

**Revenue Estimating Conference
Minutes
March 10, 2023**

Members Present: Kraig Paulsen, Jennifer Acton, David Underwood

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

Approval of the March 10, 2023 agenda

With no objection, the March 10, 2023 agenda was carried unanimously.

Approval of the December 14, 2022 minutes

With no objection, the December 14, 2022 minutes were carried unanimously.

Remarks

Ms. Acton: Since the meeting three months ago, the picture at least at the national level, is a little less clear with the economy currently experiencing an especially challenging time.

Globally, the war in Ukraine continues, resulting in high energy and food prices and continued supply and demand imbalances. U.S. inflation remains persistently high around 6.4%, rates that have not been experienced since the early 2000's. With inflation data coming in stronger than expected, the Federal Reserve will likely increase interest rates and has indicated that interest rates may go higher than previously anticipated.

The tight labor market continues to prove to be persistent. In January, the economy added half a million jobs nationally across all industries including leisure/hospitality, retail, and professional services. U.S. employment reached a new peak in June 2022 with 155 million jobs according to the nonfarm series. Monthly growth over the past six months has averaged 349,000 jobs. Year-over-year wage growth is high coming off the 2021 peak as the work week shrinks a bit and job growth has started to show signs of slowing. Recent U.S. jobless claims jumped 11.0% last week, which was the largest increase in five months; however, the national unemployment rate remains around 3.4%.

Real and nominal consumer spending remains strong, although economists have been seeing some signs of reduced consumer confidence with the index falling the last three months to 102.9, which is still a positive indicator but down from 109 from December. Home sales are showing signs of improving. U.S. retail sales continue to remain above pre-pandemic levels and Ecommerce sales are returning to a level more in line with its regular upward trend.

Iowa continues to show resiliency during a time of economic challenges. Iowa nonfarm employment peaked in January 2020 at 1.6 million jobs. Through December 2022, employment is down 4,200 jobs from the peak. In the last six months, job growth totaled 16,100 jobs, or 2,700 per month. According to Iowa Workforce Development, the Iowa unemployment rate is currently 3.1%. As stated before at REC meetings, a continuing issue for Iowa is that there are more jobs available than workers, and Iowa has an aging workforce. Corn and soybean prices continue to be at or near record levels. While Iowa growing conditions are still abnormally dry, the winter rains and snow have eliminated the severe drought conditions facing many parts of the state last Fall.

As of March 6, fiscal year basis net General Fund revenue was up 4.7% for FY 2023. Income tax revenue has begun to slow as the tax reductions start to take effect but remained 2.4% higher than the same time in FY 2022. Sales and use tax continue to remain strong, with fiscal year to date 5.5% higher than the same time in FY 2022; and corporate income tax continues to show strength.

State tax reductions passed by the General Assembly took effect in January. This will begin to slow the accumulation of General Fund Revenue and has been taken into account in today's LSA estimate. For FY 2023, the LSA is projecting an increase of \$102.0 million compared to the December REC estimate and for FY 2024, an increase of \$75.7 million. Given that much of the projection increases are due to higher interest on our fund balances, the LSA projection is a modest increase to the projections for FY 2023 and FY 2024.

Mr. Underwood: On the way down, I did get the February employment numbers – 311,000 was the number which, of course, was higher than anticipated. We can't get a handle on what the economy is going to do. It appears to be more resilient nationally and in Iowa than most people would expect, but we have a lot of things in the future that we don't know what is going to happen. Corn prices are great, but is Mexico going to buy our GMO corn after the first of the year? We have those kinds of questions out there that are still out there that we all have to deal with, and are egg prices going to remain high or not and there are many, many things there we have to deal with. Unfortunately, both estimates are very close together this year - for both current fiscal year and for the next fiscal year. I'm very pleased to see that Iowa's economy is doing as well as it is.

Mr. Paulsen

Thank you once again 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.

To that end, as always I want to 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.

The economic environment remains uncertain. Past trends may not be able to forecast turning points in the economy and there remain variables that are challenging to assess. Recession risks continue to exist; however, they appear to be moving beyond the end of the current fiscal year. In fact, if the labor market and consumer spending continue to hold up, it is still possible that no economy-wide or broad-based recession will occur. Although undoubtedly some sectors will not escape a recession.

However, I do not believe we are in a position to make that a conclusion or assume it to be the case. The prudent position is to take a conservative approach in our projections today.

Some of the factors worth our consideration:

- Continued Federal Reserve rate hikes remain a risk

- Layoffs broadening out beyond the tech sector is another significant downside scenario
- Although, layoffs have been mainly focused in those two areas, that would seem to indicate possibly the sense of being more of a “white collar recession.” This, given Iowa’s industrial mix and the tilt towards manufacturing, could dampen the blow in the state of Iowa.
- Lending continues to be strong, even with the tightening bank lending standards, which is a leading indicator of recession

There is still considerable strength; the national January economic data were surprisingly strong:

- Consumer spending increased 1.8 percent in January and 1.1 percent in real terms
- New home sales picked up 7.2 percent, pending home sales increased over 8 percent and mortgage rates have declined somewhat from highs last fall
- Likely related to the strength in the economy, the consumer price index increased 0.5 percent month over month. Shelter explained most of the increase.
- The health of state and local government balance sheets may buffer any downturn in contrast to the 2008-2009
- Supply chain issues have declined sharply. Anecdotes suggest pipelines are strong, as supply chain issues have been resolved companies are able to work through backlogs and pent-up demand is being addressed

The still hot economy is not what the Federal Reserve wants, the Federal Reserve will likely continue its present course and investors have already updated expectations for rate hikes.

Looking specifically at Iowa:

- State receipts are healthy and apples to apples we continue to see strong growth in all major tax types. The impacts of last year’s tax cuts are starting to show up, in particular, in withholding revenues and even still the state is in a strong revenue position

- Year over year the state of Iowa is roughly \$365 million ahead of FY22
- Sales tax revenue remains very strong and points to healthy consumer spending
- There are stimulus dollars yet to be realized, especially when the infrastructure related stimulus is considered. I expect this to keep construction sectors strong
- The social security cost of living adjustment (COLA) and Iowa's retirement income exclusion will add roughly \$3,500 in income for each retiree this year
- Home refinancing is nonexistent but loan volume for other types of loans are strong including farm loans, commercial real estate and warehousing, and consumer loans
- The labor market remains tight, with job openings above the number of unemployed here in Iowa
- The state added over 34,000 jobs over the last year ending in December with strong gains in leisure and hospitality and manufacturing

In conclusion the State of Iowa continues to be on very solid financial footing and I see no reason to expect that to change for the foreseeable future. Although, one former US Treasury Secretary recently stated, "It's as difficult an economy to read as I can remember."

Again, this seems to me, as well, to be a very challenging time to predict economic activity and in turn state revenues. The state of Iowa is in a remarkably strong financial position and a conservative approach to our estimates seems to be the best course of action for today.

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

Motion: Mr. Underwood made a motion to adopt the Governor's Appointee's estimate for FY23, the \$9,750.4 million.

Second: Ms. Acton seconded the motion.

Call for the Vote: 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 as presented - \$9,650.3 million.

Second: Ms. Acton seconded the motion.

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 made a motion to move the LSA numbers as presented - \$9,741.3 million.

Second: Ms. Acton seconded the motion.

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

Fiscal Years 2023 and 2024 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 proposed.

Second: Ms. Acton seconded the motion.

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 11:16 a.m.

These minutes were unanimously approved at the October 12, 2023 meeting.

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