

MEMORANDUM FOR THE RECORD

DATE: September 24, 2014
Room 417, Dennis Building
2:30 P.M.

SUBJECT: Minutes of Board of Economic Advisors and Working Group Meeting

ATTENDEES: *Board Members* – Chad Walldorf-Chairman (via phone), Howell Clyborne (via phone), Emerson Gower, Rick Reames (via phone), *Executive Director*, Frank Rainwater; *Staff* – Greg DiBiase, Lisa Jolliff, Robert Martin, Gordon Shuford, Lisa Wren, Les Boles, Karen Rhinehart, Rebecca Leach; *Guests* – Josh Baker (Governor's Office), Eddie Gunn (Comptroller General's Office), David Seigler (B&CB), Daniel Brennan (Treasurer's Office), Katie Owen, Daniel Boan (W&M), Lisa Catalanotto, Grant Gibson (Senate Finance), Ben Twilley (Senate Research), (SC Tech), (CHE), Mellanie Jinnette (Dept. of Education), (SCDMH), (Lottery Commission), Katherine Pierson (DJJ), (DSS), (SCPRT), (PEBA), (DHHS), Lena Smith (Southern Strategy Group).

1. Chairman Walldorf called the meeting to order.
2. The meeting minutes of August 28, 2014 were approved.
3. Overview – July-August 2014 (see attached)
Frank Rainwater reported results for July and August 2014:
 - For the first two months of the fiscal year, revenues were slightly above the fiscal year-to-date estimate
 - In reviewing recent trends, the expectation at this time is that FY 2015 revenues will exceed estimate
 - Expect continued steady, slow growth
4. Review of General Fund Revenue for July and August 2014 (see attached)
Greg DiBiase reviewed July and August 2014 information:
 - General Fund Revenues increased 2.4% over the same period in FY 2014
 - Due to timing differences from FY 2014, the estimated FYTD growth was 2.2% as compared to the full FY estimated growth of 2.4%
 - Consequently, revenue was \$1.4 million above the estimate

Sales Tax:

 - The FYTD growth was at 4.1% and revenues exceed estimates by \$7.7 million
 - After adjusting for the difference in the timing of the transfer of car sales taxes the underlying growth rate is 6.5%

Individual Income Tax:

 - The FYTD growth was 4.1% which was above FYTD growth estimate of 3.2% and above full estimated growth at 2.6%
 - As a result, revenues were \$6.1 million above estimate
 - Withholding was the largest drawback. Growth was 3.4% and below the 5.1% annual estimate
 - Declarations, Payments with Returns, and refunds performed better than estimated

Corporate Income and License:

 - Corporate Income Tax was \$13.7 million below estimate
 - Corporate License Tax was \$2.4 million above estimate

Other Revenue:

- Insurance and Workers Compensation were behind FYTD estimates by \$3.5 million
 - Other consumption taxes were \$3.4 million above estimate
- ~Greg DiBiase asked if anyone in the Working Group had questions or comments – there were none.

5. Review of Economic Indicators (see attached)

Robert Martin reviewed the SC Economic Indicators for August 2014:

Employment and Labor Markets:

- Payrolls expanded by 32,600 jobs or 1.7% in August, slightly below forecast
- Withholdings continue on a roller coaster path posting a strong gain in August
- State unemployment rate surpassed the U.S. jobless rate in August after spending eight (8) consecutive months below the national rate
- The labor market may plateau slowing future wage growth

Housing and Construction:

- Building permits surged 59% in July boosted by increased apartment building
- Mortgage rates have retreated in recent months fueling a rise in mortgage applications
- Homeownership rates are falling (78% to 72%)
~Emerson Gower asked is this was a regional number. Robert Martin replied that it was.
- Number of homes sold has flattened out
- Homeownership rates have plummeted for first-time homebuyers
~Howell Clyborne thanked Robert for creating the “Refinance Share of Mortgage Originations in the U.S.” chart.

Consumer Consumption:

- Retail sales, excluding autos, increased 4.0% in August
- Auto sales increasing, but the rate is slowing
- Falling gas prices helping to bring tourists to the state
- Accommodations Tax is showing strong vacation sales
- Household debt is rapidly increasing led by auto loans while credit card usage is at the highest pace in six (6) years
- Future Fed tightening of interest rates may slow spending and investing

Production and Business Activity:

- National Association of Purchasing Managers is showing continued strength
- Corporate profits showing weakness during first half of 2014

International Trade:

- Euro is weakening (the U.S. \$ is getting stronger) – exports to Europe will cost more for Europeans and reduce demand for goods
- SC exports have surged during past several years
- OECD reduced growth forecasts for Europe and Japan by one-third for next year

Outside risks to the forecast include:

- Natural disaster – hurricane
- Global economic malaise and international strife
- Economy in Europe – recession (BOE cut rates), high debt
- Severe interruptions in exports and/or higher energy prices
 - Russia’s territorial dispute with Ukraine – disrupt energy supply to Europe
 - Middle East tensions

6. Adoption of FY 2014-15 Revenue Plan

Frank Rainwater presented information on the FY 2014-15 Revenue Plan:

- Request adoption of FY 2014-15 Revenue Plan as presented
- Contains a FY 2015 estimate of \$7,204.9 million, which is based on the May 2014 BEA estimate adjusted for legislative changes
- The FY 2015 estimate does not include an adjustment for final FY 2014 results; however, these results will be incorporated in the November estimate. Quarterly estimates are:

	<u>1st Q</u>	<u>2nd Q</u>	<u>3rd Q*</u>
Estimate	\$1,779.5	\$3,711.8	\$4,984.4
Growth Rate	3.6%	1.8%	2.9%
Threshold	1,743.9	3,637.6	4,884.7

*Third quarter subject to review due to processing of Individual Income Tax returns

- Sales tax growth rate is 2.4%, which compares to a growth in FY 2014 of 5.1% when the transfer of car sales tax to DOT is considered
- Individual Income Tax growth rate is 2.6%; individual subcategories are comparable to FY 2014 except Paid with Returns is low
- Corporate Income Tax requires a 7.2% growth; but recent trend is a decline
- Corporate License Tax estimate is lower than FY 2014 actual and therefore FY 2015 is probably low

~Frank Rainwater asked if there were any questions from the Members or Working Group. There were none. Howell Clyborne motioned that the Plan be adopted; Emerson Gower seconded the motion and the Plan was adopted.

~Chairman Walldorf asked if there were any other issues to discuss. None were raised.

7. Other Matters

Frank Rainwater presented information on the Regional Advisors Meeting in October:

- BEA Monthly Meeting 10:45
- Luncheon 11:45
- Presentation 12:45
 - Staff Presentation
 - ❖ Review of FY 2014 Assumptions and Results
 - ❖ Review of FY 2015 Assumptions
 - Panel Presentation
 - ❖ Economic Outlook
 - Range of Key Economic Assumptions
 - ❖ SC Personal Income Growth
 - ❖ SC Employment Growth
 - ❖ Risks

o Regional Advisors

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|-------------------|----------------------------------|
| ❖ Michael Brown | Wells Fargo |
| ❖ Rick Kaglic | Federal Reserve Bank of Richmond |
| ❖ Russ Sobel | The Citadel |
| ❖ Joey Von Nessen | University of South Carolina |
| ❖ Mark Witte | College of Charleston |

~Frank Rainwater and Chairman Walldorf asked if there were any questions or comments. There were no questions from the Working Group.

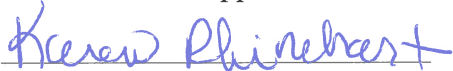
~With no further business pending, Howell Clyborne motioned that the meeting be adjourned and Emerson Gower seconded. The meeting adjourned at 3:09 P.M.

The next scheduled meeting is Wednesday, October 15, 2014

Attachments: Agenda, Meeting Materials

Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on October 15, 2014


Karen Rhinehart