

# End of Fiscal Year Budget Update

June 30<sup>th</sup> marked the end of FY 17. For all of this past fiscal year, the Legislative Services Agency (LSA) reported net General Fund revenue growth to be \$85.3 million or a 1.3 percent increase over the previous year. This is below the Revenue Estimating Conference's (REC) revenue increase projection of 2.8 percent according to LSA's calculations.

Some people may be misled by the reporting of the *Des Moines Register* and believe that the state came up \$350 million short. That newspaper has failed to take into account budget adjustments the legislature already made this past session to handle this as we realized as the year wore on how much the revenue was slowing. The actual amount that will need to be made up is somewhere between \$65 and \$105 million.

Even though we have now reached the end of the fiscal year, the state's books on Fiscal Year 2017 do not officially close until the end of August. During this time, revenue that should be counted as part of FY 2017 will continue to come in. This happens every year. But it is unlikely that it will come in at a level to offset the difference between actual receipts and March's revenue projection from the REC. The Governor does have the power to transfer up to \$50 million from the Economic Emergency Fund to make up the difference.

Some may ask how could the actual amount of tax revenue paid to the state not meet the revenue forecast. While personal income tax revenue grew somewhat this year, it was less than previous years and below what the REC had projected.

The Legislative Services Agency and the Revenue Estimating Conference have said that the significantly lower corn and soybean prices are a substantial factor. Since they are below the cost of production, we are not seeing producers purchase the big-ticket items to the extent they did when prices were much greater a few years ago. And no matter how much the Iowa economy diversifies, it is still greatly affected by the agriculture sector and the spinoff business from that. And of course a slower economy means there is not as much income and so taxes paid into the state also slow down

as well. It is important to keep in mind that the revenue to the state has still increased, just not as much as predicted.

In addition, consumers making online retail purchases more and more in lieu of purchases from brick and mortar stores is another factor that is having an impact but how much forecasters don't know yet. Sales taxes on these online purchases are not collected as they would be if purchases were made at a store with a physical presence in Iowa.

There are also a growing number of products which used to be taxed, but now the state no longer collects, due to the way they are delivered. Movie rentals and CD purchases are taxable transactions in Iowa, but many consumers get their music and movies digitally today – which is not taxed. The same goes for software. A person used to have to buy a disc to load Microsoft Word on to their computer. Now that is accessed via a subscription.

Fiscal Year 2017 was the fourth consecutive year where actual revenue was below the REC forecast. A re-examination of the state's revenue forecasting process is warranted with that recent track record. The process has been virtually unchanged over the past 25 years. Since the economy has changed, we need to enact improvements to Iowa's revenue forecasting process. If we cannot find a way to correct this, then the state will have to lower the maximum amount of revenue that can be spent. The 99 percent expenditure limitation may be too much if we cannot accurately project tax revenue.

Feel free to contact me with ideas, thoughts, and concerns. My phone is 319-987-3021 or you can email me at [sandy.salmon@legis.iowa.gov](mailto:sandy.salmon@legis.iowa.gov) . I want to hear what you are thinking and will listen to your input. Together we will work to make a difference for the future of Iowa. Thank you very much for the honor of representing you!

Sincerely,

***Sandy***