

## November 2009 Analysis of Revenue Collections

### Revenue Estimate

In July, the Governor issued a revised revenue estimate of approximately \$857 million below the FY10 budget as passed. This was paired with \$912 million in cuts to cover several FY10 shortfalls. In October, the State issued a bond prospectus that included a discussion of FY10 revenues. The prospectus indicated that the revenue decline is now expected to result in a \$1.26 billion shortfall from the FY10 budget.

The bond prospectus also gave a look at the thinking for FY2011. The Governor is projecting 3.9% growth in FY11 over the new revenue estimate for FY10 or -2.5% below FY09 actual revenues. In short, the state will fall \$1.26 billion from the budget as passed but will then recover around half of this in FY11.

**Table 1: Revenue Estimates**

|   | Dept of Revenue Tracked | All State General Funds (Incl. MFT) |
|---|-------------------------|-------------------------------------|
| FY09 Actual                                     | \$15,625,304,936        | \$16,766,661,805                    |
| <b>FY2010</b>                                   |                         |                                     |
| FY10 Budget (HB119)                             | \$15,929,421,600        | \$16,994,247,194                    |
| FY10 Revised Rev Estimate (Oct Bond Prospectus) | \$14,697,195,626        | \$15,734,247,194                    |
| Difference from FY09 Actual                     | -\$928,109,310          | -\$1,032,414,611                    |
| % Change from FY09 Actual                       | <b>-5.9%</b>            | <b>-6.2%</b>                        |
| Difference from FY10 Budget - "Shortfall"       |                         | -\$1,260,000,000                    |
| <b>FY2011</b>                                   |                         |                                     |
| FY11 Working Rev Estimate (Oct Bond Prospectus) | \$15,295,229,383        | \$16,347,882,835                    |
| Difference from FY10 Revised Revenue Estimate   |                         | \$613,635,641                       |
| % Change from FY10 Revised Revenue Estimate     |                         | <b>3.9%</b>                         |

The Table above shows the revenue estimates for both Department of Revenue tracked funds, which matches to the monthly press release from the Governor, and all state general funds, which matches to the actual revenue estimates reported in the bond prospectus and in the budget itself. These latter funds are reported in spreadsheets sent out by the Office of Treasury and Financial Services (OTFS) each month.

*SBEO charts follow DOR tracked revenues since this is what is reported in the press.*

### November Revenues

In November, Department of Revenue tracked tax collections were down \$1.062 billion or -15.4% year to date.

- Income taxes were down \$541 million or -15.2%.
- Sales and Use Tax collections decreased by \$362 million or -15.4%.
- Corporate Income Tax collections decreased \$57 million or -25.2%.

- Total Motor Fuel Tax collections declined \$62 million or -15.5%. Motor Fuel excise taxes were up by 2.4% suggesting that people are buying more gallons of gas.

## Revenue Trajectory

**As of November, we have now surpassed the \$1.26 billion shortfall which means that we will have to grow in future months to make budget (see Table 2).** As of this date, we have not yet even identified how the state will meet the \$1.26 billion in cuts, although we expect this to form the basis of the Governor's budget submission.

**Table 2: FY2010 Estimated Shortfall**

|  | <b>DOR Tracked</b>      | <b>All State General Funds (Incl. MFT)</b> |
|--|-------------------------|--|
| FY09 Revenues YTD  | \$6,911,659,000         | \$7,287,001,478                            |
| FY10 Revenues YTD  | \$5,849,629,000         | \$6,159,841,251                            |
| Cumulative Deficit   | -\$1,062,030,000        | -\$1,127,160,227                           |
| Growth Built into FY10 General Estimate (Over FY09)<br>That Will Not Be Realized | -\$304,116,664          | -\$227,585,390                             |
| <b>Estimated FY2010 Amd. Shortfall</b>   | <b>-\$1,366,146,664</b> | <b>-\$1,354,745,617</b>                    |
|  |                         |  |
| Bond Prospectus Shortfall Working Estimate                                       | -\$1,232,225,974        | -\$1,260,000,000                           |
| <b>Difference from Estimated FY10 Amd Shortfall</b>                              | <b>-\$133,920,690</b>   | <b>-\$94,745,617</b>                       |

Another way of looking at the budget is to consider monthly revenues relative to prior year patterns. Right now, the state is bringing in roughly the same amount of money on a monthly basis as it did in 2005. If the state continues on this pattern, then the year end revenues will be around \$15.8 billion, around \$100 million more than the current revenue estimate of \$15.7 billion.

However, if the state follows the 2005 pattern, the state will bring in more in January through June (on average around 6% growth month over month) than it did last year. Historically these months have been strong as an overall percent of the total budget. In FY09, these were comparatively weak months. Caution is warranted as the last six months are heavily dependent on strong holiday sales and on April income tax submissions.

## Reserves

Currently, the state has \$271 million in reserves that have not been committed in the FY10 budget. Excluding the midyear adjustment of \$167.7 million, this is the equivalent of about 2 days of state operations. In FY2009 the state had 19 days of operations in reserves and in FY2008 it was 31 days.