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Missouri General Revenue Report for Fiscal Year 2009

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Missouri General Revenue Declines Sharply in Fiscal Year 2009

Missouri General Revenue Collections, after refunds, declined nearly 24 percent in June. This results in a 6.9 percent decline for Fiscal Year 2009 overall, marking almost certainly the weakest revenue growth Missouri has experienced since the Great Depression. All major categories of revenue fell sharply over the last 12 months. As a result, the state collected about \$552 million *less* than in Fiscal Year (FY) 2008. In addition, the state also collected about \$778 million less than was forecast in the original FY 2009 Consensus Revenue Estimate. Were it 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.

As noted, State General Revenue (GR) collections over the last 12 months were extremely weak in all areas. For FY 2009 overall:

- Net Individual Income Tax	-6.4 %
- Net Sales & Use Tax	-6.1%
- Net Corporate Income Tax	-22.0%
- Total Net General Revenue	-6.9%

While there have been some positives in the national economic news over the last few months, it seems clear that the severity of the revenue shortfall may leave the state in a very difficult budget situation when Federal Budget Stabilization Funds are largely depleted after FY 2010.

Highlights from this Report:

- Missouri's net General Revenue declined by 23.9 percent in June, resulting in a net decrease of 6.9 percent for all of Fiscal Year (FY) 2009.
- For FY 2009, Individual Income Tax (IIT) withholding grew only 0.9 percent. IIT withholding fell 5.5 percent over the last three months;
- Despite increasing 2.2 percent in June, Regular Sales Tax still fell 8.3 percent over the final quarter of FY 2009 and ended the year at -4.6 percent.
- Net Corporate Income/Franchise Tax gross collections remain slow. They declined 27.6 percent in the final quarter and fell 22.0 percent for FY 2009 overall.

Detailed Revenue Analysis:

Missouri General Revenue (GR) collections in June of 2009 totaled \$791.9 million, 11.4 percent less than collections for June of 2008. For the month of June, General Revenue refunds rose 142 percent compared to June of last year. As a result, net GR in June fell 23.9 percent for the month. As noted, for FY 2009 overall net GR collections fell 6.9 percent.

Individual Income Tax (ITT) collections fell 16.4 percent in June, which helped bring about a 2.9 percent decline for FY 2009 overall. June saw Individual Income Tax (IIT) Withholding fall by 9.7 percent. In a like manner, June Declarations/Estimated payments also declined about 31 percent. Nonetheless, IIT withholding managed to complete FY 2009 in positive territory, increasing 0.9 percent for FY 2009. There is little question that the weakness in IIT withholding over the second half of FY 2009 is very bad news. For the quarter ending June 30th, IIT withholding is down 5.5 percent, a sharp decline from even the previous quarter, which saw a withholding decline of 2.8 percent. (See Table 2) For FY 2009, IIT Refunds rose 17.7 percent. Presumably, this reflects the weak stock market of 2008 which caused a decline in capital gains income.

The recent IIT withholding collection decline is certainly consistent with the latest Missouri total employment data. The latest statistics, which now include May, show that Missouri is experiencing a steady and severe decline in total employment. From May of 2008 through May of 2009, Missouri has lost over 97,000 jobs and the May Unemployment rate was 9 percent. 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

Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2004-2008

Year and Quarter Individual Income Tax Withholding Percent Change

2004. Quarter 3	1.7%
2004. Quarter 4	4.7%
2005. Quarter 1	1.8%
2005. Quarter 2	6.5%
Total Fiscal Year 2005	3.6%
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 4	-5.5%
Total Fiscal Year 2009	0.9%

Source: MO Office of Administration

Table 3: Missouri Employment Trends 2005 through 2009

<u>Calendar Year</u>	<u>Total Employment</u>	<u>Unemployment Rate</u>
2005	2,836,963	5.4%
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%
May 2009	2,739,194	9.0%

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. A key to any sustained recovery in overall state GR collections will be a turnaround in this area. This is because IIT accounted for 65 percent of the Missouri GR fund in FY 2008.

Sales and Use Tax collections rose 0.9 percent in June, but declined 5.8 percent for FY 2009 overall. For the year, Regular sales tax fell 4.6 percent and Motor Vehicle sales tax fell 95 percent. (As of July 1st all Motor Vehicle Sales tax is being allocated to Highways and Transportation.)

As regular readers of this report know, monthly Sales and Use tax growth rates of ten show substantial fluctuations that are generally not the result of economic factors. While sales and Use tax showed a modest increase in June, collection for the quarter ending June 30th were down 9.5 percent. Another small negative is that Sales and Use tax refunds also rose slightly in FY 2009. Perhaps even more discouraging is that Sales tax does not seem to have been helped much 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.

At some point, the economic stimulus in place should start to perk up sales tax receipts. Unfortunately, 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. Looking ahead, with the economic slowdown still in place, this is unlikely to improve. See below for the latest quarterly trends in sales tax growth.

Table 4: Missouri Sales Tax Growth Rates Fiscal Years 2005-2009

	<u>Regular Sales Tax</u>	<u>Motor Vehicle Sales Tax</u>
2004. Quarter 3	3.5%	-4.4%
2004. Quarter 4	1.3%	-3.4%
2005. Quarter 1	3.5%	-2.0%
2005. Quarter 2	5.3%	0.6%
Total Fiscal Year 2005	3.6%	-2.0%
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%

Corporate Income and Franchise Tax collections fell 20.7 percent in June, which left the FY 2009 overall decline at 13.9 percent. Looking at the sub-components for all of FY 2009, there is weakness in both areas. Both Declarations and Final Payments fell in FY 2009, 16.4 percent and 9.8 percent respectively. Corporate refunds also increased 10.3 percent for the year. As a result, net Corporate collections declined 22.0 percent for the year. Looking ahead, FY 2010 is not likely to see strong growth in this area. In addition to the economic slowdown that is suppressing corporate profits, it is likely that there are substantial tax credits that have been issued awaiting redemption. All things considered, FY 2010 and beyond may be a difficult period for this tax source.

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

General Revenue Interest earnings continue to decline. For FY 2009 overall, they fell about 49 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 collection fell 14.6 percent during the final quarter and finished the year down 2.8 percent.

General Revenue Refunds: General Revenue refunds surged during the final quarter, growing nearly 47 percent. This was due in part to slower refund processing and cash flow constraints the state encountered earlier in the year. The two major refund categories both grew markedly in FY 2009. Individual Income and Corporate Income/Franchise Tax refunds grew 17.7 percent and 10.3 percent respectively. Senior Citizen Property tax refunds totaled \$118.6 million - 18.4 percent ahead of last year.

Summary and Outlook

The national economy has shown a few signs of improvement over recent months. Most notably, the stock market as measured by the *Standard and Poors 500 Stock Index* has risen about 30 percent from March 9th through July 9th. In addition, the *U.S Index of Leading Economic Indicators* increased in both April and May. Other than this, good economic news remains elusive. 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 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. In addition, all Motor Vehicle Sales tax now accrues to MO-DOT, which will cost the GR fund approximately \$120 million per.

At this point, there seems to be little cause for optimism for FY 2010 and beyond. 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 following chart for the June and FY 2009 General Revenue Collection table)

Table 5: June GR Collections and Refunds

<u>Tax Source</u>	June FY 2008	June FY 2009	Percent Change	FY 2008 YTD	FY 2009 YTD	Percent Change
(\$\$\$ in Thousands)						
Individual Income						
Withholding	358,727	323,926	(9.7)	4,373,128	4,412,493	0.9
Declarations	172,123	119,427	(30.6)	860,454	744,811	(13.4)
Remittances	13,696	11,889	(13.2)	804,364	689,210	(14.3)
Fiduciaries	378	445	17.7	72,106	88,591	22.9
Total	544,927	455,689	(16.4)	6,110,159	5,935,195	(2.9)
Sales and Use						
Regular	170,897	174,631	2.2	1,970,603	1,879,527	(4.6)
Motor vehicle	2,597	275	(89.4)	27,350	1,509	(94.5)
Total	173,632	175,194	0.9	2,000,470	1,883,719	(5.8)
Corporate Tax						
Declarations	82,959	64,390	(22.4)	376,928	314,976	(16.4)
Remittances & Corp Franchise	7,582	10,157	34.0	236,571	213,303	(9.8)
Total	90,541	74,546	(17.7)	613,499	528,280	(13.9)
Estate	2,485	674	(72.9)	3,451	3,068	(11.1)
Interest	3,601	1,736	(51.8)	63,648	32,686	(48.6)
Liquor	2,691	3,162	17.5	26,129	26,893	2.9
Beer	785	796	1.4	8,477	8,850	4.4
County Foreign Insurance	56,367	58,672	4.1	209,633	203,801	(2.8)
Federal Reimbursements	8,710	11,074	27.1	78,236	114,007	45.7
All other revenues	10,046	10,352	3.0	148,571	155,175	4.4
Gross GR collections	893,785	791,895	(11.4)	9,262,273	8,891,674	(4.0)
GR Refunds						
Individual Income	47,252	122,900	160.1	900,063	1,059,201	17.7
Corp. Income&Franchise	6,861	23,529	242.9	154,243	170,161	10.3
Senior Citizen Property	2,756	3,983	44.5	100,165	118,574	18.4
Sales	7,025	7,754	10.4	69,413	70,592	1.7
All other	3,332	4,442	33.3	34,514	22,362	(35.2)
Total GR Refunds	67,226	162,608	141.9	1,258,398	1,440,890	14.5
Net General Revenue	826,559	629,287	(23.9)	8,003,874	7,450,784	(6.9)

Source: Missouri Office of Administration

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