

MEMORANDUM FOR THE RECORD

Date: February 15, 2022, 1:00 p.m.
Bowers Conference Room, Room 417 / Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball, Chairman (via Zoom), Emerson Gower (via Zoom), Alan Clemmons (via Zoom), and Hartley Powell (via Zoom). Frank Rainwater, Executive Director; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and David Patterson. *Forty additional participants via Zoom (see attached).*

Note: Due to COVID-19 policies all Guests participated via Zoom. An email invitation was sent to the BEA 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. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email.

- I. Chairman Grimball welcomed everyone to the meeting at 1:01 p.m.
- II. Chairman Grimball presented the January 20, 2022 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*)
- III. Mr. Rainwater began the presentation by summarizing the key factors affecting today's recommendation as follows:

The pandemic and federal stimulus programs were classic "shocks" to our economy and revenue. These shocks resulted in significant changes in consumer and business behavior and broke the historical relationship between growth in the economy and tax collections. These shocks, however, are temporary in nature and the effects are expected to wane; we still expect a return to more historical trends in economic and revenue performances. Since November, we have learned that this temporary effect is lasting longer than thought previously. We have seen that different taxes are affected differently. We have seen also, that other states are experiencing similar extraordinary revenue results. There is general agreement that this current boost will end but there is a lack of consensus or even an indication when this trend will shift again. We remain cautious about relying on current trends in developing a budget. The risk of over-estimating from relying on above average growth could pose serious consequences on the budget.

Mr. Rainwater presented information regarding the General Fund Revenues, Results through January 2022, FY 2021-22. The main points included:

- Total General Fund Revenue is \$853.0 million above the estimate.
- Sales Tax is growing 20.0% and is \$230.1 million above the estimate.
- Individual Withholdings is growing 14.7% above last fiscal year.
- Corporate Income Tax is growing 88.9% and is \$154.3 million above the estimate.
- Insurance Tax is within \$10 million of the estimate.
- General Fund Revenue – Actuals vs. Estimates: Revenues continue to grow faster than expected and are \$853.0 million above the estimate year-to-date.

Mr. Rainwater presented a Review of FY 2021-22 and FY 2022-23 Forecasts and Assumptions*, which included the following key points included:

**The presentation included a Working Estimate which represented proposed changes to the November 2021 assumptions and estimates.*

- Economic Assumptions:
 - Employment: Year-over-year employment growth higher than expected (0.9% forecasted, 2.4% actual). Note: BLS publishes comprehensive data revisions in March.
 - Personal Income: Income growth higher in calendar year Q3 than anticipated (8.6% forecasted wage growth, 10.3% actual).
- Employment – Working Estimate: Working Estimate in FY 2021-22 and FY 2022-23 considers faster than expected employment growth.
- Employment Estimates: Working Estimate reflects higher actual growth in FY 2021-22.
- SC Personal Income: Working Estimate in FY 2021-22 and FY 2022-23 considers higher than anticipated wage growth in Q3 (8.6% forecasted wage growth, 10.3% actual).
- Personal Income Estimates: Working Estimate reflects actual growth, recent stimulus, and return to long-term trend.
- General Fund: Working Estimates for FY 2021-22 and FY 2022-23 remain above the historical trend.
- General Fund: Working Estimate accounts for temporary higher growth in FY 2021-22 and a return to more normal activity in Sales and Corporate in FY 2022-23.
- Sales Tax – Key Considerations:
 - Federal stimulus from 2020 and 2021 continues to allow for increased consumer spending due to excess savings, driving up Sales Tax growth.
 - Historically, Sales Tax grows close to 4.5% in a fiscal year.

- FY 2020-21 observed total growth of 16.4%, with growth in Q4 alone reaching 32.0% over Q4 FY 2019-20.
- FY 2021-22 Q1 and Q2 growth continued to be elevated, reaching a cumulative 20.0%.
- The FY 2021-22 working forecast accounts for the high growth observed year-to-date while anticipating a return to slightly elevated historical growth the second half of 2022 and in FY 2022-23.
- Individual Income Tax – Key Consideration:
 - The Working Estimate for Withholdings accounts for elevated wage growth and new base for FY 2022-23.
 - Non-withholdings are slightly elevated, but underlying trends appear to have stalled, and tax season uncertainty remains. The working estimate for Non-Withholdings remains unchanged as a result.
 - Refunds are slightly below the Estimate, but the vast majority will not be processed until tax filing season.
 - The Working Estimate anticipates a slight decline for Refunds in FY 2021-22 and a slight increase in FY 2022-23 to account for economic trends.
 - In total, the combined Working Estimate for Individual Income Tax increases the FY 2021-22 estimate by \$397.2 million and the FY 2022-23 estimate by \$384.5 million; adjustments to Withholdings are the main driver.
 - The Working Estimate incorporates legislative adjustments.
- Corporate Income Tax – Key Considerations:
 - Corporate Income Tax is the most volatile of the major tax categories.
 - Elevated retail sales growth is translating into increased Corporate Income Tax collections this year.
 - FY 2021-22 is \$154.3 million above the current forecast of \$657.5 million; if this growth trend continues, collections could reach well over \$900 million.
 - Next year, retail trade and Sales Tax are expected to trend back to historical levels, which would lower Corporate Income Tax collections.
 - Given the volatility, tax season, and potential for lower growth in the spring relative to last year, the Working Estimate increases the FY 2021-22 estimate by \$150.1 million to \$807.6 million based upon estimated surplus.
 - The Working Estimate increases FY 2022-23 estimate by \$32.4 million to \$560.4 million, and the decline from FY 2021-22 is largely due to expected slower retail trade and Sales Tax activity.
- Summary of Proposed Forecast Changes – FY 2021-22:

- Working Estimates for FY 2021-22 result in a total increase of \$921.0 million over the November 2021 estimate.
- Sales, Individual Income, and Corporate Income are adjusted upward by \$837.9 million.
- Bank, Insurance, and Deed Recording Fees are adjusted up by \$63.8 million – mainly accounting for YTD growth.
- Other revenues are adjusted upward by \$19.3 million, including \$6.5 million in Indirect Cost Recoveries.
- Summary of Proposed Forecast Changes – FY 2022-23:
 - Working Estimates for FY 2022-23 result in a total increase of \$621.5 million over the November 2021 estimate.
 - Sales estimate for FY 2022-23 is revised upward by \$143.8 million.
 - Individual and Corporate Income are revised upward by \$384.5 million and \$32.4 million, respectively.
 - Bank and Insurance are revised up by \$16.9 million and \$15.4 million, respectively.
 - Other revenues are adjusted upward by \$28.6 million, including \$10.0 million in Earned on Investments and \$9.4 million in Indirect Cost Recoveries.
 - Decrease in revenue is due to Sales and Corporate returning to more normal levels from pandemic/stimulus highs.

Mr. Rainwater then presented the Proposed General Fund Revenue Forecast on page 35 and 36 of the meeting materials for consideration by the board.

Chairman Grimball commented that “a return to the trend line” in some instances may mean we will return to the direction of the trend but perhaps at a higher base. Mr. Rainwater agreed.

Mr. Gower commented this is a cautious yet logical approach.

Mr. Clemmons motioned to approve the General Fund Revenue Forecast presented on pages 35 and 36 of the meeting materials. Mr. Gower seconded the motion and all voted aye.

Ms. Jolliff presented information on the Budget Outlook for FY 2022-23 based on the revised forecast. The key points included:

- FY 2022-23 Budget Outlook – Recurring General Fund: Estimated “New” General Fund Revenue Available for Appropriation is \$1.519 billion.
- FY 2021-22 Budget Outlook Nonrecurring General Fund and Select Other Funds: Projected FY 2021-22 General Fund Surplus of \$1.901.6 million, FY 2021-22 Capital Reserve Fund \$183.6 million and FY 2020-21 Contingency

Reserve Fund of \$1,023.8 billion totals \$3.109 billion in Total Non-Recurring Revenue for FY 2021-22 Budget.

- FY 2022-23 Budget Outlook – Select Other Funds
 - FY 2021-22 HEX Fund Surplus/(Shortfall) - \$124.4 million
 - FY 2022-23 HEX Fund Surplus/(Shortfall) - \$23.0 million
 - FY 2021-22 EIA Surplus/(Shortfall) - \$155.9 million
 - FY 2022-23 “New” EIA Revenue - \$110.2 million
 - FY 2021-22 Lottery Revenue - \$544.6 million
 - FY 2022-23 Lottery Revenue - \$545.3 million

Chairman Grimball, Mr. Gower and Mr. Clemmons thanked staff for their hard work and the clarity of the presentation for today’s vote on the proposed forecast.

- IV. Reports from Working Group Members
No Working Group members offered comments.
- V. Other Items for Discussion
- VI. The next scheduled meeting is the BEA Meeting on Thursday, March 17 beginning at 1:00 p.m.
- VII. Mr. Clemmons motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 1:38 p.m.

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

These minutes were approved on April 7, 2022

Kathryn Kelley

Sandra Kelley for Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

Weston Watts
Ragan Griffith
Amanda Martin
Will Tipton
Lisa Wren
Mary Katherine Miller
Stephen Gardner
David Morrison

Guests:

Mary Martha Greene
Kevin Etheridge
Joseph Bustos
C. Huffman
Harry Miley – Richland 2 Finance
Marissa Evans
Steffanie Dorn
Billy Routh
J. Horton
Seanna Adcox
Shelley Allen
Brad Wilson
Julie Cox
David Seigler
Tim Derrick
M. Moore
Gavin Jackson
Shelly Kelly
Ryan Burnaugh
Tim Hardee
Richard Hutto
Mike Addy
Lisa Gibson
Kathy Johnson
Katie Turner
Jeffrey Collins - AP
R. Stack
Rick Blackwell
Robert Macdonald