Missouri
Budget Update

June 2013

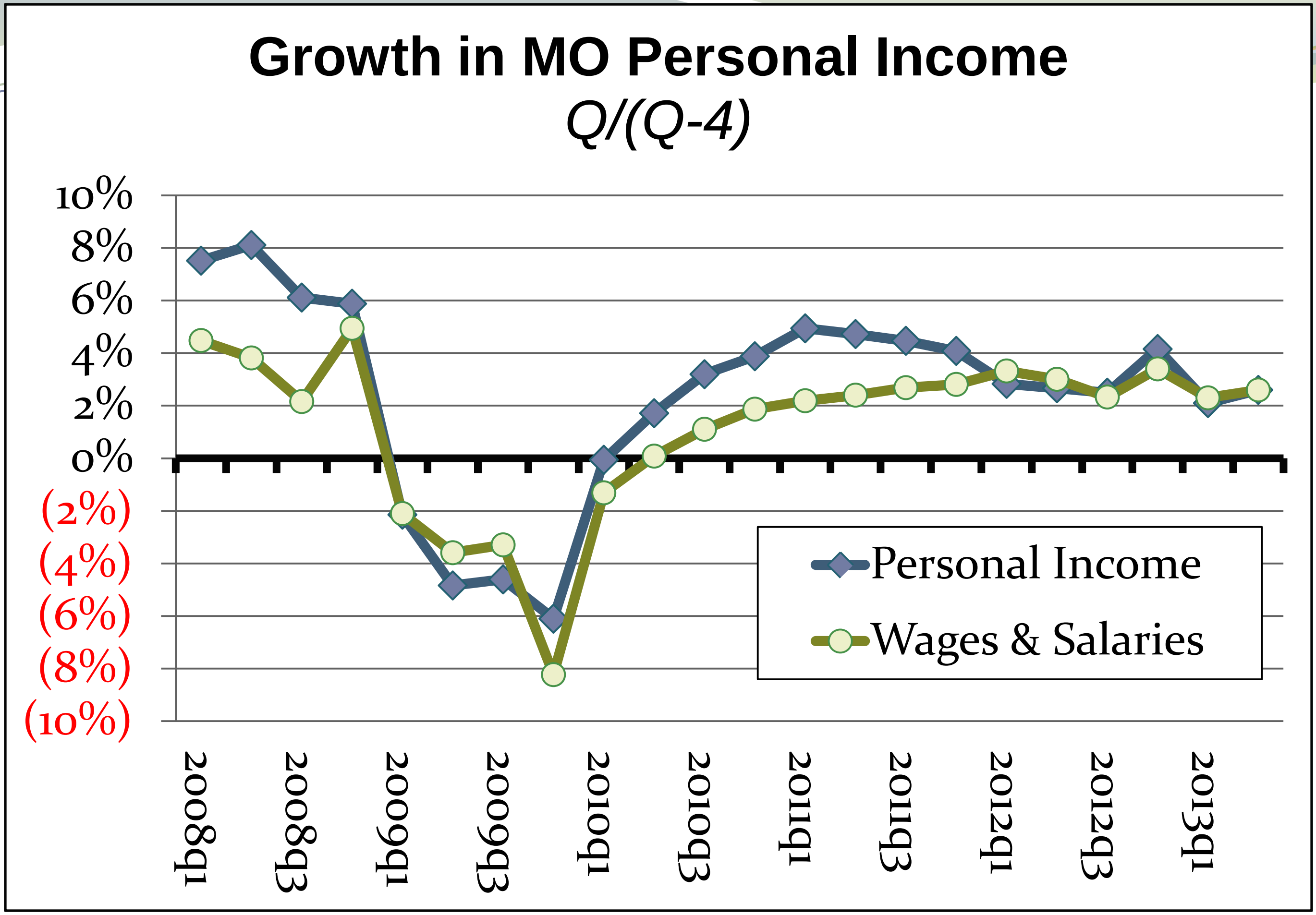
Missouri Division of Budget and Planning

MISSOURI BUDGET UPDATE
June 2013

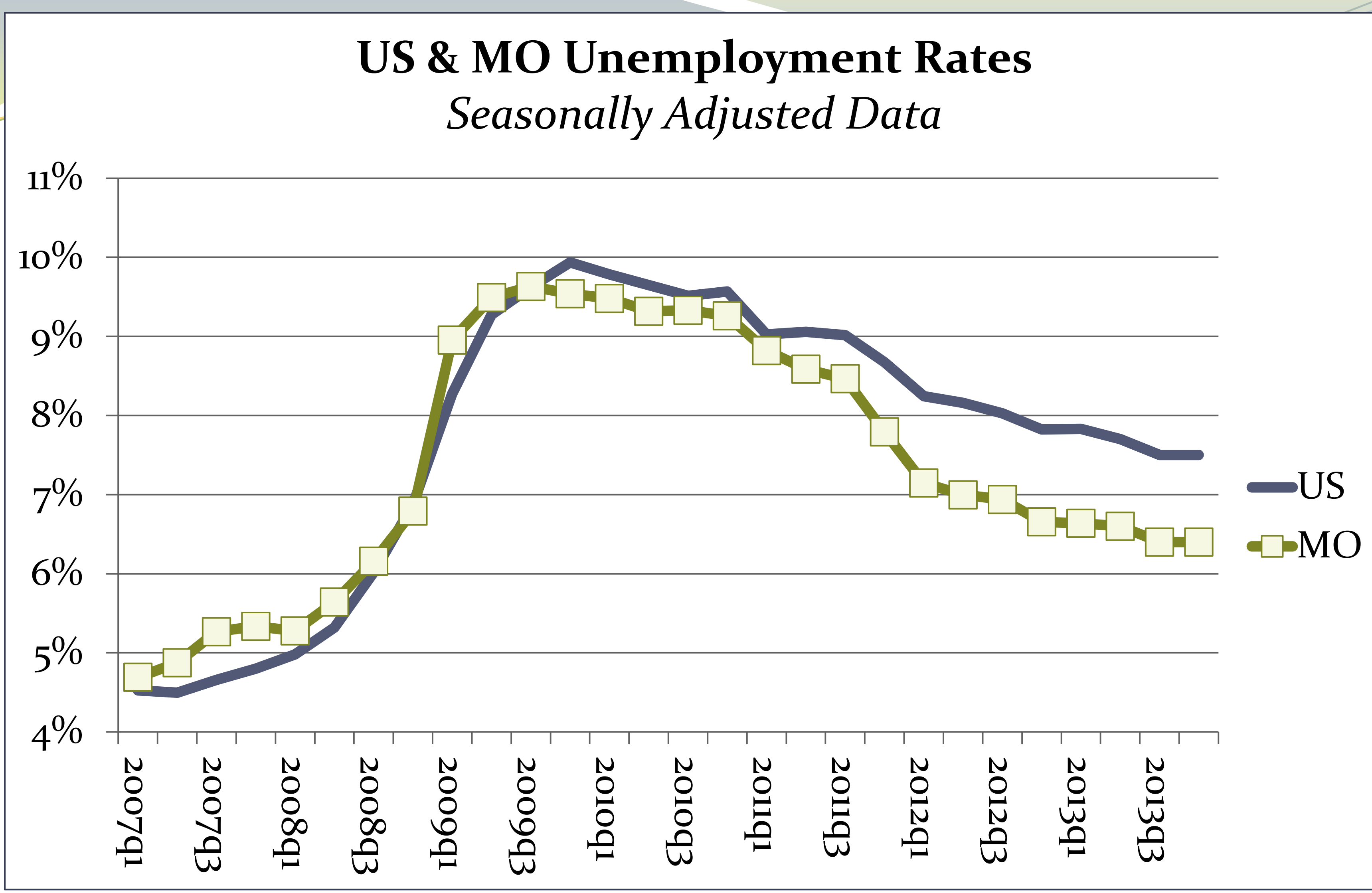
- Economic Data – Actual & Projected
- State Revenue Update
- State Spending Update
- What’s Ahead for FY 2014 and FY 2015

MISSOURI BUDGET UPDATE

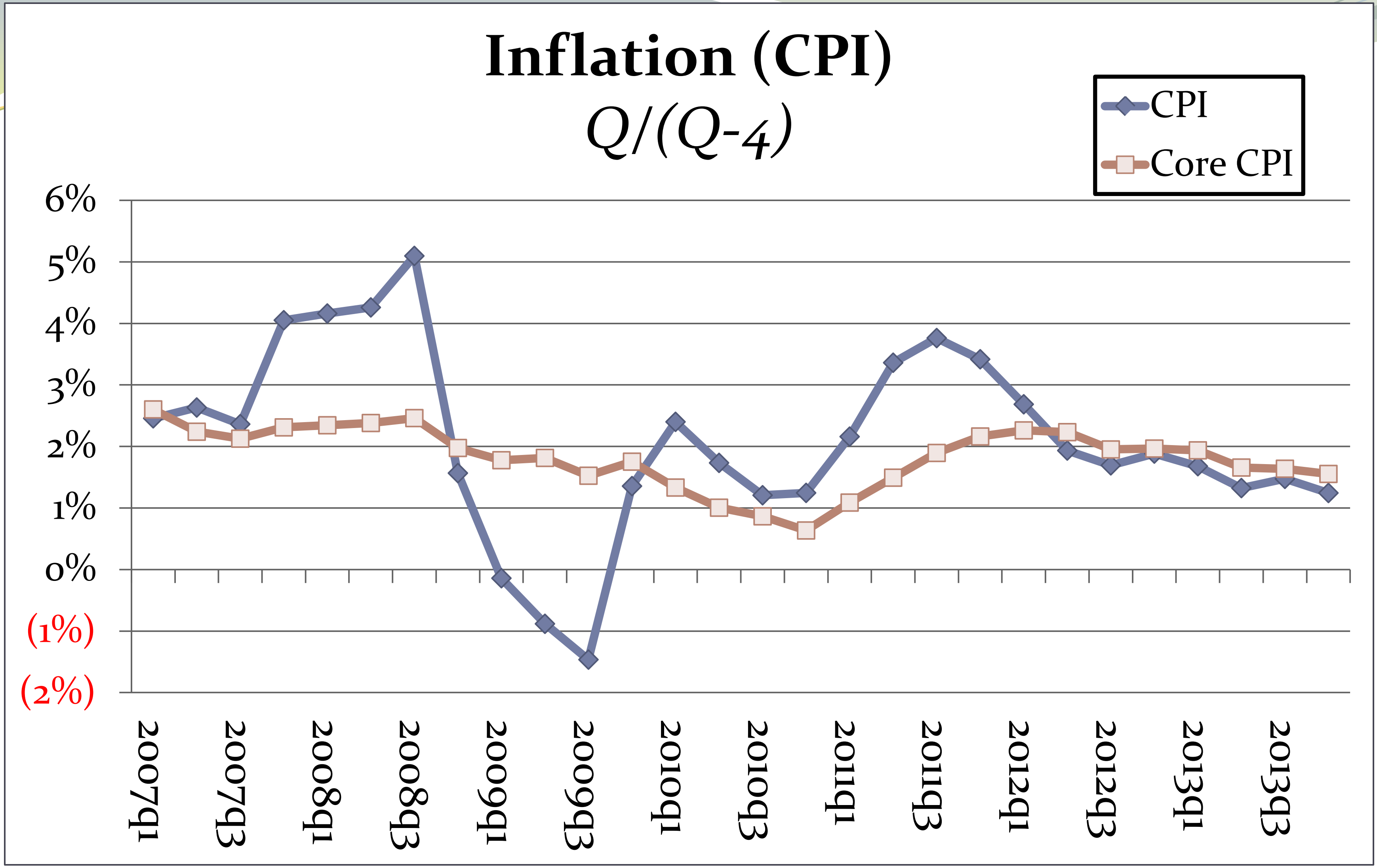
Economic Data – Actual & Projected



- Personal Income jumped at the end of 2012 as investors closed out positions in an effort to avoid tax increases on capital gains.
- Wage growth will slow somewhat thru mid-2013, but accelerate as the economic recovery strengthens in 2014.



- US rate is expected to decline slowly but steadily through 2013.
- In general, MO rate follows the national trend, but has remained below the national average since 2010.



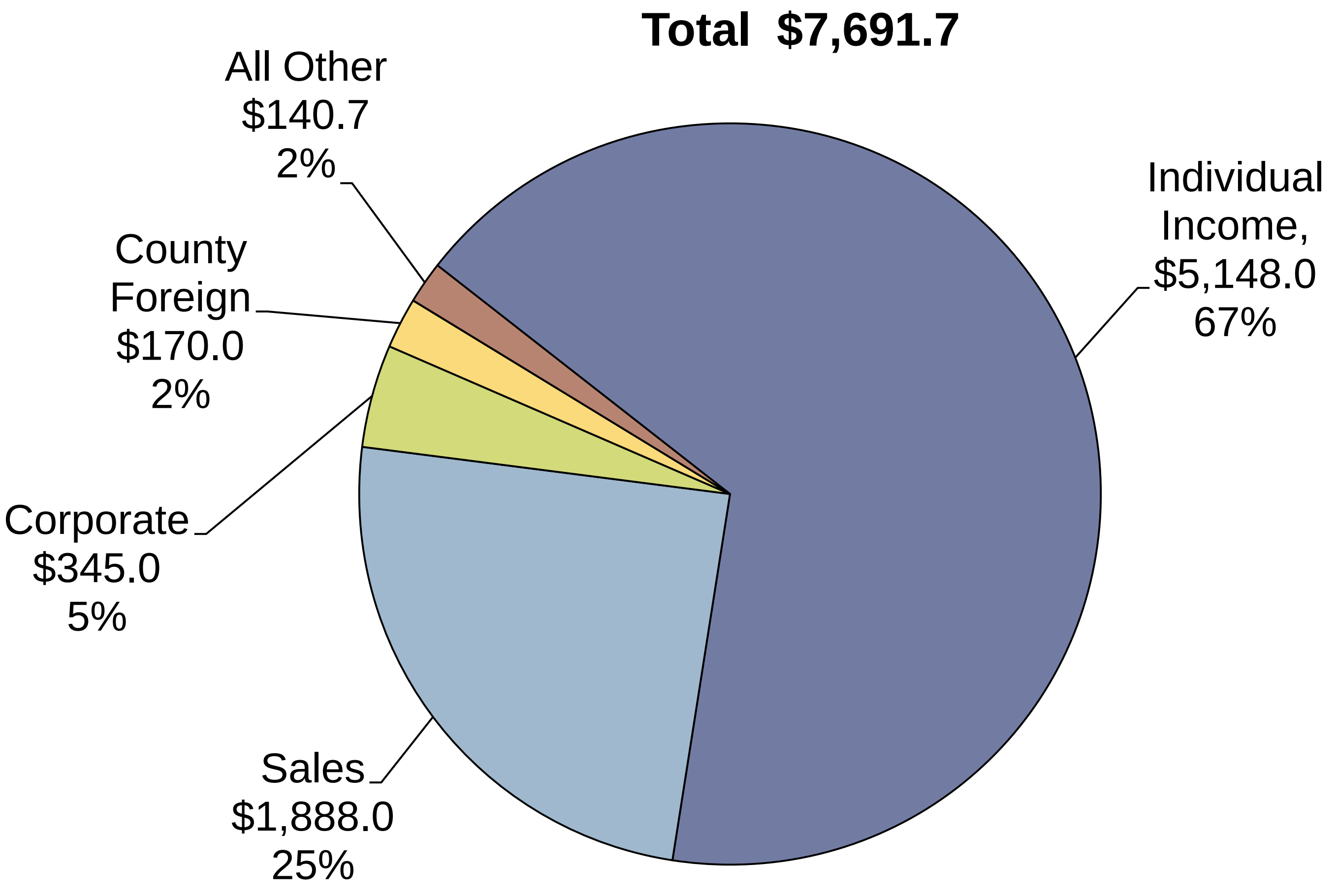
- Inflation remains subdued.
- Growth in “core” inflation, excludes food & energy, remains low.

State Revenue Update

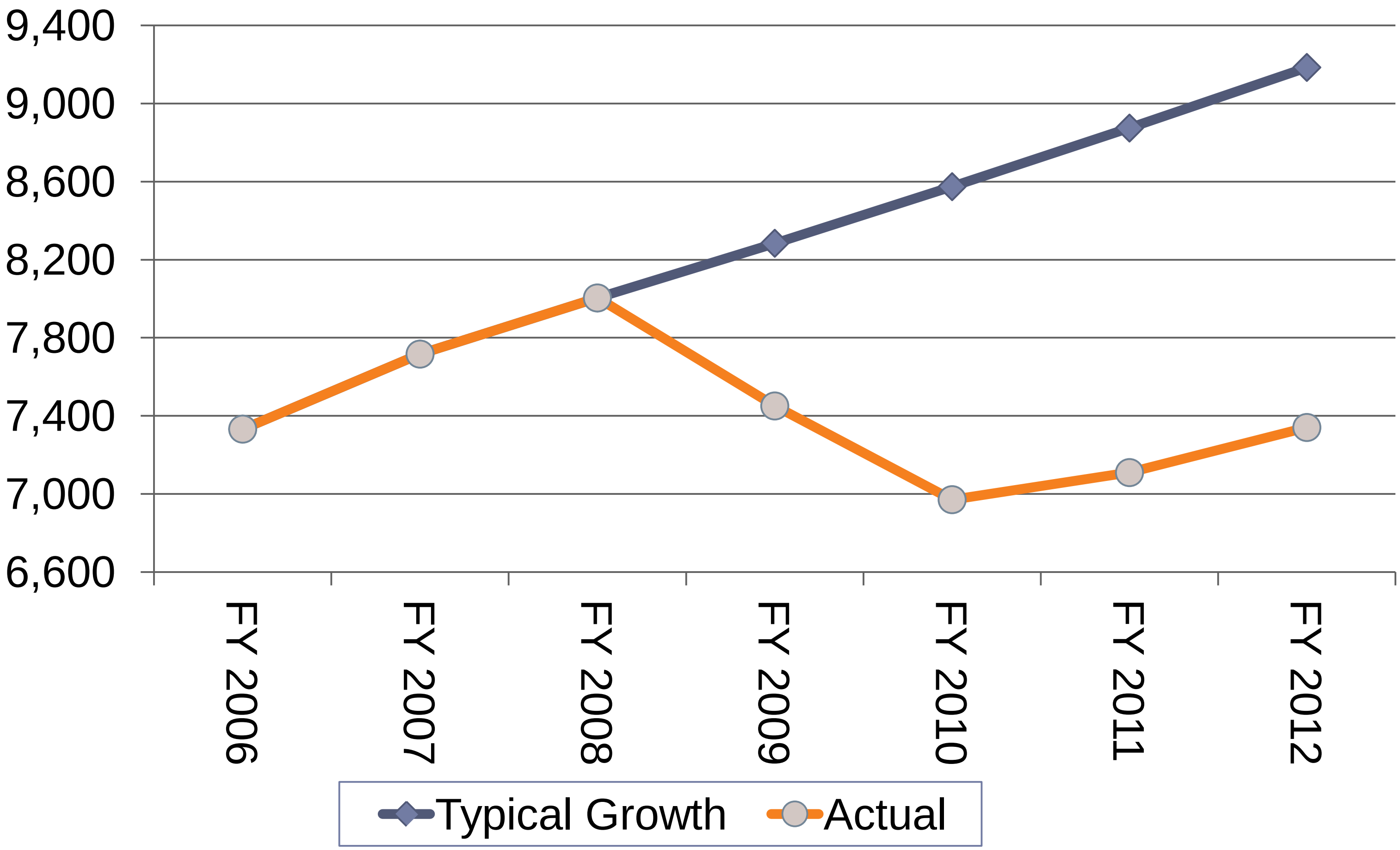
- Recent general revenue collections
- Historical comparisons

FY 2013 NET GENERAL REVENUE COLLECTIONS

($ in millions)

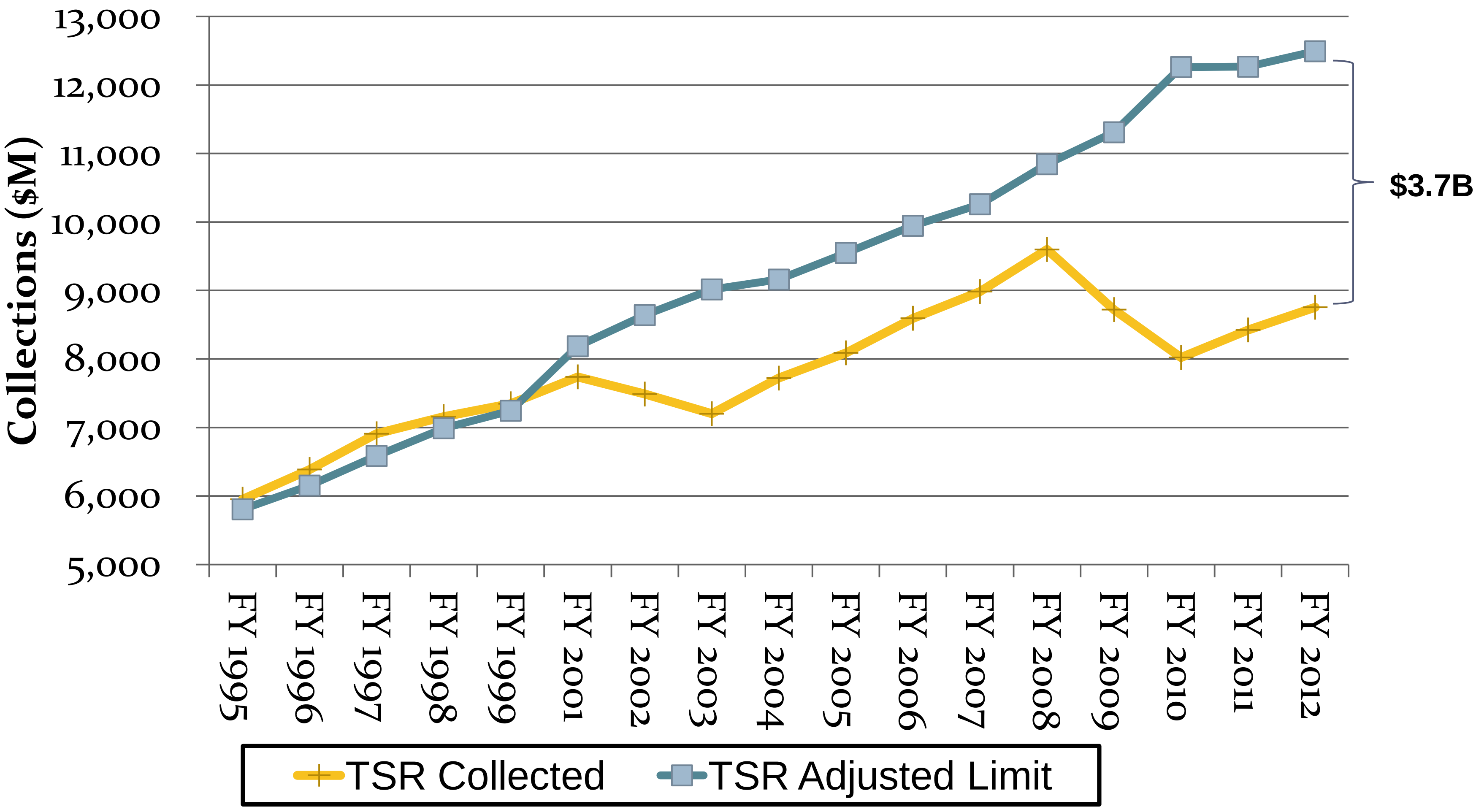


MO General Revenue Collections

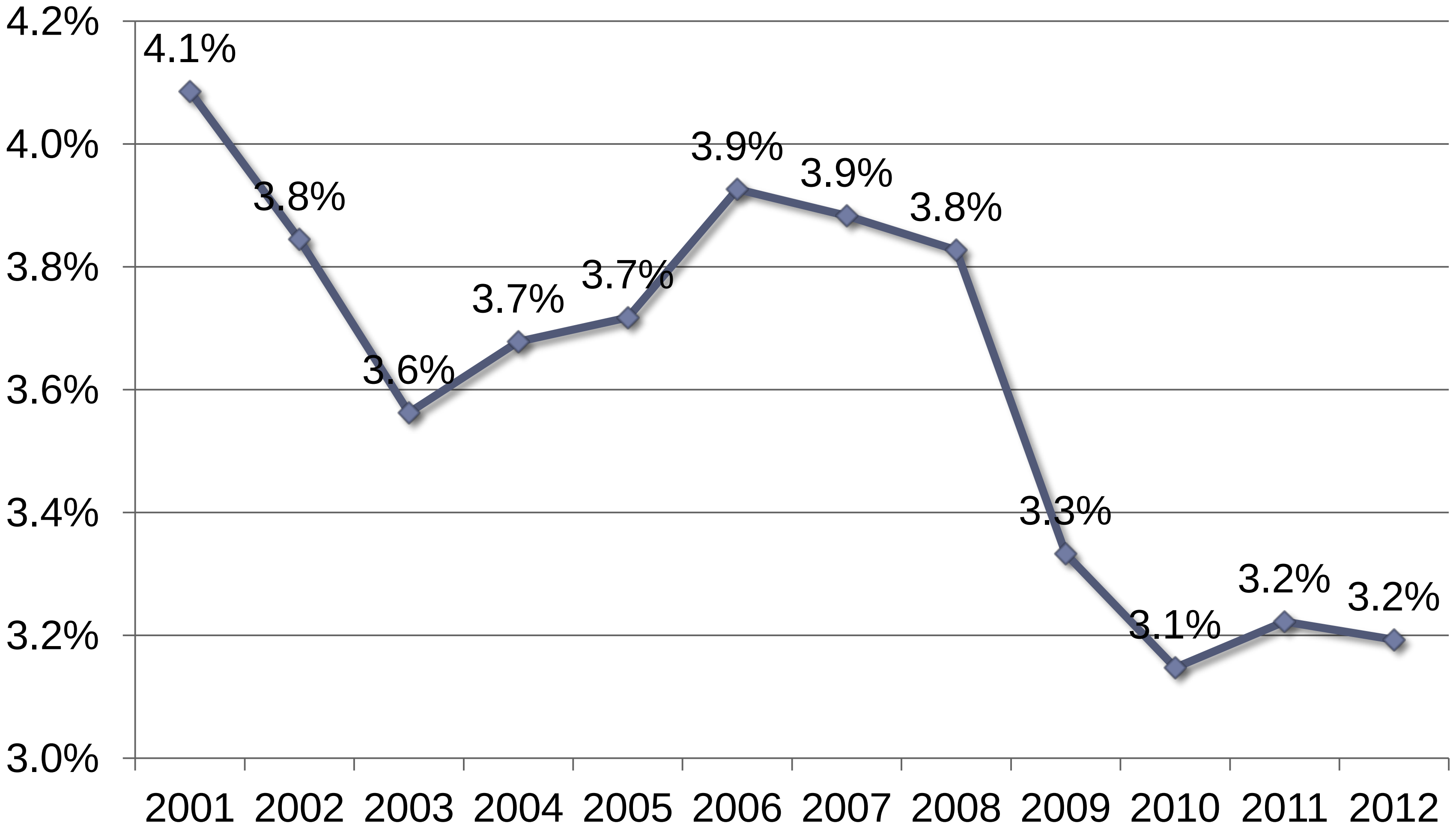


Typical Growth assumes an annual increase of 3.5%

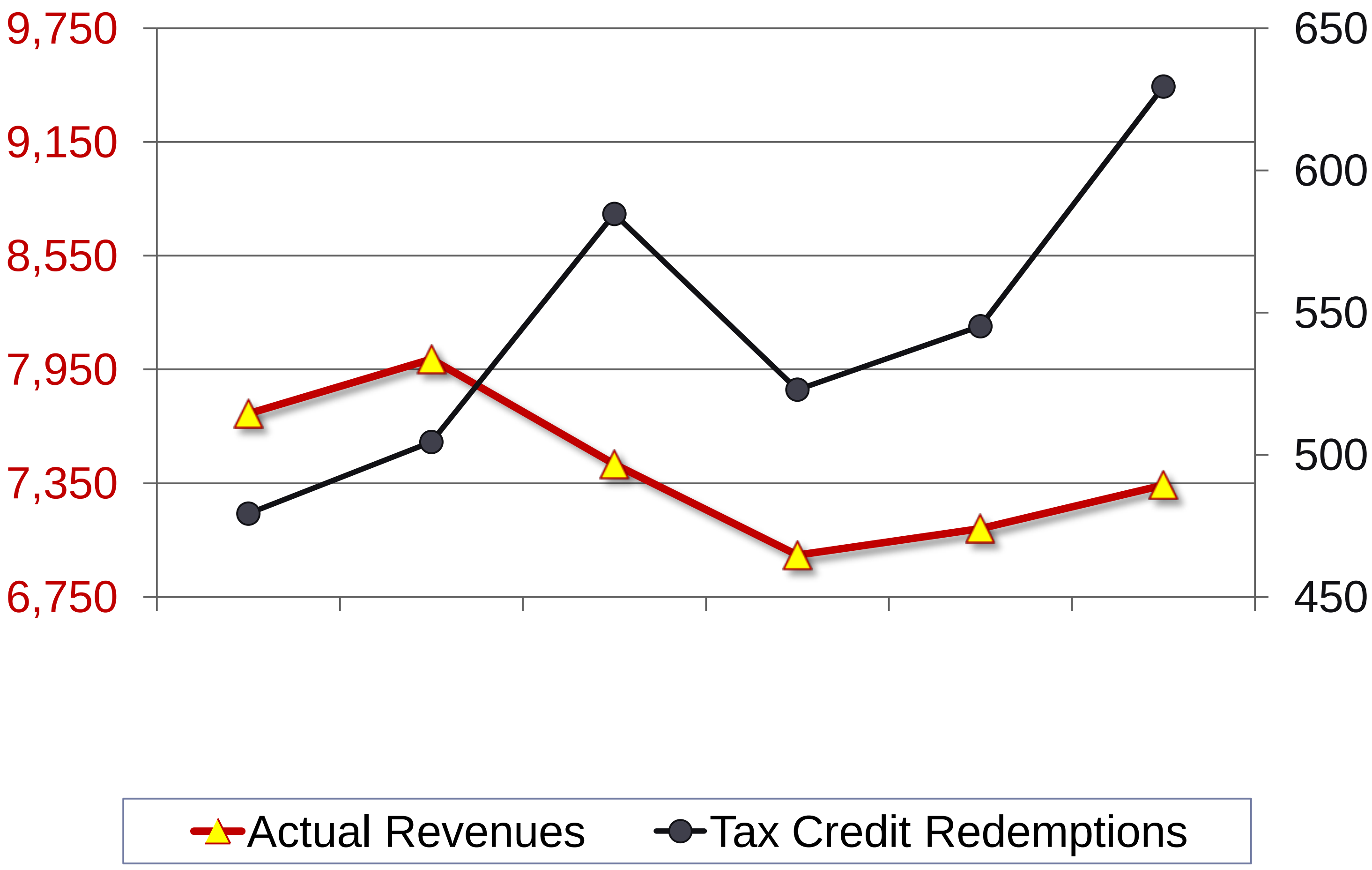
The Hancock Gap



General Revenue as % of Personal Income



General Revenue Collections & Tax Credit Redemptions



REVENUE COLLECTIONS
HOW ARE WE DOING?

- The revised revenue forecast estimated 4.8% growth for GR for FY 2013; actual collections at 10% at end of May.

  - Individual income – 4.4% forecast, 9% end of May
  - Sales tax – 2.2% forecast, 1.5% end of May

- Doing well, however, the biggest growth is in declarations and remittances. Could largely be tied to investment income & federal tax changes.

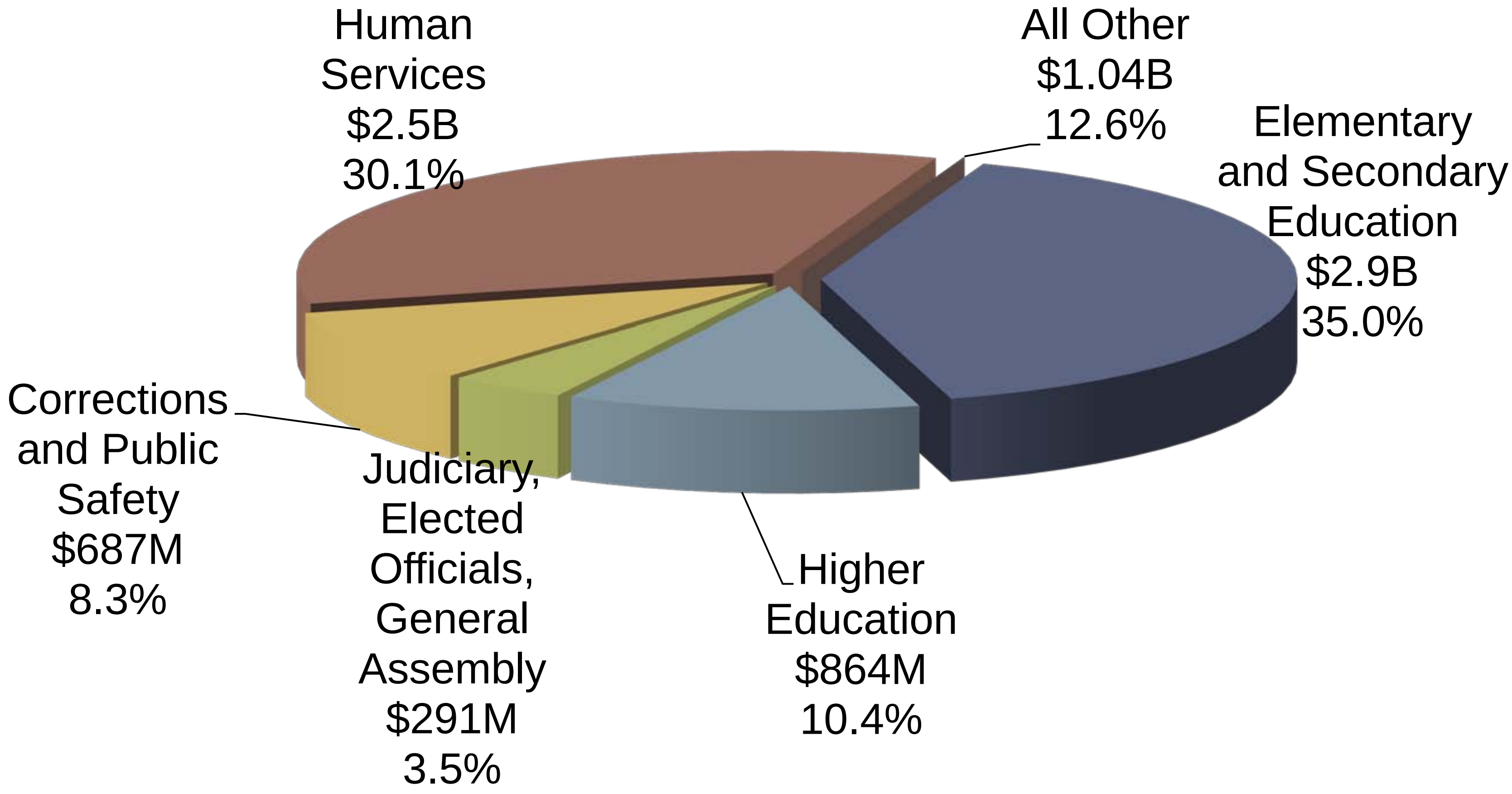
- Unknown: HB 253 (more later)

State Spending Update

- The official spending pie
- Adding in tax credits

FY 2014 General Revenue Operating Budget

Total Appropriations $8.28 Billion



What's Missing? Tax Credits.

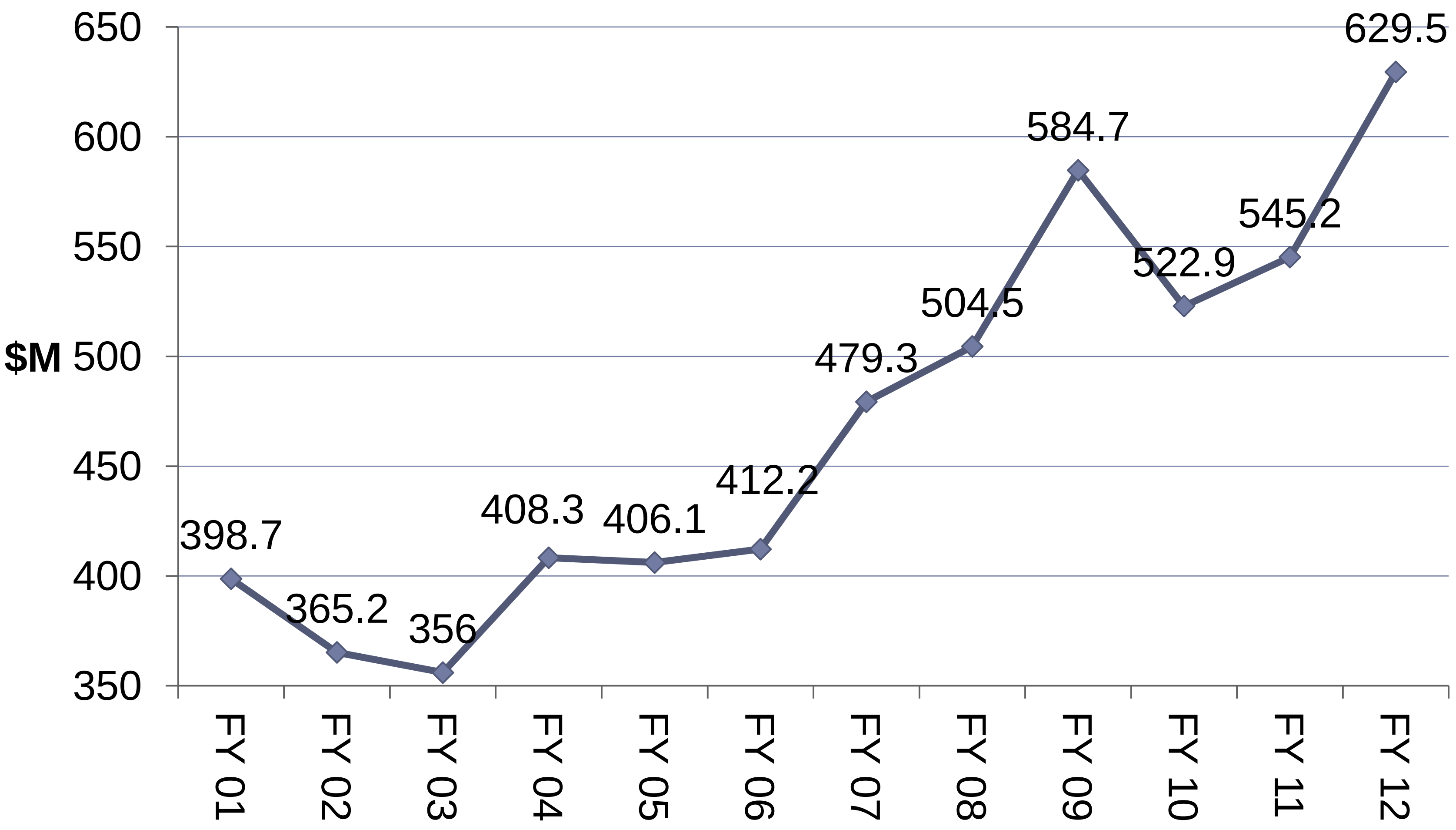
Tax Credit Redemptions Compared to GR Approps (millions of $s)

Agency	FY 13 Approp	FY 12 Redm.
Elementary and Secondary Education	2,917.5	
Social Services	1,499.4	
Higher Education	850.4	
Total Tax Credits		***629.5***
Corrections	602.5	
Mental Health	602.0	
Non-Senior Tax Credits		***511.9***
Employee Benefits	492.1	
Health	270.8	
Judiciary	170.8	
LIHTC Redemptions		***164.2***
Historic Redemptions		***133.9***
Senior Property		***117.6***
Office of Administration	112.5	
Statewide Leasing & Property Mgmt	112.4	
Revenue	84.9	
Public Safety	62.9	
Elected Officials	49.6	
Public Debt	45.2	
Economic Development	36.6	
Public Defender	36.3	
All Other (Agric, Nat Res, etc)	67.9	

$ 608.3M

$140.8M

Tax Credit Redemptions by Fiscal Year



MISSOURI BUDGET UPDATE

FY 2014 and FY 2015 BUDGET

What's Ahead?

FY 2014 AND FY 2015

- Base general revenue is doing well.

  - Continued growth in economy will keep it on track.

- General revenue growth for FY 2014 projected at 3.1%.

- Higher than expected growth in FY 2013 will help get us there.

FY 2014 AND FY 2015 (HB 253)

- HB 253 casts a huge shadow on FY14 and future years.

- One provision alone could cost an estimated $1.2 billion in the year it happens – Federal Marketplace Fairness Act (FMFA).

  - .5% rate reduction on individual income tax.
  - For year of passage plus retro refunds for three years.
  - At least $300M per year.

FY 2014 AND FY 2015 (HB 253)

FMFA (continued)

- Missouri tax cut automatic w/ congressional passage of FMFA.
- Senate passed FMFA (69/27).
- Fairness of taxes for bricks and mortar big issue.
- The ½% rate reduction for income taxes would be retroactive to beginning of tax year = estimated $300 million cost.
- Refunds for three years = estimated $900 million cost.

FY 2014 AND FY 2015 (HB 253)

Other Issues:

- Eventual cost (not including FMFA) is $800 million.

- Triggers are not a safeguard.

  - FMFA cut not tied to growth.
  - Business exemption ($260M) not tied to growth.
  - Cuts tied to the income trigger would have happened in FY 2009, despite steep decline ($553M).
  - Triggers don’t count refunds.

FY 2014 AND FY 2015 (other concerns)

- Since Medicaid expansion on hold, won’t see anticipated savings.

  - Over $40M in FY 2014.

  - Over $100M in FY 2015.

- No tax credit reform.

- The TAFP budget assumes $316 million in lottery for FY2014, which would require about 8% growth.

SUMMARY

- Positive signs in the economy.
- Current collections looking good.
- HB 253 has huge negative implications for revenue that could happen immediately.
- Without tax credit reform and Medicaid expansion, we will lose those savings.
- Lottery will struggle to hit TAFP budget.