



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

EDWARD B. GRIMBALL, Chairman
HOWELL CLYBORNE, JR.
EMERSON F. GOWER, JR.

FRANK A. RAINWATER
Executive Director

**BOARD OF ECONOMIC ADVISORS
WORKING GROUP/REGIONAL ADVISORY COMMITTEE
MEETING AGENDA**

**October 19, 2017, 10:30 A.M.
Room 335 - DNR Conference Room
3rd Floor Rembert C. Dennis Building**

1. Welcome
2. Adoption of Meeting Minutes for September 21, 2017
3. Overview of First Quarter Results - (F. Rainwater, R. Martin)
4. Recess for Lunch (*Please note that lunch is by invitation only*)

Regional Advisory Committee Meeting will begin at 12:30 P.M.

5. Presentations on Personal Income and Employment Growth in South Carolina for FY 2017-18 and FY 2018-19
 - A. Regional Advisory Committee Members
 - [Mr. Michael A. Brown](#) - Vice President and Economist - Wells Fargo Securities
 - [Dr. Russell S. Sobel](#) - Professor of Economics and Entrepreneurship - The Citadel
 - [Mr. Richard Kaglic](#) - Senior Regional Economist - Federal Reserve Bank of Richmond, Charlotte, N.C. Branch
 - [Dr. Frank Hefner](#) - Professor of Economics, Director of Office of Economic Analysis - College of Charleston
 - [Dr. Joey Von Nessen](#) - Research Economist, University of South Carolina, Darla Moore School of Business
 - B. BEA Staff - [Robert Martin](#) - Chief Economist
6. Discussion of Forecast Assumptions
 - A. Identification of major factors affecting the economy
 - B. Discussion of risks to the forecast
 - C. Developing range of Personal Income and Employment Growth Rates for FY 2017-18 and FY 2018-19
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. November 9, 2017, 2:00pm – Preliminary Estimate; RFA Meeting to follow
- B. December 14, 2017, 2:00pm – If necessary, WebEx for Members
- C. 2017 Calendar at <http://rfa.sc.gov/calendar?m=06&y=2017>

9. Adjournment



South Carolina Revenue and Fiscal Affairs Office

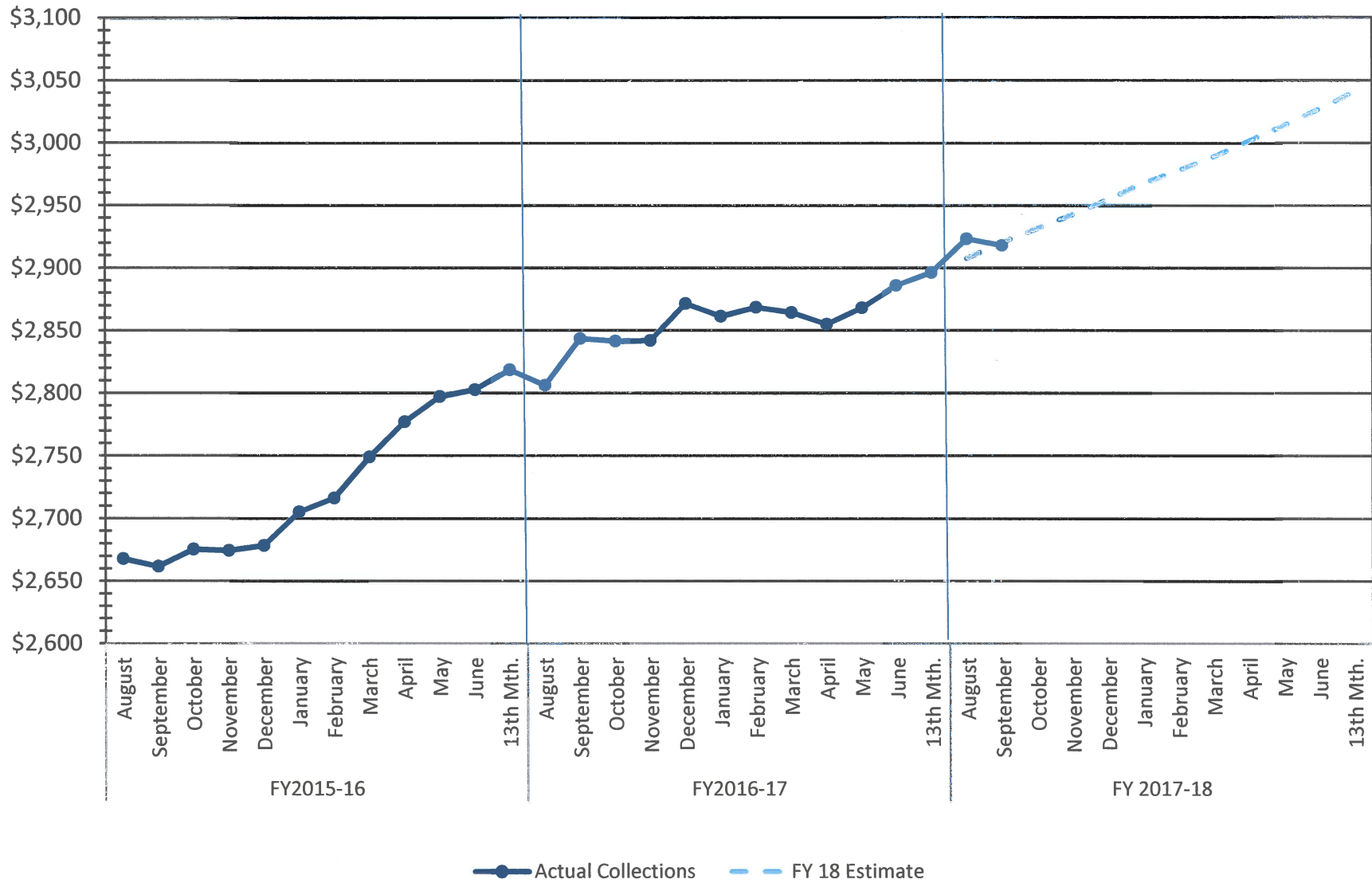
OVERVIEW

FIRST QUARTER OF FY 2017-18

- General Fund Revenues for the first quarter of FY 2017-18 were \$14.5 million or 0.7 percent below the quarterly estimate
- Part of the revenue shortfall is due to timing issues as some expected revenue has yet to be transferred to the General Fund
- Of concern is that the two largest sources of revenue, Sales and Individual Income Taxes are below estimates



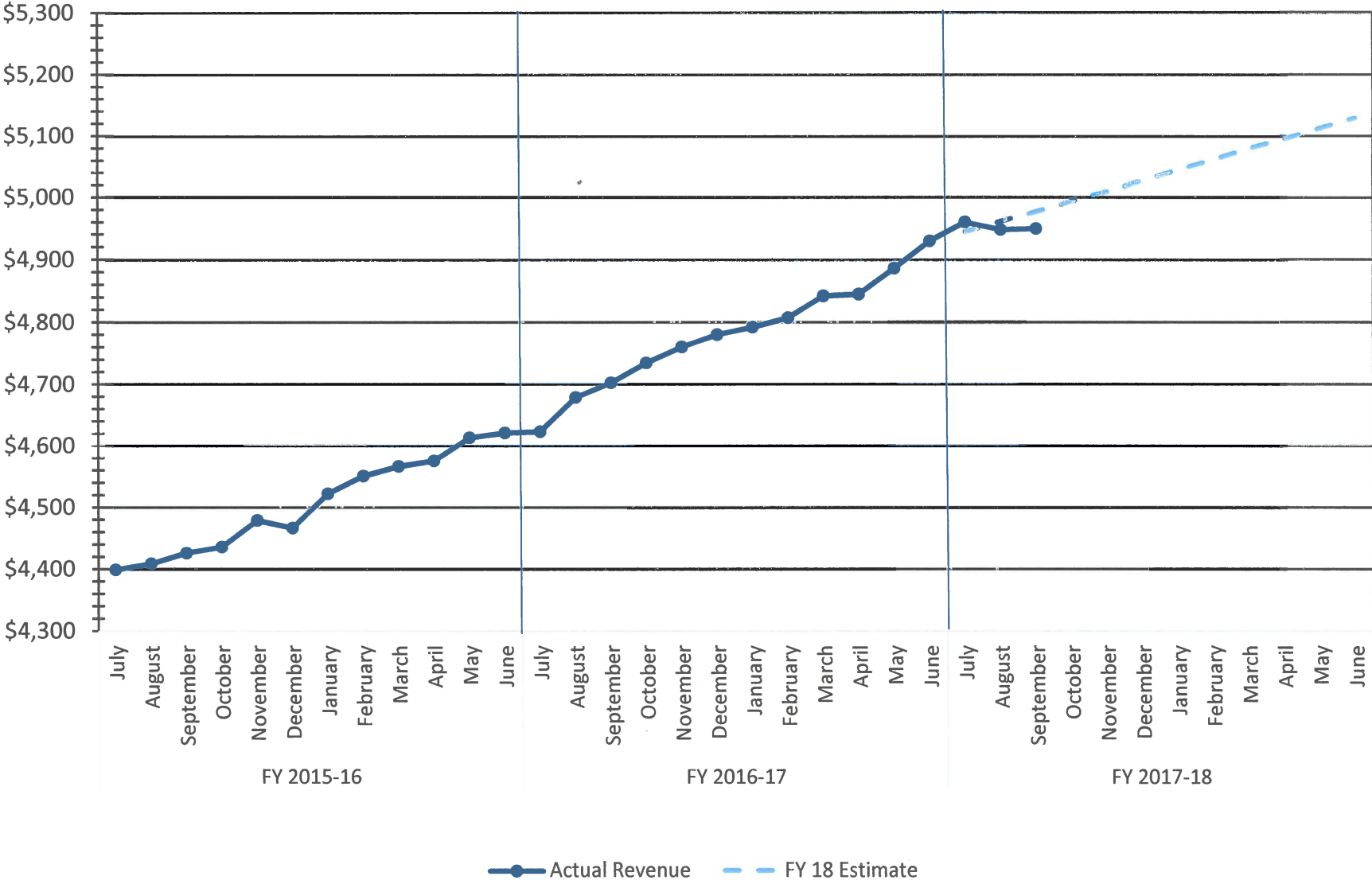
TOTAL SALES & USE TAX Rolling Fiscal Year Totals FY 2015-16 to FY 2017-18



INDIVIDUAL INCOME TAX WITHHOLDINGS

Rolling Fiscal Year Totals

FY 2015-16 to FY 2017-18



REVENUE DETAIL





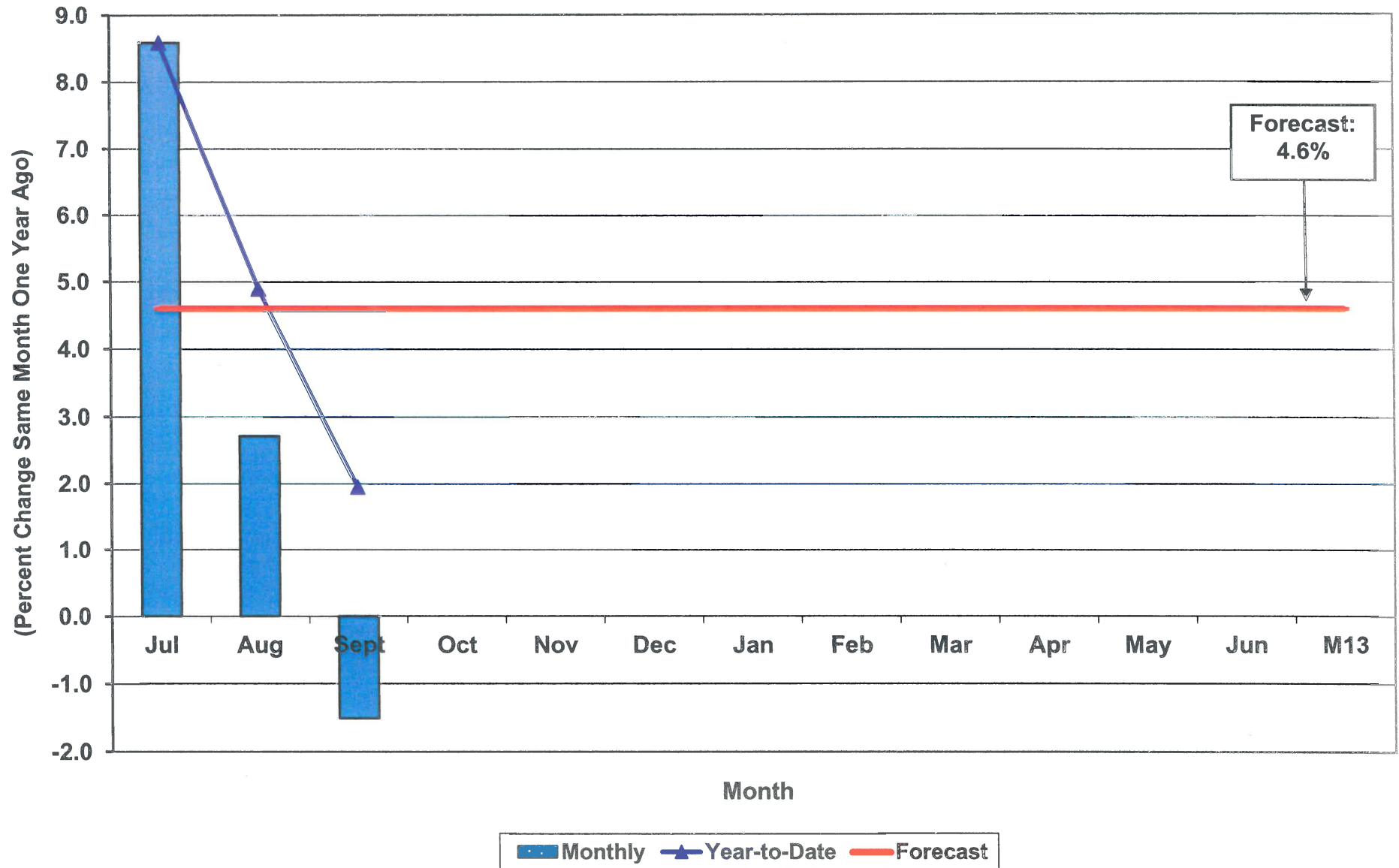
September 2017

General Fund Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Total General Fund	\$2,011.2	\$2,025.7	(\$14.5)	4.6	1.9

- The majority of the revenue shortfall is from accounting anomalies in the sales and use tax and revenue that was not recorded
 - Treasurer's Earnings on Investments
 - Unclaimed Property (missed quarterly payment)
 - Tobacco Tax Revenue
- After adjustments, the Y-T-D revenue growth is 1.7 percent

Growth in Total General Fund Revenue Collections FY2018 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/10/13/17



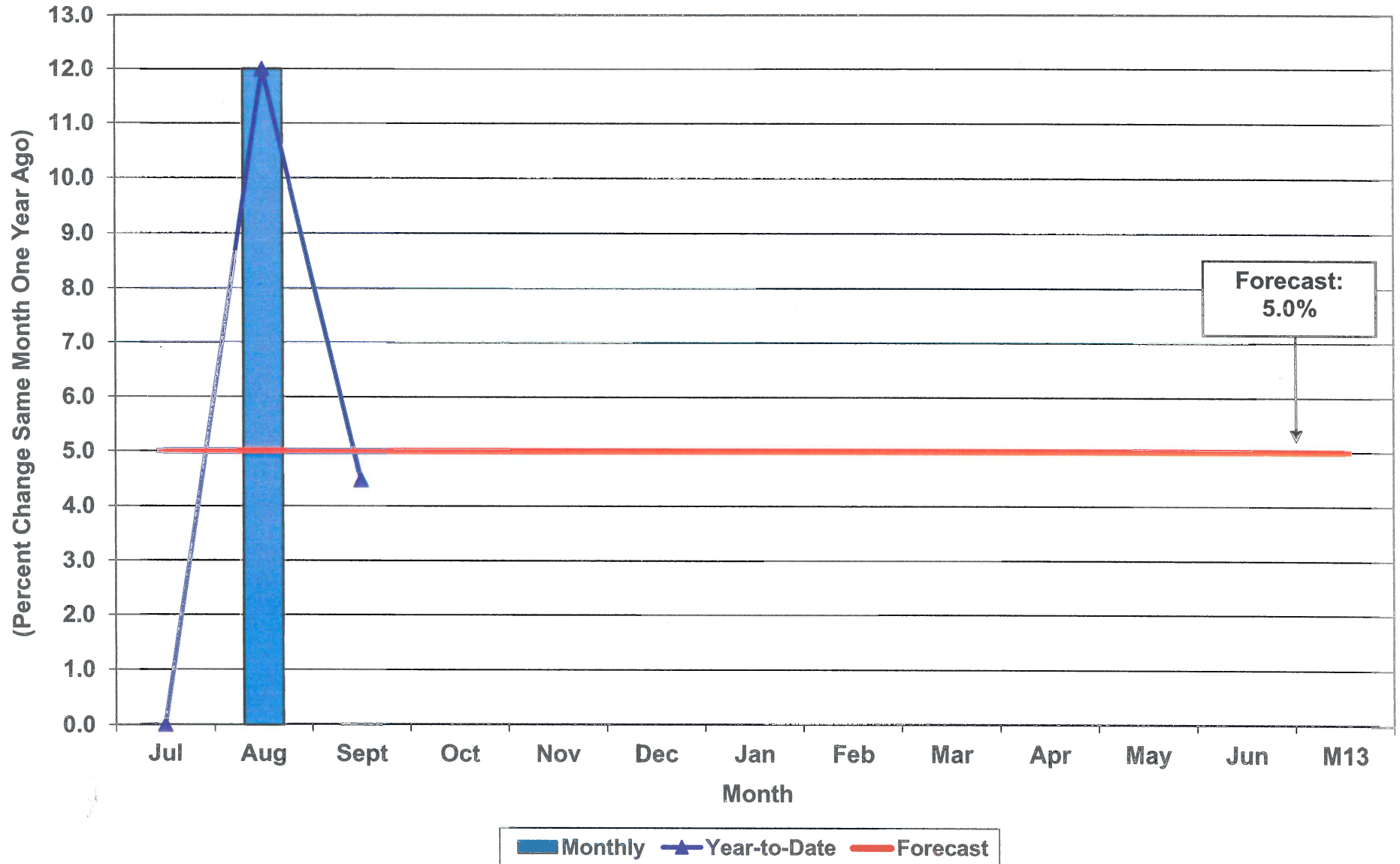
September 2017

Sales Tax

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Sales Tax	\$500.5	\$503.1	(\$2.6)	5.0	4.5

- September 2016 was over reported by “unclassified revenue”
- Created an artificially small monthly revenue loss in September 2017
- There remains \$10.8 million in clearing account in September 2017
- After adjustments, the Y-T-D growth rate is 3.7 percent

Growth in Total Sales & Use Tax Revenue Collections FY2018 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/10/13/17



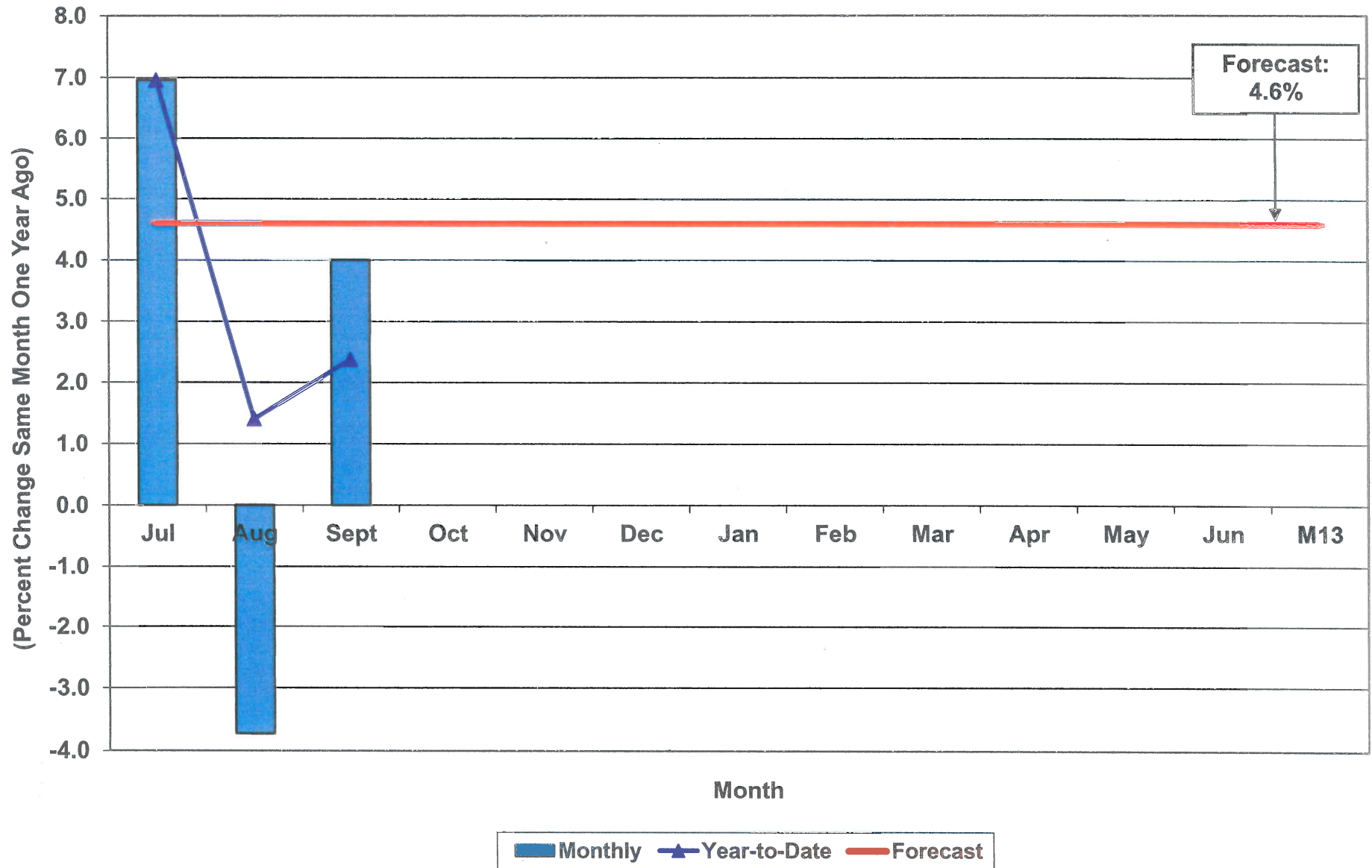
September 2017

Individual Income Tax

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Individual Income Tax	\$1,293.8	\$1,311.2	(\$17.4)	4.6	2.4

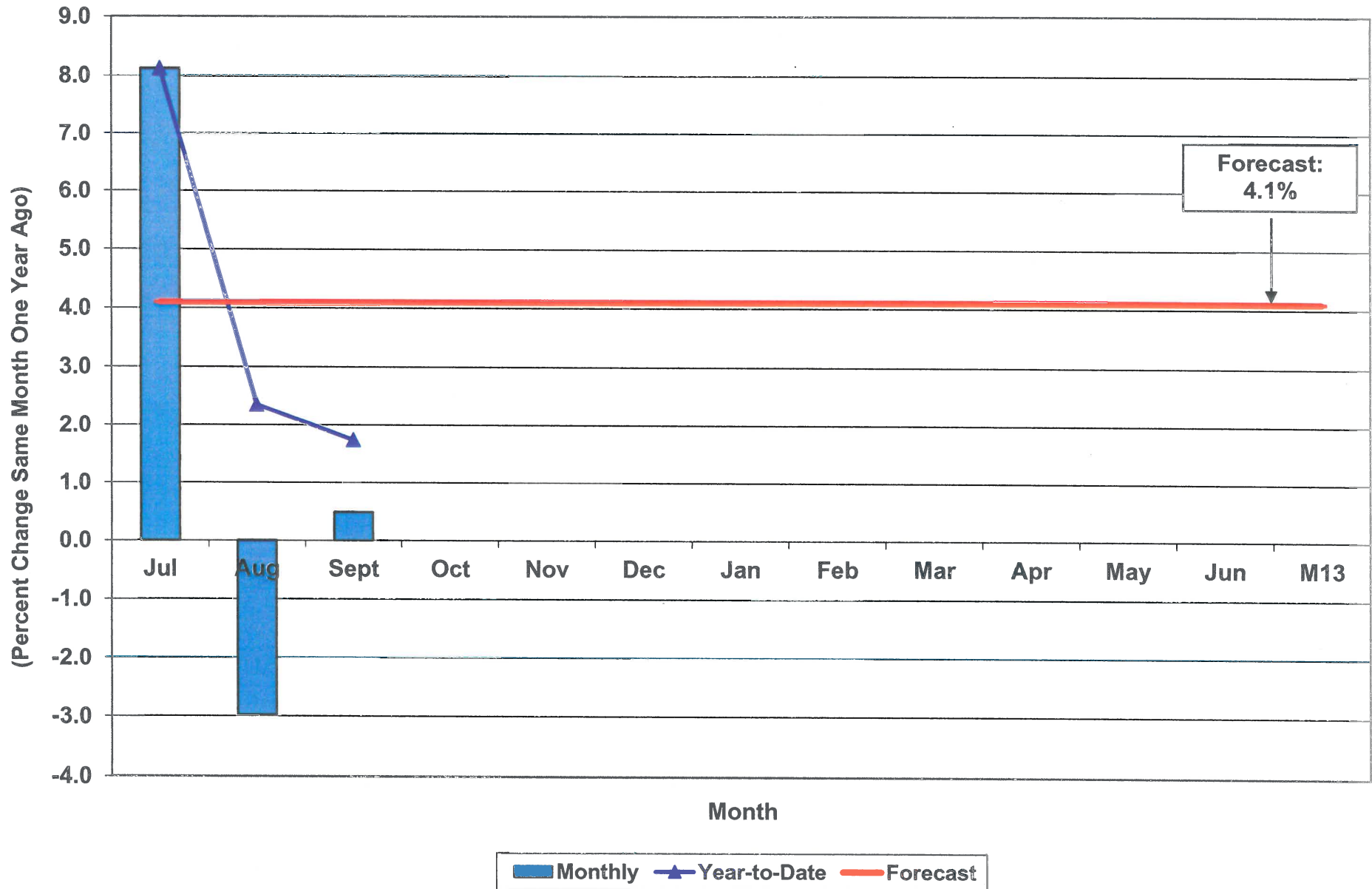
- Weak income tax withholdings for second consecutive month contributed to the revenue decline
- Weaker declaration payments also contributed to the lower-than-forecast growth rate
- New income tax computer system resulted in few refunds paid out

Growth in Total Individual Income Tax Revenue Collections FY2018 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/10/13/17

Growth in Individual Income Tax Withholding Revenue FY2018 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/10/13/17



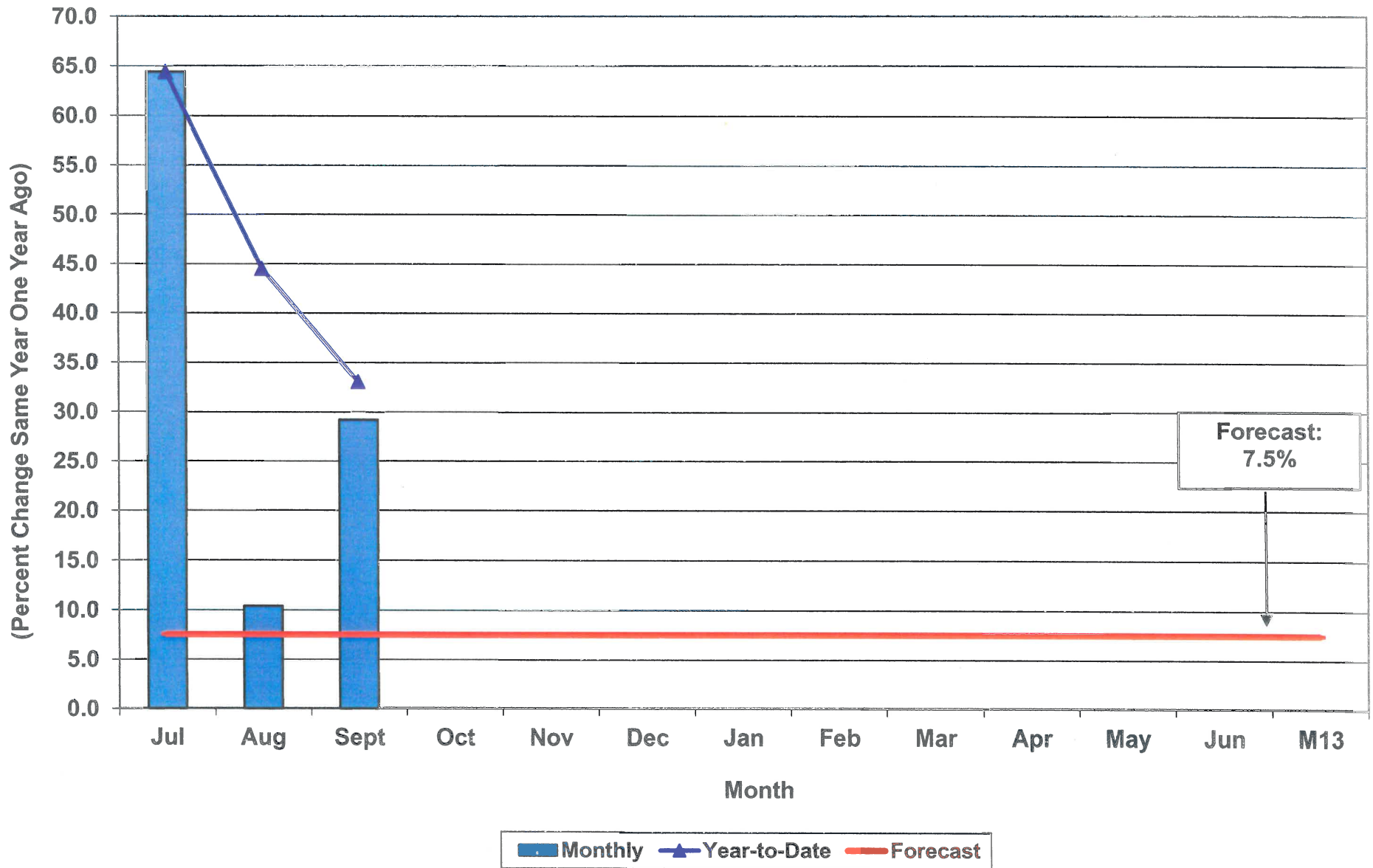
September 2017

Corporate Income Tax

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Corporation Income Tax	\$74.1	\$73.1	\$1.0	7.5	33.2

- Corporate income taxes benefited from a taxpayer refund charged against declarations in September 2016
- Created an artificially large monthly revenue gain in September 2017

Growth in Total Corporation Income Tax Revenue Collections FY2018 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/10/13/17



September 2017

Other Taxes

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Other Revenues	\$142.8	\$138.3	\$4.5	2.3	(18.5)

- Lack of growth is from a variety of sources and timing of receipts
- State Treasurer did not deposit interest earnings from state investments
- Scheduled quarterly deposit of Unclaimed Property was missed



September 2017

- Installation of new computer system at DOR delayed the deposit of tobacco revenue



September 2017

Contingencies for FY2017-18 General Fund Revenue Estimate

- National forecasts expect a slight slowdown in the US economy
- Personal income – growth rates have been slowing
- Sales tax – will consumers and businesses continue to spend?
- Individual Income tax – employment growth will moderate – withholdings may moderate unless wages increase
- Corporate Income tax – corporate profits are doing well – will this continue?



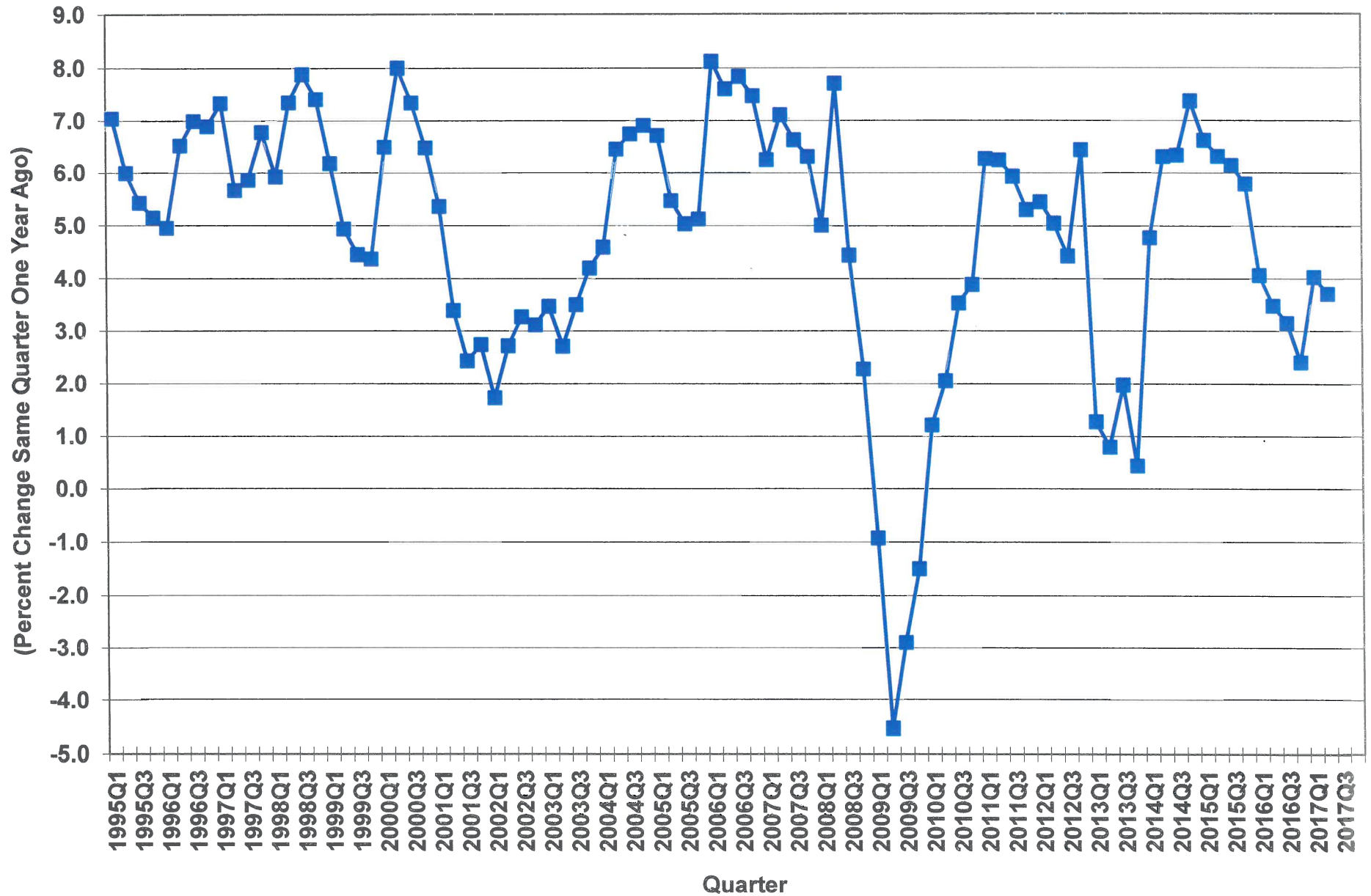
September 2017

- Insurance tax – credits and premiums to increase?
- Corporate license tax – current estimate is overstated
- Earned on Investments – cash balances at record levels with higher rates
- Public Service Authority – impact of SCE&G abandoning plant
- Federal Reserve increasing interest rates will increase borrowing costs

BASE ECONOMIC ASSUMPTIONS

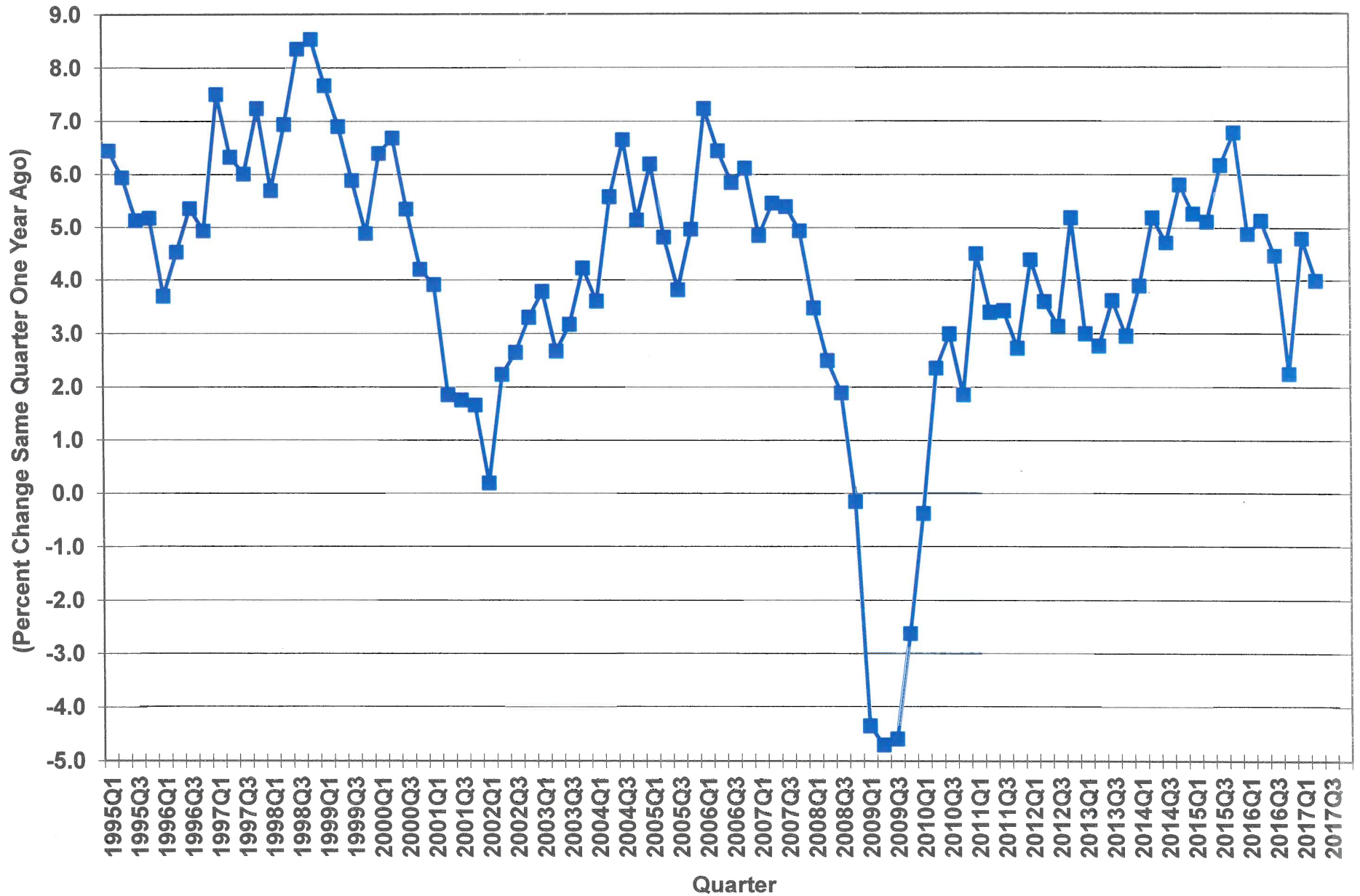


Growth in Personal Income in South Carolina



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

Growth in Wages and Salaries in South Carolina



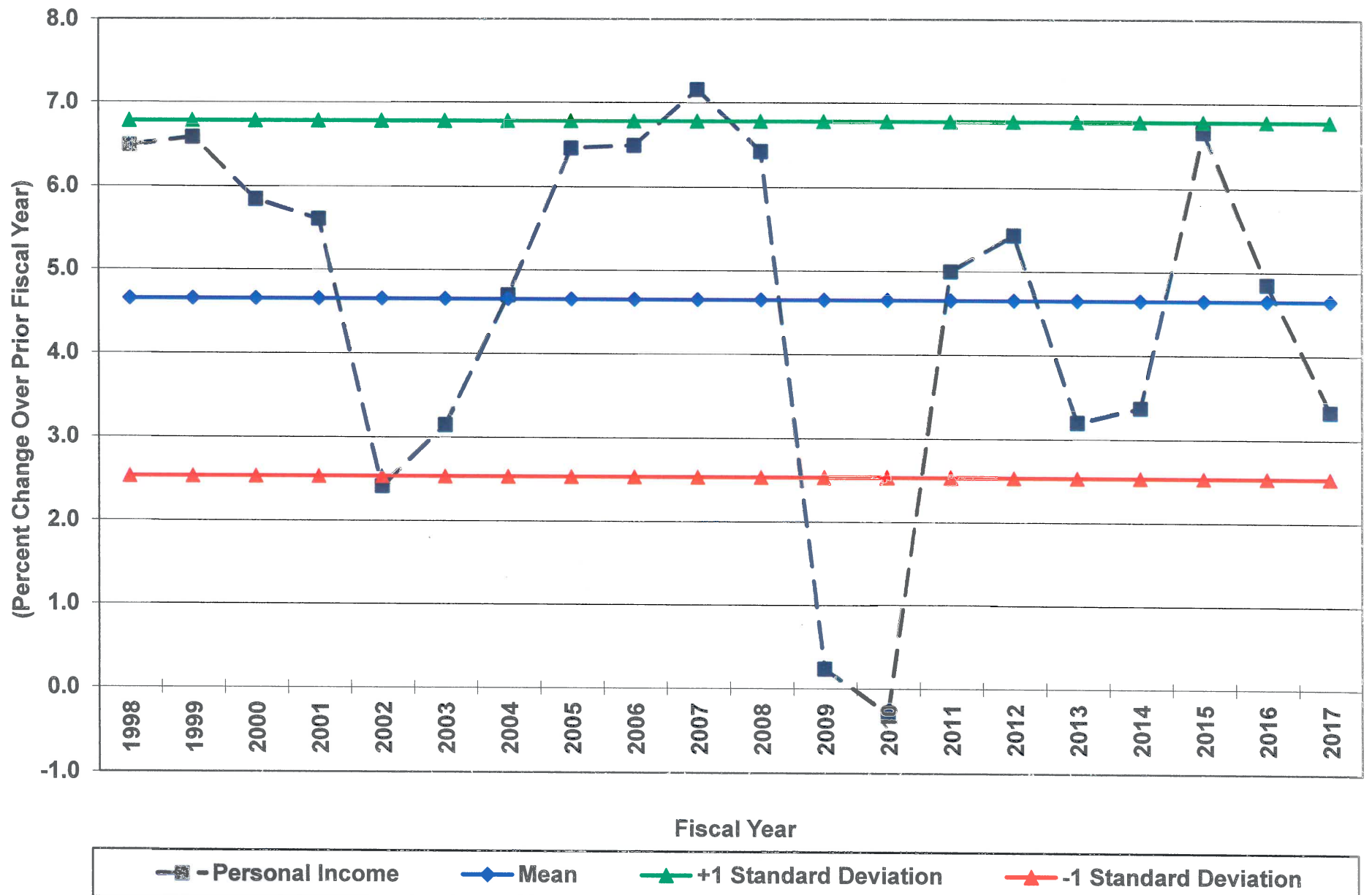
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

South Carolina Personal Income Difference Between Income Series



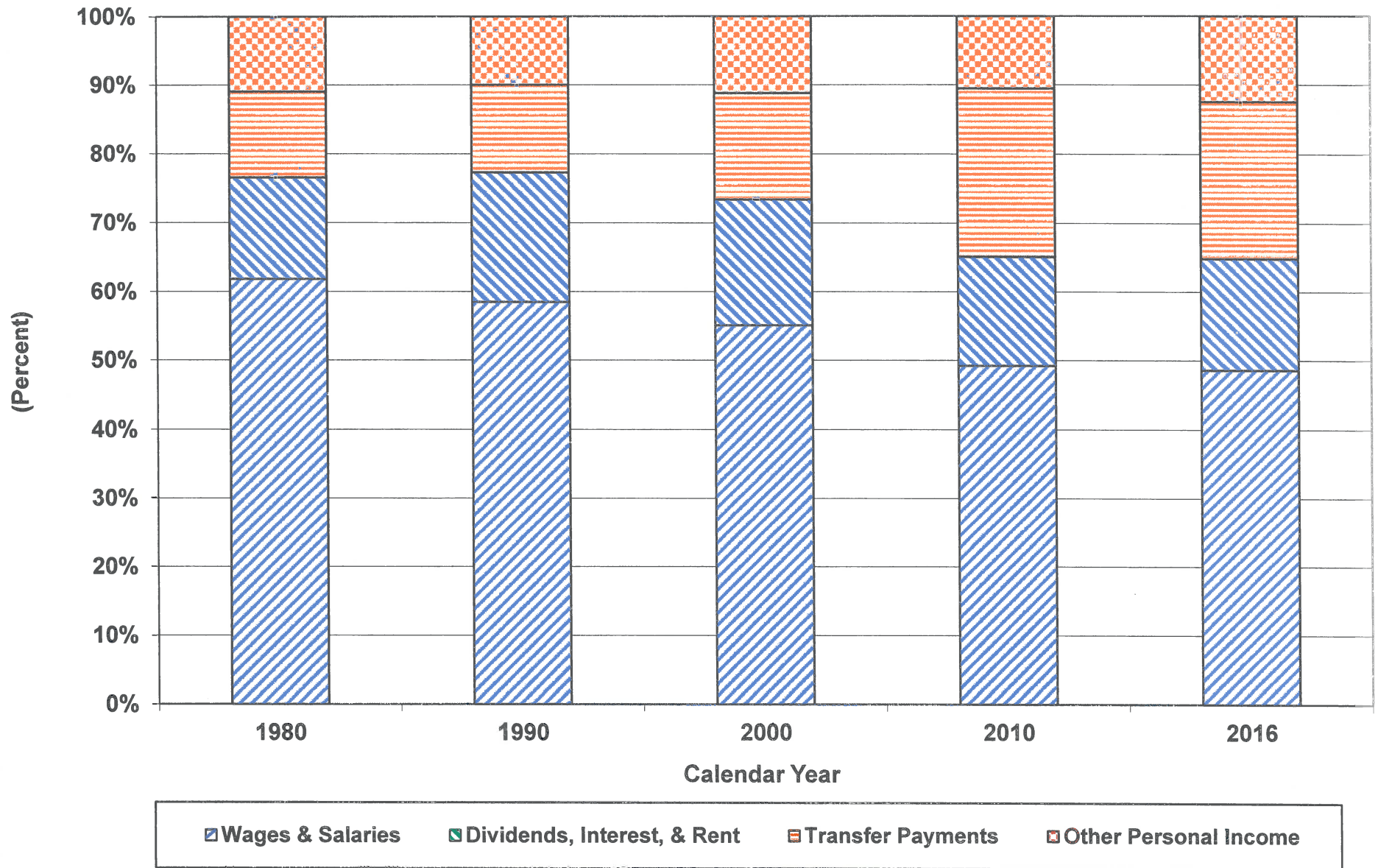
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

Growth in Personal Income in South Carolina

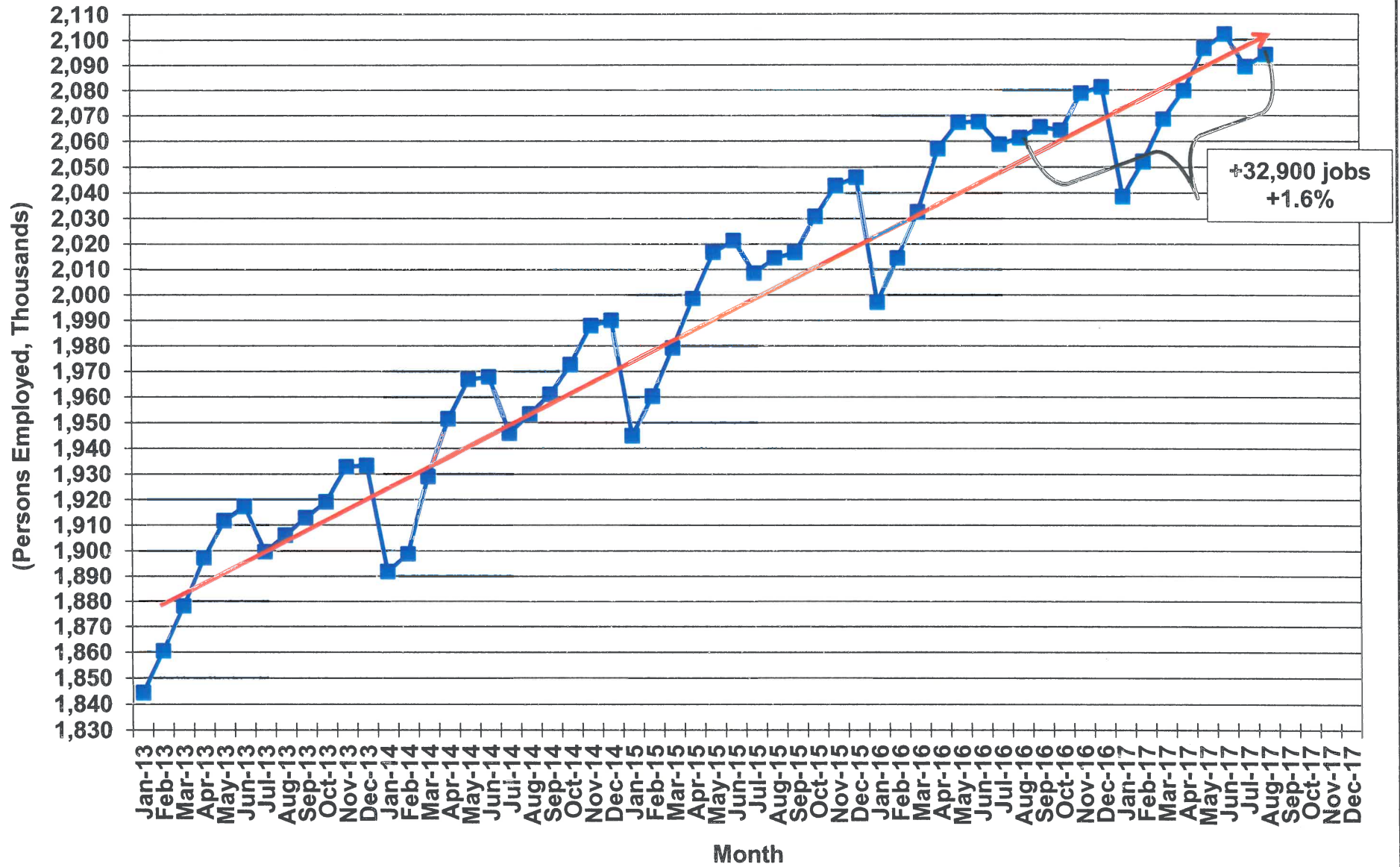


Source: Board of Economic Advisors
BEA/RWM/09/26/17

Shares of Personal Income Components in South Carolina

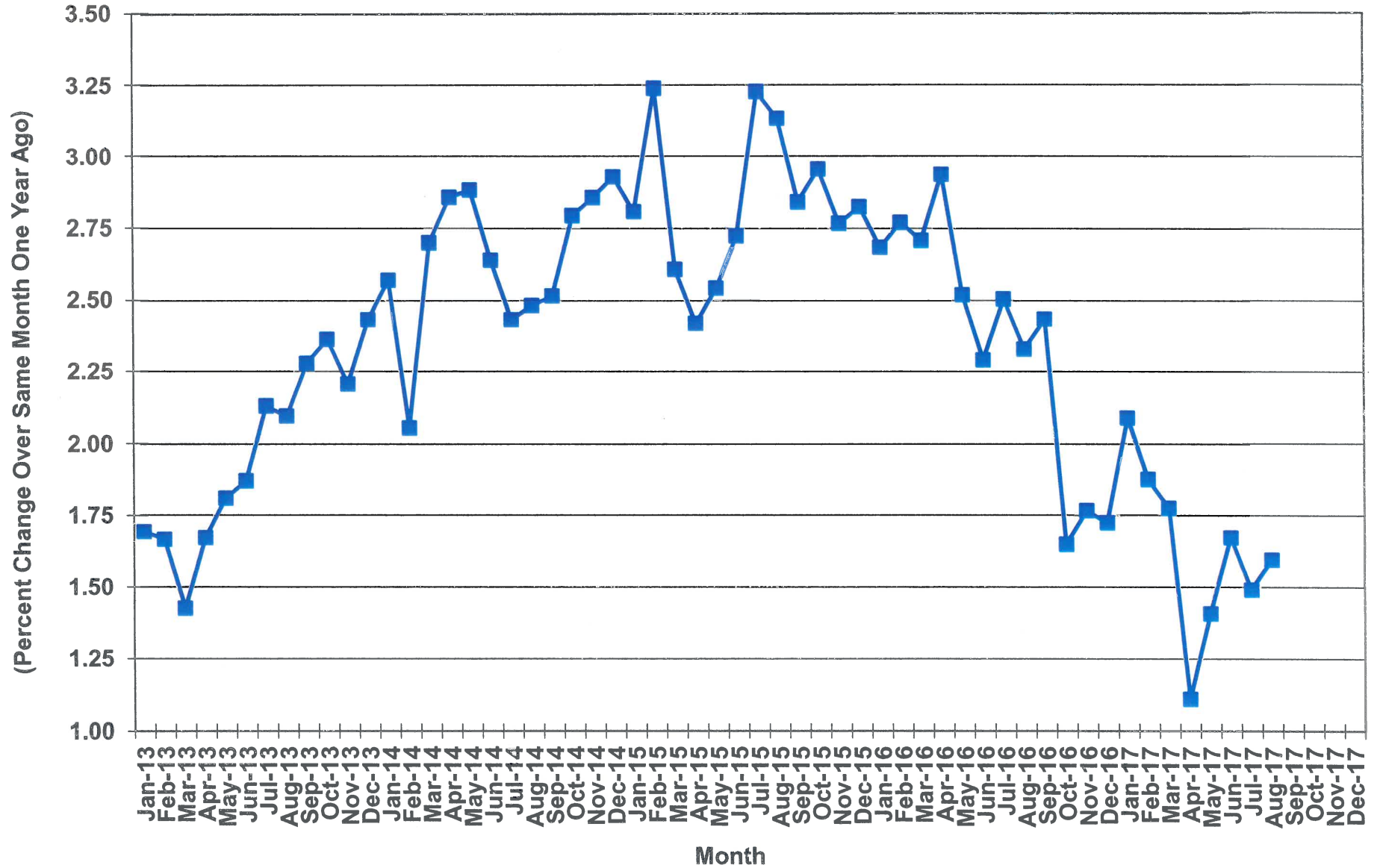


Total Nonfarm Employment in South Carolina



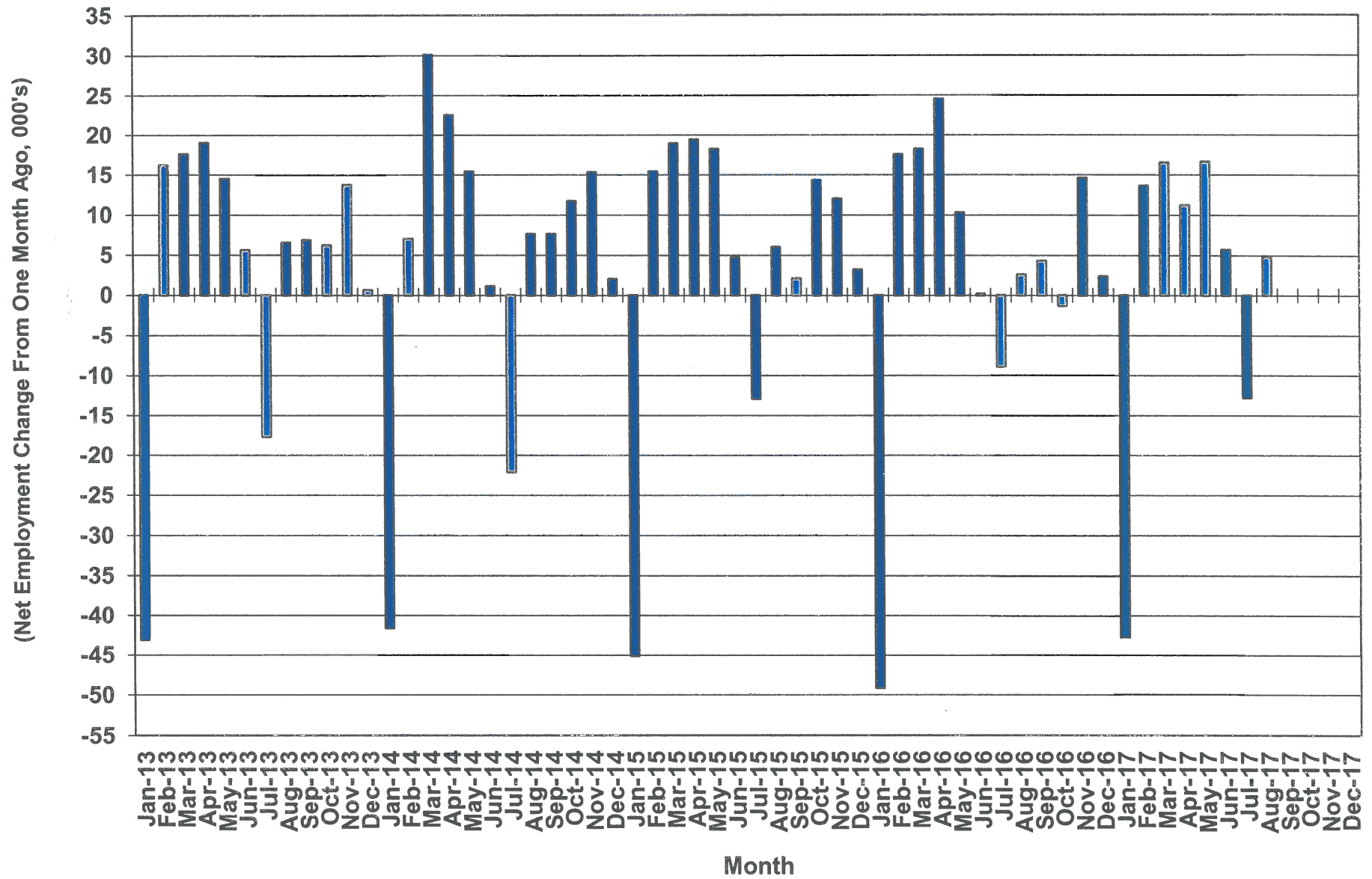
Source: U.S. Department of Labor, Bureau of Labor Statistics
SCBEA/RWM/10/19/17

Total Nonfarm Employment Growth in South Carolina



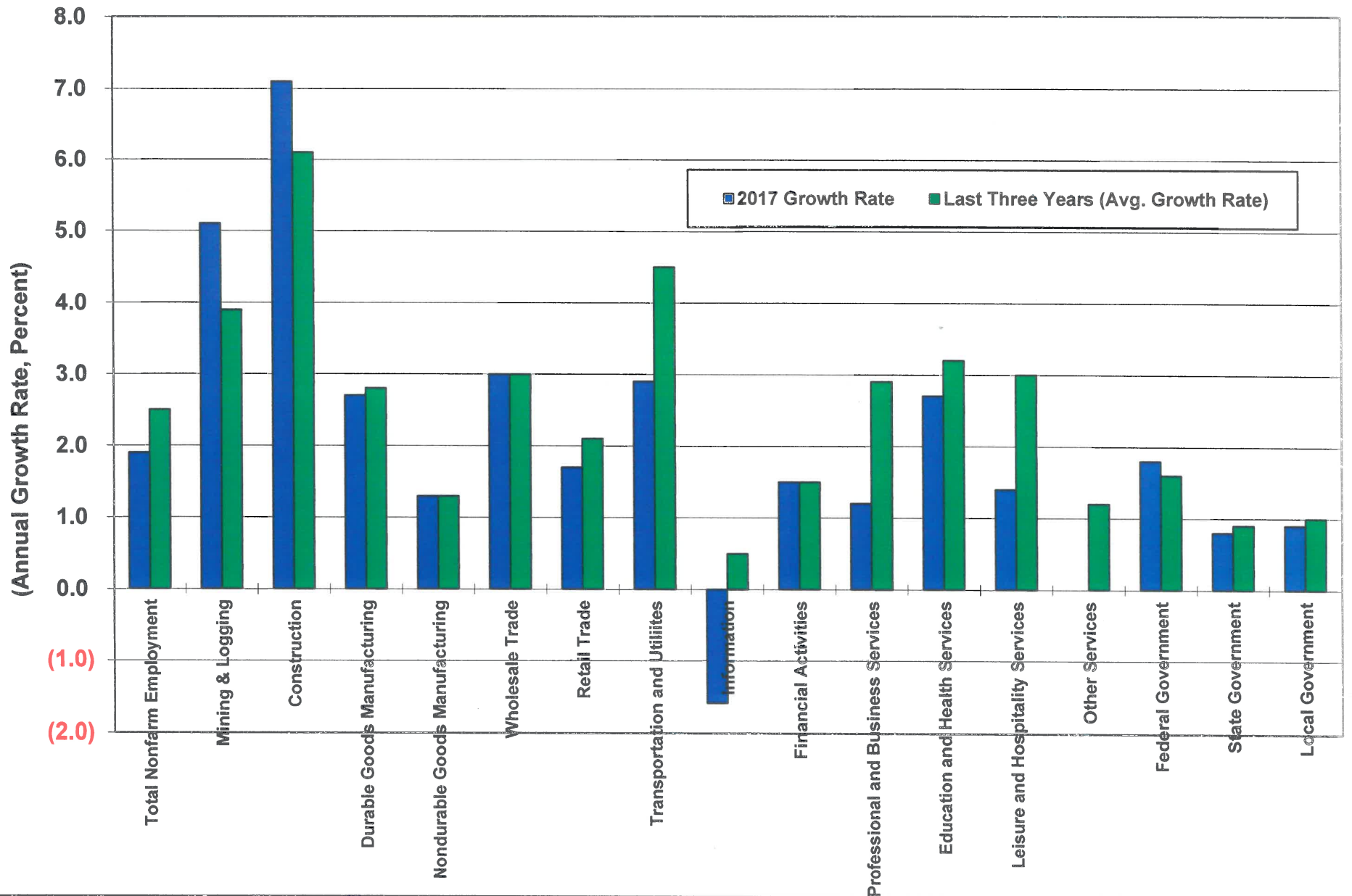
Source: U.S. Department of Labor, Bureau of Labor Statistics
SCBEA/RWM/10/19/17

Net Nonfarm Employment Increase in South Carolina



Source: U.S. Department of Labor, Bureau of Labor Statistics
 SCBEA/RWM/10/19/17

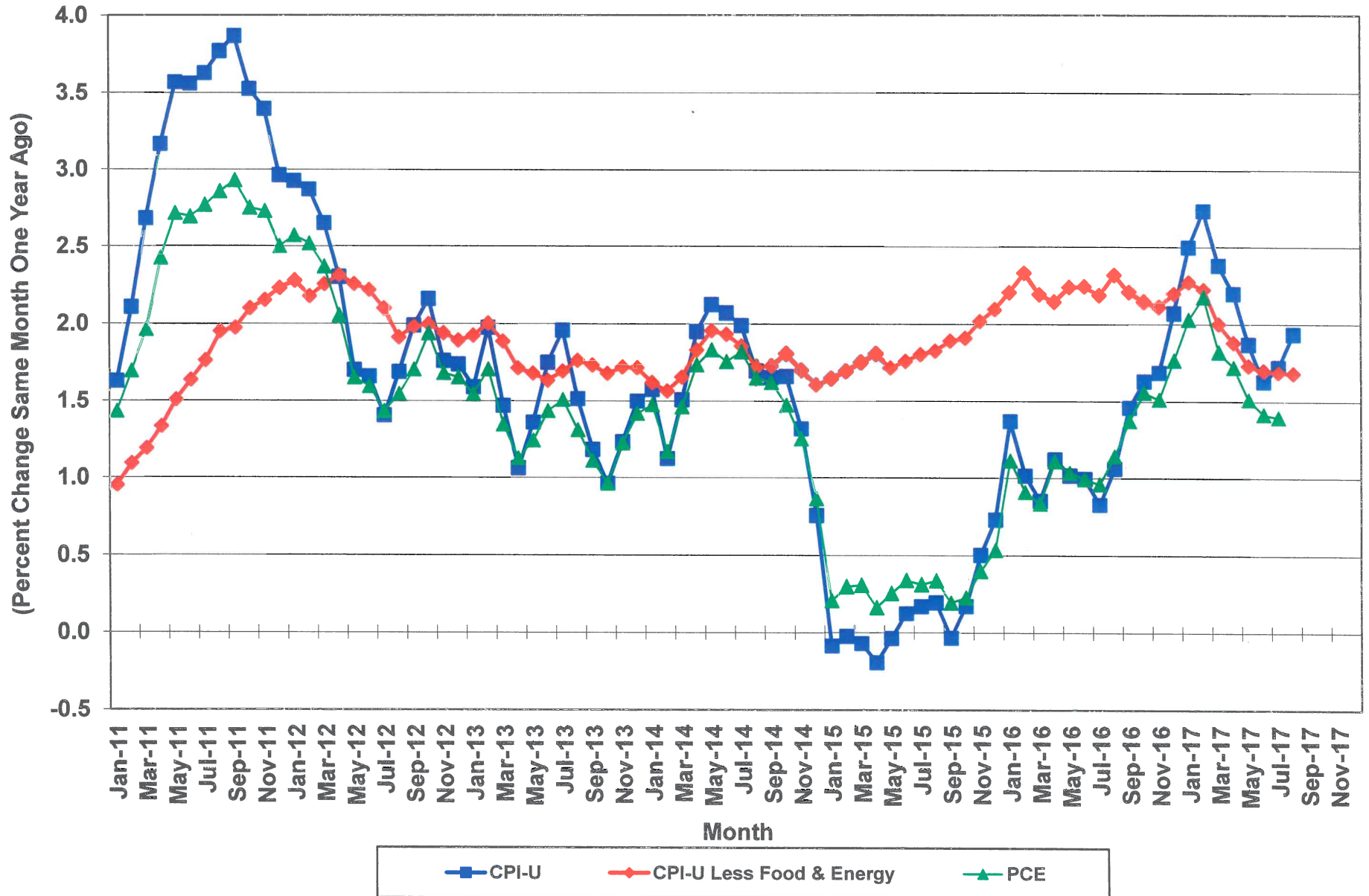
Comparison of Growth in Nonfarm Employment By Industry in South Carolina



Source: U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

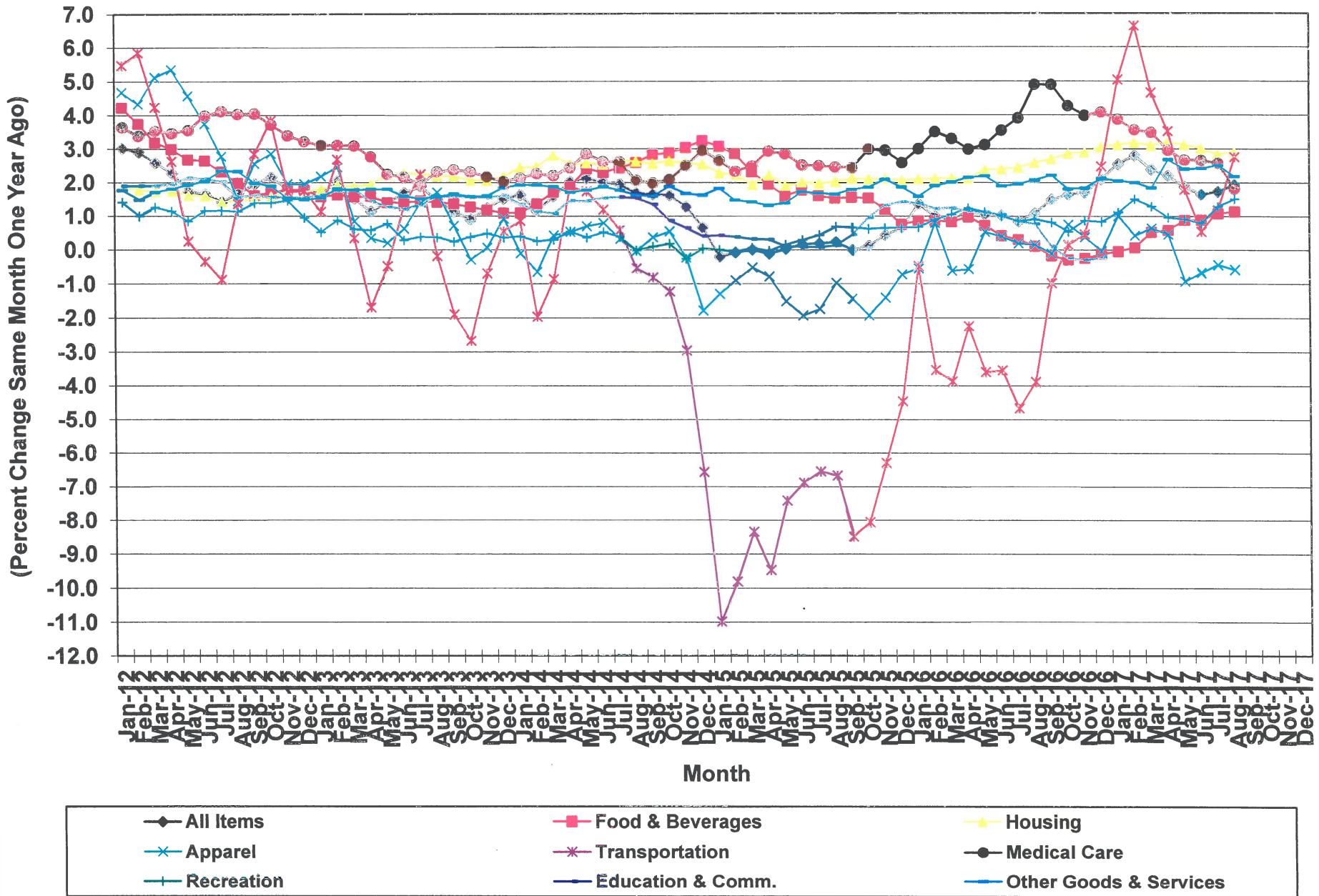
S.C. Board of Economic Advisors

Inflation in the United States

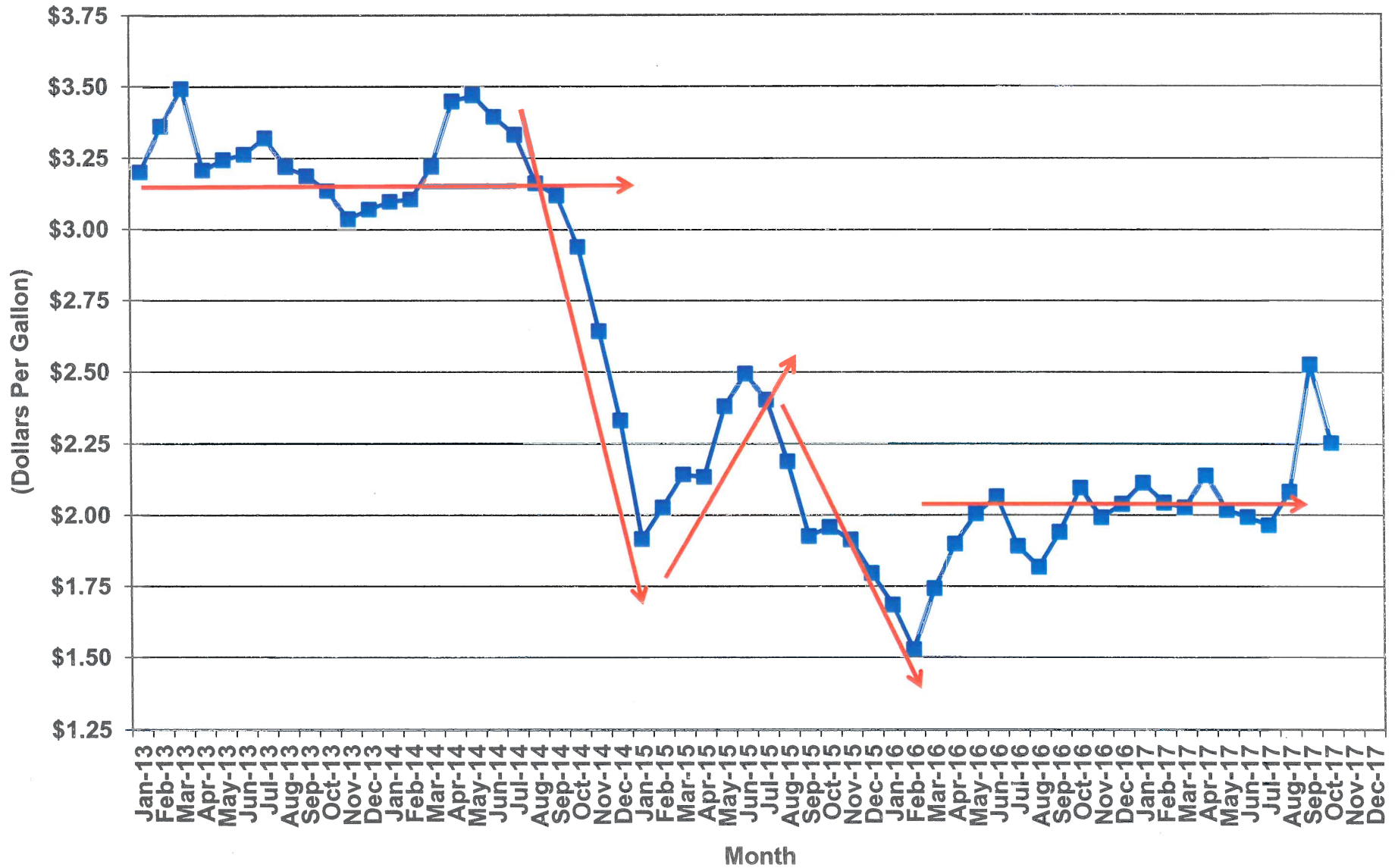


Source: U.S. Department of Labor, Bureau of Labor Statistics

Growth in the Components of Inflation in the U.S.

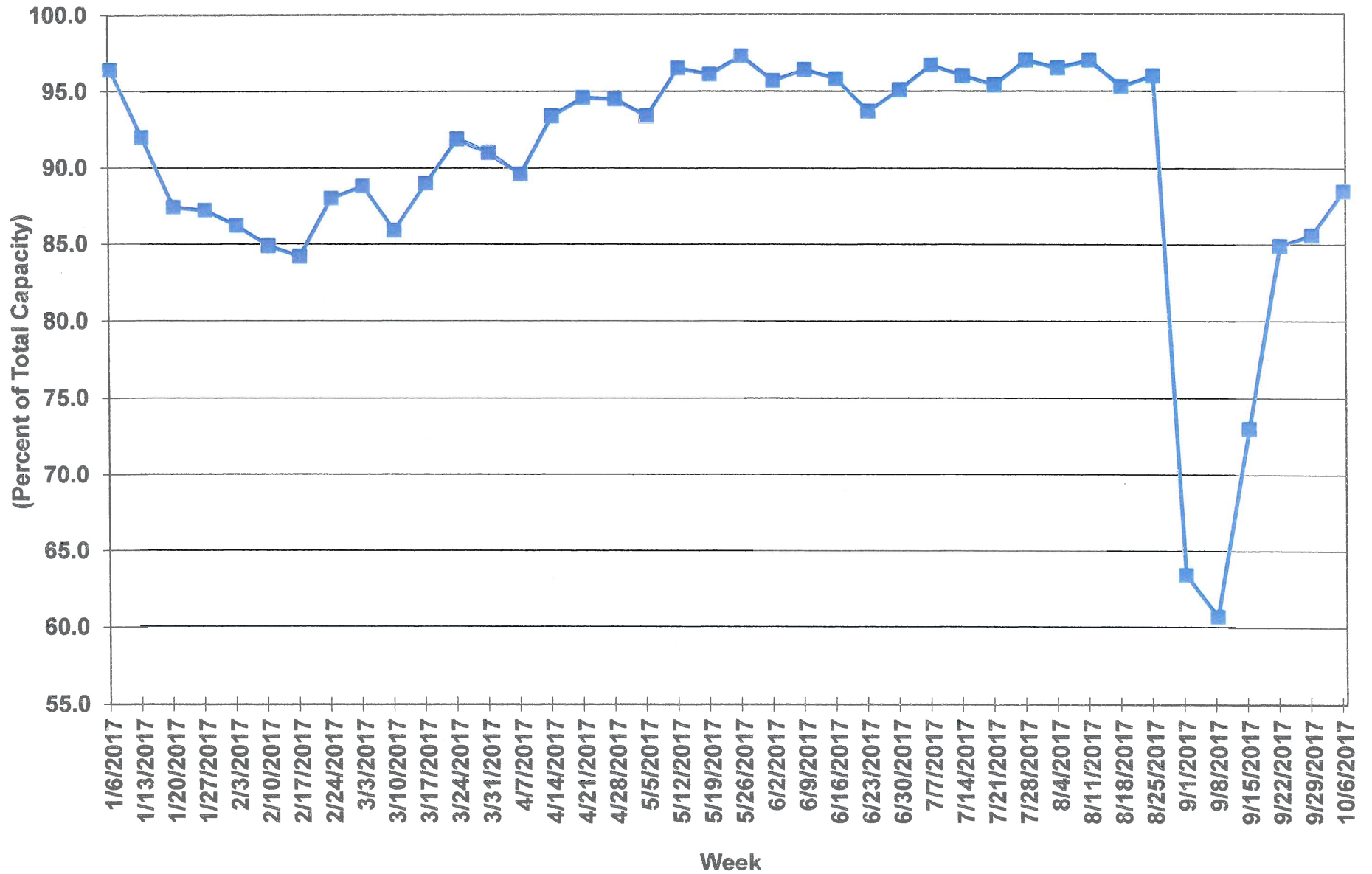


Gasoline Prices in South Carolina



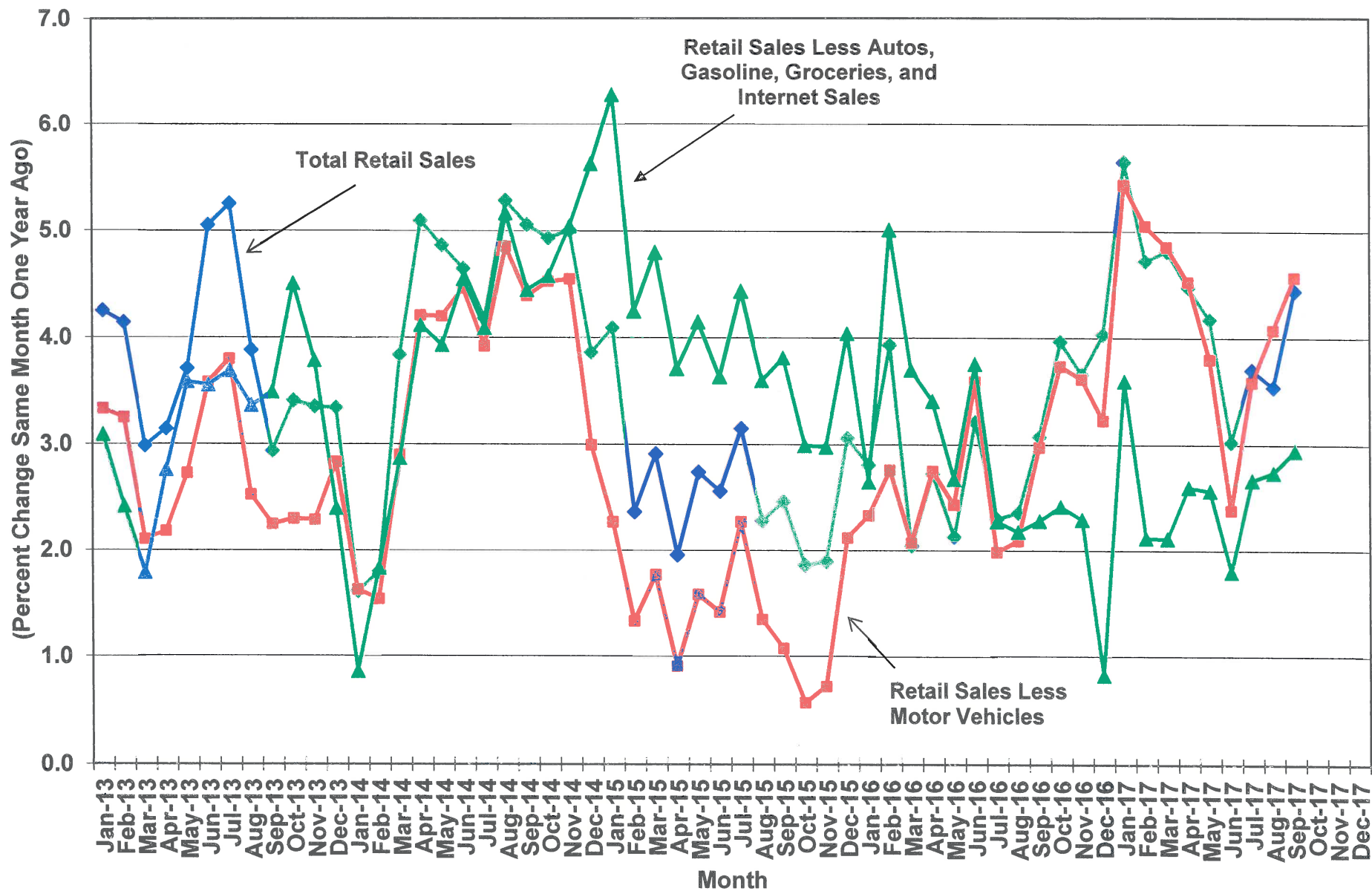
Source: AAA of the Carolina's
SCBEA/RWM/10/19/17

Refinery Capacity in the Gulf Coastal Region



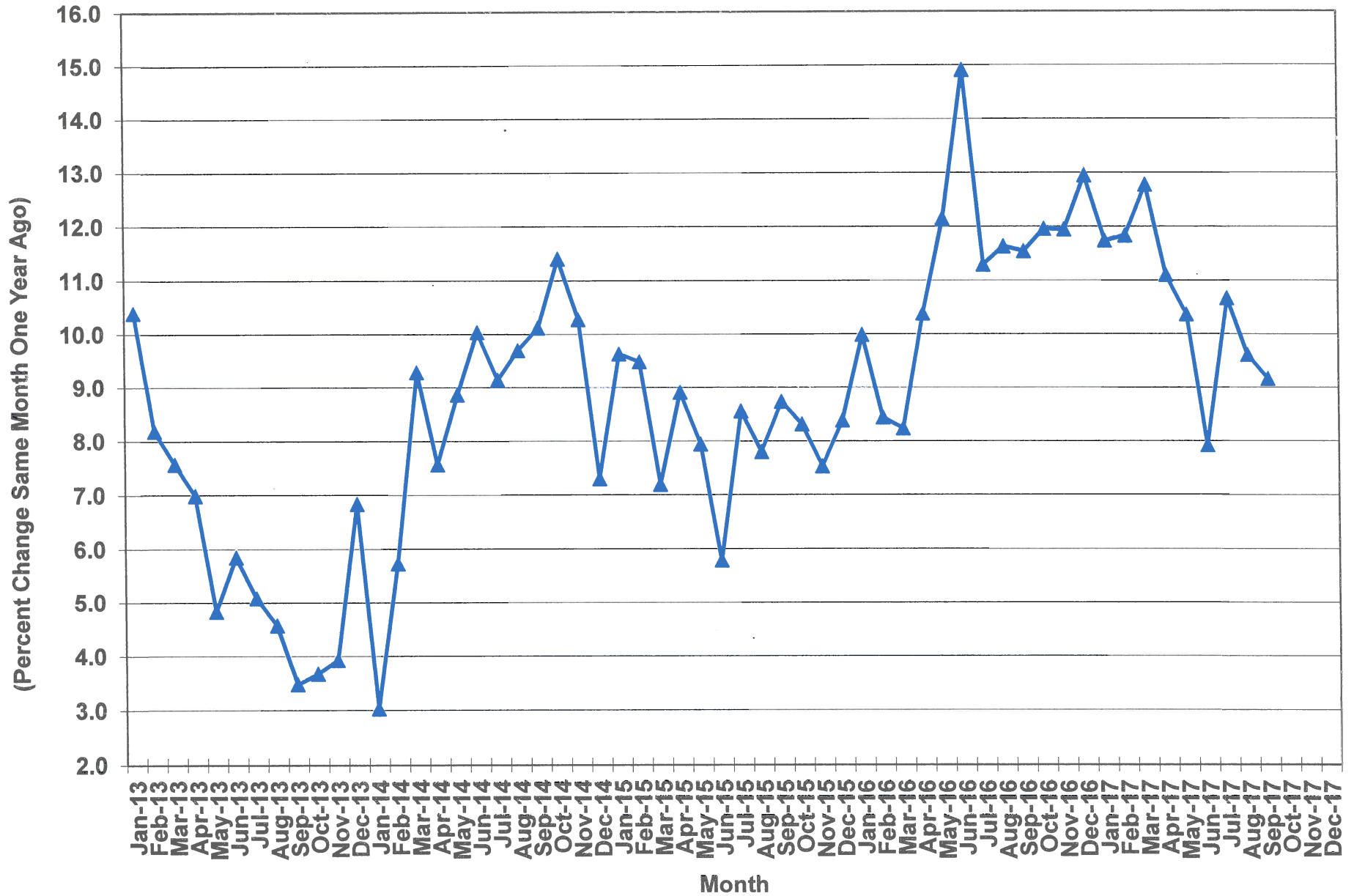
Source: U.S. Department of Energy, Energy Information Administration, Washington, D.C.

U.S. Retail & Food Service Sales



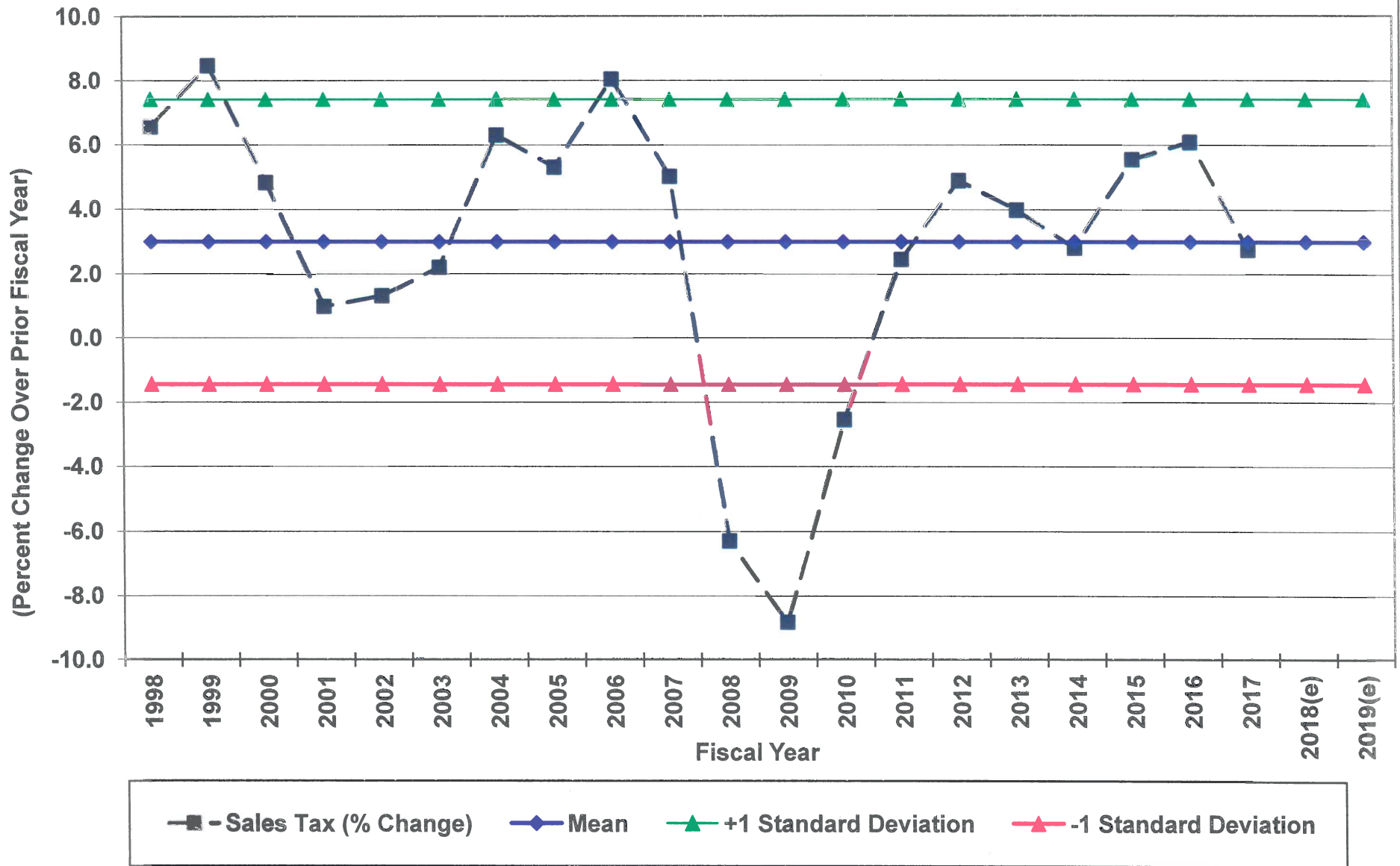
Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

Nonstore Retail Sales in the U.S.



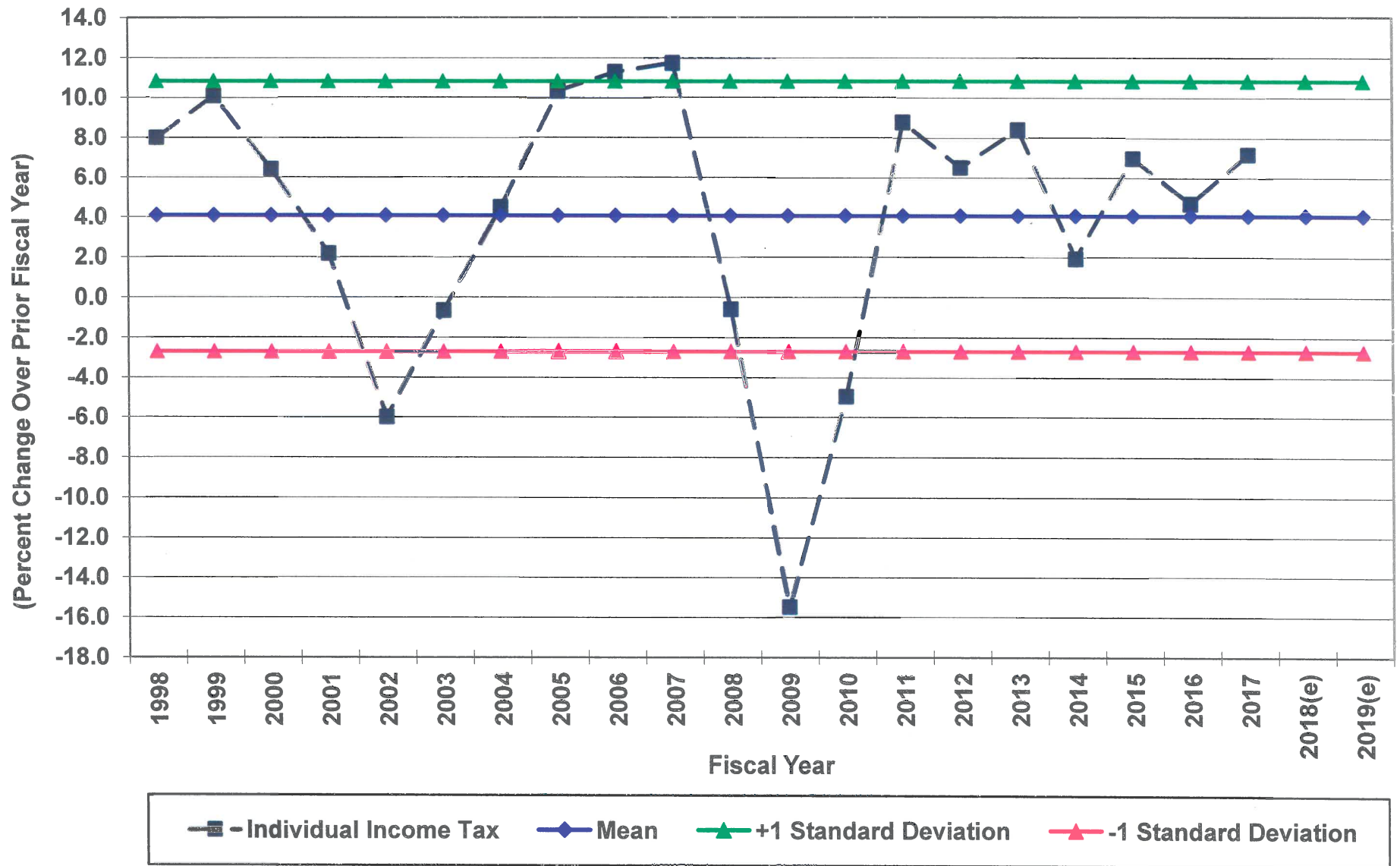
Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

General Fund Sales Tax Revenue Growth in South Carolina



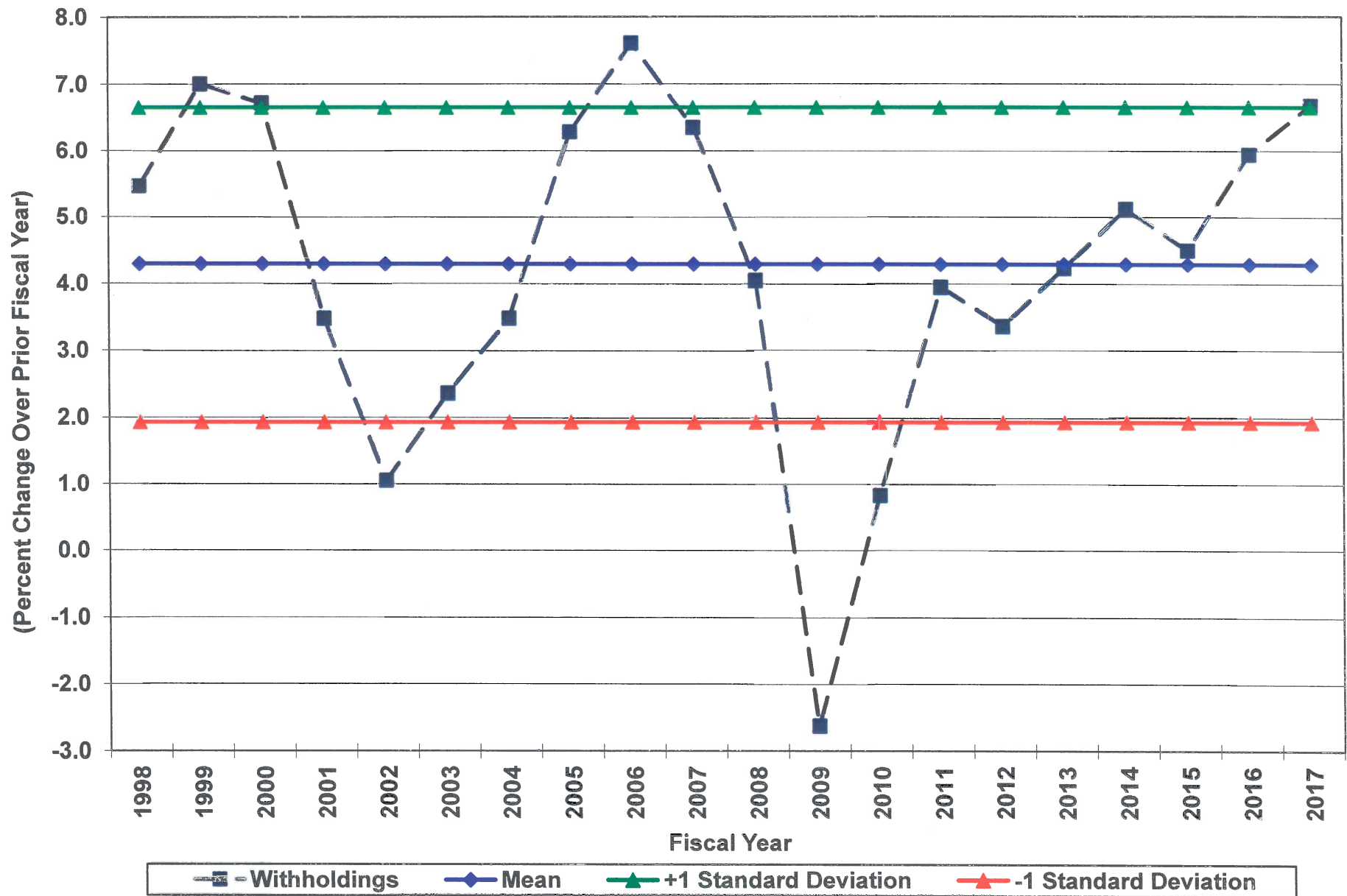
Source: Board of Economic Advisors
BEA/RWM/08/30/17

General Fund Individual Income Tax Revenue Growth in South Carolina



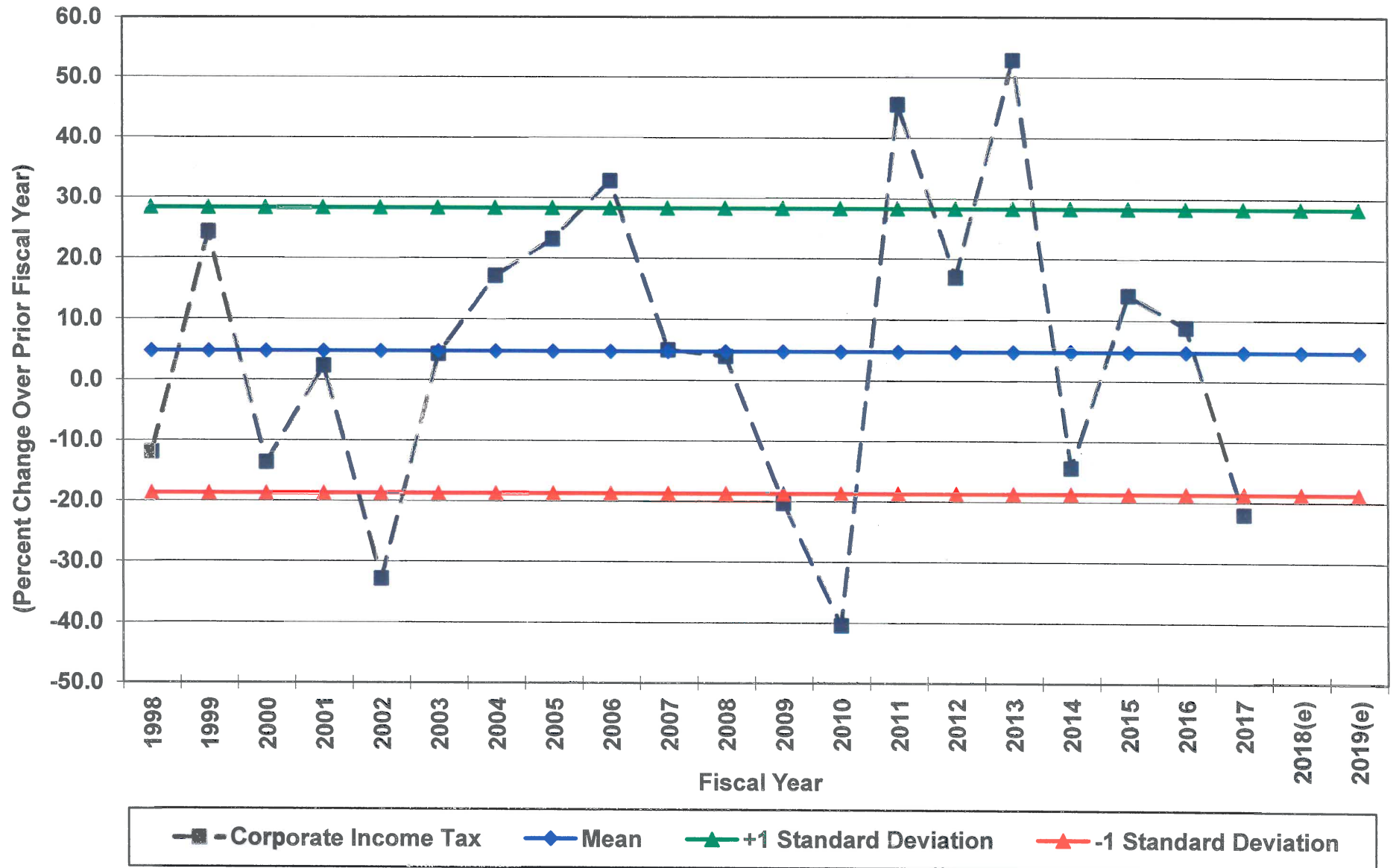
Source: Board of Economic Advisors
BEA/RWM/08/30/17

Individual Income Tax Withholdings in South Carolina



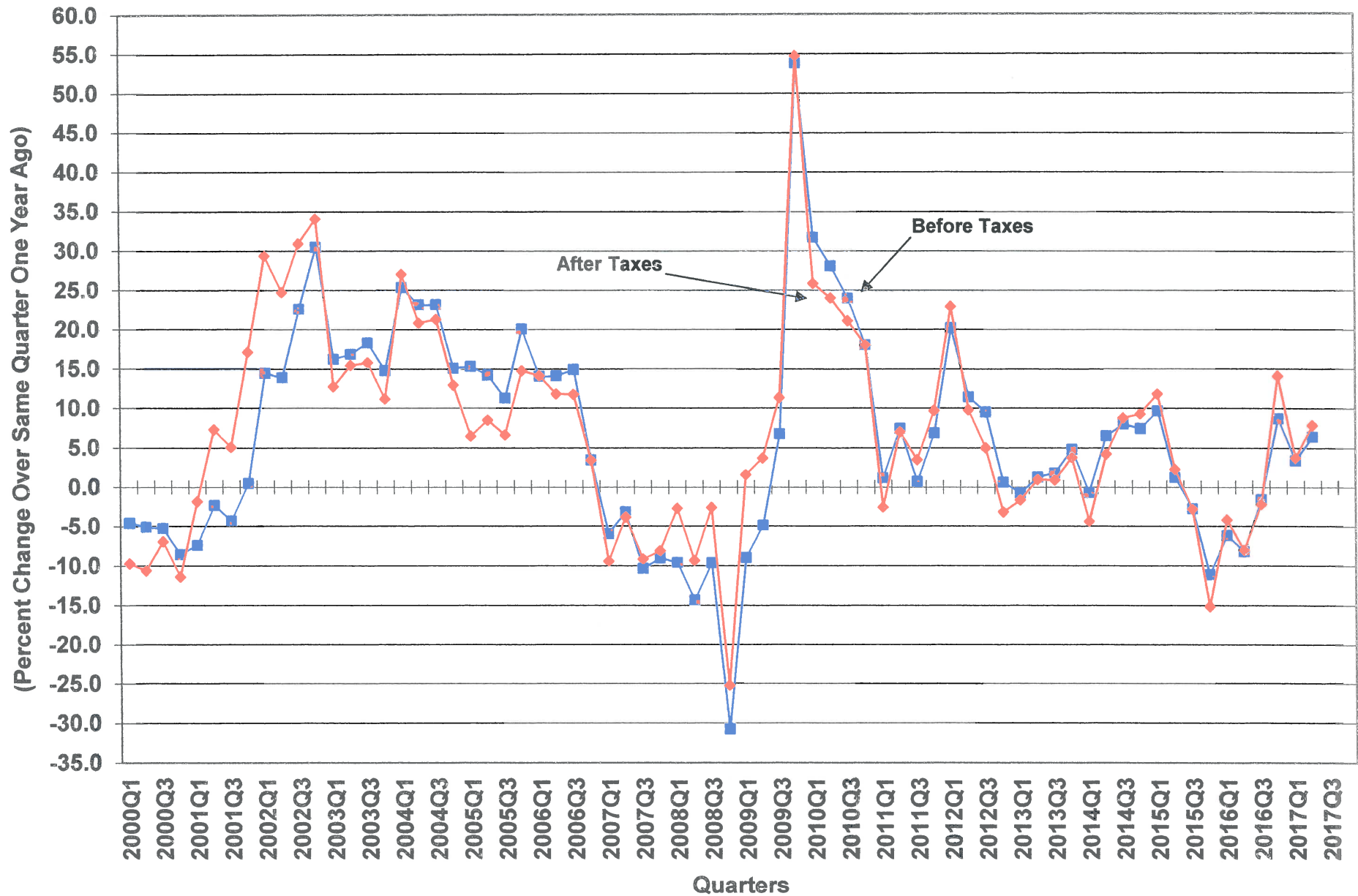
Source: Board of Economic Advisors
BEA/RWM/08/30/17

General Fund Corporate Income Tax Revenue Growth in South Carolina



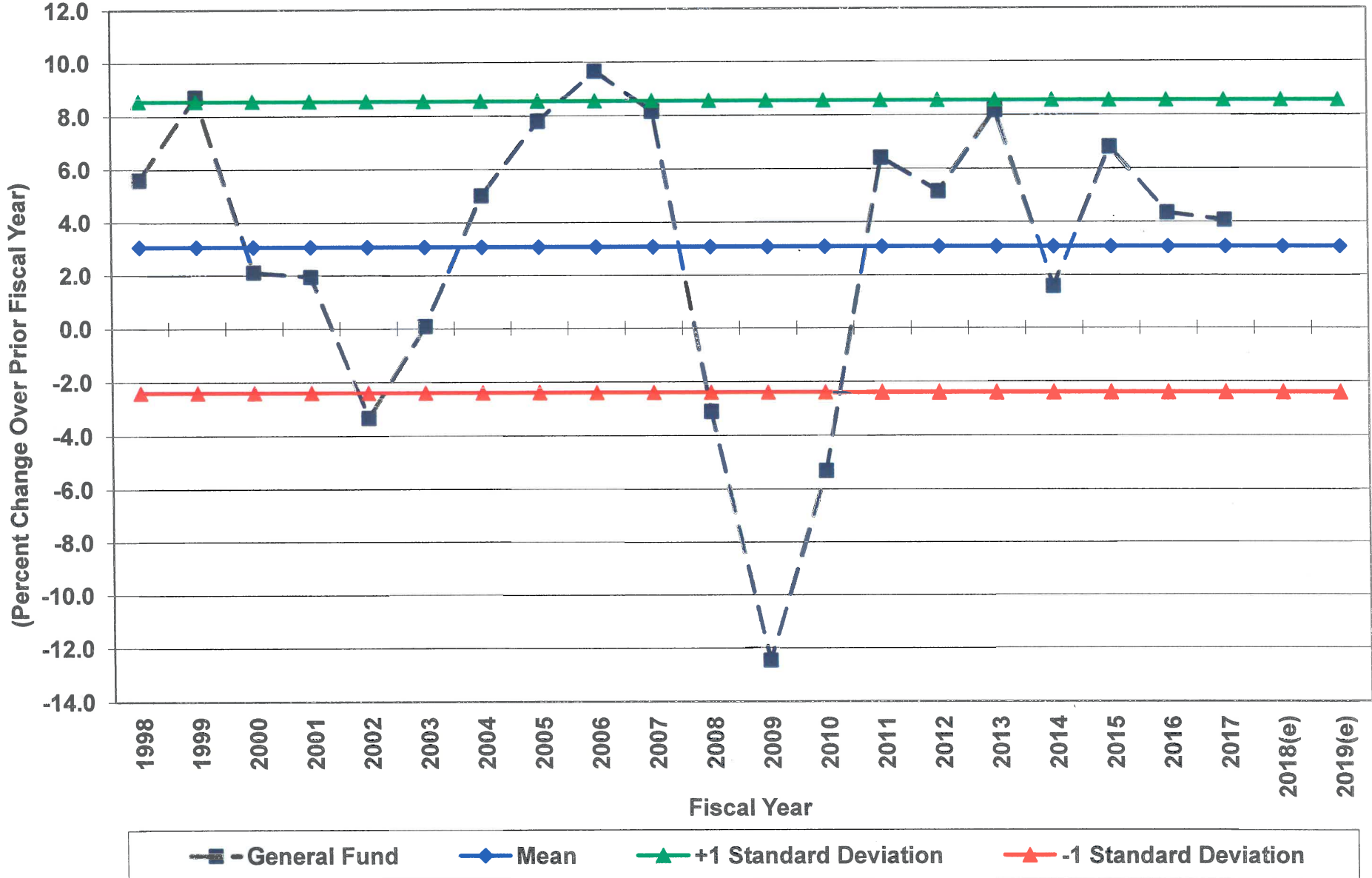
Source: Board of Economic Advisors
BEA/RWM/08/30/17

U.S. Corporate Profits Before and After Taxes



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

Growth in General Fund Revenue in South Carolina



Source: Board of Economic Advisors
BEA/RWM/08/30/17

WELCOME

to the
2017

ANNUAL REGIONAL ADVISORY MEETING



SIR ISAAC NEWTON

FIRST LAW OF MOTION

“EVERY OBJECT PERSISTS ... IN ITS UNIFORM MOTION IN A STRAIGHT LINE UNLESS IT IS COMPELLED TO CHANGE THAT STATE BY FORCES ACTED UPON IT”



SC ECONOMY

STATE OF MOTION

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18e	FY19e	AVG 2011-17
Personal Income	5.0	5.4	3.2	3.4	6.7	4.9	3.3			4.5
Employment	1.2	1.4	1.8	2.4	2.7	2.8	1.9			2.2

FORCES OF CHANGE

US Economy

World Economy

Inflation

Nature

Tax Issues

FY 2016-17 RESULTS

- FY 2016-17 final estimate was \$27.5 million, or 0.34 percent above final collections (Note: Estimate was raised in February 2017 by \$28 million)
- SC Personal Income growth for FY 2016-17 was 3.3 percent and below estimate of 4.75 percent
- FY 2015-16 revenues finished \$16.8 million below final estimate
- Additional \$20 million in tax cuts enacted after the budget passed for FY 2015-16
- Unexpected \$75 million corporate tax refund
- One late unknown factor – April 15th income tax payments were much less than expected

REGIONAL ADVISORY COMMITTEE

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