

**Revenue Estimating Conference
Minutes
March 19, 2021**

Members Present: Michael Boussetot, Holly Lyons, David Underwood (via WebEx)

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

Mr. Boussetot's opening statements: Mr. Boussetot introduced himself and thanked the Legislative Services Agency for their work in getting the virtual meeting set up. Today's discussion will include estimating the revenues for fiscal year 2021 and fiscal year 2022, as well as taking a first look at fiscal year 2023. The code of Iowa establishes the Revenue Estimating Conference as a 3-member panel. Holly Lyons from the Legislative Services Agency and is their branch representative; David Underwood is the member of public and the state of Iowa in general; and Governor Reynolds has appointed me as the Governor's Appointee from the Executive Branch. The conference is required to meet at least three times a year and is required to reach a consensus on a number – not a range – that cannot be exceeded. All three members of the conference independently develop their projections. The Department of Revenue provides data to support the members of the panel. Information is also gained from a variety of other sources, such as Moody's Analytics, other departments in the business of collecting revenue, as well as friends, family, and businesses throughout the state to get anecdotal evidence. The Governor was required to submit her budget to the legislature using the December estimate. The legislature is required to use the lower estimate between the December and March estimates.

The State budget and our state accounting is based on a fiscal year, with the first month being July and the last month being June. As mentioned earlier, today we are looking at fiscal year 2021 and updating the estimate for that year which started July 1, 2020 and ends June 30, 2021. We will also be reviewing fiscal year 2022, the budget that is front of the legislature most predominantly. Fiscal year 2022 starts July 1, 2021 and ends June 30, 2022. Finally, the last twelve months that we'll be estimating will be our fist look at fiscal year 2023 which begins July 1, 2022 and ends June 30, 2023.

Approval of the March 19, 2021 agenda

Mr. Boussetot 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 December 11, 2020 minutes

Mr. Boussetot called for a motion to approve the minutes for the December 11, 2020 meeting

Motion: Mr. Underwood

Second: Ms. Lyons

Mr. Boussetot removed himself from this vote as he was not present at the December 2020 meeting. The motion carried 2-0.

Opening Statements

Ms. Lyons It's been 14 weeks since our last meeting, and we all continue to emerge, adapt, and evolve from the Covid-19 pandemic. But as I stated in December, Covid-19 has most likely forever changed the way we live, work, spend or invest our money. There has been much progress in the rollout of the vaccine reducing the number of cases and allowing the relaxation of pandemic-induced restrictions. The economic impacts from Covid-19 are also moderating at both the national and state level due in large part to the tremendous influx of federal money in the form of pandemic relief programs and stimulus payments. Since we met in December there have been two more rounds of stimulus checks for qualifying individuals, extended unemployment insurance benefits, and other federal assistance with the most recent stimulus plan approved just last week so the impact of that stimulus remains to be seen.

At the national level, economic growth rebounded sharply but employment remains well below pre-pandemic levels after robust growth last spring and summer. Lower wage jobs and states that rely heavily on the leisure and hospitality industry were exceptionally hard hit. There is much pent up demand for spending, travel, services and entertainment. The big question is how quickly people will return to pre-pandemic activity, and of course, the risk is a resurgence of the virus, or new variants that can't be controlled with existing vaccine resulting in a significant reduction in consumer activity.

Some economists are concerned the pent-up demand for spending may fuel inflation, and recent market activity indicates that longer-term interest rates are on the rise. While rising rates are sometimes a sign of an overheating economy, they can be a sign of new life. After years of extremely low interest rates, some inflation and additional economic growth expectation should be welcome. As to short term rates, the Federal Reserve continues to indicate that it will act to ensure borrowing costs do not climb too quickly in order to support economic growth and stability.

Turning to Iowa, the economy has been remarkably resilient to the Covid-19 induced recession largely because our primary industrial sectors are manufacturing, finance and insurance, and agriculture, and those sectors were not as vulnerable as the service sectors. That's not to minimize the impact on that sector; however, that sector was hit hard. Unemployment continues to disproportionately impact lower wage workers and many of those are in the service industry and not able to shift to "work from home status" as workers in other industries have.

While job recovery in Iowa was swift after the initial downturn and up through August, recent months have seen a slow down in job growth. I liken it to riding a bike down a very, very steep hill and immediately going up another hill. As you hit the bottom of the hill the momentum carries you part way up the next hill, but then you need to start peddling to get up the hill or

you'll stall. We've slowed down and we're not close to pre-pandemic job levels yet. Our employment recovery curve looks like a backwards checkmark, where the desired shape would be more of a "V". We have to hope that vaccines, stimulus money, better weather and pent up demand will accelerate job growth.

In the nonfarm employment series, Iowa is currently 77,000 jobs below January 2020 and over the past three months we have added just 3,700 jobs. At that rate it will take many months to catch up. In the Household employment series, through January, Iowa is 117,000 jobs below January of 2020, and over the past three months we have added just 6,400 jobs. This job series includes laborers, independent contractors, maybe Uber drivers and other service industry employees that don't appear on a surveyed business payroll. Job growth must accelerate if the situation is going to improve quickly. But we've discussed this before, Iowa's employment to population ratio has been dropping and is now near the record low level experienced during the Farm Crisis of the 1980's. As an explanation, this ratio is the number of people reporting that they are employed divided by the population age 16 and older. In Iowa, it is likely that many of these people are older or retired or for whatever reason don't want to work. It's also possible that workers have left the job market during the pandemic for other reasons...childcare or schooling, or business closures, and one can hope that they will return and fuel job growth, and in turn, revenue.

Some positive news — Corn and soybean prices are increasing and our expectations are that prices will remain higher than recent years and that's a good thing for Iowa farmers.

Iowa's budget reserves are full and healthy compared to many other states, and this gives Iowa better options for dealing with the pandemic and economic issues. The dangers or additional risks I see is that after this last round of federal stimulus checks and extended unemployment payments end if employment has not recovered enough, the economy will falter in the second half 2021 or early 2022. But that's a danger, and not an expectation. There is a lot of pent-up demand for services. So like December, the path ahead is still uncertain.

Turning to the numbers, the LSA is cautiously optimistic in our FY 2021 and FY 2022 estimate as we note that the year to date net general fund receipts collected through March 18th are strong.

The LSA estimates reflect a modest 2.5% growth rate in FY 2021 and a slightly higher growth rate of 3.6% in FY 2022.

For FY 2023, we remain optimistic and estimate a more normal growth rate of 4.2%.

Mr. Underwood In regards to the unemployment levels, there are a lot of jobs available in Iowa, but they don't always have the right people at the right locations. In discussions with employers, about half would hire more people if they could find them. There are certainly jobs available anywhere from entry level to the upper professional levels. Just a matter of some of the people that are employed in Iowa, which our unemployment percentage is fairly low, would

consider maybe a new profession. So, they might not go back to work at a McDonald's or a Target retail store; there are opportunities in other professions that don't require advanced degrees. Elder care is one area where Iowa has plenty of opportunities for people to take advantage. We could really bite into some of those unemployment numbers and decline in the nonfarm job counts if people would just be a little more flexible in what they could take on.

One thing we haven't spent a lot of time talking about that is going to impact our growth in Iowa is the supply shortages. That ranges from building materials to computer chips. It definitely is impacting manufacturing in Iowa and the growth potential there. Prices are starting to rise on many products. Steel prices are up huge amounts; they are complicated because of tariff issues not necessarily anything else internally. That's a federal issue that interferes with some of the growth that we could experience. Another example is typical new home construction. They are faced with very high material price increases, equal to about \$24,000 per typical home. Part of that is this issue of wood availability out of Canada into our supply chain. One thing Holly mentioned was the interest rate, particularly that end of ten year note breakdown. It was kind of a surprise to many people that it happened and introduced confusion into the financial world. And then the FIP comes down and says they aren't going to change rates. That kind of thing creates confusion throughout a lot of industries.

Another one that has not been mentioned yet is the Biden tax increase talk that is interjected that gives an uncertainty into the economy. Our economy really didn't need additional uncertainties. Land borders with Canada and Mexico are still closed. The announcement came out well into April. That will impact a lot of people as that continues to be closed.

Those kinds of uncertainties are something that lends caution to my approach to the next two fiscal years.

Mr. Boussetot I believe the notes of applauding our persistence and steadiness are right. He also can only echo the comments made regarding the uncertainty and challenges that lie ahead into the great unknown, again. As an overview, Mr. Boussetot stated that Iowa's economy has been resilient, persistent and if you look at the numbers presented today shows revenue growth in the state of Iowa year over year. That really meshes well with what the Council of Governments and KPMU reported that Iowa, along with Arkansas and Utah, are among the lowest risk and most resilient economies in the nation. Iowa had the second lowest impact of COVID among any of the 50 states. Again, that strength has really shown, depending on whose numbers we look at for fiscal year 2021, \$100-200 million of revenue growth year over year, despite a pandemic.

Questions that were raised in December were not novel questions. How will the economy look when it re-emerges? How does the vaccine get distributed and what is its effectiveness? What will be the stimulus and what will its impact be? As you recall, in December the meeting was around the \$900 billion that had not yet passed, let alone the March \$1.9 trillion that just passed. I agree with my colleagues on the panel for the reasons for optimism and really see it as an opportunity as a state to further strengthen and augment our persistence, resiliency and low risk with long-term planning. Jobs in this state exist. Our unemployment remains low

among the nation. And those jobs give lowans confidence in our economy. That confidence is obviously buoyed by \$1400 stimulus checks lowans have received in the past days. Those checks will have an impact on our sales tax in the year term, this fiscal year. And that is reflected in our projections in the Department of Management, the Governor's Appointee, for a higher sales tax than what LSA has reflected. It also means there is demand that will be driven longer term. As Mr. Underwood noted and as homebuilders have told me, last year was their best year ever in building new homes and they believe this year will only be better. That is corroborated on a statewide basis by Dept of Rev economic forecasts, as well as on a national basis by Moody's, our economic forecasting partner and bond rating partner. Those new homes have to be filled and filling those homes will lead to longer term receipts for the state for the sales of those durable goods that will undoubtedly come in.

We also have to applaud the rollout of the vaccine in Iowa. The Governor announced this week that beginning April 5th, all lowans will be eligible for the vaccine. In fact, if you try to call a Hy-Vee today you will see what the waiting list looks like. There are not a lot of open spots; demand will outweigh supply. We have already put more than one million shots in lowans' arms with more than 95% of our Iowa seniors, 65 and older, getting their shots. We remain in the Top 10 for shots distributed to lowans from supply given to us from the federal government.

If you look, as Ms. Lyons mentioned, in our strongest sectors – healthcare, manufacturing and agriculture – these sectors have remained strong throughout the pandemic. In part because they are tied together and also in part because of broader macro trends that we have seen from agriculture and therefore its impact on our manufacturing sectors. Additionally, that will only, in my opinion, be strengthened by the \$4 billion of payments that are included in the stimulus for producers in the most recent March stimulus. As you look at farming as a whole, with the prices that are up and the structure of crop insurance being pegged to the February pricing, profitability in 2021, I believe, can reliably confidently be counted on – hopefully and cautiously.

But there are challenges that remain. Ms. Lyons noted the labor market. In Iowa, we have been forward looking on this for some years. Future Ready Iowa is in place that is meant to get those lowans the skills they need to fill the jobs they want. In fact, if you look at IowaWorks and the Iowa Workforce Development website today, 65,000 jobs are available. Top employers are Unity Point, U of I which includes UIHC, HyVee, Luvs Truck Stops, and Mediacom. Broadband remains a very broad topic here at the Iowa Capitol.

Additionally, there are questions in regards to the vaccine rollout. While we do rollout the vaccine, what is the timing of that rollout and its impact on our economy. While we do begin the rollout on April 5th, there will be some need to meet the demand and supply questions that exist. When is the vaccine effectively going to be distributed to lowans and when does that impact our economy? In my opinion, that looks closer to late June.

Finally, the uncertainty that exists around the supply and demand. They can order the goods they need or the machinery and equipment they require, but the tough part is getting that

machinery and equipment to their factory here. Additionally, is the demand. In addition to the strong transfer payments that existed to augment farmers and the trade challenges that were faced in early 2020, foreign partners played a major role in driving crop prices in Iowa. Questions exist regarding that Chinese demand. Ultimately, the Chinese cannot grow enough soybeans and pork to feed their people, they have to buy it somewhere. But will that somewhere be the United States? I believe we are insulated in that for this coming crop year but it's that longer term question that will be played out on a geopolitical level much broader than the Iowa Legislature.

I remain, like my partners, cautiously optimistic. I believe the questions that exist between us differ on the timing and impact of our current fiscal year more than our out fiscal years. How that looks and works going forward. As I said earlier, our job today is to look not only at our current fiscal year of 2021, but the next fiscal year of 2022 and then to finish our 27.5-month projection we will look at fiscal year 2023.

Mr. Boussetot explained the spreadsheet. Ms. Lyons stated when there is a federal law change between the times we meet, and there was, we met in December and two federal law changes regarding stimulus, we have to reflect those on the spreadsheet. Those numbers are in the revenue estimates, they've already been included. But this is more of a transparency and an understanding of this is how those numbers are spread among those line items.

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

Mr. Underwood stated there is something unusual that shows up in the numbers for the current fiscal year and for the past actual – it is an accrual line. Our cash receipts above that are basically cash receipts. Whenever it is deposited that is when it gets in there. Last fiscal year we had that unusual change with the delay of when tax returns had to be filed. April deadlines were moved out into a new fiscal year and consequently, accrual language is normally a relatively small number, jumped for the first time in the last 20 years that I've been looking at these numbers. So fiscal year 2020 jumped to \$307.7 million. What happens is that a delay in receipts really belonged in fiscal year 2020; therefore, the increase and accruals and money was actually deposited in the current fiscal year and that is why the estimates have a negative \$307.2 in our December estimate, which are pretty close to the same numbers LSA and the Governor's Appointee used in their estimates. That kind of messes up some of those percentages we look at when going through the individual line items. For instance, LSA's estimate on personal income tax, which is showing 13.2% in the current fiscal year and in the next fiscal year are showing a negative 2.67%. A large part of those accruals, which are a negative number down below, are included as cash receipts on the top line. So, a caution when people are looking at the percentages, a lot of the percentages move around. Some of the sales tax percentages really would not be changed because of that because they weren't a significant part of the accrual impact. Corporate income tax did have some significant numbers that would be down below, hidden in that accrual line. That is why we really need to look at the bottom line where that accrual impact has been taken out through these numbers. Relative

to the fiscal year 2021 numbers, the difference between the two of you is \$103 million. Somehow we need to reconcile those two numbers. Fortunately, in the next fiscal year we don't have that large of a number.

Motion: Ms. Lyons made a motion to move the LSA numbers for FY '21.

Second: Mr. Underwood seconded the motion.

Discussion: The biggest areas of divergence between the Governor's appointees and LSA's estimates are on the Corporate Income Tax and Refunds. Mr. Boussetot proposed moving them down slightly from LSA's estimates – increasing Refunds by \$25 million and decreasing Corporate Income Tax by \$25 million and Ms. Lyons agreed. The Corporate Income Tax line would be \$834.4 million and the Refunds would be \$1,232.3 billion. Net Receipts Plus Transfers would then become \$8,078.9 billion, which is a 1.9% increase.

Amended motion: Mr. Underwood moved the amended number.

Second: Ms. Lyons seconded the motion.

All voted in favor and the motion carried unanimously.

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

Motion: Mr. Underwood made a motion to reduce the LSA number by \$60 million – all out of Personal Income Tax. This would change the number to \$8,349.3 billion, an increase of 3.3%. Ms. Lyons suggested reducing the LSA number by \$45 million instead of \$60 million. Bottom line net receipts plus transfers for FY 2022 would be \$8,364.3, 3.5% growth. Mr. Boussetot proposed reducing the LSA number by \$30 million instead of \$45 million and increasing sales tax by \$15 million in fiscal year 2022. This would be a 3.9% for the year overall growth and 4.4% growth for Sales and Use Tax. Mr. Underwood stated he is comfortable with the \$8,364.3 number (reducing the LSA number by \$45 million). Ms. Lyons proposes to decrease the LSA Sales and Use Tax number by \$23.7 million. Bottom line will be \$8,385.6, a 3.8% growth over the FY 2021 number agreed to.

Second: Mr. Underwood seconded the motion.

All voted in favor and the motion carried unanimously.

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

Motion: Ms. Lyons moved the LSA FY 2023 estimate - \$8,726.5 billion – 4.5%.

Second: Mr. Underwood seconded the motion.

All voted in favor the motion carried unanimously.

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. Boussetot made a motion to move the LSA numbers as reported.

Second: Ms. Lyons seconded the motion.

All voted in favor and the motion was carried unanimously.

Revenue change from the December estimate, overall is \$8,078.9, which is a 1.9% growth. The revenue increase for fiscal year 2022, overall, is now \$8,385.6, which is a 3.9% growth.

Other Business

With no further business, Mr. Boussetot called the meeting adjourned at 12:13 p.m.

The March 19, 2021 minutes were unanimously approved at the October 15, 2021 meeting.

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