

SOUTH CAROLINA GENERAL FUND REVENUE

Quarterly Review October to December, FY 2020-21

January 21, 2021



Report for December 2020 and Second Quarter Review §11-9-1130



Introduction

- The economy is doing better than expected
- Revenues are performing better than expected as well
- Uncertainty remains about the rate of growth in a post COVID/stimulus environment

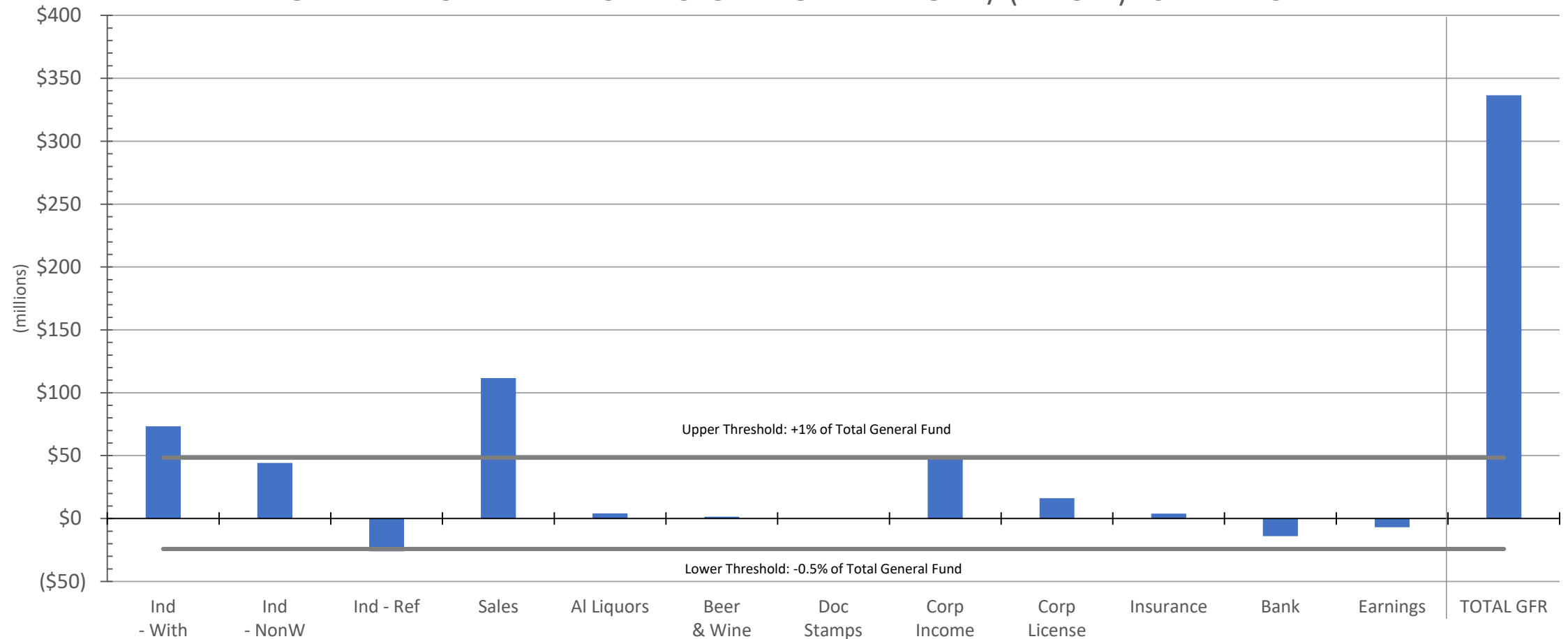
Quarterly Review Requirements

- SC Code of Laws §11-9-1130 requires a review of revenue collections relative to the estimates
- If any quarter shows a shortfall over 1.5 percent of projected collections a synopsis must be prepared indicating the factors contributing to the shortfall; and is similarly required for a shortfall of 1.5 percent in sales, individual income tax, corporate income tax, insurance tax, and earnings on investments.
- SC Code of Laws §11-9-1140 requires a quarterly review of estimated and actual revenues
- If, at the end of the first (Jul – Sep), second (Oct – Dec), or third (Jan – Mar) quarter, the BEA reduces the estimate by
 - 3.0 percent or less, the Director of the Executive Budget Office must reduce appropriations
 - More than 3.0 percent, the General Assembly may take action; otherwise, the Director of the Executive Budget Office must reduce appropriations

Quarterly Review

Revenues are \$336.5 million above the estimate with sales, individual income, and corporate income tax all contributing to the growth

GENERAL FUND REVENUE- ACTUAL DOLLAR ABOVE / (BELOW) ESTIMATES



General Fund Revenue



REVENUES V. BEA MONTHLY ESTIMATES

JULY - DECEMBER FY 2020-21

(\$ in Millions)

	Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD		Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD
Total General Fund Revenue	\$5,174.0	\$4,837.4	\$336.5	(3.5%)	3.8%	Other Revenue Items, Sub-Total	\$377.9	\$350.1	\$27.8	(11.0%)	(11.0%)
Sales Tax	1,484.8	1,373.1	111.7	2.6%	7.0%	Admissions Tax	7.2	6.6	0.6	(2.0%)	(23.3%)
Individual Income Tax	2,981.0	2,837.2	143.8	(6.5%)	2.0%	Alcoholic Liquors Tax	38.9	34.7	4.2	2.5%	13.1%
Withholdings	2,915.9	2,842.5	73.5	1.3%	4.0%	Bank Tax	8.6	22.5	(13.9)	(31.3%)	(75.7%)
Nonwithholdings	499.6	455.3	44.3	(6.1%)	8.4%	Beer and Wine Tax	49.7	48.2	1.5	1.2%	4.0%
Refunds	434.5	460.5	(26.0)	16.8%	26.1%	Corporate License Tax	106.0	89.8	16.2	(18.1%)	(3.3%)
Corporate Income Tax	174.8	125.4	49.4	(12.4%)	31.3%	Doc. Tax (Deed Rec.)	45.3	40.2	5.1	11.4%	25.3%
Insurance Tax	155.5	151.6	3.8	16.0%	34.7%	Earnings on Investments	32.9	39.7	(6.8)	(35.0%)	(46.2%)
Other Revenue Items, Sub-Total	377.9	350.1	27.8	(11.0%)	(11.0%)	Residual Revenue	89.3	68.4	20.9	(5.2%)	(1.3%)

Based on BEA Forecast as of November 10, 2020

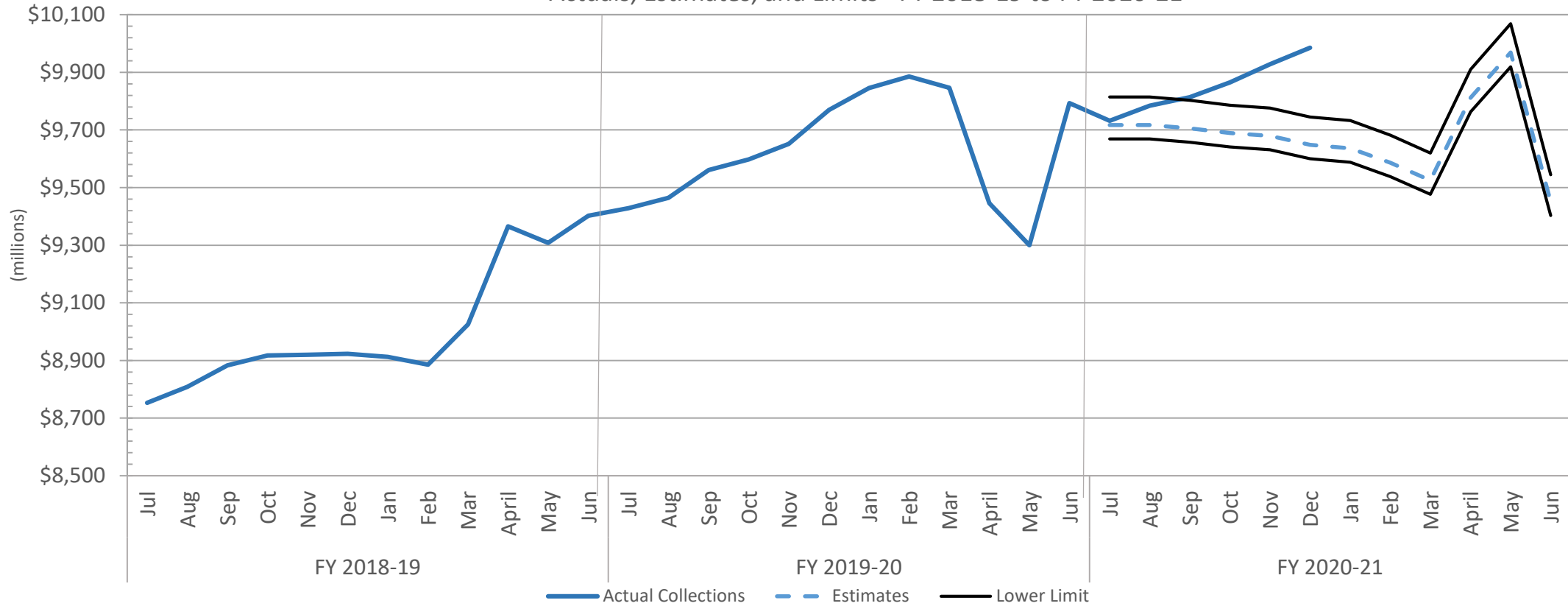


General Fund – Actuals vs. Estimates

Revenues are growing faster than expected and are \$336.5 million above the estimate

ROLLING FISCAL YEAR - TOTAL GENERAL FUND REVENUE

Actuals, Estimates, and Limits - FY 2018-19 to FY 2020-21



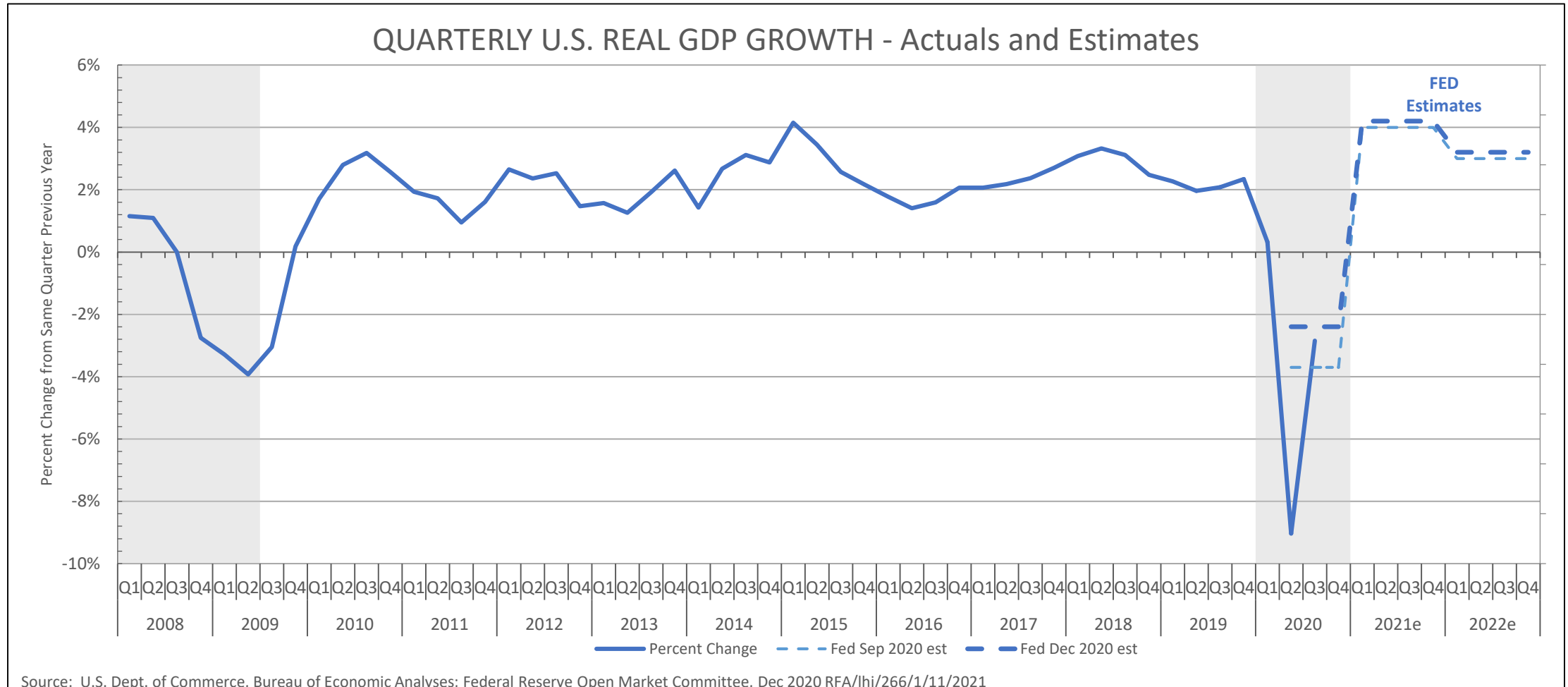
General Fund Second Quarter Summary

- General Fund Revenues are \$336.5 million above quarterly estimates
- Collections currently meeting all statutory thresholds except for earnings on investments
- Individual withholdings are \$73.5 million ahead of expectations, and non-withholdings are \$44.3 million ahead. Tax filing season remains an unknown.
- Sales tax accounted for another \$111.7 million of the excess, likely due to consumers spending more on taxable items, but growth has slowed in the last month of the quarter.
- Corporate income tax is \$49.4 million ahead of the estimate
- Earnings on investments are below the quarterly estimate due to market conditions and timing of maturities

National Economic Indicators

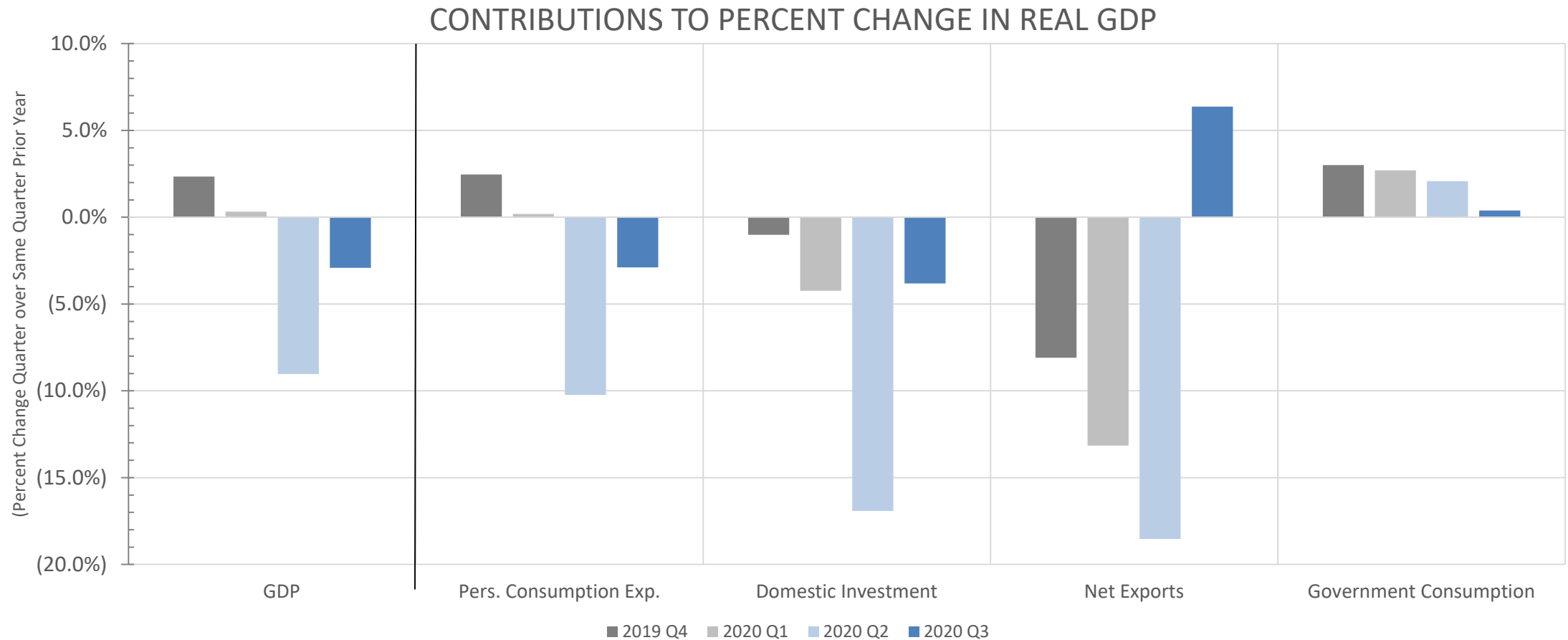
Real GDP Growth

Fed revised estimate up from -3.7% to -2.4% for Q4 2020; revised up Q4 2021 from 4.0% to 4.2%; anticipating faster recovery than in Sep. 2020



Real GDP By Component - Percent Change

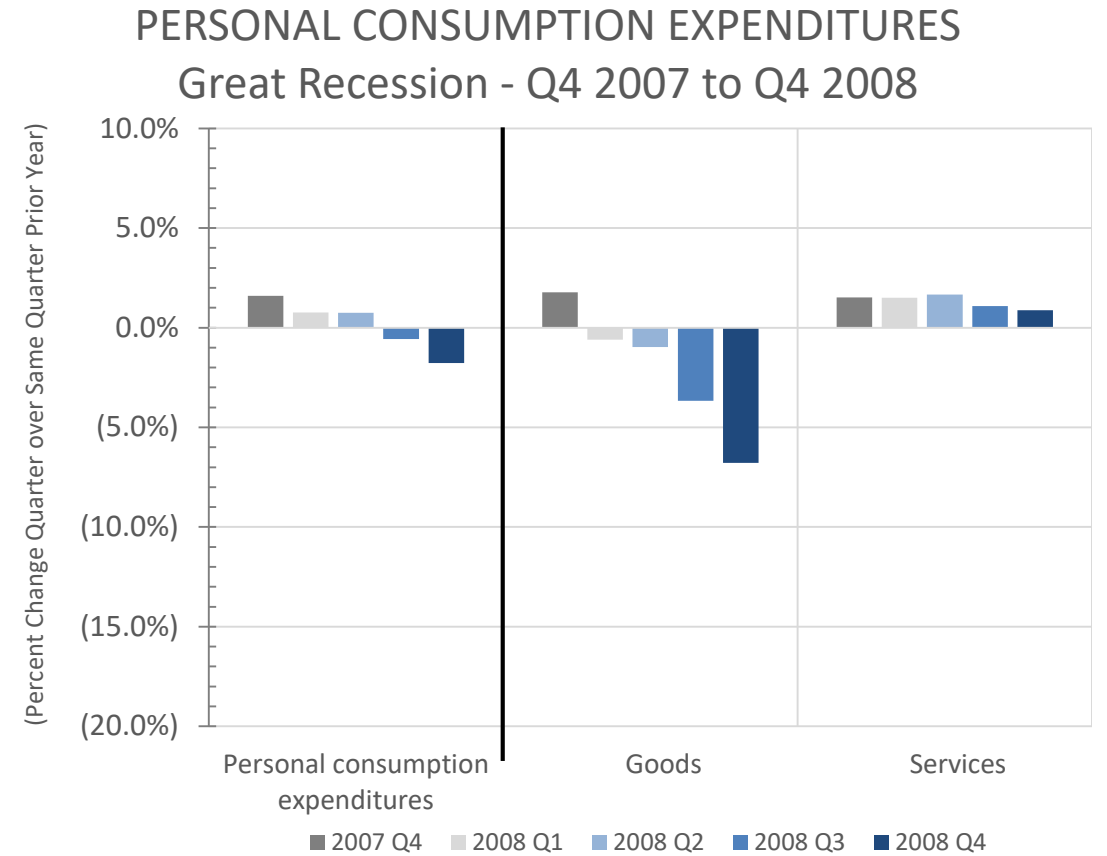
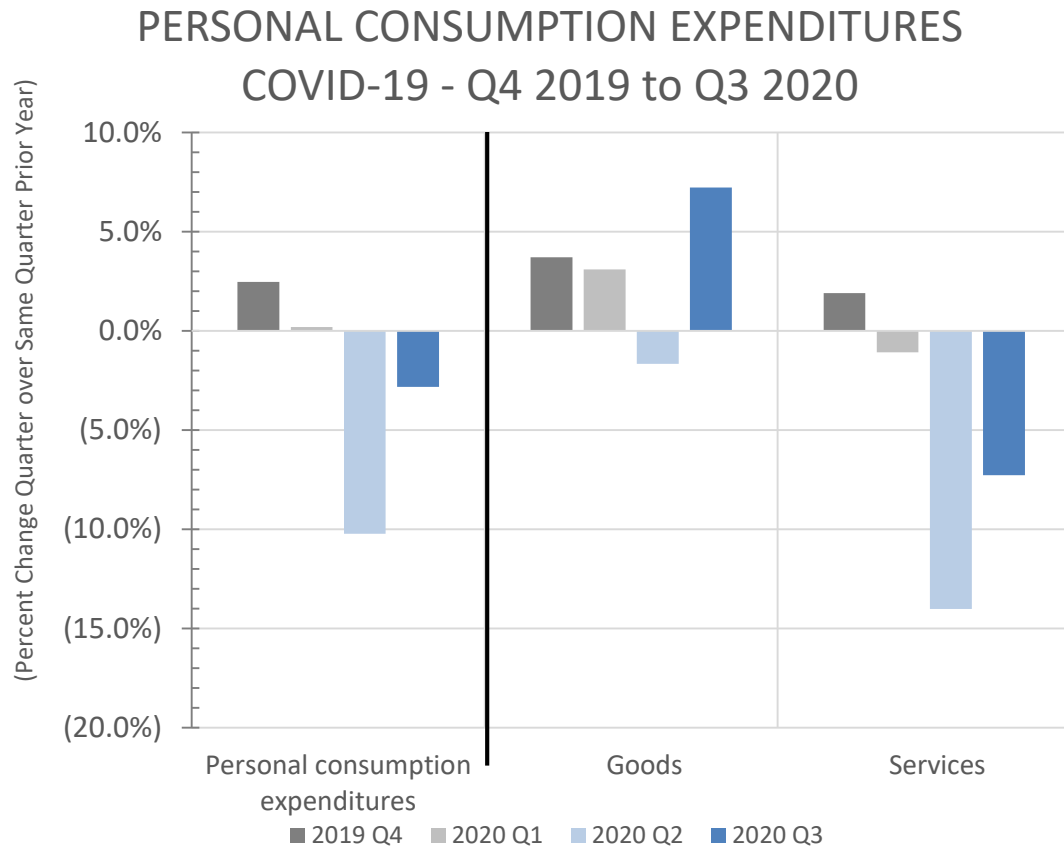
GDP improved from Q2 2020 but remained negative in Q3



Source: Bureau of Economic Analyses 292A RFA/lhj/01/05/2021

Real GDP - Personal Consumption of Goods and Services

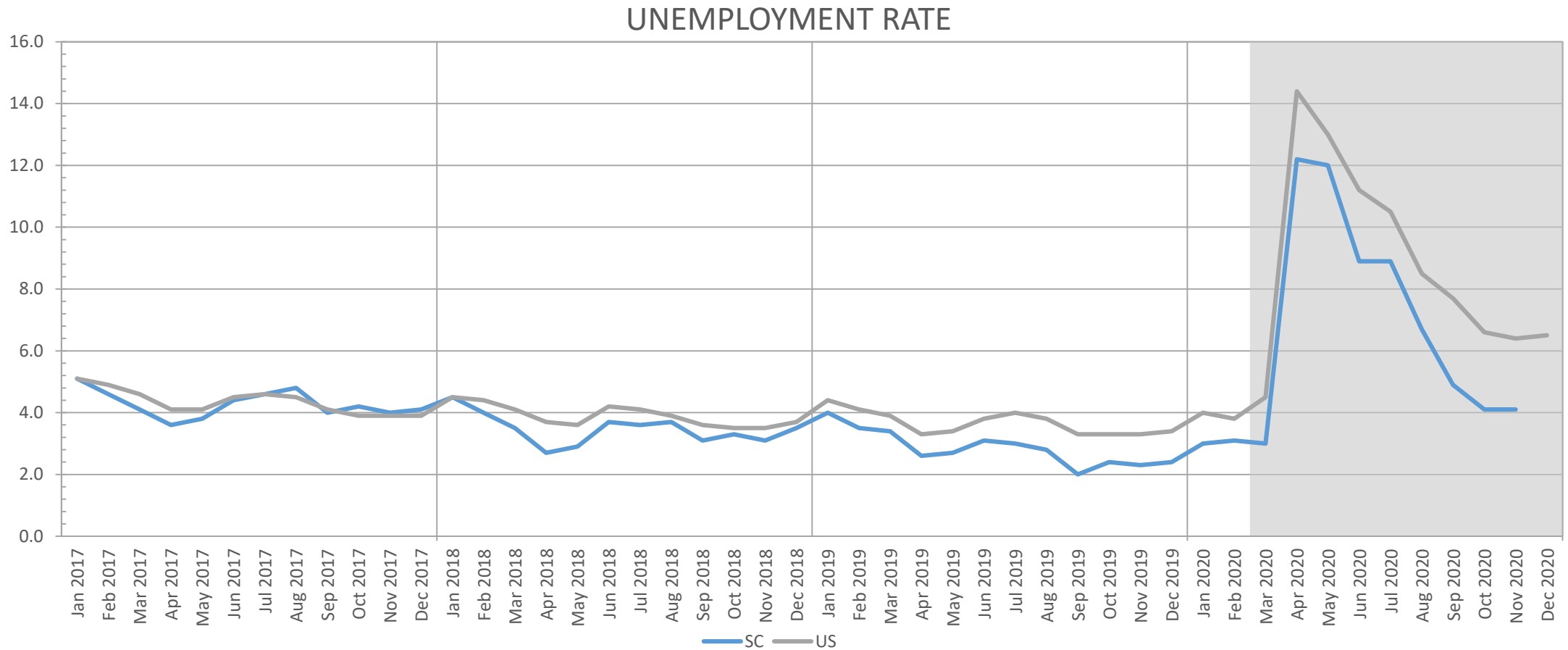
Consumption of goods increased in Q3 2020 while services remain down;
Great recession saw greater decline in goods than services



Source: Bureau of Economic Analyses 292B RFA/lhj/01/05/2021

Unemployment Rate

SC unemployment rate down from April peak of 12.2% to 4.1% in November; Lower than US rate of 6.4% in November



Source: U.S. Department of Commerce, Bureau of Labor Statistics 129--RFA/lhj/01/12/2021

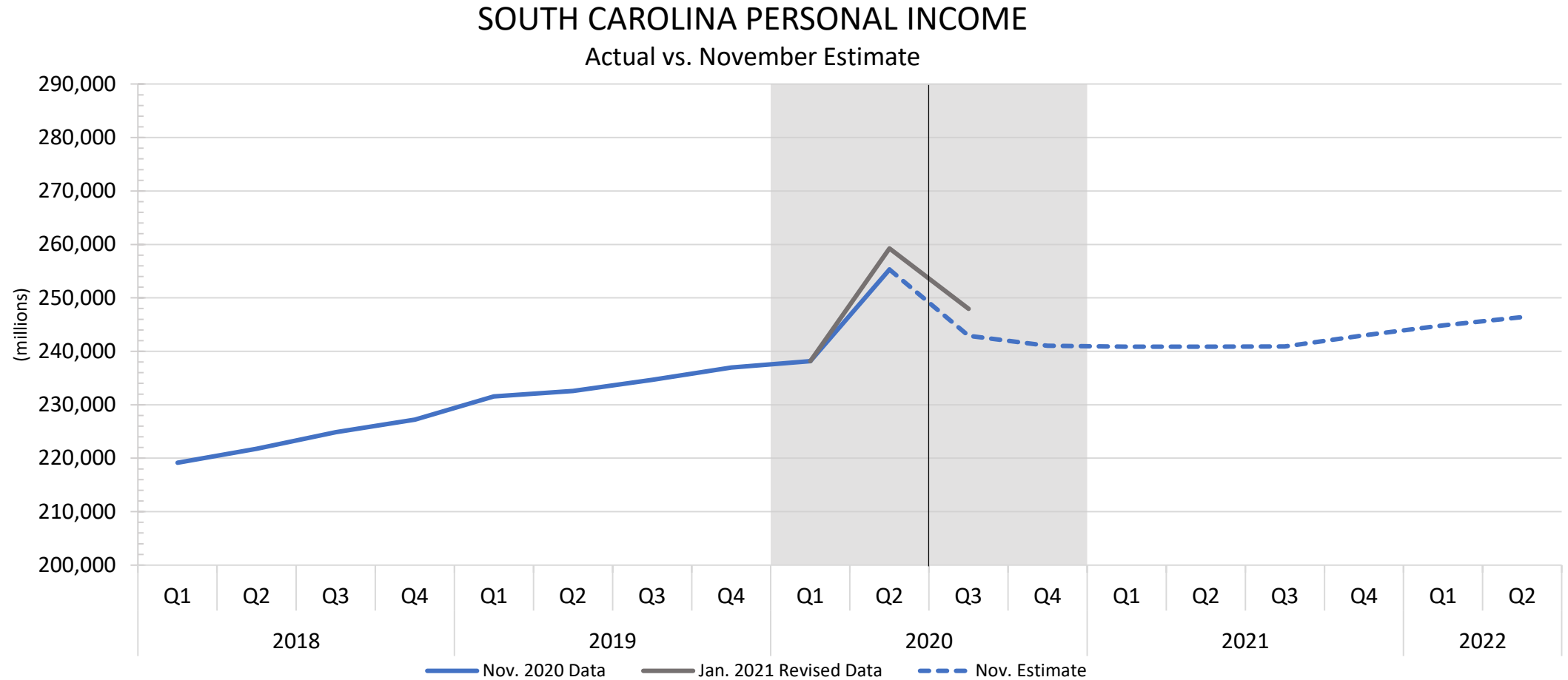


South Carolina Economic Indicators



S.C. Personal Income

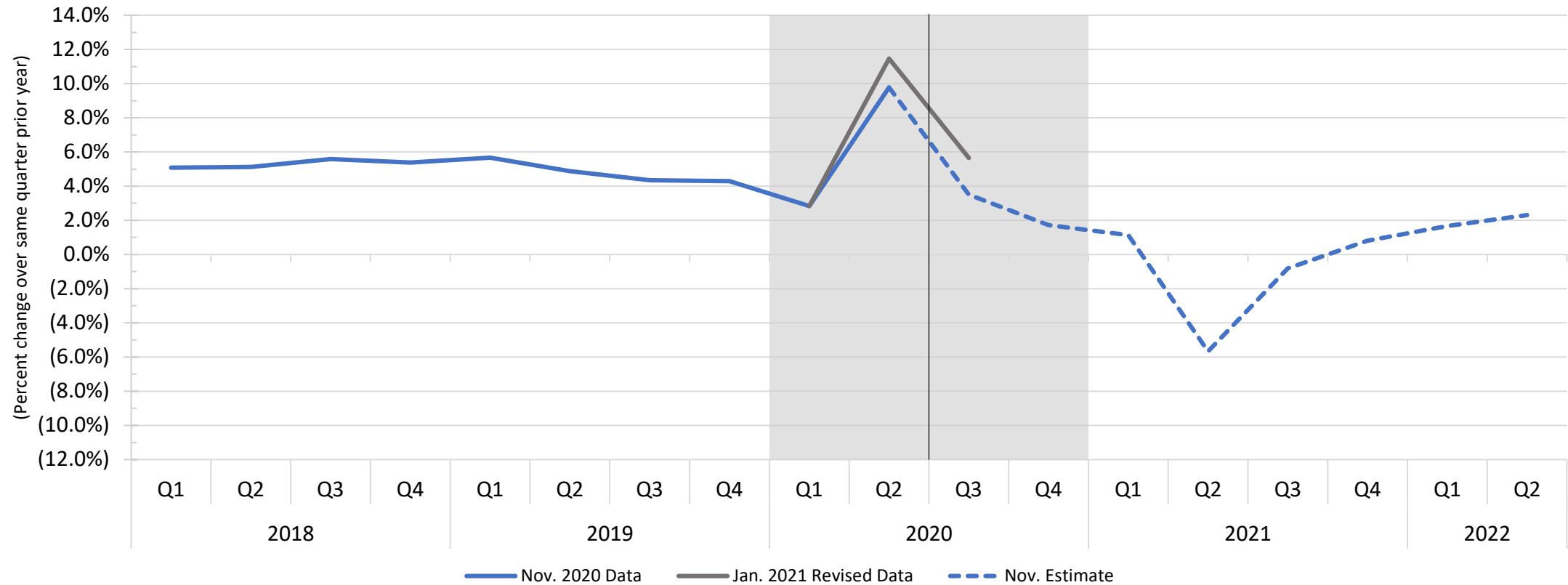
Personal income is higher than anticipated; Q2 2020 revised upward from Nov. estimates



S.C. Personal Income Growth

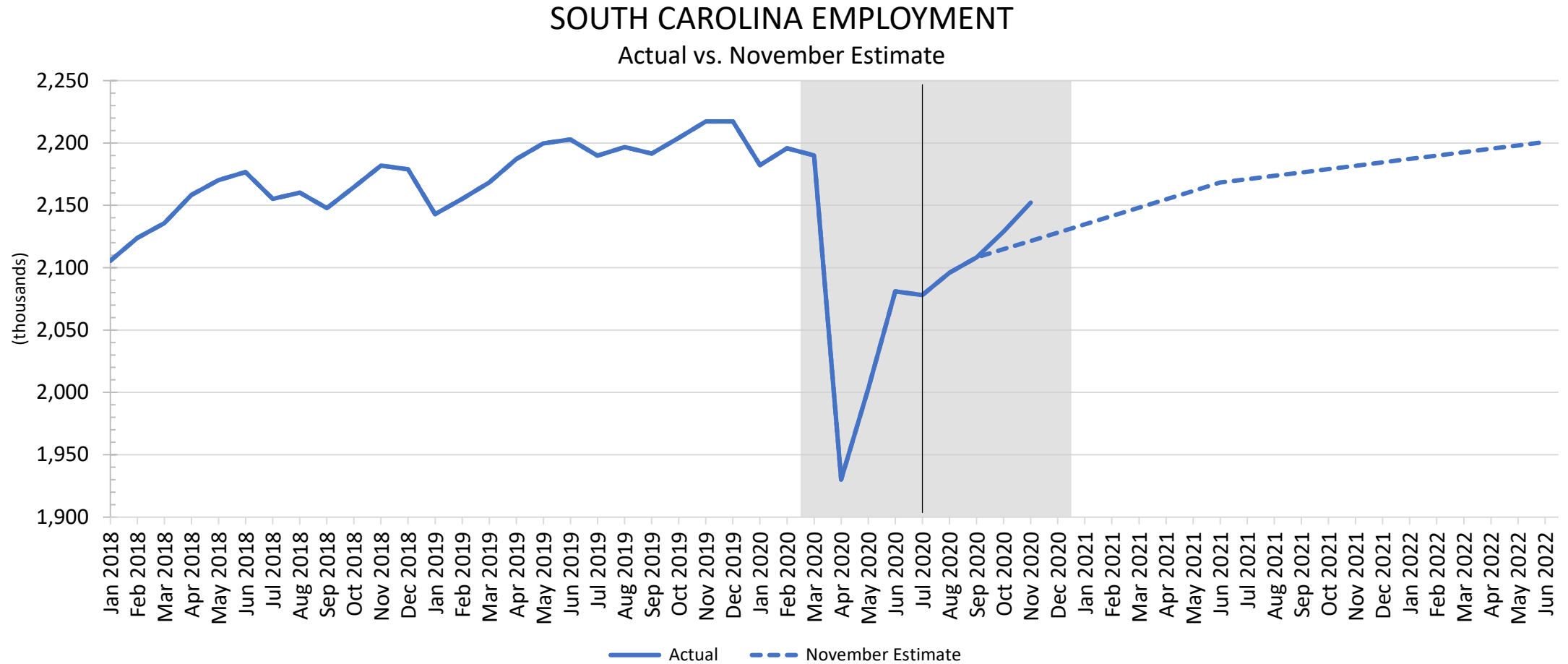
Q3 2020 growing at 5.7% over last year vs. estimate of 3.5%

SOUTH CAROLINA PERSONAL INCOME PERCENT CHANGE
Actual vs. November Estimate



S.C. Employment

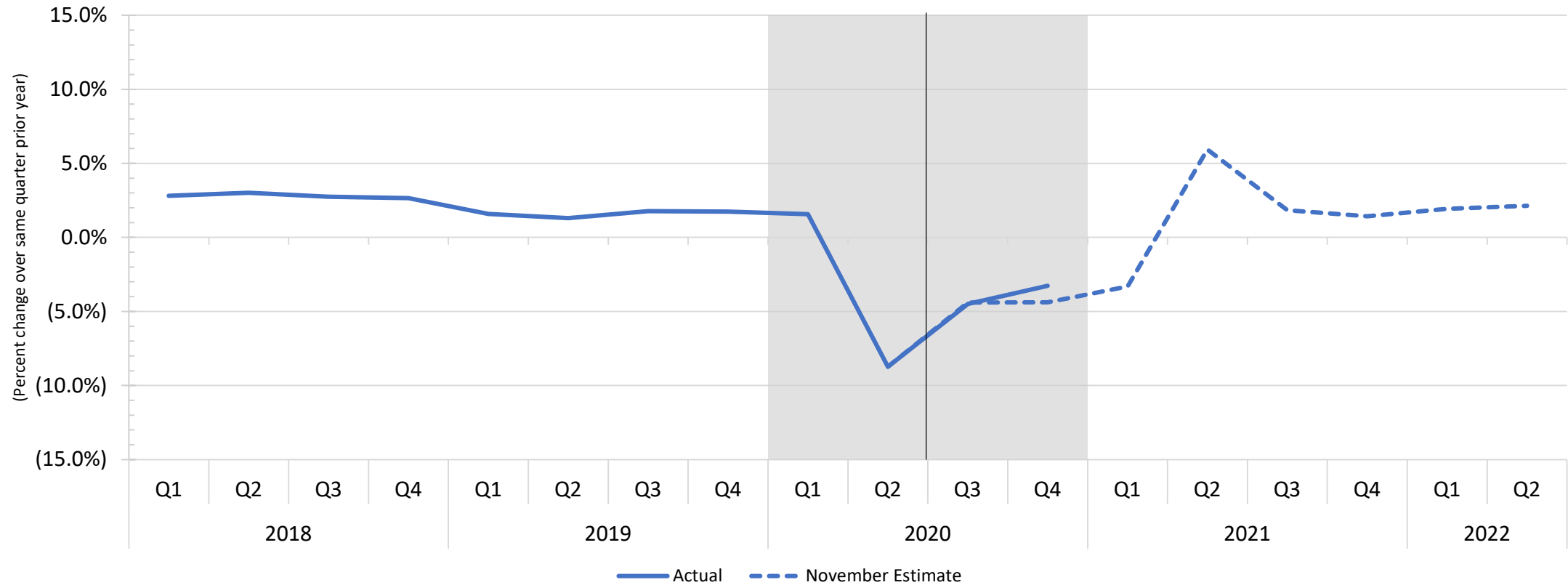
SC has recovered 84% of jobs lost; 31,000 jobs above Nov. 2020 estimate



S.C. Employment Growth

Actual growth in Q4 is -3.3% compared to estimate of -4.3%

SOUTH CAROLINA EMPLOYMENT PERCENT CHANGE
Actual vs. November Estimate

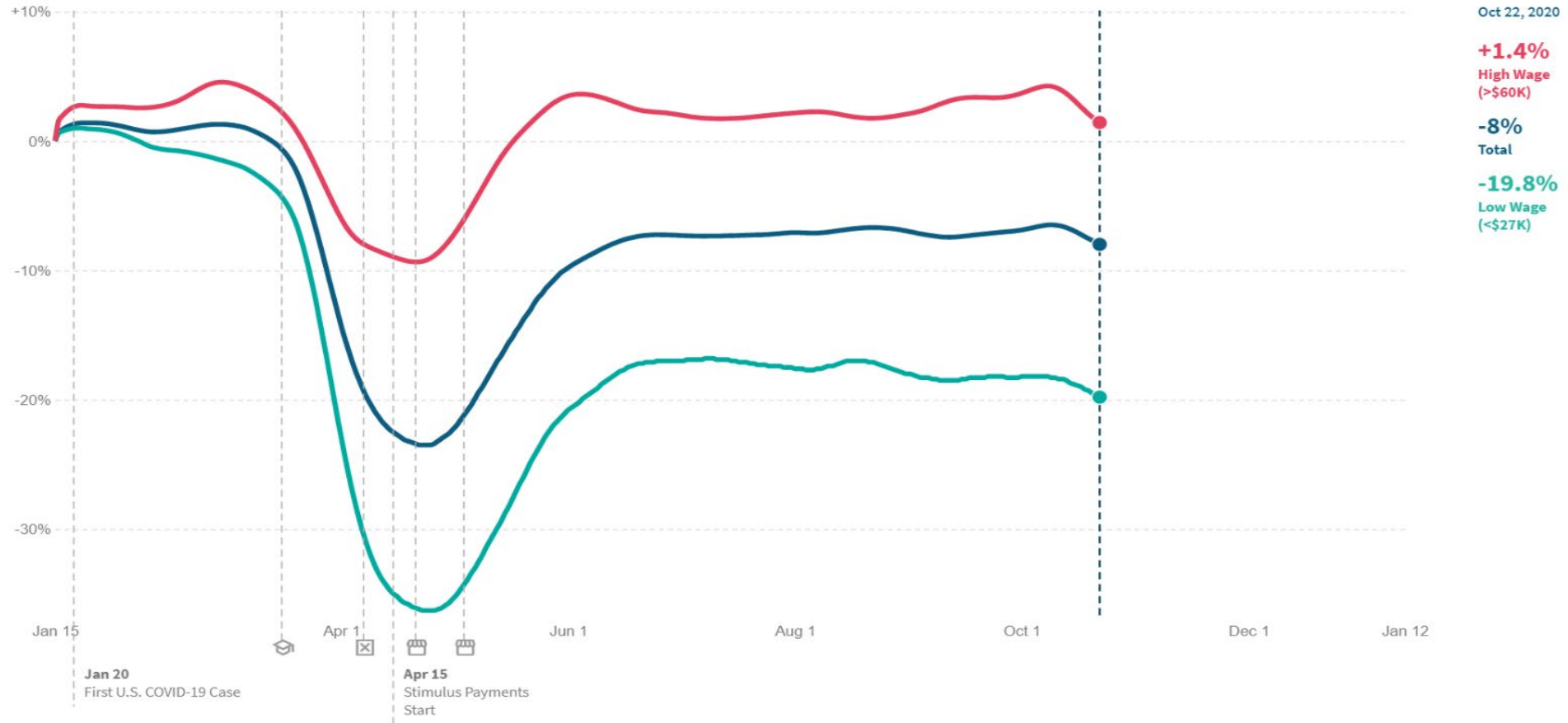


S.C. Employment Change by Wage Level

Employment losses are in low wage jobs; high wage jobs have seen an increase

Percent Change in Employment*

In South Carolina, as of October 22, 2020, employment rates **decreased** by 8% compared to January 2020 (not seasonally adjusted).



Source: Opportunity Insights Economic Tracker tracktherecovery.org, October 22, 2020 values retrieved January 12, 2020

Economic Overview Summary

- Personal income and employment growth have exceeded expectations
- Second federal stimulus is likely to continue to buoy personal income in Q1 2021
- Employment has recovered 84% lost jobs from April

Considerations:

- Can the economy grow above the stimulus boost?
- If this recession is different than past experiences, will the recovery be different too?

General Fund Revenue Individual Income Tax Components

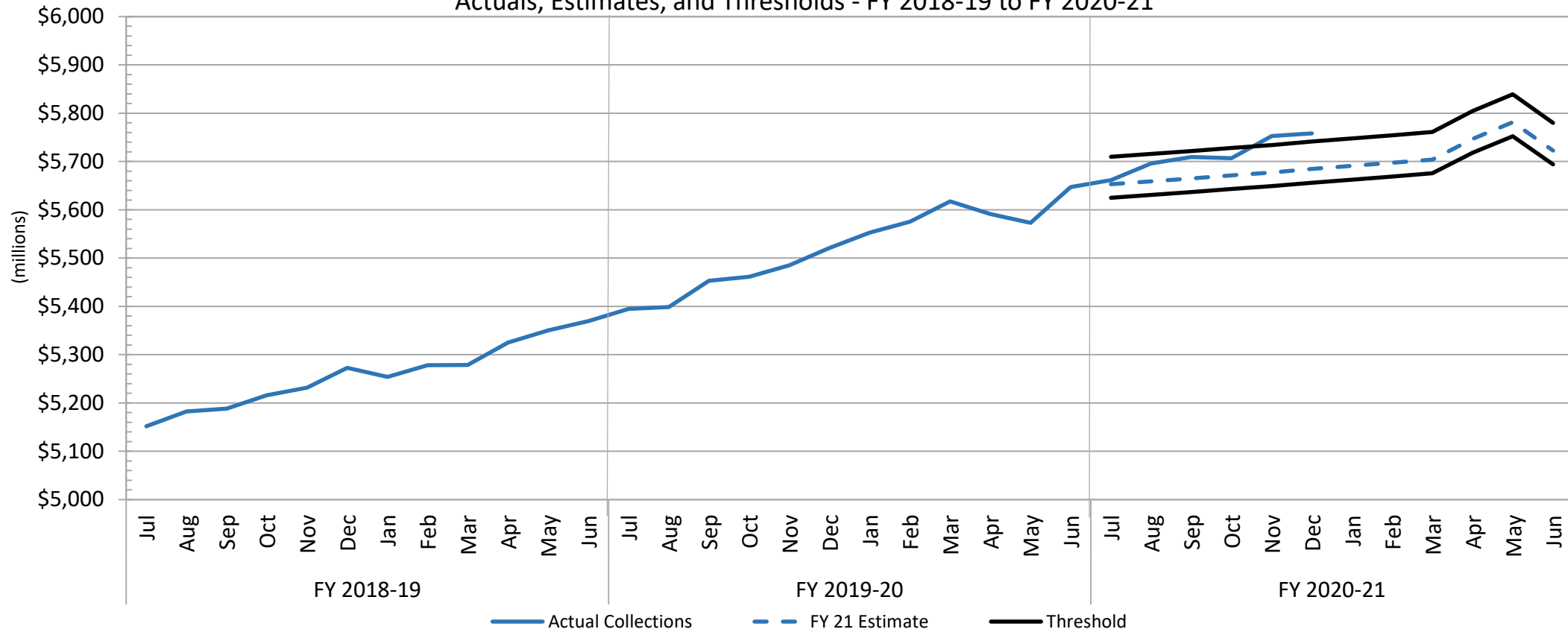


Withholdings - Actual vs. Estimate

Collections remain above estimate by 2.8% and are 4% above last year

ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

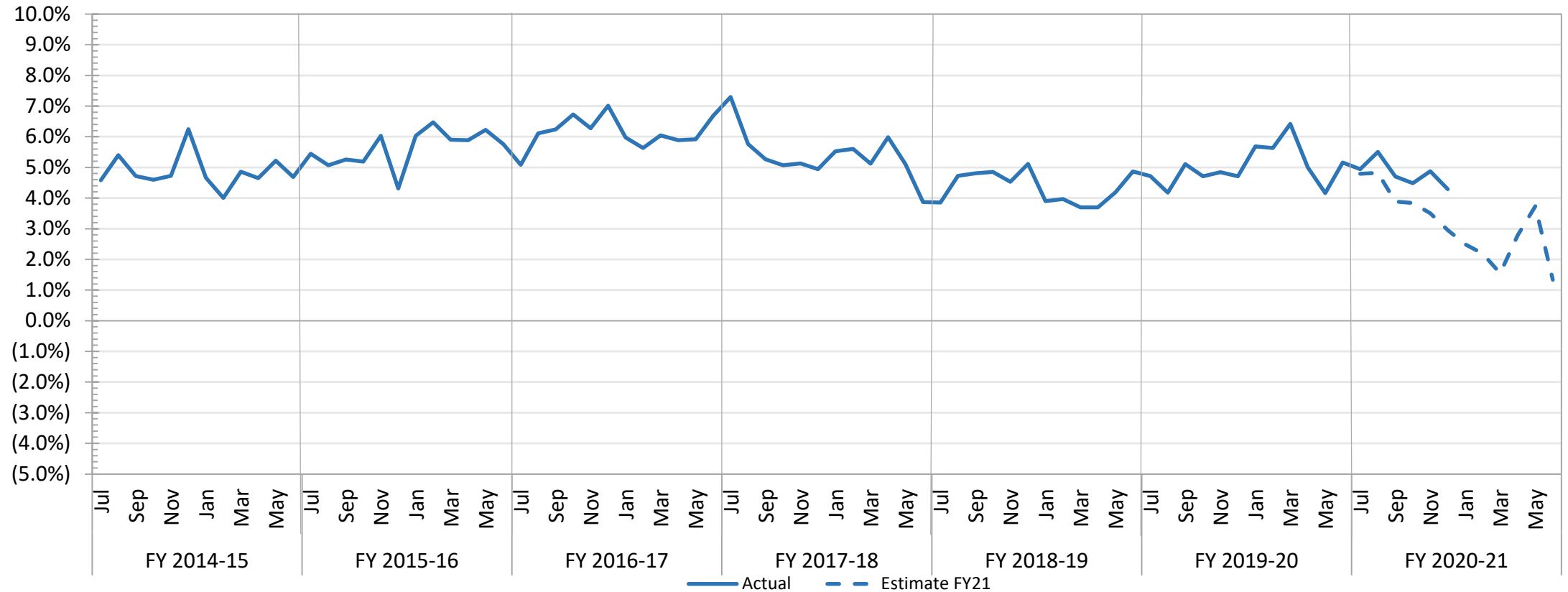
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



Withholdings - Percent Change

Growth seems to be slowing since August

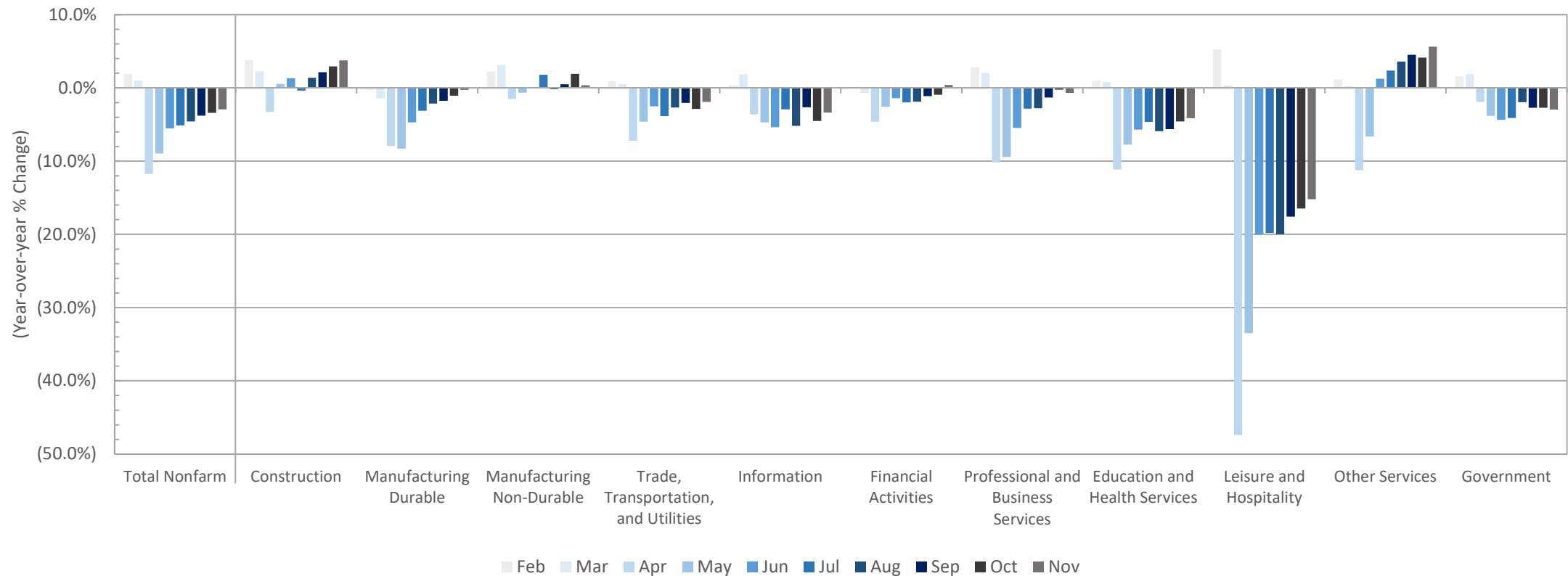
ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME WITHHOLDINGS



SC Employment By Sector

Leisure and Hospitality jobs lag as most industries recover

2020 SC EMPLOYMENT BY INDUSTRY
February through November

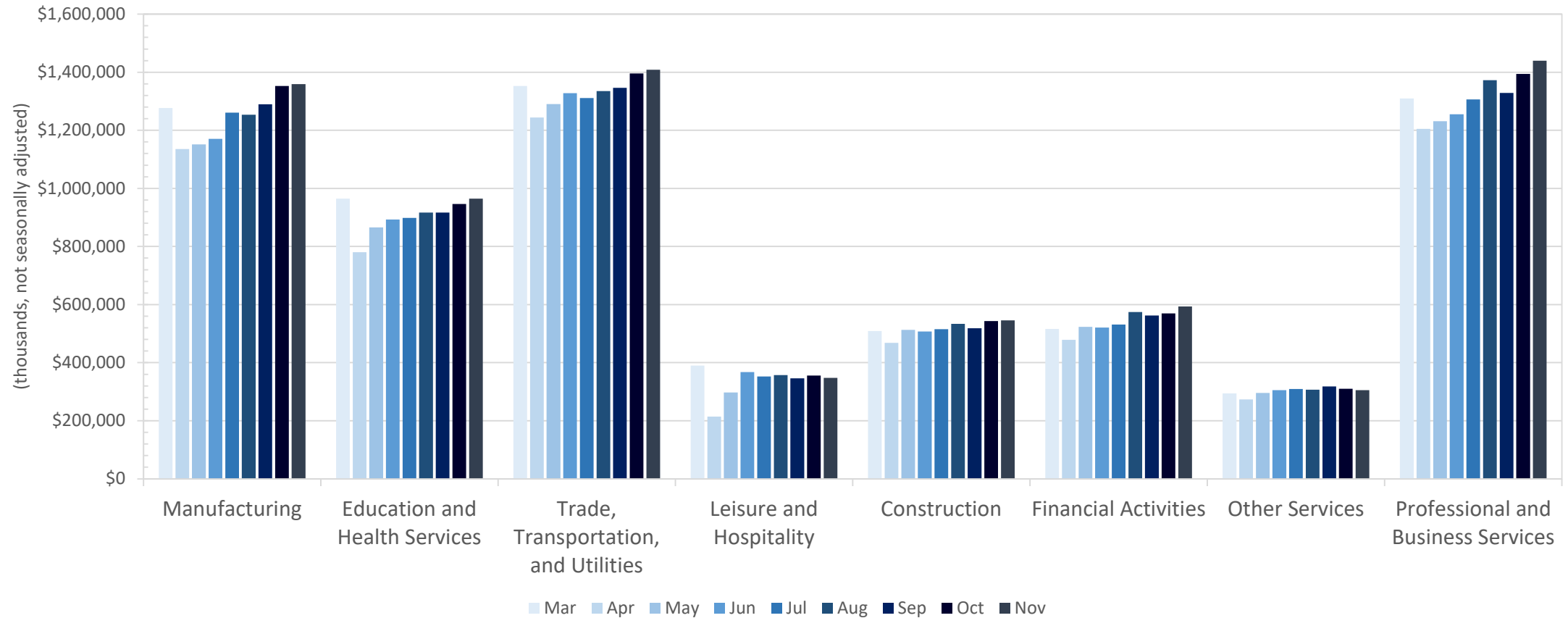


Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED - 281a, RFA/bdc/1/12/2021

Total SC Employee Earnings

Seasonality drives growth for some industries while others experience non-seasonal growth

Total SC Employee Earnings



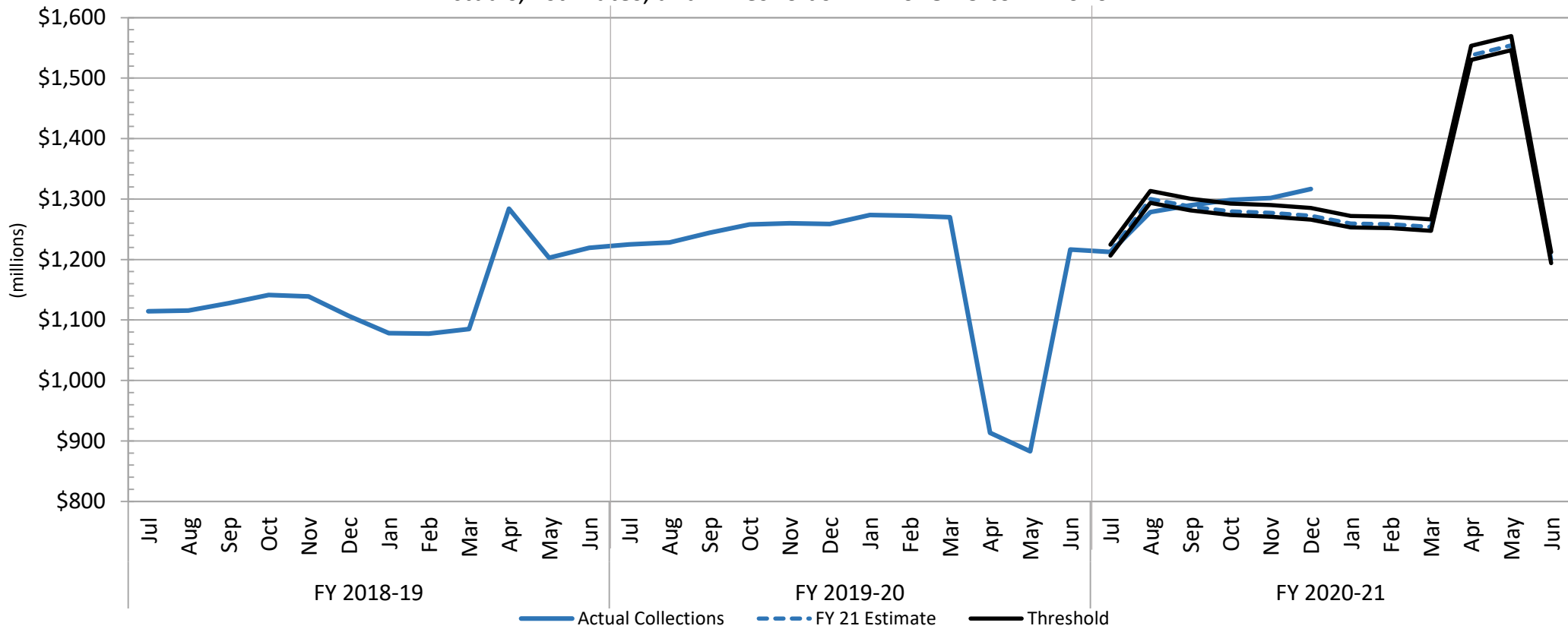
Source: U.S. Dept. of Labor, Bureau of Labor Statistics; Federal Reserve Bank of St. Louis, FRED - 281c, RFA/bdc/1/12/2021

Non-Withholdings - Actual vs. Estimate

Collections are significantly above estimate, but 50% of the estimate is expected in final fiscal quarter

ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

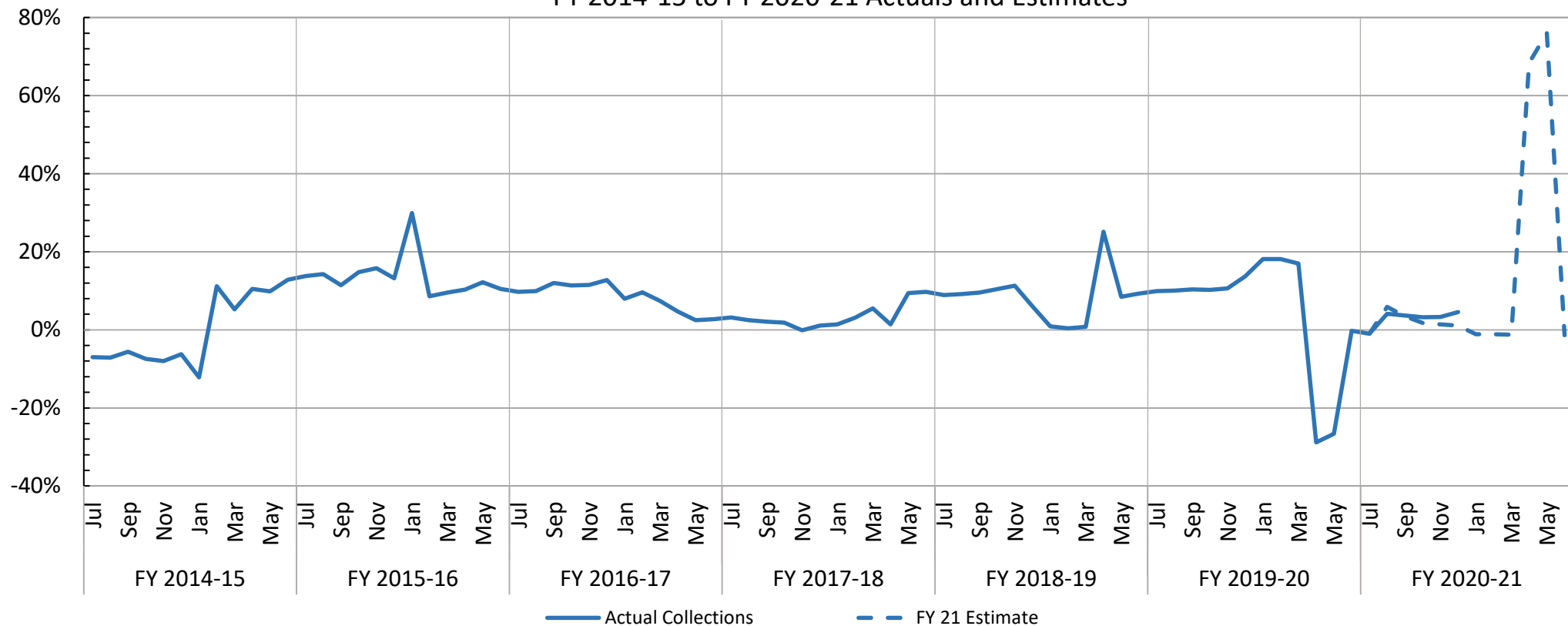
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



Non-Withholdings - Percent Change

Growth seems to have stabilized for now; filing extension in 2020 distorts growth rate comparisons

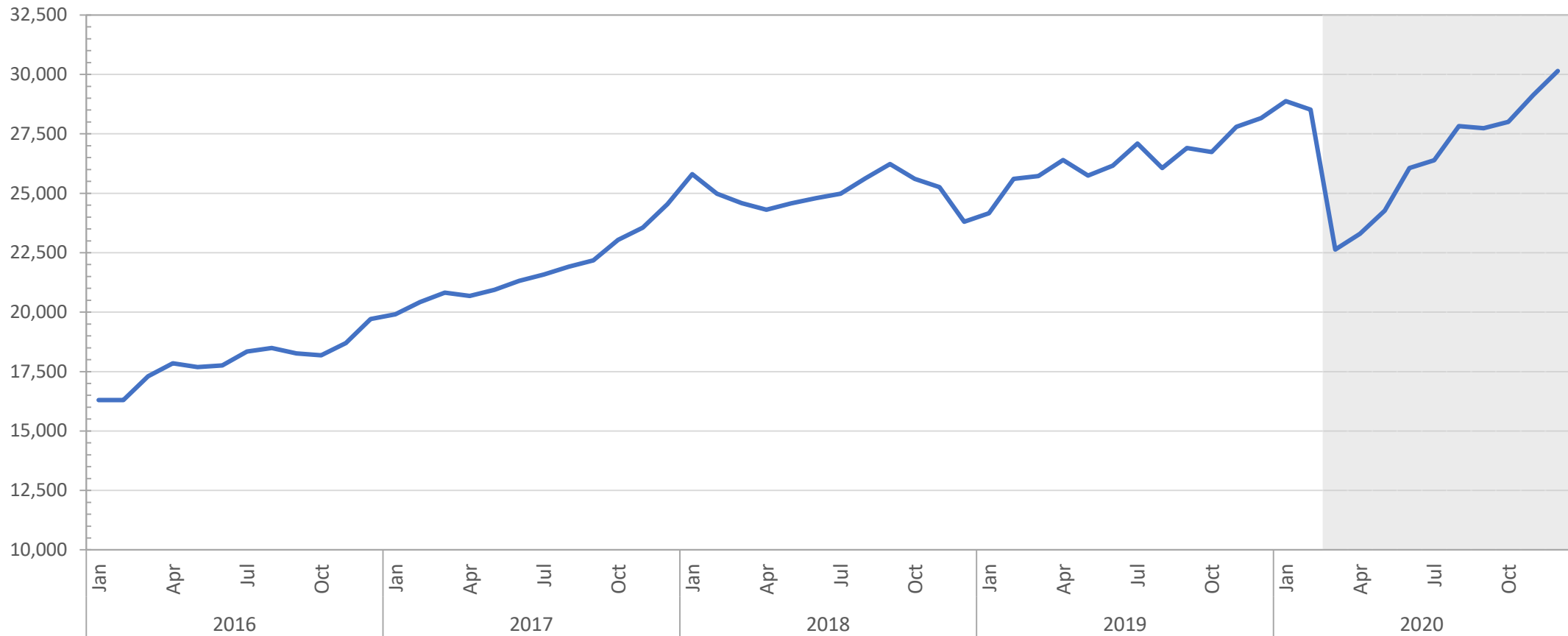
ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME NON-WITHHOLDINGS
FY 2014-15 to FY 2020-21 Actuals and Estimates



Financial Markets

Strong gains for the year with sectors less divergent than before

Dow Jones Industrial Average



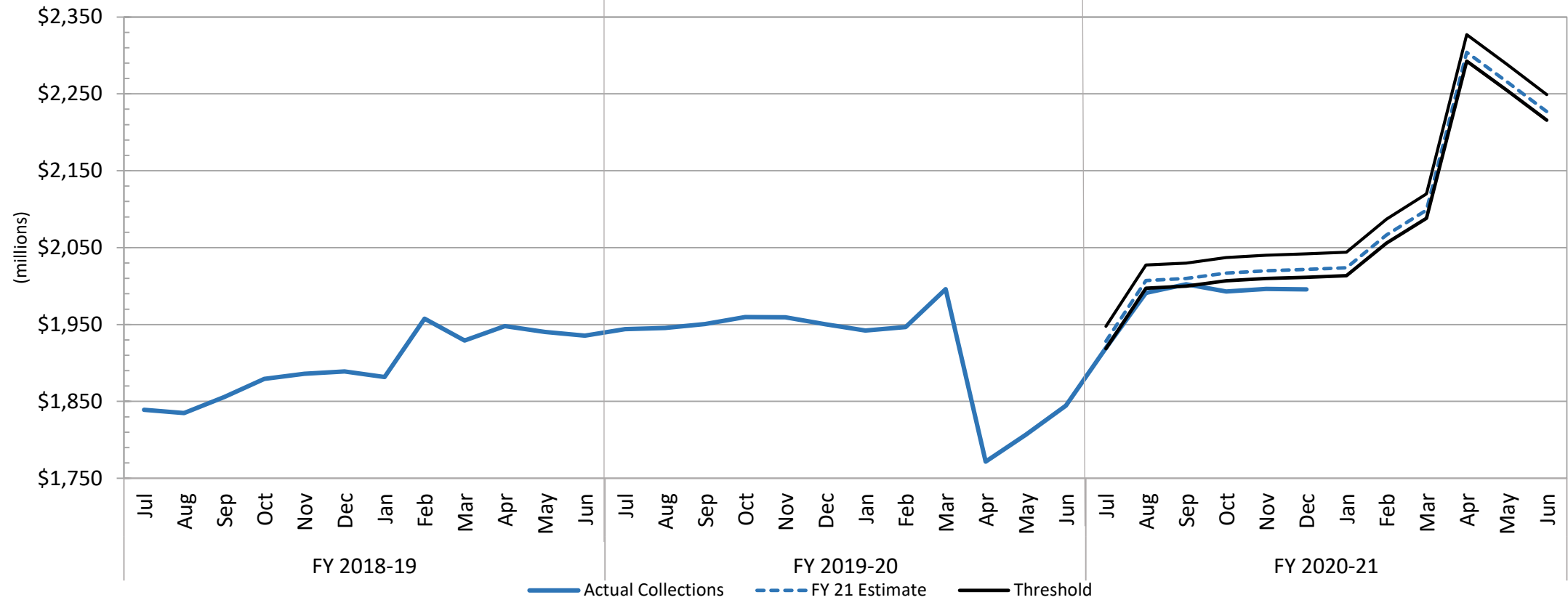
Source: Federal Reserve Bank of St. Louis, FRED, 283c RFA/bdc/1/12/2021

Refunds - Actual vs. Estimate

Refunds slightly below estimate, but the majority will be in the last fiscal quarter

ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS

Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21

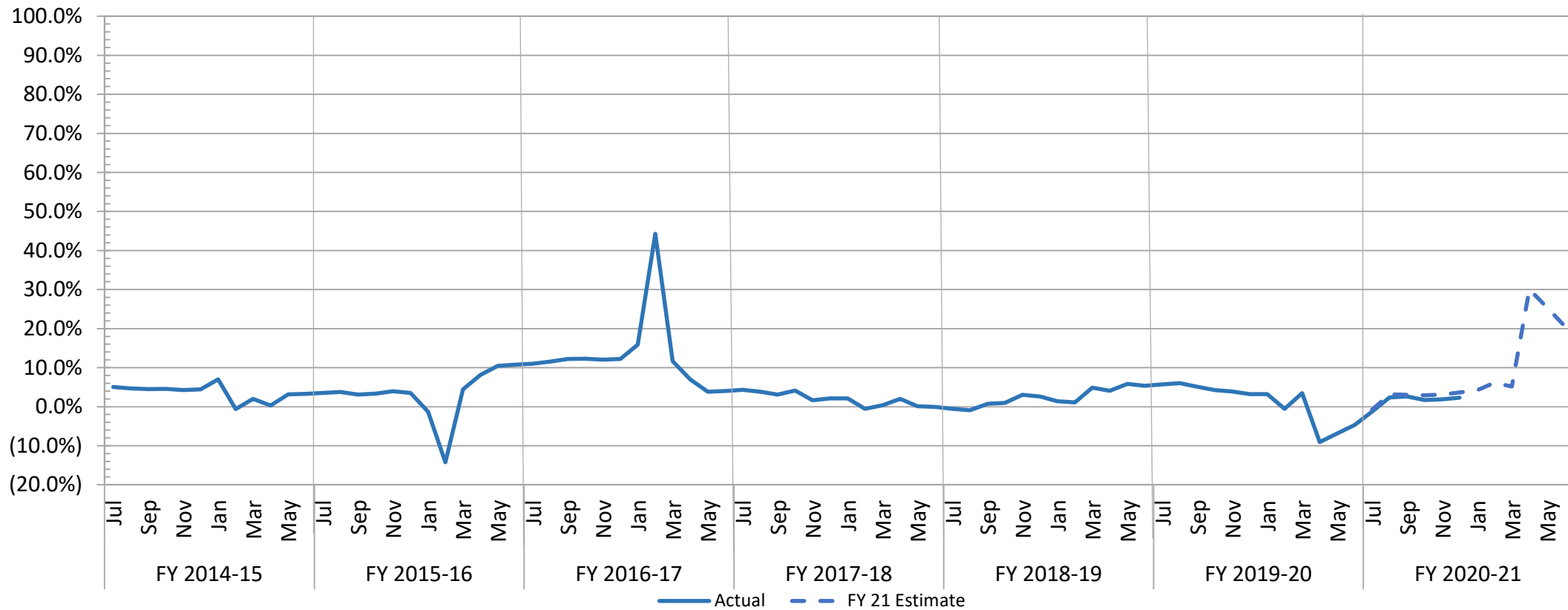


Refunds - Percent Change

Growth is near recent levels after accounting for delayed filings

ROLLING FISCAL YEAR PERCENT CHANGE - INDIVIDUAL INCOME REFUNDS

Actuals and Estimates - FY 2014-15 to FY 2020-21



General Fund Revenue Consumption Taxes

Consumption Taxes

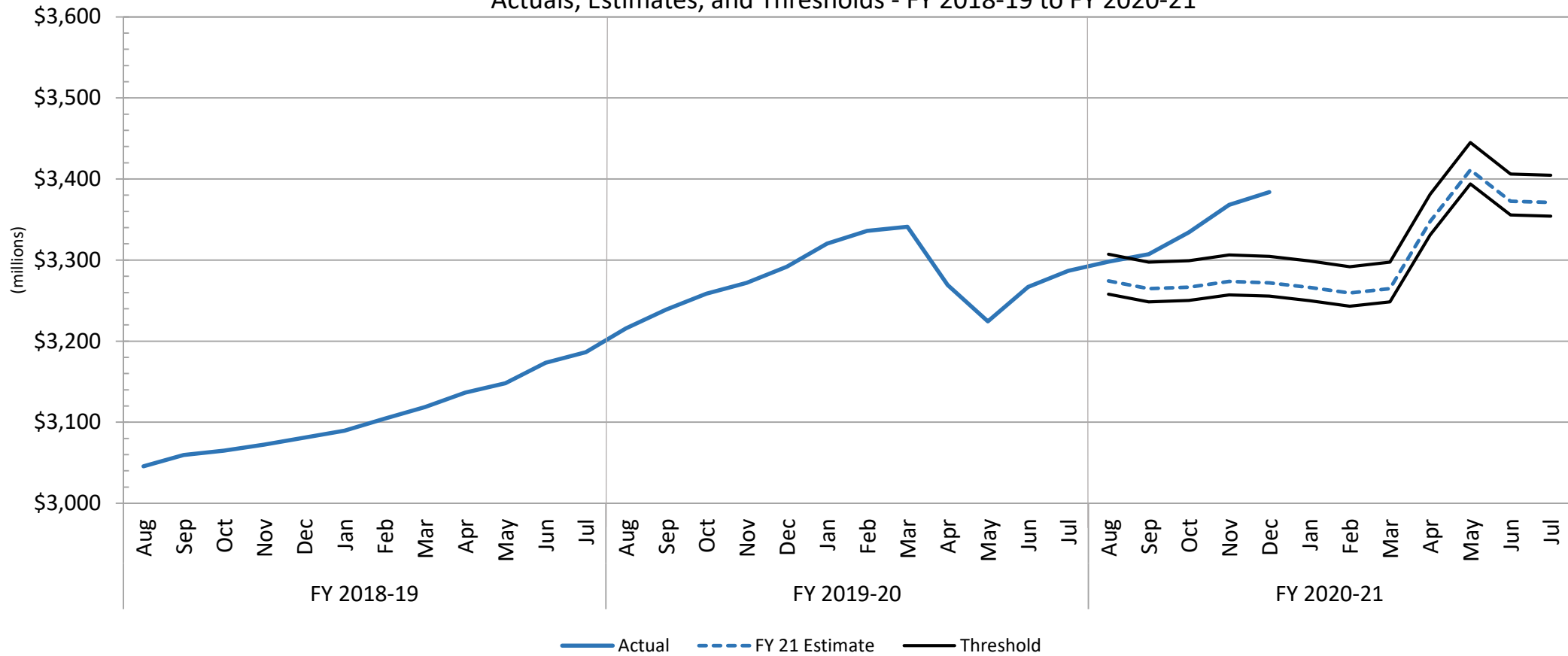
Key Issues FY 2020-21

- Sales tax collections continue to be ahead of the estimate
- Consumers continue to spend more on goods than services
- This growth is likely unsustainable, as consumers may shift back to previous year's consumption patterns once the COVID-19 vaccine has been widely distributed

Sales Tax - Actual vs. Estimate

Collections are \$112 million above the estimate year-to-date

ROLLING FISCAL YEAR - SALES TAX
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



Sales Tax – Percent Change

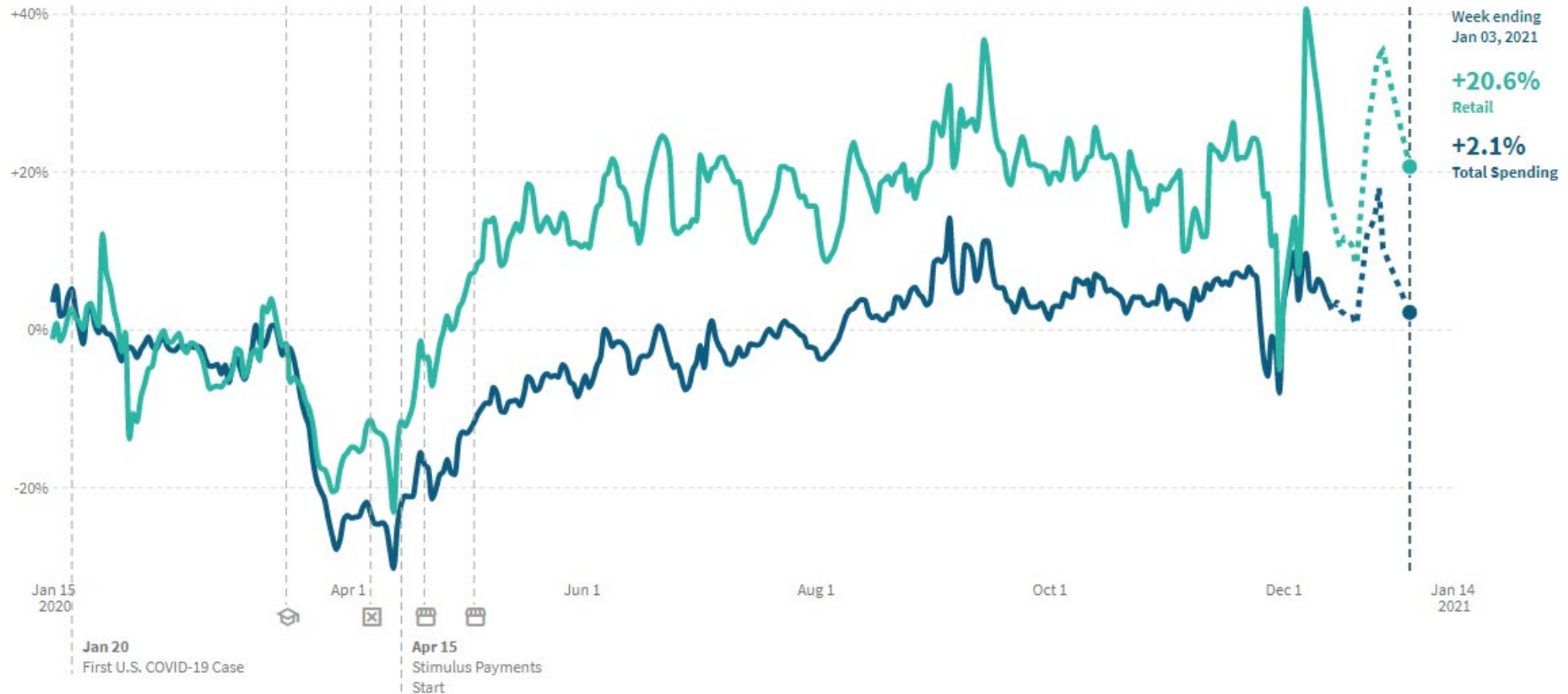
Sales growth is better than anticipated; we expect a spike in spring

ROLLING FISCAL YEAR PERCENT CHANGE - SALES TAX
Actuals and Estimates - FY 2014-15 to FY 2020-21



Consumer Spending

Total spending in S.C. is up 2.1% with spending on retail up 20.6%, the majority of which is taxable



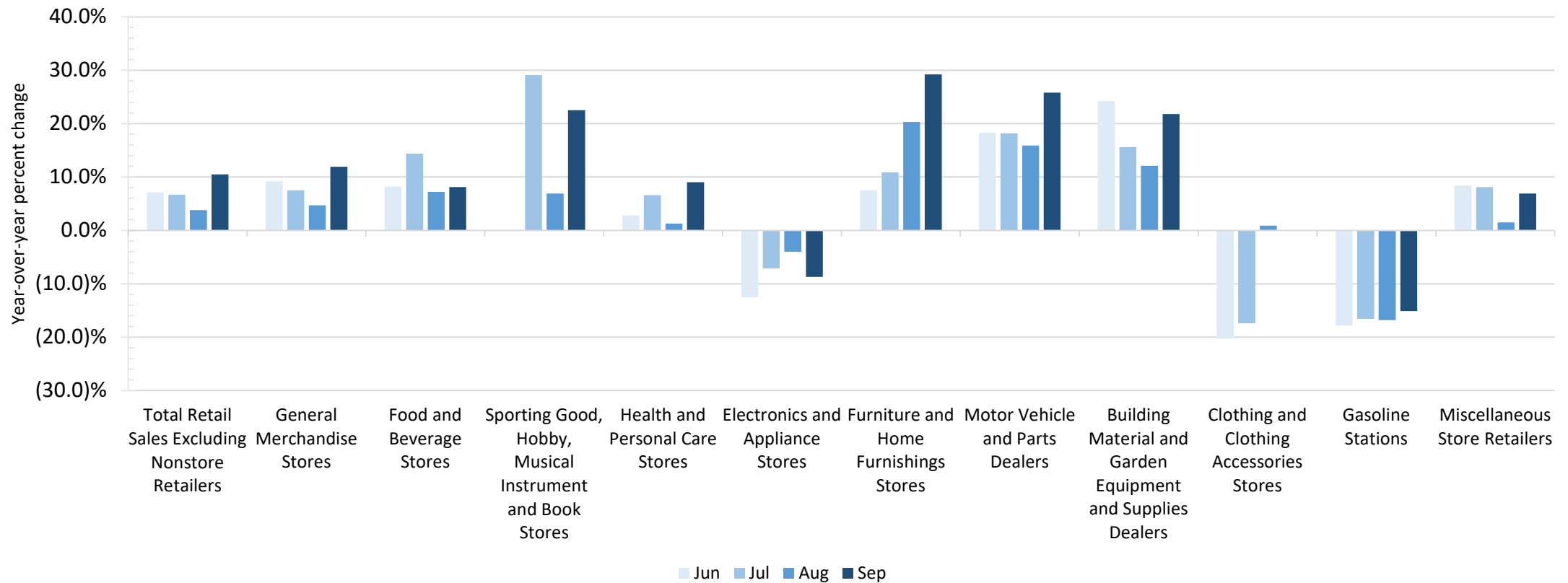
Source: Harvard University, Brown University, and the Bill and Melinda Gates Foundation Collaboration, Opportunity Insights: Economic Tracker, RFA/nmg/1/12/2021

S.C. Retail Sales

High growth in retail concentrated in durable goods

SOUTH CAROLINA RETAIL SALES

June - September



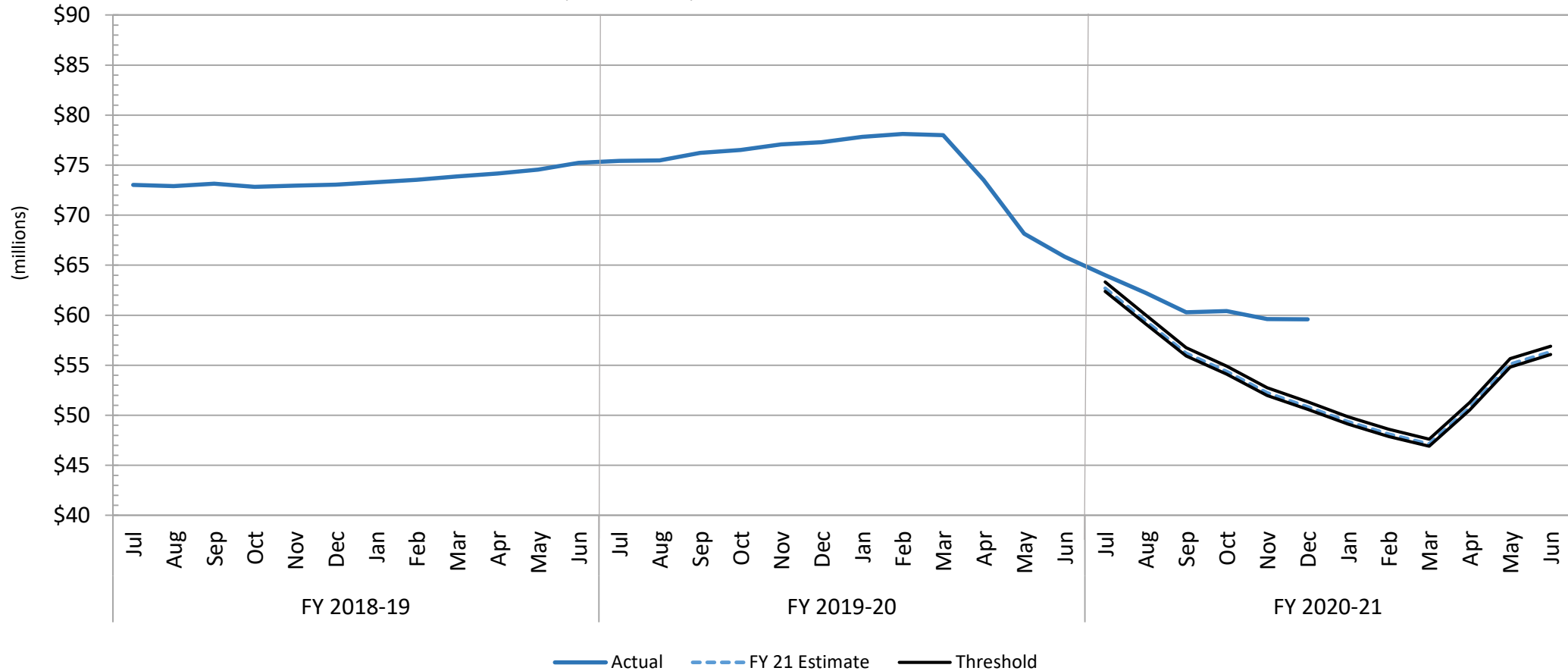
Source: U.S. Census Bureau, Advance Monthly State Retail Sales, data through September 2020, 283-6 RFA/bc/1/6/2021

Accommodations Tax

Although better than expected, collections continue well below historical levels; General Fund sales taxes on accommodations are down \$13 million year-to-date as a result

ROLLING FISCAL YEAR - ACCOMMODATIONS TAX

Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2021-22



US Consumer Spending

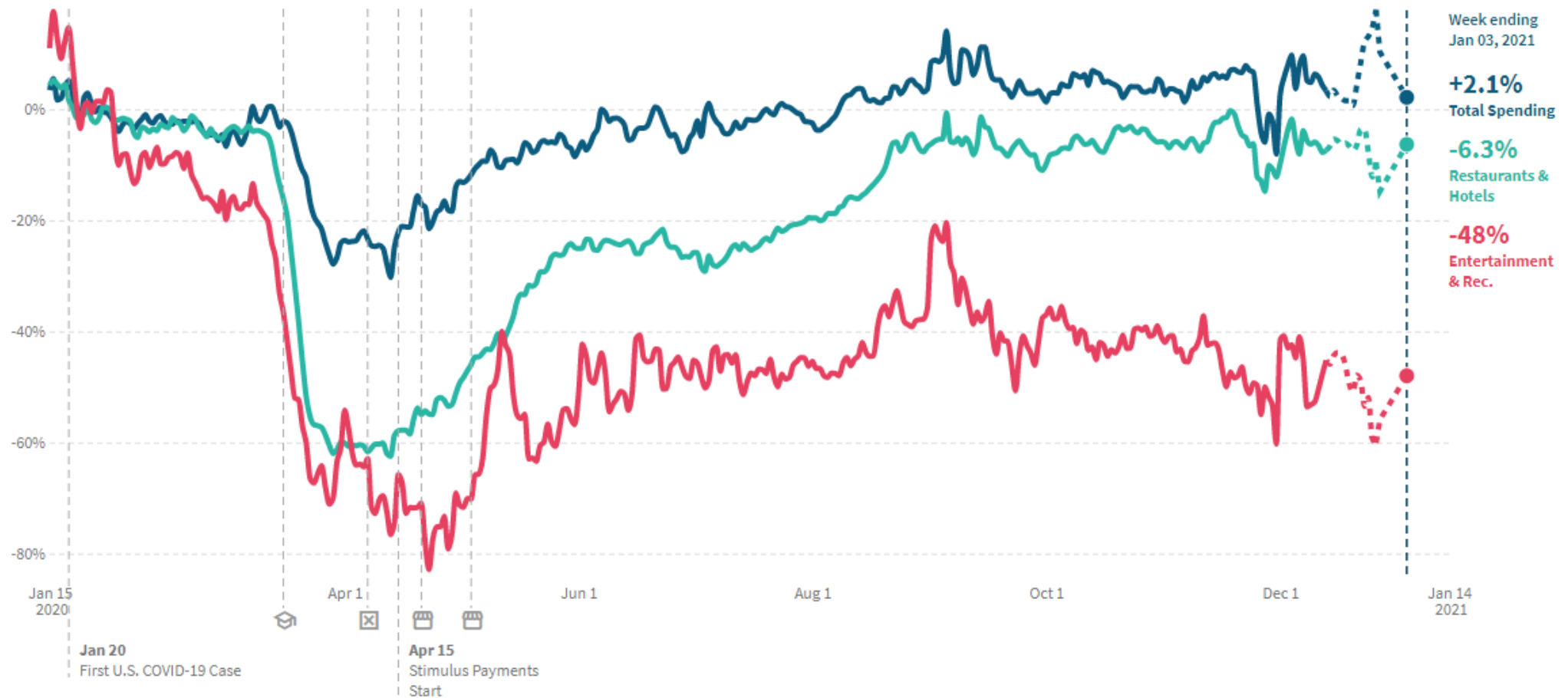
Total spending is down 2.8% with restaurants, hotels, and services considerably down



Source: Harvard University, Brown University, and the Bill and Melinda Gates Foundation Collaboration, Opportunity Insights: Economic Tracker, RFA/nmg/1/12/2021

South Carolina Consumer Spending

Overall spending is up but spending on services continues to be down



Source: Harvard University, Brown University, and the Bill and Melinda Gates Foundation Collaboration, Opportunity Insights: Economic Tracker, RFA/nmg/1/12/2021

Consumption Taxes

Conclusions

- There has been exceptional sales tax growth in the last 6 months
- Sales in select retail areas are driving this growth, made possible by a shift in spending from services to goods
- Sales tax likely to exceed the current estimate this year
- Sustainability of the current growth remains a concern next fiscal year if consumers shift back to services and stimulus ends

Other Consumption Taxes

Alcoholic Liquors, Beer and Wine, Deed Recording



Alcoholic Liquors and Beer and Wine – Revenue Update

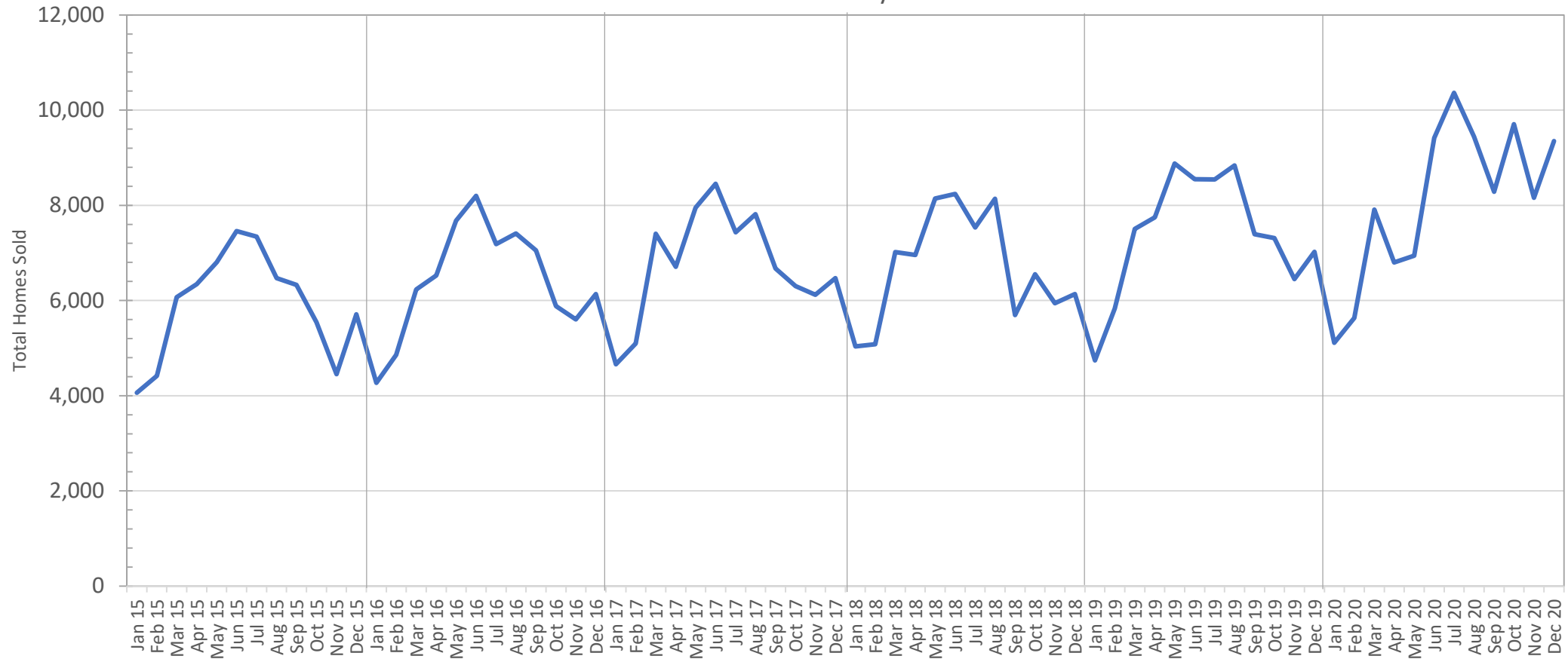
- Alcoholic Liquors
 - \$4.2 million above the estimate YTD
 - 13.1% growth vs. 2.5% anticipated growth
 - Largely the result of October sales, which saw a 27% increase in sales over October 2019. This is due to a DOR accounting change, not economic activity.
 - Likely to be in line with the current estimate by the year end
- Beer and Wine
 - \$1.5 million above the estimate YTD
 - On a dollar basis, sales have largely been in line with the current estimate
 - Likely to remain in line with the current estimate

Documentary Stamp (Deed Recording Fees) – Revenue Update

- \$5.1 million above the estimate YTD
- 25.3% growth vs. 11.4% anticipated growth
- Exceptional growth in Deed Recording Fees observed since September 2020
- Likely to exceed the current estimate

South Carolina Home Sales – Total Homes Sold Up 33% in December 2020 compared to December 2019

SOUTH CAROLINA HOME SALES
Total Homes Sold By Month



Source: SC Realtors' Association 276A-RFA/JW/1/13/2021

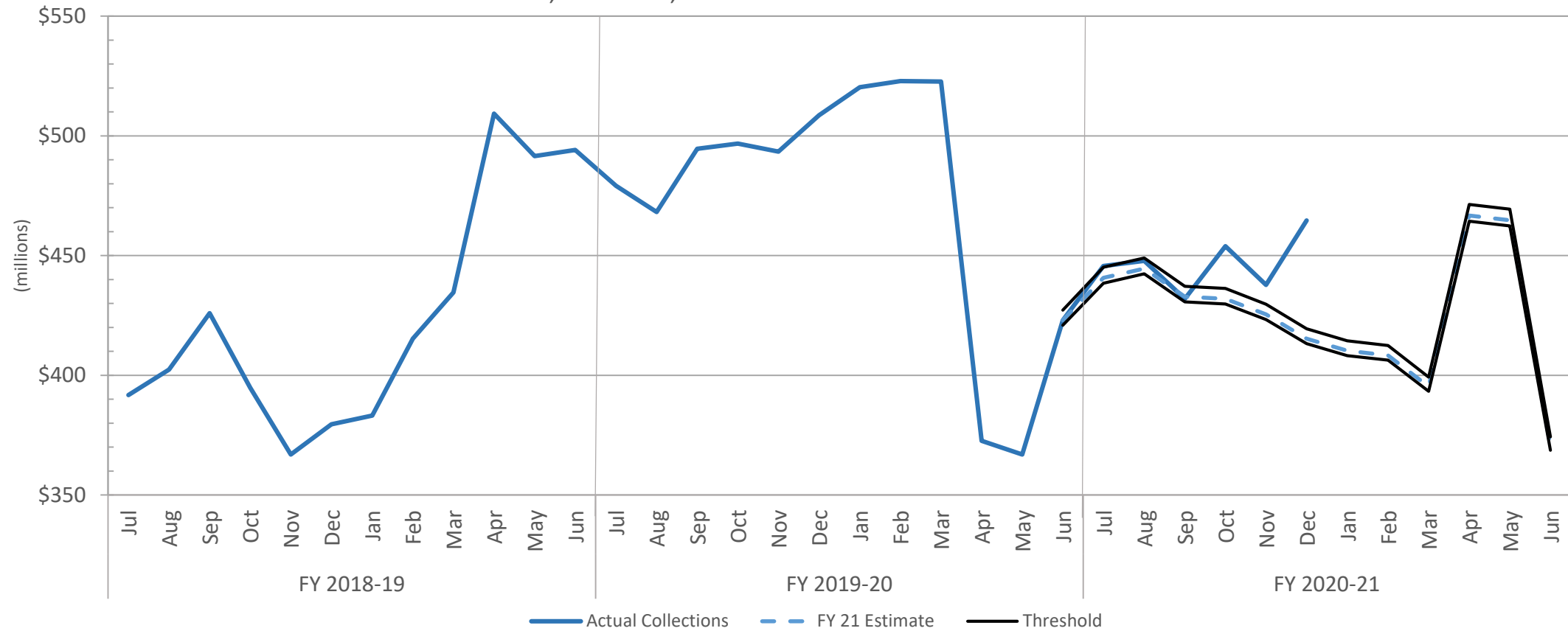


General Fund Revenue Business Taxes

Corporate Income Tax – Actual vs. Estimate

Above estimates by \$49.4 million year-to-date

ROLLING FISCAL YEAR - CORPORATE INCOME TAX
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21

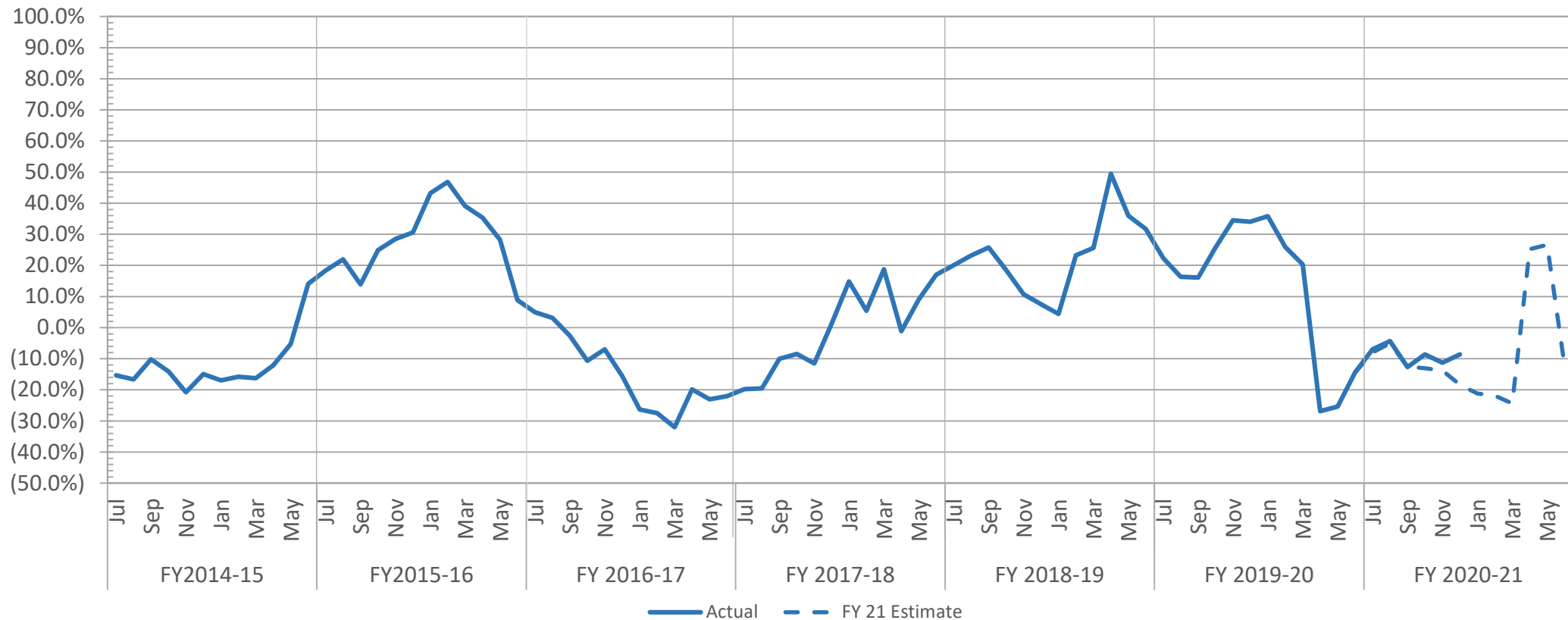


Corporate Income Tax – Percent Change

Currently experiencing a decline over last year, but it is less than expected

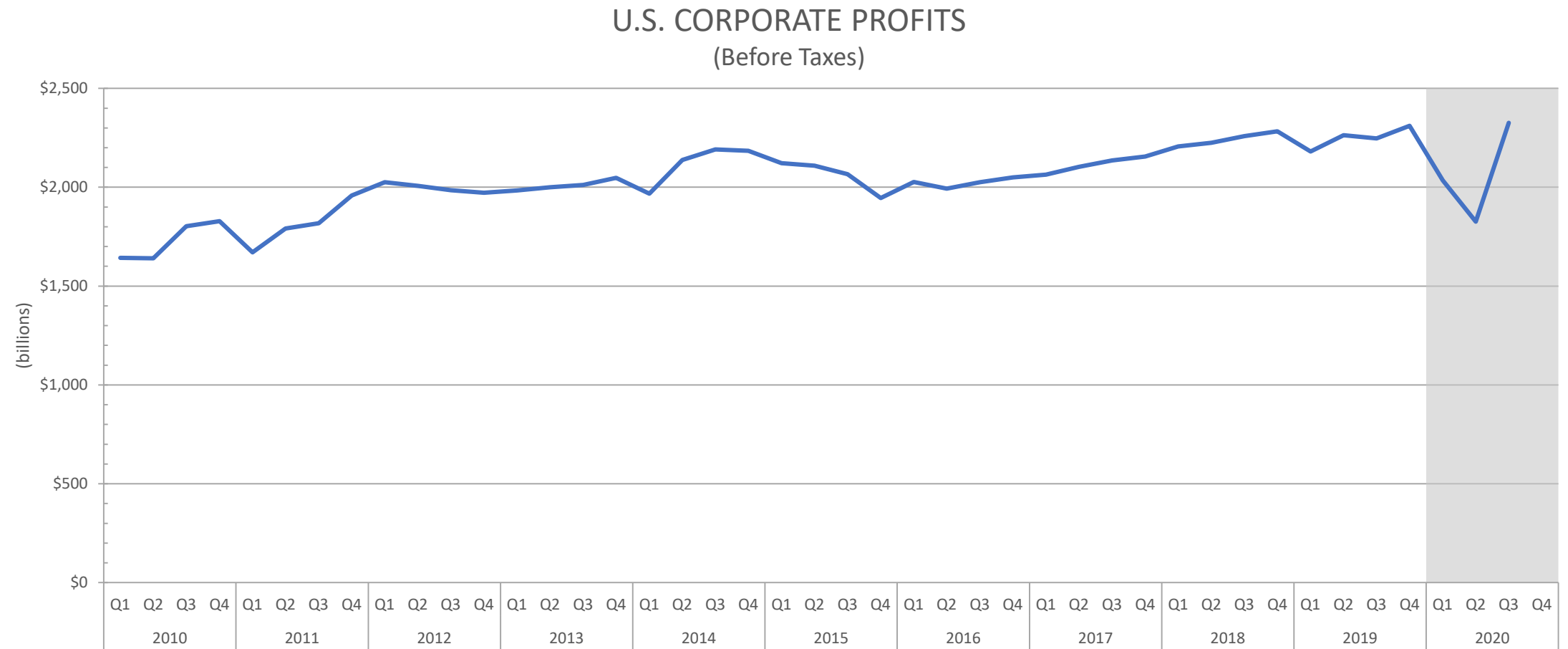
ROLLING FISCAL YEAR PERCENT CHANGE - CORPORATE INCOME TAX

Actuals and Estimates - FY 2014-15 to FY 2020-21



Corporate Profits

Rebound in Q3 2020; back above 2019 peak



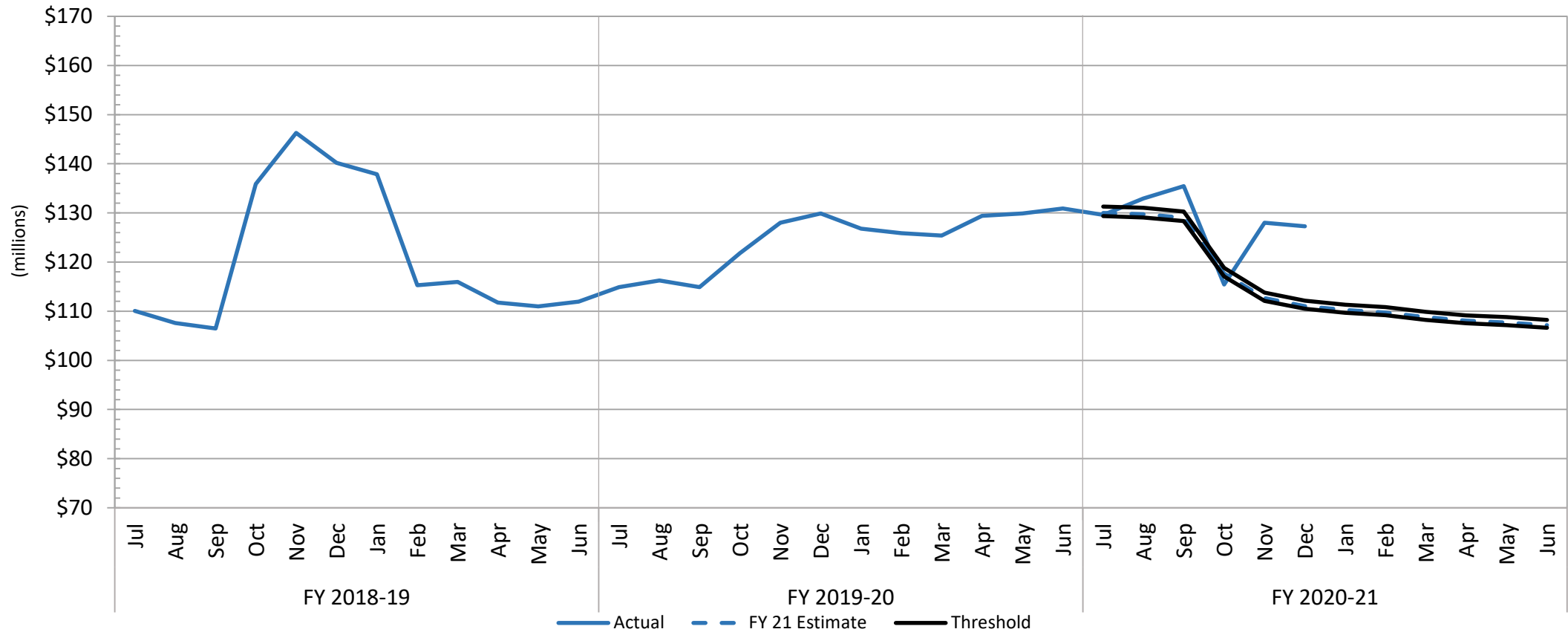
Source: Bureau of Economic Analyses 293-RFA/lhj/01/11/2021



Corporate License Tax – Actual vs. Estimate

\$16.2 million above the estimate year-to-date

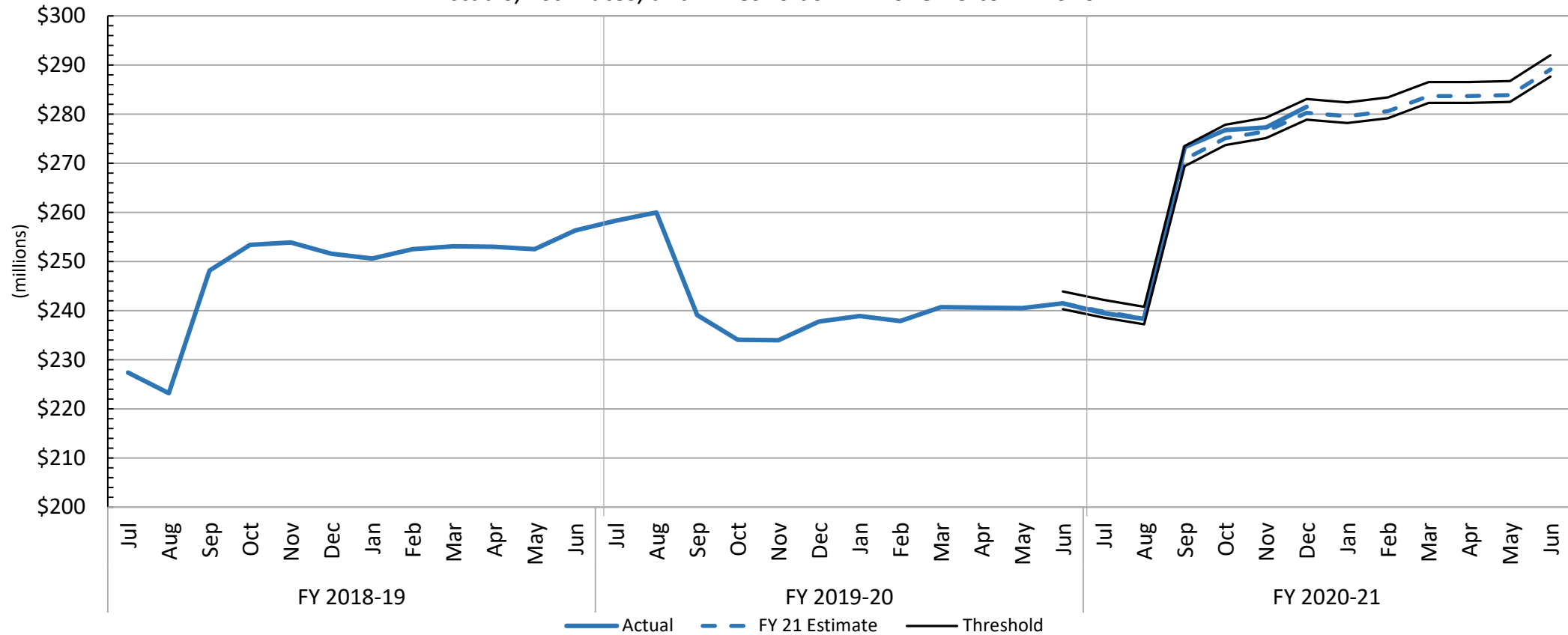
ROLLING FISCAL YEAR - CORPORATE LICENSE TAX
Actuals and Estimates, FY 2018-19 to FY 2020-21



Insurance Tax – Actual vs. Estimate

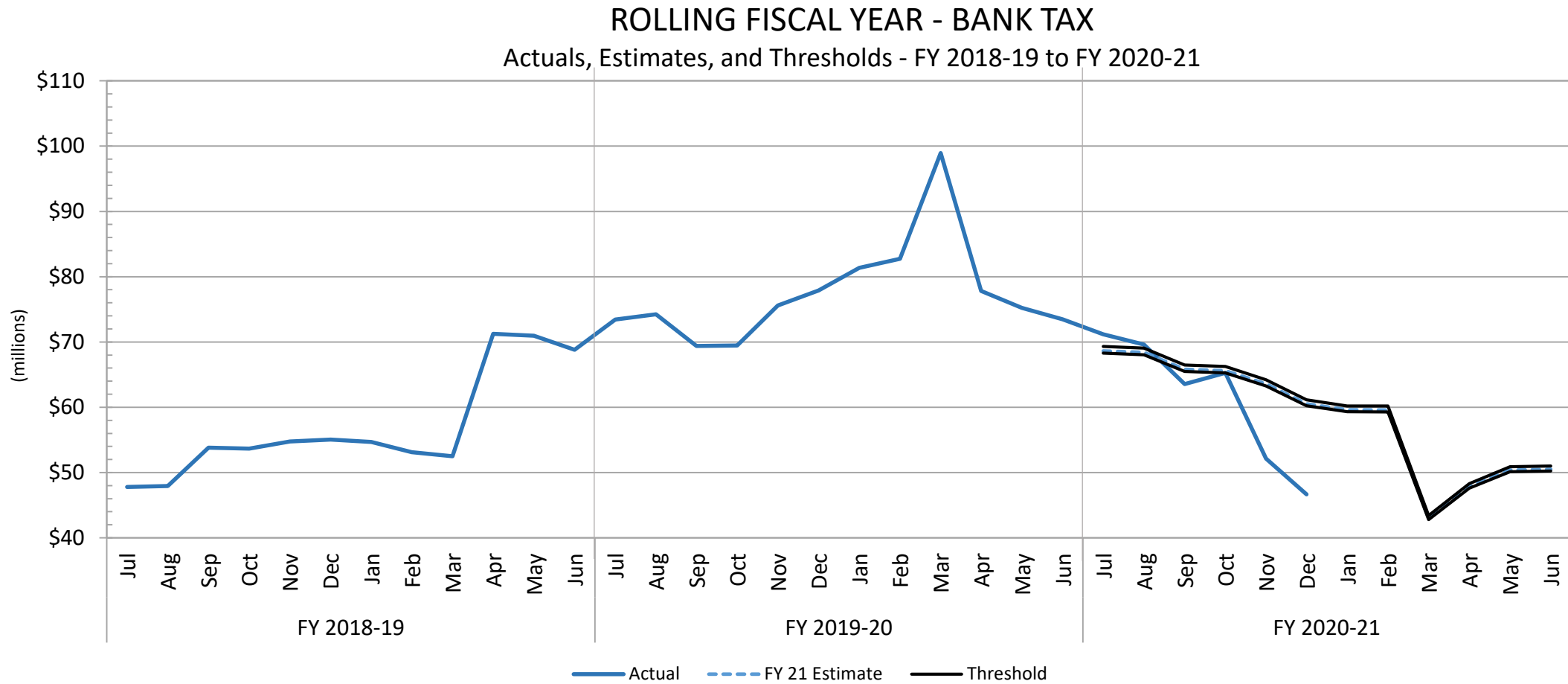
Insurance tax is tracking close to estimates

ROLLING FISCAL YEAR - INSURANCE TAX
Actuals, Estimates, and Thresholds - FY 2018-19 to FY 2020-21



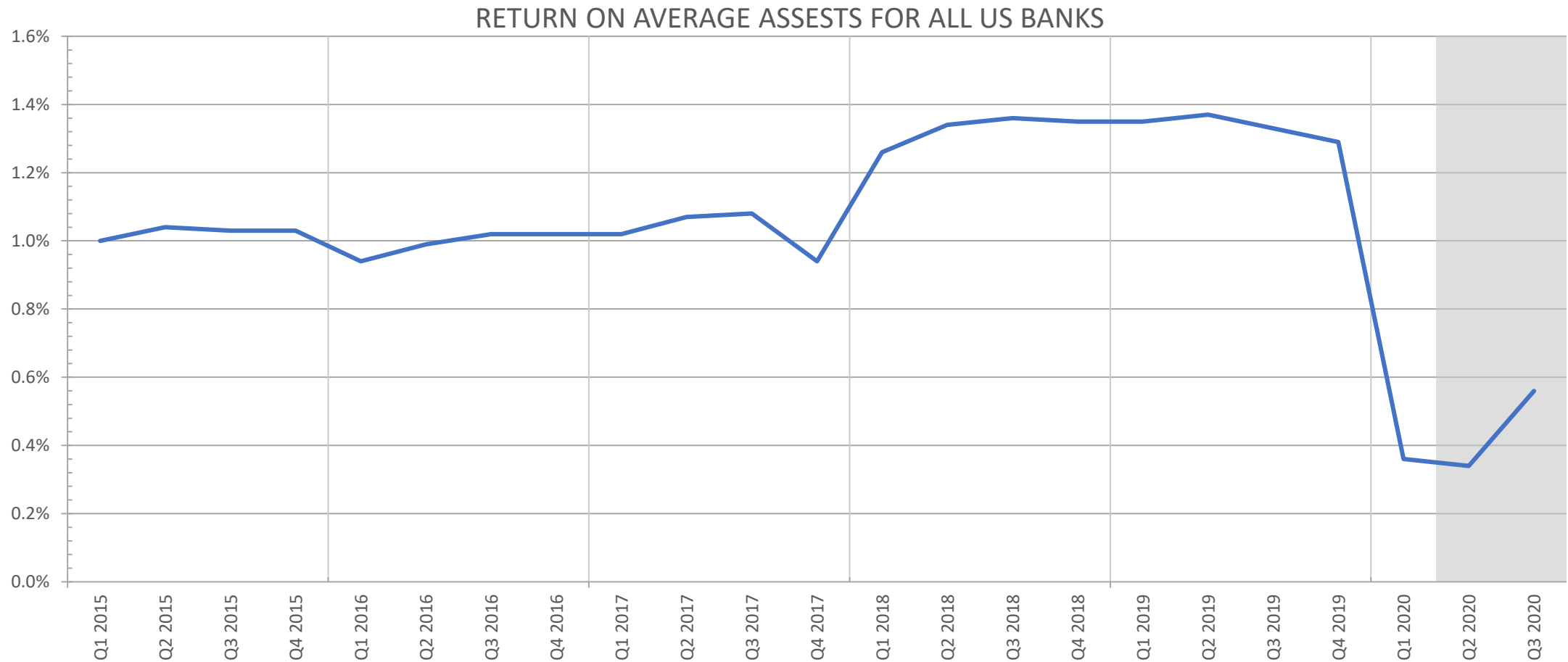
Bank Tax – Actual vs. Estimate

Collections below forecast by \$13.9 m



Bank – Key Economic Indicators

Return on assets is still down in Q3 2020 but recovering



Source: Federal Reserve Bank of St. Louis 279/RFA/lhj/10/01/2020

COVID Relief Bill (December 2020)

COVID Relief Package Highlights

Congress passed a \$900 billion COVID relief package as part of the Consolidated Appropriations Act, 2021. Major provisions include:

- Direct payments of \$600 to individuals and \$1,200 to couples with an extra \$600 for dependent children, subject to income limitations
- \$284.5 billion in additional PPP loans
 - A small business can receive a second PPP loan if they have less than 300 employees and can demonstrate a revenue reduction of 25%
- Extending the deadline for state and local governments to expend CARES funding from Dec. 2020 to Dec. 2021
 - SC Received \$1.996 billion and approved reimbursements of \$1.605 billion as of December 31, 2020
 - Some of the largest reimbursements include \$841.3 million to SC DEW; \$231 million to SC Dept. of Ed, \$98.9 million to the Adjutant General, and \$96.3 million to SC DHEC

COVID Relief Package Highlights

Unemployment Provisions

- Expanded Unemployment Benefits:
 - Extends the Federal Pandemic Unemployment Compensation through March 14, 2021, providing \$300 a week for all workers receiving unemployment benefits
 - Extends the Pandemic Unemployment Assistance for self-employed workers
 - Extends the Pandemic Emergency Unemployment Compensation that provides additional weeks of benefits when state unemployment runs out
 - Also expands weeks of extended benefits from 13 to 24 weeks
- DEW does not expect these provisions to affect the Unemployment Trust Fund balance as they are supported by federal funds

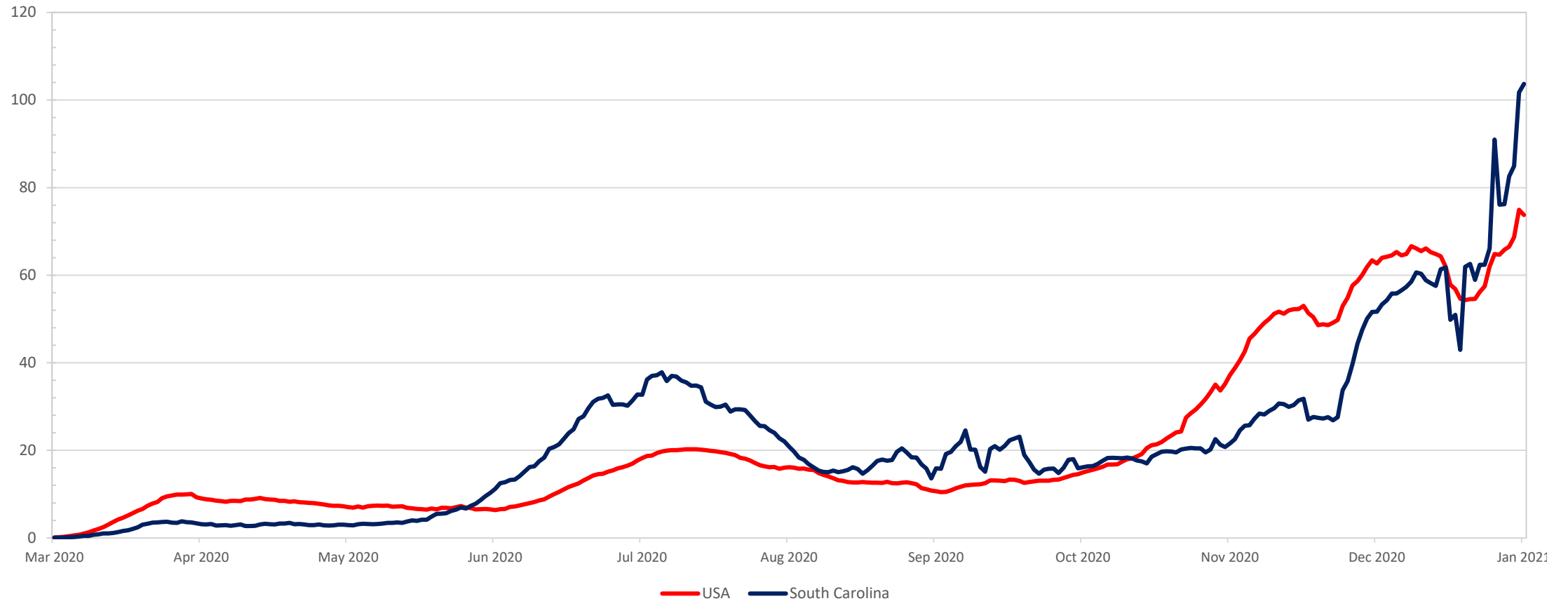
Discussion Regarding February Forecast Meeting



COVID-19 Case Rate

South Carolina experiencing recent surge in new infections

7-day average New Cases per 100K



Source: Centers for Disease Control and Prevention COVID Data Tracker 294A - RFA/bdc/01/11/2021



COVID-19 Death Rate

US and South Carolina death rate is rising

7-day average New Deaths per 100K



Source: Centers for Disease Control and Prevention COVID Data Tracker 294B - RFA/bdc/01/11/2021

Issues and Concerns for FY 2020-21 and FY 2021-22

- This recession is unique and is having a different impact on certain sectors
- Consumers are temporarily behaving differently as a result of COVID concerns, which is impacting revenues
- The economic recovery is likely to also look different
- Identifying where growth in the economy will occur and how this will affect revenues continue to be difficult

Key Economic Factors - Positives

- South Carolina is fairing better than much of the nation
- Revenues in most categories are well ahead of estimates so far
- Employment has recovered in the majority of sectors even though some industries are lagging
- Second federal stimulus is likely to have another positive effect on personal income and spending, but it is a short-term impact
- Very accommodative monetary policy by the Federal Reserve is supporting economy

Key Economic Factors - Risks

- Continued uncertainty of COVID-19 and changing consumer behavior
- Ability of some employment sectors to return to pre-COVID levels
- Sustainability of current growth, particularly in sales tax
 - Sales tax growth is likely to slow if consumers return to purchasing services
 - Growth above the stimulus effects is unlikely
- Tax filing for 2020 is still an unknown

Forecast Considerations

- FY 2020-21 revenues are well above expectations; the surplus is likely to be higher than current estimates
- FY 2021-22 growth remains uncertain
 - Can economic growth replace stimulus?
 - Will consumer behavior change?
- Key consideration– What is the degree of confidence in next year’s revenue growth in light of these issues?

Reports from Working Group Members

Other Business

