



MEMORANDUM FOR THE RECORD

Date: August 22, 2024, 9:00 a.m.
Location: Revenue and Fiscal Affairs Office, Conference Room 417/Web Conference
Subject: Minutes of Board of Economic Advisors Meeting

Participants: *Board Members* – Edward Grimball- Chairman, Curtis Hutto, and Dr. Michael Mikota (*all via web conference*). Frank Rainwater- Executive Director, *Staff* – Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely; *Guest Speaker* – Nick Clerkin (North Carolina General Assembly) **Attendees:** *RFA* – Paul Athey, Chris Finney, Kathryn Kelley, and Emily Prosser. *Forty-one additional participants via web conference.*

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 web conference.

- I. Chairman Grimball welcomed everyone to the meeting at 9:00 a.m.
- II. Chairman Grimball presented the June 20, 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 welcomed the guest speaker, Mr. Nick Clerkin, and thanked him for taking the time to participate in the meeting and give his insights.

- III. Final FY 2023-24 General Fund Revenues ([See materials](#))

Mr. Rainwater began the presentation by thanking the Comptroller General, Brian Gaines, and his staff in providing revenue details in advance of his official year-end release to accommodate this meeting. He then stated that there were two purposes for the meeting: 1) to review the final FY 24 revenues and the budget surplus, and 2) to discuss the impact of final FY 24 revenues on any potential revisions to the FY 25 estimate. He also noted that the guest speaker, Mr. Nick Clerkin, legislative economist with the North Carolina General Assembly Fiscal Research Division, will share perspectives on the North Carolina revenue situation.

Mr. Rainwater presented the final FY 24 revenue and noted that revenues exceeded estimates by \$355.3 million but were within the 3.0 percent target range. The bulk stemmed from Corporate Income tax (\$131.0 million), Refunds of Individual Income tax (\$56.8 million), and Earnings on Investments (\$42.9 million).

He then discussed final FY 24 in relation to the FY 25 estimate and noted that while revenues were in a good position to have another surplus in FY 25, the degree of the surplus could not be quantified at this time.

Mr. Vesely discussed the growth of employment in South Carolina, highlighting:

- Employment in South Carolina grew 3.0 percent in FY 24 compared to the November 2023 estimate of 1.8 percent.
- This employment growth is slower than the two previous fiscal years, though it is above the 2.1 percent annual average of fiscal years 2010-2019.
- The labor market will continue to be monitored for its potential impact on revenues, and the employment forecast will be evaluated in upcoming meetings.

Staff presented on the main components of General Fund revenue.

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

Withholdings:

- Total Withholdings for FY 24 amounted to approximately \$6.77 billion, which is about \$15 million ahead of the May estimate.
- Total Withholdings ended FY 24 approximately 2.0 percent lower than in FY 23 (which is mainly due to the tax table adjustment for 2023), but this is slightly better than the expected 2.2 percent decline.
- Although April was a strong month as Withholdings were almost \$100 million higher than in April 2023, both May and June were almost on par with the same months in 2023 resulting in close to no growth during these last two months of the fiscal year.

Non-withholdings:

- Non-withholdings came close to the May estimate and ended FY 24 at approximately \$1.64 billion, which is \$31.5 million ahead of projections.
- This was mostly due to a very strong growth in June declarations of 19.5 percent, or an increase of more than \$25 million over the same month in 2023.
- Similar to Withholdings, a decrease was expected for the fiscal year of about 5 percent, but Non-withholdings ended with a smaller decline of only 3.1 percent relative to FY 23.

Refunds:

- Refunds declined by 19.3 percent in FY 24, which is considerably slower than expected in the November forecast (28.2 percent decline).
- This was mostly due to stronger Withholding collections in 2023 supported by the strong wage growth during the fiscal year.
- Total Refunds for FY 24 were approximately \$2.29 billion, which finished \$56.8 million below the May forecast.

Ms. Daigle discussed Sales tax. Her key points included:

- July Sales tax revenue was \$12.1 million below expectations, falling by 1 percent over last year. This was not surprising given the changes in the calendar this year. July 2024 had four weekends compared to five last year, whereas June 2024 collections grew 8 percent because the month had five weekends instead of the four in June 2023.
- Overall, Sales tax revenue ended FY 24 slightly above expectations at \$31.5 million above the estimate. Collections for the fiscal year grew 2.7 percent compared to the 2.0 percent forecasted growth.

- Notably, US retail sales still seem to be tracking closely with Sales tax collections.

Ms. Jolliff discussed Corporate Income tax. Her main points were:

- Following strong collections in June, Corporate Income tax ended \$131 million above the estimate for FY 24, growing 2.4 percent over FY 23.
- Total collections reached \$1.29 billion for the fiscal year.
- Staff has reached out to the Department of Revenue to ask for any additional insights on the distribution of income and industry sectors impacting Corporate Income tax to assist in forecasting the category.

Mr. Rainwater then discussed final FY 24 in relation to the FY 25 estimate and noted that while revenues were in a good position to have another surplus in FY 25, the degree of the surplus could not be quantified at this time.

Mr. Rainwater summarized the presentation by noting:

- Total General Fund revenue finished \$355.3 million above expectations, or within 2.7 percent of estimates.
- After final accounting adjustments, FY 24 finished with a budgetary excess balance of \$331.6 million, which will be transferred to the Contingency Reserve Fund.
- Actual collections were only slightly better than estimated in Withholdings and Sales tax, the two largest categories.
- However, the majority of the excess is in Corporate Income tax and Earnings on Investments. Individual Income tax declarations (Non-withholdings) and lower than expected Refunds in June also contributed to the excess in the final quarter.
- Based on an initial review, the FY 24 excess is not expected to result in a significant base revenue adjustment for FY 25.

Ms. Jolliff presented issues affecting FY 2024-25 and FY 2025-26. Her key points included:

- Returns with extensions for tax year 2023 that were due in October 2024 now have until February 2025 to file, which we will consider in estimating the monthly pattern for FY 2024-25.
- Impact of accelerated Income tax rate reductions for FY 2025-26 budget:
 - The Individual Income tax rate for tax year 2024 was reduced an additional 0.1 percent from 6.3 percent to 6.2 percent in the FY 2024-25 budget.
 - This was a one-time provision and if revenue growth is not large enough to trigger an automatic reduction, maintaining the 6.2 percent may be a policy decision for the legislature.
 - The November 2024 estimate will provide a preliminary indication of whether the revenue growth over the budget base will be sufficient for an automatic rate reduction.
- Tax Cuts and Jobs Act (TCJA) expiration:
 - The federal TCJA, which made extensive changes to a number of provisions including the standard deduction and personal exemption, will expire at the end of tax year 2025.

- Because SC annually conforms to the federal tax code, the TCJA and any action by Congress to extend or amend these provisions will potentially affect SC’s income tax structure for tax year 2026. This could have a marginal impact on revenues for FY 26, but a much larger impact may be seen in FY 27.
- At this time, the forecast for FY 26 will assume that the TCJA is extended, and we maintain the status quo because there is no way to estimate: 1) what action Congress will take, or 2) what action the General Assembly may take in response.
- Staff will continue to monitor this situation but mainly anticipate it will be an issue next year for FY 27.
- Manufacturing Value Exemption to reach \$170 million cap in FY 26:
 - The cost of this exemption is one of the items that is deducted from the revenue estimate before developing the state budget.
 - The manufacturing value exemption provides an exemption of 42.857 percent of the property tax value for manufacturers.
 - Local governments are reimbursed for the exemption from the Tax Relief Trust Fund, which is funded through a transfer from the General Fund annually.
 - The manufacturing exemption is capped at \$170 million and must be proportionally reduced in any year in which the reimbursement is expected to exceed \$170 million.
 - Based on preliminary discussions with the Department of Revenue, we anticipate that the reimbursement will grow to over \$170 million for FY 26, triggering the reduction in the exemption.

Mr. Rainwater then previewed the next two meetings in preparation of the November estimate:

- September will focus on current revenue and economic trends affecting FY 25.
- October, with the panel of guest economists, will focus on additional insights for FY 25 as well as longer-term expectations for FY 26.

Members asked questions throughout the presentation which generated further discussions between Members and staff.

IV. Insights and Perspectives from North Carolina

In preparation for the November forecast, the BEA invited a guest to share his insights on the economy over the next two years. In October, the BEA will hear from additional speakers as well.

- Nick Clerkin – [North Carolina General Fund Revenue and Outlook](#)

The information shared by Mr. Clerkin generated questions and further discussion between the speaker, Members, and staff.

V. Reports from Working Group Members

No Working Group members offered comments.

- VI. Other Items for Discussion
No items for discussion.
- VII. The next scheduled meeting is September 19, 2024.
- VIII. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 10:24 a.m.

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

These minutes were approved on 9/19/2024

Emily Prosser *Emily Prosser*