

MEMORANDUM FOR THE RECORD

Date: May 9, 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, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, Emily Prosser; *Eighty-three 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 9:00 a.m.
- II. Chairman Grimball presented the April 5, 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](#))

Chairman Grimball thanked Mr. Rainwater and other vital BEA personnel for their focused and time-crunching work on this forecast update for current year and for FY 24. Additionally, and on behalf of the Board, Chairman Grimball thanked Hartley Powell and the helpful members of the Department of Revenue for their critical involvement in this analysis and for going the extra measure to ensure the agency's use of the latest revenue data to develop this important forecast.

- III. Review of General Fund Revenues and Forecasts ([See materials](#))

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

- FY 2022-23 Results through April 2023 (preliminary figures as of May 3, 2023):
 - Total General Fund revenue is \$736.7 million above expectations as revenue growth is faster than expected.
 - Sales tax growth through April fell to 7.2%, as April's revenue only increased 3.7% over last year, and collections are \$137.9 million above the estimate.

- Individual Withholdings is growing 2.4% above last fiscal year and behind expectations by \$73.8 million following larger than estimated downward adjustment in the Withholdings tax table.
- Non-Withholdings is \$91.2 million ahead of the estimate through April, but \$28.6 million below monthly expectations, reducing the prior month's larger surplus.
- Refunds finished April \$129.2 million below expectations, increasing the excess revenue.
- Corporate Income tax is growing 15.1% and is \$403.8 million above the estimate, accounting for more than half of the total excess of \$736.7 million.

Economic Updates:

- US Real GDP:
 - Q1 2023 GDP growth increased to 1.6% over Q1 2022.
- Personal Consumption:
 - Growth in the personal consumption component of GDP is expected to slow in late 2023.
- Personal Saving Rate:
 - Saving rate remains below historical trend as stimulus impact is wearing off.
- US Consumer Credit Card Debt:
 - Credit card debt as a percentage of personal income is below pre-pandemic levels but rising closer to normal levels.
- SC Employment by Industry:
 - Employment growth by sector varies; Government and Leisure & Hospitality sectors remain below pre-pandemic levels.
- 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 and FY 2023-24 Forecasts and Assumptions:

- SC Employment - Proposal:
 - Proposed changes in FY 2022-23 and FY 2023-24 incorporate growth year-to-date and Bureau of Labor Statistics (BLS) revisions that increased base employment.
- SC Personal Income - Proposal:
 - Proposed increase in the FY 2022-23 estimates takes into account higher than anticipated wage growth year-to-date; slower growth anticipated for FY 2023-24.

- Summary of Fiscal Year Growth Rates:
 - FY 2022-23
 - Personal Income - Propose changing from 5.98% (February) to 6.72%
 - Employment – Propose changing from 3.4% (February) to 3.3%
 - Inflation – Propose changing from 6.3% (February) to 6.4%
 - FY 2023-24
 - Personal Income - Propose changing the estimate from 4.93% (February) to 2.96%
 - Employment – Propose changing from 1.4% (February) to 1.2%
 - Inflation – Propose changing from 3.2%(February) to 3.1%
- Forecast Issues:
 - Since the February forecast, revenues have performed better than expected, particularly Sales and Corporate Income tax.
 - Growth in wages has continued longer than previously expected, but wage growth and consumption are expected to slow in FY 24, pushing the potential slowdown further out than previously predicted.
 - Concerns about the likelihood of a recession in FY 24 are growing.
 - The impact of the adjustment to Withholdings tax tables is larger than previously estimated, and Withholdings is likely to be below the current estimate for FY 23, despite stronger than expected wage growth; however, this issue will not affect FY 24 as lower Withholdings will be offset by lower Refunds and higher Non-withholdings.
- Withholdings – Working estimates reflect revised estimates for tax table adjustments and revised income growth projections:
 - Proposed changes FY 23: -\$212m; FY 24: -697m
- Non-withholdings – Working estimates reflect FY 23 performance and updated expectations for the adjustment to tax tables:
 - Proposed changes FY 23: +\$30m; FY 24: +\$73m
- Refunds – Working estimates are based on FY 23 refund processing and updated adjustments for tax table changes:
 - Proposed changes FY 23: -\$91m; FY 24: -\$642m
- Sales Tax – Working estimates reflect higher base revenue for FY 23 and potential reduction in personal consumption in FY 24:
 - Proposed changes FY 23: \$149m; FY 24 \$72m
- Corporate Income – Working estimates reflect latest income expectations and collections for FY 23, but maintain the potential for a sharp decline in FY 24:
 - Proposed changes FY 23: \$485m; FY 24 \$136m
- Forecast Considerations:
 - FY 23 revenues are running ahead of expectations, particularly in Sales tax and Corporate Income tax.
 - Based on data provided by the Dept. of Employment and Workforce, strong wage growth in SC has continued into the first calendar quarter of

2023, as the state's economy has continued to grow longer than previously predicted, boosting FY 23 collections.

- However, concerns about the potential for a recession within the next year have deepened as a result of persistent inflation, continued Federal Reserve interest rate increases, and issues within the banking industry.
- In reviewing national expectations and through discussions with regional economists, wage growth is expected to slow and personal consumption is expected to decline in the latter half of 2023.
- Working Estimates:
 - Working estimates reflect an overall increase of \$564 million in FY 23 and \$240 million in FY 24.
 - The impact of Withholdings tax tables adjustments has been updated:
 - The adjustment will decrease Withholdings in FY 23.
 - The adjustment for FY 24 will also decrease Withholdings but will be offset completely by lower Refunds and higher Non-withholdings.
 - Although the FY 24 working estimate is an increase from the current forecast, it reflects a 3.6% decline from the FY 23 working estimate.
 - FY 24 estimates are based on personal income growth slowing to 3% and lower expectations for personal consumption and retail activity.
 - Other Adjustments:
 - Sales tax adjustments also impact Education Improvement Act (EIA) and Homestead Exemption (HEX) Sales tax estimates.
 - Increase to Insurance tax reflects stronger premiums growth seen in March collections for the new filing year.
 - Increase to Corporate License based on excess collections through April.
 - Adjustment to Private Car Lines tax reflects taxpayer revised returns.
- General Fund:
 - Increase FY 2022-23: \$564 million; FY 2023-24: \$240 million.

IV. Discussion and Consideration of Updates to the FY 2022-23 and FY 2023-24 Forecasts

Mr. Rainwater presented the Proposed General Fund Revenue Forecast on pages 31 and 32 of the [meeting materials](#) for consideration by the Board.

Chairman Grimball thanked staff for the well-presented information and asked if there were any comments from the board members.

Dr. Mikota complimented staff on putting together a sound forecast. He commented that in analyzing Corporate tax and Sales tax, a change may lag even more with savings rates being down; further, with Withholdings rates being revised down, an increase in wage growth in the first quarter, and a steep increase in Fed rates, it will be interesting to see how these factors

further affect Corporate and Sales tax. Dr. Mikota stated he appreciated the work staff has done on the methodology for future forecasts – well thought out and a very sound projection.

Chairman Grimball added that it was not long ago that the General Fund was less than \$10 billion (FY 2019-20), in contrast to \$13.0 billion for FY 23 and \$12.6 billion for FY 24. We are forecasting a modest downturn in revenues for the General Fund next year, but if you look over the last three or four years the State is doing well revenue-wise.

Dr. Mikota motioned to approve the General Fund Revenue Forecast outlined on pages 31 and 32 of the presentation. Mr. Hutto seconded the motion, all voted aye, and the revised forecast was adopted.

Chairman Grimball announced that there will be a [press release](#) on the forecast revisions immediately following the meeting.

V. Budget Outlook for FY 2023-24

Ms. Jolliff presented the following key points:

- FY 2023-24 Budget Outlook – Recurring General Fund:
 - \$1,004.2 Million Estimated “New” General Fund Revenue available for Appropriation (less Reserve Fund Contribution)
- FY 2023-24 Budget Outlook – Nonrecurring Revenue:
 - \$3,337.6 in Total Non-Recurring Revenue
- FY 2023-24 Available Funds
 - \$1,204.8 Million - FY 2021-22 Contingency Reserve Fund
 - Projected One-Time Funds Available for Appropriations
 - \$209.2 Million – FY 2022-23 Capital Reserve Fund
 - \$1,923.5 Million – FY 2022-23 Projected Surplus
 - New Recurring Funds
 - \$1,421.3 Million – FY 2023-24 New Recurring Funds

Mr. Rainwater stated that for all who are watching from the budget perspective, a stronger attempt was made to get to a closer number for what the end of FY 23 is going to be, and an estimate for next year, given all the talk of a recession. If the economy does not slow down next year, there could be a stronger result, but the numbers provided are closer to what the outlook will be if a recession occurs.

VI. Reports from Working Group Members

No Working Group members offered comments.

Mr. Rainwater added thanks to the Department of Revenue staff on helping with providing twice-daily updates on data and providing valuable insight.

- VII. Other Items for Discussion
No items for discussion.
- VIII. The next scheduled meeting is on Thursday, June 22, 2023, beginning at 1:00 p.m.
- IX. Dr. Mikota motioned to adjourn the meeting and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 9:43 a.m.

Chairman Grimball thanked everyone for their input during the meeting.

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

These minutes were approved on 6/22/2023
Emily Prosser Emily Prosser

BEA Zoom Webinar Attendee Report

Staff:

Carrie Bundrick
Will Tipton
Ragan Griffith
Stephen Gardner
Matthew Potter
Kristin Bryant
AuJour Washington
Lisa Wren
David Patterson
Mary Katherine Miller
Karl Vesely

Guests:

1 Unidentified Guest
simmm
Daniel Lyons
Mike Addy
cdgreene
Heather
Richard Hutto
Cathy Nordeen
Alan Davis
S. Gallman
BQ
Matt
Brian Gaines
grantgibson
Morgan O'Donnell
Terese McSharry
Riley Pope & Laney
Lisa Catalanotto
Jessica Wigington
Kathy Johnson
Billy Routh
Matthew Norman
Bob Coble
Robert MacDonald

Michael Thompson
Jennifer Patterson
Tom Watson
tpressley
Owen McBride
Rebecca Leach
EC
Ryan Burnaugh
Michael Moore
Kim Burkett
Mary Greene
Patty Pierce
Kevin Etheridge
Leah P.
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Jackie Hipes
S Speares
Will Frierson
Tate Ziegler
Amelia Wilks
Lauren Phillips
Tim Todd
Ted Creech
Evelyn Tucker

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John Wienges
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Jeffrey Collins
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Joseph Bustos
John Williams
Ashlyn Brown