

MEMORANDUM FOR THE RECORD

DATE: November 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* - Paul Athey, Ragan Griffith, Kenneth Harris, Lisa Jolliff, Sandra Kelly, Amanda Martin, Robert Martin, Mary K. Miller, Sidra Nelson, Morgan O'Donnell, Allyn Powell, Karen Rhinehart, Gordon Shuford, Julia Williams, Lisa Wren. *Guests* - Ben Johnson (Dept. of Commerce); Richard Eckstrom, Eddie Gunn (Comptroller General's Office); Kevin Kibler (State Treasurer's Office); Katie Turner (WMC); Ryan Burnaugh (Kelley, McCain & Smith Owen, LLC); Tim Derrick (Dept. of Revenue); Kevin Ethridge, David Seigler (Executive Budget Office); Grant Gibson (SFC); Nancy Williams (Dept. of Education); Dana Yow (Education Oversight Committee); Billy Routh (Copper Dome Strategies).

Press: Maayan Schechter (The State); Russ McKinney (SC Public Radio); Adam Berlson (Post and Courier);

- Chairman Grimball welcomed everyone to the meeting at 1:33pm.
- Chairman Grimball presented the meeting minutes for October 17, 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)*
- **Frank Rainwater presented an overview October 2019 Revenues. His major comments were:** *(See Attached)*
 - General Fund Revenues in October grew 4.8 percent
 - For the fiscal year-to-date, revenues have grown 6.6 percent
 - Sales tax grew 9.3 percent
 - Individual Income tax grew 5.9 percent
 - Corporate Income and License tax grew 8.3 percent

- **Robert Martin presented an economic and revenue update. His major comments were:** *(See Attached)*

Sales Tax Revenue

- Sales and Use tax revenue grew 7.9 percent in October 2019 and has grown 9.3 percent for FY 2019-20.
- Actual Sales and Use tax revenues totaled \$46.0 million more than the 3.4 percent growth required to meet the FY 2019-20 revenue estimate (based on February 14, 2019 BEA estimate).
- The Department of Revenue collected \$3.5 million from newly registered remote sellers (Wayfair), and \$4.2 million from new accounts specifically registered as marketplace facilitators (third-party sellers) in October.
- 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 2019-20 when the estimate was last considered (April 2019).

Individual Income Tax Withholding

- Individual Income tax withholding revenue, the largest single source of tax revenue, grew by 1.8 percent in October 2019 and has grown 5.3 percent for FY 2019-20.
- Actual Individual Income tax withholding revenue totaled \$65.5 million more than the 1.5 percent growth required to meet the FY 2019-20 revenue estimate (based on February 14, 2019 BEA estimate).
- Reflects the continued strong employment growth in the State

Summary

- General Fund revenue collections through October 2019 amounted to \$3,159.9 million in FY 2019-20, or 6.6 percent higher than in FY 2018-19.
- This year-to-date revenue growth rate exceeds the -0.8 percent growth rate needed to meet the BEA General Fund revenue growth rate for FY 2019-20 (based on February 14, 2019 BEA estimate).

- **Frank Rainwater and Robert Martin presented information concerning the FY 2019-20 and FY 2020-21 revenue estimates. Their major comments were:** *(See Attached)*

- Economic Changes Since the October Meeting:
 - Federal Reserve cut interest rates by 25 bps
 - Third Quarter GDP (1.9%)
 - NAPM shows improvement
 - Yield curve spread has widened

- Increase in SC employment
 - Positive holiday spending forecast
- Forecast Adjustments included
 - Removes the one-time lottery withholding payment of \$61.4 million from the FY 2018-19 base
 - Includes an estimate for Wayfair and Marketplace Fairness Act (+\$65 million) for months not already included in the FY 2018-19 base.
 - All State Treasurer's, Comptroller General's, and Lottery estimates incorporated
 - Estimated Impact of separate legislation passed by General Assembly
- Contingencies and Other Items of Concern that were considered included
 - Tariffs and trade tensions with China and Europe
 - Manufacturing slowdown
 - Corporate earnings to slow
 - Trump impeachment inquiry
 - Brexit
 - Energy-related supply shock
- Other Forecast Items specifically noted
 - Bank Tax
 - Earnings on Investments
 - Insurance
- Summary of Forecast Recommendations
 - Higher FY 2018-19 Base due to last year's surplus
 - Slowing economic growth from recent trends
 - Estimate South Carolina Personal Income 5.25% for FY 2019-20 with slowdown to 4.50% for FY 2020-21
 - Employment growth steady but slow at 1.4%
 - Presentation of detailed estimates for adoption (See attached)
 - FY 2019-20
 - FY 2020-21
- Key Factors in Revising FY 2019-20 Forecast
 - FY 2018-19 Revenue surplus of \$350 million
 - Revised data on South Carolina Personal Income
 - Full year impact from Wayfair decision and Marketplace Facilitators Act
- Challenges to FY 2019-20 Forecast
 - No boost from Lottery winner income tax withholding
 - Record high corporate tax collections in FY 2019

- Tariffs and other uncertainties
 - *Following the presentation by Mr. Rainwater, he stated that for the revenue forecast, based on the economic assumptions, the forecast information was being presented to the Board for their consideration.*
 - *Following a brief discussion in which the Chairman asked for the verification of the growth rate and the period in which that would take place, Chairman Grimball asked the Board Members for a motion to adopt the forecast. Mr. Clyborne motioned and Mr. Gower seconded the motion. Following the motions, Chairman Grimball asked if there was any further discussion before voting. There was no further discussion and all members voted aye to adopt the revenue forecast for FY 2019-20 and FY 2020-21.*

- Long-Range Forecast

Staff was authorized to develop a long-range forecast pursuant to §11-11-350 based on economic assumptions and trends for FY 2020-21 and will release the Long-Range Forecast for use in the state's Three-year Financial Outlook after review and approval by the Chairman.

 - *Mr. Rainwater presented a summary of the long-range forecast which is used to help with the budget and asked for the Board's approval to allow Chairman Grimball to approve the long-range forecast. Mr. Gower motioned, Mr. Clyborne seconded the motion and all voted aye to allow the Chairman to proceed.*

- **Lisa Jolliff presented FY 2019-20 and FY 2020-21 budget information as it relates to the approved forecast. (See Attached)**

Working Group Comments

No comments.

- **Other Business**
 - *Chairman Grimball asked to discuss the 2020 meeting calendar. Mr. Rainwater shared that everyone had approved the calendar, but that the dates could be changed if necessary. He also mentioned the importance of the October 15th Annual Regional Advisory Meeting.*

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

Mr. Clyborne motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye and the meeting adjourned at 2:28pm.

The next scheduled BEA Meeting is Thursday, December 12, 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 2/13/20.



Karen Rhinehart

