



February 7, 2014

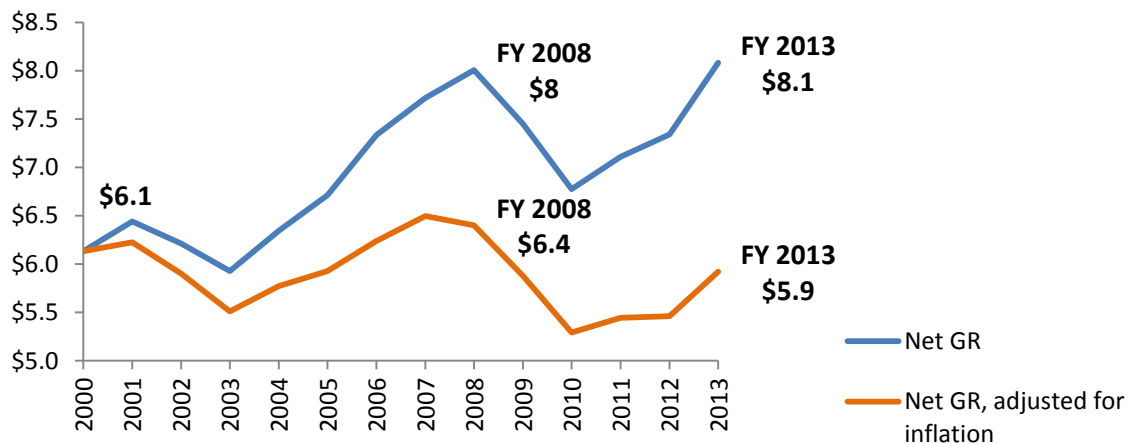
There is No Surplus: Missouri Still Falling Short of Pre-Recession Funding

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Despite improvements since the recession, the state still faces unmet funding needs for education, mental health, and other critical services. Moreover, revenue growth in the current year has slowed, underscoring that Missouri cannot afford further reductions in revenue.

Although Increasing, State General Revenue When Adjusted for Inflation Remains Lower than a Decade Ago

Net General Revenue by Fiscal Year in Both Nominal and Inflation Adjusted Terms
State Fiscal Years 2000 – 2013; Amounts in Billions



Despite improvements in Missouri's general revenue since the depth of the recession, the state's overall general revenue situation is far from rosy. General revenue grew by an unusually strong 10.1 percent in state fiscal year 2013 compared to the previous year, resulting in revenue reaching the level attained in fiscal year 2008.¹ However, when adjusted for inflation, the real purchasing power in fiscal year 2013 remained more than 3 percent below what it was more than a decade ago in fiscal year 2000.

As a result, the state has numerous unmet funding needs. According to its statutorily required funding formula, the state is currently underfunding K-12 education by nearly \$600 million.²

¹ Revenue figures from the Office of Administration

² Missouri Department of Elementary and Secondary Education

State funding for higher education has declined significantly, resulting in significantly increased costs for students attending Missouri's public 4-year higher education institutions. In fact, those costs have nearly doubled over the last decade, with average tuition increasing from \$3,597 in 2000 to \$7,033 in 2011.³ Mental health services have also faced steep cuts. Funding for non-Medicaid community mental health services was cut by one-third between fiscal year 2007 and fiscal year 2012, some of the steepest recession-driven cuts in the nation.⁴

In addition, although general revenue increased significantly in fiscal year 2013, much of the growth can be attributed to one-time events. Changes in federal tax laws that took effect at the beginning of 2013 made it beneficial for many taxpayers to realize capital gains income in calendar year 2012, allowing it to be taxed at more favorable rates.⁵ This is a one-time phenomenon that led to substantial revenue growth in Missouri as well as other states. In addition, in the first quarter of fiscal year 2013, Missouri received \$38.6 million from a legal settlement with mortgage providers. Together, these events artificially increased revenue growth.

Revenue growth in the current fiscal year (FY 2014) is already clearly slowing. Adjusting for the mortgage settlement revenues and other factors, the Missouri Budget Project estimates that net general revenue growth in fiscal year 2014 may only reach 2.0 percent.⁶ Improving upon this growth rate may prove challenging as the year proceeds. Simultaneously, inflation over the last decade has eroded the real purchasing power of general revenue, as the cost to provide the same level of services has increased.

Missouri cannot afford tax policies that would further reduce the revenue available for critical services that provide the foundation of our economy, and that give Missourians the opportunity to succeed.

³ Missouri Budget Project, "Cutting to the Chase," September 2012, available at <http://www.mobudget.org/files/mpb-full%20report.pdf>

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⁵See: Rockefeller Institute, "State Tax Revenue Growth Slows Sharply in the Third Quarter of 2013 as Atypical Factors That Propped Up Prior Growth Fade," December 19, 2013

⁶ MBP estimate of 2 percent is equal to the estimate of Legislative Budget leaders, but somewhat lower than the Governor's office, which estimates 2.8 percent growth for FY 2014.