

# **SOUTH CAROLINA GENERAL FUND REVENUE**

## **Quarterly Review July to September FY 2021-22**

October 14, 2021



# 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

# General Fund Revenue



## REVENUES V. BEA MONTHLY ESTIMATES

JULY - SEPTEMBER FY 2021-22

(\$ in Millions)

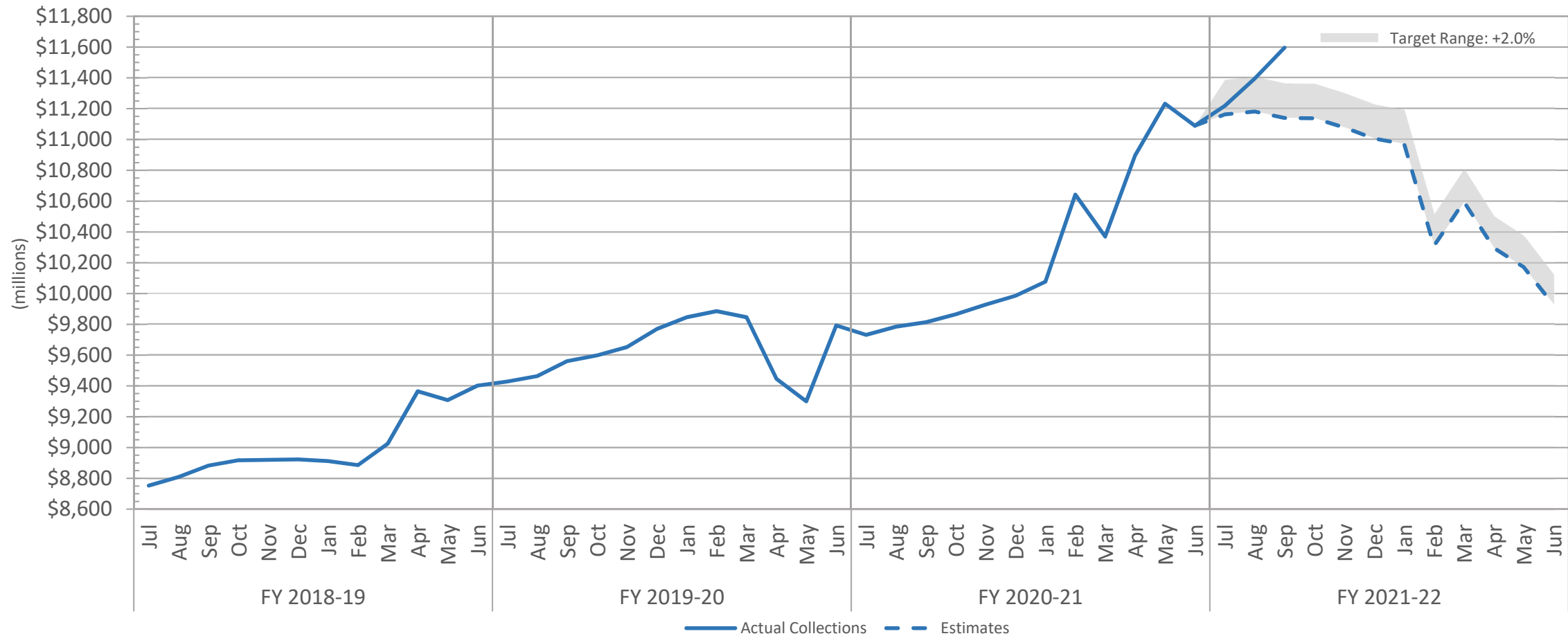
	Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD		Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD
<b>Total General Fund Revenue</b>	<b>\$2,876.1</b>	<b>\$2,418.7</b>	<b>\$457.4</b>	<b>(10.5%)</b>	<b>21.5%</b>	Other Revenue Items, Sub-Total	\$149.6	\$107.6	\$42.0	(12.6%)	29.0%
Sales Tax	740.2	607.7	132.5	(10.6%)	23.7%	Admissions Tax	1.6	(0.7)	2.2	4.1%	N/A
Individual Income Tax	1,710.0	1,536.3	173.7	(6.6%)	19.9%	Alcoholic Liquors Tax	18.7	13.0	5.7	(13.5%)	20.3%
Withholdings	1,555.0	1,409.0	146.0	(0.8%)	10.6%	Bank Tax	14.0	5.6	8.4	(54.2%)	154.6%
Nonwithholdings	290.8	252.1	38.7	(16.1%)	(2.9%)	Beer and Wine Tax	21.0	21.0	0.0	(1.2%)	0.3%
Refunds	135.9	124.9	11.0	2.3%	(51.5%)	Corporate License Tax	14.0	10.3	3.7	(31.7%)	(7.4%)
Corporate Income Tax	204.6	103.7	100.8	(30.4%)	52.4%	Deed Rec. (Doc. Tax)	25.2	16.8	8.3	(25.6%)	44.5%
Insurance Tax	71.8	63.4	8.4	(12.6%)	(22.6%)	Earnings on Investments	22.7	19.3	3.5	13.6%	34.1%
Other Revenue Items, Sub-Total	149.6	107.6	42.0	(12.6%)	29.0%	Residual Revenue	32.4	22.3	10.1	(18.6%)	29.4%

Based on BEA Forecast as of April 08, 2021

# Total General Fund - Actual vs. Estimate

## Collections are running \$457.4m ahead of the forecast

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



## General Fund First Quarter Summary

- Total General Fund Revenue for FY 22 has grown by 21.5% over last fiscal year and is above the April forecast by \$457.4m
- Sales tax has grown 23.7% year-to-date and is running \$132.5m ahead
- Individual Income tax is ahead by \$173.7m, largely due to strong Withholdings growth of 10.6% year-to-date
- Corporate Income tax is \$100.8m ahead of the forecast
- Earnings on Investments are \$3.5m ahead of the estimate, and Insurance tax is currently \$8.4m ahead

# General Fund Revenue Individual Income Tax Components



# Individual Income Taxes

## Key Issues FY 2020-21

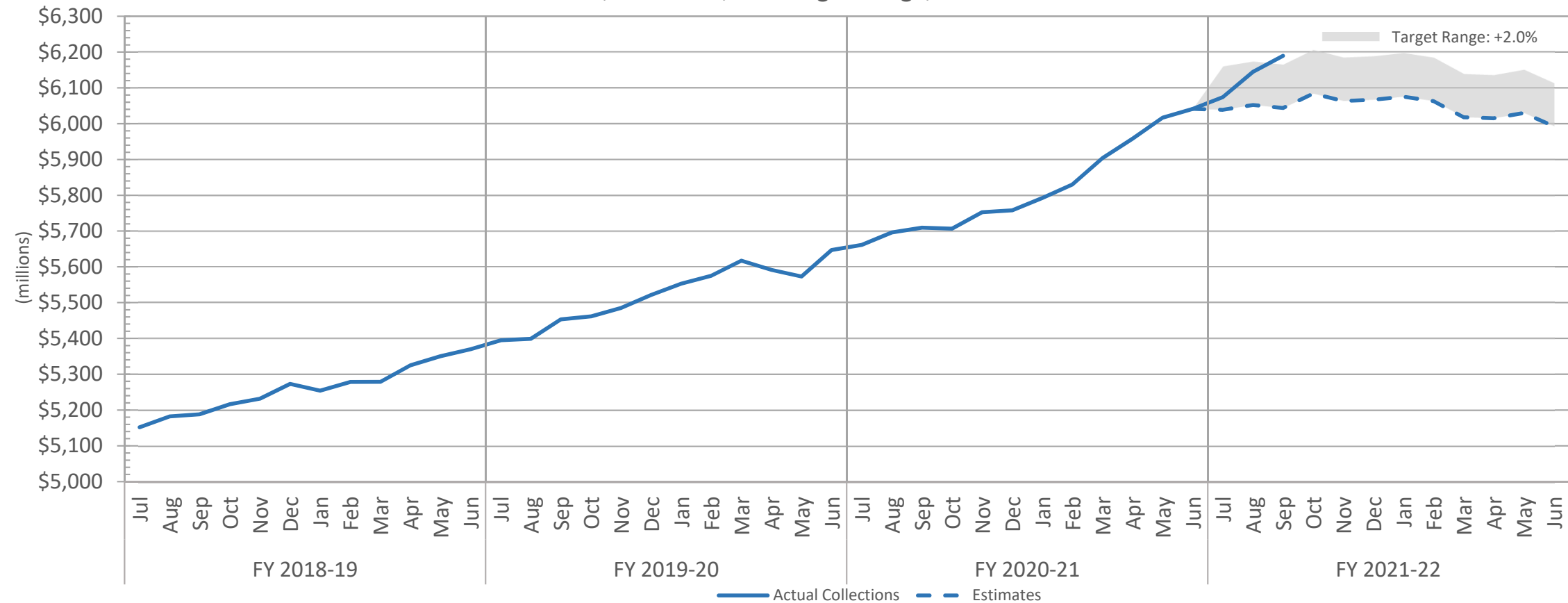
- Total Individual Income tax growth has exceeded expectations
  - After correcting for disruptions to the pattern, FY 22 growth is approximately 13%
- Wage growth has continued despite fluctuations in the labor force
- Increased self-employment activity and financial market activity has driven Non-Withholdings growth
- Refunds continue to be in line with the estimate, but too early to tell
  - May increase if low-wage employment returns

# Withholdings - Actual vs. Estimate

Withholdings are up 10.6% cumulatively and up \$146.0 million over the estimate

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

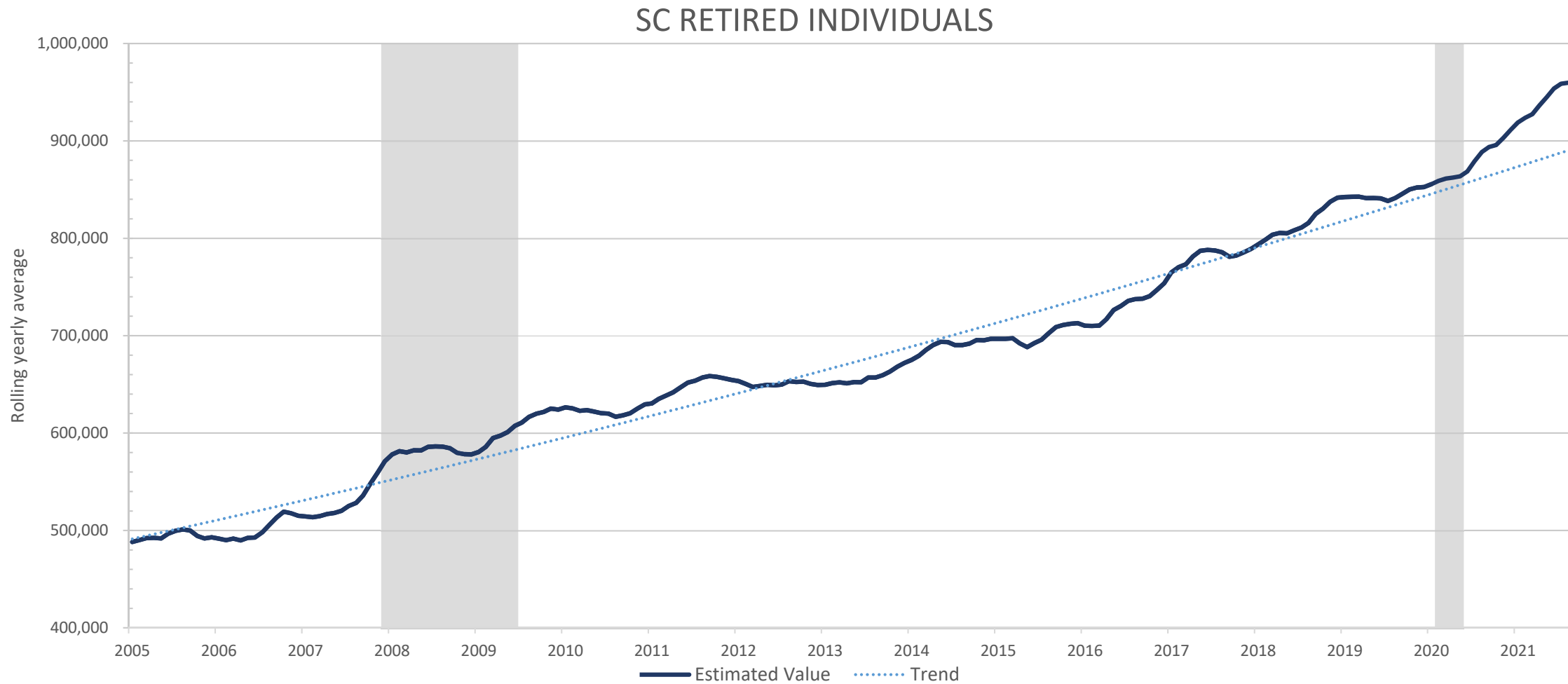
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22





# SC Retired Population

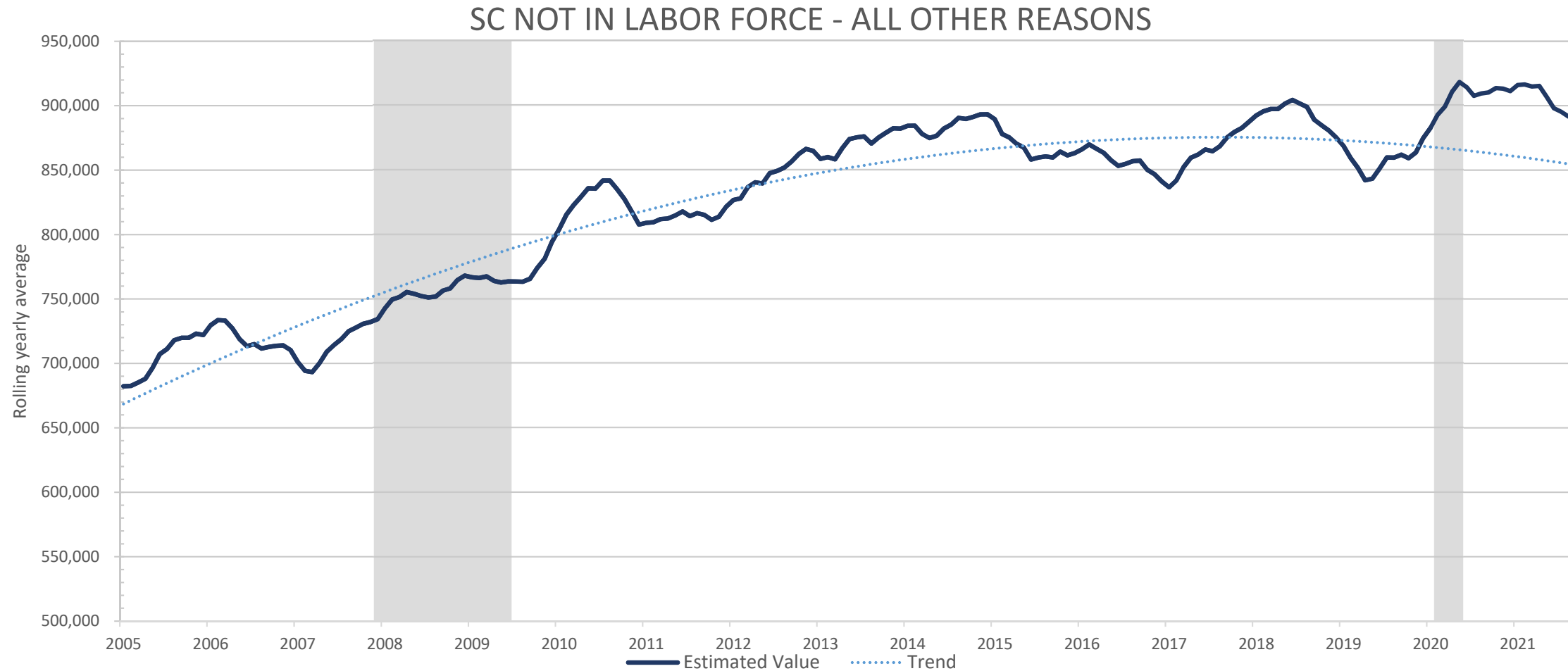
South Carolina retirement levels have jumped during the pandemic



Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021 - RFA/bdc/10/08/2021

# SC Individuals not in Labor Force - All Other Reasons

Individuals exited the labor force during the pandemic for other reasons, but they have begun to return

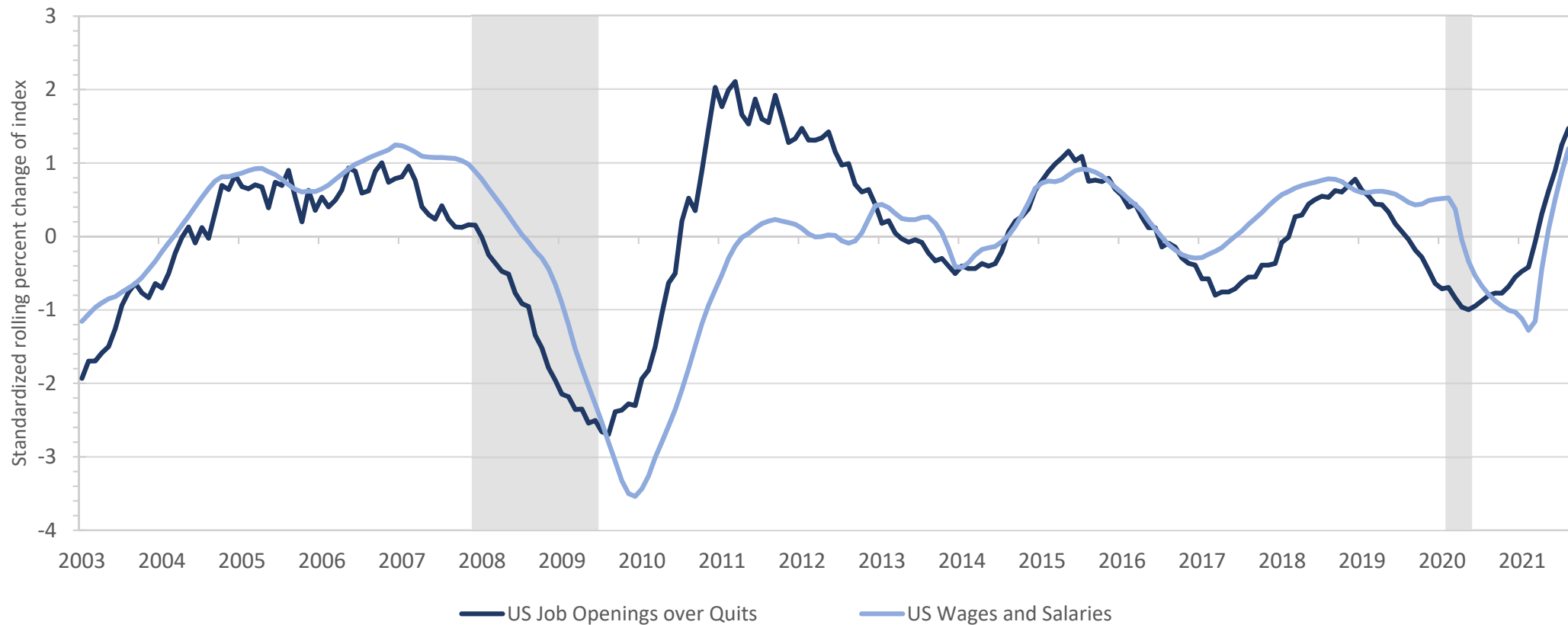


Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021 - RFA/bdc/10/08/2021

# Wages & the Labor Market

## The labor shortage is driving growth in wages

US WAGES VS. JOB OPENINGS/QUILTS



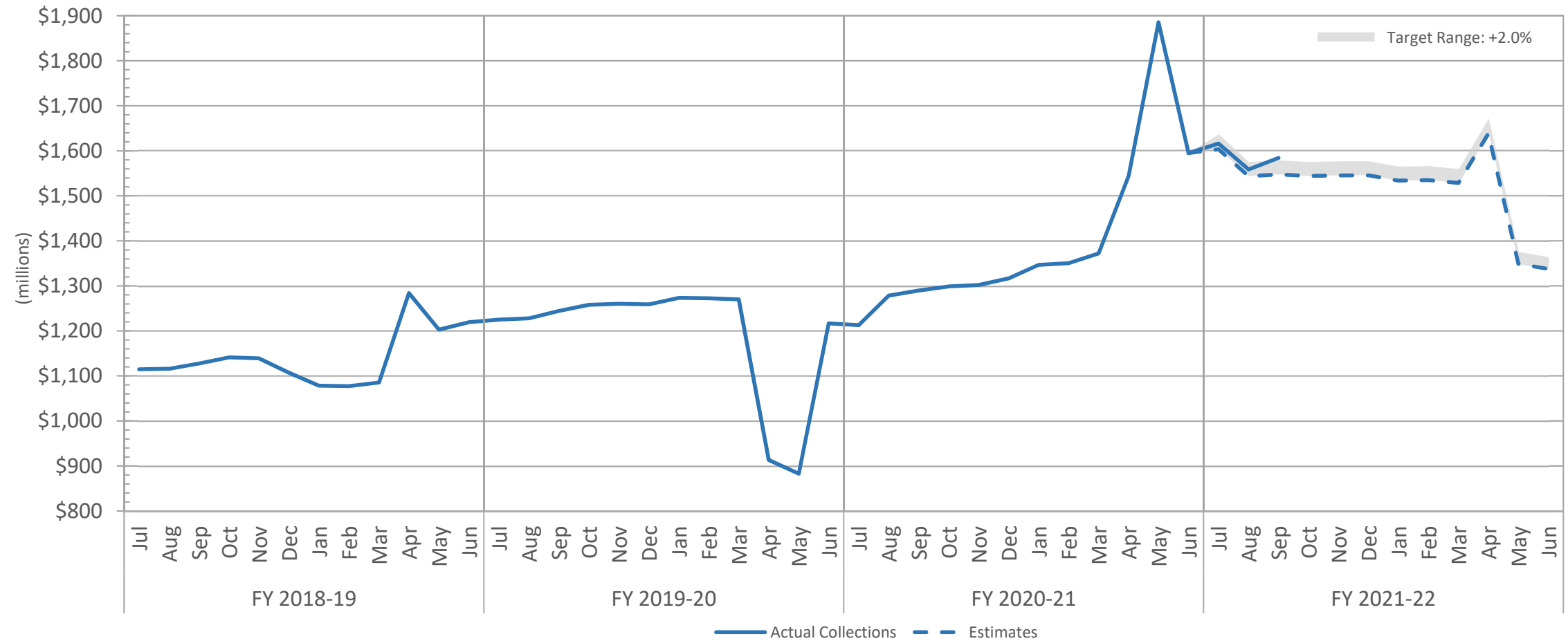
U.S. Bureau of Economic Analysis, Compensation of Employees, Received; U.S. Bureau of Labor Statistics, JOLTS- RFA/bdc/10/13/2021

# Non-Withholdings - Actual vs. Estimate

Collections are currently above the estimate by \$38.7 million after the first quarter

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

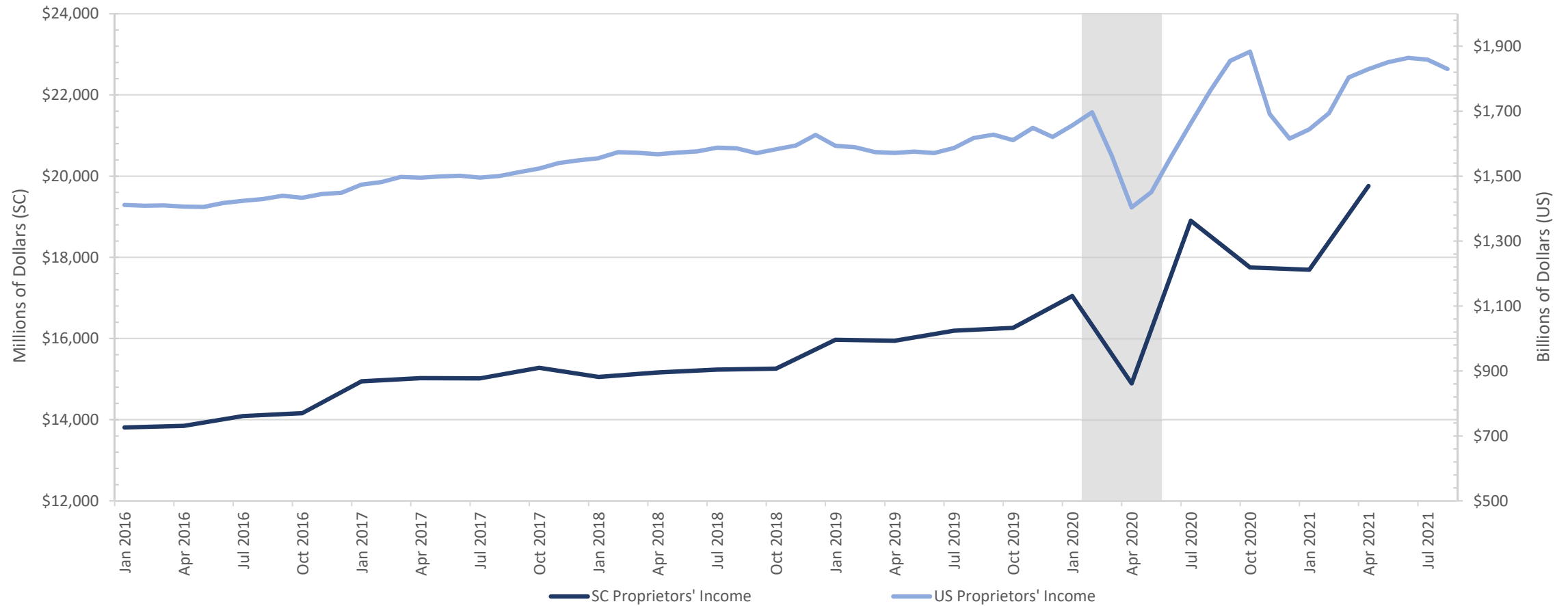
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Proprietors' Income

Proprietors' Income has fluctuated but remained elevated throughout the pandemic

### US AND SC PROPRIETORS' INCOME

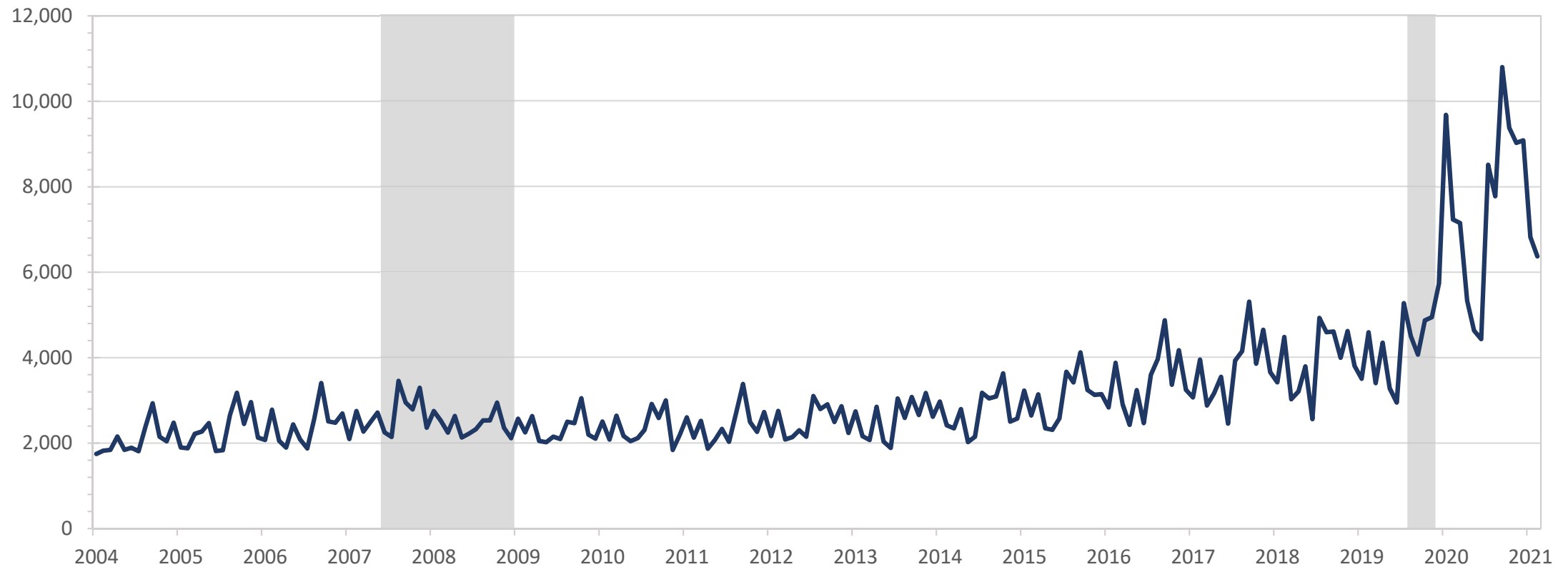


U.S. Bureau of Economic Analysis, Proprietors' Income - RFA/bdc/10/06/2021

# SC Business Applications

Business applications in SC have reached new levels during the pandemic, which may have paved the way for a permanently higher base of Non-Withholdings

SC BUSINESS APPLICATIONS EXCLUDING CORPORATIONS

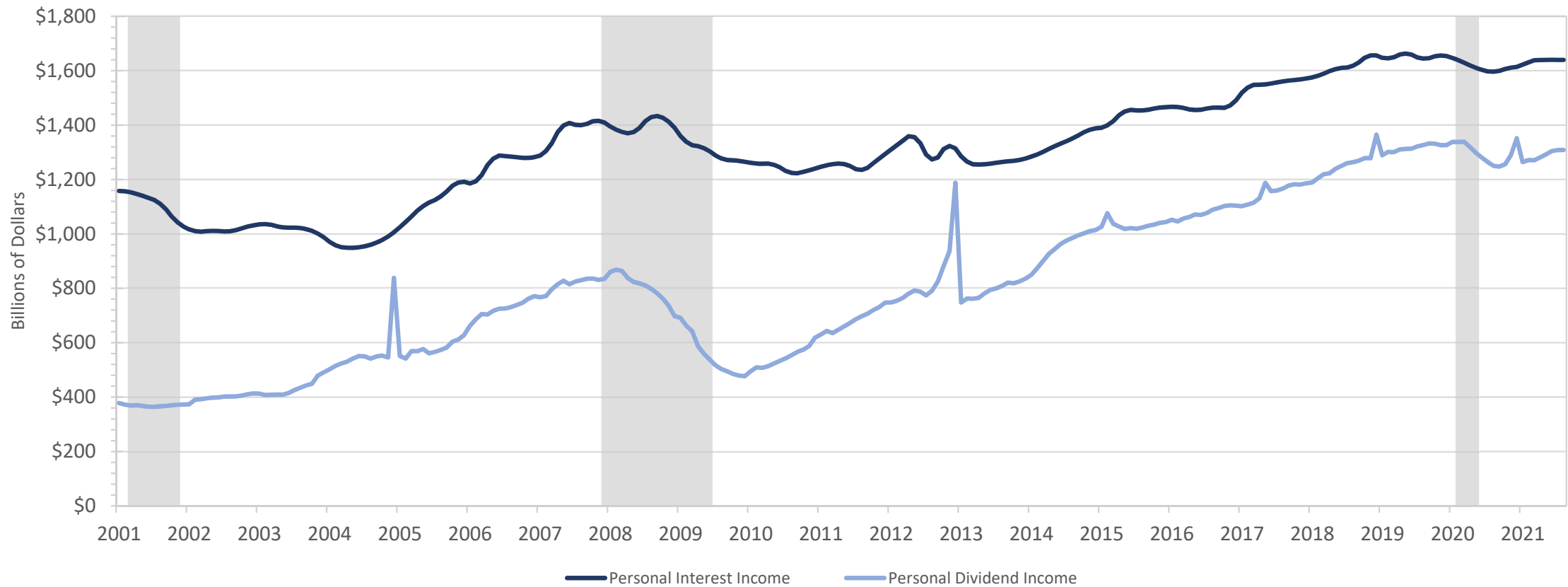


U.S. Census Bureau, Business Applications for South Carolina - RFA/bdc/10/06/2021

# US Interest and Dividend Income

Interest and dividend income stayed relatively flat during the pandemic

### US PERSONAL INTEREST AND DIVIDEND INCOME



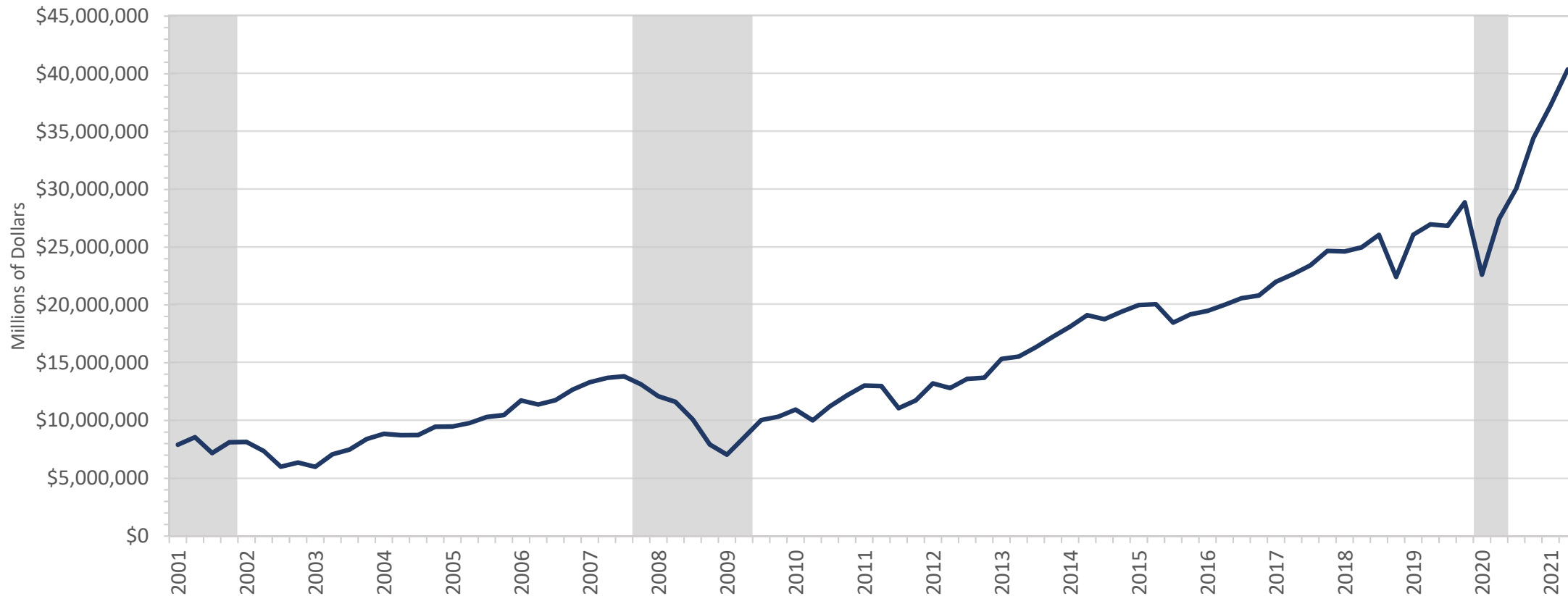
U.S. Bureau of Economic Analysis, Personal Income and Outlays - RFA/bdc/10/06/2021



# US Household Investment

Increased investment participation and overall returns contributed to Non-Withholdings growth in the past year

US HOUSEHOLD VALUE OF CORPORATE EQUITIES AND MUTUAL FUND SHARES



Board of Governors of the Federal Reserve System, Financial Accounts of the United States - RFA/bdc/10/06/2021

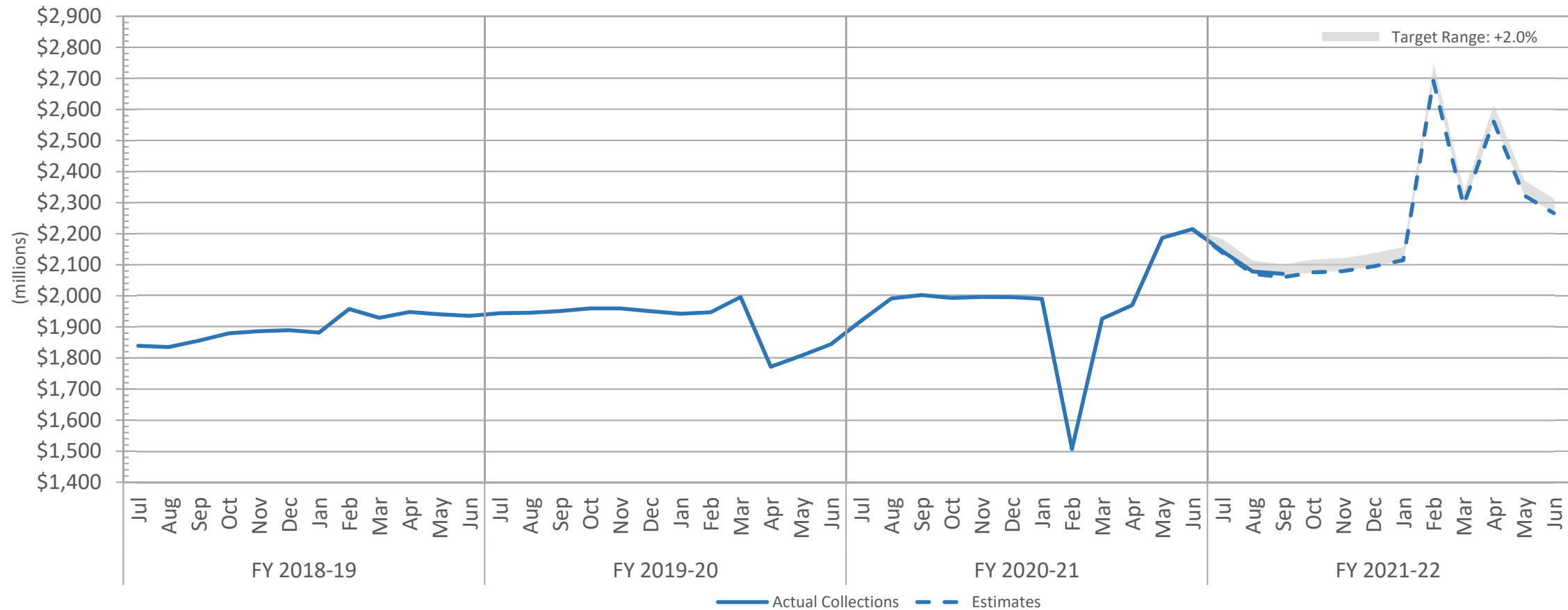




# Refunds - Actual vs. Estimate

Refunds are above the estimate by \$11.0 million, but around 5% of the yearly total is processed during the first quarter

ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22

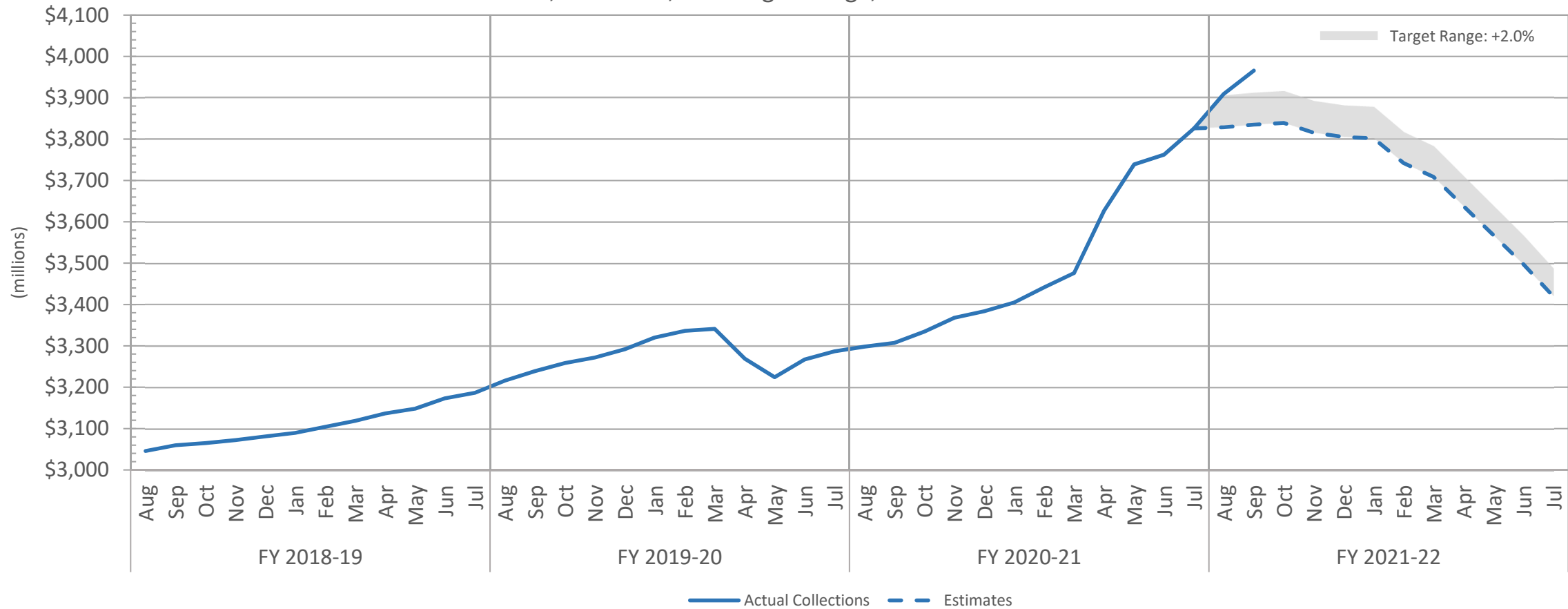


# General Fund Revenue Consumption Taxes

# Sales Tax - Actual vs. Estimate

Strong collections continue into September, with **19.7%** growth year over year

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



# Consumption Taxes

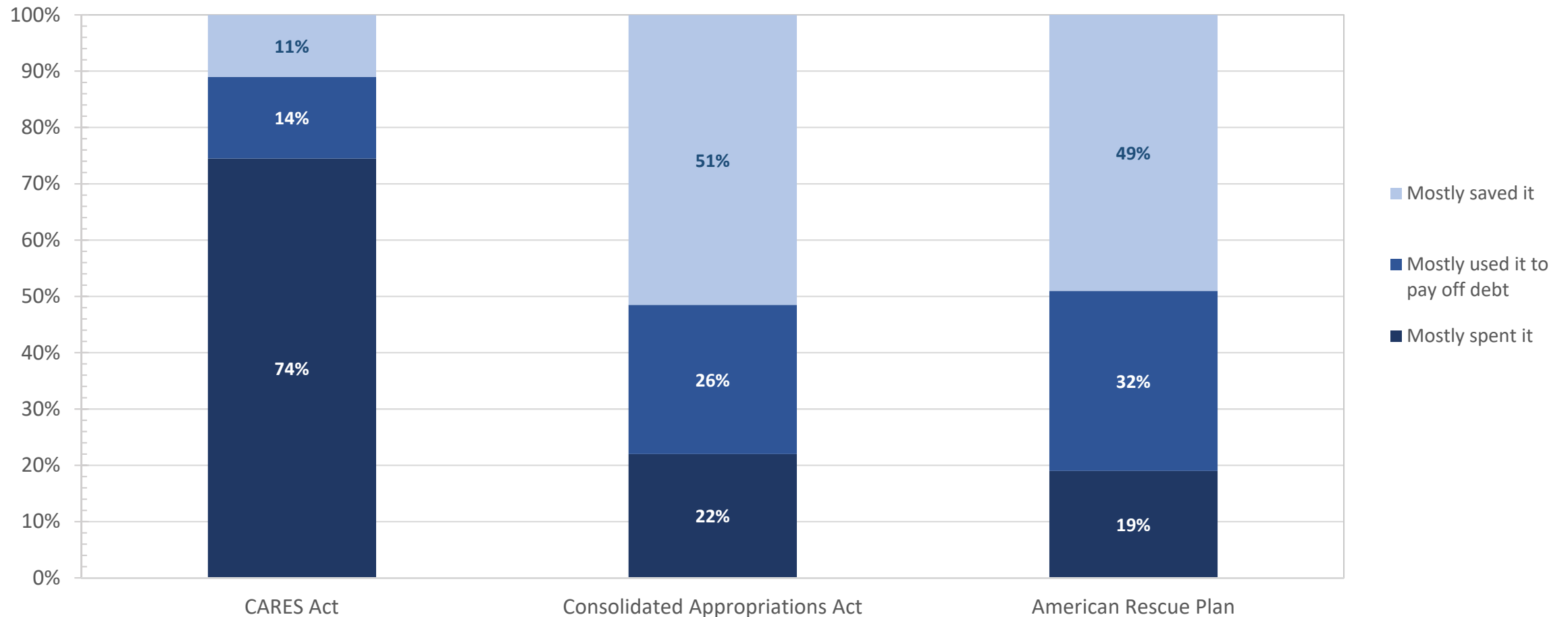
## Key Issues FY 2020-21

- FY 22 growth continues to exceed expectations, even with higher growth built in for the first 6 months
- Stimulus payments increased capacity to spend
  - Personal saving rates continue to be elevated
  - Debt service payments are below historic levels
  - Disposable income is high
- As this increased capacity wanes, we'll see moderated growth rates
  - Likely negative in the spring

# Stimulus Payments

## Households were more likely to spend their first federal stimulus check and save or pay off debt with second and third payments

REPORTED USE OF STIMULUS FUNDS

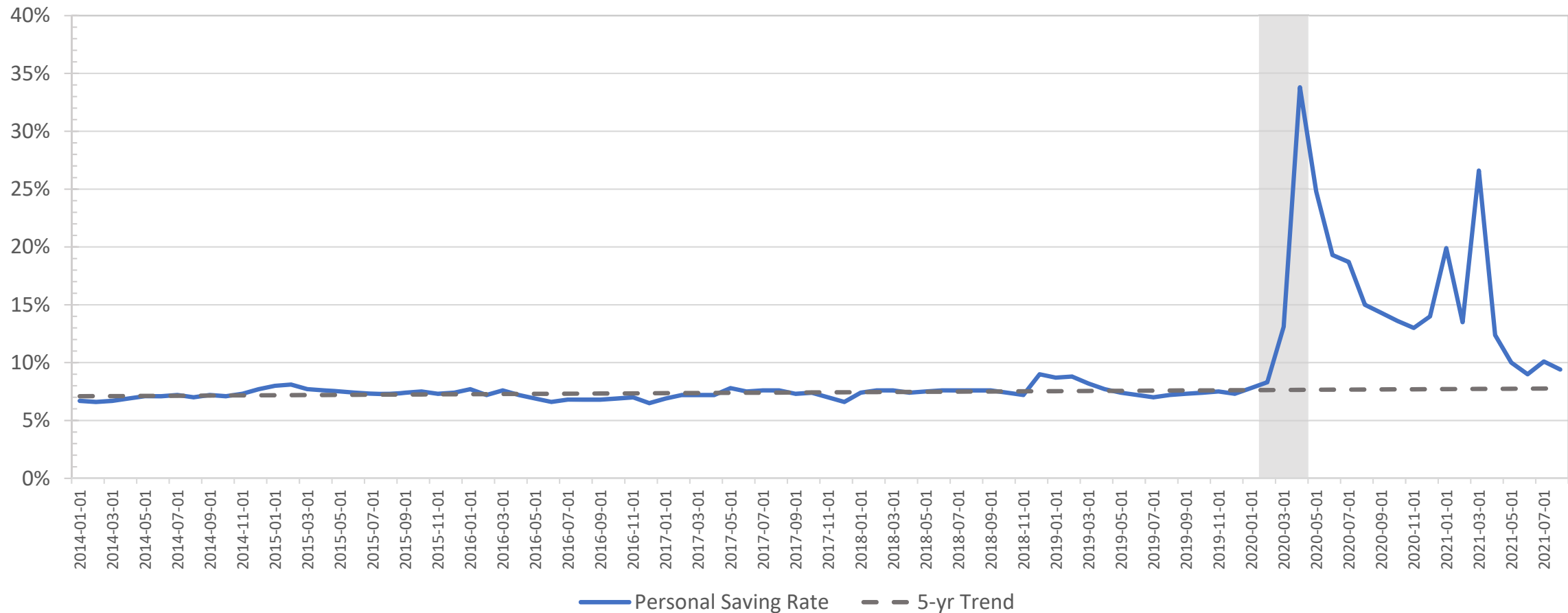


Source: United States Census Bureau, Household Pulse Survey, RFA/nmg/10/06/2021

# Savings

## Personal saving rate spikes coincide with stimulus payments, with current rate elevated over the 5-yr trend

PERSONAL SAVING RATE

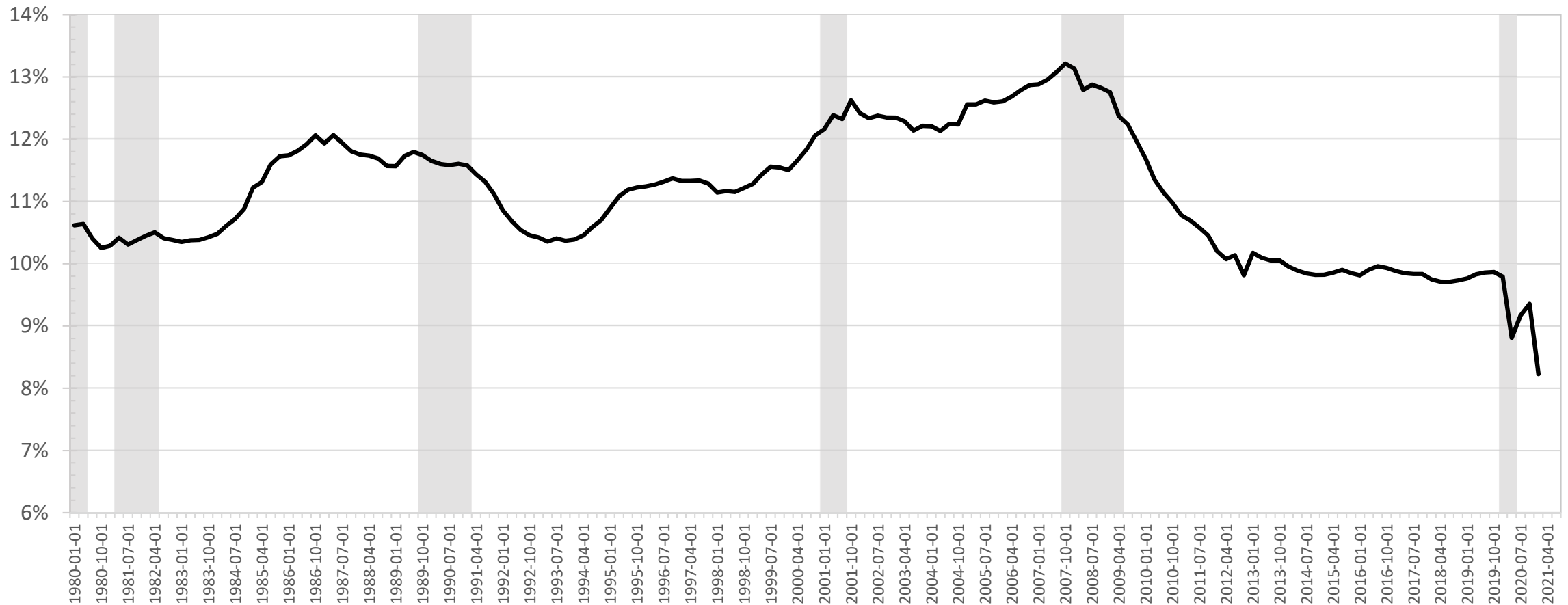


Source: U.S. Bureau of Economic Analysis, Personal Saving Rate RFA/nmg/10/06/2021

# Debt Service

Debt service payments as a percentage of disposable income are at their lowest point since the beginning of the series in 1980

DEBT SERVICE PAYMENTS

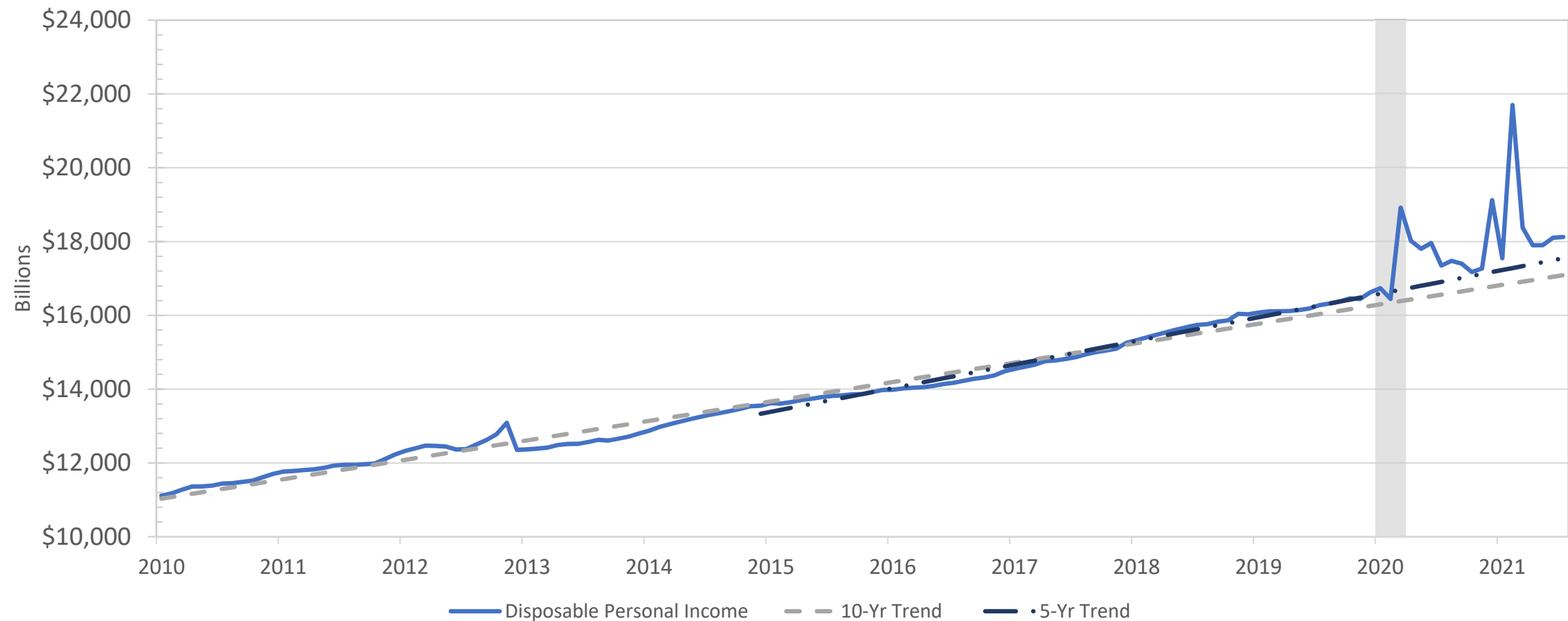


Source: Board of Governors of the Federal Reserve System, Household Debt Service Payments as a Percent of Disposable Personal Income RFA/nmg/10/06/2021

# Disposable Income

US disposable income has settled following stimulus, but continues to be above trend

US DISPOSABLE INCOME



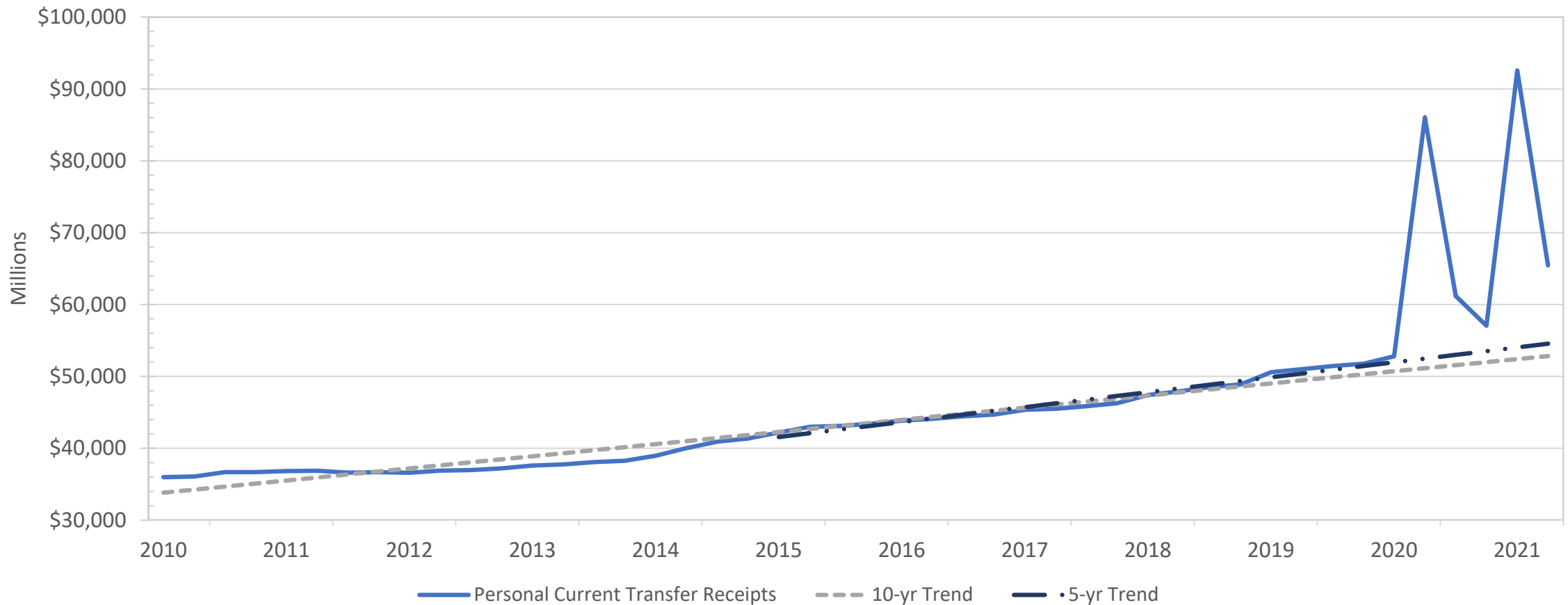
Source: U.S. Bureau of Economic Analysis, Personal Income and Its Disposition RFA/nmg/10/07/2021



# Transfer Receipts

## Personal Current Transfer Receipts are driving higher personal income growth

### SOUTH CAROLINA PERSONAL CURRENT TRANSFER RECEIPTS



Source: U.S. Bureau of Economic Analysis, Personal Current Transfer Receipts [SQINC35] RFA/nmg/10/07/2021

## Other Consumption Taxes

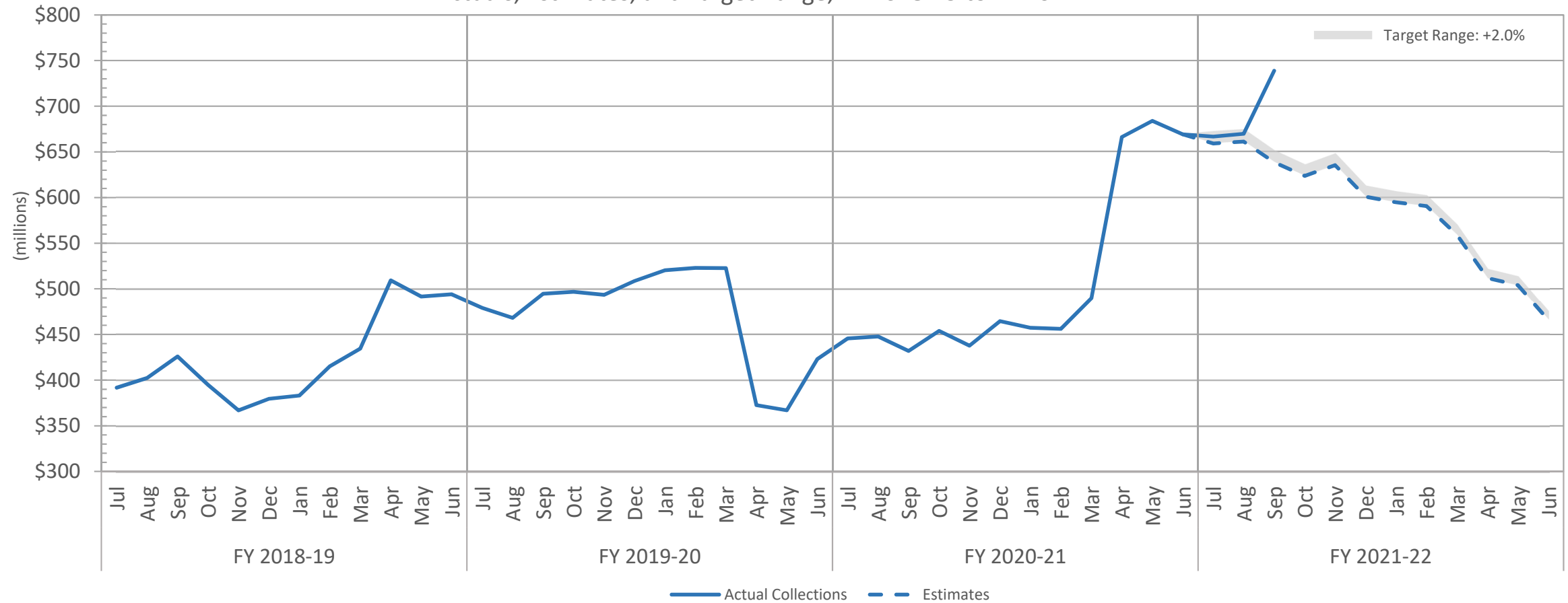
- Alcoholic Liquor collections are running ahead of the estimate by \$5.7 million
  - Collections likely to exceed estimate
- Beer and Wine collections are exactly in line with the estimate
- Deed Recording Fees are ahead of the estimate by \$8.3 million
  - Collections likely to exceed estimate

# General Fund Revenue Business Taxes

# Corporate Income Tax – Actual vs. Estimate

## First quarter collections are a total of \$100.8m above the forecast

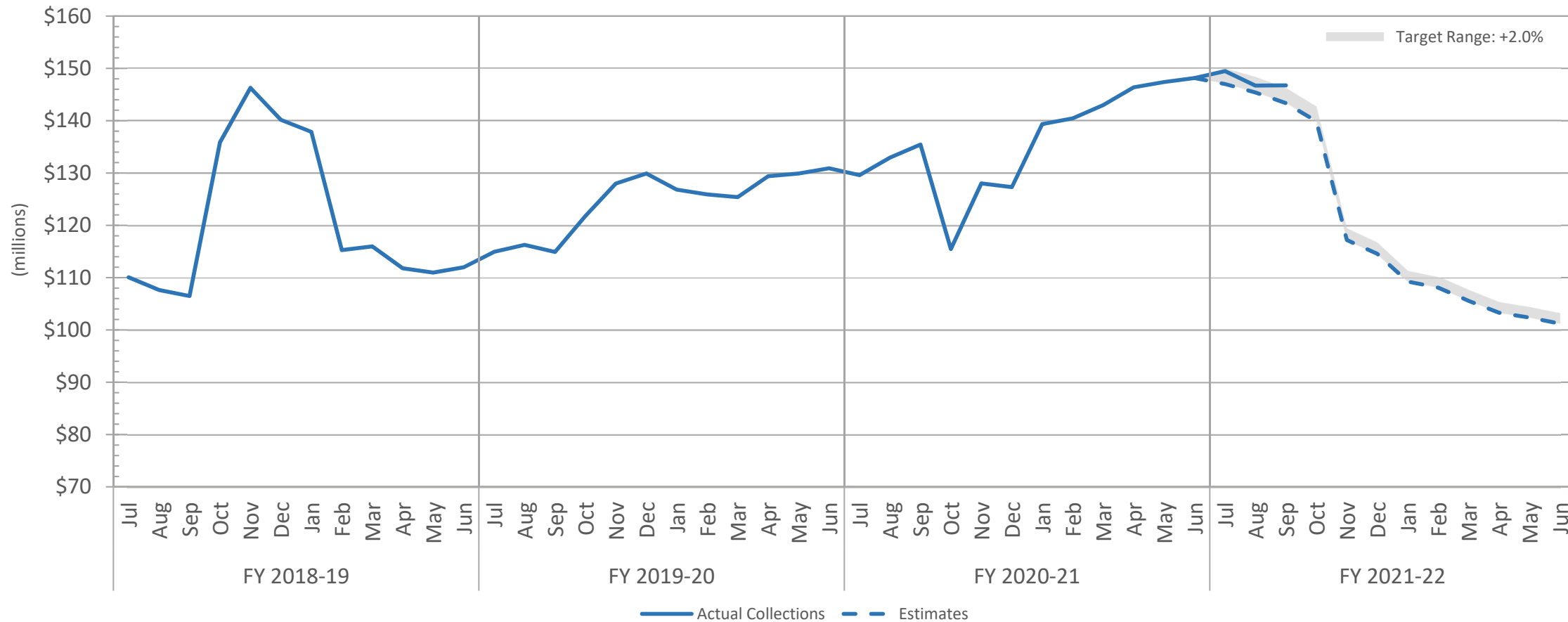
ROLLING FISCAL YEAR - CORPORATE INCOME TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Corporate License Tax – Actual vs. Estimate

## Collections are \$3.7m above the forecast

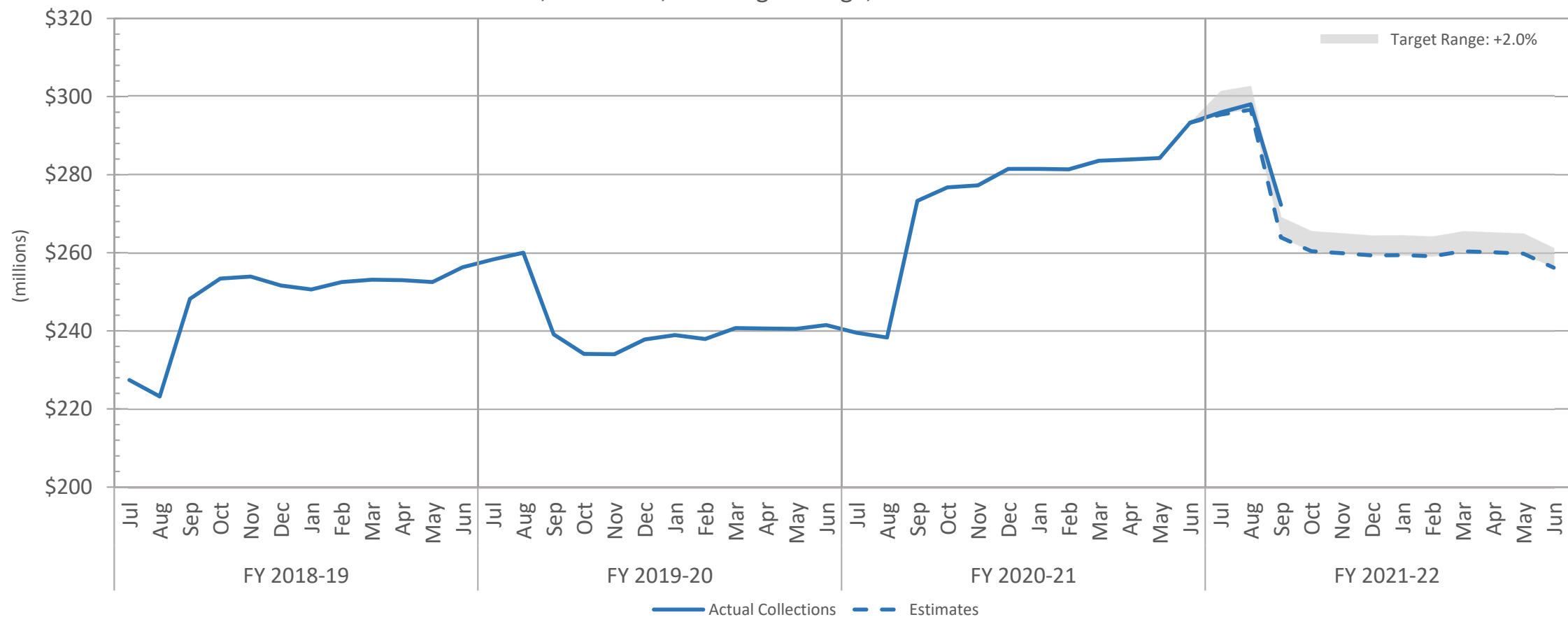
ROLLING FISCAL YEAR - CORPORATE LICENSE TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Insurance Tax – Actual vs. Estimate

## Insurance tax is \$8.4 m above the quarterly estimate

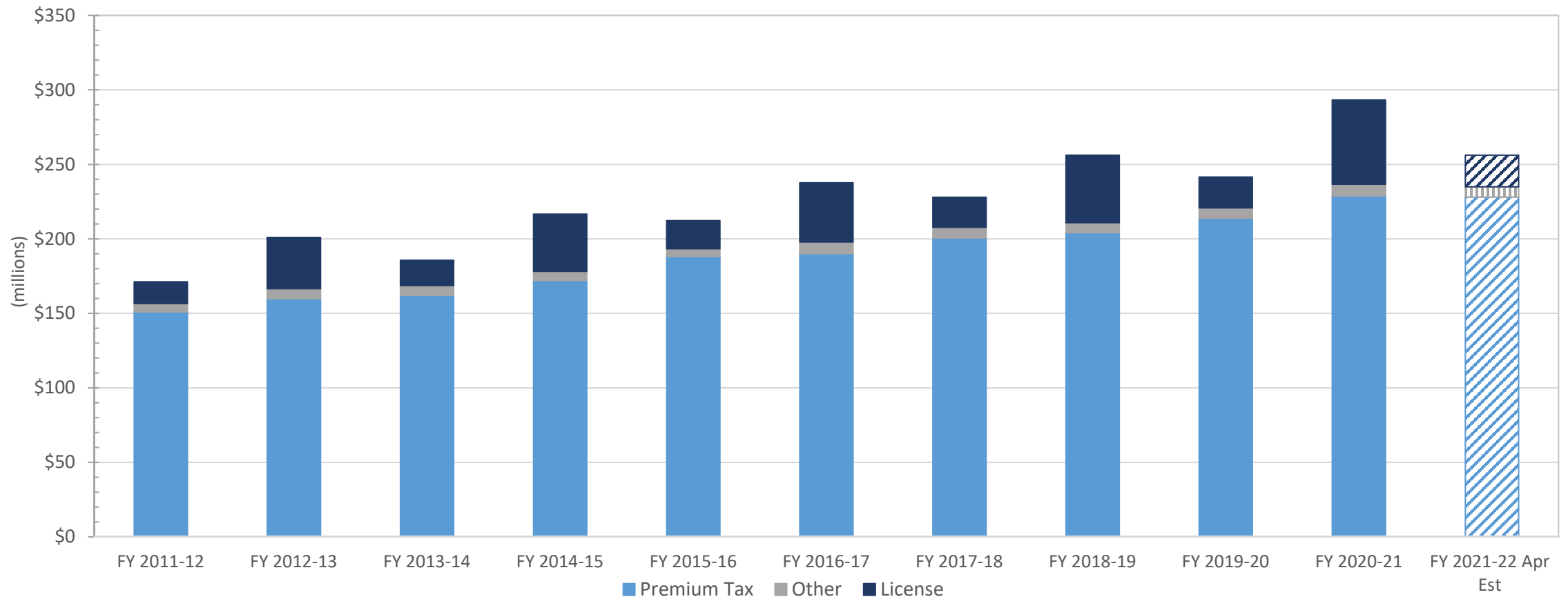
ROLLING FISCAL YEAR - INSURANCE TAX  
Actuals, Estimates, and Target Range, FY 2018-19 to FY 2021-22



# Insurance Tax Components

Premium tax growth has been relatively stable and will likely exceed the current estimate

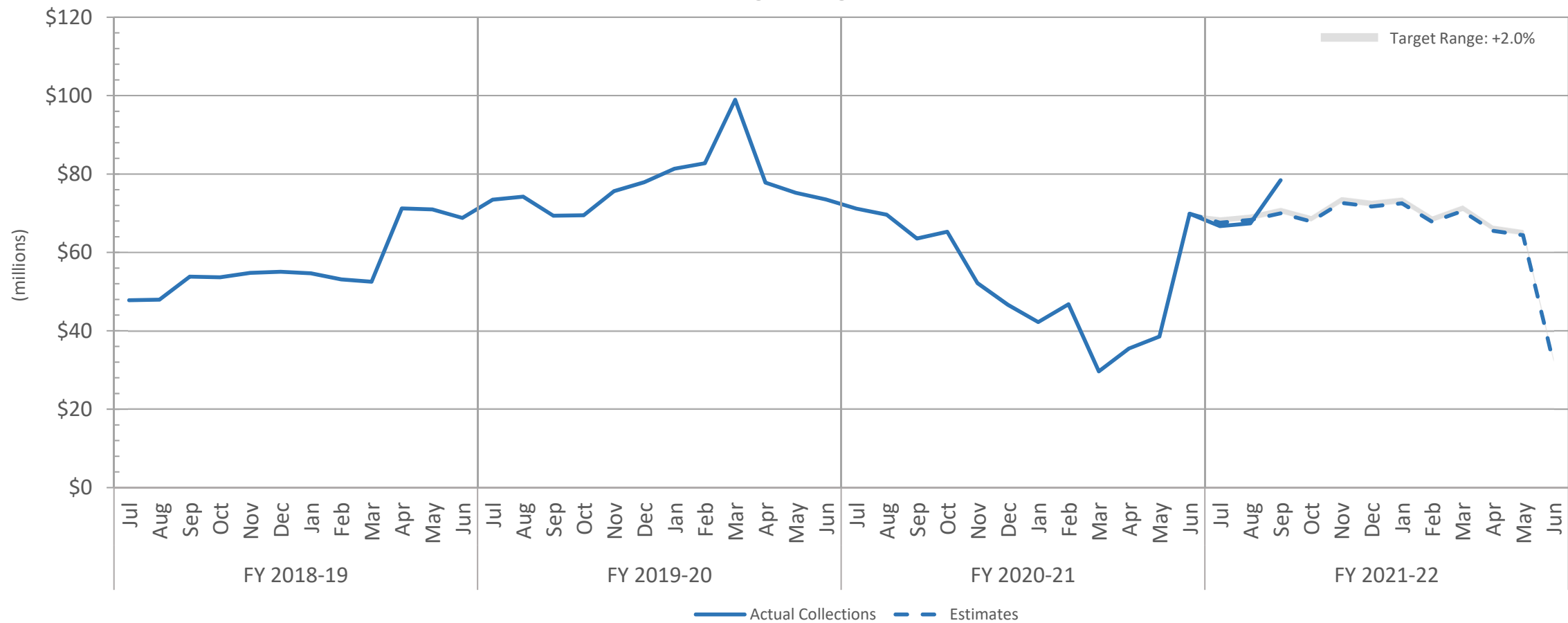
INSURANCE TAX BY COMPONENT  
Actuals and Estimates



# Bank Tax – Actual vs. Estimate

Quarterly collections are above forecast by \$8.4 m

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



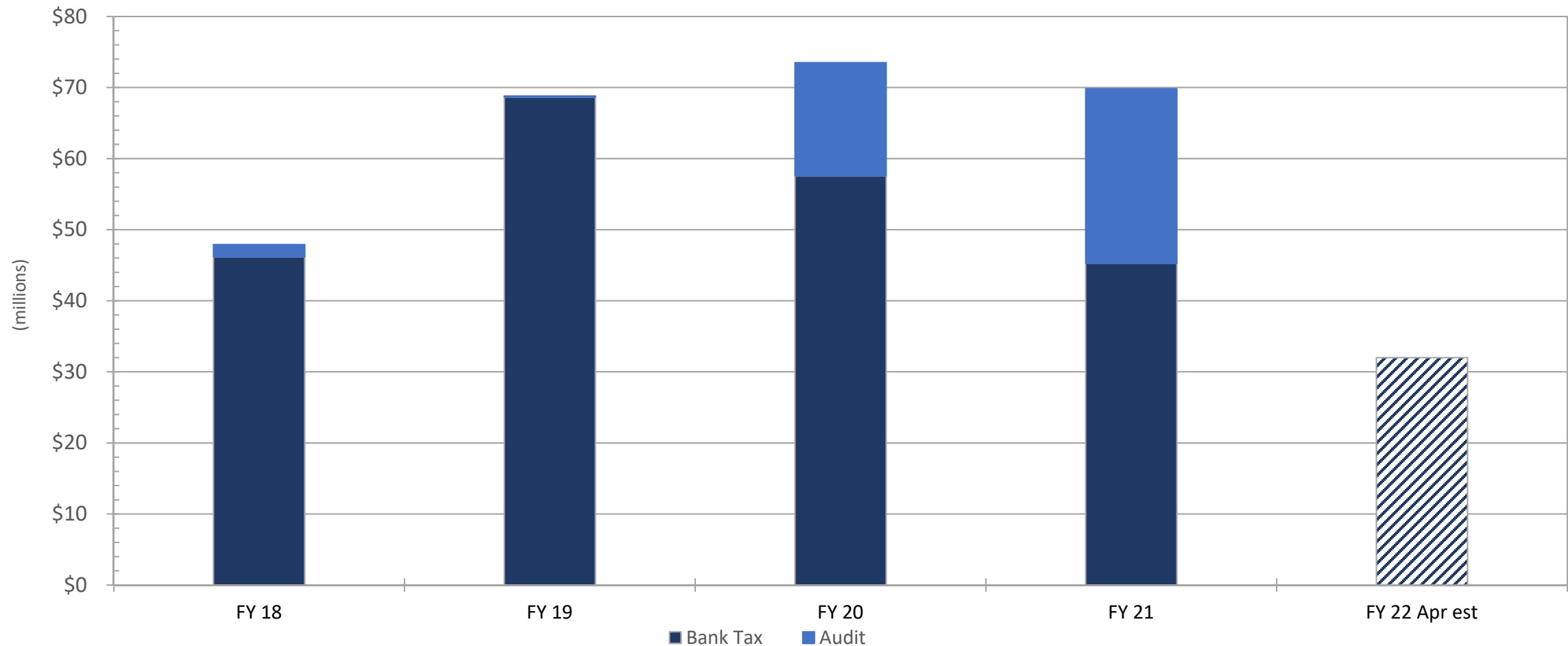


# Bank Tax and Audit Revenue

## Audits significantly contributed to revenue in FY 20 and FY 21

BANK TAX BY COMPONENT

Actual Collections and Estimates



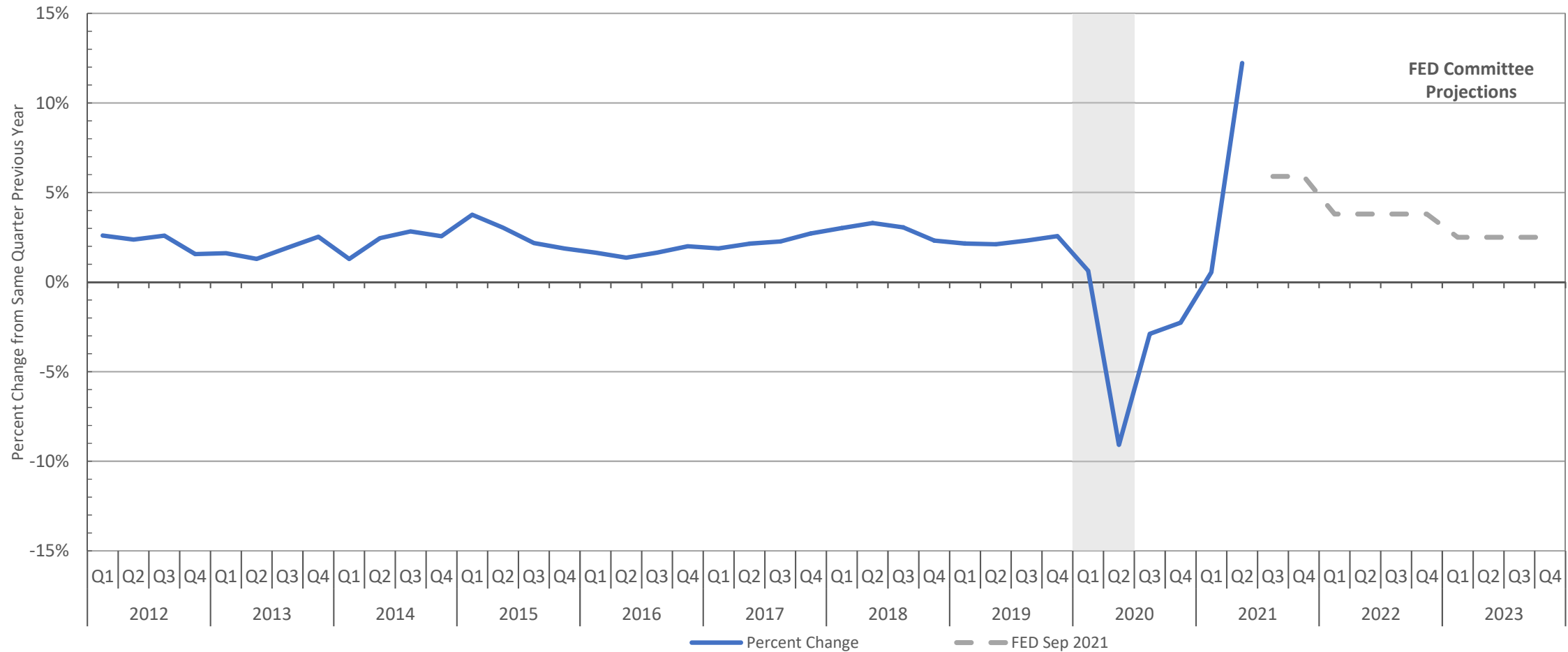
# National Economic Indicators



# Real GDP Growth

US GDP growth is expected to slow over the next 2 years but remain positive

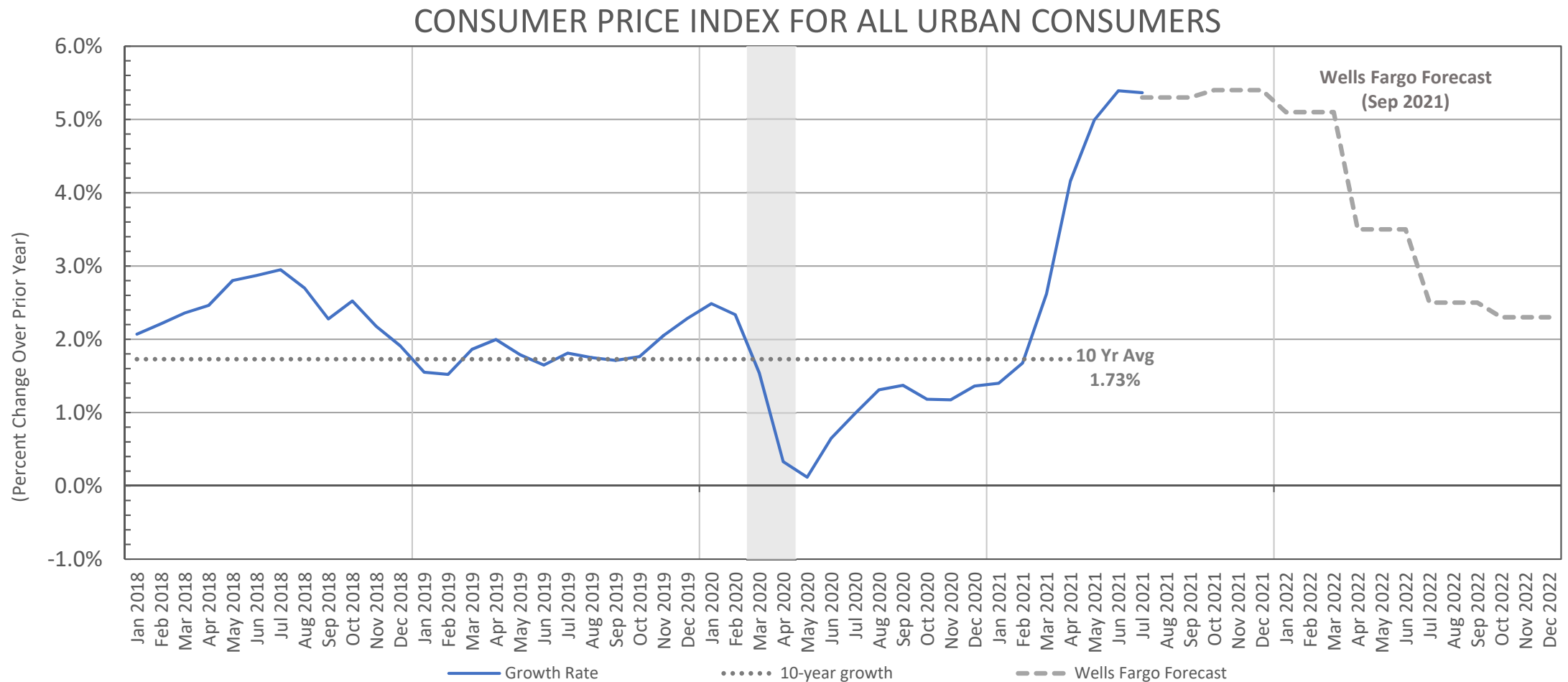
QUARTERLY U.S. REAL GDP GROWTH - Actuals and Estimates



Source: U.S. Dept. of Commerce, Bureau of Economic Analyses; Federal Reserve Open Market Committee, Sep 2021 RFA/lhj/266/9/30/2021

# Inflation

Temporary supply issues are raising prices for energy, food, and other items and driving the increase in inflation, which reached 5.3% YTD for August; without food and energy, inflation is 4.0%

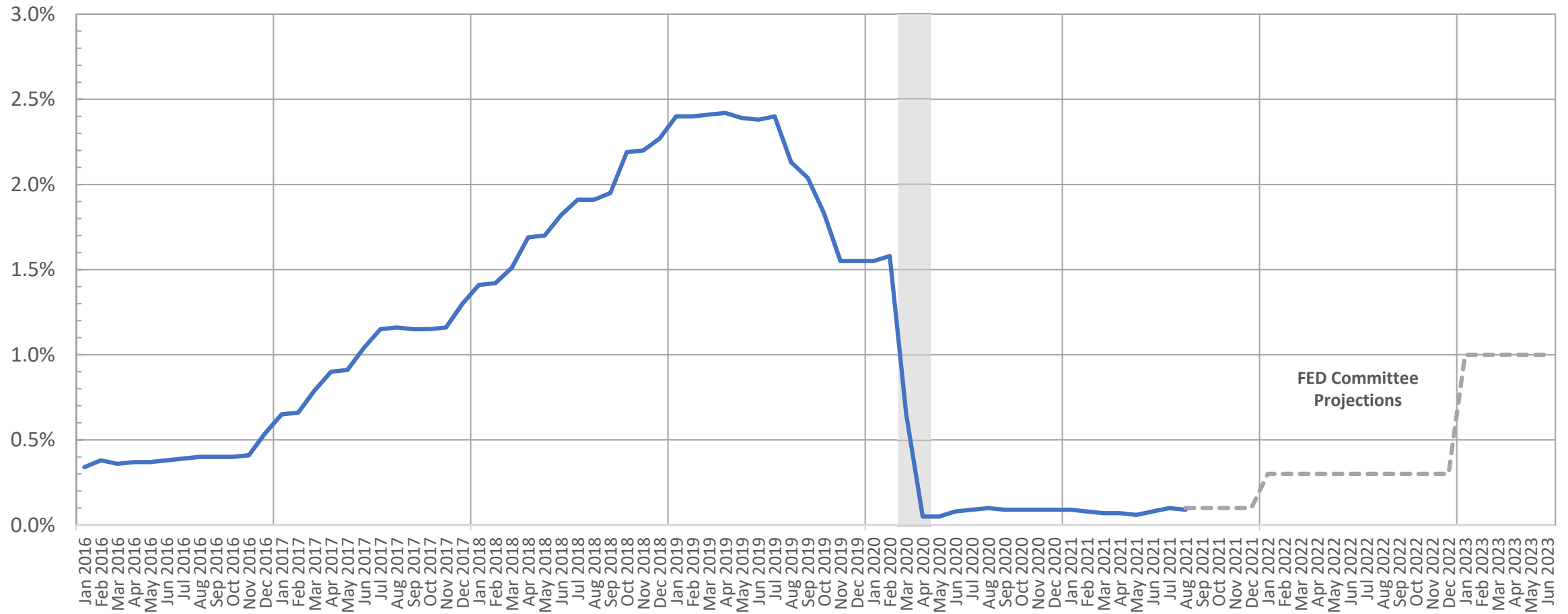


Source: U.S. Department of Labor, Bureau of Labor Statistics; Wells Fargo Securities 216 - RFA/lhj/10/4/2021

# Interest Rates

## Federal Reserve Committee expects interest rates to increase slightly to 1% by 2023

### FEDERAL FUNDS INTEREST RATE



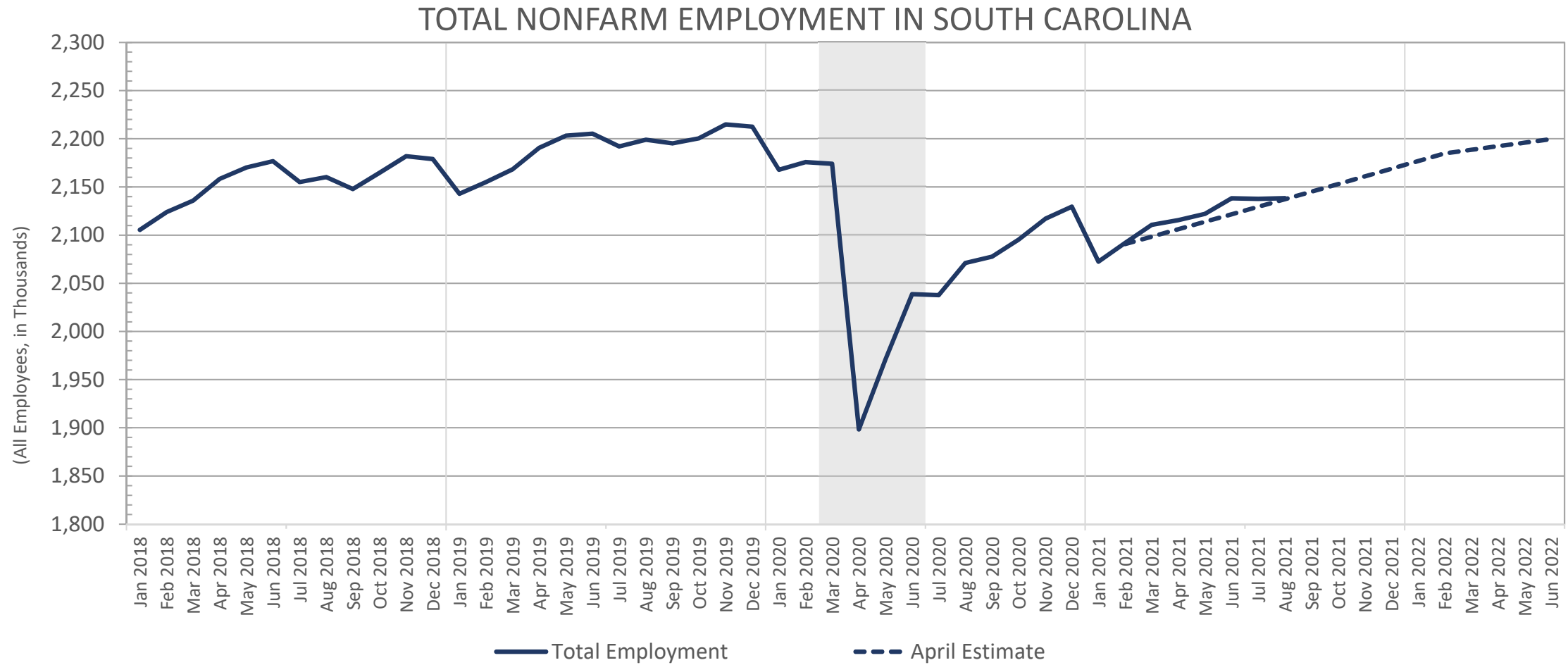
Source: Board of Governors of the Federal Reserve System via FRED Economic Data 277-RFA/lhj/9/30/2021



# South Carolina Economic Indicators

# SC Employment

## Currently in line with April Estimate



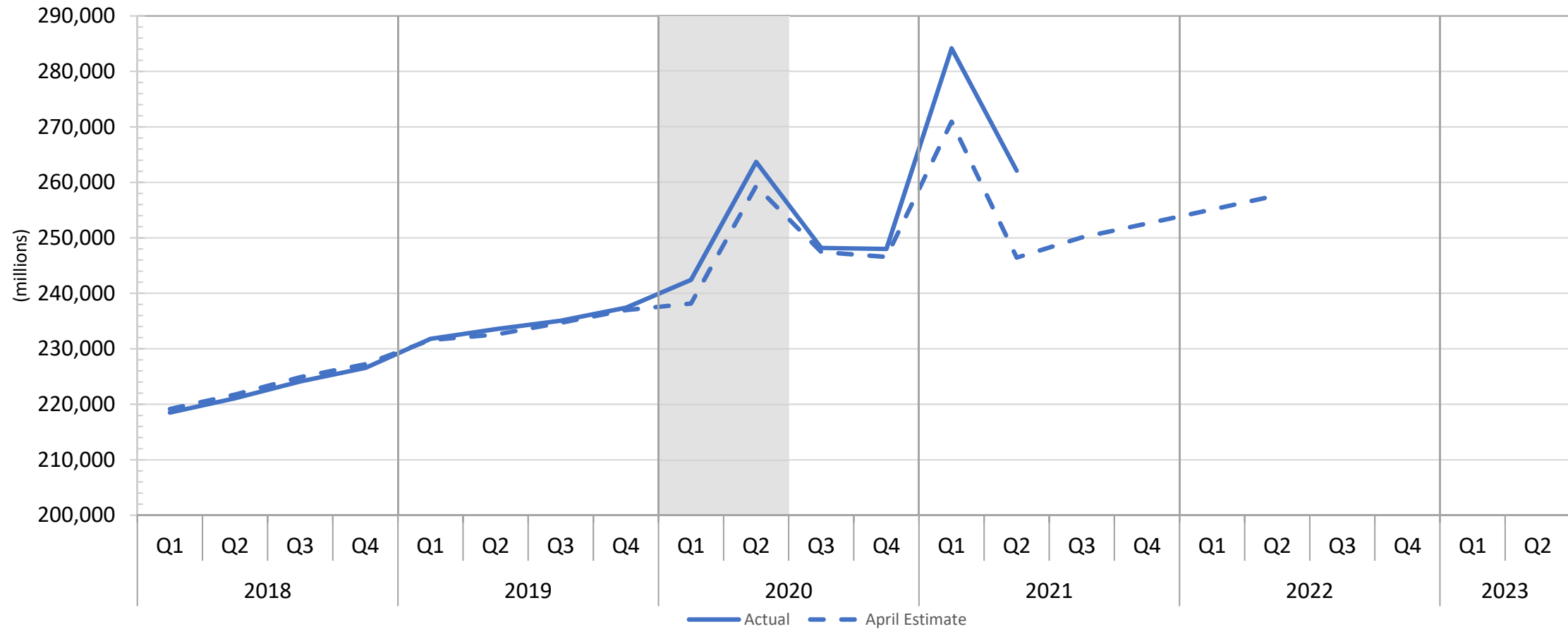
Source: U.S. Department of Labor. Bureau of Labor Statistics 60-RFA/bdc/9/30/2021

# SC Personal Income

## Personal income is above the April forecast

### SOUTH CAROLINA PERSONAL INCOME

Actual and Estimate



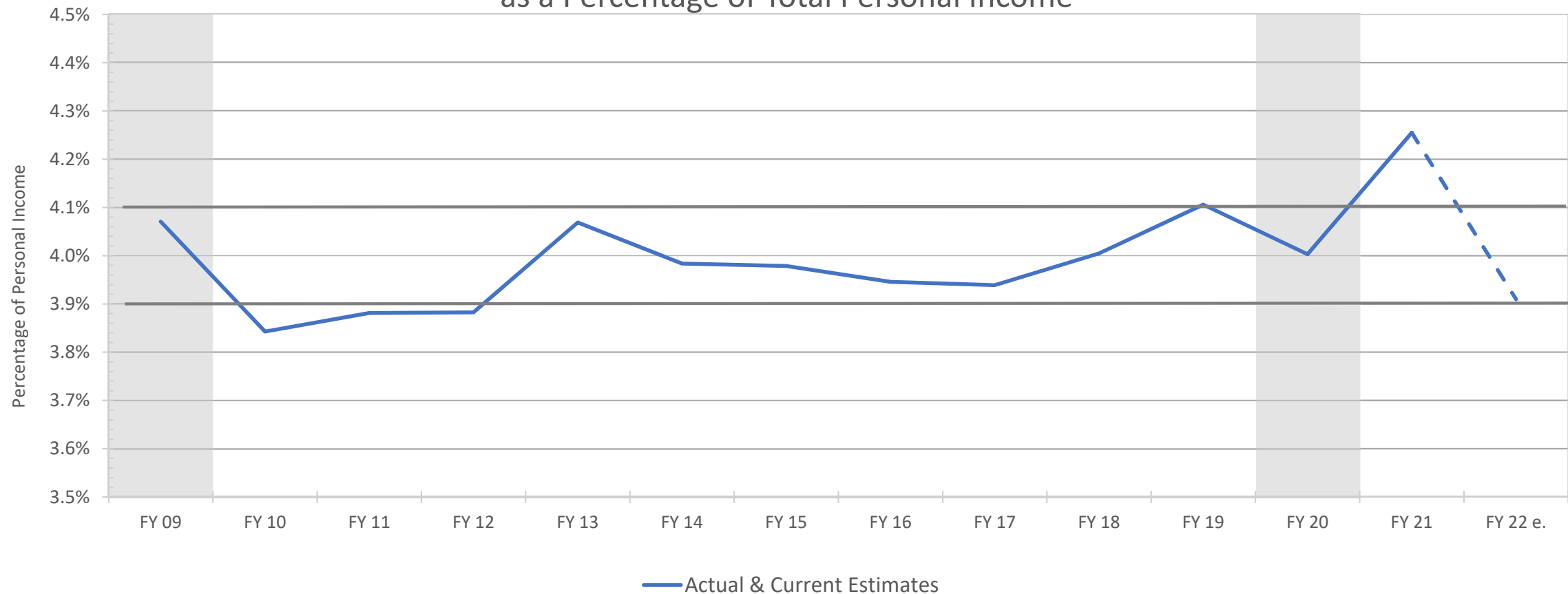
Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors



# General Fund as a Percentage of Personal Income

Percentage for FY 22 is at the bottom of the range before any revisions to Personal Income or General Fund forecast

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

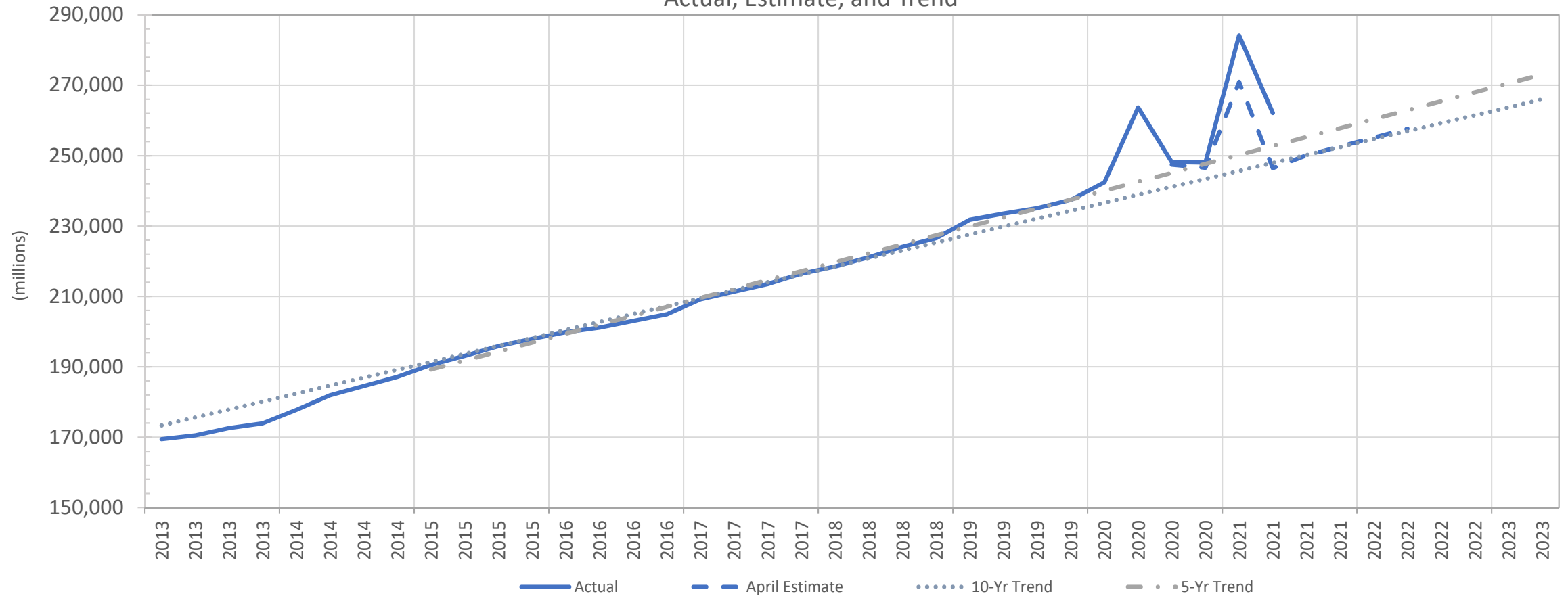


Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-LHJ/9/23/2021

# SC Personal Income – Historical Trends

## Personal Income was more predictable before 2020

SOUTH CAROLINA PERSONAL INCOME  
Actual, Estimate, and Trend

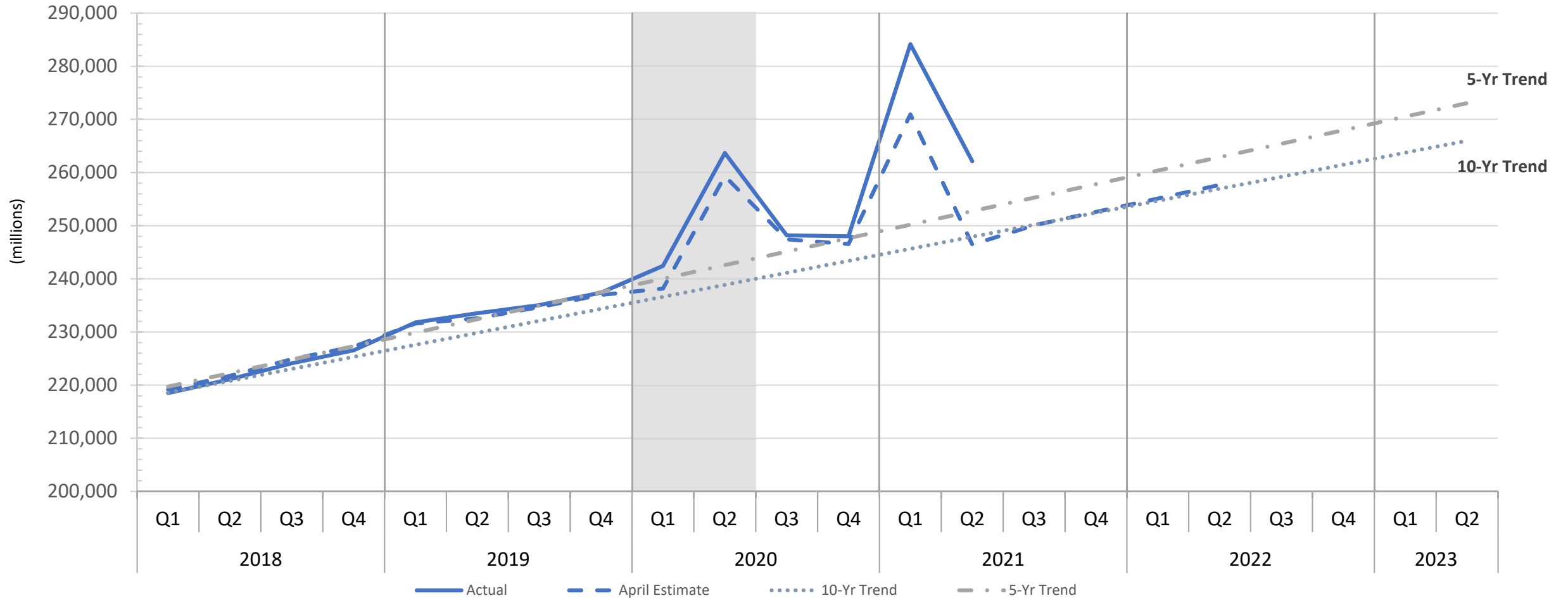


Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors

# SC Personal Income – Trend vs Estimate

## April forecast is in line with 10-year trend but below 5-year

SOUTH CAROLINA PERSONAL INCOME  
Actual, Estimate, and Trend



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

# US Real GDP and SC Personal Income – Growth

GDP and Personal Income historically track together except for in 2020 due to federal stimulus payments propping up income

US REAL GDP VS SC PERSONAL INCOME  
Percent Change



# Forecast Outlook for FY 2020-21 and FY 2021-22

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

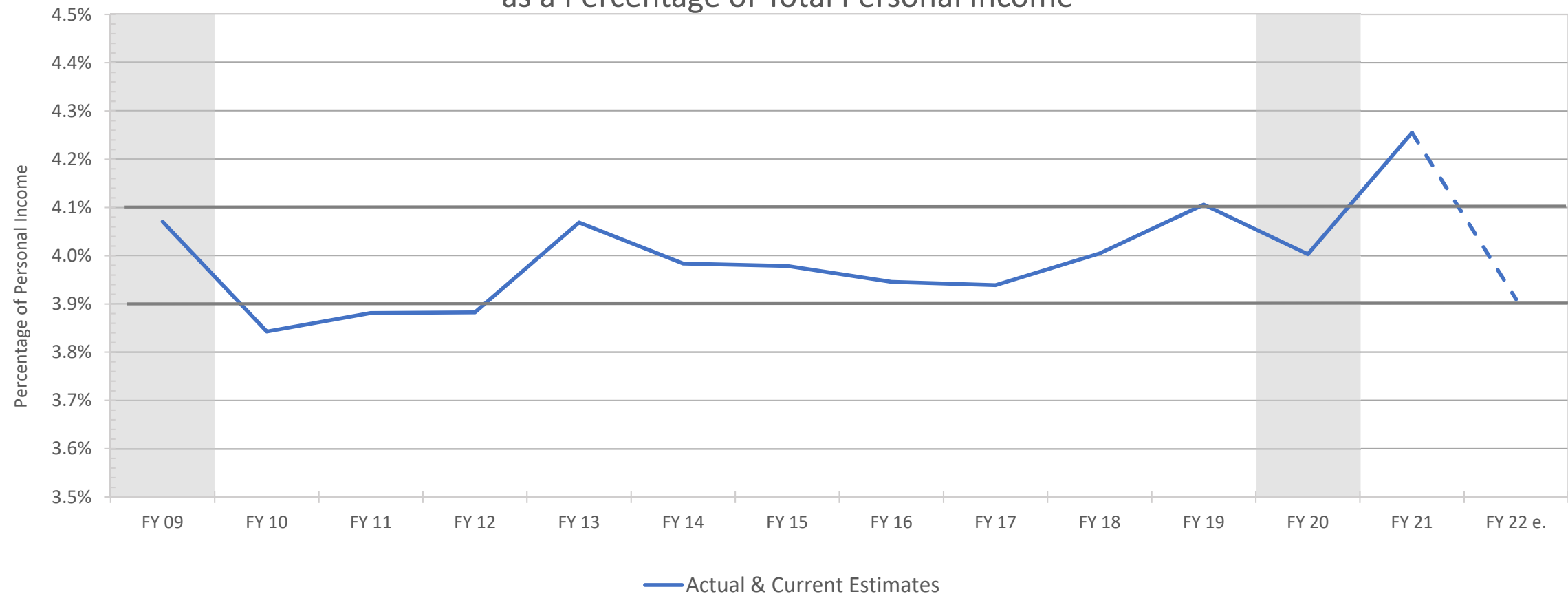
- How long does stimulus funding continue to affect revenues?
- How does personal income perform without stimulus?
- Can the natural economy replace the stimulus impact?
- Does consumer spending revert to historical patterns or is this a new normal?
- Is the COVID-19 resurgence going to cause further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

# Break for Lunch

# General Fund as a Percentage of Personal Income

Percentage for FY 22 is at the bottom of the range before any revisions to Personal Income or General Fund forecast

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



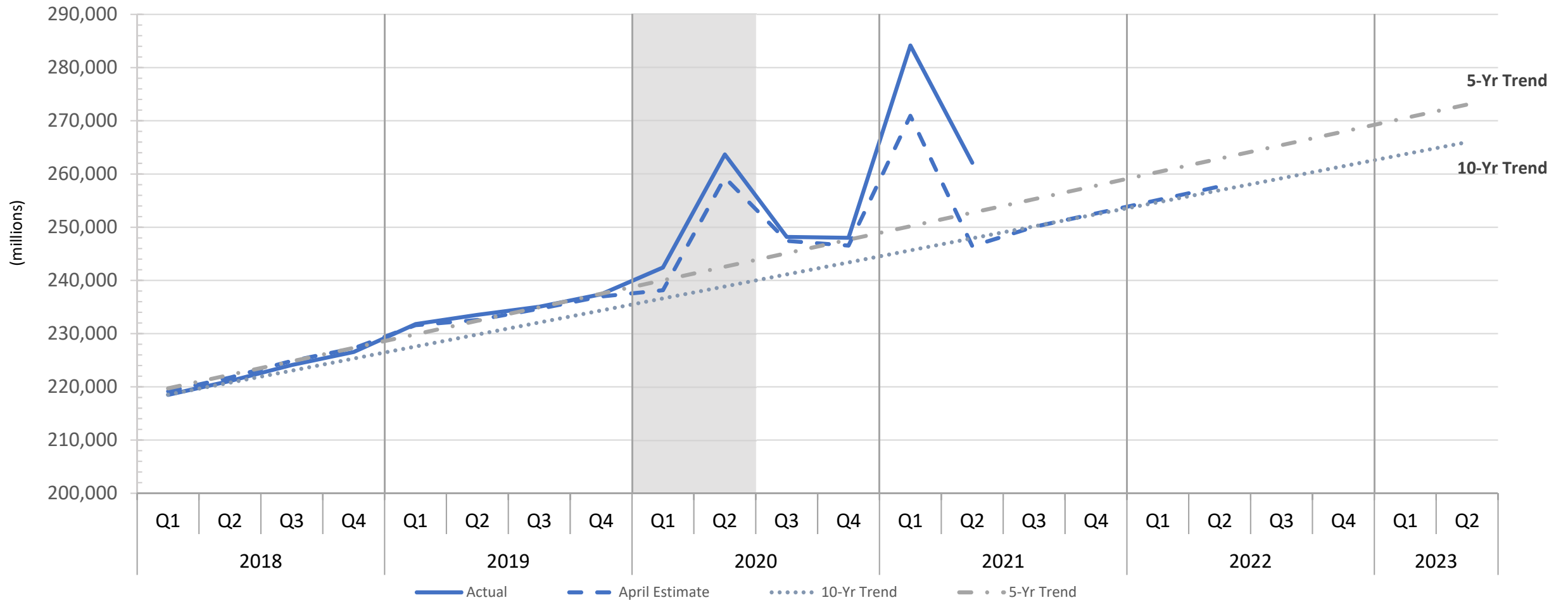
Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-LHJ/9/23/2021



# SC Personal Income – Trend vs Estimate

## April forecast is in line with 10-year trend but below 5-year

SOUTH CAROLINA PERSONAL INCOME  
Actual, Estimate, and Trend



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