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REPORT OF REVENUE OUTLOOK FOR
LAST SIX MONTHS OF FY...

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STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

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TO: South Carolina Budget and Control Board and
the South Carolina General Assembly

SUBJECT: Report of Revenue Outlook for Last Six Months
of FY 1985-86

The Board of Economic Advisors is required by Section 57, Part II of Act 151 of 1983 to provide a synopsis of the revenue outlook for the last six months of the fiscal year on December 31st of each year. The synopsis for December 31st, 1985 is provided herein, with supporting tables.

Economic activity during the first six months of FY 1985-86 has been essentially as projected except that the inflation rate has been lower than anticipated. The value of the dollar and interest rates have declined as expected but the response in increased investment, especially in construction, has been sluggish. The balance of trade has not improved and manufacturing activity has not yet revived. As a result personal income growth has not been quite as high as was anticipated.

Opinions on the economic outlook for the next six months are sharply divided between those forecasters who anticipate slow growth and those who expect real growth at 4 percent levels. The Board of Economic Advisors is basing its revenue estimates on the expectation of economic improvement in the second half of the fiscal year. Lower interest rates should soon reap more investment and construction. The lower dollar should begin to help the State's exporters, mitigate the intense pressure put on the manufacturing sector by imports, and boost the tourism business from foreigners. Income growth should pick up during the balance of the fiscal year.

Based on this economic scenario it is anticipated the revenue generation during the next six months will show improvement over the first six months of the fiscal year, more in line with the original forecast for the fiscal year. There are other encouraging factors for revenue during this period. Results from the tax amnesty and enforcement programs have yet to be fully recorded. The negative impact of the one time accounting changes and transfers has already been absorbed. Receipts from the repeal of the food tax credit and lower tax bracket indexation will boost the income tax in the latter part of the fiscal year.

It is unlikely, however, that the revenue situation will improve sufficiently to offset the shortfall that has already occurred. The BEA estimates, consequently, that there will be a

shortfall during FY 1985-86 of \$45.8 million, and this is reflected in the attached tables. It must also be emphasized that this estimate is based on a second six months considerably improved over the first part of the fiscal year.

Board of Economic Advisors
J. A. M.
December 31, 1985

TABLE 1

GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 1985-86
(in millions of dollars)

REVENUE CATEGORY	BEA FORECAST (5-8-85) FY 1986	Part 1, Section 128 Of Act 201 of 1985 (Appropriation Act) June 14, 1985 FY 1986	Dollar Changes in Appropriation Act	BEA Dollar Changes From Appropriation Act 12-31-85	BEA Revised Estimate 12-31-85
SALES (1	902.2	906.0	3.8 (2	-21.0	885.0
INDIVIDUAL	957.4	1003.2	45.8 (3	-58.2	945.0
CORPORATION	182.0	193.3	11.3 (4	16.7	210.0
ALL OTHER	451.0	454.1	3.1 (5	15.9	470.0
TOTAL REGULAR SOURCES	2492.6	2556.6	64.0	-46.6	2510.0
MISCELLANEOUS SOURCES	38.7	40.6	1.9 (5	0.8	41.4
TOTAL GENERAL FUND	2531.3	2597.2	65.9	-45.8	2551.4

- NOTES: 1) Net of Education Improvement Act Funds.
- 2) Includes \$4.7 million for enhanced enforcement; \$0.3 million for tax amnesty; -\$1.2 million for sales cap on leased vehicles and musical instruments for churches.
- 3) Added \$33.8 million for repeal of food tax credit; \$13.1 million for reduced rate of indexation; \$0.9 million for the amnesty program; \$1.0 million for enhanced enforcement; -\$3.0 million for retirement pay exemption for certain individuals; -\$3.0 million adjustment made by Budget and Control Board Action on August 8, 1985;
- 4) Added \$4.8 million for amnesty program, \$4.0 million for enhanced enforcement; \$2.5 million for stiffer penalties.
- 5) Added \$3.1 million for Sunday beverage sales, licenses for coin operated devices, and various revenues from government departments; \$1.9 million for higher probation fees and indirect costs recoveries.

Accompanying Notes to Table 1

The Board of Economic Advisors estimated on May 8, 1985 that revenue collections for the General Fund during Fiscal Year 1985-86 would amount to \$2,531.3 million. Estimates for various sources are provided in Table 1.

The Appropriation Act, June 14, 1985 included several changes to the Board of Economic Advisors estimate of May 8, 1985 to take into account legislation enacted during the session. The Act added to the Board of Economic Advisors estimate for the Sales tax \$4.7 million for additional revenue expected to be generated from an enhancement to the enforcement effort, another \$0.3 million for the tax amnesty program, minus \$1.2 million for losses from the application of a \$300 limit on sales taxes to leased vehicles and musical instruments sold to churches.

The Act added \$45.8 million to the Board of Economic Advisors estimate for the Individual Income tax of which \$33.8 million resulted from the repeal of the food tax credit of \$12.50 for each dependent, \$13.1 million from the use of tax bracket indexation at one fourth the rate of inflation instead of the full rate of inflation, \$0.9 million for the amnesty program, \$1.0 million for enhanced enforcement, minus \$3.0 million lost due to the increase in the amount of certain retirement income which is exempt from the income tax.

The Act increased the Board of Economic Advisors estimate for the Corporate Income tax \$11.3 million of which \$4.8 million was for the amnesty program, \$4.0 million for enhanced enforcement, and \$2.5 million from the imposition of stiffer penalties.

The Act added \$3.1 million to the All Other category of revenues to account for Sunday sales of alcoholic beverages, license fees for coin operated devices and revenues generated by government departments; and \$1.9 million for higher estimates of Miscellaneous revenues generated by higher parole and probation fees and higher estimates of various indirect cost recoveries.

The estimate for the Sales tax for Fiscal Year 1985-86 is being lowered \$21.0 million from the estimate in the Act due to lower income growth and a concentration of sales in autos and other large purchases for which there is a \$300 limit on sales taxes.

The Individual Income tax estimate is being lowered \$58.2 million from the Appropriation Act estimate due to lower income growth, a larger than expected carry over of refunds from last fiscal year, and increased uncertainty regarding revenue raising measures in light of the slower rate of growth in the individual income tax collections experienced thus far this fiscal year. The estimate for the Corporate Income tax is being raised \$16.7 million from the estimate in the Act to account for an improvement in the efficiency of business operations.

The estimate for All Other and Miscellaneous revenues is being raised \$16.7 million to account for small improvements in several categories.

Overall, the Board of Economic Advisors recommends lowering the estimate \$45.8 million from the estimate in the Appropriation Act for Fiscal Year 1985-86 as adjusted by Budget and Control Board action of August 8, 1985.

TABLE 2

FISCAL YEAR 1986 OUTLOOK: GROWTH REQUIRED TO MEET ESTIMATES*

	FY 1985 ACTUAL DECEMBER-JUNE (million \$)	FY 1986 NEEDED DECEMBER-JUNE (million \$)	FY 1986 CHANGES NECESSARY TO MEET BEA ESTIMATE DECEMBER-JUNE		FY 1986 % CHANGES JULY TO FORECAST NOVEMBER	
			NET	PERCENT		
SALES	\$ 474.8	\$ 507.2	\$ 32.4	6.8%	6.8%	6.9%
INDIVIDUAL	432.2	514.8	82.6	19.1	11.1	2.8
CORPORATE	144.7	156.6	11.9	8.2	9.3	12.7
ALL OTHER	300.3	311.8	11.5	3.8	5.3	8.4
REGULAR SOURCES	1,352.1	1,490.4	138.3	10.2	8.3	5.6
MISCELLANEOUS	29.7	31.2	1.5	5.1	-45.4	-77.9
TOTAL GENERAL FUND	1,381.8	1,521.6	139.8	10.1	6.6	1.8

*: Estimates based on BEA forecast of December 31, 1985.

Board of Economic Advisors
12/31/85

TABLE 3
REVIEW OF GENERAL FUND REVENUE COLLECTIONS AND STATE INCOME GROWTH

FISCAL YEARS	PERSONAL INCOME AT ANNUAL RATES (MILLIONS OF \$)	PERCENT CHANGE PRIOR YEAR QUARTER	CUMULATIVE GENERAL FUND REVENUE (MILLIONS OF \$)	PERCENT CHANGE PRIOR YEAR QUARTER	RATIO OF REVENUE GROWTH TO INCOME GROWTH

1983-84					
1983: 3	30,428	9.0	567.143	13.9	1.544
4	31,263	9.7	1094.857	14.5	1.495
1984: 1	32,473	12.6	1626.202	12.5	.992
2	33,081	11.3	2228.210	13.1	1.159
1984-85					
1984: 3	33,764	11.0	616.196	8.6	.784
4	34,222	9.5	1216.327	11.1	1.173
1985: 1	34,758	7.0	1790.714	10.1	1.435
2	35,035	5.9	2393.372	7.4	1.253
1985-86					
1985: 3	35,754	5.9	631.355	2.4	.407
			FORECASTS*		
4	36,469	6.6	1253.4	3.0	.464
1986: 1	37,046	6.6	1881.0	5.0	.766
2	37,452	6.9	2551.4	6.6	.957

* DECEMBER 31, 1985 QUARTERLY ESTIMATES.

BOARD OF ECONOMIC ADVISORS
DECEMBER 31, 1985

TABLE 4

**GENERAL FUND REVENUE FORECAST FOR FISCAL YEAR 1986-87
(IN MILLIONS OF DOLLARS)**

REVENUE CATEGORY	PART 1, SECTION 128 OF ACT 201 OF 1985 (THE APPROPRIATION ACT)		<u>NOVEMBER 1, 1985</u> BEA	
	BEA FORECAST 5/8/85 FY 1985-86	JUNE 14, 1985 FY 1985-86	WORKING ESTIMATE FY 1985-86	BEA FORECAST FY 1986-87
SALES*	902.2	906.0	894.0	962.0
INDIVIDUAL	957.4	1003.2**	952.4	1056.0
CORPORATION	182.0	193.3	208.2	215.0
ALL OTHER	451.0	454.1	467.0	486.0
REGULAR SOURCES	2492.6	2556.6**	2521.6	2719.0
MISCELLANEOUS	38.7	40.6	41.4	42.0
TOTAL GENERAL FUND REVENUE	2531.3	2597.2**	2563.0	2761.0
EDUCATION IMPROVEMENT FUND			223.5	240.5
INTEREST ON EDUCATION IMPROVEMENT FUND			1.8	1.8
TOTAL			225.3	242.3

*: NET OF EDUCATION IMPROVEMENTS ACT FUNDS.

** : ADJUSTMENTS MADE BY BUDGET AND CONTROL BOARD ACTION ON AUGUST 8, 1985.

BOARD OF ECONOMIC ADVISORS
12/31/85

REVENUE FORECASTING PROCEDURES
BOARD OF ECONOMIC ADVISORS
FISCAL YEAR 1987

The procedures and methodology of the Board of Economic Advisors in the preparation of the revenue forecasts for Fiscal Year 1985-86 and 1986-87 as of 12/31/85 and 1/1/86 involved five major stages: 1) providing the economic background and setting at the national and State levels for the revenue forecasts; 2) reconciling the May 8, 1985 Board of Economic Advisors Estimate of Fiscal Year 1985-86 with Legislative adjustments in Part 1, Section 128 of Act 201 of the 1985 Appropriation Act; 3) interpreting recent and historical elasticities; 4) analyzing the outputs of the SCOPE model under alternative scenarios, and 5) interacting with officials of other states with responsibility for revenue forecasting.

Board members individually and collectively had meetings and discussions as in the past with experts and professional economists for economic intelligence gathering. These included among others J. Alfred Broaddus, Jr., Ph.D., Senior Vice President, Federal Reserve Bank of Richmond, and Richard W. Ellson, Ph.D., Senior Research Economist and Associate Professor of Economics, University of South Carolina, in which the outlook for the economy of the nation, South Carolina, and the textile and other significant industries in the State was discussed. Board staff members conducted a telephone survey of Southeastern states regarding their economic and revenues outlook in order to ascertain any differences and/or similarities with those of the State of South Carolina which might be indicative of a trend. The resources of the national forecasting groups by which the SCOPE model is driven, Data Resources, Inc. and Evans Economics, Inc., were available on-line, as well as in hard copy Reports weekly and monthly to Board members. In addition, the Blue Chip Service and other leading national forecasts were used as a basis for simulations of the South Carolina economy and State revenues. Materials from a variety of sources-international, national and state publications-were also made available to Board members.

Board members and staff also attended the 1985 Fall Economic Outlook Conference on Economic Development in South Carolina sponsored by the Division of Research, College of Business Administration, University of South Carolina on November 19, 1985. Subsequently, on December 10, 1985, Board members attended the Data Resources, Inc. Quarterly Outlook session in New York at which James Tobin, Sterling Professor of Economics at Yale University and recipient of the Nobel Prize in Political Economy, and Martin Feldstein, Professor of Economics at Harvard University, President of the National Bureau of Economic Research, and former chairman of the President's Council of Economic Advisors, made presentations on the national and international economic outlook.

The preparation of the economic forecasts involved many meetings between November 1, 1985 and December 31, 1985 with preliminary estimates, modifications and refinements of estimates.

Board of Economic Advisors
December 31, 1985

BRIEF OVERVIEW OF THE SCOPE MODEL

The SCOPE (South Carolina Operations Planning and Evaluation) Model was initiated in 1972 in the Office of Chief Economist (originally in the Governor's office and now in the Division of Research and Statistical Services). It was designed and operates as a policy and forecasting tool for top level executive, legislative and management decision making. SCOPE is an econometric model designed to reflect the South Carolina economy and to forecast the performance of major economic variables in the State, particularly tax revenues, employment and income. The model is based on a framework of economic activity in the State relative to national economic activity. Approximately 85 exogenous national variables are currently taken from two leading national forecasting services (Data Resources, Inc., and Evans Economics, Inc.).

The SCOPE core model consists of 63 equations, of which 55 are stochastic* and 8 are identities. SCOPE attempts to reflect the diversity of the South Carolina economy by including 20 industrial sectors of manufacturing and nonmanufacturing employment, and a series of equations for wages, personal income, unemployment, taxable sales and State tax revenue.

Durable Manufacturing Employment

The durable manufacturing employment block consists of 6 stochastic equations for the major industries in the State as reported by the South Carolina Employment Security Commission. The employment equations for each separate industry are expressed as a function of a national consumption expenditure index appropriate for that particular industry, a national industrial production index corresponding to that industry and the national level of employment in that industry. The durable employment forecasts include the following industries: Lumber and Products, Stone, Clay and Glass, Fabricated Metal Products, Electrical and Nonelectrical Machinery, and Other Durables which includes Furniture and Fixtures, Instruments and Related Products.

Nondurable Manufacturing Employment

The nondurable manufacturing employment block consists of 7 stochastic equations for the major nondurable industries in the State. Like the durable block, the employment equation for each industry is expressed as a function of a national consumption index appropriate for that particular industry, a national industrial production index for that particular industry and the

* Stochastic is defined as a type of modeling for time series analysis explaining future probability from historical experience.

national level of employment in that industry. Employment forecasts are available for each of the following nondurable industries: Food and Kindred Products, Textile Mill Products, Apparel, Paper, Printing and Publishing, Chemicals, and Other Nondurables, such as Rubber and Miscellaneous Plastics Products.

Nonmanufacturing Employment

The nonmanufacturing employment block is disaggregated into 7 stochastic equations: Construction, Transportation and Public Utilities, Services, Trade, Finance-Insurance-Real Estate, State and Local Government, and Federal Government. Employment growth in these industries is specified as functions of State population, national employment in these industries and national consumption indices.

Personal Income

The personal income block is composed of 2 stochastic equations, one equation for average hourly earnings and one equation for the unemployment rate, and 10 additional stochastic equations, one equation for each of the 10 major components of personal income as published by the Bureau of Economic Analysis, Department of Commerce. These equations are specified as functions of their respective national and State income and employment variables. In addition, equations are estimated for wage and salary disbursements for all major industries and are specified as functions of national wage trends and State employment levels.

Revenues

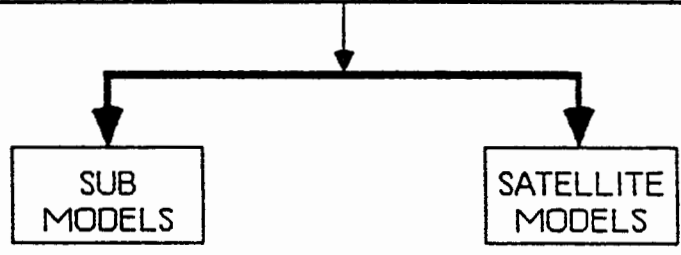
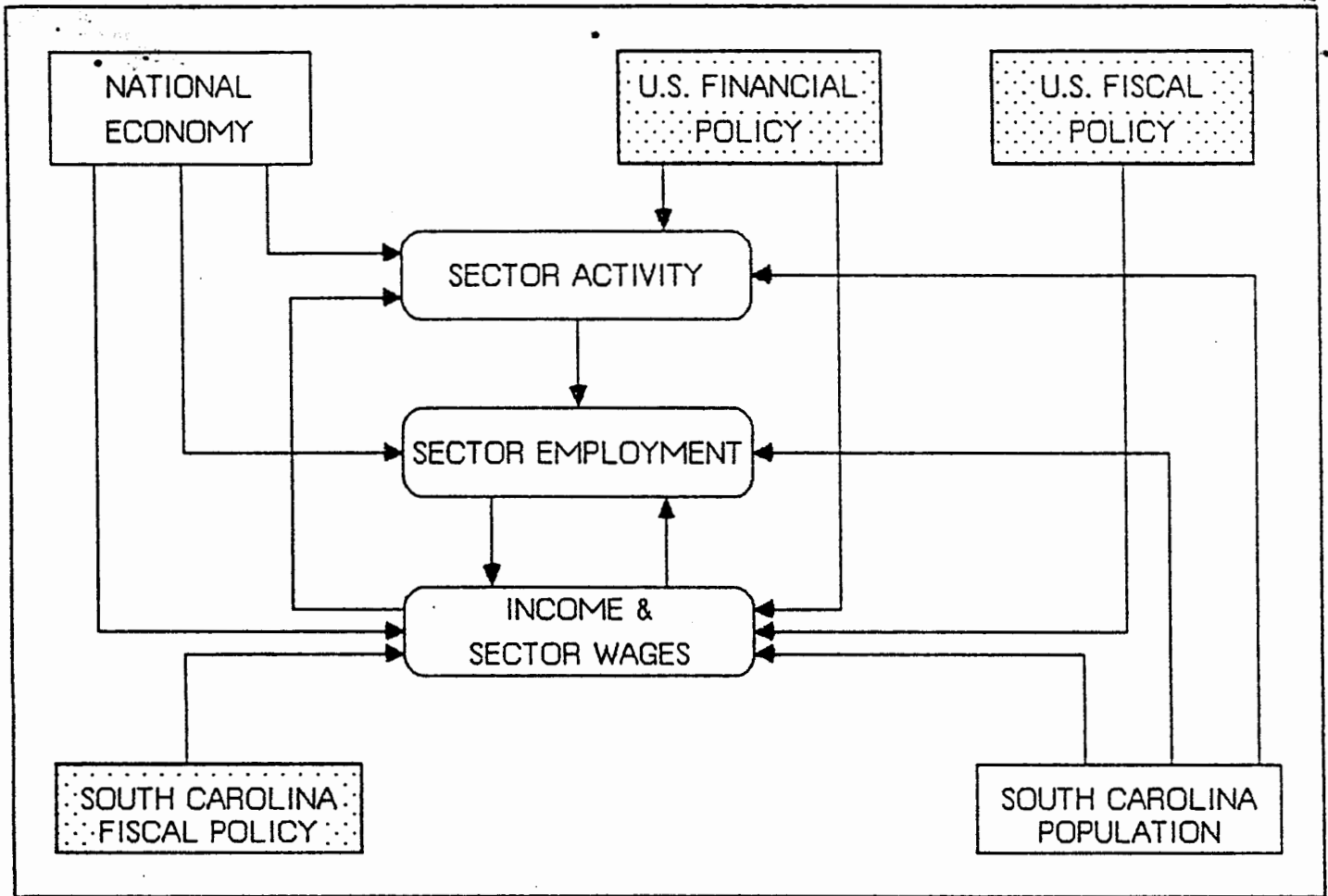
The revenue section of the model emphasizes 4 major stochastic Regular Revenue Sources equations: 1) South Carolina corporate income tax, 2) South Carolina individual income taxes, 3) South Carolina retail sales, and 4) all other taxes. These equations are individually specified as functions of aggregate employment and income with their respective coefficients and constants. In addition, there are 2 stochastic equations for taxable sales and refunds.




12/31/85

Office of Chief Economist

SCOPE MODEL

SOUTH CAROLINA OPERATIONS, PLANNING & EVALUATION MODEL



-  Exogenous Variables
-  Exogenous Policy Variables
-  Endogenous Variables

Office of Chief Economist
State of South Carolina

December 31, 1985

Where Has All the Personal Income Growth Gone?

The Saga of DRI

National Personal Income Calendar Year % Change

Solve Date	DRI Release	Calendar 1985	Calendar 1986	Calendar 1987
January '85	Control 122385	6.25%	6.54%	8.20%
February '85	Control 012685	6.42%	6.34%	7.88%
March '85	Control 022585	6.79%	6.19%	7.75%
April '85	Control 0485	6.67%	6.36%	7.85%
May '85	Control 0585	6.61%	6.42%	7.95%
June '85	Control 0685	6.57%	6.31%	7.93%
July '85	Control 0785	6.57%	5.96%	7.92%
August '85	Control 0885	6.46%	6.26%	7.79%
September '85	Control 0985	6.25%	5.97%	7.45%
October '85	Control 1085	6.07%	5.69%	7.47%
November '85	Control 1185	5.96%	5.50%	7.10%
December '85	Control 1285	5.85%	5.42%	7.44%

Board of Economic Advisors
12/31/85



STATE OF SOUTH CAROLINA
BOARD OF ECONOMIC ADVISORS

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REVENUE OUTLOOK-FY 1986-87
AS OF JANUARY 1, 1986

The Board of Economic Advisors is required by Section 57, Part II of Act 151 of 1983 to consider adjustments to the official revenue forecast for the 1986-87 fiscal year on January 1, 1986. It has done so and determined that a downward adjustment over the forecast made on November 1, 1985 is warranted.

The economic forecast for FY 1986-87 made on November 1, 1985 is still valid, but revenue results will not be as large as anticipated because of the reduced base of FY 1985-86. The economy is expected to expand through the fiscal year, measured by personal income, at about 7 percent. Real growth is expected to improve as the effects of the declining dollar stimulate exports and manufacturing activity. Efforts to reduce the federal deficit will produce some fiscal drag but moderate monetary policy should provide sufficient offset to move the economy forward. There should be a moderate increase in the price level during the fiscal year.

General Fund Revenue should increase in line with personal income during the fiscal year. The effect of a reduced base in FY 1985-86 will result in a lower revenue estimate than that made on November 1, 1985 by \$38 million, and this is reflected in the attached tables.

Board of Economic Advisors
J. A. M.
January 1, 1986

TABLE I

GENERAL FUND REVENUES
Forecast 1985-86 and 1986-87
In Millions of Dollars

	ACTUAL 1984-85	REVISED 1985-86	REVISED 1986-87
TOTAL GENERAL FUND	2393.4	2551.4 (1)	2723.0 (1)
Total Regular Sources	2317.5	2510.0 (1)	2681.0 (1)
Sales Tax	828.3	885.0	950.0
Individual Income Tax	850.8	945.0	1025.0
Corporation Income Tax	192.2	210.0	216.0
All Other	446.3	470.0	490.0
Miscellaneous Sources	75.8	41.4	42.0
Education Improvement Fund		221.3 (2)	237.5 (2)
Interest on Education Improvement Fund		1.8	1.8
TOTAL		223.1	239.3

	<u>RATES OF CHANGE</u>	
TOTAL GENERAL FUND	6.6%	6.7%
Total Regular Sources	8.3	6.8
Sales Tax	6.8	7.3
Individual Income Tax	11.1	8.5
Corporation Income Tax	9.3	2.9
All Other	5.3	4.2
Miscellaneous Sources	-45.4	1.6
Education Improvement Fund		7.3
Interest on Education Improvement Fund		0.0
TOTAL		7.3

(1) Net of Education Improvement Fund.

(2) One-fifth of total sales tax.

Board of Economic Advisors
1/1/86

TABLE II

GENERAL FUND REVENUE FOR FISCAL YEAR 1986-87
(IN MILLIONS OF DOLLARS)

REVENUE CATEGORY	GENERAL APPROPRIATION ACT* FY 1985-86	BEA REVISED FORECAST FY 1986-87
SALES TAX **	906.0	950.0
INDIVIDUAL INCOME	1003.2***	1025.0
CORPORATION INCOME	193.3	216.0
ALL OTHER REVENUE	454.1	490.0
REGULAR SOURCES	2556.6***	2681.0
MISCELLANEOUS	40.6	42.0
TOTAL GENERAL FUND REVENUE	2597.2***	2723.0

*: PART 1, SECTION 128 OF ACT 201 OF 1985.

** : NET OF EDUCATION IMPROVEMENT ACT FUNDS.

***: ADJUSTMENT MADE BY BUDGET AND CONTROL BOARD ACTION
AUGUST 8, 1985.

BOARD OF ECONOMIC ADVISORS
1/1/86

TABLE III

TOTAL GENERAL FUND REVENUES
 QUARTERLY ESTIMATES
 FISCAL YEARS 1985-86 AND 1986-87
 (IN MILLIONS OF DOLLARS)

	FY 1985-86	FY 1986-87
	-----	-----
FIRST QUARTER	631.4	691.6
SECOND QUARTER	1,253.4	1,353.3
THIRD QUARTER	1,881.0	2,004.1
FOURTH QUARTER	2,551.4	2,723.0

PERCENT OF TOTAL REVENUES
 COLLECTION BY QUARTER

	FY 1985-86	FY 1986-87
	-----	-----
FIRST QUARTER	24.9	25.4
SECOND QUARTER	24.2	24.3
THIRD QUARTER	24.6	23.9
FOURTH QUARTER	26.3	26.4

Board of Economic Advisors
 1/1/86