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Missouri General Revenue Collections Still in a Deep Hole

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Recent reports have highlighted both improvements in Missouri's General Revenue for the current fiscal year and less dire forecasts for shortfalls in fiscal year (FY) 2012. While improvements in the state's fiscal condition are welcome, it is important to understand them relative to the magnitude of revenue decline over the past three years.

As this report demonstrates, despite the improved outlook, **Missouri continues to face steep challenges in overcoming the budget crisis.** The following data put the severity of the crisis into context:

- Projections indicate a \$500 - \$700 million shortfall in FY 2012, which could likely result in significant cuts to education and other core state services;
- After adjusting for inflation, Missouri general revenue is 12 percent lower than it was a decade ago;
- Missouri revenue collections relative to the size of the state economy are at their lowest in 25 years; and
- The decline in revenue collections has been so steep that Missouri revenue will not return to what it achieved in FY 2008 until FY 2016, five years from now.

As indicated by the data, without revenue discussions, **the state's budget crisis will continue to result in cuts to core state services over the next several years.**

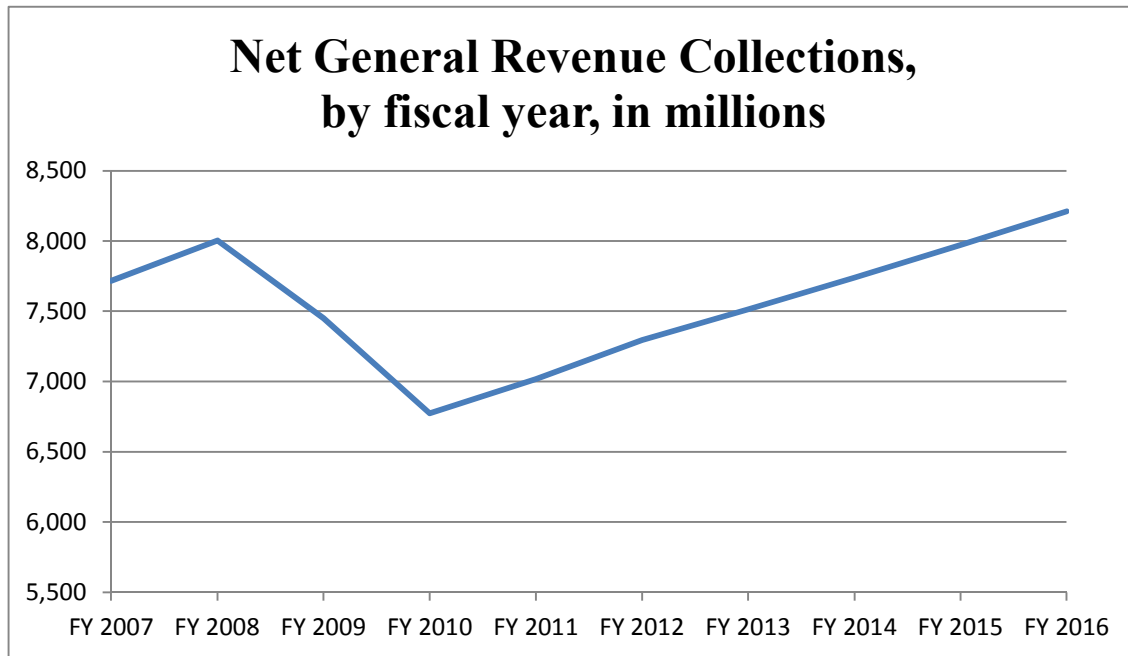
Current State Budget Projections

Missouri General Revenue (GR) collections (net of refunds) rose 9.4 percent in December, which brought the growth rate for FY 2011 to 4.6 percent. By recent standards, this represents a substantial improvement. However, even with improved GR collections, Missouri will still face severe revenue problems in FY 2012 and beyond.

Missouri's general revenue has fluctuated extremely due to the economy and resulting fiscal crisis, beginning in the last quarter of FY 2008. After falling by 6.9 percent in FY 2009, state general revenue dropped by an additional 9.1 percent in FY 2010. The most recent revenue recovery in FY 2011 has yet to make up for those steep declines.

In fact, it will be more than five years before state general revenue returns to the level obtained in FY 2008. The chart below illustrates actual revenue collections for fiscal years 2007 through

2010, as well as estimated collections for FY 2011 through FY 2016.¹ Without taking action to enhance revenues, the state will continue to face a very difficult budget environment in FY 2012 and beyond.

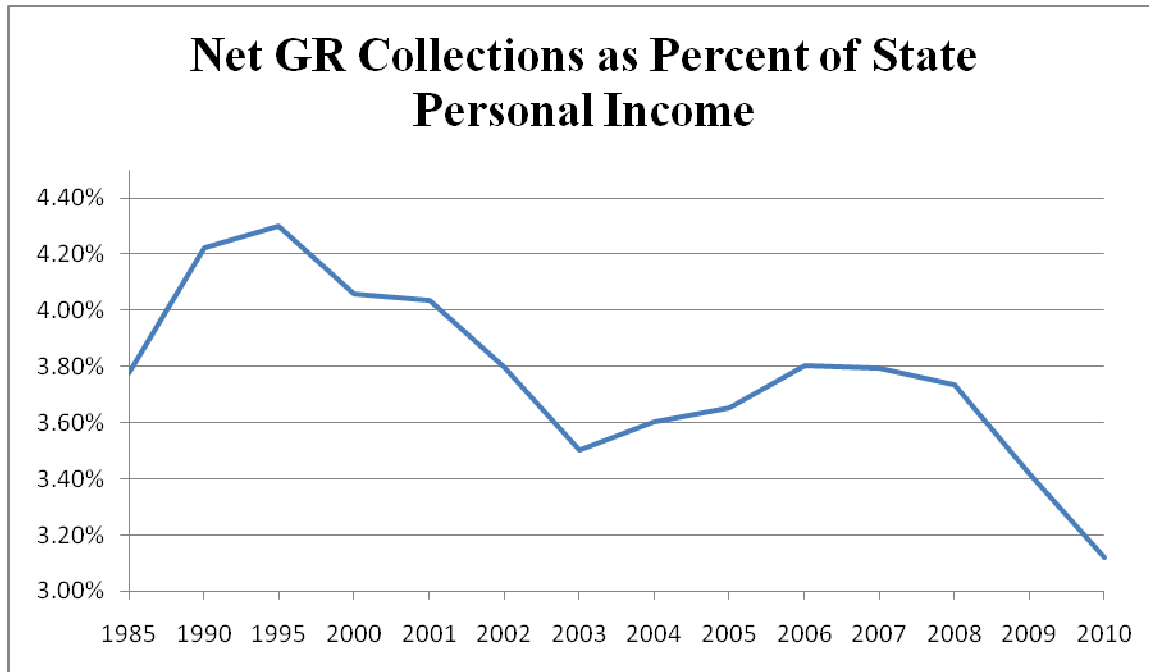


The Current Budget Crisis is Part of a Long Term Trend

Although the current state budget situation was created in part by the national economic downturn and sluggish recovery of the last three years, structural state tax policy issues have also eroded the state revenue base. The state has enacted numerous tax reductions along with increases in tax credit allowances. As a result, net revenue collections relative to the size of the state economy are at their lowest in 25 years. This relationship can be demonstrated by considering net general revenue collections as a percent of state personal income.

As demonstrated in the chart below, general revenue as a percentage of state personal income is significantly lower than it was in 1985. Over the last decade, state revenue has dropped precipitously. FY 2010 net general revenue collections of \$6.7 billion are **\$2 billion lower** than they would have been if general revenue had been at the same level relative to personal income as in FY 2000, just one decade ago.

¹ FY 2007 through 2010 net GR collections are from the *Missouri Office of Administration*. FY 2011 and FY 2012 estimates are from the *MO Office of Administration* and based on the consensus revenue estimate (CRE). FY 2013 through 2016 estimates are from the *Missouri Budget Project* and assume CRE growth in FYs 2011 and 2012, and three percent growth in future fiscal years.



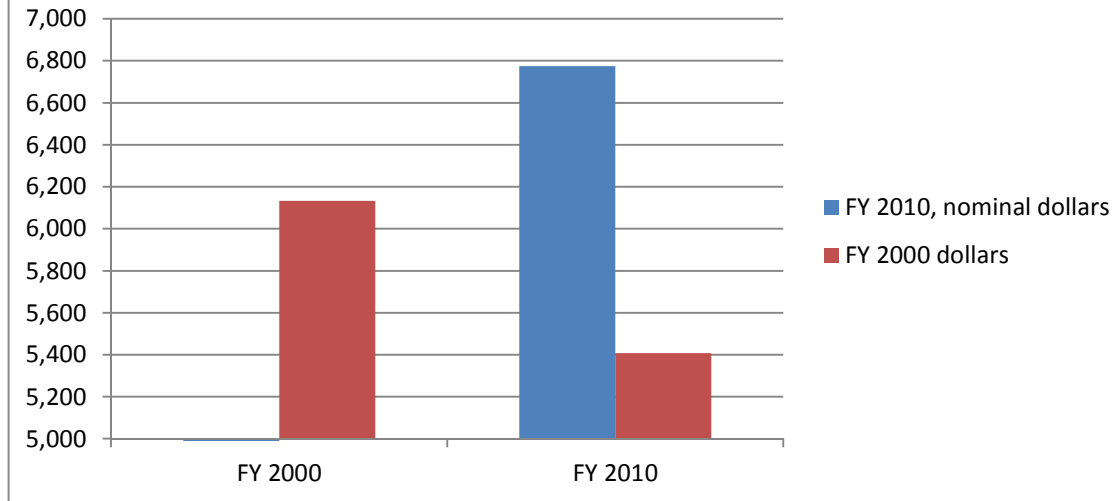
Source: Calculated by *Missouri Budget Project* from Revenue data supplied by the *Missouri Office of Administration* and State Personal Income data from the *US Department of Commerce-Bureau of Economic Analysis*. (www.bea.gov/regional/sqpi)

The Purchasing Power of General Revenue

When comparing revenue collections over time, it is also important to consider the purchasing power of those collections. In FY 2000, net GR collections totaled \$6.1 billion. By FY 2010, collections reached \$6.7 billion. However, once adjusted for inflation using the Consumer Price Index-Midwest for All Urban Consumers, the real purchasing power of net GR collections fell sharply over the decade.

In constant FY 2000 dollars, net GR collections in FY 2010 were \$5.4 billion – **a decline of nearly 12 percent over the decade.**

Comparison of Purchasing Power of Net General Revenues, FY 2000 and FY 2010, in millions



Source: Calculated by *Missouri Budget Project* from Revenue data supplied by the *Missouri Office of Administration* and Consumer Price data from the *US Department of Labor-Bureau of Labor Statistics* (www.bls.gov/cpi#data)

Summary

While the improvement in state revenues halfway through FY 2011 is good news, it must be evaluated in a broader context. Even with an improving economy and stronger revenue growth, the state remains in a deep revenue hole for the foreseeable future. Steps must be taken to end the erosion of the GR tax base and to modernize the state tax structure. Absent this, the state will continue to face a very difficult budget situation even as economic conditions improve.