

## MEMORANDUM FOR THE RECORD

**DATE:** August 26, 2019  
Room 417, Rembert Dennis Building  
1:00pm

**SUBJECT:** Minutes of Board of Economic Advisors Meeting

**ATTENDEES:** *Board Members* –Edward Grimbball-Chairman (via *GoToMeeting*), Howell Clyborne (via *GoToMeeting*), Hartley Powell (via *GoToMeeting*), Emerson Gower (via *GoToMeeting*). *Executive Director*, Frank Rainwater; *Staff* – Lisa Jolliff, Allyn Powell, Karen Rhinehart, Paul Athey, Sandra Kelly, Gordon Shuford, Amanda Martin, Mary K. Miller, Lisa Wren, Morgan O’Donnell, Marie Morales. *Guests* – John Barfield (Comptroller General’s Office); Kevin Ethridge, David Seigler, Brian Gaines (EBO); Ben Johnson (Department of Corrections); Blythe Littlefield, Katie Turner (Ways and Means Committee); Grant Gibson (Senate Finance Committee); Merritt Francis (Governor’s Office); Anna Berger (SC Association of Counties).

Press:

- Chairman Grimbball welcomed everyone to the meeting at 1:12pm.
- Chairman Grimbball presented the meeting minutes for May 22, 2019 and June 13, 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 Grimbball declared the minutes approved as presented and written. (*See attached*)
- Mr. Rainwater noted the absence of Robert Martin due to the death of Robert’s mother and expressed thoughts and prayers for the Martin family.
- **Frank Rainwater presented a review of the Final FY 2018-19 General Fund Revenues. His major comments were:** (*See Attached*)

### 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.
  - ❖ *Mr. Rainwater mentioned that due to in-migration, South Carolina is the 10<sup>th</sup> fastest growing state in the nation. Chairman Grimball asked whether this was in terms of numbers or percent and Mr. Rainwater said it was both absolute number and percentage increase.*

### **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 an estimated decline in FY 19 for this revenue category.
- The excess and shortfall in the remaining categories almost totally offset each other.

### **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.
- 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.
  - ❖ *Mr. Rainwater reiterated that \$124 million of the \$407 million excess over the forecast expectations was due to legal or one-time events which included the Megaball Jackpot winner, the Wayfair court decision, the Marketplace Act and audits. Chairman Grimball asked if \$30 million of the excess was due to audits and Mr. Rainwater replied that it was.*

### **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.
  - ❖ *Chairman Grimball asked what the threshold is for South Carolina to collect tax from a vendor. After consultation with staff, Mr. Powell noted that the Economic Nexus Standard is \$100,000 for any given vendor per year. Once this amount is reached, the vendor is required to remit 7 percent of total gross sales on casual personal property. Mr. Rainwater explained that Wayfair is generating approximately \$2-3 million per month and Marketplace is generating approximately \$4 ½ million per month in sales tax revenue. Mr. Powell explained that an example of a large Marketplace vendor would be Amazon which promotes third party vendors.*
- 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
- **Mr. Martin’s report was included in the materials but was not formally presented. The key parts contained in his report were as follows: (See Attached)**

**Total General Fund Revenue**

- Total General Fund revenue collections amounted to \$9,402.1 million in FY 2018-19 or 8.0 percent growth over actual revenue collections in FY 2017-18.
- Actual revenue collections compared to the BEA revenue estimate resulted in a \$407.4 million revenue excess.
- Compared to the BEA revenue estimate, total General Fund revenues were within 4.5 percent of official projections in FY 2018-19.

**Sales Tax Revenue**

- Sales and Use tax revenue grew 4.6 percent for the 13<sup>th</sup> month period and 5.0 percent for FY 2018-19.
- Actual Sales and Use tax revenues totaled \$24.7 million more than the 4.2 percent growth required to meet the FY 2018-19 revenue estimate.
- 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 estimates for FY 2018-19.
- 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 FY 2018-19.
- Also, the Marketplace Facilitator Act was enacted during May 2019. This act requires third-party sellers to remit sales and use tax based upon where the retail sale occurred.

**Individual Income Tax Revenue**

- 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 FY 2018-19, reflecting

continued strong employment growth 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 income tax refunds for a net surplus of \$145.8 million in FY 2018-19.
- The net Individual Income tax revenue excess of \$255.9 million amounts to 62.8 percent of the total General Fund revenue excess in FY 2018-19.

### **Corporate Income Tax Revenue**

- 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 FY 2018-19.
- Corporate Income tax revenue increased 22.0 percent for the fiscal year and finished \$89.1 million above the revenue estimate in FY 2018-19.
- The Corporate License Tax increased 9.8 percent in FY 2018-19 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 FY 2018-19.

### **Other Revenue**

- Other Revenues increased 20.3 percent during the 13<sup>th</sup> month accrual period, and increased 13.5 percent for the fiscal year when compared to final collections in FY 2018-19.
- 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.

### **Summary**

- Final General Fund revenue collections amounted to \$9,402.1 million in FY 2018-19, or 8.0 percent higher than in FY 2017-18.
- The annual increase of \$696.1 million in General Fund revenue by comparing final revenue collections in FY 2017-18 and FY 2018-19, 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.

- Weaker growth in several smaller revenue categories partially offset the large revenue gains experienced in traditional revenue sources in FY 2018-19.
- 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 FY 2018-19.
- 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 expanded at an average rate of growth of 1.93 percent in FY 2018-19 compared to FY 2017-18. 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.

#### **Contingencies and Other Items of Concern**

- Inverted yield
  - 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
- **Lisa Jolliff presented Final FY 2018-19 General Fund Budget Results** (*See Attached*)
  - ❖ *Chairman Grimball asked if there had been discussion with the General Assembly concerning the surplus for this year. Ms. Jolliff replied that the surplus was announced in the Comptroller General's press release.*
  - ❖ *Chairman Grimball asked if the Legislature was OK with the surplus. Mr. Rainwater replied that the more senior members understand the consequences of recessions and are glad to have the excess rather than the other possibilities of missing the estimate.*
  - ❖ *Mr. Powell stated that the article in the Statehouse Report was generally positive. Mr. Gower stressed the work ahead and the need for a conservative approach to which Chairman Grimball agreed.*

### Working Group Comments

*No comments.*

○ **Other Business**

- Mr. Rainwater mentioned that Bobby Hitt, Commerce Secretary will be the guest speaker at the September 16, 2019 meeting.

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

Mr. Clyborne motioned to adjourn the meeting and Chairman Grimball seconded the motion. All voted aye and the meeting adjourned at 1:55pm.

The next scheduled BEA Meeting is Thursday, September 16, 2019 at 1:30pm.  
Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar> and at the Rembert Dennis Building.

These minutes were approved on 9/16/19.

Karen Rhinehart

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