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FINAL REVENUE FORECAST FOR FY...

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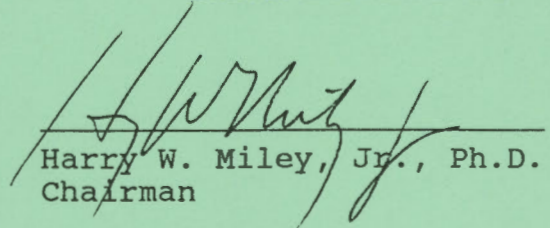
FINAL REVENUE FORECAST FOR FISCAL YEAR 1993-94

Approved by the Board of Economic Advisors
on February 11, 1993

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STATE DOCUMENTS



Harry W. Miley, Jr., Ph.D.
Chairman

To The Governor, South Carolina Budget and Control Board, and members of the General Assembly:

In accordance with Act 501 of 1992, Part II, Section 13, the Board of Economic Advisors has made its final revenue forecast for FY 93-94. The BEA met and considered current economic trends and decided there was insufficient basis to alter the total General Fund Revenue estimate provided on November 9, 1992.

The November 9, 1992 forecast was based on expected income growth in the state in the range of 5.0 to 5.5 percent. Employment was forecasted to recover this fiscal year from the severe losses during the recession and to grow two more percent in FY 93-94. Wage rates were forecasted to rise 3.5 percent this and next fiscal years.

The Individual Income Tax was forecasted to grow 5.0 percent over the level expected this fiscal year and the Sales Tax only 3.5 percent because of the huge consumer debt that existed and the need by consumers to pay down some of that debt. The Corporate Income Tax was forecasted to decline slightly because of the requirement to set aside reserves for retirement benefits and the growing amount of credits for creating jobs. Table 1 summarizes the growth rates forecasted on November 9, 1992.

Because of the fixed rates on the excise taxes, the loss of medicaid bed fees, and the loss of receipts from the Superb Fund, the All Other category was forecasted to decline 4.2 percent. Overall, recurring revenues were forecasted to increase 2.6 percent.

There were approximately \$77 million of revenues expected in this fiscal year that were not included in the estimate for next fiscal year because they were nonrecurring. These losses included such items as the SHIM's transfer and biennial licenses and are listed in Table 2.

Because of the nonrecurring revenues which reduced overall revenue growth, General Fund Revenues were forecasted to grow only a meager 0.4 percent over those expected this fiscal year.

The BEA reviewed revenue growth this fiscal year through January and estimated that receipts were approximately \$25 million ahead of schedule thus far. The Individual Income Tax was approximately \$21 million ahead of schedule and the Sales Tax about \$10 million ahead. Among the other sources there were some that were ahead of schedule and some behind schedule, but on balance they were \$6 million behind schedule. Table 3 summarizes the status of FY 92-93 revenues through the first seven months.

After an analysis of income tax withholdings, latest wage information under the workers compensation program, and recent employment data, the BEA determined income had grown over the past half year, generally in the five percent range that had been anticipated in the November 9 forecast. Employment had improved since the depths of the recession and in December 1992 had nearly recovered to its level last year, which was nearly on target with the level anticipated for the mid-year. Figure 1 illustrates the recovery of employment.

Wage rates in the second quarter 1992, which was during the heart of the recession, had grown 3.5 percent over those a year earlier. This time period marked the latest available data from the comprehensive survey of employers. Because withholdings filed with the Tax Commission had improved since then, there was confidence that wages as a whole in FY 92-93 were growing at least in the 5.0 percent range that had been projected by the BEA.

The residential housing sector had improved briskly as expected in light of low mortgage rates. Figure 2 illustrates the surge in residential building. But commercial construction, shown in Figure 3, had not shown any sign of improvement. Nor had the state's important tourism sector improved, as illustrated by the Accommodations Tax in Figure 4. The durable goods manufacturing sector of the state had shown a little improvement, but not to the extent forecasted. Although current data were not available, it did appear that the textile business had eased a little after

a fairly strong pre-Christmas period. On balance, the private sector appeared to be improving, but not any faster than the slow growth forecasted.

The BEA assessed the potential impacts of federal government cutbacks, particularly at the Charleston Naval Base, the Beaufort Air Station, and the Savannah River Site. Despite rumors of cutbacks or closings, the BEA found that no decisions had yet been made and that the current indications were that the state could depend on the continued operation of these facilities in FY 93-94. The BEA also took into consideration that BMW was expected to start hiring next fiscal year, which would help offset any possible government cutbacks.

The BEA also reviewed the current status of consumer debt. Consumers ran up their installment debt 3.5 percent during Christmas, the first significant increase over the last two years while consumers were paying down debt. This buying spree followed a significant jump in consumer confidence in November. But consumers are still carrying an enormous debt burden compared to historical levels, illustrated in Figure 5, and some repayment of debt is expected over the balance of this fiscal year and into next fiscal year.

The BEA also considered the impact of the Budget and Control Board's action to change the withholdings tables for the Individual Income Tax beginning January 1, 1994. The loss in cash

flow and interest earnings was estimated at \$15.2 million for FY 93-94. Because the Individual Income Tax had grown ahead of schedule the first seven months of FY 92-93 by \$21 million, it was estimated that the base for FY 93-94 would be high enough to absorb the loss from the withholdings change and no change to the forecast for the Individual Income Tax would be needed.

There was also concern that in view of the huge increase in the fee on the out of compact radioactive waste from \$80 or less per cubic foot at the end of 1991 to \$220 this year that there would be some reduction in the volume of storage. One of the largest suppliers of waste to the facility was known to be having financial difficulty and there could be other situations to develop that might reduce volumes. The radioactive waste category was reduced \$5 million to cover the possible losses from volume reductions.

On the other hand, the number of licenses issued for coin operated devices had reached over 20,000 compared to less than 14,000 last year. Assuming there will be no change in the law and most of these licenses will be renewed, this estimate for next fiscal year was adjusted up by \$3 million.

The Bank Tax had shown extraordinary growth this fiscal year, reflecting the much improved conditions in the banking business. In light of this recovery, the Bank Tax was adjusted up by \$2 million.

Taking all factors into consideration, The BEA determined that the economy and revenues had grown pretty much in line with the November 9, 1992 forecast. Although revenues were \$25 million ahead of schedule at the end of January, that did not seem to be a lot in light of the potential risks ahead in terms of the consumer debt burden and threatening federal government cutbacks, plus the change in the withholdings tables. Moreover, there was no clear evidence that the state's manufacturing and tourism sectors had begun to grow robustly again. At this time, the BEA believes that the forecast based on slow continuous growth is still the most probable scenario and does not recommend any change in the estimate for total General Fund Revenues. The technical adjustments outlined above will shift funds among the recurring sources.

The BEA is pleased to have the opportunity to provide you this final forecast for FY 93-94 and a summary of the factors the BEA considered. The BEA has identified some important developments that it is watching carefully and will report to you immediately if there are any significant changes. If you have any questions, the BEA will be happy to address them.

TABLE 1

SUMMARY OF NOVEMBER 9, 1992 FORECAST FOR FY 93-94

Category	Percent Growth Over FY 92-93
-----	-----
Personal Income	5.0 to 5.5
-----	-----
Individual Income Tax	5.0
Sales Tax	3.5
Corporate Income Tax	- 0.1
Other Recurring Revenues	- 4.6
-----	-----
Total Recurring Revenues	2.6
-----	-----
Nonrecurring Revenues	- 60.5
-----	-----
General Fund Revenues	0.4

 Source: Board of Economic Advisors November 9, 1992 forecast.
 Figures indicate percentage growth rates in each major category.

TABLE 2

REVENUE LOSSES IN FY 93-94 FROM FY 92-93 LEVELS

Source	Dollar Reduction
	(\$ Million)
SUPERB Fund	11.5
Nursing Home Bed Fee	9.8
Radioactive Waste Surcharge	5.7
Court Fines	2.0

Total Recurring	29.0
NONRECURRING	

SHIMS Transfer	25.0
Biennial Licenses	19.0
State Teaching Hospital Earned Fund	18.0
One-time Tax Accruals	8.0
Victim Assistance Phase Out	0.7
5% Car Rental Surcharge	0.5
Radioactive Waste Surcharge	5.2

Total Nonrecurring Losses	76.4

Total One-time losses	105.4

Source: November 9, estimate by Board of Economic Advisors.

TABLE 3

GROWTH IN FY 92-93 REVENUES COMPARED TO SCHEDULE

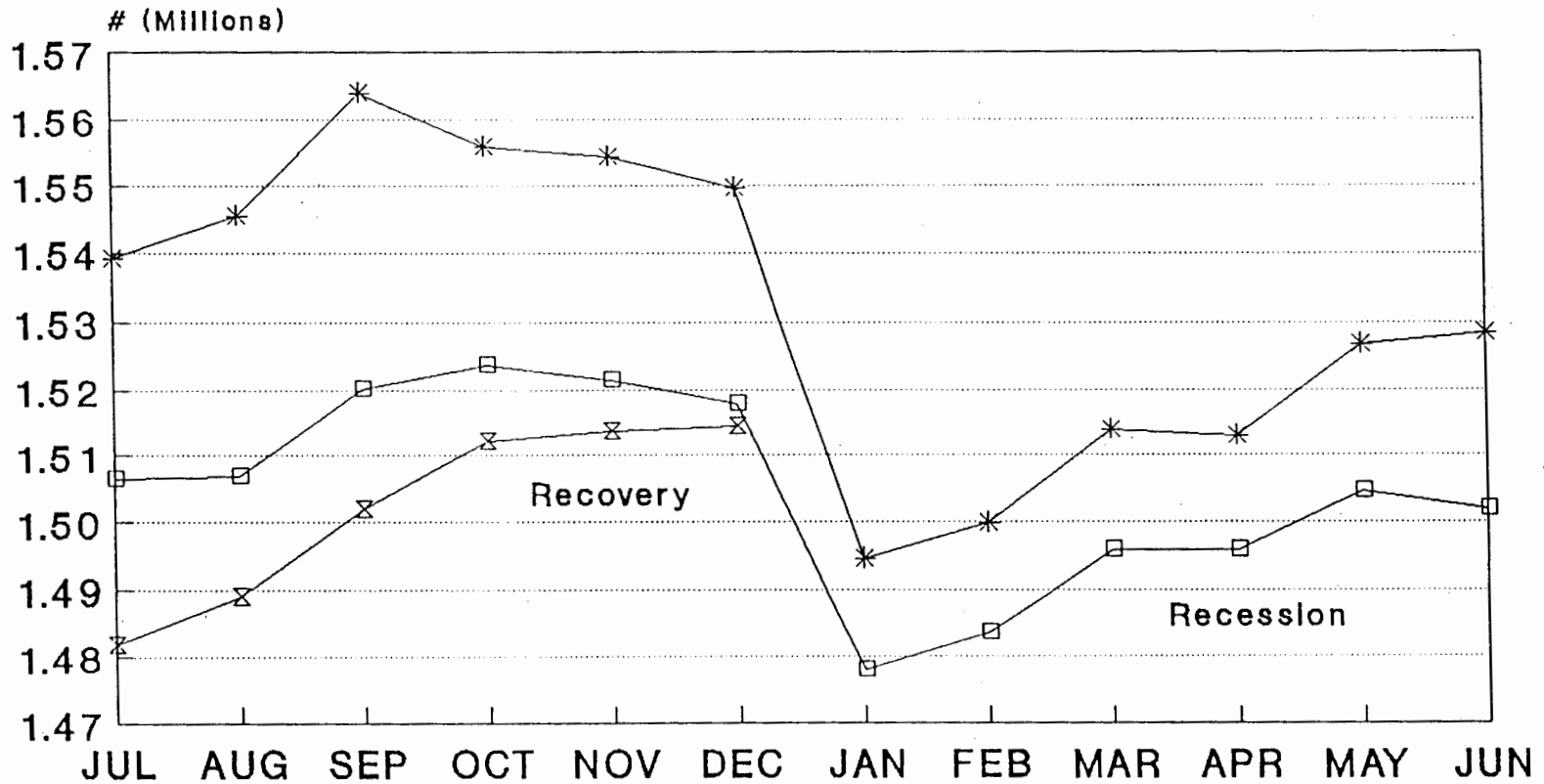
July 1992 Through January 1993

Category	Excess Revenues
Sales Tax	10.4
Individual Income Tax	21.3
Corporate Income Tax	- 3.2
Coin Operated Devices	3.7
Other Recurring	- 5.6
Nonrecurring	- 0.1
<hr/>	
Total General Fund Revenues	25.0

 Source: Board of Economic Advisors revenue plan. A positive estimate means that as of January 31, 1993 revenues were ahead of the schedule needed to meet the estimate. A negative estimate means that revenues were behind schedule on January 31, 1993.

FIGURE 1

TOTAL EMPLOYMENT IN SC (UNADJUSTED)

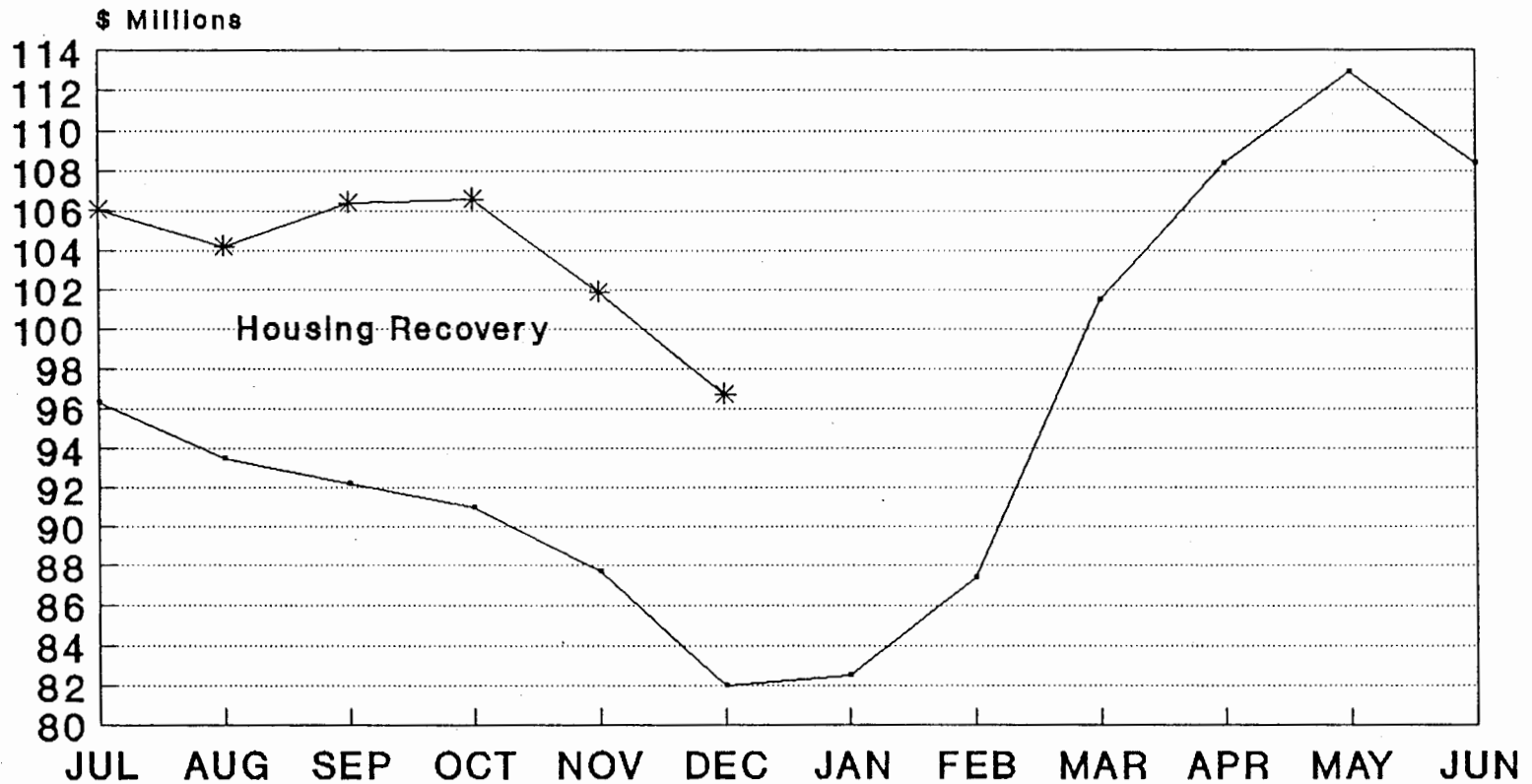


* FY 1991 □ FY 1992 x FY 1993

Source: SC Employment Security Comm.

FIGURE 2

RESIDENTIAL BUILDING PERMIT VALUES IN SC (3 MONTH MOVING AVERAGE)

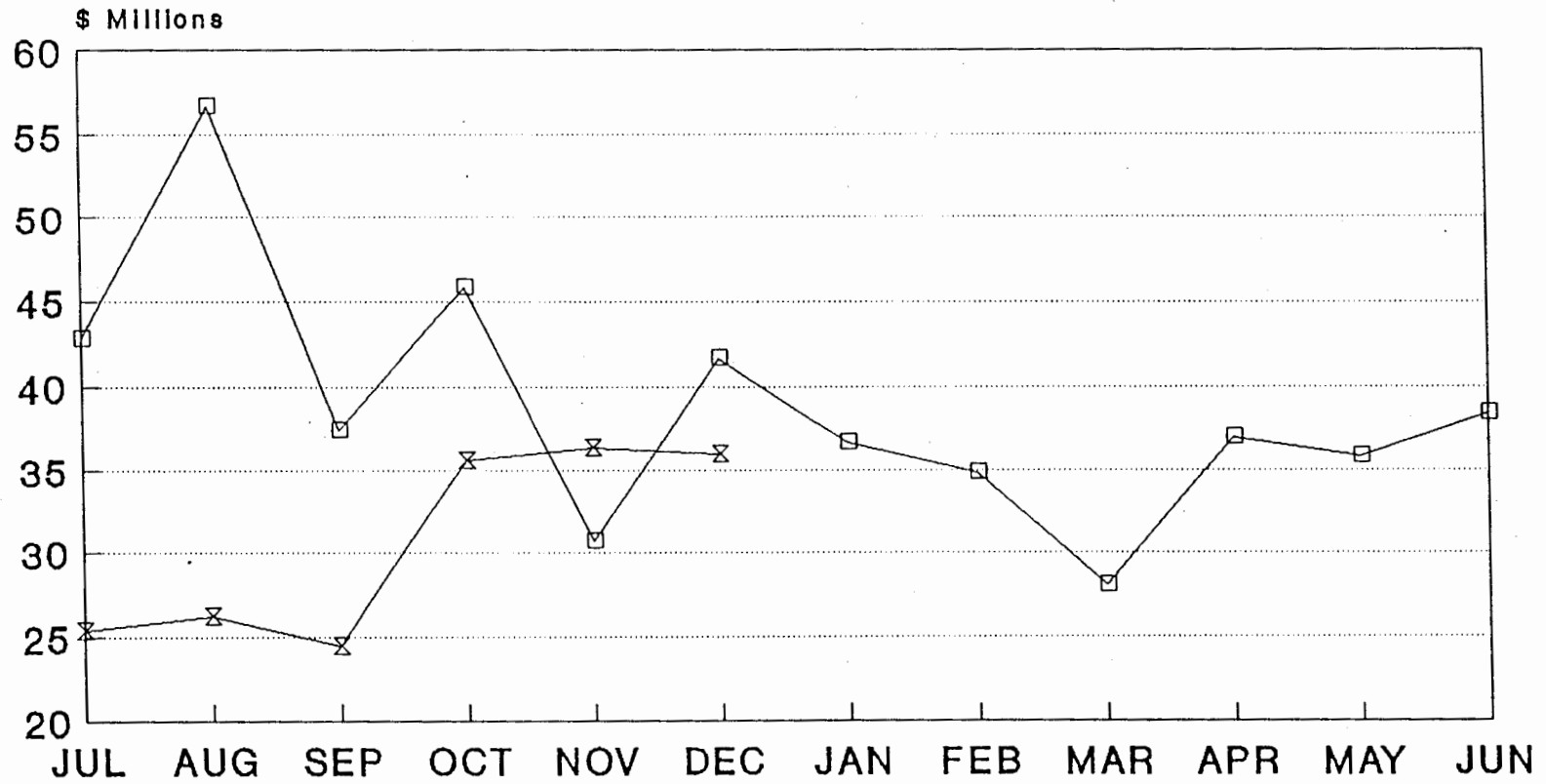


—●— FY 1992 -*- FY 1993

Source: US Department of Census

FIGURE 3

COMMERCIAL BUILDING PERMIT VALUES IN SC (3 MONTH MOVING AVERAGE)

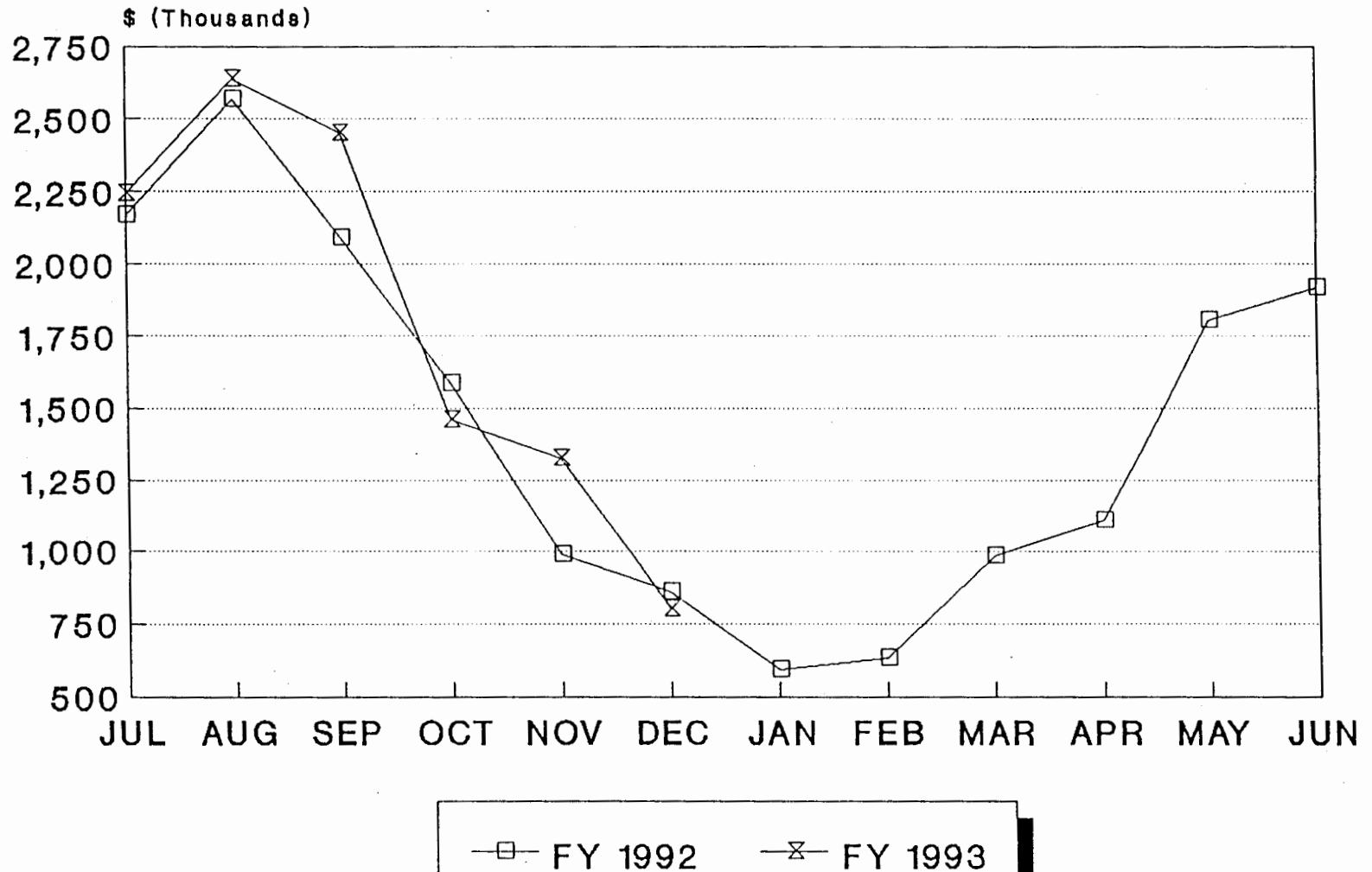


—□— FY 1992 —x— FY 1993

Source: US Department of Census

FIGURE 4

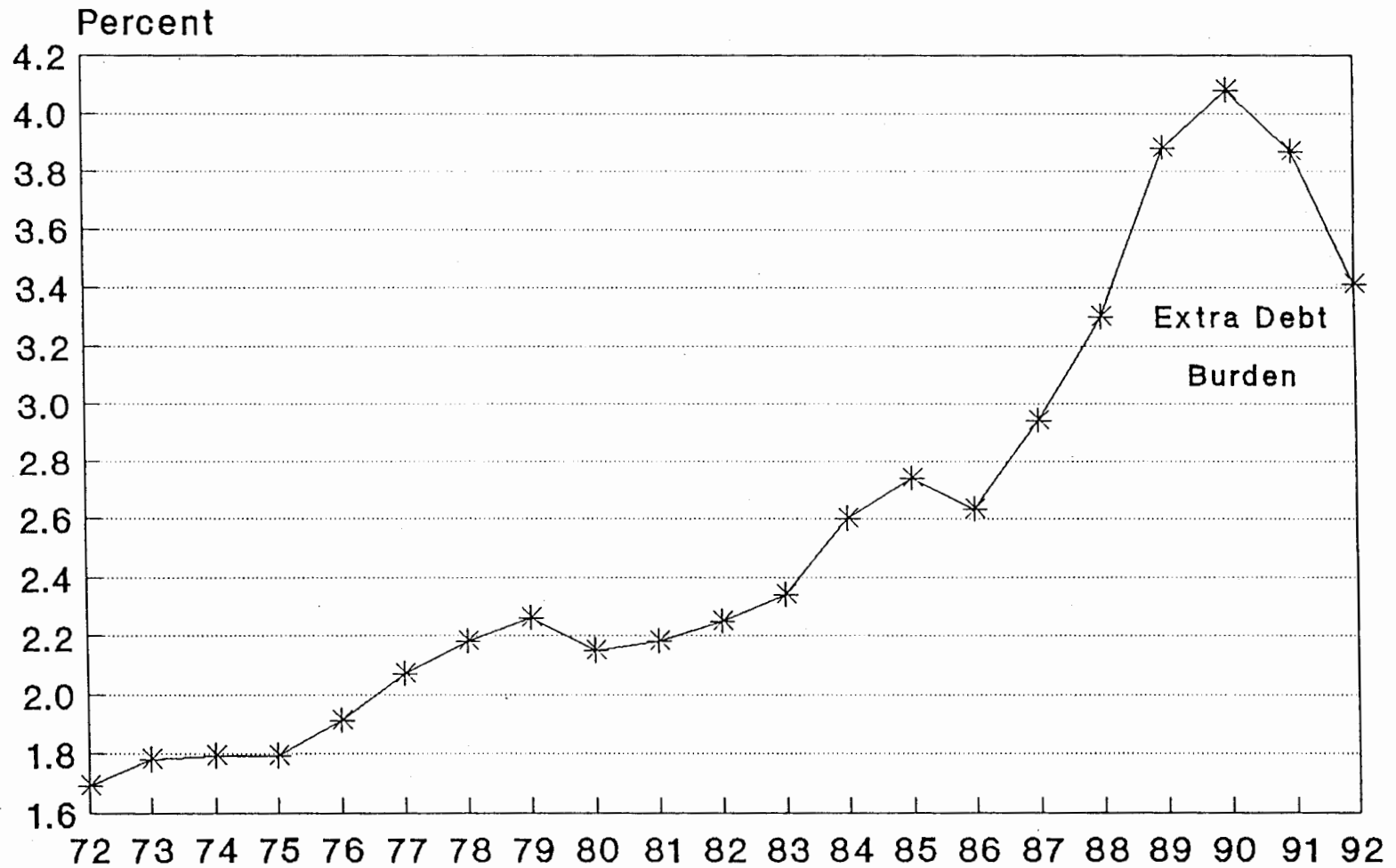
STATE TOTAL ACCOMMODATIONS TAX



Source: SC Tax Commission

FIGURE 5

INTEREST AS A PERCENTAGE OF WAGES IN THE US



Source: Office of Economic Research

GENERAL FUND REVENUE : BOARD OF ECONOMIC ADVISORS (BEA) FY 1993 - 94

REVENUE CATEGORIES	8/19/92	2/11/93	\$ CHANGE	% CHANGE
	BEA REVISED ESTIMATE FY 1992-93	BEA REVISED ESTIMATE FY 1993-94		
RETAIL SALES & USE TAX	\$1,196,844,023	\$1,238,550,000	\$41,705,977	3.5
EXCISE TAX, CASUAL SALES	10,156,378	10,650,000	493,622	4.9
TOTAL, SALES TAXES 1/	1,207,000,401	1,249,200,000	42,199,599	3.5
TOTAL, INDIVIDUAL INCOME TAX	1,470,332,528	1,543,800,000	73,467,472	5.0
TOTAL, CORPORATION INCOME TAX	139,650,000	139,550,000	(100,000)	(0.1)
ADMISSIONS TAX	8,300,000	8,600,000	300,000	3.6
AIRCRAFT TAX	4,700,000	4,900,000	200,000	4.3
ALCOHOLIC LIQUOR TAX	48,325,000	48,500,000	175,000	0.4
BANK TAX	8,700,000	10,000,000	1,300,000	14.9
BEER AND WINE TAX	74,085,000	74,300,000	215,000	0.3
BUSINESS LICENSE TAX	29,000,000	29,500,000	500,000	1.7
COIN-OPERATED DEVICE TAX	28,000,000	31,000,000	3,000,000	10.7
COMMERCL. NUCLEAR WASTE TAX	4,800,000	4,600,000	(200,000)	(4.2)
CONTRACTORS LICENSE TAX	1,500,000	1,600,000	100,000	6.7
CORPORATION LICENSE TAX	42,000,000	44,100,000	2,100,000	5.0
DEPARTMENT OF AGRICULTURE	17,761,683	6,700,000	(11,061,683)	(62.3)
DEPARTMENTAL REVENUE	55,787,138	43,847,676	(11,939,462)	(21.4)
DOCUMENTARY TAX	12,000,000	12,000,000	0	0.0
EARNED ON INVESTMENTS	41,925,139	43,122,142	1,197,003	2.9
ELECTRIC POWER TAX	18,800,000	19,400,000	600,000	3.2
ESTATE TAX	10,900,000	11,400,000	500,000	4.6
FERTILIZER INSPECTION TAX	180,000	175,000	(5,000)	(2.8)
GASOLINE TAX-COUNTIES	18,750,000	19,000,000	250,000	1.3
GIFT TAX	100,000	0	(100,000)	(100.0)
INSURANCE TAX	76,404,000	67,938,000	(8,466,000)	(11.1)
MOTOR TRANSPORT FEES	5,050,000	3,750,000	(1,300,000)	(25.7)
PRIVATE CAR LINES TAX	1,850,000	1,800,000	(50,000)	(2.7)
PUBLIC SERVICE ASSESSMENT	4,200,000	4,200,000	0	0.0
PUBLIC SERVICE AUTHORITY	6,366,000	6,300,000	(66,000)	(1.0)
RADIOACTIVE WASTE SURCHARGE	21,600,000	15,500,000	(6,100,000)	(28.2)
RETAILERS LICENSE TAX	1,215,000	1,200,000	(15,000)	(1.2)
SAVINGS AND LOAN ASSOC. TAX	2,700,000	4,000,000	1,300,000	48.1
SOFT DRINKS TAX	22,900,000	23,300,000	400,000	1.7
WORKERS COMP. INSURANCE TAX	8,100,000	8,500,000	400,000	4.9
TOTAL, ALL OTHER REVENUE	575,998,960	549,232,818	(26,766,142)	(4.6)
TOTAL, REGULAR SOURCES	3,392,981,889	3,481,782,818	88,800,929	2.6
CIRCUIT/FAMILY COURT FINES	8,830,000	7,610,000	(1,220,000)	(13.8)
DEBT SERVICE TRANSFERS	10,202,153	10,515,259	313,106	3.1
HOUSING AUTHORITY REIMB.	481,030	464,614	(16,416)	(3.4)
INDIRECT COST RECOVERIES	19,440,601	19,000,000	(440,601)	(2.3)
MENTAL HEALTH FEES	3,800,000	3,800,000	0	0.0
PAROLE & PROBATION FEES	3,750,000	3,700,000	(50,000)	(1.3)
UNCLAIMED PROPERTY FUND	4,361,811	5,937,000	1,575,189	36.1
WASTE TREATMENT LOAN REPAY.	350,000	370,000	20,000	5.7
TOTAL, MISCELLANEOUS SOURCES	51,215,595	51,396,873	181,278	0.4
TOTAL RECURRING REVENUE	3,444,197,484	3,533,179,691	88,982,207	2.6
TOTAL NONRECURRING REVENUE	122,962,143	48,625,000	(74,337,143)	(60.5)
TOTAL, GENERAL FUND REVENUE	\$3,567,159,627	\$3,581,804,691	14,645,064	0.4

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

Note: The State changed the basis of accounting for Sales Taxes from cash to modified accrual in FY 1990-91.

Source: S. C. Board of Economic Advisors/2/11/93