Three-Year General Fund Financial Outlook
FY 2023-24 to FY 2025-26

Prepared Pursuant to Act 156 of 2005

§11-11-350

South Carolina Revenue and Fiscal Affairs Office

December 2022

Three-Year General Fund Financial Outlook
FY 2023-24 to FY 2025-26
Based on Enacted FY 2022-23 Budget
(Dollars in Millions)

	FY 2022-23 "Base Year"	FY 2023-24	FY 2024-25	FY 2025-26
Resources:				
Revenue (BEA Long Range Revenue Forecast, 11/16/2022)	12,459.7	12,299.8	12,888.4	13,567.4
Tax Relief Trust Fund Transfers	(768.1)	(795.9)	(807.4)	(817.5)
General Reserve Fund Transfer	(116.3)	(140.0)	0.0	(32.5)
Total Revenue/Resources	**$11,575.3**	**$11,363.9**	**$12,081.0**	**$12,717.4**
Recurring Base	**$10,341.3**	**$10,341.3**	**$10,341.3**	**$10,341.3**

Recurring Expenditures:		**Projected Year-Over-Year Increase**		
Constitutional/Statutory Items:				
Capital Reserve (CRF)		180.9	(39.4)	(5.6)
Local Government Fund		13.2	13.9	14.6
Debt Service		(111.2)	(128.9)	(157.1)
Homestead Exemption Fund Shortfall (Act 388 of 2006)		0.0	0.0	0.0
Major Expenditure Categories (Maintenance of Effort):				
Medicaid and Health		185.2	70.7	103.9
Social Services		20.1	2.2	2.3
Higher Education Scholarship Growth (LIFE, HOPE & Palmetto Fellows)		(27.1)	3.1	3.2
State Employee Health Plan (Retiree Growth + Rate Increase)		113.7	58.2	83.9
State Employee Compensation Changes (2 percent per year)		53.5	54.5	55.6
SCRS/PORS Contribution Increase (1 percent in FY 2023 and FY 2024)		40.2	0.0	0.0
Subtotal Incremental Adjustments		**468.5**	**34.3**	**100.8**
Total Cumulative Expenditures	**$10,341.3**	**$10,809.9**	**$10,844.1**	**$10,944.9**
Increase over the Base Year		**$468.5**	**$502.8**	**$603.6**
Recurring Balance for Other Appropriations		$554.1	$1,236.9	$1,772.5
Projected CRF Funds Available for Nonrecurring Expenditures	$183.6	$209.2	$390.1	$350.7
Projected General Reserve Fund Balance	$459.0	$715.2	$715.2	$747.8

The Notes and Assumptions are an integral part of this Financial Outlook.

Notes

The Three-Year General Fund Financial Outlook is prepared by the South Carolina Revenue and Fiscal Affairs Office in accordance with Section 11-11-350 of the S. C. Code of Laws, 1976. The Outlook is a three-year revenue and spending projection based on the enacted FY 2023 General Fund operating budget and revenue assumptions by the S.C Board of Economic Advisors.

Agencies receiving more than one percent of total general fund appropriations for FY 2023 were surveyed regarding their fiscal outlook and this report serves to summarize their responses. The agencies were asked to evaluate their existing programs and estimate the future funding needed to maintain these programs and to implement any mandatory federal or state programs. In addition, agencies were asked to identify factors that are driving these increases. The table on page one shows the anticipated year-over-year increase in funding required for maintenance of effort. The pages following provide a brief explanation for the increases.

If the projected balance is negative in any year, a budget gap exists. A budget gap reflects a structural imbalance between projected revenue growth and expenditure increases based on the adjusted enacted budget.

This document is intended to be used for planning purposes only. The outlook should not be viewed as requiring the General Assembly to fund the items listed, nor should it be viewed as an agency's future budget requests. The Outlook does not attempt to capture every agency's needs or budget requests. This document is preliminary and is subject to revision.

Assumptions About Resources and Revenues

Economic Forecast

The economic forecast is based on the Board of Economic Advisors (BEA) long-range General Fund revenue forecast as of November 16, 2022. At this time, the forecast for FY 2023 was updated. The initial estimate for FY 2024 was introduced, as well as the long-range forecast for FY 2025 and FY 2026.

Updated FY 2023 Forecast

The FY 2023 budget was based on the May 2022 forecasted gross revenue of $11,876.9 million. From this amount $768.1 million was transferred to the Tax Relief Trust Fund (TRTF), and recurring appropriations totaled $10,341.3 million. As of November 2022, the BEA increased the gross revenue estimate for FY 2023 to $12,459.7 million. If revenues continue to perform as anticipated, the year could end with a surplus of approximately $1,350.2 million dollars.

After allocations for insurance, employer contributions for retirement systems, and base pay increases, 16 agencies received one percent or more of the general fund recurring appropriations for FY 2023 (see Appendix A). Appropriations for these "one percent" agencies totaled $8,226.9 million, or 79.6 percent of all general fund recurring appropriations. Other appropriations greater than one percent went to Aid to Subdivisions, Capital Reserve Fund, and Debt Service, which accounted for 2.9, 2.0, and 1.8 percent, respectively. The remaining 13.7 percent, or $1,412.0 million, was distributed among the other agencies (see Figure 1.)

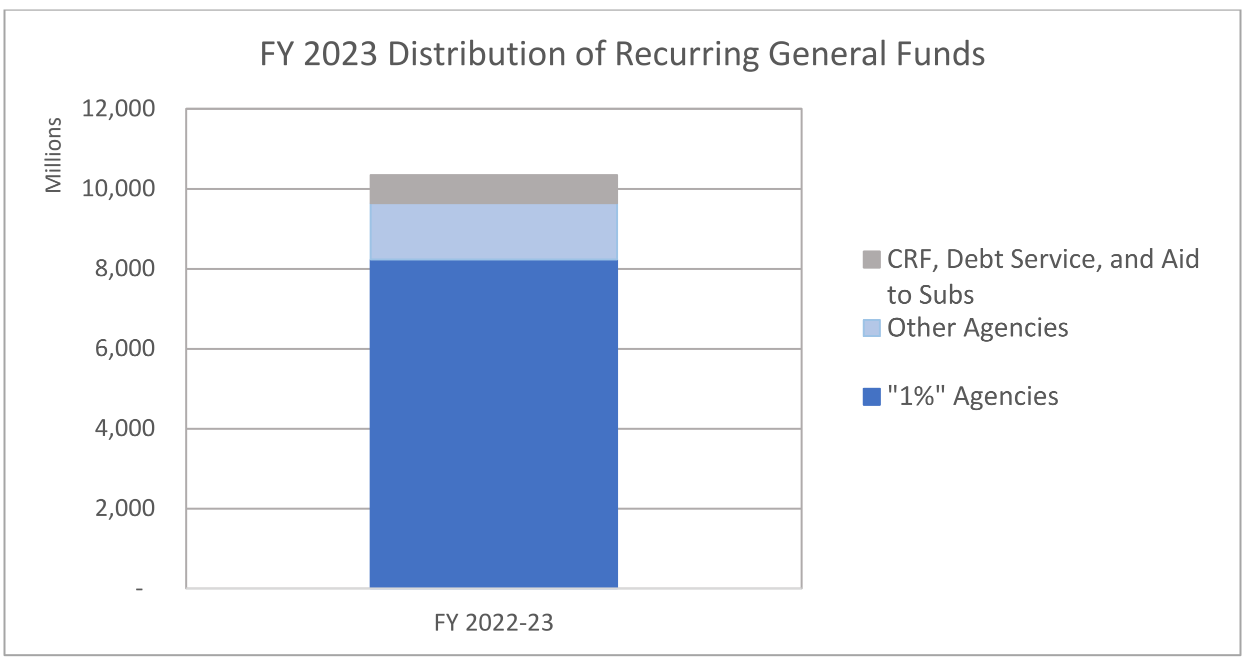

Figure 1: Distribution of recurring general fund appropriations for FY 2023.

Assumptions and Methodologies for FY 2024

The FY 2024 revenue estimate serves as the base for the long-range forecast. The plan is built upon an assumed growth rate in personal income and historical growth rates or patterns in the revenue sources. Overall, gross general fund revenue is expected to decrease by 1.3 percent in FY 2024.

The forecast for FY 2024 includes the following assumptions:

- An annual personal income growth rate of 4.92 percent for FY 2023 and 4.88 percent for FY 2024; and
- Sales tax will dip by 1.5 percent in FY 2024 as collections return to historical levels and consumer spending behavior shifts back towards a more historical mix of services and goods; and
- An individual income tax growth rate of 0.8 percent, partly due to the Comprehensive Tax Cut Act of 2022; and
- Corporate income tax decreasing by 16.7 percent and more to historical levels as the impact of pandemic spending subsides; and
- Employment remains above pre-pandemic levels, and continues above average growth patterns through the remainder of FY 2023 followed by a slowdown in FY 2024; and
- A return to overall historical trends and patterns in revenues as the economy settles following the COVID-19 pandemic and waning fiscal stimulus effects.

Although revenues continue to show stronger growth than originally anticipated, there remain several potential risks to the economy. Continuing supply-chain issues, the war in Ukraine, and the possibility of recession in other countries as well as our own give cause for concern. For these reasons, the forecast carries more caution than usual. However, should we experience a potential downturn in the economy, it is anticipated be relatively mild, and the state will fare better than the nation as a whole.

Long-Range Forecast

Gross General Fund revenue is expected to increase in FY 2025 and FY 2026 at rates of 4.8 and 5.3 percent, respectively. After the period of significant economic activity during the COVID-19 pandemic followed by a corrective period of activity, more historical levels of growth are anticipated in sales tax, individual income tax, and corporate income tax over the forecast period (see Appendix B).

Reserve Funds

The state maintains two main reserve funds, the General Reserve Fund and the Capital Reserve Fund, to safeguard against unexpected budget shortfalls. The balances required for these two funds are determined by statute and are dependent upon the actual general fund budgetary revenue[1] collected during the previously completed fiscal year. Due to the ongoing economic uncertainty, the BEA continues to be cautious in its forecasting. Should revenue performance differ significantly from current projections, the contribution requirements to the reserve funds will likewise change.

General Reserve Fund

The General Reserve Fund serves as a savings account which may only be used to cover operating deficits of state government. The reserve was originally funded at 3 percent of budgetary revenue. This requirement was increased to 5 percent beginning FY 2015. With the passage of Act 238 of 2022, the General Assembly voted to increase the reserve funding requirement to 7 percent, which was later approved by public referendum. This increase will be phased in over the next four years, with the first implementation applying to FY 2024. Table 1 displays the balance required to fully fund the General Reserve, the budgetary revenues used to determine that balance, and the necessary contribution needed to make the fund whole for each fiscal year. This analysis assumes that the General Reserve Fund is not needed to cover any year-end deficit during the forecast period.

With the FY 2023 appropriation, the General Reserve Fund received excess funding in the amount of $52.3 million in anticipation of the constitutional referendum. This reduces the necessary contribution for FY 2024. Because FY 2023 revenues are anticipated to fall below revenues for FY 2022, the full funding requirement for FY 2025 will decrease by $13.7 million. According to S.C. Const. art. III, § 36(B), funds may only be withdrawn from the General Reserve to cover operating deficits of state government. Therefore, it is our assumption that the fund balance will not be decreased in FY 2025 and the General Reserve will have excess funds of $13.7 million. This will reduce the necessary FY 2026 appropriation from $46.3 million to $32.5 million.

Capital Reserve Fund

The Capital Reserve Fund (CRF) is a budgetary account used to offset year-end deficits and to replenish, when needed, the required amount in the General Reserve Fund. If not used for either purpose, the CRF may be appropriated for the following: (1) to finance in cash previously authorized capital improvement bond projects, (2) to retire the interest or principal on bonds previously issued, or (3) for capital improvements or other nonrecurring purposes. Act 238 of 2022 also increased the funding requirement for the CRF from 2 percent to 3 percent of budgetary revenue beginning FY 2024.

[1] Budgetary revenue is equal to gross general fund revenue less allocations to the Tax Relief Trust Fund.

Because budgetary general fund revenues are anticipated to decrease in FY 2023 and FY 2024, funding requirements will decrease by $4.0 million in FY 2025, and $5.6 million in FY 2026. As the CRF is renewed in full each fiscal year, it is possible that the annual appropriation may be reduced.

Table 1 Reserve Requirements

	FY 2021	**FY 2022**	**FY 2023e.**	**FY 2024e.**
General Fund Budgetary Revenue	10,459.7	13,004.4	11,691.6	11,503.9

	FY 2023	**FY 2024e.**	**FY 2025e.**	**FY 2026e.**
General Reserve Fund Required Balance	523.0	715.2	701.5	747.8
Necessary Contribution for Full Funding	64.0	192.3	(13.7)	46.3
Annual Appropriation	116.3	140.0	-	32.5
Excess Funding	52.3	-	13.7	-
Capital Reserve Fund Required Balance	209.2	390.1	350.7	345.1
Incremental Adjustment	25.6	180.9	(39.4)	(5.6)
Total Reserve Balance	**784.5**	**1,105.4**	**1,052.2**	**1,092.9**
Total Incremental Adjustment	**141.9**	**320.9**	**(39.4)**	**26.9**

Expenditure Assumptions

Local Government Fund

The Local Government Fund (LGF) is a statutorily defined appropriation of funds to counties and municipalities and is part of the general fund of the state. Act 84 of 2019 amended the formula used to calculate the annual appropriation. Under the new formula, the annual appropriation is determined by the growth in the BEA General Fund revenue projection for the planning year over the current fiscal year's appropriation base. The current LGF is to be increased by the same growth rate, up to a maximum of 5 percent. The formula change was to take affect beginning in the FY 2021 budget. However, the pandemic hindered the budget development process in the spring of 2020, and the state operated under a Continuing Resolution that extended funding levels for state government into FY 2021. Therefore, the new funding formula was not incorporated until the FY 2022 budget. Figure 2 shows the actual funding of the Local Government Fund in relation to the balance that would have been required per statute. Annual increases for FY 2024, FY 2025, and FY 2026 are $13.2 million, $13.9 million, and $14.6 million, respectively.

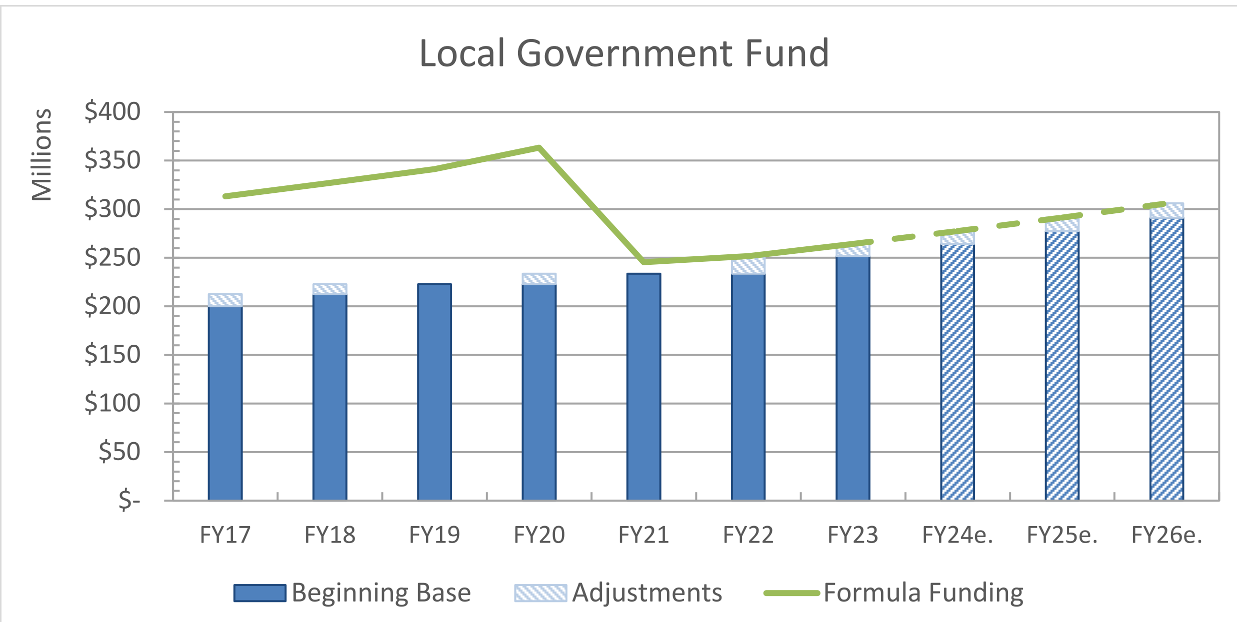

Figure 2 Local Government Fund appropriations vs. formula funding.

Debt Service

Future Debt Service needs will decline over the forecast period based upon current projections and obligations. This analysis assumes that Debt Service will continue to be funded at the current level of $191.6 million. This estimate reflects existing law and does not include the potential impact of proposed legislation. Figure 3 displays the funds required for Debt Service each year along with the anticipated amount above current obligations. Debt service appropriated above obligations is often used to fund nonrecurring items.

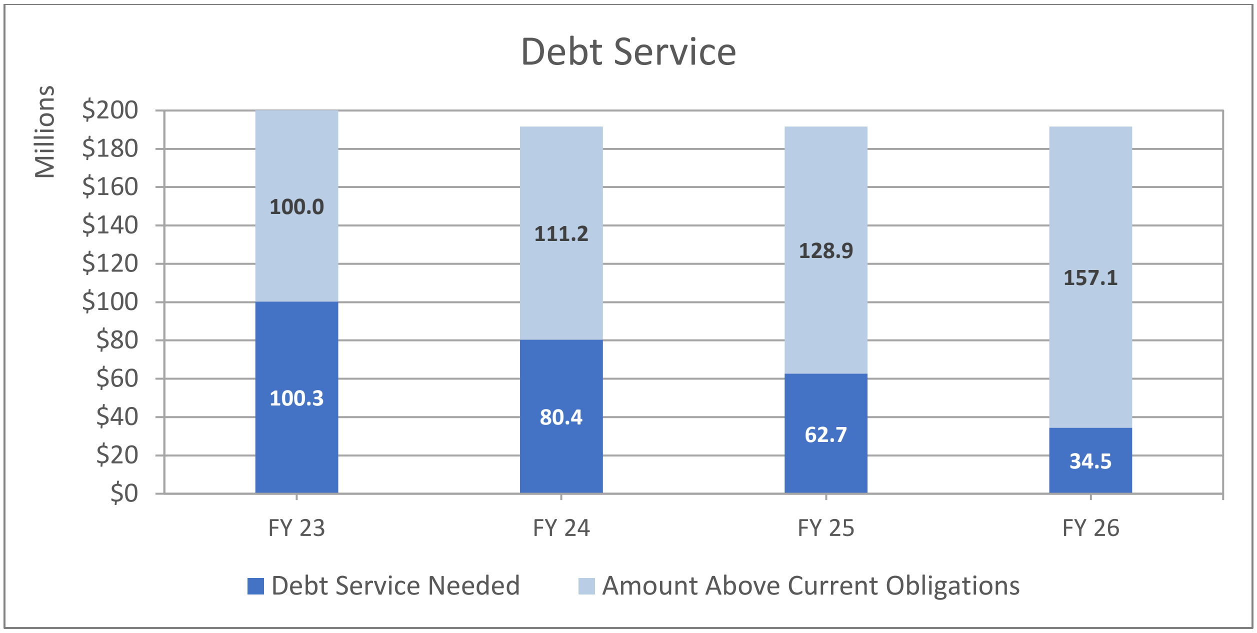

Figure 3 Debt Service Requirements

Homestead Exemption Fund

The Property Tax Reform Act, Act No. 388 of 2006, eliminated all school operating taxes on owner-occupied homes and increased the state sales tax by one cent to replace the reduced property tax revenue stream. The new revenue from the one-cent sales tax increase is earmarked for the Homestead Exemption Fund, which replaces the local property tax revenue. The school district funding requirement is based on inflation plus a population growth factor. The Act provides that, should there be a shortfall of revenue in the Homestead Exemption Fund, the deficit will be funded using general fund revenue.

Currently, the Homestead Exemption Fund is forecasted to be fully funded from the one-cent sales tax revenue. However, if the State experiences an economic downturn, it may become necessary to appropriate general funds.

K-12 Education

State Aid to Classrooms

The General Assembly adopted education funding reform for the FY 2023 budget and implemented a new funding formula for State Aid to Classrooms to replace the Education Finance Act. The new State Aid to Classrooms formula provides funding for the cost of salary and fringe benefits for one teacher for every 11.2 students. Funding is distributed to districts based on the district's percentage of weighted pupils and ability to pay as measured by the Index of Taxpaying Ability (proportion of statewide taxable property value).

The total student count as measured by the Average Daily Membership (ADM) for the regular districts and the charter districts is estimated to be 756,280 in FY 2023. Based upon population projections for school age students (ages 5 to 17), we anticipate 0.24 percent growth in the number of students each year for FY 2024, FY 2025, and FY 2026 (see Table 2).

Table 2 Projected Student Average Daily Membership

Average Daily Membership			
Fiscal Year	Regular Districts	Charter Districts	Total
FY23	712,977	43,303	756,280
FY24	712,012	48,422	760,434
FY25	713,885	48,529	762,414
FY26	715,759	48,635	764,394

The Weighted Pupil Count (WPU) for the regular districts and the charter districts is estimated to be 1,272,080 in FY 2023 (see Table 3). It is important to note that several weight categories changed because of education funding reform in FY 2023.

Table 3 Projected Weighted Pupil Units

Weighted Pupil Units			
Fiscal Year	Regular Districts	Charter Districts	Total
FY23	1,166,930	105,150	1,272,080
FY24	1,165,350	117,580	1,282,930
FY25	1,168,416	117,839	1,286,255
FY26	1,171,482	118,098	1,289,580

The State Aid to Classrooms formula for FY 2023 is based on the statewide minimum salary for a teacher with a master's degree and twelve years of experience, which is $52,604, and a fringe rate of 31.46 percent, for a total of $69,153 (see Table 4). The fringe rate for FY 2024 is projected to be 32.46 percent, which is a 1.0 percent increase over the FY 2023 rate. For this analysis, we have included a 1.0 percent increase in the fringe rate for FY 2025 and FY 2026. The actual fringe rate may vary. Because the new funding formula depends greatly on legislative decision making, we are not able to project future needs for State Aid to Classrooms.

Table 4 Projected State Aid to Classrooms Incremental Funding.

State Aid to Classrooms				
Fiscal Year	Salary	Fringe	Total Cost of a Teacher	Incremental Funding (in millions)
FY23	$52,604	$16,549	$69,153	n/a
FY24	$52,604	$17,075	$69,679	$61.4
FY25	$52,604	$17,601	$70,205	$48.1
FY26	$52,604	$18,127	$70,731	$48.3

Bus Replacement

The State Department of Education (SDE) has indicated that additional funds will be required to reach a 15-year replacement cycle and address growth in districts with increased ridership. In order to meet this goal, additional funding of $29 million will be required over the next three years. Since FY 2018, SDE has received $5.0 million in general funds for bus purchases. School bus purchases over the base appropriations have been funded through nonrecurring revenues. These nonrecurring revenues are not included in the amounts listed on page 1.

Reading Coaches

SDE has indicated an increase in the number of schools qualifying for reading/literacy coaches as determined by Proviso 1.59 of the FY 2023 Appropriation Act. Providing support to all schools that qualify would require a total of $6.6 million phased in over a two-year period, adding $3.3 million dollars in both FY 2024 and FY 2025. Because funding for this type of support is not open-ended, but dependent upon appropriations, these figures are not included in the amounts listed on page 1.

Medicaid and Health

Medicaid Program

The Medicaid program is administered by the Department of Health and Human Services (DHHS). The cost for providing Medicaid services is driven by four main components: enrollment, program utilization, reimbursement rates, and services required by the Centers for Medicare and Medicaid Services (CMS). Medicaid projections reflect additional State funds needed to maintain current service levels based on enrollment and cost per member projections. Based on the assumptions described below, total state funding for the Medicaid program is expected to increase by 20.1 percent by FY 2026. This equates to an additional $298.7 million in FY 2026 (see Figure 4).

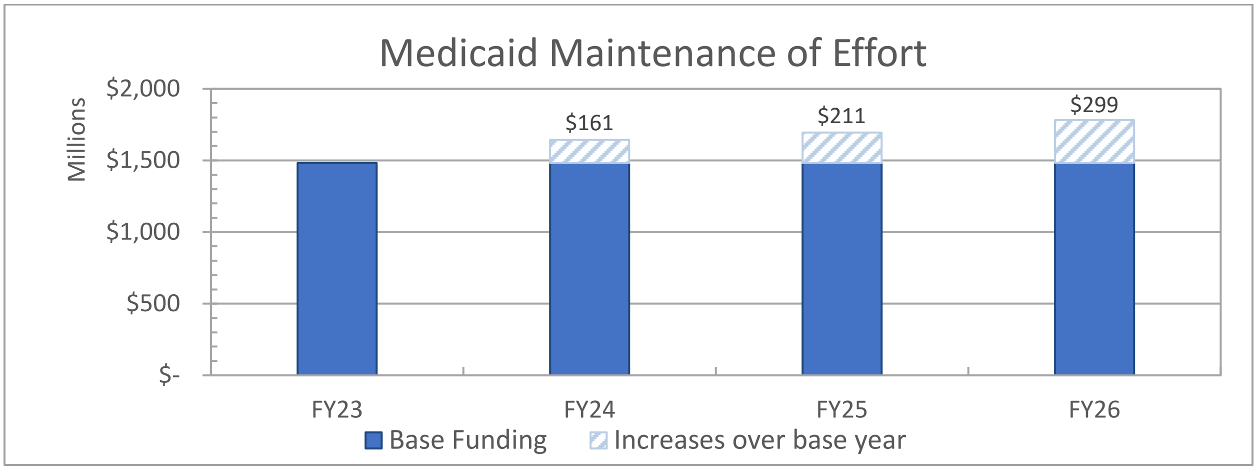

Figure 4 Medicaid maintenance of effort will increase by 20% by FY26.

Enrollment

The state experienced an economic downturn during the COVID-19 pandemic, which began early in 2020. More people became eligible for Medicaid due to lost wages/jobs, and the state experienced an increase in enrollment. The federal Families First Coronavirus Response Act (FFCRA) became effective April 1, 2020. This act requires states to freeze disenrollment for Medicaid recipients while the country is under a declared public health emergency (PHE). A PHE was declared in January 2020 and has continued until the time of this printing. The PHE has recently been extended to April 2023; therefore, Medicaid enrollment remains elevated despite the economic recovery seen in the state. The disenrollment freeze remains in effect until three months after the PHE ends, meaning that the first disenrollment will begin July 2023. Once the disenrollment freeze is lifted, DHHS may begin to gradually remove members who no longer qualify for Medicaid. This disenrollment phase is expected to last for approximately one year. Projections for FY 2024 are based on these assumptions, and further assume that managed care enrollment slowly decreases to pre-COVID levels during the fiscal year. However, an extension of the PHE would result in an increase in these projected expenditures.

The DHHS is anticipating an increase in enrollment, particularly in the Community Long-term Care waiver program which provides nursing facility-level care in a patient's home. The department anticipates normal growth rate of 1 percent in managed care and fee-for-service enrollment in FY 2025 and FY 2026.

Utilization

Service utilization refers to the number of services received by Medicaid beneficiaries. This can be influenced by enrollment, but also by the quantity of services members use. DHHS is anticipating an increase in utilization of certain services, particularly the school-based mental health services.

Reimbursement

The Medicaid program is jointly funded by the federal government and the states. The federal government's share is referred to as the federal medical assistance percentage (FMAP), and this rate is used to reimburse states for the federal share of expenditures. The FMAP, which is updated annually, is determined by a formula that considers the average per capita income for each state relative to the national average. The federal government pays a larger portion of Medicaid costs in states with a lower per capita income. As South Carolina's economy has improved over the last several years, our FMAP has declined, resulting in a need for additional state funds to make up for the loss of federal reimbursements. The state's FMAP declined 1 percent between 2018 and 2023. A much sharper decrease is expected in 2024, when it will decrease 1.2 percent from the 2023 rate (see Figure 5). The projections made by DHHS for FY 2025 and FY 2026 are based on the assumption that the FMAP will remain flat throughout the forecast period. However, if the FMAP continues to drop, this will result in the need for additional state funding.

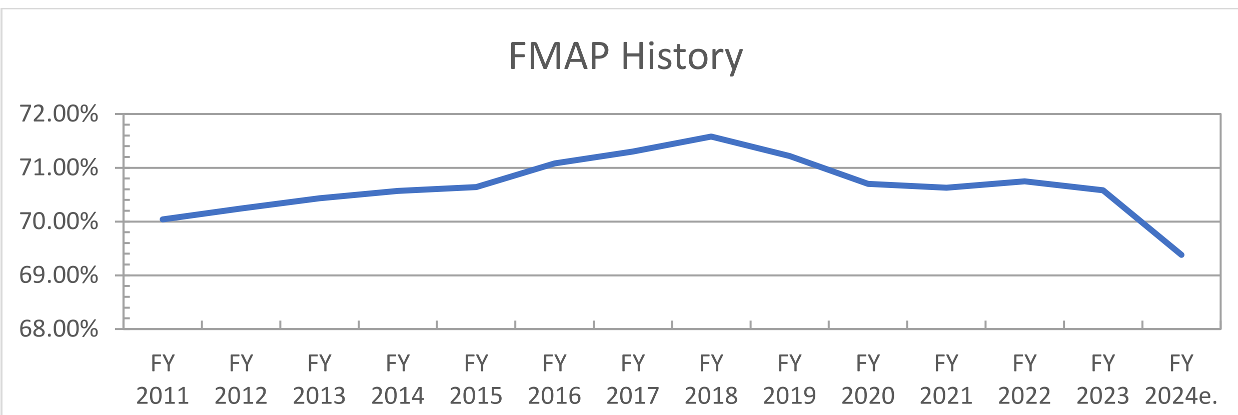

Figure 5 South Carolina's FMAP.

The department is also anticipating the need to increase the reimbursement rates paid to providers for services currently offered. This increase is intended to match inflationary wage increases and bring Medicaid reimbursement rates closer to the industry standard.

Service Package Array

The CMS is part of the federal Department of Health and Human Services and provides regulation for Medicare and Medicaid programs at the state level. Certain Medicaid programs are mandated by CMS. This analysis assumes that no new programs will be mandated throughout the planning period.

Mental Health

The Department of Mental Health (DMH) is mandated by statute to operate several programs, including Forensic Services, the Sexually Violent Predator Treatment Program (SVPTP), and five Veterans Nursing Homes. Costs to operate these programs continue to increase due to census growth and inflation.

The SVPTP average daily census is expected to increase by 3 percent in FY 2024 and continue to grow by 2 percent throughout the remainder of the forecast period. Their contracted service agreements require the DMH to seek and annual rate increase based on the most recent South Regional Medical Services Consumer Price Index. The SVPTP program costs are expected to increase by $1.5 million in FY 2024, and approximately $300,000 each year the following two years.

The DMH plans to open a new nursing home in Sumter in FY 2025. The number of patients in existing nursing homes is also anticipated to increase over the forecast period. In addition, the nursing home programs are subject to inflationary costs for contract services. Costs for nursing home programs are expected to increase by $8.8 million, $5.6 million, and $2.0 million in FY 2024, FY 2025, and FY 2026, respectively.

Maintenance of effort funding increases for the DMH are primarily driven by program utilization and inflationary costs. In total, the DMH anticipates additional funding needs of $18.5 million over the next three years.

Disability and Special Needs

The Department of Disabilities and Special Needs (DDSN) reports that many of their expenditures are driven by utilization rates and service rates.

This analysis assumes that as the impact of the federal stimulus payments distributed during the pandemic decreases, the FMAP will return to historical levels. However, should the State's economy continue to perform above the national average, the agency will need additional funds for maintenance of effort.

The DDSN currently holds a Medicaid administrative contract with DHHS, under which it is required to conduct initial Level of Care Evaluations and annual Level of Care Reevaluations. The annual reevaluations are a new requirement for DDSN under this contract and additional staff is needed to fulfill this requirement. In addition, the agency will perform additional risk and quality assurance assessments of waiver services, as well as additional autism research, in order to meet and maintain standards of care. These factors are expected to increase expenditures by $1.4 million each year beginning FY 2024.

The State's FMAP has averaged 70.67 percent since 2009. The recently released FY 2024 FMAP dropped to 69.53 percent. This is expected to increase general fund requirements by $8.0 million each year beginning FY 2024. This analysis assumes the FMAP will remain flat through FY 2025 and FY 2026. However, if the FMAP continues to drop, the agency may require additional funds in future years to replace the loss in federal funding.

The DHHS amended the South Carolina Title XIX State Plan by updating the Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IID) Medicaid prospective payment rates effective July 1, 2022. The new cost-based rate is estimated to require an additional $1.8 million each year for the next three years to maintain current utilization levels.

The DDSN maintains a multi-tiered career progression program for Direct Support Professionals that allows the opportunity for on-the-job training and advancement. The existence of this program is necessary to remain in compliance with CMS. The agency anticipates a future need of $3.0 million each year beginning FY 2024 to maintain this program. This projection assumes a 10 percent increase in Filled FTE's for FY 2024 through FY 2026. These general funds will allow DDSN to draw down approximately $8.7 million federal funds.

In total, the DDSN anticipates incremental expenditure increases of $14.2 million each year over the forecast period.

Social Services

In order for the Department of Social Services (DSS) is required to meet the USDA guidelines for the cost of raising a child in the southeast region when determining compensation to foster care providers. The agency is also experiencing rate increases for congregate care facilities, therapeutic foster care and medical therapeutic foster care, qualified residential treatment providers, and child placing agency support. The agency anticipates and total increase of $23.3 million over the next three years.

For Title IV-E eligible foster care placements, the FMAP rate is used to compute the amount of uncapped federal IV-E dollars that can be drawn down for foster care maintenance and is adjusted by the federal government annually. The State's 2024 FMAP will decline 1.2 percent from the 2023 rate. period. Reductions in foster care placements, reductions in average duration of foster care episodes, and continued shifts to family-like settings for foster care such as kinship foster care, could partially offset the increases in state costs associated with FMAP decreases. To the extent that reductions in placement costs do not offset a reduction in the State's FMAP adjustment, additional general funds may be required in the future.

Higher Education

Scholarships

The South Carolina Education Lottery Act[2] mandates the use of lottery funds. Among other beneficiaries, lottery funds must be used to provide Palmetto Fellows, LIFE, and HOPE scholarships for higher education. Palmetto Fellows and LIFE scholarships must be awarded to all

[2] SC Code of Laws: Chapter 150, Title 59

eligible applicants. Should appropriated funds be insufficient to cover scholarship disbursement, additional funding for these two scholarships becomes an obligation of the General Fund.

Scholarship projections are based on the five-year compound average growth rate (CAGR) for each scholarship program. Historically, the Commission for Higher Education (CHE) used a ten-year CAGR for its estimation. Higher Education has experienced considerable changes in enrollment over the past three years, mainly due to the pandemic, which impacted scholarship disbursement. The stable scholarship growth several years prior to the pandemic inflated the ten-year CAGR. Therefore, the CHE changed to the five-year CAGR to provide a more accurate estimate. The estimated lottery expenditures for FY 2023 are $211.1 million for LIFE, $12.0 million for HOPE, and $65.0 million for Palmetto Fellows. Table 6 displays the scholarship appropriations for FY 2023. You will note that these appropriations are above the updated estimates for FY 2023. Table 6 also displays the annual incremental changes in needed lottery funding for the three scholarship programs.

Table 5 Incremental adjustments for state scholarships.

Scholarship	CAGR	FY 2023 Appropriations	Additional Lottery Funds Needed FY24	FY25	FY26
LIFE	0.04%	235,150,272	(23,955,328)	79,208	79,237
HOPE	5.00%	10,904,039	1,670,108	628,852	660,301
Palmetto Fellows	3.07%	72,139,864	(4,810,974)	2,433,795	2,508,463
Subtotal		318,194,175	**(27,096,193)**	**3,141,854**	**3,248,002**

Of the funds appropriated to the Commission on Higher Education for Education Endowment, $12.0 million is allocated to fund Palmetto Fellows scholarships. The remaining funding for Palmetto Fellows, as well as the entire funding for LIFE and HOPE scholarships, is currently provided through the South Carolina Education Lottery. Should Lottery revenue be insufficient to cover scholarship disbursement, funding for the LIFE and Palmetto Fellows scholarships becomes an obligation of the General Fund. However, since FY 2010, Lottery revenue growth has outpaced scholarship growth. Provided that Lottery revenues and scholarship expenditures continue to grow at their current rates, scholarship disbursements will be fully funded using Lottery revenues. The combined lottery distributions for LIFE and Palmetto Fellows scholarships are anticipated to total $278.5 million, $281.0 million, and $283.6 million in FY 2024, FY 2025 and FY 2026, respectively.

Higher Education Funding

Since 2000, inflationary costs for higher education have outpaced inflation in other spending areas. The Higher Education Price Index (HEPI) published annually by the Commonfund Institute is an inflation index that measures the average relative level in the price of a fixed market basket of goods and services purchased each year by institutions of higher learning (IHLs). Beginning in FY 2009, Commonfund expanded its HEPI service to include calculations of HEPI for the nine standard census divisions of the United States. Since FY 2010, the HEPI for the South Atlantic division, of which South Carolina is a part, has increased at an average annual rate of 2.5 percent, outpacing the Consumer Price Index for all goods, which averaged 2.23 percent annually over the same period.

In FY 2013, the state began increasing funding to public IHLs for education and general operating expenses. Since this time, general funding for IHLs has increased at an average annual rate of 6.5 percent, while rate increases for tuition and fees for undergraduate students have grown by an average of 2.1 percent (see Figure 6). If the state continues this trend, funding for public IHLs could increase by $128.2 million, $148.0 million, and $170.9 million in FY 2024, FY 2025, and FY 2026, respectively. Because this funding is not mandated, these figures have not been included in the amounts listed on page one.

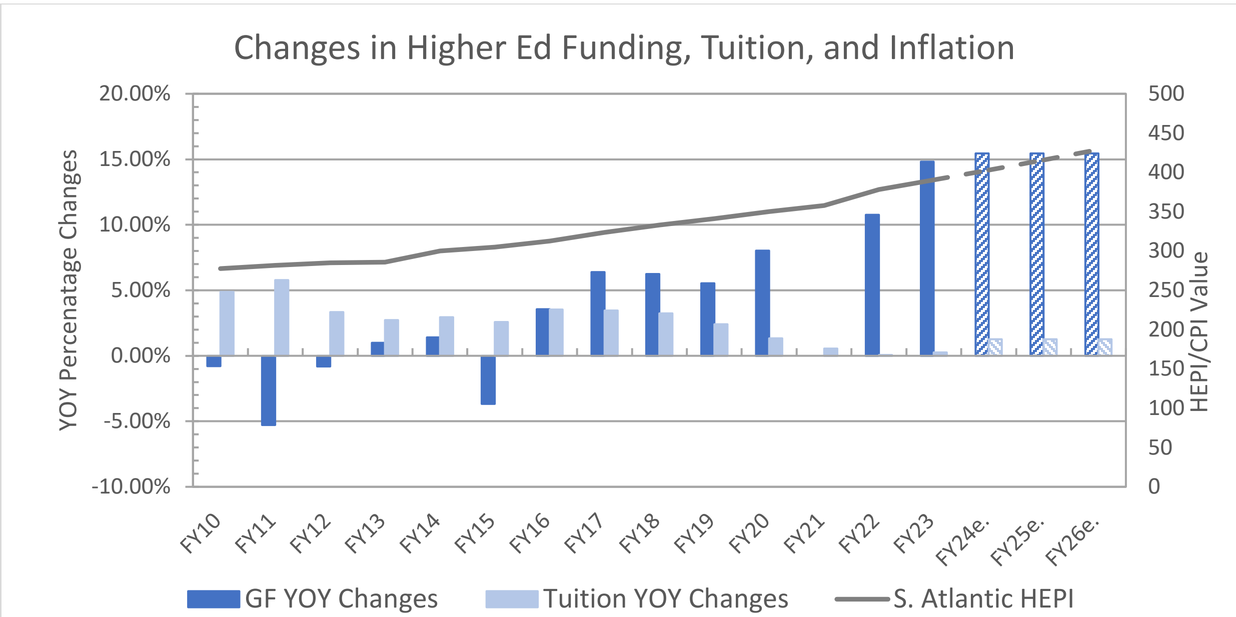

Figure 6 YOY percent changes in general fund appropriations for higher education institutions, YOY changes in tuition rates, compared to HEPI growth.

Transportation

Department of Motor Vehicles

The Real ID program will be implemented in FY 2023. Once the implementation is completed the Real ID credential materials will be paid from General funds. The agency anticipates these expenditures to total $1.9 million over the next three years.

One of the requirements for the Real ID program Is a State-to-State Verification Service. The agency has estimated annual per state and per driver fees to total approximately $700,000 over the next three years.

Department of Transportation

The Department of Transportation (DOT) received $120.0 million in recurring general funds as part of the FY23 budget. However, these funds are to be used as state match funds and not for agency operations. These funds will allow the DOT to draw down additional federal funds as part of the federal Infrastructure Investment and Jobs Act. These funds will be part of the recurring budget for a limited number of years. No increase is anticipated over the forecast period.

State Employee Benefits and Compensation

Health Plan

The South Carolina Public Employee Benefit Authority (PEBA) maintains the State's health and retirement programs. PEBA evaluates heath care premiums each year and makes adjustments as necessary. The general fund portion of the employer base for calendar year 2023 is $1,231.1 million. General fund appropriations for insurance premiums are annualized each year. The first six months of FY 2024 (July through December 2023) are funded per the January 2023 rate. January 2024 through June 2024 will be funded per the new rate effective January 2024. Table 7 displays the incremental increases to general fund appropriations for the forecast period.

Table 6 Estimated increases for State Health Plan expenditures.

	Annualization of Previous CY Rate increase (July-Dec)	Upcoming CY Rate Increase (Jan-June)	FY Retiree Enrollment Growth (July-June)	Total Additional General Fund Appropriations
FY 2024	$93,315,717	$14,835,988	$5,532,503	$113,684,208
FY 2025	$14,835,988	$37,988,201	$5,378,035	$58,202,224
FY 2026	$37,988,201	$40,428,834	$5,442,571	$83,859,606

These projections based on the following assumptions:

- Continuation of current covered services and patient cost sharing; and
- Employer pays share of rate increase proportionate to employer/enrollee contributions in force January 2023; and
- Rate increase effective January 2024 equals 2.4 percent; January 2025 increase equals 6.0 percent; January 2026 increase equals 6.0 percent; and
- Retiree enrollment growth equals 1.2 percent each year throughout the forecast period.

The recently enacted federal Inflation Reduction Act (IRA) includes a re-structuring of the Medicare Part D (pharmacy) benefit. The State Health Plan operates a group Part D plan for its Medicare membership, and accordingly receives federal subsidies related to its Medicare pharmacy spend. These dollars go into the State Health Plan's general operating fund and now represent about 6 percent of total Health Plan revenue. At this time, it is unclear as to how the IRA's Part D restructure will affect group Part D subsidies. This potential change is not expected to affect the State Health Plan until FY 2025 budget. However, with 6 percent of Plan revenue derived from Part D subsidies, if a significant amount of subsidies are lost, additional contribution increases above those provided in this projection may become necessary.

Retirement System

Required employer contributions to the state employee, school district, and police retirement systems (SCRS and PORS) were raised 2 percent in 2017 with the passage of Act 13. The Act also increased employer contributions 1 percent per year beginning in FY 2018, with the final increase scheduled for FY 2023. The 1 percent increase was suspended for FY 2021 as part of the Continuing Resolution passed in May of 2020. The rate increase per statute was again suspended as part of the Appropriation Act for FY 2022, when the employer contribution rate was increased by 1 percent, leaving the rate increase one year behind schedule. A one percent employer contribution rate increase in FY 2024 will fulfill the requirements of Act 13 of 2017. This rate change will increase general fund expenditures by approximately $40.2 million in FY 2024. At this time, there are no scheduled increases beyond FY 2024.

Act 13 of 2017 was passed in order to address unfunded liabilities accrued within SCRS and PORS. Since 2017, both funds have outperformed expectations. Figure 7 shows the funded ratios for SCRS and PORS up through FY 2022. The dotted blue lines indicate the estimated funded ratio at the time the act was passed. The solid blue line shows the actual funded ratio for FY 2017 through FY 2022. As of the end of FY 2022, both retirement systems have exceeded the ratios estimated for FY 2028.

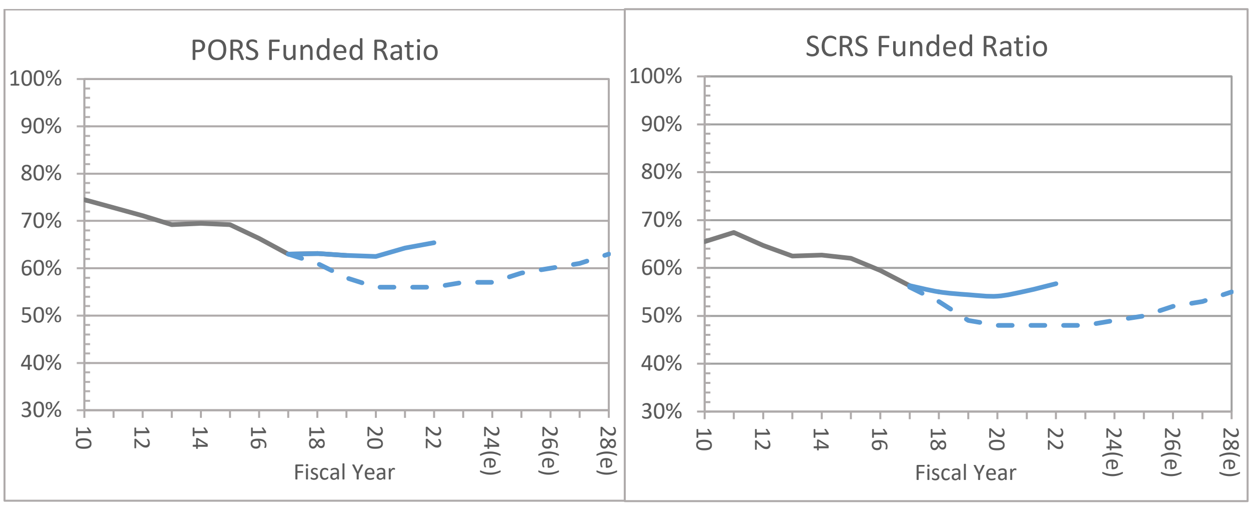

Figure 7 Actual Funded Ratio compared to the funded ratio projections made in 2017.

Employee Compensation

This report provides an estimate of the cost to increase base pay salaries by 2 percent each year. This increase is not statutorily required and is included in this report as a reference to cost-of-living increases only. The estimate is based on base salary for state employees in all pay bands, with the exception of exempted groups (agency heads, members of the legislature, and constitutional officers). Included in the estimate are other groups (local health care providers, county auditors and treasurers, and school bus drivers) whose salaries are provided entirely or in part through the general funds. A base pay increase of 2 percent for all applicable state employees would increase general fund expenditures by approximately $53.5 million in FY 2024, $54.5 in FY 2025, and $55.6 million in FY 2026. This estimate includes all applicable fringe benefits.

Recent economic changes have created new challenges for agencies trying to recruit and retain qualified workforce. Nationwide, there are more jobs available than job seekers. Wages among private sector jobs continue to exceed state and local government salaries (see Figure 8). Agencies have reported losing staff to private sector jobs that are less hazardous and offer greater compensation packages. In addition, some of the effects of noncompetitive pay reported by agencies include increased caseload above agency and/or market guidelines, fewer and/or less effective services offered, and staff burnout.

Many agencies have requested additional funds for personal services with which to offer more competitive salaries that will help to recruit and retain qualified staff. Budget requests for FY 2024 relating to increased compensation for existing personnel total approximately $60 million. Because these are not mandated changes, these figures are not included in the calculations on page 1 and are included for informational purposes only. The calculations on page 1 include only the estimated expenditures for base salary increases for existing employees.

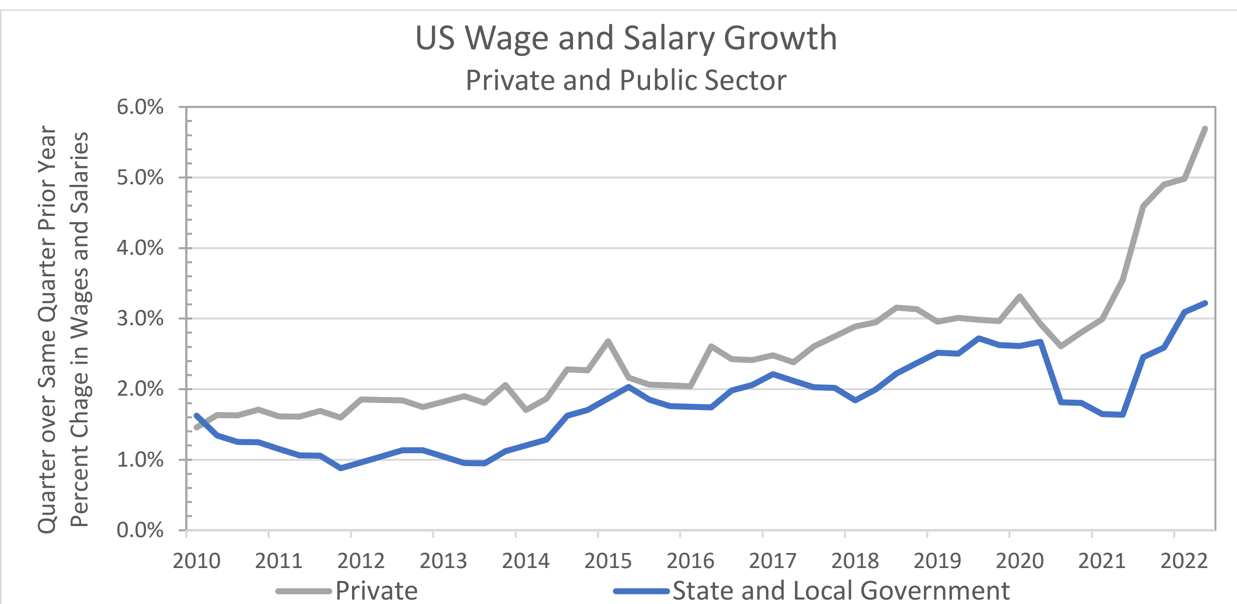

Figure 8 Comparison of wages in the private sector to wages in the public sector. (Source: U.S. Bureau of Labor Statistics, Employment Cost Index: Wages and Salaries: Private Industry Workers, Government Workers)

Other Considerations

Maintenance and Renovation

Each year many agencies submit requests for maintenance, renovation, repair, and replacement for buildings and equipment. Over the last five years, these requests have averaged $445.3 million. Because these requests are typically funded using nonrecurring funds, these expenditures have not been included in the calculations on page 1 and are included here for informational purposes only.

Tobacco Master Settlement Agreement

The State's "tobacco bonds," securitized by its Tobacco Master Settlement Agreement (MSA) payments, were retired June 1, 2012. By statute, future MSA receipts are available for appropriation. Historically, these funds have been appropriated in their entirety per proviso and are not counted with general fund revenue. While current statute earmarks these funds primarily for healthcare programs[3], specific program appropriations are at the discretion of the General Assembly. For the last several years, a specified amount has been appropriated for the diligent enforcement of the tobacco MSA with the remainder used for Medicaid maintenance of effort (see Figure 9).

Estimates for MSA annual distributions are provided by the Center for Tobacco and Public Health (Center) at the National Association of Attorneys General. The Center has estimated that South Carolina will receive $76.0 million for FY 2022. The actual total will not be known until April 2023, as estimates are subject to a number of adjustments, credits, and other factors. The Center has projected receipts of $80.0 million, $77.0 million, and $74.0 million for FY 2023, FY 2024, and FY 2025, respectively, for the state. Based on current trends, receipts for FY 2026 are expected to be $77.0 million.

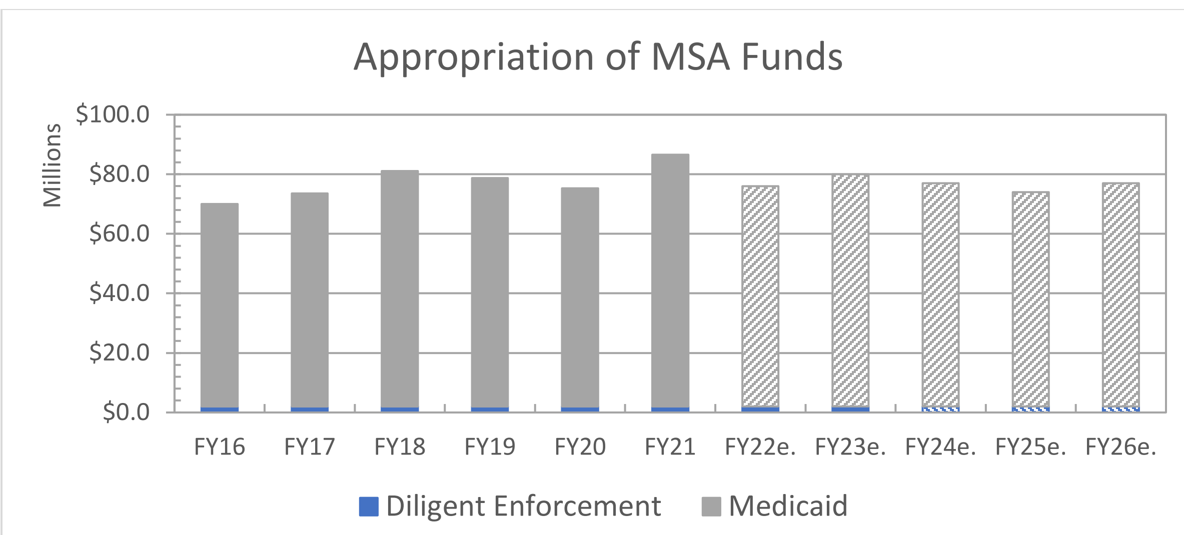

Figure 9 Ten-year distribution history of funds received from the Master Settlement Agreement.

[3] Section 11-11-170 of the S. C. Code of Laws, 1976, outlines allowable uses for Tobacco MSA funds.

APPENDIX

Appendix A: Recurring General Fund Distribution for FY 2023

TOTAL APPROPRIATIONS	**10,341,341,675**	**% of Total Appropriations**
"1%" Agencies		
Department of Education	3,763,777,387	36.40%
Department of Health & Human Services	1,829,730,399	17.69%
Department of Corrections	530,631,305	5.13%
Department of Mental Health	298,859,279	2.89%
Department of Social Services	282,311,414	2.73%
University of South Carolina - Columbia	197,601,180	1.91%
Technical & Comp. Education	195,641,135	1.89%
Department of Health & Environmental Control	158,387,395	1.53%
Department of Disabilities & Special Needs	132,143,885	1.28%
Department of Juvenile Justice	130,311,560	1.26%
Department of Public Safety	125,554,023	1.21%
Clemson University (E&G)	120,448,728	1.16%
Department of Transportation	120,057,270	1.16%
MUSC	118,314,078	1.14%
Public Employee Benefits Authority (PEBA)	112,368,739	1.09%
Department of Motor Vehicles	110,795,061	1.07%
Subtotal	***8,226,932,838***	***79.55%***
Other "1%" Appropriations		
Capital Reserve Fund	209,194,431	2.02%
Debt Service	191,630,298	1.85%
Aid to Subdivisions	301,538,903	2.92%
Subtotal	***702,363,632***	***6.79%***
Other Agency Appropriations		
Subtotal	***1,412,045,205***	***13.65%***

Appendix B: Long-Range General Fund Revenue Forecast

General Fund Revenue Estimate

Revenue Category	FY 2023	FY 2024	FY 2025	FY 2026
Sales and Use Tax	$4,500	$4,433	$4,631	$4,855
Individual Income Tax	5,924	5,969	6,294	6,665
Corporation Income Tax	751	626	650	721
Other GF Revenue Sources	$1,284	$1,272	$1,314	$1,327
Gross General Fund Revenue	**$12,460**	**$12,300**	**$12,888**	**$13,567**

Percent Change in Revenue

Revenue Category	FY 2023	FY 2024	FY 2025	FY 2026
Sales and Use Tax	2.2	(1.5)	4.5	4.8
Individual Income Tax	(13.2)	0.8	5.4	5.9
Corporation Income Tax	(33.5)	(16.7)	3.8	10.9
Other GF Revenue Sources	(0.9)	(1.0)	3.3	1.0
Gross General Fund Revenue	**(8.7)**	**(1.3)**	**4.8**	**5.3**

The table above includes adjustments for legislative tax reform pursuant to Act 228 of 2022, Comprehensive Tax Cut Act of 2022. Gross general fund revenue includes Individual Income and Corporate Income tax revenue that is transferred to the Property Tax Relief Trust Fund pursuant to §11-11-150.
(Source: South Carolina Board of Economic Advisors/BEA/11/16/2022)