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## Revenue Dispute Impacts State Budget Development for FY 2015

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Every year, one of the most important debates within the Missouri General Assembly is how it will fund critical state services, such as education, health and public safety. That debate generally begins with an agreement between the Governor’s office and legislative leaders on what level of tax revenue will be expected. This agreement is referred to as the “Consensus Revenue Estimate.” This year, however, legislative leaders and the Governor’s office have not come to consensus on a revenue estimate for state fiscal year 2015 (FY 2015), the fiscal year that will begin on July 1<sup>st</sup>. The lack of consensus on revenue will significantly impact the state budget discussions as they move forward.

In fact, the House Budget Chair gave instructions this week to the House Appropriations committees that limited the increases in funding that the committees could provide to various services. The amount of increased funding in total is sharply reduced from what the Governor recommended in his budget proposal released on January 21<sup>st</sup>. While some areas of the budget would receive more funding than the Governor recommended, other areas – particularly education – would be sharply reduced.

### Governor’s Budget Outline vs. House Budget Chair Allotment For FY 2015

\*Amounts shown are increased funding compared to current year (FY 2014)

Budget Categories	Governor’s Budget	House Budget Chair’s Funding Level	Budget Committee Funding Over/Under Governor
Education: K-12 and Higher Education	\$567.1 million	\$317 million	(-\$250.1 million)
Mental Health, Health, Senior Services & Social Services	\$82.2 million	\$132.6 million	+\$50.4 million
Public Safety & Corrections	\$52.47 million	\$13 million	(-\$39.47 million)
Revenue, Transportation & Economic Development	\$15.4 million	\$15.6 million	+\$0.2 million
Agriculture & Natural Resources	\$4.916 million	\$5.6 million	+0.684 million

*Sources: Fiscal Year 2015 Executive Budget and Representative Rick Stream, Chair of House Budget Committee*

The Budget Chairman’s funding instructions to the appropriations committees do not specify explicit line items to cut as compared to the Governor’s budget. Instead, the Chairman gives broad, overall funding guidelines. For example, the Governor’s budget includes an increase of \$278 million for the K-12 school funding formula, a \$20 million increase for the Missouri Preschool Program and a \$26 million increase to

scholarships for Missouri Higher Education institutions.<sup>1</sup> While the Budget Chairman’s funding levels would lower total investment in education from preschool through higher education, it’s not certain which specific areas of the budget would be reduced compared to the Governor’s recommended funding levels. Those decisions are left to the appropriations committees.

In addition to the decisions that will be made within the various state House Appropriations Committees, the budget bills will also be influenced by the Senate Appropriations Committee. In other words, the legislative debate on next year’s state budget has just begun, and advocates of specific funding needs still have time to inform the committee members and other legislators of the importance of their specific need. But, the lack of consensus around Missouri’s revenue outlook for the current fiscal year (FY 2014) as well as fiscal year 2015 will create an unusual dynamic for advocates and lawmakers alike.

### Background on Revenue Estimates

The differing revenue estimates from the Governor’s Office and legislative leaders involve two years of funds: state revenue estimated for the current state fiscal year (FY 2014) and state revenue estimated for fiscal year 2015, which begins on July 1, 2014. In both cases, the Governor’s estimate is more optimistic in its outlook for growth. **Combined, the Governor’s estimate of revenue for the two years would be \$215 million higher than the estimates of legislative leaders.** While substantial in terms of funding, given the size of the budget along with the inherent uncertainty associated with all revenue estimates, the 1.3 percent difference between the estimates over two years is not an enormous difference.

Missouri State Fiscal Year 2014 Estimated State General Revenue In millions of dollars; amounts are all net of refunds			
	<b>Governor FY 2014 Revised</b>	<b>Legislative Leaders FY 2014 Revised</b>	<b>Legislative Leaders Amount Over/Under Governor’s Estimate</b>
Individual Income Tax	\$5,643.9	\$5,618	(-\$25.9)
Sales Tax	\$1,933	\$1,920	(-\$13)
Corporate Income Tax	\$465	\$428	(-\$37)
County Foreign Insurance	\$163	\$170	+\$7.0
All Other	\$105.6	\$108	+\$2.4
<b>Total General Revenue</b>	<b>\$8,310.5</b>	<b>\$8,244.0</b>	<b>(-\$66.5)</b>
<b>Percent Change compared to FY 2013</b>	<b>2.8%</b>	<b>2.0%</b>	

<sup>1</sup> Fiscal Year 2015 Executive Budget, available at: <http://content.oa.mo.gov/budget-planning/budget-information/2015-budget-information/fiscal-year-2015-executive-budget>

Missouri State Fiscal Year 2015 Estimated State General Revenue In millions of dollars; amounts are all net of refunds			
	Governor FY 2015	Legislative Leaders FY 2015	Legislative Leaders Amount Over/Under Governor's Estimate
Individual Income Tax	\$5,991.0	\$5,920.0	(-\$71)
Sales Tax	\$2,034.0	\$1,978.0	(-\$56)
Corporate Income Tax	\$442.0	\$414.0	(-\$28)
County Foreign Insurance	\$175.0	\$177.0	+\$2
All Other	\$96.5	\$101.0	+\$4.5
<b>Total General Revenue</b>	<b>\$8,738.5</b>	<b>\$8,590.0</b>	<b>(-\$148.5)</b>
<b>Percent Change compared to FY 2014</b>	<b>5.2%</b>	<b>4.2%</b>	

While both the Governor's and Legislative estimates are reasonable, they also both may be somewhat optimistic, particularly in light of the weak state general revenue collections in January of 2014. In January of 2014, state revenues **dropped by 9.5 percent compared to January of 2013**, resulting in net year to date general revenue growth of just 0.7 percent compared to the previous fiscal year.<sup>2</sup> Missouri revenue will need to grow significantly over the next five months to reach either the Governor's or the legislative estimate of revenue for the current year (2.8 percent and 2 percent respectively).

In addition, both revenue estimates rely on modest growth in individual income tax revenues for FY 2014 and FY 2015. But that growth would be measured as a comparison to FY 2013, when Missouri and most states received unusually high income tax payments as a result of federal tax changes. These changes took effect at the beginning of calendar year 2013 and made it beneficial for taxpayers to realize capital gains income in 2012.<sup>3</sup> **As a result, Missouri had an unusual jump of 11.7 percent growth in net individual income tax payments in state fiscal year 2013 compared to state fiscal year 2012.** While it is difficult to determine exactly how much of that surge was due to the additional boost in one-time capital gains payments associated with federal tax changes, it does add an unusual dynamic when determining Missouri's revenue outlook as measured against that unusual surge.

**In the end, both the Legislative and the Governor's estimates of revenue may be optimistic and yet they both may be attainable. The importance for advocates of particular state services is that the lack of consensus on revenue will have an impact on state budget negotiations.**

<sup>2</sup> Missouri Office of Administration, data available here: <http://content.oa.mo.gov/commissioners-office/news/state-releases-january-2014-general-revenue-report>

<sup>3</sup> See: 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