

**Revenue Estimating Conference  
Minutes  
March 09, 2018**

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

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

Mr. Roederer reiterated that the Code of Iowa establishes a three member panel consisting of the Legislative Branch represented by Ms. Lyons, the state represented by Mr. Underwood, and himself representing the Executive Branch. The Conference is required to meet at least three times per year, where it is required to reach a consensus. Projections are developed independently of each other, using a variety of sources. The Department of Revenue is utilized for their most current revenue activity they have at the time. The Governor is required to submit her budget utilizing the December estimate and the Legislature is to use the lower of the December and March estimates. Today, the Conference will update the current Fiscal Year, which is Fiscal Year 2018 and ends June 30, 2018, and will review estimates for Fiscal Year 2019, which starts July 1, 2018, and in addition will be making first estimates for Fiscal Year 2020 which starts July 1, 2019.

**Approval of the March 09, 2018 agenda**

Mr. Roederer called for a motion to approve the agenda for the March 09, 2018 meeting

Motion: Mr. Underwood

Second: Ms. Lyons

All voted in favor and the motion was carried unanimously.

**Approval of the minutes from the December 11, 2017 meeting, and the January 05, 2018 and February 09, 2018 special meetings**

Mr. Roederer called for a motion to approve the minutes of the December 11, 2017 meeting, and the January 05, 2018 and February 09, 2018 special meetings

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Mr. Roederer began by thanking the Department of Revenue for their special presentations they've given over the last couple months.

Mr. Underwood stated that since the last meeting in December, and the two briefings in January and February relative to the federal tax law changes, which is a really significant change for us, though the changes are not really huge as it relates to the current fiscal year, certainly it will have a much larger effect in the following year. As the Iowa Department of Revenue pointed out, there are two types of changes that they were able to identify. One - things like the rate changes where they could enter a fairly hard number as to what it might impact. Then

the other changes, the behavioral type changes as they labeled it. People paying property taxes early; making contributions ahead of time, which reduces taxable income; people delaying income to the calendar year 18; which means we won't see the impact of those items as far as additional revenue to the state until April of 2019. Those are the kinds of things that are a little bit harder to get a handle on because until people file their tax returns, we don't know. So thanks to the Department of Revenue, they made a real effort to try to find some indication of what those might be. There is also federal tax changes some unintended, or unanticipated, consequences and those will hopefully not impact us dramatically. They will have a much larger impact on federal budgets, because there always is unintended, unanticipated consequences to any tax law changes, whether it is federal or state changes. The other thing is, looking at the Des Moines Register this morning, the headline was Iowa breaks for a trade war fall back. That is certainly something that hadn't been anticipated happening, having just seen it signed yesterday. There it is who you listen to what the fallout is going to be. From nothing to it is much to do about a lot of nothings, or retaliatory using the farm commodities is most likely to happen or rise in domestic prices for goods manufactured with steel and aluminum. So somewhere in between there is what it is going to be so it is very difficult today to understand what that impact is going to be. So there is likely some impact to the state general fund over the next year and a half, I don't think it's known what that is going to be yet until it is seen what the other government's reactions are to it.

Ms. Lyons began by stating that she usually begins these presentations saying that very little has happened in the national economy since the last forecasting meeting in December, but she can't really say that this time. There is a lot going on at the federal level, with considerable ramifications for Iowa's economy. Nationally, the economy continues to expand at a modest to moderate pace. Key economic indicators, such as GDP and employment, are solid. The Labor Department released its latest hiring and unemployment figures today revealing that 313,000 jobs were added in February, the most since October 2015. Consumer spending is strong, as is business investment, and disposable income is showing growth. Employment wage growth is stable, with a slightly longer workweek and some hourly wage growth. The stock market, while at all-time highs, appears to be a little nervous. Inflation is increasing with the help of continued adjustments by the Federal Reserve. There are some economists suggesting that the economy is nearing the peak of a 9 year recovery from the Great Recession.

Turning to Iowa... The sluggish agricultural economy and shortage of properly skilled workers for available jobs continues to challenge the growth of the Iowa economy. But the Iowa Leading Indicators Index and the Business Conditions Index for Iowa both indicate a stable or healthy economy. There is growth overall, but it continues to be slow growth. Commodity prices are stable but remain low, initial unemployment insurance claims remain low, and housing building permits and sale of existing homes are expanding at a moderate pace. Iowa employment is high and unemployment is low, which is great for people looking for a job, but not great for companies looking for employees with specific skills.

In December we mentioned that an area of considerable uncertainty for Iowa was potential federal fiscal, tax and trade policy changes. That continues to be true. While recent federal action has given a little more clarity, it has increased the number of variables that will impact

Iowa General Fund revenue and the economy in general, in both the near term and long term. The passage of the **Federal Tax Cut and Jobs Act** has a significant impact on Iowa revenues primarily due to our current law which allows taxpayers to deduct federal taxes paid from their Iowa taxes. This means if federal taxes go down, as they will under the new law, Iowa taxes and therefore, Iowa General Fund revenue will go up.

Theoretically, the federal tax and budget acts should provide a stimulus to the economy in terms of encouraging capital investment and spending by businesses, but that will take time, and is nearly impossible to quantify at this time. It will increase disposable income growth for a year, and this should result in better sales tax receipts and potentially additional stock market gains.

The President's action yesterday on imposing tariffs on steel and aluminum could have some serious ramifications for Iowa if it results in trade wars with foreign countries. More than 45% of Iowa's corn is exported, and if countries decide to retaliate and buy their corn, beans, eggs, and pork elsewhere, it could have devastating effects on Iowa's Ag economy which is already struggling. Similarly, if NAFTA talks continue to be delayed, or if the agreement is dissolved, it would be a serious blow to the Ag economy in Iowa. On the positive side, there are promising North Korea developments and a pending Supreme Court case on online sales.

So, there you have it, more variables at play than last December, which results in more uncertainty, which can lead to more instability and more volatility. We need to keep that in mind as we try to estimate an endpoint 15 months out. We also need to keep in mind that any state law changes that are enacted yet this Session may impact this estimate and contribute to the volatility in estimates.

Overall, General Fund revenue growth continues to plug along at a moderate rate. Stock market gains in 2017 should translate into better income growth reported on the tax returns filed this spring.

The LSA estimates, once adjusted for the federal law changes previously mentioned, are little changed since December, reflecting that little has changed with the economic data available to us.

Our estimate for total Net Receipts before transfers for FY 2018 is \$7.1701 Billion for a 3.0% growth rate, and for FY 2019 the number is \$7.6415 Billion for a 6.6% growth rate. The LSA estimates are very close to the Mr. Roederer's estimates.

Mr. Roederer stated that on the positive side, leading indicators are still showing continued growth, although it's moderate growth. Federal reserve is also projecting a modest growth in our business condition index are positive of Iowa. Our employment, our wages, personal income, are in a positive direction, although not quite as great as it was when we met in December. The concerns of both my colleagues have expressed those and that revolves around agriculture. It is still at a very slow pace. NAFTA in change a negative in Iowa will be huge. We

export to 186 countries throughout the globe and 50% of our exports go to two countries – Canada and Mexico and NAFTA is all about Canada, the United States and Mexico. So obviously a major change in that area would certainly change the numbers we are talking about here today. The Renewable fuel standards is also an item we have concerns about. We know there are discussions going on and we know a change in Renewable Fuel Standards could also impact our agriculture economy. Internationally, as Ms. Lyons pointed out, there may be positive development, at least not negative development, in the Koreas right now. Hopefully that will somehow stabilize. Another area which we are also watching carefully is Saudi Arabia. They are kind of at the center as far as getting the stability of oil prices. They have gone through a significant leadership change throughout their entire government, moving a little different direction, and the economic result of that is unknown. China, where they were having some issues on their economy the last couple years, seems to have stabilized and that will also have a positive impact on the world economy.

Looking forward, the sales and use tax that Ms. Lyons mentioned that the U.S. Supreme Court has taken up from a South Dakota case, which is a fairness issue from our downtown retailers from the individuals who sell online, that decision could have an impact as well on our sales tax. As you know, in manufacturing and construction, as far as wages go, they make up about 30% of our wage base, so having our manufacturers and construction going at a healthy pace while also having impact on incomes coming into the state. But it has been mentioned here before, a big issue has been whether or not employers have been able to find the skilled workers in order to expand.

We believe that the federal tax reform is going to have a positive impact on the state of Iowa and as Mr. Underwood pointed out, we really won't know for some time what the intended and unintended consequences are anytime there is a major tax change.

Agriculture land crises are holding and they are increasing somewhat, but the commodity prices are still quite stagnant and hopefully that will turn around sooner rather than later. As the numbers indicate, we believe that the state has continued to grow. It is not growing at a rapid base, but it is at least growing a stable amount.

### **Review FY2018 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Made by Ms. Lyons to move LSA's numbers for FY'18.

Second: Mr. Underwood.

Discussion: Mr. Underwood suggests taking \$10 million out of the LSA number and this is acceptable to Ms. Lyons, making LSA's number for FY '18 \$7,270.8. Mr. Underwood suggests increasing the refund by \$10 million. Mr. Roederer points out that in December, a refund number had been built in and that because the prepayment that is likely to increase our refund numbers that we won't know until the returns. The FY'18 estimate would be \$7,270.8, which is 0.4%.

All voted in favor and the motion was carried unanimously.

**Review FY2019 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood made a motion to subtract \$20 million from LSA's number. The tax receipts less refunds is only \$9.3 million, so it's a difference of 37.2. The item that really jumped out at Mr. Underwood was the estimated accrual difference. LSA is running at 28.9 versus 4.1 from the Governor's Appointee. Mr. Underwood believes one of the hardest for the staff to deal with is the accrual change from one year to the next. He suggests taking \$20 million off the LSA number of \$7,753.8 to \$7,733.8 and he would move that number. This is 6.4% growth.

Second: Ms. Lyons.

Discussion: Ms. Lyons commented that the LSA accrual number is higher because they were basing it on last year. Last year there were \$73 million in accruals and that was an unusually high year. Since this year is kind of moving a lot like last year was, LSA added that little bit because of that.

All voted in favor and the motion was carried unanimously.

**Review FY2020 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Ms. Lyons made a motion to move the Department of Revenue's estimate of 3.9%, \$8,035.4.

Second: Mr. Underwood.

Discussion: Mr. Underwood commented that the Department of Revenue's estimates were almost right between LSA and the Governor's Appointee.

All voted in favor and the motion was carried unanimously.

**Fiscal Years 2018 and 2019 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Motion: Ms. Lyons made a motion to move the numbers as written.

Second: Mr. Underwood.

All voted in favor and the motion was passed unanimously.

**Other Business**

With no further business, Mr. Roederer called the meeting adjourned at 1:45 p.m.

*These minutes were approved at the October 16, 2018 meeting.  
Mr. Underwood made a motion to approve the minutes and Ms. Lyons seconded the motion.  
All voted in favor of the motion and it was carried unanimously.*

Respectfully submitted,

Tammy Winters

