



Update on Missouri's Fiscal Year 2009 Budget Situation

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November 17, 2008

What Has Happened Since September

- Economic downturn has crippled the economy, and will dramatically affect state revenues
- Worst fears from September 3 presentation regarding a downturn in the stock market are being realized
- State revenues are weak through the first four months of Fiscal Year 2009
- The worst effects of the market downturn on revenues will not be seen until the January through April 2009 timeframe

Income Tax on Capital Gains

- Calendar Year 2006 receipts of nearly \$450 million were near all-time high
- Calendar Year 2007 returns not yet available but assumed to be near CY 2006
- Estimated CY 2008 income on capital gains will reduce revenues from capital gains to between \$193 million and \$225 million
- This will result in a **shortfall of between \$225 million and \$257 million**

Income Tax on Interest Income

- For calendar year 2006, estimated taxes on interest income were approximately \$195 million
- Calendar Year 2006 was the highest year reported since the three strong years on CY 1998, 1999, and 2000
- Best case scenario—revenues reduced to approximately \$135 million (average of calendar years 2001 to 2005)
- Worst case scenario—revenues reduced to \$110 million (CY 2004)
- **Range of shortfall-- \$60 million to \$85 million**

Income Tax From Dividends

- Revenues from dividend income for CY 2006 were approximately \$209 million
- CY 2006 was an all-time high for state income tax from dividend income
- Best case scenario—average of prior eight years—revenues of about \$144 million
- Worst case scenario—CY 2001—revenues of \$108 million
- **Range of Shortfall—\$65 million to \$101 million**

Individual Income Tax

- Income tax withholding up 3.2% through first four months, versus revenue estimate of 4.4%
- Withholdings were negative for September but positive for October
- Weakness in the economy has not yet fully impacted withholding
- Best case estimate— withholding growth of 1.75%, resulting in a **shortfall vs. estimate of \$52 million**
- Worst case estimate— withholding growth of 1.25%, resulting in a **shortfall versus estimate of \$76 million**

Sales Tax

- Sales tax is extremely weak through four months of FY 2009, with -1.9% growth
- Economic bad news has likely not fully impacted sales tax yet
- Best case scenario-- negative 2.5% growth for the fiscal year, resulting in a **revenue shortfall of \$56 million**
- Worst case— negative 5% growth, resulting in a **revenue shortfall of \$104 million**

Corporate Income/Franchise Tax

- Estimate growth in consensus revenue estimate is 5%
- Corporate income/franchise after four months is -12.6%. Within year month to month fluctuations in this tax source typically fluctuate greatly
- Best case scenario- 0% growth, which would mean a **revenue shortfall of \$22 million**
- Worst case scenario- -negative 7% growth, which would result in a **shortfall of \$54 million**

Probable Revenues Shortfall– Fiscal Year 2009

Type of Shortfall	Optimistic Estimate	Pessimistic Estimate
Income tax on capital gains	-\$225 million	-\$257 million
Income tax on interest income	-\$60 million	-\$85 million
Income tax on dividend income	-\$65 million	-\$101 million
Individual Income Tax	-\$52 million	-\$76 million
Sales Tax	-\$56 million	-\$104 million
Corporate income/franchise tax	-\$22 million	-\$53 million
All other taxes	-\$2 million	-\$4 million
Total	-\$482 million	-\$680 million

The Budget “Surplus”

- **The Plan---**

Planned expenditures for FY 2009 will reduce the cash balance to \$305 million, with a planned lapse of \$150 million, meaning a planned opening balance of \$455 million to begin FY 2010

- **The Reality---**

With a shortfall of \$484 million to \$682 million in FY 2009, the cash balance will be fully exhausted by the end of FY 2009, and if all the cash balance is used to get through FY 2009, FY 2010 will be completely out of fiscal balance