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## Budgeting for FY 2013 under Uncertain Revenue Dynamics

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The Missouri Office of Administration recently announced the January 2012 state general revenue collections and fiscal year to date trends. The report raises concern about the ability of the state to meet revenue projections for the current year and holds significant implications for lawmakers as they budget for Fiscal Year 2013 (FY 2013).

### Current Revenue Growth Is Slower Than Expected

Missouri general revenue collections rose 2 percent in January (compared to January of 2011). The January collections continue a modest growth trend. In the first seven months of FY 2012, net general revenue has grown by just 1.3 percent. **This is substantially below the revised Consensus Revenue Estimate for FY 2012 of 2.7 percent. As a result, state general revenue will need to grow by an average of 4.6 percent for the remaining five months of the fiscal year to meet the revenue forecast.** Failure to reach this level of growth is likely to result in mid-year budget restrictions. If revenue continues to grow at the current rate through the remainder of the fiscal year, actual revenue collections would be as much as \$100 million below the forecast amount.

### Revenue Trends Require More Cautious Budgeting for FY 2013

The slow pace of revenue growth has significant implications for FY 2013 budgeting, and indicates that more conservative budgeting techniques may be required. The current year budget does anticipate \$125.6 million in “lapsed appropriations”<sup>1</sup>, which is being counted on as part of the revenue base for the proposed Executive Budget for FY2013<sup>2</sup>. Generally “lapsed appropriations” provide some margin in the event that revenues fall below the revenue forecast. However, under the current scenario, if any portion of the anticipated lapsed appropriations is used to fill the current year budget shortfall, it would compound the expected FY 2013 shortfall.<sup>3</sup>

The current uncertain dynamics of revenue growth also call into question two additional and unusual components of the Executive Budget Proposal for FY 2013, specifically:

- Budgeting to expend nearly every dollar of expected revenue (commonly referred to as “budgeting to near \$0); and
- Not planning for a FY 2013 Supplemental Budget.

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<sup>1</sup> “Lapsed Appropriations” refer to the amount of authorized appropriations that are not spent during the year. It is typical for the State to have some level of unspent appropriations because department budgets are based on projections of needed funds for the entire year, which will generally fluctuate in the same way that private organizational and business budget projections might fluctuate.

<sup>2</sup> General Revenue Summary: [http://oa.mo.gov/bp/budg2013/Budget\\_Summary.pdf](http://oa.mo.gov/bp/budg2013/Budget_Summary.pdf)

<sup>3</sup> The Executive Budget Proposal for FY 2013 is based upon an approximate \$500 million shortfall. The Missouri Budget Project however forecasts as much as an \$800 million shortfall. The difference results in part due to the dynamics and budget procedures described here.

Even in good economic times, when revenues exceed the annual forecast, Missouri has rarely assumed that every dollar of available revenue would be spent. **In fact, since 1986 the state has only budgeted down to, or near, \$0 six times.**<sup>4</sup> Not only is budgeting to expend every dollar highly unusual, it does not allow any “margin for error” nor for the ability to respond should revenue collections fall short of projections. It may also leave the state at risk of facing cash-flow problems.

In addition, in the same way that the state budget has annual “lapsed appropriations,” it also always<sup>5</sup> has “supplemental appropriations” that are generally approved by state lawmakers at the beginning of each legislative session. The supplemental appropriations allow the state to respond to unexpected budget needs each year, such as unexpected increased cost for various services. The most recently approved supplemental budget (FY 2011) authorized an additional \$140 million in spending.<sup>6</sup> **The state has budgeted for supplemental budgets averaging \$66.9 million in every year over the last decade, and has budgeted for supplemental budgets at least since 1986.**<sup>7</sup> Yet, the Executive Budget Proposal for FY 2013 does not include any projection for a FY 2013 supplemental budget.

Given current revenue trends, the use of these two rare budgeting procedures for FY 2013 could be very risky. The FY 2012 Consensus Revenue Estimate is 2.7 percent while the FY 2013 Consensus Revenue Estimate is a more robust 3.9 percent. If either year ends with lower than projected revenues, it will be all the more critical that Missouri budget more conservatively.

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<sup>4</sup> Data on annual spending taken from the Missouri Executive Budgets for Fiscal Years 1987- 2013

<sup>5</sup> There are no years in recent history where Missouri did not have a supplemental budget.

<sup>6</sup> Missouri Executive Budget Proposal FY 2013

<sup>7</sup> Data on supplemental budget proposals taken from the Missouri Executive Budgets for Fiscal Years 1987-2013

## Revenue Collections in January 2012 and FY 2012 Year to Date Compared with Previous Year

*Amounts in Thousands of Dollars*

<u>Tax Source</u>	Jan. FY 11	Jan. FY 12	Percent Change	FY 2011	FY 2012	Percent Change
<b>Individual Income</b>						
Withholding	365,996	373,502	2.1	2,501,105	2,561,511	2.4
Declarations	145,807	156,904	7.6	357,485	359,247	0.5
Remittances	9,775	11,739	20.1	98,744	110,377	11.8
Fiduciaries	1,249	2,149	72.1	4,780	6,320	32.2
<b>Total</b>	<b>522,833</b>	<b>544,294</b>	<b>4.1</b>	<b>2,962,175</b>	<b>3,037,480</b>	<b>2.5</b>
<b>Sales and Use</b>	<b>153,519</b>	<b>158,891</b>	<b>3.5</b>	<b>1,051,778</b>	<b>1,077,080</b>	<b>2.4</b>
<b>Corporate Tax</b>						
Declarations	11,853	11,101	(6.3)	193,991	167,775	(13.5)
Remittances & Corp Franchise	8,004	6,180	(22.8)	70,447	68,057	(3.4)
<b>Total</b>	<b>19,857</b>	<b>17,281</b>	<b>(13.0)</b>	<b>264,437</b>	<b>235,831</b>	<b>(10.8)</b>
Estate	64	1	(98.4)	1,250	29	(97.7)
Interest	220	580	163.6	4,004	4,049	1.1
Liquor	2,026	2,299	13.5	13,484	13,691	1.5
Beer	658	608	(7.6)	4,884	4,788	(2.0)
County Foreign Insurance	36	182	405.6	107,820	83,192	(22.8)
Federal Reimbursements	6,055	(387)	(106.4)	31,551	6,370	(79.8)
All other revenues	16,422	15,918	(3.1)	81,576	75,926	(6.9)
<b>Gross GR collections</b>	<b>721,690</b>	<b>739,667</b>	<b>2.5</b>	<b>4,522,959</b>	<b>4,538,435</b>	<b>0.3</b>
<b>GR Refunds</b>						
Individual Income	44,632	35,460	(20.6)	256,034	211,274	(17.5)
Corp. Income&Franchise	9,565	29,157	204.8	106,582	124,237	16.6
Senior Citizen Property	13,734	13,817	0.6	17,938	18,237	1.7
Sales	4,286	2,095	(51.1)	29,450	16,501	(44.0)
All other	4,190	664	(84.2)	17,362	18,870	8.7
<b>Total GR Refunds</b>	<b>76,407</b>	<b>81,193</b>	<b>6.3</b>	<b>427,366</b>	<b>389,118</b>	<b>(8.9)</b>
<b>Net General Revenue</b>	<b>645,283</b>	<b>658,474</b>	<b>2.0</b>	<b>4,095,594</b>	<b>4,149,317</b>	<b>1.3</b>

Source: Missouri Office of Administration

*The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the MBP through our website at [www.mobudget.org](http://www.mobudget.org).*