

MEMORANDUM FOR THE RECORD

DATE: June 14, 2018
Room 417, Dennis Building
2:00pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* –Edward Grimball-Chairman, Howell Clyborne (via telephone), Emerson Gower, Hartley Powell; *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Karen Rhinehart, Lisa Jolliff, Ellen Mitchell, Kenneth Harris, Gordon Shuford, Paul Athey, David Patterson, Sandra Kelly, Jacob Scoggins, Les Boles, Carrie Eberly, Amanda Martin. *Guests* – Richard Eckstrom, Michael Moore, John Barfield (Comptroller General’s Office), Sharon McElveen, Kevin Kibler (State Treasurer’s Office), David Seigler, Kevin Ethridge (EBO), Tim Derrick, Meredith Cleland (DOR), Grant Gibson (SFC), Jay Wolfe (Gov. Office), Lauren Phillips (Capitol Information Affiliates), Robby Kerr (Kerr & Company), Jeff Thordahl (Copper Dome Strategies), Melissa Carter (Municipal Association of SC).

Press:

1. Chairman Grimball welcomed everyone to the meeting at 2:00pm.
2. Chairman Grimball presented the meeting minutes of the meeting for May 17, 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 presented an overview of General Fund revenue updates. **His major comments were:** *(See Attached)*
 - ~Through May, General Fund Revenues have exceeded estimates by \$197.5 million.
 - ~The bulk of the excess is attributable to higher than expected income tax payments reported on individual income tax returns
 - ❖ Higher payments and lower refunds accounted for \$138.1 million of the excess.
 - ❖ Stock market rally last year may have been a key driver.

~Appears that only a small portion of this excess may affect FY 2018-19 estimates.

- ❖ Most of the surplus appears to be a one-time event, not broad based
- ❖ Estimates in smaller categories are still reasonable

4. Robert Martin presented a detailed review of revenues and economic conditions. His major comments were: *(See Attached)*

The Focus of the May 2018 Report

~General Fund Revenue

- ❖ Revenue excess
- ❖ Stock market and capital gains

~Current Economic Developments

- ❖ Oil prices have softened since May
- ❖ European debt crisis (Italy)
- ❖ Tariffs on steel (25%) and aluminum (10%) in place 5/31/18
- ❖ Auto data will now be released quarterly vs. monthly

~Economic Sectors to Watch

General Fund Revenue

~Through the first eleven months of FY 2017-18, General Fund revenues have increased 7.4 percent and are trending above current forecast projections by \$197.5 million.

~After adjustments for sales tax held in a clearing account, the Y-T-D revenue growth is unchanged at 7.4 percent.

Sales Tax

~There remains \$4.3 million in clearing account in May 2018

~After adjustments, the Y-T-D growth rate is 5.0 percent

~The growth in retail sales taxes has been stable since the holiday season and has increased within a narrow band in the five percent range.

Net Capital Gains Income in South Carolina

- ❖ *Mr. Martin stated that income tax is paid on the net amount of Capital Gains less Capital Gains losses. He also mentioned that this data is two years in arrears due to the fact that it takes time to correct errors, process late returns and audits.*
- ❖ *Chairman Grimball asked that due to the interest in the BEA, how would this excess in Capital Gains be explained and should the Board have anticipated this.*
- ❖ *Mr. Powell explained that there was no way to know about this excess. He also asked Mr. Martin to confirm that Capital Gains would be up by \$7 billion, which he did.*

Individual Income Tax

- ~Tax payments with returns nearly doubled the monthly revenue estimate contributing \$78.4 million to the year-to-date revenue excess.
- ~Lower than anticipated income tax refunds boosted the year-to-date revenue excess by \$59.7 million
- ~These events accounted for \$138.1 million of the year-to-date revenue excess of \$197.5 million, or nearly 70 percent of the revenue excess.
 - ❖ *Mr. Powell commented that returns processing is current and that there is one more "roll out" to complete the new computer process.*

Corporate Income Tax

- ~The increase in corporate declarations demonstrates continues positive earnings growth.
- ~The Corporation Income tax year-to-date growth rate of 16.2 percent is outpacing forecast expectations.

Other Taxes

- ~Growth is from a variety of sources and timing of receipts.
- ~Documentary Stamp Tax (real estate transfers) collections and Interest Earnings on state General Fund investments have performed well.

Economic Sectors to Watch (Items of Concern)

- ~Federal Reserve Meeting in June
- ~Price of Oil and OPEC
- ~Retail Sales
- ~Value of Dollar
- ~Stock Market
- ~Income Tax Refunds
- ~Effects of Tariffs and Retaliation; G-7 Meeting
- ~Iranian Conflict and Meeting with North Korea
 - ❖ *Mr. Rainwater proposed no change in the estimate.*
 - ❖ *Chairman Grimball asked that the surplus be reviewed over the next couple of months to try and determine the reason for it.*
 - ❖ *Mr. Martin will look at the refund amounts and Corporate Income Tax information.*
 - ❖ *Mr. Gower inquired if other states have experienced Capital Gains growth. Chairman Grimball asked Mr. Martin if he would survey other states and find out. Mr. Martin said he would, especially Georgia and North Carolina. Mr. Gower mentioned that the estimate is close on other categories and he would like for the Board to be close in this category as well.*
 - ❖ *Comptroller General Richard Eckstrom mentioned that the economy is in good shape. Consumers are paying down debt and*

families will be ready to spend in the future. There have been record shipments out of Charleston harbor-export traffic is good. The outlook is positive even though there is the uncertainty about a potential trade war. Mr. Rainwater mentioned that businesses are ready to expand but there are concerns about tariffs and energy prices and they are unsure how to proceed.

- ❖ *Mr. Martin mentioned that manufacturing plants are unsure if they want to establish a presence in SC due to the uncertainty about SCE&G electric rates. He also mentioned that the automotive information will be released in July. General Motors decided to release automobile production figures quarterly.*

5. Other Business

~There will not be a July 2018 meeting unless needed.

~The Annual Regional Advisory Meeting will be held October 18th – all speakers from last year have confirmed. We are still waiting on another individual to respond.

~The August meeting will also be the time at which the Board Members go to lunch with RFA staff. Details will be forthcoming.

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 2:54pm.

The next scheduled meeting is Wednesday, August 29, 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 8/29/18.

Karen Rhinehart

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