

MEMORANDUM FOR THE RECORD

DATE: November 10, 2020

SC Education Television/Bank of America Room / Attendees via teleconference
and YouTube
1:30pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: *Board Members* –Edward Grimball (*via GoToMeeting*)-Chairman, Alan Clemmons (*via GoToMeeting*), Emerson Gower (*via GoToMeeting*), Hartley Powell via (*GoToMeeting*); Frank Rainwater, *Executive Director*; Staff – Paul Athey, Michael Ball, Ben Coomer, Natalie Gallagher, Debbie Glenn, Lisa Jolliff, Sandra Kelly, Byron Kirby, David Morrison, Allyn Powell; *Working Group Guest*: Richard Eckstrom (*Comptroller General’s Office*)

Due to COVID-19 policies all other Working Group Guests participated via GoToMeeting and 16 individuals called-in. All other remote attendees joined via YouTube and 100 individuals viewed the livestream. An email invitation was sent to the usual BEA Distribution (121 contacts) list and Working Group (10 contacts) list members and the meeting notification was posted on the RFA website and in the Rembert Dennis Building. Meeting information and call-in instructions were provided in the email and posted online. Meeting documents were posted online 15 minutes prior to the start of the meeting and the documents were also shared via GoToMeeting. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email or phone.

- Chairman Grimball welcomed everyone to the meeting at 1:30pm. He then presented the meeting minutes for August 24th, August 31st, and October 15th which had previously been shared with the Members. He asked if any Member had additions or corrections to the meeting minutes. There were no comments from the Members, and Chairman Grimball declared the minutes approved as presented and written. (*See attached*)

- **Frank Rainwater presented a summary of notable events in revenue collections and the forecast assumptions.** (*See Attached*)
 - Sales tax is up 10.0 percent for October and 5.6 percent year-to-date
 - Individual income tax is 3.3 percent for October and down 0.4 percent year-to-date

- Through October, Corporate Income tax is up and Corporate License is down, partially due to timing of returns and reconciling between categories
- Bank tax is down 50.5 percent year-to-date
- Through October, revenues are \$190.5 million above expectations. Though October showed surprisingly strong growth, the bulk of the fiscal year excess stems from delayed filings and stimulus spending in prior months.
- Forecast Assumptions
 - The forecast is based on estimates for employment and personal income
 - Staff developed estimates for FY21 and FY22 and incorporated the comments and projections provided by the Regional Economist panel during the October meeting
 - S.C. is positioned to recover quicker than the nation as a whole
 - While revenues through October are above expectations, caution and concern about the remainder of the fiscal year continue to be key factors
 - Assumes a return to February 2020 pre-pandemic employment in February 2022 and slower than historical growth through the remainder of FY22
 - Slow wage growth in proportion to jobs recovered
 - Slower than historical proprietor's income growth
- **Ben Coomer shared information about Individual Income Tax** *(See Attached)*
 - **Key Issues of FY 2020-21 and FY 2021-22:**
 - Unequal job recovery across sectors
 - Impact of governmental assistance
 - Delayed collections and intricate timing
 - Business opportunity in the time of the pandemic
 - **Withholdings**
 - Collections up 3.3% over same period of previous fiscal year
 - Collections are strong, but expected to slow
 - **Non-Withholdings**
 - Delayed returns drive strong collections
 - Expectations have improved, but decrease still expected in FY 2020-21
 - **Refunds**
 - Refunds under estimate, but expected to increase

- Delayed filing deadline and layoffs expected to drive large refunds increase in FY 21
- **Employment**
 - Most sectors trending well; leisure and hospitality still significantly struggling
 - Total earnings approaching pre-pandemic levels in most sectors
 - Continued and initial unemployment claims still above historical levels
 - The stimulus and unemployment compensation is decreasing after spike
- **Business**
 - Small business indicators are showing continued improvement since April
 - New business formation has spiked and this may diversify tax base
 - International shut-downs could impact SC international trade and employment
 - The high concentration of exports in some sectors could impact SC during unpredictable global pandemic
- **Summary of Individual Income Tax – Key Economic Indicators and Factors FY 2020-21 and FY 2021-22**
 - Total individual income collections remain strong across the board, but are expected to slow as governmental assistance subsidies and the lagged timing of non-withholdings and refunds is realized.
- **Natalie Gallagher presented information on Consumption Taxes, Sales Tax Revenue, Consumer Spending, Retail Sales, Food and Drink Sales, Sales by Industry, Employment Expectations, Alcoholic Liquors and Beer and Wine Tax Revenue, and Documentary Stamps (See Attached)**
 - **Consumption Taxes**
 - Consumers have maintained resilient spending patterns since June
 - Looking ahead, we are cautious that sales revenue growth may stall in later quarters
 - We may be seeing the impact of pent up demand and increased personal income from transfer payments
 - Alcoholic Liquors, Beer and Wine, and Documentary Stamps revenue streams remain steady

- **Sales Tax Revenue**
 - Actual vs Estimate - Collections continue to grow compared to the prior year, with October 2020 revenues 10.0% higher than October 2019 - \$25.5m higher than the estimate
 - Sales Tax revenue is expected to experience slower growth in the next two fiscal years as it returns to a pre-pandemic trend line.
- **Consumer Spending**
 - Total spending by S.C. consumers increased 3.8% as of October 25, 2020 compared to January 2020
 - In retail sales, September saw the fourth straight month of year-over-year growth after slowing since May
 - In U.S. food services and drinking places sales saw seventh straight month of sales below prior year in September; monthly growth over the last five months continues to slow
 - Retail trade sales likely counteracting decreased collections from Food Services and Accommodations
 - Consumer confidence remains relatively constant at new level since April
 - Regarding employment expectations 20% of households are expecting a loss of employment income in the next four weeks
- **Alcoholic Liquors and Beer and Wine Tax Revenue**
 - Revenue collections for alcoholic liquors are up \$4.7m compared to the prior year and are in line with the current forecast
 - Revenue collections for beer and wine are up \$1m compared to the prior year and are in line with the current forecast
- **Documentary Stamp Tax Revenue (Deed Recording Fees)**
 - Deed recording fees are up 22% compared to the prior year, which translates to \$4.9m. A small number of counties are driving this growth.
 - S.C. home sales were up 12.1% in September 2020 compared to September 2019
 - The median price for homes sold was up 2.3% in September 2020 as compared to September 2019
 - Building permits have shown year-over-year growth since March

- **Lisa Jolliff presented information on Business Taxes** *(See Attached)*
 - **Key Issues**
 - Corporate Income tax growth is currently above last fiscal year but this includes some carryover from last year; likely down for tax year 2020 and rest of FY 21
 - Corporate License is currently down 21 percent vs year-to-date for FY 20
 - Transfers from Corporate Income to Corporate License are down compared to last October due to a return issue, and DOR expects \$14.7m to transfer from Corporate Income to License when corrected
 - Insurance taxes are close to target due to licenses but expected to slow due to lower premium tax growth
 - Bank tax is down 50 percent through October and substantially behind the August estimate
 - Corporate Income collections are currently above the proposed forecast but expect a decline for tax year 2020 results
 - There is a projected decline in Corporate Income of \$53m in FY 21 and \$23m in FY 22
 - Corporate License collections are slightly behind current forecast but expected to reverse with November processing
 - No change to Corporate License forecast for FY 21; small additional decline in FY 22
 - Growth-to-date in Insurance Tax driven by biennial licenses; premium taxes are expected to slow for the remainder of the year
 - Bank revenue currently down 50.5 percent; expect FY 21 to decline \$23m from FY 20 with small growth in FY 22

- **Frank Rainwater presented information concerning the adoption of the forecast for FY 2020-21 and FY 2021-22** *(See Attached)*
 - **Summary of Key Economic Indicators and Factors FY 2020-21 and FY 2021-22**
 - South Carolina has recovered 70 percent of job losses but expect the remaining jobs to return slowly
 - Anticipate returning to pre-pandemic employment levels in February 2022

- Expect wage growth and proprietor's income to grow but at slower than historical rates
- Current assumptions do not anticipate any new federal stimulus
- **Summary of Forecast Changes**
 - Collections through October are ahead of expectations, but the uncertainty about COVID-19, waning impact of stimulus funds, and the potential for a poor tax filing season are significant concerns
 - Adjust FY 2020-21 estimate in selected categories for fiscal year-to-date experience and assumptions for the remainder of the year
 - Proposed adjustments are a net decrease of \$49.7 million but the new forecast would remain \$36.3 million above the FY 2020-21 budget
 - With this proposal, the revenue estimate would be reduced a total of \$803.7 million since February 2020 due to COVID-19 and the resulting recession
 - Assume continued slow growth in FY 2021-22
 - Continue to monitor and review the forecast in February 2021
- ❖ *Chairman Grimball asked Mr. Rainwater if the revised forecast data includes the possibility of positives such as a successful vaccine or a second stimulus package. Mr. Rainwater replied that positives are anticipated but are not included in the forecast. Caution is being taken with the assumptions as potential negatives, such as a possible downturn and the flu season are a concern.*
- ❖ *Mr. Clemmons congratulated the staff on the forecast process during this time of uncertainty. He felt the process was energizing and enlightening and he felt confident that the revised forecast was good. Mr. Clemmons motioned that the revised forecast be adopted.*
- ❖ *Mr. Gower seconded the motion and congratulated the staff for a job well down on the forecast during this difficult time.*
- ❖ *All Members voted aye to adopt the revised forecast.*
- **Lisa Jolliff presented information concerning the FY 2021-22 General Fund Budget Outlook (See Attached)**

- **Frank Rainwater presented information concerning the adoption of the Long-Range Forecast** *(See Attached)*
 - *Following Mr. Rainwater's brief presentation concerning the Long-Range Forecast, Chairman Grimball asked the Members for a motion to adopt the Forecast. Mr. Gower motioned and Mr. Clemmons seconded the motion. All voted aye to adopt the Long-Range Forecast.*
- **Other Matters for Consideration**
 - *Chairman Grimball mentioned the upcoming December meeting as well as the 2021 BEA/RFA Meeting Schedule.*
- **Reports from Working Group Members**
 - *Comptroller General Richard Eckstrom commented that he saw some bright spots in the S.C. economy such as the strong volume at the port of Charleston. The port volume is one measure that is used to determine the health of the S.C. economy. The port is refocusing on more retail trade coming in and going out of the port. Also, Walmart is building a 3 million square foot distribution center close to the port. Another bright spot is that S.C. is still exporting more vehicles and vehicle tires than any other state. He congratulated the staff for their excellent work during these difficult times and agreed that caution is still needed.*

Mr. Gower motioned to adjourn the meeting and Mr. Clemmons seconded the motion. All voted aye, and the meeting adjourned at 2:42pm.

The next scheduled BEA Meeting is Thursday, December 10, 2020 at 1:30pm. Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar> and at the Rembert Dennis Building.

These minutes were approved on 11/21/21.

Karen Rhinehart
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