Sustainable budgeting: a new path for South Carolina

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With its vibrant cities, relatively cheap cost of living, and thriving industries like manufacturing, healthcare and hospitality, it's obvious why South Carolina is one of the fastest growing states in the nation. To keep its competitive edge and protect the interests of taxpayers, it is imperative that state government spending – which has seen significant growth in recent years – be brought under control.

For that reason, SCPC has partnered with the Texas Public Policy Foundation (TPPF) for a new project: the *South Carolina Sustainable Budget*. This introductory report compares the last decade of state appropriations with what spending would have looked like under a sustainable budget. A future report will provide sustainable budget spending recommendations for fiscal year (FY) 2024.

What is a sustainable budget?

A sustainable budget, sometimes called a conservative budget, is a model for state budgeting that limits spending based on **population** growth plus **inflation**. This metric serves as an indicator of what the average taxpayer can afford to pay for government provisions. In particular, it accounts for 1) more people in the state who could potentially pay taxes, 2) wage growth that's typically tied to inflation over time to pay taxes, and 3) economies of scale, as not every new person or wage increase should be associated with new government spending.

"A sustainable budget can help lawmakers by serving as a guide for determining what dollar figure budgets must stay below so that spending rises at a responsible level," said Patrick Gleason, Vice President of State Affairs at Americans for Tax Reform.

Such a voluntary spending limit is key to putting South Carolina in a position for further tax relief. Lawmakers recently cut and simplified our state personal income tax – a policy supported by SCPC – and set up additional, smaller cuts to trigger in the future. But smart budgeting will help accelerate that process to reducing income taxes and fuel other tax cuts. Unsustainable spending, on the other hand, could build pressure to reverse course and raise taxes.

Since the Conservative Texas Budget project was started in 2015, TPPF found that its state budget has grown more in line with what the average Texan can afford. In fact, the last four budgets in Texas have grown by less than population growth plus inflation, which has helped strengthen the state's economic situation by keeping taxes lower and giving more opportunities to let people prosper.

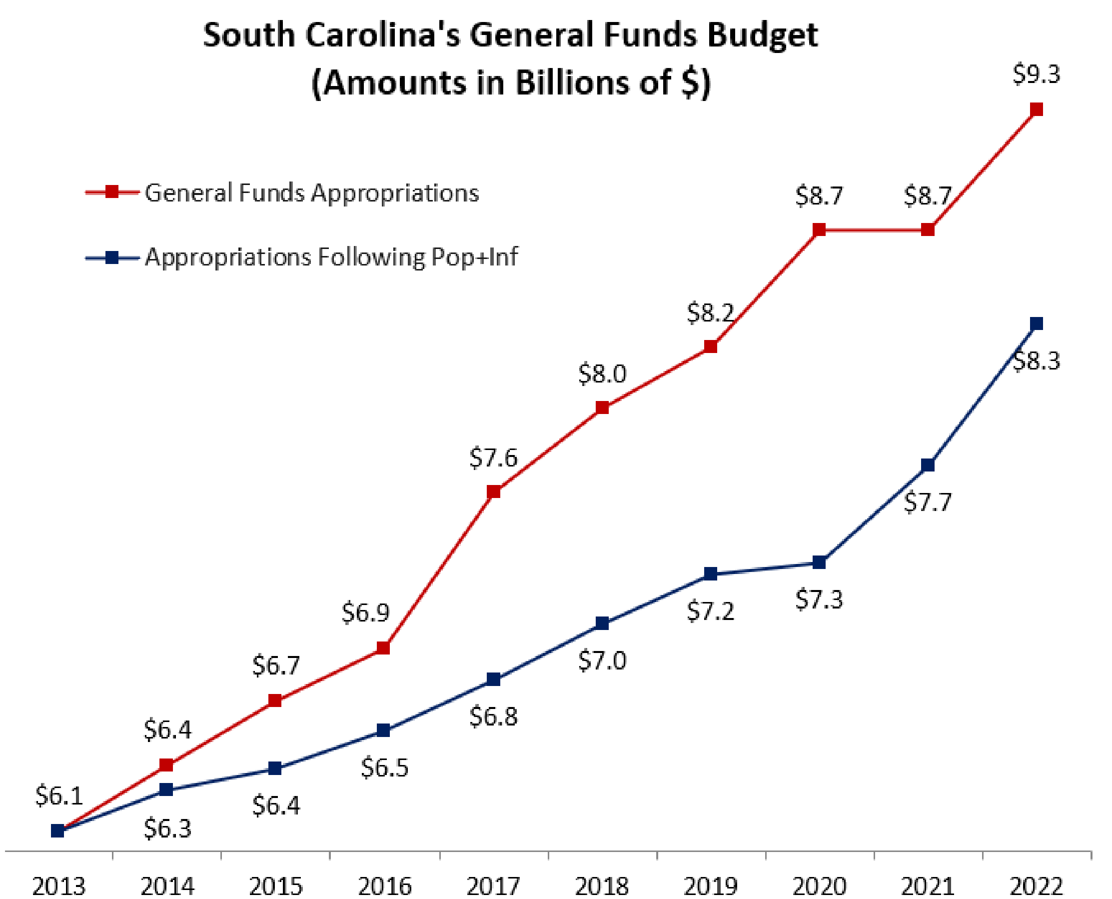
SC appropriations vs. sustainable budget spending

We compared the last decade of South Carolina's general fund appropriations (FY13 - FY22) to general fund spending[1] if limited to population growth plus inflation, with the following results:

10-year state appropriations: $76.5 billion (growth: 52.3%)

10-year spending limited to inflation + population: $69.5 billion (growth: 36.8%)

Figure 1



Appropriations did not increase from FY20 to FY21 because the state operated on a continuing resolution[2] in FY21.

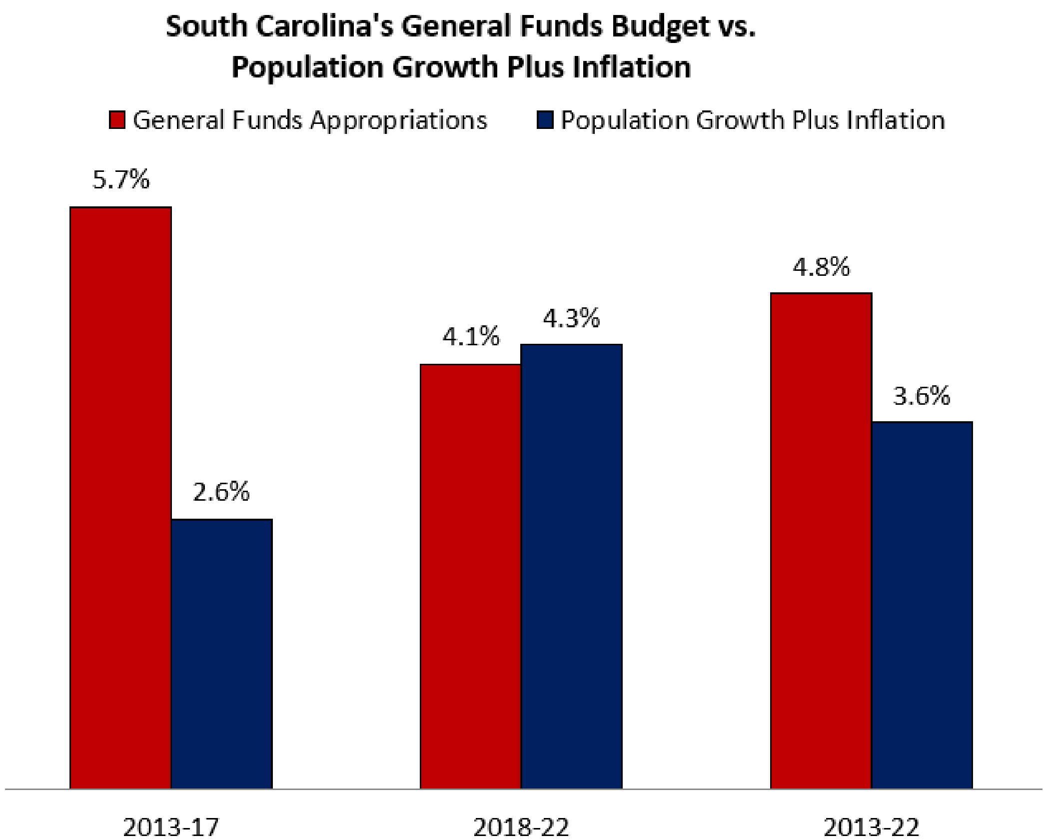
[1] General funds were selected as this is the source of revenue state lawmakers have most discretion over during the budget process. When looking at all funds (general funds + other funds + federal funds), appropriations surpassed the conservative budget threshold between FY17 – FY21.

[2] In spring 2020, the General Assembly passed a continuing resolution extending FY20 state appropriation amounts through FY21. The resolution authorized necessary funding for state procurement, debt obligations, and 2020

Key takeaways

- General fund appropriations exceeded the rate of population growth plus inflation limitation every year across the measured period.
- In total, state appropriations were $7 billion higher than the sustainable budget threshold.
- Appropriations grew by 52% from FY13 to FY22. If limited to the rate of population growth plus inflation, appropriations across the same period should have increased no more than 37%.
- By not following a sustainable budget from 2013 to 2022, individual South Carolina taxpayers carry an additional tax burden of $180 in 2022; families of four face an additional burden of $718.

Figure 2



election expenses. It also authorized $201.5 million from the Contingency Reserve Fund for Covid response efforts. However, as no general appropriations bill was passed that year, FY20 and FY21 appropriation amounts were kept the same for this report.

As seen in Figure 2, general fund appropriations over the last decade have risen faster than growth would occur if limited to population growth plus inflation. The growth rate in the first half of the timeline (FY13-17) more than doubled the recommended cap, while second-half appropriations (FY18-22) narrowly stayed within the threshold. Even though the growth *rate* during the FY18-22 period remained under the limit, actual appropriations exceeded sustainable budget spending in all ten years we measured (see Table 1).

Table 1

Fiscal year	**General fund appropriations (millions of $)**	**Total appropriations if limited to population growth plus inflation**	**Difference**	**Cumulative difference**
2013	$6,088	$6,088	$0	$0.00
2014	$6,379	$6,263	$115	$115.29
2015	$6,660	$6,361	$299	$414.70
2016	$6,895	$6,528	$367	$781.57
2017	$7,580	$6,752	$828	$1,609.25
2018	$7,950	$7,003	$947	$2,556.32
2019	$8,221	$7,221	$1,000	$3,556.46
2020	$8,737	$7,273	$1,464	$5,020.19
2021	$8,737	$7,699	$1,038	$6,058.14
2022	$9,271	$8,328	$943	**$7,000.90**
Growth/Avg	**52.28%**	**36.79%**	**$7,001**	

Charting a better path forward

The data are clear: appropriations over the last decade has grown faster than is considered healthy based on population growth plus inflation. This has expedited the growth of already large and costly sectors of state government, like health and social services (2015) (2022), as well as led to the creation of three new state agencies since 2017. This path is unsustainable in the long term and risks putting taxpayers on the hook for more than they can afford.

Fortunately, South Carolina is still in a relatively strong financial position. The FY23 budget, which went into effect on July 1, had the largest revenue surplus in state history, primarily because the Palmetto State never fully shut down during Covid-19. However, in his May presentation to a legislative budget committee, Revenue and Fiscal Affairs Executive Director Frank Rainwater said he believes we are at a revenue peak and a decline is coming.

Lawmakers, to their credit, have already started looking ahead, giving first passage to a state constitutional amendment that would require more money to be put in two state rainy day funds. Voters still need to approve the measures, which will be on the ballot this November.

Going forward, sustainable budgeting must become the norm. While South Carolina has enjoyed years of increasingly bigger tax revenue surpluses, this trend will not last much longer, and recent indications of a recession mean spending habits will need to change quickly.

SCPC will publish its inaugural *South Carolina Sustainable Budget* recommendations for FY24 later this year. In the meantime, we encourage lawmakers to become familiar with this report, reach out with questions (bryce@scpolicycouncil.org), and embrace the values of a sustainable budget.