

**Revenue Estimating Conference
Minutes
December 12, 2019**

Members Present: Dave Roederer, Holly Lyons, David Underwood (via telephone)

Mr. Roederer called the Revenue Estimating Conference to order at 11:00 a.m.

Mr. Roederer reiterated that the Code of Iowa establishes a three member panel consisting of the Legislative Branch represented by Ms. Lyons, the state represented by Mr. Underwood, and himself representing the Executive Branch. The Conference is required to meet at least three times per year, where it is required to reach a consensus. Projections are developed independently of each other, using a variety of sources. The Department of Revenue is utilized for the most current revenue activity at the time. The Governor is required to submit her recommendations using the December estimates and the Legislature is to use the lower estimate of the December and March. If the March estimate is higher than December, they must use the December estimate. If March is lower than December, they must use the March estimate. The state budget and accounting are based on a fiscal year. The first month of the fiscal year is in July and the last month would be June. Today, we will update the estimate for the current year, Fiscal Year 20 which started July 1, 2019 and will be ending June 30, 2020, and we will be reviewing our estimate for Fiscal Year 2021 which starts July 1, 2020 and ends June 30, 2021. So, in essence, the three of us will be estimating 625 days of economic activity for the next 565 days, which is the next 6 months for the current fiscal year and 12 months for fiscal year 2021.

Approval of the December 12, 2019 agenda

Mr. Roederer called for a motion to approve the agenda for the December 13, 2018 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the October 14, 2019 minutes

Mr. Roederer called for a motion to approve the minutes for the October 14, 2019 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

At the October REC meeting we often say that we hope to have more clarity and information by the December meeting, but that often doesn't pan out and that is certainly the situation we have today. While there are still no telltale signs of a recession, one reads and hears from economists that the U.S. economy is living on borrowed time and that a downturn is inevitable; it's just a matter of when, and how severe the downturn will be.

As you can see, the LSA estimate does not anticipate a recession in the forecast period, but the estimates do reflect the continued slowing of revenue growth, and much of that is due to the anticipated effect on income tax revenues due to state tax reductions passed in 2018.

First a few comments about the national economy. Many economists will argue that the U.S. economy is in a “late-expansion” phase, with nothing on the immediate horizon that suggests a downturn or recession. The national economy has slowed compared to this time last year when growth was near 3%; it’s now close to 2%. The fiscal stimulus from the 2018 Federal tax cuts has diminished, but that’s expected. Domestic and world events threaten stability and make businesses skittish, weakening business investment, but that’s not new news either. November job numbers were up nationally, but a slowdown is expected due to the tight labor market, the continued trade war, and business uncertainty. Today’s Labor Department report on initial claims for unemployment jumped last week, but it remains to be seen if this is a real increase or the typical seasonal volatility that occurs this time of year. Wage and salary growth is good compared to recent history at just over 3.0%, but it is lower than expected given the tight labor market. The Federal Reserve Board’s accommodative policy is unusual for an economy that’s expanding.

Finally, on a national level, retail sales are growing at 3.1%, a modest but healthy pace, down from the rate a year ago, but the outlook is for relatively stable growth as we move into 2020.

Turning to the Iowa economy. The Iowa unemployment rate is 2.6%, up slightly from one year ago, but still near an all-time low. Initial unemployment claims, often thought to be an early indicator of a declining economy, ticked up slightly but are still very low. The shortage of qualified workers continues to hamper economic growth. At approximately 3%, wage and salary growth are better than 2016 and 2017 but down slightly from 2018 and is not as strong as the U.S. growth. Wage and salary income comprise about 50% of Iowa personal income. The other major component would be dividends and other investment income, which includes for some taxpayers, required annual distributions from IRAs and 401Ks based on December 31 valuations. These valuations should be much higher this year than last and will start to be realized as part of tax receipts beginning in the spring.

According to the USDA, Iowa corn prices have been running ahead of the last three years, and soybeans prices are only slightly lower than last year. Bad weather plagued the yield of the corn crop and also contributed to a late harvest and the USDA indicates that the amounts of crops remaining in the field is well above normal.

The 2018 state tax law included an increase to the sales tax base to include digital goods and online marketplaces. That growth is now being realized and is offsetting much of the expected decline in personal income tax due to rate changes.

To summarize, there is no harbinger of recession – no serious signs of downturn. The Iowa economy continues to grow slowly, but steadily.

The LSA estimate reflects strong year to date growth through the end of November with the realization that there will be slowdown due to the withholding table changes in January and subsequent effects on revenue.

The LSA estimates before you reflect a modest 2.7% growth rate in FY 2020 and 3.0% in FY 2021. We remain cautiously optimistic.

Mr. Underwood stated the one number that just popped up yesterday as he was reviewing some economic data was that Commerce Department just revised their third quarter labor costs and reported wage increases and those numbers came down; hourly compensation rose 2.3% in the third quarter. Previously they had reported that number at 3.3%. That is one number that is kind of surprising because with such high employment rate, one would expect wages to grow a little bit faster, but for some reason or other that is not realized. Which leads to the withholding estimates, and using an economic growth rate in excess of 4% in most places in projections which questions what the growth that we can really just to come from normal purposes, and that's before you make all your adjustments from the withholding table. So that's one area of caution that I see. Would have been nice to have a nice comment on the US MCA agreement. Looks like there may be something in January or February, by the time it gets through the Senate and gets ratified, not going to have much impact on the current fiscal year and maybe just minor impact in Fiscal Year 2021. Probably more long-term than we are looking at here.

Mr. Roederer stated that most of the indicators are still showing good growth. Revenues are coming in better than anticipated. David had mentioned that US MCA, we were hoping it would happen before January but it appears it may happen in January or February, but we do think it will have a real positive impact. While there is some softening in the manufacturing, it is still very strong, as is construction. The reason to mention those is because manufacturing and construction have a big impact on wages in this state. Still concerned about agriculture. We are starting to see some positive signs. USDA's report is that they believe that we will be at the highest level since 2014, but also need to point out that 2014 was 25% below 2013. A real good trend is that Governor and the Legislature passed the Last Dollar Scholar last year. That program was to enhance their skill levels and that has been fully subscribed. We still have the China tariffs issue that is still unresolved. It has been a tough weather on agriculture, but all in all land values have remained pretty steady throughout the state. Many are going to have a good year, many are not going to have a good year.

Nationwide, slower but still strong economically nationally. As Holly pointed out, the recession is getting closer, but we see nothing at this point in time that gives any indication that a recession is eminent and that it is going to take place anytime soon. All recessions aren't equal when they do come, so it's a little difficult to project.

All in all, we feel things are moving well. That doesn't mean we should look at everything going gangbusters, but it is actually a little stronger growth than what we thought it was going to be when we met in October.

Review Fiscal Year 2020 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Made by Mr. Underwood to increase the Governor's appointees estimate by \$30 million, making it \$8,014.6, an overall increase of 2.0%.

Second: Mr. Roederer.

All voted in favor and the motion was carried unanimously. The increase from the October estimate is \$48.5 million. The increase from FY2019 to FY2020 is \$155.8 million, 2.0%.

Review Fiscal Year 2021 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Made by Mr. Underwood to split the difference between the two years – adding \$62 million to the Governor's estimate. FY 2021 personal income tax would \$5,037.5. Net receipts plus transfers would be \$8,249.0, a 2.9% increase. \$67.2 million increase from October and a \$234.4 million, 2.9% increase from FY20 to FY21.

Second: Ms. Lyons.

All voted in favor and the motion was carried unanimously.

Fiscal Years 2020 and 2021 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Motion: Made by Ms. Lyons to move the numbers for FY2020 and FY2021.

Second: Mr. Underwood.

All voted in favor and the motion was carried unanimously.

Other Business

With no further business, Mr. Roederer called the meeting adjourned at 11:30 a.m.

The December 12, 2019 minutes were approved at the March 12, 2020 meeting. Ms. Lyons made the motion to approve and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.