



The
MISSOURI
BUDGET
PROJECT



The Missouri Budget: Strengthening Resources for A Better Missouri

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What's Happening with Missouri Revenue

- DECLINE is significant
- Between 1975 and 2001 no negative growth years
- In last decade have faced four years of declining revenue
- FY 2010 is 7.9 percent below last year at this point in time



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Fiscal Year 2010 and FY 2011 Outlook

- FY 2010 Federal Stabilization in budget as passed **\$880 million**
- Since budget was passed the Governor has **enacted \$900 million in mid-year restrictions**
- FY 2011 Budget Currently being Debated: **\$200 million in cuts by Governor, \$450 additional million in cuts by Legislature**
- Governor will veto or withhold another **\$350 million in the FY 2011 budget**



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FY 2012 Outlook

- \$800 million per year of Federal Stabilization Dollars gone
- Even with positive revenue growth (4 percent) projecting *\$1 + Billion Shortfall*



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Missouri Use of Federal Recovery Funds

- Use of ARRA Funds in Missouri FY 2010 Core Budget: **\$880 million**
- Funds in HB 21: **\$2.6 billion**
- Funds in HB 22: **\$381 million**



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Missouri Use of Federal Recovery Funds

Examples of Items that were funded:

- Child Care: **\$42.6 million**
- Senior Nutrition Programs: **\$2.1 million**
- Title I Education: **\$215.8 million**
- First Steps: **\$8.6 millions**
- Transportation Construction: **\$695 million**



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Impact of Budget Cuts

- Mental Health cuts
- FQHC \$1.4 million cut in FY 2011 budget
- K-12 Education
 - Transportation funding \$12 million
 - Parents as Teachers More than 50% cut since last fiscal year
 - Foundation Formula- no increase for FY 2011
- Higher Education: 5 percent cut



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What is Causing the Budget Crisis

- National Recession
- Record high levels of unemployment: **Missouri 9.5 percent (3/10, Bureau of Labor Statistics)**
- Deep Fiscal Crisis:
 - 39 States identified mid-year gaps in FY 2010
 - 48 States expect budget shortfalls in FY 2011



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What is Causing the Budget Crisis?

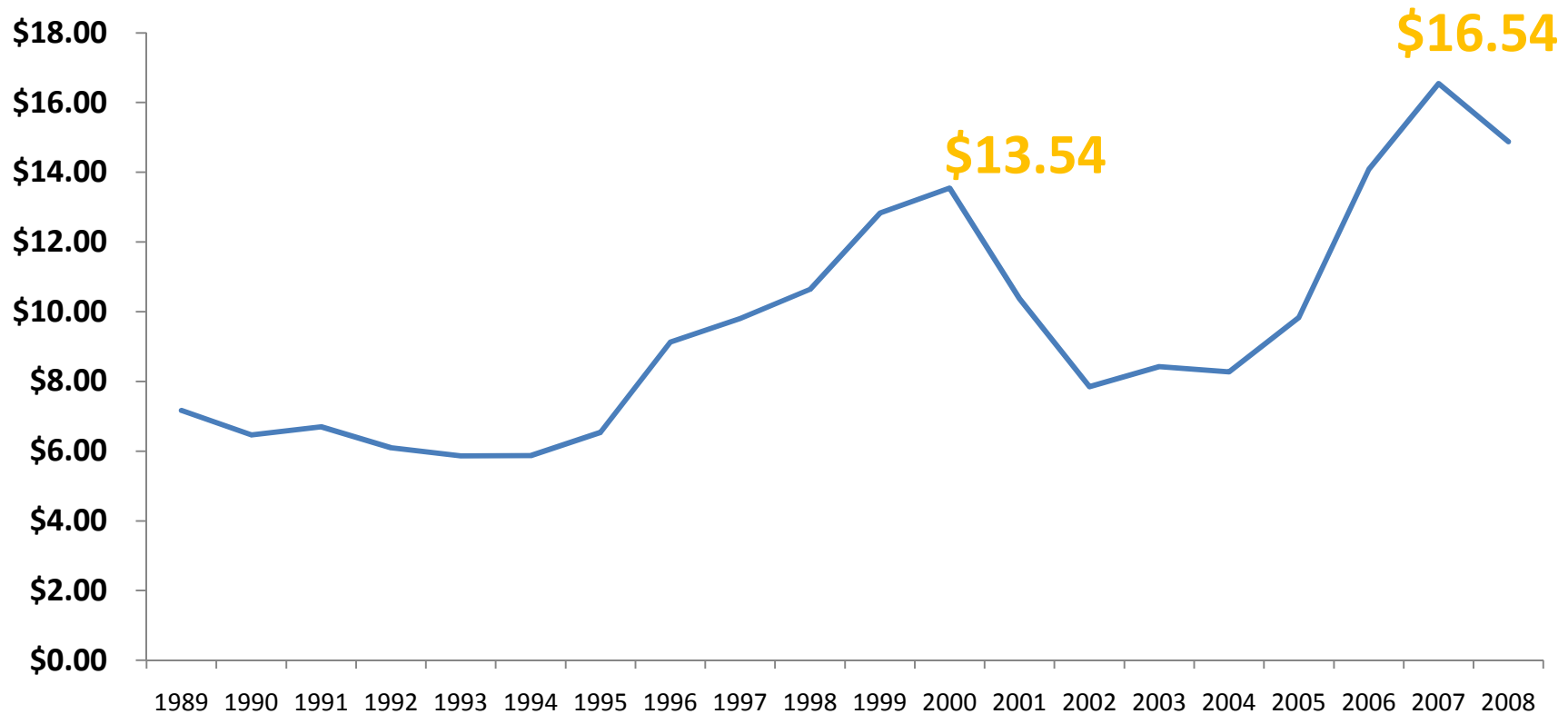
Missouri's fiscal pressures are also
STRUCTURAL

- Use of One Time Funds – Stimulus and Revenues from Capital Gains
- Tax cuts
- Tax credits
- Outmoded tax policy and administrative practices



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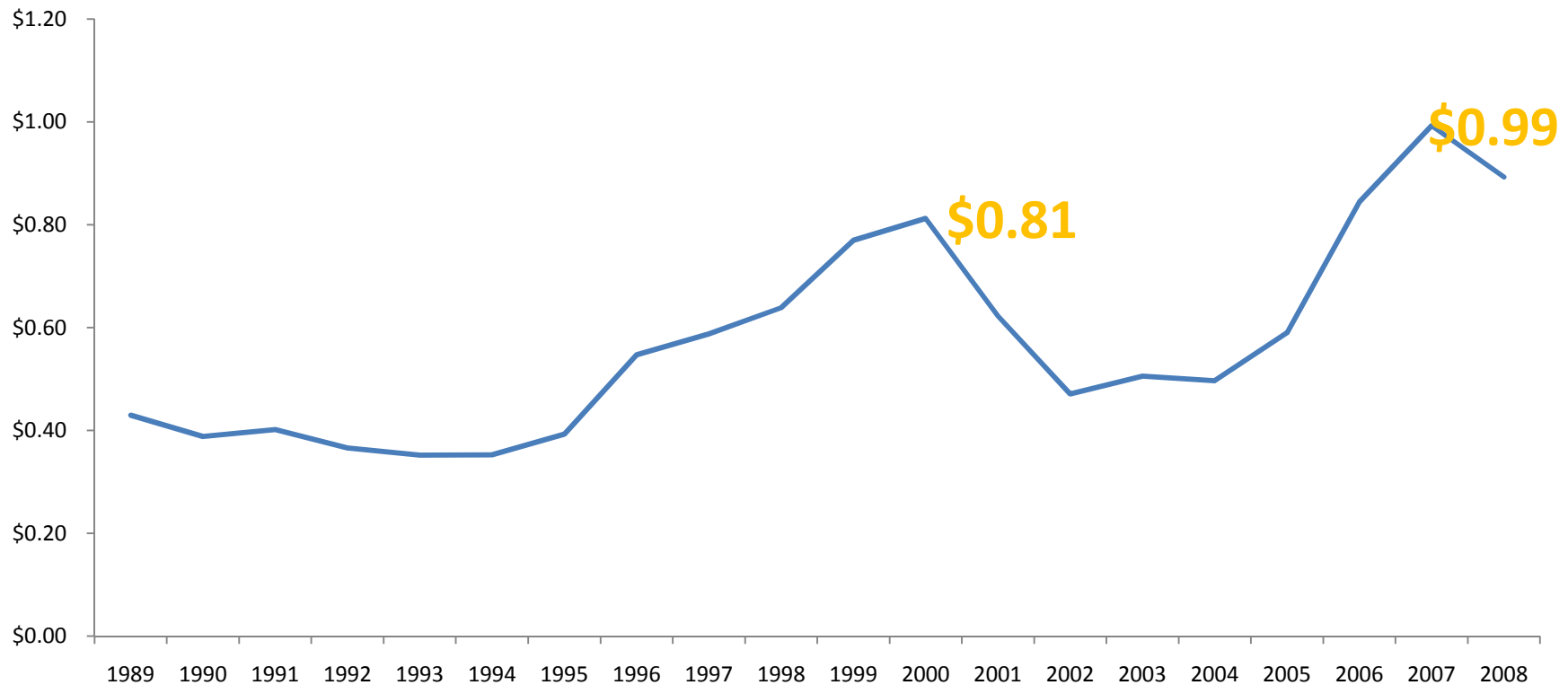
Missouri Capital Gains, Interest & Dividends Earnings in Billions





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Estimated Missouri Tax Revenue from Capital Gains/Interest/Dividends Earnings in Billions





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Significant Tax Cuts in last 3 Legislative Sessions:

Cost of \$325.9 million in FY2012

Impact of State Tax Cuts Passed					
Year Enacted	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
2007	\$75.5 million	\$124.6 million	\$167.9 million	\$195 million	\$195 million
2008	N/A	\$61.7 million	\$63.7 million	\$67.8 million	\$67.8 million
2009	N/A	N/A	\$35.3 million	\$51.5 million	\$63.1 million
Total Cost Per Year	\$75.5 million	\$186.3 million	\$266.9 million	\$314.3 million	\$325.9 million

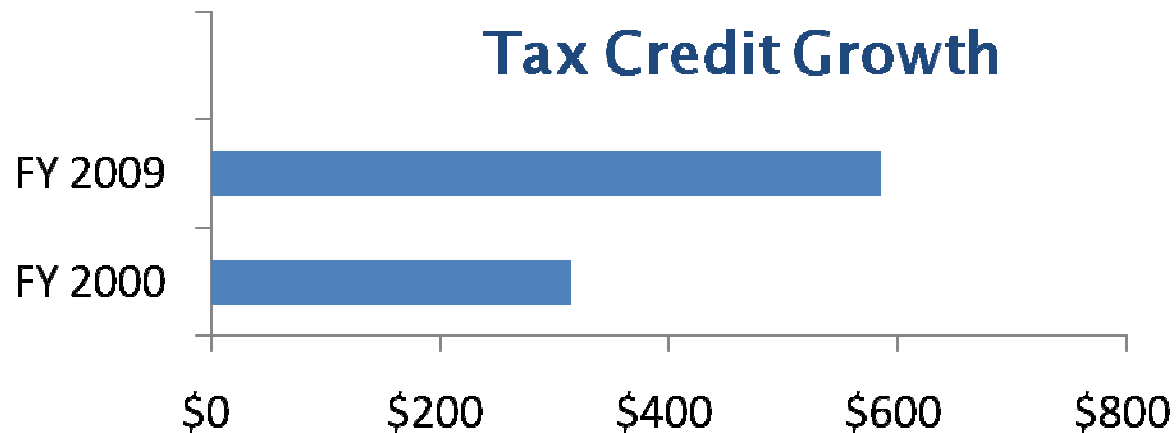


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State Tax Credit Growth:

53 different tax credits: Grown by **85% since FY 2000**

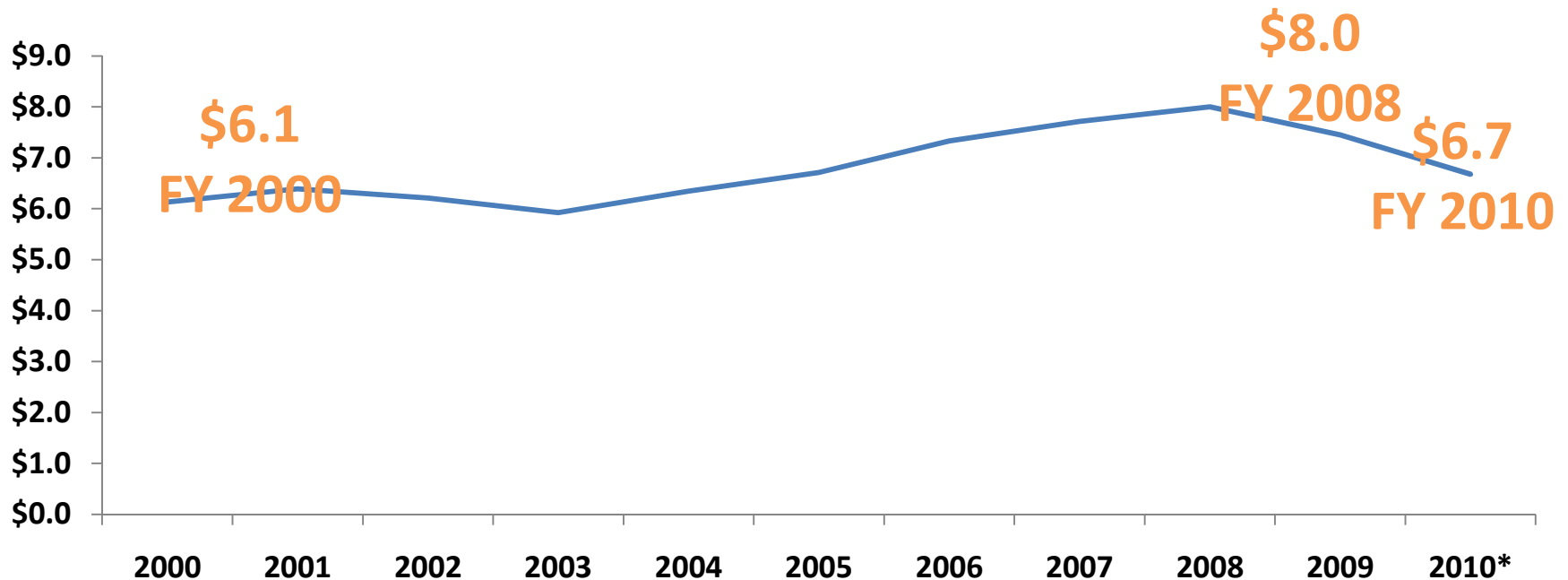
\$2.4 Billion in Tax Credits outstanding over next 5 Years





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Missouri State General Revenue History in Billions by Fiscal Year Adjusted for Inflation





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Outdated Revenue Structure

- 1931 personal income tax brackets
- Highest tax brackets begins at \$9,000 of MAGI, taxed at 6 percent
- Timely filing discount costs State \$40 million annually (FY 2009)
- Corporate tax loopholes
- Failure to tax internet sales



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What Missouri Needs

- Tax Policy that is both **balanced and stable**
- Tax Policy that supports **renewed economic growth**
- **Missouri must reform tax policy in order to maintain the critical services that benefit ALL Missourians and which make economic growth possible**



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**This time of crisis is an opportunity
to determine our future**

- ✓ Especially in an economic downturn, we need balanced solutions to support Missourians, their efforts to work and care for themselves and their families.
- ✓ We need to provide services that strengthen families and position them to benefit when the economy improves.



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What we can do next year

- ✓ Streamlined Sales Tax
- ✓ Eliminate preferential tax treatment and outdated tax reductions:
 - ✓ Require Combined Reporting
 - ✓ Revise Timely Filing Discounts
 - ✓ Evaluate Tax Credits and Reform
- ✓ Evaluate Overarching Tax Structure



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What to Avoid

Policies that would exacerbate Missouri's funding problems such as **HJR56/SJR 29**

- Constitutional Amendment to eliminate state income tax and replace it with a greatly increased sales tax
- Sales tax rate to increase to at least 11 percent, and nearly all services would be taxed
- Low and middle income families would pay considerably more tax while top 5 percent of tax filers would pay less, with no benefit to state



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Sales Tax Compared with Neighboring States

New Missouri Sales Tax Rate	11 percent+
Arkansas	6 percent
Iowa	5 percent
Illinois	6.25 percent
Kansas	5.3 percent
Kentucky	6 percent
Tennessee	7 percent
Oklahoma	4.5 percent



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What to Avoid

Policies that Would Exacerbate Missouri's Funding Problems such as **TABOR**

- Constitutional Amendment
- Restricts state spending for services to population plus inflation formula
- Forever ties Missouri to current crisis
- Diminishes the ability of the state to adequately fund services that support families, communities