



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

SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER
Executive Director

BOARD OF ECONOMIC ADVISORS WORKING GROUP MEETING AGENDA February 15, 2018, 2:00 P.M.

Bowers Conference Room 417, Rembert C. Dennis Building

1. Welcome
2. Adoption of Meeting Minutes for October 19, 2017 (to include Regional Advisory Meeting), November 9, 2017, and January 25, 2018
3. FY 2017-18 and FY 2018-19 Forecast
 - A. Overview (F. Rainwater)
 - B. Revenue Collections and Trends (R. Martin)
 - C. Consideration of FY 2017-18 and FY 2018-19 Revenue Estimates (F. Rainwater, R. Martin)
4. Other Business
5. 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
6. Future Meeting Schedule:
 - A. March 22, 2018, 1:30pm, Members join via WebEx
 - B. April 9, 2018, 2:00pm - Quarterly Review
 - C. May 17, 2018, 2:00pm - Members join via WebEx
 - D. 2018 Calendar at <http://rfa.sc.gov/meetings>
7. 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



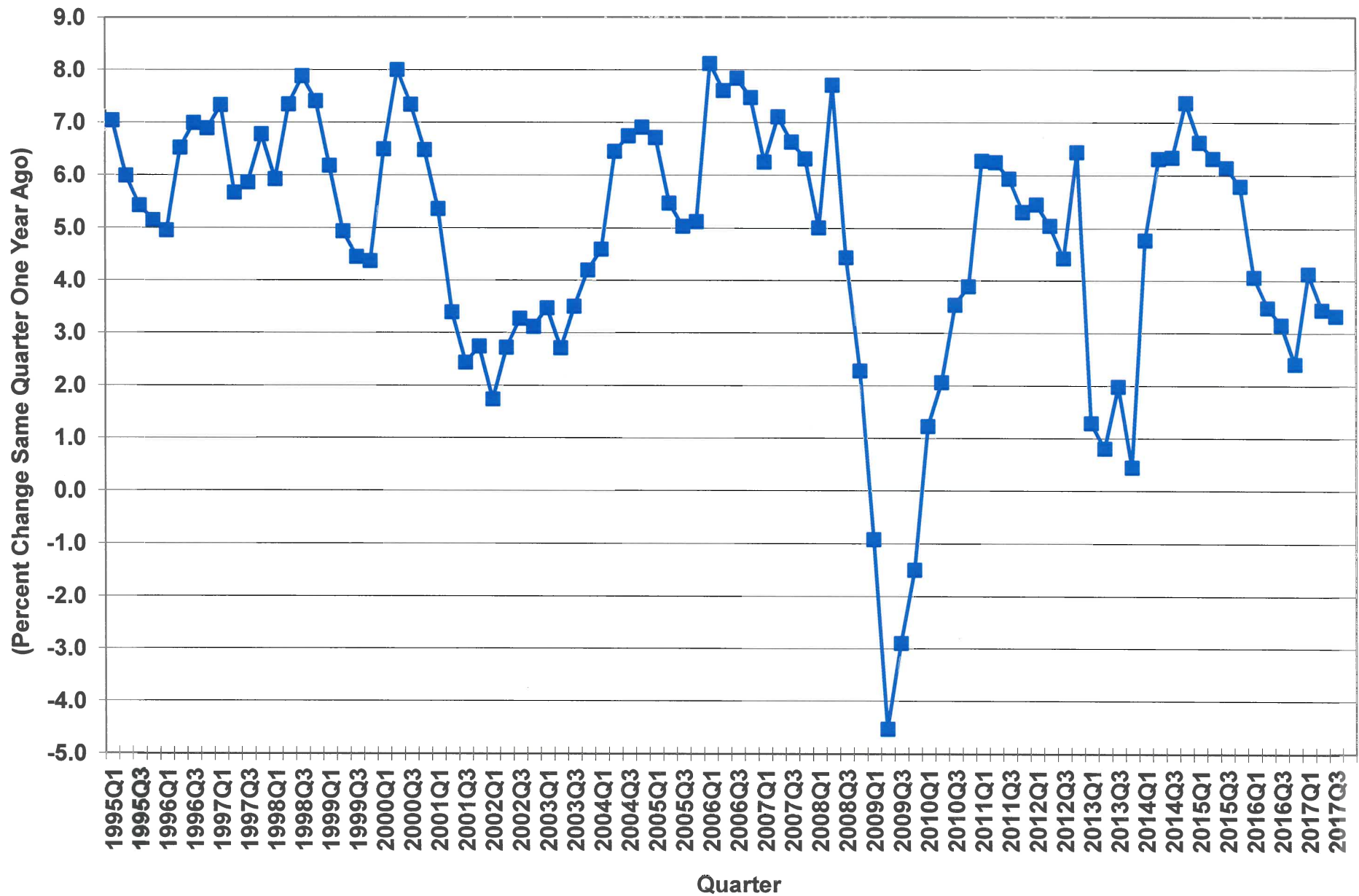
OVERVIEW

FINAL 2017-18 and FY 2018-19

- General Fund Revenues through January have increased 6.0 percent and are above the estimated annual growth of 4.6 percent by \$58 million.
- As usual, timing differences are affecting this revenue excess. Specifically the delay in IRS acceptance of tax reforms means fewer refunds were issued in January 2018 than one year ago.
- Since the November 2017 estimate, revenue growth in the two major sources has improved and turned a \$36 million shortfall into a \$72 million surplus.
- Consumer spending and increased manufacturing output were the key drivers.
- The November concerns of a mid-year shortfall have evaporated.

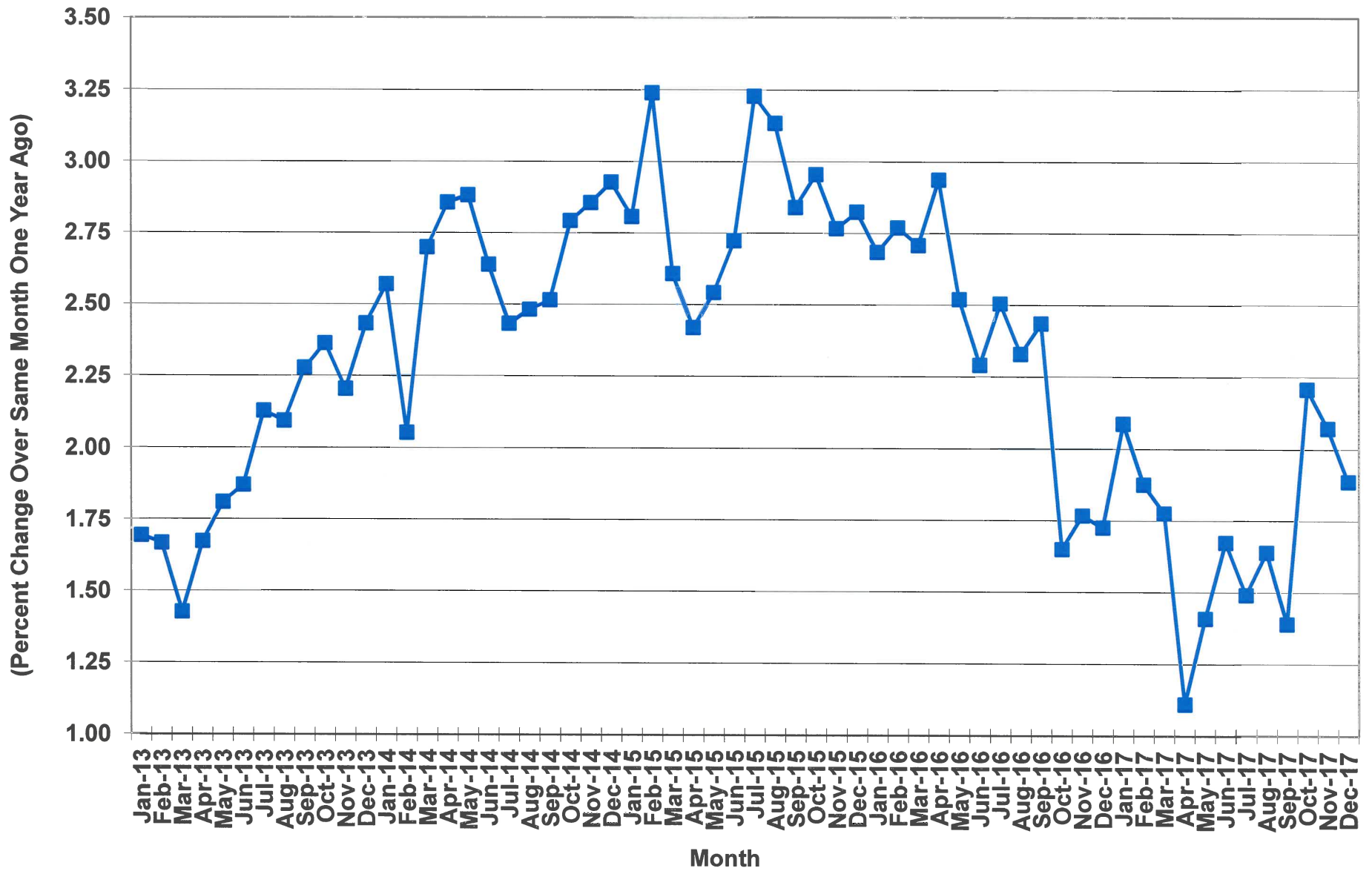
BASE ECONOMIC ASSUMPTIONS

Growth in Personal Income in South Carolina



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

Total Nonfarm Employment Growth in South Carolina



Source: U.S. Department of Labor, Bureau of Labor Statistics
SCBEA/RWM/02/15/18

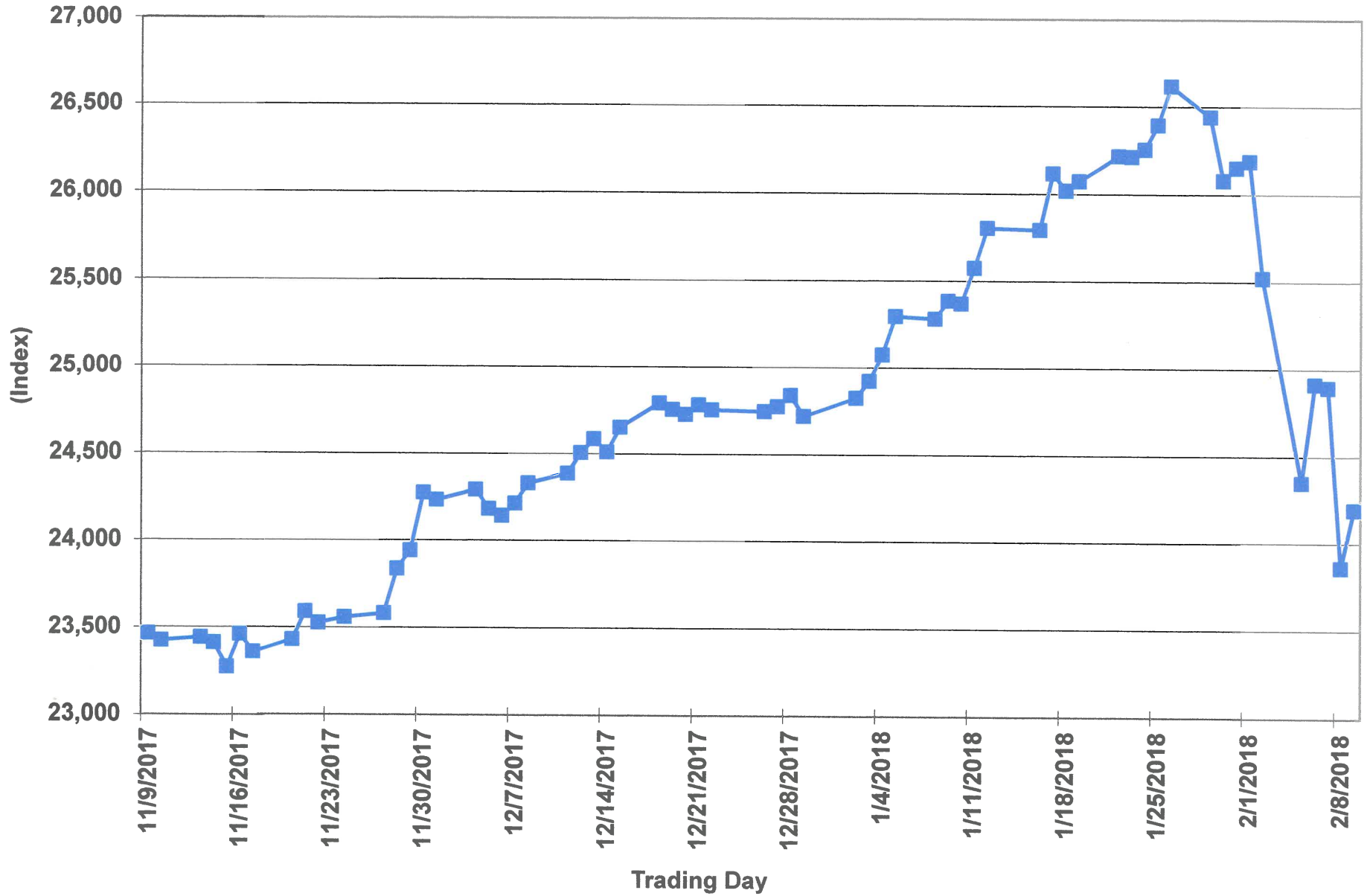


January 2018

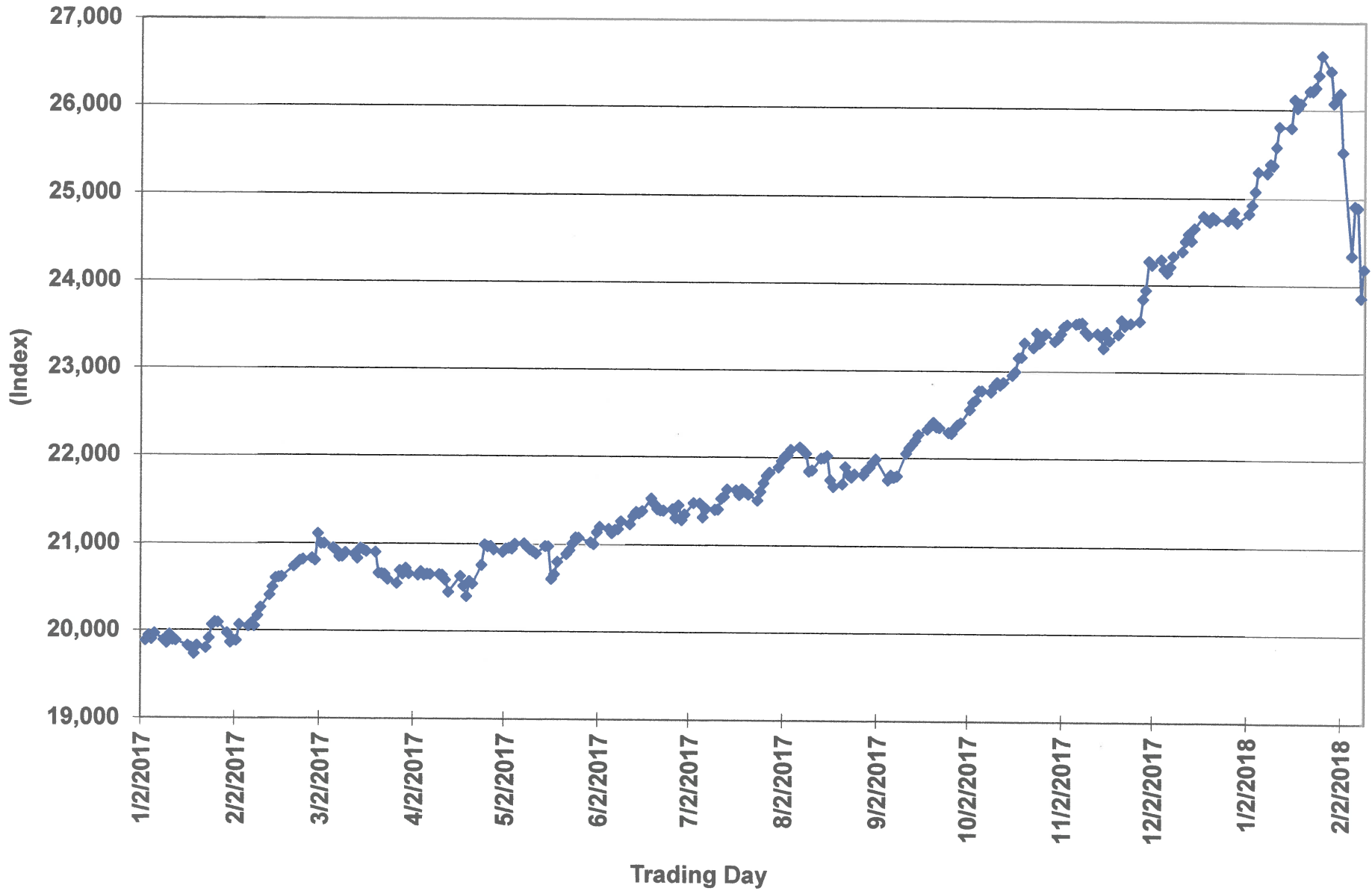
Recent Economic Developments

- **New Federal Reserve Chairman – Jerome H. Powell**
- **Stock Market**
- **Price of Oil**

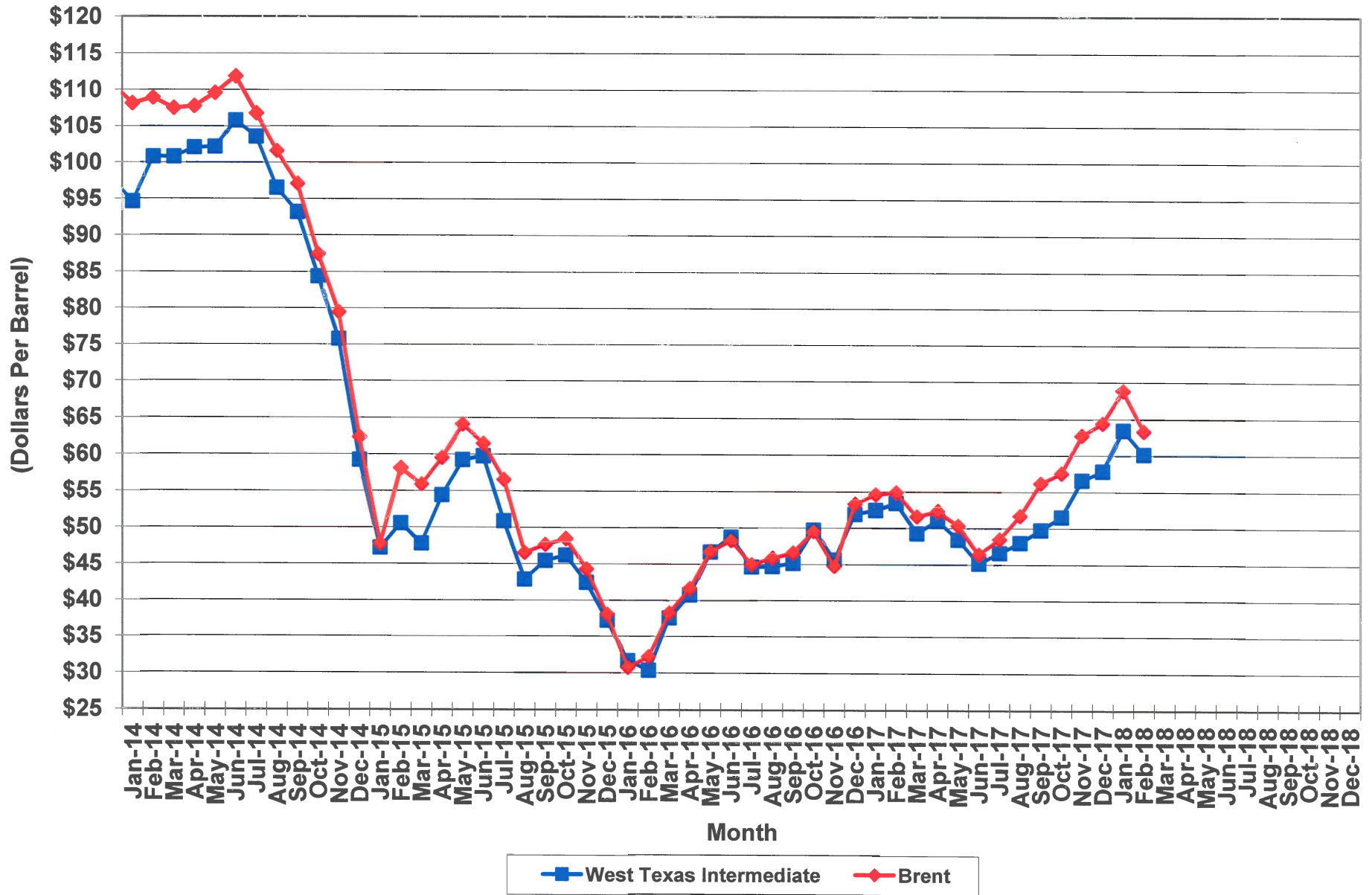
Dow Jones Industrial Average



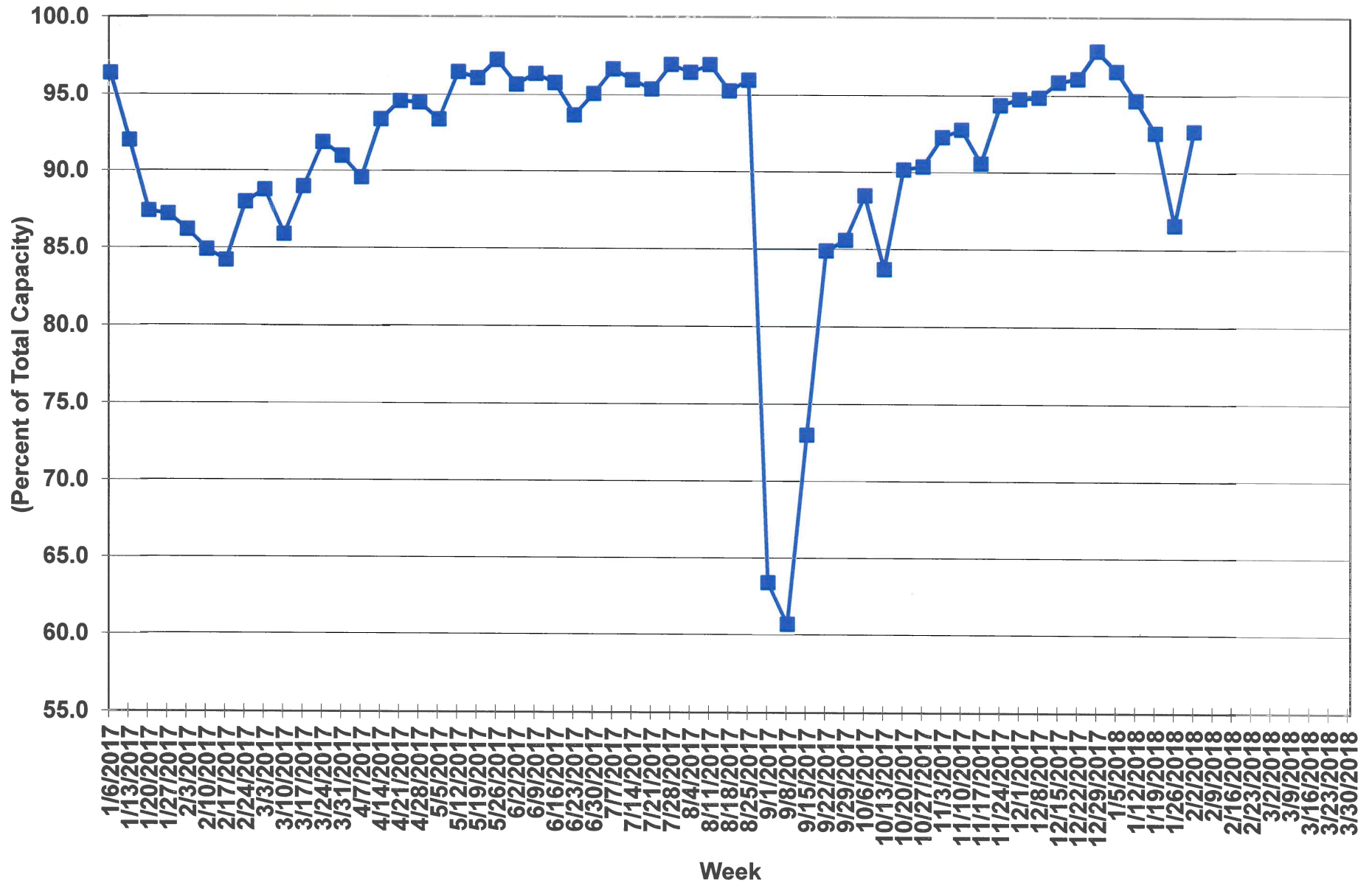
Dow Jones Industrial Average



Spot Crude Oil Prices

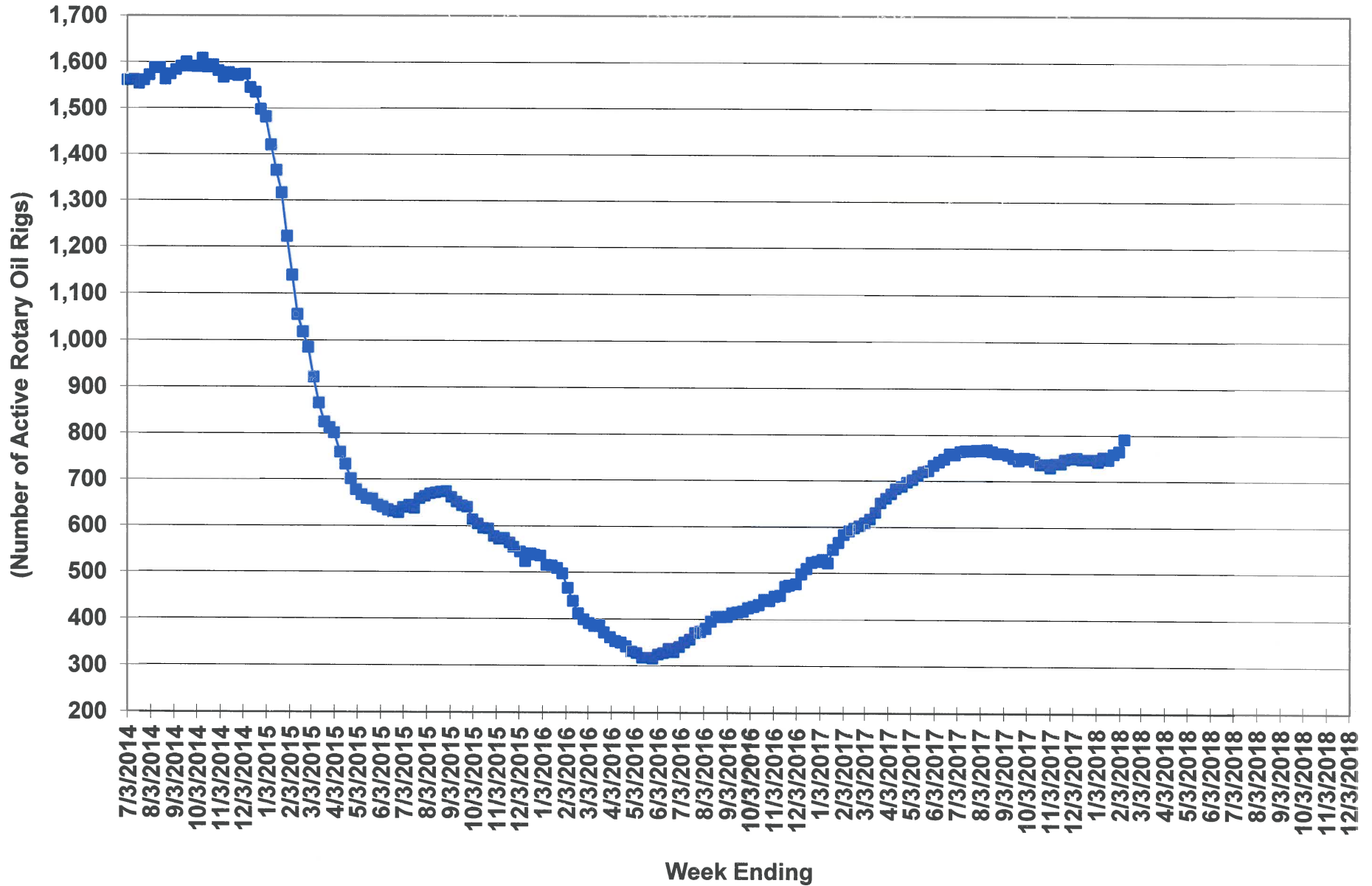


Refinery Capacity in the Gulf Coastal Region



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

Active Oil Rotary Rig Count in the United States





January 2018

Economic Health - Then and Now

Indicator	Then Nov. 10, 2017	Now Feb. 15, 2018	Effect On Economy
SC Employment	2.2%	1.9%	-
SC Income	3.71%	3.33%	-
US GDP	3.0%	2.6%	-
Oil Price	\$56.75	\$60.18	-
SC Gasoline Price	\$2.25	\$2.34	-
US Retail Sales	5.0%	5.4%	+
Interest rates	4.25%	4.50%	-
30-Year Mortgage	3.90%	4.31%	-
Value of \$	89.41	85.20	+
S&P 500 Index	2,557.00	2,619.55	+

Source: Compiled by the BEA from various sources.



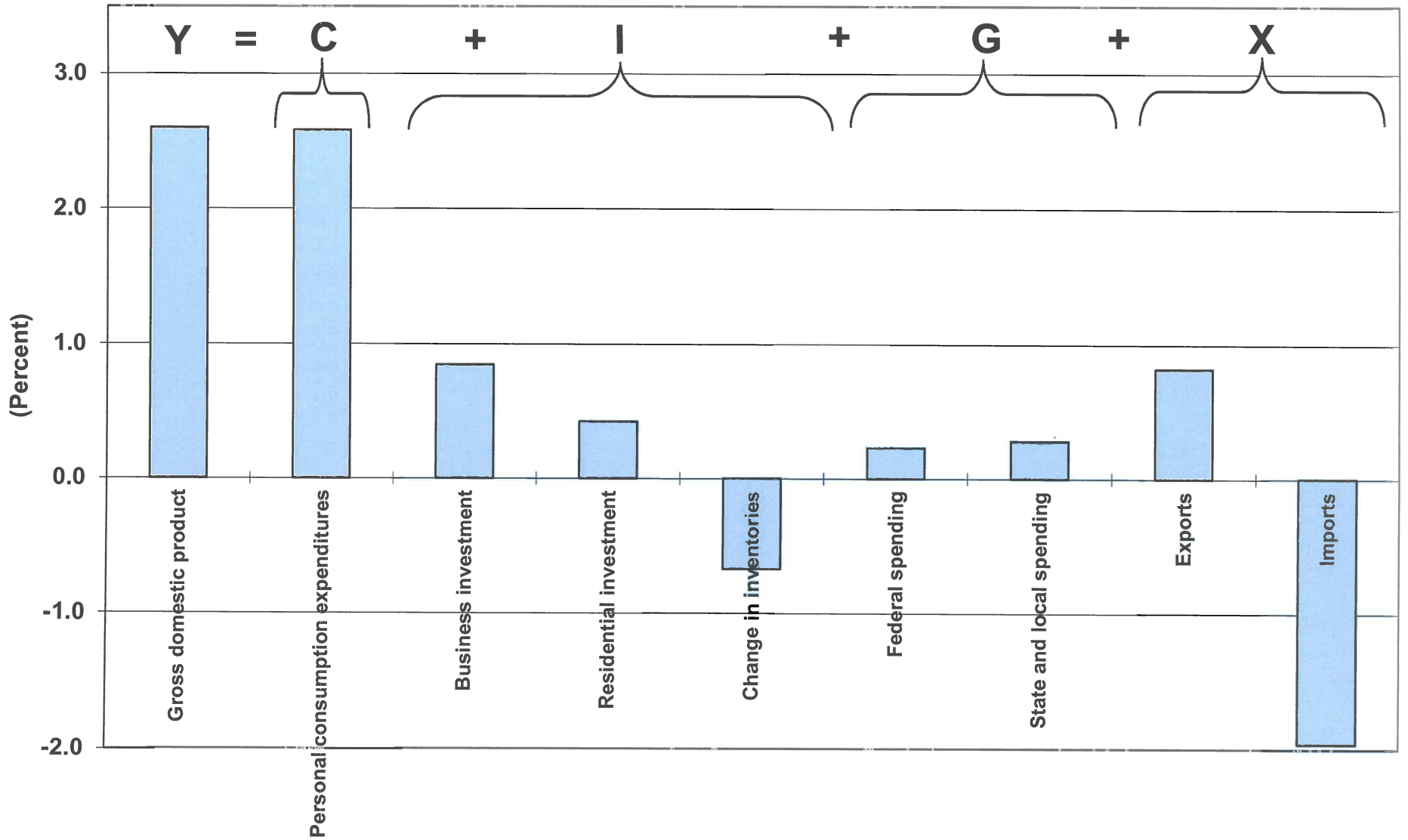
January 2018

Focus of Report

- **Economic Growth**
- **Energy**
- **Retail Sales**
- **Housing**
- **International Growth**
- **General Fund Revenues**
- **Economic Sectors to Watch**

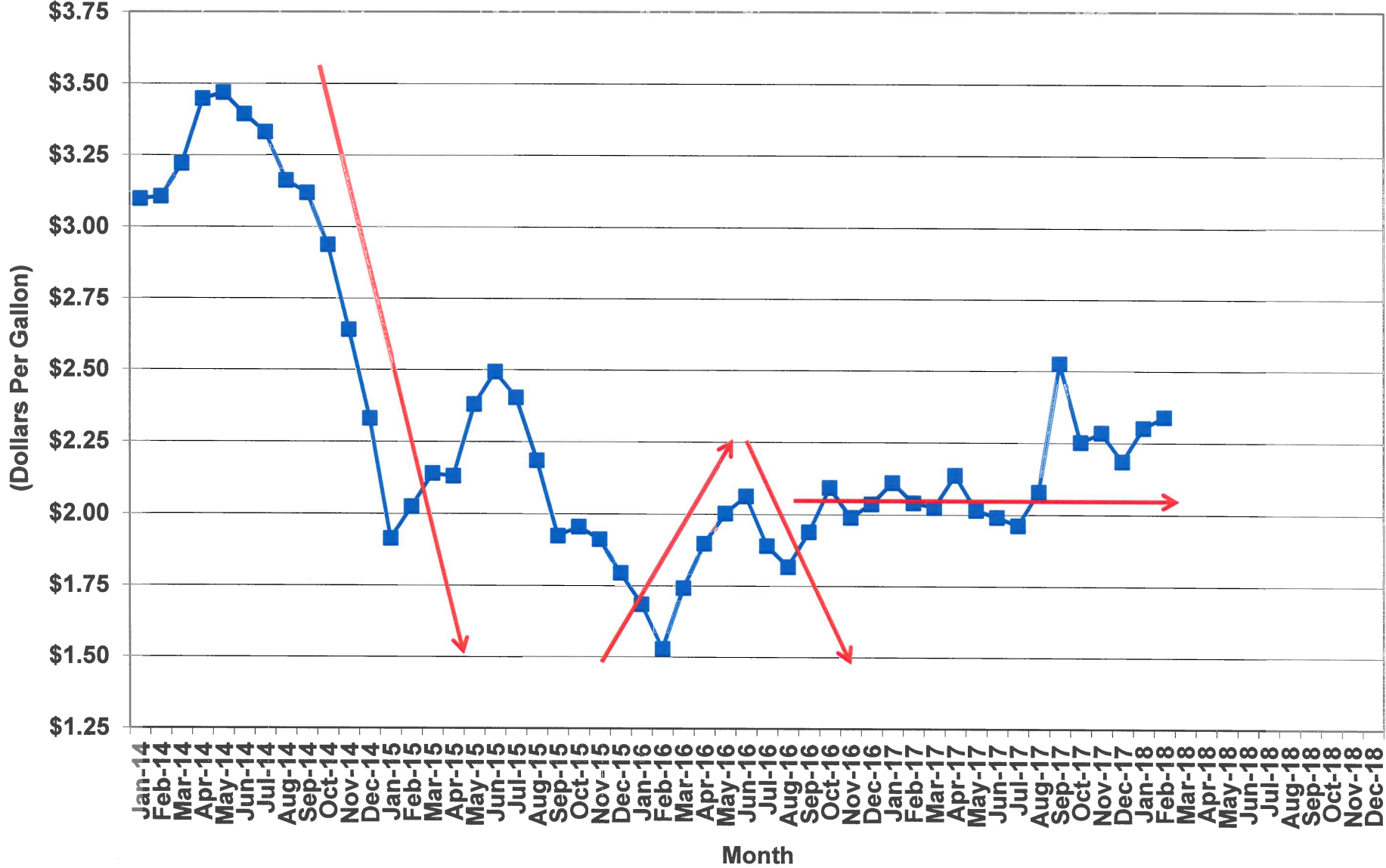
ECONOMIC GROWTH

Contribution to Real Gross Domestic Product in the U.S. 2017, Fourth Quarter, (Advance Estimate)



ENERGY

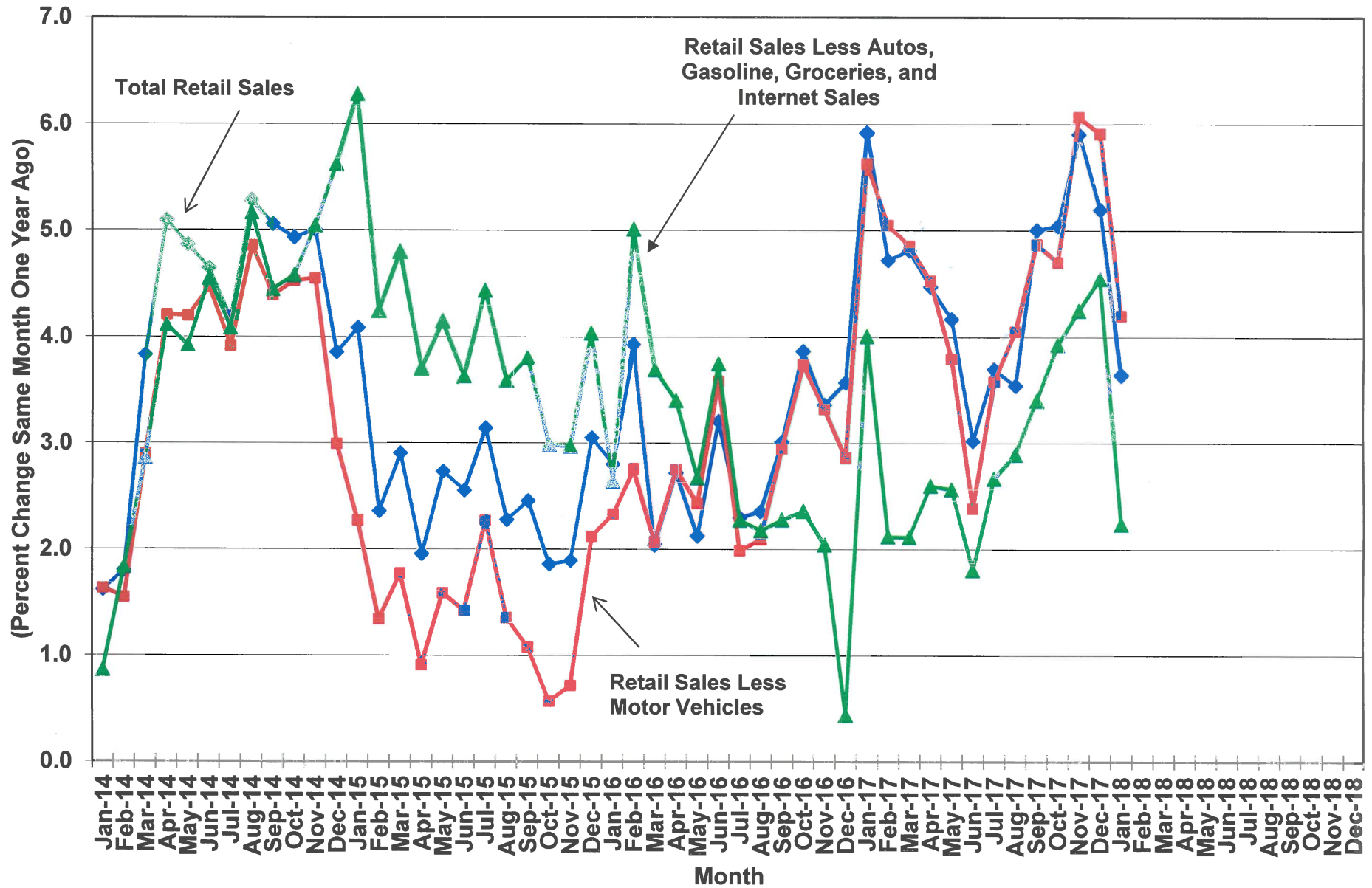
Gasoline Prices in South Carolina



Source: AAA of the Carolina's
SCBEA/RWM/02/15/18

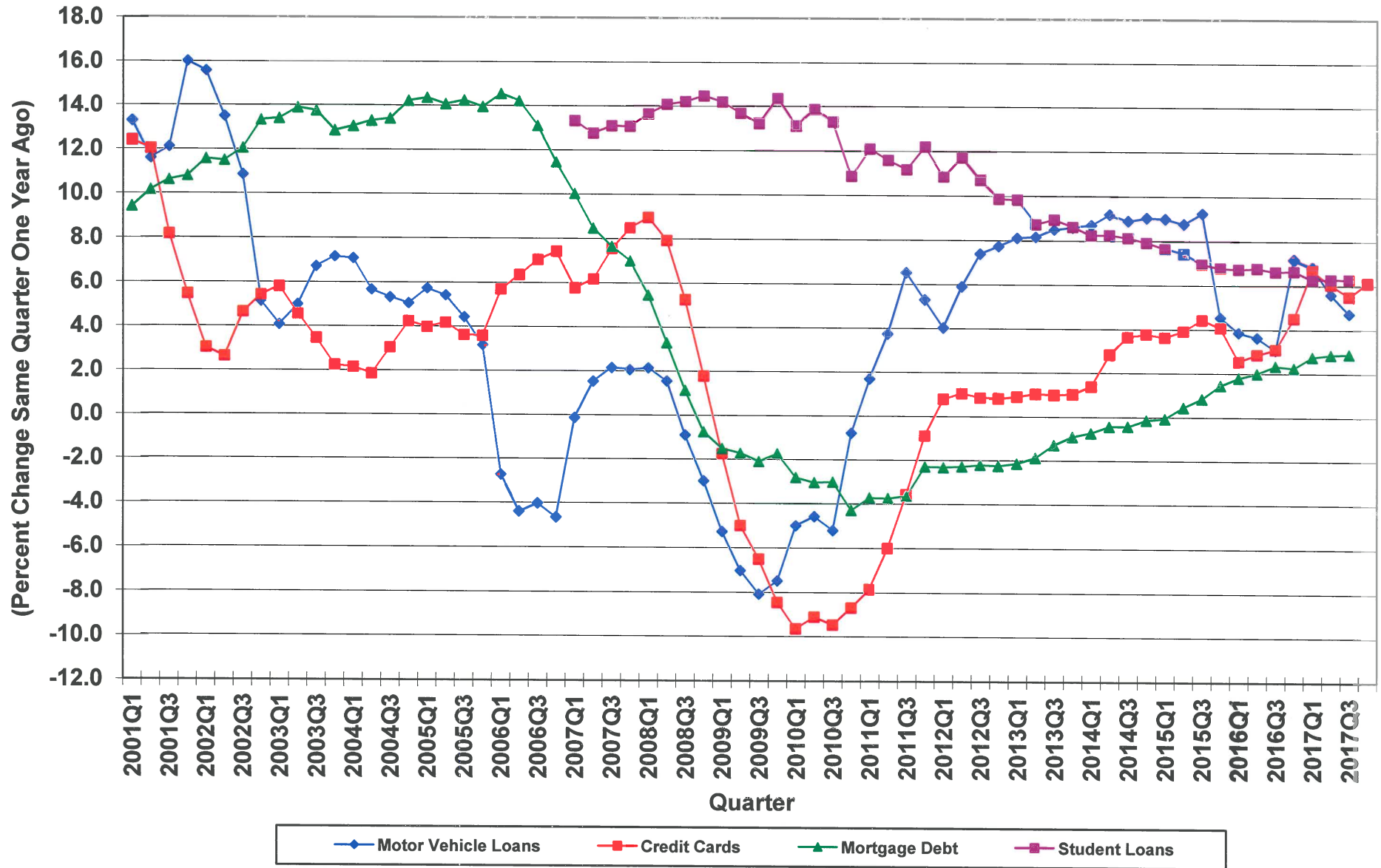
RETAIL SALES

U.S. Retail & Food Service Sales



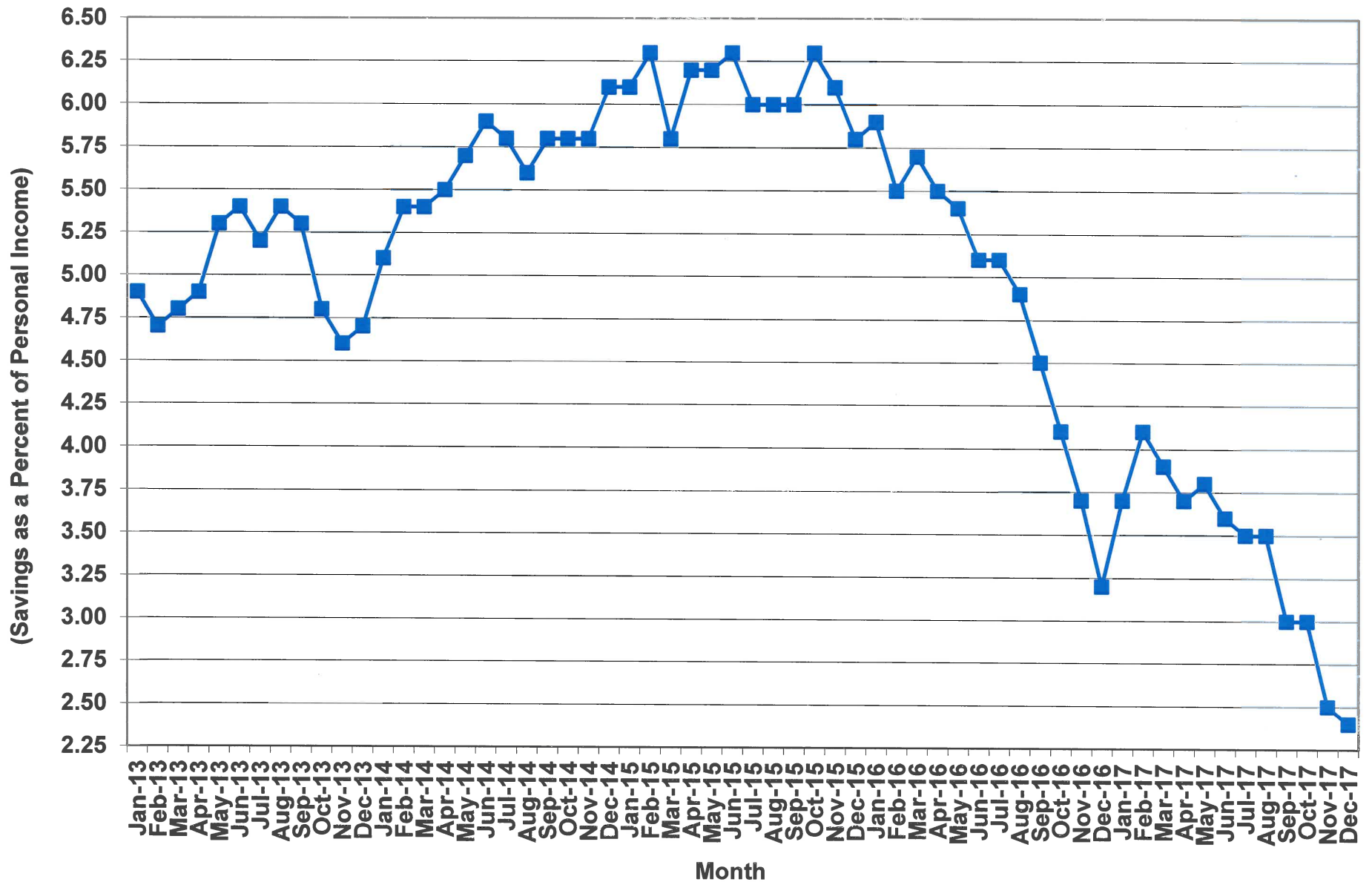
Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

Growth in Major Types of Household Debt



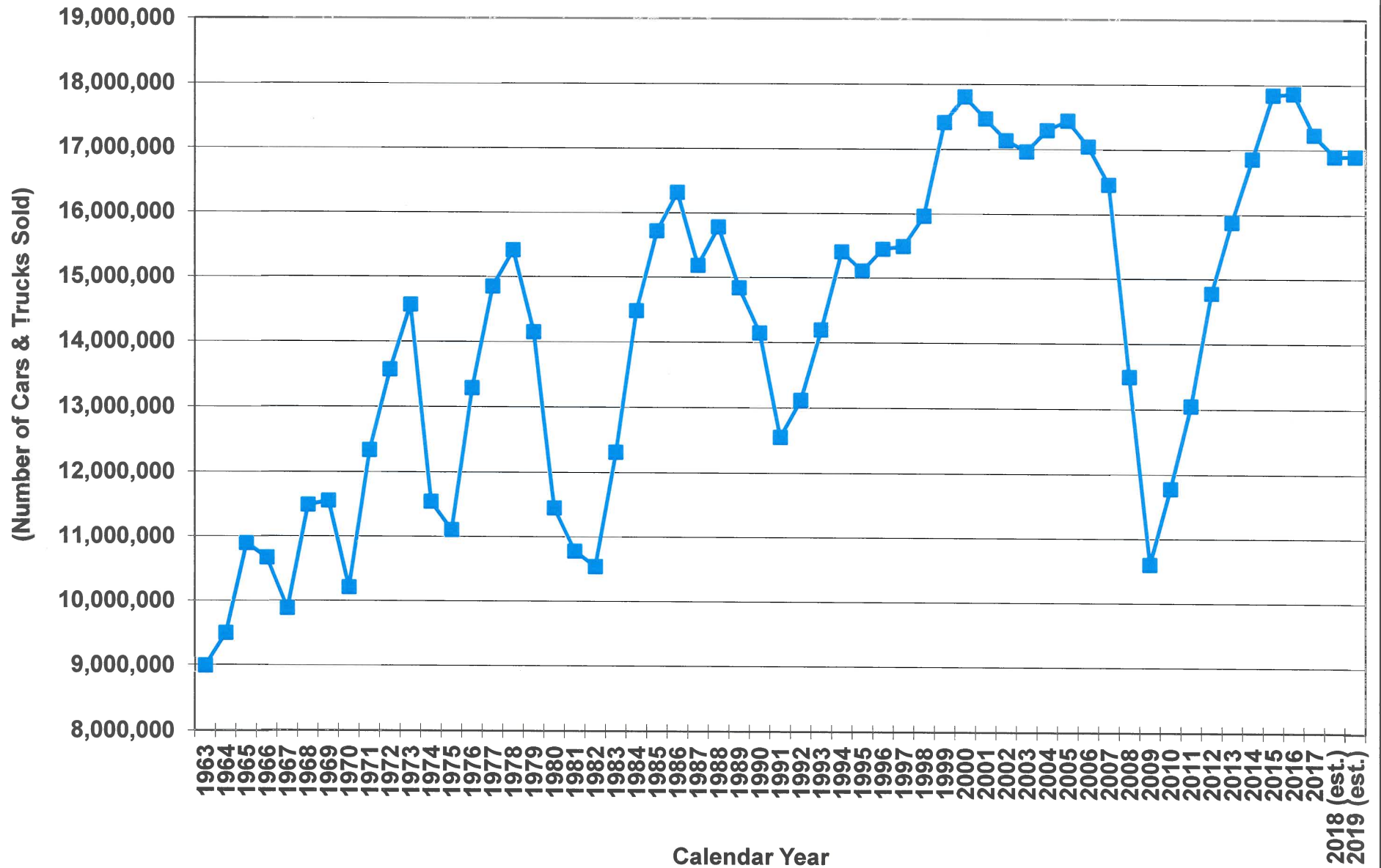
Source: The Board of Governors of the Federal Reserve System
BEA/RWM/02/15/18

Personal Savings Rate in the U.S.



Source: U.S. Department of Commerce, Bureau of Economic Analysis
SCBEA/RWM/02/15/18

U.S. Car & Truck Sales - 1963 to 2019

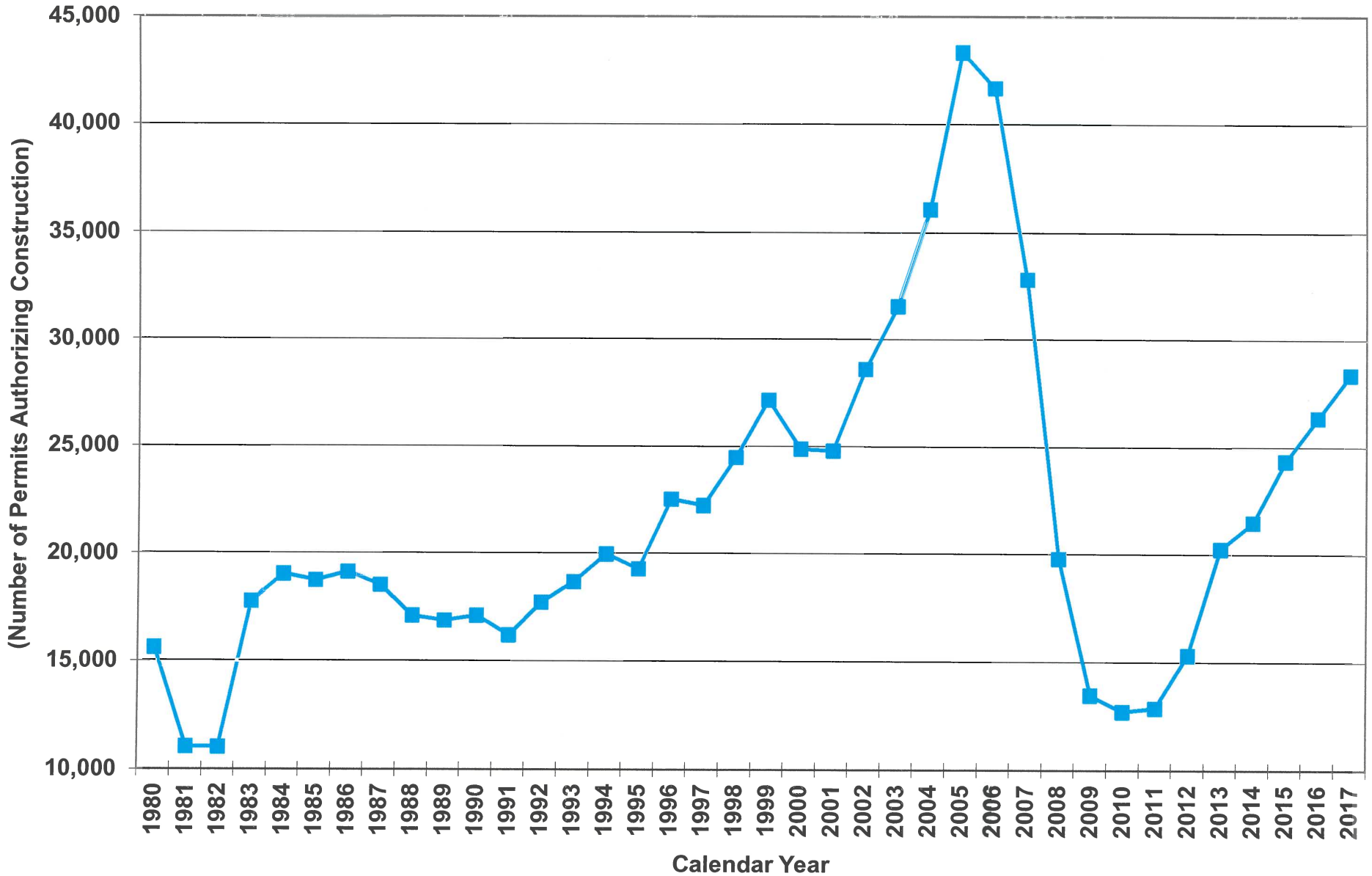


Sources: Ward's Automotive Group; J.D. Power, Inc.; Autodata Corporation.
BEA/RWM/02/09/18

S.C. Board of Economic Advisors

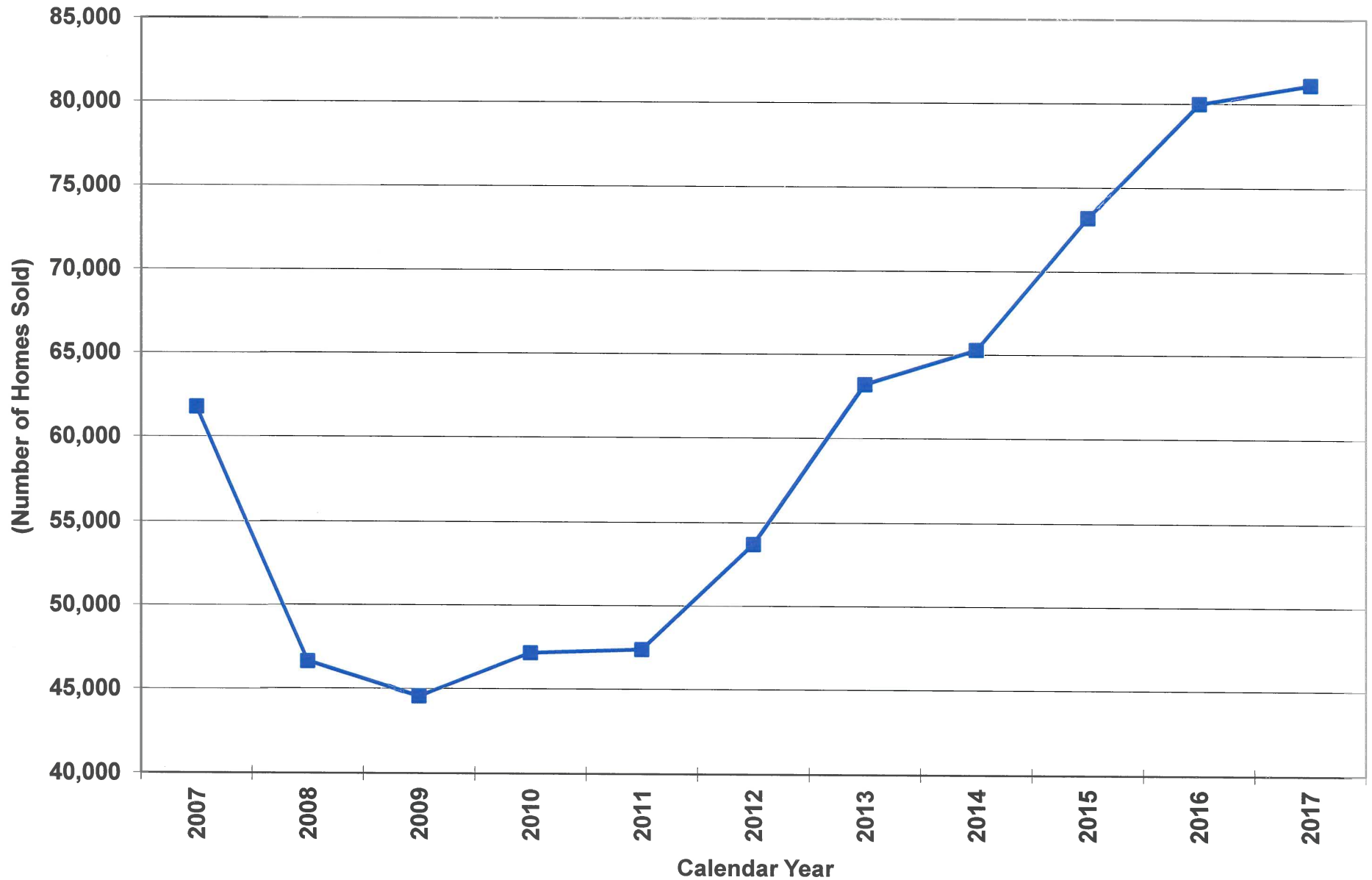
HOUSING

South Carolina Single-Family Building Permits

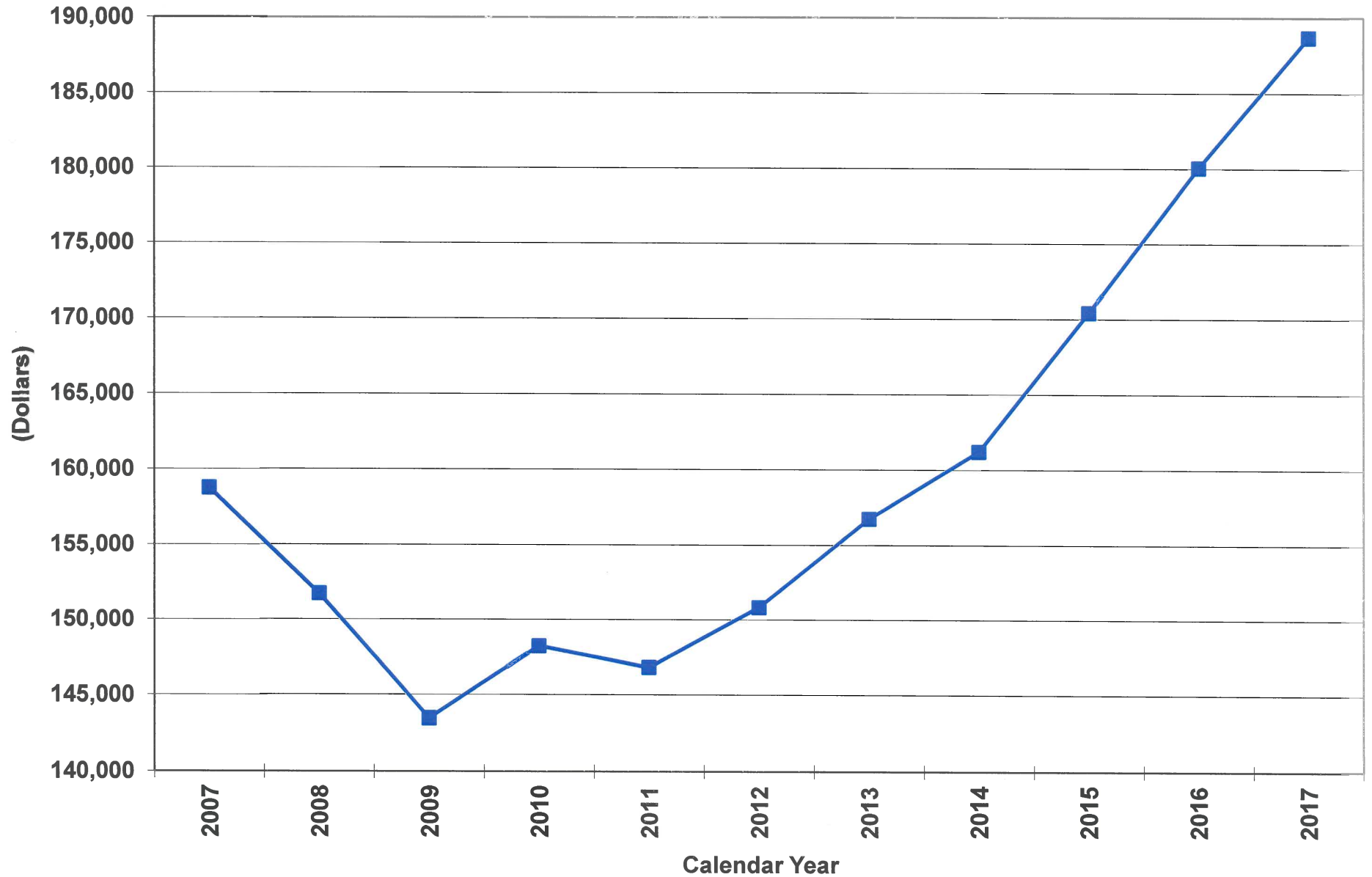


Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

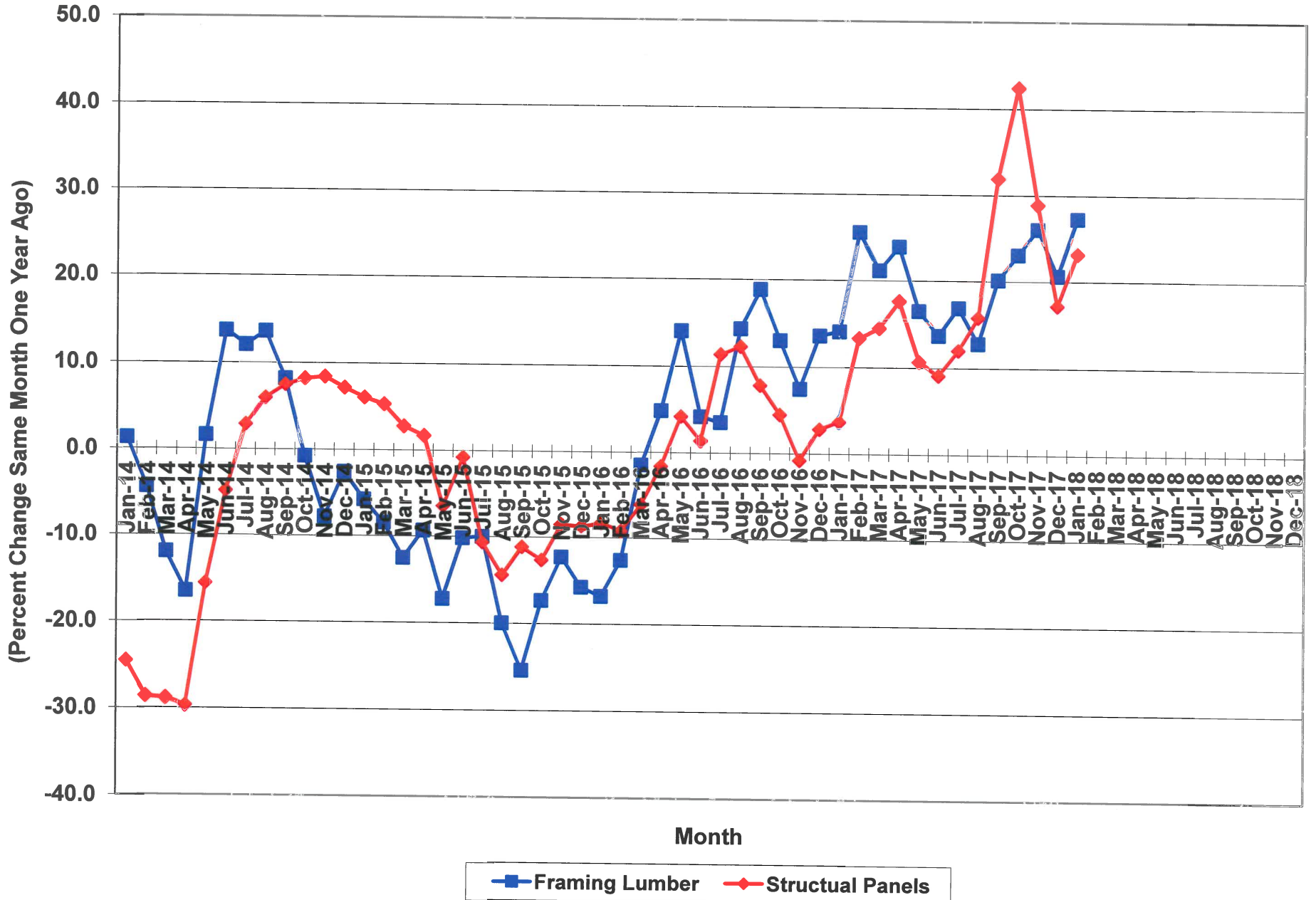
Number of Homes Sold in South Carolina



Median Price of Homes Sold in South Carolina

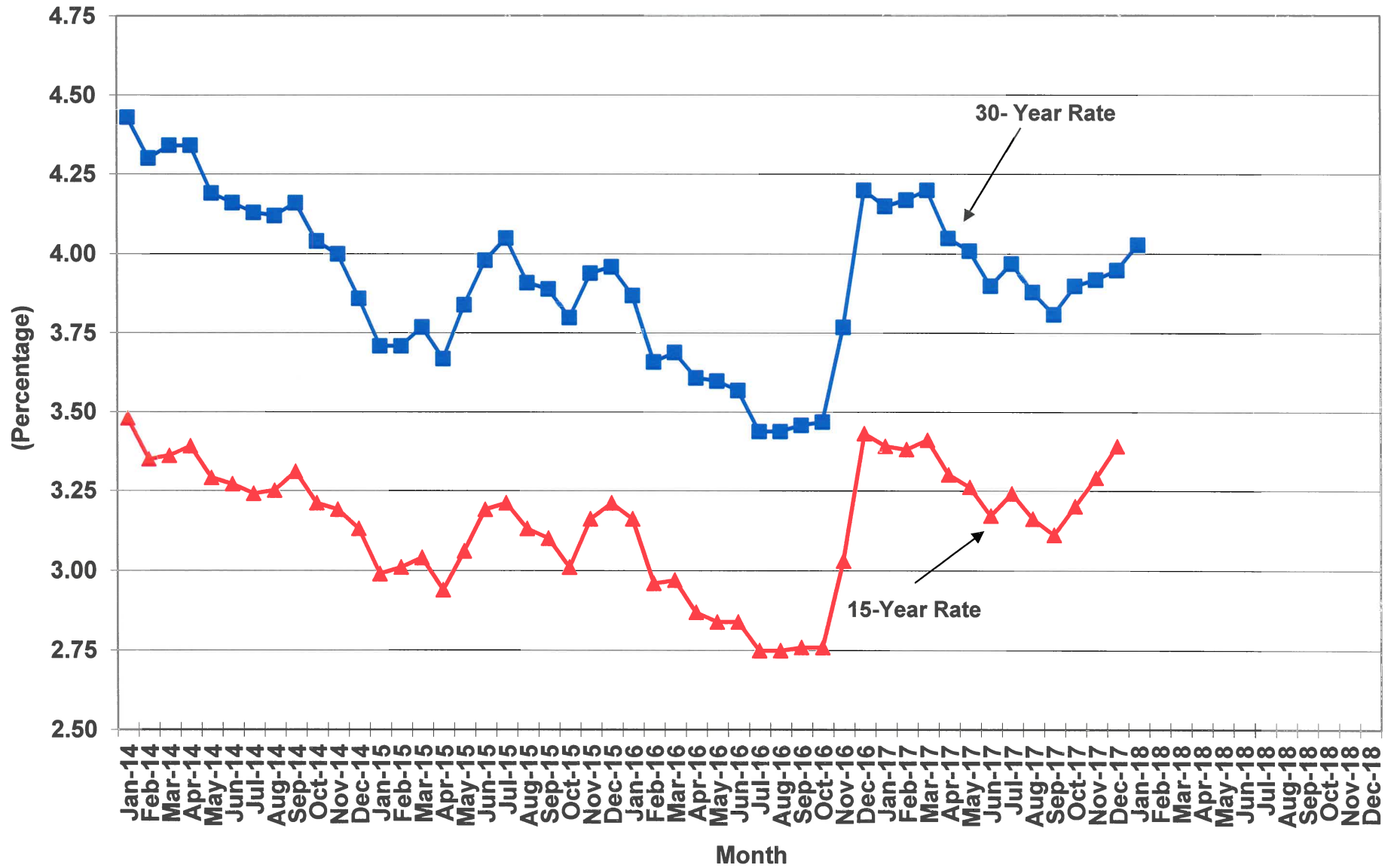


Growth in Building Supply Prices in the United States



Source: Random Lengths

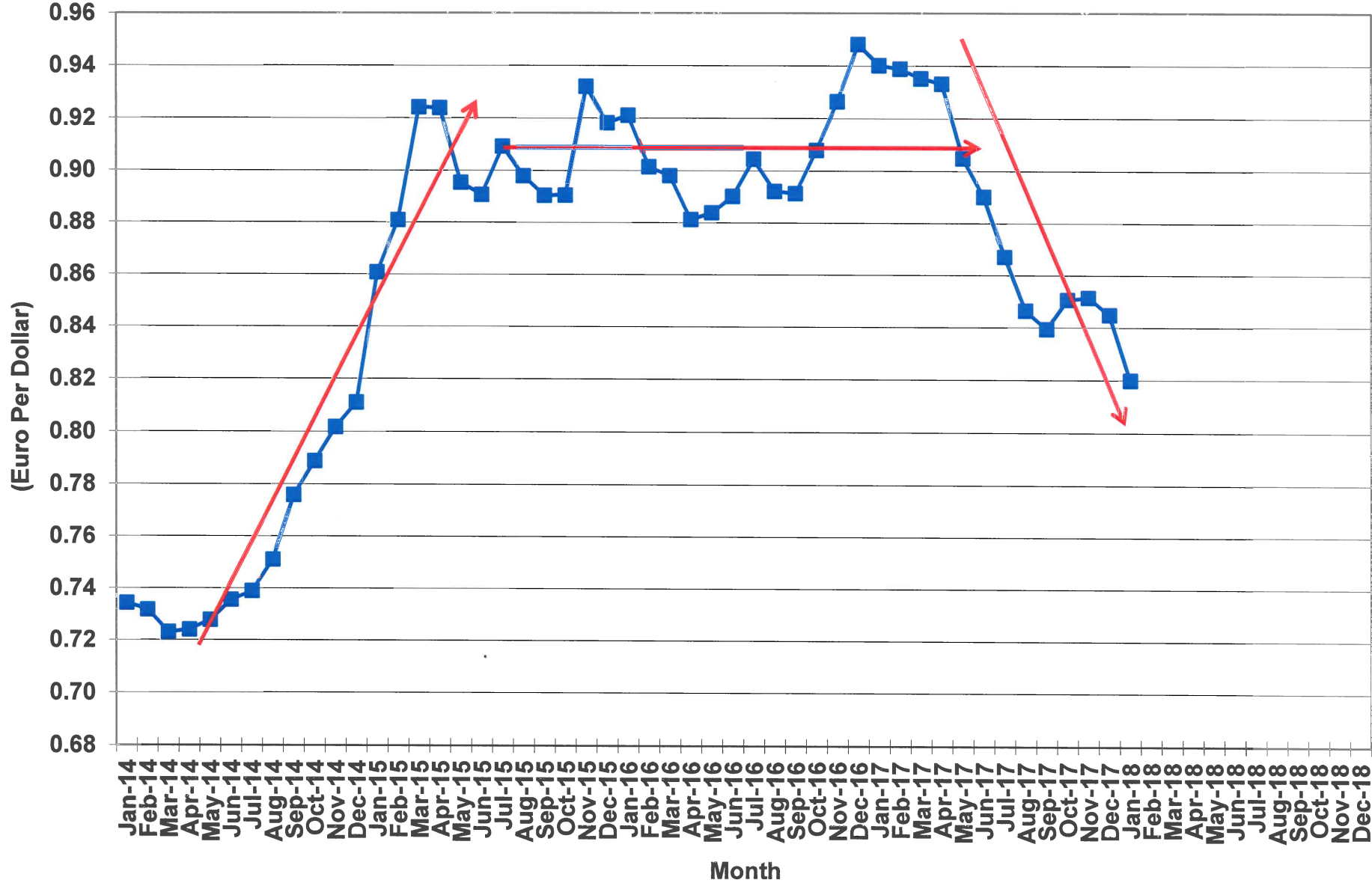
Mortgage Rates



Source: The Board of Governors of the Federal Reserve System
 SCBEA/RWM/02/15/18

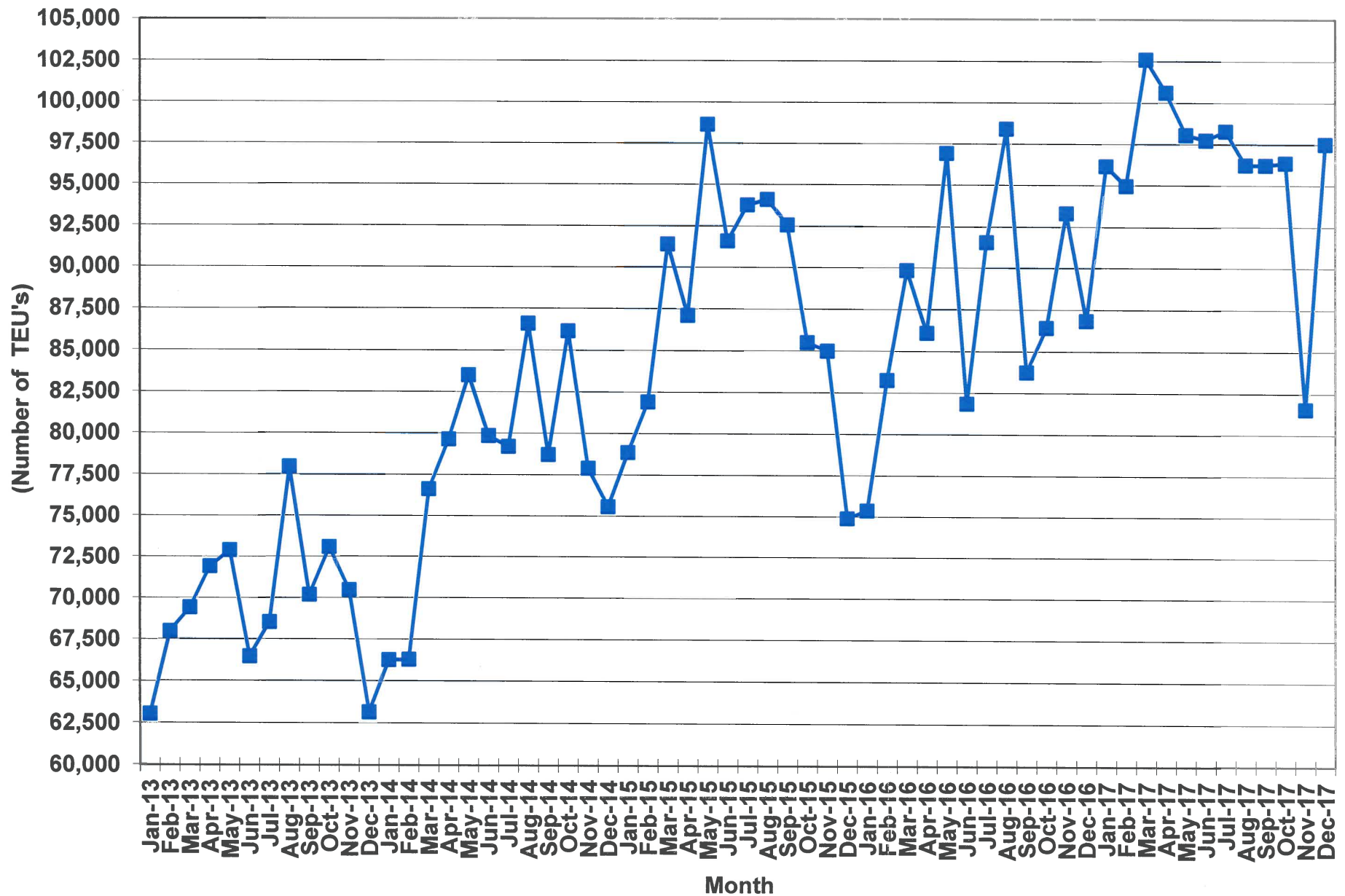
INTERNATIONAL

Value of the Euro vs. the U.S. Dollar



Source: The Board of Governors of the Federal Reserve System
 SCBEA/RWM/02/15/18

Exports from South Carolina



JANUARY 2018



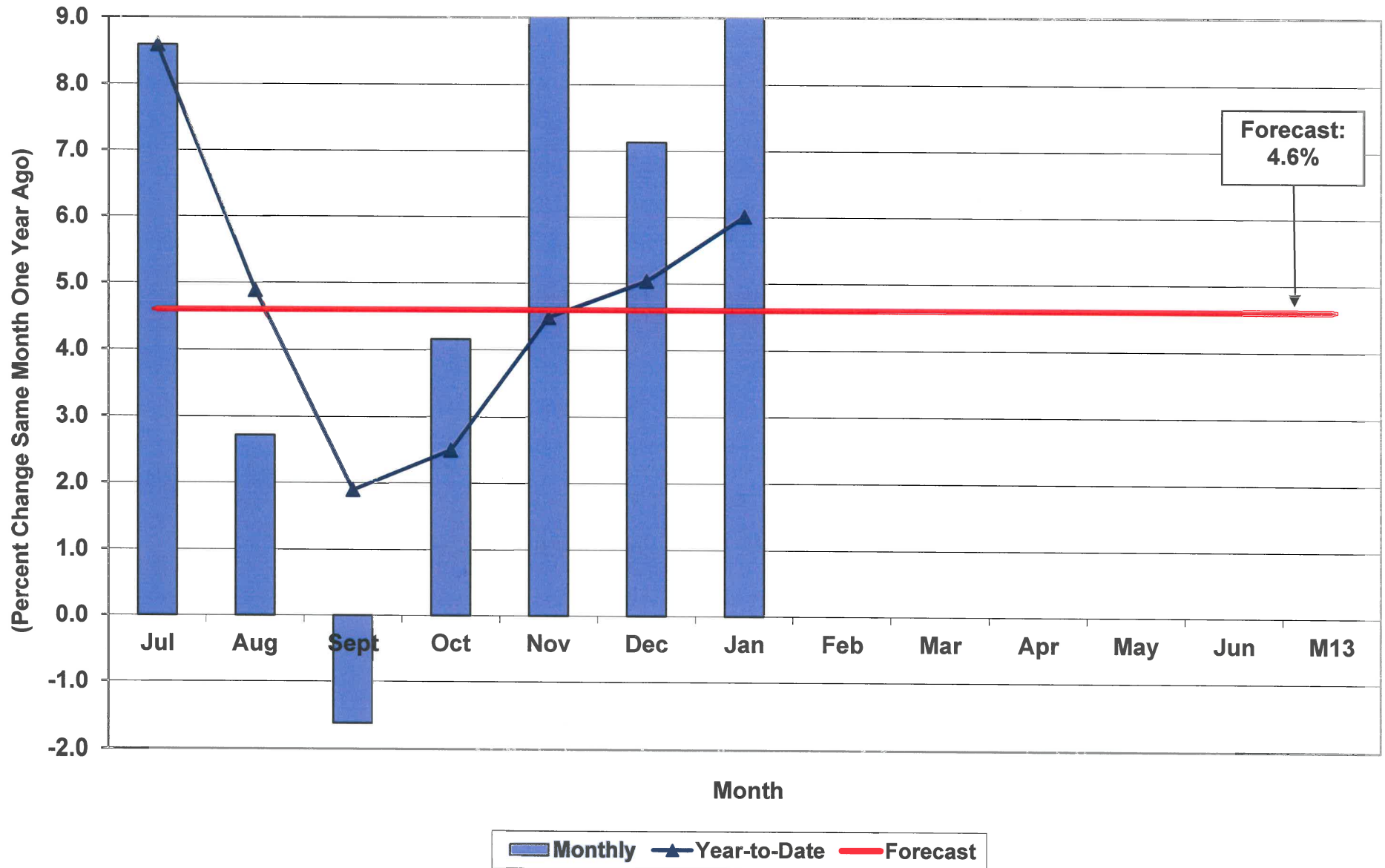
January 2018

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	\$5,332.2	\$5,274.3	\$58.0	4.6	6.0

- Through the first seven months of FY2017-18, General Fund revenues have increased 6.0 percent and are trending above current forecast projections by \$58 million
- After adjustments for sales tax held in a clearing account and large corporate income tax refunds, the Y-T-D revenue growth is 4.3 percent

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



Source: Board of Economic Advisors
BEA/RWM/02/15/18



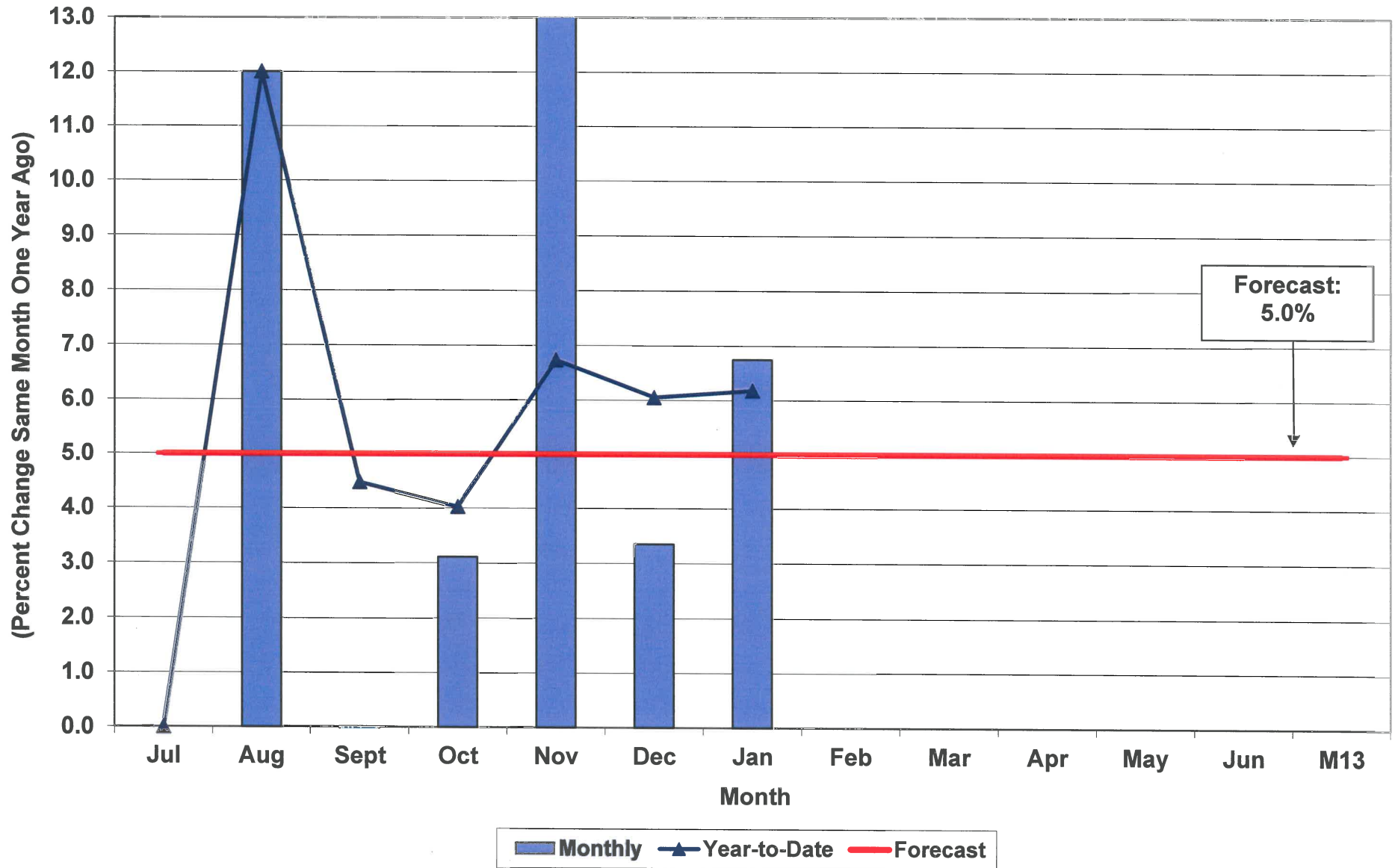
January 2018

Sales Tax

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Sales Tax	\$1,515.9	\$1,499.2	\$16.6	5.0	6.2

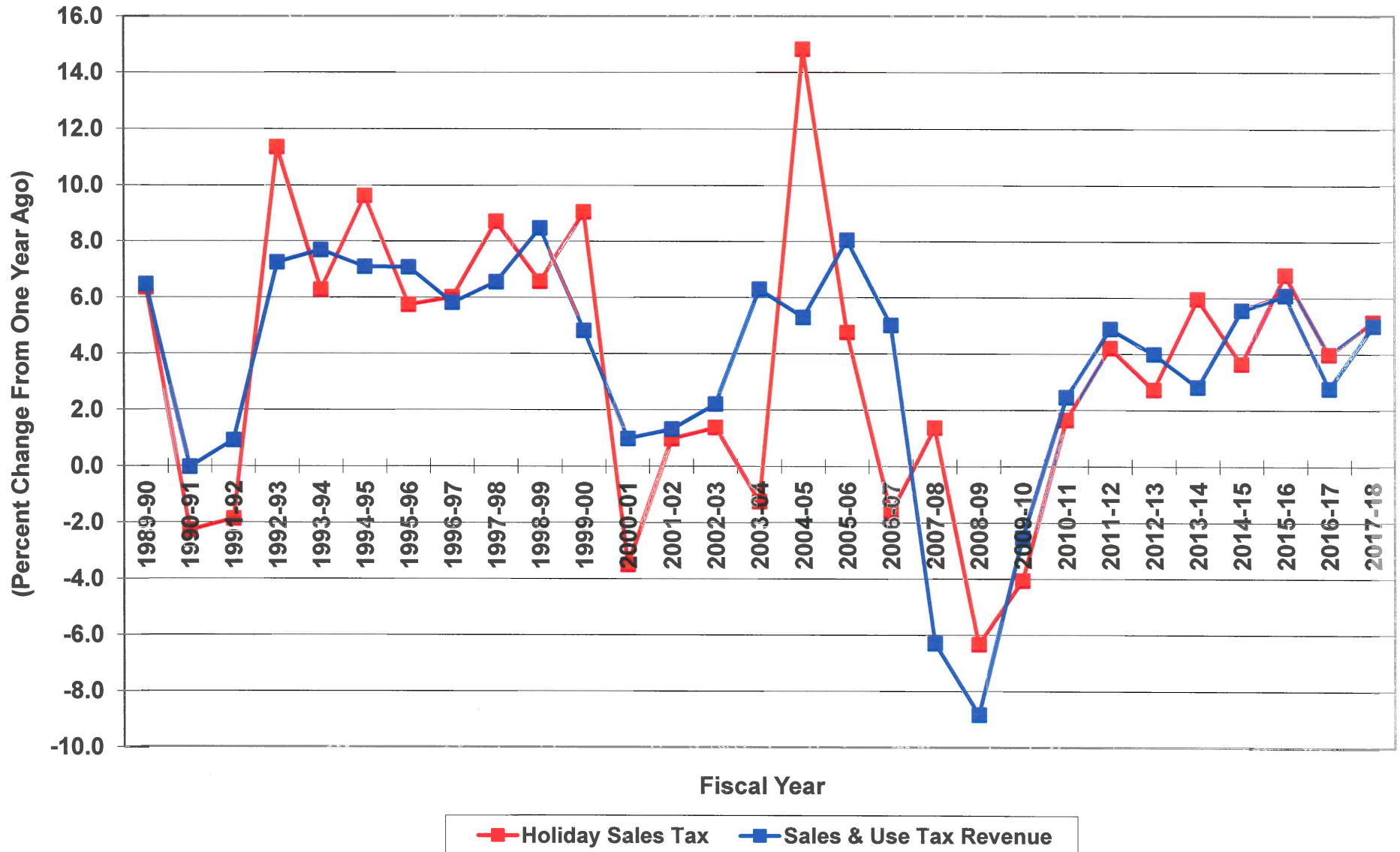
- Better-than-anticipated holiday sales have help boost sales tax collections as consumers increased debt and reduced savings
- There remains \$3.0 million in clearing account in January 2018
- After adjustments, the Y-T-D growth rate is 5.8 percent

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



Source: Board of Economic Advisors
BEA/RWM/02/15/18

Comparison of Growth in Holiday Season Sales Tax and Total Sales Taxes



Source: S.C. Department of Revenue



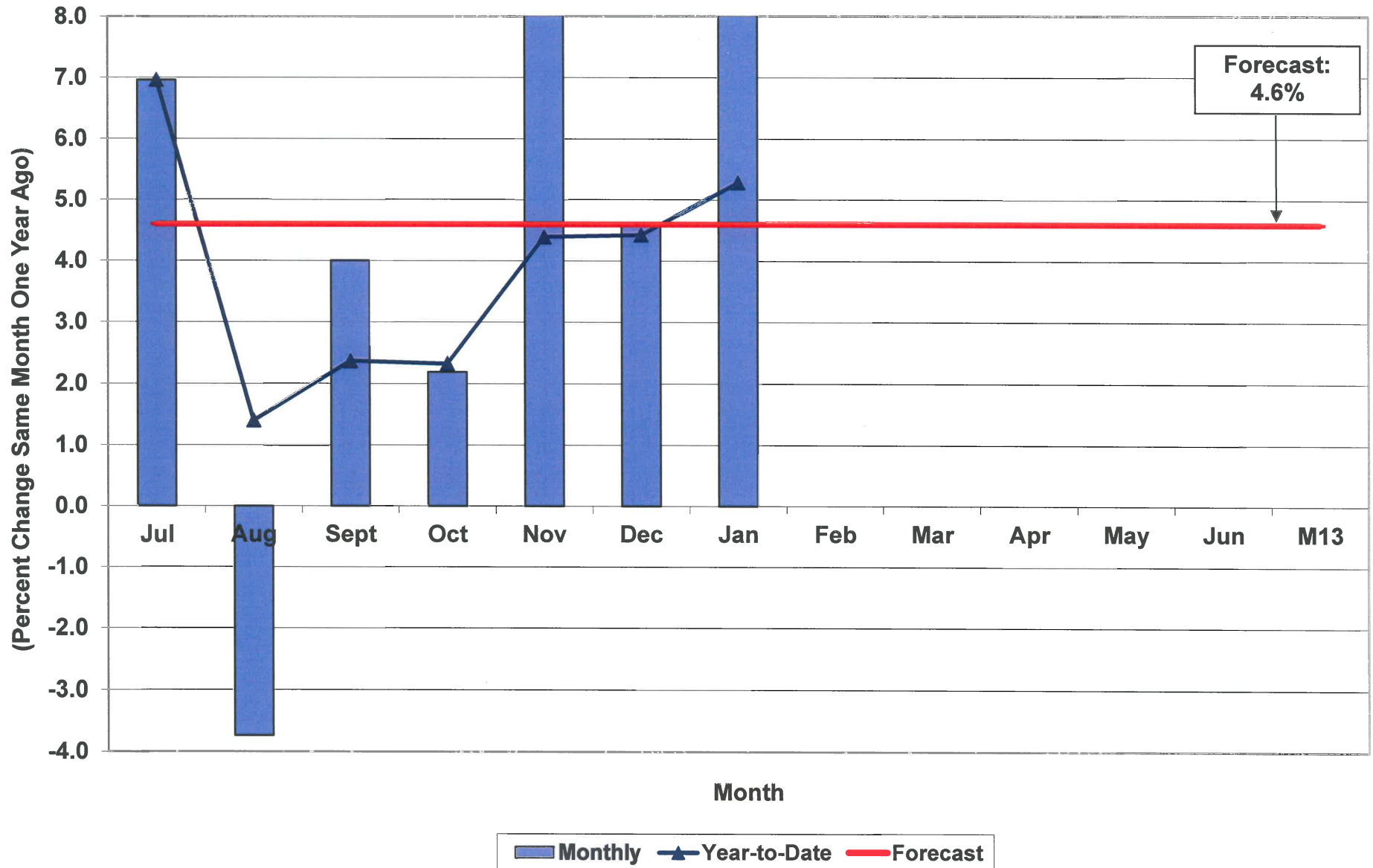
January 2018

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	\$3,241.8	\$3,186.4	\$55.4	4.6	5.3

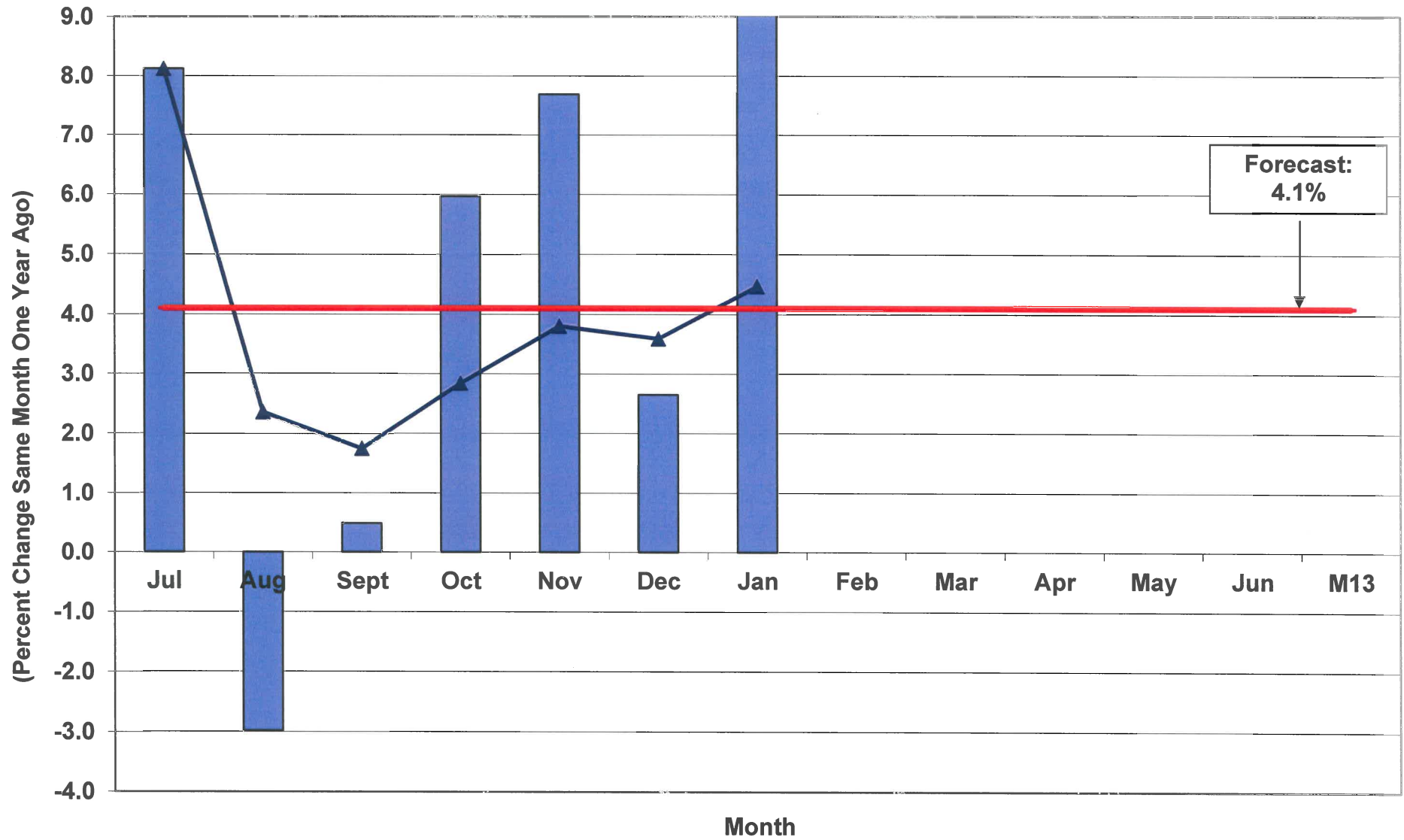
- Income tax withholdings, the single largest revenue source, increased in January and are in line with forecast
- Income tax declarations posted a second consecutive strong month
- Increased refund processing mitigated the year-to-date growth

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



Source: Board of Economic Advisors
BEA/RWM/02/15/18

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



■ Monthly
 ▲ Year-to-Date
 — Forecast

Source: Board of Economic Advisors
BEA/RWM/02/15/18



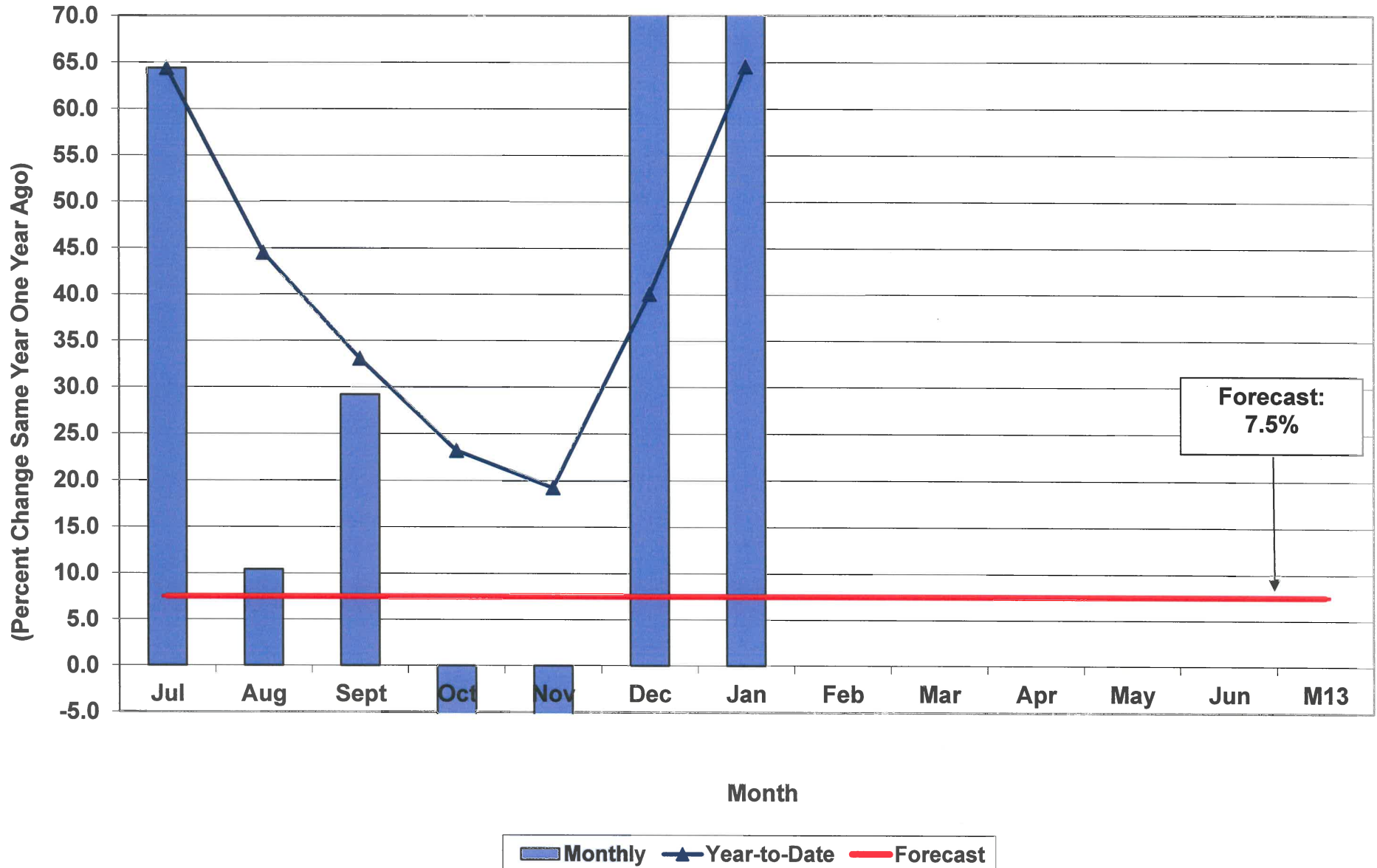
January 2018

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	\$118.5	\$174.7	(\$56.2)	7.5	64.7

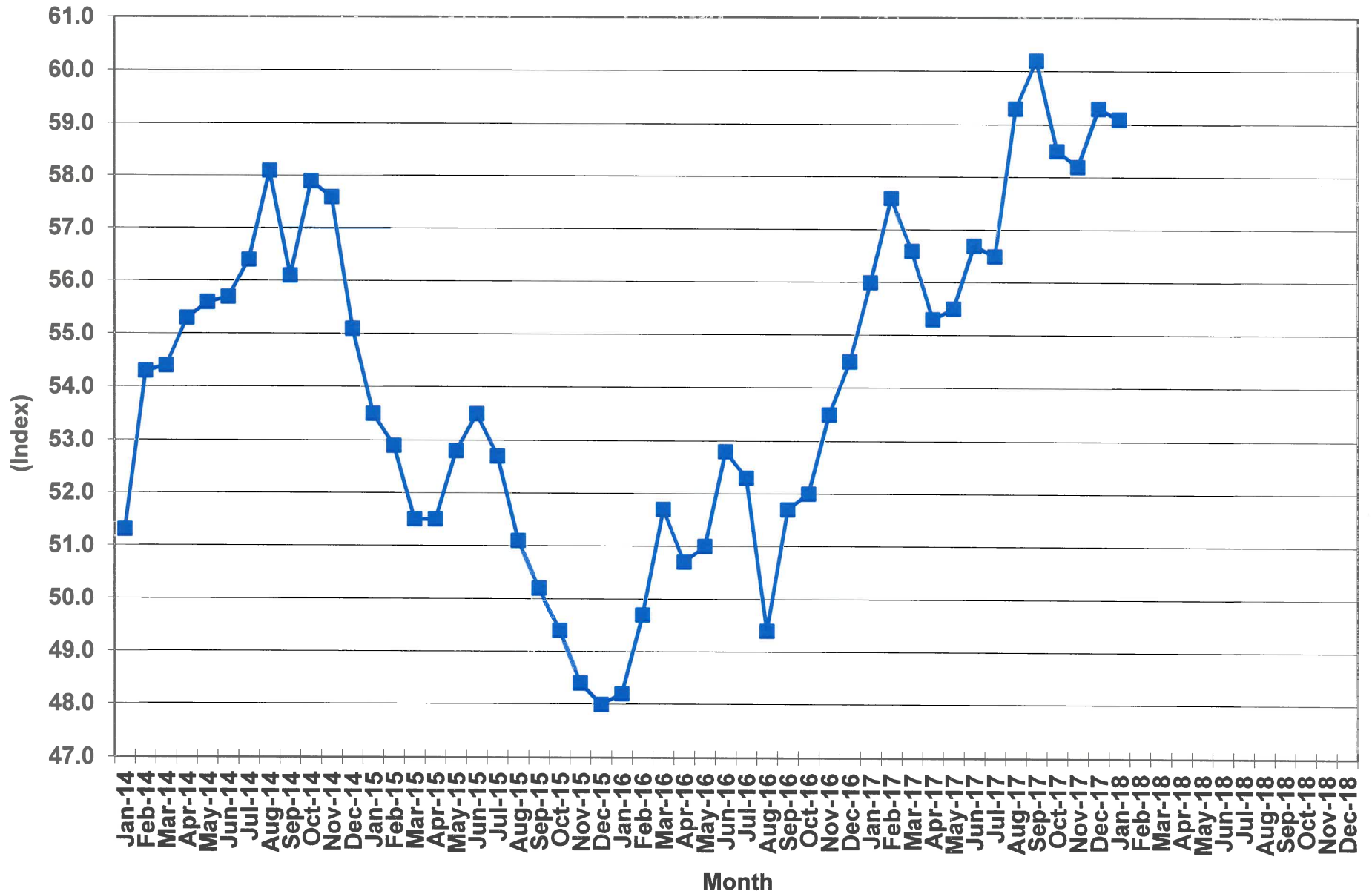
- A \$10 million refund to a single taxpayer last January caused an artificially high growth rate in January 2018
- After adjusting for \$72.2 million of unanticipated corporate income tax refunds last fiscal year, Corporate income tax revenue growth has declined 17.8 percent for the current fiscal year.

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



Source: Board of Economic Advisors
BEA/RWM/02/15/18

Index of Manufacturing Purchasing Managers Index (NAPM)



Source: The Institute for Supply Management
SCBEA/RWM/02/15/18



January 2018

Other Taxes

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Other Revenues	\$456.1	\$413.9	\$42.2	2.3	1.2

- Growth is from a variety of sources and timing of receipts
- 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 added positively to the bottom line result.



January 2018

Economic Sectors to Watch (Items of Concern)

- **New Federal Reserve Chairman – Jerome H. Powell**
- **Price of Oil**
- **Retail Sales**
- **Value of Dollar**
- **Stock Market**
- **Income Tax Season**



**CONSIDERATION OF
FY2017-18 AND FY2018-19
REVENUE ESTIMATES**

**South Carolina General Fund Revenue Estimates 1/
Fiscal Year 2017-18 & Fiscal Year 2018-19
(Millions of Dollars)**

Revenue Category	FY2017-18	Percent Change	FY2018-19	Percent Change
Sales Tax	\$3,041.2	5.0	\$3,147.7	3.5
Individual Income Tax	\$4,295.4	4.6	\$4,425.4	3.0
Corporation Income Tax	\$344.5	7.5	\$358.9	4.2
All Other Revenue	<u>\$853.3</u>	2.3	<u>\$906.5</u>	6.2
Total General Fund Revenue	<u><u>\$8,534.4</u></u>	4.6	<u><u>\$8,838.5</u></u>	3.6
ADDENDUM				
Lottery	\$406.3	1.1	\$407.0	0.2

Note: 1/: BEA General Fund Revenue Estimates of November 9, 2017

BEA/RWM/02/12/18

**OTHER ISSUES
WORKING GROUP**

**NEXT MEETING
March 22nd, 1:30 p.m.**



February 14, 2018

Frank Rainwater
Executive Director
SC Revenue and Fiscal Affairs Office
1000 Assembly Street, Suite 402
Columbia, SC 29201

Subject: Revision of the Lottery Commission's FY 17-18 and Preliminary FY 18-19 estimates

Dear Mr. Rainwater:

In accordance with your recent request, please accept this letter as a revision of the Lottery Commission's estimates of proceeds for FY 17-18 and its preliminary estimates of proceeds for FY 18-19. The amounts shown under the caption "Previous Estimate" reflect the first revision we communicated to you in our meeting on November 3, 2017. Please note that our estimates, as set forth below, include \$1,040,407 associated with Election Day Sales. Our revised estimates are as follows:

	FY 2017 -18	FY 2018 -19
Previous Estimate		
"General" Transfers	\$ 386,000,000	\$ 386,000,000
Unclaimed Prizes	19,000,000	19,000,000
	<u>\$ 405,000,000</u>	<u>\$ 405,000,000</u>
Revised or Current Estimate		
"General" Transfers	\$ 399,000,000	\$ 399,000,000
Unclaimed Prizes	19,000,000	19,000,000
	<u>\$ 418,000,000</u>	<u>\$ 418,000,000</u>

As I am sure you are aware, we have not started our FY 18-19 planning process at this point. Our Financial Plan will be developed over the next several months and our "formal" FY 18-19 Transfer Estimate will require the approval of our Board of Commissioners. Accordingly, our

FY 18-19 preliminary estimate will likely change based on the formulation of our formal Financial Plan.

Moreover, as we discussed in our meeting yesterday, there is a contingent liability of approximately \$33.8 million related to the incident which occurred on Christmas Day 2017 involving our Add-A-Play game. As we further discussed, the estimates, as set forth above, do not reflect any adjustment associated with this matter.

Please be advised that certain other factors beyond our control may affect our future sales and transfers. Whereas, we believe we have developed reasonable estimates, it is possible adverse or unfavorable trends could develop which could preclude us from achieving our estimates.

Please do not hesitate to let me know if I can be of further assistance.

Very truly yours,

A handwritten signature in black ink that reads "JA Boyle". The signature is written in a cursive, flowing style.

Joseph A. Boyle, CPA
Chief Financial Officer



Personal Income Growth
 FY18 - 4.25%; FY19 - 4.25%

General Fund Revenue Forecast
Fiscal Years 2015-16 to 2018-19
 (Dollars)

Revenue Category	Final FY 2015-16	Final FY 2016-17	2/15/2018 Estimate FY 2017-18	2/15/2018 Estimate FY 2018-19	Percent Change FY 2015-16	Percent Change FY 2016-17	Percent Change FY 2017-18	Percent Change FY 2018-19
Sales and Use Tax	\$2,818,605,595	\$2,896,271,260	\$3,041,207,000	\$3,147,685,000	6.1	2.8	5.0	3.5
Individual Income Tax	3,832,846,497	4,107,647,011	4,295,400,000	4,425,417,000	4.7	7.2	4.6	3.0
Corporation Income Tax	411,148,125	320,415,504	344,486,000	358,914,000	8.9	(22.1)	7.5	4.2
Insurance Taxes	212,224,188	237,673,156	242,046,000	267,404,000	(2.0)	12.0	1.8	10.5
Admissions Tax	28,012,902	30,443,571	29,145,000	31,364,000	(5.7)	8.7	(4.3)	7.6
Aircraft Tax	4,124,496	2,500,000	2,500,000	2,500,000	(8.2)	(39.4)	0.0	0.0
Alcoholic Liquor Tax	73,549,750	76,736,505	80,318,000	83,317,000	4.5	4.3	4.7	3.7
Bank Tax	29,425,178	53,357,725	31,520,000	41,520,000	(5.9)	81.3	(40.9)	31.7
Beer and Wine Tax	107,252,141	109,577,012	114,891,000	113,334,000	2.3	2.2	4.8	(1.4)
Bingo Tax	2,838,515	678,360	1,055,000	692,000	(6.9)	(76.1)	55.5	(34.4)
Business Filing Fees	5,468,450	6,279,551	5,675,000	5,675,000	7.9	14.8	(9.6)	0.0
Circuit/Family Court Fines	8,090,762	7,888,118	7,856,000	7,421,000	(4.2)	(2.5)	(0.4)	(5.5)
Corporation License Tax	88,702,350	68,181,266	93,000,000	89,760,000	(31.7)	(23.1)	36.4	(3.5)
Documentary Tax	46,164,138	51,691,987	67,899,000	82,527,000	13.6	12.0	31.4	21.5
Earned on Investments	25,193,451	30,804,764	24,000,000	30,000,000	42.2	22.3	(22.1)	25.0
Indirect Cost Recoveries	11,588,575	14,702,994	12,173,000	12,500,000	(18.4)	26.9	(17.2)	2.7
Motor Vehicle Licenses	10,677,999	11,050,294	11,117,000	11,615,000	0.7	3.5	0.6	4.5
Nursing Home Fees	3,598,679	3,565,104	3,500,000	3,500,000	(1.5)	(0.9)	(1.8)	0.0
Parole and Probation Fees	3,392,808	3,392,808	3,393,000	3,393,000	0.0	0.0	0.0	0.0
Private Car Lines Tax	4,335,202	5,499,151	4,555,000	4,898,000	7.8	26.8	(17.2)	7.5
Public Service Authority	19,192,000	17,751,000	19,285,000	17,751,000	(4.6)	(7.5)	8.6	(8.0)
Purchasing Card Rebates	2,739,555	2,907,963	2,800,000	3,000,000	13.2	6.1	(3.7)	7.1
Record Search Fees	4,461,000	4,461,000	4,461,000	4,461,000	0.0	0.0	0.0	0.0
Savings and Loan Assoc. Tax	(84,258)	1,881,527	1,817,000	1,844,000	(104.2)	2333.1	(3.4)	1.5
Security Dealer Fees	25,191,340	25,648,556	26,000,000	26,000,000	5.1	1.8	1.4	0.0
Surcharge on Vehicle Rentals	3,148,906	2,579,640	706,000	777,000	12.4	(18.1)	(72.6)	10.1
Tobacco Tax	28,137,517	26,382,940	27,411,000	24,441,000	10.4	(6.2)	3.9	(10.8)
Uncashed Checks	3,432,881	3,530,329	2,000,000	2,000,000	(17.9)	2.8	(43.3)	0.0
Unclaimed Property Fund	5,750,000	15,000,000	15,000,000	15,000,000	(61.7)	160.9	0.0	0.0
Workers' Comp. Insurance Tax	9,674,588	9,004,832	9,869,000	9,572,000	18.3	(6.9)	9.6	(3.0)
Other Source Revenues	10,540,699	11,005,610	9,278,000	10,176,000	(5.3)	4.4	(15.7)	9.7
Gross General Fund Revenue	\$7,839,424,028	\$8,158,509,537	\$8,534,363,000	\$8,838,458,000	4.3	4.1	4.6	3.6

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.

Source: South Carolina Board of Economic Advisors/BEA/RWM/02/15/18



Personal Income Growth
FY18 - 4.25%; FY19 - 4.25%

General Fund Revenue Forecast
Fiscal Years 2015-16 to 2018-19
(Dollars)

Revenue Category	Final FY 2015-16	Final FY 2016-17	2/15/2018 Estimate FY 2017-18	2/15/2018 Estimate FY 2018-19	Percent Change FY 2015-16	Percent Change FY 2016-17	Percent Change FY 2017-18	Percent Change FY 2018-19
Gross General Fund Revenue	7,839,424,028	\$8,158,509,537	\$8,534,363,000	\$8,838,458,000	4.3	4.1	4.6	3.6
Appropriation Act Revenue	7,666,473,000	8,157,517,892	\$8,534,363,000	8,838,458,000	6.3	6.4	4.6	3.6
Less: Tax Relief Trust Fund	(568,314,514)	(575,273,126)	(584,026,000)	(599,438,000)	(1.4)	(1.2)	(1.5)	(2.6)
Plus: Tax Relief Trust Fund Carryforward	0	0	0	0				
Appropriation Act Excluding Trust Fund	7,271,109,514	7,583,236,411	7,950,337,000	8,239,020,000	9.3	4.3	4.8	3.6
Capital Reserve Fund (2%) - Beg. Bal.	131,047,797	139,207,789	145,420,836	151,664,728	2.5	6.2	4.5	4.3
General Reserve Fund (5%) - Beg. Bal.	327,619,492	348,019,473	363,552,089	379,161,821	2.5	6.2	4.5	4.3
Total Reserve Funds	458,667,289	487,227,262	508,972,925	530,826,549	2.5	6.2	4.5	4.3
Revenue Excess/Shortage From Act	172,951,028	991,537	0	0				
Education Improvement Act (EIA)	719,821,206	764,078,707	805,061,000	837,341,000	6.1	6.1	5.4	4.0
EIA Fund	719,403,122	762,586,079	804,261,000	836,341,000	6.1	6.0	5.5	4.0
EIA Interest	418,084	1,492,628	800,000	1,000,000	537.2	257.0	(46.4)	25.0
S.C. Education Lottery Fund (Net)	396,300,000	401,958,373	419,300,000	420,000,000	13.2	1.4	4.3	0.2
Homestead Exemption Fund								
Total Revenue Available	649,166,693	685,115,809	727,694,000	755,802,000	5.5	5.5	6.2	3.9
Less: Homestead Exemption Fund Shortfall	(75,783,000)	(47,986,000)	(22,214,000)	(20,076,000)	16.5	36.7	53.7	9.6

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.

Source: South Carolina Board of Economic Advisors/BEA/RWM/02/15/18