



March 1, 2013

## Summary of Missouri's State Budget Proposals for FY 2014 Governor's Request and House Response

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As Missouri's economy continues the slow trudge out of the greatest economic downturn since the Great Depression, the estimated revenue available for next year's state budget begins to look more favorable, but only in comparison to the devastating years since the economic crash. According to Missouri Budget Project estimates, it will take 15 years for state revenues to equal the purchasing power of those collected in fiscal year 2008.<sup>1</sup>

To further exacerbate the problem, one time funds that have buoyed the state budget through the worst years of the recession have now run out, leaving the state with a \$200 million hole to fill even before the increased cost to continue providing basic services are considered.

Without new revenue, Missouri will fall further behind in building strong schools, offering affordable higher education, and creating an environment for economic growth.

### Budget Basics

On January 28<sup>th</sup>, Governor Jay Nixon outlined his Executive Budget. This budget is based on the "Consensus Revenue Estimate," (CRE) or the estimated increase in revenues agreed upon by the Governor's office and the Chairs of the House Budget and Senate Appropriations Committees. The House Budget Committee has filed its annual appropriations bills, and the House Budget and Appropriations committees are working to come to agreement on recommendations. Once those recommendations are approved by the House, the bills will move to the Senate for consideration.

The Governor's proposed budget for FY 2014 is based on a CRE of 3.1 percent – down from the current fiscal year's CRE of 4.8 percent due to the continued phase in of the elimination of the corporate franchise tax.

However, even with this modest growth, FY 2014 will remain below the level collected in FY 2008 in nominal dollars, as well as below the purchasing power of the FY 2008 state budget when adjusted for inflation.

### Missouri State Budget Still Faces Significant Challenges

Although Missouri's financial position has begun to slowly improve, the state is still facing a difficult road to complete recovery from recession shortfalls. While net general revenue collections have grown

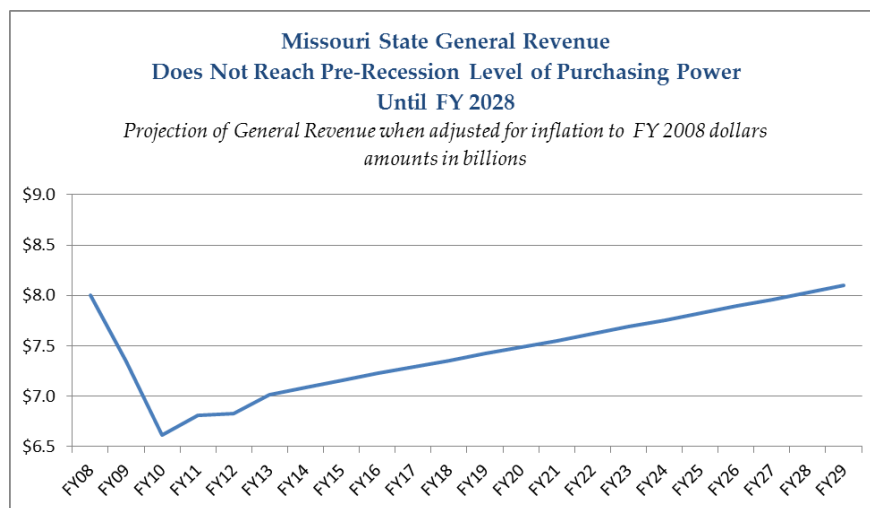
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<sup>1</sup> For more detail, see Missouri Budget Project's Report, "State Revenue is Growing, But Still Far Below Pre-Recession Levels", January 2013

considerably – 9.5 percent in the current fiscal year compared to the previous year – these collections remain below the pre-recession levels of state fiscal year 2008.

In addition, the current strength of state general revenue is due in large part to two significant dynamics that somewhat artificially inflate the actual growth of state revenue. These factors include funding received under the “Mortgage Settlement Agreement” and a significant drop in tax refunds that have been delayed as a result of a slow tax filing process in response to the delay in reaching a fiscal deal in Congress.

Even with this growth, revenue collections relative to the size of the state’s economy are at their lowest levels in thirty years.<sup>2</sup> Moreover, MBP estimates that at this current rate of growth it will take 15 more years for the state to return to the level of general revenue purchasing power it had before the recession. Without new revenue, basic state infrastructures will continue to be underfunded, and the state’s economy will continue to suffer.



## Budget Proposals Rely on Uncertain Revenue, Requiring Legislative Approval of Additional Legislation

In addition to state general revenue, the state’s overall budget includes federal funds and designated (or earmarked) state funds, for a total budget of more than \$25 billion.<sup>3</sup> However, it is the general revenue fund that is largely under the control of the Governor and Missouri Legislature, so it is the general fund budget that is the focus of debate during the state legislative session. **The Governor’s budget estimates that state general revenue will provide 32 percent of the overall budget, or \$8.2 billion.**

In addition to existing sources of state revenue, the Governor’s FY 2014 budget request relies on approximately \$170 million in revenue that would be generated from changes to state law. These changes

<sup>2</sup>For more detail, see Missouri Budget Project’s Report, “State Revenue is Growing, But Still Far Below Pre-Recession Levels,” January 2013

<sup>3</sup>All information on the FY 2014 was compiled by the Missouri Budget Project from information contained within the “Missouri Executive Budget for Fiscal Year 2014” available at: <http://oa.mo.gov/bp/budg2014/index.htm> as well as information contained in House Bills 1 – 14, available on the Missouri House of Representatives Website at [www.house.mo.gov](http://www.house.mo.gov)

will need approval by state lawmakers or will require reductions to the budget proposal. Some of the proposed changes have strong bipartisan support, such as enacting a Missouri Marketplace Fairness Act, while other proposals have strong and diverse opposition, including eliminating the Circuit Breaker Property Tax Credit for seniors and people with disabilities who rent their homes. The following summarizes each of these proposals.

**For the first time ever, the Governor’s budget request includes revenue generated by Missouri’s implementation of the Marketplace Fairness Act.** The Marketplace Fairness Act (MFA) would allow Missouri to capture some sales taxes due for online retail purchases, leveling the playing field between Missouri’s bricks and mortar retailers and their online competitors. If approved, the MFA would result in approximately \$10-20 million in increased state sales tax revenue collected in the first full year of implementation. In addition, once federal companion legislation is approved by the Congress, Missouri is expected to receive as much as \$400 million in increased sales tax revenue per year.<sup>4</sup>

**The Governor’s budget request also includes cost reductions and new tax revenue resulting from accepting federal funding to expand Medicaid in Missouri.** The expansion of Medicaid would provide an estimated \$900 million in matching funds from the federal government to be spent on health care services in Missouri. It would result in over \$31 million in cost reductions for services that are currently state financed, such as mental health care and hospital care for prisoners. In addition, the Governor’s budget estimates the increased federal funds would result in \$15.5 million in new state tax revenues resulting from the infusion of federal funding. The combined impact of reduced general revenue costs and new tax revenue would provide an estimated \$46.6 million for Missouri’s FY 2014 budget.<sup>5</sup>

**In addition, \$51.8 million in general revenue is anticipated from a tax amnesty proposal included in the Governor’s budget proposal.** The tax amnesty has been proposed for the last several years and would allow taxpayers who owe the State of Missouri delinquent taxes to pay the taxes owed and be excused from penalties and interest that have accrued.

**Unfortunately, Governor Nixon’s budget proposal also includes \$56.6 million from the elimination of the Circuit Breaker tax credit for low-income seniors, veterans, and people with disabilities who rent their homes, essentially raising taxes for 105,000 of Missouri’s most vulnerable residents.** The General Assembly had considered elimination of the Circuit Breaker for renters two years ago, during a special session of the legislature, but eventually proactively voted to protect the popular tax credit program.<sup>6</sup>

*Proposed House FY 2014 Budget:*

The House version of the budget, which is first presented through the annual appropriations bills (House Bills 1 – 14), were officially filed on February 15<sup>th</sup> and will be the basis for committee debate on the various funding issues as the bills advance. The bills diverge from the Governor’s budget request in several ways. **The House budget bills do not include revenues related to expanding Medicaid.** By not including Medicaid expansion, the House bills relinquish \$31.05 million in general revenue savings and

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<sup>4</sup> For more information on this issue, see Missouri Budget Project’s report, “ Enacting the Marketplace Fairness Act Will Help Missouri Retailers and the Missouri Budget,” February 2013

<sup>5</sup> For more information on this issue see Missouri Budget Project’s report, “Medicaid Expansion Would Save Missouri Money,” February 2013

<sup>6</sup> For more information on this issue see Missouri Budget Project’s report, “ Proposed Cut to the Circuit Breaker Tax Credit Would Harm Missouri Seniors, Missourians Living with Disabilities, and the Economy,” February 2013

\$15.5 million in new revenue for FY 14. In FY 15, general revenue savings would jump to \$71.4 million and new revenue would rise to \$53.6 million, a \$124.9 million boost to the state's general revenue fund.<sup>7</sup>

Overall, the proposed House budget would reduce federal funding by \$936 million, and increase state general revenue directed at services. However, because of decreases in various general revenue funded programs compared to the Governor's request, the overall budget proposal would decrease general revenue spending by \$4.89 million compared to the Governor's request.

## Funding Provisions for Education

The Governor's request directs 46 percent of projected general revenue funding in FY 2014 to education services including elementary, secondary and higher education. In addition, the Governor requests funding to restore funding for early childhood programs which were reduced in the last state budget. A summary of education provisions in the budget follows.

### *Early Childhood Education*

Several categories of spending for early childhood education programs were increased in the Governor's budget request. Two of the programs – Early Head Start and Child Care Accreditation – had been reduced in the FY 2013 budget, and the funding request for FY 2014 would restore those services. Overall, the budget request includes:

- \$44.8 million for the First Steps Program, an increase of \$1.5 million over the current year;
- \$18.3 million for the Missouri Preschool Program, an increase of \$10 million over the current year;
- \$6.2 million for Early Head Start, a restoration of \$3.5 million that had been cut in FY 2013;
- \$3.5 million in funding to assist childcare providers with improving their services and working towards accreditation, a restoration of funding that had been cut in FY 2013; and
- \$6.3 million in additional federal funding to expand transitional child care assistance to 175 percent of the poverty level, and \$4.3 million additional federal funding to increase provider rates. Total funding for child care assistance is \$189 million under the Governor's proposed budget, including \$66.29 million in state general revenue dollars. The remaining funds are federal and other earmarked state sources (eligibility for child care assistance in Missouri currently ends at 121 percent of the federal poverty level for the full benefit and 132 percent of the federal poverty level for transitional assistance. The proposed funding would extend the transitional assistance to 175 percent of the poverty level.

*House Budget:* The initial House proposed budget reduces the appropriation for the Missouri Preschool Program by \$2.64 million from the Governor's proposed budget.

### *K-12 Education*

The Governor's budget includes an increase for Missouri's "Foundation Formula," the formula used to determine state funding support for local school districts. However, while funding is increased compared to the current year, the "Foundation Formula" remains \$620 million below the statutorily required funding level.<sup>8</sup> The major provisions in the Governor's request are:

- \$3.075 billion for the state's foundation formula, an increase of \$65.9 million.

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<sup>7</sup> For more on this issue see Missouri Budget Project's report, "Medicaid Expansion Would Save Missouri Money", February 2013, and "Medicaid Expansion Budget Analysis", Division of Budget and Planning, Office of Administration.

<sup>8</sup> DESE Administrative Services request for FY 14 to fully fund the foundation formula was \$3.69 billion. The Governor's recommendation of \$3.075 billion leaves a shortfall of \$620 million. Data from the Missouri Department of Elementary and Secondary Education.

- \$793.1 million for K-12 school districts from Prop C collections (a statewide sales tax for education approved in 1982), an increase of \$32.5 million.

*House Budget:* The House made no changes to the Governor’s proposed budget for K-12 education.

Higher Education:

Over the last decade state funding for higher education has diminished, resulting in significant tuition increases, making it more difficult for Missourians to access higher education. Between 2000 and 2011, tuition has increased by 95 percent at Missouri’s public 4-year colleges and universities, from \$3,597 per year to \$7,003. At Missouri’s public 2-year community colleges, tuition has increased from \$2,226 per year to \$3,733, or 67 percent.<sup>9</sup>

The Governor’s budget request includes an additional increase in funding support for Missouri’s public colleges and universities, including:

- \$34 million new incentive funding for colleges and universities, based on improved outcomes
- \$62.8 million to maintain current funding levels for the Access Missouri Scholarship Program, assisting an estimated 56,000 students
- \$30.4 million for the A+ Scholarship Program, an increase of \$1 million to ensure students graduating from any Missouri public high school have access to this scholarship, assisting an estimated 13,600 students
- \$12.3 million to maintain level funding for the Academic Scholarship Program (Bright Flight), assisting an estimated 6,100 students

*House Budget:* The initial House budget removes \$14 million from the \$34 million in new incentive funding proposed by the Governor’s budget.

## Funding Provisions for Health, Mental Health and Social Services

Department of Health and Senior Services

The Governor’s budget proposal would divert \$32.5 million from the cut to the circuit breaker tax credit for renters to fund the “Missouri Senior Services Protection Fund” for the following:

- \$19.7 million in funding from the Missouri Senior Services Protection Fund in place of general revenue for the MO HealthNet Home and Community Based Services Program
- \$1 million Missouri Senior Services Protection fund to Area Agencies on Aging for increased funding for congregate and home-delivered meals.

The “other funds” within the line items below are likely partially created with the “Missouri Senior Services Protection Fund.”

- \$18.5 million in federal and “other” funds for a three percent rate increase for in-home and community-based providers
- \$12.6 million federal and “other” funds to meet increased demand for the MO HealthNet Home and Community based Services Program.

*House Budget:* The House budget proposal reduces federal funding for senior and disability services by \$1.304 million but replaces the federal funding with an equal amount of increased state general revenue.

Department of Social Services

The Governor’s budget proposal would divert \$12.88 million from the circuit breaker program for low-income renters for use in the Department of Social Services budget.

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<sup>9</sup> Missouri Fiscal Year 2014 Executive Budget

This budget also includes funding for IT modernization of the eligibility and enrollment system in the Department of Social Services:

- \$6.3 million in general revenue to begin the modernization of the eligibility and enrollment system, resulting in a reduction of (60) staff in the first year.

*House Budget:* The House proposed budget assumes no expansion of Medicaid eligibility and therefore reduces federal funding by approximately \$886.2 million. The funding is partially replaced with \$16.88 million in state general revenue to fund existing Medicaid services.

#### Department of Mental Health

The Governor's budget for this department relies on the approval of the Medicaid expansion.

##### Division of Alcohol and Drug Abuse

- \$28.3 million in federal funds for Medicaid services for Missourians with incomes below 138 percent of the federal poverty level
- \$5.5 million in federal funds to provide treatment for alcohol and drug abuse
- \$4.4 million in federal and other funds for a three percent rate increase for community based providers
- \$748,767 in federal funds for the anticipated utilization increases in the Missouri HealthNet program

*House Budget:* The House proposed budget eliminates \$28.3 million in federal funding from Medicaid expansion for the Alcohol and Drug Abuse Division of the Department of Mental Health and allocates \$639,408 from General Revenue to continue current services.

##### Division of Comprehensive Psychiatric Services

- \$23.1 million in federal and other funds to provide community psychiatric services for adults and youth
- \$20.2 million in federal funds for Medicaid services for Missourians with incomes below 138 percent of the federal poverty level
- \$11.1 million in federal funds for anticipated utilization increases in the MO HealthNet program
- \$10.6 million in federal and other funds for a three percent rate increase for community based providers
- \$10.2 million in federal funds and one staff for strategies to strengthen the Missouri mental health system

*House Budget:* The House proposed budget eliminates the \$20.2 million in federal funding from Medicaid expansion for the Division of Comprehensive Psychiatric Services, Adult Community Programming and allots \$3.4 million in General Revenue for the division along with \$2.7 million in General Revenue funding for CPS Youth Community Programming.

##### Division of Developmental Disabilities

- \$43 million in federal funds resulting from increased MO HealthNet earnings
- \$25.4 million for anticipated utilization increases in the MO HealthNet system and serving more individuals through Partnership for Hope as a result of Medicaid expansion, including \$8 million in general revenue
- \$19.7 in federal and other funds for a three percent rate increase for community-based providers
- \$10.8 million to decrease the state's current waiting list for services by half, serving an additional 550 annually, including \$3.8 million in general revenue.

*House Budget: The House budget proposal does not make changes to this budget.*

### **New Revenue Essential to Economic Outlook**

Despite the relatively positive revenue picture for FY 2013, revenue in the state is not back to healthy levels. General revenue is not keeping pace with the growth of Missouri's economy and is at its lowest point in 30 years.

If Missouri lawmakers fail to approve Medicaid expansion, Missourians will miss out on nearly \$587 million in general revenue savings and new revenues over the next 8 years.<sup>10</sup> The expansion of Medicaid is essential to the future of Missouri's financial health as well as the health of the nearly 2.3 million Missourians who would become eligible for Medicaid services over the next 8 years.

New revenue sources from the implementation of the Marketplace Fairness Act and a tax amnesty program in the state are also essential to the continuing improvement of Missouri's overall economic outlook. At the current rate of growth without these important new sources of revenue, it will take 15 more years for Missouri to return to the level of purchasing power it had before the recession.

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<sup>10</sup> Medicaid Expansion Budget Analysis, Division of Budget and Planning, Office of Administration.