

Revenue Estimating Conference October 12, 2000

Cynthia Eisenhower called the Revenue Estimating Conference to order at 10:00 a.m. with all members present.

Cynthia stated that today's task was to update the FY01 estimates and reach agreements on FY02. Agreements will also be reached for refunds, lottery proceeds and gambling proceeds to be transferred.

Dennis Prouty made motion, seconded by David Underwood to approve the minutes of the August 18, 2000 Revenue Estimating Conference. Motion carried.

Cynthia pointed out that the information is being presented differently than it's been presented in the past. Transfers have been moved to be incorporated in the estimates of receipts and tax. Dennis Prouty was asked to explain why this change was made. Dennis explained that up until two years ago, the lottery transfers required legislation to transfer that money to the general fund. Two years ago, they made that transfer permanent and does not require legislation each year. Dennis felt it was important to get the lottery receipts on the general funds. There are transfers each year that have been listed out separately on the balance sheet and these have also been incorporated into the general funds amount on the balance sheet.

With regards to updating the current FY01 estimates, Cynthia explained that DOM estimates dropped sales tax slightly to reflect the negative adjustment for the sales tax holiday of \$3M and local option payments of \$4M. DOM also added a positive adjustment that reflects current law and adds \$5.7M to account for anticipated increases in natural gas prices over the next several months. The most recent estimates seen from the Federal Department of Energy are that natural gas prices will increase 27-29%. Other than these adjustments, Cynthia said DOM sees no reason to reduce the FY01 estimates. In fact the first three months revenue has already exceeded our monthly estimates by \$6.9M.

Dennis stated that LFB didn't have very much change for FY01 with the total difference between DOM and LFB being \$13M. LFB didn't feel the sales tax would be going up much and have adjusted the August estimate down. They also made an adjustment in personal income tax. Neither of these changes affect the overall receipts. Dennis felt consideration needed to be given to the increase cost in fuel and the affect on the sales tax. That increase would bring in approximately \$6.8M on an annual basis using approximately 25%. Dennis felt they were more cautious on the sales tax because of the lack of sales tax due to internet sales.

David Underwood made motion to accept DOM's estimates for FY01 seconded by Dennis Prouty. Motion carried.

Looking at FY01 refunds, Cynthia stated that the estimates from LFB and DOM matched. Dennis Prouty made motion, seconded by David Underwood to adopt estimates for FY01 refunds. Motion carried.

With FY01 gambling proceeds estimates matching as well, Cynthia asked for motion to adopt. Motion made by David Underwood, seconded by Dennis Prouty to accept FY01 gambling proceeds estimates. Motion carried.

Cynthia asked for discussion on FY02 estimates where there is considerable difference in the projections. Cynthia went on to explain that the Economic Forecasting Council predicts a moderate pace in economic activity over the next several quarters returning to trend like growth. In fact, their projection was 5.7%. DOM feels that 5% normal growth is likely and see no threats to that and have adjusted that 5% expectation down to account for last year's pension tax changes. DOM is confident in our estimate of 4.8% for FY02.

The primary differences between the LFB's estimates and DOM's is again in sales tax and corporate income. In the sales tax estimate, DOM has included an increase of \$6.4M which is about the same that Dennis had mentioned annualizing the increase in natural gas prices. Also \$700,000 from that same source that would come from FY01. DOM included the positive adjustment for the timing of local option payments of \$2M. With these adjustments factored out, DOM estimates baseline growth for sales tax for FY02 is 5.1% which Cynthia felt is very reasonable. Sales tax growth in FY99 was 8.3% and but for tax law changes would have exceeded 5% in FY00.

Cynthia stated that the other difference was in corporate. DOM added a positive adjustment of \$12M because of timing of quarterly estimate payments due on Saturday, June 30. If you take out that adjustment, corporate income taxes are expected to decrease 4% which DOM feels is consistent with the pattern of slightly lower corporate profits in 2001 estimated by DRI-Standard and Poores. Cynthia felt we had no reason to think corporate profits would drop as much as LFB has projected.

Dennis Prouty responded saying LFB used the projection of 6% growth on FY01 and then took out the \$13M for law change. That brings it down to 5.5% coming off of a 6.5% estimate and a 6.4% for FY00. LFB was under the impression that if we sustain a 6% growth on personal income tax, that's going to be a very good year. With employment slowing, it's going to be hard to maintain 6% growth year after year.

In regard to sales and use tax, LFB has looked at the increased fuel cost and calculated \$6.8M if we have a 25% fuel cost increase. With the internet sales as an unknown factor, LFB doesn't feel a 5.8% increase in sales tax will happen.

One of the main factors LFB considered with corporate income tax was the increase cost of fuel.

One of the things that brings estimates down for both DOM and LFB is the gambling profits. The \$60M keeps getting smaller and smaller in total, so it's going to automatically going to pull any percentage down.

Dennis felt LFB may be a little more pessimistic about these main taxes than DOM.

Cynthia shared that she had a hard time believing that our economy is going to slow down to that extent and not experience some normal trends around the 5%.

David stated that there is a \$20M swing between the two estimates. He didn't feel wages would be increasing enough to raise personal income tax due to companies automating and the farm economy. He said he was leaning more toward the percentage of LFB estimates.

Cynthia stated that the Economic Forecasting Council estimated 7% growth for FY01 for personal income tax.

David added that he would like to believe sales tax would grow more, but it certainly hasn't shown it this year and would like to see another quarter before he gets very aggressive on sales tax growth.

David said he would like to use LFB's estimates for personal income tax and sales tax.

Cynthia said she was willing to compromise, but has a hard time being convinced that we're not going to see an overall growth of 5%.

David asked Dennis if he could compromise the percentage of sales tax. LFB estimates 3.2% and DOM estimates 5.8%.

Dennis responded saying he could accept splitting it in the middle and going with 4.5%, however he doesn't feel we'll reach that.

David then asked if Dennis could accept a 6% increase on personal income tax using DOM's lower base which would be about \$9M more than LFB's estimate.

Dennis said he would accept a 6% increase instead of LFB's estimate of 5.5%.

Following discussion, David made motion to accept adjustments on the general refund Receipts using 4.3% growth for \$5,521.5M. Dennis seconded. Motion carried.

Cynthia asked for motion on refunds. David made motion, seconded by Dennis to accept DOM's estimates for refunds. Motion failed.

Dennis made motion to adopt FY02 refunds at \$555.0M, seconded by David. Motion carried.

Cynthia asked for action to be taken on FY02 estimates for gambling proceeds, stating DOM's and LFB's estimates were the same.

Dennis made motion, seconded by David to accept the estimates for FY02 gambling proceeds. Motion carried.

Following discussion, David made motion to accept estimates for transfers for FY02 of \$37.7M, seconded by Dennis. Motion carried.

With no further business to bring before the Council, the meeting was adjourned.