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Missouri General Revenue Report for Fiscal Year 2010
July 1, 2009- December 31, 2009
By Tom Kruckemeyer
Director of Fiscal Policy and Chief Economist
The Missouri Budget Project

**Missouri General Revenue Collections Remain in
Deep Freeze at Mid Point of Fiscal Year 2010**

Missouri general revenue collections, after refunds, declined 21.7 percent in December, which results in a 10.6 percent decline for the first six months of fiscal year 2010 overall. The anemic revenue growth rate in December reverses the modest improvement in November revenues and has necessitated an additional downward revision the consensus revenue estimate. Comparatively, net general revenue (GR) collections declined 6.9 percent for all of FY 2009.

While many broad based economic indicators have continued to improve in recent months, it is now evident that state revenues have not yet been substantially affected by these trends, at least through the first half of fiscal year (FY) 2010.

State general revenue collections are led by a huge decline in individual income withholding. However, all major categories of revenue have performed poorly over the last three months. As a result, the state has collected nearly \$400 million *less* than in FY 2009 for the same six month period. It is very important to stress that if it were not 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 2010 of major proportions. Even with the federal funds, Missouri faces a very tight budget for the remainder of FY 2010, and may well face severe budget shortfalls after FY 2010, unless revenue growth improves considerably.

As noted, state GR collections over the last six months were extremely weak in all areas. For FY 2010 to date, overall:

- Net Individual Income Tax -12.6 %
- Net Sales & Use Tax -6.4%
- Net Corporate Income Tax -10.8%
- **Total Net General Revenue -10.6%**

Highlights from this Report:

- Missouri's net general revenue *declined* by 21.7 percent in December, resulting in a net decrease of 10.6 percent for all of FY 2010 to date.
- For FY 2010 to date, individual income tax (IIT) withholding has fallen 8.5 percent. IIT withholding fell 5.5 percent during the April-June quarter of FY 2009. The continued deterioration in the last six months is of major concern.
- Regular sales tax declined 6.9 percent during the second quarter of FY 2010. This growth rate was about the same as the -6.7 percent growth rates seen in the quarter ending September 30th and is not much better than the -8.3 percent decline seen in the previous quarter.
- Net corporate income/franchise tax gross collections remain slow and have declined 10.8 percent for FY 2010 overall.

Detailed Revenue Analysis:

Individual income tax (ITT) collections fell 26.5 percent in December, which brings about a 10.6 percent decline for FY 2010 overall. The most troubling development was a 27.5 percent decline in IIT withholding. December of 2008 was a month of aberrantly strong IIT withholding. Nonetheless, a decline of this magnitude is a serious concern. In a like manner, December declarations/estimated payments also declined nearly 20 percent. As a result, IIT withholding and IIT declarations are down 8.5 percent and 25.7 percent, respectively, for FY 2010 thus far.

There is little doubt that the disappointing IIT withholding last month, along with the anemic FY 2010 overall decline, is very bad news. As Table 2 demonstrates, IIT withholding has now declined in four straight quarters, with the quarter ending December 31st being by far the weakest. With continued weakness in state total employment, some IIT withholding collection decline is certainly not unexpected.

However, the decline in the most recent quarter is greater than the poor employment numbers suggest. The latest statistics, which now include November, show that Missouri is experiencing a steady and severe decline in total employment. From November of 2008 through November of 2009, Missouri has lost over 100,000 jobs and the November unemployment rate was 9.5 percent. While hopefully the December IIT withholding numbers are an aberration, job loss numbers of this magnitude are apt to lead to sustained weakness in withholdings well into FY 2010 and possibly FY 2011. (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 data shows Missouri wages and salaries declining in each of the three quarters reported. 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	\$115,792	-0.9%
2009 Quarter 2	\$114,331	-2.7%
2009 Quarter 3	\$114,554	-3.0%

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 2006-2010

<u>Year and Quarter</u>	<u>Individual Income Tax Withholding Percent Change</u>
2005. Quarter 3	7.1%
2005. Quarter 4	6.7%
2006. Quarter 1	8.0%
2006. Quarter 2	6.2%
Total Fiscal Year 2006	7.0%
2006. Quarter 3	6.3%
2006. Quarter 4	4.4%
2007. Quarter 1	4.0%
2007. Quarter 2	6.0%
Total Fiscal Year 2007	5.1%
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
Total Fiscal Year 2008	6.0%
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
Total Fiscal Year 2009	0.9%
2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%

Source: MO Office of Administration

Table 3: Missouri Employment Trends 2006 through 2009

<u>Calendar Year</u>	<u>Total Employment</u>	<u>Unemployment Rate</u>
2006	2,868,857	4.8%
2007. Quarter 1	2,877,021	4.7%
2007. Quarter 2	2,874,805	4.8%
2007. Quarter 3	2,869,051	5.2%
2007. Quarter 4	2,860,302	5.3%
2008. Quarter 1	2,848,860	5.5%
2008. Quarter 2	2,836,242	5.7%

2008. Quarter 3	2,823,080	6.2%
2008. Quarter 4	2,809,126	6.8%
2009. Quarter 1	2,762,275	8.4%
2009. Quarter 2	2,741,123	8.8%
2009. Quarter 3	2,726,720	9.4%
November 2009	2,708,129	9.5%

Source: U.S. Bureau of Labor Statistics

With the decline in withholding, the near term outlook for this tax source is not good. The struggling economy, as shown with the above job loss figures, is likely to stifle growth in this tax through the remainder of FY 2010 and into FY 2011. The good news is that the stock market, as measured by the *Standard and Poors 500 Index*, has risen about 68 percent since early March. Thus, income tax collections generated by capital gains may improve in FY 2010 relative to FY 2009. A key to any sustained recovery in overall state GR collections will be a turnaround in this area. This is because IIT accounted for over 65 percent of the Missouri GR fund in FY 2009.

Sales and Use Tax collections fell 1.8 percent in December and have declined 6.8 percent for FY 2010 overall. 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.

After staging a rally in November with growth of 5.1 percent, sales tax collections fell once again in December and completed the quarter down 6.9 percent. Regular sales tax has declined in each of the last nine consecutive quarters. It is now evident that declining employment and a general lack of consumer confidence has overwhelmed the positives brought about by the improving stock market and the various aspects of the American Recovery and Reinvestment Act, signed into law in February. While it remains reasonable to expect some noticeable improvement in sales tax over the rest of FY 2010, clearly this does not seem to be happening just yet.

Looking at the long term trend in Missouri sales tax collections, there can be little question that the outlook is bleak. The following summarizes net regular 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 - \$1,808.9

As indicated above, net regular sales tax in FY 2009 was not substantially greater than in FY 2005. Unfortunately, the first half of FY 2010 shows that this trend is still with us. See below for the latest quarterly trends in sales tax growth.

Table 4: Missouri Sales Tax Growth Rates Fiscal Years 2006-2010

	<u>Regular Sales Tax</u>	<u>Motor Vehicle Sales Tax</u>
2005. Quarter 3	3.3%	-25.8%
2005. Quarter 4	4.2%	-40.7%
2006. Quarter 1	5.3%	-38.8%
2006. Quarter 2	4.5%	-42.9%
Total Fiscal Year 2006	4.3%	-36.7%
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%
Total Fiscal Year 2007	3.2%	-14.4%
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%
Total Fiscal Year 2008	-0.4%	-56.8%
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%
Total Fiscal Year 2009	-4.6%	-94.5%
2009. Quarter 3	-6.7%	NA
2009. Quarter 4	-6.9%	NA

Corporate Income and Franchise Tax collections fell 13.5 percent in December, which left the FY 2010 overall decline at -13.1 percent. Looking at the sub-components for all of FY 2010 thus far, there is weakness in both areas. Both declarations and final payments have declined in FY 2010, 15.6 percent and 6.8 percent respectively. Some good news is that corporate refunds have declined 16.3 percent for the year. As a result, net corporate collections have declined “only” 10.8 percent for the year.

Looking ahead, U.S. corporate profits are expected to pick up in 2010. While this will hopefully occur, the remainder of FY 2010 and FY 2011 may not see strong growth in this area. It is likely that there are substantial tax credits that have been issued and are awaiting redemption that will further stymie growth in this tax source, in addition to explicit reduction on the corporate franchise tax that was signed into law in 2009. All things considered, FY 2010 and FY 2011 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 have fallen about 69 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 rose 0.5 percent during the first half of FY 2010. This would have to be considered a relative bright spot.

General Revenue Refunds rose 2.6 percent during the first six months of FY 2010. Individual income tax refunds grew 17.5 percent, but corporate income/franchise tax refunds fell 16 percent. Of course, 75 to 80 percent of refunds are paid during the second half of the fiscal year. Thus refund growth may still be substantial.

Summary and Outlook

The generally improving national economy is a light at the end of the tunnel. Unfortunately, there is no denying the fact that net GR receipts for the quarter ending December 31st were a step backwards. While the December IIT withholding decline per se may have been aberrant to a degree, overall net individual income tax is still down 12.6 percent for the first six months of FY 2010. The overall decline of 10.6 percent in net GR is relative to a decline of 0.2 percent, which occurred over the first six month of FY 2009 (relative to FY 2008). Thus the first half of FY 2010 was not “up against” a strong period of revenue growth by any means. The revenue growth that the rest of FY 2010 will be compared to will be weak; but the fact is the weakness in FY 2009 had begun before the financial market crisis that emerged in September of 2008.

While there is no way to sugar-coat the sad state of Missouri revenue growth, it should be noted that positive signs can still be found. The national economy has shown a few signs of improvement over recent months. As mentioned earlier, the stock market as measured by the *Standard and Poors 500 Stock Index* has risen about 68 percent from early March through early January of 2010. In addition, the *U.S Index of Leading Economic Indicators* increased in eight consecutive months (April through November). In addition, real GDP grew 2.2 percent in the third quarter of 2009; the first positive quarter since 2008 Quarter 2. Furthermore, several leading macroeconomic forecasters believe that overall economic growth will continue, albeit at a modest pace.

Other than this, good economic news remains elusive. Even with a “growing” economy, job losses may well continue and the national unemployment rate could exceed 10 percent throughout state fiscal years 2010 and 2011. The profound weakness in virtually all categories of revenue in Missouri is a cause of great concern. Even should the economy improve, GR growth in Missouri is apt to remain sluggish due to the relentless erosion of the GR tax base. Tax reduction and tax credit increase bills, passed just in the last three years, are conservatively estimated to cost the Missouri GR fund \$250 million in FY 2010 and \$300 million in FY 2011. As noted above, all Motor Vehicle Sales tax now accrues to MO-DOT; which will cost the GR fund approximately \$120 million per. Without Federal ARRA funds, the state would have faced a major budget crisis in FY 2010. Assuming that no *new* federal funds become available, the state will almost certainly face a very difficult budget situation in FY 2011 and beyond.

Table 5: December GR Collections and Refunds

<u>Tax Source</u> (\$\$\$ in Thousands)	Dec. FY 2009	Dec. FY 2010	Percent Change	FY 2009 YTD	FY 2010 YTD	Percent Change
Individual Income						
Withholding	478,535	347,039	(27.5)	2,258,368	2,066,037	(8.5)
Declarations	53,883	43,422	(19.4)	277,048	205,879	(25.7)
Remittances	10,035	9,704	(3.3)	95,047	85,508	(10.0)
Fiduciaries	2,033	257	(87.4)	5,080	3,016	(40.6)
Total	544,491	400,437	(26.5)	2,635,570	2,360,466	(10.4)
Sales and Use						
Regular	173,126	170,045	(1.8)	962,049	896,281	(6.8)
Total	173,126	170,045	(1.8)	962,049	896,281	(6.8)
Corporate Tax						
Declarations	78,253	59,258	(24.3)	185,573	154,133	(15.6)
Remittances & Corp						
Franchise	11,129	18,013	61.9	70,979	66,014	(6.8)
Total	89,381	77,271	(13.5)	253,370	220,148	(13.1)
Estate	23	9	(60.9)	2,290	76	(96.7)
Interest	3,030	986	(67.5)	20,911	6,441	(69.2)
Liquor	2,027	2,234	10.2	12,043	12,744	5.8
Beer	615	573	(6.8)	4,713	4,271	(9.4)
County Foreign Insurance	27,940	23,783	(14.9)	83,705	84,102	0.5
Federal Reimbursements	8,113	3,753	(53.7)	36,475	29,042	(20.4)
All other revenues	15,905	17,052	7.2	64,862	76,097	17.3
Gross GR collections	864,650	696,142	(19.5)	4,075,987	3,689,667	(9.5)

GR Refunds						
Individual Income	20,971	29,608	41.2	192,910	226,597	17.5
Corp. Income&Franchise	48,749	41,425	(15.1)	107,518	90,011	(16.3)
Senior Citizen Property	352	576	63.6	4,693	5,775	23.1
Sales	8,032	5,639	(29.8)	38,468	31,788	(17.4)
All other	873	3,662	319.5	13,596	12,427	(8.6)
Total GR Refunds	79,022	80,910	2.4	357,185	366,598	2.6
Net General Revenue	785,628	615,232	(21.7)	3,3718,802	3,323,069	(10.6)

Source: Missouri Office of Administration

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