

**Revenue Estimating Conference  
Minutes  
December 12, 2012**

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**Members Present:** Dave Roederer, Holly Lyons, David Underwood.

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 am.

**Approval of October 11, 2012 Agenda**

Mr. Roederer called for a motion to approve the October 11, 2012 agenda as it is written. Mr. Underwood made the motion to approve the agenda and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

Mr. Roederer gave a brief explanation of the purpose of the Revenue Estimating Conference (REC). The REC is required to meet at least three times per year. Three members are represented on the conference by Legislative Service Agency (LSA), the Executive Branch and a mutually agreed upon individual who is not in either branch, and that is David Underwood from Clear Lake, Iowa. The Governor is required to submit a budget to the legislature using the December estimate. So the number arrived at during this meeting will be used by the Governor in preparing his budget. The legislature must follow either the December estimate or the March estimate, whichever is the lower of the two; so whatever number is agreed upon at this meeting, that number cannot be raised. The Governor plans to submit a two-year budget, but the law requires that the revenue estimating be done on a one year basis. The current year, FY13, and the next year, FY14, will be discussed at this meeting.

Ms. Lyons started with comments about the U.S. economy. The only thing that is certain since the meeting in October, is that there is still a great deal of uncertainty over the national fiscal future and the fiscal cliff. The national economy is sluggish at best; some economists have referred to it as weak or struggling. Businesses have pulled back on investments due to the federal uncertainty. Recent statistics have shown that exports are down, indicating slowing global demand, and imports are at the lowest level in one and one-half years. Consumer sales are also showing signs of slowing down. The U.S. is producing new jobs, but the rate is very low for an economic expansion. Growth in the wage rate is very low. Those two things combined are producing a very anemic growth rate for U.S. wage income. The less income earned the less income that can be spent. The financial and political condition of the U.S. government does not leave it in a position to act to boost disposable income. If the low national growth situation continues, it is bound to catch up with Iowa in the near future. Iowa traditionally lags behind the national economy and right now, Iowa is in a period of steady growth and is outpacing the U.S. economy. Iowa's economy is currently producing new jobs and new income at a fairly normal expansion rate. The LSA estimate calls for 3.5% growth in the current fiscal year and slightly lower growth than that, at 3.2%, in fiscal year 2014. The estimate has not changed much from the LSA October estimate. It is up slightly in fiscal year 2013 and down slightly in 14, compared to October. When compared to the rate of revenue growth since last June 30<sup>th</sup>,

however, these numbers do seem a little low. However, the main drivers of general fund revenue, namely the income withholding tax and sales & use tax, have increased 5% or less so far this year. What that means is that the source of revenue growth to date this fiscal year has been in items other than income tax and sales tax. Corporate tax revenue is up around 25% and tax revenues are down significantly. While both items are contributing to strong state revenue growth, it seems unlikely they can contribute at this rate for the remainder of the fiscal year and into the next. The LSA expects the current 9% growth rate in revenues being experienced right now to begin to decline before the end of this month, regardless of what happens with the fiscal cliff. Add that to the uncertainties in Washington, and the included assumption in the estimates that federal taxes will go up, which will in turn reduce Iowa income taxes, the LSA sees a 3.5% expected growth rate as an accurate reflection of the current situation, tempered by the two issues just mentioned. On the positive side, the car is approaching the fiscal cliff at the federal level, but at least none of the parties have jumped out yet. They are currently still talking. Should Congress resolve the fiscal situation quickly in a sustainable manner, the certainty that returns to the system may produce a robust recovery and the Iowa economy is well positioned to participate in that recovery. The housing market is improving dramatically and another positive is energy prices. Petroleum prices are down and natural gas prices are way down. Energy expenditures are significant and these price reductions will produce substantial expenditures for businesses and consumers, savings that can hopefully be re-directed elsewhere. Bottom line, Iowa continues to be in a solid financial position with full rainy day funds. The LSA estimate is for modest growth for both fiscal year 13 and fiscal year 14.

Mr. Underwood discussed two new surveys that were released early this week and they reflect much of what Ms. Lyons mentioned. One is the Wells Fargo small business survey and it says that the biggest drop they've found in small business owner's confidence since the fall of 2008. In order to grow fast, many people must take big risks and that has not happened yet in this business cycle. If the Wells Fargo Gallup poll is any indicator, it isn't about to start. It is very prudent that a slow growth approach is taken and that is quite well reflected in Ms. Lyons' numbers. The other survey is from the American Institute of CPAs and this is a quarterly survey. Their survey reflects economic optimism, which started the year on an upswing, has fallen to a 12-month low according to the latest survey. Economic optimism is one of several factors that make up this index and it fell to the lowest point since the third quarter of 2011. For the first time in the past three years, a decline in optimism for organizations and expansion plans exceeded the decline in optimism for the U.S. economy. So it appears the U.S. may be heading for another year of slow, struggling growth that may be even less robust than the weak growth seen in 2012. In relating that to Iowa, there is talk of the 2012 drought continuing into 2013 and a quote of our President relative to the fiscal cliff and how that is going to turn out, he said "Either way, taxes are going up." So that means that Iowa's general fund revenue is going to be impacted negatively.

Mr. Roederer stated that there were positive signs for awhile in the U.S. economy. There was a modest job growth base, housing is starting to increase around the country. As Ms. Lyons pointed out, the gas prices are still in fluctuation but have been trending down, so the

consumer and the business sentiments are still pretty fragile. When we are looking at a federal sequestration, it is pretty much frozen the economy. As Mr. Underwood pointed out from the Wells Fargo survey, we need people to make some leaps here. I believe financially, they are capable of doing that but the uncertainty is so great that nobody wants to do that. From a personal perspective, I do not believe that Congress and the President are going to come to what I believe to be an acceptable solution. I think this is going to be around us awhile, so I think we're about to go through an extreme makeover. I just don't know what the end of that extreme makeover is going to be, but it is going to have an impact on our country. When you start talking about \$700 billion in tax increases and spending cuts, to say that it isn't going to have some impact on the economy, I think would be foolish. Looking at Iowa, we outperformed our estimate in fiscal year 12 and so far we are ahead in fiscal year 13; although we are starting to see those numbers slow down. As Ms. Lyons pointed out, the corporate is still strong, but we need to be very cautious. Because of the potential of the sequestration, the companies are moving up their dividend payouts, they are probably making some tax choices, not knowing what is going to happen next year. In this next few month period of time, I'm not sure it will be a real good judge to extend this out into the future. Iowa housing is improving a great deal. It isn't back to the boom-boom years when we had it, but we're getting pretty close to pre-recession. Both Ms. Lyons and Mr. Underwood had mentioned the drought and what the impact is going to be is anyone's guess. We came out of the last drought a little better than many of us had anticipated, but what will happen if we go into a planting season when we have such low water tables. We already know that, at least in the Mississippi, the barge issue has become paramount – whether or not barges will be able to run, which ships a lot of our product. Our challenge is just the weather and Congress. The assumptions that have been made on both LSA's projections, as well as Department of Management for the Governor's Office, has been that the alternative minimum tax would be corrected even if there isn't an agreement in Washington. That appears to be one thing all parties agree to, the President as well as the Democrats and Republicans in Congress. The other assumption which we have made is that the Bush era tax cuts would go away. There does not seem to be any evidence to us that would indicate that there is going to be a mutually agreed upon path for that, so we have factored in our recommendations that those would go away. If those do not go away and if there is some agreement reached there, then that would at least be a positive on our revenues.

#### **Review Fiscal Year 2013 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Underwood stated that the only question he had was on the School Infrastructure Refund, but differences are so minor he suggests splitting the difference. Mr. Roederer stated that the LSA representative and the Governor's representative do not discuss what the numbers are going to be before the Revenue Estimating Conference. Mr. Roederer believes it is a good thing that each representative and their staff look at the numbers separately prior to the REC meeting. Ms. Lyons supports Mr. Underwood's suggestion. Mr. Underwood made a motion to reduce the Governor's appointee's estimate of refunds by \$12 million, making it 870.5. Ms. Lyons seconded the motion. With no further discussion, Mr. Roederer called for a vote. All voted in favor and the motion was carried.

### **Review Fiscal Year 2014 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Underwood made a motion to adopt LSA numbers for fiscal year 14. Ms. Lyons agrees, but made the statement that when “jumping columns”, it makes it more confusing. Mr. Jeff Robinson from LSA explained that the issue becomes that since they were done independently, if you take from one column for one year and another column for another year, you can get some really strange changes, say in the individual income tax. Even though you end up with the bottom line number that you are looking for, we then present numbers going forward that look like we expect a different number percentage-wise and individualize, so if we just take from DOM one year and DOM the second year and get a final number that you are happy with, it makes the demonstration of numbers more sensible.

Mr. Underwood withdrew his previous motion and made a new motion to adopt the Governor’s appointee numbers for fiscal year 14 of \$6739.8. Ms. Lyons seconded the motion. With no further discussion, Mr. Roederer called for a vote. All voted in favor and the motion was carried.

### **Fiscal Year 2013 and 2014 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Ms. Lyons made a motion to keep the Gambling Revenue numbers and the Interest Earned on Reserve Funds for fiscal year 13 and fiscal year 14. Mr. Underwood seconded the motion. With no further discussion, Mr. Roederer called for a vote. All voted in favor and the motion was carried.

It was requested from the audience to re-state the numbers and percentages.

- Fiscal year 13 is \$6,517.1 million, which is 3.3% over fiscal year 12, or an additional \$206 million from fiscal year 12.
- Fiscal year 14 is \$6,739.8 million, which is 3.4% more than the revised fiscal year 13, or \$222.7 million.

Mr. Roederer stated that if something happens/does not happen that will negatively impact what the revenues are going to be the Revenue Estimating Conference always has the ability to reconvene to do what needs to be done. However, the number used today cannot be raised, it can only be lowered.

### **Other Business**

With no further business, Mr. Roederer called the meeting adjourned.

Respectfully submitted,

*Tammy Winters*