

# COUNCIL OF PRESIDENTS

Monday, August 13, 2018

2:00 p.m. – 4:00 p.m.

University of South Carolina Alumni Center

C. Edward Floyd Boardroom

Mike Shealy, Senate Finance Committee staff  
[mikeshealy@scsenate.gov](mailto:mikeshealy@scsenate.gov)

**Question: Will there be a Bond Bill in 2019?**

**Answer: The only bill I will predict to be passed in 2019 is the General Appropriations Bill.**

(And for Fiscal Year 2018-19 General Appropriations Bill, that legislation was ratified on June 29<sup>th</sup>, 2018, just in time for the new year.)

**Caveat: There are signs that suggest consideration.**

# It is very hard to pass a new law, and that is by design.

- Most bills that are filed do not pass. During the 2015-16 Legislative Session, there were filed 959 Senate Bills filed and 1578 House Bills filed. During that two year session, 306 acts became law. That is a success rate of 12.06%.
- Of those bills that became law, many were resolutions of congratulations.
- In reality, one legislative year can accommodate and process only several larger consequential bills each year. The budget is one of those bills and must pass for governmental operations to continue.

## Passing a Budget and any Legislation is an Exercise in Clearing Hurdles

- Three readings in the House and Senate. First reading is the Bill's introduction. All readings must occur on separate days.
- For the budget, most of the detailed deliberation takes place after 1<sup>st</sup> reading and before 2<sup>nd</sup> reading in Committee.
- 2<sup>nd</sup> reading in each chamber is where open debate among all members occurs, and the base document used for debate is the House Ways and Means Committee or Senate Finance Committee recommended version.
- 3<sup>rd</sup> reading is usually perfunctory.
- Once all of this occurs in both bodies, differences are negotiated by a Conference Committee with 3 Senators and 3 House members. Must obtain 2 votes from each side. There is also complexity of high and low numbers as well as parsing language.
- If the Conference Committee reaches compromise on all differences, then both bodies must approve by simple majority the Report.
- Then, the bill becomes an Act and is submitted to the Governor who has line item veto authority over the budget.
- Each Budget Veto stands unless both chambers overrode the veto by a 2/3rds vote.



# Question: Will there be a Bond Bill in 2019?

- That depends on what items are in the Bond Bill.
- That depends on the amount of non-recurring funding available.
- That depends on the number of other “high visibility” bills that make it to the calendar of the House or Senate.
- That depends on the political interplay between the General Assembly and the Governor, the House and the Senate, Conservatives and Moderates.
- That depends on 864, 803 and 843.
- That depends on which viewpoint is effective in the realm of social media.

# Important Information

Types of Debt

# Types of Debt Allowed by the SC Constitution

- General obligation debt - secured by the full faith, credit and taxing power of the state.
- Revenue debt - payable only from a revenue-producing project or from a special source not involving revenues from any tax.

For higher education institutions, debt in this class is generally used for housing, auxiliary enterprises, and athletics.

# Three Classes of General Obligation Debt

1. General obligation highway bonds.
2. General obligation state institution bonds.
3. General obligation bonds for any public purpose.

# 1.) General Obligation Highway Bonds

- General Obligation Highway Bonds are secured by revenues made applicable by the General Assembly for state highway purposes from taxes or licenses imposed on individuals or vehicles for the privilege of using the public highways of the State.
- General Obligation Highway Bonds are limited by debt service not exceeding 15% of the applicable highway revenues collected in the prior fiscal year.

# General Fund Redirections to Roads During the Economic Recovery

Year	One-Time	Recurring
2013	\$50 M – SCDOT bridges	\$109 M – ½ sales tax on cars, ACT 98 SIB funds
2014	\$13.5 M – CTCs	\$110 M – ½ sales tax on cars, ACT 98 SIB funds
2015	\$216 M – CTCs \$70 M – Volvo \$10 M – CTCs (from Aid to Counties)	\$110 M – ½ sales tax on cars, ACT 98 SIB funds
2016	\$50 M – backfill of NFAHF from ACT 275 redirect \$49 M – FEMA flood match \$50 M – ACT 92 (2015) SIB funds to CTCs	\$116 M – ½ sales tax on cars, ACT 98 SIB funds \$66 M – ½ (remainder) sales tax on cars from ACT 275 \$85 M – backfill of DMV fees and fines
<b>TOTAL</b>	<b>\$508.5 M</b>	<b>\$596 M</b>

*\$1104.5 B from the General Fund since 2013.*

***\$216 M permanent (2016-onward) recurring reduction from the General Fund.***

## 2.) General Obligation State Institution Bonds

- General Obligation State Institution Bonds are secured by a pledge of tuition fee revenues of the borrowing institution.
- Limited by debt service not exceeding 90% of the tuition fees collected by the institution during the prior fiscal year.
- Debt in this class is generally used to support academic and administrative buildings - facilities that are not a part of revenue-producing activities of the institution.

### 3.) General Obligation Bonds for Any Purpose

- General obligation bonds for any public purpose.
- Limited to debt service not exceeding 5% of the general revenues of the state collected in the prior fiscal year; however, the constitution allows adjustment to the 5% limitation - it can be reduced to 4% or increased to 7% subject to legislative enactment passed by 2/3 vote of the House and the Senate. This provision was utilized twice to accommodate an additional ½ of 1% capacity for economic development, and an additional ½ of 1% capacity for research universities and deferred maintenance at other state institutions, for an overall 6% limitation imposed by statute.
- This is the constitutional provision that applies to capital improvement bonds authorized under a bond bill.

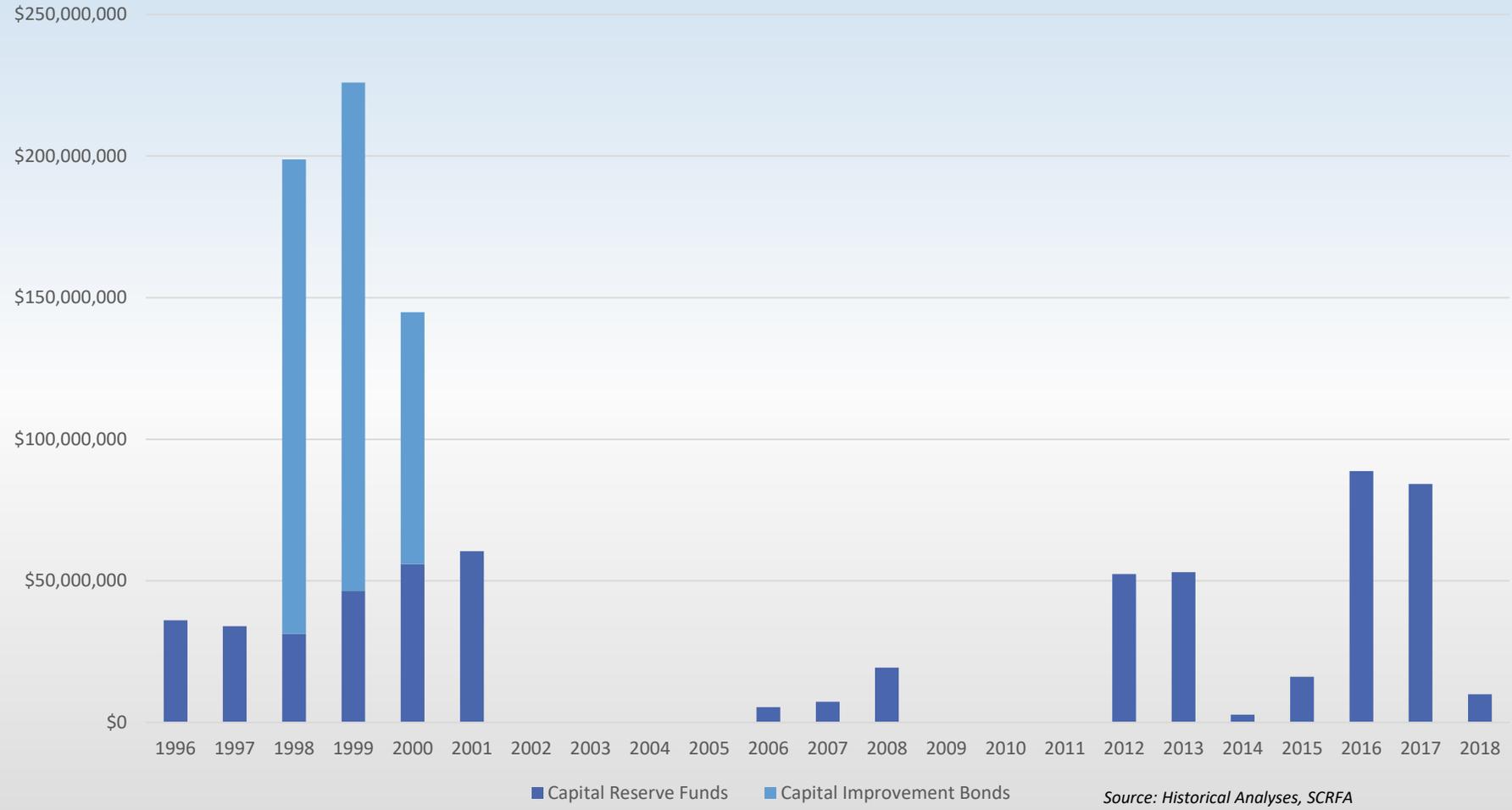
# Important Information

History of Funding for Higher Education Capital Projects.

# State Capital Funding for Public Colleges

## Capital Reserve and Capital Improvement Bonds

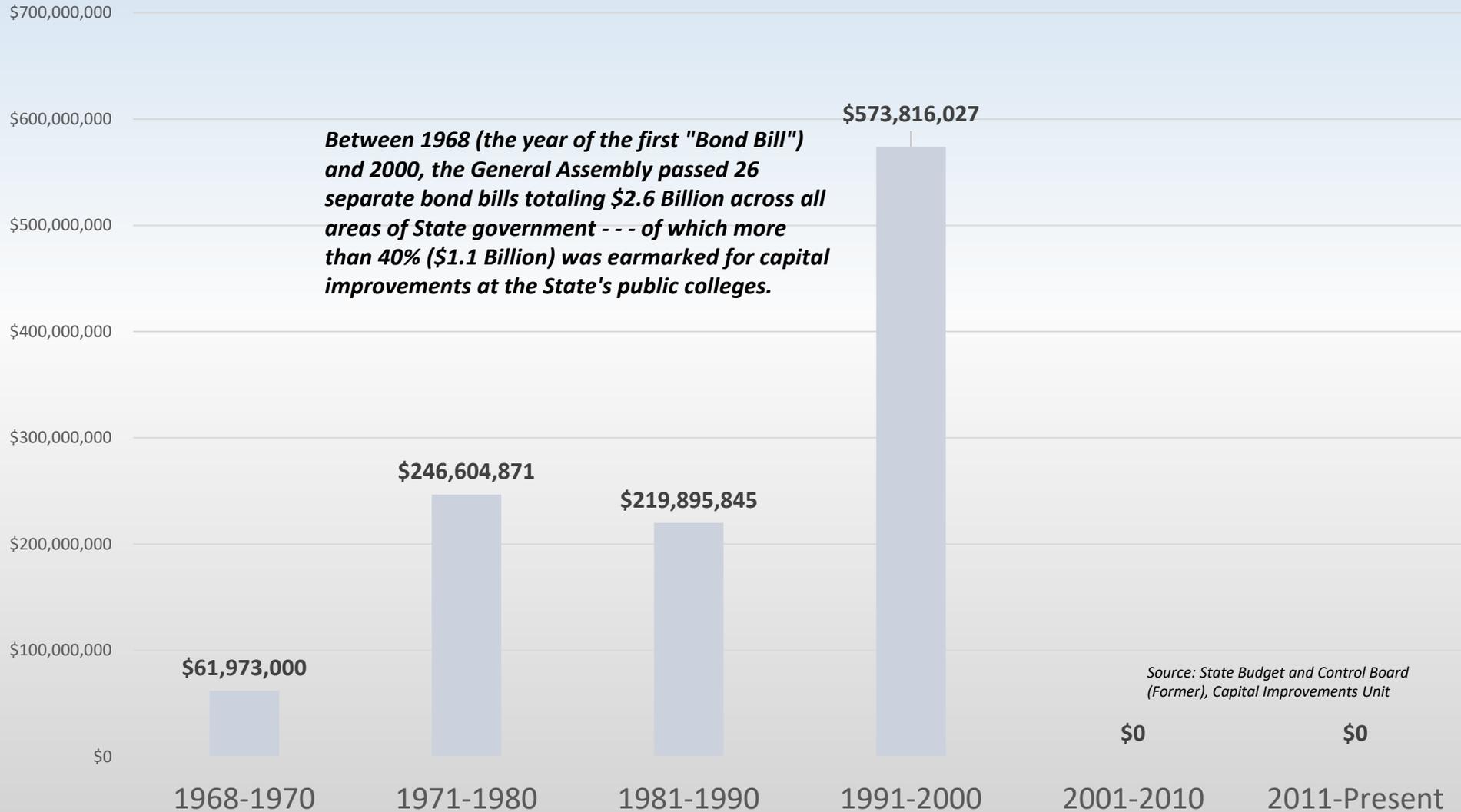
### FY96 - FY18



Source: Historical Analyses, SCRFA

# Capital Improvement Bonds for Higher Education

## *A History by Decade*



# Bond Bills for Higher Education since 2000...a Regional Perspective

2016:	Georgia, Maryland, Mississippi, North Carolina	
2015:	Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina*, Tennessee	
2014:	Louisiana, Mississippi	<i>Since the last time South Carolina passed a capital improvement bond bill for Higher Education (16 years ago), 11 Southeastern States have passed at least 1, with 7 having passed at least 1 over the last 3 years.</i>
2007:	Alabama, Kentucky	
2006:	Arkansas	<i>*Since 2000, North Carolina has authorized more than <b>\$4.4 BILLION</b> in capital improvement bonds for Higher Education.</i>
2005:	Alabama	
2002:	Virginia	
<b>2000:</b>	<b>South Carolina, North Carolina*</b>	

*\*Blue font indicates the State has passed at least 2 Bond Bills since 2000.*

# Important Information

What has happened recently?

# Debt Service in the General Appropriations Bill

## Fiscal Year History

• FY15-16	\$191,630,298
• FY16-17	\$191,630,298
• FY17-18	\$191,630,298
• FY18-19	\$191,630,298

## FY18-19 Detail

### GENERAL OBLIGATION BONDS

• Capital Improvement Bonds	\$49,343,728
• School Facility Bonds	\$49,215,821
• Economic Development Bonds	\$63,976,984
• Research University Bonds	\$24,220,244
• Residual	<u>\$ 4,873,521</u>

TOTAL	\$191,630,298
-------	---------------

# Debt Service Excess Last Year and This Year

## Fiscal Year 2017-18

• Debt Service Appropriation	\$191,630,298
• Amount Needed to Service Debt	\$ 82,451,664
• Excess	\$109,178,634

### Proviso 112.1 Authority

Cash Defeasance of Economic Development Bonds	
	-\$60,265,697
Debt Service – Volvo	-\$45,535,000

## Fiscal Year 2018-19

• Debt Service Appropriation	\$191,630,298
• Amount Needed to Service Debt	\$ 74,190,663
• Excess	\$117,439,635

### Proviso 112.1

SLED Forensic Lab	\$54,078,993
Ports Authority Loan	\$50,000,000
Proviso 118.15 Transfer	\$13,360,642

# Debt Service for Fiscal Year 2019-20

## **FY19-20 Debt Service**

• Debt Service Appropriation	\$191,630,298
• Amount Needed to Service Debt	\$ 66,011,671
• Excess	\$125,618,627

## **Options**

1. Reallocate \$125M recurring to other needs.
2. Keep the Debt Service Account at \$191M and spend \$125M nonrecurring.
3. Write a Bond Bill of \$1.25B.

# Important Information

Impediments to passage of a Bond Bill.

# Impediments to Passage of a Bond Bill

## General Fund Outlook FY2019-20

- General Fund Appropriation Base is \$8,221,032

## Incremental Growth Above Base “New Money”

### RECURRING

• Normal Growth	\$329M	
• Base Adjusted	\$150M	
• Internet Sales Tax	<u>\$50M</u>	
• TOTAL		\$529M

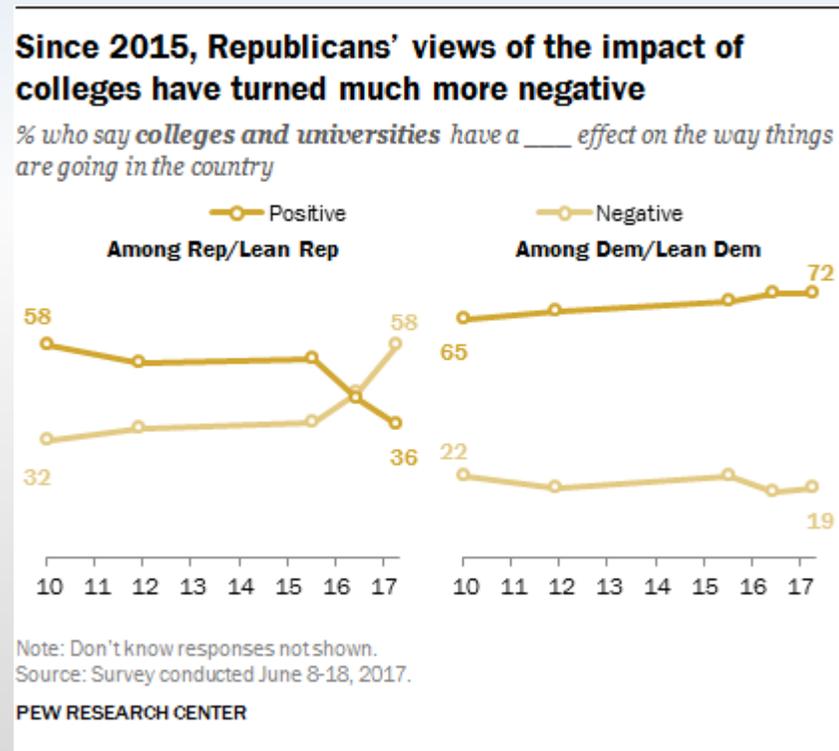
### NONRECURRING

• FY17-18 Surplus	\$150M	
• FY18-19 CRF	<u>\$164M</u>	
TOTAL		<u>\$314M</u>

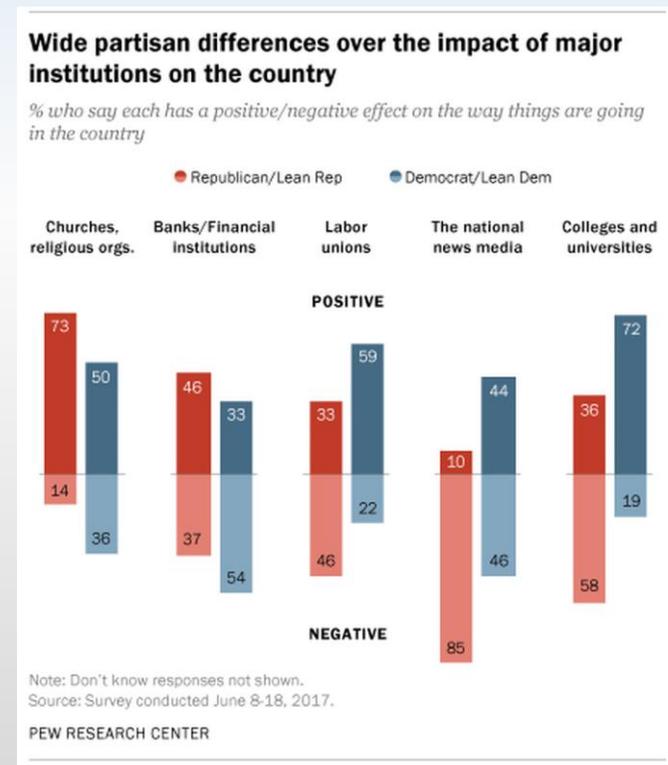
Grand TOTAL		<u>\$843M</u>
-------------	--	---------------

# Impediments to Passage of a Bond Bill - Brand Perspective

## Colleges – Positive or Negative



## Overall Institutional Distrust



These buildings are more than brick and mortar.  
They are touchstones.

**Winthrop's Tillman Hall**



**College of Charleston's Cistern**

