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Missouri General Revenue Report, Third Quarter FY 2012

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Missouri net general revenue (GR) collections increased 2.5 percent for the first nine months of the fiscal year (FY) relative to the same period last year, slightly below the 2.7 percent growth rate called for in the FY 2012 consensus revenue estimate (CRE) for the year. To meet the CRE for FY 2012, net GR must increase 3.2 percent during the final quarter of FY 2012.

However, even if revenue meets the CRE for FY 2012, the state would still be faced with major budget problems in FY 2013 and beyond as a result of the impending loss of extraordinary federal funding as well as the need for additional revenues in the aftermath of multiple natural disasters that took place in FY 2011.

Summary

Missouri net general revenue (GR) collections increased by 3.0 percent during March, compared to March 2011, continuing the modest rebound in net GR collections that began in FY 2011.

However, the net GR total for this period of \$5.06 billion is still well below the \$5.18 billion collected during these same nine months *five* years ago in FY 2007. In addition, it remains important to note that should net GR continue to grow at its current rate of 2.5 percent, the state will not exceed the FY 2008 net GR total of \$8,003.9 million until FY 2016.

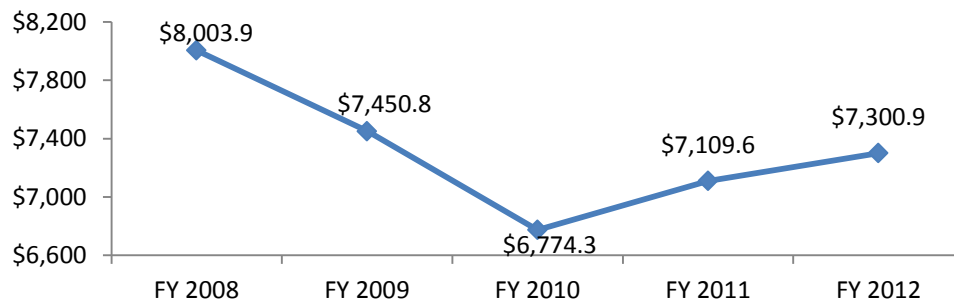
Overview of Fiscal Year 2012 Missouri General Revenue Over First Nine Months

The first nine months of FY 2012 have been characterized by sluggish growth in gross collections coupled with a modest decline in GR refunds. Taken together, these have resulted in modest growth in net collections. For the quarter ending March 31st, net GR collections rose 5.4 percent compared to this quarter one year ago – a considerable improvement over the December and September quarterly growth rates, which were 0.0 percent and 1.9 percent respectively.

Gross collections for the year are up only 1.3 percent. Gross individual income tax increased 3.1 percent, while gross sales and use tax is up a modest 3.9 percent for the fiscal year. As was the case in FY 2011, the 2.5 percent overall net general revenue growth seen for the first nine months of FY 2012 was due in large part to the fact that GR tax refunds for the nine month period are down 4.7 percent.

As previously indicated, the state remains in a difficult revenue situation. A review of total net GR collections over the last five years shows that even if the state achieves the revenue estimate for the current fiscal year, FY 2012 will remain **\$703 million below FY 2008 revenue collections**. Furthermore, should net GR collections continue at the current 2.5 percent growth rate, the state will not exceed the FY 2008 level (\$8.0039 billion) until FY 2016.

Figure 1: Net General Revenue Collections, in Millions, FY 2008 – FY2012¹



Detailed Revenue Analysis:

Gross Individual Income Tax (IIT) collections in March of 2012 grew 0.5 percent over March of last year, resulting in a fiscal year-to-date growth rate of 3.1 percent.

For FY 2012 overall, individual income tax withholding, the largest component of IIT,² has grown 2.9 percent. As reflected in Figure 2, for the quarter ending March 31st, IIT withholdings rose only 3.6 percent relative to this quarter last year, a modest improvement compared to the 2.5 percent growth seen the last two quarters. While growth is on the rise, overall it is still sluggish. Given the importance of IIT withholding, stronger growth in this area will be needed for any pronounced improvement in overall GR collections.

**Figure 2: Missouri Individual Income Tax Collections
Missouri Individual Income Tax Collections Growth Rates Fiscal Years 2008-2012³**

Year and Quarter	Individual Income Tax Withholding Percent Change versus Same Quarter Previous Year
2007. Quarter 3	5.2%
2007. Quarter 4	8.2%
2008. Quarter 1	7.4%
2008. Quarter 2	2.8%
Total FY 2008	6.0%
Year and Quarter	Individual Income Tax Withholding Percent Change versus Same Quarter Previous Year
2008. Quarter 3	3.2%
2008. Quarter 4	9.0%
2009. Quarter 1	-2.8%
2009. Quarter 2	-5.5%
Total FY 2009	0.9%

¹ Data from the Missouri Office of Administration

² IIT consists primarily of withholdings, declarations/estimated payments, and final payments/remittances.

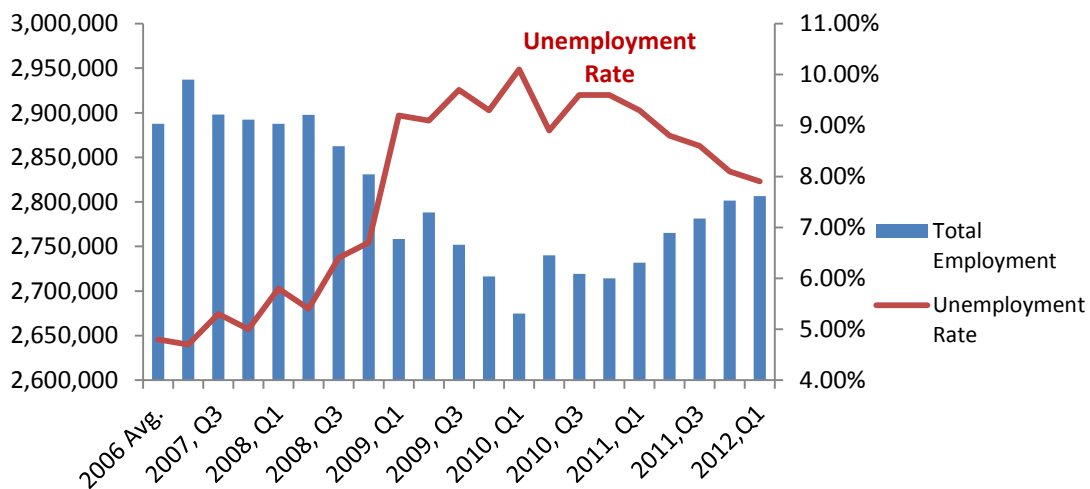
³ IBID #1

2009. Quarter 3	-4.9%
2009. Quarter 4	-11.8%
2010. Quarter 1	-1.8%
2010. Quarter 2	2.5%
Total FY 2010	-4.3%
2010. Quarter 3	1.6%
2010. Quarter 4	5.0%
2011. Quarter 1	3.7%
2011. Quarter 2	1.9%
Total FY 2011	3.1%
2011. Quarter 3	2.5%
2011. Quarter 4	2.5%
2012. Quarter 1	3.6%

The next most important component of IIT (declarations/estimated payments) rose a solid 8.7 percent in the most recent quarter. However, the FY 2012 year-to-date growth rate remains at 1.3 percent compared to the same nine months last year.

Overall, in the near future, the outlook for this tax source is guarded at best because the state's employment growth, while improving, remains tepid. For the quarter ending March 31st, total employment in Missouri stood at 2,807,232, representing a gain of about 27,000 jobs compared to this period one year ago. Moreover, the state unemployment rate for the quarter was 7.9 percent, considerably better than the 8.9 percent rate seen in this quarter one year ago. Nonetheless, as Figure 3 illustrates, current total employment is well below the levels attained in 2007.

Figure 3: Missouri Employment Trends 2006 through 2012⁴



⁴ U.S. Bureau of Labor Statistics

Figure 4 more closely examines recent trends in Missouri wage and salary growth. The data that now includes the final quarter of 2011 shows consistent improvement over the last seven quarters.

Figure 4: Missouri Wage and Salary Growth⁵

Calendar Year/Quarter	MO Wages & Salaries (Millions)	Percent Change versus Same Quarter Previous Year
2007. Quarter 1	\$112,656	4.3%
2007. Quarter 2	\$114,428	5.2%
2007. Quarter 3	\$115,200	5.7%
2007. Quarter 4	\$117,317	6.3%
2008. Quarter 1	\$117,705	4.5%
2008. Quarter 2	\$118,797	3.8%
2008. Quarter 3	\$117,687	2.2%
2008. Quarter 4	\$123,120	4.9%
2009. Quarter 1	\$115,231	-2.1%
2009. Quarter 2	\$114,465	-3.6%
2009. Quarter 3	\$114,044	-3.1%
2009. Quarter 4	\$113,019	-8.2%
2010. Quarter 1	\$113,790	-1.3%
2010. Quarter 2	\$114,591	0.1%
2010. Quarter 3	\$115,573	1.3%
2010. Quarter 4	\$115,273	2.0%
2011. Quarter 1	\$115,657	1.6%
2011. Quarter 2	\$116,610	1.8%
2011. Quarter 3	\$119,146	3.1%
2011. Quarter 4	\$120,354	4.4%

On balance, IIT growth for FY 2012 has been modest. Hopefully, the improvements in employment and wage and salary growth will generate better performance over the remainder of FY 2012 and beyond. A key to any sustained recovery in overall state GR collections will be a sustained turnaround in IIT collections because they accounted over 65 percent of the Missouri GR fund in FY 2011.

Sales and Use Tax collections⁶ fell 0.4 percent in March, leaving the FY 2012 overall growth rate at 3.9 percent. While March receipts were slow, the growth rate for the quarter was 7.1 percent. Furthermore, the state has now had five straight quarters of better performance. However, it is not clear that the overall sales tax situation is on a path of sustained improvement. With only modest job gains along with a still stubbornly high unemployment rate, robust sales tax growth in the near term future seems unlikely.

⁵ U.S. Department of Commerce, Bureau of Economic Analysis

⁶ Please note that in this and subsequent reports, 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.

Another factor depressing sales tax growth is the increase in Internet sales, for which a loophole prevents the collection of most sales and uses taxes that are owed.⁷ While specific state level data on the growth of Internet sales is not available, the U.S Census reports that national e-commerce retail sales rose from about \$44.5 billion in the 4th quarter of 2010 to \$51.4 billion in the 4th quarter of 2011, a growth of 15.5 percent.⁸ In addition, a recent study from the University of Missouri’s Truman School of Public Affairs estimates that over the last ten years, the state lost about \$468 million annually in uncollected sales taxes. The increase in online sales is almost certainly a factor in the generally slow growth in Missouri sales tax collections.

Figure 5: Missouri Sales Tax Growth Rates Fiscal Years 2008-2012¹⁰

Year and Quarter	Regular Sales and Use Tax Percent Change versus Same Quarter Previous Year
2007. Quarter 3	4.0%
2007. Quarter 4	-0.3%
2008. Quarter 1	-2.9%
2008. Quarter 2	-2.0%
Total FY 2008	-0.4%
2008. Quarter 3	-2.3%
2008. Quarter 4	-2.5%
2009. Quarter 1	-5.2%
2009. Quarter 2	-8.3%
Total FY 2009	-4.6%
2009. Quarter 3	-6.7%
2009. Quarter 4	-6.9%
2010. Quarter 1	-6.8%
2010. Quarter 2	1.3%
Total FY 2010	-4.9%
2010. Quarter 3	2.4%
2010. Quarter 4	-1.8%
2011. Quarter 1	1.6%
2011. Quarter 2	2.0%
Total FY 2011	1.0%
2011. Quarter 3	3.1%
2011. Quarter 4	1.3%
2012 Quarter 1	7.1%

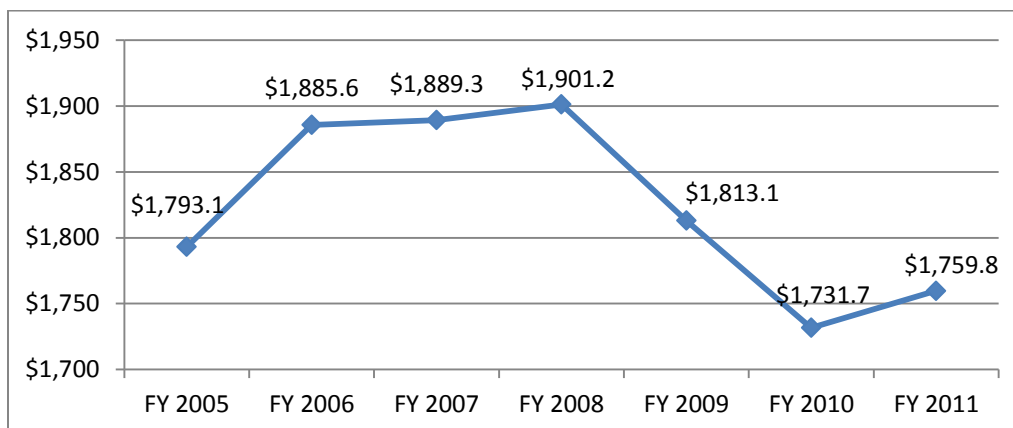
As illustrated in Figure 6, for FY 2011, even with modest growth, net regular sales tax collections have fallen by \$141 million since FY 2008 and are well below the level *attained in FY 2005*. See above for the latest quarterly trends in sales tax growth.

⁷ For more information on this issue, please see “Missouri Should Enact the ‘Streamlined Sales Tax’ to Ensure Equitable Collections of Sales Tax,” Missouri Budget Project, February 17, 2011.

⁸ U.S. Census Website: www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

¹⁰ IBID #1

Figure 6: Net Sales Tax Collection, in Millions, FY 2005-FY 2011¹¹



Corporate Income and Franchise Tax gross collections rose 8.5 percent in March, but the first nine months of FY 2012 have seen a decline of 8.5 percent. Corporate tax refunds have increased by 17.2 percent for the period, which has left net corporate tax growth at -25.0 percent.

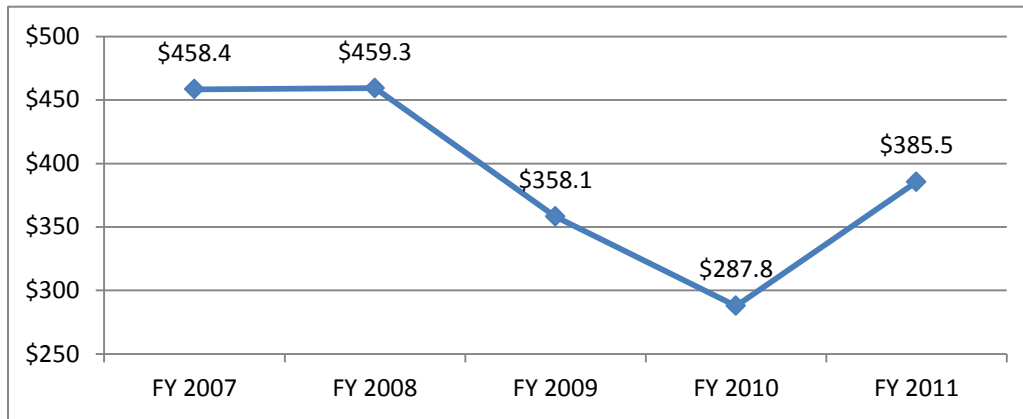
The corporate tax situation and near term outlook are not favorable and are complicated by several factors. In April 2011, Governor Nixon signed Senate Bill 19, which will eliminate the corporate franchise tax over the next five years. The law is expected to reduce collections by about \$25 million during the last few months of FY 2012. In addition, the federal tax law signed into law by President Obama in December 2010 allows more rapid deductions for business investment expenses. The *Center on Budget and Policy Priorities* estimates that this will reduce Missouri revenues by \$143 million over two years.¹² Even with a stronger economy, the state is not likely to see much growth in corporate taxes in the next few years.

¹¹ IBID #1

¹² “Business Expensing Proposal Would Add to State Fiscal Problems” by Nicholas Johnson and Ashali Singham-*Center on Budget and Policy Priorities* (www.cbpp.org/cms/index/cfm?fa=view+id=3344)

As Figure 7 demonstrates, despite the strong rebound seen in FY 2011, the state may still be years away from returning to the FY 2008 level for this tax.

Figure 7: Corporate Income and Franchise Tax Collections, in Millions¹³



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

General Revenue Interest earnings have staged a modest rally and are up 8.8 percent for the year. Unfortunately, even at this pace, earnings are not likely to exceed \$7.5 million for the year. Furthermore, with interest rates expected to remain extremely low, this source is not likely to generate much revenue in the near future.

County Foreign Insurance collections grew 1.8 percent for the just completed quarter. Unfortunately, collections for the year are down 15.5 percent or about \$24 million. As this is an important revenue stream, this may become a new area of concern.

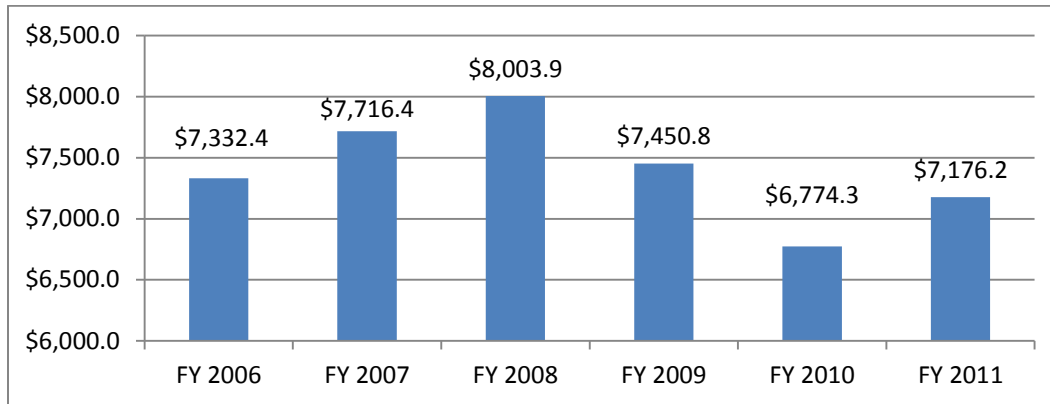
General Revenue Refunds: The sharp decline in GR refunds seen late in FY 2011 has continued into the first three quarters of FY 2012. For FY 2012 overall GR refunds are down 4.7 percent. The decline is centered on the decline in IIT refunds, which have fallen by about \$53 million or 7.7 percent relative to this time in FY 2011. However, as noted previously, corporate tax refunds have increased. As gross GR collections for the year are only slightly ahead of last year, the overall decline in refunds is responsible for the positive net GR collection growth. As the April-June quarter sees a substantial share of the year's refunds, this will merit observation over the next few months.

Summary and Outlook

On balance, the March and third quarter FY 2012 net GR performance show a generally improving situation. While there are certainly areas of concern, the state is in position to attain the CRE for FY 2012. The primary challenge facing the state is that even with respectable net GR growth, Missouri is in a deep revenue hole and is not on pace to achieve \$8 billion in net collections (the FY 2008 total) until FY 2016. **In addition, as shown in Figure 8, should net GR continue to grow at about its current rate, net collections for FY 2012 will remain below the level attained in FY 2006, leaving the state budget in FY 2012 and beyond in a very difficult situation.**

¹³ IBID #1

Figure 8: Missouri Net General Revenue Collections, in Millions, FY 2006 – FY 2011¹⁴



MISSOURI FY 2011 NET GENERAL REVENUE STILL BELOW FY 2006 LEVEL

(See next page for the March and FY 2012 General Revenue Collection table)

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Figure 9: Sept. GR Collections and Refunds¹⁵

<u>Tax Source</u>	March FY 11	March FY 12	Percent Change	FY 2011	FY 2012	Percent Change
Individual Income						
Withholding	397,486	401,143	0.9	3,311,786	3,407,465	2.9
Declarations	11,724	12,516	11.0	372,672	377,420	1.3
Remittances	69,252	66,937	(3.3)	190,051	209,054	10.0
Fiduciaries	1,753	1,677	(4.3)	6,772	8,485	25.3
Total	479,768	482,275	0.5	3,881,360	4,002,450	3.1
Sales and Use						
Regular	148,218	147,625	(0.4)	1,345,472	1,397,335	3.9
Total	148,218	147,625	(0.4)	1,345,472	1,397,335	3.9
Corporate Tax						
Declarations	15,534	19,148	23.3	213,357	190,682	(10.6)
Remittances & Corp Franchise	38,703	39,726	2.6	117,734	112,170	(4.7)
Total	54,237	58,873	8.5	331,091	302,851	(8.5)
Estate	45	54	20.0	1,306	84	(93.6)
Interest	688	766	11.3	4,979	5,415	8.8
Liquor	1,361	1,490	9.5	15,990	16,184	1.2
Beer	552	595	7.8	5,991	5,969	(0.4)
County Foreign Insurance	41,018	42,672	4.0	154,507	130,582	(15.5)
Federal Reimbursements	7,178	822	(88.5)	43,673	11,042	(74.7)
All other revenues	16,830	12,885	(23.4)	111,068	100,024	(9.9)
Gross GR collections	749,895	748,057	(0.2)	5,895,436	5,971,936	1.3
GR Refunds						
Individual Income	209,366	190,274	(9.1)	683,791	630,884	(7.7)
Corp. Income & Franchise	5,929	13,462	127.1	129,264	151,475	17.2
Senior Citizen Property	30,318	29,303	(3.3)	84,459	88,700	5.0
Sales	5,047	1,469	(70.9)	39,239	19,760	(49.6)
All other	1,896	1,118	(41.0)	19,975	21,220	6.2
Total GR Refunds	252,556	235,627	(6.7)	956,728	912,038	(4.7)
Net General Revenue	497,338	512,430	3.0	4,938,708	5,059,898	2.5

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