

## **Revenue Estimating Conference Minutes March 16, 2016**

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**Members Present:** Dave Roederer, Holly Lyons, David Underwood.

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 a.m.

Mr. Roederer began by stating that the Revenue Estimating Conference is required to meet three times per year and a consensus is to be reached. The panel independently develops their numbers by reviewing various sources, particularly the Department of Revenue. The Governor was required to submit his budget based on the December Revenue Estimate, the Legislature is to use the lower of the estimate between December and March. If March is lower than the December estimate, the legislature must base their budget on the March estimate and if it is higher in March, they must use the December number. This meeting will update the estimate for the current fiscal year, which is FY'16, which ends June 30, 2016. The upcoming estimate will be updating the estimate for FY'17, which begins in July of 2016. At this meeting, the first estimate for FY'18, which begins July 1, 2017, will also be made.

### **Approval of the March 16, 2016 agenda**

Mr. Roederer called for a motion to approve the March 16, 2016 agenda. Mr. Underwood made the motion to approve the agenda and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

### **Approval of the December 10, 2015 minutes**

Mr. Roederer called for a motion to approve the December 10, 2015 minutes. Mr. Underwood made the motion to approve the minutes and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

Ms. Lyons began by stating that Iowa's economy is a little lackluster, but the LSA does not think Iowa is in a recession, or headed into a recession in Fiscal Year 2016 or 2017. Iowa is not experiencing 'no growth', or worse yet 'negative growth', but it is experiencing slow growth. Iowa had already accounted for much of that deceleration on both the October and December REC estimates. Iowa recovered from the Great Recession relatively quickly and with the exception of one year, Fiscal Year 2014, was fortunate to experience several years of excellent growth – in the 5-7% range. Essentially, the Iowa economy is currently mirroring the U.S. economy and the outlook for the U.S. has weakened a bit since last December, expanding at a subdued 1% growth for the fourth quarter, lower than expected. But it is projected to accelerate 2.3% growth in early 2016.

On the national level, there were three major negative influences contributing a weaker fourth quarter; a glut of business inventories, depressed oil-related investment, and the drag on global trade from the stronger U.S. dollar. The strong U.S. dollar weighs on U.S. economic growth by

making American products more expensive in other countries, which then affects U.S. trade. It further restrains manufacturing, causes inventory build-up, and potentially unemployment. Some of the additional concerns include the financial market turmoil early this year, the slowing growth and general uncertainty of the Chinese economy, as well as a number of other variables.

The labor market is a bright spot. The U.S. hit an eight year low unemployment rate of 4.9% in January. Wage and consumer prices are growing slowly, but growing, and consumer sentiment is strong. In Iowa, the main negative influences continue to be low commodity prices. The strong U.S. dollar contributes to an uncertain global economy, which is hurting the profits of Iowa farmers and impacting the income tax revenue. Manufacturers tied to agriculture have been cutting employees, including Deere & Company, DuPont and Bridgestone. Sales tax revenue is a little concerning and may indicate that consumers are remaining cautious about spending, or are saving more, or paying off debt. Businesses remain cautious about hiring, investment and expansion.

We are also keeping an eye on the Iowa Leading Indicators Index, which has dropped for the twelfth consecutive month. Two of the indicators contributed positively to the December index, average manufacturing hours and residential building permits. The next index report will be issued later this month.

On the positive side, the Iowa unemployment rate is very low, at 3.5% after the recent benchmarking. Initial unemployment claims are near an all-time low. Non-farm employment continues to expand, just slightly slower than last year, gaining 7900 jobs in January. Employment growth is critical to Iowa's economic stability as jobs generate income tax and sales tax, the two key components of Iowa's General Fund revenue. Wage and salary income forecasts are slightly higher for the near term than they were in December, as is total personal income.

Iowa's diversified economy is helping too. Twenty-one percent of Iowa's GDP in 2014 came from financial services, and that is helping to ride the negative impacts from the low agricultural prices.

Housing in Iowa is strong. Both new housing starts and sales of existing homes, and this trend is expected to continue.

The LSA estimate is for the current year, Fiscal Year 2016, and for the fiscal year that will begin in July, which will be Fiscal Year 2017, and per our new charge and statute, establishing an estimate at this meeting for Fiscal Year 2018. The LSA estimate for Fiscal Years 2016 and 2017 is pretty much status quo, very little change; negative 11 million dollars in Fiscal Year 2016, compared to the December REC. For Fiscal Year 2017, the LSA estimate is \$6.7 million higher. For Fiscal Year 2018, LSA has applied a 4.1% growth rate to the Fiscal Year 2017 LSA estimate, for an increase of \$299.1 million.

To summarize, the Iowa economy is growing, just at a slower pace. There is no immediate indication of a significant downturn or looming recession. The March LSA estimate is very close to the December REC estimate, the recovery continues in Iowa with steady, slow growth, and the LSA is cautiously optimistic that this will continue.

Mr. Roederer began by stating that internationally, we continue to see a global slow-down, particularly in China and Europe. The reason that is so important is because that impacts exports. The other area of concern is in Russia, the constant struggle between the Ukraine and Russia. That is important because that will most likely have the other countries, led by the United States, to keep sanctions on Russia, which very well could start impacting their economy, more from a recession perspective, because that whole area that relies on the Euro is a big market for Russia. That is going to impact for some time to come.

The strong U.S. dollar is definitely impacting the manufacturing industry in the country. It is making the exports less competitive than if the dollar was not quite as strong. There are many national indicators for the economy that are improving, but the middle to lower income households have not started to feel that yet. While wages are starting to increase a little, they are basically increasing at the rate of inflation. While the numbers economically are going to look better in this country, but until it gets to the wage earners, it is going to be a drag on the national economy.

The Ag economy is having a real impact on Iowa. Growth continues, as Ms. Lyons pointed out, but at a relatively slow rate. One of the areas where there is still concern is skilled workers. There are still a lot of signs of people wanting employees, and there are also some layoffs, and hopefully there will be a way of matching those up.

On the Ag side, particularly when you have the price of corn down 57% from the high in 2012, it is going to have an impact. Soybeans are about 51% down from the high. That is going to be a continued concern. Land values also are starting to trend down slightly. There have been some signs that is reversed, but that depends a lot on where you are. A strong dollar is probably going to have the biggest impact for some time to come.

The good news in all this, as Ms. Lyons pointed out, is our economy continues to grow. Sometimes we get mixed up with what happens month to month, but when looked at from year to year, the economy is growing but at a relatively slow rate.

Mr. Underwood stated that Iowa is very lucky to not be on the list of those states that are in recession or teetering on the brink. Moody's Analytics show that four states, which are primarily energy-industry driven, are in recession. Three others that are at risk are not only a little bit energy, but also manufacturing associated, as has been discussed relative to the strong dollar. There has been a little bit of weakness in the dollar, which maybe gives some hope that manufacturing exports will continue to at least hold their own rather than decline.

Nationally, the sentiment is really associated with consumer spending, and whether consumers are going to continue to spend as they have. Yet, the end of February, consumer sentiment was at a three-month low at this point. That is well above what was seen in 2011, but it has fallen over the past year. There is certainly concern from the national standpoint and how that is going to impact Iowa. Iowa is lucky to have full employment, and the numbers from the Iowa Department of Revenue, comparing last year to this year, it is great to see significant wage gains, which we had not seen in prior years. All the rest of the items on the tax returns are a little bit concerning, because just about everything else is down other than wages. So wages continue to be a big driver, particularly associated with General Fund revenues. That certainly gives a lot more confidence relative to the current fiscal year and all these other items that hopefully balance properly in the estimates as we go forward.

#### **Review Fiscal Year 2016 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Underwood stated since the December estimate was published, there have been relatively minor legislative changes impacting estimates. For the current fiscal year, it is in the neighborhood of \$2 million. Any changes seen in the estimates are tweaking of the various components and not legislative changes. With a relatively minor change on either, one up/one down a little bit, both LSA and the Governor's appointee are within \$13 million of each other. Mr. Underwood moved to approve the LSA Fiscal Year 2016 estimate – which is \$7034.60 million. Ms. Lyons seconded the motion. Mr. Underwood stated that when the Revenue Estimating Conference met in December, he did not anticipate so many line items on the individual returns being down. Not all of the returns are in yet, but even this early Mr. Underwood believes enough returns are in to give an indication that some of the items he did not realize were going to be down to that extent. Something is going on that is impacting income other than wages and many things were taken into account previously, but there are a few items that were not anticipated to be down to the extent they are. Mr. Roederer stated the Governor's Appointee saw a modest uptick; not quite as big of a downtick that Mr. Underwood and Ms. Lyons saw. Ms. Lyons stated that she was open and could go with either number. Mr. Underwood suggested utilizing the December estimate. Ms. Lyons agreed and suggested using the Governor's Appointee number and adjust down to get to the December estimate. Mr. Underwood withdrew his earlier motion and Ms. Lyons seconded the motion.

Ms. Lyons made a motion to take the Governor's appointee number for the March estimate, subtract \$2.2 million to get it back to the December REC estimate for Fiscal Year 2016. Mr. Underwood seconded the motion. Mr. Roederer stated the new number would be \$7045.6 million. With no further discussion, all voted in favor and the motion was carried.

#### **Review Fiscal Year 2017 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Roederer stated there was a bigger difference for Fiscal Year 2017. It appears the differences seem to be in the sales tax and the refunds. The difference is \$72 million. Mr. Underwood stated the individual line item estimates for Fiscal Year 2017, and he is pretty comfortable with the range, variances are relatively minor except in sales tax. With some of

the information received from the Department of Revenue, Mr. Underwood stated he could go along with the Governor's appointee's estimate, with some reduction for sales tax. Mr. Underwood suggested moving the number from the LSA to the Governor's appointee's number and leave the rest of the line items alone. The difference is \$48.9 million. Take the LSA number for sales tax for Fiscal Year 2017 - \$2849.8 million – and move that to the Governor's appointee's line and leave the rest of the Governor's appointee's line items alone, it would reduce that estimate by \$48.9 million, leaving approximately a \$20 million difference between the two numbers. Ms. Lyons supports this suggestion. Sales tax was difficult this year because of the consumables legislation that is out there. Mr. Roederer stated he could also support this. Mr. Underwood made a motion to use the Governor's appointee number, reduced by \$48.9 million. Ms. Lyons seconded the motion. With no further discussion, all voted in favor and the motion was carried.  $\$7406.3 - \$48.9 = \$7357.4$  million, a 4.4% growth.

#### **Estimate Fiscal Year 2018 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Roederer suggested looking at the percentage since the base has been changed on Fiscal Year 2017. Currently, LSA is at 4.1% increase and the Governor's Appointee is at 4.2% increase. Ms. Lyons made a motion to move the LSA percentage of 4.1% and Mr. Underwood seconded the motion. Mr. Underwood asked since there is a little lower number for Fiscal Year 2017, what is that percentage if the LSA number is used for Fiscal Year 2018? Mr. Robinson from LSA stated that number would be \$7659.1 million. Mr. Underwood asked for a clarification of the motion – as to whether Ms. Lyons' motion moved the LSA dollar number or the LSA percentage? Ms. Lyons stated it was the percentage. With no further discussion, all voted in favor and the motion was carried.

#### **Fiscal Year 2016, 2017 and 2018 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Ms. Lyons made a motion to move the Gambling Revenues for FY 2016, FY 2017, as indicated on the Revenue Estimating Conference March 16, 2016 spreadsheet, and Mr. Underwood seconded the motion. With no further discussion, all voted in favor and the motion was carried.

#### **Other Business**

With no further business, Mr. Roederer called the meeting adjourned at 10:37 a.m.

Respectfully submitted,  
*Tammy Winters*

Tammy Winters  
Department of Management