

SOUTH CAROLINA ECONOMIC AND FISCAL UPDATE

May 2, 2022

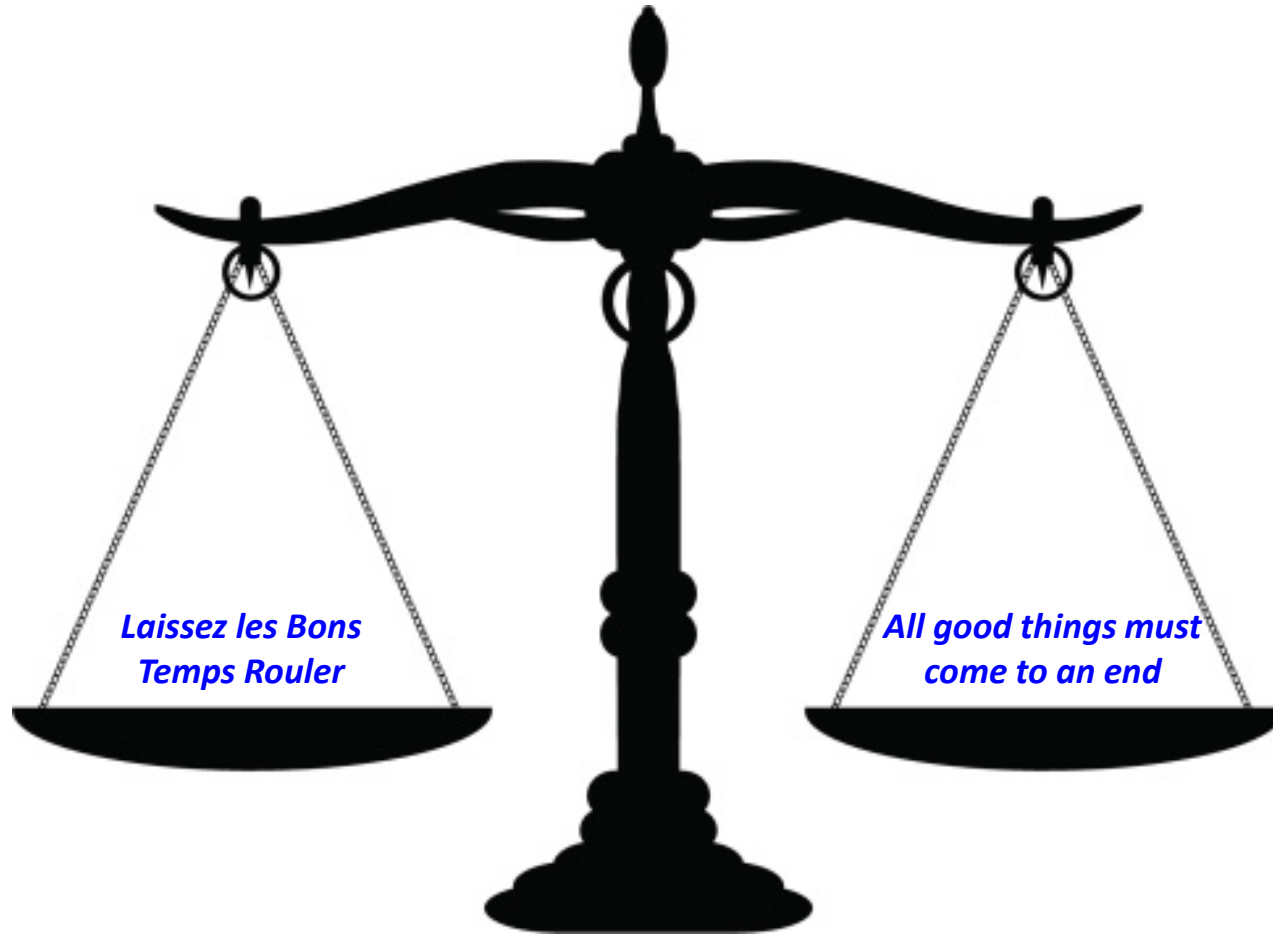


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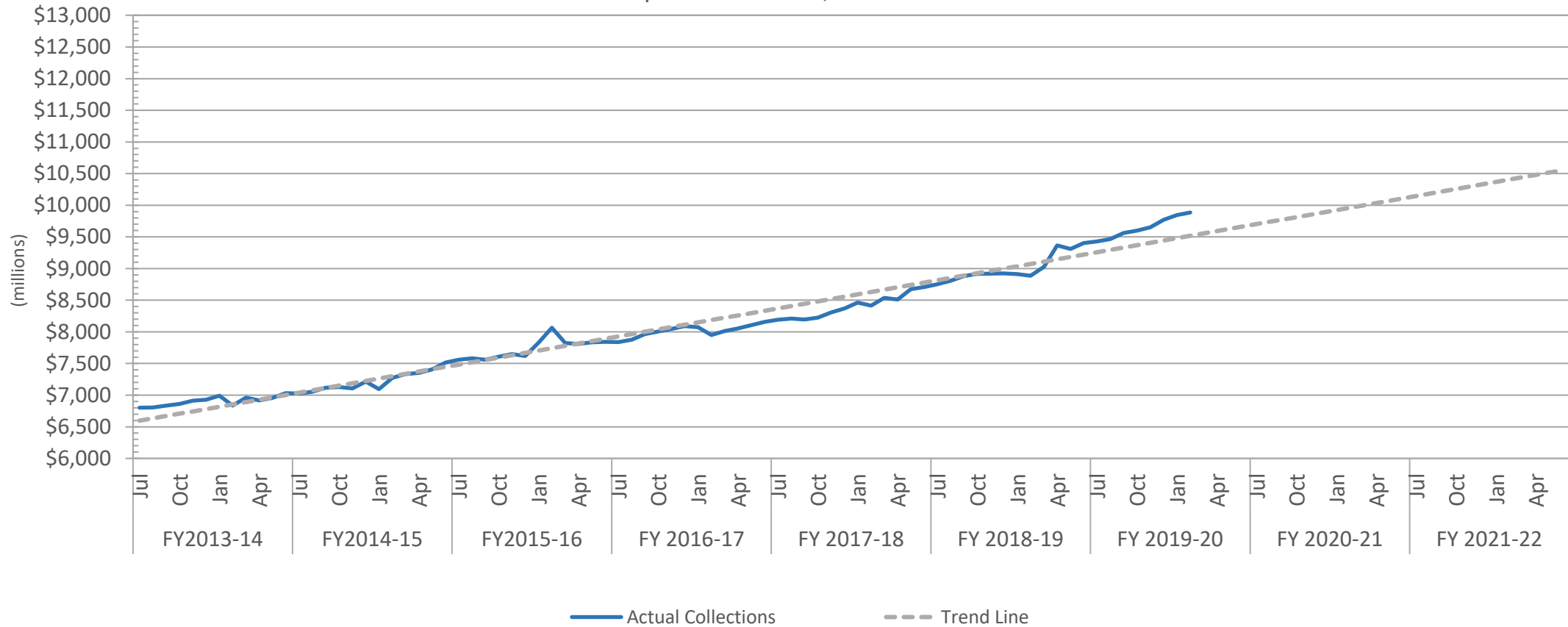
SC Fiscal Year 2022-23 Budget Expectations



February 2020 - Pre-pandemic

General Fund revenues were slightly above the long-term trend

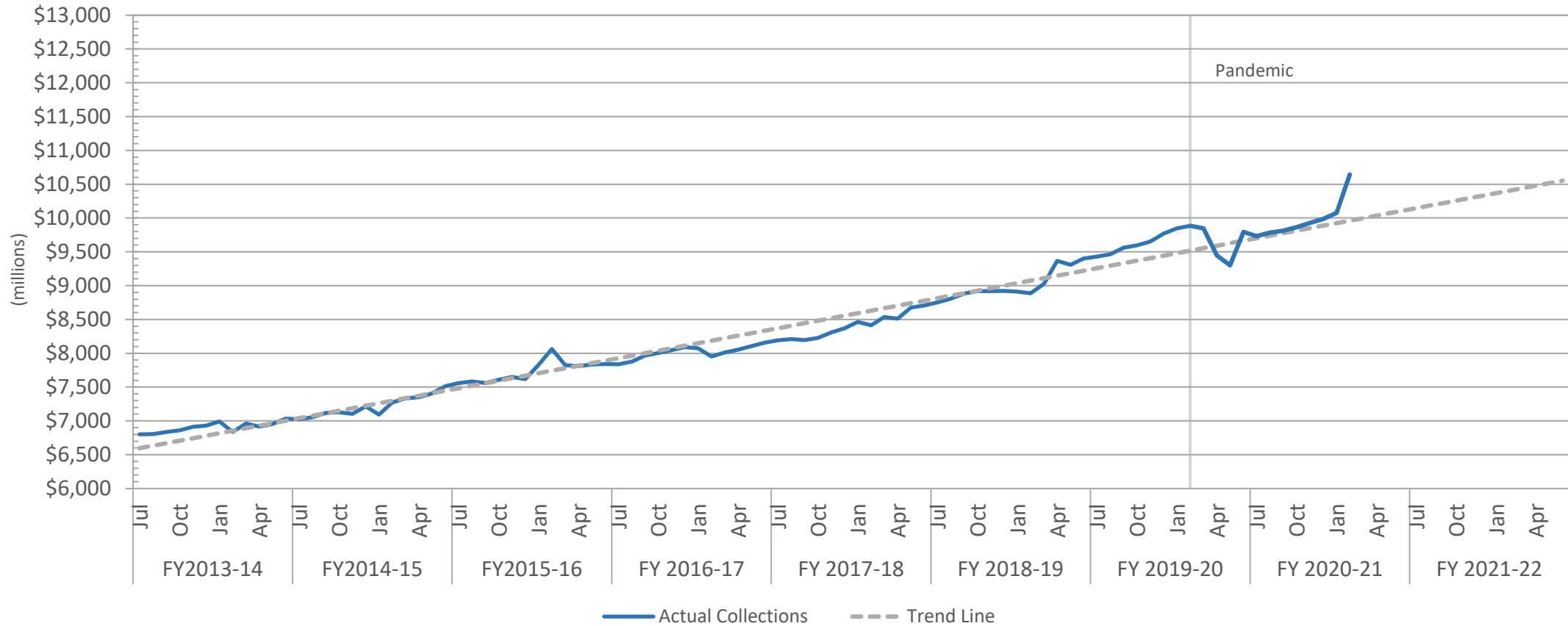
ROLLING FISCAL YEAR - GENERAL FUND
Actual and Pre-pandemic Trend, FY 2013-14 to FY 2021-22



February 2021 - One Year into the Pandemic

General Fund revenues were within the long-term trend

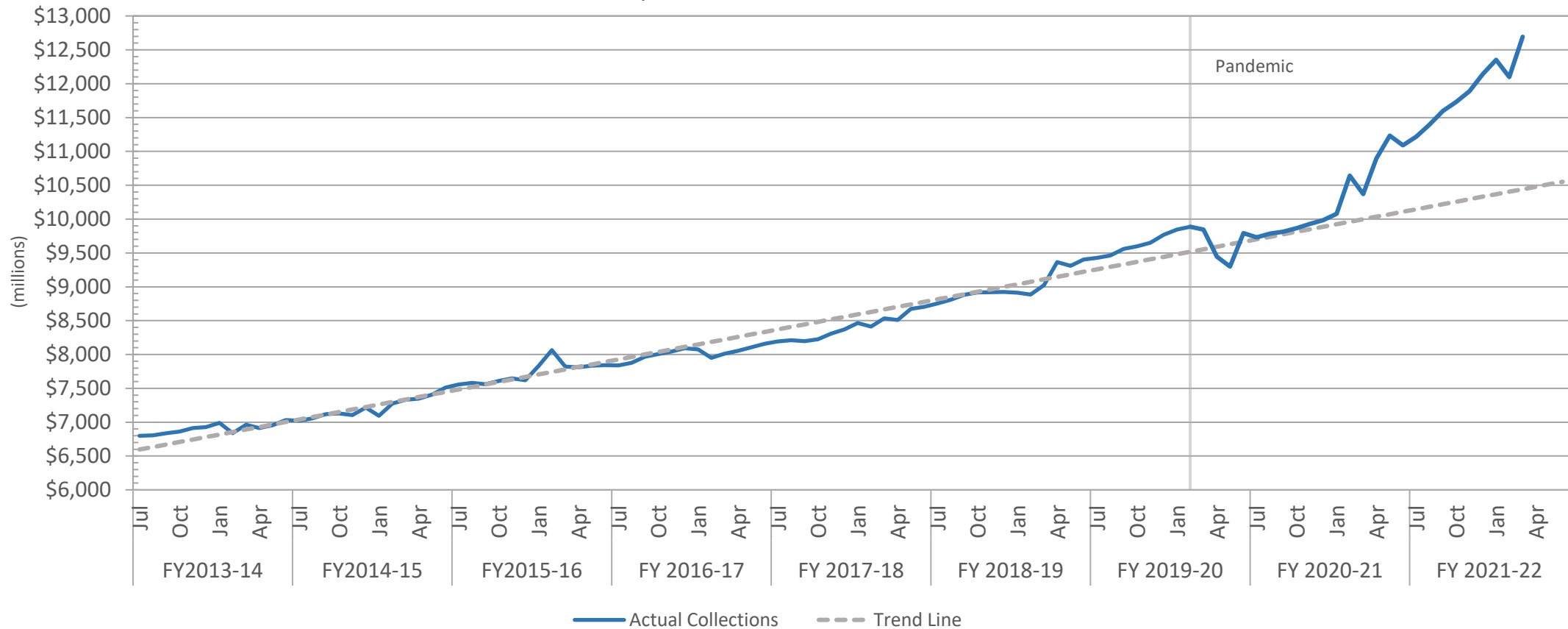
ROLLING FISCAL YEAR - GENERAL FUND
Actual and Pre-pandemic Trend, FY 2013-14 to FY 2021-22



February 2022 – Two Years into the Pandemic

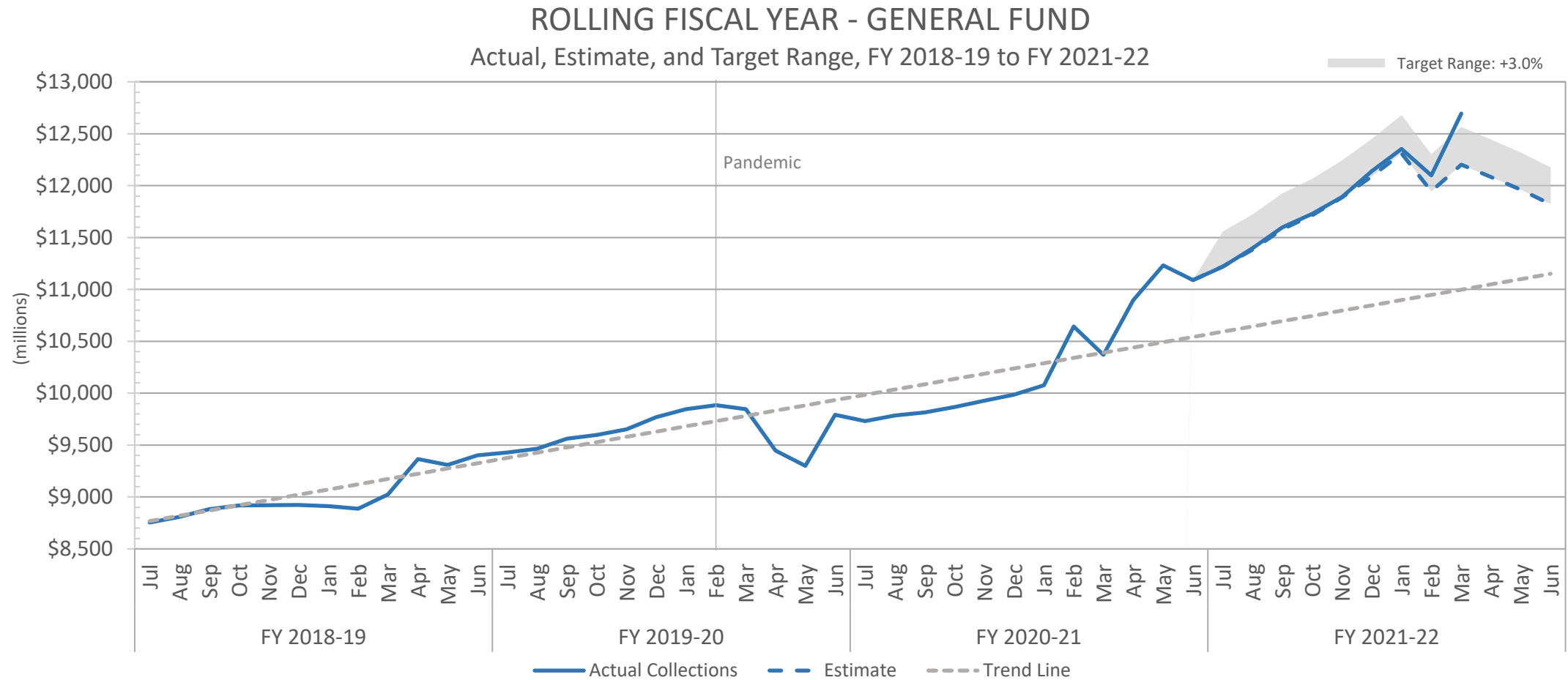
General Fund revenues are significantly above the long-term trend

ROLLING FISCAL YEAR - GENERAL FUND
Actual and Pre-pandemic Trend, FY 2013-14 to FY 2021-22



General Fund Revenue – Actual vs. February Estimate

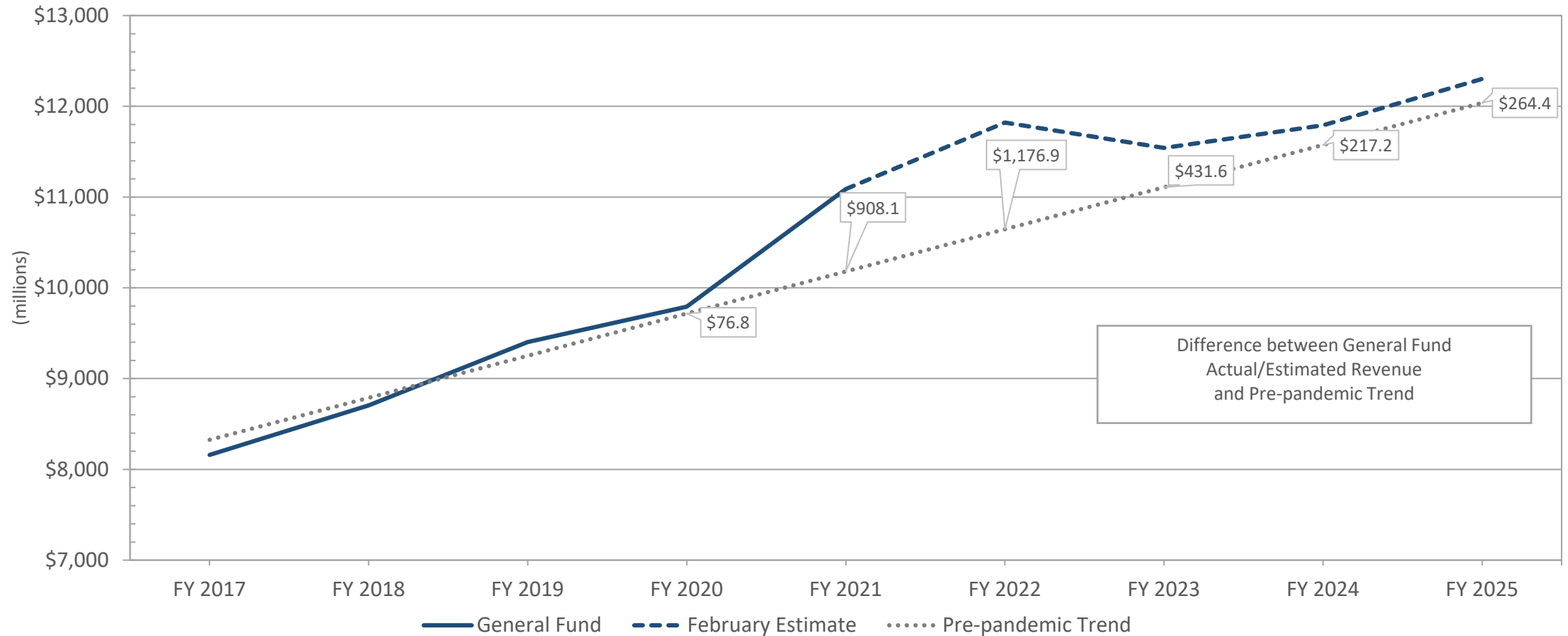
Through March 2022, FY 22 revenues grew 21.8% over last year; the forecast anticipates a return to a longer-term trend over time



Estimated Effects of Stimulus and Other Pandemic-Related Activity

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

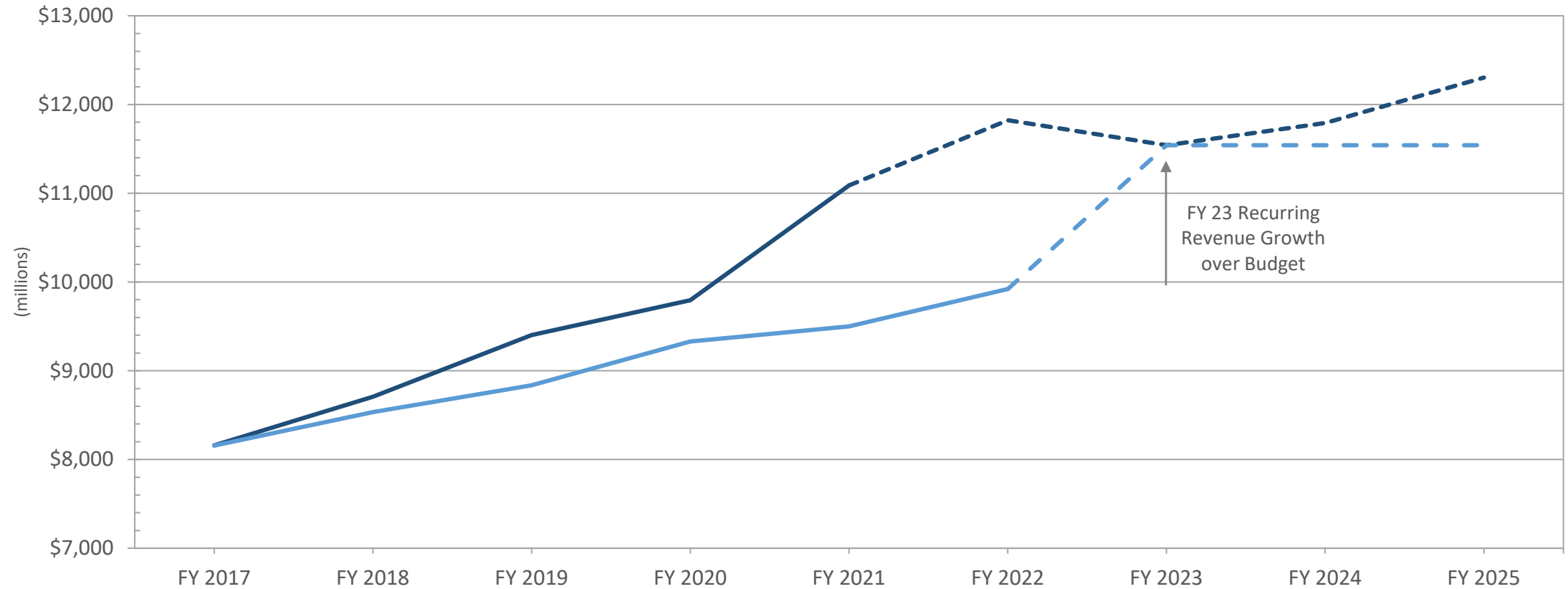
COMPARISON TO PRE-PANDEMIC TREND
General Fund Trend from FY 2014-15 to FY 2018-19



Long-Term Revenue and Budget Outlook

FY 23 Budget is benefitting from prudent budgeting early in the pandemic and a spike in revenue growth; long-term forecast assumes return to normal trend

GENERAL FUND REVENUE AND BUDGET OUTLOOK

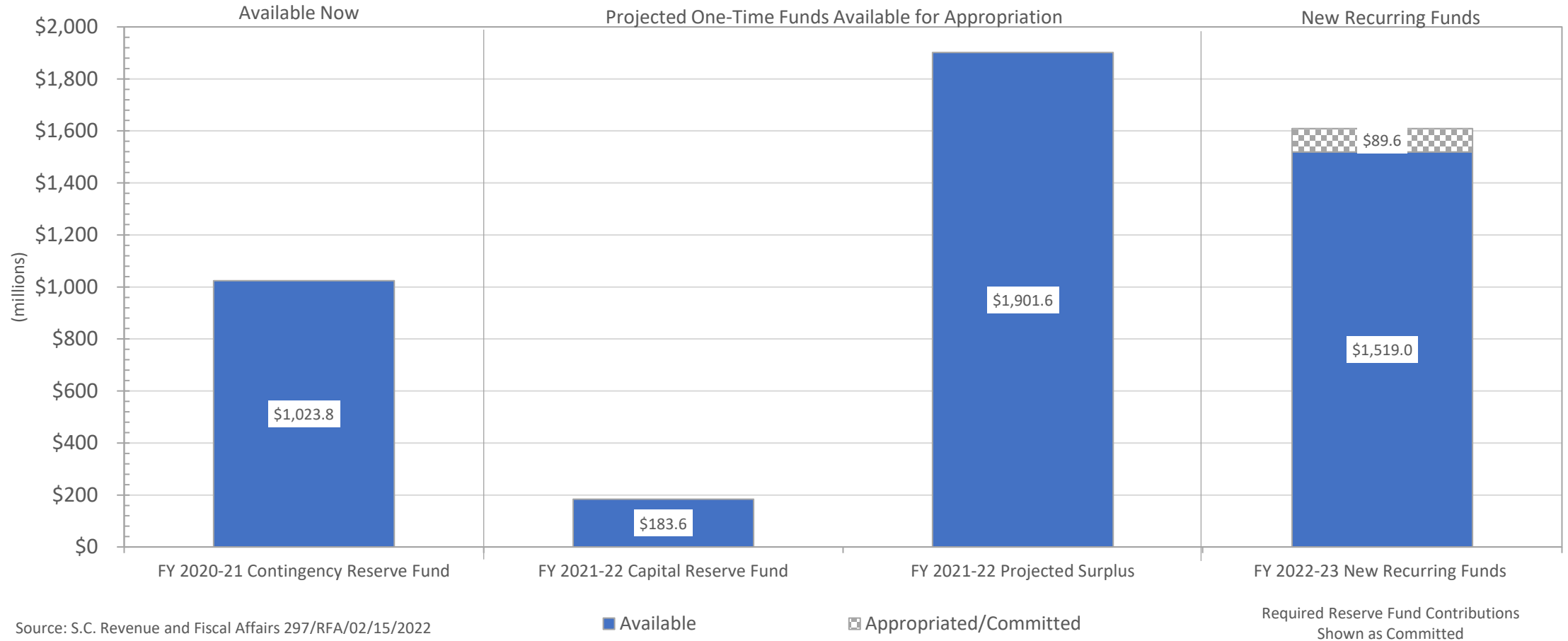


February 2022 estimates; Gross Budget includes Tax Relief Trust Fund

— General Fund — Gross Budget

Available Funds – FY 2022-23 Budget Process

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



ECONOMIC FACTORS

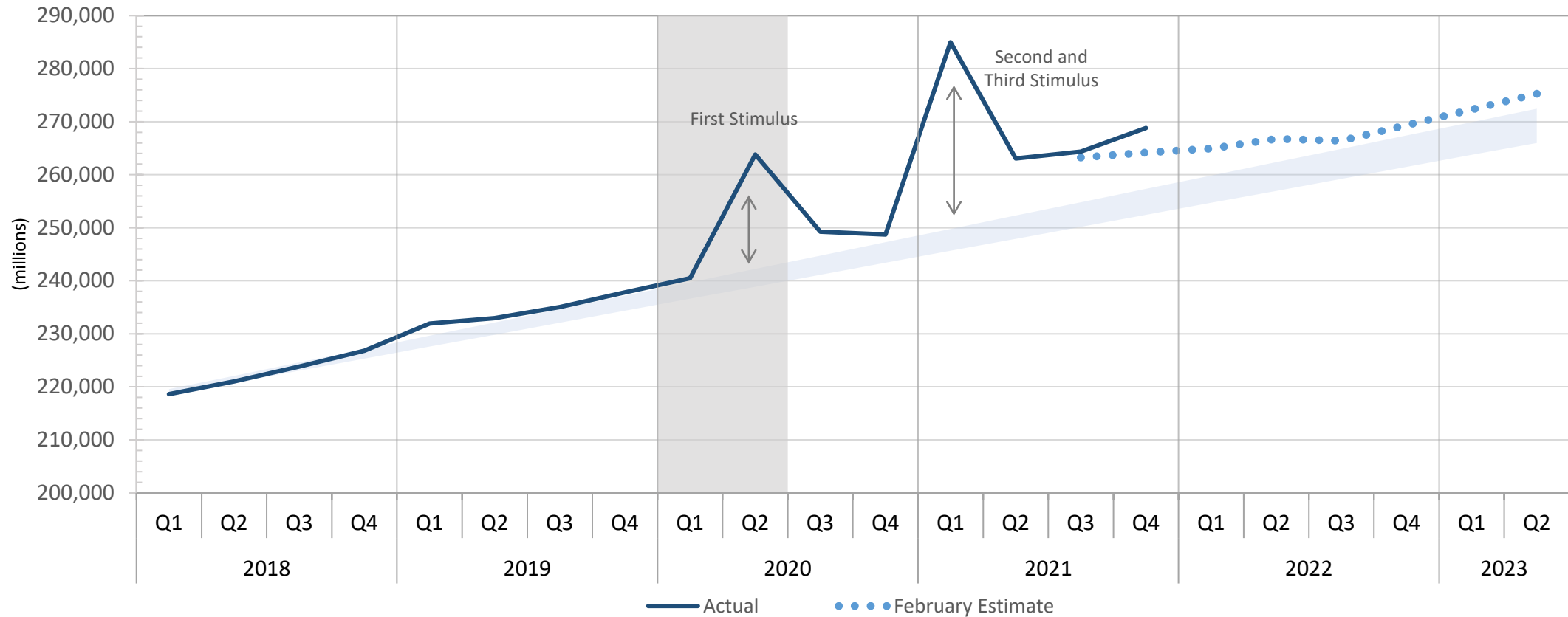
SC Personal Income

Personal income remains above the historical trend; wage growth will likely keep it above trend

SOUTH CAROLINA PERSONAL INCOME

Actual, Estimate, and Trend

Historical Trend Range:
5-year (top) to 10-year (bottom)



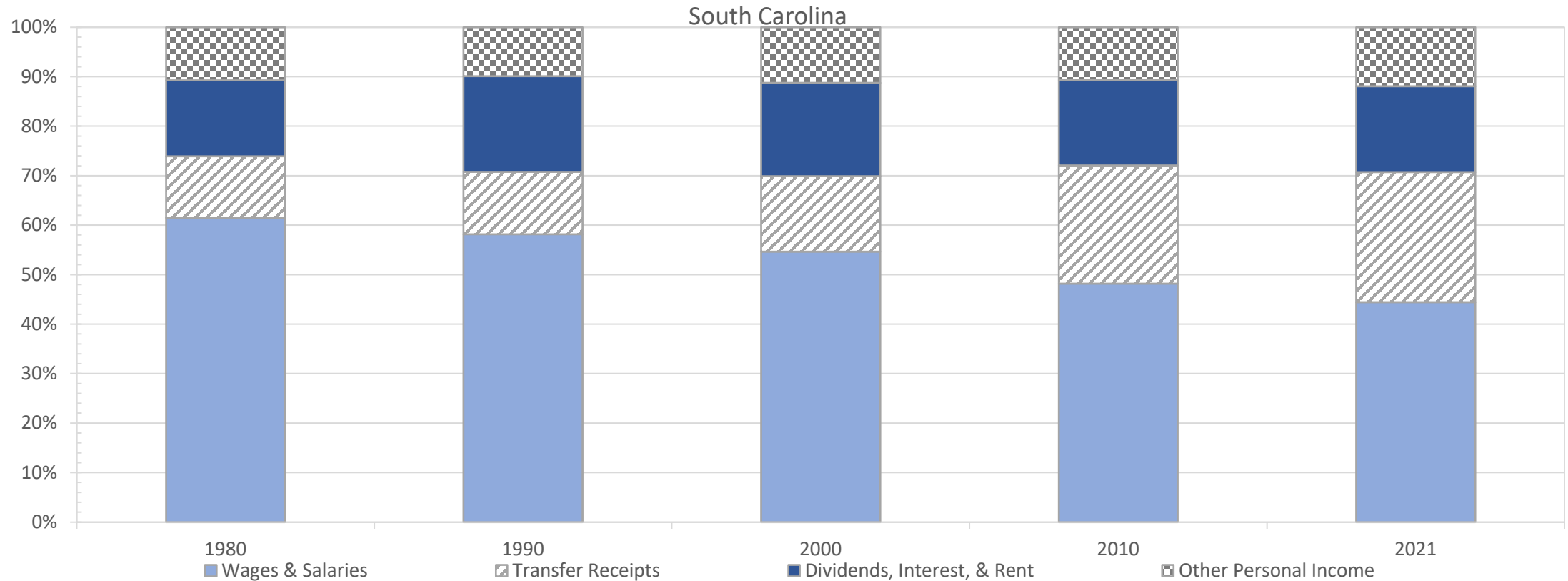
Data Source: U.S. Department of Commerce, Bureau of Economic Analysis; S.C. Board of Economic Advisors – RFA/bdc/3/28/2022



SC Personal Income

The change in South Carolina's population and increase in retirees has contributed to a shift in source of income over the years

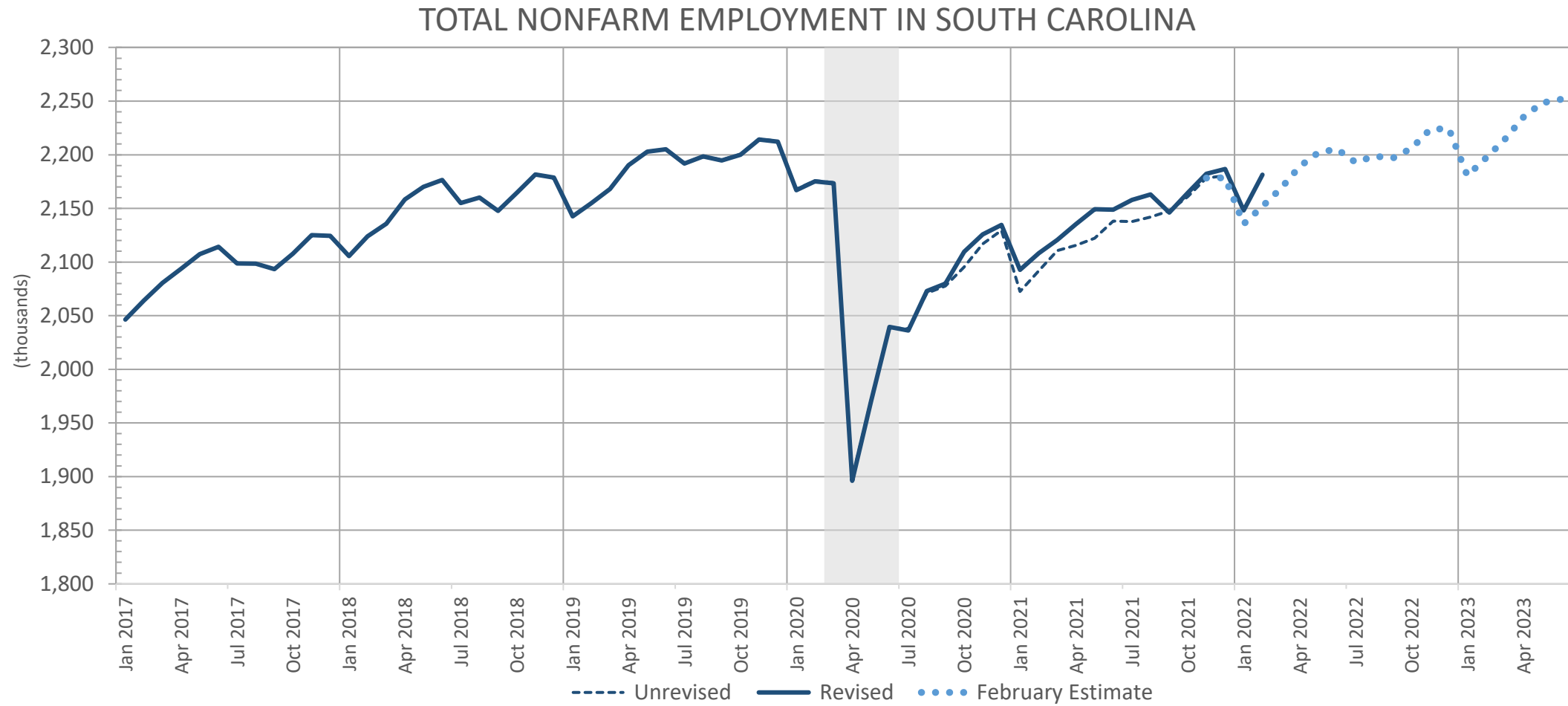
SHARES OF PERSONAL INCOME COMPONENTS



Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C. 222/RFA/bdc/4/12/2022

SC Employment

February experienced strong job growth; employment rose above pre-pandemic levels



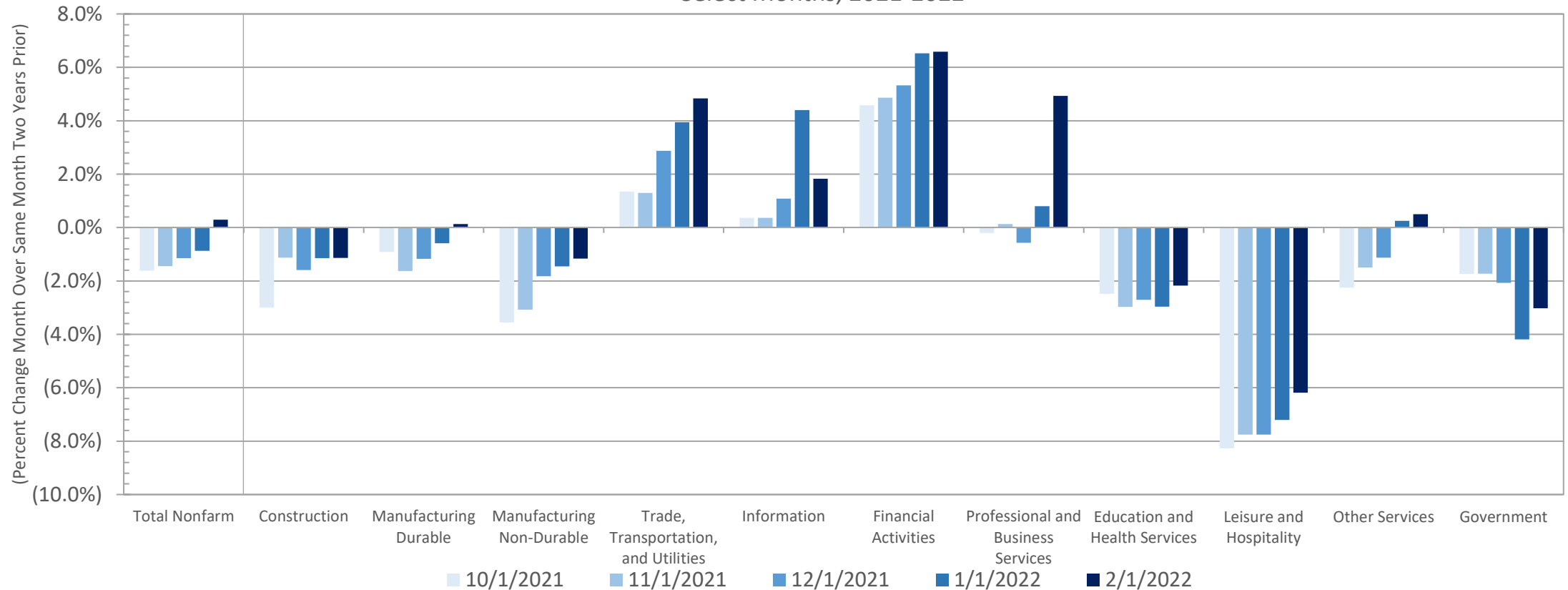
Source: U.S. Department of Labor, Bureau of Labor Statistics 60-RFA/bdc/3/28/2022

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

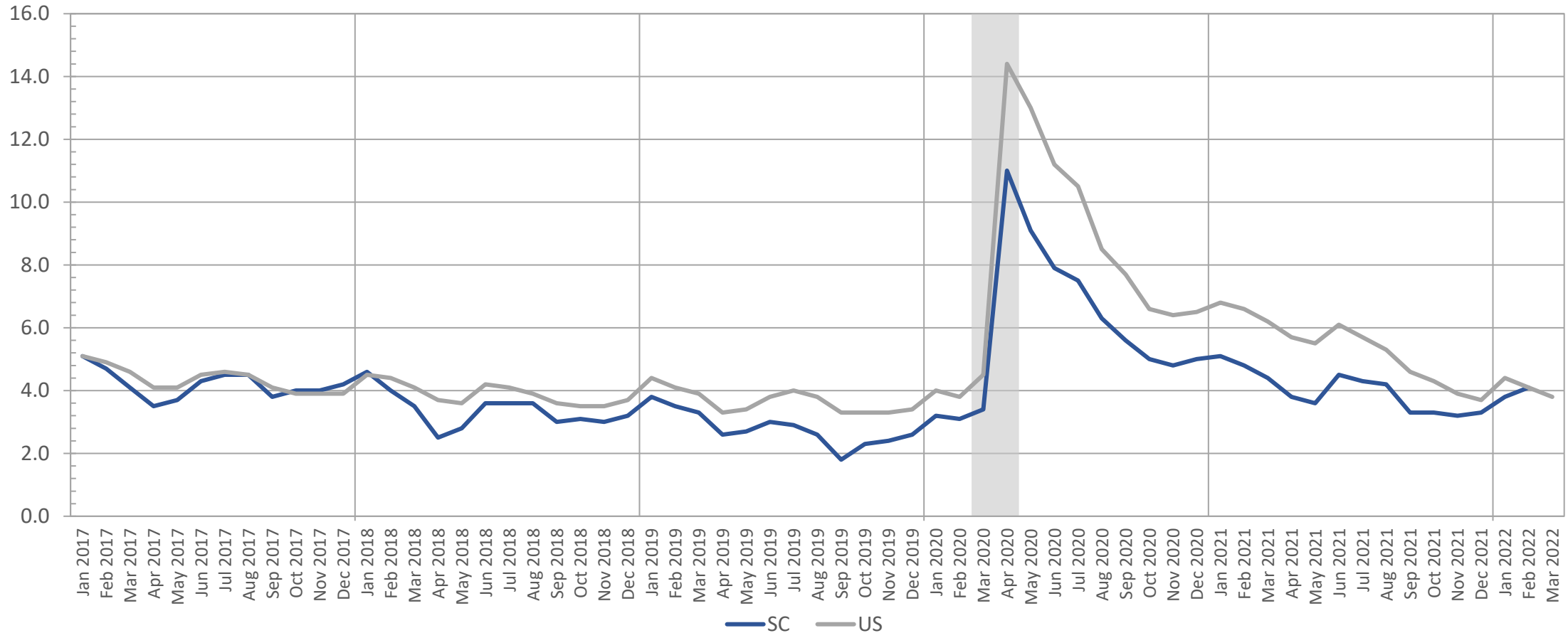


Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Federal Reserve Bank of St. Louis, FRED 281a--RFA/bdc/3/28/2022

SC Unemployment Rate

SC's unemployment rate increased to 4.1% in February despite employment growth due to an increase in people in the labor force

UNEMPLOYMENT RATE



Source: U.S. Department of Commerce, Bureau of Labor Statistics 129--RFA/lhj/04/08/2022

US Unemployed Persons per Job Opening

There are currently more job openings than unemployed persons; the tight labor market continues to drive up wages

US UNEMPLOYED PERSONS PER JOB OPENING

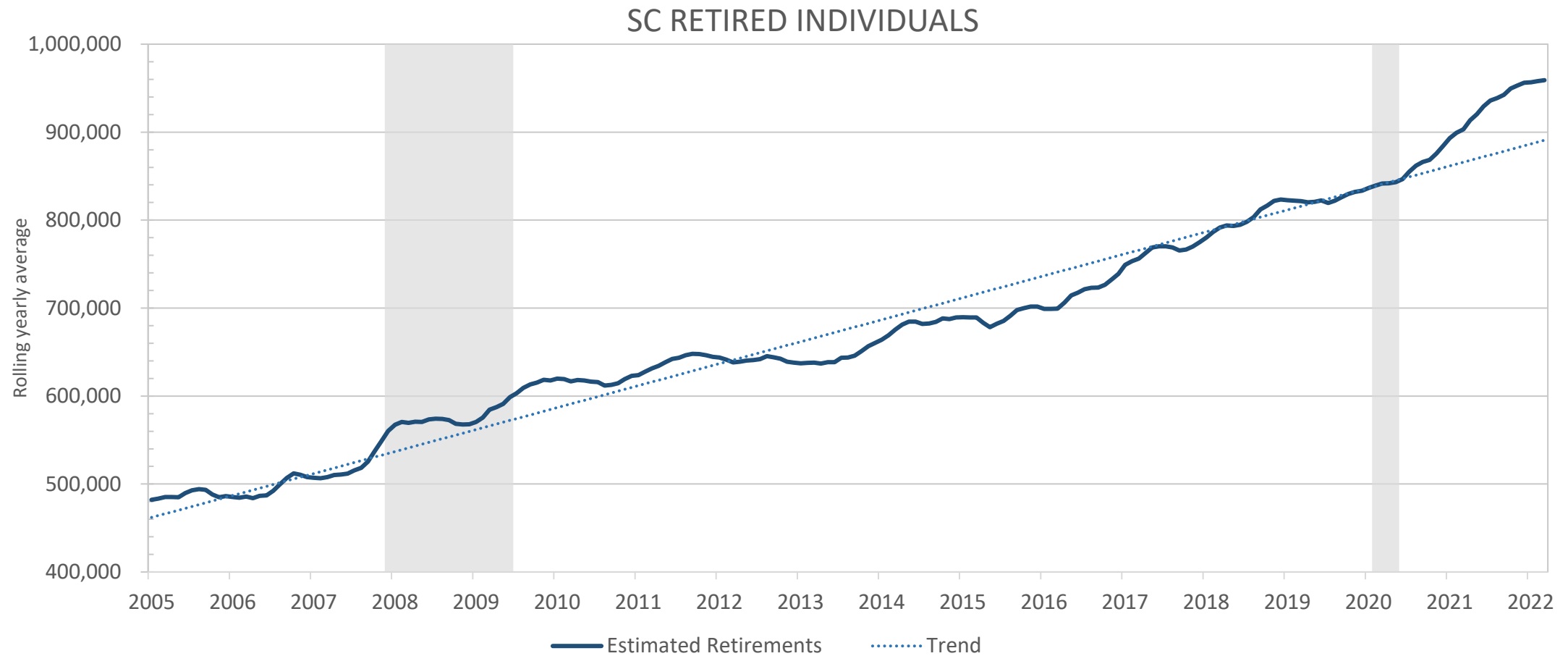


Source: U.S. Bureau of Labor Statistics, CPS and JOLTS; 259A - RFA/bdc/4/7/2022



SC Retired Population

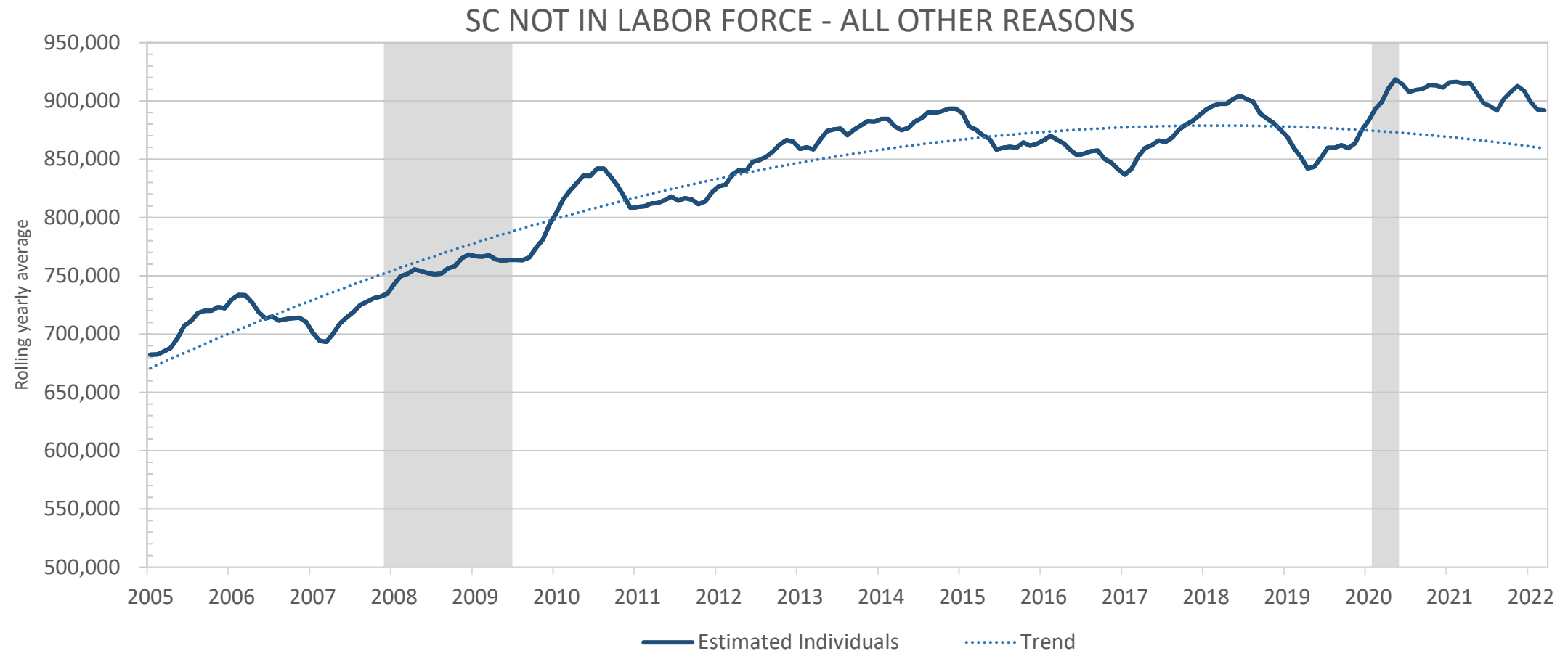
South Carolina retirement levels jumped in the past year, contributing to the labor shortage



Source: Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021; 309B - RFA/bdc/4/13/2022

SC Individuals Not in Labor Force - All Other Reasons

Individuals exited the labor force during the pandemic for other reasons; these levels remain elevated above the trend

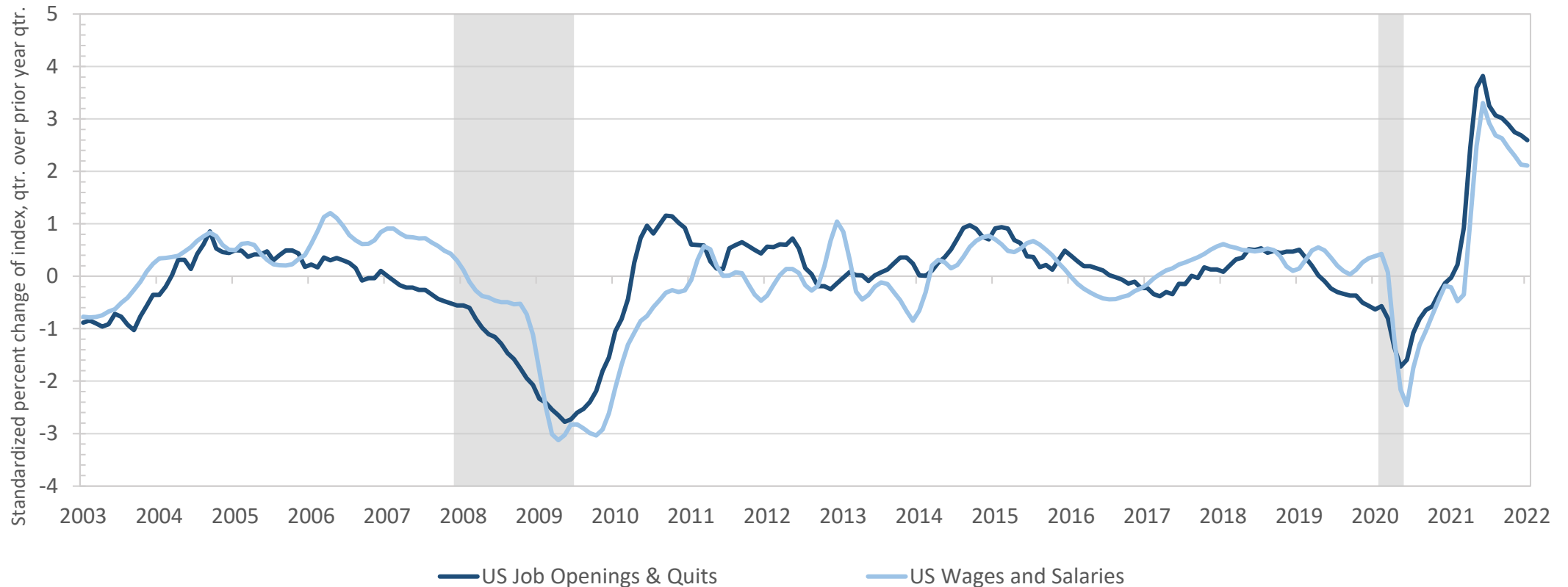


Source: Integrated Public Use Microdata Series, Current Population Survey: Version 9.0: IPUMS, 2021. 309C - RFA/bdc/4/13/2022

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

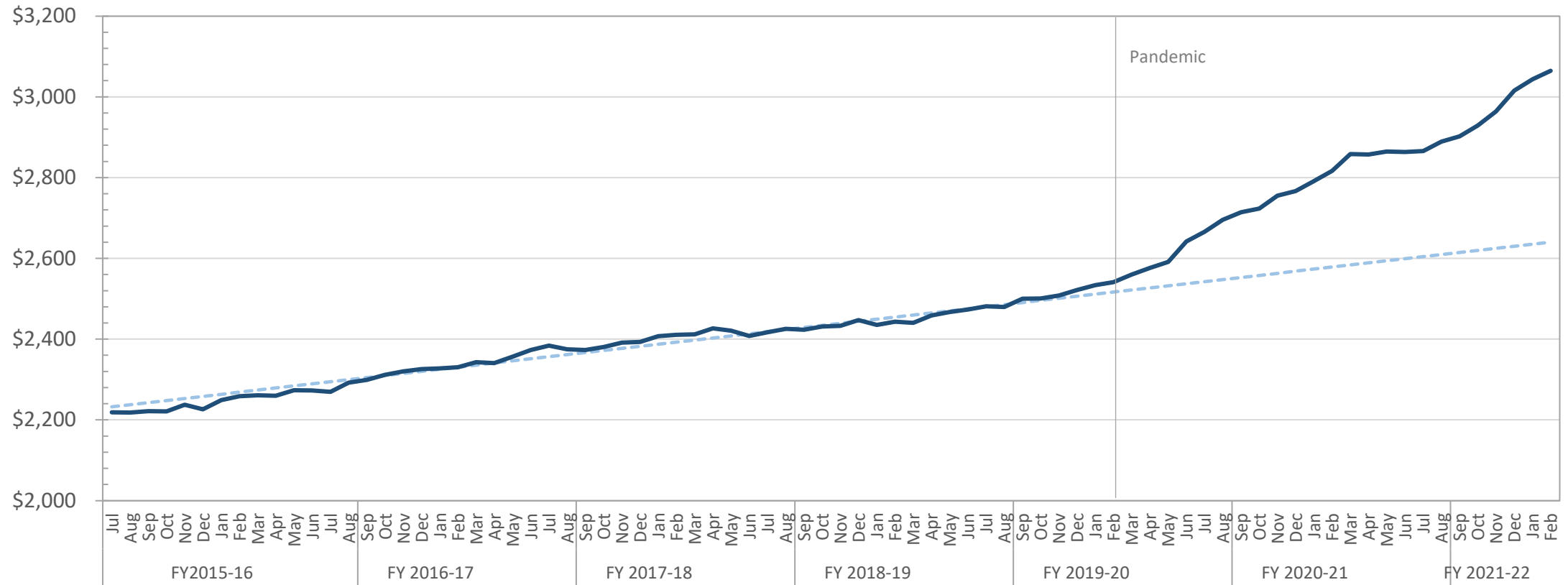


Source: U.S. Bureau of Economic Analysis, Compensation of Employees, Received; U.S. Bureau of Labor Statistics, JOLTS; 309A - RFA/bdc/3/28/2022

Withholdings Amount per Employee

Significant growth above trend stems from wage inflation and loss of lower wage jobs

AVERAGE YEARLY WITHHOLDINGS PER NONFARM EMPLOYEE



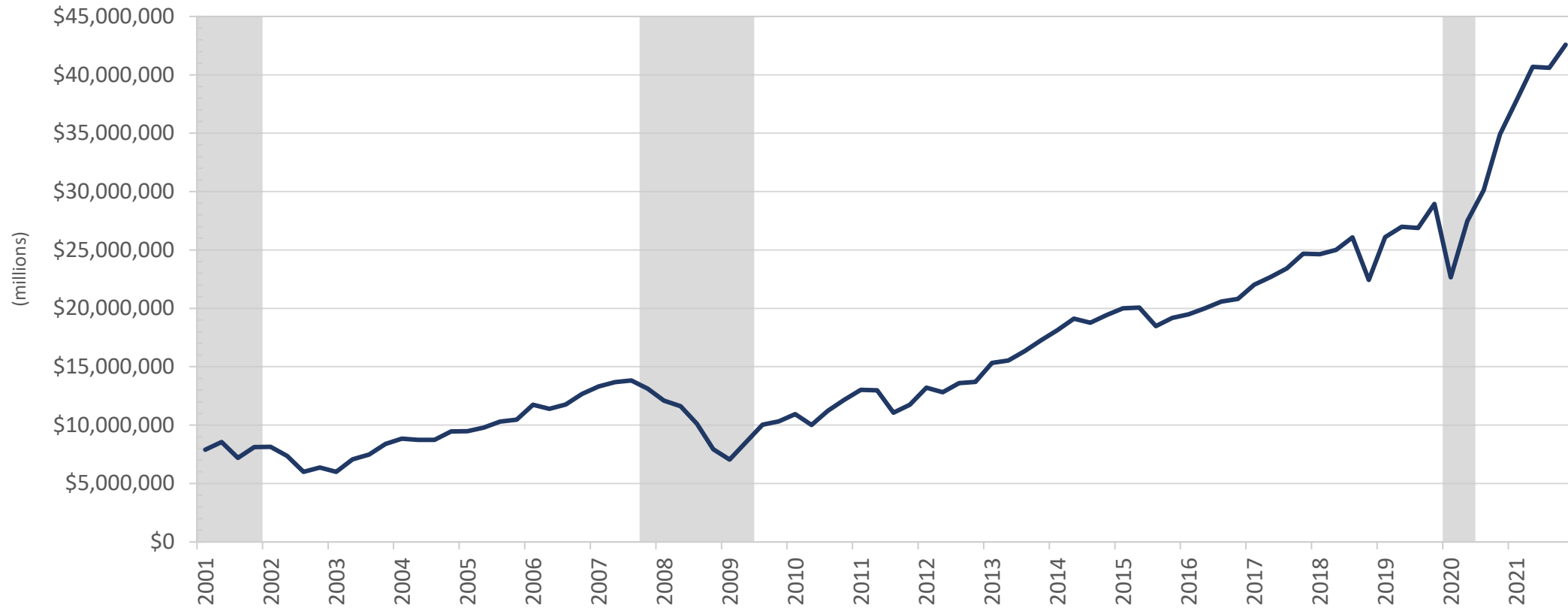
Source: U.S. Department of Labor, Bureau of Labor Statistics; Revenue and Fiscal Affairs 308C -RFA/bdc/4/4/2022



Personal Financial Asset Values

Asset values have skyrocketed in the past year

US HOUSEHOLD VALUE OF EQUITIES AND MUTUAL FUND SHARES

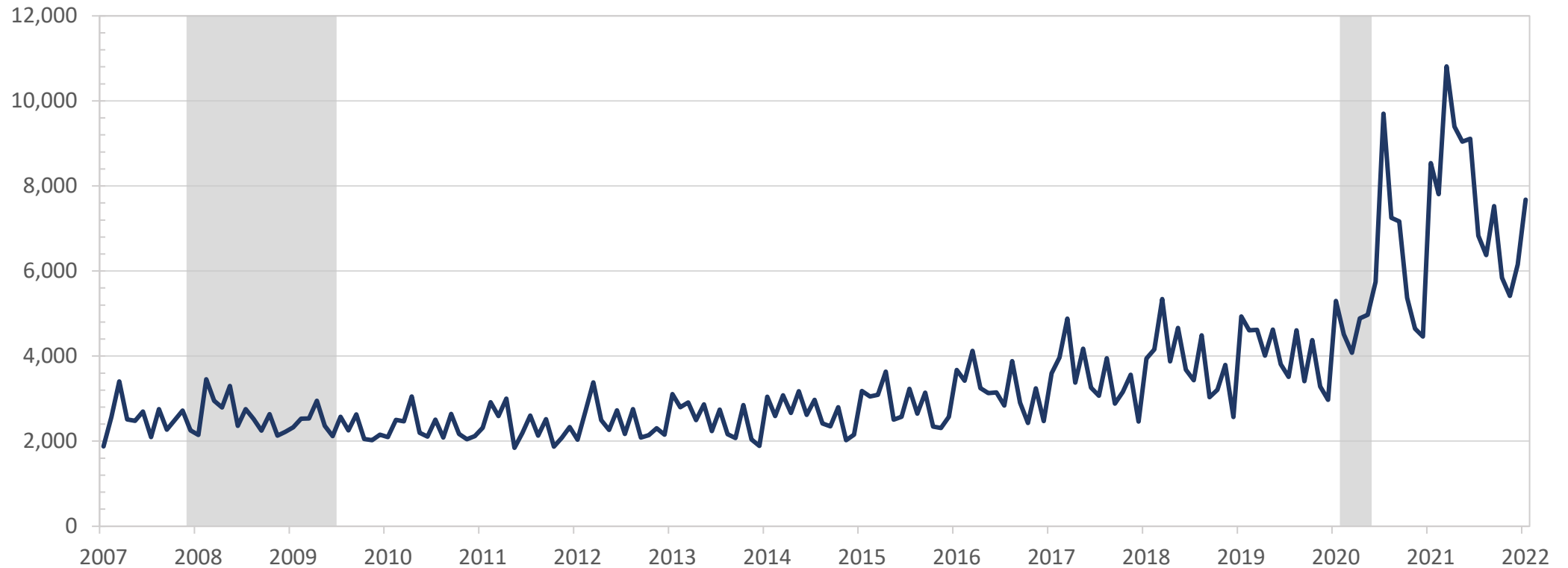


Board of Governors of the Federal Reserve System, Financial Accounts of the United States - 311D RFA/bdc/4/13/2022

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

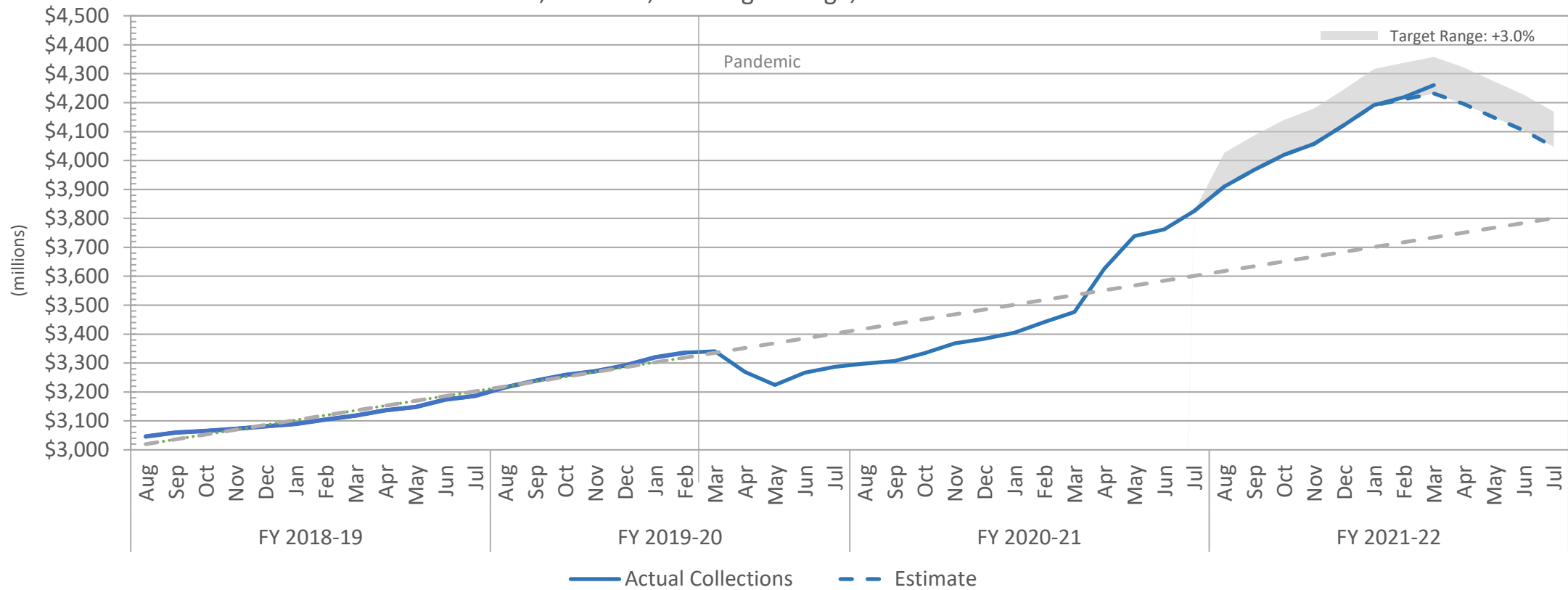
CONSUMER SPENDING



Sales Tax - Actual vs. Estimate

Collections are well above long-term trend, and February and March were slightly above expectations; the estimate expects a return to trend over time

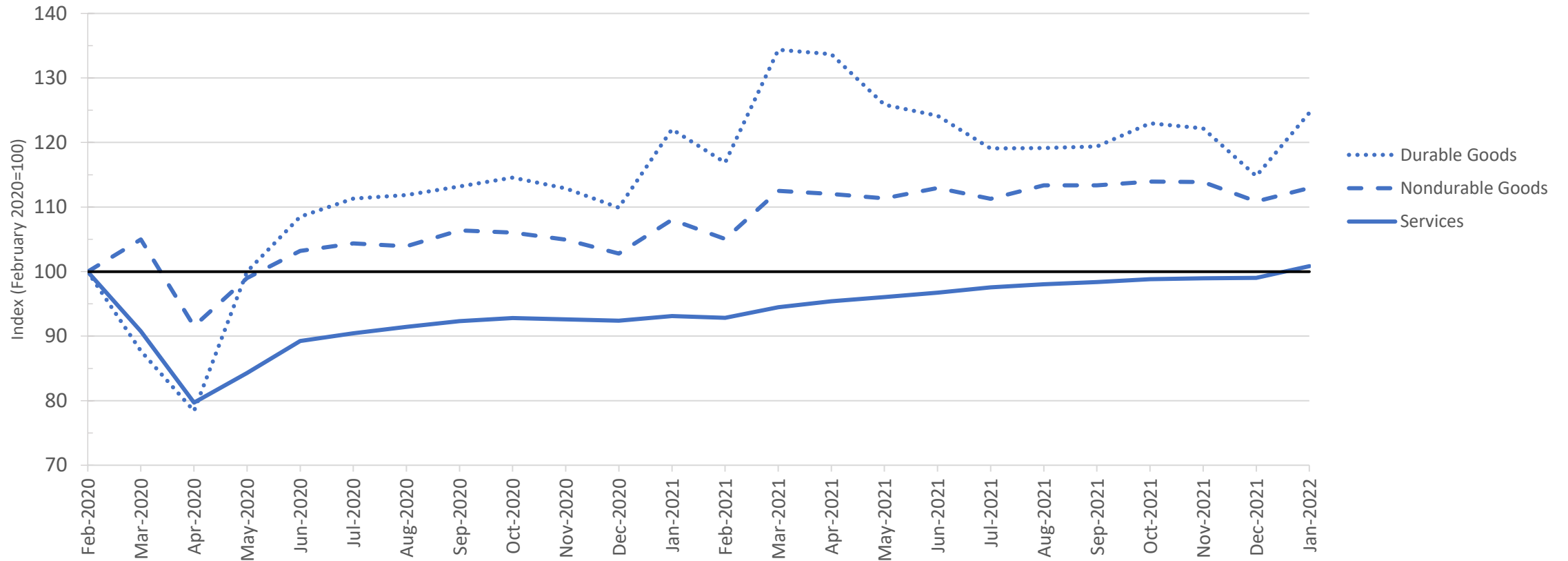
ROLLING FISCAL YEAR - SALES TAX
Actual, Estimate, and Target Range, FY 2018-19 to FY 2021-22



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

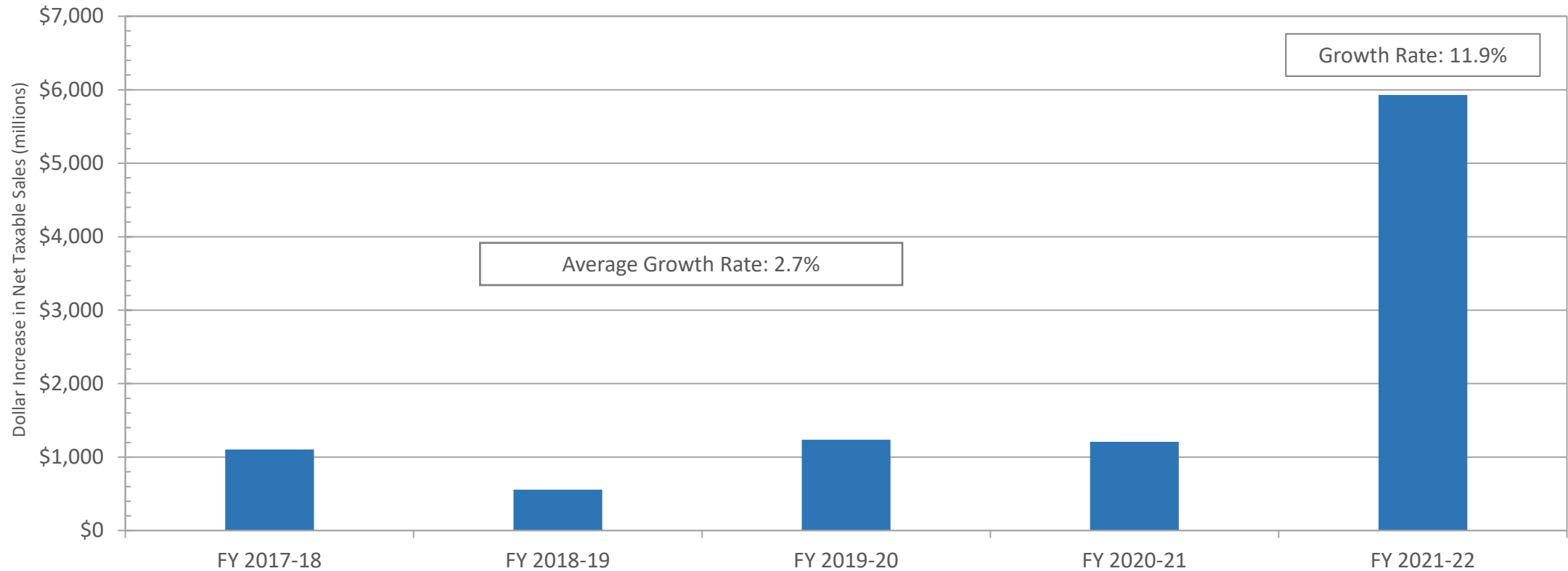


Federal Reserve Bank of St. Louis, Personal Consumption Expenditures, nmg/3/28/2022

SC Consumer Spending

Net taxable sales in the first half of FY 22 have grown nearly four times the average rate

CHANGE IN NET TAXABLE SALES BY FISCAL YEAR
July through January



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

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

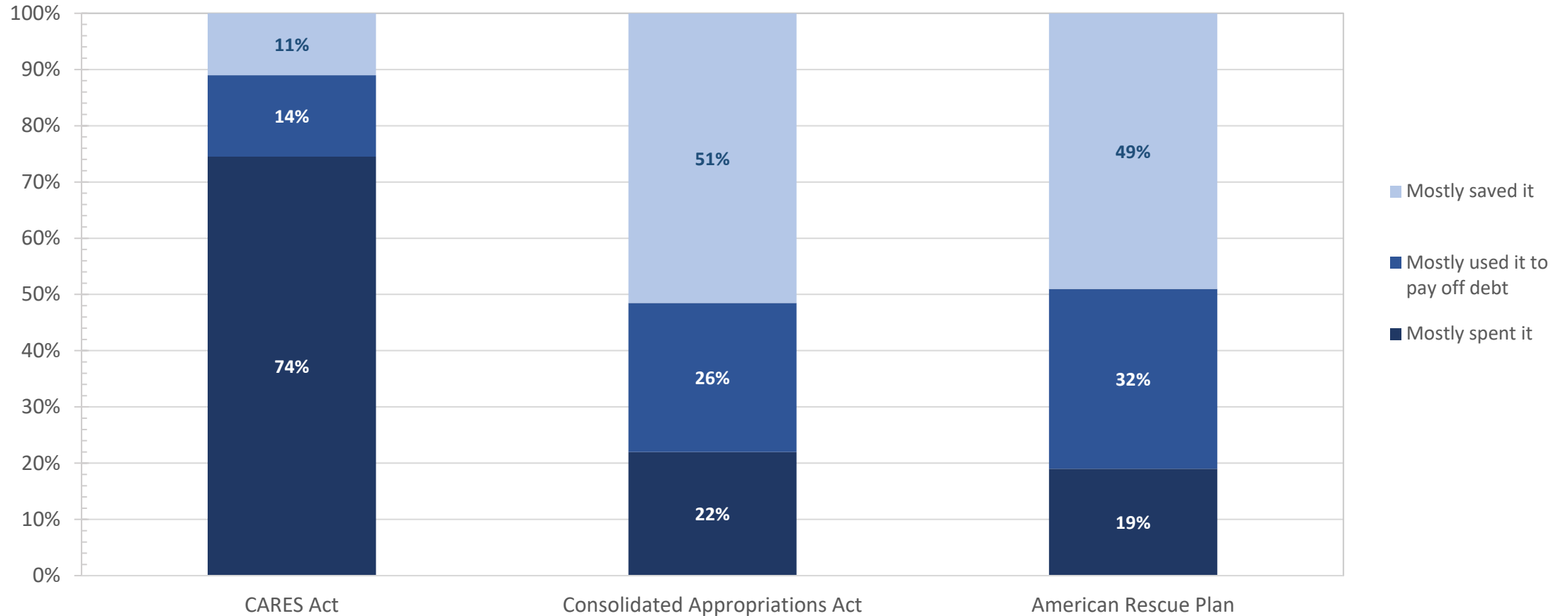


Source: South Carolina Department of Revenue, nmg/3/29/2022

Stimulus Payments

Households were more likely to spend their first federal stimulus check and save or pay off debt with second and third payments

REPORTED USE OF STIMULUS FUNDS

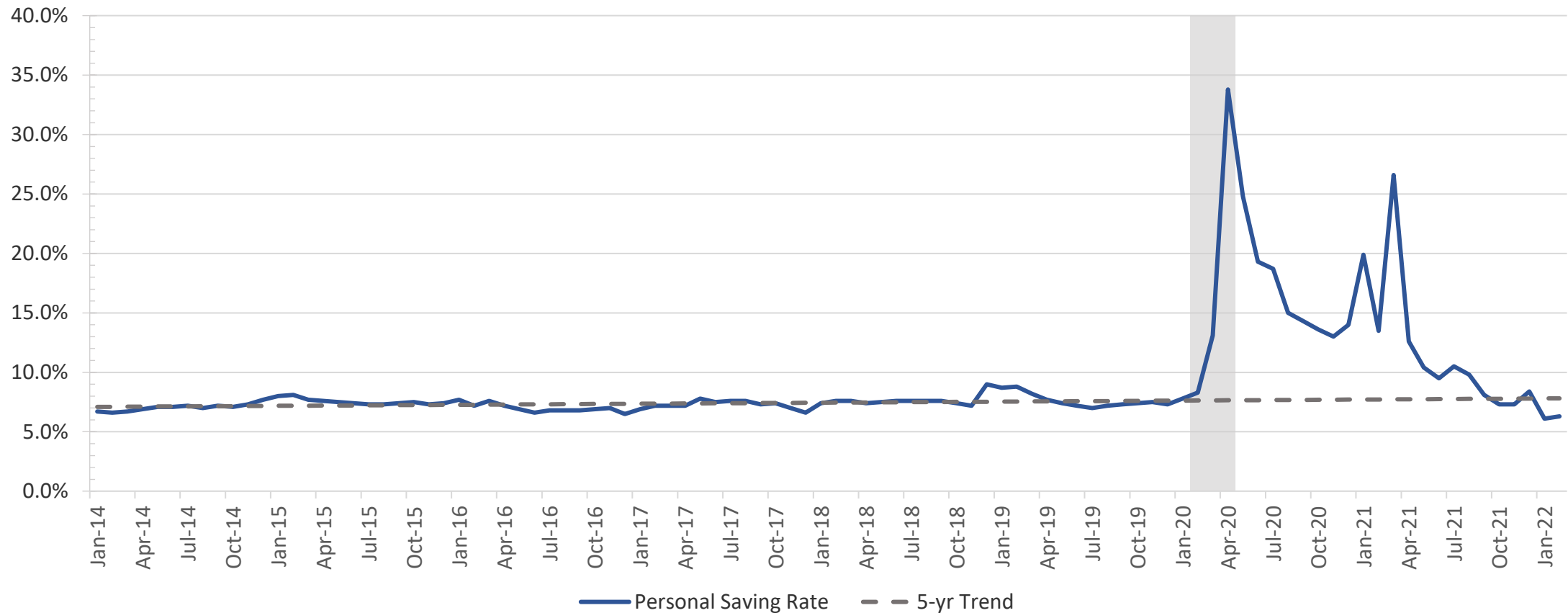


Source: United States Census Bureau, Household Pulse Survey, RFA/nmg/10/06/2021

Consumer Savings

The personal saving rate has fallen back near the 5-year trend

PERSONAL SAVING RATE

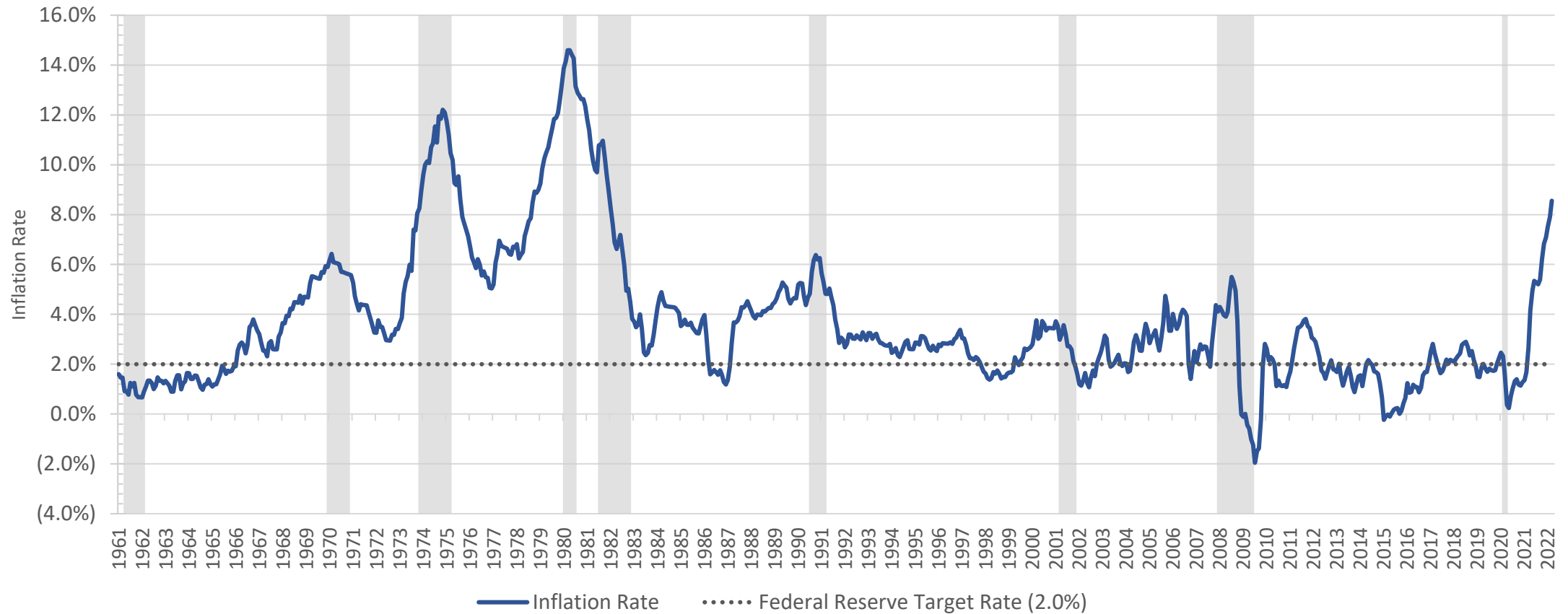


U.S. Bureau of Economic Analysis, Personal Saving Rate, nmg/4/13/2022

Inflation Rates

Inflation reached 8.5 percent in March 2022, the highest rate since 1981

US INFLATION RATE



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers in U.S. City Average; nmg/4/13/2022

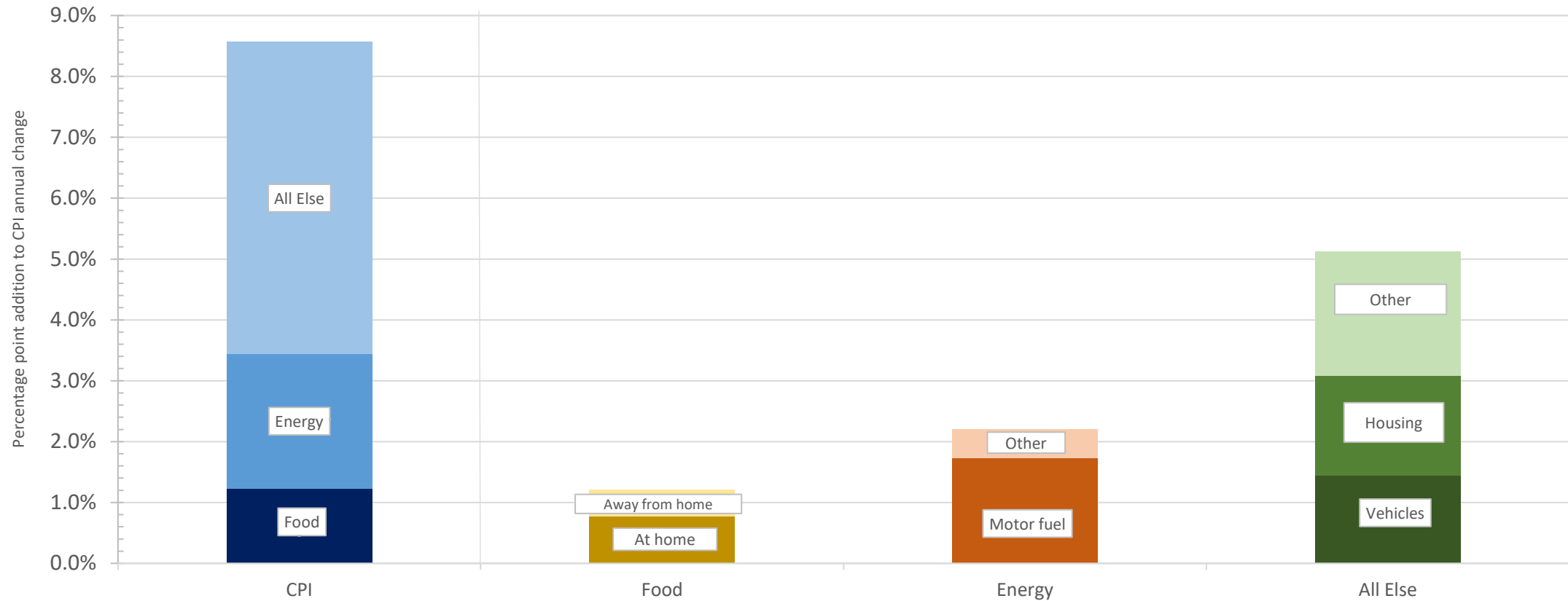


Consumer Price Index

Inflation is broad-based, but increases in energy, housing, and vehicle prices continue to be main drivers

CPI - CONTRIBUTION TO TOTAL CHANGE BY SUBCOMPONENT

March 2021 to March 2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index, bdc/4/13/2022

Interest Rates

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 EFFECTIVE RATE



Source: Board of Governors of the Federal Reserve System, Federal Funds Effective Rate; Federal Open Market Committee, March 16, 2022: FOMC Projections materials; Trading Economics, United States Fed Funds Rate Forecast for 2023, nmg/4/13/2022

Housing Statistics – South Carolina

Prices continue to rise even as the number of homes sold declines, a sign that demand continues to outpace supply; theoretically, higher interest rates should taper price growth

SOUTH CAROLINA RESIDENTIAL SALES
Number Sold vs. Median Sales Price



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

LEGISLATIVE ISSUES

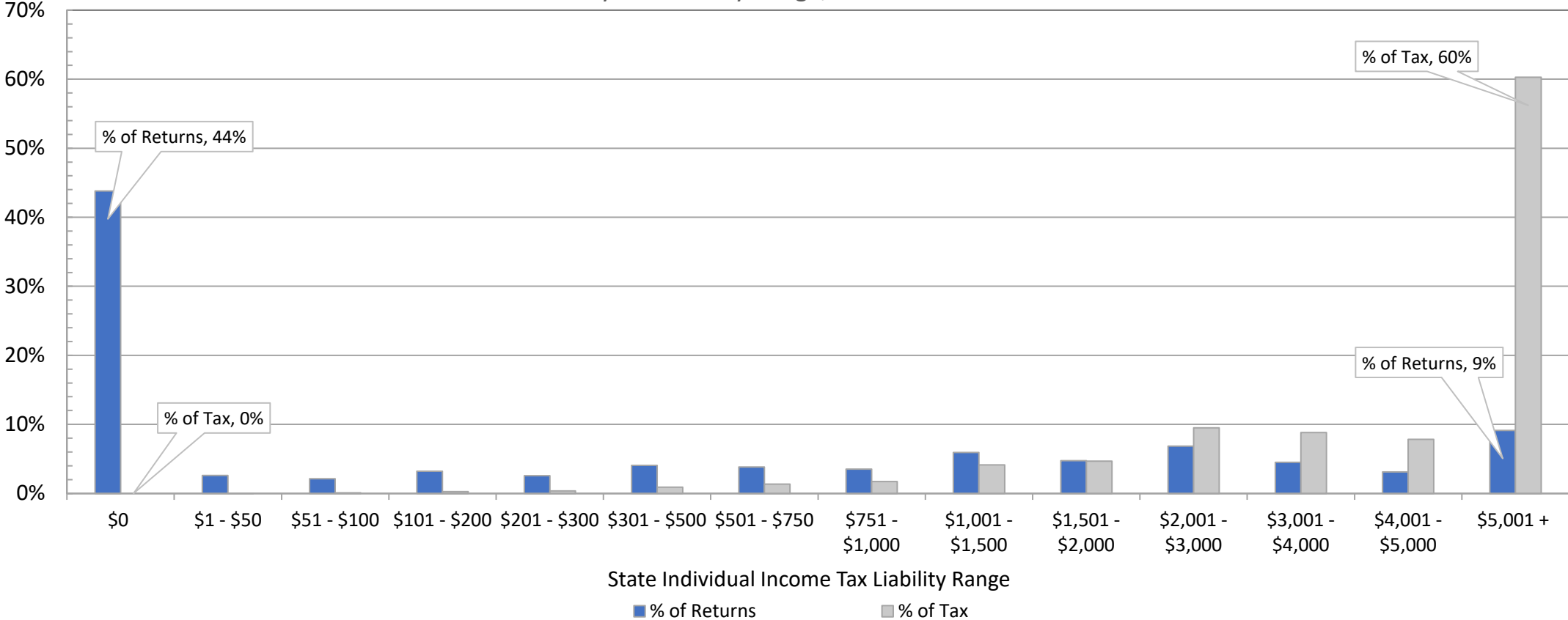
Select Legislative Provisions with Revenue Impacts

- 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)

South Carolina Tax Liability – Tax Year 2018

SC’s tax structure results in a wide range of liabilities; a large number of returns, 44%, pay no income tax, whereas 9% of returns pay 60% of the tax

DISTRIBUTION OF STATE INDIVIDUAL INCOME TAX RETURNS AND TAX LIABILITY
By Tax Liability Range, Tax Year 2018



Source: Department of Revenue Individual Income Tax Returns; Calculations by SC Revenue and Fiscal Affairs Office - 131/lhj/1/17/2020

Average Effective Income Tax Rates

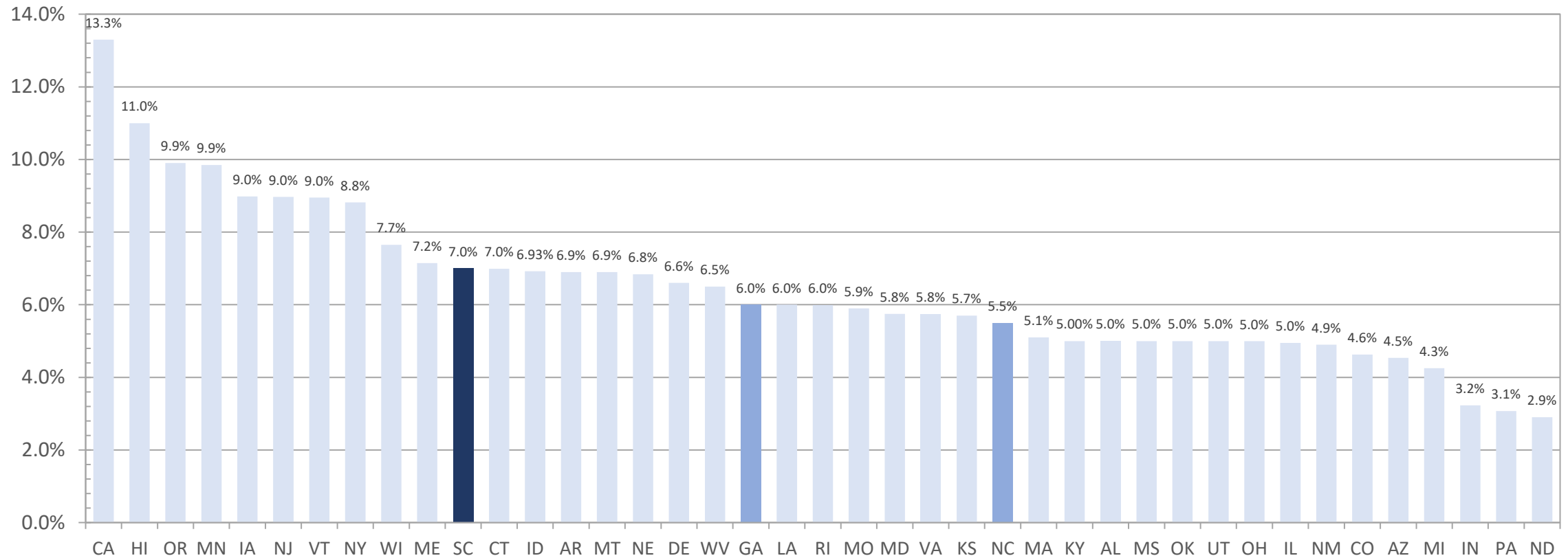
Effective rates provide a method to compare the tax burden across states

- Due to widely varying state deductions, exemptions, and tax brackets, marginal tax rates may not represent the true tax burden across states.
- Effective tax rates can be used to more accurately compare income tax liabilities relative to total income across states.
- A state's average effective tax rate is calculated as total state income tax liability divided by total federal adjusted gross income.

State Top Marginal Income Tax Rates

South Carolina had the 11th highest top marginal individual income tax rate in 2018

HIGHEST STATE MARGINAL INDIVIDUAL INCOME TAX RATES
Tax Year 2018



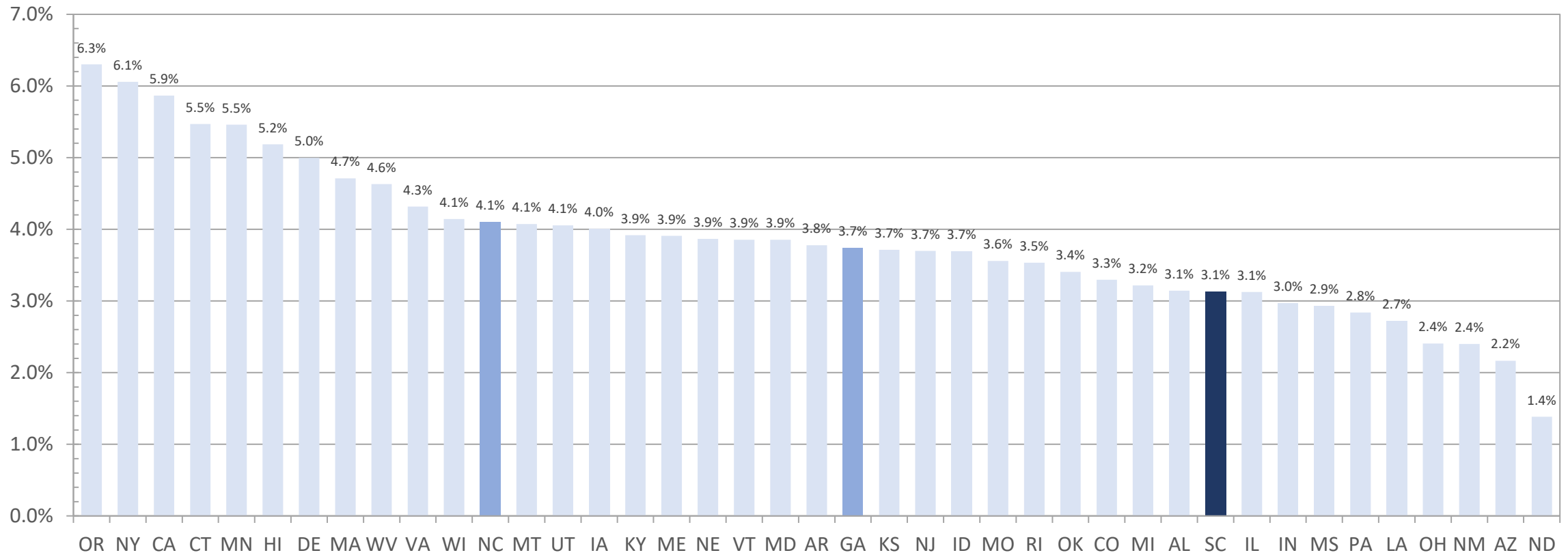
Source: The Federation of Tax Administrators from various sources. Note: Tax rates shown are for 2018 for consistency with the effective tax rates. For later comparisons, GA top tax rate for 2020 is 5.75%; NC top tax rate for 2020 is 5.25%



State Average Effective Income Tax Rates

South Carolina's effective individual income tax burden falls below neighboring states

STATE AVERAGE EFFECTIVE INDIVIDUAL INCOME TAX RATES
for Tax Year 2018



Source: IRS, Statistics of Income Division, Individual Master File System, Tax Year 2018 returns. Calculations by the S.C. Revenue and Fiscal Affairs Office.

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

EDUCATION FUNDING REFORM



Statewide Strategy and Key Factors

- Strategy

- To fund classrooms based on a statewide average student-teacher ratio

- Factors

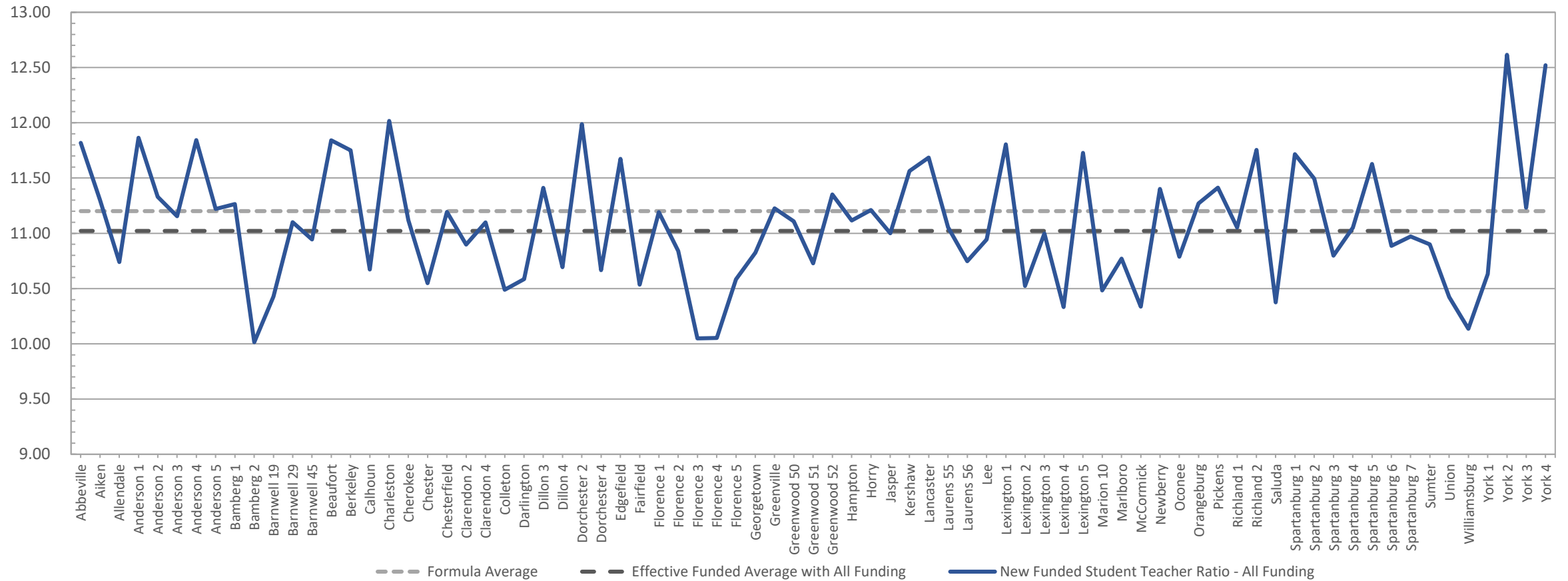
- The number of teachers needed to serve the estimated number of students (ADM) based on a prescribed student-teacher ratio
 - The target student-teacher ratio in the FY 2022-23 House Budget is 11.2 statewide
 - Total ADM determines the number of teachers to be funded
 - The student-teacher ratio in each district will vary depending on its students and their needs
 - The cost of a teacher
 - The cost of a teacher is defined as the state minimum salary cost of a teacher with a master's degree and 12 years of experience and fringe benefits, which also reflects the average education and experience level of teachers

Defining the Aid to Classrooms Program and Total Costs

- The Aid to Classrooms Program consists of the different teachers needed to serve students
- In the FY 2022-23 House Budget, the Program is estimated to fund 67,223 teachers
- For reference in FY 2021-22, the number of positions eligible for the EIA Salary Supplement in traditional and charter districts was 55,497, which includes:
 - Classroom Teachers, Special Education, Pre-Kindergarten, Kindergarten, Retired Teachers, Library Media Specialists/Librarians, Guidance Counselors, Speech Therapists, ROTC Instructors, School Nurses, Occupational/Physical Therapists, Orientation/Mobility Instructors, Audiologists, Social Workers, and Psychologists

Student-Teacher Ratio – House Proposal

HOUSE PROPOSED AID TO CLASSROOMS FUNDED STUDENT-TEACHER RATIO
with Hold-Harmless and Additional Proportional Funding



Note: The proposed Aid to Classrooms funded student-teacher ratio is based on proposed funding under the new program and the FY 2021-22 45-day student counts. The formula-funded statewide average is 11.2, but districts vary by student weights for poverty and other educational needs. Effective funded average is total positions funded including local share, hold harmless, and additional proportional funding.

Source: SC Revenue and Fiscal Affairs Office 4/1/2022