

REPORT OF THE REVENUE POLICY SUBCOMMITTEE

HOUSE BILL 3346

H. 3346 -- Rep. W. Cox: A BILL TO AMEND SECTION 11-11-310, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO THE STATUTORY GENERAL RESERVE FUND, SO AS TO PROVIDE THAT THE GENERAL RESERVE FUND OF FIVE PERCENT OF GENERAL FUND REVENUE OF THE LATEST COMPLETED FISCAL YEAR MUST BE INCREASED EACH YEAR BY ONE-HALF OF ONE PERCENT OF GENERAL FUND REVENUE OF THE LATEST COMPLETED FISCAL YEAR UNTIL IT EQUALS SEVEN PERCENT OF SUCH REVENUES; TO AMEND SECTION 11-11-320, RELATING TO THE STATUTORY CAPITAL RESERVE FUND OF TWO PERCENT OF GENERAL FUND REVENUE OF THE LATEST COMPLETED FISCAL YEAR, SO AS TO INCREASE IT TO THREE PERCENT OF GENERAL FUND REVENUE OF THE LATEST COMPLETED FISCAL YEAR; AND TO PROVIDE THAT THE ABOVE PROVISIONS TAKE EFFECT UPON RATIFICATION OF AMENDMENTS TO SECTION 36, ARTICLE III OF THE CONSTITUTION OF THIS STATE PROVIDING FOR THE ABOVE.

Received by Ways and Means:

12/9/2020

Summary of Bill:

The bill amends Section 11-11-310 to increase the General Reserve Fund from 5% to 7% of the general fund revenue of the latest completed fiscal year and increase the Capital Reserve Fund from 2% to 3% of the general fund revenue of the latest completed fiscal year. These provisions would only take effect upon ratification of amendments to Section 36(A) and Section 36(B), Article III of the Constitution of the State. Subsequently, H. 3347 is the Joint Resolution to accomplish the Constitutional change.

Estimated Revenue Impact:

Starting in FY 2023-24, the General Reserve Fund contribution will increase by \$51.3 million and an additional \$50 to \$60 million annually, for total additional funding of \$222.6 million when the 7 percent threshold is reached. The Capital Reserve Fund will increase by an additional \$104.6 million in FY 2023-24.

Other Notes/Comments:

Passed Revenue Policy Subcommittee favorably on February 8, 2022.



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	H. 3346	Introduced on January 12, 2021
Author:	Cox	
Subject:	General Reserve Fund and Capital Reserve Fund	
Requestor:	House Ways and Means	
RFA Analyst(s):	Coomer	
Impact Date:	January 5, 2022	

Fiscal Impact Summary

This bill increases the General Reserve Fund from 5 percent of General Fund revenue to 7 percent by 0.5 percent each fiscal year. Additionally, the bill increases the Capital Reserve Fund from 2 percent of General Fund revenue to 3 percent. A constitutional amendment will be required in order for the changes to take effect.

This bill is not expected to impact expenditures for any agency to implement the change to the reserve fund contribution amounts. We anticipate that this change can be accomplished with existing resources.

This bill will affect the amount of General Fund revenue available for appropriation by increasing the required reserve fund contributions. Starting in FY 2023-24, the General Reserve Fund contribution will increase by \$51.3 million and an additional \$50 to \$60 million annually, for total additional funding of \$222.6 million when the 7 percent threshold is reached. The Capital Reserve Fund will increase by an additional \$104.6 million in FY 2023-24. The annual detailed funding changes are also noted below based upon the revenue estimates as of November 10, 2021.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

This bill increases the required General Reserve Fund contribution percentage from 5 percent of General Fund revenue of the most recently completed fiscal year by 0.5 percentage points each applicable fiscal year until it reaches 7 percent. The General Reserve Fund may be used to cover a year-end operating deficit.

Additionally, the bill increases the Capital Reserve Fund percentage from 2 percent of General Fund revenue of the most recently completed fiscal year to 3 percent in the next applicable fiscal year and each year thereafter. The Capital Reserve Fund may be used to offset a fiscal year-end shortfall in General Fund revenue collections or, if no shortfall is realized, to fund capital or non-recurring expenditures.

This bill is not expected to have an expenditure impact for agencies to enact these changes. RFA anticipates agencies will be able to implement these provisions with existing resources.

This bill will affect the amount of General Fund revenue available for appropriation annually by increasing the required reserve fund contributions. A summary of the changes in the level of funding for the General Reserve Fund and Capital Reserve Fund appears below in Figure 1 and Figure 2, respectively. In order to take effect, a constitutional amendment will be required. For this analysis, we have assumed that the ratification of the relevant statewide constitutional amendment will occur in November 2022.

Figure 1. Summary of Changes to General Reserve Fund

Fiscal Year	Revenue Basis (millions)	Percent	Total (millions)	Normal Growth (millions)	Additional Funds (millions)	Incremental Increase (millions)
FY 2020-21	\$10,459.7	5.0%	\$440.2			
FY 2021-22e	\$10,257.3	5.0%	\$459.0			
FY 2022-23e	\$10,257.8	5.0%	\$523.0			
FY 2023-24e	\$10,620.4	5.5%	\$512.9	-\$10.1	\$51.3	\$51.3
FY 2024-25e	\$11,127.9	6.0%	\$512.9	\$0.0	\$102.6	\$51.3
FY 2025-26e	\$11,573.1	6.5%	\$531.0	\$18.1	\$159.3	\$56.7
FY 2026-27e	\$12,036.0	7.0%	\$556.4	\$25.4	\$222.6	\$63.3
FY 2027-28e	\$12,517.4	7.0%	\$578.7	\$22.3	\$231.5	\$8.9
FY 2028-29e	\$13,018.1	7.0%	\$601.8	\$23.1	\$240.7	\$9.3
FY 2029-30e	\$13,538.8	7.0%	\$625.9	\$24.1	\$250.3	\$9.6

Figure 2. Summary of Changes to Capital Reserve Fund

Fiscal Year	Revenue Basis (millions)	Percent	Total (millions)	Normal Growth (millions)	Additional Funds (millions)	Incremental Increase (millions)
FY 2020-21	\$9,179.2	2.0%	\$176.1			
FY 2021-22e	\$10,459.7	2.0%	\$176.1			
FY 2022-23e	\$10,257.3	2.0%	\$183.6			
FY 2023-24e	\$10,257.8	3.0%	\$209.2	\$25.6	\$104.6	\$104.6
FY 2024-25e	\$10,620.4	3.0%	\$205.1	-\$4.0	\$102.6	-\$2.0
FY 2025-26e	\$11,127.9	3.0%	\$205.2	\$0.0	\$102.6	\$0.0
FY 2026-27e	\$11,573.1	3.0%	\$212.4	\$7.3	\$106.2	\$3.6
FY 2027-28e	\$12,036.0	3.0%	\$222.6	\$10.2	\$111.3	\$5.1
FY 2028-29e	\$12,517.4	3.0%	\$231.5	\$8.9	\$115.7	\$4.5
FY 2029-30e	\$13,018.1	3.0%	\$240.7	\$9.3	\$120.4	\$4.6

Note: Revenue estimates for FY 22 through FY 25 are from the BEA Long Range Forecast as of 11/10/2021. Thereafter, estimates are based on annual growth of 4%.

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director

South Carolina General Assembly
124th Session, 2021-2022

H. 3346

STATUS INFORMATION

General Bill

Sponsors: Reps. W. Cox, White, Fry, Haddon, Long, Forrest, G.M. Smith, Caskey, Gagnon, Hyde, West, Thayer and Ligon

Document Path: I:\council\bill\nbd\11093dg21.docx

Introduced in the House on January 12, 2021

Currently residing in the House Committee on **Ways and Means**

Summary: General Reserve Fund and Capital Reserve Fund

HISTORY OF LEGISLATIVE ACTIONS

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
12/9/2020	House	Prefiled
12/9/2020	House	Referred to Committee on Ways and Means
1/12/2021	House	Introduced and read first time (<u>House Journal-page 166</u>)
1/12/2021	House	Referred to Committee on Ways and Means (<u>House Journal-page 166</u>)
1/13/2021	House	Member(s) request name added as sponsor: G.M.Smith, Caskey
3/22/2021	House	Member(s) request name added as sponsor: Gagnon, Hyde, West, Thayer, Ligon

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VERSIONS OF THIS BILL

12/9/2020

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A BILL

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11 TO AMEND SECTION 11-11-310, CODE OF LAWS OF SOUTH
12 CAROLINA, 1976, RELATING TO THE STATUTORY
13 GENERAL RESERVE FUND, SO AS TO PROVIDE THAT THE
14 GENERAL RESERVE FUND OF FIVE PERCENT OF
15 GENERAL FUND REVENUE OF THE LATEST COMPLETED
16 FISCAL YEAR MUST BE INCREASED EACH YEAR BY
17 ONE-HALF OF ONE PERCENT OF GENERAL FUND
18 REVENUE OF THE LATEST COMPLETED FISCAL YEAR
19 UNTIL IT EQUALS SEVEN PERCENT OF SUCH REVENUES;
20 TO AMEND SECTION 11-11-320, RELATING TO THE
21 STATUTORY CAPITAL RESERVE FUND OF TWO PERCENT
22 OF GENERAL FUND REVENUE OF THE LATEST
23 COMPLETED FISCAL YEAR, SO AS TO INCREASE IT TO
24 THREE PERCENT OF GENERAL FUND REVENUE OF THE
25 LATEST COMPLETED FISCAL YEAR; AND TO PROVIDE
26 THAT THE ABOVE PROVISIONS TAKE EFFECT UPON
27 RATIFICATION OF AMENDMENTS TO SECTION 36,
28 ARTICLE III OF THE CONSTITUTION OF THIS STATE
29 PROVIDING FOR THE ABOVE.

30

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

33

34 SECTION 1. Section 11-11-310 of the 1976 Code is amended to
35 read:

36

37 "Section 11-11-310. (A) The State Fiscal Accountability
38 Authority shall provide for a General Reserve Fund. Funds
39 accumulating in excess of the annual operating expenditures must
40 be transferred to the General Reserve Fund and the transfer must
41 continue to be made in succeeding fiscal years until the accumulated
42 total in this reserve reaches an amount equal to the applicable

1 percentage amount of the general fund revenue of the latest
2 completed fiscal year.

3 (B) If there is a year-end operating deficit, so much of the
4 General Reserve Fund as is necessary must be used to cover the
5 deficit. The amount so applied must be restored to the General
6 Reserve Fund out of future revenues as provided in Section 36,
7 Article III of the Constitution of this State and out of funds
8 accumulating in excess of annual operating expenditures as
9 provided in this section until the applicable percentage amount is
10 reached and actually maintained.

11 (C) In the event of a year-end operating deficit, so much of the
12 reserve fund as may be necessary must be used to cover the deficit,
13 and the amount must be restored to the reserve fund within five
14 fiscal years out of future revenues until the applicable percentage
15 amount required to be transferred to the General Reserve Fund, is
16 reached and maintained. Provided, that a minimum of one percent
17 of the general fund revenue of the latest completed fiscal year, if so
18 much is necessary, must be restored to the reserve fund each year
19 following the deficit until the applicable percentage amount
20 required by general law to be transferred to the General Reserve
21 Fund is restored.

22 (D) For purposes of this section 'applicable percentage amount'
23 means ~~five~~ seven percent of general fund revenue of the latest
24 completed fiscal year. The ~~five~~ seven percent requirement shall be
25 reached by adding a cumulative one-half of one percent of such
26 revenue in each fiscal year succeeding the last fiscal year to which
27 the ~~three~~ five percent limit applied until the percentage of such
28 revenue equals ~~five~~ seven percent which then and thereafter shall
29 apply."

30
31 SECTION 2. Section 11-11-320(A) of the 1976 Code is amended
32 to read:

33
34 "(A) The General Assembly, in the annual general appropriations
35 act, shall appropriate, out of the estimated revenue of the general
36 fund for the fiscal year for which the appropriations are made, into
37 a Capital Reserve Fund, which is separate and distinct from the
38 General Reserve Fund, an amount equal to ~~two~~ three percent of the
39 general fund revenue of the latest completed fiscal year."

40
41 SECTION 3. (A) The provisions of SECTION 1 of this act take
42 effect upon the ratification of an amendment to Section 36(A),
43 Article III of the Constitution of this State raising the general reserve

1 fund from five percent of general fund revenue of the latest
2 completed fiscal year to seven percent of such revenues in the
3 manner provided in the section.

4 (B) The provisions of SECTION 2 of this act take effect upon
5 the ratification of an amendment to Section 36(B), Article III of the
6 Constitution of this State raising the capital reserve fund from two
7 percent of the general fund revenue of the latest completed fiscal
8 year to three percent of such revenues.

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