The MISSOURI BUDGET PROJECT
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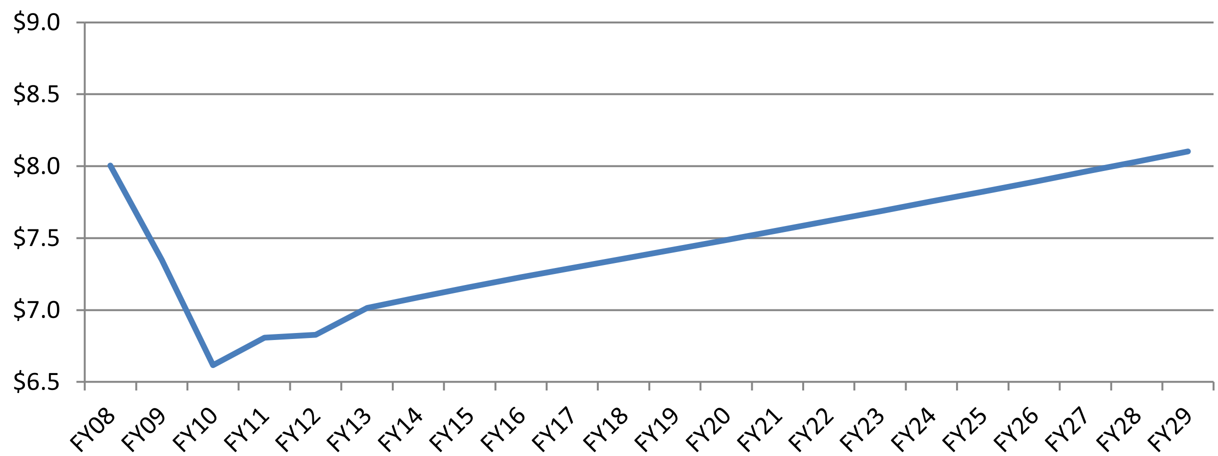
State Revenue is Growing, But Still Far Below Pre-Recession Levels

Tom Kruckemeyer, Chief Economist

Although Missouri is bringing in more money lately for schools, roads and other services, it remains far from recovering ground lost during the recession, and without new revenue those services, and the state's economy, will continue to suffer. While revenue grew considerably in the first half of fiscal year (FY) 2013, which began July 1, 2012, collections this year and next will remain below FY 2008 levels. **Moreover, at this rate it will take *15 more years* for the state just to return to the level of purchasing power it had before the recession.** Revenue collections relative to the size of the state's economy are at their lowest levels in 30 years. Policymakers need to keep this dismal state of affairs in mind as they begin considering next year's budget, and they should look for ways to get Missouri on a faster pace to full recovery by bringing in new revenue for investments that will restore and strengthen our economy.

Missouri State General Revenue Does Not Reach Pre-Recession Level of Purchasing Power Until FY 2028

Projection of General Revenue when adjusted for inflation to FY 2008 dollars amounts in billions



This estimate assumes an inflation rate of about 2 percent per year and that net GR collections achieve the consensus revenue estimate (CRE) level in FY 2014 and grow 3 percent in FY 2015 and beyond.

Collections Are Up, But Temporary Boosts Play a Role

Missouri general revenue – which includes state income, sales and use taxes collections – grew 10.7 percent in December, after refunds, and has increased 7.9 percent overall for the first half of FY 2013 when compared to the same time period in FY 2012 . While this is a major improvement compared to recent years, one-time revenue -- such as money from a legal settlement with mortgage lenders -- and refunds running behind last year's pace may be artificially increasing the growth rate. Even with stronger revenue growth, the state does not expect revenue to exceed the FY 2008 level in nominal dollars (not inflation adjusted) until FY 2015.

Here's how the major drivers of state revenue looked through the end of December (more details can be found in the table at the end of this paper):

Individual Income Tax: Collections rose 5.7 percent over the first half of FY 2013. The strength in collections is mainly due to a 5 percent rise in individual income tax withholding. Growth in income tax revenue is critical because it historically accounts for nearly 70 percent of all state revenue.

Sales and Use Tax: Collections are up only 0.3 percent so far this year, a substantial decline compared to FY 2012, when they grew 2.2 percent during the same six month period. Some of this weakness may be due to increased Internet-based retail sales, on which the state cannot effectively collect sales taxes owed without additional legislation.

Corporate Income/Franchise Tax: Collections rose 5.2 percent in December, but have declined 1.9 percent over the first half of FY 2013. The overall decline continued a trend seen in the final quarter of FY 2012, when receipts fell 3.0 percent.

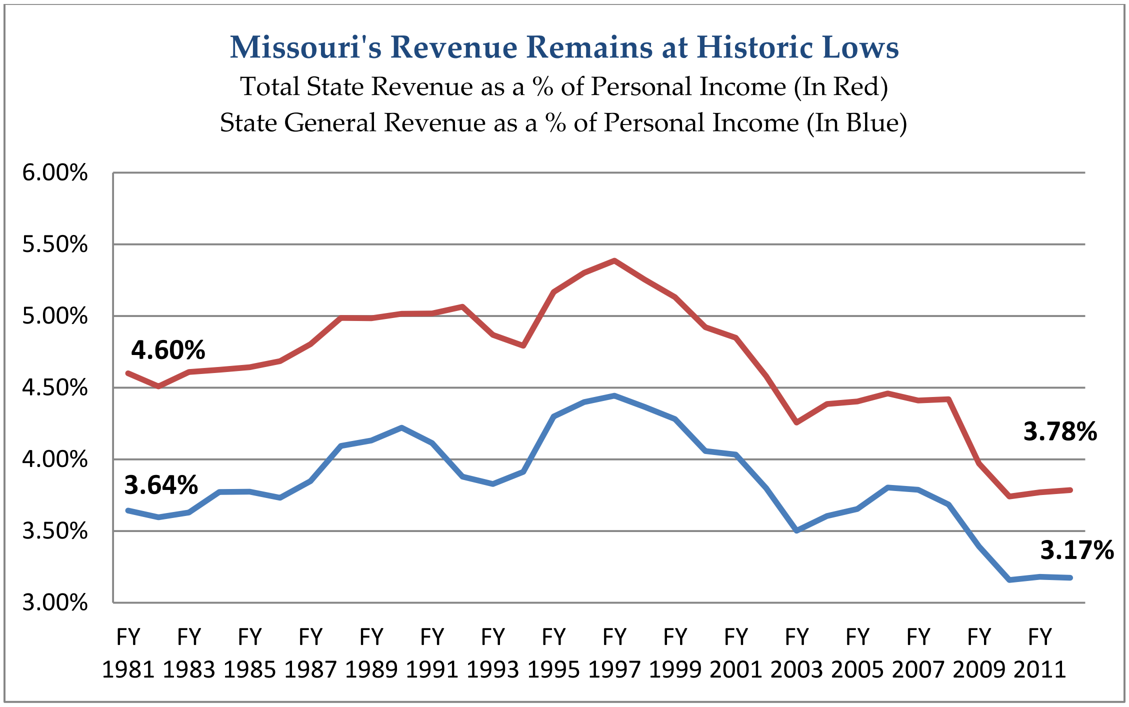
Other Revenue Sources: In July, the state received about $38.6 million as part of a legal settlement with financial institutions that had engaged in illegal mortgage lending practices. Without this revenue, net general revenue collections would only be up 6.7 percent.

Refunds: While general revenue refunds rose 14 percent in December, for the fiscal year to date they were still about $67 million (22 percent) lower than in the first half of FY 2013. This may change when the main refund season begins in February, as more Missourians begin to file their annual tax returns. Indeed, the state's revenue estimate calls for refunds in FY 2013 to roughly equal the total paid out in FY 2012.

A Lost Generation

The relatively positive revenue picture for the first six months of FY 2013 does not indicate that revenue is back to normal. In fact, Missouri has fallen well behind where it was three decades ago. Taxes relative to the size of our economy have declined sharply since the late 1990s and are now at the *lowest levels* in a generation, sharply eroding funding for schools, health care and other priorities. Though general revenue has increased in nominal dollar terms since the 1980s, it has not kept pace with the growth of Missouri's economy and is at its lowest point in 30 years.

Although the recession clearly impacted state revenue in the last decade, decisions by state policymakers over the years have had a substantial and lasting impact on the state's revenue decline. Over the past 15 years, reductions to the corporate franchise tax, changes in personal and dependent income tax exemptions, and the elimination of the general revenue sales tax on food have contributed to reductions in general revenue over time. In addition, over the last thirteen fiscal years, tax credit utilization has doubled, reaching $629.3 million in FY 2012.[1]



In FY 1981, net general revenue as a share of Missouri's total household income stood at 3.64 percent. This ratio had fallen to 3.17 percent by FY 2012. Likewise, as a share of household income, total state revenue [2] collections in FY 1981 stood at 4.6 percent. By FY 2012, this ratio fell to 3.78 percent.

If Missouri had maintained a more historic level of revenue relative to the economy of 3.5 percent, state *general revenue would have been $756 million higher in FY 2012*. This additional revenue would have alleviated the state's budget shortfall and provided adequate funding in most areas.

[1] 2011 Senate Appropriations Committee Annual Fiscal Report (Red Book), www.senate.mo.gov/12info/Redbook12.pdf
[2] TSR consists of General Revenue plus revenues accruing to MODOT, the Conservation Department, tobacco taxes as well as numerous other earmarked taxes and fees.

Missouri General Revenue Collections Fiscal Year 2013 July 1 – December 31, 2012						
	Dec. FY 2012	Dec. FY 2013	% chg	FY 2012 YTD	FY 2013 YTD	% chg
Ind. Income	$433.1	$501.6	15.8	$2,493.2	$2,634.5	5.7
Sales & Use	$142.0	$140.1	(1.4)	$918.2	$920.9	0.3
Corp. Inc/Fran	$73.7	$77.6	5.2	$218.5	$214.5	(1.9)
County For Ins	$18.3	$15.0	(18.2)	$83.0	$84.8	(1.1)
All Other	$12.2	$18.8	54.1	$85.8	$151.2	76.2
Gross General Revenue	**$679.3**	**$753.1**	**10.9**	**$3,798.8**	**$4,005.9**	**5.5**
Refunds	$26.5	$30.1	14.0	$307.9	$240.7	(21.8)
Net General Revenue	**$652.8**	**$722.9**	**10.7**	**$3,490.8**	**$3,765.2**	**7.9**

Source: Missouri Office of Administration