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)

Total $7,691.7

- Individual Income, $5,148.0 (67%)
- Sales, $1,888.0 (25%)
- Corporate, $345.0 (5%)
- County, $170.0 (2%)
- Foreign, $140.7 (2%)
- All Other, $140.7 (2%)
Typical Growth assumes an annual increase of 3.5%
The Hancock Gap

Collections ($M)

- TSR Collected
- TSR Adjusted Limit

FY 1995 to FY 2012

$3.7B
General Revenue as % of Personal Income

Year
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1%</td>
<td>3.8%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.9%</td>
<td>3.9%</td>
<td>3.8%</td>
<td>3.3%</td>
<td>3.2%</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>
General Revenue Collections & Tax Credit Redemptions

Figures in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Revenues</th>
<th>Tax Credit Redemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007</td>
<td>9,750</td>
<td>650</td>
</tr>
<tr>
<td>FY 2008</td>
<td>9,150</td>
<td>600</td>
</tr>
<tr>
<td>FY 2009</td>
<td>8,550</td>
<td>550</td>
</tr>
<tr>
<td>FY 2010</td>
<td>7,950</td>
<td>500</td>
</tr>
<tr>
<td>FY 2011</td>
<td>7,350</td>
<td>450</td>
</tr>
<tr>
<td>FY 2012</td>
<td>6,750</td>
<td>400</td>
</tr>
</tbody>
</table>
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

- Elementary and Secondary Education $2.9B (35.0%)
- Higher Education $864M (10.4%)
- Judicary, Elected Officials, General Assembly $291M (3.5%)
- Human Services $2.5B (30.1%)
- Corrections and Public Safety $687M (8.3%)
- All Other $1.04B (12.6%)

What's Missing? Tax Credits.
# Tax Credit Redemptions Compared to GR Appropriations (millions of $s)

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

$608.3M $140.8M
Tax Credit Redemptions by Fiscal Year

FY 01: 398.7
FY 02: 365.2
FY 03: 356
FY 04: 408.3
FY 05: 406.1
FY 06: 412.2
FY 07: 479.3
FY 08: 504.5
FY 09: 584.7
FY 10: 522.9
FY 11: 545.2
FY 12: 629.5

$M

350 400 450 500 550 600 650
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.