Revenue Estimating Conference
Minutes
October 10, 2003

Members present: Dennis Prouty, David Underwood, Holmes Foster.

Dennis Prouty called the Revenue Estimating Conference to order at 1:00 p.m. with all members present.

Dennis asked for a motion to approve the minutes of the August 5, 2003 REC Meeting. Motion made by Holmes Foster, seconded by David Underwood to approve minutes as printed. Motion carried.

Discussion of Accruals and Refunds
Mike Ralston, Director of Revenue, explained the process for accruals and refunds saying the Dept. of Revenue's responsibility for tax accruals is a deposit line activity. Once the hold open period is closed, staff go in and review transactions to make sure the tax payments are credited to the correct and appropriate fiscal year. This activity has been reviewed and confirmed by the office of Auditor of State. Revenue staff completed this activity faster this year than in past years.

Mike talked about actions he has taken as a result of some of the things that have happened this year. One thing that came up was the request for information sooner. Mike explained that you can't have a full picture until the 60-day hold over period is closed. But Revenue can track these things, and report on them as the period goes by. This process will now begin 45 days sooner. So starting July 15, Revenue will have daily and weekly reports. That will just be a snapshot in time, but at least for that day, it will give an indication of what's happened. This is in response to requests from REC members. Another change is to utilize new staff to add value to this process, the accrual process, and see if there's a way Revenue can provide increased information to the REC members. Mike offered his assistance to provide any additional information needed by REC saying Revenue wants to be responsive. Mike said David Underwood had suggested some different things Revenue could do and those are being considered.

Holmes Foster asked about the current amount of revenue shortage.

Joel Lunde responded that it had changed, to the good, due to some adjustments. One of the adjustments was tax gap. Revenue & Finance collects revenue through the tax gap process. Those journal entries had not been entered. That's about $5M-$6M additional revenue. The other adjustment was a transfer that had not been made to revenues at the time it had been historically made from the Treasurer's Office which dealt with prison infrastructure revenue over and above what is necessary to pay for the certificates of participation.

Dennis Prouty added that he was glad to hear Revenue was putting forth an early record on accruals, realizing that it is a snapshot.

David Underwood raised a question on refunds. One reason that refunds are growing is because Iowa is over withholding the existing system. Changing the withholding tables carries a cost to get revisions out to those required to do the withholding. David asked if that would be addressed by the Department and what the timing on that might be.

Mike Ralston said that has been reviewed and Revenue has provided information to other agencies about the critical impact of withholding which has been estimated at $45M. Other folks are looking at policy ramifications.

David asked what it would cost the department.

Mike said there would be some cost to the department in the way of re-doing withholding tables but in the grand scheme of things, that would be nominal.

Dennis shared that with the changing of withholding tables, historically, you gain something the first time around, but individual tax payers want to get a refund back. After the withholding tables are changed, they go through a tax year and find out they're not getting a refund so they start changing their withholding again and we start over withholding.

Mike confirmed that's exactly what happens. Taxpayers, whether they mean to or not, use that as a savings plan.

Joel clarified saying withholding tables are changed so the impact is not seen within the same fiscal year because the change usually goes into effect on January 1.

Review Fiscal Year 2004 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds
Dennis Prouty summarized the business at hand saying we're here to talk about FY04 and take the first look at the projections for FY05. By December 15th, we have to have a FY05 estimate set for the Governor and the Legislature to use. Part of the reason for the FY04 decline in revenue is the effect of the accruals, the economy and tax changes that have been going on in FY04.

The Fiscal Bureau lowered the FY04 estimate by $153.5M and the Department of Management reduced it $130M. Those figures are reflected on the spreadsheet under net general fund receipts. The reduction is due in part to the accruals, the refunds going up, and the general economy.

Holmes felt that the significant differences between Fiscal Bureau's and Management's estimates was sales tax and corporate tax. He said people he has talked with say that things are looking up for the first time in three to four years. He didn't know why corporate tax should be down so significantly. Insofar as the current fiscal year, Holmes didn't think it reasonable to expect corporate tax to increase over last year's projections

David added that a large portion of the tax comes from Iowa based. Certainly a lot of the companies that have been operating in Iowa have had a very tough time of it the last couple years. David has heard a few of them say they're finally getting back to profitability for the first time. But nobody really seems to be out of the woods yet. There's just so much uncertainty out there.

Holmes said the sales tax trends in the last three or four years has been downward. Last year was a little under the prior fiscal year. The 1st quarter looked to be up. Holmes suggested raising personal income tax 3% over FY03, then stay flat with last year on sales tax, use tax and corporate tax.

David responded saying that one of the problems with sales tax is the tax law change impact in FY04 which is about a 2% reduction in total sales tax. If the economy stays exactly the same, we're going to see a decline of about 2%. The Legislative Fiscal Bureau has it declining .9% which would indicate about 1% increase in the economy. David felt a 3% increase was a bit aggressive and would take a lot of retail sales.

Dennis asked for comments on the FY04 estimates.

David felt that people understand withholding is continuing to grow in the state of Iowa. Both LFB and DOM are projecting a 2.5% growth and felt that's pretty much in line with what we would expect with general growth and wages.

Holmes made a motion to adopt DOM's numbers for FY04, changing sales tax to FY03 figure of $1,450.3B, changing use tax to FY03 figure of $254.2B, and changing corporate income tax to FY03 figure of $237B.

David commented that the motion on the floor amounts to a $7M net reduction.

Holmes amended the motion to include DOM's estimate on corporate tax which would be $222.1M.

For clarification, Dennis repeated the motion to take DOM's FY04 figures and insert sales tax of $1,450.3B instead of the $1,469B; for use tax, insert $254.2M and take away $257.1 which gives a total of $4,488.7. David seconded the motion.

Holmes suggested taking LFB estimates on refunds.

Following discussion, the motion was amended to change the refunds from a -$728.8M to $713.8M which reflects a .5% increase.

David was not comfortable with the amendment. Holmes agreed to withdraw the amendment and insert $728M. Motion carried.

The prior motion adjusted the total net general fund receipts to $4497.5 with a percentage increase of .3%. Motion made and seconded to accept this adjustment. Motion carried.

Both LFB and DOM estimated $124.9 for FY04 Gambling Revenues. Motion made by David, seconded by Homes to accept this estimate. Motion carried.

Estimate Fiscal Year 2005 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds.
Dennis shared that prior to the amendments, the Fiscal Bureau was working with a growth from FY04 to FY05 in their projections. He explained the reason for lower FY05 projections was due to nearly $70M of tax law changes including utility tax, insurance premium tax, and several miscellaneous smaller taxes. There is growth built in to the LFB FY05 estimate, but after removing those adjustments, there is very little growth reflected. It takes a lot of economic growth just to get to that $70M so you can hold even with it. LFB's old projection showed a .5 of 1% for growth on the tax receipts. Dennis added that by the time you got it down through the accruals, refunds and lottery transfers, it turned out to be 0% growth with all the adjustments.

Holmes made a motion to accept the LFB FY05 estimates. David seconded the motion.

For clarification, David noted that LFB estimates reflect a wage growth withholding around 4% which is a little bit higher than we've been seeing. David added that there is certainly every indication from the national economists that some improvement is coming and the stock market is also starting to improve.

Dennis called for a vote on the motion for FY05 estimates. With all in favor, motion carried.

Both DOM and LFB estimated FY05 Gambling Revenues at $126.8M. David made a motion, seconded by Holmes to accept this estimate. Motion carried.

In closing, Dennis stated that this is the first estimates for FY05. REC will meet again before December 15 to set that amount for the FY05 budget.

With no further business, David moved to adjourn.

Next REC Meeting scheduled for December 8th at 11:00 in Room 116 of the State Capitol.