

# **SOUTH CAROLINA GENERAL FUND REVENUE**

## **FY 2020-21 Year-end Review and FY 2021-22 Outlook**

September 23, 2021



# FY 2020-21 Final Revenues



# General Fund Revenue



## REVENUES V. BEA MONTHLY ESTIMATES

FINAL 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
<b>Total General Fund Revenue</b>	<b>\$11,089.1</b>	<b>\$10,060.8</b>	<b>\$1,028.4</b>	<b>2.7%</b>	<b>13.2%</b>	Other Revenue Items, Sub-Total	\$879.5	\$736.2	\$143.2	(10.5%)	6.9%
Sales Tax	3,825.92	3,630.2	195.7	10.4%	16.4%	Admissions Tax	29.5	26.2	3.4	5.3%	18.8%
Individual Income Tax	5,421.3	4,948.3	473.0	(1.4%)	8.0%	Alcoholic Liquors Tax	101.6	86.0	15.6	6.1%	25.3%
Withholdings	6,041.2	5,866.7	174.5	3.9%	7.0%	Bank Tax	69.8	23.2	46.7	(68.5%)	(5.0%)
Nonwithholdings	1,594.9	1,308.4	286.6	2.4%	24.8%	Beer and Wine Tax	116.9	113.7	3.1	1.2%	4.0%
Refunds	2,214.8	2,226.9	(12.0)	16.8%	16.2%	Corporate License Tax	148.1	137.9	10.2	5.4%	13.2%
Corporate Income Tax	669.2	465.9	203.3	10.1%	58.2%	Doc. Tax (Deed Rec.)	118.9	94.7	24.2	15.8%	45.4%
Insurance Tax	293.2	280.2	13.1	16.0%	21.4%	Earnings on Investments	72.6	75.0	(2.4)	(42.7%)	(44.5%)
Other Revenue Items, Sub-Total	879.5	736.2	143.2	(10.5%)	6.9%	Residual Revenue	222.0	179.6	42.4	(4.1%)	18.5%

Based on BEA Forecast as of April 08, 2021



# General Fund FY 2020-21 Summary

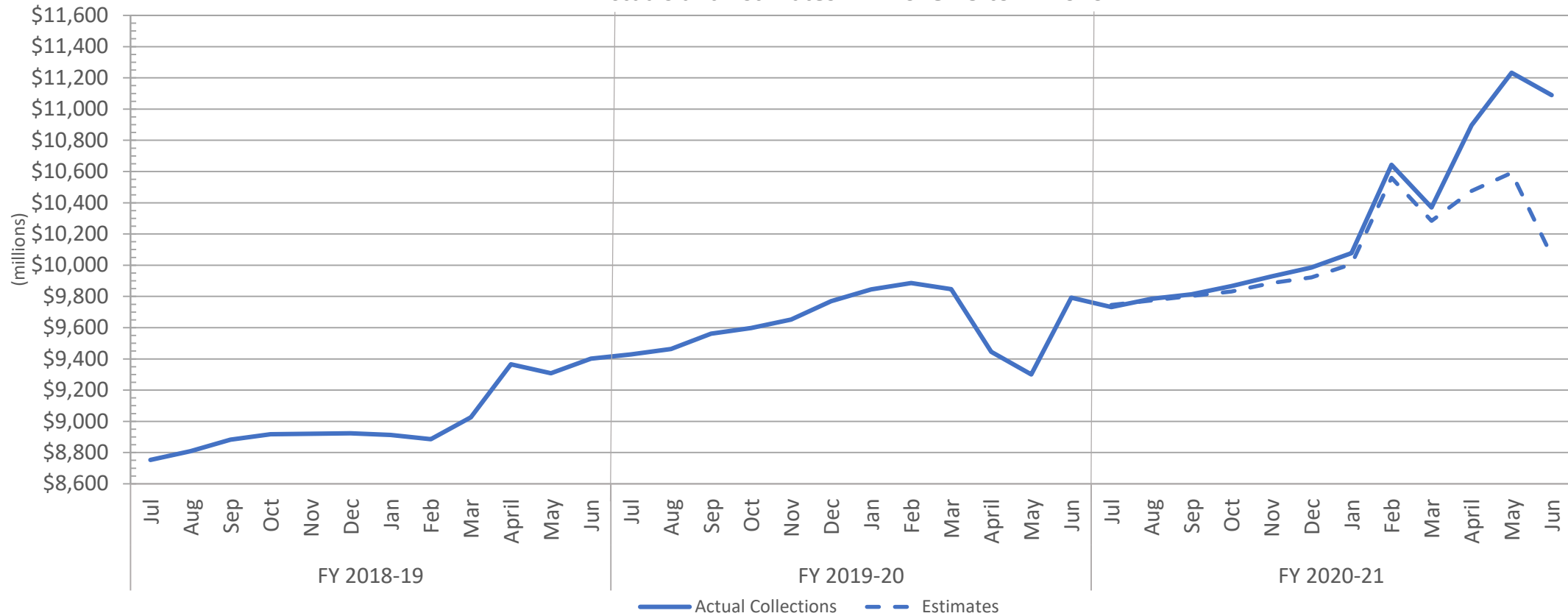
- FY 21 finished \$1.028 billion ahead of the April 2021 forecast
- Almost all categories finished ahead of estimates, largely due to an excess generated in the last quarter after the April forecast
- Tax season was much better than anticipated, and the stimulus impact was greater than anticipated
- Results by tax type:
  - Individual Income tax - \$473 million ahead
  - Sales tax - \$195.7 million ahead
  - Corporate Income tax - \$203.3 million ahead

# Total General Fund

Revenue grew much faster in the last three months of the fiscal year during tax season than anticipated; FY 21 ended with budget surplus of \$1.02 billion

## ROLLING FISCAL YEAR - TOTAL GENERAL FUND REVENUE

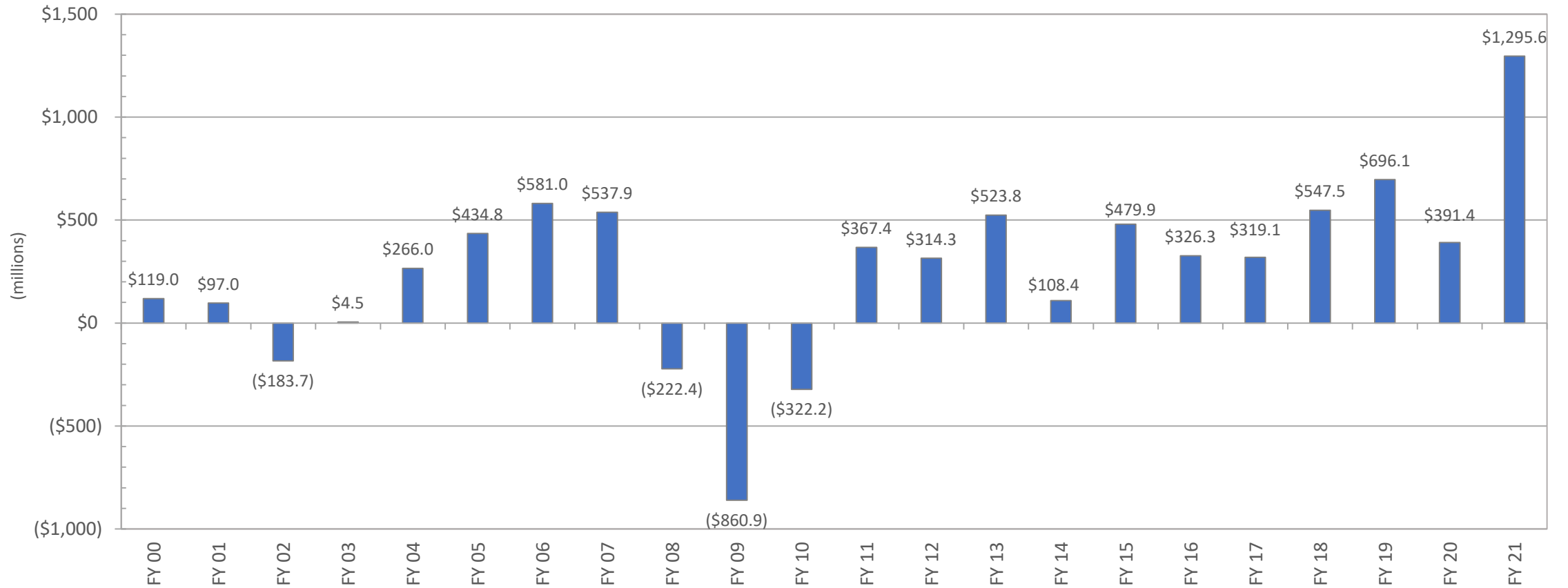
Actuals and Estimates - FY 2018-19 to FY 2020-21



# Annual General Fund Revenue Growth

FY 21 revenue grew \$1.295 billion over FY 20, or 13.2%, significantly higher than ever before

ANNUAL GROWTH IN GENERAL FUND REVENUE



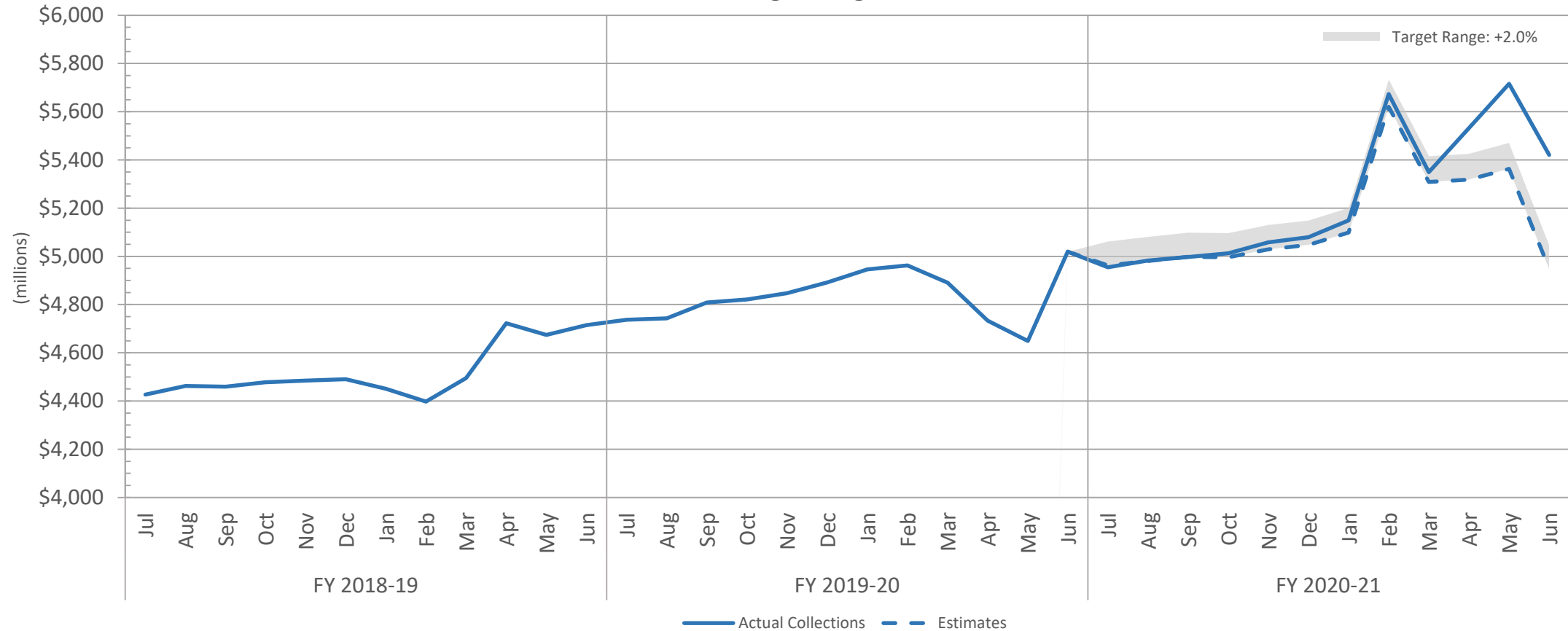
Source: Revenue and Fiscal Affairs - 169A/LHJ/08/27/2021



# Total Individual Income Tax

## Strong tax season resulted in growth of 8% for the year

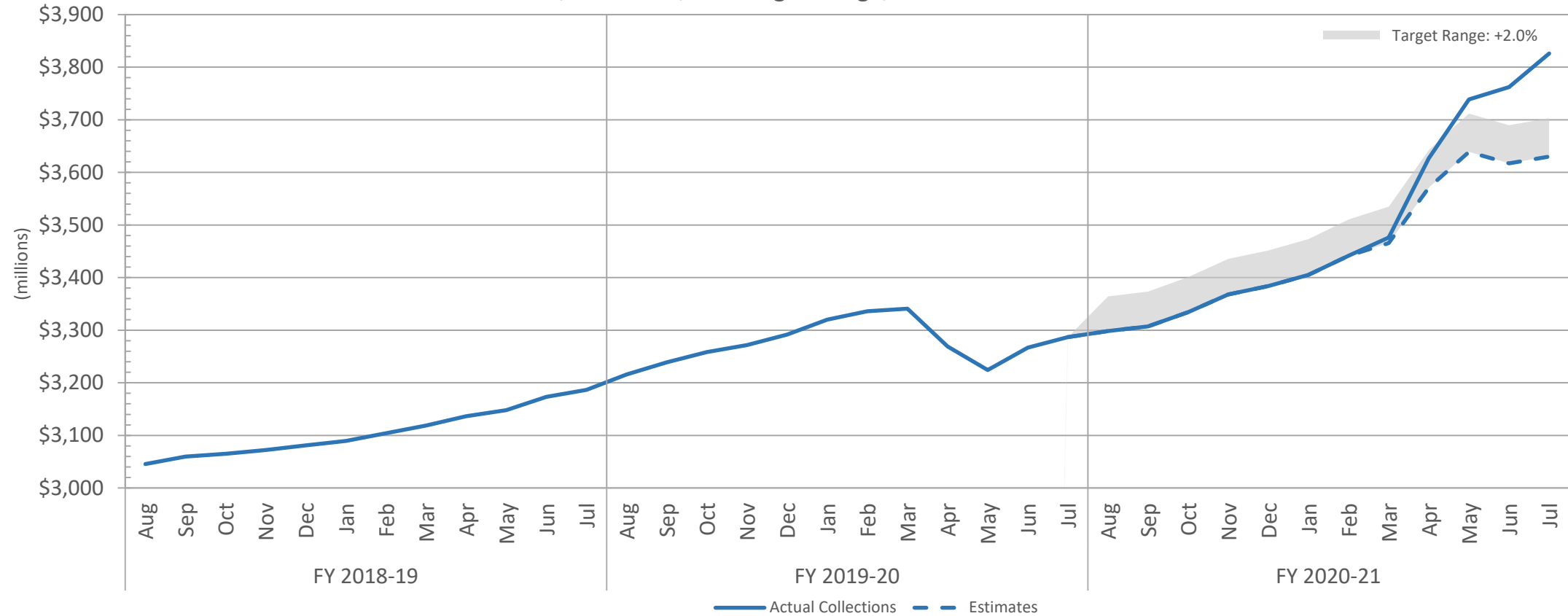
ROLLING FISCAL YEAR - TOTAL INDIVIDUAL INCOME TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21



# Sales Tax

Collections grew 16.4% compared to forecast of 10.4%, largely due to the final quarter

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



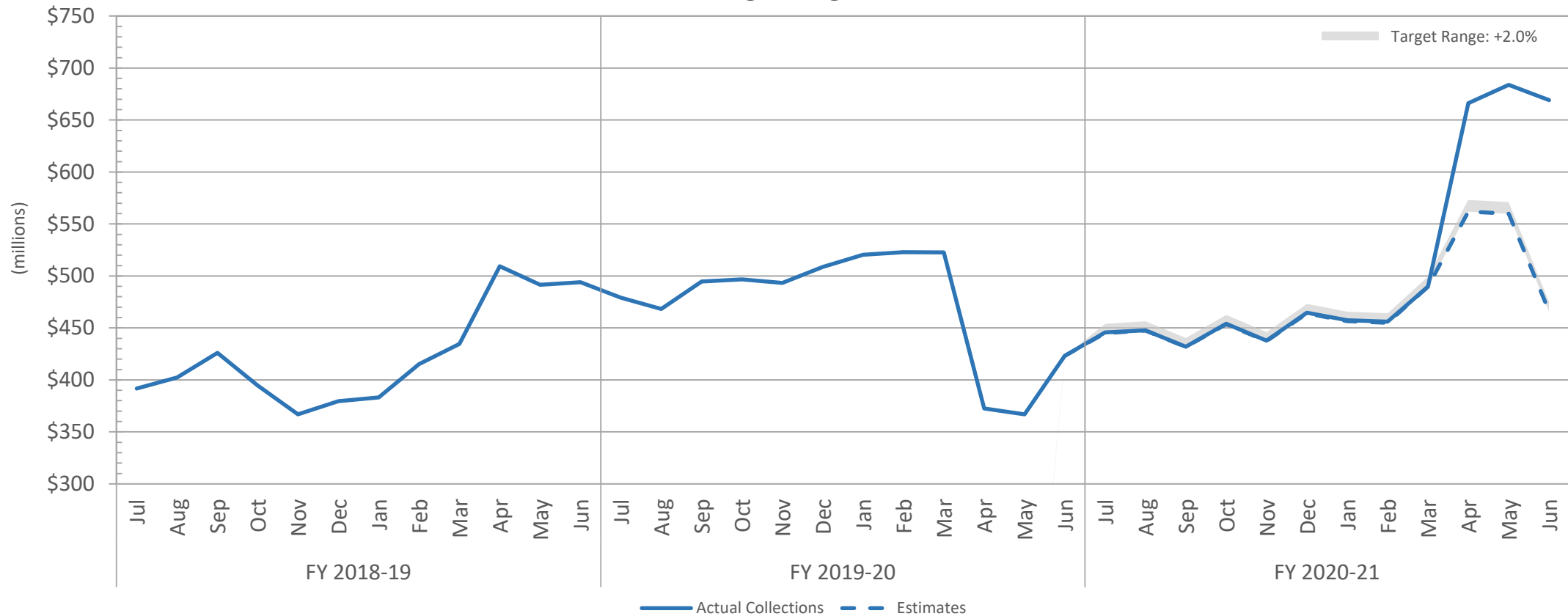


# Corporate Income Tax

Collections totaled **\$351** million in last quarter compared to **\$315** in the first nine months

## ROLLING FISCAL YEAR - CORPORATE INCOME TAX

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21

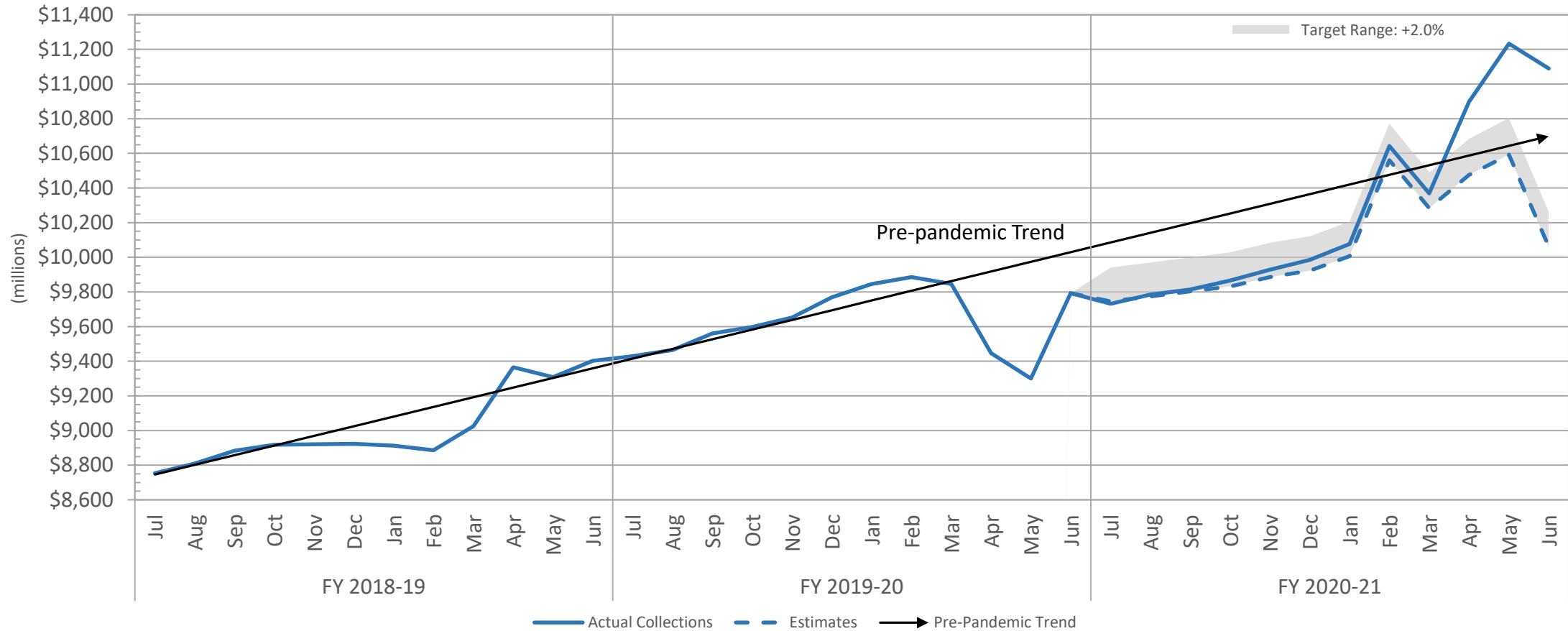


# FY 2021-22 General Fund Revenue

# Total General Fund – FY 21 Compared to Pre-pandemic Trend

## Is final FY 21 revenue a solid base when considering adjustments to FY 22?

ROLLING FISCAL YEAR - GENERAL FUND  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21



# FY 2021-22 General Fund Revenue through August



(\$ in Millions)

## REVENUES V. BEA MONTHLY ESTIMATES

JULY - AUGUST FY 2021-22

	Actual	Expected	Over/ (Under)	Estimate	Actual		Actual	Expected	Over/ (Under)	Estimate	Actual
	Revenues	Revenues	Expected	Full Yr.	YTD		Revenues	Revenues	Expected	Full Yr.	YTD
<b>Total General Fund Revenue</b>	<b>\$1,580.8</b>	<b>\$1,366.6</b>	<b>\$214.1</b>	<b>(10.5%)</b>	<b>24.1%</b>	<b>Other Revenue Items, Sub-Total</b>	<b>\$73.0</b>	<b>\$50.2</b>	<b>\$22.9</b>	<b>(12.6%)</b>	<b>22.9%</b>
Sales Tax	388.7	307.8	80.9	(10.6%)	27.5%	Admissions Tax	(2.8)	(4.2)	1.5	4.1%	N/A
Individual Income Tax	1,064.5	964.1	100.4	(6.6%)	23.7%	Alcoholic Liquors Tax	10.4	6.1	4.3	(13.5%)	15.5%
Withholdings	1,050.8	958.1	92.7	(0.8%)	10.9%	Bank Tax	(0.7)	0.2	(0.9)	(54.2%)	N/A
Nonwithholdings	109.8	94.8	15.0	(16.1%)	(24.8%)	Beer and Wine Tax	11.2	10.7	0.5	(1.2%)	(1.9%)
Refunds	96.1	88.8	7.3	2.3%	(58.7%)	Corporate License Tax	7.2	5.9	1.3	(31.7%)	(16.6%)
Corporate Income Tax	47.0	38.5	8.5	(30.4%)	1.4%	Deed Rec. (Doc. Tax)	12.6	8.8	3.8	(25.6%)	49.2%
Insurance Tax	7.5	6.1	1.4	(12.6%)	167.8%	Earnings on Investments	14.4	13.0	1.4	13.6%	25.6%
Other Revenue Items, Sub-Total	73.0	50.2	22.9	(12.6%)	22.9%	Residual Revenue	20.7	9.7	11.0	(18.6%)	66.0%

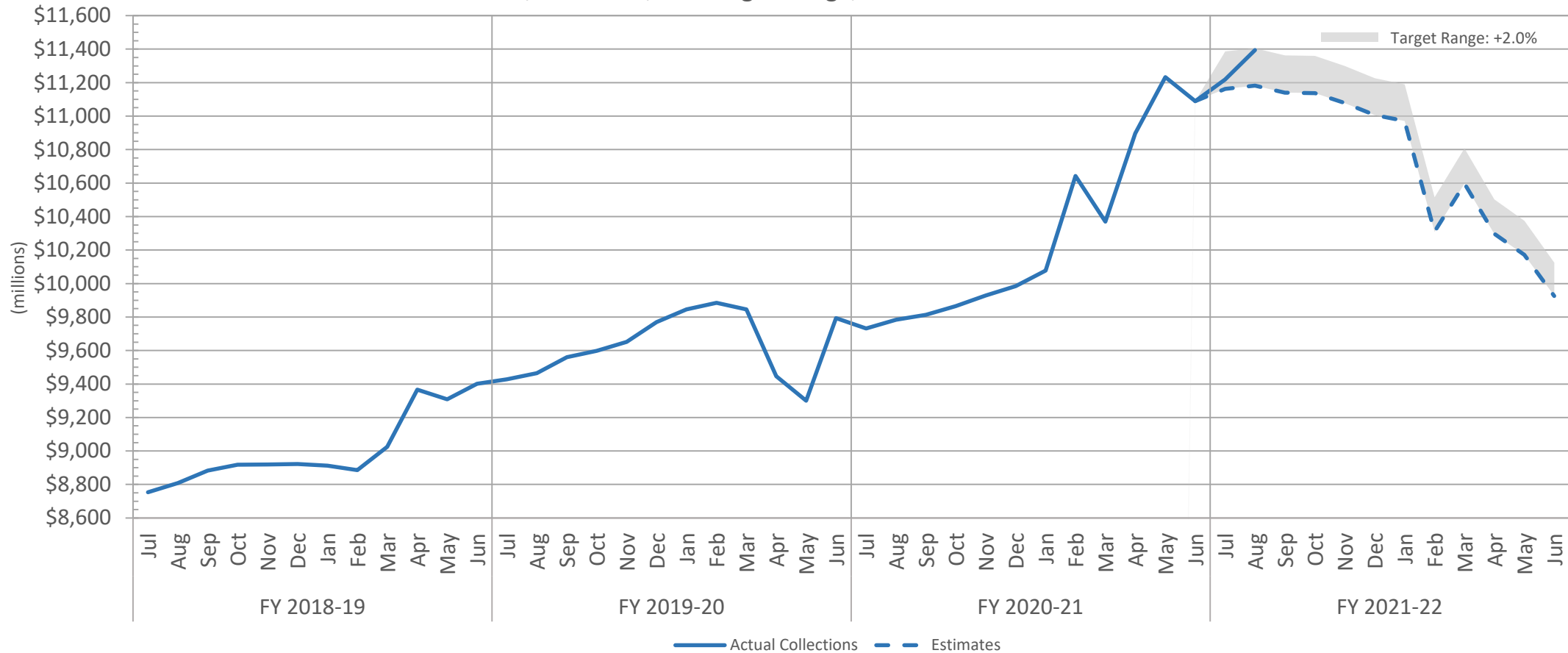
Based on BEA Forecast as of April 08, 2021.



# Total General Fund – FY 22 Forecast

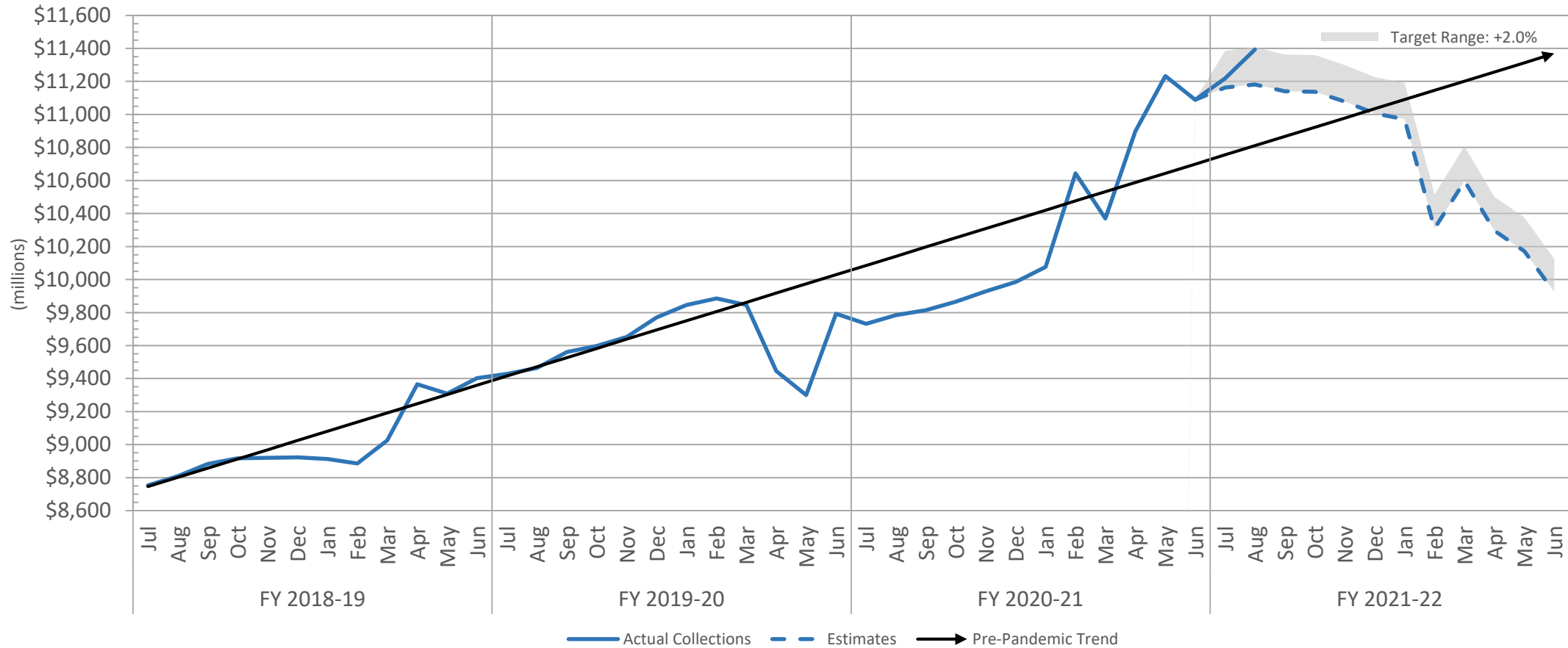
## The spring stimulus continues to impact revenue collections

ROLLING FISCAL YEAR - GENERAL FUND  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Total General Fund – FY 22 Compared to Pre-pandemic Trend

ROLLING FISCAL YEAR - GENERAL FUND  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# General Fund Revenue

## Individual Income Tax Components

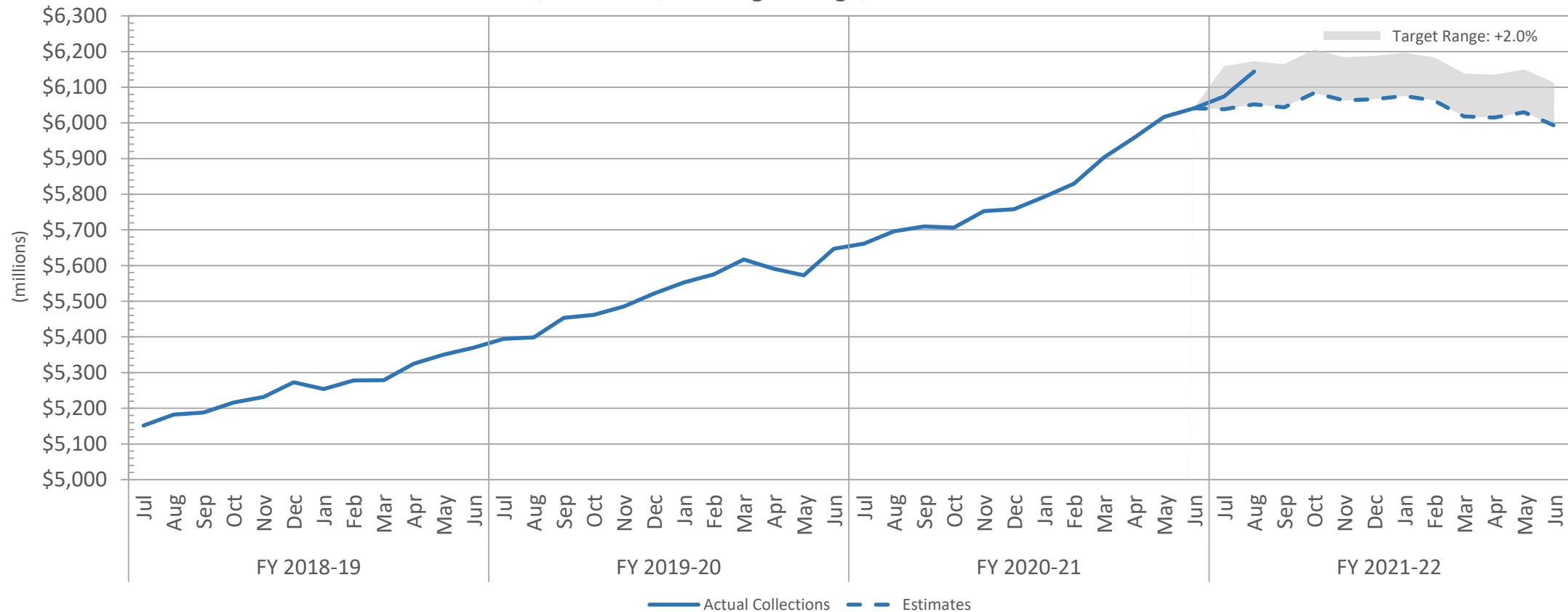


# Individual Withholdings RFY FY22

August collections were the second highest ever recorded; FY 22 yearly growth is at 10.9%

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

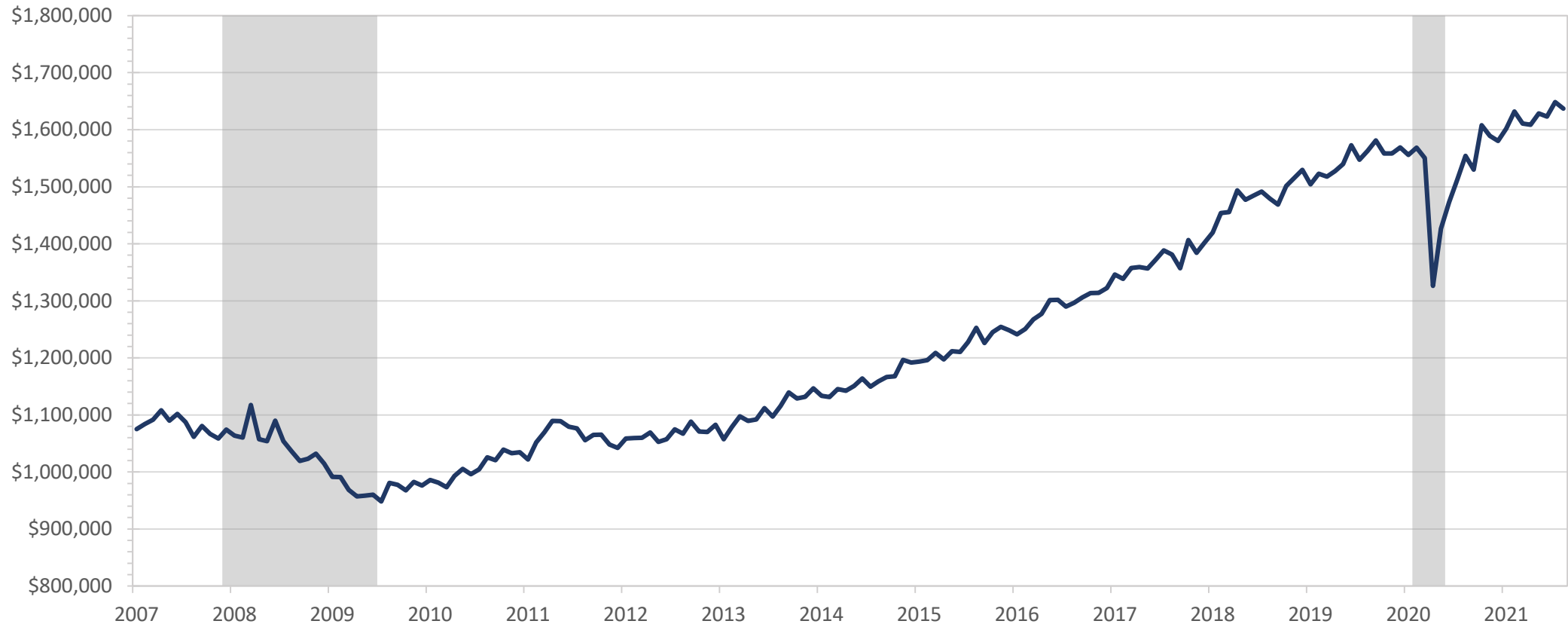




# Total Earnings in South Carolina

Total earnings recovered shortly after the initial disruption of COVID-19 and continue grow despite lower employment

TOTAL WEEKLY EARNINGS OF PRIVATE SC EMPLOYEES

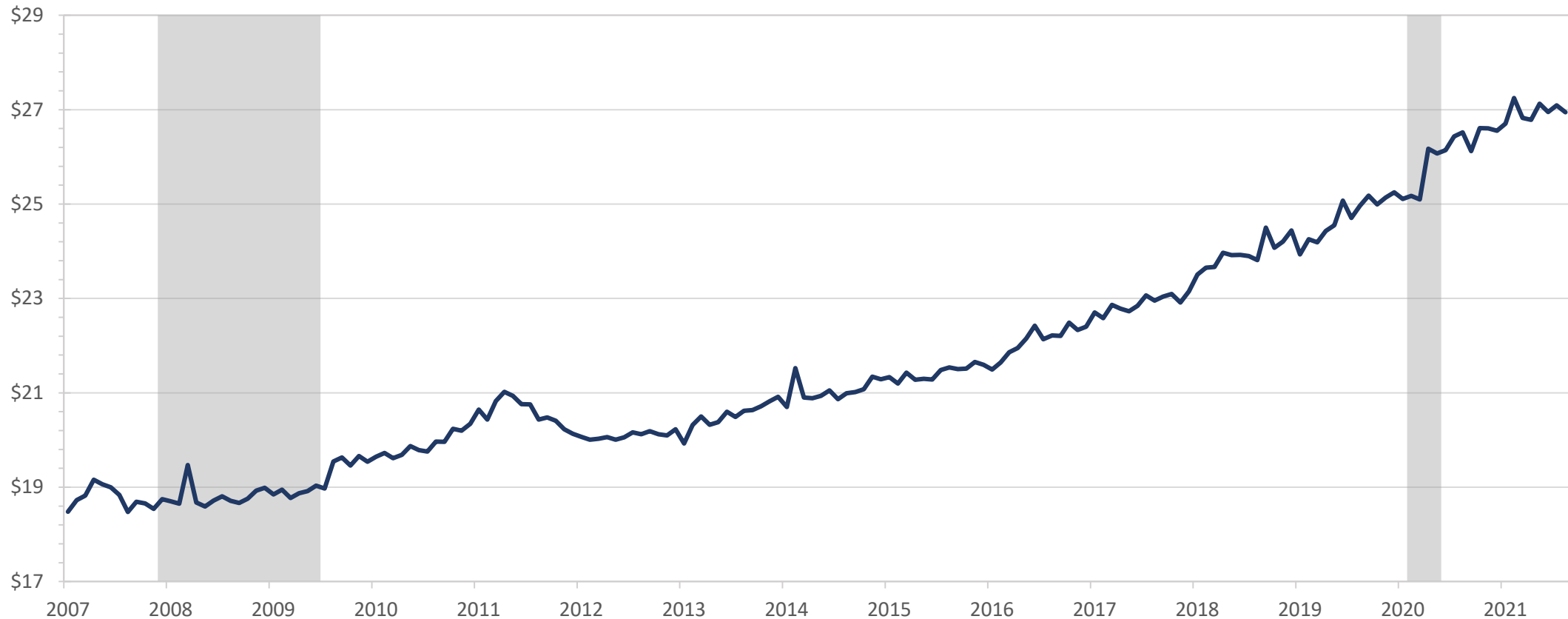


U.S. Bureau of Labor Statistics, State and Metro Area Employment, Hours, and Earnings - RFA/bdc/09/20/2021

# Average Hourly Earnings in South Carolina

After a spike during the beginning of the pandemic, hourly earnings have continued to increase; this indicates the potential for a lasting increase to Withholdings collections

AVERAGE HOURLY EARNINGS OF PRIVATE SC EMPLOYEES



U.S. Bureau of Labor Statistics, State and Metro Area Employment, Hours, and Earnings - RFA/bdc/09/20/2021

# Individual Withholdings FY22

## Outlook and Risks

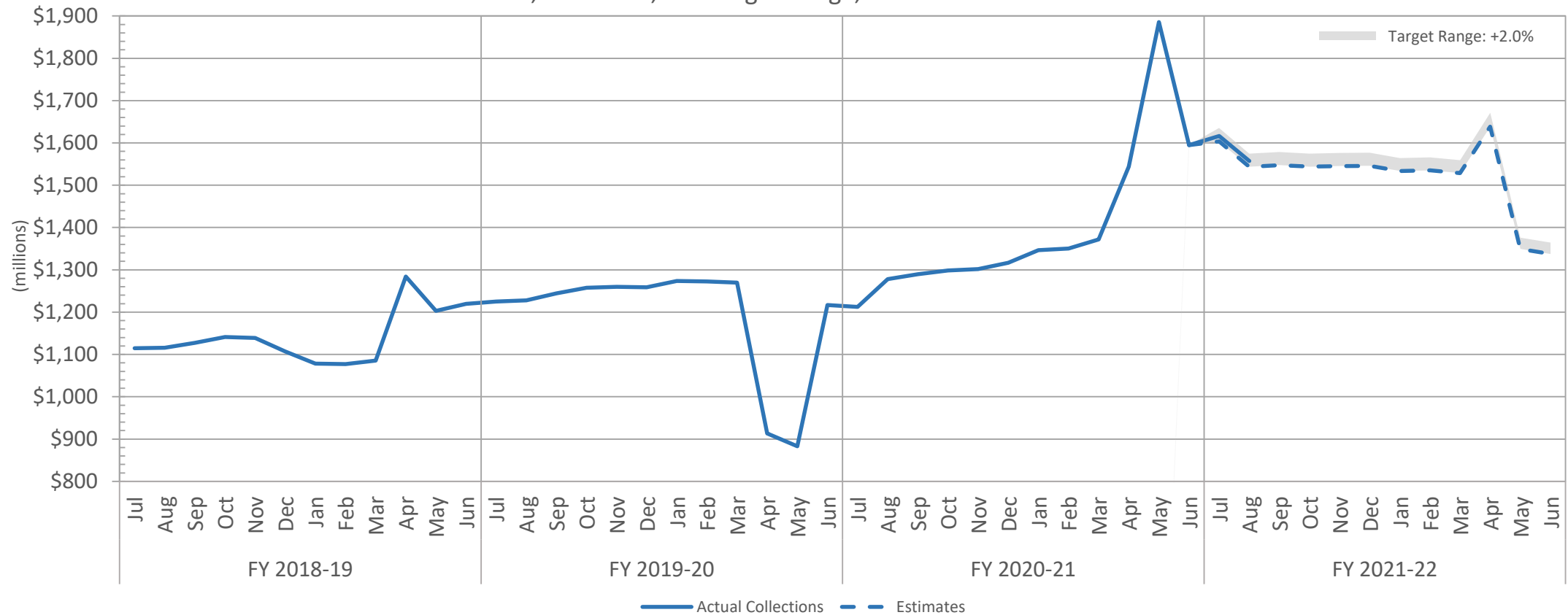
- We may be on a normal employment growth trend instead of a faster recovery due to some workers having left the labor force for the long term. Consequently, a recovery of lost jobs is not expected to drive Withholdings growth.
- The labor shortage has driven up average hourly earnings in most industries (not including bonuses), and it is not likely that these earnings will fall back down in the near term.
- A high quit rate indicates that workers are confident enough in the economy to seek better jobs and higher wages.
- While it is not yet clear how COVID-19 variants may impact economic activity, Withholdings collections are not expected to be overly affected.

# Individual Non-Withholdings RFY FY 22

While the current estimate is **16.1%** below the previous year, annualized expected growth since FY 2018-19 is **3.13%**

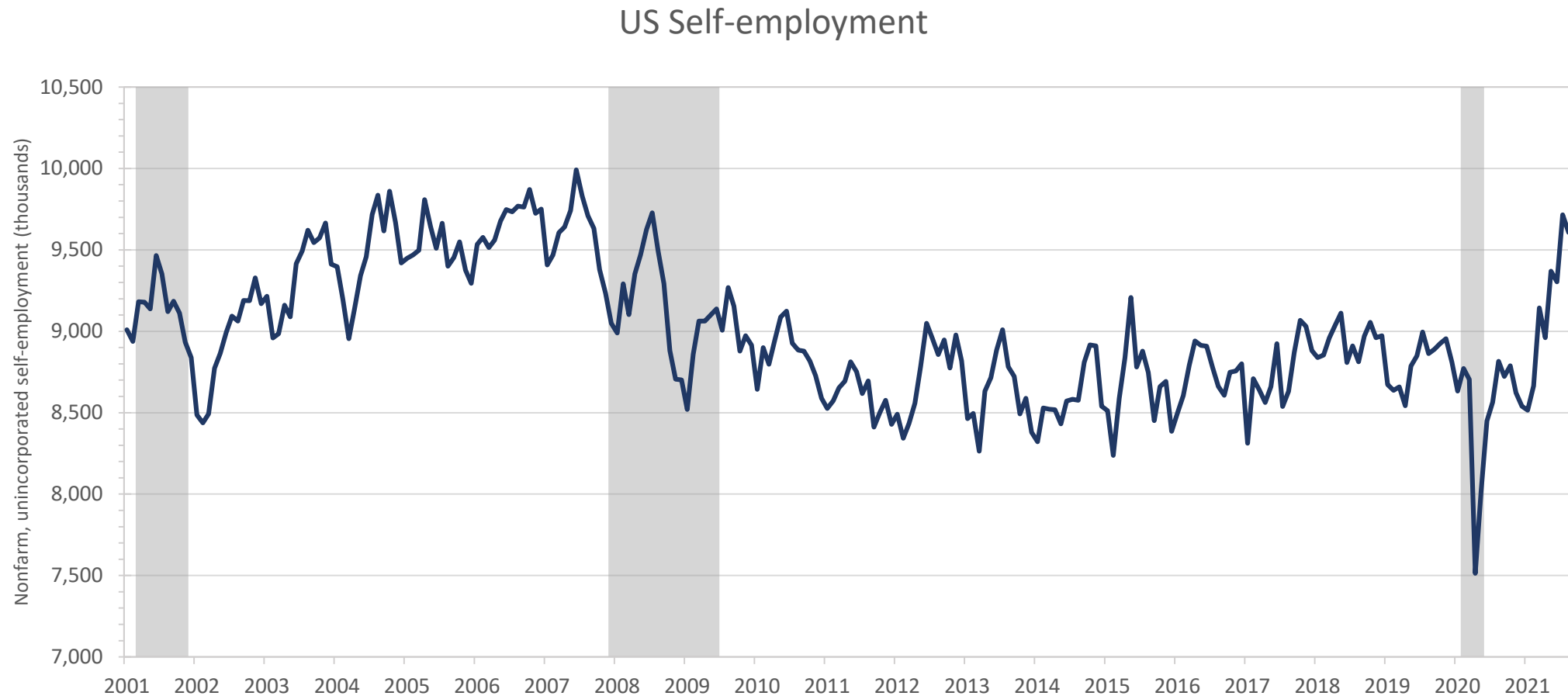
## ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# US Self-employment

Total self-employment has reached the highest levels since 2008 as workers navigate the pandemic labor market



U.S. Bureau of Economic Analysis, Current Employment Statistics - RFA/bdc/09/20/2021



# Individual Non-Withholdings FY 22

## Outlook and risks to these types of income

- Is final FY 21 a solid base to project FY 22?
- The durability of the new self-employment trend is a vital component of the Non-Withholdings outlook. Will this trend persist?
- Federal Reserve decisions regarding rate-setting and the bond-buying program will have implications for Non-Withholdings collections. Both financial markets and business activity may be impacted.
- Risks over the next year include a potential asset bubble downswing, as well as disruptions to businesses and supply chains.

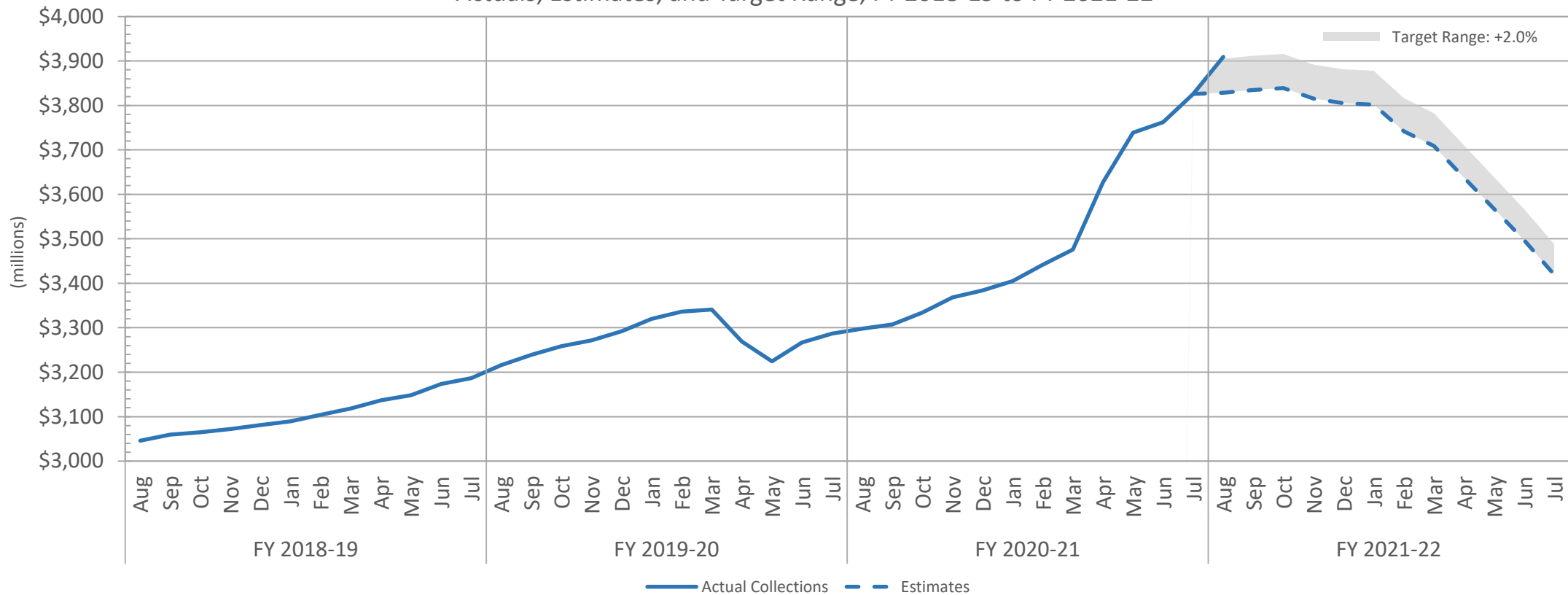
# General Fund Revenue Consumption Taxes



# Sales Tax RFY FY 22

Aided by an audit payment of \$25 million, August 2021 collections were the highest Sales tax collections ever recorded, with year-over-year growth of 27.5%

ROLLING FISCAL YEAR - SALES TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22





# Sales FY 22

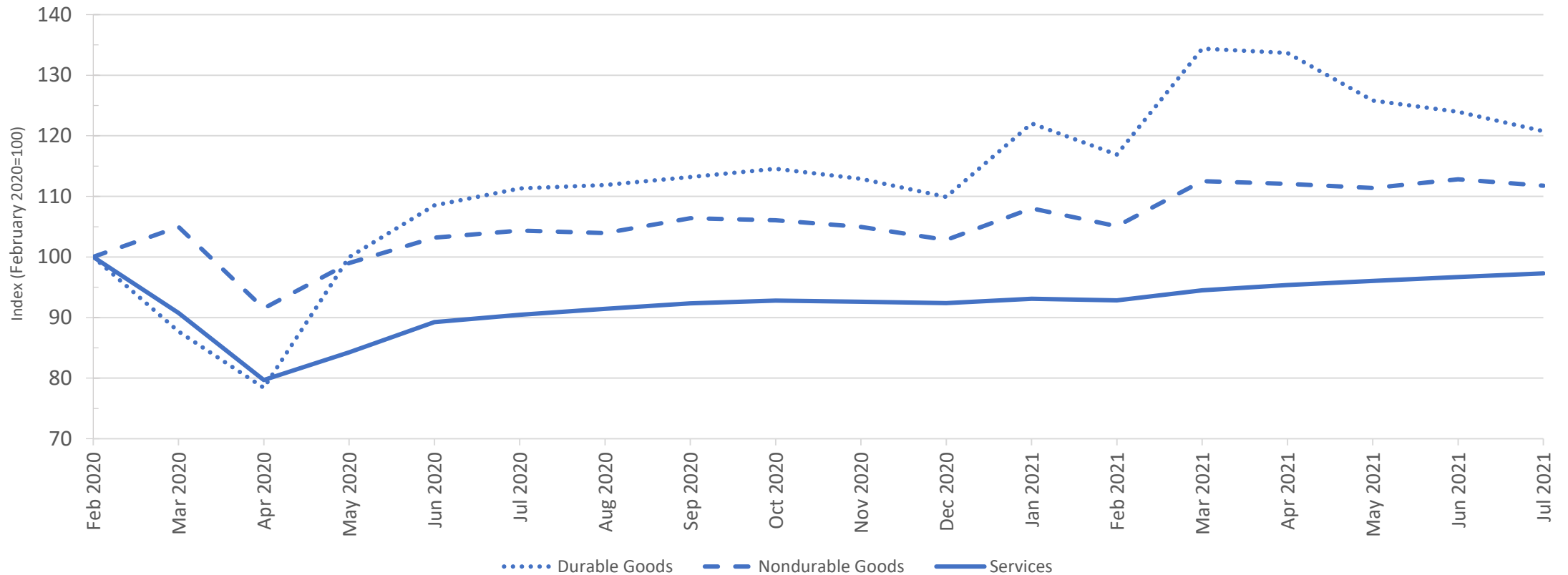
## Outlook and Risks

- Is final FY 21 a solid base to project FY 22?
- Consumer behavior has changed since the beginning of the pandemic
- Spending remains elevated over pre-pandemic levels
  - As supply constraints continue, durable goods orders declined slightly in July
- Unclear how long this growth trend will continue
  - Likely still seeing the impact of stimulus on spending
  - Behavioral changes may be prolonged due to the Delta variant

# Consumer Spending – Goods and Services

Compared to the start of the pandemic, durable and nondurable goods purchases have increased, while spending on services has decreased

CONSUMPTION OF GOODS AND SERVICES  
Indexed to February 2020

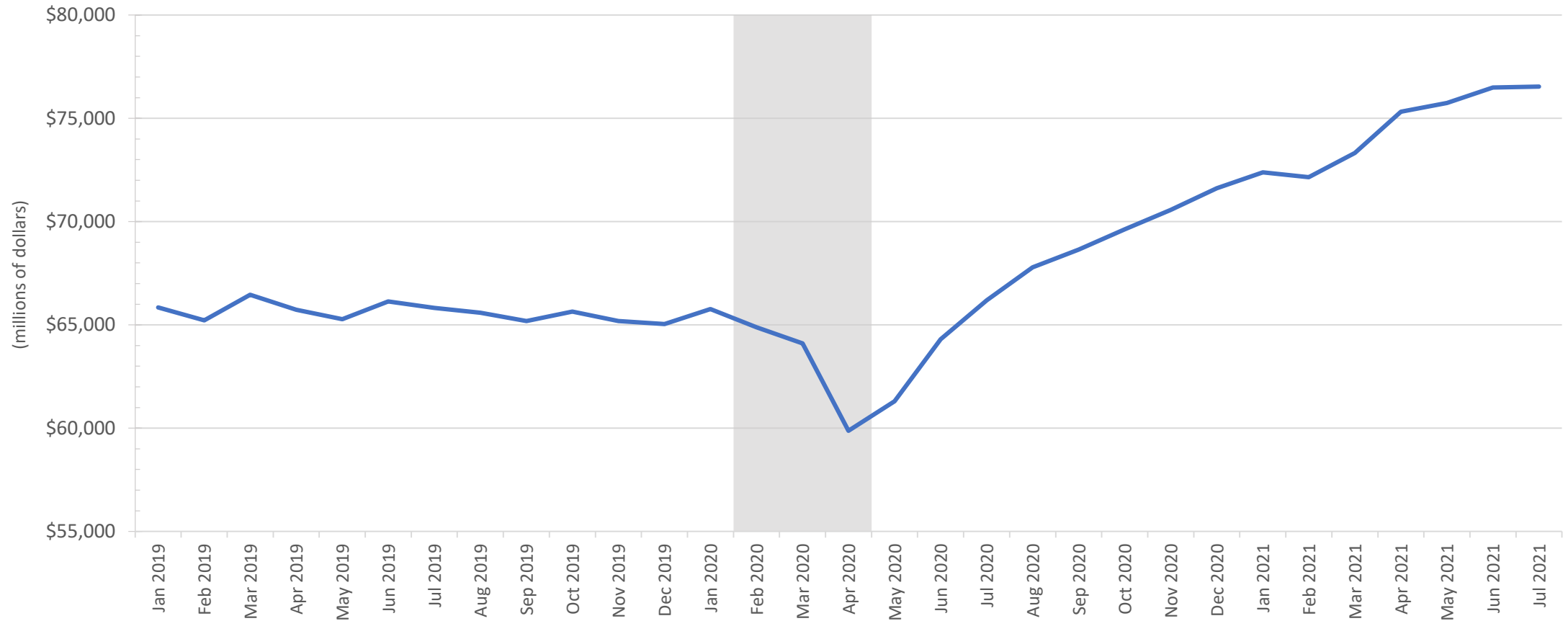


U.S. Bureau of Economic Analysis, Real Personal Consumption Expenditures, RFA/nmg/09/03/2021

# Durable Goods

Orders for durable goods decreased slightly in July, as manufacturers continued to grapple with shortages and confront higher material costs

NEW DURABLE GOODS ORDERS



U.S. Census Bureau, Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft, RFA/nmg/09/03/2021

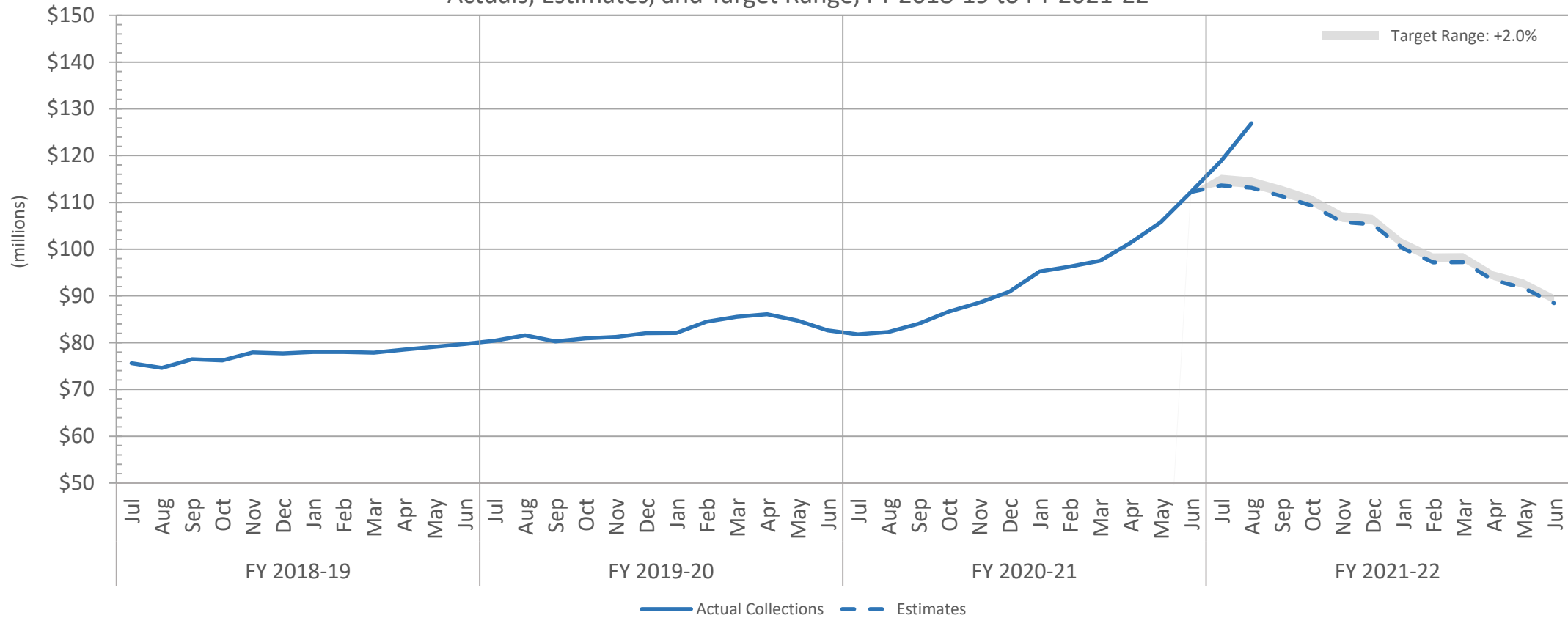


# Deed Recording Fee RFY FY 22

August 2021 collections were the highest ever recorded in South Carolina, with year-over-year growth of 95.0%

## ROLLING FISCAL YEAR - DEED RECORDING FEES

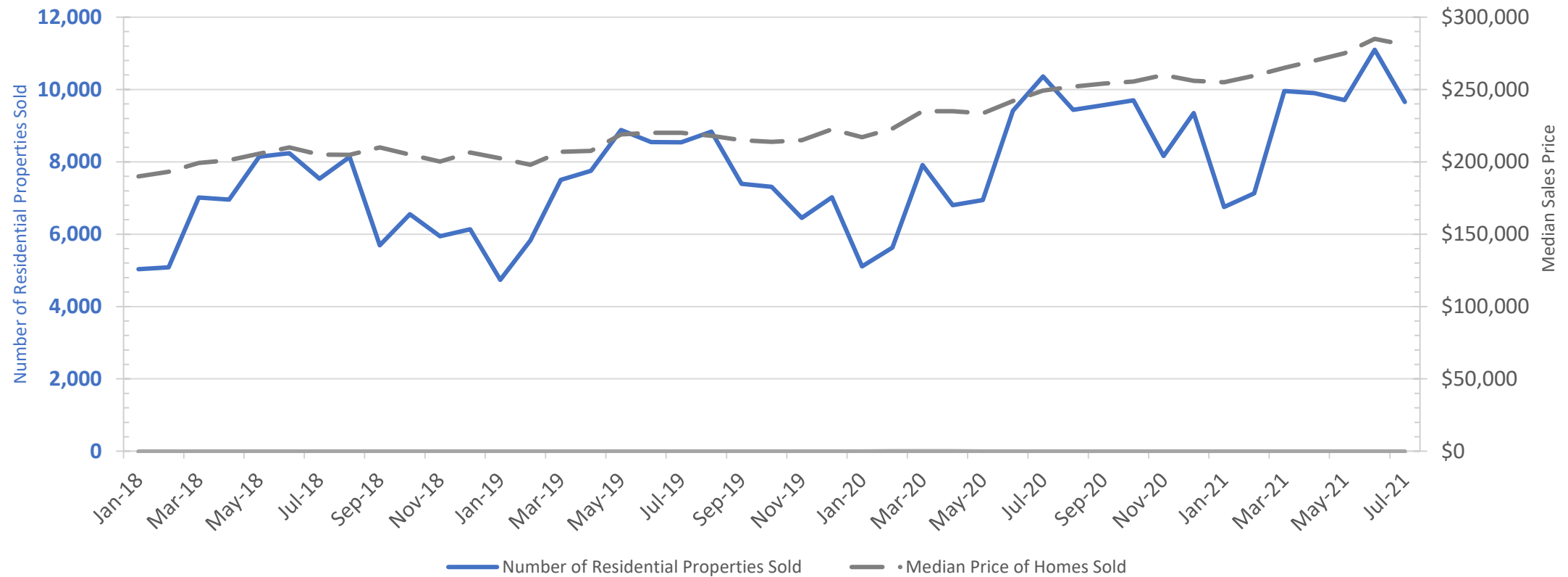
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# South Carolina Home Sales and Prices

The number of homes sold and the median sales price have continued to grow, contributing to the recent spike in Deed Recording Fees

SOUTH CAROLINA HOME SALES  
Number Sold vs. Average Sale Price



S.C. Realtors, Market Reports: Regional Data, 276-RFA/nmg/09/21/2021

# Deed Recording Fees FY 22

## Outlook and Risks

- Demand continues to outpace supply, resulting in high sales price
- Drivers of demand:
  - Ultra low interest rates
  - Consumer responses to COVID-19 restrictions
- Supply response
  - Residential permitting in South Carolina increased by 38.2% in FY 2020-21, and housing starts increased 16.6% in the Southern region

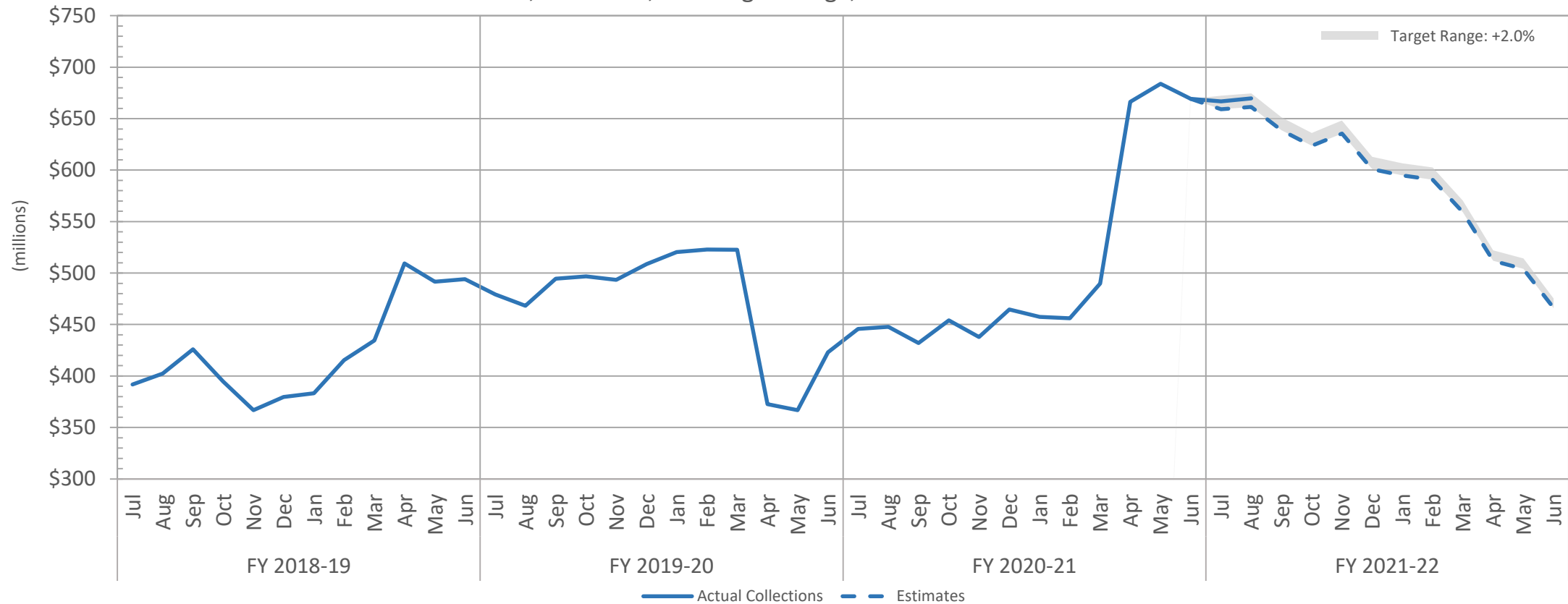
# General Fund Revenue Business Taxes

# Corporate Income Tax RFY FY 22

Growth in FY 21 likely driven by high retail sales; FY 22 will depend on consumer spending patterns

## ROLLING FISCAL YEAR - CORPORATE INCOME TAX

Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

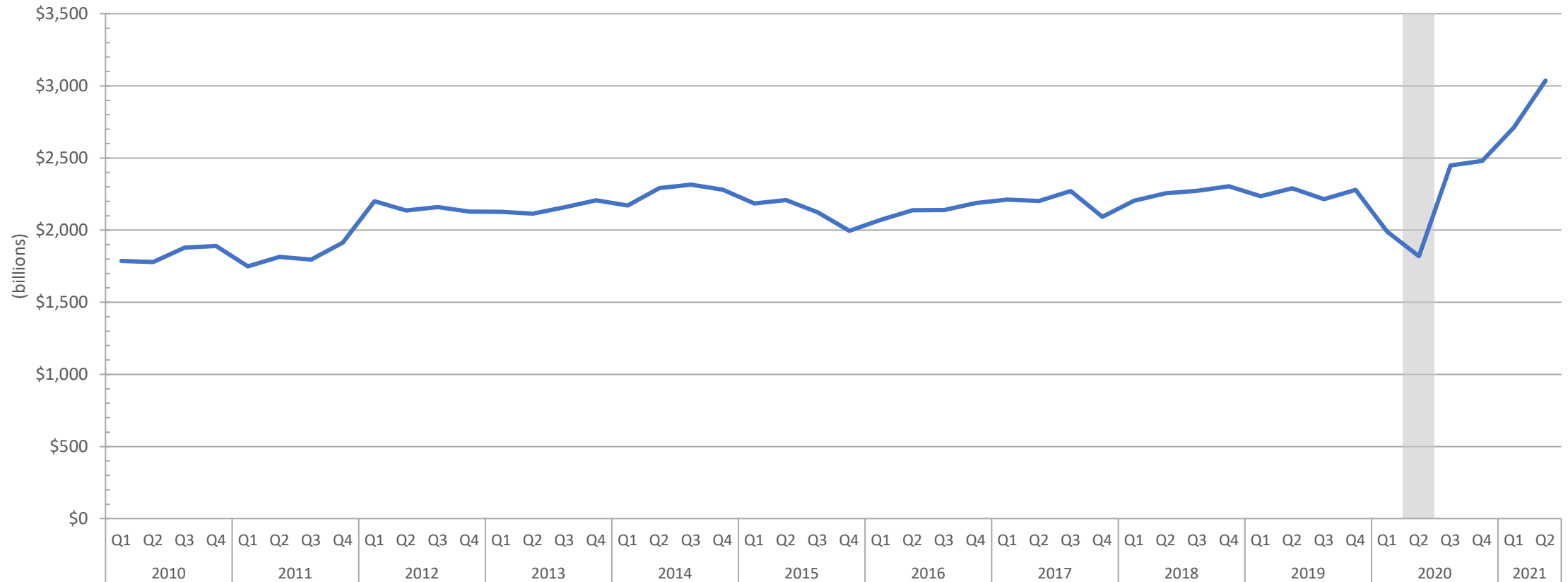




# US Corporate Profits

Companies have shown strong profit growth following the drop during the start of the pandemic, spiking even higher in Q2 2021

U.S. CORPORATE PROFITS  
(Before Taxes)



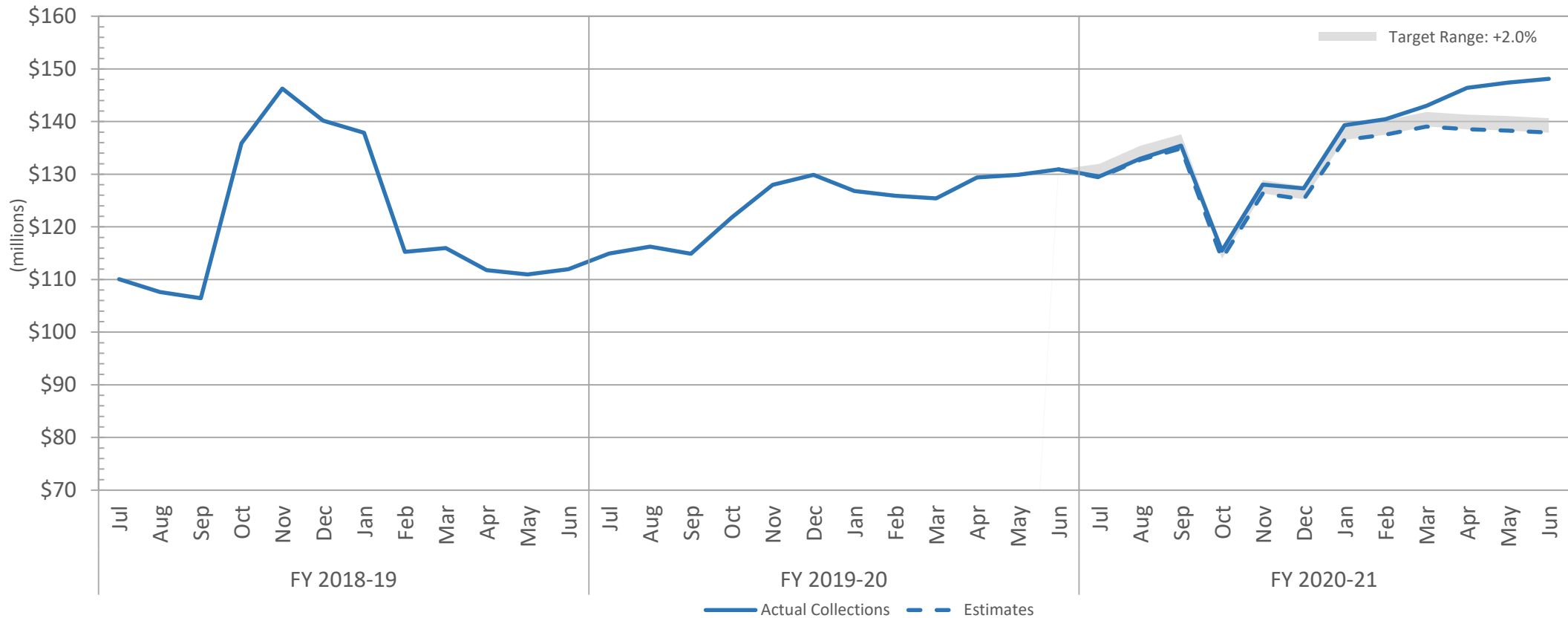
Source: U.S. Bureau of Economic Analysis, National income: Corporate profits before tax (without IVA and CCAadj) [A053RC1Q027SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; 293-RFA/lhj/09/07/2021

# Corporate License Tax RFY FY21

FY 21 finished at \$148.1 million, \$10.2 million ahead of the forecast

## ROLLING FISCAL YEAR - CORPORATE LICENSE TAX

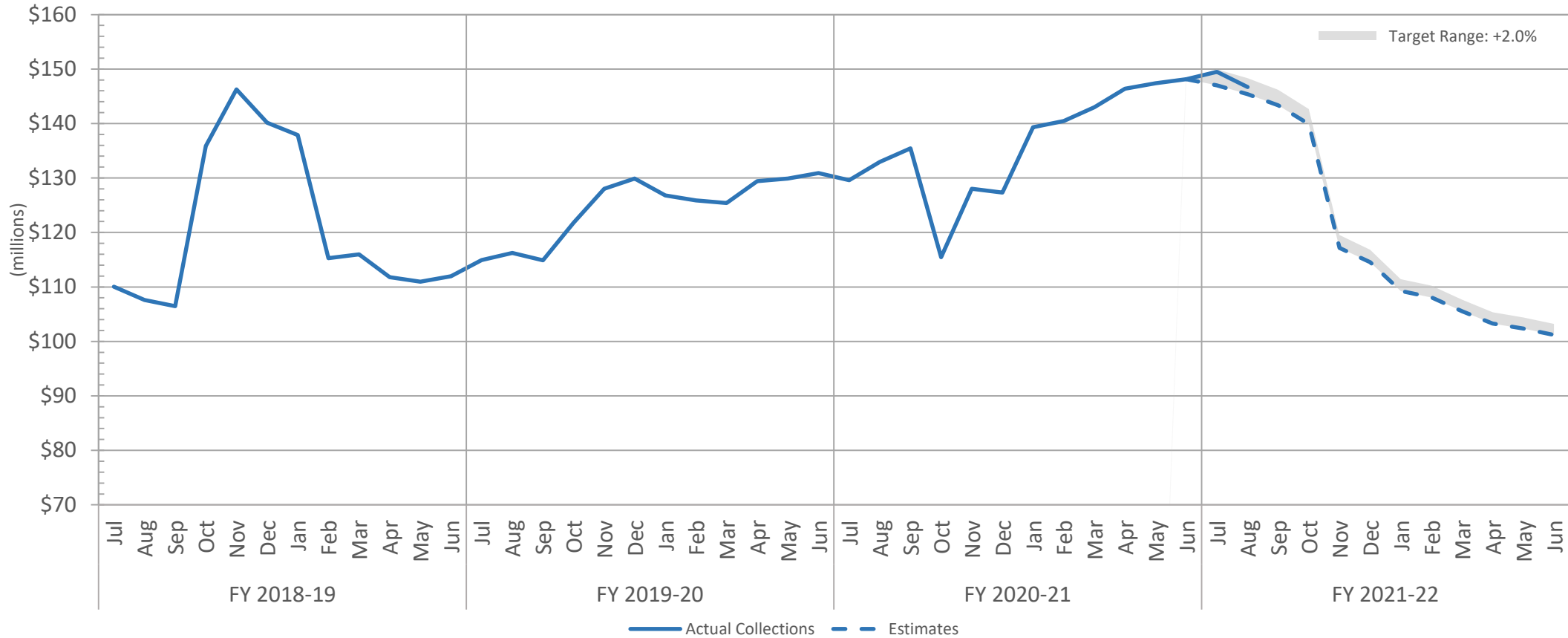
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21



# Corporate License Tax RFY FY 22

FY 22 forecast reflects a decline of \$46.9 million from FY 21 actual

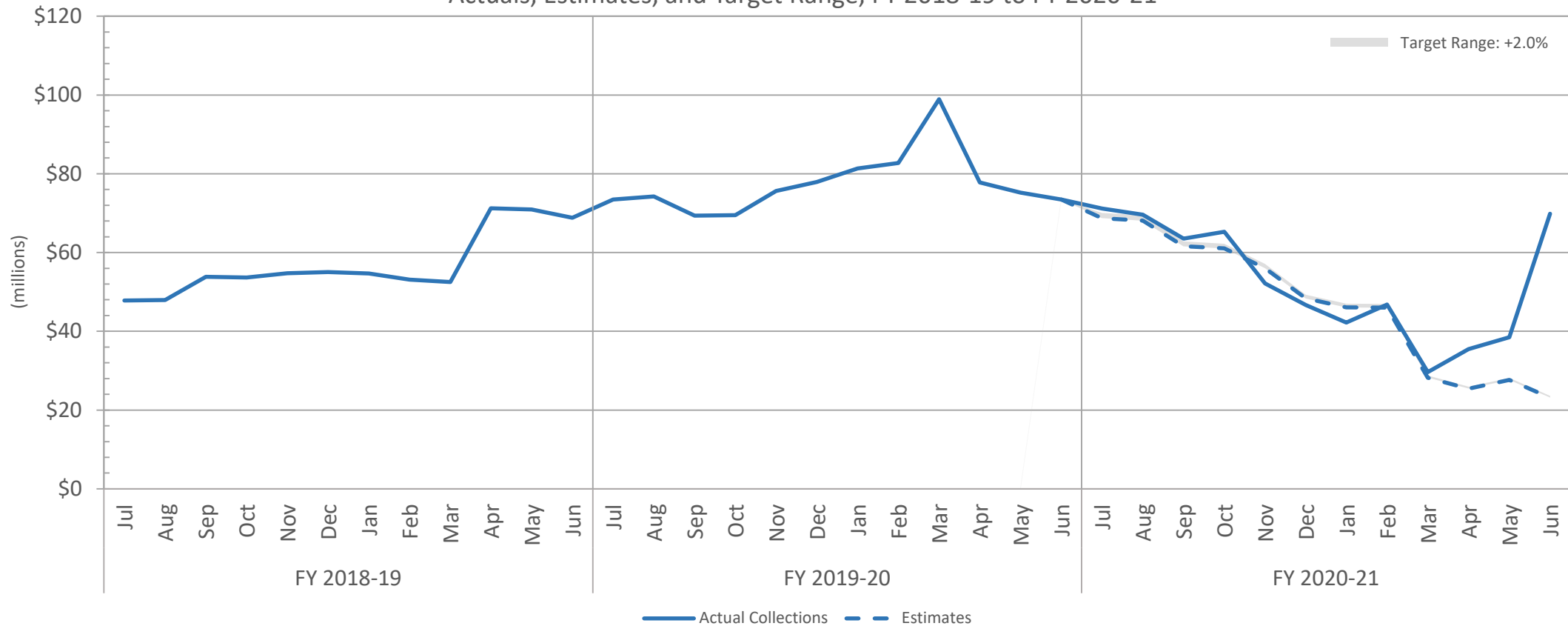
ROLLING FISCAL YEAR - CORPORATE LICENSE TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Bank Tax RFY FY 21

**FY 21 ended up \$46.7 million over the forecast; \$39.7 million was collected in June, including a \$15.4 million audit payment**

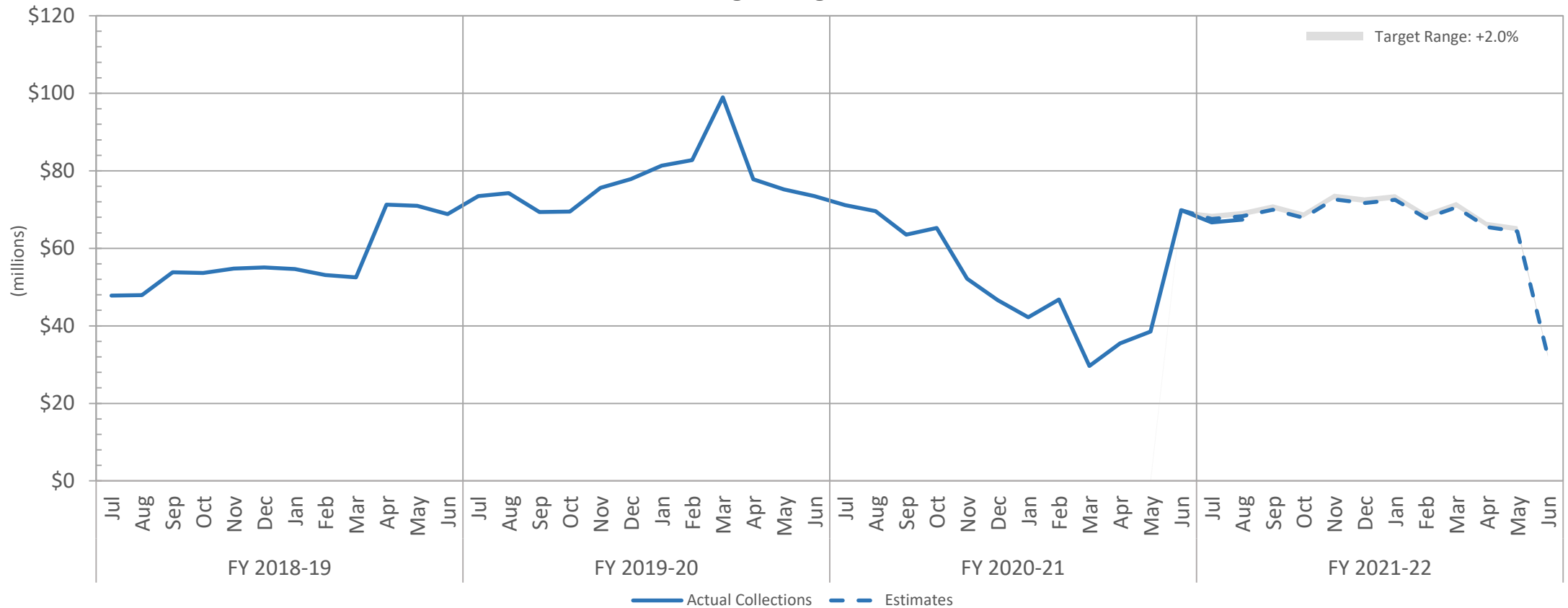
ROLLING FISCAL YEAR - BANK TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2020-21



# Bank Tax RFY FY 22

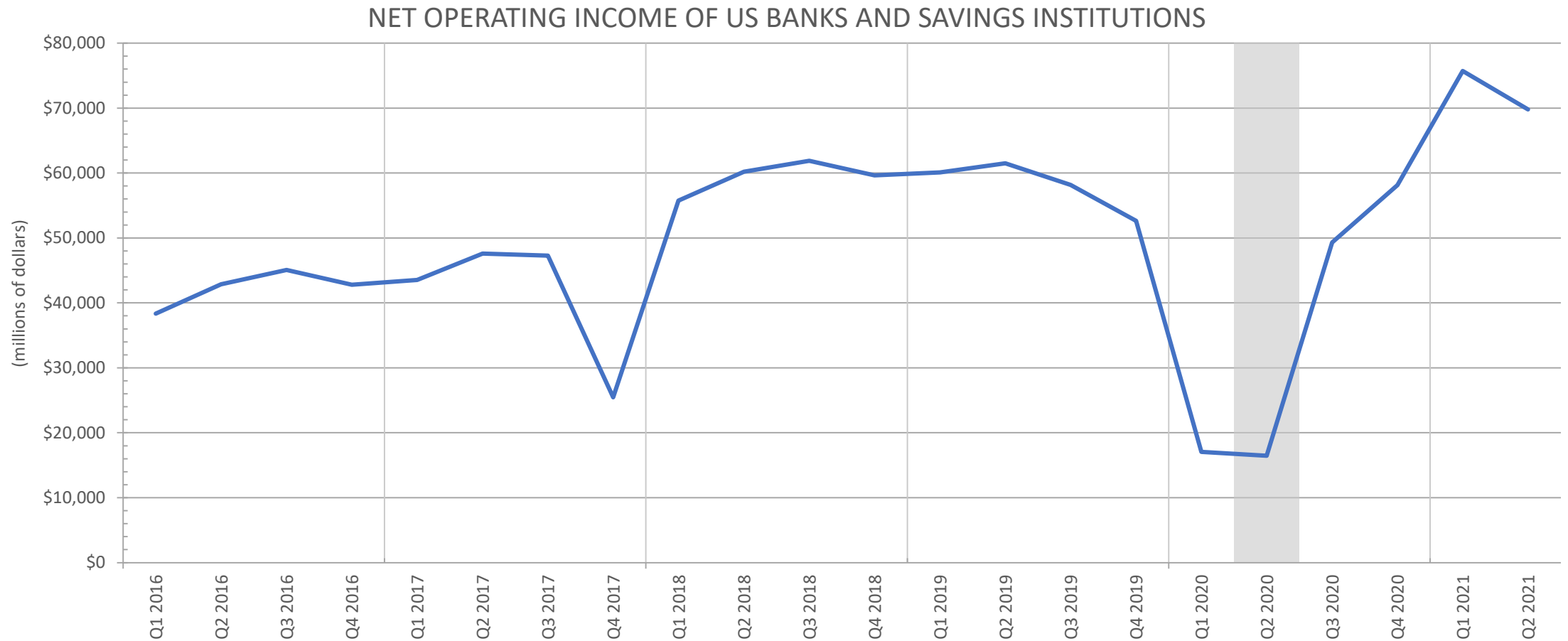
FY 22 forecast expects a decline in collections; audits have boosted total collections in recent years but are unpredictable

ROLLING FISCAL YEAR - BANK TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Bank Performance

Net operating income for US banks improved significantly in Q1 & Q2 of 2021 despite low interest rate margins as banks released reserves built up during the pandemic



Source: Federal Deposit Insurance Corporation, Quarterly Net Income- 279/RFA/lhj/9/08/2021

# Business Taxes FY 22

## Outlook and Risks

- Is final FY 21 revenue a solid base for projecting FY 22?
- Corporate Income and License taxes hit all-time highs in FY 21, but performance in FY 22 is less clear
- Corporate Income taxes are likely to remain high so long as retail spending is up
- Corporate License tax is likely to be above the current forecast, but timing of collections makes growth uncertain
- Bank taxes will depend on interest rates, loans, and any potential audit revenue, which is less predictable

# Forecast Outlook for FY 2021-22 and FY 2022-23



## Potential Forecast Adjustments to FY22

- Individual Income Withholdings are likely to exceed the current estimate
- Non-Withholdings may be above the forecast but are less predictable
- Sales tax is likely to be above the forecast, especially for the upcoming six months
- Corporate Income is likely to be above the forecast so long as retail sales are up

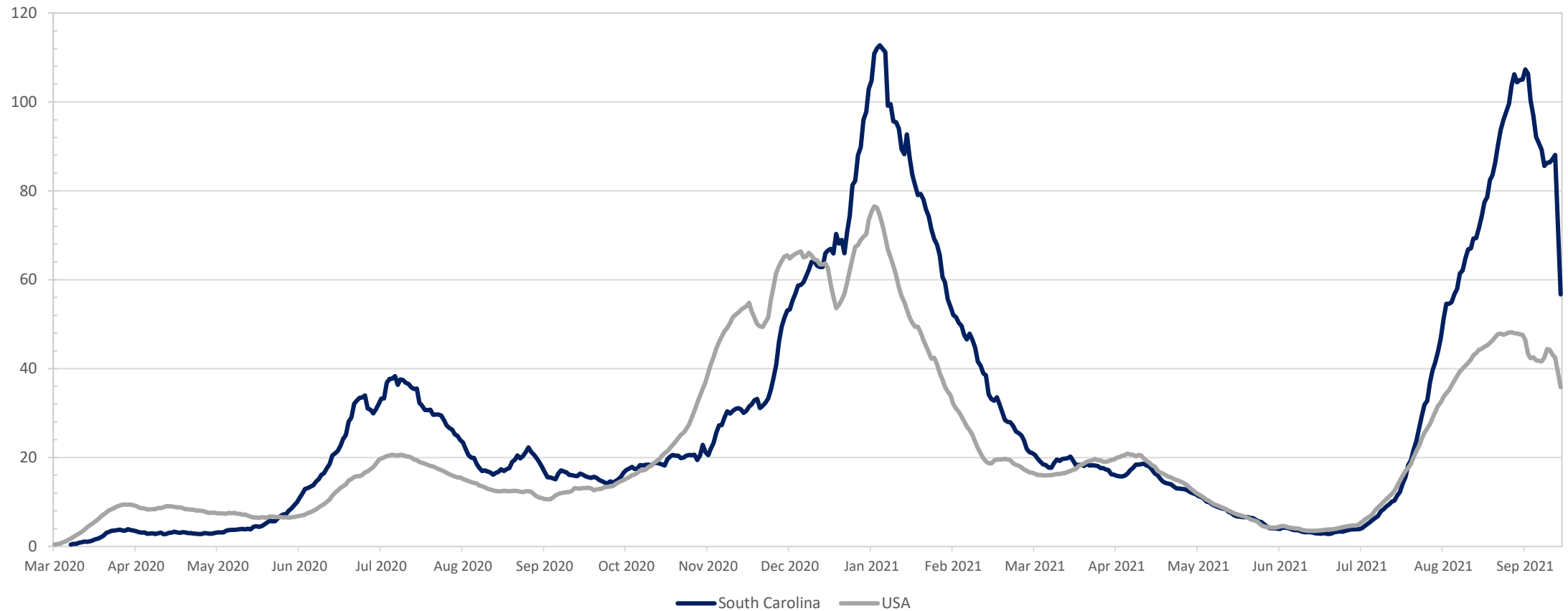
# National Economic Indicators



# COVID Cases in South Carolina

## 7-day average new cases in South Carolina exceeding US

7-DAY AVERAGE NEW CASES PER 100K



Source: Centers for Disease Control and Prevention COVID Data Tracker 294 - RFA/bdc/09/21/2021

# Unemployment Rates

South Carolina's unemployment rate of 4.2% as of August 2021 remains below the US rate of 5.3%

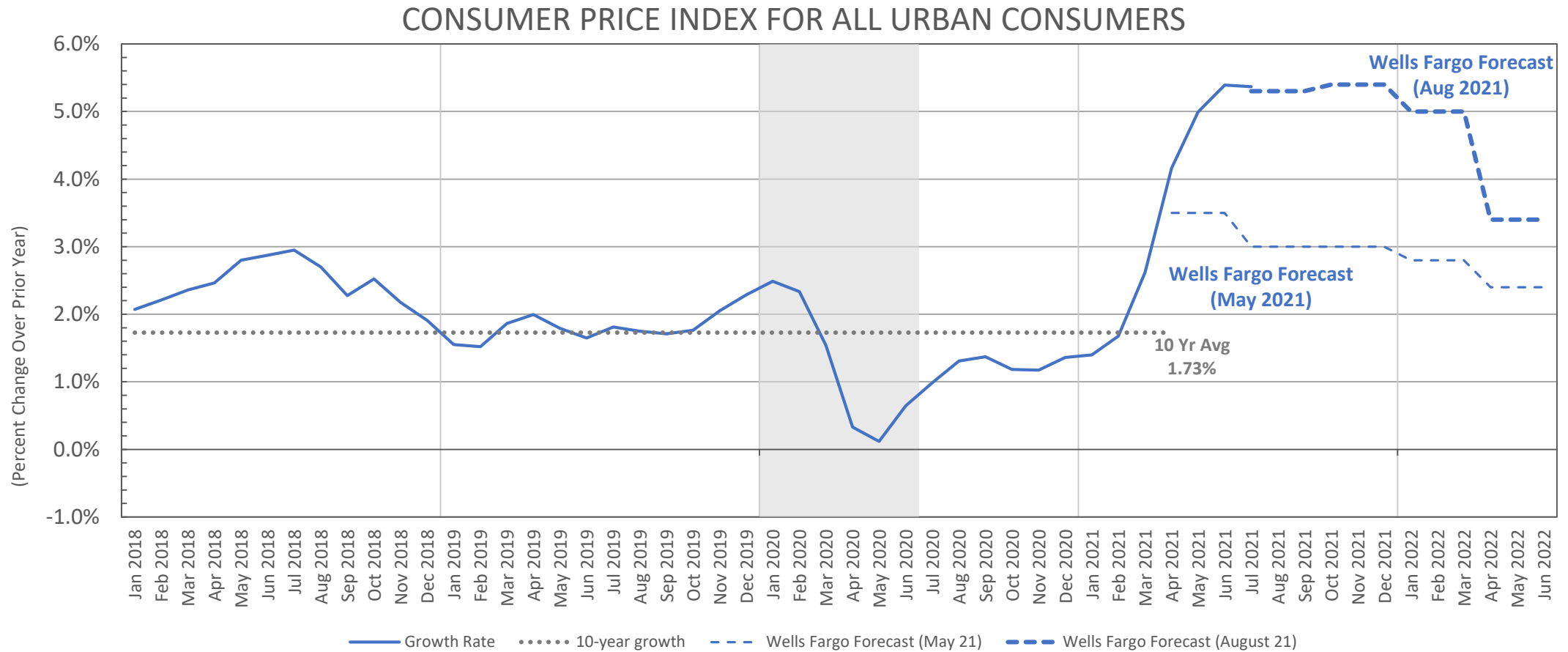


Source: U.S. Department of Commerce, Bureau of Labor Statistics 129--RFA/bdc/09/20/2021



# US Inflation

Short-term inflation expectations have changed significantly in the last 3 months



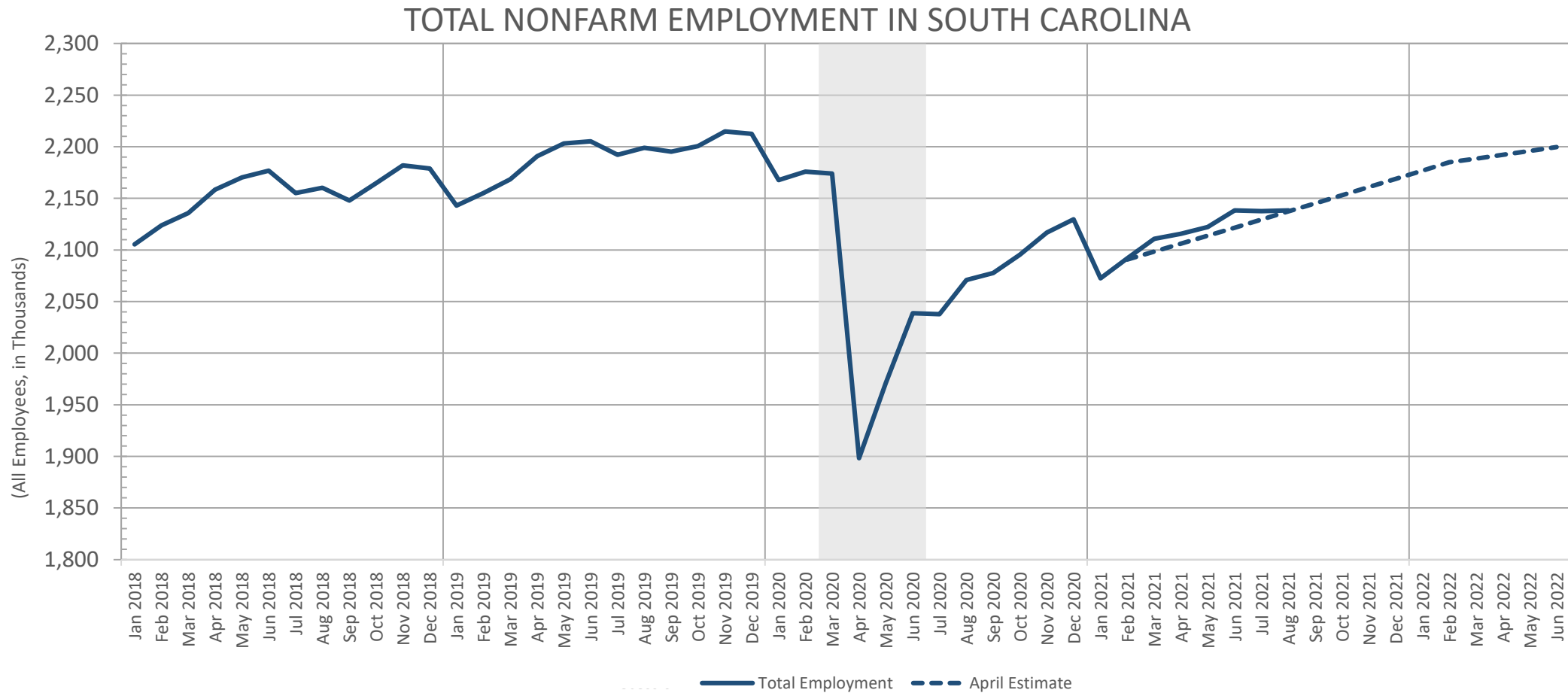
Source: U.S. Department of Labor, Bureau of Labor Statistics; Wells Fargo Securities 216 - RFA/lhj/8/27/2021

# South Carolina Economic Indicators



# South Carolina Employment

Total employment has leveled out in recent months after running slightly above the forecast



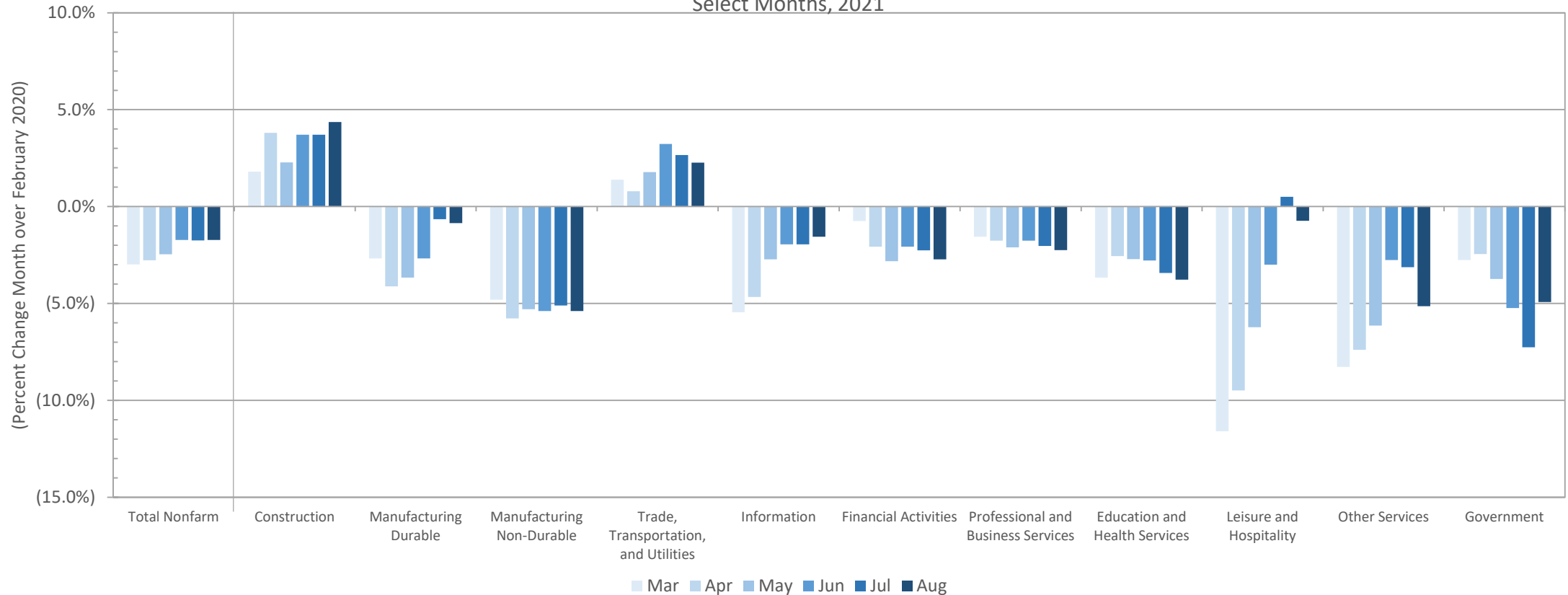
Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/bdc/9/20/2021

# SC Employment Recovery by Industry

Overall employment in July 2021 is 1.7% below pre-pandemic levels

SC EMPLOYMENT BY INDUSTRY PERCENT CHANGE FROM FEBRUARY 2020

Select Months, 2021



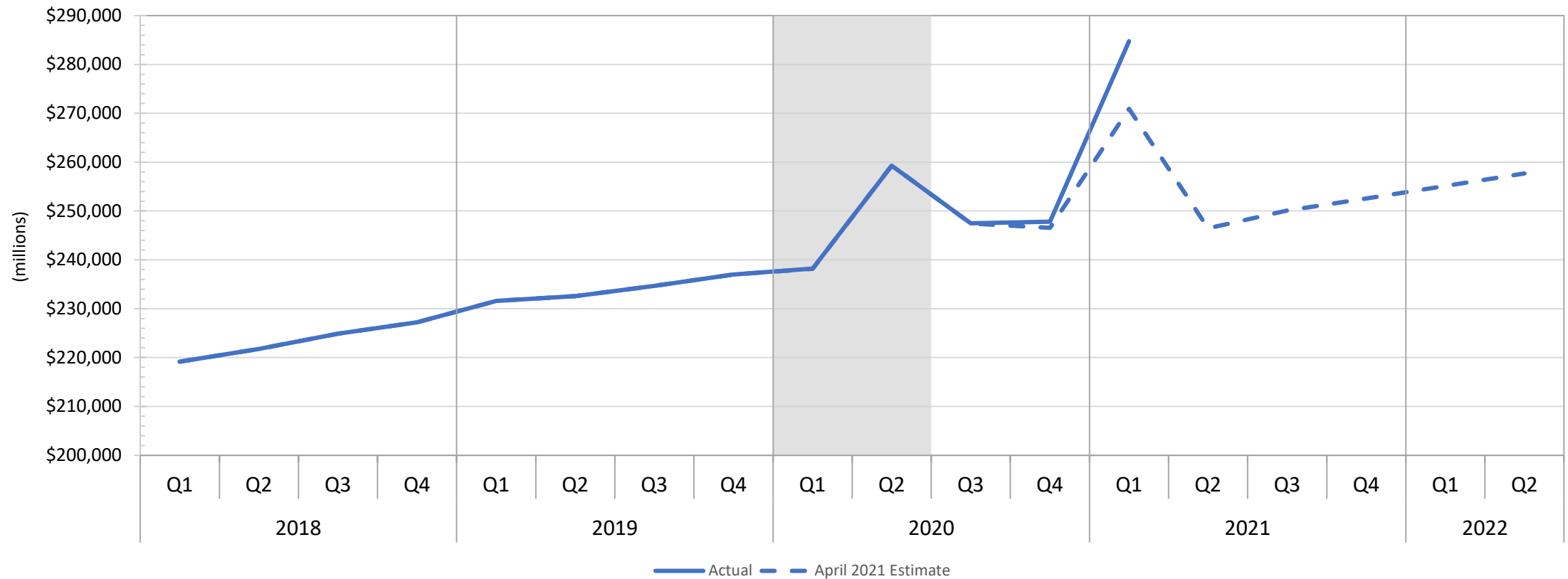
Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281a--RFA/bdc/9/20/2021



# SC Personal Income

Personal income spiked in Q1 of 2021 well above expectations, largely due to federal stimulus payments

SOUTH CAROLINA PERSONAL INCOME  
Actual and Estimate



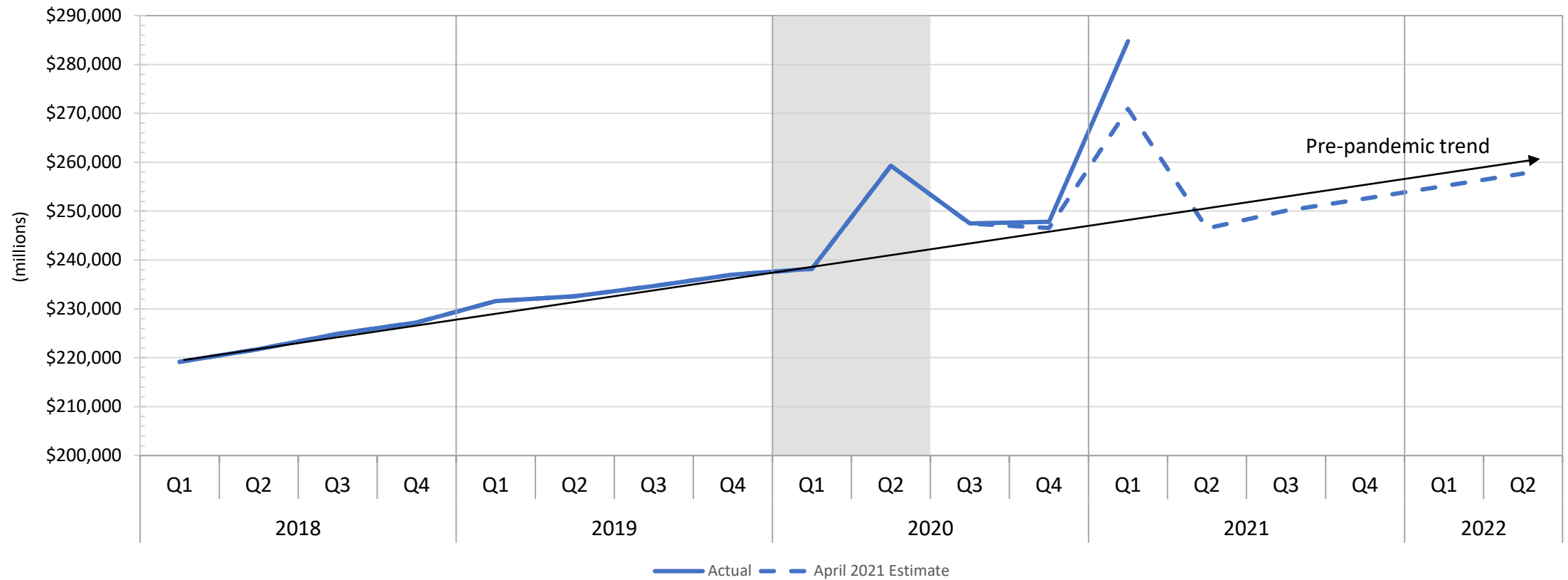
Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors



# SC Personal Income – Compared to Pre-pandemic Trend

Personal income spiked in Q1 of 2021 well above expectations, largely due to three federal stimulus payments

SOUTH CAROLINA PERSONAL INCOME  
Actual and Estimate



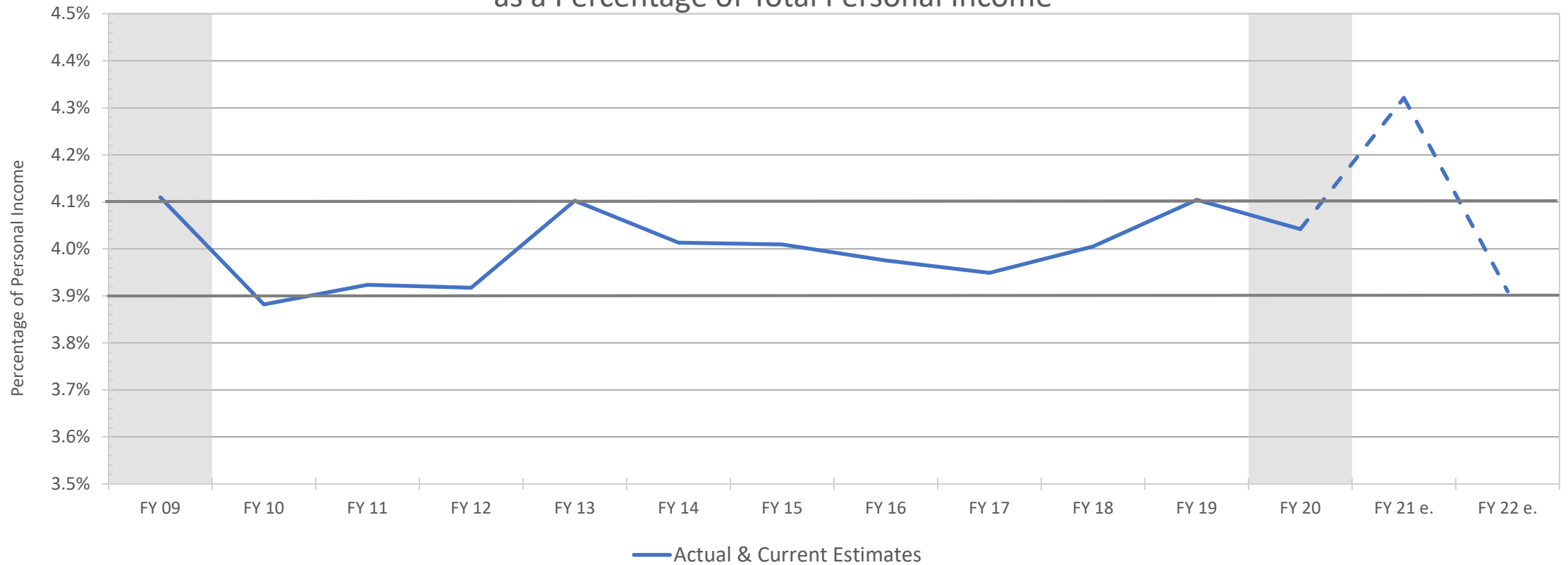
Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors



# General Fund Revenue as a Percentage of Personal Income

General Fund revenue for FY 21 is well above what would be expected based on estimated personal income

SOUTH CAROLINA GENERAL FUND REVENUE  
as a Percentage of Total Personal Income

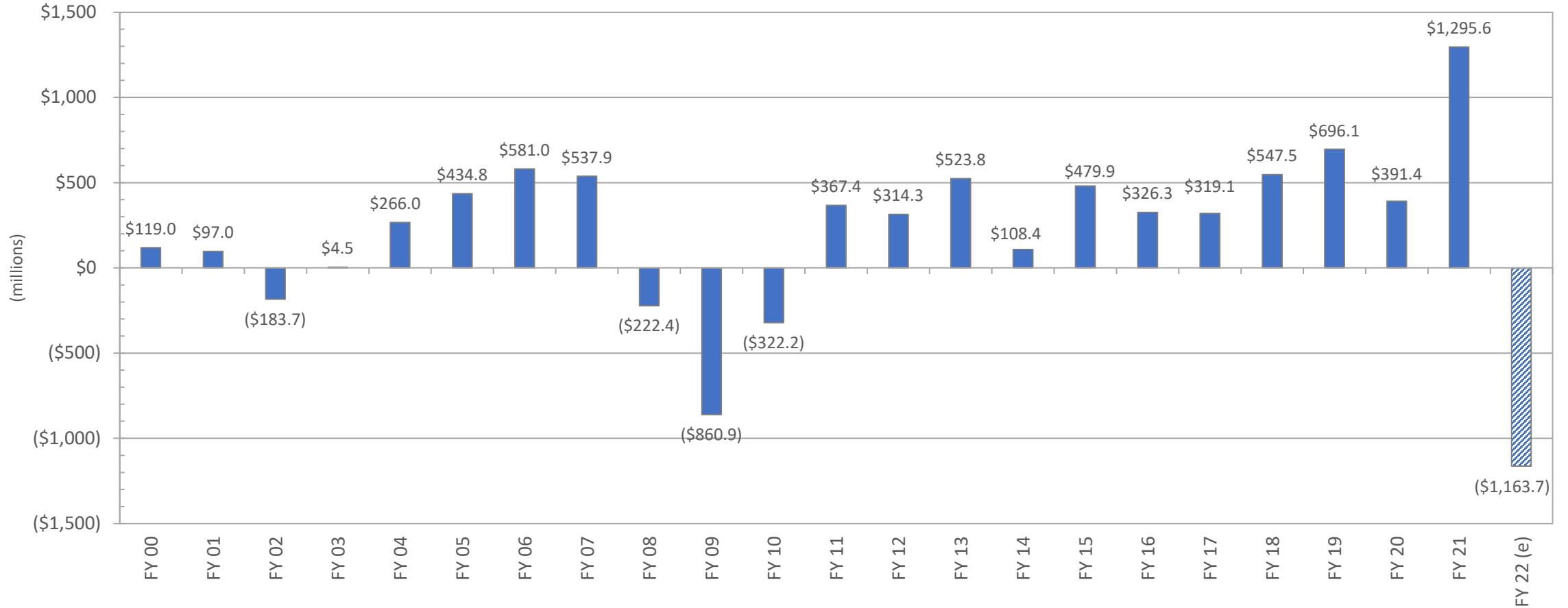


Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-LHJ/08/25/2021

# Annual General Fund Revenue Growth

## FY 22 estimate is a decline of \$1.164 billion from FY 21

ANNUAL GROWTH IN GENERAL FUND REVENUE



Source: Revenue and Fiscal Affairs - 169A/LHJ/08/27/2021

## Key Questions for FY 2021-22 and FY 2022-23

- How long does stimulus funding continue to affect revenues?
- How does personal income perform without stimulus?
- Can the natural economy replace the stimulus impact?
- Does consumer spending revert to historical patterns or is this a new normal?
- Is the COVID-19 resurgence going to cause further disruptions in supply chains and business growth?
- Does Federal Reserve policy change, and how does that affect growth?
  - Federal budget and debt ceiling remain an uncertainty

# Insights and Perspectives FY 2021-22 and FY 2022-23



# Reports from Working Group Members

# Other Items for Discussion