

Convergence

A Presentation to the 2018 Catawba Regional Elected Officials Forum

JANUARY 4, 2018

RICHBURG, SOUTH CAROLINA

SENATE FINANCE COMMITTEE,

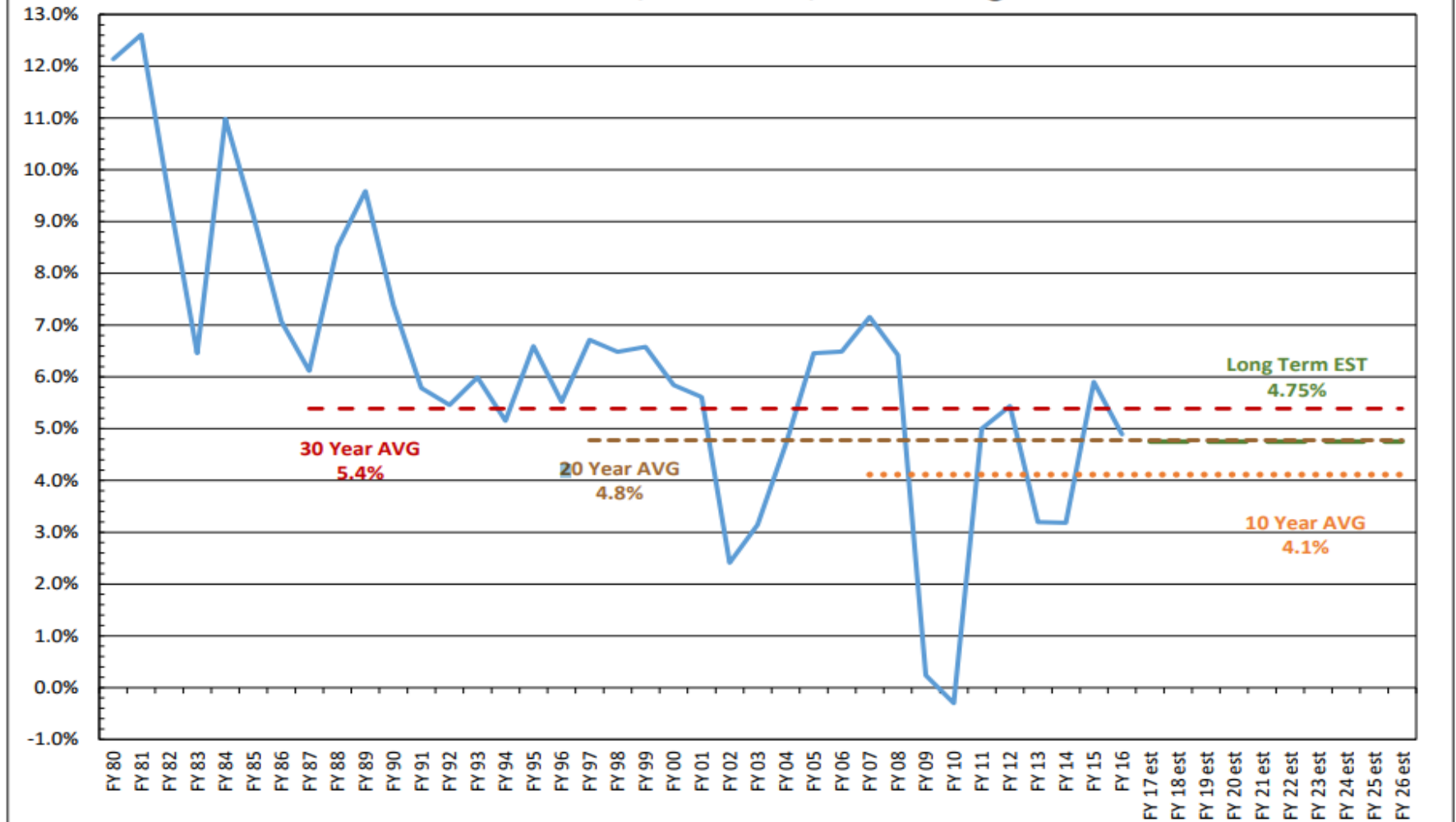
SENATOR HUGH K. LEATHERMAN, SR., CHAIRMAN

STAFF PRESENTATION BY MIKE SHEALY

Outline

- Economic Outlook
- Budget Outlook
- H. 3726, Pension Reform and Funding
- H. 3516, Transportation Funding
- Conclusion

SC PERSONAL INCOME FY GROWTH RATES Actuals, Estimates, and Averages

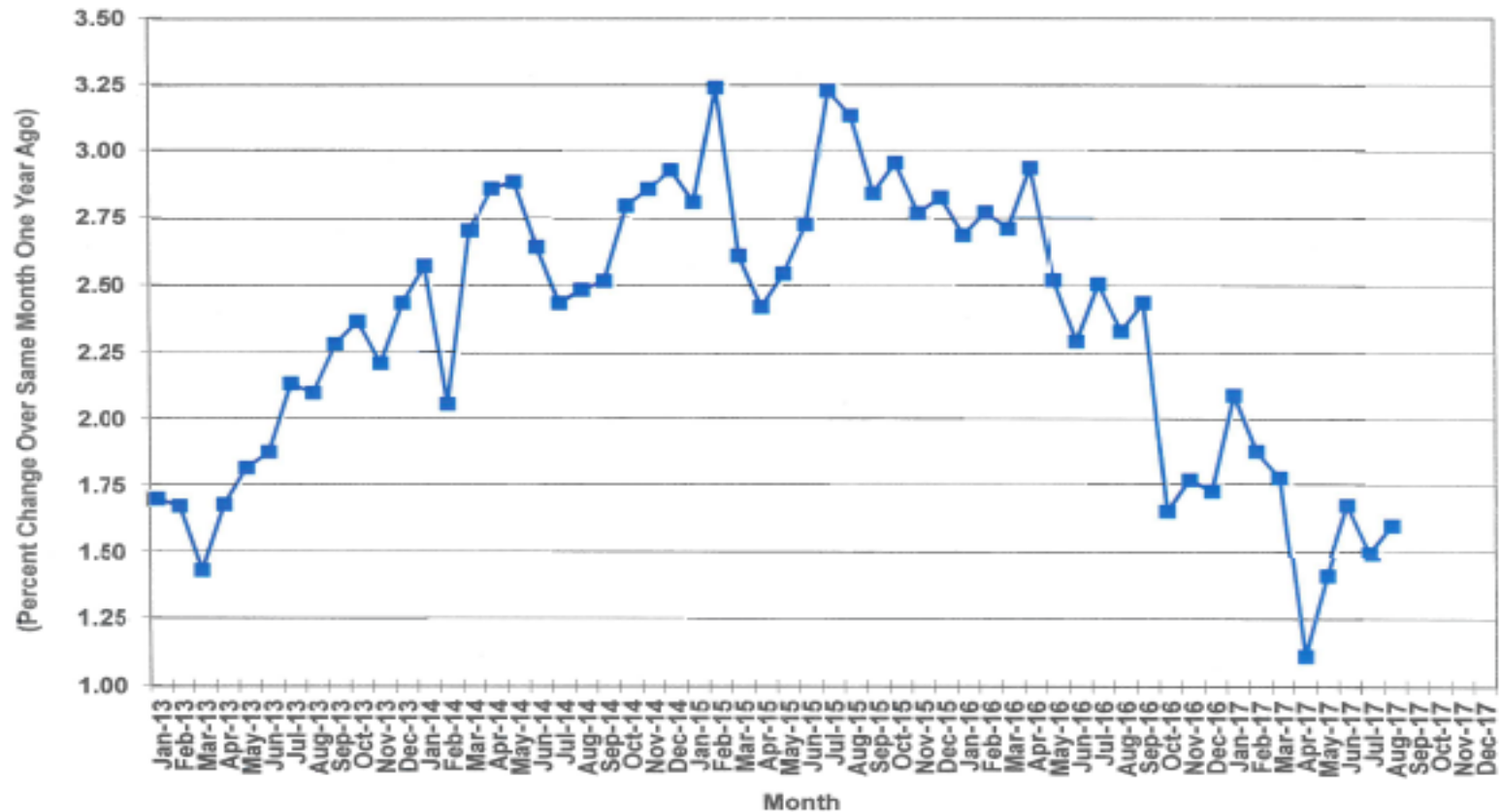


Source: US Department of Commerce, Bureau of Economic Analysis RFA – 173/lj/11/10/16

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SC Personal Income estimate for 2017Q3 is \$203.6 Billion

Total Nonfarm Employment Growth in South Carolina

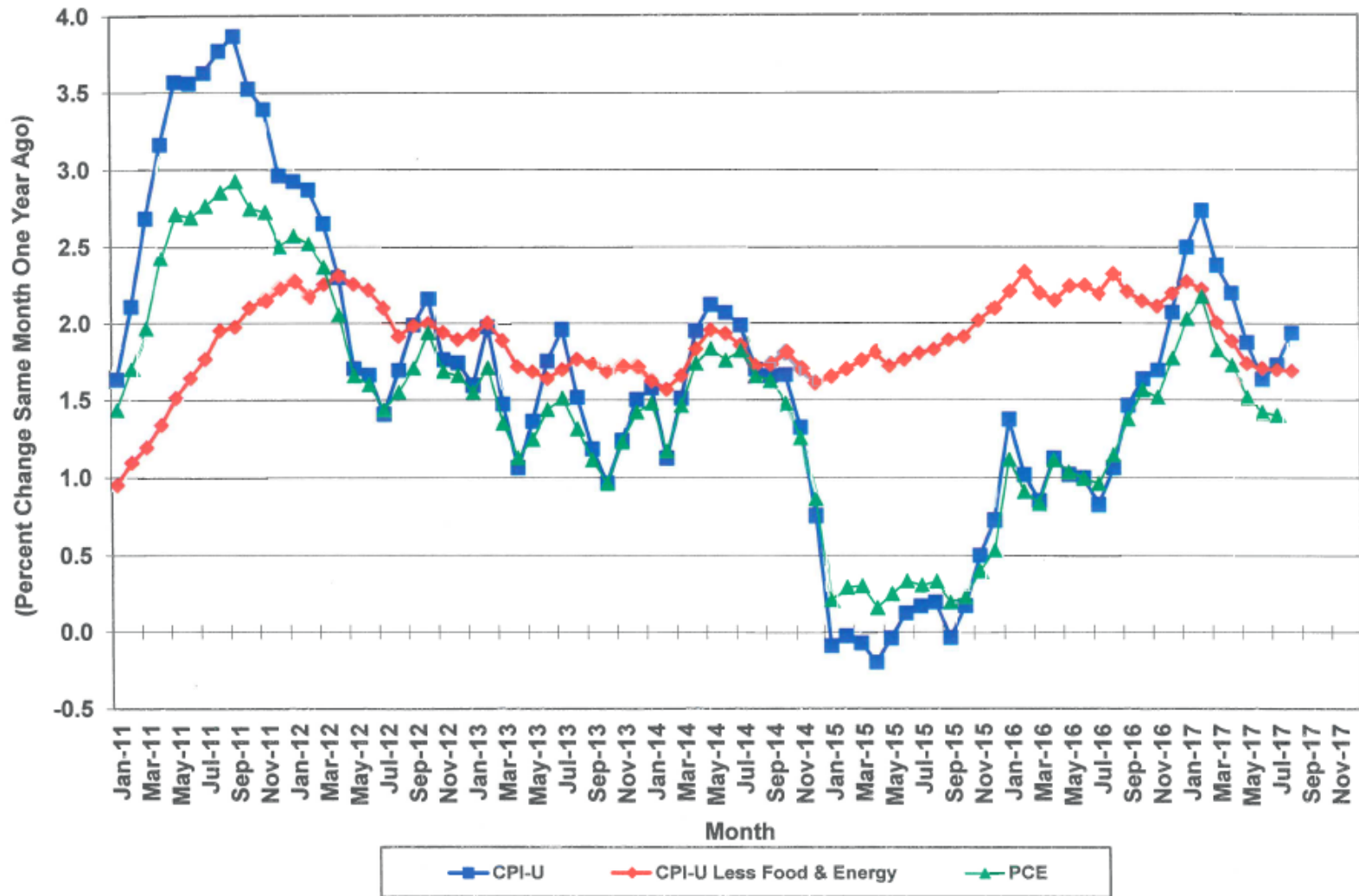


Source: U.S. Department of Labor, Bureau of Labor Statistics
SCBEA/RWM/09/21/17

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SC Total Employment is 2,232,600 (November 2017) with unemployment at 4.0%

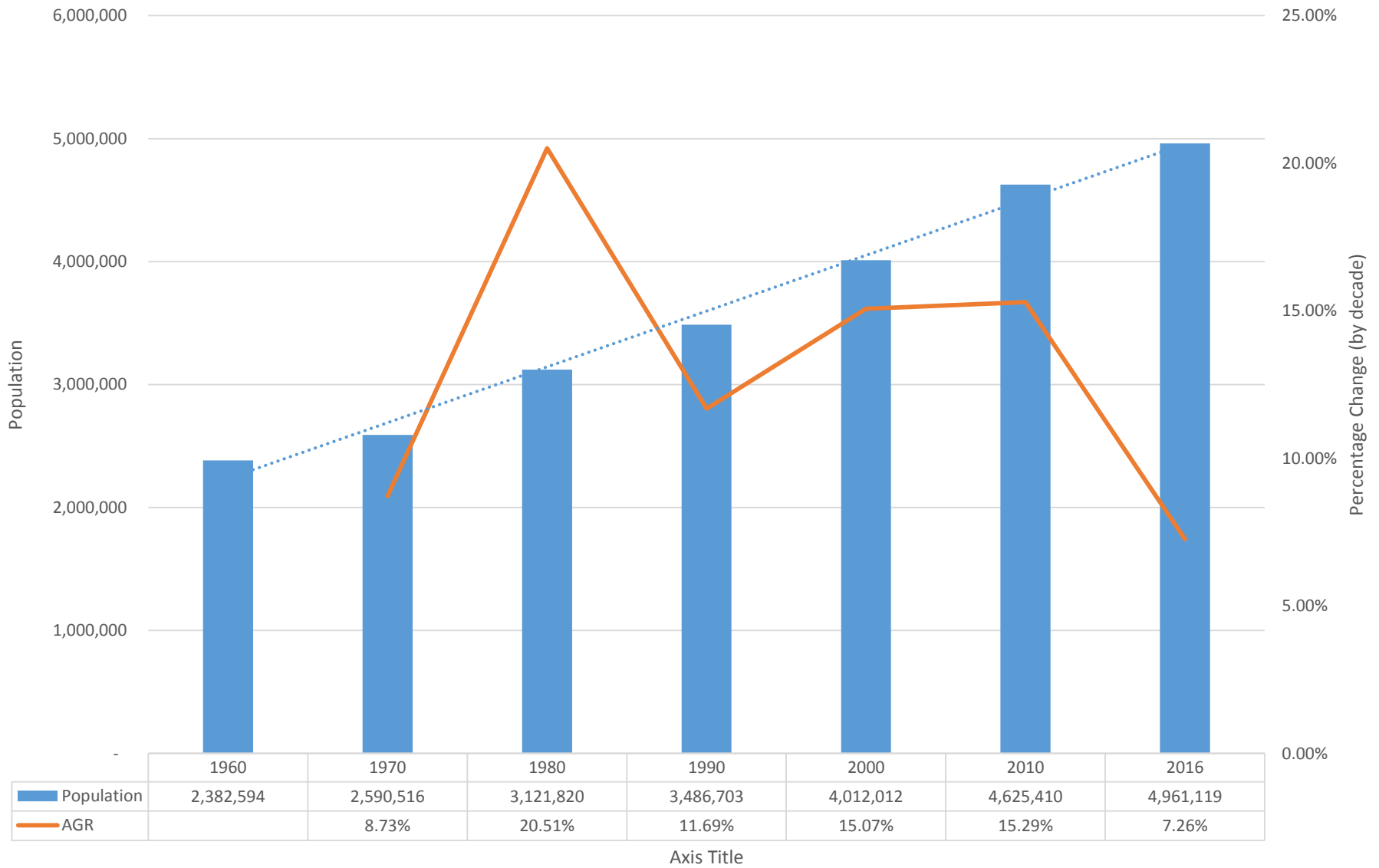
Inflation in the United States



Source: U.S. Department of Labor, Bureau of Labor Statistics

S.C. Board of Economic Advisors

Palmetto State Population Growth 1960-2016



Population AGR Linear (Population)

If you know that Charleston is where the Ashley and Cooper meet to form the Atlantic Ocean, you are a native South Carolinian.



Population Born in SC and Residing in SC				
<i>County</i>	1980		2010	
	Number	Percent	Number	Percent
Chester	25,938	86.0	25,310	76.1
Lancaster	44,286	83.0	44,781	64.7
Union	27,092	88.1	24,678	84.8
York	73,297	68.7	92,404	43.0
South Carolina	2,267,936	72.6	2,678,326	59.4

Source: U.S. Census Bureau, Census of Population and Housing; 2000 and 2010

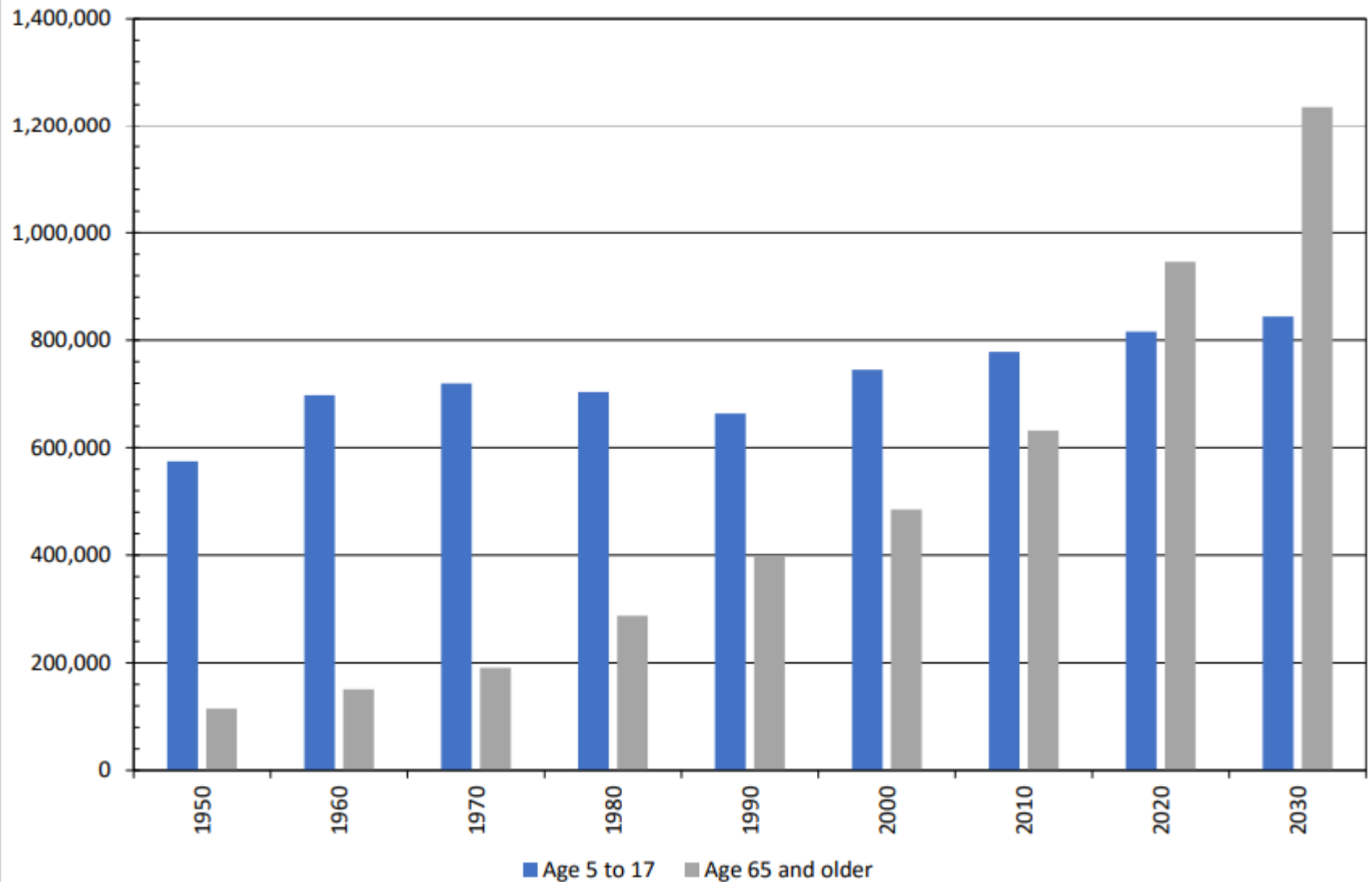
Components of Population Change 2000-2010	
<i>County</i>	Net Migration
Chester	(1,910)
Lancaster	12,857
Union	(743)
York	49,423
South Carolina	412,070

For the decade of the 2000's, only Horry County had a larger net migration than York County.

Source: U.S. Census Bureau, Census of Population and Housing; 2000 and 2010

SOUTH CAROLINA POPULATION TRENDS

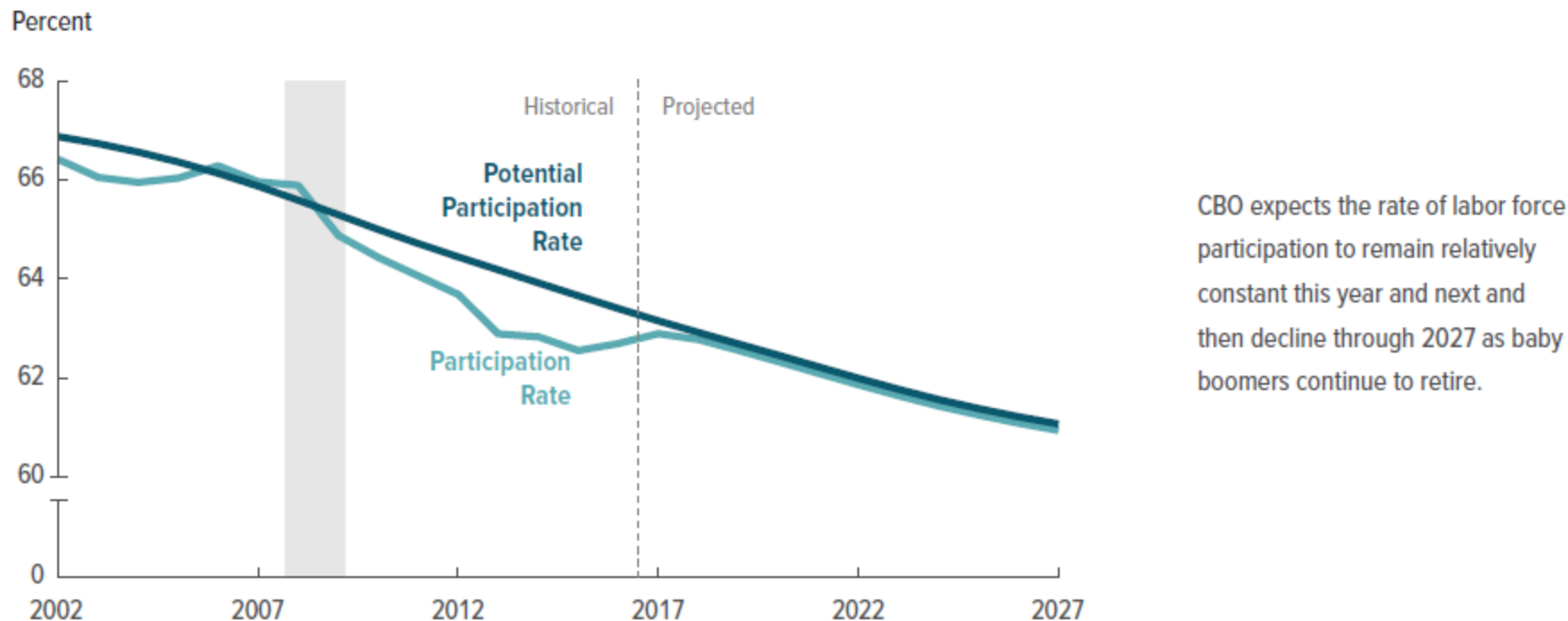
Age 5 to 17 and Age 65 and Older



Source: Revenue and Fiscal Affairs Office: LPW

Supplemental Figure 3.

Labor Force Participation Rates



Sources: Congressional Budget Office; Bureau of Labor Statistics.

The vertical bar indicates the duration of a recession, which extends from the peak of a business cycle to its trough.

The participation rate is the percentage of people in the civilian noninstitutionalized population who are at least 16 years old and in the labor force. The labor force consists of people who are employed and people who are unemployed but who are available for work and are actively seeking jobs. The potential participation rate is CBO's estimate of what the participation rate would be without the effects of the business cycle.

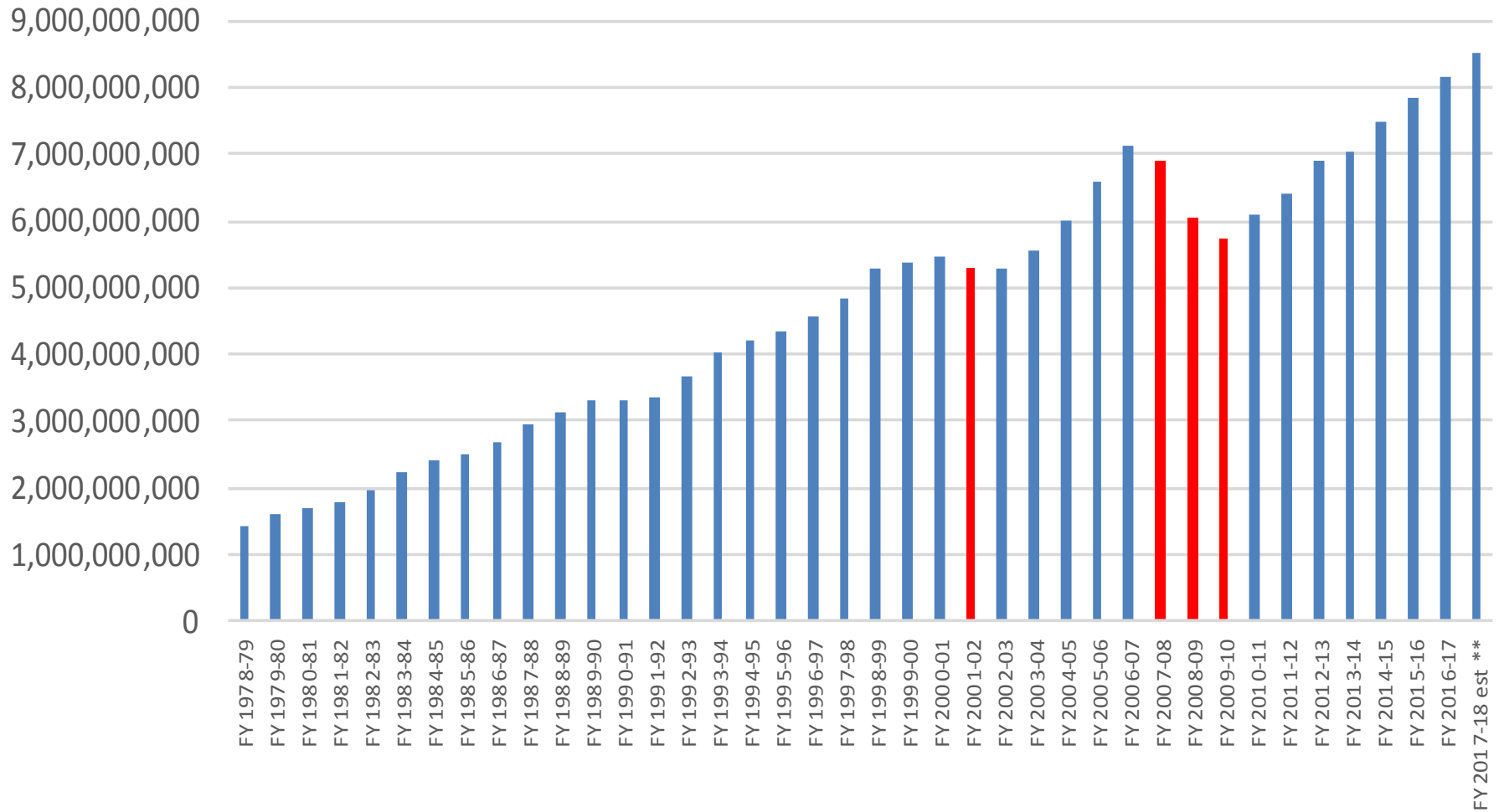
Data are fourth-quarter values.

Budget and Revenues

FY 17-18
Recap
and FY
18-19
Forecast.



Total General Fund Revenue



FY 2017-18 Recurring Appropriation Revenue Sources

General Fund (Gross)	\$8,533,988,000
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<i>Less Tax Relief Trust Fund</i>	<i>(\$583,649,169)</i>
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<i>Less Homestead Exemption Shortfall</i>	<i>(\$25,735,247)</i>
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General Fund (Net Available)	\$7,924,603,584
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Federal Funds	\$8,623,469,730
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Other Funds	<u>\$10,855,586,746</u>
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Total	\$27,429,395,307*
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**SC Total Personal Income in 2016 is \$192.6 Billion. So, the State Budget represents about 14% of economic activity in SC.



Tracking General Fund Revenues

Are we at an inflection point?



Board of Economic Advisors General Fund Revenue Monitor

Revenues vs. BEA 02/15/17 Estimate of \$8,186.0 Million in FY 2016-17 1/

	JULY - 13th MONTH FY 2016-17			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate Full Fiscal Yr.	Actual Yr. to Date
	Actual Revenues	Expected Revenues	Excess / (Shortfall)		
Total General Fund Revenue	8,158.5	8,186.0	(27.5)	4.4	4.1
Sales Tax	2,896.3	2,903.3	(7.0)	3.0	2.8
Individual Income Tax	4,107.6	4,097.4	10.3	6.9	7.2
Corporate Income Tax	320.4	322.4	(2.0)	(21.6)	(22.1)
Other Revenue Sources	834.1	863.0	(28.8)	11.0	7.3
Select Tax Revenues, Sub-Total	685.5	720.7	(35.2)	12.5	6.9
Admissions Tax - Total	31.5	29.6	1.9	(4.0)	0.9
Alcoholic Liquors Tax	76.7	76.9	(0.1)	4.5	4.3
Bank Tax	53.4	40.0	13.4	35.9	81.3
Beer and Wine Tax	109.6	111.0	(1.4)	3.5	2.2
Corporation License Tax	68.2	115.2	(47.0)	29.9	(23.1)
Documentary Tax	51.7	46.5	5.2	0.7	12.0
Earnings on Investments	30.8	24.0	6.8	(4.7)	22.3
Insurance Tax	237.7	249.7	(12.0)	17.7	12.0
Tobacco Tax	26.4	27.8	(1.4)	(1.3)	(6.1)
Residual Revenue, Sub-Total 2/	148.7	142.3	6.4	4.6	9.3

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

2/: Refer to p. 15, Residual Revenue, for list of components in this subcategory.

Note: Detail may not sum to total due to rounding.



Board of Economic Advisors General Fund Revenue Monitor

Revenues vs. 07/01/17 Adj. Appropriation Act of \$8,534.4 Million in FY 2017-18 1/

	JULY - OCTOBER FY 2017-18			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate Full Fiscal Yr.	Actual Yr. to Date
	Actual Revenues	Expected Revenues	Excess / (Shortfall)		
Total General Fund Revenue	2,751.9	2,780.8	(29.0)	4.6	2.5
Sales Tax	743.8	750.9	(7.1)	5.0	4.0
Individual Income Tax	1,726.7	1,755.6	(28.8)	4.6	2.3
Corporate Income Tax	67.4	87.1	(19.7)	7.5	23.3
Other Revenue Sources	214.0	187.3	26.7	2.3	(6.0)
Select Tax Revenues, Sub-Total	186.5	208.7	(22.1)	3.8	(7.2)
Admissions Tax - Total	1.2	1.9	(0.7)	(4.2)	(51.9)
Alcoholic Liquors Tax	17.2	18.1	(0.9)	4.7	(0.8)
Bank Tax	9.9	6.2	3.6	(40.9)	(6.6)
Beer and Wine Tax	27.7	30.7	(3.0)	4.8	(5.4)
Corporation License Tax	37.7	11.6	26.1	36.4	11.5
Documentary Tax	20.9	17.5	3.4	31.4	56.5
Earnings on Investments	5.6	5.4	0.2	(22.1)	(39.7)
Insurance Tax	59.7	63.9	(4.3)	1.8	(24.2)
Tobacco Tax	6.9	6.7	0.2	3.9	6.9

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

Note: Detail may not sum to total due to rounding.

FY 2018-19 Budget Revenue Outlook

Recurring

*Projected FY 18-19 “New” Revenue (3.7% Change)	\$292.3 Million
DOT “Transfer Back”	\$50.0 Million
Net “New Money”	\$342.3 Million

Non-Recurring

FY 2017 Surplus:	\$0
Capital Reserve Fund:	<u>\$145.4 Million</u>
Net “Non-Recurring”:	\$145.4 Million
TOTAL Recurring and Non-Recurring	\$487.7 Million

FY 17-18 amount was \$651 M or \$172 M greater.

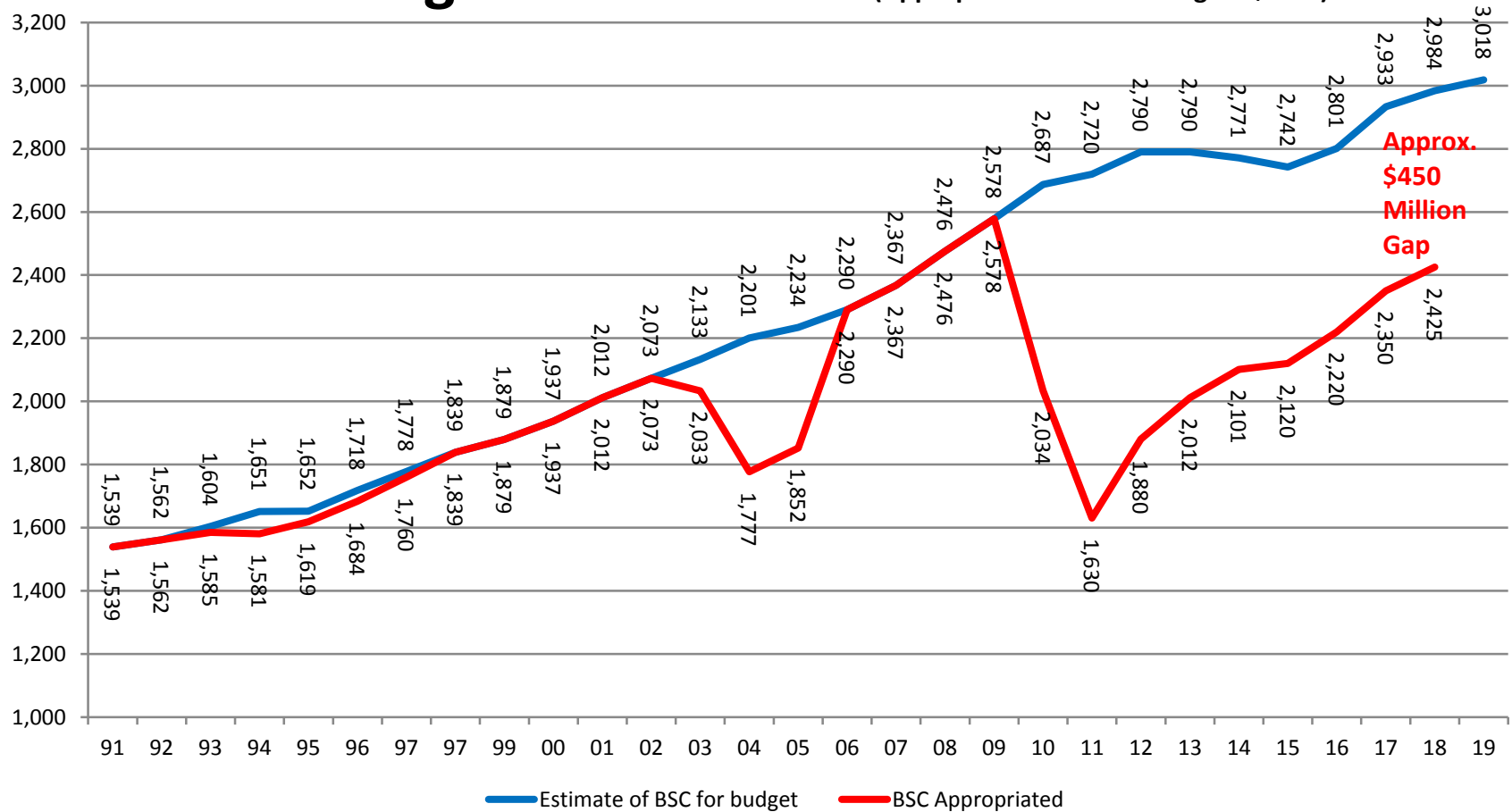
*Road Bill Tax Cuts (Year 1): (\$36 Million)

Source: BEA estimate 11/9/2017

Question: What are the demands for the “new” dollars?

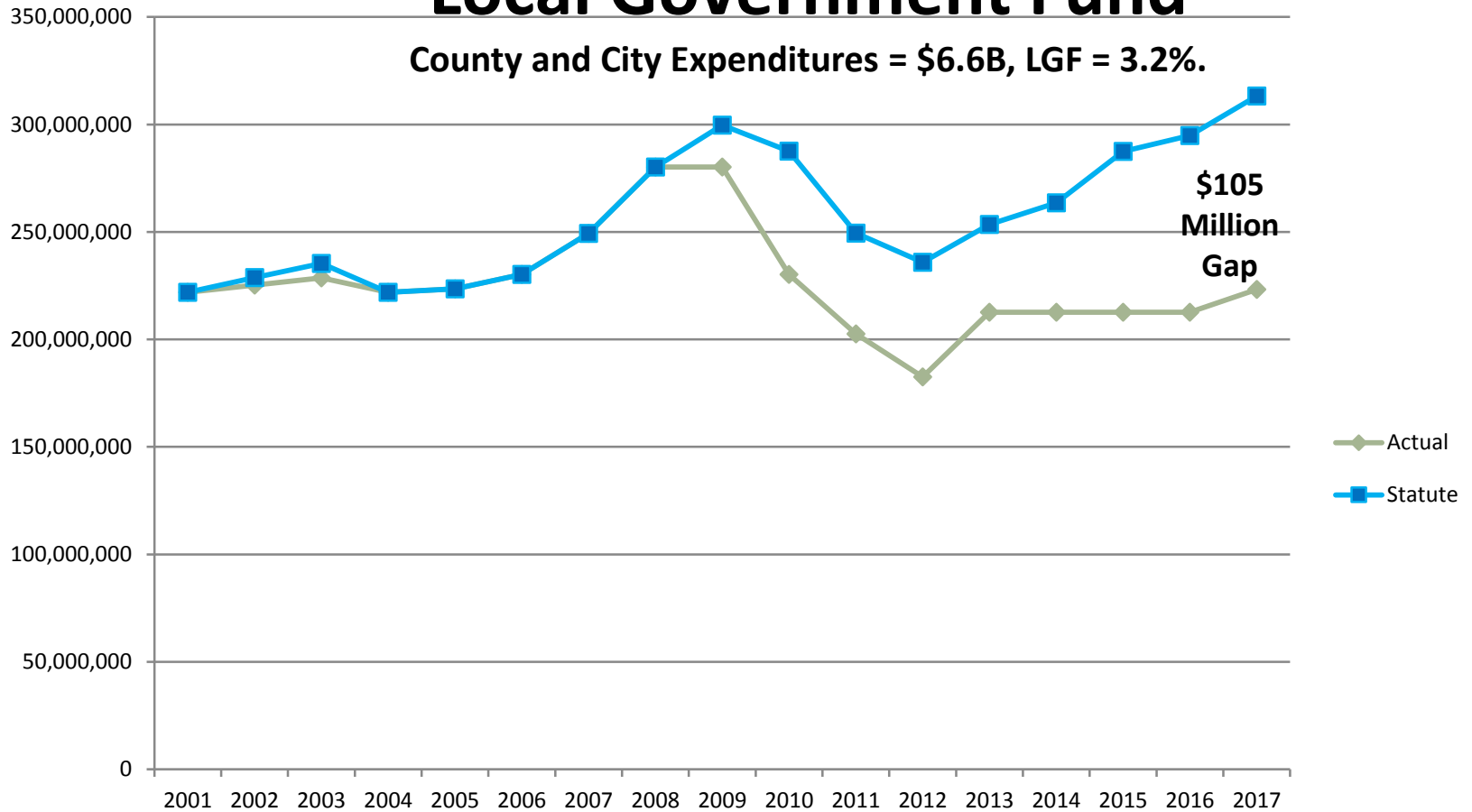
ANSWER: THE SAME DEMANDS AS LAST YEAR, WITH ONE NOTABLE EXCEPTION.

Base Student Cost Estimate Provided for the Budget and the BSC (Appropriated EFA and Fringe is \$2.5B).



Local Government Fund

County and City Expenditures = \$6.6B, LGF = 3.2%.



State Health Plan Budget Requirements for FY 2019

State-appropriated funds only

	Percent	EE only	ER and EE share proportionally		ER only
		EE+/month	State \$ (M) ¹	EE+/month	State \$ (M) ¹
Stay Grandfathered Current Plan	8.2%	\$56.04	\$60.6	\$12.38	\$71.2
Stay Grandfathered Current Plan (plus adult well visit)	9.6%	\$65.62	\$67.0	\$14.48	\$79.4
Stay Grandfathered Current Plan (with increase in patient liability ²)	6.5%	\$44.44	\$52.7	\$9.82	\$61.1
Stay Grandfathered Current Plan (plus adult well visit and increase in patient liability ²)	7.9%	\$54.00	\$59.2	\$11.92	\$69.4
Not Grandfathered Current Plan (plus annual adult well visit and other ACA-required benefits)	10.8%	\$73.82	\$72.5	\$16.30	\$86.5

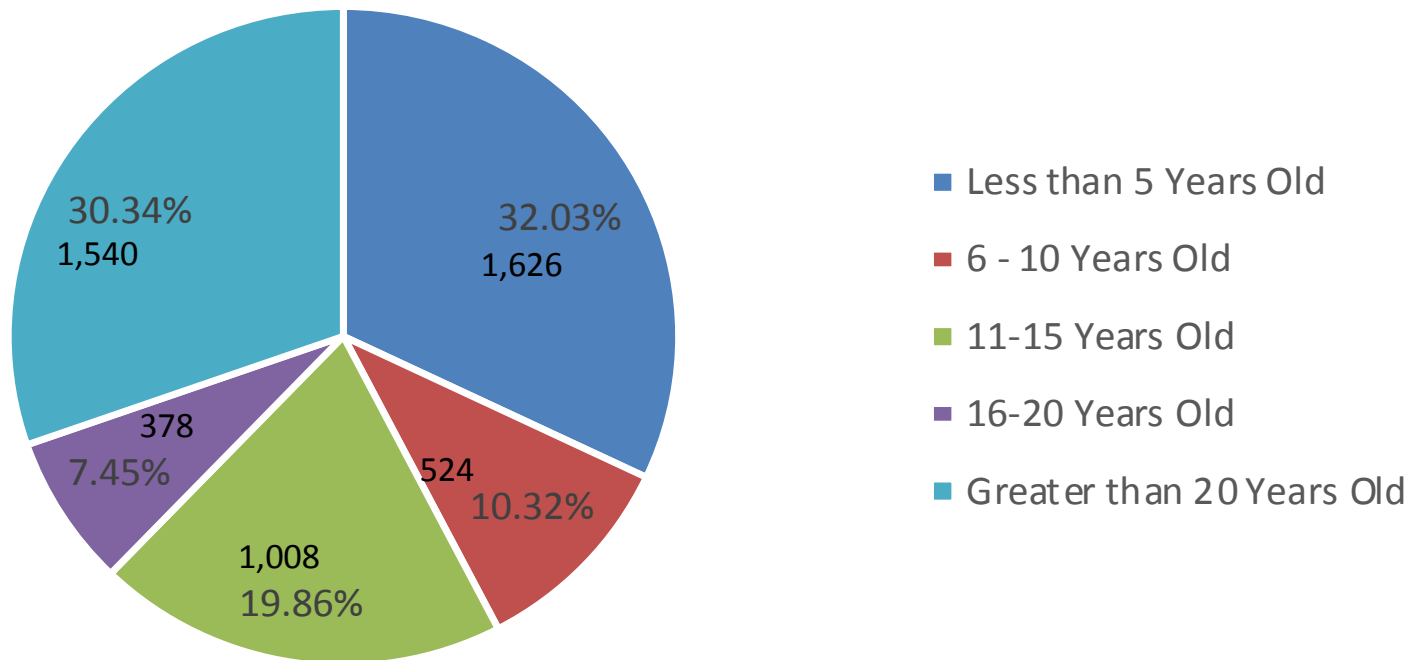
¹State \$ includes amounts for 2019 rate increase for January-June 2019, annualization of 2018 rate increase for July-December 2018 (\$14.1 million) and estimated retiree enrollment growth (\$9.1 million).

²Projected permissible changes in patient liability available on Slide 4.

School Bus Funding

Route District School Buses by Age

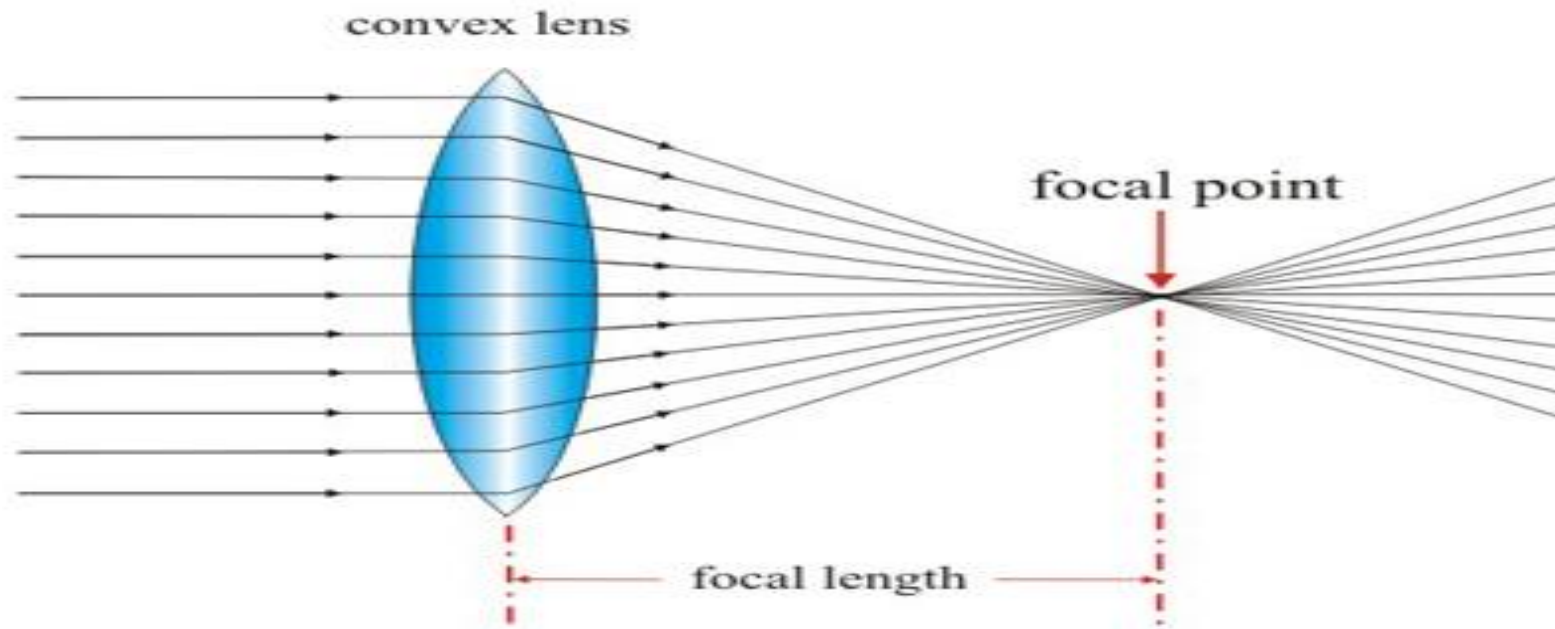
Total Number of Route Buses is 5,076



Source: SCDE School Bus Fleet Data 2017, data as of June 30, 2017.

Why “Convergence?”

Retirement Funding Reform and Transportation Funding Reform



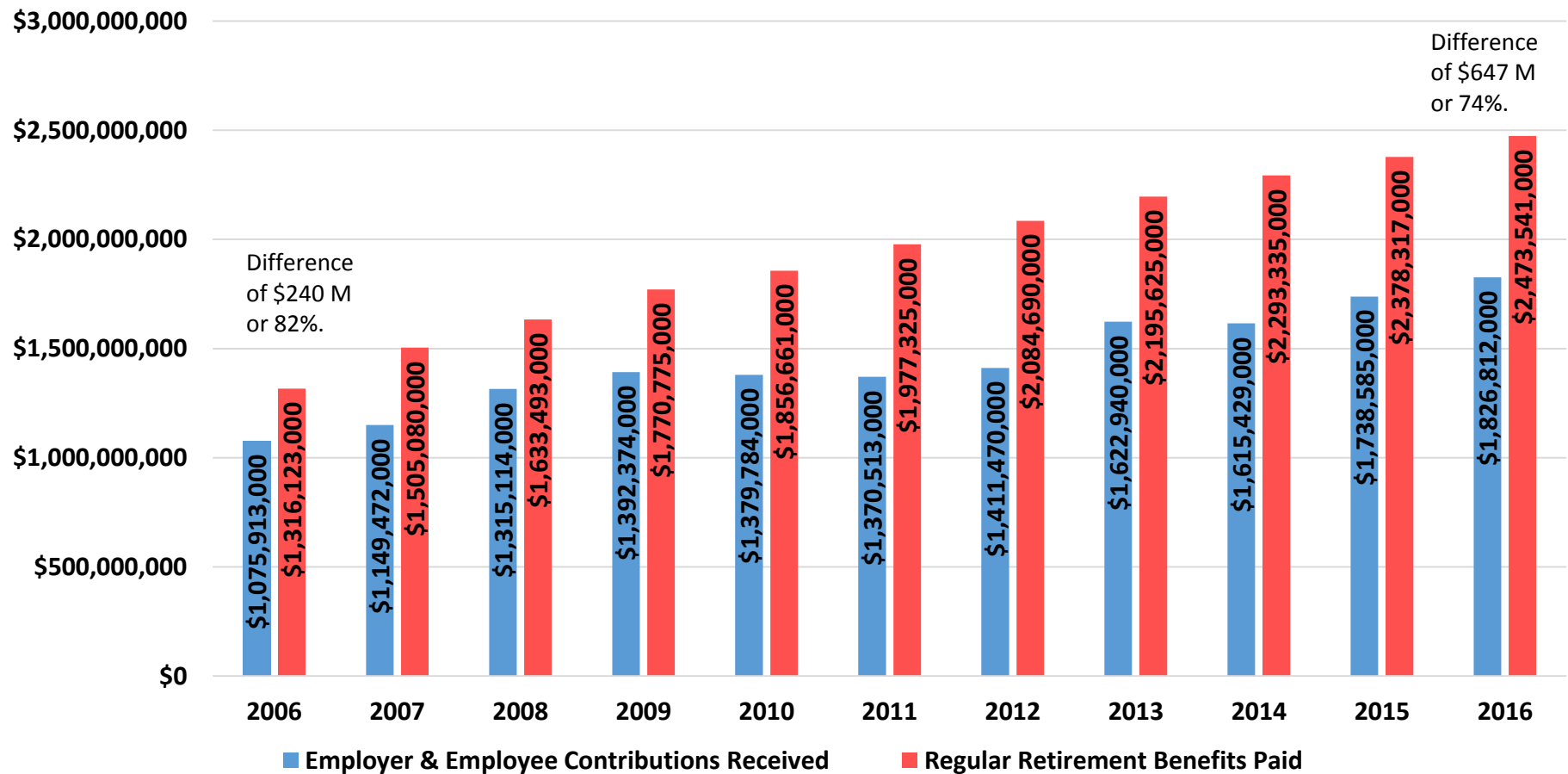
Both bills were the culmination of years of work in the legislative arena.



H. 3726,
Pension Reform and Funding

SCRS Trust Fund

Comparison of Payroll Contributions Received and Regular Benefits Paid



Pension Reform Act 278 of 2012

Return to Work (earnings limitation).

TERI Program Closed (6/30/18).

Retiree COLAs (1% up to \$500 annually).

Employee and Employer Contributions Rate linked (2.9% difference).

Lowered Assumed Rate of Return (8% to 7.5%).

Class III Membership (Rule of 90).

Note: Actuarial scenarios provided at that time predicted that employer contributions would peak around 19% of payroll in a 10 year time horizon to properly fund the System.

Act 13 of 2017

SCRS & PORS FUNDING IMPACT

- Expected new cash flow into SCRS and PORS from employers as a result of contribution increases required by Act 13 is \$73.6 million for FY 2017-18, and an additional \$36.8 million for each of the next 5 years.

EMPLOYER IMPACT

(\$ in millions)

July 1	Employer Rate Increase	General Fund	Local Government	Federal /Other Funds	Total All Funding Sources	Cumulative Total
2017	2.00%	\$73.6	\$67.4	\$95.4	\$236.4	\$236.2
2018	1.00%	\$36.8	\$33.7	\$47.7	\$118.2	\$354.6
2019	1.00%	\$36.8	\$33.7	\$47.7	\$118.2	\$472.8
2020	1.00%	\$36.8	\$33.7	\$47.7	\$118.2	\$591.0
2021	1.00%	\$36.8	\$33.7	\$47.7	\$118.2	\$709.2
2022	1.00%	\$36.8	\$33.7	\$47.7	\$118.2	\$827.4
				Total Additional Funds to System over 6 years		\$3,191.4

PENSION FUNDING IN THE FY 2017-18 GENERAL APPROPRIATIONS ACT

The General Assembly allocated \$154.8 million funding to cover a portion (if not all) of the 2% employer contribution rate increases in FY 2017-18 for every employer that participates in SCRS or PORS as follows:

- The full 2% for:
 1. General-funded state and school district employees
 2. EIA-funded employees (teachers & other school employees funded through the EIA)
- 1% for:
 1. Federal-funded employees (including state agencies & colleges)
 2. Other-funded state and school district employees (also includes colleges)
 3. Local entities (counties, municipalities, associations, hospitals, special purpose districts)



H. 3516, Transportation Funding

General Fund Redirections to Roads, a Quick Summation

Year	One-Time	Recurring
2013	\$50 M – SCDOT bridges	\$109 M – ½ sales tax on cars, ACT 98 SIB funds
2014	\$13.5 M – CTCs	\$110 M – ½ sales tax on cars, ACT 98 SIB funds
2015	\$216 M – CTCs \$70 M – Volvo \$10 M – CTCs (from Aid to Counties)	\$110 M – ½ sales tax on cars, ACT 98 SIB funds
2016	\$50 M – backfill of NFAHF from ACT 275 redirect \$49 M – FEMA flood match \$50 M – ACT 92 (2015) SIB funds to CTCs	\$116 M – ½ sales tax on cars, ACT 98 SIB funds \$66 M – ½ (remainder) sales tax on cars from ACT 275 \$85 M – backfill of DMV fees and fines
TOTAL	\$508.5 M	\$596 M

\$1,104.5 B from the General Fund since 2013.

\$216 M permanent (2016-onward) recurring reduction from the General Fund.

Road Funding... and Tax Cuts

	FY2018-19 (year 2)	FY22-23 (year 6, full implementation)
New Road Funding	\$281 M	\$622 M
- REBATE*	-\$40 M	-\$114 M
- Earned Income Tax Credit (nr)	-\$20 M	-\$40 M
- Enhanced Two Wage Earner Credit (nr)	-\$3 M	-\$16 M
- Enhanced College Tuition Tax Credit (nr)	-\$6 M	-\$7 M
- Manufacturing Property Tax Exemption	-\$6 M	-\$30 M
Total Tax Relief	\$75 M	\$207 M

*rebate sunsets in FY 2023 unless reauthorized by the General Assembly. Rebate is paid for by the SCDOT first using the revenues generated from the maintenance fee imposed on out-of-state motorists and then by other unrestricted revenues available to the department. **indicates from General Fund.*

Lawsuits pending:

Act 275 of 2016 – Sloan v. SC Senate, et. al., filed 1/27/2017: plaintiff alleges that the act violates the one-subject provision in the SC Constitution.

Act 40 of 2017 – Folks v. SC Senate, et. al., filed 8/11/2017: plaintiff alleges that the act violates the one-subject provision in the SC Constitution.

Act 40 has a direct impact on the Annual Budget Process:

Leading up to 2017, transportation “cut the line” and redirected General Fund Revenues to a function usually underwritten by transaction fees.

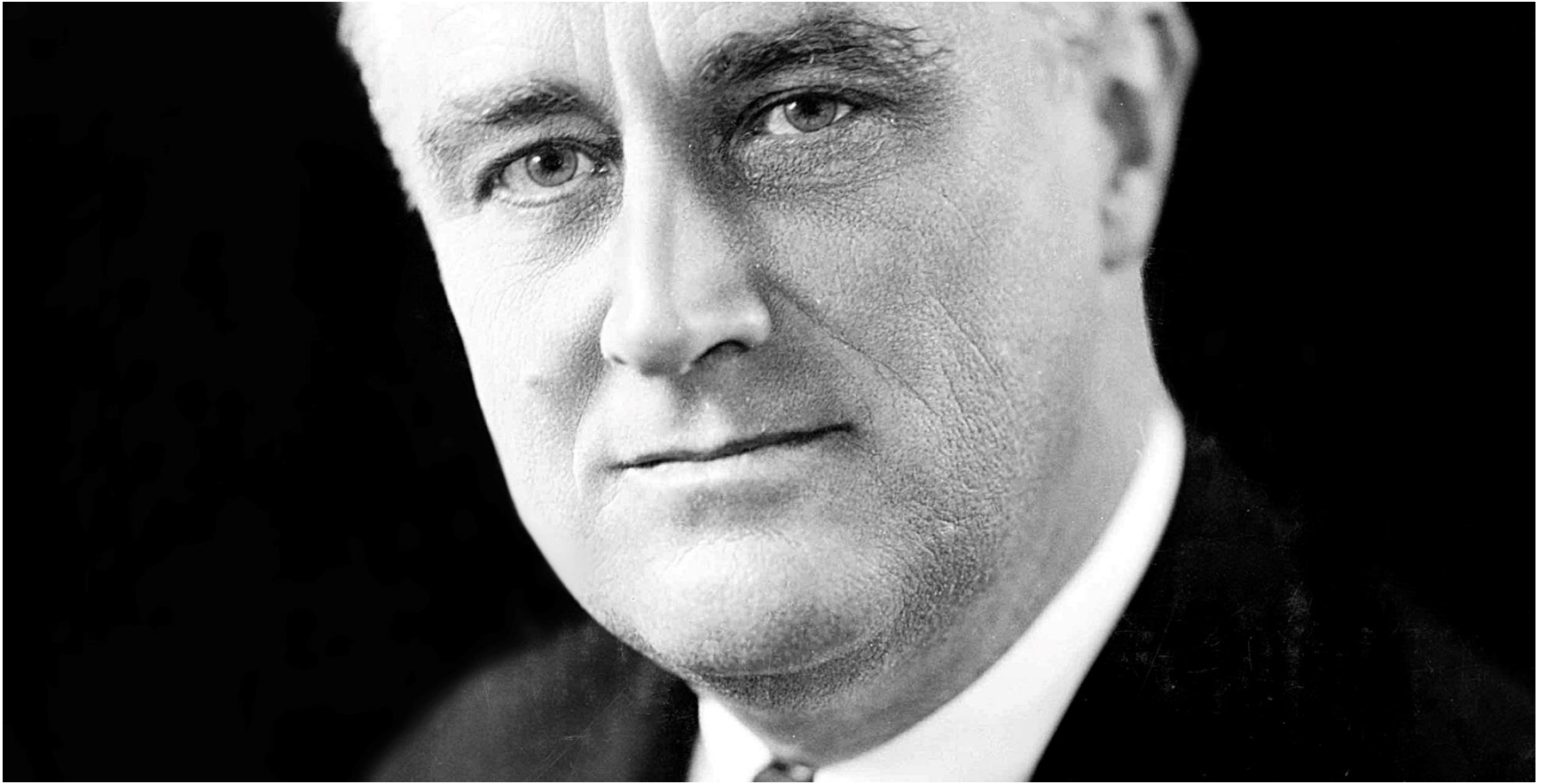


The Take Away

- This budget cycle will be similar to the past several years, but recurring revenue growth will be slightly muted and non-recurring revenues will be scarce. A modest mid-year cut is possible.
- Conformity with the Federal Tax Code will be a challenge.
- The costs for pensions will increase over the next five years essentially to pay for benefit increases that have already been granted.
- For the short term and intermediate term, transportation funding has been addressed. However, in the short run, Act 40 of 2017 must withstand a court challenge. In the longer run, inflation and lower gasoline usage will undermine the fix.

Thank you for
your service to
our communities.

MIKESHEALY@SCSENATE.GOV



Franklin Delano Roosevelt

“Democracy cannot succeed unless those who express their choice are prepared to choose wisely. The real safeguard for democracy, therefore, is education.”