

**Revenue Estimating Conference  
Minutes  
October 13, 2022**

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**Members Present:** Kraig Paulsen, Holly Lyons, David Underwood

Mr. Paulsen called the October meeting of the Revenue Estimating Conference to order at 1:00 p.m.

**Approval of the October 13, 2022 agenda**

With no objection, the October 13, 2022 agenda was carried unanimously.

**Approval of the March 10, 2022 minutes**

With no objection, the March 10, 2022 minutes were carried unanimously.

**Remarks**

Ms. Lyons The FY 2022 books closed two weeks ago and revenue came in much higher than the March REC estimate, and again we missed it big on the positive side, as did many states. The recovery from the short recession brought on by the pandemic was much more robust than predicted by economists or revenue forecasting committees. Compared to FY 21 which provided a very strong rebound that was concentrated in the final three months of the fiscal year, General Fund net revenue for FY 22 increased \$1.0 billion and 11.4 percent compared to the fiscal year 2021 level and exceeded the REC estimate by \$627.3 million or 7%. Iowa's large and unexpected revenue growth experience was similar to many states late last spring. This growth reflected significant increases in all three major tax categories and reflects job and wage growth, positive consumer confidence in the form of pent-up demand for goods and services, and a rapidly improving economy.

The current Fiscal Year, FY 23 is running (as of yesterday – Wednesday) \$173 million or 9.4% above the prior year. Despite lots of press suggesting an upcoming recession, there is currently no sign of such a thing in Iowa tax revenue, employment, or Iowa wage earnings.

Turning to our estimate for FY 2023 and FY 2024, since we met seven months ago, last March, the headlines continue to be filled with news that impacts the

economy. There's so much economic noise out there, and as Director Paulsen has said before, much of it is conflicting. On the national level, major indicators such as employment, personal income, consumption, and industrial production all grew in the first 8 months of the year, albeit slower than they did in 2021, suggesting that the economy is not in a recession but merely in a period of slower growth as it transitions from the rapid recovery from the brief, but harsh pandemic-induced recession.

The US economy added 263,000 jobs in September which has slowed since last spring, but is significant in that the US is not shedding jobs, a harbinger for a recession. Competition for workers remains high with job openings well above pre-pandemic levels, but the number of openings is decreasing as the overall economy slows down. Wage growth remains strong, with hourly earnings climbing 5 percent from a year ago, but from the wage earner's perspective, it is failing to keep up with inflation.

Iowa's employment is still less than pre-pandemic levels but is growing and adding jobs at the average rate of 3,000 per month for the last year. Job listings remain plentiful and the labor force participation rate indicates that additional job growth is likely in the coming year. The Iowa unemployment rate is 2.6%, near its all-time lowest rate. As I've often noted, additional jobs mean additional wage income and indications are that along with the growth in jobs, there is currently much better than normal growth in average wages.

In addition to the expected growth in wage income, farm income from the 2022 corn and soybean crop looks to be approximately \$2 billion higher than last year's very good crop. Of course, input costs such as seed and fertilizer have increased as well, but all indications are that it should be a good year for farmers.

The additional jobs, increased wages, and a good crop income year point to better than average growth in Iowa incomes and that leads to growth in tax revenue.

There are still an increasing number of headwinds facing the US and world economies. Inflation is a concern, and whether or not the Federal Reserve can pull off a "soft landing" by increasing interest rates to curb the high inflation rate. A soft landing is the process of an economy shifting from growth to slow growth to potentially flat as it approaches, but avoids a recession. And there is the Russian Ukraine War which could take some ugly turns and further impact energy and food supply. An additional concern is the reaction of the markets as investors

assess the state of jobs and inflation. Then there is the global economy in general – not all countries have recovered from the pandemic, and some, like Great Britain, have just recently fallen into a recession. With a worsening economic outlook around the world, the risk of a recession increases.

Turning to our estimate, it needs to be noted that there are major tax reductions starting in January that will slow the accumulation of General Fund revenue. For individual income tax, the top rate is lowered from 8.53% to 6.0% and in addition, retirement income will no longer be taxed by the State. On the corporate income tax side, the top rate is lowered from 9.8% to 8.4%. These changes and others are included in the LSA estimate, with a net total of \$575 million removed for FY 23 and an additional \$450 million removed for FY 24. The result is an LSA projection of a modest net revenue decrease for FY 23 and an FY 24 estimate that is essentially flat.

Mr. Underwood As Holly indicated, we are experiencing quite a low unemployment rate. Nationally, we just hit a five-year low. Which is quite exciting, unless you're trying to hire somebody. That's one of the issues we've got, we're not going to get much individual taxpayer growth in wages just by adding more workers. Everybody is just kind of sitting back and saying I can't find them anymore, it's really discouraging to see it. They've just about given up because they can't find the workers that are willing to show up for work every day. I think there's a slowness that we're going to see in that wage growth. The other thing with it is that the wage increases are just about to levels where we're not going to see those wage growths going forward. The profits aren't there to support that and they can't find new workers so they're limiting their business growth in Iowa just because of those two factors alone. Let alone the supply chain issues that continue to really cause significant problems. The only thing I think I've seen in our area is a bunch of roofing because somebody was smart enough to fill a warehouse with shingles. Those are the kinds of things I see. We recovered quite rapidly in Iowa from the COVID issues but no one has figured out how to continue that growth level and that's what worries me about the growth levels that we are going to see in employment and profitability in Iowa.

Trying to figure out what the feds are doing. They've gone after inflation, they've set their goal as to what level, they just continue to increase interest rates, but their monetary policy is really yet to take hold. They should have just gone out and increased interest 4% and made the pain happen instead of a little bit here

and a little bit there. If this is supposed to work, I don't know how it's going to be soft because it hasn't done anything yet let alone start to reverse that. Then you look at the international issues and the pain that's going on in other countries, it won't be long before that starts to hurt us, as well. We've still got the Ukraine war going on that hasn't let up at all. There was some good news there that they finally got some grain shipped out and how much impact that's going to have on our grain market. But if they don't get the crops in and get them somewhere, they aren't going to be around for next year's crops. Hollie has talked about 2022 looking pretty good. Everything I'm reading though is farmers have already moved off 2022 and are worried about 2023. Their input costs have gone through the roof from fuel to fertilizer to seed, you name it the issues are there. The issues of supply chain for equipment and parts for the equipment to get the crops, get the crops in, continues to be a real issue. Just heard an implement dealer on the radio today on the way down lamenting the issues he has of providing the equipment and keeping the farmers, or his customers, running in the field is very, very difficult. But there certainly is a lot of grain coming out quickly, they better not break down because that's going to put a stop to it rather quickly.

I wish I had the optimism that Hollie showed. It's good in Iowa, but how long is it going to be good. I know the leading indicators don't really show the recession imminent in Iowa, but there's a difference between the recession and just a slowness or a halt to our growth. And that's what's scary to me. I think we're weathering pretty good in Iowa, but I don't know if we're going to have the rapid growth that we've been seeing and that's where I'm concerned going forward.

Mr. Paulsen All of these are always difficult to predict but this one, in particular, seemed to have rather strong conflicting indicators and not only that, they are in areas that are controlling so that just makes it a little more challenging. Iowa and U.S. economies have slowed in real terms since March. Federal reserves made it clear that they will do whatever they need to do to return inflation back to its 2% target.

Some of the indicators that I looked at is, again Iowa real GDP did decline a little bit in the second quarter, leading indicators as David made reference to are flat, and some of the U.S. leading indicators in a contractionary territory. Inflation is remaining stubbornly high. Even as gas prices have come down, food inflation remains high; rent, obviously a very sticky component of inflation, has moved up;

employment costs have gone up as we've seen wage growth. With, in and of itself is not bad, but these items together give some pause.

That being said, I do remain optimistic because the Labor Market is holding up and clearly consumers are still spending. Job growth is both solid state and nationwide we're seeing it inch up. As often employment rate does, it moves at the margin in small increments rather than huge leaps and we are continuing to see some growth there. The unemployment rate in Iowa is near pre-pandemic level as previously mentioned; farming count continues to be good and the USDA is projecting that receipts will help pace expenses at least here for some period of time.

As we look to our actual receipts in the state of Iowa. Net receipts are up year to date 6.1%; sales and use receipts are up 4.2%. Again, some of this would be driven by the inflation, but also consumer spending just continues to be strong. Withholding is up, as well, and a reflection of some of the wage growth.

At this time, the recommendation from the Executive Branch of the Conference is conservative, definitely not pessimistic. But it is somewhat conservative. Continued growth that we are seeing is a credit to the state's policies and is a credit to the continued investment trust of Iowans in the state's economy. I do have a modest pause about what the second half of the fiscal year will bring and this is coloring my little bit more cautious attitude.

### **Review Fiscal Year 2023 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood made a motion to use the Governor's appointee numbers and increase the personal income tax by \$40 million, increase the sales and use tax by \$40 million and decrease the refund by \$50 million, which is a net increase of \$130 million. Net transfers would be \$9,534.1, or -2.7%.

Second: Ms. Lyons seconded the motion.

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

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

Motion: Mr. Underwood made a motion to use the Governor's appointee numbers and to increase the personal income tax by \$60 million and decreasing the refunds by \$30 million. Net receipts from transfers would change from \$9,484.3 to \$9,574.3 or 0.4%.

Second: Ms. Lyons seconded the motion.

Discussion: Ms. Lyons recommended a friendly amendment to the motion to increase the numbers by adding \$20 million to the sales tax number, making it \$9,594.3 or 0.6%.

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

## **Fiscal Years 2023 and 2023 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Motion: Mr. Underwood made a motion to adopt the numbers as shown.

Second: Ms. Lyons seconded the motion.

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

## **Other Business**

With no further business, Mr. Paulsen called the meeting adjourned at 1:27 p.m.

*The October 13, 2022 minutes were unanimously approved at the December 14, 2022 meeting.*

*tlw*