

# Missouri Budget Primer



The  
**MISSOURI  
BUDGET  
PROJECT**

Shaping Policy...  
Creating Opportunities

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# INTRODUCTION

Each day, every Missourian is affected by budget decisions made by the General Assembly. When your child gets on the bus to go to school, when you visit your local hospital, or when you just drive down your street, you are impacted by these decisions. We all help pay for these services and others every time we buy something or get paid.

The state budget is a collection of trade-offs. The budget must be balanced - the state can only spend as much money as it collects through taxes, fees and other sources. That means priorities must be weighed against each other. Ideally, the state budget is a reflection of our public priorities. Do we, as a state, value public education and infrastructure, and are we willing to fund those services? Or do we value lower revenue from individuals and corporations even if it means minimal community assistance for our children, seniors, and working families?

## STATE REVENUE

### Where Does the State of Missouri Get Its Money?

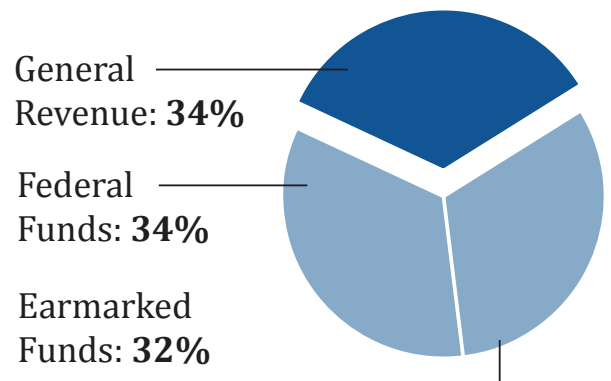
Each year, the state takes in and spends about \$25 billion. One third of these funds come from the federal government to use for very specific purposes. Another third is restricted state revenue and is used for specific purposes, such as the gas tax that is earmarked for transportation. The last third, called general revenue, is what the General Assembly has direct control over and allocates to different state needs.

### Missouri State General Revenue:

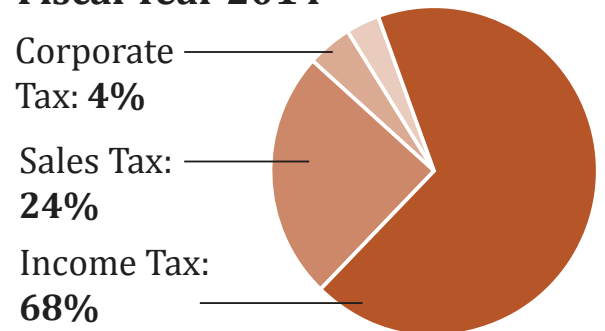
The majority of Missouri general revenue comes from the personal income tax. Another 24% comes from the state sales tax, and smaller contributions come from other sources including corporate income tax.

Examples of taxes that are not part of General Fund are the local property tax, which is levied and collected by local governments, and the gasoline tax, which is deposited into a segregated fund used for transportation purposes. This guide will focus on taxes that comprise general revenue, which are shown in the charts to the right.

### MISSOURI STATE BUDGET Fiscal Year 2014

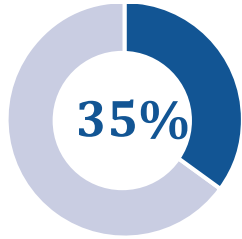


### GENERAL REVENUE Fiscal Year 2014



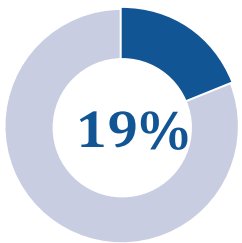
Source: Missouri Office of Administration

# APPROPRIATIONS BY FUNCTION (GENERAL REVENUES)



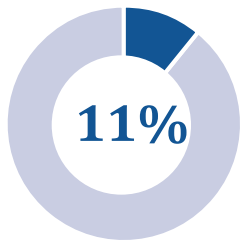
## EDUCATION (ELEMENTARY & SECONDARY)

35% of state general revenue (GR) is spent on K-12 education each year. However, the School Funding Formula, which was passed into law in 2005, is underfunded by close to \$600 million. K-12 and Higher Education combined make up 45% of Missouri's GR budget.



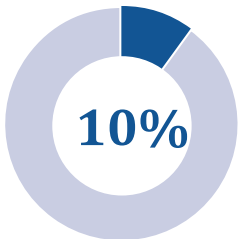
## SOCIAL SERVICES

While Social Services, such as Medicaid, TANF and SNAP, make up more than one-third of total spending in Missouri, most of the funding comes from the federal government and requires minimal additional state revenue. Some programs, such as Medicaid, require the state to match a portion of the federal spending in order to draw down federal tax dollars, while others, such as SNAP, require only that the state provide administration of the program. As a result, social services take up only 19% of the GR budget.



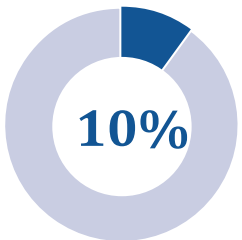
## HEALTH & MENTAL HEALTH

About 11% of GR is used to fund services provided by the Departments of Health & Senior Services and Mental Health. These services include home delivered and congregate meals for seniors, licensing of child care facilities and nursing homes, disease prevention conducted by local public health agencies, and mental health services. However, many of these services have been cut or flat funded over the last decade.



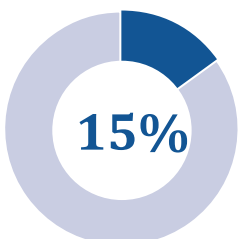
## HIGHER EDUCATION

Funding for Missouri's public universities and community colleges makes up just over 10% of GR spending. For years, funding to higher education has been flat or reduced, causing drastic increases in tuition. In fact, tuition for Missouri's 4 year colleges doubled between 2000 and 2011 due to reductions in state funding.



## JUDICIARY, PUBLIC SAFETY & CORRECTIONS

Combined, these three functions of state government make up 10% of GR spending. These broad areas include funding for state correctional facilities, highway and water patrol, and local courts.

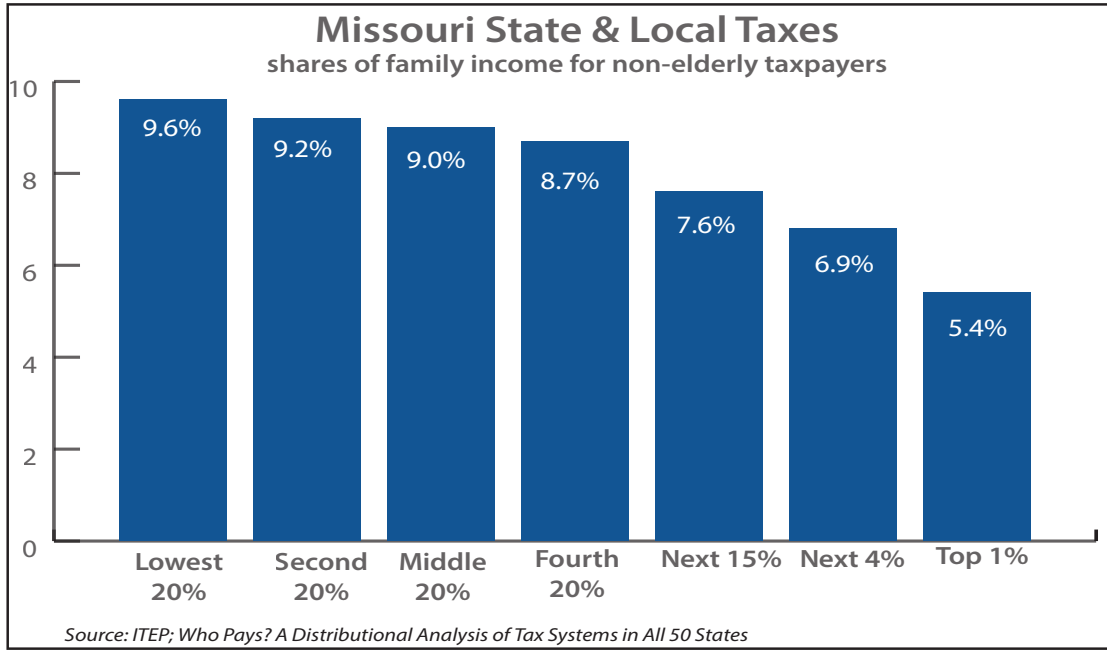


## ALL OTHER STATE FUNCTIONS

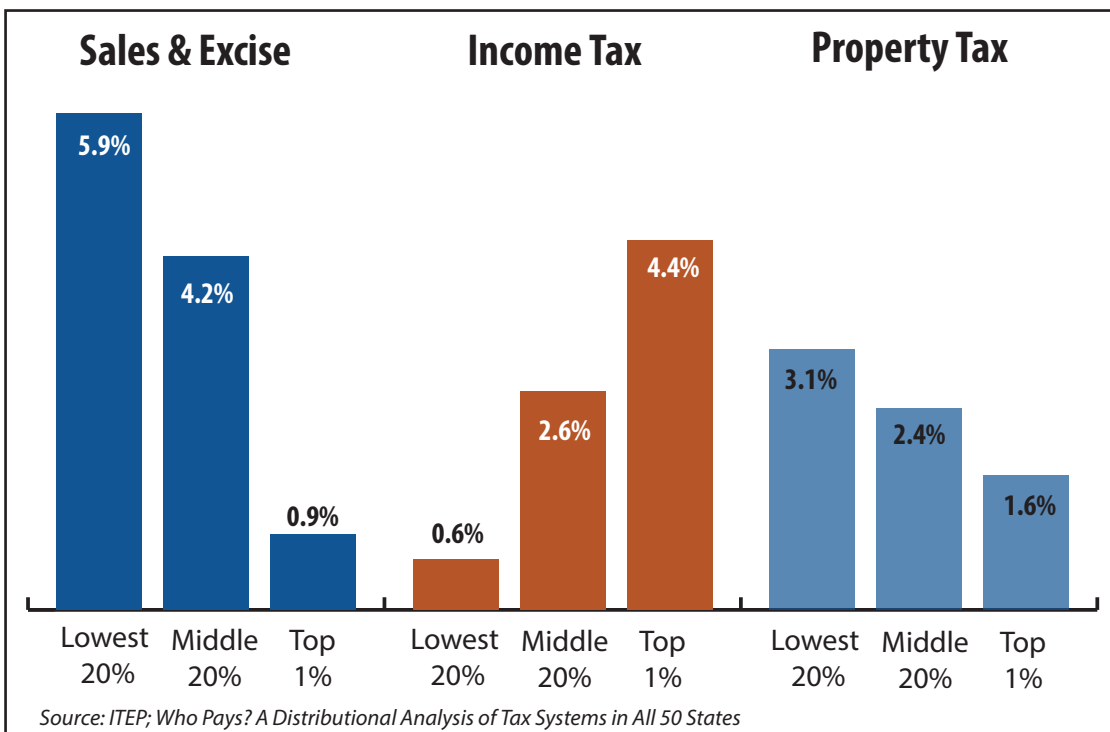
All other state functions combined account for 15% of Missouri's GR budget. The Departments of Agriculture, Economic Development, Labor, Insurance, Conservation and Natural Resources, as well as all state employee benefits, fall into this category.

# MISSOURI TAXES: WHO PAYS?

A sound tax system should treat people fairly. It should seek revenues from those best suited to pay and not place an undue burden on those living on fixed incomes, such as low-income seniors and people with disabilities. While this seems logical, Missouri's tax system is regressive, meaning that many who are least able actually pay a higher proportion of their income in state taxes.



Different taxes have different characteristics. Sales and excise taxes are fairly regressive, as shown in the chart below. Missouri's income tax is progressive, so higher income people typically pay higher shares of their income. The property tax, which is a local tax, is mildly regressive. Combining several taxation methods results in a somewhat fairer system, lower rates overall, and a stable revenue source.

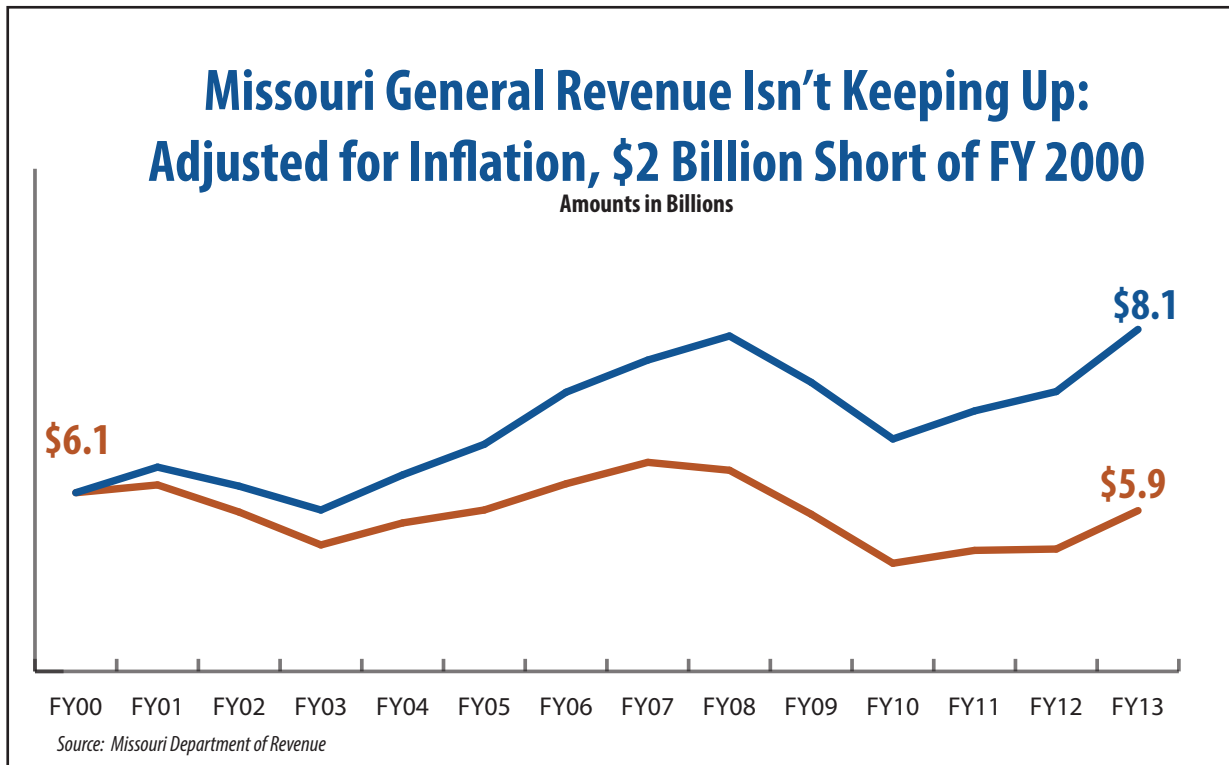


## KEEPING UP WITH CURRENT NEEDS

Even if no new programs or services are added, the state budget has to increase every year just to maintain the current level of services.

Population growth, inflation, and increased health care costs mean that state spending must grow every year just to keep providing the same level of services. Since costs continue to increase, a “flat” budget with no increase in spending would in fact decrease educational services or other assistance available to struggling families.

Over the past decade, inflation has decreased the purchasing power of the general revenue budget, making it difficult to adequately fund vital state services. For example, the school funding formula is currently about \$600 million underfunded.



## COMPARING MISSOURI TO OTHER STATES

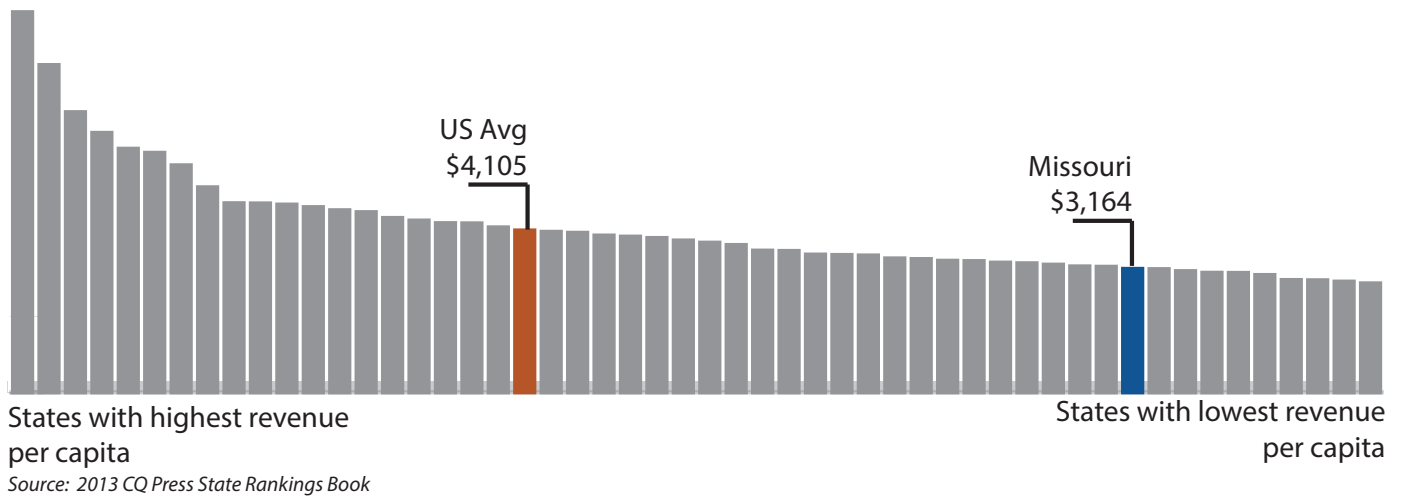
Missouri is unique in many ways, but since eight states border it, the budget and revenue policy decisions of those states often inform the decisions of lawmakers here as well.

Our bordering states have drastically different spending and tax collection habits and their economies respond differently based on those decisions.

In order to adequately compare Missouri's tax load with other states, we must consider both state and local taxation since every state approaches the division of responsibilities between state and local governments differently.

## Missouri Ranks 41<sup>st</sup> in State and Local Revenue Per Capita

State and Local revenues per capita by state in 2010



## Comparing Missouri with Other States

### Missouri's Tax Revenues are Lower than Other States

State and Local Revenue: **41<sup>st</sup> lowest per capita**

Income Tax: **30<sup>th</sup> lowest per capita**

Corporate Income Tax: **41<sup>st</sup> lowest per capita**

Sales Tax: **42<sup>nd</sup> lowest per capita**

*Morgan Quitno State Rankings 2013*

## THE MISSOURI BUDGET PROCESS

As illustrated in the graphic on the next page, the process of creating the Missouri budget is complex. The state budget is constantly being crafted, amended and approved.

# The Missouri Budget Process

## Executive Budget

## House Budget

## Senate Budget

**Summer through October 1st:**  
Departments submit their budget requests to the Office of Administration for consideration by the Office of Budget & Planning and the Governor.

**Mid-January:**  
Governor presents State of the State address to a joint session of the General Assembly and releases Executive State Budget.

**January:**  
The Chair of the House Budget Committee introduces the Budget Bills, and they are referred to the House Budget Committee.

**January & February:**  
House Appropriations Committees discuss specific department budgets from previous years and give recommendations for the coming year.

**February & March:**  
House Appropriations Committees present recommendations to the full Budget Committee to be accepted, amended, or rejected.

**March:**  
The Budget Chair presents the Committee's budget to the entire House of Representatives for amendment and passage.

**January through March:**  
The Senate Appropriations Committee considers the various department budgets and considers changes for the next fiscal year.

**March & April:**  
The House Budget bills are assigned to the Senate Appropriations Committee for amendments or approval.

**April:**  
The Chair of the Senate Appropriations Committee presents the Senate Budget to the entire Senate for amendments or approval.

## Conference Committee

**April & May:**  
Select members of the House Budget Committee and the Senate Appropriations Committee meet to reach a compromise on the differences between their budgets.

## Floor Approval

**May:**  
Both the House of Representatives and the Senate vote on the Conference Committee version of the State Budget.

## Governor Approval

**Before July 1:**  
The Governor has until July 1 to make line item vetoes, veto, sign or allow to become law without his signature all of the Budget Bills from the General Assembly.

## Veto Override

**September:**  
The General Assembly meets for a veto session in September to consider overriding the Governor's vetoes.

## DOES MISSOURI HAVE A BALANCED BUDGET?

The Missouri Constitution requires that Missouri have a balanced budget. In other words, the state can't spend more than it takes in through revenues. However, Missouri can have what is known as a "structural deficit." A structural deficit happens when state revenue growth doesn't keep pace with the level of funding that is needed to continue current services, and generally results in cuts to public services.

This type of structural deficit can occur when a state depends too much on extraordinary or "one-time" funding compared to ongoing revenues to fund basic services; when lawmakers approve permanent tax cuts that are funded with one-time revenues; and even when lawmakers approve tax cuts that are phased in over a period of years. A recent example of the last dynamic is Missouri's phase-out of the corporate franchise tax. Approved by state lawmakers in 2011, the elimination of the franchise tax will not be fully implemented until 2016, delaying its full impact.

Sometimes it makes sense to rely on one-time revenues. For example, during the most recent recession, the federal government provided states with "stimulus funding." The funding allowed Missouri to avoid the more drastic cuts to education, public safety, and other critical services that would have been required absent federal stimulus funds to fill the gap left by declining state revenues. The stimulus funds helped in the short term, allowing Missouri's revenue to rebound as the economy improved. So, while a short-term source of revenue, the expectation was that Missouri revenue would replace the one-time or extraordinary funding as the economy recovered.

The problem is that not all sources of "one-time" funding are replaceable. As a result, relying on extraordinary revenues to meet ongoing spending needs may not be fiscally sustainable and can create long-term budget problems.

## HOW TO PARTICIPATE IN THE STATE BUDGET PROCESS

If the way the state raises and spends money matters to you, and if you are concerned about our state's public priorities and how we fund those priorities through public services, then you may want to make your voice heard about issues related to the state budget.

### **There are several ways you can have an impact on the budget process:**

- During gubernatorial and legislative campaigns, raise the issues you're concerned about as part of candidate forums and debates.
- Advocate Early! Invite lawmakers to meet about your priorities during the summer and fall. Meet with the State Department Directors who oversee the area of the budget you are advocating for and encourage their support in the budget request they submit to the Governor.
- While the Governor is preparing his or her budget proposal, contact the Governor's office to urge support of the programs/initiatives you're most concerned about. You can also contact the Governor's office later in the budget process to voice your opinion on potential vetoes.
- The House Budget Committee and Senate Appropriations Committee hold hearings throughout the session on the budget. You can testify in person about an issue that's important to you, or submit written testimony to the committee members.