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General Fund Revenue Forecast for FY 2020-21 Executive Summary August 31, 2020

The S.C. Board of Economic Advisors (BEA) reduced its General Fund Revenue estimate by \$52.1 million from \$9,552.2 million to \$9,500.1 million due to the continuing uncertainty regarding the impact COVID-19 is having on the economy.

In April and May, the BEA met to consider the revenue estimates in light of the sudden onset of COVID-19 and its expected impact on the economy and revenues. As a result, the revenue estimate for FY 2020-21 (FY 21) was revised down by \$701.9 million from the February forecast of \$10,254.1 million to \$9,552.2 million. Prior to COVID-19, revenue collections were exceeding estimates, and expectations called for continued growth. In response to COVID-19, the BEA revised its assumptions and expectations about the remaining months of FY 2019-20 (FY 20) and the upcoming fiscal year, FY 21. The August meeting involved reviewing actual revenue collections and economic activity since the beginning of COVID-19 and updating the assumptions for FY 21. Prior to updating the forecast, the BEA met with key officials from government agencies and the private sector to gain additional insights on the pandemic and business activity in the state.

The first step in reviewing the FY 21 forecast was to review final revenue collections for FY 20 that were released by the Comptroller General on Thursday, August 27th. In April, the BEA lowered the revenue estimate for FY 20 by \$507 million from \$9,898.2 million to \$9,391.2 million. Although the estimate was reduced significantly, a small revenue surplus of \$60.5 million was still expected. The final collections for the fiscal year as reported by the Comptroller General, however, totaled \$9,793.3 million, which resulted in a revenue surplus of \$462.6 million. The expected impact of COVID-19 on the last quarter of the fiscal year, therefore, was much less than expected.

In reviewing these final results, the BEA noted several important factors regarding this outcome and how those items warranted careful consideration when reviewing the FY 21 estimate. First, not all revenue categories experienced a surplus, as many items fell below expectations. This review was a key factor in the BEA's final action. Secondly, the bulk of the revenue surplus, \$437.5 million, came from Individual Income Tax. Part of this difference was due to a change in how payments and refunds were accounted for with the extended filing deadline of July 15th. Although income tax payments that were received in July and August from the extended filings were accrued back to FY 20, the

refunds with those extended returns were not. Based on data from the Department of Revenue, the delayed refunds that were processed in July and August totaled approximately \$160 million, which in effect reduces the total surplus to approximately \$302.6 million. Further, the payments received by the extended filing deadline were based on income earned in 2019, well before the pandemic affected the economy. The impact of COVID-19 on income for 2020 will not be fully known until April 2021. Finally, the federal stimulus payments issued in the spring bolstered consumer spending in the last quarter; state income withholdings tax benefited from the additional \$600 weekly unemployment insurance benefits provided through July 25; and the federal Payroll Protection Programs allowed business to retain workers. As a result of the year end reports, final revenue collections for FY 20 are \$241.1 million above the May estimate for FY 21. Consequently, revenues can decline 2.5 percent and still meet the estimate.

The next step in reviewing the FY 21 estimate required a review of the assumptions for economic activity. In May, the revenue estimate was based on key assumptions that included the lifting of restrictions on economic activity by the end of June and growth in personal income of 2.5 percent. Based on the insights provided from the panel of experts, the BEA identified several issues of concern:

- As previously noted, the delayed filing of income tax returns resulted in an additional \$160 million of refunds being credited against FY 21 in July and August and will cause revenue results to be lower than they would be otherwise;
- The tremendous amount of uncertainty about the magnitude and degree of impact that COVID-19 will continue to have on the economy over the next twelve months;
- That while businesses are attempting to stay viable, they continue to face an uphill battle based on economic restrictions, consumer behavior, and school and day care availability. Some sectors, particularly the hospitality sector face even stronger challenges;
- The potential for additional layoffs with the expiration of the federal payroll protection program on October 1st;
- Additional stimulus actions that may or may not be taken at the federal level;
- Impact on hiring in 2021 due to the increased rates on employers for unemployment compensation;
- The expected change in final income tax liability and payments and refunds in April 2021 when tax year 2020 is reconciled.

As a result of these uncertainties and the potential ramifications to the state budget from an over or under revision of the forecast, the BEA exerted caution and prudence in developing its expectations for FY 21. While the FY 20 revenue surplus provides a higher starting point and a cushion against further declines in revenue before the FY 21 base budget is affected, the potential magnitude of the downside of these uncertainties is significant and that risk was of utmost concern. Consequently, the BEA decided to adjust several revenue items downward by a total of \$52.1 million. The items that were adjusted downward were those that, despite the better than expected overall revenue performance in the last few months, fell short of FY 20 expectations and were believed

unlikely to meet their FY 21 estimates. While the unknown risks could cause more of a decline, the BEA was also concerned about an over-reaction that would result in budget cuts, which would not be prudent at this time.

While there is some hope that the economy is leveling off, though at a lower level when compared to expectations in February, there is risk that revenues could fall further and require budget reductions. While the BEA recognizes its responsibility to provide the best estimate possible, it is cognizant of the risks associated with its decisions under these circumstances. As was the case in May when the revenue estimate was adjusted at the start of COVID-19, little additional data exists to confidently predict the future or the most likely economic scenario over the next twelve months.

The BEA will meet again in October with its panel of regional economists to review the latest economic data and will update the forecast on November 10th. The BEA will continue to monitor revenue collections and will reconsider the estimate again no later than February 15th.

The following tables and charts show the revenue forecast, the amount and sources of recurring and non-recurring funds, and other relevant data.

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Personal Income Growth
FY21 - 2.50%

General Fund Revenue Forecast
Fiscal Years 2017-18 to 2020-21
(Dollars)

Revenue Category	Final FY 2017-18	Final FY 2018-19	Final FY 2019-20	08/31/2020 Estimate FY 2020-21	Percent Change FY 2017-18	Percent Change FY 2018-19	Percent Change FY 2019-20	Percent Change FY 2020-21
Sales and Use Tax	\$3,034,415,169	\$3,186,425,454	\$3,286,771,744	\$3,367,926,000	4.8	5.0	3.1	2.5
Individual Income Tax	4,398,423,661	4,714,998,174	5,019,420,030	4,707,916,000	7.1	7.2	6.5	(6.2)
Corporation Income Tax	375,189,587	494,214,442	423,052,193	375,560,000	17.1	31.7	(14.4)	(11.2)
Insurance Taxes	227,931,949	256,207,957	241,496,468	288,995,000	(4.1)	12.4	(5.7)	19.7
Admissions Tax	30,746,293	32,571,884	24,858,654	24,354,000	1.0	5.9	(23.7)	(2.0)
Aircraft Tax	2,500,000	2,500,000	2,621,301	2,500,000	0.0	0.0	4.9	(4.6)
Alcoholic Liquor Tax	79,285,307	83,877,459	81,089,410	83,148,000	3.3	5.8	(3.3)	2.5
Bank Tax	47,909,447	68,798,957	73,484,038	87,190,000	(10.2)	43.6	6.8	18.7
Beer and Wine Tax	107,727,311	110,391,069	112,351,535	113,728,000	(1.7)	2.5	1.8	1.2
Bingo Tax	358,256	111,602	(678,982)	(500,000)	(47.2)	(68.8)	(708.4)	26.4
Business Filing Fees	7,038,361	7,424,879	7,979,168	8,200,000	12.1	5.5	7.5	2.8
Circuit/Family Court Fines	7,351,527	6,745,763	5,731,715	5,500,000	(6.8)	(8.2)	(15.0)	(4.0)
Corporation License Tax	110,199,187	112,007,772	130,867,571	107,154,000	61.6	1.6	16.8	(18.1)
Documentary Tax	75,624,914	80,425,985	81,757,989	91,050,000	46.3	6.3	1.7	11.4
Earned on Investments	40,110,261	87,487,280	130,855,337	75,000,000	30.2	118.1	49.6	(42.7)
Indirect Cost Recoveries	16,755,476	15,938,594	15,269,683	15,500,000	14.0	(4.9)	(4.2)	1.5
Motor Vehicle Licenses	11,030,604	12,079,044	10,977,190	12,890,000	(0.2)	9.5	(9.1)	17.4
Nursing Home Fees	3,572,661	3,547,314	3,480,988	3,600,000	0.2	(0.7)	(1.9)	3.4
Parole and Probation Fees	3,392,808	3,392,808	3,392,808	3,393,000	0.0	0.0	0.0	0.0
Private Car Lines Tax	5,960,493	6,215,080	6,351,887	6,787,000	8.4	4.3	2.2	6.9
Public Service Authority	17,397,000	17,496,000	17,479,000	17,700,000	(2.0)	0.6	(0.1)	1.3
Purchasing Card Rebates	3,034,527	3,171,665	3,226,732	3,497,000	4.4	4.5	1.7	8.4
Record Search Fees	4,461,000	4,461,000	4,461,000	4,461,000	0.0	0.0	0.0	0.0
Savings and Loan Assoc. Tax	949,371	1,254,252	8,489,236	1,038,000	(49.5)	32.1	576.8	(87.8)
Security Dealer Fees	26,385,770	27,178,783	27,533,590	28,100,000	2.9	3.0	1.3	2.1
Surcharge on Vehicle Rentals	946,113	(295,401)	(816,950)	0	(63.3)	(131.2)	(176.6)	-----
Tobacco Tax	27,209,363	28,372,637	27,009,655	28,657,000	3.1	4.3	(4.8)	6.1
Uncashed Checks	2,927,135	1,027,801	2,434,382	1,000,000	(17.1)	(64.9)	136.9	(58.9)
Unclaimed Property Fund	15,000,000	12,600,000	15,000,000	15,000,000	0.0	(16.0)	19.0	0.0
Workers' Comp. Insurance Tax	9,836,976	9,382,100	13,142,342	8,828,000	9.2	(4.6)	40.1	(32.8)
Other Source Revenues	12,346,921	12,116,456	14,187,780	11,931,000	12.2	(1.9)	17.1	(15.9)
Gross General Fund Revenue	\$8,706,017,446	\$9,402,126,809	\$9,793,277,494	\$9,500,103,000	6.7	8.0	4.2	(3.0)

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.

Source: South Carolina Board of Economic Advisors/BEA/RWM/08/31/20



Personal Income Growth
FY21 - 2.50%

General Fund Revenue Forecast
Fiscal Years 2017-18 to 2020-21
(Dollars)

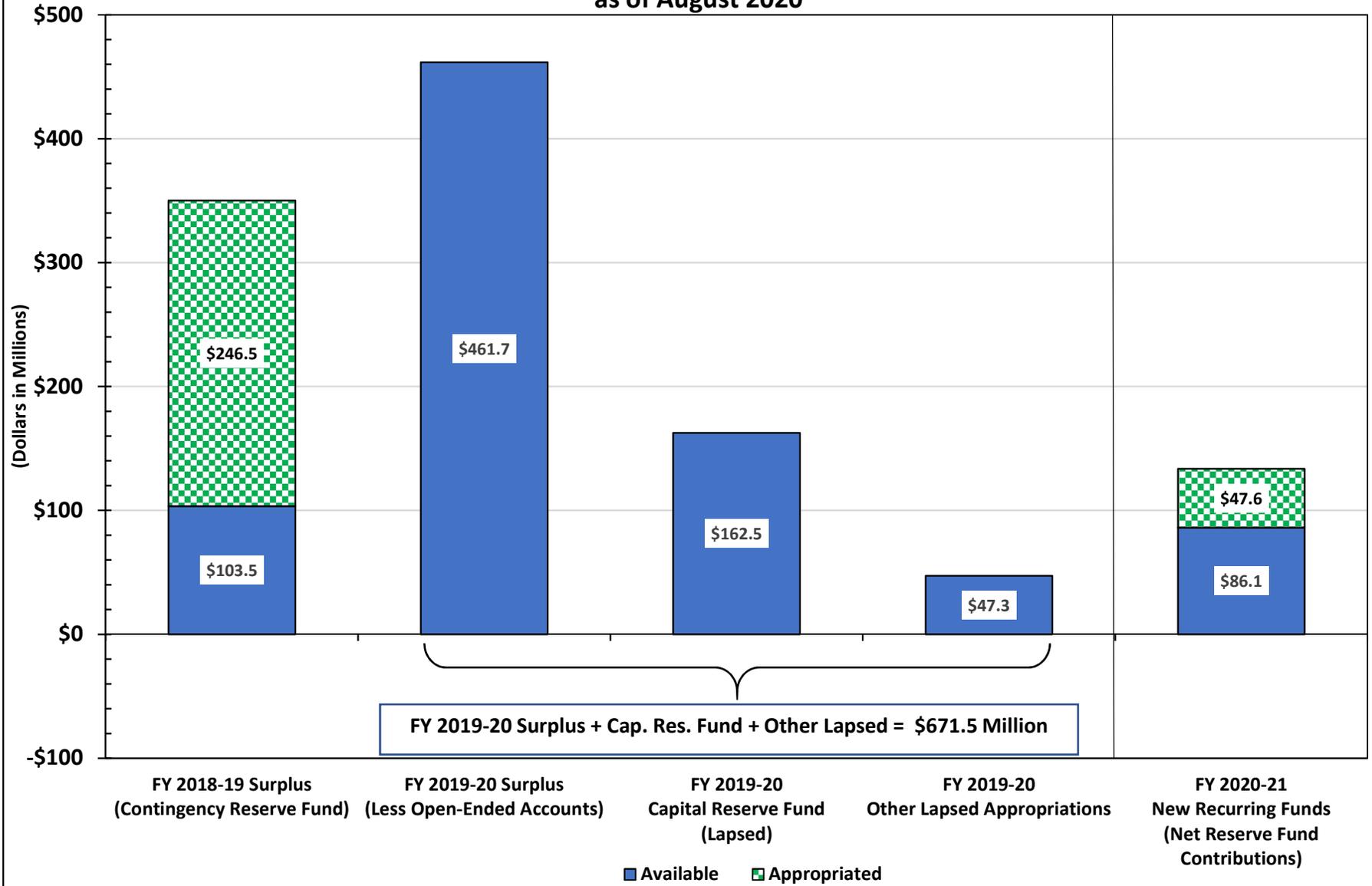
Revenue Category	Final FY 2017-18	Final FY 2018-19	Final FY 2019-20	08/31/2020 Estimate FY 2020-21	Percent Change FY 2017-18	Percent Change FY 2018-19	Percent Change FY 2019-20	Percent Change FY 2020-21
Gross General Fund Revenue	\$8,706,017,448	\$9,402,126,809	\$9,793,277,494	\$9,500,103,000	6.7	8.0	4.2	(3.0)
Appropriation Act Revenue	8,534,363,000	8,836,042,000	9,330,662,000	9,500,103,000	4.6	3.5	5.6	1.8
Less: Tax Relief Trust Fund	(582,033,401)	(599,876,083)	(614,053,000)	(629,405,000)	(1.2)	(3.1)	(2.4)	(2.5)
Plus: Tax Relief Trust Fund Carryforward	0	0	0	0				
Appropriation Act Excluding Trust Fund	7,952,329,599	8,236,165,917	8,716,609,000	8,870,698,000	4.9	3.6	5.8	1.8
Capital Reserve Fund (2%) - Beg. Bal.	145,420,836	151,649,393	162,485,305	176,095,044	4.5	4.3	7.1	8.4
General Reserve Fund (5%) - Beg. Bal.	363,552,089	379,123,483	406,213,261	440,237,611	4.5	4.3	7.1	8.4
Total Reserve Funds	508,972,925	530,772,876	568,698,566	616,332,655	4.5	4.3	7.1	8.4
Revenue Excess/Shortage From Act	171,654,446	566,084,809	462,615,494	0				
Education Improvement Act (EIA)	792,172,686	840,103,875	863,037,030	879,198,000	3.7	6.1	2.7	1.9
EIA Fund	790,719,514	837,529,968	861,357,054	877,698,000	3.7	5.9	2.8	1.9
EIA Interest	1,453,172	2,573,907	1,679,976	1,500,000	(2.6)	77.1	(34.7)	(10.7)
S.C. Education Lottery Fund (Net)	436,528,584	490,656,044	496,599,922	469,800,000	8.6	12.4	1.2	(5.4)
Homestead Exemption Fund								
Total Revenue Available	717,410,352	756,112,890	784,804,568	791,716,000	4.7	5.4	3.8	0.9
Less: Homestead Exemption Fund Shortfall	(32,557,000)	(17,322,000)	(13,951,666)	(31,414,000)	32.2	46.8	19.5	(125.2)

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.

Source: South Carolina Board of Economic Advisors/BEA/RWM/08/31/20

AVAILABLE FUNDS - FY 2020-21 BUDGET PROCESS

as of August 2020



Source: S.C. Revenue and Fiscal Affairs 8-31-2020