

MEMORANDUM FOR THE RECORD

Date: April 5, 2023, 1:00 p.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, Morgan Daigle (*via Zoom*), Lisa Jolliff, Sandra Kelly, Marian Manic (*via Zoom*), Emily Prosser; *Guests* – Bryan Grady (*DEW*). *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 February 15, 2023, 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 introduced two new staff members that will be joining us, Dr. Marian Manic and Ms. Morgan Daigle. Dr. Manic is working with us part-time now but will join the agency full-time in June as a Senior Economist. He is an Associate Professor of Economics at Whitman College, and a graduate of the University of South Carolina, with fields of study in regional economics and international business. Ms. Daigle is finishing her master's program in agricultural economics at Louisiana State University, with fields of study in applied econometrics and time series methods. She will be joining us in June.

Chairman Grimball welcomed Dr. Manic and Ms. Daigle and thanked them for joining the meeting.

- IV. FY 2022-23 General Fund Revenue and Economic Updates ([See materials](#))

Mr. Rainwater and Ms. Jolliff presented information regarding updates to the General Fund revenue collections:

- General Fund FY 2022-23 – February 2023 Update:

- General Fund revenue is \$535.7 million ahead of the forecast through February.
- Timing of income tax refund and payment activity remain a factor as we approach April filing deadlines.
- Individual Income tax is currently \$175.3 million ahead of expectations through February, largely due to Refunds, which were \$154.2 million behind projections for the month of February.
- Corporate Income tax is ahead of expectations by \$216.1 million.
- Sales tax collections are \$94.8 million ahead of the forecast.

Mr. Rainwater added that Corporate Income tax accounts for a significant portion of the revenue excess and is the category with the most concern as we will discuss throughout the presentation.

- General Fund Revenue – Actual vs. February Estimate:
 - Revenues are running 5.4% over last year, with February bringing year-to-date collections \$535.7 million above the estimate; expected impact of tax reform is now being realized.
- FY 2022-23 Third Quarter Results - §11-9-1140:
 - Preliminary March 2023 revenues remain above expectations.
 - Revenues through the third quarter of FY 2022-23 are well ahead of the forecast.

Mr. Rainwater stated that the March numbers are preliminary, and it is still early, but March revenue is about \$95 million above expectations with half of that due to Corporate Income tax. Mr. Rainwater then turned the presentation over to Ms. Jolliff who discussed economic updates.

- SC Employment:
 - The Bureau of Labor Statistics revised employment data upward by an average of approximately 20,000 in late March.
- Personal Income:
 - Q4 2022 Personal Income grew 7.5% over Q4 2021 compared to forecasted growth of 5.7%, mainly due to higher wage growth (8.7% vs 10.4%); Q3 2022 wage growth was also revised up from 10.4% to 11.9%.

Ms. Jolliff stated that the personal income data is only through the end of calendar year 2022. Wage growth was projected to slow down in 2023, so it will be interesting to see what the first quarter 2023 data show. This will tie into Withholdings growth, which will be discussed shortly.

- US Real GDP:
 - Q4 2022 GDP growth slowed to 0.9% over Q4 2021.
- Federal Funds Interest Rate Changes – History:
 - The current increases in the federal funds rate are faster than other periods in the last 30 plus years.
- SC Housing Market:
 - Total home sales have declined since the start of interest rate increases; prices are now starting to fall as well.

Review of FY 2022-23 Revenue Details:

- Withholdings – Actual vs. Estimate:
 - Withholdings are \$13.8 million ahead of the forecast following a decline of 28.8% in February due to the Withholdings table adjustments for tax reform; collections are tracking closely with the February forecast.

Ms. Jolliff stated there has been a sharp drop-off in Withholdings in the first three months of this calendar year, which is the first indicator that wage growth may be slowing. Dr. Mikota asked if there was a way to break out growth by sector, such as manufacturing, healthcare, and hospitality, to target where the change is. He commented that post-Covid, we had a big boom in hospitality for example, so he was curious if there was growth in another sector now. Ms. Jolliff answered that hospitality is a small portion of total wages because salaries are much lower. Most of the growth comes from other sectors, such as manufacturing or professional business services. However, translating employment growth to income growth is an issue, as personal income data are not released by industry. Leisure and hospitality boosted employment growth following the pandemic, without boosting revenue, because salaries are lower. Mr. Rainwater commented that there is no corresponding personal income data to show the sectors. Withholdings is the leading indicator since it is the most real-time data available, and it may be a foreshadowing that sales and other taxes are not far behind.

- Non-Withholdings – Actual vs. Estimate:
 - Collections are \$47.8 million above the estimate, but more than 56% of expected collections remain; the net impact of economic growth and tax reform is yet to be seen.
- Refunds – Actual vs. Estimate:
 - Refunds are \$113.7 million below the estimate; this is forecasted to even out during tax filing season.

Mr. Rainwater emphasized that the spike in the refund estimate is due to tax reform, not necessarily economics.

- Sales Tax – Actual vs. Estimate:
 - Sales tax showed strong growth in February of 11.2%, reversing the previous 2-month trend of slowing growth; total collections for the fiscal year are \$94.8 million ahead of the forecast.
- Corporate Income Tax – Actual vs. Estimate:
 - Corporate Income tax reflects the largest variance from estimates at \$216.1 million ahead of the forecast with tax season yet unfinished; long-term performance remains a concern.

Ms. Jolliff stated that when corporations file estimated state income taxes during the year, they largely file off of the prior year's activity and true up at tax season. There will be more data once tax returns are filed for 2022. Also considered in the estimate is that a lot of Corporate Income tax payments are Corporate License fees that get transferred out the next year. Corporations pay

on both income and license tax at the same time, and the license payments will be transferred out in the fall by the SC Department of Revenue. Chairman Grimball asked if a study has been made of what a possible corporate tax correction will be, and what a more "normal" representation will be this year? Ms. Jolliff answered that since 2022 was a strong year in terms of sales tax and overall activity in the economy, it makes sense that there will still be strong collections with tax filing in April 2023. The issue is that the data are lagging. Mr. Rainwater commented that part of Corporate Income tax is Sales tax driven, which was somewhat stimulated by changes in consumer behavior and the stimulus funds, and as it subsides, it will drive Corporate Income down. Chairman Grimball asked over what time frame will the possible reduction show, to which Mr. Rainwater answered that it is projected for next year (FY 24). Mr. Rainwater added that because Corporate Income tax makes up a large portion of the State's revenue, we are being very cautious with our estimate.

V. FY 2022-23 and FY 2023-24 Forecast Review

Mr. Rainwater began the forecast review by stating that by statute, we review the revenue estimate on April 10th but that does not preclude us from reviewing the estimate at other times of the year, which is also provided for by statute. We have delayed making any adjustments, in large part because of tax filing season but we anticipate reviewing the estimate in May. He then presented a review of FY 2022-23 and FY 2023-24 forecasts and assumptions, which included the following key points:

- General Fund – February Forecast:
 - FY 2022-23 and FY 2023-24: a decline in revenues was built into the FY 2022-23 forecast due mostly to tax reform, and a slight decline was also built into FY 2023-24.
- Consideration of the Revenue Estimates: *Pursuant to §11-9-1130 (April 10)*
 - Despite excess revenues through February, recommend no change to the February 15, 2023, forecasts for FY 2022-23 and FY 2023-24 at this time.
 - Waiting for additional reactions to issues in the banking sector.
 - Tax season is not complete and could have a significant impact.
- Considerations for May Meeting – FY 2022-23 Forecast:
 - Economic
 - Underlying economic assumptions remain valid for FY 2022-23.
 - Unless there is a shock to the economy, no significant deviation from the current trend is expected in the last few months of the fiscal year.
 - Revenues
 - Withholdings revenue is tracking closely to the February forecast.
 - Preliminary tax season performance will be available in early May and may give a stronger indication of final FY 2022-23 expectations for Refunds, Non-withholdings, and Corporate Income tax.
 - Sales tax is currently trending ahead of expectations.
- Considerations for May Meeting – FY 2023-24 Forecast:
 - Economy

- Economic assumptions currently remain valid, but the banking crisis has renewed discussions of the potential for and depth of a recession over the longer term.
- Determining when and to what extent the Federal Reserve’s actions will impact the economy is still a key factor.

Revenues

- Strong FY 2022-23 collections may not translate into a stronger revenue base for FY 2023-24 due to these issues.
- Long-term performance remains a concern for Corporate Income tax; a sudden return to historical trends could outweigh growth in Sales or Individual Income tax.
- Individual Income tax from small businesses and Sales tax categories are more susceptible to economic uncertainties.

Mr. Rainwater stated that staff has a lot of work to do over the next couple of weeks. It will be later in the month until we know the results of tax season. This creates a short turnaround if we are going to consider the forecast in May. He asked if there were any questions or concerns the members wanted considered in the analysis. Mr. Hutto asked if it is accurate to say that if in May the FY 23 estimate is increased, that would be considered one-time money, and changes to the FY 24 base would be considered recurring revenue, to which Mr. Rainwater agreed.

Chairman Grimbball stated that in the upcoming May meeting, any possible changes to the FY 24 estimate will be examined, to which Mr. Rainwater stated that both FY 23 and FY 24 will be examined. Chairman Grimbball asked if Mr. Powell had any comments. Mr. Powell stated that the forecast and estimate are a good representation, but we have to wait and see how everything looks after tax season, and that he is concerned with Corporate Income tax and revenues from corporations and how they are a huge player and a big unknown. Dr. Mikota stated that Corporate Income tax is a concern for him as well, and a lot of work will be focused on setting the baseline for the FY 24 estimate.

- VI. Reports from Working Group Members
No Working Group members offered comments.
- VII. Other Items for Discussion
No items for discussion.
- VIII. The next scheduled meeting is on Tuesday, May 9, 2023, beginning at 9:00 a.m.
- IX. Dr. Mikota motioned to adjourn the meeting and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 1:45 p.m.

Mr. Grimbball thanked everyone for their diligence in the analysis.

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

These minutes were approved on 5/9/2023
Emily Prosser Emily Prosser

BEA Zoom Webinar Attendee Report

Staff:

Carrie Bundrick
Will Tipton
Ragan Griffith
Stephen Gardner
Adam DeMars
Kristin Bryant
AuJour Washington
Lisa Wren
Geoff Johnson
Rachel Passer

Guests:

2 Unidentified Guests
jdove
Billy Routh
Guillermo Espinosa (DOT)
Tom Watson
dannc
Chris Huffman
Katie Turner
dseigler
donhottel
Susan von Schenk
Emily Heatwole Keeney
Mary Green
Shelly Kelly
Richard Hutto
Harry Miley (Richland 2)
Kevin Etheridge

Lisa Catalanotto
jhorton
Sweatman Strategies
Julie Cox
TD
Dr. Austin Floyd
Bob Coble
Mike Addy
Ryan Burnaugh
Amelia Wilks
Brian Gaines
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Michael Moore
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Lisa Gibson
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Brad Wilson