

**Revenue Estimating Conference  
Minutes  
December 12, 2013**

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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.

Mr. Roederer began with a brief overview of the Revenue Estimating Conference. It is made up of the Legislative Branch, the Executive Branch and a mutually agreed upon individual. The December projection is the number the Governor must utilize when putting together his budget and it is the number that the legislature must utilize unless the March estimate is less. If it is less, than the legislature must use the smaller amount.

**Approval of March 23, 2013 Minutes**

Mr. Roederer called for a motion to approve the December 12, 2013 minutes as they are written. Ms. Lyons made the motion to approve the minutes and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.

Ms. Lyons stated that since the October meeting, the Iowa and National economies are stable, showing modest or moderate growth. There is nothing to be pessimistic or overly cautious about at this time when looking ahead to fiscal year 2015. On the national level, looking at a variety of indicators, real GDP is up slightly; unemployment rates are coming down; the stock market continues to be strong; corporate tax profit forecasts are up and retail sales forecasts are estimated to be up about 3.4% in the current year, but increased to 5% in the coming year; home sales are forecast to be down slightly in the current year, but up slightly next year; personal income is steady and expected to grow at 6-7% in the next two years. All of these factors suggest moderate growth. In Iowa, most of the economic indicators are positive and have shown slight improvement since last October. The Department of Revenue did revise their employment forecast downward slightly since October, but non-farm jobs are nearing the pre-recession peak, which is encouraging. The Department of Revenue's Leading Indicators Index experienced the strongest monthly increase in almost three years last month, after a slight dip in September. The Iowa Business Council Index indicates that 90% of surveyed executives expect steady or increased sales and steady or increased capital spending over the next six months. According to the Business Council, members are optimistic for economic growth in 2014. At this time, all signs are pointing to a pretty normal growth year for fiscal year 2015. The federal government action the last year, including the sequester, the October shutdown and budget uncertainty, has taken a toll on consumer and business confidence. The recent news of the federal budget agreement should have a positive impact on confidence, consumer spending, business investment and hiring at both the national level and in Iowa.

Turning to our estimates for fiscal years 2014 and 2015, we've taken a closer look at fiscal year 2014 and have revised our estimate down from the October REC, just for the current year of

2014. This is not cause for alarm and can be explained by some one-time state and federal occurrences and some other state law changes which impact both 2013 and 2014. The one-time occurrences are as follows:

- At the state level, gambling revenues that were previously deposited to the general fund will no longer be deposited in the general fund beginning with 2014. That impact is \$40 million
- \$120 million of cigarette and tobacco tax will no longer be deposited into the general fund
- The new taxpayer tax fund credit will lower income tax payments and increase refunds by an estimated \$88 million in fiscal year 2014 and \$67 million in 2015. The general fund will eventually be reimbursed by the new taxpayer trust fund through a transfer, so the credit is revenue neutral to the general fund, but that transfer is not likely to occur until after the fiscal year. Our estimate now takes this implementation into account.

At the federal level, the lead-up to the budget and tax legislation that was enacted by Congress last January caused tax payers to alter their normal year-end tax strategies. Some tax payers crowded capital gains and other income into 2012, which had a very significant impact on Iowa's fiscal year 2013 revenue. Gross income tax revenue grew by 12.4% in fiscal year 2013, far exceeding a normal revenue year. Much of that tax is one-time income and won't be there in 2014. A normal growth year would be about 5-5 ½%. The LSA estimates that this situation will make 2014 at least \$133 million lower when compared to 2013.

There are a couple of ongoing legislative changes that will impact fiscal year 2014 and 2015. One is the increased Earned Income Tax Credit passed by the legislature last session. This will reduce revenue by an estimated \$31 million. Other law changes in tax credit redemptions are expected to reduce fiscal year 2014 revenue by \$105 million compared to fiscal year 2013. We are about \$45.2 million lower than the Governor's appointee, Mr. Roederer, for fiscal year 2014, and it's primarily because we are taking more out of the gross personal income due to the one-time federal action that caused income crowding last year.

Fiscal year 2015 is looking more like a normal growth year. As stated earlier, it's pretty unremarkable and little has changed in the economic forecast at the state and national level to make us waiver much from our original October estimate. Our estimate looks slightly higher percentage-wise due to the lower base estimated for fiscal year 2014, but the dollar estimates are nearly identical to the October estimate and they are nearly identical to Mr. Roederer's estimate for fiscal year 2015. Iowa continues to be in a solid financial position with full rainy day funds and a modest growth forecast.

Mr. Underwood stated he was trying to find some really optimistic news leading up to this meeting, but found more pessimistic news than optimistic. Employment numbers are up and that is important because that is the single most important line item in the general fund revenues- withholding tax and associated income taxes from employment associated with that. There is a little bit of a return in overtime hours. It is good to see that that is easily above 40 hours now for the average work week, so every overtime hour is a bonus for the state. There

have been good withholding increases as a result of that and there is nothing to indicate that it will not continue for Iowa for the current fiscal and the next fiscal year.

The budget compromise vote might pass and if it does, maybe we can get rid of a little bit of uncertainty on the federal level. Gas prices were down a little from last week.

Corn and soybean prices continue to decline. All indications are that input prices for the farmers for the crop year 2014 will be up. We saw quite an unusual situation this last year with the prevent plant situation, record high levels of that has certainly impacted a lot of farmers in north central Iowa. As we look at 2012 reported income on the Schedule Fs of farmers in Iowa, that is a record level of reported income in the history of Iowa. It is quite obvious that is not going to continue and should be declining. Farmland values, even though there was an indication that they have continued to rise in this last reporting year, it is indicated that it is a market in flux. The increases were primarily in the first half of the year and demand and prices are beginning to weaken. Principal Financial Well-being Index talked about uncertainty and pessimism remain the order of the day for consumers and the middle class. Stocks are slumping over troubling earnings. Economic climate is taking a toll on holiday spending. Demand for food aid is rising and child poverty rates in Iowa continue to rise. We are faced with more uncertainty as the expiring federal tax credits and deductions that are going to happen, it doesn't appear those are going to be reinstated as part of this compromise, so that will lead to higher federal taxes which is going to equate to lower general fund receipts. There hasn't been a lot of change since the October meeting and that is reflected in both estimates.

Mr. Roederer stated that internationally may be about the same as last October, still very uncertain. There is a lot of conversation going on with many countries, which could have a positive impact or it could have a disastrous impact. From a national perspective, the economy is moving slowly. Job growth is not as anticipated this week, but still there seems to be a general consensus that it is moving in the right direction. Housing is increasing slightly. Consumer confidence, as well as businesses, are still fragile.

Iowa's leading indicators are positive. Employment is going in the right direction. Corporate in Iowa is strong; employment will still be held down some until the country comes to grips with what is going to be done with Affordable Healthcare. Housing is ticking up nicely. There are still a fair amount of construction jobs that will be coming online due to flooding that has taken place in the state. Unemployment trust fund continues to get stronger each month. The numbers for about the first time in memory is that Medicaid numbers are leveling off and actually are starting to fall down. We always see that when we have a bounding economy. Childcare assistance is also decreasing. Fewer people are seeking childcare assistance because of making more money. Banks are still strong and getting stronger. Those on the watch list continue to drop.

The negative is more a question – primarily in the agriculture sector. When we met last year in November, corn prices were in the \$7 range and now they are in the \$4 range – that's approximately a 40% drop. Soybeans were off a little from \$14 to approximately \$12.50 for the

average in November. The big question mark out there is what the EPA is going to do with the renewable fuels. If, in fact, their rule goes into effect that will suppress the production of ethanol, which will also probably push the corn prices down more than what we've seen. Mr. Roederer feels stronger about where we are in the economy today than last time the REC met. If it weren't primarily with the EPA notice out there and our current price of corn, he would feel more strongly about the economy than he does now.

It has been stated by both Ms. Lyons and Mr. Underwood that our difference for fiscal year 2015 is about \$45 million.

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

Ms. Lyons moved to take LSA's numbers for fiscal year 2014. Mr. Underwood seconded the motion. Mr. Roederer stated that he cannot go down that low. He understands LSA's rationale and in looking at the numbers, he isn't sure when the tax credit is actually going to be fully implemented and the question comes down to personal income. As to how strong we think that is going to be. Mr. Roederer believes that for the last few years we have underestimated our economy and he is factoring that in as well.

Mr. Underwood struggled a little with the personal income tax. The last estimate was \$4 billion 140.8 million and that is being brought down to \$4 billion 5.6 million. He could not reconcile that against the refunds. Ms. Lyons replied that fiscal year 2014 was reviewed and they still don't think they've taken enough out for what happened last year at this time with the tax crowding and people taking capital gains and other income in 2012.

Mr. Underwood stated if the stock market hadn't been doing so well in recent months, he would go along with Ms. Lyons. But we've had a very strong stock market which should maintain some of that. People are also going to be doing the same sort of harvesting this year as well. Mr. Underwood is having a hard time reconciling a net receipt decline from the October estimate and he could not support a decline of \$43 million. Mr. Underwood suggested to move the Governor appointee's numbers, which is just slightly over where they were in October, a \$2.1 million difference.

Mr. Underwood suggested Ms. Lyons reduce the refund estimate by \$30, or increase the personal income tax by \$30. Ms. Lyons agreed to reduce the refund estimate.

Mr. Underwood made an amended motion to leave the personal income LSA number and reducing the refunds by \$30 million, which would become \$900 million. Ms. Lyons seconded the motion. All voted in favor and the amendment was carried unanimously.

A vote was taken on the motion. All voted in favor and the motion was carried unanimously. This puts net receipts plus transfers at \$6,682.2, which is a decline of 1.3%.

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

Mr. Underwood moved, and Ms. Lyons seconded, to accept the gambling revenues. All voted in favor and the motion carried unanimously.

Ms. Lyons moved, and Mr. Underwood seconded, to accept the interest. All voted in favor and the motion carried unanimously.

**Estimate Fiscal Year 2015 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Underwood made a motion to move the LSA General Fund Estimate numbers for fiscal year 2015. Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously. The new number is \$6,983.2, which is 4.5% for fiscal year 2015.

**Fiscal Year 2015 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

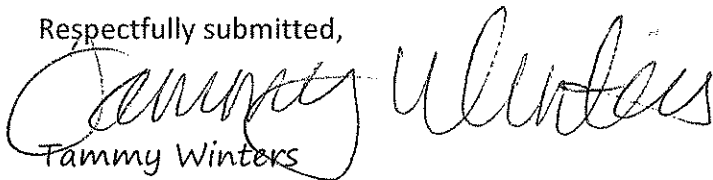
Fiscal year 2015 gambling revenue numbers were the same for the Governor's appointee and LSA. Mr. Roederer made a motion, and Mr. Underwood seconded the motion, to move the fiscal year 2015 gambling receipts. All voted in favor and the motion was carried unanimously.

Mr. Underwood made a motion, and Ms. Lyons seconded, to move the Interest Earned numbers. All voted in favor and the motion was carried unanimously.

**Other Business**

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

Respectfully submitted,

  
Tammy Winters

