

MEMORANDUM FOR THE RECORD

Date: April 8, 2021, 1:00 p.m.
Rembert Dennis Building, Room 417/ Attendees via Zoom

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* - Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and David Patterson. *Sixty-seven additional participants via Zoom (see attached).*

Note: Due to COVID-19 policies all Guests participated via Zoom. An email invitation was sent to the BEA 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. Guests were asked to direct any questions to Frank Rainwater after the meeting had concluded via email.

- I. Chairman Grimball welcomed everyone to the meeting at 1:00pm.
- II. Chairman Grimball presented the February 12, 2021 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 opened the meeting with the following statement:

"The meeting today is to update our financial forecast for FY 2021 and FY 2022 in response to the most current economic data. Over the past year, we have revised our economic forecast and general fund revenue to account for the anticipated negative impact of COVID-19 on our economy, and today, we will review that forecast as we consider the medical path of COVID-19, the resilience of our economy, the commitment of our citizens, and the leadership of our state, as well as the initiative taken by the federal government that have mitigated some of the possible extreme consequences of this pandemic. I certainly want to particularly thank Frank Rainwater and the other members of his economic staff for their diligence and perspectives in analyzing our current economic environment. We were assisted also by our panelist of regional economists and of course the overall guidance of our board members."

Mr. Rainwater made the following statements:

The statute requires us to consider the forecast by April 10. As background, to share with the audience and to review for the record, it has been 2 months since we met, and the staff has been busy preparing for this meeting since that time:

- They have received revised economic data and updated their econometric models and forecasts and analysis;
- There are two additional months of revenue results;
- They have received more commentary and perspective on the national economic outlook.

Staff had multiple conversations with each of the board members separately, not as a group, to discuss trends and risks. The presentation today is the culmination of months of work and the recommendation that stems from that effort. Finally, Mr. Rainwater noted that the actual final reports on the month of March are not yet available and will be released a little later.

III. Presentations on Economic and Revenue Reports:

Mr. Rainwater presented information regarding the Report for March 2021 and Third Quarter Review §11-9-30. His comments included:

- Through March, total General Fund revenue grew 8.5% and is \$844.9 million above estimated revenue, though delayed tax filings and refunds have inflated this excess.
- In Q3 (Jan-Mar), excess revenue increased approximately \$336 million since the end of the second quarter after adjusting for \$172.4 million in delayed refunds.
- Revenue growth, including excess, was driven by better than expected personal income growth due to the federal stimulus and is expected to continue through the rest of this fiscal year.
- The excess revenue will result in a higher than previously estimated surplus for FY 2020-21.
- Revenues are growing faster than expected and are \$844.9 million above the forecast.

Mr. Rainwater presented information on National Economic Indicators. His comments included:

- The Fed has revised their estimates on GDP growth.
- Real GDP Growth: Expectations for 2021 improved since Dec. 2020; The Fed revised the Q4 2021 estimate up from 4.2% to 6.5%; stimulus is boosting GDP growth above pre-pandemic rates.
- Inflation: The Fed expects higher inflation in 2021; no significant concerns for the long run.

Mr. Rainwater presented information on South Carolina Economic Indicators. His comments included:

- COVID-19 Case Rate: rates in South Carolina and the nation have declined from the winter peak.

- South Carolina Employment: BLS revisions lowered employment figures for 2020; February 2021 employment is currently 3.9% below February 2020; recovered 69.3% of jobs lost.
- South Carolina Employment by Sector: February employment levels are below prior year after revisions and seasonal losses.
- Employment – Working Estimate: Revisions result in lower forecasted employment growth in FY 21; estimate for FY 22 still assumes reaching pre-pandemic employment in Feb. 2022.
- Employment Forecasts – April 2021: Reflect lower actual growth in FY 21 and maintain return to pre-pandemic employment in February 2022.
 - FY 21 working estimate employment growth rate of -1.98%, down from the November 2020 Estimate of -0.9%
 - FY 22 working estimate employment growth rate of 3.59%, up from November 2020 estimate of 2.6%
- Personal Income – Working Estimate: FY 21 growth continues to exceed assumptions despite lower employment; recent stimulus expected to further bolster FY 21; FY 22 anticipates no stimulus and lower than normal growth in the wage base
- Personal Income Forecasts – April 2021: Reflect actual growth, recent stimulus, and return to long-term trend
 - FY 21 working estimate personal income growth rate of 4.36% (includes stimulus payments), up from the November 2020 Estimate of 0.13% (assumed no stimulus)
 - FY 22 working estimate personal income growth rate of 0.4% (reflects higher base, no stimulus, and current improved performance), down from November 2020 estimate of 0.97%

Ben Coomer presented on the General Fund Revenue Individual Income Tax Components. His comments included:

- Withholdings: Revenues exceed expectations by \$199.6 million; FYTD growth of 6.0% exceeds annual estimate of 1.3%.
- FY 2020-21 withholdings grew despite employment decline due to disproportionate losses in low-wage jobs
- Individual Income Withholdings – Model Results: Updated revenue and income data result in higher expectations for FY 21 (\$5,866.7 million up from \$5,722.6 million) and FY 22 (\$5,992.8 million up from \$5,781.6 million)
- Non-Withholdings: Collections are \$118.4 million above estimate, but almost half of revenues are received in the final fiscal quarter.
- Non-Withholdings – Model Results: Updated revenue and income data result in improved expectations for FY 21 (\$1,308.4 million up from \$1,199.9 million) but less of an increase in FY 22 (\$1,337.6 million up from \$1,311.3 million).

- Refunds are below estimate due to delayed filings; the majority will be issued in the last fiscal quarter. Deadline for filings extended to May 17, extending uncertainty of final results.
- Refunds – Model Results: No change in estimates at this time as bulk is yet to be received and processed; large jump in FY 21 stems from July 15th filing extension for the 2019 tax year.

Natalie Gallagher presented on the General Fund Revenue Consumption Taxes. Her comments included:

- Sales Tax: Collections are \$211 million above expectations; FYTD growth of 8.6% exceeds estimated growth of 2.6%
- S.C. Sales by Sector: Pandemic spending habits have significantly impacted selected industries, with the greatest increase in sales being in the building material and garden equipment sector.
- Consumer Savings: Continued spending expected in the short-run as households have lower debt and higher savings than after the previous recession.
- Consumer Savings – Stimulus Effects: Disposable income increasing as a result of stimulus, student loan deferment.
 - Household behavior has been relatively consistent when it comes to stimulus payments (2001, 2008, 2020): individuals tend to spend a third, with the rest saved or used to pay off debt
 - Federal student loan payment suspension and interest waiver until September 30, 2021
- Sales Tax Model Results: FY 21 estimate increased (\$3,630.2 up from \$3,371.5) for actual results, stimulus, and spending patterns, but FY 22 is unchanged as one-time influences wane

Lisa Jolliff presented on the General Fund Revenue Business Taxes. Her comments included:

- Corporate Income Tax: Collections exceed expectations by \$95.3 million, showing growth instead of expected decline.
- Corporate Income Tax: Model predicts higher revenue, but historical volatility is still a concern; working estimates are below the model to account for this uncertainty. (FY 21 increased to \$465.9 million up from \$370.6 million and FY 22 increased to \$465.9 million up from \$347.3 million)
- Corporate License Tax: Revenues have grown instead of declining and are \$33.5 million above expectations; FY 21 working estimate is increased by \$30.7 million to \$137.9 million, no change to FY 22.
- Insurance Tax: Collections are \$6 million above estimate – recommend no change to forecast

- Bank Tax: Collections are below forecast by \$13.4 million, including timing issue with delayed returns in March; working estimate is reduced by \$27.4 million to \$23.2 million

Mr. Rainwater provided a summary of the forecast for consideration:

- Increase FY 2020-21 estimate by \$610.4 million, bringing it to \$10,060,765,000 and 2.7% above FY 2019-20
- Increase FY 2021-22 estimate by \$316.3 million, bringing it to \$9,925,428,000 and 1.3% below FY 2020-21
- General Fund Revenue as a Percentage of Personal Income - Current estimates are below historical relationship with revised personal income estimates; working estimates are closer to recent patterns
- General Fund Revenue Forecast Proposed (*See meeting materials*)

Mr. Rainwater stated unless there are any questions, our proposal is for the board to adopt the recommendations on pages 42 & 43 of the presentation. The recommendation also included a new estimate for Other Fund revenues and expenditures.

Chairman Grimball asked if there was any discussion. Mr. Clemmons complimented staff on the work that they have done putting together the revised recommendation and believes it is well supported and has been well explained.

Mr. Clemmons motioned that the revised forecast (\$610 million change for FY 2020-21 and \$316 million change for FY 2021-22 in the Gross General Fund Revenue estimates) be adopted. Mr. Gower echoed Mr. Clemmons' comments and seconded the vote. All members voted aye to adopt the revisions to the forecast.

Chairmen Grimball commented the forecast was decreased over the year by about \$800 million for the general fund, and now we are recouping about 75% of that, \$610 million dollars, and that recoupment is based on some caution.

Lisa Jolliff presented the Budget Outlook for FY 2021-22. Her comments were:

- FY 2021-22 Budget Outlook - Recurring General Fund: Estimated "New" General Fund Revenue Available for Appropriation (less Reserve Fund Contributions) is \$385.8 million
- FY 2021-22 Budget Outlook - Non-recurring General Fund: Total Available Non-Recurring Revenue is \$1,334.5
- FY 2021-22 Budget Outlook - Other Funds: increase in sales tax led to increase in HEX fund (surplus of \$70.5 million), next year will drop back (surplus of \$13.5 million) due to slowdown in sales tax. EIA one-time surplus of \$132.4 million this year, "new" recurring EIA revenue of \$33.5 million next year. Lottery Revenue increase in FY 21 (\$588.0 million), but will drop back next year (\$523.3 million)

- IV. Reports from Working Group Members
No Working Group members offered comments.
- V. Other Matters for Consideration
None
- VI. The next scheduled BEA Meeting is Thursday, May 20, 2021 at 1:00 p.m.
- VII. Mr. Clemmons motioned to adjourn the meeting and Mr. Gower seconded the motion. All voted aye, and the meeting adjourned at 1:40 p.m.

CORRECTION

Subsequent to the meeting, a typographical error was noted in the FY 2020-21 Forecast for the Education Improvement Act (EIA), which then affected other comments regarding EIA growth and comparisons. This error was brought to the attention of the chairman and a letter with the correct estimate was provided to the Governor, the Chairmen of the Senate Finance and Ways & Means Committees, and the State Superintendent of Education, which is attached. In the meeting, the EIA Fund estimate for FY 2021-21 on page 43 was presented as \$993,430,024 and the correct number is \$953,430,024 bringing the total EIA to \$953,620,024. The corresponding change from the February 2021 forecast is \$75,597,024, instead of \$115,597,024, and the EIA Surplus for FY 2020-21 on page 47 should read \$92.4 million, instead of the \$132.4 million. The EIA estimates for FY 2021-22 are correct as presented at the meeting. Staff is directed to amend the relevant meeting materials with the necessary changes to reflect the proper figure with the proper notation and publish the corrected version with meeting materials. The staff sincerely regrets any inconvenience caused by this error. By adoption of these minutes, the Board formally adopts the corrected forecast for the EIA.

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

These minutes were approved on 5/20/2021
Kathryn Kelley 

BEA Zoom Webinar Attendee Report

Staff:

Allyn Powell
Amanda Martin
Carrie Bundrick
Debbie
K. Harris
Ragan Griffith
Zac Payne

Guests:

Andrew Roof
Angela Willis
A. Shire
Avery Wilks
JK Baker
Beth Quick
B. Gaines
Billy Quinlan
Billy Routh
Bob Coble
B-Robin Stack
Bryan Kost
Bryce Wilson
Bunnie Ward
B. Wilkerson
Chrissy Jackson
Christian L. Soura
Darbi MacPhail
Don Royal
Don Hottel
Eddie Gunn
Evelyn Sexton
Georges Tippens
Goodwin
Jake Scoggins
Joren Bartlett
Joseph Bustos
Katie Turner
Kevin Etheridge
Kevin Kibler

Laura Belcher
Lisa Jurovaty
Martha Casto
Mary Martha Greene
Matthew Norman
Mike Addy
M. Kell
M. Moore
Paul Patrick
Quentin Hawkins
Rick Caldwell
Rick Moul
R. Knight
Roger H
Rusty Monhollon
Sam Spence
Samantha Saxenmeyer
Sara Drawdy
Sara Weathers
SC EOC
Seanna Adcox
Shirley Hinson
Stephen
Sym Singh
Ted Riley
Tim Hardee
Tim T
Tina Thompson
T. Nance
T. Watson



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

EDWARD B. GRIMBALL, Chairman
ALAN CLEMMONS
EMERSON F. GOWER, JR.

FRANK A. RAINWATER
Executive Director

April 15, 2021

The Honorable Hugh K. Leatherman, Sr.
Chairman, Senate Finance Committee
South Carolina Senate
111 Gressette Building
Columbia, SC 29201

The Honorable G. Murrell Smith, Jr.
Chairman, Ways & Means Committee
South Carolina House of Representatives
525 Blatt Building
Columbia, SC 29201

Dear Chairman Leatherman and Chairman Smith:

This letter is to inform you that we found a typographical error in the Education Improvement Act (EIA) forecast for FY 2020-21 adopted by the Board of Economic Advisors (BEA) on April 8, 2021.

The EIA forecast for FY 2020-21 was inadvertently issued at \$993,620,024. The correct figure is \$953,620,024. To confirm, the EIA forecast for FY 2021-22 of \$894,700,000 is correct as adopted.

Attached are updated preliminary tables reflecting this correction. The BEA will formally adopt the EIA forecast adjustment for FY 2020-21 at the next meeting on May 20, 2021. However, we wanted to advise you of this issue for budgeting and planning purposes now. We apologize for any inconvenience as a result of this error but hope that this quick notification will limit any issues.

If we may be of further assistance, please advise.

Sincerely,

A handwritten signature in blue ink that reads "Frank A. Rainwater".

Frank A. Rainwater
Executive Director

The Honorable Hugh K. Leatherman, Sr.
The Honorable G. Murrell Smith, Jr.
April 15, 2021
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FAR/lhj

Enclosure

cc: The Honorable Henry McMaster, Governor
The Honorable Molly Spearman, State Superintendent of Education
Mr. Daniel Boan, Chief of Staff, House Ways and Means Committee
Mr. Brian Gaines, Director, Executive Budget Office
Mr. Mike Shealy, Budget Director, Senate Finance Committee
Ms. Nancy Williams, Chief Financial Officer, State Department of Education



Personal Income Growth
FY21: 4.36%; FY22: 0.40%

General Fund Revenue Forecast
Fiscal Years 2018-19 to 2021-22
(Dollars)

Correction to FY 2020-21 EIA Forecast (Pending Forecast Adoption)

Revenue Category	Final FY 2018-19	Final FY 2019-20	4/8/2021 Estimate FY 2020-21	4/8/2021 Estimate FY 2021-22	Percent Change FY 2018-19	Percent Change FY 2019-20	4/8/2021 Percent Change FY 2020-21	4/8/2021 Percent Change FY 2021-22
Gross General Fund Revenue	\$9,402,126,809	\$9,793,277,494	\$10,060,765,000	\$9,925,428,000	8.0	4.2	2.7	(1.3)
Appropriation Act Revenue	8,836,042,000	9,330,662,000	9,500,103,000	9,925,428,000	3.5	5.6	1.8	4.5
Less: Tax Relief Trust Fund	(599,876,083)	(614,053,000)	(629,405,136)	(762,846,221)	(3.1)	(2.4)	(2.5)	(21.2)
Appropriation Act Excluding Trust Fund	8,236,165,917	8,716,609,000	8,870,697,864	9,162,581,779	3.6	5.8	1.8	3.3
Revenue Excess/(Shortfall) From Act	566,084,809	462,615,494	560,662,000	0				
Capital Reserve Fund (2%) - Beg. Bal.	151,649,393	162,485,305	176,095,044	183,584,490	4.3	7.1	8.4	4.3
General Reserve Fund (5%) - Beg. Bal.	379,123,483	406,213,261	440,237,611	458,961,225	4.3	7.1	8.4	4.3
Total Reserve Funds	530,772,876	568,698,566	616,332,655	642,545,715	4.3	7.1	8.4	4.3
Education Improvement Act (EIA)	840,103,875	863,037,030	953,620,024	894,700,000	6.1	2.7	10.5	(6.2)
EIA Fund	837,529,968	861,357,054	953,430,024	894,490,000	5.9	2.8	10.7	(6.2)
EIA Interest	2,573,907	1,679,976	190,000	210,000	77.1	(34.7)	(88.7)	10.5
S.C. Education Lottery Fund	490,656,044	496,599,922	588,000,000	523,300,000	12.4	1.2	18.4	(11.0)
Homestead Exemption Fund (HEX)	756,112,889	784,804,568	869,440,000	828,970,000	5.4	3.8	10.8	(4.7)
HEX Revenue	753,887,010	782,037,516	866,940,000	826,110,000	5.3	3.7	10.9	(4.7)
HEX Interest	2,225,879	2,767,052	2,500,000	2,860,000	50.0	24.3	(9.7)	14.4
Expenditure Estimate	773,434,415	798,756,235	819,351,320	836,036,029	3.1	3.3	2.6	2.0
HEX Fund Excess/(Shortfall)	(17,321,527)	(13,951,667)	50,088,680	(7,066,029)	46.8	19.5	459.0	(114.1)

Note: Gross General Fund Revenue includes Individual Income and Corporate Income tax revenue that is transferred for Property Tax Relief Trust Fund pursuant to §11-11-150.

Tax Relief Trust Fund for FY 2021-22 includes estimated additional reimbursements for utilities receiving the manufacturing exemption

Source: South Carolina Board of Economic Advisors/BEA/04/15/2021 - PRELIMINARY CORRECTION TO FY 2020-21 EIA FORECAST TO BE ADOPTED AT NEXT MEETING