

**OUTLOOK FOR STATE REVENUES**

**PRESENTED TO**

**THE SENATE FINANCE COMMITTEE  
STATE OF SOUTH CAROLINA SENATE**

**BY**

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## **INTRODUCTION**

THANKS FOR INVITING ME TO BRIEF YOU ON SOUTH CAROLINA'S ECONOMY AND STATE REVENUE TRENDS. AT THIS TIME LAST YEAR THE ECONOMIC AND REVENUE SITUATION WAS HORRIBLE. WE HAD JUST FINISHED FY 08-09 IN WHICH REVENUES DECLINED 12.5%. THAT WAS BY FAR THE WORST REVENUE DECLINE SINCE WORLD WAR II. THE STATE'S UNEMPLOYMENT RATE HAD REACHED JUST OVER 13 PERCENT. AND THE BEA HAD JUST CUT ITS FY 09-10 REVENUE ESTIMATE TO \$5,560,000,000 WHICH WAS \$451 MILLION BELOW THE ESTIMATE THE GENERAL ASSEMBLY USED FOR THAT BUDGET.

### **ECONOMIC CONDITIONS STABILIZE DURING FY 09-10**

SO WHAT HAS HAPPENED SINCE THIS TIME LAST YEAR? IT'S SAFE TO SAY THAT THE DOWNWARD FREE-FALL OF THE ECONOMY HAS BEEN STABILIZED, HITTING BOTTOM LAST JANUARY. SINCE THEN WE HAVE SEEN A LITTLE RECOVERY.

THE EMPLOYMENT PICTURE PRETTY MUCH TELLS THE STORY. OUR WORKFORCE STOPPED CONTRACTING AT THE BOTTOM OF THE RECESSION LAST JANUARY. IF YOU LOOK AT THE FIRST CHART ON TOTAL EMPLOYMENT IN THE STATE, IT STARTED DECLINING FROM A PEAK OF 1,970,000 IN JUNE 2007 TO LOW OF 1,783,000 IN JANUARY 2010. THAT WAS A TOTAL CONTRACTION IN OUR WORKFORCE OF 187,000 JOBS, OR ALMOST

ONE IN TEN JOBS. AFTER JANUARY LAST YEAR, THE STATE'S ECONOMY SLOWLY ADDED JOBS UNTIL THE TYPICAL SEASONAL DROP IN JUNE.

WHAT FACTORS HELPED LEAD TO THE STABILIZATION OF OUR ECONOMY? IT'S DIFFICULT TO GAUGE THE IMPACT OF THE FEDERAL STIMULUS ACTIONS DURING LAST FISCAL YEAR. IT LOOKS AS THOUGH THE TROUBLED ASSET RELIEF PROGRAM (TARP) IN WHICH THE U.S. TREASURY FUNNELED \$205 BILLION INTO THE ASSET BASES OF 738 BANKS NATIONWIDE, BEGINNING AT THE END OF 2008, DID HELP STABILIZE THE BANKING INDUSTRY. ALTHOUGH MANY, MOSTLY SMALL BANKS, DID GO BELLY UP, THERE WERE SOME SIGNIFICANT RESCUES. CITICORP, FOR EXAMPLE, WAS ALL BUT WRITTEN OFF BY WALL STREET. IT SEEMS TO HAVE GOTTEN ITS FEET BACK ON THE GROUND, SOMEWHAT. ITS STOCK PRICE HAS RISEN FROM \$3.25 PER SHARE LAST JANUARY TO \$4.80 RECENTLY, OR ABOUT 48%. IT HAS ALSO PAID BACK ITS LOAN FROM THE TARP. ALTHOUGH THERE ARE STILL MANY BANKS ON THE "WATCH" LIST, WE DON'T HEAR ALL THAT MUCH ABOUT BANK FAILURES.

MORE DIRECTLY RELATED TO SOUTH CAROLINA'S ECONOMY WAS THE ASSISTANCE FUNNELED INTO SOUTH CAROLINA THROUGH THE FEDERAL STIMULUS PROGRAM. ACCORDING TO RECORDS KEPT BY THE COMPTROLLER GENERAL, THE STIMULUS PROGRAM THUS FAR HAS ALLOCATED \$3,711,000,000 TO VARIOUS PROGRAMS IN THE STATE. THE

LARGEST AMOUNT, \$1,435,000,000 WAS ALLOCATED FOR UNEMPLOYMENT PAYMENTS. ANOTHER \$912,000,000 WAS FUNNELED THROUGH THE DEPARTMENT OF HEALTH AND HUMAN SERVICES. THESE FUNDS WERE AN IMPORTANT PART OF THE COMMITTEE'S BUDGET LAST YEAR. THE DEPARTMENT OF EDUCATION ALSO RECEIVED \$356,000,000, MUCH OF WHICH WAS ALLOCATED THROUGH TITLE I. THE DEPARTMENT OF TRANSPORTATION RECEIVED \$322,000,000. THE BALANCE WAS SPREAD OVER VARIOUS OTHER PROGRAMS. THERE ARE STILL SEVERAL HUNDRED MILLION DOLLARS TO COME.

THE FEDERAL GOVERNMENT ALSO ALLOCATED FUNDS DIRECTLY TO THE SAVANNAH RIVER SITE SUFFICIENT TO HIRE 1,000 EMPLOYEES, WHICH THE SITE DID. THAT ACTION CERTAINLY BOOSTED THE AIKEN ECONOMY.

ALTHOUGH HOME FORECLOSURES CONTINUED TO BE A SIGNIFICANT DRAG ON THE REAL ESTATE MARKET THROUGHOUT LAST FISCAL YEAR, THE FEDERAL HOMEOWNER \$8,000 TAX CREDIT, COUPLED WITH LOW MORTGAGE RATES PUSHED BY THE FEDERAL RESERVE, DID SEEM TO HELP THE REAL ESTATE MARKET A LITTLE. IF YOU LOOK AT THE NEXT GRAPH ON HOME SALES, YOU CAN SEE THAT THE TOTAL NUMBER OF HOMES SOLD IN SOUTH CAROLINA ROSE FROM 2,500 IN JANUARY 2010 TO OVER 5,000 IN JUNE, JUST BEFORE THE EXPIRATION OF THE CREDIT. AFTER

JUNE, HOME SALES FELL OFF IMMEDIATELY TO AROUND 3,500 PER MONTH AND DOWN TO 3,000 IN NOVEMBER. HOME SALES, HOWEVER, DID NOT FALL DOWN TO LEVELS DURING THE MIDDLE OF THE RECESSION.

THE ASSISTANCE PROVIDED TO THE AUTO INDUSTRY SEEMS TO HAVE HELPED ALSO. IF YOU LOOK AT THE NEXT CHART ON LIGHT VEHICLE SALES NATIONWIDE, YOU CAN SEE THAT AFTER JANUARY LAST YEAR AUTO SALES RECOVERED TO AROUND 1,000,000 PER MONTH FROM AROUND 700,000 IN JANUARY. THAT WAS SIGNIFICANT TO SOUTH CAROLINA'S ECONOMY BECAUSE OF THE SIGNIFICANT CONCENTRATION OF AUTO-RELATED BUSINESSES IN THE UP-STATE.

AND THE FEDERAL RESERVE TRIED TO LEND A HAND BY PUMPING FUNDS INTO THE BANKING SYSTEM. AS YOU ALL KNOW, INTEREST RATES WERE AT RELATIVELY LOW LEVELS LAST YEAR. MORTGAGE RATES HUNG JUST BELOW 5 PERCENT LAST SPRING.

SO WHAT WAS THE BOTTOM LINE OF ALL OF THIS FOR OUR STATE'S REVENUES. AFTER JANUARY, REVENUES REALLY DIDN'T IMPROVE MUCH IMMEDIATELY. IN FACT, THE BEA CUT ITS REVENUE ESTIMATE BY \$60 MILLION DURING THE BUDGET CONFERENCE COMMITTEE IN APRIL BECAUSE THAT WAS THE AMOUNT THAT REVENUES WERE RUNNING BELOW THE ESTIMATE AT THAT TIME. BUT REVENUES PICKED UP A

LITTLE IN APRIL THROUGH JUNE AS WE ENTERED THE TOURISM SEASON. WHEN THE COMPTROLLER GENERAL REPORTED FINAL REVENUES FOR THE FISCAL YEAR IN AUGUST, THE STATE ENDED THE FISCAL YEAR WITH \$152 MILLION ABOVE THE BEA'S APRIL ESTIMATE. NONETHELESS, REVENUES FOR THE FISCAL YEAR 09-10 HAD DECLINED 5.3%, AMOUNTING TO A TOTAL DECLINE OF 20% FROM A PEAK IN FISCAL YEAR 06-07.

### **REVENUES DURING FISCAL YEAR 2010-2011**

SO WHAT HAS HAPPENED TO THE STATE'S REVENUES SO FAR THIS FISCAL YEAR? IT'S FAIR TO SAY THAT THE STATE'S ECONOMY HAS DEMONSTRATED SLOW BUT STABLE GROWTH FOR THE FIRST FIVE MONTHS OF THIS FISCAL YEAR. I HAVE INCLUDED A TABLE SHOWING COLLECTIONS FOR THE FIRST FIVE MONTHS. THROUGH NOVEMBER, REVENUES HAVE GROWN 4.6% OVER ACTUAL REVENUES COLLECTED IN THE SAME PERIOD LAST FISCAL YEAR. THE INCOME TAX WAS UP 3.5%, THE SALES TAX UP 1.3%, AND THE CORPORATE INCOME TAX UP 275%. THE EXTRAORDINARY INCREASE IN THE CORPORATE INCOME TAX WAS MAINLY THE RESULT OF A LARGE REFUND THAT WAS ISSUED LAST YEAR AND NOT THIS YEAR. EXCLUDING THE REFUND, THE CORPORATE INCOME TAX WAS UP 20%.

SINCE THE EMPLOYMENT LOW POINT LAST JANUARY, EMPLOYMENT HAS GROWN BY 42,400. MOST OF THIS GAIN WAS IN TOURISM,

HEALTHCARE, AND DURABLE GOODS MANUFACTURING. I'VE BEEN TOLD BY BUSINESSMEN FROM THE BEACH AREAS THAT HOTEL RATES WERE DISCOUNTED PRETTY MUCH ACROSS THE BOARD, ENCOURAGING MORE VISITORS TO THE BEACH AREAS. THE STIMULUS PACKAGE PROBABLY HELPED HEALTHCARE. THE RECOVERY OF THE AUTO INDUSTRY HELPED OUR DURABLE GOODS MANUFACTURERS.

SO FAR THIS FISCAL YEAR, OUR INCOME TAX WITHHOLDINGS COLLECTIONS HAVE BEEN RUNNING AROUND 3.1% OVER THE SAME PERIOD LAST YEAR. THIS SOURCE IS THE BREAD AND BUTTER OF OUR REVENUE BASE. THE INCREASE REFLECTS NOT ONLY THE SMALL RECOVERY OF JOBS, BUT ALSO INCREASED EARNINGS FROM THOSE ALREADY WORKING.

RESULTS FOR THE SALES TAX HAVE BEEN DISTURBING. THE SALES TAX TENDS TO TRACK CLOSELY WITH INCOME TAX WITHHOLDINGS, BUT THIS YEAR WITHHOLDINGS HAVE INCREASED 3.1% WHEREAS SALES TAX COLLECTIONS HAVE BEEN ALMOST FLAT AT 1.3%. WE DON'T KNOW FOR SURE ALL THE CAUSES OF THIS DISCONNECT, BUT A SUBSTANTIAL RUN-UP IN FOOD AND GASOLINE PRICES, NEITHER OF WHICH IS SUBJECT TO THE SALES TAX, PROBABLY DIVERTED CONSUMER DOLLARS AWAY FROM ITEMS SUBJECT TO THE SALES TAX. WE ALSO SUSPECT THAT INCREASING

INTERNET PURCHASES WITHOUT SALES TAX COLLECTIONS IS ALSO HAVING A NEGATIVE EFFECT.

#### **BEA ESTIMATES FOR FY 2010-2011 AND FY 2011-2012**

WHAT DID THE BEA DO ABOUT THE REVENUE ESTIMATES GOING FORWARD? THE BEA MET IN LATE OCTOBER WITH ITS ADVISORY COMMITTEE OF ECONOMISTS LOCATED THROUGHOUT THE STATE. THE MESSAGE WAS PRETTY CONSISTENT FROM ALL OF THEM. THEY DID NOT SEE SIGNIFICANT IMPROVEMENTS IN THEIR REGIONS OF THE STATE. THEY SUGGESTED THAT FEDERAL PROGRAMS PROBABLY HAD AVERTED A MUCH DEEPER RECESSION, BUT THEY DID NOT SEE SIGNIFICANT INVESTMENTS, NOR GROWTH, IN THEIR REGIONS IN THE FORESEEABLE FUTURE, EXCEPT FOR THE BOEING INVESTMENT IN CHARLESTON. THEIR ADVICE WAS THAT REVENUES WOULD GROW IN THE RANGE OF ABOUT 1.5%.

THE BEA MET NOVEMBER 10 TO REVIEW THE ESTIMATE FOR THIS FISCAL YEAR AND TO SET A PRELIMINARY ESTIMATE FOR THE FISCAL YEAR 2011-2012 BUDGET ON WHICH YOU ARE WORKING. ON THE SURFACE, CONDITIONS APPEARED TO HAVE IMPROVED SOMEWHAT BECAUSE WITHHOLDINGS WERE UP ABOUT 4% AND REVENUES OVERALL WERE UP 4.9% AT THAT TIME. THE PROBLEM THAT THE BEA FACED WAS THE UNCERTAINTY OVER THE STATUS OF THE FEDERAL STIMULUS



PROGRAM AND THE EXPIRATION OF THE FEDERAL TAX CUTS ENACTED IN 2002. IF OUR ECONOMY WAS, INDEED, PROPPED UP BY THE FEDERAL STIMULUS PROGRAM, WHAT WOULD HAPPEN IF THE PROGRAM WERE ENDED, OR SIGNIFICANTLY CURTAILED? ALSO, WHAT WOULD HAPPEN IF FEDERAL INCOME TAX RATES WERE SUDDENLY RAISED?

MOREOVER, EVEN THOUGH MANUFACTURING, TOURISM AND HEALTHCARE HAD IMPROVED, THERE HAS NOT BEEN ANY SIGNIFICANT RECOVERY IN RESIDENTIAL CONSTRUCTION. YOU CAN SEE ON THE NEXT CHART THAT EVEN WITH LOW MORTGAGE RATES, BUILDING PERMITS IN SOUTH CAROLINA HAVE BEEN RUNNING IN THE RATHER LOW 500 TO 750 PER MONTH RANGE SINCE THE END OF 2008. WHEN I ASK BANKERS “WHAT’S GOING ON WITH LOANS FOR HOUSING,” THEY SAY THAT THEY CANNOT FIND BORROWERS THAT QUALIFY UNDER TIGHTER FEDERAL GUIDELINES. WHEN I ASK PROSPECTIVE HOMEBUYERS, “WHAT’S GOING ON IN GETTING LOANS,” THEY SAY THAT BANK STANDARDS ARE TOO HIGH. SOMETHING IN THE FINANCE BUSINESS NEEDS TO GIVE, IT SEEMS, FOR US TO EXPERIENCE GREATER GROWTH.

GIVEN THE UNCERTAINTY OVER THE STIMULUS PACKAGE, THE UNCERTAINTY BACK IN NOVEMBER OVER THE FEDERAL TAX CUTS, AND THE SEEMINGLY STRUCTURAL IMPASSE IN THE INVESTMENT SECTOR, THE BEA WAS RELUCTANT TO EXTRAPOLATE NOVEMBER’S GROWTH RATE OF

REVENUES INTO THE FUTURE. RATHER, THE BEA ADOPTED THE 1.5% GROWTH RATE SUGGESTED BY ITS REGIONAL ADVISORS FOR THIS FISCAL YEAR AND A 1.0% GROWTH RATE FOR FY 2011-2012.

THE BEA APPLIED THESE GROWTH RATES TO ACTUAL COLLECTIONS LAST FISCAL YEAR. GIVEN THAT ACTUAL COLLECTIONS LAST FISCAL YEAR WERE \$152 MILLION ABOVE THE ESTIMATE USED FOR THE BUDGET, PLUS A 1.5% GROWTH RATE, THE BEA RAISED ITS ESTIMATE FOR THIS FISCAL YEAR BY \$229.6 MILLION. ADDING ON ANOTHER 1.0% FOR FY 2011-2012, THE REVENUE ESTIMATE FOR THE UPCOMING BUDGET, FY 2011-2012, IS \$289.6 MILLION OVER THE REVENUE ESTIMATE IN THE CURRENT BUDGET.

#### **OUTLOOK FOR IMPROVEMENT IN THE BUDGET ESTIMATE**

I ALWAYS GET ASKED IF THERE IS ANY HOPE OF IMPROVEMENT BEFORE THE FINAL BUDGET AT THE CONFERENCE COMMITTEE.

DR BERNANKE, CHAIRMAN OF THE FEDERAL RESERVE, HAS SAID THAT THE ECONOMY APPEARS TO HAVE STABILIZED AND IS IMPROVING VERY SLOWLY. HE SAID THAT THE FEDERAL RESERVE WILL BUY UP \$600 BILLION OF GOVERNMENT LONG TERM BONDS, WITH AN EYE TOWARDS REDUCING LONG TERM INTEREST RATES. SINCE HIS ANNOUNCEMENT THE FED HAS BEEN BUYING LONG-TERM BONDS. CONTRARY TO WHAT THE

FED HOPED, LONG TERM BOND PRICES HAVE FALLEN, INCREASING LONG-TERM RATES. THE RATE ON THE 30-YEAR TREASURY BOND HAS RISEN FROM 3.75% TO 4.44% OVER THE LAST THREE MONTHS. YOU CAN SEE ON THE NEXT CHART THAT MORTGAGE RATES HAVE INCREASED OVER THE LAST THREE MONTHS ALSO, FROM 4.25% LAST OCTOBER TO 4.85% RECENTLY. REPORTS IN THE WALL STREET JOURNAL ATTRIBUTED THIS RISE TO AN INCREASE IN FEARS ABOUT LONG TERM INFLATION.

AND YES SENATOR PEELER, ONE OF THE ROOT CAUSES OF THIS INFLATION FEAR IS THE RECENT JUMP IN OIL PRICES. THE PRICE OF GASOLINE HAS RISEN FROM ROUGHLY \$2.25 PER GALLON AT THE END OF THE SUMMER TO ABOUT \$2.80 PER GALLON. THIS IS SHOWN ON THE NEXT CHART. CRUDE OIL PRICES HAVE RISEN FROM \$75 PER BARREL TO ALMOST \$90 PER BARREL. IN MY ESTIMATION, THIS RUN-UP IN OIL PRICES WAS DRIVEN MAINLY BY THE FALLING VALUE OF THE DOLLAR, IN LIGHT OF THE MODEST IMPROVEMENT IN THE ECONOMY. THE BEA WILL CERTAINLY WATCH THIS SITUATION CAREFULLY.

AS YOU ALL KNOW, THE UNCERTAINTY OVER THE STATUS OF FEDERAL INCOME TAX RATES FOR NEXT YEAR HAS BEEN CLEARED UP. MY EXPERT ON CONFORMITY WITH THE FEDERAL CODE IS CURRENTLY WORKING ON THE IMPACT OF THE FEDERAL LEGISLATION. ON A PRELIMINARY BASIS,

HE HAS APPRISED ME THAT THERE WILL BE A SMALL REVENUE IMPACT FROM CHANGES IN THE TREATMENT OF BUSINESS EXPENSING.

ONE DEVELOPMENT THAT I WILL BE WATCHING CAREFULLY IS THIS ADMINISTRATION'S ACTIONS REGARDING THE TRADE IMBALANCE, PARTICULARLY WITH CHINA. THE PRESIDENT HAS ALREADY CHOSEN TIRES FOR A RETALIATORY TARIFF AS AN INITIAL STEP. THE CHINESE RESPONDED BY CUTTING OFF RARE EARTH MINERALS FROM THE MARKET. CHINA PRODUCES 95% OF THE WORLD'S SUPPLY. FRANKLY, I NEVER HEARD OF RARE EARTH MINERALS BEFORE. WHAT YOU CAN SEE ON THE NEXT GRAPH REGARDING THE VALUE OF THE YUAN AGAINST THE DOLLAR, HOWEVER, IS THAT THE CHINESE HAVE BEGUN TO LET THEIR CURRENCY APPRECIATE AGAINST THE DOLLAR. YOU WILL RECALL THAT BACK IN 2006 PRESIDENT BUSH PRESSURED THE CHINESE INTO ALLOWING ITS CURRENCY TO APPRECIATE. AT THAT TIME, LEADING U.S. MANUFACTURERS CLAIMED THAT CHINA HAD A 40% ADVANTAGE BECAUSE OF CHINA'S LOW VALUE OF ITS YUAN. CHINA ANNOUNCED A PROGRAM TO LET THE VALUE OF ITS YUAN APPRECIATE A LITTLE MORE THAN ONE PERCENT PER MONTH, BUT AFTER A TOTAL APPRECIATION OF 13% THEY STOPPED THE PROGRAM. THIS APPRECIATION WILL MAKE CHINESE GOODS MORE EXPENSIVE RELATIVE TO U.S. GOODS.

WILL THESE ACTIONS BY THE FEDERAL RESERVE, THE CONGRESS AND THE PRESIDENT BE ENOUGH TO REPLACE THE FEDERAL STIMULUS PROP WHEN IT IS GONE? WE CAN'T BE SURE. THE BEA WAS NOT WILLING TO MAKE A REVENUE PROJECTION BASED ON THE HOPE OF IMPROVEMENT. AFTER THE BEA SEES REVENUE RESULTS FOR CHRISTMAS, THE BEA WILL RE-EVALUATE ITS ESTIMATE AND PROVIDE A FINAL ESTIMATE TO THE WAYS AND MEANS COMMITTEE IN FEBRUARY.

#### **EDUCATION IMPROVEMENT ACT PENNY**

BECAUSE THE SALES TAX HAS BEEN RELATIVELY FLAT, THE BEA DID NOT REVISE ITS ESTIMATE OF THE EIA FUND THIS FISCAL YEAR. IT ADDED 1.0% FOR NEXT FISCAL YEAR TO \$563.5 MILLION.

#### **HOMESTEAD EXEMPTION FUND**

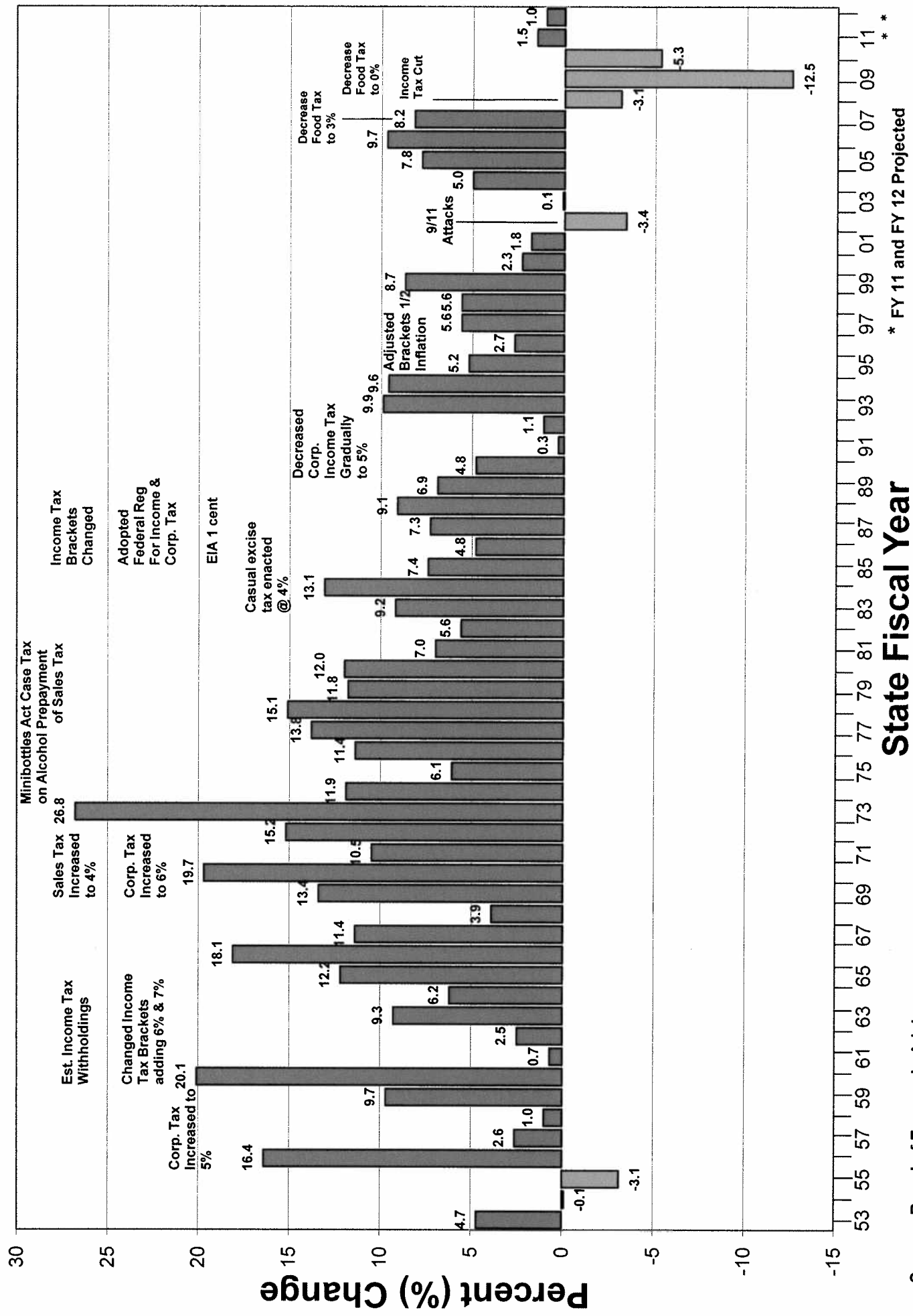
THE RECESSION HAS ALSO CREATED A PROBLEM WITH THE FUNDING OF THE HOMESTEAD EXEMPTION FUND CREATED BY ACT 388. THE NEW ONE PENNY SALES TAX BEGAN JUNE 1, 2007 AND WAS ALLOCATED TO THE HOMESTEAD EXEMPTION FUND. THE FUND FINISHED FY 07-08 WITH A \$18.7 MILLION DEFICIT, FY 08-09 WITH A \$58.8 MILLION DEFICIT, AND FY 09-10 WITH AN ESTIMATED \$117 MILLION DEFICIT. THOSE FUND DEFICITS WERE COVERED BY THE GENERAL FUND AND HELPED CONTRIBUTE TO THE STATE'S OVERALL DEFICIT.

WE HAVE SENT OUT OUR ESTIMATES OF ALLOCATIONS TO THE SCHOOL DISTRICTS FOR FY 10-11, THE FOURTH YEAR OF THE PROGRAM. THIS YEAR'S ALLOCATION TO A SCHOOL DISTRICT IS EQUAL TO ITS THIRD YEAR ACTUAL ALLOCATED AMOUNT, PLUS ITS PERCENTAGE SHARE OF THE GROWTH IN THE "TRUST FUND" POT. THE GROWTH IN THE POT EQUALS GROWTH IN THE SOUTHEASTERN CPI AND POPULATION. THERE WILL BE SOME SHIFT IN THE DISTRIBUTION TO THE RURAL SCHOOL DISTRICTS BASED ON THE POVERTY ADJUSTMENT ADDED TO THE BASE YEAR REIMBURSEMENT. THE CPI IN 2010 IS RUNNING 1.8%. WE EXPECT POPULATION GROWTH TO BE ABOUT 1.3%. SUMMED UP, THIS WILL AMOUNT TO 3.1% GROWTH IN THE POT FOR FY 11-12.

BASED ON THE BEA'S REVISED ESTIMATE OF A 1.0% GROWTH IN THE SALES TAX, WE CURRENTLY ARE REVISING OUR PROJECTION OF THE SHORTFALL IN THE HOMESTEAD EXEMPTION TRUST FUND IN THIS YEAR'S BUDGET FROM \$126.2 MILLION TO \$93.2 MILLION. UNDER CURRENT LAW, THAT AMOUNT WILL BE TAKEN OUT OF THE STATE'S GENERAL FUND.

BASED ON LATEST POPULATION AND CPI ESTIMATES AND THE BEA'S CURRENT ESTIMATE OF 1% GROWTH IN THE SALES TAX, WE ESTIMATE THAT THE SHORTFALL WILL BE \$105.7 MILLION IN FY 2011-2012.

# Percent Change in S.C. General Fund Revenue



Source: Board of Economic Advisors

## State Fiscal Year

\* FY 11 and FY 12 Projected

## GENERAL FUND REVENUE CUMULATIVE SUMMARY: FISCAL YEARS 2009-10 &amp; 2010-11

JULY - NOVEMBER

TABLE 2

REVENUE CATEGORIES	FY 2009-10	FY 2010-11	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 1/	\$725,544,718	\$735,251,132 5/	\$9,706,414	1.3
Excise Tax, Casual Sales 1/	4,911,033	6,498,140	1,587,107	32.3
Individual Income Tax	1,463,777,162	1,515,246,728 5/	51,469,566	3.5
Corporation Income Tax	8,675,192	32,530,577 5/	23,855,385	275.0
Admissions Tax 2/	3,880,985	4,172,351 5/	291,366	7.5
Admissions Tax - Bingo 2/	976,936	1,054,558	77,622	7.9
Aircraft Tax	84,112	6,230	(77,882)	(92.6)
Alcoholic Liquor Tax 2/	17,480,549	18,014,433 5/	533,884	3.1
Bank Tax	8,015,546	7,434,203 5/	(581,343)	(7.3)
Beer and Wine Tax 2/	34,324,272	35,309,545	985,273	2.9
Business License Tax (Tobacco) 2/	11,058,084	7,840,893 5/	(3,217,191)	(29.1)
Coin-Operated Device Tax	384,805	142,327	(242,478)	(63.0)
Corporation License Tax	22,964,946	25,957,127 5/	2,992,181	13.0
Departmental Revenue 3/	(122,322)	7,915,246	8,037,568	6,570.8 #
Documentary Tax 2/	10,781,020	9,500,198	(1,280,822)	(11.9)
Earned on Investments **	19,179,030	14,537,229	(4,641,801)	(24.2)
Estate and Gift Taxes	72,399	2,507	(69,892)	(96.5)
Insurance Tax	46,534,188	67,509,495	20,975,307	45.1
Motor Transport Fees	400	200	(200)	(50.0)
Motor Vehicle Licenses	1,681,906	5,160,356	3,478,450	206.8
Private Car Lines Tax	743,770	50,988	(692,782)	(93.1)
Public Service Authority	0	0	0	0.0
Retailers License Tax	313,901	317,471	3,570	1.1
Savings and Loan Assoc. Tax	1,191,866	595,380	(596,486)	(50.0)
Workers Comp. Insurance Tax	3,535,939	1,988,633	(1,547,306)	(43.8)
Circuit/Family Court Fines	4,028,668	4,038,121	9,453	0.2
Debt Service Transfers	53,241	56,484	3,243	6.1
Indirect Cost Recoveries	2,550,350	1,480,421	(1,069,929)	(42.0)
Mental Health Fees	0	0	0	0.0
Parole and Probation Fees	308,438	400,000	91,562	29.7
Unclaimed Property Fund	3,000,000	3,750,000	750,000	25.0
<b>Gross General Fund Revenue 4/</b>	<b>\$2,395,931,134</b>	<b>\$2,506,760,973 5/</b>	<b>\$110,829,839</b>	<b>4.6</b>

1/: Excludes Education Improvement Act (1%), Accommodations (2%), Homestead Exemption Fund (1%) and Local Option taxes. Modified accrual since FY'91.

2/: End-of-year modified accrual since FY 1992-93 except for Documentary Tax, which began in FY 2001-02.

3/: Includes current and former "non-recurring revenue" shown separately in prior fiscal years.

4/: Format corresponds to BEA Official Revenue Estimate. Property Tax Relief offset, prior year balance carried forward: FY'10, \$1,451,372.

5/: Net of Increased Enforcement (IE) revenues transferred out of General Fund: September, 1st Quarter Total = \$20,443,318.

\*\*: Results for earnings are subject to maturity differentials. NA: Not applicable. #: Sign change. \*: Greater than +/- 9,999.



PERSONAL INCOME GROWTH  
FY11 - 1.5%; FY12 - 1.0%

GENERAL FUND REVENUE FORECAST  
FISCAL YEARS FY2008-09 TO FY2011-12  
(DOLLARS)

REVENUE CATEGORIES	FINAL FY 2008-09	FINAL FY 2009-10	11/10/10 ESTIMATE FY 2010-11	11/10/10 ESTIMATE FY 2011-12	PERCENT CHANGE FY08/FY09	PERCENT CHANGE FY09/FY10	PERCENT CHANGE FY10/FY11	PERCENT CHANGE FY11/FY12
RETAIL SALES TAX 1/	2,230,817,103	2,173,354,091	2,205,634,402	2,227,530,746	-8.7	-2.6	1.5	1.0
EXCISE, CASUAL SALES TAX	17,058,926	17,622,036	17,896,367	18,065,230	-20.2	3.3	1.5	1.0
INDIVIDUAL INCOME TAX	2,812,344,948	2,673,010,771	2,717,115,449	2,747,003,719	-15.5	-5.0	1.8	1.1
CORPORATION INCOME TAX	249,241,783	148,524,509	154,465,489	157,554,799	-20.3	-40.4	4.0	2.0
<b>SALES AND INCOME TAXES</b>	<b>5,309,462,760</b>	<b>5,012,511,407</b>	<b>5,095,101,707</b>	<b>5,150,154,494</b>	<b>-13.0</b>	<b>-5.6</b>	<b>1.6</b>	<b>1.1</b>
ADMISSIONS/BINGO TAX	33,566,855	32,186,049	33,795,351	35,485,119	-1.5	-4.1	5.0	5.0
ADMISS. TAX TRANSFER TO COMMERCE	(6,435,117)	(6,022,004)	(6,323,105)	(6,639,260)				
AIRCRAFT TAX	6,260,566	5,358,653	5,495,926	5,638,820	1.9	-14.4	2.6	2.6
ALCOHOLIC LIQUOR TAX	57,460,841	57,463,218	58,037,850	58,618,229	1.4	0.0	1.0	1.0
BANK TAX	8,493,851	15,672,134	16,142,298	16,626,567	-56.0	84.5	3.0	3.0
BEER AND WINE TAX	101,356,299	99,229,717	101,710,460	104,253,221	0.7	-2.1	2.5	2.5
BUSINESS LICENSE TAX	30,572,978	35,257,195	32,084,047	31,763,207	-1.6	15.3	-9.0	-1.0
COIN-OPERATED DEVICES	2,134,238	1,723,124	2,240,061	1,636,968	33.6	-19.3	30.0	-26.9
CORPORATION LICENSE TAX	80,987,747	73,412,951	78,828,317	83,736,574	8.8	-9.4	7.4	6.2
DEPARTMENTAL REVENUE 3/	37,651,096	63,901,643	40,065,056	40,065,056	-14.3	69.7	-37.3	0.0
DOCUMENTARY TAX	32,991,962	33,210,359	31,549,841	31,549,841	-43.1	0.7	-5.0	0.0
LESS: CONSERVATION BANK TRUST FUND	(8,585,569)	(2,207,050)	(7,887,460)	(7,887,460)				
EARNED ON INVESTMENTS	79,559,729	41,706,507	35,000,000	36,000,000	-35.6	-47.6	-16.1	2.9
ELECTRIC POWER TAX	27,664,576	28,219,032	28,642,317	29,358,375	-0.8	2.0	1.5	2.5
LESS: TRANSFER TO COMMERCE/SIB	(27,664,576)	(28,219,032)	(28,642,317)	(29,358,375)				
ESTATE AND GIFT TAXES	152,850	72,908	50,000	50,000	-55.5	-52.3	-31.4	0.0
LESS: FEDERAL CHANGE TO ESTATE TAX	0	0	0	0				
INSURANCE PREMIUM TAX	158,548,951	155,131,900	163,664,155	172,665,683	-1.8	-2.2	5.5	5.5
INSURANCE LICENSE TAX	29,686,647	13,177,609	32,944,023	16,472,011	148.8	-55.6	150.0	-50.0
INSURANCE RETALIATORY & OTHER TAX	5,761,616	5,675,146	5,800,000	5,800,000	-14.7	-1.5	2.2	0.0
LESS: INSURANCE CREDITS	(21,112,575)	(15,337,355)	(17,000,000)	(17,000,000)	4.6	-27.4	10.8	0.0
MOTOR TRANSPORT FEES	8,899	875	3,500	3,500	78.0	-87.3	300.0	0.0
MOTOR VEHICLE LICENSES	15,113,183	12,362,258	12,609,503	12,861,693	-37.8	-18.2	2.0	2.0
PETROLEUM INSPECTION TAX	7,730,378	7,817,194	7,895,366	7,974,320	-5.4	1.1	1.0	1.0
LESS: TRANSFER TO NON-FED HGWY FUND	(7,730,378)	(7,817,194)	(7,895,366)	(7,974,320)				
PRIVATE CAR LINES TAX	3,733,905	3,957,024	4,111,348	4,271,691	3.9	6.0	3.9	3.9
PUBLIC SERVICE AUTHORITY	20,511,000	18,514,000	19,865,522	21,315,705	30.5	-9.7	7.3	7.3
RETAILERS LICENSE TAX	788,790	799,436	811,428	827,856	-6.9	1.3	1.5	2.0
SAVINGS & LOAN TAX	3,815,836	3,421,963	3,524,622	3,630,361	13.7	-10.3	3.0	3.0
WORKERS COMP. INSURANCE	12,779,422	12,944,957	13,139,131	13,401,914	-5.7	1.3	1.5	2.0
CIRCUIT/FAMILY COURT FINES	10,162,045	9,724,492	9,821,737	9,919,954	-4.5	-4.3	1.0	1.0
DEBT SERVICE TRANSFERS	1,144,988	535,600	188,108	188,108	-33.5	-53.2	-64.9	0.0
INDIRECT COST RECOVERIES	16,101,492	16,085,383	16,731,391	16,731,391	1.7	-0.1	4.0	0.0
MENTAL HEALTH FEES	3,400,000	3,400,000	3,400,000	3,400,000	0.0	0.0	0.0	0.0
PAROLE / PROBATION FEES	3,392,808	3,392,808	3,392,808	3,392,808	0.0	0.0	0.0	0.0
UNCLAIMED PROPERTY FUND	12,000,000	12,000,000	15,000,000	15,000,000	0.0	0.0	25.0	0.0
<b>OTHER BASE SOURCES</b>	<b>732,001,333</b>	<b>706,749,500</b>	<b>708,795,918</b>	<b>713,779,357</b>	<b>-8.1</b>	<b>-3.4</b>	<b>0.3</b>	<b>0.7</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>6,041,464,093</b>	<b>5,719,280,907</b>	<b>5,803,897,625</b>	<b>5,863,933,851</b>	<b>-12.5</b>	<b>-5.3</b>	<b>1.5</b>	<b>1.0</b>
APPROPRIATION ACT REVENUE	7,246,362,115	6,079,158,397	5,574,343,096	5,863,933,851	1.9	-16.1	-8.3	5.2
LESS: TAX RELIEF TRUST FUND	(525,988,231)	(528,944,826)	(545,880,212)	(545,680,709)	1.1	0.6	3.2	-0.0
PLUS: TAX RELIEF FUND CARRYFORWARD	5,145,216	1,451,372	0	0				
EXCLUDING TRUST FUNDS	6,725,519,100	5,551,664,943	5,028,462,884	5,318,253,142	1.9	-17.5	-9.4	5.8
CAPITAL RESERVE FUND (2%) - BEG. BAL.	0	0	110,883,455	104,837,916	-100.0			-5.5
GENERAL RESERVE FUND (3%) - BEG. BAL.	95,122,617	0	166,325,183	183,466,352	-49.1	-100.0		10.3
TOTAL RESERVES	95,122,617	0	277,208,638	288,304,268	-69.4	-100.0		4.0
REVENUE EXCESS / SHORTAGE FROM ACT	(1,204,898,022)	(359,897,490)	229,554,529	0				
EDUCATION IMPROVEMENT ACT 2/	561,072,910	551,358,000	556,050,192	563,498,994	-11.7	-1.7	0.9	1.3
EIA FUND	560,649,108	551,283,727	555,880,192	561,398,994	-7.7	-1.7	0.8	1.0
EIA HOLD HARMLESS								
EIA INTEREST	423,802	74,273	170,000	2,100,000	-79.4	-82.5	128.9	1135.3
S.C. EDUCATION LOTTERY FUND (NET)	260,437,827	272,427,686	252,400,000	252,400,000	-2.1	4.6	-7.4	0.0
HOMESTEAD EXEMPTION FUND								
TOTAL REVENUE AVAILABLE	532,647,527	496,940,585	534,969,257	539,421,601				
LESS: HOMESTEAD EXEMPT. FUND SHORTFALL	(58,810,827)	(123,710,826)	(93,185,792)	(105,749,090)				

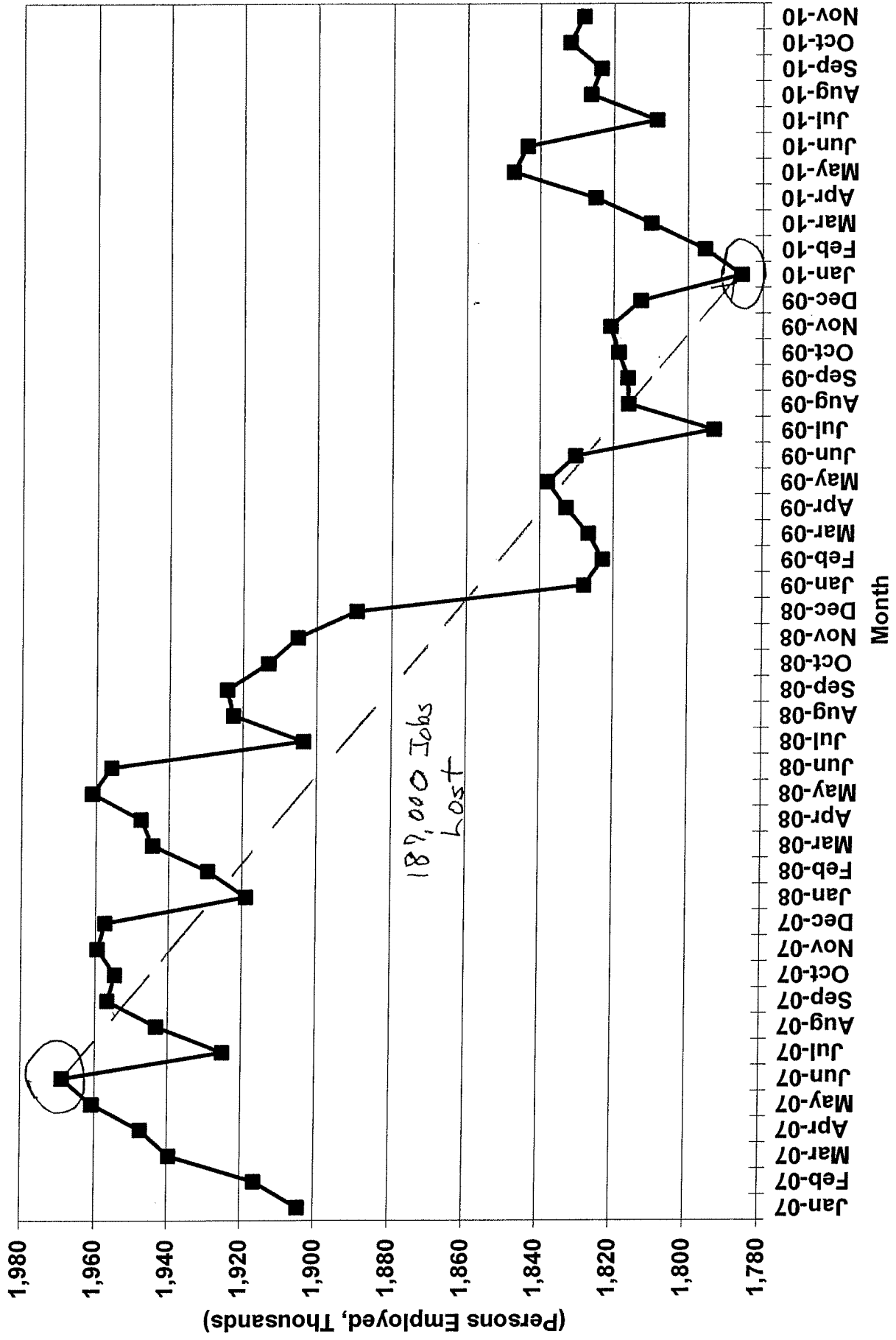
1/ Excludes (1%) Education Improvement Act and (2%) Accommodations Taxes.

2/ Includes interest earnings.

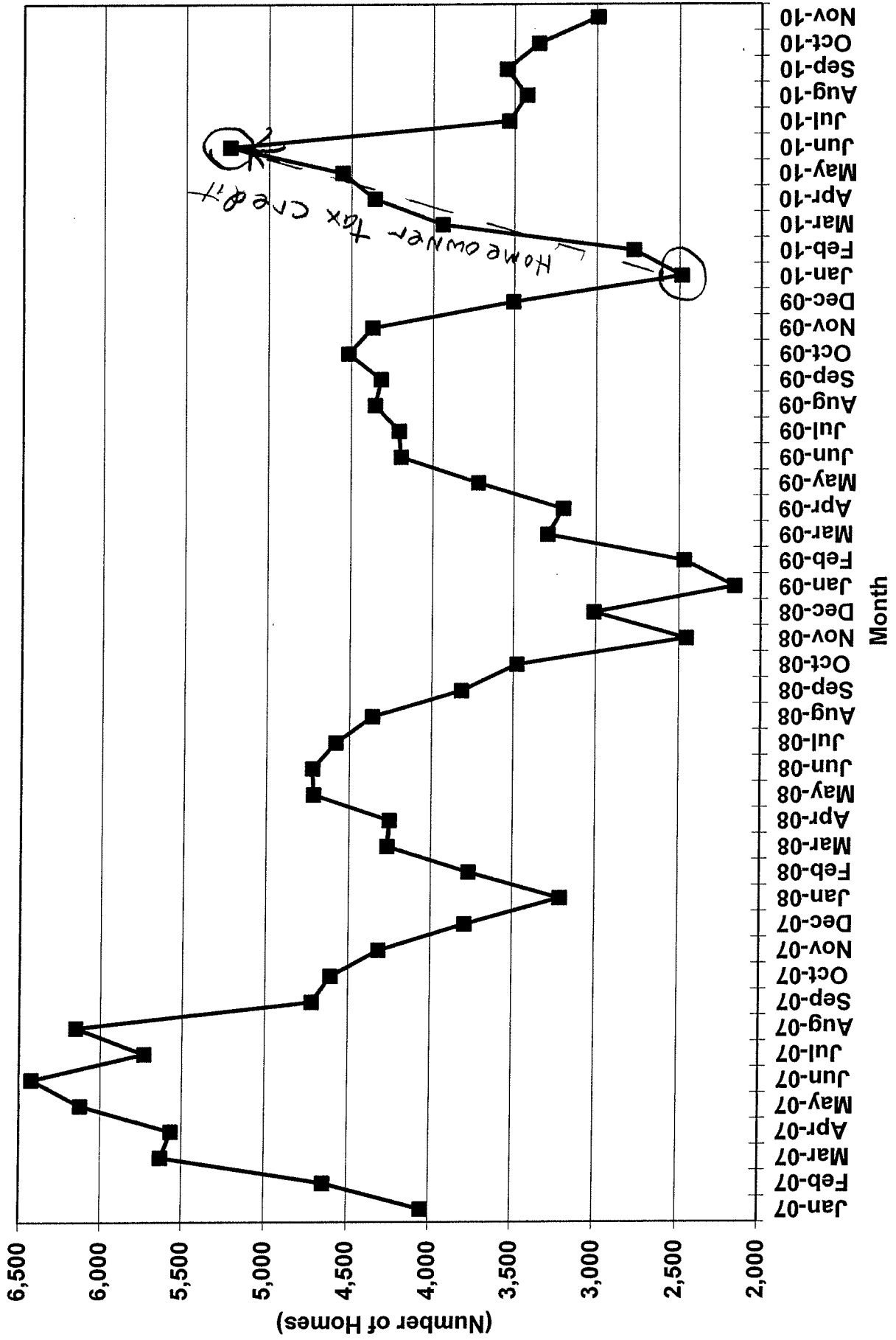
3/ Includes former Dept. of Agriculture agency revenue other than the Petroleum Inspection Tax now shown separately.

Source: S. C. Board of Economic Advisors/11/10/10

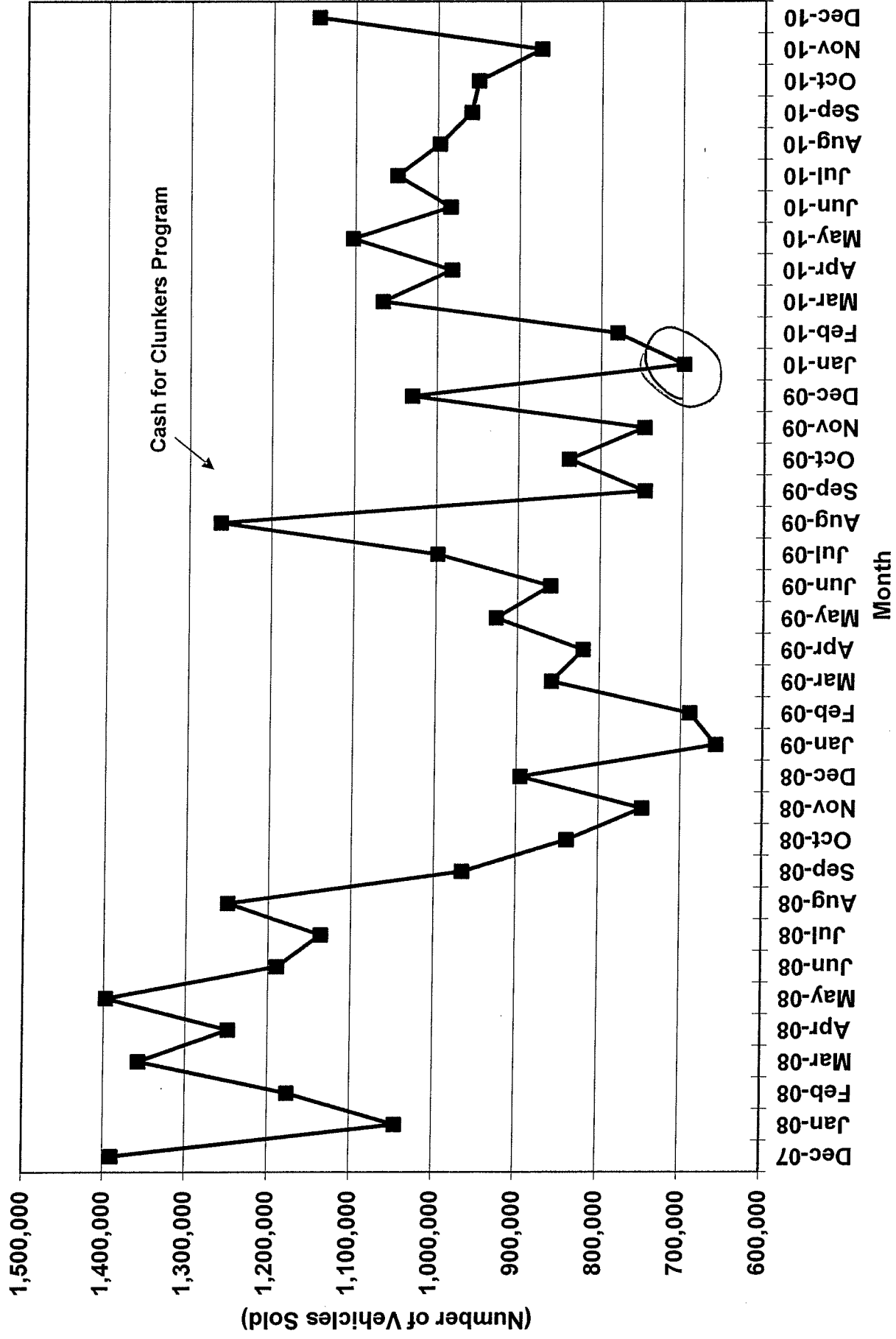
# Total Employment in South Carolina



# Number of Homes Sold in South Carolina

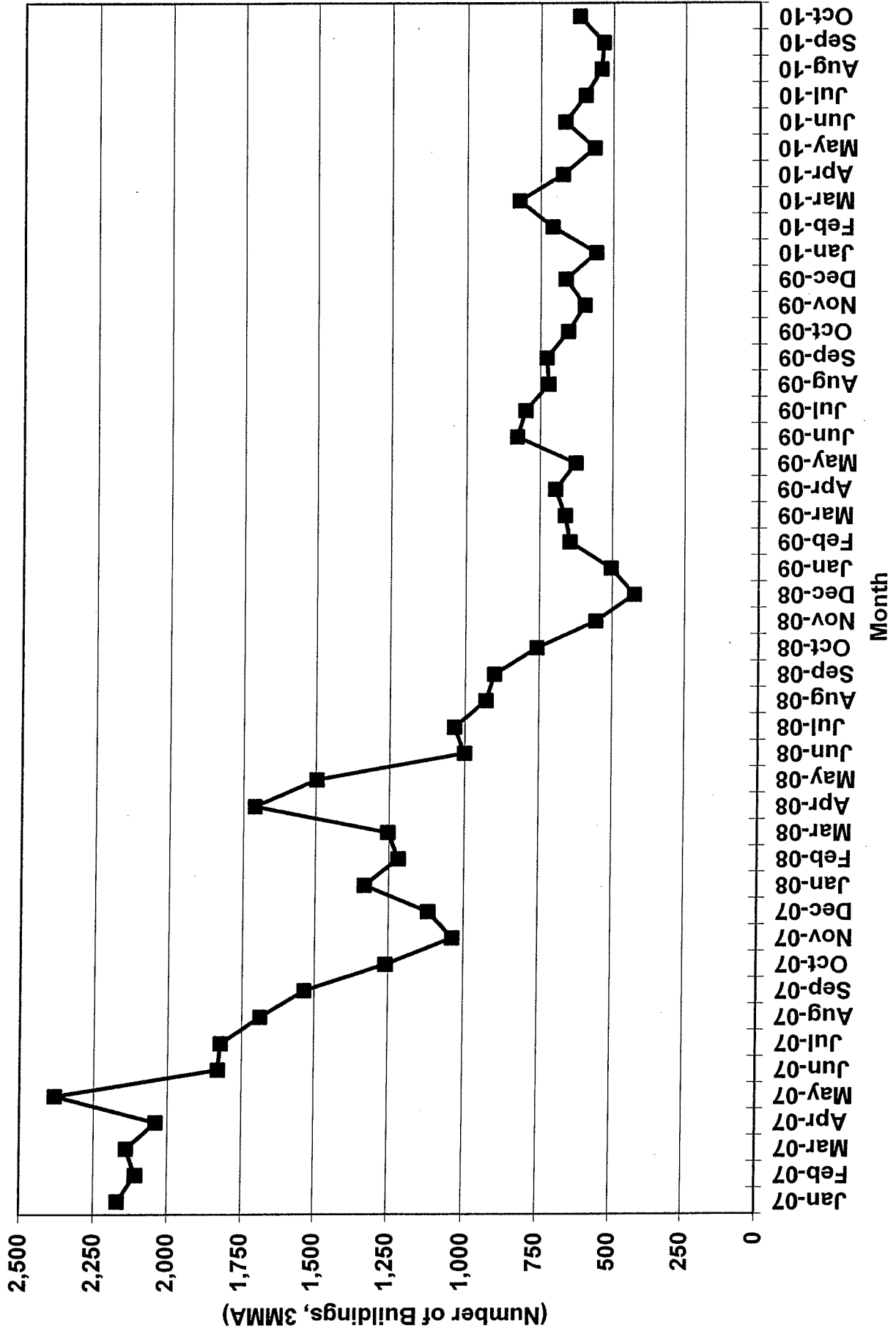


# Total Light Vehicle Sales in the United States



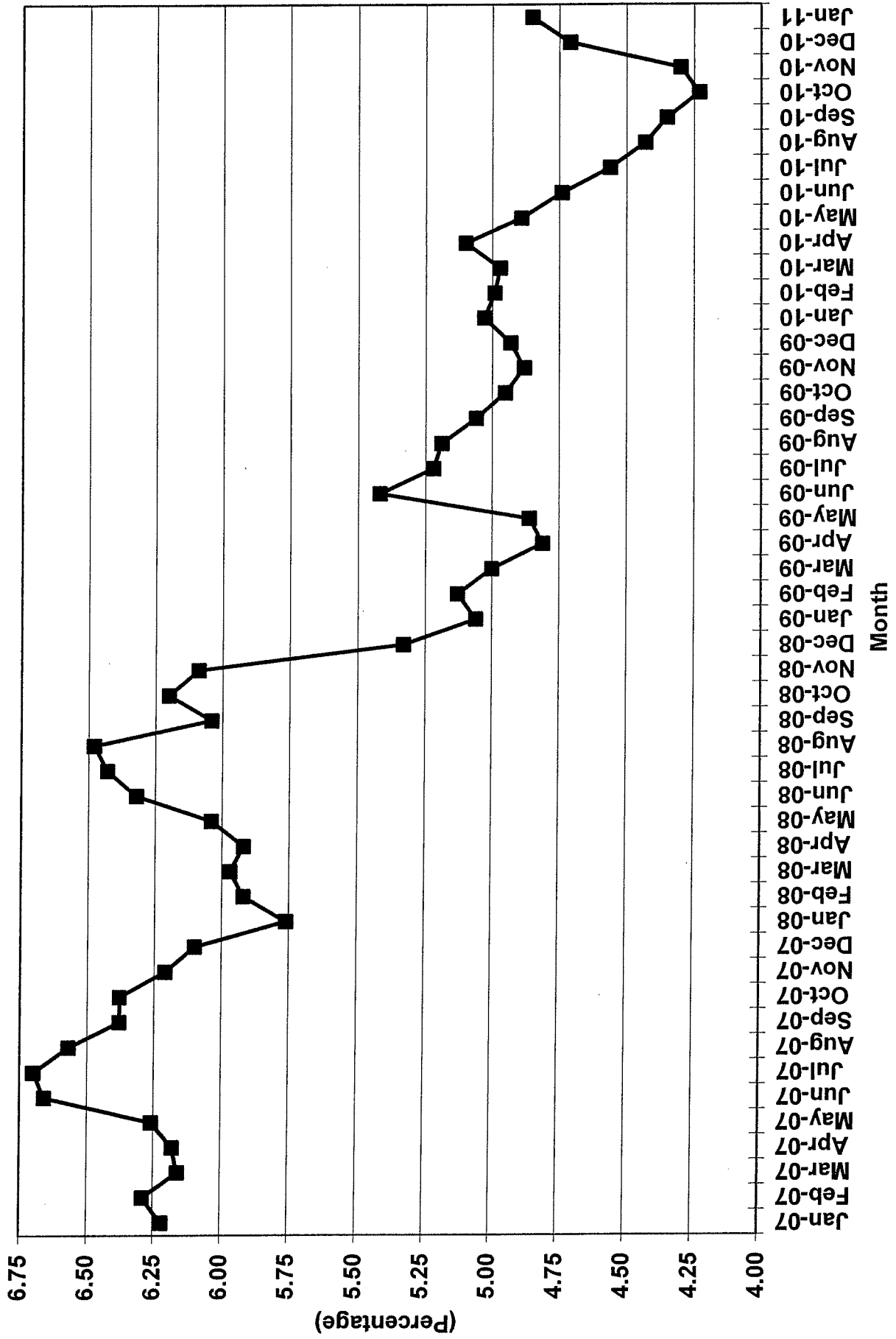
Source: Autodata Corporation, Motor Intelligence Division

# Residential Building Permits in South Carolina



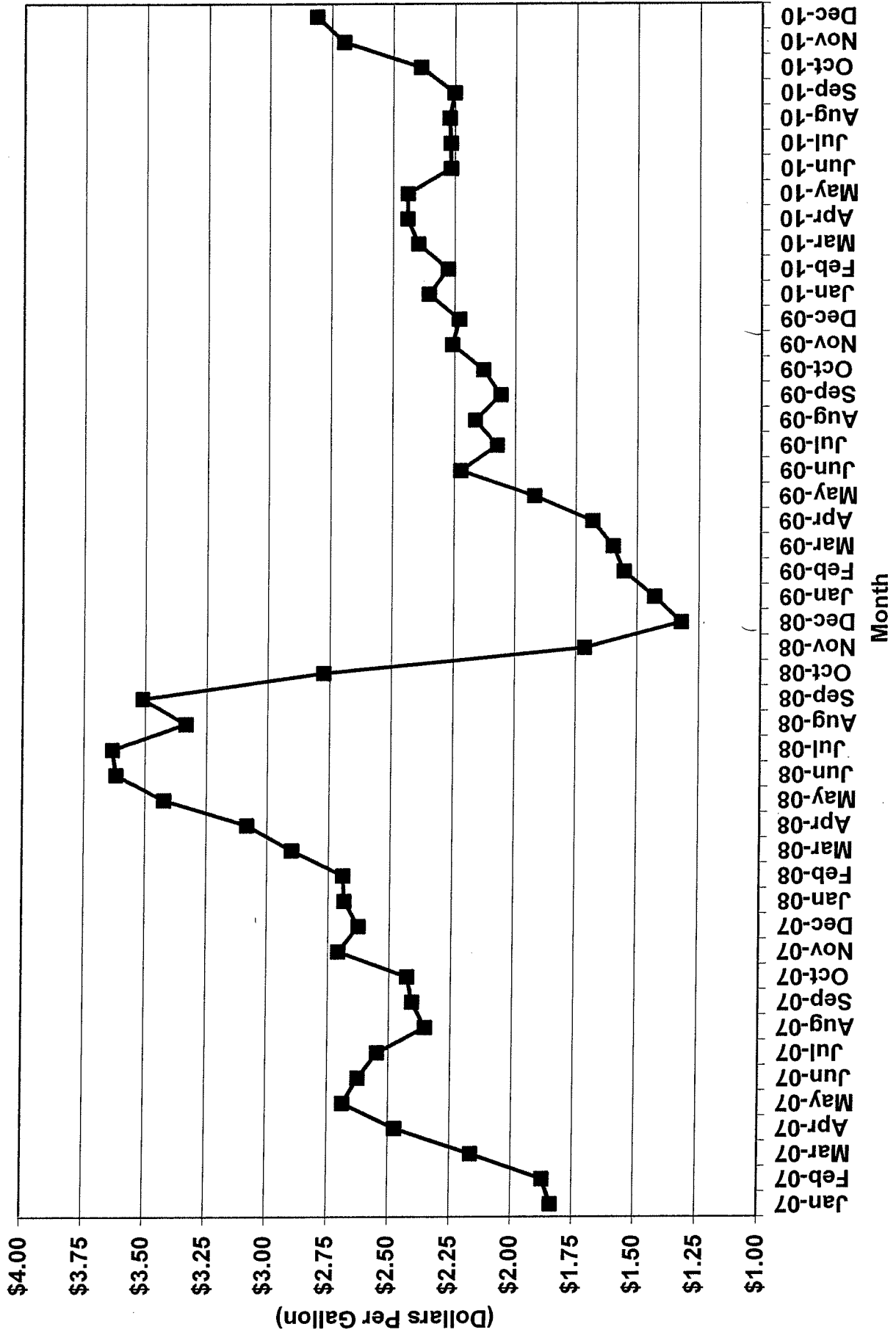
Source: U.S. Bureau of the Census

# Mortgage Rates



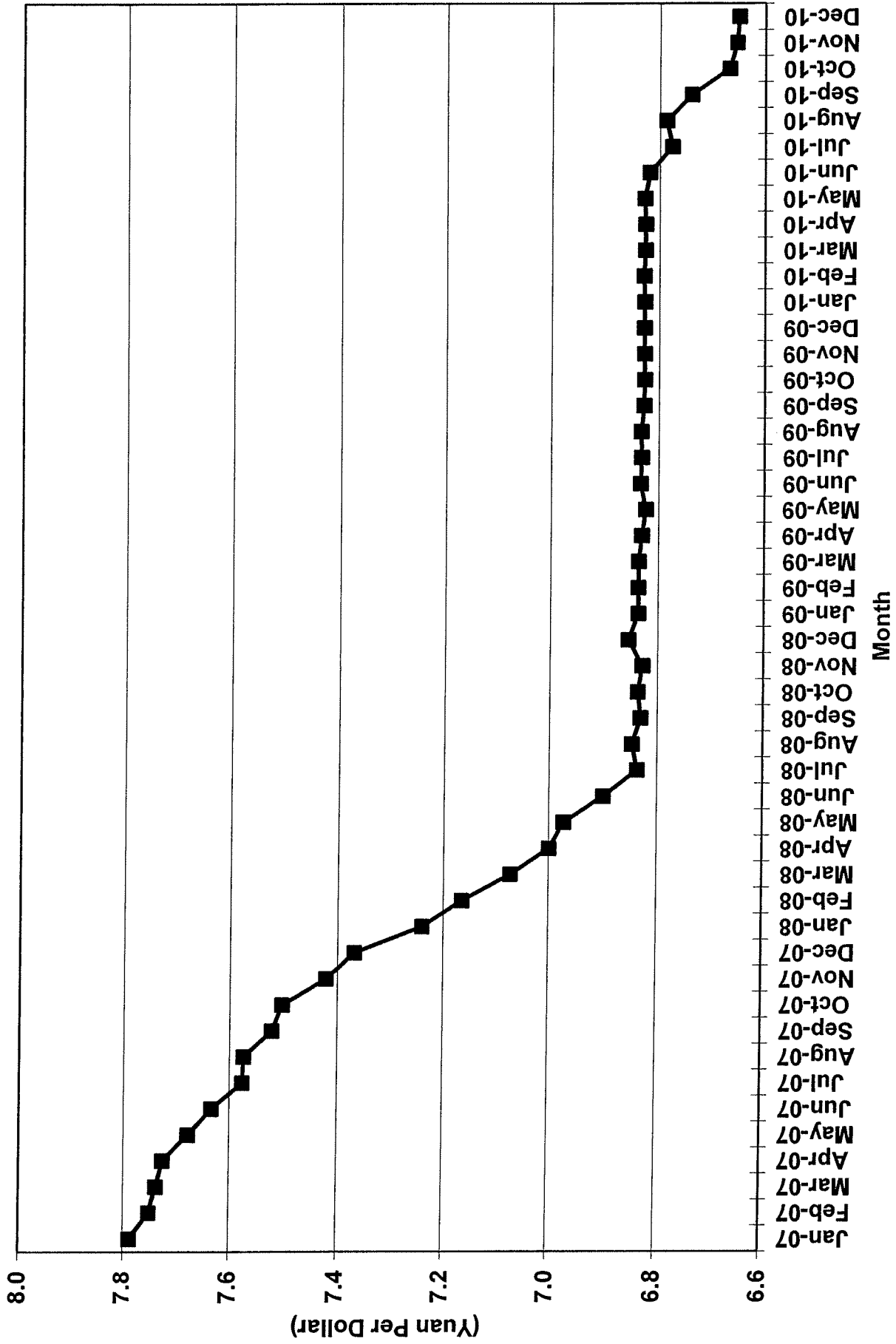
Source: The Board of Governors of the Federal Reserve System

# Gasoline Prices in South Carolina



Source: U.S. Department of Energy, Energy Information Administration; AAA of the Carolina's

# Value of the Yuan vs. the U.S. Dollar



Source: Board of Governors of the Federal Reserve System