

**Revenue Estimating Conference
Minutes
December 11, 2009**

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

Mr. Oshlo called the Revenue Estimating Conference to order at 1:00 p.m.

Approval of Minutes of October 7, 2009 Meeting

Mr. Underwood made a motion, seconded by Ms. Lyons to approve the minutes of the October 7, 2009 meeting as printed. Motion carried.

Review Fiscal Year 2010 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds

Ms. Lyons shared comments regarding the LSA estimates for FY2010 and FY2011. Referring to the handout spreadsheet she noted that the FY2010 LSA estimate was a little lower than their October estimate, but their FY2011 estimate is a little bit higher. She expressed concern that economy in Iowa had not yet bottomed out. The changes in the LSA estimate reflected continued weakness in sales and use tax receipts since July. She reported that the October and November receipts were very poor and there was an assumption that the spring 2010 tax return season would be worse than predicted last October. She added that net revenue has declined for 11 of the last 12 months in Iowa. Some recent positive national economic signs include falling initial unemployment claims, increasing retail sales, slowing job losses, and improved housing starts and sales. While they are down significantly from previous years, they are showing some year over year improvement. If that improvement continues, the Iowa economy could also improve over the next six months which will aid fiscal year 2011. Ms. Lyons reported that gross personal income, which is 51% of the General Fund revenue, won't grow until the job growth returns. Last year's base was lower, so any growth on that will appear better than it really is. She felt pessimistic in regards to the near future due to poor withholding tax and sales & use tax receipts in recent months. There is concern about reduced dividend interest and business income as well as job losses and capital losses. However, LSA believes those down drafts will subside as the calendar year 2010 progresses and reflected that in their FY2011 estimate.

Mr. Oshlo explained the recommendations made by the Governor's representative for FY2010 stating the action taken by the REC in October was substantial and efficient. Several adjustments were made within the categories, basically agreeing with the October estimate by the REC and increased the total by only \$800,000 which is basically a flat figure.

Mr. Underwood shared that employment numbers were down significantly. His informal survey of employers indicated no change in the number of employees for FY2011, no overtime and no pay increases. He felt there would be some growth in FY2011, but not from wage growth. Mr. Underwood anticipated the numbers for December, January and February could come in well below last year's numbers, but felt the October REC estimates took that into account. He expressed his concern about the impact on sales tax and was guardedly optimistic at this point in time. The consumer continues to remain the weak link in our economy. He added that the National Association of Manufacturers was very guarded about the outlook based upon the consideration of the economic implication of future policy changes. Mr. Underwood felt the need to be conservative in our outlook, particularly for the current fiscal year and guardedly optimistic for FY2011.

Mr. Oshlo expressed his continued concern that FY 2011, as Ms. Lyons stated, should be a jobless recovery. Refunds have increased dramatically over FY 2010. He added that even though there are some signs of economic recovery, we need to proceed with caution. If the timing of the recovery is missed by several months, it will have a dramatic impact on state revenues.

Mr. Underwood noted the difference between the two FY2010 estimates was \$57.6M. The estimate from the Governor's appointee was the same as the October estimate and the LSA estimate was down. He asked if LSA would be flexible in their numbers.

Ms. Lyons responded saying they were confident with their numbers.

Mr. Underwood asked if there was any specific reason why LSA lowered the estimate for accruals from -\$26M to -\$13M.

Ms. Lyons explained it was a small amount of money as far as accrual adjustments were concerned and reflected more optimism.

With the largest difference of the two estimates being with personal income tax, Mr. Underwood asked if Ms. Lyons and Mr. Oshlo would be willing to make a \$20M compromise. Both were in agreement of the compromise.

Motion made by Mr. Underwood seconded by Ms. Lyons to accept the LSA FY2010 estimate adding \$20M to the personal income tax receipts. Motion carried. This motion adjusted the Net Receipts Plus Transfers to \$5401.2M

Mr. Oshlo made motion, seconded by Mr. Underwood, to accept the FY2010 estimate of \$206.7M for Gambling Revenues Deposited to Other Funds. Motion carried.

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

Mr. Oshlo shared that there continued to be a lag in state receipts even though there were signs and projections for improvement in the economy which may not impact the state revenue in FY2011.

Mr. Underwood expressed his concern on the estimate for corporate income tax indicating it may be about \$20M too optimistic.

Mr. Underwood made a motion to accept the LSA FY2011 estimates, reducing the corporate income tax receipts by \$20M. Ms. Lyons seconded the motion. Motion carried. This motion adjusted the Net Receipts Plus Transfer to \$5403.2M.

Mr. Underwood made motion, seconded by Ms. Lyons to accept the FY2011 estimate of \$201.3M for Gambling Revenues Deposited to Other Funds. Motion carried.

With no further business, meeting was adjourned.

Respectfully submitted



Marcia E. Murrow
Secretary
Department of Management