

Senate Budget Process

Jake Scoggins, Senate Finance Committee

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Constitutional Requirements for the Budget Process

- Article III, Section 15 – Bills that raise revenue shall originate in the House.
- Article III, Section 36 – General Reserve Fund, Capital Reserve Fund.
- Article IV, Section 21 – Directs that “objects and purposes” for appropriating money shall be displayed.
- Article X, Section 7 – Spending Limit and Limitation on the Number of Employees.

Senate Rules Related to the Budget Process

- Senate Rule 10 – Only three types of bills automatically attain “masthead” status, the annual General Appropriations Bill, any reapportionment bill and any Sine Die Resolution. “Masthead” status means that the bill comes in the order of business immediately following the conclusion of the call of the uncontested local calendar (very early).
- Senate Rule 16 – Prior to third reading of the Bill, each section along with corresponding proviso must be considered individually. This usually involves filling out a vote matrix.

Senate Rules Related to the Budget Process

- Senate Rule 24 – Clauses must be germane. If you draft an amendment, the action should begin on or after July 1, 2021 and end no later than June 30, 2022. Likewise, any proviso should relate to an appropriation in Part 1A. Additionally, a proviso is non-germane if it adds, amends, or repeals a portion of statute. However, suspension of a statute is allowed.
- Senate Rule 24 was developed in response to rampant “bobtailing” on the annual budget. In the late 1990’s, it was not uncommon to include up to 100 separate bills as Part II Permanent Provisos on the Appropriations Bill.
- This Rule greatly restricts the ability of the Senate to make major changes in funding policy other than the magnitude of funding in the Appropriations Bill. Instead, those funding policy changes must be made as separate legislation.

Senate Rules Related to the Budget Process

- **Senate Rule 26 - Earmarks Report Required**
- The General Appropriations Bill, any supplemental appropriations bill, any Joint Resolution appropriating revenues from the state's reserve funds, any bond bill, or any revenue-raising measure as described in Section 11-11-440 shall, prior to receiving a second reading, have attached to it a statement from the Chairman of the Committee on Finance identifying each funding request included in the bill or resolution made by a Senator for an appropriation for a specific program or project not originating with a written agency budget request or not included in an appropriations act from the prior fiscal year. The statement shall include the requesting Senator's name, an explanation of the project or program, and the amount appropriated.
- The Conference Report for the General Appropriations Bill, any supplemental appropriations bill, any Joint Resolution appropriating revenues from the state's reserve funds, any bond bill, or any revenue-raising measure as described in Section 11-11-440 shall, prior to consideration by the Senate, have attached to it a statement from the Chairman of the Committee on Finance identifying each funding request contained in the conference report for an appropriation for a specific program or project not originating with a written agency budget request or not included in an appropriations act from the prior fiscal year. The statement shall identify whether the funding request originated in the Senate or in the House of Representatives and, to the extent practicable, an explanation of the project or program and the amount appropriated.

Senate Rules Related to the Budget Process

- Senate Rule 53 – 72 Hour Budget Review. The Senate is prohibited from considering any spending measure until 72 hours passed from the time the bill is displayed in a publicly available and conspicuous location on the legislative website.

Senate Rules Related to the Budget Process

- Senate Rule 26 E – Fiscal Estimate Required Prior to Second Reading. “The provisions of this section shall not apply where the exact amount of money to be spent or expended is clearly set out in the bill or resolution.” Therefore, a fiscal impact statement is not needed for the Appropriations Bill. However, there are separate teams from the Revenue and Fiscal Affairs Office that score our actions and let us know when we are “out of balance.”
- Should the Appropriations Bill be out of balance at the end of the process, Senator Peeler will develop an amendment to balance the Bill. It is referred to as a “Balancing Amendment.”

The Annual Budget is Just Another Bill

(but it must be enacted by July 1st for State Government to operate
and gets “Masthead Status”)

H. 4100

GENERAL APPROPRIATIONS BILL

FY 2021-2022

INTRODUCED BY WAYS AND MEANS COMMITTEE

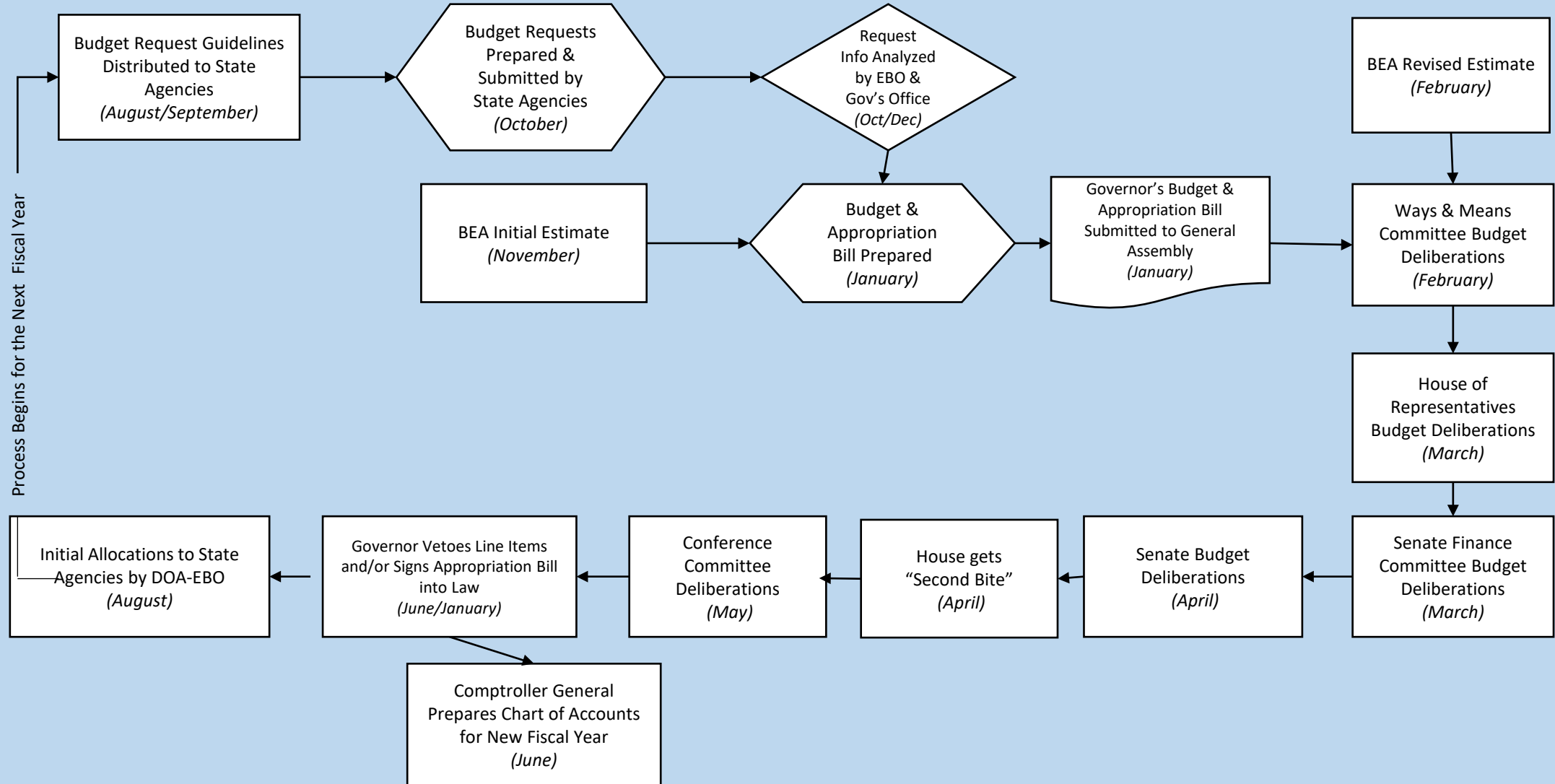
Read the first time March 16, 2021

TO MAKE APPROPRIATIONS AND TO PROVIDE REVENUES TO MEET THE ORDINARY EXPENSES OF STATE GOVERNMENT FOR THE FISCAL YEAR BEGINNING JULY 1, 2021, TO REGULATE THE EXPENDITURE OF SUCH FUNDS, AND TO FURTHER PROVIDE FOR THE OPERATION OF STATE GOVERNMENT DURING THIS FISCAL YEAR AND FOR OTHER PURPOSES.

Amend Title To Confirm

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF SOUTH CAROLINA:

SOUTH CAROLINA'S STATE BUDGET PROCESS



Who are the Legislative Players in the Budget Process?

All members are paid \$10,400 per year plus \$1,000 per month for in district expenses plus per diem and mileage. Legislative session begins the second Tuesday in January and concludes the second Thursday in May. Session days are usually Tuesday –Thursday.

State Senate

- 46 Members of the Senate. Each member represents about 111,000 citizens.
- There are 15 standing committees. Each member serves on 5 committees.
- 23 Members of the Finance Committee.
- Chairman designated by Senate Rule as most senior majority party member of the Committee and Committee membership chosen by seniority by party.
- Chairman assigns functional sections of the budget to subcommittees (e.g., K-12 Education), usually 3 or 4 members, and assigns a subcommittee chairman.

House of Representatives

- 124 Members of the House. Each member represents about 41,000 citizens.
- There are 11 standing committees in the House. Each member serves on 1 committee.
- 25 Members of the Ways and Means Committee.
- Chairman chosen by membership of the Committee and Committee appointed by the Speaker.
- Chairman assigns functional sections of the budget to subcommittees (e.g., K-12 Education), usually 3 or 4 members, and assigns a subcommittee chairman.

Revenues

State General Fund Revenues

Federal Fund Revenues

Other Fund Revenues

There are 3 Major Categories of Revenues

- **State General Fund Revenue** – These revenues are generated in South Carolina through the tax system and may be spent in any fashion by the General Assembly. Most of these revenues accrue from sales transactions or the earning of income, and there is no direct correlation between the source of the income and the expenditure of that income.
- **Federal Fund Revenue** – Almost all federal funds are categorical grants and have many strings attached. In most cases, federal funds are distributed to states in a partnership with some required state match. Most of the programs are health care or social service in nature.
- **Other Fund Revenue** – These revenues are primarily license fees (driver's license), transaction fees (tuition) or general tax dollars that are restricted and accounted for separately from the General Fund (Education Improvement Act Funds, Gas Tax Funds). In most cases these are transaction fees where the person paying the fees accrues some type of direct benefit, and the more you use, the more you pay.

General Fund Revenue – What do you need to know?

- General Fund Sales Tax is 4% (not to be confused with the EIA 1% of '84 or the Sales Tax 1% for the Homeowner Relief Fund – Act 388 of 2006).
- The Individual Income Tax Rates begin at 0% and go up to 6.4% of Taxable Income. South Carolina exempts more income from tax than neighboring states.
- The Corporate Income Tax Rate (C Corporations) is a flat 5% of taxable income.
- Other Fund revenue sources include the insurance tax, beer and wine tax, alcoholic liquors tax, and dozens of other fees.

Total General Fund Revenue



Top 10 Statewide Federal Revenue Sources Fiscal Year 1994-95 and 2021-22

Description	FY94-95	FY21-22	\$ Change
DHHS Medicaid (MAP) Assistance Payments	\$1,443,188,191	\$5,030,059,117	\$3,586,870,926
DSS Food Stamp Coupons	\$301,893,005	\$2,132,548,121	\$1,830,655,116
Universities Federal Grants and Indirect Cost Recovery	\$206,374,744	\$1,191,830,865	\$985,456,121
DOT Federal Grants	\$245,045,118	\$830,169,245	\$585,124,127
SDE School Food Services - District	\$93,806,685	\$475,656,168	\$381,849,483
DHHS Disproportionate Share (DISH)	\$93,746,470	\$415,580,725	\$321,834,255
SDE Chapter I - Low Income	\$87,104,395	\$267,182,193	\$180,077,798
SDE Title IV Part B Handicapped	\$29,305,979	\$195,864,414	\$166,558,435
State Housing Authority - Contract Administration	\$0	\$149,017,350	\$149,017,350
DSS Temporary Assistance to Needy Families	\$0	\$100,851,601	\$100,851,601
Totals	\$2,500,464,587	\$10,788,759,797	\$8,288,295,210

Top 10 Statewide Other Revenue Sources Fiscal Years 1994-95 and 2021-22

Description	FY94-95	FY21-22	\$ Change
Higher Education Revenues	\$428,475,336	\$ 4,022,527,825	\$3,594,052,489
Sales Tax - EIA	\$366,650,309	\$ 1,138,190,666	\$771,540,357
Homestead Exemption		\$ 1,029,360,779	\$1,029,360,779
Gasoline Tax	\$214,376,940	\$ 724,446,996	\$510,070,056
Motor Vehicle Licenses & Fees		\$ 672,199,641	\$672,199,641
Lottery Proceeds		\$ 568,684,701	\$568,684,701
Medicare and Medicaid Reimbursements	\$375,563,268	\$ 489,507,955	\$113,944,687
Hospital Tax (Medicaid)	\$93,746,470	\$ 266,591,751	\$172,845,281
Medicaid CPE		\$ 122,536,512	\$122,536,512
Cigarette Surcharge & Tobacco Master Settlement Agreement		\$ 101,008,148	\$101,008,148
Totals	\$1,478,812,323	\$ 9,135,054,974	\$ 7,656,242,651

Appropriations

- In the appropriation process, General Fund appropriations get the most attention because there are few restrictions on those sources of revenue.
- With Federal Funds, the dollars are shared with states based on the specific use of those funds. The misappropriation of those funds can lead to audit exceptions, penalties and even prosecution.
- Other Funds are transaction fees and are generally appropriated for providing the service purchased by the fee.

FY 2023-24 Appropriations

• General Fund	\$11,636,468,009*
• Federal Funds	\$13,204,898,519
• Other Funds	<u>\$13,999,313,058*</u>
Total	\$38,840,679,586**

*Net of \$796 Million required transfer to the State's "Tax Relief Trust Fund"; amount included in "Other Funds" above.

**SC Total Personal Income in 2022 is \$281.7 Billion. So, the State Budget represents about 13.8% of economic activity in SC.

Appropriations by the Numbers

Over 80% of the annual budget is spent to provide either educational, health or social services to citizens.

The remaining 20% goes to legislative, judicial, executive, public safety, corrections, natural resources and economic development, regulatory, debt service, aid to subdivisions and transportation.

Note: Transportation is 8% of the budget.



Where is the General Fund Money Spent? Pre and Post Great Recession (General Funds only)

	<u>FY07-08</u>	<u>FY23-24</u>	<u>\$ Change</u>
K-12 Education	\$2,416,284,557	\$4,128,039,199	\$1,711,754,642
Health and Social	\$1,684,915,369	\$3,101,014,043	\$1,416,098,674
Higher Education	\$918,880,772	\$1,189,499,850	\$270,619,078
Correctional and Public Safety	\$593,358,615	\$1,316,695,940	\$723,337,325
Transportation	\$186,590	\$243,067,867	\$242,881,277
All Other	\$1,129,360,663	\$1,658,151,110	\$528,790,447
Total	\$6,742,986,566	\$11,636,468,009	\$4,893,481,443

Source: Executive Budget Office

The Budget Before the Budget

The Trust Fund for Property Tax Relief and the Homestead Exemption Fund, Tier III, are calculated and distributed to local governments. The source of funds for these local tax breaks are the 1% sales tax implemented statewide in 2007 (Act 388) and previous General Fund appropriations.

Per statute, these calculations are made, and funds are distributed. Some of these accounts are listed in Section 115 of the annual Appropriations Bill. However, the source of funding for the Tax Relief Trust Fund is a reduction from revenue as directed by statute.

Important Point

Gross General Fund Revenue
MINUS Tax Relief Trust Fund =
Net General Fund Revenue

Each General Appropriations Bill inherently includes tax relief for South Carolinians, and certain categories grow every year.

Since FY95-96, various General Fund tax cuts enacted over the 25 year period cumulatively have resulted in over \$7 Billion in less annual collections.

RESERVE FUNDS

GENERAL RESERVE FUND

- This is a cash account. The current level of funding is \$715,241,566. When fully funded, it equals 5.5% of the previous completed year's General Fund Revenue. The Fund may only be used as the close of a fiscal year to pay all obligations.
- Will increase to 7% over 4 years pursuant to a 2022 Constitutional Amendment.

CAPITAL RESERVE FUND

- This is a budgeted account. The FY2022-23 Capital Reserve Fund is appropriated at a level of \$209,194,431. It is H4301, part of the spending plan for next year.
- Included in the FY2023-24 Appropriations Act is the Capital Reserve Fund, funded at 3% of the previous completed year's General Fund Revenue (\$390,131,763). This account must be used to offset mid-year budget reductions, prior to across-the-board cuts to agencies.
- Increased from 2% to 3% pursuant to a 2022 Constitutional Amendment.

These two accounts are important because Bond Rating Firms want to see ample resources for states to pay obligations.

Budget Documents

1. The Printed Budget – Part 1A and Part 1B
2. The Summary Control Document
3. The Proviso Summary Document

BUDGET DOCUMENTS

- 1.) Senate Finance Committee version of the Appropriations Bill.
 - ✓ This is the document to which all floor amendments must be drawn.
 - ✓ Three groups are available to assist in amendments, the Clerk's Office, the Legislative Council and the Finance Committee staff.
 - ✓ In reality, little information can be gathered from a review of Part 1A of the Budget. The display is in the detailed format per the Constitution and allows for the Governor to target any line-item veto to any particular program.
 - ✓ When the implementation phase of the Budget begins on July 1st, agencies have flexibility to move funds from one program to the next but are restricted by the "20% Rule" for inter-program transfers. Additionally, restrictions are in place when transfers are made from Personal Services to Other Operating funded programs. These transfers are monitored by the Executive Budget Office.

BUDGET DOCUMENTS

2.) Summary Control Document

- ✓ This document displays the funding decisions made by the Finance Committee with increases and decreases compared to last year's act as well as funding decisions for non-recurring sources of funding.
- ✓ Additionally, this document serves as the control document from which funding decisions are loaded into the detailed Budget in Part 1A. What might be displayed as one line on the Summary Control Document changes many lines in an agency's detailed budget.
- ✓ For purposes of Conference Committee, it is Part 1A and not the Summary Control Document that determines whether a compromise between a high and low number is possible.

BUDGET DOCUMENTS

3.) Proviso Summary Document

- ✓ This document displays changes to Part 1B of the Budget, whether a proviso was deleted, added or amended. Any proviso in the Finance Committee report may be deleted, added or amended.
- ✓ Most attention is directed to provisos that are listed on the Proviso Summary Document.
- ✓ The format to interpret the changes to a proviso is strikethrough and underline for removing and adding specific language.
- ✓ In budget conference committee, proviso words cannot be parsed.

Senate Floor Amendments

SENATE AMENDMENT

AMENDMENT NO. _____

/DAD
May 4, 2016

ADOPTED	TABLED	CARRIED OVER	FAILED	RECONSIDERED

Clerk of the Senate

ADOPTION NO. _____

BILL NO: H.5001

(Reference is to Printer's Date 04/27/16-S.)

Senator JOHN MATTHEWS proposes the following amendment (DAD 83.5 JOB SEARCHAMEND):

Amend the bill, as and if amended, Part IB, Section 83, DEPARTMENT OF EMPLOYMENT AND WORKFORCE, page 420, proviso 83.5, by amending the amendment added by document bearing file path LAS-FINANC\AMEND\EC JWM_DEW83.5SUTA.DOCX, by reinserting:

/ For purposes of the required number of job searches, instances where a person contacts a potential employer in person is also considered a verifiable search. /

Renumber sections to conform.
Amend sections, totals and title to conform.

Senate Floor Process

- Chairman Peeler and Finance Budget Subcommittee Chairmen will offer summaries of their respective budget areas.
- Chairman Peeler will then move for the Finance Committee amendment to be the document upon which amendments are drawn. Also, he will request unanimous consent for the privilege of the floor to be afforded to staff.
- Amendments will be considered. The amendments are considered in the order of the General Appropriations Bill, not numerical order.
- At some point during debate, Chairman Peeler usually moves to give the bill second reading, carrying over all amendments to third reading (simple majority for voting) and maintaining the ability to raise any points of order.
- Should amendments continue, Chairman Peeler may move to set a time certain to cut off amendments and bring the process to a conclusion.
- The next step is usually voting using a matrix (spreadsheet).
- If the budget is out of balance, staff will develop a “balancing amendment.”

After the Budget Leaves the Senate

- Chairman Bruce Bannister and “House 2.”
- House completes H2 budget, budget conferees appointed.
- Budget Conference Committee work.
- Consider budget conference report.
- Budget Vetoes (2/3rds majority to override line-item veto).

The Annual Budget is the Most Important Bill Each Session

- If there is no budget enacted on July 1st (and not continuing resolution in place), the operations of state government stop.
- This bill funds the public school system for over 770,000 students and over 48,000 teachers.
- This bill funds a public higher education system of over 230,000 students.
- This bill funds a Medicaid system with over 1,150,000 subscribers.
- The bill funds the incarceration of over 15,000 inmates.
- The bill funds the SC State Health Plan which has over 515,000 subscribers (includes spouses and children).

Analysts by subcommittee

- K-12 Education (Grant Gibson)
- Public Safety (Morgan O'Donnell)
- Higher Education (Jake Scoggins)
- Health and Social Services (Olivia Burns)
- Natural Resources & Economic Development (TBD)
- Transportation & Regulatory (Jessa Wigington)
- Constitutional (Jessa Wigington)

Questions

