



MEMORANDUM FOR THE RECORD

Date: November 16, 2023, 1:00 p.m.
Revenue and Fiscal Affairs Office / Zoom

Subject: Minutes of Board of Economic Advisors Meeting

Participants: *Board Members* – Edward Grimball- Chairman, Curtis Hutto, Dr. Michael Mikota, and Hartley Powell (*all via Zoom*). Frank Rainwater- Executive Director, *Staff*- Morgan Daigle, Lisa Jolliff, Dr. Marian Manic, and Karl Vesely.

Attendees: *RFA* – Paul Athey, Kathryn Kelley, Sandra Kelly, and Emily Prosser; *Seventy additional participants via Zoom*.

Note: Guests were invited to attend in-person or 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 1:08 p.m.
- II. Chairman Grimball presented the October 16, 2023, 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. General Fund Revenue Forecast ([See materials](#))

Mr. Rainwater began the presentation by discussing the General Fund revenue FY 2023-24 results through October and a review of revenue estimates and assumptions for FY 2023-24 and FY 2024-25. He highlighted the following points:

- Through October, General Fund revenues have declined 6.2 percent from the prior fiscal year but are \$506 million above expectations as the economy is performing better than anticipated.
 - Withholdings account for the bulk of the excess revenue, \$172 million, as wage growth remains strong.

Key Economic Assumptions for FY 2023-24 and FY 2024-25:

- Personal Income
 - High interest rates and slower consumer spending are expected to slow economic and wage growth.
 - SC wage growth is expected to be below normal levels in FY 24 and FY 25.
- Employment
 - Employment growth is expected to slow below the long-term trend over FY 24 and FY 25.

- Economic development and migration into SC continue to contribute to job growth, and SC is expected to fare better than the US.
- Other Factors:
 - The assumptions used to develop the current FY 24 estimates anticipated a recessionary scenario, which has not materialized.
 - As a result, stronger than expected growth has continued into FY 24 and has created a surplus.
 - An economic slowdown is still expected, but growth will be positive and not negative.

Summary of Economic Assumptions – November 2023:

FISCAL YEAR GROWTH RATES			
Fiscal Year	Personal Income	Employment	Inflation
2023-24	4.3%	1.8%	3.0%
2024-25	3.8%	1.7%	2.4%

Risks and Considerations for FY 2023-24 and FY 2024-25:

- While the State’s economy and revenues are expected to continue to perform better than the nation’s, slower than normal growth is expected over the next two fiscal years.
- The wars in Ukraine and Israel and looming recession concerns for other countries also present notable risks over the coming fiscal years.
- Although General Fund revenues through the first four months of FY 24 continue to show stronger than expected growth, Non-withholdings and Corporate Income tax remain a concern due to the significant impact tax filing could have on these two categories.
- Changes to Withholdings tables and tax rates continue to present a challenge in identifying the impact of economic factors versus taxpayer behavior.
- While consumer spending is expected to slow, further changes in consumer behavior could be a risk to the forecast.

Ms. Jolliff then discussed the assumptions and estimates for specific revenue categories. Her key points included:

- Withholdings
 - Working estimates reflect stronger expected wage growth than our September forecast.
 - The Federal Reserve’s quantitative tightening policy coupled with the potential for lingering inflation due to global geopolitical risks and restrictions in trade is expected to lead to an economic slowdown during 2024, resulting in lower-than-normal income growth and, consequently, lower growth in collections during FY 25.
- Non-Withholdings

- Non-withholdings are running behind the September forecast, and working estimates reflect the lower collections.
- We believe taxpayer behavior in response to tax rate changes may continue to drive Non-withholdings down in FY 24; it is possible, however, that there will be a positive surprise in tax filing season, but this is still an unknown.
- Refunds
 - Refunds are currently lower than estimated, but only minor changes are recommended at this time.
 - This is one of the categories that could be strongly affected by tax filing season.
- Sales Tax
 - Working estimates reflect a change from negative to positive growth in FY 24 due mostly to the improved economic outlook, but growth expectations remain well below historical levels.

Mr. Rainwater then presented the recommended forecast on pages 31 and 32 of the posted meeting materials for consideration by the Board. The recommendation was for an increase to the September estimates of \$426.8 million for FY 24 and \$367.7 million for FY 25.

Chairman Grimball asked Mr. Rainwater to comment on how the updated forecast will be used. Mr. Rainwater explained that the forecast is primarily used for the Governor’s budget in completing the Executive Budget hearings. The Governor’s budget will be submitted in January for the General Assembly to consider; then, the General Assembly will wait for the February estimate before the House Ways and Means Committee will adopt its budget recommendations.

Dr. Mikota moved to approve the General Fund Revenue Forecast presented on pages 31 and 32 of the posted meeting materials. Mr. Hutto seconded the motion, and all voted aye.

Ms. Jolliff then presented the budget outlook. Her key points included:

- The growth in the FY 25 revenue estimate over the base budget is sufficient to trigger the next reduction in the Individual Income top marginal tax rate from 6.4 to 6.3 percent for tax year 2024, which affects expected payments in FY 24 and total collections in FY 25.
- Estimated “new” General Fund revenue available for appropriation (less reserve fund contributions): \$673.1 million
- Total non-recurring revenue: \$896.1 million

Mr. Rainwater concluded the presentation with the Long-Range Forecast (pursuant to §11-11-350). His key points included:

- The Long-Range Forecast includes FY 26 and FY 27 estimates and is required by statute for planning purposes.

- The Long-Range Forecast assumes a return to normal growth in FY 26 and FY 27.

Dr. Mikota moved to approve the Long-Range Forecast presented on pages 39 and 40 of the posted meeting materials. Mr. Hutto seconded the motion, and all voted aye.

Chairman Grimball commended staff on the valuable information presented.

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

- V. Other Items for Discussion
- 2024 BEA Meeting Calendar

Dr. Mikota moved to approve the 2024 BEA Meeting Calendar. Mr. Hutto seconded the motion, and all voted aye.

VI. The next scheduled meeting, if necessary, is December 14, 2023.

VII. Dr. Mikota moved to adjourn the meeting, and Mr. Hutto seconded the motion. All voted aye, and the meeting adjourned at 1:46 p.m.

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

These minutes were approved on 1/25/2024

Emily Prosser *Emily Prosser*