Cynthia Eisenhauer called the Revenue Estimating Conference to order at 11:00 a.m. with all members present.

Cynthia gave a summary of the agenda items which included reviewing FY2002 and FY2003 general fund estimates, lottery and other transfers, refunds and gambling revenues transferred to other funds. Also for the second time since the November special session, REC will estimate accruals.

Cynthia asked for motion to approve December 7, 2001 REC minutes. Dennis Prouty made motion to accept Minutes as printed, seconded by David Underwood. Motion carried.

**FY2002 General Fund Receipts**

In order to help explain what is taken into consideration and how estimates are reached during REC meetings Cynthia Eisenhauer stated that when REC met in December, we recognized that revenue was not meeting our expectation from the October REC meeting, so we lowered them. Our meeting was held early in December and December a year ago had seen revenue drop so far, so fast, that we were somewhat confident that December revenue would hold up well against a year ago. When December ended, we realized that revenue actually came in $10M short of our monthly projections. When January ended, revenue came in an additional $18M short from our monthly projections. We have moved our traditional April meeting up to February in order to revise our estimates downward.

Cynthia stated we have seen several factors that seem to be contributing to poor general fund growth in FY2002. Some of those factors include decrease in job creation, reduced corporate profits, the lack of the stock market recovery, reduced consumer confidence, decrease in interest rates, as well as state and federal law changes.

Usually at this REC meeting, we take a look at trends and look at processing issues and economic issues and make relatively minor adjustments in our current year revenue estimates. But because of the factors mentioned, both LFB and DOM are recommending significant drops in revenue estimates.

The Department of Management's personal income tax estimate is based on our income tax growth through January, which at the end of January stood at .7% growth. Our estimate for the fiscal year is 1.1% growth. This 1.1% is the lowest growth in personal income tax since 1968, except for 1999 when we had a 10% across the board income tax cut. We're estimating that in withholding, which is currently growing at 2.1%, that it will grow for the year at 2.2%. Our estimates are currently growing at a −6.7% and our estimate would be for the year a −4.1%.
For final returns, which are currently growing 9.6%, we estimate that they will grow at a -0.4%. So our personal income tax estimate is dropped substantially.

Our sales tax estimate is based on growth through January of 1.6% and we're estimating that by the end of the fiscal year we will end sales tax at 1% growth. This is the lowest growth since 1985. We've included in this estimate the phase-out of sales tax on residential utility use. We've also incorporated into this estimate the fact that we've had an unusually mild winter so sales tax on utility bills hasn't been as high as we may have originally projected.

Our use tax estimate is based on growth for January 2002 at -1.4% and we expect to end the fiscal year at a -3.1% growth. Again, the lowest growth since 1988.

Corporate income tax is where we substantially reduced the estimate. Corporate income taxes have seen -19% growth through January. Our new estimate is for -23.3% growth, which is the greatest drop in corporate tax revenue that we have ever seen. We think meager corporate profits are going to continue to depress corporate income tax payments.

Inheritance tax revenue is experiencing .2% growth, but the trend has been down over the last four months. Our new estimate is -8.9% growth.

Overall, both Department of Management and Legislative Fiscal Bureau expect the general fund revenue growth to drop to -0.7% compared to the December estimate of 1.5%.

Dennis Prouty made a motion to adopt DOM's estimate of $5,131.1M for general fund receipts, seconded by David Underwood. Motion carried.

**FY2002 Lottery and Other Transfers.**
DOM and LFB estimates were the same. Motion made by David, seconded by Dennis to accept estimates. Motion carried.

**FY2002 Accruals**
Following discussion on how estimates were figured by DOM and LFB, David made a motion to adopt DOM's estimate of $3.9M, seconded by Dennis. Motion carried.

**FY2002 Refunds**
DOM and LFB estimates for refunds were the same. Dennis made a motion, seconded by David to adopt the proposed estimates. Motion carried.

**FY2002 Gambling Revenues Transferred to Other Funds**
DOM and LFB estimates were the same. David made a motion, seconded by Dennis to adopt the proposed estimate of $143.5M. Motion carried.
FY2003 General Fund Receipts
Cynthia shared that for the most part, Department of Management's estimates for FY02 are carried forward to FY03 with a few adjustments. The rate of growth for personal income tax has been decreased from 3.7% to 2.2%. The rate of growth for sales tax has been increased to 2.4%. Corporate income tax estimate is decreased because of our slow recovery that is anticipated. Overall, the Department of Management's estimate of 1.5% growth is more pessimistic than Legislative Fiscal Bureau's 2.2% growth.

Dennis explained that LFB estimated a little higher feeling that we were going to come out of a slow-down faster with personal income tax and corporate income tax. A lot depends on how fast that happens.

David shared that in order to reach a 3.7% increase in personal income tax receipts would require a 5% growth in wages. We're not seeing that level of growth right now. We're not increasing employment in Iowa at all. David felt this situation would make it very difficult to reach the Legislative Fiscal Bureaus estimate of 3.9% increase.

Dennis agreed with David, but added that if the economy starts improving, capital gains tax will come up.

David said it would take approximately 3.5% increase in wages to generate the Department of Management's estimate of 2.2% increase. He was much more comfortable with this figure for FY03.

Dennis made a motion to add $15.1M to the DOM’s estimate for total tax and other receipts, adjusting sales tax to $1.5B and adding $6M to the DOM estimate for corporate income tax for a total of $5,171M. David seconded the motion. Motion carried.

FY2003 Lottery and Other Transfers
DOM and LFB estimates were the same. David made a motion, seconded by Dennis to adopt proposed estimates.

FY2003 Accruals
DOM and LFB estimates were the same. Dennis made a motion, seconded by David to adopt proposed estimates. Motion carried.

FY2003 Refunds
Dennis made motion to adopt LFB’s estimates for FY2003 refunds, seconded by David. Motion carried.

FY2003 Gambling Revenues Transferred to Other Funds
DOM and LFB estimates were the same. Dennis made a motion, seconded by David to adopt proposed estimates. Motion carried.

With no further business, the meeting was adjourned.