



MEMORANDUM FOR THE RECORD

Date: October 14, 2024, 10:30 a.m.
Location: S.C. Association of Counties/Web Conference
Subject: Minutes of Board of Economic Advisors Meeting

Participants: *Board Members* – Edward Grimball- Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell. Frank Rainwater- Executive Director, *Staff* – Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely; **Attendees:** *RFA* – Paul Athey, Kathryn Kelley, and Emily Prosser; Abby Berquist (House Ways and Means), Kevin Etheridge (Executive Budget Office), Brian Ford (SC Lottery), Dolly Garfield (SC Lottery), Grant Gibson (Senate Finance Committee), Bryan Grady (Dept. of Employment and Workforce), Anne Langley (SC Lottery), Stephanie Meetze (House Ways and Means), Meredith Ross (House Ways and Means), Jake Scoggins (Senate Finance Committee), David Seigler (Executive Budget Office), Lainey Stalnaker (Dept. of Employment and Workforce), and Marc Truesdale (House Ways and Means). *Sixty 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 10:36 a.m.
- II. Chairman Grimball presented the September 19, 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 acknowledged a sad moment for the agency with the passing of Ms. Sandra Kelly, RFA's Division Director for Compliance, Communications, and Technology. He recognized her dedicated service to the state and her career accomplishments and accolades. He concluded by asking the Board, staff, and guests to observe a moment of silence in her memory.

- III. Revenue and Economic Update ([See materials](#))

Mr. Rainwater noted that the morning meeting involves an update on monthly and first quarter revenue results, as well as sharing a significant amount of information on key trends and concepts affecting our underlying economic assumptions and forecast recommendations.

He then expressed his gratitude to the panel of economists, who will participate in the afternoon session by providing their insights and perspectives on the working assumptions.

Mr. Rainwater presented the FY 25 General Fund revenue update and noted that revenue collections in September were significantly above expectations by \$173 million, with Corporate Income tax again leading with an excess of \$98 million.

As a result, the revenue excess for FY 25 through September stands at \$322 million. Corporate Income tax and Earnings on Investments accounted for \$205 million of the \$322 million. Total revenues, however, remain within the 3 percent target range.

Mr. Rainwater concluded by listing various tax relief measures by the IRS and Department of Revenue to extend deadlines in response to Hurricane Helene and noted these actions may affect the timing of revenue and our assumptions about growth expectations.

Staff then presented on the main components of General Fund revenue.

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

Sales tax:

- September sales tax revenue collections grew by 2.3 percent over last year; cumulatively fiscal year-to-date collections are growing by 2.3 percent as well and are \$6.7 million above the estimate.

Goods and Services:

- The percentage of spending on goods as a share of total consumer spending has returned to historical trends; however, growth in spending on goods remains below historical levels. This below-average growth may be attributable to the pricing dynamics of goods and services (currently, spending on services is growing faster than historical rates and spending on goods), as well as increases in the personal saving rate based on recent data revisions.
- Based on the portion of disposable income that consumers are saving and spending on retail, their current levels of consumption are sustainable, but growth in the consumption of goods may not return to historical levels until the prices of goods and services balance back toward their respective historical growth rates.

Deed Recording Fees:

- Deed Recording fees are currently ahead of expectations by \$5.5 million. August and September collections were better than expected as mortgage rates continue to decrease from their recent peak in October of 2023.

Other Consumption taxes:

- Alcoholic Liquor collections are running behind expectations by \$700,000; fiscal year-to-date collections are growing by 1.7 percent versus 5.3 percent estimated year-to-date.
- Beer and Wine collections are \$100,000 below estimates; fiscal year-to-date collections are growing by 2.0 percent, tracking very closely to expectations.

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

Withholdings:

- The cumulative amount of Withholdings during the first quarter of the current fiscal year is approximately \$1.7 billion, which is ahead of the May forecast by \$78.7 million, and results in a 9.0 percent growth over the same period last year.
- September Withholdings were particularly strong as collections were 14.6 percent higher than in September 2023.

Wages and Salaries Growth:

- The dynamics of wages and salaries in SC is the primary factor affecting Withholdings.
- Growth had moderated during FY 23, but it gained momentum again in FY 24 with growth reaching 9.0 percent in the last fiscal quarter, which is considerably higher than the historical pre-pandemic range of 4.0 to 6.0 percent.
- Income growth is expected to gradually drop back to this historical range in FY 25.

Non-withholdings:

- Total collections during the first quarter of the current fiscal year were approximately \$285 million, which is about \$34.2 million higher than the estimate for the quarter.
- September collections were particularly strong, as they were approximately 18.0 percent higher compared with the same month last year.
- Non-withholding collections are influenced by the dynamics of financial markets.
- Over the last couple of years, SC experienced growth in both dividends and interest, but this growth moderated throughout FY 24.
- Interest income is expected to start declining in 2025, as the Federal Reserve continues its expansionary monetary policy.
- Another important factor influencing Non-withholdings is the return on financial investments in the stock market.
- US stock market performance has been considerably stronger in 2024 than 2023, with the S&P 500 index so far in October growing 35.8 percent over the same period last year.

Refunds:

- The cumulative amount of refunds during the first quarter of the current fiscal year is approximately \$142 million, which is below the May forecast for the quarter by \$3.3 million.
- Total refunds in September were approximately 5.4 percent higher compared with the same point last year.
- Refunds are expected to grow by 16.0 percent in FY 25 due to stronger-than-expected Withholdings in FY 24, as well as the marginal tax rate reduction.

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

Corporate Income tax:

- First quarter collections were \$139.9 million above expectations following the largest September ever at \$250.3 million for the month.
- This category may be impacted by timing changes in upcoming months from the hurricane tax relief provisions, and staff will work with the Department of Revenue to try to evaluate how the timing changes are affecting collections.
- Corporate Income tax collections in the last quarter of the fiscal year are typically close to half of the fiscal year total, demonstrating the importance of tax filing and final payments in Corporate Income tax revenue.

- The Department of Revenue provided a data set of the top 100 corporate taxpayers from 2023 based on their tax liability and their tax filings during the prior 4 years; the department also provided the high-level industry classifications for each of the companies.
 - Corporate Income tax liability for the top 100 taxpayers grew across industries between 2019 and 2023.
 - The share of Corporate Income tax from the top 100 taxpayers is diversified but shifted between industries from 2019 to 2023, with the Retail and Finance & Insurance sectors shrinking versus Construction and Manufacturing sectors growing.

Ms. Jolliff expressed appreciation for the Department of Revenue and staff for their assistance in obtaining the data for Corporate Income tax liability by industry.

Corporate License tax:

- Collections were \$4.3 million below expectations through September; however, over half of the annual collections are typically received in October and November.
- This category may be impacted by timing changes from the hurricane provisions as well.

Mr. Vesely discussed Insurance tax and Bank tax. His key points included:

- Through September, Insurance tax collections were \$11.2 million behind the estimate, mostly due to lower license fees collections. However, insurance premiums revenue is up 2.3 percent compared to this time last year.
- October data will indicate if this is a potential timing issue or if there is a slowdown in insurance licensing revenue that may need to be reflected in the November 2024 estimate.
- Bank tax revenue collections totaled \$20.3 million so far this fiscal year, which is \$3.6 million above expectations. However, a \$5.0 million audit payment is included in this number.

Mr. Rainwater then presented the staff working estimates and key assumptions for FY 2024-25 and FY 2025-26 that will be discussed later in the day with the panel of economists. These estimates included:

Personal Income:

- Both the Wages and Salaries component and the Interest and Dividends component of Personal Income are expected to slow down closer to historic trends in response to:
 - Inflation
 - Interest Rates
 - Labor market dynamics
 - Global geopolitical issues
- Growth in personal income is expected to be slower over the next two fiscal years than the last three fiscal year (FY 25: 5.7 percent; FY 26: 4.6 percent).
- The growth rate is expected to decline from the FY 24 rates (FY 25: 5.7 percent; FY 26: 4.6 percent; long-term trend: 5.5 percent).

Employment:

- Migration and economic development are expected to keep employment growth higher in SC than the nation as a whole.
- However, lower employment growth is expected over the next two fiscal years compared to last fiscal year as labor demand slows.
- Estimates assume a return to long-term trends, slowing down from the current pace of employment growth.

Inflation:

- FY 25: 2.4 percent; FY 26: 2.5 percent (Comparison September forecasts: S&P: 2.3 percent, 2.6 percent; Wells Fargo: 2.3 percent, 2.4 percent).

Mr. Rainwater concluded the presentation with a comparison of revenue as a percentage of personal income and noted that these relationships had changed during the pandemic but were returning to a more historical pattern, which may indicate that revenues may not grow as fast as the economy.

At the conclusion of Mr. Rainwater's presentation, Chairman Grimball called a recess of the meeting at 11:32 am for lunch.

Chairman Grimball called the afternoon session of the meeting to order at 12:24 pm.

IV. Economic Outlook for FY 2024-25 and FY 2025-26

Chairman Grimball welcomed everyone to the meeting, with a special welcome to the panel of guest economists.

Mr. Rainwater began by reviewing the working assumptions and data for FY 2024-25 and FY 2025-26.

The panelists, Dr. Laura Ullrich, Ms. Jackie Benson, Dr. Russell Sobel, Dr. Joseph Von Nessen, Dr. Robert Carey, and Dr. Frank Heffner, then shared their economic presentations and perspectives on the working assumptions:

- Dr. Laura Ullrich – Senior Regional Economist, Federal Reserve Bank Charlotte Branch:
[National and Regional Economic Update](#)
- Ms. Jackie Benson – Vice President and Economist, Wells Fargo Economics:
[South Carolina Economic Outlook](#)
- Dr. Russell Sobel – Distinguished Professor of Economics and Entrepreneurship, The Citadel:
[BEA Regional Advisory Committee](#)
- Dr. Joseph Von Nessen – Research Economist, University of South Carolina:
[The South Carolina Economic Outlook](#)
- Dr. Robert Carey – Senior Lecturer and Director of Regional Economic Analysis Laboratory, Clemson University:
[Musings on the South Carolina Economy](#)
- Dr. Frank Hefner – Professor of Economics and Director of Office of Economic Analysis, College of Charleston:
[BEA Economic Outlook with Increasing Uncertainties](#)

