

MEMORANDUM FOR THE RECORD

DATE: August 29, 2018
Room 417, Dennis Building
10:30am

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, Karen Rhinehart, Lisa Jolliff, Ellen Mitchell, Ken Harris, Gordon Shuford, Paul Athey, David Patterson, Sandra Kelly, Carrie Bundrick, Amanda Martin, Morgan O'Donnell, Allyn Powell. *Guests* - Richard Eckstrom, Michael Moore, (Comptroller General's Office), Sharon McElveen, Kevin Kibler (State Treasurer's Office), Kevin Ethridge (EBO), Tim Derrick, Meredith Cleland (DOR), Grant Gibson (SFC).

Press: Seanna Adcox -

1. Chairman Grimball welcomed everyone to the meeting at 10:35am.
2. Chairman Grimball presented the meeting minutes of the meeting for June 14, 2018 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. *(See attached)*
3. Frank Rainwater presented an overview of General Fund revenue updates. **His major comments were:** *(See Attached)*
 - ~**There is a revenue surplus of \$172.2 million; a two percent excess is outside of the target range of one and one-half percent.**
 - ❖ Higher than expected Individual Income Tax payments and lower than expected refunds accounted for most of the surplus.
 - ❖ Stock market rally in December 2017 contributed to the surplus through higher capital gains taxes on securities sales. (NASBO-May 2018).
 - ~**Other budget items added \$4.9 million which resulted in a total budget surplus of \$177.1 million.**
 - ❖ *Chairman Grimball asked what the primary reason was for the corporate tax revenue excess. Mr. Martin stated that the reason was mainly withholdings and declarations-companies are faring better. Chairman*

Grimball felt that for the most part companies do not have a trading portfolio and he wasn't sure if capital gains figured into this amount. Mr. Rainwater stated that individuals all file for the same year but companies do not. Mr. Martin shared that when companies filed their returns more money became available to place against future tax liabilities.

- ❖ *Mr. Clyborne asked if, given the trading we do with Europe and international companies and the money that is coming back in the country, could that account for some of this. Mr. Martin said that it could but the data has always lagged on this issue.*

4. Robert Martin presented a detailed review of revenues and economic conditions. His major comments were: *(See Attached)*

The Focus of the 13th Month and Final FY 2017-18 Report

~General Fund Revenue

- ❖ 13th month revenue and final FY 2017-18 collections

~Revenue and Economic Issues

- ❖ Revenue items of concern
- ❖ Economic issues and concerns

Final General Fund Revenues in FY 2017-18

General Fund Revenue

~Final FY 2017-18 General Fund revenues have increased by 6.7 percent and finished above forecast projections by \$171.6 million.

~Compared to the BEA General Fund revenue estimate, total actual General Fund revenues were within 2.0 percent of official projections.

~Over the past three fiscal years, final General Fund revenue collections have averaged 99.48 percent of the official BEA General Fund revenue estimates.

~South Carolina finished FY 2017-18 with the strongest revenue growth in the Southeast.

Sales Tax

~Sales and Use Tax revenue grew 4.7 percent for the 13th month period and 4.8 percent for the fiscal year.

~Actual Sales and Use Tax revenues fell \$6.8 million short of the 5.0 percent growth required to meet the FY 2017-18 revenue estimate.

Individual Income Tax

~Individual Income Tax revenue finished the fiscal year with growth of 7.1 percent.

~The Individual Income Tax finished the fiscal year \$103.0 million above the revenue estimate of 4.6 percent.

~Stronger than anticipated Individual Income Tax payments remitted with income tax returns during the tax season combined with flat growth in Individual Income Tax refunds resulted in the source of the revenue excess in the Individual Income Tax category.

~These two events resulted in 77.8 percent of the General Fund revenue excess in FY 2017-18.

~Individual Income Tax withholdings, the largest single source of tax revenue, finished \$9.6 million below the revenue estimate of \$5,130.0 in FY 2017-18.

Corporate Income Tax

~Corporate Income Tax revenue increased 17.1 percent for the fiscal year and \$30.7 million above the revenue estimate in FY 2017-18.

- ❖ *Mr. Martin mentioned that this year has been strange from a statistical point of view-some accounting and processing changes affected normal revenue patterns and categories and more research is being conducted. Mr. Rainwater mentioned that it is difficult to estimate corporate revenue. Chairman Grimball suggested that perhaps the issue was the unpredictability of the political environment this year.*

~The Corporate License Tax increased 61.6 percent in FY 2017-18 and finished the fiscal year with a revenue excess of \$17.2 million over the revenue estimate.

Other Taxes

~Growth is from a variety of sources and timing of receipts.

~The majority of the annual revenue increase was attributable to the Documentary Stamp tax (deed recording fees on realty transfers) and interest earnings deposited in the General Fund from state investments.

Value of Euro vs the U.S. Dollar

- ❖ *Mr. Martin mentioned that the U.S. dollar is stronger – more Euros are required to purchase the same amount of goods in the U.S. Chairman Grimball asked what percentage of manufacturing output is exported out of the country – possibly 25%? Mr. Martin replied that one-third of manufacturing goods is shipped from the port of Charleston to Europe, one of the U.S.'s largest trading partner but not all of those goods come from South Carolina.*

Economic Issues and Concerns

~Gross Domestic Product (revision and rebasing)

- ❖ *Mr. Martin mentioned that there has been a revision in the Gross Domestic Product (GDP) numbers. The Department of Commerce rebased the GDP to reflect 2012 dollars instead of 2009 dollars. Most of the growth in GDP numbers reflect personal consumption items, business investments and exports. The latest numbers are*

stronger even though the economy is not materially stronger, it's measured differently. Also GDP numbers are estimates.

- ❖ *Chairman Grimball asked what the inspiration was to change the base and Mr. Martin replied that it is actually unusual to change the base after just three years. There is usually a longer period of time between changes. The last two changes were in 2002 and in 1998.*
- ❖ *Mr. Clyborne asked if inflation equates to a rebase. Mr. Martin replied that the process is mainly changing weights. A rebase is essentially changing the allocation of what is driving growth in the economy. Weights of items not purchased will drop. Mr. Clyborne asked if an important sector is down when a rebase is done, would the rebase be off and Mr. Martin responded that, it would be as compared to prior periods.*
- ❖ *Mr. Powell asked what the reason is for rebasing and why is it not done more often. Mr. Martin replied that it reflects the current activity. It is not done more often because it is a complicated, expensive process.*
- ❖ *Chairman Grimball asked how long would it take to do a rebase today-is there a two-year study lag? Mr. Martin replied that inflation is rising rapidly and money comes from inflation. Rebasing is due to numbers increasing due to inflation.*
- ❖ *Mr. Clyborne asked if the velocity of money has been down because money has been kept in banks and if when the velocity of money is up if inflation is up and is that tracked. Mr. Martin replied that he watches this process periodically, but closely. The interest rates are currently increasing because the velocity of money has been down.*

Mr. Martin noted the following list of factors as being key items to note for the forecast:

- ~SC Personal Income – 1st quarter of 2018 (upcoming comprehensive revision in September)
- ~SC Employment
- ~Effect of Trump tax change
- ~Federal Reserve meeting – no change on interest rates in July, next meeting in September
- ~Flattening of the yield curve spread
- ~Tariffs (China retaliation; doubling tariffs for Turkey)
- ~European debt crisis
- ~Oil prices and OPEC
- ~Housing market

Revenue Items of Concern

- ~Conformity
- ~Wayfair decision (internet sales)
- ~Retail Sales
- ~Sports betting
- ~Capital gains and stock market
- ~Value of Dollar

5. Lisa Jolliff shared information on the General Fund budget (*See attached*)
 - ❖ *Chairman Grimball asked what happens to the Contingency Reserve Fund in the event that money is not appropriated from that fund. Ms. Jolliff replied that it is usually appropriated but if it is not it would remain there and then be used.*
6. Frank Rainwater shared information concerning an overview of FY 2018-19, Federal Tax Conformity, the Wayfair decision and sales tax. (*See attached*)
 - ❖ *Chairman Grimball asked Mr. Powell if the implementation of the collection of sales tax on internet sales is a laborious task. Mr. Powell replied that it is a major change in that a company previously needed to have a physical presence in the state to have sales tax collected; now there are remote sellers. It is uncertain at this time what revenue this collection will generate and there is no reliable way to monitor all sales. Most tax collections will probably come from the larger sellers. Mr. Gower asked if states are working together in an organized manner to support each other in this collection process. Mr. Powell replied that there is some communication between states but in reality each state handles the situation differently.*
7. Robert Martin shared a review of the FY 2018-19 General Fund forecast and legislative changes. (*See attached*)
8. Lisa Jolliff presented information on the state budget and other fiscal issues. (*See attached*)
9. Other Business
 - ~*Mr. Martin shared information concerning the Annual Regional Advisory Meeting.*
 - ~*The Comptroller General, Richard Eckstrom, mentioned that there are no potential tax credits from the transportation bill in 2020. He shared that those credits do not include preventative maintenance tax credits and do not come from the General Fund. Mr. Martin replied that yes, tax credits are taken on income tax. Comptroller Eckstrom also commented that he feels that the political climate has affected corporate tax receipts. He feels that corporations*

are optimistic that the federal government will reduce burdensome regulations and also that consumer confidence is at an 18-year high which could have an effect on the sales tax numbers.

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

Mr. Gower motioned to adjourn the meeting and Mr. Clyborne seconded the motion. All voted aye and the meeting adjourned at 12:02pm.

The next scheduled meeting is Thursday, September 20, 2018 at 2:00pm.

Attachments: Agenda, Meeting Materials

Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on 9/25/18.

Karen Rhinehart

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