Cynthia Eisenhauer 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 reviewing FY2002 revenue estimates for general fund, lottery and other transfers, refunds, and gambling revenue. For the first time, REC will be estimating accruals consistent with legislation that was adopted during the special session. The same revenue estimates will be reviewed for FY2003.

Cynthia asked for motion to approve October 11, 2001 REC minutes. David Underwood made motion, seconded by Dennis Prouty. Motion carried.

**FY2002 General Fund Estimates**

Cynthia stated we discussed at the October REC meeting the possible need to revisit our FY02 estimates for the general fund and pledged to keep an eye on receipts between October and December. Accordingly, both the Fiscal Bureau and the Dept. of Management have submitted proposed revenue adjustments that do reduce the estimated revenue for the current fiscal year. After the October REC meeting, as he does after each REC meeting, Joel Lunde prepared a spreadsheet with monthly projections leading to 1.9% growth at the end of FY02. As we've watched revenue the first five months of this fiscal year, it is tracking with Joel's monthly projections. Further, as expected, after the first quarter of negative growth over last year, both months of October and November experienced revenue growth exceeding positive 2%. We are on track with those revenue projections. Last year, around mid December, we saw a precipitous drop that ended the month with a 10% drop in revenue. We expect this year to see some growth over last year's 10% loss. Finally, in respect to our monthly revenue projections, Joel has already built into the monthly projections for January, a 2% loss from last year due to the 3% growth in January last year. We are on track to come within reach of the October projection.

Cynthia said the question before us is do we have faith that Iowa's economy will continue the slow growth trend? Both DRI and the Institute for Economic Research predict slow growth out of the recession beginning the recovery in the middle of 2002. This week stock market trading again reached 10K and is holding yet today. Yesterday, initial UI claims were announced as being the lowest in 18 months. Today's increase in the unemployment rate going up to 5.7% was accompanied by a statement that said the labor market, in general, lags the economy with improvement expected to come well after the economy stabilizes.

With all that in mind, Cynthia shared that DOM did lower the projections for both personal income tax and sales tax, and made minor adjustments in other areas. These reductions were made in personal income tax largely because withholding is up only
1.77%. With these changes, DOM is confident that the FY02 revenue is on track to achieve 1.7% growth.

Dennis Prouty stated that LFB basically came to the same conclusion, except they came up with 1.5% growth instead of 1.7% with minor variations.

David Underwood expressed his concern regarding personal income tax to meet the forecast stating we would have to have between 1.3% and 3.3% increase in personal income tax receipts during the balance of the fiscal year.

Estimates in the June through November timeframe are down 3.38% from the prior year. Factoring that in, David came up with a lower personal income tax number than either DOM or LFB at about $2.453B, which is still a 1.1% increase over the prior year. There is basically $30M to $40M difference in the net number. That estimate also includes an increase in the tax rate for Iowans which will result due to the windfall because of the federal law changes. The other item of concern is sales tax growth. David figured about $16M less the DOM and $9M less than LFB with about a net 2% increase. David also stated for sales tax to meet DOM and LFB rates, we'd have to have a 3.3% to 4.1% over the prior year which he thinks will be difficult to reach. Even though the economy is project to start turning around. The Purchasing Manager's Index was definitely up for the first time in a while and it took a pretty good jump. David felt it's going to take a while for those good signs out there to translate into dollars in to the general fund.

David felt the biggest risk is with capital gains. There is no way to measure it. We experienced a 7% drop in capital gains reported in Iowa. We could easily see an additional $1B drop in reported capital gains.

Cynthia stated she was more comfortable that we'd be somewhat on track with the estimates that have been lowered in the last couple REC meetings. She offered an additional $5M reduction in personal income tax and $3M in sales tax as a place to start from Department's of Management's numbers.

Dennis made motion, seconded by David to accept DOM's estimates with the $5M reduction in personal income tax and $3M reduction in sales tax, which would bring the total taxes to $5,192.4M. Motion carried.

**FY2002 Lottery and Other Transfers.**
Dennis made motion, seconded by David to adopt the joint estimates for FY02 lottery and other transfers. Motion carried.

**FY2002 Accruals**
Cynthia stated both DOM and LFB had the same estimates for accruals and asked for a motion. David made motion, seconded by Dennis to adopt the accrual projections. Motion carried.
**FY2002 Refunds**
DOM estimates 574.9M and LFB estimates 580.6M. David made motion to accept LFB's estimates. Refund estimates were discussed with Cynthia asking for a compromise between LFB and DOM estimates. Dennis amended motion to 577M, seconded by David. Motion carried.

**Gambling Revenues Transferred to Other Funds**
Estimates by DOM and LFB were the same. David made motion to accept estimates, seconded by Dennis. Motion carried.

**FY2003 General Fund Estimates**
Cynthia stated both DOM and LFB are staying the course with revenue estimates for FY2003, which is consistent with what the national trends are showing.

Following discussion on what we might expect to see in FY2003, Dennis made motion, seconded by David to adopt LFB's estimates for FY2003 general fund. Motion carried.

**FY2003 Lottery Transfers**
DOM and LFB estimates were the same. Dennis made motion, seconded by David to adopt estimates for FY2003 Lottery Transfers. Motion carried.

**Accruals**
Dennis explained that this was a new process to REC. It's currently a work in progress. He was confident they had it in the total dollars for estimates, either in the receipts or accruals.

Dennis made motion, seconded by David to adopt estimates for FY2003 accruals. Motion carried.

**Refunds**
DOM and LFB estimates were the same. Dennis made motion, seconded by David to adopt estimates for FY2003 refunds. Motion carried.

**Gambling**
Dennis made motion, seconded by David to accept DOM's estimates for FY2003 gambling.

With no further business, the meeting was adjourned.