

MEMORANDUM FOR THE RECORD

Date: September 15, 2022, 1:00 p.m.
Revenue and Fiscal Affairs Office/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball-Chairman (via Zoom), Emerson Gower (via Zoom), and Curtis Hutto. Frank Rainwater, Executive Director; *Staff* – Paul Athey, Ben Coomer, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and Mary Katherine Miller; *Guest Speakers* – Barbara Melvin (SC Ports), Bob Morgan (SC Chamber of Commerce) (via Zoom), and Justin Powell (SCDOT); *Guests* – Michael Jackson (SC Ports), Janie Traywick (SC Ports). *Forty-six additional participants via Zoom (see attached).*

Note: Guests were invited to attend 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 1:00 p.m.
- II. Chairman Grimball presented the August 25, 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 materials)*

Chairman Grimball opened the meeting with the following statement:

We want to welcome everyone to the meeting today and a special welcome to our guest speakers, Barbara Melvin, Bob Morgan, and Justin Powell. Their comments, insights, and vision will be invaluable to the board as we continue our economic forecast for the remainder of FY 23 and for FY 24.

- III. Presentations on Economic and Revenue Reports, full presentation attached:

Mr. Rainwater made several prefatory remarks:

Today begins our process and is the first of three meetings we will have to determine the updated Fiscal Year 2023 estimate and the preliminary estimate for Fiscal Year 2024. Today's meeting is about sharing ideas and information. From a staff perspective we are going to show you some of the key statistics we are focused on, but we also have industry representatives who are living this economy on a daily basis, and we appreciate their insights and comments on their perspectives around South Carolina.

Mr. Rainwater presented information regarding the FY 2021-22 Final Revenues. His comments included:

- General Fund – FY 22: Revenues ended \$880.1 million above the estimate for FY 2021-22, growing at 23.1% compared to 15.2% estimated as anticipated decline in 4th quarter growth did not occur.
- Sales Tax – FY 22: Collections grew 15.1% compared to forecast of 8.6%, growing 9.0% in the last quarter of FY 2021-22 over 22.5% growth the prior fiscal year.
- Total Individual Income Tax – FY 22: Strong tax season resulted in 25.9% growth for the year, above the 18.6% forecast.
- Corporate Income Tax – FY 22: Collections grow 68.8% in FY 2021-22 compared to forecasted growth of 46.8%, finishing over \$1.1 billion as revenue growth accelerated in the last quarter.

Mr. Rainwater presented information on FY 2022-23 Revenue. His comments included:

- Total General Fund –Compared to Pre-pandemic Trend: Revenue collections can decline by 18.9% and meet the forecast; negative growth is anticipated due return to historical patterns and tax cuts.
- Sales Tax – FY 23: Collections for August grew 2.6%; however, last year’s collections included an audit payment of \$25 million; adjusting for the audit, collections grew 9.6%.
- US Retail Sales: Retail sales were flat in July largely due to lower gas prices and a drop in auto sales; Wells Fargo is anticipating a decline in retail sales through 2023.
- Deed Recording Fees – FY 23: August 2022 declined 14.2% compared to last year.
- South Carolina Home Sales and Prices: Total value of home sales slowed in July 2022, with a decline in both number sold and average price.

Mr. Coomer presented information on General Fund Revenue, Individual Tax Components. His comments included:

- Individual Withholdings FY23: Collections through August are 2.8% above the estimate; FY 23 estimated growth is 3.3% (0.4% with tax reform) after strong growth of 13.6% in FY 22.
- US Labor Market and Wage Growth: While growth in labor market tightness has started to weaken, conditions remain remarkably tight and continue to drive wage growth.

- Individual Non-Withholdings – FY 23: After two successive years of greater than 24% growth, collections for FY 23 are expected to decline 27.2% (34.2% with tax reform).
- Individual Refunds – FY 23: Refunds are currently estimated to grow 11.6% in FY 23 largely due to the impact of tax reform (33.9% with tax reform).

Ms. Jolliff presented information on General Fund Revenue, Business Taxes. Her comments included:

- Corporate Income Tax – FY 23: Forecast for FY 23 reflects a sharp decline but collections through August remain elevated.
- Corporate License Tax – FY 22: FY 22 finished above expectations, increasing 10.1% compared to the forecast of 6.8%.
- Corporate License Tax – FY 23: FY 23 forecast reflects growth of 2.5% from FY 22 actual.
- Bank Tax – FY 22: Collections dropped below expectations for the month of June 2022 and finished \$1.8 million below the estimate.
- Bank Tax – FY 23: FY 23 forecast expects a decline in collections of 18.3% from final FY 22
- Bank Performance: While net income improved in Q2 of 2022, FDIC expects downside risks from inflation, rising interest rates, slowing economic growth, and global uncertainties to challenge bank profitability going forward.

Mr. Rainwater presented information on Forecast Outlook for FY 2021-22 and FY 2022-23. His comments included:

- National Economic Indicators:
 - Real GDP Growth: US GDP growth slowed to 1.7% for Q2 2022.
 - Unemployment Rates: South Carolina’s unemployment rate of 3.2% as of July 2022 remains below the US rate of 3.8%.
 - US Consumer Price Index: Inflation has grown much more than anticipated this time last year and is expected to remain above historical levels through FY 23.
 - Inflation – Components: Energy, vehicles, housing, and food at home continue to be a large contributor to inflation but do not contribute to General Fund Sales tax.
 - US Dollar Index: The dollar has strengthened in the past year, indicating greater global trust in the US economy; American firms and consumers will be able to import more cheaply, but exports will be more costly.
- South Carolina Economic Indicators:

- South Carolina Employment: Nonfarm essentials has exceeded the estimate in recent months, settling 43,400 jobs above the July estimate.
- SC Personal Income: Personal income is growing well above the historical trend and expected to continue to be elevated through FY 2022-23.
- General Fund as a Percentage of Personal Income – Before Tax Reform: Changes in consumer behavior resulted in a higher percentage of income going to the General Fund in FY 22.
- Annual General Fund Revenue Growth: FY 22 revenue grew \$2.57 billion over FY 21; revenue can decline 18.9% and meet the current FY 23 estimate (after tax reform).
- General Fund Revenue Estimate – Key Factors: The current FY 23 estimate represents a decline of \$2.586 billion from actual FY 22 due to multiple contributing factors including tax reform.
- General Fund Revenue Scenarios v. Historical Recession Patterns: Recession trends range from the 1990-91 downturn at best to the Great Recession at worst.

Mr. Rainwater concluded his presentation by outlining key issues that need to be addressed in considering a new revenue estimate:

- Personal Income
 - Will wage growth continue or slow?
 - Will the US enter a recession and what level of impact will we see?
 - How long will the Federal Reserve continue to raise interest rates?
 - How will global economic issues affect SC's economy?
 - GDP
 - Energy prices
 - Supply chain issues
- Consumer Spending: Does consumer spending change due to inflation?

Mr. Gower asked if we have any numbers on population growth to which Mr. Rainwater responded that we do have some numbers that we can provide in more detail. South Carolina is one of the 10 fastest growing states in the nation; the retirement community is growing. Last year, was the first year in a long time that we have had a natural decrease in population, but we still grew due to migration despite having more deaths than births.

Mr. Hutto commented that the Federal Reserve interest rate will impact so many things. Mr. Rainwater commented that we're seeing mixed signs; right now, we are not seeing any slowdown in some areas, but some areas are starting to level off.

IV. Insights and Perspectives for FY 2022-23 and FY 2023-24

Ms. Barbara Melvin, President and CEO, SC Ports Authority made the following comments:

- Last year's great performance makes for this year's poor comparisons.
- South Carolina is number 8 in the top 10 container ports in the nation. The top 10 US Ports handle 85% of US Port volume
- SC Port has grown over the last 10 years through manufacturing goods. Through the pandemic the Port has diversified their market from manufacturing goods to retail goods.
 - During the pandemic with no real ability to spend on services, US import spending grew more than 20%.
 - The Port is now handling goods for the top 3 importers to the US, Walmart, Target, and Amazon.
- The southeast has always been a balanced region regarding imports and exports if you take out the anomaly of the pandemic. Balance in our port market will drive growth and we are working to get back to that.
- SC has concentrated on seven major capital initiatives to stay on the top 10 ports list.
- Import volume - TEU (Twenty-Foot Equivalent Unit), in Charleston was up 10% compared to August 2021 and 20% compared to August 2020.
- In summary, all signs are positive:
 - Population growth and the ability to manufacture and grow forest and agricultural products advantage the Southeast and allow for 2x the national port market growth (6% vs. 3%)
 - South Carolina has invested significantly in freight infrastructure, road and rail, creating capacity to handle this continued growth.
 - There is a strong business climate in South Carolina.
 - Given the lack of import distribution warehouse space in the US (300mil - 800mil sq feet short), there is significant opportunity to attract import retailers.
 - Our deep harbor allows for first-in, and last-out ocean carrier calls advantaging our ability to attract discretionary rail cargo and handle heavy export cargo.

Bob Morgan, President, SC Chamber of Commerce

- SC Chamber is currently on a grass roots tour of the state and has received the following feedback from their survey:
 - South Carolina is a good place to start and run a business. The big issues businesses are facing are:

- Not enough applicants or workforce. It is rare to find the skill sets needed and when they do find those skill sets businesses hope the workers show up and stay.
- South Carolina has a lower labor participation rate than neighboring states.
- Businesses are increasing wages, providing more training, and changing hiring practices.
- Businesses were asked how South Carolina can improve as a place to do business. Top responses were:
 - Lower the tax burden on businesses.
 - Improve K-12 education focusing on teacher retention and teacher pay.
- The business community is buzzing about a recession and inflation.

Mr. Justin Powell, Deputy Secretary for Finance and Administration, SC Dept. of Transportation

- SC must balance maintaining the 4th largest highway system in the nation in the 10th fastest growing state.
- Excellent progress is being made towards getting to a state of good repair.
- Thanks to recent actions at federal and state level, SCDOT can incorporate projects to deal with the growth and economic development of our state.
- SCDOT has dramatically increased its work and contractors have ramped up and expanded their operations statewide.
- Thanks to the recent actions at the federal and state level, SCDOT can incorporate projects into our 10-Year Plan to deal with the growth and development needs of our state.
- More federal funding is available to draw down:
 - Infrastructure Investment and Jobs Act adopted increased SCDOT's annual federal funding by \$250-300M, requiring additional state match to fully draw all possible dollars.
 - Establishes new programs like Electric Vehicles and Resiliency, as well as competitive grants.
- General Assembly actions that set the stage to update to 10-Year Plan to address growth and economic development needs:
 - Provided \$120M in match funds to fully draw down formula funds, as well as other states' unused funds and to pursue competitive grants.
 - Allocated \$453M in ARPA funds and \$133.6M in General Funds towards SCDOT's rural interstate capacity program.

- Appropriated \$250M toward County Transportation Committees for locally driven state and local road projects.
- Interstate Widening projects have been updated with additional funding which will accelerate both the I-95 and I-26 projects.

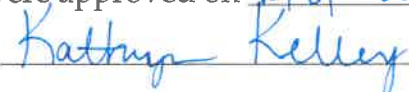
The information shared by the guest speakers generated further discussion between the speakers, Members, and staff. Chairman Grimball commented that these presentations were vital to the upcoming forecast and their expertise and time is greatly appreciated.

Additionally, Mr. Gower commended Mr. Rainwater and RFA finance staff on the audit report with zero findings.

- V. Reports from Working Group Members
No Working Group members offered comments.
- VI. The next scheduled meeting is the BEA and Regional Advisory Meeting on Tuesday, October 18, 2022, beginning at 10:30 a.m.
- VII. Mr. Hutto motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 3:15 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 10/18/2022

Kathryn Kelley 

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
Amy Simpson
Carrie Bundrick
Geoff Johnson
Lisa Wren
Rachel Passer
Ragan Griffith
Shannon Fields

Guests:

Brad
Brian Gaines
Bryan Kost
Catherine Hart
Chris Huffman
Daniel Boan
Debbie Elmore
D. Seigler
Duane Parrish
Endra Curry
Gavin Jackson
Grant Gibson
Jake Scoggins
J. Barton
Jennifer Patterson
Jessica Wigington
Johnathon Willis
Julie Cox
Kathy Johnson
Katie Turner
Kevin Etheridge
K. Taylor
Lauren Benjamin
Mary Greene
Meredith Ross
Mike Addy
Morgan Odonnell
Quentin Hawkins
Richard Hutto

Rick Blackwell
Robert Macdonald
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