

**Revenue Estimating Conference  
Minutes  
October 13, 2016**

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**Members Present:** Dave Roederer, Holly Lyons, David Underwood.

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 that consists of Ms. Lyons representing the Legislative Branch, Mr. Underwood who represents the state and himself who represents the Executive Branch. The Board is required to meet at least three times per year, where a consensus is to be reached. Projections are developed independent of each other, using a variety of sources. The Department of Revenue is relied upon heavily. The Governor is required to submit his budget based on the December estimate and the Legislature uses the lower of the December or March estimate.

**Approval of the March 16, 2016 minutes**

Mr. Roederer called for a motion to approve the March 16, 2016 minutes. Mr. Underwood made the motion to approve the minutes and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

**Approval of the October 13, 2016 agenda**

Mr. Roederer called for a motion to approve the October 13, 2016 agenda. Mr. Underwood made the motion to approve the agenda and Ms. Lyons seconded the motion. All voted in favor and the motion was carried unanimously.

Mr. Underwood began by stating that the situation that was reflected in the minutes from the March meeting, not much has changed relative to adding certainty to anything. Reading about the Federal Reserve lately and their comments regarding whether they will raise interest rates or not, they don't have a lot of certainty as to what the situation really is, and the level of growth. Employment seems to be holding pretty good nationally, and Iowa particularly, continues to have good employment. Withholding is the biggest source of revenue in Iowa and that remains good. Reading about the small business uncertainty index taking a big jump, that is a reflection of what is going on and the nearness to an election. There are a lot of underlying things worldwide, as well as nationally, causing so much uncertainty. That is seen in quite a few businesses in Iowa; the uncertainty yet about the corn and soybean yields, declining profitability in some of the animal industry, whether it be dairy or beef. In looking at the numbers, it is a guarded optimism. Mr. Underwood is fairly comfortable with the formal estimates. Fortunately, there are not great differences.

Ms. Lyons stated that before discussing the economy of FY 2017 and FY 2018, she noted that the FY 2016 revenue came in \$27.0 million below the estimate made last March by the REC, after adjustments for law changes which totaled \$97.6 million. We missed the mark by just

under 4/10ths of a percent on a \$6.9 billion General Fund estimate. However, when looking at FY 2017 now, we are working from a smaller base, and it also looks like the estimate for FY 2017 was high and needs to be adjusted downward.

So what happened at the end of FY 2016? Iowa continued to experience income growth but it was very, very slow growth, slower than projected last March. This may be attributed in part to the poor performance of the stock market in calendar year 2015, resulting in lower nonwage income for Iowans. It is also likely that the declining farm commodity prices played a role in reducing personal income tax revenue, as well as reducing available money for durable goods purchases such as farm equipment. Employment numbers remained strong in Iowa however, which is a good sign. We missed the mark on corporate income tax too, but that income didn't drop as low as predicted.

Turning to 2017, the US economy faces a relatively high degree of uncertainty due to the outcome of the presidential election, the choices of the Federal Reserve, possible production cuts by OPEC, and now more recently, the impacts of the flooding brought on by Hurricane Matthew. Corporate profits are low and appear to be getting lower, which is a concern.

However, there is underlying strength in the economy - more people are working and people working are receiving raises; unemployment claims are at the lowest in decades and show no signs of increasing; and energy prices remain low. While in the 88th month of recovery from the Great Recession, the third longest post-recession recovery in US history, the growth spurt has subsided and while growth does continue, it is muted. There are global concerns too. The national and world economy won't really know the outcome of Brexit for some time, and economists and businesses need to watch whether any of the other countries in the UK or Europe will leave the European Union. The world economy is growing at an even slower pace than the US economy and that's impacting the agriculture industry, particularly in Iowa and other Midwestern states. There is negative economic growth in Russia and Brazil and slow growth in China and Japan, all situations to keep our eye on.

In Iowa, economic indicators are mixed. Ag commodity prices continue to drop, but at a much slower pace and while the USDA predicts that farm income will drop again in calendar year 2016, it isn't expected to drop as much as it did in 2015. This is in part due to lower input prices and production expenses, and anticipated record harvests.

Moody Analytics projects that the S & P Stock Index will grow 6.1% in 2017, after only a 1.7% increase in 2016, and this should positively impact nonwage income tax revenue. The Iowa Leading Indicators Index increased in August - the largest increase since 2014, and 5 of the 8 indicators experienced positive changes, including residential building permits, average weekly unemployment claims, and agricultural futures profits index.

In Iowa, withholding tax receipts are currently supported by 1% growth in employment. Nonseasonally adjusted nonfarm employment is increasing by more than 16,500 jobs per year and the Department of Revenue forecasts that this rate is expected to continue in FY 2017, with

corresponding increases in wage and salary income. Initial Unemployment Insurance Claims, an early signal of a recession, remain low suggesting that the Iowa economy remains strong and in most instances, indicates that a lack of qualified employees is likely a bigger issue than the lack of available jobs. This echoes the Iowa Business Council Economic Outlook Survey that cited the primary business challenge in Iowa is attracting and retaining a quality workforce. The Business Conditions Index for Iowa fell to 48 after reaching 53 in May. This is below the growth neutral value of 50, with much of it attributed to a decline in exports of manufactured machinery. Additionally, average manufacturing hours and new orders are down, as are the number of hours worked per week.

Another component to watch are tax credit claims, which are projected to increase. The Department of Revenue estimates that there will be a 15.3% increase in tax credit claims in FY 2017. This is one of the components of the refund line item when looking at revenue estimates. As refunds increase, revenues decrease.

Currently, in most economic forecast articles, the words modest or moderate growth will be seen; a few claim weak growth, but there are no significant signs of a recession or economic downturn in Iowa at this time. Revenues are admittedly off to a slow start this fiscal year, but the LSA remains cautiously optimistic about FY 2017 and FY 2018. Although there are only 3 months of available revenue data to review and it's still very early in the fiscal year, the LSA hopes to know more when this conference meets again in December.

The LSA estimate reduces the March REC estimate by \$29.3 million for FY 2017, a reduction of less than one half a percent. The LSA has reduced the initial estimate for FY 2018 made last March by \$51.8 million.

Mr. Roederer started by stating on the International side, China will be the key indicator to watch. While their growth rate is slower than it has been for a few years, it is still better than most other countries in the world. With the U.S. ties with them, that will have a big impact.

As far as the U.S., manufacturing is not doing as well as people had first projected. That is pretty much tied with the strong dollar and that will be a little bit of a challenge going forward. Many of the national indicators, as Ms. Lyons pointed out, are not at the level one might think coming out of this recession. It has been taking longer to come about, but everything else has been pretty much at or below the rate of inflation, with the exception of those of you who have kids in higher education or anyone that has visited a hospital lately.

Looking at the state, Mr. Roederer would echo what both Ms. Lyons and Mr. Underwood had pointed out. The reason Mr. Roederer is a little more pessimistic is because of some of the fundamentals and that pretty much is one that has been mentioned – workforce. There is still issue there and there are efforts to address that. There are jobs available, just not necessarily that can fit the skillset.

Agriculture is a major concern and what has dampened Mr. Roederer's optimism on the economy right now. Looking at all the major agricultural products – corn, soybeans, pork, beef and poultry – all are pretty much producing at a loss. The manufacturing sector of the state is very heavily tied to agriculture. Many of the products some of the smaller manufacturers (10-15 employees) produce are products for agriculture for the larger companies. So it has had that ripple effect and that is what Mr. Roederer is concerned about. If you look at manufacturing as a total of the workforce, it is approximately 10-15%. But if you look at wages that come in, it averages about 22%, so that can have a big impact on what the personal income is. Land values in agriculture are trending downward. Changes to the renewable fuel standard have decreased the demand for corn in the state, along with ethanol production. On the positive side, there is going to be a trade agreement signed tomorrow at the World Food Prize, which should be a benefit to Iowa farmers. Iowa agriculture producers are not heavily leveraged. There are many producers purchasing land that have long-term interest rates that have already been locked in so when interest rates start moving at the federal level, it is going to impact operations and new purchases, but will not be a big factor on those that already own their land or are purchasing their land, so it isn't like it's going to flip them upside down all of a sudden.

As Ms. Lyons mentioned, the employment growth is still around 1% and has been pretty consistent; and as long as people are working in this state, economic-wise the state is going to be okay. The problem is it isn't large increases and as a result there are not a lot more taxes being paid, which comes into the revenue and is what is being estimating.

There are some challenges and as far as the numbers, the Governor's Appointee's numbers are lower than what LSA is recommending, but we went back and forth quite a bit on numbers to get to this point.

#### **Review Fiscal Year 2017 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Roederer began by explaining the spreadsheet. Mr. Underwood made a motion to start with the LSA number for FY 2017; however, reduce the corporate income tax by \$20 million, bringing the net receipts to \$7308.1 million, which would be a 5.6% increase over FY 2016. Ms. Lyons seconded the motion; all voted in favor and the motion was carried.

#### **Review Fiscal Year 2018 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Mr. Roederer made a motion to use LSA's numbers and the motion was seconded by Mr. Underwood, which brings the net receipts for FY 2018 to \$7,607.3 million or 4.1% increase over FY2017. All voted in favor and the motion was carried.

#### **Fiscal Years 2017 and 2018 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Ms. Lyons made a motion to move the estimated Gambling Revenues for FY 2017 of \$289.3 million and \$292.3 million for FY2018, and the motion was seconded by Mr. Underwood. All voted in favor and the motion was carried.

Mr. Underwood made a motion to move the Interest Earned on Reserve Funds of \$4.2 million for both FY 2017 and FY 2018 and Ms. Lyons seconded the motion. All voted in favor and the motion was carried.

**Other Business**

With no further business, Mr. Roederer called the meeting adjourned at 11:23 a.m.

These minutes were approved as of 12/12/2016.

Respectfully submitted,

*Tammy Winters*