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 revenue estimate and the Legislature is to use the lower estimate of the December and March. If the estimate is lower today the Legislature is to use the lower amount. If the estimate is higher, the Legislature must use the December estimate. Today the estimate will be updated for the current fiscal year, fiscal year 2019, which ends June 30. Then the estimate for fiscal year 20, which starts July 1, 2019 and ends June 30, 2020. Then the initial estimate for fiscal year 2021, which begins July 1, 2020 and ends June 30 of 2021. To summarize, revenues will be estimated for 838 days.

Approval of the March 15, 2019 agenda
Mr. Roederer called for a motion to approve the agenda for the December 13, 2018 meeting
Motion: Ms. Lyons
Second: Mr. Underwood
All voted in favor and the motion was carried unanimously.

Approval of the December 13, 2018 minutes
Mr. Roederer called for a motion to approve the minutes for the October 16, 2018 meeting
Motion: Mr. Underwood
Second: Ms. Lyons
All voted in favor and the motion was varied unanimously.

Ms. Lyons began by stating that since the meeting in December, the national economy slowed a bit in the 4th quarter of 2018, finishing the year with a GDP growth rate of 2.9%. The economy experienced strong growth in the early part of 2018, fueled by the 2017 federal tax decreases. The US is still experiencing solid growth, but you will read or hear economists describing the current economy as losing steam, softening, throttling back, weakening. However, most economists still think there is plenty of strength in the economy, and there does not appear to be a recession right around the corner. Unemployment remains low at 3.8%, companies are investing, the US financial markets have improved since December, employment growth is running at about 1.6% growth year over year, and wage growth is increasing.
The nation is just a few months from experiencing the longest economic expansion in US history, it will have been 120 months, or 10 years since the start of the last recession and it may be likely that the economy is moving into the late phase of the expansion. So, there are a few things to watch.

- US Initial Unemployment Claims, an early indicator of a downturn in the economy, have ticked up slightly but are still at a very low level.
- Consumer confidence remains high, but has dropped slightly, retail sales growth has recently experienced a couple of bad months.
- While there are abundant employment opportunities, there continues to be a shortage of skilled or qualified workers.
- Tariffs and trade policy continues to hold back agricultural and other exports as does the contraction of the Chinese economy, and global economies in general.
- Interest rates have stopped rising, but the interest rate curve has inverted, i.e., the 5-year rates are lower than the 2-year rates, and that’s traditionally not a good sign for things to come.

Turning more specifically to the Iowa economy. Iowa employment numbers remain strong with unemployment at the very low rate of 2.4%. Benchmarked employment numbers for nonfarm jobs were revised downward slightly, meaning that the growth in the number of jobs wasn’t as great as we thought it was last year, but we’re still experiencing job growth. However, businesses are still struggling to find qualified workers, and Iowa Workforce Development indicates that there are 55,000 available jobs in Iowa.

Iowa personal income growth is picking up but remains low compared to the growth of the rest of the country. The Bureau of Economic Analysis forecasts growth in Iowa wage and salary income of more than 4% for the remainder of FY 2019 and FY 2020. The Iowa Business Council survey indicates 2/3 of the members expect higher sales, and 60% of the respondents expect to add to their workforces and half of the respondents project an increase in capital spending.

Some things to watch:

- Crop prices remain depressed, and grain inventories are large. Early returns on farm income indicate that farm income is down compared to last year.
- The Department of Revenue’s Iowa Leading Indicators Index fell for the 4th consecutive month, with only three of the 8 components contributing positively. This index is considered to be an early signal of a recession.
- New housing starts are declining, indicating a potential slowdown in residential housing construction.

For this revenue estimate there are even more moving parts than normal that need to be considered:

- The 2017 federal tax changes were projected to add $71 million to FY 2019 withholding growth due to Iowa’s federal deductibility, and that has already been realized.
• Last year's individual income tax estimate payments were about $105 million higher due to taxpayer reaction to the federal tax reduction. This year that $105 million will show up later in the year in final returns filed in April.
• The state income tax cut passed last year is projected to reduce withholding tax revenue by $142 million for FY 2019, and most of that decrease is still to come.
• The state expansion of the sales tax base to include out of state retailers and online marketplaces is projected to increase FY 2019 revenue by $78 million and most of that increase will be experienced in the remaining months of the fiscal year.

To summarize, the underlying economy remains solid with no immediate signs of downturn. The LSA estimate remains cautiously optimistic and very close to the December revenue estimate for both fiscal years. The LSA estimates a growth rate of 4.7% in FY 2019 and 1.7% for FY 2020 which begins this July 1. Our first look at FY 2021 is a bit more optimistic at 3.1% growth. The significant factor for this rather volatile estimate is the estimated incremental tax law changes and is one of the moving parts alluded to earlier. These include a positive $50 million change in FY 2019, a negative $150 million in FY 2020, and a negative $67 million change in the out-year estimate for FY 2021.

Mr. Underwood stated that one thing that is known a little bit better than it was in December is the Internet Sales Tax and how those numbers are starting to come in, but it’s still really early. Until we get a really good feel for those, we are taking a cautious approach on how large those might be, at least in the first year or so in the start-up of that collection process. The thing that concerns a little about the future is Iowa’s Leading Indicators Index the Department of Revenue puts together, the decline we have seen in the last few months. If you take a look back in history, that line coming down on the graph is rather short yet, but if you look at the way other slowdowns or recessions hit, it started to look a little bit like that. We know the recession is coming someday. We may be 3 months closer to it. Nothing Mr. Underwood has seen or heard that says it is going to impact this fiscal year. Whether it will or not in fiscal year 20 is still anybody’s guess, but definitely looking at more of a slowdown at this point than we had three months ago.

Mr. Roederer stated that on the positive side, revenues are holding. Congress passed the farm bill. We are getting closer to year-round E-15, hopefully effective June 15. The federal tax reduction is still in play and is having positive impact. On the online sales tax, that transition seems to be working well. On the concerned side is still agriculture. What used to be called NAFTA is going to have a big impact on the state. We export to 185 countries, about half of our exports go to Canada and Mexico, so having a good relationship and a good flow of imports with Canada and Mexico are extremely important.

One of the most disturbing parts of the analysis we went through is the employment base. Businesses cannot get additional workers and if that work base isn’t grown, the income is going to be softer than if more people were working. If there were 50,000 more people working, that would have a big impact on the income that has come in. Even when factoring in that wages are going up, it still isn’t going to go up at the rate that is going to compensate if these businesses had 50,000 more people working.
The China/US Tariff issue that is going on, we hear that it is heading in the right direction. If that does get resolved, we will see the fortunes of agriculture turn around. Another concern was that land values have dropped 2.7%. Depending on land values, that can make a producer go from a positive to a negative fairly quickly. That was an area that we factored in our estimates.

On the national forecast, for the most part people are showing a slowdown. The federal tax cut effect will start getting more fully into the economy. When you have a tax cut that goes in immediately, it does have an immediate reaction at least for a couple years and then it starts phasing out. Simply because the rate of increase isn’t going to be as much for the future years. Ms. Lyons pointed out that we are either at or about to tie the longest economic expansion that our country has seen historically. All of the people that we look at as far as making the estimates as far as what they think is going to happen to the Gross Domestic Product, it sets that upside down. As Mr. Underwood pointed out, we know there is going to be a recession we just don’t know if it’s going to be a month, 6 months, five years, 10 years or 15 years. That’s why when people are talking about the various models they use, it is what they start factoring in because they say this can’t keep on going. What makes the job even a little more challenging, when comparing Moody’s Analytics, Federal Reserve and the Congressional Budget Office, while you’ll see a little bit of consistency on a slowdown, they are far apart as to what they think is going to happen. You could take calendar year 20, Moody’s says the Gross Domestic Product (GDP) is going to be 1.6, the Federal Reserve says 2 and the Congressional Budget Office says 1.9. That difference isn’t so great. Get to calendar year 21 Moody’s says the GDP is going to increase 2.2% and the Congressional Budget Office says it’s going to be 1.6. Somewhere in there is probably going to be the right answer. So, our estimate shows that there is probably going to be a slowdown in CY 20 and 21 and hopefully it will be a rebound after that period of time.

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

Motion: Made by Mr. Underwood to move Governor’s Appointee’s numbers,
Second: Mr. Roederer
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 Mr. Underwood to move the Governor’s Appointee’s numbers
Second: Ms. Lyons
All voted in favor and the motion was carried unanimously.

Review Fiscal Year 2021 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Made by Mr. Underwood to move $8,050.0, a 2.6% increase.
Second: Ms. Lyons
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: 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 10:32 a.m.

Respectfully submitted,

Tammy Winters