

## MEMORANDUM FOR THE RECORD

**Date:** November 10, 2021, 1:00 p.m.  
Bowers Conference Room, Room 417/ Attendees via Zoom

**Subject:** Minutes of Board of Economic Advisors Meeting

**Attendees:** *Board Members* – Edward Grimball, Chairman (*via Zoom*), Emerson Gower (*via Zoom*), and Alan Clemmons (*via Zoom*). Frank Rainwater, Executive Director; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and Veronica Watson. *Fifty-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 12:59 p.m.
- II. Chairman Grimball stated that the Meeting Minutes from the October 14, 2021 meeting are still in progress and they will be presented at the next BEA meeting. The Chairman also stated that today's presentation will include key points from last month's meeting with the Regional Advisor panelists.
- III. Presentations on Economic and Revenue Reports:

Mr. Rainwater made several prefatory remarks:

*Today reflects the culmination of the past 12 weeks of work since the Comptroller General closed the books in August. Our staff has been analyzing data and in September and October we met with state business officials as well as our regional panel of advisors to help us gauge and better understand the current trends and expected trends in the economy coming up over the next 20 months to help us develop our revenue estimates. The materials contain the conclusions and assumptions of the data to build this forecast; this supplementary information is appended to the meeting material.*

*The major theme is we are in a different situation this year, not just with COVID but also at a time where taxes are behaving differently. Taxes are being affected more by COVID, others by consumer behavior; some economic activity has been driven by COVID where some of the other tax sources are being more affected by the stimulus funding.*

Mr. Rainwater presented information regarding the FY 2021-22 General Fund Revenues. His comments included:

- General Fund Revenue – Actual vs. April 2021 Estimate: Collections are up 19.8% over last year and \$591.4 million ahead of the current forecast.

Mr. Rainwater presented a Review of Revenue Estimates and Assumptions for FY 2021-22 and FY 2022-23. His comments included:

- Key Observations and Comments:
  - South Carolina is expected to see continued economic growth.
  - FY 2020-21 final revenues were significantly higher than estimated in April, providing a higher base for revising FY 2021-22.
  - FY 2021-22 actual collections through October continue to exceed historical growth rates.
  - Notably, federal stimulus and altered consumer behavior are having a longer and stronger impact than previously anticipated.
  - In September, key business officials shared insights that detailed businesses' concerns about supply chain disruptions and labor force challenges, but they noted that these concerns came from a position of economic strength.
  - In October, our panel of regional economists noted that wage growth is strong, in-migration to South Carolina has increased, and that inflation may pose a problem during the forecast period; overall expectations were positive and included above average growth this year.
- Key Assumptions for FY 2021-22 and FY 2022-23: Working Estimates
  - Personal Income:
    - Elevated wage growth in calendar year Q3 and Q4 2021, with a return to historical growth rates in Q1 2022
    - All pandemic related federal unemployment benefits ended as of calendar year Q3 2021
    - Additional \$3 billion in Child Tax Credits accounted for throughout FY 2021-22
  - Employment:
    - Below average growth through 2021, in line with current data trends, higher retirements, and advisors' comments
    - Above average growth beginning spring 2022
    - Return to pre-pandemic level 2022
    - Historical average growth beginning fall 2022

- Personal Income: Working estimate is above historical trend in FY 2021-22 primarily due to elevated wage growth but returns to 5-year trend in FY 2022-23.
- Employment: Working estimate assumes a return to pre-pandemic employment levels in July 2022 and historical growth through FY 2022-23.

Mr. Coomer presented information on General Fund Revenue, Individual Income Tax Components. His comments included:

- Individual Income Tax – Key Issues: FY 2021-22 and FY 2022-23
  - Rising wages caused by the labor shortage have driven growth in withholdings collections, and these higher wages are not expected to fall back down
    - Individuals have exited the labor market due to retirement, family obligations, and health concerns
  - Non-Withholdings seem to have been elevated by proprietors' income and capital gains more than interest and dividend income
    - While proprietors' income and capital gains may not continue to drive such high collections, a major correction is not expected
  - Most of Refunds will be processed during tax season, but the return of low wage employment may lead to above average growth.
  - Tax filing delays from the previous fiscal year will continue to disrupt the comparisons in Non-Withholdings and Refunds.
  - Non-Withholdings also includes legislative adjustments for the revised SC Housing Tax Credit impact that decreases the estimate by \$25.0 million and \$84.3 million for FY 22 and FY 23, respectively.

Ms. Gallagher presented information on General Fund Revenue, Consumption Taxes. Her comments included:

- Sales Tax Revenue: Key Issues FY 2021-22 & FY 2022-23
  - FY 22 growth continues to be highly elevated over the pre-pandemic trend.
  - Stimulus payments increased capacity to spend.
  - Continued shifts in consumer spending towards more taxable goods are further exacerbating high growth rates.
  - As this increased capacity wanes and when or if consumers shift back to more historical trends, we'll see moderated growth rates
    - Likely negative in the spring of 2022
  - Looking forward to FY 23, we anticipate revenue growth will return to historical levels.

- Other Consumption Taxes
  - Alcoholic Liquor collections continue to run ahead of expectations and are currently above the estimate by \$8.7 million.
  - Beer and Wine collections continue to be in line with the current estimate.
  - Deed Recording Fees are well ahead of the estimate by \$14.1 million.

Ms. Jolliff presented information on General Fund Revenue, Business Taxes. Her comments included:

- Business Taxes – Key Issues: FY 2021-22 and FY 2022-23
  - Corporate income tax growth is currently very strong, largely due to robust retail trade. Working estimates expect collections through FY 22 to closely mirror last year, with a return to more historical levels in FY 23. However, if retail continues at an elevated pace for longer, revenue could go higher this year.
  - Corporate License taxes are running ahead of current estimates and stronger than previously anticipated.
  - Insurance taxes are growing in line with recent trends; working forecasts reflect the slightly increased base from last year and expected continued growth.
  - Bank tax is above the current forecast; collections may continue to improve if interest rates increase.

Mr. Rainwater presented the Consideration of Revenue Forecasts for FY 2021-22 and FY 2022-23. His comments included:

- General Fund – FY 2021-22 & FY 2022-23: Working Estimate compared to 3-year pre-pandemic trend
- Risks and Other Key Factors – The forecast assumes:
  - Economic growth will continue with no above normal risk of recession.
  - The federal budget and debt ceiling issues will be resolved without impact.
  - The Federal Reserve will implement recently announced policy plans to maintain its objectives for maximum employment and 2 percent inflation.
  - The effects of federal stimulus will subside sooner rather than later.
  - Overall, if current trends continue, revenues could potentially be even stronger than forecasted.

*Mr. Rainwater presented the Proposed General Fund Revenue Forecast on page 39 and 40 of the meeting materials for consideration by the board. The revenue change for FY 2021-22 increases the estimate by about \$975.8 million but the net growth for next year is only \$18 million. This reflects a see-saw pattern due to above normal growth in some categories and then a return to historical rates. The revenue numbers have been updated in other categories.*

*Chairman Grimball asked Mr. Rainwater to summarize the reason for the flatness or very slight decline from FY 21 to FY 23. Mr. Rainwater stated that this is largely attributable to sales tax and corporate tax. There was such a significant boost from the stimulus activity this past fiscal year; the estimate assumes that stimulus will subside and consumer behavior and revenues will return to historical rates.*

*Mr. Gower complimented staff on their thoroughness of research and commented he believes this forecast is the correct approach. Mr. Gower then motioned to approve the General Fund Revenue Forecast presented on pages 39 and 40 of the meeting materials. Mr. Clemmons seconded the motion and all voted aye.*

Ms. Jolliff presented information on the Budget Outlook for FY 2022-23. Her comments included:

- General Fund Revenue – Budget: Gross revenue relative to total budgetary revenue.  
*Revenues are projected before the tax relief trust fund is subtracted. FY 21 finished on a gross revenue basis on \$1.03 billion ahead of the base budget. Based on these working estimates and the estimates adopted on pages 39 and 40 of the presentation for FY 22 and FY 23, the estimates will be above the FY 22 base budget by \$981 million and \$999 million for FY 23.*
- FY 2022-23 Budget Outlook – Recurring General Fund: Estimated “New” General Fund Revenue Available for Appropriation is \$897.6 million.
- FY 2022-23 Budget Outlook Nonrecurring Revenue: Projected FY 2021-22 General Fund Surplus of \$986.7 million, FY 2021-22 Capital Reserve Fund \$183.6 million and FY 2020-21 Contingency Reserve Fund of \$1.024 billion totals \$2.194 billion in Total Non-Recurring Revenue for FY 2022-23 Budget.
- FY 2022-23 Budget Outlook: Select Other Funds
  - FY 2021-22 HEX Fund Surplus/(Shortfall) - \$47.3 million
  - FY 2022-23 HEX Fund Surplus/(Shortfall) - \$11.8 million
  - FY 2021-22 EIA Surplus/(Shortfall) - \$89.1 million
  - FY 2022-23 “New” EIA Revenue - \$96.3 million
  - FY 2021-22 and FY 2022-23 Lottery Revenue - \$544.6 million

Mr. Rainwater presented the Long-Range Forecast (§11-11-350). His comments included:

- We are required by statute to do a Long-Range Forecast for planning purposes.
- Long-term, the estimates anticipate a return to normal trends in FY 24 and FY 25. The projection for FY 24 is 3.5% and FY 25 is 4.6% growth for a total budget of \$11.3 billion and \$11.8 billion in FY 24 and FY 25 respectively.

*Mr. Clemmons motioned to adopt the Long-Range Forecast required by §11-11-350 as presented. Mr. Gower seconded the motion and all voted aye.*

IV. Reports from Working Group Members  
*No Working Group members offered comments.*

V. Other Items for Discussion

- 2022 BEA Meeting Calendar is tentatively approved and will be revisited at the beginning of the year if needed.

VI. The next scheduled meeting is the BEA Meeting on Thursday, December 9, 2021 beginning 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 1:48 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 1/20/2022

Kathryn Kelley *Kathryn Kelley*

## BEA Zoom Webinar Attendee Report

### *Staff:*

Will Tipton  
Mary Katherine Miller  
Lisa Wren  
Ragan Griffith  
Emillie Boggs  
Geoff Johnson  
Amy Simpson  
John Long  
Amanda Martin  
Stephen Gardner  
Shannon Fields  
Julia Williams  
Carrie Bundrick  
Jim Moore  
Laura Kelley  
Adam DeMars

### *Guests:*

Eddie Gunn  
Bryan Kost  
Beth Quick  
Mary Martha Greene  
SC Education Oversight Committee  
Jake Scoggins  
Faith DeMars  
Kevin Etheridge  
Ben Michaud  
Samantha Harper  
Lauren Parker  
Gavin Jackson  
Richard Eckstrom  
Nancy Williams  
Lisa Catalanotto  
Katie Turner  
K. Taylor  
Tim Derrick  
Heather Rath  
Robin Stack  
Ryan Burnaugh  
Joseph Bustos  
Syeeda Gallman  
Shelley Allen - Richland Two  
R. Tester  
Tomeakia Pressley  
George Kennedy  
Coyet Greene  
Mellanie Jinnette

Christopher Ophardt  
Bob Coble  
Toni Nance  
Tara Boone  
Emily Keeney  
Ted Riley  
Endra Curry  
Billy Routh  
Don Hottel  
Marissa Evans  
David Seigler  
Kathy Johnson  
Cynthia Dannels  
Billy Quinlan