

MEMORANDUM FOR THE RECORD

DATE: January 21, 2021

Revenue and Fiscal Affairs Geodetic Survey Office, 5 Geology Road, Columbia,
SC 29212/ Attendees via Zoom
1:00pm

SUBJECT: Minutes of Board of Economic Advisors Meeting

ATTENDEES: Board Members -Edward Grimball (via Zoom)-Chairman, Alan Clemmons (via Zoom), Emerson Gower (via Zoom), Hartley Powell (via Zoom); Frank Rainwater, Executive Director; Staff - Ben Coomer, Natalie Gallagher, Lisa Jolliff, Sandra Kelly, Karen Rhinehart.

Due to COVID-19 policies all Guests participated via Zoom and 64 individuals called-in. 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, in the Rembert Dennis Building, and in the Geodetic Survey Office. 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 Zoom. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email.

- Chairman Grimball welcomed everyone to the meeting at 1:00pm. He then presented a brief summary of the meeting minutes for November 10, 2020 which had previously been shared with the Members.

- *In summarizing the November 10, 2020 minutes, Chairman Grimball mentioned that the BEA revised the forecast for 2021 in several different categories for a decrease of \$49.7 million which brought the total decrease, since COVID began, to a net \$778 million for the current fiscal year.*

He then 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 quarterly overview of revenue collections.** *(See Attached)*
 - The economy and revenues are performing better than expected
 - Uncertainty remains about the rate of growth in a post COVID/stimulus environment
 - SC Code of Laws §11-9-1130 requires a review of revenue collections relative to the estimates

- If any quarter shows a shortfall over 1.5 percent of projected collections, a synopsis must be prepared indicating the factors contributing to the shortfall; and is similarly required for a shortfall of 1.5 percent in sales, individual income tax, corporate income tax, insurance tax, and earnings on investments.
 - *Mr. Gower asked if this information included Christmas sales. Mr. Rainwater responded that the Christmas sale information will be reported to DOR beginning today so that information will be available in February.*
- SC Code of Laws §11-9-1140 requires a quarterly review of estimated and actual revenues
 - If, at the end of the first (Jul - Sep), second (Oct - Dec), or third (Jan - Mar) quarter, the BEA reduces the estimate by:
 - 3.0 percent or less, the Director of the Executive Budget Office must reduce appropriations
 - More than 3.0 percent, the General Assembly may act; otherwise the Director of the Executive Budget Office must reduce appropriations
- Revenues are \$336.5 million above the estimate with sales, individual income, and corporate income tax all contributing to the growth
- Revenues are growing faster than expected and are \$336.5 million above the estimate, as revised.
- General Fund Second Quarter Summary
 - General Fund Revenues are \$336.5 million above quarterly estimates
 - Collections currently meeting all statutory thresholds except for earnings on investments
 - Individual withholdings are \$73.5 million ahead of expectations, and non-withholdings are \$44.3 million ahead. Tax filing season remains an unknown.
 - Sales tax accounted for another \$111.7 million of the excess, likely due to consumers spending more on taxable goods rather than services, but growth has slowed in the last month of the quarter.
 - Corporate income tax is \$49.4 million ahead of the estimate
 - Earnings on investments are below the quarterly estimate due to market conditions and timing of maturities
- Real GDP Growth
 - The Fed revised the real GDP growth estimate up from -3.7% to -2.4% for Q4 2020; revised up Q4 2021 from 4.0% to 4.2%; anticipating faster recovery than in September 2020
 - GDP improved from Q2 2020 but remained negative in Q3
 - Consumption of goods increased in Q3 2020 while services remain down; great recession saw greater decline in goods than services

- Refunds
 - Refunds slightly below estimate, but the majority will be in the last fiscal quarter
 - Growth is near recent levels after accounting for delayed filings
- **Natalie Gallagher presented information on Consumption Taxes, Sales Tax Revenue, Consumer Spending, Retail Sales, Accommodations Tax, Sales by Industry, Employment Expectations, Alcoholic Liquors and Beer and Wine Tax Revenue, and Documentary Stamps (See Attached)**
 - Consumption Taxes
 - Sales tax collections continue to be ahead of the estimate
 - Consumers continue to spend more on goods than services
 - This growth is likely unsustainable, as consumers may shift back to previous year's consumption patterns once the COVID-19 vaccine has been widely distributed
 - Sales Tax Revenue
 - Actual vs Estimate - Collections are \$112 million above the estimate year-to-date
 - Sales growth is better than anticipated; we expect a spike in spring
 - Consumer Spending
 - Total spending in SC is up 2.1% with spending on retail up 20.6%, the majority of which is taxable
 - SC retail sales show high growth in retail concentrated in durable goods
 - SC consumer spending overall is up but spending on services continues to be down
 - US consumer spending is down 2.8% with restaurants, hotels, and services considerably down
 - Accommodations Tax
 - Although better than expected, collections continue well below historical levels; General Fund sales taxes on accommodations are down \$13 million year-to-date as a result
 - Alcoholic Liquors and Beer and Wine Tax Revenue
 - Alcoholic Liquors
 - \$4.2 million above the estimate YTD
 - 13.1% growth vs. 2.5% anticipated growth
 - Largely the result of October sales, which saw a 27% increase in sales over October 2019. This is due to a DOR accounting change, not economic activity. Likely to be in line with the current estimate by the year end
 - Beer and Wine
 - \$1.5 million above the estimate YTD
 - On a dollar basis, sales have largely been in line with the current estimate

- Likely to remain in line with the current estimate
- **Consumption Tax Conclusion**
 - There has been exceptional sales tax growth in the last 6 months
 - Sales in select retail areas are driving this growth, made possible by a shift in spending from services to goods
 - Sales tax likely to exceed the current estimate this year
 - Sustainability of the current growth remains a concern next fiscal year if consumers shift back to services and stimulus ends
- **Documentary Stamp Tax Revenue (Deed Recording Fees)**
 - \$5.1 million above the estimate YTD
 - 25.3% growth vs. 11.4% anticipated growth
 - Exceptional growth in Deed Recording Fees observed since September 2020
 - Likely to exceed the current estimates
 - SC home sales up 33% in December 2020 compared to December 2019
- **Lisa Jolliff presented information on Business Taxes and the COVID Relief Bill (See Attached)**
 - Corporate Income tax growth is above estimate by \$49.4 million year-to-date. Currently experiencing a decline over last year, but it is less than expected
 - Corporate profits rebounded in Q3 2020; back above 2019 peak
 - Corporate license tax is \$16.2 million above the estimate year-to-date
 - Insurance tax is tracking close to estimates
 - Bank tax collections are below forecast by \$13.9 million
 - Bank return on assets is still down in Q3 2020 but recovering
 - COVID Relief Bill
 - Congress passed a \$900 billion COVID relief package as part of the Consolidated Appropriations Act, 2021. Major provisions include:
 - Direct payments of \$600 to individuals and \$1,200 to couples with an extra \$600 for dependent children, subject to income limitations
 - \$284.5 billion in additional PPP loans
 - ❖ A small business can receive a second PPP loan if they have less than 300 employees and can demonstrate a revenue reduction of 25%
 - ❖ Extending the deadline for state and local governments to expend CARES funding from December 2020 to December 2021
 - SC received \$1.996 billion and approved reimbursements of \$1.605 billion as of December 31, 2020

- Some of the largest reimbursements include \$841.3 million to SC DEW; \$231 million to SC Department of Education, \$98.9 million to the Adjutant General, and \$96.3 million to SC DHEC
 - ❖ Expanded Unemployment Benefits:
 - Extends the Federal Pandemic Unemployment Compensation through March 14, 2021, providing \$300 a week for all workers receiving unemployment benefits
 - Extends the Pandemic Unemployment Assistance for self-employed workers
 - Extends the Pandemic Emergency Unemployment Compensation that provides additional weeks of benefits when state unemployment runs out. Also expands weeks of extended benefits from 13 to 24 weeks
 - ❖ DEW does not expect these provisions to affect the Unemployment Trust Fund balance as they are supported by federal funds
- *Before moving to the next portion Mr. Rainwater asked the members if they had any questions concerning the presentations. Mr. Gower mentioned that the information shared was encouraging and it was good to hear that construction was increasing which creates jobs. Chairman Grimball asked if the construction information could be regionalized to which Mr. Rainwater replied that the information was available by state, but staff would follow-up and look for more detailed information.*
- **Frank Rainwater presented information concerning the February forecast meeting. (See Attached)**
 - South Carolina is experiencing a recent surge in new COVID-19 infections
 - Death rates from COVID-19 in the US and South Carolina are rising
 - This recession is unique and is having a different impact on certain sectors
 - Consumers are temporarily behaving differently as a result of COVID concerns, which is impacting revenues
 - The economic recovery is likely to also look different
 - Identifying where growth in the economy will occur and how this will affect revenues continue to be difficult
 - Key Economic Factors – Positives
 - South Carolina is faring better than much of the nation
 - Revenues in most categories are well ahead of estimates so far
 - Employment has recovered in the majority of sectors even though some industries are lagging

- Second federal stimulus is likely to have another positive effect on personal income and spending, but it is a short-term impact
- Very accommodating monetary policy by the Federal Reserve is supporting economy
- Key Economic Factors – Risks
 - Continued uncertainty of COVID-19 and changing consumer behavior
 - Ability of some employment sectors to return to pre-COVID levels
 - Sustainability of current growth, particularly in sales tax
 - Sales tax growth is likely to slow if consumers return to purchasing services
 - Growth above the stimulus effects is unlikely
 - Tax filing for 2020 is still an unknown
- Forecast considerations
 - FY 2020-21 revenues are well above expectations; the surplus is likely to be higher than current estimates
 - FY 2021-22 growth remains uncertain
 - Can economic growth replace stimulus?
 - Will consumer behavior change?
 - Key consideration – What is the degree of confidence in next year’s revenue growth in light of these issues?
- *Following the conclusion of the presentation, Mr. Rainwater asked if the Members had questions. Mr. Clemmons thanked the staff for a helpful and detailed presentation. He mentioned that there seemed to be many questions and few answers for the current situation. He is very concerned about the sustainability of the unexpected short-term growth. Chairman Grimbball asked if there was something to be learned in preparation for the February meeting. Mr. Rainwater explained that the February meeting will have information on Christmas sales, withholdings, information on businesses that received loans, and the new stimulus package, which at the moment is an unknown. It is necessary to monitor the situation closely.*
- **Other Matters for Consideration**
 - *Mr. Rainwater reminded the Members that the Statement of Economic Interests is due March 30th.*
- **Reports from Working Group Members**
 - *There were no comments from Working Group Members*

Mr. Gower motioned to adjourn the meeting and Mr. Clemmons seconded the motion. All voted aye, and the meeting adjourned at 1:59pm.

The next scheduled BEA Meeting is Friday, February 12, 2020 at 1:00pm.
Attachments: Agenda, Meeting Materials. Public Notice of this meeting was posted at <http://www.rfa.sc.gov/calendar>, at the Rembert Dennis Building, and the Geodetic Survey Office.

These minutes were approved on 2/12/21.

Karen Rhinehart

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