

Revenue Estimating Conference December 8, 2000

Cynthia Eisenhower called the Revenue Estimating Conference to order at 10:00 a.m. with all members present.

Dennis Prouty made motion to accept the minutes of the October 12, 2000 meeting, seconded by David Underwood. Motion carried.

Cynthia stated that today's task was to update FY2001 and FY2002 estimates and reach agreement on estimates for transfers, refunds and gambling revenue.

Cynthia started with the FY01 general fund projections stating the Economic Forecasting Council met in November and concluded that after two years of rapid growth, the economy is likely to grow more slowly over the next several quarters. The Institute for Economic Research cited a strong labor market, rising wages and rising personal income as justification for their projected revenue growth in Iowa of 5.9% in FY2001. Using a 3-1 cost ratio, their projection for FY01 is 5%. Cynthia feels the Department of Management's estimate is more than reasonable.

Cynthia extended her appreciation to Dennis Prouty and David Underwood for their willingness to come a little closer to DOM's estimates in October, understanding that we had a December meeting where adjustments could be made if needed. Looking at DOM's and LFB's estimates, both are proposing downward adjustments largely as a result of October and November receipts being below our projections.

Cynthia stated the Department of Management won't argue with Fiscal Bureau's FY2001 estimates with a couple of exceptions. The first one being insurance premium tax. DOM's estimates are higher than LFB's which is based upon the fact that with the double digit increases seen in health insurance premiums across all sectors and the efforts for government and others to increase access to health services, along with the increase cost of health services, we feel believe DOM's projection of 5.7% growth in insurance premium tax is reasonable, if not conservative.

On corporate income taxes, Cindy stated that companies are proceeding cautiously to protect their corporate profits and believe those will remain stable and not drop off substantially. In the last quarter, exports were up 13% in Iowa, finally reaching the same level as 1997, before two years of lower growth because of poor economics in other countries.

Finally, the LFB estimate that Cindy would take issue with most strongly is the personal income estimate. The labor market is strong, wages are up, personal income is up, average weekly earnings are increasing and Cindy feels the labor market is pushing wages up and feels confident that the October personal income estimate ought to hold at this point in time.

Cynthia stated that DOM agrees that sales, use and inheritance tax revenue will not reach our earlier projections, but thinks there are good reasons to keep personal and corporate income tax and insurance premium tax receipts at the levels we are recommending for FY2001.

Dennis Prouty stated that there was not much difference between either of the estimates – they both have come down from the October estimates that we agreed upon. It boils down to the amount that you see going down. Personal income tax seems to be the biggest point. The way receipts have been coming in and dropping since September, he feels there should be caution on everybody's part about receipts making any of these estimates. If you look at the October estimates, we have to have a 5.6% increase for every month starting in December throughout the rest of the year just to make the October estimate. One of the big questions tends to be the timing on the local option tax for sales tax. Revenue has done a lot of work trying to come up with something and at best, it's a guess. That's one of the big things that we have to try to factor into the estimates. The other thing is the increase in fuel prices. In theory, if fuel prices are going up for us to get to work everyday, what kind of effect is that going to have on our disposable income to buy consumer goods? Dennis felt fairly comfortable with both estimates, but felt the receipts are going to slow a little more because the economy is slowing down. Dennis felt, overall, we were very close with personal income tax being the biggest difference.

David Underwood referred to an article in Wall Street Journal which showed many states facing the same problems with projections that Iowa is facing. David said he was pessimistic about the personal income tax reaching 6%.

Dennis made motion to take LFB estimates for FY01 general fund and add \$5.4 million to personal income tax. For FY01, general fund receipt growth will be \$5,275.3M or 3.5%. With transfers to the general fund, growth is 4.7%. David seconded motion. Motion carried.

Cynthia asked for motion on FY01 refund estimates which are the same. David made motion to accept refund estimates, seconded by Dennis. Motion carried.

Dennis made motion to accept FY01 gambling proceeds estimates, seconded by David. Motion carried.

Based on the Institute for Economic Research's estimates, which are substantially higher than both DOM and LFB, and based on the labor market, personal income and wage growth, Cynthia felt confident holding DOM FY02 estimates for personal income tax. She also asked for consideration on insurance premium tax and corporate tax.

Dennis made motion to add \$18M to personal income tax in LFB estimates bringing it to an overall growth of 4.2%.

Cynthia asked Dennis to reconsider health insurance premium tax and bring it up somewhat.

Dennis amended his motion adding \$4M to insurance premiums.

Following discussion, Dennis again amended his motion adding \$5M in corporate tax for a 3.1% increase. This will result in a total FY02 general fund receipt growth of \$5,5055.5M or 4.4%. With transfers, total growth is 3.1%. David seconded the motion with both amendments. Motion carried.

Cynthia asked for a motion on FY02 refunds. David made motion to accept estimates, seconded by Dennis. Motion carried.

Dennis made motion to accept \$142.8 for FY 02 gambling revenue, seconded by David. Motion carried.

With no further business to bring before the Council, the meeting was adjourned.