

MEMORANDUM FOR THE RECORD

DATE: April 9, 2018
Room 417, Dennis Building
2:00pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* -Edward Grimball-Chairman, Howell Clyborne, Emerson Gower, Hartley Powell; *Executive Director*, Frank Rainwater; *Staff* - Robert Martin, Karen Rhinehart, Lisa Jolliff, Paul Athey, Gordon Shuford, David Patterson, Byron Kirby, Morgan O'Donnell, Marie Morales, Kenneth Harris, Sarah Crawford, Sandra Kelly, David Morrison, Ellen Mitchell. *Guests* - Michael Moore, John Barfield (Comptroller General's Office), Daniel Boan (WMC), Sharon McElveen (State Treasurer's Office), Tim Derrick (Dept. of Revenue).

Press:

1. Chairman Grimball welcomed everyone to the meeting at 2:00pm.
2. Chairman Grimball presented the meeting minutes of the meeting for March 22, 2018 which had previously been shared with the Members and asked if any Member had additions or corrections. There were no comments from the Members and Chairman Grimball declared the minutes approved as presented. *(See attached)*
3. Frank Rainwater and Robert Martin presented a review of revenues and economic conditions. *(See Attached)*
~**Mr. Rainwater provided an overview of monthly activity. His major comments were:**

- ***By statute it is required that the estimate be reviewed each quarter.**
- ***Revenues through the third quarter of the fiscal year total \$5,996.1 million and exceeded the estimate of \$5,908.3 million by \$87.8 million.**
- ***Through March, actual revenues exceeded estimates by \$87.8 million.**
- ***HOWEVER, the bulk of this excess is attributable to timing differences in Income Tax processing as the major revenue sources are at or below expectations.**
- ***Sales Tax revenue is above estimate by \$3.7 million or 0.2 percent.**
- ***Withholdings revenue is \$10.3 million above estimates or 0.3 percent.**
- ***Corporate Income and License Tax is \$43.3 million or 14.2 percent below estimates.**
- ***Insurance Tax is \$13.9 million or 7.3 percent below estimates.**

*Individual Income Tax is \$124.8 million above expectation for the month and \$118.8 million above the fiscal year-to-date estimate.

*In the past few years, Income Tax revenues in March have ranged between (\$163.6 million) and \$111.2 million, so any monthly estimate during tax season is subject to significant volatility.

*Given the historical volatility in Individual Income Tax and the much closer results in the larger categories, we believe total revenues are close to expectations.

~Mr. Martin presented the detailed review of economic and revenue activity. He reviewed only revenue activity since the last meeting was a short time ago. His major comments were:

***General Fund Revenue:** Through the first nine months of FY 2017-18, General Fund revenues have increased 6.7 percent and are trending above current forecast projections by \$87.7 million.

*After adjustments for sales tax held in a clearing account, the Y-T-D revenue growth is 6.6 percent.

***Sales Tax:** There is a remainder of \$4.1 million in the clearing account as of March 2018.

*After adjustments, the Y-T-D growth is 4.9 percent.

*The softening sales tax trend is mirroring the weaker national retail sales figures.

***Individual Income Tax:** There was a slowdown in individual income tax refund processing in March which led to a large monthly revenue excess - almost \$113 million less than the forecast.

- *Chairman Grimball asked Mr. Powell (DOR) if this timing will be the same each year. Mr. Powell replied that the new computer system is slowing the processing down due to the new fraud policies that are in place.*

*Withholdings, the largest single source of revenue, are on trend with the revenue estimate and are \$10 million ahead of estimate.

***U.S. Retail and Food Service Sales:** These figures are indicating a weakness in sales activity.

- *Chairman Grimball asked if any particular sector is driving this and Mr. Powell asked if the time of year is the issue. Mr. Martin answered that it is mainly car sales and that folks were waiting on income tax returns to purchase items.*

***The Corporate Income Tax:** The due date was changed to April last year and April is the largest single collection month.

***Other Taxes:** Growth is from a variety of sources and timing of receipts. The majority of growth is from stronger growth in the Documentary Stamp Tax by retention of funds usually transferred to the Conservation Bank, interest earnings on state general fund investments, and the Corporate License Tax. Growth in this category is above expectations.

***Economic Sectors to Watch:**

- **Future Federal Reserve Actions**
- **Price of Oil**
- **Retail Sales**
- **Value of Dollar**
- **Stock Market**
- **Income Tax Season**
- **Effect of Tariffs and Retaliation**

4. Frank Rainwater and Robert Martin presented information for consideration of FY 2017-18 and FY 2018-19 General Fund Revenue Estimates per §11-9-880. ~Mr. Martin reviewed information in the "Comparison of State Treasurer's Revenue Estimates November 2017 and February 2018" chart. He recommended that the Board accept the State Treasurer's earnings on investment change for FY 2017-18 which would raise the estimate by \$100,000 in the EIA Fund. The major change is for FY 2018-19 which increases the Earnings on Investments in the General Fund by \$8 million and revises the Lottery interest earnings estimate down by \$500,000. The \$8 million increase is offset by a reduction in the Individual Income Tax declarations of \$8 million making a net effect to the General Fund Revenue estimate of \$0 in FY 2018-19. ~Mr. Martin also shared estimate information from the SC Education Lottery. The Lottery would like to raise their estimate by \$7.3 million in FY 2017-18 and FY 2018-19 from \$399 million to \$406.3 million. No other changes were made. The overall effect on the General Fund was \$0 in FY 2017-18 and FY 2018-19. ~Mr. Rainwater recommended to the Board that they adopt the Lottery and Treasurer's estimates. The Board agreed; Mr. Clyborne motioned and Mr. Gower seconded the motion to accept the estimates and all Members voted aye to accept.
5. Other Business
~There was some discussion regarding the Federal Tax Conformity legislation being debated in the SC Legislature. Mr. Rainwater stated that if the Tax Conformity bill is adopted, analysis will be done and an adjustment will be made to the estimate. He also expressed concern about the potential impact on revenues if conformity was not maintained. Mr. Rainwater explained that non-conformity would be a significant change in tax policy and implementing this change in a short period posed a risk to compliance issues which could cause a disruption to the current tax processing system. The impact, he noted, could not be calculated as it depended on when and how transitional issues arose. Any such transition would have to be monitored closely as transition problems could arise at any time during the tax preparation or filing process. Mr. Powell agreed with Mr. Rainwater. Mr. Powell feels this issue is uncharted waters and could potentially cause taxpayer confusion.

~Mr. Richard Eckstrom, the state's Comptroller General, stated that this policy decision by the Legislature has the potential to cause great strain on the state, if conformity is not implemented.

There were no other questions or comments from the Members or Working Group.

Mr. Clyborne motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye and the meeting adjourned at 2:36pm.

The next scheduled meeting is Thursday, May 17, 2018 at 2:00pm.

Attachments: Agenda, Meeting Materials

Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on 5/17/18.

Karen Rhinehart
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