



EDWARD B. GRIMBALL, Chairman
HOWELL CLYBORNE, JR.
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SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER
Executive Director

BOARD OF ECONOMIC ADVISORS AND WORKING GROUP MEETING AGENDA

April 8, 2019, 1:30 P.M.

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

- I. Welcome
- II. Adoption of Meeting Minutes for March 21, 2019
- III. Review of Revenues and Economic Conditions
 - A. Review of Third Quarter Results §11-9-890 (F. Rainwater)
 - B. Detailed Review of Monthly and Revenue Activity (R. Martin)
- IV. Consideration of FY 2018-19 and FY 2019-20 Estimates §11-9-880 (F. Rainwater, R. Martin)
- V. Other Business
- 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
- VI. Future Meeting Schedule
 - A. May 16, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - B. June 13, 2019, 1:30 - Economic and Revenue Update
 - C. July 25, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - D. August 29, 2019, 1:30 - **If necessary**, *GoToMeeting* for Members
 - E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>
- VII. 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 OF REVENUES THROUGH MARCH

April 8, 2019

 South Carolina Revenue and Fiscal Affairs Office

Review of Third Quarter Results Pursuant to §11-9-890

- Revenues through the third quarter of the fiscal year total \$6,318.5 million and exceeded the estimate of \$6,211.5 million by \$107.0 million.
- The excess is mostly attributable to the \$61.5 million deposit in Individual Income Tax withholding from the Lottery Jackpot winner and timing differences in refund processing.
- Economic conditions are close to assumptions.

Key Points for March 2019

- Through March, actual revenues exceeded estimates by \$107.0 million.
- HOWEVER, the bulk of this excess is attributable to the impact of the Lottery withholding and timing differences in Income Tax processing.
- Sales Tax revenue is \$2.0 million above, or 0.1 percent.
- Withholdings revenue, excluding the Lottery Jackpot, is \$6.8 million or 0.2 percent.
- Corporate Income and License Tax is \$41.5 million or 14.5 percent above estimates.
- Insurance Tax is \$14.1 million or 6.5 percent below estimates.
- As we enter the bulk of Income Tax processing season, total revenues are close to expectations.



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 - MARCH FY 2018-19			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate Full Fiscal Yr.	Actual Yr. to Date
	Actual Revenues	Expected Revenues	Excess / (Shortfall)		
Total General Fund Revenue	6,318.5	6,211.5	107.0	3.3	5.3
Sales Tax	2,036.8	2,034.8	2.0	4.2	4.3
Individual Income Tax	3,351.3	3,298.6	52.7	1.4	3.0
Corporate Income Tax	218.9	190.9	28.0	8.0	37.2
Other Revenue Sources	711.5	687.3	24.2	7.9	12.6
Select Tax Revenues, Sub-Total	609.6	586.8	22.8	10.1	15.4
Admissions Tax - Total	14.9	14.7	0.1	2.7	3.6
Alcoholic Liquors Tax	52.9	53.6	(0.7)	4.1	2.7
Bank Tax	27.6	24.6	3.0	7.0	20.1
Beer and Wine Tax	71.7	70.4	1.2	1.4	3.2
Corporation License Tax	108.9	95.4	13.5	(7.4)	5.6
Documentary Tax	50.8	51.4	(0.6)	5.8	4.6
Earnings on Investments	62.6	42.6	20.0	74.5	156.6
Insurance Tax	201.3	215.4	(14.1)	18.6	14.3
Tobacco Tax	18.9	16.7	2.3	(5.9)	7.0
Residual Revenue, Sub-Total 2/	101.8	100.4	1.4	(3.4)	(2.0)

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.



March 2019

Presentation Agenda

- **Review of General Fund Revenues – March 2019**
- **Contingencies and Other Items of Concern**
- **Review of FY2018-19 and FY2019-20 General Fund Revenue Estimates**

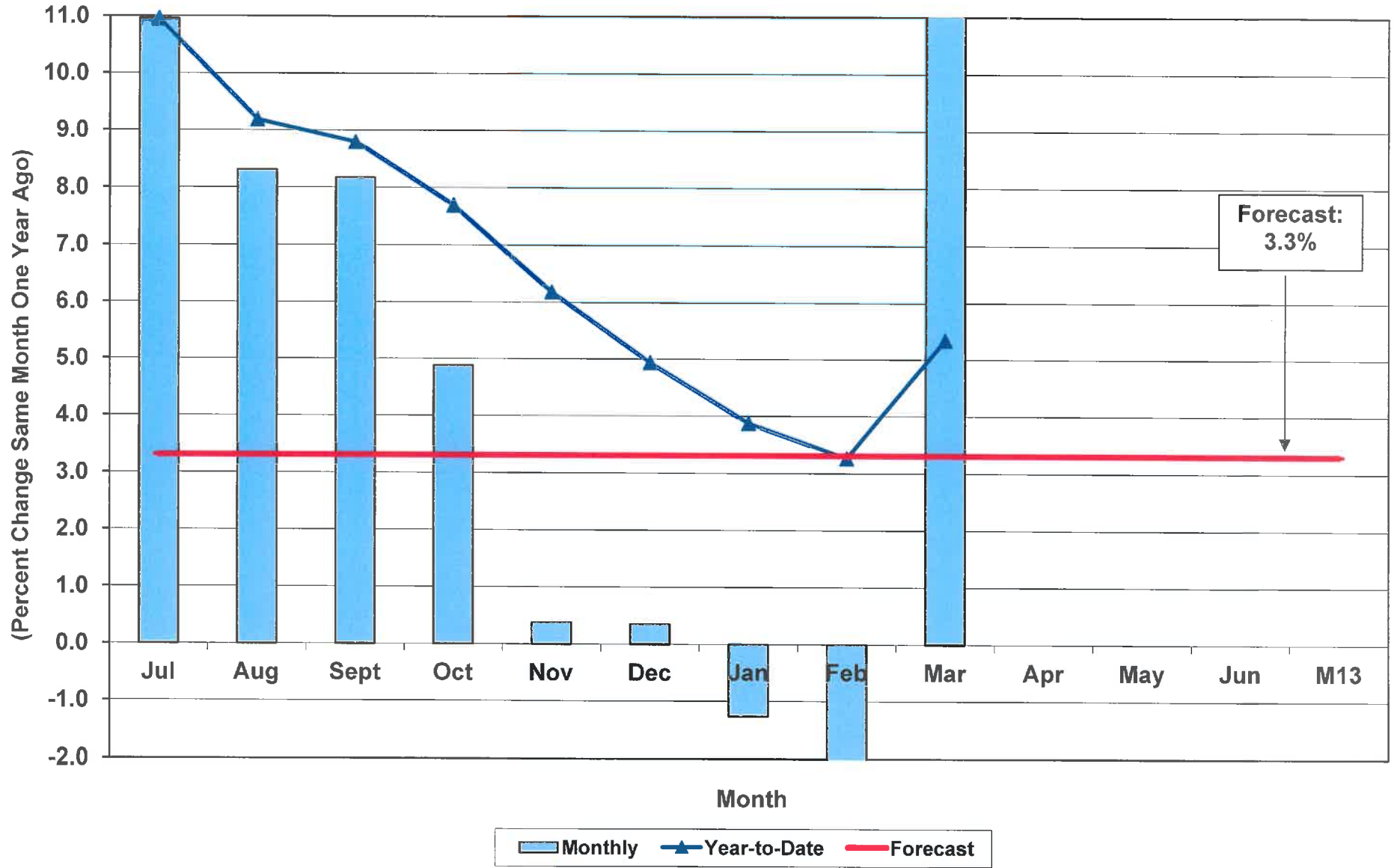


March 2019

Total General Fund Revenue

- General Fund revenue increased 29.2 percent during the month of March 2019 from March 2018.
- The Individual Income tax withholdings was the beneficiary of a one-time, non-recurring deposit of \$61.5 million for taxes due on a winning Mega Millions lottery jackpot won in October 2018 and claimed in late February 2019
- Revenues through March 2019 have grown 5.3 percent year-to-date and are exceeding 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



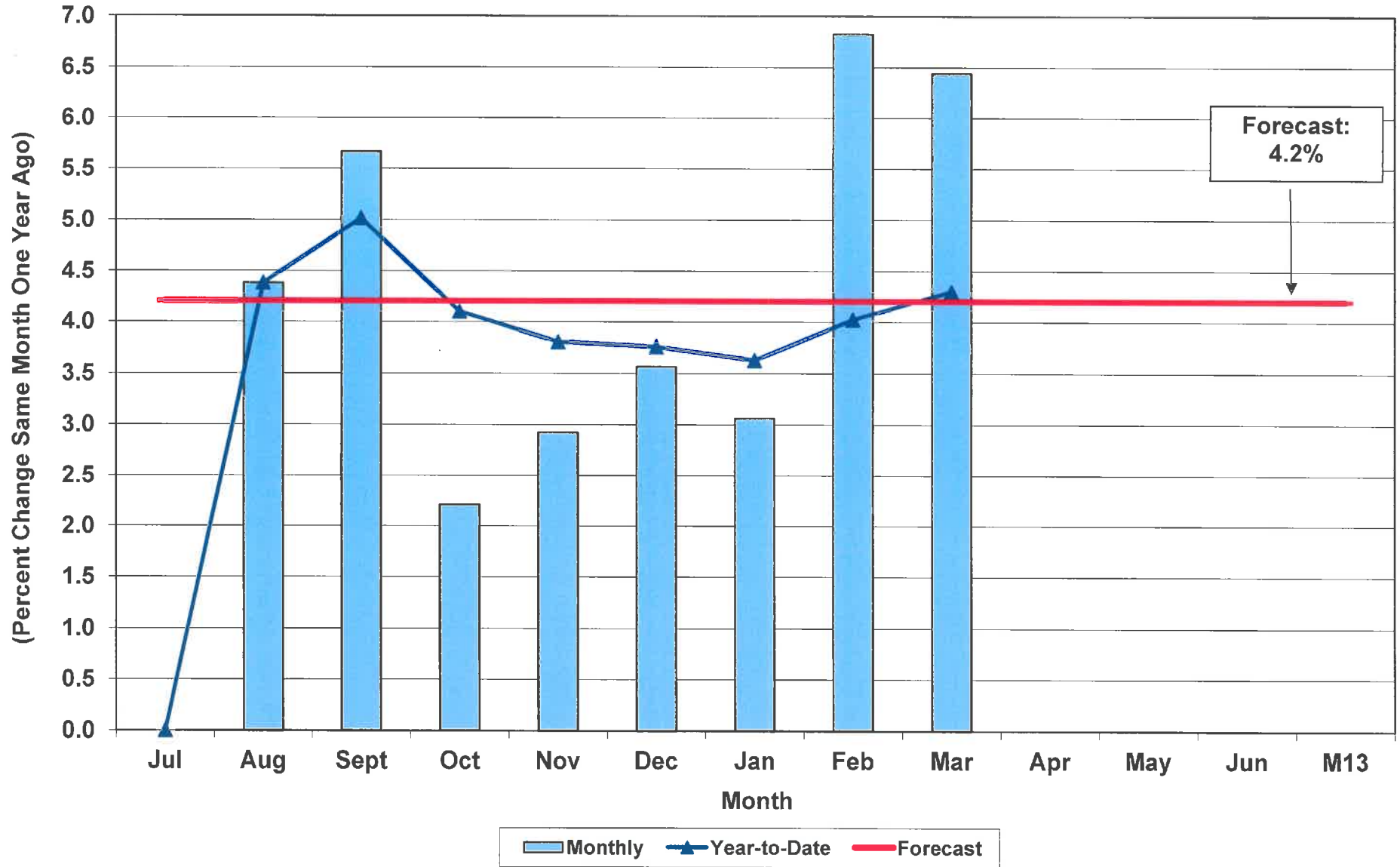


March 2019

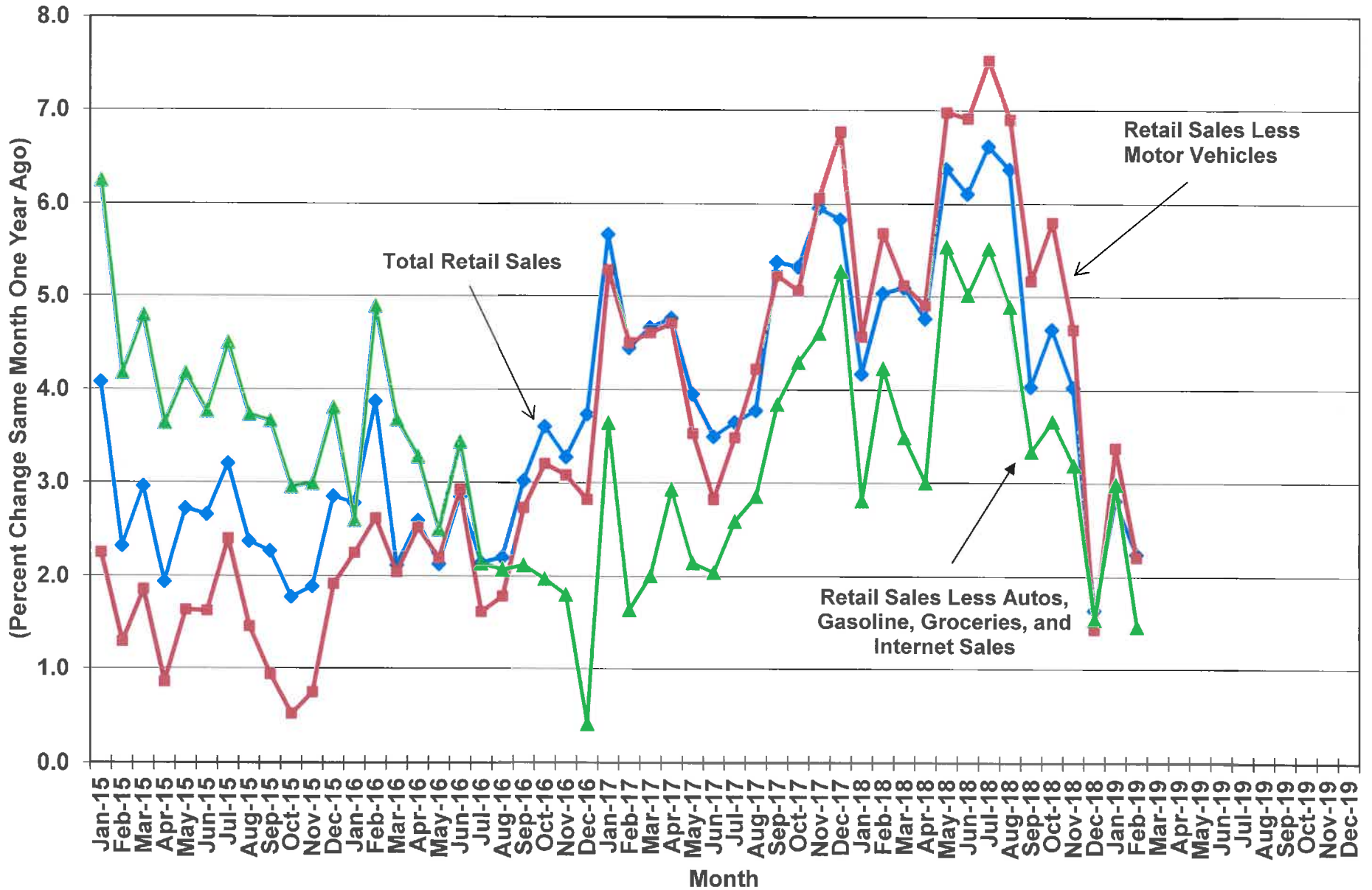
Sales Tax Revenue

- Sales and Use tax revenue increased 6.4 percent for the month of March resulting in year-to-date growth of 4.3 percent
- Despite the inclusion of \$10.5 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, the Sales and Use tax has experienced slower growth this fiscal year compared to last fiscal year
- The cumulative Sales and Use tax revenue growth through February 2019 is running slightly above the 4.2 percent revenue forecast for FY2018-19

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

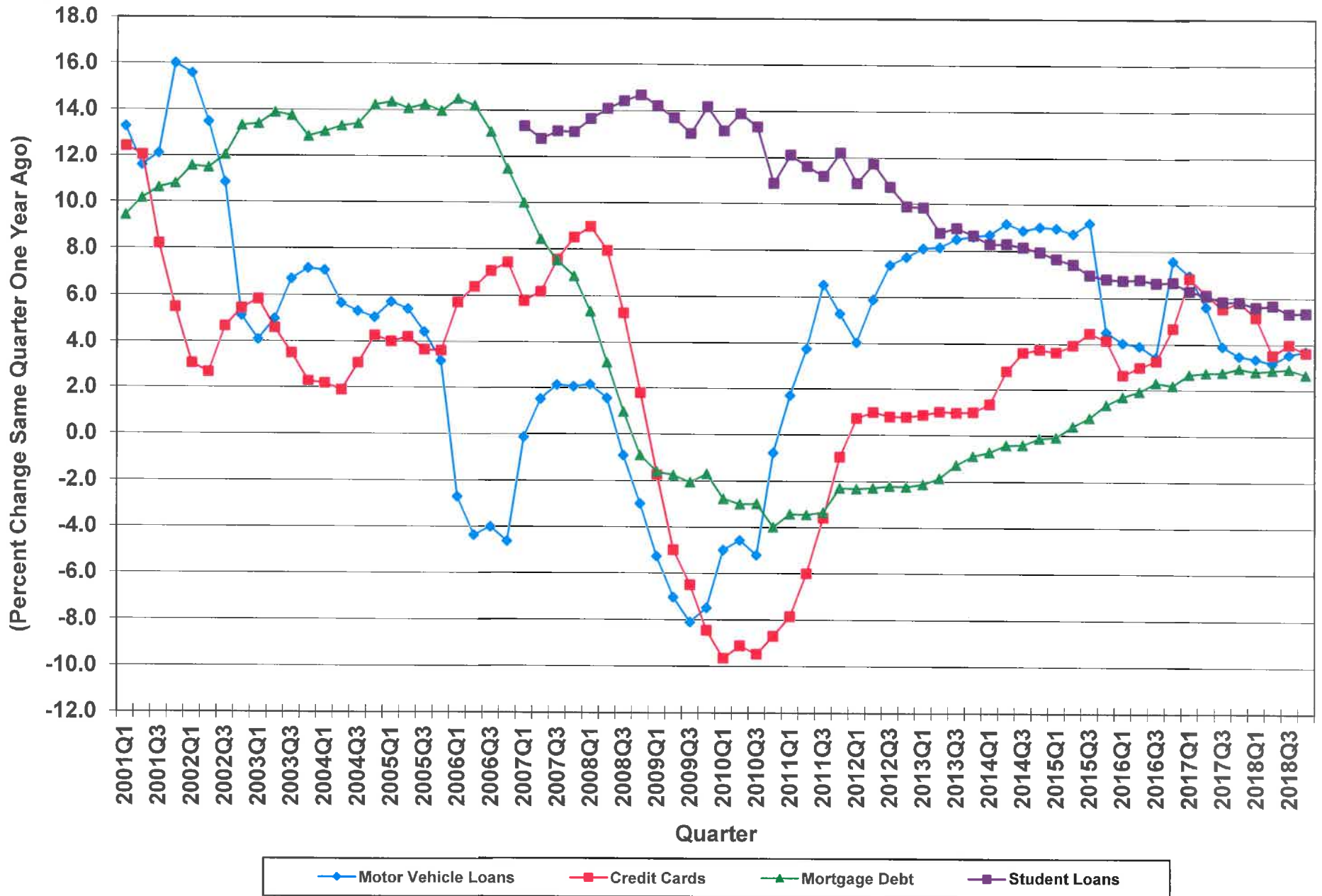


U.S. Retail & Food Service Sales



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

Growth in Major Types of Household Debt





March 2019

Individual Income Tax Revenue

- The Individual Income tax revenue increased 122.9 percent during the month of March
- Individual Income tax withholdings was boosted by a deposit of \$61.5 million from the winner of the \$1.5 billion Mega Millions jackpot won in October 2018 but not claimed until February 2019
- This amount represents the state income withholding tax contribution paid by the lottery winner if the taxpayer took the lump sum payment option Individual Income tax withholdings have grown 5.7 percent through March 2019, including the one-



March 2019

time lottery tax deposit, and are exceeding the 3.9 percent revenue forecast for FY2018-19

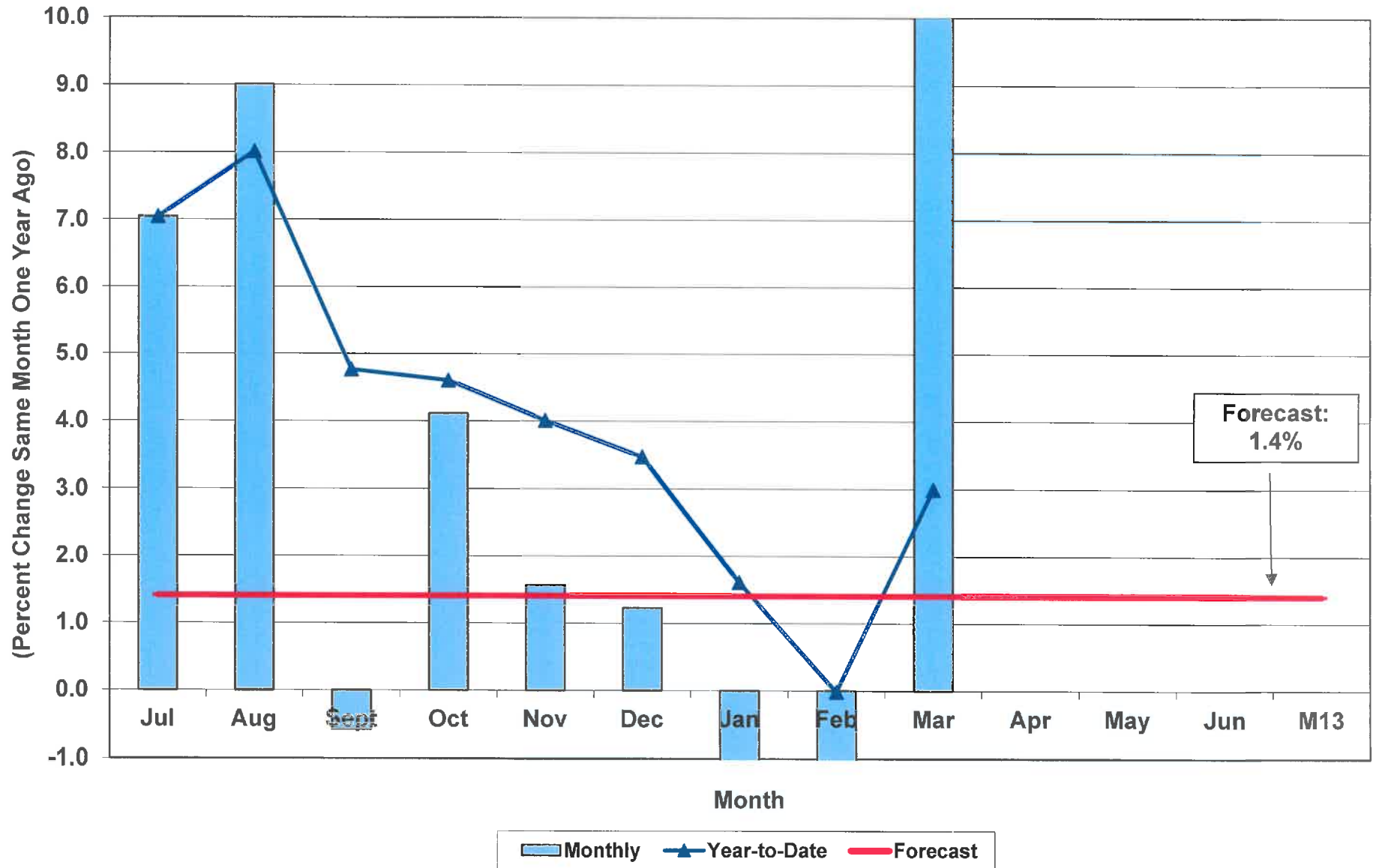
- Without the one-time lottery deposit, Individual Income tax withholdings would be increasing 4.1 through March 2019
- The Department of Revenue also processed \$28.4 million less in Individual Income tax refunds from nearly 35,000 fewer income tax returns in March 2019 compared to March 2018
- This combination added to the strong monthly revenue gain in the Individual Income tax



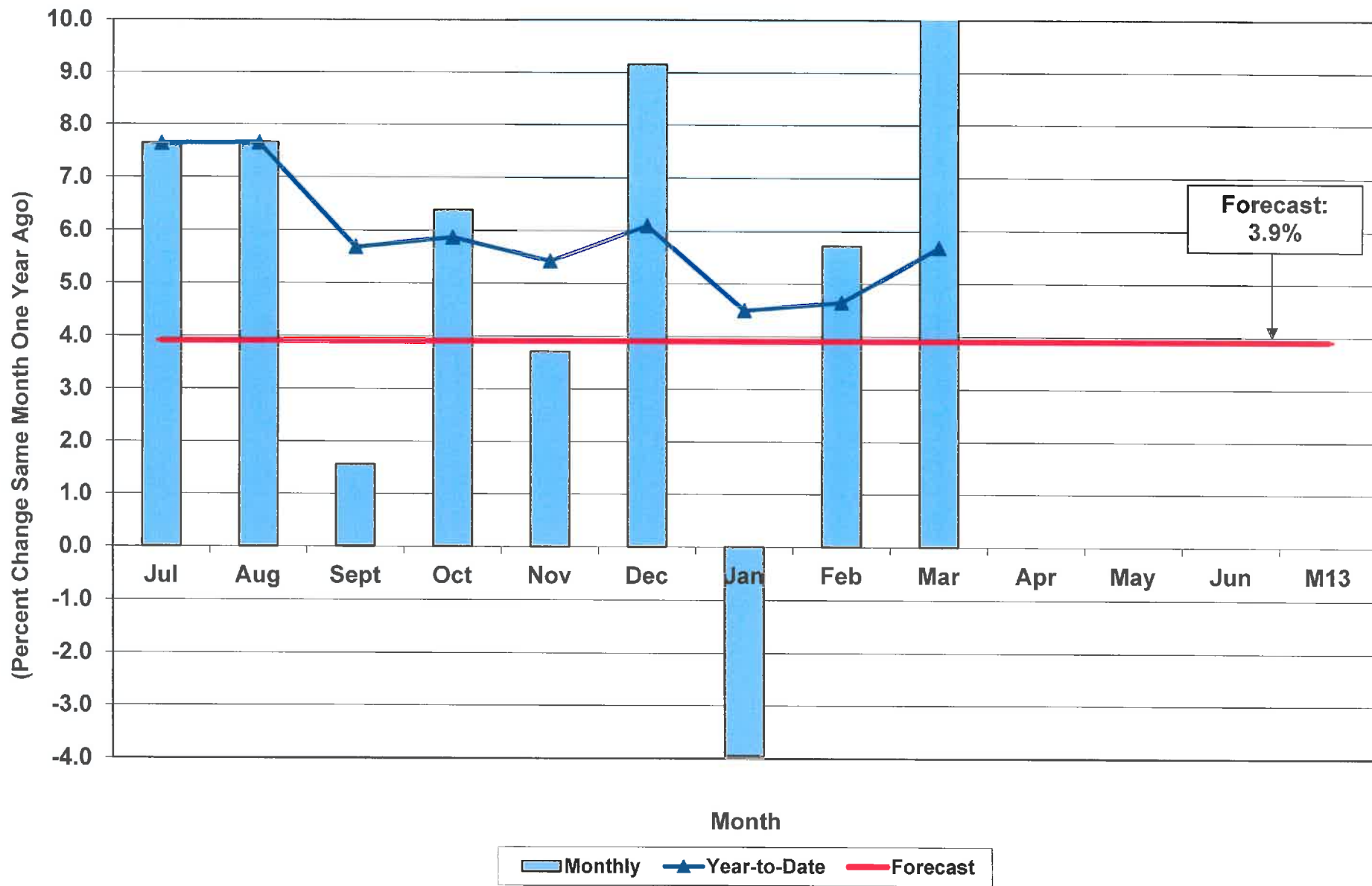
March 2019

- Total Individual Income tax revenue growth is increasing 3.0 percent year-to-date through March 2019 and is running above the revised 1.4 percent revenue forecast for FY2018-19

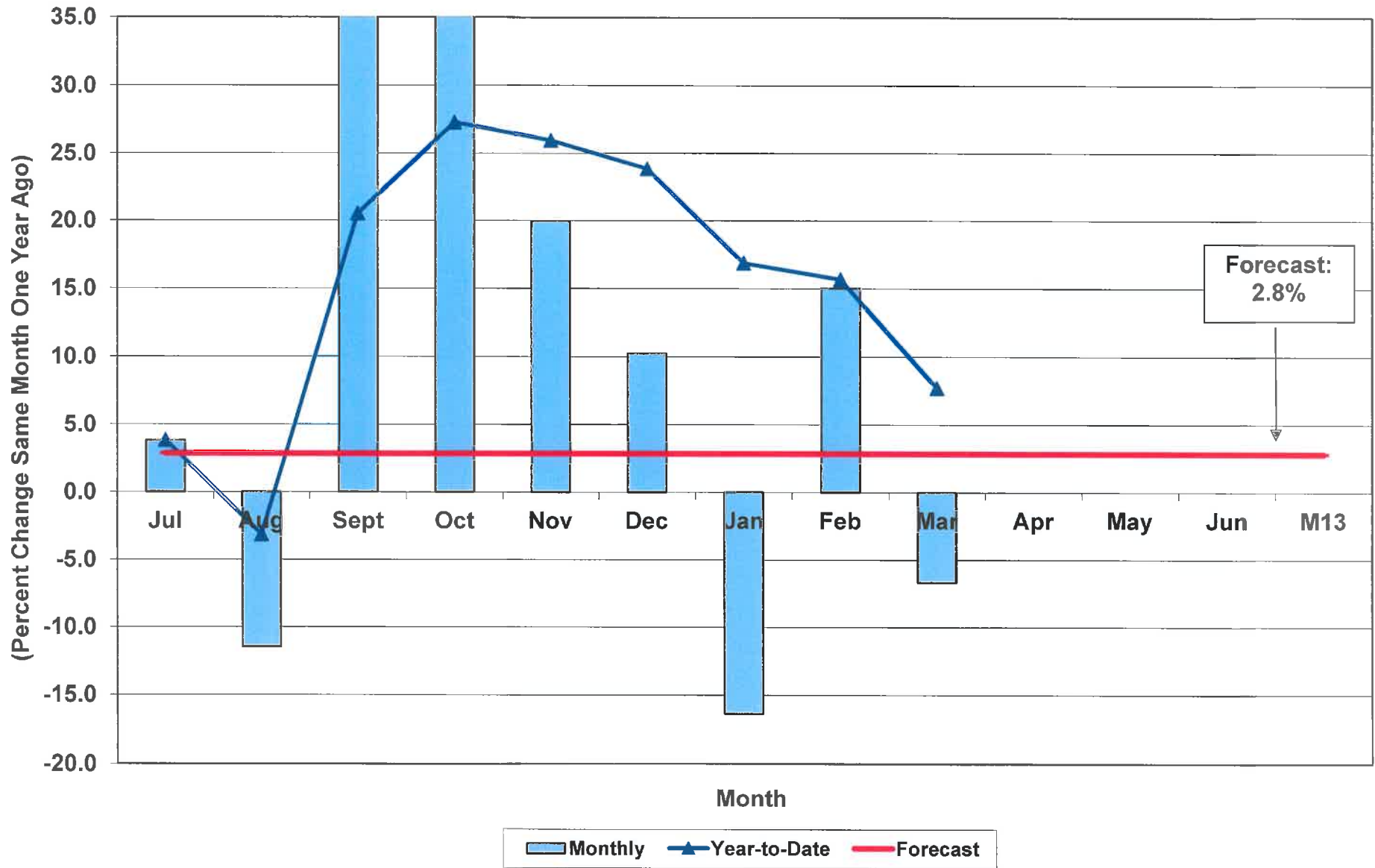
Growth in Total Individual Income Tax Revenue Collections FY2019 Monthly and Year-to-Date



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





March 2019

Corporate Income Tax Revenue

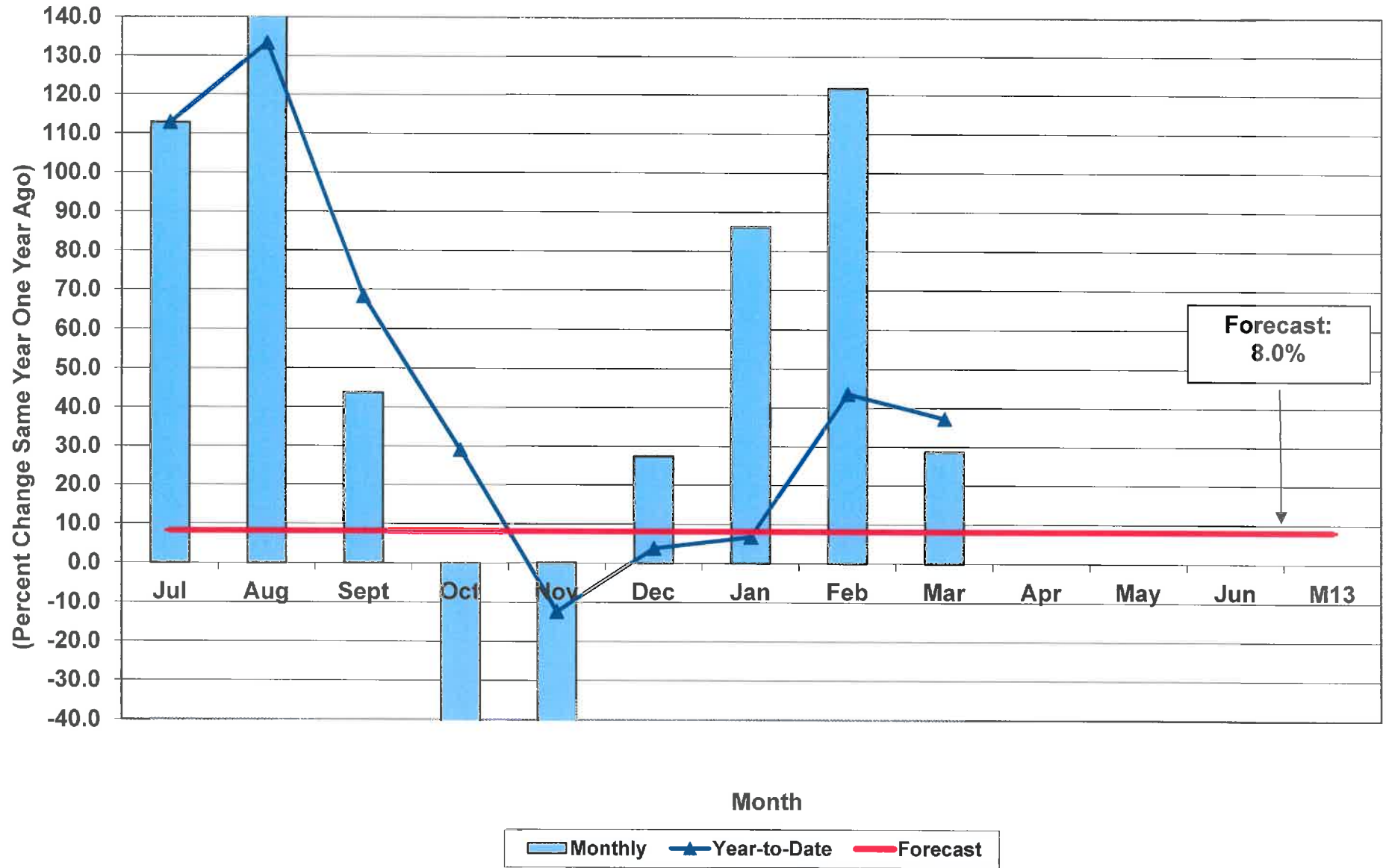
- The Corporation Income tax, the most volatile of the largest revenue categories, increased 28.6 percent in March 2019 compared to the same month one year ago
- According to most national indicators, the corporate sector is currently experiencing strong earnings and economic growth
- Overall, the Corporate Income tax has increased 37.2 percent year-to-date through March 2019 and is running above the 8.0 percent revenue forecast for FY2018-19

U.S. Corporate Profits Before and After Taxes



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

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





March 2019

Other Revenue

- Other Revenues increased 7.5 percent in March 2019 from one year ago and have increased 13.9 percent year-to-date from a variety of sources and timing of receipts



March 2019

Summary

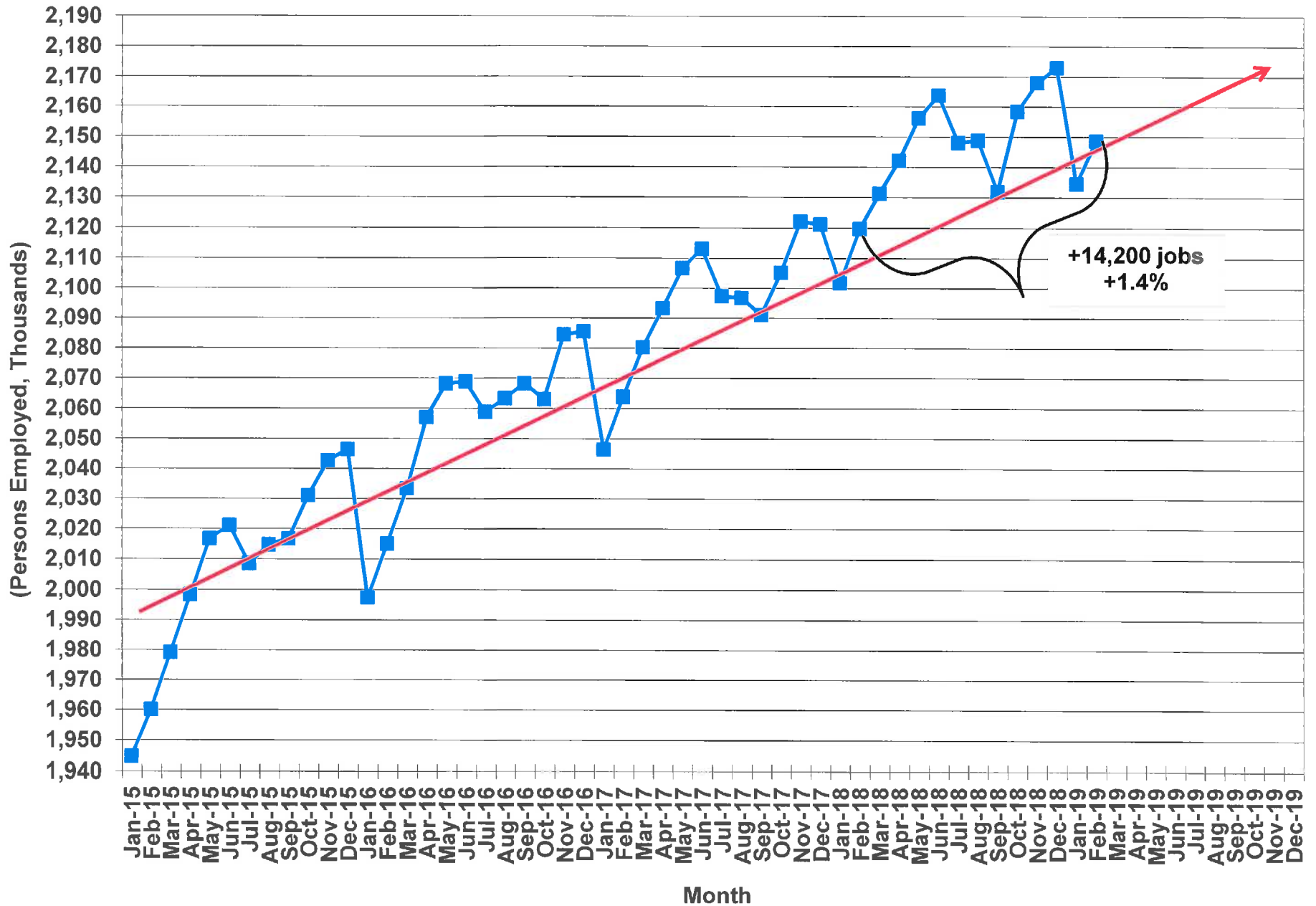
- Through the first nine months of FY2018-19, General Fund revenues have increased 5.3 percent and are trending above current forecast projections by an estimated \$107.0 million
- Again, this surplus is due to a one-time, non-recurring deposit of Individual Income tax withholdings from the winner of a Mega Million lottery drawing and a slowing in the processing of Individual Income tax returns
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income



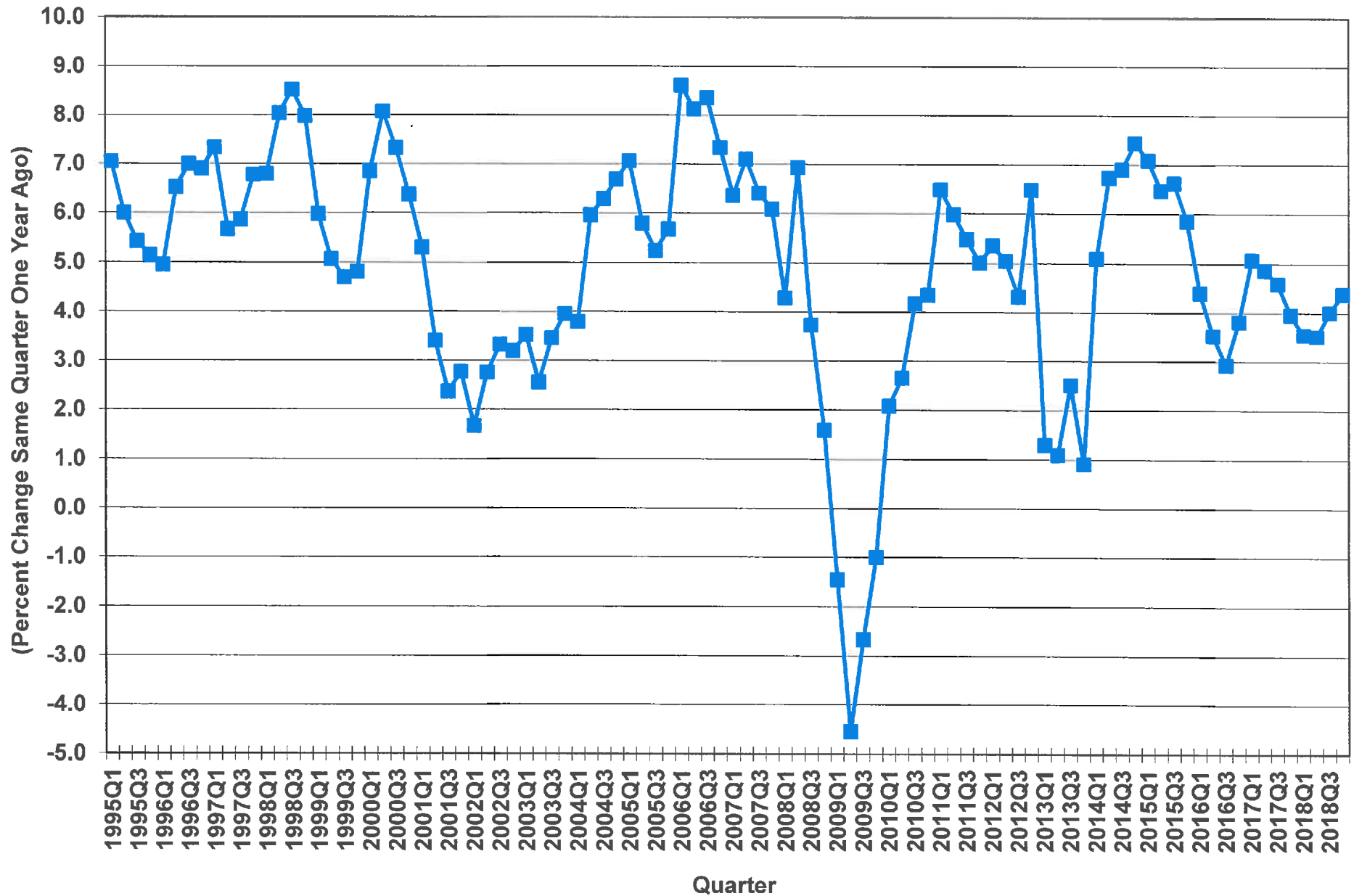
March 2019

- 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 2.1 percent through the first eight months of the fiscal year
- Personal income is growing at a revised annual rate of 4.4 percent based on the latest available figures
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income

Total Nonfarm Employment in South Carolina

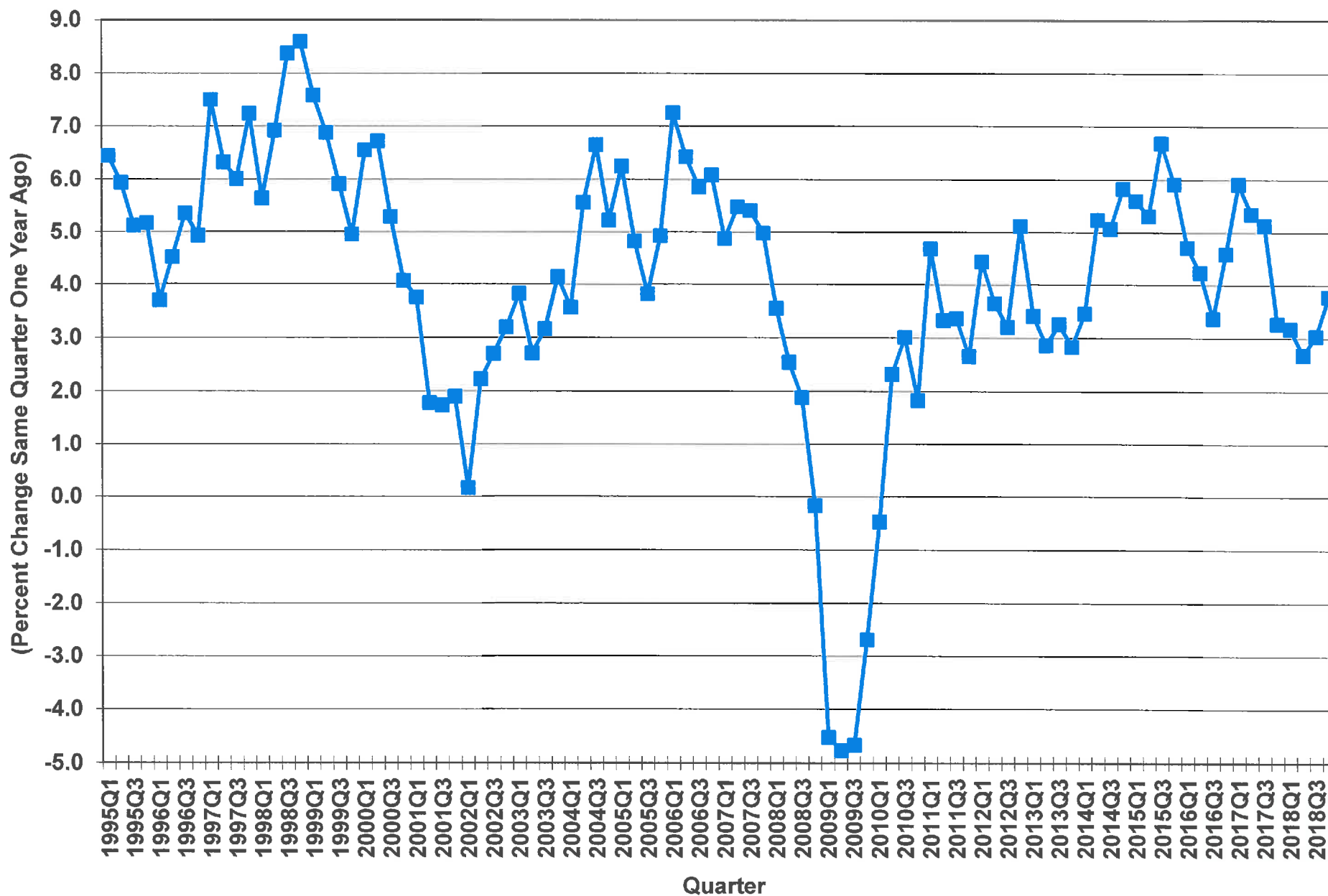


Growth in Personal Income in South Carolina



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.



March 2019

Contingencies and Other Items of Concern

South Carolina

- State employment was revised higher
- State Personal Income revised slightly upward - CY18: 3.9%



March 2019

United States

- Sluggish retail sales
- Lagged effects of monetary tightening
- Uncertainty over Federal Reserve policy
- Real GDP forecast at 1.5% in 2019Q1

International and Global

- Global economic growth is slowing – China and Europe
 - Tariffs still unresolved
 - Brexit (3rd time is not the charm - Parliament votes down 3rd Brexit deal – deadline extended, forecast cut)

Consideration of FY 2018-19 and FY 2019-20 Estimates (Pursuant to §11-9-880)

Assumptions

- Economic conditions continue to remain close to assumptions.

Revenue

- Total revenues are close to estimates. Some categories are above while some are below estimate.
- Final results on Income Tax processing in the last quarter will dictate whether total revenues will be above or below estimate.

Consideration of FY 2018-19 and FY 2019-20 Estimates (Pursuant to §11-9-880)

Recommendations

- No change to total General Fund forecast for FY19 or FY20.
- The one-time deposit of \$61.5 million in withholdings from the Lottery Jackpot winner is accounted for in the state budget – Proviso 118.15 (House and Senate Finance Committee versions) designate revenue (unobligated funds) in excess of current forecast to fund an Individual Income Tax rebate.

OTHER BUSINESS

April 8, 2019

 South Carolina Revenue and Fiscal Affairs Office

REPORTS FROM WORKING GROUP

April 8, 2019

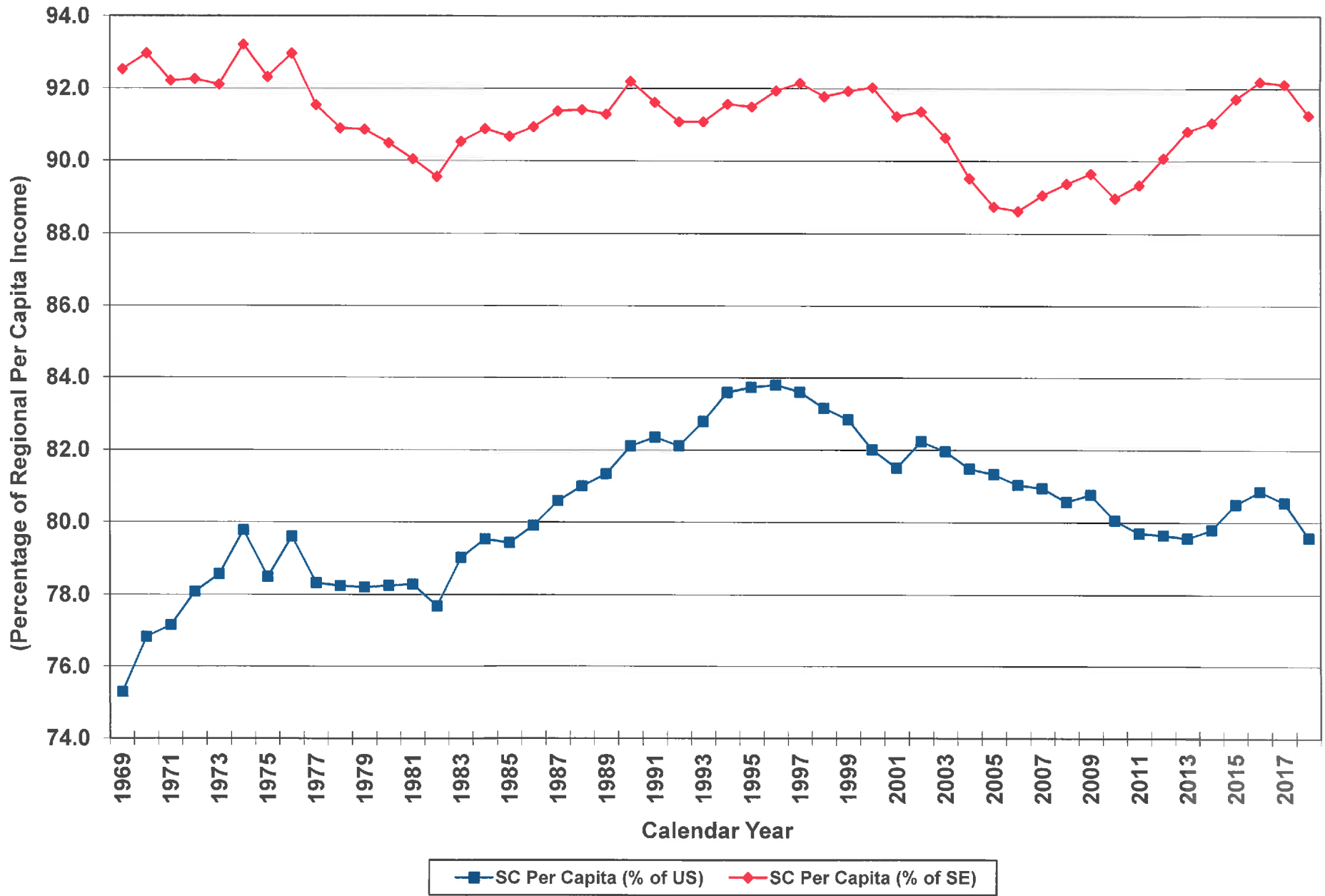
 South Carolina Revenue and Fiscal Affairs Office

FUTURE MEETING SCHEDULE

- A. May 16, 2019, 1:30pm – *If necessary, GoToMeeting* for Members
- B. June 13, 2019, 1:30pm – Economic and Revenue Update
- C. July 25, 2019, 1:30pm – *If necessary, GoToMeeting* for Members
- D. August 29, 2019, 1:30pm – *If necessary, GoToMeeting* for Members
- E. September 16, 2019, 1:30pm – Fiscal Year-End Report, Update on New Fiscal Year
- F. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>

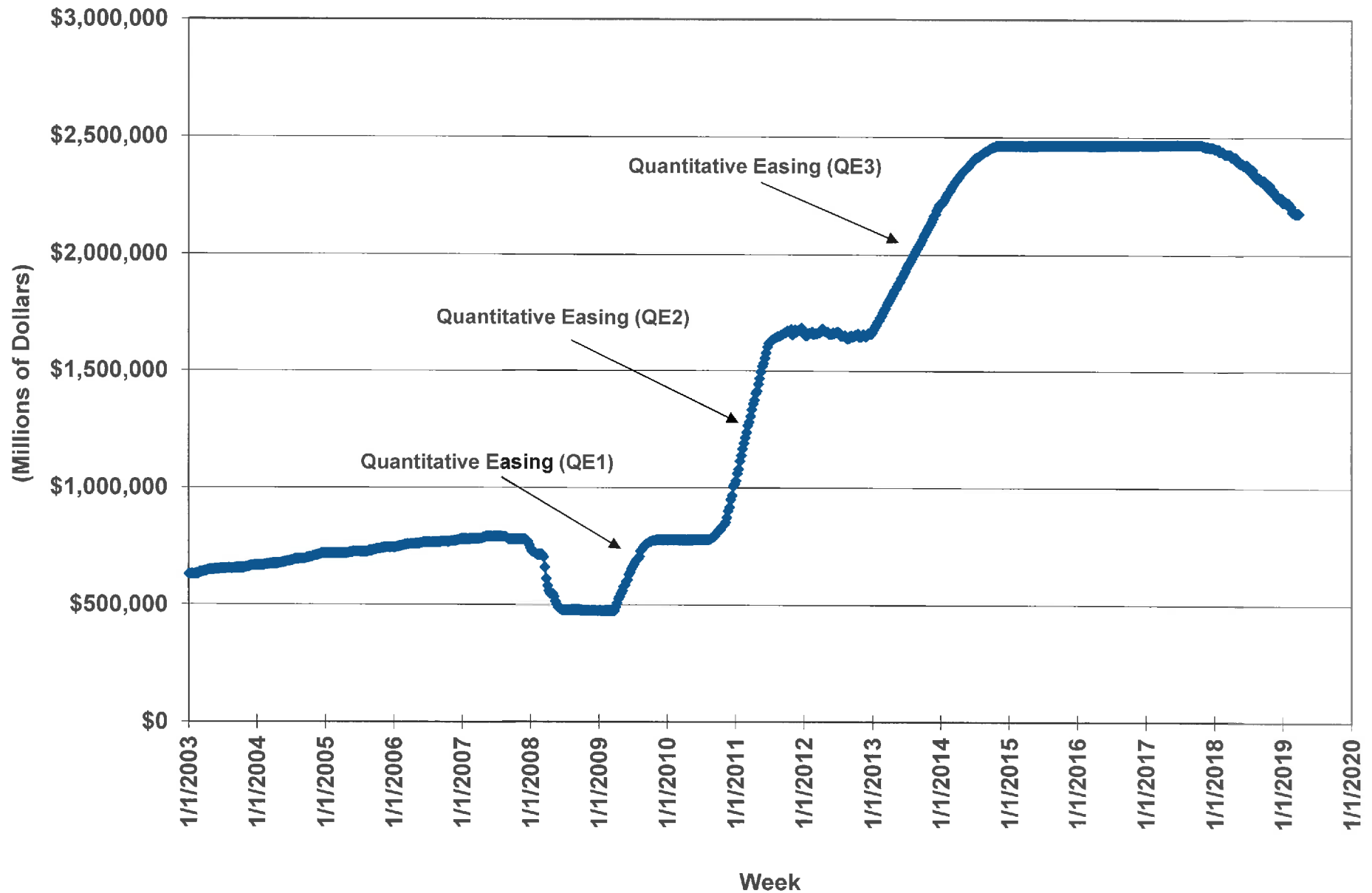
APPENDIX

SC Per Capita Income Relative to the US & Southeastern States

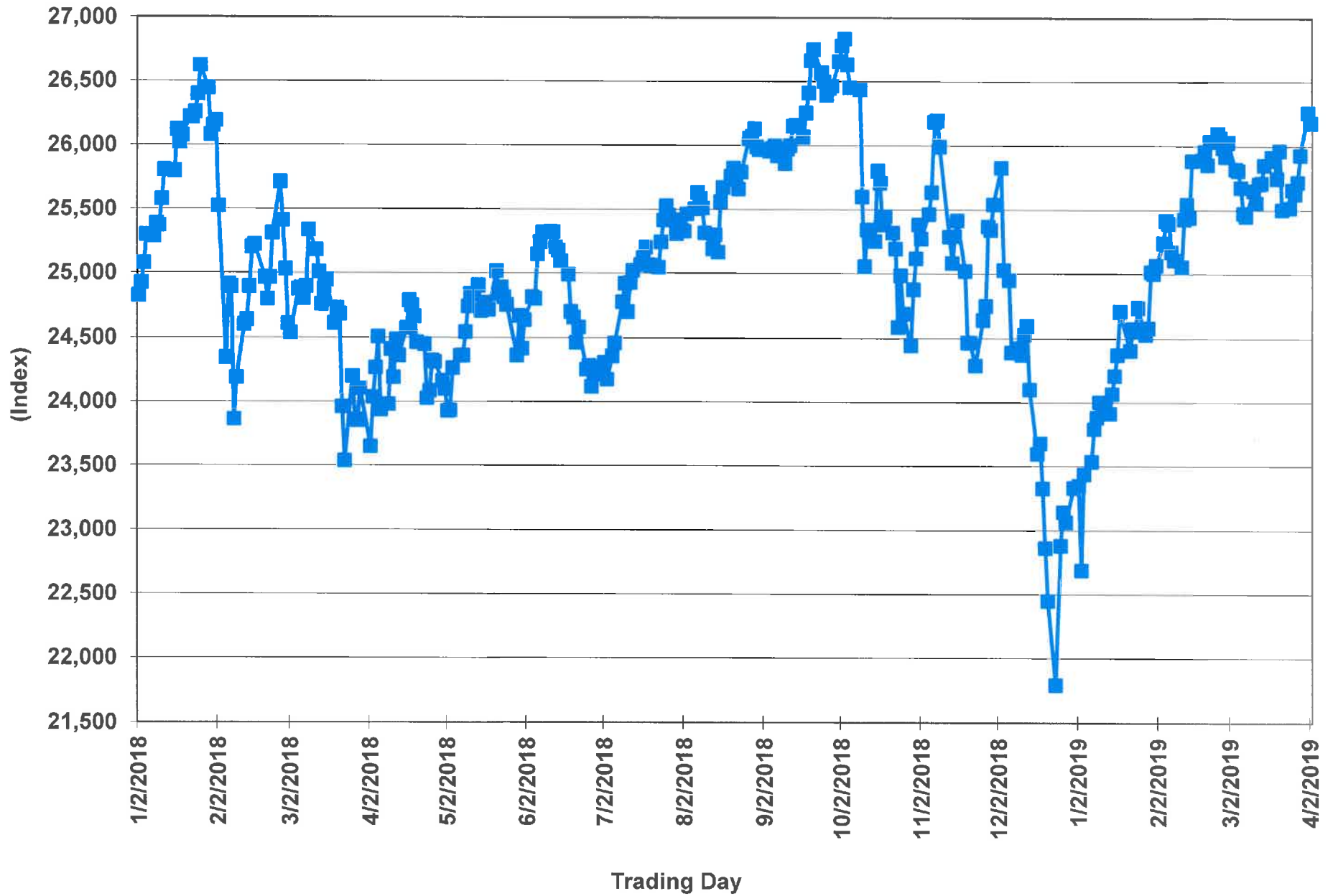


Source: U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.

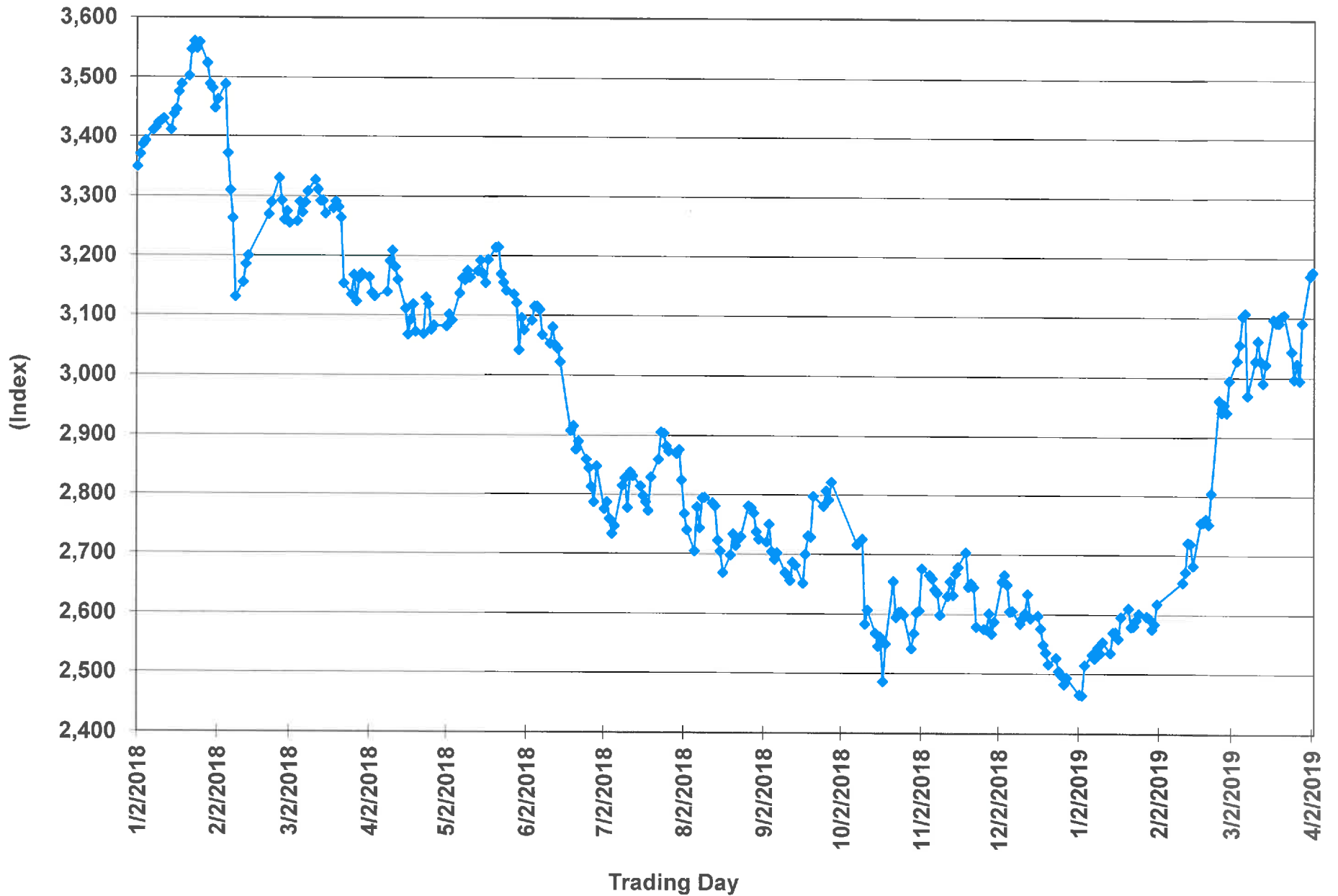
U.S. Treasury Securities Held by the Federal Reserve (All Maturities)



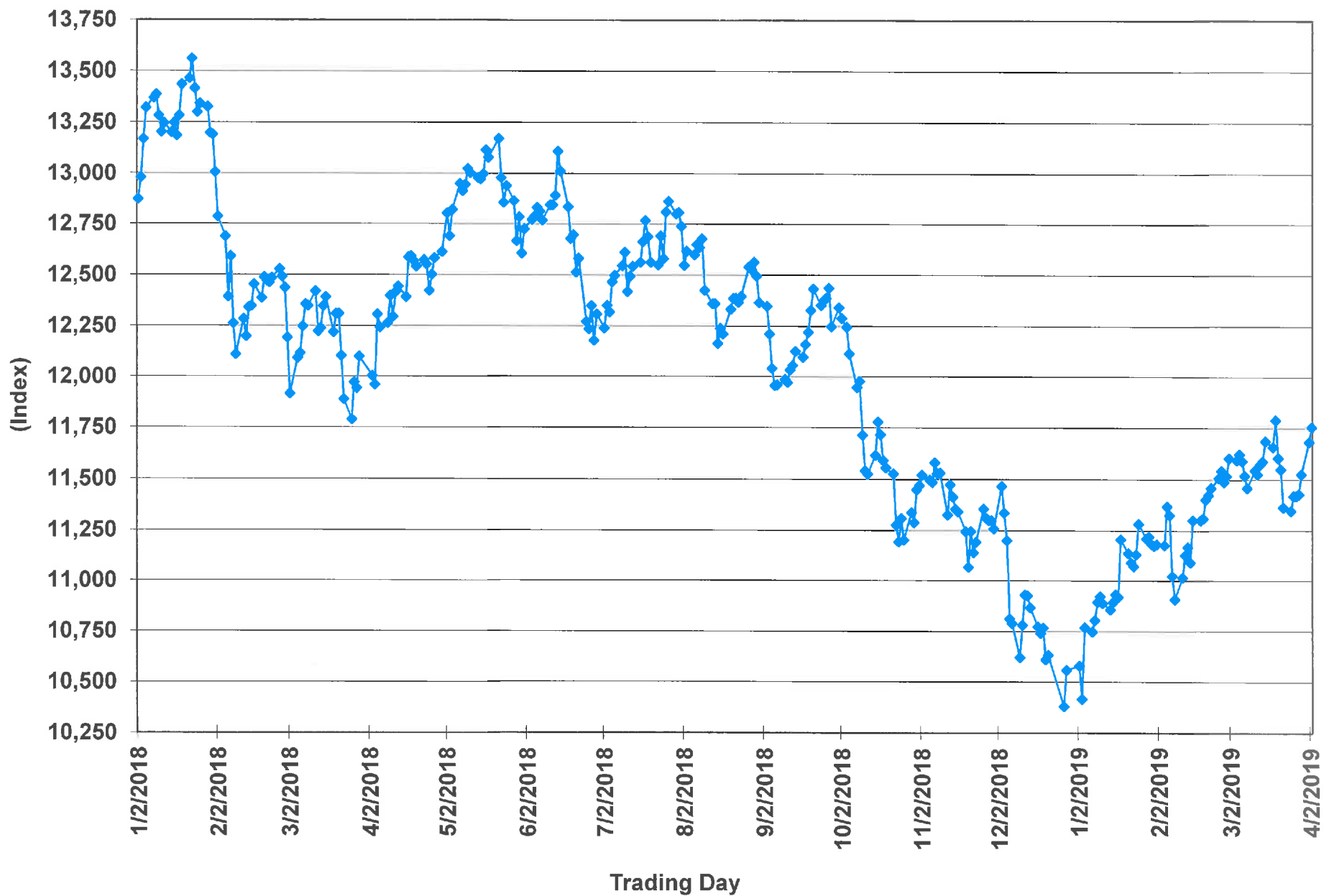
Dow Jones Industrial Average



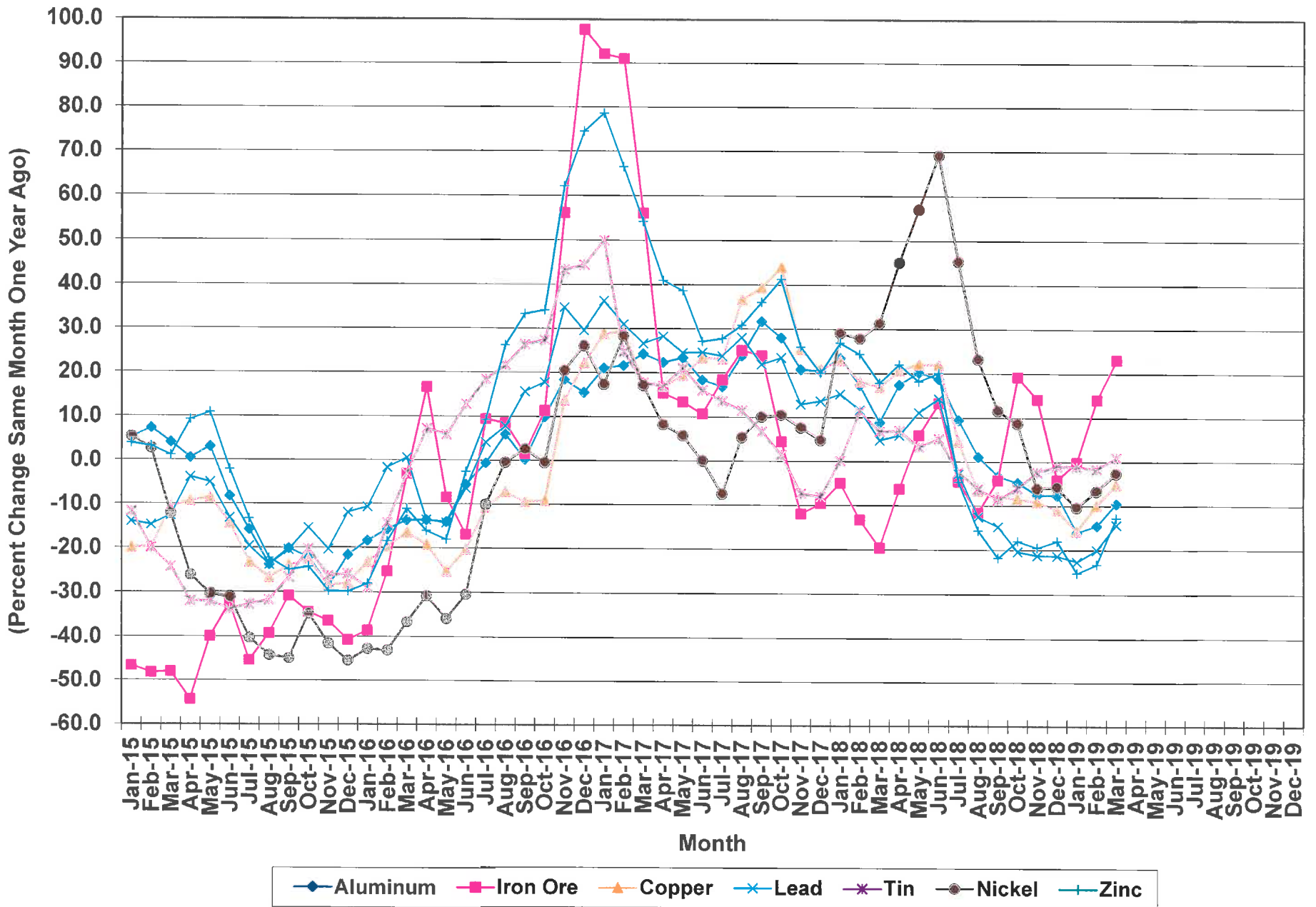
Shanghi Composite Stock Market Index



Germany DAX Stock Market Index



Growth in Industrial Metals Prices



Refinery Capacity in the Gulf Coastal Region

