



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

CHAD WALLDORF, Chairman
HOWELL CLYBORNE, JR.
EMERSON F. GOWER, JR.

FRANK A. RAINWATER
Executive Director

BOARD OF ECONOMIC ADVISORS WORKING GROUP MEETING AGENDA November 10, 2016, 2:00pm Room 417, Rembert C. Dennis Building

1. Welcome
2. Adoption of Meeting Minutes for October 20, 2016
3. Review of October 2016 Revenues (F. Rainwater)
4. Consideration of FY 2016-17 and FY 2017-18 Revenue Estimates
5. Long Range Forecast – Three-Year Outlook
6. Other Items – (F. Rainwater)
 - A. FY 2017-18 Budget Outlook
 - B. 2017 Meeting Schedule – Tentative
 - C. Other Matters
7. Reports from Working Group Members
 - A. Governor’s Office
 - B. Senate Finance Office
 - C. Ways & Means Office
 - D. Treasurer’s Office
 - E. Comptroller General’s Office
8. Future Meeting Schedule:
 - A. December 15, 2016, 2:00pm, (If necessary; Members via WebEx)
 - B. January 26, 2017, 2:00pm – Quarterly Review (Members via WebEx)
 - C. February 15, 2017, 2:00pm - Forecast
 - D. 2016 Calendar at <http://rfa.sc.gov/meetings?b=2016>
9. Adjournment

Please note that the Agenda is subject to change.
For further information, please contact Karen Rhinehart at (803) 734-2265,
or visit the RFA webpage at www.rfa.sc.gov



South Carolina Revenue and Fiscal Affairs Office

OVERVIEW

JULY – OCTOBER FY 2016

- Revenues in October 2016 increased 5.8 percent
- For the fiscal year-to-date, General Fund revenues grew 6.5 percent and are \$ 1.3 million above estimates
- Known factors expected to impact surplus are:
 - *(\$15) million Corporate Refund pending
 - *(\$11) million timing adjustment in Individual Withholding
 - *\$11 million Sales Tax in clearing accounts





Board of Economic Advisors General Fund Revenue Monitor

Revenues vs. Appropriation Act of \$8,157.5 Million in FY 2016-17 1/

	JULY - OCTOBER FY 2016-17			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate Full Fiscal Yr.	Actual Yr. to Date
	Actual Revenues	Expected Revenues	Excess / (Shortfall)		
Total General Fund Revenue	2,684.8	2,683.5	1.3	4.1	6.5
Sales Tax	715.1	705.9	9.1	2.0	3.3
Individual Income Tax	1,687.5	1,684.9	2.6	6.0	8.2
Corporate Income Tax	54.7	95.9	(41.3)	(5.7)	(46.3)
Other Revenue Sources	227.6	196.8	30.8	7.0	36.1
Select Tax Revenues, Sub-Total	201.1	173.9	27.2	6.8	40.4
Admissions Tax - Total	2.4	2.6	(0.1)	10.2	3.7
Alcoholic Liquors Tax	17.3	15.4	1.9	0.7	14.0
Bank Tax	10.6	8.6	2.0	14.9	41.0
Beer and Wine Tax	29.3	28.2	1.1	0.7	4.5
Corporation License Tax	33.8	13.1	20.7	18.9	206.1
Documentary Tax	13.3	12.4	0.9	2.3	9.6
Earnings on Investments	9.2	3.8	5.4	(32.5)	58.9
Insurance Tax	78.8	82.6	(3.8)	13.2	43.3
Tobacco Tax	6.4	5.7	0.7	(12.1)	(0.7)
Residual Revenue, Sub-Total 2/	26.5	24.3	2.2	8.1	13.5

1/: BEA format - includes certified adjustments and excludes non-recurring cash transfers and certain "other source" revenues, where applicable.

2/: Refer to p. 15, Residual Revenue, for list of components in this subcategory.

Note: Detail may not sum to total due to rounding.

FACTORS IMPACTING THE FY 2016-17 ESTIMATE

- FY 2015-16 year-end shortfall - \$16.8 million
- Additional legislative adjustments - \$14.5 million
- Pending Corporate Refund - \$15 million
- Model anticipates shortfall - \$44.3 million
- Current economic growth, however, is faster than expected



ISSUES FOR FY 2018 ESTIMATE

- FY 2017 Base – Current vs Model
- Phase-in of additional legislative adjustments



ASSUMPTIONS



**South Carolina Board of Economic Advisors
Survey Results of Regional Advisory Committee
Summary of Economic Forecast Assumptions**

Variable	Actual FY2015-16	Most Recent	Current 1/ Forecast Rates FY2016-17	Regional Advisory Committee Forecast Rates Forecast for FY2016-17					Simple Average	Olympic Scoring	MEMO BEA
				Brown	Hefner	Kaglic	Sobel	von Nessen			
S.C. Personal Income	4.9%	4.2%	4.90%	4.50%	4.30%	4.32%	4.04%	4.00%	4.23%	4.22%	4.75%
S.C. Employment	2.7%	2.3%	2.0%	2.90%	2.50%	2.10%	1.40%	2.40%	2.26%	2.33%	2.00%
Inflation Rate (CPI-U)	0.7%	1.1%	< 2.0%	2.10%	1.80%	1.50%	1.80%	< 2.0%	1.80%	1.80%	< 2.0%
Sales Tax	6.1%	-5.2%	5.0%	4.80%	5.90%	4.50%	3.00%	N/A	4.55%	4.65%	2.30%
Individual Income Tax 1/	4.7%	8.1%	4.6%	4.80%	5.00%	N/A	2.70%	N/A	4.17%	4.80%	4.50%

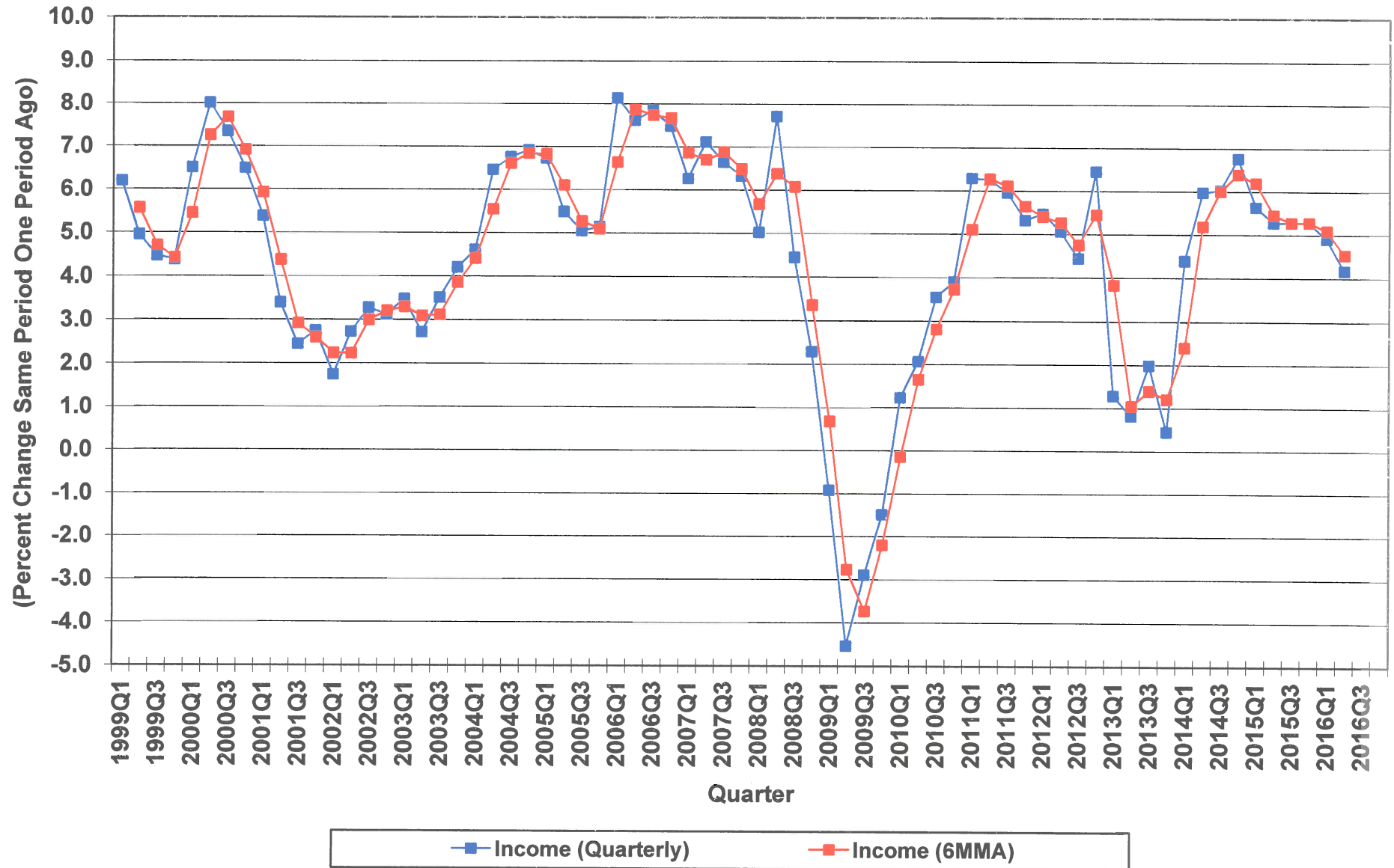
Variable	Actual FY2015-16	Most Recent	Current Forecast Rates FY2017-18	Regional Advisory Committee Forecast Rates Forecast for FY2017-18					Simple Average	Olympic Scoring	MEMO BEA
				Brown	Hefner	Kaglic	Sobel	von Nessen			
S.C. Personal Income 1/	4.9%	4.2%	N/A	4.80%	5.00%	4.00%	4.28%	4.20%	4.46%	4.43%	4.50%
S.C. Employment	2.7%	2.3%	N/A	3.20%	2.50%	1.80%	1.30%	2.30%	2.22%	2.20%	1.80%
Inflation Rate (CPI-U)	0.7%	1.1%	N/A	2.40%	3.00%	1.90%	2.08%	< 2.0%	2.35%	2.24%	2.00%
Sales Tax	6.1%	-5.2%	N/A	4.60%	6.00%	4.00%	3.10%	N/A	4.43%	4.30%	4.70%
Individual Income Tax 1/	4.7%	8.1%	N/A	4.70%	5.40%	N/A	3.10%	N/A	4.40%	4.70%	4.90%

Notes: 1/ Current forecast rates as of February 10, 2016 (the last official BEA forecast estimate).
2/ Growth rate as of the most recent time period, e.g., month, quarter.
N/A - Not Available.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.
U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.
S.C. Board of Economic Advisors, Columbia, S.C.

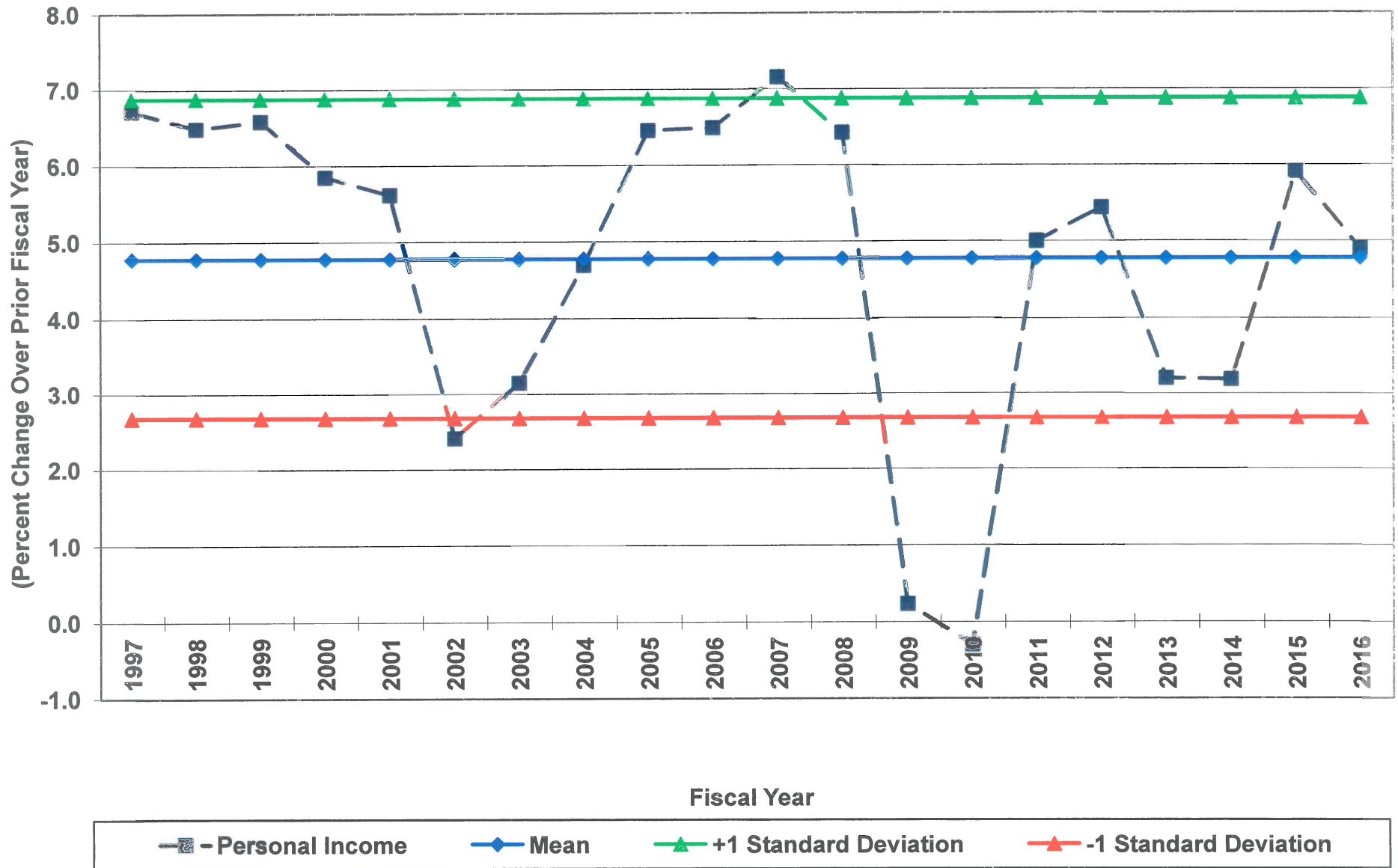
BEA/RWM/10/20/16

South Carolina Personal Income Trends



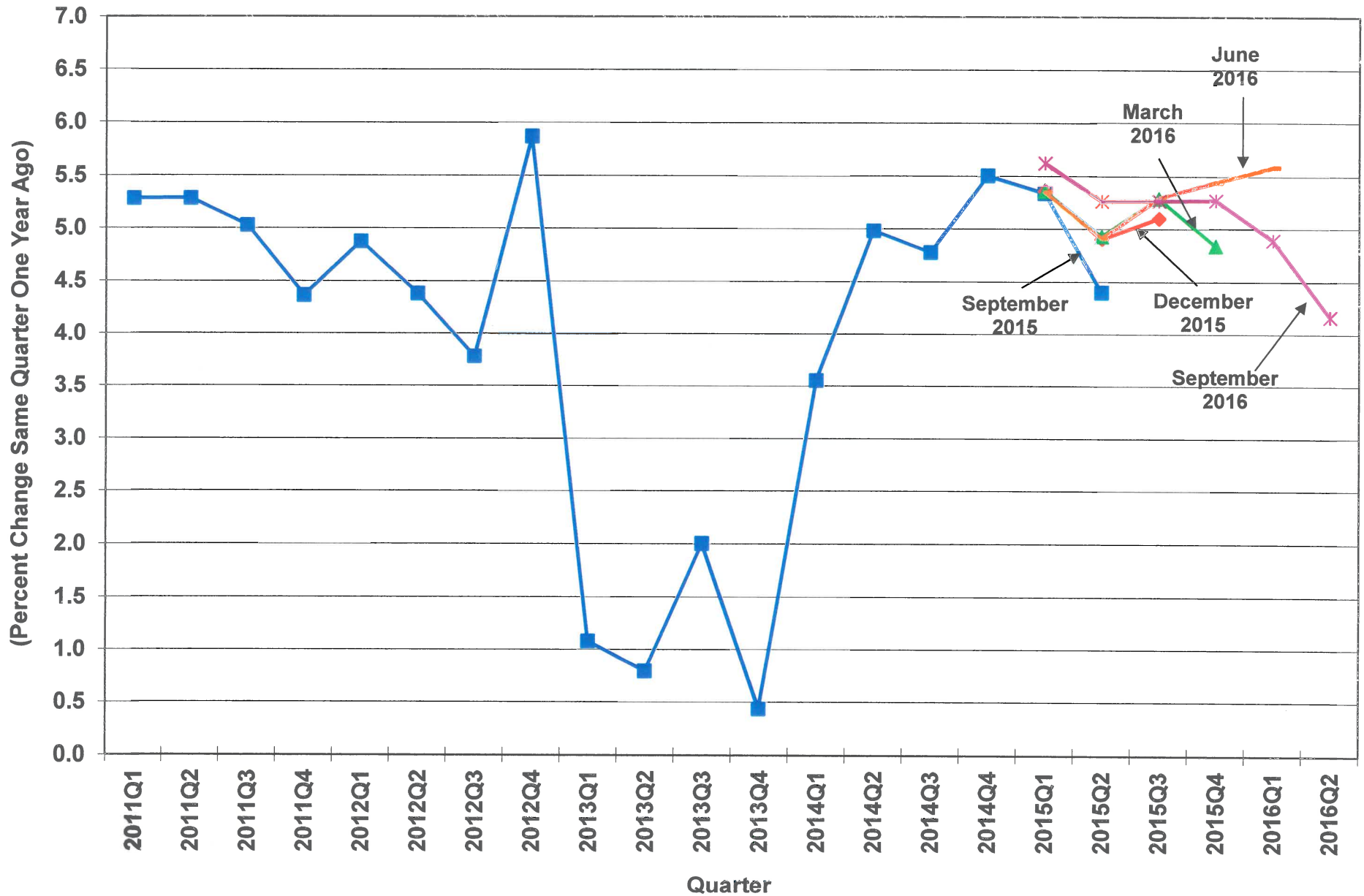
Source: Board of Economic Advisors
BEA/RWM/09/29/16

Growth in Personal Income in South Carolina

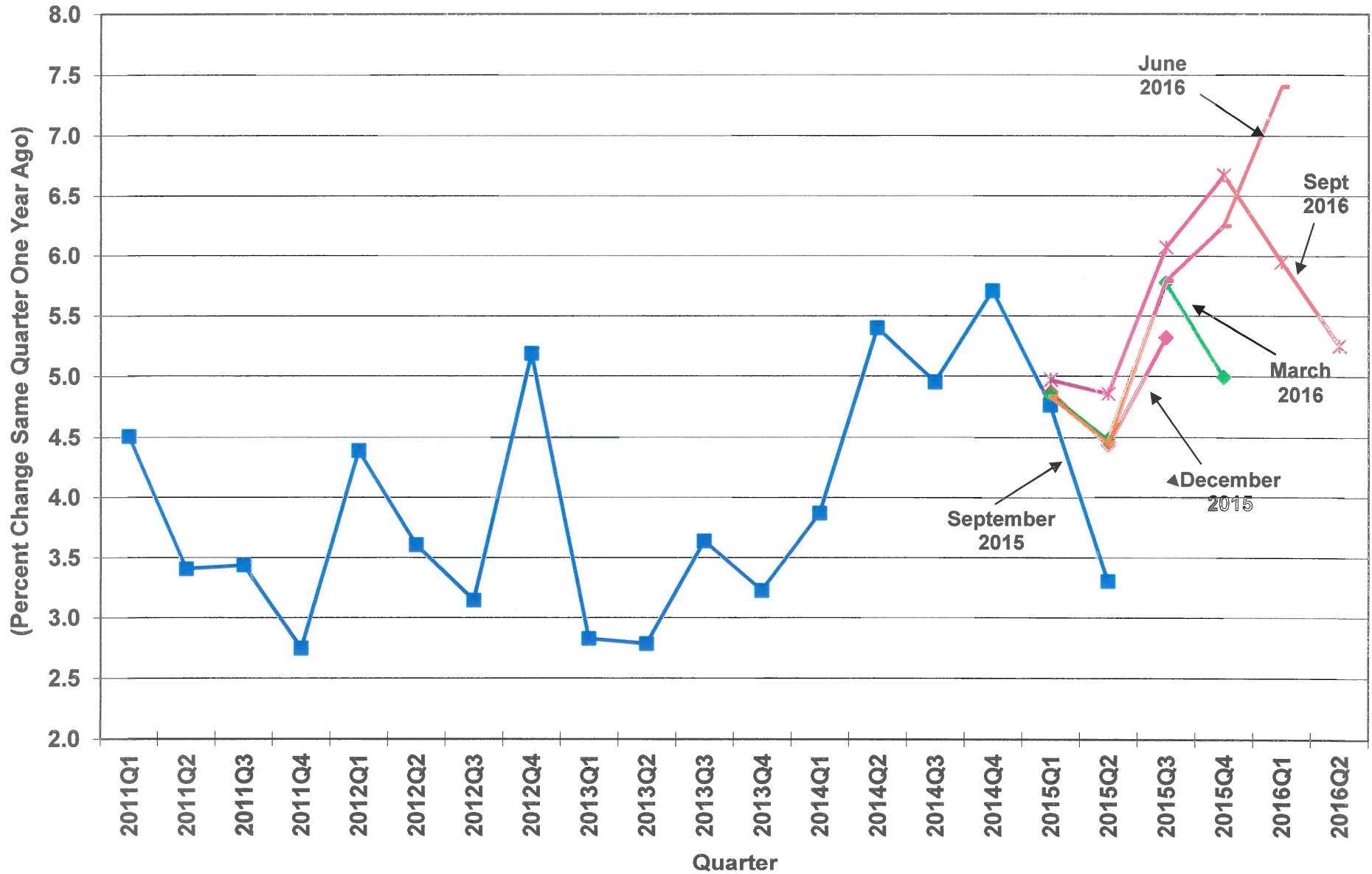


Source: Board of Economic Advisors
BEA/RWM/10/04/16

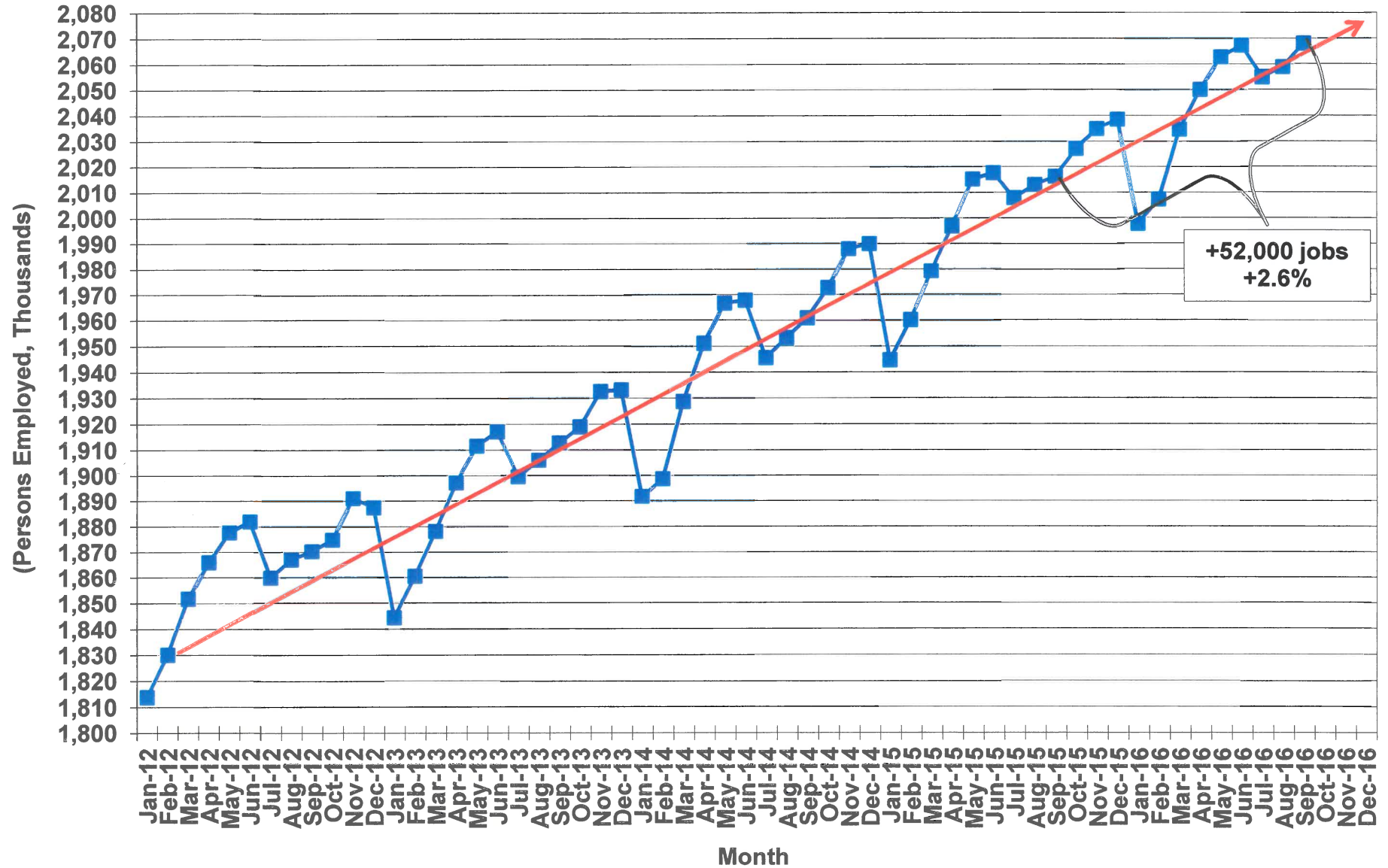
Growth in Personal Income in South Carolina



Growth in Wages & Salaries in South Carolina

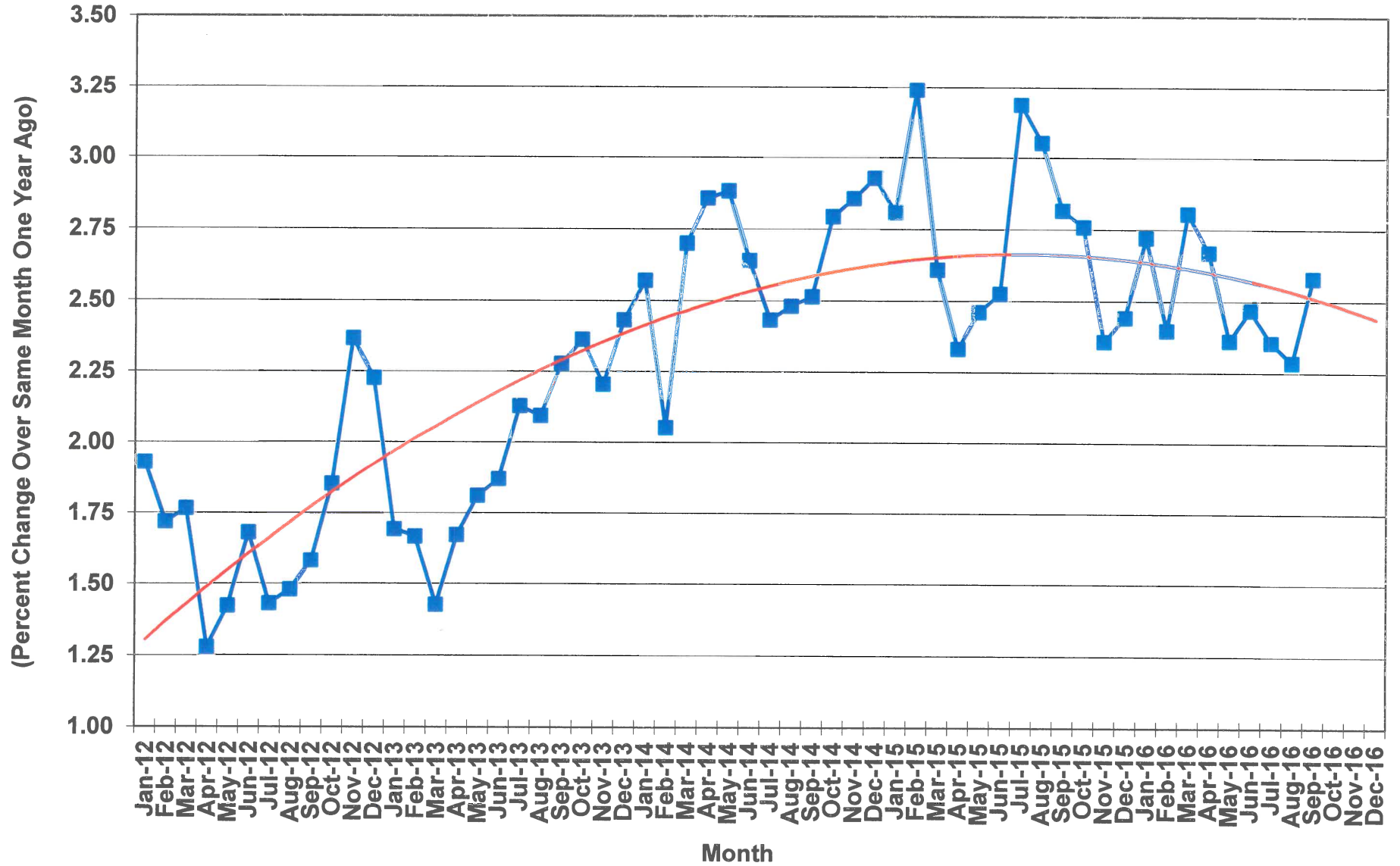


Total Nonfarm Employment in South Carolina



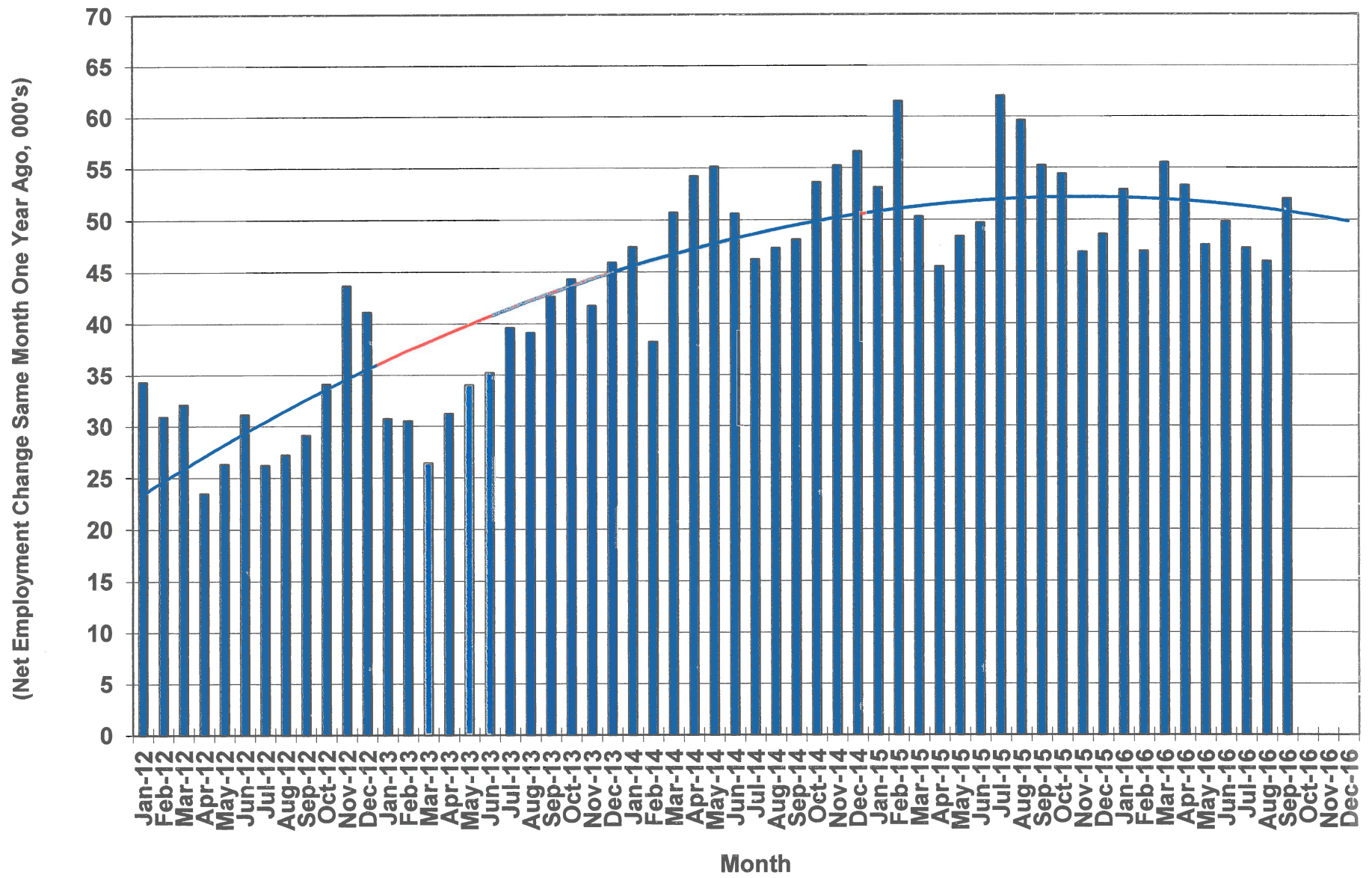
Source: U.S. Department of Labor, Bureau of Labor Statistics
 SCBEA/RWM/10/21/16

Total Nonfarm Employment Growth in South Carolina



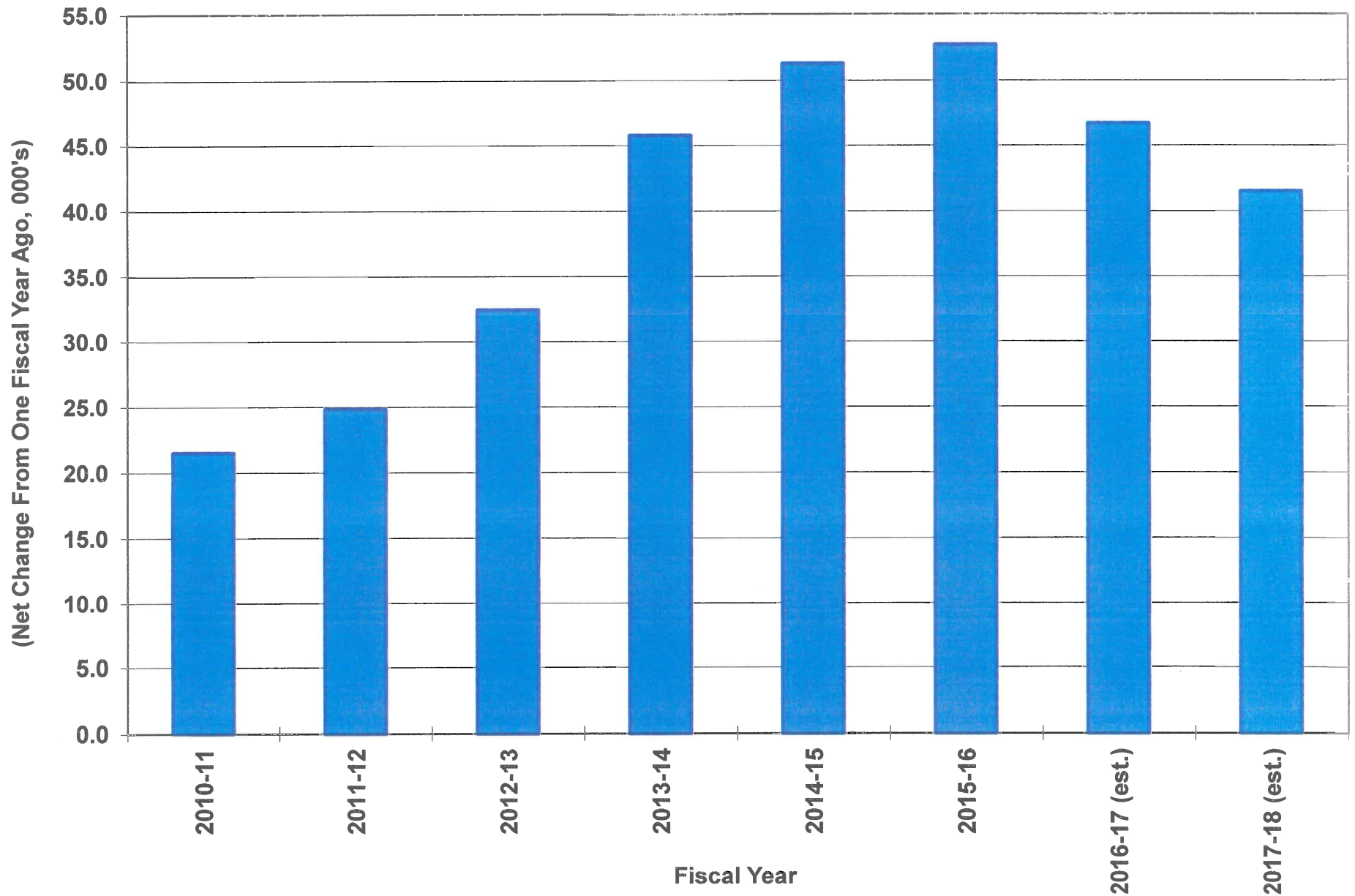
Source: U.S. Department of Labor, Bureau of Labor Statistics
 SCBEA/RWM/10/21/16

Net Nonfarm Employment Increase/Decrease in South Carolina

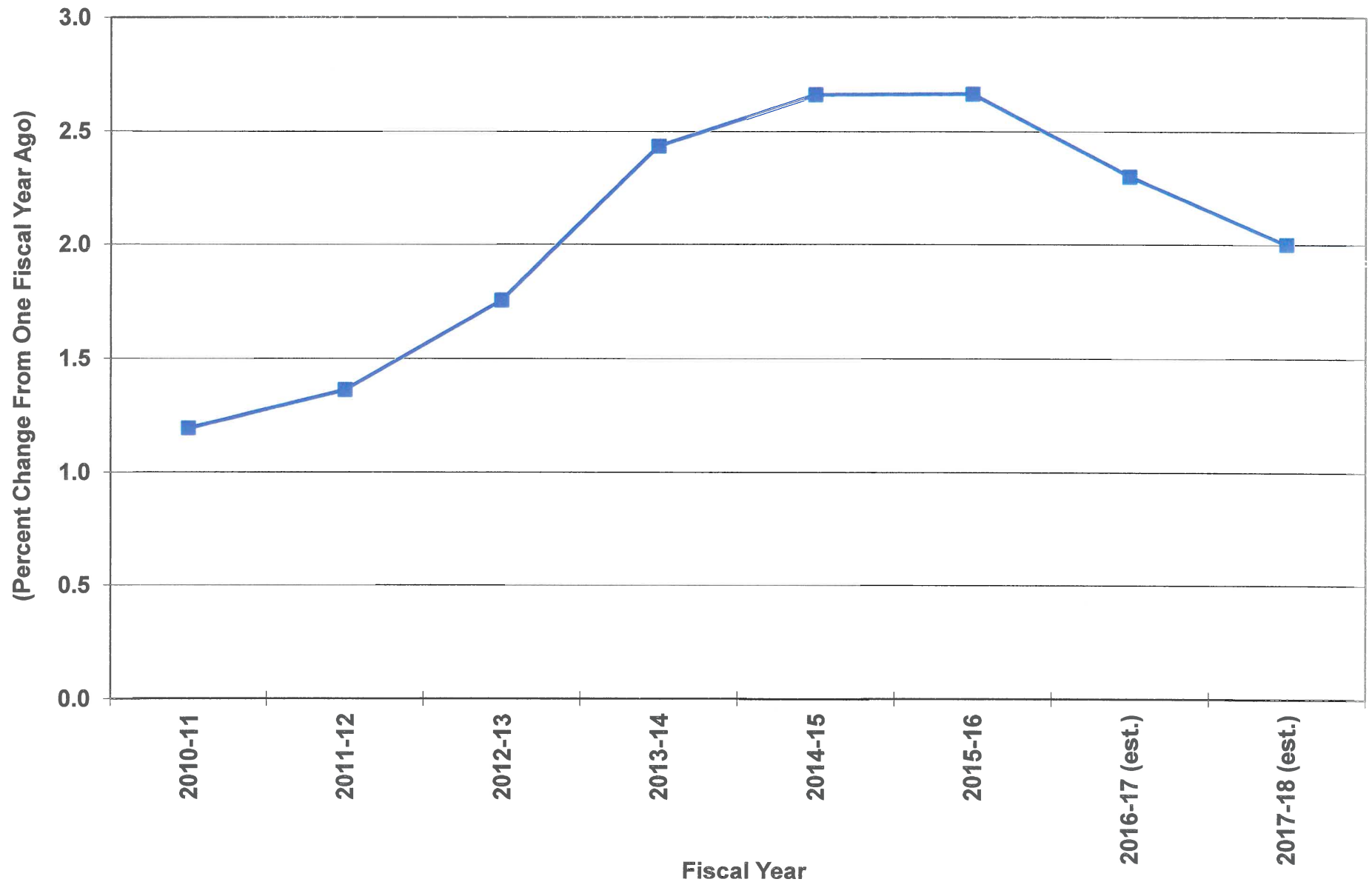


Source: U.S. Department of Labor, Bureau of Labor Statistics
SCBEA/RWM/10/21/16

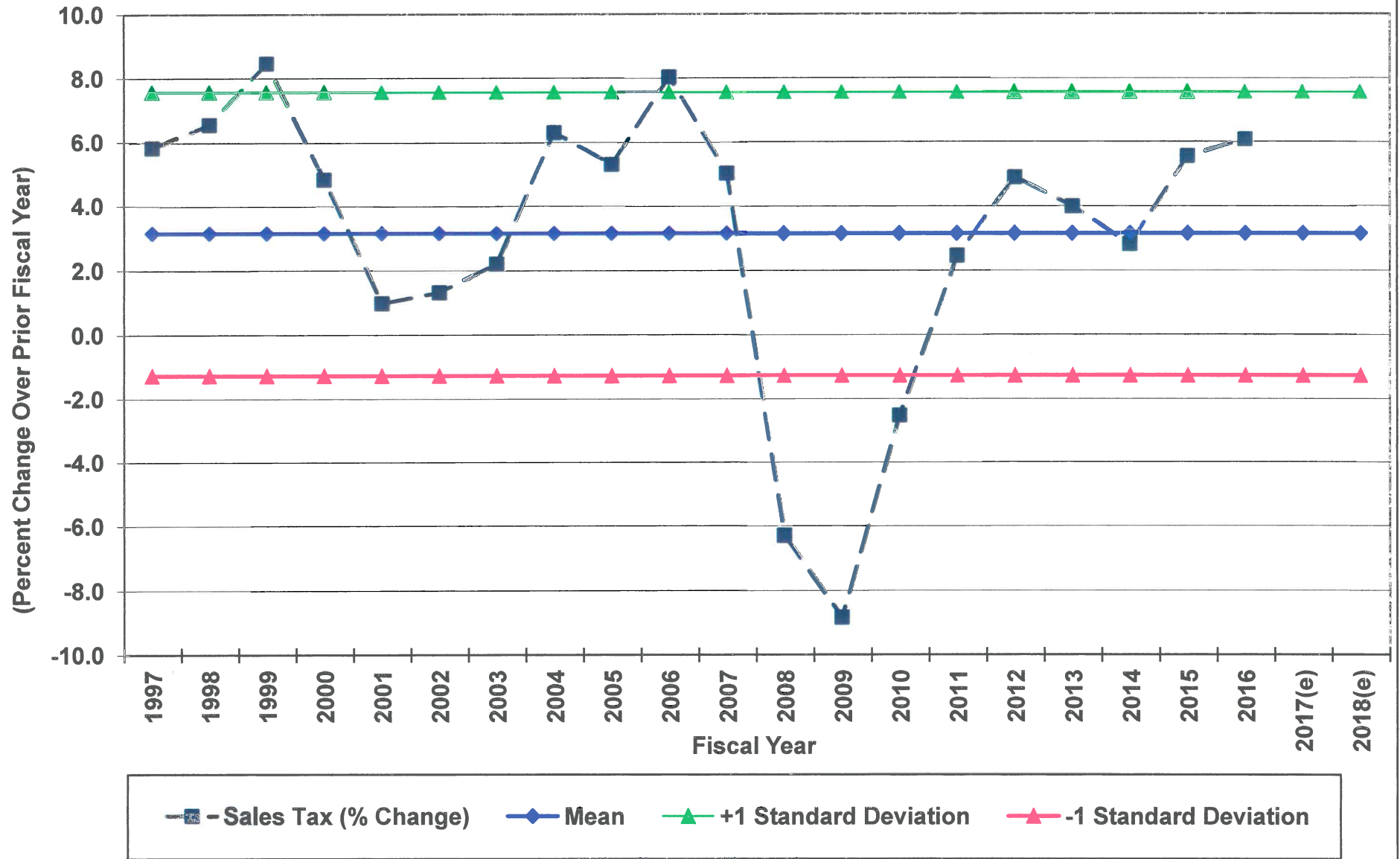
Net Change in Employment Growth in South Carolina



Employment Growth in South Carolina

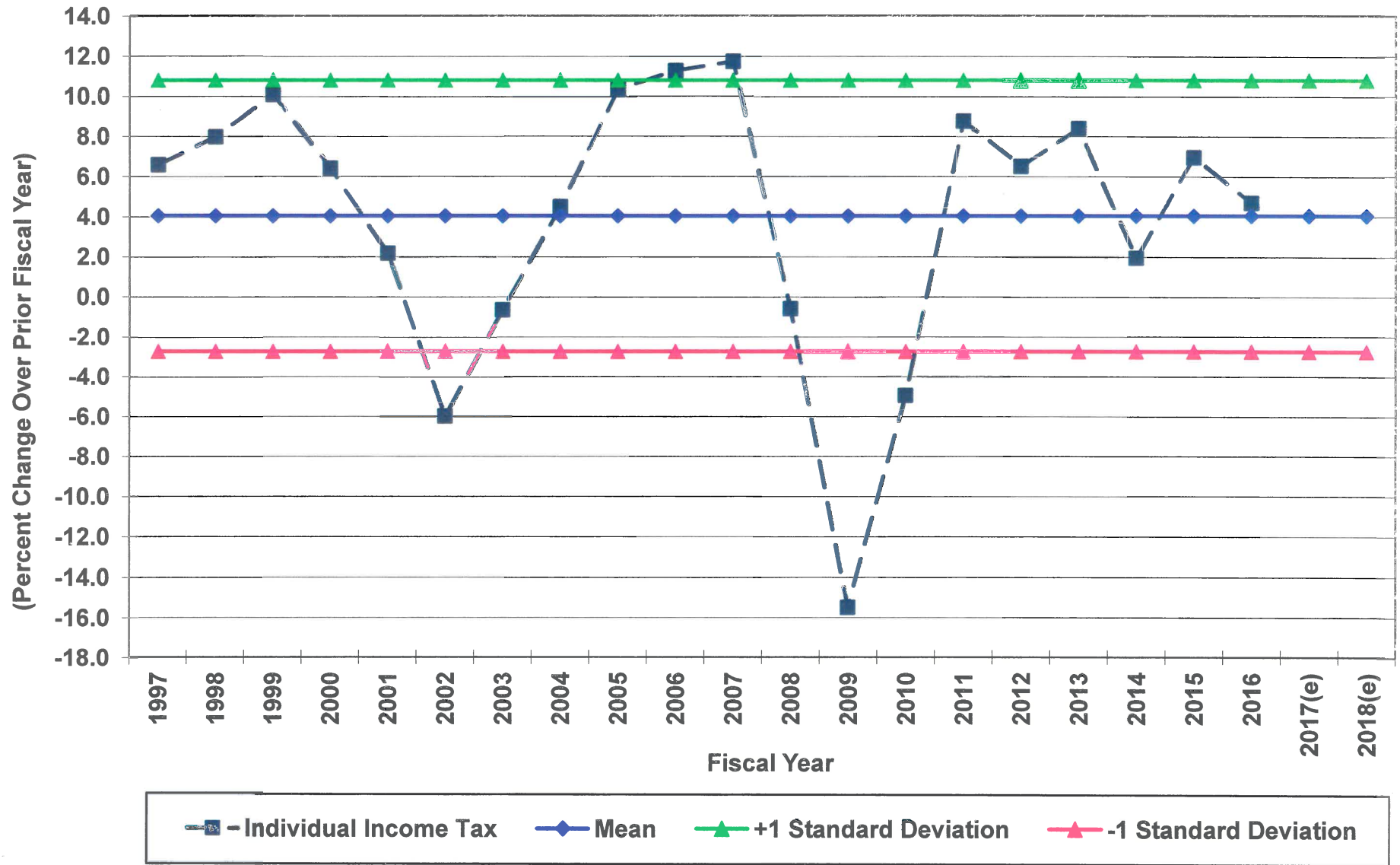


General Fund Sales Tax Revenue Growth in South Carolina



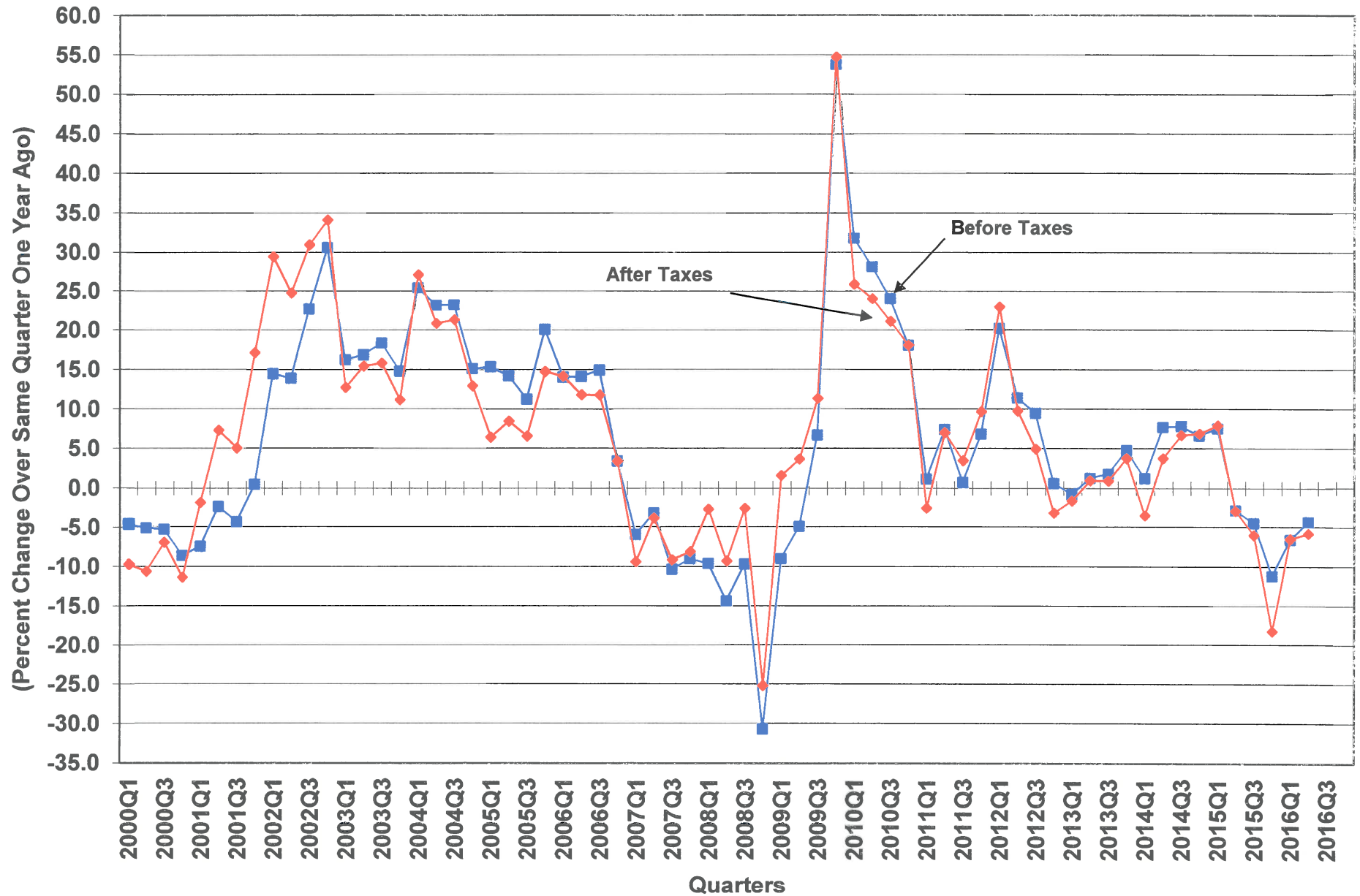
Source: Board of Economic Advisors
BEA/RWM/10/04/16

General Fund Individual Income Tax Revenue Growth in South Carolina



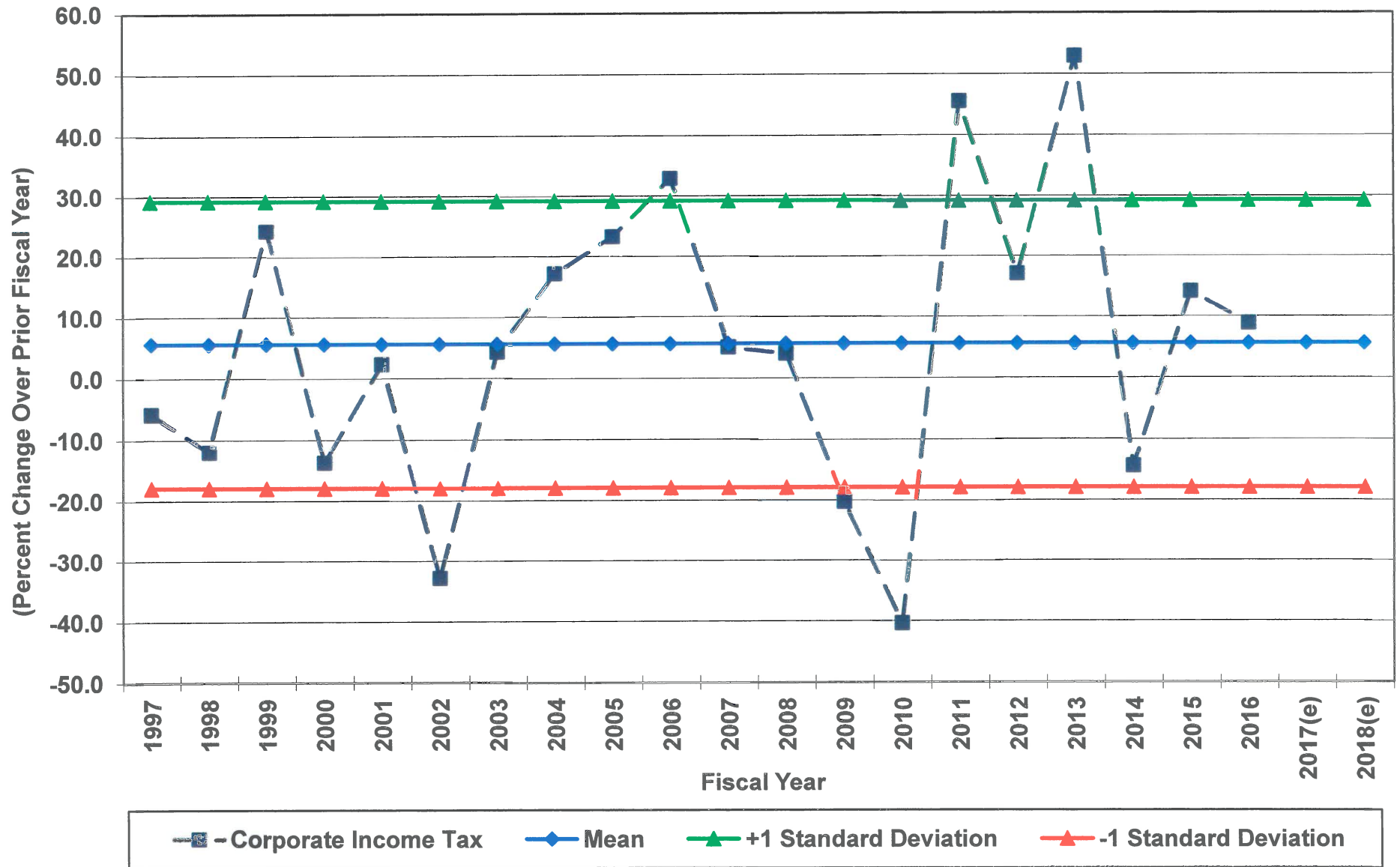
Source: Board of Economic Advisors
BEA/RWM/10/04/16

U.S. Corporate Profits Before and After Taxes



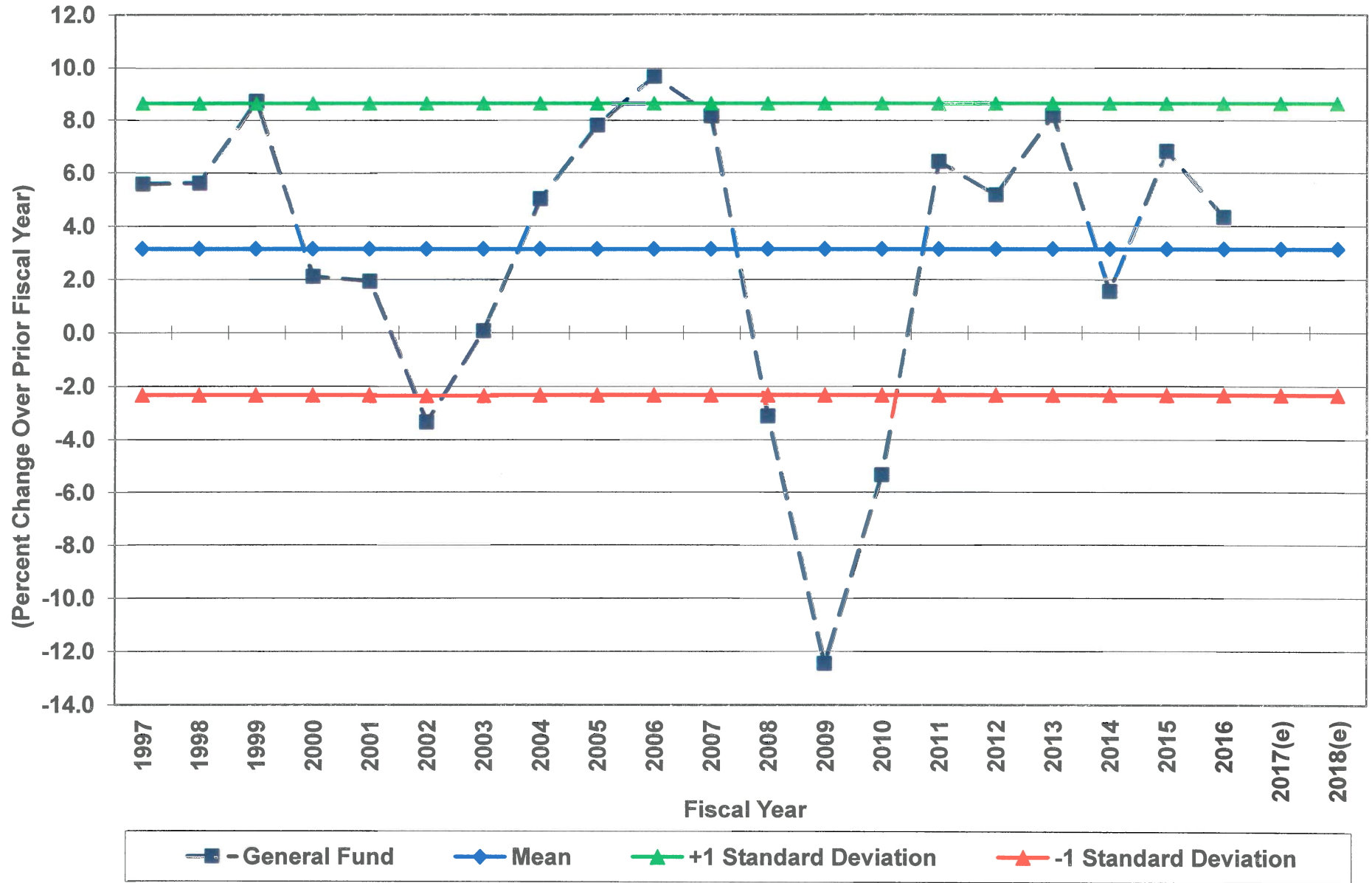
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

General Fund Corporate Income Tax Revenue Growth in South Carolina



Source: Board of Economic Advisors
BEA/RWM/10/04/16

Growth in General Fund Revenue in South Carolina



Source: Board of Economic Advisors
BEA/RWM/10/04/16



Comparison of Revenue Collections and Estimates

General Fund Revenue	Final FY 2014-15	Final FY 2015-16	Approp. Act FY 2016-17	11/04/16 Model FY 2016-17	11/04/16 Model FY 2017-18
Sales and Use Tax	\$2,656,946,677	\$2,818,605,595	\$2,874,667,000	\$2,878,700,000	\$3,015,438,000
Individual Income Tax	3,661,194,579	3,832,846,497	4,063,649,260	4,041,027,000	4,217,964,000
Corporation Income Tax	377,669,258	411,148,125	387,554,000	362,554,000	387,554,000
Insurance Taxes	216,589,904	212,224,188	240,186,000	249,283,000	237,806,000
Admissions Tax	29,693,736	28,012,902	30,893,000	28,573,000	29,145,000
Aircraft Tax	4,492,414	4,124,496	4,859,000	1,807,000	1,825,000
Alcoholic Liquor Tax	70,363,644	73,549,750	74,070,000	76,859,000	80,318,000
Bank Tax	31,268,111	29,425,178	33,820,000	30,543,000	31,704,000
Beer and Wine Tax	104,865,231	107,252,141	108,035,000	109,933,000	112,681,000
Bingo Tax	3,049,018	2,838,515	3,110,000	1,045,000	1,055,000
Business Filing Fees	5,065,871	5,468,450	5,375,000	5,575,000	5,675,000
Circuit/Family Court Fines	8,446,184	8,090,762	8,616,000	8,000,000	7,856,000
Corporation License Tax	129,851,012	88,702,350	105,510,000	95,000,000	88,969,000
Documentary Tax	40,640,174	46,164,138	47,236,000	50,320,000	55,101,000
Earned on Investments	17,711,197	25,193,451	17,000,000	21,000,000	22,000,000
Indirect Cost Recoveries	14,193,312	11,588,575	14,473,000	12,173,000	12,173,000
Motor Vehicle Licenses	10,602,698	10,677,999	11,031,000	10,894,000	11,117,000
Nursing Home Fees	3,654,252	3,598,679	3,700,000	3,500,000	3,500,000
Parole and Probation Fees	3,392,808	3,392,808	3,393,000	3,393,000	3,393,000
Private Car Lines Tax	4,020,484	4,335,202	4,458,000	4,444,000	4,555,000
Public Service Authority	20,116,000	19,192,000	20,806,000	19,000,000	19,285,000
Purchasing Card Rebates	2,420,903	2,739,555	2,500,000	2,800,000	2,800,000
Record Search Fees	4,461,000	4,461,000	4,461,000	4,461,000	4,461,000
Savings and Loan Assoc. Tax	1,994,090	(84,258)	1,835,000	1,835,000	1,817,000
Security Dealer Fees	23,974,063	25,191,340	24,000,000	26,000,000	26,000,000
Surcharge on Vehicle Rentals	2,801,612	3,148,906	2,900,000	706,000	706,000
Tobacco Tax	25,482,166	28,137,517	24,724,000	27,772,000	27,411,000
Uncashed Checks	4,180,819	3,432,881	2,000,000	2,000,000	2,000,000
Unclaimed Property Fund	15,000,000	5,750,000	15,000,000	15,000,000	15,000,000
Workers' Comp. Insurance Tax	8,177,954	9,674,588	8,009,000	9,771,000	9,869,000
Other Source Revenues	11,134,302	10,540,699	9,647,632	9,283,000	9,283,000
Gross General Fund Revenue	\$7,513,453,473	\$7,839,424,028	\$8,157,517,892	\$8,113,251,000	\$8,448,461,000

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.

STAFF RECOMMENDATION

FY 2017 AND FY 2018 ESTIMATES

- Maintain Appropriation Act estimate for FY 2016-17 (\$8,157.5 million); adjust individual categories
- Review estimate in February after holiday sales, election, hurricane recovery
- Adopt FY 2017-18 estimate
 - * Adjust model results to reflect the mid-point between the FY 2016-17 Appropriation Act and model estimates
 - * Results in FY 2017-18 budget growth of \$313.0 million or 3.8 percent





November 10, 2016

General Fund Revenue

October
Fiscal Year 2016-17





Revenue Digest

October 2016

General Fund revenue for the month of October 2016 increased 5.8 percent from October of last year. The majority of the monthly revenue growth may be attributed to strong Individual Income tax withholding collections. Revenues for the first four months of the fiscal year have grown 6.5 percent year-to-date.

Revenue Category	Month-to-Date Growth (% Change)	Year-to-Date Growth (% Change)
Sales and Use Tax	-0.8	3.3
Individual Income Tax	9.8	8.2
Corporate Income Tax	-108.5	-46.3
Corporate License Tax	46.4	206.1
Other Revenues	42.7	24.0
Total General Fund	5.8	6.5

- Sales and Use tax revenue decreased 0.8 percent for the month of October resulting in year-to-date growth of 3.3 percent. A change in legal statute allows for the transfer of all sales and use tax revenue associated with the sales of motor vehicles to the Department of Transportation for road and bridge improvements. This transfer amounted to nearly \$12 million in October and has totaled over \$48 million this fiscal year. Sales and Use tax revenue increased 3.3 percent for the fiscal year.
- Individual Income tax revenue grew 9.8 percent in October. Individual Income tax withholdings have increased 7.7 percent through October and have accounted for the majority of the year-to-date growth of 8.2 percent in income taxes.
- Corporate Income tax revenue declined 108.5 percent in October and has declined 46.3 percent for the fiscal year. The revenue decline was the result of one large corporate income tax refund of \$10.6 million to a single taxpayer. There was also a net transfer of 1.0 million to the Corporate License Tax category.
- Other Revenues increased 42.7 percent in October from one year ago and have increased 24.0 percent year-to-date from a variety of sources.

Summary

Through the first four months of FY 2016-17, General Fund revenues have increased 6.5 percent and are trending slightly above forecast projections. The Board of Economic Advisors is scheduled to meet November 10, 2016 to review the current fiscal year estimate and adopt a preliminary General Fund revenue estimate for FY2017-18.





Table 1

October

General Fund Revenue	FY 2015-16	FY 2016-17	\$ Change	% Change
Sales and Use Tax	\$237,928,473	\$235,923,491	(\$2,004,982)	(0.8)
Individual Income Tax	385,832,129	423,711,069	37,878,940	9.8
Corporation Income Tax	11,573,931	(980,252)	(12,554,183)	(108.5)
Insurance Taxes	1,515,477	3,690,538	2,175,061	143.5
Admissions Tax	3,320,103	2,939,115	(380,988)	(11.5)
Aircraft Tax	517,482	256,996	(260,486)	---
Alcoholic Liquor Tax	5,801,956	5,575,456	(226,500)	(3.9)
Bank Tax	278,686	3,933,916	3,655,230	1,311.6
Beer and Wine Tax	9,587,565	9,528,879	(58,686)	(0.6)
Bingo Tax	295,762	(49,671)	(345,433)	(116.8)
Business Filing Fees	357,789	346,124	(11,665)	(3.3)
Circuit/Family Court Fines	644,190	555,047	(89,143)	(13.8)
Corporation License Tax	2,178,571	3,190,407	1,011,836	46.4
Documentary Tax	3,902,079	4,500,286	598,207	15.3
Earned on Investments	1,191,958	2,160,712	968,754	81.3
Indirect Cost Recoveries	774,747	1,870,450	1,095,703	141.4
Motor Vehicle Licenses	1,202,181	952,074	(250,107)	(20.8)
Nursing Home Fees	0	902,734	902,734	---
Parole and Probation Fees	282,734	0	(282,734)	(100.0)
Private Car Lines Tax	23,600	38,424	14,824	---
Public Service Authority	0	0	0	---
Purchasing Card Rebates	2,739,555	2,907,963	168,408	---
Record Search Fees	0	0	0	---
Savings and Loan Assoc. Tax	59,541	(9,000)	(68,541)	(115.1)
Security Dealer Fees	446,035	831,786	385,751	---
Surcharge on Vehicle Rentals	21,512	(47,685)	(69,197)	---
Tobacco Tax	2,001,904	2,176,978	175,074	8.7
Uncashed Checks	0	0	0	#DIV/0!
Unclaimed Property Fund	0	3,750,000	3,750,000	---
Workers' Comp. Insurance Tax	(799,850)	948,152	1,748,002	218.5
Other Source Revenues	318,304	1,449,929	1,131,625	355.5
Gross General Fund Revenue	\$671,996,412	\$711,053,917	\$39,057,504	5.8

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.



Table 2

July - October

General Fund Revenue	FY 2015-16	FY 2016-17	\$ Change	% Change
Sales and Use Tax	\$692,171,748	\$715,072,798	\$22,901,050	3.3
Individual Income Tax	1,559,097,950	1,687,504,564	128,406,614	8.2
Corporation Income Tax	101,828,239	54,664,247	(47,163,992)	(46.3)
Insurance Taxes	54,994,418	78,754,893	23,760,475	43.2
Admissions Tax	1,565,940	2,224,527	658,587	42.1
Aircraft Tax	517,763	256,996	(260,767)	(50.4)
Alcoholic Liquor Tax	15,807,739	17,295,961	1,488,222	9.4
Bank Tax	7,489,911	10,560,813	3,070,902	41.0
Beer and Wine Tax	27,996,142	29,262,473	1,266,331	4.5
Bingo Tax	762,933	190,404	(572,529)	(75.0)
Business Filing Fees	1,464,290	1,526,829	62,539	4.3
Circuit/Family Court Fines	2,668,447	2,563,945	(104,502)	(3.9)
Corporation License Tax	11,036,554	33,778,596	22,742,042	206.1
Documentary Tax	12,166,997	13,336,100	1,169,103	9.6
Earned on Investments	5,652,913	9,247,436	3,594,523	63.6
Indirect Cost Recoveries	2,421,043	2,609,331	188,288	7.8
Motor Vehicle Licenses	2,444,424	2,589,158	144,734	5.9
Nursing Home Fees	0	902,734	902,734	---
Parole and Probation Fees	1,130,936	848,202	(282,734)	(25.0)
Private Car Lines Tax	71,896	55,961	(15,935)	(22.2)
Public Service Authority	0	0	0	---
Purchasing Card Rebates	2,739,555	2,907,963	168,408	---
Record Search Fees	0	0	0	---
Savings and Loan Assoc. Tax	374,052	1,244,134	870,082	232.6
Security Dealer Fees	677,945	1,531,692	853,747	125.9
Surcharge on Vehicle Rentals	23,365	4,034	(19,331)	(82.7)
Tobacco Tax	6,482,526	6,435,091	(47,435)	(0.7)
Uncashed Checks	4,770,739	0	(4,770,739)	(100.0)
Unclaimed Property Fund	0	3,750,000	3,750,000	---
Workers' Comp. Insurance Tax	652,746	1,765,012	1,112,266	170.4
Other Source Revenues	3,361,493	3,934,735	573,242	17.1
Gross General Fund Revenue	\$2,520,372,703	\$2,684,818,631	\$164,445,929	6.5

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.



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General Fund Revenue Forecast & State Budget Outlook FY 2016-17 and FY 2017-18 November 10, 2016

The preliminary forecast for the state's FY 2017-18 General Fund revenue expects continued, steady growth. For the past several quarters, personal income growth has hovered around 5 percent. The forecast anticipates a continuation of the current economy and personal income growth of 4.75 percent and 4.50 percent for FY 2016-17 and FY 2017-18, respectively. Chad Walldorf, Chairman of the Board of Economic Advisors, said "South Carolina is experiencing solid growth in employment and income, and we see this growth continuing into 2018."

REVENUE FORECAST

For the current fiscal year, FY 2016-17, the Board of Economic Advisors (BEA) estimates a total expected revenue increase of \$318 million, which represents a growth rate of 4.1 percent. This estimate is the same as contained in the Appropriation Act.

For FY 2017-18, the BEA issued a preliminary General Fund revenue estimate of \$8,470.6 million, which represents an expected growth of 3.8 percent. This total projects revenue growth over FY 2016-17 to be \$313 million. This estimate is based largely on continued personal income and employment growth, key economic factors that account for 85 percent of total General Fund revenue.

Prior to making its forecast, the BEA met with a panel of regional economists to develop a consensus expectation on key economic factors.

BUDGET OUTLOOK

The FY 2016-17 General Fund budget is \$7,579.5 million. Based on the BEA forecast, the General Fund budget for FY 2017-18 is estimated at \$7,886.9 million. Budget writers will have an additional \$307.4 million, or 4.1 percent, over the current appropriations act to allocate.

Unobligated funds of \$178.7 million will also be available. These funds include:

EIA (Growth)	\$39,475,000
Capital Reserve Fund (FY 2016-17)	\$139,207,789

In addition, the budget writers will have Lottery proceeds of \$376.3 million, which is unchanged from FY 2016-17. Finally, the General Fund obligation for the Homestead Exemption Fund may be reduced by \$16.2 million due to growth in the one percent Homestead Exemption Sales Tax.

*Questions or requests for additional information may be directed to
803-734-2265 or karen.rhinehart@budget.sc.gov*



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

CHAD WALLDORF, Chairman
HOWELL CLYBORNE, JR.
EMERSON F. GOWER, JR.

FRANK A. RAINWATER
Executive Director

**Budget Outlook - Fact Sheet
FY 2017-18
November 10, 2016**

	Recurring Funds	Non-Recurring Funds
FY 2016-17		
Capital Reserve Fund		\$139,207,789
Total Projected Non-Recurring Funds		\$139,207,789
FY 2017-18		
General Fund Revenue Available for Appropriation* (Incremental Increase Over Appropriation Base)	\$307,382,939	
Projected New EIA Revenue	\$39,475,000	
Projected New Lottery Funds (Total Available FY2017-18 Lottery Funds - \$376,300,000)	-	
Total Projected Recurring Funds	\$346,857,939	
Total Unobligated Funds Available in FY 2017-18 (Includes recurring and non-recurring funding sources)		\$486,065,728

*Recurring General Fund budget growth for FY 2017-18 is 4.1%