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Missouri General Revenue Continues its Sharp Decline During the First Quarter of Fiscal Year 2010

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Missouri General Revenue Collections, after refunds, declined 16.3 percent in September which results in a 10.0 percent decline for the first three months of Fiscal Year 2010 overall (FY 2010). This continues the anemic revenue growth rates the state has generally seen over the last year. Net General Revenue (GR) collections declined 6.9 percent during Fiscal Year 2009 which ended on June 30th.

While there have been some indications of an improving economy in recent months, it is now evident that state revenues have been largely unaffected at least through the first quarter of Fiscal Year 2010. There is little good news in the state's current revenue situation. All major categories of revenue performed poorly over the last three months. As a result, the state has collected about \$189 million *less revenue* than in FY 2009 for the same period.

It is important to stress 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 2010 of major proportions. Even with the extraordinary Federal Funds, Missouri faces a very tight budget for the remainder of FY 2010 and may well face severe budget shortfalls following FY 2010 unless revenue growth improves considerably.

As noted, State General Revenue (GR) collections over the last three months were extremely weak in all areas. For FY 2010 to date overall:

- Net Individual Income Tax -10.7 %
- Net Sales & Use Tax -6.8%
- Net Corporate Income Tax -15.9%
- Total Net General Revenue -10.0%

Highlights from this Report:

- Missouri's Net General Revenue declined by 16.3 percent in September, resulting in a net decrease of 10.0 percent for FY 2010 to date.
- For FY 2010 to date, Individual Income Tax (IIT) withholding has fallen 4.9 percent. IIT withholding fell 5.5 percent during the April-June quarter, showing little improvement in this category.
- Regular Sales Tax fell 6.7 percent during the first quarter of FY 2010. Only slightly better than the -8.3 percent rate seen in the quarter that ended on June 30th.
- Net Corporate Income/Franchise Tax gross collections remain slow. They declined 37.1 percent in September and are down 15.9 percent for FY 2010 overall.

Detailed Revenue Analysis:

Missouri General Revenue (GR) collections in September of 2009 totaled \$717.3 million, 13.2 percent less than collections for September of 2008. For the month of September, General Revenue refunds rose 32 percent compared to September of last year. As a result, net GR in September fell 16.3 percent for the month. As noted, for FY 2010 overall net GR collections have declined 10.0 percent.

Individual Income Tax (ITT) collections fell 12.6 percent in September which helped bring about an 8.2 percent decline for FY 2010 overall. September saw Individual Income Tax (IIT) Withholding fall by 6.1 percent. In a like manner, September Declarations/Estimated payments also declined about 25 percent. As a result, IIT Withholding and IIT Declarations are down 4.9 percent and 26 percent respectively for FY 2010 thus far. There is little question that the continued weakness in IIT withholding for the last nine months is very bad news. As Table 2 demonstrates, IIT withholding has declined in three straight quarters. The recent IIT withholding collection decline is certainly consistent with the latest Missouri total employment data. The latest statistics that now include August show that Missouri is experiencing a steady and severe decline in total employment. From August of 2008 through August of 2009, Missouri has lost over 87,000 jobs and the August Unemployment rate was 9.4%. Needless to say, job loss numbers of this magnitude are apt to lead to sustained weakness in withholdings well into FY 2010. (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 1st Quarter data shows that the Missouri Wage and Salary growth rate fell rather sharply relative to the 2008 1st quarter. 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	\$105,836	5.8%
2006 Quarter 2	\$106,117	5.1%
2006 Quarter 3	\$106,315	3.7%
2006 Quarter 4	\$108,135	4.1%
2007 Quarter 1	\$109,919	3.9%
2007 Quarter 2	\$110,514	4.1%
2007 Quarter 3	\$111,945	5.3%
2007 Quarter 4	\$113,924	5.4%
2008 Quarter 1	\$114,867	4.5%
2008 Quarter 2	\$115,879	4.8%
2008 Quarter 3	\$116,431	4.0%
2008 Quarter 4	\$122,444	7.5%
2009 Quarter 1	\$117,917	1.8%

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

Table 2: 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%

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	2,761,242	8.6%
August 2009	2,732,374	9.4%

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 well into FY 2010. The good news is that the stock market as measured by the *Standard and Poors 500 Index* has risen about 58 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 over 65 percent of the Missouri GR fund in FY 2009.

Sales and Use Tax collections fell 10.6 percent in September and have declined 6.7 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. As was the case with the Individual Income tax, Sales tax continued to struggle in the last quarter much as it has throughout 2008 and 2009. Regular Sales tax has now declined in each of the last eight consecutive quarters. It is now evident that declining employment and a general lack of consumer confidence has overwhelmed the positives brought about by:

- Sharply lower gasoline prices than the prices seen last summer.
- Most wage/salary workers have received some of the benefit of higher “take home” pay as a result of the Federal Stimulus bill signed into law in February.

While it is 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 quarter 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 2006-2009

<u>Quarter</u>	<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

Corporate Income and Franchise Tax collections fell 21.1 percent in September which left the FY 2010 overall decline at -9.3 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, 8.8 percent and 10.7 percent respectively. Corporate refunds also increased 16.4 percent for the year. As a result, net Corporate collections declined 15.9 percent for the year. Looking ahead, the remainder of FY 2010 is not likely to see strong growth in this area. In addition to the still languishing economy that is suppressing corporate profits, it is likely that there are substantial tax credits that have been issued awaiting redemption that will further stymie growth in this tax source. All things considered, FY 2010 may 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 74 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 1.8 percent during the quarter. This would have to be considered a relative bright spot.

General Revenue Refunds: General Revenue refunds rose 17.4 percent during the first quarter of FY 2010. The two major refund categories have both grown markedly in FY 2010 to date. Individual Income and Corporate Income/Franchise Tax refunds grew 24.1 percent and 16.4 percent respectively. Unfortunately, there is little good news on the refund front.

Summary and Outlook

The Net General Revenue decline of 10.0 percent for the first quarter of FY 2010 is bad news. However, the first quarter of FY 2009 was not a strong quarter either. In that quarter, net GR *declined* 0.9 percent relative to the first quarter of FY 2008. Thus the first quarter of FY 2010 was not “up against” a strong period of revenue growth by any means. Certainly, the revenue growth to which the remainder of FY 2010 will be compared will be weak. However, 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 disputing the sad state of Missouri revenue growth, it should be noted that positive signs exist. 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 58 percent from March 9th through October 9th. In addition, the *U.S Index of Leading Economic Indicators* increased in five consecutive months (April through August). In addition, several leading macroeconomic forecasters believe real GDP grew in the just completed quarter.

Even with a “growing” economy, job losses are expected to continue and the national unemployment rate may well exceed 10 percent. 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 bills and tax credit increase bills passed just in the last three years are conservatively estimated to cost the 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 \$120 million per year or so. 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.

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

Table 5: September GR Collections and Refunds

<u>Tax Source</u>	Sept FY 2008	Sept FY 2009	Percent Change	FY 2009 YTD	FY 2010 YTD	Percent Change
Individual Income						
Withholding	333,218	312,746	(6.1)	1,067,389	1,015,319	(4.9)
Declarations	185,672	138,619	(25.3)	204,317	151,160	(26.0)
Remittances	11,442	11,730	2.5	37,032	33,920	(8.4)
Fiduciaries	410	889	116.8	850	2,033	139.2
Total	530,741	463,986	(12.6)	1,309,591	1,202,438	(8.2)
Sales and Use						
Regular	160,117	143,179	(10.6)	494,877	461,563	(6.7)
Total	160,117	143,179	(10.6)	494,877	461,563	(6.7)
Corporate Tax						
Declarations	79,905	65,340	(18.2)	93,270	85,063	(8.8)
Remittances & Corp Franchise	16,751	10,931	(34.7)	31,238	27,910	(10.7)
Total	96,656	76,270	(21.1)	124,508	112,973	(9.3)
Estate	286	7	(97.6)	1,357	28	(97.9)
Interest	5,070	901	(82.2)	11,837	3,098	(73.8)
Liquor	1,256	1,771	41.0	5,593	6,042	8.0
Beer	1,133	752	(33.6)	2,679	2,327	(13.1)
County Foreign Insurance	17,296	17,598	1.7	43,295	44,056	1.8
Federal Reimbursements	5,852	3,863	(34.0)	17,185	12,612	(26.6)
All other revenues	8,219	8,927	8.6	31,773	33,944	6.8
Gross GR collections	826,625	717,257	(13.2)	2,042,695	1,879,081	(8.0)
GR Refunds						
Individual Income	26,903	38,255	42.2	93,196	115,610	24.1
Corp. Income&Franchise	12,501	23,353	86.8	25,680	29,880	16.4
Senior Citizen Property	599	565	(5.7)	3,168	4,021	26.9
Sales	6,120	3,531	(42.3)	16,417	15,725	(4.2)
All other	5,832	1,324	(77.3)	7,838	6,541	(16.5)
Total GR Refunds	51,955	68,602	32.0	146,299	171,777	17.4
Net General Revenue	774,670	648,655	(16.3)	1,896,395	1,707,304	(10.0)

Source: Missouri Office of Administration

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