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Governor Makes Cuts to Budget Bills

Legislature Should Pursue Bipartisan Interest in Reviewing Options to Respond to Joplin Tragedy

Today Governor Nixon cut \$115 million in General Revenue and other state funds as he signed the state's budget bills for FY 2012. Cuts include \$2 million from Parents as Teachers, \$4.9 million from higher education scholarship programs and \$16.8 million from Missouri's 4-year colleges and community colleges. The Governor reported that \$50 million of the reduction will be used instead to assist with the efforts related to the tragedies in Joplin and in other areas of the state that are being hurt by recent flooding. However, the cuts may be unnecessary as Legislative leaders recently indicated bipartisan interest in utilizing the state's rainy day fund and other options for Missouri's disaster-related needs.

"Legislative leaders have expressed interest that all policy options be considered to most effectively respond to these tragedies, and the Missouri Budget Project absolutely agrees. For example, the state's Rainy Day Fund currently has a balance exceeding \$500 million. The recent tragedies are exactly what the fund is intended for." Said Amy Blouin, executive director of the Missouri Budget Project "By utilizing the Rainy Day Fund for its intended purpose, the state would be able to restore the funding cut from higher education and other critical services while at the same time be able to respond to the emergency needs created by multiple natural disasters".

The Governor appears to have left the door open for this discussion by making the budget cuts "temporary restrictions" rather than permanent vetoes. The legislature has formed a Special Legislative Committee on the Response to Joplin. As part of those efforts, the Committee could act on the bipartisan interest in looking at ways that would enable the state to respond to the disaster effectively, while still maintaining the critical services and infrastructure that Missourians rely on.

"Policymakers have several options that will allow the state to maintain basic services while also responding to this tragedy," said Amy Blouin, Executive Director of the Missouri Budget Project. "In addition to using the Rainy Day Fund, the state should take steps now to leverage the resources needed to replace those funds. For instance, lawmakers could consider a modest increase in the tobacco tax or enactment of the streamlined sales tax collections mechanism to capture sales tax from online retailers. This is the most appropriate time for these conversations".

Examples of the policy possibilities include:

- *Updating the State's Tobacco Tax:* As of July 1st, Missouri's cigarette tax became the lowest in the nation. At 17 cents per pack, Missouri's cigarette tax is not only well below the national average of \$1.43 per pack, but \$0.90 below the \$1.07 average of our primary bordering states, and is behind every major tobacco producing state, which average 48.5 cents per pack. If Missouri increased its tax to be in line with the average of its neighbors, it would generate approximately \$500 million in new revenue – nearly erasing the revenue shortfall for FY 2012.

- *Implementing the Streamlined Sales Tax (SST) Mechanism:* Uncollected sales taxes on online sales now account for 4.2 percent of total sales, costing Missouri approximately \$210 million in state and local tax revenue per year. By enacting the SST like 23 other states (including several of Missouri’s neighbors), elected officials would protect state and local revenue from further loss and modernize a critical component of Missouri’s tax structure for the new economy. In addition, the legislation would level the playing field for local businesses that assess the tax and allow them to effectively compete with Internet sales.
- *Reforming the Rainy Day Fund:* Although the state regularly contributes to its rainy day fund, it is rarely used because inadequacies in its design impede policymakers’ ability to access the fund for its intended use. Modifying the fund by permitting a more extended repayment period and removing or increasing the cap on the size of the fund, along with other modifications, would allow the state to more effectively use the fund to respond to state needs.

“I’m encouraged by reports that policymakers believe that everything is on the table when responding to the needs of Missourians. Both the Governor and Legislature have signaled a willingness to restore funding to the budget if the revenue can be found, and they have several ways to do so,” said Blouin.

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The Mission of the Missouri Budget Project is: To advance public policies that improve economic opportunities for all Missourians – particularly low and middle-income families – by providing reliable and objective research, public education and advocacy.

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