



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 AND WORKING GROUP MEETING AGENDA August 29, 2018, 10:30 A.M. Bowers Conference Room Room 417, Rembert C. Dennis Building

- I. Welcome
- II. Adoption of Meeting Minutes for June 14, 2018
- III. Fiscal Year 2017-18 Discussion
 - A. Summary and Overview (F. Rainwater)
 - B. General Fund Revenue Final Report for FY 2017-18 and Economic Update (R. Martin)
 - C. Final FY 2017-18 General Fund Budget Results (L. Jolliff)
- IV. Fiscal Year 2018-19 Discussion
 - A. Summary and Overview (F. Rainwater)
 - B. Review of FY 2018-19 General Fund Forecast and Legislative Changes (R. Martin)
 - C. State Budget and Other Fiscal Issues (L. Jolliff)
- V. Other Items for Discussion
- VI. Reports from Working Group Members
 - A. Governor's Office
 - B. Senate Finance Committee
 - C. Ways & Means Committee
 - D. Treasurer's Office
 - E. Comptroller General's Office
 - F. Executive Budget Office
- VII. Future Meeting Schedule
 - A. September 20, 2018 - 2:00pm, *GoToMeeting* possible for Members
 - B. October 18, 2018, 10:30am - Quarterly Review
 - C. October 18, 2018, 12:45 - 3:30 - Annual Regional Advisory Committee Meeting
 - D. November 8, 2018, 2:00pm - Preliminary Estimate
 - E. December 13, 2018, 2:00pm - **If necessary**, *GoToMeeting* for Members
 - F. 2018 Calendar at <http://rfa.sc.gov/calendar>
- VIII. 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

FISCAL YEAR 2017-18 PRESENTATIONS



SUMMARY AND OVERVIEW



Overview Final FY 2017-18

Revenue Surplus of \$172.2 million; 2 percent excess outside of target range

- Higher than expected Individual Income Tax payments and lower than expected Refunds accounted for most of the surplus
- Stock Market rally in December 2017 contributed to surplus (NASBO – May 2018)

Other Budget items added \$4.9 million which resulted in a total budget surplus of \$177.1 million



Board of Economic Advisors General Fund Revenue Monitor

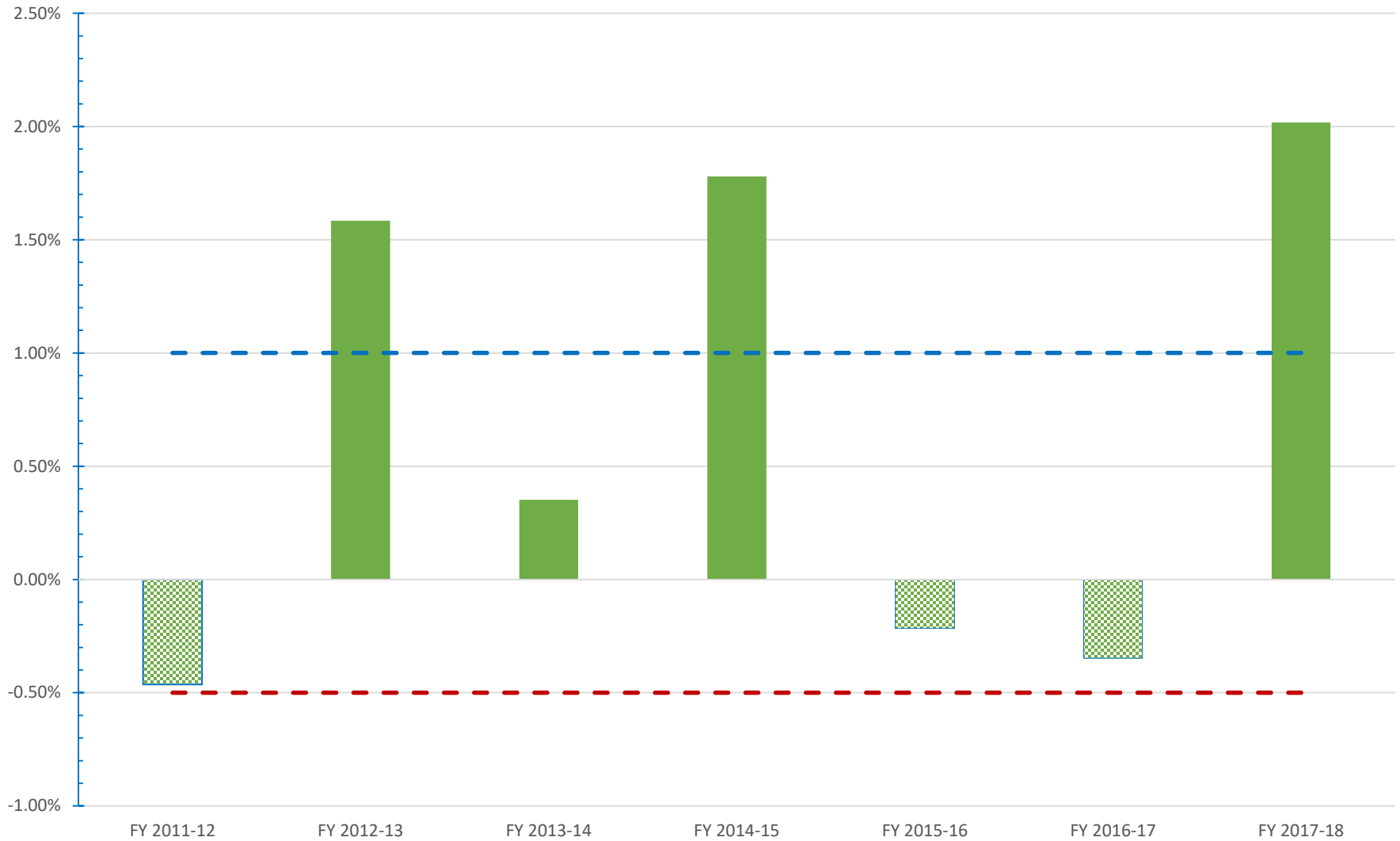
Revenues vs. 4/9/18 BEA Revenue Estimate of \$8,534.4 Million in FY 2017-18 1/

	JULY - 13th Month FY 2017-18			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate	Actual
	Actual Revenues	Expected Revenues	Excess / (Shortfall)	Full Fiscal Yr.	Yr. to Date
Total General Fund Revenue	8,706.0	8,533.8	172.2	4.6	6.7
Sales Tax	3,034.4	3,041.2	(6.8)	5.0	4.8
Individual Income Tax	4,398.4	4,295.4	103.0	4.6	7.1
Corporate Income Tax	375.2	344.5	30.7	7.5	17.1
Other Revenue Sources	897.6	852.7	44.9	2.3	7.7
Select Tax Revenues, Sub-Total	747.0	711.3	35.7	3.8	9.0
Admissions Tax - Total	31.1	29.6	1.5	(4.2)	(1.4)
Alcoholic Liquors Tax	79.3	80.3	(1.0)	4.7	3.3
Bank Tax	47.9	31.5	16.4	(40.9)	(10.2)
Beer and Wine Tax	107.7	114.9	(7.2)	4.8	(1.7)
Corporation License Tax	110.2	93.0	17.2	36.4	61.6
Documentary Tax	75.6	67.9	7.7	31.4	46.3
Earnings on Investments	40.0	24.0	16.0	(22.1)	29.8
Insurance Tax	227.9	242.0	(14.1)	1.8	(4.1)
Tobacco Tax	27.2	27.4	(0.2)	3.9	3.1

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

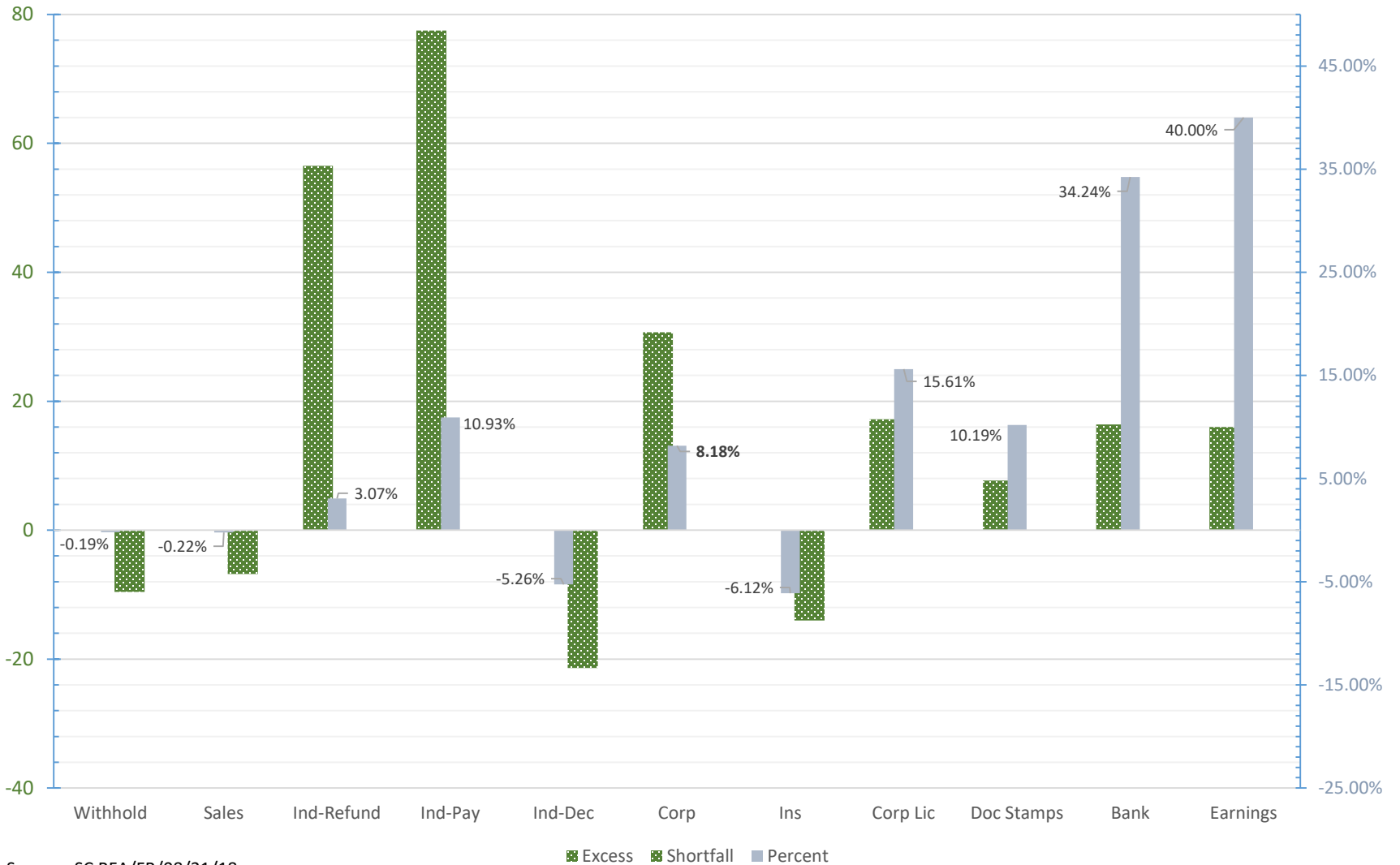
Note: Detail may not sum to total due to independent rounding of individual revenue categories.

GENERAL FUND FORECAST ACCURACY Last Estimate as a Percent of Actual



Source: SC RFA/FR/08/21/18

FY 2017-18 GENERAL FUND REVENUE Surplus/Shortfall in Dollars and Percent

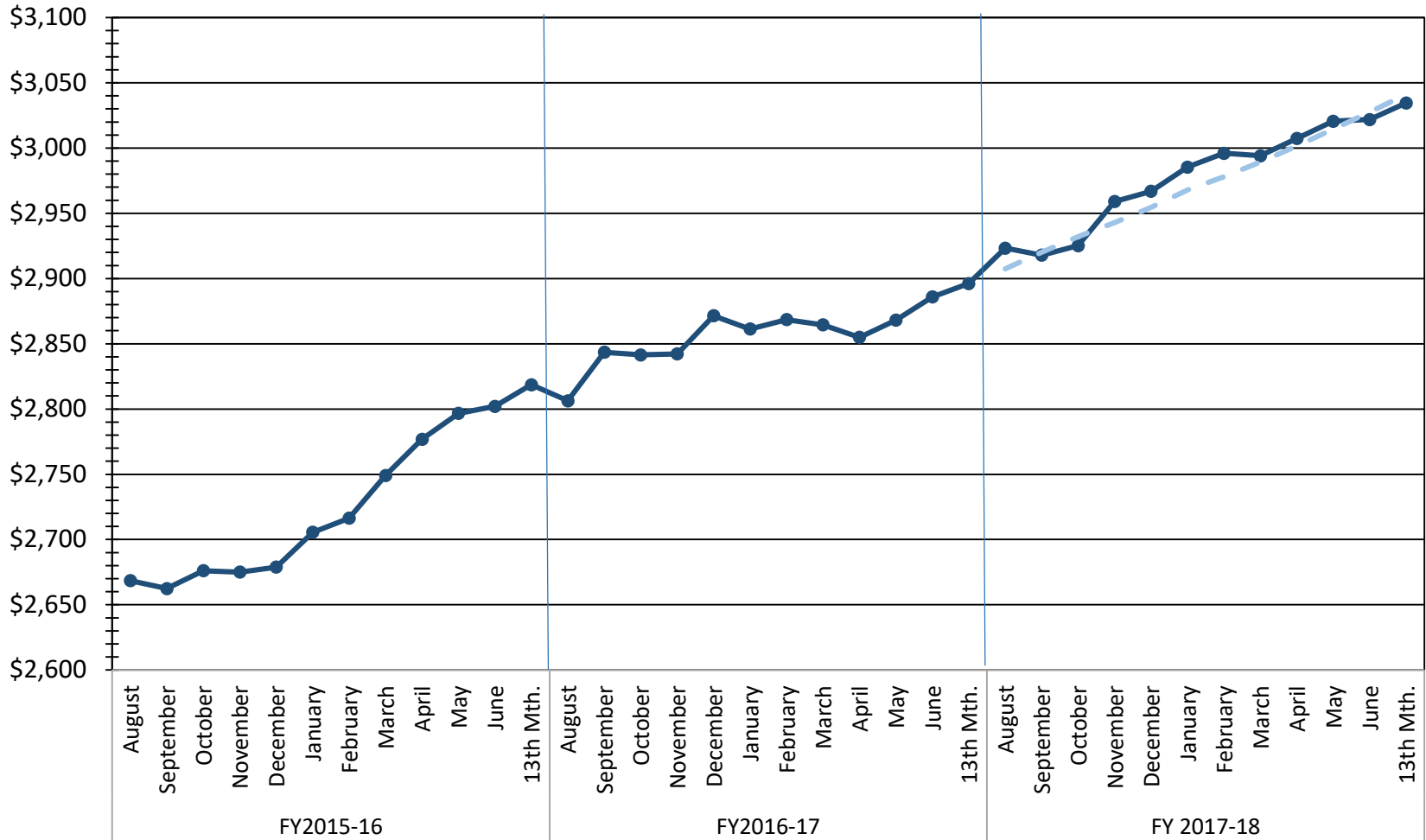


Source: SC RFA/FR/08/21/18

TOTAL SALES & USE TAX

Rolling Fiscal Year Totals

FY 2015-16 to FY 2017-18



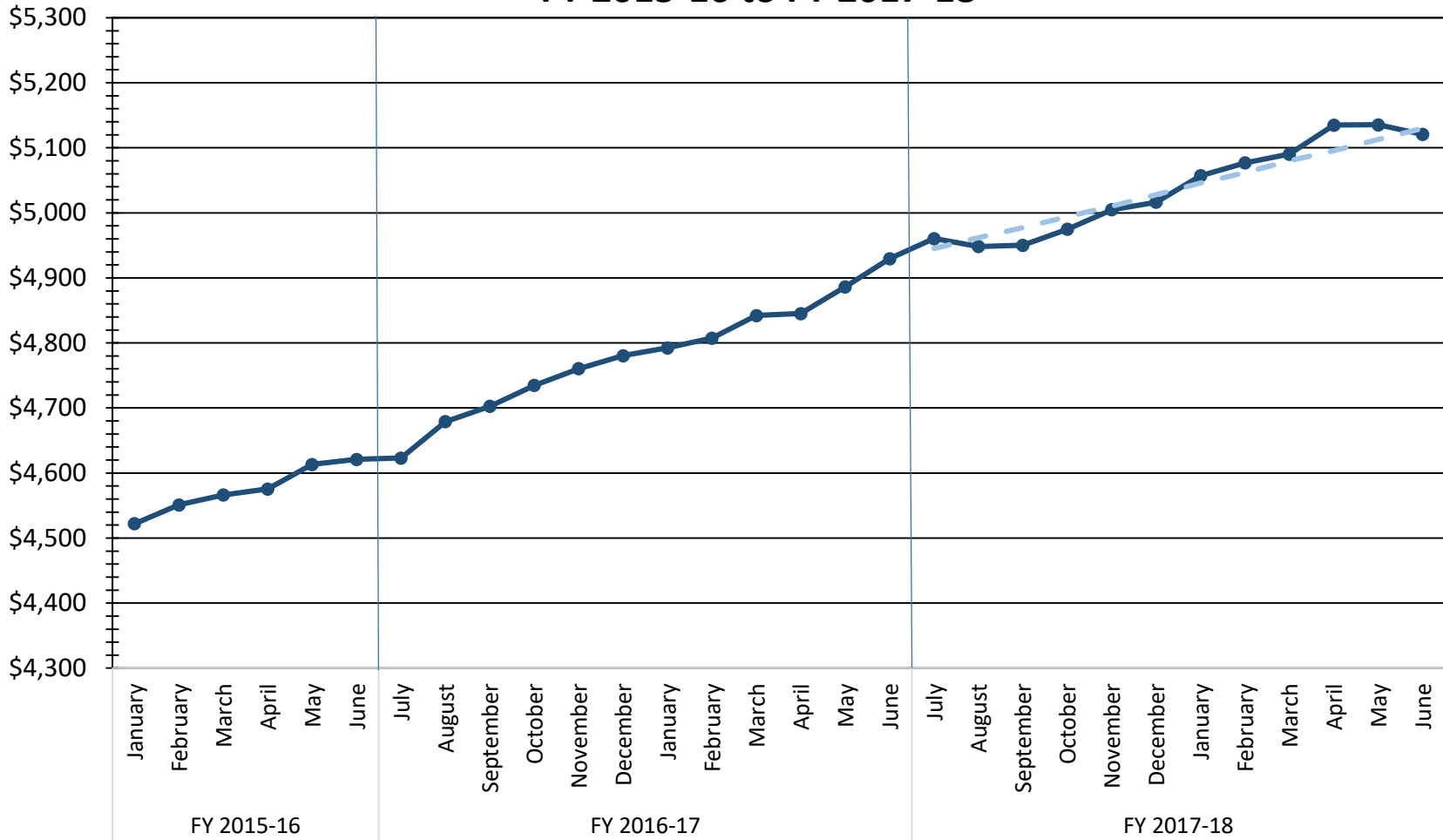
Source: SC RFA/FR/08/21/18

—●— Actual Collections
 - - - FY 18 Estimate

TOTAL INDIVIDUAL WITHHOLDINGS

Rolling Fiscal Year Totals

FY 2015-16 to FY 2017-18

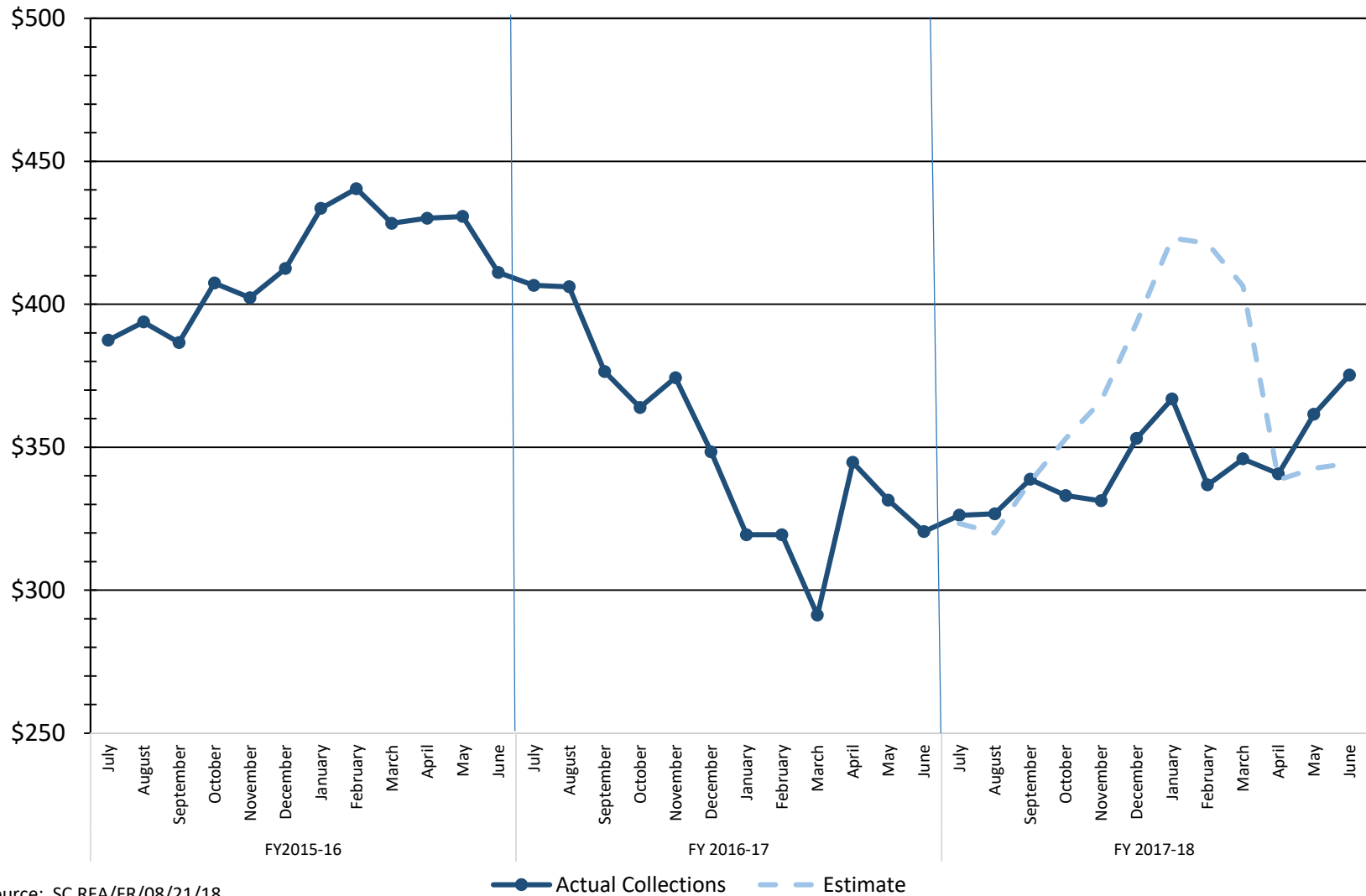


Source: SC RFA/FR/08/21/18

● Actual Collections
 --- FY18 Guide

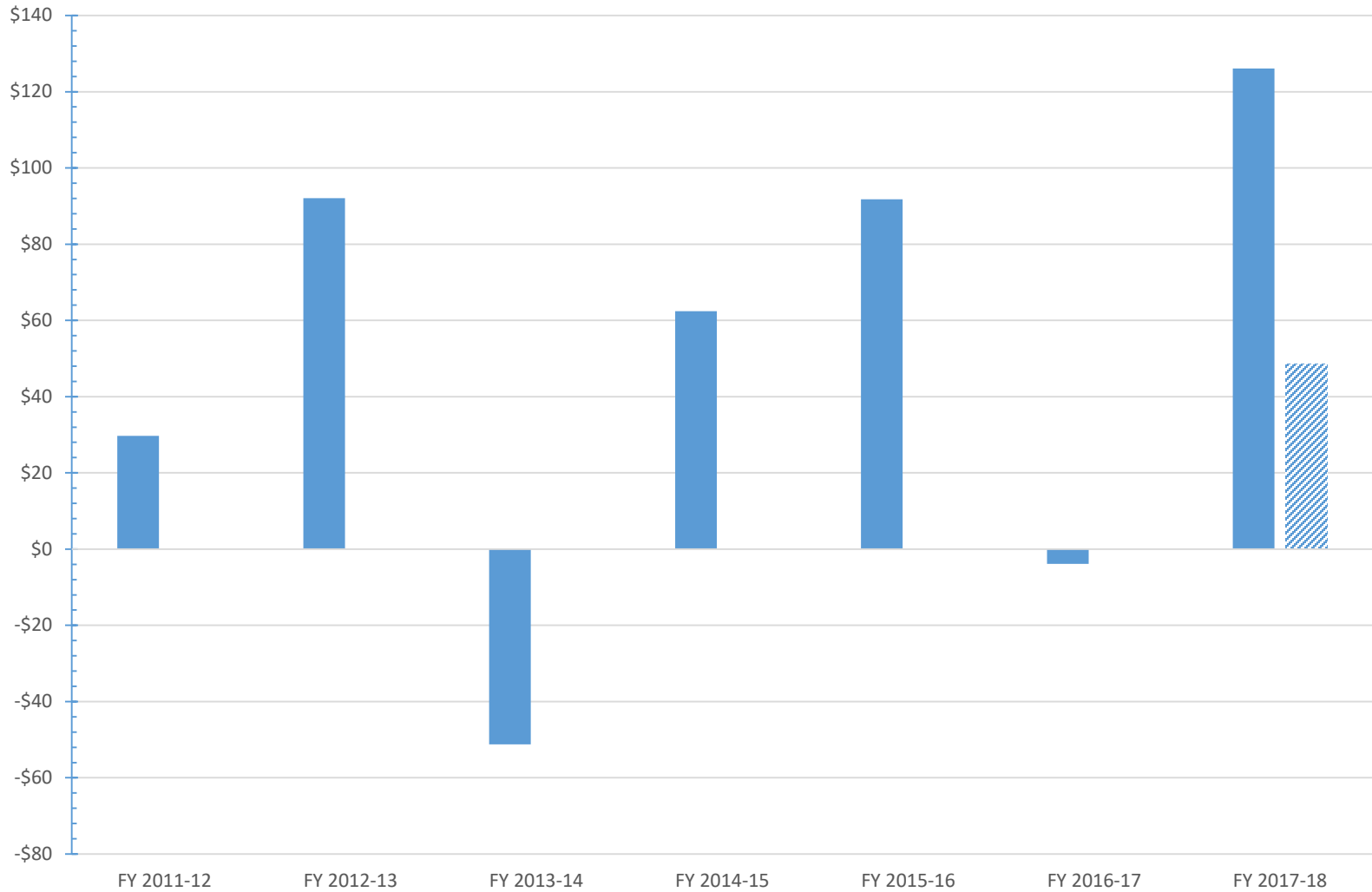
TOTAL CORPORATE INCOME TAX

Rolling Fiscal Year Totals - FY 2015-16 to FY 2017-18



Source: SC RFA/FR/08/21/18

ANNUAL CHANGE IN TOTAL PAYMENTS WITH INCOME TAX RETURNS



Source: SC RFA/FR/08/27/18

■ Actual ▨ Estimate

GENERAL FUND REVENUE FINAL FY 2017-18 AND ECONOMIC UPDATE





Final General Fund Revenues in FY2017-18

Focus of Report

- **General Fund Revenue**
 - **13th month revenue and final FY2017-18 collections**

- **Revenue and Economic Issues**
 - **Revenue Items of Concern**

 - **Economic Issues and Concerns**



Final General Fund Revenues in FY2017-18

- Over the past three fiscal years, final General Fund revenue collections have averaged 99.48 percent of the official BEA General Fund revenue estimates
- South Carolina finished FY2017-18 with the strongest revenue growth in the Southeast



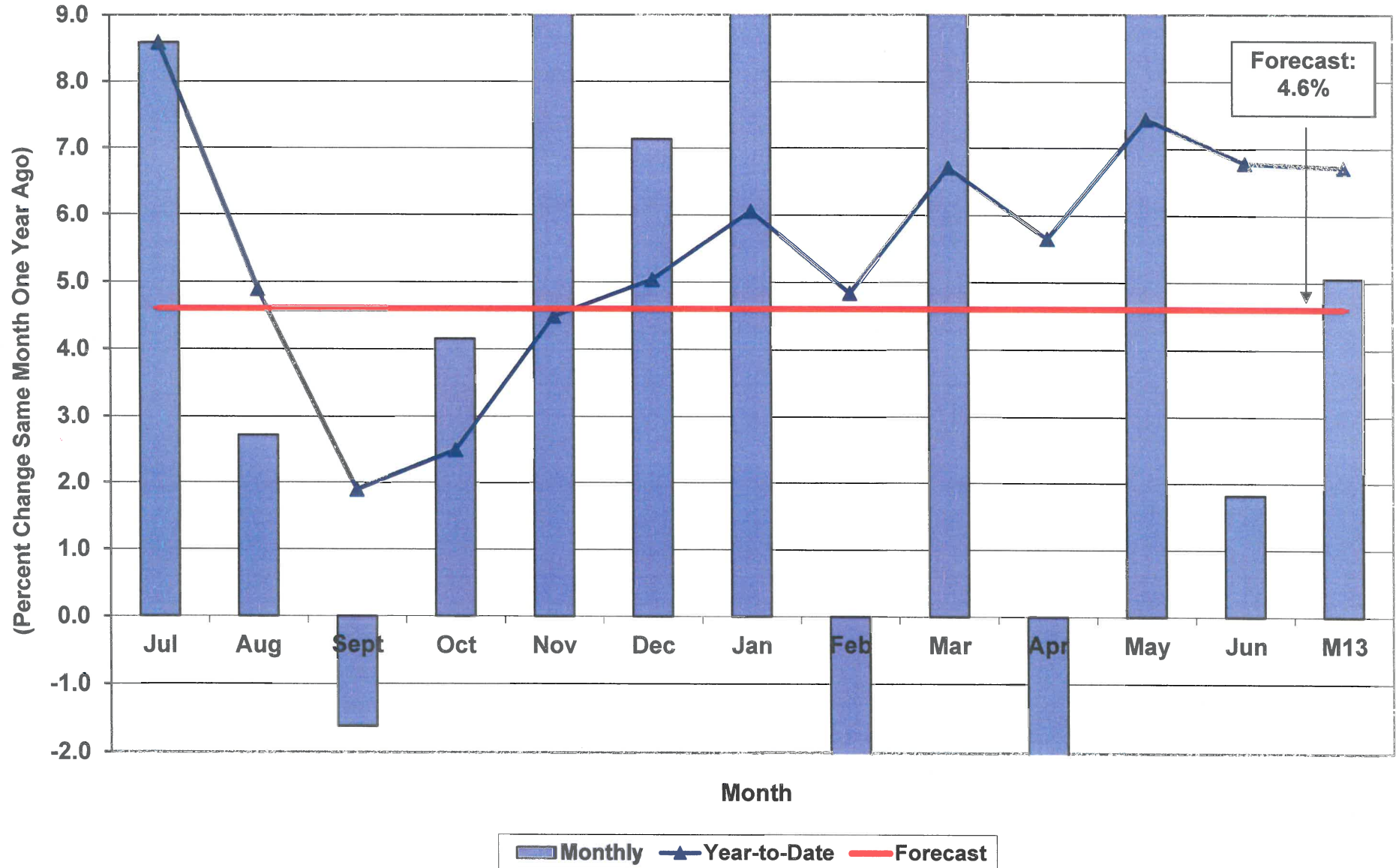
Final General Fund Revenues in FY2017-18

General Fund Revenue

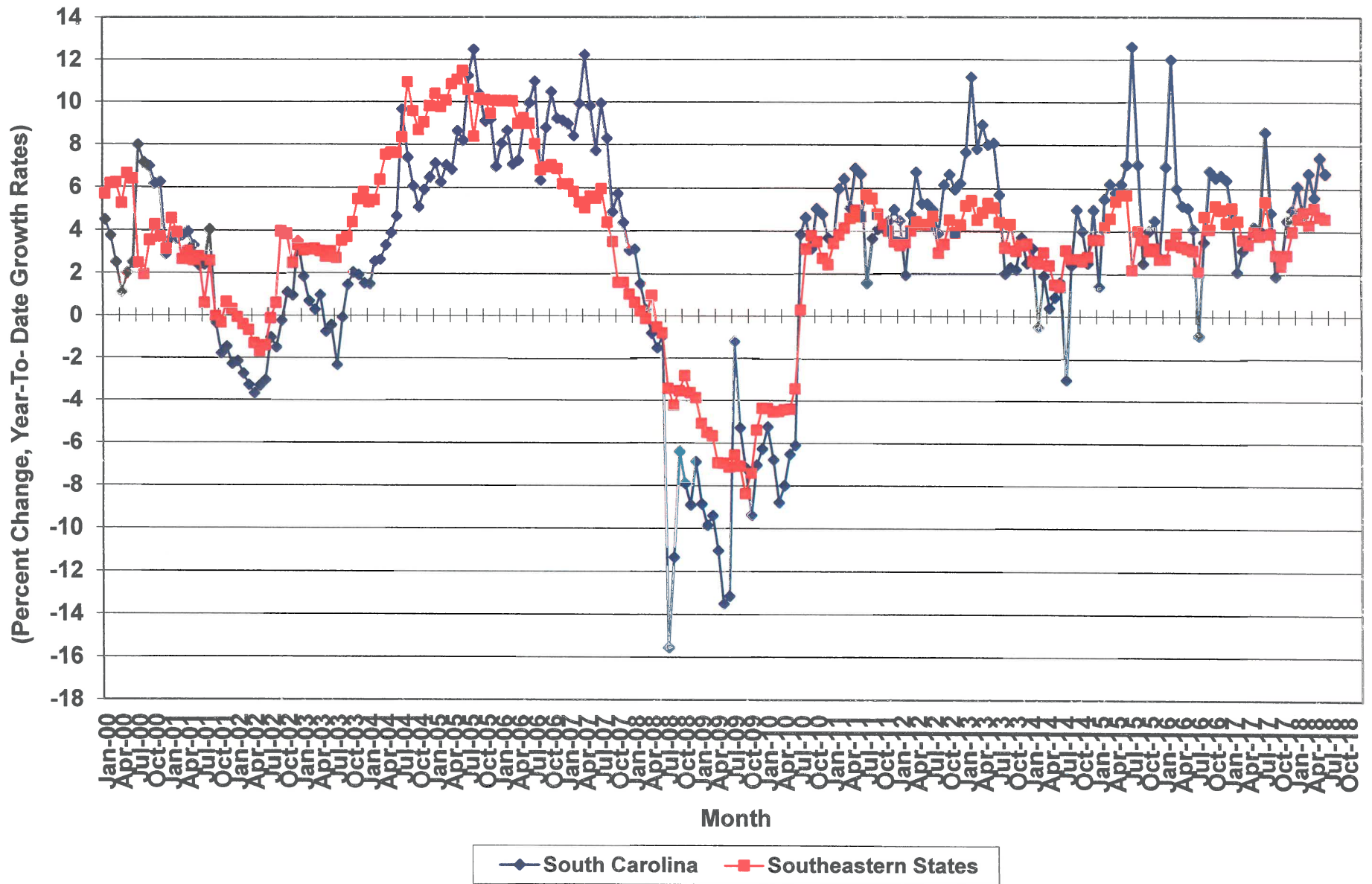
Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Total General Fund	\$8,706.0	\$8,534.4	\$171.6	4.6	6.7

- Final FY2017-18 General Fund revenues have increased 6.7 percent and finished above forecast projections by \$171.6 million
- Compared to the BEA General Fund revenue estimate, total actual General Fund revenues were within 2.0 percent of official projections

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



Growth in General Fund Revenue South Carolina & the Southeastern States



**General Fund Revenues In The Southeastern States
Fiscal Year 2017-18**

Fiscal Year-to-Date Percent Change Over Same Period One Year Ago													
State	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Y-END
Alabama 1/	6.0	3.3	3.7	3.2	3.8	4.0	4.2	4.6	4.0	4.0	4.5	4.7	4.7
Arkansas	13.5	5.4	3.5	1.3	1.0	2.8	3.9	4.6	4.1	3.4	3.3	2.7	2.7
Florida	3.4	7.0	3.2	2.5	3.9	3.4	3.5	4.1	4.1	5.0	5.3	5.4	5.4
Georgia	7.1	3.3	3.2	1.6	2.7	4.1	6.2	6.1	5.5	5.0	4.8	4.4	4.4
Kentucky	3.1	2.0	2.9	0.6	1.1	3.1	3.8	4.6	3.8	4.1	3.4	3.4	3.4
Louisiana	15.3	2.8	0.3	2.8	0.7	7.7	6.6	7.2	4.1	7.8	6.5	5.5	5.5
Mississippi	8.8	8.0	3.5	2.8	3.6	4.1	4.2	3.0	0.3	0.1	1.9	2.6	2.6
North Carolina	1.0	1.7	1.2	0.1	1.1	1.1	3.6	4.4	3.9	6.0	4.0	4.2	4.2
South Carolina 2/	8.6	4.9	1.9	2.5	4.5	5.0	6.1	4.8	6.7	5.6	7.4	6.8	6.7
Tennessee	4.1	3.8	3.8	3.6	4.0	5.4	3.8	3.9	4.4	4.3	4.3	4.1	4.1
Virginia	5.4	3.0	4.1	4.9	4.9	5.9	5.8	6.2	5.2	6.7	6.1	6.3	6.3
West Virginia	12.3	3.9	3.7	5.3	4.5	5.7	4.3	4.7	4.0	4.4	3.4	1.9	1.9
Southeastern Region (Excluding South Carolina)	5.4	3.9	2.9	2.4	2.9	4.0	4.6	4.9	4.3	5.1	4.7	4.6	4.6

Notes: All data compiled and calculations made by the Board of Economic Advisors.

1/: Alabama conforms to a federal fiscal year (October to September). The monthly revenue collections have been adjusted to a state fiscal year (July to June) for comparison.

2/: South Carolina has a 13th month for accounting purposes and is reflected in the year-end growth rate.

Sources: General Fund revenue reports from respective states.



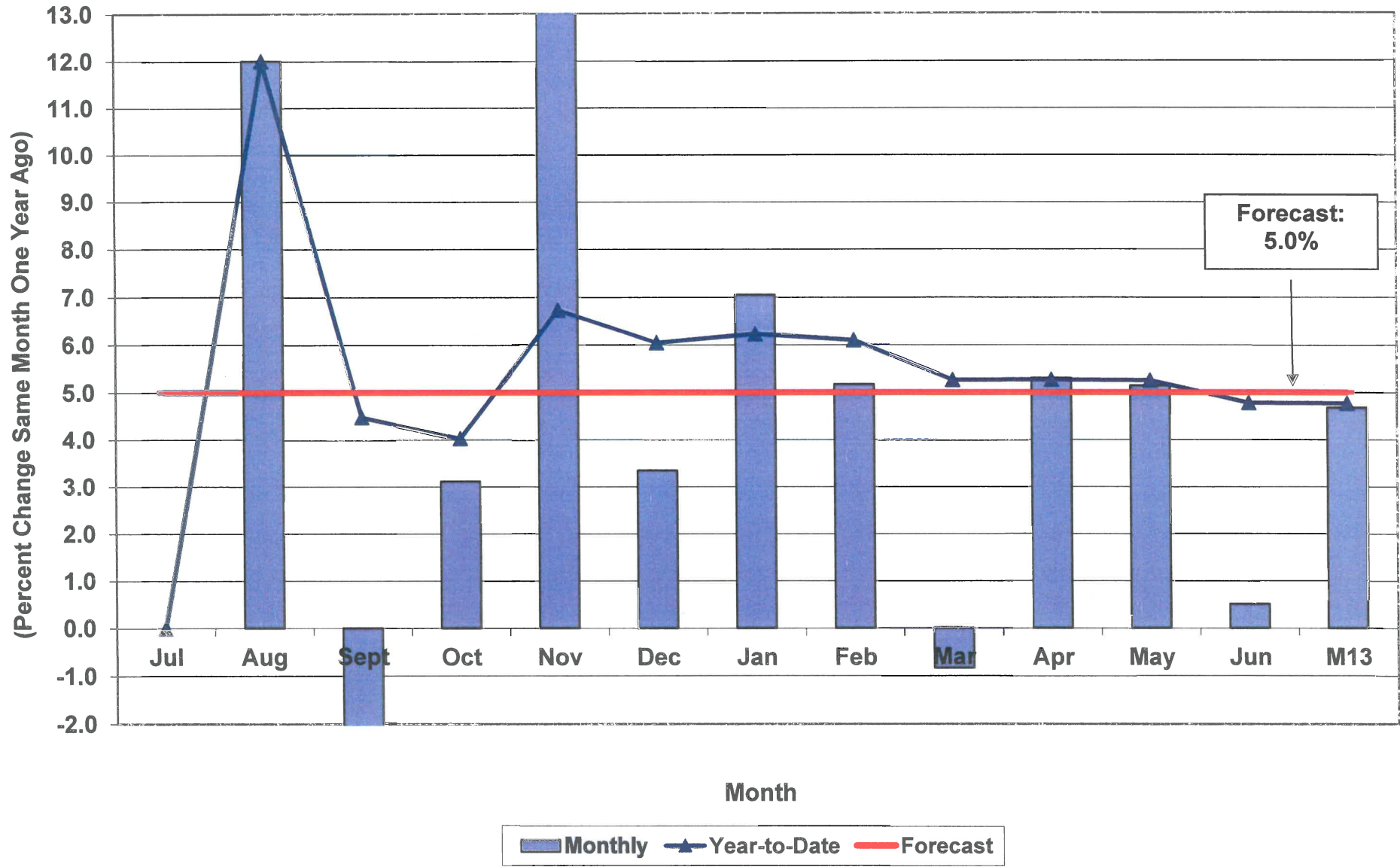
Final General Fund Revenues in FY2017-18

Sales Tax

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Sales Tax	\$3,034.4	\$3,041.2	(\$6.8)	5.0	4.8

- Sales and Use tax revenue grew 4.7 percent for the 13th month period and 4.8 percent for the fiscal year
- Actual Sales and Use tax revenues fell \$6.8 million short of the 5.0 percent growth required to meet the FY2017-18 revenue estimate

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



Source: Board of Economic Advisors
BEA/RWM/08/29/18



Final General Fund Revenues in FY2017-18

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	\$4,398.4	\$4,295.4	\$103.0	4.6	7.1

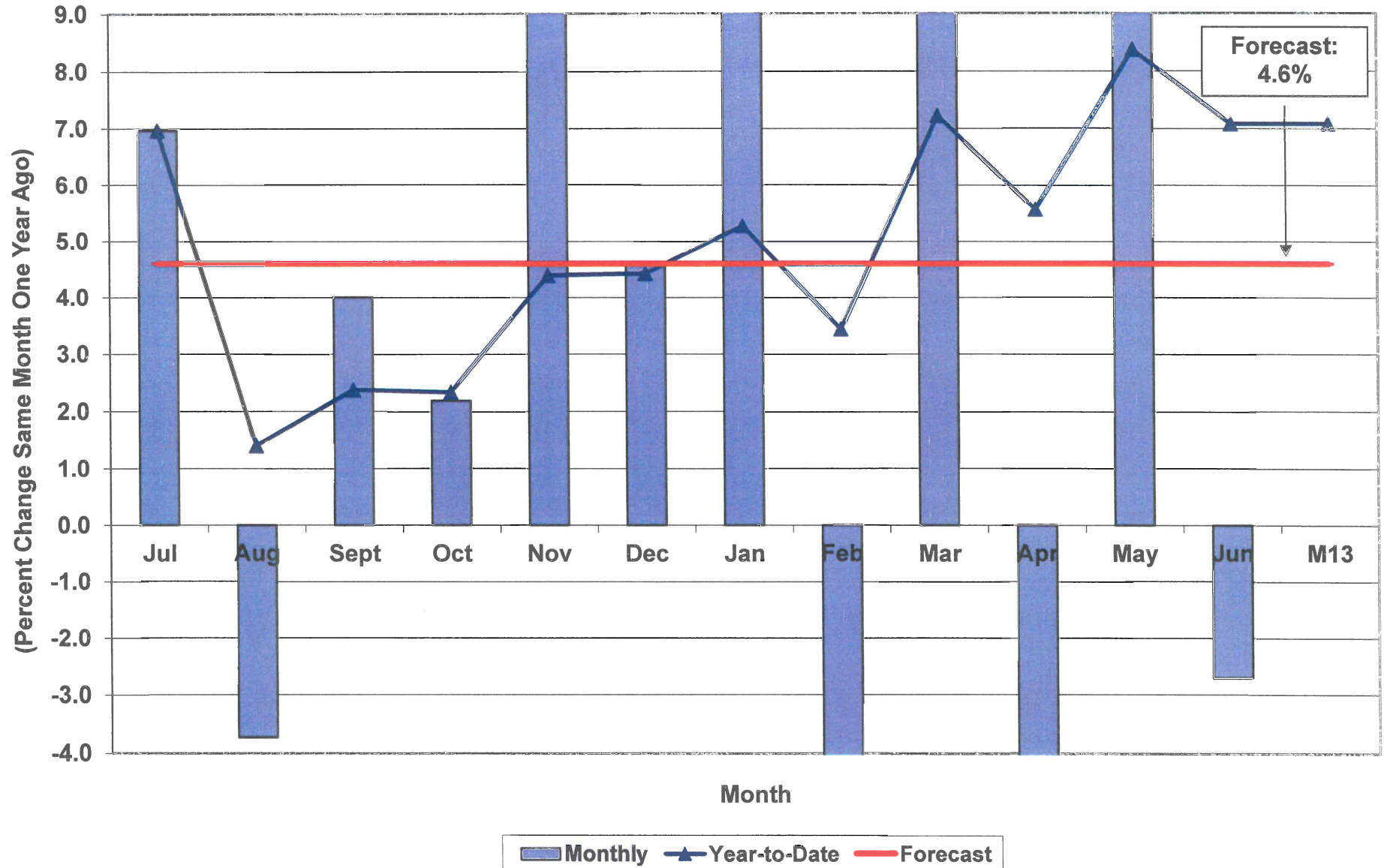
- Individual Income tax revenue finished the fiscal year with growth of 7.1 percent
- The Individual Income tax finished the fiscal year \$103.0 million above the revenue estimate of 4.6 percent



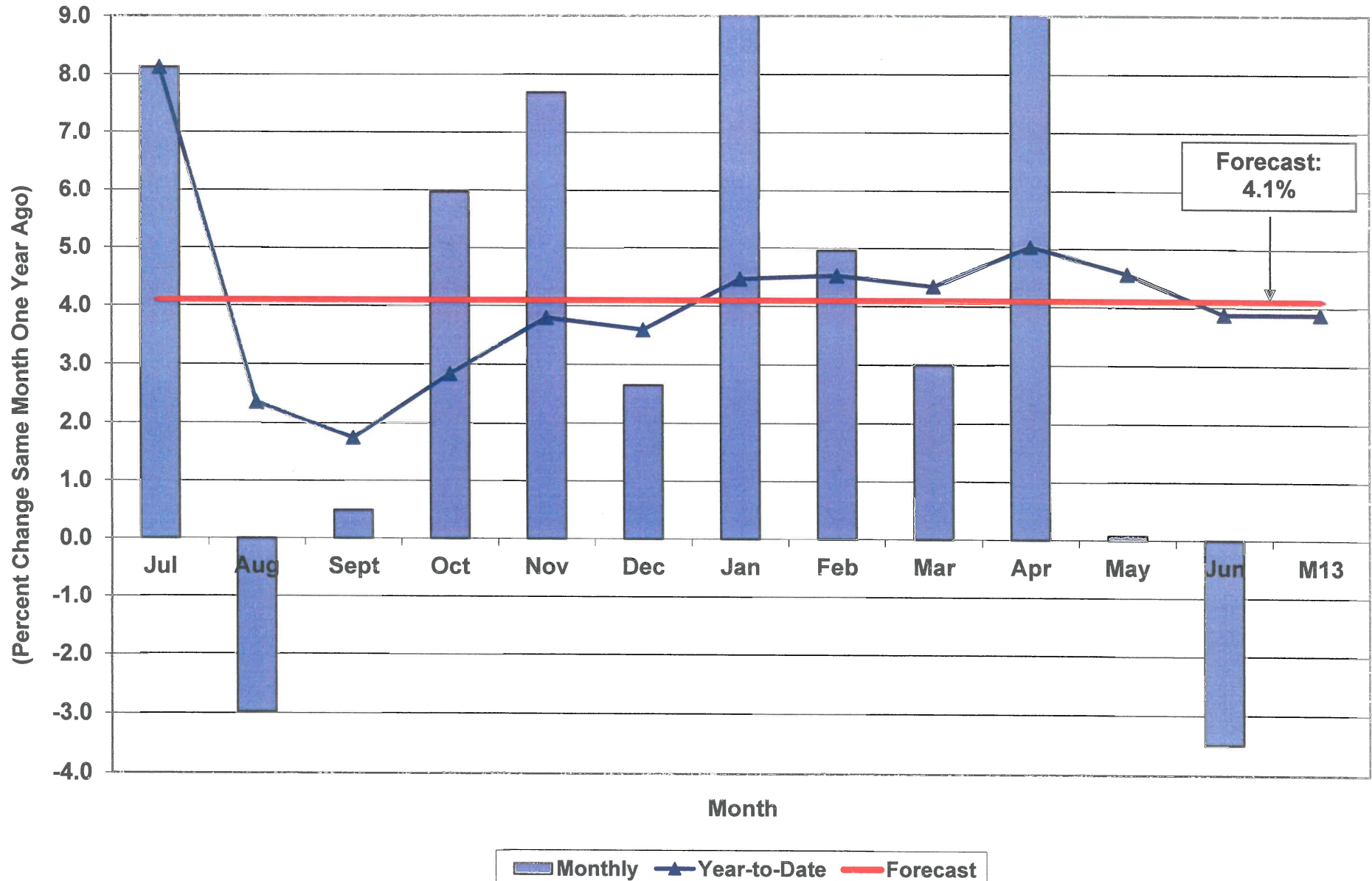
Final General Fund Revenues in FY2017-18

- Stronger than anticipated Individual Income tax payments remitted with income tax returns during the tax season combined with flat growth in Individual Income tax refunds resulted in the source of the revenue excess in the Individual Income tax category
- These two events resulted in 77.8 percent of the General Fund revenue excess in FY2017-18
- Individual income tax withholdings, the largest single source of tax revenue, finished \$9.6 million below the revenue estimate of \$5,130.0 in FY2017-18

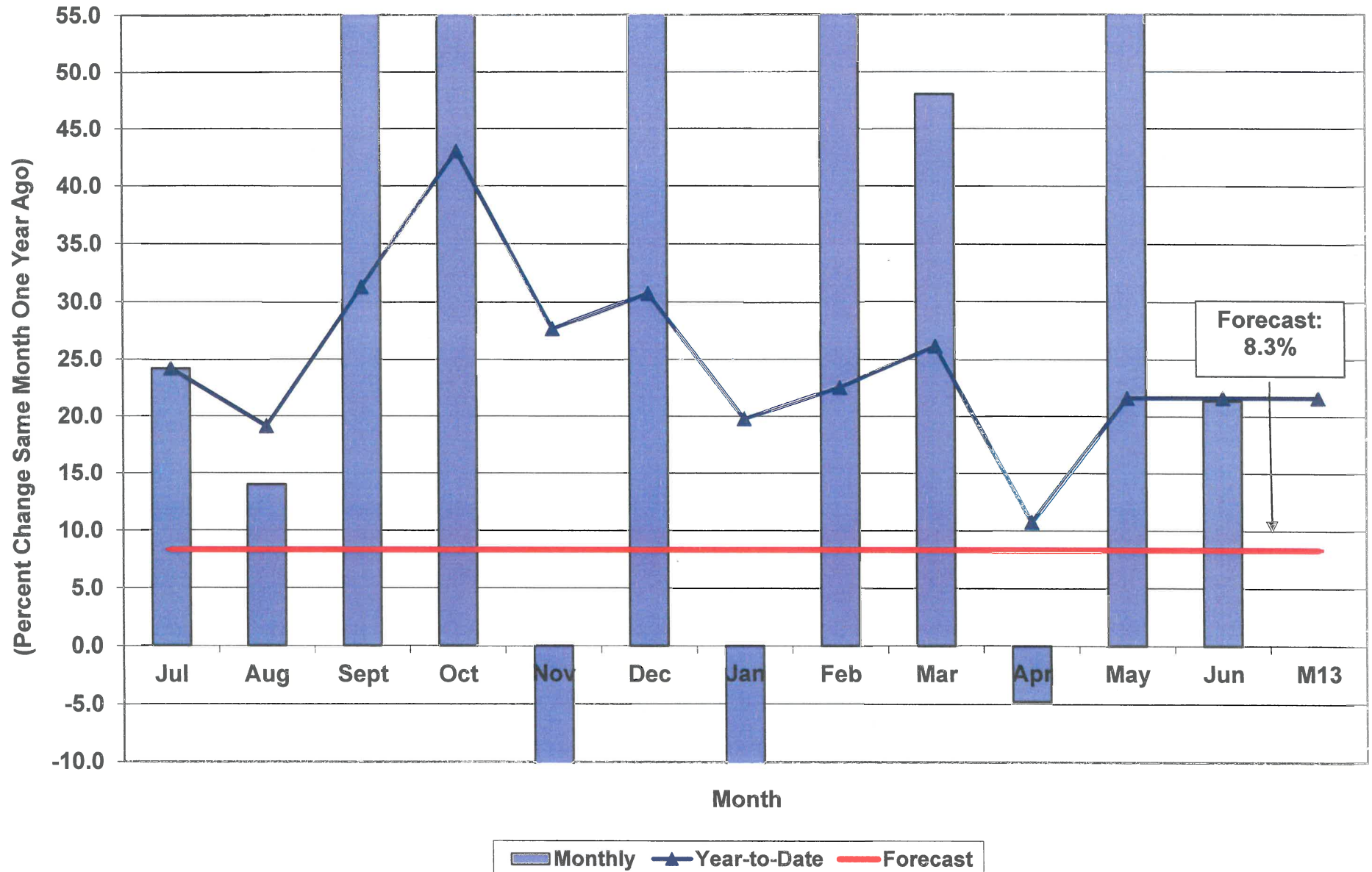
Growth in Total Individual Income Tax Revenue Collections FY2018 Monthly and Year-to-Date



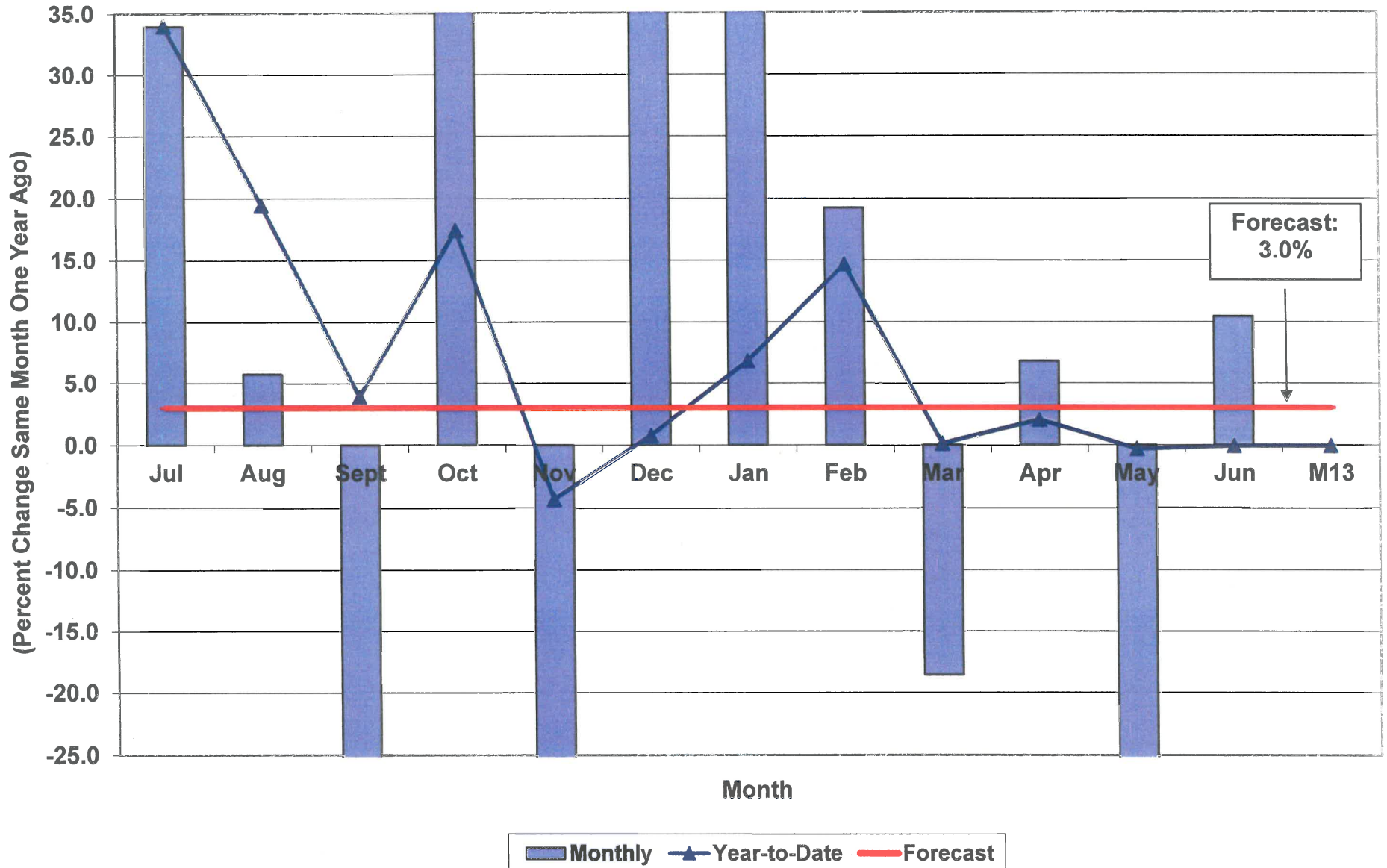
Growth in Individual Income Tax Withholding Revenue FY2018 Monthly and Year-to-Date



Growth in Individual Income Tax Paid With Returns in South Carolina FY2017 Monthly and Year-to-Date



Growth in Individual Income Tax Refunds in South Carolina FY2018 Monthly and Year-to-Date





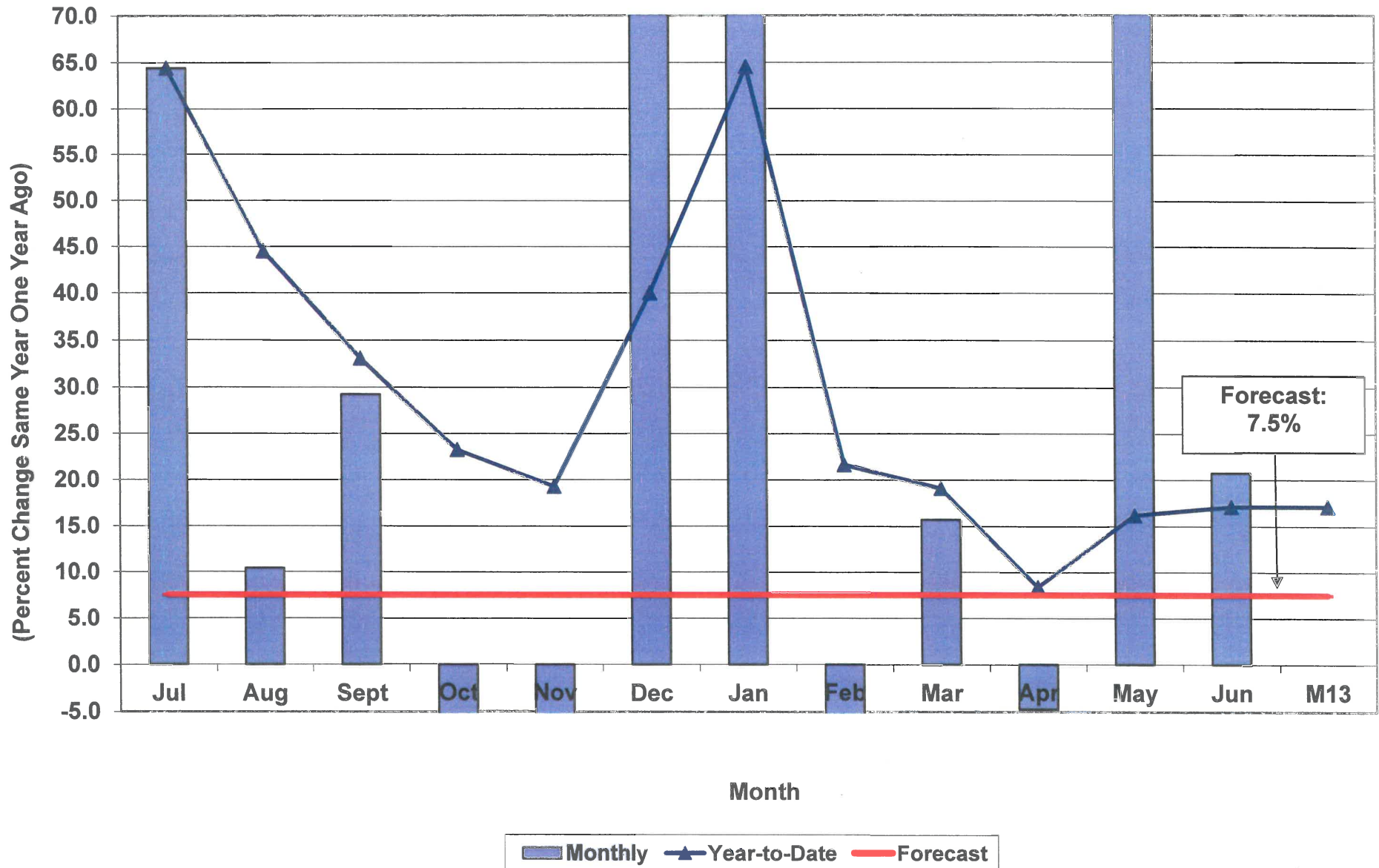
Final General Fund Revenues in FY2017-18

Corporate Income Tax

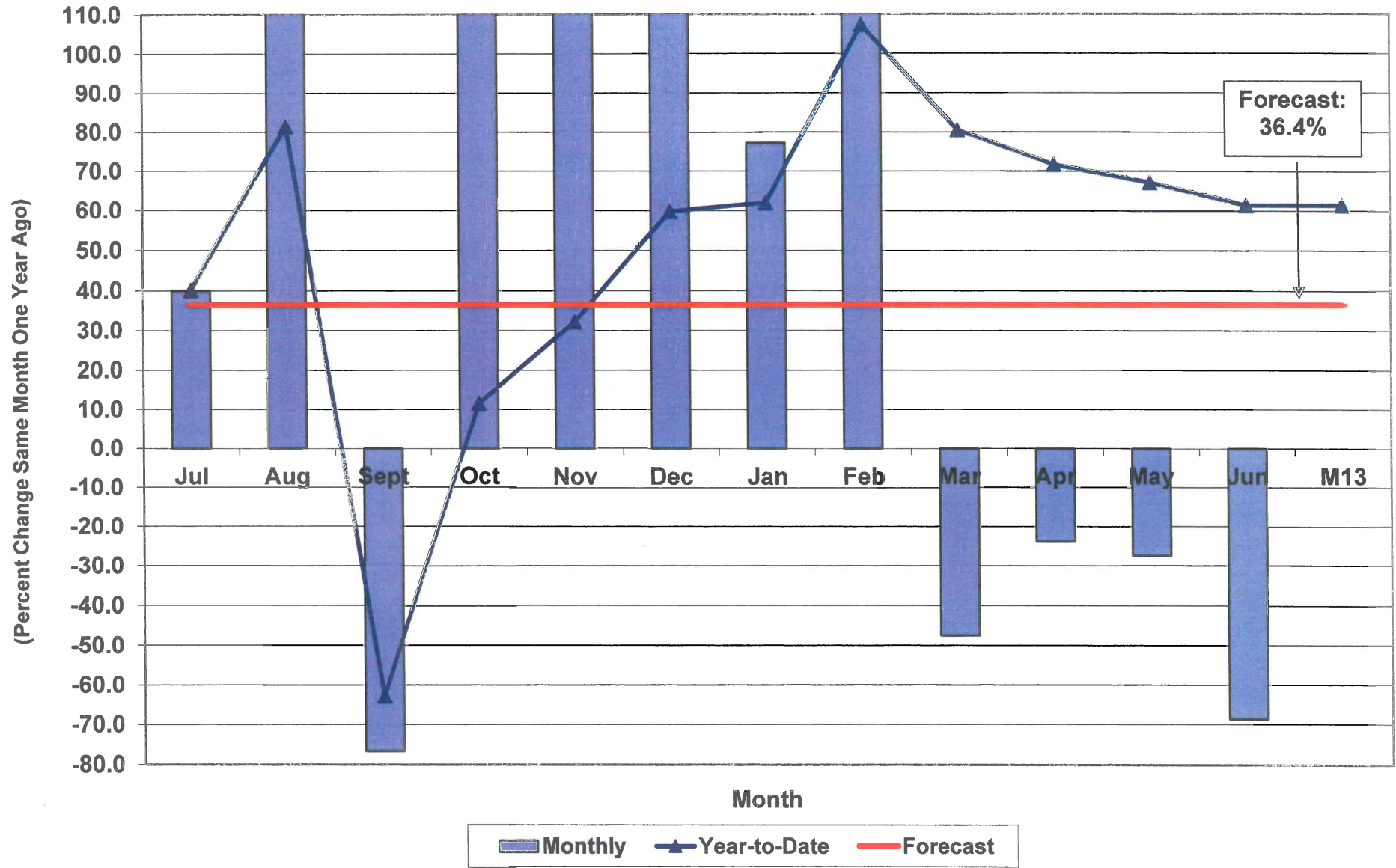
Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Corporation Income Tax	\$375.2	\$344.5	\$30.7	7.5	17.1

- Corporate Income tax revenue increased 17.1 percent for the fiscal year and \$30.7 million above the revenue estimate in FY2017-18
- The Corporate License tax increased 61.6 percent in FY2017-18 and finished the fiscal year with a revenue excess of \$17.2 million over the revenue estimate

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



Growth in Total Corporate License Tax Revenue in South Carolina FY2018 Monthly and Year-to-Date





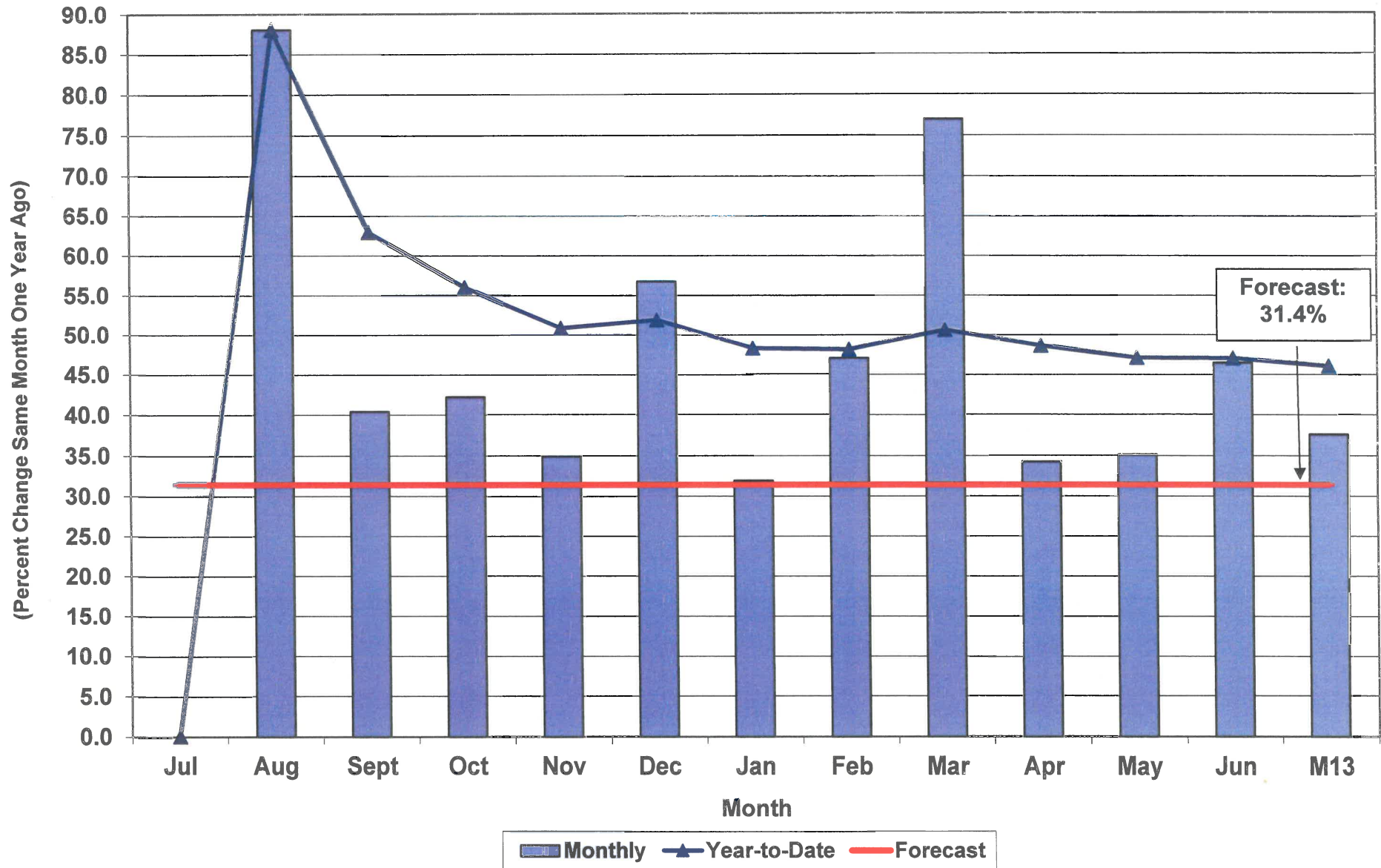
Final General Fund Revenues in FY2017-18

Other Taxes

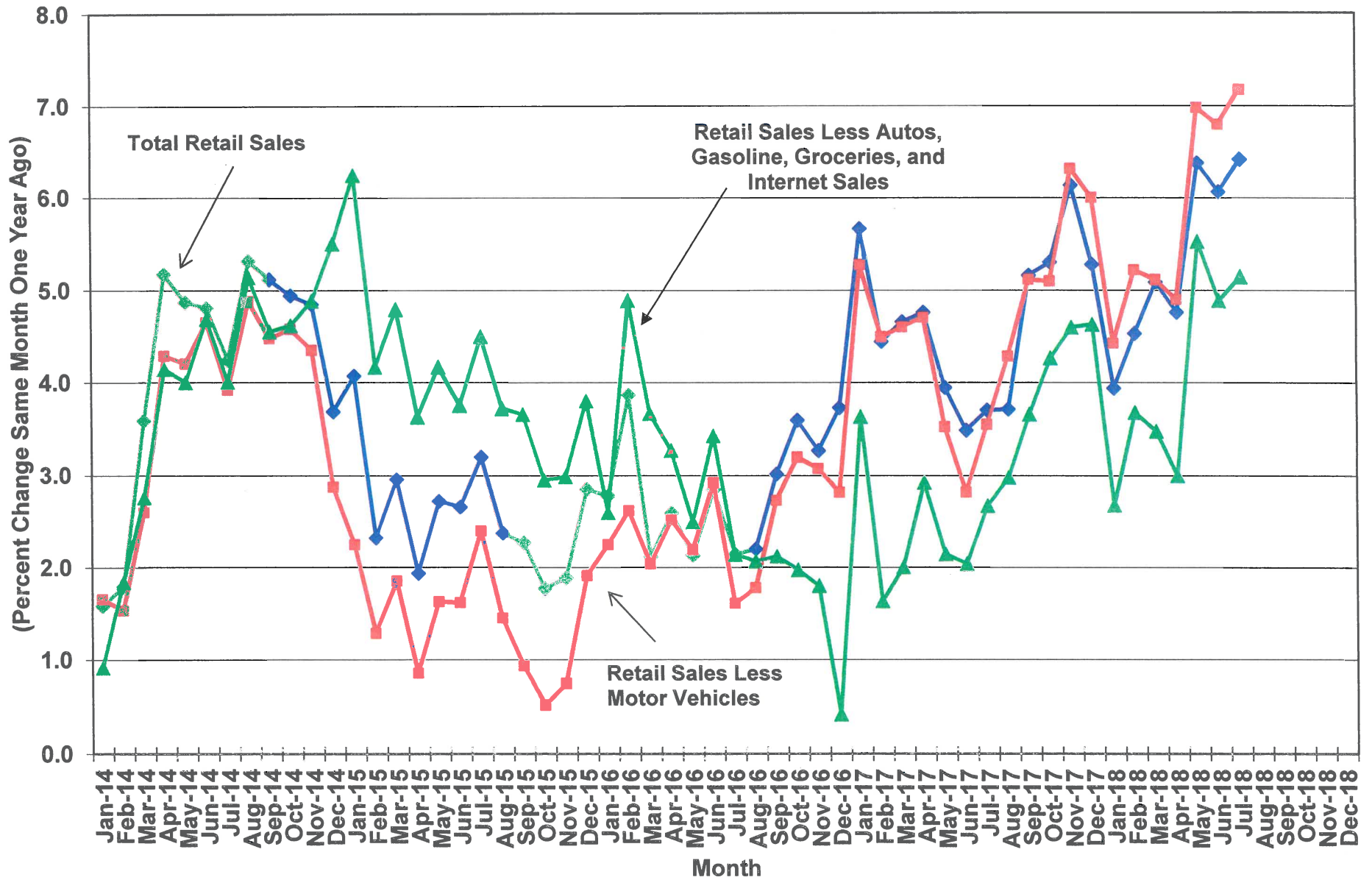
Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Other Revenues	\$898.0	\$852.7	\$45.3	2.3	7.7

- Growth is from a variety of sources and timing of receipts
- The majority of the annual revenue increase was attributable to the Documentary Stamp tax (deed recording fees on realty transfers) and interest earnings deposited in the General Fund from state investments

Growth in Documentary Stamp Tax Revenue in South Carolina FY2018 Monthly and Year-to-Date



U.S. Retail & Food Service Sales

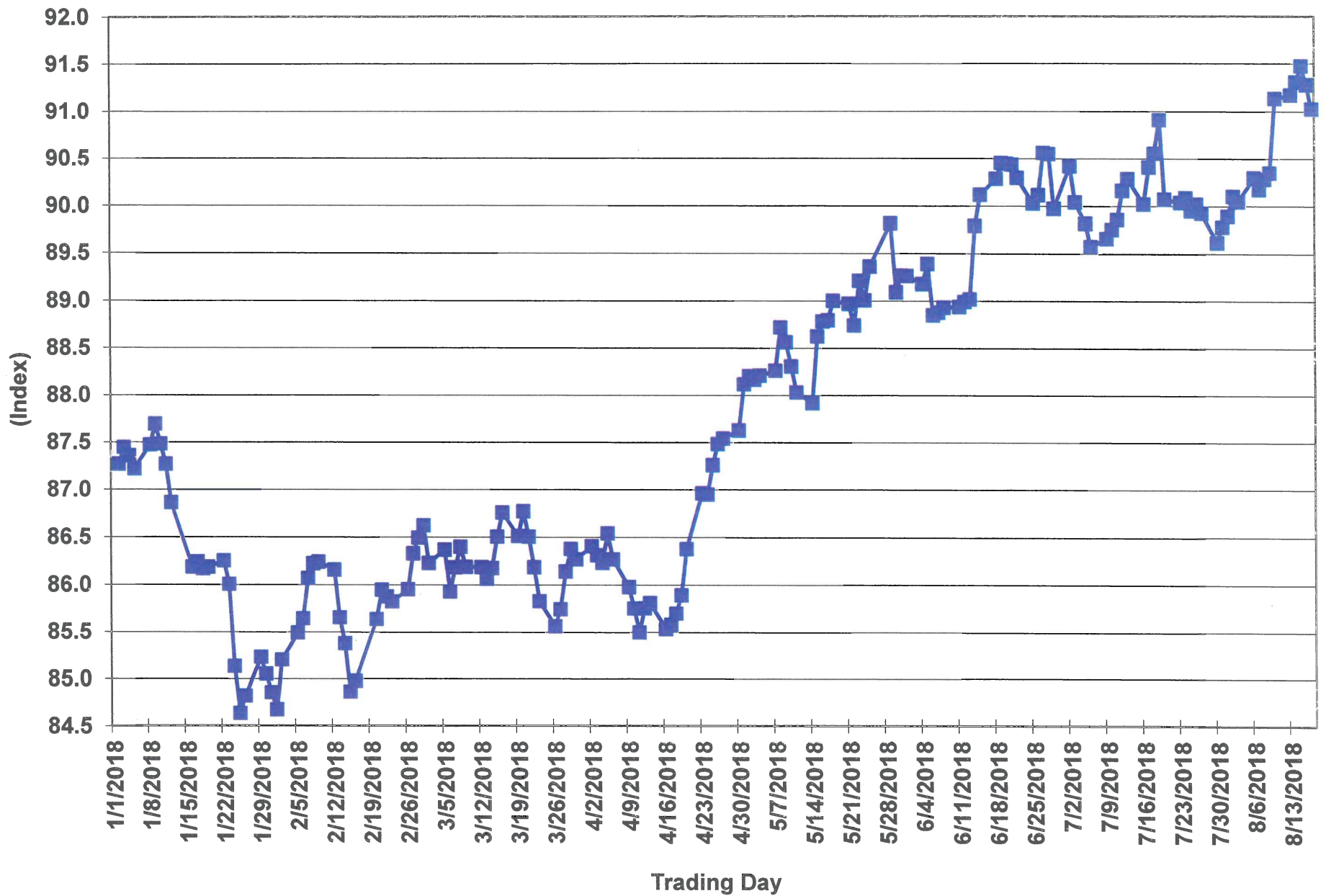


Source: U.S. Department of Commerce, Bureau of the Census, Washington, D.C.

Dow Jones Industrial Average



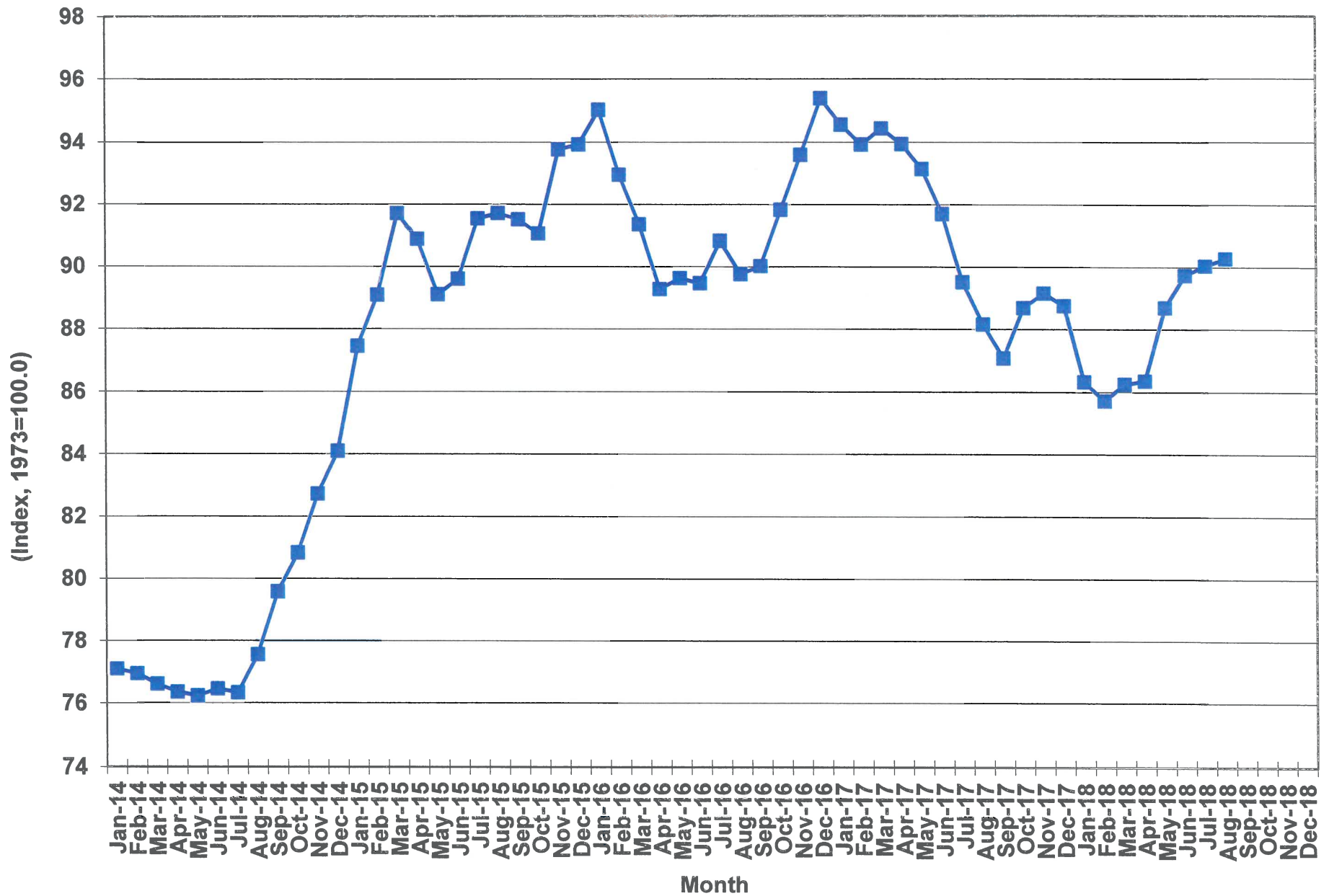
Daily Trade-Weighted Exchange Rate Index of U.S. Dollar



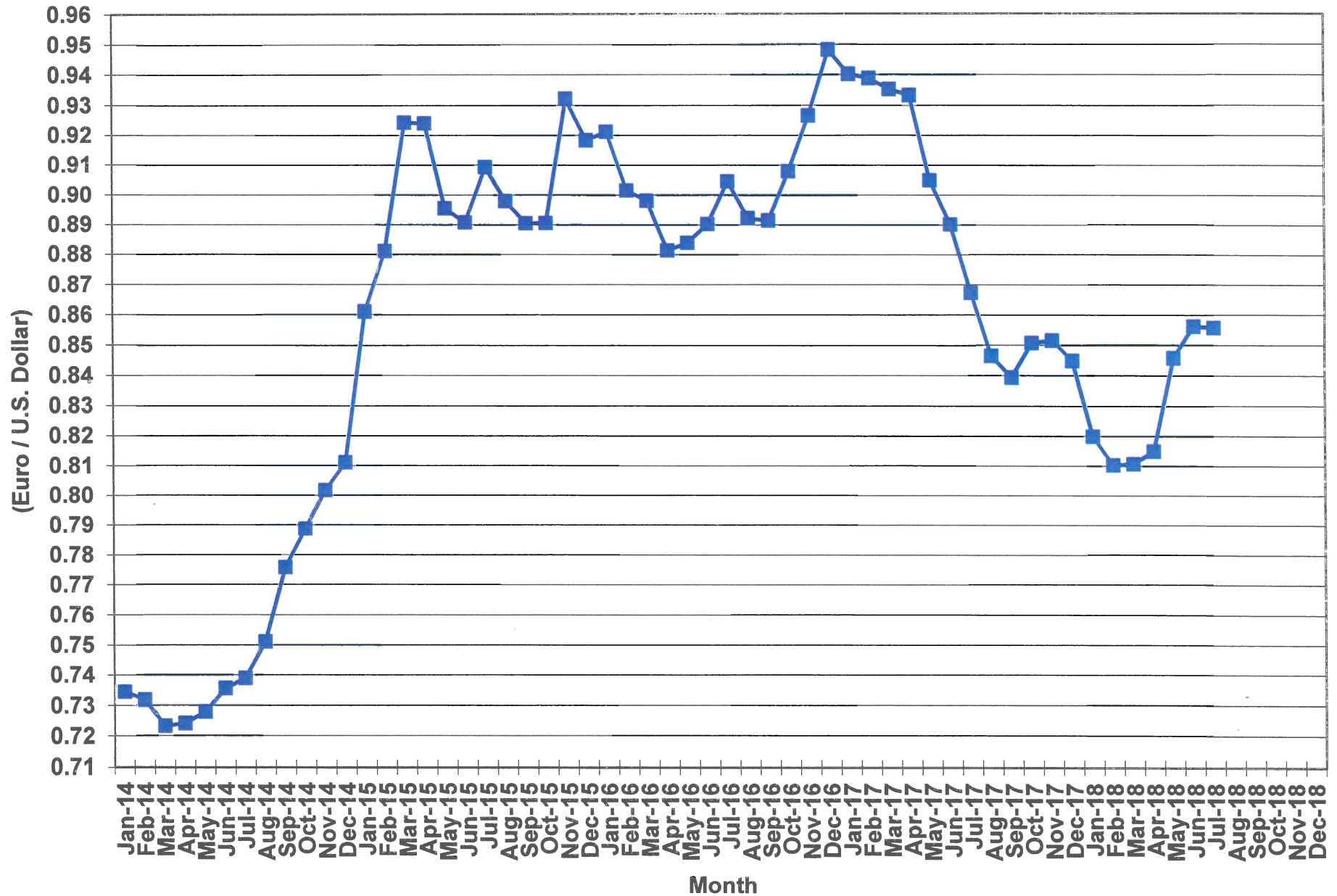
Source: Board of Governors of the Federal Reserve System, Washington, D.C.

S.C. Board of Economic Advisors

U.S. Trade-Weighted Exchange Rate Index of U.S. Dollar



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



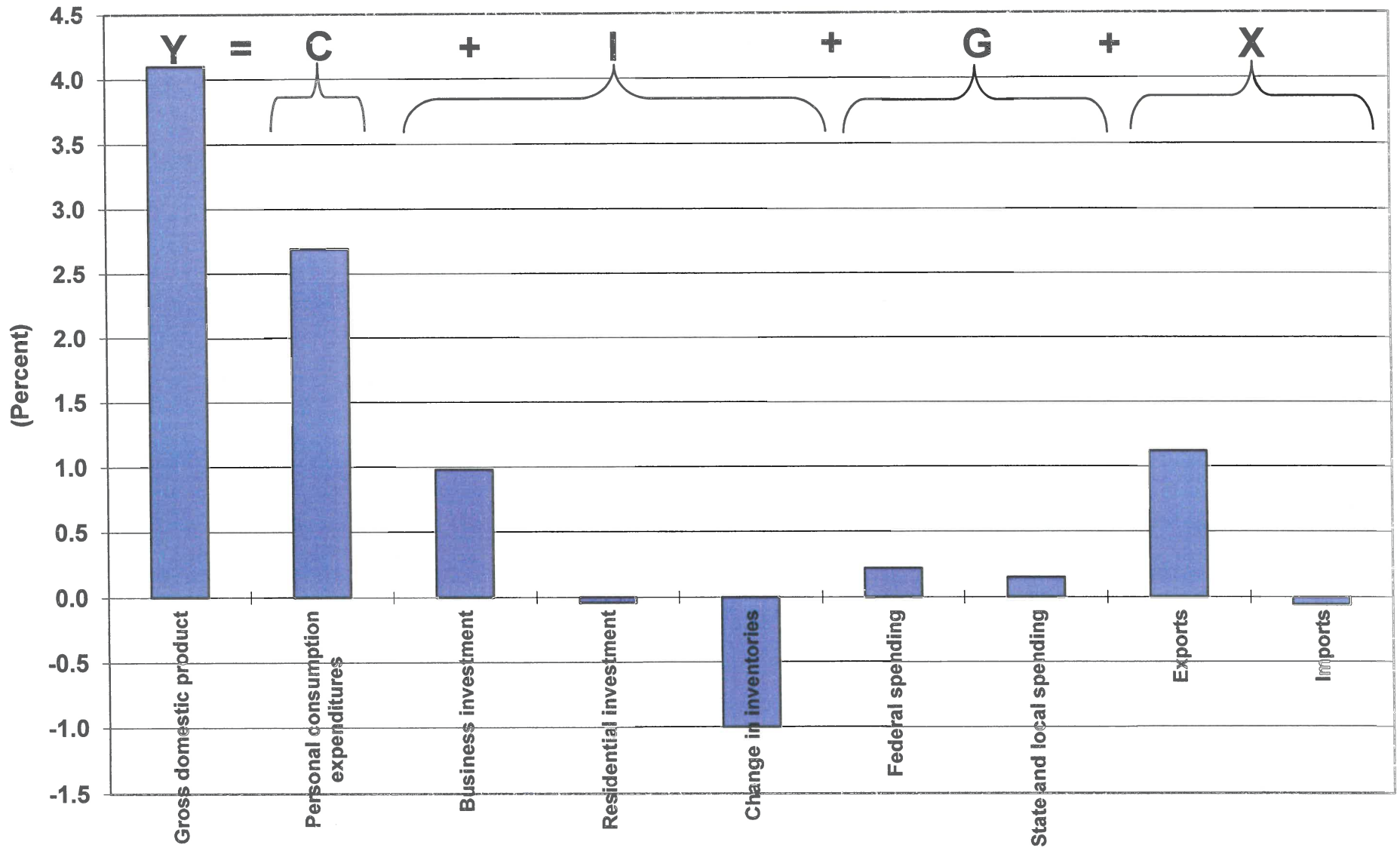


Final General Fund Revenues in FY2017-18

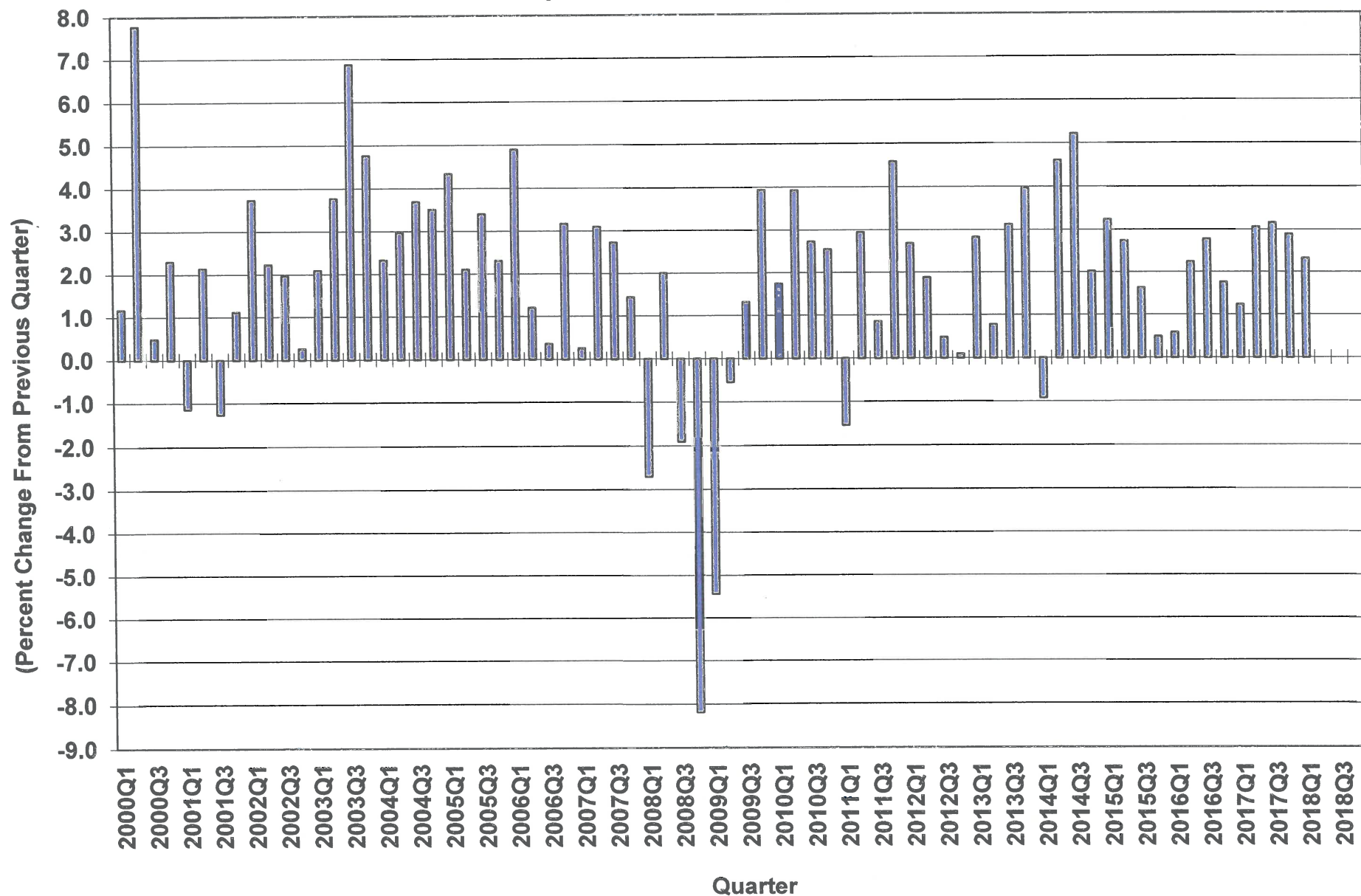
Economic Issues and Concerns

- **Gross Domestic Product (revision and rebasing)**
- **SC Personal Income – 1st quarter of 2018 (upcoming comprehensive revision in September)**
- **SC Employment**
- **Effect of Trump tax change**
- **Federal Reserve meeting – no change on interest rates in July, next meeting in September**
- **Flattening of the yield curve spread**
- **Tariffs (China retaliation; doubling tariffs for Turkey)**
- **European debt crisis**
- **Oil prices & OPEC**
- **Housing market**

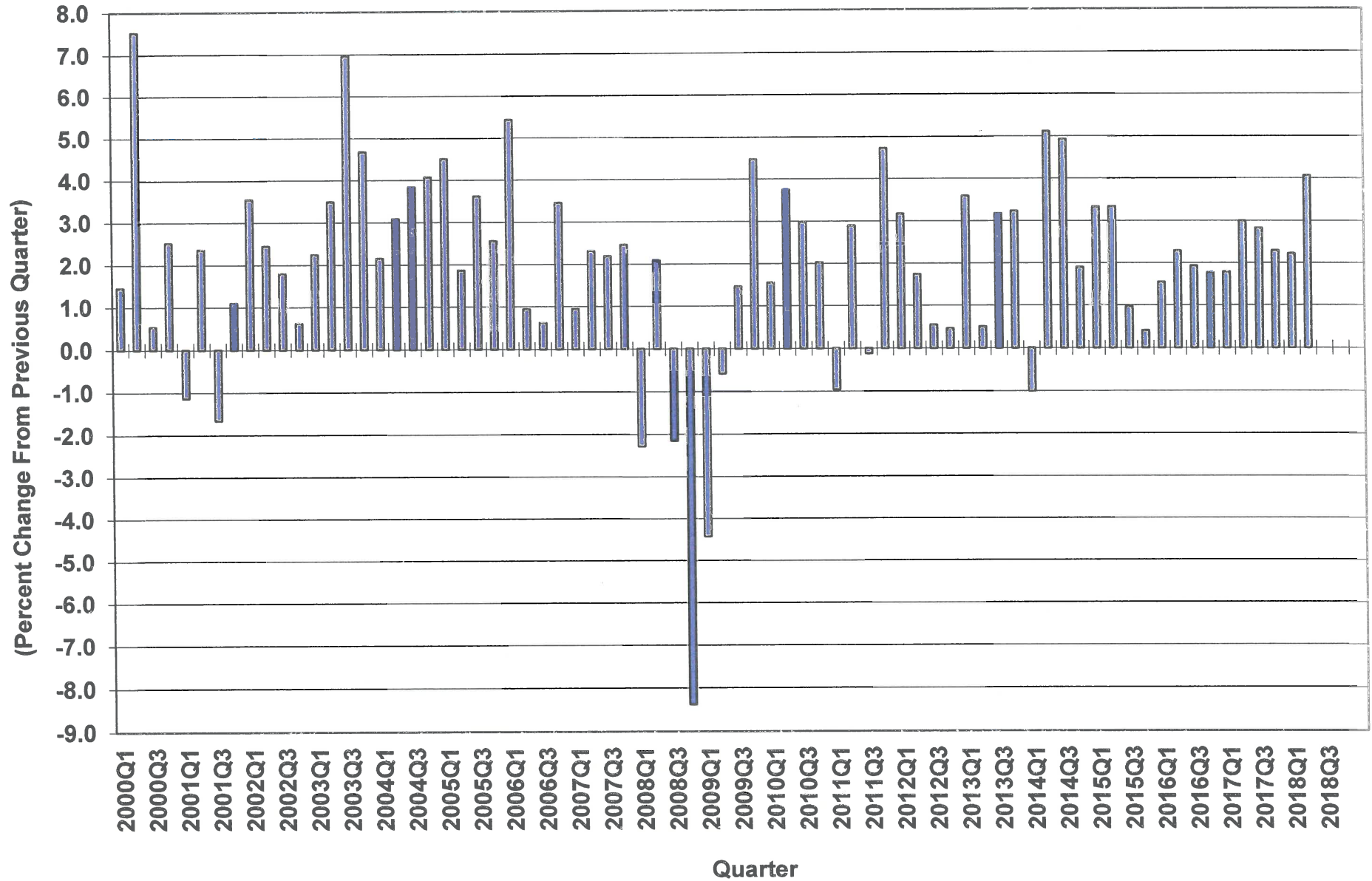
Contributions to Real Gross Domestic Product in the U.S. 2018, Second Quarter, (Advance Estimate)



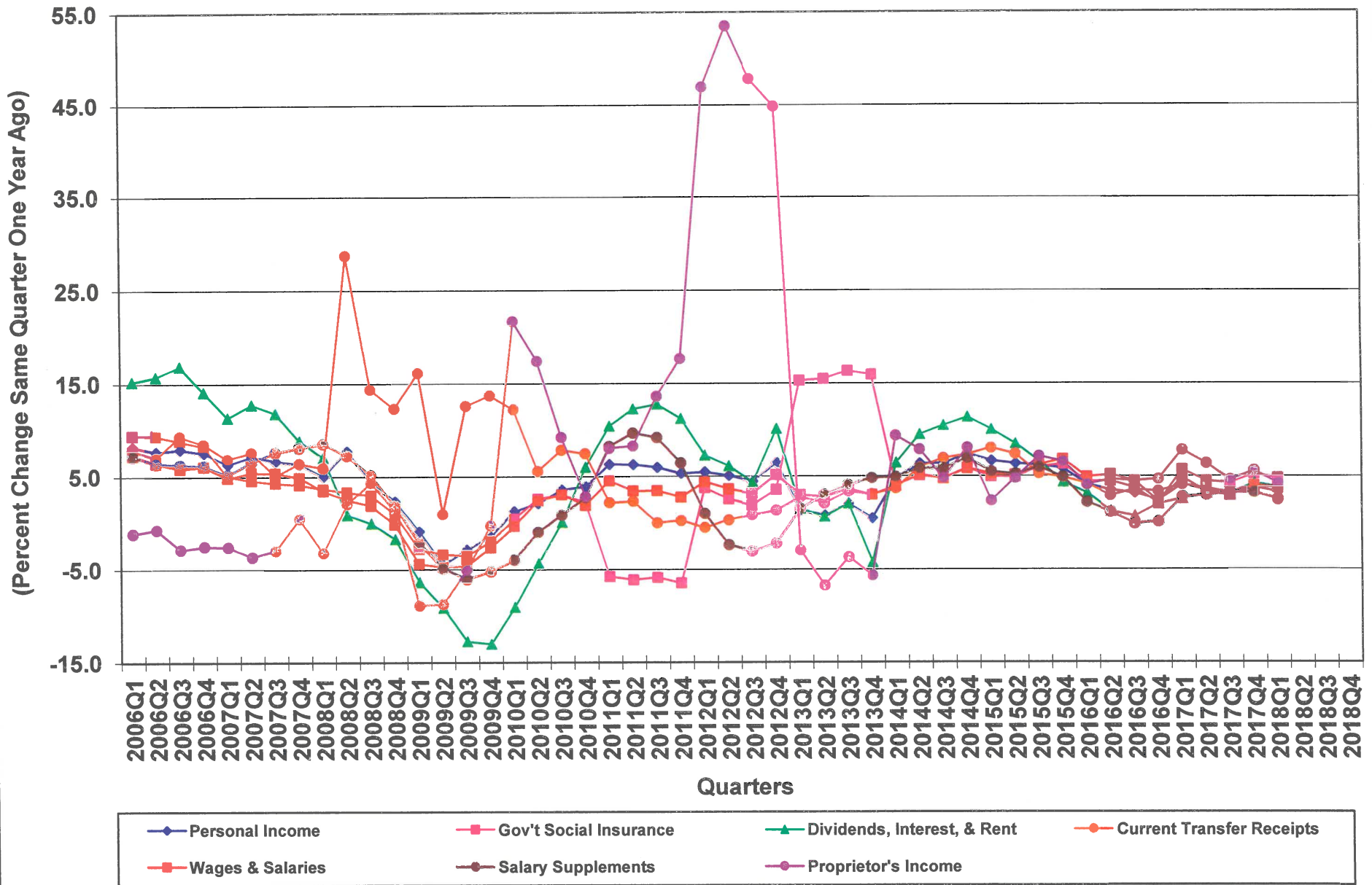
Real Gross Domestic Product in the U.S. (2009 = 100.0)



Real Gross Domestic Product in the U.S. (2012 = 100.0)

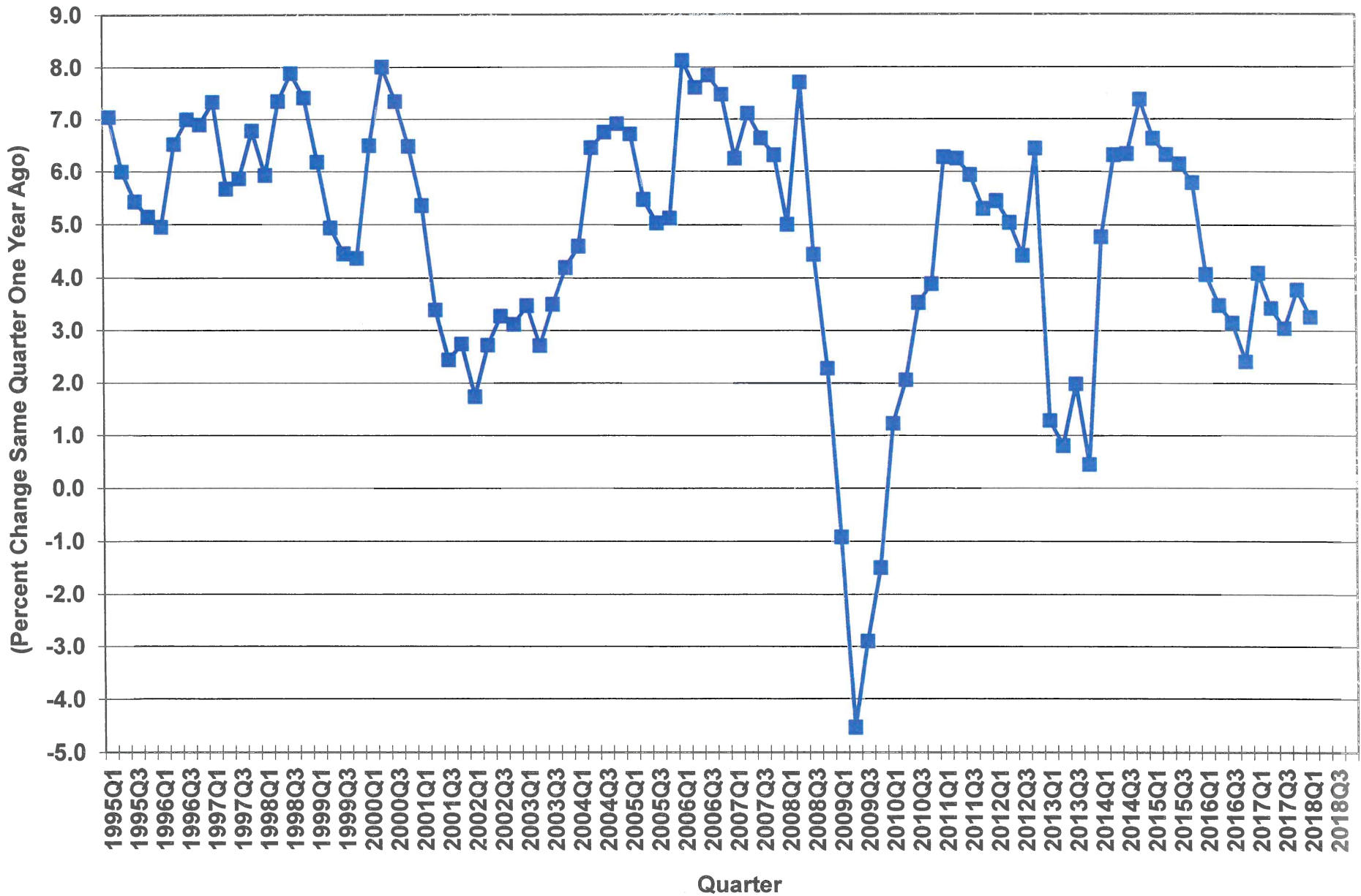


Growth in Personal Income Components in South Carolina



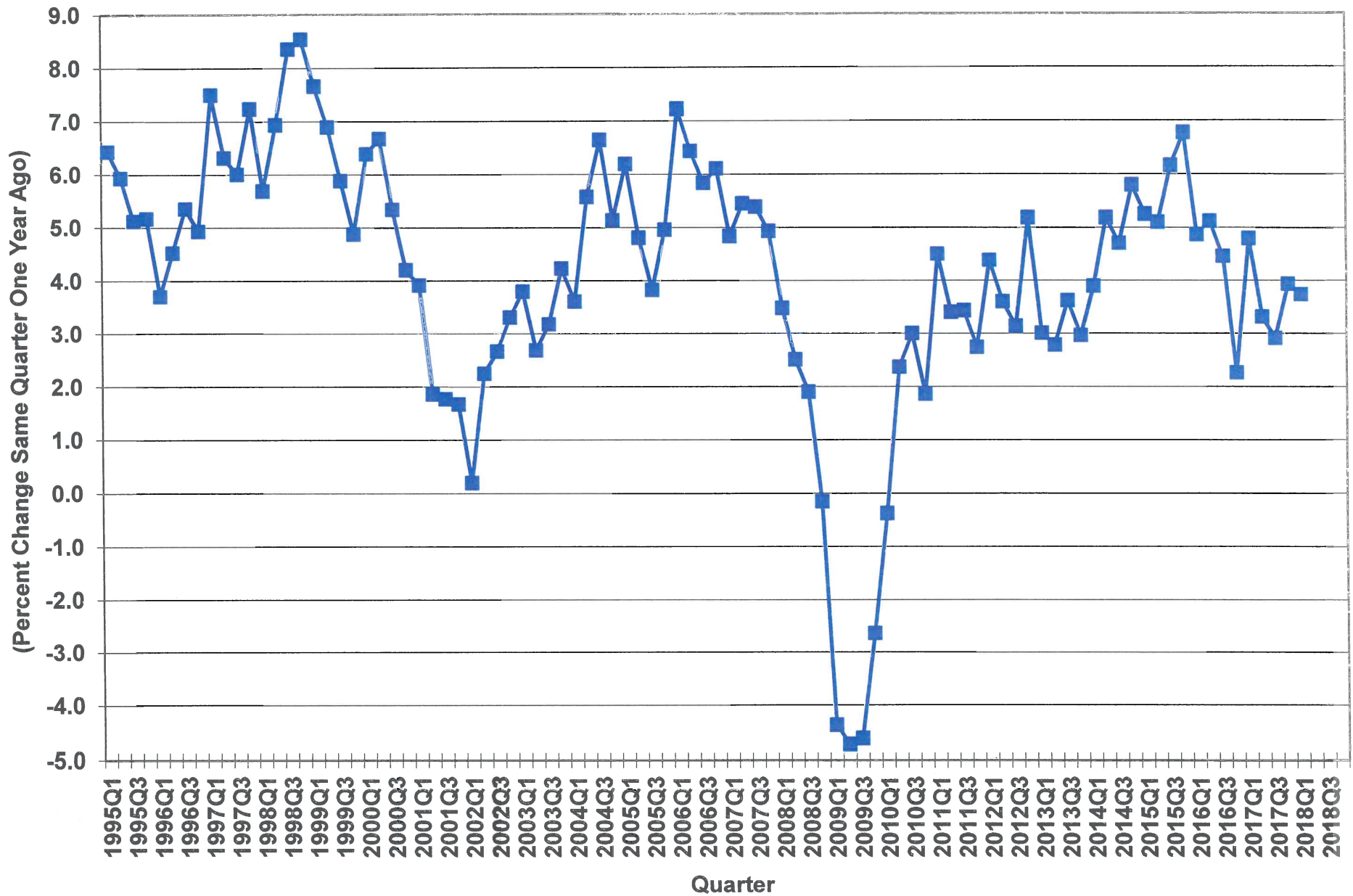
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.
BEA/RWM/6/21/18

Growth in Personal Income in South Carolina



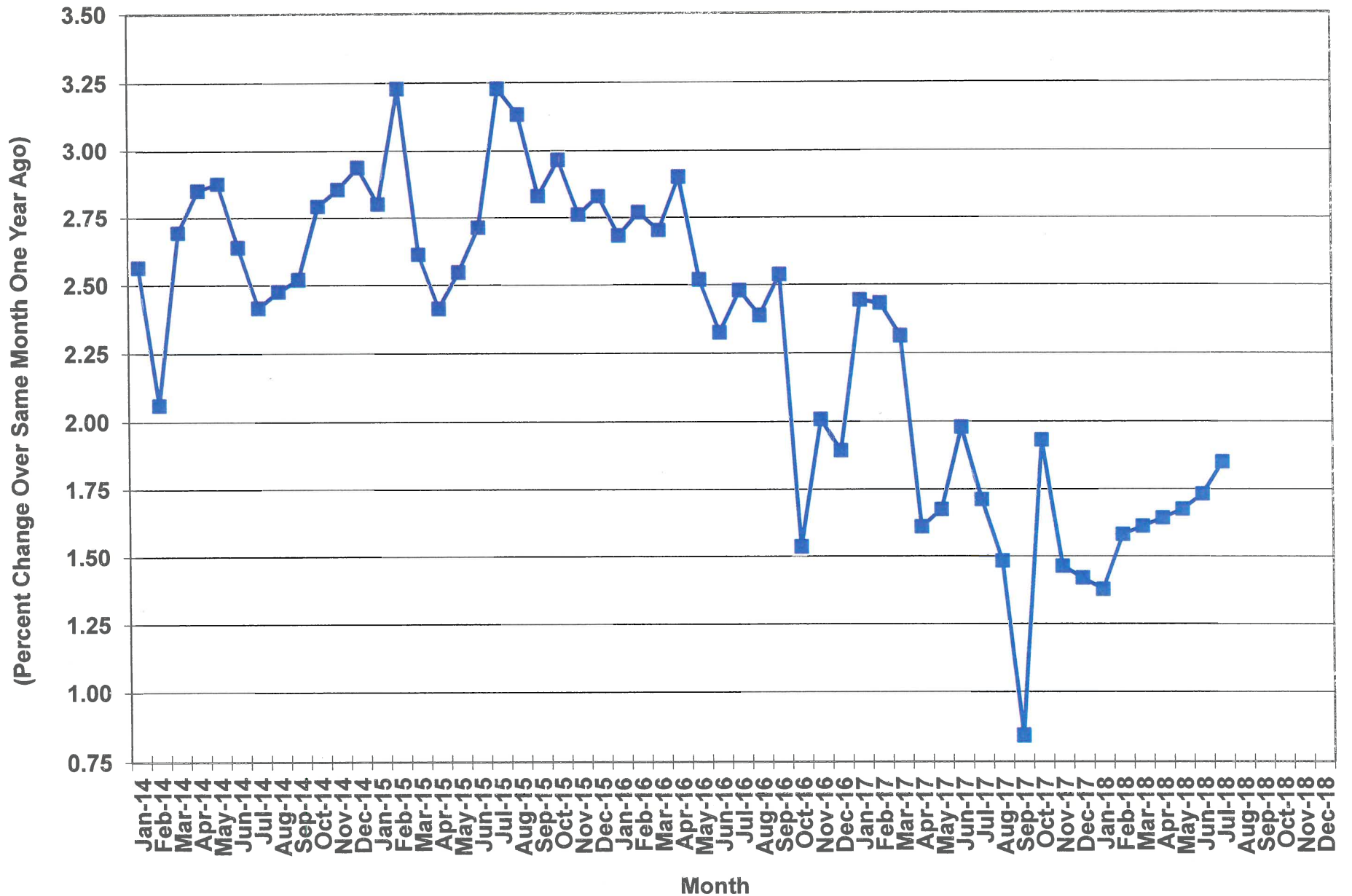
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

Growth in Wages and Salaries in South Carolina

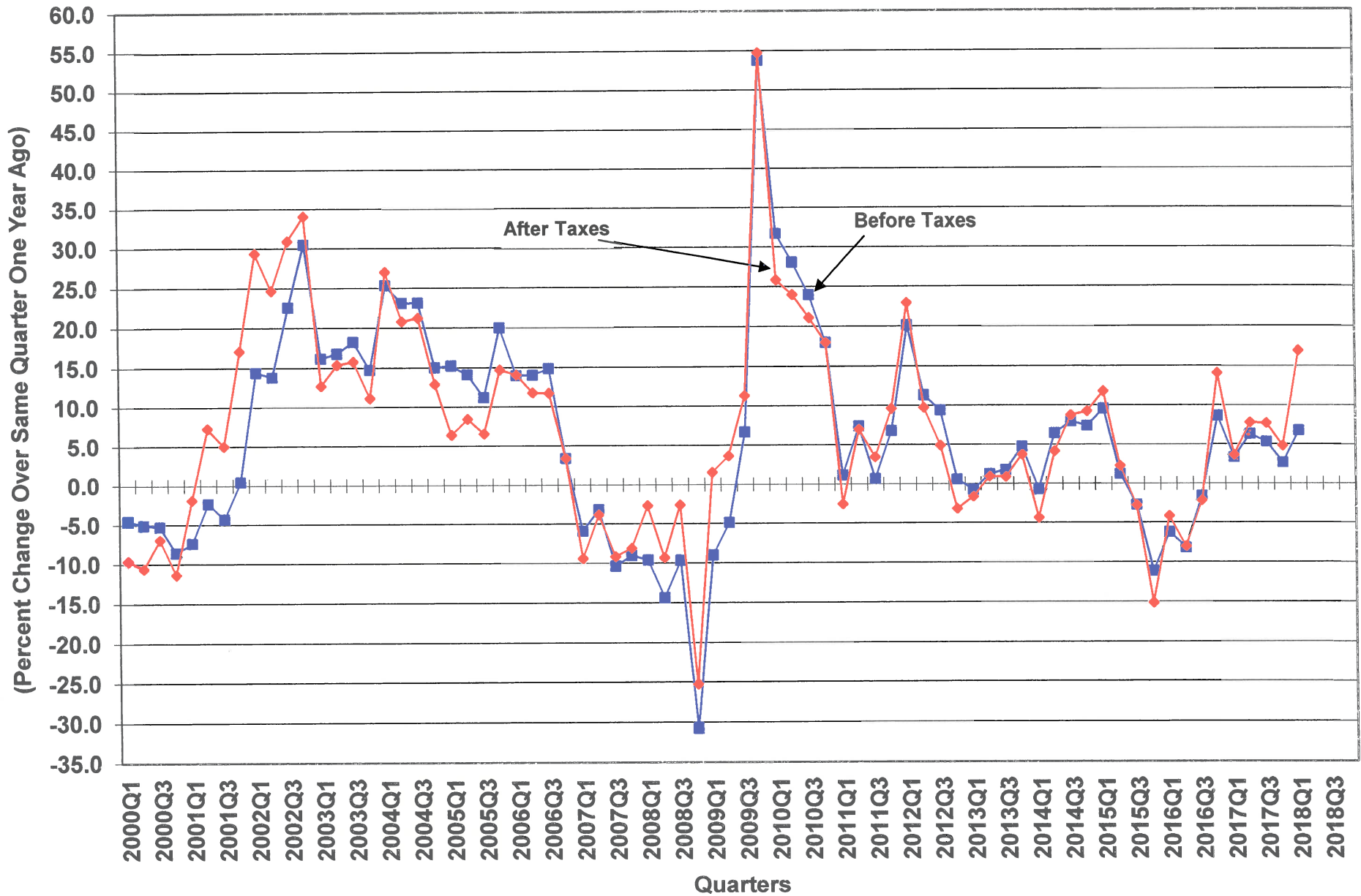


Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

Total Nonfarm Employment Growth in South Carolina

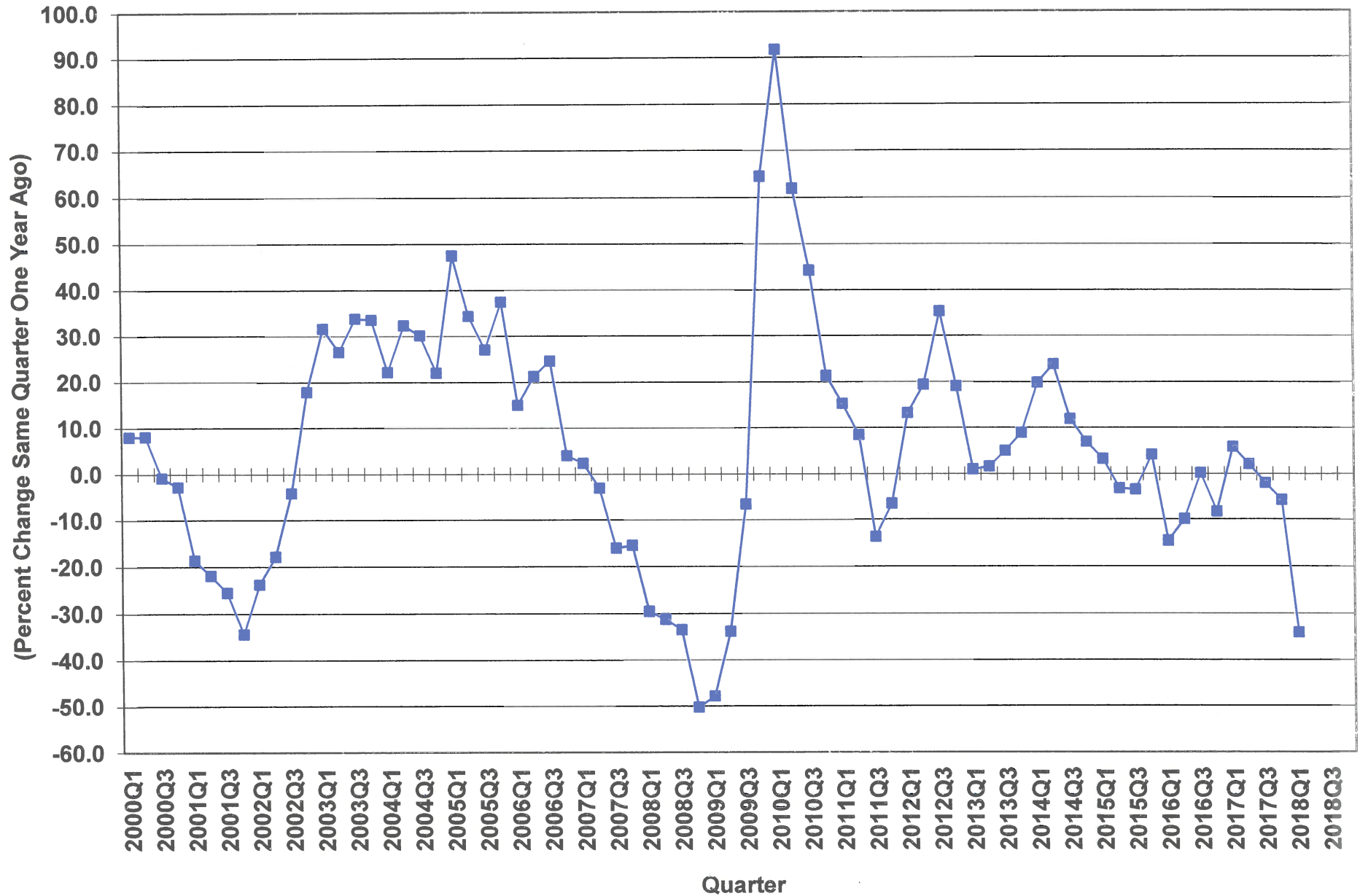


U.S. Corporate Profits Before and After Taxes



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

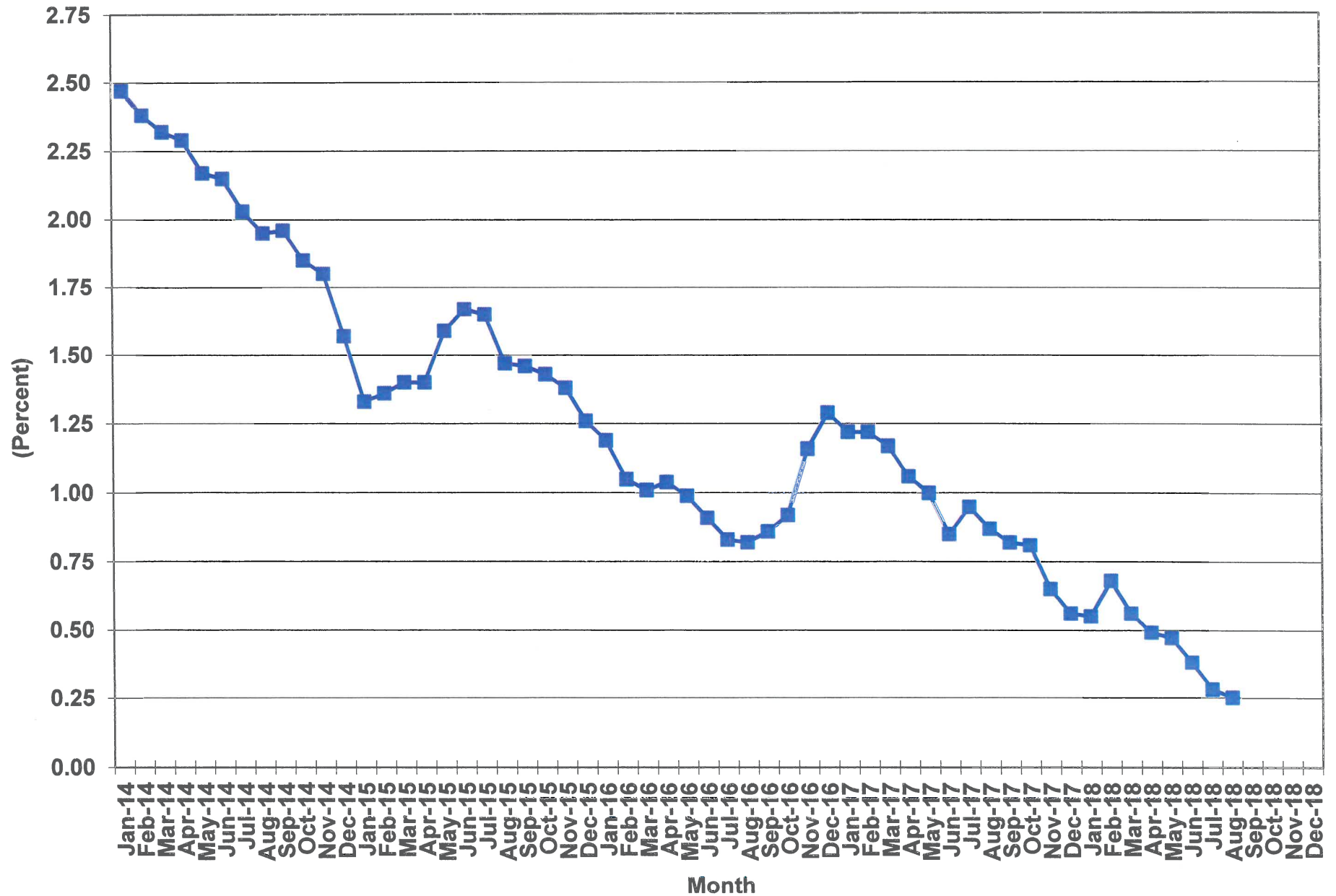
Growth in Corporation Income Taxes in the U.S.



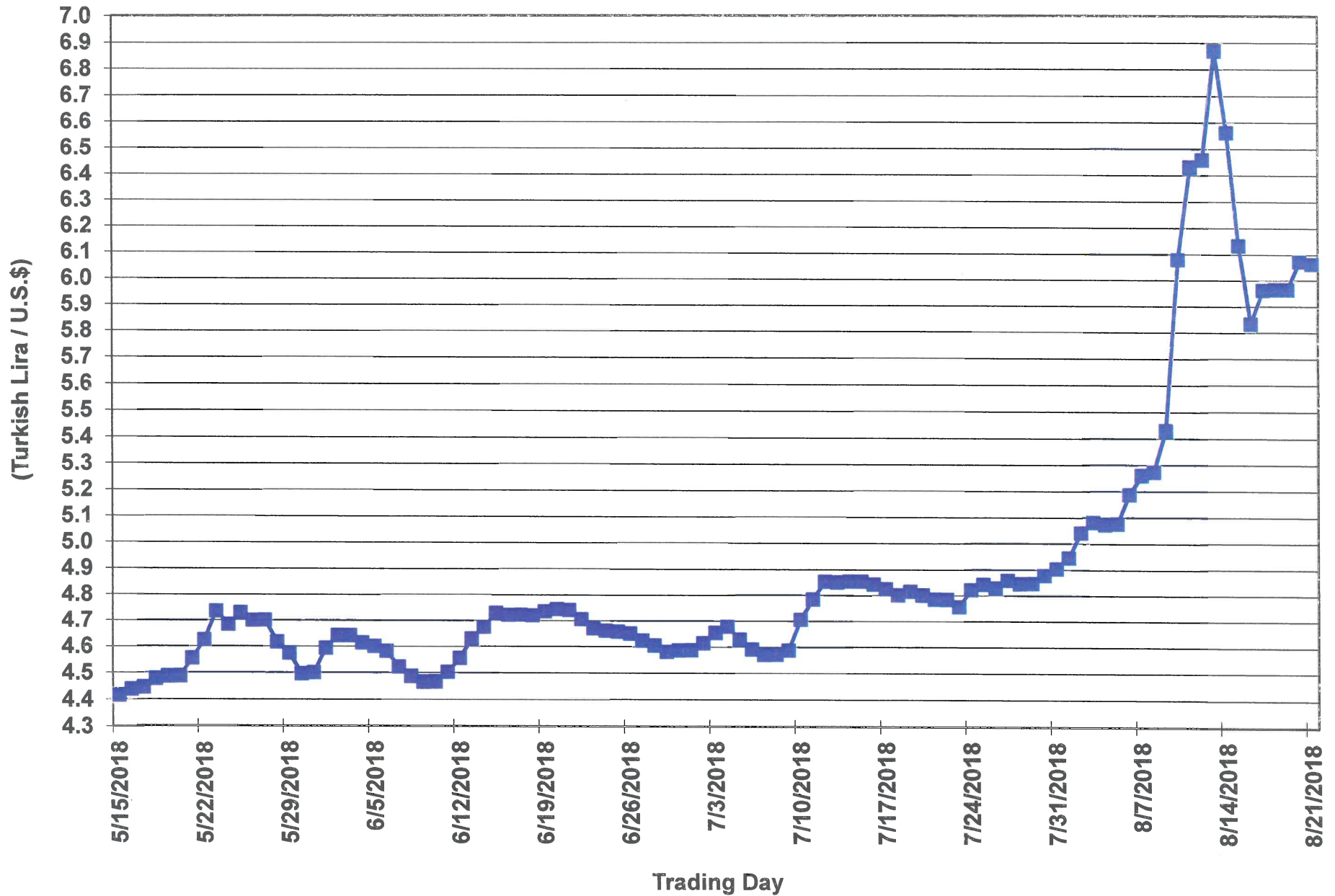
Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

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Interest Rate Spread Between 10-Year Bond & 2-Year Bond



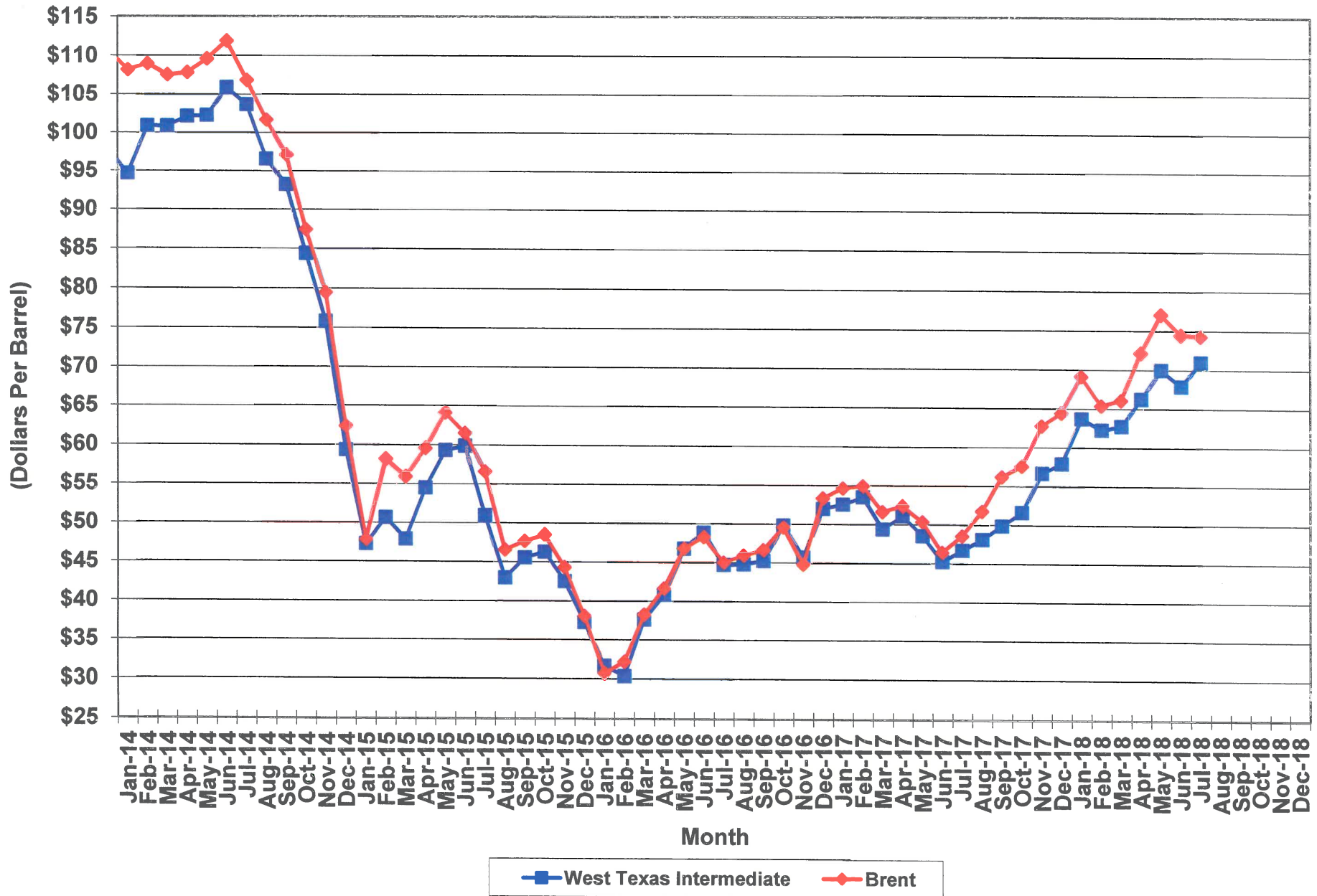
Value of Turkish Lira vs. the U.S. Dollar



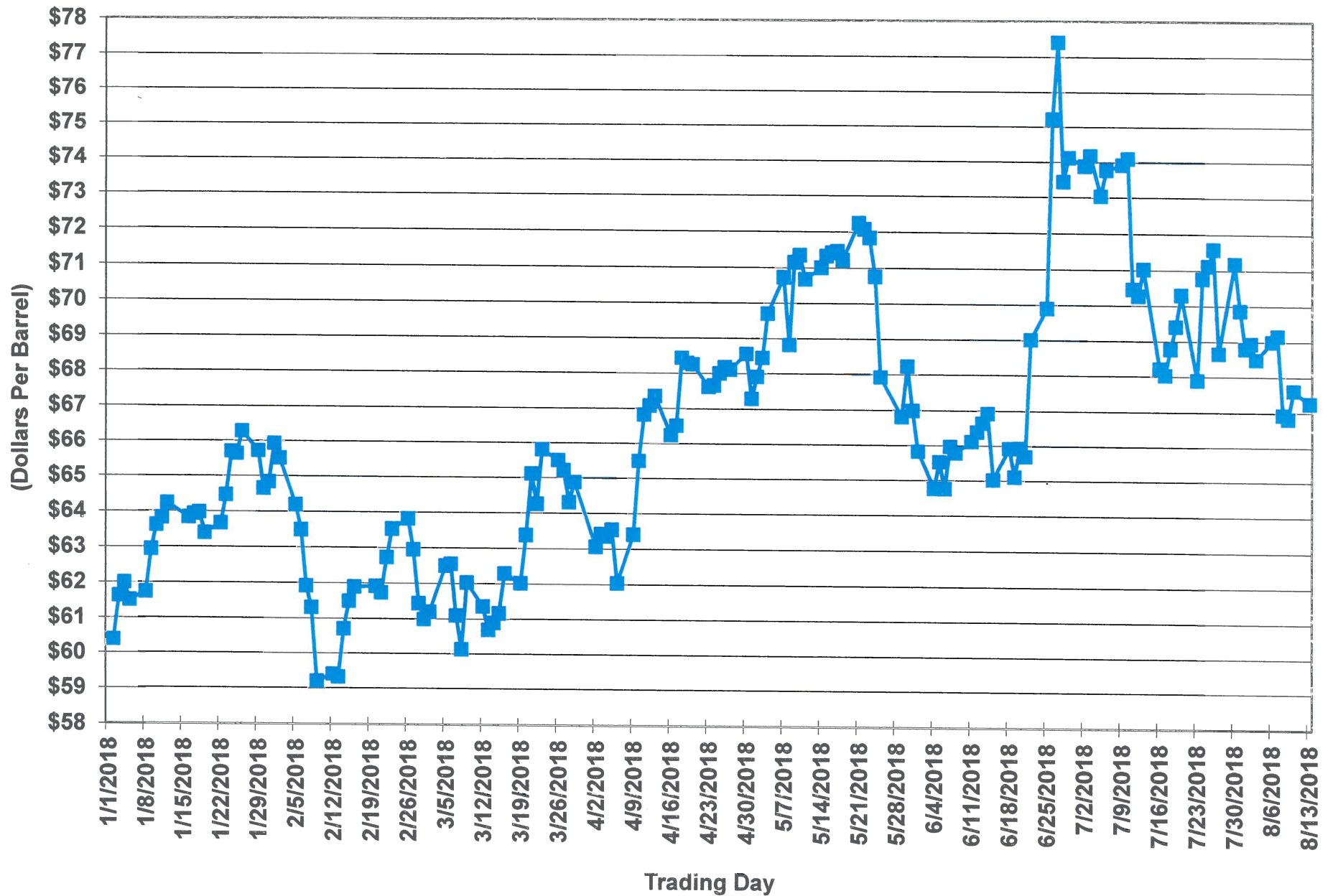
Source: Commodity Futures Trading Commission; OANDA, Corporation.

S.C. Board of Economic Advisors

Spot Crude Oil Prices

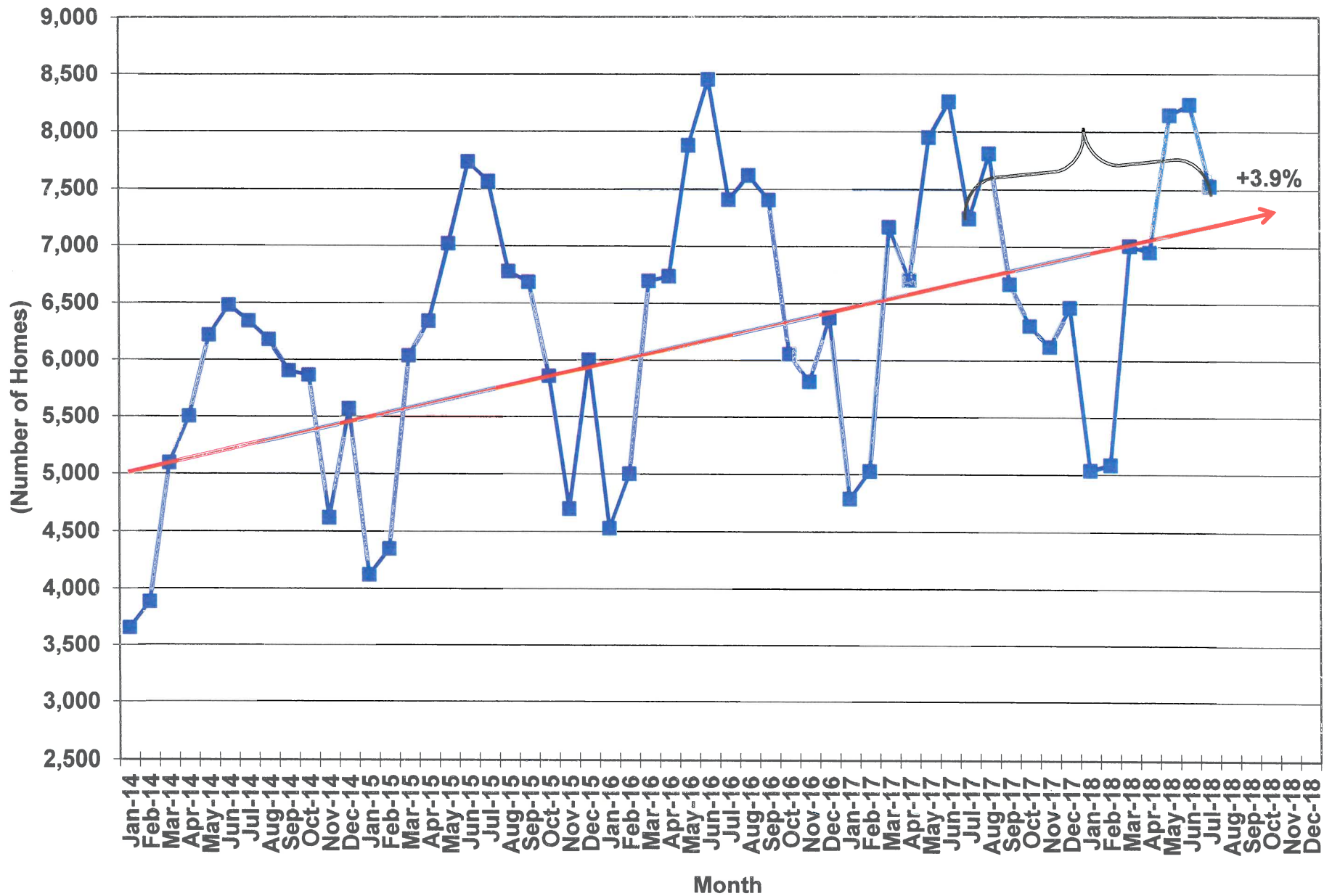


Daily West Texas Intermediate Spot Crude Oil Prices

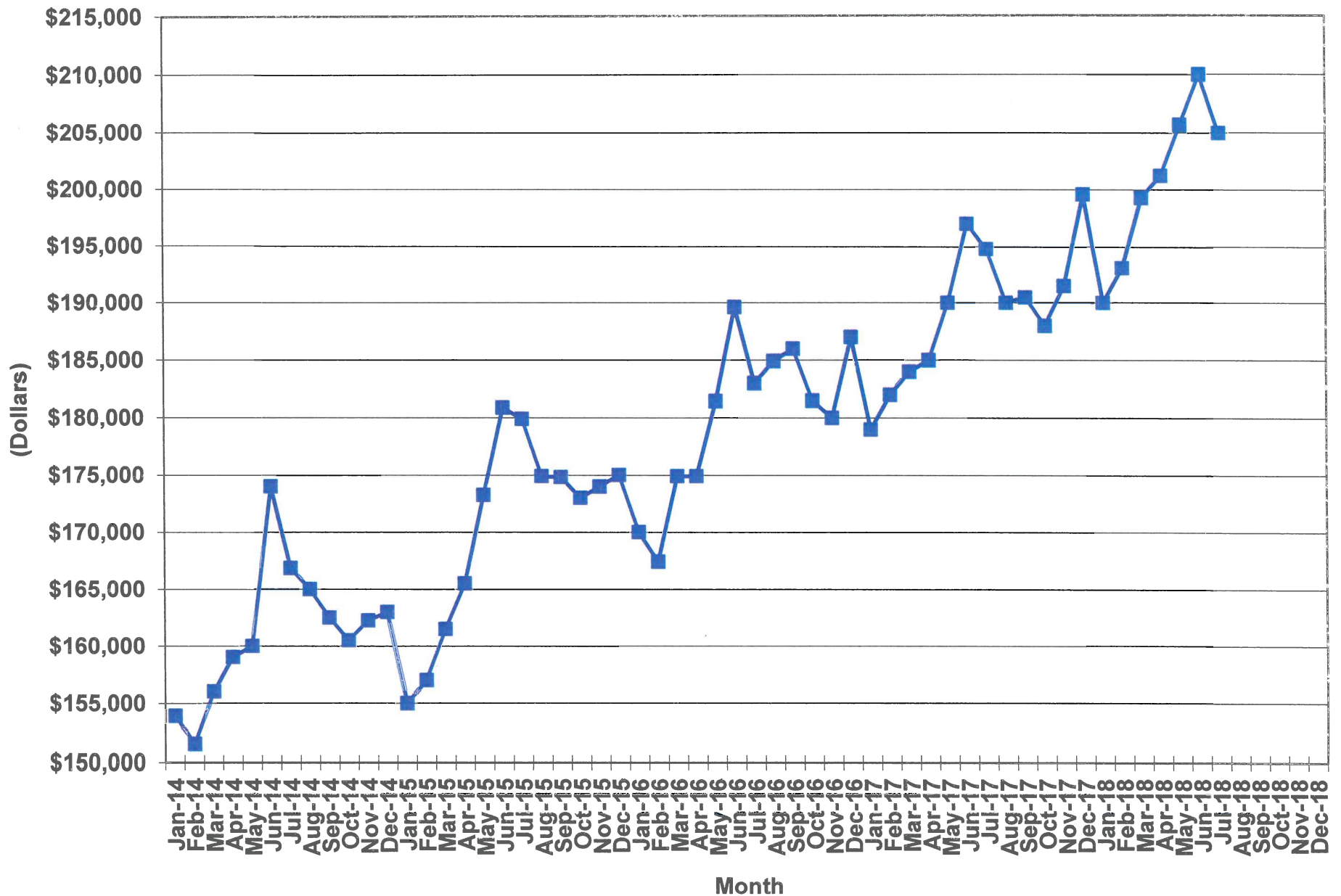


Source: U.S. Department of Energy, Energy Information Administration, Washington, D.C.

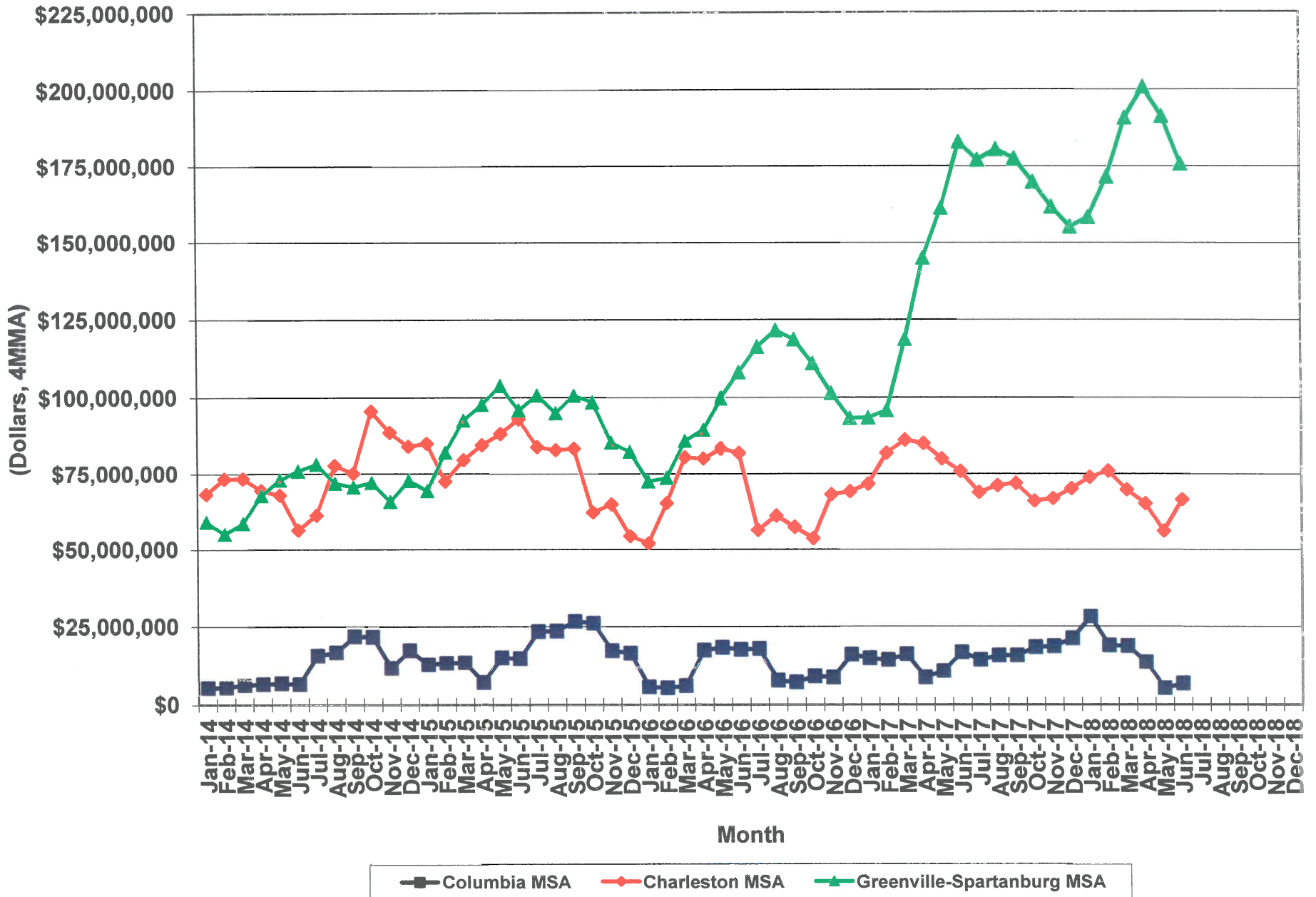
Number of Homes Sold in South Carolina



Median Price of Homes Sold in South Carolina



Regional Building Permit Values in South Carolina





Final General Fund Revenues in FY2017-18

Revenue and Economic Issues (Items of Concern)

Revenue Items of Concern

- **Conformity**
- **Wayfair decision (internet sales)**
- **Retail Sales**
- **Sports betting**
- **Capital gains and stock market**
- **Value of Dollar**

GENERAL FUND BUDGET

FINAL FY 2018-19 RESULTS



General Fund FY 2017-18 Final Budget

			(\$ Millions)
Revenue			
	BEA Surplus over Act	\$172.2	
	Additional Sources	\$1.4	
	Total Revenue Surplus over Act		\$173.6
Adjustments			
	Unappropriated General Fund Amt	\$0.4	
	Sustained FY 17-18 Vetoes	\$3.3	
	Lapsed agency appropriations	\$1.8	
	Open-ended appropriations	(\$1.8)	
	General Fund Budgetary Surplus		\$177.1
	Lapsed FY 16-17 Debt Service	\$16.6	
	Undesignated Budgetary General Fund		\$193.7
	Transfers from Unbudgeted Sources (Litigation Recovery acct., Unobligated Debt Service, and Capital Reserve Fund lapse)	\$17.8	
	Total Available Funds		\$211.5
	Supplemental Appropriations	(\$34.3)	
	Funds available for Contingency Reserve Fund		\$177.1

FISCAL YEAR 2018-19 PRESENTATIONS



SUMMARY AND OVERVIEW



Overview FY 2018-19

- Update Revenue Monitor for October meeting
- Impact of FY 2018-19 revenue surplus will have to be carefully considered in the November estimate
- Impact of special factors like Federal Tax Conformity, Wayfair (Internet Sales) Decision
- Vetoes may also impact estimate

Federal Tax Conformity

- Bills introduced in the House and Senate
 - H. 5341 passed House; in Senate
 - S. 1258 in Senate
 - Senate Finance Subcommittee is considering both bills
- Potential implementation and timing to be determined
- Sine Die agreement allows General Assembly to act if they return for vetoes
 - If no action, estimate could be affected due to compliance and timing
 - If adopted, anticipate a revenue neutral result

Wayfair Decision and Sales Tax

- The *Wayfair* decision allows SC to start collecting additional sales tax on E-commerce sales
- DOR is issuing policy and will begin collecting sales tax in November
- Latest estimate of additional collections with the smaller seller exemptions is \$59.6M for a full year; \$32.2 M in General Fund
- Actual collections will be for the last half of FY 2018-19

**REVIEW OF FY 2018-19
GENERAL FUND FORECAST
AND
LEGISLATIVE CHANGES**



STATE BUDGET AND OTHER FISCAL ISSUES



FY 2018-19 Budget Update

Governor's Vetoes

	Appropriations	(\$ Millions)
General Fund		
Recurring	\$7.8	
Non-recurring	\$14.3	
Total General Fund Vetoes		\$22.4
Other Funds Recurring		\$13.6
Total Vetoes		\$35.8

General Assembly may return to address vetoes before January

FY 2019-20 Budget Outlook

	(\$ Millions)
FY 2017-18 Surplus Revenue	\$177.1
FY 2018-19 Vetoes*	\$14.3
Contingency Reserve Fund*	\$191.4

**Non-recurring revenue available if vetoes are sustained*

OTHER ITEMS

REPORTS FROM WORKING GROUP



FUTURE MEETING SCHEDULE

- A. September 20, 2018 – 2:00pm, *GoToMeeting* possible for Members
- B. October 18, 2018, 10:30am – Quarterly Review
- C. October 18, 2018, 12:45 – 3:30 – Annual Regional Advisory Committee Meeting
- D. November 8, 2018, 2:00pm – Preliminary Estimate
- E. December 13, 2018, 2:00pm – **If necessary,** *GoToMeeting* for Members
- F. 2018 Calendar at <http://rfa.sc.gov/calendar>