

MEMORANDUM FOR THE RECORD

Date: May 20, 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-Chairman (via Zoom), 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, and Sandra Kelly. Forty-nine 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 1:02pm.
- II. Chairman Grimball presented the April 8, 2021 meeting minutes, which previously had been shared with the Members. Chairman Grimball noted that the minutes contained an explanation and correction of a numerical misstatement in the April presentation, which resulted in an overstatement of the Education Improvement Act revenue forecast for FY 2020-21.

Mr. Rainwater provided the following information related to the correction of the minutes:

- Approval of Minutes includes recognition and correction of the EIA Revenue forecast for FY 2020-21 contained in the April meeting materials.
- There was a typographical error when the EIA estimates were transferred from the working documents to the final presentation.
- The EIA revenue estimate was mistakenly reported at \$993,430,024, and the correct number should be \$953,430,024.
- This error and the correct estimate were noted on our website and reported to the Ways and Means and Senate Finance committees within a few days, and the correct number is being used in the budget process.
- The EIA estimate for FY 2021-22 is correct as previously presented.

Mr. Gower stated "I assume there was a thorough lessons learned review to prevent things like this from happening in the future" to which Mr. Rainwater responded yes.

Chairman Grimball thanked Mr. Gower for his comments and asked if there was a motion to adopt the meeting minutes for April 8, 2021.

Mr. Clemmons motioned to approve the minutes with the correction and explanation, and Mr. Gower seconded the motion. All voted aye, and the minutes were adopted.

III. Presentations on Economic and Revenue Reports:

Mr. Rainwater made several prefatory remarks:

The purpose of this meeting is to provide a status update as there has been no fundamental change in our underlying assumptions or economic activity. As a reminder, April is the start of a three to five month stretch when our comparisons of monthly revenue to the prior year will be distorted because of the delay in tax filing and extensions last year as well as a different pattern this year due to different extensions. While we have made reasonable efforts to develop these monthly estimates, these timing issues make comparisons difficult and undercut the strength of hard conclusions that would normally be present in our reports. The confidence in what these monthly numbers actually mean is tempered by these unique distortions and the final answer won't be known for another couple of months after all timing issues have been resolved.

Mr. Rainwater presented information regarding the Report for April 2021. His comments included:

- General Fund revenues are \$421.8 million above expected collections through April.
- Sales and Corporate Income tax came in above expectations.
- Impact of the Individual Income tax filing delay to May 17 on Refunds and Non-Withholdings is yet to be determined.

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

- Unemployment Rate: SC unemployment rate trending down to 4.8% in March 2021 compared to US rate of 6.2%; US rate dropped to 5.7% in April 2021.
- SC Employment: SC has recovered 75.6% of jobs lost; March exceeded current estimate by 9,900 jobs.
- Inflation Rates: CPI jumped to 4.2% in April 2021 due to rising consumer demand, supply chain disruptions, and the low April 2020 base; these effects are expected to subside over time.

Mr. Rainwater presented information on General Fund Revenue. His comments included:

- General Fund: Revenues are growing faster than expected and are \$421.8 million above the revised April estimate (\$8,398.4 million up from \$7,976.6 million).
- Sales Tax: Collections exceeded expectations and are \$55.6 million above the current estimate (\$2,739.0 million up from \$2,683.4 million).
- Accommodations Tax: Strong growth in Accommodations Tax indicates people are beginning to travel more as vaccination rates increase (\$63.6 million up from \$50.8 million). This could be a good sign as people may feel more comfortable visiting South Carolina this summer.
- Withholdings: Collections are above estimate by \$52.5 million or 1.1% (\$5,022.3 million up from \$4,969.8 million).
- Non-Withholdings: Collections are 11.1% above estimate, but impact is yet to be determined (\$1,027.0 million up from \$924.3 million) as tax filings are not yet due.
- Refunds: Refunds are 3.2% below estimate, but filing deadline delay may distort processing timeline (\$1,771.1 million down from \$1,829.1 million).
- Individual Income Tax Return Processing: Uncertainty remains due to significant number of returns still to be processed.
- Corporate Income Tax: Record high April 2021 collections of \$204.9 million put FY 21 collections \$104.4 million above revised April estimate. Expect some of this revenue to be transferred to Corporate License Tax in the fall.
- Legislation Affecting General Fund Revenues:
 - Tax Conformity (H.4017) - exempts \$10,200 of unemployment (Tax Year 2020) - \$61.3. million reduction, but this impact was addressed in the budget process.
 - Disguised Sales (S.677) - may speed up usage of the tax credit
 - Filing option (S.627) - could shift S-Corp active trade or business income tax collections from individual to corporate
 - Aircraft tax (S.675) - \$1.25 million reduction in FY 2021-22; \$2.5 million reduction in FY 2022-23
 - Apportionment of Income, Broadcasters (Proviso 109.16) - decrease in income tax revenue
 - Agribusiness Processor (Proviso 117.164) - \$1.2 million reduction
- Conclusions - Impact on April 2021 Forecast
 - Underlying economic conditions and assumptions are still unchanged from last month.
 - Recent concerns about inflation, supply chain issues, and COVID-19 in other countries are additional risks to the forecast.
 - Strong April collections may result in a larger surplus for the current year, but the impact of tax season is yet to be determined.
 - Timing issues reflected in April collections have little impact on the FY 2021-22 assumptions and estimates.

There was discussion regarding when the books close for the year and which legislation listed in the presentation affects Fiscal Year 2021. It was stated that the books close around early August to allow for any final or delayed transactions. The Comptroller generally issues his release in mid to late August. Additionally, Mr. Rainwater indicated the only legislation that may impact Fiscal Year 2021 revenues is the Tax Conformity Bill (H.4017) and that depends on when people file for those refunds. The General Assembly has put money aside to pay for those refunds, but there are logistics to be worked out, and Director Hartley indicated a manual adjustment by the Federal Government is expected to those individual's Federal Taxable Income but is unsure when that will occur.

- 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, June 10, 2021 at 1:00 p.m.
- VII. Mr. Gower motioned to adjourn the meeting and Mr. Clemmons seconded the motion. All voted aye, and the meeting adjourned at 1:28 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 9/23/2021
Kathryn Kelley Kathryn Kelley

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
Elizabeth Hall
Ken Harris
Stephen Gardner
Zac Payne

Guests:

Amy Hagner
Ben Kinlaw
Billy Routh
Billy Quinlan
Bob Coble
Brad Wilson
Bunnie Ward
Cynthia Dannels
Darbi MacPhail
Don Grant
Evelyn Sexton
Grant Gibson
Coyet Greene
Harry Miley Rich 2
Jake Scoggins
Jeff Thordahl
Joseph Bustos
Julie Cox
Kathy Johnson
Katie Turner
Kevin Etheridge
K. Taylor
Marissa Evans
Marty Rawls
Mary Martha Greene
Mellanie Jinnette
Mike Addy
M. Mills
M. Moore
Nancy Williams
Patrick Kelly
Peter
Phil Hamby
Quentin Hawkins
R. Stack
SCASA Communications
Shirley Hinson
Susan Roben DSS
Sym Singh
Tara Boone
Tim Derrick
Tina Thompson
Tina Meunier
T. Watson