

MEMORANDUM FOR THE RECORD

Date: November 16, 2022, 9:00 a.m.
Revenue and Fiscal Affairs Office/ Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Attendees: *Board Members* – Edward Grimball-Chairman (via Zoom), Emerson Gower, and Curtis Hutto (via Zoom). Frank Rainwater, Executive Director; *Staff* – Paul Athey, Carrie Bundrick, Ben Coomer, Lisa Jolliff, Kathryn Kelley, Sandra Kelly, and Emily Prosser; *Working Group* – Jake Scoggins (Senate Finance). *Forty-one additional participants 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 9:00 a.m.
- II. Chairman Grimball presented the October 18, 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 materials*)
- III. Presentations on Economic and Revenue Reports, full presentation attached:

Mr. Rainwater presented information regarding the General Fund Revenues, Results through October 2022, FY 2022-23. The main points included:

- General Fund – FY 23: Revenues through October ended \$568 million above the estimate for FY 2022-23. The estimate for the full year is an 18.9% decline but that includes a revised estimate based on the tax reform of lowering the top income tax rate from 7% to 6.5%. Most of this decline is not anticipated until later in the fiscal year and we are currently running 12% ahead of the estimate.

Mr. Rainwater presented a Review of Revenue Estimates and Assumptions for FY 2022-23 and FY 2023-24, which included the following key points:

- Economic Assumptions:
 - SC Employment and Personal Income are expected to grow in FY 2022-23 and FY 2023-24.

- Though a “recession” is expected by most economists within the next twelve months, the definition and degree vary widely.
- However, based on comments received at the October meeting with our panel of economists, the working assumption is that a potential downturn will be relatively mild, and SC should fare better than the nation.
- Key Assumptions for FY 2022-23 and FY 2023-24 (South Carolina Economy):
 - Personal Income:
 - Wage base is expected to be stable; while growth may slow, we do not anticipate negative growth.
 - Above-average wage growth in calendar year Q3 and Q4 2022, followed by a slower period for 9 months and a return to historical growth rates in Q4 2023.
 - Other personal income components are generally expected to grow more slowly than wages in FY 23.
 - Social Security income is anticipated to be impacted by higher cost-of-living adjustments in both FY 23 and FY 24.
 - Employment:
 - Employment is expected to grow without significantly affecting income growth.
 - Above average growth in employment in FY 23 and below average growth in FY 24.
 - Consumer Behavior:
 - Consumers are expected to continue the recent trend toward a more historical mix of services and goods.
- Risks and Considerations for FY 2022-23 and FY 2023-24:
 - Although General Fund revenues through the first four months of FY 23 continue to show stronger growth than expected, there are significant potential risks to the economy over the forecast period.
 - While the state’s economy and revenues are expected to continue to perform better than the nation, concerns over a looming recession are widespread, stemming from the Federal Reserve’s goal of reducing inflation by raising interest rates to slow the economy.
 - This concern is further magnified by the uncertain magnitude of a potential recession.
 - Finally, continued supply-chain issues, the war in Ukraine, and looming recession concerns for other counties also present significant risks over the coming fiscal years.
 - Given these uncertainties, the risk of overestimating economic performance and revenue are much greater than usual and additional

caution is required in setting a prudent expectation for the upcoming budget.

Mr. Rainwater then presented the Proposed General Fund Revenue Forecast on page 11 and 12 of the posted meeting materials for consideration by the board. The recommendation was for a revised General Fund Revenue Forecast for FY 2022-23 of \$12,459.7 million, an increase of \$1,391.3 million from the current estimate. This estimate represents a decline of 8.7 percent from final FY 2021-22 revenue collections. [Note = the decline is due in part to the state tax reform]

The recommendation also included an initial forecast for FY 2023-24 of \$12,299.8 million, which represents a decrease of 1.3 percent from the recommended FY 2022-23 forecast.

Note – the tables on pages 11-12 included detailed estimates of General Fund items as well as estimates of Other Funds.

Mr. Gower motioned to approve the General Fund Revenue Forecast presented on pages 11 and 12 of the posted meeting materials. Mr. Hutto seconded the motion, and all voted aye.

Mr. Rainwater continued the presentation with the Budget Outlook for FY 2023-24, his main points included:

- The expenditure base remains substantially lower than actual and projected revenues:
 - The FY 22 and FY 23 budgets were adopted before the significant revenue growth was realized.
 - Further, \$160.7 million of projected revenue was not appropriated in FY 23.
- The FY 22 revenue surplus of \$880 million and current FY 23 surplus add significantly more ability to increase the estimates while still guarding against a worse than expected downturn.
- Even with an estimated decline in FY 24 revenue, the growth in the revenue estimate over the base budget is sufficient to trigger the next reduction in the individual income tax rates for tax year 2023.
- FY 2023-24 Budget Outlook – Recurring General Fund: Estimated “New” General Fund Revenue Available for Appropriation is \$754.1 million.
- FY 2023-24 Budget Outlook Nonrecurring Revenue: Total Non-Recurring Revenue is \$2,764.3 million.

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

- The report is required by statute to do a Long-Range Forecast for planning purposes.
- Long-term, the estimates assume that we will be out of a recession and will start returning to more historical growth rates.

Chairman Grimball asked if the Long-Range Forecast includes the Tax Reform to which Mr. Rainwater replied we do not know about the outlook on the tax reform because we do not know what the expenditure base will be.

Mr. Gower motioned to approve the General Fund Revenue Forecast presented on pages 21 and 22 of the posted meeting materials. Mr. Hutto seconded the motion, and all voted aye.

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

V. Other Items for Discussion

- 2023 BEA Meeting Calendar

VI. The next scheduled meeting, if necessary, is on Thursday, December 8, 2022, 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 9:34 a.m.

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

These minutes were approved on 11/19/2023

Kathryn Kelley *Kathryn Kelley*

BEA Zoom Webinar Attendee Report

Staff:

Amanda Martin
David Morrison
Emillie Boggs
Lisa Wren
Mary Katherine Miller
Ragan Griffith
Shannon Fields

Guests:

2 Unidentified Guests
AJ Newton
B. Bundrick
Billy Routh
DC
Edward
Emily Heateole Keeney
Tina
T. Pressley

Stephen Gardner
Will Tipton

Endra Curry
Erica Von Nessen
hinsons
Jay W. Ragley
Jessica Wigington
John Williams
KatieTurner
Kevin Etheridge
Kristin Bryant
K. Taylor
Lisa Catalanotto
Mary Greene
Michael M
Mike Addy
N. Williams
Quentin Hawkins
Richard Hutto
Robert Macdonald
Ryan Burnaugh
Shelley Allen
Susan von Schenk
TD