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Missouri General Revenue Report, First Quarter FY 2012

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Despite falling 1.5 percent in September, Missouri's net General Revenue (GR) collections increased by 1.9 percent for the first quarter of fiscal year (FY) 2012, continuing the modest rebound in net GR collections seen in FY 2011. Should growth continue at this rate for all of FY 2012, the state should meet the Consensus Revenue Estimate (CRE) for the year. Unfortunately, attaining the CRE is still likely to leave the state with a major budget shortfall in FY 2013 as the state must cope with the impending loss of extraordinary federal aid, along with the need for additional revenues in the aftermath of multiple natural disasters that took place in FY 2011.

While revenue growth for the quarter is positive, the net GR total of \$1.784 billion is still well below the amount collected (\$1.844 billion) during these same three months five years ago in FY 2007. In addition, it remains important to note that the revenue decline of FYs 2009 and 2010 is the **largest sustained decline since the Great Depression of the 1930s**. As context, even with 5.9 percent growth, the **FY 2011 net GR total of \$7.18 billion was \$827.7 million less than the \$8.003 billion the state collected in FY 2008**, and was even below the \$7.3 billion collected in FY 2006.

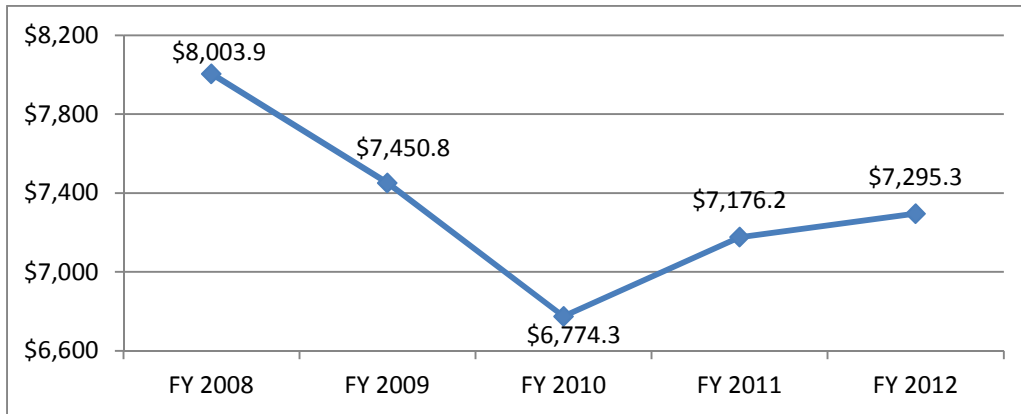
Overview of First Quarter Fiscal Year 2012 Missouri General Revenue

For the quarter ending September 30th, net GR collections rose 1.9 percent, marking six consecutive quarters of revenue growth. While both the national and state economic recoveries remain slow, as shown by unemployment rates around 9 percent, it is now probable that the worst of the recent revenue decline has ended.

As was the case late in FY 2011, the 1.9 percent overall general revenue growth seen in the just completed quarter was due primarily to the fact that GR tax refunds for the three month period fell by 22 percent relative to this quarter one year ago. Gross individual income tax rose only 2.5 percent for the quarter, while gross sales and use tax grew at a modest 3.1 percent.

It is instructive to note that even with the recent uptick in revenues, 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 fiscal year, FY 2012 will remain **\$709 million below** FY 2008 revenue collections.

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



Over the last few months, there has been much debate regarding the federal budget and how best to reduce the federal budget deficit. It is important to emphasize that if not for the substantial revenues accruing to the state as a result of the *American Recovery and Reinvestment Act* (approximately \$2.8 billion for fiscal years 2009 through 2012), **Missouri would be facing a budget crisis in FY 2012 and beyond of much greater magnitude.**

Detailed Revenue Analysis:

Gross Individual Income Tax (IIT) collections in September of 2011 grew 1.0 percent over September of last year, resulting in a fiscal year-to-date growth rate of 2.2 percent.

For FY 2012 overall, individual income tax withholding, the largest component of IIT,² grew 2.5 percent. Although quarterly growth was a bit better than the prior quarterly growth rate, it remains sluggish. Given the importance of IIT withholding, this could be a troublesome development if the trend continues.

**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%

¹ Data from the Missouri Office of Administration

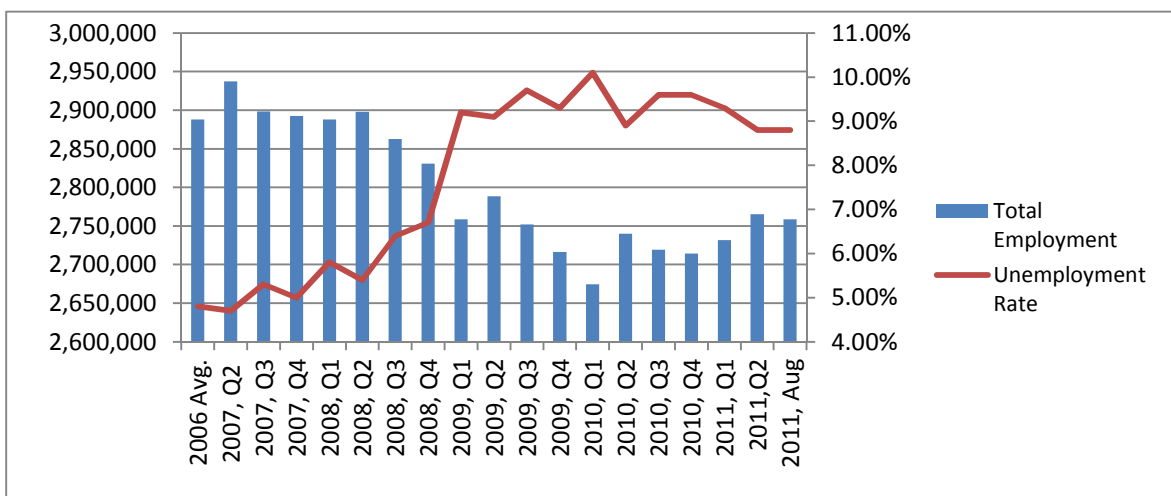
² IIT consists primarily of withholdings, declarations/estimated payments, and final payments/remittances. As reflected in Figure 9, remittances grew 9.7% in the first quarter of FY 2012 compared to the first quarter of FY 2011.

³ IBID #1

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%
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%

Unfortunately, in the most recent quarter, declarations/estimated payments declined 1.3 percent compared to this quarter one year ago. Overall, in the near future, the outlook for this tax source is guarded at best because the state’s employment, while improving, remains sluggish. In August of 2011, total employment in Missouri stood at 2,758,719; roughly 40,000 jobs greater than in August of 2010, when 2,718,902 Missourians were employed. Nonetheless, as Figure 3 illustrates, current total employment is well below the levels attained in 2007.

Figure 3: Missouri Employment Trends 2006 through 2011⁴



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 first quarter of 2011 shows very modest growth over the last five 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	\$117,811	4.6%
2008. Quarter 2	\$118,726	3.8%
2008. Quarter 3	\$117,636	2.1%
2008. Quarter 4	\$123,097	4.9%
2009. Quarter 1	\$115,369	-2.1%
2009. Quarter 2	\$114,336	-3.7%
2009. Quarter 3	\$113,994	-3.1%
2009. Quarter 4	\$113,047	-8.2%
2010. Quarter 1	\$113,851	-1.3%
2010. Quarter 2	\$114,476	0.1%
2010. Quarter 3	\$115,633	1.4%
2010. Quarter 4	\$115,407	2.1%
2011. Quarter 1	\$115,654	1.6%
2011. Quarter 2	\$117,329	2.5%

While ahead of last year, IIT displayed has shown very little growth thus far in FY 2012. Hopefully, the modest improvements in employment and wage and salary growth will generate better performance in this area in the months ahead. A key to any sustained recovery in overall state GR collections will be a sustained turnaround in IIT collections, as this source accounted for over 65 percent of the Missouri GR fund in FY 2010.

Sales and Use Tax collections⁶ fell 1.2 percent in September, for a FY 2012 first quarter growth rate of 3.1 percent. While 3.1 percent sales tax growth is not robust, by recent standards it is an improvement. Furthermore, it does represent three straight quarters of better performance. Nonetheless, the overall sales tax situation remains grim. With only modest job growth and stubbornly high unemployment, strong sales tax growth in the near term future seems unlikely. Another factor depressing sales tax growth is the increase in Internet sales, for which sales taxes often go uncollected. While 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

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.

about \$40.4 billion in the 2nd quarter of 2010 to \$47.5 billion in the 2nd quarter of 2011, a growth of 17.6 percent.⁷ This is almost certainly a factor in the slow growth in Missouri Sales tax collections.

Figure 5: Missouri Sales Tax Growth Rates Fiscal Years 2008-2012⁸

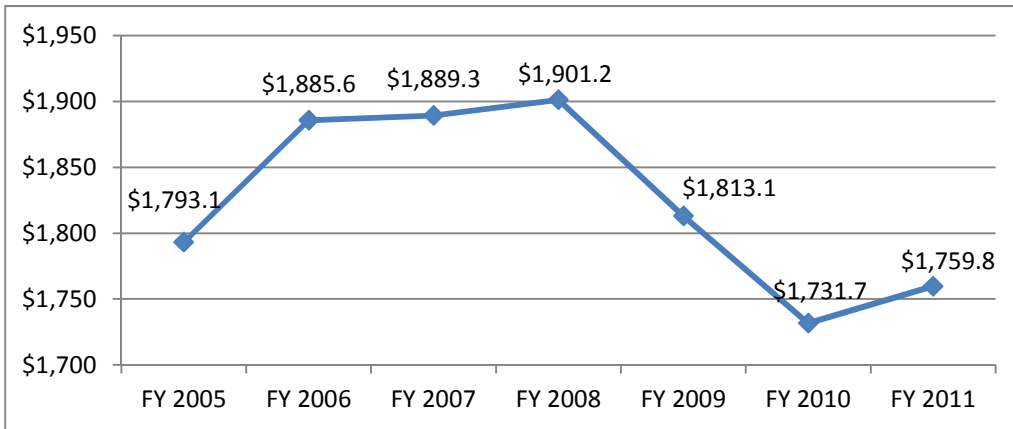
Year and Quarter	Regular Sales and Use Tax Percent Change versus Same Quarter Previous Year
2007. Quarter 3	4.0%
2007. Quarter 4	-0.3%
2008. Quarter 1	-2.9%
2008. Quarter 2	-2.0%
Total FY 2008	-0.4%
2008. Quarter 3	-2.3%
2008. Quarter 4	-2.5%
2009. Quarter 1	-5.2%
2009. Quarter 2	-8.3%
Total FY 2009	-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%

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

⁷ U.S. Census Website: www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

⁸ IBID #1

Figure 6: Net Sales Tax Collection, in Millions, FY 2005-FY 2011⁹

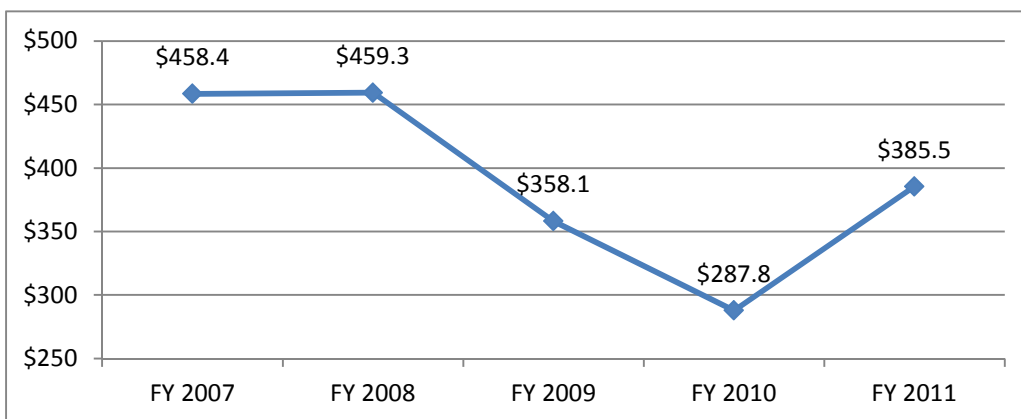


Corporate Income and Franchise Tax gross collections fell 20.3 percent in September and completed the first quarter of FY 2012 with a decline of 20.6 percent. Corporate tax refunds declined 23.4 percent for the quarter, which left net corporate tax growth at -19.5 percent.

The corporate tax situation and near term outlook is not good, and is complicated by several factors. In April, 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 in this area by about \$25 million in 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.¹⁰ Even with a stronger economy, the state is not likely to see much growth in corporate taxes in the next few years.

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 Millions¹¹



⁹ IBID #1

¹⁰ “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)

¹¹ IBID #1

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

General Revenue Interest earnings continue to decline. For the first quarter of FY 2012, earnings were about \$1.6 million, a decline of 42.3 percent. With interest rates expected to remain extremely low, this source is not likely to generate much revenue over the coming months.

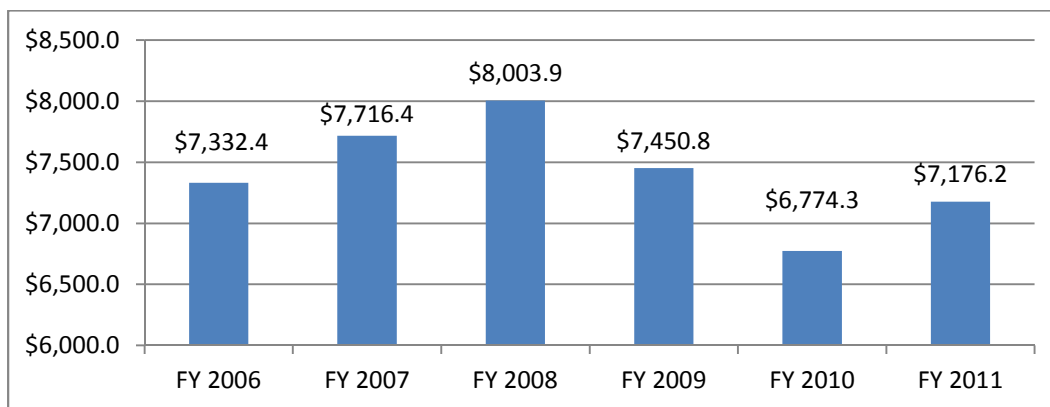
County Foreign Insurance collections fell 38.1 percent for the opening quarter of FY 2012. As this is an important revenue stream, this may become a new area of concern.

General Revenue Refunds: The sharp decline in GR refunds seen late in FY 2011 continued into FY 2012, with overall refunds falling about 22 percent relative to this quarter one year ago. As gross GR collections for the quarter were slightly below this quarter last year, the decline in refunds is responsible for the positive net GR collection growth. Save for slight growth in senior property tax, refunds in all of the major categories declined. It should be noted that GR refunds in the first quarter of the fiscal year are a relatively small share of the eventual total. In FY 2011, the first quarter accounted for only about 13 percent; therefore, this decline may not be indicative of a continuing trend.

Summary and Outlook

After the rebound in net GR seen in the latter half of FY 2011, the first quarter of FY 2012 is disappointing. While still in doldrums, the state economy has probably improved enough to bring about modest growth in both individual income as well as sales and use tax collections. Corporate tax collections however, may well continue to decline. Should net GR continue to grow at about its current rate, net collections for FY 2012 will be at about the level attained in FY 2006. See graph below. This will leave the state budget in FY 2012 and beyond in a very difficult situation.

Figure 8: Missouri Net General Revenue Collections, in Millions, FY 2006 – FY 2011¹²



MISSOURI FY 2011 NET GENERAL REVENUE STILL BELOW FY 2006 LEVEL

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

¹² IBID #1

Figure 9: Sept. GR Collections and Refunds¹³

<u>Tax Source</u>	Sept. FY 11	Sept. FY 12	Percent Change	FY 2011	FY 2012	Percent Change
Individual Income						
Withholding	318,478	326,622	2.6	1,031,061	1,056,780	2.5
Declarations	136,936	131,612	(3.9)	150,479	148,586	(1.3)
Remittances	12,268	14,091	14.9	35,506	38,962	9.7
Fiduciaries	1,271	1,222	(3.9)	2,861	3,008	5.1
Total	468,954	473,551	1.0	1,220,215	1,247,342	2.2
Sales and Use						
Regular	147,910	146,133	(1.2)	453,063	467,110	3.1
Total	147,910	146,133	(1.2)	453,063	467,110	3.1
Corporate Tax						
Declarations	85,225	64,206	(24.7)	102,887	79,303	(22.9)
Remittances & Corp Franchise	8,476	10,503	23.9	27,568	24,228	(12.1)
Total	93,701	74,709	(20.3)	130,455	103,531	(20.6)
Estate	16	12	(25.0)	1,137	20	(98.2)
Interest	1,221	463	(62.1)	2,756	1,591	(42.3)
Liquor	1,980	1,760	(11.1)	6,001	5,554	(7.4)
Beer	765	722	(5.6)	2,281	2,206	(3.3)
County Foreign Insurance	21,825	11,129	(49.0)	64,945	40,230	(38.1)
Federal Reimbursements	9,659	6,606	(31.6)	19,255	22,083	14.7
All other revenues	8,960	12,377	38.1	30,195	34,268	13.5
Gross GR collections	754,991	727,461	(3.6)	1,930,303	1,923,935	(0.3)
GR Refunds						
Individual Income	31,859	21,966	(31.1)	118,848	94,131	(20.8)
Corp. Income & Franchise	4,680	4,147	(11.4)	37,282	28,567	(23.4)
Senior Citizen Property	680	674	(0.9)	2,499	2,562	2.5
Sales	3,220	1,614	(49.9)	11,035	5,559	(49.6)
All other	6,836	1,798	(73.7)	9,610	8,859	(7.8)
Total GR Refunds	47,275	30,199	(36.1)	179,274	139,678	(22.1)
Net General Revenue	707,715	697,262	(1.5)	1,751,029	1,784,257	1.9

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¹³ IBID #1