



MEMORANDUM FOR THE RECORD

Date: September 21, 2023, 1:00 p.m.
Revenue and Fiscal Affairs Office/ Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Participants: *Board Members* – Edward Grimball-Chairman, Curtis Hutto, and Dr. Michael Mikota, and Hartley Powell (*all via Zoom*). Frank Rainwater, Executive Director, Morgan Daigle, Lisa Jolliff, Marian Manic, and Karl Vesely; *Guest Speakers* – Paul Basha, Jr. (York Electric Cooperative), Greg Harkenrider (Kentucky Office of State Budget Director), and Bob Morgan (SC Chamber of Commerce) (*via Zoom*); *RFA Staff and Other Attendees* – Paul Athey, Kathryn Kelley, Sandra Kelly, and Emily Prosser; *Fifty-two additional participants via Zoom.*

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 24, 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 welcomed the guest speakers on behalf of the Board.

- III. Initial General Fund Revenue Forecast FY 2023-24 and FY 2024-25 ([See materials](#))

Mr. Rainwater presented information regarding FY 2022-23 Final Revenues and FY 2023-24 General Fund Revenues through August. His key points included:

- Final FY 23 revenues were very close to forecast, which means the starting point for FY 24 is also very close to expectations.
- Through August, FY 24 revenues are \$166 million above expectations because the estimate adopted in May assumed a slowing economy beginning in the summer, which has not occurred. Ex: Sales tax was estimated to decline 3.3% for the year, but the current growth is 4.5%.

Mr. Rainwater then discussed current Economic Indicators and noted:

- When compared to the May estimate, national data and projections are now anticipating a later but smaller slowdown in economic activity.

- Consumers have spent down excess savings from stimulus, which is expected to be depleted by 2024.
- SC employment and personal income are growing better than the May estimate.

Chairman Grimball asked if the consumer has eroded the savings below the trend line, and if the spike in savings in previous years was due to the stimulus programs, which the residuals of that program are now depleted. Mr. Rainwater responded that yes, the benefits of the stimulus funds have been depleted.

Ms. Jolliff discussed further details regarding the components of General Fund Revenue. Her main points were:

- Revenues are running better than estimates in most categories as the economy has performed well for longer than anticipated in May.
- Better than expected growth has continued in Sales tax, Individual Income tax largely due to Withholdings, Corporate Income tax, and many smaller categories.
- Staff are analyzing each revenue category in detail including our analysis of Individual Income tax changes to determine how changes in the economy and other factors since May are impacting each tax.
- At this time, no significant changes to the forecast are recommended pending receipt of first quarter collections for this fiscal year and input from industry professionals and economists leading up to the November forecast.

Chairman Grimball asked Ms. Jolliff to clarify the tax changes. Ms. Jolliff responded with the following description: For tax year 2022, the General Assembly lowered the top marginal rate for Individual Income tax to 6.5% and collapsed the other brackets down to 3%, which eliminated about \$700 million from total tax liability. For tax year 2023, the Department of Revenue also adjusted the Withholdings tax tables to account for the tax reduction from 2022.

Dr. Mikota asked if the flattening out of estimates for Corporate Income tax in FY 2024-25 is to keep a balance from previous years to which Ms. Jolliff responded that the estimate will be updated when data for first fiscal quarter collections are available. She stated that Corporate Income tax is one of the more volatile categories that tends to move very quickly, and more information is necessary to update the estimate. Mr. Rainwater noted that Corporate Income tax does not always move in the same direction as the economy.

Mr. Rainwater asked the Board to adopt the proposed forecast as the initial estimate for FY 25. He stated that the proposal is a starting point that can be built upon for the November 16th meeting, after receiving another two months of revenue data and input from other economists. The main points regarding the forecast were:

- FY 23 revenues finished close to estimates resulting in no significant base adjustment for FY 24.
- FY 24 working estimate is a decline of 4.9% from final FY 23 revenues.

- FY 24 includes legislative adjustments, a \$20 million reduction in Earnings on Investments, and \$20 million upward adjustment to Corporate Income tax.
- In addition to the Income tax changes noted earlier, legislative adjustments include the 0.1% reduction to the top individual income tax rate to 6.4% for tax year 2023 and other smaller changes.
 - Sales tax adjustments also impact the Education Improvement Act and Homestead Exemption Funds.
 - Legislative adjustments were incorporated in FY 24 Appropriations Act.
 - No net change or impact on the FY 24 budget.
- FY 25 reflects growth of 3.1% over the lower FY 24 base.

Chairman Grimball asked if the \$12.846 billion estimate for FY 25 does not include an adjustment for future Income tax cuts to which Ms. Jolliff responded that he was correct, that it will be included as a legislative adjustment in the budget if the next rate reduction goes into effect.

Chairman Grimball called for a motion to adopt the proposed forecasts (slides 42 and 43). Dr. Mikota motioned to approve the updated forecasts. Mr. Hutto seconded the motion, all voted aye, and the forecasts were approved.

IV. Insights and Perspectives for FY 2023-24 and FY 2024-25

In preparation for the November forecast, the BEA invited three guests to share their insights on the economy over the next two years. In October, the BEA will hear from additional speakers as well.

Guest speakers made the following presentations:

- Greg Harkenrider – [Kentucky Economic and Revenue Models](#)
- Bob Morgan – [2023 Grass Roots Tour Data Analysis](#)
- Paul Basha – [York Electric Cooperative, Inc.](#)

The information shared by the guest speakers generated questions and further discussion between the speakers, Members, and staff.

V. Reports from Working Group Members

No Working Group members offered comments.

VI. Other Items for Discussion

No items for discussion.

VII. The next scheduled meeting is on Monday, October 16, 2023, beginning at 10:30 a.m. at the Association of Counties.

VIII. Dr. Mikota motioned to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 2:59 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 10/16/2023

Emily Prosser *Emily Prosser*