

FY 2015-16

REVENUE AND BUDGET BRIEFING

**PRESENTED TO
SOUTH CAROLINA
SENATE FINANCE COMMITTEE**

January 21, 2015

By

**Frank A. Rainwater
Executive Director**

**Les Boles
Director, Budget Development**

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1000 Assembly Street
Rembert Dennis Building, Suite 402
Columbia, SC 29201
(803) 734-2265**



RESTRUCTURING

Revenue and Fiscal Affairs Office

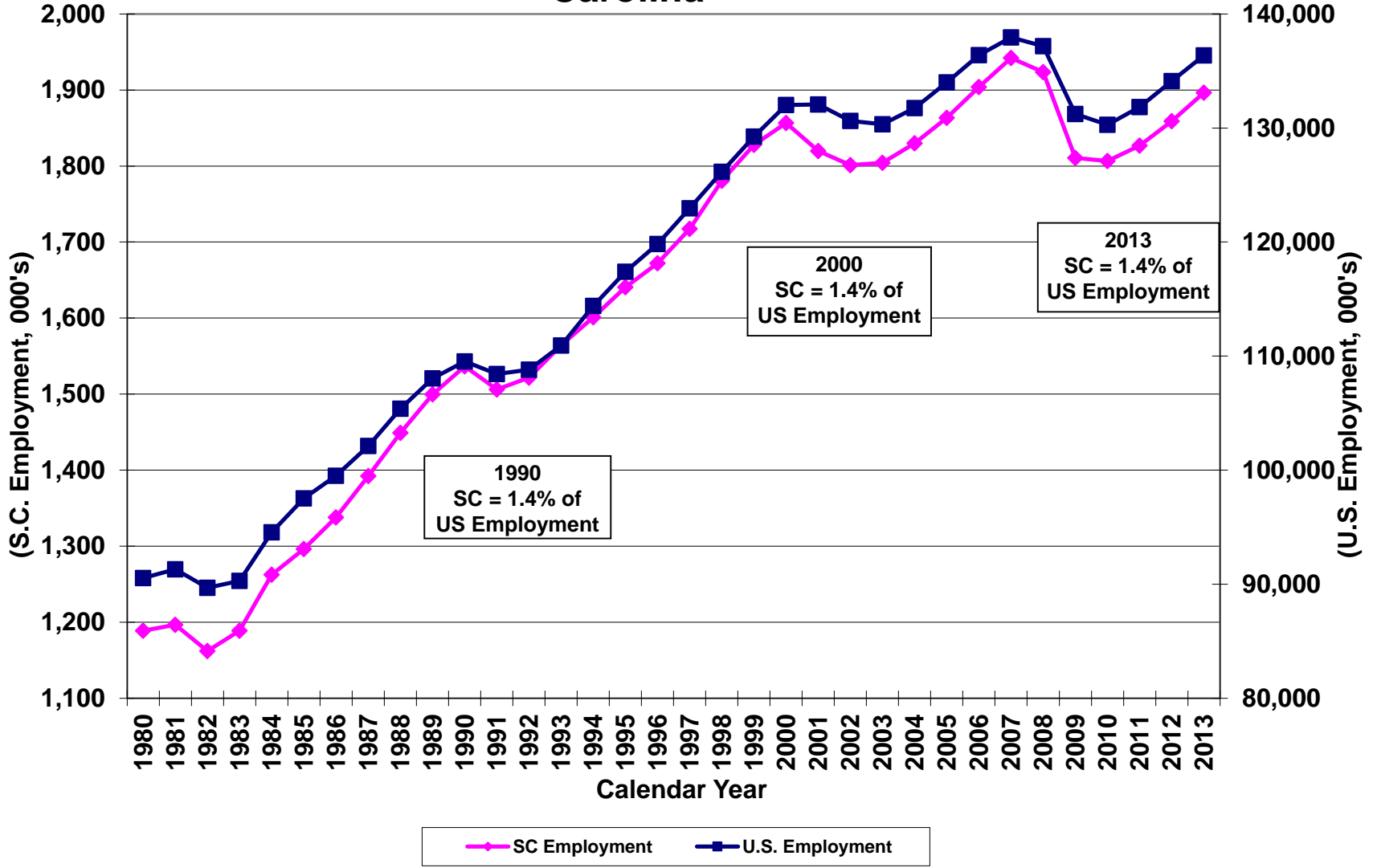
- Board of Economic Advisors
- Office of Research and Statistics
- Office of State Budget



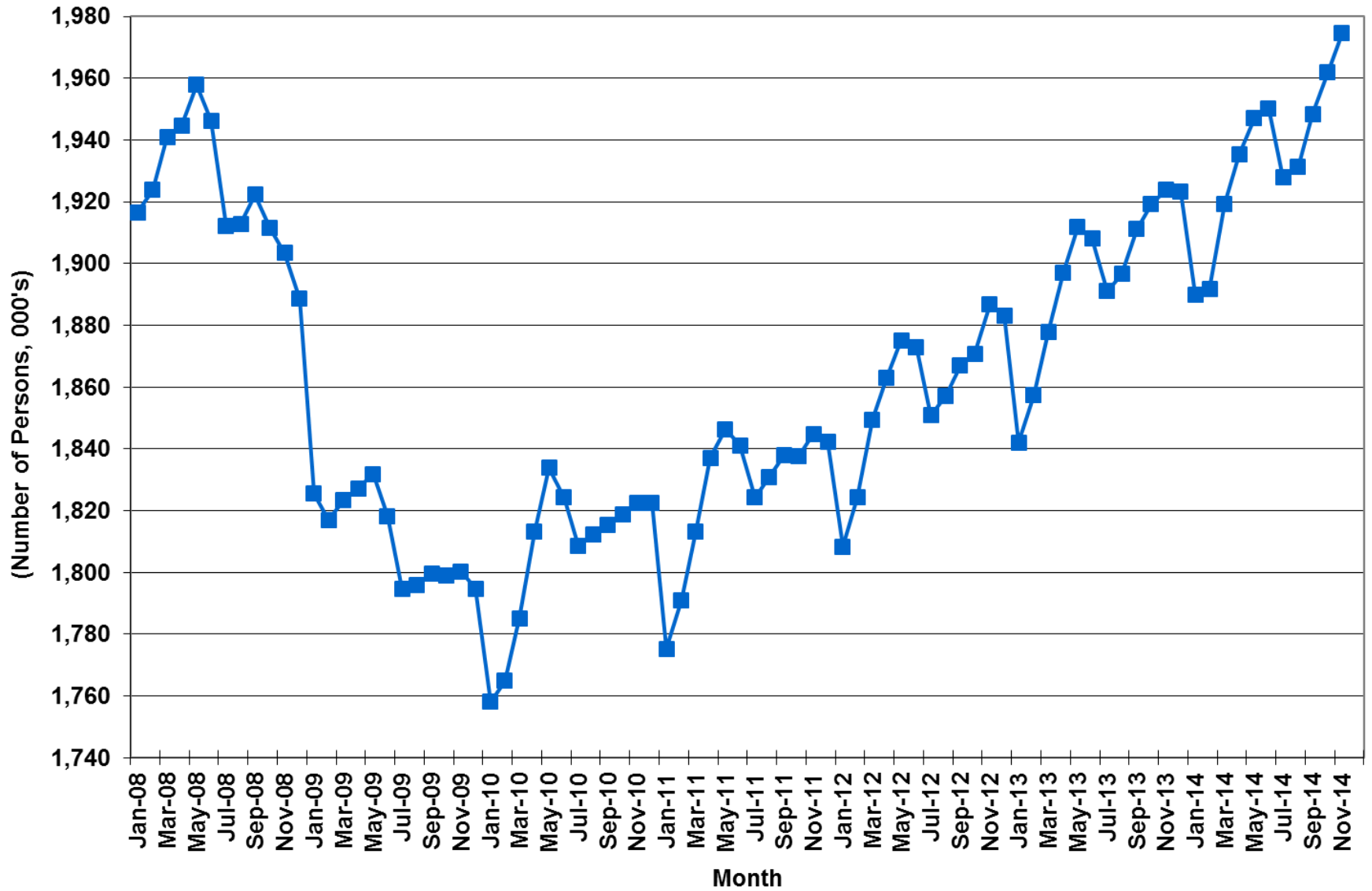
A city skyline featuring several modern skyscrapers and a prominent red brick building in the foreground. The text "ECONOMIC TRENDS" is overlaid in the center. The background shows a clear sky with some light clouds. The red brick building has a classic architectural style with multiple windows and a gabled roof. The skyscrapers vary in height and design, with some having glass facades and others having more solid, blocky structures. The overall scene suggests a mix of traditional and modern urban architecture.

ECONOMIC TRENDS

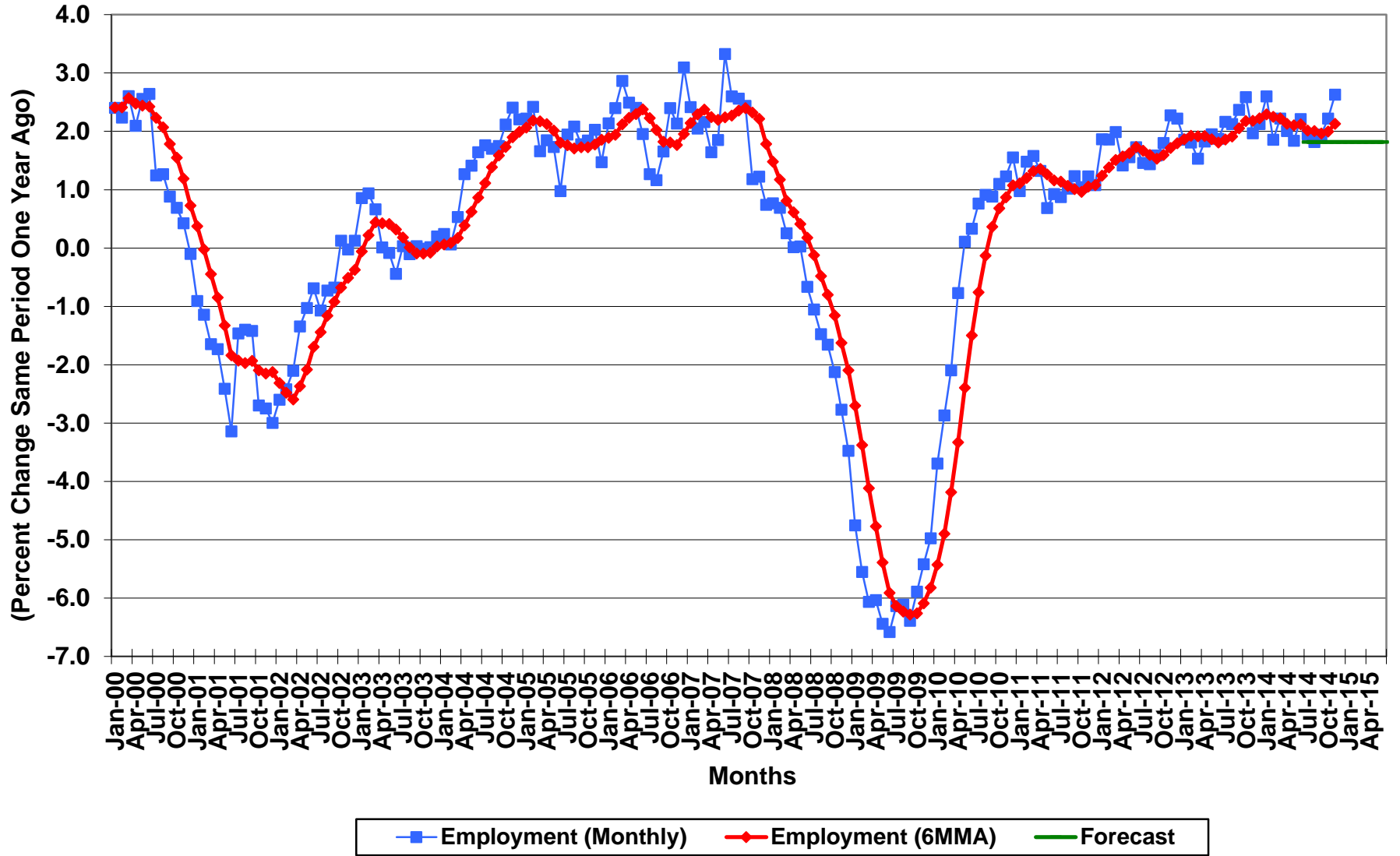
Total Nonfarm Employment in the United States & South Carolina



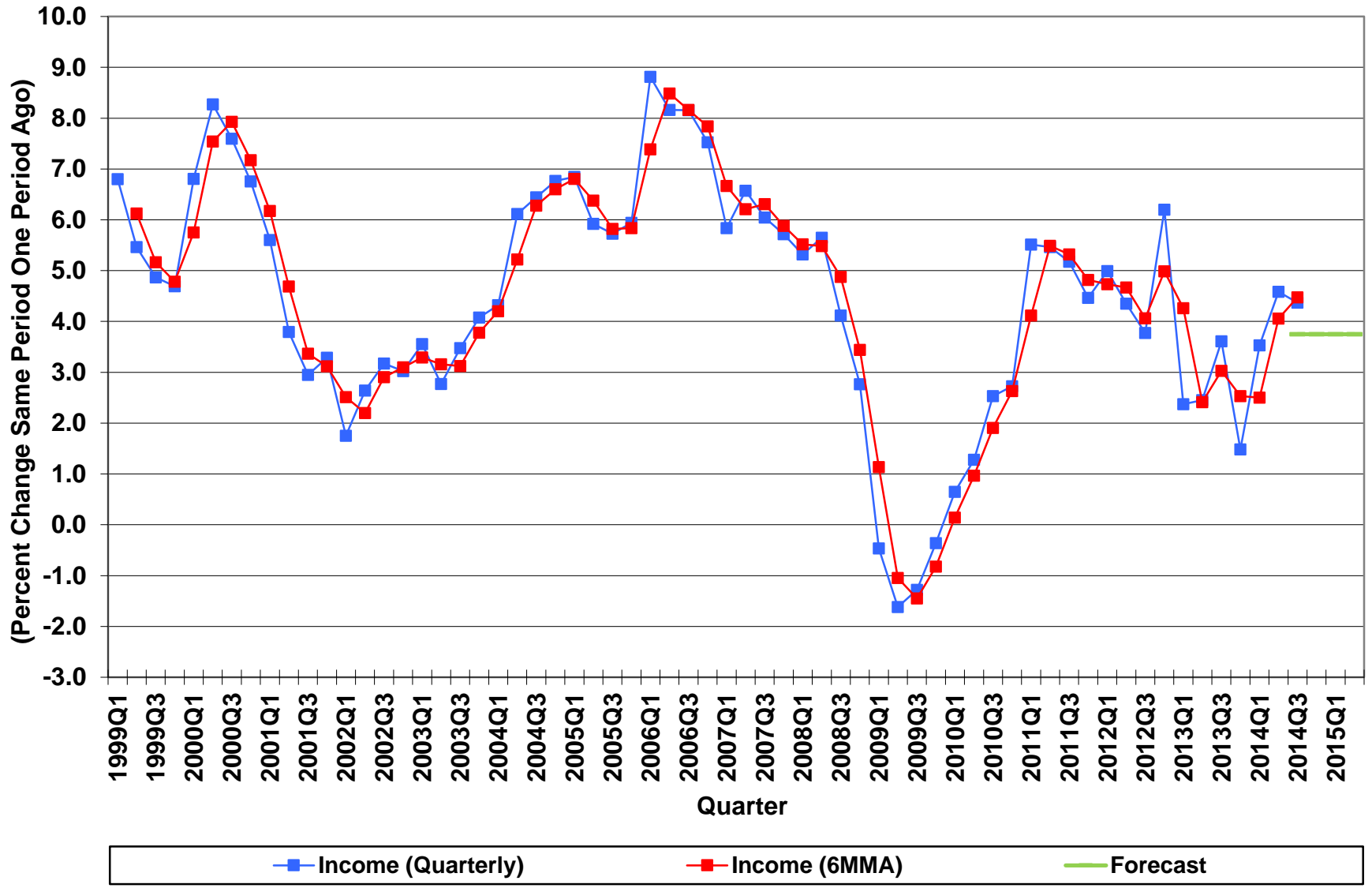
Total Nonfarm Employment in South Carolina



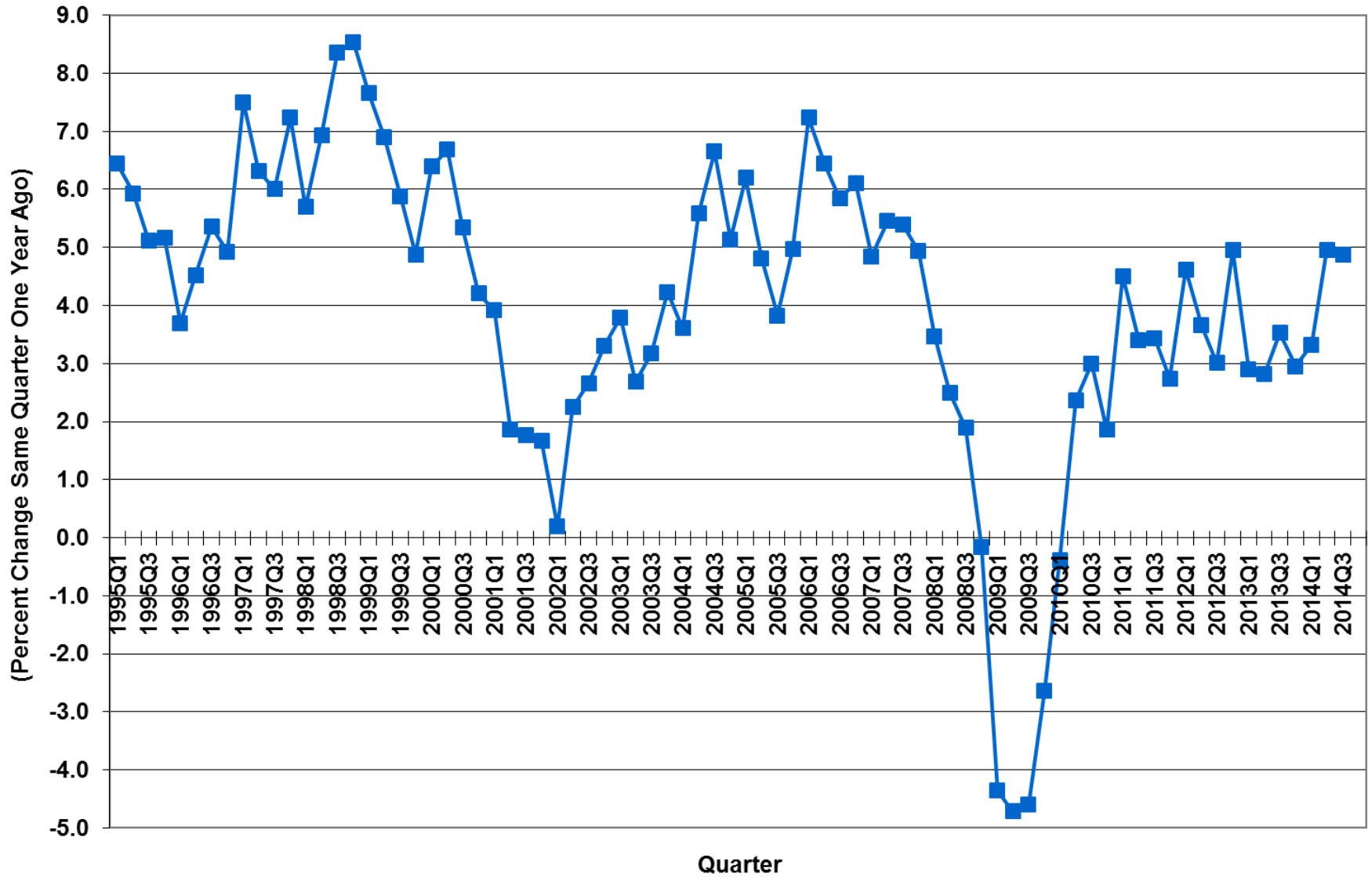
South Carolina Employment Trends



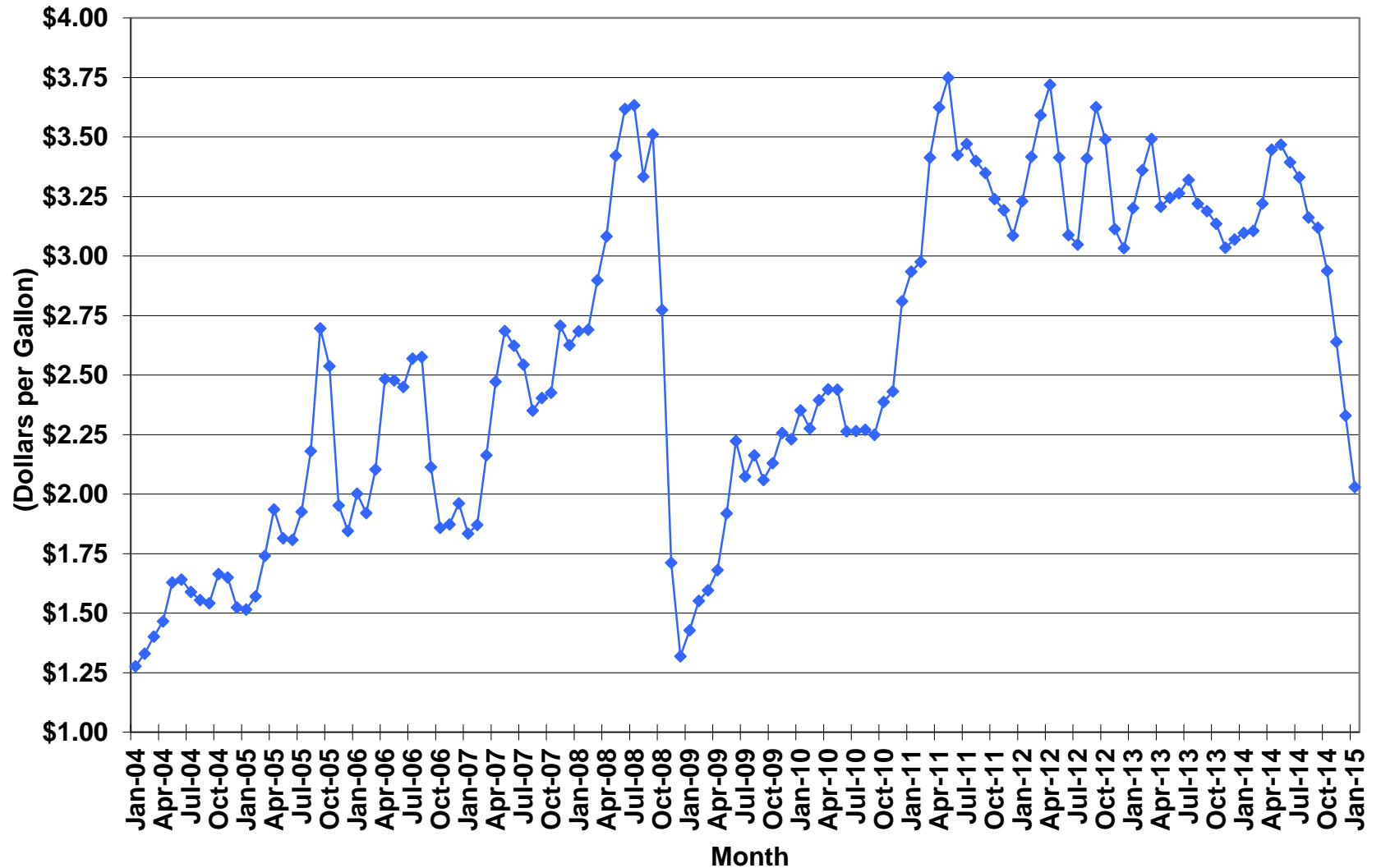
South Carolina Personal Income Trends



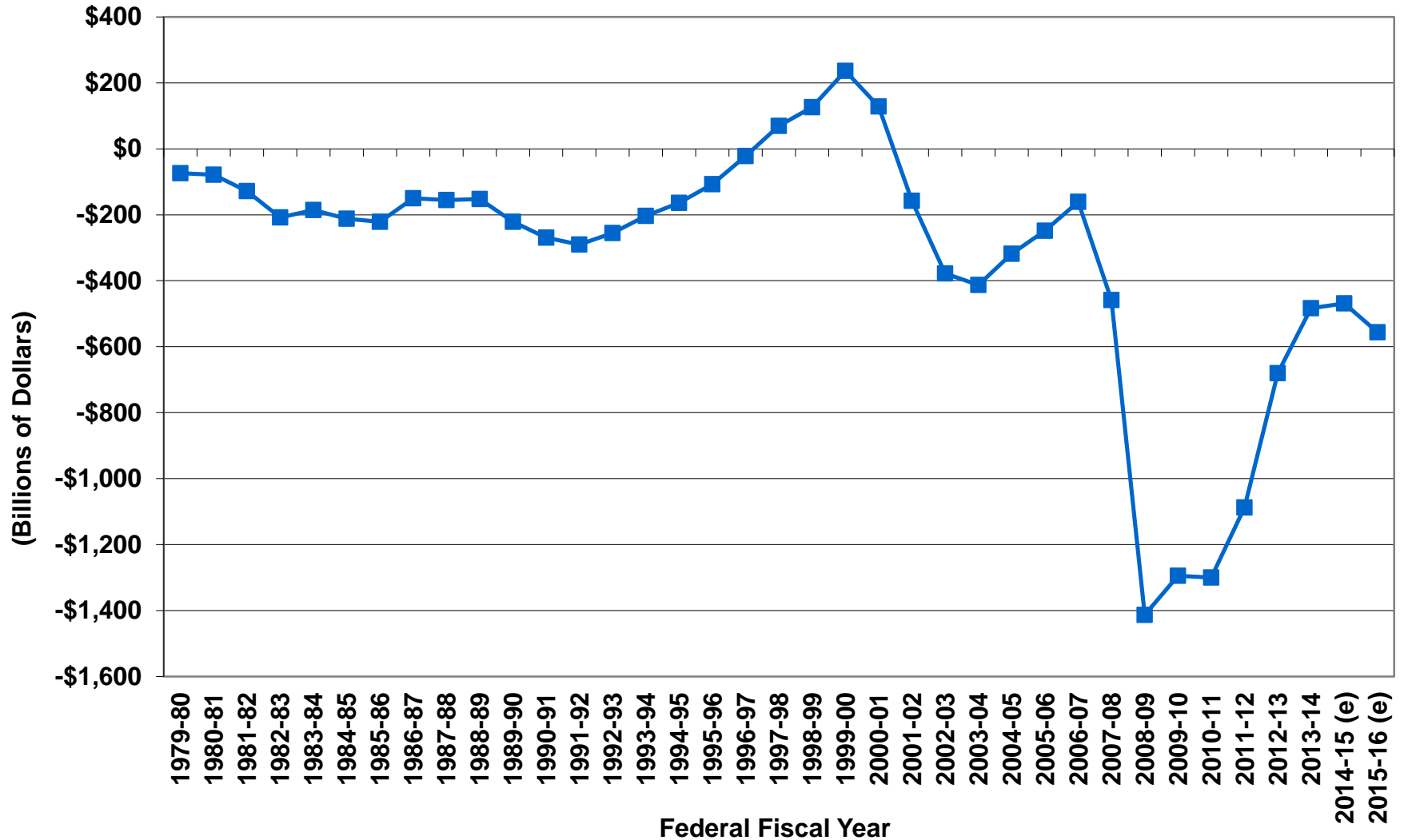
Growth in Wages and Salaries in South Carolina



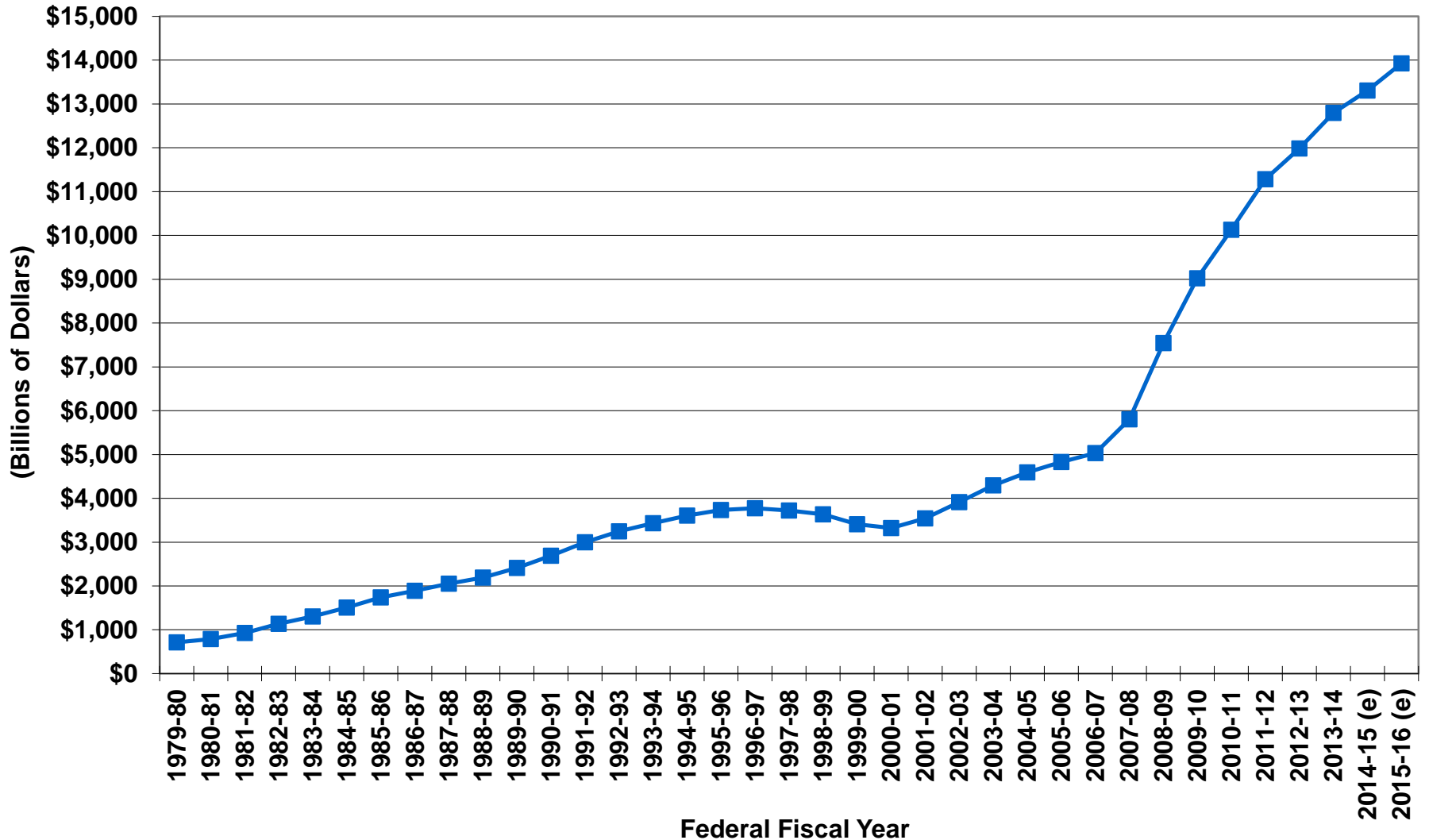
Gasoline Prices in South Carolina



U.S. Budget Deficit(-) and Surplus(+)



U.S. Debt Held By the Public



FEDERAL BUDGET FY 2014

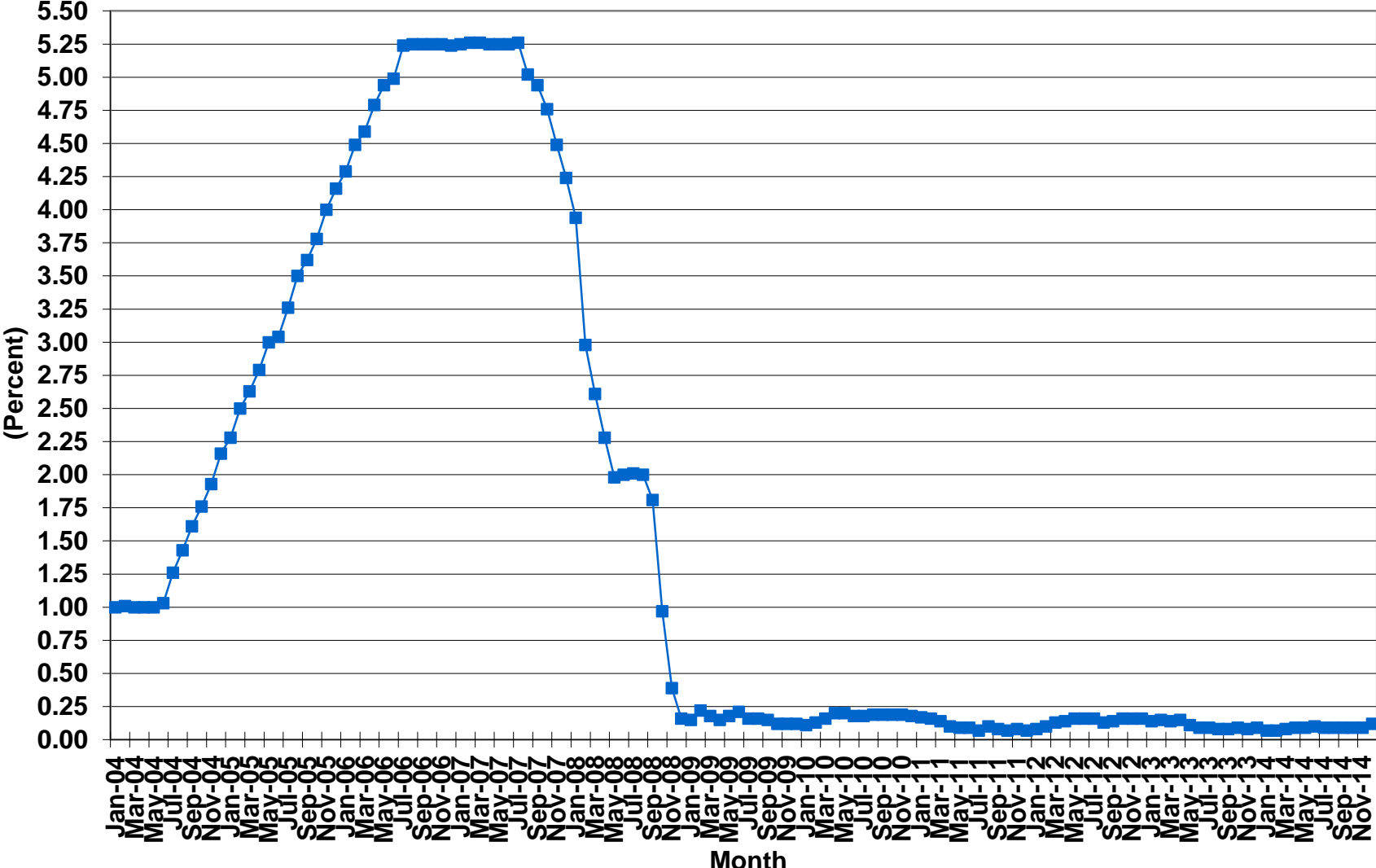
REVENUE	\$ 3,020,800,000,000
EXPENDITURES	\$ 3,504,200,000,000
DEFICIT	\$ 483,400,000,000
DEBT	\$12,785,000,000,000



FEDERAL BUDGET FY 2014 - EZ

REVENUE	\$ 30,208
EXPENDITURES	\$ 35,042
DEFICIT	\$ 4,834
DEBT	\$127,850

Federal Funds Rate



Source: The Board of Governors of the Federal Reserve System

The background of the slide features a large, semi-transparent seal of the University of South Carolina. The seal is circular with a gold border and contains a palm tree on the left and a female figure on the right. Latin text is inscribed around the inner circle: "SOUTH CAROLINA" at the top, "ANIMIS OPIBUSQUE PARATI" on the left, "DUM SPERO" on the right, and "SPES" at the bottom. The year "1776" is visible at the base of the palm tree.

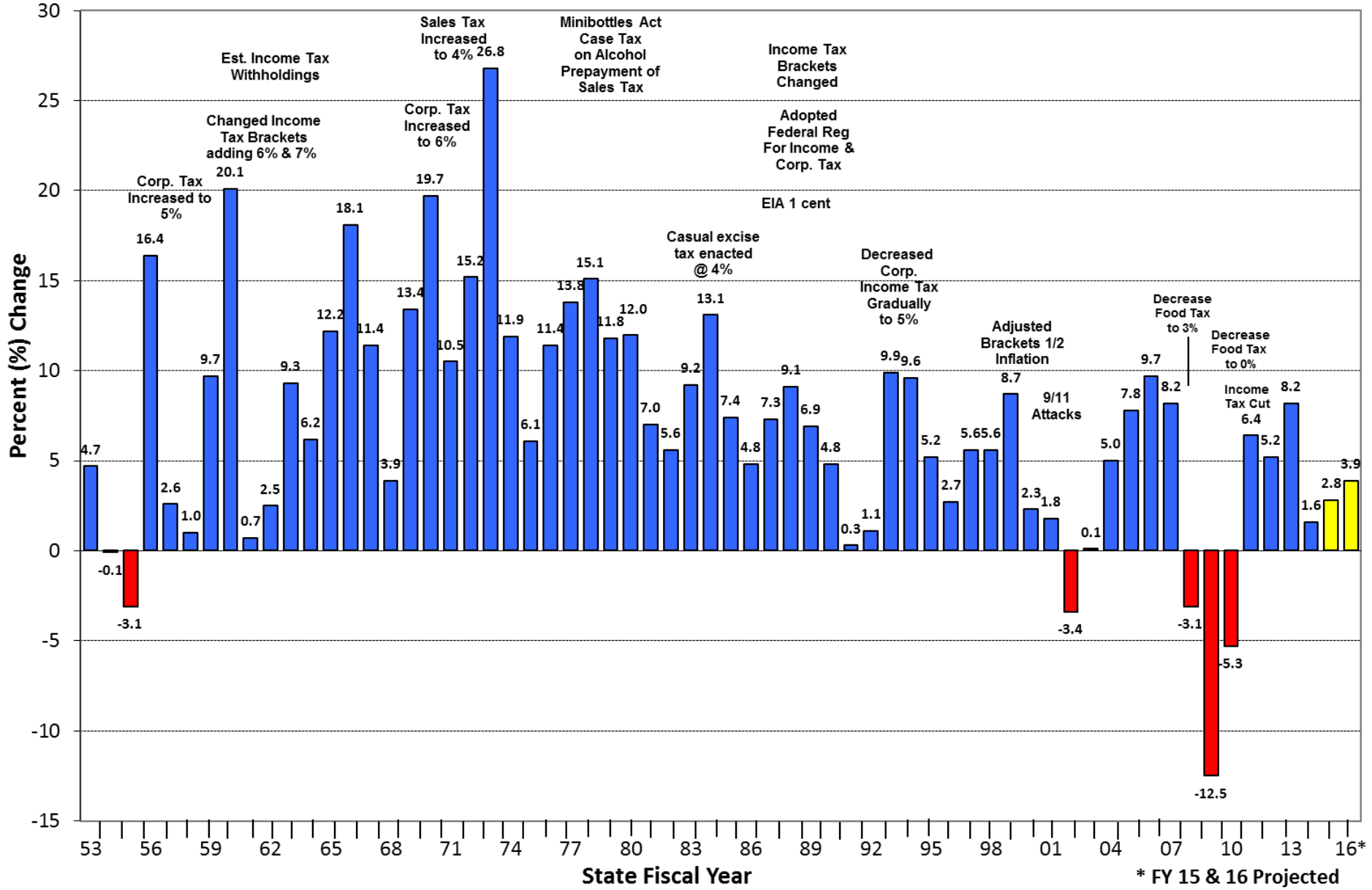
UPDATE

FY 2014-15

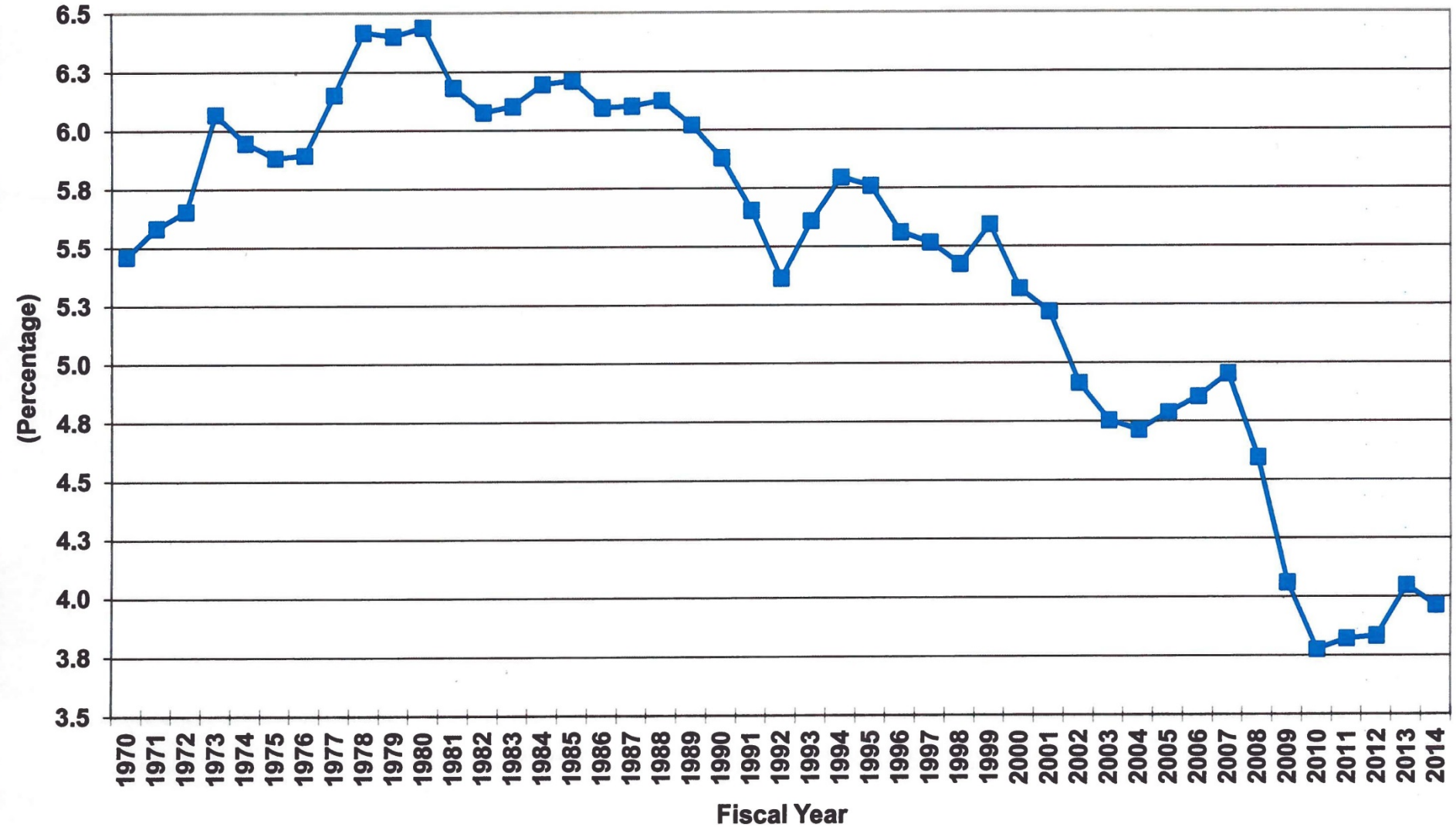
&

FY2015-16

PERCENT CHANGE IN S.C. GENERAL FUND REVENUE

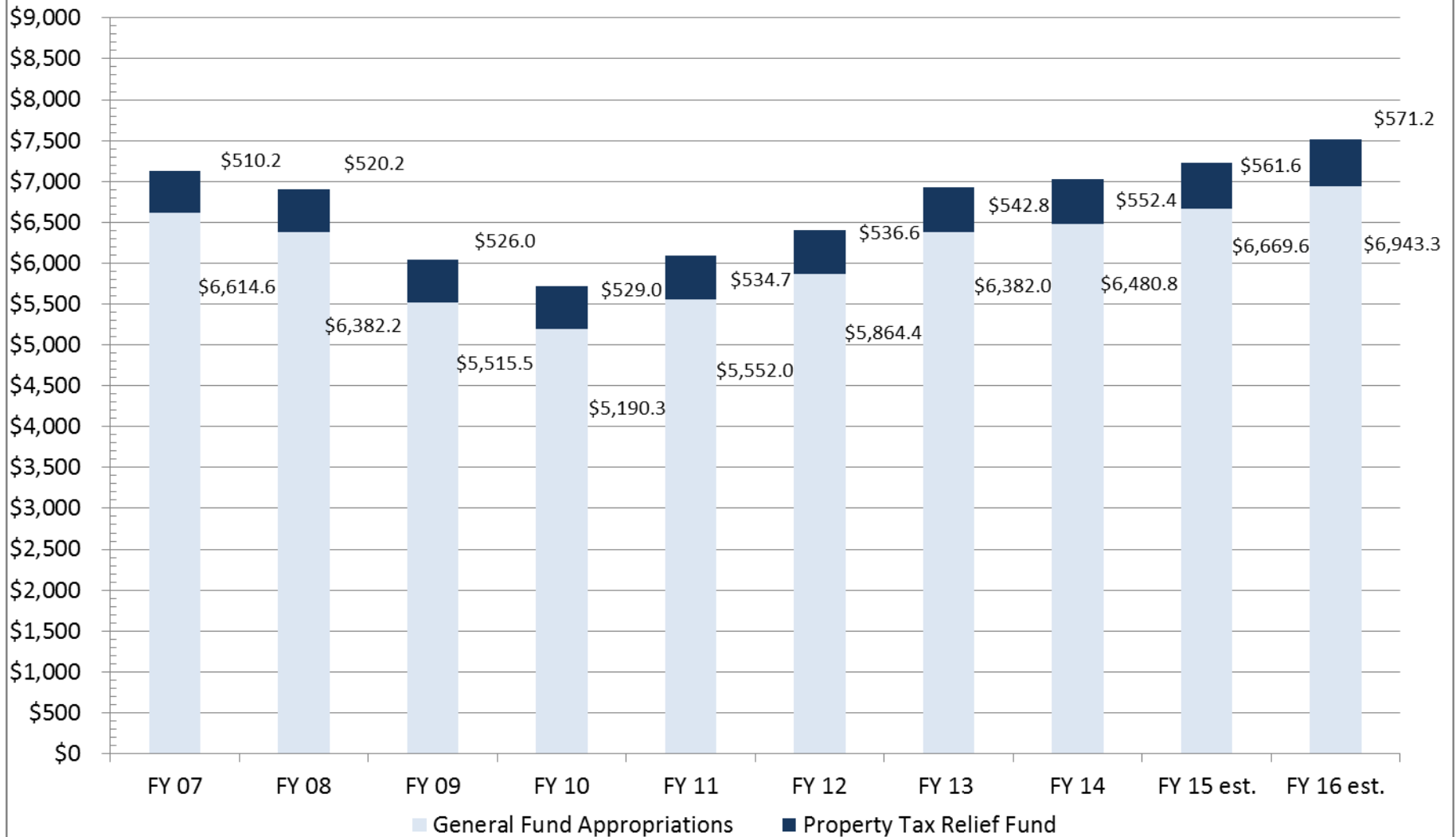


Total General Fund Revenue As A Percentage Of Total Personal Income in South Carolina



GENERAL FUND REVENUE WITH TAX ADJUSTMENTS

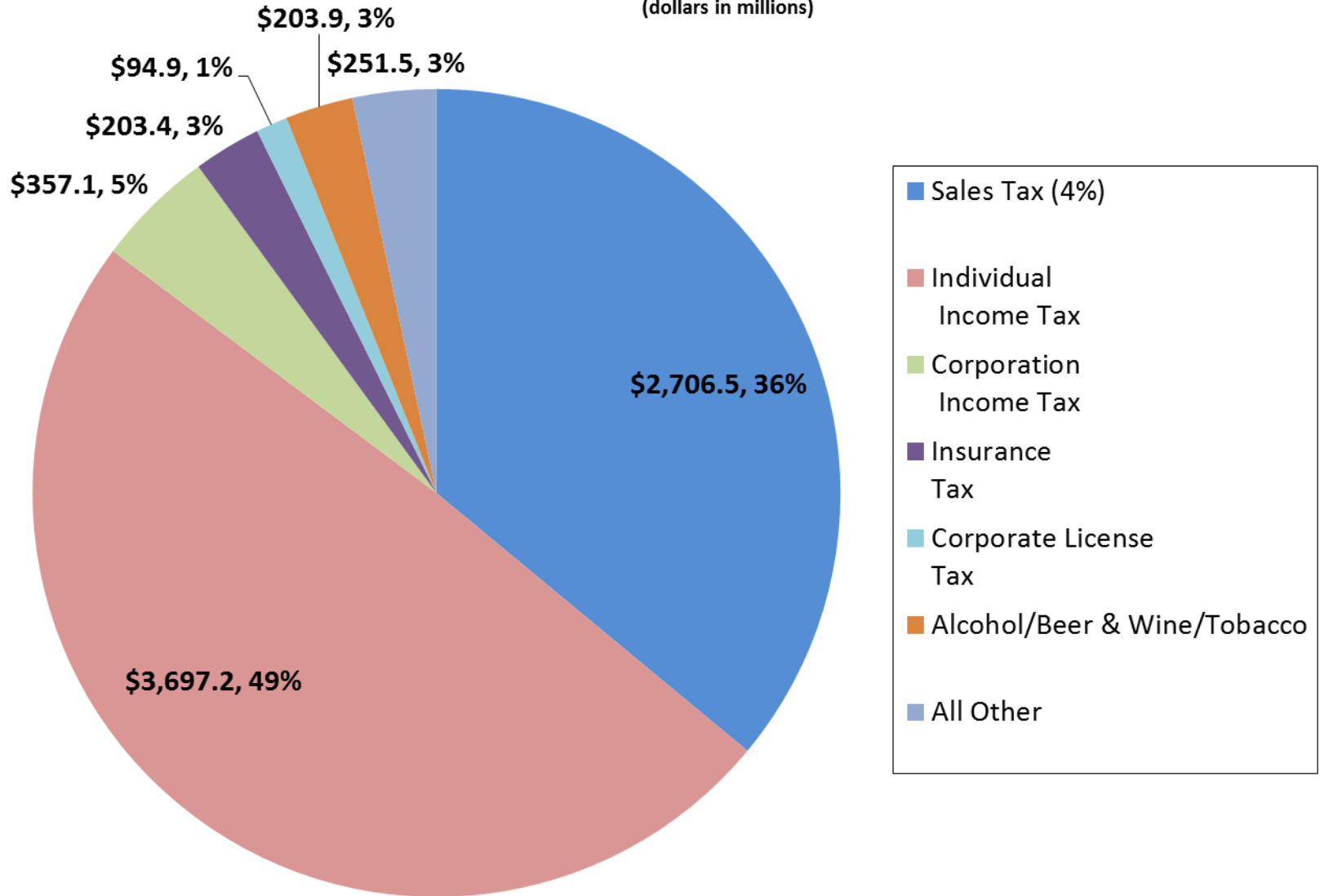
General Fund Appropriations & Property Tax Relief



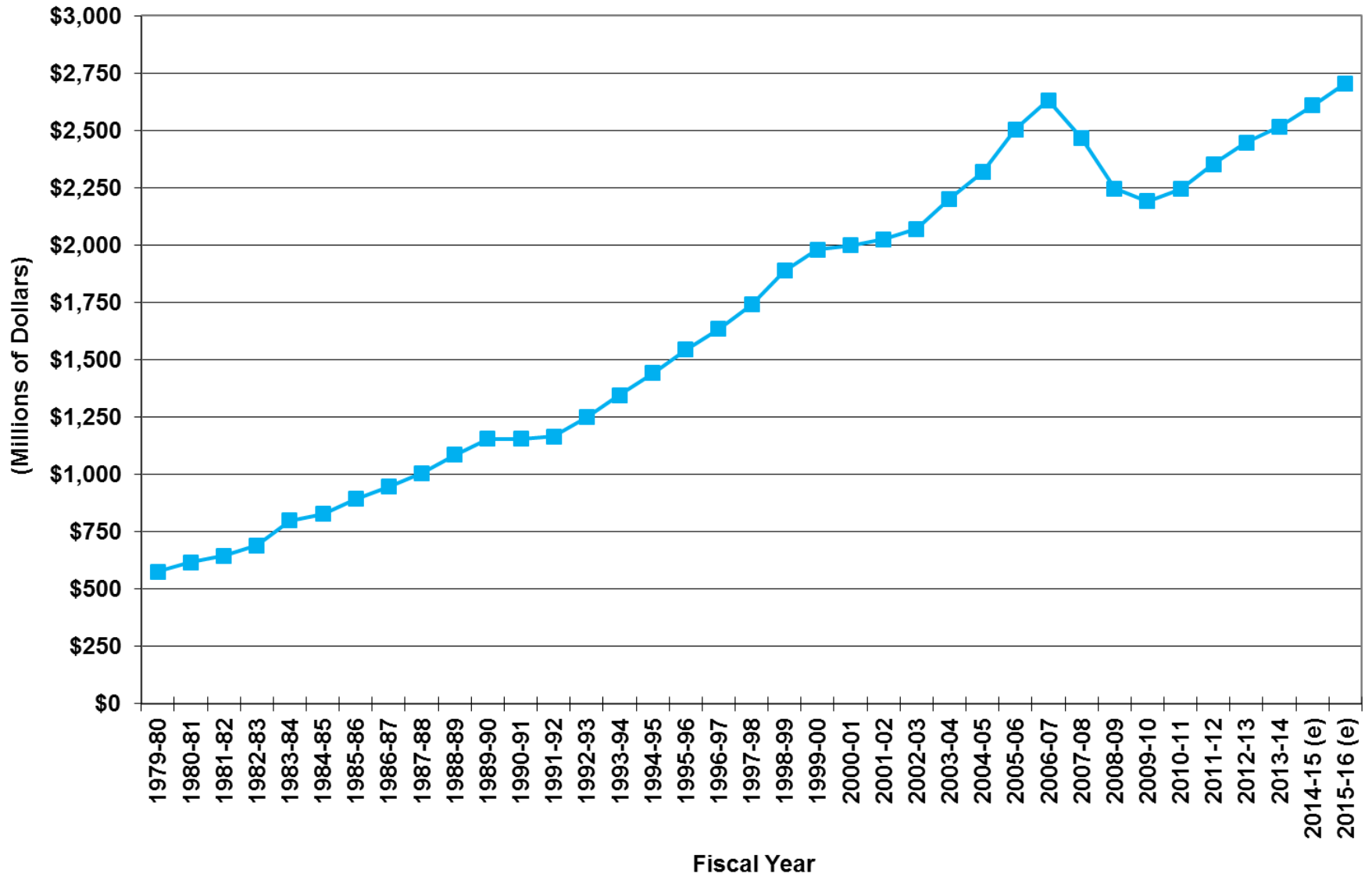
FY 2015-16 GENERAL FUND REVENUE

Percentage Distribution By Revenue Type

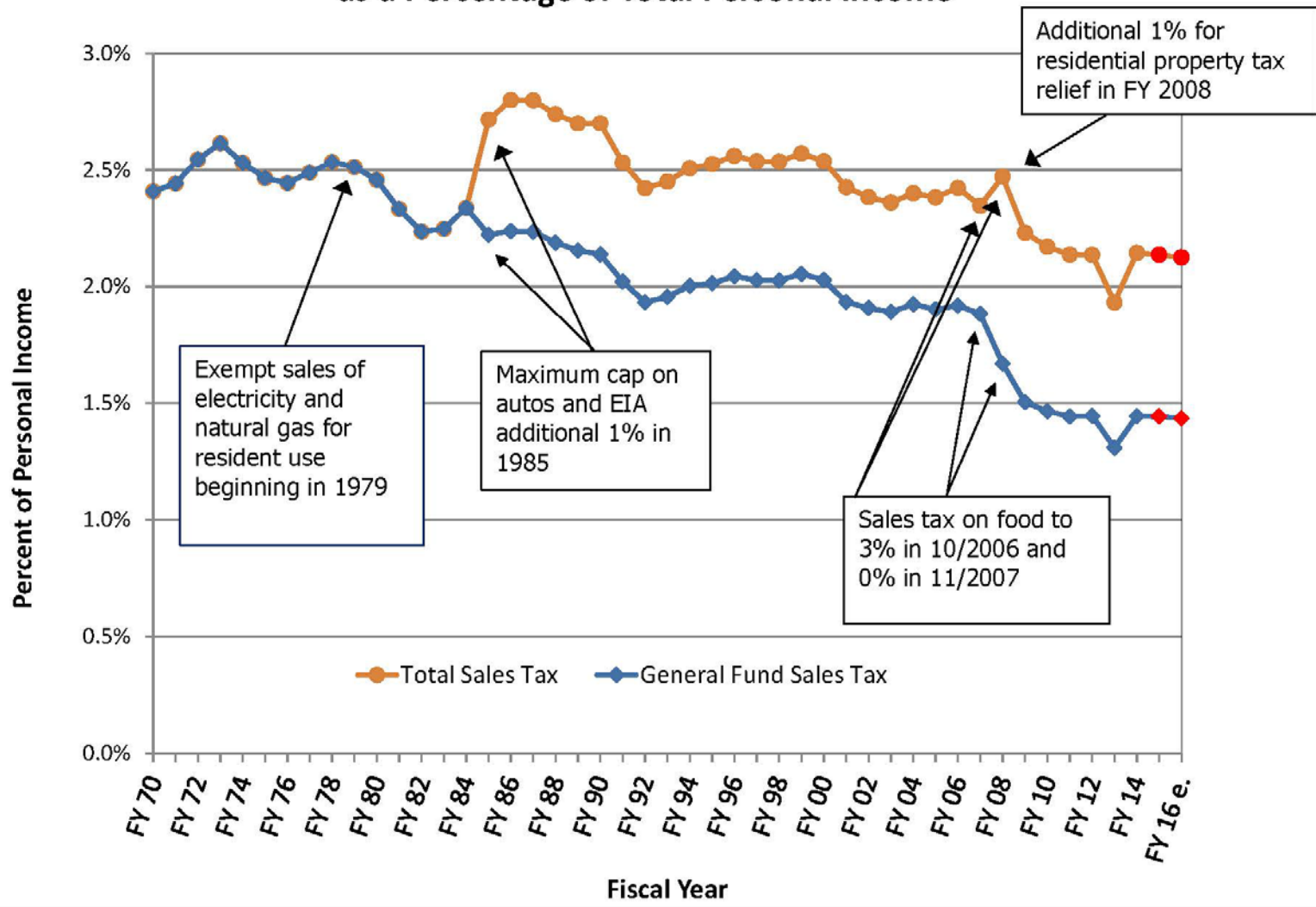
(dollars in millions)



South Carolina Sales Tax Revenue

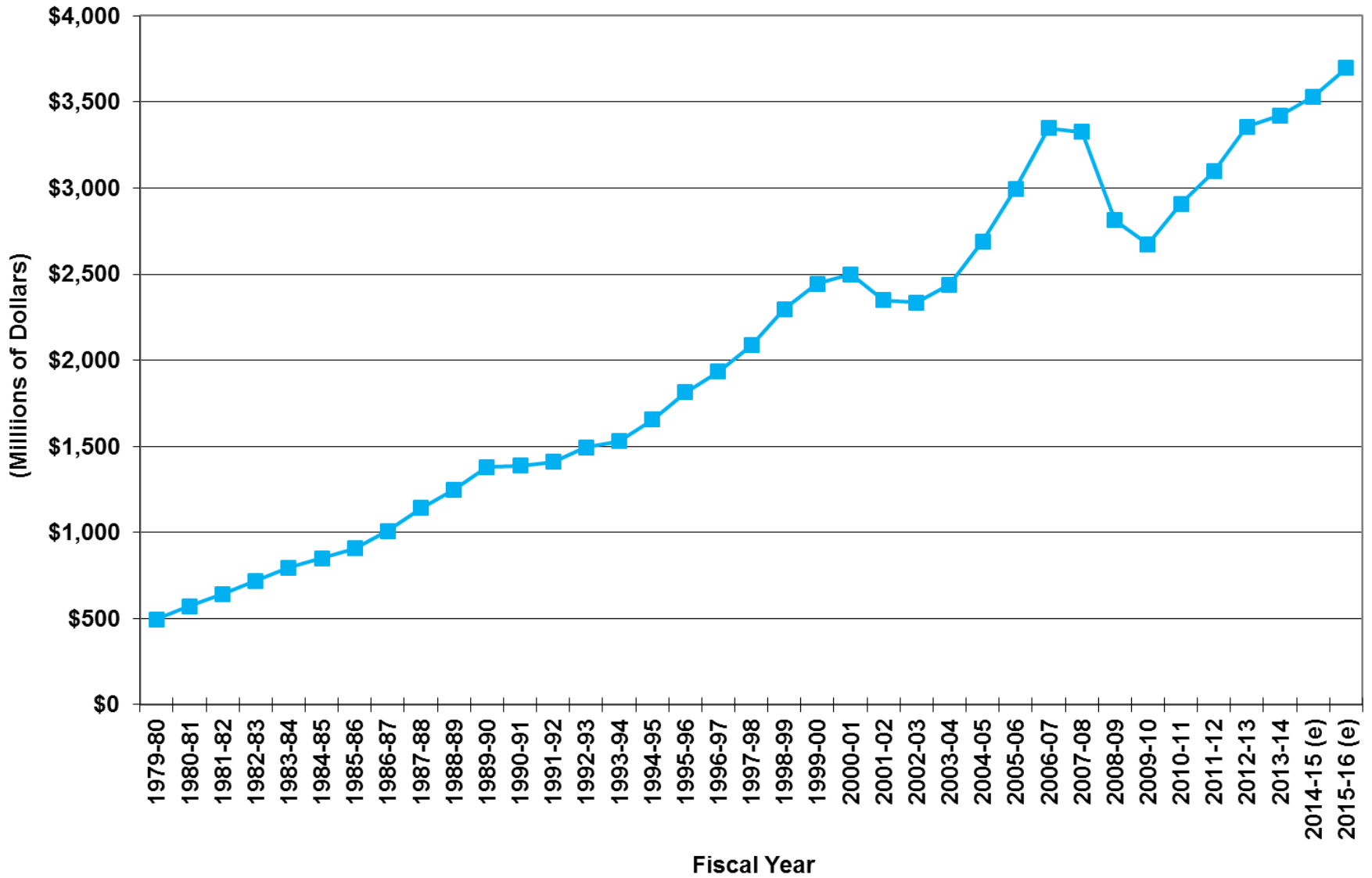


SOUTH CAROLINA TOTAL AND GENERAL FUND SALES TAX COLLECTIONS as a Percentage of Total Personal Income

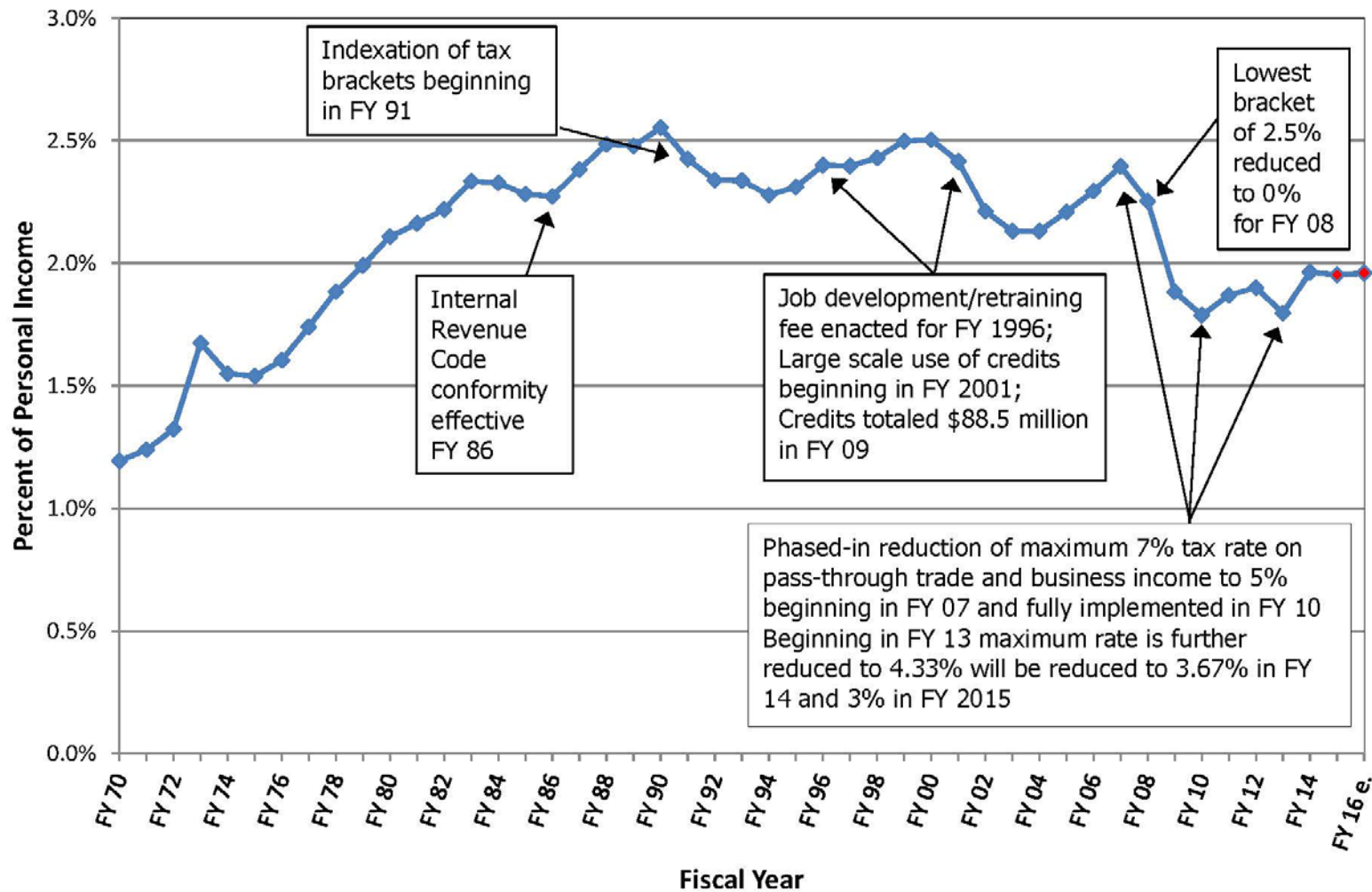


Source: SC sales tax collections and U.S. Department of Commerce, Bureau of Economic Analysis. GOS 32- 10/24/14

South Carolina Individual Income Tax Revenue



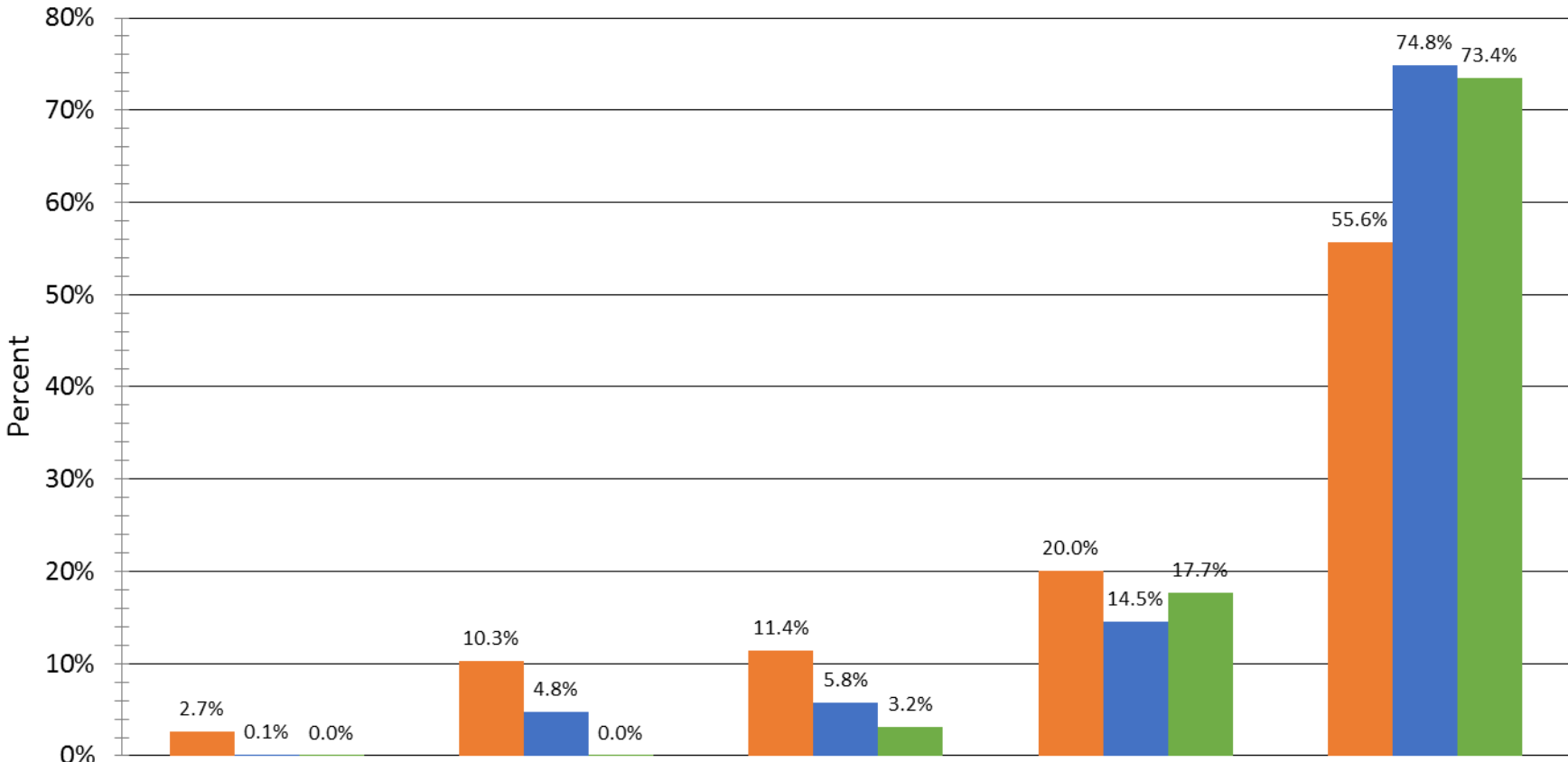
SOUTH CAROLINA INCOME TAX COLLECTIONS as a Percentage of Total Personal Income



Source: SC General Fund individual income tax collections and U.S. Department of Commerce, Bureau of Economic Analysis. GOS-34, 10/24/14

DISTRIBUTION OF INCOME AND TAXES, 2012

■ Percent of Federal AGI
 ■ Percent of Federal Taxes
 ■ Percent of SC Taxes



% of Returns	0%-20%	21%-40%	41%-60%	61%-80%	81%-100%
Average Fed. AGI	\$6,716	\$26,006	\$28,941	\$50,734	\$140,878
SC Taxable Inc. Rge.	\$0 - \$0	\$0 - \$2,897	\$2,897 - \$16,338	\$16,338 - \$41,454	\$41,454 - \$100,903
Average SC Tax	\$0	\$0	\$237	\$1,327	\$5,933

Returns Ranked by SC Taxable Income

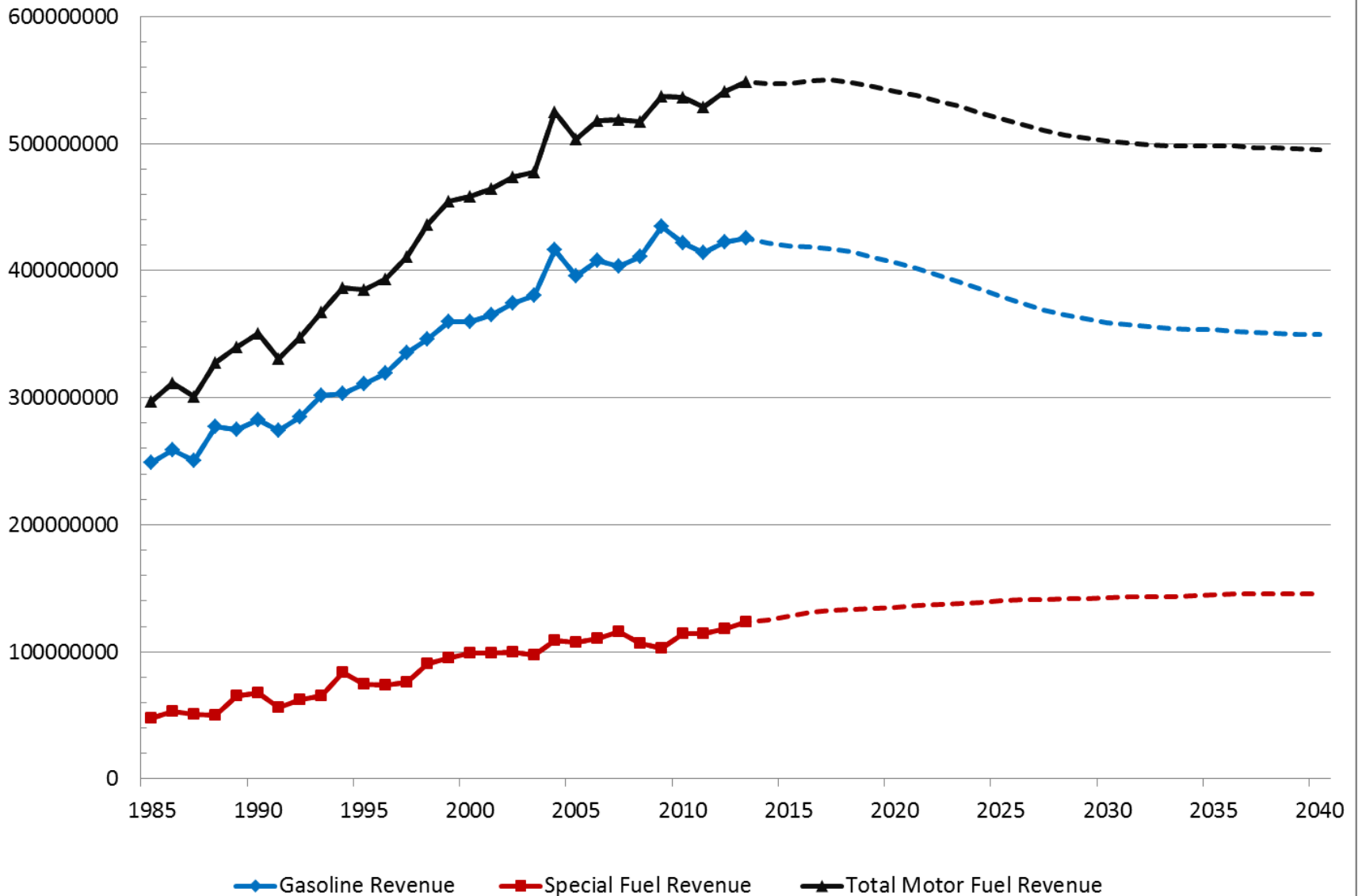
Historical Data on Active Trade or Business Income From SC Individual Income Tax Returns 2006 to 2013 And Forecasts for Future Years

Tax Year	Line #	Tax Rate	Tax Amount on Return		Eligible Business Income	Annual Growth		Annual Tax Reduction from 7% Marginal Rate	Cumulative Tax Reduction
2006	8	6.50%	\$ 150,113,123		\$ 2,309,432,662			\$ 11,547,163	\$ 11,547,163
2007	8	6.00%	\$ 168,979,019		\$ 2,816,316,983	21.95%		\$ 28,163,170	\$ 39,710,333
2008	8	5.50%	\$ 152,163,529		\$ 2,766,609,618	-1.76%		\$ 41,499,144	\$ 81,209,477
2009	8	5.00%	\$ 131,272,858		\$ 2,625,457,160	-5.10%		\$ 52,509,143	\$ 133,718,621
2010	8	5.00%	\$ 146,886,552		\$ 2,937,731,040	11.89%		\$ 58,754,621	\$ 192,473,241
2011	8	5.00%	\$ 167,473,433		\$ 3,349,468,660	14.02%		\$ 66,989,373	\$ 259,462,615
2012	8	4.33%	\$ 179,399,227		\$ 4,143,169,215	23.70%		\$ 110,622,618	\$ 370,085,233
2013	8	3.67%	\$ 165,615,117		\$ 4,512,673,488	8.92%		\$ 150,272,027	\$ 520,357,260
2014		3.00%	\$ 148,976,030	e	\$ 4,965,867,657	10.04%	e	\$ 198,634,706	\$ 718,991,966
2015		3.00%	\$ 163,937,242	e	\$ 5,464,574,748	10.04%	e	\$ 218,582,990	\$ 937,574,956

Note:

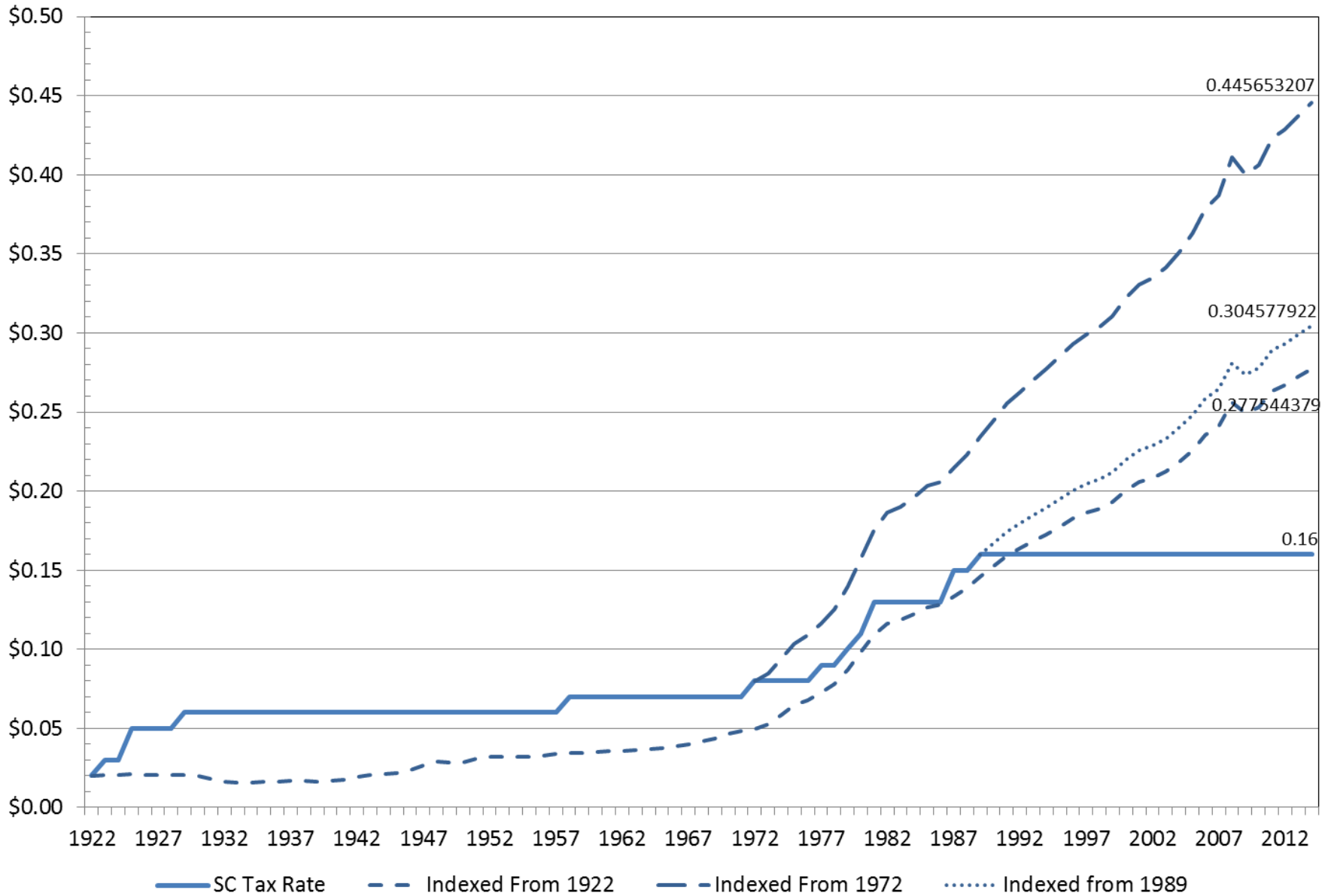
Growth rate estimate for 2014 and 2015 Active Trade or Business Income is the compound average growth rate from 2006 to 2013.

Motor Fuel User Fee Revenue in South Carolina



Data Source: U.S. Department of Transportation, Federal Highway Administration, Washington, D.C.; U.S. Energy Information Administration, Annual Energy Outlook 2014
 Source: Revenue and Fiscal Affairs Office; CJD/01/20/15

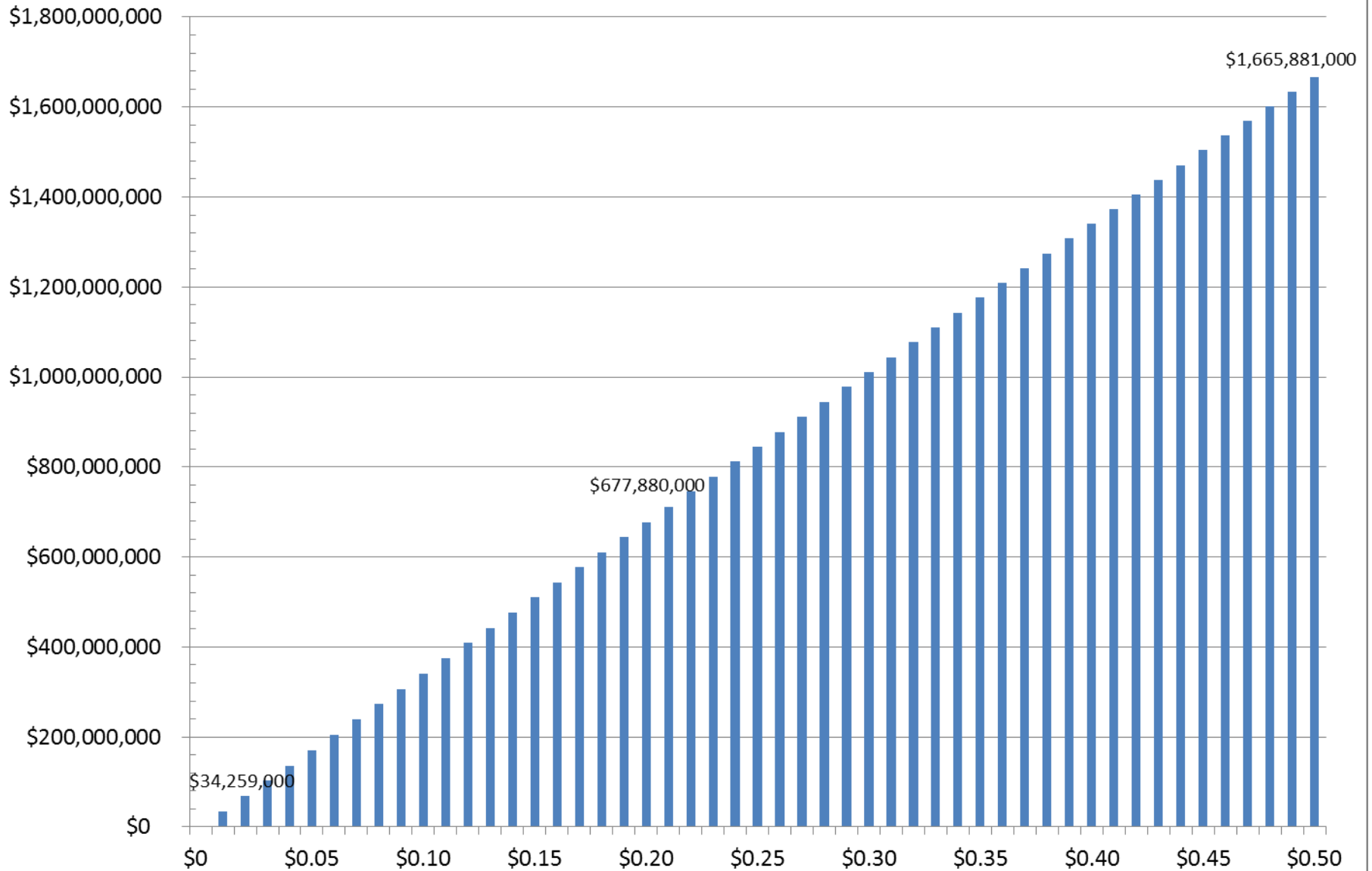
SC ACTUAL USER FEE AND INDEXED FEES



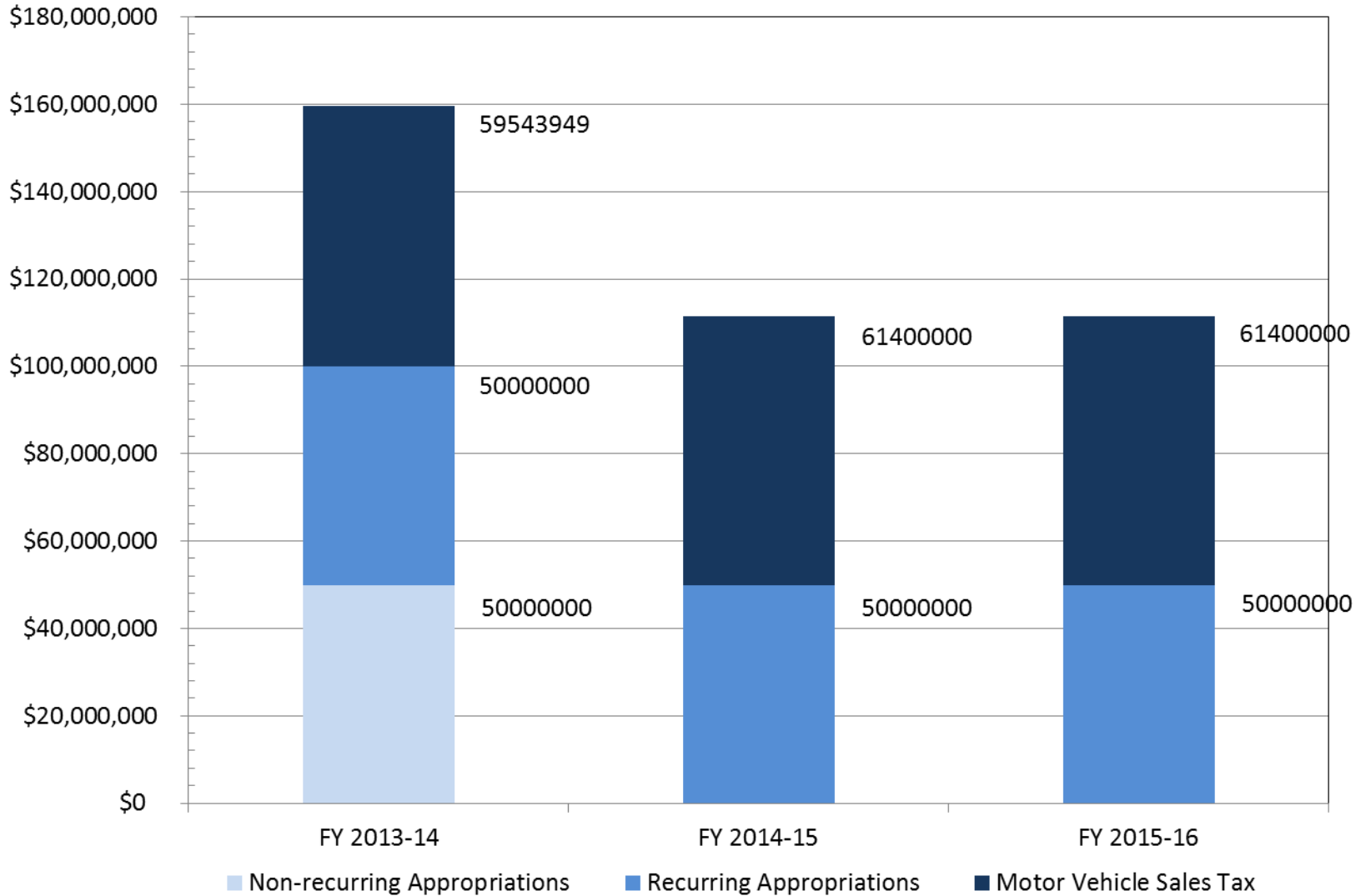
Source: Revenue and Fiscal Affairs Office; CJD/11/14/14
 Data Sources: Bureau of Labor Statistics, CPI Detailed Report Data for July 2014

ESTIMATED ADDITIONAL MOTOR FUEL REVENUE

Additional Revenue From Increasing the User Fee Per Penny



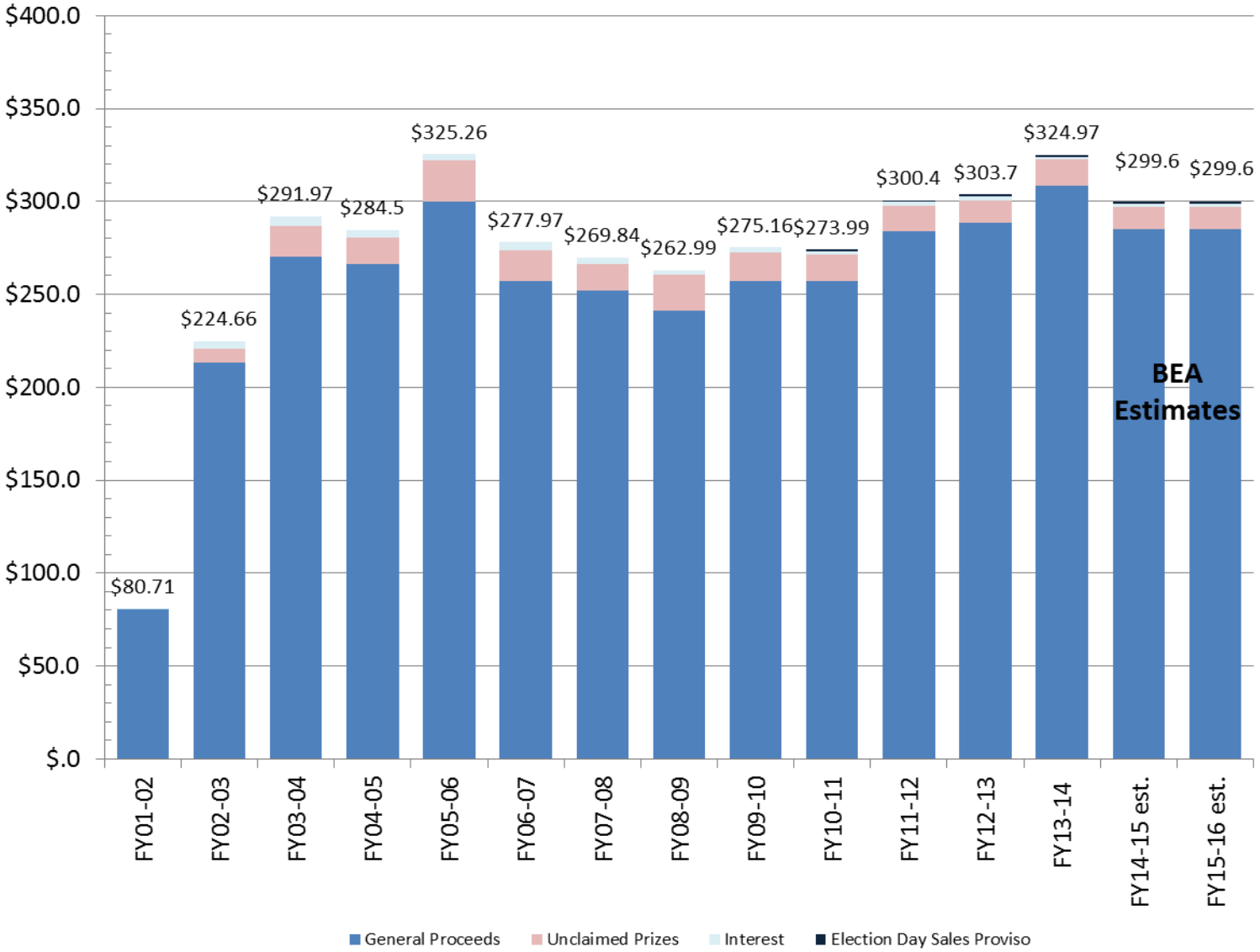
RECENT ADDITIONS TO DEPARTMENT OF TRANSPORTATION REVENUE Appropriations & Motor Vehicle Sales Tax Revenue



Note: The motor vehicle sales tax for FY 2014-15 and FY 2015-16 are estimates

TRANSFERS TO SC EDUCATION LOTTERY ACCOUNTS

Inception - FY15-16 BEA Estimate



Source: S.C. Board of Economic Advisors, S.C. Education Lottery Commission, Revenue and Fiscal Affairs Office; CJD 1-13-15

Revenue

Revenue Summary FY 14-15 and FY 15-16

	FY 2014-15 Act	FY 2015-16 Projection	Difference FY16 vs FY15	Percent Change
General Fund (net Tax Relief Trust Fund)	6,659,488,052	6,947,065,837	287,577,785	4.32%
EIA	647,596,267	677,698,500	30,102,233	4.65%
General Fund Surplus	235,675,449	38,796,043	(196,879,406)	-83.54%
Capital Reserve Fund	114,867,392	127,791,525	12,924,133	11.25%
Lottery Proceeds	345,070,643	298,925,000	(46,145,643)	-13.37%
Tobacco Settlement Revenue	88,000,000	70,000,000	(18,000,000)	-20.45%
Cigarette Surtax	130,814,351	125,608,453	(5,205,898)	-3.98%
Grand Total	8,221,512,154	8,285,885,358	64,373,204	0.78%

Restructuring

- Effective July 1, 2014
 - Revenue and Fiscal Affairs Office (RFA)
 - Executive Budget Office (EBO)
- Effective July 1, 2015
 - Department of Administration
 - State Fiscal and Accountability Authority (SFAA)
 - Confederate Relic Room and Military Museum
 - Other Agencies
 - SC Energy Office to Office of Regulatory Staff
 - Local Government Division to Rural Infrastructure Authority

Revenue

Non-Recurring

Estimated FY14-15 Surplus BEA Estimate (11.10.14)	19,055,467
FY13-14 Surplus - Contingency Reserve Fund*	19,740,576
*Net of \$12 million committed to SC State	
Capital Reserve Fund	<u>127,791,525</u>

Projected Surplus Available for FY15-16

166,587,568

Recurring

BEA FY15-16 Gross General Fund Revenue Estimate (11.10.14)	7,518,248,000
Property Tax Relief Trust Fund	<u>(571,182,163)</u>
Net General Fund Revenue	6,947,065,837
FY14-15 Beginning Base	<u>(6,659,488,052)</u>

New Recurring Revenue for FY15-16

287,577,785

Revenue - Education Improvement Act (EIA), Lottery and Tobacco MSA Funds

Education Improvement Act (EIA)

FY15-16 BEA Estimate (11.10.14)

677,698,500

FY14-15 EIA Base

(647,596,267)

New EIA Revenue

30,102,233

Lottery Funds

BEA Estimate (11.10.14)

298,925,000

Tobacco Master Settlement Agreement (MSA)

70,000,000

Funding Issues



Reserve Funds

- General Reserve Fund (5%)
 - FY15-16 Budget - \$8,140,680
 - Total General Reserve Fund - \$327,619,492
- Capital Reserve Fund (2%)
 - FY15-16 Budget - \$3,256,272
 - Total Capital Reserve Fund - \$131,048,797

Debt Service, Homestead Exemption and Local Government Fund

- Debt Service
 - Reduce recurring appropriation for FY15-16
 - (\$15,643,223)
 - FY16-17 projection
 - (\$30.6M)
- Homestead Exemption
 - Reduce recurring appropriation for FY15-16
 - (\$8,916,596)
- Local Government Fund
 - Annualization of Non-Recurring FY14-15 Funding
 - \$25,000,000

Employee Benefits

State Health Plan Requirements (State Agencies and School Districts)

FY14-15 Annualization and CY16 Increase of 3.4%

	Cost to State	Monthly Cost to EE
ER & EE Share Proportionally	\$31.5 M	\$5.28
ER Only	\$35.7 M	\$0
EE Only	\$0	\$21.88

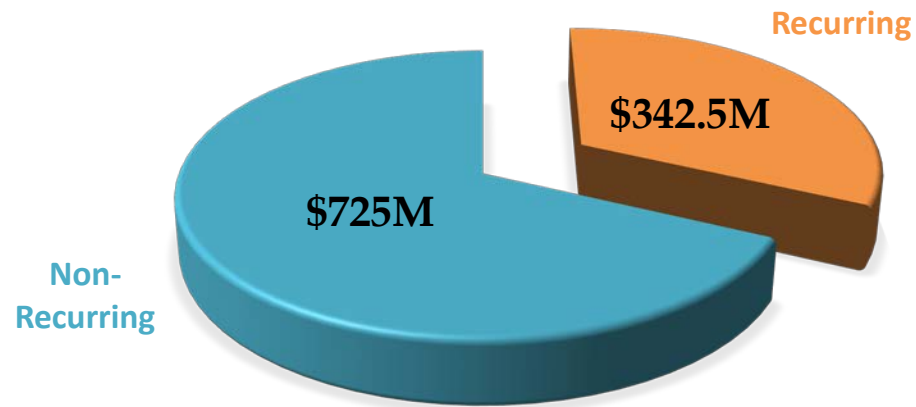
Base Pay Increase

1%

\$15.5 M

Agency Budget Requests - Total

STATE FUNDS

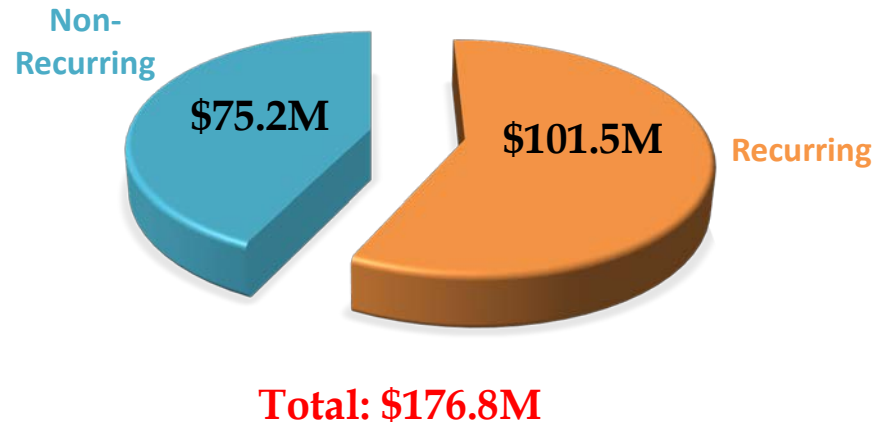


Total: \$1,067.5M

- FTEs - 1,645.25

Budget Requests – K-12 Education

STATE FUNDS



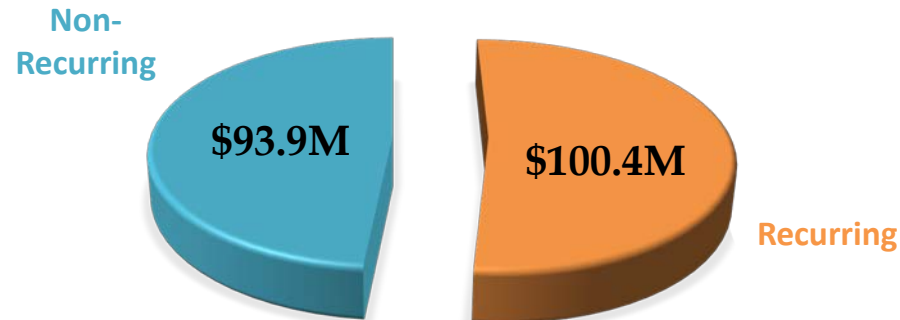
- FTEs – 62.00
- Highlights
 - \$22.8 million recurring for EFA increase to support increased Weighted Pupils
 - \$53.4 million recurring for instructional materials
 - \$11.95 million recurring for transportation operations and maintenance
 - \$34 million non-recurring for school bus purchases

Education Funding Act (EFA)

FY15-16 Weighted Pupil Units (WPUUs)	966,029
0.9% Increase from FY14-15	
FY14-15 Base Student Cost (BSC)	\$2,120
Maintain Base Student Cost at \$2,120 (current)	\$22.8 M
Adjust Base Student Cost/Fringe with 2.1% inflation*	\$60.9 M
*New BSC \$2,165	
Each \$10 increase in BSC (after adjusted for WPUUs)	\$8.4 M

Budget Requests – Health & Social Services

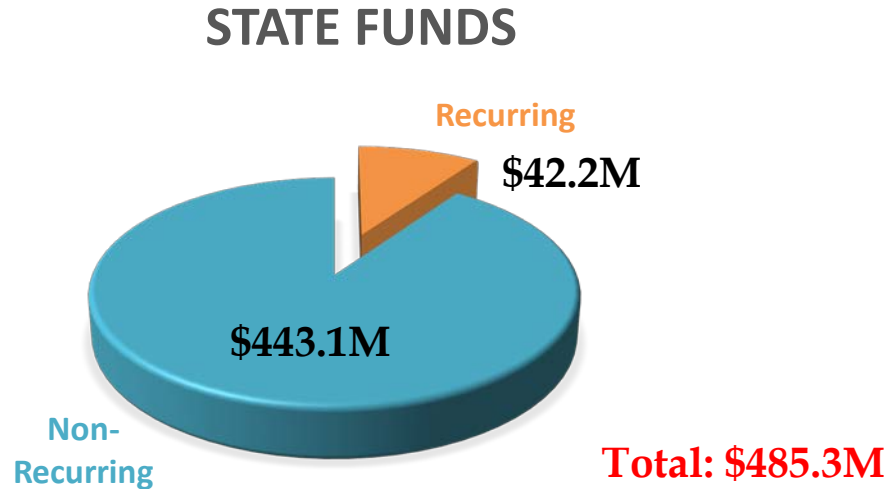
STATE FUNDS



Total: \$194.3M

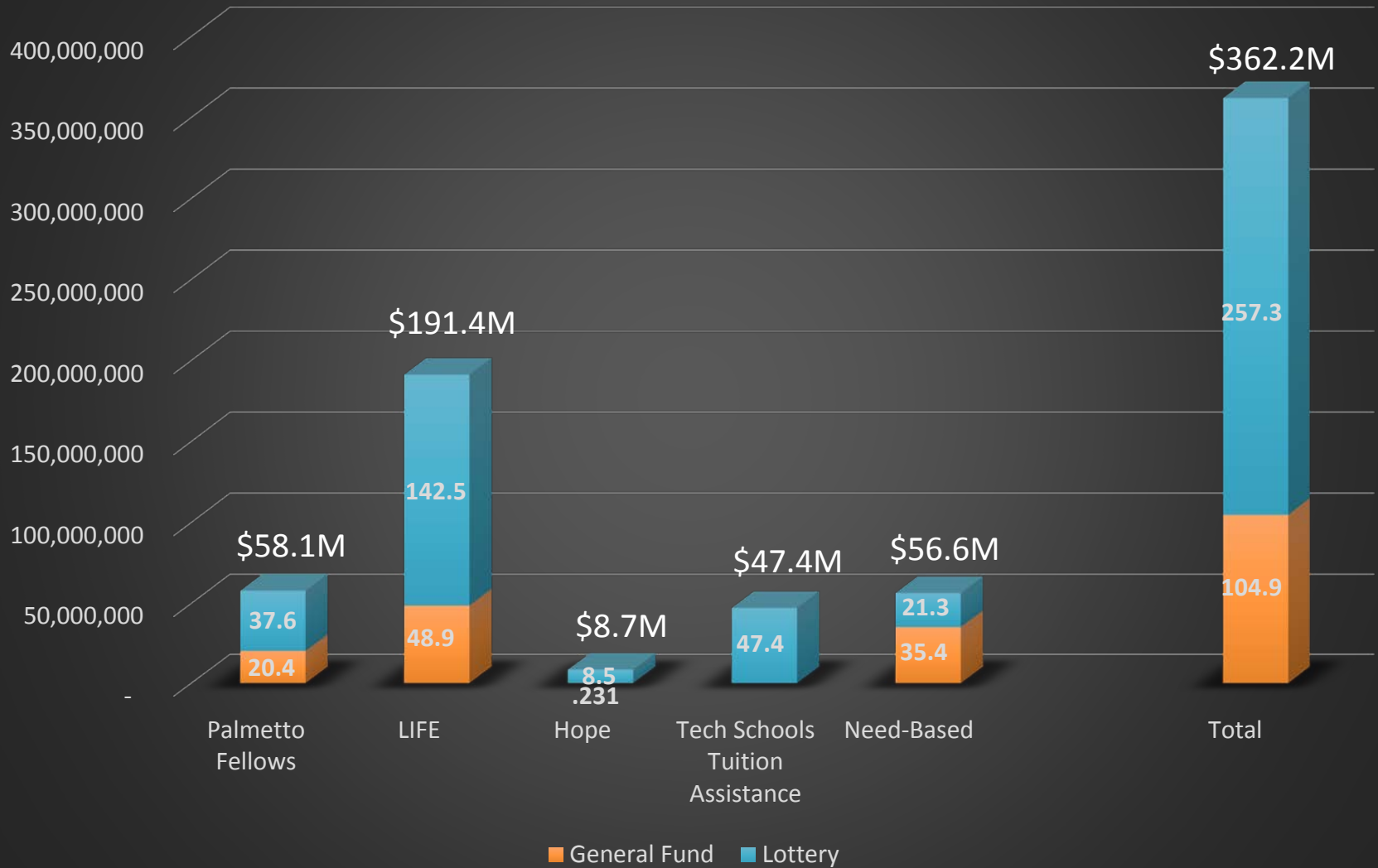
- FTEs – 603.00
- Highlights
 - \$7 million recurring for Home Based Services and Caregivers – Office on Aging
 - \$5 million non-recurring for Senior Center Support – Office on Aging
 - \$54 million recurring to annualize non-recurring funding, MOE enrollment growth and expansion of waiver programs – HHS
 - \$14.7 million recurring for 1,600 disability waiver slots and children’s mental health funding – HHS
 - 161 FTEs transferred from Other Funds to recurring, \$11.9 million recurring associated funding – DMH
 - \$18.1 million recurring and non-recurring for Child Support Enforcement System – DSS
 - \$11.1 million recurring for personnel retention and recruitment - DSS

Budget Requests - Higher Education



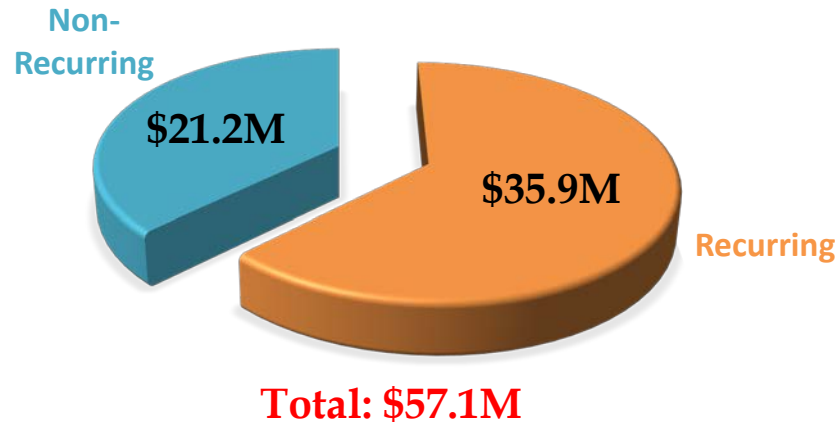
- FTEs - 483.25
- Highlights
 - Total Non-recurring and Capital Projects: \$443.1 million - Deferred Maintenance, Equipment, IT, Building Renovations, New Facilities
 - Recurring requests for program expansion and parity funding

FY 14 - 15 State Scholarship Assistance



Budget Requests - Criminal Justice

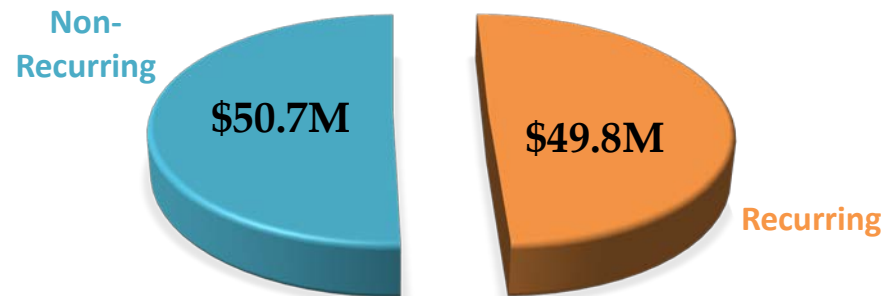
STATE FUNDS



- FTEs - 212.00
- Highlights
 - \$10.7 million non-recurring for Calhoun Building renovations - Judicial Dept.
 - \$3.6 million recurring/54 FTEs - counter terrorism, enforcement and other personnel - SLED
 - \$7.8 million recurring for caseload equalization funding - Prosecution Coord.
 - \$4 million recurring for law enforcement vehicles - DPS
 - DPS - 24 FTEs - DUI enforcement team
 - \$7.2 million recurring/117 FTEs for caseload reduction and sentence reform act - PPP

Budget Requests – Natural Resources

STATE FUNDS



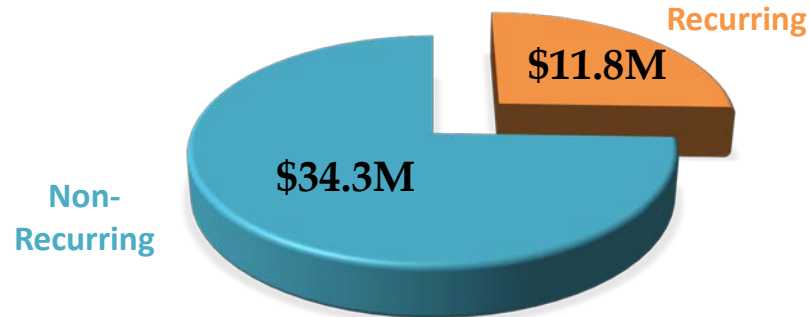
Total: \$100.6M

- FTEs – 170.00
- Highlights
 - \$6 million recurring and non-recurring for firefighting and 33 FTEs for firefighting and landowner assistance – Forestry
 - \$4 million recurring to expand Certified SC marketing and agribusiness development – Agriculture
 - \$6.5 million non-recurring for facilities and education/conference center – Clemson PSA
 - \$5.8 million non-recurring for Ft. Jackson facilities renovations - DNR
 - \$12.4 million recurring and non-recurring for welcome centers maintenance and personnel – PRT
 - \$17 million recurring for the closing fund - Commerce



Budget Requests - Legislative/Executive

STATE FUNDS

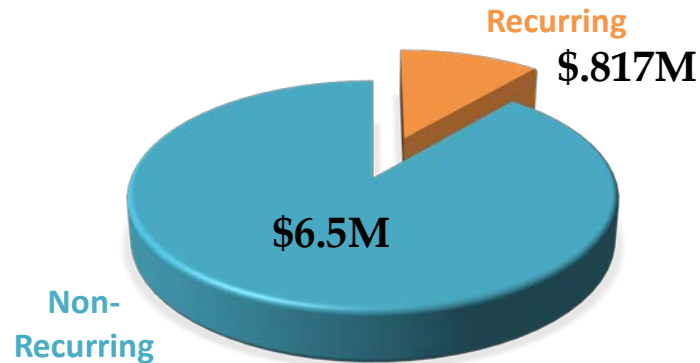


Total: \$46.1M

- FTEs - 118.49
- Highlights
 - \$7.5 million recurring for information security and SCEIS infrastructure - DOA
 - \$2.2 million recurring and 100 new FTEs for Guardian Ad Litem - DOA
 - \$20 million non-recurring statewide voting system - Election Comm.
 - \$3.6 million non-recurring for army operations projects - Adjutant Gen.

Budget Requests - Transportation & Regulatory

STATE FUNDS



Total: \$7.3M

- FTEs - 23.00
- Highlights
 - \$5.5 million non-recurring for salt shed and other facilities maintenance and construction - DOT
 - \$907,200 non-recurring for rapid response emergency vehicle - DMV
 - \$150 million in Other and Federal Funds authorization requests

Budget Summary

- Revenue
 - Recurring - \$317,680,018
 - Includes General Fund and EIA
 - Non-Recurring - \$166,588,568

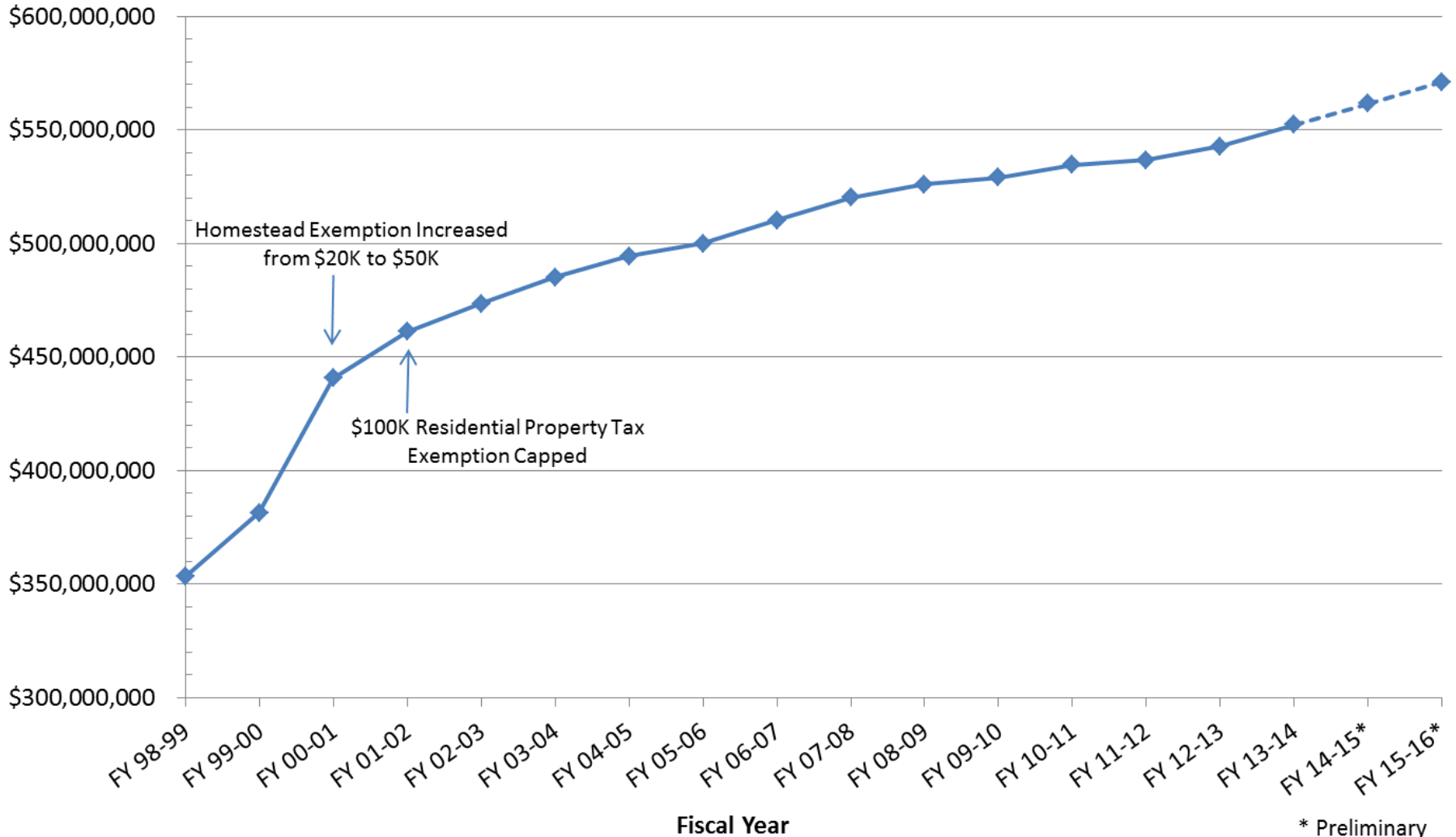
- Statewide and Agency Requests
 - Recurring - \$385,864,061
 - Non-Recurring - \$725,000,000

A large cable-stayed bridge is shown at dusk, with its lights reflecting on the water. The bridge features two prominent white towers with multiple stay cables. The sky is a mix of blue and orange, and the water is calm, showing clear reflections of the bridge and the sky. The word "APPENDIX" is written in a large, black, serif font across the middle of the image.

APPENDIX

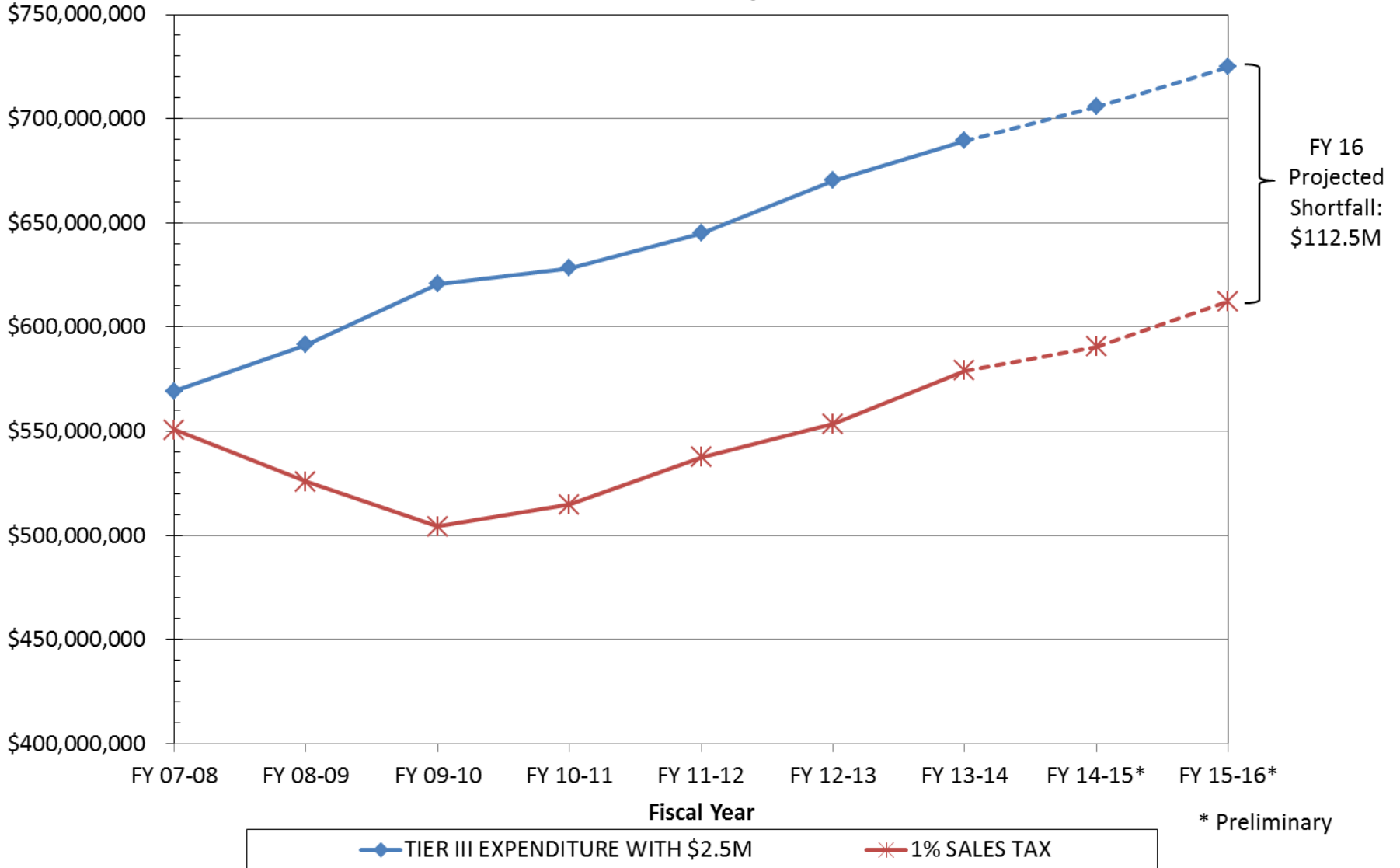
TRUST FUND FOR PROPERTY TAX RELIEF

Residential Exemption (Tier I), Homestead Exemption (Tier II), Manufacturer's Depreciation, and Merchant's Inventory Reimbursements



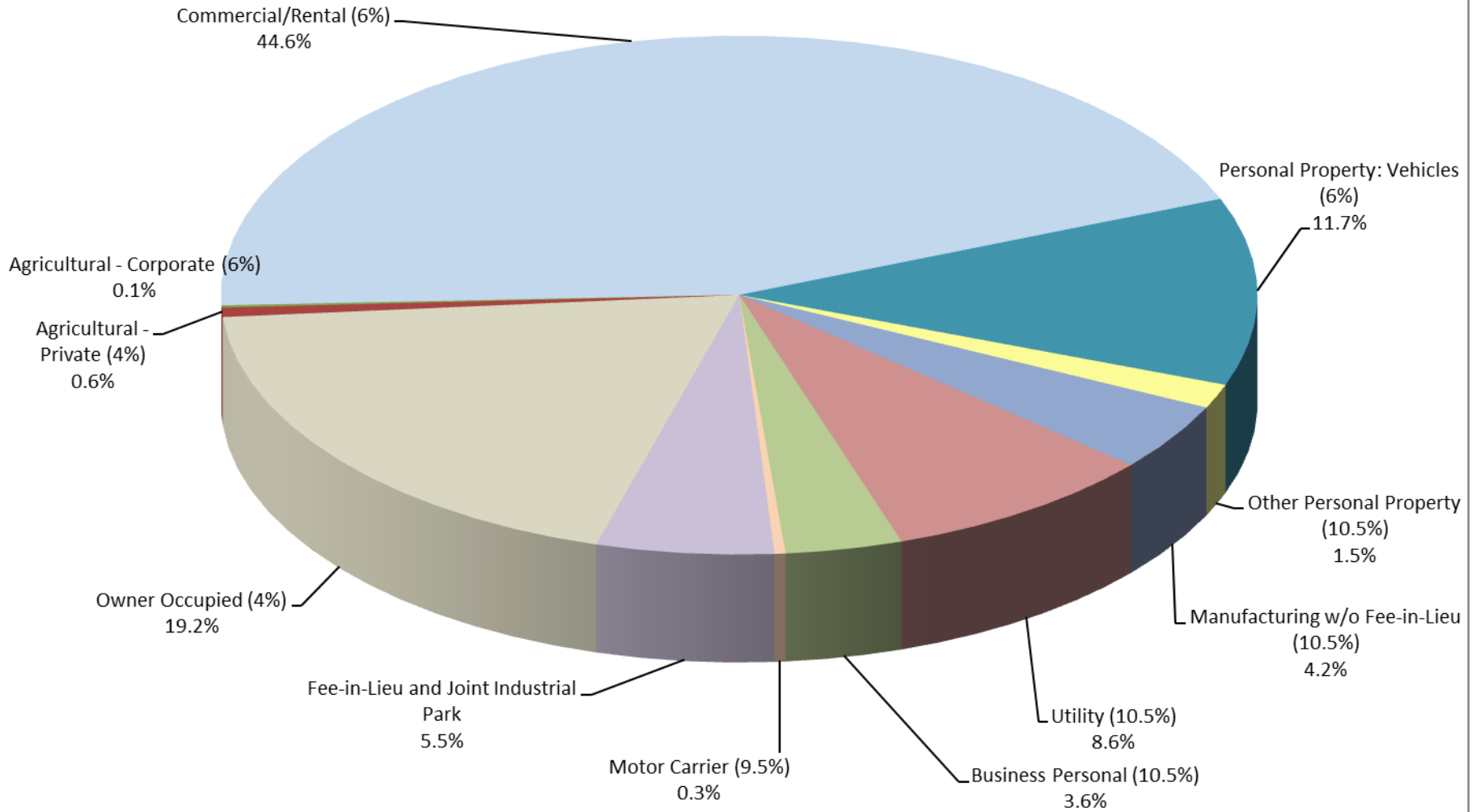
Note: Beginning in FY 1998-99, property tax relief appropriations were moved off-budget and associated revenue was transferred to the Trust Fund for Property Tax Relief.

HOMESTEAD EXEMPTION FUND (TIER III) Revenues and Expenditures



Note: Tier III Expenditure includes \$2.5M minimum disbursements and lease purchase lawsuit revisions. Revenue projection based upon 11/10/14 BEA forecast.

PROJECTED DISTRIBUTION OF PROPERTY TAX REVENUE BY ASSESSMENT CLASSIFICATION FOR FY 2015-16



Note: Figures do not include the estimated \$1,283,773,839 in property tax relief reimbursed by the State.
(Assessment ratio in parentheses.)

**PROJECTED PROPERTY TAX REVENUE BY ASSESSMENT CLASSIFICATION
AND REIMBURSEMENTS BY THE STATE FOR FY 2015-16**

Property Class (Assessment Ratio)	Projected Property Tax Revenue	Percent of Total Revenue
Owner Occupied (4%)	1,222,716,216	19.2%
Agricultural - Private (4%)	36,916,511	0.6%
Agricultural - Corporate (6%)	9,103,946	0.1%
Commercial/Rental (6%)	2,840,629,397	44.6%
Personal Property-Vehicles (6%)	744,109,074	11.7%
Other Personal Property (10.5%)	96,179,669	1.5%
Manufacturing (10.5%)	269,408,171	4.2%
Utility (10.5%)	545,246,720	8.6%
Business Personal (10.5%)	231,767,371	3.6%
Motor Carrier (9.5%)	21,954,953	0.3%
Fee-in-Lieu and Joint Industrial Park (n/a)	352,042,129	5.5%
Projected Total Property Tax Revenue for FY 2013-14	6,370,074,157	100%

Property Tax Reimbursements by the State	FY 2015-16
\$100K Residential School Operations Reimbursement (Tier I)	249,069,750
Homestead Exemption (Tier II)	211,315,071
Residential School Operations Reimbursement (Tier III)	712,591,676
Manufacturer Depreciation Reimbursement	70,240,085
Merchant Inventory Tax Reimbursement	40,557,257
Projected Total Reimbursements for FY 2013-14	1,283,773,839

PROJECTED ASSESSED VALUES AND PROPERTY TAX REVENUE BY CLASS

PROJECTED ASSESSED VALUES	ACTUAL	ACTUAL	PROJECTED	PROJECTED	PROJECTED
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	ANNUAL
PROPERTY CLASS	TAX YEAR 2012	TAX YEAR 2013	TAX YEAR 2014	TAX YEAR 2015	GROWTH
Owner Occupied (4%)	7,483,051,832	7,654,035,790	7,883,656,864	8,120,166,570	2.8%
Agricultural: Private (4%)	106,215,818	108,410,223	110,253,197	112,127,501	1.8%
Agricultural: Corporate (6%)	23,390,443	27,651,659	27,651,659	27,651,659	5.7%
Commercial/Rental (6%)	8,373,341,534	8,457,915,217	8,542,494,369	8,627,919,313	1.0%
Personal Property: Vehicles (6%)	1,824,549,118	2,049,979,417	2,152,478,388	2,260,102,307	7.4%
Other Personal Property (10.5%)	300,163,685	298,060,472	295,079,867	292,129,069	(0.9%)
Manufacturing (10.5%)	909,989,048	869,678,617	843,588,258	818,280,611	(3.5%)
Utility (10.5%)	1,588,002,709	1,607,505,528	1,631,618,111	1,656,092,383	1.4%
Business Personal (10.5%)	693,782,182	696,966,123	700,450,954	703,953,208	0.5%
Motor Carrier (9.5%)	50,416,033	59,348,847	62,909,778	66,684,364	9.8%
Fee-in-Lieu and Joint Industrial Park (n/a)	981,813,714	1,007,886,637	1,038,123,236	1,069,266,933	2.9%
Total Assessed Value	22,334,716,116	22,837,438,530	23,288,304,681	23,754,373,918	2.1%

PROJECTED PROPERTY TAX REVENUE	ESTIMATED	ESTIMATED	PROJECTED	PROJECTED	PROJECTED
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	ANNUAL
PROPERTY CLASS	TAX YEAR 2012	TAX YEAR 2013	TAX YEAR 2014	TAX YEAR 2015	GROWTH
Owner Occupied (4%)	1,092,037,485	1,128,193,886	1,174,513,739	1,222,716,216	3.8%
Agricultural: Private (4%)	33,744,765	34,853,887	35,870,376	36,916,511	3.0%
Agricultural: Corporate (6%)	7,431,144	8,890,008	8,996,341	9,103,946	7.0%
Commercial/Rental (6%)	2,660,210,605	2,719,219,742	2,779,261,689	2,840,629,397	2.2%
Personal Property: Vehicles (6%)	579,659,255	659,068,383	700,299,053	744,109,074	8.7%
Other Personal Property (10.5%)	95,362,003	95,826,442	96,002,893	96,179,669	0.3%
Manufacturing (10.5%)	289,103,521	279,601,675	274,457,603	269,408,171	(2.3%)
Utility (10.5%)	504,508,461	516,813,027	530,839,531	545,246,720	2.6%
Business Personal (10.5%)	220,414,599	224,074,609	227,888,532	231,767,371	1.7%
Motor Carrier (9.5%)	16,017,174	19,080,654	20,467,410	21,954,953	11.1%
Fee-in-Lieu and Joint Industrial Park (n/a)	311,922,217	324,035,554	337,748,673	352,042,129	4.1%
Total Property Tax Revenue	5,810,411,228	6,009,657,867	6,186,345,841	6,370,074,157	3.1%

PROJECTED STATEWIDE MILLAGE RATE	317.7	321.5	325.3	329.2	1.2%
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NOTE: Actual FY 2013-14 Assessed Values based upon preliminary Dept. of Revenue data for 2015 index.
 Source: Revenue and Fiscal Affairs Office LJ-108 1/15/15