Members present: Charles Krogmeier; Holly Lyons, David Underwood.

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

Approval of Minutes of October 9, 2008 Meeting
Motion made by Mr. Underwood, seconded by Ms. Lyons to approve the minutes of the October 9, 2008 meeting as printed. Motion carried.

Review Fiscal Year 2009 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Gambling Revenues Transferred to Other Funds
Mr. Krogmeier referred to the spreadsheet, explaining that the Legislative Service Agency (LSA) staff compiles their set of estimates and the Department of Management on behalf of the Governor compiles a set of estimates. The Revenue Estimating Conference discusses the two sets of estimates and accepts one set or an adjusted set of estimates. Mr. Krogmeier asked Ms. Lyons with LSA to share some of the background with their estimates.

Ms. Lyons stated she was more pessimistic than she was in October, obviously because their numbers are lower. Iowa is in a recession with continued surprises. The consumer confidence in the United States is at its lowest point in 22 years and consumer spending has declined for five consecutive months. She feels people are holding on to their retail dollars. Unlike the last couple of recessions that seemed to be more regionalized and didn’t impact Iowa as much, this one really has. It’s not sensitive to regions. Ms. Lyons shared that one of her concerns is that withholding was up in November which could be due to severance payments and people taking out more withholding because they have been laid off. Employment numbers appear to be stable, possibly because the elderly workers are staying in the workforce longer and not able to retire because they lost so much in the investment market.

Mr. Krogmeier shared many of the same concerns. Explaining some of the differences in the two estimates, he stated the LSA FY2009 estimate was higher by about $40M on personal income tax. Mr. Krogmeier disagreed that there would be much of a growth in personal income tax. Both estimates projected a 1.8% growth of personal income tax for FY2010 and both estimates were close in terms of percentage growth of sales tax, corporate and other major taxes. LSA estimates were higher for refunds for FY2009 and FY2010. Mr. Krogmeier added that Iowa entered this recession a little later than the rest of the country, but there is no question that Iowa is in it now. He didn’t think the country had hit bottom yet but would sometime in the next 12 months. When that happens, we will start to see some growth, but it will be a slow process.

Mr. Underwood shared that the uncertainty relative to the forecasts at this point in time are greater than at anytime he has served on the Revenue Estimating Conference. There are so many unknowns right now and he is not as optimistic as Mr. Krogmeier and Ms. Lyons. He feels that there was a growth with personal income tax before the layoffs kicked in and that will start to slip away rather quickly. He thinks we’re potentially looking at not only fewer people employed, but shorter work weeks. He has talked with people in businesses who say they are looking at bonuses being down as well as raises for FY2009 being considerably less than what we’ve seen in the past.

Mr. Underwood shared his concern that growth and withholding which has always been our mainstay in the General fund are at risk. He has also heard a number of companies talking about
wage freezes which we haven’t heard mentioned in about seven years. Interest earned is down on savings accounts, CDs as well as money markets which show up on income tax filings. Income tax reporting also indicates farm income was strong last year. And probably one of the largest numbers at risk is the reported capital gains that were at a historical high level.

In talking about total receipts from the tax standpoint, Mr. Underwood shared that we’re dealing with close to $100M less in revenue because of tax law changes that have been instituted in the last five years which are coming into effect in the current fiscal year. He added that he doesn’t see much growth in sales tax for the balance of the year and could very well see a decline.

Mr. Krogmeier shared some of Mr. Underwood’s concerns and added that the refunds and daily receipts are holding up pretty good and we’re almost half way through the year.

Motion was made by Ms. Lyons to approve the FY2009 Governor’s Appointee estimates. Mr. Krogmeier seconded the motion. Discussion on the motion included making some adjustments to the estimates. Ms. Lyons made a friendly amendment to the motion to use LSA Inheritance Tax figure of $83.9M and LSA Corporate Income Tax figure of $407.1M. Mr. Krogmeier seconded the amendment. Amendment passed.

Mr. Krogmeier asked for a vote on the motion with the amendment adjusting the Total Net Receipts plus Transfers to $6,052M for a -0.5% growth.
Ayes: Mr. Krogmeier, Ms. Lyons.
Nays: Mr. Underwood.
Motion carried.

With no decline being seen in gambling revenues, Mr. Underwood made motion to approve the estimate of $221.4M for FY2009, seconded by Ms. Lyons. Motion carried.

Review Fiscal Year 2010 General Fund Estimates, Lottery and Other Transfers, Accruals, Refunds, and Revenues Transferred to Other Funds.
Mr. Krogmeier shared that the adjustments made and approved for FY2009 estimates would change the FY2010 estimates as well.

Motion made by Ms. Lyons, seconded by Mr. Underwood to accept LSA estimates using the Governor’s Appointee figure for Refunds, and adjusting the Net Receipts plus Transfers to $6,025.8M, resulting in a -0.4% growth. Motion carried.

Motion made by Ms. Lyons, seconded by Mr. Underwood to accept the estimate of $222.4M for Gambling Revenues. Motion carried.

With no further business, the meeting was adjourned.

Respectfully submitted

Marcia E. Murrow
Secretary
Department of Management