

LONG RUN GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 2017-18



**Robert W. Martin, M.A.
Economist**

November 16, 2016

**State of South Carolina
Revenue and Fiscal Affairs Office
Board of Economic Advisors
Rembert Dennis Building, Suite 402
Columbia, SC 29201
www.rfa.sc.gov
803-734-2265**



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

CHAD WALLDORF, Chairman
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FRANK A. RAINWATER
Executive Director

November 16, 2016

Les Boles
Budget Development
Revenue and Fiscal Affairs Office
Rembert Dennis Building, Suite 402
Columbia, SC 29201

Dear Les,

Pursuant to §11-11-350 of the S.C. Code of Laws, 1976, I have enclosed an updated copy of the Board of Economic Advisors' Long Range General Fund Revenue Plan as adopted by the Board members. If you have any questions, I will be happy to answer them.

Sincerely,

A handwritten signature in blue ink, appearing to read "Frank A. Rainwater".

Frank A. Rainwater
Executive Director

FAR/rwm
Encl.

**South Carolina Board of Economic Advisors
Long Range General Fund Revenue Forecast
Fiscal Years 2016-17 to 2019-20**

Methodology and Historical Economic Growth Rates

The Board of Economic Advisors (BEA) provides a long range forecast for General Fund Revenues each year based on its November estimate of revenues for the upcoming fiscal year. The current long range forecast was adopted on November 10, 2016 and is based on the BEA estimate of General Fund Revenues for FY 2017-18. The plan is built upon an assumed growth rate in personal income, historical elasticities for the major revenue components (sales and individual income taxes), and historical growth rates or patterns in the remaining revenue sources.

The assumptions and methodologies for this long range forecast include:

- an annual personal income growth rate of 4.75 percent;
- a sales tax growth rate of 4.75 percent based on a historical elasticity of 1.0;
- an individual income tax growth rate of 5.225 percent based on a historical elasticity of 1.1;
- corporate income tax first declining, then holding steady throughout the forecast period;
- historical trends and patterns and other legislative factors affecting the remaining revenues.

The annual growth rates for FY 17, FY 18, FY 19, and FY20 are 4.1%, 3.8%, 4.8%, and 4.2%, respectfully.

Other items in the forecast include:

- the Property Tax Relief Fund which is funded by a transfer of revenue from the Individual Income and Corporate Income Taxes. The Fund is designed to reimburse local governments for various property tax exemptions.
- the Homestead Exemption Fund which is funded by an additional 1 percent sales tax, but expenditure growth is based on a formula of inflation and population growth. Any shortfall of revenue under expenses is transferred out of the General Fund.

Source: Board of Economic Advisors' Preliminary FY 2017-18 General Fund Revenue Forecast adopted November 10, 2016.

BEA – November 16, 2016



Personal Income Growth
 FY17 - 4.75% FY18 - 4.75%
 Forecast Period - 4.75%

Long Range General Fund Revenue Forecast
 Fiscal Years 2014-15 to 2019-20
 (Dollars)

| Revenue Category | Final FY 2014-15 | Final FY 2015-16 | 11/10/2016 Estimate FY 2016-17 | 11/10/2016 Estimate FY 2017-18 | Working Estimate FY 2018-19 | Working Estimate FY 2019-20 |
|--|------------------------|------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| Sales and Use Tax | \$2,656,946,677 | \$2,818,605,595 | \$2,874,667,000 | \$3,015,438,000 | \$3,158,671,000 | \$3,308,707,000 |
| Individual Income Tax | 3,661,194,579 | 3,832,846,497 | 4,061,524,260 | 4,240,064,000 | 4,443,104,000 | 4,654,631,000 |
| Corporation Income Tax | 377,669,258 | 411,148,125 | 387,554,000 | 387,554,000 | 387,554,000 | 387,554,000 |
| Insurance Taxes | 216,589,904 | 212,224,188 | 240,186,000 | 237,806,000 | 278,328,000 | 269,544,000 |
| Admissions Tax | 29,693,736 | 28,012,902 | 30,893,000 | 29,145,000 | 29,728,000 | 30,322,000 |
| Aircraft Tax | 4,492,414 | 4,124,496 | 1,807,000 | 1,825,000 | 1,843,000 | 1,861,000 |
| Alcoholic Liquor Tax | 70,363,644 | 73,549,750 | 74,070,000 | 80,318,000 | 83,932,000 | 87,709,000 |
| Bank Tax | 31,268,111 | 29,425,178 | 33,820,000 | 31,704,000 | 32,909,000 | 34,160,000 |
| Beer and Wine Tax | 104,865,231 | 107,252,141 | 108,035,000 | 112,681,000 | 115,498,000 | 118,385,000 |
| Bingo Tax | 3,049,018 | 2,838,515 | 1,045,000 | 1,055,000 | 1,066,000 | 1,077,000 |
| Business Filing Fees | 5,065,871 | 5,468,450 | 5,375,000 | 5,675,000 | 5,675,000 | 5,675,000 |
| Circuit/Family Court Fines | 8,446,184 | 8,090,762 | 8,616,000 | 7,856,000 | 7,715,000 | 7,576,000 |
| Corporation License Tax | 129,851,012 | 88,702,350 | 105,510,000 | 88,969,000 | 90,926,000 | 92,926,000 |
| Documentary Tax | 40,640,174 | 46,164,138 | 47,236,000 | 55,101,000 | 60,335,000 | 66,067,000 |
| Earned on Investments | 17,711,197 | 25,193,451 | 21,000,000 | 22,000,000 | 22,000,000 | 22,000,000 |
| Indirect Cost Recoveries | 14,193,312 | 11,588,575 | 14,473,000 | 12,173,000 | 12,173,000 | 12,173,000 |
| Motor Vehicle Licenses | 10,602,698 | 10,677,999 | 11,031,000 | 11,117,000 | 11,339,000 | 11,566,000 |
| Nursing Home Fees | 3,654,252 | 3,598,679 | 3,700,000 | 3,500,000 | 3,500,000 | 3,500,000 |
| Parole and Probation Fees | 3,392,808 | 3,392,808 | 3,393,000 | 3,393,000 | 3,393,000 | 3,393,000 |
| Private Car Lines Tax | 4,020,484 | 4,335,202 | 4,458,000 | 4,555,000 | 4,669,000 | 4,786,000 |
| Public Service Authority | 20,116,000 | 19,192,000 | 19,000,000 | 19,285,000 | 19,574,000 | 19,868,000 |
| Purchasing Card Rebates | 2,420,903 | 2,739,555 | 2,500,000 | 2,800,000 | 2,800,000 | 2,800,000 |
| Record Search Fees | 4,461,000 | 4,461,000 | 4,461,000 | 4,461,000 | 4,461,000 | 4,461,000 |
| Savings and Loan Assoc. Tax | 1,994,090 | (84,258) | 1,835,000 | 1,817,000 | 1,799,000 | 1,781,000 |
| Security Dealer Fees | 23,974,063 | 25,191,340 | 26,000,000 | 26,000,000 | 26,000,000 | 26,000,000 |
| Surcharge on Vehicle Rentals | 2,801,612 | 3,148,906 | 2,900,000 | 706,000 | 706,000 | 706,000 |
| Tobacco Tax | 25,482,166 | 28,137,517 | 27,772,000 | 27,411,000 | 27,055,000 | 26,703,000 |
| Uncashed Checks | 4,180,819 | 3,432,881 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Unclaimed Property Fund | 15,000,000 | 5,750,000 | 15,000,000 | 15,000,000 | 15,000,000 | 15,000,000 |
| Workers' Comp. Insurance Tax | 8,177,954 | 9,674,588 | 8,009,000 | 9,869,000 | 9,968,000 | 10,068,000 |
| Other Source Revenues | 11,134,302 | 10,540,699 | 9,647,632 | 9,283,000 | 9,835,000 | 9,329,000 |
| Gross General Fund Revenue | \$7,513,453,473 | \$7,839,424,028 | \$8,157,517,892 | \$8,470,561,000 | \$8,873,556,000 | \$9,242,328,000 |
| Appropriation Act Revenue | \$7,212,839,711 | \$7,666,473,000 | \$8,157,517,892 | \$8,470,561,000 | \$8,873,556,000 | \$9,242,328,000 |
| Less: Tax Relief Trust Fund | (560,325,409) | (568,314,514) | (575,837,596) | (583,649,169) | (592,112,082) | (600,697,707) |
| Plus: Tax Relief Trust Fund Carryforward | 0 | 0 | 0 | 0 | 0 | 0 |
| Appropriation Act Excluding Trust Fund | 6,652,514,302 | 7,271,109,514 | 7,581,680,296 | 7,886,911,831 | 8,281,443,918 | 8,641,630,293 |
| Capital Reserve Fund (2%) - Beg. Bal. | 127,789,918 | 131,047,797 | 139,207,789 | 145,420,836 | 151,633,606 | 157,738,237 |
| General Reserve Fund (5%) - Beg. Bal. | 319,478,812 | 327,619,492 | 348,019,473 | 363,552,089 | 379,084,015 | 394,345,592 |
| Total Reserve Funds | 447,268,730 | 458,667,289 | 487,227,262 | 508,972,925 | 530,717,621 | 552,083,828 |
| Revenue Excess/Shortage From Act | 300,241,407 | 172,951,028 | 0 | 0 | 0 | 0 |
| Education Improvement Act (EIA) | 678,380,702 | 717,001,449 | 755,817,000 | 791,060,000 | 826,867,750 | 864,376,750 |
| EIA Fund | 678,315,088 | 700,163,365 | 718,667,000 | 753,860,000 | 789,667,750 | 827,176,750 |
| EIA Hold Harmless | | 16,420,000 | 36,600,000 | 36,600,000 | 36,600,000 | 36,600,000 |
| EIA Interest | 65,614 | 418,084 | 550,000 | 600,000 | 600,000 | 600,000 |
| S.C. Education Lottery Fund (Net) | 350,110,184 | 396,300,000 | 376,300,000 | 376,300,000 | 376,300,000 | 376,300,000 |
| Homestead Exemption Fund | | | | | | |
| Total Revenue Available | 615,064,029 | 649,166,693 | 684,958,000 | 716,916,000 | 748,689,000 | 782,654,000 |
| Less: Homestead Exemption Fund Shortfall | (90,710,964) | (75,783,000) | (48,097,000) | (31,855,000) | (16,256,000) | 1,095,000 |

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.

Source: South Carolina Board of Economic Advisors/BEA/RWM/11/10/16



Personal Income Growth
 FY17 - 4.75%; FY18 - 4.75%
 Forecast Period - 4.75%

Long Range General Fund Revenue Forecast
Fiscal Years 2014-15 to 2019-20
(Percent Change)

| Revenue Category | Percent Change FY 2014-15 | Percent Change FY 2015-16 | Percent Change FY 2016-17 | Percent Change FY 2017-18 | Percent Change FY 2018-19 | Percent Change FY 2019-20 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Sales and Use Tax | 5.6 | 6.1 | 2.0 | 4.9 | 4.7 | 4.7 |
| Individual Income Tax | 7.0 | 4.7 | 6.0 | 4.4 | 4.8 | 4.8 |
| Corporation Income Tax | 14.0 | 8.9 | (5.7) | 0.0 | 0.0 | 0.0 |
| Insurance Taxes | 16.7 | (2.0) | 13.2 | (1.0) | 17.0 | (3.2) |
| Admissions Tax | 19.0 | (5.7) | 10.3 | (5.7) | 2.0 | 2.0 |
| Aircraft Tax | 6.1 | (8.2) | (56.2) | 1.0 | 1.0 | 1.0 |
| Alcoholic Liquor Tax | 5.5 | 4.5 | 0.7 | 8.4 | 4.5 | 4.5 |
| Bank Tax | (5.6) | (5.9) | 14.9 | (6.3) | 3.8 | 3.8 |
| Beer and Wine Tax | 2.3 | 2.3 | 0.7 | 4.3 | 2.5 | 2.5 |
| Bingo Tax | 5.3 | (6.9) | (63.2) | 1.0 | 1.0 | 1.0 |
| Business Filing Fees | 8.2 | 7.9 | (1.7) | 5.6 | 0.0 | 0.0 |
| Circuit/Family Court Fines | (1.9) | (4.2) | 6.5 | (8.8) | (1.8) | (1.8) |
| Corporation License Tax | 36.5 | (31.7) | 18.9 | (15.7) | 2.2 | 2.2 |
| Documentary Tax | 14.9 | 13.6 | 2.3 | 16.7 | 9.5 | 9.5 |
| Earned on Investments | (9.3) | 42.2 | (16.6) | 4.8 | 0.0 | 0.0 |
| Indirect Cost Recoveries | 3.6 | (18.4) | 24.9 | (15.9) | 0.0 | 0.0 |
| Motor Vehicle Licenses | 3.1 | 0.7 | 3.3 | 0.8 | 2.0 | 2.0 |
| Nursing Home Fees | (3.7) | (1.5) | 2.8 | (5.4) | 0.0 | 0.0 |
| Parole and Probation Fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private Car Lines Tax | 11.9 | 7.8 | 2.8 | 2.2 | 2.5 | 2.5 |
| Public Service Authority | (2.6) | (4.6) | (1.0) | 1.5 | 1.5 | 1.5 |
| Purchasing Card Rebates | 4.1 | 13.2 | (8.7) | 12.0 | 0.0 | 0.0 |
| Record Search Fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Savings and Loan Assoc. Tax | (0.7) | (104.2) | 2277.8 | (1.0) | (1.0) | (1.0) |
| Security Dealer Fees | 5.0 | 5.1 | 3.2 | 0.0 | 0.0 | 0.0 |
| Surcharge on Vehicle Rentals | 3.8 | 12.4 | (7.9) | (75.7) | 0.0 | 0.0 |
| Tobacco Tax | (0.6) | 10.4 | (1.3) | (1.3) | (1.3) | (1.3) |
| Uncashed Checks | 32.6 | (17.9) | (41.7) | 0.0 | 0.0 | 0.0 |
| Unclaimed Property Fund | 0.0 | (61.7) | 160.9 | 0.0 | 0.0 | 0.0 |
| Workers' Comp. Insurance Tax | (0.6) | 18.3 | (17.2) | 23.2 | 1.0 | 1.0 |
| Other Source Revenues | (70.1) | (5.3) | (8.5) | (3.8) | 5.9 | (5.1) |
| Gross General Fund Revenue | 6.8 | 4.3 | 4.1 | 3.8 | 4.8 | 4.2 |
| Appropriation Act Revenue | 5.4 | 6.3 | 6.4 | 3.8 | 4.8 | 4.2 |
| Less: Tax Relief Trust Fund | (1.4) | (1.4) | (1.3) | (1.4) | (1.5) | (1.4) |
| Plus: Tax Relief Trust Fund Carryforward | | | | | | |
| Appropriation Act Excluding Trust Fund | 5.7 | 9.3 | 4.3 | 4.0 | 5.0 | 4.3 |
| Capital Reserve Fund (2%) - Beg. Bal. | 9.1 | 2.5 | 6.2 | 4.5 | 4.3 | 4.0 |
| General Reserve Fund (5%) - Beg. Bal. | 9.1 | 2.5 | 6.2 | 4.5 | 4.3 | 4.0 |
| Total Reserve Funds | 9.1 | 2.5 | 6.2 | 4.5 | 4.3 | 4.0 |
| Revenue Excess/Shortage From Act | | | | | | |
| Education Improvement Act (EIA) | 5.5 | 5.7 | 5.4 | 4.7 | 4.5 | 4.5 |
| EIA Fund | 5.5 | 3.2 | 2.6 | 4.9 | 4.7 | 4.7 |
| EIA Hold Harmless | | | | | | |
| EIA Interest | 58.1 | 537.2 | 31.6 | 9.1 | 0.0 | 0.0 |
| S.C. Education Lottery Fund (Net) | 8.3 | 13.2 | (5.0) | 0.0 | 0.0 | 0.0 |
| Homestead Exemption Fund | | | | | | |
| Total Revenue Available | 6.2 | 5.5 | 5.5 | 4.7 | 4.4 | 4.5 |
| Less: Homestead Exemption Fund Shortfall | 17.8 | 16.5 | 36.5 | 33.8 | 49.0 | 106.7 |

Note: Gross General Fund Revenue includes Individual Income a

Source: South Carolina Board of Economic Advisors/BEA/RWN