



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

August 26, 2019, 1:30pm

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

- I. Welcome
- II. Adoption of Meeting Minutes for May 22, 2019 and June 13, 2019
- III. Discussion on Final FY 2018-19 General Fund Revenues
 - A. Summary and Overview (F. Rainwater)
 - B. General Fund Revenue Economic Update (R. Martin)
 - C. Final FY 2018-19 General Fund Budget Results (L. Jolliff)
- IV. Other Business
 - A. Guest Speaker for September, 16, 2019 Meeting, Bobby Hitt, Commerce Secretary
- 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. September 16, 2019, 1:30 - Fiscal Year-End Report, Update on New Fiscal Year
 - B. October 17, 2019, 10:30 - 3:45, BEA and Annual Regional Advisory Meeting
 - C. November 8, 2019, 1:30 - Preliminary Forecast
 - D. December 12, 2019, 1:30 - *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

FY 2018-19

GENERAL FUND REVENUES

SUMMARY

FY 2018-19 GENERAL FUND REVENUE

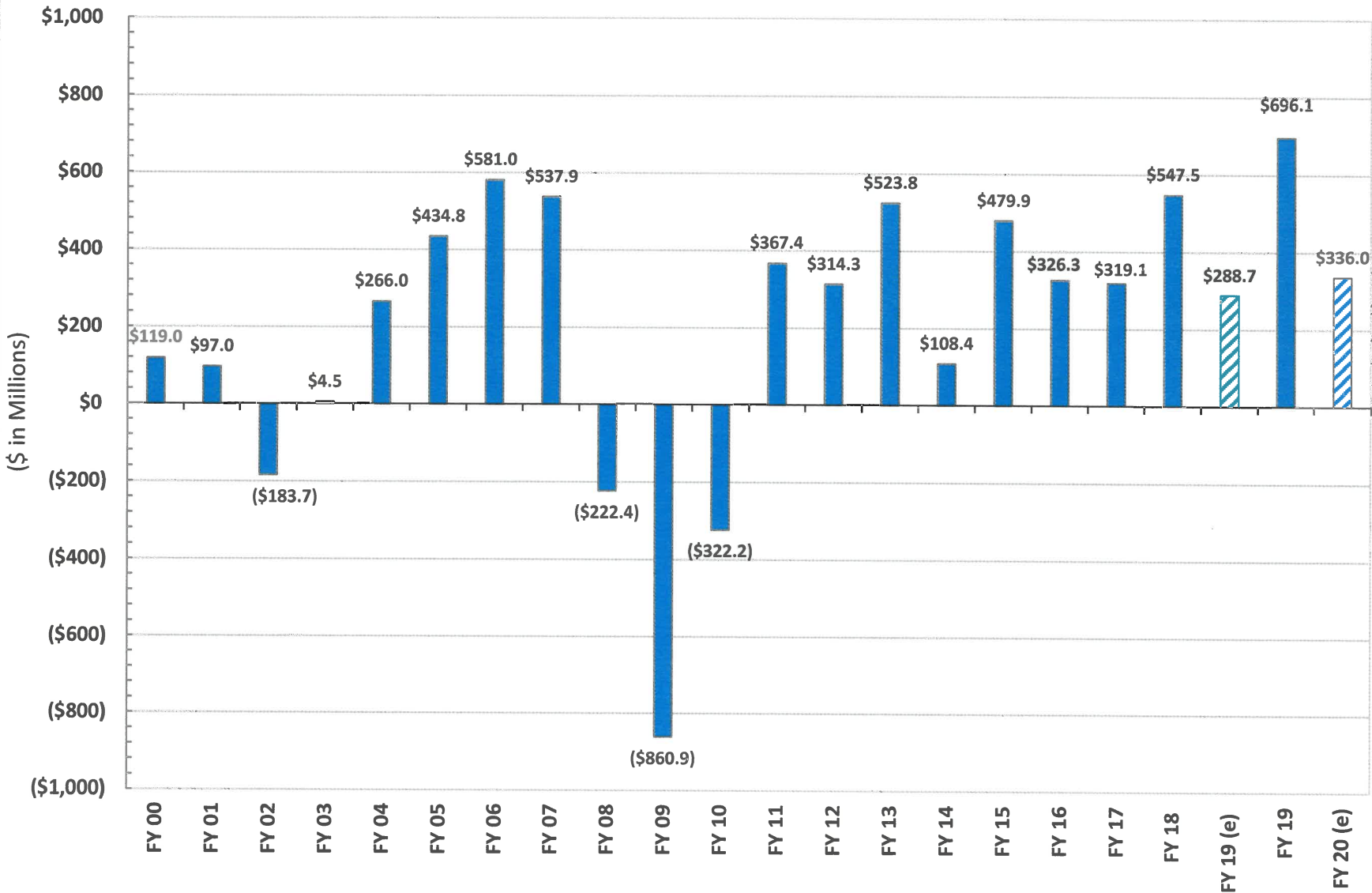
Revenues

- General Fund Revenues in FY 2018-19 grew \$696.1 million, or 8.0 percent, which was the largest dollar increase in history.
- This revenue growth exceeded the previous largest increase, \$581 million in FY 2005-06 (pre-recession), by \$115 million.
- The increase was due to stable growth in Sales and Individual Income taxes, continued strong growth in the Corporate tax sector, and \$124.8 million from new or one-time events.

Economy

- SC Personal Income growth remains steady.
- SC Employment growth is low but steady and levels are at a record high while unemployment rates are at historic lows.
- SC Population growth continues to be among the nation's fastest due to in-migration.

ANNUAL GROWTH IN GENERAL FUND REVENUE



Source: RFA, Board of Economic Advisors, FAR, 8/19/19



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 - 13th MONTH FY 2018-19			Revenue Growth Rates (%)	
	(\$ in Millions)			Estimate	Actual
	Actual Revenues	Expected Revenues	Excess / (Shortfall)	Full Fiscal Yr.	Yr. to Date
Total General Fund Revenue	9,402.1	8,994.7	407.4	3.3	8.0
Sales Tax	3,186.4	3,161.7	24.7	4.2	5.0
Individual Income Tax	4,715.0	4,459.1	255.8	1.4	7.2
Corporate Income Tax	494.2	405.2	89.1	8.0	31.7
Other Revenue Sources	1,006.5	968.7	37.8	7.9	12.1
Select Tax Revenues, Sub-Total	860.3	822.9	37.4	10.1	15.1
Admissions Tax - Total	32.7	31.9	0.7	2.7	5.1
Alcoholic Liquors Tax	83.9	82.5	1.3	4.1	5.8
Bank Tax	68.8	51.3	17.5	7.0	43.6
Beer and Wine Tax	110.4	109.2	1.2	1.4	2.5
Corporation License Tax	112.0	102.0	10.0	(7.4)	1.6
Documentary Tax	80.4	80.0	0.4	5.8	6.3
Earnings on Investments	87.5	70.0	17.5	74.5	118.1
Insurance Tax	256.2	270.3	(14.1)	18.6	12.4
Tobacco Tax	28.4	25.6	2.8	(5.9)	4.3
Residual Revenue, Sub-Total 2/	146.2	145.8	0.4	(3.4)	(3.1)

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.

ACTUAL REVENUE VS ESTIMATES

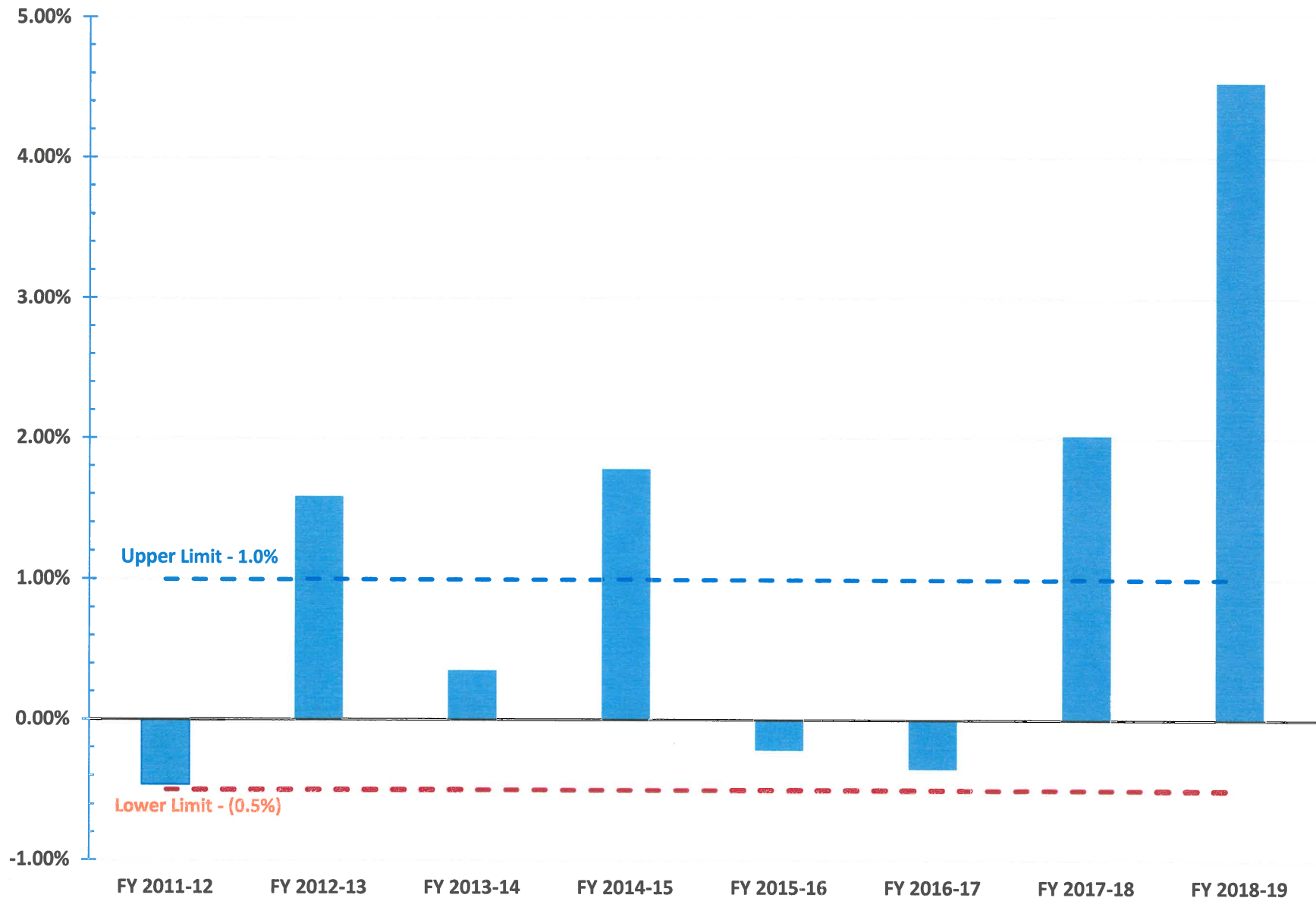
Actual revenue collections exceeded estimated growth by \$407.4 million, or 4.5 percent.

- \$124.8 million was due to legal or other one-time events
- Corporate taxes increased by nearly \$100 million for the second straight year.
- Individual Income Other taxes were substantially above estimates. As noted at the June meeting, data issues in Individual Income tax sub-categories regarding FY 18 collections led to an incorrect assumption and a estimated decline in FY 19 for this revenue category.
- The excess and shortfall in the remaining categories almost totally offset each other.



GENERAL FUND FORECAST ACCURACY

Percent Actual Revenue Is Above/Below Last Estimate



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

FY 2018-19 GENERAL FUND REVENUE

Surplus or Shortfall by Category



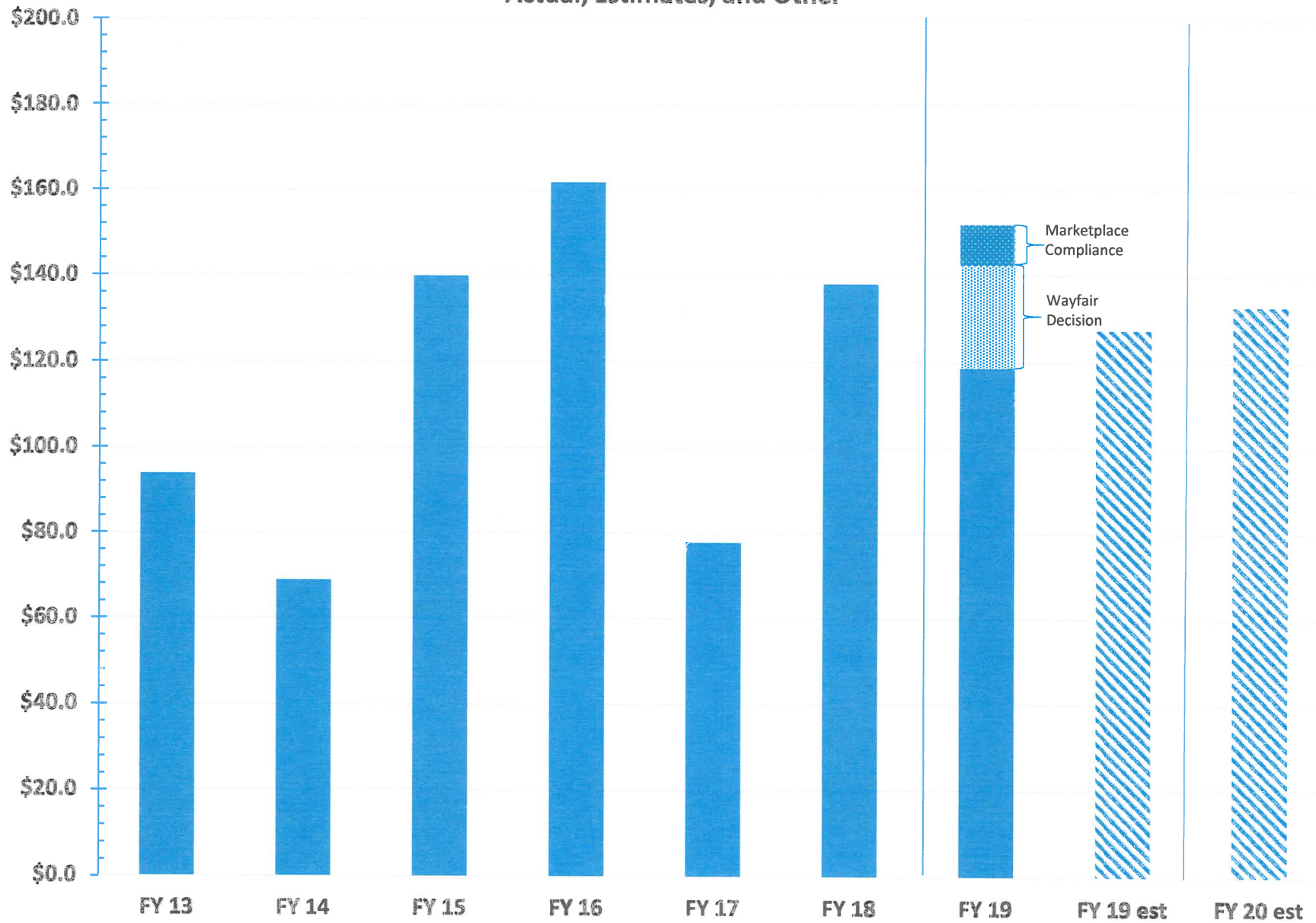
Source: RFA, Board of Economic Advisors, FAR, 8/19/19

EXCESS AND SHORTFALL BY CATEGORY

- Sales tax - \$24.7 million excess. Collections for Sales tax were close to estimates, but the Wayfair decision and the enactment of the Marketplace Act increased collections by \$33.4 million and was the primary reason for this excess.
- Individual Withholdings tax - \$110.0 million excess. The income tax withholding of \$61.4 million from the October 2018 Megamillions Lottery jackpot occurred in March and was a substantial portion of this surplus. Otherwise, Withholdings grew 4.9 percent compared to the estimated 3.9 percent.
- Individual Income Refunds - \$46.5 million excess. “Excess” revenue in this category means that more taxes were refunded and reduces the total revenue surplus. For the fiscal year, refunds grew 5.3 percent compared to the estimated growth of 2.8 percent as more taxpayers received a higher average refund.
- Individual Income Other taxes - \$192.7 million excess. A 2017 accounting system change to these categories led to incorrect analysis of growth in FY 18 and resulted in expectation for declining revenue in FY 19 for these payments. Actual growth in these taxes was comparable to previous years.

SALES TAX ANNUAL GROWTH

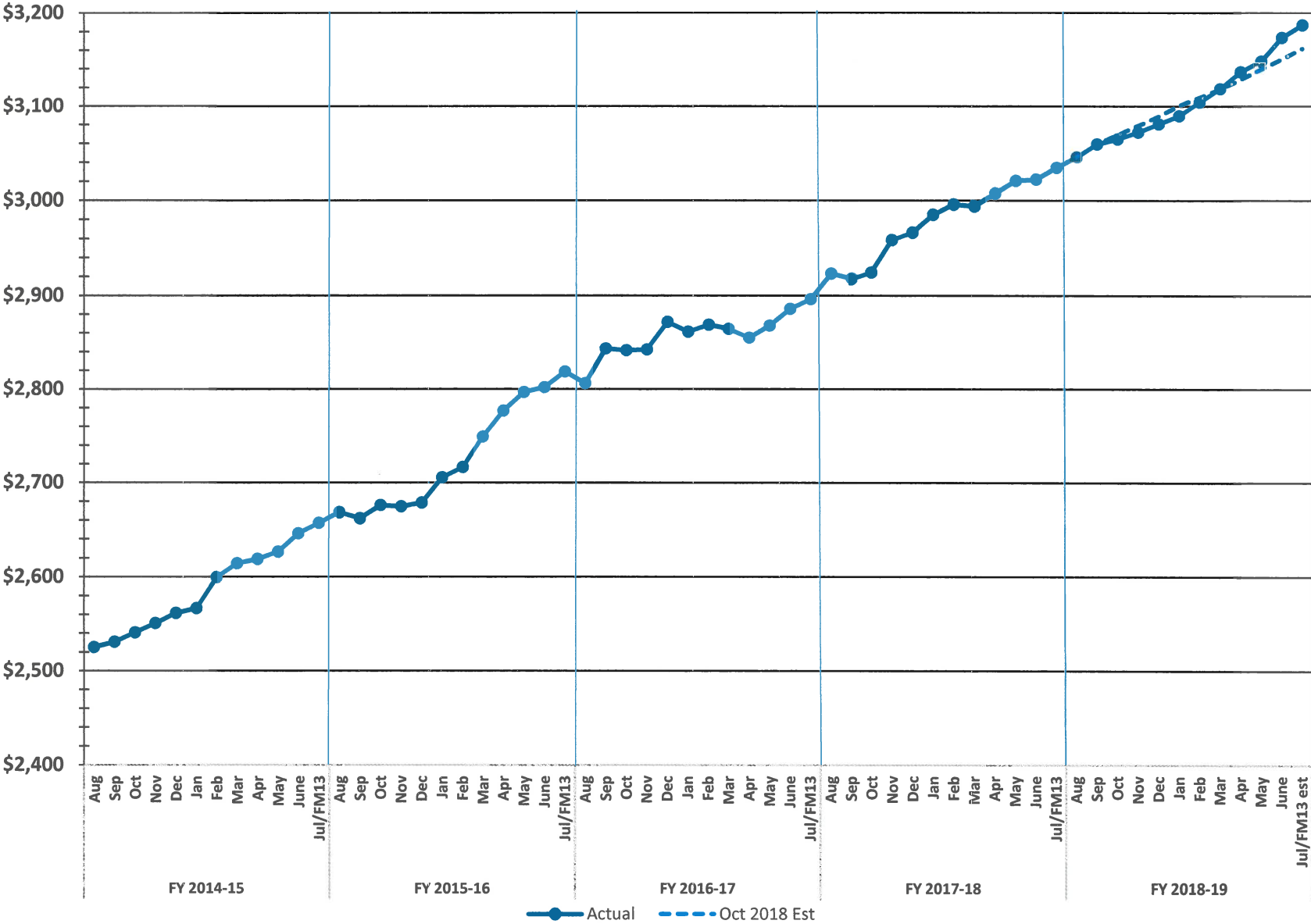
Actual, Estimates, and Other



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

TOTAL SALES & USE TAX

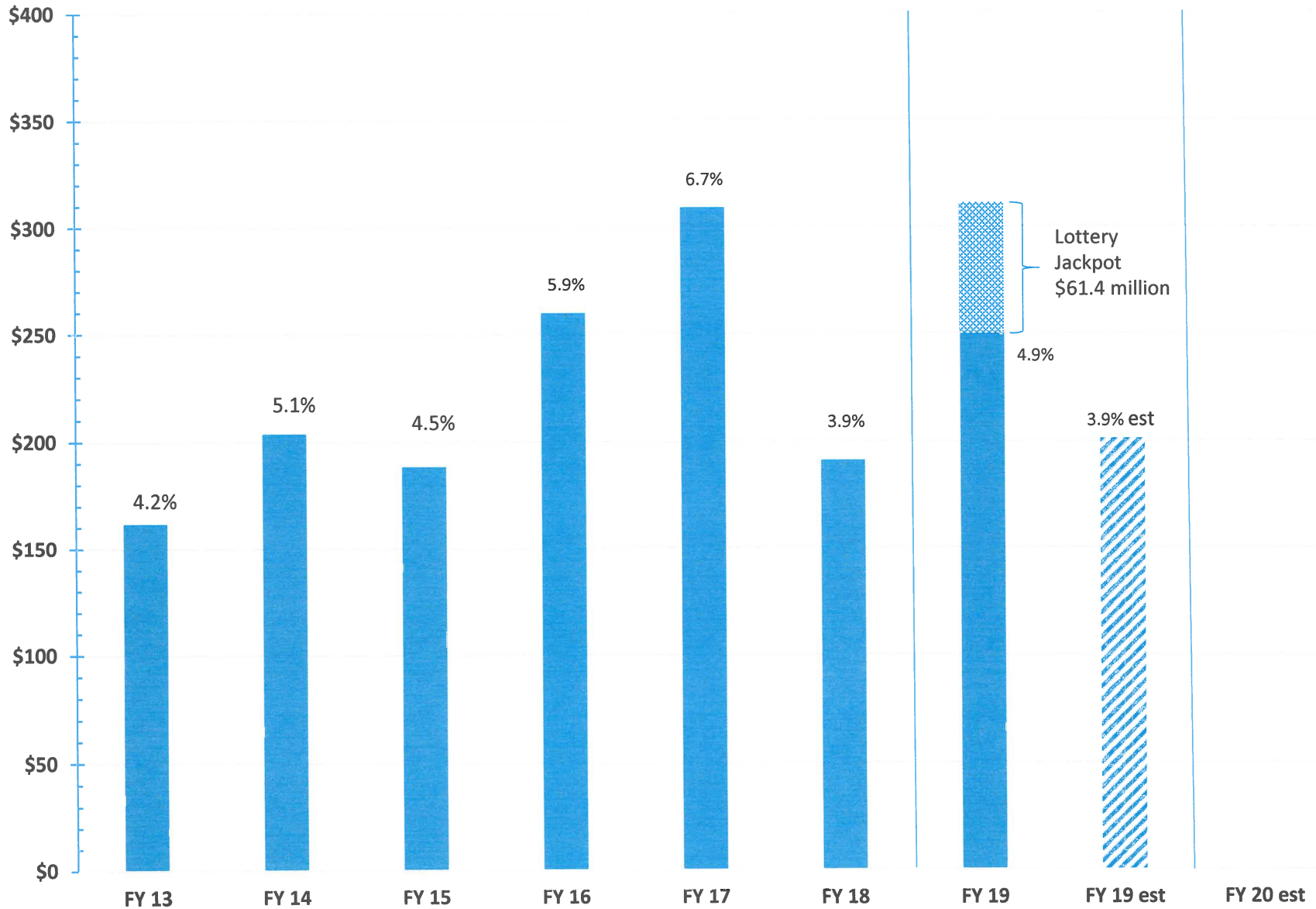
Rolling Fiscal Year Totals FY 2014-15 to FY 2018-19



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

INDIVIDUAL INCOME - WITHHOLDING TAX ANNUAL GROWTH

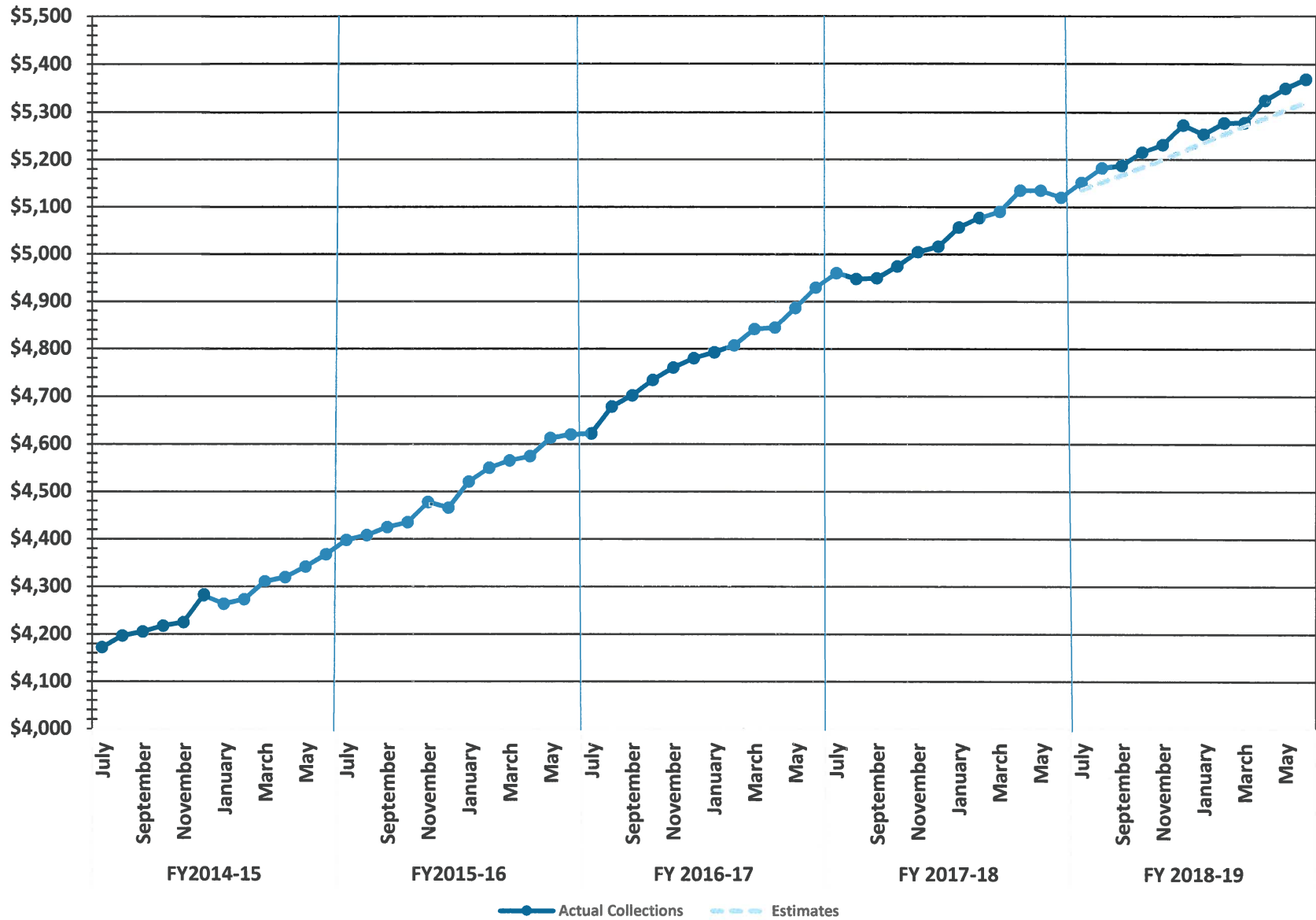
Actuals, Estimates, and Other



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

INDIVIDUAL INCOME - WITHHOLDINGS TAX

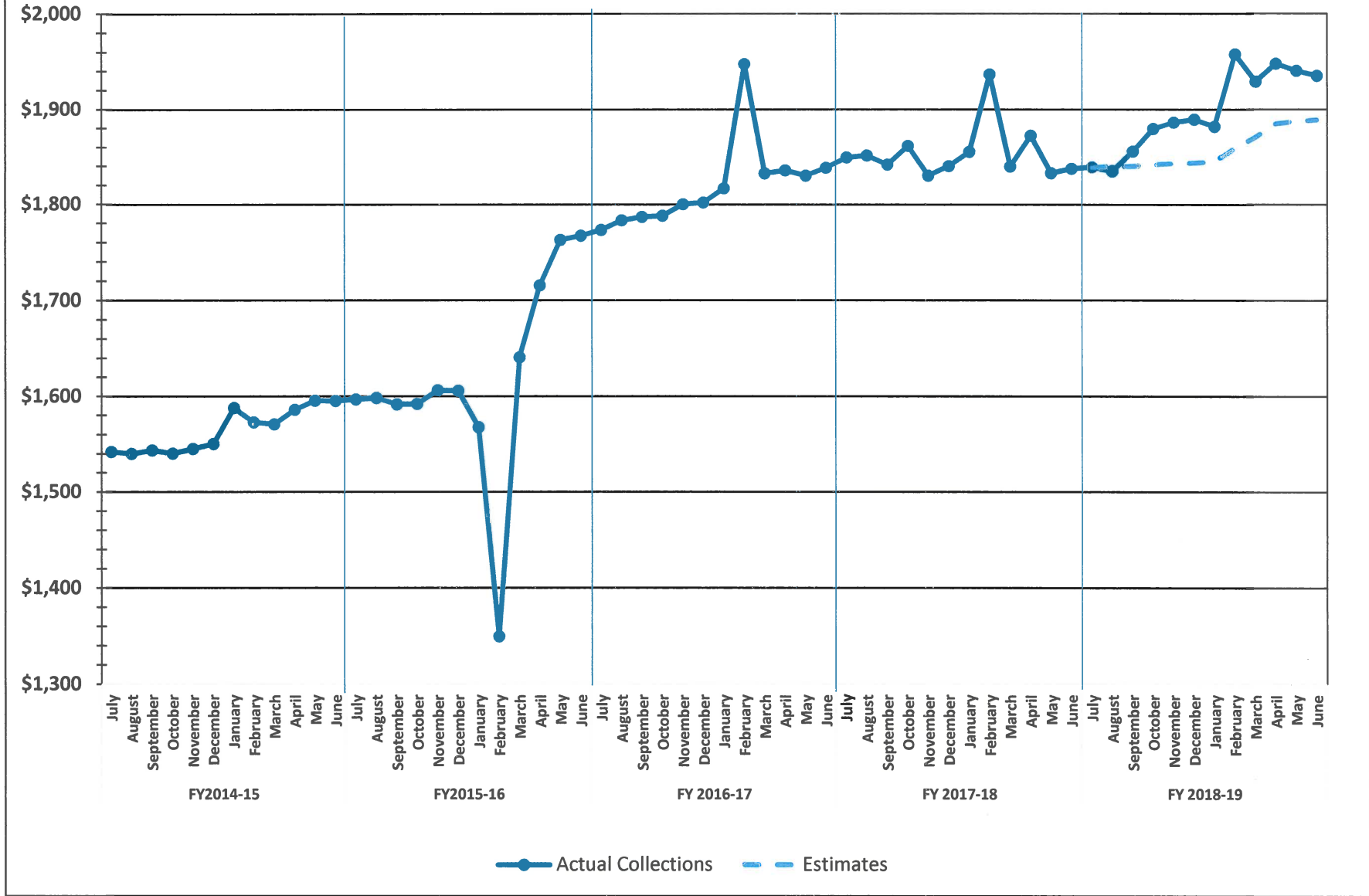
Rolling Fiscal Year Totals - FY 2014-15 to FY 2018-19 (Ex. Lottery)



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

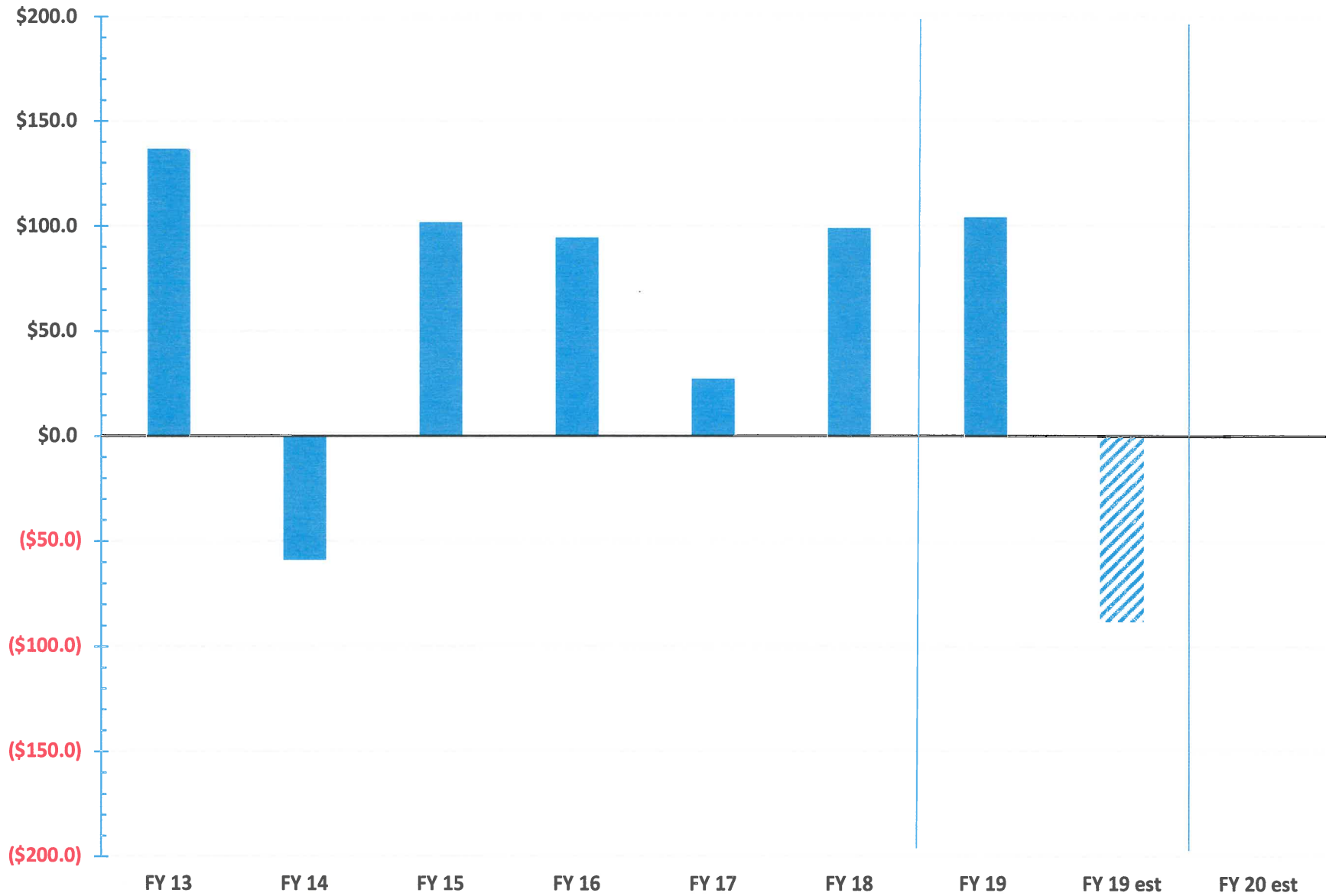
INDIVIDUAL INCOME - TAX REFUNDS

Rolling Fiscal Year Totals - FY 2014-15 to FY 2018-19



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

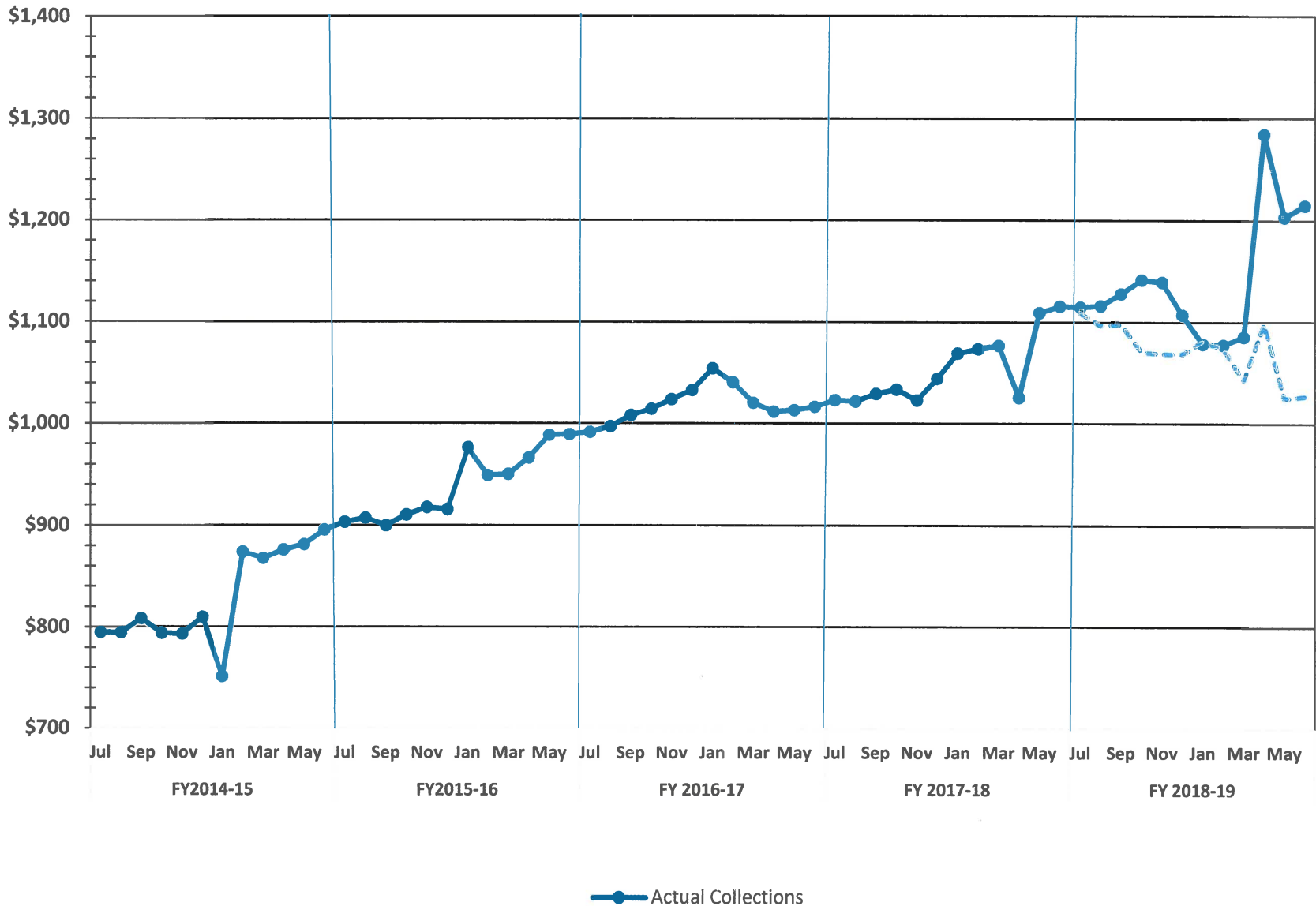
INDIVIDUAL - OTHER INCOME TAXES ANNUAL GROWTH Actuals, Estimates, and Other



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

INDIVIDUAL INCOME - OTHER TAX CATEGORIES

Rolling Fiscal Year Totals - FY 2014-15 to FY 2018-19



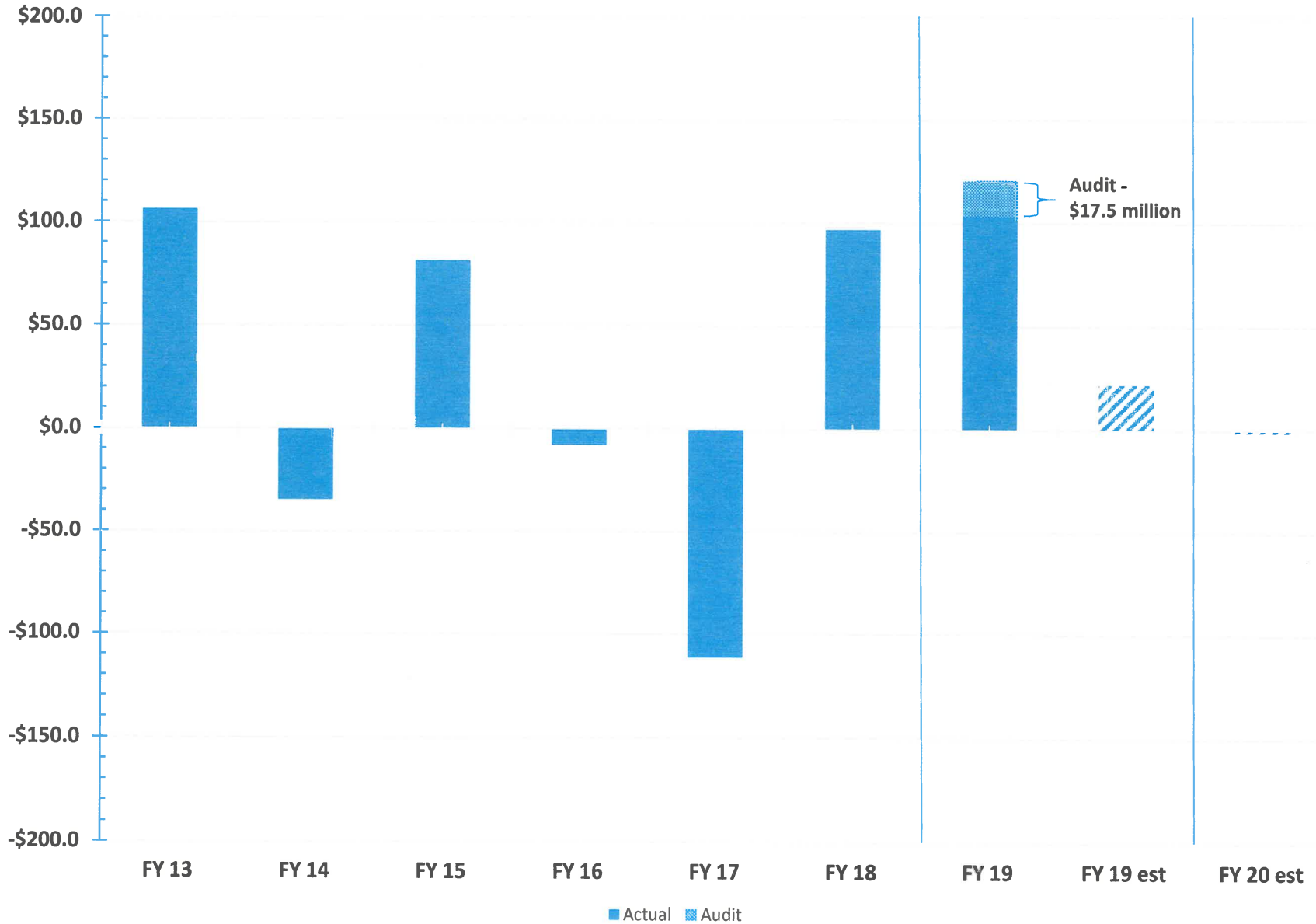
Source: RFA, Board of Economic Advisors, FAR, 8/19/19

EXCESS AND SHORTFALL BY CATEGORY

- Corporate Income and Licenses taxes - \$99.1 million excess. FY 19 was the second straight year of approximately \$100 million growth, though \$17.5 million of which was from a single audit (one-time funds). In the five years through FY 17, these taxes had a net increase of \$34 million.
- Bank tax - \$17.5 million excess. \$14 million of the excess was due to an audit (one-time funds).
- Earnings on Investment - \$17.5 million excess
- Insurance Tax - \$14.1 million below estimates. Lower growth in premiums and higher growth in tax credits.

COMBINED CORPORATE INCOME AND LICENSE TAXES

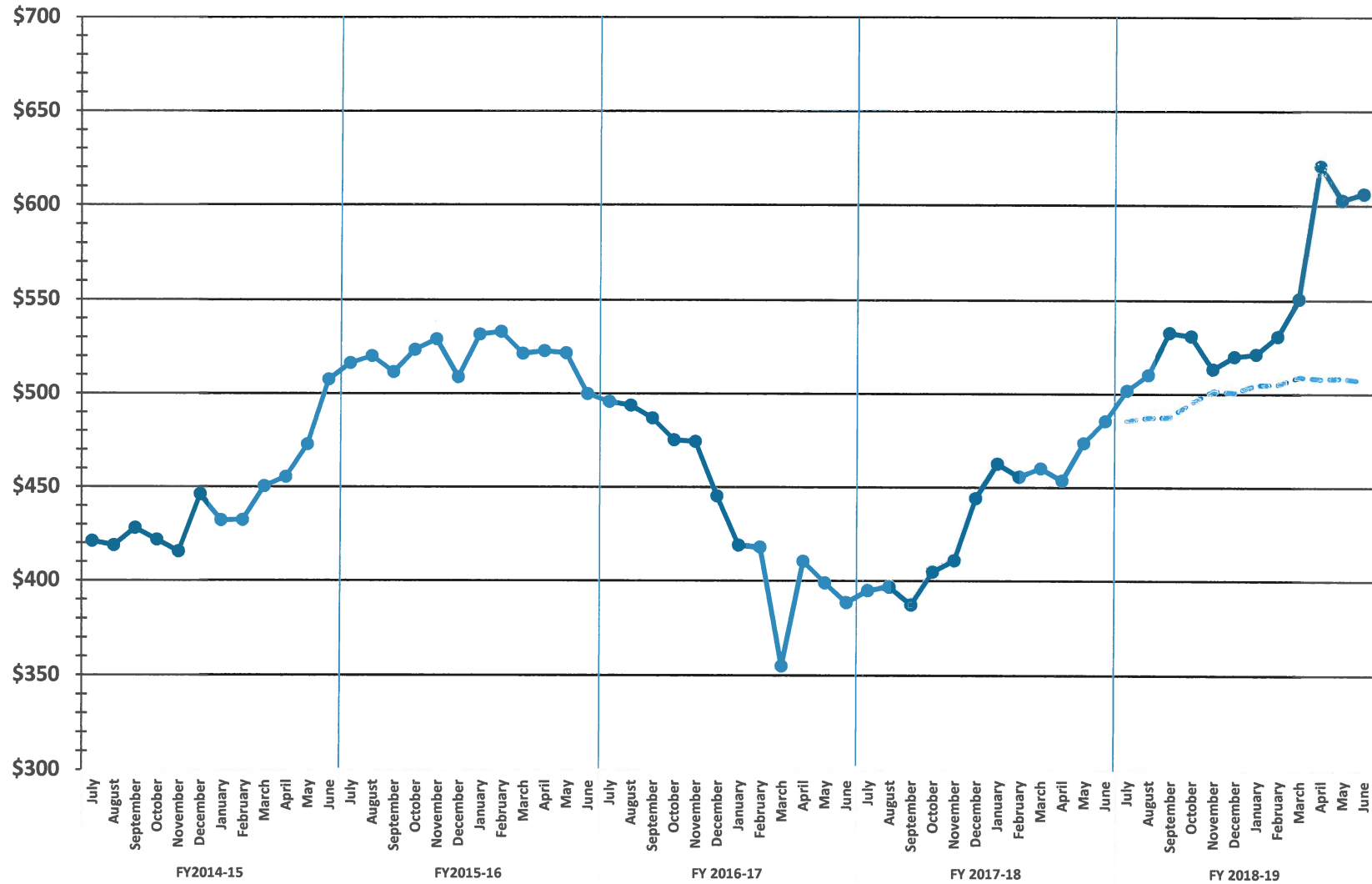
Actuals, Estimates, and Other



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

TOTAL COMBINED CORPORATE INCOME & LICENSE TAXES

Rolling Fiscal Year Totals - FY 2014-15 to FY 2018-19



Source: RFA, Board of Economic Advisors, FAR, 8/19/19

IMPACT AND ISSUES FOR FY 2019-20

Positives

- Sales tax should benefit from a full year of compliance with the Wayfair Decision and Marketplace Act.
- Individual Income Withholding continues to grow faster than estimated.
- Steady growth in the economy, at least in the near future

Concerns

- Of the total surplus, \$93.0 million was due to one-time events and are not anticipated to recur in FY 20.
- The shortfall in the Insurance tax may continue.
- Corporate Income and Licenses taxes are the most volatile revenue categories and currently are at record highs which implies that sustainability and/or growth is questionable.
- Recession warnings – tariffs, European and Chinese economies, yield curve



Final General Fund Revenues in FY2018-19

Presentation Agenda

- **Review of General Fund Revenues**
 - **13th Month & Final FY2018-19**
- **Contingencies and Other Items of Concern**



Final General Fund Revenues in FY2018-19

Total General Fund Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Total General Fund	\$9,402.1	\$8,994.7	\$407.4	3.3	8.0

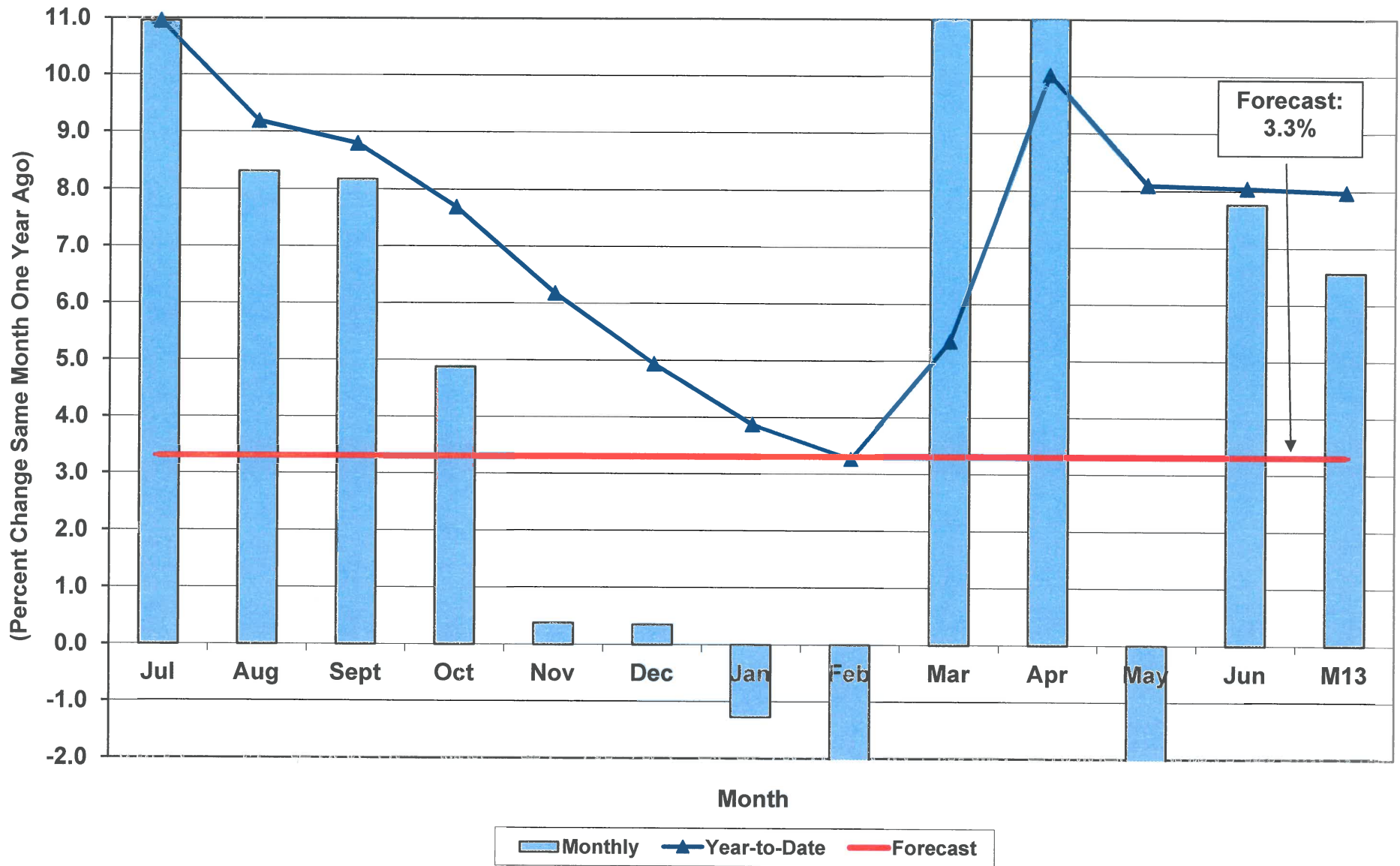
- Total General Fund revenue collections amounted to \$9,402.1 million in FY2018-19 or 8.0 percent growth over actual revenue collections in FY2017-18.
- Actual revenue collections compared to the BEA revenue estimate resulted in a \$407.4 million revenue excess.



Final General Fund Revenues in FY2018-19

- Compared to the BEA revenue estimate, total General Fund revenues were within 4.5 percent of official projections in FY2018-19.

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





Final General Fund Revenues in FY2018-19

Sales Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Sales Tax	\$3,186.4	\$3,161.7	\$24.7	4.2	5.0

- Sales and Use tax revenue grew 4.6 percent for the 13th month period and 5.0 percent for FY2018-19.
- Actual Sales and Use tax revenues totaled \$24.7 million more than the 4.2 percent growth required to meet the FY2018-19 revenue estimate.



Final General Fund Revenues in FY2018-19

- From November 2018 through June 2019, the Department of Revenue collected a combined \$23.5 million from 2,417 sales tax returns.
- This amount is nearly equal to the amount that sales tax revenue exceeded the annual Sales and Use tax revenue estimate for FY2018-19.
- The BEA did not include an estimate for the amount of revenue that could be received from remote internet sellers in the Sales and Use tax revenue estimate for FY2018-19.
- Also, the Marketplace Facilitator Act was enacted during May 2019.

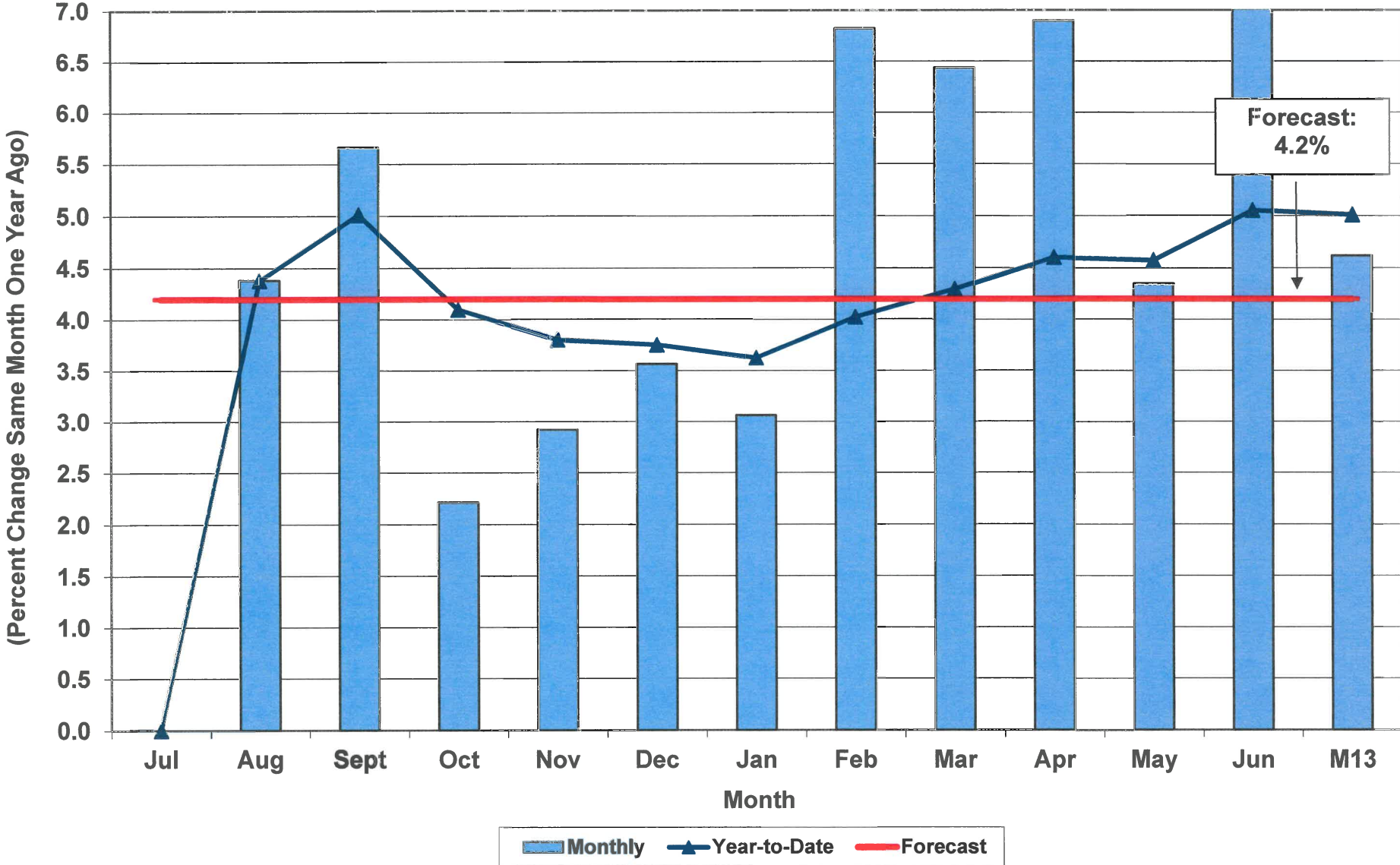


Final General Fund Revenues in FY2018-19

- This act requires third-party sellers to remit sales and use tax based upon where the retail sale occurred.

Growth in Total Sales & Use Tax Revenue Collections

FY2019 Monthly and Year-to-Date





Final General Fund Revenues in FY2018-19

Individual Income Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Individual Income Tax	\$4,715.0	\$4,459.1	\$255.8	1.4	7.2

- Individual Income tax revenue finished the fiscal year with growth of 7.2 percent.
- The Individual Income tax finished the fiscal year \$255.9 million above the revenue estimate of 1.4 percent.
- Individual Income tax withholdings, the largest single source of tax revenue, finished \$110.0 million above the revenue estimate in FY2018-19, reflecting continued strong employment growth



Final General Fund Revenues in FY2018-19

in the State, but also included tax withholdings of \$61.5 million from a Mega Millions Lottery jackpot winner that eventually came forward to claim the prize.

- The BEA had excluded this amount from its revenue estimate in February 2019 when the jackpot winner had not yet claimed the prize and was in danger of not meeting the 180-day time limit to claim the prize.
- Without the jackpot event, withholdings grew 1.0 percent faster than estimated.
- Stronger than anticipated Individual Income tax payments were offset by lower Individual Income tax declarations and higher

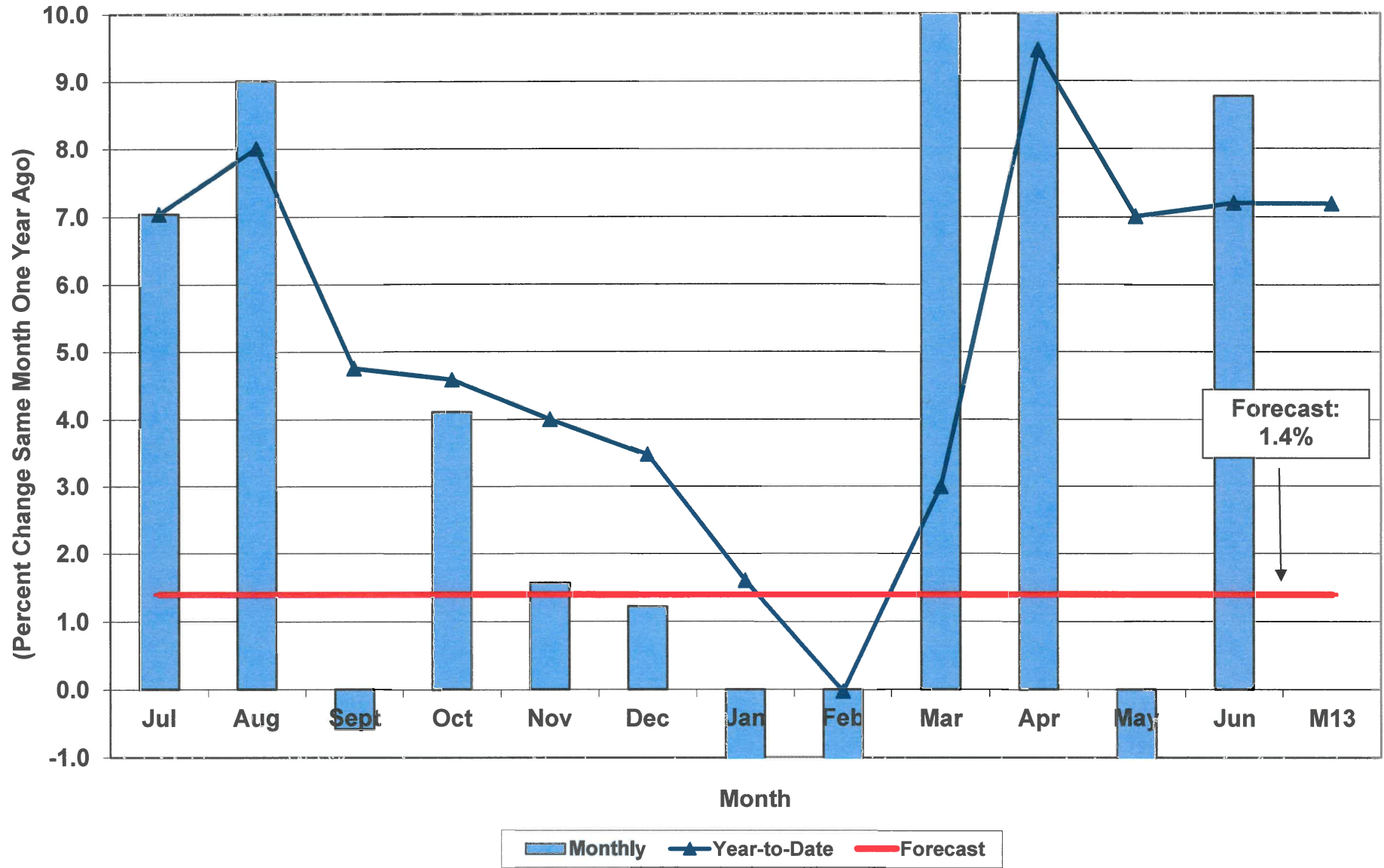


Final General Fund Revenues in FY2018-19

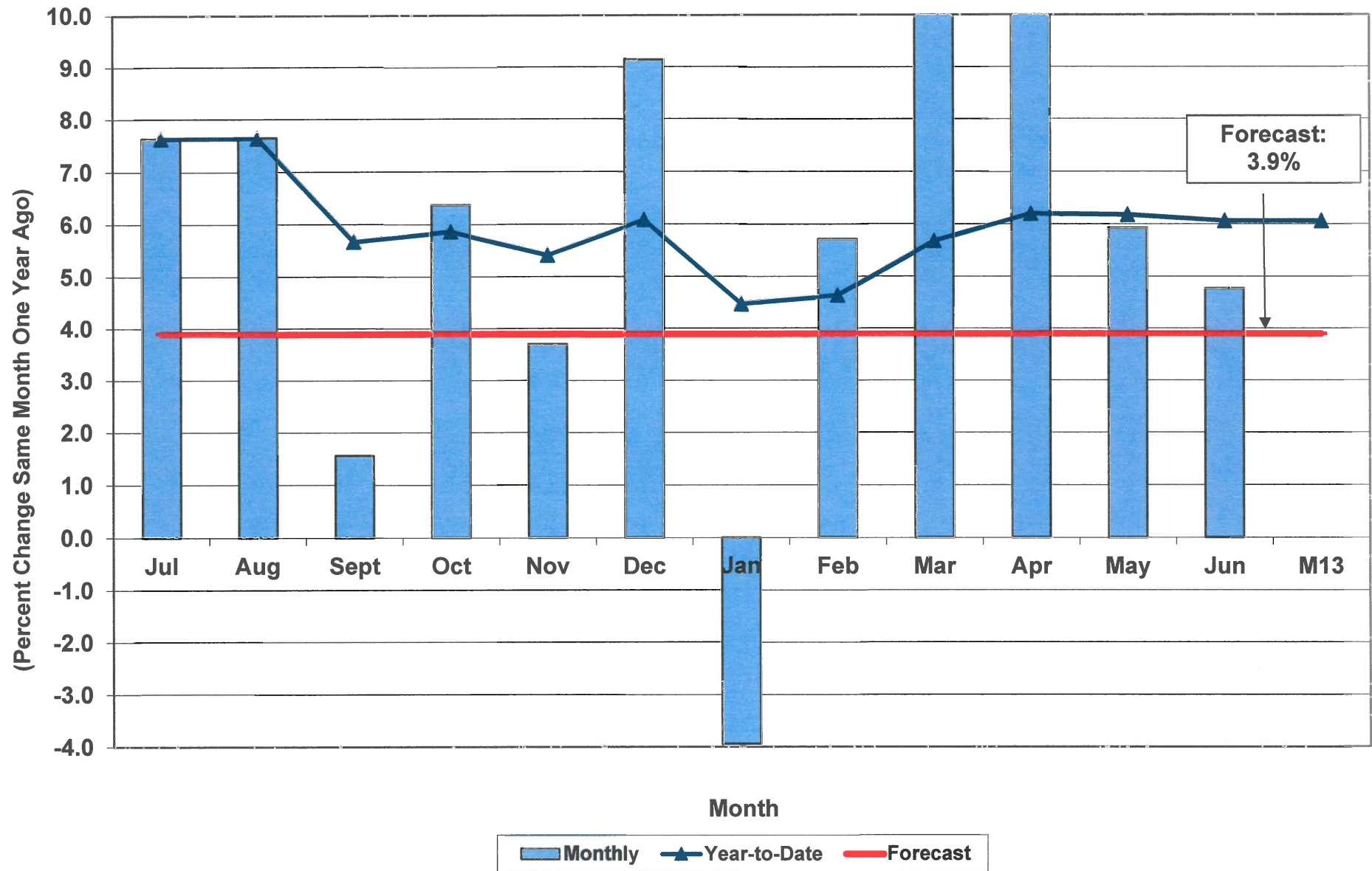
income tax refunds for a net surplus of \$145.8 million in FY2018-19.

- The net Individual Income tax revenue excess of \$255.9 million amounts to 62.8 percent of the total General Fund revenue excess in FY2018-19.

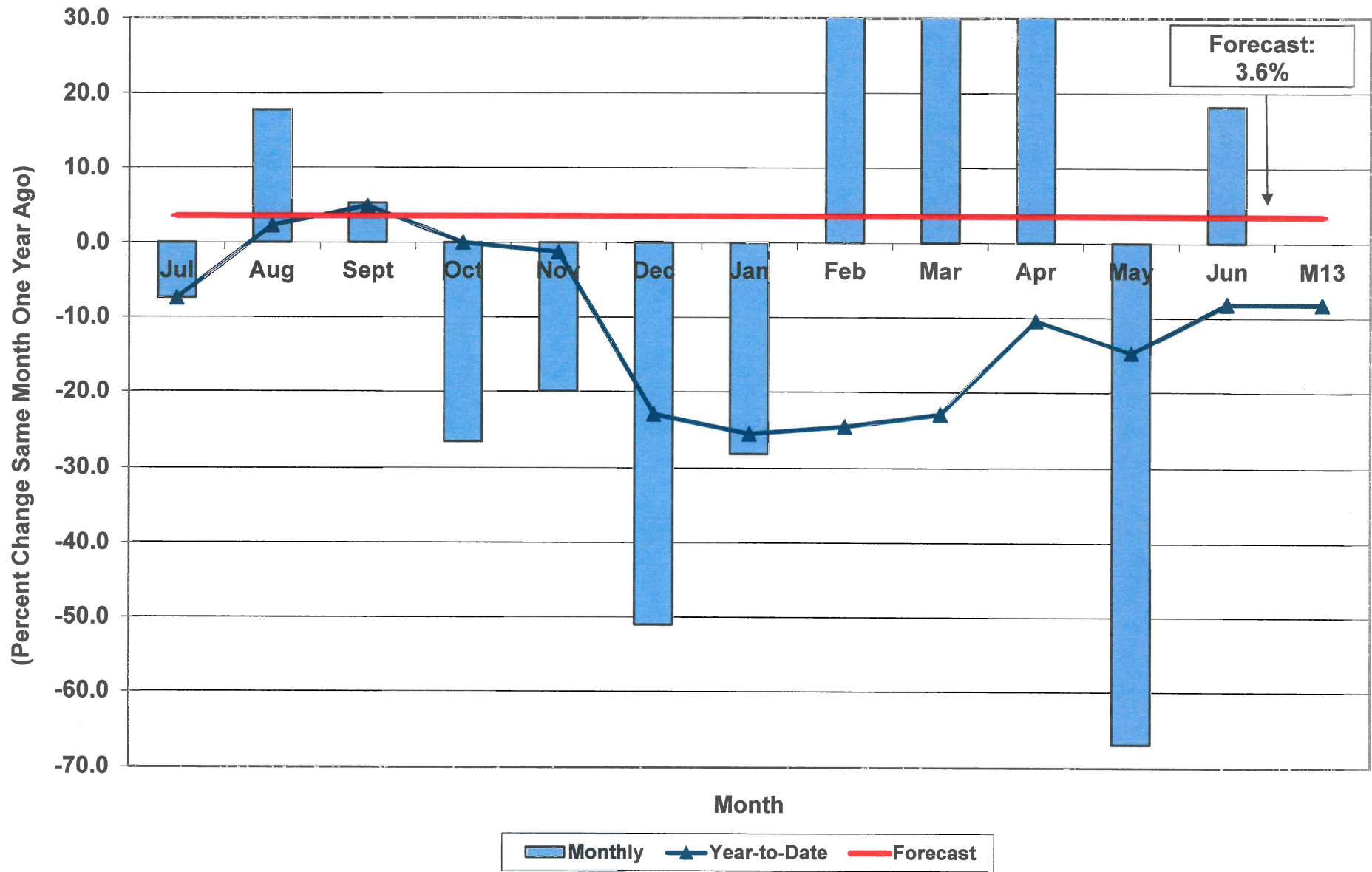
Growth in Total Individual Income Tax Revenue Collections FY2019 Monthly and Year-to-Date



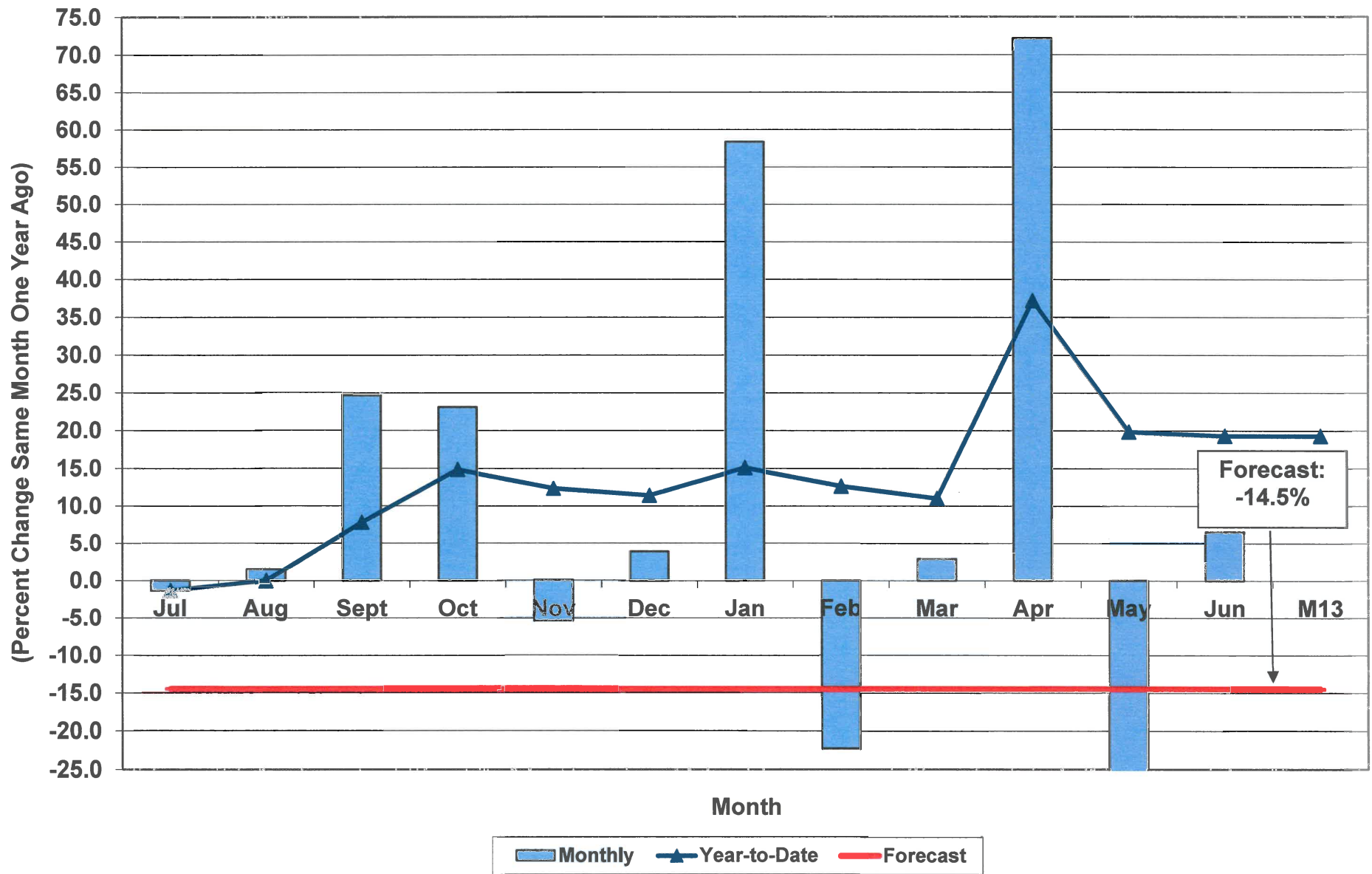
Growth in Individual Income Tax Withholding Revenue FY2019 Monthly and Year-to-Date



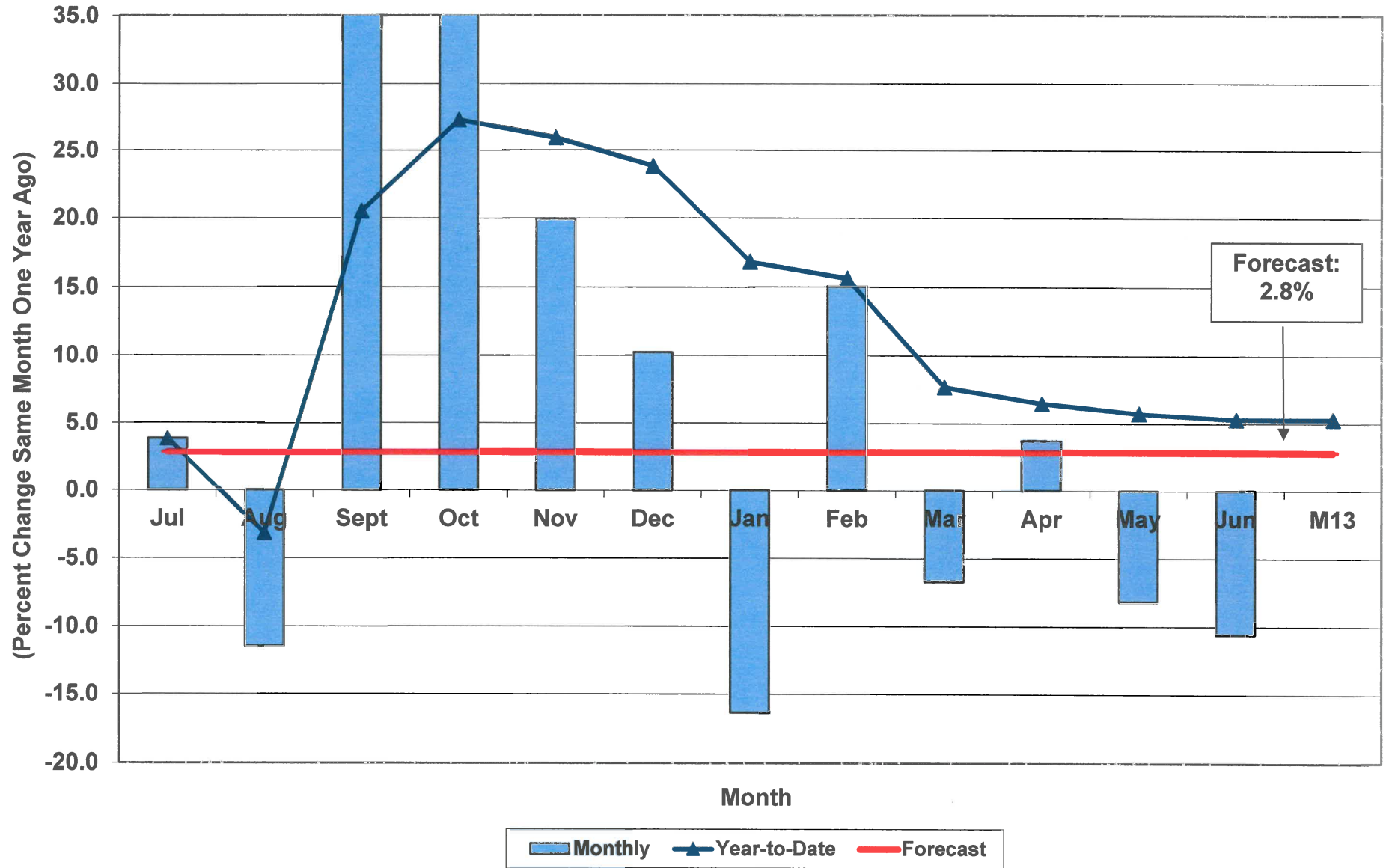
Growth in Individual Income Tax Declarations in South Carolina FY2019 Monthly and Year-to-Date



Growth in Individual Income Tax Paid With Returns in South Carolina FY2019 Monthly and Year-to-Date



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





Final General Fund Revenues in FY2018-19

Corporate Income Tax Revenue

Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Corporation Income Tax	\$494.2	\$405.2	\$89.1	8.0	31.7

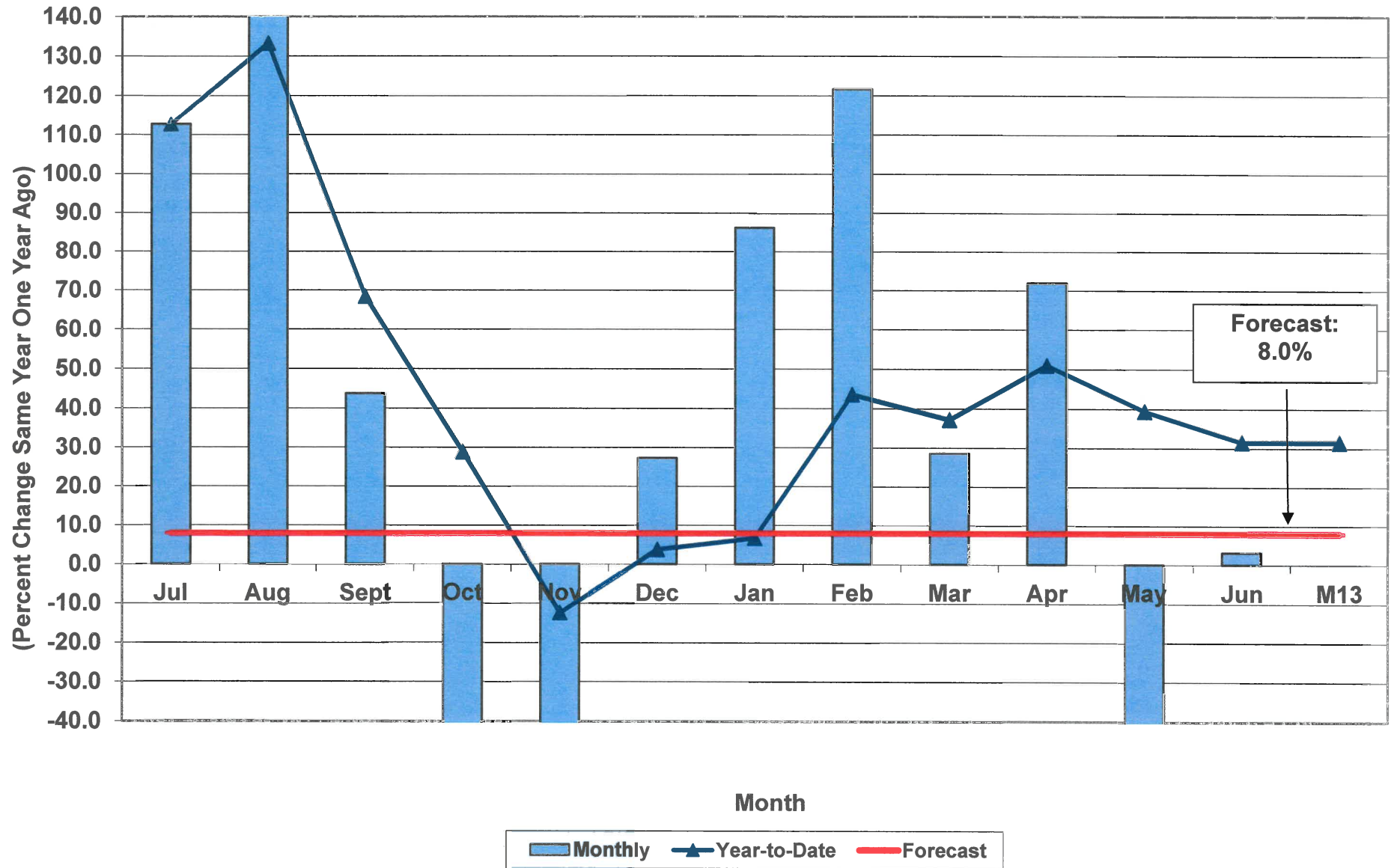
- The Corporation Income tax, the most volatile of the largest revenue categories, set an all-time record with revenue collections of \$494.2 million in FY2018-19.
- Corporate Income tax revenue increased 22.0 percent for the fiscal year and finished \$89.1 million above the revenue estimate in FY2018-19.



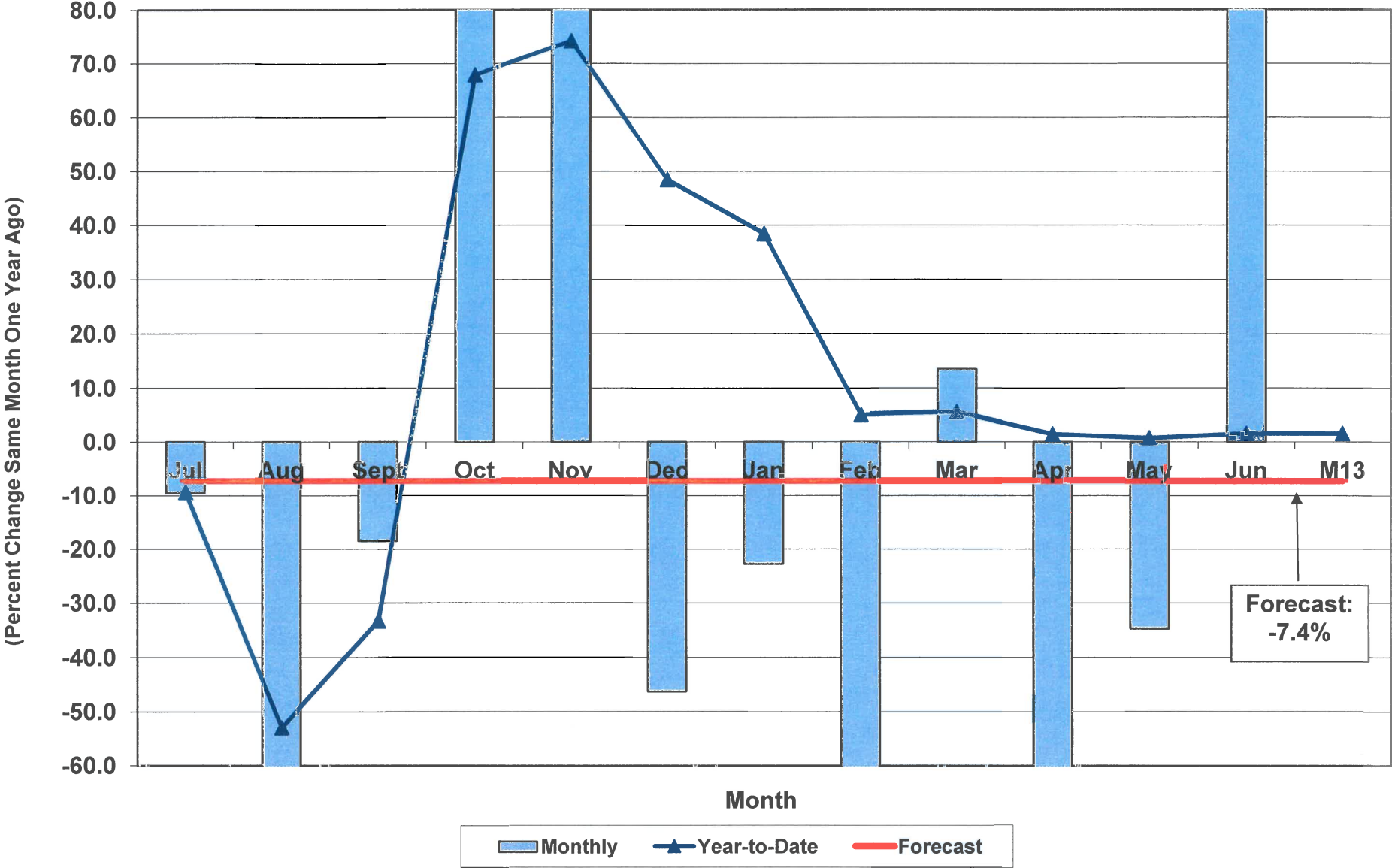
Final General Fund Revenues in FY2018-19

- The Corporate License tax increased 9.8 percent in FY2018-19 and finished the fiscal year with a revenue excess of \$10.0 million over the revenue estimate.
- The net Corporate Income tax and the Corporate License tax combined to account for 24.3 percent of the total General Fund revenue excess in FY2018-19.

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



Growth in Total Corporate License Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date



Source: Board of Economic Advisors
BEA/RWM/08/26/19



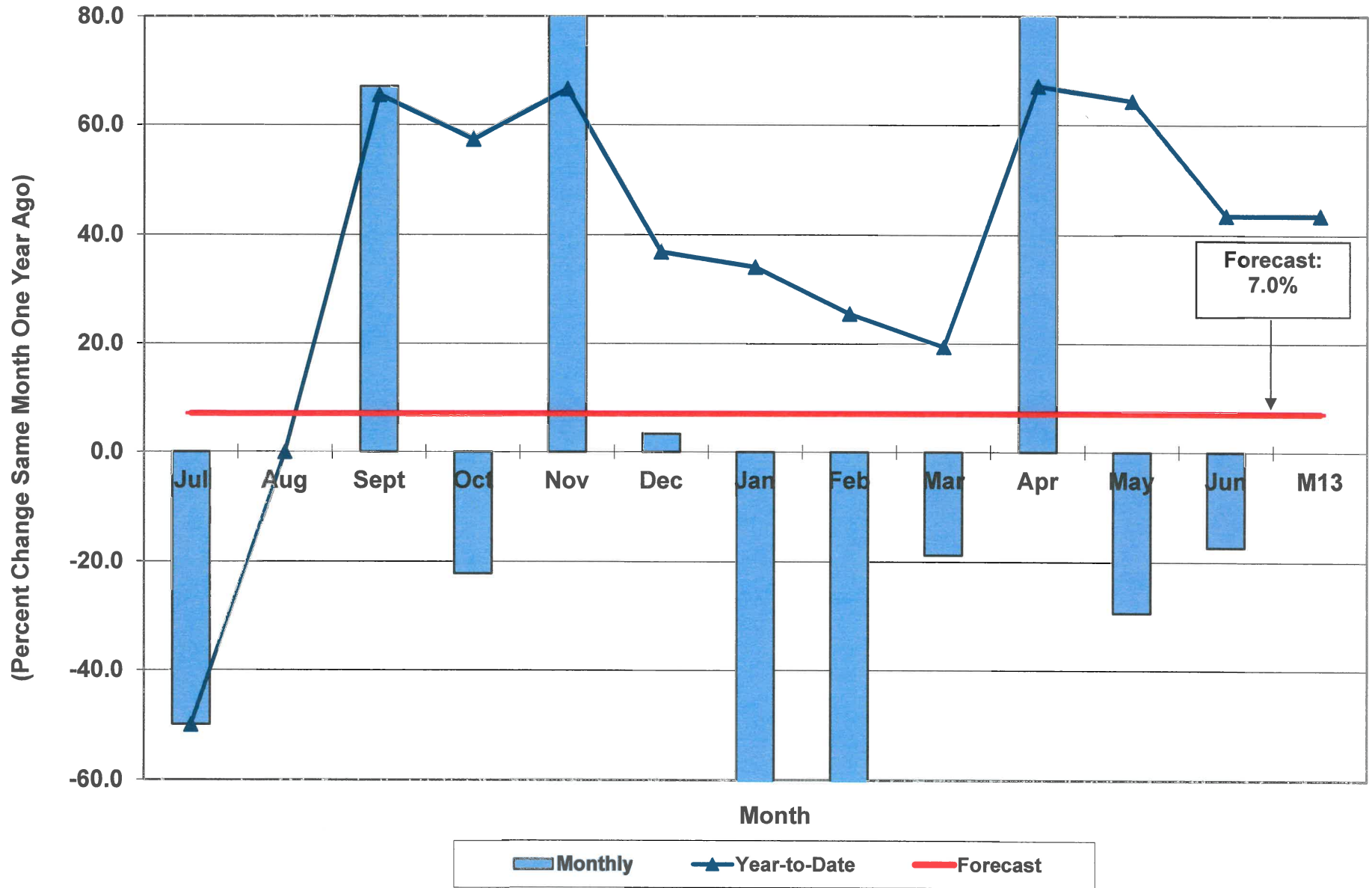
Final General Fund Revenues in FY2018-19

Other Revenue

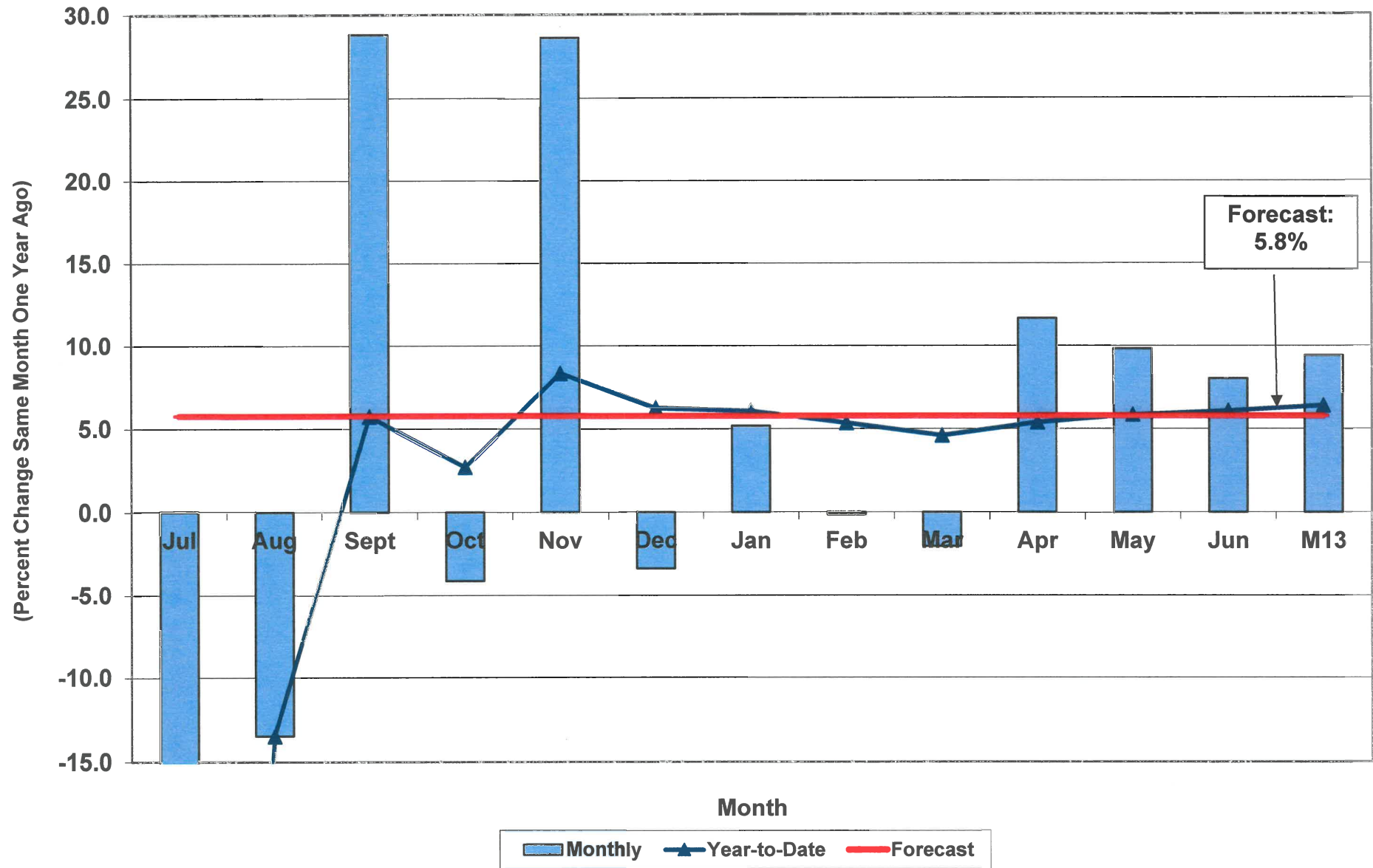
Revenue Category	Actual Revenue (\$ Mil.)	Forecast Revenue (\$ Mil.)	Excess/ Shortfall (\$ Mil.)	Revenue Growth Rates	
				Forecast (%)	Actual Y-T-D (%)
Other Revenues	\$1,006.5	\$968.7	\$37.8	7.9	12.1

- Other Revenues increased 20.3 percent during the 13th month accrual period, and increased 13.5 percent for the fiscal year when compared to final collections in FY2018-19.
- The majority of the annual revenue increase was attributable to the Bank tax, interest earnings deposited in the General Fund from state investments, and the taxes on tobacco products.

Growth in Bank Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date



Growth in Documentary Stamp Tax Revenue in South Carolina FY2019 Monthly and Year-to-Date





Final General Fund Revenues in FY2018-19

Summary

- Final General Fund revenue collections amounted to \$9,402.1 million in FY2018-19, or 8.0 percent higher than in FY2017-18.
- The annual increase of \$696.1 million in General Fund revenue by comparing final revenue collections in FY2017-18 and FY2018-19, was the result of significant one-time events, continued strong growth in corporate taxes, and contributions from the individual income tax, the sales and use tax, the bank tax, and interest earnings deposited in the General Fund from state investments.



Final General Fund Revenues in FY2018-19

- Weaker growth in several smaller revenue categories partially offset the large revenue gains experienced in traditional revenue sources in FY2018-19.
- The most notable revenue category was in the Insurance Tax, where weaker than expected growth in insurance premium taxes was offset by an increase in tax credits claimed against those insurance premiums resulting in a \$14.1 million shortfall from the revenue estimate in FY2018-19.
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income.



Final General Fund Revenues in FY2018-19

- 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 expanded at an average rate of growth of 1.93 percent in FY2018-19 compared to FY2017-18. Personal income grew at a revised annual rate of 4.32 percent through the first three quarters of the fiscal year based on the latest available figures.



Final General Fund Revenues in FY2018-19

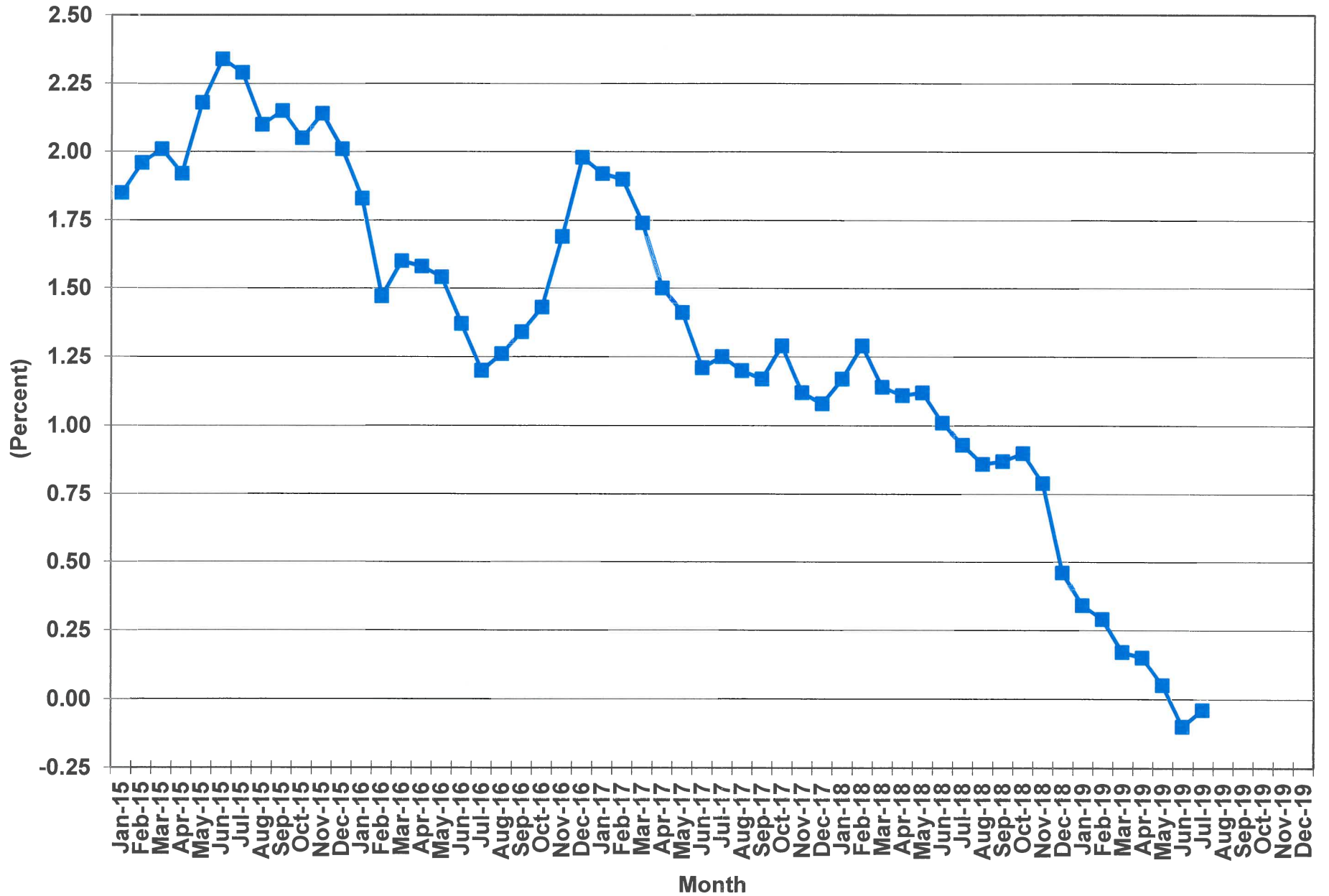
Contingencies and Other Items of Concern

- Inverted yield curve
 - Will rate cuts keep U.S. economy moving forward?
 - Federal Reserve stops tightening earlier than scheduled

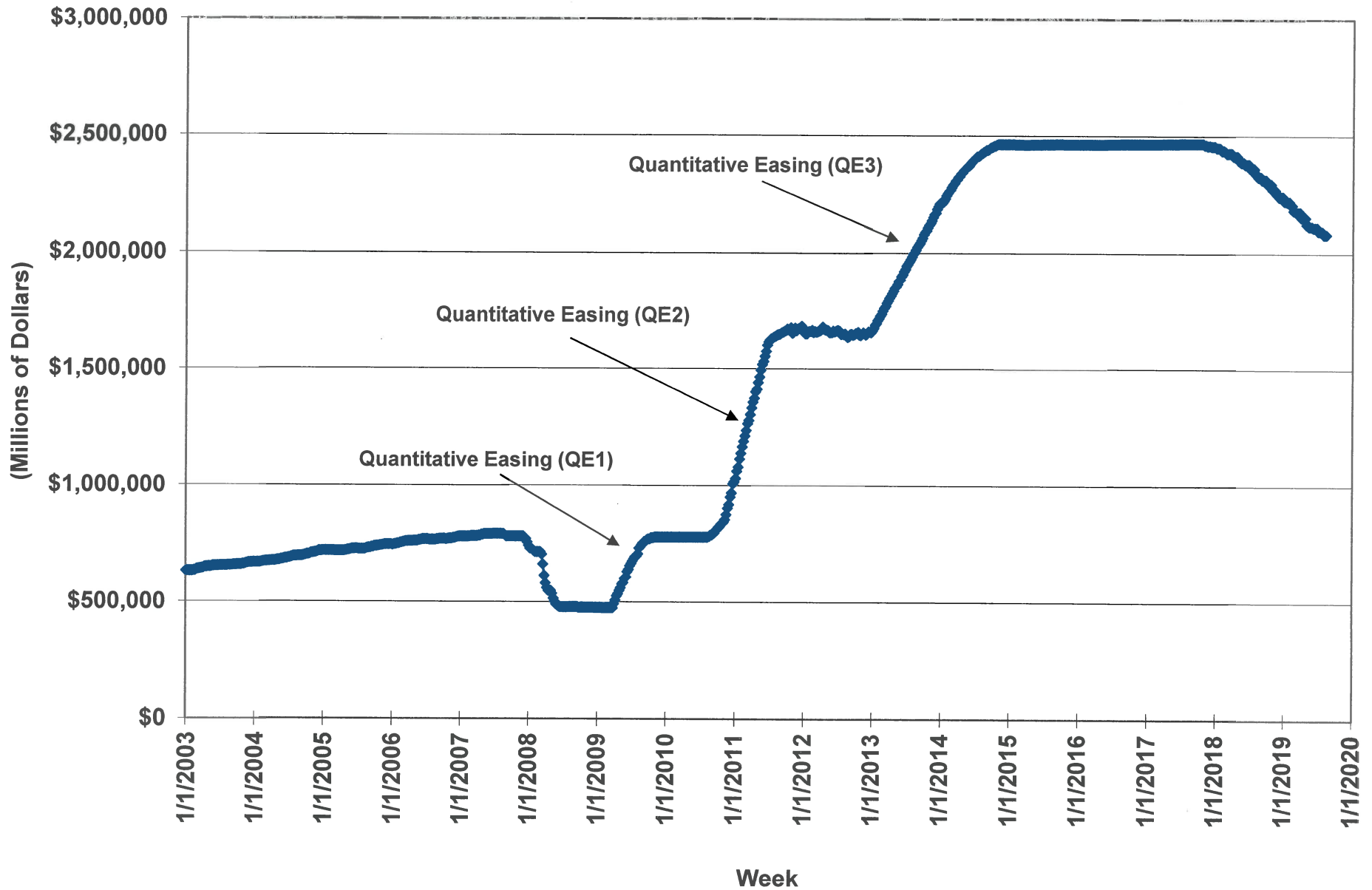
- Tariffs and trade tensions with China and Europe

- Europe heading into recession
 - Negative bond rates

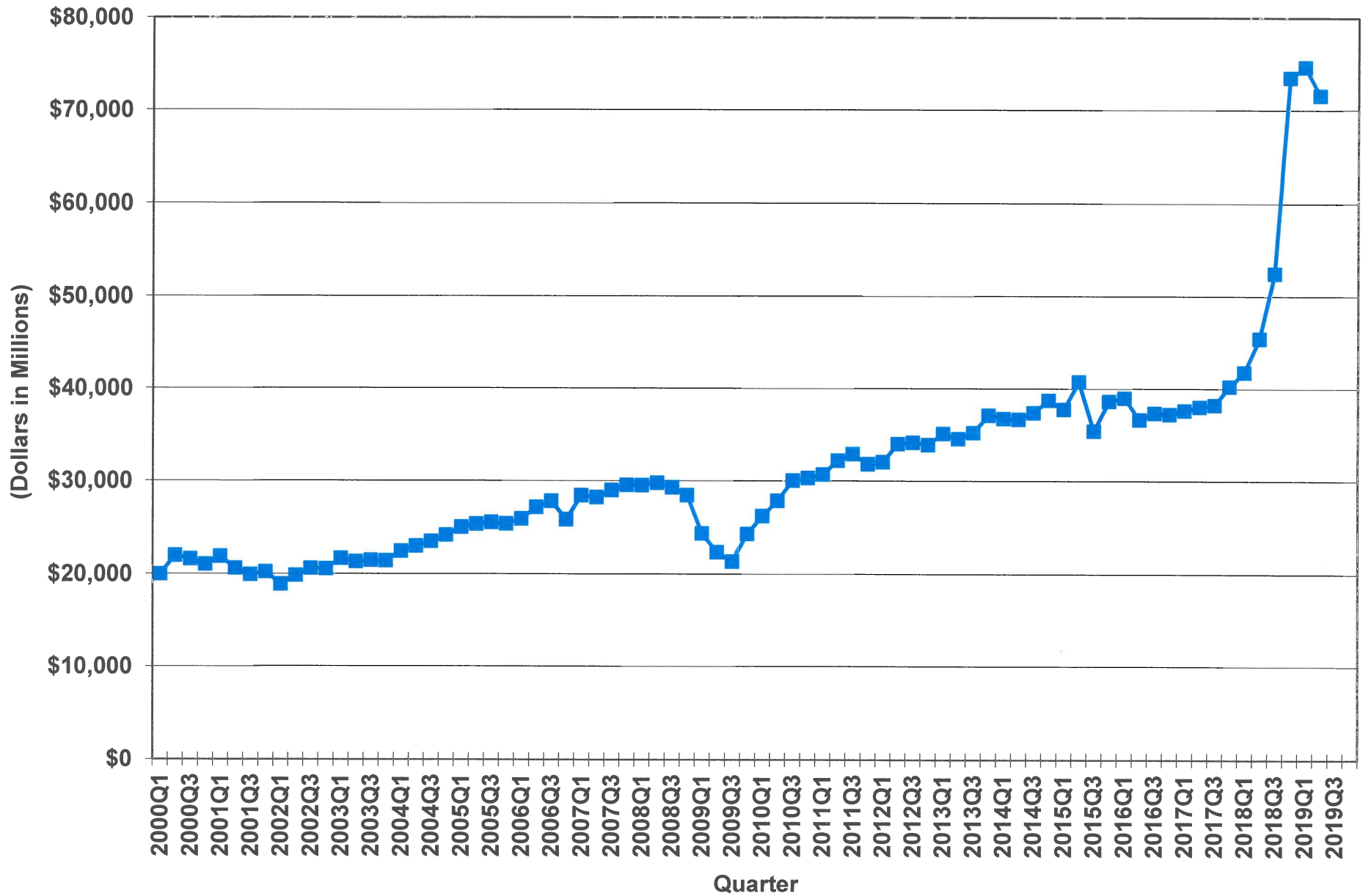
Interest Rate Spread Between 10-Year Bond & 3-Month Bill



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

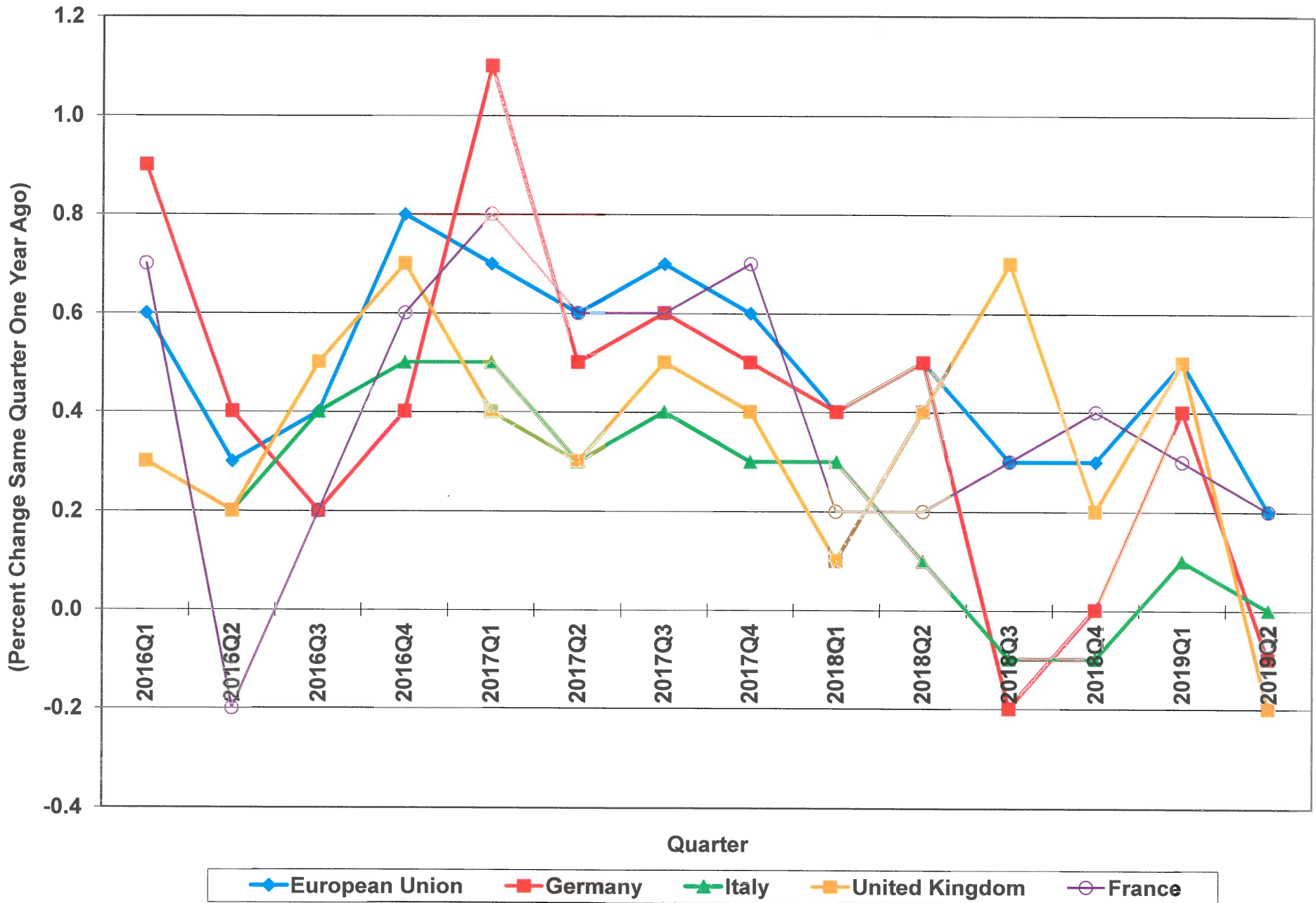


Customs Duties / Tariffs Revenue in the United States



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

Growth in Real Gross Domestic Product in Europe



FY 2018-19 Budget Surplus

(\$ Millions)

General Fund Revenue		Net
Revenue Surplus (BEA)		\$407.4
Taxpayer Rebate (Proviso 118.15)	(\$61.4)	
Net Impact of Budgetary Adjustments (Vetoed, Lapses, Open-ended Appropriations, Transfers)	\$3.9	
Funds Available for Contingency Reserve Fund		\$350.0
Other Surpluses		
EIA Revenue over Act		\$3.1
Lottery Revenue over Act*		\$0
<i>*FY 2018-19 Excess appropriated</i>		
Homestead Exemption Revenue over Act**		(\$1.9)
<i>**Shortfall Funded with Prior Year Fund Balance</i>		

OTHER BUSINESS



REPORTS FROM WORKING GROUP

August 26, 2019

FUTURE MEETING SCHEDULE

- A. September 16, 2019, 1:30 – Fiscal Year-End Report, Update on New Fiscal Year
- B. October 17, 2019, 10:30 – BEA & Annual Regional Advisory Meeting
- C. November 8, 2019, 1:30 – Preliminary Forecast
- D. December 12, 2019, 1:30 – *GoToMeeting* for Members
- E. 2019 Calendar at <http://rfa.sc.gov/meetings?y=2019>

