

IOWA ECONOMIC SCORECARD

Volume 17, Number 4

November 2009

Read ‘Em and Weep

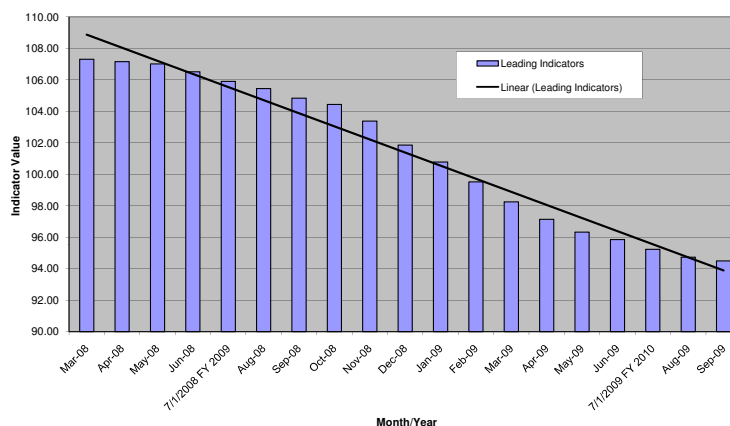
By Deborah D. Thornton

Even a casual card player is familiar with the phrase, “Read ‘em and weep!,” which is proclaimed as the player lays down the winning hand, showing his cards and taking the pot. It refers to the risks and hopes of gambling on a card game, whether the stakes are high or low. The risk is that the cards are bad and the pot large. You have no control over the cards you are dealt, only how you play them. Whether or not Iowa Governor Chet Culver plays cards, weeping was probably on his mind following recent tax collection and economic reports. The cards are definitely bad and the risk quite large in how he is playing them.

Tax collections have been on a downward trend for over 12 months now, and the Iowa State budget is badly out of balance.¹ The Iowa Revenue Estimating Conference (REC) by law (Iowa Code Section 8.22) has the duty of officially projecting the revenue number to be used by the Governor and Legislature in determining the state budget. This must be done each year by December 15, for the fiscal year starting the next July.² For Fiscal Year 2009, which started July 2008 and ended June 30, 2009 the REC estimate was due by December 2007. The three-person REC has a variety of information available for its review and consideration.

For example, the Iowa Department of Revenue produces the Iowa Leading Indicators Index (ILII) every month. This report, modeled on that of the national Conference Board reports, is intended to help both the Governor and Legislature determine the direction of the economy, and presumably the resulting budget and legislative bet they should make. In the most recent report of September 2009 the leading indicators continued their fall from a March 2008 high of 107.30 to the current 94.5. As the chart below shows, the ILII has been on a straight-line downward path since the March 2008 high.³

Iowa Leading Indicators Index



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President
Dr. Don Racheter

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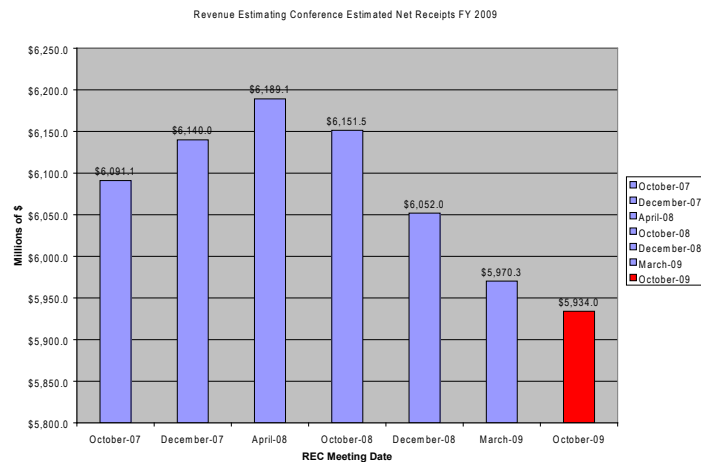
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The initial December 2007 REC FY 2009 estimate was \$6,140 million, or \$6.14 billion in taxes. In April 2008, in conjunction with the March ILII projection of 107.3, the REC increased its FY 2009 estimate to \$6,189.1 million.

However, by October 2008, the ILII had fallen to 104.43, in a straight-line drop. By December it had fallen even further to 101.85. In contrast, the REC dropped its FY 2009 revenue estimate by only \$38 million, and then by another \$100 million at the October and December meetings. As the following table shows, these estimates were not low enough, and the final FY 2009 actual revenue was even lower, falling below \$6 billion to \$5,934 million.














Where the real trouble continues is with the REC projections moving into Fiscal Year 2010 – the current budget year. At the same time it was reducing the 2009 numbers, and the ILII was in a straight downward line, the REC apparently did not take the indicator lag into account, and last October actually projected a tax revenue increase for FY 2010 over FY 2009. This it immediately dropped in December, and then further last March, as the table below shows.

	Estimated Net Receipts FY 2009	Estimated Net Receipts FY 2010	Estimated Net Receipts FY 2011
April-08	\$6,189.10		
October-09	\$6,151.50	\$6,158.40	
December-09	\$6,052.00	\$6,025.80	
March-09	\$5,970.30	\$5,853.00	
October-09	\$5,934.0**	\$5,438.00	\$5,416.30
December-09		???	???
	** Final FY 2009 Net Receipts		Data from REC reports as indicated

Iowa Statewide Economic Indicators

Data source: <<http://www.iowaworkforce.org/trends>> November 13, 2009

Latest Economic Indicators	Updated as of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	10/10/2009	-16,570	-20.2%	August 2008-August 2009
 New Housing Permits	10/30/2009	-888	-15.2%	September 2008-September 2009
 Existing Home Sales	11/13/2009	9,200	17.6%	2nd - 3rd Quarter 2009
 Total Resident Jobs	10/20/2009	1,579,700	7,200	August - September 2009
 Non-Farm Employment	10/20/2009	1,478,300	-1,200	August - September 2009
 Factory Jobs	10/20/2009	203,500	2,400	August - September 2009
 Unemployment Claims	10/20/2009	113,100	59.2%	September 2008 - September 2009
 Jobless Rate	10/20/2009	113,100	6.7%	September 2009
 Personal Income	10/16/2009	\$37,402	1.9%	1st. Qtr 2008-1st. Qtr 2009
 Exports of Goods	8/1/2009	\$5,358 million	-23.9%	January - July 2009
 Farmland Values	9/4/2009	NA	-5.0%	July 2008-July 2009

However, Governor Culver and the Democrat-controlled Legislature read last October's report, and then stopped. They rejected every attempt to reduce the budget. Over \$400 million in cuts were proposed by the Republican Legislators. All were summarily rejected. Instead, bolstered by their enthusiasm for the huge federal stimulus program, Culver signed the largest budget in state history, including the \$800 million I-Jobs borrowing program.

Now the October 2009 REC estimate for FY 2010 has been reduced even further to \$5,438 million, and Governor Culver has called for an across-the-board budget reduction of 10 percent. In addition, at an October 8 press conference, Governor Culver said the FY 2010 budget already included, a "couple hundred million from the cash reserve, we've already drawn down a third of the cash reserves for 2010, and we're still short."⁴

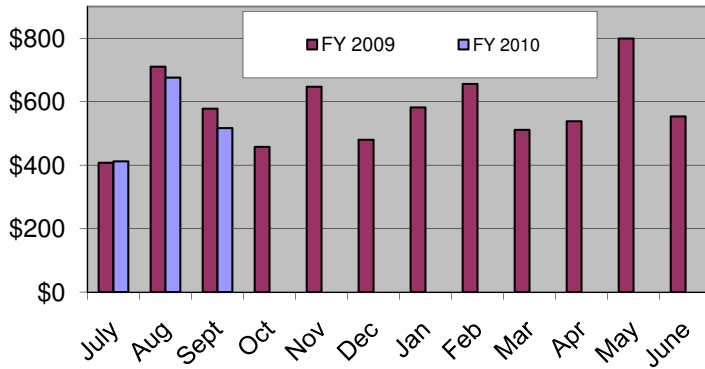
Governor Culver signed the largest budget in state history, including a draw down from the cash reserves, while his own Revenue Estimating Conference and Leading Indicators numbers were dropping significantly. What cards was he reading?

Based on the September ILII of 94.5, the outlook for FY 2011 is not optimistic either. Not only are the projections continuing downward, but other indicators (as reported elsewhere in our quarterly charts), such as the new home and car sales, farmland values, exports, and non-farm jobs are all trending downward. We trust the REC will heed these numbers in its official FY 2011 estimate in December and the Governor and Legislature will read them in January.

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Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



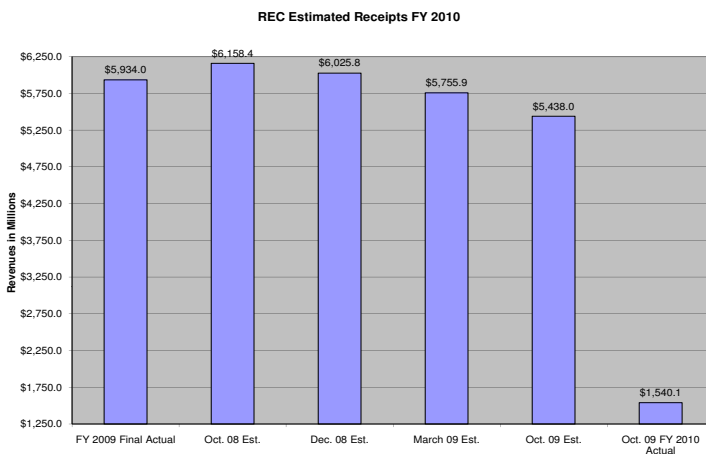
Iowa's Monthly State Revenue:

Monthly FY 2010 state revenue was \$516.9 million in September 2009. This is \$61.2 million less than FY 2009 for the month. Tax collections in all categories decreased, by as much as 27% in corporate taxes.

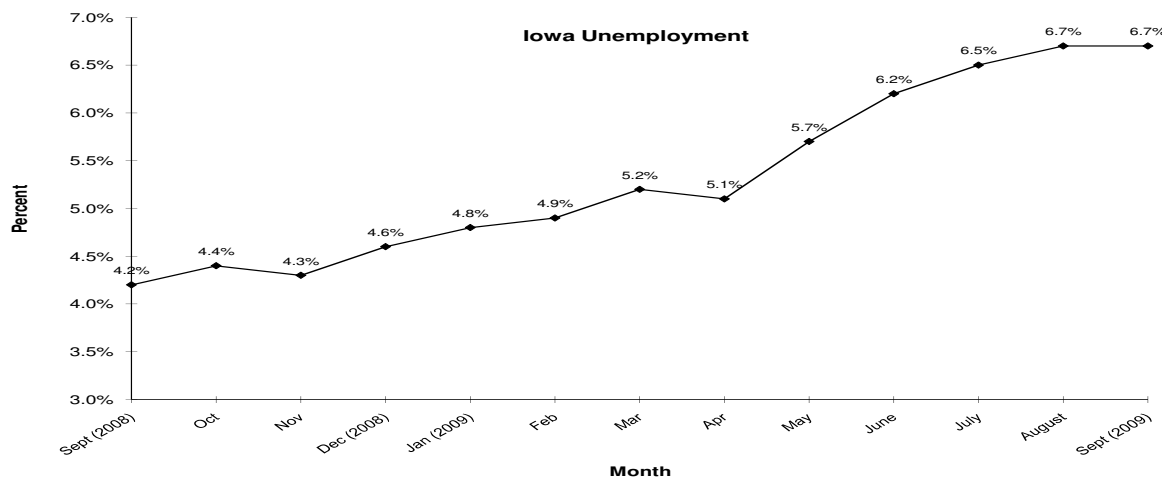
Iowa's Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference October number for FY 2010 Net General Fund receipts is now \$5,438.0 million. The net tax receipts for FY 2009 totaled \$5,934.0 million. This is almost \$1 billion less than the original, October 2008 estimate of \$6,852.1 million, or a drop of 16.3 percent.

Source: Legislative Services Agency "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report



Iowa's Unemployment, September 2008 - Current

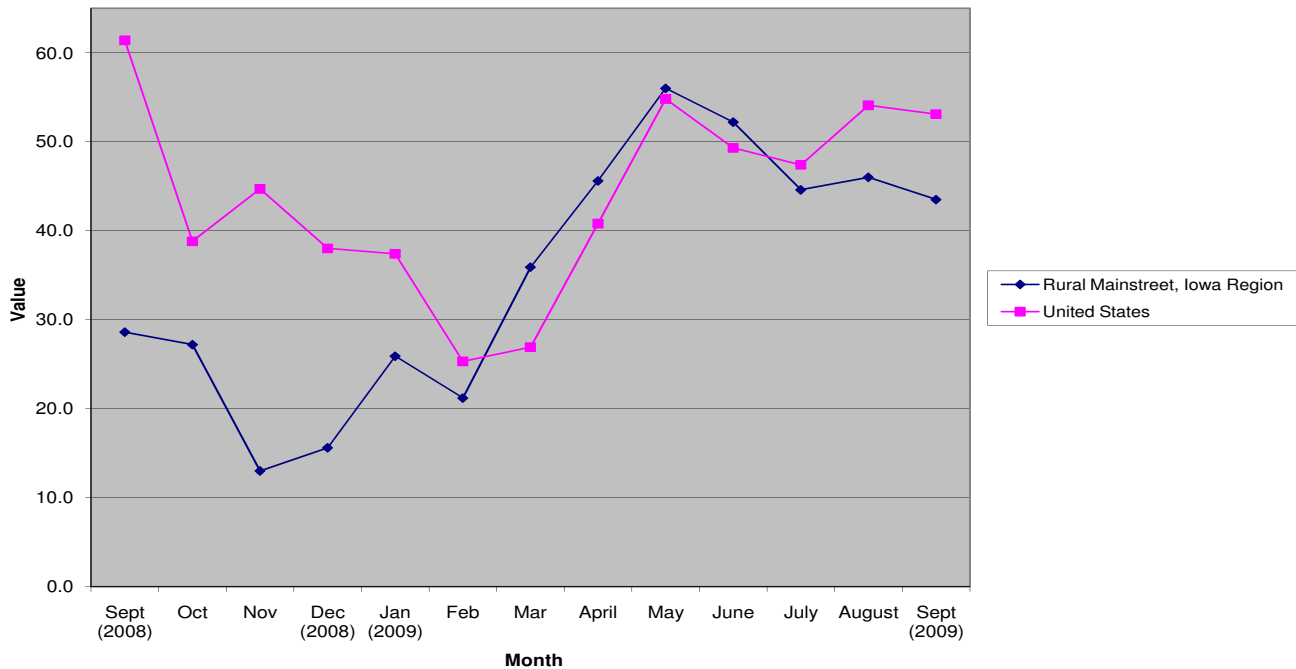


The U.S. unemployment rate in September 2009 was 9.8%, up from 6.2% one year ago. The Iowa rate is 6.7%, a 23-year high. This is up from 4.2% in September 2008. Total employment in September was 1,579,700, basically the same as August, but down 26,800 from last September. The number of unemployed persons was 113,100, over 42,000 more than a year ago. Iowa's Workforce Development reported that unemployment is likely to remain high into 2010.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News"

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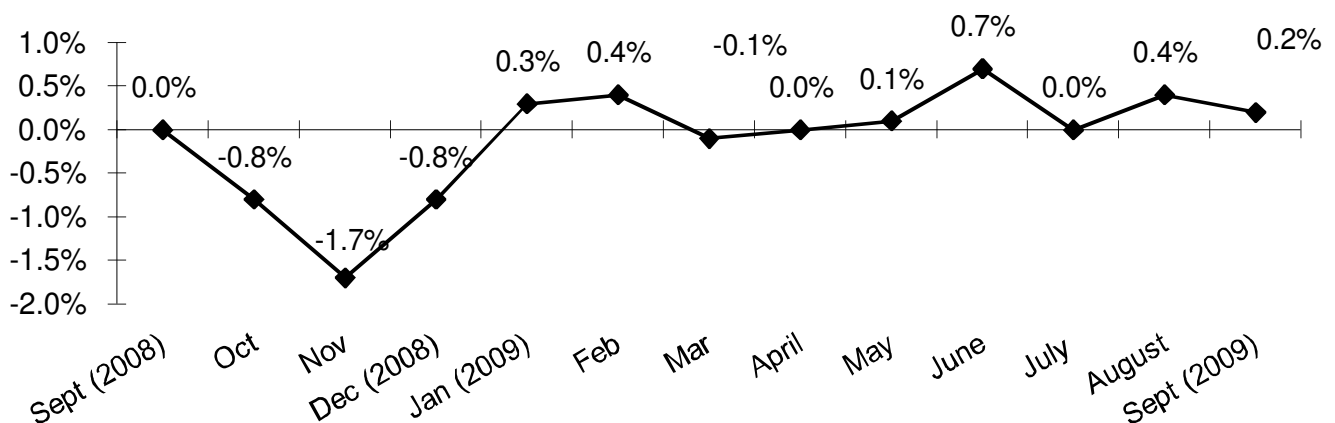
Consumer Confidence Index



As of September 2009, the Consumer Confidence Index (CCI) resumed a downward slide, falling to 53.1. The all-time low is still February 2009, at 25.3. According to the Conference Board, this reflects that “consumers remain quite apprehensive.... With the holiday season quickly approaching, this is not very encouraging news.” The Creighton University Regional CCI for the 11 Mid-western states dropped to 43.5, and the regional index has been below the national since July, driven by weakness in agriculture and state budgets.

Source: Conference Board, “Consumer Confidence Survey” and Creighton University

Consumer Price Index, Monthly Change



The seasonally adjusted Consumer Price Index for urban consumers increased 0.2% in September 2009, driven mostly by lodging away from home, new and used cars and trucks, public transportation, and medical care. In contrast, the food index continued to decline for the 12th straight month, the first time this has happened in over 40 years. Rent indexes also declined for the first time since 1992.

Source: U.S. Department of Labor, Bureau of Labor Statistics

REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS (in millions)

	FY 06 ACTUAL	FY 07 ACTUAL	FY 08 ACTUAL	FY 09 ACTUAL	% Change FY 09 Act vs. FY 08 Act
TAX RECEIPTS					
Personal Inc. Tax	2,854.2	3,085.9	3,359.7	3,330.7	-0.9%
Sales/Use Tax	1,881.1	1,910.1	2,000.2	2,327.4	16.4%
Corporate Income Tax	348.6	424.6	483.8	416.5	-13.9%
Inheritance Tax	73.1	76.0	78.4	75.4	-3.8%
Insurance Premium Tax	121.4	105.2	111.7	90.0	-19.4%
Cigarette Tax	89.5	122.0	229.5	215.8	-6.0%
Tobacco Tax	9.2	12.1	21.2	23.0	8.5%
Beer Tax	14.2	14.3	14.5	14.7	1.4%
Franchise Tax	35.5	33.3	37.6	33.7	-10.4%
Miscellaneous Tax	0.6	1.0	1.0	2.4	140.0%
Total Tax Receipts	5,427.4	5,784.5	6,337.6	6,529.6	3.0%
OTHER RECEIPTS					
Institutional Payments	13.0	12.9	14.9	15.5	4.0%
Liquor Profits	63.8	64.8	72.4	85.5	18.1%
Interest	17.5	28.7	25.3	14.6	-42.3%
Fees	76.2	84.7	82.1	77.7	-5.4%
Judicial Revenue	63.1	66.9	90.0	98.8	9.8%
Miscellaneous Receipts	49.7	35.7	36.1	39.8	10.2%
Racing & Gaming	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	343.3	353.7	380.8	391.9	2.9%
Total Gross Receipts	5,770.7	6,138.2	6,718.4	6,921.5	3.0%
Accruals (net)	54.0	37.4	(24.0)	16.9	-170.4%
Refunds	(586.0)	(597.9)	(674.8)	(803.9)	19.1%
School Infrastructure Transfer				(385.5)	
Total Accrual General Fund Receipts	5,238.7	5,577.7	6,019.6	5,749.0	-4.5%
Transfers**					
Lottery	79.6	59.3	55.3	56.5	2.2%
Other Transfers	64.4	9.3	9.6	128.5	1238.5%
Total Transfers	144.0	68.6	64.9	185.0	185.1%
Net General Fund Revenues	5,382.7	5,646.3	6,084.5	5,934.0	-2.5%
Estimated Gambling Revenues Transferred To Other Funds	171.5	208.7	220.7	216.2	-2.0%

* The March 2009 REC FY2010 estimate has been adjusted for \$97.0 million in post REC Legislative adjustments

** Transfers estimated on an accrual basis starting FY2009, October 2009 Estimate

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REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS (in millions)

03/09 REC* FY 10 ESTIMATE	% Change FY 10 Est vs. FY 09 Est	10/09 REC FY 10 ESTIMATE	% Change FY 10 Est vs. FY 09 Act	10/09 REC FY 11 ESTIMATE	% Change FY 11 Est vs. FY 10 Est
3,311.3	-0.6%	3,208.0	-3.7%	3,188.3	-0.6%
2,397.8	3.0%	2,255.1	-3.1%	2,279.3	1.1%
394.2	-5.4%	316.2	-24.1%	281.4	-11.0%
78.4	4.0%	67.9	-9.9%	71.3	5.0%
108.6	20.7%	88.6	-1.6%	88.6	0.0%
201.9	-6.4%	213.6	-1.0%	212.3	-0.6%
23.0	0.0%	23.7	3.0%	23.4	-1.3%
14.8	0.7%	14.9	1.4%	15.0	0.7%
31.2	-7.4%	34.0	0.9%	36.0	5.9%
1.0	-58.3%	1.0	-58.3%	1.0	0.0%
6,562.2	0.5%	6,223.0	-4.7%	6,196.6	-0.4%
13.7	-11.6%	14.7	-5.2%	14.7	0.0%
74.6	-12.7%	83.2	-2.7%	88.1	5.9%
14.1	-3.4%	5.0	-65.8%	5.0	0.0%
48.7	-37.3%	50.6	-34.9%	49.1	-3.0%
114.0	15.4%	114.0	15.4%	114.0	0.0%
37.8	-5.0%	36.9	-7.3%	35.1	-4.9%
66.0	10.0%	66.0	10.0%	66.0	0.0%
368.9	-5.9%	370.4	-5.5%	372.0	0.4%
6,931.1	0.1%	6,593.4	-4.7%	6,568.6	-0.4%
8.6	-49.1%	(26.4)	-256.2%	(3.0)	100.0%
(821.0)	2.1%	(891.3)	10.9%	(830.0)	-6.9%
(401.9)	4.3%	(379.0)	-1.7%	(383.5)	1.2%
5,716.8	-0.6%	5,296.7	-7.9%	5,352.1	1.0%
54.0	-4.4%	57.0	0.9%	59.0	3.5%
81.3	-36.7%	84.3	-34.4%	5.2	-93.8%
135.3	-26.9%	141.3	-23.6%	64.2	-54.6%
5,852.1	-1.3%	5,438.0	-8.4%	5,416.3	-0.4%
222.0	2.7%	214.6	-0.7%	214.6	0.0%

continued from page 3

Another old card player saying is, “Go big, or Go home.” Generally, in our family that means you put all 50 pennies into the pot at the end of the night and hope for the best. But the Governor and Legislature are dealing with many more than 50 pennies in a friendly game of poker. They’re dealing with the future of our schools, our jobs, and our families. They can not keep gambling with Iowans’ money and betting the house on bad cards. They better read those cards accurately and act accordingly, or we won’t have a home to go to.

(Endnotes)

¹ “Twelve-month Total Net Tax Receipts Through September 30, 2009,” Legislative Services Agency, October 15, 2009.

² Revenue Estimating Conference, <<http://www.legis.state.ia.us/asp/Committees/REC.aspx?id=156>> (October 16, 2009).

³ Iowa Leading Indicators Index, <<http://www.iowa.gov/tax/taxlaw/ILIIFY10update.pdf>> (October 19, 2009).

⁴ Press Conference, Governor Chet Culver, Radio Iowa, October 8, 2009,

<<http://www.radioiowa.com/2009/10/08/governor-orders-10-percent-cut-in-state-budget/#more-48778>> (October 21, 2009).

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