



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

March 21, 2019, 1:30 P.M.

Bowers Conference Room, Room 417, Rembert C. Dennis Building

- I. Welcome
- II. Adoption of Meeting Minutes for February 14, 2019
- III. Review of Revenues and Economic Conditions
 - A. Overview of Monthly Activity (F. Rainwater)
 - B. Detailed Review of Economic and Revenue Activity (R. Martin)
 - C. Preview of April 8th Meeting (F. Rainwater, R. Martin)
- IV. Other Business
- V. 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
- VI. Future Meeting Schedule
 - A. April 8, 2019, 1:30 - Quarterly Review, **Final Forecast (April 10)**
 - B. May 16, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - C. June 13, 2019, 1:30 - Economic and Revenue Update
 - D. July 25, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>
- VI. 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

March 21, 2019

 South Carolina Revenue and Fiscal Affairs Office

Overview of Monthly Activity

- Through February, General Fund Revenues have grown 3.3 percent but are \$37.2 million below estimates.
- Much of the current shortfall is due to the faster processing of refunds in February compared to one year ago.
- Overall, revenues are close to forecast as we enter the volatile tax processing season.



Board of Economic Advisors General Fund Revenue Monitor

Revenues vs. 2/14/19 BEA Revenue Estimate of \$8,994.7 Million in FY 2018-19 1/

	JULY - FEBRUARY FY 2018-19			Revenue Growth Rates (%)	
	Actual Revenues	Expected Revenues	Excess / (Shortfall)	Estimate Full Fiscal Yr.	Actual Yr. to Date
Total General Fund Revenue	5,698.1	5,735.3	(37.2)	3.3	3.3
Sales Tax	1,801.6	1,804.5	(2.9)	4.2	4.0
Individual Income Tax	3,173.3	3,243.4	(70.1)	1.4	(0.0)
Corporate Income Tax	132.2	118.9	13.3	8.0	43.6
Other Revenue Sources	590.9	568.4	22.5	7.9	13.6
Select Tax Revenues, Sub-Total	505.3	479.5	25.8	10.1	18.0
Admissions Tax - Total	12.5	12.2	0.4	2.7	5.7
Alcoholic Liquors Tax	46.0	46.7	(0.7)	4.1	2.6
Bank Tax	25.0	21.2	3.8	7.0	26.2
Beer and Wine Tax	64.8	62.6	2.2	1.4	5.0
Corporation License Tax	103.0	90.6	12.4	(7.4)	5.2
Documentary Tax	46.0	46.2	(0.2)	5.8	5.4
Earnings on Investments	53.1	33.8	19.3	74.5	174.0
Insurance Tax	137.9	149.3	(11.4)	18.6	21.8
Tobacco Tax	16.9	14.8	2.1	(5.9)	7.1
Residual Revenue, Sub-Total 2/	85.6	88.9	(3.3)	(3.4)	(6.9)

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

2/: Refer to "Residual Revenue" on page 15 for a list of components in this subcategory.

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



February 2019

Presentation Agenda

- **Review of General Fund Revenues – February 2019**
- **Contingencies and Other Items of Concern**
- **Summary of BEA Revised Revenue Estimate**

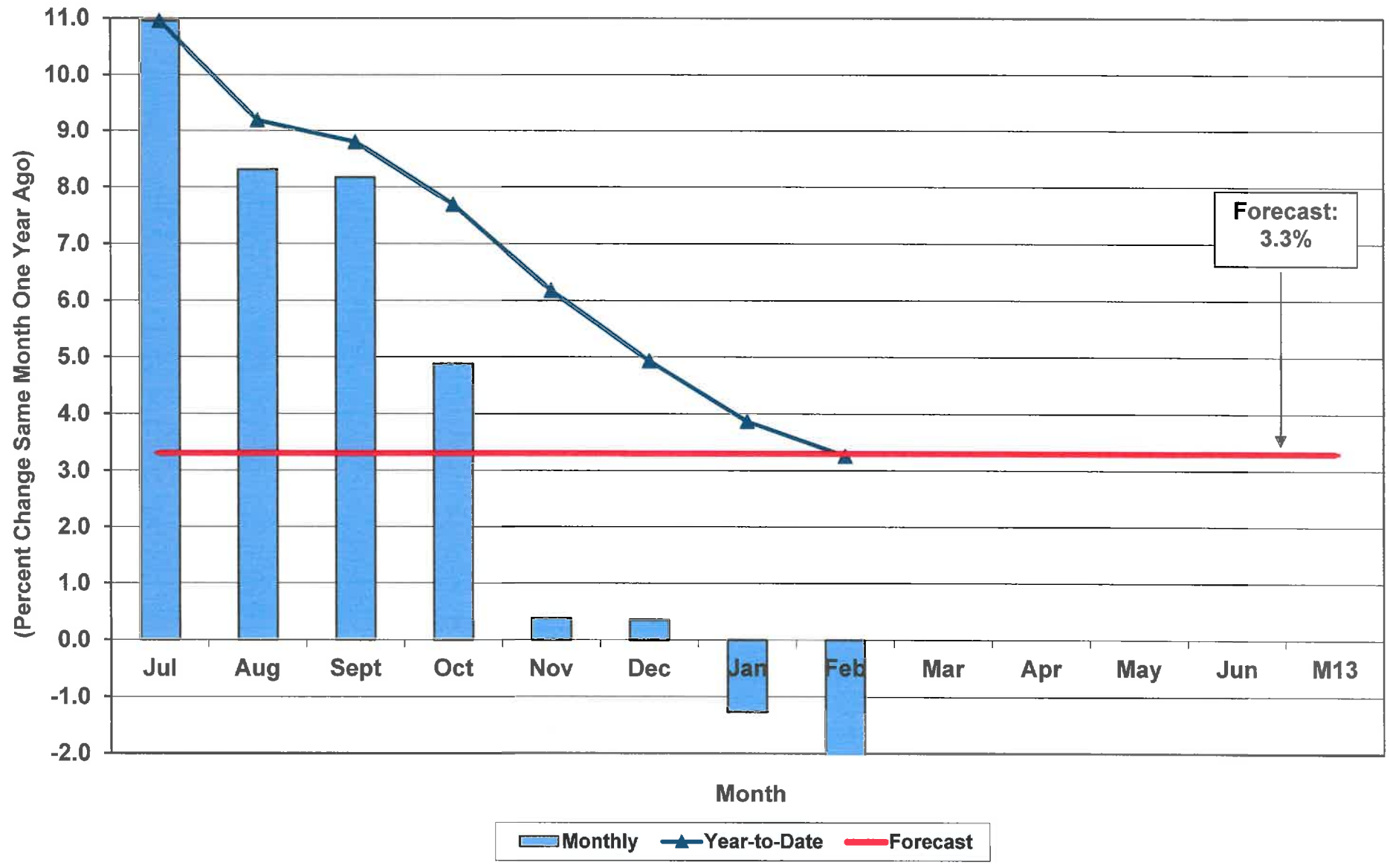


February 2019

Total General Fund Revenue

- General Fund revenue decreased 14.4 percent during the month of February 2019 from February 2018
- The beginning of the income tax filing season contributed to the majority of the monthly revenue decline due to a larger than expected number of Individual Income tax refunds processed in February 2019
- Revenues through February 2019 have grown 3.3 percent year-to-date and have fallen in line with the revised 3.3 percent growth rate required to meet the General Fund revenue estimate for FY2018-19

Growth in Total General Fund Revenue Collections FY2019 Monthly and Year-to-Date



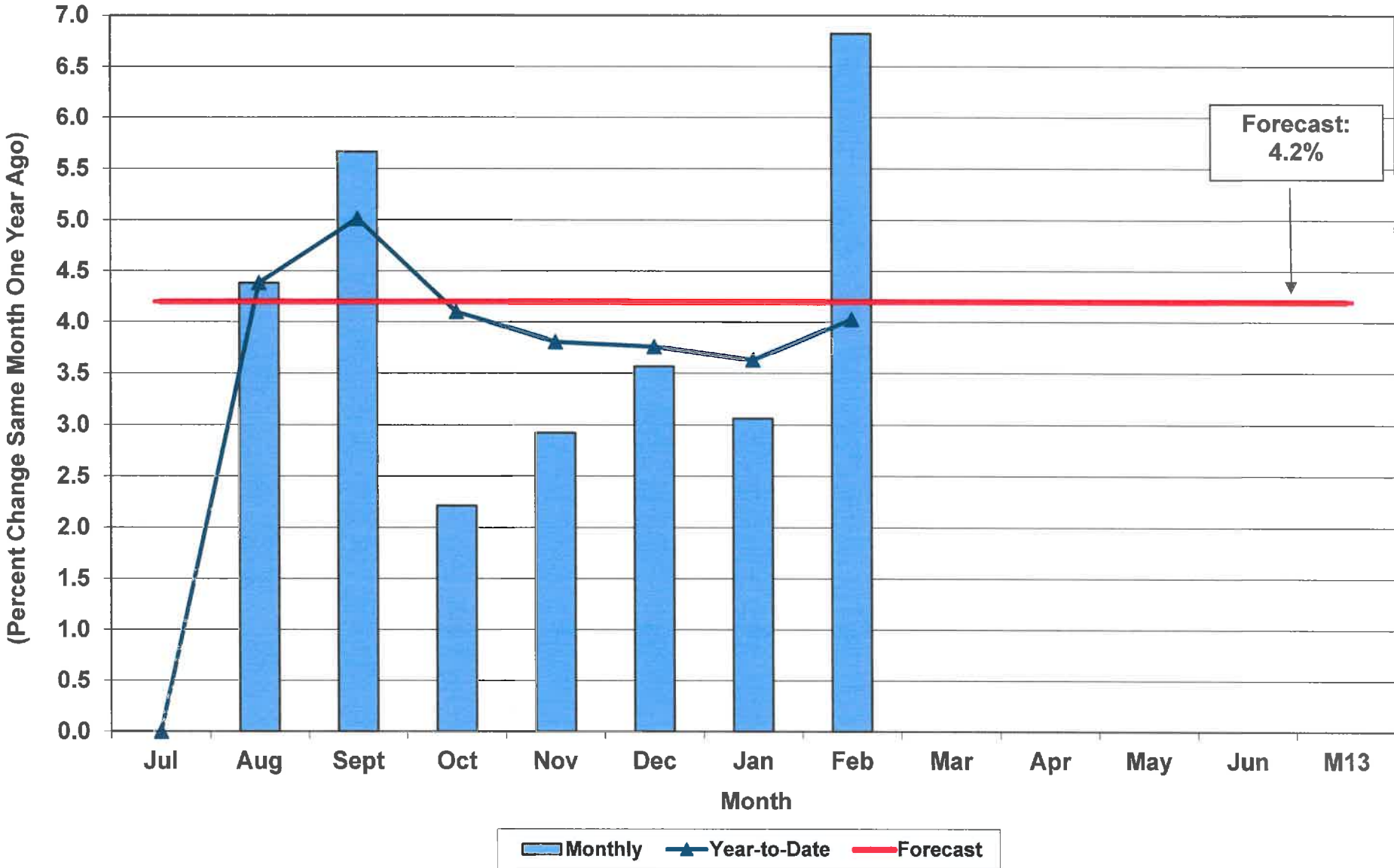


February 2019

Sales Tax Revenue

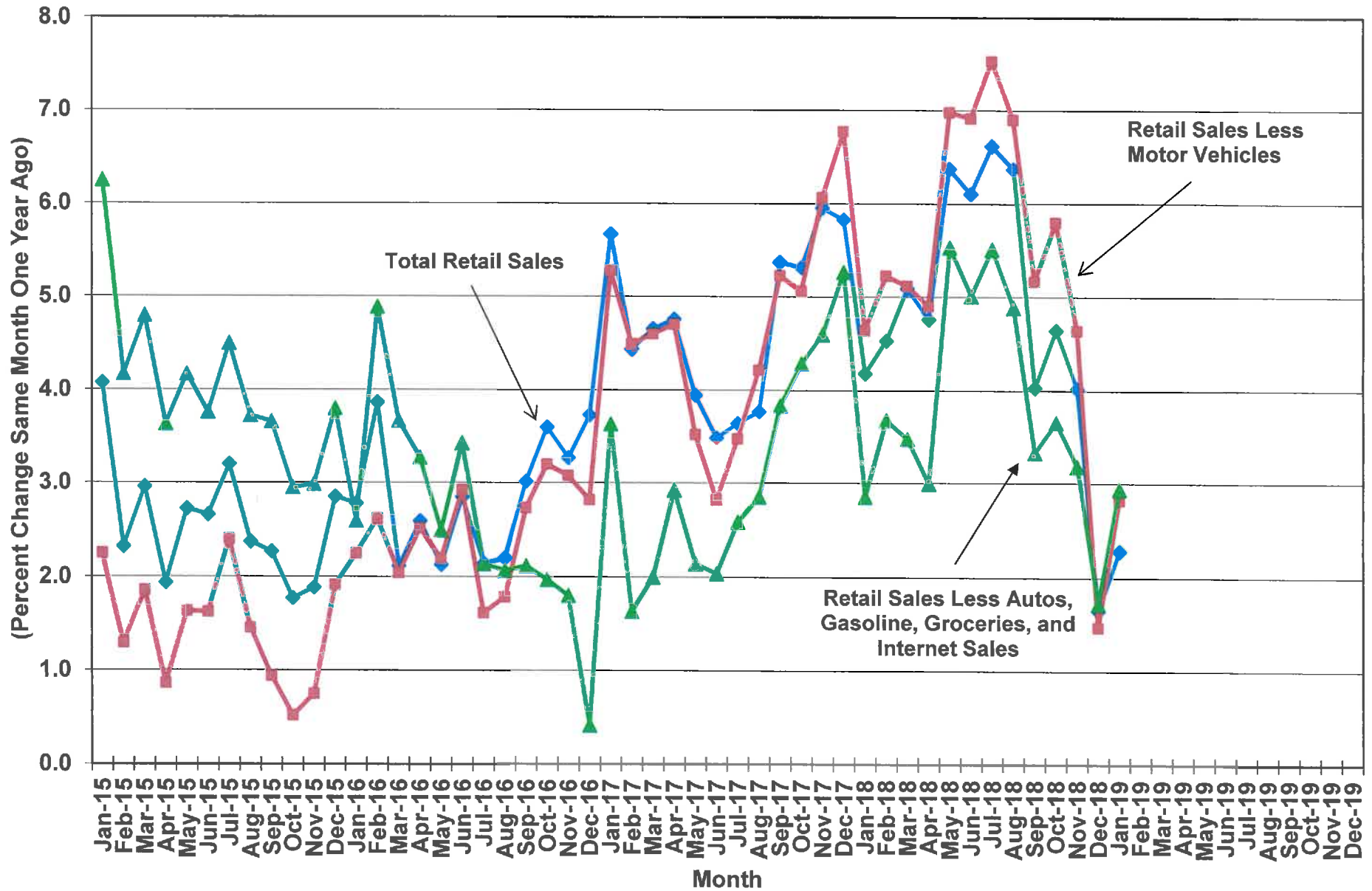
- Sales and Use tax revenue increased 6.8 percent for the month of February resulting in year-to-date growth of 4.0 percent
- First month that Sales and Use tax growth has been positive in four consecutive months
- Despite the inclusion of \$7.8 million in remote internet sales taxes, the Sales and Use tax has shown weakness this fiscal year
- The cumulative Sales and Use tax revenue growth through February 2019 is running slightly below the 4.2 percent revenue forecast for FY2018-19

Growth in Total Sales & Use Tax Revenue Collections FY2019 Monthly and Year-to-Date

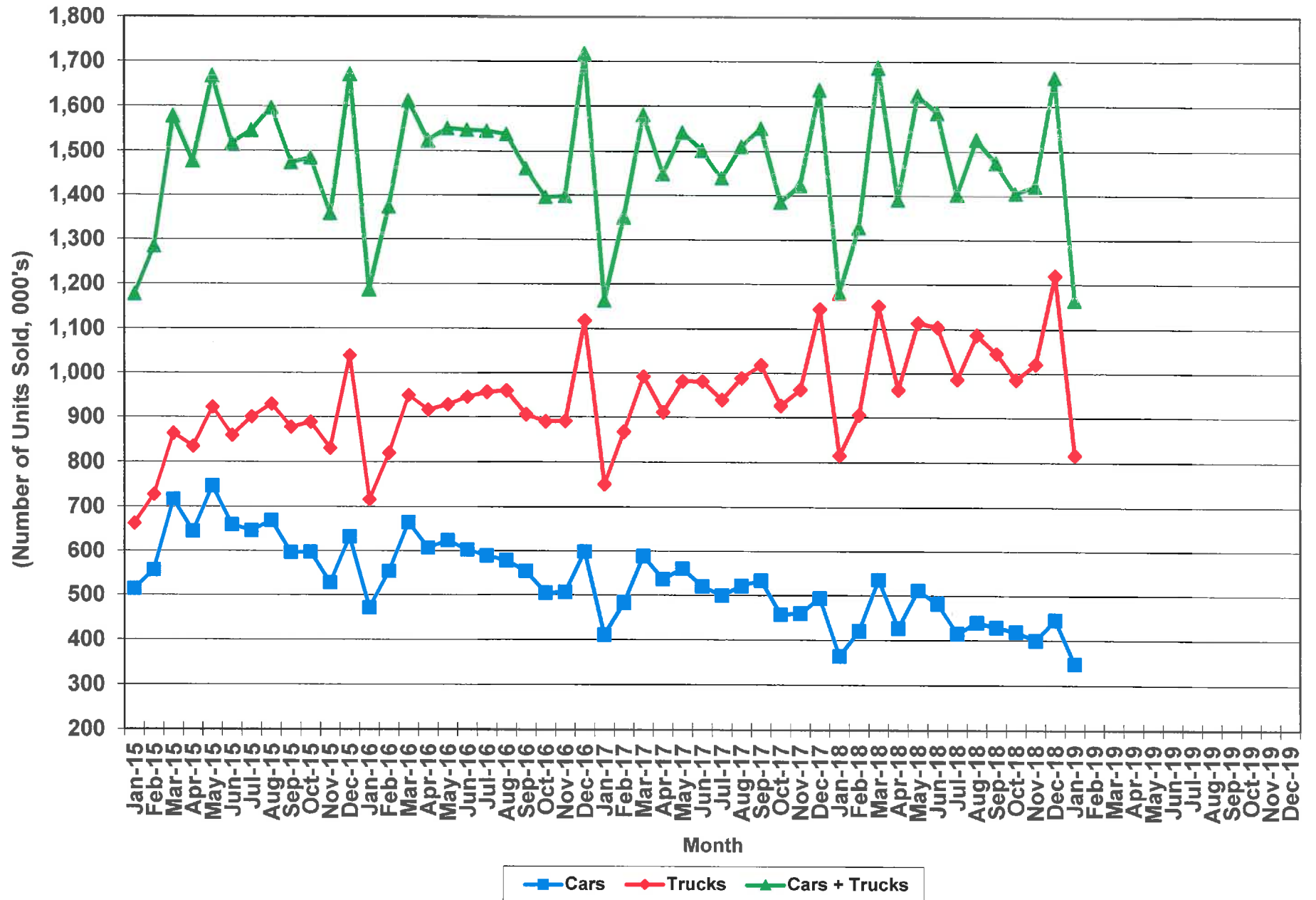


Source: Board of Economic Advisors
BEA/RWM/03/21/19

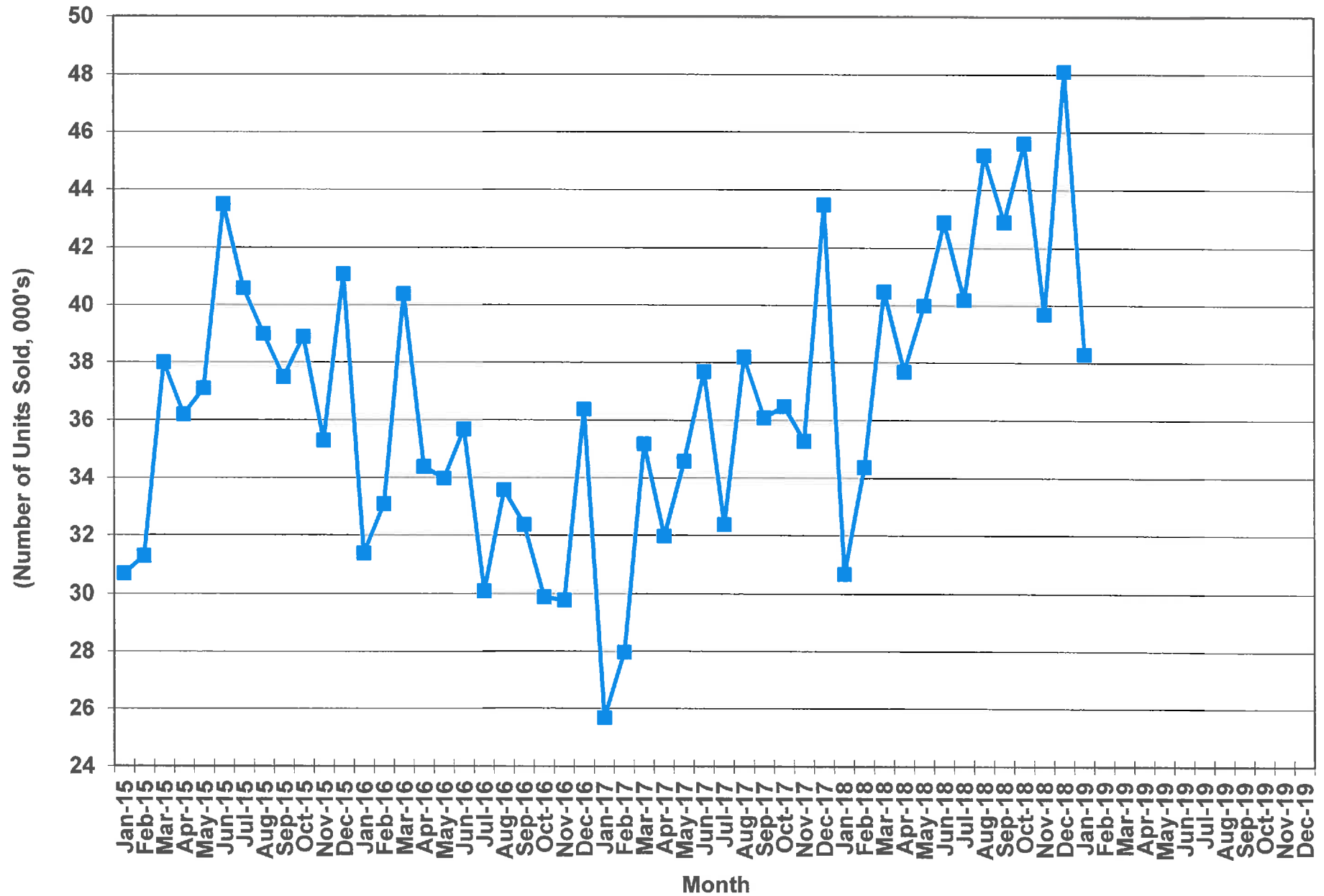
U.S. Retail & Food Service Sales



Total New Car and Light Truck Sales in the U.S.



Heavy Duty Truck Sales in the U.S.





February 2019

Individual Income Tax Revenue

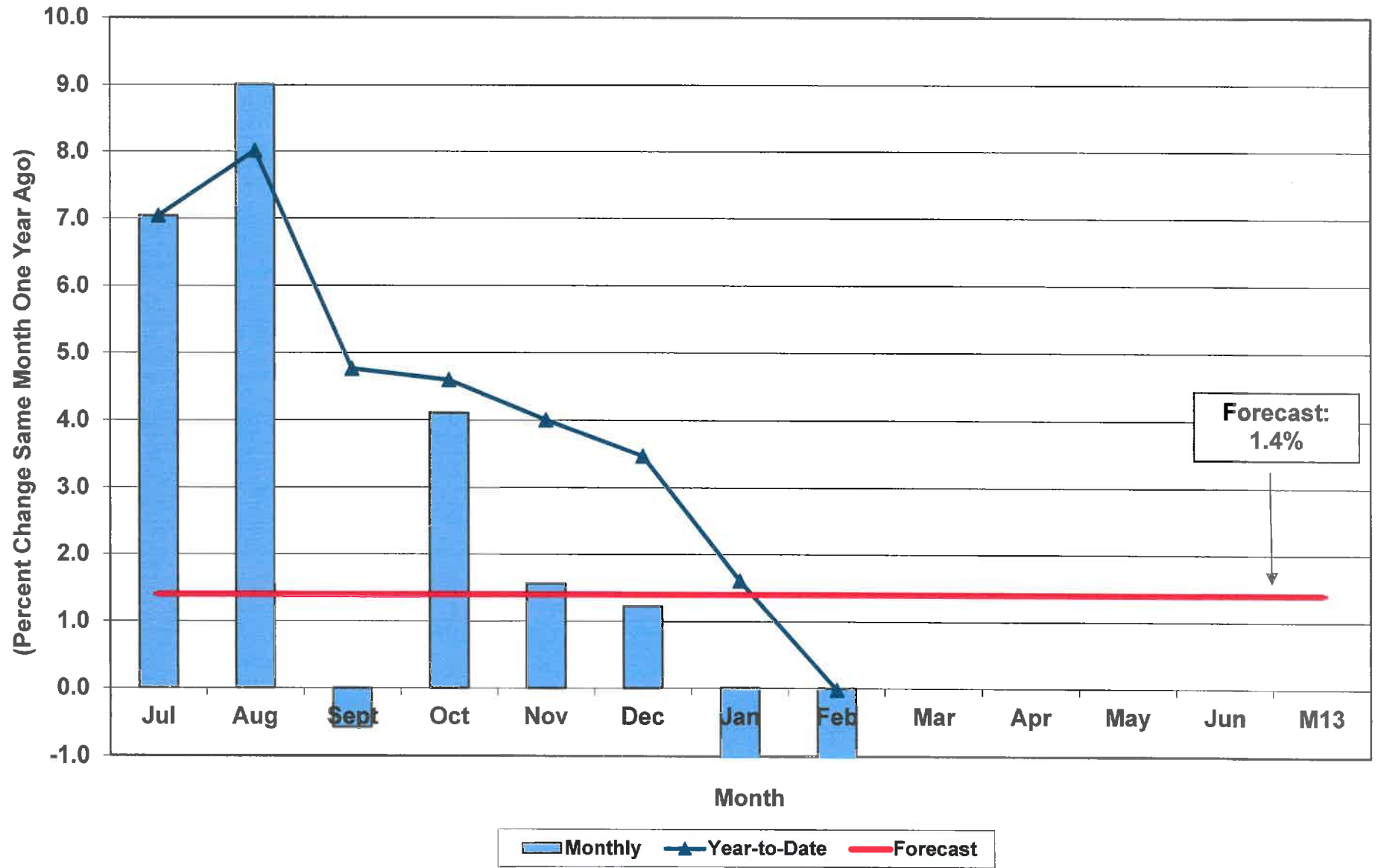
- The Individual Income tax revenue decreased 77.6 percent during the month of February
- Individual Income tax refunds amounted to \$75.8 million more in February 2019 compared to February 2018
- The Department of Revenue processed more than 52,780 additional Individual Income tax returns in February 2019
- Individual Income tax refunds have grown 15.7 percent year-to-date through February 2019



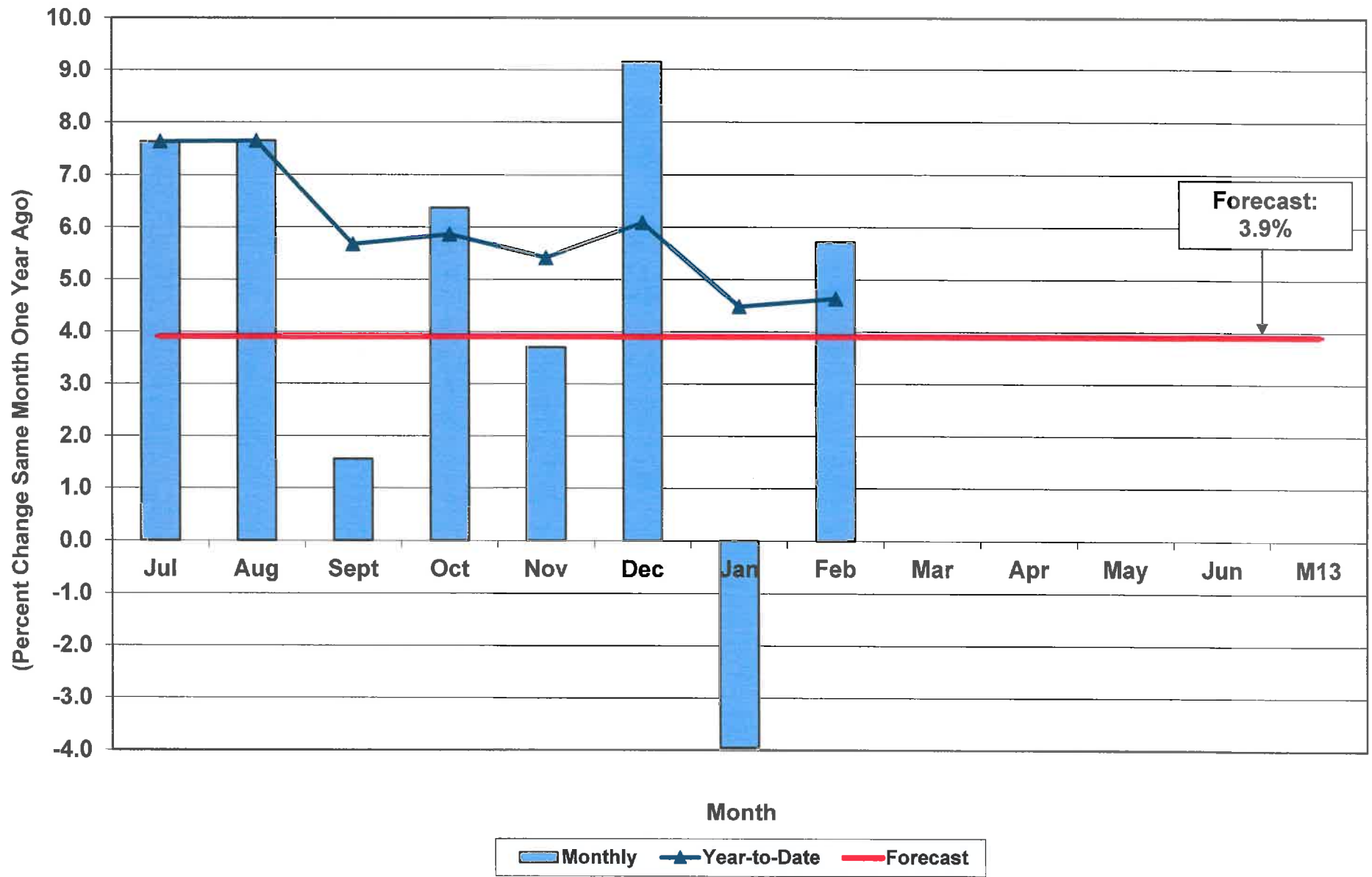
February 2019

- Individual Income tax withholdings was a positive contributor beating the forecast estimate by \$7.6 million in February 2019
- Individual Income tax withholdings have grown 4.6 percent through February 2019 and are exceeding the 3.9 percent revenue forecast for FY2018-19
- Total Individual Income tax revenue growth is declining 0.02 percent year-to-date through February 2019 and is running below the revised 1.4 percent revenue forecast for FY2018-19

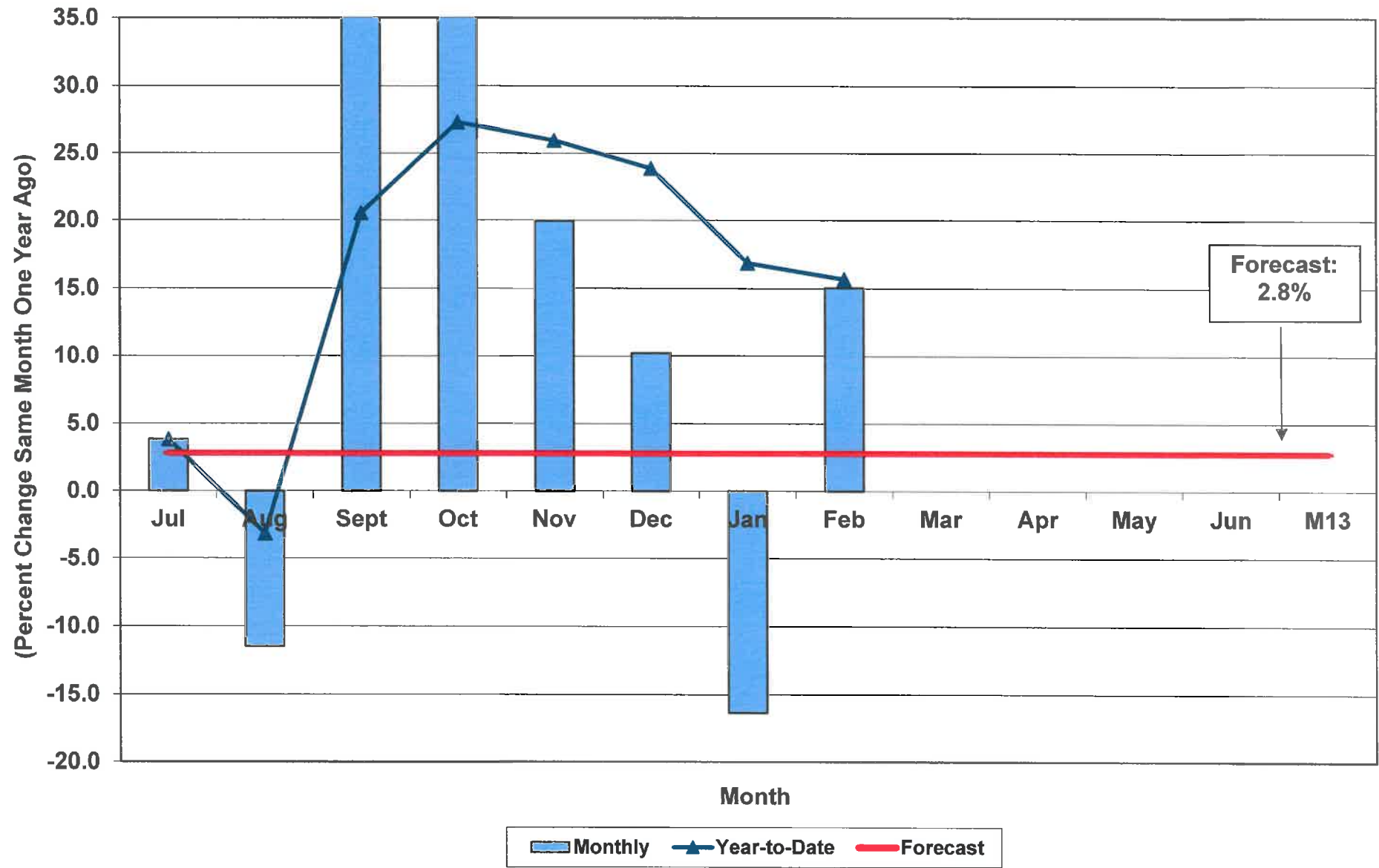
Growth in Total Individual Income Tax Revenue Collections FY2019 Monthly and Year-to-Date



Growth in Individual Income Tax Withholding Revenue FY2019 Monthly and Year-to-Date



Growth in Individual Income Tax Refunds in South Carolina FY2019 Monthly and Year-to-Date





February 2019

Corporate Income Tax Revenue

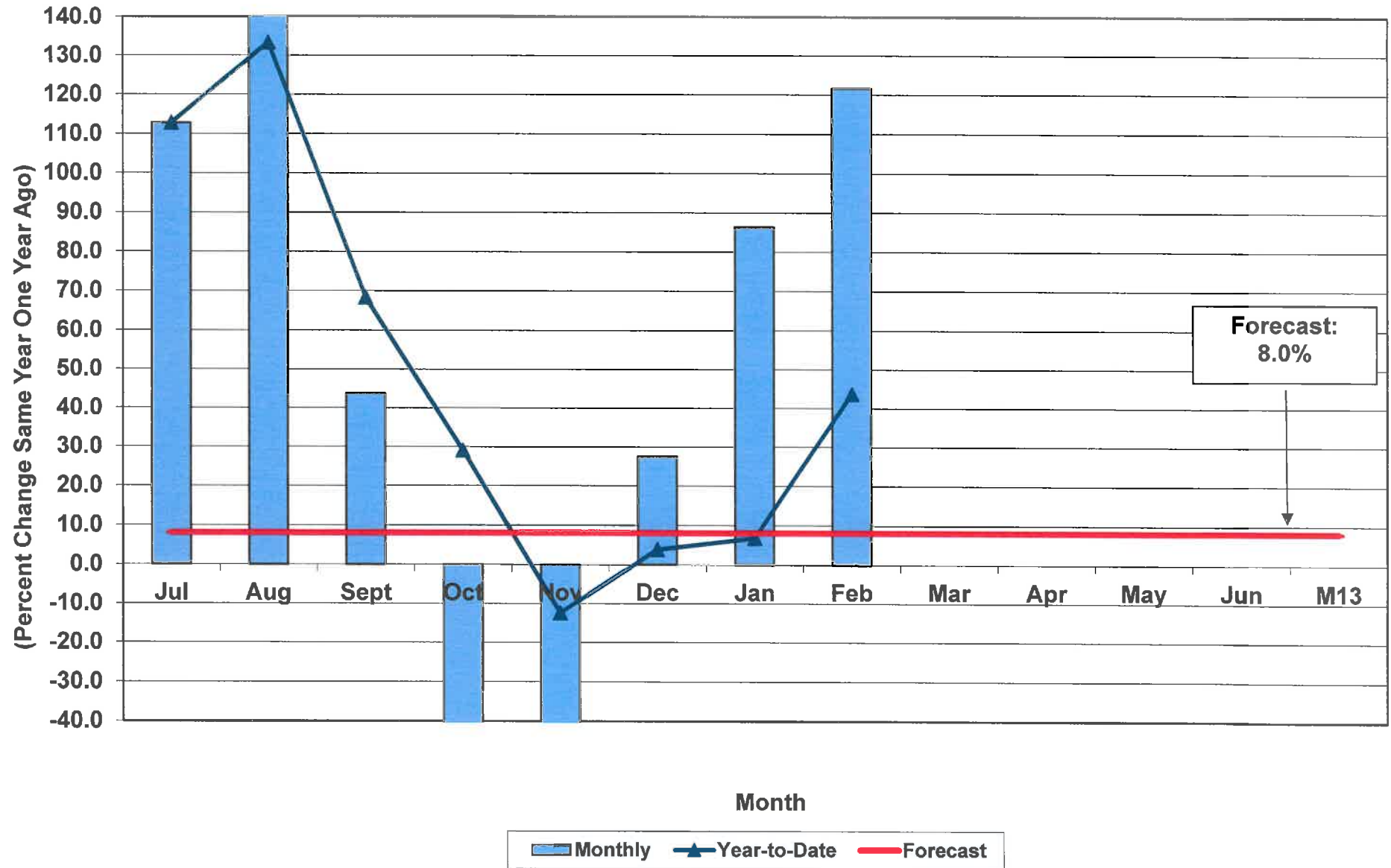
- The Corporation Income tax, the most volatile of the largest revenue categories, increased 121.7 percent in February 2019
- The Department of Revenue completed a review of “error” Corporate Income tax returns filed during the 2016 tax season in February 2018
- After the settlement of the error tax returns the majority of the Corporate Income tax revenue was transferred to and applied to the Corporate License tax revenue category



February 2019

- This resulted in a one-time decrease in the Corporate Income tax and a one-time increase in the Corporate License tax of 791.6 percent in February 2018
- This resulted in a distorted monthly growth rate comparison in the Corporate License tax of a decline of 86.8 percent in February 2019
- Overall, the Corporate Income tax has increased 43.6 percent year-to-date through February 2019 and is running above the 8.0 percent revenue forecast for FY2018-19

Growth in Total Corporation Income Tax Revenue Collections FY2019 Monthly and Year-to-Date





February 2019

Other Revenue

- Other Revenues increased 5.5 percent in February 2019 from one year ago and have increased 15.5 percent year-to-date from a variety of sources and timing of receipts
- Other Revenues benefitted from strong interest earnings on state General Fund investments and from the Tobacco Tax
- On January 1, 2019, South Carolina became the forty-eighth state to affix cigarette tax stamps on each pack of cigarettes to be sold in the state. This was done to combat counterfeiting and smuggling of cigarettes from low tax jurisdictions to high tax jurisdictions.



February 2019

Summary

- Through the first eight months of FY2018-19, General Fund revenues have increased 3.3 percent and are trending slightly below current forecast projections by an estimated \$37.2 million
- Again, this shortfall is due to the timing of Individual Income tax refunds
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income



February 2019

- In November 2018, the Board of Economic Advisors adopted an employment growth rate of 1.8 percent and a personal income growth rate of 4.25 percent in FY2018-19
- Revised employment figures show that job growth is expanding at an average rate of growth of 2.2 percent through the first seven months of the fiscal year
- Personal income is growing at an annual rate of 3.9 percent based on the latest available figures, and is expected to increase throughout the remainder of the fiscal year



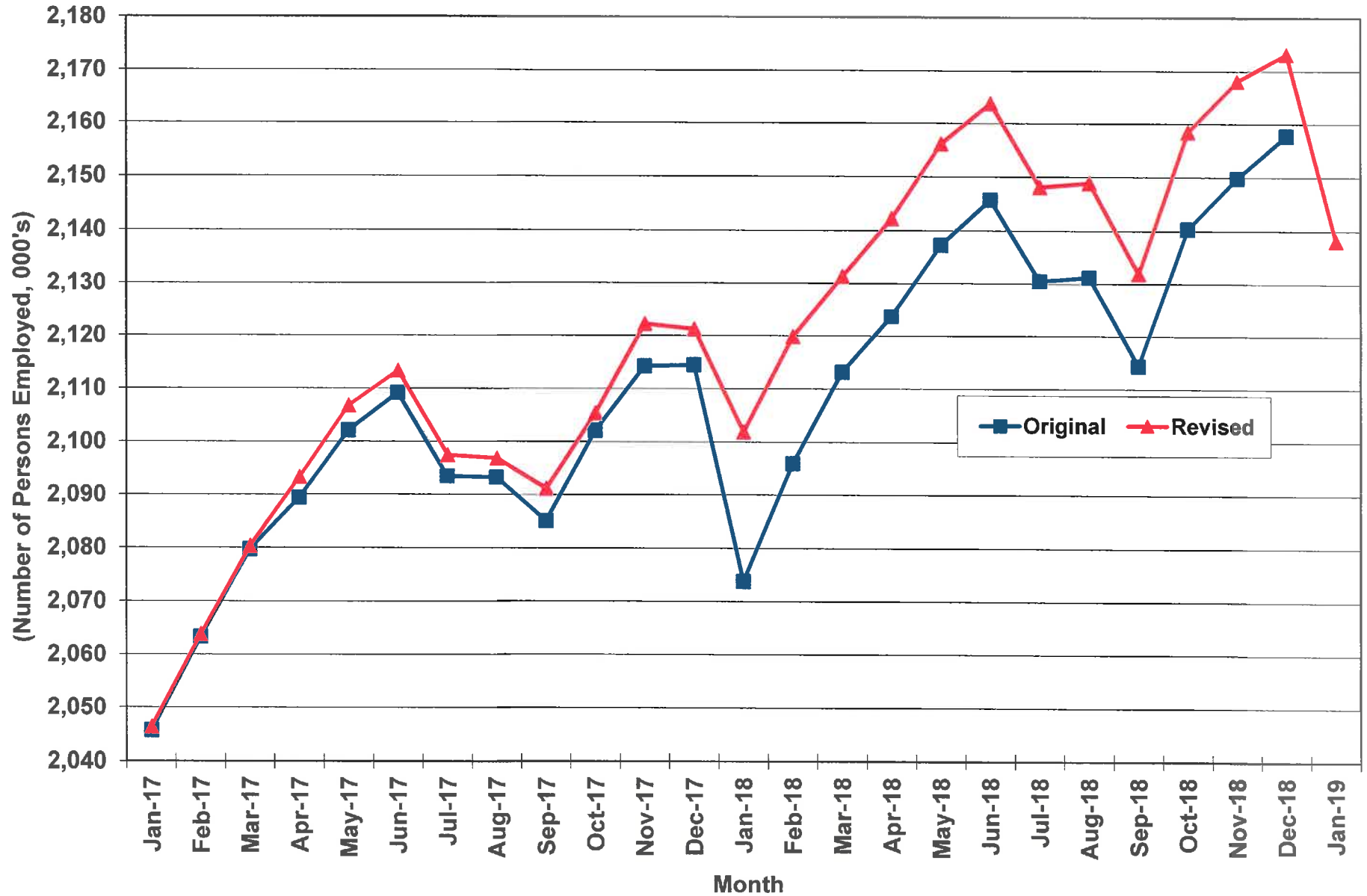
February 2019

Contingencies and Other Items of Concern

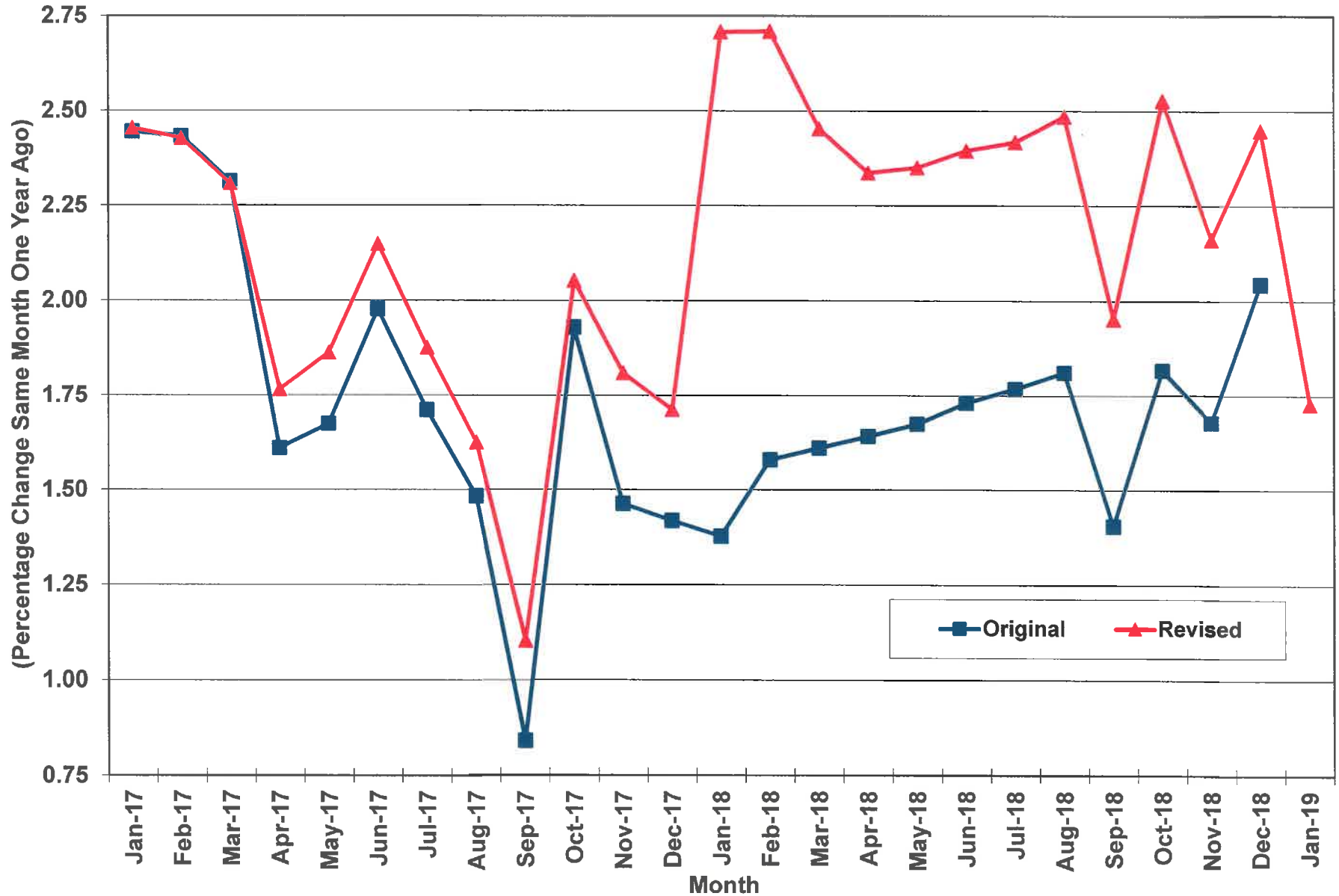
South Carolina

- We have a lottery winner – Proviso 118.15 (Taxpayer rebate) up to \$50 per individual
- State employment was revised higher
- State Personal Income to be revised and released March 26th

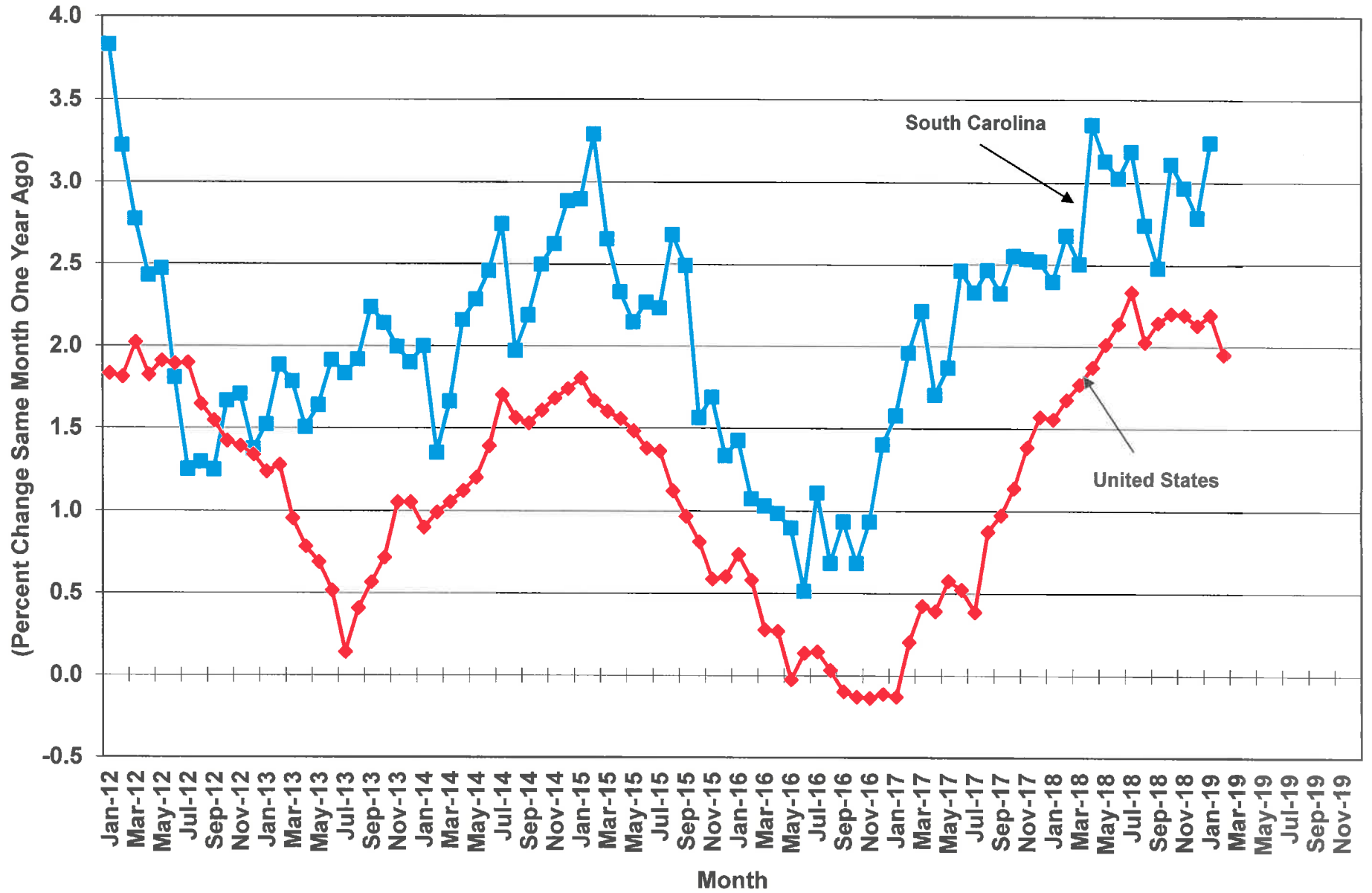
Total Nonfarm Employment in South Carolina (Original Series vs. Revised Series)



Growth of Employment in South Carolina (Original Series vs. Revised Series)



Growth in Manufacturing Employment in SC and US



Source: U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.
BEA/RWM/03/13/18

Source: Board of Economic Advisors



February 2019

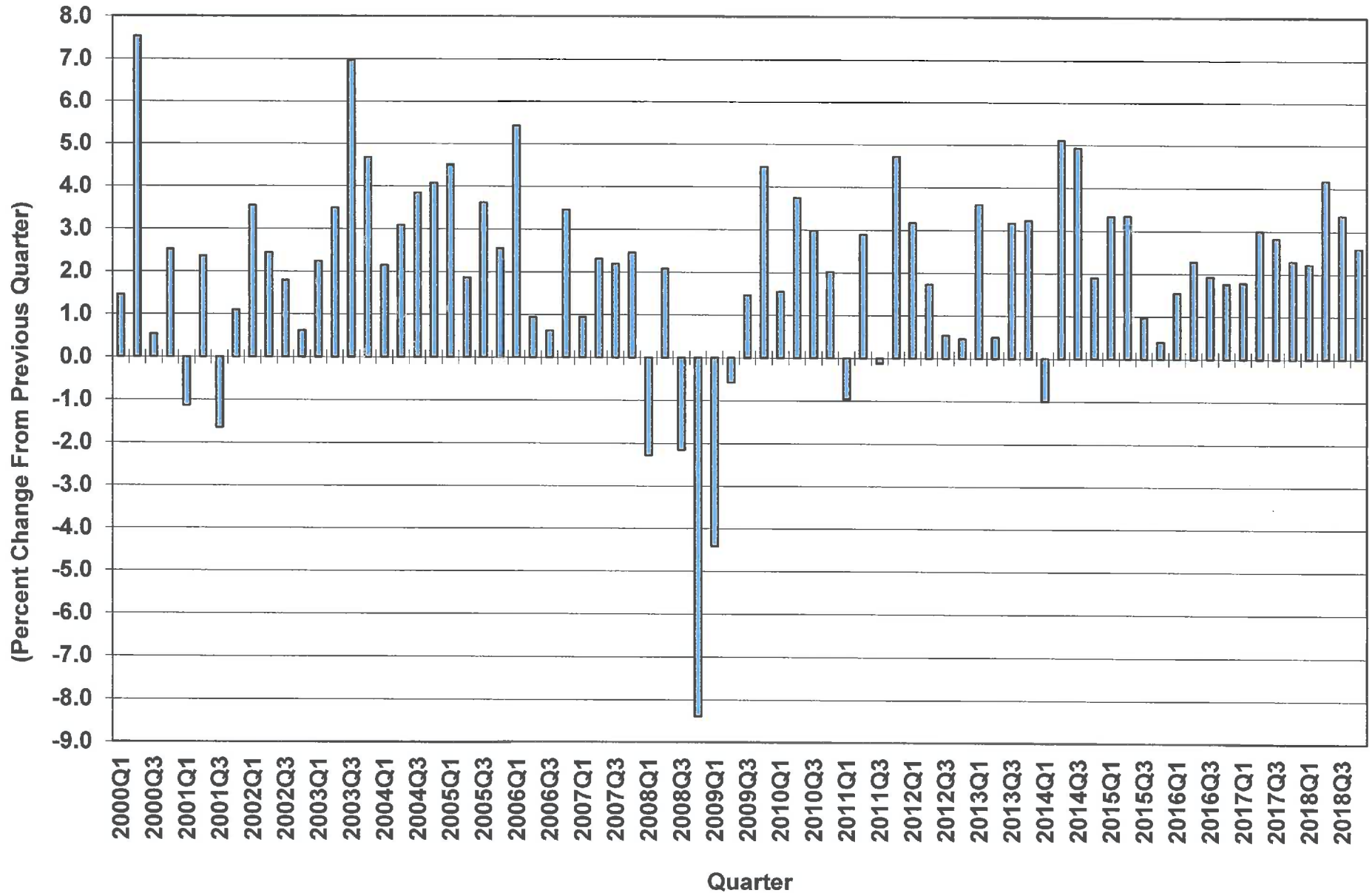
United States

- Federal gov't debt at \$22 trillion
- Lagged effects of monetary tightening
- Real GDP forecast at 1.5% in 2019Q1

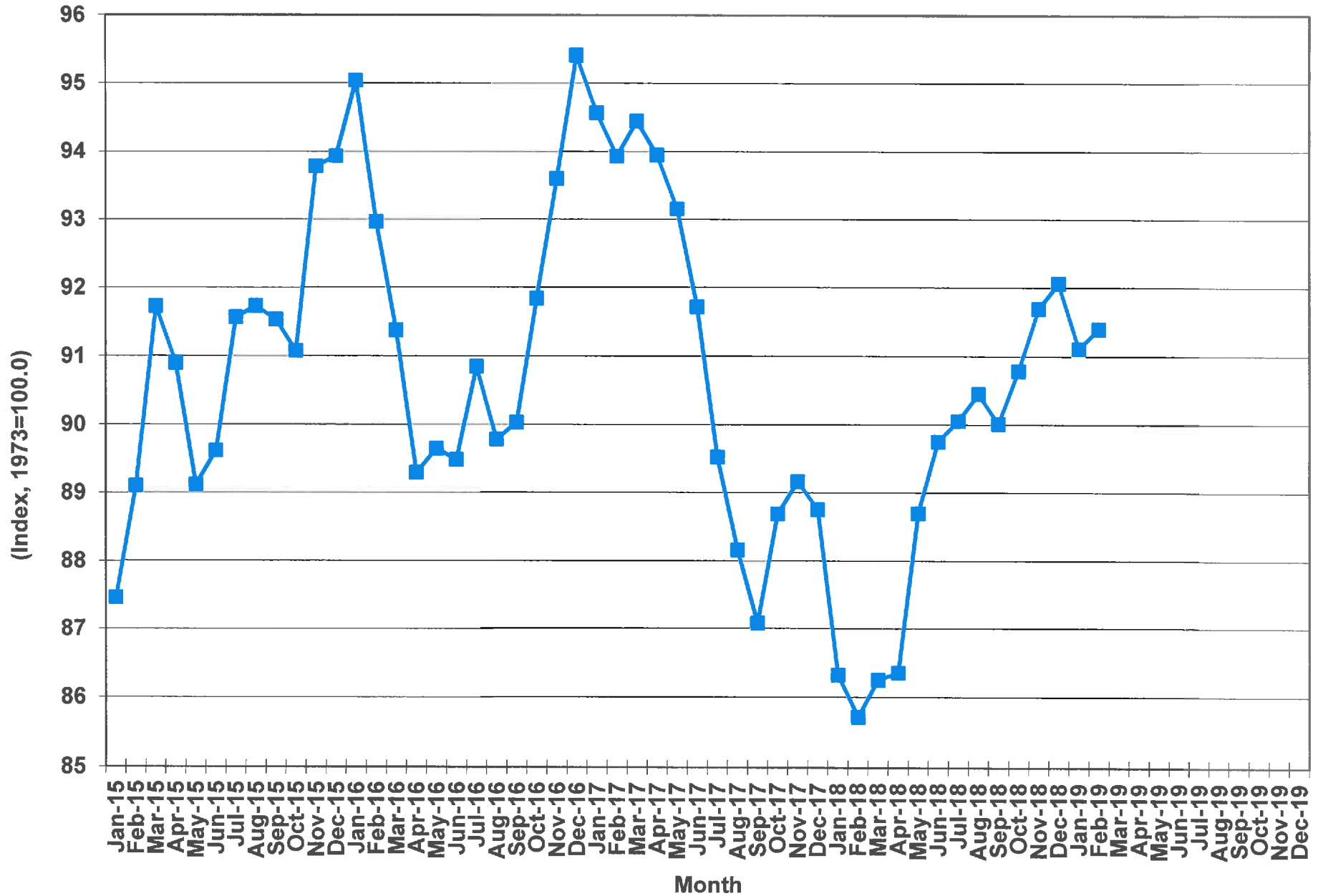
International and Global

- Global economic growth is slowing – China and Europe
 - Tariffs still unresolved
 - Brexit (Parliament votes down 2nd Brexit deal – March 29 deadline)

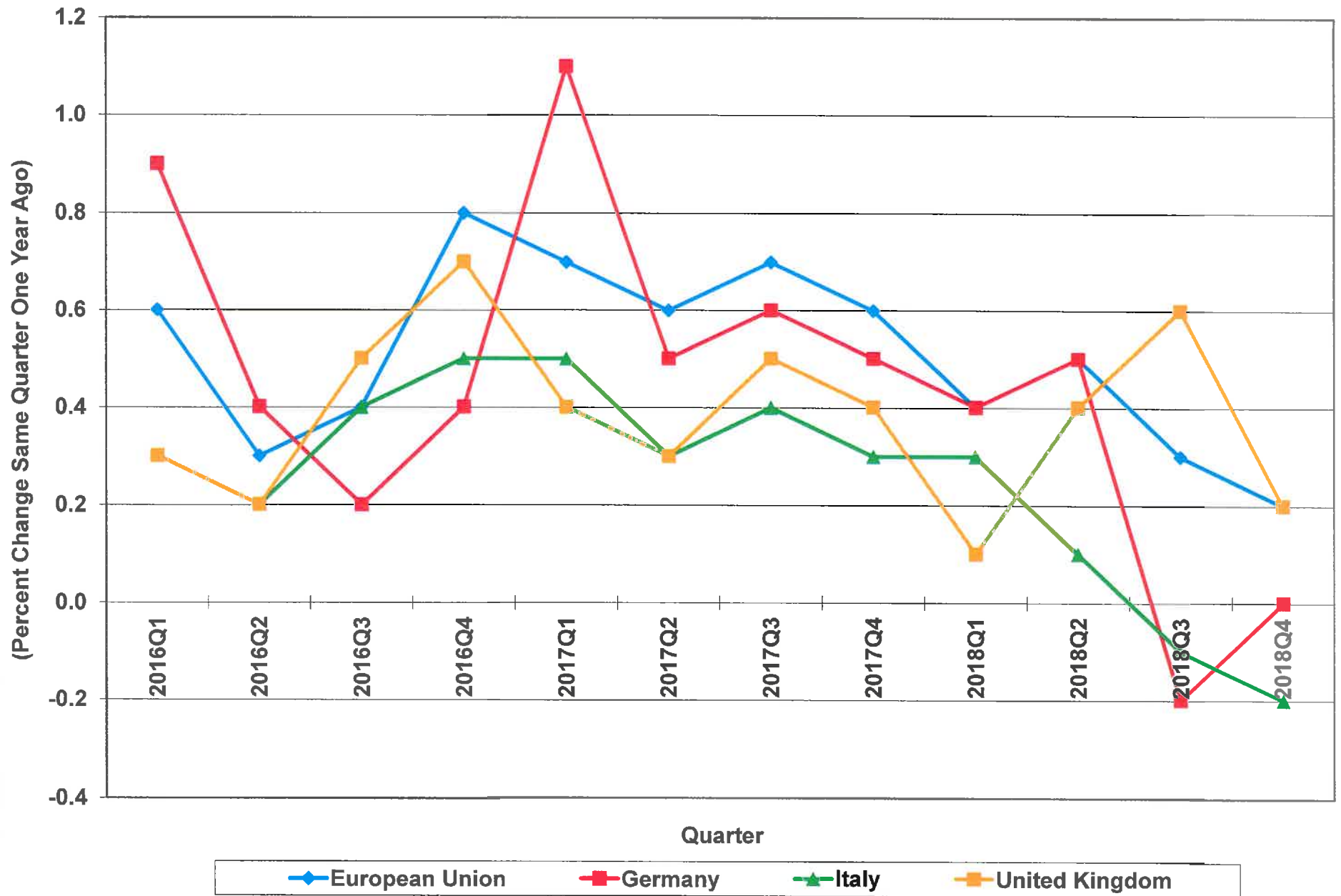
Real Gross Domestic Product in the U.S. (2012 = 100.0)



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



Growth in Real Gross Domestic Product in Europe





February 2019

Summary of BEA Revised Revenue Forecast

The BEA met February 14, 2019 to review the current year General Fund revenue forecast for FY2018-19 and review the economic and revenue projections for FY2019-20. The BEA unanimously adopted three revenue changes:

- The Individual Income tax revenue estimate was reduced by \$61.5 million for a lack of a winner coming forward to claim the \$1.5 billion Mega Millions jackpot won in October 2018. This amount represents the state income withholding tax contribution that will be paid if the winner takes the lump sum payment option. This represents a one-time, non-recurring event in FY2018-19.



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- The State Treasurer revised the revenue estimate of Earnings on Investments figures for interest earnings on state General Fund investments by an additional \$10 million in FY2018-19 and an additional \$15 million in FY2019-20. These increased amounts were offset by corresponding reductions in Individual Income tax declarations in FY2018-19 and FY2019-20, respectively.
- The South Carolina Education Lottery revised its estimates of lottery revenue transfers to the General Fund upward by an additional \$26.9 million in each FY2018-19 and FY2019-20.
- As a result of the above changes, the revised growth rate needed to meet the General Fund revenue forecast was lowered



February 2019

from 4.0 percent to 3.3 percent in FY2018-19. Also, because the FY2018-19 revenue estimate was lowered, the revised growth rate needed to meet the General Fund revenue forecast increased from 3.0 percent to 3.7 percent in FY2019-20.

Preview of April 8th Meeting

- End of Third Quarter (§11-9-1140)
- Review Forecast (§11-9-1130 (A))
- Key Issues
 - Lottery Jackpot Withholdings
 - Income Tax Season
 - Sales Tax

OTHER BUSINESS

March 21, 2019



South Carolina Revenue and Fiscal Affairs Office

REPORTS FROM WORKING GROUP

March 21, 2019

 South Carolina Revenue and Fiscal Affairs Office

FUTURE MEETING SCHEDULE

- A. April 8, 2019, 1:30pm – Quarterly Review; Final Forecast (April 10)
- B. May 16, 2019, 1:30pm – *If necessary*
- C. June 13, 2019, 1:30pm – Economic and Revenue Update
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