



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

November 8, 2018, 2:00 P.M.
Bowers Conference Room
Room 417, Rembert C. Dennis Building

- I. Welcome
- II. Adoption of BEA and Annual Regional Advisory Committee Meeting Minutes for October 18, 2018
- III. Review of October 2018 Revenues (F. Rainwater, R. Martin)
- IV. Consideration of Revenue Estimates (F. Rainwater, R. Martin)
 - A. Guidelines for Long-Range Estimate
- V. Other Items for Discussion
 - A. FY 2019-20 General Fund Outlook (L. Jolliff)
 - B. Other Items
- 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. December 13, 2018, 2:00pm - **If necessary**, *GoToMeeting* for Members
 - B. January 17, 2019, 1:30pm - Quarterly Review
 - C. February 14, 2019, 1:30pm - Forecast (Due February 15th)
 - D. March 21, 2019, 1:30pm - **If necessary**, *GoToMeeting* for Members
 - E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>
- 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

OVERVIEW



Overview October 2018

- October Revenues increased 4.7 percent.
- For the fiscal year-to-date, revenues have increased 7.7 percent.
- Details to be released soon.



Forecast Summary

- The FY 2017-18 revenue surplus of \$171.6 million created a need to adjust the FY 2018-19 estimates due to a higher base.
- Better than expected revenue growth creates a need to examine forecasted growth rates for FY 2018-19.
- Basic assumption for FY 2019-20 is for continued growth, but at a slightly lower rate.
- Net growth rates will be affected by several adjustments for one-time events, legislative enactments, and other timing issues.



October 2018

Preliminary General Fund Revenue Forecast for FY2019-20

- **Review of General Fund Revenues – October 2018**
- **Regional Advisory Committee – Summary Forecasts**
- **Review of Current Base Economic Assumptions for FY2018-19**
- **Economic Assumptions for Revised General Fund Revenue Forecast for FY2018-19**
- **Economic Assumptions for Preliminary General Fund Revenue Forecast for FY2019-20**



October 2018

- **Forecast Proposal**
- **Forecast adjustments**
 - **Legislation passed by General Assembly**
 - **Capital Gains Offset** (\$76.0) mil.
 - **Lottery Income Tax Withholding Offset** +\$61.5 mil.
 - **Corporate Audit Offset** +\$9.7 mil.
- **No estimate for Wayfair included**
- **All Treasurer's, Comptroller General's, and Lottery estimates incorporated**
- **Contingencies**



OCTOBER 2018



REGIONAL ADVISORY COMMITTEE



October 2018

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

Variable	Actual FY2017-18	Most Recent	Current 1/ Forecast Rates FY2018-19	Regional Advisory Committee Forecast Rates Forecast for FY2018-19					Simple Average	Olympic Scoring	MEMO BEA
				Hefner	Martin	Sobel	Vitner	von Nessen			
S.C. Personal Income	4.00%	3.89%	4.25%	4.25%	4.30%	5.10%	N/A	4.20%	4.46%	4.28%	4.75%
S.C. Employment	1.5%	1.8%	1.8%	1.80%	1.80%	1.82%	N/A	1.70%	1.78%	1.80%	1.50%
Inflation Rate (CPI-U)	2.3%	2.3%	2.0%	2.50%	2.30%	2.28%	N/A	2.50%	2.40%	2.40%	2.90%
Sales Tax	4.8%	5.0%	3.5%	4.90%	4.00%	3.80%	N/A	N/A	4.23%	4.00%	4.80%
Individual Income Tax 1/	7.1%	4.8%	2.8%	7.00%	N/A	3.40%	N/A	N/A	5.20%	N/A	4.00%

Variable	Actual FY2017-18	Most Recent	Current Forecast Rates FY2019-20	Regional Advisory Committee Forecast Rates Forecast for FY2019-20					Simple Average	Olympic Scoring	MEMO BEA
				Hefner	Martin	Sobel	Vitner	von Nessen			
S.C. Personal Income 1/	4.00%	3.89%	N/A	4.25%	4.00%	4.70%	N/A	N/A	4.32%	4.25%	4.25%
S.C. Employment	1.5%	1.8%	N/A	1.80%	1.50%	1.56%	N/A	N/A	1.62%	1.56%	1.40%
Inflation Rate (CPI-U)	2.3%	2.3%	N/A	2.70%	2.10%	2.30%	N/A	N/A	2.37%	2.30%	2.50%
Sales Tax	4.8%	5.0%	N/A	5.00%	3.80%	4.40%	N/A	N/A	4.40%	4.40%	4.30%
Individual Income Tax 1/	7.1%	4.8%	N/A	6.50%	N/A	3.70%	N/A	N/A	5.10%	N/A	3.40%

Notes: 1/ Current forecast rates as of April 9, 2018 (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/10/25/18





BASE ECONOMIC ASSUMPTIONS



October 2018

**Current Base Economic Assumptions
Fiscal Years 2017-18 and 2018-19**

Variable	Nov. 9, 2017	Actual
Personal Income	4.25%	4.00%
Employment	1.80%	1.50%

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.



FORECAST PROPOSAL



October 2018

**Base Economic Assumptions Scenarios
South Carolina Total Personal Income
Fiscal Years 2018-19 and 2019-20**

	FY2018-19	FY2019-20
Proposal	4.25%	4.25%

Sources: S.C. Board of Economic Advisors, Regional Advisory Committee, Columbia, S.C.



October 2018

Analysis of Revenue Adjustments By Type of Offset (Millions of Dollars)

Type of Offset	FY2018-19	FY2019-20
Legislative	(\$56.0)	(\$71.2)
Economic		
Capital Gains	(\$76.0)	
Lottery Withholding	\$61.5	
Corporate Audit	\$9.7	
Total Net Economic Offsets	(\$4.8)	
Total Revenue Offsets	(\$60.8)	(\$71.2)

Source: Board of Economic Advisors



**CONSIDERATION OF
FY2018-19 AND FY2019-20
REVENUE ESTIMATES**

Revenue Forecast FY 2018-19 and FY 2019-20

- See handout
- Adjust FY 2018-19 estimate by \$217.7 million.
- Expected growth in FY 2018-19 over final FY 2017-18 is \$350.2 million or 4.0 percent.
- Expected growth in FY 2019-20 is 3.0 percent or \$274.5 million.



October 2018

Contingencies and Other Items of Concern

- **Legal Decisions**
 - Tax conformity
 - Wayfair decision (internet sales)
 - Sports betting (no legislation has been filed)

- **Revenue and Economic Issues of Concern**
 - Midterm Elections
 - Capital gains and the stock market
 - Effect of Trump tax change (Tax Cut and Jobs Act)
 - Oil prices & OPEC
 - Tariffs (China retaliation; doubling tariffs for Turkey)
 - European debt crisis



October 2018

- **Value of the U.S. Dollar Against Major Currencies**
- **Retail Sales**
- **Housing market**
- **Flattening of the yield curve spread**
- **Disaster tax relief for Hurricanes Florence and Michael**

OTHER ITEMS



FY 2019-20 General Fund Outlook

(PRELIMINARY)

BEA Revenue Estimate (11/8/2018)	\$9,330,674,000
- Tax Relief Trust Fund	(\$614,053,000)
- FY 18-19 Appropriation Act	<u>(\$8,221,032,289)</u>
Estimated "New" General Fund Revenue	\$495,588,711

Reserve Fund Contributions

- Incremental General Reserve Fund (5%)	(\$27,089,778)
- Incremental Capital Reserve Fund (2%)	(\$10,835,912)

**Estimated "New" General Fund Revenue
Available for Appropriation
(less Reserve Fund Contributions)**

\$457,663,021



FY 2019-20 Budget Outlook

(PRELIMINARY)

	<u>Recurring</u>	<u>Non-Recurring</u>
FY 2018-19 Capital Reserve Fund		\$151,649,393
FY 2017-18 Contingency Reserve Fund		\$177,146,326
Projected FY 2018-19 Surplus (11/8/2018)		<u>\$217,734,000</u>
Total		\$546,529,719
FY 2018-19 HEX Fund Surplus/(Shortfall) ¹		(\$5,226,000) ¹
FY 2019-20 HEX Fund Surplus/(Shortfall)		(\$2,250,000) ¹
¹ Projected available FY 19 balance in combined HEX Fund and Trust Fund for Tax Relief should be sufficient to offset these shortfalls in FY 19 & FY 20.		
FY 2018-19 EIA Surplus/(Shortfall)		(\$8,539,000)
FY 2019-20 "New" EIA Revenue	\$24,671,000	
FY 2018-19 Lottery Surplus		\$9,500,000 ²
FY 2019-20 "New" Lottery Revenue	\$9,500,000 ³	

² FY 2018-19 surplus lottery revenues are first appropriated to cover any shortfalls in LIFE, HOPE, and Palmetto Fellows Scholarships, so this surplus may not be available for appropriation.

³ All Lottery Revenue is appropriated by proviso on a non-recurring basis. This entry is listed as recurring to show the net increase in available revenue.

FY 2019-20 Budget Outlook

(PRELIMINARY)

	<u>Recurring</u>	<u>Non-Recurring</u>
FY 2019-20 Tobacco MSA		\$70,000,000

(Tobacco MSA revenue is received annually, but it is not considered a recurring revenue source. These funds are designated for specific purposes per the Tobacco Master Settlement Agreement and are currently distributed via a proviso in the Appropriation Act. For FY 2018-19, revenue from the Tobacco MSA is projected to be \$71,000,000. Additional data will be available in early 2019, and this number may be revised.)

Litigation Recovery Account	\$0
------------------------------------	------------

(Balance as of October 31, 2018 was \$4,119,137, but Proviso 118.15 directs this amount be transferred out of the account during FY 2018-19. Several cases are in litigation that may result in settlements, but the amounts and timing of these potential settlements are unknown.)

REPORTS FROM WORKING GROUP

November 8, 2018



South Carolina Revenue and Fiscal Affairs Office

FUTURE MEETING SCHEDULE

- A. December 13, 2018, 2:00pm – **If necessary,**
GoToMeeting for Members
- B. January 17, 2019, 1:30pm – Quarterly Review,
GoToMeeting for Members
- C. February 14, 2019, 1:30pm – Forecast due February
15
- D. March 21, 2019, 1:30pm – *If necessary*
- E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>

APPENDIX





THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

October 25, 2018

Mr. Frank A. Rainwater
Executive Director
Revenue & Fiscal Affairs Authority
1000 Assembly Street
Suite 421 Dennis Building
Columbia, SC 29201

Dear Mr. Rainwater: *Frank!*

We have reviewed our revenue estimates for the current and upcoming fiscal year. Please find the updated revenue estimates disclosed below for Earnings on Investments, Unclaimed Property, and Unclaimed Checks (§11-5-260). Per our conversation, the Debt Services Reimbursements line item has been deleted as no funds will be generated.

The State Treasurer's Office is revising its forecasted revenue estimates relevant to the Unclaimed Property Fund Transfers pursuant to the Governor's October 4, 2018 request for \$4 million of unallocated funds from the Unclaimed Property Account to the Adjutant General's Office as a result of Hurricane Florence, and the subsequent compliance with the Governor's request by the State Treasurer's Office on October 5, 2018.

	<u>Estimate</u> <u>FY 2018-2019</u>	<u>Estimate</u> <u>FY 2019-2020</u>
Earnings on Investments		
General Fund	\$60,000,000	\$45,000,000
EIA Interest Earnings	\$1,100,000	\$1,100,000
Lottery Fund Interest Earnings	\$1,500,000	\$1,500,000
Homestead Exemption Fund	\$1,200,000	\$1,200,000
Unclaimed Property Fund Transfers		
Recurring	\$11,000,000	\$15,000,000
Uncashed Checks (§11-5-260)	\$2,000,000	\$2,000,000

If we may be of any further assistance, please do not hesitate to contact us.

Yours very truly,

Curtis M. Loftis, Jr
State Treasurer

Cc: Edward Grimball, Chairman, RFA
Robert Martin, RFA
Allyn Powell, RFA
Mike Shealy, Senate Finance Committee
Daniel Boan, House Ways & Means Committee



October 26, 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 18-19 and Preliminary FY 19-20 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 18-19 and its preliminary estimates of proceeds for FY 19-20. The amounts shown under the caption "Previous Estimate" reflect the revision we communicated to you by letter on April 5, 2018. 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 2018 -19	FY 2019 -20
Previous Estimate		
"General" Transfers	\$ 406,300,000	N/A
Unclaimed Prizes	19,000,000	N/A
	\$ 425,300,000	N/A
 Revised or Current Estimate		
"General" Transfers	\$ 415,800,000	\$ 415,800,000
Unclaimed Prizes	19,000,000	19,000,000
	\$ 434,800,000	\$ 434,800,000

As I am sure you are aware, we have not started our FY 19-20 planning process at this point. Our Financial Plan will be developed next spring and our "formal" FY 19-20 Transfer Estimate will require the approval of our Board of Commissioners. Accordingly, our FY 19-20 preliminary estimate will likely change based on the formulation of our formal Financial Plan.

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, appearing to read "JA Boyle". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Joseph A. Boyle, CPA
Chief Financial Officer



Personal Income Growth
 FY19 - 4.25%; FY20 - 4.25%

General Fund Revenue Forecast
 Fiscal Years 2016-17 to 2019-20
 (Dollars)

Revenue Category	Final FY 2016-17	Final FY 2017-18	11/8/2018 Estimate FY 2018-19	11/8/2018 Estimate FY 2019-20	Percent Change FY 2016-17	Percent Change FY 2017-18	Percent Change FY 2018-19	Percent Change FY 2019-20
Sales and Use Tax	\$2,896,271,260	\$3,034,415,169	\$3,161,721,000	\$3,294,414,000	2.8	4.8	4.2	4.2
Individual Income Tax	4,107,647,011	4,398,423,661	4,530,647,000	4,676,029,000	7.2	7.1	3.0	3.2
Corporation Income Tax	320,415,504	375,189,587	405,150,000	400,997,000	(22.1)	17.1	8.0	(1.0)
Insurance Taxes	237,673,156	227,931,949	270,299,000	266,000,000	12.0	(4.1)	18.6	(1.6)
Admissions Tax	30,443,571	30,746,293	31,576,000	32,429,000	8.7	1.0	2.7	2.7
Aircraft Tax	2,500,000	2,500,000	2,500,000	2,500,000	(39.4)	0.0	0.0	0.0
Alcoholic Liquor Tax	76,736,505	79,285,307	82,536,000	85,920,000	4.3	3.3	4.1	4.1
Bank Tax	53,357,725	47,909,447	51,263,000	54,851,000	81.3	(10.2)	7.0	7.0
Beer and Wine Tax	109,577,012	107,727,311	109,235,000	110,764,000	2.2	(1.7)	1.4	1.4
Bingo Tax	678,360	358,256	360,000	362,000	(76.1)	(47.2)	0.5	0.6
Business Filing Fees	6,279,551	7,038,361	7,550,000	7,750,000	14.8	12.1	7.3	2.6
Circuit/Family Court Fines	7,888,118	7,351,527	7,131,000	6,917,000	(2.5)	(6.8)	(3.0)	(3.0)
Corporation License Tax	68,181,266	110,199,187	102,000,000	105,162,000	(23.1)	61.6	(7.4)	3.1
Documentary Tax	51,691,987	75,624,914	80,011,000	84,652,000	12.0	46.3	5.8	5.8
Earned on Investments	30,804,764	40,110,261	60,000,000	45,000,000	22.3	30.2	49.6	(25.0)
Indirect Cost Recoveries	14,702,994	16,755,476	16,500,000	16,500,000	26.9	14.0	(1.5)	0.0
Motor Vehicle Licenses	11,050,294	11,030,604	11,251,000	11,476,000	3.5	(0.2)	2.0	2.0
Nursing Home Fees	3,565,104	3,572,661	3,600,000	3,600,000	(0.9)	0.2	0.8	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	5,499,151	5,960,493	6,270,000	6,596,000	26.8	8.4	5.2	5.2
Public Service Authority	17,751,000	17,397,000	17,000,000	17,000,000	(7.5)	(2.0)	(2.3)	0.0
Purchasing Card Rebates	2,907,963	3,034,527	3,147,000	3,147,000	6.1	4.4	3.7	0.0
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	1,881,527	949,371	873,000	803,000	2333.1	(49.5)	(8.0)	(8.0)
Security Dealer Fees	25,648,556	26,385,770	27,000,000	27,300,000	1.8	2.9	2.3	1.1
Surcharge on Vehicle Rentals	2,579,640	946,113	850,000	870,000	(18.1)	(63.3)	(10.2)	2.4
Tobacco Tax	26,382,940	27,209,363	25,595,000	23,142,000	(6.2)	3.1	(5.9)	(9.6)
Uncashed Checks	3,530,329	2,927,135	2,000,000	2,000,000	2.8	(17.1)	(31.7)	0.0
Unclaimed Property Fund	15,000,000	15,000,000	11,000,000	15,000,000	160.9	0.0	(26.7)	36.4
Workers' Comp. Insurance Tax	9,004,832	9,836,976	10,467,000	11,137,000	(6.9)	9.2	6.4	6.4
Other Source Revenues	11,005,610	12,346,921	10,806,000	10,502,000	4.4	12.2	(12.5)	(2.8)
Gross General Fund Revenue	\$8,158,509,537	\$8,706,017,446	\$9,056,192,000	\$9,330,674,000	4.1	6.7	4.0	3.0

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/11/08/18



Personal Income Growth
 FY19 - 4.25%; FY20 - 4.25%

General Fund Revenue Forecast
 Fiscal Years 2016-17 to 2019-20
 (Dollars)

Revenue Category	Final FY 2016-17	Final FY 2017-18	11/8/2018 Estimate FY 2018-19	11/8/2018 Estimate FY 2019-20	Percent Change FY 2016-17	Percent Change FY 2017-18	Percent Change FY 2018-19	Percent Change FY 2019-20
Gross General Fund Revenue	\$8,158,509,537	\$8,706,017,448	\$9,056,192,000	\$9,330,674,000	4.1	6.7	4.0	3.0
Appropriation Act Revenue	8,157,517,892	\$8,534,363,000	8,836,042,000	9,330,674,000	6.4	4.6	3.5	5.6
Less: Tax Relief Trust Fund	(575,273,126)	(582,033,401)	(599,438,000)	(614,053,000)	(1.2)	(1.2)	(3.0)	(2.4)
Plus: Tax Relief Trust Fund Carryforward	0	0	0	0				
Appropriation Act Excluding Trust Fund	7,583,236,411	8,123,984,047	8,456,754,000	8,716,621,000	4.3	7.1	4.1	3.1
Capital Reserve Fund (2%) - Beg. Bal.	139,207,789	145,420,836	151,649,393	162,485,305	6.2	4.5	4.3	7.1
General Reserve Fund (5%) - Beg. Bal.	348,019,473	363,552,089	379,123,483	406,213,261	6.2	4.5	4.3	7.1
Total Reserve Funds	487,227,262	508,972,925	530,772,876	568,698,566	6.2	4.5	4.3	7.1
Revenue Excess/Shortage From Act	991,537	171,654,446	220,150,000	0				
Education Improvement Act (EIA)	764,078,707	792,172,686	828,448,000	861,238,000	6.1	3.7	4.6	4.0
EIA Fund	762,586,079	790,719,514	827,348,000	860,138,000	6.0	3.7	4.6	4.0
EIA Interest	1,492,628	1,453,172	1,100,000	1,100,000	257.0	(2.6)	(24.3)	0.0
S.C. Education Lottery Fund (Net)	401,958,373	436,528,584	436,300,000	436,300,000	1.4	8.6	(0.1)	0.0
Homestead Exemption Fund								
Total Revenue Available	685,115,809	717,410,352	747,763,000	776,434,000	5.5	4.7	4.2	3.8
Less: Homestead Exemption Fund Shortfall	(47,986,000)	(32,557,000)	(25,656,000)	(22,680,000)	36.7	32.2	21.2	11.6

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/11/08/18