

MEMORANDUM FOR THE RECORD

DATE: March 21, 2019
Room 417, Rembert Dennis Building
1:30pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* –Edward Grimball-Chairman (via *GoToMeeting*), Howell Clyborne (via *GoToMeeting*), Emerson Gower, Hartley Powell (via *GoToMeeting*), *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Lisa Jolliff, Allyn Powell, Kenneth Harris, Sandra Kelly, Karen Rhinehart, Paul Athey, Ellen Mitchell, Gordon Shuford. *Guests* – John Barfield, Richard Eckstrom (Comptroller General’s Office); David Seigler (EBO); Kevin Kibler (State Treasurer’s Office); Katie Turner (Ways and Means Committee).

Press:

- I. Chairman Grimball welcomed everyone to the meeting at 1:30pm.
- II. Chairman Grimball presented the meeting minutes for February 14, 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 February 2019. His major comments were:** *(See Attached)*
 - 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.
- IV. **Robert Martin shared February 2019 revenue information. His major comments were:** *(See Attached)*

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 FY 2018-19.

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.
- February is the 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 FY 2018-19.
 - *Chairman Grimball asked if the sales tax collected in February is actually for January. Mr. Martin replied that yes, due to some problems in the sales tax category with one vendor, details needed to be resolved at the Department of Revenue and there were also carry over funds from earlier months.*
 - *Chairman Grimball also asked if the low auto sales for the past three years has affected BMW and Volvo and tire manufacturers in South Carolina. Mr. Martin replied there has been some slowdown, but most of those vehicles and tires are shipped overseas even though they are manufactured in South Carolina.*

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 as compared to February 2018.
- The Department of Revenue processed more than 52,780 additional Individual Income tax returns in 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 FY 2018-19.
- 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 FY 2018-19.

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.
 - *Chairman Grimball asked if this time period was an unusually long lag time. Mr. Martin replied that this was normal and that there will always be error returns.*
- 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.
- 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 FY 2018-19.

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 have 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.

Summary

- Through the first eight months of FY 2018-19, 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.
- 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 FY 2018-19.
- 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.

Contingencies and Other Items of Concern

• **South Carolina**

- We have a lottery winner – Proviso 118.15 (Taxpayer rebate) up to \$50 per individual.
 - *Chairman Grimball asked (regarding Proviso 118.15) how much of the \$61.5 million will be used for the \$50 rebate to each taxpayer. Lisa Jolliff replied that all of the funds will be used plus an additional \$34 million more. Chairman Grimball asked if any of the \$61.5 million needs to be reinstated. Mr. Rainwater replied that it did not need to be reinstated due to the revised forecast in February. There was \$31 million added to the budget by the House to be used as the taxpayer rebate.*
- State employment was revised higher.
- State Personal Income to be revised and released March 26th.

• **United States**

- Federal government debt is at \$22 trillion.
- There are lagged effects of monetary tightening
- Real GDP forecast is at 1.5% in 2019Q1.
 - *Chairman Grimball asked if the recent news that the Federal Reserve will not change rates is a concern. Mr. Martin replied that this news is actually welcomed because individuals will be*

more comfortable in knowing how to invest. Also, once the China tariff and Brexit situations are resolved there will probably be a jump in global investments.

- **International and Global**

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

Summary of BEA Revised Revenue Forecast

The BEA met February 14, 2019 to review the current year General Fund revenue forecast for FY 2018-19 and review the economic and revenue projections for FY 2019-20. 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 FY 2018-19.
- 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 FY 2018-19 and an additional \$15 million in FY 2019-20. These increased amounts were offset by corresponding reductions in Individual Income tax declarations in FY 2018-19 and FY 2019-20, respectively.
- The South Carolina Education Lottery revised its estimates of lottery revenue transfers to the General Fun upward by an additional \$26.9 million in each FY 2018-19 and FY 2019-20.
- As a result of the above changes, the revised growth rate needed to meet the General Fund revenue forecast was lowered from 4.0 percent to 3.3 percent in FY 2018-19. Also, because the FY 2018-19 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 FY 2019-20.

Working Group Comments

Comptroller General Richard Eckstrom mentioned that the numbers for the April 8th meeting will be within a day of when they are normally received. The CG's office is currently working with agencies to get their adjustments by the time of the next

meeting. Comptroller Eckstrom cautions against expecting a lot of growth. Regarding Sales Tax, the figures are near the estimate due to the robust reporting in February. He is hopeful that growth will be robust going forward but cautions against too much optimism as there has been a downward trend in revenues.

V. Other Business

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

Mr. Gower motioned to adjourn the meeting and Mr. Clyborne seconded the motion. All voted aye and the meeting adjourned at 2:17pm.

The next scheduled BEA Meeting is Monday, April 8, 2019 at 1:30pm.

Attachments: Agenda, Meeting Materials

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

These minutes were approved on 4/8/19.



Karen Rhinehart