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South Carolina House of Representatives

Legislative Update
& Research Reports

Ramon Schwartz, Jr., Speaker of the House

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STATE DOCUMENTS

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LEGISLATIVE UPDATE

RESEARCH REPORT

OFFICE OF RESEARCH

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Legislative Update

Update on Bills

Agriculture and Natural Resources

Interbasin Transfer (H.2244). The original bill was amended in committee. One notable change was to add a section giving riparian landowners and other persons "legally exercising rights to use water" the option of taking action in court for material injury for loss of water caused by interbasin transfers. The action would be against the water transferor; the burden of proof would be on the person alleging damages. Second reading, uncontested; debate adjourned to March 13.

Southeastern Compact and Nuclear Waste Shipments (H.2264). Would close the Barnwell site to out-of-state nuclear wastes unless Congress approves the Southeastern Compact. Reported out from committee favorably, now on the contested calendar in the House.

Education, Transportation, Safety

Head lights on When Raining (H.2003). Reported out of committee favorably, now under debate in the House.

Save Amtrak (H.2465). Received back from the Senate, March 5.

Health

"Living Will," "Death With Dignity" (H.2041). Passed the House with amendments and is now in the Committee on Judiciary in the Senate.

Include Psychologists in Health Insurance (H.2055). Reported out favorably from the Medical, Military, Public and Municipal Affairs Committee, and now basking in the airy and spacious confines of the Labor, Commerce and Industry Committee, where it is being attended by the highly-trained and courteous staff.

Medically Indigent Care (H.2118). Reported out of MMPM Committee favorably; now being studied by Ways and Means.

Judiciary and Government Operations

Registration by Mail (H.2002). Encountered objections in the House and was tabled on February 27.

Enlarge Jury Lists (H.2026, H.2027). The first bill would have dropped all exemptions from jury duty except voluntary personal exemptions by persons over seventy years; it was amended and reported out of committee favorably, amended on the floor and finally rejected on February 21. The second proposed constitutional amendment, which would delete the requirement that jurors be registered voters, had debate interrupted on February 28.

Primaries Conducted by Election Commission (H.2029). Reported out of committee favorably; much discussed on the floor; debate adjourned until March 12.

Popular Election of Family Court Judges (H.2138). Tabled in Committee, March 6.

Constitutional Amendments (H.2303). Would allow consideration of amendments only during gubernatorial elections; tabled in committee, March 6.

Advantages/Disadvantages of Amendments (H.2305). Would have required a short statement on the ballot giving the pros and cons of proposed amendments. Tabled in committee, March 6.

State Dog (H.2403). Has passed the House, now in interrupted debate in the Senate and subject of scurrilous editorial cartoons in the *State* newspaper.

Blue Laws (S.74). Now in the House Judiciary Committee.

Uniform Magistrate Terms (H.2434). Passed the House; now in the Senate Committee on the Judiciary.

Magistrates Appointed by Governor (H.2466). Has passed the House. Senate Judiciary Committee is reportedly ready to restrict approval powers to the Senate.

Notice of Rule-Drafting (H.2664). State agencies would be required to give notice they are planning to draft regulations, and permit comment from the public. Passed the House, now in Senate Judiciary.

Limit Term of Service on State Boards (H.2054). A person's length of service on a state board (with some exceptions such as

Clemson Lifetime Trustees) would be no more than two terms or twelve years, whichever is longer. The bill has passed the House and is now in the General Committee in the Senate.

Pistol Purchase Waiting Period (H.2057). On contested calendar.

Labor, Commerce and Industry

Prohibit Utility Termination During Winter (H.2036). Tabled in committee.

Ways and Means

Increase Retirement Deductions (H.2044). Tabled in the Ways and Means Committee, February 5.

Jobs Tax Credit (H.2156). Extends the job tax credit to service related industries. Enrolled for ratification, March 6.

NCSL Reports on Tax Expenditure Review

What Are Tax Expenditures?

Simply stated, "tax expenditures" are taxes not collected. Tax credits, deductions, preferential rates, exclusions and other mechanisms are frequently used to make tax expenditures. Last year's exclusion of persons over 80 from the one cent increase hike in the sales tax is an example of a tax expenditure.

Tax expenditures represent money not available to government. The National Conference of State Legislatures has recently completed a study on tax expenditure review mechanisms in the states. This report is expected to be published soon. The following is a summary of the study.

Why Review Tax Expenditures?

According to the NCSL study, at least 23 states have conducted tax expenditure studies; the federal government began its review of tax expenditures back in 1968. Thirteen states have a legislative requirement for periodic reports on tax expenditures. There are two reasons for such reports:

1) To determine whether tax expenditures have influenced, or would influence tax payer behavior in the manner intended. That is, for example, if industries are given special tax breaks to lure them into a state, do they actually move to that state?

2) To determine the cost to the state of tax expenditures.

Six states have regular tax expenditure reports written by the legislature, while 17 states give the responsibility to the executive branch. Twenty-seven states, including South Carolina, have no tax expenditure report.

What Did the Studies Find?

States reviewed their tax expenditures and compared them to actual revenue collected. The percentage of "lost" or uncollected revenue relative to actual revenue was 30% or higher. (See Table One.) California's tax expenditures were around $9 billion, or one-third of its total budget. Michigan estimated tax expenditures from six major taxes to be $6.61 billion, nearly 61% of collected revenue. And Washington State found its tax expenditures amounted to $9.7 billion--81% of state and local revenues.

TABLE ONE

FOREGONE REVENUE AS A PERCENTAGE OF TOTAL REVENUE
FIGURES IN MILLIONS OF DOLLARS

State	Revenue*	Foregone Revenue*	Percentage
Alabama	$661.1	$325.2	49.1
Arizona	$364.0	$588.0	161.5
Arkansas	$1,132.2	$384.9	34.0
California	$26,000.0	$9,035.9	34.7
Connecticut	$1,362.9	$4.2	.3
Indiana	$2,491.5	$814.2	32.7
Michigan	$10,776.1	$6,566.8	60.9
Texas	$4,000.0	$7,600.0	190.0
Washington	$11,500.0	$9,700.0	81.0

* These figures are for the specific taxes listed below:

AL Sales Tax only
AZ Individual Income Tax only
AK Motor Vehicle Registration, Gross Receipts, Use, Motor Fuel, Special Motor Fuel, Liquified Gas, Personal/Corporate Income
CA Personal Income, Retail Sales and Use, Band and Corporation, Insurance, Cigarettes, and Horse Racing.
CT Sales Tax only
IN Personal and Corporate Income, Sales
MI Business Privilege, Consumption, Individual Income, State Property, and Transportation.
TX Sales
WA Property, Business and Occupation Public Utility, Insurance Premiums, Timber Excise, Motor Vehicle Excise, Aircraft Boat, Camper, Travel Trailer, Leasehold, Public Utility, Sales and Use, Liquid Fuel, Alcoholic Beverage, Real estate, Excise, Parimutuel.

What About the Federal Government?

The Congressional Budget Act of 1974 requires that tax expenditures are listed in the U.S. Budget. "Tax expenditures" are defined as "revenue losses attributable to provisions in the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of liability."

Both the President's budget and the Congressional Budget Office (CBO) estimate the tax expenditures. The CBO report measures the cost of tax expenditures in two ways:

1. Foregone revenue is defined as the revenue that would have been raised if the tax expenditure had never existed and assuming that both taxpayer behavior and other tax provisions remained the same.

2. Listing the amount of direct expenditures that would be needed to provide the same benefits as the tax expenditures. These are called "outlay equivalents."

The Tax Equity and Fiscal Responsibility Act of 1982 reduced some tax expenditures; the estimated revenues to be brought in through 1987 is $7,591.1. In addition, the various plans for a simplified federal tax are expected to address the issue of tax expenditures.

Source: NCSL *Fiscal Letter* November/December, 1984

Child Support Enforcement Legislation

Background: Child Support Enforcement

In 1984 Congress ordered sweeping changes in state child enforcement programs. Congress mandated several specific remedies and procedures to improve the child support enforcement programs; these procedures were based on practices that had already proven successful in several states. The keypoints in the mandate are: income withholding, state income tax interception, and expedited judicial and administrative procedures.

Legislation will be introduced into the South Carolina General Assembly responding to the federal mandate requiring states to enact laws by October 1, 1985, to enhance and expedite the collection of child support payments. Failure to comply with this mandate may result in the reduction of Aid to Families with Dependent Children

(AFDC) funds from $1 to $5 million. There will be a substantial increase in positions in the Department of Social Services and the Attorney General's office, as well as the need for automation across the state to carry out the program efficiently--but there is significant federal money available for this.

Wage Withholding Provision

There are several bills that will be introduced, and of these bills the most encompassing is the "wage withholding provision."

Wage withholding will be available to any recipient of child support payments and can be utilized in spousal support cases where child support is also paid. In those instances where the payments for support are made to the family court, the clerk of court will initiate the withholding process when an amount equaling one month's support obligation is overdue. When the payments are made directly to the spouse, the spouse must initiate the process by going through the clerk of court.

Prior to the actual withholding of wages, the person paying support will have an opportunity to contest the withholding. There will be only three defenses: mistake of fact, amount overdue, or the wrong person.

Once the withholding begins it cannot be terminated for three years. Employers will receive instructions from the court concerning the procedures for withholding. Employers may charge a fee for withholding, but surveys of other states indicate that most employers do not assess a fee. The money will be paid to the clerk of court and then distributed.

There are penalties that can be imposed for falsely initiating withholding and a private cause of action is created for an employee against an employer for refusing to hire, firing, demoting or disciplining the individual because of the withholding obligation.

Other Child Support Issues

The other child support enforcement bills address the following issues:

1. The Tax Commission is to provide the address and social security numbers of those individuals who have their tax refunds intercepted to pay child support in arrears.

2. Interstate Income Withholding will allow and facilitate wage withholding when the absent parent is in another state.

3. The automatic assignment of AFDC applicant's rights to child support to DSS will occur upon accepting public assistance.

4. The imposition of judgement liens on support arrearages.

5. Employers will be required to provide the name, address, and social security numbers of an employee for the sole purpose of trying to locate an individual who is in arrears in child support payments.

6. DSS will be able to charge a fee to non-AFDC applicants for services to assist in the collection of child support payments.

7. Consumer Reporting will allow the courts to release information to credit bureaus regarding an individual who pays through the family court and who is in arrears in child support payments.

Health Care Purchaser's Conference

Proposed indigent health care plans were discussed Wednesday, March 6, at a Columbia conference for health care purchasers. Participants at the conference heard from Jack Meyer, of the American Enterprise Institute, and David Baker of the Illinois State Chamber of Commerce. Meyer is primarily concerned with conducting research and policy studies in subjects related to the financing and delivery of health care. David Baker played an integral role in drafting the Illinois health care bill that was passed in 1984. The Illinois bill was considered greatly beneficial to the business community while providing for the health care needs of Illinois citizens.

Both Meyer and Baker addressed the Indigent Health Care Bill (H.2118) being considered by the House. *Legislative Update* presents the following synopsis of their comments.

Both experts believed that H.2118 was definitely a step in the right direction towards solving the problem of indigent care. Aside from their positive comments on the legislation, they did see on critical problem: They would recommend supporting the bill only on the condition that the state collect, and make available to the public, information that was hospital specific, comparable, covering the costs per diagnoses and per procedure at each hospital. With this provision, while business might pay more for indigent care, business might save money by being aware of differences in hospitals' charges.

Meyer and Baker has several other, more minor, concerns about the bill:

1. They were concerned that the accountability provisions (target rate of increase) were a step in the wrong direction, toward a regulatory model instead of toward a competitive model of health care delivery.

2. They were concerned about the availability of federal matching funds.

3. They were concerned that the solution the bill proposes is too focused on hospitals. They agreed that such a focus was a good first step, but felt that the ultimate solution should focus more on preventative and primary health care.

4. They were concerned that the reimbursement system for hospitals (which is not specified in the bill beyond the requirement that it be a prospective payment system) should not reimburse hospitals for inefficiency.

5. They were concerned that the bill did not address the problem of long term care.

6. While they supported the provisions of the bill which called for study of both state and employee health insurance, they would have liked to see even more emphasis placed on "benefit redesign."

The bottom line was that if the bill was amended to allow public access to hospital price data, and to a lesser extent to delete the accountability provisions, then it should be supported.

The President's Proposed Budget—
Impact on the States

Background

The National Conference of State Legislatures (NCSL) and the National Governor's Association (NGA) have just published a study entitled *The President's 1985 Budget: Impact on the States*. The full study runs over 65 pages; *Legislative Update* is providing this summary for your review.

The President's Proposal: 4 Key Points

The President is asking for more money in defense, less money in almost every domestic social program, and no additional taxes. Specifically:

1. A continued increase in defense spending: up 13%, or 32 billion dollars.

2. No reduction in Social Security benefits: which means $11 billion increase to cover cost of living expenses.

3. No tax increase.

4. Major reductions in domestic spending: $39 billion in program cuts.

The budget would almost hold steady—only a 1.5% increase is requested, the smallest in recent years. While the total amount would remain almost constant, funds would be shifted within the budget. Interest payments could not be frozen, of course; they are expected to rise $12 billion in FY 86.

Where Are the Cuts? Where Are the Increases?

Proposed cuts come mainly in aid to state and local governments, the Medicare program, federal payrolls, agricultural and other subsidies to business and individuals, and credit programs. The increases are in defense. A quick review of spending in the major budget categories is found in Table One below.

TABLE ONE
Major Budget Categories
Outlays in Billions of Dollars

Category	FY 81 Actual	FY 85 Estimated	FY 86–FY 88 Projected		FY 85-86 $ and % Change	
Defense	158	254	286	358	32	13%
Social Security, Medicare	179	257	269	309	12	5%
State-Local Aid	95	107	101	101	-6	-6%
Net Interest	69	130	143	159	12	9%
All Other	207	243	213	206	-30	-12%
Total	678	959	974	1095	15	2%

What About the Deficit?

The President's proposed budget foresees a gradual reduction in the federal deficit, falling from an estimated $222 billion in FY 1985 to $82 billion in FY 1990.

This supposes a continued improvement in the economy with lower unemployment, substantial growth in the real gross national product (GNP), low inflation rates and lower interest rates. Most of these conditions have been in effect during the past two years.

Some observers, however, are not as sanguine about economic conditions. The President's plan assumes a real growth rate of at least 4%. It also assumes that interest rates will fall substantially; for instance, that the rate on a 91-day Treasury bill will drop to 5% by 1990. But if the Administration is wrong by even one percent on the interest rate the deficit would be $10 billion higher in FY 87 than anticipated, and even higher than that for each following year.

The Congressional Budget Office does not forecast economic growth to be as strong as the President's budget does. The CBO also feels that interest rates will continue to remain high. The CBO projected deficit for FY 1990 is $172 billion, definitely higher than the President's projections.

What Will Happen to the States?

According to the NCSL/NGA report, "the budget represents a dramatic pullback of federal commitment to sharing the solution of many of the nation's problems." Federal aid to states is cut by $10 billion in FY 86, and is reduced by $97 billion by 1990. Key areas to be affected:

1. Health programs: Medicaid would be capped, and state costs increased; the federal cutback would be $1 billion in FY 1986 and $17 billion by 1990.

2. Transportation: End operating subsidies for transit, reduce capital subsidies, and cut off rail funds.

3. Social Programs: Reduction in social service programs and child nutrition programs.

4. Economic Development: Local economic development programs would be terminated.

5. Housing: Freeze on all new federally sponsored housing starts.

6. Environment: Assistance in constructing wastewater treatment plants would be phased out, but federal mandates would remain the financial responsibility of state and local governments.

Hardest hit: Grant-in-Aid programs. Table Two (next page) shows the major reductions that are proposed.

Programs that would be phased out completely are: the Economic Development Administration, the Community Services Block grant, the Appalachian Regional Commission, the Work Incentive Program, Urban Development Action Grants, and the Legal Services Corporation. Targeted for early phase out: General Revenue Sharing.

The major loss to local governments would be the General Revenue Sharing program. This was started in 1972 under President Nixon's "New Federalism" concept, and is currently scheduled to expire in 1994. While states lost their share of the fund in 1980, they might now have to make up for the loss of funds to municipalities. As the report states:

> All of these reductions translate into considerable pressure on state and local governments to provide for national needs in medical care, transportation, social services, nutrition, economic and community development, housing and pollution control. These federal cutbacks will result either in higher state and local taxes or service reductions, or a combination of these two outcomes." (p. 14)

Following Table Two, this *Report* addresses some specific areas of the proposed budget which are most likely to affect South Carolina: agriculture, education, employment and training, health, and social services.

TABLE TWO
Reductions in Grant-in-Aid Programs
Figures in Millions of Dollars

Program	FY 1986	FY 1986-90
General Revenue Sharing	3,405	21,673
Medicaid Grants to States	1,052	16,970
Mass Transit	751	9,375
Housing Assistance	1,446	9,191
Federal Aid Highways Trust	0	6,519
Child Nutrition Programs	468	3,764
Commodity Credit Corporation	0	3,424
Community Services Block Grant	255	1,946
Health Resources & Services	267	1,854
Forest Service Shared Receipts	356	1,765
EPA Construction Grants	0	1,566
Training and Employment	32	1,247
Community Development Block Grant	7	1,205
Urban Development Block Grant	22	1,176
Energy Conservation	112	1,099
Compensatory Ed. for Disadvantaged	11	1,060
Other	1,827	13,141
TOTAL	10,011	96,975

Specific Area: Agriculture

Forty percent of the savings proposed by the President come from agricultural programs. The Farm Income Stabilization budget is cut from $20.7 billion to $11.4 billion. Price Support outlays would be reduced by about $39 billion over a five year period. The President plans to modify Commodity Credit Corporation programs through the following actions:

1. Set price support loan rates at 75% of the average market price.

2. Limit total non-recourse crop price support loans to $200,000 per farmer.

3. Phase down income support target prices from 100% to 75% of the average 3 year market price by 1991.

4. Direct cash payments will be limited to $20,000 for 1986 crops; $15,000 in 1987; $10,000 thereafter.

5. Acreage reduction programs will be 15% for 1986, 10% for 1987 and 5% for 1988 for wheat, corn, feed grains, cotton and rice.

6. Phase out dairy purchase and sugar loan program.

7. Peanut and tobacco allotments and quotas will be substituted for phased down target prices.

8. Eliminate honey price supports.

Specific Area: Education

The proposed budget cuts federal education funds by $2.9 billion. Several areas of categorical funding have no funding requests in the President's budget. Examples are: Migrant Education, Women's Educational Equity, and Follow Through.

The Guaranteed Student Loan program is slated for a $1 billion cut--or 27.4%. The Supplemental Opportunity Grant and the Work-Study program would be consolidated into a single program with funding reduced by $155 million.

Causing more stir than the actual cuts are suggested changes in federal policy for student aid. Specifically the Administration would take the following actions:

1. Require all grant and loan recipients to contribute at least $800 each year towards their own education.

2. No student could receive more than $4,000 per year in all federal assistance.

3. Pell Grants, Supplemental Education Opportunity Grants, Work-Study and Direct Student Loans would be available only to students from families with less than $25,000 in adjusted gross income.

4. Guaranteed Student Loans would be available only to students from families with less than $32,500 in adjusted gross income.

5. Students under 22 years old will be considered dependents for figuring eligibility for assistance.

6. Students would have to complete high school or its equivalent to be eligible for grants, loans or work assistance.

Specific Area: Employment and Training

Block grants would remain untouched under the President's proposals for FY 1986. Federally-administered programs to be eliminated are: Job Corps ($599 million funding in 1984); Concentrated Employment Programs ($10 million in 1984); and Trade Adjustment Assistance ($30 million in 1984).

Of particular interest to South Carolina is the Dislocated Workers Program, targeted to persons who suddenly lose their jobs. The proposed budget is cut by 55.2%, from $223 million to $100 million.

Specific Area: Health

The Administration proposes to "cap" federal Medicaid expenditures. This would mean, according to the NCSL/GSA report, that the costs would be shifted to the states.

In subsequent years the cap for each state would be increased by the medical care expenditure category of the Consumer Price Index; however, in 1986 federal funds would be limited to an 18.9% increase over 1984 payments. The NCSL/NGA report makes the following observations:

> The proposed cap on federal funds would limit federal responsibility for Medicaid, and shift costs to the states for expenditures exceeding the capped amount. States with caseload growth due to economic fluctuation beyond their control, with unusually large increases in their elderly populations or with unexpected medical care use increases would be particularly hard-pressed to meet the basic health care needs of their poor populations. States that covered a much lower proportion of their poor populations than the national norm in 1984 would be able to move towards more adequate coverage only at their own expense.

Specific Area: Social Services

The President's proposed budget cuts Aid to Families with Dependent Children (AFDC) by only 4.8%, but it does seek some new procedures:

1. States would have to gradually increase the percentage of able-bodied recipients who participate in job search and other work activities; <u>all</u> would have to participate by 1988.

2. Minor unmarried mothers could not leave their parents' home to qualify for AFDC.

3. AFDC payments would be eliminated for able-bodied parents whose youngest child is over 16.

4. All states must implement workfare projects for Food Stamps.

<u>A Second Opinion: States to Feel Budget Cuts</u>

The Federal Funds Information for States (FFIS) is a joint service of the NCSL and the National Governors' Association. It has just released its evaluation of the impact of the proposed budget. The key point: states will feel these budget cuts more than earlier ones, including those of 1981.

According to the FFIS, budget cuts in 1981 generally had little or no negative fiscal effect on states. Many cuts were achieved by making persons ineligible for AFDC and Medicaid--thus reducing costs in these programs by reducing the number of persons served. States simply cut back their proportion of matching funds required for these programs. This would not be the case with the new cuts, especially in Medicaid and Revenue Sharing.

Medicaid costs would increase to the states because of the proposed "cap" on federal spending. Presently the federal government increases its share of funding to meet rising expenses. The cap would set an upper limit to the federal share; any expenses above that line would have to be met 100% by the states. Any increase in caseloads would have to be met 100% by the states. Any new programs, or expansion of services, would be a 100% state responsibility.

Revenue Sharing, as mentioned above, would directly affect local governments. The loss of revenue sharing funds would prompt these local governments to request additional state aid. The FFIS believes such requests would be especially the case for those local governments limited by state law to reliance upon one source of funds: the property tax.

<u>Conclusion</u>

"Federal budget policy can have important affects [sic] on the states through changes other than grants to state and local governments. Federal cutbacks can stimulate demands for additional state spending to offset the federal actions." (NCSL/NGA Report)

The President's budget proposals are likely to be revised considerably by Congress; however, it seems clear that there is a trend towards shifting many responsibilities, including financial ones, to the states and local governments.

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