SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE

1000 ASSEMBLY STREET
COLUMBIA, SC 29201
803 734-3793
RFA.SC.GOV

MEMORANDUM FOR THE RECORD

Date: May 20, 2024, 9:00 a.m.
Location: Revenue and Fiscal Affairs Office, Conference Room 417 / Zoom
Subject: Minutes of Board of Economic Advisors Meeting

Participants: B*oard Members* – Edward Grimball- Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell *(all via Zoom)*. Frank Rainwater- Executive Director, *Staff* - Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely.
Attendees: *RFA* – Paul Athey, Carrie Bundrick, Chris Finney, Kathryn Kelley, Sandra Kelly, and Emily Prosser. *Eighty-six additional participants via Zoom.*

Note: Guests were invited to attend in-person or virtually. An email invitation was sent to the Distribution list and Working Group list members, and the meeting notification was posted on the RFA website and in the Rembert Dennis Building. Meeting information and log-in instructions were posted online. Meeting materials were posted online 15 minutes prior to the start of the meeting, and the documents were also shared via Zoom.

I. Chairman Grimball welcomed everyone to the meeting at 9:00 a.m.

II. Chairman Grimball presented the April 10, 2024, meeting minutes, which previously had been shared with the Members, and asked if any Member had edits or questions. Hearing no amendments or objections, Chairman Grimball declared the minutes approved as written. *(See minutes)*

Chairman Grimball recognized Dr. Marian Manic and his wife, Mariana, for receiving their US Citizenship.

III. Review of General Fund Revenues and Forecasts (*See materials*)

Mr. Rainwater began the presentation by advising the Board that during the presentation, staff will share details about performance and trends in the various categories and will present working estimates as recommendations for adjusting the forecast.

Mr. Rainwater then presented the General Fund revenue FY 2023-24 results, and highlighted the following points:

- In April, total revenues continued to exceed monthly expectations, and the fiscal year-to-date excess is now $645 million.
- There are still mixed messages about performance in the separate categories.
- Two categories, Corporate Income taxes and Earned on Investments, account for almost three-fourths of the excess alone, or $477 million.
- Several other categories are also ahead of expectations but by smaller margins. Other items, however, are below expectations. These items highlight one of the risks in forecasting: revenues do not always follow economic performance or usual trends, and these trends can diverge.

- The recommendations that will be presented are being driven largely by current revenue results. The economy is still growing, but basic assumptions have not been altered.
- Although the Board adopted new revenue estimates in November 2023, the current estimate for Corporate Income tax has remained virtually unchanged since May 2023 (as April tax filing season is often the dominant factor) and is why Corporate Income is playing a major role in today's recommendations.

Staff presented on the main components of General Fund revenue.

Dr. Manic discussed Individual Income tax. His key points included:

Withholdings:

- Fiscal year-to-date Withholdings are $290.5 million ahead of November expectations, mainly due to higher growth in wages and salaries.
- Working estimates developed this month assume wage growth will gradually decrease to 5.3 percent by the end of 2024, and further down to about 4.5 percent by the end of 2025.
- Decelerating wage growth would be the result of a slowing economy in an environment of high interest rates with lingering inflation and the persisting geopolitical crises in the Middle East and Europe.

Non-withholdings:

- Despite the strong collections in April, we remain cautious about the remaining two months of the fiscal year due to some volatility of the financial markets as the Federal Reserve has delayed interest rate cuts.
- Because of the potential interest rate cuts and the resulting slower growth in interest and dividend income that may start later this year, the estimate was decreased marginally for FY 25 by approximately $8 million to $1.63 billion.
- With expected modest interest and dividend income growth in the second half of 2024, we anticipate a moderate growth rate in Non-withholdings of approximately 1.3 percent in FY 25 over FY 24.

Refunds:

- Refunds are currently above the November estimate by almost $256 million as Refunds have declined considerably less than expected (17.4 percent versus the expected decline of 28.2 percent) following the Individual Income tax rate reductions.
- The higher level of Refunds is due to stronger Withholding collections in 2023, which were fueled by strong wage growth.
- Based on the year-to-date dynamics in Refunds as well as the higher Withholdings expectations for FY 24 and FY 25, the working estimate for Refunds has been raised by $309 million to $2.34 billion for FY 24 and $340 million to $2.51 billion for FY 25.

Ms. Daigle discussed Consumption taxes. Her key points included:

Retail Sales:

- Retail sales expectations have improved again since March. Wells Fargo is now anticipating growth of 2.6 percent in 2024 and 2.0 percent in 2025, compared to the March expectations of 1.4 percent in 2024 and 1.3 percent in 2025.

Sales Tax:

- April collections fell 0.1 percent from a year ago, slowing down considerably from the strong Easter holiday growth seen in March of 6.7 percent. Fiscal year-to-date collections are now growing 2.5 percent compared to the November estimate of 1.1 percent and are $51.4 million above the November estimate.
- FY 24 collections have been better than anticipated due to stronger growth in employment and wages, persistent inflation, and improved retail sales.
- Sales tax growth expectations for both FY 24 and FY 25 remain below historical (10-year, pre-pandemic) sales tax growth.
- Overall, consumers have begun moderating the mix of money spent on goods and services; however, savings are historically less due to price increases. The savings rate is expected to return to historic trends through 2026.
- As wages and salaries continue to grow, although at a slower rate than in 2023, consumers may have the ability to save more of their income while continuing to spend at or close to current levels. A faster change in consumer behavior, slower wage growth, or higher inflation could, however, still impact collections.
- Working estimates for Sales tax reflect 2.0 percent growth in FY 24 and 1.9 percent growth in FY 25 based on current revenue collections and the aforementioned assumptions. For reference, November estimates reflected 1.1 percent growth in FY 24 and 1.7 percent in FY 25.

Deed Recording Fees:

- Collections have been better than expected by $8.1 million, and the FY 24 revision reflects year-to-date performance. The working estimate reflects a negative 12.0 percent growth rate compared to November's estimate of negative 16.9 percent.
- While it was expected that the housing market may loosen, the uncertainty about how buyers and sellers may respond to these changes in dynamics results in the FY 25 working estimates reflecting no growth.

Beer and Wine and Alcoholic Liquor Taxes:

- Beer and Wine revenues and Alcohol revenues are ahead of estimates by $500,000 and $600,000, respectively.
- No change is recommended as these revenues are close to expectations.

Ms. Jolliff presented Corporate Income tax and Corporate License tax. Her key points included:

- Corporate Income tax collections continue to exceed expectations and are $355.7 million above the forecast; collections are running behind last year, but still well above estimates.
- Corporate Income tax is traditionally the most volatile of the major tax categories and, therefore, the most difficult to estimate.
- FY 24 collections are well ahead of expectations with strong tax filings in April.
- Concerns about a sharp decline in collections remain an issue for FY 25.

- US corporate profit growth has slowed to 1 percent for FY 23 and is about the same for the first half of FY 24; although national profits are growing, Corporate Income tax has started declining and is down 4.4 percent fiscal year-to-date.
- Corporate Income tax tends to follow retail sales trends. As retail sales growth has slowed and increased business costs from higher wages and interest rates may decrease profit margins, there are concerns for FY 25.
- The working estimate Corporate Income tax for FY 24 reflects year-to-date collections, whereas the FY 25 working estimate reflects a more cautious approach and a lower amount.
- Corporate License tax collections are currently running ahead of expectations by $13.1 million; the working estimates reflect year-to-date collections for FY 24 and modest growth of 2 percent for FY 25 above the revised FY 24 figure.

Mr. Vesely discussed Insurance and Bank taxes and the Earnings on Investments estimates. His key points included:

Insurance Tax Revenue:
- Insurance tax revenue collections through April totaled $259.2 million, $8.7 million behind the November estimate; the decline in Insurance tax revenue is attributable to a multi-year refund in January, and slower than anticipated insurance premium tax collections.
- The FY 24 working estimate is reduced by $17.8 million to $330.7 million, and the FY 25 working estimate is reduced by $20.2 million to $390.4 million due to these issues.

Bank Tax Revenue:
- Bank tax revenues through April totaled $46.4 million and are $12.1 million less than anticipated. While a decline in this category was anticipated, the decline is more than expected and does not match the trend in recent bank net income data.
- The new FY 24 working estimate is reduced to $51.1 million, and FY 25 working estimate is reduced to $55.1 million.

Earnings on Investments:
- The working estimate for Earnings on Investments was increased to $280 million in FY 24 and $220 million in FY 25 based on revisions submitted by the State Treasurer's Office.

IV. Discussion and Consideration of Updates to the FY 2023-24 and FY 2024-25 Forecasts

Mr. Rainwater then presented the proposed General Fund Revenue Forecast, and highlighted the following points:
- Summary of previous points:
  - Economic conditions and expectations are still positive.
  - SC continues to see growth in income and employment.
  - Maintain basic economic assumptions.
- The proposal is to raise the FY 24 estimate by $466.9 million and the FY 25 estimate by $136.2 million.

- While $466.9 million is a large amount, the FY 24 estimate still reflects a general leveling in revenue expectations from the post pandemic and income tax rate cut environment; this leveling, however, is marginally more positive.
- The current excess of $645 million is driving the proposed adjustments to the forecast with a few exceptions.
- The working estimate lowers the current excess to within the three percent target range.
- Working estimates do not reflect fully the current excess since normal variations and unanticipated events are always a risk. For example: one year prior, $200 million was held back, but the actual surplus fell to $61 million when the fiscal year ended.

Mr. Rainwater then presented the recommended forecast on pages 39 and 40 of the posted meeting materials for consideration by the Board.

His key points regarding the forecast included:

- FY 24:
  - Increasing Corporate Income tax by $380 million and Earnings on Investments by $90 million.
  - Increases in Sales tax, Corporate License, and Deed Recording fees are offset by decreases in Individual Income, Insurance, and Bank taxes.
- FY 25:
  - Corporate Income tax is increased by $165 million, which is higher than the $136 million recommended net change.
  - Increases in Sales tax and other categories, namely Earnings on Investments, are offset by decreases in Individual Income, Insurance, and Bank taxes.
- The net expectation is that FY 25 revenues will be $2.1 million, or 0.015 percent lower than FY 24, which is basically flat.
  - The largest items, Sales and Individual Income taxes, are estimated to grow, along with most other categories.
  - Corporate Income tax is a concern, and the estimate reflects a $234 million decrease.
- Other Funds:
  - Education Improvement Act (EIA) revenue is increased by $11.3 million for FY 24 and $6.4 million in FY 25.
  - Lottery estimates are increased by $32.7 million in FY 24 but decreased by $3.1 million in FY 25 due to projected lower interest earnings.

Mr. Rainwater noted that estimates do not include any legislative adjustments for bills enacted or pending adoption in 2024. The Budget Conference Committee will need to adjust the total estimate for any changes.

Chairman Grimball asked if the $467 million adjustment for FY 24 is non-recurring funds, and the $136 million adjustment for FY 25 is recurring funds, and Mr. Rainwater confirmed that Chairman was correct.

Dr. Mikota stated that the adjustments made were wise in order to have a buffer for the unknown Corporate Income tax outcome. He also stated that staff did a great job and developed a strong forecast.

Dr. Mikota motioned to approve the General Fund Revenue Forecast outlined on pages 39 and 40 of the presentation. Mr. Hutto seconded the motion, all voted aye, and the revised forecast was adopted.

V. Budget Outlook

Ms. Jolliff presented the following key points:

- Based on the BEA forecast in February 2024, the Individual Income tax top marginal rate will be reduced from 6.4 percent to 6.3 percent for tax year 2024.
- Revised estimates of the tax cut (5/20/2024) reflect a smaller impact. Total cost is estimated as follows:
  - FY 2023-24: ($4,635,000)
  - FY 2024-25: ($93,359,000)
- These adjustments are included in the following budget figures; however, budget figures do not include any adjustments for legislative changes adopted or pending adoption by the General Assembly this year.
- Estimated "New" General Fund Revenue Available for Appropriation (less Reserve Fund Contributions): $815.7 million.
- Total Non-recurring Revenue: $1.337 billion.

Mr. Hutto asked if the Working Estimates (pages 39 and 40) include the FY 2024-25 tax impact, and Ms. Jolliff replied that no, the tax impact is listed in the Budget Outlook only.

Mr. Rainwater announced that there will be a press release on the forecast revisions immediately following the meeting.

Mr. Rainwater emphasized the assistance and contribution to the analysis received from other State agencies, including, but not limited to, the Department of Revenue, the State Treasurer's Office, the SC Lottery Commission, the Comptroller General's Office, and the Executive Budget Office.

Chairman Grimball noted that the Board Members individually coordinated thoughts and feedback on analysis with Frank and staff.

VI. Reports from Working Group Members
No Working Group members offered comments.

VII. Other Items for Discussion
No items for discussion.

VIII. The next scheduled meeting is June 20, 2024.

IX. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 9:51 a.m.

Public notice of this meeting was posted at http://rfa.sc.gov and the Rembert Dennis Building.

These minutes were approved on 6/20/2024

Emily Prosser Emily Prosser