

**Revenue Estimating Conference
Minutes
October 16, 2018**

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

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 a.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 the most current revenue activity at the time. The Governor is required to submit her budget based on the December estimate and the Legislature is to use the lower estimate of the December and March. Today the Conference will do the estimate for the current fiscal year, and then update the estimate for Fiscal Year 2020 which will begin in July.

Approval of the October 16, 2018 agenda

Mr. Roederer called for a motion to approve the agenda for the October 16, 2018 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the March 09, 2018 minutes

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

Motion: Mr. Underwood

Second: Ms. Lyons

All voted in favor and the motion was varied unanimously.

Ms. Lyons began by stating that the LSA numbers are optimistic for Fiscal Year 2019 and cautiously optimistic for Fiscal Year 2020. But first, a few comments about the just closed Fiscal Year 2018, which produced good revenue growth for the entire fiscal year but ended on a bit of a slowdown. The revenue slow down at the end of Fiscal Year 2018 can be traced to higher tax refunds issued in July and August but attributed or accrued back to Fiscal Year 2018. After the accrual period and tax refunds, but before transfer revenue, Fiscal Year 2018 General Fund Revenue increased \$298.4 million, or 4.3%, which was above March REC's projected 2.8% increase. While 4.3% is solid growth, and better than the previous two years, seven of the previous years produced higher revenue growth. So it was a good year but not a great year.

Fiscal Year 2019 is off to a fast start. The first three and one-half months, Iowa net General Fund Revenue, on a fiscal year basis, increased 137.4 million, up 9.5% compared to the same time frame last year. All major sources of general fund revenue have contributed to this

growth. Growth in individual income tax receipts is being pushed by federal tax decreases, which automatically increase Iowa withholding receipts through federal deductibility. As you will recall, a significant federal tax decrease was enacted last January and federal withholding tables were adjusted in February. The Iowa Legislature also passed SF2417, tax legislation, which was estimated to reduce state individual income tax receipts, increase state sales tax receipts and increase corporate tax receipts into Fiscal Year 2019. State withholding tables will be adjusted early next year. Not to make excuses, but when it comes to projecting state revenue, which we have often mentioned is extremely difficult due to so many economic and geopolitical variables, it becomes especially challenging when federal and state tax changes are implemented at the same time. With this many moving pieces there is a lot going on and as Mr. Underwood has mentioned at previous meetings, there is always unintended or unanticipated consequences to any tax law changes.

So what is happening in the economy or why things should not turn bad anytime soon? U.S. job growth has slowed over the past two years but it is running at 1.5% year over year, and the 3.7% U.S. unemployment rate is extremely low, compared to any recent time period. The Iowa unemployment rate, at 2.5%, is the second lowest in the U.S. Unemployment claims, both initial and continuing claims, which are indicators of a recession both nationally and in Iowa, remain at low levels, and in fact are at levels not experienced since the 1970s. Interest rates, while rising, remain historically low. While CPI inflation is marching upward and needs to be monitored, inflation growth that excludes food and energy has been recently stable and not far above 2%. Business investment is up nationally 7.3% over the previous quarter and is expected to continue to grow. Some analysts expect corporate earnings to grow at more than 19% this year. The Iowa Business Council expects half of its members to add to their workforce and 60% of its members project an increase in capital spending over the next six months.

The price of corn, while not at its high of 2013, stabilized. World corn supplies are low. Retail sales growth is about 5.5%, the strongest annual growth rate in about six years. While there are no storm clouds ahead, there are some things to watch. Soybean prices are falling and the global supply is high. Trade policies continue to be of concern and are adding to uncertainty and may be possibly adding to inflation. Rising energy costs could be a drag on future growth. As mentioned many times before, Iowa's low unemployment is great, but it means that the economic growth is much harder to attain compared to regions with the ability to attract workers or new residents, and therefore new workers. In Iowa, it continues to be a problem of attracting, developing and attaining a skilled workforce. Demographics are also working against us as the Iowa workforce ages and many enter into retirement.

Nationally, the housing sector is showing some strain, impacted by rising interest rates and a lack of labor availability. Housing starts are expected to show solid growth during 2020, but then are projected to slow. The Iowa Leading Indicators Index is showing some weakness this past summer and fall compared to last winter.

Near term, the economic outlook is bright, though there is concern as to whether it is sustainable. Inflation pressures, rising interest rates and the tight labor market may eventually restrain business growth and profits.

In summary, Iowa is experiencing strong revenue growth for the first few months of the fiscal year and there are no significant signs of an economic downturn or recession at this time. It is early in the fiscal year and we look forward to reviewing more revenue data in the weeks and months ahead, prior to the December meeting. The LSA October estimate for Total Net Receipts for Fiscal Year 2019 is \$7.77 billion and represents a 5.3% growth rate in total receipts, including transfers. The LSA has reduced the initial Fiscal Year 2020 estimate made last March before the Tax Reduction Bill was enacted, to \$7.908 billion and this represents a modest 1.7% growth rate over the new Fiscal Year 2019 estimate.

Mr. Roederer stated that leading indicators are still holding fairly tight and Ms. Lyons had stated. The Iowa Business Council, which is the largest employers in the state, is saying this is the strongest economy they've seen in ten years. Employment wages and personal income are still heading in the right direction. The U.S./Mexico/Canada agreement looks promising; the benefits to agriculture are mainly going to be in the wheat, dairy, poultry and egg sections. Iowa exports to 185 countries, but 50% of the exports go to Canada and Mexico so having an agreement worked out with them is extremely positive.

Renewable Fuels also is a big factor, especially when it comes to the price of corn. There is talk of E-15 being year round, but that is longer term, that won't change overnight. Concerns still are agriculture, commodity prices; corn has stabilized, the USDA price for soybeans is high and it is not being critical of the USDA, it was more of the time they took their survey. That was before the monsoons hit Iowa and the whole agriculture sector, as well as surrounding states. Those prices will probably take a spike, but once the total production is known, that will move upward.

Internationally, always keeping an eye on OPEC and the oil producing countries. Just when you think that is kind of stabilized an incident takes place that now puts that into question. China is also a big partner, especially when it comes to soybeans. The tariff issues are being watched carefully. Mr. Roederer believes China will not make any move until after the midterm elections and then regardless of what happens with the elections, there will be more movement on their part to get that resolved. The Supreme Court decision on Wayfair, that treats online sales the same as retail merchants – it was always a question out there and is no longer there. Federal tax reform is having a very positive impact on the country, as well as Iowa. Mr. Roederer echoes the comments that Ms. Lyons made. All indicators right now are very positive. He believes our business community believes that a well.

Mr. Underwood stated that everyone he talked to, except for one company, is trying to hire. They are at a loss as to where to get these employees they need. Speaking with people at the community college at NIACC, they are finding reluctance from employers to train up their current employees to fill some of those more technical jobs. There are some things we can do

to improve working conditions by actually working harder with current employees, which gets us to wage increases. Wage increases Mr. Underwood heard about are positive, but still modest at this point in time, which would drive significant withholding increases. Overtime is already at a maximum at many companies. That has been something to watch as to the average work weeks. Employees have already been working six and seven day weeks and ten hour days, and employers are stating that their employees are getting really tired and want some breaks. Personal income tax is being driven mainly by withholding other than the tax law changes. Mr. Underwood doesn't see huge increases in withholding as a result of additional employment or significant wage increases or possibility of overtime.

Review Fiscal Year 2019 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Made by Mr. Underwood to move LSA's numbers, reducing by \$35 million, which would take the net receipts to \$7,742.1, an increase of 4.9%.

Second: Ms. Lyons.

Discussion: Mr. Underwood has some concern with LSA's Corporate Income Tax line item number, but could accept either number. Mr. Roederer and Ms. Lyons would both be agreeable to either number.

All voted in favor and the motion was carried unanimously.

Review Fiscal Year 2020 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Made by Ms. Lyons to move LSA's numbers and make an adjustment from there.

Second: Mr. Underwood.

Discussion: Mr. Underwood stated that Corporate's difference is about \$77 million net of refunds in the estimates. Mr. Underwood's suggestion is to move LSA's FY20 estimate, take another 35 out of the Corporate and go with that. Ms. Lyons would be in agreement. The new numbers would be \$7,872.9, with a 1.7% growth above FY19.

All voted in favor and the motion was carried unanimously.

Fiscal Years 2019 and 2020 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Motion: Mr. Underwood made a motion to move the numbers as written.

Second: Ms. Lyons.

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 December 13, 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