

## MEMORANDUM FOR THE RECORD

**DATE:** February 13, 2020  
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, Robert Martin, Allyn Powell, Karen Rhinehart. *Guests* John Barfield (Comptroller General’s Office); Kevin Kibler (State Treasurer’s Office); Brian Gaines, Kevin Ethridge, David Seigler (Executive Budget Office); Billy Routh (Copper Dome Strategies); Tina Thompson (SC Commission on Prosecution Coordination); Tim Derrick, Meredith Cleland (Dept. of Revenue); Grant Gibson, Morgan O’Donnell (SFC); Sym Singh (Gov. Office); Katie Turner (WMC); Jason Schumacher, Nancy Williams (Dept. of Education).

- Chairman Grimball welcomed everyone to the meeting at 1:34pm.
- Frank Rainwater shared news of the sad loss of Debbie Cooper who passed away unexpectedly on February 2<sup>nd</sup>. Mr. Rainwater shared that she was a bright spot in the office, very positive and professional and she is greatly missed.
- Chairman Grimball presented the meeting minutes for November 8, 2019 and January 16, 2020 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 of General Fund Revenues through January 2020. His major comments were:** (*See Attached*)
  - General Fund Revenues exceeded expectations through January 2020 by \$178 million.
  - Timing of receipts also contributed to the excess.
  - Estimate is running ahead so there will be no adjustments to consider for the forecast.

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

#### **Sales Tax Revenue**

- Sales and Use tax revenue grew 9.89 percent in January 2020 resulting in fiscal year-to-date growth of 8.5 percent.
- The inclusion of \$10.0 million in third-party sales taxes in January 2020 has positively impacted Sales and Use tax revenue as these revenues were not received during this time a year ago.
- The revenue figures suggest a strong holiday season with 9.0 percent growth during the holiday season.

#### **Individual Income Tax Revenue**

- Individual Income tax withholding increased \$31.5 million, or 6.9 percent, in January 2020 from January 2019 reflecting the continued employment growth in the state.

#### **Corporate Income Tax Revenue**

- The Corporate Income tax increased 149.2 percent in January 2020 and has increased 20.7 percent through the first seven months in FY 2019-20.
- The Corporate License tax subtracted \$3.3 million to the overall revenue excess of \$11.8 million in FY 2020 in January 2020.
- Combined, the Corporate Income tax and Corporate License tax account for \$41.7 million of the revenue excess in FY 2020.

#### **Other Tax Revenues**

- Other revenues were largely affected by the timing of revenue receipts.
- Security Dealer Fees were booked one month earlier than last fiscal year resulting in a nearly \$21.0 million overstatement of the bottom line was reconciled in January 2020.
- A bank tax audit totaling \$3.3 million was processed in January 2020.
- Other revenues have increased 8.1 percent through January 2020.

#### **Total General Fund Revenue**

- General Fund revenue increased 8.2 percent, or \$76.4 million, during the month of January 2020 from January 2019.
- Revenues through January 2020 have grown 8.0 percent, or \$443.9 million year-to-date.

#### **Summary**

- General Fund revenue collections through January 2020 amounted to \$5,984.9 million in FY 2019-20, or 8.0 percent higher than in FY 2018-19.

- This year-to-date revenue growth exceeds the 4.6 percent growth rate needed to meet the BEA General Fund revenue growth rate for FY 2019-20 by \$178.2 million.

### Recent Economic Developments

- Several pending issues that affected growth assumptions, many of which have been resolved and include:
  - Chinese tariffs
  - Federal Reserve Policy
  - Brexit
  - Trump's Impeachment
- Several recent economic developments relating to the forecast were discussed and included:
  - Real GDP
  - Federal Reserve Policy
  - Housing
  - Manufacturing - New Orders and Shipments
  - Energy
  - U.S. Leading Economic Index
- Upcoming Data Release
  - Employment Rebenchmarking - March 16, 2020
  - Personal Income (2019Q4) - March 24, 2020
  - ❖ *Chairman Grimball asked if there are any embargoes of Chinese goods related to the Coronavirus. Mr. Martin replied that he was not aware of any embargoes and that we will probably see the effect of Chinese production being halted due to the virus at a later time. However, he did say that shipments coming through the S.C. ports are negative from one or two months ago.*
  - ❖ *Chairman Grimball asked if there are any effects from Brexit. Mr. Martin replied that Brexit has caused tension between Britain and France and trade between those countries is not going well. He believes that the U.S. will begin exporting more goods to Britain as a result of this tension.*
  - ❖ *Chairman Grimball asked if the opinion of the panel of economic advisors is the same at this point as it was in October 2019. Mr. Martin replied that their opinion concerning the economy is basically the same with a small variance; there has not been a lot of change.*

- Frank Rainwater and Robert Martin presented information for consideration of the FY 2019-20 and FY 2020-21 Revenue Estimates: *(See Attached)*

### Recommendations on Forecast – FY 2019-20 and FY 2020-21

#### **General Outlook**

Continued growth through FY 2019-20 but slower growth expected in FY 2020-21

#### **SC Personal Income**

Maintain assumption of 5.25% growth in FY 20, slowing to 4.5% in FY 21

#### **SC Employment**

Maintain assumption of 1.6% growth in FY 20 and FY 21

#### **Risk Factors**

Concerns over tariffs, Brexit, oil, and Fed policy have weakened. Leading Economic Indicators show concern for FY 21.

#### **Current Status and Forecast**

Revenues are \$178.2 million above expectations, 3.1% above forecast (2.1% above upper limit). Single events and timing of receipts appear to overstate this excess.

#### **Forecast Details**

- Recommend increasing FY 20 estimate by \$60 million and FY 21 estimate by \$25 million.
- Adopt spreadsheet with detailed revenue estimate. *(See Attached)*
- As a result of these changes, the FY 20 growth rate is 5.3 percent, and the FY 21 growth rate is 3.6 percent.
- No change to Lottery estimate.
  - ❖ *After presenting the summary information, Mr. Rainwater stated that the economy is performing as expected. A few targeted changes are needed but no overall change since the economy has not changed.*
  - ❖ *Mr. Martin stated that all highlighted areas on the General Fund Revenue Forecast sheet are categories that Mr. Rainwater reviewed.*
  - ❖ *Chairman Grimball stated that the Board Members received the material early and had time to review and consider the data. The Chairman asked for a motion to adopt the General Fund Revenue Forecast spreadsheet to which Mr. Clyborne motioned and Mr. Gower seconded and all voted aye.*
  - ❖ *Mr. Martin mentioned that when the State Treasurer forwarded revenue estimate information there was no change to EIA funds or interest on EIA funds; and no change to Lottery funds and interest on Lottery funds.*

- **Frank Rainwater presented a Budget Status Update for FY 2020-21.**  
*(See Attached)*
  
- **Working Group Comments**  
*No comments.*
  
- **Other Business**
  - ❖ *Mr. Rainwater and Chairman Grimball reminded the Members that the deadline to submit their Statement of Economic Interests to the State Ethics Commission is March 30.*
  - ❖ *Chairman Grimball mentioned that there would be a press release shared with the new revenue estimate information. Mr. Rainwater mentioned that it would be completed soon after the meeting adjourned.*

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

Mr. Gower motioned to adjourn the meeting and Mr. Clyborne seconded the motion. All voted aye and the meeting adjourned at 2:31pm.

The next scheduled BEA Meeting is Thursday, March 19, 2020 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 5/8/20.

Karen Rhinehart  
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