

**Revenue Estimating Conference
Minutes
March 20, 2009**

Members present: Charles Krogmeier, Holly Lyons, David Underwood.

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

Approval of Minutes of December 12, 2008 Meeting

Motion made by Mr. Underwood, seconded by Ms. Lyons to approve the minutes of the December 12, 2008 meeting as printed. Motion carried.

Review Fiscal Year 2009 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds

Referring to the spreadsheet, Mr. Krogmeier shared that both LSA and the Governor's Appointee projected a reduction in FY2009 estimates.

Ms. Lyons stated that estimating General Fund revenues in good times is difficult enough, but in these turbulent times it's really difficult. Sharing her concerns, she stated that the economy has continued to falter. Iowa lost 10,800 jobs between December and January, bringing unemployment claims to an all time high. Iowa is seeing more layoffs, reduced work hours and furloughs. Nationally, the jobless rate is not expected to peak until early or mid 2010 which puts Iowa about halfway through this recession. Home construction and sales are at a record loss. The global economic condition crisis is worsening. It's affecting not only Japan, Germany, and Great Britain, but now it's affecting China. Ms. Lyons doesn't feel the economy has bottomed out yet. When the economy does start to recover, she believes it will be weak and slow. She referred to an article in the Rockefeller Institute written in February which stated revenues decline for two or more years during a recession before they start to recover. This was the case with the 2001 recession here in Iowa. Once those revenues start to turn around, it normally takes five years to return to where they were before they started to fall. The Federal aid that's coming through is massive, but it's temporary.

On a positive note for Iowa, Mr. Underwood shared that spring is coming and the farmers will be back in the fields, which bodes well for Iowa's baseline. Many segments in the agriculture industry are currently in pretty good shape. It appears Iowa farmers are coming off a record year. It's going to be down, but it's not going to be disastrous from what the indications are right now. In talking with businesses, Mr. Underwood said 90% said they are flat right now with over half of them looking at significant downturn in employment. A third of the businesses said they expect to be up some in 2010, but not by more than 10%. When he asked businesses when they felt their business would begin to turn, they said it would be their first and second quarters of 2010. Mr. Underwood added that there are a lot of resilient businesses in Iowa which could contribute to this not being as bad as what we saw in the 80's as far as the decline in employment.

Mr. Krogmeier shared that the clips he receives from the National Association of Budget Officers show that while Iowa has issues in terms of revenues, we don't have anywhere near the issues of a lot of other states have. California is still looking at their new budget which has an \$8B hole. The clips listed the problems that several other states are having. Iowa's employment numbers are not anywhere what they are in most of the rest of the country. He agreed that Iowa may not hit bottom for another year. Looking at the estimates for FY2009, Mr. Krogmeier noted that LSA estimates show a higher number for personal income tax receipts than the Governor's Appointee estimates show. LSA also has higher refund numbers for both years than what the Governor's

Appointee projected. He noted that sales tax was the other difference in the two estimates. Mr. Krogmeier felt it would be hard to reach the sales tax number that LSA is projecting

Ms. Lyons distributed a handout with graphs showing trend lines of the major taxes reviewed by the REC. She believes that more money is going to come in, but there will also be more money going out in terms of refunds.

Mr. Underwood agreed that it would take a tremendous amount of spending per taxable item in order to reach the sales tax figure projected by LSA. He added that people are advised to eat at home more instead of eating out. Unfortunately for the State of Iowa, that's a significant loss in sales tax revenue because food in the grocery store isn't taxable where the meal at the restaurant is taxable.

Mr. Underwood made motion, seconded by Mr. Krogmeier to accept the FY2009 Governor's Appointee estimates for Net Receipts Plus Transfers of \$5,970.3M. Motion carried.

Review Fiscal Year 2010 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Revenues Transferred to Other Funds.

Mr. Krogmeier reviewed the differences between the two estimates. In terms of rate of growth, the estimates were nearly identical on personal income tax. Again, LSA has a higher estimate for sales tax which Mr. Krogmeier felt would be hard to reach.

Ms. Lyons explained that LSA factored in possible money coming through construction projects due to the stimulus package. She is optimistic that people will start spending more.

Mr. Underwood added that there is a little bit of good news for the General Fund relative to the stimulus package. It is difficult to anticipate what level of employment will be reached in Iowa. Most of that stimulus money will probably be spent – or a great portion of it – during the next fiscal year. Somewhere that's going to translate into jobs for Iowans.

Motion made by Mr. Underwood to accept the Governor's Appointee estimates, reducing personal income tax from \$3,359M to \$3,259M. Receiving no second, motion failed.

Mr. Krogmeier and Ms. Lyons both felt that was too much of a cut.

Mr. Underwood made motion to accept the Governor's Appointee estimates and reduce the personal income tax to \$3,309M. Mr. Krogmeier seconded motion. Motion carried.

For clarification purposes, Mr. Krogmeier explained that this motion would change the Net Receipts Plus Transfers to \$5,755.9M which is a -3.6% growth for FY2010.

Mr. Underwood made motion, seconded by Ms. Lyons to approve the LSA estimates for Gambling Revenues of \$221.4M for FY2009 and \$222.0M for FY2010. Motion carried.

With no further business, meeting was adjourned.

Respectfully submitted



Marcia E. Murrow
Secretary
Department of Management