Three-Year General Fund Financial Outlook

FY 2022-23 to FY 2024-25

Prepared Pursuant to Act 156 of 2005

§11-11-350

South Carolina Revenue and Fiscal Affairs Office

December 2021

Three-Year General Fund Financial Outlook
FY 2022-23 to FY 2024-25
Based on Enacted FY 2021-22 Budget
(Dollars in Millions)

	FY 2021-22 "Base Year"	Projections FY 2022-23	FY 2023-24	FY 2024-25
Resources:				
Revenue (BEA Long Range Revenue Forecast, 11/10/2021)	10,901.2	10,919.8	11,302.0	11,821.3
Tax Relief Trust Fund Transfers	(644.0)	(662.0)	(681.5)	(693.4)
General Reserve Fund Transfer	(18.7)	(64.0)	10.1	(0.0)
Total Revenue/Resources	**$10,238.5**	**$10,193.8**	**$10,630.6**	**$11,127.9**
Expenditures and Reserve Fund Contributions:				
Recurring Base	**$9,270.6**	**$9,270.6**	**$9,270.6**	**$9,270.6**
Constitutional/Statutory Items:				
Capital Reserve (CRF)		25.6	21.6	21.6
Local Government Fund		12.6	21.9	35.0
Debt Service		(145.1)	(124.8)	(147.3)
Homestead Exemption Fund Shortfall (Act 388 of 2006)		(11.8)	(6.9)	(14.7)
Major Expenditure Categories (Maintenance of Effort):				
K-12 Education		94.7	182.8	266.2
Medicaid and Health		235.0	296.0	371.9
Social Services		43.6	58.7	60.8
Higher Education Scholarship Growth (LIFE, HOPE & Palmetto Fellows)		0.0	11.0	22.5
State Employee Health Plan (Retiree Growth + Rate Increase)		82.3	197.9	277.6
State Employee Compensation Changes (2 percent per year)		48.5	98.3	149.2
SCRS/PORS Contribution Increase (1 percent in FY 2023 and FY 2024)		34.6	69.2	69.2
Total Expenditures	**$9,270.6**	**$9,690.5**	**$10,096.3**	**$10,382.6**
Recurring Balance for Other Appropriations		$503.3	$534.3	$745.4
Projected CRF Funds Available for Nonrecurring Expenditures		$183.6	$209.2	$205.2
Projected General Reserve Fund Balance	$459.0	$523.0	$512.9	$512.9

The Notes and Assumptions are an integral part of this Financial Outlook.

Notes

The Three-Year General Fund Financial Outlook is prepared by the South Carolina Revenue and Fiscal Affairs Office in accordance with Section 11-11-350 of the S. C. Code of Laws, 1976. The Outlook is a three-year revenue and spending projection based on the enacted FY 2022 General Fund operating budget.

The spending projections are cumulative, and the estimates are based on the FY 2022 enacted budget and major expenditure categories contained therein. Unless noted below, future years do not include any increases over the baseline expenditures (FY 2022 enacted recurring budget). If the projected balance is negative in any year, a budget gap exists. A budget gap reflects a structural imbalance between projected revenue growth and expenditure increases based on the adjusted enacted budget.

This document is intended to be used for planning purposes only and should not be viewed as requiring the General Assembly to fund the major expenditure items listed. The Outlook does not attempt to capture every agency's needs or budget requests. This document is preliminary and is subject to revision.

RESOURCE/REVENUE ASSUMPTIONS

- **Economic Forecast** – The economic forecast is based on the Board of Economic Advisors' (BEA) long-range General Fund revenue forecast as of November 10, 2021. The FY 2023 revenue estimate serves as the base for the long-range forecast. The plan is built upon an assumed growth rate in personal income and historical growth rates or patterns in the revenue sources.

  The assumptions and methodologies for FY 2023, which serves as the base for the long-range forecast, include:

  - An annual personal income growth rate of 2.62 percent;
  - A decline in sales tax of 1.3 percent as collections return to historical levels following highly elevated spending by consumers on taxable goods in FY 2021 and FY 2022;
  - An individual income tax growth rate of 2.4 percent, mainly driven by sustained, elevated wage growth with legislative adjustments considered;
  - Corporate income tax decreasing by 19.7 percent as collections return to historical levels after exceptionally high growth in FY 2021 and FY 2022;
  - A return to pre-pandemic employment levels in July 2022 and historical growth through the remainder of FY 2022 and throughout FY 2023; and
  - A return to overall historical trends and patterns in revenues as the economy settles following the COVID-19 pandemic and waning fiscal stimulus effects.

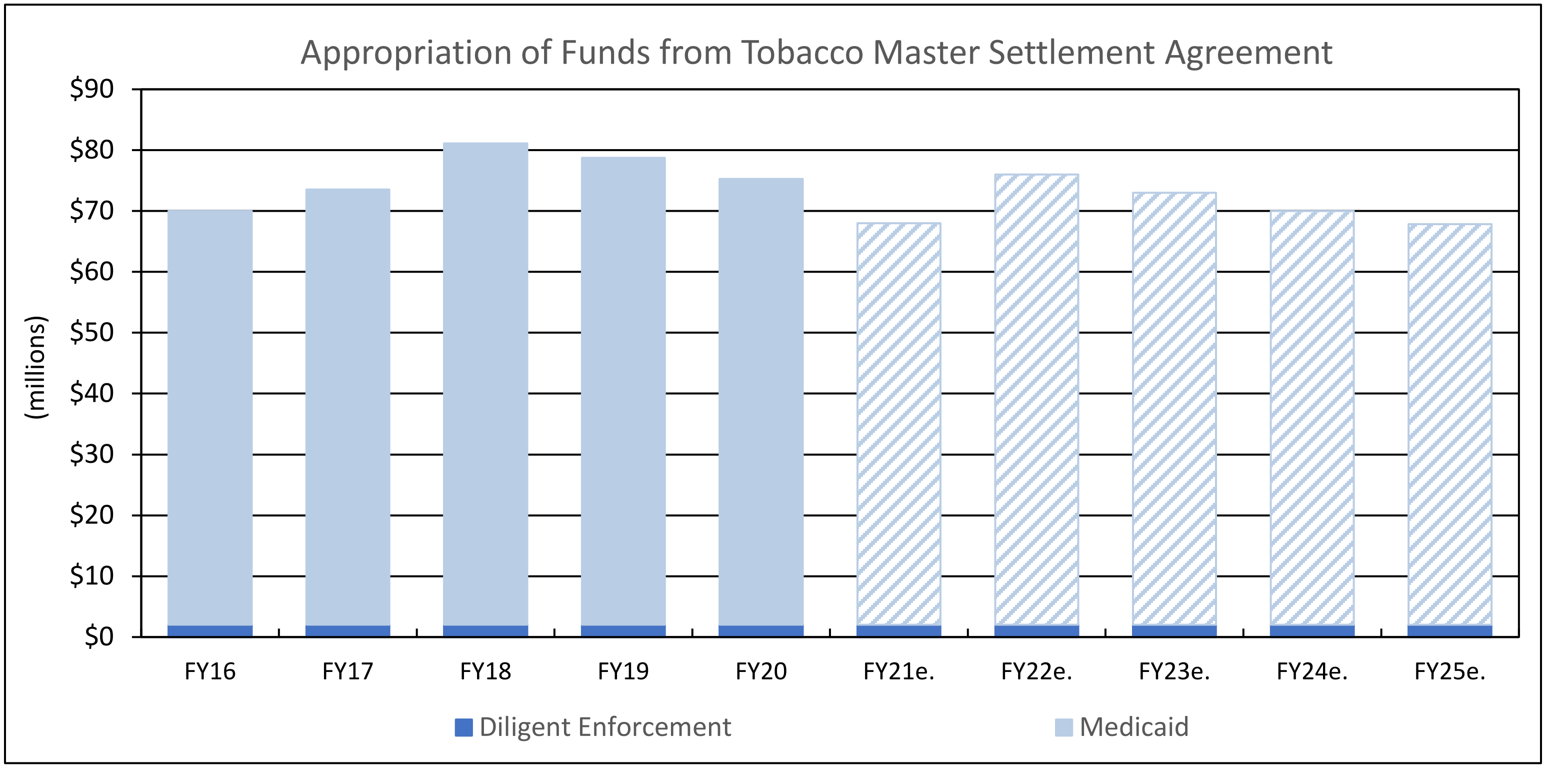
Due to the volatility in revenue collections during the COVID-19 pandemic, the forecast carries more caution than usual. The annual General Fund growth rates for FY 2023, FY 2024, and FY 2025 are 0.2 percent, 3.5 percent, and 4.6 percent, respectively.

- **Tobacco Master Settlement Agreement** – The State's "tobacco bonds," securitized by its Tobacco Master Settlement Agreement (MSA) payments, were retired June 1, 2012. By statute, future MSA receipts are available for appropriation. While current statute earmarks these funds primarily for healthcare programs[1], specific program appropriations are at the discretion of the General Assembly. One of the fundamental purposes of the MSA has been to reduce smoking. Since the execution of the MSA in 1998, cigarette sales nationwide have dropped significantly. Fewer cigarette sales equate to lower payments to the State. MSA receipts for South Carolina have declined 49 percent since FY 2014.

  The Center for Tobacco and Public Health at the National Association of Attorneys General has projected that South Carolina will receive approximately $76.0 million for FY 2022, $73.0 million for FY 2023, and $70.0 million for FY 2024. Based on current trends, receipts for FY 2025 are projected to be $67.8 million. Over the last several years, these funds have been appropriated for Medicaid maintenance of effort and diligent enforcement of the tobacco MSA. Therefore, this amount is not shown as additional revenue in the Outlook.

[1] Section 11-11-170 of the S. C. Code of Laws, 1976, outlines allowable uses for Tobacco MSA funds.

Figure 1. Tobacco Master Settlement Agreement Funds



RESERVE FUNDS

- **General Reserve Fund –** The General Reserve Fund serves as a savings account funded at 5 percent of the previously completed fiscal year's General Fund budgetary revenue.[2] Funds from this reserve may only be used to cover operating deficits of State government. Currently, the General Reserve Fund is fully funded at $458,961,225. The annual contribution required for FY 2023 is $64.0 million based on FY 2021 revenue collections. Because FY 2022 revenues are anticipated to fall below revenues for FY 2021, the full funding requirement for FY 2024 will decrease by $10.1 million. Revenues for FY 2023 are anticipated to only marginally exceed FY 2022 revenues. Consequently, the required contribution to maintain full funding for FY 2025 is projected to be $27,522.

- **Capital Reserve Fund –** The Capital Reserve Fund (CRF) is a budgetary account funded at 2 percent of the previously completed fiscal year's General Fund budgetary revenue. It is used to offset year-end deficits and to replenish, when needed, the required amount in the General Reserve Fund. If not used for either purpose, the CRF may be appropriated for the following: (1) to finance in cash previously authorized capital improvement bond projects, (2) to retire the interest or principal on bonds previously issued, or (3) for capital improvements or other nonrecurring purposes. The incremental contribution required for FY 2023 is $25.6 million based on FY 2021 revenue collections. For the reasons listed above under General Reserve Fund, funding requirements for FY 2024 will decrease by $4.0 million, and FY 2025 funding requirements are projected to increase by $11,009.

Table 1 displays the balance required to fully fund each of the reserves over the forecast period, along with the budgetary revenue used to determine that balance. The required balance is the full-amount required by statute. The

[2] Budgetary revenue is equal to gross General Fund revenue less allocations to the Tax Relief Trust Fund.

incremental adjustment is the year-over-year increase needed to fully fund the reserve, and assumes that the General Reserve Fund was not used in the prior year. Due to the ongoing uncertainty caused by the COVID-19 pandemic, the BEA continues to be cautious in its forecasting. Should revenue performance differ significantly from current projections, the contribution requirements to the reserve funds will likewise change.

Table 1. Required Reserve Fund Balances
(Millions of Dollars)

	FY 2020	FY 2021	FY 2022e.	FY 2023e.
General Fund Budgetary Revenue	9,179.2	10,459.7	10,257.3	10,257.8

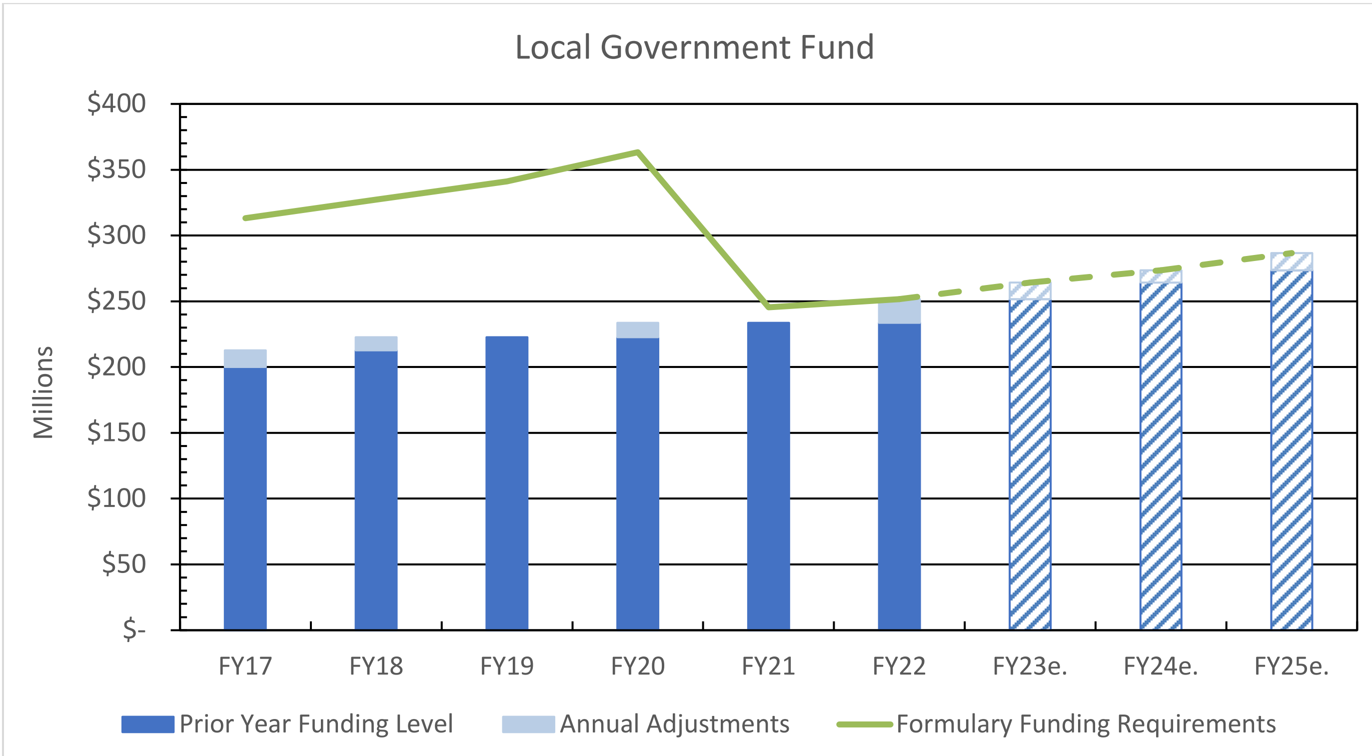
	FY 2022	FY 2023	FY 2024e.	FY 2025e.
General Reserve Fund Required Balance	459.0	523.0	512.9	512.9
Incremental Adjustment	18.7	64.0	(10.1)	0.0
Capital Reserve Fund Required Balance	183.6	209.2	205.1	205.2
Incremental Adjustment	7.5	25.6	(4.0)	0.0
Total Reserve Fund Required Balance	**642.5**	**732.2**	**718.0**	**718.0**
Total Incremental Adjustment	**26.2**	**89.6**	**(14.2)**	**0.0**

EXPENDITURE ASSUMPTIONS

Local Government Fund

❖ The Local Government Fund is a statutorily defined appropriation of funds to counties and municipalities. For several years, the statutory funding requirements for local government were suspended. Act 84 of 2019 changed the required funding formula. Under the new formula, beginning in FY 2021, the annual appropriation must be increased by the growth in the BEA General Fund revenue projection over the current fiscal year's appropriation base, up to a maximum of 5 percent. The pandemic hindered the budget development process in the Spring of 2020, and the State operated under a Continuing Resolution that extended funding levels for state government into FY 2021. Therefore, the new funding formula was not incorporated until FY 2022. Figure 2 shows the actual funding of the Local Government Fund in relation to the balance that would have been required per statute. Annual increases for FY 2023, FY 2024, and FY 2025 are $12.6 million, $9.3 million, and $13.1 million, respectively.

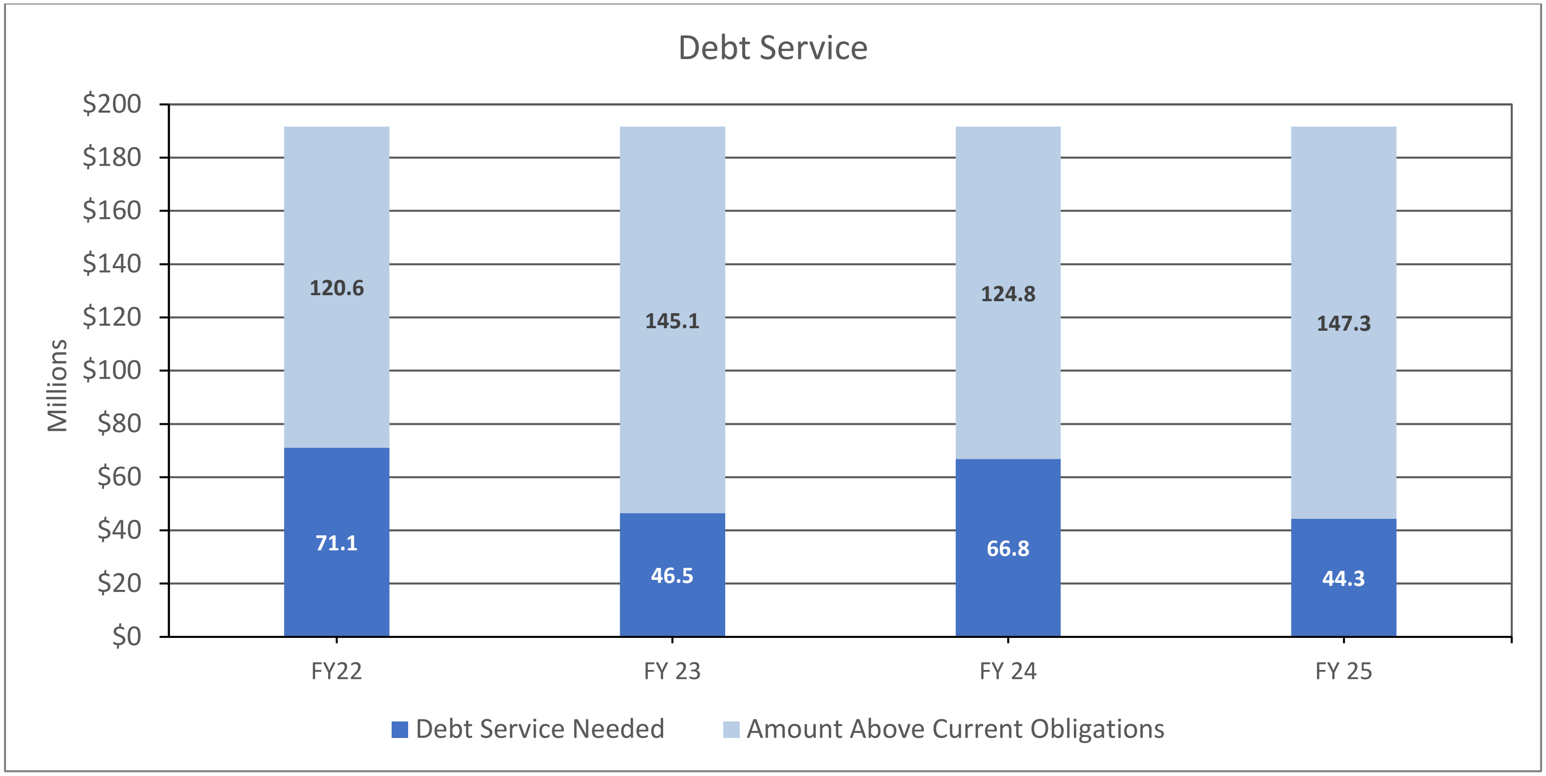
Figure 2. Local Government Fund Appropriations and Projected Funding Requirements



Debt Service

- Future Debt Service needs will decline over the forecast period based upon current projections and obligations. This analysis assumes that Debt Service will continue to be funded at the current level of $191.6 million. This estimate reflects existing law and does not include the potential impact of proposed legislation. Figure 3 displays the funds required for Debt Service each year along with the anticipated amount above current obligations.

Figure 3. Debt Service Appropriations and Requirements.

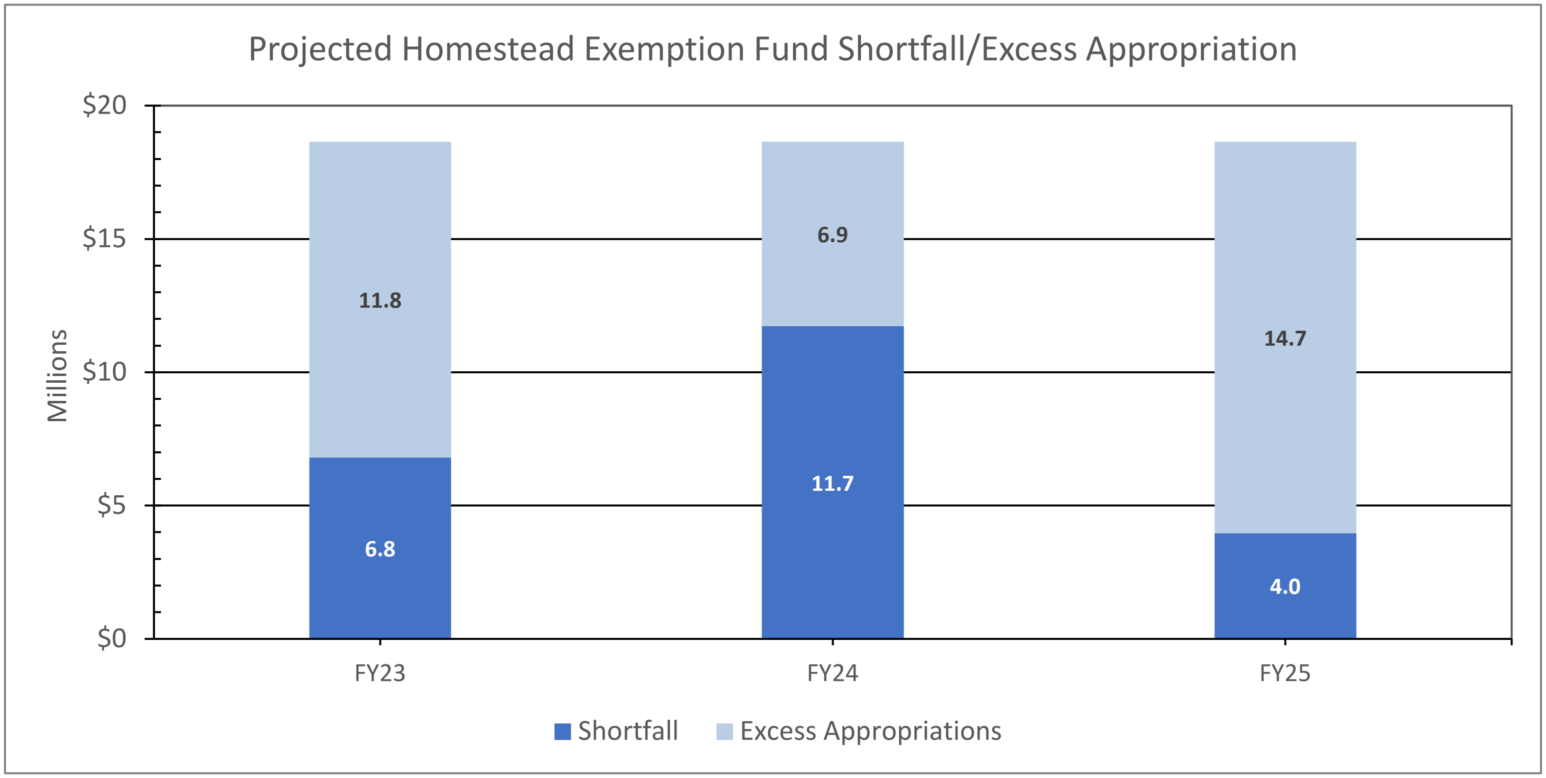


Homestead Exemption Fund

- The Property Tax Reform Act, Act No. 388 of 2006, eliminated all school operating taxes on owner-occupied homes and increased the state sales tax by one cent to replace the reduced property tax revenue stream. The new revenue from the one-cent sales tax increase is earmarked for the Homestead Exemption Fund, which replaces the local property tax revenue. The school district funding requirement is based on inflation plus a population growth factor. The Act provides that, should there be a shortfall of revenue in the Homestead Exemption Fund, the General Fund will make up the difference.

The FY 2022 base budget includes $18.6 million dedicated to offset this shortfall. The anticipated shortfall is $6.8 million in FY 2023, $11.7 million in FY 2024, and $4.0 million in FY 2025. Therefore, the current appropriation exceeds the anticipated shortfall for FY 2023, FY 2024, and FY 2025 by $11.8 million, $6.9 million, and $ 14.7 million, respectively.

Figure 4. Projected Homestead Exemption Fund Expenditure Net of General Fund Appropriation



K-12 Education

- **State Aid to Classrooms –** The FY 2022 budget provides State Aid to Classrooms of $3,887 per pupil. Funding is distributed as follows: 63.60 percent to the Education Finance Act (EFA), 28.62 percent to EFA employer contributions, and 7.79 percent to increase the State Minimum Teacher Salary Schedule. The projections for increases in State Aid to Classrooms are based upon calculated inflationary growth in the EFA as outlined below.

- **Education Finance Act (EFA) –** The FY 2022 Base Student Cost (BSC) is $2,516. This forecast assumes a 2.4 percent inflation factor for FY 2023, 2.5 percent for FY 2024, and 2.2 percent for FY 2025. The FY 2022 Weighted Pupil Unit (WPU) count is currently 1,055,069 for the regular districts, the charter districts, and the special school districts. The WPU growth rate for the regular school districts is 0.2 percent annually over the forecast period. During the forecast period, growth in the two statewide charter school districts is estimated to outpace the overall growth rate in regular school district WPUs at a growth rate of 8.8 percent annually. This expectation is due to enrollment growth in existing and new charter schools and the addition of new grade levels in existing charter schools. Table 2 displays the BSC and its inflation factor, the WPUs, and the incremental EFA funding increase for each year throughout the forecast period.

Table 2. Projected Education Finance Act Funding Increase
(Millions of Dollars)

Fiscal Year	Base Student Cost	Inflation Factor	Weighted Pupil Units	Funding Growth
FY22	2,516		1,055,069	
FY23	2,576	2.4%	1,060,153	$94.7
FY24	2,641	2.5%	1,067,765	$88.1
FY25	2,699	2.2%	1,075,876	$83.4

Act 13 of 2017 increased employer contributions to the state's retirement system 1 percent each year beginning in FY 2018, with the final increase scheduled for FY 2023. These increases were disrupted by the pandemic and remain one year behind schedule (see State Employee Retirement System for further explanation). Part of employer retirement contributions for teachers are funded through the EFA. Therefore, the increases to the EFA depend on whether the General Assembly chooses to increase retirement contributions by 1 percent each year in FY 2023 and FY 2024, or 2 percent for FY 2023. The figures in the table above assume 1 percent is funded in FY 2023 and FY 2024. If contributions increase by 2 percent in FY 2023, the incremental funding requirement will be $95.3 million for FY 2023, $87.5 million for FY 2024, and 83.4 million for FY 2025.

- **Bus Replacement** – The State Department of Education (SDE) has indicated that additional funds will be required to reach a 15-year replacement cycle and address growth in districts with increased ridership. In order to meet this goal, additional funding of $5.0 million, $4.0 million, and $3.0 million will be required in FY 2023, FY 2024, and FY 2025, respectively. Since FY 2018, school bus purchases over the base appropriations have been funded through nonrecurring revenues. Therefore, these increases are not included in the amounts listed on page 1.

- **Reading Coaches** – SDE has indicated an increase in the number of schools qualifying for reading/literacy coaches as determined by Proviso 1.60 of the FY 2022 Appropriation Act. Providing support to all schools that qualify would require a total of $6.5 million phased in over a two-year period, adding $3.25 million dollars in both FY 2023 and FY 2024. Because funding for this type of support is not open-ended, but dependent upon appropriations, these figures are not included in the amounts listed on page 1.

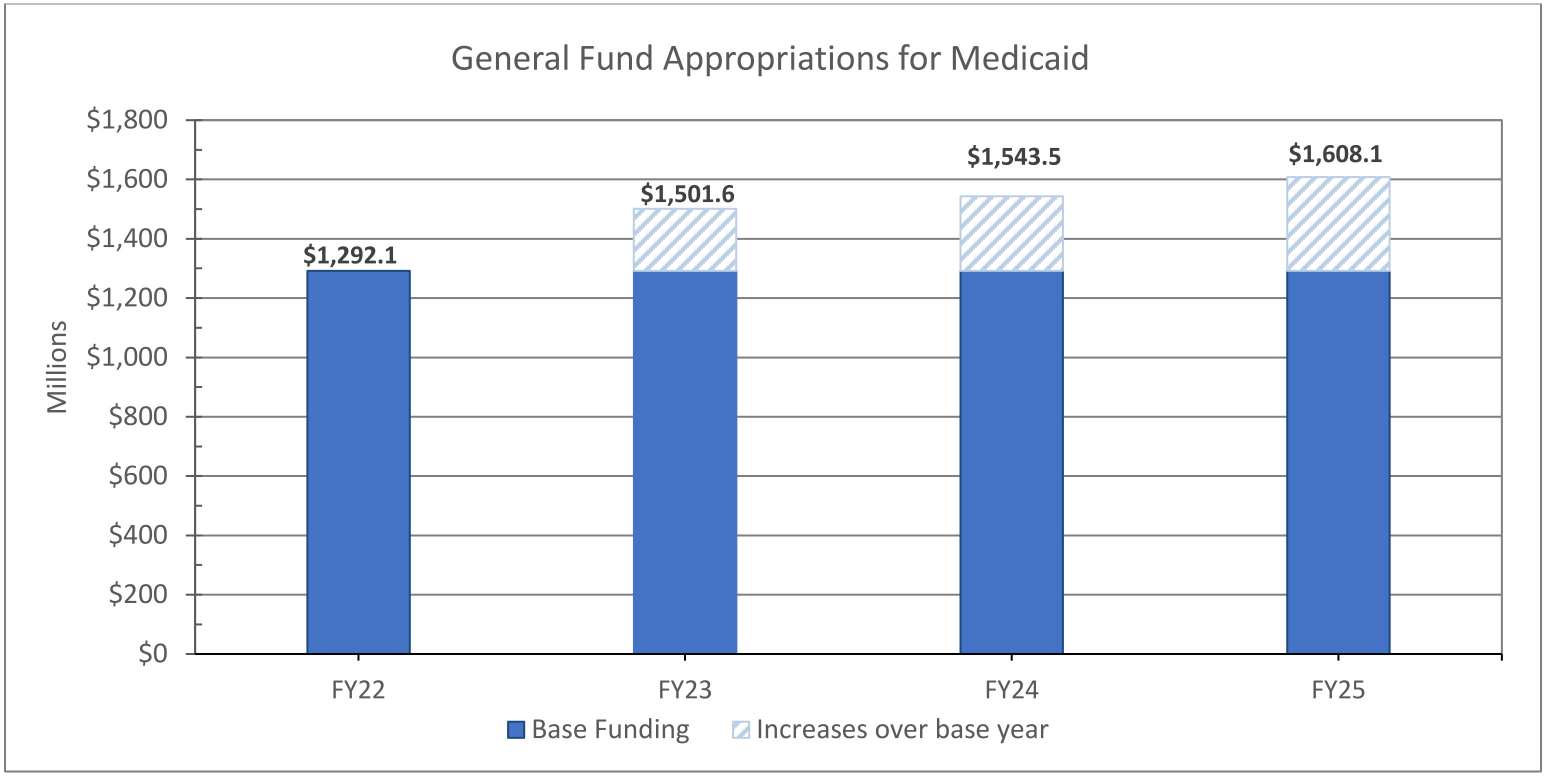
Medicaid and Health

- **Medicaid Program** – Medicaid projections reflect additional State funds needed to maintain current service levels based on enrollment and cost per member projections. Because the Medicaid annualization has not been fully funded through recurring appropriations in recent years, the increase in the FY 2023 budget reflects three years of annualization. The increases in projected expenditures are primarily attributable to inflationary costs and growth in existing programs, particularly continued growth in the Community Long Term Care waiver program, which provides nursing facility-level care in a patient's home.

  During the COVID-19 pandemic, the state experienced an increase in Medicaid enrollment. The federal Families First Coronavirus Response Act (FFCRA) requires states to freeze dis-enrollment for Medicaid recipients. Therefore, Medicaid enrollment remains elevated. The Public Health Emergency (PHE) has recently been extended to January 2022, meaning that the dis-enrollment freeze will continue through March 2022. Once the dis-enrollment freeze is lifted, the Department of Health and Human Services (DHHS) may begin to gradually un-enroll members who no longer qualify for Medicaid. This dis-enrollment phase is expected to last for approximately one year. Projections for FY 2023 are based on these assumptions, and further assume that managed care enrollment slowly decreases to pre-COVID levels during the fiscal year. However, an extension of the PHE would result in an increase in these projected expenditures. The department anticipates a 1 percent increase in managed care and fee-for-service enrollment in FY 2024 and FY 2025.

  As the state's economy improved over the last several years, South Carolina's Federal Medical Assistance Percentage (FMAP) declined. FMAP is computed using a formula that considers the average per capita income for each state relative to the national average. FMAP affects the rate at which the federal government matches State dollars spent on Medicaid. The projections made by DHHS are based on the assumption that the FMAP will remain flat throughout the forecast period. Based on these assumptions, the projected General Fund year-over-year growth rate for the Medicaid program is 16.2 percent for FY 2023, 3.2 percent for FY 2024, and 5.0 percent for FY 2025. The incremental recurring state appropriations needed to fund the Medicaid program for FY 2023, FY 2024, and FY 2025 are $209.5 million, $41.9 million, and $64.6 million, respectively. If the FMAP changes during the period, the revised match rate would affect these estimates.

Figure 5. Projected Medicaid Program Maintenance of Effort Funding



- **Mental Health** – The Department of Mental Health (DMH) is mandated to operate several programs, including Forensic Services, the Sexually Violent Predator Treatment Program (SVPTP), and four Veterans Nursing Homes.

Costs to operate these programs continue to increase due to census growth and inflation. The SVPTP average daily census and inflationary costs are expected to increase by 4.5 percent and 2.5 percent, respectively, in FY 2023 and will require an additional $2.4 million over the next three years. The state's two new Veterans Nursing Homes are expected to increase their number of patients by a combined 24 percent in FY 2023. The nursing home program will require an additional $7.7 million in funding over the next three years.

DMH has become reliant on nonrecurring funding to finance increasing costs for recurring operations in its psychiatric hospitals and other facilities, as well as for administrative and support areas. The agency has estimated a need of $22.1 million over the next three years to fund these recurring expenditures.

In total, DMH anticipates additional funding of $16.6 million, $7.7 million, and $7.9 million will be required in FY 2023, FY 2024, and FY 2025, respectively, to continue to cover operating costs at community mental health centers and inpatient facilities, along with growth in their mandated programs.

- **Disability and Special Needs –** The Department of Disabilities and Special Needs (DDSN) reports that many of their expenditures are driven by utilization rates and service rates. The agency will be renewing its Intellectual Disability/Related Disabilities (IDRD) Waiver in January 2022 and has worked with DHHS to calculate an estimated increase in funding needed of $15.0 million over the next two years. In addition, the agency projects new waiver slots will be needed to address waiting lists in the IDRD, Community Supports, and Head and Spinal Cord Injury programs. The addition of 1,050 new waiver slots will require a total of $8.7 million over the next three years. In total, the incremental adjustments for DDSN for FY 2023, FY 2024, and FY 2025 are $8.9 million, $11.4 million, and $3.4 million, respectively.

Social Services

- **Family First Prevention Services Act (FFPSA)** – States were required to implement the federal FFPSA by October 1, 2021. This act will result in a decrease in federal reimbursements for congregate care costs that do not meet certain standards of care. The Department of Social Services (DSS) and the provider community have identified investments required to meet or exceed the new federal standards over the next three years. A total of $10.8 million will be needed over the forecast period for these investments and to replace the revenue lost due to the change in federal reimbursement policy. The incremental adjustments for FY 2023, FY 2024, and FY 2025 are $5.8 million, $2.9 million, and $2.2 million, respectively.

- **Child Welfare Reform –** DSS continues in its efforts to meet the obligations and milestones required by the Michelle H. Lawsuit Final Settlement Agreement (FSA). The FSA, ordered in October of 2016, includes many provisions governing the caseloads of workers, in-person visits between caseworkers and foster children, child placements, family visitation, timeliness of investigations, and access to healthcare. As part of the FSA, DSS has established various implementation plans that have been approved by the federal court, and a third party is required to monitor and report periodically on the agency's progress toward the goals set forth in these plans. DSS has established targets of at least 90 percent of case managers and supervisors within caseload standards, and no case manager or supervisor having more than 125 percent of the acceptable case load. In their most recent report, the monitoring service reported that, as of March 31, 2021, 49 percent of foster care case managers were within their caseload limit, and no case managers with the Out-of-Home Abuse and Neglect program met caseload compliance levels.

  DSS has determined a need of $50.0 million in additional funding over the next two years for services related to the FSA. This amount includes funding for approximately 250 additional FTEs to serve as case managers and supervisors. The incremental adjustments for FY 2023 and FY 2024 are $37.8 million and $12.2 million, respectively.

❖ **Federal Title IV-E Entitlement Loss –** DSS reports that the State's Title IV-E eligibility rate has decreased over the past several years, resulting in the loss of federal revenue. The agency has determined a need of $9 million annually to replace this revenue and avoid running a deficit in individual program budgets. These funds are included in the need reported above.

Higher Education

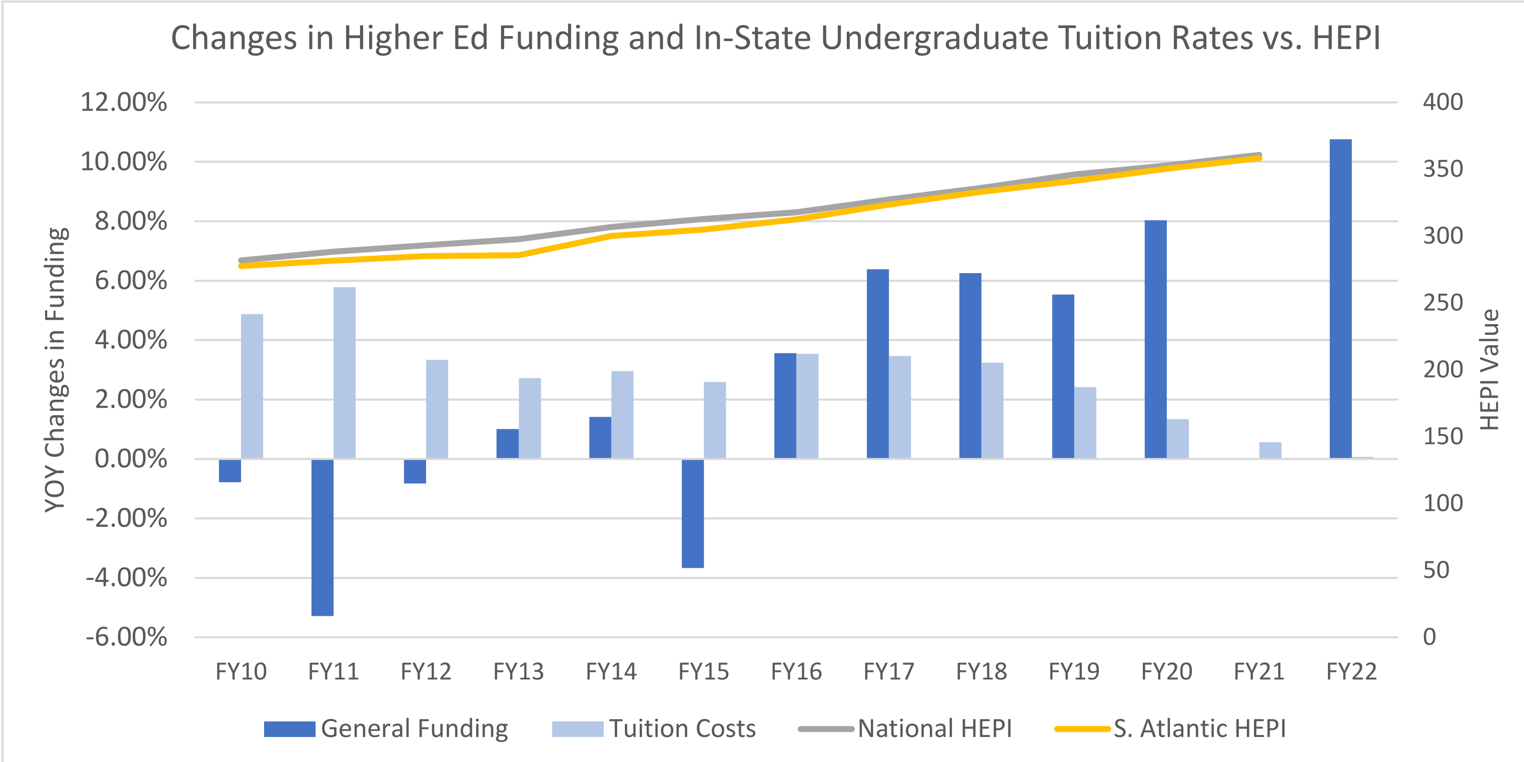
❖ **LIFE, HOPE, & Palmetto Fellows Scholarships** – Scholarship projections are based on the long-term average growth rates for each scholarship program from FY 2010 to the most recently completed fiscal year. By FY 2020, actual distributions for LIFE, HOPE, and Palmetto Fellows Scholarships collectively were increasing at an average annual rate of 3.6 percent. However, FY 2021 distributions for these three programs grew by only one-half of one percent over the previous year. This change caused the growth rate used to project future distributions to drop by almost one-third of one percent. This drop in scholarship program growth may be attributable to the decline in enrollment for FY 2021. Due to the pandemic, headcount enrollment for FY 2021 decreased by 2.5 percent over FY 2020 after remaining relatively flat since FY 2015. Based on preliminary enrollment data for FY 2022, we anticipate headcount enrollment to remain flat or increase slightly over last year.

Because of the factors explained above, the anticipated need for FY 2023 will remain flat in comparison to current funding levels. Therefore, no increase is anticipated for the next fiscal year. The estimated incremental costs for the three scholarship programs are $11.0 million in FY 2024 and $11.6 million in FY 2025.

Of the funds appropriated to the Commission on Higher Education for Education Endowment, $12.0 million is allocated to fund Palmetto Fellows scholarships. The remaining funding for LIFE, HOPE, and Palmetto Fellows scholarships is provided through the South Carolina Education Lottery. Should Lottery revenue be insufficient to cover scholarship disbursement, funding for the LIFE and Palmetto Fellows scholarships becomes an obligation of the General Fund. However, since FY 2010, Lottery revenue growth has outpaced scholarship growth. Provided that Lottery revenues and scholarship expenditures continue to grow at their current rates, scholarship disbursements will be fully funded using Lottery revenues. The combined distributions for LIFE and Palmetto Fellows scholarships are anticipated to total $319.2 million in FY 2023, $330.1 million in FY 2024, and $341.3 million in FY 2025.

- **Higher Education Funding –** Since 2000, inflationary costs for higher education have outpaced inflation in other spending areas. The Higher Education Price Index (HEPI) published annually by the Commonfund Institute is an inflation index that measures the average relative level in the price of a fixed market basket of goods and services purchased each year by institutions of higher learning (IHLs). Beginning in FY 2009, Commonfund expanded its HEPI service to include calculations of HEPI for the nine standard census divisions of the United States. Since FY 2010, the HEPI for the South Atlantic division, of which South Carolina is a part, has increased at an average annual rate of 2.3 percent, outpacing the Consumer Price Index for all goods, which averaged 1.7 percent annually over the same period. During this time, recurring General Fund appropriations for the state's public IHLs have increased at an average annual rate of 1.9 percent, while tuition and fees at public IHLs in the state have grown at an average annual rate of 2.7 percent. In FY 2017, the State began increasing funding to public IHLs for education and general operating expenses. During this time, general funding for IHLs has increased at an average annual rate of 11.0 percent, while rate increases for tuition and fees for undergraduate students have slowed to 1.5 percent for in-state and 1.6 percent for out-of-state students. If the State continues this trend, funding for public IHLs will increase by $79.3 million in FY 2023, $88.1 million in FY 2024, and $97.9 million in FY 2025. Because this funding is not mandated, these figures have not been included in the amounts listed on page 1.

Figure 6. Higher Education – General Funds and Tuition Costs Compared to Inflation Growth



Department of Motor Vehicles

❖ **Phoenix System –** The Department of Motor Vehicles (DMV) reports that the Phoenix system used for driver's licenses and vehicle registrations is nearing end-of-life. The system modernization will be a six-year project totaling $23.5 million. DMV intends to use existing General Fund carryforward funds of $3.9 million annually to complete this project. Since it began receiving General Fund appropriations in FY 2017, DMV has carried forward General Funds in excess of $3.9 million in each year, with the exception of FY 2017 when it carried forward $3.2 million. Because the agency intends to use existing appropriations and has a history of funds available, these figures are not included in the amounts listed on page 1.

Maintenance and Renovation

- Each year many agencies submit requests for maintenance, renovation, repair, and replacement for buildings and equipment. Over the last four years, these requests have averaged $535.6 million. Because these requests are typically funded using nonrecurring funds, these expenditures have not been included in the calculations on page 1.

STATE EMPLOYEE BENEFITS AND COMPENSATION

Health Plan

- **Retiree Growth and Rate Increase –** The South Carolina Public Employee Benefit Authority (PEBA) estimates the General Fund amounts needed for the operation of the State Health Plan for retiree growth and health plan increases are as follows:
  1. Retiree Growth and Rate Increase
     a. Calendar Year 2022 employer base (State funds only) is $1,040,008,506;
     b. Annualization involves funding the final six months (July through December) of an increase that is effective the prior January;
     c. The employer rate increase involves funding the first six months (January through June) of an increase that is effective January of the fiscal year; and
     d. The projected annual premium growth rate effective each year equals 14.2 percent in January 2023, 6.0 percent in January 2024, and 6.0 percent in January 2025.
  2. The projection assumes the employer pays the same proportion that is in place in January 2022 for 2023, 2024, and 2025.
  3. Retiree growth is estimated at 1.1 percent for FY 2023, and 1.5 percent per year net growth for FY 2024 and FY 2025.
  4. The estimated incremental adjustments in General Fund dollars for the State Health Plan is $82.3 million in FY 2023, $115.6 million in FY 2024, and $79.7 million in FY 2025.

Retirement System

- Required employer contributions to the State employee, school district, and police retirement systems (SCRS and PORS) were raised 2 percent in 2017 with the passage of Act 13. The Act also increased employer contributions 1 percent per year in order to address unfunded liabilities accrued within SCRS and PORS, with the final increase scheduled for FY 2023. The 1 percent increase in employer contributions was suspended for FY 2021 as part of the Continuing Resolution passed in May of 2020. The rate increase per statute was again suspended as part of the Appropriation Act for FY 2022, when the employer contribution rate was increased by 1 percent, leaving the rate increase one year behind schedule. For every 1 percent increase in employer contributions, the impact on the General Fund is estimated at $34.6 million.[3] If the rate is increased by 1 percent in FY 2023 and 1 percent in FY 2024, the cumulative impact to the General Fund will be $34.6 million for FY 2023 and $69.2 million each year for FY 2024 and FY 2025, as reflected in the table on page 1. Should the rate be increased 2 percent for FY 2023, the impact would be $69.2 million for FY 2023 and each year thereafter.

Compensation

- The estimate is based on total State employee salary, with the exception of exempted groups (agency heads, members of the legislature, and constitutional officers), plus other included groups (local health care providers, county auditors and treasurers, and school bus drivers). The estimated cost for a 2 percent base pay increase is approximately $48.5 million for FY 2023, $49.8 million for FY 2024, and $50.8 million for FY 2025. This estimate includes all applicable fringe benefits.

Recent economic changes have created new challenges for agencies trying to recruit and retain qualified workforce. Nationwide, there are more jobs available than job seekers. Agencies have reported losing staff to private sector jobs that are less hazardous and offer greater compensation packages. In addition, some of the effects of

[3] Additionally, each 1 percent employer contribution increase requires an increase of approximately $4.2 million for Education Improvement Act employer contributions.

noncompetitive pay reported by agencies include increased caseload above agency and/or market guidelines, fewer and/or less effective services offered, and staff burnout.

Among state workers employed by agencies other than public IHLs, 53.8 percent earn a base salary between $30,000 and $50,000 annually. From 2010 to 2021, the Consumer Price Index for All Urban Consumers (CPI-U) value has increased 22.9 percent and cost-of-living adjustments for Social Security beneficiaries have totaled 17.7 percent. During this time, State employee salaries have increased a total of 10.6 percent.

Many agencies have requested additional funds for personal services in order to offer more competitive salaries in order to recruit and retain qualified staff. FY 2023 budget requests relating to increased compensation for existing personnel total $37.6 million. Because these are not mandated changes, these figures are not included in the calculations on page 1 and are included for informational purposes only. The calculations on page 1 include only the estimated expenditures for base salary increases for existing employees.