



## Missouri General Revenue Report on Fiscal Year 2010 Missouri Ends Fiscal Year with Record Drop in Revenue July 1, 2009 – June 30, 2010

*Tom Kruckemeyer, Chief Economist*

### Highlights from this Report:

- After falling by 6.9 percent in Fiscal Year (FY) 2009, Missouri's net General Revenue (GR) Collections decreased by 9.1 percent for all of FY 2010. This decline is almost certainly the largest single year decline in Missouri revenue since the Great Depression of the 1930s.
- The FY 2010 net GR total of \$6,774.3 million is *\$1,229.6 million less* than the \$8003.9 million the state collected in FY 2008. By contrast, the recession in state Fiscal Years 2002 and 2003 saw a revenue decline of "only" \$464 million from FY 2003 relative to FY 2001.
- In June, net GR collections declined nearly 22 percent; although some of this decline is attributable to the state paying a backlog of tax refunds in June that had been delayed for cash flow considerations.
- On the positive side, Sales tax collections increased 1.3 percent for the quarter ending June 30<sup>th</sup> and Individual Income tax withholding rose 2.5 percent for the quarter. By recent standards, this qualifies as good news.
- Net Corporate Income/Franchise tax also rose 3.6 percent for the quarter, but still completed FY 2010 down 19.6 percent.

As noted above, there are several indications that Missouri net GR collections may be poised to improve in FY 2011. Nonetheless, by any historical standard, the Missouri revenue situation is the worst it has been in 75 years. With the national economic recovery slowing down and with the revenue loss associated with the tax cuts enacted over the last four years scheduled to grow, the state budget situation remains grim. It remains very important to emphasize that if it not were for substantial revenues accruing to the state as a result of the *American Recovery and Reinvestment Act*; Missouri would be facing a budget crisis in FY 2011 and beyond of **much greater magnitude**.

As noted, despite some final quarter positives, State General Revenue (GR) collections over the last year were extremely weak in all areas. For FY 2010 overall:

- Net Individual Income Tax     -9.1%
- Net Sales & Use Tax           -4.5%
- Net Corporate Income Tax     -19.6%
  
- **Total Net General Revenue**   **-9.1%**

## Detailed Revenue Analysis:

**Individual Income Tax (ITT)** collections in June of 2010 were at virtually the same level as June of last year. For FY 2010 overall gross collections fell 7.6 percent. All major sub components of IIT finished FY 2010 well below FY 2009 levels. While Individual income tax withholding grew 2.5 percent over the last three months, it still finished the year down 4.3 percent.

Other components of IIT did not fare as well. For the year, Declarations/Estimated payments were down 23.4 percent and Remittances were off 4.2 percent. Certainly the small uptick in Withholding offers a ray of hope; the overall Individual Income tax situation is still bleak.

As Table 2 demonstrates, IIT withholding had declined in five straight quarters prior to turning positive in the April-June quarter just completed. It is notable that the state's employment numbers are showing some improvement. The latest statistics that now include the April-June quarter show an Unemployment rate of 8.9 percent versus a 10.1 percent rate in the first quarter. Even with the second quarter job gains, Missouri total employment for the quarter was still about 48,000 jobs under the second quarter 2009 mark. Nonetheless, this still represents good news by recent standards. (See Table 3 for Recent Trends in Missouri Employment)

The following tables examine more closely recent trends in Missouri wage and salary growth. The new 2009 and first quarter 2010 data shows that the Missouri Wage and Salaries declining in each of the most recent five quarters reported. The decline in the 2009 4<sup>th</sup> quarter was especially severe. Note that dollar amounts are in millions:

**Table 1: Missouri Wage and Salary Growth**

**Year and Quarter      MO Wages and Salaries (In Millions)      Percent Change**

2006 Quarter 1	\$107,990	5.7%
2006 Quarter 2	\$108,796	5.2%
2006 Quarter 3	\$108,979	3.9%
2006 Quarter 4	\$110,345	4.4%
2007 Quarter 1	\$112,406	4.1%
2007 Quarter 2	\$113,422	4.3%
2007 Quarter 3	\$114,661	5.2%
2007 Quarter 4	\$116,070	5.2%
2008 Quarter 1	\$116,807	3.9%
2008 Quarter 2	\$117,498	3.6%
2008 Quarter 3	\$118,043	3.0%
2008 Quarter 4	\$123,655	6.5%
2009 Quarter 1	\$115,640	-1.0%
2009 Quarter 2	\$114,290	-2.7%
2009 Quarter 3	\$113,451	-3.9%
2009 Quarter 4	\$112,301	-9.2%
2010 Quarter 1	\$113,229	-2.1%

Source: U.S. Dept of Commerce: Bureau of Economic Analysis

**Table 2: Missouri Individual Income Tax Collections**  
**Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2007-2010**

<u>Year and Quarter</u>	<u>Individual Income Tax Withholding Percent Change</u>
2006. Quarter 3	6.3%
2006. Quarter 4	4.4%
2007. Quarter 1	4.0%
2007. Quarter 2	6.0%
<b>Total Fiscal Year 2007</b>	<b>5.1%</b>
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
<b>Total Fiscal Year 2008</b>	<b>6.0%</b>
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
<b>Total Fiscal Year 2009</b>	<b>0.9%</b>
2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%
2010. Quarter 1	-1.8%
2010. Quarter 2	2.5%
<b>Total Fiscal Year 2010</b>	<b>-4.3%</b>

*Source: MO Office of Administration*

**Table 3: Missouri Employment Trends 2006 through 2010**

<u>Calendar Year</u>	<u>Total Employment</u>	<u>Unemployment Rate</u>
2006	2,887,773	4.8%
2007. Quarter 1	2,875,976	5.2%
2007. Quarter 2	2,937,321	4.7%
2007. Quarter 3	2,898,237	5.3%
2007. Quarter 4	2,892,389	5.0%
2008. Quarter 1	2,853,746	5.8%
2008. Quarter 2	2,897,742	5.4%
2008. Quarter 3	2,862,639	6.4%
2008. Quarter 4	2,830,892	6.7%
2009. Quarter 1	2,758,519	9.2%
2009. Quarter 2	2,788,302	9.1%
2009. Quarter 3	2,751,880	9.7%
2009. Quarter 4	2,716,345	9.3%
2010. Quarter 1	2,674,553	10.1%
2010. Quarter 2	2,740,825	8.9%

*Source: U.S. Bureau of Labor Statistics*

Certainly the recent uptick in withholding is good news, but stronger growth in employment is essential to sustaining more robust growth in this area. A key to any sustained recovery in overall state GR collections will be a turnaround in this area. This is because IIT accounted over 65 percent of the Missouri GR fund in FY 2010.

**Sales and Use Tax** collections fell 9.3 percent in June and completed FY 2010 down 4.9 percent. Note that from this report and into the future, all Sales tax will be considered as “Regular” sales. Since July of 2008, all Motor Vehicle Sales tax has been allocated to Highways and Transportation. As was the case with Individual Income Tax Withholding, the just completed quarter saw the first quarterly increase in Sales tax since the first quarter of FY 2008. While this is welcome news, the overall Sales tax situation leaves little reason to celebrate. With the national economic recovery slowing, it would be premature to announce an end to the Sales tax slump. There is a potential bright spot that should be noted. That is the national “savings” rate has increased markedly in 2009. (The “Savings” rate equals savings divided disposable personal income).

### **National Savings Rate**

2005	1.4%
2006	2.4%
2007	1.7%
2008	2.7%
<b>2009</b>	<b>4.3%</b>

*Source: U.S. Dept of Commerce: Bureau of Economic Analysis*

Due to this phenomenon, it may be reasonable to expect some improvement in Sales tax later in 2010. The following summarizes net sales tax collections over time:

FY 2005 - \$1,793.1  
FY 2006 - \$1,885.6  
FY 2007 - \$1,889.3  
FY 2008 - \$1,901.2  
FY 2009 - \$1,813.1  
FY 2010 - \$1,731.7

As indicated above, for FY 2010, net regular sales tax was well below the level *attained in FY 2005*. See below for the latest quarterly trends in sales tax growth.

**Table 4: Missouri Sales Tax Growth Rates Fiscal Years 2007-2010**

	<u>Regular Sales Tax</u>	<u>Motor Vehicle Sales Tax</u>
2006. Quarter 3	1.7%	-41.3%
2006. Quarter 4	3.4%	-13.9%
2007. Quarter 1	4.9%	15.4%
2007. Quarter 4	2.6%	-6.8%
<b>Total Fiscal Year 2007</b>	<b>3.2%</b>	<b>-14.4%</b>
2007. Quarter 3	4.0%	-45.1%
2007. Quarter 4	-0.3%	-53.9%
2008. Quarter 1	-2.9%	-66.5%
2008. Quarter 2	-2.0%	-57.7%
<b>Total Fiscal Year 2008</b>	<b>-0.4%</b>	<b>-56.8%</b>
2008. Quarter 3	-2.3%	-95.8%
2008. Quarter 4	-2.5%	-94.8%
2009. Quarter 1	-5.2%	-95.9%
2009. Quarter 2	-8.3%	-92.4%
<b>Total Fiscal Year 2009</b>	<b>-4.6%</b>	<b>-94.5%</b>
2009. Quarter 3	-6.7%	NA
2009. Quarter 4	-6.9%	NA
2010. Quarter 1	-6.8%	NA
2010 Quarter 2	1.3%	NA

**Corporate Income and Franchise Tax** collections rose 13.9 percent in June and completed FY 2010 with a decline of 4.9 percent. This also represents modest improvement of late. Unfortunately, Corporate tax refunds rose 26 percent leaving net collections down nearly 20 percent for the just completed fiscal year. Looking at the sub-components for all of FY 2010, weakness is seen in both areas. Declarations and Final Payments declined in FY 2010, 1.5 percent and 10.1 percent respectively. Further complicating the Corporate tax situation is the fact that there may be substantial tax credits that have been issued awaiting redemption. This will act to restrict will further growth in this tax source. Let us not forget that an explicit reduction in the Corporate Franchise tax that was signed into law in 2009, which presumably is now reducing collections from this source. On the plus side, national measures of Corporate profits have been generally positive over the last 18 months. Unfortunately, Missouri collections from this source have remained sluggish. All things considered, FY 2011 and FY 2012 may continue to be a difficult period for this tax.

**Other Revenue Sources:** Notable developments in the smaller revenue sources include:

**General Revenue Interest** earnings continue to decline. For FY 2010 overall, they totaled only \$12.3 million which was a decline of about 62 percent. With interest rates expected to remain extremely low, this source is not likely to generate much revenue over the coming months.

**County Foreign Insurance** collections declined 4.7 percent for FY 2010 overall. For the final quarter, they declined 13.7 percent which put all of FY 2010 into negative territory. This would have to be considered a disappointment as collections in this area had been “in the black” most of the year.

**General Revenue Refunds:** General Revenue refunds rose 2.0 percent for FY 2010 overall. It was a bit surprising that IIT refunds actually declined slightly for the year. This may be attributable to the lower levels of total employment leading to fewer tax returns being filed. As noted above Corporate Income/Franchise tax refunds rose 22.4 percent in June and were up 26 percent for the fiscal year. Some good news did emerge when Sales tax refunds *fell* about 15 percent for the year.

### Summary and Outlook

After lengthy periods of decline in Sales tax as well as IIT withholding, it is very good news that both finally ended their streaks of decline in the just completed quarter. This may well signal the start of a long awaited rebound. Nonetheless, there is no way to deny the disastrous state of Missouri General Fund revenues. There can be no doubt that state revenues remain in their worst shape since the Great Depression of the 1930s. Unfortunately, the generally improving national economic statistics have generally begun to slow over the last three months or so. In addition, the disastrous oil spill in the Gulf of Mexico may ultimately have negative economic consequences beyond just the Gulf Coast region. The latest major national economic trends are as follows:

- Real Gross Domestic Product has increased in each of the last three quarters, growing at 2.2%, 5.6% and 2.7% annual rates respectively. The 2.7% growth was for the 2010 first quarter.
- After increasing in each of the first five months of 2010, national “Payroll” employment fell by 125,000 in June. Some of this loss is attributed to the completion of employment of temporary US Census Bureau hires. Nevertheless, the US economy has added 882,000 jobs since December of 2009.
- After increasing in 11 of the 12 most recent months, the *US Index of Leading Economic Indicators* fell 0.2% in June. Coupled with the decline seen in April, this shows that the national economic recovery is slowing to some degree.
- The stock market as measured by the *Standard and Poors 500 Stock Index* has struggled since mid April. The *S&P Index* which stood at 1217 for the week of April 19<sup>th</sup> has fallen to about 1094 for the week of July 19<sup>th</sup>; a decline of 10.1 percent. After 14 months of solid growth, this represents a notable retrenchment. Nonetheless, the market is still up about 12 percent relative to mid July of 2009.

While net GR receipts displayed some real improvement during the final quarter of FY 2010, there can be no denying the state’s precarious financial situation. It is acknowledged by the State Budget Office that the already lean FY 2011 General Fund budget will need to be reduced by an additional \$600 million; due in part to the end of extraordinary Federal Stimulus dollars in FY 2012. Unfortunately, there is no end to this in sight. Even with the modest economic recovery that is taking place, the relentless erosion of the state tax base almost insures a permanent budget crisis that will continue to hurt Missouri and its most vulnerable citizens.

(See next page for the June and FY 2010 General Revenue Collection table)

**Table 5: June GR Collections and Refunds**

<u>Tax Source</u>	<b>June FY 09</b>	<b>June FY 10</b>	<b>Percent Change</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>Percent Change</b>
<b>Individual Income</b>						
Withholding	323,926	326,363	0.8	4,412,493	4,224,014	(4.3)
Declarations	119,427	112,316	(6.0)	744,811	570,479	(23.4)
Remittances	11,889	16,389	37.9	689,210	660,486	(4.2)
Fiduciaries	445	416	(6.5)	88,591	28,808	(67.5)
<b>Total</b>	<b>455,689</b>	<b>455,494</b>	<b>(0.0)</b>	<b>5,935,195</b>	<b>5,483,884</b>	<b>(7.6)</b>
<b>Sales and Use</b>						
Regular	175,194	158,927	(9.3)	1,883,719	1,791,664	(4.9)
<b>Total</b>	<b>175,194</b>	<b>158,927</b>	<b>(9.3)</b>	<b>1,883,719</b>	<b>1,791,664</b>	<b>(4.9)</b>
<b>Corporate Tax</b>						
Declarations	64,390	75,690	17.5	314,976	310,311	(1.5)
Remittances & Corp Franchise	10,157	9,214	(9.3)	213,303	191,863	(10.1)
<b>Total</b>	<b>74,546</b>	<b>84,904</b>	<b>13.9</b>	<b>528,280</b>	<b>502,174</b>	<b>(4.9)</b>
Estate	674	41	(93.9)	3,068	264	(91.4)
Interest	1,736	2,926	68.5	32,686	12,319	(62.3)
Liquor	3,162	3,079	(2.6)	26,983	27,947	3.9
Beer	796	794	(0.3)	8,850	8,287	(6.4)
County Foreign Insurance	58,672	35,364	(39.7)	203,801	194,198	(4.7)
Federal Reimbursements	11,074	4,588	(58.6)	114,007	62,736	(45.0)
All other revenues	10,352	9,946	(3.9)	155,175	160,078	3.2
<b>Gross GR collections</b>	<b>791,895</b>	<b>756,063</b>	<b>(4.5)</b>	<b>8,891,674</b>	<b>8,243,551</b>	<b>(7.3)</b>
<b>GR Refunds</b>						
Individual Income	122,900	209,145	70.2	1,059,201	1,050,239	(0.8)
Corp. Income&Franchise	23,529	28,800	22.4	170,161	214,418	26.0
Senior Citizen Property	3,983	6,834	71.6	118,574	118,595	0.0
Sales	7,754	10,094	30.2	70,592	59,964	(15.1)
All other	4,442	9,035	103.4	22,362	26,011	16.3
<b>Total GR Refunds</b>	<b>162,608</b>	<b>263,908</b>	<b>62.3</b>	<b>1,440,890</b>	<b>1,469,227</b>	<b>2.0</b>
<b>Net General Revenue</b>	<b>629,287</b>	<b>492,155</b>	<b>(21.8)</b>	<b>7,450,784</b>	<b>6,774,324</b>	<b>(9.1)</b>

Source: Missouri Office of Administration

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