



January 31, 2004

## **Summary of the Governor's Budget Proposal FY 2005**

For the next year, Fiscal Year 2005, the anticipated General Revenue as agreed to in the Consensus Revenue Estimate is \$6.392 billion or \$789 million dollars below the current year.<sup>1</sup> When incorporating transfers of about \$162 million from tobacco settlement funds and other sources, and accounting for mandatory increases in spending to continue current programs, estimated at \$281 million by the Missouri Office of Administration, the total expected shortfall for Fiscal Year 2005 will be approximately \$908 million dollars.<sup>2</sup>

In other words, without Legislative intervention to increase revenue, Missouri will be looking at cutting an additional \$908 million dollars from its core programs in the coming year, making the total of Missouri budget core cuts rise to **over \$2 billion in just five years**. In addition, the Governor has withheld nearly \$900 million in one time mid-year reductions that have frequently led to core reductions. The following briefly details the Governor's recommendations to increase revenue to meet the ongoing shortfall, and major components of his budget recommendations for fiscal year 2005.

### **Revenue Options Proposed by Governor**

The Governor is recommending that the legislature pass several tax alterations to raise a combined amount of \$520 million dollars in the next year. Due to Hancock limitations on the amount of revenue the legislature can increase without a vote of the people, several of the following proposals would have to go to a vote of the people.

- **Closing Corporate Tax Loopholes (\$121.2 million)**

The Governor recommends altering six corporate tax loopholes including the "Geoffrey Loophole", Disallow Non-Missouri source income, Disallow Single Factor, and others.

- **Gaming Revenue Increases (\$115.7 million)**

The Governor would eliminate the loss limits on riverboat gaming, increase riverboat entrance fees from \$2 per two-hour cruise to \$7 daily and increasing the state share of the tax on riverboats' adjusted gross receipts.

- **Tobacco Tax Increases (\$222.4 million)**

The Governor recommends increasing the cigarette tax from 17 cents to 72 cents per pack, and increasing tobacco products tax from 10 to 30 percent of the wholesale price

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<sup>1</sup> Missouri Office of Administration, Missouri House and Senate Consensus Revenue Estimate.

<sup>2</sup> James R. Moody and Associates Legislative Newsletter January 9, 2004

- Decoupling from Federal Accelerated Depreciation (\$48.8 million)  
The Governor would decouple from the federal tax change related to accelerated depreciation for corporations, as was done in Senate Bill 1248 in the 2002 legislative session.
- Surcharge on Incomes above \$200,000 (\$11.9 million)  
The Governor recommends a five percent surcharge on taxes of those with incomes above \$200,000.

### **Budget Recommendations**

The Governor's budget recommendations are based on the \$520 million in additional revenue from the above proposals. It is likely that the House Budget Committee Chairman will be submitting alternate bills in the first week of February that do not include revenue increases. The alternate bills are likely to be very different than the following.

#### *Social Services Budget*

##### Income Maintenance

- General Relief  
The 2003 Missouri Legislature eliminated the \$80 monthly General Relief cash assistance payments to 10,000 Missourians with temporary or permanent disabilities. The Governor recommends restoring the program at \$45 per month cash assistance in his budget proposal. General Revenue estimated cost is \$5 million.
- TANF High Performance Bonus – TANF and Child Care Increases  
Missouri has received two bonuses from the federal government for reaching a variety of outcomes in the TANF (Temporary Assistance for Needy Families) Program. The bonuses total \$21.7 million in federal funds and must be used for helping families receiving TANF move into work or work related activities. The Governor recommends in his budget proposal to use \$6.5 million of the funds for caseload increase in the TANF cash assistance program; \$1 million in caseload increase in child care assistance; \$6.5 million to the Department of Economic Development to train TANF consumers to enter employment and assist families in entering employment that with wages above the federal poverty level; and \$7.7 million to enhance communications and applications systems including the FAMIS computer system. There is no general revenue impact.

##### Medicaid

The Governor's budget recommends an additional \$283.9 million in general revenue for the state's Medicaid program to be used to cover Medicaid growth items including \$77.6 million for cost to continue current programs. This increase is somewhat offset by "cost-containment measures", and in some cases cuts to programs, that the governor proposes.

- Medicaid Eligibility for Disabled and Elderly Missourians to 100% FPL.  
The Governor recommends implementing the final stage of increased eligibility level for Medicaid for Disabled and Elderly Missourians that was approved in 2001. The

implementation would raise eligibility from 90% of the federal poverty level to 100% of the federal poverty level. The increase would cost \$8.2 million in general revenue, and would bring in an additional \$12.9 million in federal funds.

- Co-Payments \$.50 - \$3.00

The Budget proposal recommends implementing co-payments for the majority of medical services.<sup>3</sup> The co-payments would range from \$.50 - \$3.00 depending upon the cost of the service provided. Only certain populations and services are exempt from co-payments including emergency services if life is at risk, children, pregnant women, and those in long-term care settings. The Governor estimates the resulting reduction of \$9.9 million in general revenue.

- Lower asset limits for the Children's Health Insurance Program (MC+/CHIP)

Currently, families with children qualifying for the CHIP/MC+ program can have a net worth up to \$250,000. The Governor recommends alerting this net worth test to an asset limit of \$25,000. There will be standard exclusions including a home and vehicle and other items as described for the asset tests for people with disabilities and the elderly. The Governor's estimate indicates that 1% of the CHIP kids, or about 880 children in Missouri, would lose coverage as a result of this change. The change would reduce spending by \$105,520 in general revenue.

- Streamlining Physician Reimbursements to the Medicare Rate

The Governor would limit reimbursements to physicians and nursing facilities to the amount that with the Medicare payment does not exceed what the Medicaid Program would have paid for the same services. The resulting reduction to the state is \$17 million in general revenue.

#### Child Welfare

- The Governor recommends using \$6 million general revenue to begin the preparing the state child welfare program for national accreditation.

#### *Mental Health Budget*

##### Medicaid

The Governor's proposal includes a \$6.5 million general revenue increase for caseload increase for clients qualifying for mental health services through Medicaid.

- Co-Payments

Mental Health services received through Medicaid will face the same co-payment requirements as discussed under social services ranging from \$.50 to \$3.00 based on cost for service. The resulting reduction in general revenue is \$1.5 million.

##### Children's Mental Health

The Governor recommends implementing a continuum of care for community based children's mental health services. The estimated cost is \$4.9 million in federal funds, with no impact on state general revenue.

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<sup>3</sup> Including for mental health services discussed in the following section of the report.

### *Health & Senior Services Budget*

- Missouri Senior RX Program

The Budget Proposal recommends an increase of \$7.5 million in general revenue for increased enrollment of seniors into the Missouri Senior RX Prescription program. The plan pays 60% of the cost of medications for seniors up to \$5,000 per person per year.

- Women's Health Care

The Governor recommends restoring the Women's Health Care program that was eliminated in fiscal year 2004 by the general assembly. The Program provides comprehensive services for women including screenings for cervical and breast cancer, and treatment of infectious disease. The anticipated program cost is \$5 million in general revenue.

### *State Employees*

The Governor's budget recommends an overall reduction of state employees of 1,100 people in fiscal year 2005. This is in addition to the cuts to state employees that had already been made, resulting in a total reduction of 1,424 state staff across departments since fiscal year 2001.

In addition, the budget recommends a 2% cost of living increase for all state employees with an estimated cost of \$24 million.

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