

# The Outlook for State Income & Revenues

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## *Introduction and Background*

With some new data in hand and state budget managers having taken some actions to reduce state spending, it is time to revisit the South Carolina revenue situation. But, first a bit of a recap.

The state ended the 2001-02 fiscal year on June 30 with a 3.0% decline in general fund revenues. The current 2002-03 fiscal year then began in July with state spending based on an optimistic 10.2% growth in general fund revenues. Following two months of disappointing revenue growth, the State Board of Economic Advisors (BEA) revised its 2002-03 estimate in September, cutting the estimate by 6.2%, to leave an expected growth of 4.0%. However, in a later September meeting, the State Budget and Control Board chose to leave state spending at the unaltered level, which assumed that revenue would grow 10.2%. The BEA called for 4.0% revenue growth. The Budget and Control Board continued to base expenditures on 10.2% growth.

In November, the BEA met again and affirmed its revised 2002-03 estimate and provided an estimate of 1.4% revenue growth for the 2003-04 fiscal year, which was based on the revised growth rate of 4.0% for 2002-03. In November, the Budget and Control Board met and cut 2002-03 budgeted expenditures 5% across the board for all state agencies. In the meantime, the state Treasurer increased estimates of earnings on state money balances. At that point, revenue growth of 3.75% was needed to achieve the revised 2002-03 plans, but alas, more cuts were on the way.

At the BEA's February meeting, the BEA, seeing evidence of weakening revenues, cut the estimate another \$137 million. The cut was ratified by the Budget & Control Board the same week. Indeed, the Board made even larger cuts. At this point, revenue growth of 1.4% is needed in this fiscal year to achieve the BEA estimate. The BEA estimate for revenue growth for fiscal year 2003-04 has been cut to 2.0%.

## *Revenue Estimates for the Next 18 Months*

Estimates of state revenue growth are based largely on expected growth in total personal income. This, in turn, depends on overall economic performance of the nation and state. The most recent estimates of national GDP and state personal income growth provided by economy.com in the fall predicted state income growth will average 3.9% in 2002-03 and 5.1% in 2003-04. Because of further weakness in the economy, I am adjusting these numbers downward by 1%. My estimates for growth in state general fund revenues calls for 1.75% in this 2002-03 fiscal year and 3.0% in the 2003-04 fiscal year. These estimates indicate there will not be another cut in state spending in this fiscal year and that there will be room to increase the revenue estimate for the 2003-04 fiscal year.

## *Graphical Presentation*

The accompanying chart shows actual GDP growth, S.C. total personal income growth, and revenue growth for 1994-2002, all in nominal terms. Projections for the three series are shown for 2003-2006. The data for all observations are included with the graph. It should be noted and emphasized that the projections tend to be much smoother than past actual data. This suggests that the actual record will show more variation than implied by the estimates.

