

# State Budget Outlook

“The Breach”

Mike Shealy

SC Senate Finance Committee

# SC State Budget

(expenditures in FY08-09)

- General Funds    \$5.75 Billion
- Federal Funds    \$7.37 Billion
- Other Funds       \$7.44 Billion

TOTAL:    \$20.56 Billion

SC Personal Income    \$140 Billion

(Budget is about 14% or 1/7th of economy)

**General Fund Revenue Sources**  
**by Major Category**  
**Fiscal Years 1994-95 and 2008-09**

| Description               | Amounts              |                      | Difference           | Avg Annual<br>% Change |
|---------------------------|----------------------|----------------------|----------------------|------------------------|
|                           | 1994-95              | 2008-09              |                      |                        |
| <b>Tax Revenues:</b>      |                      |                      |                      |                        |
| Individual Income         | 1,655,953,953        | 2,326,707,698        | 670,753,745          | 2.5%                   |
| Sales and Use             | 1,442,466,320        | 2,247,876,029        | 805,409,709          | 3.2%                   |
| Corporate Income          | 232,272,412          | 207,174,754          | (25,097,658)         | -0.8%                  |
| Other Taxes               | 494,883,172          | 549,059,587          | 54,176,415           | 0.7%                   |
| <b>Total Tax Revenues</b> | <b>3,825,575,857</b> | <b>5,330,818,068</b> | <b>1,505,242,211</b> | <b>2.4%</b>            |
| Motor Vehicle Licenses    | 100,425,868          | 15,213,183           | (85,212,685)         | -12.6%                 |
| Earned on Investments     | 61,504,170           | 79,559,729           | 18,055,559           | 1.9%                   |
| Departmental Revenue      | 51,147,846           | 37,485,169           | (13,662,677)         | -2.2%                  |
| Nonrecurring Revenue      | 23,426,672           | 30,400,000           | 6,973,328            | 1.9%                   |
| Other Revenues            | 171,459,447          | 50,696,621           | (120,762,826)        | -8.3%                  |
| <b>Total Revenues</b>     | <b>4,233,539,860</b> | <b>5,544,172,770</b> | <b>1,310,632,910</b> | <b>1.9%</b>            |

**NOTE: 82.6% of all General Fund revenues in FY 2008-09 came from the Individual Income Tax and the Sales and Use Tax.**

Source: Comptroller General's Year End Reports

# Top 10 Statewide Other Fund Revenue Sources Fiscal Years 1994-95 and 2008-09

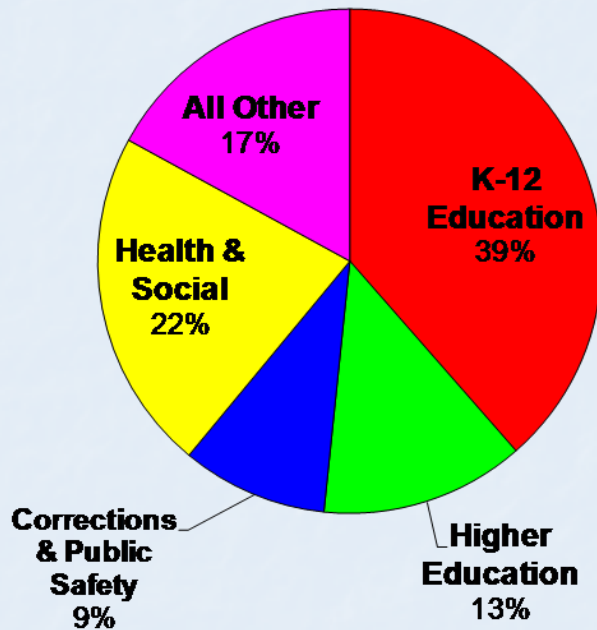
|           | Description   | Amounts              |                      | Difference           | Avg Annual  |
|-----------|---|----------------------|----------------------|----------------------|-------------|
|           |   | 1994-95              | 2008-09              |                      | % Change    |
|           | <b><u>Other Funds - Earmarked/Restricted</u></b>  |                      |                      |                      |             |
| <b>1</b>  | <b>University Fees</b>  | 428,475,336          | 1,686,272,589        | 1,257,797,253        | 10.3%       |
| <b>2</b>  | <b>Medicare and Medicaid Reimbursements</b>   | 375,563,268          | 551,002,383          | 175,439,115          | 2.8%        |
| <b>3</b>  | <b>Sales Tax - EIA</b>  | 366,650,309          | 517,992,255          | 151,341,946          | 2.5%        |
| <b>4</b>  | <b>Gasoline Tax</b>   | 214,376,940          | 404,199,993          | 189,823,053          | 4.6%        |
| <b>5</b>  | <b>Auxiliary Enterprises - Sales and Services</b>   | 182,278,795          | 302,058,689          | 119,779,894          | 3.7%        |
| <b>6</b>  | <b>Lottery Proceeds</b>   | -                    | 271,760,556          | 271,760,556          | -           |
| <b>7</b>  | <b>Contributions Hospitals/ Medicaid Hospital MIAA</b>  | 93,746,470           | 264,049,434          | 170,302,964          | 7.7%        |
| <b>8</b>  | <b>Medicaid Certified Public Expenditures (incurred expenses are certified for the non-federal share of Medicaid pymts)</b> | -                    | 171,338,900          | 171,338,900          | -           |
| <b>9</b>  | <b>Motor Vehicle Licenses</b>   | -                    | 137,456,653          | 137,456,653          | -           |
| <b>10</b> | <b>Special Fuel Tax</b>   | 68,591,714           | 107,268,986          | 38,677,272           | 3.2%        |
|           |   |                      |                      |                      |             |
|           | <b>Totals</b>   | <b>1,729,682,832</b> | <b>4,413,400,438</b> | <b>2,683,717,606</b> | <b>6.9%</b> |
|           |   |                      |                      |                      |             |
|           | <b>Note: The listing of the top 10 Other Funds sources represents 60% of the total of \$7,442,174,291.</b>                  |                      |                      |                      |             |

# Top 10 Statewide Federal Revenue Sources Fiscal Years 1994-95 and 2008-09

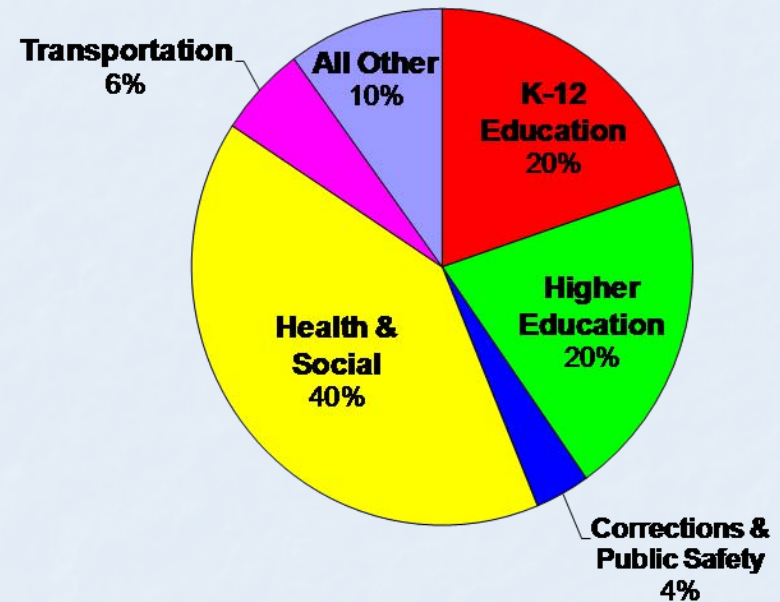
|           | Description  | Amounts              |                      | Difference           | Avg Annual  |
|-----------|--|----------------------|----------------------|----------------------|-------------|
|           |  | 1994-95              | 2008-09              |                      | % Change    |
|           | <b>Federal Funds</b>   |                      |                      |                      |             |
| <b>1</b>  | DHHS Medicaid (MAP) Assistance Payments  | 1,443,188,191        | 3,187,995,429        | 1,744,807,238        | 5.8%        |
| <b>2</b>  | DSS Food Stamp Coupons   | 301,893,005          | 898,692,309          | 596,799,304          | 8.1%        |
| <b>3</b>  | DOT Federal Grants   | 245,045,118          | 440,637,655          | 195,592,537          | 4.3%        |
| <b>4</b>  | DHHS Disproportionate Share  | 93,746,470           | 321,371,978          | 227,625,508          | 9.2%        |
| <b>5</b>  | SDE School Food Services - District  | 93,806,685           | 215,219,734          | 121,413,049          | 6.1%        |
| <b>6</b>  | SDE Chapter I - Low Income   | 87,104,395           | 200,598,118          | 113,493,723          | 6.1%        |
| <b>7</b>  | SDE Title VI Part B Handicapped  | 29,305,979           | 176,882,067          | 147,576,088          | 13.7%       |
| <b>8</b>  | DHHS Medicaid Asst Pymts - Refund Prior Yr Expenditure   | -                    | 158,265,636          | 158,265,636          | -           |
| <b>9</b>  | DSS Temporary Assistance to Needy Families   | -                    | 132,471,307          | 132,471,307          | -           |
| <b>10</b> | MUSC Health Services Research and Development Grants   | 39,884,506           | 117,376,164          | 77,491,658           | 8.0%        |
|           | <b>Totals</b>  | <b>2,333,974,349</b> | <b>5,849,510,397</b> | <b>3,515,536,048</b> | <b>6.8%</b> |
|           |  |                      |                      |                      |             |
|           |  |                      |                      |                      |             |
|           | <b>Note: The listing of the top 10 Federal Funds sources represents 79% of the total of \$7,366,021,019.</b> |                      |                      |                      |             |
|           |  |                      |                      |                      |             |

# Where is the Money Spent?

FY 2008-09 Expenditures  
General Funds



FY 2008-09 Expenditures  
Total Funds



# Where is the Money Spent?

## FY 2008-09 Expenditures

| <u>Functional Category</u>   | <b>General Funds</b> |                   |                   | <b>Total Funds</b>    |                   |                   |
|------------------------------|----------------------|-------------------|-------------------|-----------------------|-------------------|-------------------|
|                              | <u>Dollars</u>       | <u>% of Total</u> | <u>Cumulative</u> | <u>Dollars</u>        | <u>% of Total</u> | <u>Cumulative</u> |
| K-12                         | 2,218,264,438        | 39%               |                   | 4,074,099,019         | 20%               |                   |
| Health & Social              | 1,263,084,546        | 22%               | 60%               | 8,310,088,472         | 40%               | 60%               |
| Higher Education             | 753,566,423          | 13%               | 74%               | 4,203,271,019         | 20%               | 81%               |
| Correctional & Public Safety | 539,497,227          | 9%                | 83%               | 726,960,488           | 4%                | 84%               |
| Transportation               | 1,783,147            | 0%                | 83%               | 1,175,534,878         | 6%                | 90%               |
| All Other                    | <u>978,570,052</u>   | 17%               | 100%              | <u>2,073,007,267</u>  | 10%               | 100%              |
| Total Expenditures           | <u>5,754,765,833</u> | 100%              |                   | <u>20,562,961,143</u> | 100%              |                   |



# Breach

Pronunciation: \brēch\

Function: *noun*

Etymology: Middle English *breche*, from Old English *bræc* act of breaking; akin to Old English *brecan* to break

Date: before 12th century

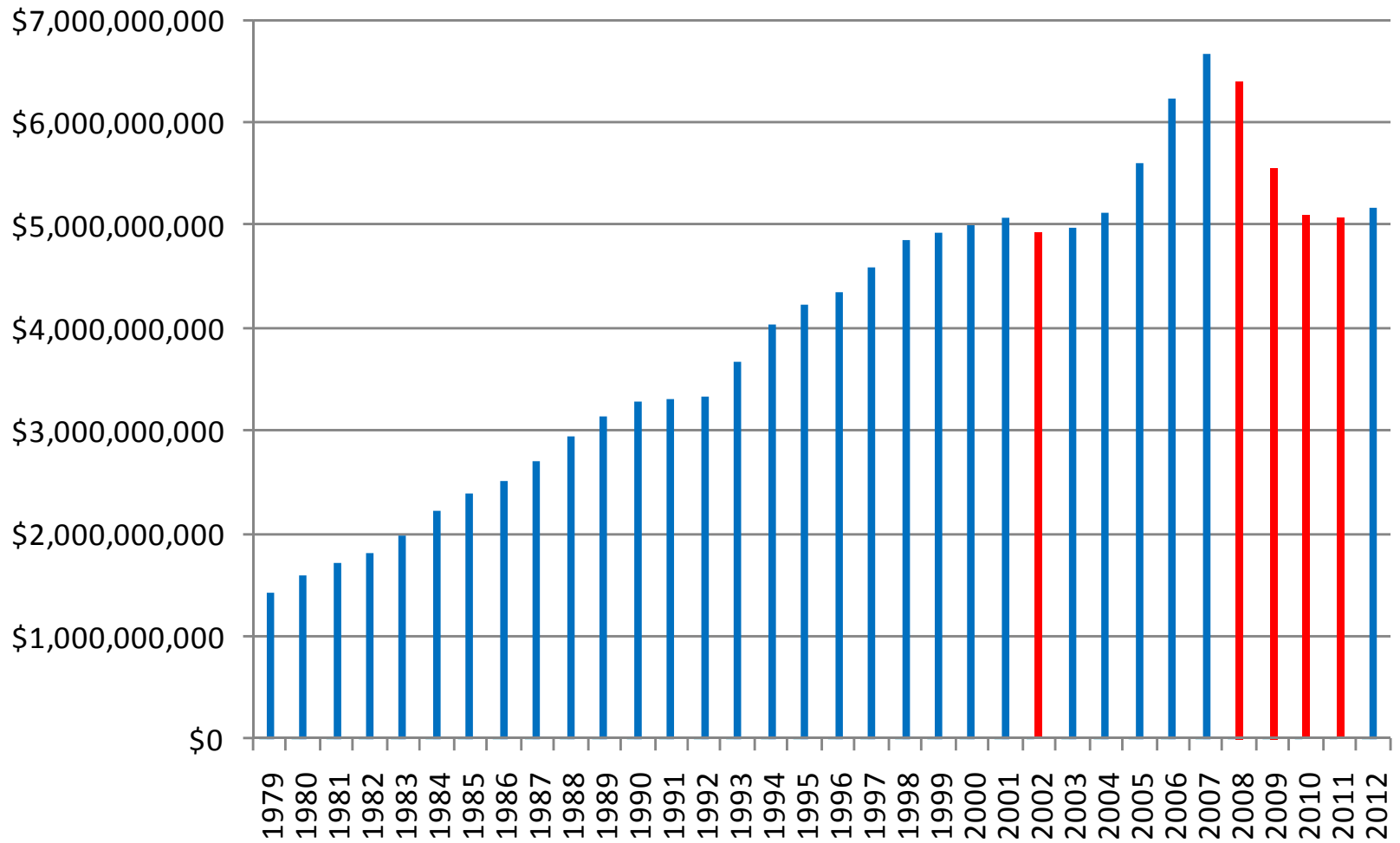
**1:** infraction or violation of a law, obligation, tie, or standard

**2:** a broken, ruptured, or torn condition or area   **b:** a gap (as in a wall) made by battering

**3:** a break in accustomed friendly relations   **b:** a temporary gap in continuity



# General Fund Collections



# General Fund Revenue Collections

## Average Annual Percent Change

FY 1980 - FY 2010

|                    |                    |      |
|--------------------|--------------------|------|
| <u><b>1980</b></u> | <u><b>1990</b></u> |      |
| 1,598,097,635      | 3,294,770,987      | 7.5% |

|                    |                    |      |
|--------------------|--------------------|------|
| <u><b>1990</b></u> | <u><b>2000</b></u> |      |
| 3,294,770,987      | 5,006,736,929      | 4.3% |

|                    |                    |      |
|--------------------|--------------------|------|
| <u><b>2000</b></u> | <u><b>2010</b></u> |      |
| 5,006,736,929      | 5,085,590,670      | 0.2% |

|                    |                    |      |
|--------------------|--------------------|------|
| <u><b>2002</b></u> | <u><b>2007</b></u> |      |
| 4,929,959,859      | 6,658,502,908      | 6.2% |

|                    |                    |       |
|--------------------|--------------------|-------|
| <u><b>2007</b></u> | <u><b>2010</b></u> |       |
| 6,658,502,908      | 5,085,590,670      | -8.6% |

From the peak of General Fund  
Revenue collections in FY2006-07  
through FY2009-10 (forecast)

Collections have dropped  
\$1.57 Billion or 23.6%.

# Summary of Revenue Shortfall FY 2008-09

**FY 2008-09 Appropriation Act Revenue Estimate (Net of Tax Relief Trust Fund) 6,718,657,837**

|  |                     |
|--|---------------------|
| BEA Forecast Reduction July 21, 2008     | (140,000,000)       |
| BEA Forecast Reduction October 8, 2008   | (414,000,000)       |
| BEA Forecast Reduction November 7, 2008  | (135,100,507)       |
| BEA Forecast Reduction December 10, 2008 | (230,000,000)       |
| BEA Forecast Reduction March 11, 2009    | (64,000,000)        |
| BEA Forecast Reduction June 11, 2009     | <u>(92,000,000)</u> |

**Total BEA Revenue Forecast Reductions (1,075,100,507)**

**Additional Revenue Shortfall (FM13) (129,784,560)**

## Open-Ended Appropriations

|  |                    |
|--|--------------------|
| Homestead Exemption Fund Shortfall           | (52,995,831)       |
| DOC & DJJ Deficits (Recognized by B&C Board) | (51,795,768)       |
| Other Open-Ended Accounts                    | <u>(4,512,014)</u> |

**Total Open-Ended Appropriations (109,303,613)**

**Total Year End General Fund Shortfall (1,314,188,680)**

## FY 2008-09 General Assembly and Budget & Control Board Actions

|  |                    |
|--|--------------------|
| B&CB Action 8/08/08--Reduce Capital Reserve Fund                           | 133,170,058        |
| FY 08-09 Appropriation Rescission Act- Targeted Agency Reductions-Oct 2008 | 487,906,416        |
| B&CB Action 12/11/08--7% Across the Board Agency Reductions                | 383,475,665        |
| B&CB Action March 18--2% Across the Board Agency Reductions                | <u>101,894,963</u> |

**Total General Assembly and B&C Board Actions 1,106,447,102**

**Agency Lapsed Funds and Sustained Vetoes 1,428,054**

**Remaining Year End General Fund Shortfall (206,313,524)**

**General Reserve Fund Balance Applied to Shortfall 108,096,907**

**FY 2008-09 Year End Deficit Remaining After Reserve Funds Applied (98,216,617)**

# Summary of Revenue Shortfall FY 2009-10

## **FY 2009-10 Appropriation Act Revenue Estimate (Net of Tax Relief Trust Fund)**

**5,529,491,371**

BEA Forecast Reduction June 11, 2009

(120,000,000)

BEA Forecast Reduction July 16, 2009

(208,300,000)

BEA Forecast Reduction November 10, 2009

(122,382,090)

BEA Homestead Exemption & Tax Relief Trust Fund Shortfall Nov 09

(1,767,239)

## **Total BEA Reductions to Date**

**(452,449,329)**

## **FY 2009-10 Budget Control Board Actions**

B&CB Action 6/29/09--Reduce Capital Reserve Fund (CRF) effective 7/1/09

120,000,000

B&CB Action 9/3/09--Apply Remaining Balance of CRF (\$7.8m) and 4.04% Across the Board Agency Reductions (\$200.4m)

208,300,000

B&CB Action 12/15/09-- 5% Across the Board Reductions (\$238.2m)

238,227,992

## **Total Budget & Control Board Actions**

**566,527,992**

# Cumulative General Fund Reductions

## July 2008 – December 2009

|                                 |     |
|---------------------------------|-----|
| ■ Department of Corrections     | 11% |
| ■ Department of Education       | 21% |
| ■ Health & Human Services       | 21% |
| ■ Disabilities & Special Needs  | 22% |
| ■ Department of Social Services | 25% |
| ■ Colleges & Universities       | 29% |
| ■ Department of Public Safety   | 36% |
| ■ Department of Agriculture     | 38% |
| ■ Department of Insurance       | 52% |
| ■ Department of Commerce        | 62% |



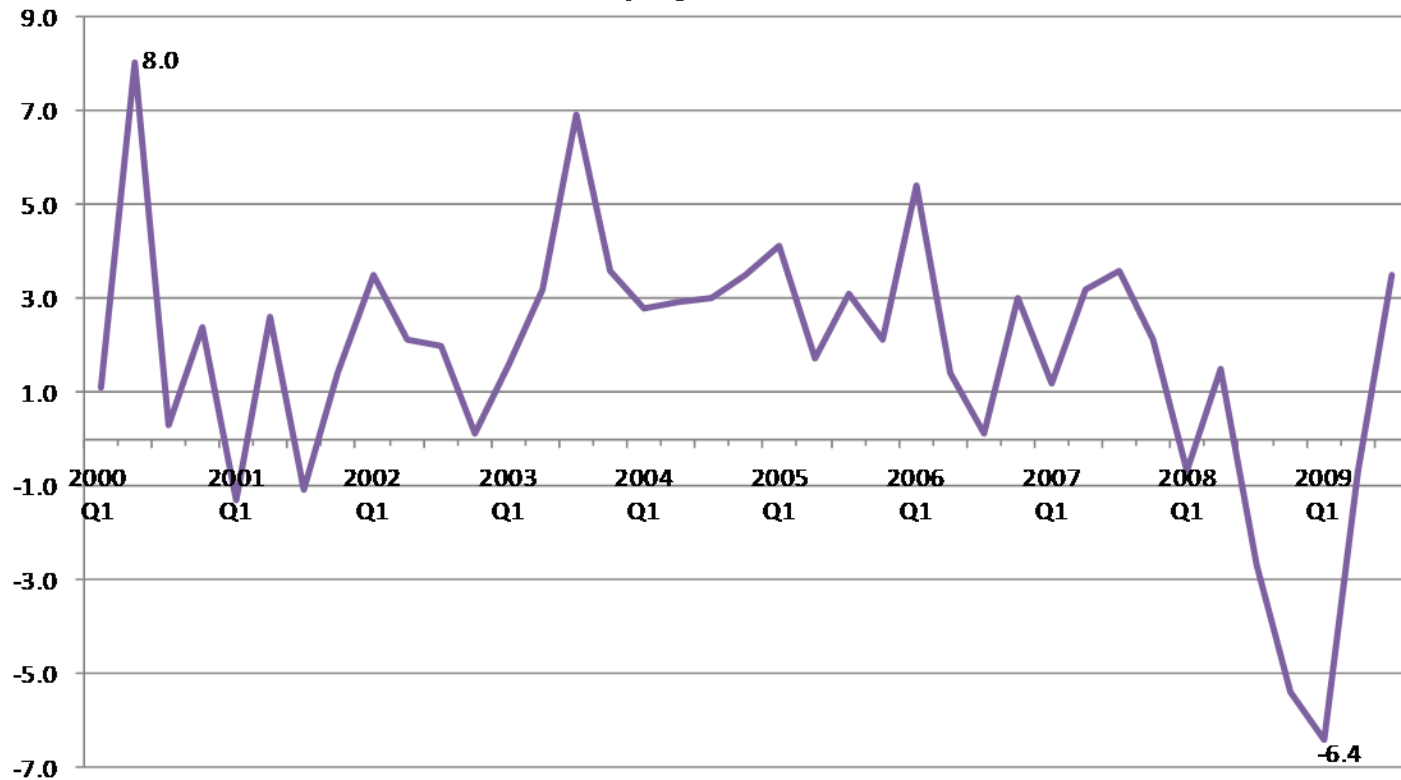
# FY2010-11 General Fund Revenue Forecast (11/10/09)

- Flat (no growth).
- Long Range Forecast for FY2011-12 and beyond is an average 2.0% growth rate.

# How Did We Get Here?

- The National Recession
- The Structure of Our State Revenue System
- Taxation and Spending Policies

**Real GDP Growth by Quarter**  
**2000 - 2009 Q3**  
**Seasonally Adjusted Annual Rates**

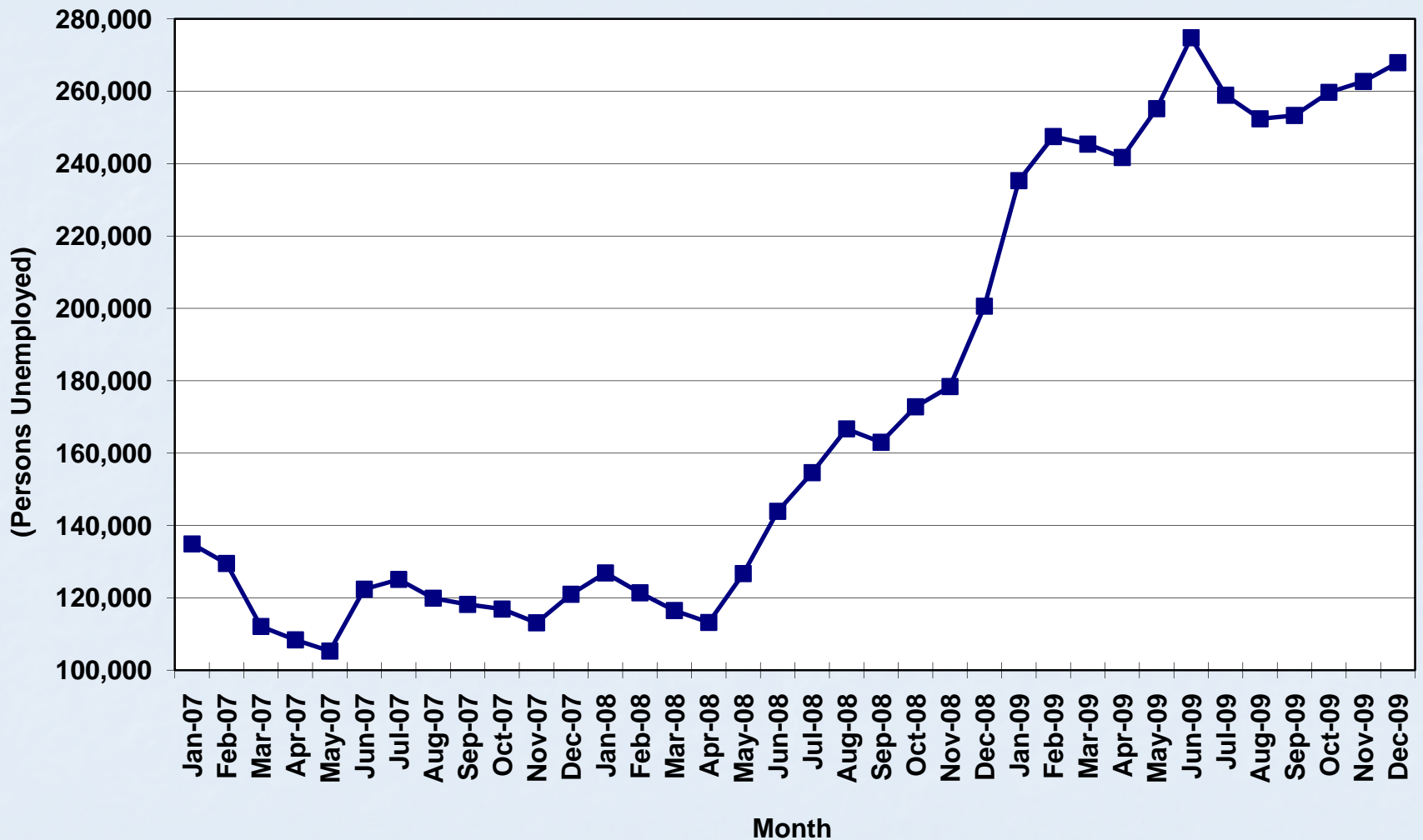


# U.S. Recessions

## 1948 - 2009

| Date                | Duration (Months) |
|---------------------|-------------------|
| 1948 - 49           | 11                |
| 1953 - 54           | 10                |
| 1957 - 58           | 8                 |
| 1960 - 61           | 10                |
| 1968 - 70           | 11                |
| 1973 - 75           | 16                |
| 1980 - 80           | 6                 |
| 1981 - 82           | 16                |
| 1990 - 91           | 8                 |
| 2001 - 02           | 8                 |
| 2007 - 09           | 22                |
| Average 1945 - 2001 | 10 months         |

## Total Unemployment in South Carolina



Source: Board of Economic Advisors

# The Structure of Our State Revenue System



# Comparison of Gross and Net Taxable Sales

## FY 1999 – FY 2008

|                                 | <u>FY 1999</u> | <u>FY 2008</u>  | <u>% Change</u> |
|---------------------------------|----------------|-----------------|-----------------|
| Gross Sales Amount              | 94,435,505,424 | 146,328,024,474 | 55%             |
| Net Taxable Sales Amount        | 45,199,250,866 | 59,660,508,895  | 32%             |
| Percentage of Net Taxable Sales | 47.9%          | 40.8%           |                 |

Source: Department of Revenue, Annual Report.

**The Base is Shrinking.**

# Taxation & Spending Policies

## Tax Relief in South Carolina Netted Over \$500M in the last 4 years

Relief passed by the General Assembly since 2005 includes:

- Total elimination of the state's "grocery tax". **\$354 million**
- Elimination of the state's bottom income tax bracket. **\$86 million**
- Reduction of the tax on small business from a top marginal rate of 7% to a flat rate of 5%. **\$129 million**

**The Base is Shrinking.**

# Open-Ended Appropriations

| <u>Agency</u>                        | <u>Description of Appropriation</u>                                     | <u>Authority</u>                                   | <u>FY 2009-10<br/>Existing<br/>Appropriation</u> | <u>FY 2010-11<br/>Estimated<br/>Increase</u> | <u>Total<br/>Appropriated</u> |
|--------------------------------------|---|--|--|--|-------------------------------|
| Adjutant General                     | State Guard - Active Duty   | Section 25-3-140                                   |  |  |                               |
| BCB-Employee<br>Benefits             | Workers' Compensation Insurance Claims                                  | Section 42-7-210                                   |  |  |                               |
| BCB-Employee<br>Benefits             | Unemployment Compensation Insurance<br>Claims                           | Section 41-31-820(B)                               |  |  |                               |
| <b>Comm. on Higher<br/>Education</b> | <b>LIFE Scholarship Program<br/>Palmetto Fellows</b>                    | <b>Section 59-149-150<br/>Section 59-104-20(D)</b> | <b>198,566,230</b>                               | <b>18,200,000</b>                            | <b>216,766,230</b>            |
| Aid to Subs-State<br>Treasurer       | Aid to Fire Districts - Formula Funded                                  | Sections 28-45-60 & 23-9-410                       |  |  |                               |
| Aid to Subs-State<br>Treasurer       | Mini bottle Hold Harmless   | Section 12-33-245 (C)                              |  |  |                               |
| Dept of Revenue                      | Tax Relief Trust Fund Homestead<br>Exemption - 65 & Older               | Sections 11-11-150(G)(2) & 12-37-270               |  |  |                               |
| Dept of Revenue                      | Tax Relief Trust Fund- Manufacturer's<br>Depreciation Reimbursement     | Sections 11-11-150(G)(2) & 12-37-935(B)            |  |  |                               |
| <b>Dept of Revenue</b>               | <b>Homestead Exemption-One Cent<br/>Sales Tax Swap/School Operating</b> | <b>Section 11-11-156(A)(6)</b>                     | <b>26,419,132</b>                                | <b>99,085,991</b>                            | <b>125,505,123</b>            |
| <b>State Treasurer</b>               | <b>Debt Service-GO Bonds</b>  | <b>Section 11-11-430(B)</b>                        | <b>213,088,715</b>                               | <b>23,172,760</b>                            | <b>236,261,475</b>            |
| <b>State Treasurer</b>               | <b>Loan Repayment of Prior Year Deficit</b>                             | <b>Section 11-11-180</b>                           |  | <b><u>98,216,617</u></b>                     | <b><u>98,216,617</u></b>      |
| <b>Total</b>                         |   |  | <b>438,074,077</b>                               | <b>238,675,368</b>                           | <b>676,749,445</b>            |

An open-ended account is an obligation that will be paid regardless of the amount actually budgeted.

# Property Tax Relief for Homeowners "The Swap" \$582 million

Sales Tax Increased 1¢ to Eliminate the Property Tax for School Operations

## Homestead Exemption Fund History

| Fiscal Year | <i>ESTIMATED</i><br>Homestead<br>Exemption Fund<br>Revenue | ACTUAL<br>Homestead<br>Exemption Fund<br>Revenue | <i>ESTIMATED</i><br>Homestead<br>Exemption Fund<br>School District<br>Reimbursements | ACTUAL<br>Homestead<br>Exemption Fund<br>School District<br>Reimbursements <sup>1</sup> | GENERAL FUND<br>OBLIGATION <sup>2</sup> |
|-------------|--|--|--|---|---|
| FY 2007-08  | 582,480,339  | 550,484,062                                      | (527,290,536)  | (565,029,770)   | (14,545,708)                            |
| FY2008-09   | 530,646,607  | 532,647,527                                      | (585,643,360)  | (585,643,358)   | (52,995,831)                            |
| FY2009-10   | 496,940,585  |  | (614,398,619)  |   | (117,458,034)                           |
| FY2010-11   | 495,673,055  |  | (621,178,178)  |   | (125,505,123)                           |

<sup>1</sup> Growth in Reimbursement Allocation is a Function of CPI (Southeast Region) plus SC Population Growth (Act 388 of '06).

<sup>2</sup> Open-ended account.

Note : Supreme Court Ruling #26682 7/6/09 Berkeley County School District v. SC Department of Revenue could affect base.

# ***The SC Taxation Realignment Commission (aka "TRAC")***

<http://www.scstatehouse.gov/citizensinterestpage/TRAC/TRAC.html>

Sponsored by Sen. Leatherman and Others

Modeled after the federal Base Realignment Commission

11 members (credentialed), No Legislators & Lobbyist Protocols

Exhaustive Study (State and Local including exemptions)

Look for "adequacy, equity and efficiency" (aka, "Broad Base / Low Rates")  
ie, 3.4% vs. 6.0% sales tax rate, etc.

"Modernize and Stabilize" the system

Recommend legislative changes to Money Committees

6 meetings scheduled through January '10 – initial recommendations due by March '10

# The Temporary Plug in the Breach



# H.R.1 of 2009

## American Recovery and Reinvestment Act of 2009

**\$787.242 Billion or about \$2600 per capita**

### South Carolina's Portion of Stimulus Funds

|                      |                |
|----------------------|----------------|
| Total                | \$7.86 Billion |
| Tax Cuts             | \$2.86 Billion |
| Total Spending in SC | \$5 Billion*   |

\*(includes Federal spending on Federal installations)

Of the \$5 Billion spent in SC:

\$3.4 Billion will be received by cognizant State agencies through the state budget. (The \$3.4 billion includes allocations received by state agencies and subsequently distributed to local governments, non-profits, etc)

# H.R.1 of 2009

## American Recovery and Reinvestment Act of 2009

| ESTIMATED ALLOCATIONS BY MAJOR CATEGORY: |                        | Percentage  |
|--|------------------------|-------------|
| BUDGET STABILIZATION FUND                | \$ 694,060,272         | 21%         |
| MEDICAID                                 | \$ 876,040,898         | 26%         |
| TRANSPORTATION                           | \$ 504,200,000         | 15%         |
| WATER AND SEWER                          | \$ 59,755,697          | 2%          |
| ENERGY                                   | \$ 111,700,000         | 3%          |
| HEALTH AND HUMAN SERVICES                | \$ 441,842,913         | 13%         |
| HOUSING                                  | \$ 77,600,000          | 2%          |
| EDUCATION                                | \$ 406,064,498         | 12%         |
| STATE AND LOCAL LAW ENFORCEMENT          | \$ 42,484,716          | 1%          |
| WORKFORCE/EMPLOYMENT SERVICES            | \$ 168,620,882         | 5%          |
| <b>TOTAL ESTIMATED SC ALLOCATIONS</b>    | <b>\$3,382,369,876</b> | <b>100%</b> |

# H.R.1 of 2009

## American Recovery and Reinvestment Act of 2009

### BUDGET STABILIZATION FUND

#### Distribution Requirements:

82% must be allocated to K-12 Higher Education and 18% may be allocated for other government purposes.

| <b>FY 2009-10 Allocations</b> | <b>Funding</b>       | <b>Percentage</b> |
|-------------------------------|----------------------|-------------------|
| State Department of Education | \$184,992,339        | 53%               |
| Colleges and Universities     | \$ 99,922,339        | 29%               |
| Public Safety                 | \$ 46,120,000        | 13%               |
| Other Government Services     | \$ 16,969,485        | 5%                |
| <b>TOTAL FY 2009-10</b>       | <b>\$348,004,163</b> | <b>100%</b>       |

# The Outlook for the Next Several Years and Beyond

# Preliminary FY 2010-11 Budget Outlook

|   |                        |
|---|------------------------|
| <b>Revenue Forecast, FY 2010-11 (BEA forecast November 2009)</b>                  | <b>\$5,621,810,481</b> |
| Less: FY 2010-11 Transfer to Tax Relief Trust Fund                                | <u>(545,880,212)</u>   |
| <b>Net General Fund Revenue Forecast, FY 2010-11</b>                              | <b>\$5,075,930,269</b> |
| Less: FY 2009-10 Appropriation Base (AFTER Sept 4.04% & Dec 5% B&C Bd Reductions) | <u>(5,275,343,200)</u> |
| <b>"New" Recurring Revenue</b>  | <b>(\$199,412,931)</b> |

## Statewide Funding Issues

|  |              |
|--|--------------|
| FY 2008-2009 General Fund Deficit - Repay General Deposit Account            | 98,216,617   |
| FY 2010-11 General Reserve Fund Transfer                                     | 55,441,728   |
| Capital Reserve Fund   | (16,964,433) |
| Local Government Fund (by formula)   | 19,255,184   |
| Debt Service   | 23,172,760   |
| Annualization of Agency Appropriations (supported with nonrecurring revenue) | 8,000,000    |
| Homestead Exemption Shortfall  | 99,085,991   |
| State Employee Health Insurance - w/ Employee Participation Rate Increase    | 46,575,000   |
| FY 09-10 Agency Deficits - Department of Corrections estimate                | 23,822,922   |
| SCEIS Implementation   | 7,273,046    |

|                                       |                             |
|---------------------------------------|-----------------------------|
| <b>Statewide Funding Issues Total</b> | <b><u>\$363,878,815</u></b> |
|---------------------------------------|-----------------------------|

|                                |                        |
|--------------------------------|------------------------|
| <b>Balance -- (Budget Gap)</b> | <b>(\$563,291,746)</b> |
|--------------------------------|------------------------|

# Balancing the Budget Gap

## ■ Budget Gap of \$563 million

Includes no new formula funding for K-12 Education or maintenance of effort funding for programs (i.e. Medicaid)

|  |                         |
|--|-------------------------|
| <b>Beginning General Fund Appropriation Base</b> | <b>\$ 5,275,343,200</b> |
|--|-------------------------|

*All Agencies after the 4.04% & 5% FY 2009-10 Mid-Year Reductions*

|   |                             |
|---|-----------------------------|
| <b>Less: Proviso &amp; Statutory Exemptions</b> | <b><u>(749,012,686)</u></b> |
|---|-----------------------------|

*Exemptions by statute such as the Capital Reserve Fund, Debt Service, Local Government Fund and open-ended accounts such as Homestead Exemption Fund and Scholarships*

|   |                         |
|---|-------------------------|
| <b>Net General Fund Base Available to Reduce Pro Rata</b> | <b>\$ 4,526,330,514</b> |
|---|-------------------------|

|                             |                    |
|-----------------------------|--------------------|
| <b>Amount of Budget Gap</b> | <b>563,291,746</b> |
|-----------------------------|--------------------|

|  |              |
|--|--------------|
| <b>Percentage of Net General Fund Base</b> | <b>12.4%</b> |
|--|--------------|

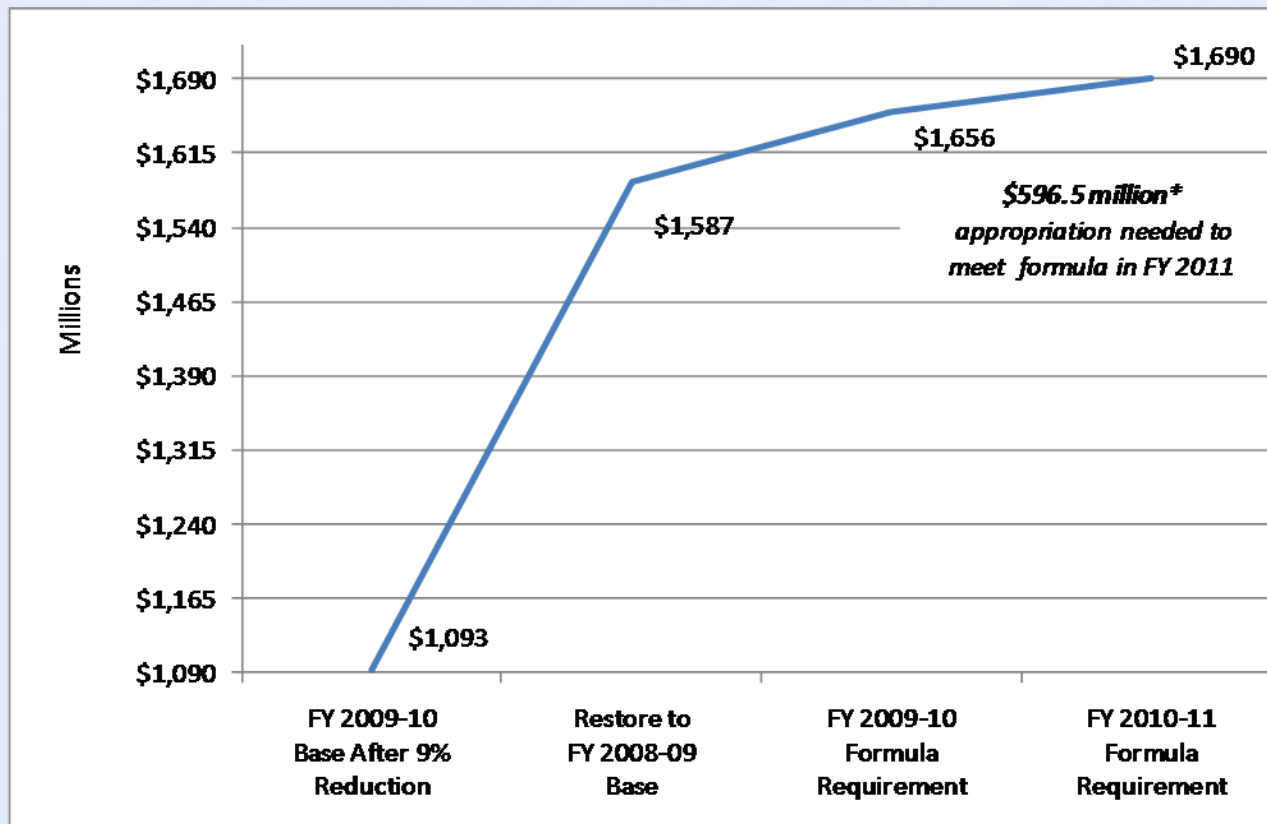


**Office of State Budget: Three-Year General Fund Financial Outlook**  
**FY 2010-11 to FY 2012-13**

|   |               | Projections      |                    |                    |
|---|---------------|------------------|--------------------|--------------------|
|   | FY 2009-10    | FY 2010-11       | FY 2011-12         | FY 2012-13         |
| <b><u>Resources:</u></b>  |               |                  |                    |                    |
| Beginning Balance   |               | \$88.5           |                    | \$0.0              |
| Adjustments   | 239.8         |                  |                    |                    |
| Revenue (BEA Long Range Revenue Forecast, 11/10/2009)                     | 5,621.8       | 5,621.8          | 5,736.0            | 5,871.9            |
| Tax Relief Trust Fund Transfers   | (541.0)       | (545.9)          | (565.5)            | (585.9)            |
| General Reserve Fund Transfer   | (63.9)        | (55.4)           | (33.2)             | 0.3                |
| <b>ARRA-State Fiscal Stabilization Fund</b>                               | <b>348.0</b>  | <b>346.0</b>     |                    |                    |
| <b>ARRA- Federal Medicaid Assistance Percentage (FMAP) Increase</b>       | <b>406.0</b>  | <b>406.0</b>     |                    |                    |
| Total Revenue/Resources   | \$6,010.7     | \$5,861.0        | \$5,137.3          | \$5,286.3          |
| <b><u>Expenditures and Reserve Fund Contributions:</u></b>                |               |                  |                    |                    |
| Baseline (Adjusted FY 09-10 Recurring Budget)*                            | \$5,271.2     | \$5,275.3        | \$5,275.3          | \$5,275.3          |
| ARRA-State Fiscal Stabilization Fund--Education and Gov Services          | 348.0         | 346.0            |                    |                    |
| ARRA-Medicaid and other Health Agencies                                   | 406.0         | 406.0            |                    |                    |
| <b><u>Constitutional/ Statutory Items:</u></b>                            |               |                  |                    |                    |
| Reserve Funds: Capital Reserve (CRF)                                      |               | (17.0)           | (9.2)              | (0.2)              |
| Local Government Fund   |               | 19.3             | (20.6)             | (0.4)              |
| Debt Service  |               | 23.1             | 10.9               | 8.4                |
| Capital Reserve Fund: Eliminated due to Revenue Shortfall                 | (127.8)       | (17.0)           | (9.2)              | (0.2)              |
| Homestead Exemption Fund Shortfall (Act 388 of 2006)                      |               | 99.1             | 96.8               | 111.8              |
| FY 08-09 General Fund Deficit -Repay General Deposit Account              |               | 98.2             |                    |                    |
| Correctional Agencies' FY09-10 Deficits                                   | 24.8          | 24.8             | 24.8               | 24.8               |
| <b><u>Major Expenditure Categories:</u></b>                               |               |                  |                    |                    |
| K-12 Education  |               | 62.6             | 104.5              | 146.6              |
| K-12 Education <i>Replace ARRA Expenditures</i>                           |               |                  | <b>180.0</b>       | <b>180.0</b>       |
| Higher Ed and other Government Services- <i>Replace ARRA Expenditures</i> |               |                  | <b>166.0</b>       | <b>166.0</b>       |
| Medicaid and other Health Agencies- <i>Replace ARRA FMAP Expenditures</i> |               |                  | <b>406.0</b>       | <b>406.0</b>       |
| Medicaid  |               |                  | 68.1               | 133.5              |
| Social Services and Corrections   |               | 29.5             | 37.5               | 45.5               |
| Higher Education Scholarship Growth (LIFE & Palmetto Fellows)             |               | 18.2             | 30.5               | 43.5               |
| State Employee Health Plan-retiree growth + rate increase                 |               | 46.5             | 109.7              | 176.8              |
| SCEIS Implementation  |               | 7.3              | 7.3                | 7.3                |
| Total Expenditures  | \$5,922.2     | \$6,421.9        | \$6,478.4          | \$6,724.7          |
| <b>Ending Balance (Deficit Indicates Potential Budget Gaps)</b>           | <b>\$88.5</b> | <b>(\$560.9)</b> | <b>(\$1,341.1)</b> | <b>(\$1,438.4)</b> |

\* Due to revenue shortfalls, the B&C Board reduced the 2009 Capital Reserve Fund of \$127.8 million and approved across-the-board reductions of \$200.4 million (4.04%) and \$ 238.2 million (5.0%) in Sept. 2009 and Dec. 2009.

# Education Finance Act Formula Funding Requirement



# Policy Questions

- Will Policy Makers put EFA Restoration at the Front of the Line?
- How Much More Funding Will Be Required to Underwrite Federal Health Insurance Changes?
- Have We Reached a Bottom Threshold on Funding for Corrections? DJJ?
- How Much More Will Policy Makers Tolerate Fee Increases (Tuition, License Fees, Ticket Surcharges) ?

# The Breach

1: infraction or violation of a law, obligation, tie, or standard

***State Government will be forced to change or ignore funding statutes.***

2: a broken, ruptured, or torn condition or area    b: a gap (as in a wall) made by battering

***The state budget's structural deficit will become more pronounced over time. Changes to address the structural deficit will be incremental and very difficult to attain.***

3: a break in accustomed friendly relations    b: a temporary gap in continuity

***State government will not be able to afford continuing business as usual so benefits currently provided to citizens will diminish. Citizens will become even more angry.***

Popular 20<sup>th</sup> Century English Philosopher

Sir Michael Philip Jagger

wrote in 1968:

You can't always get what you want

And if you try sometime you find

You get what you need.