

FY 2013-14 Executive Budget Overview

December 20, 2012

State of South Carolina
Office of the Governor



Financial Overview



- Unemployment has fallen from 10.6% to 8.6%.
- Economic Outlook Conference at USC:
 - Housing prices are rising
 - Building permits are up dramatically
 - On foreign and domestic business investment:
“We look the best of all states going into 2013.”

Headline Numbers



- 2.96% General Fund growth
 - FY 2013-14: \$6,298,831,024
 - Includes some spending previously classified as “Other Funds,” so true number is lower
- Within spending cap by about \$16 million
 - Population growth + inflation (3.23%)
- Accounting changes to stop counting the same dollars twice in certain agencies (CPEs)

Revenues Ahead of Target



- As of Monday's BEA meeting...
 - November revenues were 2.6% over Nov. 2011
 - Estimates were that year-to-date, we'd be 4.7% ahead of last year in the General Fund
 - We're actually 6.6% ahead so far
 - \$20.7 million over estimate
 - Not available for the Executive Budget

The Cliff Awaits?



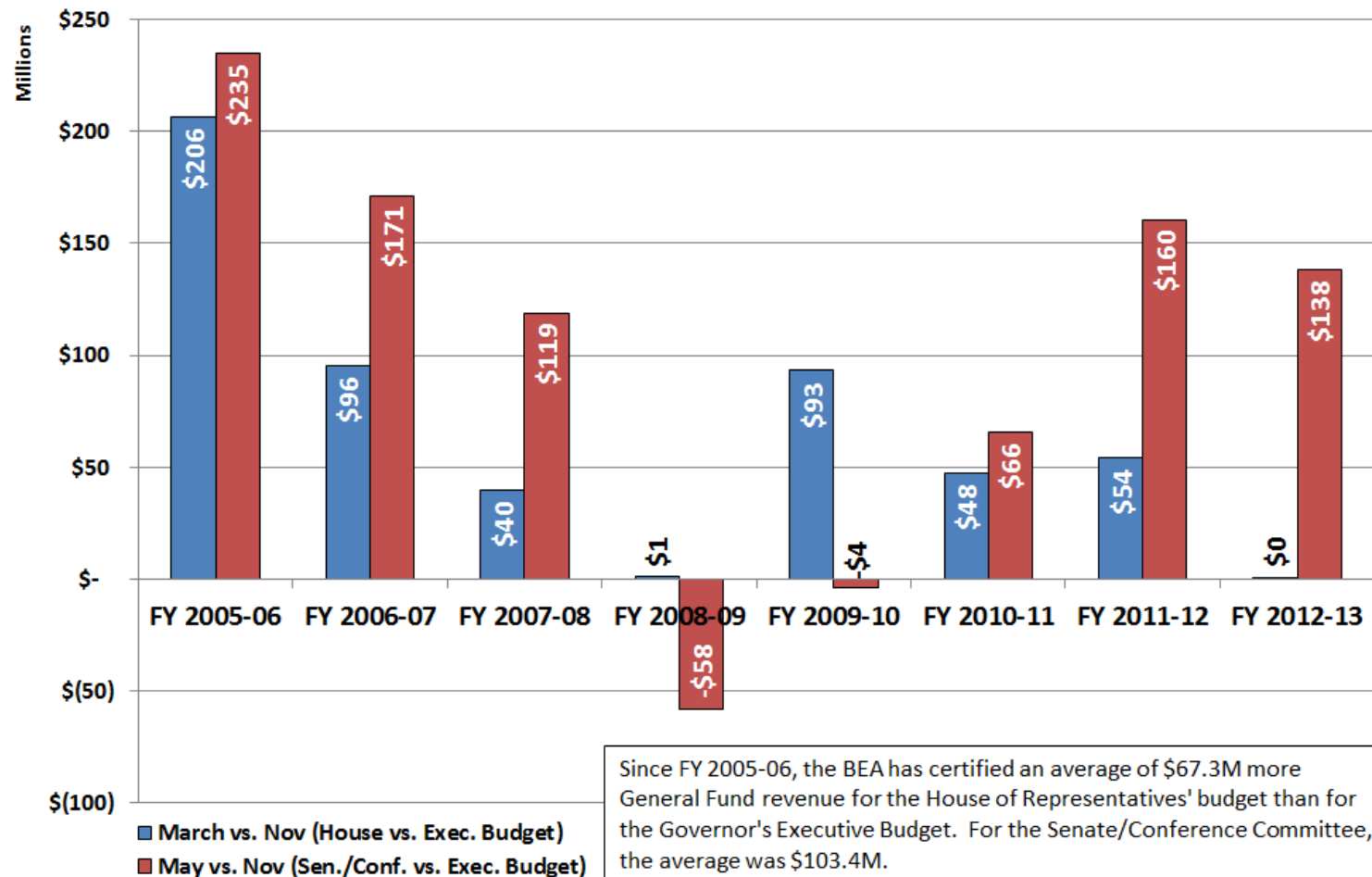
- Higher federal taxes would have a chilling effect on economic activity
- Cuts imposed under sequestration would have varying impacts
 - Military installations / base closures
 - Still no clarity as to how domestic cuts would work
- Unrecognized revenues give us a cushion

More Revenues Are Coming...



BEA's Revenue Estimates for the General Fund

Additional Revenue Available for Legislative Use, FY 2005-06 through FY 2012-13



Major Themes



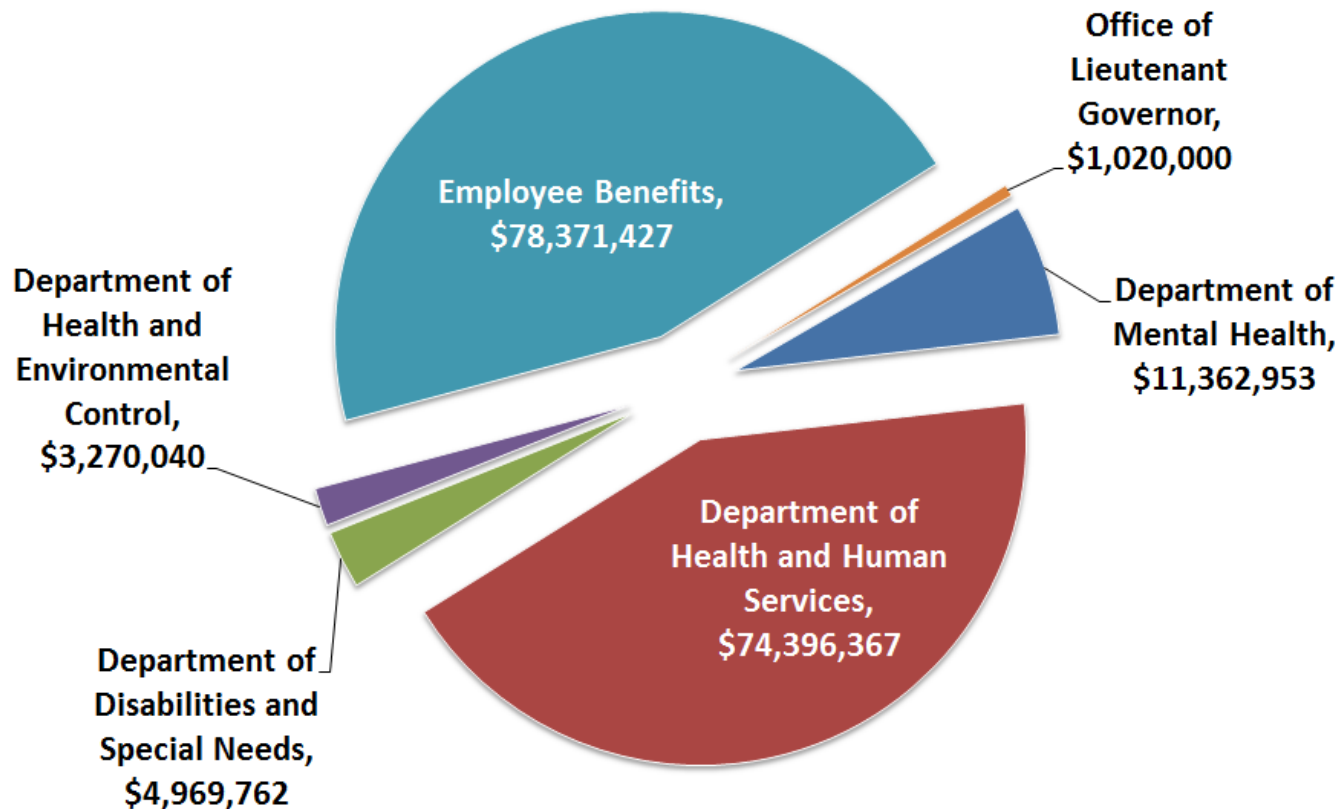
- Healthcare
- Education
- Public Safety
- Transportation

Healthcare: #1 Cost Driver



Net General Fund Impact, FY 2013-14

Agencies with Primary Responsibility for Providing Healthcare Services



Healthcare



- Public focus is on Medicaid and ACA...
 - ACA costs us \$67.4M even if we opt-out
 - “Welcome mat effect” enrollees are at current FMAP
- ...but healthcare’s impact is much broader...
 - PEBA: \$78.4M more for pensions and benefits
 - DMH, DDSN, DHEC, Office on Aging...
 - Number of factors drive this growth
- ...which highlights the need to control costs everywhere...

Healthcare

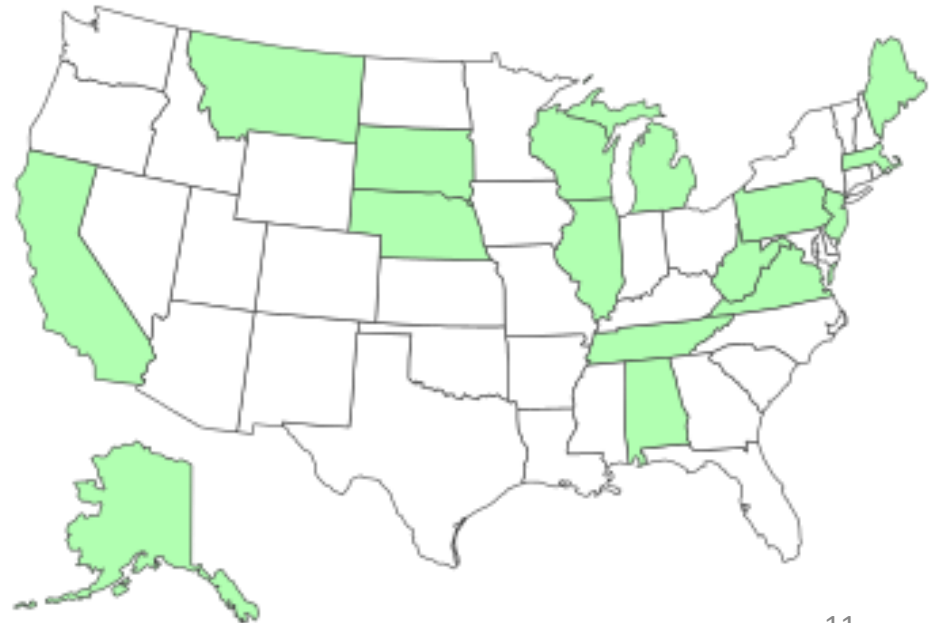


- DMH
 - Budget continues services for existing clients along with the telepsychiatry program (with Duke Endowment); prevents Sexually Violent Predator Program from crowding-out other services
- DDSN
 - Proposal is sufficient to address changes in federal reimbursement policies, maintain services for existing clients, and provide \$600k for Supports Intensity Scale
- DHEC
 - Significant realignment of General Fund lines
 - Increases in Air and Water Quality, EMS
- Office on Aging
 - Home and Community Based Services
 - HHS will work with office to keep clients from falling into more expensive services

The Reduction Veto



- Proposed Constitutional amendment to help rein-in spending
 - Ends the “all or nothing” approach to vetoes
 - Gives Governors the ability to suggest a reasonable and responsible alternative
 - Leaves final decision-making in the legislature’s hands
 - 16 states have some form of it today

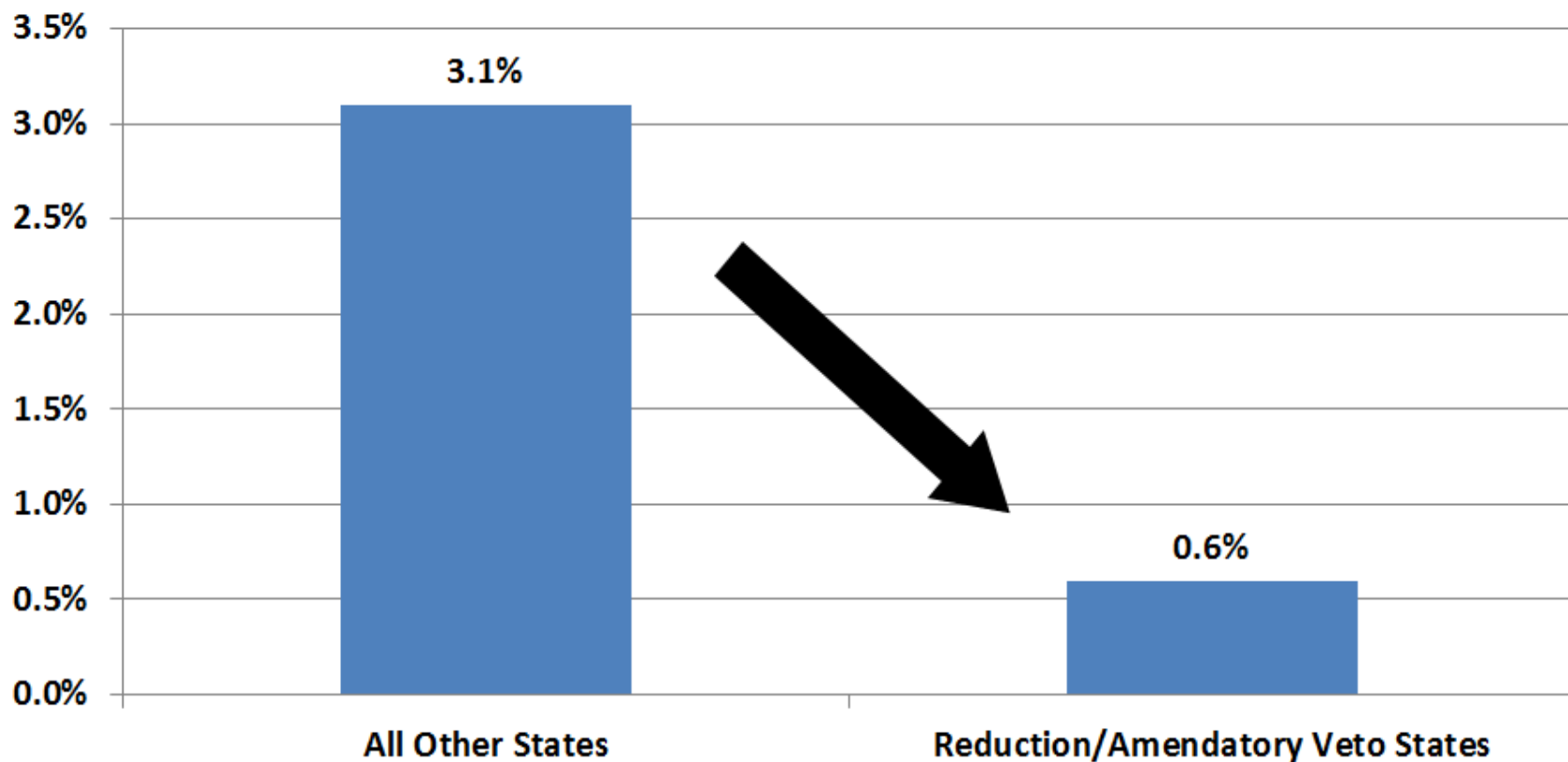


Impact of the “Blue Line” Veto



The Effect of the Reduction Veto

Average Annual Per-Capita General Fund Growth Rates in the 2000s



Source: State Budget Solutions, "State Budgets in the 2000s: Debunking the Myths"

Education



- First Steps
 - Reauthorization scheduled for 2013
 - Legislative Audit Council's report due in February
- K-12
 - Increase in recurring support
 - Additional program-specific increases
- Higher Education
 - Accountability-Based Funding
 - Support for deferred maintenance needs (\$24M)

K-12 Education: Highlights



- General Fund
 - \$16.3M for Education Finance Act
 - \$5M for Charter Schools
 - \$24.7M in General Fund, overall
- Education Improvement Act
 - Increases for Instructional Materials, Teacher Supplies
 - Annualization of Teacher Salary Support/Supplement, along with Transportation line
 - Additional \$1M for Teach For America
 - SC Council on Economic Education now funded openly
 - Dept of Education vs. Education Oversight Cmte

Accountability-Based Funding

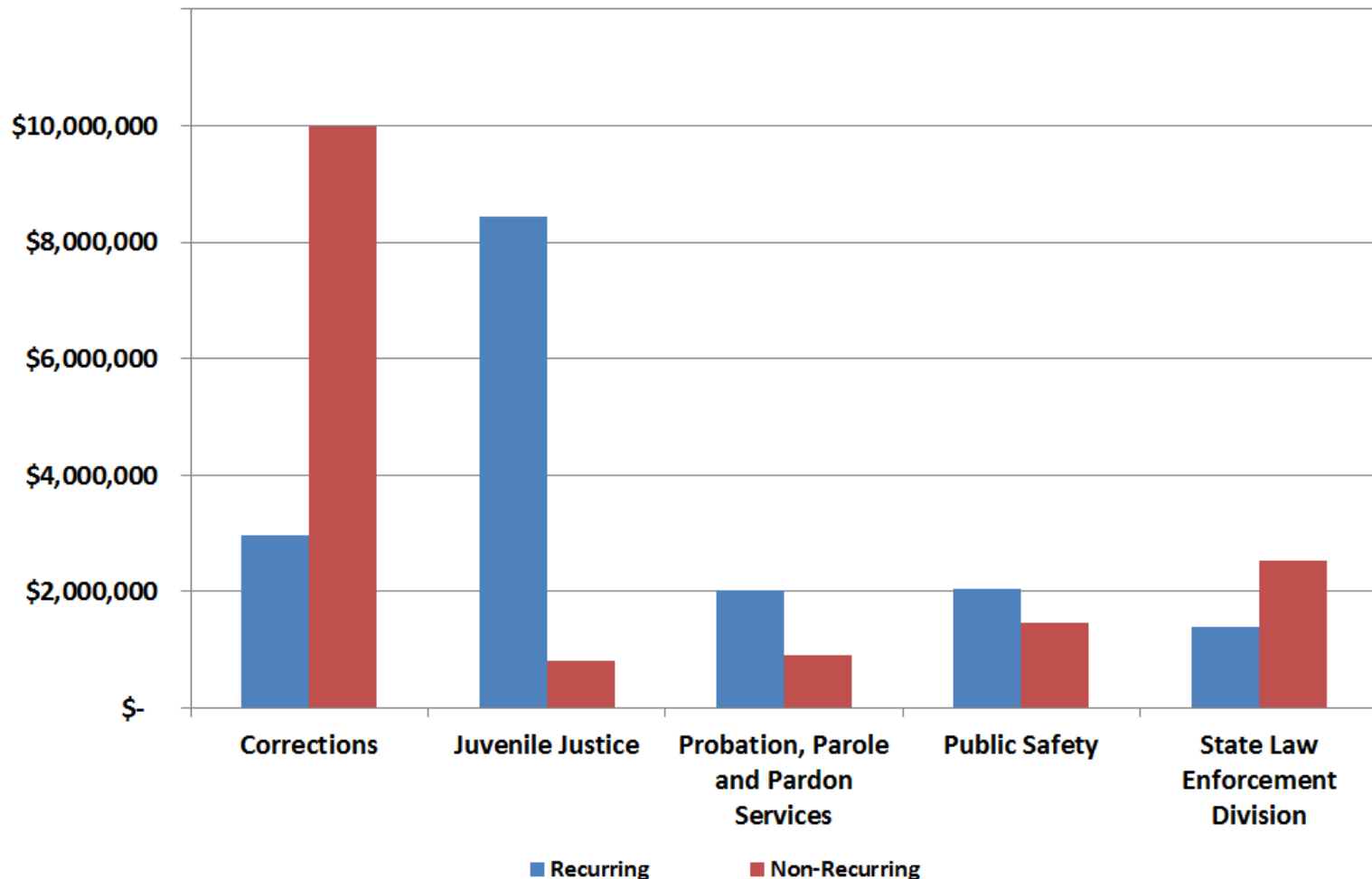


- Passed in Senate last year, ran out of time in the House
- FY 2013-14 is the “learning year”
 - Followed by 5-year phase-in
- Funding model
 - Built on in-state undergraduate student counts
 - Accounts for institutional class and performance
- Four categories of measures
 - Completion (30%), Affordability & Access (30%), Educational Quality (25%), Economic Development & Institutional Mission (15%)

Public Safety's Diverse Needs



Recommended General Fund Increases and Non-Recurring Allocations
Selected Public Safety and Law Enforcement Agencies



Public Safety: Highlights



- Corrections
 - Funds for mental health and drug abuse treatment
 - Equipment to improve guard safety (towers, wands)
- DJJ
 - Replacing lost non-recurring funds, depleted fund balances
- PPP
 - Deploying evidence-based practices as part of sentencing reform
- DPS
 - 18 new officers, plus mobile data project and vehicles
- SLED
 - Additional agents, forensics staff, data center employees and software licensing fees, plus equipment and vehicles

Responding to the Data Breach



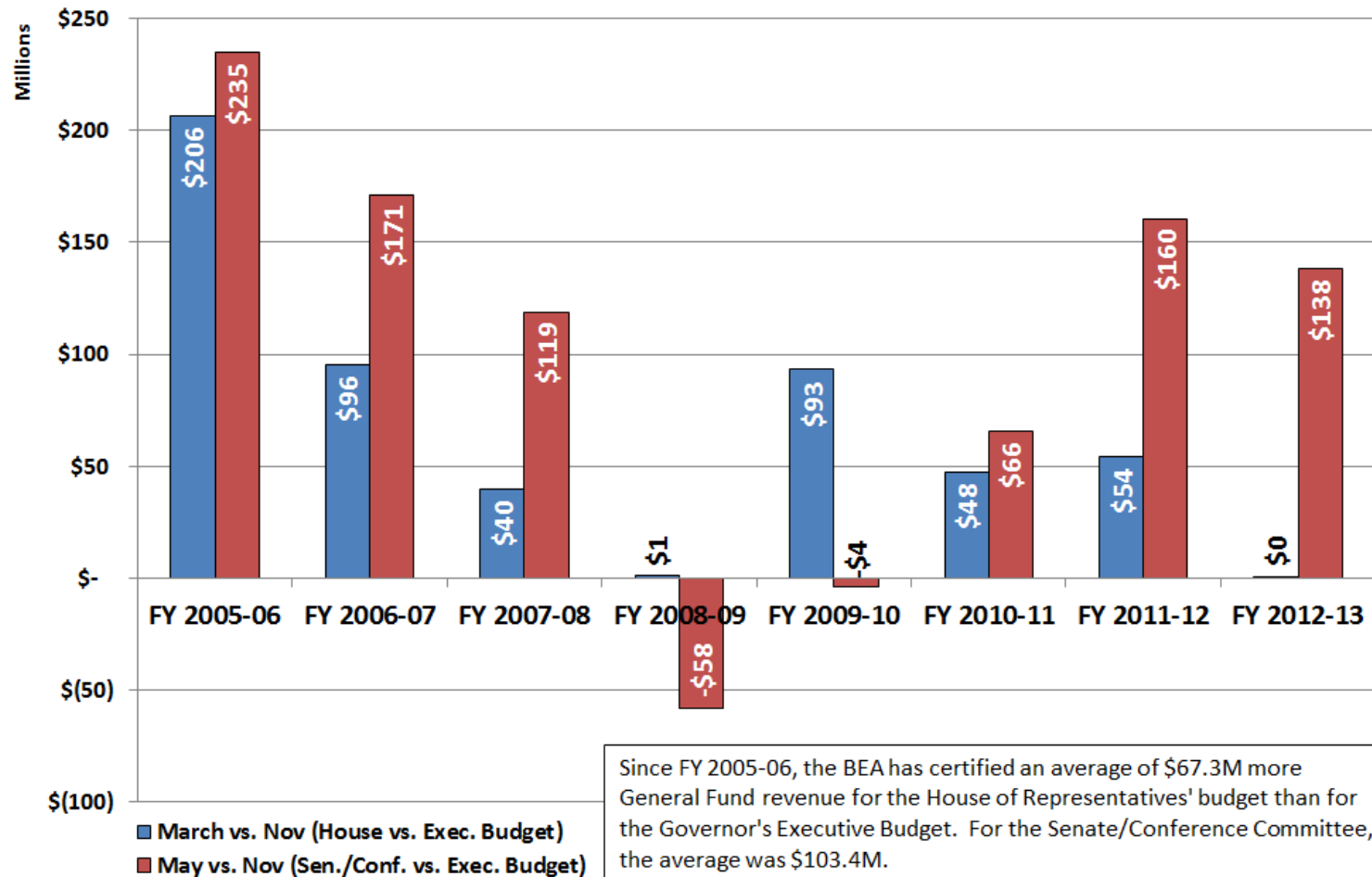
- Use a portion of the \$47.1M in available non-recurring funds to:
 - Repay the loan approved by the Budget and Control Board (\$20.2M)
 - Fully fund the SCITS project, as recommended in last year's Executive Budget (\$12.4M)
 - Begin planning for a more systematic, long-term approach (\$3M at BCB for IT Security Consulting and Hardware)
- Complete some other related projects:
 - IT Security at DMV: \$1.2M
 - Other agencies had smaller IT infrastructure/equipment requests

Back to the Additional Revenue



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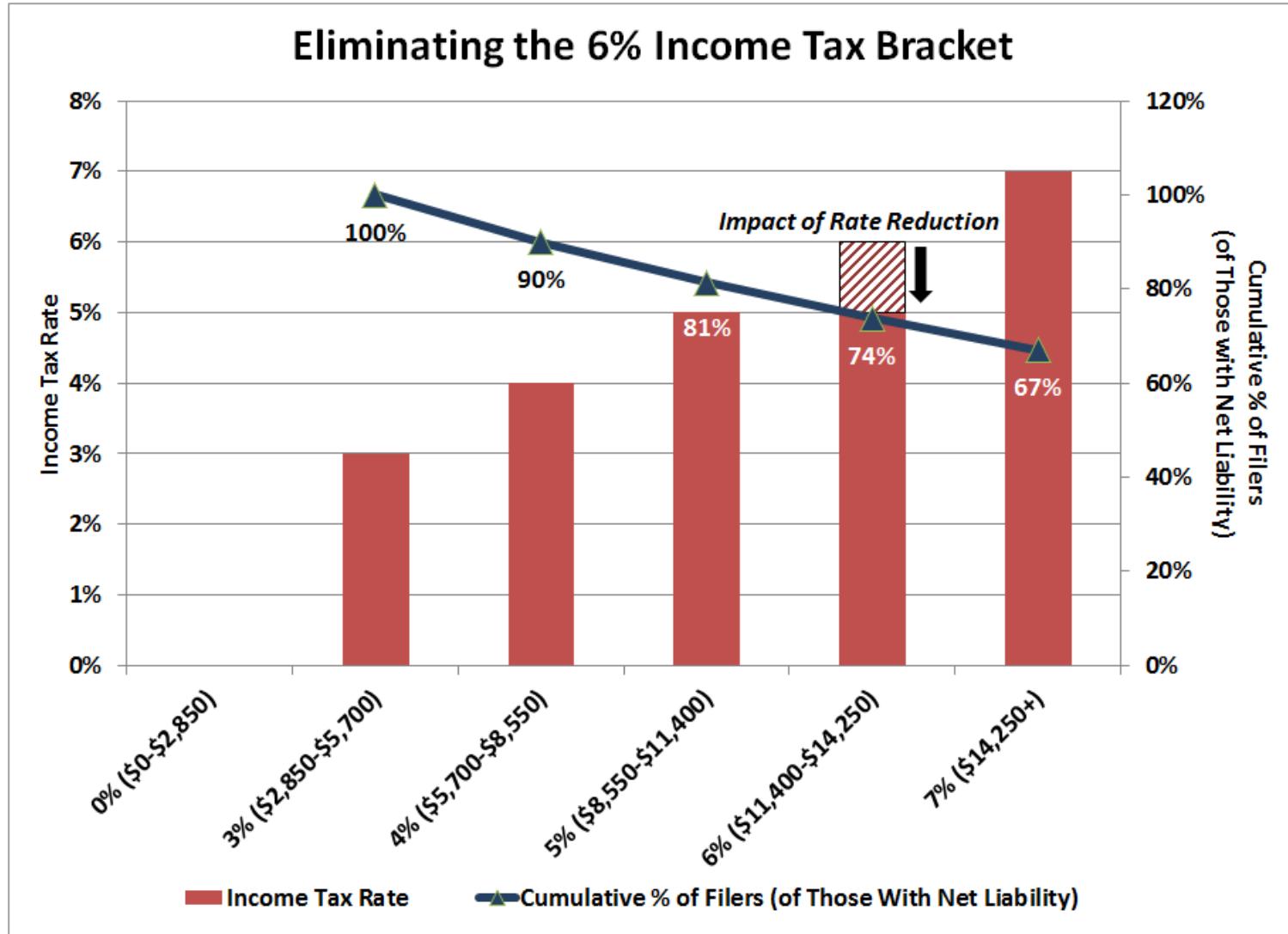


Other Expected Revenues



- In the past 8 years, BEA's May revenue estimate has been \$103.4M above the November estimate.
- We're already \$20.7M ahead of forecast, with the big revenue months still to come.
- Two recommended uses for these resources:
 - Eliminate the 6% individual income tax bracket (\$26M)
 - Devote the rest to transportation infrastructure

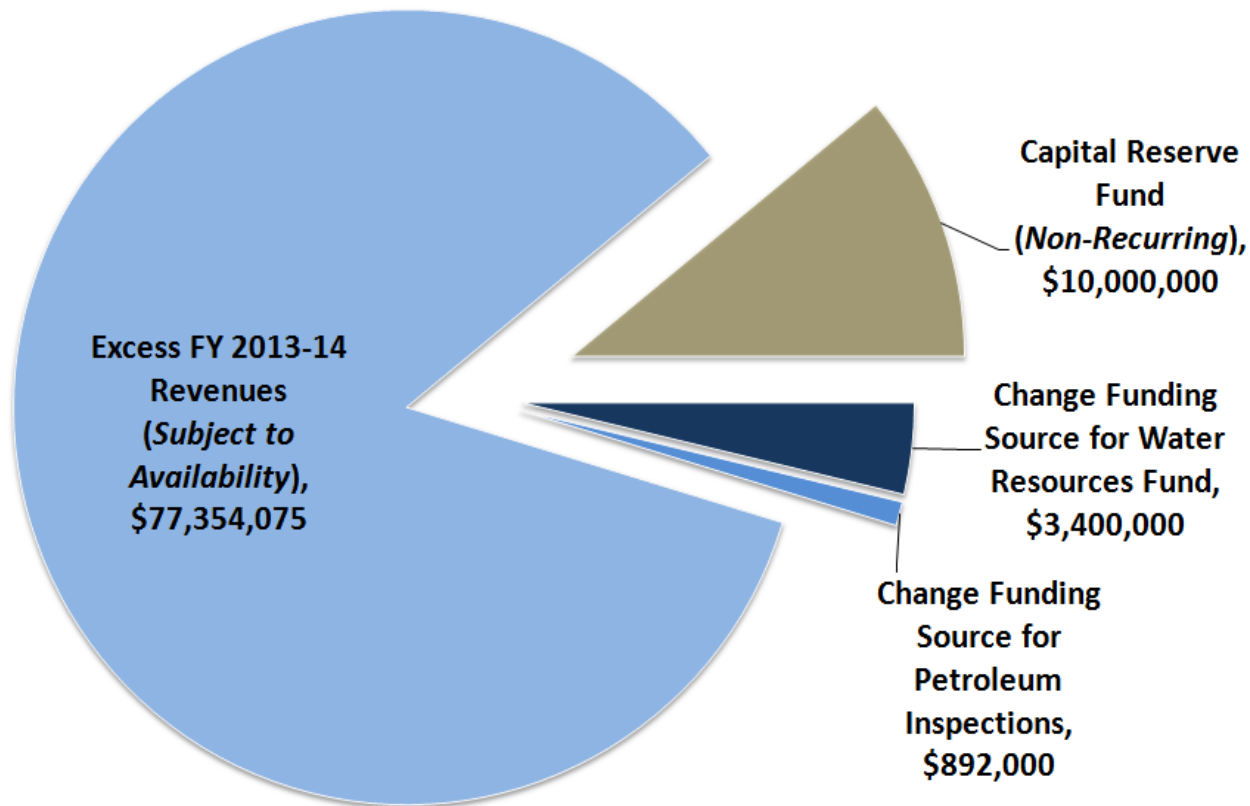
Recommended Tax Cut



Addressing Infrastructure Needs



Governor Haley's Transportation Plan, FY 2013-14: Over \$90 Million Projected for South Carolina's Bridges and Highways





Questions?