

## **Revenue Estimating Conference October 11, 2001**

Cynthia Eisenhower called the Revenue Estimating Conference to order at 11:05 a.m. with all members present.

Cynthia gave a summary of the agenda items which included 1) updating the FY2002 general fund estimates, Lottery and other transfers refunds, and gambling revenues transferred to other funds and 2) adopting an estimate for FY2003 for general fund estimates, lottery and other transfers, refunds and gambling revenues transferred to other funds.

David Underwood made motion to accept the minutes of the July 30, 2001 REC meeting, seconded by Dennis Prouty. Motion carried.

### **Fiscal Year 2002 General Fund Estimates**

Cynthia Eisenhower stated that both Department of Management (DOM) and Legislative Fiscal Bureau (LFB) updated estimates reflect the realities of the impact of the national economy on our state revenue. Both DOM and LFB reduced personal income tax by more than \$60M, corporate income tax was reduced by about \$30M and both reduced sales tax between \$23M and \$36M. Cynthia felt confident using either DOM or LFB estimates. December provides another opportunity to revisit the FY2002 and FY2003 estimates.

Dennis Prouty shared that for personal income tax, LFB built in 2.4% plus law changes, so it's not a pure 3%.

David Underwood expressed the difficulty in making this estimate. What he sees in the state, even allowing for the tax law changes, 3% increase in personal income tax is still optimistic. David felt a 1-2 percent increase would be more realistic. Sales tax is the other area that concerned him. DOM's 2.4 percent is fairly close to what he had computed. David felt the recession, as far as the impact on the state's general fund revenue, hasn't really gone as deep as it's going to.

Cynthia asked David how he felt about supporting the estimates at this point in time and revisiting them in December.

David responded saying he would go along with it, but emphasized it needs to be watched very closely.

Dennis suggested refunds be discussed before a motion was made on general fund estimates.

Cynthia stated that the refund estimates between DOM and LFB was about \$4.2M apart. Both have been increased since the July REC meeting. That indicates a

reflection of the economy and what is likely to occur. Refunds have continued to inch up and we should expect that to continue.

Dennis stated that there is definitely a lot of uncertainty out there regarding the overall for FY2002. By December, when the official estimates are made, there should be more data available. Dennis shared David's concern.

Dennis moved to adopt LFB estimates for receipts and refunds for FY2002, seconded by David. Motion carried.

Cynthia assured David that in planning the budget, DOM and LFB would plan for all eventualities and that David's advice would be taken seriously.

### **Lottery and Other Transfers**

Cynthia stated that estimates by DOM and LFB were the same. Motion made by David to adopt projections for lottery and other transfers, seconded by Dennis. Motion carried.

### **Gambling Revenues Transferred to Other Funds**

Estimates by DOM and LFB were the same. Dennis made motion, seconded by David to adopt projections for gambling revenues transferred to other funds. Motion carried.

### **FY2003 General Funds Estimates**

Cynthia stated that this was the first shot at estimating FY2003. It's still early so the FY2003 estimate adopted will be a preliminary estimate and will be reviewed again at December REC meeting. The estimate as adopted in December will bind the Governor and the Legislature in their budgeting. There is only \$4.5M difference between LFB estimates and DOM estimates. Cynthia asked for David's perspective.

David felt that most of the numbers appeared reasonable except the personal income tax. Interest rates are very low, so people won't have that as income. He doesn't see interest rates climbing very soon. Wages with low inflation are not climbing the way we have seen them in the past. With a lot of cutbacks, it's going to take a long time to get that turned around for the state. David stated he was uncomfortable going to 4% increase in personal income tax given the current economic situation.

Dennis responded saying that the Revenue Estimating Conference operates on current law, which means the federal tax law changes that in the pipeline; we are counting a windfall from that. The Iowa Legislature would have to change the law if they want to recognize those cuts, so we've built in the gross numbers in our receipts. Dennis went on to say that LFB took the approach we're going to start seeing the economy moving again, and using those assumptions for FY02 estimates.

Cynthia shared that DOM participated in a White House Call on October 10<sup>th</sup> about the economy. The private sector representatives said that it was their point of view there would be a strong rebound the second half of this fiscal year and the first half of the next calendar year. That was encouraging to hear.

David said the question would be how quickly will that filter down to the general fund revenues for the state of Iowa? There's a lag that's going to take a while before we really see that coming in. The most significant tax that we collect is personal wage revenue. That's what drives personal income tax as much as anything. That either comes through wage inflation or more people working more hours.

Cynthia asked David how he would propose revising the FY03 estimated budget.

David said he would bring the growth down about one percent in personal income tax which would be a \$25M decrease.

Cynthia told David she understood what he was saying and she was willing to considering reducing the personal income tax estimate to some extent, but felt it was too early to drop it a full percent.

Dennis suggested reducing it by one half percent which would be approximately \$13M.

Motion made by Dennis, seconded by Dennis to adopt LFB estimates subtracting \$13M from the \$2,599.3M and for the total tax and other receipts to total \$5,314.3M and include refunds. Motion carried.

#### **Lottery and Other Transfers**

Cynthia stated the estimates were the same from LFB and DOM. Motion made by David to adopt, seconded by Dennis. Motion carried.

#### **Gambling Revenues**

Cynthia stated that these estimates were also the same. Dennis made motion to adopt, seconded by David. Motion carried.

#### **Wine Tax**

Cynthia shared that of the liquor profits, \$4.2M is attributable to wine tax off this estimate.

With no further business, Dennis made motion to arise. Hearing no objections, meeting was adjourned.