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The BEA Revises FY 2021-22 and FY 2022-23 Forecasts Upward *Elevated Spending from Pandemic Response Continues*

COLUMBIA – At today’s meeting, the South Carolina Board of Economic Advisors (BEA) increased the revenue estimates for this fiscal year, FY 2021-22 (FY22), and next fiscal year, FY 2022-23 (FY 23), in anticipation of higher revenue collections than previously forecasted, resulting in an unprecedented additional \$4.628 billion in forecasted recurring and nonrecurring revenues this budget cycle.

The BEA raised its current FY 22 estimate by \$921.0 million, increasing the General Fund forecast from \$10.901 billion to \$11.822 billion. This change reflects consistently higher than expected revenue collections this year, including exceptionally high growth in multiple revenue categories. As a result of unusually strong revenue growth through January of 20.1 percent, revenues for FY 22 are now expected to increase 6.6 percent over the record high collections in FY 2020-21 (FY 21).

In addition, the BEA increased its FY 23 estimate from \$10.920 billion to \$11.541 billion, an increase of \$621.5 million. The updated FY 23 forecast is 2.4 percent lower than the revised FY 22 estimate, largely due to expectations that this year’s extraordinary growth in Sales tax and Corporate Income tax, driven by stimulus spending and changes in consumer behavior, will begin to subside. Though forecasted growth next fiscal year is negative relative to FY 22, total estimated revenue for FY 23 remains above the long-term trend prior to start of the pandemic.

For the past twelve months, revenue has grown 22.5 percent, which is substantially higher than normal. Growth this fiscal year in the three major tax categories, Sales, Individual Income, and Corporate Income tax, is well above normal ranges, creating a bubble in revenue collections. The increase in Individual Income Withholdings, driven by a labor shortage that has resulted in significant wage growth, is likely to stay for the long-term as wage increases are typically stable and unlikely to decline. This high wage growth prompted much of the upward revision to the FY 23 estimate.

Sales tax and Corporate Income tax growth, however, are projected to slow in the future as stimulus effects begin to wane. In the short-term, stimulus spending and consumer behavior changes have created temporary revenue growth in these two categories that is not expected to continue into FY 23. This growth has pushed collections well above the normal trend for FY 22, extending the bubble effect seen in FY 21 into FY 22.

The BEA noted the largest risk to the forecast is determining the timing and magnitude of the expected slowdown in revenue growth as the effects of federal stimulus programs subside. The forecast reflects a cautious approach for FY 23, factoring in sustained higher wages but anticipating that elevated consumer spending is likely temporary.

In reviewing the forecast estimates, the BEA also noted that other states are experiencing similar higher than anticipated revenue growth, but how long this change will continue remains an unknown.

With these revised forecasts and budgetary adjustments, lawmakers will have \$1.519 billion in additional new recurring revenue for the FY 23 budget process and forecasted surpluses totaling \$3.109 billion from last fiscal year and this year, for a total of \$4.628 billion in additional revenue available to appropriate.

FY 2022-23 Budget Outlook
(Millions of Dollars)

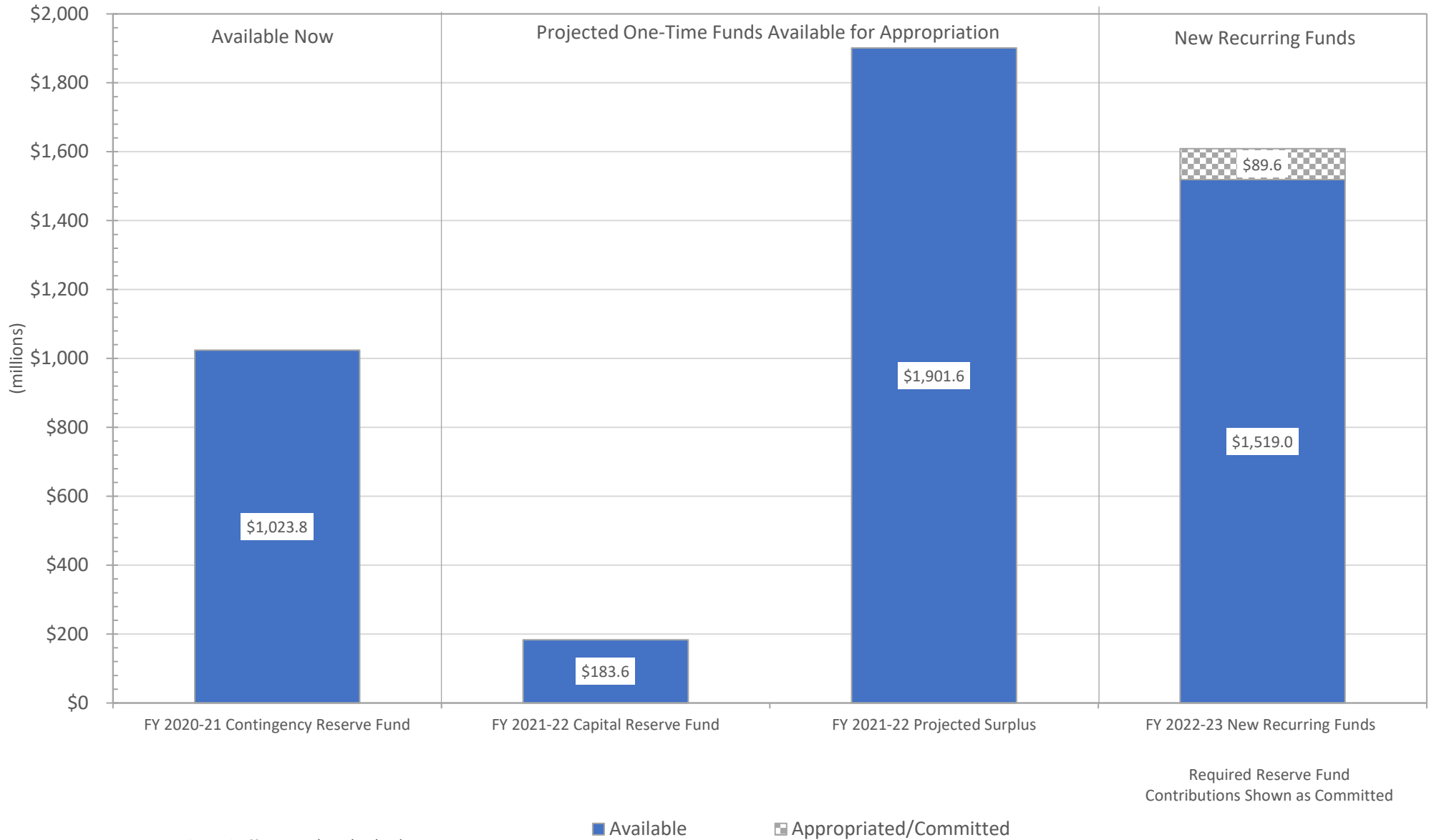
Net New Recurring General Fund Revenue <i>(less Tax Relief Trust Fund and Reserve Fund Contributions)</i>	\$1,519.0
Non-recurring Revenue	
FY 2020-21 Contingency Reserve Fund <i>(Prior year surplus)</i>	\$1,023.8
FY 2021-22 Capital Reserve Fund	\$183.6
Projected FY 2021-22 General Fund Surplus	\$1,901.6
Total Non-recurring Revenue	\$3,109.0
Estimated Additional Revenue for Appropriation	\$4,628.0

(Figures may not add to totals due to rounding)

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Attachment

AVAILABLE FUNDS - FY 2022-23 BUDGET PROCESS as of February 15, 2022



Source: S.C. Revenue and Fiscal Affairs 297/RFA/02/15/2022

Required Reserve Fund
Contributions Shown as Committed