S. 2
Spending Limit

- S2 with Explanation (S1 is Companion Bill).
- Copy of S2 Scenario from the Office of Economic Research.

TAB 1

Tax Expenditures Limitation (TEL's) and Reserve Funds

- **Tab #2**

- NCSL Document titled "NCSL State Tax and Expenditure Limits 2008."
- Do not confuse Tax / Expenditure Limits with the General Reserve Fund and the Capital Reserve Fund
- S2 is unusual because it is a hybrid, part limitation and part reserve fund

Tax Expenditures Limitation (TEL's) and Reserve Funds

- H3395 & H3396 – Explanation

- Senate Version Elements
  - Increase GRF to 5%
  - Use CRF at End of FY
  - Mid-year Reductions based on Collections
  - S897 Commission on Streamlining Govt.

- House Version
  - Increase GRF to 5%

TAB 2

Tax Expenditures Limitation (TEL's) and Reserve Funds

QUESTIONS (page 21, Tab 2)

1. What is limited, revenues or expenditures? Does the Limit apply to revenues or spending, or are there exclusions?
2. Should the growth factor be population plus inflation, or state personal income growth? Which measure of inflation and population will be used?
3. How is the growth rate calculated (e.g., what time periods are used?)
4. Is the baseline revenue or spending a one year amount or multi year average?
5. What triggers the limit to be adjusted, and how often might that occur?
6. For revenue limits, is there a threshold after which a rebate is activated?
7. Is there a disaster or emergency exemption?
8. Is an adjustment allowed for a major state-local funding relationship change?
9. Can a limit be overridden by a supermajority vote of the legislature?
10. Is there a sunset date on the fiscal limit?
11. Are any limits extended to local government revenue or outlays?

Most Effective Limitation is the Tax Cut

- Most Effective Limitation is to Forgo the Revenue Collection (Tax Cuts)
- Tax Cuts Over the past 4 Years
- BEA Summary of Tax Cuts
  (Page 28, Tab 3)

TAB 3

Tax Cuts as Spending Limitations

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**

TAB 3

Growth in Total Expenditures

- Chart of Growth in Expenditures by Sources of Funds
- Other Funds Chart (Page 29, Tab 4)
- Federal Funds Chart (Page 30, Tab 4)

Actual Expenditures by Source Average Annual Percent Growth FY1994-95 through FY2008-09

TOTAL Funds	5.2%
General Funds	2.7%
Federal Funds	6.3%
Other Funds	6.8%

Note: If measured through FY2007-08, General Fund average annual growth is 4.4% per year.

TAB 4

How do Expenditures Grow?

- Federal Funds & Other Funds

  Joint Appropriations Review Committee Ruled Unconstitutional

  Federal & Other Funds Oversight Act Title 2 Chapter 65

- Agency Processes (Pages 31 -36, Tab 5)
  - BD 100 process Section 2-65-40
  - Budget Development phase
  - APA Process (regulations)
  - Proviso
  - Separate Statute (Example of H3161)

Explanation of Existing Limit

Calculation by Two Methods: The Official Limit Is the **Greater** of the Two Results

- Method 1

  3 Year Moving Average of Total Personal Income Growth for South Carolina

- Method 2

  9.5% of Total Personal Income

- Graphs and Tables (Pages 37-44, Tab 6)

TAB 6

S2 Explanation

- Explanation of Elasticities
- Dr. Gillespie’s presentation of April 29, 2008
- Citation from Gillespie’s Presentation (Page 60, Tab 7)

TAB 7

Elasticities

- Elasticity is a measure of responsiveness.
- It is a simple calculation:

$$e = \frac{\text{\% Change in General Fund Revenues}}{\text{\% Change in Total Personal Income}}$$

Elasticities

(Page 45, Tab 7)

- If the measure is greater than 1, then revenues are growing faster than the state economy
- If the measure is exactly 1, then revenues are growing with the state economy
- If the measure is less than 1, then revenues are growing slower than the economy

Options

Choosing any alternative is more conservative than existing limitation

- S2 as Currently Written (10 year rolling average of General Fund Revenue)

  (Page 67, Tab 8)

- Personal Income (3 year rolling average)

- Updated Carnell Felder Law (2 Year Interval with 75% Growth Limit)

  H3010 of 1993 (Senate Conferees Setzler, Leatherman & Matthews), repealed by H3400 (A155) of 1997, Part II, Section 13.

Options
To What Base?

- Index Approach
  in the current limit there is only one base (FY85-86 $2,886.826M) and that number is then inflated with the 3 year average of Personal Income. This is the same concept as mathematical compounding.

- Updated Base Approach
  uses a published number from recent history (previous completed FY General Fund Revenues)

TAB 8

Options
To what funds should the limitation apply?

- General Funds Part 1A
- Supplemental Funds
- Surplus Funds
- Capital Reserve Fund
- Debt Service
- Emergency Situations

TAB 8

Specifics to Consider

- S1 is not necessary procedurally
- Need for a Trigger Implementation when General Fund Revenues Recover to a Level of FY06-07 Collections
- Zero out negative numbers

Other Viewpoint on S2

- Ulbrich & Saltzman “Rolling Average with Zeroes” (Page 68, Tab 9)

Budget Stabilization Fund 10 Year Scenario Through FY 2006-07 With a 15% Limit on the Fund Balance

(Law passed in 1994, Positive Referendum in Nov. 1994, Ratified in 1995, and First Used for the FY 1996-97 Appropriation Act)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Fiscal Year	General Fund Revenue Collections (Millions)	Annual Growth Rate	10 Year Growth Rate with 1 year Lag	Revenue Available for Appropriation (Millions)	Revenue Adjustments (Millions)	General Fund Revenue Available for Appropriation with adjustments *(Prior Year + 10 yr. annual growth rate)* (Millions)	Potential Distributions (Withdrawals) From Budget Stabilization Fund (Millions)	***No Limit*** Budget Stabilization Fund Balance (Millions)	***15% Limit*** Budget Stabilization Fund Balance (Millions)	***15% Limit*** Distributions from Budget Stabilization Fund (Millions)
86	2,509.3	4.8%								
87	2,692.8	7.3%								
88	2,938.4	9.1%								
89	3,142.5	6.9%								
90	3,294.8	4.8%								
91	3,305.4	0.3%								
92	3,341.6	1.1%								
93	3,672.6	9.9%								
94	4,024.5	9.6%								
95	4,233.5	5.2%								
96	4,346.0	2.7%		4,180.9	(25.8)	4,155.1				
97	4,588.3	5.6%	5.646%		(15.1)	4,374.6	213.7	213.7	213.7	-
98	4,845.7	5.6%	5.474%		(4.8)	4,609.3	236.4	450.1	450.1	-
99	5,268.3	8.7%	5.129%		(60.4)	4,785.3	483.0	933.1	790.2	142.9
00	5,379.6	2.1%	5.303%		13.6	5,052.7	326.9	1,260.0	806.9	310.2
01	5,484.3	1.9%	5.025%		(37.7)	5,268.9	215.4	1,475.4	822.6	199.7
02	5,300.6	-3.3%	5.194%		-	5,542.6	(242.0)	1,233.4	580.6	-
03	5,305.1	0.1%	4.722%		(15.5)	5,788.8	(483.7)	749.7	96.9	-
04	5,571.1	5.0%	3.746%		5.4	6,011.0	(439.9)	309.8	**(343.0)**	-
05	6,005.9	7.8%	3.305%		(58.0)	6,151.7	(145.8)	164.0	**(145.8)**	-
06	6,586.9	9.7%	3.559%		(40.7)	6,329.9	257.0	421.0	257.0	-
07	7,124.8	8.2%	4.246%		(92.1)	6,506.6	618.2	1,039.2	875.2	-
08	NA	NA	4.499%		(250.6)	6,548.7				

Column 4: The 10 year average growth for FY 2007-08 is calculated with a 1 year lag, or the growth from FY 1996-97 through FY 2006-07. This is because when the FY 2008-09 budget process begins in the Fall of 2007, the latest completed fiscal year collections available is FY 2006-07.

Column 5: This analysis utilizes the revenue available for appropriation as certified by the BEA for FY 1995-96 as the revenue base to which the 10 year annual average growth rate is applied.

Column 6: Revenue adjustments are annual permanent changes to revenue adopted in the Appropriations Act or other legislation effective in that fiscal year, as determined by the BEA.

Column 7: This column reports the revenue available for appropriation. It is calculated by taking the prior year's revenue available for appropriation and multiplying this times the 10 year growth rate for that year. The revenue is increased or decreased by the revenue adjustments that are effective for that fiscal year. For example, the $4,374.6 million in revenue available for appropriation for FY 97 is the prior year's $4,155.1 million multiplied times the 5.646% annual growth from the past 10 years calculated for FY 97 in col. 4. This amount is decreased by $15.1 million for the tax reductions that took effect in FY 97.

Column 8: This column calculates the amount of money distributed to or withdrawn from the Budget Stabilization Fund. It is the amount of revenue available for appropriation reported in Col. 7, including adjustments, subtracted from the actual revenue collections in Col. 2. For example, the $213.7 million deposited into the Fund in FY 97 is derived from the actual collections of $4,588.3 million in Col. 2 less the $4,374.6 million in revenues available for appropriation in Col. 7.

Column 9: Reports the cumulative net amount of revenue in the Budget Stabilization Fund over time.

Column 10: Reports the cumulative net amount of revenue in the Budget Stabilization Fund over time if the total amount in the Fund were limited to a maximum of 20% of that years actual General Fund revenue collections as reported in Col. 2. For example, in FY 00 the Fund could contain $1,260 million without any limit. With a 20% limit, the Fund would only total $1075.9 million and $184.1 million would be available for appropriation or other uses as mandated by the General Assembly.

Note: The shortfall in the Budget Stabilization Fund in FY 04 and FY 05 in this scenario could be covered by reserve funds or by reducing appropriations.

South Carolina Board of Economic Advisors
Statement of Estimated Revenue Impact

Date: January 15, 2009

Bill Number: S. 2

Author: McConnell, Peeler, Leatherman, Sheheen, Rose, Courson, et al.

Committee Requesting Impact: Finance

Bill Summary

A bill to amend Section 11-11-410, Code of Laws of South Carolina, 1976, relating to implementation of the limit on state spending imposed pursuant to Section 7(c), Article X of the Constitution of South Carolina, 1895, so as to revise this limit by imposing an annual limit on the appropriation of state General Fund revenues by adjusting such revenues by a rolling ten-year average in annual changes in General Fund revenues and the creation of a separate Budget Stabilization Fund in the state treasury to which must be credited all General Fund revenues in excess of the annual limit, the revenues of which much first be used to stabilize General Fund revenues available for appropriation, to provide for suspension of this appropriations limit in emergencies and define emergencies, to provide that a cash balance in the Budget Stabilization Fund in excess of fifteen percent of General Fund revenues of the most recent completed fiscal year may be appropriated in separate legislation for various nonrecurring purposes, and to define surplus General Fund revenues.

REVENUE IMPACT [1/]

This bill would have no effect on state General Fund revenue. Cyclical economic conditions will require allocations to or from the proposed Budget Stabilization Fund depending on whether growth in the General Fund is above or below the annual average percentage change in revenue collections during the previous ten fiscal years.

Explanation

This bill, upon ratification of an amendment to Section 7(c), Article X of the Constitution of South Carolina, provides that General Fund revenue available for appropriations is limited to the prior year's revenue increased by the average of the percentage growth in revenue collections during the previous ten fiscal years. Revenue collections above this limit shall be allocated to a Budget Stabilization Fund. The bill provides for withdrawals from the Fund in years when revenue collections fall below the ten-year annual average growth rate. Additionally, the bill establishes that the maximum balance in the Fund shall not exceed 15% of the prior year's General Fund collections. Withdrawals for emergencies declared by the General Assembly or appropriation of Fund balances greater than fifteen percent of the prior year's collections shall be by majority vote. Any other withdrawals will require a two-thirds vote in each branch of the General Assembly.

/s/WILLIAM GILLESPIE
William C. Gillespie, Ph.D.
Chief Economist

Analyst: Shuford

[1/] This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact, or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.

South Carolina General Assembly
118th Session, 2009-2010

S. 2

STATUS INFORMATION

General Bill
Sponsors: Senators McConnell, Peeler, Leatherman, Sheheen, Rose, Courson, Elliott, Massey, Hayes, Davis, Bright and L. Martin
Document Path: l:\s-jud\bills\mcconnell\jud0018.kw.docx

Introduced in the Senate on January 13, 2009
Currently residing in the Senate Committee on **Finance**

Summary: State appropriations

HISTORY OF LEGISLATIVE ACTIONS

Date	Body	Action Description with journal page number
12/10/2008	Senate	Prefiled
12/10/2008	Senate	Referred to Committee on **Finance**
1/13/2009	Senate	Introduced and read first time SJ-72
1/13/2009	Senate	Referred to Committee on **Finance** SJ-72
3/9/2010	Senate	Recalled from Committee on **Finance** SJ-37
3/10/2010	Senate	Special order, set for March 10, 2010 SJ-34
3/10/2010	Senate	Recommitted to Committee on **Finance** SJ-35

View the latest legislative information at the LPITS web site

VERSIONS OF THIS BILL

12/10/2008
3/9/2010

~~Indicates Matter Stricken~~
Indicates New Matter

RECALLED
March 9, 2010

S. 2

Introduced by Senators McConnell, Peeler, Leatherman, Sheheen, Rose, Courson, Elliott, Massey, Hayes, Davis, Bright and L. Martin

S. Printed 3/9/10--S.
Read the first time January 13, 2009.

[2-1]

A BILL

TO AMEND SECTION 11-11-410, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO IMPLEMENTATION OF THE LIMIT ON STATE SPENDING IMPOSED PURSUANT TO SECTION 7(C), ARTICLE X OF THE CONSTITUTION OF SOUTH CAROLINA, 1895, SO AS TO REVISE THIS LIMIT BY IMPOSING AN ANNUAL LIMIT ON THE APPROPRIATION OF STATE GENERAL FUND REVENUES BY ADJUSTING SUCH REVENUES BY A ROLLING TEN-YEAR AVERAGE IN ANNUAL CHANGES IN GENERAL FUND REVENUES AND THE CREATION OF A SEPARATE BUDGET STABILIZATION FUND IN THE STATE TREASURY TO WHICH MUST BE CREDITED ALL GENERAL FUND REVENUES IN EXCESS OF THE ANNUAL LIMIT, THE REVENUES OF WHICH MUCH FIRST BE USED TO STABILIZE GENERAL FUND REVENUES AVAILABLE FOR APPROPRIATION, TO DEFINE EMERGENCIES AND TO PROVIDE FOR SUSPENSION OF THIS APPROPRIATIONS LIMIT IN EMERGENCIES, TO PROVIDE THAT A CASH BALANCE IN THE BUDGET STABILIZATION FUND IN EXCESS OF FIFTEEN PERCENT OF GENERAL FUND REVENUES OF THE MOST RECENT COMPLETED FISCAL YEAR MAY BE APPROPRIATED IN SEPARATE LEGISLATION FOR VARIOUS NONRECURRING PURPOSES, AND TO DEFINE SURPLUS GENERAL FUND REVENUES.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Section 11-11-410 of the 1976 Code is amended to read:

"Section 11-11-410. (A) ~~State appropriations in any fiscal year may not exceed appropriations authorized by the spending limitation prescribed in this section. State appropriations subject to the spending limitation are those appropriations authorized annually in the State General Appropriation Act and acts supplemental thereto which fund general, school, and highway purposes. A statement of total 'General, School, and Highway Revenues' must be included in each annual General Appropriation Act. As used in this section the appropriations so limited as defined above must be those funded by 'General, School, and Highway Revenues' that must be defined as such in the 1985-86 General Appropriation Act; it being the intent of this section that all additional nonfederal and nonuser fee revenue items must be included in that category as they may be created by act of the General Assembly.~~

~~(B) The limitation on state appropriations prescribed in subsection (A) is an amount equal to either those state appropriations authorized by the spending limit for the previous fiscal year increased by the average percentage rate of growth in state personal income for the previous three completed calendar years or nine and one-half percent of the total personal income of the State for the calendar year ending before the fiscal year under consideration, whichever is greater. As used in this section, 'state personal income' means total personal income for a calendar year as determined by the Budget and Control Board or its successor based on the most recent data of the United States Department of Commerce or its successors. During the initial year this spending limit is in effect, the actual state appropriations for general, school, and highway purposes for the fiscal year 1985-1986 must be used as the base figure for computation of the spending limitation if the average rate of growth method is used.~~

~~(C) The Comptroller General, or any other authorized agency, commission, or officer, may not approve or issue warrants which would allow disbursements above the amount appropriated for general fund purposes unless and until the General Assembly authorizes expenditures in excess of the limitation through procedures provided for in this article. This subsection may not apply to funds transferred from the reserve fund to the general fund.~~

~~(D) The Division of Research and Statistical Services of the Budget and Control Board shall annually compute and certify to the General Assembly a current figure to limit appropriations as provided in subsection (B) of this section prior to the Budget and~~

~~Control Board's submission of its recommended budget to the House Ways and Means Committee.~~

~~(E) Notwithstanding the provisions of subsection (A) of this section, the General Assembly may declare a financial emergency and suspend the spending limitation for any one fiscal year for a specific amount by a special vote as provided in this subsection by enactment of legislation which relates only to that matter. The authorized state appropriations for the fiscal year following the suspension must be determined as if the suspension had not occurred and, for purposes of determining subsequent limits, must be presumed to have been the maximum limit which could have been authorized if such limitation had not been suspended.~~

~~The special vote referred to in this subsection means an affirmative vote in each branch of the General Assembly by two-thirds of the members present and voting but not less than three-fifths of the total membership in each branch.~~

As used in this section:

(1) 'Annual limit' means the total of general fund revenues that may be appropriated in the next state fiscal year. This annual limit is calculated by adjusting general fund revenues available for appropriation in the current fiscal year by a percentage equal to the average annual percentage change in the total of general fund revenues over the preceding ten completed state fiscal years as calculated by the Board of Economic Advisors. For purposes of the annual limit, a legislated increase or decrease in general fund revenues as estimated by the BEA must be added to or subtracted from the then applicable annual limit. The general fund revenues of the current fiscal year may include BSF transfers, made pursuant to subsection (C)(1) of this section.

(2) 'BEA' means the Board of Economic Advisors established pursuant to Article 9, Chapter 9 of Title 11, or any successor agency performing similar functions.

(3) 'Budget Stabilization Fund' or 'BSF' means a fund established in the State Treasury separate and distinct from the general fund of the State and all other funds to which must be credited automatically general fund revenues accruing in a fiscal year in excess of the annual limit. Earnings on the BSF must be credited to it and balances in the BSF carry forward in it to succeeding fiscal years.

(4) 'Emergency' means:

(a) the existence of an operating deficit in the general fund of the State for a completed fiscal year after the exhaustion of the Capital Reserve Fund as made in a finding by the Budget and Control Board upon sequestering the Capital Reserve Fund;

(b) a catastrophic event outside the control of the General Assembly including, but not limited to, a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;

(c) compliance with an order or decree entered by a court of competent jurisdiction; and

(d) compliance with a federal statute or regulation imposing a nonfunded mandate on this State.

(5) 'General fund revenues' means the revenues of state-imposed taxes and fees, earnings on investments, and miscellaneous revenues to the State accruing in the fiscal year to which the annual limit applies, all of which by law must be credited to the general fund of the State and used for the general operation of state government, but not including any amounts credited to the BSF. General fund revenues also include those revenues credited to the general fund of the State but which by law are required to be appropriated from the general fund of the State for a specific purpose or purposes. By way of illustration but not limitation, general fund revenues do not include revenues of taxes, user fees, other fees, or miscellaneous revenues required by law to be credited to funds in the State Treasury separate and distinct from the general fund of the State and which by law must be appropriated for some special use or uses, whether or not those uses include the general operation of state government. By way of illustration but not limitation, revenues credited to the following separate funds in the State Treasury are not general fund revenues:

(a) the General Reserve Fund and the Capital Reserve Fund established, respectively, pursuant to Section 36(A) and (B), Article III of the Constitution of this State and Sections 11-11-310 and 11-11-320;

(b) the State Highway Fund and the State Non-Federal Aid State Highway Fund established pursuant to Section 57-11-20;

(c) the Education Improvement Act of 1984 Fund established pursuant to Section 59-21-1010(B);

(d) the Trust Fund for Tax Relief established pursuant to Section 11-11-150(B);

(e) the Homestead Exemption Fund established pursuant to Section 11-11-155; and

(f) the State Institution Bonds and State Highway Bonds Debt Service Fund established pursuant to Section 11-11-340.

(6) 'OSB' means the Office of State Budget of the State Budget and Control Board, or a successor agency performing similar functions.

(B) Except as provided in subsection (D) of this section, the General Assembly may not appropriate general fund revenues for a fiscal year in an amount that totals more than the annual limit. The annual limit applies in all stages of the budget process, including the Governor's proposed budget, and this compliance must be certified by the OSB in an addendum to the Governor's proposed budget, the Ways and Means Committee's report on the annual general appropriations bill, the bill as it passes the House of Representatives, the Senate Finance Committee's report on the bill, the bill as it passes the Senate, and the report of a conference or free conference committee on the bill. The same certification must accompany any other bill or joint resolution appropriating general fund revenues.

(C)(1) When the BEA makes or adjusts a forecast of state revenues, that forecast or adjustment must include a forecast or adjustment of general fund revenues as defined pursuant to subsection (A)(5) of this section, not including a BSF transfer and the then applicable annual limit. If the forecast or adjustment of the general fund revenues is less than the annual limit, there is transferred for that fiscal year whatever BSF balance is available to offset as much of this projected shortfall as the balance permits, but in no case more than the amount necessary, that when added to the forecast, equals the annual limit. This transfer must be accomplished by a separate line item in the annual general appropriations bill.

(2) If revenues in the General Reserve Fund established pursuant to Section 36(A), Article III of the Constitution of this State and Section 11-11-310 are used to offset a year-end operating deficit, and a balance then exists in the BSF, then the Comptroller General shall transfer so much of the BSF balance as is available to the General Reserve Fund to replace revenues used from the General Reserve Fund. This transfer does not replace or supplant the minimum replenishment amount otherwise required to be made to the General Reserve Fund.

(3)(a) Cash balances in the BSF not exceeding fifteen percent of general fund revenues for the last completed fiscal year as certified by OSB may be appropriated by the General Assembly in separate legislation upon an affirmative recorded vote in the House of Representatives and the Senate by two-thirds of the members present and voting, but not less than three-fifths of the total membership of the House of Representatives and the Senate.

(b) Cash balances in the BSF in excess of fifteen percent of general fund revenues for the last completed fiscal year as certified by the OSB may be appropriated by the General Assembly for capital improvements, retirement of debt, non-recurring tax rebates, and other nonrecurring purposes in separate legislation solely for that purpose receiving an affirmative majority vote in the House of Representatives and the Senate.

(D) If there is a finding of an emergency, the annual limit may be exceeded for a fiscal year and a concomitantly larger transfer made from the BSF to the general fund of the State for that fiscal year up to the amount by which the annual limit is exceeded. General fund revenue appropriations above the annual limit pursuant to a finding of an emergency are not included in the calculation of the annual limit. Transfers to the BSF for a fiscal year for which there is a finding of an emergency apply only to general fund revenues accruing in excess of the annual limit plus the amount by which the annual limit is exceeded. An emergency exists if the General Assembly makes a finding enacted as part of the annual general appropriations act or other act or joint resolution appropriating general fund revenues which:

(1) specifies the emergency; and

(2) which is adopted by an affirmative recorded vote in the House of Representatives and the Senate.

~~(F)~~(E) In ~~any~~ a year when surplus ~~funds~~ general fund revenues are collected, ~~such revenue~~ this surplus may be appropriated by the General Assembly ~~to match funds for public education, public welfare, public health, road and highway construction, rehabilitation, replacement, or maintenance financed in part with federal participation funding or federal grants or tolls, or to accelerate the retirement of bonded indebtedness~~ in the manner, for the purposes, and at the times provided by law, or transferred to the general fund reserve~~, or tax relief or for avoiding the issuance of bonds for projects that are authorized but not issued or any combination of these purposes~~ without regard to the ~~spending~~ limitation imposed by this section. For the purposes of this section, surplus ~~funds~~ general fund revenues mean that portion of such revenues, as defined in subsection (A)(5) of this section, ~~over and above revenues authorized for appropriation in subsection (B)~~ which are available for appropriation and have not been appropriated and that are not required to be credited to the BSF."

SECTION 2. This act becomes effective after the ratification of an amendment to Section 7(c), Article X of the Constitution of this State authorizing its terms and first applies for appropriations for the first state fiscal year beginning more than one year after that date, prior to which the unamended version of Section 11-11-410 of the 1976 Code continues to apply.

----XX----

State Tax and Expenditure Limits—2008

by Bert Waisanen

Overview

The first years of the 21st century have brought renewed interest in the structure and effectiveness of tax and expenditure limitations (TELs). These fiscal mechanisms are designed to provide certain strictures to restrain the growth of governmental budgets either on the tax side or the spending side or on both. This paper reviews the use of state TELs and explores the policy issues associated with fiscal limits.

As of December 2008, 30 states operate under a tax or expenditure limitation. Ohio is the most recent state to impose one. In their 2006 session, legislators crafted a statutory spending limit based on population plus inflation growth or 3.5 percent, whichever is greater. This is the second enactment of a TEL in several years. Maine enacted a spending limit in 2005. Several states, like Maine and now Ohio, have statutory spending or tax limit mechanisms, while others, such as Colorado, have TELs embedded in their state constitutions. Colorado is commonly viewed as having the most restrictive set of fiscal limits, and will be further explored in this report.

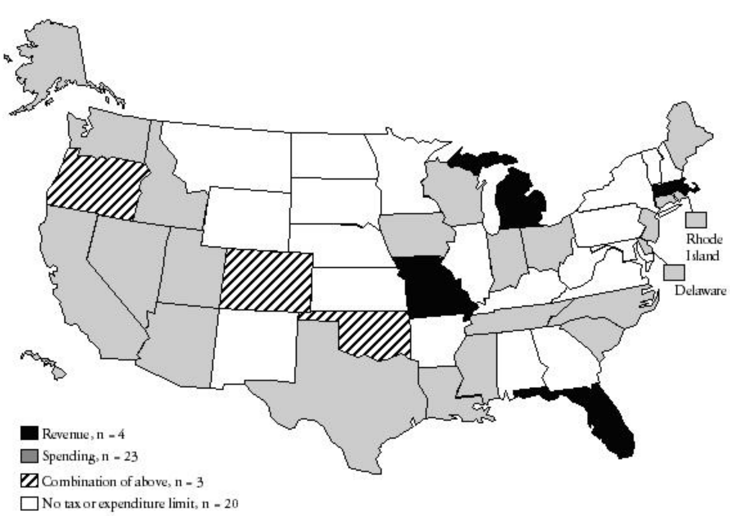
Twenty-three states having spending limits, four have tax limits, and three have both. About half are constitutional provisions and the other half are statutory. Many of the existing TELs were enacted in two periods of time—the late 1970s and early 1990s. These periods coincided with economic fluctuations in the United States and began shortly after the property tax revolt in California that resulted in passage of Proposition 13. This paper will review the states' experience with TELs.

Contents

Types of Limits

In general, no two TELs are exactly alike in their design and characteristics. While the general goal of limits is the same—to restrain government tax revenues or spending outlays—they vary considerably in design, scope and restrictiveness. In the first NCSL report on TELs, four categories of traditional TELs were identified: expenditure limits, revenue limits, appropriations limited by the revenue estimate, and hybrids or combinations. In addition, within these categories, some TELs also may include certain exceptions and exemptions. Also, some states have other provisions that require voter approval or supermajority legislative votes.

Figure 1. State Tax and Expenditure Limits, 2008



Traditional limits refer to revenue, expenditure or appropriation limits. The features and restrictiveness of these limits vary considerably. Such variations make it difficult to categorize state TELs, but generally, they fall into one of the categories described below:

Revenue limits. Revenue limits tie allowable yearly increases in revenue to personal income or some other type of index such as inflation or population. The limit provides for the refund of excess revenues to taxpayers.

Expenditure limits. This is the most common type of state TEL. Expenditure limits, like revenue limits, are typically tied to personal income or a growth index. The impact of expenditure limits depends upon the limit parameters. In many states, the limit is tied to a growth index related to the expansion of the economy. Somewhat more restrictive are expenditure limits with refund provisions if revenues exceed the authorized spending level.

Appropriations limited to a percentage of revenue estimates. This variation of a spending limit simply ties appropriations to the revenue forecast, typically ranging from 95 percent to 99 percent of expected revenues. It does not establish an absolute limit or tie growth to a measurable index. Delaware, Iowa, Mississippi, Oklahoma and Rhode Island have this type of appropriation limit in place.

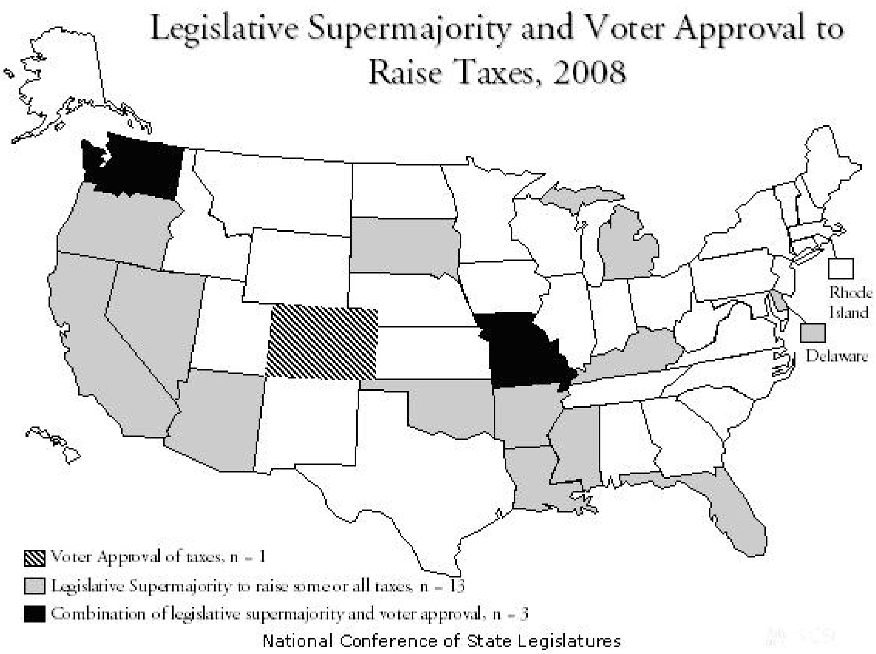
Hybrids. States also have combined components of various limits. For example, Oregon has a state spending limit tied to personal income growth, and a provision requiring refunds if revenues are more than 2 percent above the revenue forecast. This law limits spending and, in a sense, limits revenues by tying them to the forecasted amount. Colorado is another hybrid state.

Other Tax and Expenditure Limitations

A number of states operate under voter approval or supermajority requirements that are not tax or expenditure limitations in the traditional sense; however, they can limit state revenue and expenditure options. Therefore, they are discussed here as a type of limitation. Often these measures are more restrictive than traditional limits.

Voter approval requirements. This is the most restrictive type of limit since all tax increases or tax increases over a specified amount must receive voter approval. Only three states have adopted voter approval requirements. Currently Colorado requires voter approval for all tax increases, and Missouri and Washington require voter approval for tax increases over a certain amount.

Figure 2. Legislative Supermajority and Voter Approval to Raise Taxes, 2008



Source: National Conference of State Legislatures, 2008.

Supermajority requirements. Sixteen states now require supermajority votes to pass tax increases. Supermajority requirements dictate either a three-fifths, two-thirds or three-fourths majority vote in both chambers to pass tax increases or impose new taxes. The effectiveness of supermajority requirements depends upon the political makeup of the legislature. In states with one predominant party, the majority party may have enough votes to increase taxes or block tax proposals.

Formulas for Fiscal Restraint

Generally, two camps have developed regarding the formulas used in fiscal limits: the more strict restraints of population growth plus inflation and the more flexible economic responsiveness of percent of personal income. Why are certain economic indicators contained in these formulas viewed as having such impacts? Population growth is generally a steady, if not slow or stagnant, demographic indicator in a state. Generally it is not volatile, and it takes significant population inflows through interstate migration and international immigration to register a big increase year over year. Such events typically only occur in certain pockets of the country and from time to time. The consumer price index (CPI) inflation measure also has grown slowly in recent years. While the CPI trend is related to the low inflation environment experienced in the United States, it is by no means a guarantee of future levels. Also, it is widely accepted in economic circles that as the official government estimate of inflation, the CPI has the capacity to understate actual inflation. This occurs because of important adjustments that are made to the data over time. In general, the personal income growth measure tends to track economic ups and downs, with incomes decreasing during recessions and increasing during expansionary periods. As a result, use of this indicator is intended to keep budget growth restrained to the level of general economic growth in a state.

Interest Groups Are Generally in Two Camps

Supporters of TELs argue for their expansion into more states as a means of downsizing state government and containing spending and taxes. The CATO Institute is among groups that are strong advocates for TELs. CATO supports TELs that limit government spending to the inflation rate plus population growth index and mandate immediate rebates of government surpluses. The Americans for Prosperity Foundation (APF) believes that TELs should be enacted in the states, and that states with them experience fewer tax increases. APF argues that TELs are most effective when they include the population and inflation formula, are put into state constitutions, and include voter approval for tax increases.

On the other hand, groups such as The Bell Policy Center have reservations about the impact of TELs on a government's ability to fund public services adequately. The Bell Center concludes in its 10-year review of the Taxpayers' Bill of Rights (TABOR) in Colorado that TELs in the state have indeed limited government, that education and health programs have borne a disproportionate share of cuts, that TABOR prevents state budgets from recovering after recessions, and it has diminished the role of elected officials. The Center for Budget and Policy Priorities argues that while restrictive TELs sound reasonable, they are "actually a recipe for sharply reduced public services and an impaired ability to respond effectively to public needs, federal mandates, and changing circumstances." It also argues that public services have declined since the passage of TABOR and particularly since the latest recession.

Studies on the Impact and Effectiveness of TELs

A number of academic studies have been completed over the past few years to examine how well TELs work and what other implications they may have had for state fiscal policy. For example, the Center for Tax Policy examined TELs, noting that limiting the growth of government through fiscal caps is much more prevalent than property tax limits. It outlined the structures of TEL mechanisms as follows:

- Method of codification (statutory or constitutional)
- Method of approving the limit (e.g., citizen vote, legislative referendum, legislative action)
- Formula of limit
- To what the limit applies
- Treatment of any surplus
- Waiver provisions
- Requirements for passing tax increases (legislative or popular vote)

The Center then qualified the level of fiscal restrictiveness of each state's TEL based on these criteria, with the key factors being the constitutional requirement, the population and inflation economic factor, voter approval requirements for spending and tax increases, and legislative supermajorities for considering tax increases. Colorado was ranked the most restrictive TEL state and Rhode Island the least.

A 1999 California study on the topic of TELs found that they may have an impact on borrowing costs, specifically the bond yields that affect debt servicing costs. Co-authors James Poterba and Kim Rueben found that states with strict spending limits faced lower borrowing costs during the previous two decades, while alternatively, states with strict tax limits faced higher than average borrowing costs. The authors concluded that higher bond costs may reflect the difficulties limits can add to raising revenue to meet debt payments.

Another study considered the question of TELs' impact on government growth and size. It found that since most TELs did not "outlaw growth in government" that they did not have a strong effect on the size of government. However, the study did find government size limitation effects in TELs states with low income growth, and increased government growth in states with high income growth. In other words, TELs were responsive to income growth, perhaps because the majority of states use personal income in their TELs mechanisms.

In 2004, as Wisconsin considered a TABOR-like fiscal limit mechanism, a University of Wisconsin study simulated what the state's budget trends would have been had TABOR been in effect since 1986. It concluded that such a TEL would have restricted government spending, and estimated that state spending would have been $8.4 billion lower from 1986 to 2003. This would have required "a dramatic reduction in state government and school district spending."

Pros and Cons

There are numerous arguments in favor of state tax and expenditure limitations. For example, limits are said to:

- Make government more accountable
- Force more discipline over budget and tax practices
- Make government more efficient
- Make governments think of creative ways to generate revenues—for example, advertising on state-owned facilities
- Control the growth of government
- Enable citizens to vote on tax increases and determine their desired level of government service
- Force government to evaluate programs and prioritize services
- Raise questions about the advisability of some functions provided by state government;
- Help citizens feel empowered and result in more taxpayer satisfaction
- Help diffuse the power of special interests

There are arguments against state tax and expenditure limitations as well. For example, limits are said to:

- Shift fiscal decision making away from elected representatives
- Cause disproportional cuts for non-mandated or general revenue fund programs
- Fail to account for disproportionate growth of intensive government service populations like the elderly and school-age children;
- Make it harder for states to raise new revenue so that scarce resources may be shifted between programs;
- Cause a “ratchet-down” effect where the limit causes the spending base to decrease so that maximum allowable growth will not bring it up to the original level;
- Result in excess revenues that are difficult to refund in an equitable or cost-effective manner
- Result in declining government service levels over time
- Fail to provide enough revenues to meet continuing levels of spending in hard economic times
- Shift the state tax base away from the income tax to the more popular (but regressive) sales tax if voter approval is required
- Shift the tax base away from broad taxes (property, sales and income) to narrowly defined sources such as lotteries and user fees

TELs in the News: Colorado’s TABOR

Perhaps the most well known TEL is Colorado’s Taxpayers’ Bill of Rights. TABOR is a set of constitutional provisions Colorado voters adopted in 1992 that limits revenue growth for state and local governments and requires that any tax increase by state or local government (counties, cities, towns, school districts and special districts) be approved by the voters of the affected government.

TABOR is principally a revenue limit. It limits annual revenue the state government can retain from all sources except federal funds to the previous year’s *allowed* collections (not necessarily actual collections) plus a percentage adjustment equal to the percentage growth in population plus the inflation rate. Any revenues received in excess of this limit must be refunded to the voters. When revenues fall, the following year’s limit on collections is still based on the allowed collections of the previous year. The result is that in years following a recession, allowed revenues will grow only from the worst revenue collection year of the recession to the extent allowed by the rate of population growth and inflation. (This "ratchet" provision was eliminated in 2005, discussed later.) Although citizens may vote to allow the state to keep the excess, TABOR limits the times when such votes may occur.

TABOR also affected a 1991 limit on spending growth that the General Assembly had passed. It made the limit impossible to amend except by a vote of the people. This provision, known as Arveschoug-Bird, limits the growth of general fund expenditures to 6 percent more than the previous year or 5 percent of personal income, whichever amount is lower. In practice the 6 percent limit has generated the lower amount.

Colorado's early experience with TABOR included very rapid demographic and economic growth because of substantial migration (30 percent population growth from 1990 to 2000) and the rapid expansion of the electronics and telecommunications industries in the state. Taxpayers saw substantial "TABOR refund checks" as revenues above the limit were returned to them. The General Assembly subsequently reduced personal income and sales tax rates to reduce surplus (returnable) revenues. However, TABOR itself was not responsible for economic growth in the state.

Contraction in electronics and telecommunications industries occurred rapidly in 2000 and 2001, shrinking the state economy and tax collections. The interaction of an additional constitutional provision with the TABOR revenue limit exacerbated the state's budget problems. Voters in 2000 approved Amendment 23, which requires the General Assembly to increase base per-pupil funding for K-12 education by inflation plus 1 percentage point annually through 2010, and by inflation thereafter. K-12 funding now accounts for 42 percent of the Colorado general fund budget.

Without any voter-approved adjustments to the limit, the TABOR cap ensures that state revenue growth will remain below the rate of economic growth in the state. At the same time, Amendment 23 requires an increasing share of allowable revenue growth be directed to K-12 education.

TABOR prevented the creation of a traditional state rainy day fund through implication as well as its requirement that revenues in excess of a limit be returned to the voters. Reserves of 3 percent of the general fund are allowed, but any use must be repaid in the following fiscal year. Thus the reserve fund is more like a cash-flow reserve than a rainy-day fund.

Changes to TABOR in 2005

Following the pressure points exposed by the impact of a severe recession in the early 2000s, there was bipartisan agreement that some easing of the existing limits would be helpful in allowing the state budget to recover and move forward. For example, former Republican Joint Budget Committee Chairman Brad Young states that TABOR shrinks state government relative to the economy every year, regardless of federally mandated spending and other budget demands, and results in direct democracy, rather than representative governance. Certainly there are other viewpoints about TABOR, but the challenges associated with post-recessionary fiscal policy under TABOR were shared by members of both parties in the state.

On November 1, 2005, voters in Colorado approved a legislative referendum related to TABOR's allowable revenue base. The approval of Referendum C allows the state to retain all revenues it will collect for the next five years. In 2011, a new revenue base will be selected, and growth from that base will be limited to the increase in population plus inflation. This change effectively removes the so-called "ratchet effect" which had frozen the revenue base at its 2002 recessionary low. By approving the referendum, voters decided to forego projected mandatory tax refunds that would have been required had allowable revenue collections been left at the former base level. The revenue impact over five years is $3.743 billion.

Other State TELs Actions

Colorado voters are not the only ones considering TELs modifications. On November 8, 2005 voters in California defeated a proposal known as Proposition 76, which would have revised the state's spending growth limit from one based on income growth and population to one based on the average of revenue growth over the preceding three years.

Also in 2005, Maine enacted a spending limit. Under Maine's legislation, a statutory spending limit tied to average personal income growth limits state appropriations.

Ohio legislators approved a spending cap in 2006. Initially the Ohio TEL proposal had qualified to be on the November ballot as a constitutional change. However, a gubernatorial candidate who had earlier been a chief proponent of an initiative changed his approach and supported a statutory spending limit that was ultimately approved by the state legislature. The ballot question was then removed prior to the election. The new spending cap statute limits state spending growth to the percentage growth in population plus inflation or 3.5%, whichever is greater. It also imposed a 2/3 supermajority requirement or governor-declared emergency to exceed the new appropriations limit.

During the November 2006 elections, voters in Maine, Nebraska and Oregon rejected new tax and spending limit initiatives by wide margins. In Nebraska, for example, 70 percent of voters rejected the proposal. Earlier in the year, other TABOR-like proposals either did not qualify for the ballot or were disqualified and removed by courts. These included states such as Michigan, Missouri, Montana, Nevada and Oklahoma. The proposals all generally included a spending limit tied to population growth plus inflation and voter approval of tax increases.

As a result, the last five statewide votes on TELs, from 2005 to 2006, have all gone against new limits, or in the case of Colorado, relaxed an existing one.

While no single reason may exist to explain the results, out-of-state influences including financial support for petition drives and public relations activities, combined with the historical trend of good economic times reducing interest in new state fiscal limits, are among the possible explanations for the defeat of tax and spending limits in the most recent elections.

TELs Engineering: Things to Consider if Designing a Fiscal Limit

The details matter in the design of a fiscal limitation mechanism and many questions must be answered. The Minnesota House Fiscal Analysis Department published in 2004 an issue brief with some of the questions to consider regarding a tax or expenditure limit. Here is an overview:

1. What is limited, revenues or expenditures? Does the limit apply to all revenues or spending, or are there exclusions?
2. Should the growth factor limit be population plus inflation, or state personal income growth? Which measures of inflation and population will be used?
3. How is the growth measure calculated (e.g., what time periods are used)?
4. Is the baseline revenue or spending a one-year amount or multi-year average?
5. What triggers the limit to be adjusted, and how often might that occur?
6. For revenue limits, is there a threshold after which a rebate is activated?
7. Is there a disaster or emergency exception?
8. Is an adjustment allowed for a major state-local funding relationship change?
9. Can a limit be overridden by a supermajority vote in the legislature?
10. Is there a sunset date on the fiscal limit?
11. Are any limits extended to local government revenues or outlays?

Conclusions

If state economies are volatile, state budget costs are higher than average inflation (such as for health care), or other external changes occur (such as natural disasters), then states with TELs may see pressure points develop when these forces and fiscal limitation mechanisms come into contact. The level of flexibility in a TEL's structure to respond to sweeping changes or volatile fiscal environments will help shape the responses legislatures make when these situations arise.

The most restrictive TELs will ensure that voters will have a direct say over fiscal issues in a state, and legislators will have reduced fiscal policy-making authority. In addition, interest groups whose funding priorities are exposed to fiscal restrictions may seek to carve out protections for those priorities.

State fiscal affairs are conducted in an atmosphere of continuous change resulting from economic fluctuations, demographic realities, intergovernmental relations and external factors. This makes it likely that the dual effort to deliver state government services and restrain state government growth will remain a delicate balance for the foreseeable future.

Legislative Supermajority to Raise Taxes—2008				
State	**Year Adopted**	**Initiative or Referendum**	**Legislative Supermajority Vote Required**	**Applies To…**
Arizona	1992	I	2/3	All taxes
Arkansas	1934	R	3/4	All taxes except sales and alcohol
California	1979	I	2/3	All taxes
Delaware	1980	R	3/5	All taxes
Florida	1971	R	3/5	Corporate income tax [1]
Kentucky	2000	R	3/5	All taxes [2]
Louisiana	1966	R	2/3	All taxes
Michigan	1994	R	3/4	State property tax
Mississippi	1970	R	3/5	All taxes
Missouri	1996	R	2/3	All taxes [3]
Nevada	1996	I	2/3	All taxes
Oklahoma	1992	I	3/4	All taxes
Oregon	1996	R	3/5	All taxes
South Dakota	1996	R	2/3	All taxes
Washington	1993	I	2/3	All taxes [4]

1. Constitution limits corporate income tax rate to 5%. A 3/5 vote in the legislature is needed to surpass 5%. If voters are asked to approve a tax hike, it must be approved by 60% of those voting to pass.

2. Tax and fee increases can be voted on by the legislature in odd-numbered years.

3. If the governor declares an emergency, the legislature can raise taxes by a 2/3 legislative vote; otherwise, tax increases over approximately $70 million must be approved by a vote of the people.

Tax increases producing revenue that do not exceed the spending limit must be approved by 2/3 legislative vote; tax increases that produce revenue over the limit must receive 2/3 approval by the legislature and voters. The 2/3 tax increase supermajority was suspended for two years and reduced to a simple majority through June 30, 2007, by legislation enacted in April 2005.

Source: National Conference of State Legislatures, 2008.

State Tax and Expenditure Limits 2008

State	Year Adopted	Constitution or Statute	Type of Limit	Main Features of the Limit
Alaska	1982	Constitution	Spending	A cap on appropriations grows yearly by the increase in population and inflation.
Arizona	1978	Constitution	Spending	Appropriations cannot be more than 7.41% of total state personal income.
California	1979	Constitution	Spending	Annual appropriations growth linked to population growth and per capita personal income growth.
Colorado	1991	Statute	Spending	General fund appropriations limited to the lesser of either a) 5% of total state personal income or b) 6% over the previous year's appropriation.
	1992	Constitution	Revenue & Spending	Most revenues limited to population growth plus inflation. Changes to spending limits or tax increases must receive voter approval.
	2005	Referendum	Revenue & Spending	Revenue limit suspended by voters until 2011, when new base will be established.
Connecticut	1991	Statute	Spending	Spending limited to average of growth in personal

				income for previous five years or previous year's increase in inflation, whichever is greater.
	1992	Constitution	Spending	Voters approved a limit similar to the statutory one in 1992, but it has not received the three-fifths vote in the legislature needed to take full effect.
Delaware	1978	Constitution	Appropriations to Revenue Estimate	Appropriations limited to 98% of revenue estimate.
Florida	1994	Constitution	Revenue	Revenue limited to the average growth rate in state personal income for previous five years.
Hawaii	1978	Constitution	Spending	General fund spending must be less than the average growth in personal income in previous three years.
Idaho	1980	Statute	Spending	General fund appropriations cannot exceed 5.33% of total state personal income, as estimated by the State Tax Commission. One-time expenditures are exempt.
Indiana	2002	Statute	Spending	State spending cap per fiscal year with growth set according to formula for each biennial period.
Iowa	1992	Statute	Appropriations	Appropriations limited to 99% of the adjusted revenue estimate.
Louisiana	1993	Constitution	Spending	Expenditures limited to 1992 appropriations plus annual growth in state per capita personal income.
Maine	2005	Statute	Spending	Expenditure growth limited to a 10-year average of personal income growth, or maximum of 2.75%. Formulas are based on state's tax burden

				ranking.
Massachusetts	1986	Statute	Revenue	Revenue cannot exceed the three-year average growth in state wages and salaries. The limit was amended in 2002 adding definitions for a limit that would be tied to inflation in government purchasing plus 2 percent.
Michigan	1978	Constitution	Revenue	Revenue limited to 1% over 9.49% of the previous year's state personal income.
Mississippi	1982	Statute	Appropriations	Appropriations limited to 98% of projected revenue. The statutory limit can be amended by majority vote of legislature.
Missouri	1980	Constitution	Revenue	Revenue limited to 5.64% of previous year's total state personal income.
Missouri, continued	1996	Constitution	Revenue	Voter approval required for tax hikes over approximately $77 million or 1% of state revenues, whichever is less.
Montana*	1981	Statute	Spending	Spending is limited to a growth index based on state personal income. * In 2005 the Attorney General invalidated the statute, and it is not in force at this time.
Nevada	1979	Statute	Spending	Proposed expenditures are limited to the biennial percentage growth in state population and inflation.
New Jersey	1990	Statute	Spending	Expenditures are limited to the growth in state personal income.
North Carolina	1991	Statute	Spending	Spending is limited to 7% or less of total state personal income.

Ohio	2006	Statute	Spending	Appropriations limited to greater of either 3.5% or population plus inflation growth. To override need 2/3 supermajority or gubernatorial emergency declaration.
Oklahoma	1985	Constitution	Spending	Expenditures are limited to 12% annual growth adjusted for inflation.
	1985	Constitution	Appropriations	Appropriations are limited to 95% of certified revenue.
Oregon	2000	Constitution	Revenue	Any general fund revenue in excess of 2% of the revenue estimate must be refunded to taxpayers.
	2001	Statute	Spending	Appropriations growth limited to 8% of projected personal income for biennium.
Rhode Island	1992	Constitution	Appropriations	Appropriations limited to 98% of projected revenue (becomes 97% July 1, 2012).
South Carolina	1980 1984	Constitution	Spending	Spending growth is limited by either the average growth in personal income or 9.5% of total state personal income for the previous year, whichever is greater. The number of state employees is limited to a ratio of state population.
Tennessee	1978	Constitution	Spending	Appropriations limited to the growth in state personal income.
Texas	1978	Constitution	Spending	Biennial appropriations limited to the growth in state personal income.
Utah	1989	Statute	Spending	Spending growth is limited by formula that includes growth in population, and inflation.
Washington	1993	Statute	Spending	Spending limited to average of inflation for

				previous three years plus population growth.
Wisconsin	2001	Statute	Spending	Spending limit on qualified appropriations (some exclusions) limited to personal income growth rate.

Source: National Conference of State Legislatures, 2007.

Resources:
Americans for Prosperity Foundation. Washington, D.C. www.americansforprosperity.org
The Bell Policy Center. Denver, Colo. www.thebell.org
Cato Institute. Washington, D.C. www.cato.org
Center on Budget and Policy Priorities. Washington, D.C. www.cbpp.org
The Center for Tax Policy. Littleton, Colo. www.centerfortaxpolicy.org
Economic Policy Institute. Washington, D.C. www.epi.org

- Mandy Rafool. "State Tax and Expenditure Limits." NCSL. 1996.
- Michael New. *Limiting Government through Direct Democracy: The Case of State Tax and Expenditure Limitations*. CATO. 2001.
- Barry Poulson. *The Next Generation of Tax and Expenditure Limits.* Americans for Prosperity Foundation. 2004.
- *Ten Years of TABOR: A Study of Colorado' Taxpayer's Bill of Rights*. Bell Policy Center. 2003.
- The Flawed "Population Plus Inflation" Formula: Why TABOR's Growth Formula Doesn't Work. Center on Budget and Policy Priorities (CBPP). 2005.
- Public Services and TABOR in Colorado. CBPP. 2005.
- Rafool. 1996.
- Fiscal Cap Style TELs in the States: An Inventory and Evaluation. Phyllis Resnick. The Center for Tax Policy. 2004.
- Fiscal Rules and Bond Yields: Do Tax Limits Raise the State's Borrowing Costs? James Poterba and Kim Rueben. Public Policy Institute of California. 1999. Ronald Shadbegian. Do Tax and Expenditure Limitations Affect the Size and Growth of Government? Contemporary Economic Policy. January 1996.
- Andrew Reschovsky. The Taxpayer Bill of Rights: A Solution to Wisconsin's Fiscal Problems or a Prescription for Future Crises? State Tax Notes. July 26, 2004
- Therese McGuire and Kim Rueben. The Colorado Revenue Limit: The Economic Effects of TABOR. Economic Policy Institute. 2005.
- Adapted from NCSL's Talking Points on TABOR. Fiscal Affairs Program. 2004. http://www.ncsl.org/programs/fiscal/taborpts.htm
- Brad Young. Presentation to Governing Magazine Conference. Washington, D.C. February 2005.
- Revenue and Expenditure Limits. Issue Brief. House Fiscal Research Department. February 2004. http://www.house.leg.state.mn.us/fiscal/files/ibrevexp.pdf

Estimateu .ax Savings
Fiscal Years 1996 to 2008
(Dollars are in Thousands)

Tax Category	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Cumulative Savings
Individual Income Tax														
Indexation	260,000	280,000	285,000	275,000	300,000	360,000	350,000	370,000	415,000	420,000	415,000	410,000	405,000	4,545,000
Amended SC Withholding Tables	30,000		30,000											30,000 *
Retiree Exemption	17,400	18,600	22,500	29,700	42,600	43,800	45,000	46,200	47,400	48,600	49,800	51,000	52,200	514,800
Capital Gains Phase-in	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	29,040	377,520
Exemption Children Under 6 Years	20,000	30,000	40,000	40,400	40,804	41,212	41,624	42,040	42,461	42,885	43,314	43,748	44,185	512,673
Economic Impact Zones	2,000	2,200	2,420	2,662	2,928	3,221	3,543	3,897	4,287	4,716	5,188	5,706	6,277	49,045
AFDC Credit		4,800	5,280	5,808	6,389	7,028	7,730	8,503	9,354	10,289	11,318	12,450	13,695	102,644
Extension of S-Corps	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	26,000
Job Development Fees (Ent. Zone)		10,000	20,710	36,929	28,410	30,000	36,000	50,107	51,724	51,400	54,800	60,500	64,200	494,780
Firefighters Deduction Daily Subsist.	250	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,250
Credit IRA Taxes Paid In Another State				175	175	175	175	175	175	175	175	175	175	1,750
New "F" Class Bingo License				11	11	11	11	11	11	11	11	11	11	110
Aiken/Barnwell Redevelopment Auth.				541	541	541	541	541	541	541	541	541	541	5,410
College Tuition Credit				7,000	15,900	25,400	26,150	26,950	27,750	28,590	29,445	30,330	31,240	248,755
Volunteer Fireman's Deduction					310	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	19,510
Habitat Management Credit					375	375	375	375	375	375	375	375	375	3,375
Capital Gains One Year Holding Period						156	780	780	780	780	780	780	780	5,616
Credits for High Tech Industries						3,620	5,400	5,400	5,400	5,400	5,400	5,400	5,400	41,420
Credit for Conservation Easements						89	1,068	1,100	1,133	1,167	1,202	1,238	1,275	8,272
Community Development Corps.						500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	7,500
Marriage Penalty										39,030	41,176	43,441	45,831	169,478
Small Business Rate Reduction											2,250	22,500	54,500	79,250
2005 Jobs Creation Act												1,330	13,330	14,660
Elimination of 2.5% Bracket													86,361	86,361
Miscellaneous Credits											5,930	20,803	28,294	55,028
Corporate Income Tax														
Reduced Tax Rate from 6% to 5%	46,800	44,000	38,800	48,200	41,600	42,600	28,600	29,800	35,000	43,100	57,200	60,100	63,800	579,600
Enterprise Zone Jobs Tax Credit		5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	50,000	50,000	375,000
Moratorium in Certain Counties					20	20	20	20	20	20	20	20	20	180
Credit for State Port Use													8,000	8,000
Miscellaneous Savings												50	2,450	2,500
Sales Tax														
Exemptions		20				92	145		1,576		1,710	2,094	12,173	17,811
Discount to Out-of-State Retailers														0
Credit for Uncollectible Sales					1,110	6,640	8,300	8,474	9,008	9,486	10,245	10,757	10,381	74,401
Sales Tax Holiday						3,600	2,700	2,900	2,300	2,700	2,600	2,600	2,800	22,200
One-Cent Reduction on Food (5% - 4%)						24,600								24,600
Springs Lawsuit										10,000	2			10,002
Second Sales Tax Holiday												18,000		18,000
Food Tax Reduction (5% - 3%)												96,549	33,750	130,299
Food Tax Reduction (3% - 0%)													135,000	135,000
Estate Tax Exemption Phase-in	7,200	7,400	7,600	7,800	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	109,200
Gift Tax Repeal	2,393	2,441	2,490	2,539	2,590	2,642	2,695	2,749	2,804	2,860	2,917	2,976	3,035	35,131
Repeal Motor Vehicle Inspection	1,558	1,589	1,621	1,653	1,686	1,720	1,755	1,790	1,825	1,862	1,899	1,937	1,976	22,872
Soft Drinks Tax Phase Out		4,752	9,950	15,627	21,815	28,551	35,871							116,567
Alcoholic Licenses - Sunday Sales						2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	22,400
Estate Tax Increase in Exemption Limit								15,500	27,000	40,300	59,200	62,437		204,437
Deed Recording Fee - Distributee Exemption												5,500	5,500	11,000
Insurance Tax - Credit for Coastal Premiums													1,900	1,900
Miscellaneous Tax Savings							212					10	112	334
Property Tax Relief														
Homestead Exemption	47,480	47,956	49,558	51,330	53,580	119,783	127,749	138,221	147,840	154,873	157,864	166,047	174,046	1,436,327
Residential Homeowners ($100,000)	195,000	216,943	227,401	237,849	251,577	241,615	249,070	249,070	249,070	249,070	249,070	249,070	249,070	3,113,873
Manufacturer's Depreciation Reimbursement				23,614	35,729	38,747	43,774	45,624	47,597	49,906	52,582	54,563	57,971	450,107
Merchant's Inventory Exemption	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	40,557	527,244
Residential Homeowners (School Operations Relief)													521,832	521,832
Total Reductions	$701,679	$779,798	$827,427	$875,936	$950,248	$1,139,235	$1,137,985	$1,174,124	$1,259,528	$1,352,434	$1,401,511	$1,582,735	$2,277,383	$15,400,024

* Cash flow per year.

Sources: Board of Economic Advisors; Office of Research & Statistics.
BEA/RWM/08/12/08

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

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

Top 10 Statewide Federal Revenue Sources

Fiscal Years 1994-95 and 2008-09

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

Note: The listing of the top 10 Federal Funds sources represents 79% of the total of $7,366,021,019.

OSB Number ______________

OFFICE OF STATE BUDGET
ADJUSTMENTS TO EXPENDITURE AUTHORIZATION AND ESTIMATED REVENUE
AS ESTABLISHED IN CURRENT FISCAL YEAR APPROPRIATION ACT
BD-100

Agency Name ____________________________ **Agency No.** ________ **Fiscal Year** ______________

PART I - ADJUSTMENT TO EXPENDITURE AUTHORIZATION

Program No.	Program Title Object Code Title	Mini Code	Project/Phase		Budget Object Code	Total Authorization Adjustment	FUNDING SOURCE		
			Project No.	Phase Code			Earmarked 3000	Restricted 4000	Federal 5000
						TOTAL	$	$0	$0	$0

Explanation ____

____

____

Agency Signature ____________________________
Date ____________________________

Lead Analyst ____________________________
Date ____________________________

State Budget Analyst ____________________________
Date ____________________________

Grant Services Manager ____________________________
Date ____________________________

4/4/2007 This form may also be used to reduce expenditure authorization and related projected revenue as necessary. 1

PART II - ADJUSTMENT TO ESTIMATED REVENUE

The total of Parts II A and II B must equal the total increase in expenditure authorization established in Part I.

A. **Expenditure Authorization Supported by Cash Brought Forward**

Is all or part of the expenditure authorization established in Part I (Adjustment to Expenditure Authorization) supported by actual cash received and brought forward from the previous fiscal year?

☐ YES ☐ NO

If "YES", what is the amount of Cash Brought Forward By Funding Source (i.e. Detail Subfund) being utilized to support the change in expenditure authorization in Part I?

Earmarked		Restricted		Federal		All Funds
Detail Subfund	Amount	Detail Subfund	Amount	Detail Subfund	Amount	Total

TOTAL PART II A ______________

B. **Expenditure Authorization Supported by Increase in Projected Revenue**

Any expenditure authorization established in Part I not supported by Cash Brought Forward (Part IIA) must be supported by revenue to be received in the current fiscal year above the level included in the Appropriation Act (as amended). Provide related Revenue information below.

Detail Subfund	Revenue Object Code	Revenue Object Title	Amount

TOTAL PART II B ______________

Represents amount Comptroller General should increase/decrease projected revenue. **Total Parts II A and II B** ______________

PROG= ARV701N AGENCY NO. B04 REVENUE STATEMENT-SUMMARY CONTROL # 6
DATE= 12/30/2009 NAME JUDICIAL DEPARTMENT LIBRARY BUDMASTP
TIME= 14:23:21 B E A ESTIMATE

PG. NO.	LINE NO	SCHED N/T		ACTUAL 2008-2009	ESTIMATED 2009-2010	ESTIMATED 2010-2011
			I. REVENUE RETAINED AND EXPENDED IN BUDGETED OPERATIONS			
			A. FEDERAL FUNDS			
			1. GRANTS AND MATCHING FUNDS			
003	0400	1 A	A. BALANCE FROM PREVIOUS YEAR	-1,034,312	-771,222	-771,222
			B. RECEIPTS (DETAIL ON SCHEDULE I)	6,471,097	11,372,410	7,558,285
003	0600	1 A	C. LESS BALANCE CARRIED FORWARD	771,222*	771,222*	771,222*
			TOTAL GRANTS AND MATCHING FUNDS	6,208,007	11,372,410	7,558,285
			TOTAL FEDERAL FUNDS	6,208,007	11,372,410	7,558,285
			B. OTHER FUNDS			
003	1800	1 B	A. BALANCE FROM PREVIOUS YEAR	13,928,432	9,201,207	2,715,541
			B. RECEIPTS (DETAIL ON SCHEDULE I)	18,682,455	17,715,508	19,345,089
003	2000	1 B	C. LESS BALANCE CARRIED FORWARD	-9,201,207	-2,715,541	
			TOTAL OTHER FUNDS	23,409,680	24,201,174	22,060,630
			TOTAL REVENUE RETAINED & EXPENDED IN BUDGETED OPERATIONS	29,617,687	35,573,584	29,618,915
			II. REVENUE FOR CREDIT TO GENERAL FUND			
			A. FEDERAL FUNDS			
			1. INDIRECT/OVERHEAD COST RECOV(DETAIL ON SCHED.II)	54,283		
			2. REIMBURSEMENTS (DETAIL ON SCHEDULE II)			
			TOTAL FEDERAL FUNDS	54,283		
			B. OTHER FUNDS			
			1. RECEIPTS (DETAIL ON SCHEDULE II)	282,746	335,000	335,000
			TOTAL OTHER FUNDS	282,746	335,000	335,000
			TOTAL REVENUE FOR CREDIT TO GENERAL FUND	337,029	335,000	335,000

PROG= ARV702NP AGENCY NO. B04 REVENUE STATEMENT-DETAILS CONTROL # 6
DATE= 12/30/2009 NAME JUDICIAL DEPARTMENT LIBRARY BUDMASTP
TIME= 14:23:22 B E A ESTIMATE

PG. NO.	LINE NO	T. CD	REV. OBJ.	SCH N/T	SUB FUND	FED. PROJ	TITLE	ACTUAL 2008-2009	ESTIMATED 2009-2010	ESTIMATED 2010-2011
				I. A			REVENUE RETAINED AND EXPENDED IN BUDGET OPERA *			
							A. FEDERAL FUNDS			
005	0100		2822	1 A	5055	0017	FY05 CONGRESSINALLY MANDATED AWARDS	6,290,122	7,129,000	7,129,000
005	0150		2822	1 A	5055	0019	STATE COURT IMPROVEMENT VI	66,497		
005	0200		2822	1 A	5055	0020	STATE COURT IMPROVEMENT VII	114,478	40,000	
005	0300		2822	1 A	5055	0021	STATE COURT IMPROVEMENT TRAINING 08		163,410	50,000
005	0400		2822	1 A	5055	0022	STATE COURT IMPROVEMENT DATA SHARING		40,000	50,000
005	0420		2822	1 A	5055		STATE COURT IMPROVEMENT IX TRAINING			164,773
005	0430		2822	1 A	5055		STATE COURT IMPROVEMENT IX DATA SHARING			164,512
005	0450		2041*	1 A	54S3		A.R.R.A. STABLIZATION FUNDS		4,000,000	
							TOTAL FEDERAL FUNDS *	6,471,097	11,372,410	7,558,285
				B			B. OTHER FUNDS			
005	0500		4507	1 B	3035		LAW EXAM FEE	646,885	712,826	650,000
005	0550		4050	1 B	3035		MISCELLANEOUS FEE	2,350		
005	0600		7282	1 B	3037		SC BAR - LICENSE FEES	543,000	535,000	543,000
005	0700		7201	1 B	3076		JUDICIAL COMMITMENTS	350,000	440,000	440,000
005	0750		3801	1 B	3086		REFUND PRIOR YEAR EXPENDITURE	801		
005	0800		4722	1 B	3086		FAMILY & CIRCUIT COURT FILING FEES	4,213,612	3,930,473	4,351,834
005	0900		4811	1 B	3086		CIRCUIT COURT FILING FEES	2,127,393	1,982,806	2,195,545
005	1000		4813	1 B	3086		COURT MOTIONS FEES	2,885,652	2,594,782	2,885,652
005	1100		4814	1 B	3086		ALIMONY/CHILD SUPPORT FEES	3,149,944	3,149,223	3,149,223
005	1150		7702	1 B	3086		INSURANCE CLAIMS	4,399		
005	1200		4542	1 B	3352		CASE MANAGEMENT TECHNICAL ASSISTANCE	361,000	431,000	924,000
005	1250		3801	1 B	3733		REFUND PRIOR YEAR EXPENDITURE	67		
005	1300		4720	1 B	3733		MAGISTRATE COURT COMPLAINT FILING FEE	1,001,166	925,600	1,033,717
005	1400		4721	1 B	3733		MAGISTRATE COURT CIVIL FILING FEE	1,582,240	1,532,799	1,691,023
005	1450		5759	1 B	3733		TRAFFIC EDUC PROG APPLICATION FEE	171		96
005	1475		3801	1 B	39C7		REFUND PRIOR YEAR EXPENDITURE	508		
005	1500		5750	1 B	39C7		LAW ENFORCEMENT REVENUE	773,747	1,400,999	1,400,999
005	1560		7201	1 B	39C7		MISCELLANEOUS REVENUE	30		
005	1570		3801	1 B	39C8		REFUND PRIOR YEAR EXPENDITURE	266		
005	1600		5750	1 B	39C8		JUDICIAL CIRCUIT STATE SURCHARGE	946,393		
005	1625		7059	1 B	39C8		SALE OF MACHINE & EQUIPMENT	12,831		
							TOTAL OTHER FUNDS *	18,682,455	17,715,508	19,345,089
							TOTAL RECEIPTS	25,153,552	29,087,918	26,903,374
				II. A			REVENUE FOR CREDIT TO THE GENERAL FUND			
							A. FEDERAL FUNDS			
005	1650		2802	2 A	2837		INDIRECT COST	54,283		
							TOTAL FEDERAL FUNDS	54,283		
				B			B. OTHER FUNDS			
005	1700		1811	2 B	2837		ARBITRATION & MEDIATION		16,000	16,000
005	1800		2701	2 B	2837		REFUNDS-DEFENSE OF INDEGENTS		1,000	1,000
005	1900		3801	2 B	2837		REFUND PRIOR YEAR EXPENDITURES	525	1,000	1,000

S. 549--Medical Affairs Committee: A JOINT RESOLUTION TO DISAPPROVE REGULATIONS OF THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL, RELATING TO ENVIRONMENTAL PROTECTION FEES, DESIGNATED AS REGULATION DOCUMENT NUMBER 4015, PURSUANT TO THE PROVISIONS OF ARTICLE 1, CHAPTER 23, TITLE 1 OF THE 1976 CODE.

(Without reference--March 10, 2009)
(Read the second time--March 11, 2009)
(Senator Leventis desires to be present.)

A JOINT RESOLUTION

TO DISAPPROVE REGULATIONS OF THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL, RELATING TO ENVIRONMENTAL PROTECTION FEES, DESIGNATED AS REGULATION DOCUMENT NUMBER 4015, PURSUANT TO THE PROVISIONS OF ARTICLE 1, CHAPTER 23, TITLE 1 OF THE 1976 CODE.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. The regulations of the Department of Health and Environmental Control, relating to Environmental Protection Fees, designated as Regulation Document Number 4015, and submitted to the General Assembly pursuant to the provisions of Article 1, Chapter 23, Title 1 of the 1976 Code, are disapproved.

SECTION 2. This joint resolution takes effect upon approval by the Governor.

----XXX----

SUMMARY AS SUBMITTED
BY PROMULGATING AGENCY.

Regulation 61-81, State Environmental Laboratory Certification, is authorized by S.C. Code Ann. Section 44-55-10 et seq., the State Safe Drinking Water Act; Section 48-1-10 et seq., the S.C. Pollution Control Act; and Section 44-56-10 et seq., the S.C. Hazardous Waste Management Act. This regulation requires the evaluation and certification of environmental laboratories performing environmental testing for regulatory compliance monitoring purposes in South Carolina.

Regulation 61-81 is funded by user fees authorized by statute at S.C. Code Ann. Section 48-2-10 et seq. and provided in Regulation 61-30, Environmental Protection Fees. This amendment of R.61-30 is needed to increase the fees necessary to continue the complete implementation of the Environmental Laboratory Certification Program pursuant to Regulation 61-81. The fee increases will be used according to regulation to process applications, perform certification renewals, perform certification maintenance, perform evaluations, and issue certifications to environmental laboratories.

----XX----

Existing Fee Schedule Proviso contained in the Appropriation Act

Agency has requested an amendment to the proviso for the Responsible Father Registry mandated by Section 63-9-820. Section 63-9-820(I) authorizes DSS to charge a fee.

26.7 (DSS: Fee Schedule) The Department of Social Services shall be allowed to charge fees and accept donations, grants, and bequests for social services provided under their direct responsibility on the basis of a fee schedule approved by the Budget and Control Board. The fees collected shall be utilized by the Department of Social Services to further develop and administer these program efforts. The below fee schedule is established for the current fiscal year.

Day Care		
Family Child Care Homes (up to six children)	$	15
Group Child Care Homes (7-12 children)	$	30
Registered Church Child Care (13+)	$	50
Licensed Child Care Centers (13-49)	$	50
Licensed Child Care Centers (50-99)	$	75
Licensed Child Care Centers (100-199)	$	100
Licensed Child Care Centers (200+)	$	125
Central Registry Checks		
Non-profit Entities	$	8
For-profit Agencies	$	25
State Agencies	$	8
Schools	$	8
Day Care	$	8
Other - Volunteer Organizations	$	8
Other Children's Services		
Services Related to Adoption of Children from Other Countries	$	225
Court-ordered Home Studies in Non-DSS Custody Cases	$	850
Licensing Residential Group Homes Fee for an Initial License	$	250
For Renewal	$	75
Licensing Child Caring Institutions Fee for an Initial License	$	500
For Renewal	$	100
Licensing Child Placing Agencies Fee for an Initial License	$	500
For Renewal	$	60
For Each Private Foster Home Under the Supervision of a Child Placing Agency	$	15
Responsible Father Registry		
Registry Search	$	50

H.3161

Sponsors: Rep. Harrison

Introduced in the House on January 13, 2009
Introduced in the Senate on March 31, 2009
Currently residing in the Senate

Summary: Motor vehicle hearing office

Original bill raises the filing fee for a motor vehicle hearing to $250 (from $150), with the revenue being retained by the Administrative Law Court to employ hearing officers and support staff to conduct the hearings.

The amendment by Senate Judiciary Committee increases various court filing and motion fees until June 30, 2012, with the revenue going to operate the Judicial Department. After June 2012, the fees revert to the original amount.

*(BEA estimated the additional revenue to the Judicial Department to be **$16.2 million**)*

Section 3: Increases motion fees from $25 to $75

*(BEA estimate - **$2.9 million**)*

Section 4: Increases Circuit & Family Court filing fees from $150 to $300

*(BEA estimate - **$10.6 million**)*

Section 5: Increases Magistrates Court filing fees for summons and complaints from $25 to $50 and all other Magistrates Court civil filings from $10 to $20

*(BEA estimate - **$2.7 million**)*

CONSTITUTIONAL SPENDING LIMIT

S.C. Constitution, Article X, Section 7, Subsection (c)
S.C. Code of Laws, Section 11-11-410

South Carolina law provides that state appropriations in any fiscal year may not exceed appropriations authorized by the constitutional spending limitation. The limitation on expenditures is calculated by two methods, with the official limit defined as the greater of the two results. Expenditures included under the spending limit are those from the General Fund, Highway Trust Fund, and the Education Improvement Act.

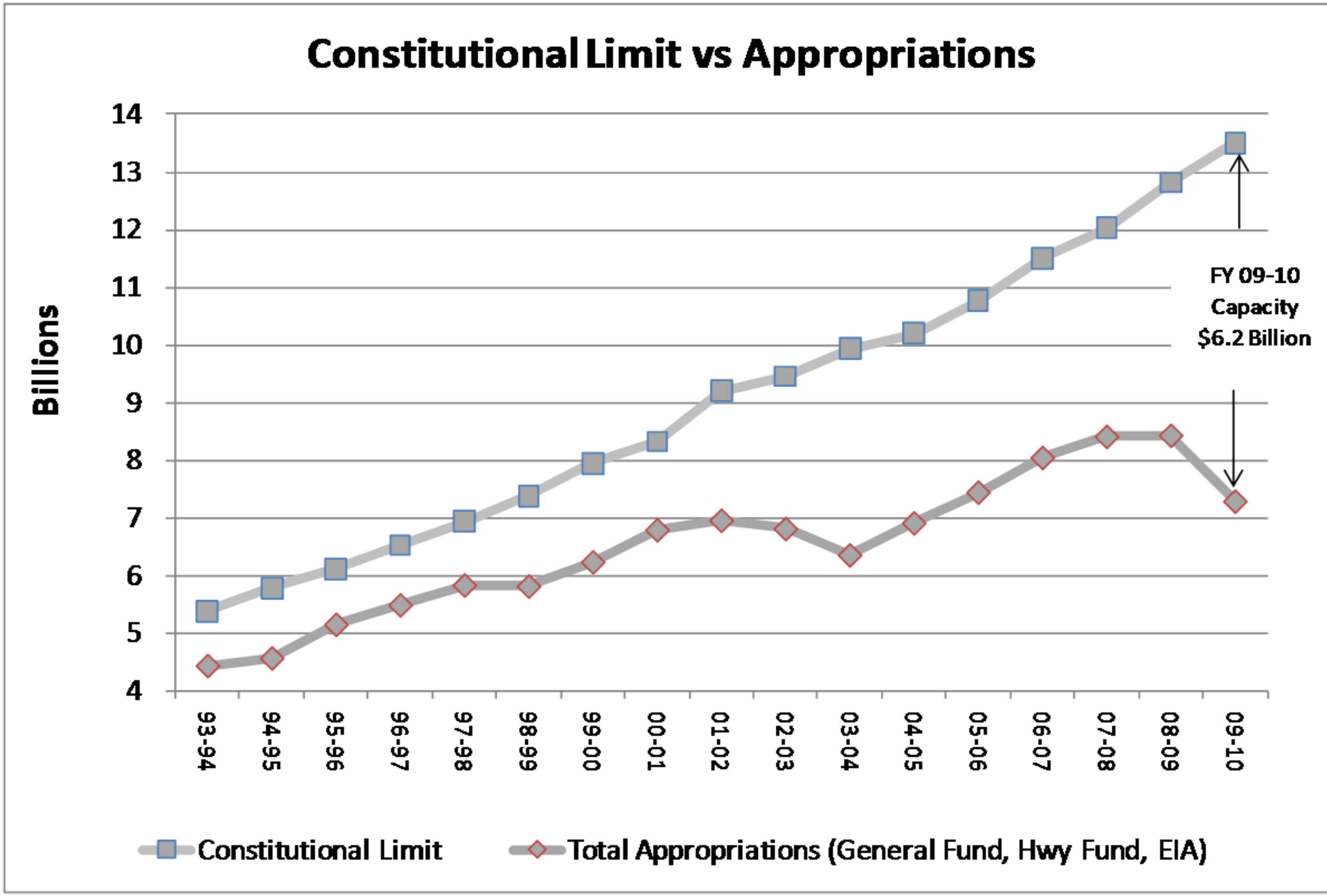
Method #1: The state appropriation authorized by the spending limit for the previous fiscal year increased by the average percentage rate of growth in state personal income for the last three completed calendar years.

Method #2: Nine and one-half percent of the total state personal income for the calendar year ending before the fiscal year under consideration.

FISCAL YEAR	SPENDING LIMIT	GENERAL FUND APPROPRIATIONS	HIGHWAY TRUST FUND	EDUCATION IMPROV. ACT	CAPACITY
1993-94	5,387,132,000	3,794,597,315	335,413,953	312,825,000	944,295,732
1994-95	5,790,582,000	3,931,506,744	296,055,162	346,960,000	1,216,060,094
1995-96	6,126,360,000	4,106,891,517	668,212,922	381,650,000	969,605,561
1996-97	6,534,290,000	4,377,462,210	711,986,729	403,326,792	1,041,514,269
1997-98	6,939,940,000	4,673,907,531	734,617,995	429,403,364	1,102,011,110
1998-99	7,385,965,000	4,615,171,682 [1]	749,139,468	454,425,528	1,567,228,322
1999-00	7,955,680,000	4,944,864,072	799,403,490	493,991,535	1,717,420,903
2000-01	8,329,980,000	5,303,919,518	957,510,763	532,391,162	1,536,158,557
2001-02	9,208,792,000	5,551,903,922	859,421,024	547,809,059	2,249,657,995
2002-03	9,456,585,000	5,444,436,227 [2]	827,596,562	543,282,467	2,641,269,744
2003-04	9,932,038,000	4,954,073,827	861,914,182	543,187,398	3,572,862,593
2004-05	10,205,951,000	5,222,408,712	1,139,902,672	552,502,240	3,291,137,376
2005-06	10,767,015,000	5,617,181,458	1,202,303,484	625,948,389	3,321,581,669
2006-07	11,511,150,000	6,108,004,521	1,285,539,533	653,416,646	3,464,189,300
2007-08	12,027,698,000	6,722,195,635	998,899,010	690,236,203	3,616,367,152
2008-09	12,816,912,000	6,735,714,190	1,051,099,010	644,714,375	4,385,384,425
2009-10	13,501,378,000	5,714,023,234	1,045,030,421	532,044,107	6,210,280,238

1 The FY 1998-99 General Appropriation Act does not contain provisions/appropriations for implementation of LIFE scholarships; this initiative was passed under separate legislation (Act 418). Therefore, the estimated cost of implementation of LIFE scholarships ($26.5 million) has been added to state funds for FY 1998-99.

2 The FY 2002-03 General Appropriation Act does not contain non-recurring appropriations for First Steps to School Readiness; this was passed under separate legislation (Act 356). The cost associated with First Steps ($7 million) has been added to the state funds for FY 2002-03.



Constitutional Limit vs Appropriations
Billions
14
13
12
11
10
9
8
7
6
5
4
93-94
94-95
95-96
96-97
97-98
98-99
99-00
00-01
01-02
02-03
03-04
04-05
05-06
06-07
07-08
08-09
09-10
FY 09-10
Capacity
$6.2 Billion
Constitutional Limit
Total Appropriations (General Fund, Hwy Fund, EIA)

Calendar Year	Calendar Year Personal Income	Annual Growth Rate	3-Year Growth Rate	FY to Which Limit Applies	Limit Per 3-Year Growth
1982	29,155	5.35%			
1983	31,715	8.78%			
1984	35,810	12.91%	9.01%	1985-86	2,886,826
1985	38,534	7.61%	9.77%	1986-87	3,168,766
1986	40,900	6.14%	8.89%	1987-88	3,450,350
1987	43,838	7.18%	6.98%	1988-89	3,691,072
1988	47,510	8.38%	7.23%	1989-90	3,958,056
1989	51,381	8.15%	7.90%	1990-91	4,270,841
1990	55,647	8.30%	8.28%	1991-92	4,624,278
1991	57,987	4.21%	6.89%	1992-93	4,942,667
1992	61,377	5.85%	6.12%	1993-94	5,245,058
1993	64,220	4.63%	4.89%	1994-95	5,501,773
1994	68,841	7.20%	5.89%	1995-96	5,825,899
1995	72,664	5.55%	5.79%	1996-97	6,163,432
1996	77,285	6.36%	6.37%	1997-98	6,556,022
1997	82,160	6.31%	6.07%	1998-99	6,954,191
1998	88,470	7.68%	6.78%	1999-00	7,425,863
1999	93,605	5.80%	6.60%	2000-01	7,915,751
2000	100,913	7.81%	7.10%	2001-02	8,477,571
2001	104,199	3.26%	5.62%	2002-03	8,954,221
2002	106,985	2.67%	4.58%	2003-04	9,364,245
2003	110,644	3.42%	3.12%	2004-05	9,656,096
2004	117,230	5.95%	4.02%	2005-06	10,043,828
2005	124,379	6.10%	5.16%	2006-07	10,561,797
2006	134,204	7.90%	6.65%	2007-08	11,264,143
2007	141,244	5.25%	6.41%	2008-09	11,986,664
2008	146,335	3.60%	5.58%	2009-10	12,655,891

SPENDING LIMITATION

South Carolina Constitution - Article X

SECTION 7. Limitation on annual expenditures of state government and number of state employees; annual budgets and expenses of political subdivisions and school districts.

(a) The General Assembly shall provide by law for a budget process to insure that annual expenditures of state government may not exceed annual state revenue. (1985 Act No. 10, Section 1.)
(b) Each political subdivision of the State as defined in Section 14 of this article and each school district of this State shall prepare and maintain annual budgets which provide for sufficient income to meet its estimated expenses for each year. Whenever it shall happen that the ordinary expenses of a political subdivision for any year shall exceed the income of such political subdivision, the governing body of such political subdivision shall provide for levying a tax in the ensuing year sufficient, with other sources of income, to pay the deficiency of the preceding year together with the estimated expenses for such ensuing year. The General Assembly shall establish procedures to insure that the provisions of this section are enforced. (1976 (59) 2217; 1977 (60) 90.)
(c) The General Assembly shall prescribe by law a spending limitation on appropriations for the operation of state government which shall provide that annual increases in such appropriations may not exceed the average growth rate of the economy of the State as measured by a process provided for by the law which prescribes the limitations on appropriations; provided, however, the limitation may be suspended for any one fiscal year by a special vote as provided in this subsection.
During the regular session of the General Assembly in 1990 and during every fifth annual regular session thereafter, the General Assembly shall conduct and complete a review of the law implementing this subsection. During such session, only a vote of two-thirds of the members of each branch present and voting shall be required to change the existing limitation on appropriation. Unless that is done, the existing limitations shall remain unchanged.
Upon implementation of the provisions of this subsection by law, such law may not be amended or repealed except by the special vote as provided in this subsection.
The special vote referred to in this subsection means an affirmative vote in each branch of the General Assembly by two-thirds of the members present and voting, but not less than three-fifths of the total membership in each branch. (1985 Act No. 10, Section 2.)
(d) The General Assembly shall prescribe by law a limitation on the number of state employees which shall provide that the annual increase in such number may not exceed the average growth rate in the population of the State measured by a process provided for in the law which prescribes that employment limitation; provided, however, the limitation may be suspended for any one fiscal year by a special vote as provided in this subsection.
Upon implementation of the provisions of this subsection by law, such law may not be amended or repealed except by the special vote provided in this subsection.
The special vote referred to in this subsection means an affirmative vote in each branch of the General Assembly by two-thirds of the members present and voting, but not less than three-fifths of the total membership in each branch. (1985 Act No. 10, Section 3.)

CROSS REFERENCES
Statutory limitation on imposition of additional or increased taxes, see Section 11-11-440.
LIBRARY REFERENCES
States 115, 121.
Westlaw Topic No. 360.

C.J.S. States Sections 322 to 323, 358 to 372.
RESEARCH REFERENCES
Encyclopedias
S.C. Jur. Public Officers and Public Employees Section 54, State Employees.

Statutory Companion to Constitutional Provision

ARTICLE 5.

APPROPRIATIONS LIMITATIONS

SECTION 11-11-410. Appropriations subject to spending limitation; financial emergency; surplus funds.

(A) State appropriations in any fiscal year may not exceed appropriations authorized by the spending limitation prescribed in this section. State appropriations subject to the spending limitation are those appropriations authorized annually in the State General Appropriation Act and acts supplemental thereto which fund general, school, and highway purposes. A statement of total "General, School, and Highway Revenues" must be included in each annual General Appropriation Act. As used in this section the appropriations so limited as defined above must be those funded by "General, School, and Highway Revenues" that must be defined as such in the 1985-86 General Appropriation Act; it being the intent of this section that all additional nonfederal and nonuser fee revenue items must be included in that category as they may be created by act of the General Assembly.

(B) The limitation on state appropriations prescribed in subsection (A) is an amount equal to either those state appropriations authorized by the spending limit for the previous fiscal year increased by the average percentage rate of growth in state personal income for the previous three completed calendar years or nine and one-half percent of the total personal income of the State for the calendar year ending before the fiscal year under consideration, whichever is greater. As used in this section, "state personal income" means total personal income for a calendar year as determined by the Budget and Control Board or its successor based on the most recent data of the United States Department of Commerce or its successors. During the initial year this spending limit is in effect, the actual state appropriations for general, school, and highway purposes for the fiscal year 1985-1986 must be used as the base figure for computation of the spending limitation if the average rate of growth method is used.

(C) The Comptroller General, or any other authorized agency, commission, or officer, may not approve or issue warrants which would allow disbursements above the amount appropriated for general fund purposes unless and until the General Assembly authorizes expenditures in excess of the limitation through procedures provided for in this article. This subsection may not apply to funds transferred from the reserve fund to the general fund.

(D) The Division of Research and Statistical Services of the Budget and Control Board shall annually compute and certify to the General Assembly a current figure to limit appropriations as provided in subsection (B) of this section prior to the Budget and Control Board's submission of its recommended budget to the House Ways and Means Committee.

(E) Notwithstanding the provisions of subsection (A) of this section, the General Assembly may declare a financial emergency and suspend the spending limitation for any one fiscal year for a specific amount by a special vote as provided in this subsection by enactment of legislation which relates only to that matter. The authorized state appropriations for the fiscal year following the suspension must be determined as if the suspension had not occurred and, for purposes of determining subsequent limits, must be presumed to have been the maximum limit which could have been authorized if such limitation had not been suspended.

The special vote referred to in this subsection means an affirmative vote in each branch of the General Assembly by two-thirds of the members present and voting but not less than three-fifths of the total membership in each branch.

(F) In any year when surplus funds are collected, such revenue surplus may be appropriated by the General Assembly to match funds for public education, public welfare, public health, road and highway construction, rehabilitation, replacement, or maintenance financed in part with federal participation funding or federal grants or tolls, or to accelerate the retirement of bonded indebtedness or transferred to the general fund reserve, or tax relief or for avoiding the issuance of bonds for projects that are authorized but not issued or any combination of these purposes without regard to the spending limitation. For the purposes of this section, surplus funds mean that portion of revenues, as defined in subsection (A) of this section, over and above revenues authorized for appropriation in subsection (B).

CREDIT(S)

HISTORY: 1984 Act No. 487, Section 3.

L:\S-FINANC\STAFF REPORTS\Mike 2009\Spending Limit\Spending Limitation Law.docx

SECTION 128
ESTIMATE OF GENERAL, SCHOOL, HIGHWAY,
AND EDUCATION IMPROVEMENT ACT REVENUE
Fiscal Year 1985-86

	Estimate FY 1985-86 June 14, 1985
Regular Sources:	
Retail Sales Tax	$ 906,007,000
Income Tax:	
Individual	1,006,150,000
Corporation	193,315,000
Total Income and Sales	$2,105,472,000
All Other Revenue:	
Admissions Tax	6,900,000
Aircraft Tax	500,000
Alcoholic Liquor Tax	46,634,000
Bank Tax	8,000,000
Beer & Wine Tax	61,780,000
Business License Tax	30,500,000
Cable Television Fees	7,000
Coin-Operated Device Tax	6,900,000
Commercial Nuclear Waste Tax	4,940,000
Contractors License Tax	825,000
Corporation License Tax	27,500,000
Department of Agriculture	5,457,860
Dept Supported Appropriations	8,998,445
Documentary Tax	14,400,000
Earned on Investments	63,100,000
Electric Power Tax	14,100,000
Estate Tax	21,100,000
Fertilizer Inspection Tax	225,000
Gasoline Tax - Counties	16,700,000
Gift Tax	1,500,000
Insurance Tax	60,957,250
Miscellaneous Departmental Revenue	15,984,194
Motor Transport Fees	4,624,537
Private Car Lines Tax	1,200,000
Public Service Assessment	3,359,837
Public Service Authority	1,850,000
Retailers License Tax	1,500,000

Estimate FY 1985-86 June 14, 1985	
Savings & Loan Association Tax	500,000
Soft Drinks Tax	16,200,000
Workers' Compensation Insurance Tax	7,871,000
Total All Other Revenue	$ 454,114, 123
Total Regular Sources	$2,559,586,123
Miscellaneous Sources:	
Circuit & Family Court Fines	$ 1,676,000
Debt Service Transfers	$ 15,641,611

Housing Authority Reimbursement	370,393
Indirect Cost Recoveries	15,487,349
Mental Health Fees	3,800,000
Parole & Probation Supervision Fees	2,760,000
Unclaimed Property Fund Transfer	500,000
Waste Treatment Loan Repayment	400,000
Total Regular & Miscellaneous Revenue	$ 2,600,221,476
Less:	
Reserve Fund Transfers	
Annual Appropriation Limitation	
One Percent Reserve/Capital Fund	
Total All Sources of Revenue	**$ 2,600,221,476**
Total Highway Revenue	**286,605,000**
Education Improvement Fund:	
1% Retail Sales Tax	224,932,750
Earned on Investments	1,170,000
Earned on Investments	2,629,229
Total Education Improvement Fund	228,732,229
Total General, School, Highway and E.I.A. Revenue	$ 3,115,558,705

L:\S-FINANC\STAFF REPORTS\Mike 2010\S2\FY85-86 Spending Limit Base Section 128.Docx

SC Spending Limit Components, 1952-2007
Elasticities Over Time

Period	Personal Income	General Fund	**Elasticity** % Change General Fund/ % Change Personal Income	CPI + Population	**Elasticity** % Change General Fund/ % Change CPI + Population
1	2	3		4	
1952-1957	2.07%	3.71%	1.79	1.90%	1.95
1957-1967	7.01%	8.93%	1.27	2.81%	3.18
1967-1977	11.05%	13.11%	1.19	7.63%	1.72
1977-1987	10.07%	9.27%	0.92	7.83%	1.18
1987-1997	6.43%	5.47%	0.85	4.96%	1.10
1997-2007	5.32%	4.50%	0.85	3.87%	1.16
			Note: on average General Fund Revenues grow less than Personal Income		Note: on average General Fund Revenues grow faster than CPI + Population

A PROPOSAL TO STABILIZE STATE REVENUES AND SPENDING

PRESENTED TO THE SPECIAL SUBCOMMITTEE ON SPENDING CAPS

OF THE SENATE FINANCE COMMITTEE

THE SOUTH CAROLINA SENATE

BY

WILLIAM GILLESPIE, PH.D.

CHIEF ECONOMIST

APRIL 29, 2008

INTRODUCTION

WHEN I CAME HERE 24 YEARS AGO, AS A SENIOR ECONOMIST FOR THE BOARD OF ECONOMIC ADVISORS, DOCTOR JAMES MORRIS, CHAIRMAN OF THE BEA, GAVE ME ONLY ONE BIT OF ADVICE. HE SAID "THE WORST THING THE BEA COULD DO WAS TO CREATE A SURPLUS WITH ITS FORECAST." AT THE TIME, I DIDN'T THINK THAT THIS WAS VERY PRUDENT ADVICE. IT SEEMED TO ME THEN THAT THE BEA SHOULD ERR ON THE SIDE OF CAUTION BY SHOOTING FOR A SMALL SURPLUS.

AFTER DOING THIS JOB FOR OVER TWO DECADES, TWO MAJOR RECESSIONS, THREE ECONOMIC SLOWDOWNS, FOUR ECONOMIC BOOMS, AND 24 LEGISLATIVE SESSIONS, I NOW HAVE A MUCH GREATER APPRECIATION FOR THE WISDOM IN DR. MORRIS'S ADVICE. LOOK AT THE BUDGET SITUATION THIS YEAR. THE BEA CERTIFIED OVER A HALF BILLION DOLLARS OF SURPLUS LAST YEAR. TAKING INTO ACCOUNT THE ANNUALIZATIONS OF PREVIOUS OBLIGATIONS INCURRED WITH SURPLUS FUNDS, THE STATE IS NOW FACED WITH A SHORTFALL IN THIS BUDGET PROCESS, EVEN THOUGH THE BEA FORECAST IS FOR POSITIVE GROWTH. WHERE DID THE SURPLUS GO?

WHAT WE HAVE LEARNED OVER THE YEARS IS THAT SURPLUSES CAN LEAD TO SIGNIFICANT ANNUALIZATION PROBLEMS. I THINK THOSE OF YOU THAT HAVE BEEN THROUGH A COUPLE OF BOOM YEARS WITH THEIR

RESULTING SURPLUSES HAVE EXPERIENCED THE INTENSE POLITICAL PRESSURE TO USE SURPLUS REVENUES TO EXPAND OLD PROGRAMS, OR CREATE NEW ONES, OR FOR SPECIAL PROJECTS.

THIS SUBCOMMITTEE IS CONSIDERING S 718 AND S 1220, WHICH LIMIT SPENDING IN BOOM YEARS AND SAVE ANY EXCESS FOR BAD YEARS. TO ME, A SPENDING LIMIT BY ITSELF WILL NOT RESULT IN BUDGETING STABILIZATION WITHOUT A DEFINED SYSTEM IN PLACE TO DEAL WITH EXCESS REVENUES. SENATORS, I SUBMIT TO YOU THAT THE STATE'S TAX STRUCTURE IS SUCH NOW THAT REVENUE COLLECTIONS WILL BE QUITE LIMITING THROUGH FUTURE UPS AND DOWNS IN THE REVENUE CYCLE. THESE BILLS INTEND TO SET UP A WORKABLE SYSTEM TO SMOOTH OUT THE USE OF REVENUES THROUGH THE FULL REVENUE CYCLE BY MEANS OF A REVENUE STABILIZATION FUND.

HALF-CENTURY OF REVENUE EXPERIENCE

TO HELP YOU UNDERSTAND WHY REVENUE STABILIZATION IS NEEDED , I HAVE PREPARED A REVENUE AND ECONOMIC HISTORY THAT SPANS 5 DECADES. IT'S QUITE REVEALING. YOU CAN SEE FROM THE FIRST GRAPH ON REVENUE GROWTH THAT WE HAVE ALWAYS HAD BOOMS AND BUSTS IN OUR REVENUE STREAM. OUR REVENUES HAVE ALWAYS SPIKED COMING OUT OF ECONOMIC DOWNTURNS. LOOK AT 1960, 1966, 1970, 1984, 1993, 1998, AND 2006. OF COURSE, WE HAVE HAD SOME SIGNIFICANT DIPS

IN OUR REVENUE GROWTH DURING ECONOMIC SLOWDOWNS, ALSO. LOOK AT 1955. THAT WAS THE LAST YEAR THAT WE HAD NEGATIVE GROWTH UNTIL 2002. OTHER SLOWDOWNS OCCURRED IN 1961, 1968, 1975, 1982, 1986, 1991, 1996, 2000 THROUGH 2003, AND 2008.

THERE ARE SOME FUNDAMENTAL REASONS FOR THOSE SWINGS THAT ARE RELATED TO IMBALANCES IN OUR ECONOMY, USUALLY CREATED BY INORDINATE EVENTS. MANY TIMES THESE EVENTS WERE CAUSED BY SPIKES IN OIL PRICES. SOMETIMES THEY WERE CAUSED BY EXTREME SWINGS IN FEDERAL MONETARY AND FISCAL POLICIES.

AND WITH THESE IMBALANCES USUALLY CAME INFLATION. THE NEXT GRAPH SHOWS YOU A HISTORY OF THE CPI. LOOK AT THE LOW RATES FOLLOWING THE KOREAN WAR. MY SON DOESN'T BELIEVE ME WHEN I TELL HIM THAT I GREW UP WITH INFLATION OF ONLY A LITTLE MORE THAN ONE PERCENT AND YOU COULD GET A HOME MORTGAGE FOR 3 PERCENT. YOU SHOULD ALSO LOOK AT THE LAST GRAPH ON OIL PRICES UP TO 1974. THANKS TO THE TEXAS RAILROAD COMMISSION OIL PRICES WERE STABLE THEN.

BUT WE HAVEN'T SEEN THOSE CONDITIONS SINCE. YOU CAN SEE THAT THE VIETNAM WAR POPPED THE LID OFF OF INFLATION DURING THE 1960'S, EVEN THOUGH OIL PRICES CONTINUED TO BE STABLE. AS

PRESIDENT JOHNSON PUT IT, WE COULD HAVE GUNS AND BUTTER. WHAT WE GOT DURING THE 1960'S WAS HIGH INFLATION AND RISING INTEREST RATES. YOU CAN SEE ON THE NEXT GRAPH THAT THE PRIME RATE ROSE DURING THE 1960'S.

GOING INTO THE 1970'S, WITH THE VIET NAM WAR STILL GOING ON, OIL MARKETS BEGAN TO TIGHTEN. THE WORLD CHANGED WITH THE ARAB EMBARGO AT THE END OF 1972. I LEFT THE BUREAU OF LABOR STATISTICS THEN TO WORK FOR THE PETROLEUM DIVISION OF THE COST OF LIVING COUNCIL TO HELP ADMINISTER MANDATORY PRICE CONTROLS THAT WERE IN PLACE AT THAT TIME. MAYBE THAT'S WHY INFLATION ROSE TO OVER 11 PERCENT BY 1975 AND THE PRIME RATE WENT OVER 8 PERCENT, WHICH WAS UNHEARD OF IN THOSE DAYS.

ALTHOUGH I WAS NOT IN SOUTH CAROLINA DURING THE LATE 1970'S, I HAVE BEEN TOLD THAT THE REVENUE ESTIMATE IN THE BUDGETING PROCESS WAS NOT A PROBLEM THEN. BECAUSE OF THE HIGH RATE OF INFLATION, REVENUES WERE FLOWING INTO THE STATE. THERE WAS NO BEA TO MAKE A FORECAST. I DON'T KNOW IF THIS WAS TRUE, BUT I HAVE BEEN TOLD BY SOME OLD VETERANS IN OUR BUDGETING SYSTEM THAT SENATOR GRESSETTE WOULD DECIDE HOW MUCH THE STATE NEEDED TO SPEND AND THAT WAS THE REVENUE ESTIMATE. LOOK ON THE REVENUE CHART AT THE SECOND HALF OF THE 1970'S. GROWTH EXCEEDED 11

PERCENT FOR FIVE YEARS. EVEN DURING THE 1975 ECONOMIC SLOWDOWN, GROWTH EXCEEDED 6 PERCENT.

FEDERAL RESERVE UNDER PAUL VOLCKER

BY THE BEGINNING OF THE 1980'S THE CPI EXCEEDED 13 PERCENT, THE PRIME RATE EXCEEDED 20 PERCENT, AND OIL EXCEEDED A CRIPPLING $40 PER BARREL. ECONOMISTS COINED THE TERM "MISERY INDEX", WHICH EQUALED THE SUM OF THE CPI AND THE PRIME RATE OF INTEREST. IN 1980, THE MISERY INDEX WAS OVER 30.

FINALLY, THE FEDERAL RESERVE SAID THAT'S IT. THEY WERE GOING TO FIGHT INFLATION. UNDER CHAIRMAN PAUL VOLKER, THE FED ADOPTED MONEY SUPPLY GROWTH TARGETS. THE IDEA WAS THAT IF IT CONTROLLED THE GROWTH IN THE MONEY SUPPLY TO LEVELS IN LINE WITH REAL GROWTH IN THE ECONOMY, THERE WOULD NOT BE EXTRA DOLLARS CHASING A LIMITED NUMBER OF GOODS, AND PRICES WOULD HAVE TO STABILIZE. AND IT LOOKS LIKE IT WORKED. LOOK AT THE DROP IN THE CPI FROM 8.6 PERCENT IN 1981 TO 2.2 PERCENT IN 1986. AND THE PRIME RATE DROPPED FROM 20 PERCENT TO UNDER 8 PERCENT BY 1987. EVEN THE PRICE OF OIL DROPPED.

BUT BRINGING INFLATION IN LINE WAS NOT WITHOUT A COST. OUR ECONOMY WENT INTO A RECESSION IN THE EARLY 1980'S. TO ILLUSTRATE

TO YOU THE SEVERITY OF THAT RECESSION, THE NEXT CHART SHOWS TOTAL PERSONAL INCOME IN SOUTH CAROLINA MINUS INFLATION. LOOK AT THE NEGATIVE FIGURE FOR 1980. THAT MEANS THAT INFLATION OUTSTRIPPED INCOME AND HOUSEHOLDS WENT INTO THE HOLE ECONOMIC WISE. YOU COULD CALL THAT A SOUTH CAROLINA MISERY INDEX.

NONETHELESS, EVEN DURING THIS SEVERE ECONOMIC CORRECTION, STATE REVENUES CONTINUED TO GROW AT RATES OF 4.8 PERCENT OR MORE. PART OF THIS GROWTH COULD BE ATTRIBUTED TO A LAG IN THE EFFECTS OF INFLATION, BUT THE MAIN REASON WAS BECAUSE OF TAX BRACKET CREEP UNDER OUR INDIVIDUAL INCOME TAX. THE STATE DID NOT INDEX BRACKETS FOR INFLATION THEN. MORE AND MORE TAX FILERS SAW THEIR INCOMES TAXED AT HIGHER EFFECTIVE TAX RATES BECAUSE OF TAX BRACKET CREEP. IN 1984, MY FIRST ANALYSIS HERE WAS OF OUR INCOME TAX CODE. I FOUND THAT FOR EACH ONE PERCENT GROWTH IN INCOME, WE REAPED 1.44 PERCENT GROWTH IN INCOME TAXES.

FEDERAL RESERVE UNDER ALAN GREENSPAN

ALAN GREENSPAN CHANGED THE FED BALL GAME IN 1987 WHEN HE TOOK OVER. THE USE OF MONEY SUPPLY TARGETS WAS ABANDONED. THE FED TOOK AN AGGREGATE APPROACH TO CONTROLLING INFLATION. I'M STILL NOT SURE WHAT THAT MEANT, BUT I DO KNOW THAT EVERY TIME

THE GNP WOULD BEGIN TO GROW MORE THAN 2 TO 3 PERCENT THE FED WOULD RAISE RATES, TO HEAD OFF INFLATION BEFORE IT GOT TOO HIGH. AND AFTER THE ECONOMY WENT INTO A RECESSION, IT WOULD LOWER RATES.

RAISING RATES TO HEAD OFF INFLATION HAD ITS COSTS TOO. LOOK AT HOW THE FED SPIKED INTEREST RATES IN 1989. THEN LOOK AT OUR DISMAL REVENUE GROWTH IN 1991 AND 1992. I KNOW THAT YOU REMEMBER HOW THE STATE HAD TO CUT SPENDING BECAUSE OF THE SEVERE DECLINE IN OUR REVENUE STREAM. EVEN WITH SPENDING CUTS, THE STATE'S RESERVES WERE NOT ADEQUATE TO COVER SUCH A DRASTIC SWING IN REVENUES. ALSO, THE STATE HAD BEGUN TO PARTIALLY INDEX THE INCOME TAX BRACKETS AND TAXPAYER'S INCOMES HAD INCREASED IN REAL TERMS, BOTH OF WHICH REDUCED SOMEWHAT THE EXTRA KICK FROM TAX BRACKET CREEP. THE STATE FINISHED 1992 WITH A DEFICIT BEYOND OUR RAINEY-DAY RESERVE.

THE STATE COVERED THAT DEFICIT BY CHANGING OUR METHOD OF ACCOUNTING FOR THE SALES TAX FROM A CASH BASIS TO AN ACCRUAL BASIS, SHIFTING ONE MONTH'S OF SALES TAX COLLECTIONS FROM 1993 BACK INTO 1992.

THE CREDIT RATING AGENCIES TOOK A DIM VIEW OF OUR FINANCIAL BEHAVIOR THEN AND LOWERED OUR AAA CREDIT RATING.

RECOVERY FROM 1992 RECESSION

DURING THE RECOVERY PERIOD FOLLOWING THE 1991-1992 RECESSION, THE STATE WORKED TO REGAIN ITS AAA RATING. STANDARD AND POOR'S INSISTED THAT THE STATE REBUILD ITS DEPLETED RESERVES, REFORM ITS BUDGET PROCESS, ADJUSTS ITS INCOME TAX WITHHOLDINGS TABLES TO DECREASE SPRING REFUNDS, STOP USING SURPLUSES TO FUND ONGOING PROGRAMS, AND RETURN TO A POSITIVE GAAP BALANCE.

THE STATE REBUILT ITS RESERVES, REFORMED ITS BUDGET PROCESS BY IMPLEMENTING THE BEA CERTIFICATION REQUIREMENT AND OTHER ACTIONS, AND LOWERED SPRING REFUNDS BY OVER $100 MILLION BY ADJUSTING THE WITHHOLDINGS TABLES. TO ADDRESS THE SURPLUS ISSUE, THE STATE ADOPTED THE RULE TO USE ONLY SURPLUSES CERTIFIED BY THE BEA. MOREOVER, THE STATE PASSED THE CARNELL-FELDER ACT WHICH LIMITED REVENUES AVAILABLE FOR APPROPRIATIONS TO 75% OF THE INCREASED REVENUE ESTIMATED BY THE BEA. IN A COUPLE OF YEARS, WE ACHIEVED A POSITIVE GAAP BALANCE AND STANDARD AND POOR'S RESTORED OUR AAA RATING.

CARNELL-FELDER SET-ASIDE

THE CARNELL-FELDER SET ASIDE WAS SORT OF A SPENDING LIMIT IN THAT IT LIMITED NEW APPROPRIATIONS TO 75% OF THE BEA'S ESTIMATE OF NEW MONEY. IT WAS ALSO A RESERVE FUND BECAUSE IT ACTUALLY SET THE MONEY ASIDE FOR ONE YEAR. I BROUGHT WITH ME THE OLD GRAPHS THAT I USED TO BRIEF THE CREDIT RATING AGENCIES BACK THEN. THE BLACK LINE WAS THE AMOUNT OF NEW MONEY ESTIMATED BY THE BEA, THE BLUE AND GREEN AREAS WERE THE AMOUNTS OF THE GENERAL AND CAPITAL RESERVES, AND THE YELLOW WAS THE CARNELL-FELDER SET ASIDE. THE ARGUMENT THAT I MADE WAS THAT THE NEW MONEY ESTIMATE WAS LESS THAN OUR RESERVES; THEREFORE, WE COULD HAVE ZERO GROWTH IN ACTUAL REVENUES, WHICH EQUATED TO A SHORT, MILD RECESSION, AND STILL NOT DEPLETE OUR RESERVES. I NOTED THAT WE HAD NEVER HAD NEGATIVE REVENUE GROWTH. AT THAT TIME I DID NOT HAVE OUR REVENUE HISTORY GOING BACK TO LOW INFLATION DAYS AFTER THE KOREAN WAR, SO I DID NOT KNOW THAT WE ACTUALLY DID HAVE A YEAR OF NEGATIVE GROWTH.

I CAN'T REMEMBER THE YEAR THAT STANDARD AND POOR'S RESTORED OUR AAA RATING, BUT I'M PRETTY SURE THAT IT WAS IN A YEAR BEFORE THE BLACK LINE WENT BEYOND OUR RESERVES. I'M SURE IT WAS BEFORE THE STATE REPEALED THE CARNELL-FELDER SET ASIDE IN 1998.

THE 2000-2001 RECESSION AND THE 9-11 ATTACKS

THE STATE RECOVERED FROM THE 91-92 RECESSION WITH A BOOM. LOOK AT THE 9.9% REVENUE GROWTH IN 1993. THAT WAS EXTRAORDINARY BECAUSE INFLATION WAS LESS THAN 3%.

THE RE-CONSTITUTED BEA FOLLOWING THE 91-92 RECESSION TOOK A MORE CONSERVATIVE APPROACH TO FORECASTING. THE BEA'S APPROACH WAS "SHOW ME THE MONEY." THAT MEANT THAT THE BEA WOULD NOT PUT NEW MONEY INTO ITS ESTIMATE UNTIL IT WAS PRETTY CERTAIN THAT THE MONEY WAS THERE.

AS A CONSEQUENCE, THE BEA ESTIMATE TENDED TO FOLLOW INCREASED REVENUE GROWTH. DURING THE 1990'S SURPLUSES BECAME THE ROUTINE, RATHER THAN THE EXCEPTION. I CAN'T REMEMBER HOW MANY TIMES THE BEA RAISED ITS ESTIMATE AT THE BUDGET CONFERENCE COMMITTEE, BUT BACK THEN IT WAS PRETTY ROUTINE. AND ALONG WITH THIS PATTERN OF SURPLUSES CAME A GENERAL EXPECTATION THAT THEY WOULD CONTINUE. AND WITH THIS EXPECTATION CAME AN ATTITUDE THAT FUNDING RECURRING OBLIGATIONS WITH SURPLUSES WASN'T ALL THAT RISKY, BECAUSE REVENUE GROWTH WOULD FIX THE PROBLEM IN THE FUTURE.

RECESSION OF 2000-2002

THEN CAME THE DISASTROUS RECESSION IN THE EARLY 2000'S, AGAIN FOLLOWING ANOTHER RISE IN OIL PRICES, AND A SPIKE IN INTEREST RATES BY THE FED. AFTER GREENSPAN DID WHAT I CALL HIS KILLER 0.5 PERCENT RATE INCREASE IN MAY 2000, THE BEA REACTED IMMEDIATELY. I HAD THE DISTINCT HONOR TO DELIVER A MESSAGE FROM THE BEA TO THE CONFERENCE COMMITTEE THAT THE BEA HAD JUST TAKEN $100 MILLION OFF THE TABLE.

GREENSPAN'S ACTION SET OFF A DOWNWARD SPIRAL THAT WAS EXACERBATED BY THE IMPACT OF THE TERRORISTS ATTACKS IN SEPTEMBER 2001. OUR REVENUE STREAM WENT NEGATIVE IN 2002, THE FIRST TIME SINCE THE KOREAN WAR ERA. THAT EXPERIENCE DESTROYED THE NOTION THAT THE IF THE BEA KEPT ITS NEW MONEY ESTIMATE WITHIN OUR RESERVES, THE STATE COULD WEATHER A MILD RECESSION. LOOK AT THE REVENUE GRAPH. WE HAD FOUR BAD YEARS IN A ROW. WE DEPLETED OUR RESERVES, CUT AGENCIES, AND RAIDED TRUST FUNDS. NEEDLESS TO SAY, STANDARD AND POOR'S DID NOT CONSIDER US AAA MATERIAL.

RECOVERY FROM 2001-2003 RECESSION

THE STATE RECOVERED FROM THE 2000-2003 RECESSION WITH A BOOM, JUST ABOUT THE SAME AS IT ALWAYS HAS. LOOK AT THE NICE GROWTH

RATES OVER 2005, 2006, AND 2007. DURING THIS RECOVERY THE BEA CONTINUED ITS "SHOW ME THE MONEY" POSTURE, WITH ITS ESTIMATES LAGGING BEHIND THE RECOVERY, CREATING SURPLUSES. LAST YEAR YOU HAD ABOUT A HALF BILLION IN SURPLUS MONEY FOR APPROPRIATIONS.

IT SEEMS THAT THE FED JUST CAN'T COTTON TO GOOD TIMES. IT RAISED RATES AGAIN, BRINGING ABOUT STAGNATION IN THE REAL ESTATE MARKET. COUPLED WITH A BOUNCE BACK IN OIL PRICES AND THE SUBPRIME LENDING PROBLEM, THIS YEAR WE'RE IN A DOWNTURN OF THE REVENUE CYCLE AGAIN. FORTUNATELY, THE BEA'S "SHOW ME THE MONEY" POSTURE HAS PUT THE STATE IN A DECENT POSITION THIS YEAR BECAUSE THE BEA ONLY BUILT IN 3% GROWTH, ANTICIPATING A DOWNTURN IN THE REVENUE CYCLE. ALTHOUGH THE BEA CUT ITS ESTIMATE FOR THIS YEAR BY $90 MILLION, THE CUT WAS LESS THAN OUR CAPITAL RESERVE FUND.

LESSONS FROM HISTORY

BEFORE I GET INTO THE SPECIFICS OF HOW A REVENUE STABILIZATION FUND MIGHT WORK, LET ME SUM UP SOME LESSONS FROM OUR REVENUE HISTORY.

1. TIMES ALWAYS CHANGE AND THERE WILL ALWAYS BE LARGE FLUCTUATIONS IN GROWTH OF OUR REVENUE STREAM CAUSED BY EVENTS BEYOND OUR CONTROL.
2. YOU CANNOT ANTICIPATE AN OUTSIDE SHOCK THAT WILL TRIGGER EITHER INFLATION OR A RECESSION, LEADING TO SPIKES OR DRAMATIC DECLINES IN OUR REVENUE STREAM.
3. YOU CAN NO LONGER COUNT ON THE EXTRA REVENUE KICK FROM TAX BRACKET CREEP. WHEREAS THE KICK WAS 1.44 IN 1984, IT IS NOW IN THE RANGE OF 1.05. THE INCOME TAX GROWTH DAYS OF SENATOR GRESSETTE ARE GONE.
4. THE 1991-1992 AND 2000-2003 RECESSIONS PROVED THAT THE STATE CANNOT COUNT ON A 5% RESERVE TO GET US THROUGH ANY DOWNTURN OTHER THAN A VERY MILD RECESSION.

REVENUE STABILIZATION PROPOSAL

THE BASIC PRINCIPLE OF THIS PROPOSAL IS SIMPLE IN CONCEPT. IN TIMES OF ABOVE AVERAGE REVENUE GROWTH THE STATE SETS ASIDE THOSE REVENUES ABOVE AVERAGE GROWTH INTO A TRUST FUND TO BE USED WHEN THE STATE HAS BELOW AVERAGE REVENUE GROWTH.

AVERAGE GROWTH IS DETERMINED OVER A 10 YEAR PERIOD, WHICH IS GENERALLY IN LINE WITH THE TWO MOST RECENT REVENUE CYCLES.

THEREFORE, THE AVERAGE REVENUE FIGURE IS CALCULATED OVER THE MOST RECENT 10 YEAR PERIOD.

TO HELP PUT THE CALCULATION INTO PERSPECTIVE WITH REGARD TO PERSONAL INCOME GROWTH AND GROWTH IN THE CPI PLUS POPULATION, I HAVE COMPARED THE GROWTH RATE IN THE GENERAL FUND TO GROWTH RATES FOR PERSONAL INCOME AND THE CPI + POPULATION FOR FIVE DECADES. AS YOU CAN SEE FOR THE MOST RECENT 10-YEAR PERIOD, PERSONAL INCOME GREW AN AVERAGE OF 5.32%, THE GENERAL FUND 4.50%, AND THE CPI+POPULATION 3.87%. UNDER THESE BILLS, REVENUE IN EXCESS OF 4.5% WOULD BE PUT ASIDE INTO THE TRUST FUND IN THE UPCOMING YEAR. WHEN REVENUE GROWTH IS LESS THAN 4.5%, REVENUES WOULD BE USED FROM THE TRUST FUND UP TO THE 4.5% MARK.

IF YOU WERE TO USE PERSONAL INCOME GROWTH AS THE MARK, YOU WOULD NOT PUT AWAY ENOUGH FUNDS TO SMOOTH OUT REVENUES OVER THE FULL REVENUE CYCLE. IF YOU USE CPI+POPULATION YOU WOULD PUT AWAY MORE THAN ENOUGH FUNDS TO SMOOTH OUT REVENUES OVER A RECESSION.

TO ILLUSTRATE WHY THE CURRENT SPENDING LIMIT HAS NOT BEEN LIMITING, I HAVE PREPARED THE FOLLOWING GRAPH ON PERSONAL

INCOME GROWTH COMPARED TO THE GROWTH IN THE FUNDS TO WHICH THE LIMIT APPLIES, NAMELY, THE GENERAL FUND, THE EIA FUND, AND THE HIGHWAY FUND. AS YOU CAN SEE, THE REVENUES TO SUPPORT THESE FUNDS ALL GREW LESS THAN PERSONAL INCOME. SINCE ALL THESE FUNDS WERE PROHIBITED FROM RUNNING A DEFICIT, REVENUE SOURCES, NOT PERSONAL HAVE BEEN THE LIMITING FACTOR.

TEN YEAR SIMULATION OF THE PROPOSAL

TO HELP YOU SEE HOW THE PROPOSAL WOULD WORK, WE SIMULATED IT OVER THE MOST RECENT PREVIOUS TEN YEARS. A KEY COMPONENT OF THIS PROPOSAL IS TO WHAT FACTOR DOES ONE APPLY THE 10-YEAR GROWTH RATE. I THINK THAT THE BEST WAY TO MAKE THE SMOOTHING PROCESS WORK IS TO APPLY THE GROWTH MARK TO THE BEA'S REVENUE AVAILABLE FOR APPROPRIATION IN THE PREVIOUS YEAR'S BUDGET. YOU WILL PROBABLY RECOGNIZE THIS AS THE FIRST LINE OF THE OFFICE OF STATE BUDGET'S SUMMARY CONTROL DOCUMENT. OFF-SETS OF ONE-YEAR DURATION OR LESS WOULD BE APPLIED TO THAT REVENUE ESTIMATE.

WHAT ABOUT LONG TERM TAX CUTS OR REVENUE INCREASES?

LONG TERM TAX CUTS OR INCREASES MORE THAN ONE YEAR WOULD HAVE TO BE HANDLED BY ADJUSTING THE BASE REVENUE AVAILABLE

FOR APPROPRIATIONS. UNDER CURRENT LAW, THE BEA IS REQUIRED TO CERTIFY THE REVENUE IMPACT OF ANY REVENUE PROVISION IN THE BUDGET. THE BEA MAKES ADJUSTMENTS TO THE REVENUE ESTIMATE FOR SEPARATE LEGISLATION AT ITS CLEAN-UP MEETING FOR THE BUDGET CONFERENCE COMMITTEE. TO HANDLE LEGISLATION WITH AN IMPACT BEYOND THE BUDGET YEAR, SUCH AS A CUT IN TAX RATES, THE REVENUE AVAILABLE FOR APPROPRIATION IN THE APPLICABLE YEAR WOULD BE ADJUSTED BY THE AMOUNT CERTIFIED BY THE BEA. THIS CERTIFICATION WOULD ADD TAX INCREASES TO THE LONG RUN CALCULATION AND SUBTRACT TAX DECREASES.

UNFORESEEN SURPLUSES AT THE END OF THE FISCAL YEAR WOULD BE PUT INTO THE REVENUE STABILIZATION FUND FOR FUTURE USE. UNFORESEEN SHORTFALLS AT THE END OF THE FISCAL YEAR WOULD FIRST BE COVERED BY THE CAPITAL RESERVE FUND, THEN THE REVENUE STABILIZATION FUND, AND THEN THE GENERAL RESERVE FUND.

LIMIT ON FUND OF 15%

THE PROPOSAL PLACES A 15% THRESHOLD ON THE FUND. REVENUES IN EXCESS OF 15% MAY BE APPROPRIATED BY THE GENERAL ASSEMBLY BY A MAJORITY VOTE. THE 15% LIMIT WILL COVER A MODERATE RECESSION

LIKE THE 1991-1992 RECESSION, BUT NOT A SEVERE RECESSION LIKE THE 2001-2003 RECESSION.

SUM-UP

TO SUM UP, BY USING THE 10-YEAR REVENUE MARK, YOU WILL NOT BE TAKING ANY FUNDS FROM CURRENT PROGRAMS, BUT JUST LIVING WITHIN YOUR REVENUE BASE. THOSE WHO WANT TO INCREASE PROGRAMS WOULD HAVE TO FIND ADDITIONAL SOURCES OF REVENUES, RATHER THAN EXPAND PROGRAMS OUT OF UNFORESEEN SURPLUSES. AS FOR TAX CUTS, I THINK THAT THIS SYSTEM WOULD PLACE MORE ACCOUNTABILITY ON THE BUDGET PROCESS TO IDENTIFY THE PROGRAM AREAS TO TAKE THE CUTS.

Budget Stabilization Fund 10 Year Scenario Through FY 2006-07 With a 15% Limit on the Fund Balance

(Law passed in 1994, Positive Referendum in Nov. 1994, Ratified in 1995,
and First Used for the FY 1996-97 Appropriation Act)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Fiscal Year	General Fund Revenue Collections (Millions)	Annual Growth Rate	10 Year Growth Rate with 1 year Lag	Revenue Available for Appropriation (Millions)	Revenue Adjustments (Millions)	General Fund Revenue Available for Appropriation with adjustments *(Prior Year + 10 yr. annual growth rate)* (Millions)	Potential Distributions (Withdrawals) From Budget Stabilization Fund (Millions)	***No Limit*** Budget Stabilization Fund Balance (Millions)	***15% Limit*** Budget Stabilization Fund Balance (Millions)	***15% Limit*** Distributions from Budget Stabilization Fund (Millions)
86	2,509.3	4.8%								
87	2,692.8	7.3%								
88	2,938.4	9.1%								
89	3,142.5	6.9%								
90	3,294.8	4.8%								
91	3,305.4	0.3%								
92	3,341.6	1.1%								
93	3,672.6	9.9%								
94	4,024.5	9.6%								
95	4,233.5	5.2%								
96	4,346.0	2.7%		4,180.9	(25.8)	4,155.1				
97	4,588.3	5.6%	5.646%		(15.1)	4,374.6	213.7	213.7	213.7	-
98	4,845.7	5.6%	5.474%		(4.8)	4,609.3	236.4	450.1	450.1	-
99	5,268.3	8.7%	5.129%		(60.4)	4,785.3	483.0	933.1	790.2	142.9
00	5,379.6	2.1%	5.303%		13.6	5,052.7	326.9	1,260.0	806.9	310.2
01	5,484.3	1.9%	5.025%		(37.7)	5,268.9	215.4	1,475.4	822.6	199.7
02	5,300.6	-3.3%	5.194%		-	5,542.6	(242.0)	1,233.4	580.6	-
03	5,305.1	0.1%	4.722%		(15.5)	5,788.8	(483.7)	749.7	96.9	-
04	5,571.1	5.0%	3.746%		5.4	6,011.0	(439.9)	309.8	**(343.0)**	-
05	6,005.9	7.8%	3.305%		(58.0)	6,151.7	(145.8)	164.0	**(145.8)**	-
06	6,586.9	9.7%	3.559%		(40.7)	6,329.9	257.0	421.0	257.0	-
07	7,124.8	8.2%	4.246%		(92.1)	6,506.6	618.2	1,039.2	875.2	-
08	NA	NA	4.499%		(250.6)	6,548.7				

Column 4: The 10 year average growth for FY 2007-08 is calculated with a 1 year lag, or the growth from FY 1996-97 through FY 2006-07. This is because when the FY 2008-09 budget process begins in the Fall of 2007, the latest completed fiscal year collections available is FY 2006-07.

Column 5: This analysis utilizes the revenue available for appropriation as certified by the BEA for FY 1995-96 as the revenue base to which the 10 year annual average growth rate is applied.

Column 6: Revenue adjustments are annual permanent changes to revenue adopted in the Appropriations Act or other legislation effective in that fiscal year, as determined by the BEA.

Column 7: This column reports the revenue available for appropriation. It is calculated by taking the prior year's revenue available for appropriation and multiplying this times the 10 year growth rate for that year. The revenue is increased or decreased by the revenue adjustments that are effective for that fiscal year. For example, the $4,374.6 million in revenue available for appropriation for FY 97 is the prior year's $4,155.1 million multiplied times the 5.646% annual growth from the past 10 years calculated for FY 97 in col. 4. This amount is decreased by $15.1 million for the tax reductions that took effect in FY 97.

Column 8: This column calculates the amount of money distributed to or withdrawn from the Budget Stabilization Fund. It is the amount of revenue available for appropriation reported in Col. 7, including adjustments, subtracted from the actual revenue collections in Col. 2. For example, the $213.7 million deposited into the Fund in FY 97 is derived from the actual collections of $4,588.3 million in Col. 2 less the $4,374.6 million in revenues available for appropriation in Col. 7.

Column 9: Reports the cumulative net amount of revenue in the Budget Stabilization Fund over time.

Column 10: Reports the cumulative net amount of revenue in the Budget Stabilization Fund over time if the total amount in the Fund were limited to a maximum of 20% of that years actual General Fund revenue collections as reported in Col. 2. For example, in FY 00 the Fund could contain $1,260 million without any limit. With a 20% limit, the Fund would only total $1075.9 million and $184.1 million would be available for appropriation or other uses as mandated by the General Assembly.

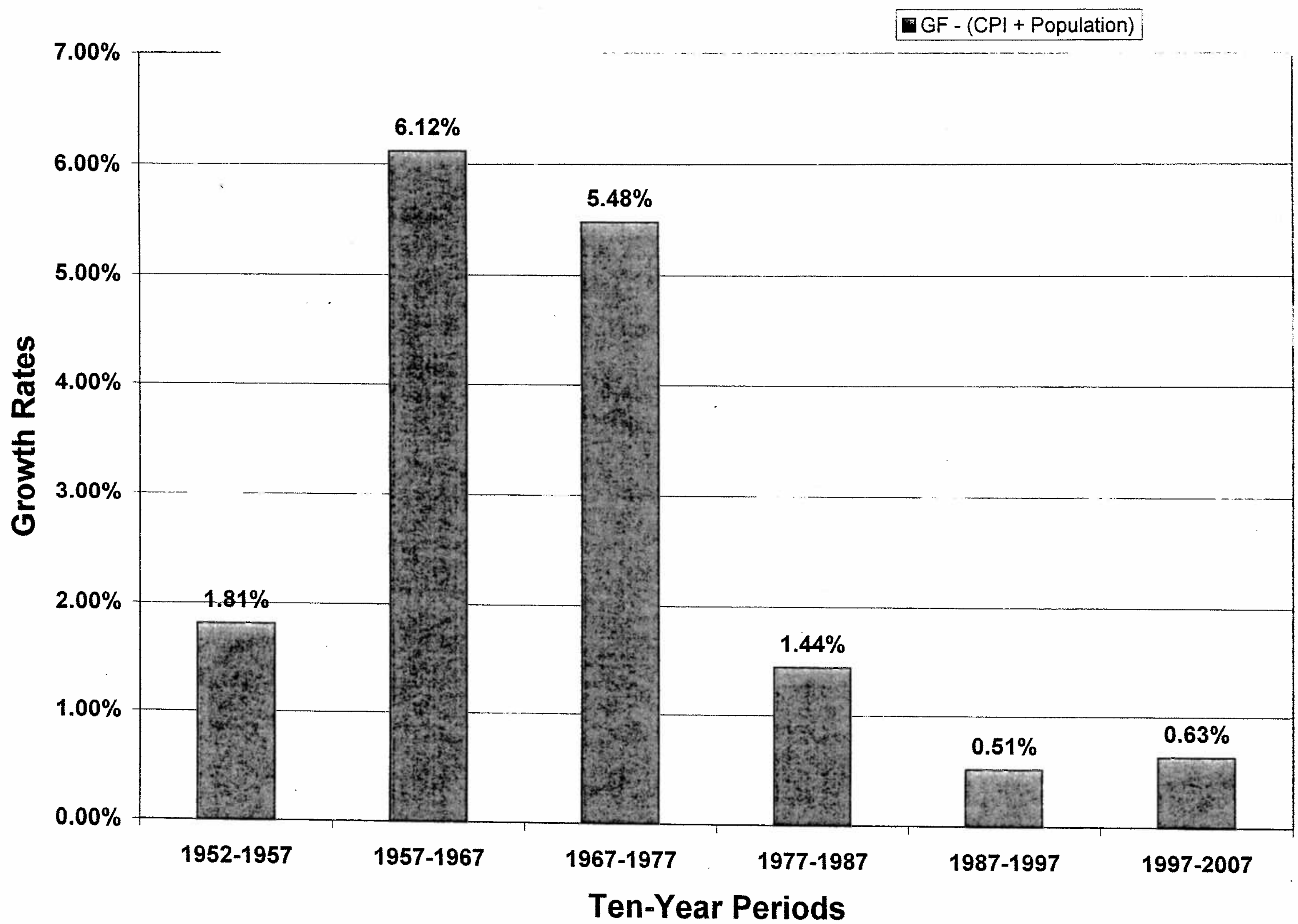
Note: The shortfall in the Budget Stabilization Fund in FY 04 and FY 05 in this scenario could be covered by reserve funds or by reducing appropriations.

SC Spending Limit Components, 1952-2007

Period	Personal Income	General Fund	CPI + Population	Personal Income - CPI	Personal Income - GF	GF - (CPI + Population)
1	2	3	4	5	6	7
1952-1957	2.07%	3.71%	1.90%	1.03%	-1.64%	1.81%
1957-1967	7.01%	8.93%	2.81%	5.28%	-1.92%	6.12%
1967-1977	11.05%	13.11%	7.63%	5.09%	-2.06%	5.48%
1977-1987	10.07%	9.27%	7.83%	3.47%	0.80%	1.44%
1987-1997	6.43%	5.47%	4.96%	2.80%	0.96%	0.51%
1997-2007	5.32%	4.50%	3.87%	2.79%	0.82%	0.63%

ORS/erb/2/4/08

General Fund Growth- (CPI + Population)



Budget Stabilization Fund Scenario With a 15% Limit on the Fund Balance

(Law passed in 1994, Positive Referendum in Nov. 1994, Ratified in 1995,
and First Used for the FY 1996-97 Appropriation Act)

Analysis based on S.2

(1) Fiscal Year	(2) General Fund Revenue Collections (Millions)		(3) Annual Growth Rate	(4) 10 Year Growth Rate with 1 year Lag	(5) Revenue Available for Appropriation (Millions)	(6) Revenue Adjustments (Millions)	(7) General Fund Revenue Available for Appropriation with adjustments *(Prior Year + 10 yr. annual growth rate)* (Millions)	(8) Potential Distributions (Withdrawals) From Budget Stabilization Fund (Millions)	(9) ***15% Limit*** Budget Stabilization Fund Balance (Millions)	(10) ***15% Limit*** Distributions from Budget Stabilization Fund (Millions)
90	3,294.8		4.8%							
91	3,305.4		0.3%							
92	3,341.6		1.1%							
93	3,672.6		9.9%							
94	4,024.5		9.6%							
95	4,233.5		5.2%							
96	4,346.0		2.7%		4,180.9	(25.8)	4,155.1			
97	4,588.3		5.6%	5.698%		(15.1)	4,376.8	211.5	211.5	-
98	4,845.7		5.6%	5.524%		(4.8)	4,613.8	231.9	443.4	-
99	5,268.3		8.7%	5.173%		(60.4)	4,792.1	476.2	790.2	129.4
00	5,379.6		2.1%	5.351%		13.6	5,062.1	317.5	806.9	300.8
01	5,484.3		1.9%	5.077%		(37.7)	5,281.4	202.9	822.6	187.2
02	5,300.6		-3.3%	5.240%		-	5,558.1	(257.5)	565.1	-
03	5,305.1		0.1%	4.795%		(15.5)	5,809.1	(504.0)	61.1	-
04	5,571.1		5.0%	3.813%		5.4	6,036.0	(464.9)	**(403.8)**	-
05	6,005.9		7.8%	3.357%		(58.0)	6,180.6	(174.7)	**(174.7)**	-
06	6,586.9		9.7%	3.618%		(40.7)	6,363.5	223.4	223.4	-
07	7,124.8		8.2%	4.319%		(125.6)	6,512.8	612.0	835.4	-
08	6,902.4		-3.1%	4.578%		(299.0)	6,512.0	390.4	1,035.4	190.4
09	6,041.5		-12.5%	3.705%		(40.6)	6,712.7	(671.2)	364.2	-
10	5,619.9	e	-7.0%	1.586%		(8.3)	6,810.9	(1,191.0)	**(826.8)**	-
11	5,621.8	e	0.0%	0.677%		2.7	6,859.7	(1,237.9)	**(1,237.9)**	-
12	5,736.1	e	2.0%	0.486%		3.6	6,896.6	(1,160.5)	**(1,160.5)**	-
13	5,871.9	e	2.4%	1.024%		3.6	6,970.8	(1,098.9)	**(1,098.9)**	-

Column 2: Actual General Fund collections except for estimated revenue collections for FY 10 through FY 13 from the BEA long range forecast.

Column 4: The 10 year average growth for FY 2008-09 is calculated with a 1 year lag, or the growth from FY 1998-99 through FY 2007-08. This is because when the FY 2009-10 budget process begins in the Fall of 2008, the latest completed fiscal year collections available is FY 2007-08.

Column 5: This analysis utilizes the revenue available for appropriation as certified by the BEA for FY 1995-96 as the revenue base to which the 10 year annual average growth rate is applied.

Column 6: Revenue adjustments are annual permanent changes to revenue adopted in the Appropriations Act or other legislation effective in that fiscal year, as determined by the BEA.

Column 7: This column reports the revenue available for appropriation. It is calculated by taking the prior year's revenue available for appropriation and multiplying this times the 10 year growth rate for that year. The revenue is increased or decreased by the revenue adjustments that are effective for that fiscal year. For example, the $4,376.8 million in revenue available for appropriation for FY 97 is the prior year's $4,155.1 million multiplied times the 5.698% annual growth from the past 10 years calculated for FY 97 in col. 4. This amount is decreased by $15.1 million for the tax reductions that took effect in FY 97.

Column 8: This column calculates the amount of money distributed to or withdrawn from the Budget Stabilization Fund. It is the amount of revenue available for appropriation reported in Col. 7, including adjustments, subtracted from the actual revenue collections in Col. 2. For example, the $211.5 million deposited into the Fund in FY 97 is derived from the actual collections of $4,588.3 million in Col. 2 less the $4,376.8 million in revenues available for appropriation in Col. 7.

Column 9: Reports the cumulative net amount of revenue in the Budget Stabilization Fund over time if the total amount in the Fund were limited to a maximum of 15% of that years actual General Fund revenue collections as reported in Col. 2. For example, in FY 00 the Fund could contain $1,237.1 million without any limit. With a 15% limit, the Fund would total $806.9 million and $300.8 million would be available for appropriation or other uses as mandated by the General Assembly.

ULBRICH/SALTZMAN Analysis

Calculating the impact of an appropriations rule for the SC General Fund
Rule = appropriations cannot exceed avg annual growth in 5-yr OR 10-yr rolling average
INCLUDES FORMULAS
SC General Fund
Total Base Recurring Revenue
1970 to 1980 actual revenue receipts from OSB 'revenue' worksheet (may be more than GFR)
1981-current = BEA total recurring general fund revenue (including revenue for Trust Fund for Tax Relief)

Avg annual growth= ((current$/older$)^(1/n time periods)-1)
BSF = Budget Stabilization Fund as defined in S.2 of 2010 (surplus revenue goes there)
IMPORTANT: rolling avg based on last completed FY, so it lags over 1 year "behind" (see formulas)
Rolling Average Includes Revenue Declines set to ZERO

FY	GFR Current $	Annual Revenue Growth Rate	Adjusted GFR declines set to prior yr	Adjusted Annual Revenue Growth Rate	Adjusted 10 yr average ann increase	Rev Surplus to BSF?	Adjusted 5 yr average ann increase	Rev Surplus to BSF?
1970	456,644,156		456,644,156					
1971	504,540,819	10.5%	504,540,819	10.5%				
1972	581,481,922	15.2%	581,481,922	15.2%				
1973	737,078,379	26.8%	737,078,379	26.8%				
1974	824,761,098	11.9%	824,761,098	11.9%				
1975	875,480,916	6.1%	875,480,916	6.1%				
1976	975,538,680	11.4%	975,538,680	11.4%				
1977	1,109,730,542	13.8%	1,109,730,542	13.8%			13.9%	no
1978	1,276,798,456	15.1%	1,276,798,456	15.1%			14.1%	yes
1979	1,426,842,804	11.8%	1,426,842,804	11.8%			13.8%	no
1980	1,598,097,635	12.0%	1,598,097,635	12.0%			11.6%	yes
1981	1,701,571,132	6.5%	1,701,571,132	6.5%			11.6%	no
1982	1,801,878,907	5.9%	1,801,878,907	5.9%	13.3%	no	12.8%	no
1983	1,958,531,071	8.7%	1,958,531,071	8.7%	12.9%	no	11.8%	no
1984	2,194,979,610	12.1%	2,194,979,610	12.1%	12.0%	yes	10.2%	yes
1985	2,360,697,292	7.5%	2,360,697,292	7.5%	10.3%	no	8.9%	no
1986	2,509,255,373	6.3%	2,509,255,373	6.3%	10.3%	no	9.0%	no
1987	2,692,754,087	7.3%	2,692,754,087	7.3%	10.4%	no	8.1%	no
1988	2,938,379,079	9.1%	2,938,379,079	9.1%	9.9%	no	8.1%	yes
1989	3,137,145,049	6.8%	3,137,145,049	6.8%	9.3%	no	8.4%	no
1990	3,294,770,987	5.0%	3,294,770,987	5.0%	8.7%	no	8.5%	no
1991	3,300,330,516	0.2%	3,300,330,516	0.2%	8.2%	no	7.4%	no
1992	3,327,012,852	0.8%	3,327,012,852	0.8%	7.5%	no	6.9%	no
1993	3,541,783,531	6.5%	3,541,783,531	6.5%	6.8%	no	5.6%	yes
1994	3,907,529,994	10.3%	3,907,529,994	10.3%	6.3%	yes	4.3%	yes
1995	4,210,113,188	7.7%	4,210,113,188	7.7%	6.1%	yes	3.8%	yes
1996	4,342,758,808	3.2%	4,342,758,808	3.2%	5.9%	no	4.5%	no
1997	4,587,384,026	5.6%	4,587,384,026	5.6%	6.0%	no	5.0%	yes
1998	4,844,352,037	5.6%	4,844,352,037	5.6%	5.6%	no	5.6%	no
1999	5,268,274,883	8.8%	5,268,274,883	8.8%	5.5%	yes	6.6%	yes
2000	5,387,328,255	2.3%	5,387,328,255	2.3%	5.1%	no	6.5%	no
2001	5,484,292,839	1.8%	5,484,292,839	1.8%	5.3%	no	6.2%	no
2002	5,300,557,851	-3.4%	5,484,292,839	0.0%	5.0%	no	5.1%	no
2003	5,305,054,270	0.1%	5,484,292,839	0.0%	5.2%	no	4.8%	no
2004	5,571,105,806	5.0%	5,571,105,806	1.6%	5.1%	no	3.6%	no
2005	5,984,889,141	7.4%	5,984,889,141	7.4%	4.5%	yes	2.5%	yes
2006	6,586,892,020	10.1%	6,586,892,020	10.1%	3.6%	yes	1.1%	yes
2007	7,124,792,158	8.2%	7,124,792,158	8.2%	3.6%	yes	2.1%	yes
2008	6,902,435,004	-3.1%	7,124,792,158	0.0%	4.3%	no	3.7%	no
2009	6,041,464,093	-12.5%	7,124,792,158	0.0%	4.5%	no	5.4%	no
2010 (est	5,742,259,868	-5.0%	7,124,792,158	0.0%	3.9%	no	5.4%	no

L:\S-FINANC\STAFF REPORTS\Mike 2010\S2\[Ulbrich Saltzman BSF analysis Rolling Avg with zeros.xls]Rev rolling avg

South Carolina General Assembly
110th Session, 1993-1994

Bill 3010

```
                    Current Status
Introducing Body:               House
Bill Number:                    3010
Ratification Number:            239
Act Number:                     162
Primary Sponsor:                Carnell
Type of Legislation:            GB
Subject:                        Appropriations, base revenue
                                estimate
Date Bill Passed both Bodies:   19930601
Computer Document Number:       JIC/5155HC.93
Governor's Action:              S
Date of Governor's Action:      19930615
Introduced Date:                19930112
Date of Last Amendment:         19930601
Last History Body:              ------
Last History Date:              19930615
Last History Type:              Act No. 162
Scope of Legislation:           Statewide
All Sponsors:                   Carnell
                                Felder
                                Boan
                                M.O. Alexander
                                Barber
                                Beatty
                                H. Brown
                                J. Brown
                                Cato
                                Clyborne
                                Cobb-Hunter
                                Corning
                                Cromer
                                Davenport
                                Delleney
                                Elliott
                                Fulmer
                                Gamble
                                Govan
                                Hallman
                                Harrelson
                                J. Harris
                                P. Harris
                                Harvin
                                Hodges
                                Holt
                                Jaskwhich
                                Jennings
                                Keegan
                                Kinon
```

Kirsh
Koon
Lanford
Mattos
McAbee
McCraw
McElveen
McKay
McTeer
Moody-Lawrence
Neilson
Phillips
Quinn
Rhoad
Riser
Rogers
Rudnick
Sheheen
Shissias
R. Smith
Snow
Stille
Townsend
Tucker
Vaughn
Waites
Waldrop
Wells
White
D. Wilder
J. Wilder
Wilkes
Wilkins
Williams
Worley
R. Young
Marchbanks
Richardson
Huff
A. Young
Wofford
Graham
Chamblee
Klauber
Meacham

Type of Legislation: General Bill

History

Bill	Body	Date	Action Description	CMN	Leg Involved
3010	------	19930615	Act No. 162		
3010	------	19930615	Signed by Governor		
3010	------	19930610	Ratified R 239		
3010	House	19930601	Ordered enrolled for		

			ratification		
3010	Senate	19930601	Conference Committee Report received, adopted	98	
3010	House	19930513	Conference Committee Report received, adopted	98	
3010	Senate	19930406	Appointed Senator Washington in lieu of Senator Matthews on the Committee of Conference	98	Washington
3010	House	19930330	Conference powers granted, appointed Reps. to Committee of Conference	98	Carnell Felder Boan
3010	Senate	19930325	Conference powers granted, appointed Senators to Committee of Conference	98	Setzler Leatherman Matthews
3010	Senate	19930325	Insists upon amendment		
3010	House	19930325	Non-concurrence in Senate amendment		
3010	Senate	19930311	Amended, read third time, returned to House with amendments		
3010	Senate	19930310	Debate interrupted by adjournment		
3010	Senate	19930309	Debate interrupted by adjournment		
3010	Senate	19930304	Read second time, notice of general amendments		
3010	Senate	19930223	Further consideration carried over until Tuesday, March 2, 1993		
3010	Senate	19930217	Further consideration carried over until Tuesday, February 23, 1993		
3010	Senate	19930211	Committee Report: Favorable with amendment	06	
3010	Senate	19930126	Introduced, read first time, referred to Committee	06	
3010	House	19930121	Read third time, sent to Senate		
3010	House	19930120	Amended, read second time		
3010	House	19930119	Committee Report: Favorable with amendment	30	
3010	House	19930112	Introduced, read first time, referred to Committee	30	

View additional legislative information at the LPITS web site.

(Text matches printed bills. Document has been reformatted to meet World Wide Web specifications.)

(A162, R239, H3010)

AN ACT TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 11-11-140 SO AS TO LIMIT APPROPRIATIONS IN THE ANNUAL GENERAL APPROPRIATIONS ACT TO AN AMOUNT NOT TO EXCEED THE BASE REVENUE ESTIMATE, TO DEFINE BASE REVENUE ESTIMATE, TO PROVIDE

FOR AN INCREASE IN THE BASE REVENUE ESTIMATE ON THE WRITTEN CERTIFICATION OF THE BOARD OF ECONOMIC ADVISORS, AND TO PROVIDE WHEN AND FOR WHAT PURPOSES SURPLUS REVENUES MAY BE APPROPRIATED.

Be it enacted by the General Assembly of the State of South Carolina:

Appropriations based upon Base Revenue Estimate

SECTION 1. Article 1, Chapter 11, Title 11 of the 1976 Code is amended by adding:

"Section 11-11-140. (A) General fund appropriations in the annual general appropriations act may not exceed the base revenue estimate as calculated pursuant to subsection (B) or as adjusted pursuant to subsection (C).

(B) For purposes of this section, the base revenue estimate is the lesser of:

(1) (a) the total of recurring general fund revenues collected in the fiscal year completed before the General Assembly first considers the annual general appropriations bill;

(b) increased by a sum equal to seventy-five percent of the amount the general fund revenue estimate of the Board of Economic Advisors for the upcoming fiscal year exceeds the amount in subitem (a) of this item; or

(2) the general fund revenue estimate of the Board of Economic Advisors for the upcoming fiscal year.

(C) The base revenue estimate may be increased or decreased (1) by any amendment to the general appropriations bill which affects the Board of Economic Advisors revenue estimate or (2) enacted legislation which affects the board's estimate, if the board certifies in writing the change in estimated revenue.

(D) Appropriations from surplus may not be made before the first meeting of the General Assembly following the Comptroller General's closing of the books on the fiscal year in which the surplus occurred and may be appropriated only for nonrecurring purposes.

(E) In making a recommendation to the General Assembly for the fiscal year 1994-95 budget, and for each year thereafter, the Budget and Control Board shall not incorporate or realize any revenue derived on the basis of any future change in a method of accounting, as determined by the Budget and Control Board, unless such change in a method of accounting is based on statutory authority specifically granted to the Budget and Control Board or a statutory enactment changing the method of accounting."

Time effective

SECTION 2. This act takes effect upon approval by the Governor and first applies with respect to appropriations for fiscal year 1994-95.

Approved the 15th day of June, 1993.

L:\S-FINANC\STAFF REPORTS\Mike 2009\Spending Limit\H3010 of 1993.Carnell Felder.docx