



The
MISSOURI
BUDGET
PROJECT



The Missouri Budget: Strengthening Resources for A Better Missouri

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The Missouri Budget

You cannot have a conversation about the budget

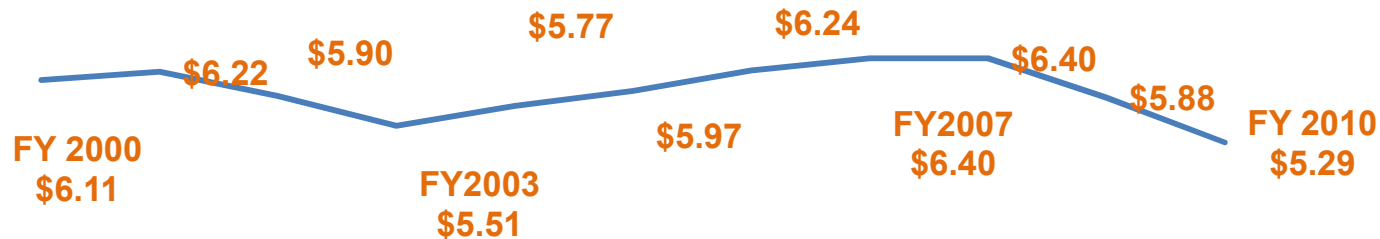


Without also having one about priorities and revenue (and taxes)



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Missouri General Revenue Adjusted for Inflation, in Billions (in FY 2000 dollars)





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What's Happening with Missouri Revenue

- SIGNIFICANT DECLINE
- Between 1975 and 2001 no negative growth years
- In last decade have faced four years of declining revenue
- FY 2010 ended at **-9.0 percent** below the previous year, and **-13.4 percent** lower than FY2000 when adjusted for inflation
- FY 2010 General Revenue of \$1.1 billion *less than* FY 2008, when adjusted for inflation



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Fiscal Year 2010

Governor withheld money from the budget in August, October, February, March and April

Total: \$931 million

This was with the use of \$1.2 billion of federal stabilization money *

*Source: Office of Administration



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FY 2011 Outlook

- FY 2011 General Revenue Budget Uses about \$923 million in federal stabilization dollars*
- Budget as passed by the Legislature and *including the Governor's withholds* enacts nearly \$1 billion in core cuts to services

*Source Office of Administration



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FY 2012 Outlook

- Most of the federal stabilization dollars gone
- An economic recovery appears to be slow
- Missouri faces an estimated \$822 million shortfall



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What is Causing the Budget Crisis

The economy

- National recession
- Record high levels of unemployment: **Missouri 9.3 percent (September, 2010, Bureau of Labor Statistics)**
- Deep fiscal crisis:
 - 39 States expect budget shortfalls in FY 2012



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What is Causing the Budget Crisis?

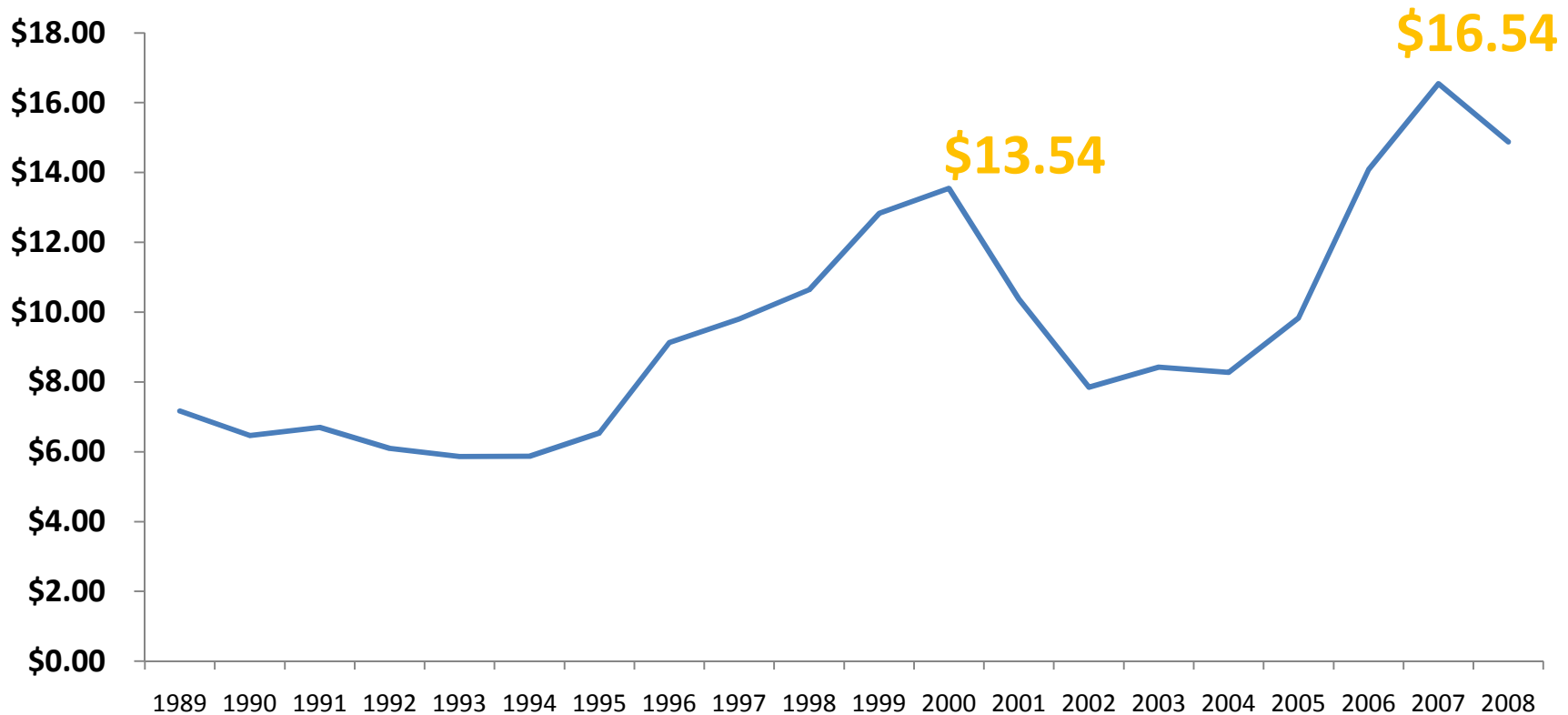
Missouri's fiscal pressures are also
STRUCTURAL

- Use of One Time Funds – Stimulus and other sources
- Tax cuts
- Tax credits
- Outmoded tax policy and administrative practices



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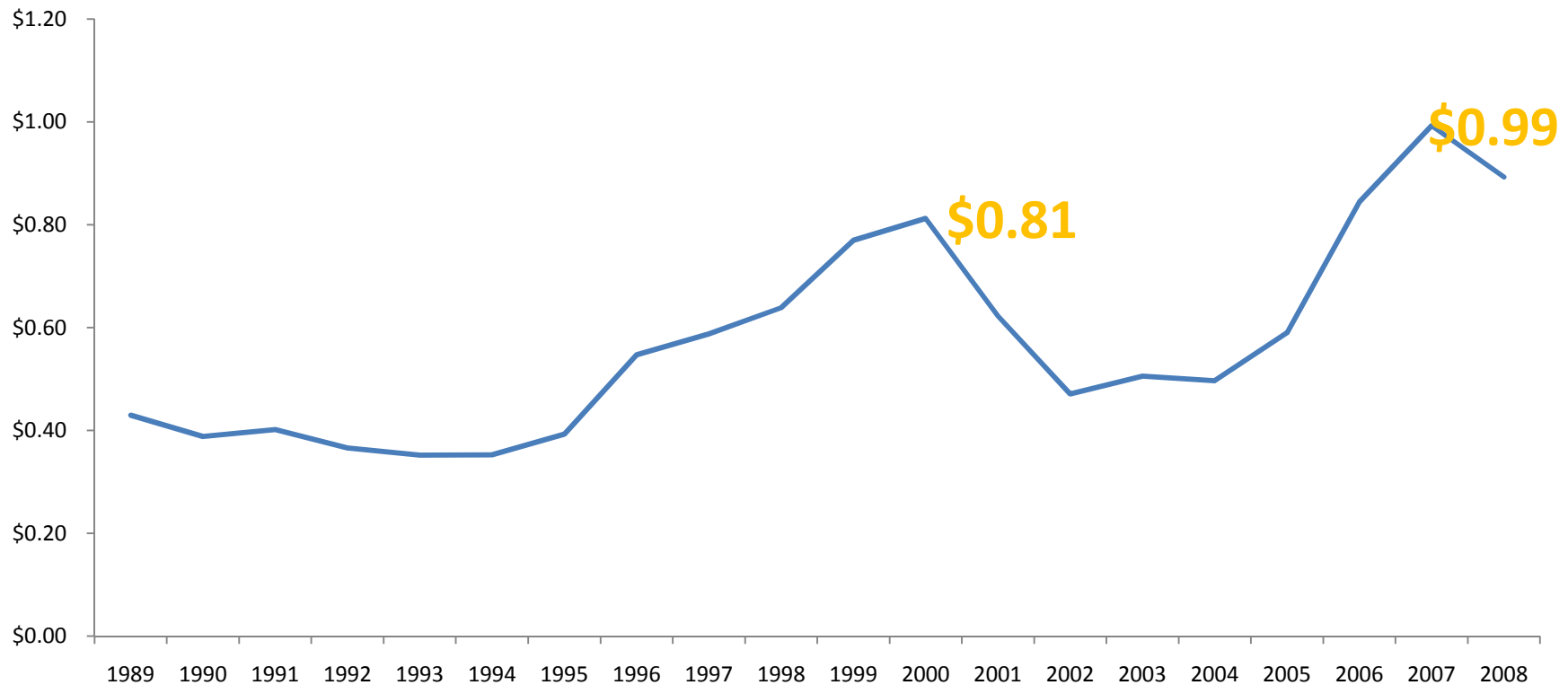
Missouri Capital Gains, Interest & Dividends Earnings in Billions





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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

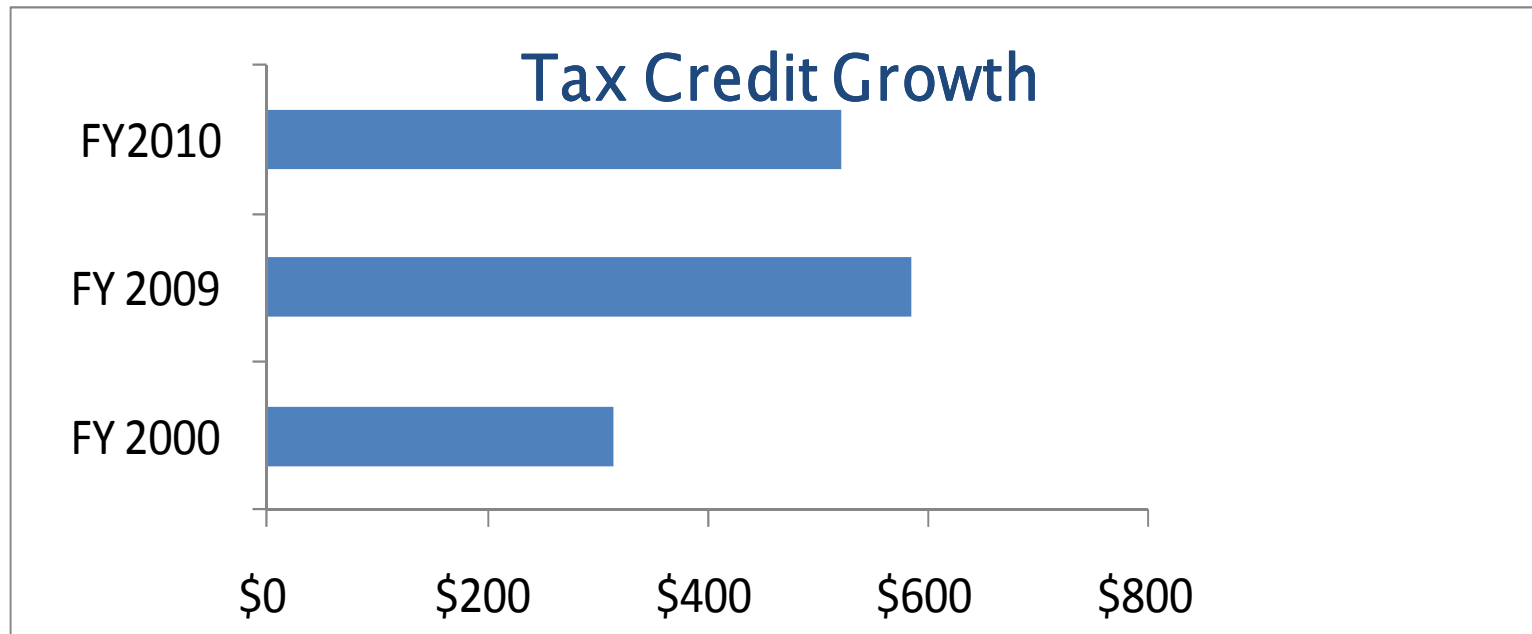


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State Tax Credit Growth:

61 different tax credits: Grown by **66% since FY 2000**

\$2.4 Billion in tax credits outstanding over next 5 Years





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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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Principles of a Desirable Tax Structure

Equitable:

Taxes should be collected with even-handed enforcement;
Shared by all, but based on ability to contribute to the
infrastructure and services all Missourians benefit from

Adequate

Taxes should be sufficient to fund priorities, but not excessive

Flexible and Diversified

Taxes should be flexible to allow for changing circumstances or
priorities: and provide a broad revenue base that doesn't rely
on one source



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Is MO Adequate? Impact of Budget Cuts (examples)

- Mental Health cuts \$69 million cut in FY 10 & 11
- FQHC \$1.4 million cut in FY 2011 budget
- Transportation funding \$70 million
- Parents as Teachers More than 50% cut since FY 2009
- Foundation Formula no increase for FY 2011
- Higher Education 5 percent cut and cuts to Scholarships in FY 11, but flat funding for the last decade has resulted in 73% tuition increase at MO colleges/universities



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Is MO Tax Structure Equitable & Diverse Individual Income Tax: Makes up 65 % of Missouri General Revenue

Equitable?

- Missouri does have graduated rates between \$5,000 – \$9,000 of MAGI,
- Top tax bracket begins at \$9000 of MAGI
- Tax brackets last adjusted in 1931
- Missouri allows the deduction of federal taxes (only 6 states allow)
- Missouri ranks 28th in income tax – in the middle (Data source: IRS, 2008, Public Assets Institute)



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Is MO Tax Structure Equitable & Diverse Corporate Income Tax

Makes up 4.2 % of Missouri General Revenue

Of the 46 states with corporate income taxes,
Missouri's is the lowest.

Equitable?

Missouri has loopholes in its tax laws that allow some corporations, particularly multi-national companies, to avoid paying corporate tax at the expense of us all



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Is MO Tax Structure Equitable & Diverse Sales Taxes

Makes up 26 % of Missouri General Revenue

Equitable?

- Missouri NOT capturing tax on internet and catalog purchases
- As the Economy has changed the tax collection practices in the state have not
- Lower income individuals and families pay a larger portion of their income in sales taxes
- Many exemptions for individuals and businesses



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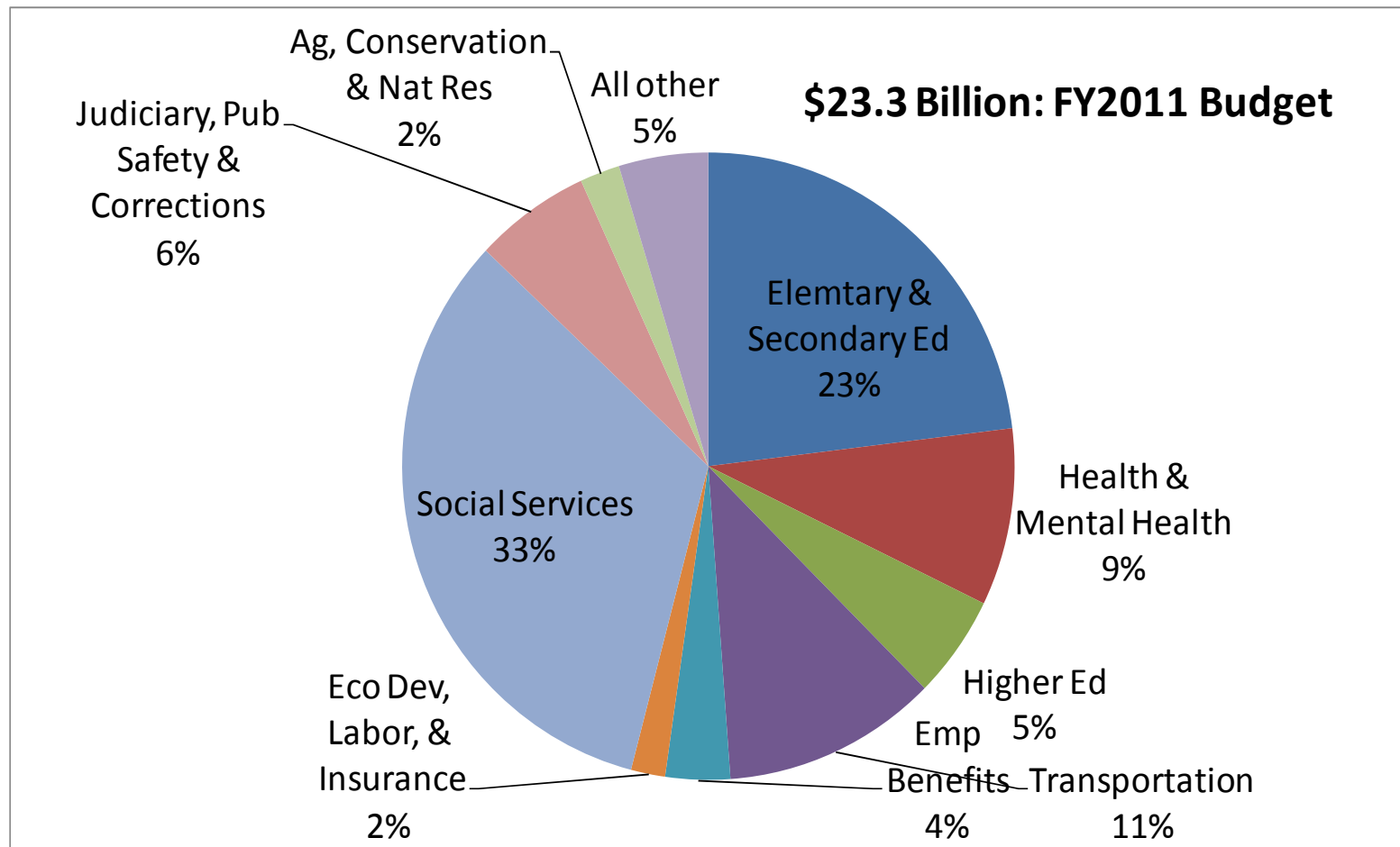
Flexible? Limited flexibility

Total FY2011 budget: \$23.3 billion

- Federal Funds: \$7.3 billion
- “Other” funds: approximately 8.1 billion
- General Revenue: \$7.8 billion

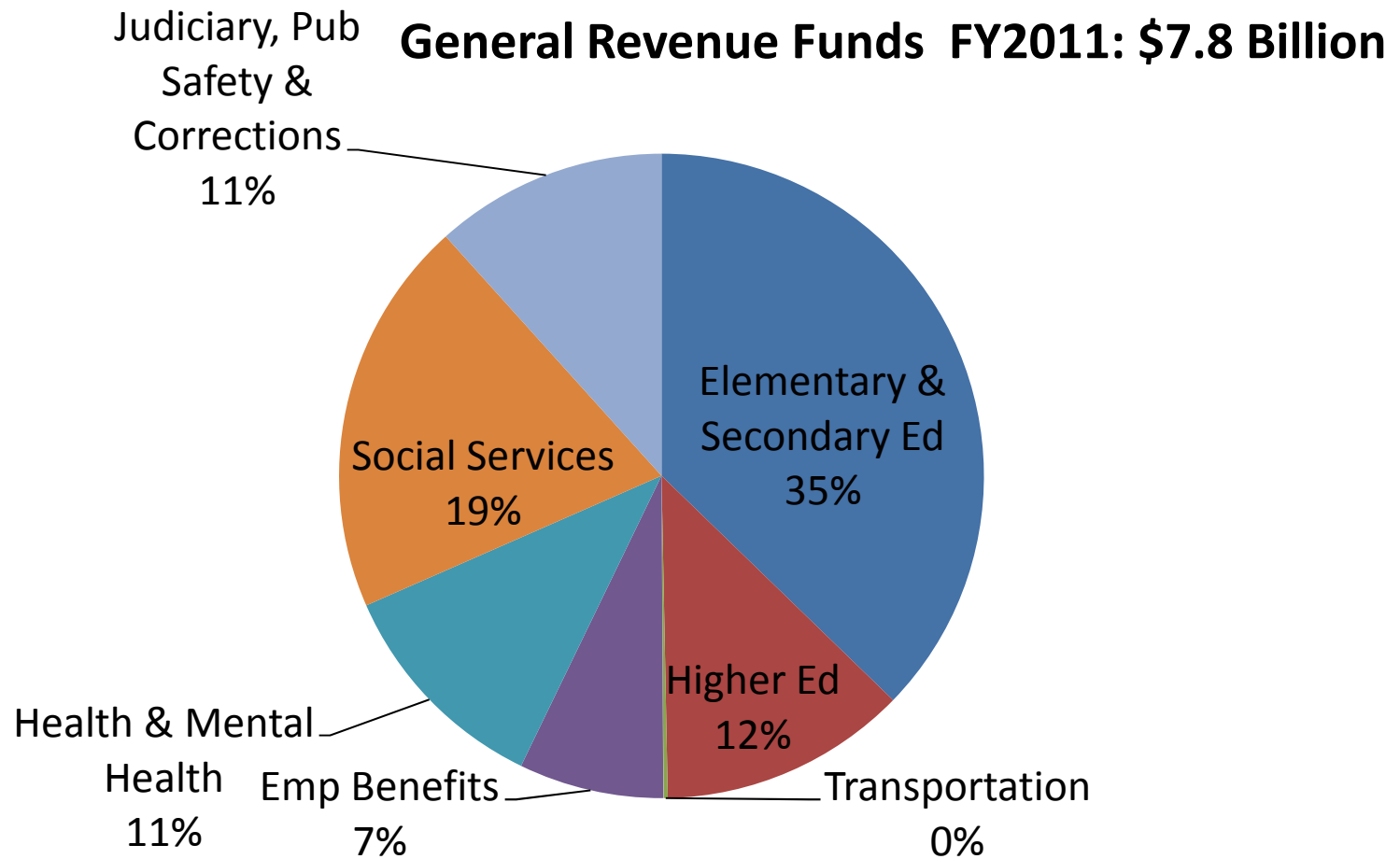


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Other Outdated Revenue Structures

- Timely filing discount for withholding taxes costs Missouri an estimated \$40 million annually
- Timely filing discount for sales taxes costs Missouri an estimated \$90 million annually (FY 2009)
- Tobacco taxes – at 17 cents per pack are the lowest in the nation



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What we can do next year

Enact the Streamlined Sales Tax

- ✓ Carries Broad Bi-Partisan Support: Passed Missouri House in 2010 Legislative Session
- ✓ Would Allow Missouri to Capture Sales Tax on Internet Purchases
- ✓ University of Tennessee **estimate \$210 million in State and Local Revenue in 2012**
- ✓ Enacted in 23 States including Missouri's neighbors of Kansas, Iowa, Arkansas, Tennessee



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What we can do in the next two years

Update Missouri's Tobacco Tax

✓ Missouri Dropped to # 50 in the Nation in July

✓ Missouri Rate: 17 cents per pack

✓ National Average: \$1.43 per pack

✓ Missouri Border States Average: \$1.07 per pack

✓ FY 2009 MO Cigarette Tax Raised \$94.8 million, or \$5.6 million per penny of tax

✓ Increase of MO rate to Average of border states = \$1.07 per pack, (increase of 90 cents over current) would generate nearly \$500 million in new revenue



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For more information, analyses of revenue options, or to sign up as part of our action network, go to www.mobudget.org

For detail about the impact of budget cuts, go to www.mobudget.org and choose the tab at the top of the home page “A Better Way”

Information on sources of revenue and the FY2011 budget were taken from the “Redbook” available at <http://www.senate.mo.gov/10info/RedBook10.pdf>