

## MEMORANDUM FOR THE RECORD

**DATE:** June 13, 2019  
Room 417, Rembert Dennis Building  
1:30pm

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

**ATTENDEES:** *Board Members* –Edward Grimbball-Chairman, Howell Clyborne (via GoToMeeting), Hartley Powell, Emerson Gower. *Executive Director*, Frank Rainwater; *Staff* – Robert Martin, Lisa Jolliff, Allyn Powell, Kenneth Harris, Karen Rhinehart, Paul Athey, Gordon Shuford, Amanda Martin, Natalie Gallagher, Ellen Mitchell, Mary Katherine Miller, Lisa Wren, Morgan O’Donnell. *Guests* – John Barfield, Michael Moore, Richard Eckstrom (Comptroller General’s Office); Kevin Ethridge, Lewis Carter, Howard Knapp (EBO); Tim Derrick, Meredith Cleland (Department of Revenue); Ben Johnson (Department of Corrections); Michael Jackson, Katie Turner (Ways and Means Committee); Grant Gibson, Endra Curry (Senate Finance Committee).

Press:

- Chairman Grimbball welcomed everyone to the meeting at 1:30pm.
- Chairman Grimbball presented the meeting minutes for May 22, 2019 which had previously been shared with the Members. It was decided that a small change was needed and approval of these minutes would be deferred to the next BEA Meeting. *(See attached)*
- **Frank Rainwater presented an overview of May 2019.** *(See Attached)*
  - ❖ *Mr. Rainwater noted that General Fund Revenues through May exceeded year-to-date estimates by \$358.0 million which included excesses in Sales Tax by \$9.5 million, Individual Income tax by \$232 million, Corporate Income tax by \$85.2 million, Bank Tax by \$20.6 million and Earnings on Investments by \$17 million.*
  - ❖ *Chairman Grimbball asked Mr. Rainwater to explain the \$232 million excess in Individual Income tax. Mr. Rainwater shared that \$61 million is withholding from the lottery jackpot winner; \$75 to \$80 million is attributable to an assumption that this amount of excess revenue in FY 2017-18 was a one-time event due to capital gains taxes and was excluded when making the current estimate; and additional growth of \$100 million in withholdings and other sub-categories. Mr. Rainwater presented a series of charts explaining how an accounting change in the Department of Revenue’s (DOR) Individual Income tax*

*system in November 2017 affected revenue reporting and led to an incorrect analysis of and conclusion to exclude \$75 million from the FY 2017-18 revenue base. He also explained that while staff was aware of this change, he did not learn of the magnitude of the impact until the last few weeks. His concluding chart showed when SCEIS revenue collections are adjusted to reflect the changes in DOR's new tax system, Individual Income tax growth in FY 2018-19 was similar to FY 2017-18. Mr. Rainwater also stated that an analysis of the impact on conformity would be done once the data files are received from DOR in November.*

- ❖ *Chairman Grimball also mentioned that when other states were reviewed last year several of those had capital gains funds also; Mr. Martin agreed with this statement and mentioned that he believed the tax change by President Trump made a difference as well.*
- **Robert Martin shared May 2019 revenue information. His major comments were:** *(See Attached)*

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

- General Fund revenue decreased 6.7 percent, or \$57.5 million, during the month of May 2019 from May 2018.
- The Individual Income and Corporation Income tax combined for a reduction of \$66.0 million in May 2019 reversing a combined increase of \$301.2 million in April 2019.
- Revenues through May 2019 have grown 8.1 percent, or \$602.3 million, year-to-date and are exceeding the revised 3.3 percent growth rate required to meet the General Fund revenue estimate for FY 2018-19.

#### **Sales Tax Revenue**

- Sales and Use Tax revenue increased \$11.8 million, or 4.3 percent for the month of May resulting in year-to-date growth of 4.6 percent.
- Inclusion of \$16.8 million in remote internet sales taxes.
- Without the added revenue from the *Wayfair* decision, Sales tax collections would be slightly below forecast.
- The cumulative Sales and Use tax revenue growth of 4.6 percent through May 2019 is running slightly above the 4.2 percent revenue forecast for FY 2018-19 by \$9.2 million.

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

- The Individual Income Tax revenue decreased \$48.4 million, or 9.6 percent during the month of May 2019. Individual Income tax payments with tax returns reversed a large gain in April 2019 with tax payments falling by 44.7 percent in May 2019.
- Individual Income tax declarations also exhibited the same reversal pattern in May 2019.

- Individual Income tax withholdings grew by \$25.4 million in May and have grown 6.2 percent through May 2019.
- Income tax withholdings are exceeding the 3.9 percent revenue forecast by \$106.6 million for FY 2018-19.
- This combination added to the weak monthly revenue gain in the Individual Income tax.

### Corporate Income Tax Revenue

- The Corporation Income tax decreased 55.0 percent in May 2019 compared to the same month one year ago resulting in a monthly revenue deficit of \$17.6 million.
- Overall, the Corporate Income tax has increased 39.5 percent year-to-date through May 2019 and is running above the 8.0 percent revenue forecast for FY 2018-19, or by \$85.2 million.
  - ❖ *Director Powell and Mr. Martin both mentioned that the excellent growth in Corporate Income tax is due to a good economy and the fact that companies are making profit.*

### Other Revenue

- Other Revenues decreased 5.4 percent in May 2019 from one year ago and have increased 13.1 percent year-to-date from a variety of sources and timing of receipts.

### Summary

- Through the first eleven months of FY 2018-19, General Fund revenues have increased 8.1 percent and are trending above current forecast projections by an estimated \$358.0 million.
- Nearly one-third of the surplus is due to one-time, non-recurring events that are not expected to occur next fiscal year.
- To date, the state economy is closely tracking the forecast growth rates of employment and personal income.
  - ❖ *Chairman Grimball asked if the accounting anomalies that have occurred were taken out, would that bring the estimate more into alignment. He also wanted to confirm that the estimate was based on an average of Mr. Martin's projections as well as the five-member Advisory Panel. Mr. Martin replied that it was. He also asked how the legislature would address the excess. Mr. Rainwater replied that the funds would be deposited into a contingency reserve fund and would be available for the General Assembly to appropriate in the next session.*
- 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 is expanding at an average rate of growth of 2.0 percent through the ten months of the fiscal year.
- Personal income is growing at a revised annual rate of 4.4 percent based on the latest available figures.

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

- **South Carolina**
  - SC GDP figures show a slowing economy – at odds with reality
  - Housing is showing some weakness
  - 2019Q1 State Personal Income to be released late June 2019
- **United States**
  - Sluggish retail sales
  - Uncertainty over Federal Reserve policy
  - U.S trade uncertainty
  - Tariffs on steel and aluminum lifted for Canada and Mexico
  - Tariffs will not be increased on China imports – at least for now
  - Will lead to increased inflation
  - Temporary effects of the federal tax changes to diminish
  - Economic growth to slow
  - Stock market volatility
- **International and Global**
  - Global economic growth is slowing
  - Negative bond yields in Germany
  - Europe escaped recession in 2019Q1
  - Tariffs and trade policy still unresolved
    - ❖ Delay in tariffs on auto imports
  - Brexit (PM May resigns – Brexit deal in flux)
  - Venezuela uprising and political tensions
  - Mexican immigration and threat of tariffs on Mexican imports
  - Iranian sanctions on oil exports reimposed

### **Working Group Comments**

- *Comptroller General Richard Eckstrom mentioned that \$1.5 million more would be coming in from the Department of Motor Vehicles due to an improper allocation that will be corrected.*

○ Other Business

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 2:10pm.

The next scheduled BEA Meeting is Thursday, July 25, 2019 at 1:30pm.

Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>

These minutes were approved on 8/26/19.

Karen Rhinehart  
Karen Rhinehart