

# **Revenue Estimating Conference Minutes October 14, 2005**

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Members present: Dennis Prouty, David Underwood, Mike Ralston.

Dennis Prouty called the Revenue Estimating Conference to order at 8:30 a.m.

## **Approval of Minutes of April 8, 2005 Meeting**

Motion made by David Underwood, seconded by Mike Ralston to approve the Minutes of the April 8, 2005 meeting as printed. Motion carried.

## **Review Fiscal Year 2006 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds**

Mr. Prouty reviewed the agenda items saying the FY2006 estimates would be reviewed along with taking a first look at estimates for FY07. He added that the Revenue Estimating Committee (REC) is required to meet again by December 15 because the Governor will be using those estimates to put together his budget. The legislature will also be using the December estimates for their FY07 budgeting process for.

Referring to the consolidated spreadsheet, Mr. Prouty said FY06 was showing good growth, even though the Department of Revenue had changed the withholding tables which had a marked effect. He cautioned that we're still using some 2001/2002 adjustments as passed by the legislature.

In looking at 2006, the primary differences between the Governor's appointment estimates and Legislative Services Agency (LSA) estimates are in personal income tax and sales tax.

Mr. Ralston shared that the Council of Economic Advisors met earlier in the week and it was a very positive meeting. Both the statistical report from the University of Iowa, and the anecdotal evidence by folks attending from around the state was positive. Everyone talked about energy crisis – not just motor fuel, but home-heating prices as well as commercial uses of energy. Moderate growth was the word that kept coming up. He talked with ten people across the state which included farmers, bankers and retailers. Half of them said they had a great year and thought it would continue for another year. The other half said they had a great year, but were concerned about next year.

Mr. Underwood said it's encouraging that there is finally some growth in employment. There has been a 1.2% growth from a year ago in August, which represents 17,500 jobs. Individuals pay approximately 4% income tax. Giving an example, Mr. Underwood stated that if the state ended up with about 19,000 more people working for a whole year making \$40,000 a year, that would convert to an additional \$30M in tax receipts which isn't a lot of money for the State of Iowa. So it's got to come from the wage growth for the rest of the people that are already working. He added that the biggest growth in employment is leisure and hospitality – not tremendously high-paying jobs in the State of Iowa. The next biggest growth comes from manufacturing, which is higher level in most cases. The other two areas of growth are financial services, education, health care, and wholesale. He didn't see any problems with the estimates for increases in withholding saying those numbers seemed very reasonable. The sales and use tax, with the higher energy prices, is disconcerting right now.

Mr. Underwood shared that MidAmerican now says if the winter is the same as last year and because of the way they bought their natural gas early, the average heating bill will go up approximately \$50. If Iowa has a real cold winter, and MidAmerican has to purchase that last 25% of the gas needed, they will be paying higher prices. At that point, customers are going to see some real spikes. The heating costs are up 100% or more for people using fuel oil and LP. It's not certain just how much of an impact that's going to have on overall sales tax receipts. People are finally starting to talk about it and deciding where they are going to cut back to get through the winter with the higher bills and the higher gas prices. He added that there has been a decline in retail employment which could be an indicator that people are cutting back.

Mr. Underwood made a motion, seconded by Mr. Ralston to adopt the LSA estimates for FY06 down to Net General Fund Receipts of \$5,024.1M. Motion carried.

Mr. Ralston asked and received clarification that these estimates would be reviewed again at the December 15 meeting.

Mr. Ralston made a motion, seconded by Mr. Underwood to accept estimate of \$163.7M for the FY06 Estimated Gambling Revenue Deposited to Other Funds. Motion carried.

**Review Fiscal Year 2007 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Revenues Transferred to Other Funds.**

Mr. Prouty stated again, the differences in the two estimates were due to personal income tax and sales tax.

Mr. Ralston made a motion, seconded by Mr. Underwood to accept the LSA estimates for FY07 down to Net General Fund Receipts of \$5,230.7M. Motion carried.

Mr. Underwood made a motion, seconded by Mr. Ralston to accept the estimate of 185.6M for the FY07 Estimated Gambling Revenue Deposited to Other Funds. Motion carried.

**Other Business**

Mr. Underwood shared that this was the first look at FY07 estimates and felt the projected economic growth factor of 3.7% for personal income tax that was used in the estimates is historically, a very average break. He agreed there's really nothing out there to indicate it's going to take a huge jump.

With no further business, Mr. Underwood made motion, seconded by Mr. Ralston to adjourn.

Respectfully submitted

A handwritten signature in cursive script, reading "Marcia E. Murrow".

Marcia E. Murrow  
Secretary  
Department of Management