

Update on the FY 2009 and 2010 Missouri State Budget

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Goal Of Presentation

Discuss FY 2009 and 2010 Missouri General Fund Budget and Impact of Federal Stimulus Package On Governor Nixon's Decisions

The Consensus Revenue Estimate

- Governor Nixon and legislative leaders last month lowered the consensus revenue estimate (CRE) for FY 2009 from +3.4% to -4%
- The FY 2010 CRE is estimated at +1%
- Moody believes actual receipts over the two fiscal years will be below the revised CRE by between \$150 and \$200 million
- The reason to look over two fiscal years is that Tax Year 2008 negative events may be recognized in either FY 2009 (which ends June 30, 2009) or FY 2010 (taxpayers could file extensions that carry negative impacts into next fiscal year, which begins July 1, 2010)

Disclaimer

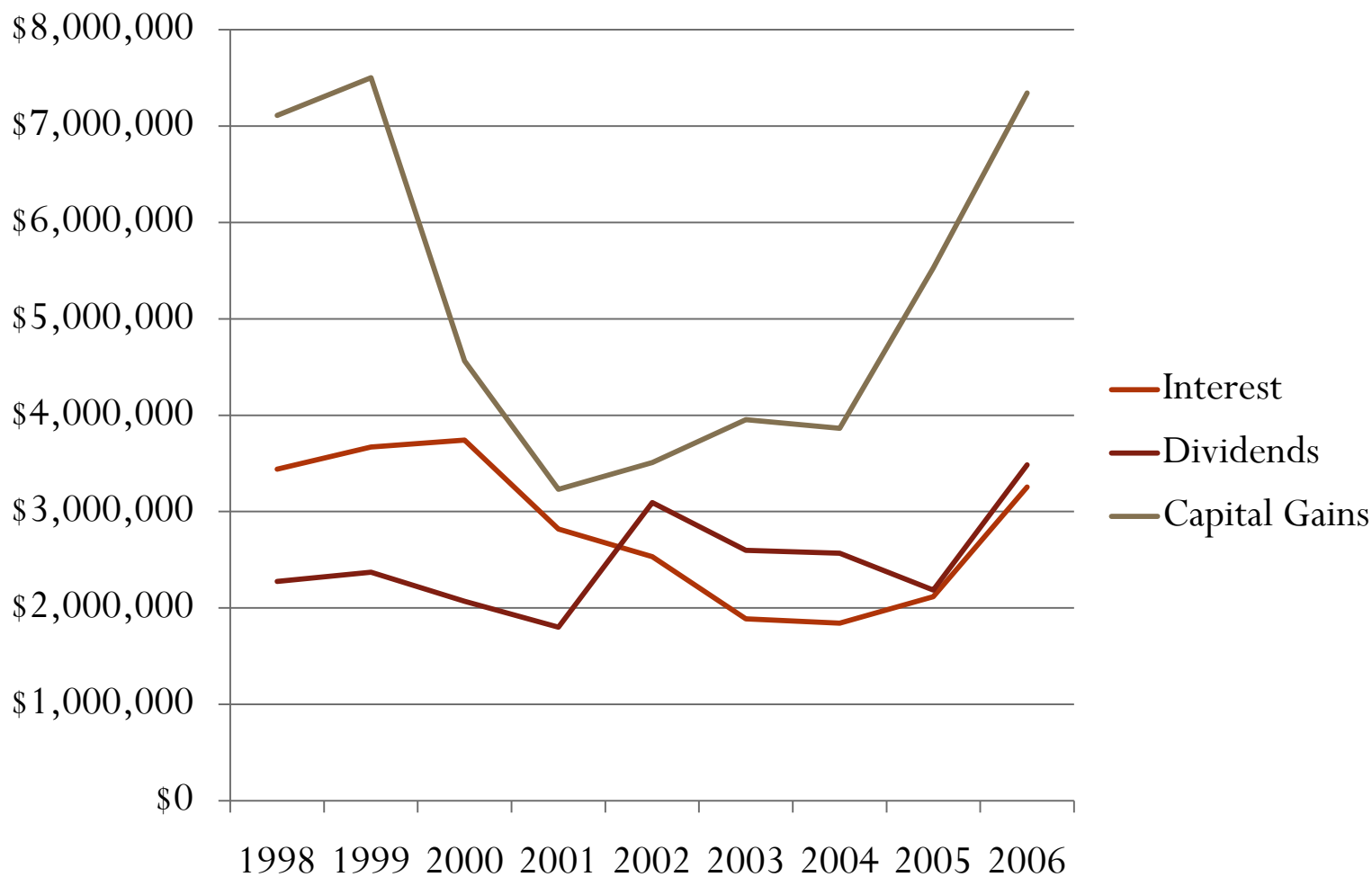
- Moody always thinks the glass is half empty. He has never seen a half full glass.
- Chicken Little is the chief economist for Moody & Associates
- Having said that, there is little reason for optimism in the time frame through FY 2011

Interest, Dividends, Capital Gains Subject To State Income Tax (in thousands)

Tax Year	Interest	Dividends	Capital Gains
1998	\$3,440,700	\$2,276,500	\$7,109,100
1999	\$3,671,300	\$2,370,600	\$7,499,900
2000	\$3,741,600	\$2,069,500	\$4,561,300
2001	\$2,820,300	\$1,800,100	\$3,230,700
2002	\$2,533,775	\$3,094,140	\$3,508,853
2003	\$1,888,700	\$2,597,800	\$3,954,600
2004	\$1,844,100	\$2,569,500	\$3,863,100
2005	\$2,119,400	\$2,184,700	\$5,525,900
2006	\$3,256,600	\$3,486,200	\$7,340,900

Unearned Income Over Time

(in thousands)



How Is The FY 2009 Budget Balanced?

- The **original budget envisioned using \$555.1 million** of the \$835.8 surplus, leaving a cash balance of \$280.7 million before other budgetary actions
- The shortfall with the revised consensus revenue estimate is an **additional \$541.9 million**
- Governor Nixon's plan utilizes the \$280.7 million in cash balance, requiring further FY 2009 reductions of \$261.2 million
- It then plans \$84.5 million in reductions to planned supplemental appropriations, and \$176.7 million in reductions to planned expenditures
- These two actions total \$261.2 million

Governor Nixon's FY 2010 General Revenue Summary

Resources	(in millions)
Beginning Balance	\$0
Anticipated Lapse	\$201.3
Consensus Revenue Estimate	\$7,764.3
<u>Federal Stimulus</u>	\$809.2
Transfers	\$175.3
Total	\$8,950.1

Obligations	(in millions)
Operating Appropriations	\$8,830.0
Capital Improvements	\$50.0
Supplemental	\$70.0
Total	\$8,950.1

How Does The Economic Stimulus Package Help The General Fund

Increased Federal Medicaid Assistance Percentage (FMAP)

- Normal FMAP is about 63% federal; the state pays the other 37%
- Stimulus package would increase the FMAP by nearly 7%, thereby reducing required state expenditures by the same 7%
- The roughly 7% includes a base adjustment of nearly 5%, and an unemployment related adjustment of 2%

What does increased FMAP mean for general revenue?

- At 6.8% increased FMAP the state receives approximately the \$809 million Governor Nixon budgeted for FY 2010
- In a hearing the first week of February, State Budget Director Linda Luebbering noted both current House and Senate versions of stimulus would yield more than \$809
- Governor Nixon budgeted the stimulus as a receipt for general revenue

Another Way Of Looking At Stimulus and The General Fund

However much stimulus is budgeted to cover expenditures normally covered by the General Fund, the General Fund budget is that far out of balance when the stimulus funding goes away

Can We Grow Enough When The
Economy Recovers To Cover Stimulus
Going Away, and Also Growth For
Programs?

No!!!

What Is The Rationale For Saying GR Growth Cannot Replace Stimulus And Provide For Program Growth ?

- Rough Estimate Of Stimulus In GR By Fiscal Year
 - FY 2009--\$500 million
 - FY 2010--\$1 billion
 - FY 2011--\$400 million (need to replace \$600 million in stimulus)
 - General Revenue base for growth—FY 2010 \$7.764 billion
 - Extraordinary Growth Estimates For FY 2011 and 2012:
 - 5%---\$389 million each year
 - 6%---\$466 million each year
 - 7%---\$544 million each year
- Stimulus components vary from 24 to 27 month, with different starts for different components

Possible Different Approach By Governor Nixon To Stimulus

In public briefings before legislative committees, State Budget Director Linda Luebbering has hinted that one approach may be to try to smooth the stimulus dollars over a number of fiscal years

Conclusion

- *Missouri cannot grow enough to cover the stimulus dollars plus normal program growth when the stimulus dollars go away*
- One of two bad scenarios will occur in the next few years:
 - 1) Federal government will continue to simply print money to bail out fiscally irresponsible states, and Missouri will ride the wave; or
 - 2) Stimulus payments go away and the General Fund budget falls off the cliff in FY 2011 or FY 2012