



The
MISSOURI
BUDGET
PROJECT



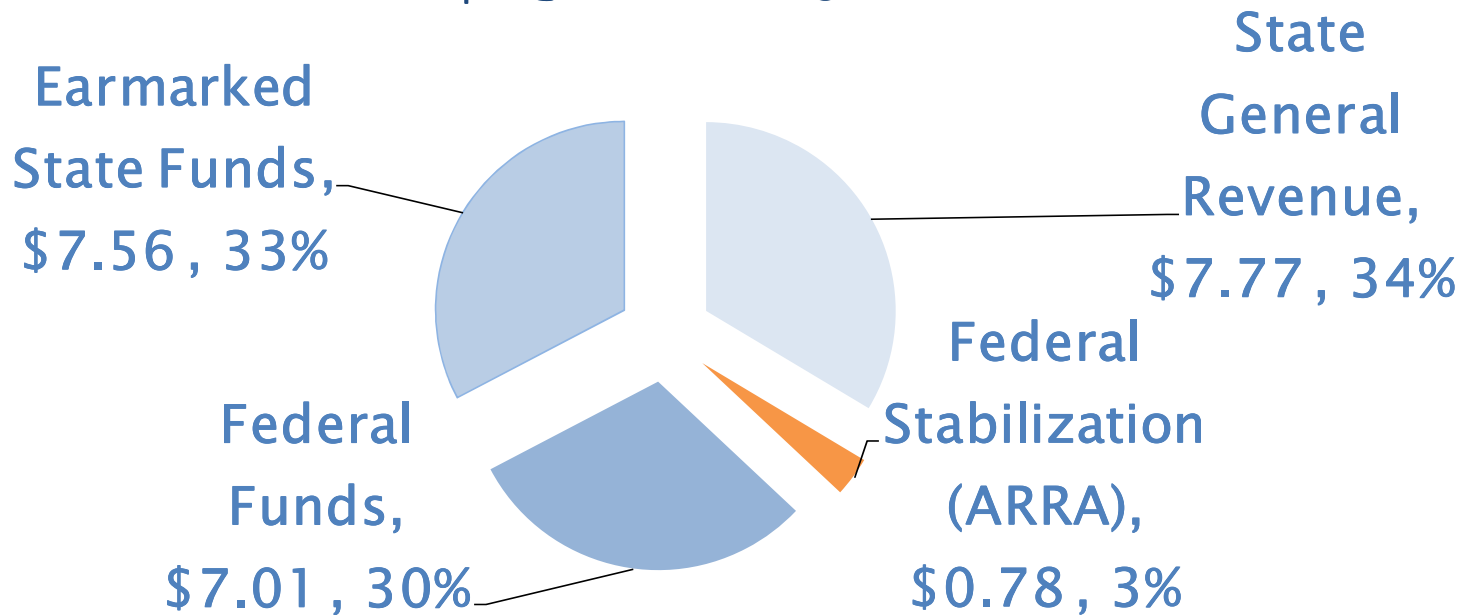
The Missouri Budget: Strengthening Resources for A Better Missouri

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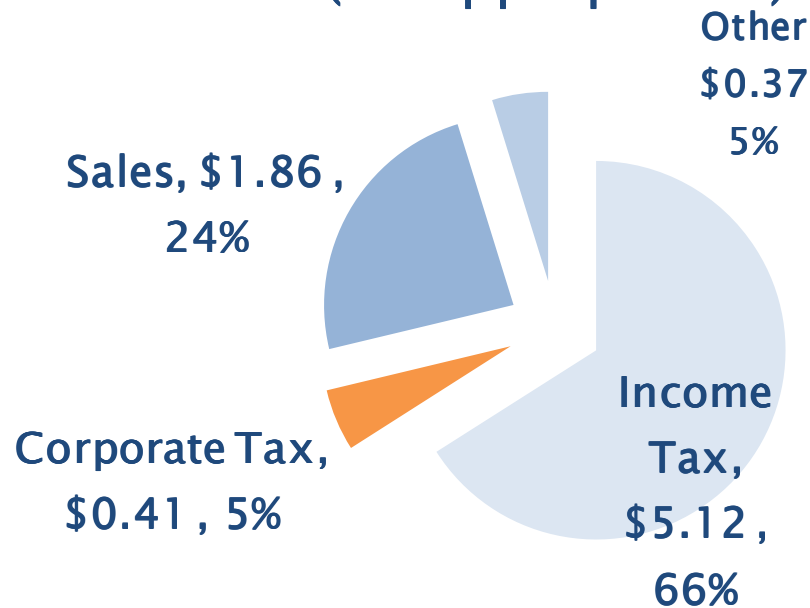
Missouri FY 2010 Budget All Funds \$23.11 Billion





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Missouri FY 2010 Budget General Revenue \$7.764 billion (As Appropriated)





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Missouri Use of Federal Recovery Funds

- Use of ARRA Funds in Missouri FY 2010 Core Budget (As Appropriated): **\$783 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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Revenue FY2010

DROPPED by 12.7 percent YTD compared with FY 2009

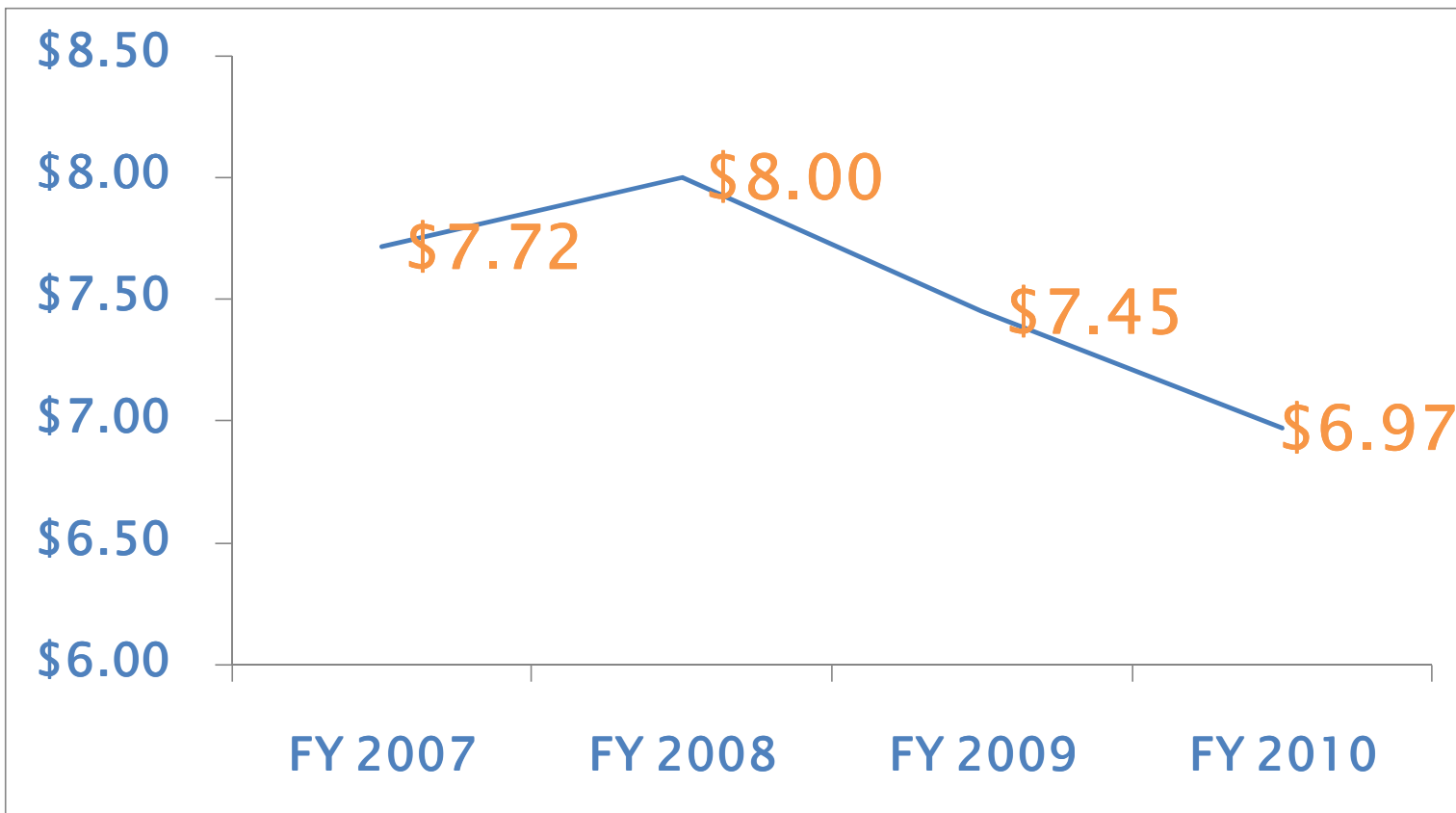
(Expected -9.6 percent for fiscal year)

- January 2010 Revenue -22.4 percent
- February 2010 Revenue -14.6 percent
- All Revenue Categories Down
- FY 2010 12.10 percent below FY 2000 when adjusted for inflation



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Missouri General Revenue Budget





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FY 2010 Mid-Year Reductions To Date

Vetoes: \$105 million, Withholds: \$662 million plus++

Made significant reductions including:

- waiting lists for non-Medicaid patients in Mental Health,
- mentoring and youth programs,
- child abuse prevention,
- payments to Medicaid providers,
- fewer inspectors of nursing homes and child care providers,
- reductions to Parents as Teachers





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Preliminary Projection for FY 2011:

\$540 million shortfall

- Based upon current Consensus Revenue Estimate
- Assumes no Federal Economic Recovery funds beyond those Missouri already anticipates (Governor's Budget originally included additional \$300 million in enhanced FMAP)

Preliminary Projection for FY2012:

\$1.8 billion shortfall

- Based on a 5 percent rate of revenue growth



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What is Causing the Budget Crisis

- National Recession
- Record high levels of unemployment: **Missouri 9.5 percent (1 / 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

- Tax cuts
- Tax credits
- Outmoded tax policy and administrative practices



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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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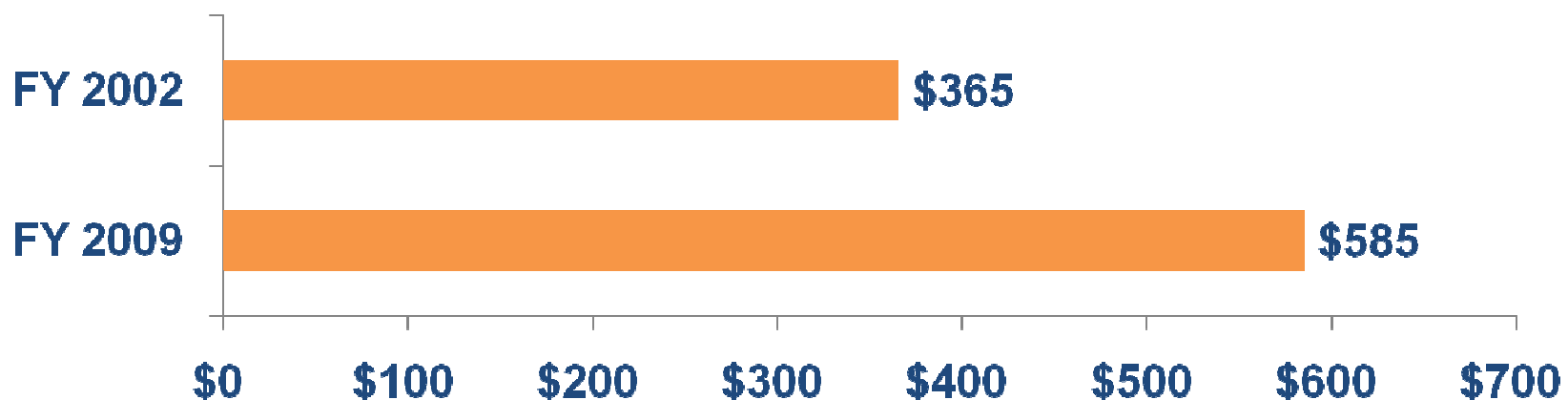
State Tax Credit Growth:

53 different tax credits: Grown by **60% since FY 2002**

Carry-Forward “Unknown” : Additional **\$176 million tax credits authorized in FY 2009 but unredeemed**

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

Tax Credits in Millions





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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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Data on Individual Income Tax

- Lowest income tax bracket is \$1,000 and highest is \$9,000
- Missouri is one of 6 states that allow a deduction on state taxes for Federal Income Tax



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Comparing Missouri with Other States

Missouri Income Tax	1.5 – 6 percent
Arkansas	1 – 7 percent
Iowa	0.36 – 8.98 percent
Illinois	3 percent
Kansas	3.5 – 6.45 percent
Kentucky	2 – 6 percent
Tennessee	Dividends and Interest Income
Oklahoma	0.5 – 5.5 percent



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Comparing Corporate Tax with Other States

Missouri Corporate Income Tax	6.25 percent
Arkansas	6.5 percent at \$100,000+
Iowa	6 – 12 percent
Illinois	7.3 percent
Kansas	4 percent
Kentucky	4 – 6 percent
Tennessee	6.5 percent
Oklahoma	6 percent



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Additional Corporate Income Tax Data

- Missouri is one of 5 states that allow a deduction on state corporate income taxes for Federal Income Tax



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Additional Data: Current Unemployment

Missouri Unemployment Rate December 2009	9.6 percent
Arkansas	7.7 percent
Iowa	6.6 percent
Illinois	11.1 percent
Kansas	6.6 percent
Kentucky	10.7 percent
Tennessee	10.9 percent
Oklahoma	6.6 percent



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What Missouri Needs

- Tax Policy that is both **Balanced and Stable**
- Tax Policy that supports **Renewed Economic Growth**



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Potential BALANCED SOLUTIONS

- Streamlined Sales Tax: **\$187.5 million state and local revenue lost by FY 2011**
- Balance tax credits and special tax reductions with other policy priorities:
 - Implement State “Pay As You Go Policy”
 - Eliminate preferential tax treatment for some corporations (Combined Reporting and Timely Filing Discount)
- Modernize the income 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



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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 them and position them to benefit when the economy improves.



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What we can do THIS YEAR

- ✓ Support Streamlined Sales Tax Bills (SB 905, Sen. Bray and HB 2302, Rep. Sutherland)
- ✓ Use the Enhanced FMAP in FY 2011
- ✓ Cap ALL Tax Credits, and Enhance Year to Year Accounting
- ✓ Prevent Mega Sales Tax (SJR 29 & HJR 56)



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What we can do Next Year

- ✓ Eliminate Preferential tax treatment and outdated tax reductions:
 - ✓ Combined Reporting and
 - ✓ Timely Filing Discount

- ✓ Evaluate Overarching Tax Structure