

**THE DEPTH OF THE  
MISSOURI BUDGET FISCAL HOLE  
MAY 2020 GENERAL REVENUE REPORT**

**THE MOODY REPORT LLC  
©MAY 2020**

# MAY 2020 REVENUES

- **Friday, June 5.** We start the weekend with a little good news. On Friday morning it was announced that the national unemployment rate dropped from 14.7% in April 2020 to 13.3% in May 2020. In May 2020 2.5 million jobs were added, according to the report.
- **Saturday, June 6.** The Washington Post reports that unemployment data classifies employees as “absent” who are actually unemployed, and thus does not include them in the unemployment numbers.  
The first report likely understates the national unemployment rate by 3%.
- **Now to revenue collection.** As most budget watchers had predicted, May 2020 General Revenue collections continued to decline, but not to the depth that we had originally thought.
- In this overview, we will attempt to show the extent of the decline in revenues in the past few months, and what the future looks like for Fiscal Year 2020.
- We will also try to balance the declining revenue picture with the expected resources from one-time federal funds and budget withholdings.

# MAY 2020 REVENUES CONTINUED

- Fiscal year to date revenues through May 2020 were -7.4%, or down \$643 million after ten months.
- May 2020 was not that bad of a collection month, and the State caught up on refund payments. (note why in later cash flow discussion) The State paid \$126 million more in refunds than in May 2019, which almost caught year to date refunds to 2019 levels.
- Gross sales tax revenues were -10.3%. This level of drop in sales taxes is consistent with the impact of the economic recession.
- May 2020 individual income tax withholdings were only negative 4.0%, which we believe does not yet fully reflect the economic downturn.
- The chart on the next slide is our projection of what Fiscal Year 2020 revenues will look like when June 30, 2020 arrives.

# MOODY PROJECTIONS FY 2020 FOR END OF JUNE

Fiscal Period	Monthly Growth/(Reduction)	Year To Date Growth/Reduction	% Growth/Reduction
March 2020 YTD Over FY 2019 YTD		+\$381 million	+5.8%
April 2020 Below April 2019	(\$869 million)	(\$488 million)	(6.1%)
May 2020 Below May 2019	(\$154.7 million)	(\$643 million)	(7.4%)
Moody Projection June 2020 Below June 2019	(\$254 million)	(\$897 million)	(9.4%)

**FY 2020 General Revenues collections were projected to grow \$230 million, which when added to the shortfall above equals about \$1.13 billion below initial projections.**

# OTHER FEDERAL FINANCIAL ASSISTANCE APPROVED THUS FAR

- Congress helped state governments with the economic downturn by increasing the Federal Medical Assistance Percentage (FMAP) for Medicaid by 6.2%.
- Medicaid FMAP for Missouri increased from roughly 64% Federal to 70.2%.
- 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.

# THE BALANCE SHEET— BUDGET SHORTFALL VS. NEW RESOURCES

- At this point there are limited extraordinary federal resources with which to address current revenue shortfalls.
- From January 1, 2020 through June 30, 2021, Missouri will receive about \$1.035 billion in enhanced Medicaid FMAP.
- It is too soon to know whether additional state aid comes in CARES Funding Package 4 from Congress in late summer.
- Potential solutions to the \$2 billion to \$2.4 billion in revenue shortfall will need to be met. Resources include:
  - Cut to new recommended or existing programs in FY 2021 budget;
  - Significant withholdings
  - Additional federal resources (see discussion in other box)

**Note:** There is a huge fiscal imbalance that in the short term will be covered in part by a billion in federal funds. Long term the State will not grow enough to fill that gap back up fully, in our opinion.

# CASH FLOW

- In April 2020, the General Assembly appropriated in the supplemental budget the \$2.38 billion in COVID-19 federal funding. The Parson administration then used \$750 million of that funding to build cash balance, and to pay refunds.
- This \$750 million will either have to be used for COVID-19 related allowable expenses, or these funds must be returned to the U. S. Treasury On December 30, 2020.
- In either case, the money can no longer be utilized for cash flow.
- This federal COVID-19 money makes the cash balance situation look better than it actually is. The repayment, when done, will significantly harm the State's cash position.

# FISCAL YEAR 2021

- At this point there is inadequate data to accurately estimate Fiscal Year 2021 revenues.
- There are innumerable variables that a small number of new COVID-19 outbreaks could change dramatically.
- Lowering the unemployment rate to a reasonable number (assume 6% to 7%) is going to take time. That activity could be impacted by a second outbreak. Our largest revenue source, individual income tax, is dependent on employment.
- July 2020 revenues will look great after July 15, due to the “carry-in” of the April 2020 and June 2020 filing date revenues. However, we do not believe that the full impact of the recession is yet being seen in individual income tax collections. Beyond July 2020, look for ongoing downward monthly receipts.
- Our best estimate at this time is between \$2 billion and \$2.4 billion shortfall from Governor Parson’s FY 2021 budget for the period March 2020 through June 2021.

# THE MOODY VIEW

- We started with positive news on unemployment where the data may be flawed. But the initial good news was still a national unemployment rate of 13.3%, which is very, very high. Also, the real unemployment rate may be higher.
- Will “normal” ever be normal again? When major sports reopen, many will be at distant venues with no fans. Will live concerts ever fully return? What about large conferences which fuel tourism. All of these events produce tax revenues.
- The stock market is back, and the market is optimistic. Is it too optimistic? Will retail and restaurants recover in the next few years.
- Filling the gap of the enhanced FMAP when it goes away is going to be very difficult.
- At this point we have more questions than answers.