

**Revenue Estimating Conference  
Minutes  
December 13, 2023**

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**Members Present:** Kraig Paulsen, Jennifer Acton, David Underwood

Mr. Paulsen called the December meeting of the Revenue Estimating Conference to order at 11:00 a.m.

**Approval of the December 13, 2023 agenda**

With no objection, the December 13, 2023 agenda was carried unanimously.

**Approval of the October 12, 2023 minutes**

With no objection, the October 12, 2023 minutes were carried unanimously.

**Remarks**

Ms. Acton: Comparing where we were in October to where we are in December, very little has changed. Economists continue to look for signs of a recession; however, the U.S. economy remains resilient despite elevated inflation, higher interest rates, higher housing prices, and resuming student loan payments. Consumer confidence showed a slight uptick for November after three consecutive months of decreasing. Consumers have also seen some relief at the pump. Oil prices have dropped resulting in lower gas prices with the national average currently at \$3.14 per gallon. Consumer discretionary spending accounts for more than two-thirds of the U.S. economic activity and continues to drive the economy. The Department of Commerce reported that real GDP grew in the third quarter of 2023 by 5.2%, which is up from 2.1% in the second quarter and the fastest growth rate since the fourth quarter of 2021.

However, retail growth continues to slow. The U.S. Census Bureau reported October U.S. Retail Sales at 3.6% annually, which is down from 11.4% in October 2022.

Inflation has continued to decline since peaking in June of 2022 at 9.1%. The Consumer Price Index for November is currently at 3.2%, which is down from 7.1% a year ago. Core CPI, which is inflation minus food and energy costs, remains unchanged at 4.0% and is down from 5.3% six months ago. As inflation continues to moderate, the Fed has continued to hold interest rates steady at the current target range of 5.25% to 5.50%.

Moody's Analytics anticipates the Fed to slowly begin to lower interest rates next summer.

Although the labor market continues to be strong, it is starting to show signs of slowing. People are less likely to quit their jobs, which is slowing wage growth and businesses are reluctant to let workers go due to the difficulty in finding and retaining employees in today's job market. The Bureau of Labor Statistics reported wage growth for November at 3.96%, which is the lowest wage growth since June 2021 and down from 4.99% a year ago.

The most recent federal jobs report for November showed the U.S. economy added 199,000 jobs and has added 186,000 jobs on average over the last six months. The national unemployment rate is currently at 3.7% and the U.S. Labor Force Participation Rate is 62.8%.

In Iowa, nonfarm employment peaked in April 2023 at 1.6 million jobs. Through October 2023, the six-month average for employment in Iowa is down 11,500 jobs from April's peak. Iowa's current unemployment rate is at 3.2%, up from 2.9% in September, and the current Iowa Labor Force Participation Rate is 68.4%. A continuing issue for Iowa is more jobs than workers and an aging workforce.

The U.S. Census Bureau reported a 4.0% increase in durable goods in September; however, advanced estimates for manufacturing of durable goods for October show producers are seeing demand slow as orders decreased 5.4% compared to the prior month and was down three of the last four months. Areas of the economy that have been impacted by higher interest rates and have softened include durable goods manufacturing, housing, and new vehicle sales.

Iowa is currently experiencing drought conditions in approximately 84.0% of the State. Despite the drought conditions, crop yields for both corn and soybeans appear to have exceeded expectations. However, crop prices have declined.

Turning to the LSA estimate, Iowa continues to be in a solid financial position with full budget reserve funds. Major tax reductions began in January 2023 and continue to slow the accumulation of General Fund revenue. A further income tax decrease will occur on January 1, 2024 reducing the individual income tax rate from 6.0% to 5.7%, the inheritance tax will be reduced from 4.0% to 2.0%, and the corporate income tax rate

will be lowered from 8.4% to 7.1%. In addition, the Franchise Tax will be reduced from 4.7% to 4.4%. These changes are included in the LSA estimates. The result is an LSA estimate for FY 2024 that is essentially flat compared to the October REC, and for FY 2025, the LSA estimate is a slight revenue increase.

Mr. Underwood: As we were getting ready for this, a few things I picked up this last week. One of them is a continued discussion of when is the recession coming. Seemed like finally everybody decided, "Well it hadn't gotten here yet so maybe we won't have one", at least in the near term. That consensus kind of helps a little bit, that we aren't wondering when that bottom is going to fall out. Maybe we just don't need to talk about it as we have in the past. Consumer sentiment seems to remain high enough to support our economy and continued economic growth. Inflation rate has eased in certain areas to support more normal and stable at least Iowa economy again. It appears that maybe the Ag economy will be halfway decent again. Farmers are always pessimistic about how next year is going to be and the ones I've talked to so far, coming off this farmer's season, they feel pretty good about where things stand. Trying to figure out how they are going finance the future, but it seems like a lot of them say that finance isn't an issue for them. The Fed might ease off on a little bit of their releasing interest rates. All that while war continues on the Russia and Ukraine front, as well as Israel and Palestine that posed a real threat for a while. One thing about Iowa, we have a really diverse economy that has helped us through quite a bit before. We generally go into a recession, or a slowdown, a little bit behind the rest of the U.S. economy, and of course we come out a little bit slower, as well. Seems to feel good out there in Iowa right now.

Mr. Paulsen: Thank you to the Governor for the opportunity to represent the executive branch on the revenue estimating conference. The work we do is essential to ensuring the governor and general assembly have accurate revenue information to wisely and thoughtfully make decisions regarding necessary revenue and budgetary decisions. As we know, the numbers we arrive at today will inform the expenditure limitation for the next legislative session.

As always, I extend a thank you to the committee members for their thoughtful participation and all the people who help the members prepare for these deliberations including the Legislative Services Agency, the Department of Management, and the Department of Revenue.

A special thank you today to Joel Lunde for all his service to the state and this conference board over the years as he prepares for retirement – your service and counsel has been much appreciated by myself and the many directors who have gone before me. Thank you and congratulations.

It appears the threatening but elusive recession that has been predicted for some time now may not be as threatening as once thought. We continue to see modest growth in Iowa's economy and the revenue numbers into the state support this.

The Federal Reserve has been trying to perform a soft landing for the economy and maybe they have succeeded. Nationally, inflation has dropped from as high as 9% last year (including a run of 20 months above 5%) to now lingering in the 3s for the last several months.

The labor market remains tight, but not as tight as it has been. And there are many who are predicting the Fed will move to dropping rates in the not too distant future. If correct this should interject energy into the economy.

National nominal GDP growth is forecast to average 4.2% for the foreseeable future. Business profits continue to be solid and show growth which should continue to support healthy employment.

As is not unusual, Iowa appears to be lagging somewhat behind the national economy. However, revenues continue to be strong. We continue to see healthy growth in sales and use tax receipts. Through November, sales and use receipts were up 9%. I am not sure if this number holds, but I expect this to remain strongly positive through the year.

Even with the reduction in corporate tax rates, through November corporate income tax receipts are up 15%. Once netted out I expect this to drop but it should still be well above the \$700 million number necessary to trigger the next rate reduction.

When HF2317 was enacted in 2022, estimates regarding rate cuts for this current fiscal year were for \$561.4 million left with Iowans, and obviously a corresponding reduction in revenue to the state. Both LSA and the executive branch are predicting for there to be a reduction in total revenue for FY 24. But neither are suggesting a reduction by this amount. The same follows in FY 25. To me, this indicates continued organic growth within Iowa's economy.

Regarding employment, the number of lowans participating in employment is holding with a modest uptick in the unemployment rate. Supported by continued wage growth, it is expected that Iowa personal income (not to be confused with income tax revenue) will grow nearly 3% in FY24.

Of note, neither the Governor's nor the Legislative Service Agency's proposed revenue estimates will require the governor or General Assembly to have to open up the enacted budget for FY 24 for adjustments.

Although I am proposing some slight adjustments to the October REC estimates, I see no reason today for any major changes.

The state of Iowa continues to be in an extremely strong financial position.

### **Review Fiscal Year 2024 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood moves to use the LSA numbers as presented- \$9,746.5.

Second: Ms. Acton.

Call for the Vote: All voted in favor and the motion carried unanimously.

### **Review Fiscal Year 2025 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood moves to keep the LSA numbers as is - \$9.637.1.

Second: Ms. Acton.

Call for the Vote: All voted in favor and the motion carried unanimously.

### **Fiscal Years 2024 and 2025 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Motion: Mr. Underwood moves to adopt FY24 and FY25 numbers as presented.

Second: Ms. Acton.

Call for the Vote: All voted in favor and the motion was carried unanimously.

### **Other Business**

Mr. Underwood announced his retirement from the Revenue Estimating Conference.

With no further business, Mr. Paulsen called the meeting adjourned at 11:19 a.m.

*These minutes were unanimously approved by the REC board members at the March 15, 2024 Revenue Estimating Conference.*

*tlw*