

**George K. Baum & Company**  
is pleased to share the  
**September 2016 General Revenue Update**  
from  
**James R. Moody**

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SEPTEMBER 2016  
GENERAL REVENUE  
UPDATE

**James R. Moody**

# THE CURIOUS OCTOBER 2016 WITHHOLD RELEASES

- Let's start with the curious releases of \$12 million in withholdings on October 5. We do not understand the thinking!
- On October 4, in a St. Louis Post Dispatch article, State Budget Director Dan Haug said, "We're doing okay." But Haug noted that the required revenues before releasing withholdings would be at +5.5% (We are higher than that number for no additional withholdings.).
- In the same article, incoming House Budget Chairman Scott Fitzpatrick opined, "In my opinion there probably will have to be more withholds." (We agree with Scott)
- Yet on the very next day, with year to date growth at +3.55% after the first quarter of FY 2017, Governor Nixon released \$12 million in withholdings, with \$9 million of the released funds going to K-12 education.
- **Bizarre. Confusing!!**

# WHY WOULD WE ANTICIPATE MORE WITHHOLDINGS?

- *This slide is from last month's revenue report and is still relevant today.*
- **The revenue estimate for FY 2016 was +2.8%. Final net GR collections were +.9%, or a 1.9% shortfall.**
- **A 1.9% shortfall is equal to about \$168 million in revenue shortfall in FY 2016. Thus far the Governor has withheld about \$115 million, which does not cover the FY 2016 shortfall.**
- **The 1.9% shortfall means the base for the FY 2017 revenue estimate is short by about \$168 million. The revenue estimate for FY 2017 is +4.1%. Add the roughly 1.9% shortfall from FY 2016, and revenues will have to grow by over 6% to reach the revenue estimate.**
- **We think that is not going to happen.**
- **This estimate does not take into account any sizeable supplemental requirements that may be required primarily for the Medicaid program.**

# SEPTEMBER 2016 FINAL GENERAL REVENUE RECEIPTS

Category	YTD Gross % Increase	YTD Net % Increase (net of refunds)
Individual Income Tax	+4.6%	+5.1%
Sales Tax	+2.3%	+3.1%
Corporate Income	-21.8%	-26.0%
Insurance Premium Tax	+18.7%	+20.6%
<b>Total Year To Date</b>		<b>+3.55%</b>
<b>Source: FY 2016 Consolidated Revenue Report</b>		<b>Net Increases are net of refunds paid</b>



# INDIVIDUAL INCOME TAX

- Individual income tax withholdings have been pretty strong. For the first three months of the fiscal year, withholdings have grown by +5.6%.
- With 70+% of the general fund budget coming from individual income tax, this growth is necessary to sustain budgetary growth.
- The huge drop in corporate income tax, however, is a weight on total general revenue growth.

# CORPORATE TAX RECEIPTS FELL 35.6% IN FY 2016

- The drop in corporate income tax receipts in FY 2016 was shocking and it seems to be continuing.
- Corporate tax receipts dropped by 35.6% in FY 2016, or about *\$155 million* in FY 2016.
- Total FY 2017 net corporate receipts through September were negative 26%. The trends in corporate taxes are horrendous. Witness this fact in the following chart.

# CORPORATE INCOME TAX RECEIPTS LAST 15 MONTHS

<b>Fiscal Year</b>	<b>Collections</b>	<b>Refunds</b>	<b>Net Corporate Receipts /% decline</b>
<b>FY 2015</b>	<b>\$558.6 million</b>	<b>\$122.6 million</b>	<b>\$436 million</b>
<b>FY 2016</b>	<b>\$468.2 million</b>	<b>\$187.4 million</b>	<b>\$280.8 million (a 35.6% decline)</b>
<b>FY 2017 (3 months compared to first three months FY 2016)</b>	<b>\$98.8 million</b>	<b>\$19.5 million</b>	<b>\$79.3 million (a 26.0% decline)</b>



# POSSIBLE ADDITIONAL WITHHOLDINGS

- We believe that GR growth above 6% in FY 2017 is very unlikely, particularly as corporate receipts continue to decline. Therefore additional withholdings are on the way, it is simply a matter of when. See possible withholding scenarios in the next slide.
- The level of withholdings will depend on how revenues come in. We believe revenue growth will be very moderate at best, possibly +2% to +3%.
- None of this discussion takes into account the possibility of large supplemental funding needs for programs such as Medicaid.

# POSSIBLE FY 2017 WITHHOLDINGS

<b>GR Growth Scenario</b>	<b>Minimal Withholds Required</b>
<b>Over +6%</b>	<b>\$0 million</b>
<b>+4.5%</b>	<b>\$137 million</b>
<b>+3%</b>	<b>\$275 million</b>
<b>+2%</b>	<b>\$366 million</b>

# OTHER HEADWINDS ON THE HORIZON

- There are at least \$400 million in one-time funds in the FY 2017 budget that will have to be replaced in the FY 2018 budget.
- Don't be deceived by the \$12 million release of withholdings this week. Things are not good even with relatively good revenue growth.
- The knowledge of this future shortfall will add to the pressure for withholdings in FY 2017 after a new Governor is elected.

# THE MOODY VIEW

- We continue to believe we are embarking on a path of fiscal belt tightening. It will begin somewhere after the November 2016 election, and will continue into FY 2018.
- At this point the decision on additional withholdings may be passed on to the next Governor.
- In a worst case scenario for the FY 2018 budget, revenues come in slightly above \$150 million growth, triggering large withholdings, but also triggering a tax cut under SB 509 in calendar 2018.
- SB 509 actually calls for five tax cuts triggered by any growth above \$150 million in a fiscal year, so the future for revenue growth is not good. That forecast carries into the next decade.

# APPENDIX A

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