

**Revenue Estimating Conference
Minutes
December 11, 2020**

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

Mr. Roederer called the December meeting of the Revenue Estimating Conference to order at 1:30 p.m.

Mr. Roederer stated 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, March, October and December, but can meet more if circumstances dictate. The Conference is required to reach a consensus on a single number, not a range, and that number cannot be exceeded by the Governor or the Legislature. 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 budget recommendations using the December estimate and the Legislature must use the lower estimate of the December and March. Today's meeting is going to be an assessment of the economy six and one-half months into the current fiscal year. The state budget and accounting is based on a fiscal year, meaning that the first month of the fiscal year is in July and the last month is in June. Today, we will update the estimate for Fiscal Year 21 which started July 1, 2020 and will be ending June 30, 2021, and we will also be reviewing our estimate for fiscal year 2022, which starts July 1, 2021 and ends June 30, 2022. And it's the fiscal year 2022 which the legislature will be working on as the governor makes her recommendations. We are estimating 566 days of economic activity for 6.5 months for FY 2021 and of course for 12 months for fiscal year 2022.

Approval of the December 11, 2020 agenda

Mr. Roederer called for a motion to approve the agenda for the December 11, 2020 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the October 13, 2020 minutes

Mr. Roederer called for a motion to approve the minutes for the May 29, 2020 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Ms. Lyons began by stating that she thinks all of us will be glad to see the year 2020 behind us, but this year more than ever, it's hard to look ahead to the next year with any clarity. We've

been faced with a global pandemic, economic collapse, partial recovery, a bear market, then a bull market, hotly contested elections, and the impact of COVID-19 related restrictions on big business, small business, the service industries, schools and everyday life. In Iowa, add an unpredictable devastating derecho, and a drought in west central Iowa. It's been such an unusual year of extraordinary challenges for Iowans both in terms of personal loss, and economic loss. FDA final approval of an effective vaccine for the virus is imminent and the vaccine will begin rolling out to the U.S. soon. However, the roll out of the vaccine is going to be a process – it's definitely a light at the end of a tunnel, but as many economists and doctors have stated recently, that tunnel is not short and it will likely have some twists and turns.

Therapeutic treatments for COVID patients have improved considerably since last spring and summer, easing the devastating impact of the virus, but at least for now Iowa continues to experience a third surge in number of virus cases, positivity rates, hospitalizations and deaths, all of which have worsened since our October REC meeting. The virus factors prominently in any discussion of the economy in both the private and public sectors. What IS keeping the economy afloat is the unprecedented level of economic support through federal fiscal and monetary policy. To date, the federal response has been huge with stimulus payments, enhanced unemployment benefits, the Paycheck Protection Program (PPP), among other programs. But that support is waning, and continued stimulus will be key to sustaining the economic recovery. But there is gridlock in Congress, and it's likely that action on a stimulus package won't be taken until January, which raises concerns on how further delay might impact state and local economies. And increased stimulus spending while much needed, comes with a price tag down the road by adding to the national debt.

Given all that, here we are trying to predict Iowa revenues for 6 months out, and 18 months out. When we met in October, I made the statement that we'll know more in December and I was hoping for a bit more clarity by the time of this meeting, but we just don't have it. Most of what we've learned just muddies the water and adds more uncertainty – the surge in the virus, unknown timing of the vaccine roll-out, and gridlock on federal stimulus. One thing we do know is that the COVID economic recession is quite different than previous economic cycles. To date the economic disruption is not all that bad for Iowa at the state level and it's likely that the end result could be two years of very slow growth, and then return to decent, positive growth for FY 22.

Looking at some of the economic indicators —

Non-farm employment numbers, Iowa is mirroring the U.S. economy, and has gained back approximately half the jobs lost in the COVID recession, showing good improvement from June, July and August, but slowing the last three months, and we are still below the 2019 number by approximately 75,000 jobs. Unfortunately, many of those people have dropped out of the work force for whatever reason – including those that left for childcare reasons, or staying home with school aged children to monitor at home learning, or they have just plain stopped looking for a job. The Iowa Employment-Population Ratio has dropped from 69% to 63.5% in the last year, indicating that 5.5% have dropped out of the labor force.

Initial Unemployment Claims, an indicator that is a harbinger of trouble took a jump last week which is a little concerning, particularly if it continues over the next few weeks. Iowa personal income has ticked up a bit thanks to federal program stimulus payments and payments sent to individuals, and if more stimulus funds are authorized, that's expected to happen again.

Farm Income – Iowa farm income from this year's grain crops – corn and soybeans – looks very good and better than any year since 2013. The size of Iowa's corn crop is currently projected to be 90% of the 2019 crop level and the soybean crop 100% of 2019. Corn and soybean prices have increased considerably in the last three months. These price increases have combined with record direct government payments to farmers in 2020, more than double the amount in 2019 and should make this a good year for Iowa grain farmers. The direct payments include federal PPP, tariff assistance, and disaster assistance payments, including for losses due to the August derecho.

Economic activity in some sectors such as the services industry was devastated by the Covid recession, but Iowa is strong in industrial manufacturing, finance, insurance, and ag and those sectors have fared fairly well all things considered. Housing is showing steady growth.

Much of the continued recovery will depend on consumer behavior – no doubt there will be pent up demand for services, restaurants, entertainment, travel, etc., but how much demand in terms of consumer ability and the appetite to spend remains to be seen. It could give a significant boost to the economy. But it is important to note that the pandemic experience has likely changed us – the way we do business, the way we travel, the way we shop, and the way we work.

The LSA revenue estimates for FY 21 and FY 22 are based on the assumption that the action already taken by Congress, the President, and the Federal Reserve will be sufficient to maintain a self-reinforcing recovery over the next two years *with* additional support provided to vulnerable populations where necessary.

The estimates assume slow economic recovery through FY 22 and the estimate for FY 2021 calls for less growth in net revenue than is already in the bank through December 9th, meaning that the estimate calls for slightly negative revenue growth between now and the end of the fiscal year.

FY 2022 does not start for more than six months. At 3.7%, the LSA FY 22 estimate calls for a level of growth that is below that experienced in 11 of the past 19 years. The recovery from past recessions has *always* resulted in good revenue growth and we should expect the recovery from this recession to do the same.

Mr. Underwood stated he agrees with Ms. Lyons' overall sentiment. Some growth, but not necessarily a lot. It will be very, very slow in the next 6-7 months before we start to see some significant impact of the vaccine going through the population to make a huge difference.

Mr. Roederer stated that Moody's Analytics says that predicting the economy at this time is complicated. What Holly and David have pointed out echoes that. When we met in October, Iowa's economy had started opening up but parts of it were still reduced in capacity. Recovery from the derecho still continues. We're not where we were pre-storm for many of the victims of that. Jobs are coming back; although they are coming back at maybe a slower pace than what we would like. Now, a reminder that Iowa has one of the three lowest unemployment rates in the nation. That is very good, but as Holly pointed out we still aren't back to where we were prior to the pandemic. Our economic fundamentals are continuing to show signs of modest strength. The nearly \$5 billion that has been put into Iowa's economy through various programs has helped individuals in need but also has helped businesses to bridge that gap during that recovery. Agriculture was challenged prior to the pandemic, then along came the derecho which was devastating, but as we come out of this we are now at least headed into a profitability area in agriculture. If our current export commitments are fulfilled by our trading partners and if the COVID-19 distribution has minimal difficulties, restrictions will be lifted in various parts of the world. If this happens, which I frankly think it will, the United States agriculture sector will probably be on a stronger footing in 2021, stronger than it has been for a few years. Now another thing on the positive side, children are occasionally back in school. The COVID vaccine will be arriving in Iowa in just a matter of days and the Iowa State football team had the best record in the Big 12 for the first time in history. So those are all positives that should help with our recovery.

Challenges remain. Some Iowans are facing very difficult challenges, both physically and monetarily. While we are making great progress, we still have too many folks that are unemployed. And the supply chains throughout the United States is still not where it needs to be. We still are having shortages of products that manufacturers and others need in order to fulfill the orders that they have. So, there are some questions that remain. How quickly can the vaccine get distributed and how effective it's going to be? Will the vaccine enable people to get back to somewhat of a normal life and stoke the economy, which Ms. Lyons talked about usually comes out of a recession; and will Congress remain at a stalemate? And what about additional federal stimulus? There is no tested economic model that provides a hint as to what happens when a pandemic closes an economy and as it opens and as it shuts down in parts, what the total impact is on the country. We know that we will come out of this, we are seeing good signs of this. But who would have ever thought to put things a little bit into context. Whoever thought the word positivity could have a negative meaning like it does into the pandemic. So just to remind everyone to put a little bit more context to where we're at.

In March, when the Revenue Estimating Conference met, from March to May we lowered the revenue estimate for fiscal year 2021 \$360 million. In October, we raised the estimate by \$35 million. Depending on where we come out today, whether it's the LSA recommendation of raising FY '21 estimate \$65 million or DOM's estimate at \$58 million, using either one of those, but if you use the DOM number you'll still see that we're \$260 million below where we were in

March. So, the point is we are making progress, we're making good progress, but we are not back to the point we need to be in order to get back to where we were back in March. So, the question really is do we need economists or do we need psychiatrists to help us determine what is going to happen. Because the economics may say one thing but it is going to get down to whether or not people believe that the pandemic is coming to an end and whether or not they feel secure enough to invest their money in more goods and services. I would describe our economy as walking to a level where we were prior to the pandemic, but eventually we need to be running to get to where we want to be. But this is going to be more of a marathon than a sprint. Workforce is still an issue in our state, even with the unemployment lows what they are, we still are having skilled workers that are needed. The question still remains that was mentioned last time we met in October, how fast we will recover and at what level. That, I think, is where honorable can have disagreement in answering those questions.

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

Motion: Mr. Underwood made a motion to adopt the LSA numbers for FY '21 as shown.

Second: Ms. Lyons seconded the motion.

All voted in favor and the motion carried unanimously. The increase from the October revenue estimate is \$57.6 million. The increase from FY 20 is \$38.7 million, which is 0.5%.

Review 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 numbers for FY 22.

Second: Mr. Underwood seconded the motion.

All voted in favor and the motion carried unanimously. The increase from the October revenue estimate is \$34.9 million. The increase from FY 21 to FY 22 is \$296.4 million, which is 3.7%.

Fiscal Years 2021 and 2022 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 move the numbers.

Second: Ms. Lyons seconded the motion.

All voted in favor and the motion was carried unanimously.

Other Business

With no further business, Mr. Roederer called the meeting adjourned at 2:06 p.m.

These minutes were approved at the March 19, 2021 REC meeting. Ms. Lyons made a motion to approve the December 11, 2021 minutes and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.

tlw