

MEMORANDUM FOR THE RECORD

DATE: February 14, 2019
Room 417, Rembert Dennis Building
1:30pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* –Edward Grimball-Chairman, Howell Clyborne, Emerson Gower (via *GoToMeeting*), Hartley Powell, *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Lisa Jolliff, Allyn Powell, Gordon O. Shuford, Kenneth Harris, Sandra Kelly, Amanda Martin, Ragan Griffith, Mary K. Miller, Natalie Gallagher. *Guests* – John Barfield, Michael Moore, Kathy Johnson, Richard Eckstrom (Comptroller General’s Office); Grant Gibson, Meredith Ross (Senate Finance Committee); David Seigler, Kevin Ethridge, Brian Gaines (EBO); Kevin Kibler, Cynthia Daniels (State Treasurer’s Office); Tim Derrick (Dept. of Revenue); Scott Ludlam (Dept. of Transportation); Gavin Jackson (SCETV); Billy Routh, Jeff Thordahl (Copper Dome Strategies).

Press: Maayan Schechter (The State); Russ McKinney (SC Public Radio)

- I. Chairman Grimball welcomed everyone to the meeting at 1:30pm.
- II. Chairman Grimball presented the meeting minutes for January 17, 2019 which had previously been shared with the Members and asked if any Member had additions or corrections. There were no comments from the Members and Chairman Grimball declared the minutes approved as presented and written. *(See attached)*
- III. **Frank Rainwater presented an overview of January 2019. His major comments were:** *(See Attached)*
 - Recent trends pose concerns about the FY 2018-19 and FY 2019-20 revenue estimates.
 - Revenue growth in December and January were lower than anticipated and economic growth, nationally and internationally, still face some challenges.
 - Sales tax revenue over the holiday shopping season, excluding the impact of the Wayfair decision, was lower than expected. Sales tax growth was 3.3 percent compared to the estimate of 4.2 percent.

- New sales tax returns stemming from the Wayfair decision added \$5.5 million in revenue but even with this added revenue, Sales Tax collections are below forecast.
 - *Chairman Grimball asked Mr. Powell when the beginning date is for remote sellers to register with the State for sales tax collection. Mr. Powell responded that registration began on November 1, 2018 and the first month of collections was on December 20, 2018. He also said that there are potentially 22,000 sellers to be registered and to-date, 1,200 have registered. The Department of Revenue is currently working with mainly the large retail companies. Also companies must meet a certain amount before they are required to remit taxes. Mr. Rainwater noted that the November forecast did not include revenue for remote sellers and that this revenue is helping collections meet the forecast.*
- The fiscal year-to-date growth in Individual Withholdings has slowed from 5.9 percent at the time of the November estimate to 4.5 percent but is still above the fiscal year estimate of 3.9 percent.
- Other revenue categories are running ahead of estimates.
- Total revenue collections are within \$3.8 million of the estimate, absent the lottery windfall, but a surplus at this time was anticipated to account for lower growth in the spring due to the absence of increased capital gains. Continued surpluses in other categories may help.
- Additional concerns about the forecast include the economic slowdown by major trading partners.
- In summary, revenues are running very close to estimates and the economy has slowed as anticipated. While there is a concern about the estimate, there is not any strong indication that different assumptions or an alternate forecast is warranted at this time.

IV. Robert Martin shared December 2018 revenue information. His major comments were: (See Attached)

Total General Fund Revenue

- General Fund revenue decreased 1.1 percent during the month of January 2019 from January 2018.
- Weakness in Individual Income Tax declarations and employee withholdings
- Revenues through January 2019 have grown 3.9 percent year-to-date and are running slightly below the 4.0 percent growth rate required to meet the General Fund revenue estimate for FY 2018-19.

Sales Tax Revenue

- Sales and Use Tax revenue increased 3.1 percent for the month of January resulting in year-to-date growth of 3.6 percent.
- Revenue figures indicate that the holiday shopping season sales increased 3.3 percent, or \$17.3 million, in the state.
- The holiday shopping season is usually a bellwether of future retail sales activity.
- These figures include \$5.5 million in remote internet sales taxes that states are now permitted to collect for sales made in their state by companies that lack a physical presence under the Wayfair decision.
- After adjusting for remote internet sales over this period, the underlying Sales and Use tax increased 2.3 percent.
- The cumulative Sales and Use tax revenue growth through January 2019 is running slightly below the 4.2 percent revenue forecast for FY 2018-19.

Individual Income Tax Revenue

- The Individual Income Tax revenue decreased 6.8 percent during the month of January.
- Individual Income Tax declarations posted nearly \$40 million less in January 2019 than in January 2018.
- Individual Income tax withholdings also declined 3.9 percent compared to January 2018 bringing the year-to-date growth rate to 4.5 percent in FY 2018-19.
- Total Individual Income Tax revenue growth is 1.6 percent year-to-date through January 2019 and is running below the 3.0 percent revenue forecast for FY 2018-19.

Corporate Income Tax Revenue

- The Corporation Income Tax, the most volatile of the largest revenue categories, increased 84.6 percent in January 2019 compared to the same month one year ago.
- The Corporate Income Tax has increased 6.7 percent year-to-date through January 2019 and is running below the 8.0 percent revenue forecast for FY 2018-19.

Other Revenue

- Other Revenues increased 37.1 percent in January 2019 from one year ago and have increased 16.5 percent year-to-date from a variety of sources and timing of receipts.
- Other Revenues have benefitted from strong monthly increases in the Insurance Tax, the Bank Tax, the Documentary stamp tax (real estate deed tax), and continued strong Interest Earnings on state General Fund investments.
- Cigarette Tax Stamps – South Carolina became the 48th state to place tax stamps on packs of cigarettes on January 1, 2019.
 - *Chairman Grimball asked if the tax rate had been changed to which Mr. Martin replied that it had not changed. Mr. Powell commented that the tax stamps are to combat trafficking of cigarettes across states.*

Summary

- Through the first seven months of FY 2018-19, General Fund revenues have increased 3.9 percent and are trending slightly below current forecast projections by an estimated \$35.4 million.
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income.
- Employment is expanding at an average rate of growth of 1.75 percent through the first six months of the fiscal year.
- Personal income is growing at an annual rate of 3.9 percent based on the latest available figures.

Contingencies and Other Items of Concern

- **South Carolina**
 - No lottery winner - may take \$61.5 million off of the table.
 - No lottery winner has come forth to claim the \$1.5 billion prize - may have to take \$61.5 million applicable to state individual income taxes out of 2019 forecast.
 - State Personal Income revised lower
 - Full employment – businesses want to expand, but can't find enough qualified workers.

- **United States**
 - Federal government shutdown – may affect IIT refunds and spending
 - Lagged effects of monetary tightening
 - Federal Reserve – raised interest rates in December
 - Number of rate increases reduced from three to two in 2019
- **International and Global**
 - Global economic growth is slowing – China and Europe
 - Stock Market Indices
 - Tariffs (March 1st deadline with China)
 - Brexit (PM May survives 2nd vote of no confidence)
 - ❖ *Chairman Grimball asked if trade with Great Britain has been affected due to uncertainty over the Brexit issue and if it has affected South Carolina. Mr. Martin replied that there has been some discussion about another referendum on the subject and that trade between Great Britain and mainland Europe has been affected, which could affect South Carolina.*

Regional Advisory Committee

- Consensus – The economic fundamentals seem solid to date, therefore there is no need to change the forecast.
- Widen the margin of error slightly
 - *Mr. Gower asked if the federal tax change is affecting revenues to which Mr. Martin replied that the effects of the tax change are included in the forecast. Chairman Grimball commented that decreased withholdings during the year have increased paychecks and reduced refunds. Mr. Rainwater noted that tax reform is operating as intended but the public may not have expected a potential effect on refunds.*

Staff Recommendations

FY 2018-19

- No changes to the underlying economic assumptions.
- Reduce the General Fund Revenue estimate by \$61.5 million due to the lack of a jackpot claimant.

- Increase the estimate for Earnings on Investment by \$10 million (per State Treasurer's Office) and decrease Individual Declarations by a corresponding \$10 million.
- As a result, the expected surplus for the current year is reduced from \$220 million to \$159 million.
- Accept the revised Lottery estimate, an increase of \$26.9 million.

FY 2019-20

- Since the lottery jackpot did not affect next year's estimate, no change to the total General Fund Revenue estimate.
- Increase the estimate for Earnings on Investment by \$15 million (per State Treasurer's Office) and decrease Individual Declarations by a corresponding \$15 million.
- Accept the revised Lottery estimate at \$26.9 million.
 - *Chairman Grimball asked how this information would affect the growth rates and Mr. Martin replied that the growth rate for FY 2018-19 would be lower and then higher for FY 2019-20 due to lowering the FY 19 base.*
 - *Mr. Clyborne motioned to approve the proposed changes to the forecast, and Mr. Gower seconded the motion which was unanimously adopted.*
 - *Mr. Rainwater noted that the national press requested a comment regarding the unclaimed lottery jackpot.*

V. Other Business

- *Mr. Rainwater reminded the members to file their Statement of Economic Interest by March 30, 2019 and to make sure that they enter information for the BEA and RFA Boards.*
- *Comptroller General Richard Eckstrom commented that it is unfortunate that the lottery winner has not come forward. Chairman Grimball agreed and noted that the state will only receive \$11 million in unclaimed prize funds if the winner does not come forward as the winnings will be distributed on a pro rata basis to all states that sold tickets.*
- *Comptroller General Eckstrom also commented that revenue trends appear to be on a negative slope. He further noted that the Federal Reserve Bank of New York has reported that car owners under the age of 30 are having difficulty making payments.*

There was no further business or comments from the Working Group Members.

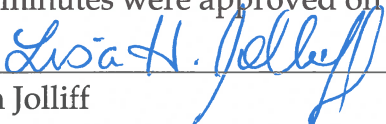
Mr. Clyborne motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye and the meeting adjourned at 2:15pm.

The next scheduled BEA Meeting is Thursday, March 21, 2019 at 1:30pm (*If necessary*).

Attachments: Agenda, Meeting Materials

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

These minutes were approved on 3/21/2019.



Lisa Jolliff