

MEMORANDUM FOR THE RECORD

DATE: April 8, 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, Hartley Powell, *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Lisa Jolliff, Allyn Powell, Kenneth Harris, Sandra Kelly, Karen Rhinehart, Paul Athey, Gordon Shuford, Natalie Gallagher, Mary Katherine Miller, Ragan Griffith, Julia L. Williams. *Guests* – John Barfield, Richard Eckstrom (Comptroller General’s Office); David Seigler, Kevin Ethridge (EBO); Kevin Kibler (State Treasurer’s Office); Katie Turner (Ways and Means Committee); Ben Johnson (Department of Commerce); Tim Derrick, Meredith Cleland (Department of Revenue); Merritt Francis (Governor’s Office) .

Press:

- I. Chairman Grimball welcomed everyone to the meeting at 1:31pm.
- 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 March 2019. His major comments were:** *(See Attached)*
 - 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.
 - 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.

IV. **Robert Martin shared March 2019 revenue information. His major comments were:** *(See Attached)*

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 FY 2018 -19.

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.
 - *Director Powell asked if the sales tax figure would still be down if the Wayfair decision did not exist. Mr. Martin replied that it probably would be down. Chairman Grimball asked if previous sales tax revenue from brick-and-mortar stores is now collected through on-line sales. Mr. Powell replied that the large on-line retailers are not collecting sales tax on third party items so South Carolina is not benefitting from these sales. Mr. Gower asked how that problem could be corrected. Director Powell said that a bill exists which will be presented to Governor McMaster soon for his signature which will require on-line retailers to collect sales tax on third-party sales. Amazon has stated that they will only remit sales tax on*

third-party items if legislation is enacted. Chairman Grimball asked how that can be enforced and Director Powell said it would need to be enforced through an audit process. Mr. Clyborne asked what percent of the total revenues for on-line sales South Carolina is receiving at this time to which Director Powell replied that currently there is no way to measure that.

- The cumulative Sales and Use tax revenue growth through February 2019 is running slightly above the 4.2 percent revenue forecast for FY 2018-19.

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-time lottery tax deposit, and are exceeding the 3.9 percent revenue forecast for FY 2018-19.
- 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.
- 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 FY 2018-19.

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 FY 2018-19.

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.

Summary

- Through the first nine months of FY 2018-19, 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 in Individual Income tax returns.
- 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 2.1 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.
 - *Mr. Clyborne asked if the forecast growth rates have been increased to which Mr. Martin replied that yes, the growth rates have been increasing by small amounts.*

Contingencies and Other Items of Concern

- **South Carolina**
 - State employment was revised higher.
 - State Personal Income revised slightly upward - CY18:3.9%.
- **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.
- 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.
 - *Chairman Grimball mentioned that he is encouraged by the recommendation for no change to the estimate. Mr. Gower, Mr. Clyborne, and Director Powell also said they feel the recommendation is a good one. Chairman Grimball motioned to keep the forecast as is and Mr. Clyborne seconded the motion; all voted aye to make no change to the forecast.*

Working Group Comments

Comptroller General Richard Eckstrom mentioned that the information presented was encouraging and he is starting to see a good trend. He feels that next month is a crucial time to see if the trend continues. He is also pleased that the Treasurer's Office is bringing in revenue to the State through investment earnings.

V. Other Business

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 2:10pm.

The next scheduled BEA Meeting is Thursday, May 16, 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 5/22/19.



Karen Rhinehart