

**Revenue Estimating Conference
Minutes
October 14, 2019**

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

Mr. Roederer called the Revenue Estimating Conference to order at 11:00 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. Today's estimate is not legally going to change anything, but it will give an indication as to how things are seen thus far into the fiscal year. The state budget and accounting is based on a fiscal year. The first month of the fiscal year is in July and the last month would be June. Today, we will update the estimate for the current year, Fiscal Year 20 which started July 1, 2019 and will be ending June 30, 2020, and we will be reviewing our estimate for Fiscal Year 2021 which starts July 1, 2020 and ends June 30, 2021. So, in essence, the three of us will be estimating 625 days of economic activity.

Approval of the October 14, 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 March 15, 2019 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 Iowa Fiscal Year 2019 General Fund Revenue, after the accrual period and tax refunds, but before transfers, increased \$473 million or 6.5% growth, which missed the March REC estimate by 1.7% or \$125 million. Line items significantly outperforming the REC estimate were personal income tax, corporate income tax, insurance premium tax and bank franchise tax. In comparing the two estimates, the LSA estimate is considerably higher than the Governor's appointee's estimate for the current fiscal year, Fiscal Year 2020. But the two estimates have similar estimated growth rates for the second year, Fiscal Year 2021.

Comments about the U.S. and Iowa economies:

- Common economic indicators lead to the conclusion that the U.S. and Iowa economies continue to expand in 2019, although at a low rate of growth and despite some significant uncertainties clouding the forecast.
- According to the Bureau of Economic Analysis, U.S. real GDP grew 2.9% in 2018, pushed by the one-time stimulants of the Federal Tax Cuts and Jobs Act. The GDP forecast was recently revised downward to incorporate the negative impact of new tariffs and is now forecasted by Moody's to be 2.3% grow in 2019 and 1.7% in 2020.
- U.S. job growth continues, but the growth is slowing.
- Iowa's current unemployment rate, at 2.5%, is very low and remains below the national rate of 3.7%, and both rates are at or near historical lows. However, as has been discussed before, the lack of available workforce could be a significant factor in slowing down employment growth.
- Iowa non-farm employment grew 0.6%, or approximately 10,000 jobs in fiscal year 2019 and the forecast is for similar growth in 2020. This level of growth is sufficient to keep revenue moving in the right direction as long as the job growth continues.
- Iowa personal income grew 6.2% in fiscal year 2019 and the Department of Revenue forecast growth 4.6% in fiscal year 2020 and 3.5% in fiscal year 2021.
- Other indicators of the near future, like retail sales, initial unemployment claims, and inflation do not point to an economy that is in danger of tipping towards a recession any time soon.

Now for some concerns. What is clouding the forecast?

- Wage growth is good compared to recent history, but it is poor given the tight labor supply.
- Tariff talks continue to be troubling; tamping down economic growth prospects one day then providing relief on other days. A recent Iowa Business Council Survey indicated weakened confidence in the economy, which suggests the tariff uncertainty may be wearing on business and farm capital investments. This is a drag on tax revenue.
- Construction spending in the U.S. economy has been decreasing, which is possibly a serious concern for the future as construction spending does not decline in a healthy economy. New residential building permits and sales of existing homes in Iowa are trending downward.
- Federal Reserve Board Policy- recent decreases in the federal funds rate and increases in the size of its balance sheet is unusual policy for an expanding economy.
- While energy prices have stabilized lately, core inflation, which is the rate excluding energy and food costs, has been increasing and according to the U.S. Labor Department is currently at the rate of 1.6% as of the end of June.
- In addition to tariffs, the usual geopolitical concerns – Brexit, Washington politics, and global economies flirting with or in actual downturns – all these issues add uncertainty to any economic forecast.

- The farm economy, and more specifically the crop harvest, has been impacted by weather events such as spring and summer floods and recent fall rains. The next two months should provide more data on expected harvest levels. Farmers are also directly impacted by the nation's trade policy and while government payments may be helping in the short term, the uncertainty is troubling.

In summary, FY2019 produced good revenue growth for the entire fiscal year. The revenue slowdown at the end of FY2019 can be traced to higher tax refunds issued this past July and August. Fiscal Year 2020 is off to a good start, up 4.7% or \$65.2 million on a fiscal year basis. We are past the halfway point in the implementation of a major state tax code revision effective last January 1st that increased the sales tax base and decreased income tax rates. So far, the income tax projections appear to be as projected and after a few months of concern, the sales tax base expansion may now be producing the type of revenue increase expected at the time the law was passed. The economy continues to grow, albeit slowly.

The LSA estimate is a modest 2.8% growth rate in FY2020 and FY2021, adjusting for the lower personal income tax rates, and subsequent lower withholding payments collected, as well as the expanded sales tax base. We do not anticipate a recession in the near term, and while there is uncertainty in the economic forecasts, there are no dark storm clouds indicating that a recession is imminent.

Mr. Underwood stated the concerns for Iowa's economy specifically, such things as USMCA, certainly weigh heavily, at least from the farm groups talked to in the last week; China trade deal, although every once in awhile it appears to be moving forward is still dragging along considerably. Those things which are, unfortunately, totally out of our control appear to be out of Washington's control as well. The feds monetary policy was looking up, rising interest rates and now with the turnaround down is certainly impacting a lot of people who were smiling for a little while that they were actually going to get a little interest income. It is disappointing at this point that there is still so much uncertainty at this point hanging over us and it makes it difficult to see the rosy side of it. Looking at the numbers today, Mr. Underwood believes there is need to still be a little bit cautious.

Mr. Roederer began by stating that on the positive side, most indicators are showing good growth. Currently, revenues are a little above what was anticipated, but it is believed those will be leveling off. The online sales transition, has gone well. There have been eight months of experience on that; however, both LSA and the Governor's Appointee have lowered projections on sales from the March estimate. Over this six-month period of time, as much as can be attributed to the online sales, about \$70 million, is pretty much in line with what was estimated by the Department of Revenue.

There is some softening in the manufacturing and construction. Comparatively, it is still very strong. The reason those two sectors are pointed out is because wage-wise, manufacturing and construction are big factors on the income in Iowa revenue. Agriculture is still at a slow pace, but there are some positive signs. The announcement of the commitment of 50 billion gallons of E-15 fuel, where the details are to be released this week, that will assist in our agricultural area.

The U.S. Department of Agriculture is forecasting farm income to be the highest since 2014. That is still not great, but at least better than what we've had.

As mentioned at previous meetings, Iowa exports to 185 countries throughout the world, but 50% goes to Canada and Mexico. As Mr. Underwood pointed out, that is why the U.S./Mexico/Canada trade agreement would be a big plus for the state and we hope that Congress takes action on that sooner rather than later.

Commodity prices ultimately may be determined by the weather as much as anything else. It depends on where you are in Iowa as to whether you are able to get your crops out or not. Every week that you are not able to do that, it makes it more challenging. As Ms. Lyons pointed out that gives some pause, Iowa new and existing home constructions are down from their peak in 2018 and that is usually an indicator of things to come.

On the national forecast, Mr. Roederer thinks it will still be slower than what has been seen, but still strong. The thing that is giving most economists angst is the fact that we are going through one of the longest stretches of economic expansion in our nation's history. The shortest has been 10 months, the longest has been 10 years and most of them last around three years and we are approaching the 11 and 12 years of our expansion. How long is it going to continue? There are mixed estimates. There is no sign yet in Iowa that would lead us to say there is a recession around the corner.

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

Discussion: Mr. Underwood suggested increasing the Governor's Appointee's number by \$75 million for personal income tax for FY2020 – \$4,933.2, overall dollar amount for FY2020 to \$7,917.1 billion in net receipts plus transfers, or 0.7% overall growth. Ms. Lyons would be more comfortable in lowering LSA's estimate because there are still a number of areas where LSA's numbers are still higher than the Governor's Appointee's estimate. Ms. Lyons believes the wages are increasing, albeit slowly. The anticipated wage growth is 2-3% with bonuses built in. LSA Estimate subtracting \$75 million would be \$4,934.6 billion, overall nets receipts plus transfers becomes \$7,991.1, with 1.7% overall general fund growth. Mr. Underwood was still not completely comfortable, so Ms. Lyons suggesting taking \$100 million off the LSA estimate and Mr. Underwood would be more comfortable with that. LSA Estimate net receipts and transfers would become \$7,966.1 billion, 1.4% growth, which adds \$127 million to the balance sheet for FY2020.

Motion: Made by Mr. Underwood to reduce the LSA personal income tax by \$100 million.

Second: Ms. Lyons.

All voted in favor and the motion was carried unanimously. The revenue increase from FY2019 to FY2020 would be \$107.3 million, a 1.4% increase.

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

Motion: Made by Mr. Underwood to reduce LSA's estimate by \$57 million out of sales tax and \$50 million out of corporate income tax, which reduces the net receipts plus transfers by \$107 million.

Second: Ms. Lyons.

All voted in favor and the motion was carried unanimously. Sales and Use Tax for FY2021 would be \$3,282.2, corporate income tax would be \$692.5. Overall net receipts plus transfers would be \$8,181.8, which is 2.7% growth over the FY2020 estimate that was just set. This would produce an estimated \$215.7 million in increased revenue over the FY2020 estimate, or 2.7%.

Fiscal Years 2020 and 2021 Gambling Revenues Transferred to Other Funds

Motion: Made by Mr. Underwood to move the numbers for FY2020 and FY2021 at 289.3 for each year.

Second: Ms. Lyons.

All voted in favor and the motion was carried unanimously.

Fiscal Years 2020 and 2021 Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Other Business

With no further business, Mr. Roederer called the meeting adjourned at 11:45 a.m.