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Missouri General Revenue Report for Fiscal Year 2010
July 1, 2009- February 28, 2010
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Missouri General Revenue Collections Continue Sharp Decline in February 2010

Highlights from this Report:

- Missouri's net general revenue *declined* by 14.6 percent in February, resulting in a net decrease of 12.7 percent for all of Fiscal Year 2010 (FY 2010) to date.
- Individual income tax (IIT) withholding fell 13 percent during the three months ending February 28th, which results in a 7.4 percent decline for FY 2010 overall.
- Sales tax collections are down 7.2 percent for FY 2010 overall.
- Net corporate income/franchise tax gross collections remain slow. In January alone, corporate tax refunds totaled \$71.2 million, resulting in a 44.2 percent decline in this tax for FY 2010 overall.

Missouri's general revenue collections, after refunds, fell by 14.6 percent in February, resulting in a 12.7 percent decline for the first eight months of fiscal year 2010 overall. In particular, state revenue was extremely weak during the last three months, resulting in a 20.5 percent reduction overall for the December 1 – February 28th period. Overall, Missouri's general revenue is currently \$615 million lower than it was at the same point in the previous fiscal year, a revenue decline of unprecedented proportions.

State General Revenue (GR) collections for FY 2010 to date:

- Net Individual Income Tax	-13.9 %
- Net Sales & Use Tax	-6.6%
- Net Corporate Income Tax	-44.2%
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- Total Net General Revenue	-12.7%

Detailed Revenue Analysis:

Individual income tax (ITT) collections fell 8.7 percent in February, leading to a 10.9 percent decline for FY 2010 overall. The decline in individual income tax (IIT) withholding continued, with a February decline of 8.7 percent. February declarations/estimated payments also declined by 14.4 percent. As a result, IIT withholding and IIT declarations are down 7.4 percent and 30.1 percent respectively for FY 2010 thus far.

As Table 2 demonstrates, IIT withholding has now declined in four straight quarters, with the quarter ending December 31st being by far the weakest. Absent a substantial uptick in March, IIT withholdings will have declined in five consecutive quarters. With continued weakness in state total employment, some IIT withholding collection decline is certainly not unexpected. The latest statistics, which now include December, indeed show that Missouri is experiencing a steady and severe decline in total employment.

From the 4th quarter of 2008 through the 4th quarter of 2009, Missouri has lost nearly 100,000 jobs and the December unemployment rate was 9.6 percent. Job loss numbers of this magnitude are apt to lead to sustained weakness in withholdings well into FY 2010 and possibly FY 2011. (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 data show that Missouri wage and salaries tax is declining in each of the three quarters reported. 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	\$107,990	5.7%
2006 Quarter 2	\$108,796	5.2%
2006 Quarter 3	\$108,979	3.9%
2006 Quarter 4	\$110,345	4.4%
2007 Quarter 1	\$112,406	4.1%
2007 Quarter 2	\$113,422	4.3%
2007 Quarter 3	\$114,661	5.2%
2007 Quarter 4	\$116,070	5.2%
2008 Quarter 1	\$116,807	3.9%
2008 Quarter 2	\$117,498	3.6%
2008 Quarter 3	\$118,043	3.0%
2008 Quarter 4	\$123,655	6.5%
2009 Quarter 1	\$115,792	-0.9%
2009 Quarter 2	\$114,331	-2.7%
2009 Quarter 3	\$114,554	-3.0%

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 2007-2010

Year and Quarter Individual Income Tax Withholding Percent Change

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%
2009. Quarter 4	-11.8%
January	1.1%
February	-8.7%

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	2,741,123	8.8%
2009. Quarter 3	2,726,720	9.4%
2009. Quarter 4	2,710,867	9.5%

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 and FY 2011. 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 five percent in December, and they have declined 7.2 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.

After staging a rally in November with growth of 5.1 percent, sales tax collections fell once again in December and completed the quarter down 6.9 percent. Sales tax has now declined in each of the last nine consecutive quarters. Unfortunately, this trend has continued into the first two months of 2010. It is evident that declining employment and a general lack of consumer confidence has overwhelmed the positives brought about by the improving stock market and the various aspects of the federal funding allocated in a bill signed into law in February. One potential bright spot that should be noted is the national “savings” rate has increased markedly in 2009. (The “savings” rate equals savings divided by disposable personal income).

National Savings Rate

2005	1.4%
2006	2.4%
2007	1.7%
2008	2.7%
2009	4.3%

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

Due to this increase, along with continued stability in gasoline prices, it seems reasonable to expect some improvement in sales tax over the rest of FY 2010. Unfortunately, this is not yet the case. Reviewing again the long term trend in Missouri sales tax collections, there can be little question that the state has a long way to go. The following summarizes net 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 eight months of FY 2010 show 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 2007-2010

	<u>Regular Sales Tax</u>	<u>Motor Vehicle Sales Tax</u>
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
2009. Quarter 4	-6.9%	NA
January	-11.4%	NA
February	-5.0%	NA

Corporate Income and Franchise Tax collections fell 7.1 percent in February, which left the FY 2010 overall decline at -13.1 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, 13.7 percent and 11.8 percent respectively. Additional bad news is that corporate refunds have jumped sharply in the last two months, totaling just under \$75 million. As a result, net corporate collections have declined 44.2 percent for the year.

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 71 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 declined “only” 1 percent during the first eight months of FY 2010. This would have to be considered a relative bright spot.

General Revenue Refunds: General revenue refunds rose 9.3 percent during the first eight months of FY 2010. Individual income tax refunds are up 10.0 percent, but as noted above corporate income/franchise tax refunds have increased sharply and are now up over 25 percent.

Summary and Outlook

It is now beyond any reasonable doubt that state revenues are in their worst shape since the Great Depression of the 1930’s. Net GR receipts for February, and the quarter ending February 28th, were extremely weak and will necessitate a major downward revision in the consensus revenue estimate.

With overall net individual income tax down 13.9 percent for the first eight months of FY 2010, the state is in a deep hole. If there is any good news, it is the fact that the FY 2009 revenue collapse was concentrated in the last four months of FY 2009 when net GR fell about 16 percent. Thus, for the next four months the state will be “up against” a very weak period of revenue growth and at least modest improvement is still probable.

Looking at the economy, positive signs can still be found. The national economy, as measured by real gross domestic product, grew at 2.2 percent and 5.9 percent annual rates in the 2009 third quarter and 2009 fourth quarter, respectively. The stock market, as measured by the *Standard and Poors 500 Stock Index* has risen about 74 percent from early March 2009 through late March of 2010.

In addition, the *U.S Index of Leading Economic Indicators* has increased in eleven consecutive months (April through February, 2010). Furthermore, several leading macroeconomic forecasters believe that overall economic growth will continue, albeit at a modest pace. Even with a “growing” economy, job losses may well continue and the national unemployment rate could exceed 10 percent throughout state FY 2010 and 2011.

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 estimated to cost the GR fund \$250- \$300 million in FY 2010 and increasing to approximately \$350 million by FY 2011.

As noted above, all motor vehicle sales tax now accrues to MO-DOT, which will cost the GR fund approximately \$120 million per year. Even with federal ARRA funds, the state now faces a major budget problem in FY 2010. Assuming that no *new* federal funds become available, the state will almost certainly face another very difficult budget situation in FY 2011 and much more severe problems in FY 2012 and beyond. (See next page for the February and FY 2010 General Revenue Collection table)

Table 5: February GR Collections and Refunds

Tax Source (\$\$\$ in Thousands)	Feb. FY 2009	Feb. FY 2010	Percent Change	FY 2009 YTD	FY 2010 YTD	Percent Change
Individual Income						
Withholding	442,375	403,974	(8.7)	3,052,295	2,825,477	(7.4)
Declarations	5,306	4,542	(14.4)	514,879	359,676	(30.1)
Remittances	21,828	20,232	(7.3)	126,318	114,570	(9.3)
Fiduciaries	382	112	(70.7)	13,996	4,276	(69.4)
Total	469,899	428,861	(8.7)	3,707,548	3,304,050	(10.9)
Sales and Use						
Regular	149,825	142,405	(5.0)	1,270,761	1,179,489	(7.2)
Total	149,825	142,405	(5.0)	1,270,761	1,179,489	(7.2)
Corporate Tax						
Declarations	4,831	5,049	4.5	197,696	170,518	(13.7)
Remittances & Corp Franchise	6,693	5,655	(15.5)	96,966	85,486	(11.8)
Total	11,524	10,704	(13.5)	294,662	256,004	(13.1)
Estate	0	3	0	2,317	92	(96.0)
Interest	2,258	409	(81.9)	25,941	7,444	(71.3)
Liquor	1,167	1,321	13.2	15,081	16,168	7.2
Beer	650	581	(10.6)	5,936	5,467	(7.9)
County Foreign Insurance	5,544	4,641	(16.3)	89,695	88,771	(1.0)
Federal Reimbursements	10,876	6,621	(39.1)	54,943	42,591	(22.5)
All other revenues	10,423	12,658	21.4	82,778	101,069	22.1
Gross GR collections	662,167	608,204	(8.1)	5,549,662	5,001,146	(9.9)
GR Refunds						
Individual Income	214,493	228,580	6.6	461,070	507,241	10.0
Corp. Income&Franchise	8,526	3,721	(56.4)	131,427	164,959	25.5
Senior Citizen Property	39,677	38,513	(2.9)	57,392	55,628	(3.1)
Sales	4,706	1,456	(69.1)	49,338	38,482	(22.0)
All other	1,711	339	(80.2)	15,795	15,009	(5.0)
Total GR Refunds	269,113	272,609	1.3	715,022	781,319	9.3
Net General Revenue	393,055	335,595	(14.6)	4,834,640	4,219,827	(12.7)

Source: Missouri Office of Administration

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