Revenue Estimating Conference
Minutes
March 15, 2024

Members Present: Kraig Paulsen, Jennifer Acton, Jeff Plagge

Mr. Paulsen called the March meeting of the Revenue Estimating Conference to order at 12:30 p.m.

Approval of the March 15, 2024, agenda
Motion: Ms. Acton made a motion to approve the March 15, 2024, agenda.
Second: Mr. Plagge.
Call for the Vote: With no objections, the agenda was carried unanimously.

Approval of the December 13, 2023, minutes
Motion: Ms. Acton made a motion to approve the December 13, 2023, minutes.
Second: Mr. Plagge seconded the motion.
Call for the Vote: With no objections, the agenda was carried unanimously.

Remarks
Ms. Acton: The national economy has performed stronger than expected this past year; although, current economic metrics continue to make it difficult to predict the future in the short-term, with many conflicting variables.

National GDP is strong with the fourth quarter 2023 coming in at 3.2%. Retail sales have been decreasing toward baseline levels with February 2024 being reported at 2.7% over the prior 12 months, which is down from 3.2% in December and 10.4% in November of 2022.

Consumers account for approximately 70.0% of the total national economy. According to the Conference Board's measure, consumer confidence declined in February 2024 from 110.9 to 106.7. However, this measure had grown the prior three months in a row. Although inflation has continued to moderate, overall prices remain high. One factor that influences consumer confidence is gas prices. Currently, the oil supply continues to remain high, but refinery shutdowns have caused gas prices to increase in recent months. Currently, the national average is $3.39 per gallon.

Iowa's housing sector continues to be in a downward trend due to increased interest rates and the cost of building materials and labor; Iowa house prices have increased 5.9% over the most recent four quarters and rental costs have risen. However, single-family housing permits in Iowa on an annual basis have increased 11.0% between September 2023 and January 2024.

If the Federal Reserve would move to cut interest rates later this year, it is anticipated that manufacturing activity and housing production may pick up. On March 12, the Bureau of Labor Statistics reported consumer price gains at 3.2% annually in February, which is down from 3.7% in September, and down compared to the peak of 9.1% in June 2022. Core CPI, which represents inflation minus food and energy costs, was measured at 3.8% in February which is the lowest since May 2021 and is down from 4.7% in July 2023.

Nationally, the most recent jobs report showed a slight slowing of the national job market with unemployment increasing from 3.7% to 3.9%. In Iowa, nonfarm employment through January 2024 is up 8,900 jobs since April 2023 which was reported at 1.6 million jobs and Iowa's unemployment rate is currently at 3.0%. The labor force participation rate in Iowa is 67.3% compared to the US labor force participation rate of 62.5% for the same period.

For the farm economy, corn and soybean prices both nationally and in Iowa are down and drought conditions continue to persist across the State. In February 2024, the USDA reported that Iowa's 2023 combined corn and soybean crop value decreased by 21.2% compared to 2022.

Turning to the LSA estimate, Iowa continues to be in a solid financial position with full budget reserve funds totaling $963.7 million. However, State tax reductions continue to slow the accumulation of General Fund revenue in the short-term. For individual income tax, the top rate was lowered from 6.0% to 5.7%, while the top corporate rate was lowered from 8.4% to 7.1%.

Meanwhile, the introduction of the Pass-Through Entity Tax to the State in 2023 has affected the Miscellaneous Tax and Individual Income Tax lines beginning in FY 2024. However, these temporary increases will be offset during the refund process. These changes and others are included in the LSA estimate. For FY 2024, the LSA is projecting a decrease of $273.5 million compared to the December REC estimate, and for FY 2025, a decrease of $79.3 million from the December REC estimate. In looking at the LSA projection for FY 2026, our estimate includes $700.0 million in estimated revenue reductions due to the enactment of SF 2417 and HF 2317.

<u>Mr. Plagge</u>: As a new member of the committee, I first want to thank everybody for helping me get up to speed on all the spreadsheets and documents that have been put forth. As a banker, I've spent my life reading budgets and forecasts, but this is a new field, with lots of things to look at but I appreciate the information. One thing I have always found in forecasting is that sometimes you're wrong, sometimes you're right and even sometimes when you're right it was for different reasons than you anticipated., So, flexibility is key. It does appear, from some of the comments have already been made,

that Chairman Powell will achieve a soft landing. It will be just the definition of how soft that landing is along the way. But I've had a lot of experience with the Federal Reserve in my years and I fully anticipate they are going to be very slow at reducing interest rates. That is just typically the path, they don't want to have to reverse once they start going down. The market was anticipating a June interest rate decline; that is now changing, the month is now anticipated to be after July. So, that cycle is with us and that has ramifications. When you're in the business side, you're looking at commercial credit and when you start having 7, 8 and 9 percent interest rates as opposed to three and four percent, people look at projects differently. They slow down, in some cases projects get pulled, in some cases they get delayed, in anticipation of lower rates, and as Jennifer just said, commodity prices are certainly changing downward in the Ag sector.

But I would say as I talk to customers and others, they are pleasantly surprised by the resiliency of the overall economy. Especially with everything the economy has been through the last few years. There is a bit more caution, even though consumer spending continues to be up. Some of that spending is being financed on a heavier basis with credit cards and through other means. Spending is one thing, how you pay for it is another. Some of those have ramifications, as well. As we look at the forecast, and as I look at the economy in Iowa, I'm pleased that we've been resilient, but we are always going to be subject to the status of the national economy as well.

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 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. Also, welcome to our newest conference member, Jeff Plagge.

First let me say – the state of Iowa continues in a very strong financial position, and I see that continuing for the foreseeable future. Spending discipline shown by the Governor and the General Assembly have served Iowans well. The reserve funds are full at $900+ million, the Taxpayer relief fund has over $3.7 billion, and we have carry forward from the previous fiscal year. Thanks to this fiscal restraint there is no reason to think the state cannot continue down the path of leaving more money in Iowans pockets.

The employment or business climate in the state continues to be strong and the trajectory continues on an upward motion. The attractiveness of Iowa as a state to invest in and to live and work in also continues on an upward trajectory.

It appears the threatening but elusive recession that has been predicted for some time continues to be avoided. We continue to see growth in Iowa's economy and the revenue numbers into the state support this. In the most recent numbers available, Iowa real GDP grew 4.1% in the third quarter last year.

Inflation continues to linger higher than Fed targets but has dropped significantly from the highs of last year.

There continues to be significant infrastructure investments into the state. Both in government sector and in private sector. The Des Moines Register just yesterday reported that "Iowa's number of construction jobs is higher than it's been in over three decades."

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.

I would just simply say that Iowa as a state continues to have a very strong economy and the state of Iowa entity continues to be in an incredibly strong financial position.

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

Motion: Mr. Plagge made the motion to change the refund line item from -1476.6 to -1534.5.
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. Plagge made a motion to plus up the Personal Income Tax line item on the Governor's appointee numbers to 5523.4, making the total 9697.8.
Second: Ms. Acton.
Call for the Vote: All voted in favor and the motion carried unanimously.

Estimate Fiscal Year 2026 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Mr. Plagge made a motion to FY2026 for the final number to be 9600.8, a -1% growth of the preceding year.
Second: Ms. Acton.
Call for the Vote: All voted in favor and the motion was 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. Plagge made a motion to approve the LSA numbers.
Second: Ms. Acton.
Call for the Vote: All voted in favor and the motion was carried unanimously.

Other Business

With no further business, Mr. Paulsen called the meeting adjourned at 1:09 p.m.

These minutes were approved at the October 17, 2024 Revenue Estimating Conference.
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