

# **Other Funds Oversight Committee**

**October 27, 2010**

# Fund Accounting

(Expenditures in FY 2008-09)

- General Funds \$5.75B
- Federal Funds \$7.37B
- Other Funds \$7.44B

TOTAL: \$20.56B

SC Personal Income \$145 B (15% of economy)

General Fund Expenditures FY 2009-10 \$5.11B

# General Funds

- General Funds have the least “strings” attached to their use. They are underwritten by the state’s income tax (individual & corporate), the general sales (4%) tax & excise taxes (beer, liquor). In theory, all citizens pay and all receive some type of benefit.

# Federal Funds

- Federal Funds are usually categorical programs by the Federal Government requiring a funding match by State Government.
- Generally speaking, there are regulations on the use of these funds, and non-compliance can mean penalties.
- Major programs are Medicaid, Transportation & Research.

# Other Funds

- Other Funds can be defined as “earmarked” or “restricted.”
- Earmarked means that the interest from the fund accrues to the General Fund.
- Restricted means that the interest on the fund accrues to that specific fund.
- In our accounting system, when an appropriation cannot be classified as General or Federal, it is Other Funds.

# Other Funds

- In theory, there is a relationship between the cost borne by the individual and the benefit accrued by the individual using the government service.
- In this transaction, externalities (public goods) are produced that benefit the state as a whole.

# Role of the General Assembly

The General Assembly sets all the parameters of the process & holds the  
“purse strings”

- How revenues are collected and deposited.
- How much is spent.
- What funds are spent on.
- Transfers of funds.
- Lapse and carry-forward of funds.

# **Role of the Executive Branch**

- Implementation to cause an action based on the parameters set by the Legislative Branch.



# Interaction of the Legislative & Executive Branches in Budgeting

- Example of Architecture & Engineering.

In theory, an architect plans a building and engineers build it. In reality, there is much communication and coordination that ensues for a successful project.

# Our Practice in South Carolina

- Great attention given to General Funds at the margin with numerous budget laws (statutes & provisos).
- Passive stance to Federal Funds, depending on trade groups for favorable treatment (more \$ & less rules) and Executive Branch for interpretation. (Note: 1982 Supreme Court decision in *McLeod v. McInnis* found Joint Appropriations Review Committee to be unconstitutional.)
- Spotty attention to Other Funds, dependent on circumstances.

# Question

- Should the General Assembly develop a more systematic approach to the oversight of Other Funds?
  - FY 2010-11 Proviso 70.27 created the joint Other Funds Oversight Committee to review other funds in this State and recommend the appropriate policy for the receipt, appropriation, expenditure, and reporting of other funds.

What are the limiting factors?

Information (less so) & Time (more so).

# Major Point

- These Fund Sources are interrelated.
- General Fund revenue downturns force agencies (& interest groups) to seek fees.
- Federal program expansions produce pressure to create match funding.
- Other fund availability changes strategies of agencies (& interest groups) in seeking General Funds.

# **A Snapshot of General Funds**

## **Fiscal Year 2008-09**

The General Fund recurring base appropriation was **\$6,735,714,190**

## **Fiscal Year 2010-11**

The General Fund recurring base appropriation is **\$5,080,373,895**

# **Trend to “Other” Funds**

# Actual Expenditures by Source

FISCAL YEAR	TOTAL FUNDS	STATE FUNDS	% OF TOTAL	FEDERAL FUNDS	% OF TOTAL	OTHER FUNDS	% OF TOTAL
94-95	10,068,437,954	3,984,593,028	39.6%	3,137,398,604	31.2%	2,946,446,322	29.3%
95-96	10,701,489,194	4,269,338,437	39.9%	3,038,128,690	28.4%	3,394,022,067	31.7%
96-97	11,132,910,474	4,532,493,303	40.7%	3,069,458,945	27.6%	3,530,958,226	31.7%
97-98	11,901,470,328	4,754,379,739	39.9%	3,186,338,697	26.8%	3,960,751,892	33.3%
98-99	12,327,902,495	4,637,211,845	37.6%	3,412,616,426	27.7%	4,278,074,224	34.7%
99-00	13,427,781,887	5,070,915,569	37.8%	3,779,733,884	28.1%	4,577,132,434	34.1%
00-01	14,127,206,751	5,422,863,626	38.4%	4,049,509,002	28.7%	4,654,834,123	32.9%
01-02	14,733,464,865	5,178,774,787	35.1%	4,649,159,460	31.6%	4,905,530,618	33.3%
02-03	15,535,498,501	4,994,580,634	32.1%	5,149,533,746	33.1%	5,391,384,121	34.7%
03-04	16,372,861,593	4,864,618,446	29.7%	5,649,309,897	34.5%	5,858,933,250	35.8%
04-05	17,779,734,818	5,073,195,360	28.5%	5,978,775,034	33.6%	6,727,764,424	37.8%
05-06	18,000,324,090	5,540,438,129	30.8%	5,750,316,650	31.9%	6,709,569,311	37.3%
06-07	19,128,107,751	6,117,311,194	32.0%	6,121,576,007	32.0%	6,889,220,550	36.0%
07-08	20,198,788,589	7,037,299,806	34.8%	6,213,173,039	30.8%	6,948,315,744	34.4%
08-09	20,562,961,143	5,754,765,833	28.0%	7,366,021,019	35.8%	7,442,174,291	36.2%
09-10		5,117,133,571					

# Top 10 Statewide Federal Revenue Sources Fiscal Years 1994-95 and 2008-09

	Description	Amounts		Difference	Avg Annual
		1994-95	2008-09		% Change
	<b>Federal Funds</b>				
<b>1</b>	DHHS Medicaid (MAP) Assistance Payments	1,443,188,191	3,187,995,429	1,744,807,238	5.8%
<b>2</b>	DSS Food Stamp Coupons	301,893,005	898,692,309	596,799,304	8.1%
<b>3</b>	DOT Federal Grants	245,045,118	440,637,655	195,592,537	4.3%
<b>4</b>	DHHS Disproportionate Share	93,746,470	321,371,978	227,625,508	9.2%
<b>5</b>	SDE School Food Services - District	93,806,685	215,219,734	121,413,049	6.1%
<b>6</b>	SDE Chapter I - Low Income	87,104,395	200,598,118	113,493,723	6.1%
<b>7</b>	SDE Title VI Part B Handicapped	29,305,979	176,882,067	147,576,088	13.7%
<b>8</b>	DHHS Medicaid Asst Pymts - Refund Prior Yr Expenditure	-	158,265,636	158,265,636	-
<b>9</b>	DSS Temporary Assistance to Needy Families	-	132,471,307	132,471,307	-
<b>10</b>	MUSC Health Services Research and Development Grants	39,884,506	117,376,164	77,491,658	8.0%
	<b>Totals</b>	<b>2,333,974,349</b>	<b>5,849,510,397</b>	<b>3,515,536,048</b>	<b>6.8%</b>
	<b>Note:</b> The listing of the top 10 Federal Funds sources represents 79% of the total of \$7,366,021,019.				

Source: Office of State Budget



# Top 10 Statewide Other Fund Revenue Sources Fiscal Years 1994-95 and 2008-09

	Description	Amounts		Difference	Avg Annual
		1994-95	2008-09		% Change
	<b><u>Other Funds - Earmarked/Restricted</u></b>				
<b>1</b>	University Fees	428,475,336	1,686,272,589	1,257,797,253	10.3%
<b>2</b>	Sales Tax - EIA	366,650,309	560,649,108	193,998,799	3.1%
<b>3</b>	Medicare and Medicaid Reimbursements	375,563,268	551,002,383	175,439,115	2.8%
<b>4</b>	Gasoline Tax	214,376,940	404,199,993	189,823,053	4.6%
<b>5</b>	Auxiliary Enterprises - Sales and Services	182,278,795	302,058,689	119,779,894	3.7%
<b>6</b>	Lottery Proceeds	-	271,760,556	271,760,556	-
<b>7</b>	Contributions Hospitals/ Medicaid Hospital MIAA	93,746,470	264,049,434	170,302,964	7.7%
<b>8</b>	Medicaid Certified Public Expenditures (incurred expenses are certified for the non-federal share of Medicaid pymts)	-	171,338,900	171,338,900	-
<b>9</b>	Motor Vehicle Licenses	-	137,456,653	137,456,653	-
<b>10</b>	Special Fuel Tax	68,591,714	107,268,986	38,677,272	3.2%
	Totals	1,729,682,832	4,456,057,291	2,726,374,459	7.0%
	<b>Note:</b> The listing of the top 10 Other Funds sources represents 60% of the total of \$7,442,174,291.				

Source: Office of State Budget

# Agency Reporting of Other Funds

- Detail Budgets submitted to the Office of State Budget serve as the basis for Appropriation Bill deliberation.

ABD766NP                      P24                      DEPARTMENT OF NATURAL RESOURCES

2010-11                      REVENUE STATEMENT - RECEIPT DETAIL

SOURCE				COLLECTIONS		
SCH NO.	SUB FUND	REV. OBJECT	TITLE	ACTUAL	ESTIMATED	
				2008-09	2009-10	2010-11

I. REVENUE RETAINED AND EXPENDED IN BUDGET OPER.

B. OTHER FUNDS

3035	312	EXCISE TAX-CASUAL SALE		20,000		
3035	603	ADMISSION TAX	37,820	25,000		35,000
3035	1706	HUNTING/FISHING LICENSE AND PERMITS	24,526	35,000		35,000
3035	1804	SOIL CLASSIFIERS LICENSE	3,805	2,000		
3035	1805	LANDSCAPE ARCHITECT LICENSE	71,820	40,000		
3035	2605	FEES AND RECEIPTS-OTHER	250			200
3035	2802	INDIRECT COSTS	479,375	500,000		500,000
3035	2805	FEDERAL GRANTS-SUBCONTRACT	968	10,000		10,000
3035	2822	FEDERAL OPERATING SUBCONTRACT	9,389	350,000		350,000
3035	3801	REFUND PRIOR YEAR EXPENDITURE	26,129	50,000		50,000
3035	3902	OTHER REIMBURSE	188,254	50,000		50,000
3035	4001	ALLOC FROM STATE AGENCIES	10,000			
3035	4512	LANDSCAPE ARCHITECT EXAM	29,942	30,000		
3035	4524	DP SERVICE REVENUE	14,204			5,000
3035	4532	BOAT REGISTRATION FEE	1,665,702	4,200,000		
3035	4829	TRAINING CONFERENCE REGISTRATION FEE	7,035	20,000		20,000
3035	4831	COMMODITY BOARD ASSESSMENT	2,520			

48A5	7201	MISCELLANEOUS REVENUE	407			200
48A5	7403	RENT - STATE OWNED PROPERTY	15,486			10,000
<b>TOTAL OTHER FUNDS</b>			<b>33,527,926</b>	<b>28,685,672</b>		<b>32,310,537</b>

# Migration to Other Funds: Example

## Department of Natural Resources Expenditure Comparison

Fiscal Year	Total	State	State as % of Total	Federal	Federal as % of Total	Other	Other as % of Total
1999-2000	68,532,458	31,282,173	46%	12,751,245	19%	24,499,040	36%
2009-10	83,904,193	17,722,181	21%	24,351,464	29%	41,830,548	50%

### Examples of Other Funds:

Boat Registration Fees	4,172,036
Gas Tax-County Watercraft	3,337,252
Hunting/Fishing Licenses & Permits	13,563,656
Marine Licenses & Permits	2,991,720
	<u>24,064,664</u>

# **Trends of Growth within Functional Areas of the Budget**

# Percent Change in Functional Areas by Category

FY 1994-95 to FY 2008-09						
	GENERAL FUNDS			TOTAL FUNDS		
FUNCTIONAL GROUP	FY 1994-95	FY 2008-09	AVG ANNUAL % CHANGE	FY 1994-95	FY 2008-09	AVG ANNUAL % CHANGE
Legislative	26,303,461	31,904,821	1.39%	26,795,243	34,623,343	1.85%
Judicial/Adm. Law Judges	31,370,896	32,541,959	0.26%	31,612,986	63,542,199	5.11%
Executive & Administrative	140,168,970	151,915,484	0.58%	408,345,720	611,633,151	2.93%
Higher Education	663,209,364	753,566,423	0.92%	1,898,924,556	4,203,271,019	5.84%
Educational	1,319,204,042	2,218,264,438	3.78%	2,013,588,106	4,074,099,019	5.16%
Health & Social Rehabilitation	827,418,117	1,263,084,546	3.07%	3,720,795,326	8,310,088,472	5.91%
Public Safety	78,508,111	76,485,157	-0.19%	101,440,409	137,717,137	2.21%
Correctional	294,112,636	463,012,070	3.29%	350,458,712	589,243,351	3.78%
Conservation, Nat Res & Econ Dev	114,234,166	135,375,560	1.22%	265,818,761	461,884,105	4.03%
Regulatory	89,396,502	46,255,198	-4.60%	263,665,021	320,654,582	1.41%
Debt Service	141,181,322	222,990,995	3.32%	141,181,322	222,990,995	3.32%
Miscellaneous	258,876,897	357,586,035	2.33%	258,876,897	357,678,892	2.34%
Transportation	608,543	1,783,147	7.98%	586,934,895	1,175,534,878	5.09%
Total	3,984,593,027	5,754,765,833	2.66%	10,068,437,954	20,562,961,143	5.23%

# Budget History

## Statewide Total

			<b>Average</b>
			<b>Annual</b>
<b>Fund Source</b>	<b>FY 1994-95</b>	<b>FY 2008-09</b>	<b>% Change</b>
<b>State</b>	3,984,593,028	5,754,765,833	2.7%
<b>Federal</b>	3,137,398,604	7,366,021,019	6.3%
<b>Other</b>	2,946,446,322	7,442,174,291	6.8%
<b>Total</b>	10,068,437,954	20,562,961,143	5.2%
<b>Population</b>	3,748,582	4,454,800	1.3%
<b>CPI</b>	150.40	205.43	2.3%

# Conclusion

- There has been a trend in spending from General Funds to Other Funds.
- Conditions may accelerate this trend for the foreseeable future.
- Proviso 70.27 - Oversight of Other Funds budgets by the General Assembly will be systematic rather than ad hoc.

# Next Steps

- Establish procedures for legislative input in regard to requests for other fund adjustments.
- Choose pilot agencies and perform extensive review of other fund practices.
- Determine a more defined process for inclusion of other funds in the legislative budget process.