

**Revenue Estimating Conference
Minutes
March 23, 2012**

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

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 am by explaining the purpose of the Revenue Estimating Committee.

Review Fiscal Year 2012 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Ms. Lyons stated that since the December meeting, the US economy has been gaining strength, but is a long protracted recovery. Ms. Lyons discussed further that the economy is still fragile, but people are spending, with retail sales increasing, and some improvement in housing. There are significant federal budget cuts facing the states in 2013 and whether the existing federal tax cuts will be extended beyond 2012 is still uncertain, and that will affect consumer spending as well as Iowa's income receipts. In Iowa since December, receipts have shown modest and continuing improvement; while growth is well above zero, so far it is not a robust recovery. The Bureau of Labor Statistics revised the 2011 employment numbers earlier this month and this revision indicates that Iowa lost more jobs during the great recession than originally estimated. This makes the climb out a little steeper and potentially longer until we get back to those pre-recession levels. This leaves the current situation with frustratingly slow job growth, but it's still positive with signs of acceleration from withholding tax receipts. Sales tax receipts are strong and farm incomes are at historic highs in Iowa, with many farmers seeing record income in 2012. Corporate tax has provided much of the growth in Iowa this fiscal year. And while we expect that growth to continue, the rate is not expected to continue at the 30% plus year over year rate that has been the recent experience. Iowa continues to outperform the national economy thanks to a diversified economy, sound state budget, nearly full reserve funds and relatively low unemployment levels. Finally, the Iowa Business Council Index Survey indicates that 100% of the businesses surveyed expect increased or steady sales in 2012; 95% expect increased or steady capital spending; and 90% expect increased or steady employment. Iowa continues to need job and average hourly wage growth if we are going to reach the revenue growth rates of a normal or robust recovery. The LSA estimate is optimistic, we see more positives than negatives on the horizon and we have increased our forecast for fiscal year 2012 and 2013 compared to our December estimates and compared to the December REC estimates.

Mr. Underwood thinks since December, there really haven't been too many negatives except for higher gas prices, which continues to be prevalent. Everything else continues to point to some growth. So it's a matter of determining what level and is it really going to be sustained. Corporate has been good, but it could drop off just as quickly because some of those estimates and payments that have come in might not continue. Some of those national forecasts don't really show continued growth in corporate profits at the level that they have been.

Withholding has certainly been a pleasant surprise, showing continued strength even though we only have about 10,000 more people working. The only explanation that Mr. Underwood has been able to get out of the manufacturers in Iowa is that they are continuing to use overtime at fairly high levels rather than hiring. If they start hiring versus using overtime, then we could see a negative impact to the withholding. A new employee doesn't necessarily carry the same level of withholding that the overtime rate does. There is a little bit of risk there if hiring does pick up, but it is nice to see that there has been a pretty heavy use of overtime in Iowa, that is always good for general fund receipts. Mr. Underwood is optimistic. It appears that we will continue to see an increase, we just wish it were a little greater.

Mr. Roederer echoes much of the comments of both Ms. Lyons and Mr. Underwood. Looking at it from an international perspective, we have seen a little less tension strictly in the European area, which was a big concern Mr. Roederer had at the last REC meeting. While they are certainly not out of the woods yet as to their difficulties, it appears they are heading in the right direction. Their banks are requiring more capital than they were before and so hopefully that will help. There is still a concern in the international area. While China and Brazil continue to grow, they are slowing down considerably from where they were 1-2 years ago. Middle East issues are always a concern. With our reliance on oil, it is something of which we always need to be cognizant. Historically, during presidential election cycles, Saudi Arabia has a tendency to stabilize the oil price regardless of who the president is. In the U.S., we are starting to see some positive signs of the economy; a modest job pace, housing prices are still on a decline, but not as significantly as the last time REC met. It has slowed down, but we hope that will increase. The general sentiment of the consumers and businesses is still fairly static with the further we get away from the depth of a recession, the better off things will be for the economy. So I would agree that it is optimistic in Iowa. As it has been pointed out, we have been seeing strong personal income growth and I would agree with Mr. Underwood that corporate is very strong right now and there is so much flexibility of how corporations pay their taxes, when they pay it, and what write-offs they can use. So that is always kind of a question mark as to what the impact is going to be. We are seeing hiring starting to pick up in Iowa as well, still not at a rapid pace, and I believe that is because we are seeing overtime and I think that as companies, as Holly pointed out, tried to get as much of their costs out as much as they can and when they kind of decide that is about as far as they are going to go, that is when they make the next leap into hiring people. I think we are on the verge of that happening now. Housing is upticking a little bit, but we are still seeing people losing money on their sales as they buy houses, but not what it was back in December. Fuel prices remain a concern. If you try to get a handle of where we are on growth, it is somewhat difficult when you look at the spreadsheets we hand out because of various legislative changes so you aren't always comparing apples to apples. But if you were to put everything back in, let's say, we're still slightly above four percent and if you go over a several year period of time, that is where our average growth is. So we are doing well, not great yet, and so I, like the other two, am optimistic. Now it will just be to the degree of optimism, I think, that we will agree upon.

Mr. Underwood suggested that for FY 2012, the LSA number of \$6,079.1 million be adjusted for corporate income tax. The \$507.9 million was a 28.7% increase over last fiscal year. The Iowa

Department of Revenue's projection is not anywhere near that high, it is much closer to the Governor's appointee number. Mr. Underwood is a little uncomfortable with taking corporate up that high. There is a significant increase as well in personal income tax, and some of that is offset by the higher refunds. Mr. Underwood suggested changing the corporate income tax to \$480.0 million and utilizing that as the forecast for FY 2012.

Ms. Lyons would be more comfortable remaining higher in the corporate, but would be open to reduction of some in the personal income. LSA feels pretty strongly that corporate income tax is going to come in higher than the Governor's appointee number. But it is one of those things that are so hard to predict. Mr. Underwood made a motion to accept LSA's numbers and to adjust the number for FY 2012 to \$6,051.2 by reducing Personal Income Tax by \$15.0 million and reducing Corporate Income Tax by \$12.9 million. Ms. Lyons seconded the motion. With no further comment, Mr. Roederer called for a vote. All voted in favor, motion carried.

The revised FY 2012 is an increase from the meeting in December of \$50.9 million.

Review Fiscal Year 2013 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Mr. Underwood likes the LSA numbers except for Corporate Income Tax. Mr. Underwood suggested reducing that by \$40.0 million, from \$551.3 million to \$511.3 million, which would still leave the number well above the Department of Revenue's estimate and a little higher than the Governor's appointment. Ms. Lyons would be more comfortable reducing personal income tax, but can agree to Mr. Underwood's suggestion. Ms. Lyons made a motion to accept the revised LSA numbers of \$6,280.6 million as the FY 2013 net receipts + transfers, which is 3.8% above the new estimate approved for FY 2012. Mr. Underwood seconded the motion. With no further comment, Mr. Roederer called for a vote. All voted in favor, motion carried.

When compared with the December numbers, FY 2012 increased \$50.9 million, which is less than 1%. When compared with the December numbers, FY 2013 increased \$29.0 million.

Review Fiscal Year 2012 and 2013 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Mr. Underwood made a motion to accept FY 2012 and 2013 gambling revenues to other funds, estimates of \$219.2 million for FY 2012 and \$222.2 million for FY 2013. Ms. Lyons seconded the motion. With no further comment, Mr. Roederer called for a vote. All voted in favor, motion carried.

Mr. Underwood made a motion to accept FY 2012 and FY 2013 interest earned on reserve funds, estimates of \$1.5 million for FY 2012 and \$1.6 million for FY 2013. Ms. Lyons seconded the motion. With no further comment, Mr. Roederer called for a vote. All voted in favor, motion carried.

Ms. Lyons made a motion to approve the minutes from the December meeting. Mr. Underwood seconded the motion. With no further comment, Mr. Roederer called for a vote. All voted in favor, motion carried.

Other Business

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

Respectfully submitted,

Tammy Winters