



# Governor Haley's Roads and Income Tax Plan:

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Impact on the state budget

# Haley Plan – What does it do?

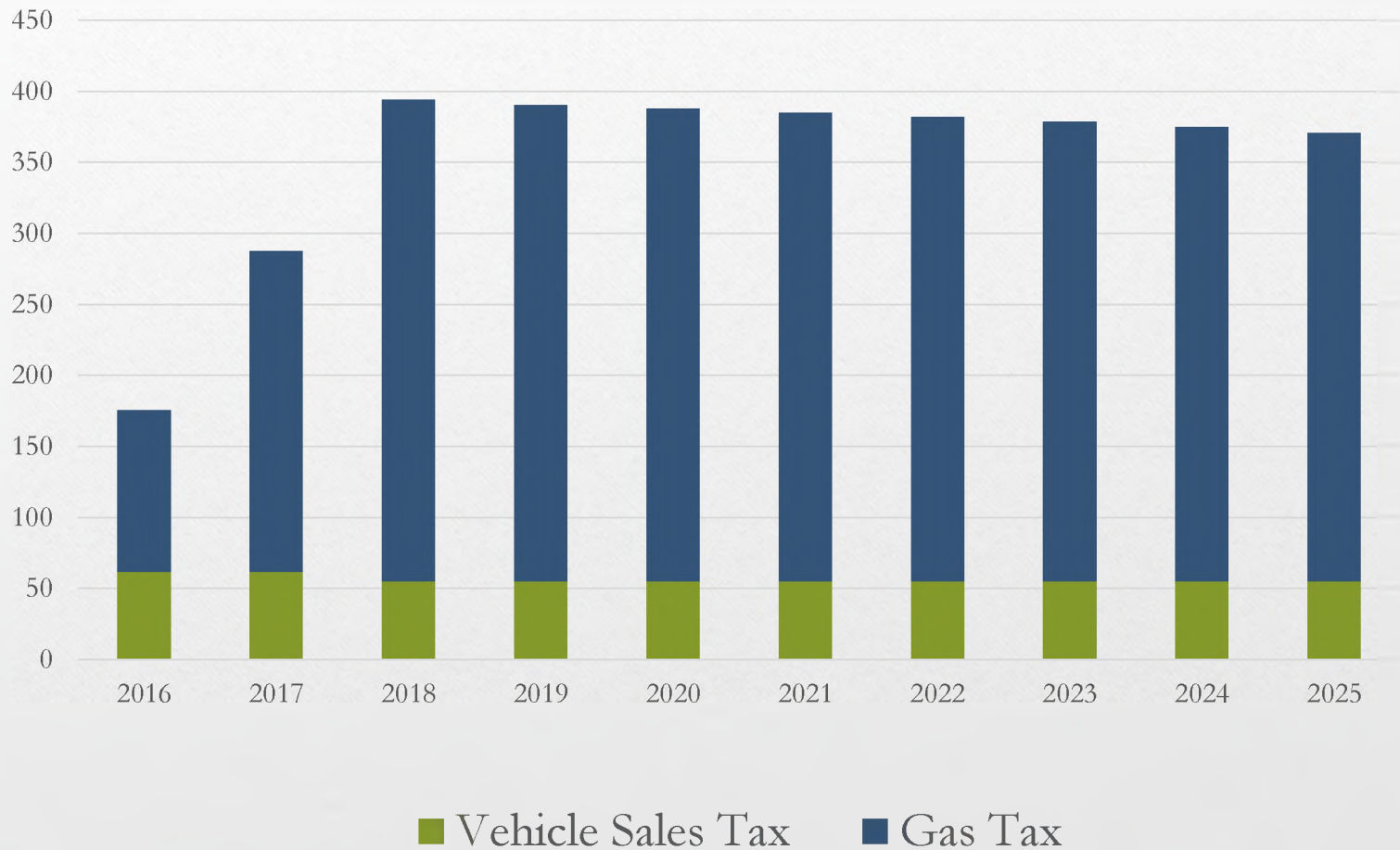
## Roads

- Diverts all motor vehicle sales tax to roads
- Increases the motor vehicle user fee by 10¢ over 3 years

## Income Tax

- Reduces each income bracket by 2% over 10 years

# Haley Plan – New Revenue for Roads



# Haley Plan – Declining Road Revenue

The Gas Tax is a diminishing revenue source:

- After full implementation, gas tax revenue is projected to decline by 7% in the next 10 years
- Year 10 gas tax revenue will be \$62M less than year 3.

The Vehicle Sales Tax is also projected to decline:

- The VST is projected to decline by 11% in 3 years.
- That is \$13M less road funding by year 3.

*“Year 10 of the plan will have \$75M less money for roads.”*

# Haley Plan – General Fund Costs

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## Income Tax Cut

- Year 1 - \$119.3M
- Year 10 - \$1.759B
- Total 10-year GF Cost:  
**\$8.553B**

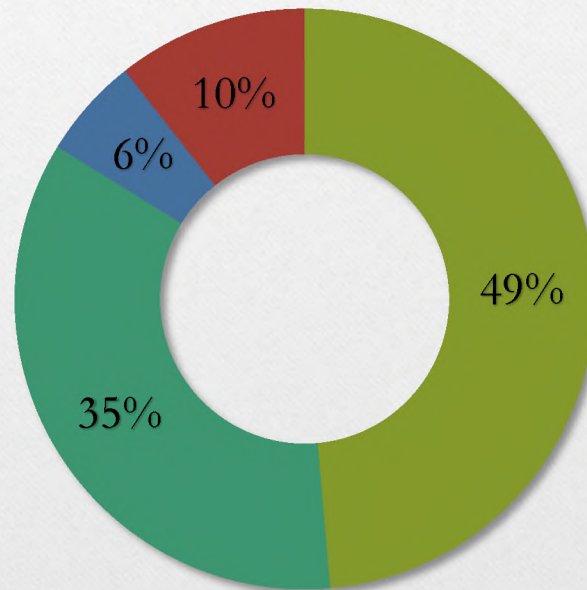
## Vehicle Sales Tax

- Year 1 - \$61.4M
- Year 10 – \$54.8M
- Total 10-year GF Cost:  
**\$561M**



# Income Tax = $\frac{1}{2}$ of GF Revenue

- Individual Income
- Sales and Use
- Corporate Income
- Other Taxes and Fees



# Haley Plan – Total Costs

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- Full Implementation of the Haley plan would cost over **\$9 billion** – more than an entire year of general fund revenue.
- The Haley plan is not revenue neutral; it creates a annual deficit that must be filled with growth.
- For FY15-16, it would cost \$180.7M (and increase every year). GF revenues would have to grow 2.4% just to pay for it.
- In the last 20 years, we have failed to grow by 2.4% eight times. That means 40% of the time, we would have had to cut budgets to pay for this plan.

# Haley Income Tax Plan vs. Haley FY 15-16 Executive Budget

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## Haley Tax Plan

- New Revenue - \$287M
- VST Diversion (\$61.4M)
- Income Tax Cut (119.3M)
- Mandatory Reserves (\$11.4M)
- **Available New Revenue: \$94.9M**

## Haley New Spending

- New Revenue - \$287M
- Mandatory Reserves (\$11.4M)
- Employee Health Insurance (\$31.5M)
- **Haley Priorities:** Base Student Cost, Reading Coaches, Medicaid annualizations, DSS reform, & Corrections Mental Health Remediation – Already over **(\$50M) out of balance**



# FY15-16 Funding Concerns

- EFA Maintain current Base Student Cost (\$2,120) - \$23M
- HHS/Medicaid MOE - \$94M (total request \$126M)
- Local Government Fund - \$25M hold harmless
- These items, totaling \$142M, are needs just to maintain the current level of services.
- The Haley income tax cut would limit new money to increase the base student cost or address the Abbeville case, provide new funds for law enforcement, DSS reform, or other needs.

# Is SC Uncompetitive?

- You cannot judge the income tax in a vacuum. Some states have a lower income tax, but tax things SC does not.
  - In 2014, the Tax Foundation found SC residents have the eighth-lowest per capita tax burden as a % of personal income in the nation and 3<sup>rd</sup> lowest in the Southeast. Only TN and LA were lower.
  - For FY13, the Kaiser Family Foundation ranked SC 5<sup>th</sup>-lowest in per capita tax burden.
- Kansas, which has a GF budget of similar size, cut income taxes in 2012 and now faces a projected \$650M budget deficit and has depleted most state reserves.

# House Transportation Ad Hoc Proposal

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Established to thoroughly examine both Infrastructure Funding and Management, while the Governor threatened to veto any gas tax increase.

# Part 1: Restructuring

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- All 8 of the HWY Commissioners appointed by and serving at the pleasure of Governor:
  - 7 from Congressional Districts, 1 state-wide
- Commissioner appointees screened by JTRC
- 12 year maximum term limit
- Commission appoints Secretary with Advice and Consent of the Senate

## Part 2: Restructuring

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- Increase SIB board membership from 7 to 13, by adding the remaining District Commissioners:
  - 7 District Commissioners
  - 3 Senate President Appointees (1 Ex Officio Senator)
  - 3 House Speaker Appointees (1 Ex Officio Representative)
- 12 year maximum terms
- Require SIB to follow Act 114 criteria
- Project threshold at \$25 million



# Local Routes

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- SC is responsible for 62% of the road miles in the state
- National average is 29%
- Contains over 13,000 road segments that are under a mile in length
  - These roads carry an average of 7% of the daily traffic
- Opt-Out Provision for locals choosing not to participate
- Increased funding through C-Fund allocation for those who do participate
- \$1M increase in 2016, followed by additional funds in 2018 and 2020
- Commission has stated publically, that these roads will not be funded or prioritized in the foreseeable future

# Funding Part 1 – Gas Tax

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- Establish a diversified gas tax by lowering the existing flat user-fee and adding a 6% excise tax, essentially removing the sales tax exemption
- Combined gas tax cannot exceed 26.75, equal to a 10 cent/gallon increase to existing flat user-fee
- Allows for adjustments to the tax twice a year to account for rise and fall of gas prices. Combined tax cannot change by more than 2 cents/year
- Similar to the TRAC recommendations

# Funding Part 2 – Auto Sales Tax

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- Shift remaining General Fund portion to SCDOT - \$61.4M
- Increase cap from \$300 to \$500, which generates an additional \$50M/year
- Net gain to DOT with the General Fund dollar shift and cap increase equals an estimated \$110M a year to SCDOT
- Total new funding to roads, with combined gas tax and auto sales tax shift/increase - \$310M in year one if gas prices remain around \$2.00 /gallon
- Max new revenue with combined gas tax capped at 26.75 cents/gallon and gas at or above \$3.00 gallon is roughly \$450 M/year

# Funding Comparisons

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## Haley Roads Funding

- Gas Tax increase by 10 cents over 3 years
- \$61M from Car Sales Tax – no cap increase
- Max new revenues just under \$400M with diminishing returns

## Ad Hoc Roads Funding

- Diversified Gas Tax, which allows for controlled and gradual fluctuations based on the Market
- \$110M from Car Sales Tax with cap increase
- New revenues between \$325M and \$450M/year, only limited by setting gas tax ceiling at 26.75

# SC Bond Rating

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## Strengthens

- Our governance and management practices;
- Adequate revenues and reserves although revenues are volatile in economic downturns; and
- Relatively low debt and rapid repayment – most within 15 years of issuance.

## Challenges

- Economic weakness in several key areas – lower than national average personal income, higher unemployment compared to the nation over the last decade, although employment has improved recently, and an economy that is disproportionately dependent on manufacturing, which is regarded to be a volatile employment sector; and
- Higher than average unfunded pension liabilities.



# SC Bond Rating (continued)

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- Despite these challenges, South Carolina's distinguishing characteristic as a AAA state is its management style:
  - We have a balanced budget process;
  - We manage within our means;
  - We have flexibility to deal with challenges; and
  - We are not reluctant to use that flexibility when appropriate.
- The general fund is the primary source of repayment for much of the State's general obligation debt, therefore the rating services are always interested in changes in tax policy and revenue redirection.



Questions?