

## MEMORANDUM FOR THE RECORD

**DATE:** January 16, 2020  
Room 417, Rembert Dennis Building  
1:30pm

**SUBJECT:** Minutes of Board of Economic Advisors Meeting

**ATTENDEES:** *Board Members* -Edward Grimball-Chairman (via *GoToMeeting*), Howell Clyborne (via *GoToMeeting*), Emerson Gower (via *GoToMeeting*), Hartley Powell (via *GoToMeeting*); *Executive Director*, Frank Rainwater; *Staff* - Paul Athey, Carrie Bundrick, Ragan Griffith, Kenneth Harris, Lisa Jolliff, Sandra Kelly, Robert Martin, Mary K. Miller, Marie Morales, Zachary Payne, Allyn Powell, Karen Rhinehart, Julia Williams, Lisa Wren. *Guests* Michael Moore (Comptroller General's Office); Kevin Kibler (State Treasurer's Office); Brian Gaines, Kevin Ethridge, Lauren Wright (Executive Budget Office); Tina Thompson (SC Commission on Prosecution Coordination).

- Chairman Grimball welcomed everyone to the meeting at 1:35pm.
- Chairman Grimball shared that the meeting minutes for the November 8, 2019 meeting would be approved at the February 13, 2020 meeting. (*See attached*)
- **Frank Rainwater presented an overview of General Fund Revenues through December 2019. This report covered revenues through the end of the second quarter for FY 2019-20. His major comments were: (*See Attached*)**
  - General Fund Revenues through the second quarter of FY 2019-20 totaled \$4,981.8 million and exceeded the estimate of \$4,828.9 million by \$152.9 million.
  - The bulk of the excess is attributable to Individual Income tax (\$49.3 million), Corporate Income and License Taxes (\$33.2 million), and Earned on Investment (\$22.8 million).
    - *Chairman Grimball asked if it is known whether or not Corporate Income and License will level off or decline. Mr. Rainwater replied that it is believed that this category will not decline, but will hold level or increase. He also stated that Mr. Martin is watching GDP and corporate profits to determine which way this category will go. Mr. Grimball asked if economists believe that the economy is more*

*favorable than what was originally thought. Mr. Rainwater replied that the concerns about the oil and trade seem to be subsiding and the outlook is improving for the economy.*

- Timing of receipts also contributed to the excess.
- Revised Personal Income data for South Carolina showed slower growth, but still close to assumptions.
- Employment growth is 1.5 percent and slightly below our assumption of 1.6 percent.
- **Mr. Rainwater also presented Considerations for February Forecast Review:**
  - Revenues
    - Growth has exceeded forecast but timing issues in several categories need to be considered.
    - Question remains if pace of excess will continue for the next 18 months
    - Economy is still growing

Assumptions

- Personal Income and Employment growth are close to assumptions.
  - Concerns about world and national economies have lessened.
- **Robert Martin presented an economic and revenue update. His major comments were:** *(See Attached)*

**Sales Tax Revenue**

- Sales and Use tax revenue grew 7.9 percent in December 2019 resulting in fiscal year-to-date growth of 8.3 percent.
- The inclusion of \$6.7 million in third-party sales taxes this fiscal year has positively impact Sales and Use tax revenue as these revenues were not received during this time a year ago.
- Through the first half of FY 2020, remote internet sales and third-party sales taxes have amounted to \$46.6 million, or 47.1 percent of the \$98.8 million estimated for all of FY 2020.
- The monthly figures suggest a strong start to the holiday season with strong Black Friday sales and Cyber-Monday internet retail sales.

**Individual Income Tax Revenue**

- Individual Income tax increased \$36.2 million, or 7.4 percent, in December 2019 from December 2018, and has increased 5.7 percent through the first half of FY 2020, reflecting the continued employment growth in the state.

### **Corporate Income Tax Revenue**

- The Corporate Income tax increased 25.5 percent in December 2019 and has increased 12.2 percent through the first six months in FY 2019-20.
- The Corporate License tax added \$1.7 million to the overall revenue excess of \$15.1 million in FY 2020 in December 2019.
- Total revenues for these two categories are #33.1 million above expectations.

### **Other Tax Revenues**

- Other revenues were largely affected by the timing of revenue receipts.
- Security Dealer Fees were booked one month earlier than last fiscal year resulting in nearly \$21.0 million overstating the bottom line.
- Also, Interest Earnings on state investments posted \$14.4 million in December 2019, or \$8.7 million more than in December 2018.
- Other revenues have increased 14.0 percent through the first one-half of FY 2020.

### **Total General Fund Revenue**

- General Fund revenue increased 12.5 percent, or \$117.3 million, during the month of December 2019 from December 2018.
- Revenues through December 2019 have grown 8.0 percent, or \$367.5 million year-to-date.

### **Summary**

- General Fund revenue collections through December 2019 amounted to \$4,982.1 million in FY 2019-20, or 8.0 percent higher than in FY 2018-19.
- This year-to-date revenue growth exceeds the 4.6 percent growth rate needed to meet the BEA General Fund revenue growth rate for FY 2019-20 by \$152.9 million.

### **Review of Recent Economic Events**

- China/Tariffs
  - Growing trade deficit
  - Theft of intellectual property
  - Forced transfer of American technology
  - Phase I to be signed on January 15, 2020
- Federal Reserve Policy
  - Interest rates
  - Yield curve spread

- Foreign Conflict
  - Impact on Energy Prices
  - Impact on Commodity Prices
    - *Chairman Grimball asked if it is recommended that the Board revise the forecast for the remainder of FY 2020. Mr. Rainwater said that a revision is being considered and he and Mr. Martin will talk with each Member individually and propose some new numbers. Chairman Grimball stated that the forecast included a higher growth projection for this year – if the estimate is lowered, when does the decline begin? Mr. Gower stated that receiving another month’s information will be helpful. He is also impressed with the manufacturing in South Carolina. Mr. Martin stated that when the revenue numbers come out in February, those figures will include holiday sales.*
    - *Chairman Grimball asked Mr. Martin if he talks with the Regional Advisors periodically to which Mr. Martin stated that he does. Chairman Grimball would like a brief compilation of their thoughts on these issues.*
    - *Mr. Clyborne complimented the excellence of the information and stated that he thinks it will be helpful to have one more month’s information before considering a forecast revision.*
    - *Chairman Grimball asked if there were any comments on the tax expenditure information that was sent out to which Mr. Rainwater replied that the document was for information only.*

### Working Group Comments

*No comments.*

### ○ Other Business

There was no further business or comments from the Working Group Members or audience.

Mr. Gower motioned to adjourn the meeting and Mr. Clyborne seconded the motion. All voted aye and the meeting adjourned at 2:18pm.

The next scheduled BEA Meeting is Thursday, February 13, 2020 at 1:30pm.

Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar> and at the Rembert Dennis Building.

These minutes were approved on 2/13/20.

Karen Rhinehart

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