

## The Outlook for State Revenues

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October 23, 2003

### *Introduction and Background*

When the July 28, 2003 Revenue Outlook was written, the keepers of the state purse were in the process of closing out FY 2003. The situation at the time looked rather bleak. It appeared then that the state would close its books with negative revenue growth. This meant that FY 2004 would begin behind the 8-ball. Here's how I described the situation in July.

**Through June 30, with preliminary data for FY 2002-03 in hand, total general fund revenues have declined. Growth for the year is negative 0.6%. Additional revenue data are still in the works. Even so, it is highly unlikely that the targeted 1.4% growth rate for the year will be achieved. Failure to hit the estimate for FY 2002-03 places the FY 2003-04 estimate of 2.0% growth at risk. Instead of beginning FY 2003-04 with a revenue base of \$5.3 billion, the number will look more like \$5.1 billion. To make matters worse, growth forecasts are not all that robust.**

When the last tax dollar was counted, the state closed the year with revenue increasing by a barely positive 0.1%. That's at least better than a negative number. Total general fund revenues collected for the year hit \$5.3 billion. Now, the prospects for additional budget cuts in this new fiscal year depend on FY 2004 revenue growth. The State Board of Economic Advisors has revised the expected growth rate to 1.4%. How does it look so far?

Through August, sales tax revenues were lagging, but corporate income tax proceeds were beginning to show signs of life, and this—corporate profits—is a leading indicator of economic recovery. That said, total general fund revenues came in with a 0.9% growth, a good bit short of the needed 1.4% growth to make the BEA estimate.

Things looked much better when September's revenues were counted. Sales tax revenues were up strongly, and corporate income tax revenues were healthy again. Through September, total general fund revenues are up 2.2%. Revenue growth is ahead of the estimate. What are the prospects for the rest of the year? For now, at least, it appears that the budget cutters can put their knives away.

### Revenue Estimates for the Next 18 Months and Beyond

Estimates of state revenue growth are based largely on expected growth in total personal income, which, in turn, depends on overall economic performance of the nation and state. The most recent forecasts for national GDP provided by economy.com suggest nominal GDP growth will average 4.2% for FY 2003-2004, 5.0% for FY 2004-05, and 4.6% for FY 2005-06. Because of stronger current developments, I have raised the estimates for FY 2003-04 to 5.2% and the estimates for FY 2004-05 and FY 2005-06 to 5.5% and 5.6%, respectively.

As indicated in the chart, growth in state revenues is expected to hit 1.8% in this fiscal year, 3.9% in FY 2004-05, and 4.0% in FY 2005-06. The revenue growth path shown in the chart indicates a full recovery for S.C. revenue growth, relative to GDP, will occur in FY 2004-05. These estimates, like all such projections, rest on a host of assumptions about the way the world will work, and none of these include a cushion for additional wars or other national tragedies.

**S.C. Income Growth & General Fund Revenues** 102303  
**1990-2002**  
**Estimates to 2005-06**

