

MEMORANDUM FOR THE RECORD

Date: April 7, 2022, 1:00 p.m.
SC Educational Television/ Attendees via Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball, Chairman, Emerson Gower, Curtis Hutto, and Hartley Powell. Frank Rainwater, Executive Director; *Staff* – Paul Athey, Ben Coomer, Natalie Gallagher, Lisa Jolliff, Sandra Kelly, Byron Kirby, and David Patterson. *Thirty-seven additional attendees via Zoom (see attached).*

Note: Guests were invited to attend virtually. An email invitation was sent to the 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.

- I. Chairman Grimball welcomed everyone to the meeting at 1:00 p.m.
- II. Chairman Grimball presented the February 15, 2022 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*)
- III. Chairman Grimball welcomed the new Board Member, Mr. Curtis Hutto, who was appointed by the Chairman of the House Ways and Means Committee. Mr. Hutto is a CPA from Sumter and is Vice President and CFO of Thompson Construction Group, Inc.
- IV. Chairman Grimball provided a summary of the previous meeting that was held in February, as follows:
The Board reviewed its forecast for Fiscal Years 2021-22 and 2022-23 and increased the General Fund revenue forecast by \$921 million for the year ending June 30, 2022 and \$621 million for the year ending June 30, 2023. Having said that, that is the basis for the continued review of the forecast for this meeting.

Chairman Grimball then turned the meeting over to Frank Rainwater.

Mr. Rainwater began the presentation with the following statement:

This is a statutorily required meeting for a couple of purposes. First, March is the end of the quarter and we are required to report on revenues collections at the end of each quarter. Second, we are required to review revenue collections relative to the estimates by April 10th and adjust, if necessary. We, however, only have limited new data available to drive our discussions today.

Mr. Rainwater presented information regarding the General Fund Revenues FY 2021-22 Third Quarter Summary (Preliminary). In addition to commenting that revenues are sufficient to avoid a budget adjustment, his main points included:

- March numbers are not yet finalized, but preliminary numbers indicate a General Fund excess of \$486.7 million for fiscal year-to-date.
- Individual Income is driving the excess in March collections and is currently \$324.4 million ahead of expectations, partly due to the timing of refunds.
- Sales tax and Corporate Income tax are ahead of expectations by \$28.5 million and \$88.7 million, respectively.
- Higher collections across smaller revenue categories were \$45.1 million above the estimate.
- Revenues are running 21.8% over last year compared to the estimate of 15.2%.

Mr. Ben Coomer presented a Review of Individual Income Tax and Related Economic Indicators, which included the following key points:

- SC Personal Income: Quarter 3 (July – September 2021) revised upward by the U.S. Bureau of Economic Analysis by \$1.1 billion in the most recent release, high wage growth drove personal income 1.7% above our forecast for Quarter 4 (October – December 2021).
- SC Employment: February experienced very strong job growth, ending above pre-pandemic levels.
- SC Employment by Industry: Many industries are at or above pre-pandemic levels; Leisure and Hospitality, Education and Health Services, and Government remain 2-6 percent below pre-pandemic levels.
- Individual Income Taxes, Key Issues:
 - Wage growth has driven withholdings above the estimate but is beginning to moderate.
 - Non-Withholdings is slightly above the estimate with more than 40% of collections still to come.
 - Refunds are below the estimate due to processing schedule, but this should be resolved by the end of the tax processing season.
- Withholdings – Actual vs. Estimate: Year-over-year growth in March was 9.8%; growth is slowing more gradually than expected. Collections are \$136.8 million above the estimate.
- Wage Growth and the Labor Market: Wage growth remains elevated; the return to normal levels may be more gradual than expected as the labor shortage continues.
- Non-Withholdings – Actual vs. Estimate: Collections are \$28.1 million above the estimate, but more than 40% of expected collections remain.
- SC Business Applications: Business applications are elevated but less so than the prior year.

Note: This is indicative of people going into business for themselves which could contribute to the labor shortage.

- Refunds – Actual vs. Estimate: Refunds are \$159.5 million below the estimate due to the timing of refunds processing; this is expected to even out during tax filing season.
- Refunds: Total refunds issued are in line with 2021 processing cycle but below previous years.

Ms. Natalie Gallagher presented a review of Consumption Taxes and Related Economic Indicators, which included the following key points:

- Consumption Taxes, Key Issues FY 2021-22:
 - Growth through March was slightly above the estimate, negative growth rates beginning with April revenues are anticipated due to high levels last year.
 - Consumers continue to spend more than pre-pandemic levels, with excess savings driving elevated spending over FY 2020-21.
 - Consumers are facing high gas prices and high inflation.
- Sales Tax – Actual vs. Estimate: Collections in February and March were slightly above the estimate, with year-to-date growth declining slightly from 18.6% to 18.2%.
- US Consumer Spending: Consumer spending remains elevated over pre-pandemic levels, with spending on goods continuing to drive growth.
- SC Consumer Spending: Pandemic spending habits have continued to significantly impact select industries.
- SC Consumer Spending: Net taxable sales have increased nearly \$6 billion fiscal year-to-date, compared to a historical average increase of \$1.2 billion over the same time period.
- Interest Rates and Inflation: The Federal Reserve is expected to raise interest rates six times in 2022 to curb inflation; economic analysts are predicting more modest rate hikes in 2023.
- Housing Statistics – South Carolina: Prices continue to rise, even as the number of units sold declines – a sign that demand continues to outpace supply.
- Housing Statistics – Southern Housing Starts: Housing starts continue to increase; however, inflation, supply issues, and labor shortages continue to present ongoing issues for contractors.

Chairman Grimball inquired as to the reason for the decline in sales tax growth. Ms. Gallagher explained that we are getting into a comparison period of extremely high growth from last year so even though we are growing along a trajectory, the growth rate is slowing down.

Ms. Lisa Jolliff presented a review of Revenue Trends and Legislative Impacts, which included the following key points:

- Corporate Income Tax – Actual vs. Estimate: Collections in March greatly exceeded the estimate, bringing the year-to-date excess to \$88.7 million.

Ms. Jolliff noted that beginning in January 2022, due to recently enacted legislation, certain entities can now file income tax under corporate instead of individual. Because of this change, about \$12 million has shifted from individual to corporate income tax year to date.

- Legislative Provisions with Revenue Impacts
 - Income tax conformity – reduces revenue by \$15.4 million for FY 2021-22 and less than \$500,000 in FY 2022-23 and beyond
 - State housing tax credit – pending legislation would limit the impact currently contained in the estimate in future years
 - Total impact of all provisions of House and Senate tax proposals
 - H. 4880 – reduces income tax rates and provides full exemption for military retirement income: \$604.3 million (FY 2022-23)
 - S. 1087 – reduces income tax rates, provides full exemption for military retirement income, and expands property tax exemption for manufacturing property: \$1.001 billion (FY 2022-23)

Ms. Jolliff explained that of the \$604.3 million impact of H. 4880, \$576.0 million is due to the reduction of individual tax rates for tax year 2022. Also, the House proposal, as amended on 2.17.2022, includes a provision to further reduce individual income tax rates in future years depending on General Fund growth. Similarly, the majority (\$886.9 million) of the \$1.001 billion impact of the Senate proposal is due to the reduction of individual tax rates for 2022.

Ms. Jolliff then discussed a chart estimating the amount of General Fund Revenue that the stimulus and other pandemic-related activity has pushed collections above the pre-pandemic trends. The Board members discussed this analysis and estimates with staff. Mr. Rainwater summarized the effect by noting that the excess revenues seem to be at a peak and a return to a normal trend is expected.

Mr. Rainwater presented a recommendation for the revenue estimate pursuant to §11-9-1130; which included the following key points:

- Despite excess revenues through March, no changes to the February 15, 2022 forecasts for FY 2021-22 and FY 2022-23 are recommended for a couple of reasons:
 - Tax season is not complete and could have a significant impact
 - Additional economic uncertainties since the February estimate:
 - Invasion of Ukraine and Russian sanctions
 - Inflation, ongoing supply chain issues, and high gas prices
 - Federal Reserve decisions to increase interest rates

Chairman Grimball confirmed that the Board is comfortable with the recommendation of not changing the estimate at this meeting.

IV. Reports from Working Group Members

No Working Group members offered comments.

- V. Mr. Rainwater presented the Board with a resolution honoring former Board Member, Alan Clemmons, for his service to the Board.
Chairman Grimball read the resolution to the group. Mr. Gower motioned to approve the resolution honoring Mr. Clemmons. Mr. Hutto seconded the motion and all voted aye.
- VI. The next scheduled meeting is the BEA Meeting on Thursday, May 12 beginning at 1:00 p.m.
- VII. Mr. Gower motioned to adjourn the meeting and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 1:53 p.m.

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

The meeting agenda and presentation are posted on our website:
<https://rfa.sc.gov/boards-committees/bea>.

These minutes were approved on May 24, 2022

Sandra Kelly Sandra Kelly

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
Carrie Bundrick
Mary Katherine Miller
Matt Wellslager
Ragan Griffith
Stephen Gardner
Tracy Smith
Will Tipton

Guests:

Billy Quinlan
Brad Wilson
Bryan Kost
C. Adams
Endra Curry
Jake Scoggins
Jennifer Patterson
Joren Bartlett
Kathy Johnson
Katie Turner
Keven Etheridge
Marissa Evans
Mary Martha Greene
Mike Addy
M. Jinnette
M. Moore
MB Murphy
M. Williams
Richard Hutto
RK
Robert Macdonald
Shelly Kelly
Thompson
Tim Derrick
Tim Hardee
T. Watson
3 unidentified participants