

MEMORANDUM FOR THE RECORD

Date: February 15, 2023, 9:00 a.m.
Revenue and Fiscal Affairs Office/ Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball-Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell (*all via Zoom*). Frank Rainwater, Executive Director; *Staff* – Paul Athey, Benjamin Coomer, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, Emily Prosser. *Thirty-nine 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 9:03 a.m.
- II. Chairman Grimball presented the January 19, 2023, meeting minutes, which previously had been shared with the Members and asked if any Member had edits or questions. Dr. Mikota asked for two edits to which was agreed. ([See minutes](#))

Dr. Mikota motioned to approve the minutes as amended and Chairman Grimball seconded the motion. All voted aye and the minutes were approved.

Chairman Grimball addressed the financial reporting error that has been in the news over the past several days regarding agency cash balances on the state's financial statements. He affirmed that this mistake, and any resulting adjustment to state's the financial report, has no impact on our (BEA) forecast or the state budget process. That particular accounting entry in the year-end financial reports has never been used in, or as support for, our (BEA) revenue analysis. Our forecast focuses on current economic activity and resulting tax revenues, which form the basis of the General Fund Appropriations Act. This accounting error does not affect in any way the approximate \$12.5 million revenue and budget figures that we have estimated and will discuss further today. To summarize, this financial reporting error, and any ensuing adjustment, does not reduce or take away any funds from any state program. Mr. Rainwater added that if there are any questions that were not answered in the Chairman's statement, to please call him to discuss.

- III. FY 2022-23 General Fund Revenue Updates ([See materials](#)):

Mr. Rainwater presented information regarding updates to the General Fund Revenue:

Mr. Rainwater wanted to emphasize that the total estimate is based on an analysis of each of the revenue categories. The economy continues to do well, but revenues in some categories are doing better than they normally do, and that is the focus of the discussions today.

- FY 2022-23 Results through January 2023:
 - Revenue growth since the November forecast has been better than expected.
 - Total General Fund revenue is \$424.5 million above the estimate:
 - Corporate Income tax is growing 40.3% and is \$213 million above the estimate, accounting for more than half of the total surplus.
 - Sales tax growth fell to 4.9% for January; year-to-date growth totaled 7.3%, and collections are \$72 million above the estimate.
 - Individual Withholdings is growing 6.5% above last fiscal year, below the high of 11.7% as of October.
 - Non-Withholdings fell short of January monthly expectations by \$35.3 million.

IV. FY 2022-23 and FY 2023-24 Forecasts:

Mr. Rainwater and Ms. Jolliff presented a Review of FY 2022-23 and FY 2023-24 Forecasts and Assumptions, which included the following key points:

A. Review of FY 2022-23 and FY 2023-24 Forecasts and Assumptions

- Forecast Considerations:
 - Since the November forecast, revenues have performed better than expected but most categories are within the target range.
 - Recent short-term concerns – such as continued supply-chain issues, the fuel crisis in Europe, and the war in Ukraine – did not have as large of an impact as expected in the fall, but long-term concerns about slowing growth remain.
 - Sales tax and Withholdings are ahead of expectations, but growth has started to low down as anticipated.
 - The full impact of income tax reform and tax filing season remains to be seen; the most volatile categories, Individual Non-Withholdings and Corporate, see most of their activity at this time.
 - Future Federal Reserve interest rate decisions and the impact on the economy are undetermined.
 - Monetary tightening affects consumption, investment, employment, and inflation on a lag; despite some promising recent economic data, the full impact of rate hikes is yet to come.
- Corporate Income Tax – Actual vs. Estimate:
 - Collections are above the estimate by \$213.0 million year-to-date; concerns about potential results during tax filing season remain.
- Sales Tax – Actual vs. Estimate:

- Collections are \$72.0 million above the estimate but within target range.
- Withholdings – Actual vs. Estimate:
 - Withholdings are running \$89.4 million above the estimate; cumulative growth fell from 11.7% through October to 6.5% through January.
- Non-Withholdings – Actual vs. Estimate:
 - Collections are \$21.7 million above the estimate year-to-date.
- Refunds – Actual vs. Estimate:
 - Refunds are \$36.5 million above the estimate, but 85% of expected refunds for the year occur in the spring.
- General Fund:
 - Estimates for FY 2022-23 and FY 2023-24 remain above the historical trend.

❖ **Forecast Recommendations:**

- No change to Sales or Corporate Income tax.
 - Small adjustments to several categories:
 - Increases in interest earnings projections for General Fund, EIA, and Homestead Exemption.
 - Changes to Individual Income tax to reflect updated tax reform estimates* and for higher year-to-date wage growth and refunds processed prior to January.
 - Other adjustments to smaller categories to reflect performance.
 - Changes to Lottery for FY 2022-23 based on year-to-date collections with large jackpot runs.
- *Tax reform estimates increased from \$612 million to \$692 million for rate change.*

B. Discussion and Consideration of Updates to Forecast

- The recommendation is to adopt the revenue forecast as illustrated on pages 17 and 18 of the presentation which reflect an increase of \$9.348 million for FY 2022-23 and an increase of \$18.604 million for FY 2023-24.

Mr. Rainwater asked members if there were any questions regarding the recommendations presented on pages 17 and 18 and if not, requested their consideration for the adoption of the proposed revenue forecast. Chairman Grimball asked if the forecast will be discussed again in the May meeting. Mr. Rainwater stated that the statutory requirement is to revisit the forecast on April 10th, but there is reluctance to make any decisions during tax filing time. The preference is to wait until the May meeting when more data is available and consider an update at that time. Mr. Rainwater emphasized that waiting until after tax season will provide more information about this year's (2023) revenue. The decisions and conclusions about next year may likely remain the same.

Dr. Mikota stated that the logic is sound and in terms of what the corporate taxes will be, it is a safe bet to look at it later; he commended staff on their work. Mr. Hutto agreed, stating it is a conservative look but not excessively so. Chairman Grimball commended staff on a job well-done.

Chairman Grimball asked for a motion to adopt the proposed and revised Forecast illustrated on pages 17 and 18 of the presentation. Mr. Hutto motioned, Dr. Mikota seconded the motion, and all voted aye. The proposed Forecast was adopted.

C. Budget Outlook for FY 2023-24

- Estimated “New” Recurring General Fund Revenue Available for Appropriation (less Reserve Fund contributions) = \$764 million
- Total Non-Recurring Revenue = \$2,773.6 million
- Other Non-Recurring Revenue = \$72.8 million

V. Reports from Working Group Members

No Working Group members offered comments.

VI. Other Items for Discussion

- Mr. Rainwater advised the Board Members that their Statement of Economic Interest for both the Board of Economic Advisors and the Revenue and Fiscal Affairs Board are due March 30, 2023.

VII. The next scheduled meeting, if necessary, is on Thursday, March 23, 2023, beginning at 1:00 p.m.

VIII. Dr. Mikota motioned to adjourn the meeting and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 9:35 a.m.

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

These minutes were approved on 4/5/2023
Emily Prosser Emily Prosser

BEA Zoom Webinar Attendee Report

Staff:

Carrie Bundrick
Amanda Martin
Mary Katherine Miller
William Tipton

Guests:

2 Unidentified Guests
Jake Scoggins
nwilliams
Susan Von Schenk
Daniel
Katie Turner
Kevin Etheridge
Billy Routh
Brad Wilson
Robert Macdonald
BQ
Susan Turkopuls
Evelyn Sexton Tucker
Quentin Gaddy
Joannie Nickel
Kathy Johnson
SpearesS

Richard Hutto
Mary Greene
Justin Powell
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Owen McBride
AJ Newton
Jackie Hipes
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