

**THE DEPTH OF THE  
MISSOURI BUDGET FISCAL HOLE  
END OF APRIL 2020 REVENUE REPORT**

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# APRIL 2020 REVENUES PLUMMET

- April 2020 revenues were pretty awful.
- Monthly revenues for April 2020 were -54.3%, or down \$861 million from April a year ago. Individual income tax collections for the month dropped from \$1.444 billion to \$521 million, or a drop of \$923 million.
- Policymakers should have anticipated part of this drop in individual income tax, as collections increased by over \$500 million in April 2019, due to withholding errors in calendar 2018, which then increased final individual income tax payments in April 2019.
- We think the bump in collections in April 19 collections due to the withholding errors was likely in the \$450 million range, so that amount should be taken out of the shortfall. It still happened but it is not economically driven by COVID-19, in our opinion.

# REVENUES PLUMMET CONTINUED

- Fiscal year to date revenues through April 2020 were -6.1%, or down \$487 million after nine months.
- But—refunds in all categories are being held. Since refunds are a reduction in revenue, if they were paid timely, the revenue picture would look worse. Refunds through nine months are down \$145 million from a year ago.
- Surprisingly, gross sales tax revenues were still +2.3% through nine months, and those revenues were +0.2% for April 2020. Presumably this is because sales tax collectors are required to remit either daily, weekly or monthly.
- We think at a minimum some of the weekly and monthly sales tax remittances slid over from March 2020 into April 2020 receipts.

# APRIL REVENUES PLUMMET

## PART 3

The table below shows that April 2020 receipts were terrible, even with sales taxes slightly positive. Down \$862 million.

Category	April 2019 Net Revenues (000's)	April 2020 Net Revenues (000's)	Change (000's)
Individual Income Tax	\$1,265,607	\$495,990	(\$769,617)
Sales Tax	\$154,830	\$155,842	\$1,012
Corporate Income Tax	\$143,883	\$47,328	(\$96,555)
Insurance Premium Tax	\$902	\$1,300	
All Other	\$21,973	\$24,777	
Total	\$1,587,185	\$725,237	(\$861,948)

# INDIVIDUAL INCOME TAX COLLECTIONS-- APRIL 2020

- Individual income tax collections from withholdings were only down minus 4.6% from April 2019, so our opinion is that the unemployment that is being created is not fully recognized yet in revenue collections.
- As noted earlier, the withholding errors a year ago increased declaration and final remittances in April 2019 to \$983 million total for just the month of April 2019. We think about \$450 million of that amount was due to the withholding errors, leaving collections of about \$533 million in normal collections. (In April 2018, the similar number was \$546 million.)
- Collections for April 2020 for declarations and remittances were only \$151 million, which we would compare to the \$533 that might have come in with normal conditions.
- The difference in the two (\$381 million) should be received in roughly July 2020 in our estimates, with the extended tax submission date of July 15, 2020. But, as we will show you, more than \$300 million in unpaid refunds will also likely be carried into FY 2021. The plus and minus might end up being a wash.

# MOODY PROJECTIONS— REMAINDER OF FY 2020

- Jim Moody gets asked two questions frequently. The first question is what do revenues look like at the end of Fiscal Year 2020. The second question is what does FY 2021 look like.
- The answer to both questions depends on how far revenues fall, but also how many tax refunds are held. Cash flow will likely dictate that few tax refunds are paid until FY 2021.
- We are going to attempt to quantify the shortfall for FY 2020. We believe that it is too early to begin to exactly quantify the FY 2021 revenue shortfall, so we will delay that activity until our report next month. We will show a “back of the envelope” guess a little later.
- We believe that it is possible to make a reasonable estimate of the FY 2020 shortfall, which is in the next few slides.

# **MOODY ASSUMPTIONS— FY 2020 SHORTFALL**

**Our calculations in the following table assume the following for May and June 2020 revenues:**

**Shortfall of 40% in individual income tax receipts**

**Shortfall of 20% in sales and use tax receipts**

**Shortfall of 50% in corporate income tax receipts**

**Refunds are lower by \$211.6 million compared to May-June 2019.**

# MOODY ESTIMATE OF MAY-JUNE 2020 COMBINED REVENUES

Category	FY 2019	FY 2020	Difference
Individual Income	\$1.228.4B	\$737.0M (-40%)	(\$491.4M)
Sales and Use	\$399.7M	\$299.8M (-25%)	(\$99.9M)
Corporate	\$91.6M	\$ 45.8M (-50%)	(\$45.8M)
Other	\$112.9M	\$112.9M (no change)	\$0
Minus Refunds	\$282.1M	\$70.5M (-75%)	\$211.6M
Net Revenue Two Months FY 2020 below FY 2019	\$1,550.4B	\$1,125B	<u>(\$425.5M)</u>

# FY 2020 REVENUE SUMMARY- MOODY ESTIMATE

<b>Fiscal Year 2020</b>	<b>Estimated Revenue Shortfall</b>
<b>July 1-April 30, 2020 Actual Revenue Shortfall</b>	<b>(\$487.6 million)</b>
<b>May 1-June 30, 2020 Estimated Revenue Shortfall</b>	<b>(\$425.5 million)</b>
<b>Total FY 2020 Moody Estimate of Revenue Shortfall</b>	<b>(\$913.1 million)</b>

**This projection also assumes that refunds paid for Fiscal Year 2020 are \$356 million lower than FY 2019. If FY 2020 refunds were equal to FY 2019, the FY 2020 shortfall would be approximately \$1.27 billion.**

# OTHER FEDERAL FINANCIAL ASSISTANCE APPROVED THUS FAR

- The Congress acted quickly to help state governments with the economic downturn by increasing the Federal Medical Assistance Percentage (FMAP) for Medicaid by 6.2%.
- Medicaid FMAP is recalculated annually, but the normal Missouri match rate is approximately 64% federal and 36% state. In this example, the rate would increase to approximately 70.2%.
- This action mimics actions from the Great Recession, when the FMAP was increased by 6.2%. There was an additional adjustment during the Great Recession based on the State's unemployment rate that pushed the FMAP increase to nearly 10% for many States. Currently there is no unemployment trigger for the 2020 FMAP increase.
- For calendar year 2020, the Center for Budget and Policy Priorities estimates that the 6.2% increase in Medicaid FMAP will provide Missouri \$690 million. For the period January 1, 2020 through June 30, 2021, the total new FMAP should equal about \$1.035 billion.

# MORE FEDERAL AID NEEDED

- Without additional federal aid for state governments, we believe that the Missouri budget will be in a hole from which it cannot recover.
- We're not sure how the Congress will deal further with this, but that fact that Missouri has deep, deep fiscal problems is pretty clear to us.
- We will do the math next month in estimating FY 2021 revenues, but we believe that the shortfall when we do that math will be in the \$1.5 billion to \$2 billion shortfall from the Governor's FY 2021 recommendations.
- With our estimated shortfall for FY 2020 of just short of \$1 billion for FY 2020, this would bring our range of combined shortfall through FY 2021 to \$2.5 billion on the low side and \$3 billion on the high.
- There is a fair chance that our high side estimate of the shortfall (back of the envelope estimate above) is too low.

# THE MOODY VIEW

- Your author has witnessed the recessions of the early 1980's, the early 1990's, the early 2000's and the Great Recession.
- The current recession is unlike anything we have previously seen, with the cessation of many normal business activities that generate state and local tax revenues.
- Missouri has limited fiscal tools with which to address this national fiscal crisis. Missouri cannot solve the COVID-19 pandemic's impact on individual income tax and sales tax revenues.
- The federal aid that the United States Congress has passed thus far will be able to address some of Missouri's upcoming fiscal shortfall.
- Missouri government will need the Congress to step up with more, increased fiscal relief. If not, ???????? What happens?