

# REPORT OF THE GENERAL GOVERNMENT, PERSONNEL & BENEFITS SUBCOMMITTEE

(Battle, Herbkersman, J.H. Neal, Pitts & Whitmire - Staff Contact: Kara Brurok)

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## SENATE BILL 6

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S. 6 -- Senators Leatherman, McGill, Rose, McConnell, Campsen, Fair, Setzler and Alexander: A BILL TO RATIFY AN AMENDMENT TO SECTION 36(A), ARTICLE III OF THE CONSTITUTION OF SOUTH CAROLINA, 1895, RELATING TO THE GENERAL RESERVE FUND, TO INCREASE FROM THREE TO FIVE PERCENT THE AMOUNT OF STATE GENERAL FUND REVENUE IN THE LATEST COMPLETED FISCAL YEAR REQUIRED TO BE HELD IN THE GENERAL RESERVE FUND; AND TO RATIFY AN AMENDMENT TO SECTION 36(B) OF ARTICLE III, RELATING TO THE CAPITAL RESERVE FUND, TO PROVIDE THAT MONIES IN THE CAPITAL RESERVE FUND, IN ANY YEAR THE GENERAL RESERVE FUND DOES NOT HAVE THE REQUIRED PERCENTAGE OF GENERAL FUND REVENUE, FIRST MUST BE USED TO FULLY REPLENISH THE APPLICABLE PERCENTAGE AMOUNT IN THE GENERAL RESERVE FUND BEFORE BEING USED FOR OTHER AUTHORIZED PURPOSES WHICH DO NOT INCLUDE OFFSETTING MIDYEAR BUDGET REDUCTIONS.

***Summary of Bill:***

This bill provides for the ratification of the amendment to the SC Constitution approved by voters at the last general election to increase the holdings requirement of the General Reserve Fund from 3% to 5% and revise the use of the Capital Reserve Fund to provide that monies in the CRF in any year the General Reserve Fund does not have the required % of General Fund revenue, first must be used to fully replenish the applicable % amount in the General Reserve Fund before being used for other authorized purposes which do not include offsetting midyear budget reductions.

***Introduced:***

1/11/2011

***Received by Ways and Means:***

1/26/2011

***Estimated Fiscal Impact:***

This bill, upon ratification of a Constitutional amendment, would reduce the amount of General Fund revenue available for appropriations by an estimated \$17,141,169 and appropriate these revenues to the General Reserve Fund in FY11-12.

***Subcommittee Recommendation:***

Adopted

***Full Committee Recommendation:***

***Other Notes/Comments:***

# **South Carolina Board of Economic Advisors**

## **Statement of Estimated State Revenue Impact**

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**Date:** January 12, 2011

**Bill Number:** S.B. 6

**Authors:** Leatherman, McGill, Rose, and McConnell

**Committee Requesting Impact:** Senate Finance Committee

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### **Bill Summary**

A bill to ratify an amendment to Section 36(A), Article III of the Constitution of South Carolina, 1895, relating to the General Reserve Fund, to increase from three to five percent the amount of state General Fund revenue in the latest completed fiscal year required to be held in the General Reserve Fund; and to ratify an amendment to Section 36(B) of Article III, relating to the Capital Reserve Fund, to provide that monies in the Capital Reserve Fund, in any year the General Reserve Fund does not have the required percentage of General Fund revenue, first must be used to fully replenish the applicable percentage amount in the General Reserve Fund before being used for other authorized purposes which do not include offsetting midyear budget reductions.

### **REVENUE IMPACT <sup>1/</sup>**

This bill, upon ratification of a Constitutional amendment, would reduce the amount of General Fund revenue available for appropriations by an estimated \$17,141,169 and appropriate these revenues to the General Reserve Fund in FY2011-12.

### **Explanation**

**Section 1(A).** This bill would ratify an amendment to Section 36(A), Article III of the Constitution of South Carolina, 1895, prepared under the terms of Joint Resolution 296 of 2010, and affirmatively received by the qualified electors of the State by a vote of 71% in the affirmative to 29% in the negative, to allow for an increase in the percentage to be set aside to fund the General Reserve Fund from three percent to five percent. This bill would amend Section 11-11-310 to allow the transfer of funds to the General Reserve Fund out of future revenues until the accumulated total in the fund reaches an amount equal to five percent of the latest completed fiscal year revenue as provided in Section 36, Article III of the Constitution of this State, and out of funds in excess of annual operating expenditures. If there is a year-end operating deficit, the General Reserve Fund may be used to cover the deficit. The fund must be restored within five fiscal years, using a minimum of one percent of the General Fund revenue of the latest completed fiscal year, until the five percent limitation is reached and maintained. Alternatively, the five percent threshold may also be achieved by adding a cumulative one-half of one percent each fiscal year until the General Reserve Fund is fully funded. Based upon General Fund revenue collections from the latest completed fiscal year and verified with the Office of State Budget, an additional one-half of one percentage point would equate to an estimated \$17,141,169 in FY2011-12.

**Section 1(B).** This bill would ratify an amendment to Section 36(B), Article III of the Constitution of South Carolina, 1895, prepared under the terms of Joint Resolution 296 of

## South Carolina Board of Economic Advisors

### Statement of Estimated State Revenue Impact

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2010, and affirmatively received by the qualified electors of the State by a vote of 73% in the affirmative to 27% in the negative, to appropriate out of the estimated revenue of the General Fund for the current fiscal year an amount equal to two percent of the General Fund revenue of the latest completed fiscal year. This bill would amend Section 11-11-320(C) to not allow the Capital Reserve Fund to be used to offset a mid-year budget reduction. Also, according to Joint Resolution 296 of 2010, this section would change the date of when the Capital Reserve Fund may be used for appropriations by the General Assembly from "After March first of a fiscal year" to "Subsequent to appropriations". Monies from the Capital Reserve Fund may be appropriated for the following purposes, (a), to finance in cash previously authorized capital improvement bond projects, (b), to retire interest or principal on bonds previously issued, (c) for capital improvement or other nonrecurring purposes. Monies must be ranked in priority order of expenditure and are effective for thirty days after completion of the fiscal year. If the fiscal year ends with an operating deficit, the monies appropriated to the Capital Reserve Fund must be reduced by the lowest ranking priority expenditure and applied to the year end deficit before withdrawing monies from the General Reserve Fund. At the end of a fiscal year, any monies not applied to a particular project or applied to a year end deficit must lapse to the General Fund.



William C. Gillespie, Ph.D.  
Chief Economist

**Analyst:** Martin

<sup>1/</sup> This statement meets the requirement of Section 27-71 for a state revenue impact by the BEA, or Section 27-76 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**  
119th Session, 2011-2012

**S. 6**

**STATUS INFORMATION**

General Bill

Sponsors: Senators Leatherman, McGill, Rose, McConnell, Campsen, Fair, Setzler, Alexander and Rankin

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Introduced in the Senate on January 11, 2011

Introduced in the House on January 26, 2011

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

Summary: Ratification of Constitutional Amendment

**HISTORY OF LEGISLATIVE ACTIONS**

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
12/1/2010	Senate	Prefiled
12/1/2010	Senate	Referred to Committee on <b>Finance</b>
1/11/2011	Senate	Introduced and read first time ( <u>Senate Journal-page 9</u> )
1/11/2011	Senate	Referred to Committee on <b>Finance</b> ( <u>Senate Journal-page 9</u> )
1/19/2011	Senate	Committee report: Favorable <b>Finance</b> ( <u>Senate Journal-page 11</u> )
1/20/2011	Senate	Read second time ( <u>Senate Journal-page 10</u> )
1/20/2011	Senate	Roll call Ayes-43 Nays-0 ( <u>Senate Journal-page 10</u> )
1/25/2011	Senate	Read third time and sent to House ( <u>Senate Journal-page 17</u> )
1/25/2011	Senate	Roll call Ayes-40 Nays-0 ( <u>Senate Journal-page 17</u> )
1/26/2011	House	Introduced and read first time ( <u>House Journal-page 13</u> )
1/26/2011	House	Referred to Committee on <b>Ways and Means</b> ( <u>House Journal-page 13</u> )

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**VERSIONS OF THIS BILL**

12/1/2010

1/19/2011

1 COMMITTEE REPORT

2 January 19, 2011

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## S. 6

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6 Introduced by Senators Leatherman, McGill, Rose, McConnell,  
7 Campsen, Fair and Setzler

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9 S. Printed 1/19/11--S.

10 Read the first time January 11, 2011.

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### THE COMMITTEE ON FINANCE

14 To whom was referred a Bill (S. 6) to ratify an amendment to  
15 Section 36(A), Article III of the Constitution of South Carolina,  
16 1895, relating to the General Reserve Fund, to increase from three  
17 to, etc., respectfully

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### REPORT:

19 That they have duly and carefully considered the same and  
20 recommend that the same do pass:

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22 HUGH K. LEATHERMAN, SR. for Committee.

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**A BILL**

TO RATIFY AN AMENDMENT TO SECTION 36(A),  
ARTICLE III OF THE CONSTITUTION OF SOUTH  
CAROLINA, 1895, RELATING TO THE GENERAL RESERVE  
FUND, TO INCREASE FROM THREE TO FIVE PERCENT  
THE AMOUNT OF STATE GENERAL FUND REVENUE IN  
THE LATEST COMPLETED FISCAL YEAR REQUIRED TO  
BE HELD IN THE GENERAL RESERVE FUND; AND TO  
RATIFY AN AMENDMENT TO SECTION 36(B) OF ARTICLE  
III, RELATING TO THE CAPITAL RESERVE FUND, TO  
PROVIDE THAT MONIES IN THE CAPITAL RESERVE  
FUND, IN ANY YEAR THE GENERAL RESERVE FUND  
DOES NOT HAVE THE REQUIRED PERCENTAGE OF  
GENERAL FUND REVENUE, FIRST MUST BE USED TO  
FULLY REPLENISH THE APPLICABLE PERCENTAGE  
AMOUNT IN THE GENERAL RESERVE FUND BEFORE  
BEING USED FOR OTHER AUTHORIZED PURPOSES  
WHICH DO NOT INCLUDE OFFSETTING MIDYEAR  
BUDGET REDUCTIONS.

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

SECTION 1. A. The amendment to Section 36(A), Article III  
of the Constitution of South Carolina, 1895, prepared under the  
terms of Joint Resolution 296 of 2010, having been submitted to  
the qualified electors at the General Election of 2010 as prescribed  
in Section 1, Article XVI of the Constitution of South Carolina,  
1895, and a favorable vote having been received on the  
amendment, is ratified and declared to be a part of the Constitution  
so that Section 36(A), Article III is amended to read:

1 “(A) The General Assembly shall provide for a General Reserve  
2 Fund of five percent of the general fund revenue of the latest  
3 completed fiscal year. The five percent requirement shall be  
4 achieved by increasing the percentage requirement by a cumulative  
5 one-half of one percent of general fund revenue in each fiscal year  
6 succeeding the last fiscal year to which the three percent  
7 requirement applied until the percentage of revenue in the General  
8 Reserve Fund equals the five percent requirement, which shall  
9 thereafter be maintained. Funds may be withdrawn from the  
10 reserve only for the purpose of covering operating deficits of state  
11 government. The General Assembly must provide for the orderly  
12 restoration of funds withdrawn from the reserve from future  
13 revenues and out of funds accumulating in excess of annual  
14 operating expenditures.

15 (1) The General Assembly shall provide by law for a  
16 procedure to survey the progress of the collection of revenue and  
17 the expenditure of funds and to authorize and direct reduction of  
18 appropriations as may be necessary to prevent a deficit.

19 (2) In the event of a year-end operating deficit, so much of  
20 the reserve fund as may be necessary must be used to cover the  
21 deficit; and the amount must be restored to the reserve fund within  
22 five fiscal years out of future revenues until the five percent, or the  
23 applicable percentage amount required to be transferred to the  
24 General Reserve Fund, is again reached and maintained. Provided  
25 that a minimum of one percent of the general fund revenue of the  
26 latest completed fiscal year, if so much is necessary, must be  
27 restored to the reserve fund each year following the deficit until the  
28 five percent, or the applicable percentage amount required by  
29 general law to be transferred to the General Reserve Fund is  
30 restored.”

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32 B. The amendment to Section 36(B), Article III of the  
33 Constitution of South Carolina, 1895, prepared under the terms of  
34 Joint Resolution 296 of 2010, having been submitted to the  
35 qualified electors at the General Election of 2010 as prescribed in  
36 Section 1, Article XVI of the Constitution of South Carolina, 1895,  
37 and a favorable vote having been received on the amendment, is  
38 ratified and declared to be a part of the Constitution so that Section  
39 36(B), Article III is amended to read:

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41 “(B) The General Assembly, in the annual general  
42 appropriations act, shall appropriate, out of the estimated revenue  
43 of the general fund for the fiscal year for which the appropriations

1 are made, into a Capital Reserve Fund, which is separate and  
2 distinct from the General Reserve Fund, an amount equal to two  
3 percent of the general fund revenue of the latest completed fiscal  
4 year.

5 (1) In any fiscal year in which the General Reserve Fund  
6 does not maintain the required percentage of general fund revenue,  
7 monies from the Capital Reserve Fund first must be used, to the  
8 extent necessary, to fully replenish the General Reserve Fund. The  
9 Capital Reserve Fund's replenishment of the General Reserve  
10 Fund is in addition to the replenishment requirement provided in  
11 subsection (A)(2) of this section. After the General Reserve Fund  
12 is fully replenished to the required percentage, the monies in the  
13 Capital Reserve Fund may be appropriated, except that the Capital  
14 Reserve Fund must not be used to offset a midyear budget  
15 reduction.

16 (2) Subsequent to appropriations required by item (1) of this  
17 subsection, monies from the Capital Reserve Fund may be  
18 appropriated by the General Assembly in separate legislation upon  
19 an affirmative vote in each branch of the General Assembly by  
20 two-thirds of the members present and voting, but not less than  
21 three-fifths of the total membership in each branch for the  
22 following purposes:

23 (a) to finance in cash previously authorized capital  
24 improvement bond projects;

25 (b) to retire interest or principal on bonds previously  
26 issued;

27 (c) for capital improvements or other nonrecurring  
28 purposes.

29 (3)(a) Any appropriation of monies from the Capital Reserve  
30 Fund as provided in this subsection must be ranked in priority of  
31 expenditure and is effective thirty days after completion of the  
32 fiscal year. If it is determined that the fiscal year has ended with  
33 an operating deficit, then the monies appropriated from the Capital  
34 Reserve Fund must be reduced based on the rank of priority,  
35 beginning with the lowest priority, to the extent necessary and  
36 applied to the year-end operating deficit before withdrawing  
37 monies from the General Reserve Fund.

38 (b) At the end of the fiscal year, any monies in the Capital  
39 Reserve Fund that are not appropriated as provided in this  
40 subsection or any appropriation for a particular project or item  
41 which has been reduced due to application of the monies to a year  
42 end deficit must lapse and be credited to the general fund."

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