COMMITTEE REPORT

January 19, 2011

**S. 6**

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

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Read the first time January 11, 2011.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 6) 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, etc., respectfully

**REPORT:**

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

HUGH K. LEATHERMAN, SR. for Committee.

**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:

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 Funds may be withdrawn from the reserve only for the purpose of covering operating deficits of state government. The General Assembly must provide for the orderly restoration of funds withdrawn from the reserve from future revenues and out of funds accumulating in excess of annual operating expenditures.

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

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

B. The amendment to Section 36(B), 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(B), Article III is amended to read:

“(B) The General Assembly, in the annual general appropriations act, shall appropriate, out of the estimated revenue of the general fund for the fiscal year for which the appropriations are made, into a Capital Reserve Fund, which is separate and distinct from the General Reserve Fund, an amount equal to two percent of the general fund revenue of the latest completed fiscal year.

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

(2) Subsequent to appropriations required by item (1) of this subsection, monies from the Capital Reserve Fund may be appropriated by the General Assembly in separate legislation upon 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 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 improvements or other nonrecurring purposes.

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

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

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