

# Missouri Budget 101



## MBP



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### MISSOURI BUDGET PROJECT

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# INTRODUCTION

Each day, every Missourian is affected by the General Assembly’s budget decisions - when you visit your local hospital, your child goes to school, or you just drive. We also all help to pay for these services by contributing sales tax when we purchase retail items and when we pay state income tax.

The state budget is a collection of trade-offs. The state constitution requires that the budget be balanced, so the state can only spend as much money as it collects through taxes, fees, and other sources. That means priorities must be weighed against each other.

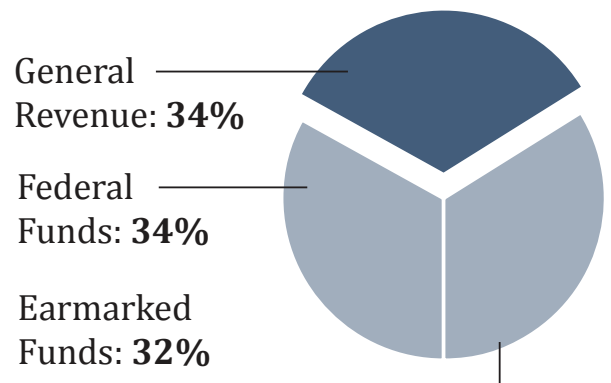
Policymakers set tax policy, which influences how much the state has to fund services, then they decide how much to spend on the wide variety of critical public services, including education, infrastructure, and services for children and seniors. Ideally, the state budget is a reflection of our public priorities.

# STATE REVENUE

## Sources of State Funding

Each year, the state takes in and spends about \$26 billion. One-third of these funds come from the federal government with very specific purposes. Another third is dedicated to specific state purposes, such as transportation. The last third, called General Revenue, is what the General Assembly has direct control over and allocates to different state needs.

## MISSOURI STATE BUDGET Fiscal Year 2014

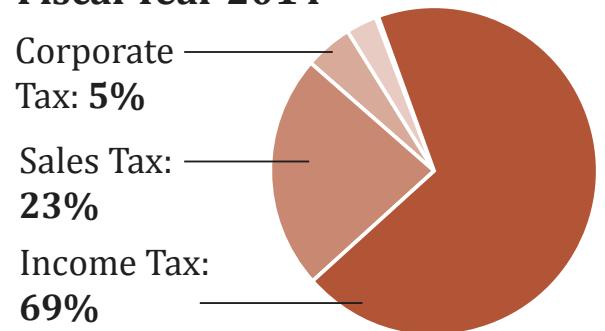


## Missouri State General Revenue Sources

The majority of Missouri General Revenue comes from the personal income tax. Another 23% comes from the state sales tax, and smaller contributions come from other sources including corporate income tax.

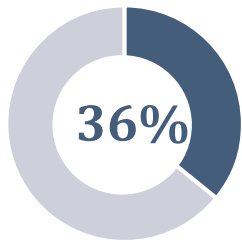
Examples of taxes that are not deposited into the General Fund include the property tax, which is levied and collected by local governments, and the gasoline tax, which is deposited into a segregated fund used for transportation purposes. This guide will focus on taxes deposited into the General Fund, which are shown in the charts to the right.

## GENERAL REVENUE Fiscal Year 2014



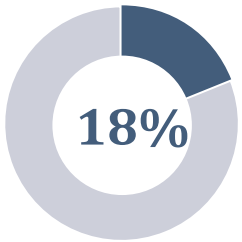
Source: Missouri Office of Administration

# APPROPRIATIONS BY FUNCTION (GENERAL REVENUES)



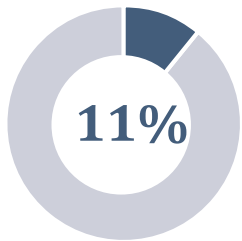
## EDUCATION (ELEMENTARY & SECONDARY)

Education makes up 36% of GR state spending each year. The School Funding Formula, which was passed into law in 2005, has been underfunded by over \$500 million. K-12 and Postsecondary spending combines for over 45% of the General Revenue Budget.



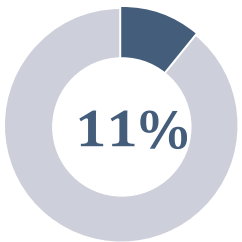
## SOCIAL SERVICES

While Social Services, such as Medicaid, TANF and SNAP, make up more than one-third of overall spending, most of these funds actually come from the federal government and require little funding from Missouri taxpayers. Some require a percentage match while others require only that administration of the program be carried out by the state.



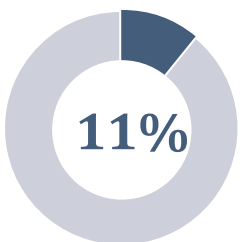
## HEALTH & MENTAL HEALTH

Just over 11% of all state spending, and a little more than 11% of general revenue, goes toward Health & Mental Health. Many of the services that ensure Missouri seniors can stay in their communities and that serve people with mental illness have been flat funded or cut in the last decade. Due to these reductions in spending power, it is estimated that currently less than one in five Missourians with mental illness are receiving the services they need.



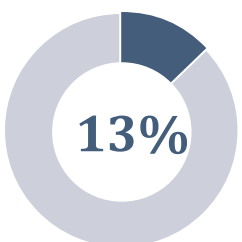
## HIGHER EDUCATION

Funding for Missouri's public universities and community colleges makes up about 11% of general revenue spending. For years, funding to higher education has been flat or reduced, causing drastic increases in tuition.



## JUDICIARY, PUBLIC SAFETY & CORRECTIONS

Combined, these three functions of state government make up only 6% of overall state spending and 11% of general revenue spending. While they are seen as essential services, their relatively low cost can mean that funding is stretched very thin during years when revenues are down.

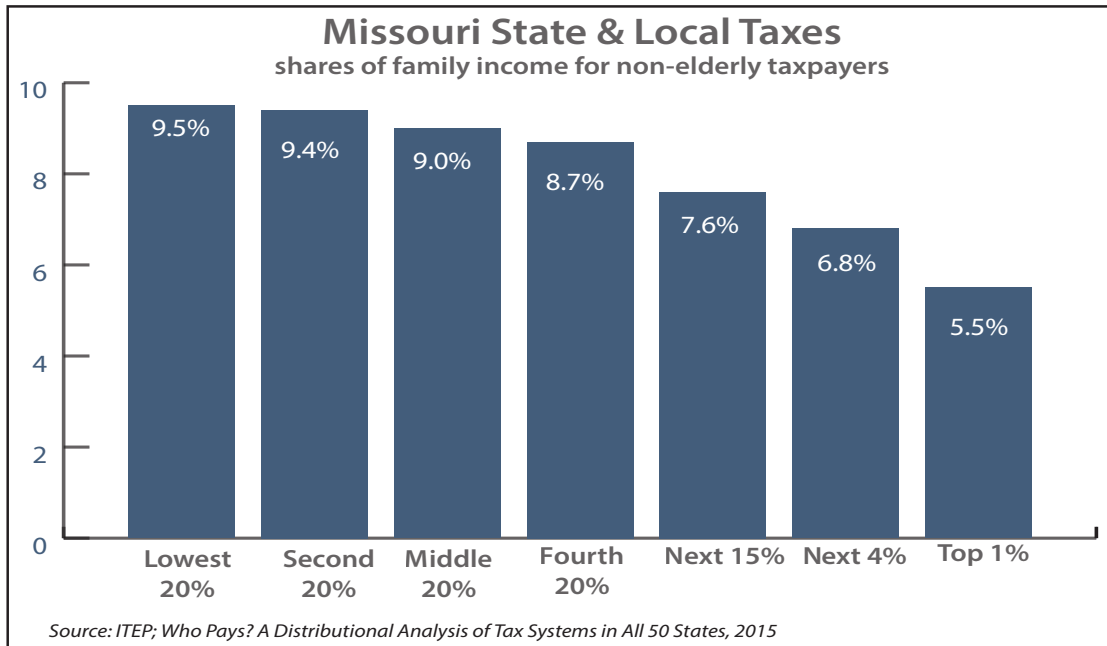


## ALL OTHER STATE FUNCTIONS

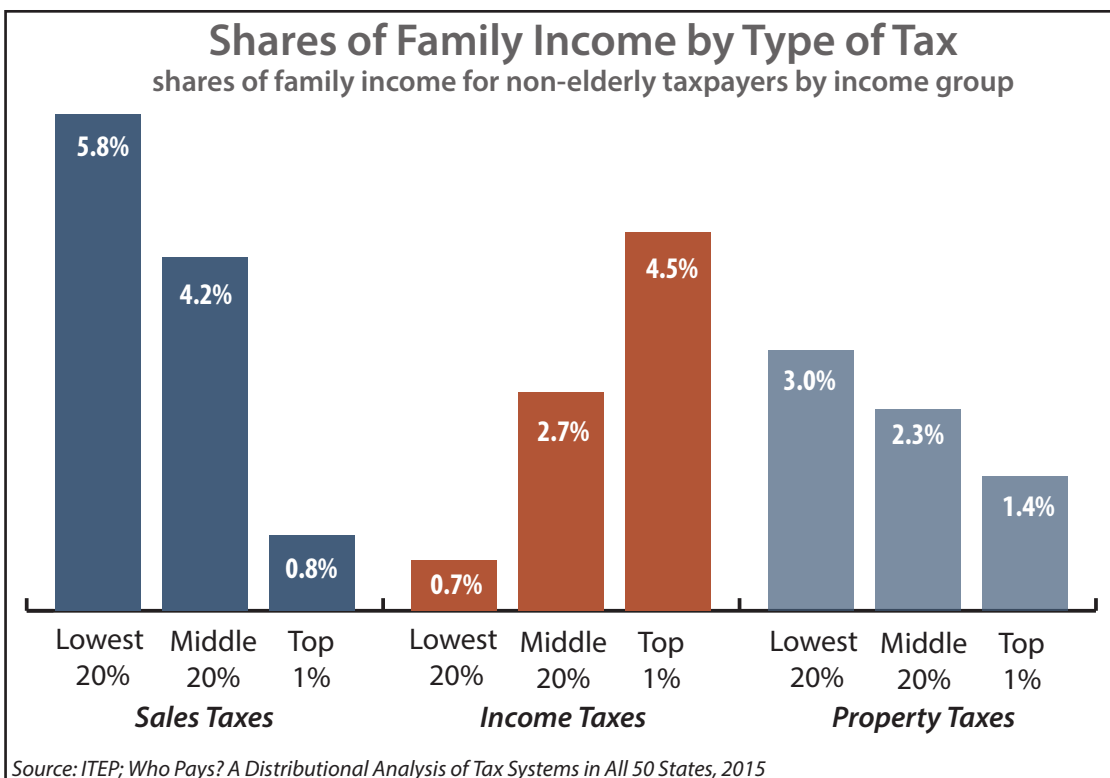
All other state functions combined account for another 15% of the state's general revenue budget. The Departments of Agriculture, Economic Development, Labor, Insurance, Conservation and Natural Resources, as well as all Employee Benefits, fall into this category.

# MISSOURI TAXES: WHO PAYS?

A sound tax system should be simple and treat people fairly. It should not place an undue burden on those living on fixed incomes, such as low-income seniors and people with disabilities. While this seems logical, Missouri's tax system is regressive, meaning that those with lower incomes actually pay a proportionately higher amount in state and local taxes than do those with higher incomes.



Different taxes have different characteristics. Sales and excise taxes are fairly regressive, as shown in the chart below. Missouri's income tax is progressive: even if the brackets are unreasonably low, higher income people typically pay higher shares of their income. The property tax, which is a local tax, is mildly regressive. Combining several taxation methods results in a somewhat fairer system, lower rates overall, and a more stable revenue source.

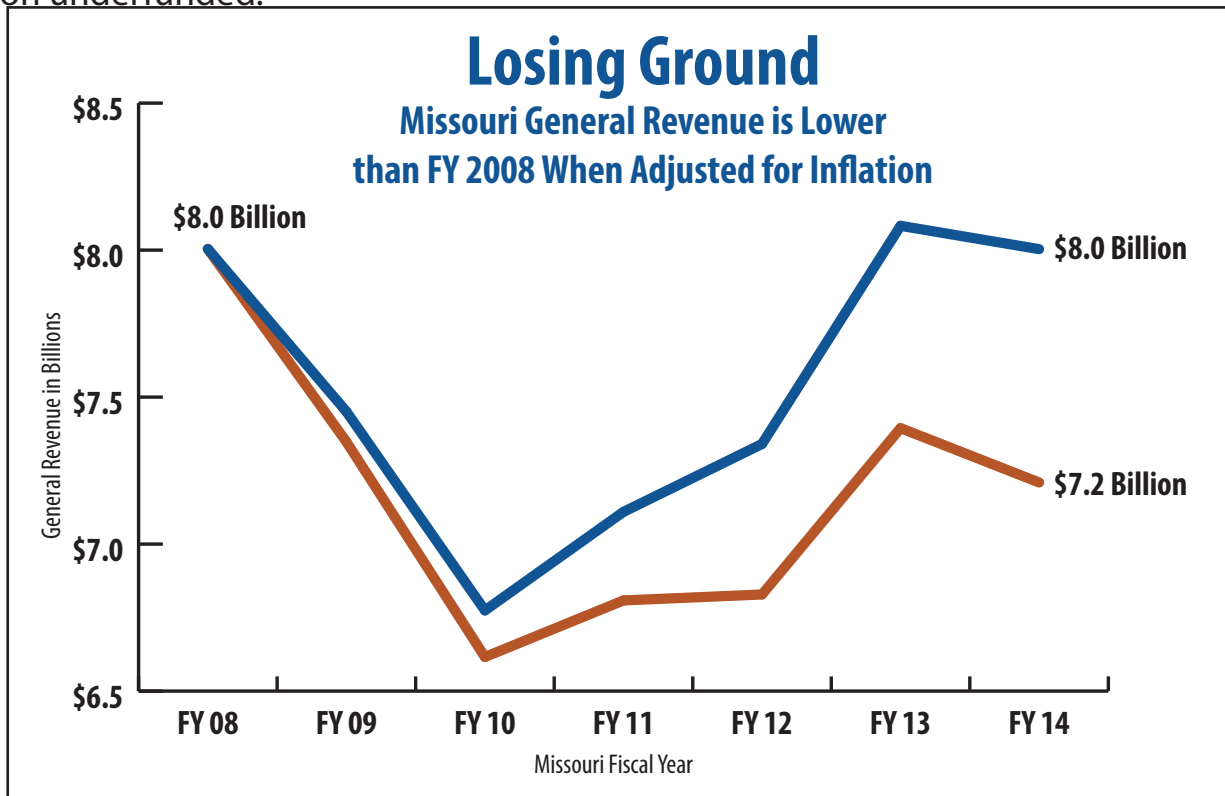


## KEEPING UP WITH CURRENT NEEDS

The state budget has to increase every year just to maintain funding for programs such as education and health care, even with no new services added.

Several factors impact spending that the state has no control over. Factors like population growth, inflation, and an increase in health care spending mean that the state budget must grow every year just to keep providing the same level of services. A “flat” budget with no increase in spending would in fact decrease services available to struggling families since the costs of providing those services continue to increase.

Even as revenue has begun to recover since the recession, inflation has caused the amount of buying power of the General Revenue Budget to decrease, making funding vital programs impossible. As an example, the school funding formula is currently over \$500 million underfunded.



## COMPARING MISSOURI TO OTHER STATES

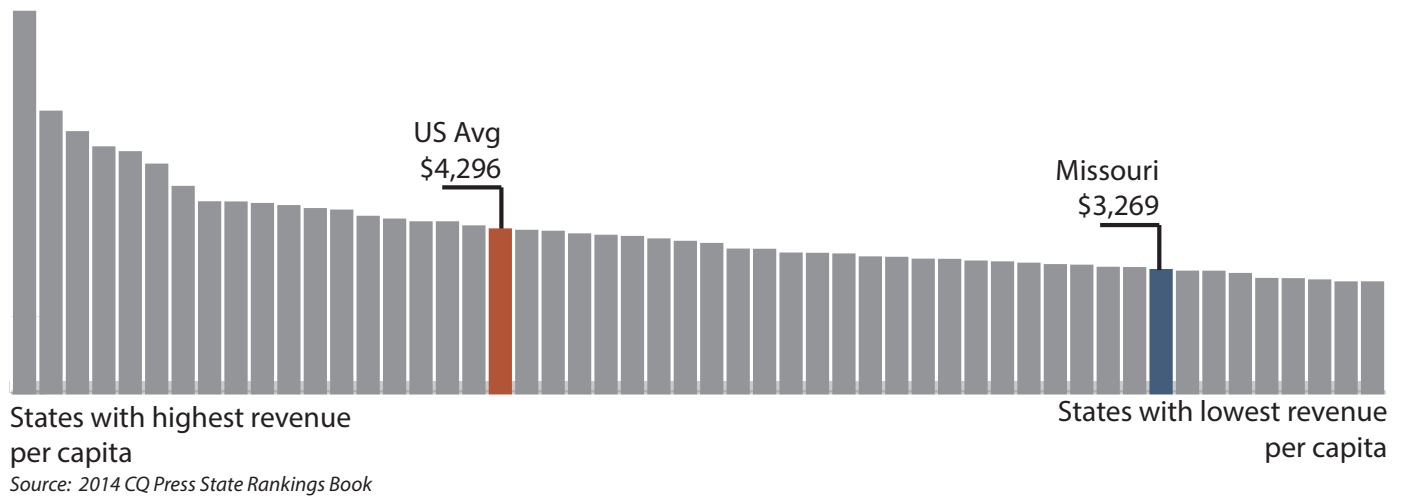
Missouri is unique in many ways, but since we are also bordered by eight other states, the budget and revenue policy decisions of those states often inform the decisions of lawmakers here as well.

Our bordering states have drastically different spending and tax collection habits and their economies respond differently based on those decisions.

In order to adequately compare Missouri's tax load with other states, we must consider both state and local taxation since every state approaches the division of responsibilities between state and local governments differently.

## Missouri ranks 42<sup>nd</sup> among 50 states in State and Local revenue per capita

State and Local revenues per capita by state in 2010



## Comparing Missouri with Other States

### Missouri's Tax Revenues are Lower than Other States

State and Local Revenue: **42<sup>nd</sup> lowest per capita**

Income Tax: **25<sup>th</sup> lowest per capita**

Corporate Income Tax: **45<sup>th</sup> lowest per capita**

Sales Tax: **42<sup>nd</sup> lowest per capita**

Morgan Quitno State Rankings 2013

## THE MISSOURI BUDGET PROCESS

Missouri's budget process is complicated, but rather straightforward. The state budget is constantly being crafted, amended and approved. Voters recently approved a state constitutional amendment (Amendment 10), which will restrict the Governor's ability to withhold or restrict appropriated funds. Amendment 10 may alter the following budget timeline somewhat. Other ramifications of Amendment 10 remain to be seen as the Amendment is put into practice.

# The Missouri Budget Process

## Executive Budget

## House Budget

## Senate Budget

**Summer through October 1st:**  
Departments submit their budget requests to the Office of Administration for consideration by the Office of Budget & Planning and the Governor.

**Mid-January:**  
Governor presents State of the State address to a joint session of the General Assembly and releases his State Budget.

**January:**  
The Chairman of the House Budget Committee introduces the Budget Bills, and they are referred to the House Budget Committee.

**January & February:**  
House Appropriations Committees discuss specific department budgets from previous years and give recommendations for the coming year.

**February & March:**  
House Appropriations Committees present their recommendations to the full Budget Committee to be accepted, amended or rejected.

**March:**  
The Budget Chairman presents the Committee's budget to the entire House of Representatives for amendment and passage.

**January through March:**  
The Senate Appropriations Committee considers the various department budgets and considers changes for the next fiscal year.

**March & April:**  
The House Budget bills are assigned to the Senate Appropriations Committee for their amendments or approval

**April:**  
The Chairman of the Senate Appropriations Committee presents the Senate Budget to the entire Senate for their amendments or approval.

## Conference Committee

**April or May:**  
Select members of the House Budget Committee and the Senate Appropriations Committee meet to reach a compromise on the differences between their budgets.

## Floor Approval

**April or May:**  
Both the House of Representatives and the Senate vote on the Conference Committee version of the State Budget.

## Governor Approval

**Before July 1:**  
The Governor has until July 1 to make line item vetoes, veto, sign or allow to become law without his signature all of the Budget Bills from the General Assembly.

## Veto Override

**September:**  
The General Assembly meets for a veto session in September to consider overriding the Governor's vetoes.

# DOES MISSOURI HAVE A BALANCED BUDGET?

The Missouri Constitution requires that the state pass a balanced budget, where estimated revenues are equal to or greater than estimated spending. By this definition, the state budget is in balance.

But even with a balanced budget, Missouri has a structural deficit. A structural deficit occurs when ongoing revenues are less than ongoing spending. The structural deficit represents the gap between the amount of revenue raised and the amount of money needed to continue existing programs.

There are several ways the state can find itself with a structural deficit, yet still have a balanced budget. One common way is to use one-time revenues to support ongoing costs. For example, budget proposals might use one-time revenue to fund ongoing tax cuts, or delay a payment from one year to the next year in order to keep the budget in balance. Structural deficits also grow when lawmakers adopt deferred or phased-in tax cuts that haven't been paid for. An example of this is the multi-year phase in of the individual and business tax cuts included in Senate Bill 509.

The problem is that although some sources of revenue are one-time, spending almost never is. Even big purchases like land or buildings are spread out over many years through the use of bonding, and maintenance on those projects continue for decades into the future. Supporting ongoing services with one-time revenue sources may work for a while, but it will lead to long-term difficulties. Unfortunately, Missouri has a long history of structural deficits.

## HOW TO PARTICIPATE IN THE STATE BUDGET PROCESS

If the way the state raises and spends money matters to you, and if you are concerned about our state's public priorities and how we support those priorities, then you may want to make your voice heard about issues related to the state budget.

### **There are several ways you can have an impact on the budget process:**

- During gubernatorial and legislative campaigns, raise the issues you're concerned about as part of candidate forums and debates. Make sure you vote and get others to vote as well.
- Advocate Early. Invite lawmakers to meet about your priorities during the summer and fall; meet with the state department directors who oversee the area of the budget in which you are interested and encourage their support in the budget request they submit to the Governor.
- While the Governor is preparing the Administration's budget proposal, contact the Governor's office to urge support for the programs/initiatives you're most concerned about. You can also contact the Governor's office later in the budget process to voice your opinion on potential vetoes.
- The House Budget Committee and Senate Appropriations Committee hold hearings throughout the session on the budget. You can testify on an issue that's important to you, or submit written testimony.
- Contact your legislators to make sure they know your position on issues that are important to you.