

# **SOUTH CAROLINA GENERAL FUND REVENUE**

## **FY 2021-22 Year-end Review and FY 2022-23 Outlook**

September 15, 2022



# FY 2021-22 Final Revenues



# FY 2021-22 Final Revenue



## REVENUES V. BEA MONTHLY ESTIMATES

### FINAL

(\$ 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>\$13,654.4</b>	<b>\$12,774.3</b>	<b>\$880.1</b>	<b>15.2%</b>	<b>23.1%</b>	Other Revenue Items, Sub-Total	\$1,012.0	\$921.9	\$90.1	4.8%	15.1%
Sales Tax	4,402.0	4,155.3	246.7	8.6%	15.1%	Admissions Tax	45.7	43.4	2.4	46.9%	54.9%
Individual Income Tax	6,827.6	6,431.8	395.8	18.6%	25.9%	Alcoholic Liquors Tax	112.5	109.9	2.6	8.2%	10.7%
Withholdings	6,864.8	6,810.2	54.6	12.7%	13.6%	Bank Tax	72.4	74.1	(1.8)	6.1%	3.6%
Nonwithholdings	2,051.9	1,842.1	209.9	15.5%	28.7%	Beer and Wine Tax	116.9	117.9	(1.0)	0.9%	0.1%
Refunds	2,089.2	2,220.5	(131.3)	0.3%	(5.7%)	Corporate License Tax	163.1	158.1	4.9	6.8%	10.1%
Corporate Income Tax	1,129.4	982.6	146.8	46.8%	68.8%	Deed Rec. (Doc. Tax)	156.9	142.8	14.0	20.1%	31.9%
Insurance Tax	283.5	282.7	0.8	(3.6%)	(3.3%)	Earned on Investments	69.7	70.0	(0.3)	(3.6%)	(4.1%)
Other Revenue Items, Sub-Total	1,012.0	921.9	90.1	4.8%	15.1%	Residual Revenue	274.9	205.6	69.3	(7.4%)	23.8%

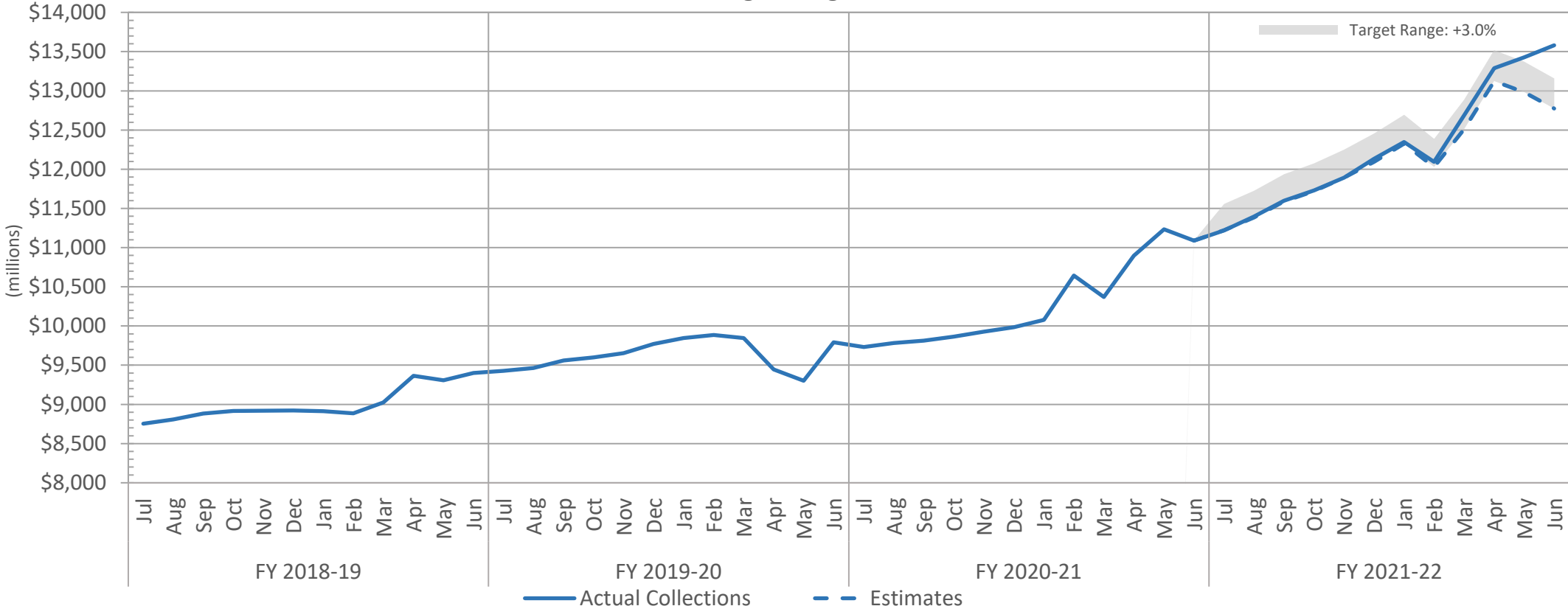
Based on BEA Forecast as of May 24, 2022



# General Fund – FY 22

Revenues ended \$880.1 million above the estimate for FY 2021-22, growing at 23.1% compared to 15.2% estimated as anticipated decline in 4<sup>th</sup> quarter growth did not occur

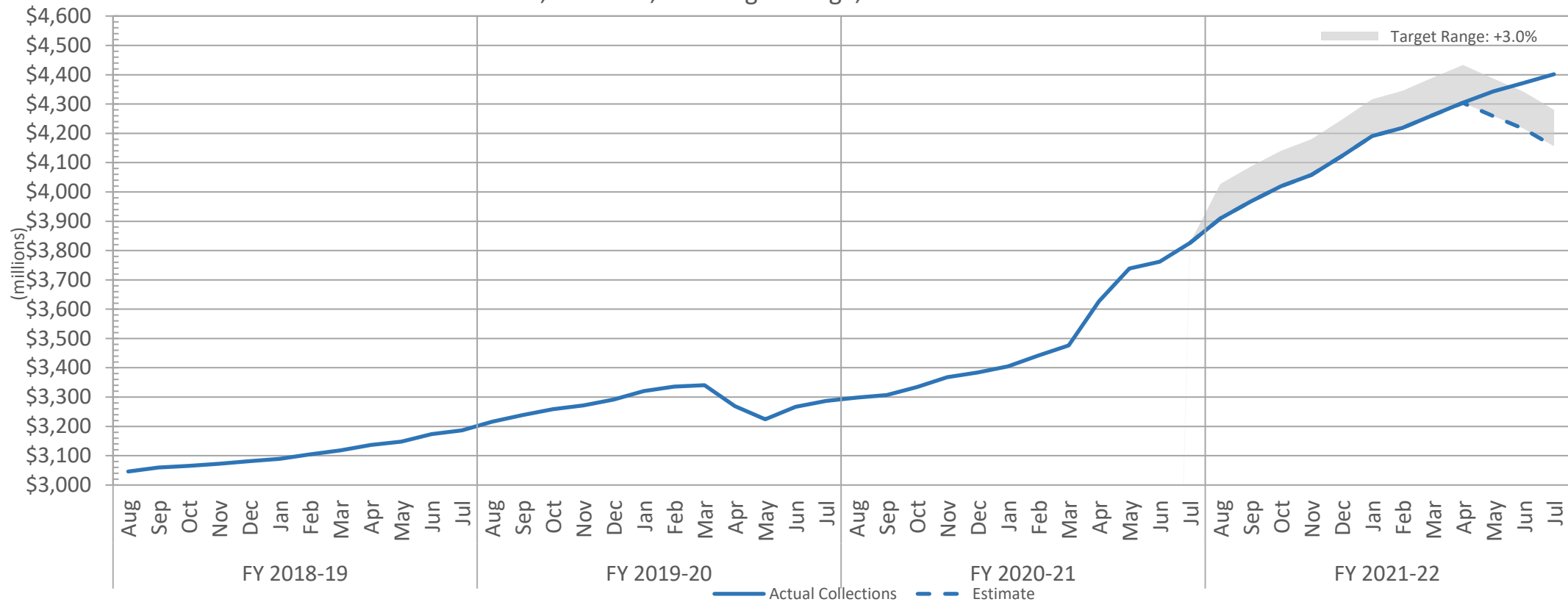
ROLLING FISCAL YEAR - GENERAL FUND  
Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22



# Sales Tax – FY 22

Collections grew 15.1% compared to forecast of 8.6%, growing 9.0% in the last quarter of FY 2021-22 over 22.5% growth the prior fiscal year

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

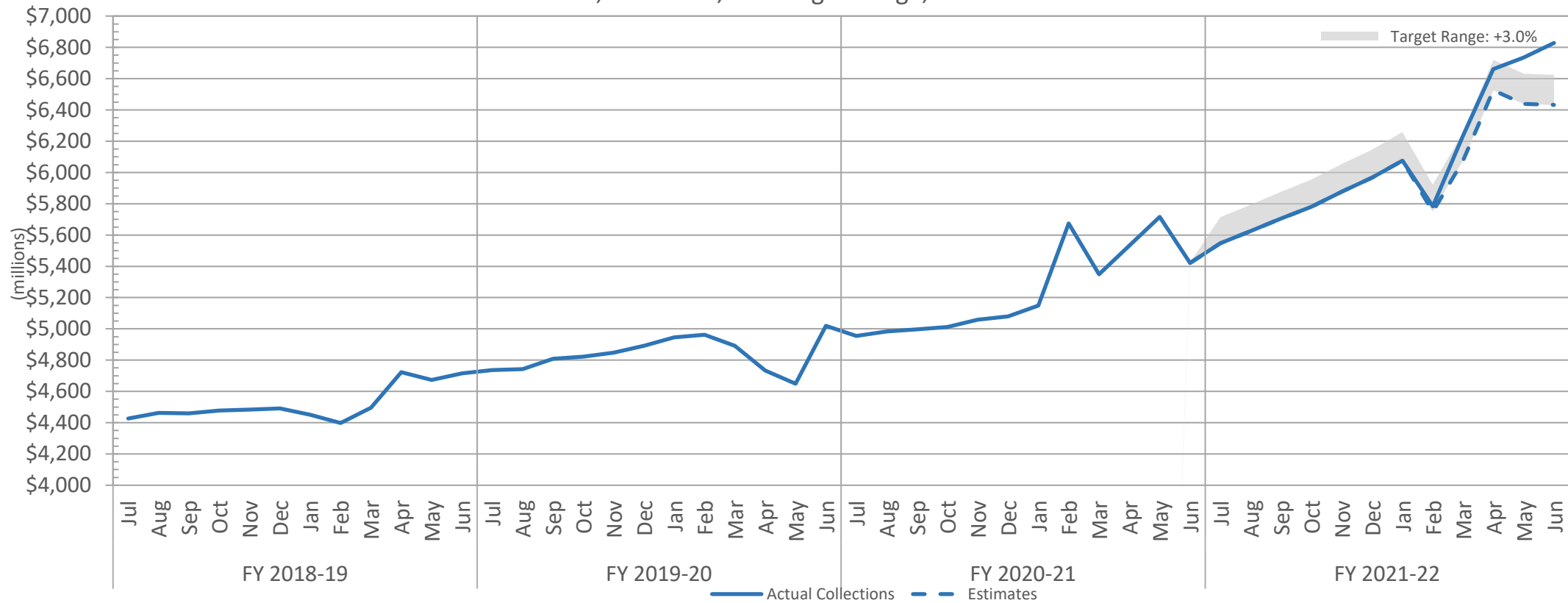


# Total Individual Income Tax – FY 22

Strong tax season resulted in 25.9% growth for the year, above the 18.6% forecast

## ROLLING FISCAL YEAR - TOTAL INDIVIDUAL INCOME TAX

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

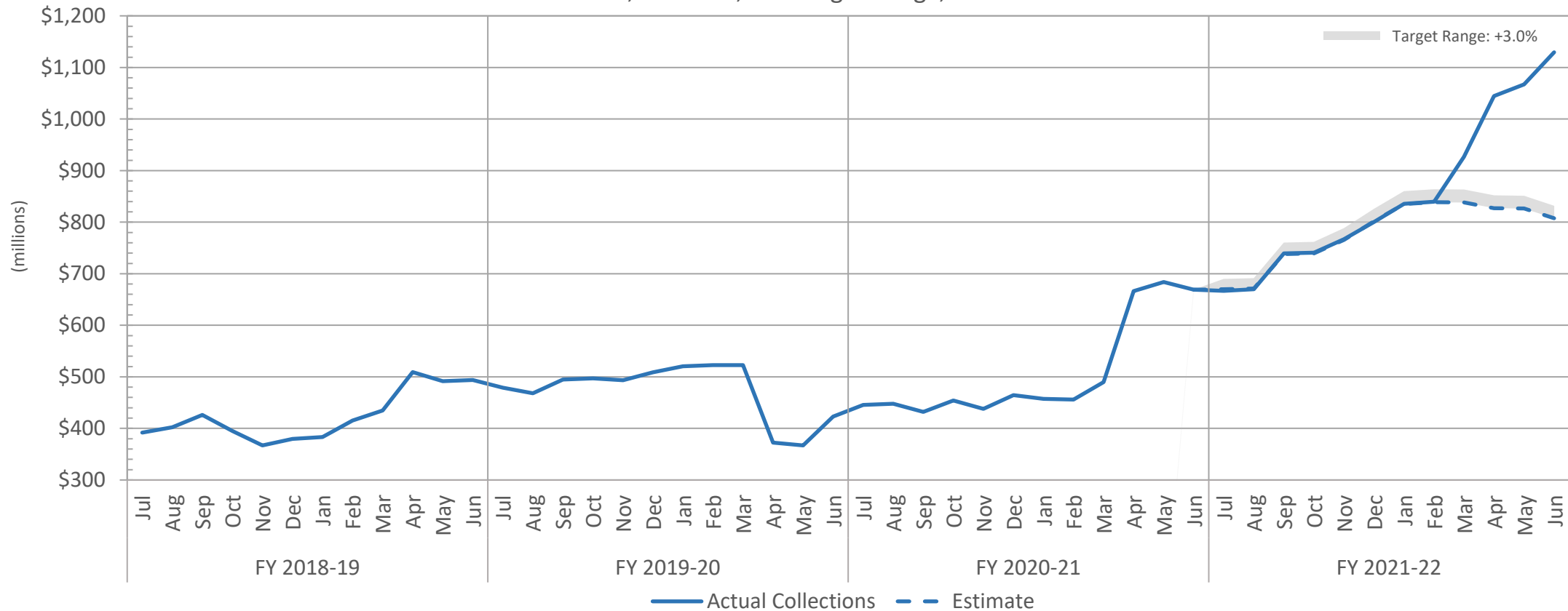


# Corporate Income Tax – FY 22

Collections grew 68.8% in FY 2021-22 compared to forecasted growth of 46.8%, finishing over \$1.1 billion as revenue growth accelerated in the last quarter

## ROLLING FISCAL YEAR - CORPORATE INCOME TAX

Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22



# FY 2022-23 General Fund Revenue





# FY 2022-23 General Fund Revenue through August



## REVENUES V. BEA MONTHLY ESTIMATES

JULY - AUGUST FY 2022-23

(\$ in Millions)

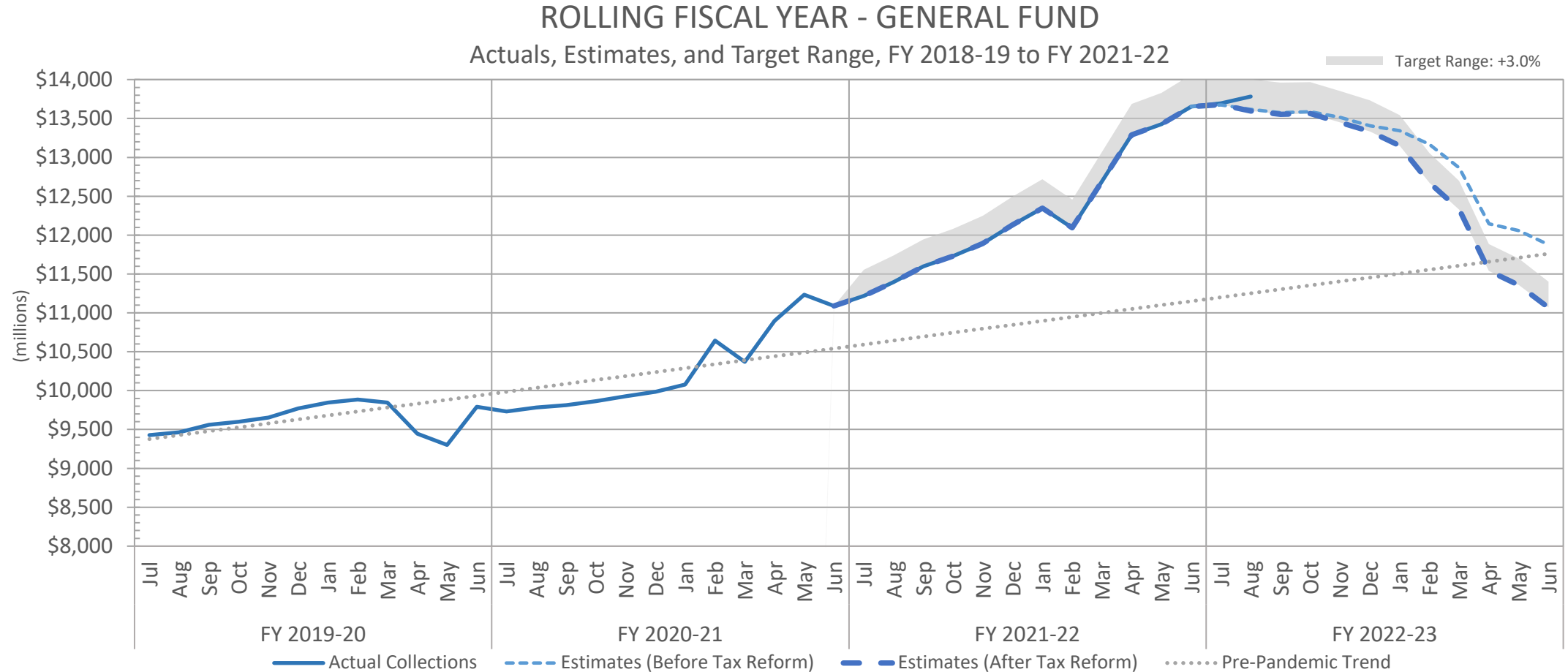
	Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD		Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD
<b>Total General Fund Revenue</b>	<b>\$1,707.9</b>	<b>\$1,522.9</b>	<b>\$185.0</b>	<b>(18.9%)</b>	<b>8.0%</b>	Other Revenue Items, Sub-Total	\$83.8	\$53.7	\$30.1	(14.4%)	14.8%
Sales Tax	398.7	319.5	79.2	(12.5%)	2.6%	Admissions Tax	(6.9)	(5.2)	(1.7)	(17.5%)	N/A
Individual Income Tax	1,163.0	1,122.4	40.6	(20.3%)	9.3%	Alcoholic Liquors Tax	10.6	7.5	3.1	(13.7%)	2.3%
Withholdings	1,161.0	1,129.0	32.0	0.4%	10.5%	Bank Tax	0.2	0.1	0.1	(18.3%)	N/A
Nonwithholdings	114.0	92.9	21.1	(34.2%)	3.8%	Beer and Wine Tax	10.4	10.8	(0.3)	(0.4%)	(6.6%)
Refunds	111.9	99.4	12.5	33.9%	16.5%	Corporate License Tax	10.6	7.4	3.2	2.5%	47.0%
Corporate Income Tax	59.1	23.3	35.8	(50.4%)	25.7%	Deed Rec. (Doc. Tax)	10.8	8.4	2.5	(34.4%)	(14.2%)
Insurance Tax	3.3	4.0	(0.8)	22.0%	(56.5%)	Earned on Investments	25.8	14.1	11.7	20.6%	78.9%
Other Revenue Items, Sub-Total	83.8	53.7	30.1	(14.4%)	14.8%	Residual Revenue	22.3	10.8	11.5	(26.6%)	7.9%

Based on BEA Forecast as of May 24, 2022



# Total General Fund – Compared to Pre-pandemic Trend

Revenue collections can decline by **18.9%** and meet the forecast; negative growth is anticipated due return to historical patterns and tax cuts



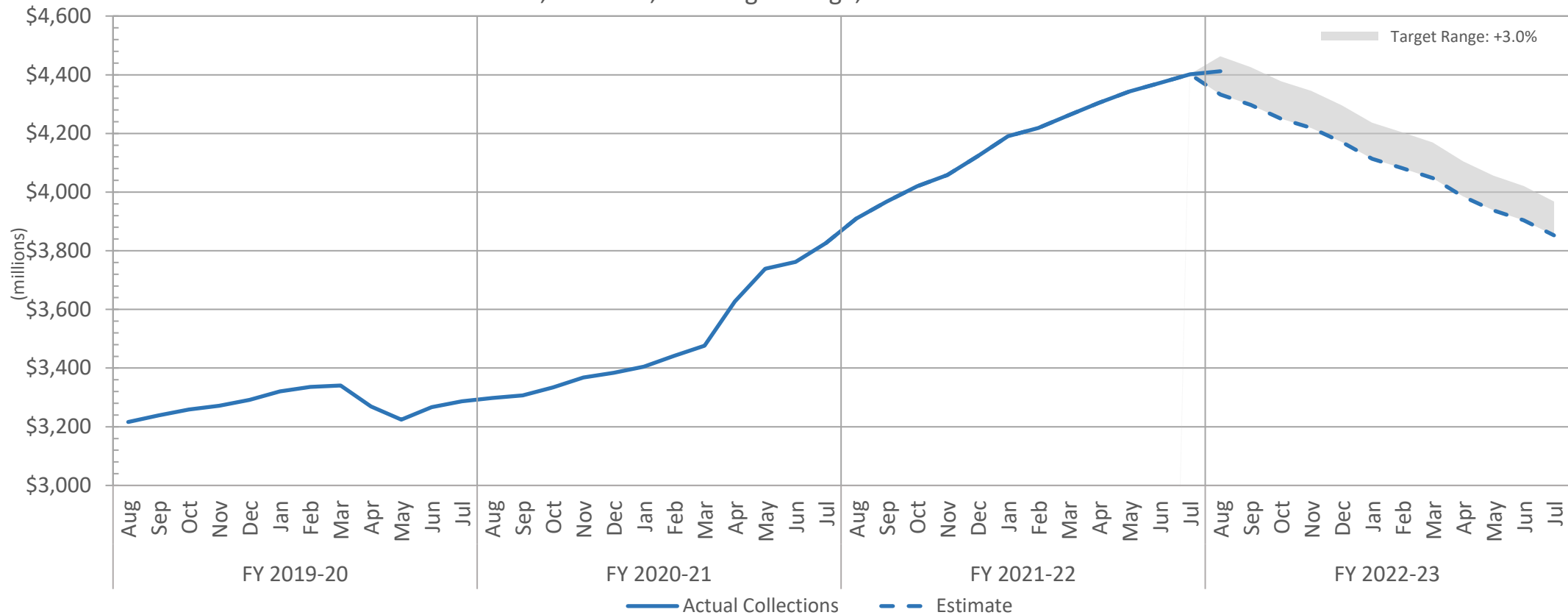
# General Fund Revenue Consumption Taxes



# Sales Tax - FY 23

Collections for August grew 2.6%; however, last year's collections included an audit payment of \$25 million; adjusting for the audit, collections grew 9.6%

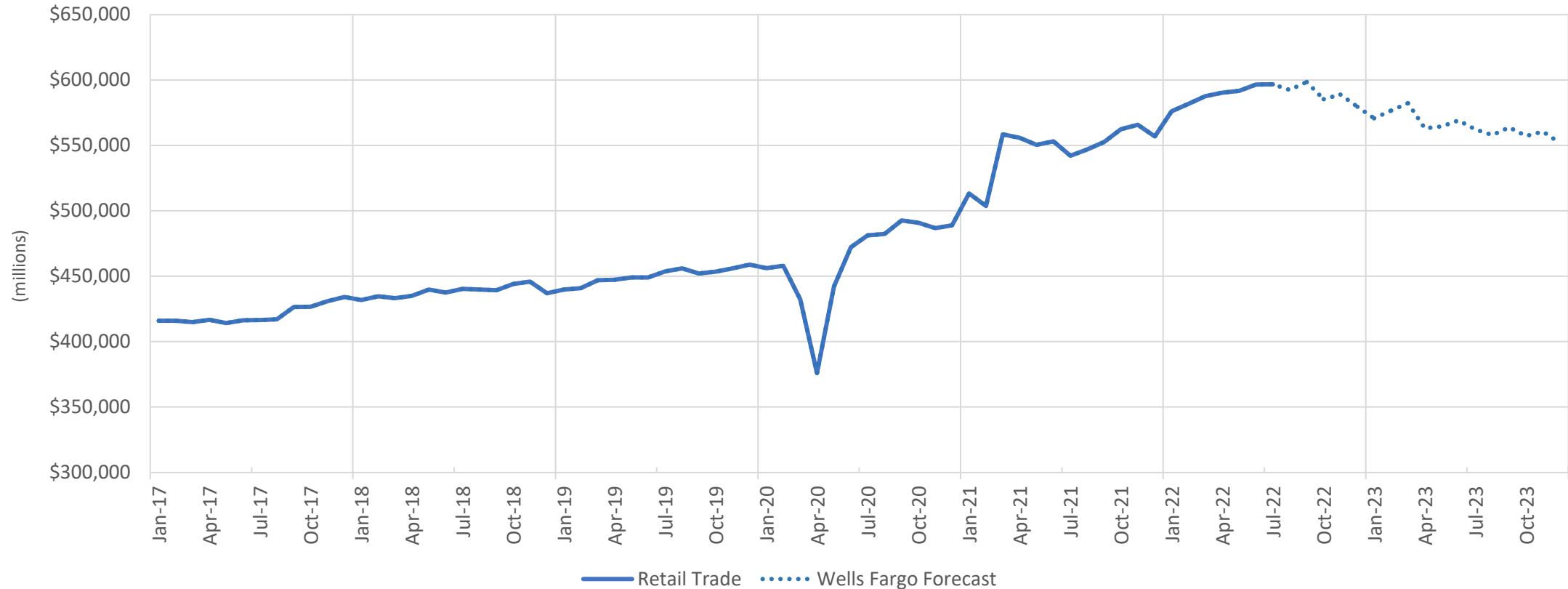
ROLLING FISCAL YEAR - SALES TAX  
Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23



# US Retail Sales

Retail sales were flat in July largely due to lower gas prices and a drop in auto sales; Wells Fargo is anticipating a decline in retail sales through 2023

US RETAIL SALES - MONTHLY

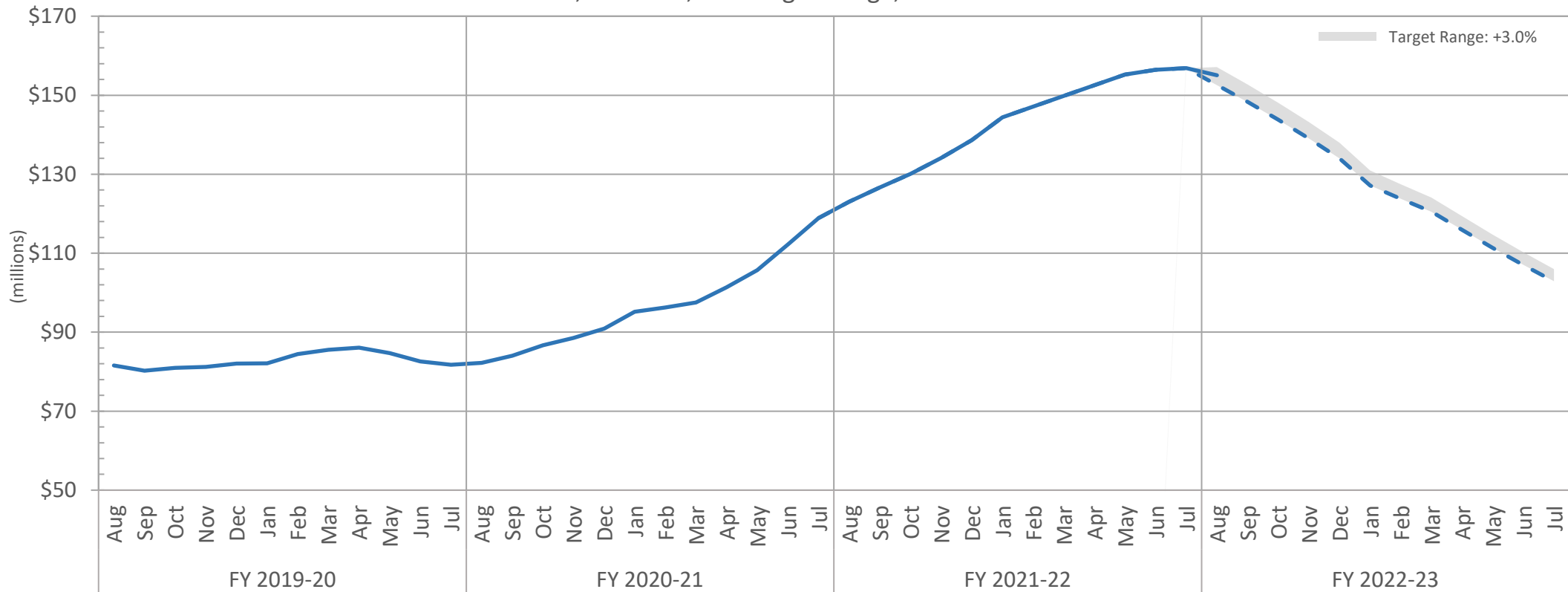


Source: U.S. Census Bureau, Advance Retail Sales: Retail Trade [RSXFS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/RSXFS>, September 7, 2022; Wells Fargo US Economic Outlook, August 11, 2022

# Deed Recording Fees – FY 23

August 2022 declined 14.2% compared to last year

ROLLING FISCAL YEAR - DEED RECORDING FEES  
Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23

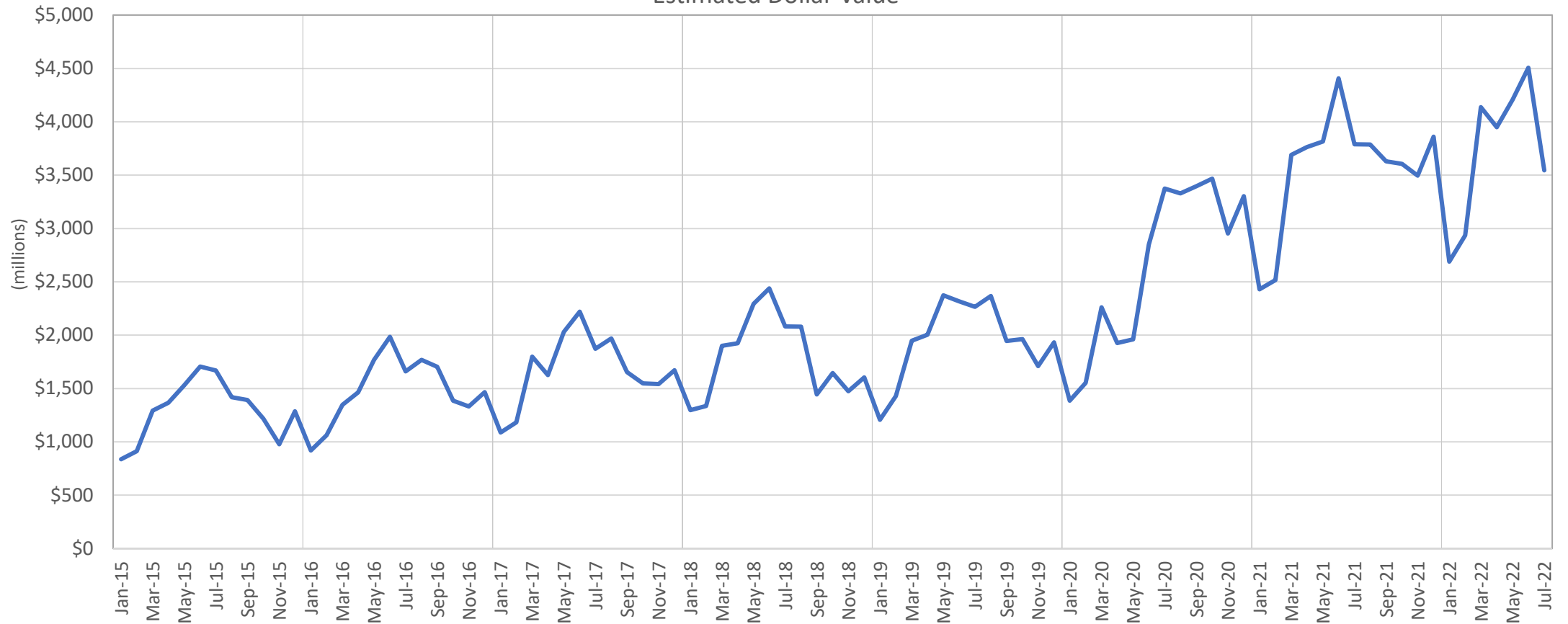


# South Carolina Home Sales and Prices

## Total value of home sales slowed in July 2022, with a decline in both number sold and average price

### TOTAL SOUTH CAROLINA HOME SALES

Estimated Dollar Value



Source: SC Realtors; Market Activity; calculations by SCRFA: Average sales price x closed sales



# General Fund Revenue

## Individual Income Tax Components



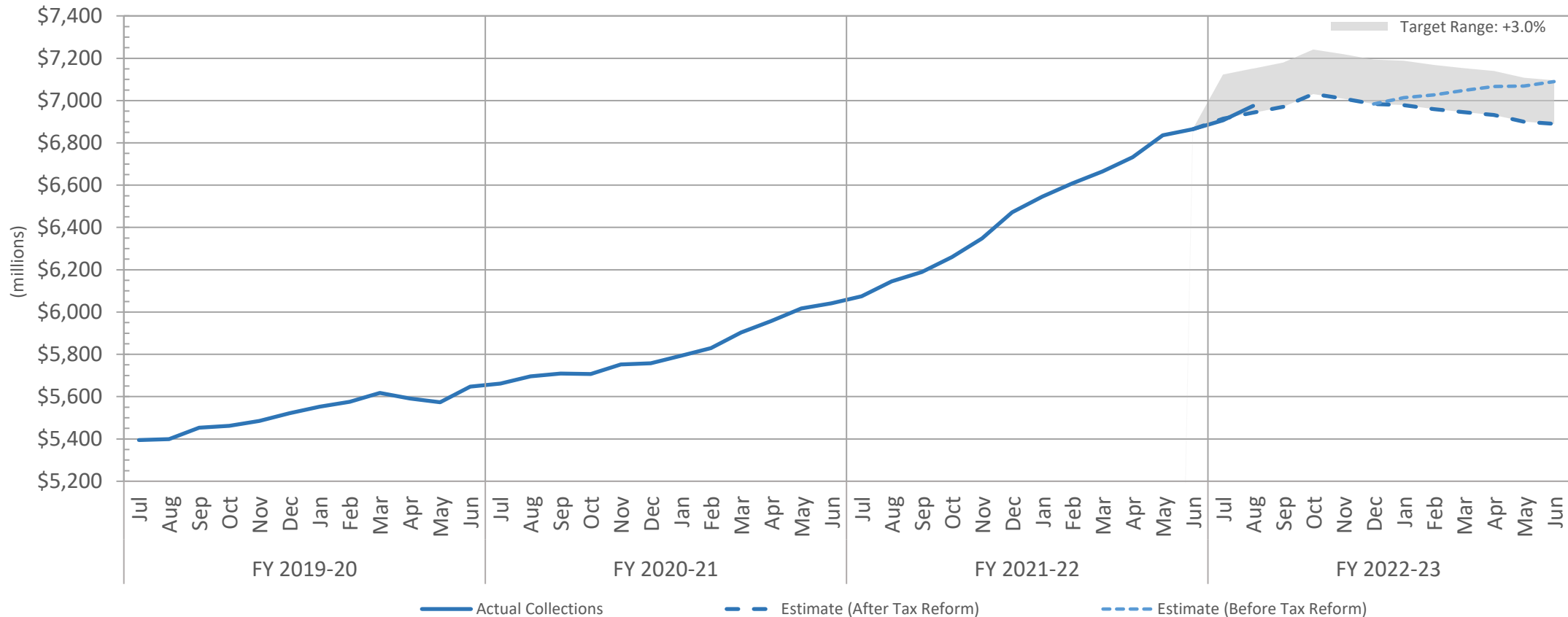


# Individual Withholdings – FY 23

Collections through August are 2.8% above the estimate; FY 23 estimated growth is 3.3% (0.4% with tax reform) after strong growth of 13.6% in FY 22

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

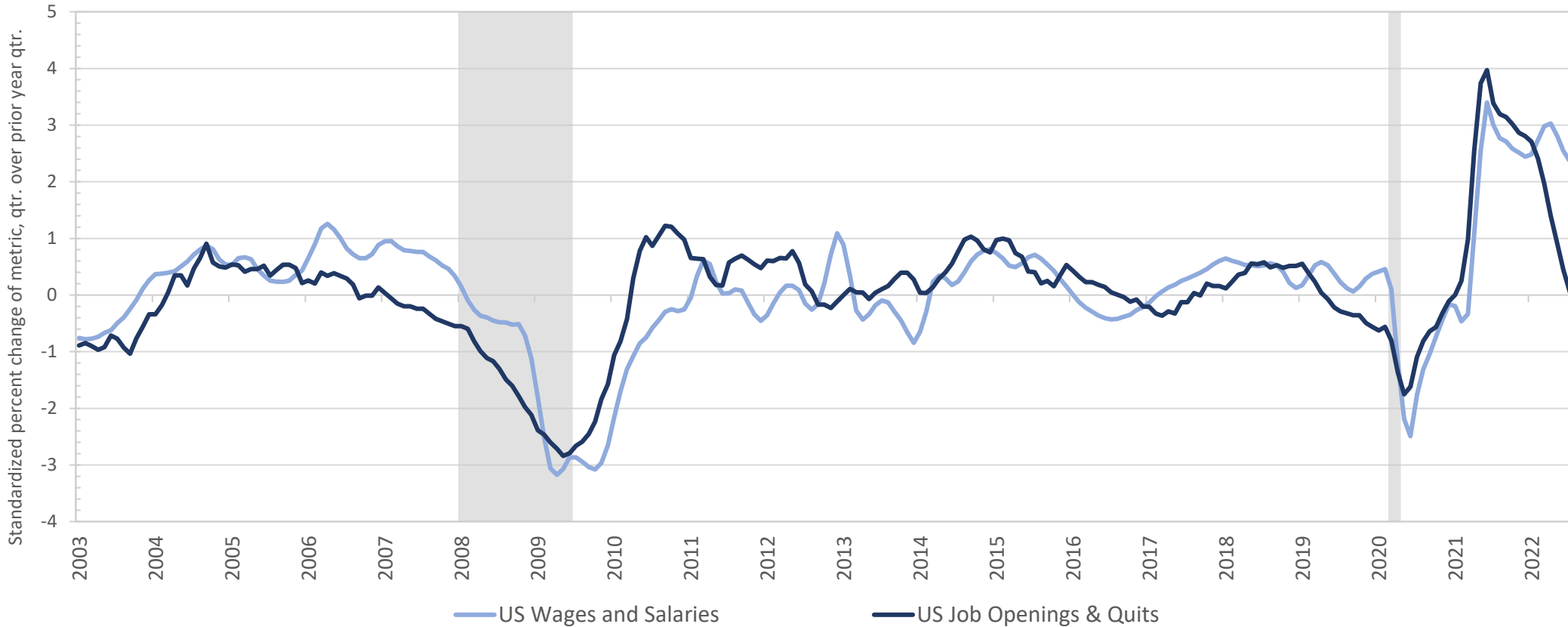
Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23



# US Labor Market and Wage Growth

While growth in labor market tightness has started to weaken, conditions remain remarkably tight and continue to drive wage growth

US JOB OPENINGS & QUILTS VS. WAGE GROWTH



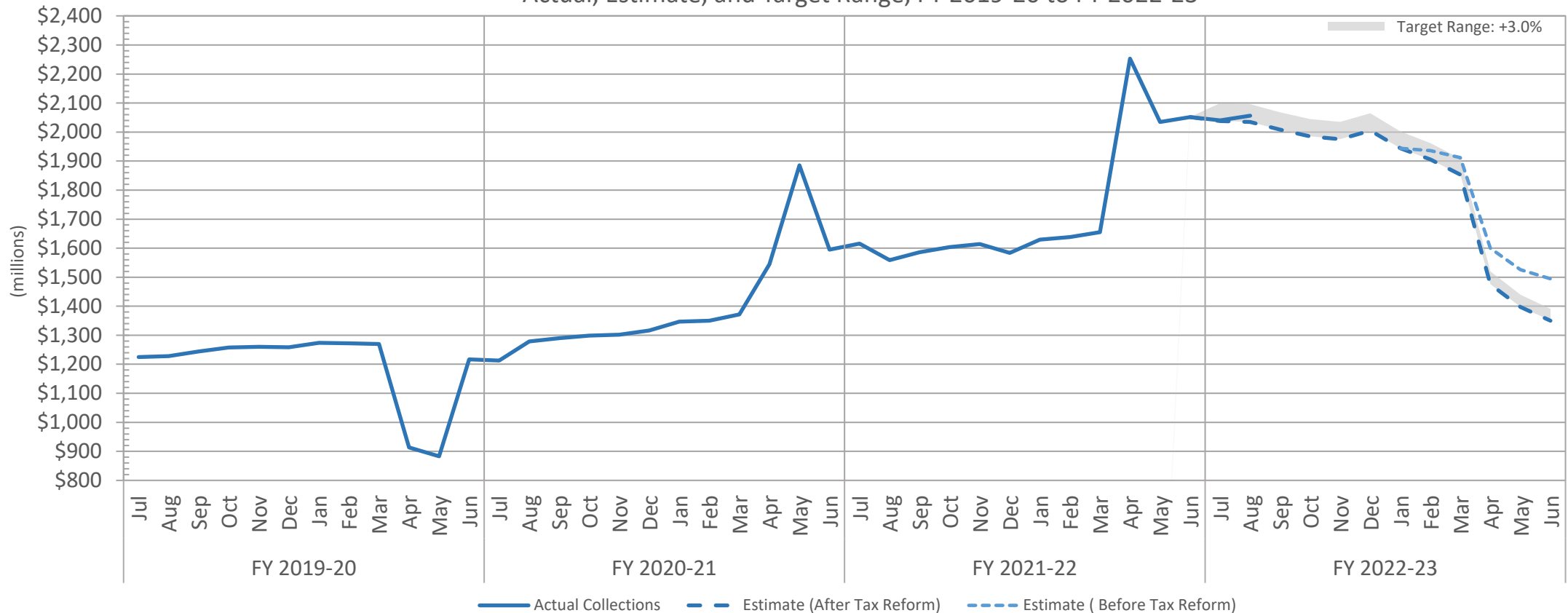
Source: U.S. Bureau of Economic Analysis, Compensation of Employees, Received; U.S. Bureau of Labor Statistics, JOLTS; 309A - RFA/bdc/9/14/2022

# Individual Non-Withholdings - FY 23

After two successive years of greater than 24% growth, collections for FY 23 are expected to decline by 27.2% (34.2% with tax reform)

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23

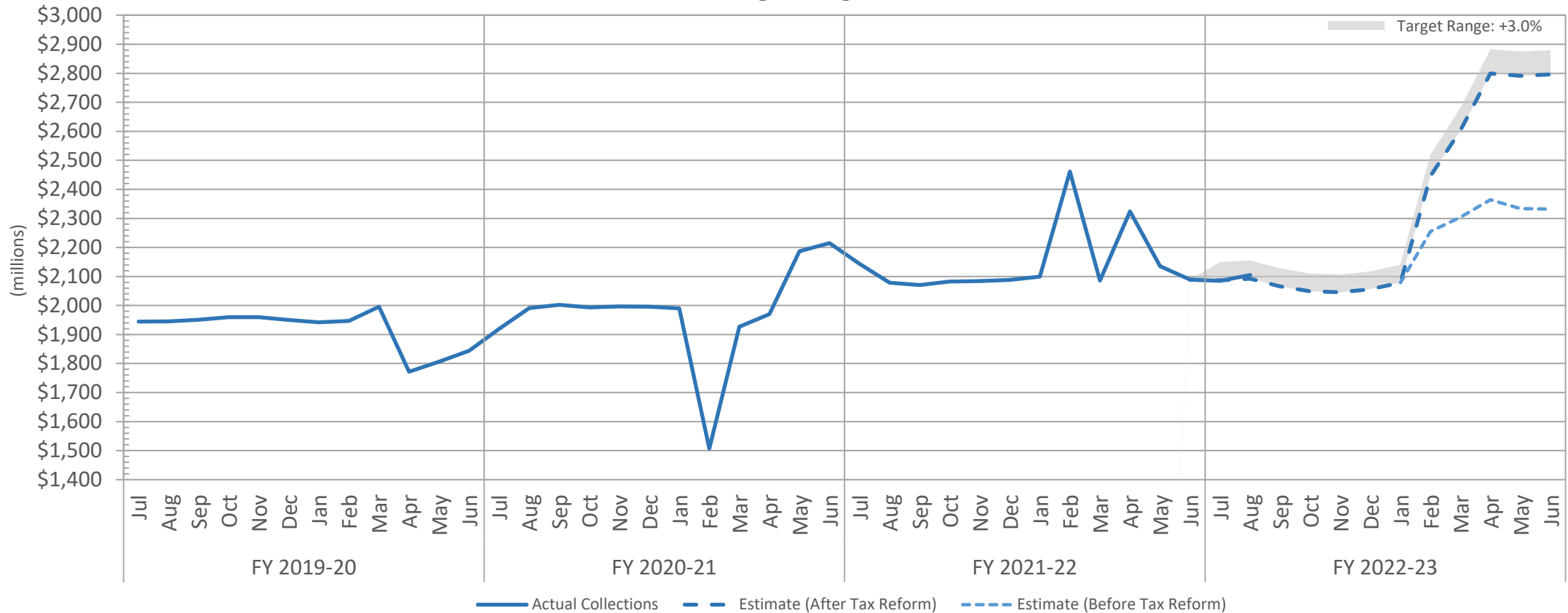


# Individual Refunds - FY 23

Refunds are currently estimated to grow 11.6% in FY 23 largely due to the impact of tax reform (33.9% with tax reform)

## ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS

Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23

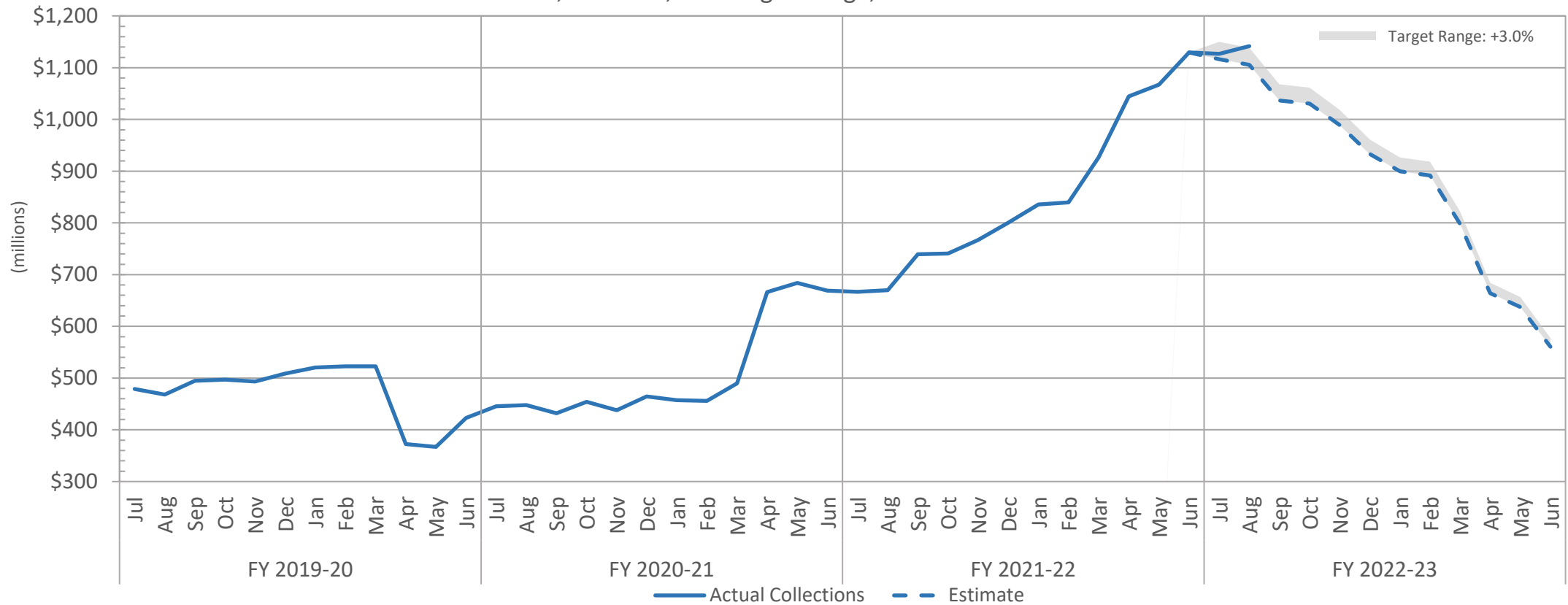


# General Fund Revenue Business Taxes

# Corporate Income Tax –FY 23

Forecast for FY 23 reflects a sharp decline but collections through August remain elevated

ROLLING FISCAL YEAR - CORPORATE INCOME TAX  
Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23

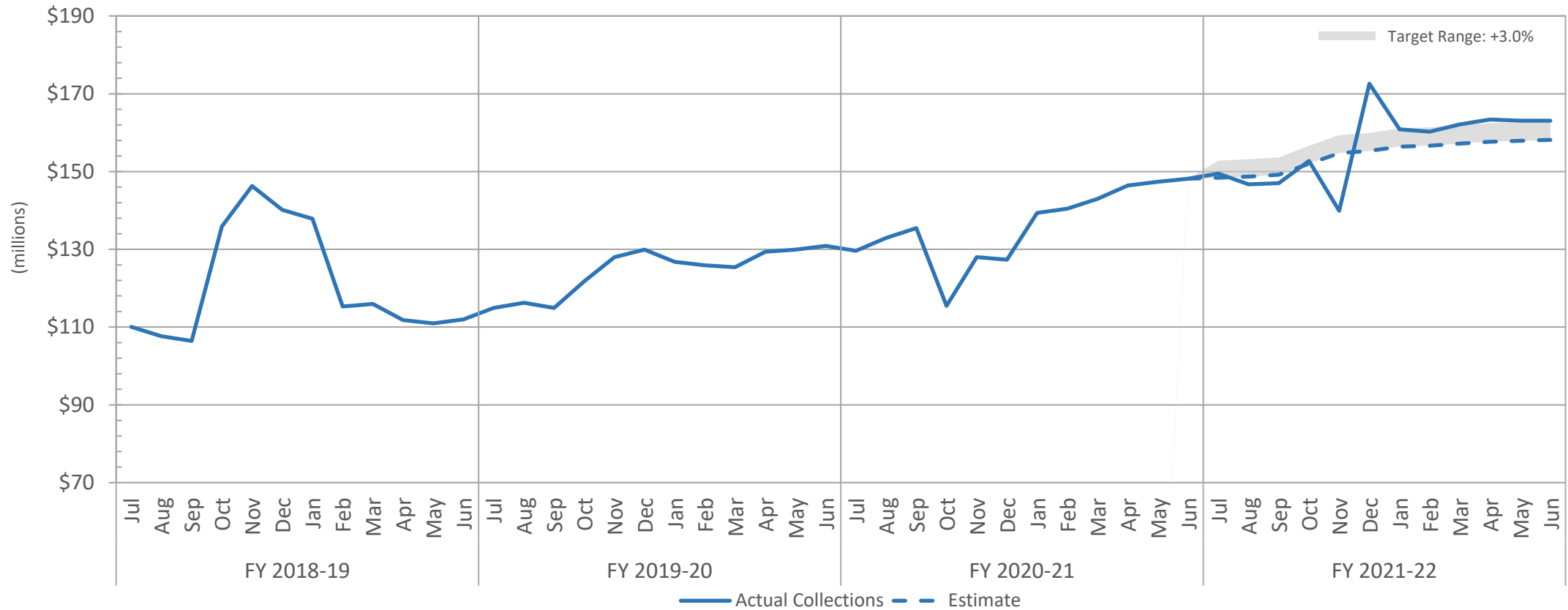


# Corporate License Tax –FY 22

FY 22 finished above expectations, increasing by 10.1% compared to the forecast of 6.8%

## ROLLING FISCAL YEAR - CORPORATE LICENSE TAX

Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22

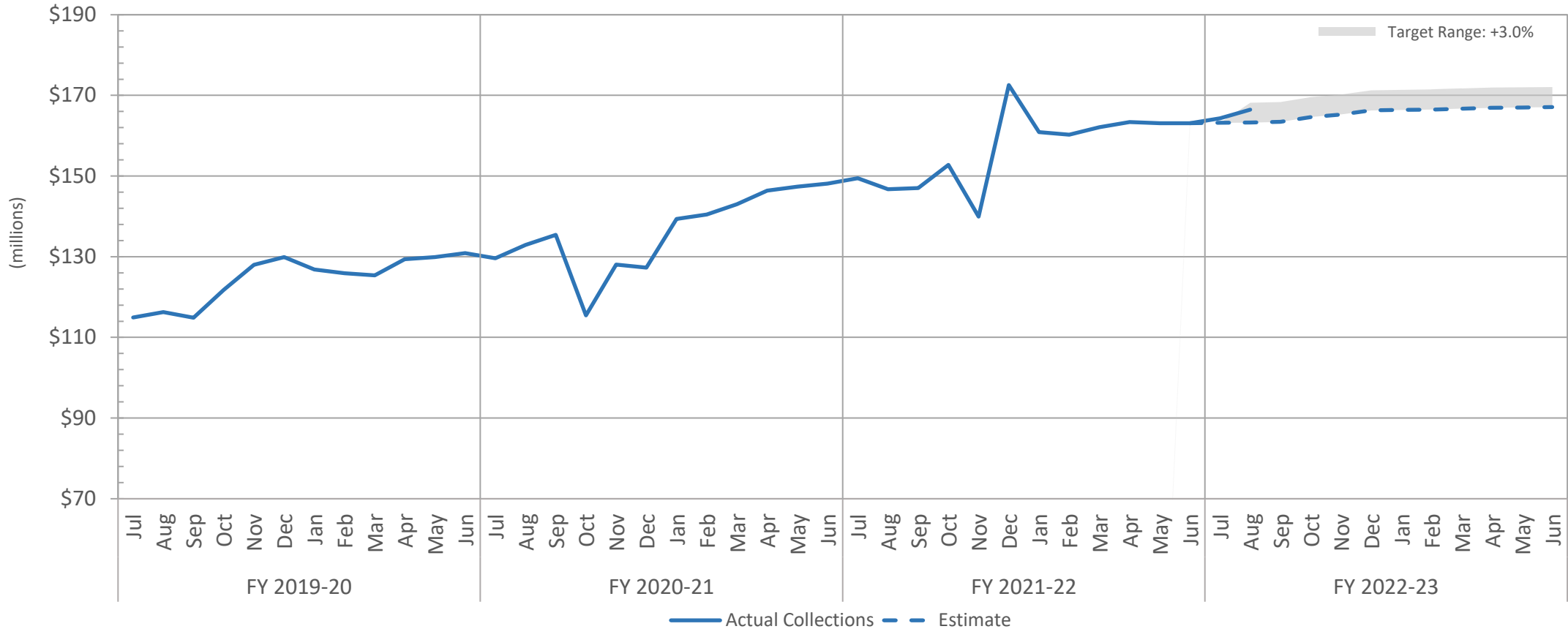


# Corporate License Tax –FY 23

FY 23 forecast reflects growth of 2.5% from FY 22 actual

## ROLLING FISCAL YEAR - CORPORATE LICENSE TAX

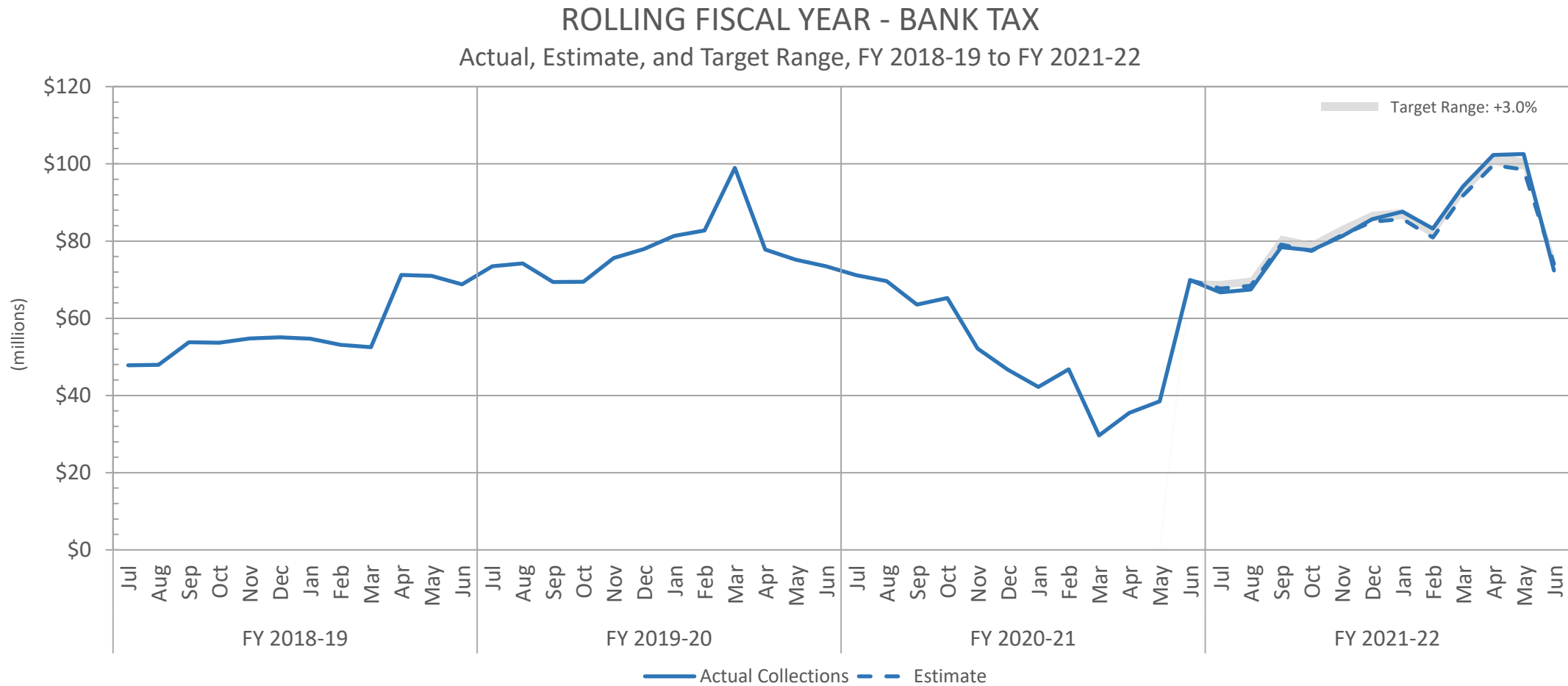
Actual, Estimate, and Target Range, FY 2019-20 to FY 2022-23





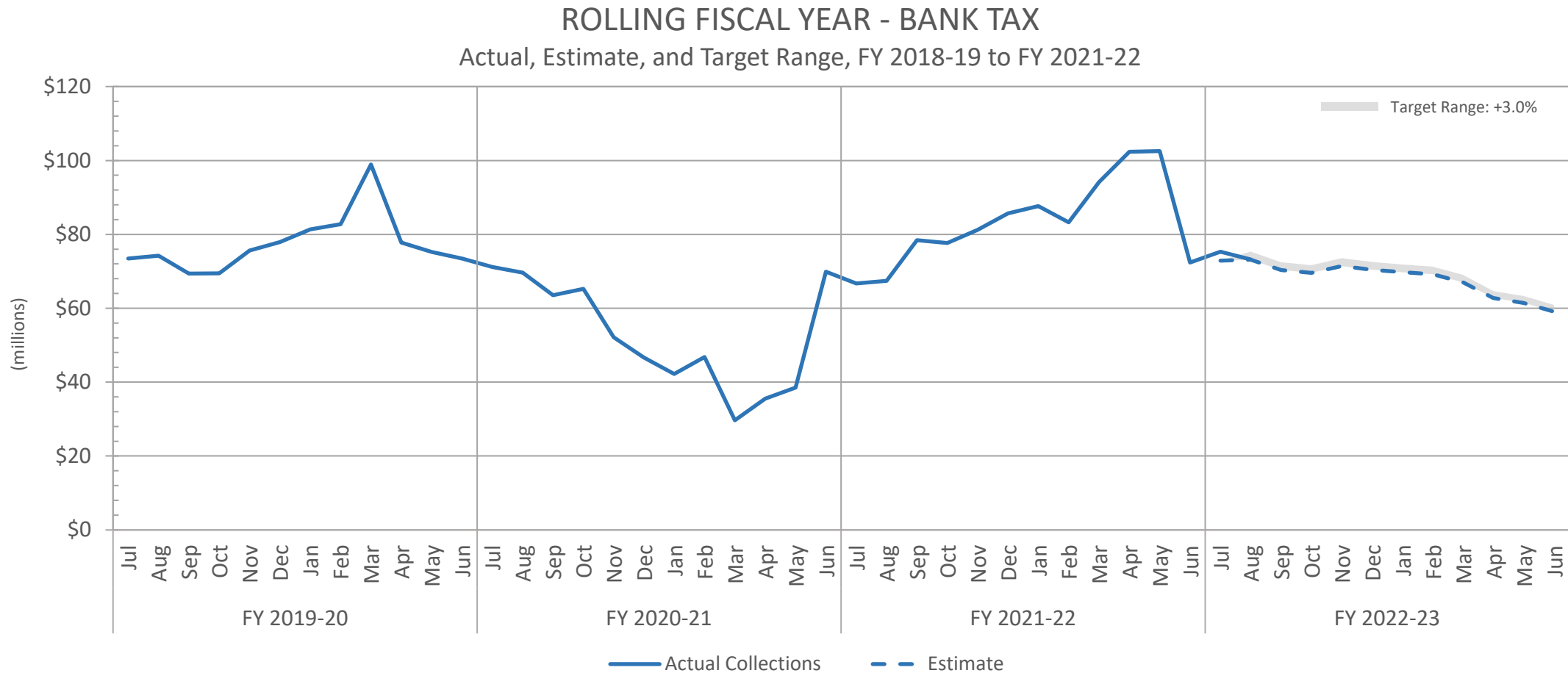
# Bank Tax - FY 22

Collections dropped below expectations for the month of June 2022 and finished \$1.8 million below the estimate



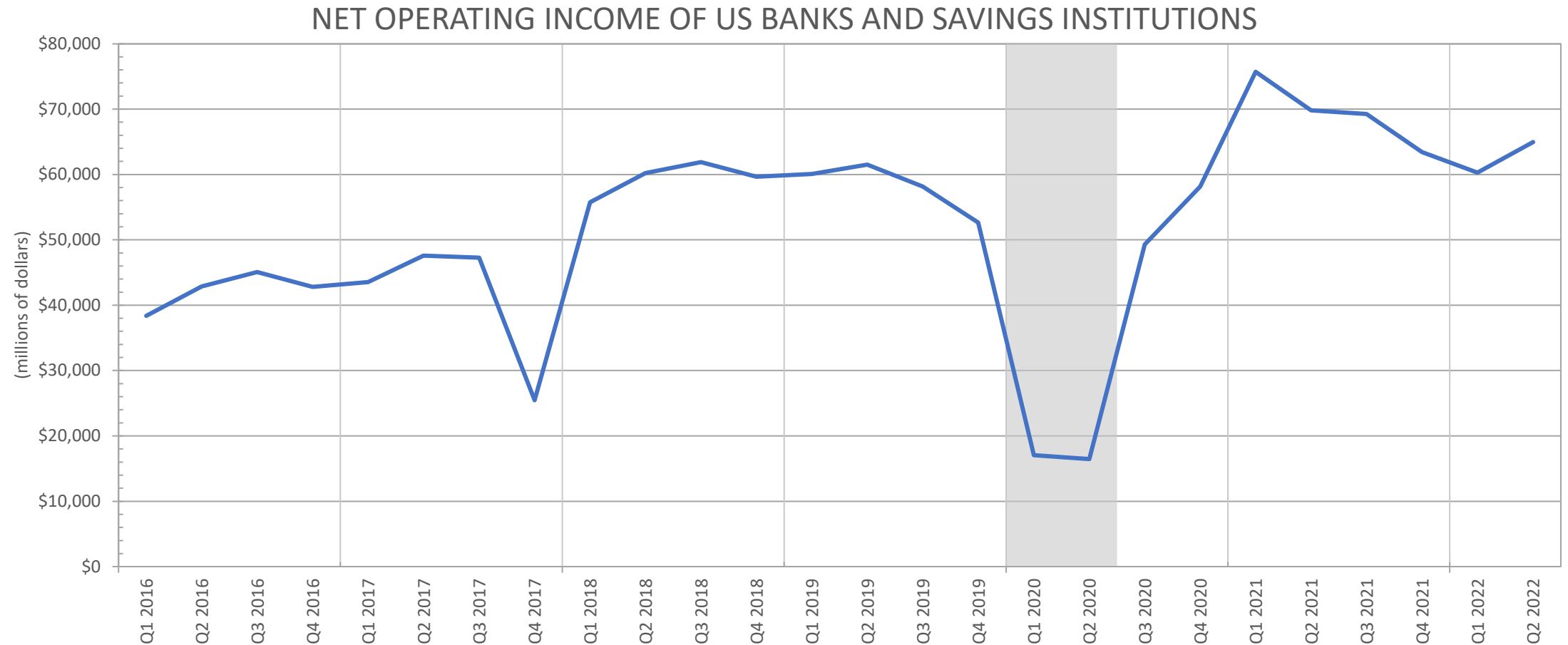
# Bank Tax - FY 23

FY 23 forecast expects a decline in collections of **18.3%** from final FY 22



# Bank Performance

While net income improved in Q2 of 2022, FDIC expects downside risks from inflation, rising interest rates, slowing economic growth, and global uncertainties to challenge bank profitability going forward



Source: Federal Deposit Insurance Corporation, Quarterly Net Income- 279/RFA/lhj/09/14/2022



# Forecast Outlook for FY 2022-23 and FY 2023-24

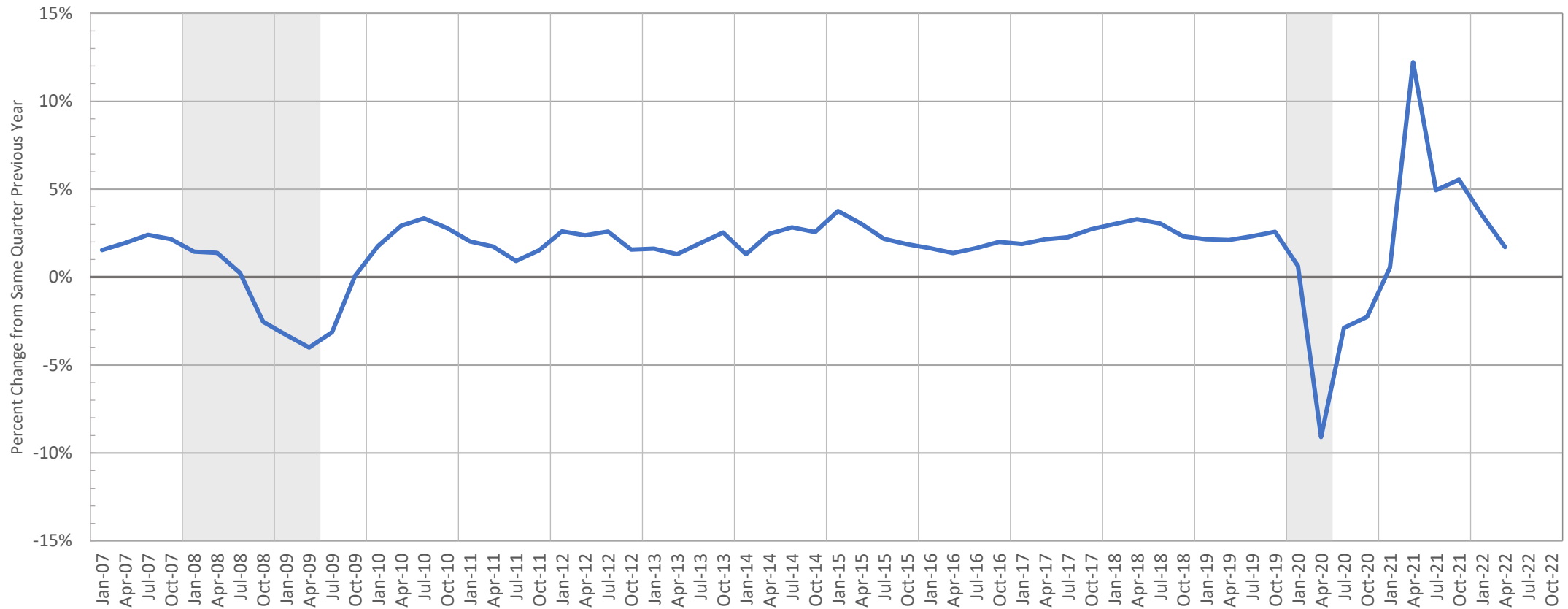
# National Economic Indicators



# Real GDP Growth

## US GDP growth slowed to 1.7% for Q2 2022

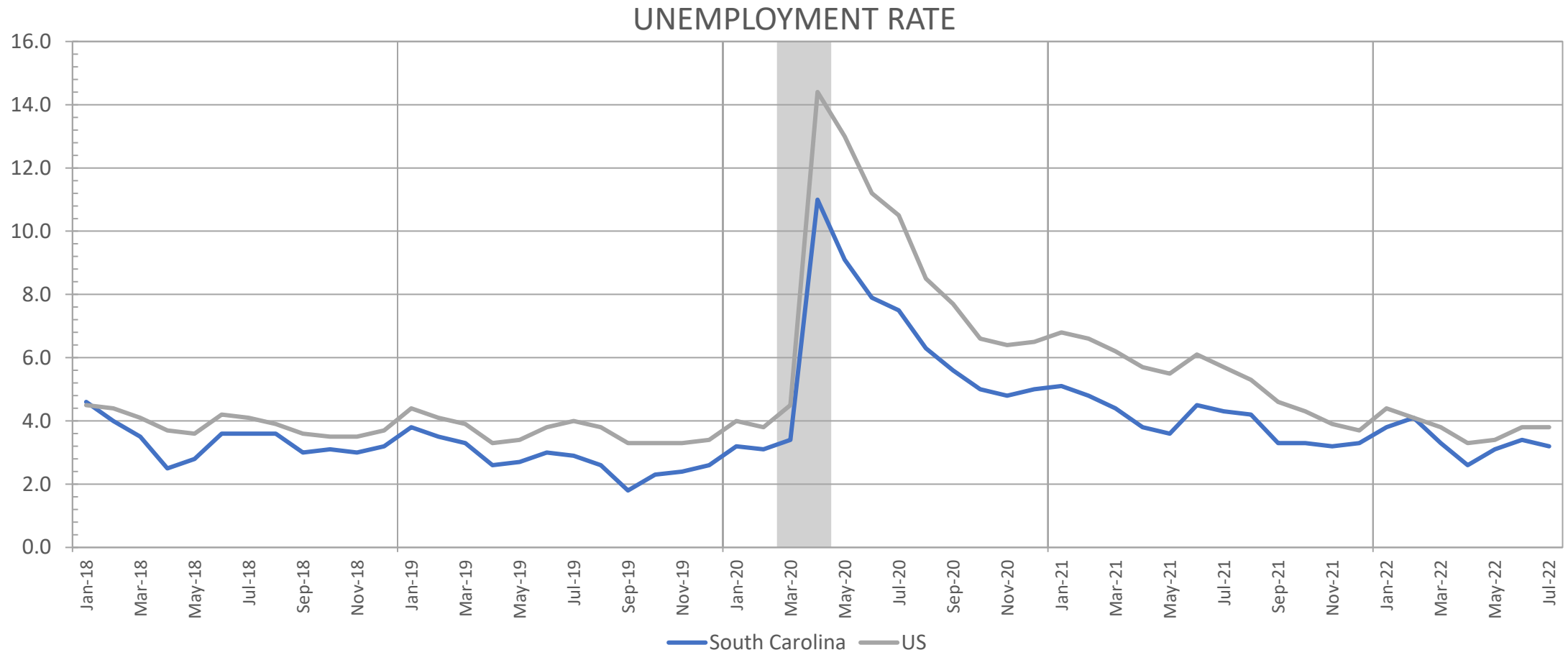
QUARTERLY US REAL GDP GROWTH



Source: U.S. Dept. of Commerce, Bureau of Economic Analyses RFA/lhj/266/09/09/2022

# Unemployment Rates

South Carolina's unemployment rate of 3.2% as of July 2022 remains below the US rate of 3.8%

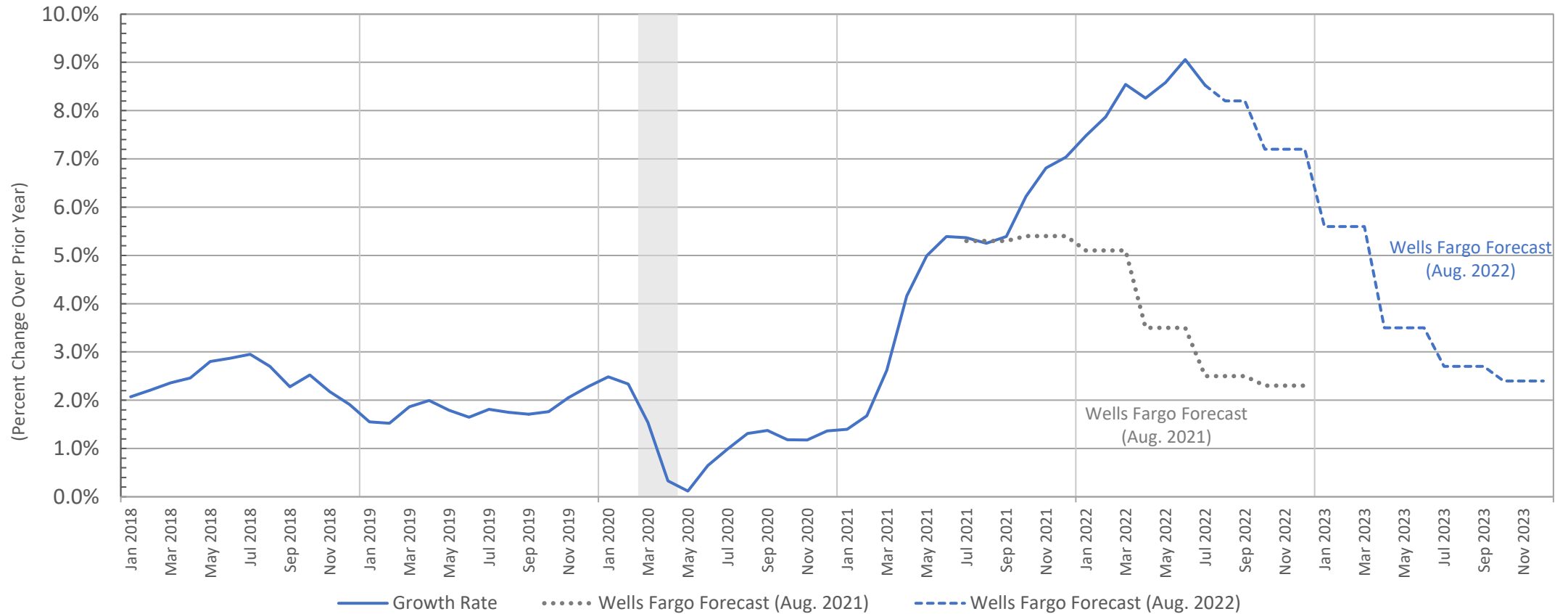


Source: U.S. Department of Commerce, Bureau of Labor Statistics 129--RFA/lhj/08/26/2022

# US Consumer Price Index

Inflation has grown much more than anticipated this time last year and is expected to remain above historical levels through FY 23

CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS



Source: U.S. Department of Labor, Bureau of Labor Statistics; Wells Fargo US Economic Outlook 216 - RFA/lhj/09/07/2022



# Inflation - Components

Energy, vehicles, housing, and food at home continue to be a large contributor to inflation but do not contribute to General Fund Sales tax

CPI - CONTRIBUTION TO TOTAL CHANGE BY SUBCOMPONENT  
July 2021 to July 2022

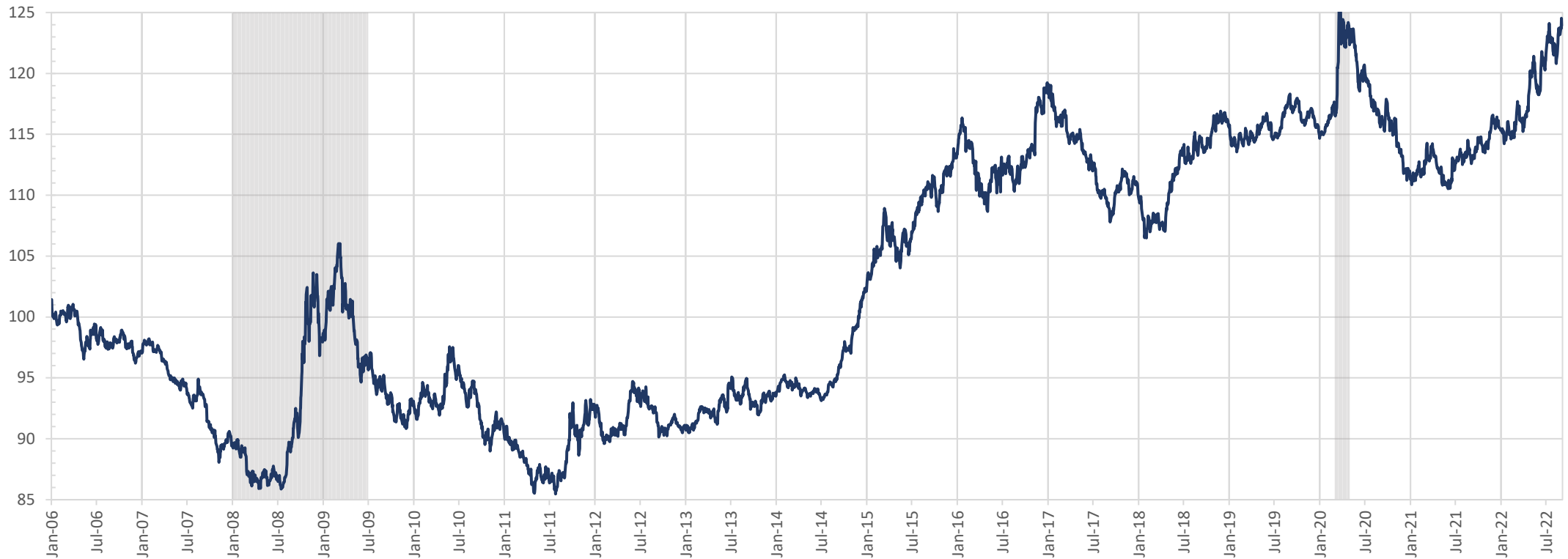


Source: U.S. Bureau of Labor Statistics, Consumer Price Index, bdc/8/17/2022

# US Dollar Index

The dollar has strengthened in the past year, indicating greater global trust in the US economy; American firms and consumers will be able to import more cheaply, but exports will be more costly

NOMINAL BROAD U.S. DOLLAR INDEX

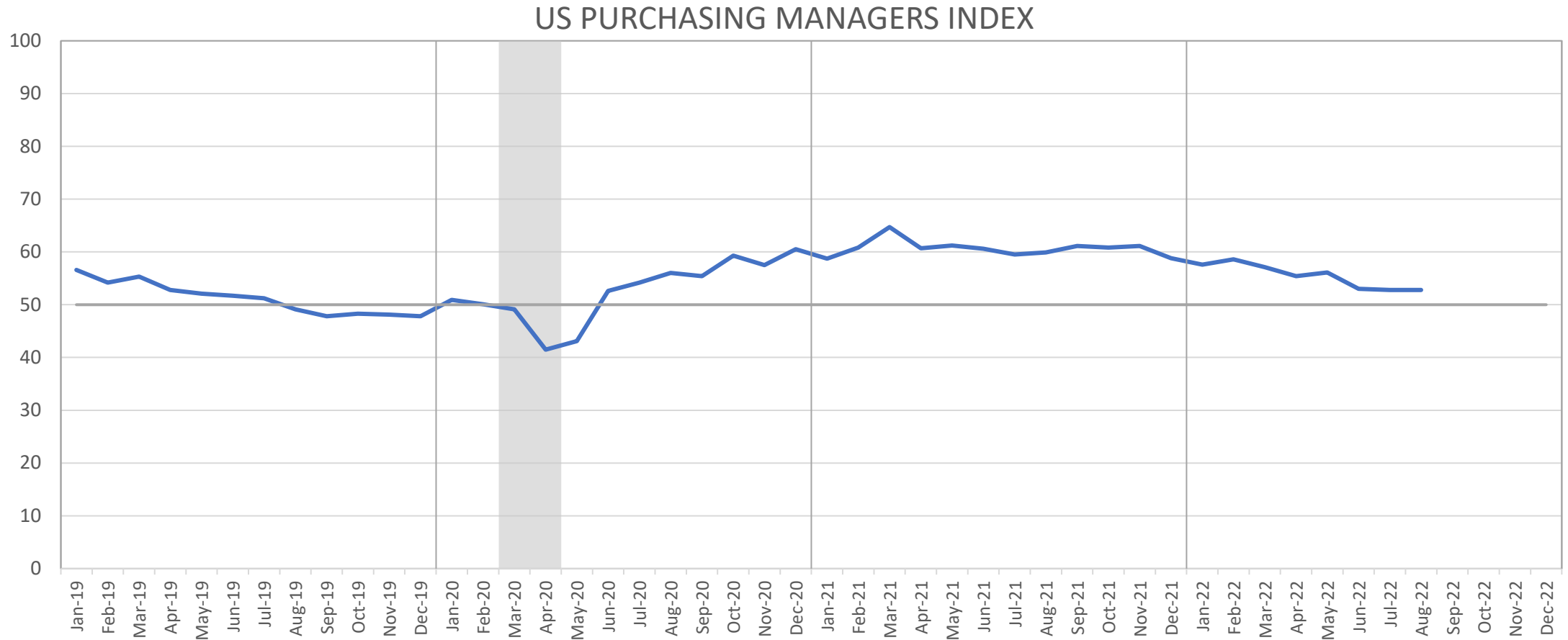


Source: Board of Governors of the Federal Reserve System 322 - RFA/bdc/9/7/2022



# Purchasing Managers Index

Index is a leading indicator of business conditions in the US; values over 50 represent growth or expansion within the manufacturing sector of the economy compared with the prior month



Source: US Institute for Supply Management 324/lhj/09/08/2022



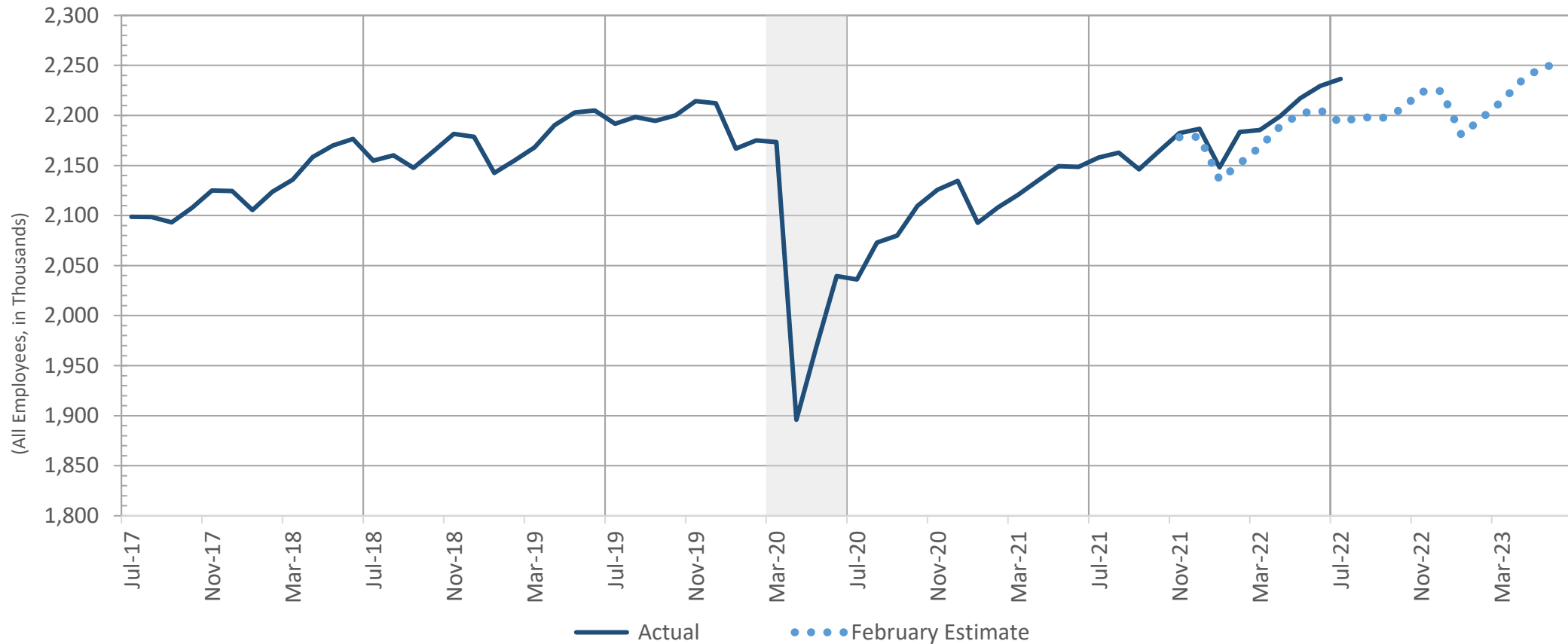
# South Carolina Economic Indicators



# South Carolina Employment

Nonfarm employment has exceeded the estimate in recent months, settling 43,400 jobs above the estimate in July

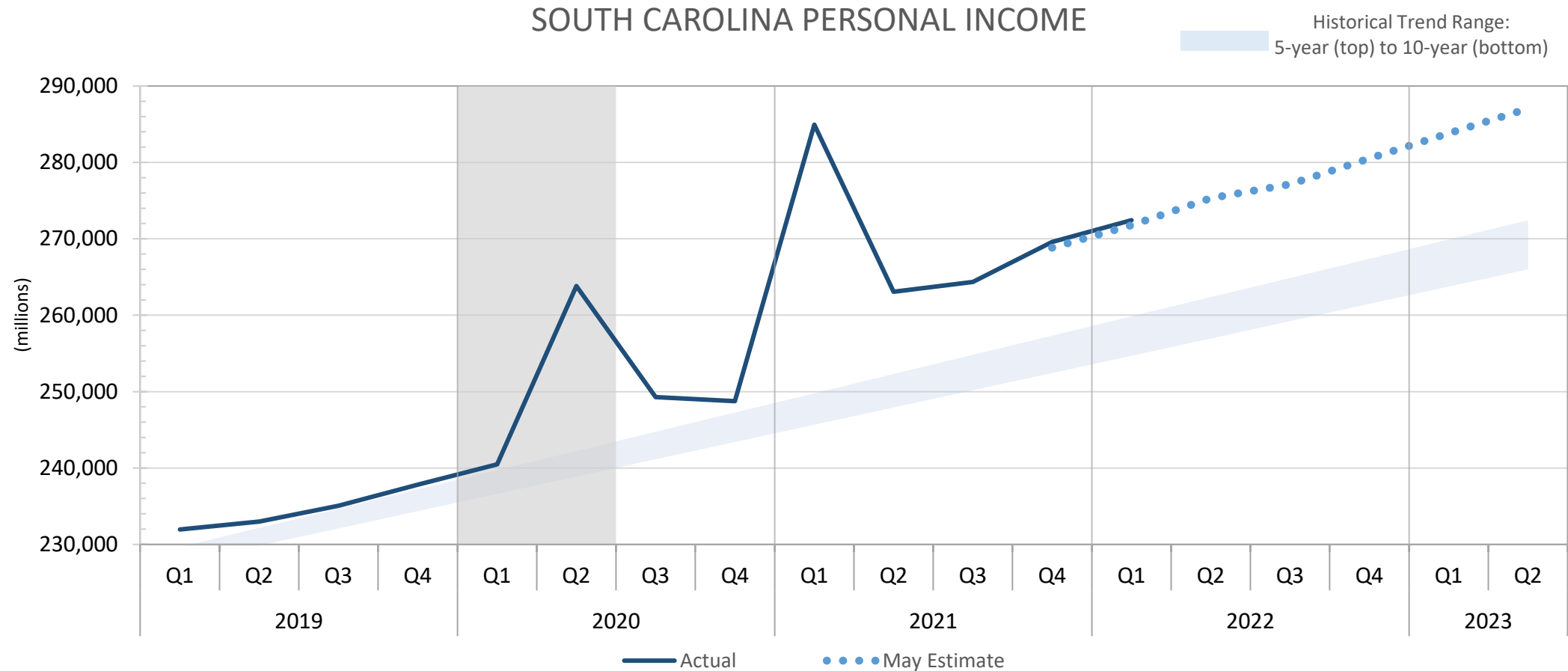
TOTAL NONFARM EMPLOYMENT IN SOUTH CAROLINA



Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/bdc/9/7/2022

# SC Personal Income

Personal Income is growing well above the historical trend and expected to continue to be elevated through FY 2022-23

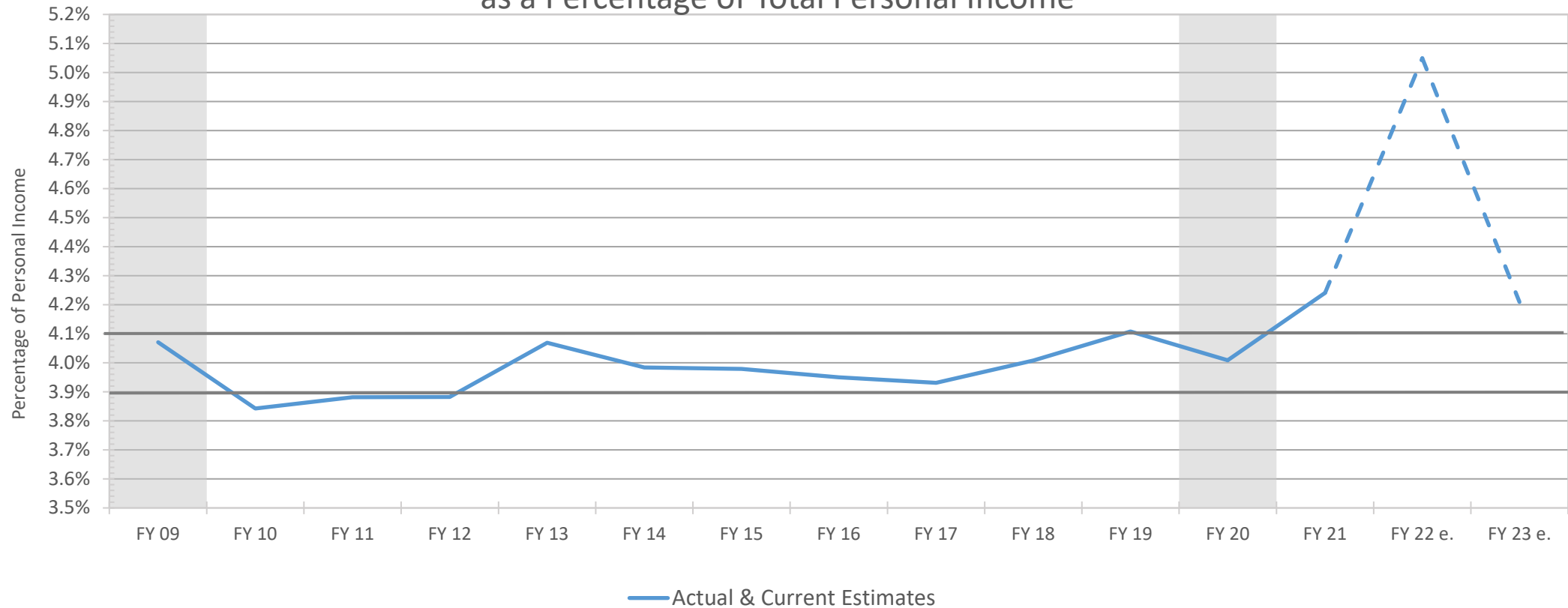


Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors

# General Fund as Percentage of Personal Income - Before Tax Reform

## Changes in consumer behavior resulted in a higher percentage of income going to the General Fund in FY 22

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



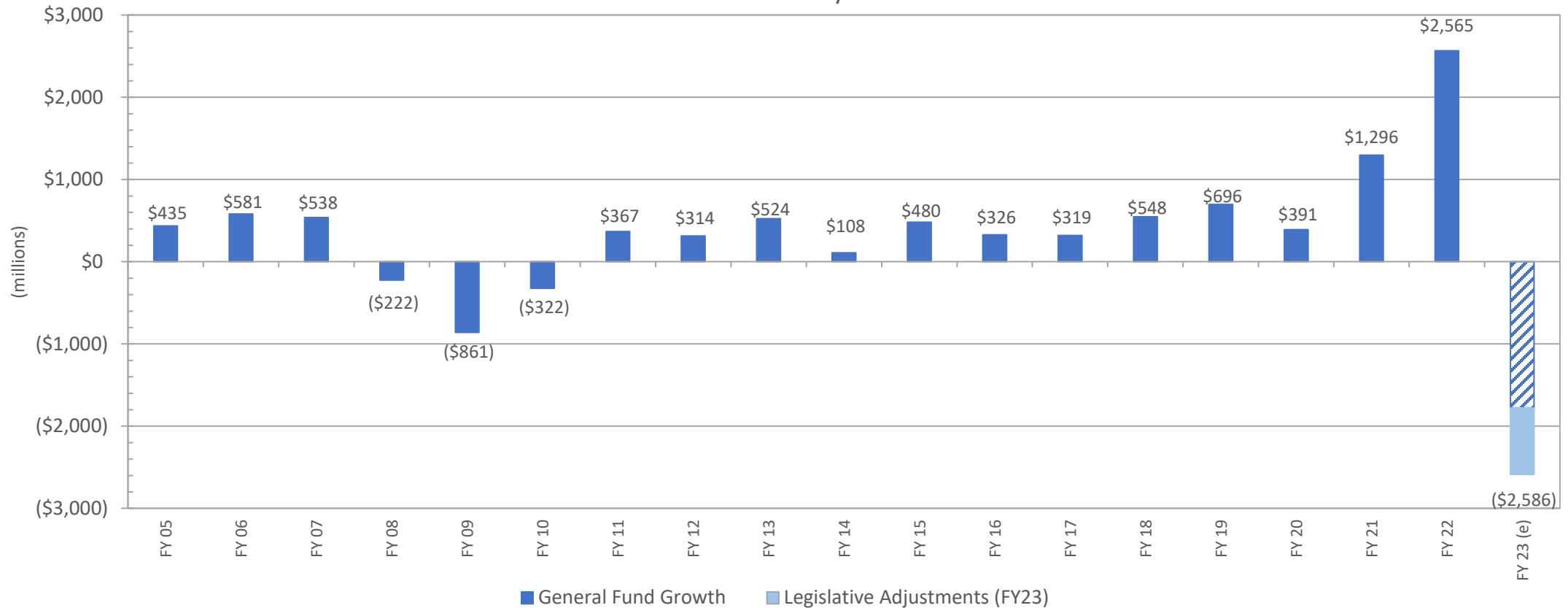
Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34F-

# Annual General Fund Revenue Growth

FY 22 revenue grew \$2.57 billion over FY 21; revenue can decline 18.9% and meet the current FY 23 estimate (after tax reform)

## ANNUAL GROWTH IN GENERAL FUND REVENUE

Preliminary



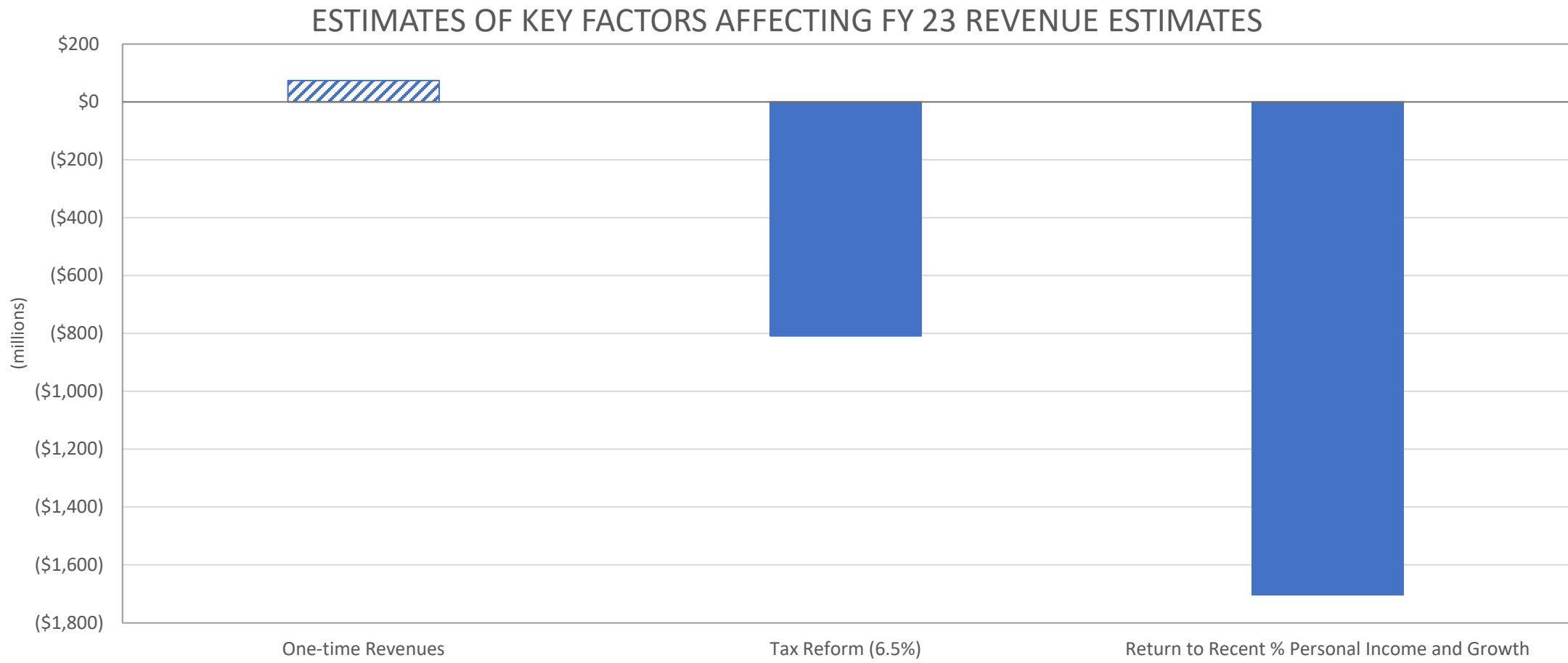
Note: Includes tax reform adjustments to refunds, nonwithholdings, and potential withholdings adjustment for tax year 2023 starting January 2023.

Source: Revenue and Fiscal Affairs - 169A/lhj/09/09/2022



# General Fund Revenue Estimate – Key Factors

The current FY 23 estimate represents a decline of \$2.586 billion from actual FY 22 due to multiple contributing factors including tax reform



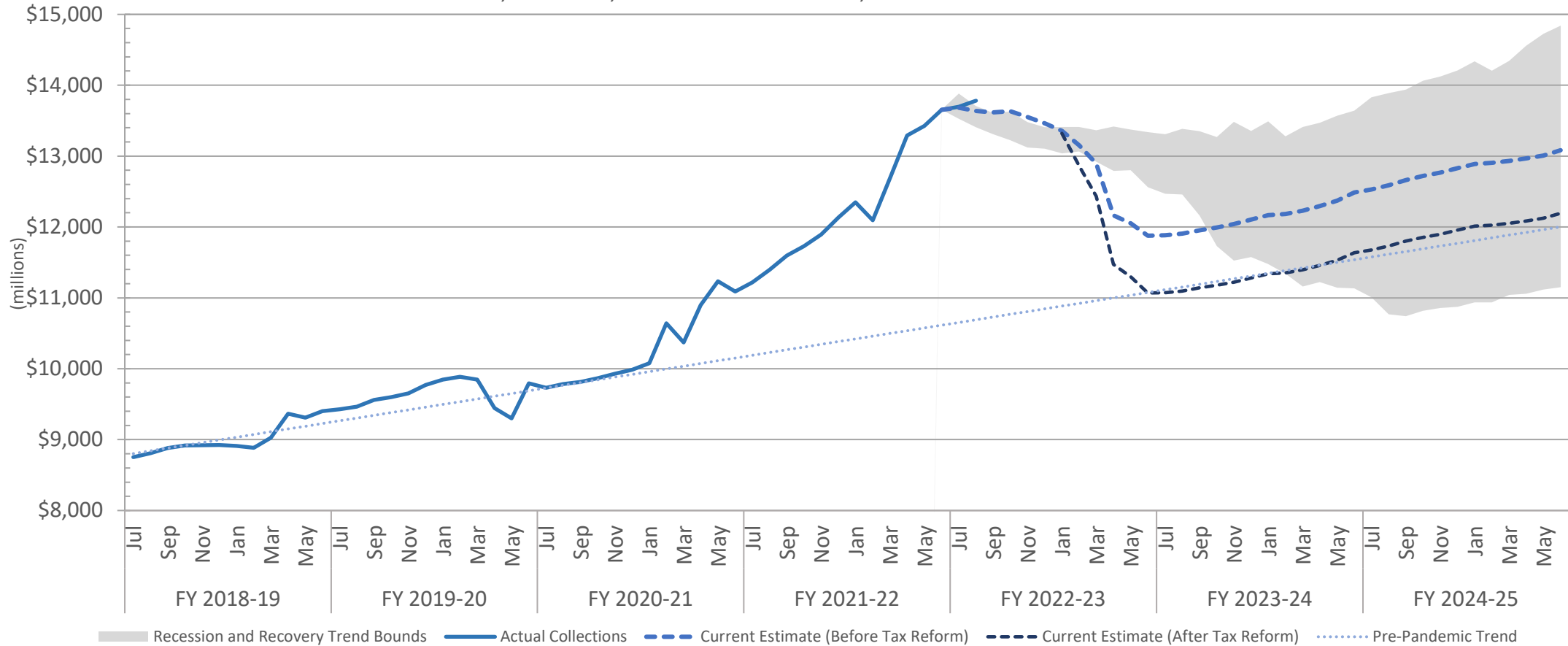
#N/A

# General Fund Revenue Scenarios v. Historical Recession Patterns

Recession trends range from the 1990-91 downturn at best to the Great Recession at worst

## ROLLING FISCAL YEAR - GENERAL FUND REVENUE

Actual, Estimate, and Recession Trends, FY 2018-19 to FY 2024-25



# Key Questions for FY 2022-23 and FY 2023-24

- Personal Income
  - Will wage growth continue or slow?
  - Will the US enter a recession and what level of impact will we see?
  - How long will the Federal Reserve continue to raise interest rates?
  - How will global economic issues affect SC's economy?
    - GDP
    - Energy prices
    - Supply chain issues
- Consumer Spending
  - Does consumer spending change due to inflation?

# Insights and Perspectives FY 2022-23 and FY 2023-24



## Guest Speakers

- Ms. Barbara Melvin, President & Chief Executive Officer, SC Ports Authority
- Mr. Bob Morgan, President & Chief Executive Officer, SC Chamber of Commerce
- Mr. Justin Powell, Deputy Secretary for Finance and Administration, SC Department of Transportation

# Reports from Working Group Members

# Other Items for Discussion

