represents a potential demand on state-subsidized health care services.

Implications for the Revenue System

In general, the economic and demographic trends in South Carolina suggest that the revenues of state and local governments will continue to grow during the 1990's. If public revenues fall short of what is needed to satisfy the public service demands of a growing, aging, and increasingly cosmopolitan population in the state, it is not likely to be because the potential tax base is unavailable. State and local governments in South Carolina should not lack adequate revenues if: (1) there is flexibility with regard to the mix of tax and other revenue-raising instruments available and (2) there is political will to deal with small fiscal problems before they become big ones.

The changing structure of the state's economy and the changing demographic structure of the state will create disturbances in tax revenues unless the mix of revenue-raising measures are adjusted from time to time:

* Income from interest and dividends is harder to track than income from salaries and wages, and new ways may have to be found to assure that non-salary and wage income is not unfairly escaping taxation.

* Taxation of pensions may be a continuing issue as the state struggles to balance its fiscal needs against the desire to attract desirable elements of the growing retirement industry.

* The homestead exemption for the elderly will cost the state treasury more and more. Since the exemption currently is not means-tested (i.e., based on family income), the exemption's continuance in its current form will be a potential source of political controversy with strong revenue implications.

* More workers per household will mean fewer dependents per income tax return. This will cause an increase in the effective rate of taxation even if tax schedules are unchanged.

Yet, even with these disturbances, state government in South Carolina has the flexibility to make marginal adjustments in the tax system through modest changes in the rates of various types of taxes and charges. The state's existing tax structure is fairly broadly based. Hence, the state government need only monitor changes and make needed incremental corrections in the tax system as part of the annual budget process. A major overhaul of the entire state tax structure does not appear necessary on fiscal grounds.

This is not the case with local governments in South Carolina. Counties, cities, and school districts still are quite limited in the range of revenue sources available and will have much more difficulty in achieving the flows of revenue needed to fund core public services essential to the public health and safety and to provide vital infrastructure. The experience of the 1970's showed that property tax revenues lagged behind population and employment growth while the demand for services generally grew coincident with population and employment. State-shared revenues are handed out to cities and counties on the basis of a population-based formula tied to the last federal census. Hence, toward the end of each decade, rapidly growing localities receive less state-shared revenues per capita than slower growing ones. All this means that if a fiscal squeeze is in the offing in South Carolina, it is most likely to be experienced by counties, municipalities, and school districts, particularly in rapidly growing parts of the state.

Indeed, a strong case can be made that the local government revenue system in South Carolina is still premised upon existence of a predominantly agricultural economy. At a time when even a plurality of South Carolinians earned their living from farming, it made sense to establish taxes so that they were borne in rough proportion to the value of real property (most of which was farm real estate). A taxpayer's income was generally proportional to the value of the farm real estate he or she owned. So a property tax focused primarily upon real property distributed the tax burden in rough proportion to ability to pay. And having the tax payable in one lump sum annually at about the time when crops had been sold made the tax as easy and convenient to pay as any tax can ever be.

However, now things have changed so that less than 1 percent of the income in the state comes from farms. A significant part of the property tax base is non-income producing property (i.e., owner-occupied residences) and the taxpayers who live in these residences receive their incomes in weekly or semiweekly paychecks. Being required to make a sizeable property tax payment annually at the end of the year when the Christmas bills are accumulating causes taxpayers to resist property taxes politically, even when the rate of effective taxation is low compared to other jurisdictions within and outside South Carolina. In short, social and economic change in South Carolina has made the property tax in its current form less useful and appropriate in the state's public finance that it once was. Such an assessment argues strongly for the state to increase the number of revenue tools available to cities, counties, and school districts.

The amount of revenue forthcoming to South Carolina governments in the 1990's will depend ultimately upon the effective rate of taxation -- i.e., what percent of the state's personal income is taken by the public sector. Establishing that rate is a political matter. But assuming that the effective rate of overall taxation (state and local) in South Carolina remains about constant throughout the decade, aggregate revenues can be expected to grow at real rates exceeding the rate of growth in the nation's Gross National Product (GNP). There is also the strong possibility, however, given the changing demography of South Carolina, that revenues needed to address vital problems will not grow as fast as essential budget requirements. There is also a strong possibility of a geographic mismatch between revenue growth and the demand for services, in which case the fiscal problems will be exacerbated by the centralized tax system in South Carolina.

The trends observable in the South Carolina economy and the changing demographic patterns point to a state that will continue to urbanize. Urbanization brings demands upon state and local governments that are not felt in rural communities. Failure to meet those demands often leads to even greater budgetary outlays in the future. Hence, the principal challenge is not likely to be the result of slow growth in the tax base, but finding ways to tap that base effectively and fairly.

ENDNOTES

[1] R. C. Martin, et al., "South Carolina: An Economy in Transition" (Columbia: University of South Carolina, College of Business Administration, 1987), pp. 3-4.

[2] Ibid., p. 6.

[3] South Carolina Budget and Control Board, South Carolina Statistical Abstract 1989, Columbia: South Carolina, Division of Research and Statistical Services, p. 10.

[4] Ibid., p. 10.

Chapter 3: The Intergovernmental Fiscal Framework

Fiscal Federalism

State government is a major player in the American scheme of government. There are perhaps only a dozen truly federal countries in the world, including the U.S., Canada, Germany, Australia, and Brazil, that have a middle level of government between central and local with a separate sphere of sovereignty. Like Canadian provinces and German Laender, the 50 states of the United States have a considerable degree of independence provided by the U.S. Constitution (Amendment 10: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people").

The fiscal dimension of federalism is the division of responsibilities and revenue sources between the levels of government, as well as the flows of funds in both directions. Some of these divisions were established by the Constitution. The Constitution's vision of federalism resulted from frustrations under the Articles of Confederation and compromises between advocates of a strong central government and the states' rights forces of some of the more independent colonies, South Carolina among them. Other assignments of duties have evolved over time from historical circumstances. Still others reflect economic and political realities.

The federal government is not in a position to administer a property tax, for example, with all the required on-site inspection for assessment. At the local level, cities and counties find that trying to collect more than the most minimal income tax -- the mainstay of the federal government -- will quickly drive away desirable residents and businesses. States have less leeway in tax collecting than the federal government, more than local governments. On the expenditure side, citizens have firm preferences for some degree of local control of schools, and their strong and effective resistance to a larger federal role in public education has put most of that responsibility on the states. Defense is one of several public activities that only makes sense at the national level, while street lights and fire protection require local decisions and allow for a variety of service levels.

Assignment of Functions

The assignment of responsibility to the various levels of government is fairly clear for some functions, such as defense, the monetary system, and fire protection. Other functions show considerable overlap. Welfare is one such shared responsibility. In the past, the federal government has also played a substantial if indirect role in funding higher education, although this is primarily a state function. Control of hazardous wastes and air and water pollution must cross state boundaries, requiring states and the federal government to share these responsibilities. For many public activities, the assignment of functions depends on the degree of capturability or spillover of the service.

When speaking of responsibility, one must distinguish between provision of the service and production of the service. If the benefits of police or fire protection are confined largely to a defined geographic area, it makes sense for those services to be paid for by local residents. Such capturable functions are usually the responsibility of local governments. If a large city museum or public hospital confers benefits not only on its residents but also on those of surrounding towns and counties, then perhaps the support for the museum ought to encompass a broader range of taxpayers. If most graduates of the state colleges and universities stay in the state, or are children of state residents, then state support is appropriate for higher education. To the extent that South Carolina's higher education system creates benefits that spill over to the rest of the nation, or educates large numbers of nonresidents, then perhaps there should be an appropriate share of external funding for that activity. Higher out-of-state tuition and federal aid to higher education are two methods for capturing such spillovers.

Intergovernmental Flows of Funds

When a higher level of government is called on to provide support for activities generating spillovers, the most likely form for such support to take is intergovernmental grants. Sometimes the support is general in nature, to be used as the receiving government deems appropriate (as is the case with many of South Carolina's state-shared revenues). More often the grant is earmarked for provision of a particular service. Intergovernmental grants are not the only way for a higher level of government to ensure or encourage the provision of particular services or expansion of those services. One option is for the higher level of government to assume direct responsibility for providing some part of the service. The South Carolina Highway Department gradually assuming responsibility for maintaining many formerly county roads is an alternative to higher state support for county highway departments.

While a large part of state and local government spending is for public goods and services, much of the federal budget is devoted to redistribution through taxes and transfer payments. Much of that federal redistribution goes directly to individuals in the form of income security payments (welfare, food stamps, veterans' benefits, etc.) or Social Security benefits. Another (decreasing) share goes to state and local governments to support specific programs. General Revenue Sharing had a brief and controversial life for about ten years as a way of collecting revenue at the federal level and spending it at the state and local level with relatively few strings attached.

In providing support for local public services, either directly or indirectly, both the federal government and state governments often have fiscal equalization as a secondary objective. Fiscal equalization can take place either from rich states to poor states or from richer to poorer areas within states. In either case, fiscal equalization means collecting more revenues from and/or providing fewer payments or services to wealthier areas than to poorer areas. Prior to federal tax reform in 1986, a larger share of federal revenue was derived from higher income states. To the extent that the benefits of federal activities were shared evenly among states, this pattern led to some modest amount of redistribution from rich states to poor states. Fiscal equalization in states is more likely to be on the expenditure or state-shared revenue side of the ledger since state taxes are generally much less progressive. In many states, including South Carolina, the largest component of fiscal equalization is state funding of a major share of public education costs with a formula favoring districts with limited tax bases.

While federal to state and federal to local funds have declined, state shared revenues continue to be an important if not always dependable source of revenue for local governments in South Carolina. Federal revenues, expenditures, and grants are considered in this chapter. State-shared revenues in South Carolina are discussed in Chapters 5 and 7.

Division of Revenue Sources

The final aspect of fiscal federalism that is important for our purposes is the division of revenue sources. The Constitution was initially quite restrictive in the kinds of taxes the federal government could levy. Until the War between the States, land sales and tariffs were the major federal revenue sources, along with some excise taxes. State and local governments relied heavily on property taxes and business occupation taxes, a precursor of the general sales tax. With the passage of the 16th amendment in 1913, the federal income tax came into being. Personal and corporate income taxes and Social Security payroll taxes today are the major federal revenue sources, accounting for 93 percent of federal tax revenues. With the federal government heavily invested in income taxes, states have for the most part limited their use of the income tax, often using a "piggyback tax" closely linked to the federal tax at much lower rates. Forty states have income taxes, as do a number of localities in eleven states.

The mainstay of state revenues has been the general sales tax, used in 45 states and the District of Columbia, which accounts for 19 percent of all state revenues and 26 percent of state own-source revenues. Close behind is the state individual income tax (17 percent of all revenues and 22 percent of tax revenues). A variety of smaller taxes, user charges, state corporate income taxes, and state property taxes, as well as intergovernmental revenues, round out the revenue picture.

South Carolina's heavy dependence on general sales taxes and individual income taxes is a typical state revenue pattern. Local governments across the nation, as in South Carolina, rely primarily on the property tax, which averages 28 percent of all local revenues, 47 percent of all own source local revenues, and 74 percent of local tax revenues. Local governments also are more likely than the state and federal governments to charge for their services. User charges accounted for 22 percent of own source revenues for local governments, compared to 10 percent for states and 13 percent for the federal government.

If capturability is the litmus test for assigning responsibilities to levels of government, "escapability" is probably the most important criterion for the assignment of revenue sources. If a local or state government imposes a tax, how easy is it for taxpayers to adjust their patterns of behavior to avoid the tax? Will the tax drive away desirable residents, shift sales outside the jurisdiction, or discourage business location within the taxed areas? States and local governments are constrained in both the types of taxes they can levy and the intensity with which these taxes can be used because the lower levels of government in a federal system find themselves in a highly competitive situation.

While few Americans would leave the country because of higher income taxes, they might be willing to move across the state or county line, or might choose to work in a neighboring state or city for that reason. Thus, while states can use income taxes, they are forced to use them in a more limited way for fear of driving out their higher income residents or driving away potential business establishments. Cities are even more constrained. Local income taxes are much less common than local sales taxes, and are generally used only by very large cities.[1]

The property tax became a local tax not only for historic reasons -- local and state property taxes were already in place at the time of the Constitution -- but also because it is harder to escape and more closely linked to benefits received. Property owners can move out of town to avoid the property tax, but their real property cannot move with them. In addition, many of the services financed with the property tax -- local roads, fire protection, police protection, and street lights -- can be construed as benefiting property owners. Local residents are buying a tax and service package with the property tax in a more concrete and visible way than with other taxes. Even where property taxes are used to finance the public schools, as they are in South Carolina and many states, there is a clear link between taxes paid and services received for families with children. Living in a good school district may enhance the resale value of a house more than higher property taxes detract, and even childless families may elect to live in a good school district to protect the market value of their property.

Located in the middle of the federal structure, states have moved toward a mixed bag of revenue sources, with sales taxes at the top of the list in both number using and share of revenues. Except for border areas and mail order sales (discussed in Chapter 6), states can impose sales taxes without significantly eroding the tax base or driving away desirable residents and firms. The fact that 45 other states use the tax means that citizens and retailers have little choice of locations where they can escape the tax. Since retailers have to be accessible to customers, the tax would have to be very burdensome to significantly erode the commercial foundations of the tax. Sales taxes also offer an opportunity for tourist states such as South Carolina to "export" part of the tax to residents of other states.

This general pattern has held firm since the Great Depression for the federal government and state governments, except for a gradual shift toward greater reliance on income taxes at the state level. For local governments, while the property tax has remained the mainstay, there has been substantial growth of local sales taxes in the last 40 years, a movement that South Carolina has just taken the first steps to join.

Role of the Federal Government in South Carolina

Because the actions of the federal government have an important impact on the revenues and responsibilities of state and local government, no study of any state's revenues can be undertaken without reference to the budgetary activities of the federal government. The federal government interacts with the finances of state and local governments in South Carolina in several important ways. One measure of federal impact is the overall flow of funds -- federal revenue originating in South Carolina and federal expenditures in the state. An important subset of the expenditure side of the ledger is intergovernmental revenue, or grants to state and local governments. These revenues represent important, but highly uncertain, resources beyond own-source revenues for the state and its political subdivisions.

Federal Expenditures in and Revenues from South Carolina

The flow of federal expenditures consists of a variety of items, including grants to state and local governments, salaries and wages of federal employees, direct payments to individuals, procurement (purchases of goods and services on federal government account), and other. Table 1 shows the level of these flows for South Carolina in absolute terms as well as state's share of the total and the per capita amounts in fiscal year 1988.

The only category in which the state exceeds the national average in per capita federal expenditures is in salaries and wages. In every other category, the state falls below the average. In the case of direct payments to individuals, the difference can be accounted for at least partly by a lower average wage base for Social Security benefits. Lower procurement expenditures reflect few defense industries in the state compared to the Northeast and the West Coast.

Because all the data except for the next-to-last column reflect 1989 expenditures, they conceal some important trends in federal spending in the 1980's. The biggest increases in federal spending in the 1980's were in direct payments to individuals and in procurement, particularly military procurement. The category labeled "Grants to State and Local Governments" has declined in inflation-adjusted terms, as a share of the federal budget, and as a share of state and local revenues. This category is the one with the most significant impact on the fiscal situation of state and local governments.

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Table 1
Flow of Federal Funds, 1989

	United States Total (in millions)	United States Per Capita	South Carolina Total (in millions)	South Carolina Per Capita	South Carolina Share 1981	South Carolina Share 1988
Total	$905,051	$3,682	$11,982	$3,453	1.2%	1.3%
Grants to State and Local Govts.	117,740	479	1,454	419	1.1	1.2
Salaries/Wages	141,829	577	2,533	730	2.0	1.8
Direct Payments to Individuals	448,838	1,826	5,632	1,623	1.2	1.3
Procurement	159,281	648	2,151	620	0.8	1.4
Other	37,116	151	212	61	0.7	0.6

Source: U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, Volume II; U.S. Department of Commerce, Bureau of the Census. Federal Expenditures by State for Fiscal Year 1982.

While federal expenditures in the state fall below the national average, state residents also pay less than average amounts of federal income tax. In 1987-89, South Carolinians contributed an average of $8,827 million each year in federal taxes, or $2,273 per capita. South Carolina accounted for 1.03 percent of federal tax revenues. If federal taxes are subtracted from federal expenditures within each state, South Carolina is a "receiving state" to the tune of $2.3 billion or $655 per capita, ranking 35th out of the 50 states. While federal spending in the state is relatively low, federal taxes paid by South Carolinians are even lower compared to other states because of low per capita income.[2]

Intergovernmental Revenues

Federal grants are categorized in the federal flows of funds accounts by the originating cabinet department. The largest single group of grants flowing to South Carolina in 1989 originated in the Department of Health and Human Services, with a total of $627 million. Other major grants came from the Departments of Transportation ($220 million), Agriculture ($172 million), Education ($160 million), and Housing and Urban Development ($135 million).[3]

From 1980 to 1988, federal grants to state and local governments increased in nominal terms from $90.8 billion to $114.6 billion, an increase of only 12.6 percent in eight years. This increase is considerably smaller than the inflation rate for the same period; the GNP price deflator for the state and local sector rose about 65 percent during the same period, so that in real terms the value of federal grants declined by about 40 percent. The chief casualty was federal Revenue Sharing, followed by housing grants. The number of categorical programs fell from 534 in January 1981 to 478 in 1989, while the number of block grants increased from 4 in 1981 to 14 in 1989. Thus, reduced funding has been accompanied by somewhat greater flexibility in the use of grant funds. Table 2 provides an overview of changes in federal grants overall and specifically in South Carolina.

The largest share of these funds goes to the state. In 1986, about 18 percent of total federal grants went to local governments directly. In South Carolina, $177 million of the total of $1,305 million, or 14 percent, went to local governments. The smaller share for South Carolina local governments reflects the absence of large cities, which receive a disproportionate share of federal aid to local governments. The 18 percent local share in 1986 represented a significant drop from earlier periods; for example, in 1981, 24 percent of federal aid went directly to local governments. Part of the shift has been due to the termination of General Revenue Sharing (GRS). In 1981, the last full year of both state and local General Revenue Sharing, 89 percent of South Carolina's GRS funds went directly to local governments.

Table 2
Federal Grants to State and Local Governments 1981-1988

	To All States			To South Carolina	
Year	Total ($ bil)	As % of State-Local Revenues	As % of GNP	Total ($ mil)	As % of State-Local Revenues
1981	$94.8	24.7%	3.2	$1,009	
1982	88.2	21.6	2.8	1,042	
1983	92.5	21.3	2.8	1,112	23.2%
1984	97.6	20.9	2.6	1,169	19.3%
1985	105.9	20.9	2.7	1,324	19.6%
1986	112.4	20.3	2.7	1,322	19.3%
1987	108.4	18.3	2.4	1,357	17.8%
1988	115.3	18.2	2.4	1,477	18.0%
1989	121.8	NA	2.4	NA	NA
1990	133.8	NA	2.4	NA	NA

Sources: U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1989, Volume II; U.S. Department of Commerce, Bureau of the Census, Federal Expenditures by State for Fiscal Year 198x (various years); and Government Finances, various years.

The State-Local Relationship

While states have a degree of sovereignty independent of the federal government, local governments are creatures of the state. The state's role begins at the creation point. Most states have counties (a few have only townships, and Louisiana has parishes); their boundaries and operating regulations are set by the state. The criteria for incorporation of cities and towns and the issuance of city charters is also a state role. Home rule cities exist in a number of states, with a substantial degree of autonomy from the state, but there is no provision for a home rule charter in South Carolina. Counties have acquired some degree of autonomy from the legislature more recently than municipalities, and still enjoy less freedom in most cases.

Finally, states vary widely on the rules governing creation of special purpose districts and the taxing powers and service functions they are granted. In South Carolina, special purpose districts include the 91 school districts as well as a number of water and/or sewer districts, fire districts, and other special districts providing a particular local public service or services to a defined area. While some counties have multiple school districts, the districts, in most cases, do not cross county lines.

School districts are generally under some degree of state control, and public education always receives some share of state funding. The two tend to go hand in hand, with state control and funding at minimal levels in some states, such as Connecticut, and virtually total state control and funding in others, such as Hawaii. The structure of school boards in South Carolina (the number of members and the division of seats into districts and/or at large) is established at the state level for each county.[4]

A final option for providing local services in South Carolina is the local special tax district, which is created by the county to provide certain local municipal-type services in a designated area of the county. The special tax district may be single purpose or multipurpose. The additional services provided over and above those the county provides for all residents are financed by an additional county tax levied only in the special tax district. Potentially, a multipurpose special tax district could be quite similar to a municipality, but would lack both access to state-shared revenues and ordinance-making authority.

The single-purpose tax district is most likely to provide either water or fire protection. A multipurpose tax district is best suited to a transitional area not yet dense enough to incorporate into a city. Since special tax districts are creatures of the county, the state has little interest in what they do as long as they do not attempt to exercise powers reserved to cities and special purpose districts. In general, other special purpose districts (such as water and sewer districts) are governed by locally elected officials with considerable autonomy, but few have the power to tax in South Carolina.

The Fiscal Dimension

Fiscally, most states specify the kinds of taxes that local governments can use (and perhaps participate in their administration); delineate a range of functions that various types of local governments can perform, including some that are mandated and others that are optional; and put some kind of constraints on their bonded indebtedness.

South Carolina offers a relatively limited degree of autonomy in fiscal and other matters to general purpose local governments (cities and counties). A measured degree of home rule was reluctantly granted to counties after the 1970 reapportionment. Prior to that time, counties had been governed by their legislative delegations, or the senator and representatives from their county. Even the 46 county budgets were passed by the General Assembly as "supply bills." When reapportionment resulted in multi-county state senate districts, and some crossing of county lines in house districts as well, the notion of an identifiable county delegation was lost. Counties were given four options for a form of government, and by the late 1970's the counties were launched on a more autonomous path, but still with varying legislative constraints.

Even after home rule, the state retained considerable control in a number of ways. Despite repeated attempts, little progress has been made in allowing local general purpose governments to tap other tax sources besides the property tax. The accommodations tax in the early 1980's is administered by the state and returned to the point of origin. However, although the tax provided additional local revenue, it was not a local tax in any meaningful sense because there was no local option on whether to use it or not, and local governments were constrained in how most of the funds could be used.

A second effort to expand local tax revenue sources began in the mid-1980's with a bill offering a menu of six alternative tax sources. By the time the bill was finally enacted in early 1990, the six options had been reduced to one, a local sales tax. Even with this proposal, which granted more local autonomy than the accommodations tax, there were legislative constraints requiring a property tax rollback and sharing from high-revenue to low-revenue counties (see Chapter 7 for details).

Another form of state control over local fiscal operations is the ceiling on bonded indebtedness embodied in the Constitution. The constitutional ceiling is 8 percent of the jurisdiction's assessed property value. Tying the ceilings to the value of taxable property is something of an anachronism, given the diminishing importance of the property tax as a local revenue source both nationally and in South Carolina. The ability to service debt is a function of regular revenues from all sources. When borrowers other than local governments seek loans, the lender is more concerned about the size and stability of the borrower's income than a particular class of income-producing assets. While property taxes remain the principal tax revenue source, local governments derive considerable revenue from fees and charges and intergovernmental revenues. The property tax provides only 28 percent of local revenues across the nation and 27 percent in South Carolina. The South Carolina ACIR has recommended exploring alternative forms of limitation tied to income rather than to assessed value of property.[5] Currently, however, local governments have been quite creative in evading the ceiling through sale-leaseback and other mechanisms.

Until some city and county governments adopt the local sales tax, the only tax revenue source over which they have any direct control is still the property tax. (If the business license is considered a tax, then there are two local tax revenue sources.) Of the 91 school districts in South Carolina, 52 enjoy full or partial autonomy, i.e., they may set the mill rate that determines their local revenues for the next fiscal year. (This issue is explored in greater detail in Chapter 7.) All cities and counties are free to set their own mill rates, although the assessment ratios for various classes of property is established in the state constitution.

Measuring Fiscal Centralization

Centralization of revenues and/or expenditures varies greatly from state to state. The optimal mix is not clear; the benefits of local choice and accountability must be weighed against the need for some minimum level of services and the benefits of fiscal equalization with a larger state role. One way to measure the relative roles of state vs. local governments in providing public services to citizens is the percentage of combined state and local revenue collected by the state. If that share is high, the state is exerting strong control in one of two ways. The control may be direct, with the state assuming responsibility for providing services. Alternatively, the state's control may be more indirect, by funding local government budgets (city, county, and school district) through state shared revenues. In 1987, 65.3 percent of all state and local revenue was collected by the state in South Carolina, compared to national average of 34.7 percent. Only six states ranked higher than South Carolina in centralization of revenues, which is a strong indicator of the degree of state control. The state's share has remained relatively constant since 1959, while other states have become more centralized. In 1959, South Carolina as a state collected 73 percent of all state-local revenues against a national average of only 48.9 percent. Thus, fiscally, South Carolina has been and remains a highly centralized state.

A second measure of centralization is the division of funds after transfers, which reflects both federal and state aid to local governments. This measure considerably reduces centralization in both South Carolina and the nation. In South Carolina, 52.8 percent of state-local funds were spent at the state level and 47.2 percent at the local level in fiscal 1987. Nationally, the ratio favored local governments, 58.8 percent to 41.2 percent.

Another form of state control is through aid to subdivisions, or state-shared revenues, most of which are apportioned to local governments on a population basis. State-shared revenues constitute an important, if unreliable, source of revenue to general purpose local governments in South Carolina. State aid in South Carolina provided 34.9 percent of all local revenue in 1987, compared to a national average of 33.3 percent. The category "Aid to Subdivisions" (state revenues shared with cities and counties on a formula basis) accounted for 6.5 percent of all state general fund expenditures in that year. About a dozen taxes are tapped for part or all to be returned to counties and municipalities, primarily on a population basis. The formula for distribution is rarely fully funded, an issue addressed in more detail in Chapter 7.

The 6.5 percent of the general fund returned to general purpose local governments does not include expenditures for public (K-12) education, accounting for 37 percent of the state budget, much of which goes directly to local school districts. The funding of a large share of the cost of public education is probably the most significant fact in the entire state-local fiscal relationship in South Carolina. In many other states, a larger share of the cost of elementary and secondary education falls on locally raised revenues, particularly on the property tax.

Why is South Carolina so centralized? The origins of this pattern go back to Reconstruction and the 1895 Constitution, still in force although much modified in the last twenty years. The fact that the state was quite rural, with counties providing a modest level of local public services to a scattered population, also contributed to centralization. Control of local affairs, especially county affairs, was centralized in the legislature in the 1895 Constitution and remained highly centralized until changes were forced by reapportionment in the 1970's. County budgets were passed as state legislation until the mid-1970's, and the county delegation -- the members of the General Assembly from the county, headed by its senator -- served as each county's governing body. It was only when reapportionment of the state senate on the basis of population meant that there was no longer one senator from each county that some degree of county home rule had to be created.

Thus, fiscal autonomy for counties has only been around for a little more than a decade. Prior to that time, the distinction between state and local responsibilities was blurred, since both entities were run largely by the General Assembly.

State Mandates

A final form of state control over local budgets takes the form of state mandates. Some state mandates require a local government to provide or perform certain services, which the state may fund entirely, partially, or not at all. Others prohibit local governments from certain activities. A recent study by the South Carolina ACIR identified 608 such mandates.[6] Mandates affect localities unevenly, depending on their population, income, revenue sources, and competing demands on their resources. Mandates often replace locally set priorities with priorities set at the state level. The state, in turn, receives mandates from the federal government, but because the state enjoys a degree of sovereignty, those mandates are usually accompanied by some degree of financial aid.

Since 1983, legislation that requires expenditures by local governments must be accompanied by a "fiscal note" explaining the impact of the mandate on the revenues and/or expenditures of the local government. While this does not provide revenue to pay for mandates, it should provide a deterrent to excessive use of mandates without considering the cost. However, adherence to the fiscal note requirement has been sporadic at best.

Summary

As one of 50 states in a federal system, South Carolina enjoys considerable fiscal autonomy in both the revenue sources it can tap and the mix of activities it undertakes. The state is influenced heavily by federal spending, federal use of certain revenue sources, and federal mandates requiring the state to undertake certain activities. The state in turn exercises a far greater degree of fiscal influence over its local governments (cities, counties, and school districts), determining what revenue sources they use, how much debt they can incur, what functions they may (or must) carry out, and how much of state funds are spent for local public education and for aid to subdivisions. South Carolina exercises a much greater degree of control over its local governments than in most other states.

ENDNOTES

[1] U.S. Advisory Commission on Intergovernmental Relations, Local Revenue Diversification: Local Sales Taxes, (Washington, D.C., 1989); and Paul G. Merski, Federal Tax Burden by State, Tax Foundation, (Washington, D.C., May 1990), pp. 4-6.

[2] Elliott Dubin, "Distribution of Federal Taxes and Expenditures: Urban vs. Rural States," paper presented at the Southern Regional Science Association, March 22, 1990, Washington D.C. Dubin sees the reduced progressivity of the federal tax system as reducing the amount of redistribution from rich to poor states in the future.

[3] U.S. Department of Commerce, Bureau of the Census, Federal Expenditures by State for Fiscal Year 1989, (Washington, D.C., March 1990), Table 2, pp. 2-14.

[4] There are 13 appointed, or partially appointed, school boards in seven counties. In all other districts, the board is locally elected and accountable to local voters. The legislative delegation must approve the school tax levy in eight districts in six counties. The county council must approve the levy in 26 districts in 18 counties. A town meeting is required in four districts and a referendum in one district. School boards in 22 districts have an unlimited taxing authority while 30 districts have limited authority.

[5] Janet M. Kelly and Jeffrey R. Clements, Investing in the Future: A Reconsideration of Local Government Debt and State Constraints (Columbia: South Carolina Advisory Commission on Intergovernmental Relations, 1989).

[6] Janet M. Kelly, State Mandated Local Government Expenditures and Revenue Limitations in South Carolina (Columbia: South Carolina Advisory Commission on Intergovernmental Relations, June 1988).

Chapter 4: Interstate Fiscal Comparisons

Purpose and Scope

Like the other forty-nine states and the District of Columbia, South Carolina operates in an open economy. That is, the state is generally not free to establish any significant legal or institutional barriers limiting the movement of commodities and/or resources (e.g., labor, capital) across its borders. Thus, for example, South Carolina cannot establish tariff barriers or migration controls in order to shape its economic, social, and demographic environment.

What the people of South Carolina can do is influence the character of the state through its state and local government programs. The primary (though by no means only) tools for setting and trying to accomplish goals are the state and local budgets which, taken together, constitute a set of state-local government tax and expenditure policies.

However, because of the openness of the domestic U.S. economy, even South Carolina's own tax and expenditure arrangements cannot be made without considering the budget policies of the other states. As a result, a question that inevitably arises with respect to state and local fiscal policies is: How does our state compare with others in terms of the mix and level of public goods and services provided and the revenue sources that are used to pay for those activities?

Interstate fiscal comparisons are useful in understanding a state's basic fiscal structure and for comparing that structure to those of other states. During the 1980's, fiscal comparisons have become increasingly important because of the decrease in federal funds to state and local governments. Due to the decrease in total federal grants in aid to states and localities,[1] the reduction of federal deductibility of state and local taxes,[2] and other factors, fiscal disparities between wealthier and poorer states and localities have become more visible.[3] States in general, and poorer states in particular, are being forced to become more self-reliant in solving their fiscal problems.

Interstate fiscal comparisons are also a first step toward measuring a state's economic competitiveness. Because capital, labor, consumption, and other economic activity are mobile, policymakers often want to know if tax burdens are higher or lower in their state than in others. A state should know if certain fiscal policies are out of line with those of other jurisdictions with which they compete for mobile resources. Through the budget, policymakers may be able to influence certain economic developments, such as the creation of jobs. To increase employment and stimulate growth, a state may improve the transportation infrastructure or decrease corporate taxes to encourage outside investment. It is often the case that below-average taxes and spending are presented as evidence of a state's favorable business climate. However, such numbers may also suggest that public services are inadequate for attracting business.

While interstate fiscal comparisons may point out significant differences, additional information is needed before drawing conclusions and making policy decisions. Interstate differences in demographic characteristics or industrial structure, for example, may make it perfectly logical and beneficial for one state to pursue fiscal policies that are very different from another state's.

Methodology and Data

The methodology used in making fiscal comparisons involves selecting a set of indicators that are common to all the states in the study and then comparing their levels and trends. For this study, the indicators for South Carolina will be related to those of a select group of other states in order to illustrate relative differences.

Consistency

In order to make meaningful interstate fiscal comparisons, it is essential to apply consistent definitions and measurements across all states. One cannot rely directly on internal state budget documents or other financial reports for deriving interstate comparisons because the definition of various taxes and categories of expenditures will differ across the states.

On the expenditure side of the budget, for example, one state may categorize medical aid to the poor as spending on health services while another may treat such aid as a component of welfare spending. Similar types of discrepancies occur on the receipts side of the budget. Some states that impose gross receipts taxes on business activities may consider the tax to be in the nature of an income tax levy, while others treat it as part of their sales tax collections.

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Another fiscal characteristic that varies among states is the division of state and local responsibilities. Within states, taxing and spending responsibilities are delegated to different levels of government. Thus, to obtain consistent information, combined state and local data for revenues and expenditures are more appropriate for comparisons. Different states allocate similar taxes (and non-tax revenues) and expenditures to different levels of government. For example, what South Carolina may consider a local responsibility in its highway or education system may be treated as a state function in Georgia. Likewise, in some states, the sales tax may be solely a state revenue (e.g., South Carolina, Florida, Maryland, and West Virginia), while in other states, part of the sales tax may constitute an important source of local revenues (North Carolina, Georgia, Virginia, and Tennessee).[4]

This study uses data collected and compiled by the U.S. Bureau of the Census in order to ensure that the information is reported in a uniform fashion, facilitating comparisons across jurisdictions. Furthermore, the Census data permit aggregation of state and local data.[5]

Indicators

Comparisons can be made between states by looking at aggregated state and local Census data. However, very little can be deduced from a simple analysis of these numbers.

For instance, looking at total direct expenditures in Table 1, it is evident that Florida's state and local governments spend more than West Virginia's. In fact, Florida's outlays exceed West Virginia's by more than seven times. But, what do these numbers reveal about public outlay choices and the need for public services in these two states? Not much, because the two have different economies, demographics, and fiscal policies. To facilitate comparisons between states, expenditures and revenues must be divided by common denominators--the simplest of which are population and personal income.

The general revenue data also are difficult to compare among states because actual revenues do not reveal anything about the structure of a state's revenue system. For example, Table 4 shows that Virginia and North Carolina had almost the same level of revenue in 1982. This does not tell us if the two states had the same taxes, tax rates, or tax bases. It only informs us that revenue levels for the two states in that year were similar. However, by comparing their actual revenues with their tax capacity (a measure of revenue-raising ability),[6] one may learn more about Virginia and North Carolina's fiscal systems. The tax capacity index presented below will show that North Carolina has a lower overall tax base than Virginia. Since North Carolina collects almost as much as Virginia in revenues, it must therefore place a greater burden on its available tax bases.

Years

Because of the need to adjust data to ensure consistency, the published Census data lags behind the end of the fiscal year by about 18 months. Therefore, the most recent data available for most of the discussion that follows is for 1988. A lag in the data does not present a major problem when one is interested in comparing expenditure and tax systems among the states. Fiscal systems usually evolve gradually and continuously. Therefore, a historical view can often provide better information than a snapshot analysis that may reflect onetime actions designed to meet unusual or unexpected budgetary requirements.

Accordingly, many of the following data are presented over an eleven-year period. The period chosen begins in 1978 (corresponding with the beginning of the era of declining federal aid flows to the states), continues with 1982 (representing the recessionary period), and then includes 1987 and 1988 (the most recent years for which data are available). In a few instances, other time periods are used due to lack of data for the four years used in this chapter.

The Comparison States

To place South Carolina's fiscal position in context among the states, comparisons are made between South Carolina, the U.S. average, and seven other states. Florida, Georgia, Maryland, North Carolina, Tennessee, Virginia, and West Virginia are chosen because they are either geographically neighboring states, or in the same region. These states are most likely to compete directly with one another for residents, jobs, or industry-specific resources such as textiles, apparel, lumber, tobacco, and tourism.

Expenditures

It is appropriate to begin the examination of the South Carolina fiscal system by looking at the expenditure side of the budget.

There are two reasons for first analyzing spending. First, and fundamentally, governments tax in order to spend. That is, over time, the level of revenues will reflect the desired level of spending. For example, if government expenditures rise and fall in unpredictable ways, the legislature may resort to a series of uncoordinated revenue adjustments to address short-term financial needs without considering the long-run fiscal goals of the state. Second, the structure of the revenue system reflects spending behavior as well as taxing philosophies. Thus, spending patterns are an important determinant of the revenue-raising structure.

There are two important limitations of interstate expenditure comparisons. First, input costs, such as labor and the cost of land will vary from state to state. Second, some state and local governments are more able to attain economies of scale than others. Analysis of the relative input costs and economies of scale for the fifty states however, is beyond the scope of this chapter.

Level and Composition of Expenditures

Table 1 compares direct general expenditures (all spending other than intergovernmental expenditures,[7] utility, liquor store, and insurance trust spending) in three forms: (1) total dollar amount, (2) as a percentage of state personal income, and (3) as an index number (with the average of all states set equal to 100.0).[8] Personal income is used as a common denominator because it adjusts for the varying sizes of the economy in each state. The index of total expenditures as a percentage of personal income permits a comparison of the relative state ranking of each state to the national average and to the other states.

South Carolina's public expenditures as a percentage of personal income decreased between 1982 and 1988 from 20.7 percent to 17.7 percent. Despite the decrease, South Carolina remained slightly above the national average. The ratios of direct public expenditures to personal income for the other seven states basically follow the downward U.S. trend.

The index indicates that South Carolina is a high expenditure state relative to its total personal income when compared to the region and the U.S. However, South Carolina's expenditure index has fallen since 1982 from 106 to 102. Between 1982 and 1988, South Carolina's actual expenditures rose 6 percent faster than the national average while the state's personal income increased 7 percent more than the U.S. amount. Personal income increasing by a slightly faster rate than actual expenditures explains the state's decreasing expenditures as a percentage of personal income and declining index relative to the nation. South Carolina ranked fourth in direct public expenditures among states in the region in1982, behind Georgia, Tennessee, and West Virginia. By 1988, only West Virginia had a higher index rating.

Table 1
State and Local Direct General Expenditures as a Percentage of State Personal Income
Selected Fiscal Years 1978-1988

	1978			1982			1987			1988		
State	Total Direct Expenditures (in millions)	As a % of Personal Income	Index	Total Direct Expenditures (in millions)	As a % of Personal Income	Index	Total Direct Expenditures (in millions)	As a % of Personal Income	Index	Total Direct Expenditures (in millions)	As a % of Personal Income	Index
United States	$345,313.3	20.0%	100	$520,966.2	19.6%	100	$653,608.3	17.4%	100	$702,239.4	17.3%	100
South Carolina	3,611.3	19.6	98	5,805.0	20.7	106	7,263.6	17.6	101.2	7,957.5	17.7	102
Florida	11,414.3	16.9	85	19,269.6	16.3	83	28,270.5	15.1	86.9	31,513.6	15.4	89
Georgia	6,889.4	19.5	97	11,642.0	20.9	107	14,912.2	16.6	95.9	16,460.1	17.0	98
Maryland	7,002.7	19.8	99	9,837.0	18.1	92	12,527.4	15.2	87.4	13,648.1	15.2	87
North Carolina	6,834.9	18.4	92	10,526.9	18.8	96	13,324.9	15.6	89.7	14,734.6	15.9	92
Tennessee	6,323.2	22.0	110	9,040.7	21.0	108	10,086.8	16.0	92.2	10,972.4	16.2	93
Virginia	6,739.8	16.7	83	10,056.8	15.8	81	14,166.9	14.5	83.5	15,864.3	14.9	86
West Virginia	2,643.3	21.6	108	3,783.2	21.4	109	4,313.3	20.6	118.9	4,281.0	19.4	112

NOTE: 100.0 = U.S. Average

Source: ACIR staff computations using U.S. Bureau of the Census, Government Finances in 1977-78 (pages 34-50), 1981-82 (pages 35-51), 1986-87 (page 32), and 1987-88 (page 32) and the Bureau of Economic Analysis August editions of Survey of Current Business, August 1985, 1988, and 1989 (pages 18, 30, and 34, respectively)

Note: Expenditure information used in this table is for fiscal year 1988 (July 1, 1987-June 30, 1988) while personal income estimates are for calendar year 1988.

Table 2 presents per capita expenditures, and state and local government expenditures broken out by function. Despite South Carolina's high direct expenditure levels as a percentage of personal income (Table 1), the last column of Table 2 illustrates that South Carolina is 20 percent below average in total per capita spending. The state exceeds U.S. spending in health and hospitals and essentially equals the national level in higher education. In two categories, police and fire, and welfare, the state spending is a little more than half the U.S. average. Highway expenditures are 73 percent of the nation's. Also, elementary and secondary education is approximately 90 percent of national levels.

South Carolina's below-average per capita direct expenditure level is not unusual for the region, though. Maryland is the only state in the region that is above the U.S. average. North Carolina, Tennessee, and West Virginia have virtually the same per capita expenditure level as South Carolina. Three other states, Florida, Georgia, and Virginia, are roughly 10 index points above South Carolina but still well below the national level. Relative to the seven states, South Carolina's per capita spending is second highest in health and hospital per capita outlays; average among the states in elementary, secondary, and higher education; second lowest for police and fire; and lowest in per capita expenditures for public welfare and highways.

Table 2
Per Capita Spending and Percentage Distribution Among Expenditure Functions Selected States, 1987-88

State	Total Direct Expenditures (in millions)	Elementary & Secondary Education Direct	(A)	Higher Education Direct	(A)	Public Welfare Direct	(A)	Health & Hospitals	(A)	Direct Highways	(A)	Direct Police & Fire	(A)	Other	(A)	Total Per Capita	Index
United States	$702,239	$690	100.0%	$255	100.0%	$352	100.0%	$252	100.0%	$226	100.0%	$155	100.0%	927	100.0%	$2,857	100%
South Carolina	$7,958	$628	91.0%	$253	99.2%	$188	53.4%	$327	129.8%	$166	73.5%	$87	56.1%	645	69.6%	$2,293	80%
Florida	31,514	616	89.3	149	58.4	197	56.0	246	97.6	218	96.5	175	112.9	954	102.9	2,555	89
Georgia	16,460	687	99.6	195	76.5	261	74.1	453	179.8	209	92.5	120	77.4	670	72.3	2,595	91
Maryland	13,648	687	99.6	268	105.1	336	95.5	123	48.8	299	132.3	172	111.0	1,068	115.2	2,953	103
North Carolina	14,735	609	88.3	307	120.4	219	62.2	216	85.7	189	83.6	107	69.0	623	67.2	2,271	79
Tennessee	10,972	475	68.8	216	84.7	302	85.8	280	111.1	205	90.7	103	66.5	661	71.3	2,242	78
Virginia	15,864	700	101.4	281	110.2	202	57.4	243	96.4	289	127.9	140	90.3	782	84.4	2,637	92
West Virginia	4,281	632	91.6	190	74.5	261	74.1	154	61.1	277	122.6	59	38.1	709	76.5	2,282	80

NOTE: 100 = U.S. Average

(A) = State expenditures for the function as a percent of U.S. expenditures.

Source: ACIR staff computations using U.S. Bureau of the Census, Government Finances in 1987-1988 pages 99-100.

Table 2A
South Carolina Per Capita State and Local Direct General Expenditures and Percent Distribution by Functional Category Selected Years

	1982		1987		1988	
Function	Per Capita	% of State Total	Per Capita	% of State Total	Per Capita	% of State Total
U.S. Total	$1,914		$2,685		$2,857	
Total	$1,474	100.0%	$2,121	100.0%	$2,293	100.0%
Education						
Elementary & Secondary	463	31.4	617	29.1	682	29.7
Higher Education	187	12.7	267	12.6	253	11.0
Highways	71	4.8	134	6.3	166	7.2
Public Welfare	151	10.2	181	8.5	188	8.2
Health & Hospital	205	13.9	295	13.9	327	14.3
Police & Fire	61	4.1	84	4.0	87	3.8
Sewerage & Sanitation	45	3.1	65	3.1	75	3.3
Local Parks & Recreation	40	2.7	23	1.1	26	1.1
Government Administration	70	4.7	91	4.3	103	4.5
Interest on General Debt	44	3.0	105	5.0	104	4.5
Other Expenditures	137	9.3	259	12.2	282	12.3

Source: U.S. Bureau of the Census, Government Finances in 1987-1988, 1986-1987, and 1981-1982

While Table 2 shows the distribution of expenditures for the most recent year, Table 2A describes changes in South Carolina's outlays over time. Per capita expenditures for nine of the ten categories increased from 1982 to 1988 (local parks and recreation is the exception). Over this time period, highways and interest on general debt expenditures rose as a percentage of the state total; spending for government administration, police and fire, sanitation and sewerage, and health and hospitals remained relatively constant; and elementary and secondary and higher education, public welfare, and local parks and recreation claimed a declining share of total state spending.

Per Capita vs. Personal Income

The per capita and personal income numbers offer two different pictures of South Carolina. In Table 1, South Carolina appears to provide an average level of expenditures. At the same time, Table 2 illustrates that the state's expenditure level is far below the nation's average per capita outlay. Which is the accurate depiction of South Carolina's expenditure system?

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In order to come to some sort of conclusion, several additional questions need to be raised about the information in Table 1. Is South Carolina above average for expenditures as a percentage of personal income (Table 1) because it has high public outlays, low personal income, or both? It is difficult to answer whether the state has a high level of spending relative to other states without converting expenditures into per capita numbers. As shown in Table 2, South Carolina's per capita expenditure index is 80, well below the national average.

However, the state also has a low level of personal income. South Carolina's ranks 38th out of the 50 states in per capita personal income. Its corresponding per capita personal income index level is 78.[9]

The per capita measures of expenditures and personal income explain why South Carolina appears to be above average in expenditures in Table 1. In fact, both per capita expenditures and personal income are well below average. However, relative to the national average, personal income is slightly lower than expenditures. Therefore, South Carolina's ratio of expenditures to personal income is higher than the U.S. ratio.

Analysis

From Table 1, it is apparent that the state is spending an approximately average amount in proportion to personal income, 102 in the index. Thus, it is placing a slightly above-average tax burden on its citizens. At the same time, South Carolina's per capita expenditure index rating of 80 indicates that, relative to its population, it is spending less than the national average.

If the state wanted to increase outlays for certain functions it would be putting an above-average tax burden on its citizens.[10] An increase in South Carolina's population and income may alleviate some of this problem because economic growth will increase the state's ability to raise revenues. Economic growth would help the state to increase its outlays without raising taxes. South Carolina's economic and demographic transformations also could necessitate a reallocation of funds among functions. Learning about the state's fiscal trends will enable the state to better prepare for the changes that South Carolina is going through so that the system can make the necessary adjustments.

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Expenditure Needs

A new approach to the comparative analysis of state and local government expenditures offers further insights into questions about South Carolina's spending for specific types of programs versus what the state's need is for these programs. The approach involves the calculation of representative expenditures, that is, the amount a state would have to spend to provide the national average level of services to its citizens.[11] Representative expenditures measure a state's relative need for spending on a function-by-function basis. The essential idea behind the calculation is that the need for spending on a particular function in a state can be related to a variable or combination of variables, referred to as a workload measure.

When the representative expenditure approach originated, total population was the only variable used to estimate representative expenditures among the states. This approach assumed that since the size of expenditures will vary with population, the best available measure of need for spending in a category was total population.

Total population is still used as a significant variable in the new representative expenditure calculations. However, for many categories, other variables have been chosen that provide a more accurate measure of a state's need for certain functions. For example, the need for public welfare spending is assumed to depend more on the number of people living below the poverty line than on total population.[12] Therefore, the workload measuring a state's relative need for public welfare expenditures is the proportion of the total U.S. population living in households with income below the poverty line.[13]

Next, the number of South Carolinians in poverty is multiplied by the national average spending per workload unit.[14] The representative expenditure is expressed as an index comparing the level of state need relative to the national average (set equal to 100).

To illustrate the application of the representative expenditure system to South Carolina, a comparison of actual and representative expenditures (both per capita) for public welfare will be discussed[15] using Table 3.

Because South Carolina contained a greater than average proportion of low-income people in 1987 (the workload for public welfare), its representative need for welfare expenditures is 27.4 percent greater than the U.S. average.[16] Although South Carolina's needs exceeded the national average, its actual outlays for public welfare were 34.9 percent below average.[17] A high level of need combined with a low level of expenditure results in actual spending consisting of 43.2 percent of the representative need for expenditures. Table 3 shows actual outlays as a percentage of representative amounts for each functional category. The results illustrate South Carolina's higher per capita spending for higher education and health and hospitals, and lower per capita spending for primary and secondary education, public welfare, highways, and police and corrections relative to its need for spending in those functions.

Table 3
Actual Direct General Expenditures By State and Local Governments in Selected States As Percentages of Representative Expenditures By Function, Fiscal Years 1986-87

State	Total	Elementary & Secondary Education	Higher Education	Public Welfare	Health & Hospitals	Highways	Police & Corrections	All Other Expend.
United States	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
South Carolina	71.9%	77.5%	101.8%	43.2%	111.1%	54.9%	70.2%	64.8%
Florida	90.7	105.2	59.3	49.6	98.7	89.4	106.7	101.2
Georgia	80.0	84.2	73.8	49.4	158.8	76.6	70.6	71.4
Maryland	109.3	108.2	102.9	123.5	53.3	131.6	116.2	115.2
North Carolina	73.7	83.1	114.7	52.7	79.6	71.5	79.1	60.7
Tennessee	72.0	62.8	84.2	59.7	98.1	81.0	65.3	72.6
Virginia	90.0	101.2	103.0	62.9	96.9	107.4	91.1	80.2
West Virginia	80.1	84.1	77.4	70.0	52.1	129.7	44.2	85.3

Source: Unpublished estimates from Robert W. Rafuse, Jr., "Representative Expenditures: Addressing the Neglected Dimension of Fiscal Capacity", ACIR, 1989, pp. 38, 42, and 46.

Conclusions

South Carolina's actual spending index of 79 is low not only when compared on a per capita basis to the nation's but also relative to the regional average of 85.5.[18] On the other hand, its total representative need for expenditures of 109.9 is seventh in the nation and second in the Southeast. The combination of low actual spending and high needs for spending, illustrated in Table 3, results in South Carolina having the fifth lowest service level index rating in the nation of 71.9. This translates into South Carolina's total cumulative expenditures accounting for 72 percent of the state's need for public outlays.

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Revenues

Various tax and tax-related measures are used as indicators of fiscal performance. In general, these indicators rely on four basic estimates: population, personal income, size of tax base, and tax and revenue collections.[19] Combinations of these four variables can be used to make tax and revenue comparisons between South Carolina and other states.

These various measures highlight different aspects of South Carolina's fiscal position. The numerators of all the equations are either total tax collections or collections by each type of tax. Dividing the amount of collections by population, personal income, and the tax base makes it possible to compare state tax collections on a per capita basis or as a percentage of personal income. These ratios permit interstate comparisons of tax capacity (a state government's tax-raising ability), tax effort (how a government's tax collections compare to its taxing ability), and the changes in fiscal pressure over time.

Like any aggregate measures of fiscal performance, these tax and revenue indicators have several advantages and disadvantages.

There are two merits in using these indicators. The first is that the widespread use of these conventional measures enables fiscal systems to be compared consistently. Second, the indicators are easy to compute and to understand.

At the same time, these types of interstate tax and revenue comparisons are characterized by several inherent limitations and, therefore, should be interpreted with care:

1. Aggregate measures give no indication of the incidence of tax burdens. These measures do not indicate whether a tax system is progressive (tax rates increase as income increases), or regressive (tax rates decrease as income increases), or whether any taxes are exported to nonresidents (e.g., tourists).

2. The numerators (e.g., tax collections) and denominators (e.g., income, population) are assumed to be independent of one another. However, tax rates may influence the size of the tax base, and some income may have been created by the public sector (e.g., public outlays allocated to economic development).

3. The estimates for any particular year may not be representative of the tax or revenue system. For example, a state's tax revenues in a particular year could reflect a transitory revenue windfall or shortfall, or a temporary tax surcharge.

The total tax burden on a state's population does not tell the whole story about such concerns as taxpayer equity or favorability of the business climate. However, the same limitations apply to the data for all the comparison states, and when viewed over time, the comparisons can present a useful picture of how a specific state compares with others.

Overall Revenue Growth

Between 1978 and 1988, South Carolina's state and local government's revenue growth was 11 percent above the national average. As shown in Table 4, South Carolina's state-local own source general revenues in 1988 were over two and a half times their 1978 level. While the state's revenues were well above the U.S. level for this period, its growth rate was average among the comparison states (111 percent in South Carolina vs. 109.4 percent average for the other seven states). For the eleven-year period, Florida, Georgia, and Maryland experienced higher rates of revenue growth while Virginia's revenues grew at a rate comparable to South Carolina's.

However, knowing that a state's revenues have grown faster than the national average tells us little about the reasons for such growth or about the change in tax burdens in the state. Revenue increases may be due to changes in demographics, tax policy, economic conditions, or other factors that interact to affect tax yields.

Two obvious factors that affect overall revenue increases are population growth and personal income growth. A growing population will ordinarily lead to increased tax revenues to the extent that newcomers are subject to taxes already in place. At the same time, an increasing population will necessitate higher revenues to maintain the same level of per capita services.

Higher per capita personal income levels will increase revenues to the extent that taxes are levied on income or uses of income (i.e., consumption). As income increases, demand for public goods and services also may increase, requiring higher revenues.

The last two columns of Table 4 show how the two factors of population and income growth relate to the states' revenue growth. South Carolina's population grew by 20 percent over the eleven-year period, 7 percent above the national average, but only slightly higher than the regional level of 17.7 percent. South Carolina's personal income for 1978-1988 increased 6.3 percent more than the national average.

Although the growth of personal income exceeded the national average,[20] when income is put in per capita terms, the increase is less noticeable because of the population increase. Given that a significant expansion of the state's population accompanied the growth in personal income, a dilution of the per capita personal income would be expected. The above-average expansion in personal income and population resulted in the same percentage increase in per capita personal income for the U.S. and South Carolina. The parallel increase is illustrated by the last column in Table 4.

Table 4
State-Local General Revenue From Own Sources Selected Fiscal Years 1978-1988For South Carolina and Comparison States

(in millions)

State	1978	1982	1987	1988	% Change 1978-88	Change As % of U.S. Average	% Change in Pop. 1978-88	% Change in Per Capita Personal Income 1978-88
United States	$246,368	$369,236	$571,168	$609,543	147%	100%	13%	212%
South Carolina	$2,451	$3,810	$6,235	$6,749	175%	111%	20%	213%
Florida	8,227	13,348	24,910	28,265	244	139	42	225
Georgia	4,713	7,667	12,930	14,138	200	121	25	228
Maryland	5,237	7,404	11,473	12,635	141	98	11	232
North Carolina	4,550	7,098	11,926	12,984	185	115	16	221
Tennessee	3,612	5,106	8,177	8,930	147	100	13	216
Virginia	5,001	7,472	12,189	13,624	172	110	16	231
West Virginia	1,602	2,569	3,340	3,303	106	83	1	184

Source: U.S. Bureau of the Census, Government Finances in 1977-1978 (pages 18-26), 1978-1979 (page 95), 1981-1982 (pages 20-28), 1986-1987 (page 20), and 1987-1988 (page 20); and Survey of Current Business, August 1985 (page 18) and August 1989 (page 34).

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The last column also shows that six of the seven comparison states had higher growth rates for per capita personal income, West Virginia being the exception. Florida and Georgia maintained large increases in per capita personal income even with a fast-growing population. Maryland and Virginia attained large growth rates of per capita personal income with average population increases. Two other states, North Carolina and Tennessee, achieved above-average growth for the period. West Virginia saw its per capita income increase at a percentage well below the U.S. level.

Level of Revenues

Looking at total revenues among states without adjusting for differences in population and income causes the same comparison problems with revenues that existed in the discussion of expenditures. Tables 5 and 6 show state revenues in proportion to population and income. Using per capita revenue data allows meaningful comparisons of states with differing population levels and rates of population growth. Presenting revenues as a ratio of personal income adjusts for the varying levels of personal income and economic growth.

Revenues Per Capita

Per capita measures are easily computed and give a good overview of a state's tax system; however, they are weak measures of tax burden. Per capita measures treat all residents identically, regardless of their age, degree of economic dependence, taxpaying capability, or need for public services. For example, two states with the same level of collections and same number of residents but different mixes of retirees and workers appear to have the same tax burden. Due to their unique demographic characteristics, these states would be expected to have differing aggregate taxpaying capabilities and differing needs for public services. A per capita measure also fails to account for the tax burden effects of revenue collections from nonresidents (such as out-of-state workers, tourists, and commuters).

According to Table 5, South Carolina's per capita revenue gradually rose from 74.3 percent of the U.S. level in 1978 to 78.4 percent in 1988. Other states experiencing increasing per capita revenues relative to the U.S. average include Florida, Georgia, North Carolina, Tennessee, and Virginia. Except for Maryland, South Carolina's per capita revenues are comparable to those of the other six states in the region. While South Carolina remains far below the national average, the state is only slightly below the regional average of 86 percent.

Table 5
Per Capita State-Local Own-Source General Revenue
1978-1988 South Carolina and Comparison States

State	1978	% of U.S. Average	1982	% of U.S. Average	1987	% of U.S. Average	1988	% of U.S. Average	% Change 78-88	Change as % of U.S. Average
United States	$1,130	100%	$1,630	100.0%	$2,347	100.0%	$2,480	100.0%	119.5%	100.0%
South Carolina	$840	74.3%	$1,220	74.8%	$1,820	77.5%	$1,945	78.4%	131.5%	110.1%
Florida	957	84.7	1,370	84.0	2,072	88.3	2,291	92.4	139.4	116.6
Georgia	927	82.0	1,403	86.1	2,078	88.5	2,229	89.9	140.5	117.5
Maryland	1,264	111.9	1,756	107.7	2,530	107.8	2,734	110.2	116.3	97.3
North Carolina	816	72.2	1,207	74.0	1,860	79.3	2,001	80.7	145.2	121.5
Tennessee	829	73.4	1,112	68.2	1,684	71.8	1,824	73.5	120.0	100.4
Virginia	971	85.9	1,397	85.7	2,064	87.9	2,265	91.3	133.3	111.5
West Virginia	861	76.2	1,318	80.9	1,740	74.1	1,761	71.0	104.5	87.5

Source: U.S. Bureau of the Census, Government Finances in 1977-1978 (page 90) 1981-1982 (page 91), 1986-1987 (page 98), and 1987-1988 (page 97).

Revenues per $1,000 of Personal Income

State and local revenue in relation to personal income is a somewhat better measure of the variation of interstate burden than revenues per capita, because it captures an element of differential taxpaying ability among states. By focusing on resident income, however, this measure (like revenue per capita) ignores the tax burden by type of taxpayer and tax exporting. By failing to account for tax exporting, the ratio of revenues to income overstates the tax burden on the residents of energy-rich states, such as West Virginia, or popular tourist states, such as Florida, that can export a significant share of state and local taxes. Also, focusing on income as the denominator ignores the possibility that various other tax bases (such as property or sales) are changing at different rates from income.

South Carolina's revenue per $1,000 income rose 8 percent over the eleven-year period, peaking in 1988 at 1.2 percent above the national level. Florida, Georgia, North Carolina, and West Virginia all experienced growth rates above the national average, with North Carolina and West Virginia expanding at approximately the same rate as South Carolina. Four other states, including Florida, Georgia, Tennessee, and Virginia, were close to the U.S. level with the first two at 103 percent and the next two at 99 percent. Due to Florida's and South Carolina's large tourist industries and West Virginia's mineral wealth, their resident tax burden is probably overstated.

Conclusions

The data showing per capita revenues and revenues per $1,000 income raise questions similar to the ones asked after looking at per capita expenditures and expenditures per $1,000 income. Does the state have "average" revenues? Given that per capita revenues are well below average for the nation at 78.4, it is clear that South Carolina has a low level of collections. But if the state has a low level of collections, then why does it have a slightly above-average level of revenue per $1,000? The state's relatively low personal income provides the explanation. South Carolina's index level of 102 for revenue per $1,000 occurs because this ratio combines the low level of per capita revenues index (78.4) with a low per capita personal income index (78).

Table 6
State-Local Own-Source General Revenue
Per $1,000 Personal Income
1978-1988South Carolina and Comparison States

State	1978 Per $1,000	1978 % of U.S. Average	1982 Per $1,000	1982 % of U.S. Average	1987 Per $1,000	1987 % of U.S. Average	1988 Per $1,000	1988 % of U.S. Average	1978-88 Tax Burden Change Per $1,000
United States	$162	100.0%	$153	100.0%	$162	100.0%	$162	100.0%	0
South Carolina	**$151**	**93.2%**	**$150**	**98.0%**	**$163**	**100.6%**	**$164**	**101.2%**	**13**
Florida	146	90.1	129	84.3	146	90.1	151	93.2	5
Georgia	155	95.7	154	100.7	158	97.5	159	98.1	4
Maryland	167	103.1	151	98.7	152	93.8	154	95.1	(13)
North Carolina	139	85.8	138	90.2	151	93.2	152	93.8	13
Tennessee	145	89.5	131	85.6	142	87.7	143	88.3	(2)
Virginia	142	87.7	133	86.9	137	84.6	140	86.4	(2)
West Virginia	144	88.9	157	102.6	165	101.9	158	97.5	14

Source: U.S. Bureau of the Census, Government Finances in 1977-1978 (page 94) 1981-1982 (page 95), 1986-1987 (page 102), and 1987-1988 (page 101).

An index level of 101.2 for revenues per $1,000 of personal income indicates that, as a whole, the people of South Carolina are already incurring an average tax burden. In order to raise its revenues closer to the national average the state would have to raise the tax burden on its citizens above the U.S. level.

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Tax Mix

A state's tax mix is the relative contribution of various revenue sources to the overall tax burden. Table 7 compares South Carolina's revenue system with those of other states. The data illustrate the extensive diversity of state-local tax systems, reflecting differing economic bases and political preferences. The clearest example of this diversity is in the case of the income tax.[21] Six of the eight states in the region obtain a substantial portion of their state revenues from income taxes, between 17 and 27 percent of the state total. However, only 2.2 and 4.8 percent of Florida's and Tennessee's state revenues come from income taxes. The low income tax revenue in these states is made up in sales taxes, which account for almost a quarter of Florida's revenues and a third of Tennessee's.

Table 7 also describes the allocation of revenue responsibilities between the state and local governments. The states' different approaches are exemplified by the fact that state revenues comprise between 48 and 68.5 percent of the total state-local revenue system. South Carolina is on the high end of this spectrum, with 65.3 percent of its revenues originating at the state level. The remaining 34.7 percent of revenues is raised by local governments.

Of all the states in this analysis, the state-local revenue systems of South Carolina, Georgia, and West Virginia are the most evenly diversified between sales, income, and property taxes. The other comparison states have either high income tax revenues, as in North Carolina, Maryland, and Virginia, or low income taxes, as in Florida and Tennessee. In addition, it is interesting to note that every state in the region has property tax revenues below the national average.

Overall, South Carolina's state and local revenue mix generally follows the U.S. average. The only noticeable distinction is that the state collects a large percentage of its revenues from state sources, 65.3 percent versus the U.S. level of 55.5 percent.

Tax Capacity and Tax Effort

Tax mix describes a state's sources of state-local revenues; however, it does not take into account states' varying capacities to raise revenues from those sources. Tax capacity (the revenue-raising ability of a state) depends on the underlying economic bases in a jurisdiction, such as mineral wealth, consumption of particular goods or services, income levels, and property values. For example, two states that raise the same amount of revenue through the property tax but have different aggregate property tax values do not place the same burden on that tax base.

Table 7
Percentage Composition of State-Local Own-Source Revenues
FY88 South Carolina & Comparison States

	STATE REVENUES						LOCAL REVENUES					
State	Total State Revenues	General Sales Tax	Income Taxes	Severance Taxes	All Other Taxes	Charges & Misc. Revenues	All Local Revenues	Property Taxes	All General Sales Tax	Charges Other Taxes	& Misc. Revenues	Total General Own-Source State-Local Revenues
United States	55.5%	14.3%	16.7%	0.7%	11.6%	12.2%	44.6%	20.9%	3.0%	4.3%	16.4%	100.1%
South Carolina	65.3%	18.5%	19.9%	0.0%	12.5%	14.4%	34.7%	16.3%	0.0%	1.5%	16.9%	100.0%
Florida	48.3	24.3	2.2	0.3	13.8	7.7	51.7	20.8	0.0	16.4	14.5	100.0
Georgia	48.0	13.1	20.3	0.0	7.5	7.1	52.1	17.7	5.0	3.4	26.0	100.1
Maryland	58.6	11.3	21.7	0.0	13.1	12.5	41.4	17.4	0.0	13.0	11.0	100.0
North Carolina	63.9	12.5	26.9	0.0	13.8	10.7	36.0	14.9	5.7	0.8	14.6	99.9
Tennessee	53.2	24.0	4.8	0.0	14.3	10.1	46.7	14.9	7.2	2.8	21.8	99.9
Virginia	59.0	8.7	22.7	0.0	18.4	9.2	41.1	20.8	2.9	5.8	11.6	100.1
West Virginia	68.6	16.3	17.3	3.9	15.4	15.7	31.4	12.9	0.0	3.1	15.4	100.0

Source: U.S. Bureau of the Census, Government Finances in 1987-1988, pages 45-96, and State Government Tax Collections in 1988, page 3.

The Advisory Commission on Intergovernmental Relations (ACIR) has developed a methodology that measures each state's tax capacity on an aggregate and tax-by-tax basis. The Representative Tax System (RTS) approach calculates tax capacity in each state by applying national average tax rates to a uniformly defined set of commonly used state and local tax bases.[22] The varying tax capacities in each state reflect the differences in the underlying tax bases and do not depend on whether a base is taxed, or at what level a state actually taxes a particular base. Once capacity is calculated, the tax burden, or effort[23] placed on each base is computed by dividing actual collections in the state by its hypothetical capacity.

Tax Capacity

The tax capacity index measures relative taxing potentials of any one state and local system among the states. Thus, a state with an index larger than 100 has an ability to raise more revenue than the average representative state. RTS tax capacity and tax effort data for South Carolina and comparison states are presented in Table 8 and Chart 1.

The data show that between 1979 and 1988 South Carolina's total tax capacity rose from 76 to 79 percent of the U.S. average. Relative to the other forty-nine states and the District of Columbia, South Carolina ranks 44th in total tax capacity. Of the states in the region, South Carolina ranks seventh of eight, with only West Virginia having a slightly lower tax capacity. Florida, Maryland, and Virginia are slightly above the national average in tax capacity. In decreasing order, the remaining states are Georgia, North Carolina, Tennessee, and West Virginia.

Except for West Virginia, all the states in the region experienced increasing tax capacity between 1979 and 1988. This pattern could reflect the above-average population growth, which occurred throughout most of the region, resulting in an increasing income tax base. However, different age groups will have a varying effect on tax bases. For example, a growing retirement population will have a different effect on the tax base than an infusion of young adults. In addition, the movement of industries to the sunbelt states in the Southeast have increased corporate tax bases.

Table 8
RTS Tax Capacity and Tax Effort Indices 1979-1988
South Carolina and Comparison States

State	1979 Tax Capacity	1979 Tax Effort	1982 Tax Capacity	1982 Tax Effort	1985 Tax Capacity	1985 Tax Effort	1986 Tax Capacity	1986 Rank	1986 Tax Effort	1986 Rank	1988 Tax Capacity	1988 Rank	1988 Tax Effort	1988 Rank
United States	100	100	100	100	100	100	100		100		100		100	
South Carolina	76	91	74	96	77	95	79	(44)	94	(31)	79	(44)	96	(25)
Florida	100	78	104	72	103	76	105	(15)	77	(49)	104	(18)	82	(49)
Georgia	81	96	84	96	90	90	94	(27)	89	(38)	94	(27)	89	(38)
Maryland	99	109	100	106	105	101	108	(13)	99	(19)	109	(12)	108	(9)
North Carolina	82	91	82	94	86	93	88	(37)	92	(32)	91	(31)	93	(32)
Tennessee	81	87	77	86	83	82	84	(42)	84	(44)	84	(39)	83	(48)
Virginia	93	88	94	90	98	87	101	(18)	85	(42)	104	(17)	91	(34)
West Virginia	92	82	92	86	77	103	76	(47)	98	(23)	78	(46)	88	(43)

Source: U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, pp. 32, 132, and 133.

It is apparent that the meager increase in population in West Virginia and the heavy dependence on one mature industry has had an adverse effect on its tax capacity. These results illustrate the sensitivity of the RTS tax capacity measure to the varying and changing economic bases of each state.

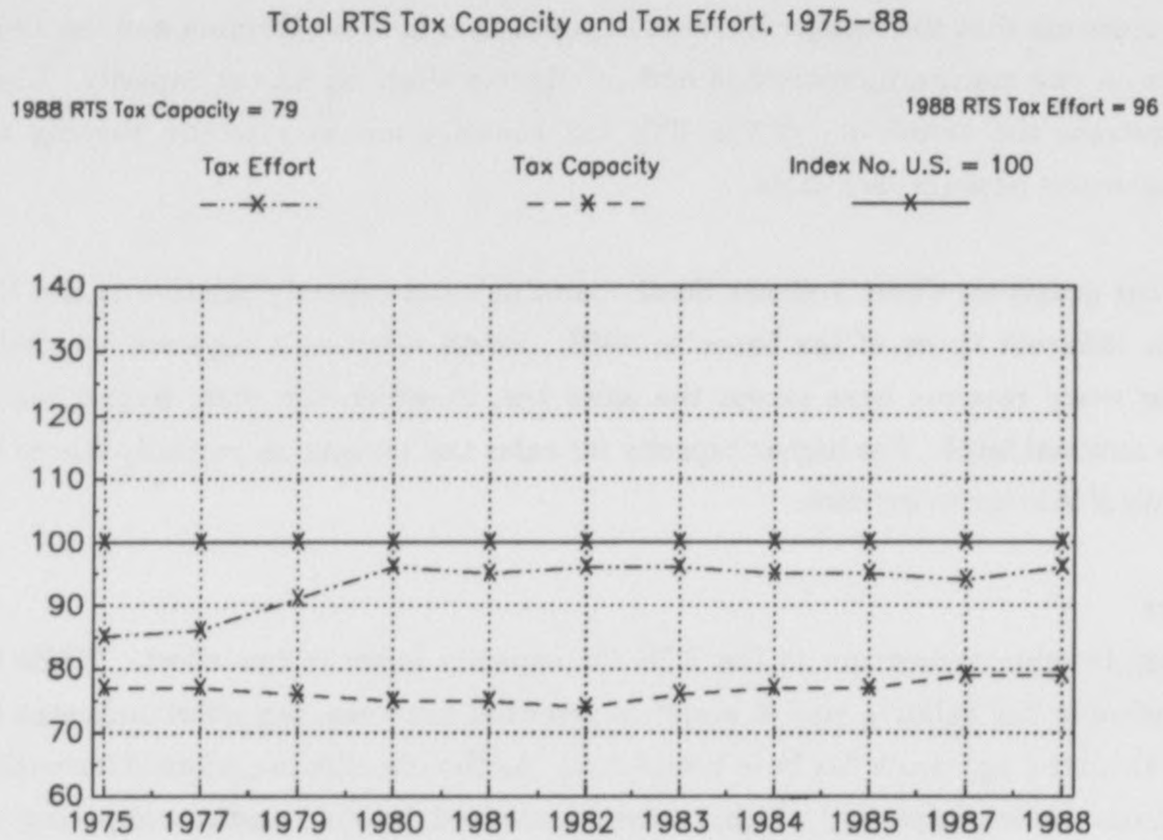
The bar graph on Chart 1 shows South Carolina's tax capacity relative to the U.S. average for different types of tax bases in 1988. South Carolina's capacity was below average for every revenue base except the sales tax, in which the state approximately equals the national level. The higher capacity for sales tax revenue is partially due to the exportability of this tax to tourists.

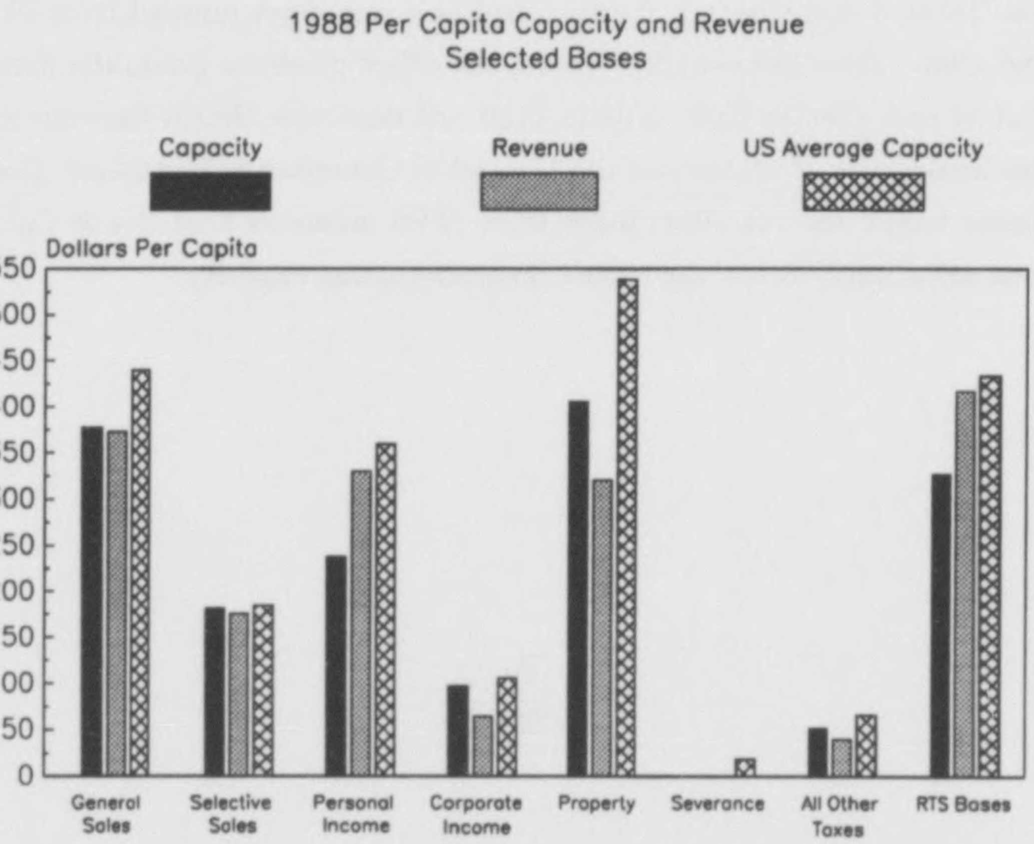
Tax Effort

A complementary measure to the RTS tax capacity index is tax effort. While tax capacity refers to the relative size of a state's potential tax base, tax effort indicates the degree to which the aggregate tax base is exploited. Arithmetically, tax effort is the ratio of tax collections to tax capacity, which is then converted into an index comparing the individual state's tax effort to the national level.

As shown in Table 8 and Chart 1, South Carolina's tax effort jumped from 91 to 96 between 1979 and 1982. Over the next four years, the effort measure gradually decreased to its 1986 level of 94 and climbed back to 96 in 1988. At that rate, South Carolina ranked 25th in the nation among the 50 states and the District of Columbia in tax effort. Given its underlying economic bases, the tax effort index level of 96 indicates that South Carolina's revenue collections are slightly below the state's revenue-raising capacity.

Chart 1





Source: U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, p. 111.

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Relative to the comparison states, South Carolina has the second highest tax effort. Maryland is the only state in the region with a higher tax effort index. One other state, North Carolina, has a tax effort comparable to South Carolina's. The rest of the states, listed in descending order according to their tax efforts are Virginia, Georgia, West Virginia, Tennessee, and Florida.

Some possible explanations for these states' tax efforts can be deduced. For example, Maryland's tax effort ranking as highest in the region and ninth nationally can be partially explained by the intense use of the income tax in a state with the fifth highest per capita personal income. Conversely, despite Florida's high tax effort for severance tax[24] and ability to export sales taxes, the state has the lowest tax effort. Its low effort is primarily caused by the fact that the state makes no use of its high tax capacity for personal income.

Tax Effort by Revenue Source

South Carolina's overall tax effort index of 96 does not indicate that the tax effort placed on every revenue base is also slightly below the national average. Table 9 presents the 1988 tax effort index for eight selected revenue bases. In fact, the intensity of use of these revenue sources vary considerably from the state average. South Carolina's individual income tax effort index of 139, for example, is far above the U.S. average. Except for Florida and Tennessee, which have only nominal income tax efforts, however, South Carolina's actual income tax collections are only slightly above average for the region. Effort is high because average collections are obtained from a below average income tax capacity.

User charges in South Carolina are 12th in the nation, at 134. In the Southeast, only Georgia places a greater effort on this base.[25] At indexes of 99 and 97, South Carolina's sales and selective sales tax efforts are the closest of all the bases to the state's total effort.

Of the revenue sources that fall well below the average national burden, property and corporate income tax are the most notable. South Carolina's corporate income tax effort is fourth in the region and 31st nationwide. The property tax effort is low relative to the nation as a whole, but is average when compared to neighboring states. The state's license tax has the lowest tax effort index at 60, and the state does not collect any revenues from mineral wealth (severance taxes).

Policy Implications

Table 9 is particularly useful for comparing South Carolina's tax burdens on specific taxes with those of other states in the region. Because the effort index for each state are calculated relative to a standardized capacity, the table presents a picture of how intensively each state taxes its potential bases compared to the other states. A state may then be seen to be underutilizing or overworking a particular tax relative to the national average.

Table 9
1988 Effort Indices for Selected Revenue Bases
South Carolina and Comparison

State	Total RTS	(Rank)	General Sales Tax	(Rank)	Total Selective Sales Taxes	(Rank)	All License Taxes	(Rank)	Individual Income Taxes	(Rank)
United States	100		100		100		100		100	
South Carolina	96	(25)	99	(26)	97	(25)	60	(47)	139	(14)
Florida	82	(49)	108	(16)	137	(5)	80	(34)	0	-
Georgia	89	(38)	94	(28)	73	(48)	33	(51)	119	(21)
Maryland	108	(9)	82	(35)	3	(18)	72	(41)	165	(5)
North Carolina	93	(32)	90	(29)	96	(26)	85	(31)	147	(10)
Tennessee	83	(48)	146	(5)	94	(29)	87	(29)	6	(44)
Virginia	91	(34)	66	(43)	115	(11)	123	(13)	117	(23)
West Virginia	88	(43)	87	(31)	104	(17)	92	(27)	101	(30)

State	Corporate Income Tax	(Rank)	All Property Taxes	(Rank)	Severance Taxes	(Rank)	Total RTS	(Rank)	User Charges	(Rank)
United States	100		100		100		100		100	
South Carolina	67	(31)	79	(37)	0	-	102	(20)	134	(12)
Florida	60	(34)	93	(25)	498	(1)	87	(46)	107	(27)
Georgia	71	(27)	83	(35)	0	-	98	(26)	141	(8)
Maryland	71	(28)	88	(32)	0	-	102	(19)	69	(44)
North Carolina	118	(8)	63	(42)	0	-	91	(39)	85	(40)
Tennessee	106	(12)	65	(41)	22	(26)	89	(42)	122	(18)
Virginia	55	(38)	84	(34)	0	-	90	(40)	91	(39)
West Virginia	114	(10)	59	(43)	98	(14)	90	(41)	99	(30)

Source: U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, pp. 32-67.

Given that all types of taxes contain some inherent structural deficiencies and inequities, states have tended to seek a balanced, diverse mix of revenue sources. As indicated in Chapter 1, the state's revenue system should promote fiscal fairness and efficiency and enhance development of the economic base. Thus, South Carolina policymakers may wish to consider altering the mix of South Carolina's tax burden to bring tax effort for specific tax bases closer to the national average. On the other hand, they may decide that there are more important tax policy goals than interstate comparisons and may conclude that certain unique tax characteristics are appropriate and beneficial to the state's economy and population.

Regardless of the state's priorities in choosing among taxes, its total actual tax effort is fairly close to the national level. Its effort index total of 96 means that, in general, the state could utilize a little more of its tax bases without placing an above average burden on them.[26] However, even if the state raised its tax effort to the national average, it still would not raise enough revenue to meet South Carolina's high need for expenditures highlighted in Table 3. The state's actual expenditures as a percent of its representative expenditures is 71.9.

Given that the state already has one of the most balanced tax mixes in the region, and that it is utilizing its tax bases at near-average levels, the state may wish to look at some indirect ways to raise additional revenue. Instead of raising tax rates, South Carolina could realize an increase in revenue from promoting an expansion of the economic base on which taxes are collected. For example, continuing to upgrade the state's infrastructure and promoting the influx of industries and tourism will complement the state's expanding population and personal income. These efforts could lead to an increased sales tax base from a growing tourist industry. Corporate and individual income tax growth may be helped by continuing population growth and the inflow of new industries. Also, the growth in personal income and population above the national average might push up property values and the property tax base.

ENDNOTES

[1] U.S. General Accounting Office, Federal-State-Local Relations: Trends of the Past Decade and Emerging Issues (Washington, DC, March 1990), p.16.

[2] Federal deductibility has decreased as a result of the 1986 Tax Reform Act changes, including elimination of the sales tax deductibility and reductions in marginal tax rates.

[3] U.S. General Accounting Office, p.44

[4] U.S. Advisory Commission on Intergovernmental Relations, Local Revenue Diversification: Local Sales Taxes, (Washington, DC, September 1989).

[5] U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism: 1990 Volume 1, Budget Processes and Tax System, (Washington, DC, January 1990).

[6] Revenue-raising ability is calculated by ACIR by applying a uniform tax system of rates and bases in every state. Therefore, a state's tax base determines its potential tax revenues. Referred to as the Representative Tax System, this method of comparing state revenue-raising abilities will be discussed later in this chapter.

[7] Amounts paid to other governments as fiscal aid in the form of shared revenues and grants-in-aid, as reimbursements for performance of general government activities and for specific services for the paying government (e.g., care of prisoners or contractual research), or in lieu of taxes. Excludes amounts paid to other governments for purchase of commodities, property, or utility services, any tax imposed and paid as such, and employer contributions for social insurance--e.g., contributions to the federal government for old age, survivors, disability, and health insurance for government employees.

[8] All the indexes used in this chapter set the U.S. average = 100. For example, South Carolina's total direct expenditures as a percentage of personal income is 17.7 for 1988. The index is calculated by dividing 17.7 by the U.S. average level of 17.3. The result, 1.02, is multiplied by 100 to get an index level of 102. This method is used to quickly and easily note the variance of state levels above and below the national average.

[9] Survey of Current Business, August 1989, p.34

[10] The possibility of exporting taxes to nonresidents is ignored here.

[11] The representative expenditure approach was developed by Robert W. Rafuse, Jr., during the U.S. Treasury Department's studies of federal-state-local fiscal relations several years ago. Estimates of representative expenditures for eight major categories of public spending originally published in the Treasury report for 1984 have recently been refined and updated for 1987 by Rafuse, Visiting Senior Fellow at ACIR.

[12] Robert W. Rafuse, Jr., Representative Expenditures: Addressing the Neglected Dimension of Fiscal Capacity, November 30, 1989 Draft, p.22

[13] South Carolina's costs of living is believed to be below the national average. If this is the case, then the purchasing power of South Carolinians is higher and the state's population living in households with income below the poverty line is overstated.

[14] The national average spending per workload unit for public welfare is calculated by summing actual state expenditures for every state and dividing this total by the number of individuals living in households with income below the poverty line in the U.S.

ENDNOTES

15 Because 1987 data are used in Table 3 to calculate actual expenditures as a percentage of representative expenditures, the results may not correlate with the 1988 actual expenditure numbers used in Table 2.

16 The index of representative expenditures data comes from unpublished estimates, Rafuse, p. 42.

17 Ibid., p.38.

18 Index of actual spending is not provided in this text; see Rafuse, p.38.

19 Taxes are compulsory contributions exacted by a government for public purposes. Revenues include the income from all taxes plus all other source income, such as user charges.

20 The percentage change in personal income is not shown in a separate column. Information was obtained from the Survey of Current Business, 1984 and 1989.

21 Income tax refers to taxes on the net income of individuals as well as business profits.

22 ACIR has used the Representative Tax System to calculate relative revenue-raising ability since 1962. The most recent revision of RTS is, U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, (Washington, DC, February 1989).

23 Effort is a concept that relates to government; burden relates to taxpayers. Tax effort is a measure of the extent to which a state and its local governments are taxing their available resources relative to the national average. Tax burden refers to which taxpayers the tax ultimately falls.

24 Severance taxes in Florida are on oil, gas, sulfur, and solid minerals.

25 User charges is a non-tax revenue and, therefore, is included in the broader Representative Revenue System (RRS) and not the RTS. RRS measures a state's ability to collect tax and non-tax revenues.

26 Nonresidents are not included in the tax base even though revenue collected from them is a part of total revenue.

Chapter 5: Overview of the South Carolina Revenue Structure

South Carolina governments collect revenue from three major taxes -- sales, income, and property -- as well as a variety of minor taxes and nontax revenues. The tax structure is closely linked to the history and structure of the state's economy and political system, consequently reflecting the values and priorities of past decades. Only in the 1980 Census did the majority of the state's population live in urban places for the first time, so there remains a strongly rural flavor to the revenue system. In addition, a state that historically has had a strong legislature, a weak governor, strong municipalities, and weak counties could be expected to have a centralized revenue system. Low property taxes are not only a part of the state's rural past but also reflect the unwillingness of the county delegation to impose property taxes for county services. A further reason for low property taxes was the centralization of the political system in the General Assembly, with more reliance on traditional state taxes to fund both state and local services.

The relatively recent adoption of a general sales tax (in the 1950s) reflected belated concern for the quality of public education and a need for additional state revenue sources in order to invest in the next generation. The accommodations tax, enacted in 1981, takes advantage of a growing tourism industry. High taxes on alcoholic beverages and low taxes on tobacco reflect a preference among vices that favors the local tobacco industry and recognizes the absence of any major alcoholic beverage production in the state.

State-Local Revenue as an Interrelated System

Since local governments are created by the state, and have their powers and responsibilities defined by the state, the revenue systems of state and local governments must be viewed as a single entity. It is important to look at the structure as a single package for several reasons. First, the control over the revenue system ultimately rests with the state. The state determines what revenue sources local governments may use and on what terms. The state may choose to use a particular tax heavily, thereby practically if not legally prohibiting its use by local government. Certain taxes collected by the state may be earmarked for local use or local functions.

Second, local taxes are often tied to state taxes, or partially state administered. Most states, including South Carolina, require that a state agency play some role in administering the property tax. (Constitutional classification by use and state assessment

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of industrial property both give the state a major role in the local property tax.) Local sales taxes are usually administered by the state, and will be in South Carolina for any counties that adopt such a tax. Local sales taxes must use the state's definition of the sales tax base, and only one rate -- 1 percent -- is authorized.[1] In South Carolina, many formerly local taxes have been assumed by the state, including bank taxes, truck taxes, and others, and then redistributed to local governments as part of state aid to subdivisions.

Finally, the combined revenue system is the appropriate one to use for state-to-state comparisons. A state may appear to have high local taxes, but closer examination often reveals that local governments have a high degree of local autonomy and responsibility, and that the state collects little revenue, assumes few responsibilities, and provides little if any shared revenue to local governments. New Hampshire is an extreme example of such a pattern. At the opposite end of the spectrum, a state may appear to have high taxes, but a closer look may reveal that local taxes are very low, the state assumes a large share of total service responsibility, and there is substantial state collection of revenues that are destined to be spent by local officials. Such is the case in Hawaii.

As a result of varying divisions of revenue sources and responsibilities between the state and local levels, a more centralized state may appear to have high taxes per capita or per $1,000 of personal income in comparison with other states when only state taxes are considered. However, that same state may have a much more moderate total tax burden if local taxes are lower than in other states. The state's share of total state-local own-source tax revenue in South Carolina (65.3 percent in 1987) is well above the 55.5 percent national average. As a result, as Table 1 indicates, state tax collections in South Carolina per $1,000 of personal income rank well above the U.S. average. (South Carolina ranks only 41st in per capita general revenue because of low personal income.) Local taxes, however, constituted a much smaller share of personal income than the national average. Combining the two for a total tax picture, South Carolina ranks right at the U.S. average in total state-local taxes as a percentage of personal income.

Table 1
Comparison of State Taxes and State/Local Taxes as Percent of Personal Income.

	State		Local		State and Local	
	%	Rank	%	Rank	%	Rank
South Carolina	8.3	10	2.9	44	11.22	25
U.S. Average	7.0	--	4.6	--	11.57	--

Source: U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1989.

Constitutional Constraints

The South Carolina Constitution places few constraints on the state's taxing powers, but imposes substantial limitations on local governments. Constitutional constraints on local governments include limits on bonded indebtedness, the classification of property by use, and limited access to nonproperty taxes.

As indicated earlier, cities, counties, and school districts are constrained in terms of bonded indebtedness to 8 percent of the assessed value of taxable property in their jurisdictions. Since the property tax base is shared between these three types of governments, the combined debt constraint is 24 percent. This constraint has limited the ability of local governments to provide infrastructure of various kinds, although it has sometimes been feasible to circumvent this restriction through a sale-leaseback process. The debt limitation is similar to those of some other states, but ranks among the most stringent in terms of limitations on local power to borrow.[2]

Classification of property by use, discussed in Chapter 7, sets the assessment ratios for various categories of property in five categories. While local public officials in some other states have flexibility in setting both the assessment rate and the mill rate, in South Carolina there is only one variable under the control of the county assessor. Thus, the state has established the distribution of the burden among the various classes of property, leaving the overall levy to the local government.

State Control over Local Fiscal Powers

In addition to constitutional constraints, the state exercises other forms of control over local fiscal powers. Many of these constraints relate to the property tax, which was until 1990 the only tax revenue source directly available to local governments. Although most school boards are now directly elected, only thirteen school districts have complete control over setting their mill rates to finance the schools. In ten districts, the legislative delegation still maintains some degree of control. In comparison, counties and municipalities are free to set their own millage.

The homestead exemption reduces local property tax revenues, as in other states, but the program is fully funded by the state and therefore generates no revenue loss to cities and counties. School districts, however, suffer a revenue loss. All three types of local governments lose potential revenue when there is substantial amounts of state-owned property within the jurisdictions because such property is exempt from property tax. In a number of other states, the state makes a payment in lieu of taxes to the local government in recognition of the services provided by the municipality or county to the facilities within its limits and the loss of tax base. State colleges and universities, hospitals, prisons, and other public facilities often involve large land areas, and without a payment in lieu of taxes, state exemptions would limit the fiscal capacity of the local government. However, state institutions are major employers and generate considerable local service demands. As a result, the decrease in local governments' property tax bases would be offset by an increased sales tax base. (If the local government uses the local option sales tax.) Rural counties in recent years have competed intensely to be the site of state facilities such as prisons and hospitals because of jobs and spillovers to the local economy. However, the local government receives no property tax revenue to pay for services provided and no compensation for the loss of tax base.

The state also requires five-year exemption of non-school local property taxes for new industry without rebating the tax revenue loss, another loss for local governments. In recognition of the problem of revenue loss and the redistribution of the burden to existing industries and home owners, county governments are now permitted to negotiate a flat fee for services from some new industries in lieu of city, county, and school district property taxes for industries investing $85 million or more. This fee is for twenty years and covers school taxes as well as city and county taxes. The state also provides and funds job tax credits for firms in the various counties, with the size of the credit based on the county's unemployment rate.

The General Assembly has moved slowly in providing alternative local tax revenue sources. The accommodations tax, although state administered and statewide rather than local option, is a new revenue source in the last decade for local governments, subject to some constraints on how the revenues can be spent. The local option sales tax was approved by voters in only six counties in November 1990. Where approved, the tax will provide an important alternative local revenue source, but the General Assembly has likewise placed constraints on this tax that limit its appeal to local officials and, in urban counties, its appeal to the voters as well. The legislation required a property tax rollback to offset some of the revenues from the sales tax and mandated sharing of revenues from the counties receiving more than $5 million to those receiving less than $2 million.

Another important local revenue source is the annual formula-based appropriation for state aid to subdivisions. The General Assembly's annual budget process determines the level at which aid to subdivisions will be funded, which is rarely 100 percent of what the formula would generate. The last two years of 100 percent funding were 1985 and 1986; in 1987 the formula was funded at 91.3 percent, and in 1988 through 1990, at 85.4 percent. This instability and uncertainty in a revenue source that accounts for about 35 percent of local funds has been a sore point with county and municipal officials. The uncertainty is compounded by the number of taxes (11) included in the formula. Variations in any or all of the yields of these taxes result in large variations in the base, compounded by the year-to-year variation in the percentage of these funds that the General Assembly chooses to appropriate. Some of the taxes included in the formula are former county taxes that were assumed by the state and incorporated into the formula to compensate for loss of revenues, a further point of contention between the General Assembly and local governments.

Aid to school districts comes through several legislative provisions. Like aid to cities and counties, school aid is seldom fully funded. School aid is somewhat different from that appropriated to cities and counties in that part of the aid is designed to compensate for the inability of poorer school districts to generate property tax revenues to meet state mandates.

State mandates are another form of state control that have concerned county and city officials because they are rarely accompanied by any state funding. The issue of state mandates was touched on briefly in Chapter 3 and is discussed in greater detail in a recent South Carolina ACIR report.[3] Mandates absorb funds that would otherwise be devoted to locally set priorities and/or force a higher mill rate than would otherwise be required.

While the state exercises considerable control over local fiscal powers, there is no established state policy for dealing with local bankruptcies, as there are in other states. Recent experience with a small municipality in Oconee County suggests that there is a need to develop such a policy for both general purpose local governments and special districts.

No state grants total autonomy to local governments. South Carolina, however, appears to exercise a higher degree of central control that reflects the state's rural past, its Civil War heritage, and the slow process of adaptation to reapportionment, urbanization, and the demand for effective, responsive, and empowered local governments.

State and Local Roles in Tax Treatment of Business

The state plays the major role in determining how and how much business activity should be taxed. The classification of property by use in the state Constitution determines that business property will be taxed at a higher rate than real residential property (farm and owner-occupied). Business property and commercial property (including rental) is taxed at a lower rate than industrial property. South Carolina generally taxes business purchases less extensively than some other states. The general exclusion of sales taxes on services offers encouragement both to service industries and to industries that purchase a large volume of external services for business purposes to locate in South Carolina.

Taxation of corporate income, as part of the overall income tax, is reserved to the state. Cities and counties are permitted to levy business license fees either as a flat fee, by category of business, or based on gross receipts. Many cities, but only a few urban counties, have chosen to tap this revenue source. The business license fee has the effect of allowing local business income taxes under the guise of a business license.

Responsiveness of Revenue Sources to Economic Growth

The mix of revenue sources used in South Carolina, and their division between state and local use, reflects a number of factors. There have been some conscious trade-offs based on the criteria developed in Chapter 4, as well as some lagged responses to changing political conditions. One criterion that is of particular importance to reform is the expected future revenue yield of the state's tax system. As the economy experiences some of the transitions anticipated in Chapter 2, will the revenues from the existing tax structure keep pace with the service demands?

The changes in service demands are outside the scope of this primer, except to note that an increasing elderly population and a smaller population bulge in the lower end of the pyramid implies more demands for health care and other services to the elderly and slower growth of demands on the public schools. Equally important, however, is to make some rough projections of how existing (and potential) state and local revenue sources will respond both to economic growth and to changes in the composition of the state's population and economic base.

For South Carolina, stability of revenue yield is a positive value that needs to be weighed against the virtues of a highly responsive tax that will provide increasing revenue to fund growing public service needs as income levels and population continue to rise. An ideal tax would show considerable year-to-year stability, with gradual growth keeping pace with personal income growth. In particular, the ideal tax would not show great sensitivity to downturns in economic activity. It would also track nominal income rather than real income, because the cost of operating state and local governments rises along with the price level. (Since labor costs are a large share of state and local spending, keeping wages in line with the cost of living is a major reason for needing revenues to keep pace with inflation.) However, a tax that is highly sensitive to inflation may divert more revenues to the public sector than was intended. Progressive income taxes are the chief source of such an "inflation dividend" for the public sector. South Carolina has indexed tax brackets in some years and not in others. Tax brackets were indexed in 1984 and 1985. After skipping the next four years, there will be partial indexing in 1990 and 1991. Since the federal tax code provides for indexing of exemptions and the standard deduction, and the South Carolina income tax is coupled to the federal tax, those aspects of the state income tax are indexed.

Typically, a state income tax is the most responsive and the least stable revenue source. In the last decade, the growth of state income tax revenues has far outpaced the growth of nominal personal income. Sales taxes are closer to the ideal in terms of stability and growth, although they are often criticized on other grounds, particularly equity. Historically, property taxes have been somewhat unresponsive to growth, However, with more frequent revaluation and with the dramatic increases in real estate values in the last two decades, this tax has also offered some responsiveness.

How Responsive is the Income Tax?

South Carolina personal income tax collections track personal income quite well. Estimates for other states find that this tax shows a revenue increase of 1.4 percent to 2.2 percent for every 1 percent increase in real income (income adjusted for inflation).[4] Where the income tax is more progressive, the responsiveness is toward the higher end of that range. Thus, in a typical state, if personal income doubled over a decade or two, revenues from the state income tax could be expected to triple without any adjustment in rates.

Even if a state's personal income tax does not have a highly progressive rate structure, the use of personal exemptions and standard deductions gives the tax some progressivity. For example, if the typical family was entitled to exclude $8,000 in income from taxes through deductions and personal exemptions, then even a flat rate tax of 5 percent would produce the following (progressive) results:

Family Income	Taxable Income	Tax	Tax as % of Income
$5,000	$0	$0	0%
10,000	2,000	100	1
15,000	7,000	350	2.3
20,000	12,000	600	3
100,000	92,000	4,600	5

Thus, deductions and exemptions alone create some progressivity that will make revenue more sensitive to fluctuations and growth in personal income. During recessions, a large number of low-income families will be removed from the tax rolls entirely, while others fall in lower brackets. During expansions, newly employed persons become taxpayers, and current taxpayers work a larger part of the year and longer weekly hours. A larger share of their income will be taxable, and if the rate structure is progressive, these households will find themselves in higher tax brackets. These factors make the income tax quite sensitive to changes in aggregate personal income even with a limited range of rates.

The income tax is also highly sensitive to inflation. If exemptions and tax brackets are not indexed for inflation, higher price levels will quickly erode the value of personal exemptions and push people into higher tax brackets. Indexation of personal exemptions, standard deductions, and tax brackets have provided some protection for South Carolina's taxpayers.

The relationship between income tax revenues and changes in income is quite volatile, even when rates and other elements of the tax structure are stable. During the period 1979-1985, there were no major changes in the state income tax, but the ratio of changes in income tax collections to changes in income varied greatly, from a low of 73 percent to a high of 148 percent. In most years, income tax revenue grew at a rate from 5 percent to 18 percent faster than personal income.

Projections for the 1990's indicate slow but steady growth for the U.S. economy, but as Chapter 2 indicated, South Carolina is expected to grow more rapidly than the national economy. Thus, the income tax will continue to provide a stable but growing revenue source. Three other trends identified in Chapter 2 have particular bearing on income tax revenues. First, the increased share of pension, dividend, and interest income may cause income tax revenues to lag behind income growth. As a result of recent changes in treatment of pensions, $3,000 of both state and federal pensions will be exempt from income taxes. Prior to 1989, all state pensions and the first $3,000 of federal pensions were exempt. Retired state employees were compensated for the loss of the tax exemption with an adjustment in their pensions. While there is a net gain of tax revenue, it is offset by increased payments of retirement benefits in a unified budget. Interest and dividend income has been more likely to escape taxation than wage income, also suggesting slower growth of income tax revenues than one would project purely on the basis of personal income. However, efforts in recent years to share tax information with the federal government has increased coverage of non-wage income.

Second, the trend toward multiple earner families also has some interesting implications for income tax revenues. Prior to the 1985 reform, South Carolina's income tax code offered substantial advantages to separate over joint returns for two-earner households. Coupling to the federal income tax has resulted in increased revenue from two-earner families, only partly offset by the retention of the two-earner tax credit (which was deleted from the federal tax code in the 1986 reforms). Thus, a two-earner family will now generate more revenue than two single persons with the same combined income. As the trend toward two-earner families continues, the result will be higher state income tax revenues out of a given level of personal income. Offsetting that trend to some extent will be demographic trends toward later marriages and more divorces.

Finally, the shift from manufacturing toward a growing service sector, a national trend just now reaching South Carolina, has uncertain implications for earnings and therefore for income taxes. South Carolina's manufacturing sector remains strong and is moving toward higher wage jobs, with a strong positive impact on income tax revenues. A growing service sector tends to have a bimodal distribution of employment, with both a low-wage service sector (especially in tourism) and a high-wage sector in professional and technical services. No clear direction of impact on income tax revenues can be deduced from this trend.

The net effect of the economic trends described in Chapter 3 is probably moderately negative. The increase in two-earner households has nearly peaked, as female labor participation rates have risen over the last few decades, while the relative number of single households and the retirement-related negative trends will continue to rise. Overall, however, we can expect that the state income tax in its present form will continue to provide a productive revenue source for the state in the next few decades.

The corporate component of the income tax is more difficult to forecast. Corporate profits are notoriously unstable, and with unstable profits come unstable revenues from the corporate income tax. The responsiveness of South Carolina's corporate income tax revenues to a 1 percent change in personal income ranges from 0.9 percent to 2.2 percent. Continued movement away from manufacturing toward services is likely to shift some business income from the corporate sector to the personal sector as income from proprietorships and partnerships. Thus, measuring changes in corporate income tax collections is a poor proxy for measuring the tax impact of business activity outside of labor income.

How Responsive is the Sales Tax?

Revenue from the general sales tax is closely linked to income, but is in general more stable than income tax revenue. From 1978 to 1984 (the rate was raised in 1985), a 1 percent increase in state personal income resulted in a change in sales tax revenue ranging from 0.8 percent to 1.5 percent in South Carolina. There was considerable variation from year to year. Retail sales track both GNP and personal income quite closely on a national basis, but the mix of taxable items and nontaxable items can vary somewhat more from year to year. In South Carolina, the ratio of net taxable sales to gross sales ranged from 51 percent to 54 percent from 1982 to 1986, with a slight upward trend.

An increase in the sales tax rate should produce a slightly less than proportional increase in tax revenues, other things being equal. Among the most important other factors are the sales tax rates in neighboring states. A higher tax may induce some modest decline in spending, and increase the incentive to purchase out-of-state either directly or by mail order to avoid the tax or to pay a lower tax in another state. However, when South Carolina raised the tax from 4 percent to 5 percent in 1985, no discernible effects on sales were observed. The ratio of sales tax collection to personal income rose from 2.19 percent in 1984 (before the tax increase) to 3.14 percent (after the tax increase). Part of this increase was due to the fact that the share of sales that was taxable rose from 52 percent to 54 percent, and part of it was due to the 25 percent increase in the rate (from 4 percent to 5 percent). Together, these two factors account for an increase in the percentage of income collected in sales tax to only 2.83 percent. Thus, despite the tax hike, sales tax collections in South Carolina increased relative to personal income. States such as Connecticut (with an 8 percent sales tax) have observed some shifting of sales to other states as a result of high sales taxes, but South Carolina has apparently kept its tax rate in a competitive range.

General sales tax revenues for the next two decades will be affected by several of the trends identified in Chapter 2 as well as by the use of local sales taxes. An expansion of the service sector will reduce sales tax revenues relative to personal income because few services are taxed in South Carolina. Rising personal income in general favors sales of services over goods, slowing the growth of revenues from the retail sales tax. The impact of demographic changes is less clear. Younger families and lower income families tend to spend more on food, clothing, and other taxable purchases, while older and higher income families are likely to consume more services. As the population ages and incomes continue to rise, therefore, there may be some erosion of the sales tax base unless the base is extended to include more services.

Selective sales taxes generally are quite unresponsive to changes in personal income. Revenue increases by much less than 1 percent for each 1 percent increase in personal income. These taxes are generally placed on items whose purchases are quite insensitive to changes in income. In South Carolina, as well as elsewhere, revenues from selective sales taxes have shown very little growth over the last few years.

South Carolina uses these taxes more intensively than many other states. In 1986, selective sales taxes in South Carolina constituted 1.52 percent of personal income, compared to a U.S. average of 1.34 percent. (Per capita, South Carolina collected $159 compared to a U.S. average of $184.) Table 2 shows South Carolina's revenues from the major selective sales taxes from 1983 to 1988. Total revenues from these six taxes increased only 17.5 percent over the five years, less than the increase in personal income or even the inflation rate. Two modest increases in rates took place during this period, a 7 percent increase in the alcoholic liquors tax and a 2 cent hike in the gasoline tax.

The fact that these taxes (except for the admissions tax) are not sensitive to income is not the only reason for their relative decline. A second reason is that these taxes, except for the admissions tax, are specific taxes rather than ad valorem taxes. A specific tax is stated as so many cents per pack, gallon, or other unit (e.g., 7 cents per pack of cigarettes). Revenue from a specific tax does not change when the price of the commodity changes, only when there is a change in quantity sold. Revenue from an ad valorem tax, which is stated as a percentage of the selling price (such as the general sales tax), will rise with increases in the price level.

Finally, even if the taxes were ad valorem and sensitive to income, their revenue productivity is vulnerable to life-style changes. Trends in the 1980's showed a steady move toward reduced per capita consumption of alcohol, particularly liquors. The 1990's are expected to see further reductions in consumption of alcoholic beverages, gasoline, and electric power. Reduced consumption of gasoline and electric power in order to improve air quality will affect revenues from those taxes. Thus, selective sales taxes as presently structured can be expected to continue to decline in both relative and absolute importance as a revenue source in the future.

Table 2
South Carolina Revenue From Selective Sales Taxes 1983-1988

Tax	1983	1984	1985	1986	1987	1988
Admissions						
Revenue	$5,457,562	$6,050,777	$6,160,122	$6,415,928	$6,618,418	$7,064,901
% all St. Tax Rev	0.29%	0.28%	0.27%	2.60%	0.25%	0.24%
Alcoholic Liquor						
Revenue	$43,612,978	$43,863,946	$43,402,169	$46,212,063	$45,669,713	$46,462,814
% all St. Tax Rev	2.28%	2.03%	1.87%	1.87%	1.72%	1.61%
Beer & Wine						
Revenue	$61,458,463	$58,729,196	$60,026,647	$62,487,593	$66,619,090	$67,654,786
% all St. Tax Rev	3.21%	2.71%	2.59%	2.53%	2.51%	2.34%
Electric Power						
Revenue	$12,435,320	$13,076,362	$13,411,125	$12,653,329	$13,240,819	$119,617,402
% all St. Tax Rev	0.65%	0.60%	0.57%	0.51%	0.49%	0.68%
Gasoline (Counties)						
Revenue	$14,330,414	$15,428,429	$15,902,373	$16,341,384	$16,841,621	$17,156,742
% all St. Tax Rev	0.74%	0.71%	0.68%	0.66%	0.63%	0.59%
Soft Drinks						
Revenue	$13,838,959	$13,192,015	$14,969,762	$18,029,160	$18,868,265	$19,563,764
% all St. Tax Rev	0.72%	0.61%	0.64%	0.73%	0.71%	0.68%
Total (6 selective sales taxes)						
Revenue	$151,133,696	$150,340,725	$153,872,198	$162,139,457	$167,857,926	$177,520,409
% all St. Tax Rev	7.60%	6.69%	6.38%	6.60%	6.09%	6.15%

Source: South Carolina Statistical Abstract, 1987-88 and 1989-90.

Local Revenue Sources

Local governments rely primarily on property taxes as a revenue source. The other two tax-based revenue sources are the 2 percent accommodations tax surcharge on the sales tax, returned to the place of origin, and state aid to subdivisions, which is based on revenue generated by a number of selective sales and other specialized taxes. School districts, however, rely entirely on property taxes and state aid. The property tax is generally believed to be quite stable, but it tends to lag economic growth and inflation. The accommodations tax, instituted in 1982, has proved to be a very productive revenue source that is highly sensitive to income.

State aid to cities and counties reflects a mixture of eleven taxes, of which only the small part of the income tax in the formula is very sensitive to income changes. As indicated earlier, selective sales taxes, which make up most of the formula, have shown much slower growth in recent years than other state and local revenue sources. In addition, the percentage of the formula that is actually funded by the state varies considerably from year to year. Even if the base were sensitive to increases in income, the legislative uncertainty does not make this revenue source one that cities and counties can count on to fund growing demands for local public services.

Nontax Revenues

Both the state and local governments rely on a number of other sources, principally fees and charges. There is no way to measure the sensitivity of these revenue sources to changes in personal income, because the mix of items subject to fees and charges and the level of the fee both change from year to year. In general, demand for public services subject to fees probably grows more slowly than income. Many of these fees are charged for services provided primarily to lower and middle income families. As incomes rise, families can shift to private providers of transportation, health care, and other such services. However, revenue from such sources as public golf course and tennis court fees, museum admissions, parking, airport fees, hunting and fishing licenses, business licenses, and recreation programs tends to be much more responsive to rising income. Water and sewer service revenue and other public utility revenue is primarily a function of population rather than income.

It is possible to design fees and charges so as to make them more sensitive to income by the use of sliding scale (ability to pay) fees where appropriate. Motor vehicle license fees can be made more sensitive to income levels and income changes if these fees are related to the weight or the value of the vehicle rather than a flat rate. Higher fees for vanity plates in some states have proved to be a productive minor revenue source that will also be sensitive to rising income levels. In general, it is possible to build a degree of progressivity into fees and charges that will not only increase the equity of the tax burden but also make this revenue source more responsive to growth in income than it is at present.

Options for Reform

Option #1 The degree of centralization in South Carolina's revenue system may have been appropriate for a rural/agricultural state, but should be reexamined in the light of growing urbanization. Alternative local revenue sources and debt limitations are two items particularly worth reviewing.

Option #2 The decision to couple the state income tax to the federal tax has offered numerous advantages in simplicity and lower costs of compliance and collections. Any reforms in order to accomplish other objectives, such as relief for the poor, must be weighed against increasing the complexity of a system that is presently very easy to administer and to understand.

Option #3 The tax treatment of business in South Carolina, as in all states, represents a trade-off between short-term revenue needs and the desire to attract industry to the state by offering a competitive tax package. Tax provisions intended to help with recruiting industry should be reviewed regularly to weigh the revenue loss against the benefits.

Option #4 The tax consequences of a growing retired population spread through both the expenditure and the revenue side of the budget. On the revenue side, such issues as treatment of pension income, capturing revenues from passive income (interest and dividends), and property tax relief for the elderly should be carefully examined in the light of a growing retired population.

ENDNOTES

[1] Most states require a single base; some have uniform statewide rates for the local tax, some offer local option on use only, and others offer local option on use and rates within a specified range. For more details on the variety of local sales taxes, see U.S. Advisory Commission on Intergovernmental Relations, Local Revenue Diversification: Local Sales Taxes (Washington, D.C., September 1989).

[2] Janet Kelly and Jeffrey Clements, Investing in the Future: A Reconsideration of Local Government Debt and State Constraints (Columbia: South Carolina Advisory Commission on Intergovernmental Relations, 1988).

[3] Janet Kelly, State Mandated Local Government Expenditures and Revenue Limitations in South Carolina (Columbia: South Carolina Advisory Commission on Intergovernmental Relations, 1988).

[4] Elasticity estimates from Harvey Galper and Stephen H. Pollock, "Models of State Income Tax Reform", in Stephen Gold, ed., The Unfinished Agenda for State Tax Reform, (Denver: National Conference of State Legislatures, Denver, CO, 1988), pp.107-128.

Chapter 6: State Taxes and Options for Reform

South Carolina uses two major taxes, the general sales tax and the personal/corporate income tax, in about equal proportions. In addition to the general sales tax, the state also levies a number of selective sales taxes and other minor taxes, including the insurance tax, bank tax, and estate tax. This chapter examines the major structural features of these taxes and identifies options for reforming each tax.

The South Carolina Personal Income Tax

Like forty other states and the District of Columbia, South Carolina relies on the personal income tax as a major state revenue source. An additional three states have limited taxation of interest and dividend income, but not a broad based income tax.

Development of the Income Tax

The income tax was originally enacted in 1926. Withholding has been used to collect the income tax since 1960. The most significant reform in the South Carolina income tax took place in 1985, when the tax was coupled to the federal income tax, using the federal definition of taxable income with only a few modifications.

Yield

Personal and corporate income taxes combined contribute about 36 percent of total state tax revenues in South Carolina in 1987, with 30 percent derived from the personal income tax and 6 percent from the corporate income tax (discussed below). South Carolina is right at the U.S. average in reliance on the personal income tax and somewhat below average in use of corporate income taxes (U.S. average: 8.3 percent). Individual income taxes represent 12 percent of total state and local combined revenues across the nation, ranging up to 22.5 percent in Maryland. South Carolina is slightly above the U.S. average at 13.8 percent.

Another useful indicator of the intensity with which this tax is used comes from the annual computations of the Representative Tax System by the U.S. Advisory Commission on Intergovernmental Relations, which examines tax capacity and tax effort for the major taxes used by the fifty states.[1] Tax capacity measures the revenue that could have been raised by each state had it used the national average rate for each tax with the typical exemptions. South Carolina was rated 40th in the nation in personal income tax capacity in 1986. However, the state was rated 17th in personal income tax effort, which compares actual collections to tax capacity. This ranking indicates that South Carolina is using this tax more intensively than the average state (including those states with no personal income tax or very limited personal income taxes).

Personal income taxes accounted for 2.64 percent of personal income in South Carolina in 1987, compared to a U.S. average for all states of 2.37 percent. Because South Carolina is a relatively poor state, per capita collections for the personal income tax were only $295, compared to a U.S. average of $344.

Basic Features

States generally link their personal income taxes to the federal income tax in one of three ways:

1) using the federal definition of adjusted gross income and applying their own exemptions, deductions, and rate schedule to determine tax due (33 states);
2) using the federal definition of taxable income (which incorporates federal exemptions and deductions) with little or no modification and applying their own rate schedules to determine tax due (5 states); or
3) using federal tax liability as a starting point and computing state taxes as a percentage of that figure (3 states).

Until 1985, South Carolina fell into the first category. Since 1985, South Carolina has moved into the second category, using the federal definition of taxable income as a starting point. This change has greatly simplified the filing of state income tax returns. However, states in the second and third categories experience changes in income tax revenues every time there is a change in the federal income tax code, which occurs rather frequently. In 1986, immediately after South Carolina's conversion from adjusted gross income to taxable income as a starting point, there was a major overhaul of the federal income tax code to broaden the base, shift some of the burden to corporations, and lower the rate. The effect of the 1986 tax reform on South Carolina's revenues is not easy to determine. From 1985 to 1987, personal income rose 10.6 percent while state income tax revenues rose 14.5 percent. Since the income tax is normally highly responsive to income growth, there is no indication that federal tax reform resulted in any measurable increase in revenue to the state.

The shift to the federal definition of taxable income meant that there was minimal use of the state income tax to accomplish other specific objectives, such as integration of the income tax with other state and local taxes. Some other states provide property tax relief through the income tax in the form of a circuit breaker, which is a rebate of part of the property tax liability to designated groups (low income, elderly, home owners, or disabled). Other states provide sales tax relief through a food tax credit on the income tax, as South Carolina did briefly between raising the sales tax in 1984 and linking the income tax to the federal income tax in 1985. South Carolina provides only a limited number of adjustments to the federal definition of taxable income. The state has retained the two-earner tax credit that was eliminated in the 1986 Federal Tax Reform Act. In addition, the state income tax provides for a number of other special adjustments, most of them relating to income from public sector pensions and from U.S. government or municipal bonds. For the typical taxpayer who is not retired and does not itemize, the definition of taxable income is the same as the federal definition. Linking to the federal income tax has also meant a loss of the deduction for federal income taxes on the state income tax--a deduction previously limited to a maximum of $500 per taxpayer. This deduction benefited more higher income taxpayers, so its elimination made the state tax slightly more progressive. Since taxpayers must add in any itemized deduction for state income taxes before computing taxable income, South Carolina taxpayers do not receive a deduction for state income taxes on their state income tax returns.

South Carolina's personal income tax rates range from 2.75 percent on the first dollar of taxable income (with the same exemptions and deductions, for the most part, as the federal income tax) to 7 percent on taxable income of approximately $10,000 or more.[2] The lowest rate dropped to 2.75 percent for 1990 and is scheduled to drop to 2.5 percent in 1991. Four states use a single flat rate;[3] one state (Massachusetts) has two rates, a lower rate on earned income and a higher rate on interest and dividends. New Jersey applies only two rates, 2 percent and 3.5 percent, to all types of income.

Thirty-three states show more progressivity in their income taxes than these four. Three states (Nebraska, Rhode Island, and Vermont) let the federal income tax code determine the progressivity of their state income taxes by making the state income tax liability a fixed percentage of federal income tax liability. The remaining 28 states and the District of Columbia all have personal income taxes with some similarities to the South Carolina tax. That is, they have a range of rates that applies to a range of taxable income brackets, and their definitions of taxable income usually provide for standard and itemized deductions and personal exemptions. Among these states, eleven have lowest bracket tax rates that are lower than South Carolina's, ranging from 0.5 percent to 1.5 percent. Twenty states have a top rate that is higher than South Carolina's top rate of 7 percent, with a range from 7.5 percent in Idaho to 14 percent in Minnesota. Twenty states have top income brackets that extend beyond South Carolina's $10,000, ranging up to a top bracket of $100,000+ in Ohio and New Mexico (taxed at rates of 9.025 percent and 7.8 percent, respectively.) Thus, the South Carolina tax system lies toward the less progressive end of the spectrum both in terms of the highest bracket and in terms of the range of rates.

Distribution of the Tax Burden

The income tax plays a critical role in determining the distribution of the overall state and local tax burden because it is the only one of the three major taxes (income, sales, and property) that can be designed to be progressive. Since the South Carolina definition of taxable income is now linked closely to the federal definition, South Carolina's income tax, like the federal income tax, exempts most households below the poverty threshold from any income tax liability. However, progressivity is much more complex than just exempting the poor. The progressivity of an income tax reflects the range of rates, the range of income brackets to which the rates apply, and/or the size of the personal exemption and standard deduction. Exempting a threshold level of income through personal exemptions and a standard deduction makes any income tax system progressive, even one with only a single tax rate.[4] The rate structure can then reinforce the progressivity. Thus, a state with high personal exemptions, high standard deductions, a low first bracket rate, a high top bracket rate, and fairly broad brackets would have a very progressive personal income tax. The South Carolina income tax was mildly progressive prior to 1985 when the definition of taxable income was changed to conform to the federal definition, and it remains mildly progressive, slightly more so in the wake of federal tax reform.

The degree of progressivity of an income tax is measured by what happens to the average rate as income rises. If the average rises sharply, the system is more progressive. If the top bracket is reached at a relatively modest income level, the system is less progressive than one that continues to add brackets with higher marginal rates as income rises. In South Carolina, the top bracket is reached at a taxable income of $10,000. Using the standard deduction, and one exemption for the single person and four for the joint return, the top bracket income would be reached at an adjusted gross income of $15,100 for the single person and $23,200 for the family of four--somewhat less than the average South Carolina family income. A tax system that charges an initial rate of 2.75 percent and rises to a maximum of 7 percent is not unduly burdensome on those just above the poverty level, but it does fail to exploit the possibility of raising a larger share of state revenue from higher income families through additional tax brackets beyond the current maximum. To the extent that higher income families are undertaxed, more of the burden of raising revenue is shifted away from the income tax toward sales and property taxes, making the state's overall revenue system less progressive. In addition, although a larger amount is exempt from taxation because of higher personal exemptions and standard deduction, the initial combined federal-state income tax rate for those just above that threshold increased sharply as a result of state reforms in 1985 and federal tax reforms in 1986. Prior to 1985, the first dollar of taxable income was subject to 11 percent federal income tax and 2 percent state tax. Now the rates are 15 percent and 2.75 percent, so the combined rate has risen from 13 percent to 17.75 percent--an increase of 37 percent.

Retirees

An important income tax issue for South Carolina, which has been attracting an increasing inflow of retired persons, is the appropriate treatment of retirement income. Recent court decisions have forced the state to treat federal retirees in the same fashion as retired state employees. At present, taxpayers are allowed to exclude from taxable income any Social Security benefits (partly taxed on the federal return) and the first $3,000 of income from a retirement plan. Since this $3,000 exclusion is not indexed, its value will decline over time. Some of these exclusions can be rationalized on the basis that the taxpayer is receiving benefits from money set aside or paid into a plan that was subject to income tax at the time it was earned, e.g., Social Security. However, many of these income sources were originally tax deferred and thus receive a double exclusion. In addition, the issue raised in other states of whether state retirement income is taxable as deferred compensation in the state of origin or in the current state of residence has not yet been resolved. If this issue is resolved in favor of the state of residence, South Carolina will keep revenue generated by retirees moving in from other states. If it is resolved for the state of origin, South Carolina will lose those revenues but gain some revenue from state retirees who have relocated to other states.

The appropriate treatment of various types of retirement income is a complex question involving equity across generations and within generations. Poverty among the elderly has declined sharply in the last two decades, and many of today's retirees--particularly those moving in from other states--are quite able to pay a reasonable share of state taxes. On the other hand, competition among states for a "retirement industry" may put pressure on the General Assembly to enact income tax provisions that favor retirement income.

Tax Administration

The income tax is administered by the South Carolina Tax Commission, in partnership with taxpayers who must file returns and with employers who are required to withhold the tax from wages and salaries. Linking the tax to the federal tax has simplified both administration and compliance. There are advantages and disadvantages to coupling. Any changes in the federal income tax that affect taxable income will also change the base of the South Carolina tax. There is always a possibility that avoidance or evasion that occurs in federal income tax because of inadequate federal enforcement resources (such loss is now estimated to be $100 billion a year) will be mirrored in a state's tax collections. However, coupling provides the two collection agencies with the same data base, and South Carolina has been using conformity to federal income tax in order to develop a joint audit capability. The result has been considerable improvement in collections and enforcements through independent audits. The likelihood of audit in South Carolina is now much higher than for the federal income tax. At this writing, South Carolina's venture in the joint auditing process is unique among the forty states with income taxes.

Rating the Income Tax

In general, the income tax receives high marks in South Carolina. The personal income tax has proved to be a very productive revenue source, and is the only progressive component in the state-local tax system, thus earning high marks for equity. Because of the link to the federal income tax, compliance and administrative costs are fairly low, and the tax is relatively simple compared to years prior to 1985. Because the tax is in line with those of neighboring states (except for Florida, which has no individual income tax), it should not be a significant deterrent to business or residential locational choice.

The incentive effects of a state income tax must be evaluated in a context of the combined state and federal marginal rate. It is the rate that an individual pays on the next dollar of income that influences work effort and investment decisions. The combined federal-state rate has fallen for higher income individuals and risen for lower income individuals since 1985. At the bottom of the scale, the rate on the first dollar of taxable income, the marginal rate has risen from 13 percent (11 percent federal, 2 percent state) to 17.75 percent (15 percent federal, 2.75 percent state). At the top of the scale, some individuals face a combined rate of 35 percent (28 percent federal, 7 percent state), while households with joint returns showing taxable income in the $70,000 to $155,000 range face a combined rate of 38 percent due to peculiar features of the federal tax.[5] The top rates have fallen from a combined 56 percent as a result of the 1986 federal tax reform. Thus, overall income tax rates have shifted so as to encourage work effort and investment at the top of the scale, while discouraging effort at the lower end.

Options for Reform

The suggestions for reform in this section, and in subsequent sections, will increase revenue in some cases and reduce revenue in others. Revenue needs to be an important consideration in tax reform, whether the reform is related to a perceived need to raise more revenue or whether it is intended to be revenue-neutral, focused on the distribution of the tax burden and other effects of the tax. It is also possible to package several reforms together, combining some that increase revenue with others that reduce it.

South Carolina's income tax has undergone a fairly recent reform. Because income taxes figure heavily into personal planning, some stability in the income tax is an attractive feature that must be weighed against any proposed improvements for equity, efficiency, revenue, or other considerations.

South Carolina's income tax has now been linked to the federal income tax for five years, with gains in administrative simplicity offset by some loss of control. This linkage can remain strong for the benefit of taxpayers and tax administrators while at the same time making modifications to accomplish specific statewide objectives.

Option #1 Some proposed modifications of the personal income tax that may deserve discussion are reinstatement of the food tax credit, discussed below in the sales tax section, and a circuit breaker for property tax relief, discussed in the next chapter.' However, both of these changes would reduce revenue, and increase the complexity of the tax.

Option #2 Indexation of the income tax, or any tax with a progressive rate structure, is important in preserving the distribution from year to year and in not making tax revenues overly sensitive to inflation. South Carolina is currently indexing tax brackets. Whether to make indexation automatic or to tie it to the state's overall revenue picture is an issue that merits careful consideration.

Option #3 The appropriate treatment of various types of retirement income is a matter that needs to be addressed by all states using broad-based income taxes. Uniformity of treatment, equity, and attractiveness of the state to retirees are major issues in such a debate.

Taxation of Business

Typically, one of the major revenue sources deriving from business activity in a state will be the corporate income tax. While the net income of partnerships and proprietorships is subject to personal income taxation only, the net income of corporations is taxed separately. Dividends paid to stockholders are taxed again as part of the personal income tax base in states with broad-based income taxes. The corporate income tax is not a major revenue source for South Carolina. The corporate income tax was recently reduced from 6 percent to a flat rate of 5 percent, (while neighboring North Carolina raised its rate from 6 percent to 7 percent). In 1987, this tax raised only about 6 percent of total state tax revenues. The state's corporate income tax capacity, according to the Representative Tax System, is not that far below the national average; at 90.4 percent of the U.S. average, South Carolina ranks 27th among fifty states and the District of Columbia. However, low tax rates reduce tax effort on this tax to only 59.3 percent of the U.S. average with a rank of 40.

Like other states, South Carolina also has several minor taxes on particular types of business activity, including the franchise tax and the chain store tax. The franchise tax is a flat fee of $15 plus 0.1 percent of retained earnings. The chain store tax of $50 is a one time fee for each branch, establishment, or agency.

The South Carolina Sales Tax

Like forty-four other states and the District of Columbia, South Carolina levies a general sales tax. A general sales tax differs from a selective sales tax in that it covers all transactions except those specifically exempt, whereas a selective tax covers only specific enumerated items at rates usually different from that of the general sales tax. Selective sales taxes, called excise taxes at the federal level, are considered later in this section.

The sales tax is the most widely used state tax. In the annual public opinion poll commissioned by the U.S. Advisory Commission on Intergovernmental Relations (ACIR), the general sales tax is quite consistently perceived as fairer than the federal income tax or the property tax.[6]

In addition to state sales taxes, there are local sales taxes imposed by approximately 7,000 cities, towns, counties, boroughs, parishes, school districts, transit districts, and other local governments in thirty states. Local governments in Pennsylvania and a few in South Carolina will soon add to that number as they take advantage of recent state authorizations to impose local sales taxes.

Development of the Sales Tax

Nationally, the state sales tax evolved from various business occupation taxes on merchants' sales, purchase, and receipts. The first state sales tax was introduced by Mississippi in 1932. State sales taxes spread rapidly during the Great Depression as states saw their revenues shrink and their expenditure demand soar.

South Carolina first adopted a general sales tax in 1951, at a rate of 2.75 percent, with revenues earmarked for the public schools. The rate was increase to 4 percent in 1969 and to 5 percent in 1984. Revenues continue to be earmarked for education, with the 1984 increase specifically dedicated to funding the Educational Improvement Act. In legislation passed in January 1990, municipalities and counties were directed to hold referenda to determine whether to implement a local option sales tax at a rate of 1 percent. The local sales tax is discussed in the next chapter.

Yield

The general sales tax accounts for 15.5 percent of all state and local revenues in South Carolina (national average: 14 percent); 28.3 percent of all state revenues (national average: 19 percent), and 37.2 percent of all state tax revenues (U.S. average: 32.2 percent). As cities and counties begin to take advantage of the local option sales tax, we can expect that combined state and local dependence on the sales tax will be even higher in South Carolina relative to the nation than it is presently.

Two measures of the burden of the sales tax that are useful in making interstate comparisons are the per capita yield of the sales tax and the yield per $1,000 of personal income. In 1988, South Carolina state and local governments collected $360 per capita from the sales tax, below the U.S. average of $428 (which includes the five states with no general sales tax). The sales tax was 3 percent of state personal income, above the U.S. average of 2.8 percent. The state ranked 31st in per capita revenue from the general sales tax.[7]

South Carolina ranked 41st among the states in general sales tax capacity index for 1988. This ranking means that if South Carolina had used the tax at the national average rate, exempting food and a few other widely exempt items, its per capita yield would have been only 86 percent of the national average. Low tax capacity reflects the state's low ranking in per capita income. However, South Carolina ranked 26th in the tax effort index for the sales tax, at 99 percent of the national average, indicating that the state is using this tax at an average intensity.[8] This ranking reflects the use of an average rate with fewer than average exemptions.

Rates

Sales tax rates in other states range from 2.75 percent to 8 percent, with local taxes added on bringing the maximum to 9 percent (New Orleans). South Carolina's 5 percent sales tax is right at the national median for state sales taxes; 14 states have higher rates and 20 lower, and 11 use a 5 percent rate. The proposed 1 percent rate for the local option tax is also the most commonly used local rate.

The 2 percent differential sales tax on accommodations returned to local governments is more properly viewed as an excise or selective sales tax and will be considered in the next chapter. The $300 cap on the sales tax for automobiles (as well as aircraft, motorcycles, boats, trailers, recreational vehicles, semitrailers, and purchases of office equipment and musical instruments by churches) is a relatively uncommon practice, recently modified in the neighboring state of North Carolina. This cap contributes to the regressivity of the sales tax, since the tax is the same on all such purchases priced at $6,000 and above.

States are somewhat constrained in raising sales tax rates by the fact that buyers have two alternatives; they can shop in other states, particularly if they live close to the state line, or they can order by mail. (The mail order issue is discussed below.) A close look at the distribution of rates across the country shows that most states are somewhat sensitive to the rates imposed by their neighbors. Certainly, South Carolina is attuned to the combined state-local rates in neighboring states. The state's current 5 percent rate is well in line with neighbors Georgia (5-6 percent), North Carolina (5 percent), Florida (6 percent plus a few county taxes, but food is exempt), and Tennessee (5.5 percent plus local taxes where applicable). Studies indicate that sales in border areas are quite sensitive to changes in the sales tax differential, particularly for big ticket items.[9]

Coverage

A major difference between state sales tax systems is in coverage, i.e., what items are subject to tax and what items are exempt. A broad base with minimal exemptions has two major advantages. First, it provides more revenue. Second, it reduces compliance costs for retailers, who do not need to separate taxable from nontaxable purchases. Since a general sales tax is an "everything but..." type of tax, each exemption must be scrutinized to see whether the benefits of the exemption in terms of some social or economic objective are worth the loss of revenue and the added complexity of administration and compliance. Usually, exemptions are justified as (1) reducing the burden on the poor (or the elderly, or the ill, or some other group); (2) encouraging consumption of some desirable item; or (3) reducing compliance/administrative cost by exempting groups or categories of buyers/sellers for whom collection costs would exceed revenues (e.g. garage sales).

The most common exemption is prescription drugs, which are excluded by forty-four states, including South Carolina. Twenty-nine states exempt food (South Carolina does not); Thirty-two exempt consumer purchases of gas and electrical utilities (including South Carolina); six have at least a partial exemption for clothing. In general, South Carolina's coverage of retail purchases of tangible items is quite broad, with exemptions limited and specific. Newspapers, newsprint, gasoline (which is subject to a state excise tax), textbooks, livestock and livestock feed, and religious publications are among the exemptions. States also vary considerably in their coverage of purchases by business.

Taxation of services is another feature differentiating state sales tax systems. Coverage of services varies widely. The most commonly taxed services are utilities (water, electricity, and natural gas) and accommodations. Rankings provided by Due and Mikesell in their book *Sales Taxation* give an indication of the extent of taxation of services, ranging from first (intense: Hawaii, New Mexico) to fifth (minimal: 19 states).[10] South Carolina is ranked fourth, putting it close to the minimal service taxation end of the spectrum. Taxation of services tends to make the sales tax less regressive, because higher income families spend much more on services, such as recreation, travel, personal care, repairs, and cleaning services. The major drawback to taxing services is higher administrative and compliance costs because of the large number of small service establishments.

Since the tax in South Carolina, and most states, is a retail sales tax, manufacturers and wholesalers who plan to use items in the production of further taxable goods and services are not required to pay the tax. For example, the purchase of goods for resale by a retailer would be exempt, as would the purchase of dry cleaning supplies because dry cleaning services are taxed. However, for services not taxed, the purchase of materials and equipment is considered a final purchase that is subject to tax. For example, the purchase of dental office furnishings would be subject to sales tax because the sale of the service they are used to produce is not subject to the tax.

The treatment of business purchases in the sales tax is one of the most difficult areas to design and to monitor, and one that varies substantially from state to state. South Carolina is considered fairly "liberal" in its taxation of business purchases in comparison to other states. Some of the specific items listed as exempt are in fact purchases by businesses for use in production of items likely to be subject to the sales tax later in the production process, such as sales of coke, coal, and electricity to manufacturers. In general, it is undesirable from an efficiency perspective to tax purchases of goods and services that are used as inputs into further production of goods and services subject to the tax. If such inputs are taxed, the taxes accumulate. It becomes difficult to determine the total tax burden on the final product; the tax will vary with the number of inputs taxed and how early in the production process the tax is levied. A few states do have such cumulative taxes (Michigan is one), but in general this kind of tax is undesirable from the standpoint of having a clear idea of how much tax is actually levied on a given final purchase.

A number of states exempt particular classes of purchasers from paying the sales tax, supplying them with tax exempt numbers. In some cases, it is a class of sellers that is exempt. Most commonly, such an exemption is provided to state agencies and the local governments in the state, as well as charitable organizations that meet the test of an eleemosynary corporation. South Carolina exempts only a limited group of sellers and an even more limited group of purchasers, even taxing most purchases by state agencies. Some interagency transactions are exempt, as well as food supplies purchased by schools, and meals purchased for the elderly and disabled and served by nonprofit organizations. Other exceptions include concessions operated at designated festivals with the proceeds going to charitable activities, and certain charities engaged in the resale of items.

The advantage of such breadth of participation is to simplify the accounting requirements for sellers, as well as to maximize revenue. The chief disadvantage is that budget allocations to state agencies have less value if some must be returned to the state treasury in the form of taxes paid on purchases of materials and equipment. A second disadvantage is to increase the number of small sellers who must file monthly returns.

Periodically, the legislature finds a need to look for additional state revenue sources, and one of the first places legislators look is the exemptions from the general sales tax. The pickings, unfortunately, are slim because of the already broad coverage. Among candidates mentioned as sources of additional sales tax revenue in the last few years are Bibles, twine, sales of supplies to radio and TV stations, and time-sharing agreements on resort property.

Who Pays the Sales Tax?

The incidence of the sales tax (i.e., the persons on whom the burden ultimately falls in the form of lower incomes or higher prices paid) is difficult to determine. The burden of the sales tax is shared between buyer and seller, but economic analyses suggest that the major part of the tax falls on the buyer in the form of higher prices. A broadly based tax is more likely to be shifted forward to consumers because they cannot easily shift to untaxed substitute products. A more narrowly based tax, such as a tax on jewelry, is more likely to be partly absorbed by the seller. Economists generally find that the sales tax ranges from mildly to highly regressive, depending on the group of items exempt. That is, the sales tax appears to take a larger fraction of lower incomes than higher incomes, because the poor spend a larger fraction of their incomes on items subject to sales taxes. As income rises, more spending goes into services (housing, travel, medical care, education, etc.) not subject to tax and a smaller fraction of income is spent on food, clothing, and other items subject to sales tax.

The loss of the sales tax deduction for purposes of federal (and, by extension, South Carolina) income tax beginning in 1987 actually had the effect of making the sales tax less regressive. The value of the deduction was higher to persons at higher income levels, and worthless to those who took the standard deduction or who had no federal tax liability. However, even with the loss of federal income tax deductibility, exemption of food, and taxation of services, it is still virtually impossible to modify a general sales tax so as to make it progressive or even proportional. The best that can be done is to moderate its regressivity.

One reason that the sales tax in South Carolina is more regressive than in some other states is the difference in the mix of goods and services consumed by poor households and that consumed by average or by wealthy households. According to the 1982-83 survey of consumer expenditures,[11] 22.7 percent of household expenditures are for food in households in the lowest 20 percent of the income distribution, compared to 18.2 percent for food in the average of all households, and 16.4 percent in the wealthiest 20 percent of households. Absence of a food exemption makes the South Carolina sales tax somewhat more regressive than those state sales taxes that exempt food.

There was a brief attempt to compensate for the taxation of food in South Carolina with a modest food tax credit ($12.50) on income taxes for low-income families. However, this provision was eliminated when the state income tax was coupled to the federal beginning in 1985. Integration of the sales tax with the income tax via a credit (even a refundable credit) is in any case less effective in relieving the burden on the poor than exempting food, because the lowest income families often do not fill out an income tax return at all and therefore do not receive the credit.

Low-income families also spend a higher fraction of their incomes (8.9 percent versus 2.8 percent for all households) on such items as personal care products, nonprescription drugs, and housecleaning supplies, all subject to sales tax in South Carolina (and most states). These consumption patterns also contribute to the regressivity of the sales tax.

Arguments against exempting food include higher administrative and compliance costs and loss of revenue. Efforts to reduce the tax burden on the poor might better be targeted at specific tax relief for low-income families, rather than for all purchasers of food in order to direct some tax reduction at the 20 percent of food purchasers who are poor.

Tax Administration

South Carolina requires that sellers file monthly returns. The state offers a discount for payment when due of 2.75 percent (for tax due of less than $100) or 2 percent (for tax due of more than $100), with a maximum discount of $10,000. The discount encourages prompt payment and offers sellers some compensation for their compliance costs, which have been found in national studies to range from 1 percent to 4 percent of the tax collected. South Carolina's discount is well within national norms; some states are more generous, while others offer no compensation at all. From the standpoint of the retailer, compliance costs are lower for taxes with fewer exempt items and for larger stores. South Carolina's broad-based tax is relatively simple to comply with, and the differential discount for very small taxpayers with a ceiling for large retailers offers at least rough adjustments for the differences in compliance costs.

Collecting the Use Tax: Mail Order Sales

An important concern for all sales tax states in the last two decades, including South Carolina, is the collection of taxes on interstate mail order sales. A 1967 Supreme Court decision, National Bellas Hess v. Illinois Department of Revenue, forbade the states to compel out-of-state retailers to collect and remit the tax unless the seller had some sort of nexus- retail outlet, warehouse, office, or other tangible link--in the taxing state. The use tax obligation remained for the purchaser, but the state had no easy way to collect the tax. Since the tax was due to the state of destination, not the state of origin, such sales went untaxed in either state. This situation gave mail order firms a competitive advantage over instate retailers in addition to costing the states substantial amounts of revenue.

At this writing, corrective legislation is being considered by the Congress, but it has been stalled for several years by both the opposition of mail order firms and disputes between state and local governments over the sharing of revenues in states where local governments impose or levy sales taxes. Should the legislation be enacted, South Carolina could expect substantial additional revenues from mail order sales. In the absence of such legislation, however, interstate cooperative efforts have substantially increased revenues from the use tax on mail order sales. Court cases filed by the Multistate Tax Commission may also reverse the 1967 Bellas Hess decision and empower states to require mail order firms to collect the tax.

Rating the Sales Tax

Although the sales tax is regressive and results in high compliance costs for small retailers, it holds up well in the light of the other criteria developed in Chapter 5. Because the sales tax is broad based, it is less likely than a specific excise tax to distort consumer decisions between taxes and untaxed items. Compared to some other taxes, the sales tax is not terribly difficult for most sellers to understand and comply with, and not very expensive to collect. It is a stable revenue source that tracks personal income quite well. The rate in South Carolina is close to that of neighboring states, so that the impact on business location and shopping decisions is relatively small.

Options for Reform

South Carolina's sales tax is quite similar to those of other states that do not exempt food, including all neighboring states except Florida. Within the existing sales tax structure, there are a few options for reform that are suggested by the experience of other states and by equity and other considerations. Like the income tax options, some of these would raise more revenue, others would reduce revenue, and still others have an indeterminate impact on revenue.

Option #1. With the addition of local option sales taxes, South Carolina will be raising a disproportionate share of its state and local revenue from the sales tax. As a tax becomes more heavily used, its flaws are magnified. The chief flaw of the sales tax is regressivity. Any proposed expansion or narrowing of the base of the sales tax needs to be carefully examined from the standpoint of the distributional burden in the next decade.

Option #2. The food tax credit on the income tax, which existed briefly in 1985, should be reconsidered as a way to mitigate the burden on low-income families. This credit is used in other states, including North Carolina. As an alternative, the exemption of food should be considered, weighing the equity advantages against the higher administrative costs and the lower revenue yield. A food exemption would benefit all families, not just low-income ones, and therefore, may not be the most efficient way of protecting poor families from high sales tax burdens. Any attempt to shield families from the impact of taxing food will reduce revenue.

Option #3. Like many other states, South Carolina will probably want to explore whether to expand the taxation of services and which services to consider. As families become more prosperous, their consumption includes a higher and higher proportion of services. If the sales tax base is to keep pace with personal income, that base needs to be broadened to reflect changing consumption patterns. If relatively few services are taxed, then the state should consider whether to make a greater effort to tax purchases of goods that are inputs into the production of those services (e.g., office equipment, beauty shop supplies, tools) both as a revenue and an equity consideration.

Option #4. Many states exempt certain purchasers and/or sellers from the tax. South Carolina has opted not to do so in most cases. The advantages of this broad coverage is ease of administration. This policy deserves review to determine whether exceptions should be made and, if so, which ones.

Option #5. The cap of $300 on sales of automobiles and similar items has been the subject of heated debate and will continue to be, both as an equity issue and a revenue issue. Possible reforms include elimination, a higher cap, or an exemption of a minimum purchase level with the tax applied beyond that level.

Selective Sales Taxes

Like many states, South Carolina levies selective sales or excise taxes on several items in order to raise revenue and/or influence patterns of consumption. Consumer expenditures subject to selective sales taxes include gasoline, tobacco products, alcoholic beverages (with separate taxes on alcoholic liquors and beer and wine), soft drinks, electric power, and admissions. In fiscal 1987, these seven taxes generated revenue of $168 million, or about 7 percent of total state revenues. Of these taxes, the most productive in terms of revenue is the beer and wine tax, with $66 million in 1987 accounting for 39 percent of the total.

Selective Sales Tax Rates

South Carolina's gasoline tax of 16 cents per gallon is right at the national median. (A lower rate for gasoline blended with ethanol is being phased out.) Both state and federal taxes on gasoline have risen sharply since 1978, with federal taxes rising from 4 cents to 9 cents while the median state tax went from 8 cents (9 cents in South Carolina) to 16 cents. There is considerable state-to-state variation in rates throughout the country, from 4 cents in Florida to 22 cents in Nebraska.

South Carolina taxes alcoholic beverages more intensively than most other states. The tax of 77 cents a gallon on beer is exceeded only by Hawaii's 89 cents. The national average for kegs or barrels exceeding 3.2 percent alcoholic content is 20.5 cents per gallon. Taxes on wine are more complex and difficult to compare, because most states have several rates depending on alcoholic content and other criteria. South Carolina has a basic rate of 18 cents a gallon plus four supplementary rates; 5 cents a gallon on wine with under 14 percent alcoholic content, 45 cents with 14-21 percent alcoholic content, 90 cents with alcoholic content over 21 percent. The variation in rates among states is quite large; California, a wine-producing state, has low rates, ranging from 1 cent to 30 cents a gallon, while Florida's rates range from $2.25 to $4.50 a gallon.

South Carolina's tax on distilled spirits appears to be well within national norms at $2.72 a gallon. Rates in other states range from $1.50 to $5.75 a gallon, with a mean of $3.34 among states that tax alcoholic beverages rather than operating a state liquor monopoly. However, this figure is deceptively low for two reasons. First, distilled spirits are taxed several times; at manufacturing, wholesale, and retail. There is an additional 9 percent surtax on liquor plus a wholesale tax of $1.81 a case and additional retail taxes.

The tax also varies with the alcoholic content. Second, there is an additional tax of 25 cents per minibottle for mixed drinks served in restaurants, which considerably raises the cost of consumption of distilled spirits.

South Carolina's cigarette tax of 7 cents per pack is one of the lowest in the nation, followed only by the tobacco-growing states of North Carolina (2 cents), Virginia (2.5 cents), and Kentucky (3.1 cents). The national median in 1989 was 20 cents, with a high of 40 cents in Connecticut. Hawaii is the only state to use an ad valorem tax rather than a specific (per pack) tax; the rate is 40 percent.

The state uses several other minor excise taxes. Soft drinks are subject to a tax of 95 cents per gallon of syrup, 1 cent per 12 ounces of bottled soft drinks, and 16 cents per gallon of soft drink made from a base or powder. Insurance premiums are taxed at a rate of 1 percent for fire insurance, 3/4 of 1 percent for life insurance, 4.5 percent for workers' compensation premiums, and 1.25 percent for all other types. Admissions are taxed at 4 percent. Gasoline, insurance premiums, and admissions are not subject to the general sales tax, while purchasers of alcoholic beverages and tobacco pay general sales taxes in addition to excise taxes.

Yield

As Chapter 6 indicated, revenue from all of these selective sales taxes tends to lag behind growth of income for several reasons. First, demand for these products and services is not very sensitive to rising income. Second, demographic changes and health concerns have reduced the use of alcohol and tobacco while higher relative prices have cut into sales of gasoline and electric power. Finally, many selective sales taxes are specific rather than ad valorem--that is, the tax is stated as so many cents per unit (10 cents a gallon, 5 cents a pack of cigarettes) rather than as a percentage of the price. With a specific tax, the tax per unit does not change when the price of the product rises along with the general price level (and personal income). Thus, tax revenues from a specific tax would lag behind income and the price level.

The U.S. Advisory Commission on Intergovernmental Relations computes tax capacity and tax effort for selective sales taxes in general and for specific commonly used items. The tax capacity and tax effort figures for the major selective sales taxes in South Carolina are presented in Table 3. Overall, South Carolina is close to the national average in both tax capacity and effort for selective sales taxes. In tax capacity and effort, the state is at 98 percent and 97 percent of the U.S. average, with a ranking of 36 for capacity and 25 for effort. However, the state ranks 18th in selective sales taxes as a percentage of personal income (1.55 percent versus a U.S. average of 1.36 percent) and 31st in per capita selective sales taxes ($185, compared to an average of $208).

One selective sales tax that is used in other states that is not used at all in South Carolina is a tax on parimutuel betting, which is not legal in this state. The taxes on tobacco and public utilities are also well below national norms while taxes on amusements and alcoholic beverages are well above those of other states. Table 3 presents the figures for the major selective sales taxes used in South Carolina. Note that a tax effort rank that is significantly lower (ranking from 1 down to fifty) than the tax capacity measure for the same tax indicates that the tax may be underutilized in comparison to other states.

Distribution of the Burden

Selective sales taxes are designed both to raise revenue and to discourage certain types of consumption. Because these taxes are often levied on items whose sales are not very sensitive to price, there is a temptation to use a few such taxes heavily in order to raise revenue without eroding their bases. The tax falls heavily on those who choose to consume alcohol, tobacco, and gasoline. There is no clear pattern of how the gasoline tax is distributed among income classes, but taxes on alcohol and tobacco tend to fall more heavily on lower income groups.

Rating Selective Sales Taxes

Selective sales tax are a limited but dependable source of revenue in all fifty states, although revenues lag personal income unless the taxes are periodically adjusted to reflect general inflation. They receive low marks on equity grounds. Border sales are likely to be a problem in states that tax certain items much more heavily than neighboring states. These taxes are somewhat expensive to comply with and collect, and at least some of them fall heavily on lower income groups.

Table 1
Tax Capacity and Tax Effort for Selective Sales Taxes in South Carolina, 1988

Tax	Tax Capacity		Tax Effort	
	% of U.S. Average	Rank	% of U.S. Average	Rank
Motor Fuels	101%	30	119%	17
Insurance Premiums	79	43	108	21
Tobacco Products	113	12	38	47
Amusements	38	39	515	4
Public Utilities	103	14	40	36
Alcoholic Beverages	103	22	218	5
Distilled Spirits	111	19	160	9
Beer	101	22	302	5
Wine	71	31	195	14

Source: U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort.

Options for Reform

South Carolina's overall revenue from selective sales taxes is fairly high, but unevenly spread among the various candidates. Any reforms should consider both the overall burden and the composition of taxes.

Option #1. The tax on tobacco products is a candidate for higher rates if more revenue is needed, since it is one of the lowest in the nation.

Option #2. Since most selective sales taxes are stated in specific terms, their real value will decline with inflation. All such taxes should be subject to regular review so that there is not an unintended tax reduction as a result of inflation.

Options #3. The taxation of distilled liquors is quite complex, with one or more taxes at each stage. While the overall tax burden may or may not be appropriate, depending on the objectives of the General Assembly, it should be possible to collect the same amount of revenue with fewer taxpayers and lower administrative costs by simplifying the structure of the tax and reducing the number of stages of production and distribution at which these taxes are collected.

Wealth Transfer Taxes: Death, Gifts, and Real Estate

Death and Gift Taxation

All fifty states and the District of Columbia impose some form of death tax, either in the form of an estate tax, an inheritance tax, and/or a federal "pick-up" tax.

Inheritance taxes are paid by the recipient of a bequest (heirs of an estate) and are based on the amount of the bequest and the relationship of the heir to the decedent. At present, the tax is levied in 18 states. South Carolina utilized an inheritance tax between 1922 and 1962. Beginning in 1962 the state replaced the inheritance with an estate tax.

An estate tax is a single levy based on the market value of the entire estate levied at time of death. The base of the estate tax is the difference between the sum of the decedents real and personal property less certain exemptions and deductions. Once the base is determined, a tax rate is applied and the tax due collected. The <u>net</u> value of the estate is then distributed among the heirs.

A "pick-up" tax is a type of estate tax that is levied and collected in conjunction with the federal estate tax. The amount of the tax is determined by the federal estate tax structure. Under terms (illustrated in Table 2), the federal code permits the decedent's estate a dollar-for-dollar tax credit for the state estate taxes paid up to certain amounts based on the size of the estate -- a maximum state death tax credit. The state's tax equals the amount of credit allowed on the federal estate tax return.

A fourth tax, which is related to the three death levies, is the gift tax (seven states, including South Carolina). Gift taxes are imposed on those who give gifts before the time of death. The rationale for this tax is to discourage persons who, in the contemplation of their death, make a gift of part of or all of an estate to avoid a death tax.

Taxation in South Carolina

South Carolina is one of 9 states that levies an estate tax in excess of the amount of the federal pick-up. This will change beginning July 1, 1991 when the State switches from its present estate and gift tax combination to just the pick-up tax.[12] South Carolina will then become one of the 27 states that utilizes this "pure" pick-up.

The cost in lost revenues from this change will be approximately $22.2 million. The pick-up will generate $10.0 million.

Rational for Death Taxes

There are five arguments usually advanced to justify the state taxation of wealth transfers at a person's death. Of the five, the first three are of questionable merit.

Revenue Productivity. By the time South Carolina enacted its inheritance tax, 45 of the 48 states already had a death tax on their books. In fact, it was the most widely used state tax. These taxes had been justified in part as revenue producers. It would not be until the mid 1920's and 1930's that the other major taxes such as those on income and sales would be widely adopted. With the advent of these other taxes, the revenue productivity rationale has all but disappeared. At present, death (plus gift) taxes account for only about 0.8 percent of South Carolina state and local revenues. The same relationship (about 0.8 percent) holds true for state and local tax systems as a whole. Indeed, were it not for the "free money" of the pick-up tax, it would not be surprising to see states getting out of the death tax altogether.

Redistribution of Wealth. Historically, there has been a consensus in America that one should "earn" rather than inherit their way into wealth. At least, this was the view that provided the primary philosophical rationale for, and the great popularity of, death taxes in the late nineteenth and early twentieth centuries. A look at the level that state death taxes are levied at today, however, suggests that the redistribution rationale has little practical merit. The reason for this probably stems from the desire of state policymakers to avoid a tax-bidding contest for wealthy residents who tend to make large per capita contributions to the other state and local taxes.

Correcting for a Narrow Definition of Income. A third argument for a state death tax is that the levy serves as a device for correcting a narrow definition of income. That is, by taxing one's wealth at the time of death, the state is indirectly taxing the income of the heir.

The above reasons advanced to justify death taxation suggest that the national government provides the best vehicle for taxing wealth transfers. Certainly the last two justifications (redistribution, income definition) argue for national rather than state action.

And, in fact, the federal government has largely preempted the death tax field. Nevertheless, there are two further reasons why a state should not fully retreat from the death tax. First, as presently levied, most state death taxes have little, if any, impact on people's economic decisions. Thus, the neutrality criterion (Chapter 1) is satisfied.

The second is one of expediency. Under present arrangements, if a state relies wholly (or even just largely) on the "pick-up" form of the wealth tax, it can generate revenues at a zero cost to its residents. This is possible because of the way the federal and state tax codes interact.

Here is how it works: at the time of death, the value of the decedent's estate is calculated and a federal tax is imposed. There is, in addition, a maximum federal tax credit established, which also is based on the value of the estate. The pick-up is meant to capitalize on this tax credit. The taxes are paid to the state in an amount equal to the federal credit, and the federal government is paid the difference between the credit and the total amount due.

These mechanics are illustrated in Table 1. Assume that a South Carolina resident dies (sometime after July 1, 1991), leaving a gross estate of $740,000. The executor of the estate will file a federal tax return, which permits subtractions of amount for expense and debt ($90,000). The net result is a federal taxable estate of $650,000. From the federal tax tables (not shown here), the Federal Estate Tax turns out to be $18,500.

If there were no pick-up, the full $18,500 would go to the U.S. Treasury. With the pick-up, however, the state now steps into the tax computation, and "picks up" $16,000 through the credit. That is, $16,000 of the $18,500 is paid not to the U.S. Treasury but to South Carolina. However, from the point of view of the decedent's estate, the dollars to be paid to some level of government remain the same. The credit to South Carolina has resulted in a dollar-for-dollar reduction of the amount to be paid to the United States government.

Table 2
Illustration of Computation of Federal Credit for State Death Taxes

Gross Estate	$740.000
Less Expenses and Debt	90,000
Taxable Estate	650,000
Adjusted Taxable Estate*	590,000
Federal Estate Tax Liability	211,300
Less Unified Credit	192,800
Initial Federal Estate Tax Due before State Death Tax Credit	18,500
State Death Tax Credit South Carolina Pick-Up	16,000
Net Federal Estate Tax Payment	2,500
Net Change in Total Tax after Pick-Up	0

* The adjusted Taxable Estate is the taxable estate reduced by $60,000

Source: Robert D. Ebel, Ed., A Fiscal Agenda for Nevada (Reno: University of Nevada Press, 1990.) Table 24.1

Although South Carolina's decision to replace its present estate and gift tax will result in a $22.2 million revenue lost, the benefits in terms of the simplicity and neutrality goals for the tax system are of sufficient merit to justify the change. For at least the foreseeable future, there is little reason to argue for any change in the tax law.

Real Estate Transfers

A closely related tax that has enjoyed a surge of popularity nationally with rising real estate prices is the property transfer tax, which is applied to the transfer of real property. The property transfer tax is used in 38 states. In all but one state (Arizona), the tax is expressed as a percentage of the price, with the rate ranging from 0.05 percent in Hawaii to 2 percent in Delaware. South Carolina's rate of 0.22 percent compares with an average of 0.34 percent nationally. A rate of 0.22 percent would result in a fee of $220 on the transfer of a $100,000 unit of property. However, cities or counties in many states are allowed to impose an additional fee; in South Carolina, counties add 0.11 percent to the state's 0.22 percent. Typically, the tax is administered locally rather than by the state. In South Carolina, counties assist in the administration of the tax.

Recognizing that the South Carolina tax rate is below the national average, policymakers should nevertheless approach proposals to raise the tax with caution. Although the tax ranks high on simplicity and ease of administration, it is difficult to find much other justification for levying the tax beyond a level that covers the government's cost of servicing the real estate transaction. The tax is not an effective tool for accomplishing equity objectives (which can be much more easily achieved through the income and property taxes) and, it may lead to an inefficiency if it is raised to a level high enough to discourage the sale of property.

Licenses and Fees

The final category of state revenue sources consists of licenses and fees, or charges for various state services and/or privileges. Included in this category are motor vehicle operator licenses, motor vehicle registration fees, corporate business licenses, hunting and fishing licenses, and various user charges for specific state services on a fee basis.

Fees, licenses, and charges accounted for $548 million in revenue for South Carolina in 1987, about 13 percent of all own- source revenues. This figure is slightly higher than the national average of 10 percent. Licenses alone took 0.44 percent of personal income and $49 per capita, both below the national average, while combined state and local user charges came to 3.37 percent of personal income and $375 per capita, both well above the national average.[13] The impressions that the state is underutilizing license fees and relying more heavily on user fees in comparison to other states is reinforced by the measures of tax capacity and tax effort. For all licenses, South Carolina has only 93 percent of the national average capacity, but tax effort is only 60 percent of the national average. For fees and charges, the state has a tax capacity that is 79 percent of the national average, but a tax effort that is 134 percent of the U.S. average. Table 3 shows the tax capacity and tax effort figures for some specific types of licenses.

Table 3
Per Capita Tax Capacity and Tax Effort for License Taxes in South Carolina, 1988

	Tax Capacity		Tax Effort	
Category	% of U.S. Average	Rank	% of U.S. Average	Rank
Motor Vehicle Operators	100%	36	77%	33
Corporations	79	41	9	47
Hunting/Fishing	76	37	130	12
Alcoholic Beverage Sales	79	35	274	5
Motor Vehicle Registrations	95	39	53	49

Source: U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort.

South Carolina's automobile registration fee for most average sized cars ranges from $9 to $15, depending on weight; a driver's license is $10 for four years. If we use a mean registration fee of $12 for comparison purposes, South Carolina's automobile registration fee compares to a national average of about $26. Like South Carolina, many states base the fee on weight; others use value while a number of states simply use a flat rate per car. However, this difference is partly offset by the fact that automobiles are in the highest rate classification for property taxes. Drivers' license fees also vary greatly from state to state, but most charge more than South Carolina's $10 for four years, or $2.50 per year. On an annual basis, the national average is just over $3.50 per year.

License fees for alcoholic beverages are charged at the manufacturing stage ($25,000), wholesale ($10,000) and retail ($600). A license to serve mixed drinks using mini-bottles costs $750. A beer and wine wholesale license costs $1,000; a retail license costs $200; and a Sunday license costs an additional $150 each week an establishment sells alcohol on Sundays. While comparative figures are not readily available, Table 3 suggests that these licenses are higher than in most other states.

In South Carolina, the corporate license is called a franchise tax, which is 1 mill (0.1 percent) of the value of capital stock and paid-in surplus. Public utilities pay 3 mills in state tax as a percentage of assessed valuation.[14] Table 3 suggests that South Carolina does not use this license fee as heavily as other states. However, the franchise fee or corporate license must be evaluated in a context of total business taxation, including the corporate income tax, the property taxes, and various fees and charges in order to make meaningful comparisons.

Rating Licenses and Fees

It is difficult to determine who bears the burden of licenses and fees. Since licenses are either a flat dollar figure or a limited range of fees, they are undoubtedly regressive if they are applied to a license purchased by a wide range of the population. As income rises, households do not purchase additional drivers' licenses, and only a limited number of additional cars (not necessarily heavier ones that would result in a higher license fee). Because the poor consume a higher share of public services, the use of fees for such services is generally believed to be regressive. Licenses and fees thus get a poor rating on equity grounds. Licenses are not difficult to administer or comply with, because most involve a single annual payment. Avoidance is difficult because the license or registration must be displayed or made available on request. Fees are more costly to collect; in fact, a major deterrent to greater use of fees and charges in the public sector is the high cost of collecting relatively small sums of money. Because licenses are usually stated in fixed terms, the revenue tends to track population but not personal income or inflation.

Options for Reform

Licenses and fees are not a major state revenue source, but they do offer a stable, broad-based source of income. They should be simple to understand and to collect and reasonable in relation to the privilege provided and the rates charged in adjoining states.

Option #1. Since data suggest that automotive license and registration fees are low in comparison to other states, these fees should be reevaluated to determine the appropriate level. A flat fee tends to decline in real value during periods of inflation.

Option #2. Most public finance economists feel that a heavy reliance on fees, charges, and licenses tends to be regressive. Expanded use of this revenue source should be considered with caution and in a context of the equity of the overall revenue system.

Summary and Conclusions

South Carolina's tax system is quite similar to that of the majority of other states in relying heavily on income and sales taxes and using a variety of lesser taxes, licenses, and fees to make up the balance of the state's revenue needs. Like other states, South Carolina's revenue system has managed to keep pace with rising income and prices and is mildly regressive overall.

All of the state's taxes are fairly standard in structure and range of rates. South Carolina's income tax is somewhat less progressive than average for states that use progressive income taxes, but scores better in a national picture where some states have no income tax at all and others have flat rate or nearly proportional taxes. The sales tax likewise is typical of national patterns in rate, coverage, and other aspects, although it includes some regressive features, such as taxation of food, exclusion of most services, and the cap on automobiles. The taxation of business is low by national standards as South Carolina continues to compete for new business location. The hodgepodge of selective sales taxes is typical of most states, although South Carolina's pattern hits some extremes with exceptionally low taxation of tobacco and exceptionally heavy taxation of alcoholic beverages, particularly beer. Estate and gift taxes make a moderate but important contribution, and could raise added revenue if they were slightly more progressive. Licenses follow the highly variable pattern of selective sales taxes, although not so extremely, with low taxes on automobile licenses and registration and high taxation on the production and sale of alcoholic beverages.

All of these taxes require careful review at regular intervals. Many taxes are specific in nature; their value falls with rising price levels. As the industrial mix, the demographics, and the composition of wealth, income, and spending changes, the General Assembly must be prepared to respond with a fresh look at what to keep, what to change, and what to discard in the state revenue system.

ENDNOTES

[1] These data on tax capacity and tax effort, and those cited for other taxes throughout this chapter, are taken from U.S. Advisory Commission on Intergovernmental Relations, 1986 State Fiscal Capacity and Effort, (Washington, DC,1989). A more detailed description of these computations is given in Chapter 1.

[2] The lowest rate was scheduled to drop to 2.75 percent in 1989 and 2.5 percent in 1990, revenues permitting. The drop was rescinded for 1989 but has taken effect for 1990.

[3] Indiana, Illinois, Pennsylvania, and Michigan.

[4] Consider an income tax that exempts the first $5,000 of income and taxes the rest at 10 percent. Tax as a percentage of income is zero for incomes up to $5,000, 5 percent of a $10,000 income, 6.67 percent of a $20,000 income, and 9.5 percent of a $100,000 income. Thus, even with a single rate, the tax rises as a percentage of income as income gets larger--the definition of a progressive tax.

[5] The highest possible federal rate is 33 percent and the top state rate is 7 percent, adding to 40 percent. However, the state tax is deductible on the federal return, reducing the combined burden by 2.31 percent, making the net combined burden of the two taxes 37.69 percent.

[6] There are several practical considerations to be examined if such a switch to a value added tax is made. For a discussion of these applied in another state, see Robert D. Ebel, "The Value Added Tax," Minnesota Tax Journal, Spring 1985, pp. 193-204.

[7] When Michigan adopted its present value added tax in 1975, it replaced eight taxes (including the corporation income levy) with a single levy on value added. This gave the new tax the name of the "Single Business Tax."

[8] U.S. Advisory Commission on Intergovernmental Relations, Changing Public Attitudes on Government and Taxes, (Washington, DC, 1989).

[9] U.S. Advisory Commission on Intergovernmental Relations, Significant Features of Fiscal Federalism, 1990, Volume 2, (Washington, DC, 1989).

[10] U.S. Advisory Commission on Intergovernmental Relations, 1988 State Fiscal Capacity and Effort, (Washington, DC, August 1990).

[11] See, for example, William F. Fox, "Tax Structure and the Location of Economic Activity along State Borders," National Tax Journal (December 1986) pp. 387-402; and Michael D. Walsh and Jonathan D. Jones, "More Evidence on the Border Tax Effect: The Case of West Virginia, 1979-1984," National Tax Journal, June 1988, pp. 261-266.

[12] John Due and John Mawkishly, Sales Taxation: State and Local Structure and Administration (Baltimore: Johns Hopkins University Press, 1983) p. 3.

ENDNOTES

[13] Monthly Labor Review, October 1986.

[14] The gift tax will be repealed effective January 1, 1992.

[15] The national average for licenses was 0.47 percent of personal income and $68 per capita. South Carolina ranked 33rd as a percentage of income and 40th in per capita terms. The national average for user fees and charges was 2.44 percent of personal income and $354 per capita. South Carolina ranked 10th as a percentage of income and 22nd in per capita terms.

[16] Public utilities also pay 3 mils on gross receipts, a fee per kilowatt hour for electric companies, an assessment to support the Public Service Commission, and regular corporate income and local property taxes.

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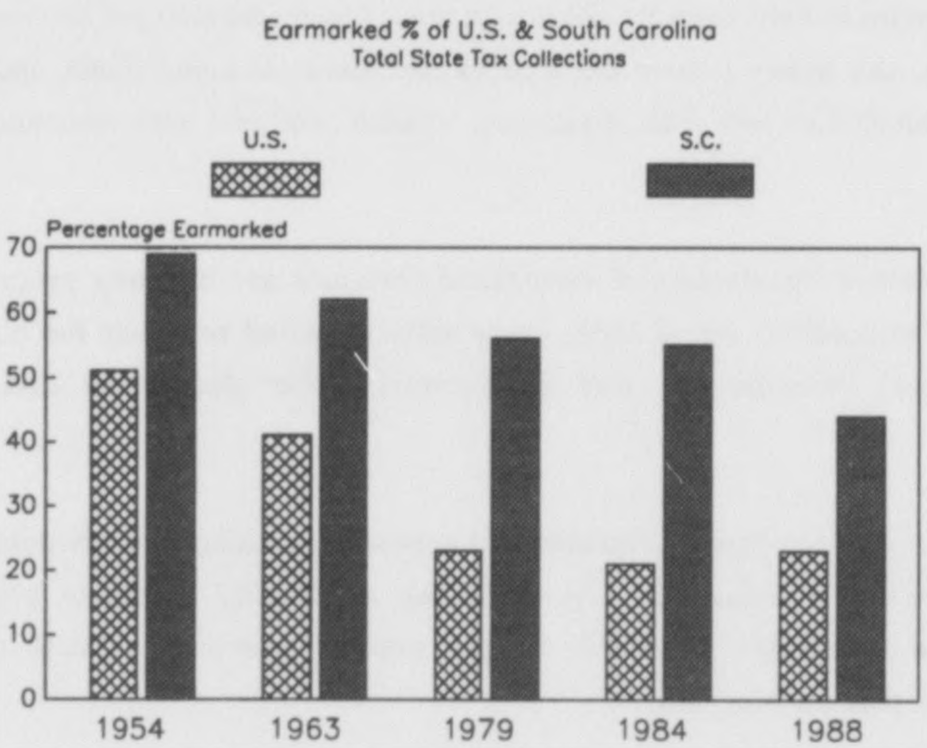
Appendix to Chapter 6
Earmarking and South Carolina

An alternative to the normal budget process of allocating general fund revenues for expenditures is known as earmarking. Earmarking is the designation of certain revenues for specific expenditures. State legislatures can earmark funds by either statutory provision or amendment to the state constitution. Statutory earmarking is more common since it gives the legislature greater flexibility in adapting earmarking to the present needs of the state.

Earmarking was a very popular way to allocate revenues in the 1950's. As a whole, 51 percent of state tax revenues were earmarked in 1954. But over the past thirty-five years, the proportion of tax revenues earmarked by states has contracted significantly. In 1988, the amount earmarked by states had diminished to 23 percent. As Figure 1 illustrates, the nationwide decline in earmarking has leveled off in recent years.

Figure 1



Source: Ronald K. Snell and Martha A. Fabricius, *Earmarking State Taxes* (Denver: National Conference of State Legislatures, July 1990.)

There are three reasons for the decrease in earmarking nationally. First, many states with a high proportion of earmarked revenues, eliminated the statutory or constitutional earmarking provisions. Second, several states enacted income and general sales taxes after 1954. Since these taxes constituted a large proportion of total state revenue and a small percentage of earmarked funds, taxes devoted to a specific purpose made up a smaller proportion of tax revenue.[1] Third, revenues from income and sales taxes grow faster than traditionally earmarked taxes such as excise taxes. As a result, slow-growing earmarked funds will make up a smaller percentage of total tax revenue.

Although every state earmarks revenues, each one uses this method of allocating revenues to varying degrees. Several states still earmark a large percentage of their revenues. Out of every $100, Alabama earmarks $89, while Montana and Tennessee earmark $72 and $66, respectively. At the other end of the spectrum, Rhode Island specifies only the allocation of 5 percent of its revenues. Seventeen of the states earmark between 18 percent and 28 percent of their revenues.

What are the taxes that are frequently earmarked?, And what programs or expenditure categories benefit from it? Although most taxes and charges are earmarked in at least one state, the general sales tax and excise taxes on motor fuels, motor vehicle registration fees, alcoholic beverages, insurance, tobacco products, and severance are most frequently used.

The most common benefactors of earmarked revenues are highway programs, local governments, and education. As of 1984, every state specified revenues for highways, 45 earmarked for local governments, and 22 earmarked for elementary and secondary education.

It is not clear whether these programs and expenditure categories actually gain more funding as a result of earmarking. Nevertheless, separating a certain percentage of funding for these categories from the budget process prevents volatile changes in expenditures for important programs.

South Carolina

South Carolina has followed the national trend of lower earmarked revenues as a percentage of total revenues. Between 1954 and 1988, the state proportion of earmarked revenues dropped 25 percentage points (only three points less than the 28 point decrease in the national average). Despite the significant decrease in earmarked revenue, the state's proportion of tax revenue earmarked increased from eleventh to sixth (among the forty-six states responding to a National Conference of State Legislatures survey conducted by Snell and Fabricius, July 1990).

In fiscal year 1988, South Carolina earmarked 44 percent of fifteen revenue sources accounting for almost $1.5 billion. The state's general sales tax is the largest contributor to South Carolina's earmarked funds, constituting more than two-thirds of the total. All sales tax revenues are devoted to education. The other state revenue that is earmarked for education is the excise tax on soft drink sales. All the state funds from this tax, approximately $20 million, are allocated to this function.

After education, the transportation system is the next largest benefactor from earmarking. Revenues from the motor fuels tax is completely devoted to highway expenditures ($290 million). Unlike education and highways, local government receives earmarked monies from many revenue sources. The personal income tax is the largest contributor at $74.3 million. This makes up 54 percent of revenues earmarked for local government. In addition, a portion of several excise taxes is dedicated to local government including: insurance, alcoholic beverages, motor fuel, beer and wine, banks, and motor transport. Earmarked funds for local governments experienced the largest change since 1984. The state reduced alcoholic beverage monies for local governments by 11 percent.

Other smaller programs and expenditure categories that receive earmarked funds are local-tourism, tourism, local-aging, local-parks, planning district, and forestry. Part of the accommodations and admissions taxes are allocated to local-tourism and tourism, respectively. Earmarked funds for local-aging and local-parks are received from bingo revenues. Monies earmarked for planning districts are received from other revenue (miscellaneous). Finally, all funds collected from forest renewal are allocated to forestry.

Table 1
Earmarked Revenues in South Carolina
FY 1988

State Tax	Total Collections (millions)	Amount Earmarked (millions)	Disposition: Percent Dedicated	Disposition: Recipient
Sales or Gross Receipts				
General	$1,006.6	$1,006.6	100.0%	Education
Alcoholic Beverage	46.5	14.7	31.6	Local Government
Bank	7.7	3.5	45.4	Local Government
Beer & Wine	67.7	11.5	16.9	Local Government
Insurance	76.3	16.4	21.4	Local Government
Soft Drinks	19.6	19.6	100.0	Education
Accommodations	13.7	13.7	100.0	Local-Tourism
Admission	4.1	4.1	100.0	Tourism
Bingo	1.2	0.3	25.0	Local-Aging
		0.9	75.0	Local-Parks
Income Personal	1,142.0	74.3	6.5	Local Government
Highway User Motor Fuel	17.2	14.6	84.8	Local Government
Motor Transport	5.3	1.4	26.4	Local Government
Motor Fuels	288.9	288.9	100.0	Highways
Miscellaneous				
Other Revenue	543.0	1.4	0.3	Planning District
Forest Renewal	0.3	0.3	100.0	Forestry

Total Tax Revenue: $3,343.7
Total Dedicated Revenue: $1,472.2
Proportion Dedicated to Total: 44.0%

Source: Ronald K. Snell and Martha A. Fabricius, Earmarking State Taxes (Denver: National Conference of State Legislatures, July 1990), p. 46.

The Pros and Cons of Earmarking

Despite the universal application of earmarking, there are divergent opinions whether it is a fiscally sound method of allocating revenues.

A justification for earmarking is referred to as the benefits principle. If the users of a government service are the ones who pay for it through taxes or user fees,[2] then earmarking can have a great deal of merit. South Carolina has applied this rationale to its earmarking of revenues from motor transport and motor fuel taxes for highway expenditures. Allocating accommodations and admissions taxes to tourism also seems to develop from the benefits principle. However, earmarking general sales taxes for education fails to meet any criteria of linking costs to benefits.

Another justification for earmarking is that it assures a minimum level of expenditures for programs. A guaranteed amount of funding ensures stability and continuity for these programs. This advantage of earmarking is necessary only if the program is in danger of being cut below the earmarking level or eliminated. South Carolina's earmarking of general sales tax revenue for education does guarantee a minimum level of expenditures for this function. However, the amount earmarked is only a fraction of total expenditures for education. Since the amount earmarked is well below the amount necessary to maintain the education system in South Carolina, it does not serve as a lower boundary of funding.

A final justification is that earmarking enables legislatures to enact tax increases that otherwise could not have passed. For example, New Jersey voters first rejected casino gambling in 1974, when its revenue was not earmarked, but in 1976 they voted for casinos when revenue was earmarked for senior citizens.[3]

One of the criticisms of earmarking is that it limits the legislature's flexibility to adjust the expenditure system to adapt to changes in the needs or preferences of the state. Another drawback is that programs receiving earmarked funds are not frequently reevaluated. This may lead to the under- or over-allocation of monies for programs. For example, a program receiving earmarked revenues may no longer be a priority of the state, yet still receive a guaranteed funding level. Another scenario is that a program may remain a priority of the state, but without a periodic review inflation and stagnant excise tax revenue may erode the real dollar value of the earmarked revenues. Eventually, the rigidness and lack of review that can result from earmarking may lead to the misallocation of resources.

ENDNOTES

1 Eleven states adopted broad-based individual income taxes and thirteen states adopted general sales taxes since 1955. U.S. Advisory Commission on Intergovernmental Relations. Significant Features of Fiscal Federalism 1990 Volume 1, (Washington, DC, January, 1990). p. 26.

2 Steven D. Gold, "The Pros and Cons of Earmarking," State Legislatures, July 1987, p. 30.

3 Ibid.

Chapter 7: Local Revenue Sources

Local governments in South Carolina include general purpose governments, counties and municipalities. The 91 school districts and hundreds of special purpose districts bring the total of governmental entities in South Carolina to more than 850. All of these local governments rely primarily on the property tax as a local revenue source (supplemented by state aid), the accommodations tax, licenses, and fees. In the 1990 referenda, six counties added the local option sales tax to this list.

The South Carolina Property Tax

South Carolina's property tax, inherited like those of other states from the British property tax, dates from colonial times. Property tax rates are set locally and the tax is administered by the counties, which assess the value of the property and collect the tax for themselves as well as for the municipalities and the school districts within each county. Some counties have special tax districts providing one or more services to designated areas (a fire district, for example) with an additional property tax levy. Industrial property -- manufacturing real property, utility real property, and business personal property -- is assessed by the state but taxed locally.

Intensity of Use

South Carolina, like many southern states, has a reputation for low property taxes. One way to compare property taxes among states is the average effective property tax rate on single-family homes, which measures the tax burden on FHA-insured homes as a percentage of the market value. In 1987, the average effective property tax rate in South Carolina was 0.72 percent, compared to a national average of 1.15 percent. South Carolina ranked 40th in the effective tax rate on single-family homes in the nation. The average effective rate for South Carolina has, in fact, converged toward the national average; its rate is now 63 percent of the national average, while in 1966 it was only 35 percent of the national average.[1] However, because single-family homes are assessed at the lowest rate of 4 percent in South Carolina, a comparison of tax burdens on such homes may overstate how low the state's property taxes are overall relative to the rest of the nation.

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Since taxes are collected on personal, industrial, and commercial property as well, a broader measure of dependence on the property tax would compare per capita property taxes ($285, or 60 percent of the U.S. average) and property tax per $1,000 of personal income (2.6 percent, or 79 percent of the U.S. average). Both these figures confirm the previous indication that South Carolina's property taxes are below the national average, although not as dramatically.

Another way to compare taxes is provided by the tax capacity and tax effort measures of the representative tax system used in previous chapters. South Carolina's overall property tax capacity (the amount that could be raised from the state's tax base at national average rates) was 75 percent of the national average in 1988. Tax effort was also low -- the state's effort was only 79 percent of the U.S. average. Tax capacity is also measured for particular components of the property tax base. South Carolina's greatest tax capacity is in public utilities, which is 134 percent of the U.S. average. Tax capacity for residential property is 71 percent of the U.S. average, for farms only 57 percent, and for commercial and industrial property, 74 percent.

Revenue Yield

The property tax accounted for 23.3 percent of all state-local taxes in South Carolina in 1987, compared to 29.9 percent for the nation as a whole; and 13 percent of combined state-local revenue from all sources in 1987, versus a U.S. average of 17.7 percent. These figures reflect both less reliance on the property tax and more centralization of state-local revenue collection in South Carolina compared to other states.

The property tax is the primary local tax revenue source, accounting for 91.8 percent of local tax revenue in South Carolina (compared to 73.7 percent nationwide). This figure simply indicates that South Carolina's local governments, unlike local governments in many other states, did not have direct access to any other tax source until the passage of the Local Government Finance Act in 1990. However, local governments in South Carolina also rely on some other locally generated revenue sources -- business licenses and fees and charges -- and share in some state taxes through state aid to subdivisions. Property taxes represented only 27 percent of local revenues from all sources in South Carolina in 1987, close to the national average of 28.4 percent.

The property tax provides revenues for school districts as well as counties and municipalities. In 1987, 58 percent of South Carolina property tax collections went to school districts, 26 percent to counties, 14 percent to municipalities, and the remaining 2 percent to special districts and the state. Nationally, municipalities receive a larger share of property tax revenues (22 percent), also about equal to that of counties (22.6 percent).

The General Assembly has for several years explored ways to provide property tax relief by making other revenue sources available to local governments in trade for a partial rollback of property taxes. A five-year rollback of property taxes (63 percent the first year, rising to 71 percent in the fifth year), was a part of the local option sales tax authorized in the 1990 legislative session. Thus, the present degree of reliance on the property tax can be expected to fall sharply in the next five years in those counties that authorize use of the local option sales tax.

Basic Features

The British property tax, as well as all of its descendants, is a tax on the ownership of real property and such other property as may be designated to be subject to the tax. The property tax is a very old tax, with its history rooted in England and colonial America. Even the language -- the mill is an old English coin worth one-tenth of a cent -- represents its ancient lineage.

In order to determine the tax owed, the tax collector must first determine some value to be established for the property. In some states, the constitution calls for property to be assessed at full market value, although this is virtually impossible to achieve. Because market values are constantly changing, and the costs of continuous reassessment are prohibitive, assessment at less than 100 percent has become a common practice. Differential assessment for some categories of real and personal property is used in twenty-two states, with the number of classifications ranging from two in four states to thirty-two in Minnesota. Seventeen states, including South Carolina, designate classifications by value. That is, an assessment rate (the ratio of assessed value to full market value) is specified for each class. The remaining states differentiate classes by rate. In these states, all property is assessed at the same percentage of market value, but the mill rate differs by property classification. The distribution of the tax burden is quite different under use classifications than it would be if all property was valued at the same percentage of full market value or taxed at the same rate.[2]

Property taxes in South Carolina are levied on real property and some types of personal property. The lowest assessment rate (4 percent) applies owner-occupied real estate and agricultural and forestry land. Classification of large amounts of acreage as agricultural and forestry lands, assessed at a much lower use value rather than market value, represents a significant erosion of the tax base in several counties. The 4 percent assessment for owner-occupied residential property requires the owner to apply for the lower rate. Thus, some individuals may fail to take advantage of this lower rate. Agricultural and forestry land is assessed at current use value rather than fair market value in its highest and best use. If it is subsequently sold for a different use, five years of back taxes will be assessed at the new use classification and value.

Commercial property (including residential rentals) is assessed at 6 percent of fair market value; industrial property (10.5 percent); and some items of personal property, primarily cars, trucks, motorboats, airplanes, and business equipment (10.5 percent). The state collects a few special property taxes, such as the tax on aircraft, but most of the property tax is collected and spent at the local level.

The state oversees the accuracy of local assessment with studies that verify the ratio of assessed value to actual selling price for real property. The local assessor must be within 80 percent to 105 percent of actual market value, and the index of inequality among similar properties (a statistical measure of variation) must be less than 15 percent. Once a county falls outside these limits, reassessment is required. The frequency of required reassessment varies from county to county, with more frequent reassessment in faster growing urban and suburban counties; typically, reassessment will take place every three to seven years. The state also provides training for assessors, appraisers, and auditors and requires their attendance.

Other states use broader or narrower definitions of property subject to property tax. Both South Carolina and North Carolina, for example, have recently eliminated the unpopular inventory tax. North Carolina, like many other states, has an "intangibles" tax on financial assets such as stocks and bonds. The rationale for including such items is that the property tax is a tax on wealth -- indeed, the only tax on wealth other than the inheritance tax -- and a tax that does not discriminate between different forms of wealth needs to be as inclusive as possible. South Carolina has never used an intangibles tax.

As a local tax, the property tax is applied at different rates in different jurisdictions. The taxpayer receives a combined bill for county taxes, school taxes, and, for those living inside municipal boundaries, city taxes. The bill identifies the three components. Cities and counties may charge different rates from neighboring jurisdictions because home owners place a positive value on the benefits from local services financed through the property tax that must be weighed against the tax burden. In particular, such services as police protection, fire protection, street maintenance, sanitation, and street lights are services to residences and their occupants, and the property tax is an appropriate vehicle to finance such property-related services.

The Property Tax and the Schools

In South Carolina, the largest claimant on the property tax is the school system. School districts have only two major revenue sources, state support and the local property tax. The state provides the lion's share of support for the schools at 58.6 percent of total state-local educational expenditures. Elementary and secondary education accounted for 37 percent of state spending in 1987. Since South Carolina is a low-income state, the effort that has been made to bring the school system in line with national standards has been a strenuous one. By 1987, in the second full year of the Educational Improvement Act, South Carolina was spending $568 per capita on education, compared to a U.S. average of $644 ($620 excluding Alaska). As a percentage of personal income, however, South Carolina's 5.10 percent for education was well above the U.S. average of 4.44 percent (4.27 percent excluding Alaska).

At the local level, the use of the property tax as a primary revenue source is shared among counties, municipalities, and school districts. Typically, the school district's millage will be the largest of the three. To some extent, tax rate differences among school districts are reflected in the quality of the schools, so that parents may choose to live in a higher tax district in order to have access to better schools for their children. Differences in tax burdens are reflected in the prices of homes, but so is school quality; similar houses in different school districts even in the same county can sell for substantially different prices because one is located in a particularly attractive school district. While this pattern exists across the country, it is not as strong in states like South Carolina where a substantial share of school finance, and equalization among poor and rich districts, is undertaken at the state level.

Unlike county and city councils, most school district boards have limited or no flexibility in setting their mill rates. Thirteen of the 91 districts have complete fiscal autonomy. Nine districts in two counties (Bamberg and Spartanburg) must seek approval from a county board of education, but the county board has complete fiscal autonomy. Thirty districts have limited statutory authority to increase the mill rate, ranging from 3 to 10 mills (a formula determines the limit in Pickens, and the limit is 10 percent in

Chesterfield). Beyond that limit they must seek approval from either the county council, the legislative delegation, or the voters in a referendum. Five counties are authorized to increase the millage to the degree required to meet the maintenance of effort requirements of the Educational Improvement Act, beyond which they must seek approval from the council, legislative delegation or referendum. The remaining 34 districts have no authority and must seek approval from the county council or the legislative delegation (or in the Florence County districts, a town meeting.) Thus, with state aid determined by formula and only limited authority to adjust the mill rate, school boards have relatively little discretion on the revenue side of their budgets.

State Property and the Local Tax Base

There are a number of jurisdictions in which the state of South Carolina is a major property owner -- sites of state colleges, parks, hospitals, prisons, and other facilities. If these sites were in the private sector, the local government would be receiving tax revenues. In some cases these facilities use local public services -- for example, waste disposal or sheriff's protection. In a few cases, these facilities even generate students that attend local public schools. The federal government has a limited program of aid to federally impacted areas, mainly military bases. In ten states, the state has agreed to pay property taxes on some of its property. In nine states, the state makes full payments in lieu of taxes (PILOT) to the local government in order to compensate for the loss of tax base and the added public service demands. Another eighteen states make partial payments in lieu of taxes.[3] South Carolina has no general program of reimbursement, although there are a few payments involving public utilities and the Public Service Commission.

Who Pays the Property Tax?

The first step in determining how the burden of the property tax is distributed among various groups is to examine the composition of the property tax base. Using appraised value avoids the problem of differential assessment ratios. According to the Tax Commission, the real property tax base in South Carolina is 38 percent owner-occupied residences, 2.6 percent agricultural, and 20.2 percent manufacturing and utilities.[4] A residual group of real property, primarily rental and commercial, accounts for the remaining 25.1 percent. Real property of all kinds makes up 86 percent of the appraised value, while the remaining 14 percent is business and individual personal property -- cars, boats, business equipment, and tools. However, in terms of assessed valuation, the figures change dramatically. Real property constitutes only 78.7 percent of the assessed value, compared to 86 percent of the appraised value, shifting part of the tax burden to business and household personal property. Within the category of real property, owner-occupied real estate drops to 24 percent, and agricultural land to 1.7 percent, while manufacturing and utilities increase to 33.9 percent, and commercial rental properties to 37.4 percent. Thus, differential assessment results in a major reallocation of the tax burden.

A higher proportion of the tax falls on commercial and industrial property in South Carolina than in other states, and a lower share on residential property. Even though much of the acreage in South Carolina is assessed at the lowest (4 percent) rate, and land prices in South Carolina are low by national standards, the share of acreage and lots in the assessed value tax base is still slightly higher than the national average -- an indicator of the still rural nature of much of the state.

While differential assessment appears to discriminate against income-producing manufacturing and commercial properties, there are mitigating factors. First, while the differential burden on older industrial property is quite high, the total industrial burden is reduced by the five-year forgiveness of local non-school taxes for some firms that are investing in new facilities or major expansions. In addition, other states as well as South Carolina favor residential property (especially owner-occupied) over other types of property, so that the differential assessment is not necessarily a handicap in attracting industry. Finally, although a larger share falls on business properties, the overall rates are low compared to the U.S. average.

Because South Carolina puts a larger part of the tax burden on commercial and industrial property than the rest of the country, it is difficult to determine incidence. Property taxes on business firms ultimately fall on owners, employees, and customers in varying combinations. The burden of the property tax clearly falls on the owner for owner-occupied residential property. Economists disagree on the division of the burden of property taxes on rental property between owners and renters, although at least some part of the tax falls on renters in the form of higher monthly rent. Residential property taxes, in general, tend to be regressive, since the lowest 20 percent of households spend 35.8 percent of total outlays on housing versus 30.6 percent for all households.

Personal property taxes are probably less regressive than taxes on residential real estate, although it is difficult to determine the relationship between a family's income level and the value of cars, boats, and airplanes owned. The effective rate on such property is quite high by national standards because the assessment rate of 10.5 percent makes the effective rate on a car 163 percent higher than the effective rate on owner-occupied housing. It is quite possible for some families to have a tax bill on a new car that is higher than the tax bill on their older house.

Property taxes on commercial and industrial property fall on their customers, employees, and owners in varying combinations. A larger proportion of the tax is borne by commercial and industrial property in South Carolina than in many other states because of the higher assessment rates. To the extent that the tax is borne by the owners, it is progressive; to the extent that it is shifted forward to customers or backward to employees, it is difficult to determine whether this part of the property tax is proportional or regressive.

It is the practice in South Carolina, as in many states, to use property tax breaks as a way to lure new industries to the state. The chief tool is the five-year exemption of county and municipal (but not school district) property taxes. This exemption is not costless. The new industry generates revenue for the state in the form of income and sales taxes, but the county experiences only service demands. The tax burden is shifted to older industries and residential and commercial property.

Accommodating the service needs of the new firms may also mean lower service levels for residents and existing firms. Counties are now allowed to negotiate a flat fee for services in lieu of property taxes with new industries investing more than $85 million. However, this may not address this problem of added service demands with no added local revenue because of the decreasing real value of the fee resulting from inflation. In addition, the county's growth will cause a greater demand on public services, like education. Since the flat fee covers school as well as county taxes, it is possible that education revenues may not grow as rapidly as the need for services resulting in lower per student expenditures.

Tax Relief for Residential Property

In South Carolina, the regressivity of property taxes on residential property is reinforced by the absence of a homestead exemption or circuit breaker aimed specifically at low-income households. In addition, rental property, more likely to be occupied by the poor, is assessed as commercial property at 6 percent, while owner-occupied property is assessed at only 4 percent of market value. Thus, for identical properties, the tax on the rental property tax would be 50 percent higher.

Many states have taken steps to mitigate the burden of the tax on residential property. In South Carolina, both differential assessment and a homestead exemption offer some relief. While differential assessment works against renters, both owner-occupied and rental property are assessed at lower rates (4 percent and 6 percent) than industrial and personal property (9.5 percent and 10.5 percent, respectively).

A homestead exemption for the elderly and disabled of the first $20,000 of owner-occupied real property relieves the burden on more than 150,000 such households in South Carolina. These two groups do not necessarily have a higher incidence of poverty than the general population, so the redistributional effect does not necessarily benefit the poor. In thirteen other states, the homestead exemption includes income thresholds in order to direct the benefits to the poor. Other states grant exemptions ranging from $1,000 to $50,000 to all home owners, irrespective of income.

Another mechanism used in thirty-two states to ease the burden of the property tax on the poor is the circuit breaker, which always has an income ceiling. A circuit-breaker is a state income tax rebate for a part of the property tax. Five states make this benefit available to all households (including renters) subject to an income ceiling, while other states limit the benefit to low-income elderly, home owners, disabled, or other categories. Income ceilings for eligibility range from $5,000 (West Virginia) to $82,650 (Michigan), with most in the $5,000 to $20,000 range. South Carolina does not have a circuit breaker. Unlike the homestead exemption, the circuit breaker can also benefit renters.

Rating the Property Tax

The property tax is highly visible and for that reason tends to be politically unpopular. Its chief attraction as a local revenue source lies in the fact that it is difficult to evade the tax by relocating one's purchases, work, or business location. The land remains within the confines of the taxing district. Still, local governments are aware that they are somewhat constrained in the intensity with which they use this tax. If city A's property taxes are too high, citizens are likely to locate in city B when they move into the area unless city A's services are extremely attractive. In extreme cases, citizens may even decide to relocate from city A to city B solely for tax reasons.

The property tax has several drawbacks that limit its use and lead local governments to seek supplementary resources. Because the tax is collected annually, it is highly visible, much more so than sales, income, and selective sales taxes. Several years ago, the state shifted the collection of personal property taxes on motor vehicles to a staggered basis linked to renewal of registration, so most households now receive real and personal property tax bills at different times. With several cars, the personal property tax is likely to be spread through the year also. The real estate part of the tax (unlike personal property) is also relatively expensive to administer because assessment is a complicated, skilled-labor-intensive procedure. Assessors have to determine the market value of properties that are somewhat unique and traded infrequently. Each unit is a special case, and claims of inequities both add to the administrative burden and make the tax even more unpopular.

Finally, the property tax base tends to be distributed even more unequally than income or sales tax bases, creating tax-poor districts and tax-rich districts. The gap between the per capita taxable property base from the poorest to the wealthiest districts in South Carolina is huge, from under $1,000 in Saluda County to over $4,000 in industry-rich York and tourism-rich Horry. Since the property tax continues to be a major source of revenues for the public schools, the state must intervene heavily to provide a minimum standard for schools in the poorer districts. In addition, differences in property tax bases mean that cities and counties have very unequal ability to finance other local public services, such as public safety, road maintenance, recreation, and sanitation. A wealthy property owner in a poor district will receive far less in public services per dollar of taxes paid than a poor to average taxpayer in a wealthy district. This difference in services per dollar of taxes discourages wealthier residents, retail stores and services, and some kinds of industry from locating in the poorer districts and enhancing their taxable wealth. Thus, the property tax has in the past been a major contributor to fiscal disequalization within states, forcing states to intervene to offset the effects of an unequal distribution of taxable wealth. South Carolina is not an exception.

Options for Reform

South Carolina's property tax shares the advantages and drawbacks of property taxes across the nation. While it provides a stable and dependable local revenue source, its drawbacks are numerous enough to suggest that it needs some careful review and that perhaps it should remain a "junior partner" in the revenue mix.

Option #1 If the distribution of the burden of the property tax is considered to be too regressive, several options can be explored. One option is to add a circuit breaker, or property tax credit, to the state income tax. This option will reduce state revenues without affecting property tax collections. A second option is to modify the present homestead exemption so as to include all families below the poverty level, either in addition to or in place of the present exemptions for the elderly and disabled (in order to minimize the revenue impact). A third approach is to combine these two methods. It is important to note that an extension of the homestead exemption will reduce revenues of school districts which are not reimbursed and will result in revenue losses for the state due to reimbursement of cities and counties for property tax revenue losses.

Option #2 The present system of classification places a relatively heavier burden on industrial/utility property and on personal property of both firms and individuals (cars, boats, etc.), and in favor of certain other classes. The classification scheme, although embodied in the state Constitution, should be reviewed for its distributional impact and its effects (if any) on business location and expansion.

Option #3 In order to make property taxes on residences more equitable, consideration should be given to whether residential property of all kinds, whether owner-occupied or rented, should be assessed at the same rate. If both are assessed at the lower (4 percent) rate, there might be some relief for renters, depending on how much of the tax reduction was passed on in the form of lower rent, but there would also be a revenue loss. If both are assessed at a higher rate (both at 6 percent, or a compromise 5 percent rate), there would be considerable resistance from home owners to a 20 percent increase in their tax bases.

Option #5 The General Assembly should explore whether there is a need for payments in lieu of taxes to local governments that have a significant tax base loss to state institutions and facilities.

Option #6 Most local elected school boards have little flexibility on the revenue side of their budgets. Since most school districts are elected and therefore accountable to the voters, the General Assembly may want to explore granting more autonomy in setting the mill rate for school purposes.

Option #7 Heavy reliance on the property tax as a local revenue source creates large gaps between poor areas and wealthy areas in their ability to finance local public services. South Carolina has relied less on the property tax and more on state aid to finance these services than many other states. When the General Assembly considers funding of state aid to subdivisions, alternative local revenue sources, and mandating local government programs and services, the property tax impact of such actions should be considered as an important aspect of the decision. That is, a local property tax impact statement for each such proposal would keep the General Assembly mindful of how the proposal would affect fiscal equalization.

Other Local Taxes, Fees, and Charges

Although the property tax is the backbone of local government revenues, cities and counties (but not school districts) in South Carolina can tap other own-source revenues. In the 1970's, the Local Government Study Committee of the General Assembly explored alternative revenue sources for local governments. A number of options were identified as possible supplements to or substitutes for the property tax and/or state aid. The first of these options to be enacted, on a very restricted basis, was the accommodations tax. The only other one of the numerous options considered to eventually find its way into law was the local option sales tax. Since 1985, cities and counties have received revenue from the accommodations tax. Beginning in 1991, at least some counties and municipalities will be receiving revenues from the local option sales tax. Both of these options should provide more autonomy for cities and counties and less centralization of revenues in South Carolina in the decades to come.

The accommodations tax is treated as an extension of the sales tax in South Carolina, but in most states it falls in the category of selective sales taxes. Nationally, in 1987, cities derived about 11 percent of tax revenues and 6.5 percent of all own-source revenues from selective sales taxes, including accommodations taxes. Counties derived 15.6 percent of tax revenue and 9 percent of all own source revenues from selective sales taxes. In South Carolina, this relatively new tax is the only selective sales tax that can be classified as a local tax.

The Accommodations Tax

South Carolina adds a 2 percent surcharge to the sales tax on transient accommodations (chiefly hotels and motels) as a designated local revenue source. These funds are collected by the Sales Tax Division of the South Carolina Tax Commission and distributed to the place of origin, apportioned on a formula basis between county and municipality. Forty-two other states have an accommodations tax that is separate from (sometimes, like South Carolina's, in addition to) the general sales tax. In most of these states, the tax is a local option, used in some jurisdictions and not in others, usually with the state specifying an upper limit on the rate. A few states use it as a state revenue source, some with the option of a local supplement. Several states also have a separate tourism impact or tourism promotion tax, usually at very low rates. Florida, a major tourism state, has a tourism development tax, a tourism impact tax, a municipal resort tax, and a county lodging tax in three counties.

The accommodations tax in South Carolina has some aspects of a local tax in that it is returned to the place of origin and at least part of the funds are unrestricted as to use. However, it is not optional; the tax is collected on all transient accommodations in the state. Furthermore, the law specifies the use of the funds; the first $25,000 is allocated to the general fund of the municipality or county, 25 percent of the rest must be used for tourism promotion, and the balance must be spent on tourism-related expenditures. Thus, this tax provides little in the way of either additional discretionary funds or potential property tax relief.

In 1987-88, the accommodations tax provided $8.5 million of revenue distributed to municipalities and $4.7 million to counties, for a total of $13.2 million. In a few counties, the sums were substantial; Horry County, home of the largest segment of the tourist industry, received $853,758, and seven other metropolitan counties received more than $200,000 each. The major beneficiaries, however were cities, such as Columbia, Charleston, Greenville, Hilton Head, and Myrtle Beach. Overall, the accommodations tax has proved to be a modest but significant source of local revenue in the 1980's.

The Local Option Sales Tax

The newest revenue source available to county and municipal governments is the local option sales tax, subject to approval in a binding referendum in each county.[5] If it had been adopted in all forty-six counties, the South Carolina Tax Commission projected $288 million in revenues, with $101 million going to municipalities and $187 million to counties. Counties and municipalities that adopt the tax are required to roll back their property taxes by 63 percent of the amount of sales tax revenue in the first year, rising by 2 percent a year to 71 percent in the fifth year and subsequent years. The rollback will be expressed as a credit on the tax notice. Thus, like several other states, South Carolina has required that the local option sales tax be used to provide a mixture of additional revenue and property tax reduction. Unlike most other states, however, South Carolina has added an element of fiscal equalization to the local option sales tax, requiring counties that raise more that $5 million in revenues to contribute up to 5 percent of revenues to a fund that is shared among counties that raise less than $2 million. Prior to the referendum, fifteen urban counties were projected to be contributors to the fund to bring the revenues in nineteen rural counties up to $2 million each (provided revenues are sufficient). The remaining twelve counties would neither contribute to nor receive from the fund. The rationale for this fund is not only fiscal equalization but also spillovers; shopping and retail facilities tend to be concentrated in a few urban counties, attracting customers from rural and suburban counties. In the November 1990 elections, 6 counties approved the tax. Of these counties, Charleston will be contributing to the shared fund and Hampton, Jasper, McCormick, and Marion will be recipients. Colleton residents approved the tax as well, but they are projected to raise between $2 and $5 million.

South Carolina has now joined thirty other states in allowing local governments to use a sales tax. Nationally, 8,814 local jurisdictions -- mostly counties and municipalities with a sprinkling of school districts and transit districts -- collected local sales taxes in 1989. Local rates ranged from a county tax of 0.25 percent in Nevada to a city tax of 6 percent in Delaware (which has no state sales tax). Some states offer local governments a range of rates, or allow them to set their own rates, but a state-mandated single rate as in South Carolina is also a fairly common practice. Although this tax accounted for only 4.2 percent of local government general revenue nationally, it is far more significant if one examines only states where it is authorized (rather than all states). In five states -- Alabama, Louisiana, Tennessee, Oklahoma, and Colorado -- the sales tax accounts for more than 10 percent of local revenues.

The local option sales tax does not provide any direct fiscal relief for school districts. To the extent that city and county property taxes are rolled back, however, this tax may enable school districts to more easily increase the school millage within the constraints of their limited fiscal autonomy.

Rating the Accommodations and Local Sales Taxes

The accommodations tax is obviously a very attractive revenue source for several reasons. It is progressive in impact, since travel is consumed heavily by higher income groups. It is exportable, since many of the taxpayers are from other states. Since tourism, particularly along South Carolina's Grand Strand, creates added expenses for local governments -- police, fire, sanitation, street maintenance -- the accommodations tax has elements of a benefit tax to pay for added service demands. Although the revenue generated is not substantial overall, it is significant for some local jurisdictions, particularly the major urban counties and the coastal counties. The rate is not high in comparison to those of other states, so there is room to expand. The tax is easy to administer as an adjunct to the sales tax.

The local option sales tax is the most popular option nationally and has grown rapidly. The number of local jurisdictions with sales taxes has more than doubled in the last twenty years. Although the tax is regressive, it is not necessarily more so than the property tax which it is designed to partially replace. Revenues keep pace with income, an important consideration for local governments. The tax is less expensive to administer than the property tax. While the revenue base is distributed very unevenly among counties, the South Carolina tax provides some modest degree of fiscal equalization.

Licenses, Fees, and Charges

Nearly all municipalities receive revenue from business licenses, and cities and counties charge a variety of special fees for particular local services, such as garbage pickup and recreational programs. In 1987, South Carolina's cities and counties generated $1,132 million in revenues from these sources, accounting for 52 percent of local government own-source general revenue -- more than the property tax. Nationally, such sources accounted for 38 percent of city and county own-source general revenue. This heavy reliance on fees and charges is at least partly due to limited availability of other nonproperty revenue sources.

Water and sewer charges are a significant component of the total revenue from fees and charges in South Carolina, with business licenses, other licenses, parking fees and fines, and miscellaneous fees accounting for the rest. Business licenses are a rough substitute for a local business income tax. To the extent that commercial facilities generate more demands on the city -- sidewalks, fire and police protection, and sanitation in particular -- the business license fee may be justified as a benefit tax.

Fees and charges have several advantages as a revenue source. They are a stable source of income, they are relatively easy to adjust for changes in costs, and they provide a measure of demand and some control on overuse for certain kinds of services. Free parking, for example, will be in greater demand than a municipal lot that charges by the hour, and the price of water or the fee to use a city park is some deterrent to overuse. The chief drawback of fees and charges are that they tend to be burdensome on the poor. In addition, many services do not lend themselves to the use of fees and charges, and must be financed out of general tax revenues. Finally, some fees and charges -- particularly water fees -- are more that adequate to cover current operating costs of the service for which they are charged, with the additional revenue used to finance other city services. This practice creates an arbitrary tax on the users of one particular service in order to finance other services whose benefits are distributed differently. Where fees are used, they should be reasonably related to the cost of service provision, with non-fee type services financed out of general tax revenues.

Options for Reform

Both the accommodations tax and the local option sales tax are quite new, so reform may be premature at this stage. Experience in other states, however, suggests that there are possible changes in design to make these taxes even more useful as a local revenue source to supplement and even partially replace the property tax.

Option #1 To the extent that cities and counties need more flexible and responsive revenue instruments, and need to reduce dependence on fees and charges, the General Assembly should continue to explore providing cities and counties with additional revenue options. While the accommodations tax was passed and a modified local option sales tax is now available, other options that derived from the 1977-78 local revenue diversification study -- a local piggyback income tax, local amusements tax, local admissions tax, and local motor vehicle tax -- should also be considered.

Option #2 As presently designed, neither the accommodations tax nor the local option sales tax is truly a local tax. Consideration should be given to whether cities and counties should be given more discretion in the use of accommodations tax revenues. After the initial experience, the legislature may wish to review the property tax rollback requirement and the fiscal equalization aspects of the local sales tax.

Option #3 South Carolina's tourism industry operates in a competitive market, so the accommodations tax rate must be kept in line with those of other states. Nevertheless, the rate for this tax should be reviewed periodically in the light of what is happening to rates in other states.

State Aid to Subdivisions

All states share some revenue with local governments, either directly through distribution of funds or indirectly through assuming some expenditure responsibilities. The primary reasons for such sharing of revenues are the superior revenue-raising capabilities of the state, and the need to equalize the resources available to local governments in richer and poorer counties, cities, and school districts. In addition, states often mandate certain expenditure responsibilities at the local level in such areas as education, law enforcement, and health care, and state aid in funding helps assure that the local government will have the resources with which to carry out those responsibilities. Finally, some payments from state to local governments may compensate local governments for state-mandated exemptions from the property tax, such as the homestead exemption in South Carolina and other states.

In 1987, state aid constituted 34.9 percent of local government revenue from all sources in South Carolina, compared to a national average of 33.3 percent. Excluding federal aid, state aid was 36.5 percent of the total, compared to a national average of 35 percent. As we noted in Chapter 4, revenue collection is highly centralized in South Carolina. Part of the centralization is reflected in a higher state share of expenditures rather than a significantly higher ratio of state aid to local revenues. South Carolina funds a high proportion of education and highways, two major local expenditures in most states.

South Carolina's aid to subdivisions derives from eleven separate taxes distributed on a formula basis.[6] Counties and municipalities both receive a share of the taxes on alcoholic liquors, beer and wine, and minibottles on a per capita basis, with an additional share of the minibottle tax earmarked for alcohol and drug abuse education and rehabilitation. One cent per gallon of the gasoline tax is distributed to counties (to be shared with municipalities with a population of 50,000 or more). A minimum of $14,000 is guaranteed to smaller counties. The funds are earmarked for road construction and maintenance.

The state shares 7.5 percent of the income tax with counties (7 percent) and municipalities (0.5 percent), and 90 percent of the bank tax (60 percent counties, 30 percent municipalities) on a per capita basis. Other shared taxes include the insurance tax, the brokers' premium tax, and the motor transport tax. Property insurance premium taxes are shared with fire districts. In 1987-88, counties received over $98 million in revenues from the taxes on alcohol, gasoline, income, and banks, with 70 percent of that coming from the income tax. Municipalities received about $21 million from these same taxes, with 2/3 of the total coming from taxes on alcoholic liquors, beer and wine.

Although the amounts to be distributed are determined by formula, the General Assembly reserves the right to fund the formula at less than 100 percent, depending on the state's overall financial situation. Full funding has occurred only twice in the last 15 years, in 1985 and 1986. In other years, funding has ranged from 83.5 percent to 96 percent; currently, the formula is funded at about 78 percent.

This peculiar and complex formula is a result of various historical circumstances. Until home rule in the mid-1970's, county legislators were responsible for the fiscal affairs of their counties and, in many cases, preferred to find a state funding source rather than raise property taxes. Other taxes in the formula are former county taxes taken over by the legislature. The funding formula strongly favors counties over municipalities, a heritage of the state's rural past. Because there are so many taxes in the base, it is difficult to forecast revenues in order to give counties, municipalities, and school districts a sound basis for budgeting expenditures and setting the property tax mill rate. The fact that the legislature does not fully fund the formula in most years further adds to the uncertainty facing local governments. If there is a state revenue shortfall, local governments must reduce services or increase the property tax, since they have few local alternatives. Proposals to require full funding, however, have met with legislative resistance. Legislators argue that they need budgetary flexibility in all expenditure areas in order to meet state responsibilities with variable revenues.

A 1977-78 study of local revenue diversification recommended that the formula be reviewed, revised, simplified, and fully funded. In particular, this report pointed out vast disparities in revenue raising capabilities among districts that were not captured by a formula that relied almost exclusively on population.[7] The only changes in the last twenty years, however, were to add the minibottle (1972) and insurance premiums (1976) to the formula base, and to vary the level of formula funding on an annual basis.

Evaluation and Options for Reform: State Aid to Subdivisions

Aid to local governments is a fixture in our federal system in all states, with varying combinations of distribution of revenue and state assumption of expenditure responsibilities. Some states have moved to reduce the dependence of local governments on state-shared revenues by allowing them to use a more diverse array of local taxes. However, there will always be some need for state shared revenues because of the great disparities in tax bases between rich districts and poorer districts -- in South Carolina, between Horry and Lexington counties on the one hand and Edgefield and Calhoun on the other. Fiscal equalization is a major reason for state aid to subdivisions. However, it is possible to provide this aid in a less complex and more dependable fashion, one that adapts over time to the changing division of responsibilities between counties and municipalities and one that takes other factors into account besides population.

Option #1 The General Assembly may wish to thoroughly review the present system of state aid to cities and counties, considering which taxes to include, what basis to use for distribution, the appropriate shares for counties and municipalities, and the degree of certainty that can be provided about the level of funding.

Summary and Conclusions

Relative to other states, South Carolina's cities, counties, and school districts have little fiscal independence. They are still heavily dependent on the property tax, a fact which may change in the next decade with the local option sales tax. The property tax has some inequities that could be remedied, but such remedies can be undertaken only at the state level. They include a circuit breaker, an income-based homestead exemption, and a reconsideration of the present classification system. The state has moved to provide some additional revenue sources at the local level with the accommodations tax and the local option sales tax, but other options remain to be considered. School districts have almost no flexibility on the revenue side of their budgets. Because of dependence on the property tax, South Carolina cities and counties rely heavily on fees and charges, which are appropriate for some services but tend to be burdensome on the poor. Finally, the system of state aid to cities and counties is in need of a thorough review in terms of what revenue sources enter the formula, how the revenue is distributed among counties and between counties and municipalities, and how much of the formula is funded each year.

ENDNOTES

[1] This way of calculating property tax burdens is deceptive, however, because the tax is expressed as a percentage of the value of the asset. The property tax can be regarded as a sales tax on the services of property. For example, in the case of residential property, property taxes can be viewed as a tax on rent, whether actual rent or the estimated rental value of owner-occupied housing. The value of those services in any given year is about 10 to 12 percent of the value of the asset (e.g., a $50,000 home would generate $5,000 to $6,000 in rental services per year.) As a fraction of housing services, a property tax that represented 1.23 percent of the value of the house would have an effective rate of 8 to 10 percent of the value of the income or housing services that the property generates each year.

[2] The differentials in tax burden in the other twenty-one states from the lowest to the highest class range from only 10 percent in North Dakota to a 28:1 ratio in Minnesota. Nationally, the average spread from the lowest to the highest class (including states with a single class) was 79 percent in 1989. For South Carolina, the spread is 163 percent, from 4 percent for residential property and agricultural land to 10.5 percent for personal property.

[3] It can be argued that building a state facility -- a college, hospital, or prison -- is likely to absorb low-valued farmland and to result in development of adjacent commercial facilities and residences, thus enhancing the property tax base. However, this argument is weaker for state facilities in urban areas, such as Columbia.

[4] Because the property tax rate is set locally, these state aggregate figures are not perfect indicators of relative distribution of the tax burden. For example, if the industrial property is concentrated in high tax jurisdictions, and residential property in low tax jurisdictions, then industrial property will bear a higher share of total property taxes than is indicated by the property tax base.

[5] A detailed description of the local option sales tax and its implications, The South Carolina Local Option Sales Tax: History, Operation, and Evaluation, is available from the Strom Thurmond Institute at Clemson University.

[6] A detailed description of aid to subdivisions is provided in the South Carolina Advisory Commission on Intergovernmental Relations report entitled Aid to Subdivisions: An Examination of State-Shared Revenue in South Carolina.

[7] Local Revenue Diversification in South Carolina, Report to the Local Government Study Committee, Clemson University (unpublished), 1978.

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WHAT IS SC ACIR?

The South Carolina Advisory Commission on Intergovernmental Relations (SCACIR) was originally created by Executive Order of the Governor in 1979, and was established as a state agency by the General Assembly in 1984. The mission of SCACIR is to improve coordination and cooperation between the State and its local governments and to provide research, information and advisory services to public officials and the citizens of South Carolina.

SCACIR is the only agency committed to the study of local government issues; it is the only agency where all participants in the intergovernmental arena can meet and work together in a neutral setting. By its legislative mandate SCACIR acts as a forum for the discussion and study of intergovernmental problems; it researches and makes recommendations on timely issues selected for study by the Commission. In addition, SCACIR examines proposed and existing programs affecting local governments, participates in the continuing education of elected officials, and works closely with the State's colleges and universities on matters of common concern.

Of the twenty-one Commission members, eight represent the General Assembly, three represent municipalities, three represent counties, four represent the general public, and one member each represents school boards, special purpose districts, and regional councils. Members of the Commission are appointed by the Governor for terms of two years. The Commission appoints an Executive Director who carries out the directives of the Commission and supervises the Commission staff.

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