

**Revenue Estimating Conference
Minutes
March 12, 2020**

Members Present: Dave Roederer, Holly Lyons, David Underwood

Mr. Roederer called the Revenue Estimating Conference to order at 10:00 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 was 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 Fiscal Year 20 which started July 1, 2019 and will be ending June 30, 2020, and we will also be making our first estimate for fiscal year 2022, which begins July 1, 2021 and ends June 30, 2022. So, when added up, we are estimating for about 840-some days of economic activity and I'm sure we will be 100% accurate when we are done. So, we basically have 3 months for 2020, 12 months for FY2021 and 12 months for FY2022.

Approval of the March 12, 2020 agenda

Mr. Roederer called for a motion to approve the agenda for the March 12, 2020 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the December 12, 2019 minutes

Mr. Roederer called for a motion to approve the minutes for the December 12, 2019 meeting

Motion: Mr. Underwood

Second: Ms. Lyons

All voted in favor and the motion was carried unanimously.

Ms. Lyons began by stating that quite a bit has happened since the December meeting, and much of the news is not good. However, she wanted to be clear that the sky is not falling; it's a little cloudier than usual, but Iowa currently has a stable, albeit slowly growing economy and the State's financial position is sound. The recent news related to the announced COVID-19 pandemic, combined with the plummeting stock market prices, oil prices, and interest rates cannot be ignored. The LSA estimate does make some adjustment to what would otherwise be

a better fiscal outlook to account for the potential negative impacts of this new reality. The recent news is taken seriously in our estimate, but it does not warrant the expectation of an impending recession. At least not yet.

Prior to the last two weeks, the path of both the national and Iowa economies was a continuation of an 11-year recovery. Not great growth going forward, maybe not even good growth, but continued growth, which is good for a stable economy and for state budgeting. At this juncture that remains our base case. We are looking at continued growth that is muted a bit by shocks that are outside our control. According to a recent Urban Institute Report, many states are experiencing similar slow growth in FY 2020, mostly because of the waning impact of the federal Tax Cuts and Jobs Act. The same report indicates that many states are projecting revenue growth to temper substantially.

As a reminder though, this is the longest expansion in U.S. history and a turndown at some point is inevitable. Is it possible that the latest world and financial market events signal the end of the expansion? Yes, it's possible, but with all recessions, we don't really know we're in one until 6 or more months after the downturn. I might note that no common economic data has been released since the onslaught of bad news began late in February.

So, it's like we're chugging up the hill slowly, but we're in a dense rolling cloud bank and can't really see if we'll keep slowly climbing, or if we'll start heading down from the peak.

And there's a lot of fear and uncertainty about the pandemic, about global relations and oil, about the stock market, all rolling around in those clouds, causing volatile markets, driving interest rates down, and pretty much paralyzing investors, which isn't good for business or consumers.

Let's look at some positive news. Nationally, until this week anyway, indicators such as unemployment numbers, consumer spending, and inflation were all good. There was partial relief from tariffs and trade policy uncertainty as a result of the U.S.-China phase-one deal, and the rebound of several global economies. Iowa is adding about 10,000 non-farm jobs a year, and while that is forecast to slow a bit, it is still positive employment growth. The federal benchmarking job numbers will be released tomorrow so it remains to be seen if the growth was as positive as the household series indicates. That's the series where the government asks individuals if they have a job and if not, are they looking for a job? This particular series is showing the highest growth since the 1990s. The other employment series is showing low growth and the growth rate is declining. Employment growth is needed for wage and salary growth which results in tax revenue.

Tax estimate payments are expected to be up this tax season, possibly because annual distributions from IRAs and 401Ks were based on the value of the account on December 31 of last year. Finally, according to the USDA, Iowa corn and soybean prices and crop volume numbers are a bit higher than last year and there is promise of additional federal government stimulus dollars coming into the Iowa economy.

But we find ourselves in unprecedented times. Economies do not do well with fear and uncertainty. If Iowa can largely avoid the economic costs of containing the flu virus, there should just be minimal economic damage because we otherwise have a stable, slowly growing economy.

As a reminder for those looking at the sheet before you, personal income tax shows negative or low growth as the tax changes made during the 2018 Session are implemented and income tax withholding tables are adjusted again this year and next.

The LSA estimates reflect a modest 2.5% growth rate in FY 2020 and a slightly lower growth rate of 1.8% in FY 2021. We are cautiously optimistic in our FY 2020 recommendation and a bit more cautious for FY 2021.

The LSA projection for FY 2022 calls for a return to stronger revenue growth at a rate of 4.2%. By the time FY 2022 arrives, the negative impacts of income tax reductions and income tax withholding table changes will be fully incorporated into the revenue stream.

Mr. Underwood stated one of the things we're looking at is the base number we are working with then trying to adjust for COVID-19. We've got good base numbers all the way through, as far as historical numbers. Then trying to determine what numbers in the current fiscal year might actually be impacted. Fortunately, we have nine months of withholding pretty well in the bag, sales tax numbers are looking pretty good and soon we'll have nine months of those numbers. So, it's just what can really impact in the three months as far as withholding is concerned. No one, at least in northern Iowa, has taken down a Help Wanted sign yet. So, I'm very optimistic our numbers for the current fiscal year are pretty solid. It's how long this is going to last and who is really going to stumble with it. We are starting in business to see problems getting parts and supplies, for those that have to deal with mainland China. People that are, for instance, dealing with Taiwan, they haven't seen the disruption. It's just a matter of who you deal with over there. They are used to some uncertainty from their suppliers over there in many cases. There are problems and I've only heard of one company starting to lay off people because they can't get what they need to actually make product. The restricted travel is something that can't go on for too awfully long, especially in China and manufacturing area over there. You can't fix the problems over there when you're sitting here, no matter how good your telephone reception is, they don't get fixed. People have to go over there. We'll be okay for a little while but eventually the travel is going to have to open up again if we are going to effectively use the resources over there that we have been using and unfortunately, it's not something that can be quickly replicated physically in the U.S. It's nice that we have brought some things back. The big concern is if we didn't have this going on, what would we look at for fiscal year 21 and what adjustments we've made from our previous estimates.

Mr. Roederer stated we were just kind of beginning to see a normal pattern after our tax changes, but we didn't have this many moving parts either at the federal level or the state level, and I was just beginning to believe we were on a pretty "normal" path. Then, as occurs, you have economic events that can completely turn things or it may not have any impact on it at all. So, we have the coronavirus hit. Shortly thereafter, we have, which in a major part was

connected to that, the oil wars between Saudi Arabia and Russia. They got into a price war lowering prices, that also set a real shock wave throughout the world economies and they remain skittish today. How those all play out are too soon to tell. Both potentially have a great impact on the entire world as far as their economies go. If you get to oil staying at about \$30 per barrel, that throws Russia into a recession of which their economy is kind of teetering the way it is and that starts having a ripple effect to some other countries. I do not believe that anybody, at this point, can accurately predict the economic impact of the coronavirus from what we know at this point and I'm certainly not going to try, nor did we. When we were putting our estimates together, we did not attempt to predict the fiscal impact of the virus on the state's economy based on the information that we know. But as the information becomes available and, if necessary the REC could always reconvene to take the temperature of where the economy is. We don't believe that is necessary at this point. We will tell you what we do know at this point. None of our leading indicators that we follow are deviating significantly from anything that we had projected from the last time we met. Not saying they won't, we're still early into this event. Our indicators are usually a couple months behind due to the requirements of when people need to file their sales tax. Sales tax would probably be the first area we would start seeing some activity. What we do know is the state has a very coordinated prevention and response effort underway so we believe that we will be able to, as humanly possible, contain any outbreaks that occur. We also know that interest rates have been lowered, which is also going to help economically. The president and congress are discussing various stimulus ideas. We also know this is the first event of this kind where we've had online home delivery to people. So, the isolation is not going to be quite the situation it was before you could have groceries delivered to your front door. So far as people's buying habits, they appear to be normal. This all pre-dates the last few days of events starting to be cancelled.

On the general economy most of our indicators, as Ms. Lyons and Mr. Underwood indicated, are showing positive growth; actually, strong growth at this point. For our sales tax collection county by county, we had fewer counties that are having less than they did the previous year, so they are having more growth than before and we believe that is in direct relation to the online sales being taxed in the state. Something we had believed was going on, but I think this proves that.

Our trade agreements with Mexico and Canada, where 50% of our trade is, are strong at this point. The agreement with Japan has been negotiated and signed and we're starting to have the impact of the China agreements moving forward with the tariff situation. There was some question as to whether or not they would be proceeding with purchases and they have been with soybeans.

While there is some softening to the manufacturing sector of our economy it is still strong, as is construction. Wage-wise, manufacturing and construction constitute a major component of Iowa wages. Our Last Dollar Scholars program is fully subscribed to enhance individual skills and the good news of that, most of the individuals that are participating are those exactly who they were targeted for, people that are non-traditional students and people that are coming back to enhance their skills. We know that will help fill some of the gap that we have.

Land values are remaining steady. That is on a positive side, which was a big factor in the numbers that the Department of Revenue is projecting for today.

There are concerns. Agriculture primarily, is on a roller coaster. One day there is optimism, the next day there is pessimism. Then the next day there is optimism then we have a little more pessimism. But it is still growing, at a slower pace than we would like, but there are some signs, as Ms. Lyons pointed out on the estimates, they seem to be increasing. As I pointed out earlier, while China is buying more soybeans, there is some concern whether they will be able to fulfill their commitment.

An area that we thought we had resolved and that was renewable fuel standards; for small refineries there are waivers that are permitted. Congress passed 15 billion gallons of renewable fuel as the standard. The courts have recently upheld that but that may be appealed so that may be drug out a little longer.

National forecast is still growing, but a slower growth. Employment is at an all time high. As Ms. Lyons pointed out, we are going through the longest economic expansion in our country's history and as we've said about every time we've met, our next recession is closer than it was before. That still remains we just don't know when that is going to be. We don't see anything, at least based on the current fundamentals, that could change. But on the current fundamentals, there is nothing to indicate that there is an impending recession that is coming.

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

Motion: Ms. Lyons made a motion to move the Governor's Appointee's numbers.

Second: Mr. Roederer.

All voted in favor and the motion was carried unanimously.

Revenue change from the December estimate for FY20 will add \$76.1 million to the General Fund. Growth from FY19 to FY20 is \$231.9 million or 3%.

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

Motion: Ms. Lyons made a motion to move the Governor's Appointee's numbers.

Second: Mr. Underwood.

Discussion: Mr. Underwood recommends taking \$50 million out of personal income tax on the Governor's Appointee's number for fiscal year 2021, which would leave it at \$8,206.7 billion, which is only 0.1 under the LSA estimate. Ms. Lyons recommends taking \$20 million out of the Governor's Appointee's personal income tax numbers, which would put the 2021 estimate at \$8,236.7 billion, 1.8% growth. This is \$12.3 million below the current estimate. Growth from the FY20 estimate of \$146.0 million.

All voted in favor and the motion was carried unanimously.

Estimate Fiscal Year 2022 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers

Motion: Ms. Lyons made a motion to move the LSA number for FY22, which is \$8,551.5 billion.

Second: Mr. Underwood.

All voted in favor and the motion was carried unanimously.

New Motion: Ms. Lyons made a new motion to move a 4.1% increase over the FY21 estimate, which would be \$8,574.4 billion, an increase of \$337.7.

Second: Mr. Roederer.

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.

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 10:50 a.m.

The March 12, 2020 minutes were approved at the May 29, 2020 meeting. Ms. Lyons made a motion to approve the March 12, 2020 minutes and Mr. Underwood seconded the motion. All approved the motion and it was carried unanimously.