

**Revenue Estimating Conference  
Minutes  
October 12, 2023**

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

Mr. Paulsen called the October meeting of the Revenue Estimating Conference to order at 11:30 a.m.

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

With no objection, the October 12 , 2023 agenda was carried unanimously.

**Approval of the March 10, 2023 minutes**

With no objection, the March 10, 2023 minutes were carried unanimously.

**Remarks**

Ms. Acton: Two weeks ago, the books closed for FY 2023. Net General Fund revenue for the year increased \$41.9 million compared to FY 2022 and exceeded the March REC estimate by \$94.9 million. Sales and use tax revenue came in \$83.4 million or 2.2% higher in FY 2023 than FY 2022, whereas individual income tax decreased by \$180.8 million or 3.1% compared to FY 2022. This decrease is primarily due to tax year 2023 income tax rate reductions that began on January 1, 2023 which reduced the top rate from 8.53% to 6.0%.

Throughout this past year, the U.S. economy has continued to remain remarkably resilient, despite elevated inflation, higher interest rates, and higher food and fuel prices. The biggest driver to the economy's strong performance has been consumer discretionary spending. Consumer spending accounts for approximately 70.0% of the U.S. economy. Real and nominal consumer spending has remained strong and retail e-commerce sales are reporting the highest growth since the onset of the pandemic in 2020.

The Federal Reserve has indicated that interest rates may have to stay higher for longer as inflationary prices remain elevated. However, inflation has started to moderate since peaking at 9.1% in June of 2022. According to the U.S. Labor Department, the annual inflation rate for the United States was 3.7% as of August 2023, which is down from 8.3% a year ago.

The September report released this morning reported inflation holding at 3.7% and core inflation down from 4.3% in August to 4.1% in September. The labor market is starting to show signs of slowing but continues to be strong. Businesses and companies have continued to remain confident by adding workers at higher pay in an effort to get back to pre-pandemic levels. The most recent federal monthly jobs report for September showed the U.S. economy added 336,000 jobs and the national unemployment rate was at 3.8%. This was an increase from the August jobs number of 227,000 but below the peak of 472,000 jobs in January 2023. Currently, the U.S. labor participation rate is 62.8%.

In Iowa, nonfarm employment peaked in April 2023 at 1.6 million jobs. Through August 2023, employment was down 8,600 jobs from the peak. Currently, Iowa's unemployment rate is 2.9% and the labor force participation rate is 68.7%. As has been noted before, a continuing issue for Iowa is more jobs than workers and an aging workforce.

In regards to the Iowa ag economy, drought conditions have persisted over much of Iowa this year with the majority of the State experiencing a severe to extreme drought. Harvest has begun for both corn and soybeans. Crop yields are anticipated to vary across the State due to the drier weather conditions but for now, the farm economy appears strong, despite lower livestock and commodity prices and higher production costs. There are still an increasing number of economic uncertainties facing the US and world economies which continues to make it a very challenging time to predict economic activity. Elevated consumer price inflation remains a concern, and whether or not the Federal Reserve can pull off a soft landing shifting the economy from growth to slowed growth and to avoid a recession as well as uncertainty over increased oil prices, higher fixed mortgage rates, and resuming student loan payments.

Internationally, strained government relations between the U.S. and China, the volatility in the middle east, and the ongoing Russia and Ukraine war continue to contribute to global economic turmoil. Despite all this, Iowa continues to be in a solid financial position with full budget reserve funds. Turning to the LSA estimate, it needs to be noted that major tax reductions began in January 2023 and will 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%, while the corporate income tax rate will be lowered from 8.4% to 7.1%. These changes and others are included in the LSA estimates. The result is an LSA estimate for FY 24 that is essentially flat, and for FY 25, the LSA estimate is a modest net revenue decrease.

Mr. Underwood: Thank you, that's a good summary of where we are at. Since our last meeting in March, what's really changed since then and unfortunately, not a lot. We got rid of some of the problems and issues we were dealing with that had uncertainty associated with it, but picked up a few more since then. Even though some of the others seemed to be taken care of with the feds finally saying 'maybe we don't have to raise rates again at this point because the economy is taking care of raising the rates without us having to do that.' But the threat is still there that cash is going to be tight for many businesses that have been growing and spending money on capital expenditures.

I just heard a presentation on Monday from a north Iowa manufacturing company. They'd love to hire more people but they're still struggling. They said what is really scary is they just took a look at their current workforce and in about three years they will have to hire about 20% of the people back again just because of retirements. That is going to be a real challenge for them, let alone trying to grow. So what are they going to do to take care of that? They said there is only one thing they can do and that is to automate. They're putting their money in capital expenditures and realizing that they probably just won't be able to hire the replacement workers for their retirements that they need. And they are trying to convince some of these people to hang on for another year or two. It appears, relative to the REC, we haven't been able to hold on to our staff for the REC. I'm sure state government has got that issue, as well. How do you find replacement people for all the people that are going to be retiring in the next few years?

Those are the kinds of things I see as uncertainty continuing in Iowa. It's great that we have lower income tax rates and basically the estimates I've seen for October seem to be pretty reasonable and not too far apart, but we have just a little bit of discussion to get to a comfortable number, but it's not going to be uncomfortable getting there.

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 Department of Management, the Department of Revenue, and the Legislative Services Agency.

As previously mentioned, we closed the books on FY 2023 recently and the state finished \$95 million above the March estimate; roughly 1% to the positive. This was good news.

The state is showing a modest slowdown in revenue. However, these reductions are planned and being driven by tax rate reductions for Iowa taxpayers. The economy in Iowa continues to grow, although not at the same rate as seen at the end of the pandemic.

Corporate tax collections continue to grow even with the enacted rate reductions. The state continues to see growth in sales and use receipts. Employment continues to be strong with some uptick in labor participation.

One year ago, we discussed a slower economy for fiscal year 2024 and that appears to be the case. And in fact, there continues to be much conversation about a downturn, but the economy just keeps plugging along and in fact, for the 1st quarter of 2023, the real GDP growth rate for Iowa was 5.2% per year.

We are clearly not in an economic contraction situation, predominately buoyed by consumer spending. I do have some concerns about the ultimate impact of the Fed's interest rate hikes. Primarily when will it be broadly felt, how long will they last, and how severe will the effects be. Not particularly novel questions, but there are no certain answers.

Interestingly and relative to today's business, the executive branch and legislative branch "total net receipts" recommendation line are once again very close. My thoughts on that are that it will probably be just as easy to split the number for FY24 and use LSA's number for the second one, but as typically fashioned I'll let Mr. Underwood make the initial motion.

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.

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

Motion: Mr. Underwood made a motion to reduce the LSA personal income tax number by \$70 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 use the LSA's numbers.

Second: Ms. Acton seconded the motion.

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 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 11:45 a.m.

*These minutes were unanimously approved at the December 12, 2023 meeting.      tlw*