

Cutting to the Chase

What Multi-Year Budget Reductions Mean for Missourians

Education and Health Services Suffer Biggest Losses



Shaping Policy...
Creating Opportunities



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Missouri Budget Project improves the quality of life for all Missourians by informing public policy decisions through objective research and analysis of state budget, tax and economic issues.

Principles that Guide MBP's Work

The Missouri Budget Project provides independent, objective research and analysis of state budget and tax issues. The following principles underlie MBP's work:

- Quality services (health, education, transportation, etc.) provide the foundation upon which a strong economy is built.
- Government plays an integral role in providing quality services.
- All Missourians should share responsibility for the provision of services.
- Transparent and accountable decision-making regarding the expenditure of public funds enhances public trust.
- Quality information is required for good decision-making.
- Public engagement ensures good decisions and is important to ensure transparency and accountability

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Missouri Budget Project

www.mobudget.org
City House in Grand Center
3534 Washington Ave
St. Louis, MO 63103
314-652-1400

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Missouri's investment in public services has eroded as multiple years of revenue declines have resulted in significant cuts to core services, particularly in education and health care. Historical data indicates that Missouri's state general revenue spending, as a percent of the economy, is lower today than it was in 1981.

Based on the current pace of the recovery of state revenue following the recession, state general revenue when adjusted for inflation will not reach its pre-recession level of purchasing power until state fiscal year 2029. In other words, a child born today will be about to graduate high school before Missouri is able to fully fund education.

Quality schools, a statewide transportation system, an adequate supply of housing at reasonable prices and access to quality affordable health care are critical public investments, not

only for the wellbeing of today's Missourians but for the state's present and future economy. When the capability of state government to properly fund services is compromised, the effects are detrimental to Missouri's ability to attract business and industry and, most importantly, to provide future generations with the skills they need to succeed in a global economy.

“Economic development, more than anything, depends on a talented workforce. And developing that workforce begins in our classrooms.”

*Missouri Chamber of Commerce and Industry,
Education section, <http://www.mochamber.com/mx/hm.asp?id=Education>*

Missouri Has Less Revenue to Invest in Critical Services

The erosion of Missouri's general revenue over the last decade has been significant. Between 2001 and 2010 there were four fiscal years when revenue dropped lower than the previous year. By comparison, during the preceding 25 years (1975 through 2000), Missouri's general revenue grew every year. Even during recessions over that 25 year period, Missouri revenue had modest gains.

As a result of the drops over the last decade, Missouri general revenue from fiscal year 2000 to fiscal year 2010 grew by a net of just \$641 million,

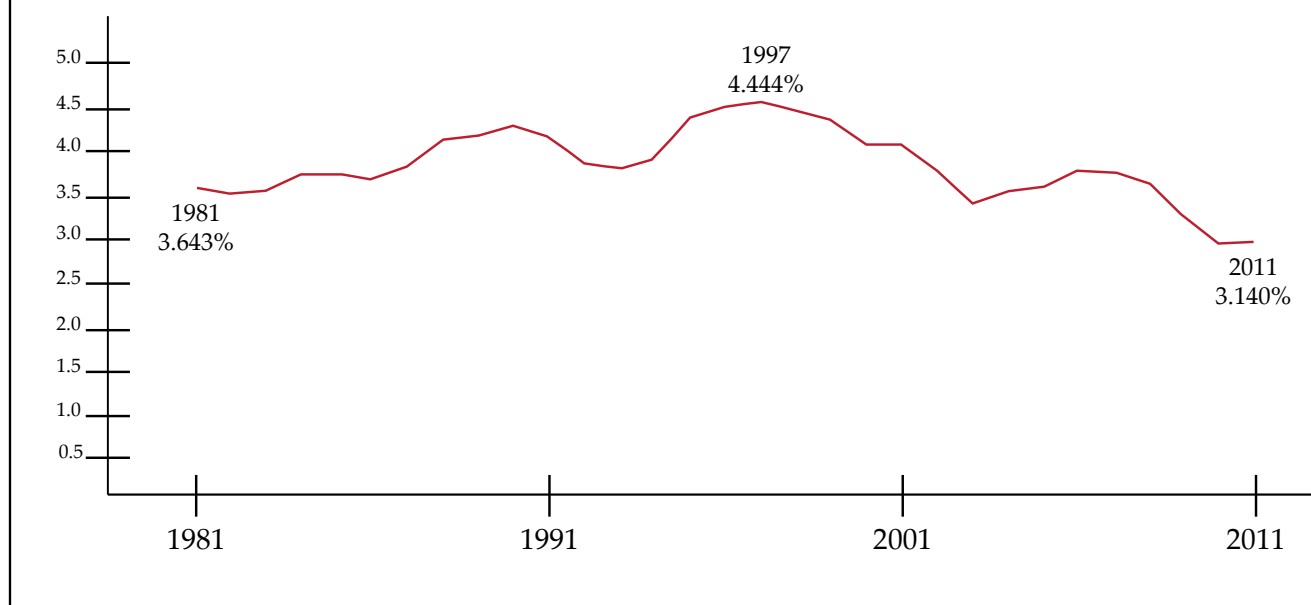
from \$6.1 billion to \$6.7 billion. However, that growth fails to keep pace with inflation. When adjusted for inflation, the purchasing power of general revenue in fiscal year 2010 was the equivalent of \$5.4 billion in fiscal year 2000 – a decline of nearly 12 percent over the decade.¹

Missouri general revenue has reached historic lows. Relative to the amount of state personal income – one measure of the economy – state general revenue is lower today than it was in 1981.²

¹Adjusted for inflation using the Consumer Price Index-Midwest for All Urban Consumers

²State net general revenues as reported in the relevant editions of the Missouri Executive Budgets; Missouri Personal Income annual data from the U.S. Department of Commerce-Bureau of Economic Analysis

State General Revenue as a Percent of the Economy



Although state general revenue is beginning to improve following the recession, the state will still not reach its fiscal year 2008 pre-recession level of general revenue until fiscal year 2016. Moreover, once revenue is adjusted for inflation, the state will not achieve FY 2008 levels of purchasing power until FY 2029.

Funding Cuts Impact Children, College Students & Missourians with Mental Illness

As a result of multi-year revenue losses, Missouri's ability to invest in public services has eroded. Over the last decade, reductions in state general revenue funding have resulted in the following:

- Missouri's "Foundation Formula", the policy which is used to calculate the state's financial obligation to local school districts, is now funded at a level that is \$336 million below its statutorily required level
- Eight out of 10 Missouri school districts cut staff in 2010, resulting in a loss of 2,500 classroom teachers
- As a percent of state to local district funding, Missouri is one of the lowest spenders nationally, ranking 47th lowest
- Missouri ranks 44th lowest among the states for the amount of state funding provided to higher education.
- The decline in state support for Missouri higher education institutions has resulted in steep increases in tuition and fees. For Missouri resident (or "in-state") students, the average rate of tuition for Missouri's public four year institutions has nearly doubled over the last decade, from an average of \$3,597 per year to an average of \$7,033 per year.
- Since 2007, Missouri reduced funding for non-Medicaid services for people with mental health needs by one-third, among the largest mental health reductions in the country.
- Community health centers are experiencing increased demand for services by uninsured Missourians, while their state general revenue funding has decreased over the last three years. State funding for the health centers dropped by two-thirds from \$9.7 million in fiscal year 2011 to \$2.8 million in fiscal year 2013.

Multi-year budget cuts place Missouri rankings well below most other states in the key areas of K-12 education, higher education and community health, particularly mental health. A well-educated and healthy population is essential to Missouri's future.

This report provides detailed data on state general revenue funding reductions (*it does*

not include an assessment of federal funding or earmarked revenue streams). **The intent is to inform policy makers, business and community leaders and Missouri residents about the results of the significant funding shortfalls and to serve as a foundation for future policy discussion and direction.**

Missouri's Schools Make Difficult Cuts as K-12 Education Funding Falls Short

Although Missouri's general revenue crunch has impacted all areas of the state's budget, of particular concern is the erosion of state funding available for local school districts. Local school districts rely on a combination of state general revenue funding, state lottery and gaming proceeds, federal funding and local funding that is often generated through local property tax revenues.

Missouri takes its investment in funding for elementary and secondary education seriously, directing 34 percent of available state general revenue dollars to K-12 education, which is \$2.9 billion in the most recently approved state budget.³ By comparison, federal funding for Missouri's K-12 education in the same budget amounts to slightly more than \$1 billion.

Even with a strong commitment to prioritize funding for K-12 education, as state general revenue has eroded over the last decade, so too has Missouri's investment in K-12 education:

Missouri's "Foundation Formula", the policy which is used to calculate the state's financial obligation to local school districts, is now funded at a level that is \$336 million below its statutorily required level,

The vast majority of Missouri school districts are reporting steep reductions in classroom teachers, instructional staff and other personnel,

Schools have reduced summer school offerings, cut professional development for teachers and reduced extra-curricular and after school programs.⁴

In addition to the Foundation Formula reductions, Missouri's investment in school transportation, Parents as Teachers and core development for teachers through the Career Ladder program has been cut dramatically.

³Missouri State Budget for Fiscal Year 2013, as approved in House Bill 2002, funding for the Department of Elementary and Secondary Education May 2012.

⁴Missouri Department of Elementary and Secondary Education, "Missouri School Budget Survey," August 2010.

Missouri Ranks Near the Bottom Nationally in Per Student Public Funding

Missouri's financial support of public education has historically lagged behind the national average. In 2011, Missouri ranked 36th lowest nationally in per student public funding for elementary and secondary education, providing \$9,422 in combined state and local funds per student. This is approximately \$1,400 less per student than the national average of \$10,826.⁵

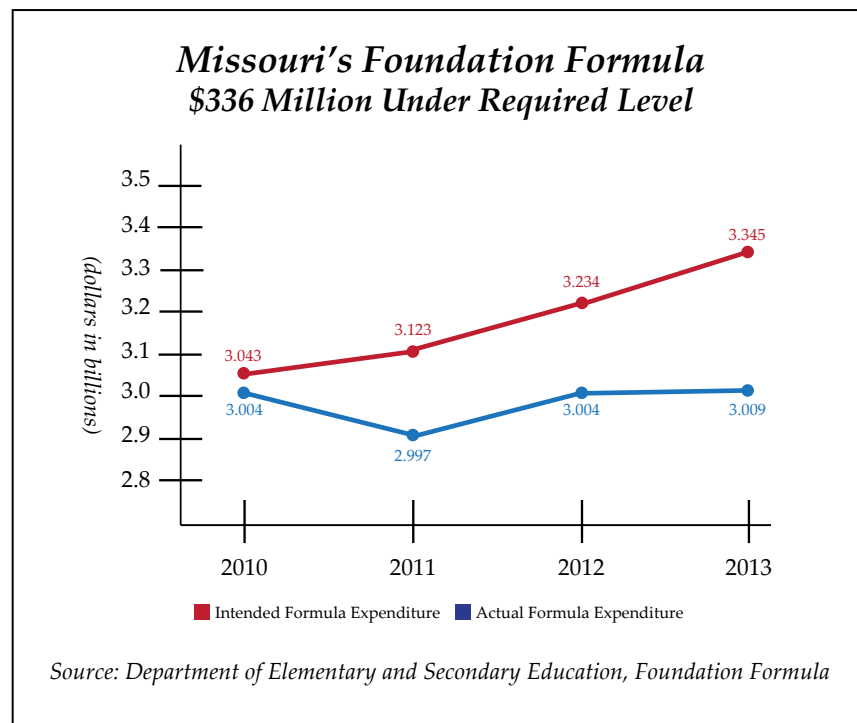
As a percent of state to local district funding, Missouri is one of the lowest spenders nationally ranking 47th lowest.⁶

Missouri's national rankings are expected to drop more as investment in state funding for local schools is diminished further. The vast majority of state funding for K-12 education flows through the Missouri "Foundation Formula," the policy which is used to calculate the state's financial obligation to local school districts.

Over the last decade, Missouri has consistently "underfunded" this formula. As a result of state underfunding of the formula in the early

2000s, the Missouri Legislature adopted a new Foundation Formula in 2006. The new formula was intended to distribute state funds to local school districts through an "adequacy target" which equaled \$6,131 per student in the 2011-2012 school year. The actual amount of state funding per student varies based on attendance rates, local property values and other modifiers. State lawmakers planned to phase-in the new formula over a seven year period from state fiscal years 2007 through 2013.

However, soon after adoption of the new Foundation Formula, drops in state general revenue resulted in continued under-funding of the formula requirements. For the 2012-2013 school year, Missouri will be \$336 million, or 11 percent, below the new statutorily defined formula requirements. The most recently approved budget includes \$3.009 billion for the foundation formula which includes slightly under \$2.64 billion in general revenue and \$370 million in earmarked lottery and gaming proceeds.⁷



⁵Per Pupil Public Elementary & Secondary School Expenditures from "State Rankings 2012", edited by Kathleen O'Leary Morgan and Scott Morgan, published by CQ Press.

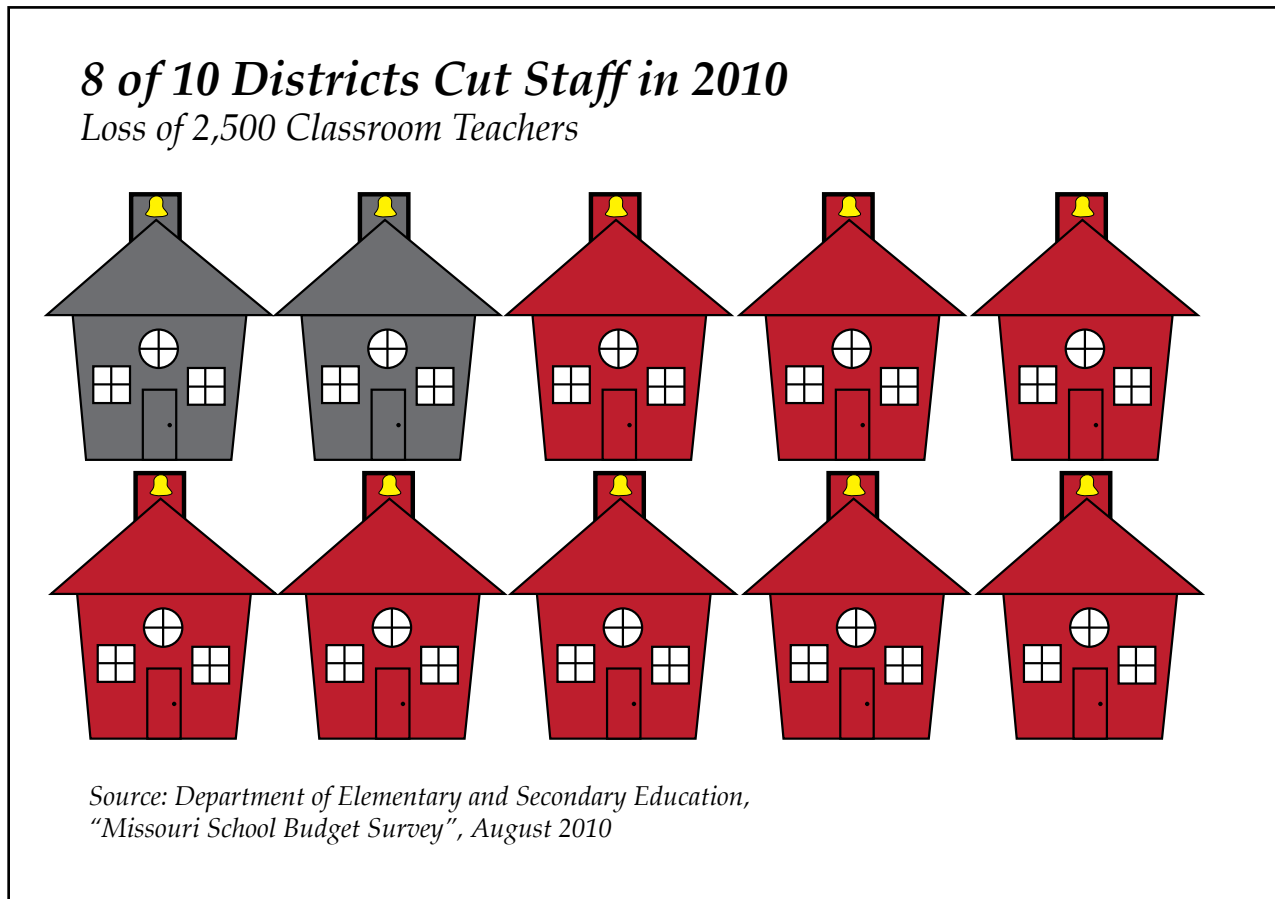
⁶National figures from the National Education Association "Rankings of the States 2011 and Estimates of School Statistics 2012."

⁷Foundation formula data from the Department of Secondary and Elementary Education, Foundation Formula Funding – FY 2013, provided by Chief Budget Officer, Shari LePage

Underfunding of Formula = Fewer Teachers, Larger Class Size & Program Cuts

As a result of underfunding the formula, Missouri's school districts are reporting an array of impacts on local education, including steep reductions in classroom teachers, cuts to summer school, extracurricular and after school programs. More than 80 percent of school districts (8 out of every 10) report reducing staff in 2010; 60 percent of school districts report reducing staff further in 2011. As a result, the number of classroom teachers in Missouri schools dropped from 69,845 in the 2007-2008 school year to 67,362 in the 2010-2011 school year.⁸

Overall, while student population has remained nearly unchanged, the number of teachers has dropped by more than 2,500 in the last four years.⁹ This trend may continue as more districts freeze hiring and/or eliminate staff in response to diminished state funding, leading to larger class sizes throughout the state.



⁸Department of Elementary and Secondary Education, "Missouri School Budget Survey", August 2010 and Interview with Dr. Ron Lankford, Deputy Commissioner for Fiscal and administrative services, Missouri Department of Elementary and Secondary Education.
⁹Department of Elementary and Secondary Education, "Statistics of Missouri Public Schools" 2010-11; Department of Elementary and Secondary Education, "Missouri Public School Accountability Report", December 2010.

Staff reductions are impacting schools across Missouri. For example:

- The Hickman Mills School District, located in Kansas City, has frozen salaries and cut 200 teachers and non-certified staff in just the last three years.¹⁰

- Scotland County School District, located in northeastern Missouri, has reduced support staff. Similar to other rural districts, the small district already has a limited number of teachers to provide instruction for the core subjects that the school is required to provide, so they have focused their staff reductions on other personnel rather than classroom teachers. The district has reduced the drama and language programs.¹¹

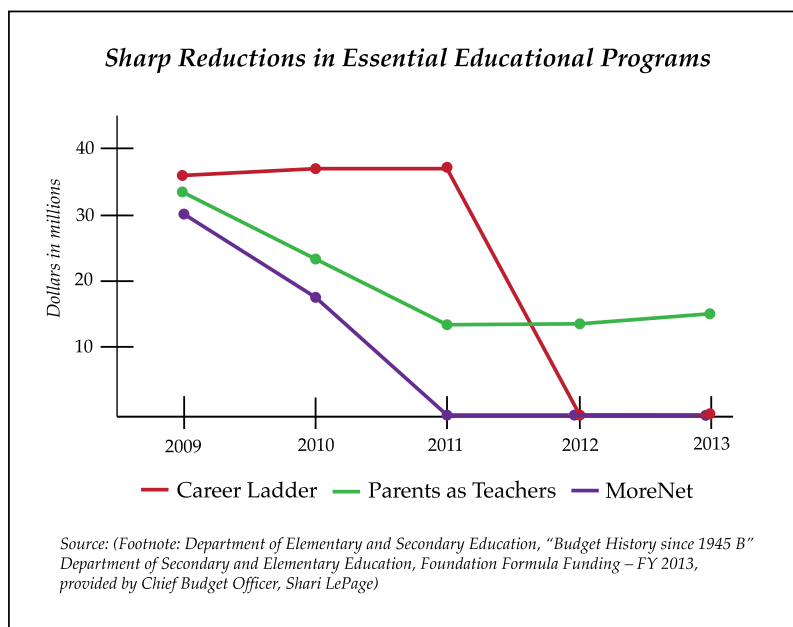
- Francis Howell School District, located in St. Charles, reduced staff by 130 since 2008. In the 2011-12 school year alone, the district cut 65 certified teachers and 35 non-certified personnel.¹²

In addition to cutting staff, most districts have enacted salary freezes and increased employee costs for benefits. Missouri teacher salaries are already among the lowest in the nation, ranking 48th lowest at \$46,411 in 2011.¹³ Scotland County District Superintendent Dave Shalley explains that “the cuts go beyond simple salary freezes. Increasingly the burden of healthcare premiums is shifting from districts onto teachers and their families.”¹⁴

Other Casualties of Funding Cuts: Student Transportation; Staff Training

In addition to underfunding the Foundation Formula, state funding for school transportation and Parents as Teachers (PAT) has been cut significantly since fiscal year 2009. State funding through the Department of Elementary and Secondary Education for the continued education and professional development for teachers

(known as the “Career Ladder” program), and MOREnet, the Missouri Research and Education Network which provides Internet connectivity, videoconferencing services and training to Missouri’s K-12 schools and other organizations, was eliminated.¹⁵



¹⁰Interview with Mitch Nutterfield, Associate Superintendent of Business, Hickman Mills School District

¹¹Interview with Dave Shalley, Superintendent of Scotland County School District

¹²Interview with Kevin Supple, Chief Financial Officer, Francis Howell School District in St. Charles, Missouri

¹³“State Rankings 2012, edited by Kathleen O’Leary Morgan and Scott Morgan, published by CQ Press

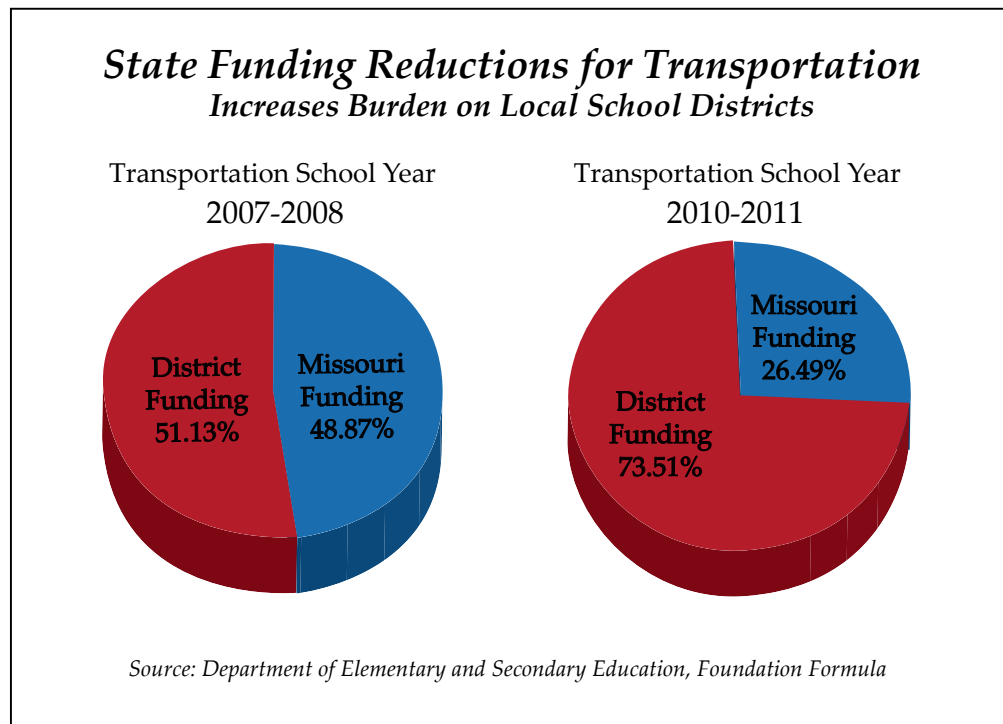
¹⁴Interview with Dave Shalley, Superintendent of Scotland County School District

¹⁵Department of Elementary and Secondary Education, “Budget History since 1945 B” Department of Elementary and Secondary Education, Foundation Formula Funding – FY 2013, provided by Chief Budget Officer, Shari LePage)

Student Transportation Cut 40 Percent

State funding for school transportation has been reduced by 40 percent since fiscal year 2009, from \$168 million to \$99.8 million in fiscal year 2013.¹⁶ As a result, school districts throughout

Missouri have had to dedicate an increasing portion of their local funding to core transportation services and away from other critical functions.



For many districts, particularly rural ones, state funding cuts to transportation have been dramatic. For example, Osage County R-III School District Superintendent Joe Scott explains that “Osage County R-III is an extremely rural district covering 225 square miles, with 18 bus routes serving 800 students.” (The District is located in Westphalia, Missouri). He goes on to highlight, “while most districts apportion far less, Osage district has to dedicate 10 percent of the District’s budget to transportation. Out of a budget of just \$6.5 million, \$700,000 is reserved for transportation of students.”¹⁷ Similarly, Morgan County R-I School District, covering Stover, Missouri and surrounding areas, is another very rural district. Morgan County

R-I dedicates 7.5 percent of its budget for transportation.¹⁸

Rural districts are not the only ones affected by reductions in transportation funding. Francis Howell School District maintains 160 routes transporting 12,000 children a day to and from school. In response to state budget reductions the district took extraordinary measures and reduced the school calendar by five days in order to save \$1 million. In place of the five school days, the district has added five minutes of classroom instruction time to each of the remaining school days.¹⁹

¹⁶Department of Elementary and Secondary Education, “Budget History since 1945 B” through FY 2012 provided by Deputy Commissioner Ron Lankford; FY 2013 data provided by Chief Budget Officer Shari LePage

¹⁷Interview with Joe Scott, Superintendent, Osage County R-III

¹⁸Interview with John French, Superintendent, Morgan County R-I School District

¹⁹Interview with Kevin Supple, Chief Financial Officer, Francis Howell School District in St. Charles, Missouri

Drop in Support for “School Readiness”

The Parents as Teachers (PAT) program helps parents develop skills to be their child’s first teacher in the critical early years of life in order to enhance school readiness for all Missouri children. It serves also as a first line of detection of potential developmental delays or other health problems in young children. PAT has evolved into an internationally recognized model, with proven results. Children who participate in Parents as Teachers:

- Are more advanced at age 3 in language, social development, problem solving and other cognitive abilities;
- Score higher on kindergarten readiness tests;

- Score higher on standardized measures;
- Achieve higher reading and math readiness at the end of kindergarten; and
- Require fewer remedial education placements in first grade.²⁰

Despite the significant service it provides, state funding for Parents as Teachers had been reduced by 60 percent since fiscal year 2009, falling from \$34.3 million that year to \$15 million in state fiscal year 2013, resulting in reductions to Parents as Teachers staff throughout the state, dramatically reducing the level of services offered to children and families.²¹

Dipping into Local Reserves

In an attempt to manage the steep declines in state funding, many districts are utilizing reserve funds or increasing local tax levies, or a combination of the two:

- Francis Howell School District expects to dip into its operating reserves beginning in fiscal year 2013 and each year thereafter through fiscal year 2017. The District’s reserve balance, which begins at \$40.4 million in 2013, will be reduced to \$3.7 million by 2017 and eliminated the following year.²²

- Morgan County R-I District reported that despite cutting 20 jobs since April 2012 and reducing benefits for remaining employees, the District continues to deficit spend.²³

- Osage County R-III passed an 80 cent tax levy in November of 2011 which saved current busing, vocational training, and prevented planned

reductions to teachers and administrative staff. Despite the effort, the District has been deficit spending the last three years, reducing their reserves from \$3 million to \$1.7 million.²⁴

- Scotland County R-I spent \$190,000 in reserves in the 2011-2012 school year and expects to spend an additional \$400,000 in reserves during the currently school year. The use of the reserves will reduce the district’s reserve balance to \$2 million.²⁵

²⁰Parents as Teachers, “How Does Parents as Teachers Support School Readiness”

²¹Department of Elementary and Secondary Education, “Budget History since 1945 B”

²²“2012-2013 Budget Workshop”, presentation by Kevin Supple, Chief Financial Officer, Francis Howell School District, May 2012

²³Interview with John French, Superintendent, Morgan County R-I School District

²⁴Interview with Joe Scott, Superintendent, Osage County R-III

²⁵Interview with Dave Shalley, Superintendent of Scotland County School District.

Increasing Reliance on Local Funding Compounds Uncertainty for Schools

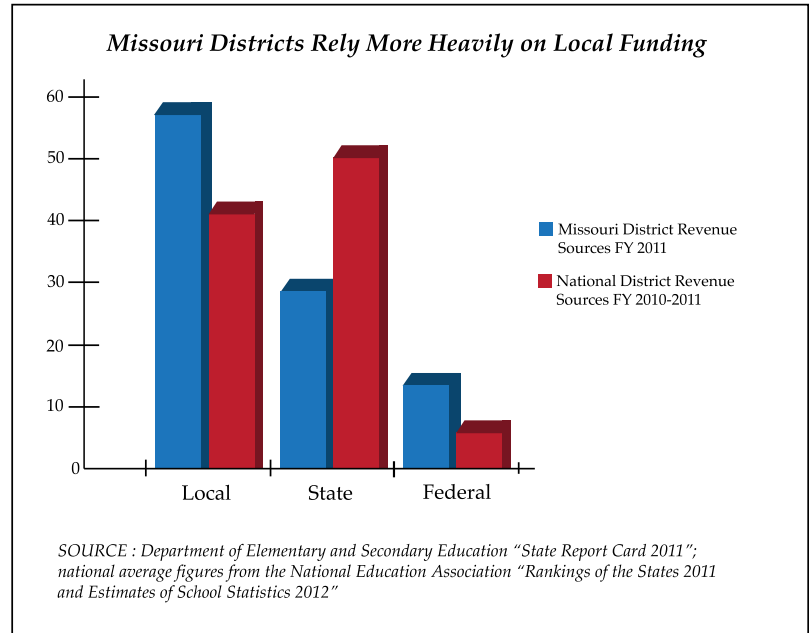
Underfunding of the State Foundation Formula, along with further cuts to state general revenue funded services including school transportation and Parents as Teachers, has resulted in an increasing reliance on local tax revenues. Missouri school districts now rely on 31 percent

The reliance on local funding increases the uncertainty for school districts because most local funding is derived from property taxes and is therefore dependent upon assessed valuations of property. As was recently experienced with the collapse of the housing bubble nationally, reliance on local property value assessment can prove risky. In fact, according to the Missouri State Tax Commission, since 2008, Missouri's total assessed property value has declined by \$2 billion.²⁷

The decline in property values is further compromising funding for K-12 school districts across Missouri. For example, Scotland County School District's assessed property valuations decreased by 40 percent between 2007 and 2010.²⁸ Simultaneously, state funding for the district dropped by 25 percent since 2009.²⁹ As a small, rural district, Scotland County is unable to make up for the combined losses. According to Scotland County Superintendent Dave Shalley, "(even) a full 50 cent increase to the property levy, which would require a vote during a time of severe drought, would only generate \$250,000, a drop in the bucket"³⁰

Similarly, local revenue for Hickman Mills School District has declined by 16 percent in the last

of their operating funds from state general revenue, and 59 percent of their operating funds from local sources, constituting a much higher reliance on local funding than other school districts nationally.²⁶



three years while state funding dropped by 25 percent.³¹ Hickman Mills, a low-income district serving a student body with over 80 percent of students taking part in the free and reduced lunch program, already has some of the highest local property tax levy rates in the state at \$5.47 per \$100 of assessed valuation.³²

In the Francis Howell School District, where local revenue comprises 55 percent of the District's funding, property tax revenue dropped by 8 percent between 2009 and 2011.³³ During the same period, state funding for the district dropped by nearly \$6 million, an amount equal to 10 percent of the district's total budget.³⁴

²⁶Department of Elementary and Secondary Education "State Report Card 2011"; national average figures from the National Education Association "Rankings of the States 2011 and Estimates of School Statistics 2012"

²⁷Missouri State Tax Commission, *State Tax Commission Annual Report-2011, Chapter IV*

²⁸Missouri State Auditor, *Review of Property Tax Rates*, reports from 2007, 2008, 2009, 2010

²⁹Department of Elementary and Secondary Education

³⁰Interview with Dave Shalley, Superintendent of Scotland County School District

³¹Missouri State Auditor, "Review of Property Tax Rates" reports from 2007, 2008, 2009, 2010 and Department of Elementary and Secondary Education

³²Interview with Mitch Nutterfield, Associate Superintendent of Business, Hickman Mills School District

³³Interview with Kevin Supple, Chief Financial Officer, Francis Howell School District in St. Charles, Missouri

³⁴Department of Elementary and Secondary Education

Drop in State Funding for Higher Education Puts Strain on Missouri Universities & Students

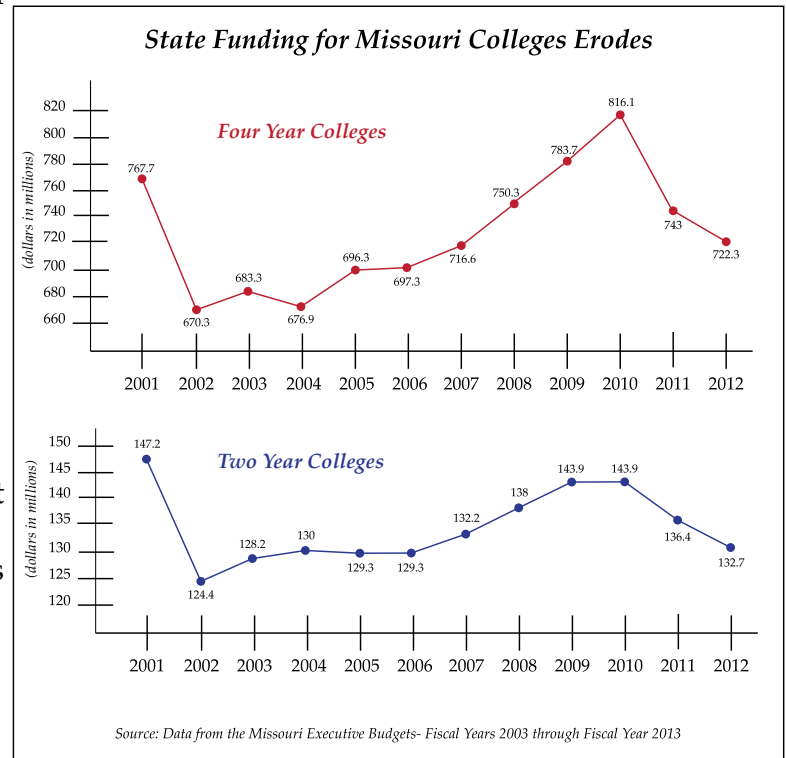
Among the hardest hit areas during the budget crunch has been state funding for Missouri Higher Education. Although Higher Education is allocated slightly more than 10 percent of the state's general revenue budget, Missouri ranks 44th lowest among the states for the amount of state funding provided to higher education.³⁵

Further, state spending as a percent of the overall public college budget has been declining over the last three decades. Nationally, state spending comprised 57 percent of public college budgets in 1980, but by 2010 state spending made up only 34 percent of public college budgets.³⁶ The national trend plays out in Missouri as well. In 1990, state funding provided 69 percent of the operating budget for the University of Missouri Columbia budget. By 2012 the percent had declined to slightly less than 33 percent.³⁷

Dramatic declines in state funding for Missouri's public institutions of higher learning over the last decade has led to substantial tuition increases, making it more difficult for Missourians to access higher education. Investing in an educated workforce is a key element of attracting and retaining business and industry and preparing Missourians for successful careers. State funding declines are eroding Missouri's ability to achieve either of these goals.

Missouri public higher education institutions rely on state government for a substantial, though declining, share of their funding, averaging more than 30 percent of their budgets.³⁸ However, over the last decade, state support for Missouri's four year colleges and universities and two year colleges has declined sharply. As shown in the chart below, funding for Missouri's four year public colleges and universities declined from \$767 million in fiscal year 2001 to \$722 million in fiscal year 2012.³⁹

However, that drop is even more dramatic when adjusted for inflation. The funding level of 2001, when adjusted for inflation over the last decade, would be the equivalent of \$992 million today.⁴⁰ As a result, the real purchasing power of state general revenue funding for Missouri's four year public colleges and universities has declined by more than 27 percent.



Similarly state funding for Missouri's public two year community colleges dropped from \$147.2 million in fiscal year 2001 to \$132.7 million in fiscal year 2012.⁴¹ The fiscal year 2001 funding level, when adjusted for inflation, would be the equivalent of \$190 million today.⁴² As a result, the real purchasing power of state general revenue provided to Missouri's public two year community colleges has declined by more than 31 percent.

³⁵Based on per capita expenditures in FY 2012 *Grapevine: An Annual Compilation of Data on State Fiscal Support for Higher Education*, Center for the Study of Education Policy, Illinois State University

³⁶"Postsecondary Education Opportunity: Public Policy Analysis of Opportunity for Higher Education", Number 241, July 2012

³⁷The University of Missouri: 2012 Budget Update

³⁸"Postsecondary Education Opportunity: Public Policy Analysis of Opportunity for Higher Education", Number 241, July 2012

³⁹Missouri Executive Budgets

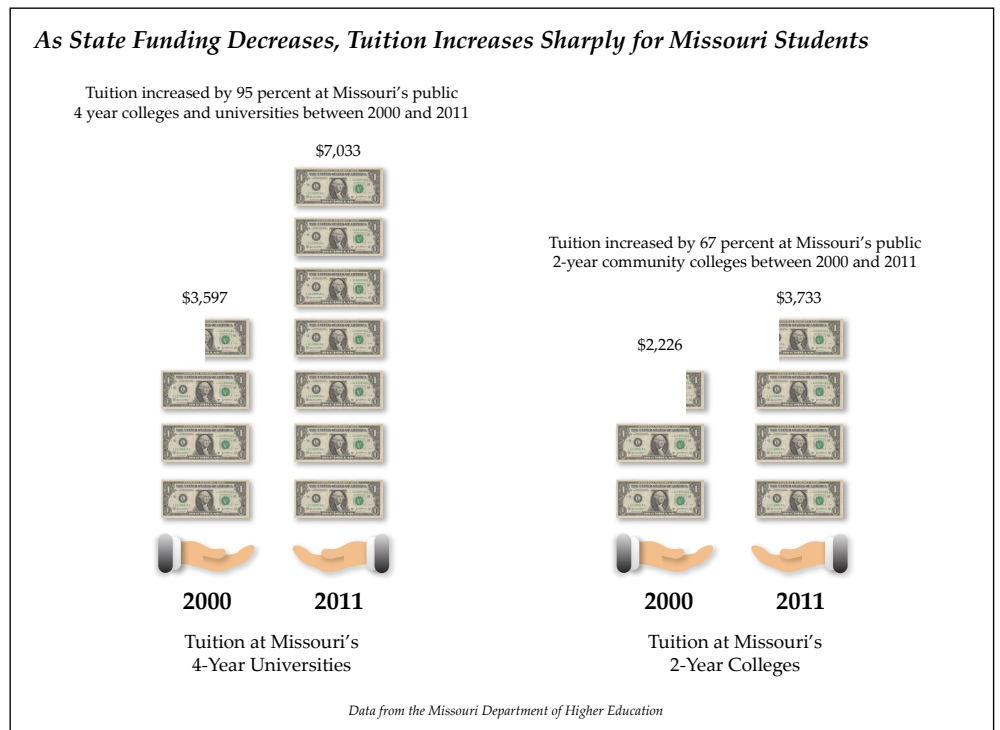
⁴⁰FY 2001 numbers adjusted for inflation using the United States Bureau of Labor Statistics inflationary calculations

⁴¹Missouri Executive Budgets

⁴²FY 2001 numbers adjusted for inflation using the United States Bureau of Labor Statistics inflationary calculations

Students Face Tuition Increase at Three Times Inflation Rate

One of the most important results of the decline in state support for Missouri higher education institutions has been steep increases in tuition and fees required of students. For Missouri resident (or “in-state”) students, the average rate of tuition for Missouri’s public four year institutions has nearly doubled over the last decade, from an average of \$3,597 per year to an average of \$7,033 per year.⁴³ Missouri’s public two year institutions have witnessed tuition and fee increases of nearly 68 percent.⁴⁴ Both increases far outpaced inflation which rose by 28 percent over the same period.⁴⁵ Tuition at Missouri’s public four year institutions increased by more than three times the rate of inflation in the last decade.



At the same time, financial aid is not keeping pace with the increased need brought about by tuition increases. Missouri currently funds four scholarship programs that provide financial assistance under limited guidelines:

- The Access Missouri Financial Assistance Program provides need-based scholarships to eligible Missouri residents. Under current law, students attending private four-year colleges and universities are eligible to receive up to \$4,600 in taxpayer-funded scholarships, students attending Missouri’s public four-year institutions are eligible to receive up to \$2,150 and students attending community colleges are capped at \$1,000.
- The Academic Scholarship Program, commonly referred to as the “Bright Flight Scholarships”

provide scholarships of up to \$3,000 for Missouri high school graduating seniors scoring in the top three percent of all Missouri students taking either the American College Test (ACT) or the Scholastic Aptitude Test (SAT) of the College Board. The students must use the scholarship to attend a Missouri college or university. The scholarships are renewable up to a total of ten semesters.

- Missouri’s A+ Schools Scholarship Program provides for two years of tuition reimbursement at public community colleges or vocational or technical schools for qualified students, who graduate from an A+ high school, earn a GPA of at least 2.5, have at least a 95 percent attendance record, and fulfill community service requirements.

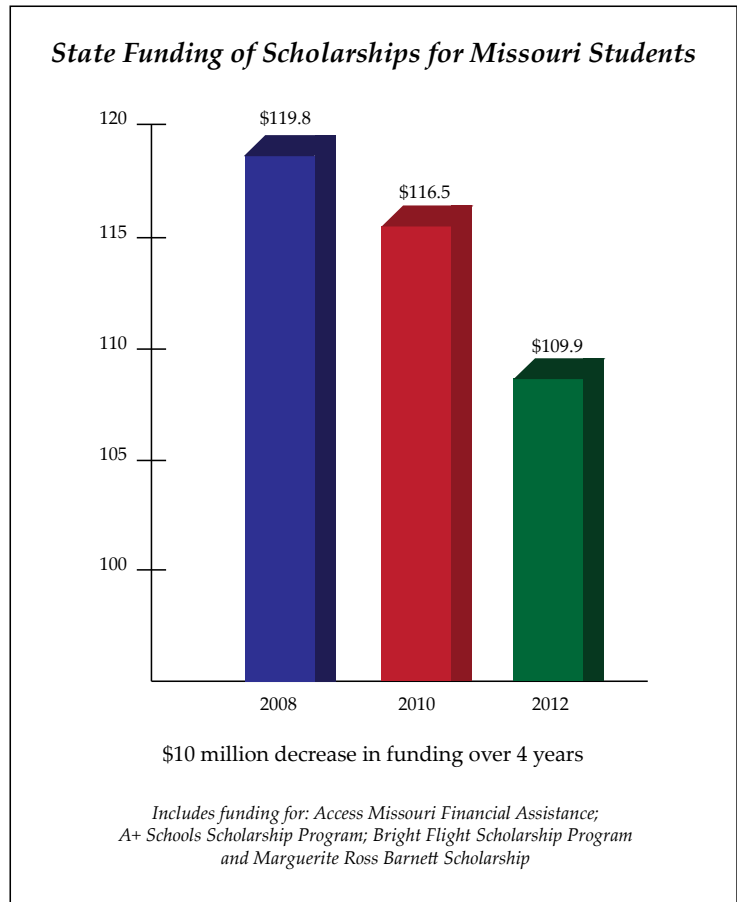
⁴³Missouri Department of Higher Education, amounts in nominal dollars

⁴⁴Missouri Department of Higher Education, amounts in nominal dollars

⁴⁵Midwest Consumer Price Index data from the United States Bureau of Economic

- The Marguerite Ross Barnett Scholarship Program provides grants to part-time undergraduate students who are employed and compensated for at least 20 hours per week and who have financial need. The maximum award may not exceed the amount of tuition paid by a part-time undergraduate Missouri resident at the University of Missouri.

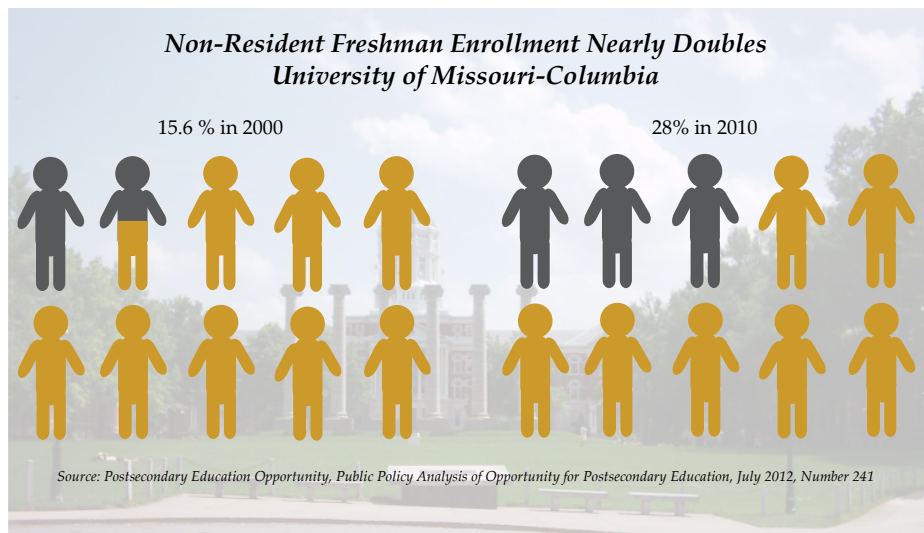
Funding for these four scholarship programs has declined overall by 6.6 million over the last two years at the same time that tuition has increased.



Non-resident Enrollment in Missouri Colleges Increases; Student Debt Also on Rise

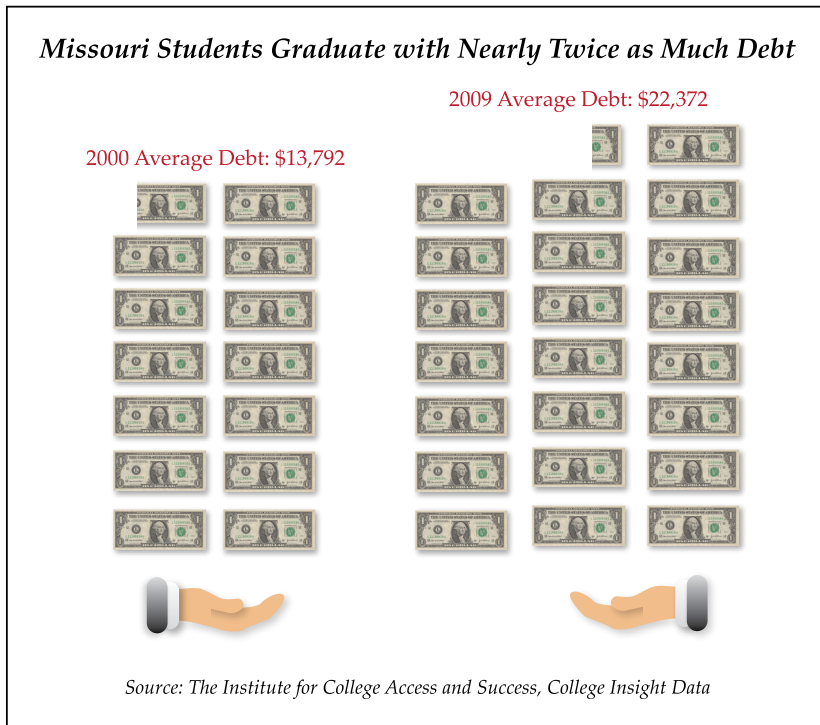
To make up for the drop in state funds, some institutions are reevaluating course offerings, reducing faculty and staff, or postponing investments in lab or course equipment. A more significant trend, however, is that an increasing number of public colleges are working to enroll larger numbers of students who pay higher

tuition rates, typically non-state-resident students who pay a larger out-of-state tuition rate, generally two to three times the amount paid by in-state students.⁴⁶ Over the last decade, the share of non-resident students entering the freshman class at the University of Missouri increased from 15.6 percent to 28.3 percent.⁴⁷



⁴⁶“Postsecondary Education Opportunity: Public Policy Analysis of Opportunity for Higher Education”, Number 241, July 2012

⁴⁷“Postsecondary Education Opportunity: Public Policy Analysis of Opportunity for Higher Education”, Number 241, July 2012



Another consequence of rising tuition rates is that a larger portion of Missouri students are graduating with a substantial amount of student loan debt. In 2010, 64 percent of Missouri college graduates (graduating from a 4 year public institution) left school with student loan debt averaging \$22,372. By comparison, in 2000, 55 percent of Missouri students graduated from four year public institutions with an average debt of \$13,792.⁴⁸

An Educated Workforce: A Key Factor in Economic Development

It is widely recognized that there is a positive correlation between the level of education attained and the potential career earnings. During the most recent economic struggle, the earning potential was greater for those with higher education and the loss of employment was much lower. In 2011, the portion of Americans who held a bachelor's degree attained median earnings of \$54,756 and just 4.9 percent of the same group was unemployed. By comparison, in the same year, the portion of Americans who held a high school diploma had median earnings of just \$33,176 and faced an unemployment rate of 9.4 percent.⁴⁹

Though many factors influence state economic development, it is clear that access to higher education can have a significant impact on personal income.

⁴⁸Data compiled by College Insight, Project on Student Loan Debt

⁴⁹Data from the United States Department of Labor, Bureau of Labor Statistics

Budget Cuts Diminish Access to Health and Mental Health Care for Missourians

State general revenue funding through the Departments of Health and Senior Services, Mental Health and Social Services provides Missourians with an array of services that ensure healthy, safe communities and a robust economy. The services are often matched with federal dollars and range from: preventing outbreaks of infectious disease through such action as mosquito extermination; youth health education; programs for seniors through Area Agencies on Aging; grants for Alzheimer's related services; and essential primary health and mental health care for children, adults, seniors and people with disabilities. Approximately 24 percent of the state general revenue budget funnels through these three departments specifically for funding this array of health and mental health services and programs for Missourians.⁵⁰

Health and mental health services are not only Missouri's first line of defense against chronic

or contagious disease, but they proactively prevent potential health issues in order to minimize painful and expensive spillovers from the private into the public sphere of life. By addressing future and treating current health and mental health issues with evidence-based policy and programs, the community is better able to serve all Missourians while minimizing community costs of treatment. When policy and programs are inadequately funded, multiple studies find that the taxpayer pays many times over while the entire community and economy suffer great burden.

Over the last decade, however, Missouri's investment in community health and mental health has dissipated, resulting in increased need that will compromise Missouri's communities and economy. Today, 23 percent of Missourians, nearly one in four, lack access to primary care.⁵¹

Inadequate Funding for Mental Health Services While Need Continues to Grow

One in every four Missourians is affected by mental illness. In response, Missouri's Department of Mental Health provides services to hundreds of thousands of Missourians who are living with developmental disabilities or mental illness.⁵² Partnering with hundreds of community agencies across Missouri, the Department of Mental Health provides:

- comprehensive psychiatric services to adults and children with severe mental illness;
- services to assist Missourians with developmental disabilities such as cerebral palsy, autism and mental retardation to live independently and productively; and
- clinical treatment and recovery supports to Missourians struggling with substance abuse or compulsive gambling.

As critical as these services are to Missourians, over the last several years they have faced significant cuts due to dwindling state general revenue. In particular, services funded by state general revenue (those that are provided to individuals who are not eligible for Medicaid, referred to as "non-Medicaid" services), have faced significant reductions. Non-Medicaid community services have been cut by one-third since fiscal year 2007, among the largest mental health reductions in the country.⁵³ Missouri made the 13th largest cuts to mental health services in the nation, according to the National Alliance on Mental Illness.⁵⁴ Missouri has fallen far below other states in funding for mental health services, providing \$86.15 per capita compared to the national average of \$122.90.⁵⁵

⁵⁰Missouri Senate Appropriations Committee, "2011 Annual Fiscal Report: Fiscal Year 2012"

⁵¹"State Rankings 2012", edited by Kathleen O'Leary Morgan and Scott Morgan, published by CQ Press

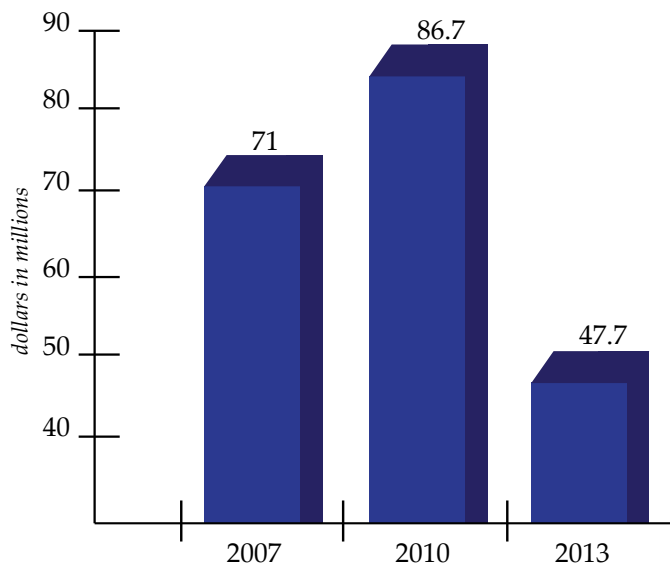
⁵²Missouri Department of Mental Health, "At a Glance", 11/08

⁵³Data on funding fiscal years 2007 – 2012 from the Missouri Department of Mental Health.

⁵⁴"State Mental Health Cuts: The Continuing Crisis" November 2011.

⁵⁵National Alliance on Mental Illness. "State Mental Health Cuts: The Continuing Crisis" November 2011

Missouri Funding for Community Mental Health Cut by One-Third



Source: Department of Mental Health data, General Revenue Funding for Non-Medicaid Services FY 2007 – FY 2013

Yet there is every indication that the need for these services well exceeds the available resources. Between 2007 and 2010, the number of people receiving mental health services from state funded mental health systems increased by 15 percent nationwide.⁵⁶ The diminished investment in mental health funding means that the Department of Mental Health is only able to serve a fraction of the Missourians in need of services. In fiscal year 2010, the Missouri Department of Mental Health served:

- 16 percent of the estimated Missouri children with mental illness: 16,093 of 100,194 children;
- 24 percent of the estimated adults with mental illness: 60,177 of 246,037 adults;
- 28 percent of the estimated Missourians with a developmental disability: 31,000 of 108,000 Missourians; and
- 12 percent of the estimated Missourians struggling with substance abuse: 54,241 of 439,000 Missourians⁵⁷

As a result of the funding reductions, community providers report that they are struggling to deliver adequate services to those in need. In a Missouri Budget Project survey of more than 40 community health and mental health providers across the state, providers reported “less access to services to those who are not severely mentally ill.” Funding reductions are forcing providers to be more selective with their patient base and limit the number of patients they see who are “non-Medicaid.” More information from the provider survey is detailed below.

Only One in Five Missourians with Mental Health Needs Get Services



161,511 of 893,231 Missourians who need mental health services received them in fiscal year 2010 from the Department of Mental Health

Source: Department of Mental Health data

⁵⁶National Association of State Mental Health Program Directors “Proceedings on the State Budget Crisis and the Behavioral Health Treatment Gap: The Impact on Public Substance Abuse and Mental health Treatment Systems”

⁵⁷Department of Mental Health, provided by Director of Budget and Finance, Lynne Fulk

Missouri Significantly Reduces Public Health Coverage For Parents, Seniors & People with Disabilities

At the same time as the mental health funding reductions, the state budget struggles resulted in significant erosion of funding for Medicaid over the last decade. Beginning in 2002, state lawmakers passed a series of eligibility changes to Medicaid which reduced coverage in particular for low income parents, people with disabilities and seniors:

- In 2002, eligibility for Medicaid for parents was reduced from 100 percent of the Federal Poverty Level (FPL) to 77 percent FPL, again reduced to 75 percent FPL in 2004 and finally reduced in 2005 to the TANF eligibility level, the lowest allowable eligibility under federal law, equal to \$292 per month for a family of three, the equivalent of 18 percent of FPL.

- In 2005 eligibility for seniors and people with disabilities was also reduced from 100 percent FPL to 85 percent FPL.

<i>What Poverty Means in 2012</i>	
Number of People	Federal Poverty Guideline Annual Income
1	\$11,170
2	\$15,130
3	\$19,090
4	\$23,050

As a result of the eligibility changes, Medicaid coverage in Missouri dropped by 148,875 people between July 2004 and July 2006. This includes 91,576 fewer parents served under Medicaid.

Nearly 150,000 Missourians Lose Medicaid Coverage

	<u>July 2004</u>	<u>July 2005</u>	<u>July 2006</u>
Missourians Covered by Medicaid (MO HealthNet Enrollees)	964,649	939,011	815,774
Includes:			
Persons with Disabilities	150,217	159,650	140,900
Elderly	79,650	80,764	77,728
Custodial Parents	177,786	142,717	86,210
Children	541,127	538,310	488,549
Pregnant Women	15,869	17,570	22,387

Source: Missouri Department of Social Services Caseload Data

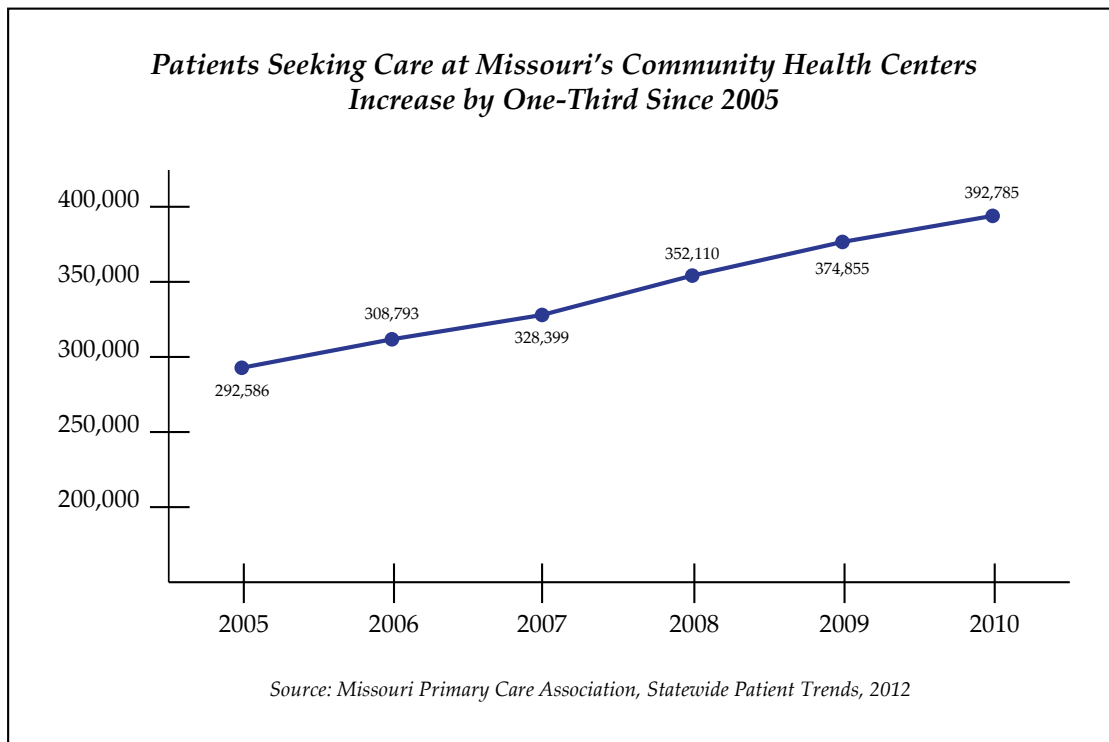
Health Providers Struggle to Meet Increased Patient Needs While Coping with Decreased Funding

Following the 2005 Medicaid eligibility changes in particular, health providers experienced significant shifts in their patient composition. Between 2004 and 2006, the percent of Medicaid covered patients at community health centers (federally qualified health clinics) dropped by 25 percent; simultaneously the percent of uninsured patients utilizing community health centers increased by 29 percent. Clinics struggled to meet the increased demand from a population that was largely unable to pay the cost of care; some instituted larger fees for patients, created wait lists for services and reduced staff.⁵⁸

Similarly, between 2004 and 2006, Missouri's hospital emergency rooms experienced a significant increase in uncompensated visits. The number of emergency room visits by uninsured

Missourians increased by 85,000 in the two year period. In addition, hospital uncompensated care costs increased by 37 percent from \$429 million in 2004 to \$591 million in 2006.⁵⁹

Although facing significant increased demand for services by uninsured Missourians, community health centers faced additional declines in state general revenue funding over the last three years. State funding for the health centers dropped by two-thirds from \$9.7 million in fiscal year 2011 to \$2.8 million in fiscal year 2013.⁶⁰



⁵⁸Health Affairs, "Missouri's 2005 Medicaid Cuts.", Stephen Zuckerman, Dawn M. Miller and Emily Shelton Page, 28(2), 2009

⁵⁹Health Affairs, "Missouri's 2005 Medicaid Cuts." Stephen Zuckerman, Dawn M. Miller and Emily Shelton Page, 28(2), 2009

⁶⁰National Association of Community Health Centers, "State Policy Report #39" Nov. 2011; Missouri Primary Care Association, "2012 State Legislative Priorities", Health Center, Winter 2012, O'Neill, Danny

As a result of the funding reductions, community health and mental health providers are reporting that they are struggling to deliver adequate services to those in need. In a 2012 Missouri Budget Project survey of 43 community health and mental health providers located across the state, providers reported a number of themes. While this information is not necessarily indicative of what is occurring at all providers in the state due to the relatively small sample, the information reported does point to a struggling safety net for health and mental health care for Missourians. State general revenue funding reductions are forcing providers to be more selective with their patient base and limit the number of patients they see who are "non-Medicaid" eligible.

- 26 percent of the mental health care providers who responded to the survey indicated a decrease in the number of patients served between 2006 and 2011.
- 18 percent of providers who responded to the survey indicated reductions in appointments available for patients who are not eligible for Medicaid and are not covered by other insurance.

Providers across the state continue making heroic efforts to provide for individuals and families in need. But despite their greatest efforts and facing uncertain funding, indications are beginning to emerge that some patients are falling through the cracks. In addition to decreasing the number of non-Medicaid eligible patients they are seeing, some providers also reported steep increases in wait lists for services. Of those responding to the survey, one provider reported that their wait list quadrupled between 2006 and 2011 growing from 50 patients to 250 patients. Another provider that did not have a wait list for services in 2006, was forced to create one by 2011 containing 140 patients.

The following comments from providers responding to the survey indicate what inadequate funding means for patients:

- "Less access to services to those who are not severely mentally ill and not covered by Medicaid/MC+."
- "We will ultimately not be able to provide ongoing services to clients without Medicaid"

"Due to mental health cuts, we are simply increasing emergency department costs, increasing acute care costs and adding to the caseloads in our criminal, juvenile justice and corrections systems. Toss in increased homelessness and unemployment among these individuals, and costs in treating the homeless and in the unemployment service area are increasing as well."

- Laura Nelson, M.D. mental health scholar and president of the board of the National Association of State Mental Health Program Directors (National Association of State Mental Health Program Directors "Proceedings on the State Budget Crisis and the Behavioral Health Treatment Gap: The Impact on Public Substance Abuse and Mental Health Treatment Systems")

- "We have had to limit the services we provide in our service area to be able to see the growing number of uninsured and underinsured individuals in our communities."
- "Providing less counseling services, community education, and other non-Medicaid services"
- "The center has very limited access to all services especially dental and is trying to attract more Medicaid and insured persons"
- "More clients going without service or getting only crisis services."

All Missourians Pay More When Health Care Access Diminishes

Fourteen percent of Missourians--about one of every eight --was uninsured during the years 2009– 2010, according to Census data.⁶¹ Beyond the personal toll of unattended health and mental health needs, decreasing state funding for mental health care, community health centers and eligibility for insurance coverage through Medicaid impacts all Missourians. Missourians pay more to compensate hospitals for more expensive emergency room treatment by those lacking health insurance and have higher costs associated with the criminal justice system due to untreated mental illness. Diminished access to health care services takes an economic toll on the entire state.

Between 2004 and 2006 alone, hospital uncompensated care costs to cover uninsured Missourians increased by 37 percent in Missouri from \$429 million in 2004 to \$591 million in 2006.⁶² In addition, the American Hospital Association reports that drops in funding for community mental health treatment has resulted in dramatic increases in the average length of hospital stays for patients requiring emergency psychiatric treatment.⁶³ Both are indicators that Missourians are paying for more expensive and less effective care due to decreased investment in health and mental health services.

Lack of investment in mental health services is also likely to spill over into other areas of the public domain, particularly the criminal justice system. In a 2010 study conducted by the National Sheriffs' Association and Treatment Center Advocacy, researchers found a strong correlation between states spending less on mental health services and having more mentally ill people in their prisons. In 2007, 19.7 percent of prisoners in Missouri's five state prisons were suffering from mental illness - one in every five prisoners. Not only do

prisoners with mental illness cost twice as much to incarcerate as the general population of offenders, they also have a higher rate of reentry.⁶⁴

Untreated health and mental health also takes an economic toll. According to a recent study by the Health Care Foundation of Greater Kansas City, 40 percent of serious mental illness goes untreated in Missouri resulting in an economic cost of \$2.5 billion annually. Thirty-six percent of that cost falls upon employers in the form of lost productivity.⁶⁵ Mental illness creates more days of work loss and work impairment than many other chronic conditions such as diabetes, asthma, and arthritis.⁶⁶ Other studies also indicate a significant economic impact of untreated health and mental health needs. According to the Milken Institute, just seven common chronic diseases and mental illness cost Missouri at least \$28.2 billion dollars in 2003.⁶⁷

Mounting evidence also points to the unyielding fact that public investment in evidence- based health and mental health services reaps significant economic and social savings for both businesses and taxpayer. Investment in primary health care by funding community health centers is proven to be cost effective. A 2006 study found that patients who utilized health centers incurred an annual medical expense of \$3,500 as opposed to \$4,594 for non-users.⁶⁸ Similarly, the estimated cost-benefit ratio for investment in substance-abuse treatment is one dollar in investment to seven dollars in future healthcare savings alone.⁶⁹ Access to mental health treatment is also proven to have a high rate of success. For example, the rate of successful treatment of bipolar disorder is 80 percent, major depression is 65 percent, and schizophrenia is 60 percent. By comparison, the rate of successful treatment for heart disease is just 52 percent.⁷⁰

⁶¹Kaiser Family Foundation, *State Health Facts*.

⁶²Health Affairs, "Missouri's 2005 Medicaid Cuts" Stephen Zuckerman, Dawn M. Miller and Emily Shelton Page, 28(2), 2009

⁶³American Hospital Association, "Behavioral Challenges in the General Hospital: Practical Help for Hospital Leaders", 2007

⁶⁴National Sheriffs' Association and Treatment Advocacy Center, "More Mentally Ill Persons are in Jails and Prisons than Hospitals: A Survey of States", May 2010

⁶⁵Health Care Foundation of Greater Kansas City, "Cost of Untreated Mental Illness in Missouri", March 2012

⁶⁶National Business Group on Health, "An Employers Guide to Behavioral Health Services", 2010

⁶⁷Milken Institute, "The Economic Burden of Chronic Disease on Missouri", Oct. 2007

⁶⁸Journal of Ambulatory Care Management, "Cost Savings Associated With the Use of Community Health Centers.", Richard, Patrick PhD, MA; Ku, Leighton PhD, MPH; Dor, Aoi PhD; Tan, Ellen MSc; Shin, Peter PhD, MPH; Rosenbaum, Sara JD. January/March 2012 - Volume 35 - Issue 1 - p 50–59

⁶⁹NASMHPD "Proceedings on the State Budget Crisis and the Behavioral Health Treatment Gap: The Impact on Public Substance Abuse and Mental Health Treatment Systems"

⁷⁰Missouri Department of Mental Health, "Mental Health Insurance Parity" Feb 11, 2004.



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3534 Washington Ave
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