

SOUTH CAROLINA GENERAL FUND REVENUE

Quarterly Review and Forecast Review

April 7, 2022



General Fund FY 2021-22 Third Quarter Summary (Preliminary)

- March numbers are not yet finalized, but preliminary numbers indicate a General Fund excess of \$486.7
- Individual Income is driving the excess in March collections and is currently \$324.4 million ahead of expectations, partly due to the timing of refunds
- Sales tax and Corporate Income tax are ahead of expectations by \$28.5 million and \$88.7 million, respectively
- Higher collections across smaller revenue categories were \$45.1 million above the estimate

General Fund Revenue



(\$ in Millions)

REVENUES V. BEA MONTHLY ESTIMATES

JULY - MARCH FY 2021-22

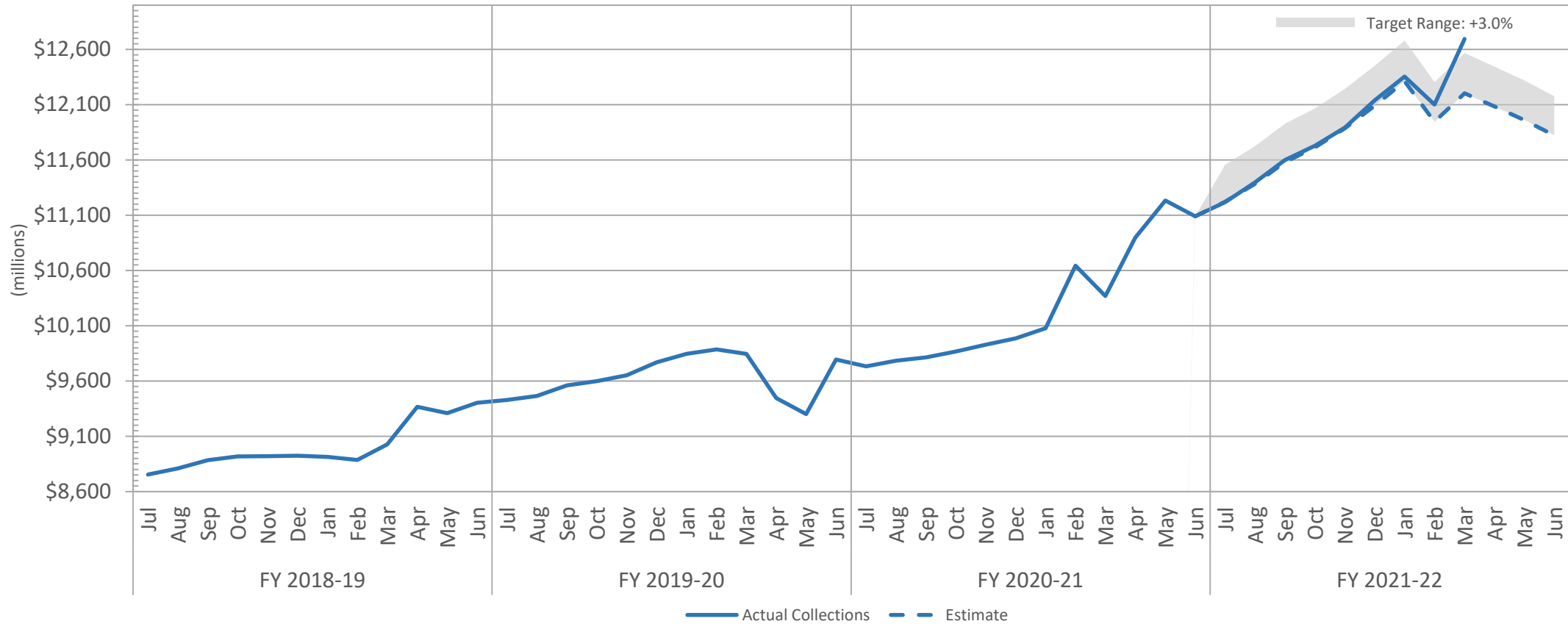
	Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD		Actual Revenues	Expected Revenues	Over/ (Under) Expected	Estimate Full Yr.	Actual YTD
Total General Fund Revenue	\$8,937.7	\$8,450.9	\$486.7	6.6%	21.8%	Other Revenue Items, Sub-Total	\$664.2	\$619.5	\$44.7	8.0%	19.1%
Sales Tax	2,814.8	2,786.3	28.5	5.8%	18.2%	Admissions Tax	23.4	17.0	6.4	26.5%	84.6%
Individual Income Tax	4,670.0	4,345.6	324.4	6.9%	21.1%	Alcoholic Liquors Tax	70.9	66.7	4.3	2.9%	17.1%
Withholdings	5,143.9	5,007.1	136.8	8.6%	13.8%	Bank Tax	38.2	30.4	7.9	(16.8%)	174.3%
Nonwithholdings	822.0	794.0	28.1	(8.7%)	7.8%	Beer and Wine Tax	76.5	74.5	2.0	(1.2%)	2.0%
Refunds	1,296.0	1,455.5	(159.5)	0.3%	(9.1%)	Corporate License Tax	148.4	143.5	4.9	6.8%	10.4%
Corporate Income Tax	571.9	483.1	88.7	20.7%	82.0%	Deed Rec. (Doc. Tax)	102.6	94.4	8.2	11.8%	43.1%
Insurance Tax	216.8	216.4	0.4	(3.6%)	(4.8%)	Earned on Investments	56.0	55.0	1.0	4.6%	3.6%
Other Revenue Items, Sub-Total	664.2	619.5	44.7	8.0%	19.1%	Residual Revenue	148.2	138.2	10.0	(7.4%)	9.4%

Based on BEA Forecast as of February 15, 2022

General Fund Revenue – Actual vs. February Estimate

Revenues are running 21.8% over last year, with March bringing year-to-date collections \$486.7 million above the estimate

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

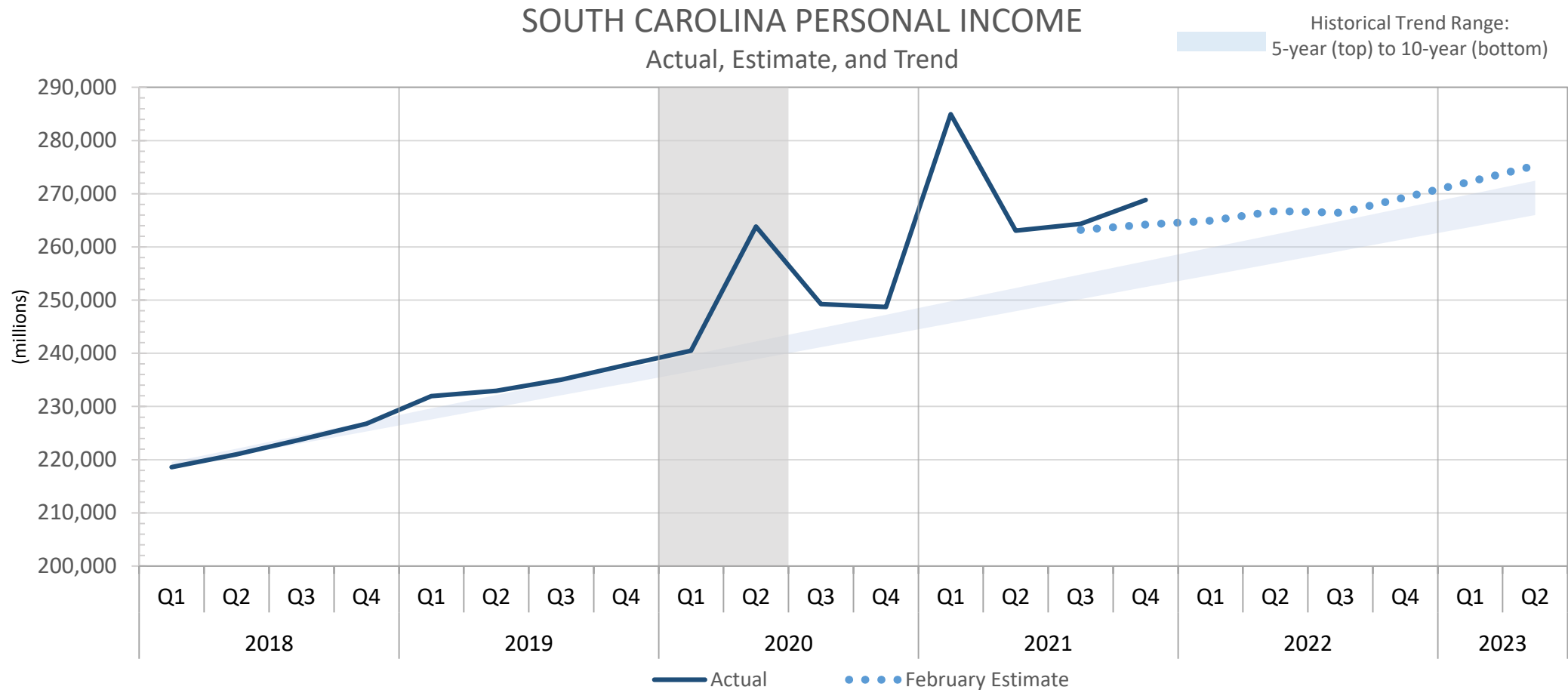


Individual Income Tax and Related Economic Indicators



SC Personal Income

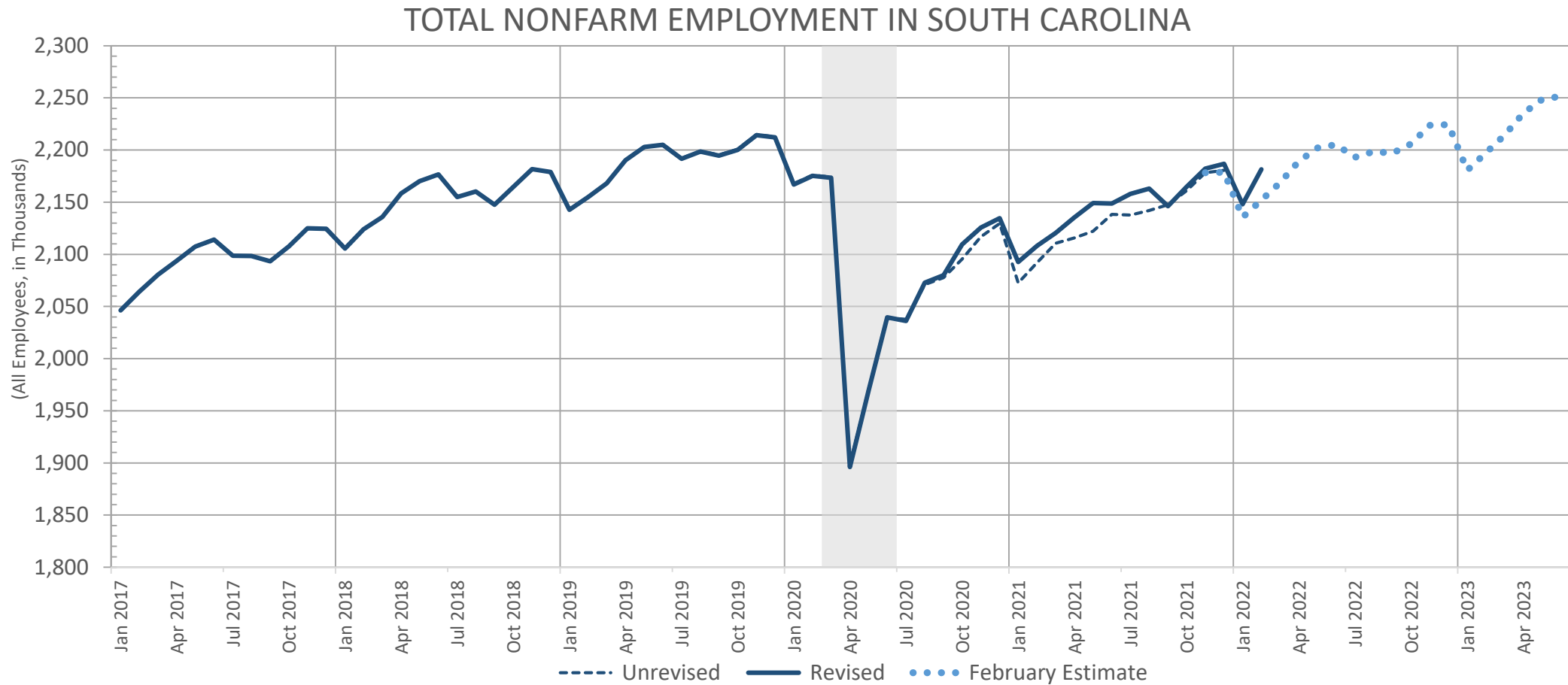
Q3 revised upward by \$1.1 billion in the most recent release; along with this, high wage growth drove personal income 1.7% above the estimate in Q4 2021



Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors – RFA/bdc/3/28/2022

SC Employment

February experienced very strong job growth, ending above pre-pandemic levels; most of FY 2020-21 was revised upward by an average of 15.7 thousand jobs



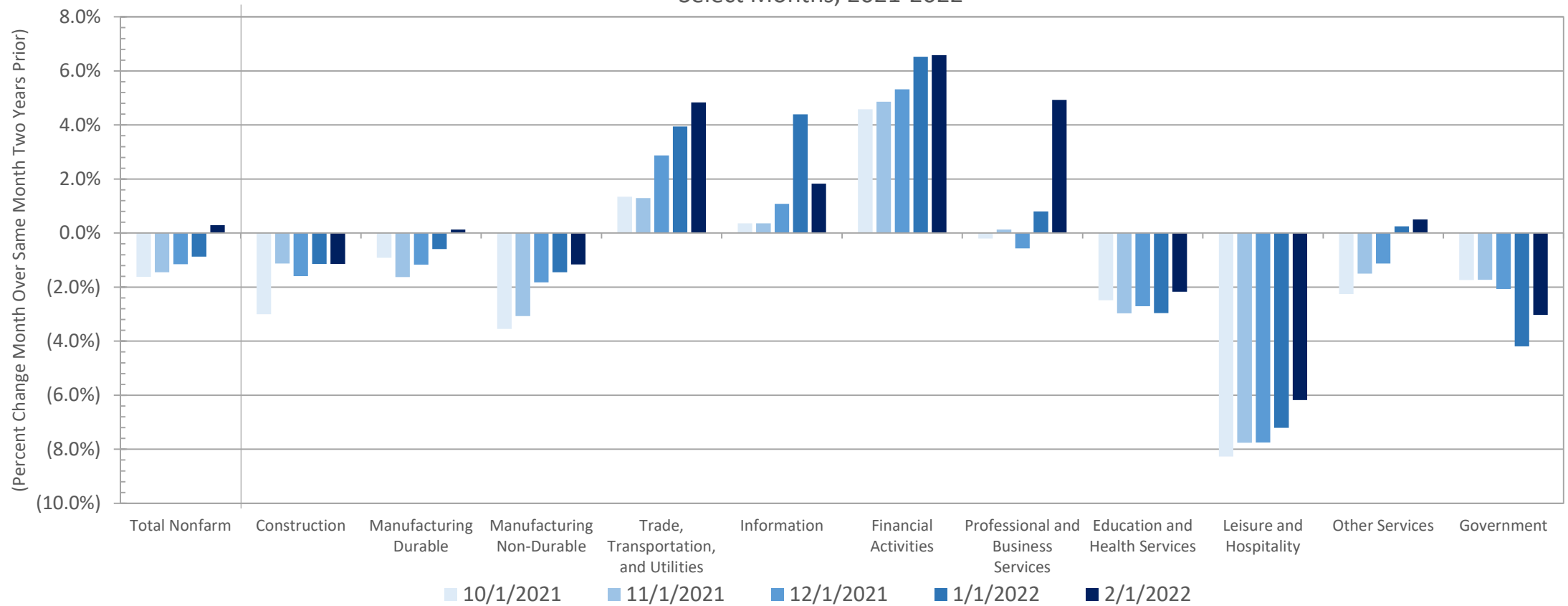
Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/bdc/3/28/2022

SC Employment by Industry

Many industries are at or above pre-pandemic levels; Leisure and Hospitality, Education and Health Services, and Government remain markedly low

SC EMPLOYMENT BY INDUSTRY PERCENT CHANGE OVER TWO YEARS PRIOR

Select Months, 2021-2022



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/3/28/2022

Individual Income Taxes

Key Issues

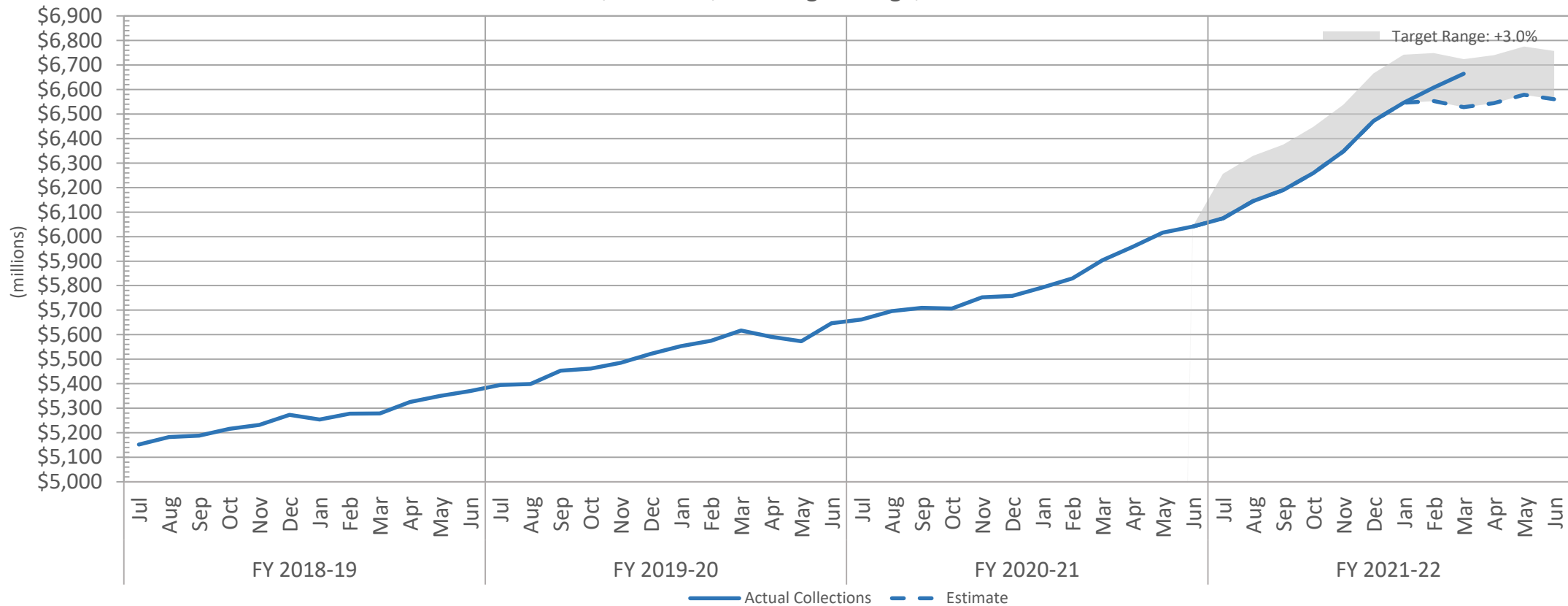
- Wage growth has driven Withholdings above the estimate but is beginning to moderate
- Non-Withholdings is slightly above the estimate with more than 40% of collections still to come; shifting trends and Federal Reserve decisions are expected to keep collections below FY 2020-21, which saw almost 25% growth
- Refunds are below the estimate due to processing timing, but this should be resolved in time

Withholdings - Actual vs. Estimate

Year-over-year growth in March was 9.8%; growth is slowing more gradually than expected, pushing collections \$136.8 million above the estimate

ROLLING FISCAL YEAR - INDIVIDUAL INCOME WITHHOLDINGS

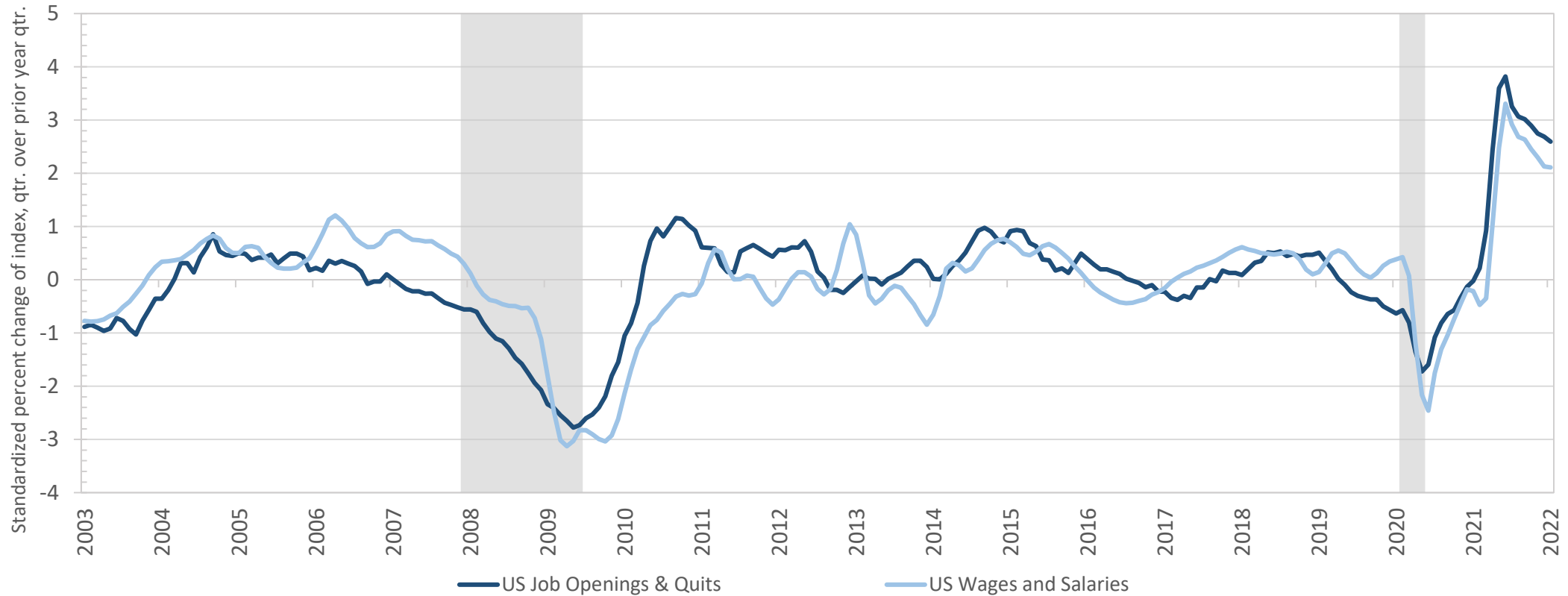
Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22



Wage Growth and the Labor Market

Wage growth remains elevated; return to normal levels may be more gradual than expected as the labor shortage continues

US JOB OPENINGS & QUILTS VS. WAGE GROWTH



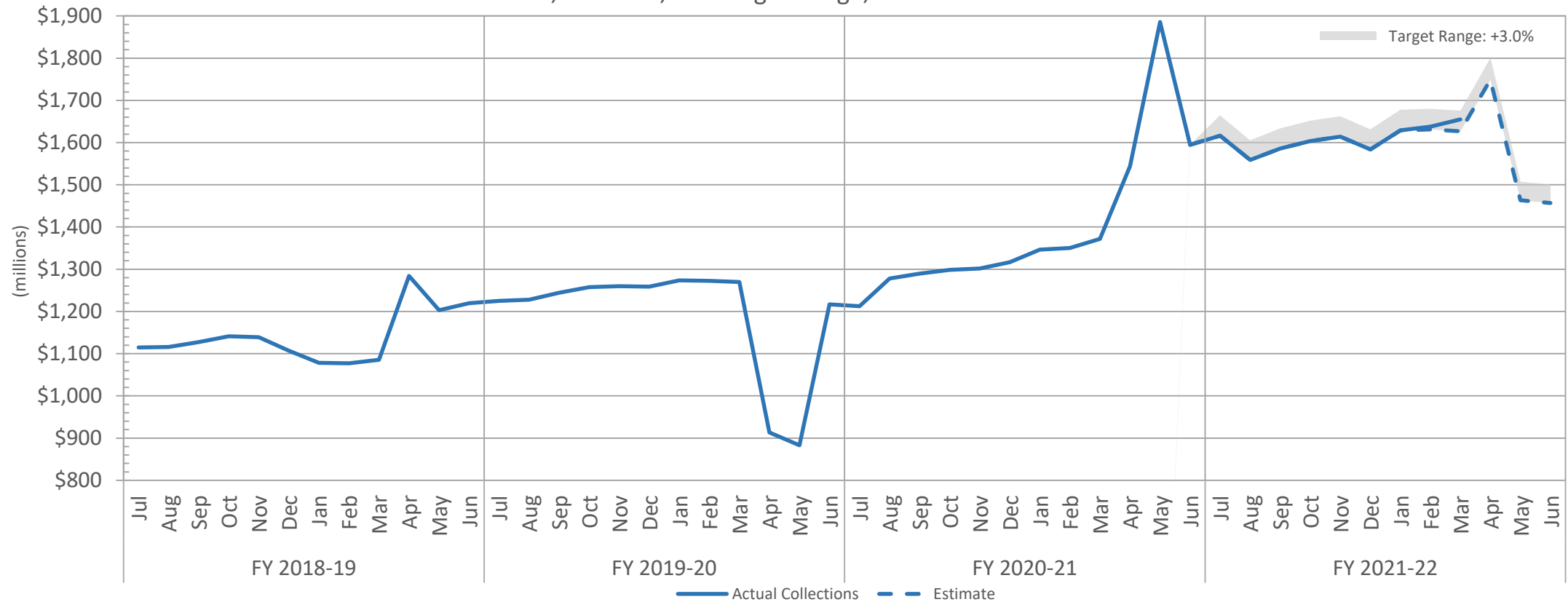
Source: U.S. Bureau of Economic Analysis, Compensation of Employees, Received; U.S. Bureau of Labor Statistics, JOLTS; 309A - RFA/bdc/3/28/2022

Non-Withholdings - Actual vs. Estimate

Collections are \$28.1 million above the estimate, but more than 40% of expected collections remain

ROLLING FISCAL YEAR - INDIVIDUAL INCOME NON-WITHHOLDINGS

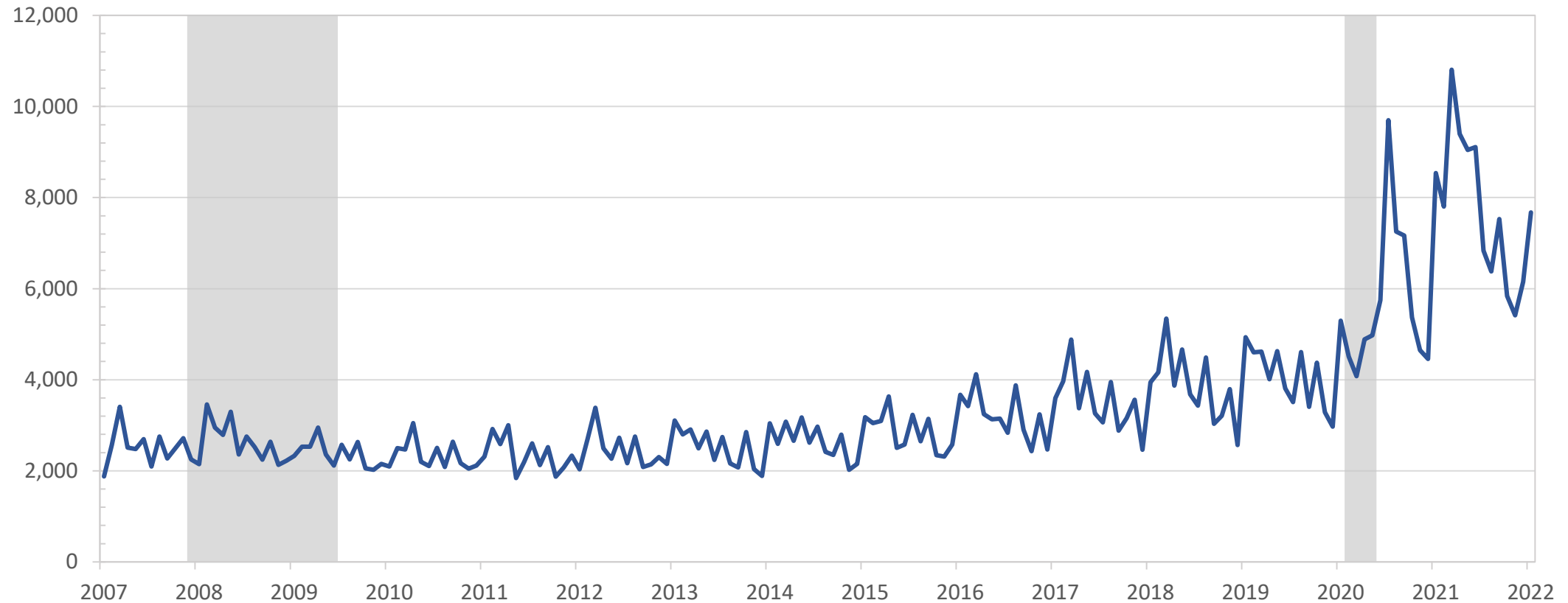
Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22



SC Business Applications

Business applications are elevated but less so than the prior year

SC BUSINESS APPLICATIONS EXCLUDING CORPORATIONS



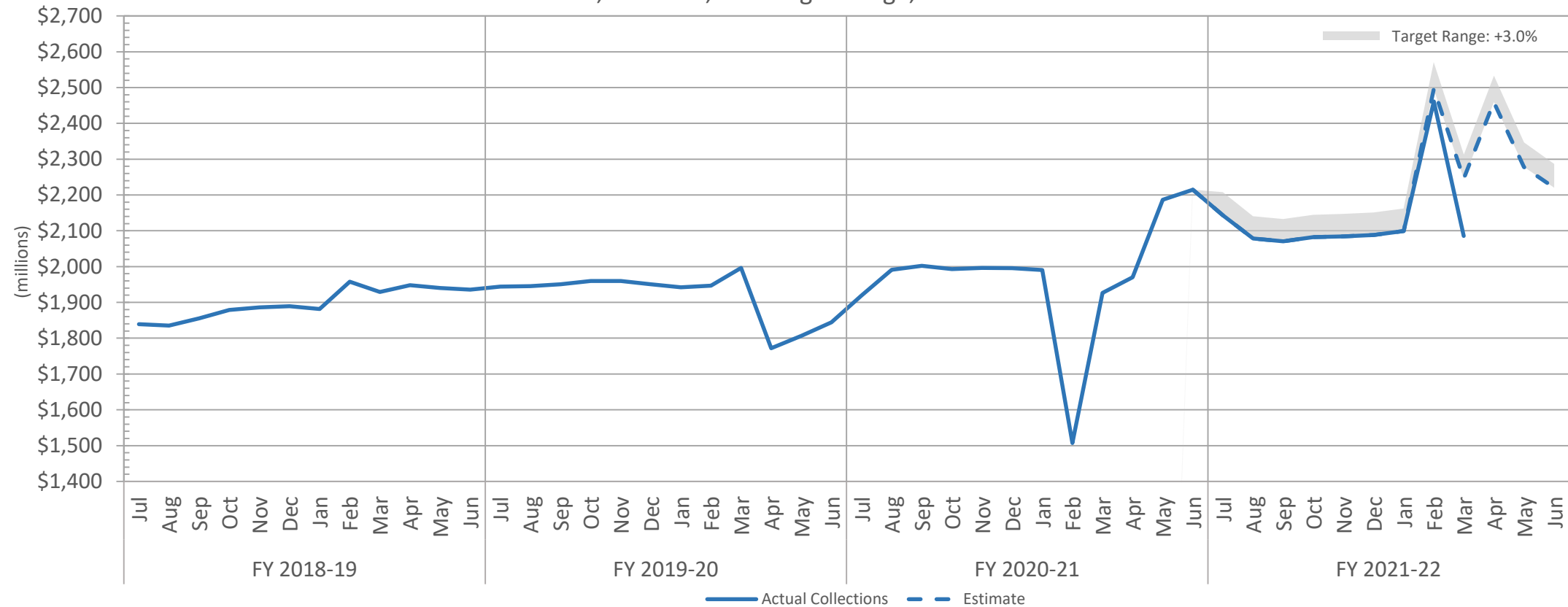
U.S. Census Bureau, Business Applications for South Carolina - 311B RFA/bdc/3/28/2022

Refunds - Actual vs. Estimate

Refunds are \$159.5 million below the estimate due to the timing of refunds processing; this is expected to even out during tax filing season

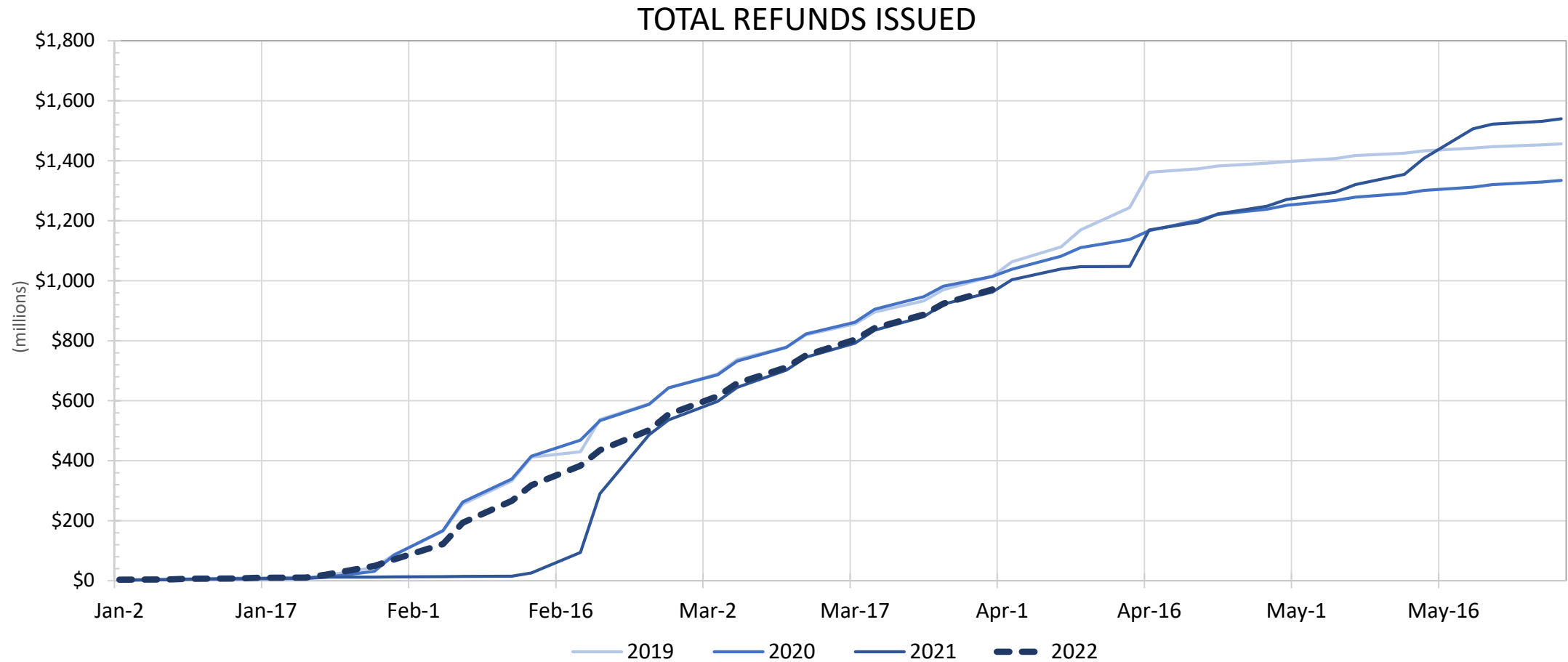
ROLLING FISCAL YEAR - INDIVIDUAL INCOME REFUNDS

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



Refunds

Total refunds issued are in line with 2021 but below previous years



Data Source: S.C. Department of Revenue, 4/5/2022

Consumption Taxes and Related Economic Indicators



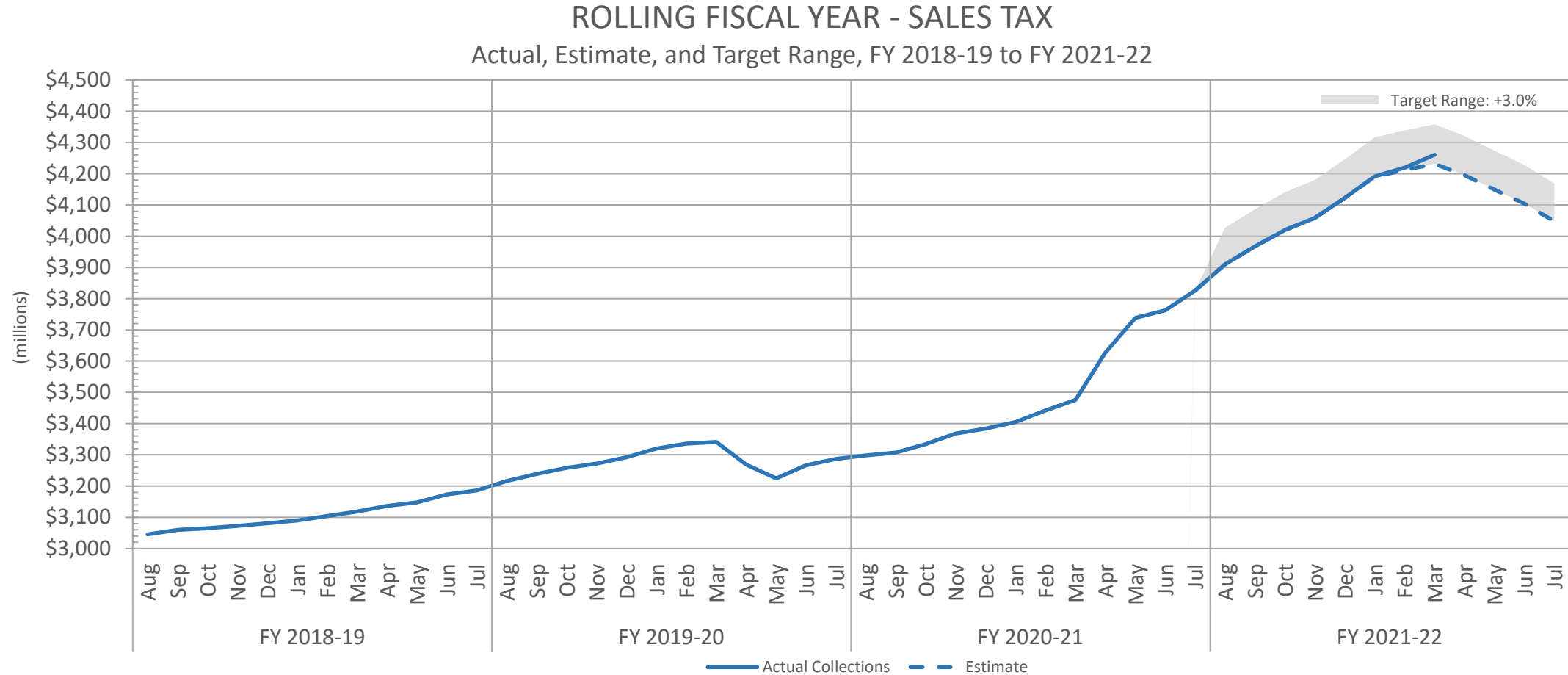
Consumption Taxes

Key Issues FY 2021-22

- Growth through March was slightly above the estimate – anticipating negative growth rates beginning with April revenues
- Consumers continue to spend more than pre-pandemic levels, with excess savings driving elevated spending over FY 2020-21
- Consumers are facing high gas prices and high inflation
- In response, the Federal Reserve has signaled up to six rate hikes in 2022 to curb inflation
- Coupled with higher costs, interest rate increases present an incentive to contract spending

Sales Tax - Actual vs. Estimate

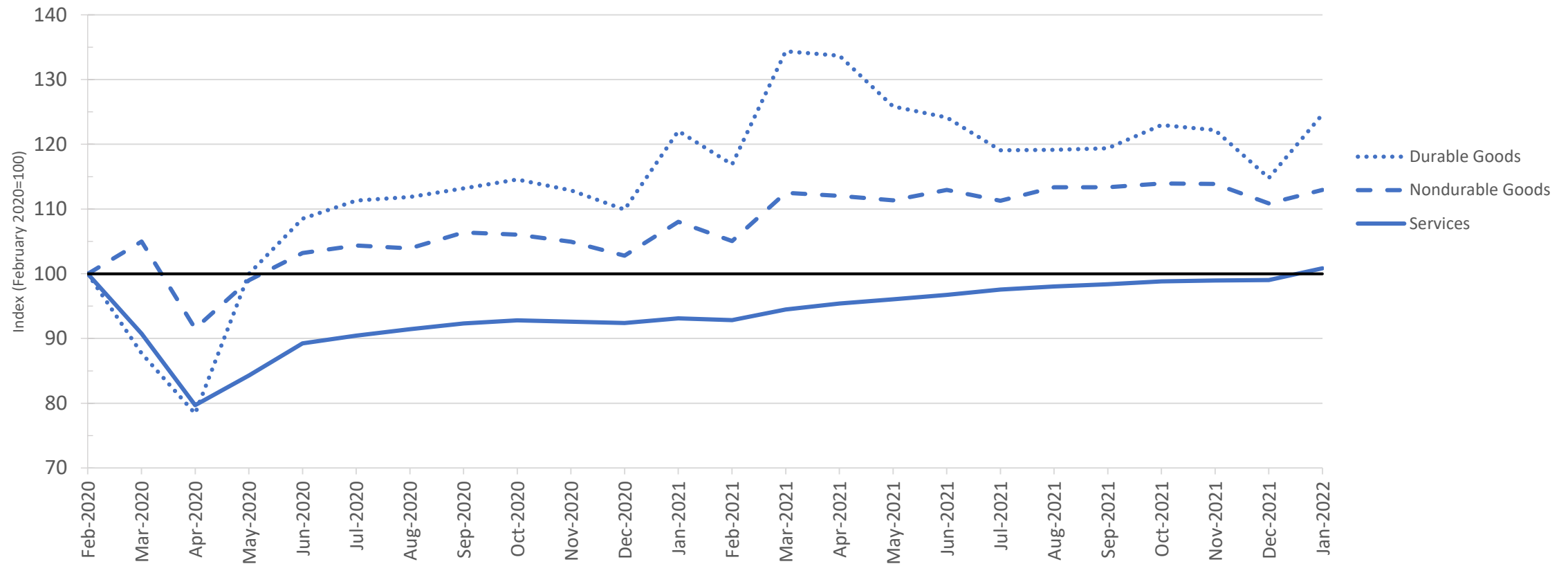
Collections in February and March were slightly above the estimate, with year-to-date growth declining slightly from **18.6%** to **18.2%**



US Consumer Spending

Consumer spending remains elevated over pre-pandemic levels, with goods continuing to drive growth

US CONSUMPTION OF GOODS AND SERVICES
Indexed to February 2020



Federal Reserve Bank of St. Louis, Personal Consumption Expenditures, nmg/3/28/2022

SC Consumer Spending

Pandemic spending habits have continued to significantly impact select industries

FISCAL YEAR-OVER-YEAR DOLLAR CHANGE IN NET TAXABLE SALES
JULY - JANUARY



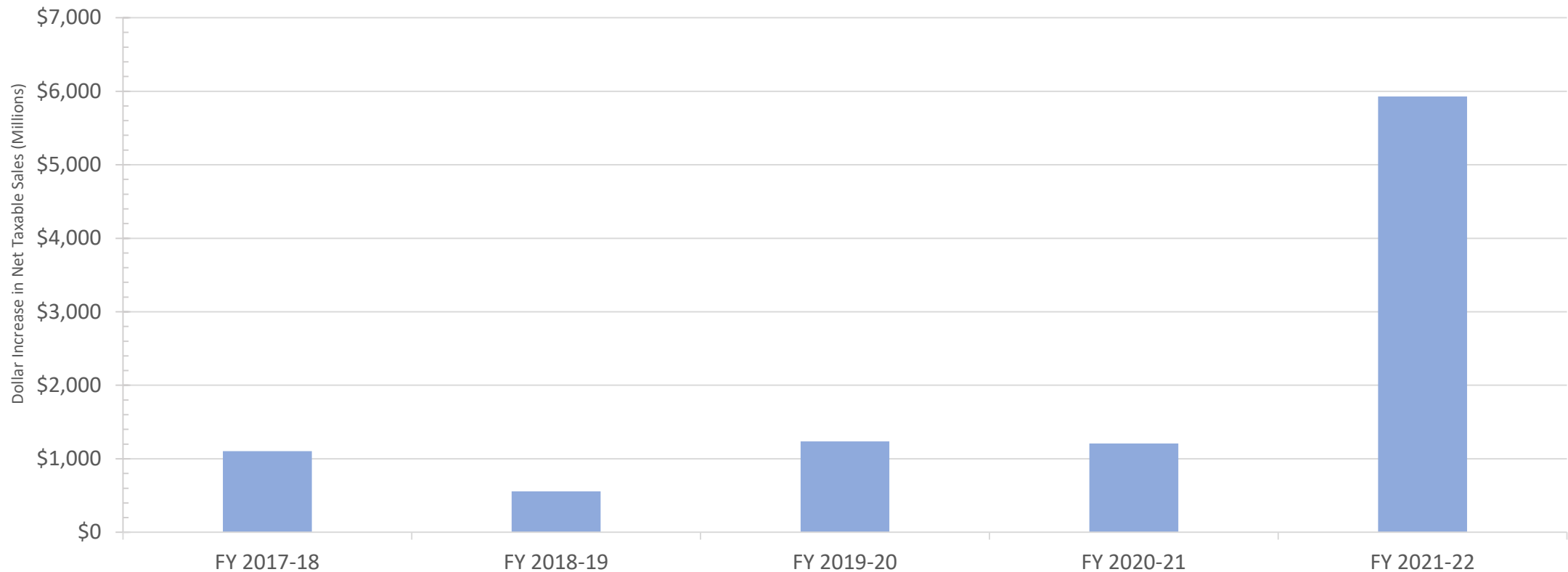
Source: South Carolina Department of Revenue, nmg/3/29/2022



SC Consumer Spending

Net taxable sales have increased nearly \$6 billion fiscal YTD, compared to a historical average increase of \$1.2 billion

CHANGE IN NET TAXABLE SALES BY FISCAL YEAR
July through January

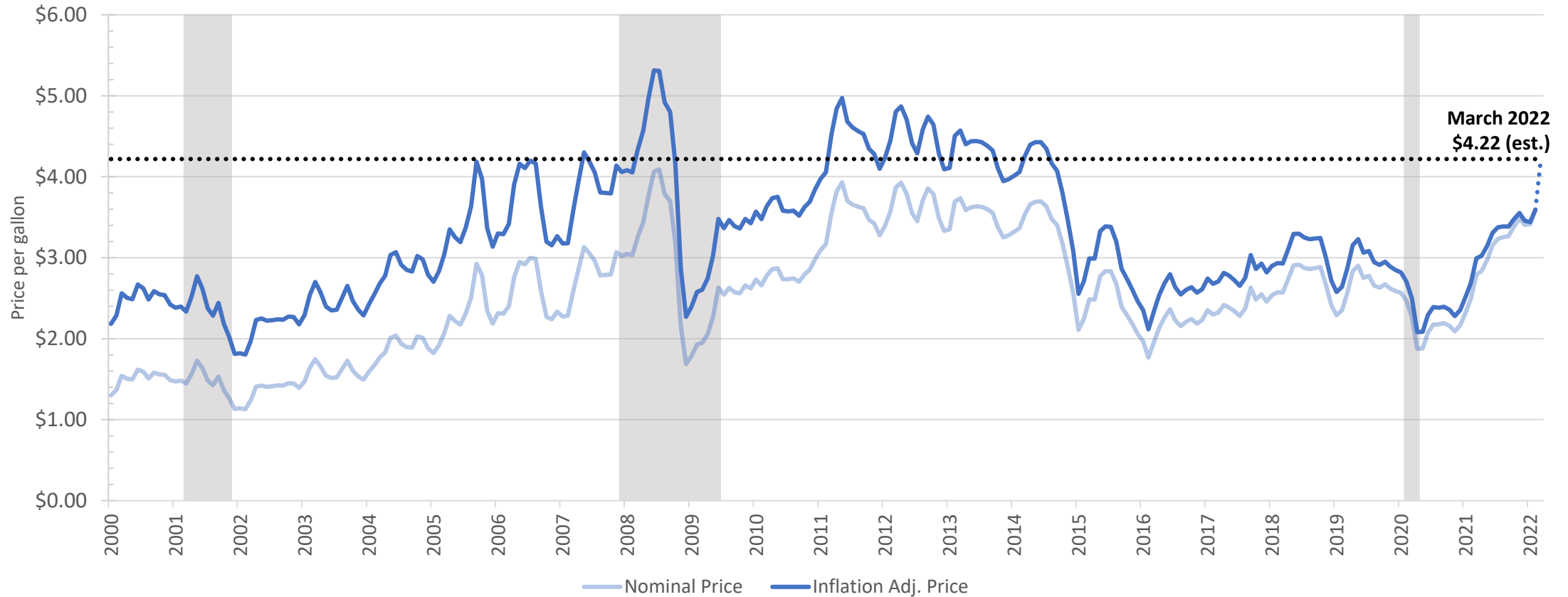


Source: South Carolina Department of Revenue, nmg/3/30/2022

Consumer Spending

Gas prices rose quickly following the ban on the importation of Russian oil and liquefied natural gas. These prices may moderate following the release of 60 million barrels from reserves.

U.S. AVERAGE RETAIL PRICE FOR REGULAR GASOLINE

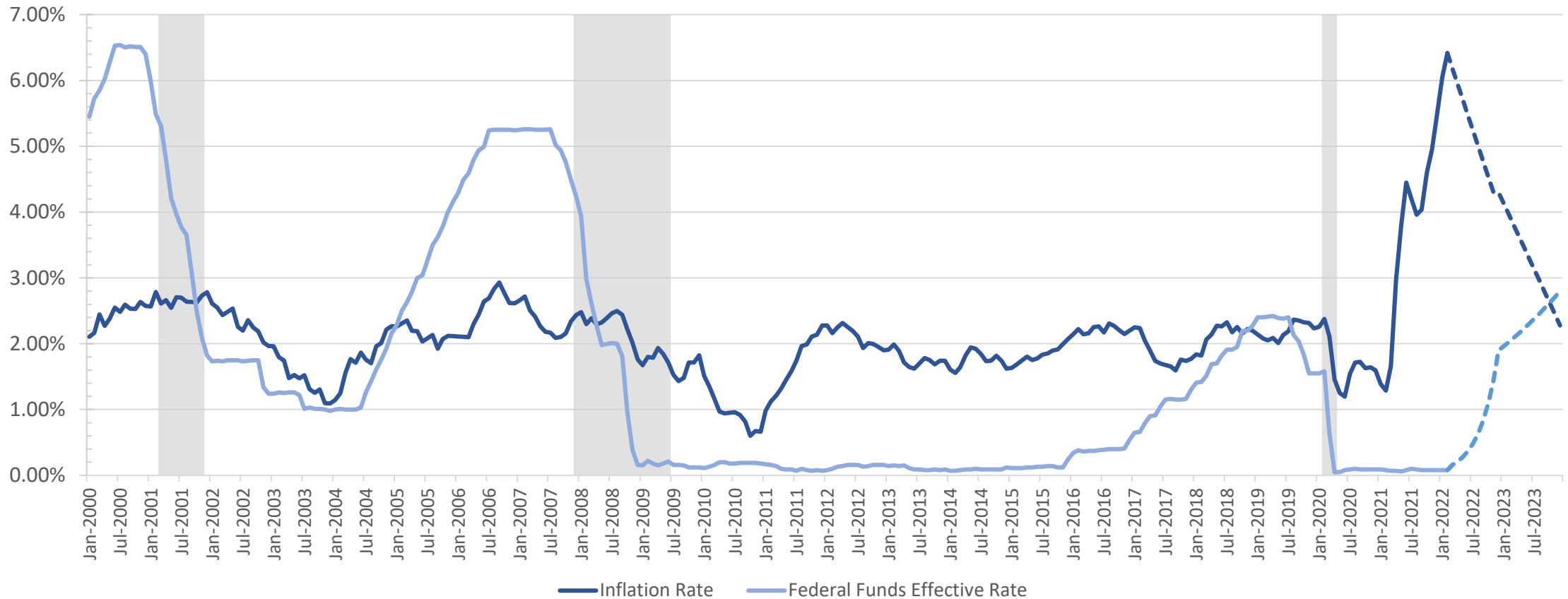


Source: U.S. Bureau of Economic Analysis, Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average, nmg/3/25/2022

Interest Rates and Inflation

The Federal Reserve is expected to raise interest rates six times in 2022 to curb inflation; economic analysts are predicting more modest rate hikes in 2023

FEDERAL FUNDS RATE VS INFLATION



Source: Board of Governors of the Federal Reserve System, Federal Funds Effective Rate; Federal Open Market Committee, March 16, 2022: FOMC Projections materials; U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average; Trading Economics, United States Fed Funds Rate Forecast for 2023, nmg/3/25/2022

Housing Statistics – South Carolina

Prices continue to rise, even as the number of units sold declines – a sign that demand continues to outpace supply

SOUTH CAROLINA RESIDENTIAL SALES

Number Sold vs. Median Sales Price

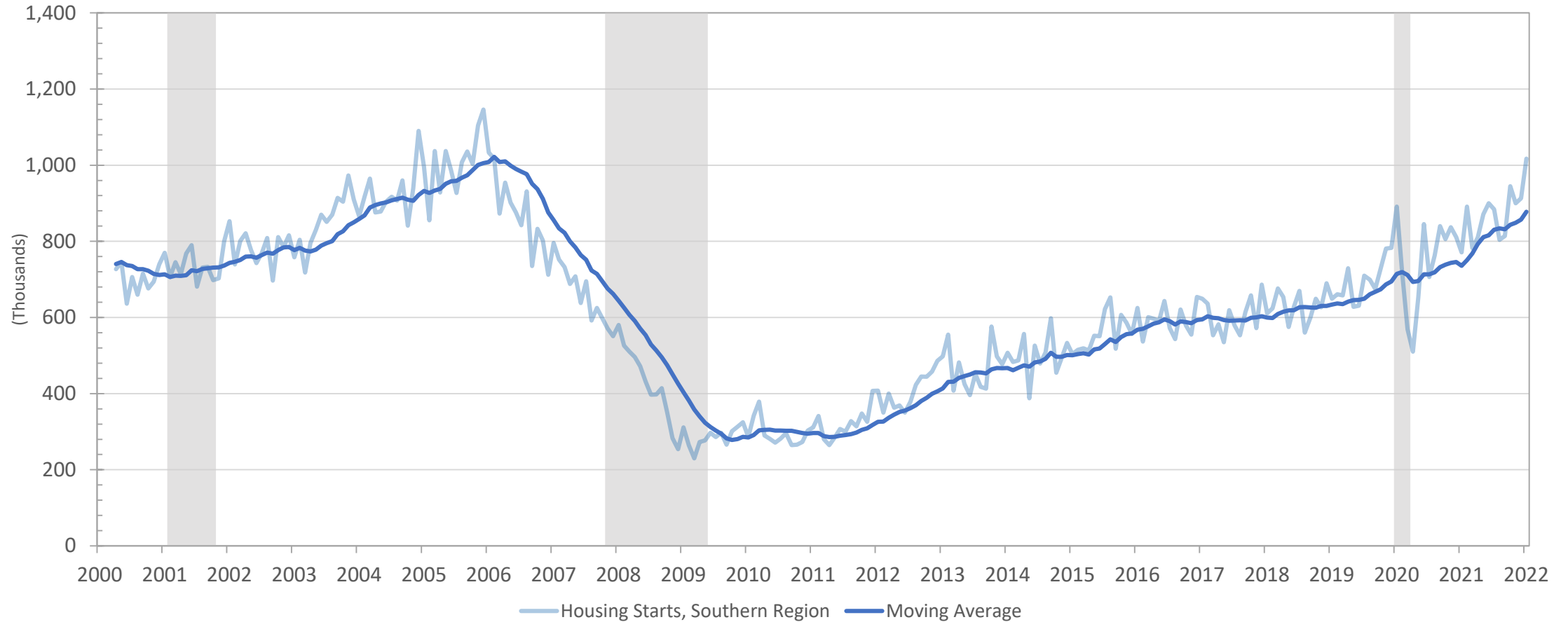


Source: S.C. Realtors, Market Reports: Regional Data, 276-RFA/nmg/03/30/2022

Housing Statistics – Southern Housing Starts

Housing starts continue to increase; however, inflation, supply issues, and labor shortages continue to present ongoing issues for contractors

HOUSING STARTS - SOUTHERN REGION



Source: U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started: Southern Region - nmg/03/30/2022

Revenue Trends and Legislative Impacts

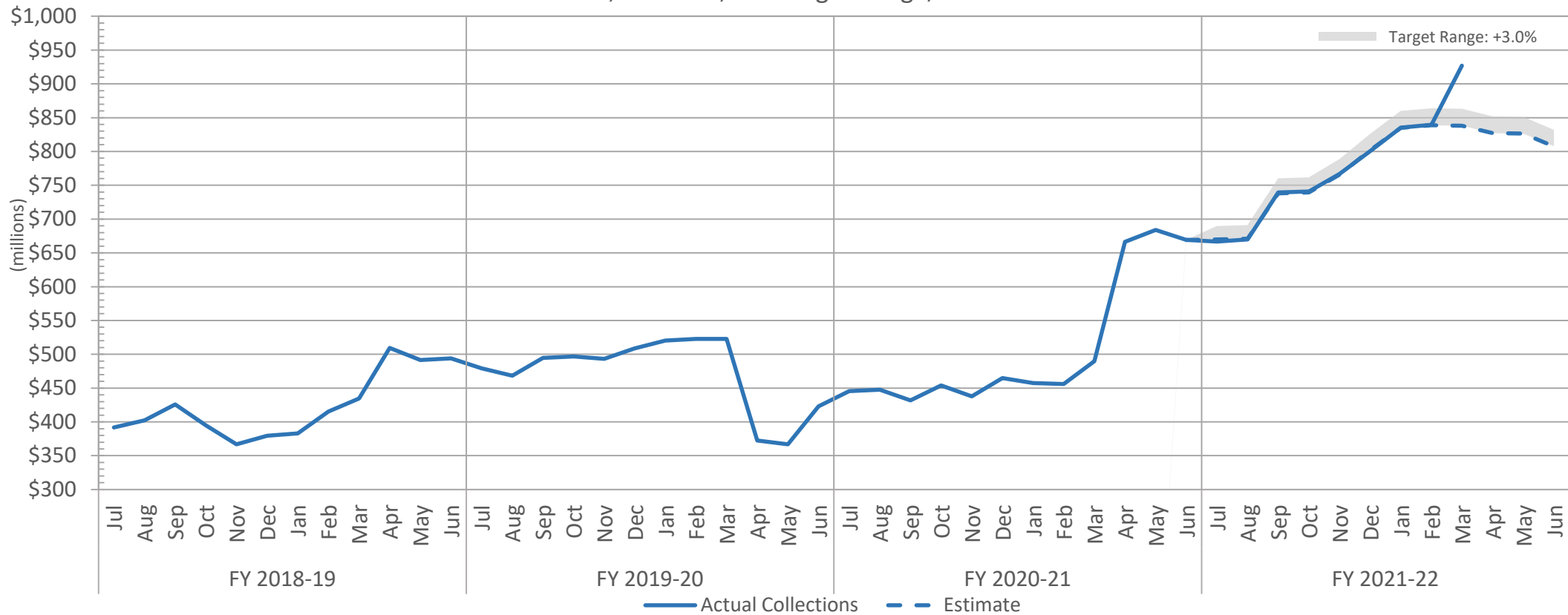


Corporate Income Tax - Actual vs. Estimate

Collections in March to end the quarter greatly exceeded the estimate, bringing the year-to-date excess to \$88.7 million

ROLLING FISCAL YEAR - CORPORATE INCOME TAX

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



Legislative Provisions with Revenue Impacts

- Income tax conformity – reduces revenue by \$15.4 million for FY 2021-22 and less than \$500,000 in FY 2022-23 and beyond
- State housing tax credit – pending legislation would limit the impact in future years
- House and Senate tax proposals
 - H. 4880 – reduces income tax rates and provides full exemption for military retirement income: \$604.3 million (FY 2022-23)
 - S. 1087 – reduces income tax rates, provides full exemption for military retirement income, and expands property tax exemption for manufacturing property: \$1.001 billion (FY 2022-23)

House and Senate Proposals – Income Tax Rate Changes

H. 4880 (amended 2.17.22)

Reduces the individual income tax rates in 2022 with a provision to further reduce the rates depending on General Fund Growth

Tax Year 2022 Impact: \$576.0m

2022 Tax Rate	Taxable Income
0.00%	\$0 to 3,200
3.00%	\$3,200 to 16,040
6.50%	Over \$16,040

S. 1087

Reduces the individual income tax rates in 2022

Tax Year 2022 Impact: \$886.9m

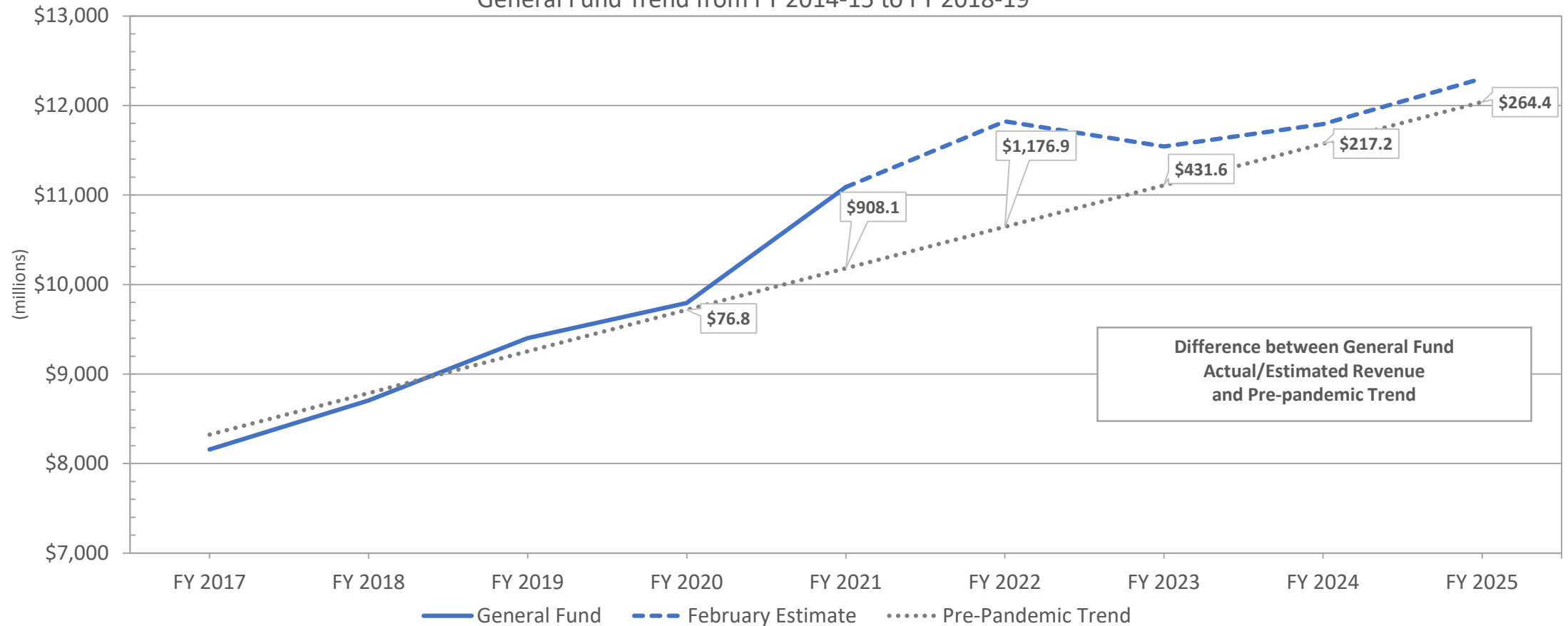
2022 Tax Rate	Taxable Income
0.00%	\$0 to 3,200
3.00%	\$3,200 to 6,410
4.00%	\$6,410 to 9,620
5.00%	\$9,620 to 12,820
5.70%	Over \$12,820

Revenue Effects of Stimulus and Other Pandemic-Related Changes

General Fund projections are above the historical trend prior to the pandemic

COMPARISON TO PRE-PANDEMIC TREND

General Fund Trend from FY 2014-15 to FY 2018-19



Consideration of the Revenue Estimate



Consideration of the Revenue Estimate Pursuant to §11-9-1130

- Despite excess revenues through March, recommend no change to the February 15, 2022 forecasts for FY 2021-22 and FY 2022-23
- Tax season is not complete and could have a significant impact
- Additional economic uncertainties
 - Invasion of Ukraine and Russian sanctions
 - Inflation, ongoing supply chain issues, and high gas prices
 - Federal Reserve rate decisions

Reports from Working Group Members



Other Business



Appendix

Quarterly Review and April 10th Forecast Requirements

- SC Code of Laws §11-9-1130 requires a review of revenue collections relative to the estimates, with a final forecast for the next fiscal year to be made by April 10th
- 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