

**Revenue Estimating Conference
Minutes
October 13, 2020**

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

After technical difficulties, Mr. Roederer called the October meeting of the Revenue Estimating Conference to order at 2:45 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. 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 begins July 1, 2021 and ends June 30, 2022. We are estimating 652 days of economic activity in the future and that means 9 months for fiscal year 2021 and fiscal year 2022.

Approval of the October 13, 2020 agenda

Mr. Roederer called for a motion to approve the agenda for the October 13, 2020 meeting

Motion: Ms. Lyons

Second: Mr. Underwood

All voted in favor and the motion was carried unanimously.

Approval of the May 29, 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 before discussing the current economy or FY 2021 and FY 2022, I would like to note that FY 2020 books are closed and revenue came in just \$6.1 million below the estimate made last May by the REC, after adjustments for law changes in the June Session. We missed the mark by less than one-tenth of one percent on a \$7.9 billion budget, thanks largely to a huge federal assistance stimulus package that sent direct payments to many Iowans, provided increased

unemployment benefits to those that lost jobs due to the pandemic, and provided a payroll assistance program for businesses.

Now we need to face the nearly impossible - re-evaluating our FY 21 and FY 22 projections in light of several things including: a continuing pandemic with no definitive end in sight, drought in some areas of the state, an unusual and very damaging Derecho last August, a highly contentious election season, and current political gridlock in Washington that has reduced the chance of another much talked- about federal stimulus package from happening any time soon.

How do you adjust to an everchanging situation where the new normal seems to be indefinite uncertainty? Currently, so many systems aren't working as they normally do, which means a radical shift in work, school and home life for all. And I would be remiss to not say that the Covid-19 pandemic continues to take a very personal toll on Iowans in addition to the economic impact.

Looking at FY 21, the current fiscal year; let's review some of the economic indicators: unemployment rates peaked in Iowa last April at 11.0% but the latest rate is 6.0% as more than half the jobs lost have been added back. But slow job growth is expected, and it will be some time before Iowa sees the record low unemployment rates of 2.8% experienced last year at this time. Iowa initial unemployment claims are still 2 to 3 times higher than that experienced over the last several years. Federal stimulus money bolstered Iowa income and sales tax and while retail sales are down, they are nowhere near the low levels of the last recession. E-commerce has seen a big jump as a result of retail sales, and while some industries in Iowa such as hotels, restaurants, bars, and entertainment venues have been hit especially hard in terms of sales, there has been substantial growth in other classes such as building materials and specialty retail – with the Derecho damage and subsequent repair partly responsible for the jump in building materials and the switch for many to working from home has been responsible for the growth in the outfitting of home offices.

Crop prices are not doing as well as they had been, but the bottom isn't falling out. The Derecho impact on the harvest is still unknown but the latest estimate by the USDA is that the corn crop will be reduced by 550,000 acres, and much of that may be covered by insurance or federal disaster payment. The recent Iowa Business Condition Index climbed to 56.4 after bottoming out at 37.5 in the first quarter – anything over 50 indicates expansion, and four components were strong: new orders, production, sales, and delivery time. Employment and inventories are still showing weakness.

Like the US economy, the Iowa economy won't truly get back on track until the pandemic is over, or until at least a viable COVID vaccine or therapeutic treatment is available and widely distributed. A surge in the virus may also further damage the economy. Meanwhile the economy has been kept afloat by the unprecedented level of economic support through federal fiscal and monetary policy. It remains to be seen if that will be enough to weather the economic storm. If it is, we should expect a slow and positive recovery over the next 18 months and the LSA estimates reflect that.

Currently through last week, general fund revenue for FY 21 was up \$123 million or nearly 8.0% compared to last year, thanks to the big boost due to federal stimulus money and withholding income from unemployment payments. The LSA FY 21 projection calls for \$65 million in growth for the entire year, which is less growth in net revenue than is already in the bank through October 9.

FY 22 doesn't start for nine months. 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 solid revenue growth and we should expect the recovery from this recession to do the same.

Unlike many states, Iowa is in a strong financial position ending FY 20 with a surplus and reserve funds that are at the statutory maximum. Our unemployment rate is currently the 12th lowest in the nation. We're in a position to weather an even tougher economic storm if necessary.

At the October meeting we always say, "we'll know more by December" and I can't emphasize that enough this time around. This was our first hard look at FY 22, and hopefully in two months, there will be more clarity on a number of fronts including the election, whether the existing federal fiscal and monetary response to the recession brought on by the pandemic has been sufficient, and hopefully we'll have more information on the timing of a vaccine or therapeutic treatment for Covid-19. We will also have two more months of economic and revenue data to review prior to setting the estimate that the Governor and Legislature must use in preparing and adopting the FY 22 budget.

Mr. Underwood stated in spite of unemployment claims, there are still Help Wanted signs all over the place, which is great to see. And these are not just signs that have been left up. There are also new signs that are appearing. Driving around just to see what is actually going on in different parts of north Iowa, I've been amazed at the number of construction projects I've seen and have been amazed at types of businesses that are actually adding to their buildings and expanding. And the adaptability of Iowa's businesses and non-profit organizations to adapt to the new abnormal has just been tremendous. Organizations that I was worried about how they were going to survive have done amazingly well. And donors that support these organizations understand that they needed help and a lot of people wrote a lot of people wrote a lot of additional checks. The resiliency of Iowans is amazing under these circumstances and then throw in the big wind storm in central Iowa to see if we could really mess us up. As long as you didn't need electrical outlets, you were fine. It's quite amazing what we've gone through. The question becomes in my mind, two big ones, is when does that vaccine get here and how quickly can we get it out to our people. It is certainly going to open it up to those of us that are on the upper edge of the age scale. That is keeping a lot of people out of things and that will let the rest of us get together again and see each other face to face. That as well as getting this election over so that we could maybe figure out at least where we are headed. I think that will have a major impact, as well.

Mr. Roederer stated when we met last time, we were just beginning to see the negative impact of the virus but the full extent was not known and it is still not known. If that wasn't enough, we participated in the derecho, which Holly and David mentioned, and some of us hadn't even heard of such a thing before. We saw the horrible impact of the event but at least the storm had an ending to it. We don't know the ending for the pandemic yet. Since the last REC meeting, the nation and Iowa's economy opened up and is starting to grow. Business is growing again, Iowa jobs are coming back, albeit a little slower pace than we would like, and as Mr. Underwood pointed out there are still many businesses looking for workers. Our economic fundamentals are also starting to show modest signs of strength. Our financial institutions, banking, insurance and credit unions, are strong. An unprecedented six billion dollars has been

put into Iowa's economy through federal programs to help businesses in operation and allow them to start to recover. Places of worship are back open under safety guidelines, children are back in school sort of and school-related activities are moving back to a small degree of normalcy; Iowa State Cyclones are three and zero in the Big 12 and Iowa Hawkeyes and UNI Panthers are so far undefeated this season. So, there is room for all kinds of optimism but we also have challenges. Many Iowans are still going through some tough economic challenges. We still have several folks that are unemployed. Agriculture was being challenged prior to the pandemic and along came the derecho and didn't make matters any better. In early March, people in the U.S. began testing positive for COVID-19, the CDC guidelines recommended a near shutdown of all but essential services and commodity market demands were nearly zeroed out by the closure of schools, restaurants, bars and reduced demand for ethanol had a devastating impact on our agricultural products. However, as Mr. Underwood pointed out, that federal assistance and crop insurance have helped ease some of the financial burden. There are still supply chain disruptions which, I believe, are holding back the U.S. economy from recovering even quicker. So the question remains, I think the key is at what pace will the economy energize and rebound from a pandemic that refuses to leave us or be vaccinated away. All wonder when our lives are going to get back to normal, but maybe better yet, how are we even going to define normal. There are no economic models of what happens when a pandemic closes an economy and as it opens up a 140 mph winds cross the state destroying 850,000 acres of the Iowa's harvest. The question is how fast will we recover and at what level. Honorable can disagree on answering the question. But what you have heard from all three of us is that we believe that we are on the rebound and heading in the right direction, it is just how quickly we can get there.

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 LSA number for FY 2021, reduce the corporate income tax number to \$748.4 to match the REC estimate of last May, then take the balance out of personal income tax.

Second: Mr. Underwood seconded the motion.

All voted in favor and the motion was carried unanimously.

Expected growth for from the May estimate is \$35.1, which is -0.2% for the year.

Net Receipts Plus Transfers for FY 2021 from LSA is \$7,911.7, which is a growth of -18.9 million or -0.2%.

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

Motion: Mr. Underwood made a motion to take half of the \$200 million and split it equally between personal income tax and corporate income tax and reduce LSA \$50 million on each.

Second: Mr. Roederer seconded the motion.

All voted in favor and the motion was carried unanimously. New Net Receipts Plus Transfers for FY 2022 are \$8,230.8, which is a 4.0% growth. This is an increase over the new FY 2021 dollar amount of \$319.1 million increase.

Fiscal Years 2021 and 2022 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)

Motion: Ms. Lyons made a motion to move the numbers.

Second: Mr. Underwood seconded the motion.

All voted in favor and the motion was carried unanimously.

It was noted that the Legislature met after the May 29, 2020 REC meeting and the law changes enacted after the REC estimate and totaled an estimated -\$39.1 million. So, the balance sheet the legislature worked with was the REC estimate minus \$39.1 million.

Other Business

With no further business, Mr. Roederer called the meeting adjourned at 3:30 p.m.

The October 13, 2020 minutes were approved at the December 11, 2020 meeting. Ms. Lyons made a motion to approve the October 13, 2020 minutes and Mr. Underwood seconded the motion. All voted in favor and the motion was carried unanimously.

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