

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

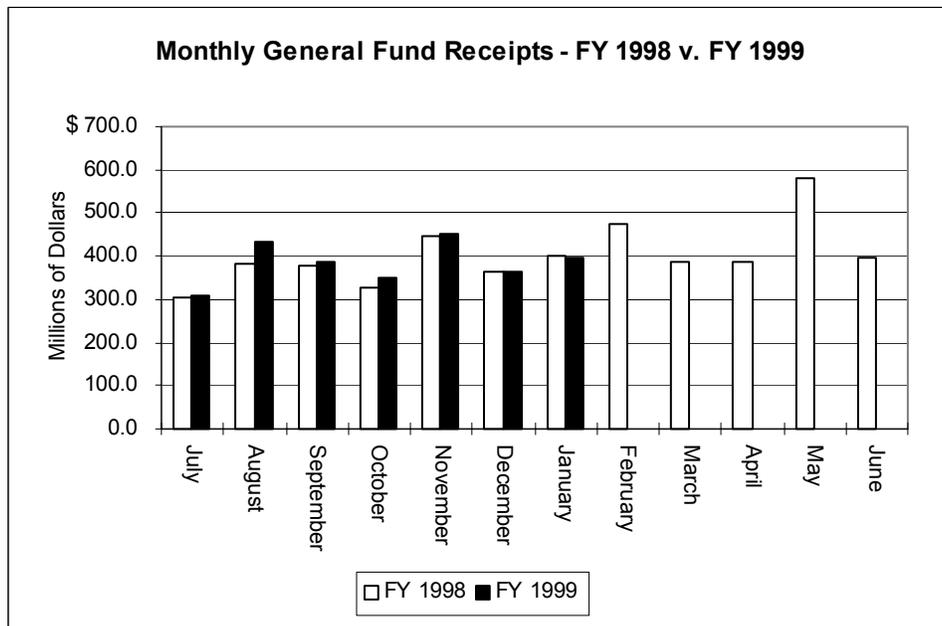
FROM: Dennis C. Prouty

DATE: February 1, 1999

General Fund Receipts Through January 31, 1999

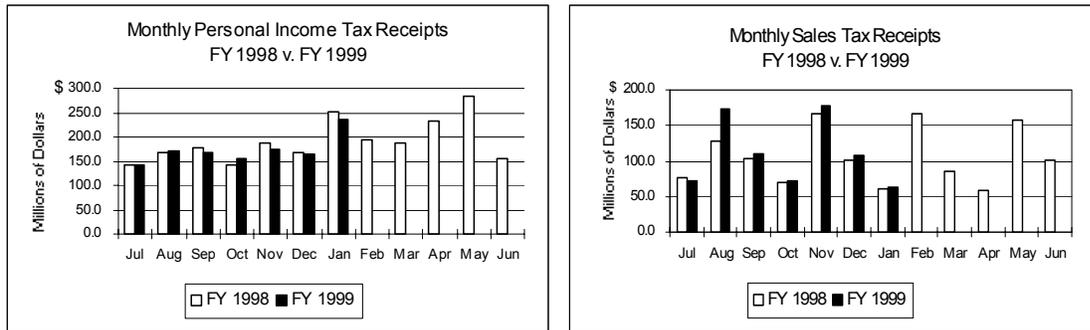
The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.918 billion) set by the Revenue Estimating Conference (REC) on December 4, 1998. The estimate represents an increase of \$87.0 million (1.8%) compared to FY 1998.

The FY 1999 REC estimate includes all adjustments for the bills passing the 1998 General Assembly. The net effect of these bills was a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit.



FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$76.7 million (2.9%) compared to FY 1998. This is above the current REC estimate of 1.8% for FY 1999 primarily due to a timing effect from sales tax receipts. Total January 1999 revenues decreased \$3.1 million (0.8%) compared to January 1998.



Gross personal income tax revenues received in January were \$16.1 million (6.4%) less than January 1998. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The January growth rate was positive, increasing by 3.5% compared to January 1998. Year-to-date withholding receipts are \$24.9 million (2.5%) below the FY 1998 level. January is the first month during FY 1999 that monthly withholding receipts have been positive. Withholding receipts are expected to continue to increase moderately through the last five months of FY 1999, now that the full year's effect of the 10.0% income tax cut has been experienced.

Estimate payments decreased in January, posting a loss of \$20.2 million (17.6%) compared to January 1998. Year-to-date growth in estimate payments stands at \$2.0 million (0.9%), and the relatively weak performance in January has virtually erased the exceptionally strong July and October growth.

The REC FY 1999 income tax estimate of \$2.352 billion represents a projected increase of 2.8% compared to FY 1998.

Sales tax receipts in January were \$0.8 million (1.5%) greater than January 1998. Year-to-date growth in sales tax stands at \$70.4 million (10.0%) compared to FY 1998. Nearly half of the annual gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts were approximately \$31.7 million greater than otherwise would be the case. This timing factor explains a significant portion of the year-to-date growth in sales tax and overall revenues. The REC estimate for FY 1999 sales tax receipts is \$1.346 billion, which represents an increase of 5.8% compared to FY 1998.

Corporate income tax receipts in January were \$21.3 million (109.2%) greater than January 1998. On a dollar basis, estimate payments were the primary cause of growth for the month. Estimate payments received in January were \$17.7 million (99.4%) greater than January 1998. Year-to-date corporate income tax payments are \$30.0 million (22.1%) above the FY 1998 level.

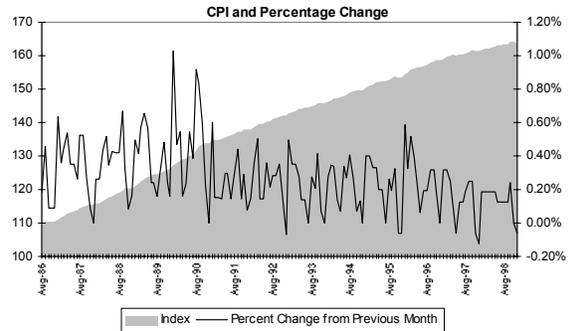
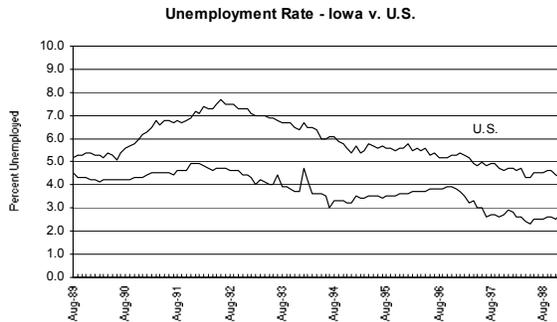
The REC projected FY 1999 corporate income tax receipts would total \$285.1 million, a decrease of \$5.6 million (1.9%) compared to FY 1998.

Racing and gaming receipts to the General Fund have reached their statutory cap of \$60.0 million. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund for the remainder of the fiscal year. The REC estimated that \$100.1 million from this source would be deposited to the Infrastructure Account in FY 1999.

Status of the Economy

The seasonally adjusted percent unemployed for the State in December rose from the 2.5% rate in November to 2.7%. The unemployment rate a year ago was 2.9%. Iowa's total December employment registered 1,532,800, up from November's level of 1,528,600. The number of unemployed persons in Iowa stood at 42,100 in December, which is up from November's level of 39,900. The U.S. unemployment rate fell from November's 4.4% rate to 4.3% in December.

Consumer prices in December fell from November's level. The Consumer Price Index (CPI-U) through December 1998 was 163.9 (1983=100), which is 0.1% lower than November 1999 and 1.6% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through December 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

