

Revenue Estimating Conference
Minutes
December 6, 2010

Members present: Richard Oshlo, Holly Lyons, David Underwood.

Mr. Oshlo called the Revenue Estimating Conference to order at 10:00 a.m.

Approval of Minutes of October 11, 2010 Meeting

Mr. Underwood made a motion, seconded by Ms. Lyons to approve the minutes of the October 11, 2010 meeting as printed. Motion carried.

Review Fiscal Year 2011 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds

Mr. Oshlo started off by saying that DOM's estimate reflected very little change since October for both FY 11 and FY 12. He also noted there was very little difference in those years between DOM's estimate and LSA's. DOM had a minimal change to FY 11 and came up with a figure that is flat from the October estimate which is \$4 million lower. He is aware that even though the state had a strong first quarter of revenue, the last 2 months revenue has moderated. This is why DOM is making a recommendation of only a \$4 million change since October.

Ms. Lyons stated that FY 11 and FY 12 LSA estimates are a little higher than they were in October. Through September sales and use tax was up 3.5% and that level of growth continued through November. Income tax withholding payments have improved from 4.5% through September to 4.6% through November. Tax refunds have also provided some improvement. The U.S. and Iowa economy show modest improvement. Employment in the U.S. peaked in December 2007 and reached a trough in December 2009. Since then the economy has added back jobs of about 86,000 per month, which will take about 7 years to surpass the December 2007 employment peak. Major sectors of the economy appear to be in recovery though the statistics point to a weak one for the future. Auto sales, housing market, and overall construction are bouncing back but have a long way to go before reaching their previous levels. U.S. disposable income has begun to grow again but the main sources of growth since the start of the recession, namely government transfers and reduced taxes, are not sustainable sources of growth. Private sector employment needs to pick up quickly in order to be the future source of income growth.

Throughout the recession the states that fared the best were those that produced commodities and energy natural resources, and Iowa was fortunate to be one of those states. Generally they are optimistic in regards to the economy's ability to improve but significant private sector job gains are necessary to fully clear the grip of the recession. They are cautiously optimistic and LSA and DOM are pretty close together on their estimates.

Mr. Underwood said one of the negatives we are looking at right now are gas and fuel costs. Projections are that gas will continue to rise which will cut into discretionary spending for Iowans that are working. The weak U.S. dollar is allowing for export opportunities in order to keep up with demand. Those in the commercial construction are still struggling significantly within the state. Farm economy continues to remain good. Projections for next year sound good. Not too many changes since October of great significance. Unfortunately we have the federal tax issue that is still unresolved. He feels there is a high likelihood that there will be an extension of the current tax rates and therefore he will go with LSA's projection since it is higher and gives us the flexibility

without having to come back. He *moved* to accept the \$5,791.6 billion LSA estimate. Mr. Oshlo seconded the motion. Motion carried.

Mr. Oshlo requested a motion to approve the estimating gambling revenues deposited into other funds for FY 11. Mr. Underwood made a motion to approve the estimate of \$197.6 million. Mr. Oshlo seconded the motion. Motion carried.

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

Mr. Oshlo noted there was less than \$40 million difference between DOM's estimate and LSA's estimate. Mr. Underwood questioned how much they wanted to take into account the likelihood of federal tax changes being adopted. That number is around \$147 million. He knows they do estimating based on growth in employment, and wage growth. He thought for instance they could go with the LSA estimate and add for a realistic approach. He said the projection is based upon no law change. He felt comfortable adding \$100 million into the LSA estimate. That might *give* a more realistic basis to what it is. Mr. Oshlo noted that would bring it to just over \$6,133.0 billion.

Ms. Lyons wasn't sure she wanted to go quite that high. Mr. Oshlo noted he was reluctant to go that high as the REG can make other changes in March once that is on record. He said it's unclear what the range is in Washington D.C. Ms. Lyons concern from a budgeting standpoint was if we are low then the Governor has to come in and revise his budget. For example if the tax extension doesn't come then we would be in a position where the Governor would have to modify the budget. She would rather err on the low side than the high. She is willing to add some, but not \$100 million.

Mr. Oshlo said if they knew what package was going to be adopted there would be a little more clarity.

Mr. Oshlo made a motion to accept LSA's FY 12 estimate of \$6,031.3 billion. Ms. Lyons seconded. Motion carried.

Mr. Underwood *moved* to accept the Gambling Revenues transferred to other funds for FY 12. Mr. Oshlo seconded. Motion carried.

Other Business

With no further business, the meeting was adjourned.

Respectfully submitted,

Jessica Triggs