

COVID-19: Effects on the South Carolina Budget and Economy

January 22, 2021

Frank A. Rainwater
Executive Director



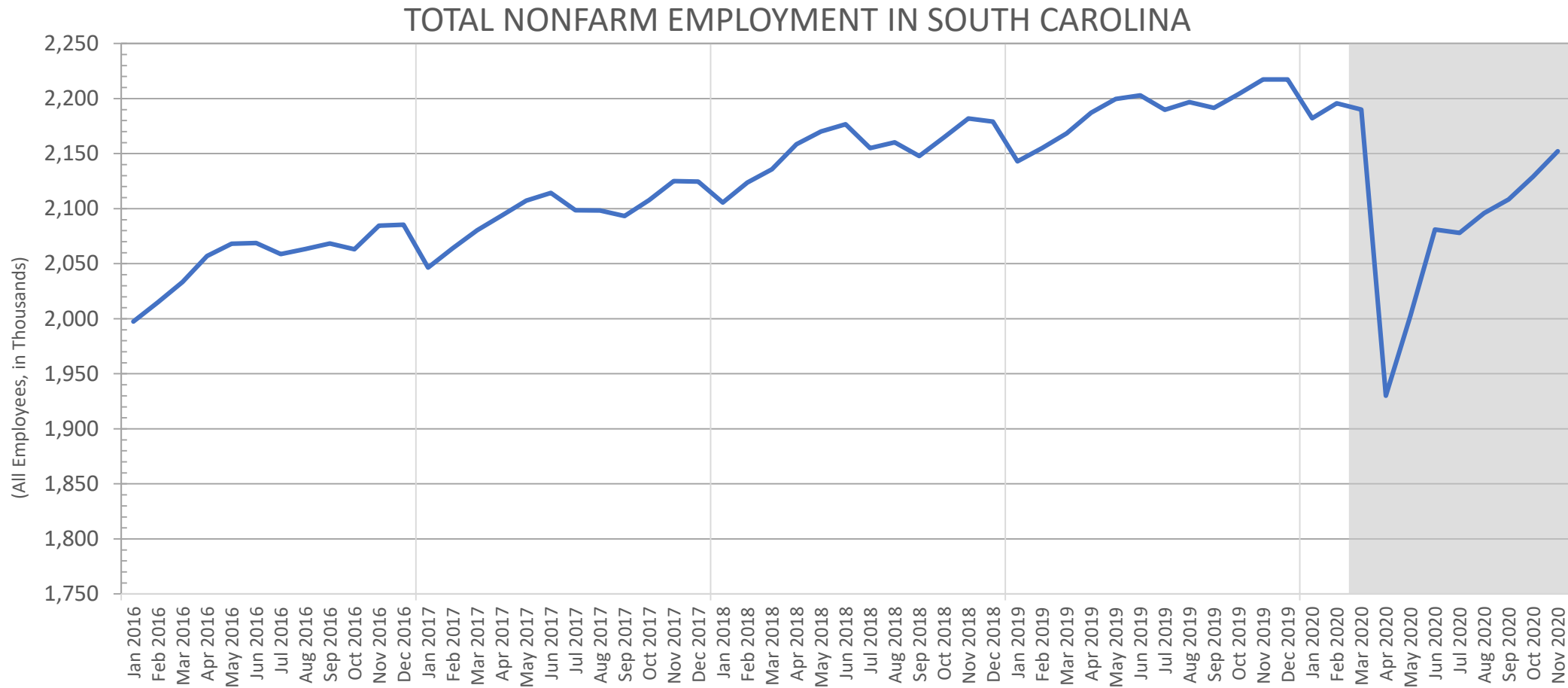
South Carolina Revenue and Fiscal Affairs Office
1000 Assembly Street
Rembert Dennis Building, Suite 421
Columbia, SC 29201
(803) 734-2265
www.rfa.sc.gov

Mike Shealy
Budget Director
Senate Finance Committee



S.C. Employment – Total Jobs

Nov. 2020 employment has recovered 84% of jobs lost from Feb. to Apr. 2020



Source: U.S. Department of Labor.Bureau of Labor Statistics 60-RFA/bdc/1/04/2021

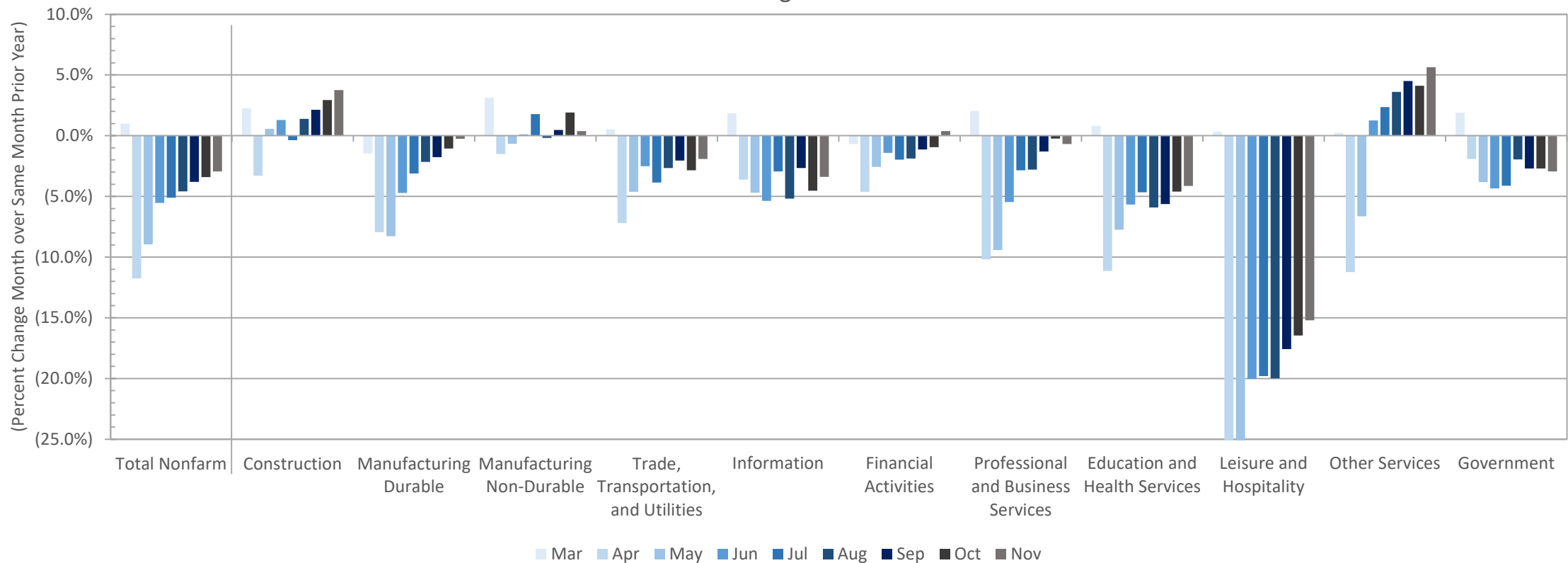


S.C. Employment by Sector

Most sectors trending well; Leisure & Hospitality still significantly lagging

2020 SC EMPLOYMENT BY INDUSTRY

March through November

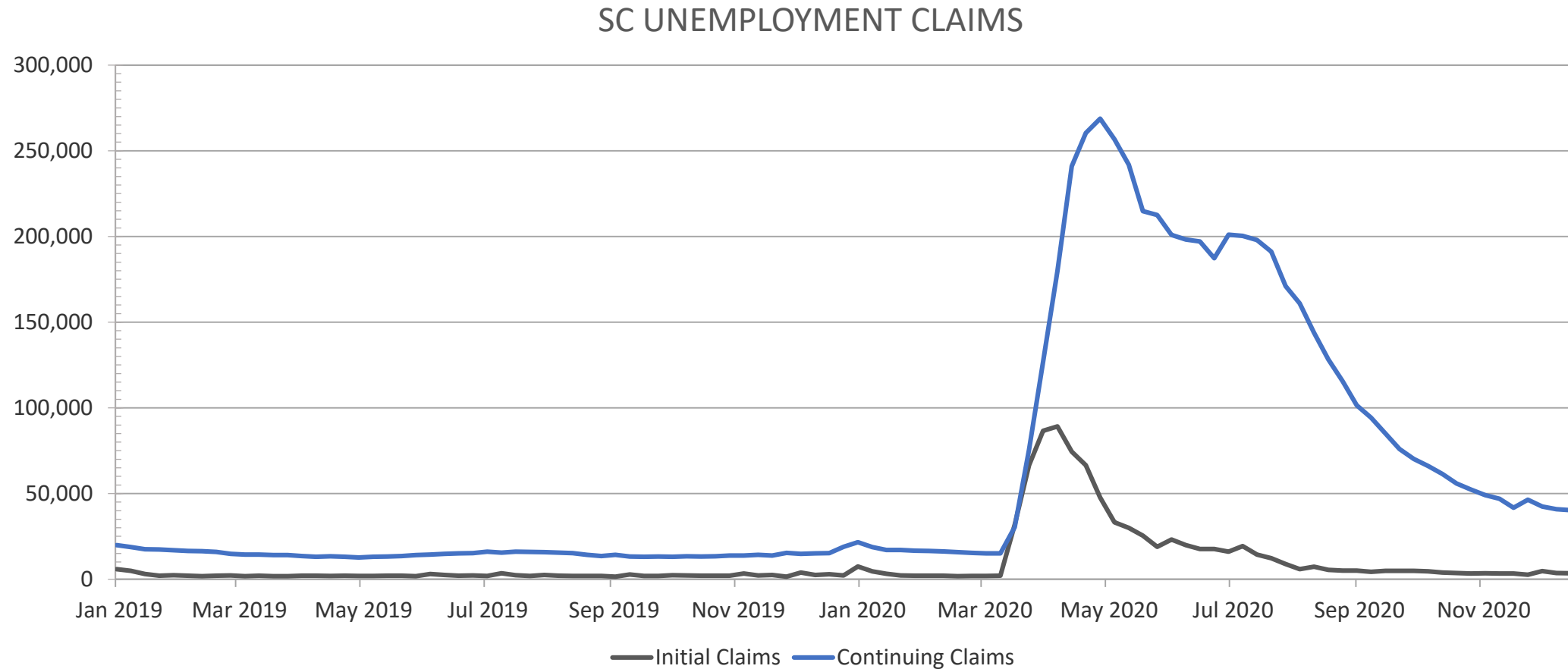


Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281a--Oct 2020 RFA/bdc/1/04/2021



Unemployment Claims

Continued and Initial claims still above historical levels

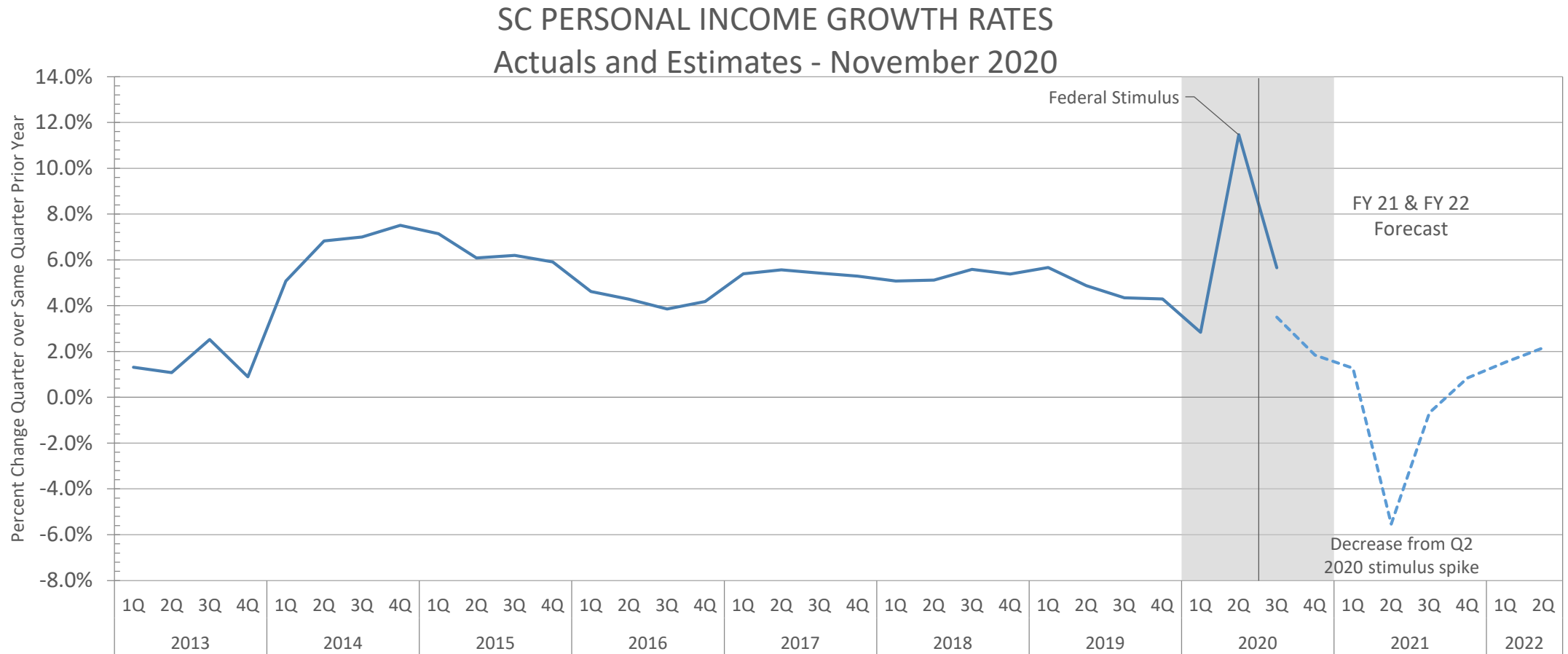


Source: U.S. Employment and Training Administration 287-RFA/bdc/01/04/2021



SC Personal Income Growth

Q3 2020 grew 5.7%, buoyed by continued transfer payments



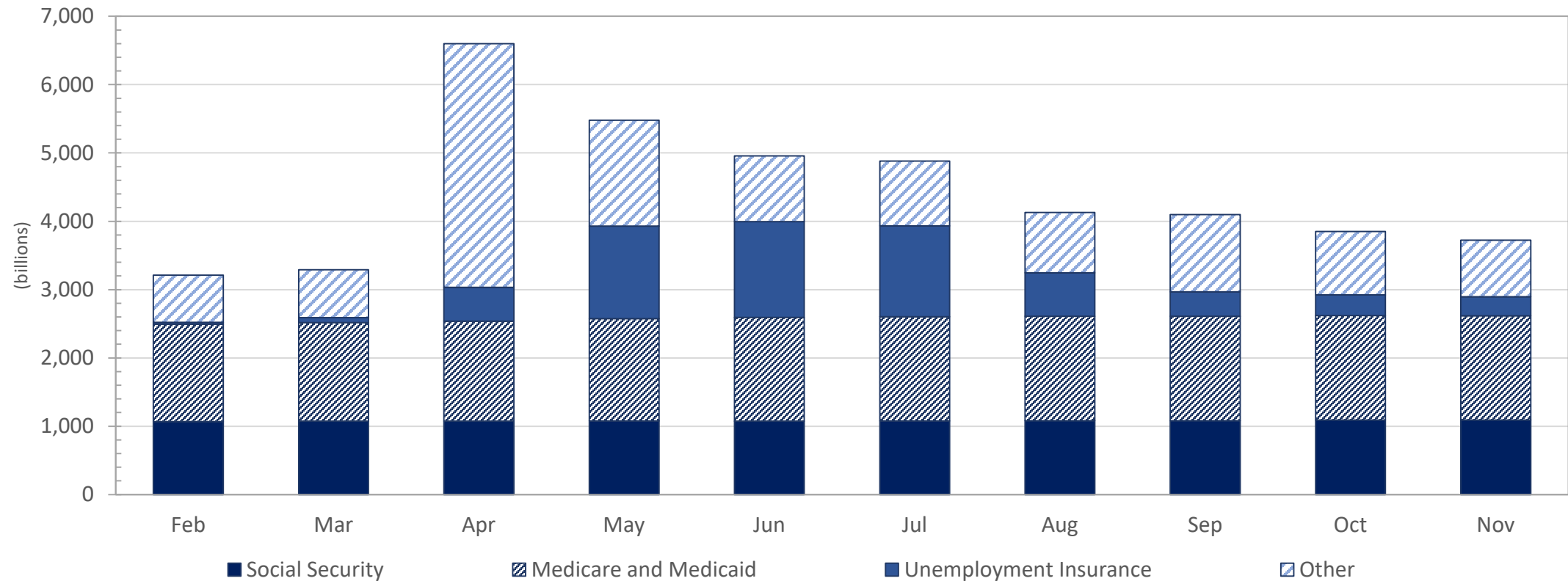
Source: US Department of Commerce, Bureau of Economic Analysis RFA-173 bdc/01/05/2021



US Personal Income Transfer Payments

Stimulus, unemployment compensation decreasing after spike

U.S. PERSONAL INCOME TRANSFER PAYMENTS 2020



Source: US Bureau of Economic Analysis 222D-RFA/BDC/01/04/2021

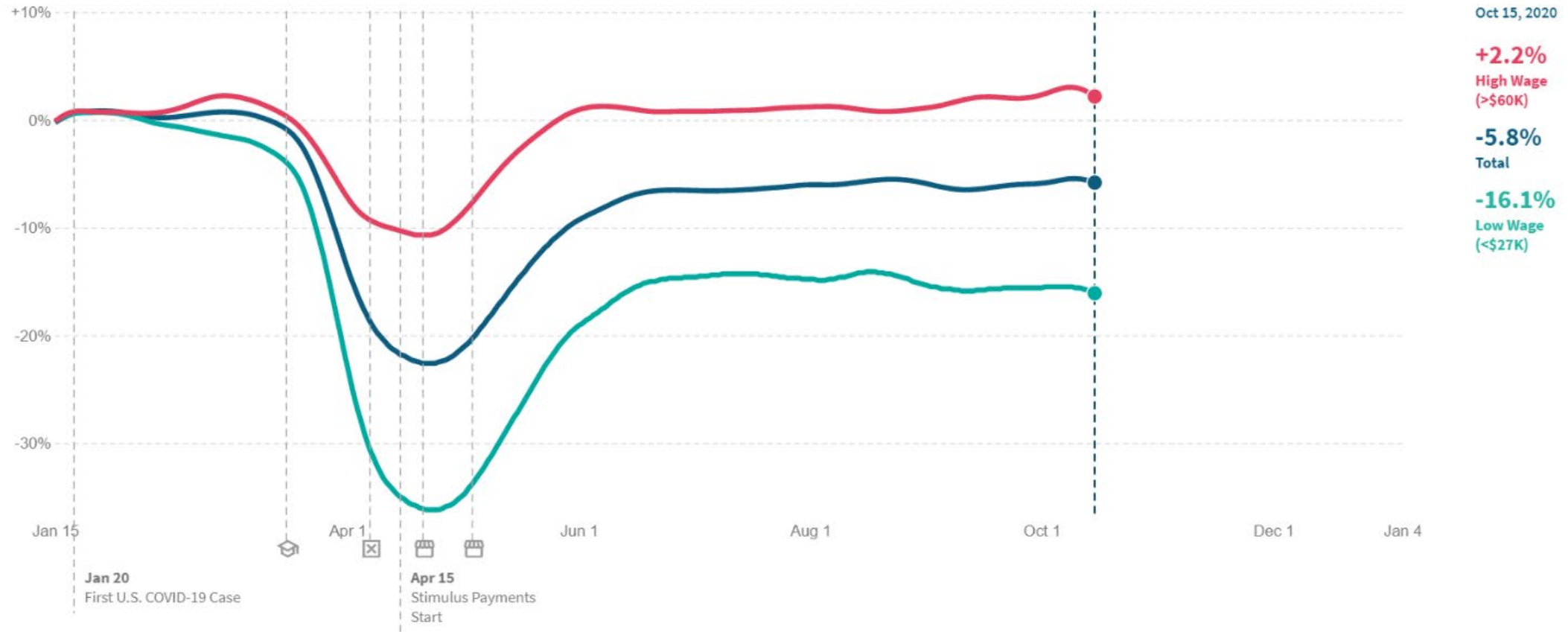


S.C. Employment Change by Wage Level

Employment losses are in low wage jobs; high wage jobs have seen a 2.2% employment increase

Percent Change in Employment*

In **South Carolina**, as of **October 15, 2020**, employment rates **decreased** by **5.8%** compared to January 2020 (not seasonally adjusted).

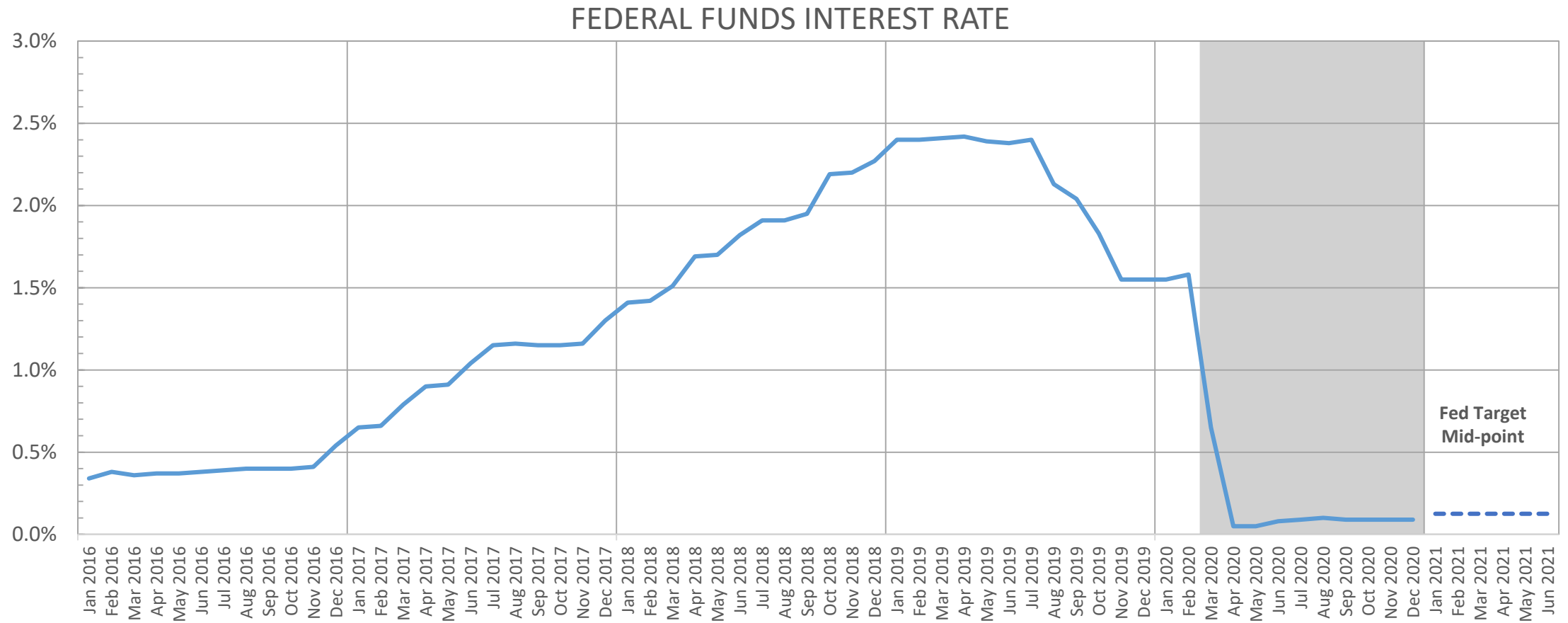


Source: Opportunity Insights Economic Tracker tracktherecovery.org, Retrieved January 4, 2020



Interest Rates

Fed target range is 0% to 0.25% through 2022



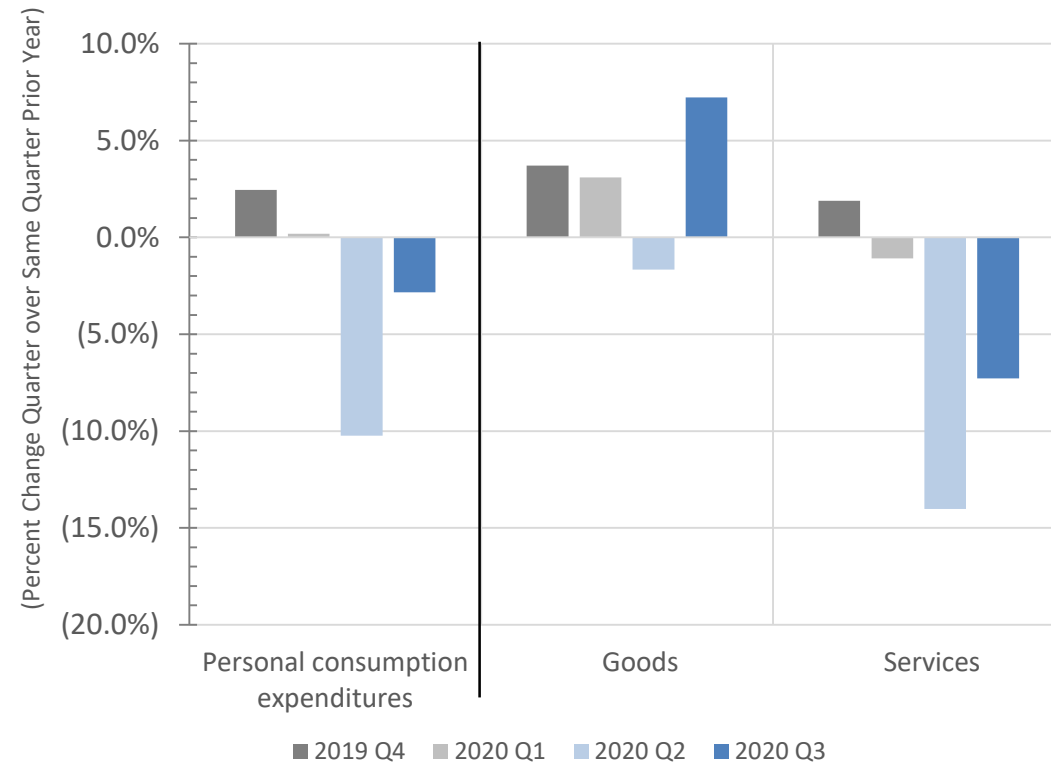
Source: Board of Governors of the Federal Reserve System via FRED Economic Data 277-RFA/lhj/01/05/2021



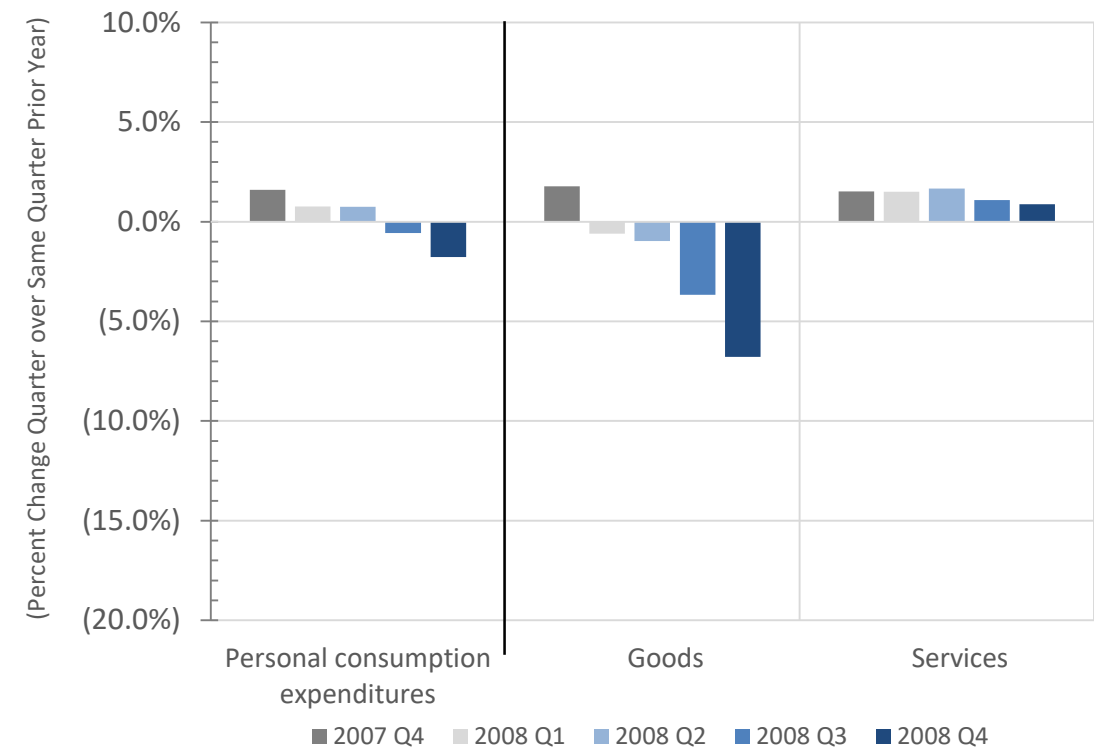
Real GDP - Personal Consumption of Goods and Services

Consumption of services was down substantially more than goods in Q2 and Q3 2020; Great recession saw greater decline in goods than services

PERSONAL CONSUMPTION EXPENDITURES
COVID-19 - Q4 2019 to Q3 2020



PERSONAL CONSUMPTION EXPENDITURES
Great Recession - Q4 2007 to Q4 2008

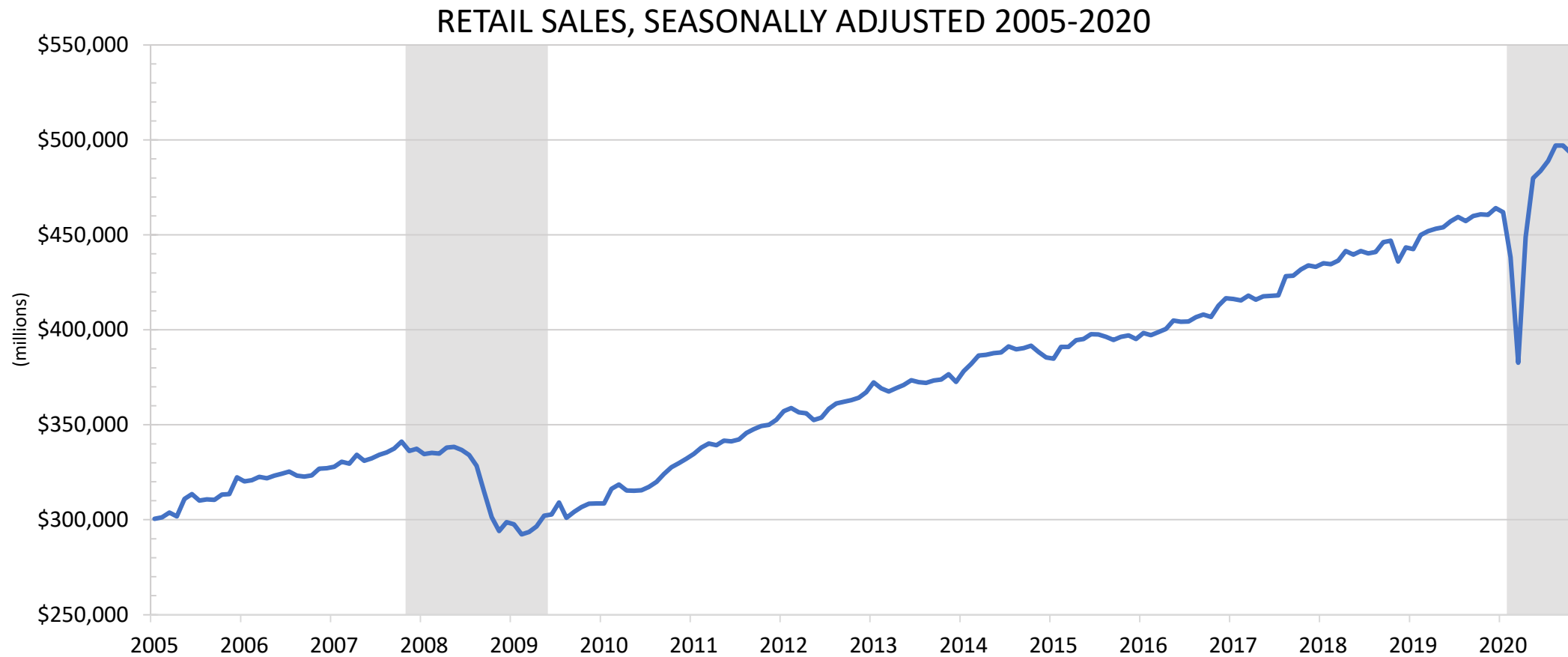


Source: Bureau of Economic Analyses 292B RFA/lhj/01/05/2021



U.S. Retail Sales

Strong sales growth from Jun. to Oct. 2020 slows; declines 0.76% in Nov. 2020



Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services, data through December 2020, 283-6 RFA/nmg/01/05/2020

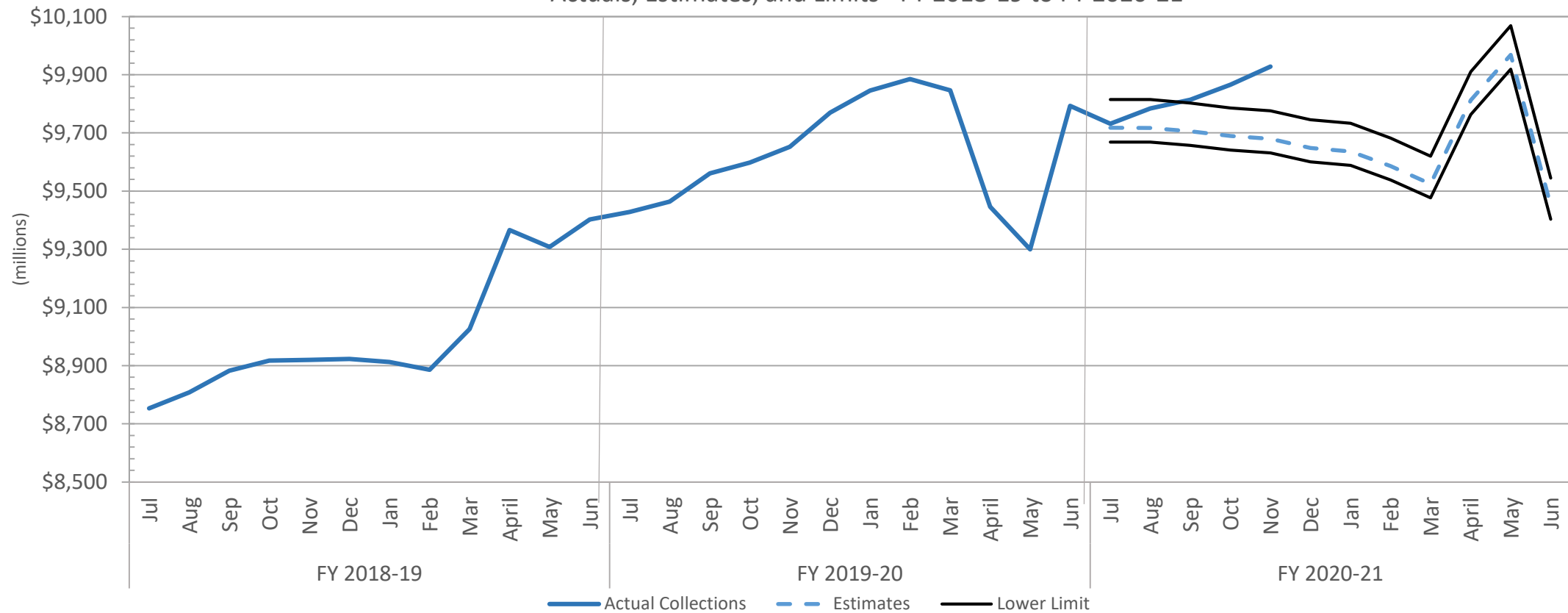


Rolling Fiscal Year – General Fund

Total collections are above the forecast by \$248.4 million and show an increase of 3.4% over last fiscal year through November

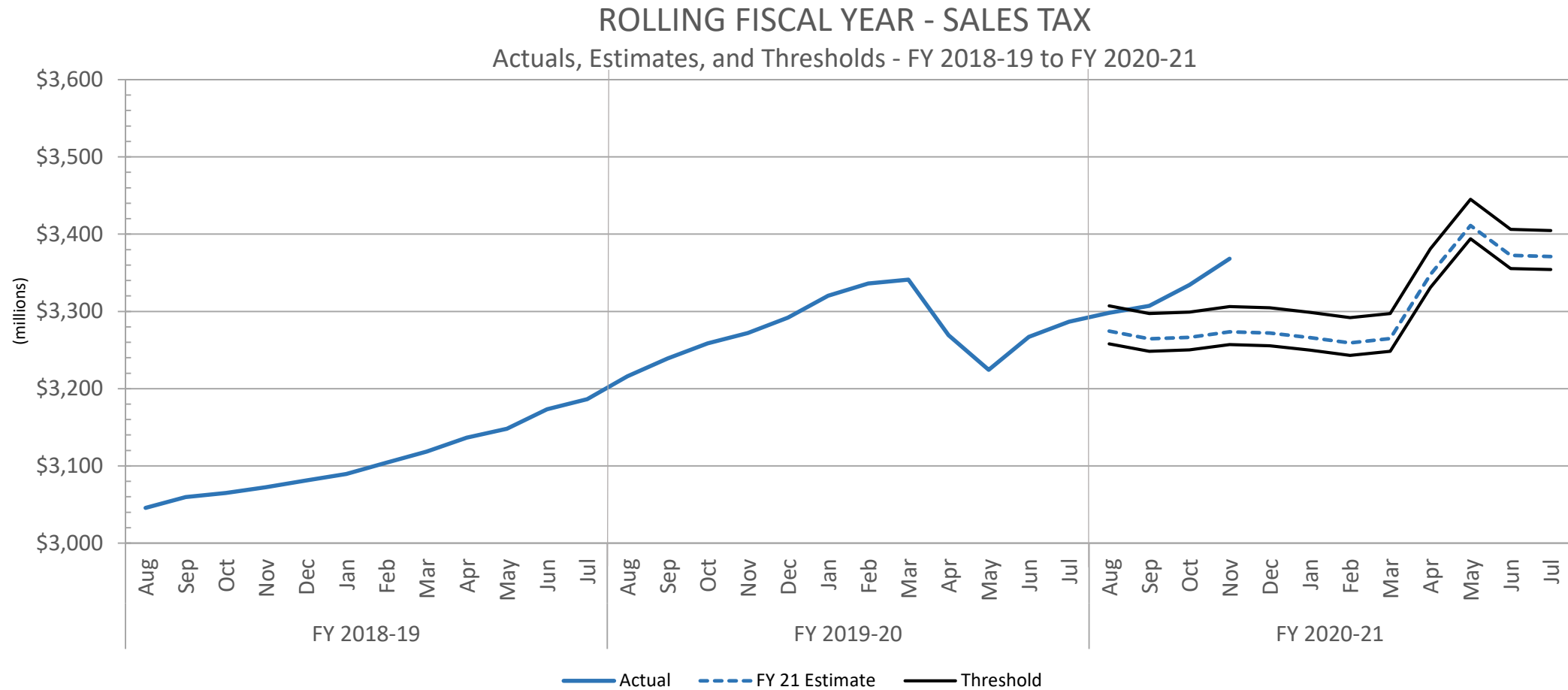
ROLLING FISCAL YEAR - TOTAL GENERAL FUND REVENUE

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



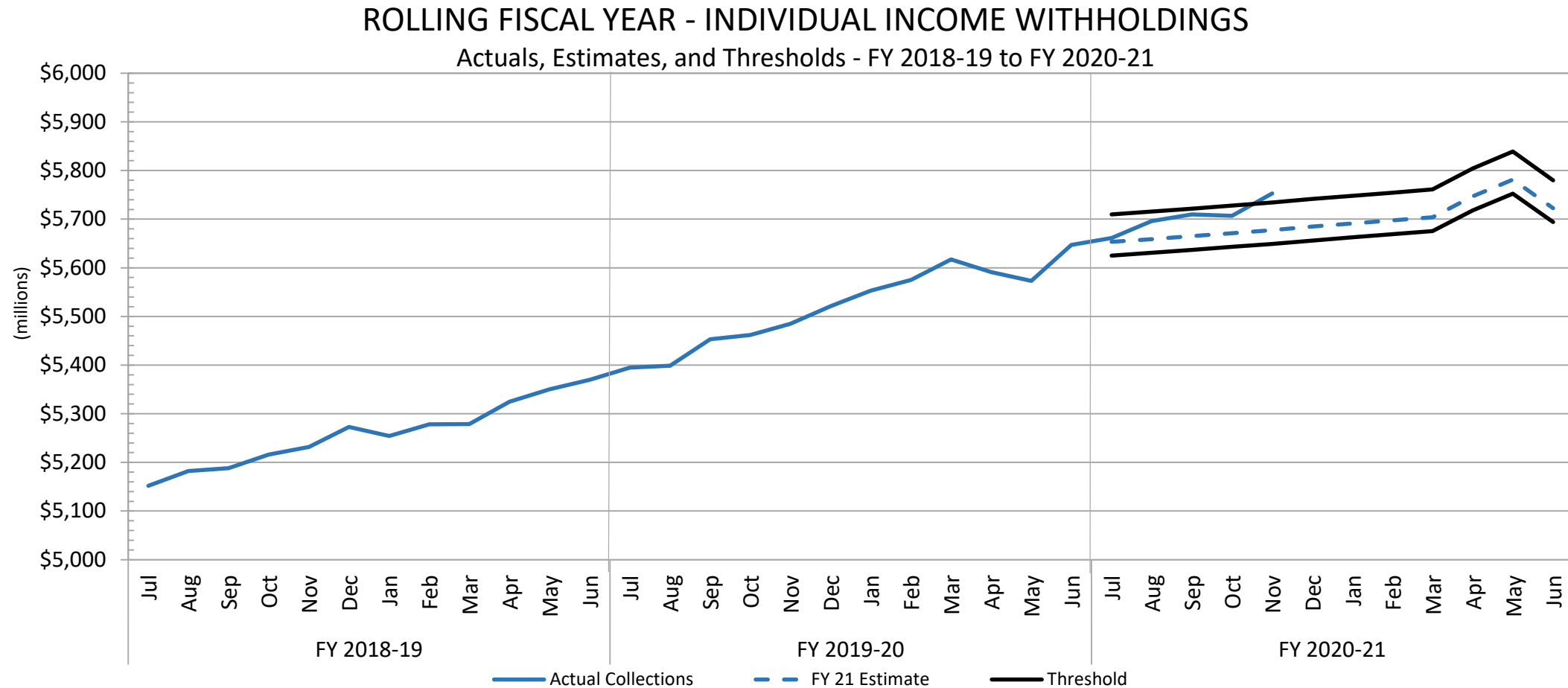
Rolling Fiscal Year – Sales Tax

Collections are outpacing the forecast by \$94.4 million with growth through November of 7.3%



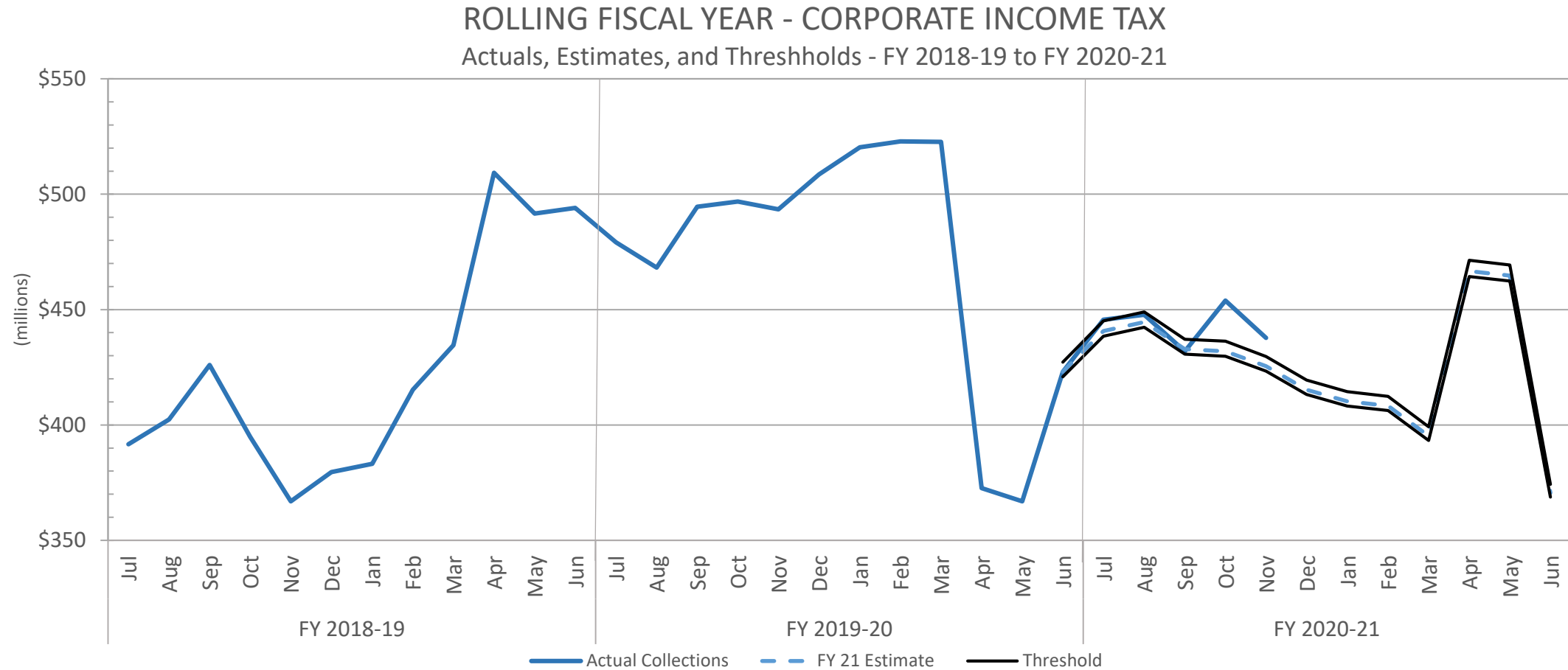
Rolling Fiscal Year – Individual Income Tax Withholding

Collections up 4.6% over same period of previous fiscal year



Rolling Fiscal Year – Corporate Income Tax

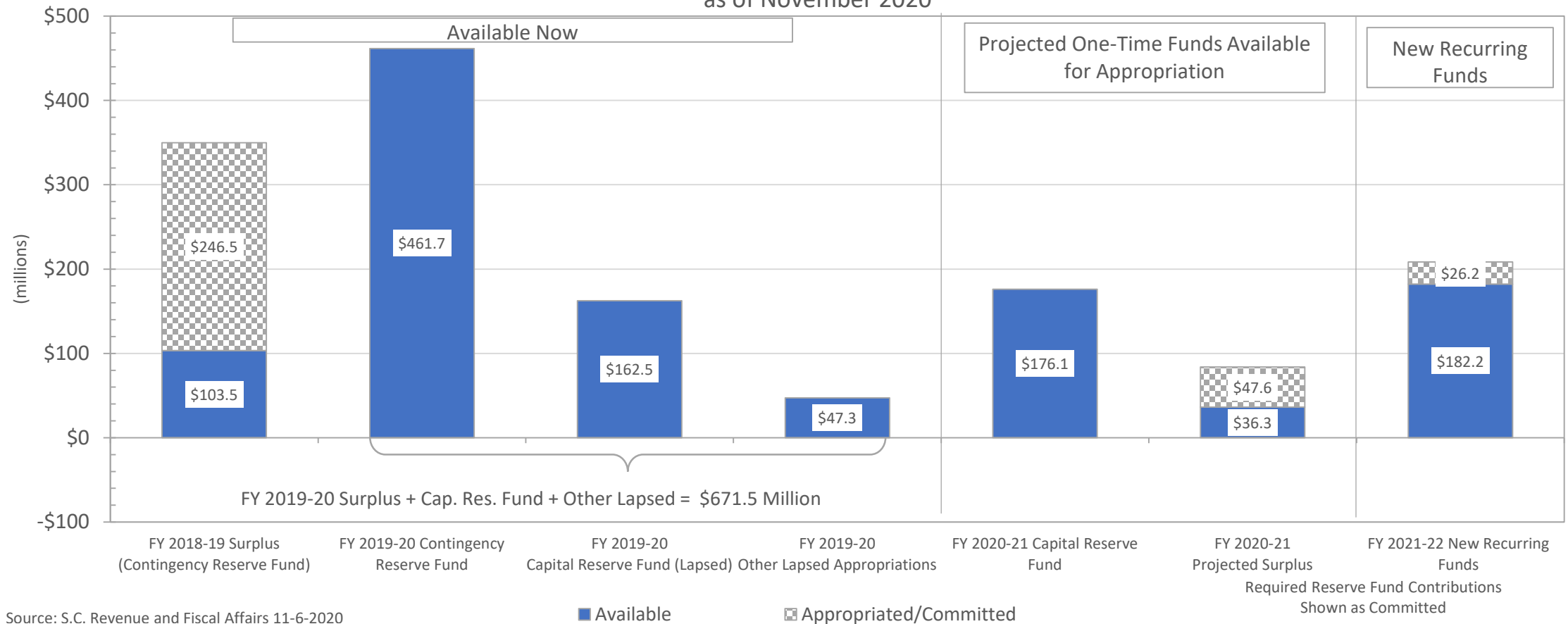
Collections are above the forecast by \$12.3 million through November



FY 2021-22 Available Funds

\$987.4m in one-time funds; \$182.2m new recurring money

AVAILABLE FUNDS - FY 2021-22 BUDGET PROCESS
as of November 2020



Source: S.C. Revenue and Fiscal Affairs 11-6-2020



COVID 19: Effects on the SC Budget and Economy

**2021 SCCCMA Winter Conference
Friday, January 22, 2021**

Mike Shealy

Senate Finance Committee

Frank Rainwater

SC Revenue & Fiscal Affairs Office

South Carolina Legislature

[Home](#)
[Senate](#)
[House](#)
[Committee Postings and Reports](#)
[Legislative Council](#)
[Citizens' Interest](#)
[Publications](#)
[Staff Portal](#)

Chamber Video

[Senate](#)
(Audio Only)
 [House](#)
(Audio Only)
 [ETV](#)

[Video Schedule](#)

[Video Archives](#)

[Legislative Directory](#)
[Training and Network Information](#)
[How do I...](#)
[Legislation](#)
[Track Legislation](#)
[Multi-Criteria Search](#)
[Research](#)
[Legislative Manual](#)
[Student Connection](#)
[Visiting the State House](#)
[Archives](#)
[State Agency Websites](#)
[Media Links](#)

The 2nd regular session of the 122nd South Carolina General Assembly has adjourned pursuant to the provisions of H. 5383, the *Sine Die* Resolution.

Senate

- Chamber Dashboard
- Calendars
- Committees
- Journals
- Roll Call Votes
- Senators
- Introduced Legislation

House of Representatives

- Chamber Dashboard
- Calendars
- Committees
- Journals
- Roll Call Votes
- Representatives
- Introduced Legislation

South Carolina Law

- Ratifications & Acts
- Code of Laws
- Code of Regulations
- Constitution
- State Register

Quick Search

Search for:

- ☐ Full Site Search
- ☐ Bill Number
- ☒ Legislation
- ☐ Budget
- ☐ Code of Laws
- More...

Senate Meeting Schedule

[Follow on Twitter](#)

TODAY, November 5
No Meetings Scheduled

Thursday, November 8

- 10:00 am
Corrections and Penology Subcommittee
Gressette Room 308
[Agenda Available](#)

Monday, November 12

- 10:00 am
Judicial Merit Selection Commission Public Hearings
Gressette Room 105
[Agenda Available](#)

Tuesday, November 13

House Meeting Schedule

[Follow on Twitter](#)

TODAY, November 5
No Meetings Scheduled

Monday, November 12

- 10:00 am
Judicial Merit Selection Commission Public Hearings
Gressette Room 105
[Agenda Available](#)

Tuesday, November 13

- 10:00 am
Judicial Merit Selection Commission Public Hearings
Gressette Room 105
[Agenda Available](#)

Find Your Legislators

Submit your address to find your Senators and Representatives

Address

City SC

Zip

[Find Legislators](#)

Legislative Voting Record

☒ Senate

☐ House

☐ Bill

☐ Choose a Legislator



[Get Voting Record](#)

Contact Your Legislator

E-mail your Legislator by selecting the name and clicking Contact Legislator

Choose a Legislator

[Contact Legislator](#)

South Carolina Legislative Services Agency * 223 Blatt Building * 1105 Pendleton Street * Columbia, SC 29201

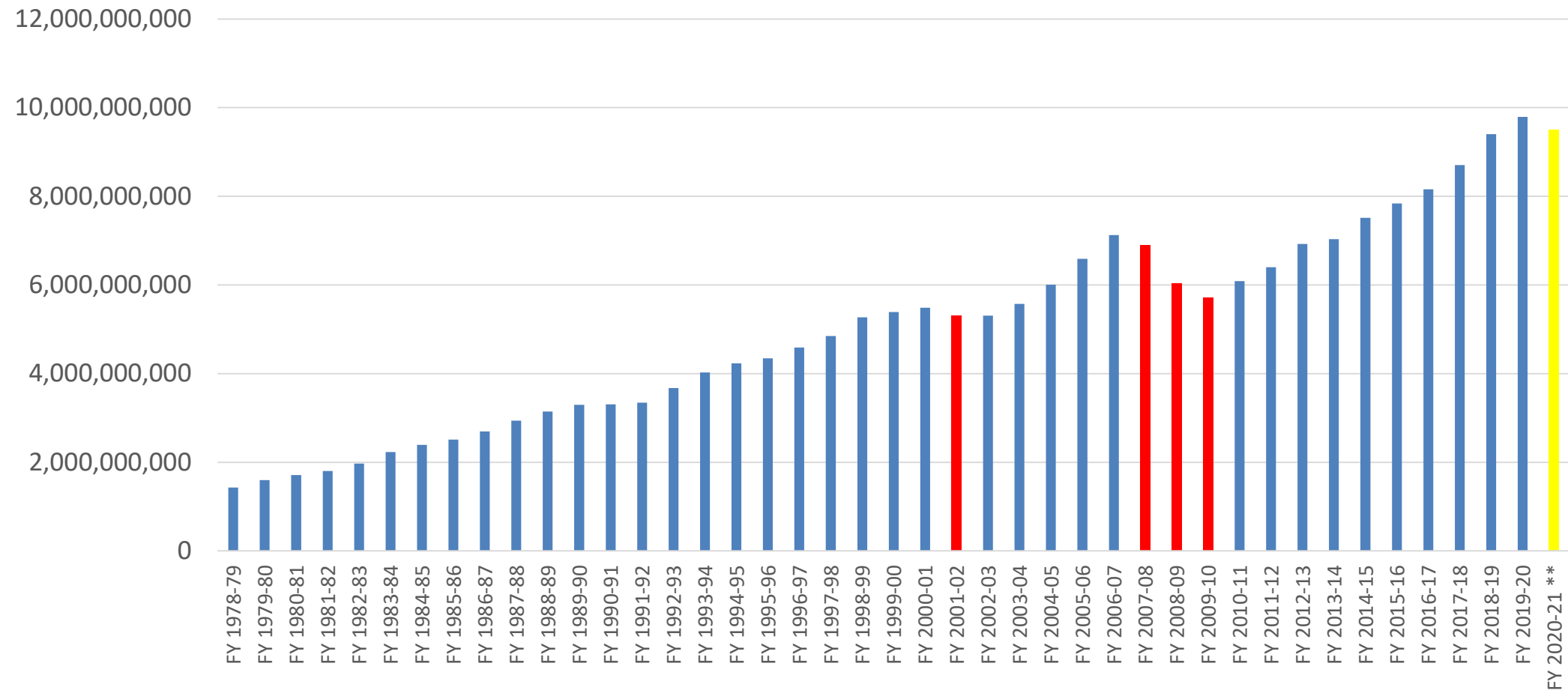
[Disclaimer](#) * [Policies](#) * [Photo Credits](#) * [Contact Us](#)

<http://www.scstatehouse.gov>

South Carolina Revenue and Fiscal Affairs Office

17

Total General Fund Revenue



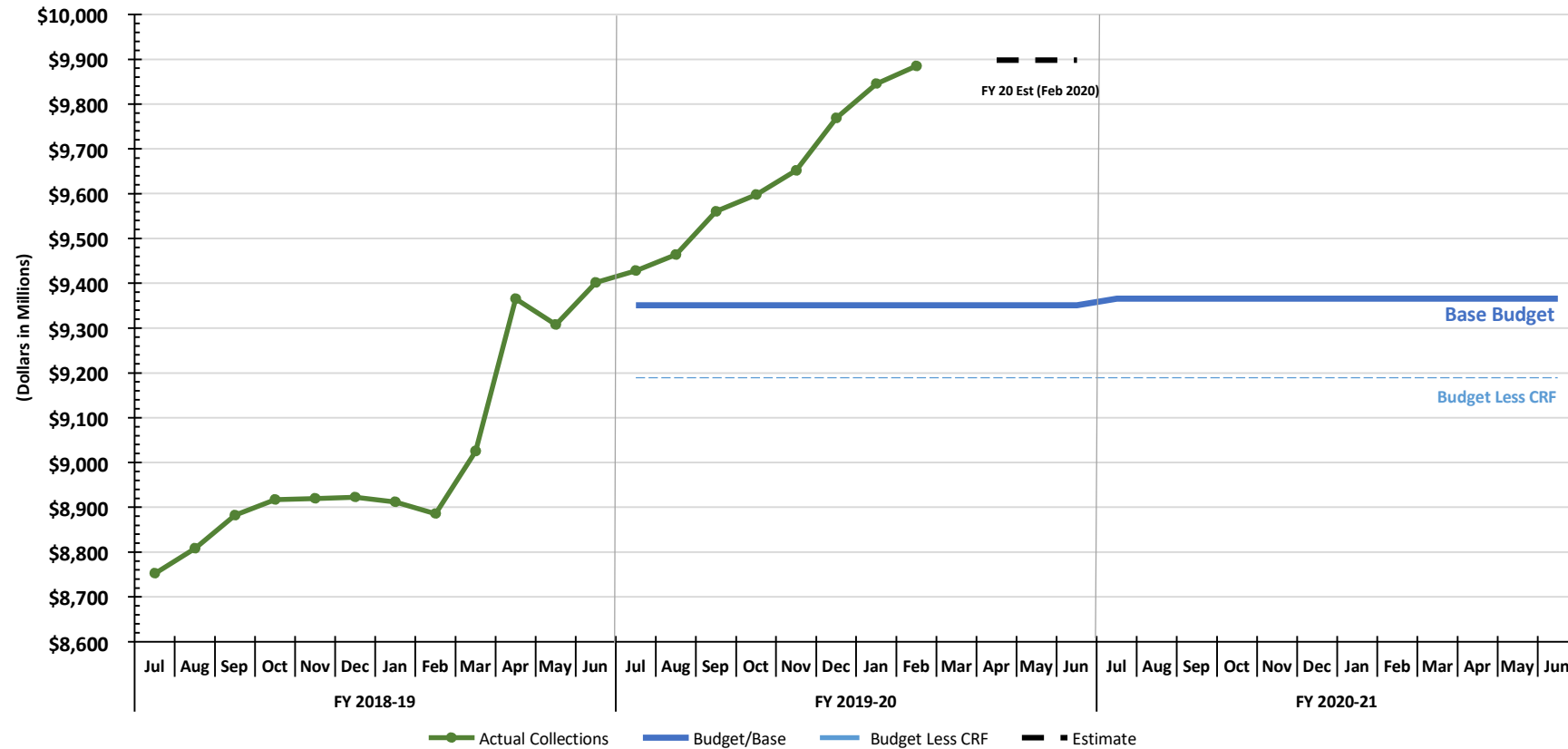
A beautiful horizon

Budget Status as of February 2020



ROLLING FISCAL YEAR - GENERAL FUND REVENUE

Actual, Estimates, and Base Budget Amount for FY 2019-20 and FY 2020-21 as of February 2020



Source: SC Revenue and Fiscal Affairs, RFY –G4/FAR/8/28/20

09/03/2020



FY 2020-21 General Fund Outlook (February 2020)

(PRELIMINARY- Dollars in Millions)

BEA Revenue Estimate (11/8/2019)	\$10,229
- Tax Relief Trust Fund	(\$629)
- FY 19-20 Appropriation Act	<u>(\$8,737)</u>

Estimated "New" General Fund Revenue	\$863
--------------------------------------	-------

Reserve Fund Contributions

- Incremental General Reserve Fund (5%)	(\$34)
- Incremental Capital Reserve Fund (2%)	(\$14)

Estimated "New" General Fund Revenue Available for Appropriation
(less Reserve Fund Contributions)

\$815



FY 2020-21 Budget Outlook (February 2020)

(PRELIMINARY- Dollars in Millions)

	<u>Recurring</u>	<u>Non-Recurring</u>
FY 2019-20 Capital Reserve Fund		\$162
FY 2018-19 Contingency Reserve Fund		\$350
Projected FY 2019-20 Surplus (11/8/2019)		<u>\$507</u>
Total		\$1,019
FY 2019-20 HEX Fund Surplus/(Shortfall)		\$8
FY 2020-21 HEX Fund Surplus/(Shortfall)	\$17	
FY 2019-20 EIA Surplus/(Shortfall)		\$31
FY 2020-21 "New" EIA Revenue	\$69	
FY 2019-20 Lottery Surplus		\$7
FY 2020-21 "New" Lottery Revenue	\$7	

¹ FY 2019-20 surplus lottery revenues are first appropriated to cover any shortfalls in LIFE, HOPE, and Palmetto Fellows Scholarships, so this surplus may not be available for appropriation.

² Lottery revenue is appropriated by proviso on a non-recurring basis. It is listed as recurring to show the net year to year increase in the estimate, excluding surpluses.



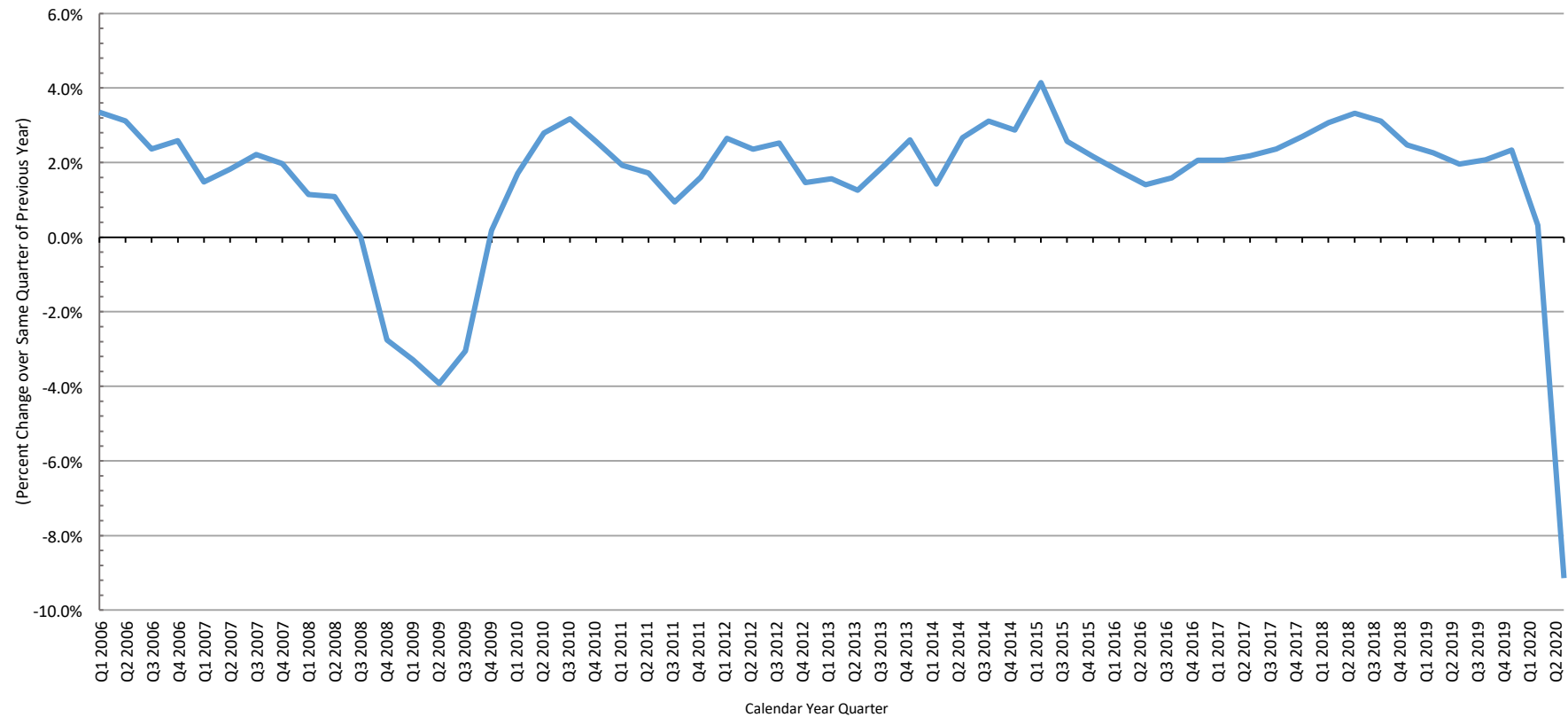
**The bottom fell
out.**

**Budget Status as of
March 2020**



U.S. REAL GROSS DOMESTIC PRODUCT

Annual Growth by Quarter



Source: U.S. Dept. of Commerce, Bureau of Economic Analyses



Alphabet Soup:

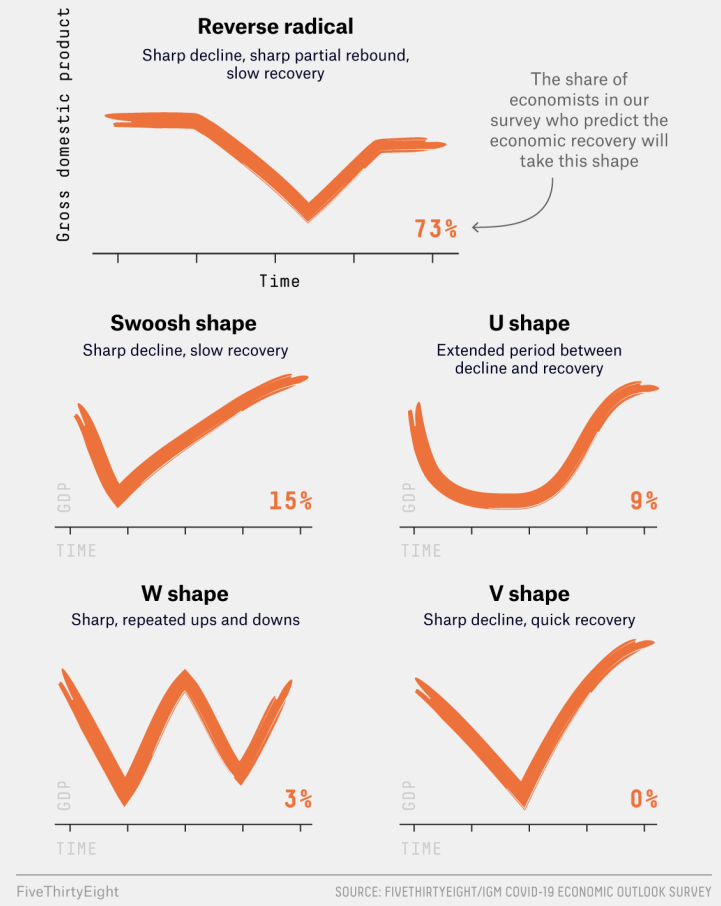
Understanding the Shape of the COVID-19 Recession

by David Rodic, Forbes Magazine, April 19, 2020

- **V-Shaped Recession:** Steep Decline, Quick Recovery
Example: US 1990-91 Recession
- **U-Shaped Recession:** Long Period Between Decline and Recovery
Example: Great Recession of 2008
- **W-Shaped Recession:** Quick Recovery, Second Decline
Example: US 1980-83 Recessions
- **L-Shaped Recession:** An Extended Downturn
Example: Japan 1990's the "Lost Decade"



Economists in our survey expect an uneven recovery
Expert predictions for the shape of the U.S. economic recovery



An emerging consensus among economists

- The “Reverse Radical” recovery is a sharp downturn followed by a sharp partial rebound and then a slow recovery.

***“Sadly, One Letter
Perfectly Captures the
Recovery”
Bloomberg News,
9/2/20, Barry Ritholtz***



- This description of the economy fairly captures the two separate paths of the recovery. The line heading upward symbolizes those parts of the economy that have benefited from pandemic: Technology (Apple Inc., Alphabet Inc., Microsoft Corp.), general merchandise retailers (Target, Walmart), entertainment (Netflix Inc., Walt Disney Co., YouTube), Biotech and Pharmaceuticals (Moderna Inc., Johnson & Johnson, Merck & Co., Pfizer Inc., AstraZeneca PLC) work from home firms (Slack Technologies Inc., Zoom Video Communications Inc.) and online retailers (Amazon.com Inc., Shopify Inc.).

The Fiscal Year 2020-
21 Budget Process

A series of Mini- Budgets



THE CONTINUOUS BUDGET PROCESS DURING THE PANDEMIC

- H4014 - \$45M for DHEC immediate needs. Passed **March 17th**.
- H3411 – Continuing Resolution – Continued the FY19-20 budget into FY20-21. In addition, \$155M was appropriated from the Contingency Reserve Fund to the COVID-19 Response Reserve Account for specific COVID-19 related expenses. Passed **May 19th**.
- H5202 – Authorization to spend federal CARES Act funds - \$1.2B allocated and \$668M left for Phase 2. Passed **June 25th**.
- H3210 – Authorization to spend federal CARES Act funds from Phase 2. Passed **September 25th**.
- H5201 – General Appropriations Bill – Approved by the House on March 11th. Approved by the Senate on September 16th. The House referred the bill to the Ways and Means Committee on September 22nd.



H3411 (May) – Continuing Resolution, Section 9 Summary

- Section 9 - Employer Contribution Rates to Retirement Systems
- This proviso **suspends** the scheduled 1% Employer Contribution Rate increase for both the South Carolina Retirement Systems and the Police Officers Retirement System for Fiscal Year 2020-21 so that the remaining scheduled rate increases are delayed for 12 months.

(NOTE: There will be a 1% employer rate increase in FY21-22 & FY22-23 to complete the directives in Act 13 of 2017. Plan accordingly.)

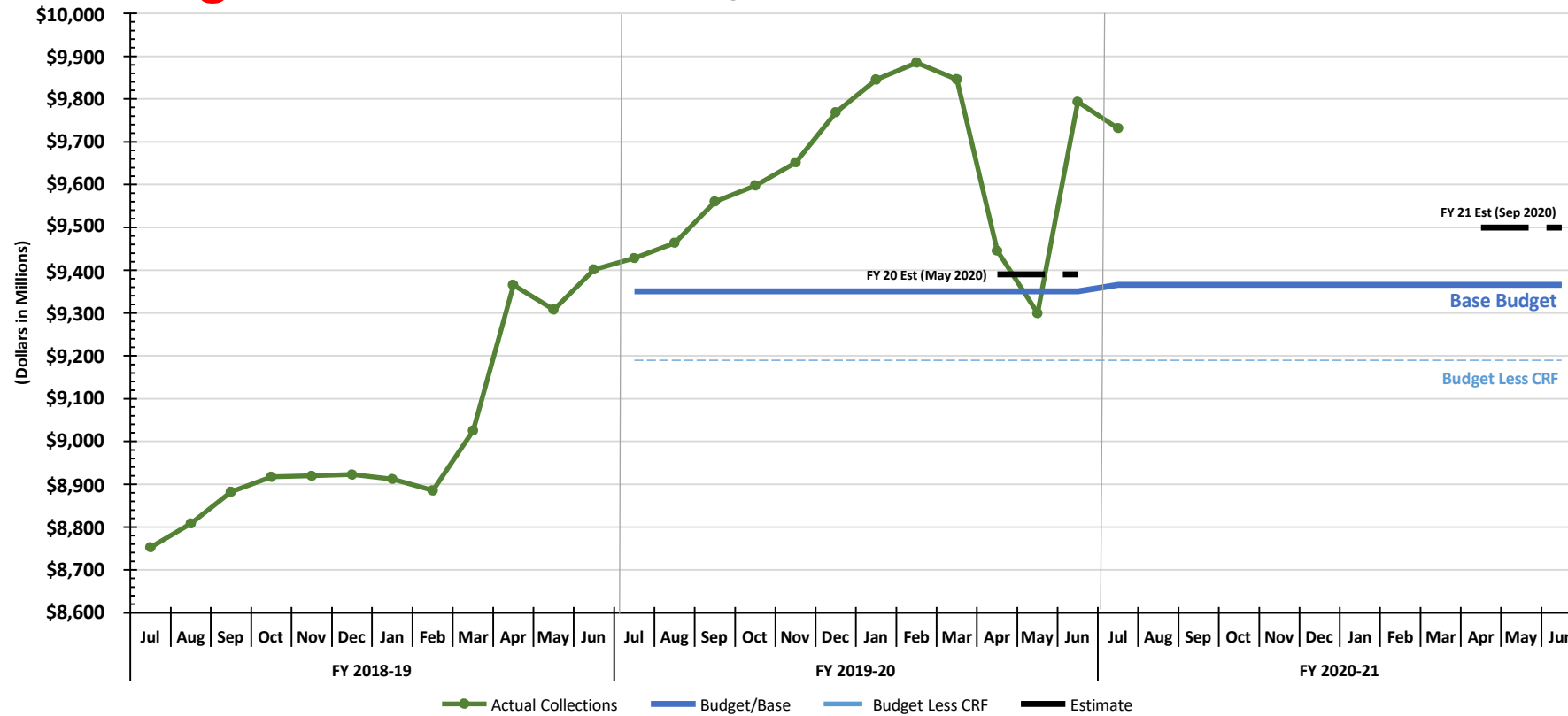
- The suspension of the scheduled 1% increase in Employer Contribution Rates provides temporary relief to all state agencies and local school districts. This suspension is of great significance to public colleges and universities and technical colleges as they manage cash flow during months where transactions fees like tuition will diminish.



August

ROLLING FISCAL YEAR - GENERAL FUND REVENUE

Actual, Estimates, and Base Budget Amount for FY 2019-20 and FY 2020-21



Board of Economic Advisors

General Fund Revenue Forecast

August

BEA Revenue Forecast 8/31/20				
	Actual			
Tax Category	FY19-20	FY20-21	Difference	% Difference
Sales Tax	\$ 3,286,771,744	\$ 3,367,926,000	\$ 81,154,256	2.47%
Individual Income Tax	\$ 5,019,420,030	\$ 4,707,916,000	\$ (311,504,030)	-6.21%
Corporation Income Tax	\$ 423,052,193	\$ 375,560,000	\$ (47,492,193)	-11.23%
All Other Categories	\$ 1,064,033,527	\$ 1,048,701,000	\$ (15,332,527)	-1.44%
Gross General Fund Revenue	\$ 9,793,277,494	\$ 9,500,103,000	\$ (293,174,494)	-2.99%
minus: Tax Relief Trust Fund	\$ 614,053,000	\$ 629,405,000	\$ 15,352,000	2.50%
Net General Fund Revenue	\$ 9,179,224,494	\$ 8,870,698,000	\$ (308,526,494)	-3.36%



South Carolina's Reserve Funds:

No transfers out due to deficits at the close of FY19-20

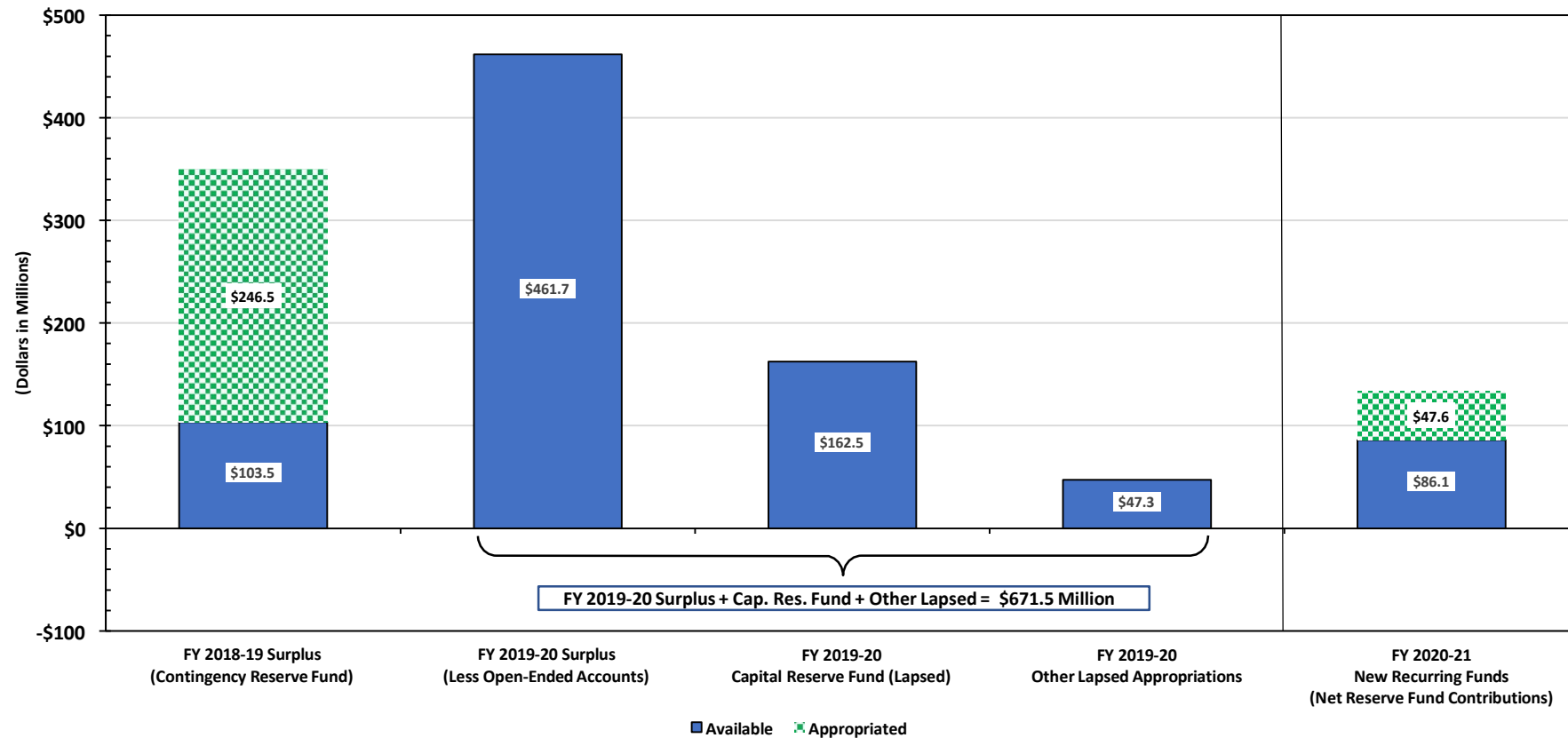
August

	2019-20 <u>Ending Balance</u>	<u>Required Addition</u>	2020-21 <u>Ending Balance</u>
General Reserve Fund	\$406,213,261	\$ 34,024,350	\$440,237,611
Capital Reserve Fund	\$162,485,305	\$ 13,609,739	<u>\$176,095,044</u>
Total Reserve Funds			<u>\$616,332,655</u>



Available Funds – Fiscal Year 2020-21

September



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



September

1. Plan for the worst.
2. Cover basic obligations.
3. Recognize we do not know when the pandemic will end.

H5201: General Appropriations Bill

(as passed by the Senate)

Recurring General Fund:

Net General Fund Revenues Above Base for Appropriation	\$86,051,463
---	--------------

Recurring Allocations:

EFA - State Aid to Classrooms	\$50,000,000
BSC = \$50 increase to \$2,540	
State = 100%; locals will not have to fund 30%	

Local Government Fund	<u>\$11,687,035</u>
-----------------------	---------------------

Residual Recurring GF	\$24,364,428
-----------------------	--------------



Fiscal Year 2020-21 Senate Budget (H5201)

Nonrecurring Revenue:

FY18-19 Contingency Reserve Fund	\$103,451,091
FY19-20 Budgetary Fund Balance	\$671,514,950
TOTAL	\$774,966,041

Appropriations:

Agency Mid Year Reduction Reserve Fund
\$500,000,000

COVID 19 Response Reserve Account	\$ 70,000,000
Corrections Security and Safety	\$ 50,000,000
SDE Public Charter Schools	\$ 34,000,000
SDE School Nurses	\$ 6,000,000

Department of Parks, Recreation and Tourism

Recovery Marketing	\$ 10,000,000
Major Destination Marketing Grants	\$ 30,000,000

Dept. of Mental Health Veterans Nursing	
Home Construction State Match	\$ 17,888,242

TECH readySC Workforce Training	\$ 5,000,000
---------------------------------	--------------

Elections - Poll Worker \$175 Stipend	\$ 4,159,050
---------------------------------------	--------------

Employee COVID 19 Hazard Pay Bonus	
Direct Service Workers Earning <\$50k	<u>\$ 20,000,000</u>

Total Allocated	\$747,047,292
-----------------	---------------

Residual	\$ 27,918,749
----------	---------------



H3210 CARES Act, Phase 2

- SECTION 15. Due to the strains caused by COVID-19, for Fiscal Year 2020-21, the earnings limitation imposed pursuant to Section 9-1-1790 and Section 9-11-90 of the 1976 Code does not apply to retired members of the South Carolina Retirement System or the Police Officers Retirement System who return to covered employment to participate in the state's public health preparedness and response to the COVID-19 virus. To the extent allowed by the CARES Act, the Public Employee Benefit Authority may apply to have its implementation costs to be reimbursed.



The Cornerstone of the Senate Version of H5201 (General Appropriations Bill) was the Agency Mid-Year Reduction Reserve Fund. The Senate developed this fund to protect existing appropriations in the event of a mid-year budget cut.

SECTION 11 11 320. Capital Reserve Fund ((amended in 2010)

- (C)(1) In any fiscal year in which the General Reserve Fund does not maintain the percentage amount required by Section 11 11 310, monies from the Capital Reserve Fund first must be used, to the extent necessary, to fully replenish the requisite percentage amount in the General Reserve Fund. The Capital Reserve Fund's replenishment of the General Reserve Fund is in addition to the replenishment requirement provided in Section 36(A), Article III of the Constitution of this State. After the General Reserve Fund is fully restored to the requisite percentage, the monies in the Capital Reserve Fund may be appropriated pursuant to item (2) of this subsection. **The Capital Reserve Fund may not be used to offset a midyear budget reduction.**

SECTION 11 9 1140. Quarterly revenue estimates; reduction of general appropriations; action to avoid year end deficit (amended 2014)

- (B)(1) If at the end of the **first, second, or third quarter** of any fiscal year the Board of Economic Advisors reduces the revenue forecast for the fiscal year by **three percent or less** below the amount projected for the fiscal year in the forecast in effect at the time the general appropriations bill for the fiscal year is ratified, within three days of that determination, the Director of the Executive Budget Office must reduce general fund appropriations by the requisite amount in the manner prescribed by law.
- (2) If at the end of the first, second, or third quarter of any fiscal year the Board of Economic Advisors reduces the revenue forecast for the fiscal year by more than three percent below the amount projected for the fiscal year in the forecast in effect at the time the general appropriations bill for the fiscal year is ratified, then the President of the Senate and the Speaker of the House of Representatives may call each respective house into session to take action to avoid a year end deficit. If the General Assembly has not taken action within **twenty days** of the determination of the Board of Economic Advisors, then the Director of the Executive Budget Office must reduce general fund appropriations by the requisite amount in the manner prescribed by law and in accordance with item (1).



General Fund Mid-Year Budget Reductions

Percentage of Total Cut by State Agency

<u>Agency</u>	<u>Percentage of Total Cut</u>
• Department of Education	42.23%
• Department of Health and Human Services	17.94%
• Department of Corrections	5.77%
• Department of Disabilities & Special Needs	3.44%
• Department of Mental Health	3.22%
• Department of Social Services	2.58%
• Technical & Comp. Education	2.11%
• University of South Carolina - Columbia	1.98%
• Department of Health and Environmental Control	1.84%
• Department of Juvenile Justice	1.48%
• PEBA	1.36%
• Department of Public Safety	1.25%
• Clemson University (E&G)	1.21%
• DMV	1.16%
• All Other State Agencies	12.43%



Estimated State Revenue Shortfalls

State	Decline - Fiscal Year 2020	Decline - Fiscal Year 2021	2020 Decline as percent of pre-COVID-19 revenue projections	2021 Decline as percent of pre-COVID-19 revenue projections
Arkansas	\$113 million	\$206 million	2%	3%
Florida	\$1.9 billion	\$3.4 billion	6%	10%
Georgia	-	\$2.5 billion	-	9%
Kentucky	\$10 million	\$361-659 million	0%	3-6%
Louisiana	\$293 million	\$970 million	3%	10%
Mississippi	\$344 million	\$275 million	6%	5%
North Carolina	\$1.6 billion	\$2.6 billion	7%	10%
Oklahoma	\$447 million	\$1.4 billion	7%	16%
South Carolina	\$105 million	\$754 million	1%	7%
Tennessee	\$654 million	\$1.4 billion	5%	10%
Texas	\$4.4 billion	\$8.8 billion	8%	15%
Virginia	\$234 million	\$1.3 billion	1%	6%

source: cbpp.org

- The revenue effect of the pandemic on South Carolina seems to be less than some neighboring states.



Laura Dawson Ullrich, PhD

**Regional Economist, Research Department, Federal Reserve Bank of Richmond
Economic Update to the South Carolina BEA, October 15, 2020**

What we are hearing....

- Most employees in large metro areas that work for large businesses are still working remotely; many believe they will have the opportunity to work remotely going forward.
- Those who have tried to bring people back have only been moderately successful.
- Businesses in large office towers are having an especially hard time. Two reasons: elevators and public transportation.
- Realtors/developers in SC have reported selling houses 'sight unseen' to people from large metro areas.
- Some companies in California are paying employees to leave the state (and then adjusting their pay to the cost of living in the area where they relocate).



Mark Vitner – Wells Fargo Economist

Economic Outlook	▪ COVID led to a sudden stop in economic activity but has not led to systemic issues with the underlying economy or financial system. Current momentum suggests businesses are adapting to the pandemic environment.
Notable Impacts	▪ Public policy was enacted unusually quickly and was exceptionally well targeted. Consumer spending on goods recovered quickly. Services spending, on the other hand, is taking much longer to come back.
Changes in the Economic Landscape	▪ The sudden shutdown hit minority owned businesses particularly hard, heightening economic inequality and fueling unrest. Movement away from large, globally connected urban centers has accelerated.
The Geography of Economic Growth is Changing	▪ Recessions triggered by exogenous shocks not only accelerate trends previously in place but also result in a paradigm shift for many industries. Disruptions in one market are fueling strong growth in other markets.
Real Estate	▪ Home sales and homebuilding are leading the recovery, thanks to lower mortgage rates and a greater desire for space. Commercial properties are facing short and long-term challenges but fears are somewhat overblown.

Testimony to the Board
of Economic Advisors
10/15/20



The Great Reset is here, like it or not

By Paul Boutin July 29, 2020

The Pandemic has accelerated changes that were already taking place in society:

- Learn from Home

Winners: Broadband Suppliers

Losers: Traditional Colleges

- Work from Home

Winners: Big Box Home Stores

Losers: Commercial Real Estate

- Shop from Home

Winners: Cardboard Manufacturers

Losers: Malls

- Entertainment from Home

Winners: Disney

Losers: Live Entertainers

- Location of Homes

Winners: Smaller Cities

Losers: Megalopolis Cities



The Takeaway

- There are two risks to General Fund revenue collections which could trigger budget cuts.

1.) A double dip “W” shaped recession caused by a dramatic spike in COVID-19 infections over the winter.

2.) Unexpected increases in individual income tax refunds in the spring of ‘21 attributable to tax year 2020.

Because of these risks, revenue forecasts will likely be conservative with modest projected growth.

- The pandemic has accelerated the pace of change particularly as it relates to the use of information technology.

This acceleration will have a dramatic impact on the way we live, work and play – AND LEARN.



“How A 15,000-Year-Old Human Bone Could Help You Through The Coronacrisis”

by Remy Blumenfeld. Forbes, March 21, 2020

“Years ago, the anthropologist Margaret Mead was asked by a student what she considered to be the first sign of civilization in a culture.

Mead said that the first evidence of civilization was a 15,000 years old fractured femur found in an archaeological site. A femur is the longest bone in the body, linking hip to knee. In societies without the benefits of modern medicine, it takes about six weeks of rest for a fractured femur to heal. This particular bone had been broken and had healed.

Mead explained that in the animal kingdom, if you break your leg, you die. You cannot run from danger, you cannot drink or hunt for food. Wounded in this way, you are meat for your predators. No creature survives a broken leg long enough for the bone to heal. You are eaten first.

A broken femur that has healed is evidence that another person has taken time to stay with the fallen, has bound up the wound, has carried the person to safety and has tended them through recovery. A healed femur indicates that someone has helped a fellow human, rather than abandoning them to save their own life.”



Margaret Mead (1901-1978)

American Cultural Anthropologist

“Helping someone else
through difficulty is where
civilization starts.”



Thank you

