Revenue Estimating Conference
Minutes
December 12, 2014

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

Mr. Roederer called the Revenue Estimating Conference to order at 11:00 a.m.

Mr. Roederer began by stating that the Revenue Estimating Conference is required to meet each year and the Governor is required to submit his budget recommendations based on the December estimate. The legislature has to use the lower of the two, either the December or the March estimate. The Governor will be submitting a two-year budget on the second day of the legislative session. The law provides that the estimates are done on an annual basis, so only the estimate of FY16 will be done and not FY17.

Approval of October 9, 2014 Minutes
Mr. Roederer called for a motion to approve the October 9, 2014 minutes as they are written. Mr. Underwood made the motion to approve the minutes and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

Ms. Lyons stated that since the October meeting, very little has changed in the national or Iowa economies. The LSA estimate is a “stay the course” estimate, reflecting very little change in the growth forecast since the last meeting. Overall, economic growth remains moderate; the economic forecast is quite similar to October’s forecast, with the exception of significantly lower oil prices. The lower oil prices translate to the reduced gasoline prices that we’ve all experienced at the pump. Theoretically, that means consumers will have more disposable income, but it remains to be seen if they spend it on retail sales or other tax revenue generating investments.

At the national level, there is continued strength in employment, and consumer confidence numbers indicate that consumers are more positive about the current job market and the outlook for the economy for the next six months. Moody Analytics, a forecasting company used by the state, forecasts real GDP to be stable for the remainder of 2014 and grow at a moderate rate of 3.3% in 2015. Growth rates for personal income, and wage and salary income, are also forecast to grow moderately. This time of year, there always seems to be talk about retail sales, and recent reports indicate that retail sales are exceeding forecasts and Moody’s forecasts modest retail sales growth into 2015 and 2016. One area of weakness is housing starts. After some post-recession growth, it’s tapered off nationally, but expected to increase dramatically in the next couple of years due to built-up demand. As always, factors outside the national economy also account for an unknown amount of risk to the revenue forecast. The slowing Chinese, Japanese, and European economies are a concern.
Once again, most economic indicators of the Iowa economy remain positive; little has changed since October. Unemployment has dropped 4.5%, down from 4.6% in September, and the state’s labor force is currently at an all-time high. That’s positive news for withholding tax revenue, a key component of the revenue estimate. Iowa continues to have one of the lowest unemployment rates in the country. Sales and use tax revenues are expected to continue to be strong, with favorable impacts from declining oil prices and expected strong holiday sales.

The lower corn and bean prices are an ongoing concern. The lower prices are partially offset by the increase in crop volume, and lower grain prices have a positive impact for livestock farmers. But the overall decline in the buying power of grain farmers will be felt through the rest of the agriculture and economic sectors. However, the LSA believes that this was already accounted for in the October REC estimates.

In addition to farm prices, there are two other indicators worth keeping our eye on for the next several months, prior to the March REC meeting. The Iowa Leading Indicators Index decreased very slightly in August and October, with just a slight increase in September, a pattern that hasn’t been experienced for some time. The Iowa Business Conditions Index for November fell in October, the fifth consecutive month the reading has declined.

Bottom line, Iowa continues to be in a solid financial position, with an expected ending balance and reserve funds at their statutory maximum. The LSA revenue estimate is a stay the course estimate for modest growth of 6.8% in net receipts in FY2015 and 5.2% in FY2016.

Mr. Underwood stated that one of the questions he raised in October was related to declining cash rents in 2016 and how that might impact some of the general fund revenues. Thank you to the Department of Revenue for digging into that and we now have kind of a handle on what impact that might have. Fortunately, it is not a huge impact to the general fund revenue and the personal income tax area.

Employment levels are at record levels in the state of Iowa, but the problem remains that the employers are still struggling to find the employees. Those that are trying to hire are having a very difficult time filling positions, whether it be entry-level positions or more professional positions. That is a constraint to Iowa’s growth over the next two years. The only other aspect of concern is some of the tax credits and the timing of when those are going to hit. There is a potential significant increase over the next few years when some of those are going to be taken, and that is something that is very difficult to get a handle on. There is good information now on what has been taken in the past and that gives a good base, but there is still potential there for a significant increase that would constrain the growth in total net receipts. Overall, it is pleasing to see the estimates come in as they did.

Mr. Roederer stated he echoes the comments of Ms. Lyons and Mr. Underwood, and doesn’t agree with their view of where we are at with the economy. Internationally, we have become consistently unstable; there is always some unrest that is going on. It is interesting to see how the world adjusts to that, at least economically. There are a couple of issues or areas that
should be watched closely. In China, there is a softening in their economy, a pulling back. The issue with that is that they are so large that a minor pull back on them could have a great impact on the world. Japan is kind of teetering on going into a recession period and we are not sure exactly how great that is going to be. In the Mideast, after OPEC their meeting, which was not successful as far as OPEC was concerned because the Saudis stated that they are going to continue to pump oil at the level they have been. That is a real concern to some of the smaller countries that have less oil production, because that is going to keep the price down and maybe even suppress it further. There are all kinds of theories as to why that is going on and it is difficult to determine exactly what it is, but it appears that the domestic production that is going on in the United States is having a significant impact. On the one hand, you have people say the reason OPEC wants to continue to pump the gallons that they are is because it will eventually make it unprofitable in the United States to produce oil at the rate it is currently being produced. The other argument is that one of the countries that will be hurt the greatest with the lower gas prices is Russia and that is going to possibly curb their appetite for expansion. What does this all mean? Right now, it is a real plus to the consumer. How long that will continue is a matter of speculation. But for the most part, other than on ethanol, lower gas prices do help the agricultural economy, as well as other parts of the economy.

In the U.S., both Ms. Lyons and Mr. Underwood covered that very well. The only thing to add is that the U.S. government continues to raise uncertainty when people are trying to decide how they are going to invest their money. This month-by-month extension, or when you look at tax credits and you either do it a year at a time or six months at a time, it isn’t going to give the investor a great comfort. That is slowing done our recovery from where we are. The U.S. economy is very resilient and usually figures out how to work through whatever the rules are. The problem is when the rules keep changing; that’s when we have difficulty. The renewable fuel standard has still not been established and talking to the ethanol people and those who are willing to make investments in ethanol, until that gets resolved they are reluctant to do that.

Iowa economy continues to do well. Mr. Underwood pointed out that employers are concerned about getting the number of employees with the skillsets that they have. There are many efforts underway to try to improve on that. All in all, things are going pretty well in Iowa; however, with the agricultural economy being what it is, we need to be very cautious. You cannot continue to produce bushel after bushel of corn at a loss and not think that isn’t going to have an impact on the rest of the economy. All in all, optimistic about where Iowa is, but still a lot of cautions out there of which to be careful.

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

Mr. Underwood made a motion to approve the LSA Fiscal Year 2015 estimate as the new revised estimate for the REC and Ms. Lyons seconded the motion. All voted in favor and the motion was carried.
Estimate Fiscal Year 2016 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Mr. Roederer asked Ms. Lyons if there was any particular reason why LSA was down from what the Department of Revenue had for the School Infrastructure Refund. Ms. Lyons responded that there was nothing specific; they were just looking at the pattern of how that money is coming in. Jeff Robinson with the LSA stated that the two estimates is 1/6 of what the estimate is of sales and use tax for that year. Mr. Underwood stated that the only difference he found between the LSA estimates and the Governor’s appointee estimates were in the estimated corporate refund levels. Corporate refunds in fiscal year 2016 are very difficult to project at this point in time. Ms. Lyons asked Mr. Roederer if he would be willing to split the difference—adding $15 million to the LSA FY2016 estimate. Mr. Underwood made a motion to reduce the LSA refunds by $15 million, and Ms. Lyons seconded the motion. All voted in favor and the motion was carried.

Fiscal Year 2015 and 2016 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Mr. Underwood made a motion to carry the numbers as presented for Fiscal Year 2015 Gambling Revenues and Ms. Lyons seconded the motion. All voted in favor and the motion was carried.

Mr. Underwood made a motion to carry the numbers as presented for Fiscal Year 2016 Gambling Revenues and Ms. Lyons seconded the motion, with the comment that the LSA is looking at gambling revenues. They are a little concerned that the trend does seem to be moving in a downward motion. All voted in favor and the motion was carried.

Ms. Lyons made a motion to carry the numbers as presented for Fiscal Years 2015 and 2016 Interest Earned and Mr. Underwood seconded the motion. All voted in favor and the motion was carried.

Mr. Roederer stated that in FY2014, the revenue was $6,489.0 million. It is now being projected that the FY2015 revenue will be $6,857.1 million, a 5.7% growth. The amount in FY2016 is $7,194.6 million, a 4.9% growth.

Other Business
With no further business, Mr. Roederer called the meeting adjourned at 11:26 a.m.

Respectfully submitted,

[Signature]

Tammy Winters

Revenue Estimating Conference