

**Revenue Estimating Conference
Minutes
May 29, 2020**

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

Mr. Roederer called the Special Meeting of the Revenue Estimating Conference to order at 1:00 p.m.

Mr. Roederer stated that the Governor and the Legislative leaders requested that the Revenue Estimating Conference meet to review the March numbers in light of the pandemic. 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, but can meet more if circumstances dictate. The Conference is required to reach a consensus on an exact number and that number cannot be exceeded when the Legislature passes their budget. 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 must use the lower estimate of the December and March. If the Revenue Estimating Conference meets while the Legislature is in session, if we have a special session like we are today, the Legislature must use the lesser of the two numbers. If the number we come up with today is less than it was in March, than the Legislature must use the May number. If we were to come up with a higher number the Legislature must use the March number. 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 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 begins July 1, 2020 and ends June 30, 2021. We will be reviewing our estimate of fiscal year 2022 which begins July 1, 2021 and ends June 30, 2022. So, in total we are going to be estimating activity for right at 760 days of economic activity and that breaks down to one month for fiscal year 2020, 12 months for fiscal year 2021 and 12 months for fiscal year 2022.

Approval of the May 29, 2020 agenda

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

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the March 12, 2020 minutes

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

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Ms. Lyons began by stating she was looking over her notes from the March 12th meeting and noted that she said that we were cautious given the recent stock market events and the news of the coronavirus, but that the sky was not falling and the recent news did not warrant the expectation of an impending recession. There were just over 50 deaths due to the virus in the United States, and it was two weeks before Iowa would record its first death. We had a stable, albeit slowly growing, economy and this group adjusted the FY20 estimate upward and made a minor negative adjustment to FY21. Less than one week later, our world and life as we knew it was turned upside down due to the COVID-19 outbreak in the United States. This has exacted a tremendous toll across our state in terms of suffering and loss of life, in addition to the economic impact.

Nationally, most key economic indicators have deteriorated significantly since March, and the 11-year economic expansion that began after the Great Recession in June of 2009, is over as the result of the COVID-19 pandemic and the measures resulting from government actions to prevent its spread. Unemployment, at 14.7%, has reached an all-time high since the Great Depression; retail sales declined 16.4% in April; the financial markets continue to be volatile, oil prices have continued to collapse, there's a global recession, and the list goes on. There is, however, no economic model that accounts for a global pandemic or no recent history on how state, local, national or global economies recover from a health crisis of this magnitude. We just don't know.

While some national economists are predicting a rapid recovery by the end of 2020, others are saying it will be much longer with the effects lingering into 2022 and 2023 or until there is a widely available vaccine or effective treatment for COVID. The reality is probably somewhere in between, or as Midwest economist Ernie Goss has indicated, the recovery may not be a V shape, or U shape but more of a checkmark similar to a Nike swoosh. It is just an exceptionally uncertain, volatile and even fearful time. As stated in March, economies do not do well with fear and uncertainty.

So, turning to the situation in Iowa, what do we know? It very quickly went from possible negative economic consequences to real negative consequences. But just how negative those consequences are is difficult to determine at this time. FY20 is starting to see signs of the economic event, but the actual economic indicators of the real consequences are slow in coming. Estimates of employment and unemployment come out monthly, while wage and salary income and other personal income data are released quarterly. So essentially, we are looking at 8 weeks of data since the outbreak of the virus in Iowa.

Unemployment is currently 10.2%, but how will that change as the state reopens and people return to work? How will businesses react? How will consumers react? We follow the weekly announcement of initial and continued unemployment claims seeking some hint of a trend. We supplement knowledge gained from economic indicators with knowledge gained from actual tax revenue receipts. However, the extension of the tax filing deadline for various types of

income tax payments to July 31 is also slowing the recognition of the anticipated impact. The current fiscal year ends on June 30, and by extending the deadline to July 31, revenue will be credited to FY20, but it is just not known how much less revenue is expected and won't be known until late August.

We do know that as of last week, federal relief in the amount of \$2.2 billion in the form of unemployment benefits, loans, loan guarantees, grants, and the Paycheck Protection Program has flowed into Iowa to support individuals, businesses, and dissuade layoffs. Another \$300 million is expected as part of the \$2.5 billion allocation to Iowa. Another \$2.6 billion in federal stimulus payments has been paid directly to eligible Iowans. This federal support no doubt blunted the negative economic impact. To date, the federal support has been for direct COVID-19 related spending only, but federal support for state and local government revenue is still being debated. One final thing we do know is Iowa's financial reserves are strong and in a better position than most states to weather the crisis.

The LSA estimate recognizes that a considerable portion of the Iowa economy was shut in for two months and for some portions, even longer. Fully returning to normal, or a new normal, does not have a set timeframe. However, the LSA estimate is not predicated on a dire future, as it expects the economy to open relatively quickly and the projections are based on no significant return of the virus. A more persistent outbreak or resurgence will slow or interrupt the recovery and the projection may well prove to be too optimistic. The situation will need to be reevaluated at the October REC meeting.

As a reminder for those looking at the LSA/Governor's appointee sheet before you, looking at the March REC columns, personal income tax shows low growth as the tax changes made during the 2018 Session are still being implemented and income tax withholding tables are adjusted again this year and next. To further complicate things, the delay in tax payments due to the delayed filing date in FY20 results in a large accrual adjustment in both FY20 and FY21, making line item percentage comparisons look way off for personal and corporate income tax, so it is best to just look at the Total Net Receipts rows for comparison.

The LSA estimate is a negative adjustment of \$149.5 million in FY20 and a negative adjustment of \$410.1 million in FY21, compared to the REC estimate.

Mr. Underwood stated that one of the hardest things to have to deal with could be covered with a quote from the Governor, "We're going to have to learn to live with and manage COVID-19 until or if a vaccine is discovered." When do we get back to a 'normal'? We certainly aren't any kind of normal today. Pick up a Globe Gazette and read about Mason City's Principal Office announcing that working from home is going to be permanent. Not only Mason City, but in a number of other locations. At the same time, read about Storm Lake. The devastating numbers of 555 positive tests at their pork processing facility. Mr. Underwood doesn't think the bottom has been reached; we certainly can climb out and fall back rather quickly. A couple of announcements like that can certainly impact a large number of industries and businesses and segments. That is the other thing that makes it difficult. Some segments of the economy

are doing tremendously well. Ask a grocery store how their business has been versus the restaurant business that, of course, has been shut down. Everyone has been impacted totally differently. People are learning to live differently in their homes and communities. Though many certainly want to get back to what they were doing before; some would like to go to church again, maybe sing in a choir again. But many, at least with the gray hair, are thinking twice about whether or not they want to sing in a choir until they feel they would be safe. All these little things and factors of what is going to happen individually and how they are going to react within their own homes anymore even. Mr. Underwood is not quite as optimistic for the recovery as Mr. Roederer or Ms. Lyons, but not terribly less optimistic.

Mr. Roederer stated that when the REC last met in March, there was this virus that was out there that nobody in the world knew what impact that was going to have. Certainly, at that time, did not know the extent this would be playing on everyone's lives. But shortly after that time, our nation and Iowa's economy kind of went into a self-induced coma for stopping the spread. Iowa went from nearly full employment, and little sign if any of recession, to just the opposite manner in a matter of weeks. There was a period of time where the fear of going outside was sweeping the country, routine life as people knew it obviously had changed and the word Zoom took on a whole new meaning. But that does not change the facts that the economic fundamentals were strong going into the pandemic and Mr. Roederer believes, while bruised and somewhat battered, our fundamentals are still strong this day. Now, the largest question that this group is trying to get the answers to in analyzing the economy, as it has been pointed out, is when and how fast will Iowa re-energize and rebound from a pandemic which is likely to be here for a while. Now many in the workforce are temporarily going through some tough adjustments, but as more companies come back online you will see most, if not all of these individuals going back to work. Whether they will be working from home or whether they will be going back to where they were before this happened or if there will be changes in assignments.

Now agriculture was being challenged prior to the pandemic, and it does not need to be pointed out to anybody listening or watching that there have been more obstacles thrown its way. The United States/China agreement was just barely being signed about the time the first case of COVID was confirmed in China. There was concern whether China was going to fulfill its \$40 billion commitment that was agreed to in the purchase of US agricultural products in the signing. In early March, the United States began testing positive for COVID-19 and the CDC guidelines recommended the near shutdown of all but essential services. Commodity markets, which are key in Iowa, the demand was nearly zeroed out. There was closure of schools, restaurants and bars, and a reduced demand for ethanol and these all had devastating impact on Iowa's products. To complicate it further, there were also major disruptions in the food chain. However, agriculture producers are working through this in a way which they always do, and they will get through this. The question is how long it is going to take.

On the positive side, land prices are still strong, which is fundamental to agricultural sovereignty in the state; China is currently moving forward with the treaty; the U.S./Mexico/Canada treaty is working and the United States/Japanese agreement is still in

place. As mentioned before, the fundamentals that were there going into the pandemic are still in play.

The financial institutions- banking, insurance, credit unions- are all strong. There has been an unprecedented \$50 billion put into Iowa's economy through the federal loan programs mentioned earlier and these are to help keep businesses in operation as they recover. The re-financing of home mortgages to lower rates is at an all-time high in Iowa, which translates into more money into individual homeowners' pockets.

Is everything rosy? Of course not. The manufacturing sector of our economy has experienced what Mr. Roederer considers a temporary slow-down. They have had to reduce some of their plants in order to accommodate appropriate distancing. Many Iowans are struggling with whether they will ever be called back to work; businesses are wondering if they will be able to survive until the recovery; will the virus ever go away and is it safe to go outside?

All of these have as much of a psychological impact on individuals and what that is going to do to the economy as does necessarily the reality. Economically, Mr. Roederer believes that things are on the upswing. The question is how fast do things recover and at what level. Mr. Roederer believes that honorable people can disagree in answering these questions. As Ms. Lyons pointed out earlier, there is no economic model of what happens when a pandemic comes through and closes your economy. And there is no model that says how to come out of it and how quickly to bounce back. Three years from now, there will be great models to tell you if this comes again in 100 years what to do, but currently it is not there. Now these, plus many other factors, is what the Governor's Appointee utilized in putting together their estimates. As Ms. Lyons pointed out, what makes this a little more challenging, in an ordinary year April is the month when the state receives most of your taxpayer money. This is no ordinary year. The federal income taxes are always due on April 15, we all know that. But this year they were not because they were changed at the federal level. Iowa has what is called federal deductibility where you can deduct your federal taxes from your state taxes. So, when the federal government changed from April 15 to July 15, the state also needed to change their date from April 30 to July 30. So, there is a challenge with not knowing for sure when the large tax returns may be coming in until the end of July. That puts the Legislature in a very difficult position that the Governor and the Legislature must come up with a budget that begins July 1, even though some of the numbers will not be in until the end of July. We make the best estimates that we possibly can. We at the Department of Management are a little more optimistic than what Ms. Lyons had pointed out the LSA estimate is and what Mr. Underwood has indicated. But in the whole scheme of the amount of money we are talking about, we are not really that far apart either.

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

Motion: Mr. Underwood made a motion to move the LSA numbers for FY20, which would be a reduction of \$150 million.

Second: Ms. Lyons seconded the motion.

All voted in favor and the motion was carried unanimously.
Expected growth for FY2020 is now \$82.4 million, which is a 1% increase.

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

Mr. Underwood stated there are only two numbers he is questioning and they are in the LSA column. He believes the recovery, particularly in withholding and sales tax, is going to be a little bit slower – about \$150 million too high in those two numbers - \$100 million on withholding and \$50 on sales tax. Ms. Lyons commented that in withholding there isn't a lot of experienced data yet to see that. They think a lot of the federal money that is coming in, in terms of unemployment benefits and the \$600 extra unemployment and the Payment Protection Program, are bolstering income tax revenue potentially. They haven't seen anything yet that it is not. Mr. Roederer concurred with that. The withholding has been stronger than most anticipated that it was going to be. Mr. Roederer stated there are also companies that are still advertising for positions and they are still saying they are having a difficult time finding individuals they are going to need. He doesn't think that number is off that much, if anything it's a little low. So, he would be reluctant to go any further than that.

Mr. Underwood stated part of what he is feeling uncomfortable with is employment is being held up with the PPP program artificially, those numbers and the federal subsidy of those wages is going to run out very quickly unless congress acts very soon. The \$600 unemployment bonus is going to run out very soon as well. Yes, there are people still looking for people to go to work, but other industries are struggling right now and some companies are talking layoffs unless the economy picks up significantly. He sees what has been holding it up, to kind of hold up on the withholding. He knows a number of restaurants, to get people to come to work, increased their wages considerably. But that is temporary, it is kind of combat pay and he does not think that is permanent. It is not sustainable in many businesses. Most of the businesses that were hoping to re-open, a lot of those won't. There is a bigger challenge than Mr. Underwood would like to see, but to be on the conservative side he feels his number is within reason.

Mr. Roederer stated from what he has been able to see in talking to people, there are several companies that are somewhat re-tooling, not technically re-tooling but preparing for a time when they can re-open, and he states it is not like individuals are just plain out of money. There is a reason they have not been spending more money, and probably making more, is because they have not been allowed to go to work. He thinks it is not a matter of nothing is going to change, or that running out of the unemployment than people will just stay home without any wages. He thinks that you will see many going back to work, and he thinks that taking it down any further is just way too far.

Mr. Roederer stated lowans will be going back to work and it is not like our economy is not moving, we are being held back because we have not gone through this before, we have not

had this situation where fundamentally things in the state are going well and then for all the right reasons it was stopped and now it is a question of getting it going again.

Ms. Lyons stated the May 25th withholding and sales tax payments were just made and they were not awful. She would have expected them to be worse at this time. She is a little concerned about the message we send. There is enough fear and trepidation out there. Is there a compromise that is not the full \$100 million on personal income tax?

Motion: Mr. Underwood moved the LSA number (total amount) for Fiscal Year 2021.

Second: Ms. Lyons seconded the motion.

Discussion: There is approximately \$110 million difference. Mr. Roederer asked if could find somewhere in between there. Ms. Lyons suggested increasing LSA's numbers by \$25-50 million. Mr. Roederer stated he would be more comfortable with \$50 million and Ms. Lyons agreed to that. The first motion and second were withdrawn.

New Motion: Mr. Underwood moved to increase LSA's personal income tax number by \$50 million, which would be a total of \$7,876.6 billion, a decrease of \$64.6 million or -0.8%.

Second: Ms. Lyons seconded the motion.

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: Mr. Underwood made a motion to move the LSA number for FY22, which is \$8,199.5 million, 4.1%.

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.

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 2:00 p.m.

The May 29, 2020 minutes were approved at the October 13, 2020 meeting. Ms. Lyons made a motion to approve the May 29, 2020 minutes and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.

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