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THE BUDGET STABILIZATION FUND A GOOD IDEA AND A POTENTIAL DISASTER

The Budget Stabilization Fund currently proposed in S. 1 would keep South Carolina at abnormally low levels of budget expenditures even after economic recovery. Even as revenues rebound, we would be unable to restore funding to education and state agencies. The reasons are:

1. The formula is based off the previous year's allowable expenditures. *When expenditures are cut, the base ratchets down to that new, lower level.*
2. There is no phase-in period – *we start at the bottom and we will be stuck there.* If there were enough money in the fund, that would keep allowable expenditures on a steady path. There is no money in the fund now.
3. A formula based on the average of the past ten years' revenue growth, in a decade with four years of negative growth rates, means that *the expansion of expenditures after recovery will still be constrained at near zero for several years.*
4. A Fund capped at 15 % of previous year's General Fund Revenues would have still left us short over the last three years.

South Carolina Fair Share strongly supports a well-designed Budget Stabilization Fund. *There are solutions.*

1. *Base the formula off what the spending target would have been had the BSF been fully funded over the previous decade.* That provides a phase-in until the Fund is fully funded. It will keep the formula from ratcheting down allowable expenditures.
2. *Change the formula* to the greater of 1) the average rate of revenue growth over the previous ten years or 2) the growth in population plus the growth in the Consumer Price Index (CPI). Population plus CPI is a formula which causes fiscal malnutrition because it is based on a market basket of goods and services which a household buys; government doesn't buy the same things as a household. Right now, it's more generous than average revenue growth.
3. *Count years of negative growth as zero for calculating the average rate of revenue growth.* Except in this decade, those have been rare events.
4. *Raise the cap on the fund to 20 %.* A large fund does not divert money from education, health care and other state needs. It only levels the expenditure over time so that we don't have harmful boom and bust cycles. A low cap only diverts those "excess" revenues to other uses and away from core state needs.

South Carolina needs a mechanism to stabilize state budgets and exert a countercyclical effect in bad times. A properly-designed Budget Stabilization Fund provides that necessary rainy day fund. *But, when you are at the bottom of the well, you have to climb out before you can move forward.* The General Assembly should fix both the proposed Constitutional amendments (S. 1 or H. 3037) and the proposed implementing legislation (S. 2) before either advances.