

**Revenue Estimating Conference
Minutes
March 20, 2014**

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

Mr. Roederer called the Revenue Estimating Conference to order at 2:00 pm.

Mr. Roederer began with a brief overview of the Revenue Estimating Conference. It is made up of the Legislative Branch, the Executive Branch and a mutually agreed upon individual. The December projection is the number the Governor must utilize when putting together his budget and it is the number that the legislature must utilize unless the March estimate is less. If it is less, than the legislature must use the smaller amount.

Approval of December 12, 2013 Minutes

Mr. Roederer called for a motion to approve the December 12, 2013 minutes as they are written. Ms. Lyons made the motion to approve the minutes and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.

Ms. Lyons stated since the December meeting, the indicators show that the overall U.S. economy is continuing to advance at a very moderate pace. The U.S. has enjoyed more than three years of uninterrupted economic growth and falling unemployment since the recession ended. Growth in GDP averaged 2.25 since the recovery began and, after finishing the year slightly lower than expected, Real GDP growth is now forecast by Moody's to be 3.1% in 2014 and 4.0% in 2015, up slightly from December.

Unemployment numbers are dropping, most businesses are profitable, household debt is low, and there is less federal government uncertainty. New home starts and existing house sales continue to increase, and there are some signs of acceleration in wages. Consumers remain cautious about spending and businesses remain cautious about hiring, investment and expansion. Federal monetary policy and inflation is a concern. The federal government has been accommodative with its quantitative easing program and with its recent decisions to begin "tapering" the program. If inflation stays too low, wage and income growth suffers, but if it's too high, it undermines the housing market, equity prices, and weighs on consumer demand. Global uncertainty is a concern, including but not limited to the slowdown in China's economy, the Ukraine/Crimea/Russia situation and political unrest in emerging markets.

In Iowa, most economic indicators remain positive. The unemployment rate was up slightly in January, primarily due to benchmarking, but the number of new unemployment claims is decreasing. Department of Revenue's Iowa Leading Indicators Index increased for the fourth consecutive month, but this time only slightly, with five of the eight components experiencing positive changes. The Housing Sector continues to recover.

Iowa farm income is down 16%, due to a drop in commodity prices and the impact of that is likely to be felt in other sectors of the Iowa economy. Employment is up, but withholding tax receipts are not up in a corresponding manner. Wage and salary income is holding up at just under 4% annual growth.

The estimates show that very little seems to have changed since December. The LSA and Governor's Appointee numbers are very close, with differences of less than two-tenths of one percent in one year and less than one-tenth of a percent in the next.

There are still negatives to state revenue that have not fully worked themselves through the system, such as the \$120 million of Cigarette and Tobacco Tax that will no longer be deposited to the General Fund, the increase in the Earned Income Tax Credit, the Social Security pension tax phase-out, and the new Taxpayer Trust Fund Tax Credit. In addition, it is believed that the farm tax return money arriving at its proper time makes FY2014 look better than it really is when comparing year to date figures. Corporate tax receipts are coming in higher than expected, but withholding deposits are not as strong. The March estimate is very close to the December estimate, increasing by \$5.0 million – to \$6,687.2 billion. FY2015 continues to look like a more normal growth year and the LSA estimate is just \$1.3 million more than the December REC estimate.

Mr. Underwood stated that there has been a \$15-\$20 million impact on reduced revenue for crop farmers – and that number is just for Cerro Gordo County. Multiply that across Iowa and this is a huge impact. Mr. Underwood went on to state that this reduced revenue would also have an effect on all the suppliers and vendors that service the crop growers. Mr. Underwood discussed the impact of reduced cattle and hog numbers on packing plants, grocery store prices and sales tax revenues due to less disposable income.

Mr. Roederer stated that internationally there are always issues. The tension with Russia and the Ukraine leaves another big question mark. It may jeopardize the flow of oil- historically the prices increase; however, the US is producing more oil now than it had during past conflicts.

In the U.S., the economy is moving forward at a better pace. The job growth is still stagnant, which is a large concern, and consumer and business sentiment is still fragile. There is a reluctance to hire.

Iowa continues to move forward at a steady pace. Eight Leading Indicators are mostly positive; corporate remains strong yet cautious. The agriculture sector is a concern. In February, corn was 40% lower than it was in February of 2013 and soybeans were 7% lower than in February 2013.

Review Fiscal Year 2014 and 2015 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Ms. Lyons made a motion to move LSA's numbers for fiscal year 2014. Mr. Underwood seconded the motion so there could be discussion. Mr. Underwood asked why we could not

keep the same numbers we had in December, since LSA and the Governor's Appointee were so close. Ms. Lyons stated that she was okay with the bottom line, but would need to make some changes to refunds as both LSA and the Governor's Appointee made some significant changes to the refunds. A substitute motion was made by Ms. Lyons and seconded by Mr. Underwood to change the LSA refund numbers in FY2014 and FY2015. All voted in favor and the motion was carried unanimously. This puts net receipts plus transfers for FY2014 at \$6,682.2, which is a -1.3% decrease, and net receipts plus transfers for FY2015 at \$6,983.2, which is a 4.5% growth.

Fiscal Year 2014 and 2015 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

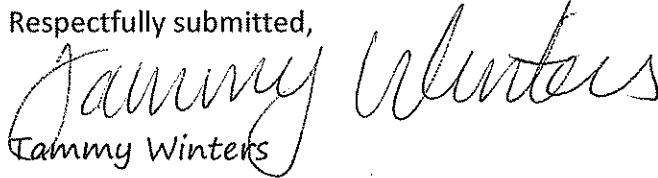
Mr. Underwood moved, and Ms. Lyons seconded, to accept the revised gambling revenues. All voted in favor and the motion carried unanimously.

Mr. Underwood moved, and Ms. Lyons seconded, to accept the Interest Earned. All voted in favor and the motion carried unanimously.

Other Business

With no further business, Mr. Roederer called the meeting adjourned.

Respectfully submitted,


Tammy Winters

