

**OUTLOOK FOR STATE REVENUES**

**PRESENTED TO**

**SENATE FINANCE COMMITTEE**

**SOUTH CAROLINA SENATE**

**BY**

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**JANUARY 27, 2009**

## **INTRODUCTION**

THANKS FOR INVITING ME TO BRIEF YOU ON SOUTH CAROLINA'S ECONOMY, STATE REVENUE TRENDS AND THE OUTLOOK FOR REVENUES NEXT FISCAL YEAR.

### **ECONOMIC CONDITIONS DURING FY 07-08**

FIRST, LET'S REVIEW LAST FISCAL YEAR TO GIVE YOU A BETTER UNDERSTANDING OF HOW WE GOT INTO THE CURRENT SITUATION. AS FOR THE STATE'S ECONOMY, ALL OUR NUMBERS SAY THAT IT GREW SLOWLY UP TO THE END OF LAST FISCAL YEAR. EVEN THOUGH THE REAL ESTATE MARKET WAS WEAKENING AND \$3 PER GALLON GASOLINE WAS TAKING A HUGE CHUNK OUT OF CONSUMER'S POCKETS, THE STATE'S REVENUES WERE ON TARGET UP TO LATE LAST SPRING TO MEET THE BEA'S ESTIMATE.

THE STATE'S INDUSTRIAL SECTOR HELD UP FAIRLY WELL, ASSISTED IN PART BY A LOWER VALUE OF THE DOLLAR RELATIVE TO THE WORLD'S MORE SIGNIFICANT CURRENCIES. THE DOLLAR HAD FALLEN ALMOST 40% AGAINST THE EURO (CHART 1) AND 15% AGAINST THE YEN (CHART 2), SINCE THE BEGINNING OF THE LAST RECESSION IN 2001. MOREOVER, IT HAD FALLEN 16% AGAINST THE CHINESE YUAN (CHART 3) SINCE THE U.S. PRESSURED THE CHINESE IN 2005 INTO ALLOWING A LIMITED AMOUNT OF

DEPRECIATION OF THE YUAN. NOT ONLY DID SC PRODUCERS BOOST THEIR EXPORTS, BUT THEY ALSO GOT SOME RELIEF FROM IMPORTS.

ALSO, THE FEDERAL GOVERNMENT RAN OVER A \$400 BILLION DEFICIT DURING LAST FISCAL YEAR. SOUTH CAROLINA BUSINESSES THAT HAD MILITARY OR OTHER KINDS OF FEDERAL BUSINESS DID WELL LAST FISCAL YEAR.

NONETHELESS, AS THE PRICE OF GASOLINE ROSE FROM \$3 PER GALLON IN FEBRUARY, 2008 TO \$4 PER GALLON BY JUNE, (CHART 4) SPENDING BY CONSUMERS IN SOUTH CAROLINA ROSE FROM AN ALREADY BURDENSOME \$600 MILLION PER MONTH TO A STIFLING \$800 MILLION PER MONTH BY JUNE. (CHART 5)

AS A RESULT, NON-FUEL EXPENDITURES AND SERVICES TOOK A SEVERE HIT. WHEREAS THERE IS USUALLY SOME INCREASE IN SERVICE JOBS DURING THE SUMMER, LAST SUMMER THERE WAS A DECLINE IN THE SERVICE SECTOR.

TO MAKE MATTERS WORSE, THE FALLOUT FROM THE SUBPRIME MORTGAGE DEBACLE CAME TO SOUTH CAROLINA AT THE END OF LAST FISCAL YEAR. AS A RESULT, THE REAL ESTATE AND CONSTRUCTION SECTORS FELL INTO A RECESSION. THIS PAST SUMMER, RESIDENTIAL

BUILDING PERMITS IN SOUTH CAROLINA WERE DOWN OVER 40% FROM A YEAR EARLIER. (CHART 6)

HOW DID THESE ECONOMIC CONDITIONS IMPACT THE STATE'S REVENUE COLLECTIONS LAST FISCAL YEAR? REVENUE COLLECTIONS DECLINED \$222 MILLION, OR 3.1%, FROM THE PREVIOUS YEAR (CHART 7). THEY DID NOT, HOWEVER, REFLECT RECESSIONARY CONDITIONS. TO REFRESH YOUR MEMORY, THE STATE CUT THE SALES TAX FOR FOOD FROM 3% TO 0% BEGINNING IN NOVEMBER 2007, AND CUT THE LOWEST INCOME TAX BRACKET FROM 2.5% TO 0% FOR TAX YEAR 2007. WITHOUT THOSE TAX CUTS, WE ESTIMATE THAT THE STATE'S GENERAL FUND REVENUES WOULD HAVE GROWN 1%. EVEN THOUGH RESULTS WERE SLIGHTLY POSITIVE, THAT WAS QUITE A DRAMATIC DECLINE FROM THE 8% GROWTH RATE THE STATE EXPERIENCED IN THE PREVIOUS FISCAL YEAR.

HIGHER FUEL PRICES HAD A DRAMATIC IMPACT ON THE SALES TAX. THE SALES TAX FOR THE GENERAL FUND DECLINED 6.3% FROM THE PREVIOUS YEAR. WE ESTIMATE THAT WITHOUT THE FOOD TAX CUT, OUR SALES TAX WOULD HAVE GROWN 2%. IN AN AVERAGE YEAR IT GROWS ABOUT 4% TO 5%.

THE STATE'S INCOME TAX WAS DOWN 0.6% LAST FISCAL YEAR. IT WOULD HAVE BEEN UP EXCEPT FOR THE STATE CUT IN THE INCOME TAX AND THE FEDERAL STIMULUS REFUND PROGRAM THAT ENCOURAGED NEARLY 90,000 TAXPAYERS TO FILE THEIR RETURNS BY APRIL 15, TO GET THEIR STIMULUS CHECKS. THE STIMULUS CHECK ENCOURAGED MANY TAXPAYERS WHO TYPICALLY DON'T BOTHER TO FILE FOR A REFUND TO FILE LAST YEAR. WE ESTIMATE THAT WITHOUT THE RATE CUT AND THOSE EXTRA REFUNDS, OUR INCOME TAX WOULD HAVE BEEN UP 2.2%. OUR INCOME TAXES FROM EMPLOYER WITHHOLDINGS, WHICH ARE THE BREAD AND BUTTER OF STATE REVENUES, WERE UP 4.0%.

RESULTS FOR OUR SALES AND INCOME TAX COLLECTIONS REFLECTED THE DICHOTOMY IN OUR ECONOMY. EVEN THOUGH CONSUMERS HAD TO SPEND MUCH MORE ON FUEL, WHICH SLAUGHTERED THE SALES TAXES, AND THE HOUSING MARKET WAS A DISASTER, WHICH WEAKENED CONSTRUCTION, OTHER SECTORS OF OUR ECONOMY HELD UP, WITH THE RESULT THAT MORE PEOPLE WERE WORKING AT THE END OF LAST FISCAL THEN AT THE END OF THE PREVIOUS FISCAL YEAR.

NONETHELESS, AT THE CLOSE OF THE BOOKS FOR FY 07-08, STATE REVENUES WERE \$205 MILLION, OR 2.9%, BELOW THE BEA'S ESTIMATE FOR THE APPROPRIATION ACT. ADDING REVENUE MEASURES PASSED AFTER THE ACT, THE TOTAL REVENUE SHORTFALL WAS \$234 MILLION.

THE STATE COVERED THAT BY USING \$124 MILLION FROM THE CAPITAL RESERVE FUND AND \$92 MILLION FROM THE STATE'S GENERAL RESERVE FUND, AND THE BALANCE FROM AGENCY CARRY FORWARDS. THIS REDUCED THE STATE'S GENERAL FUND RESERVE TO \$95 MILLION FOR THE CURRENT FISCAL YEAR.

#### **FISCAL YEAR 2008-2009 STATE REVENUE SITUATION THUS FAR**

WHAT ABOUT THE CURRENT FISCAL YEAR? SHORTLY AFTER THE BEGINNING OF THIS FISCAL YEAR, IT BECAME EVIDENT THAT SOUTH CAROLINA'S ECONOMY HAD GONE INTO RECESSIONARY CONDITIONS IN JUNE 2008. THE BOARD OF ECONOMIC ADVISORS, THEREFORE, MET THIS PAST JULY, THE FIRST MONTH INTO THE FISCAL YEAR, AND LOWERED ITS ESTIMATE FOR THE CURRENT FISCAL YEAR BY 2%.

THE BUDGET AND CONTROL BOARD, AT ITS AUGUST MEETING, SEQUESTERED THE STATE'S CAPITAL RESERVE TO COVER THE BEA'S 2% CUT, THEREBY PRECLUDING THE USE OF THE CAPITAL RESERVE IN THE UPCOMING FY 09-10 BUDGET. BY AUGUST, HOWEVER, THE FINANCIAL MARKETS HAD DETERIORATED MORE FOLLOWING JULY AND THE PRICE OF GASOLINE WAS HOVERING AROUND \$4 PER GALLON, SO THE BUDGET AND CONTROL BOARD CUT STATE APPROPRIATIONS BY 3%, WHICH WAS APPLIED ACROSS THE BOARD. THAT AMOUNTED TO A TOTAL CUT OF 5% AND WAS 3% MORE THAN THE BEA CUT.

IN OCTOBER, REVENUES WERE 4.7% BEHIND SCHEDULE TO MEET THE BEA'S REVISED ESTIMATE. THE BEA LOWERED ITS ESTIMATE FOR THIS FISCAL YEAR BY ANOTHER 6%, WHICH AMOUNTED TO 3% MORE THAN THE CUTS IMPLEMENTED BY THE B&C BOARD. ALSO, TO REFRESH YOUR MEMORY, BEFORE GOING HOME IN JUNE, THE GENERAL ASSEMBLY PASSED A RESOLUTION PROVIDING THAT THE SPEAKER OF THE HOUSE AND THE SENATE PRO TEM COULD CALL THE GENERAL ASSEMBLY BACK INTO SESSION IF REVENUES WERE MORE THAN 4% BELOW THE QUARTERLY ESTIMATE. THE LEADERSHIP, THEREFORE, CALLED THE GENERAL ASSEMBLY BACK INTO SESSION TO DEAL WITH THE SHORTFALL.

THE GENERAL ASSEMBLY, GENERALLY SPEAKING, ADOPTED A PLAN THAT CUT APPROPRIATIONS BY 1% MORE THAN THE BEA'S REDUCTION, LESS THE B&C BOARD ACROSS THE BOARD CUTS THAT HAD ALREADY BEEN IMPLEMENTED.

AFTER OCTOBER, ALL THE NEWS THAT CAME OUT OF WASHINGTON AND WALL STREET WAS PESSIMISTIC. MORE IMPORTANTLY, LAYOFFS IN SOUTH CAROLINA HAD BEGUN TO SPREAD. BMW, WHICH HAS BEEN THE BELL WEATHER FOR ECONOMIC STRENGTH IN THE STATE ANNOUNCED THAT IT WAS REDUCING ITS CONTRACT EMPLOYEES BY 500. THAT WAS

PARTICULARLY TROUBLING NEWS FOR THE BEA. MOREOVER, THE BEA'S ADVISORY COMMITTEE OF LEADING ECONOMISTS FROM THROUGHOUT THE STATE REPORTED RECESSIONARY CONDITIONS, WITH LITTLE HOPE FOR IMPROVEMENT IN THE NEAR TERM.

ON NOVEMBER 7, THE BEA REVIEWED THE SITUATION AGAIN AND SET THE PRELIMINARY REVENUE ESTIMATE FOR NEXT FISCAL YEAR. THEN REVENUE GROWTH FOR THIS FISCAL YEAR WAS \$113 MILLION, OR -5.0 %, BELOW THE SAME PERIOD LAST YEAR. THAT AMOUNT WAS SLIGHTLY LESS THAN THE BEA'S REVISED ESTIMATE. GIVEN ALL THE NEGATIVE ECONOMIC NEWS, THE BEA DECIDED THAT ECONOMIC CONDITIONS HAD NOT CEASED DETERIORATING AND LOWERED ITS ESTIMATE ANOTHER 2%.

THE BEA MET DECEMBER 10, 2008 TO REVIEW ECONOMIC CONDITIONS, WHICH BY ALL ACCOUNTS WERE CONTINUING TO DETERIORATE RAPIDLY. IN DECEMBER, THE NUMBER OF NEWLY LAID OFF WORKERS SEEKING UNEMPLOYMENT PAYMENTS ROSE TO OVER 55,000. (CHART 8) THE TOTAL NUMBER OF UNEMPLOYED ROSE TO 180,000. (CHART 9) THE UNEMPLOYMENT RATE ROSE TO 8.3%. (CHART 10) THE NUMBER OF EMPLOYED WORKERS HAD FALLEN 30,000 SINCE AUGUST AND WAS 2.2% LESS THAN THE SAME MONTH THE PREVIOUS YEAR. (CHART 11) MOREOVER, THE ANNOUNCED LAYOFFS WERE BECOMING MORE WIDESPREAD IN OUR UP-STATE INDUSTRIAL BASE. AND TO CAP IT ALL



OFF, THE STANDARD AND POOR'S INDEX HAD FALLEN FROM 1,400 LAST MAY TO UNDER 900 IN DECEMBER. (CHART 12) WITHOUT ANY TURNAROUND IN SIGHT, THE BEA CUT ITS ESTIMATE FOR THIS FISCAL YEAR ANOTHER 3.5%, OR \$230 MILLION. THAT BROUGHT THE TOTAL REDUCTIONS BY THE BEA FOR THIS FISCAL YEAR TO 8.3%, OR \$919 MILLION.

### **OUTLOOK FOR FY 09-10 REVENUES**

AS FOR NEXT YEAR'S STATE BUDGET, GIVEN THE DISMAL SITUATION RIGHT NOW, THE BEA SET THE ESTIMATE FOR NEXT FISCAL YEAR THE SAME AS ITS REDUCED ESTIMATE FOR THIS FISCAL YEAR. THE BEA WILL REVIEW THESE ESTIMATES FEBRUARY 10, 2009 WHEN THE WAYS AND MEANS COMMITTEE MEETS ON THE BUDGET.

THE BEA MET TWO WEEKS AGO TO REVIEW ECONOMIC CONDITIONS AND ACTUAL REVENUE COLLECTIONS FOR DECEMBER. REVENUES THROUGH DECEMBER WERE 4.9% LESS THAN LAST YEAR'S COLLECTIONS THROUGH DECEMBER. (CHART 13) REVENUES WERE \$30 MILLION AHEAD OF SCHEDULE TO MEET THE MINUS 8.3% ESTIMATE. THERE WAS NO ECONOMIC NEWS TO INDICATE A CHANGE IN THE DETERIORATING EMPLOYMENT SITUATION. THE REVENUE FORECAST SHEET IS AT CHART 14 FOR YOUR INFORMATION.

## **EDUCATION IMPROVEMENT ACT PENNY**

WHAT ABOUT THE ONE PENNY SALES TAX THAT GOES DIRECTLY TO THE SCHOOL DISTRICTS UNDER THE EDUCATION IMPROVEMENT ACT? EIA APPROPRIATIONS THIS FISCAL YEAR, FY 08-09, WERE LESS THAN THEY WERE IN FY 05-06, THREE YEARS AGO. SO HOW DID THIS HAPPEN BECAUSE RETAIL SALES HAVE GROWN AT LEAST 10% SINCE THEN? THIS OCCURRED BECAUSE OF THE CUT IN THE SALES TAX ON FOOD. IN THE YEARS OF THE CUTS THE STATE HELD HARMLESS THE EIA. THIS YEAR'S BUDGET DOES NOT INCLUDE A HOLD HARMLESS PROVISION, SO ESSENTIALLY THE SCHOOL DISTRICTS HAVE EATEN THE FULL 5% CUT IN THE FOOD TAX ON ITS ONE PENNY.

MOREOVER, THE BEA JUST CUT THE EIA ESTIMATE FOR THIS FISCAL YEAR TO AN AMOUNT THAT IS \$85 MILLION, OR 13% LESS THAN IT WAS THREE YEARS AGO.

## **HOME OWNER PROPERTY TAX CUT**

THE RECESSION HAS ALSO CREATED A PROBLEM WITH THE FUNDING OF THE NEW PROPERTY TAX BILL, ACT 388. THE NEW ONE PENNY SALES TAX BEGAN JUNE 1, 2007 AND WAS ALLOCATED TO THE HOMESTEAD EXEMPTION FUND. RATHER THAN HAVING A \$53.2 MILLION SURPLUS AT THE END OF FY 07-08 AS WE HAD PROJECTED THREE YEARS AGO WHEN THE ACT WAS PASSED, THE FUND FINISHED FY 07-08 WITH A \$14.5 MILLION

DEFICIT. THIS FUND DEFICIT WAS COVERED BY THE GENERAL FUND AND HELPED CONTRIBUTE TO THE STATE'S DEFICIT.

SEVERAL FACTORS CONTRIBUTED TO THIS \$67.7 MILLION SHORTFALL FROM THE ESTIMATE. (CHART 15) THE ONE PENNY SALES TAX WAS \$32 MILLION UNDER THE PROJECTION, REFLECTING THE RUN-UP IN OIL PRICES. THE DISBURSEMENTS TO THE SCHOOL DISTRICTS WERE \$37.7 MILLION MORE THAN PROJECTED, OF WHICH \$16.6 MILLION WAS CAUSED BY EXTRAORDINARY SCHOOL OPERATING MILLAGE INCREASES IN 2006 AND 2007. ANOTHER \$10.9 MILLION WAS DUE TO REASSESSMENTS MORE THAN PROJECTED, \$4.4 MILLION FOR A LEGISLATIVE ADJUSTMENT IN 2007, AND \$5.8 MILLION FOR COUNTY PERMISSION TO RE-FILE TAX BILLS. IN SHORT, SCHOOL OPERATING TAXES INCREASED 16% PER YEAR OVER TWO YEARS, WHEREAS WE HAD BUILT IN 12% PER YEAR.

WE HAVE SENT OUT OUR ESTIMATES OF ALLOCATIONS TO THE SCHOOL DISTRICTS FOR FY 08-09, THE SECOND YEAR OF THE PROGRAM. THE ACTUAL ALLOCATION TO A SCHOOL DISTRICT IN THE SECOND YEAR IS EQUAL TO ITS FIRST 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

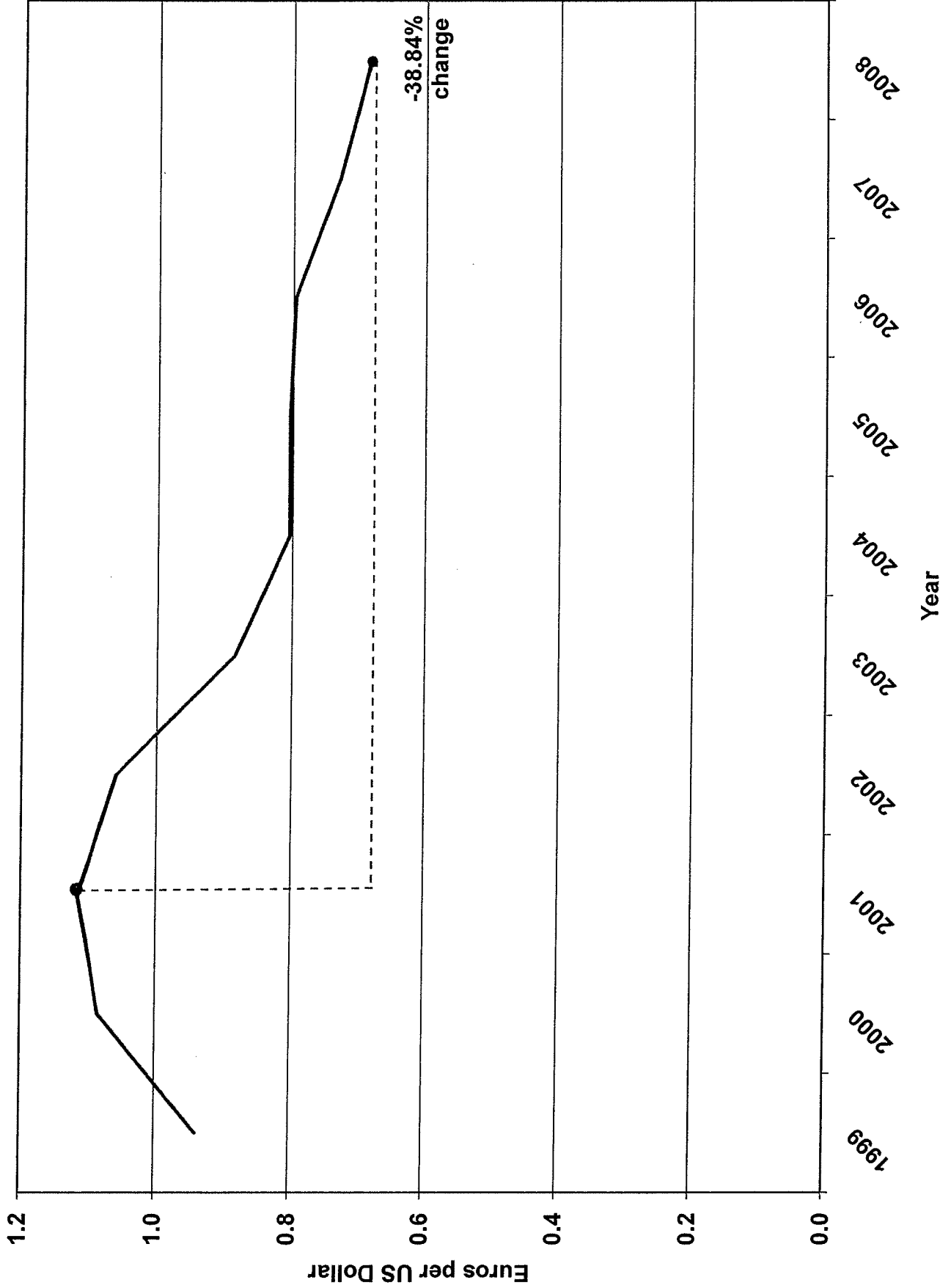
TO THE BASE YEAR REIMBURSEMENT. THE CPI WAS 2.9% AND POPULATION GROWTH WAS 1.8%, FOR A TOTAL OF 4.7%, OR \$25 MILLION, FOR GROWTH IN THE POT FOR FY 08-09. BASED ON THE BEA'S ESTIMATE OF A 6.0% DECLINE IN THE SALES TAX, WE CURRENTLY ARE PROJECTING THAT THE HOMESTEAD EXEMPTION TRUST FUND WILL BE \$47 MILLION SHORT THIS FISCAL YEAR.

WE JUST ISSUED OUR PRELIMINARY ESTIMATE FOR FY 09-10, THE THIRD YEAR OF THE PROGRAM. WE EXPECT THE REIMBURSEMENT AMOUNT TO THE SCHOOL DISTRICTS TO GROW 5.9 PERCENT, BASED ON GROWTH IN THE CPI OF 4.2% AND POPULATION OF 1.7%. WE WILL REVISE THIS ESTIMATE IN FEBRUARY WITH FINAL POPULATION FIGURES. BASED ON THE BEA'S PROJECTION FOR FY 09-10, WE CURRENTLY ESTIMATE THAT THE POT WILL BE \$77 MILLION SHORT NEXT FISCAL YEAR. UNDER CURRENT LAW, THAT AMOUNT WILL BE TAKEN OUT OF THE STATE'S GENERAL FUND.

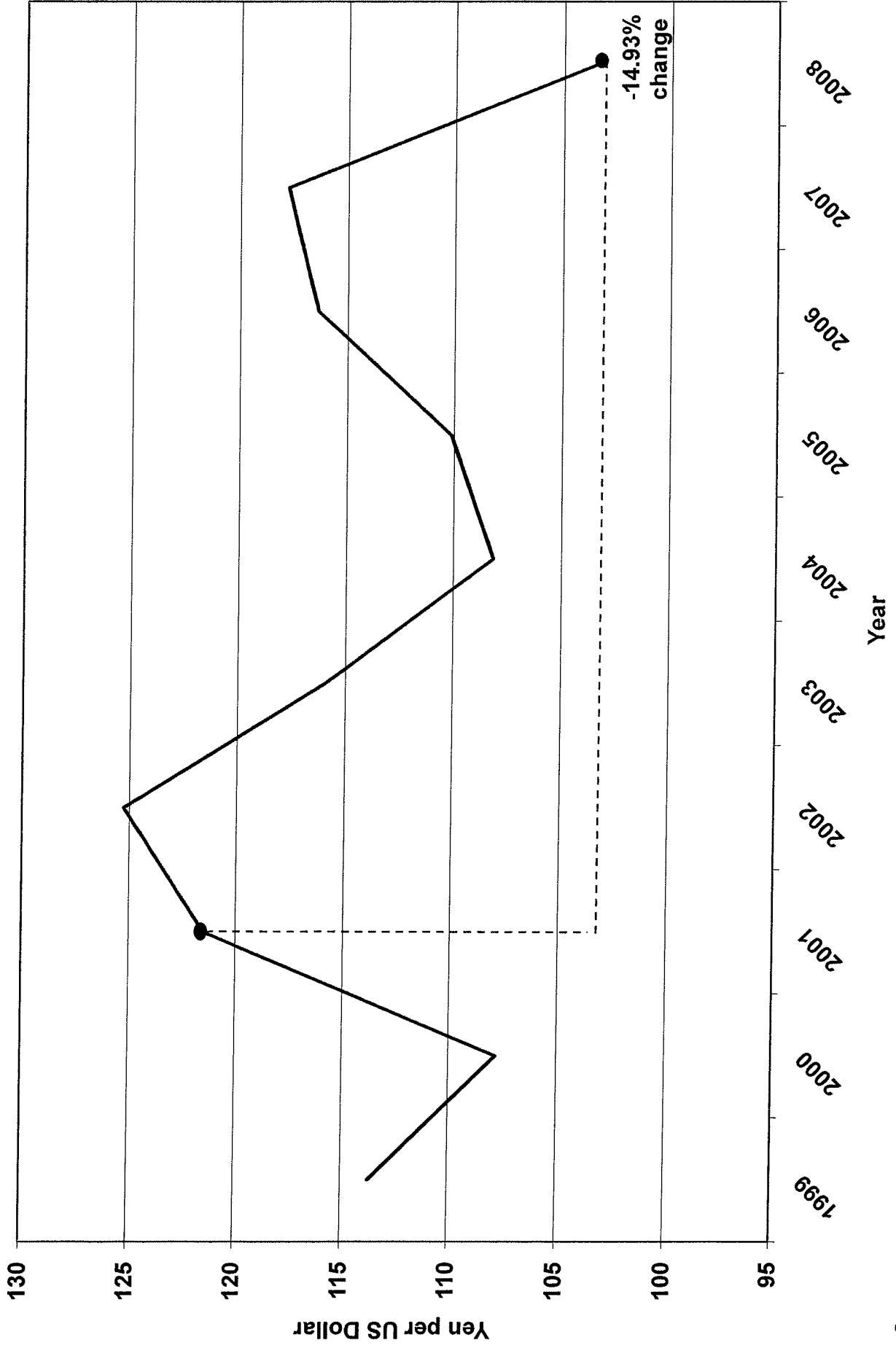
#### **SOUTH CAROLINA EDUCATION LOTTERY FUND**

LET ME END WITH SOME GOOD NEWS. THE SOUTH CAROLINA LOTTERY EDUCATION FUND IS ON TARGET WITH THIS YEAR'S ESTIMATE. AT THE RECOMMENDATION OF THE DIRECTOR OF THE LOTTERY, THE BEA DID NOT REVISE ITS ESTIMATE FOR THIS YEAR AND KEPT THE ESTIMATE THE SAME FOR NEXT FISCAL YEAR.

# Value of US Dollar Compared to Euro

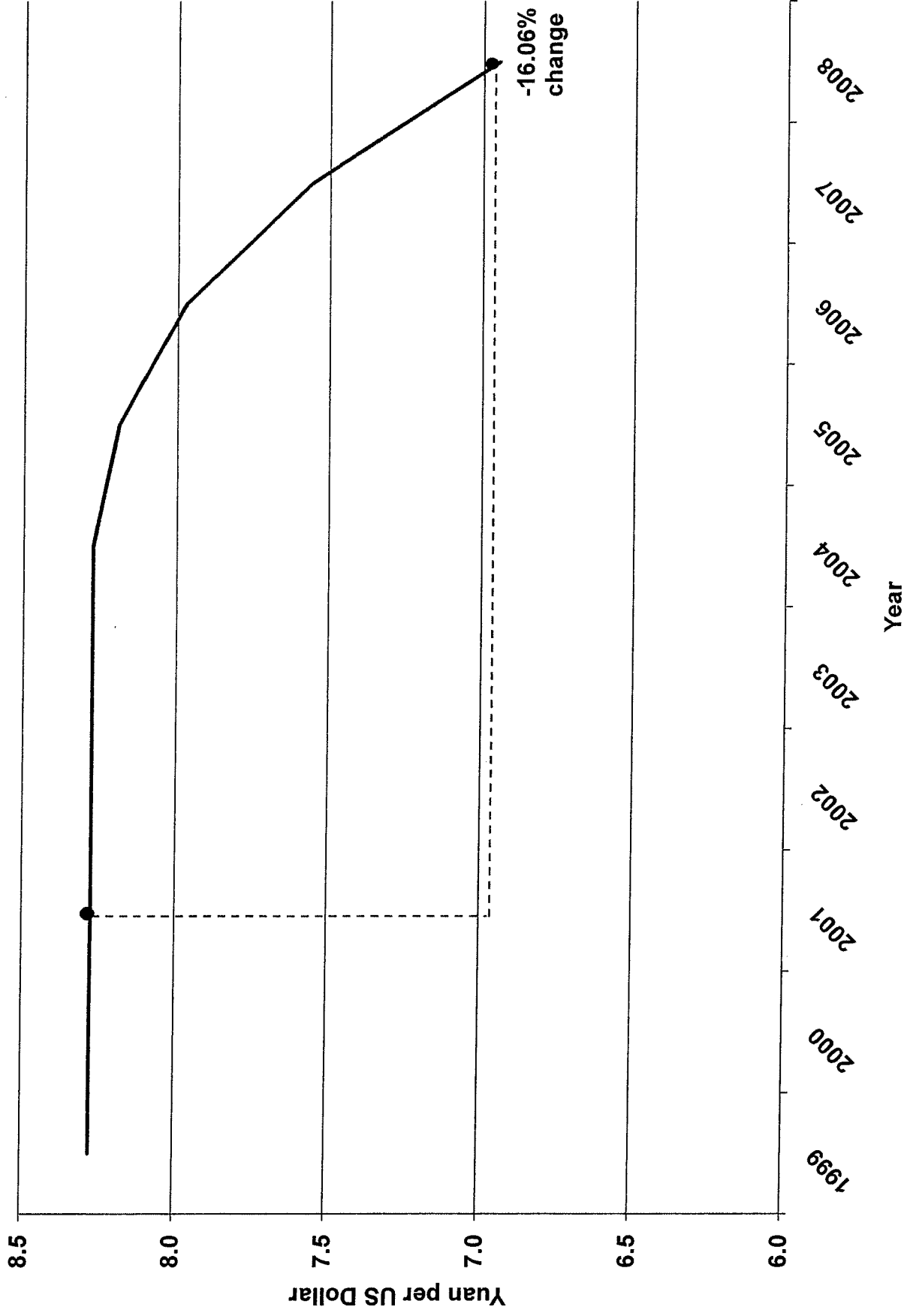


# Value of US Dollar Compared to Japanese Yen



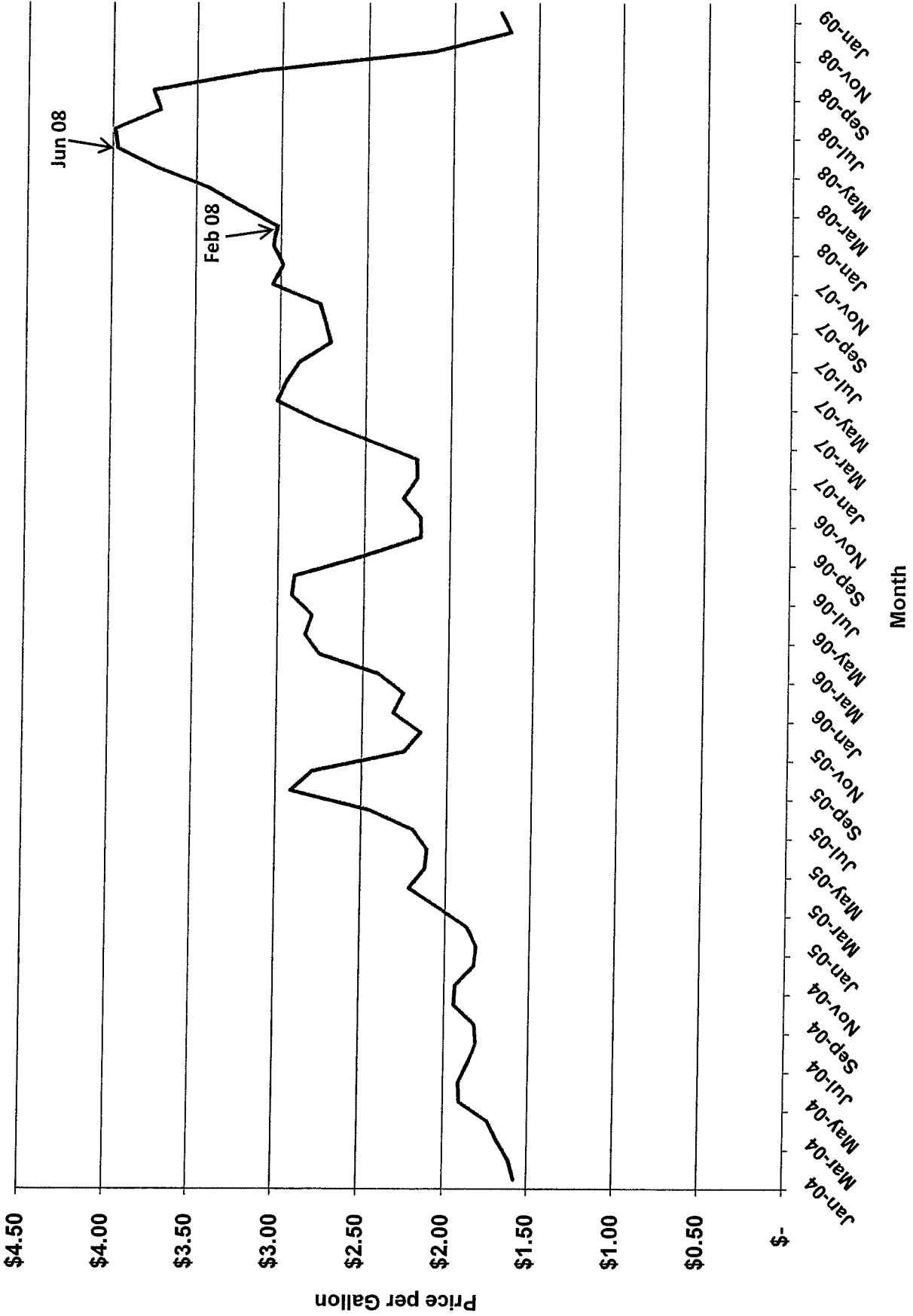
Source: Federal Reserve, <http://research.stlouisfed.org>

# Value of US Dollar Compared to Chinese Yuan



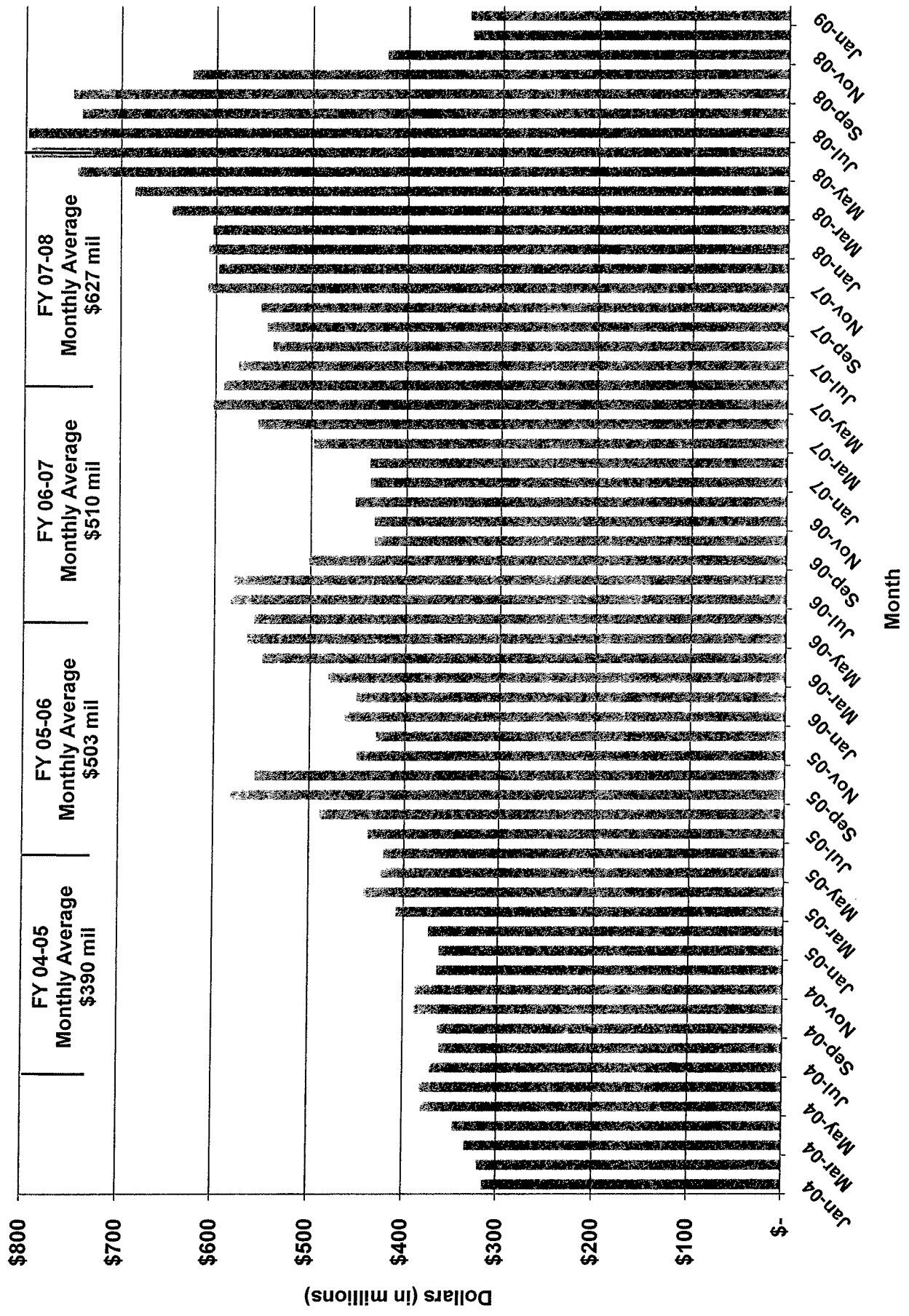
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# Unleaded Gasoline Prices (Dollars per Gallon)



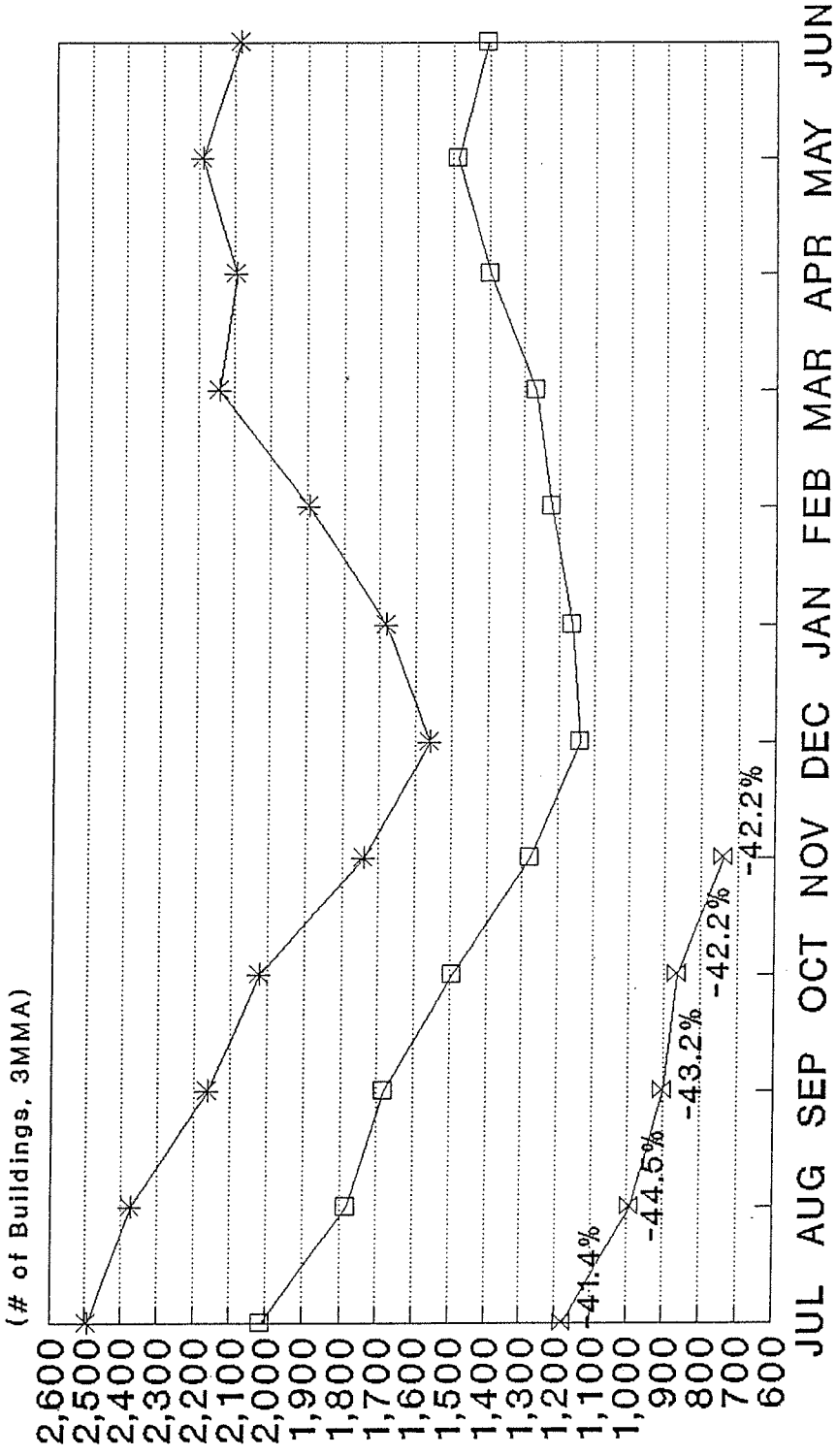


# Monthly Amount SC Drivers Spend on Gasoline



Source: www.eia.doe.gov  
ORS/erd/1-14-09

# RESIDENTIAL BUILDING PERMITS IN SC



\* FY 2007    □ FY 2008    × FY 2009

"GROSS" GENERAL FUND REVENUE SUMMARY: FINAL FY 2006-07 AND FY 2007-08

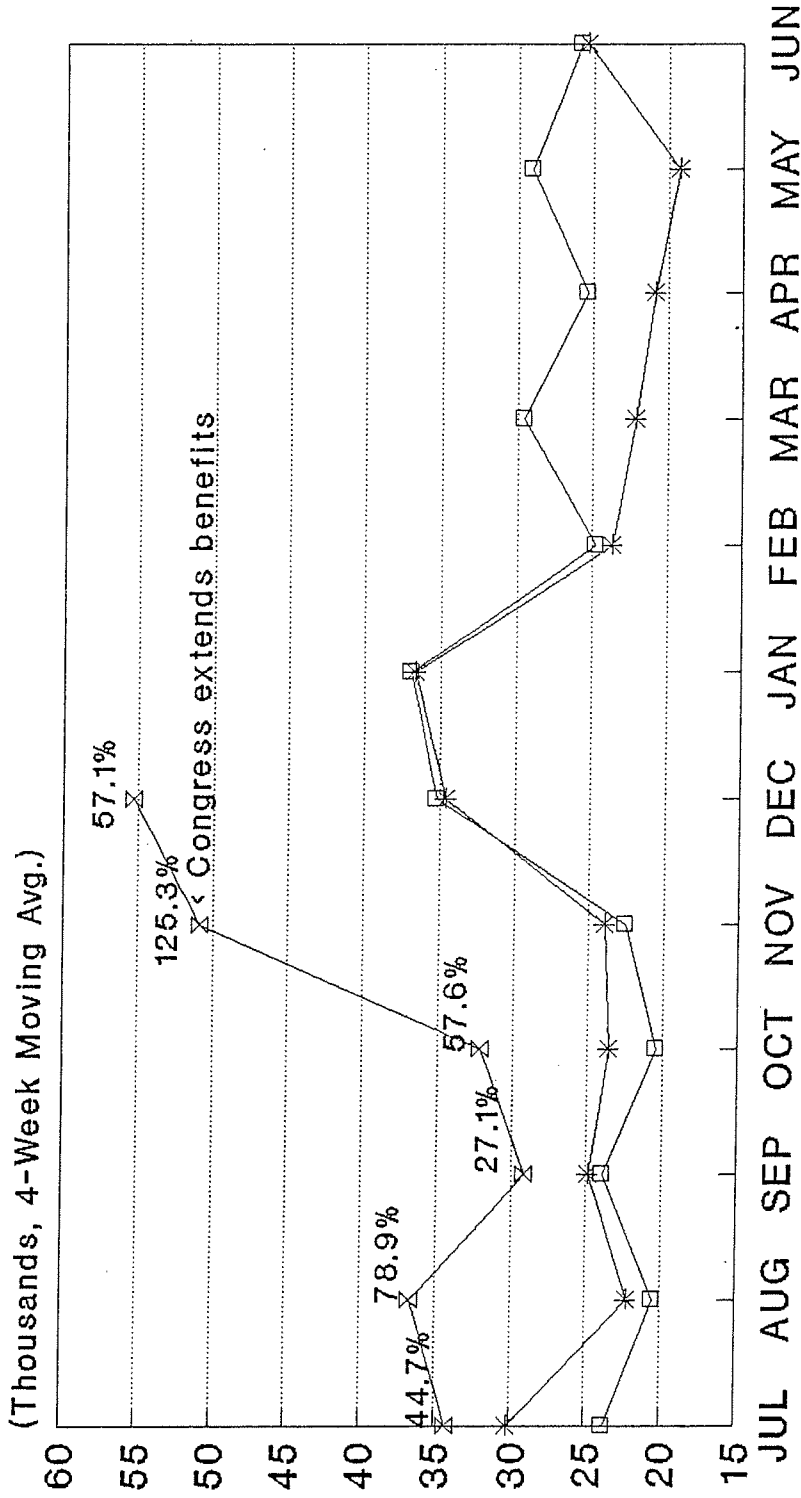
REVENUE CATEGORIES	1/ FINAL FY 2006-07	1/ FINAL FY 2007-08	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 2/	\$2,609,151,501	\$2,444,198,397	(\$164,953,104)	(6.3)
Excise Tax, Casual Sales 2/	22,070,729	21,366,645	(704,084)	(3.2)
Individual Income Tax	3,347,490,746	3,327,774,540	(19,716,206)	(0.6)
Corporation Income Tax	300,608,201	312,554,756	11,946,555	4.0
Admissions Tax	24,496,704	24,750,450	253,746	1.0
Admissions Tax - Bingo	3,268,419	2,947,491	(320,928)	(9.8)
Aircraft Tax	5,904,422	6,145,104	240,682	4.1
Alcoholic Liquor Tax	56,065,761	56,652,160	586,399	1.0
Bank Tax	25,569,805	19,313,042	(6,256,763)	(24.5)
Beer and Wine Tax	99,568,753	100,610,827	1,042,074	1.0
Business License Tax (Tobacco)	31,672,210	31,072,833	(599,377)	(1.9)
Coin-Operated Device Tax	1,146,711	1,597,573	450,862	39.3
Corporation License Tax	65,161,042	74,406,043	9,245,001	14.2
Departmental Revenue	44,195,692	43,908,550	(287,142)	(0.6)
Documentary Tax 2/	56,198,586	43,184,911	(13,013,675)	(23.2)
Earned on Investments	128,756,090	123,633,239	(5,122,851)	(4.0)
Electric Power Tax 2/	14,145,254	0	(14,145,254)	(100.0)
Estate and Gift Taxes	1,542,120	343,510	(1,198,610)	(77.7)
Insurance Tax	167,497,694	159,613,827	(7,883,867)	(4.7)
Motor Transport Fees	4,427	3,875	(552)	(12.5)
Motor Vehicle Licenses	32,534,443	24,285,770	(8,248,673)	(25.4)
Petroleum Inspection Tax	1,623,876	187	(1,623,689)	(100.0)
Private Car Lines Tax	2,917,749	3,595,122	677,373	23.2
Public Service Authority	14,993,000	15,720,000	727,000	4.8
Retailers License Tax	884,264	847,161	(37,103)	(4.2)
Savings and Loan Assoc. Tax	2,985,050	3,356,902	371,852	12.5
Workers Comp. Insurance Tax	14,473,981	13,559,040	(914,941)	(6.3)
Circuit/Family Court Fines	9,977,637	10,640,349	662,712	6.6
Debt Service Transfers	2,148,612	1,722,838	(425,774)	(19.8)
Indirect Cost Recoveries	15,736,374	15,837,054	100,680	0.6
Mental Health Fees	3,600,000	3,400,000	(200,000)	(5.6)
Parole and Probation Fees	3,402,305	3,392,808	(9,497)	(0.3)
Unclaimed Property Fund	15,000,000	12,000,000	(3,000,000)	(20.0)
<b>Gross General Fund Revenue 3/</b>	<b>\$7,124,792,158</b>	<b>\$6,902,435,004</b>	<b>(\$222,357,154)</b>	<b>(3.1)</b>

1/: Data displayed in BEA format, which includes "net" Property Tax Relief funds of \$504,644,634 in FY07 and \$507,846,331 in FY08, and excludes Other Source revenues, net of transfers, of \$38,355,384 in FY07 and \$79,485 in FY08.

2/: Excludes Education Improvement Act (1%), Accommodations (2%), Homestead Exemption (1%) and any Local Option sales tax.

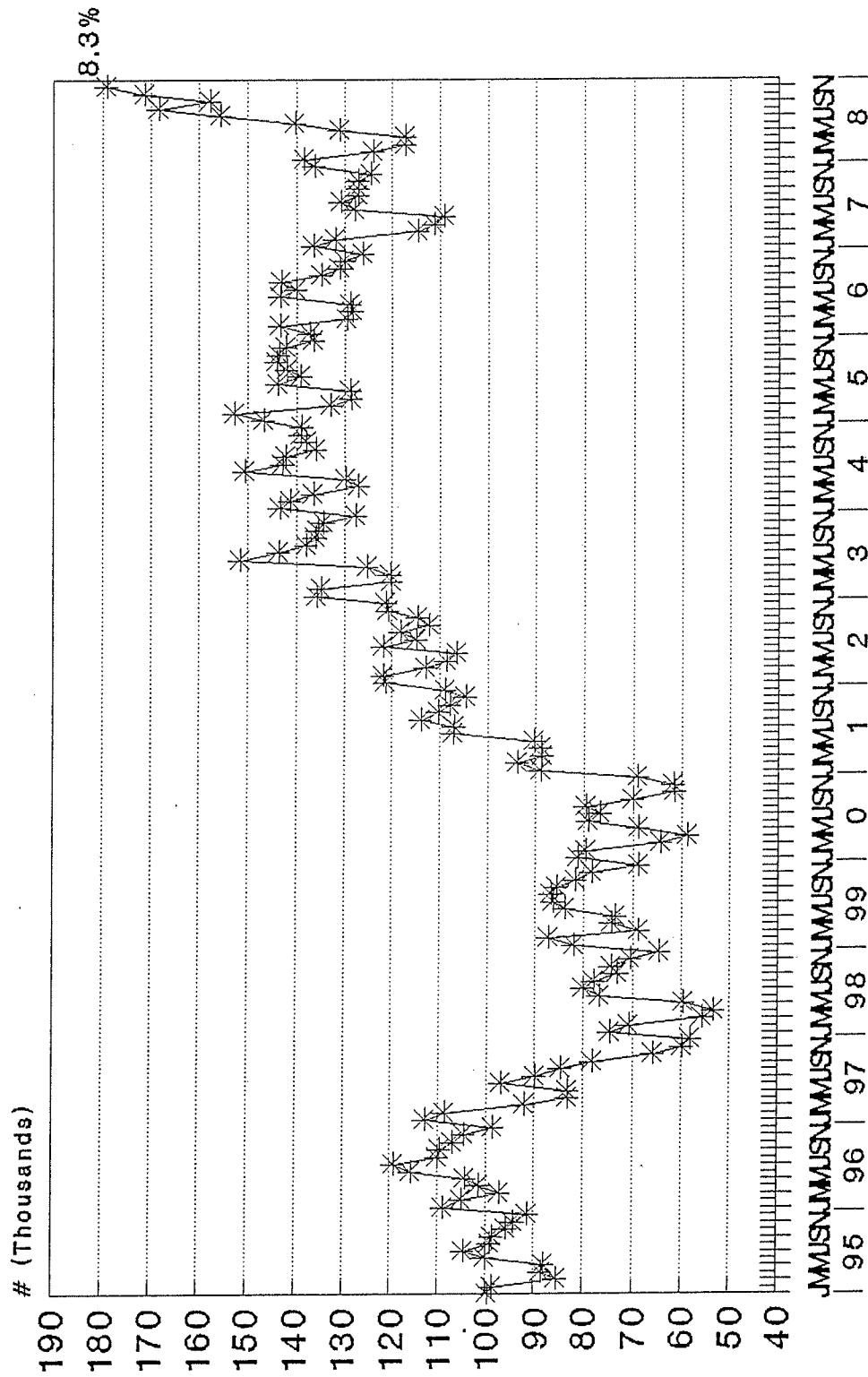
3/: Data format corresponds to BEA Official Revenue Estimate.

# INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE IN SOUTH CAROLINA



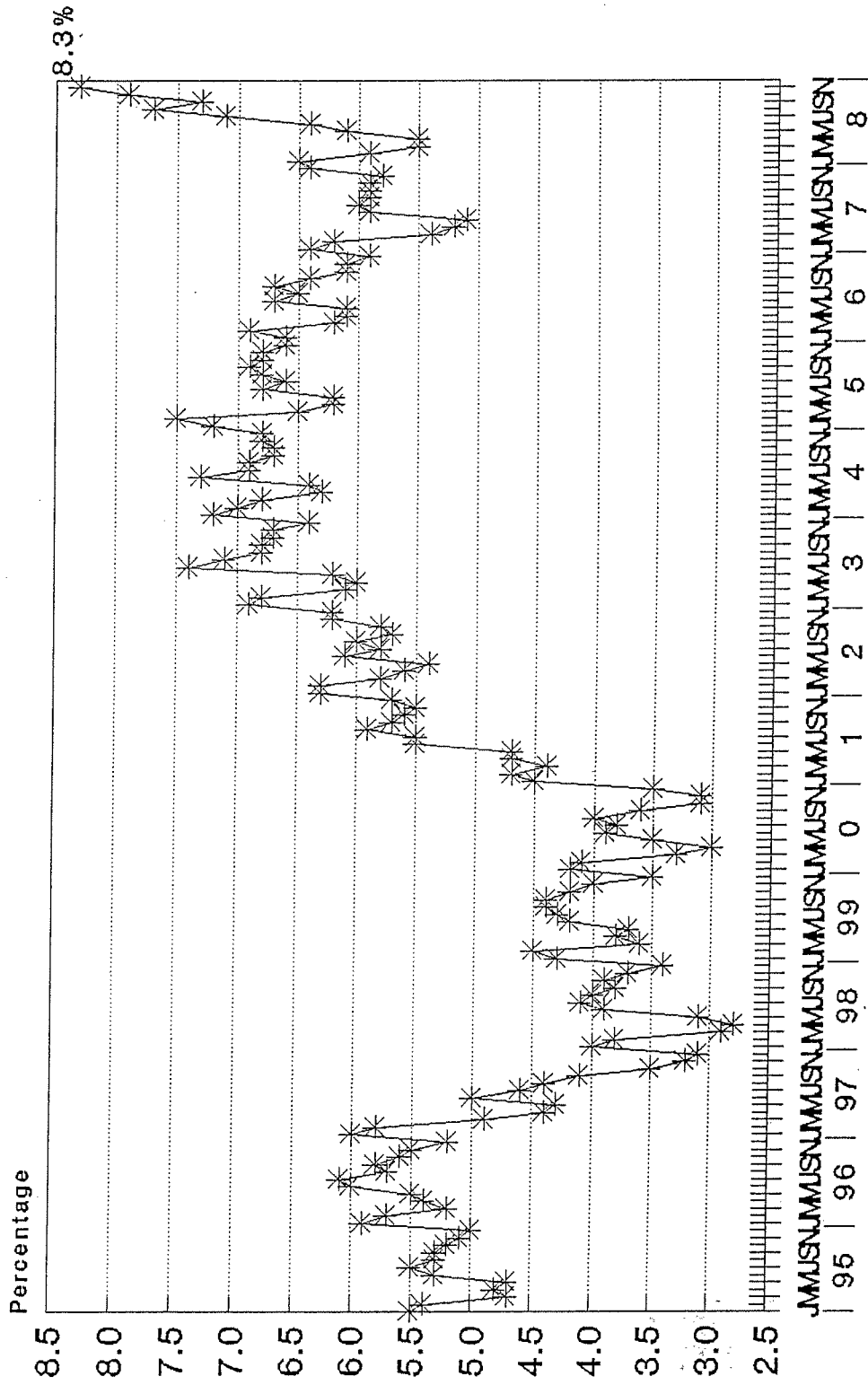
Source: SC Employment Security

# TOTAL UNEMPLOYMENT IN SC (UNADJUSTED)



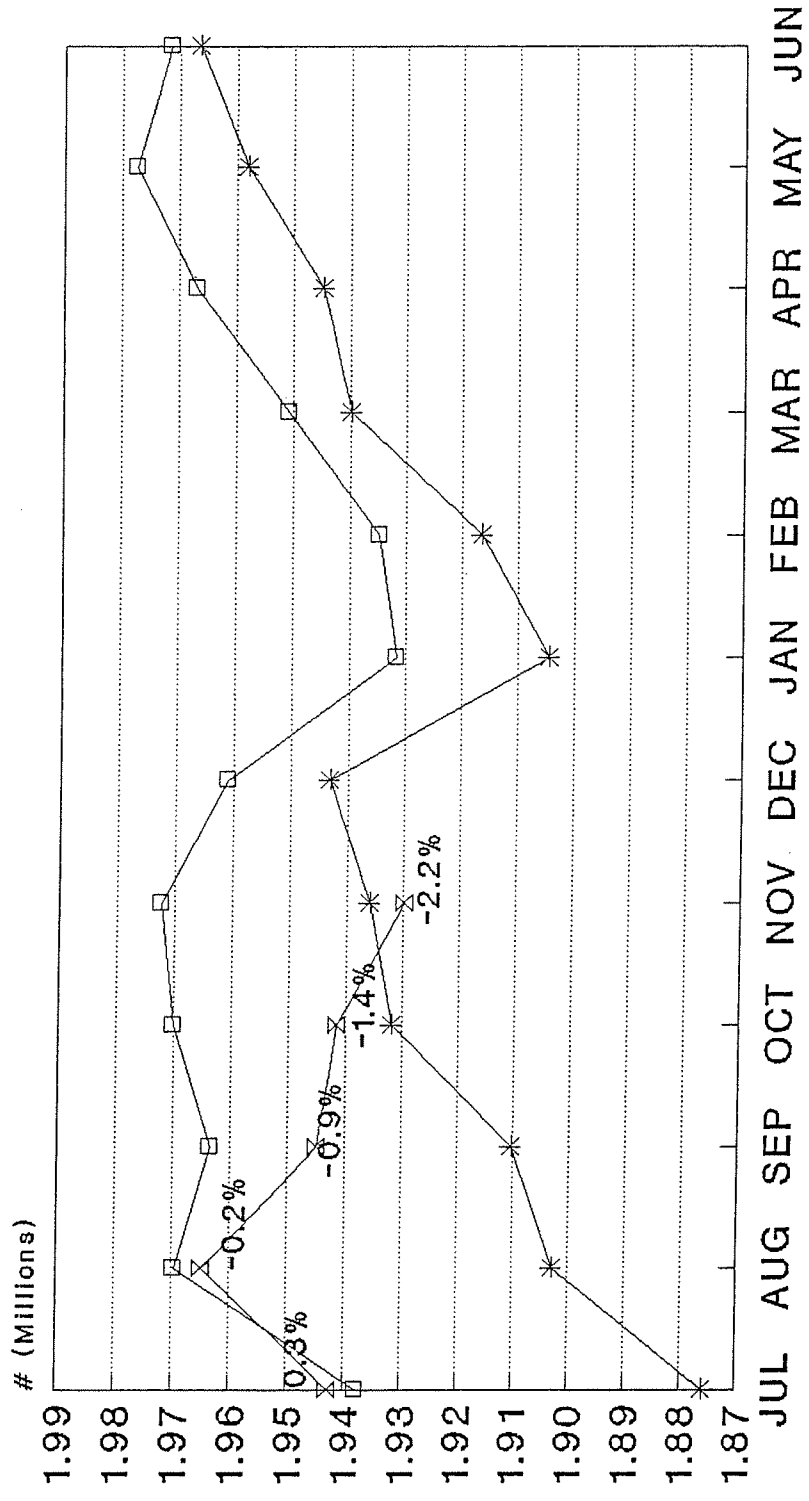
Source: SC Employment Security Commission

# UNEMPLOYMENT RATE IN SC (UNADJUSTED)



Source: SC Employment Security Commission

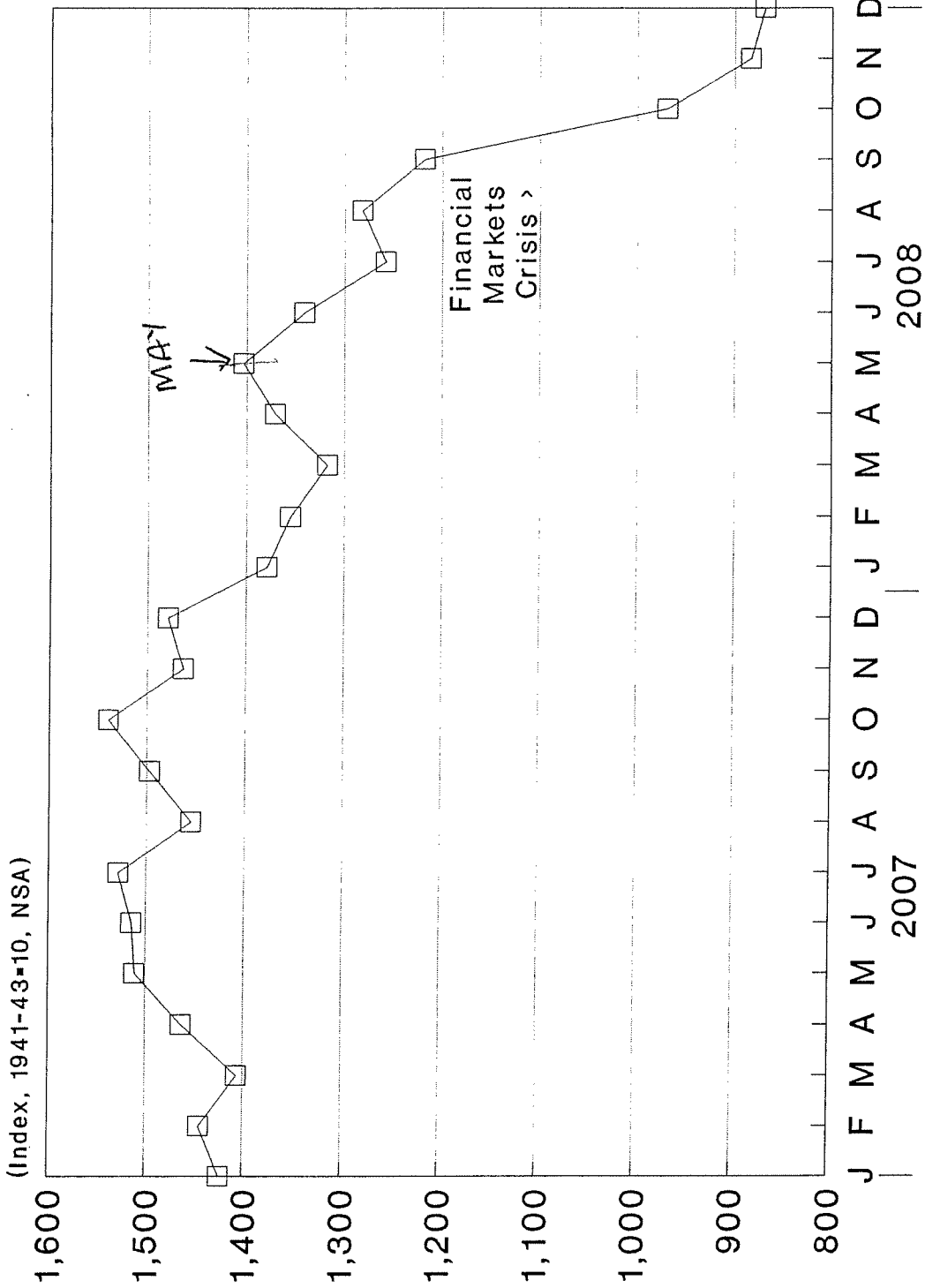
# TOTAL EMPLOYMENT IN SC (UNADJUSTED)



\* FY 2007    □ FY 2008    × FY 2009

Source: SC Employment Security Comm.

# STANDARD & POOR'S 500 STOCK INDEX



Source: U.S. Department of Commerce



## GENERAL FUND REVENUE CUMULATIVE SUMMARY: FISCAL YEARS 2007-08 &amp; 2008-09

JULY - DECEMBER

TABLE 2

REVENUE CATEGORIES	FY 2007-08	FY 2008-09	\$ CHANGE	% CHANGE
Retail Sales and Use Tax 1/	\$1,028,089,149	\$938,375,328	(\$89,713,821)	(8.7)
Excise Tax, Casual Sales 1/	9,413,226	7,526,108	(1,887,118)	(20.0)
Individual Income Tax	1,945,459,714	1,896,430,266	(49,029,448)	(2.5)
Corporation Income Tax	127,186,881	69,380,323	(57,806,558)	(45.5)
Admissions Tax 2/	6,033,721	6,609,530	575,809	9.5
Admissions Tax - Bingo 2/	1,138,903	1,228,499	89,596	7.9
Aircraft Tax	2,593,962	3,664,981	1,071,019	41.3
Alcoholic Liquor Tax 2/	22,131,558	22,990,922	859,364	3.9
Bank Tax	11,305,055	4,615,327	(6,689,728)	(59.2)
Beer and Wine Tax 2/	43,038,042	43,322,184	284,142	0.7
Business License Tax (Tobacco) 2/	12,859,750	12,462,520	(397,230)	(3.1)
Coin-Operated Device Tax	872,375	738,208	(134,167)	(15.4)
Corporation License Tax	21,373,023	29,791,590	8,418,567	39.4
Departmental Revenue 3/	10,565,182	20,219,885	9,654,703	91.4
Documentary Tax 2/	21,228,597	12,742,997	(8,485,600)	(40.0)
Earned on Investments **	67,171,221	44,607,526	(22,563,695)	(33.6)
Electric Power Tax 2/	0	0	0	0.0
Estate and Gift Taxes	242,082	1,131	(240,951)	(99.5)
Insurance Tax	47,720,335	96,120,689	48,400,354	101.4
Motor Transport Fees	1,250	6,324	5,074	405.9
Motor Vehicle Licenses	10,442,277	5,482,139	(4,960,138)	(47.5)
Petroleum Inspection Tax	0	0	0	0.0
Private Car Lines Tax	2,406,038	2,673,239	267,201	11.1
Public Service Authority	0	0	0	0.0
Retailers License Tax	381,807	372,661	(9,146)	(2.4)
Savings and Loan Assoc. Tax	1,564,019	1,033,056	(530,963)	(33.9)
Workers Comp. Insurance Tax	2,036,175	5,202,120	3,165,945	155.5
Circuit/Family Court Fines	4,984,309	4,933,887	(50,422)	(1.0)
Debt Service Transfers	897,033	703,049	(193,984)	(21.6)
Indirect Cost Recoveries	3,811,679	5,796,314	1,984,635	52.1
Mental Health Fees	0	0	0	0.0
Parole and Probation Fees	204,043	1,187,480	983,437	482.0
Unclaimed Property Fund	6,000,000	6,000,000	0	0.0
<b>Gross General Fund Revenue 4/</b>	<b>\$3,411,151,406</b>	<b>\$3,244,218,283</b>	<b>(\$166,933,123)</b>	<b>(4.9)</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/: Data format corresponds to BEA Official Revenue Estimate. FY'09 Appropriation Act offset FY'07 Property Tax Relief balance carried forward of +\$5,145,216.

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

PERSONAL INCOME GROWTH  
FY09 - (6.2)%; FY10 - 0.0%

GENERAL FUND REVENUE FORECAST  
FISCAL YEARS FY2006-07 TO FY2009-10  
(DOLLARS)

REVENUE CATEGORIES	FINAL FY 2006-07	FINAL FY 2007-08	12/10/08 ESTIMATE FY 2008-09	12/10/08 ESTIMATE FY 2009-10	PERCENT CHANGE FY06/FY07	PERCENT CHANGE FY07/FY08	PERCENT CHANGE FY08/FY09	PERCENT CHANGE FY09/FY10
RETAIL SALES TAX 1/ EXCISE, CASUAL SALES TAX	2,609,151,501	2,444,198,397	2,298,682,405	2,298,682,405	5.1	-6.3	-6.0	0.0
INDIVIDUAL INCOME TAX	22,070,729	21,366,645	15,670,780	15,670,780	1.1	-3.2	-26.7	0.0
CORPORATION INCOME TAX	3,347,490,746	3,327,774,540	3,099,154,075	3,099,154,075	11.8	-0.6	-6.9	0.0
	300,608,201	312,554,756	167,893,717	167,893,717	5.1	4.0	-46.3	0.0
<b>SALES AND INCOME TAXES</b>	<b>6,279,321,177</b>	<b>6,105,894,338</b>	<b>5,581,400,977</b>	<b>5,581,400,977</b>	<b>8.5</b>	<b>-2.8</b>	<b>-8.6</b>	<b>0.0</b>
ADMISSIONS/BINGO TAX	33,505,171	34,067,084	34,173,324	34,173,324	7.0	1.7	0.3	0.0
ADMISS. TAX TRANSFER TO COMMERCE	(5,740,048)	(6,369,143)	(6,706,708)	(6,706,708)				
AIRCRAFT TAX	5,904,422	6,145,104	5,115,477	5,115,477	28.9	4.1	-16.8	0.0
ALCOHOLIC LIQUOR TAX	56,065,761	56,652,160	56,237,031	57,361,772	8.0	1.0	-0.7	2.0
BANK TAX	25,569,805	19,313,042	7,425,001	7,425,001	-9.4	-24.5	-61.6	0.0
BEER AND WINE TAX	99,568,753	100,610,827	104,825,325	107,385,376	1.6	1.0	4.2	2.4
BUSINESS LICENSE TAX	31,672,210	31,072,833	29,670,954	29,670,954	-1.0	-1.9	-4.5	0.0
COIN-OPERATED DEVICES	1,146,711	1,597,573	1,284,316	1,517,694	-2.8	39.3	-19.6	18.2
CORPORATION LICENSE TAX	65,161,042	74,406,043	86,918,514	92,132,150	-8.9	14.2	16.8	6.0
DEPARTMENTAL REVENUE 3/ DOCUMENTARY TAX	44,195,692	43,908,550	43,992,056	43,992,056	-10.0	-0.6	0.2	0.0
	75,205,284	57,966,115	37,966,115	37,966,115	-11.6	-22.9	-34.5	0.0
LESS: CONSERVATION BANK TRUST FUND	(19,006,698)	(14,781,204)	(9,491,529)	(9,491,529)				
EARNED ON INVESTMENTS	128,756,090	123,633,239	77,000,000	72,000,000	84.3	-4.0	-37.7	-6.5
ELECTRIC POWER TAX	28,145,254	27,874,092	27,386,399	27,934,127	13.6	-1.0	-1.7	2.0
LESS: TRANSFER TO NON-FED HGWY FUND	(14,000,000)	(27,874,092)	(27,386,399)	(27,934,127)				
ESTATE AND GIFT TAXES	1,542,120	343,510	0	0	-97.5	-77.7	-100.0	
LESS: FEDERAL CHANGE TO ESTATE TAX	0	0	0	0				
INSURANCE PREMIUM TAX	159,060,984	161,103,334	163,788,749	172,602,958	12.8	1.3	1.7	5.4
INSURANCE LICENSE TAX	23,089,265	11,934,114	26,386,461	13,193,231	121.5	-48.3	121.1	-50.0
INSURANCE RETALIATORY & OTHER TAX	4,852,160	6,757,323	5,000,000	5,000,000	1.4	39.3	-26.0	0.0
LESS: INSURANCE CREDITS	(19,504,715)	(20,180,944)	(17,196,097)	(17,196,097)	13.4	3.5	-14.8	0.0
MOTOR TRANSPORT FEES	4,427	3,875	20,000	10,000	-58.1	-12.5	416.1	-50.0
MOTOR VEHICLE LICENSES	32,534,443	24,285,770	15,350,886	15,657,904	-36.3	-25.4	-36.8	2.0
PETROLEUM INSPECTION TAX	8,116,825	8,170,043	9,374,473	9,374,473	-7.9	0.7	14.7	0.0
LESS: TRANSFER TO NON-FED HGWY FUND	(6,492,949)	(8,169,856)	(9,374,473)	(9,374,473)				
PRIVATE CAR LINES TAX	2,917,749	3,595,122	4,034,169	4,034,169	-13.5	23.2	12.2	0.0
PUBLIC SERVICE AUTHORITY	14,993,000	15,720,000	16,340,234	16,340,234	0.3	4.8	3.9	0.0
RETAILERS LICENSE TAX	884,264	847,161	883,722	883,722	6.2	-4.2	4.3	0.0
SAVINGS & LOAN TAX	2,985,050	3,356,902	2,002,478	2,002,478	-12.7	12.5	-40.3	0.0
WORKERS COMP. INSURANCE	14,473,981	13,559,040	14,655,680	14,655,680	10.1	-6.3	8.1	0.0
CIRCUIT/FAMILY COURT FINES	9,977,637	10,640,349	10,664,363	10,664,363	3.3	6.6	0.2	0.0
DEBT SERVICE TRANSFERS	2,148,612	1,722,838	237,911	188,108	-0.6	-19.8	-86.2	-20.9
INDIRECT COST RECOVERIES	15,736,374	15,837,054	16,679,391	16,679,391	-12.6	0.6	5.3	0.0
MENTAL HEALTH FEES	3,600,000	3,400,000	3,200,000	3,200,000	-5.3	-5.6	-5.9	0.0
PAROLE / PROBATION FEES	3,402,305	3,392,808	3,392,808	3,392,808	0.6	-0.3	0.0	0.0
UNCLAIMED PROPERTY FUND	15,000,000	12,000,000	12,000,000	12,000,000	0.0	-20.0	0.0	0.0
CONFORMITY TO IRS CODE				(2,691,739)				
<b>OTHER BASE SOURCES</b>	<b>845,470,981</b>	<b>796,540,666</b>	<b>745,850,631</b>	<b>743,158,891</b>	<b>5.7</b>	<b>-5.8</b>	<b>-6.4</b>	<b>-0.4</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>7,124,792,158</b>	<b>6,902,435,004</b>	<b>6,327,251,608</b>	<b>6,324,559,868</b>	<b>8.2</b>	<b>-3.1</b>	<b>-8.3</b>	<b>-0.0</b>
APPROPRIATION ACT REVENUE	6,589,516,369	7,107,825,466	7,246,362,115		10.5	7.9	1.9	
LESS: TAX RELIEF TRUST FUND	(515,396,670)	(520,192,424)	(531,097,956)	(542,519,869)	0.3	0.9	2.1	2.2
PLUS: TAX RELIEF FUND CARRYFORWARD	10,752,036	13,797,464	5,145,216	11,451,372				
LESS: HOMESTEAD EXEMPT. FUND SHORTFALL		(14,545,708)	(46,917,763)	(81,548,694)				
EXCLUDING TRUST FUNDS	6,084,871,735	6,586,884,798	5,754,381,105 *	5,701,942,677	11.5	8.3	-12.6	-0.9
CAPITAL RESERVE FUND (2%) - BEG. BAL.	111,821,213	124,520,532	0	127,644,852	9.3	11.4	-100.0	
GENERAL RESERVE FUND (3%) - BEG. BAL.	167,731,819	186,780,797	95,122,617		9.3	11.4	-49.1	
TOTAL RESERVES	279,553,032	311,301,329	95,122,617		9.3	11.4	-69.4	
REVENUE EXCESS / SHORTAGE FROM ACT	535,275,789	(205,390,462)	(919,110,507)					
EDUCATION IMPROVEMENT ACT 2/ EIA FUND	648,381,569	635,302,264	563,394,107	563,394,107	-1.7	-2.0	-11.3	0.0
EIA HOLD HARMLESS	625,101,707	607,243,384	562,294,107	562,294,107	-4.8	-2.9	-7.4	0.0
EIA INTEREST	19,309,722	26,000,000						
	3,970,139	2,058,880	1,100,000	1,100,000	38.5	-48.1	-46.6	0.0
<b>S.C. EDUCATION LOTTERY FUND (NET)</b>	<b>273,416,933</b>	<b>266,128,271</b>	<b>252,400,000</b>	<b>252,400,000</b>	<b>-8.9</b>	<b>-2.7</b>	<b>-5.2</b>	<b>0.0</b>
<b>HOMESTEAD EXEMPTION FUND</b>								
<b>TOTAL REVENUE AVAILABLE</b>		<b>550,484,062</b>	<b>538,646,607</b>	<b>537,440,585</b>				

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.

\*/: Figure is net of General Fund revenue estimate

Source: S. C. Board of Economic Advisors /12/10/08

## Fund Revenue and Disbursements

Actual Revenue	550.5
Actual Disbursements	<u>565.0</u>
Actual Fund Balance	-14.5

## Actual Sales Tax versus Projected

One Penny Trust Fund Revenue Projected	582.5
One Penny Trust Fund Revenue Actual	<u>550.5</u>
Sales Tax Deficit	32.0

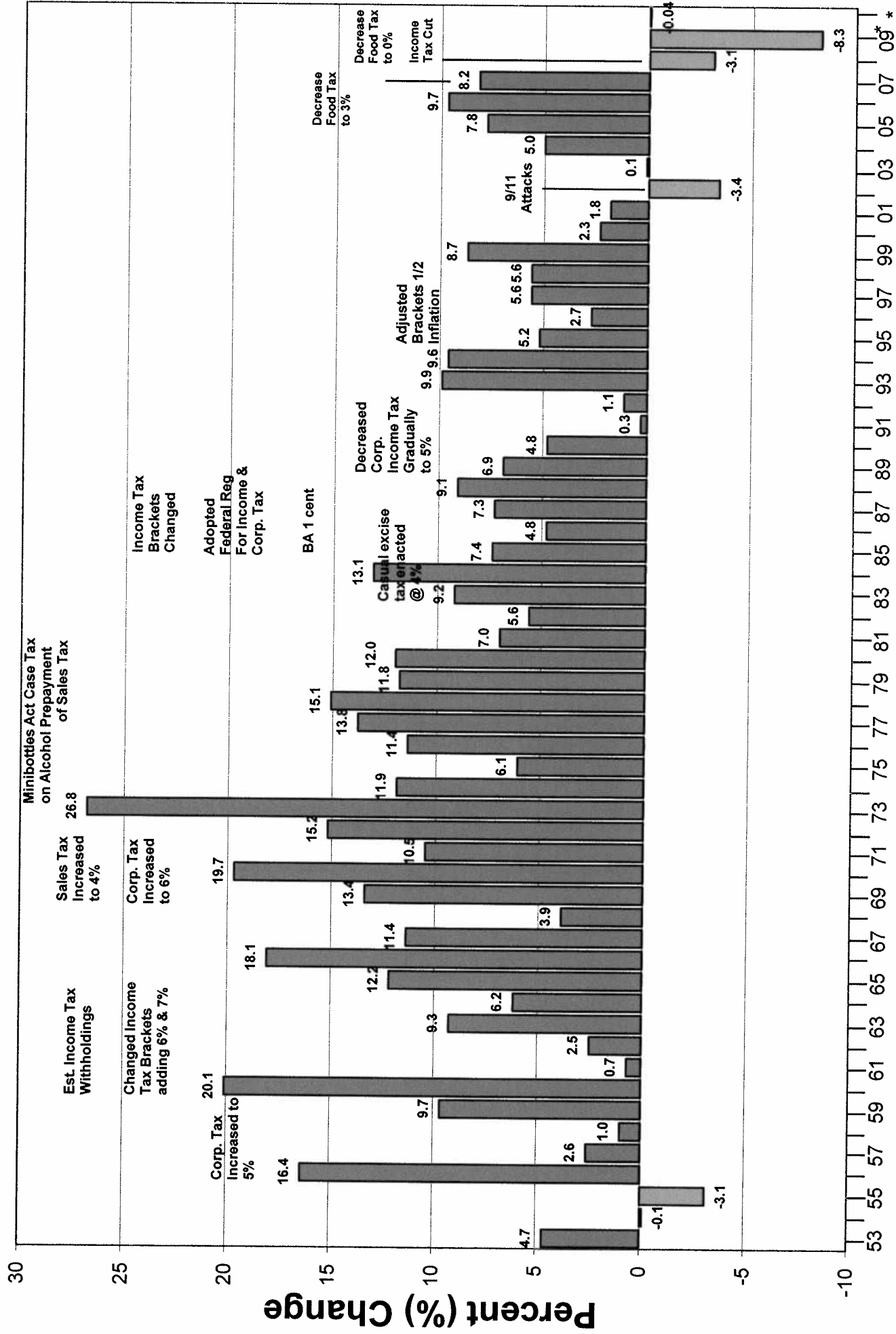
## Actual Disbursements versus Projected

Projected Tier III Disbursements	527.3
Actual Tier III Submitted to DOR	<u>565.0</u>
Actual Disbursements versus Projected	37.7

### *Breakdown of Actual disbursements versus projected disbursements*

\$100,000 Bump Amount	4.4
Refiles	5.8
Increase Due to Millage	16.6
Increase due to increase in value	<u>10.9</u>
TOTAL	37.7

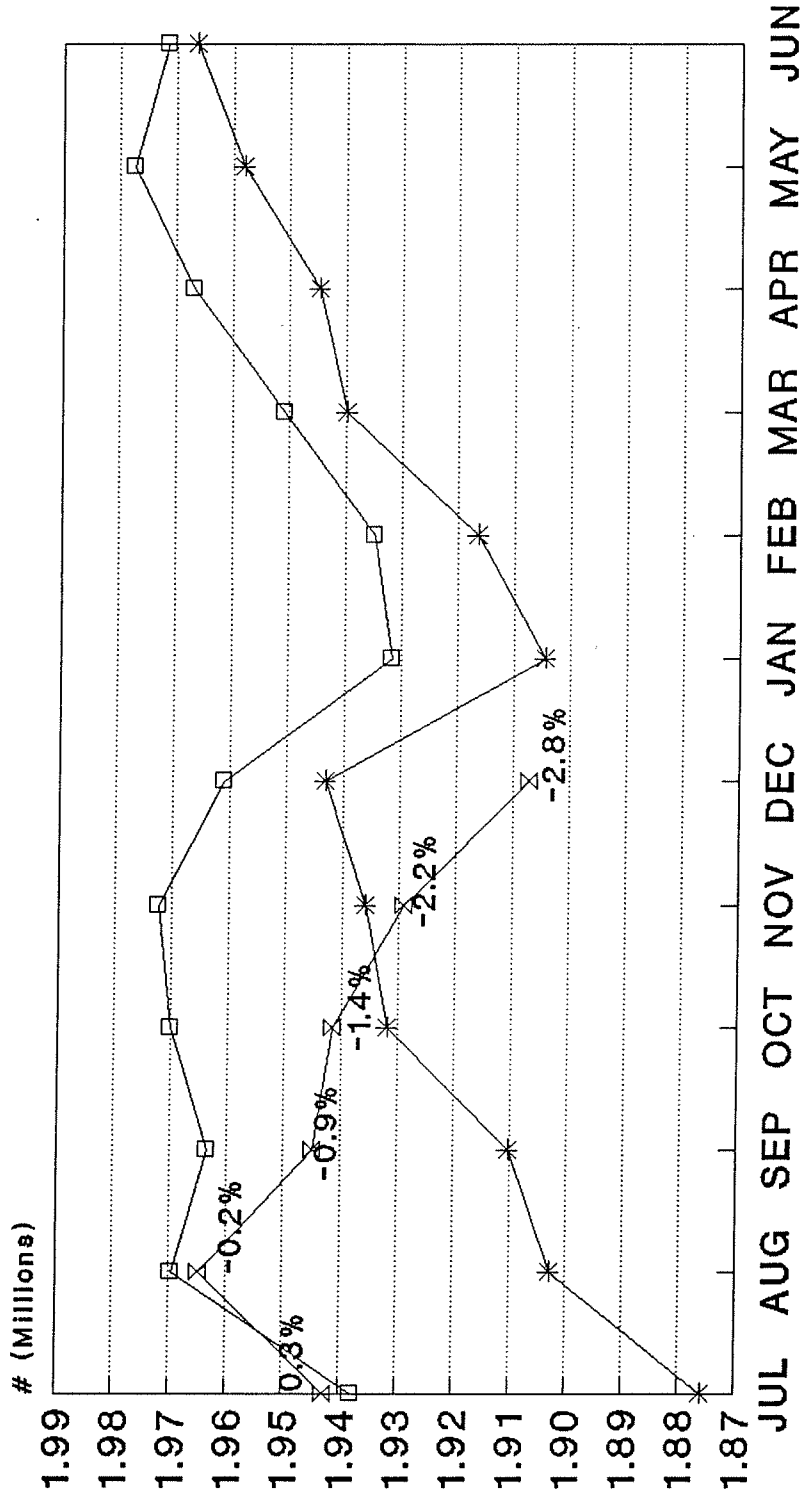
# Percent Change in S.C. General Fund Revenues



State Fiscal Year

\* FY 09 & 10 Projected

# TOTAL EMPLOYMENT IN SC (UNADJUSTED)



\*— FY 2007    □— FY 2008    \*— FY 2009