

**Revenue Estimating Conference
Minutes
October 14, 2011**

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

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 am.

Review Fiscal Year 2012 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred To Other Funds

Ms. Lyons began by stating that economic uncertainty that existed last March still exists today. FY 2011 in Iowa ended above projections, but not significantly; it was missed by about \$43 million dollars - in a \$5.9 billion revenue estimate, that is less than 3/4 of 1%. Iowa is still recording job growth, income growth and state revenue growth, it is just not as much as we'd like. Nationally, there is a depressed housing market, political uncertainty in Washington, slow job growth and high unemployment, significant worldwide debt troubles and more recently declining consumer confidence. This is all reflected in sluggish sales taxes seen across the country. Employers also seem to be waiting for stronger signs of an economic upturn before investing in hiring people. Bottom line, Iowa needs more non-farm jobs to grow the economy.

Mr. Underwood stated that in Iowa we've been riding the Ag boom, along with some strength in other manufacturing sectors, some of which is Ag-related, some not. If we take a look at the major drivers such as overall employment numbers, pay increases and the average work-week hours, of those three only pay increases seem to be adding much to the general fund revenues.

Mr. Roederer does not disagree with what his colleagues have indicated. The part that is the most uncertain and is really hard to get a handle on is the international situation we have. We have troubles in Greece, Portugal, Spain and Ireland. They feed into the problems, mainly in France with the banking system because they have so much invested in those areas. The good news is companies and corporations are making money. Mr. Roederer agrees that the housing market is still being suppressed; we are not seeing the building that we would like to see. However, building permits are starting to increase in areas, part of that being rental facilities that are going up. Manufacturing in Iowa, as a whole, has been fairly stable; we are not seeing a whole lot of fluctuation.

Ms. Lyons stated there are four main factors to explain the modest reduction in projected general fund revenue and the cautious outlook for 2013. One is the rate of US Wage and salary growth as calculated by the Federal Bureau of Economic Analysis. That has definitely slowed since March. Private sector wage income has slowed and public sector growth has all but ceased. We're hopeful that the private sector wage income will continue to grow, but it appears that the annual growth may plateau at a level lower than we expected back in March. As for the public sector, we can expect outline declines because as state and local governments

contract in response to the recession, budget cuts and lower home values, we will see a contraction there. Secondly, the Federal Reserve board is still very active in attempts to bolster the U.S. economy, which indicates that the U.S. economy remains in need of assistance. The third factor is projections by the economists by the Department of Revenue and the University of Iowa both lowered their employment projections between the March REC and this meeting. The U of I lowered their projections by about 13,000 jobs on the average for the quarters we are looking at and the Department of Revenue lowered their estimate by an average of 34,000 jobs. Sales tax revenue growth, while it is still positive it has slowed since the March meeting and since July 1st, growth has only been about 1.4%. This is consistent with some of the national trends; consumers are lacking confidence. Looking at a neighboring state, for example, Nebraska's sales tax collections are about 3% off their projections made last April. This basically explains why LSA is coming in lower than DOM.

Mr. Underwood states that we are starting from a new base, now that we know what last year's actual is. However, the estimate we had because of the legislation changes subsequent to the last meeting is taking \$196.5 million out of the estimate. The biggest piece of that is the transfer of the cigarette and tobacco tax funds (about \$106 million of that total). When we got the federal IRS tax tapes and the components of Iowa income, there were two items that were kind of a one shot for 2010 filers. That was a significant increase in taxable IRAs, and that can be explained by the Roth IRA conversion window that existed in 2010 that will no longer exist. So there is potentially almost half a billion dollars of additional income reported last year that we will not see reported this year. Another thing that is questionable is the unemployment compensation levels. In 2010, Iowans reported a significant amount of unemployment that has not necessarily been extended for everybody and a lot of people ran out of their benefits. We could see a decline in taxable unemployment benefits in Iowa in the current year, and next year as well. So that could be as much as 1/3 of a billion dollars less reported. Those two added together is somewhere between ½ billion or ¾ billion dollars of less income, so it is going to hold back our growth numbers significantly. The big number is wages and how much growth we're going to see there. Will we see a 3 or 4% increase in wages or not? Everything else has been fairly stable. We did see an increase in capital gains reported, but we may not see a growth in that this year. Hopefully that level of capital gains will continue. It really comes down to the growth in wages and employment and that's what makes Mr. Underwood struggle to get to the 3.6% or 3.7% increase.

Mr. Roederer stated that the difference between LSA and the DOM is primarily in the sales tax. DOM is more optimistic in people's continuing ability to purchase items. It is always a challenge when the legislature makes some adjustments as to what is counted in one area and what is not counted. When trying to make comparisons all the time, it becomes difficult to do that unless you know where to make those adjustments.

Mr. Underwood thinks possibly personal income tax for FY 2012 could be a little bit high, because of the Roth IRA conversion and the effect that has, and the lack of growth potential in a lot of the other areas. But the sales tax may be a little low. He sees an offset there and is a

little bit more comfortable with the LSA numbers. There is a \$32.1 million difference between LSA and the Governor's req.

Mr. Underwood made a motion to accept LSA's FY 2012 estimate. Ms. Lyons seconded. Mr. Roederer will not support that, he believes it is too low. Ms. Lyons would entertain a motion to go up a little. Mr. Underwood made a modification to the motion to put \$16 million on the sales tax. Seconded by Ms. Lyons, supported by Mr. Roederer. Motion carried. FY 2012 net receipts plus transfers is \$5,974.9 million or 1.3% over FY 2011.

Estimate Fiscal Year 2013 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred To Other Funds

Basically the same differences as in FY 2012. A motion was made and seconded to discuss changing LSA's numbers. Mr. Underwood suggested reducing the refund amount a little for FY 2013 for a starting point. Ms. Lyons concurred. Ms. Lyons made a motion to reduce the refund amount to \$865 million. Seconded by Mr. Underwood. Motion passed unanimously. FY 2013 net receipts plus transfers is \$6,209.9 million or 3.9% over FY 2012 estimate.

Mr. Underwood made a motion to move the estimated gambling revenue deposited to other funds (\$219.2 million for FY 2012 and \$222.2 million for FY 2013). Ms. Lyons seconded the motion. Motion passed unanimously.

Other Business

With no further business, the meeting was adjourned.

Respectfully submitted,

Tammy Winters