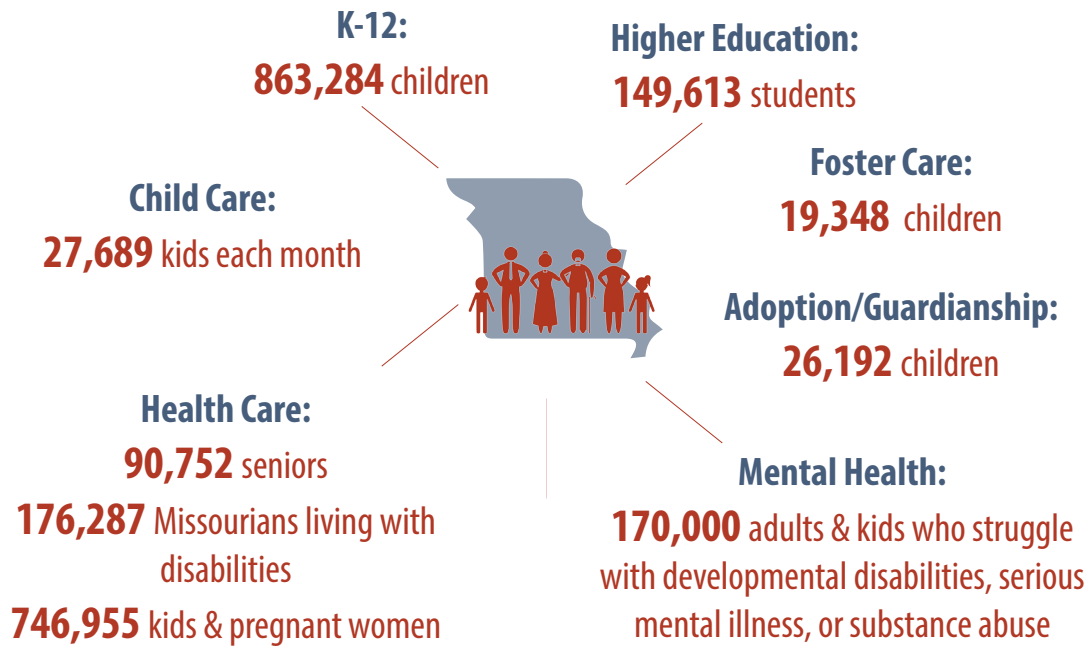


# Introduction to Missouri's State Budget 2023



# State Budget & Taxes: Impact at a Glance

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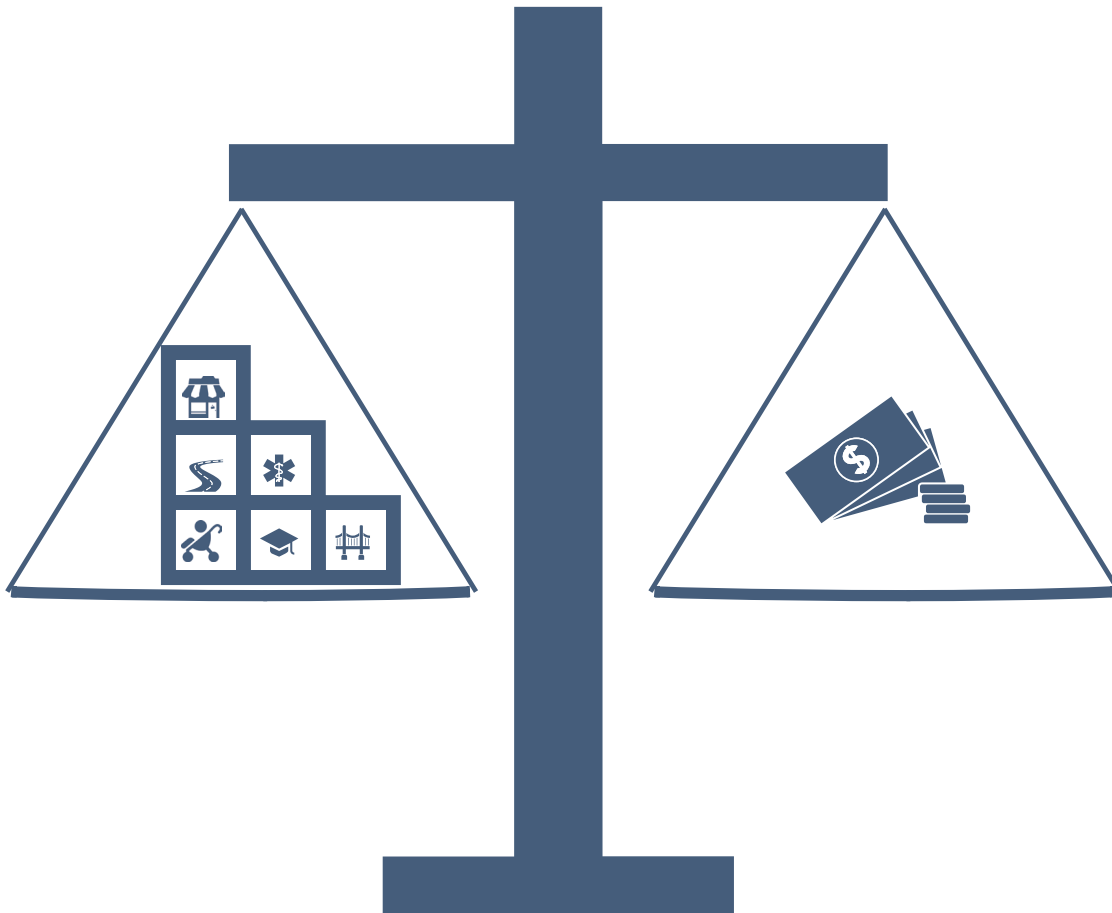


The impacts of Missouri's investments are far reaching, helping thousands of Missourians across the state reach their full potential.

Sources: Departmental Budget Requests, Fiscal Year 2024; Department of Social Services Caseload Counter; Department of Elementary and Secondary Education Missouri Education Dashboard; Department of Higher Education and Workforce Development Annual Report 2022

## Missouri Requires a Balanced Budget

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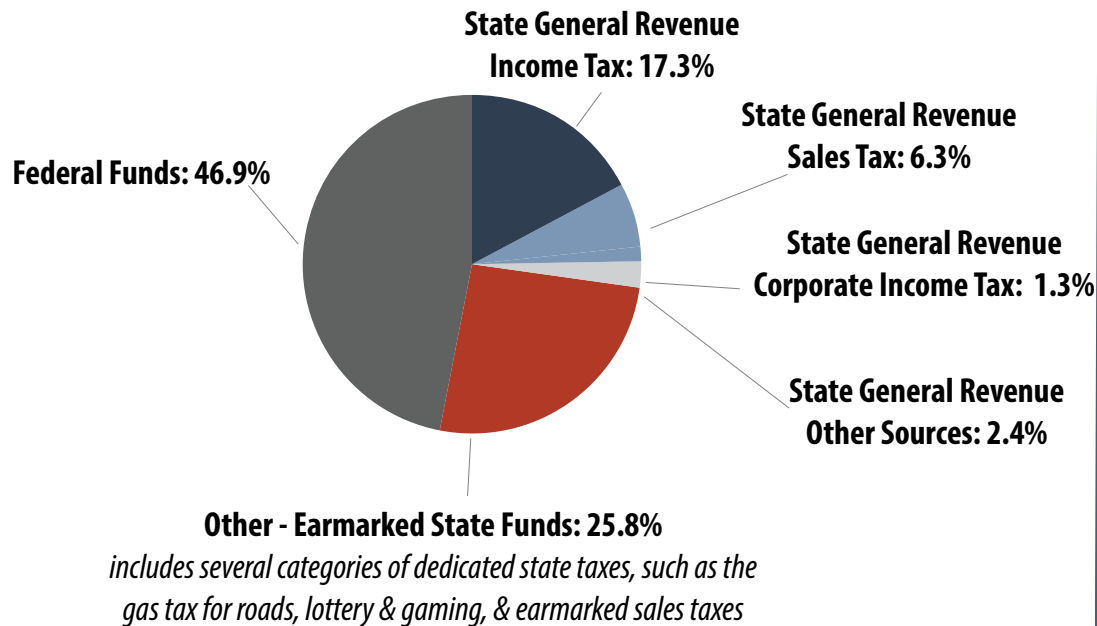


- Developing the state's annual budget is one of the most important – and complicated – responsibilities of Missouri lawmakers.
- Missouri's state constitution requires the budget to be balanced, so spending by the state cannot exceed incoming revenue.
- The state's fiscal year runs from July 1<sup>st</sup> to June 30<sup>th</sup> every year. Because the budget year begins in the middle of a calendar year, it is named for the coming calendar year. So, the budget that lawmakers will be debating in 2023 is the Fiscal Year 2024 budget.
- The full legislature must pass its final budget one week prior to the end of the legislative session. In 2023, that means the legislature must pass the budget by May 5<sup>th</sup>.

# Sources of Revenue to Support Missouri's Budget

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## Missouri's FY 2023 Budget Sources of Funding \$44.34 billion



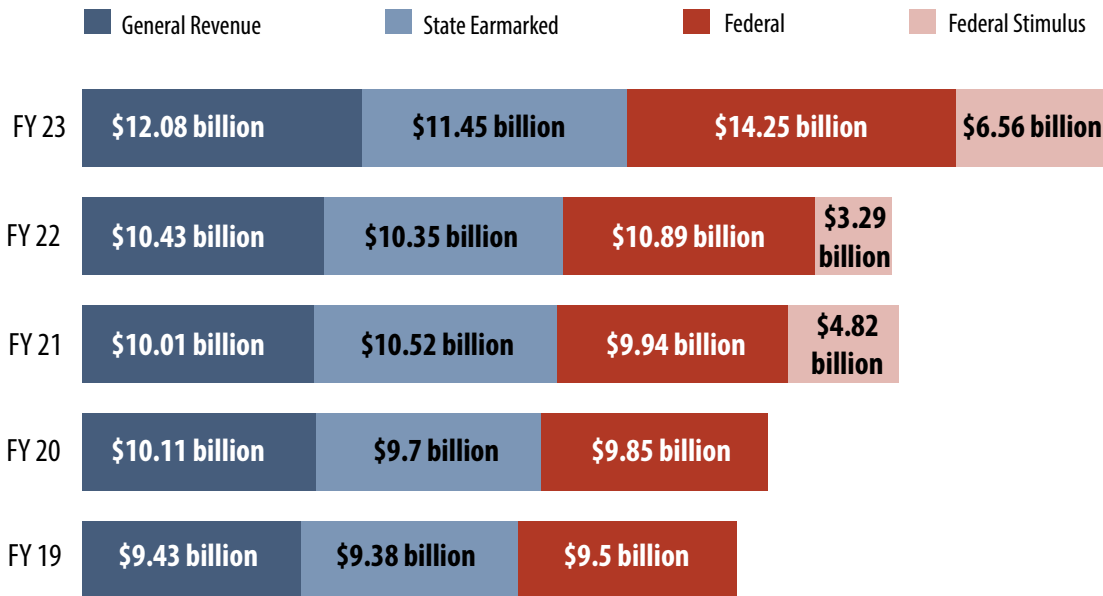
Source: Missouri Senate Appropriations Committee: 2022 Annual Fiscal Report

Totals do not include spending in House Bill 3020, the COVID State Fiscal Recovery - ARPA Bill

- Missouri's total operating budget for FY 2023 is \$44.34 billion.
  - *While this total does include federal funds distributed through the American Rescue Plan Act (ARPA) for health, education, child care, and other programs, it does not include flexible state fiscal recovery funds that were appropriated in House Bill 3020, a supplemental budget bill.*
- The first source of funding in the budget comes from the federal government for very specific purposes.
- Another source is state-generated revenue that is dedicated to specific purposes, and includes excise taxes like the gas tax, which is dedicated to transportation.
- The final source of funding is referred to as state general revenue, which lawmakers have the most authority to allocate.

# Federal Stimulus Funds

Missouri's Operating Budget (After Veto)



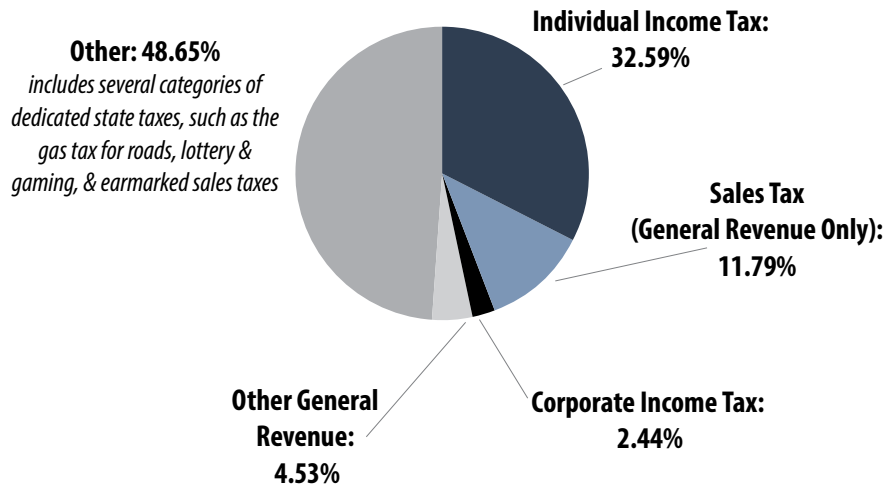
NOTE: Chart does not include ARPA COVID relief of \$2.8 billion

Source: Missouri Senate Appropriations Committee: 2022 Annual Fiscal Report

- In 2020 and 2021, the federal government passed a series of COVID relief packages that included supplemental funding for states & localities, education, health care, and a range of other programs.
- In order to spend the federal dollars allocated to Missouri, they must be accounted for as additional appropriations in the state budget.
- **The FY2023 budget includes \$6.56 billion in appropriations from federal stimulus funds.**
  - *This does not include flexible state fiscal recovery funds that were appropriated in House Bill 3020, a supplemental budget bill.*
- The operating budget for FY 2023 is larger than typical due to extraordinary fiscal relief in response to COVID. Some of the appropriations may be spent over more than one fiscal year, which is also unusual.

# State-Generated Sources of Revenue

**Missouri's FY 2023 Operating Budget**  
**Sources of State-Generated Revenue (Excludes Federal Funds)**  
 \$23.53 billion

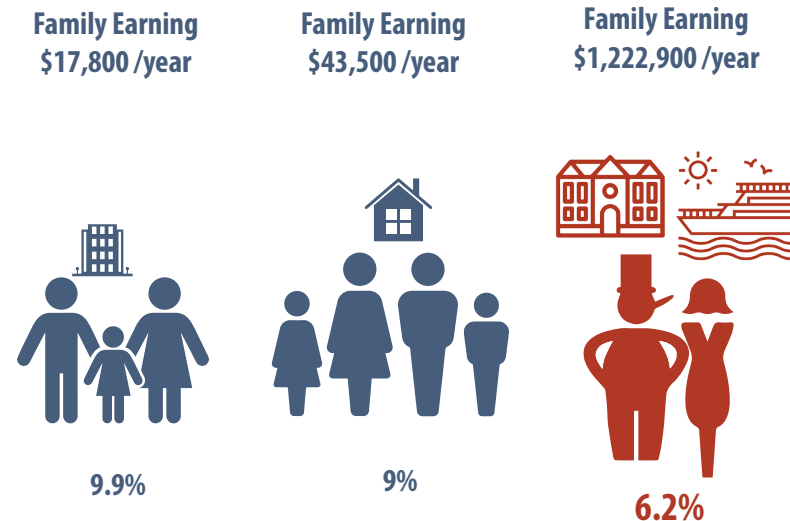


Source: Missouri Senate Appropriations Committee: 2022 Annual Fiscal Report

- State budget needs are supported by a diverse base of state-generated tax revenue, including income and sales tax, gas and tobacco taxes, and lottery and gaming revenue.
- The diversity of funding sources provides more stability in funding, making Missouri less vulnerable to shortfalls that result from short-term economic changes.
- Compared to other states, Missouri earmarks more state-generated funds for specific purposes.<sup>i</sup>
- Missouri's share of state revenue collected from corporate income is among the lowest in the nation and is nearly half the national average. Of the states that levy a corporate income tax, Missouri's corporate income tax rate of 4% is lower than all but one state in the nation.<sup>ii</sup>
- Missouri's top individual income tax rate of 4.95% is lower than 28 other states, (including neighbor states of Nebraska, Iowa, & Kansas) – and well below the national average of 6.25%.<sup>iii</sup>
- Of states collecting sales tax, only six have a lower state sales tax rate than Missouri. When local sales tax is included, Missouri's average combined rate is 8.29%, well above the national average of 6.57%.<sup>iv</sup>

## Lower Income Missourians Pay a Higher Share of Their Income in Taxes

### Lower Earning Missourians Pay a Higher Portion of Their Income in Taxes than Highest Income Missourians

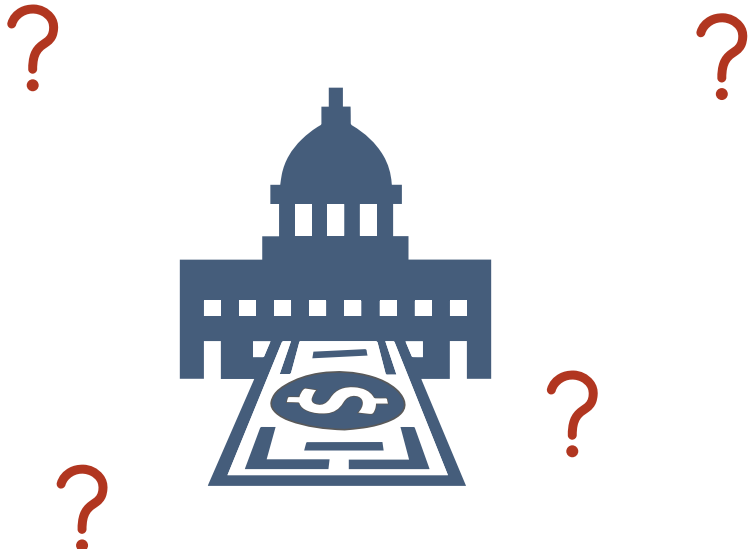


Source: Institute on Taxation and Economic Policy (ITEP), *Who Pays?* 6th Edition

- Missouri’s overall tax system is regressive, which means the more income you earn, the less you pay in taxes as a percent of that income.
- Missouri’s income tax structure is considered “progressive.” However, the tax tables have been only slightly adjusted since the 1930s. As a result, the highest income tax bracket in Missouri is only \$8,449 in 2023.
- The state’s tax structure has many additional regressive features, like the sales tax. Sales taxes are considered regressive because they require a higher contribution as a portion of income from those who earn less.
- Many tax changes recently passed by the Missouri legislature disproportionately flow to the highest income brackets, including tax changes passed by the Missouri legislature in a special legislative session in late 2022.
- As a result, the state tax structure becomes even more regressive because workers with low wages pay a larger share of their income to support the budget than wealthy Missourians.

## Consensus Revenue Estimate

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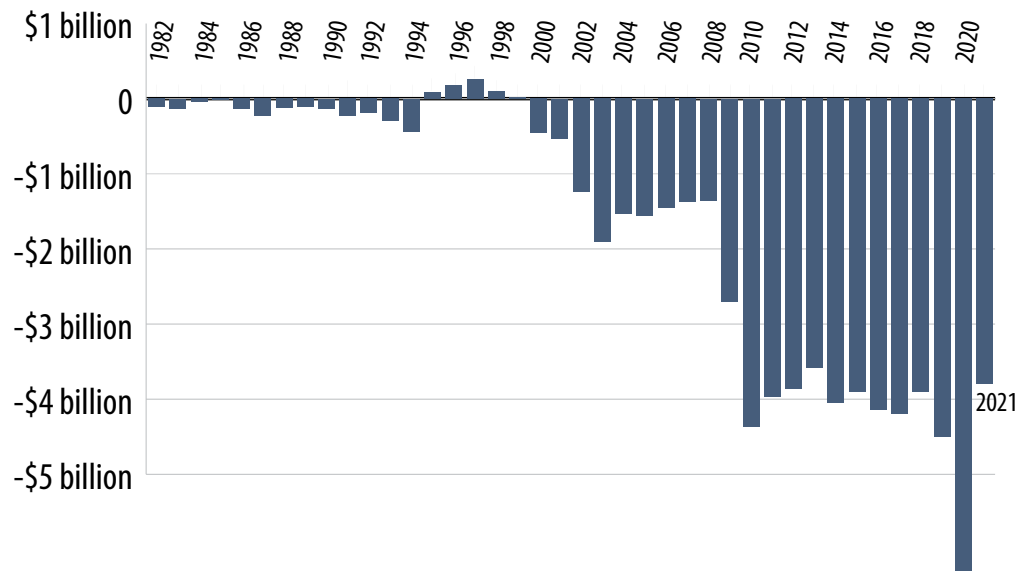
- Because the state budget must be balanced every year, the legislature relies on an estimate of expected state revenue as a starting point for the budget process. Traditionally, lawmakers work together with the Governor to determine this estimate, which is referred to as the Consensus Revenue Estimate, or “CRE.”
- The revised FY 2023 CRE is 1.4%, and the FY 2024 CRE is based on a forecasted increase of 0.7%.
- As the budget process progresses, other revenues are considered. These other considerations may include a beginning balance, any lapses from the previous year, adjustments for legislative changes, and any other transfers to the general revenue fund.

*Source: Missouri Executive Budget Summary, Fiscal Year 2024*



## “Hancock Lid”

**Missouri Revenue Declining Relative to the Economy  
State Now Billions Short of Hancock Limits**

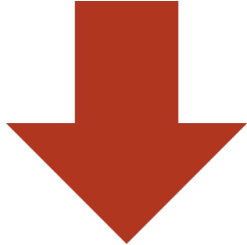


- In 1980, the Constitution of Missouri was amended to limit the amount of revenue raised by the state. This is commonly referred to as the Hancock amendment.
- The Hancock Amendment limits the amount of Missouri's personal income that may be used to fund state government to no greater than the portion used to do so in 1981, when it was 5.6 percent.
- Missouri revenue did not reach the Hancock limit until the late 1990s, when economic growth was exceptional. From 1995 to 2000, the state reached the lid every year and was required to refund nearly \$1 billion to taxpayers.
- Though a significant amount of money as a whole, the average Missouri family received a refund of just \$40 over those five years.
- Missouri revenue is now approximately \$3.8 billion BELOW the Hancock lid.

Source: The Office of Missouri State Auditor, Citizens Summary, August 2022

# Tax Cuts Follow After Hancock Lid Hit

	General Revenue Impact
<b>Individual Income Tax Changes</b>	
Income Tax Top Rate Cut from 6% to 4.5% (not yet fully implemented – at 4.95%)	(\$1,995,000,000)
Phase-out deduction for federal taxes based on income	\$390,000,000
Non-Refundable EITC at 20% Federal	(\$15,000,000)
Exempt first \$1,000 from tax	(\$45,000,000)
LLC Pass-Through Deduction of 20%	(\$204,000,000)
<b>Corporate Income Tax Changes</b>	
Rate cut from 6.25% to 4% and Apportionment Change	(\$30,000,000)
<b>Sales Tax Change</b>	
Wayfair Fix	\$67,000,000
<b>GENERAL REVENUE IMPACT</b>	<b>(\$1,832,000,000)</b>


  
**\$1.8 Billion** = **more than 15% of GR** = **85% of FY 2023 state general revenue funding for local schools** in FY 2023

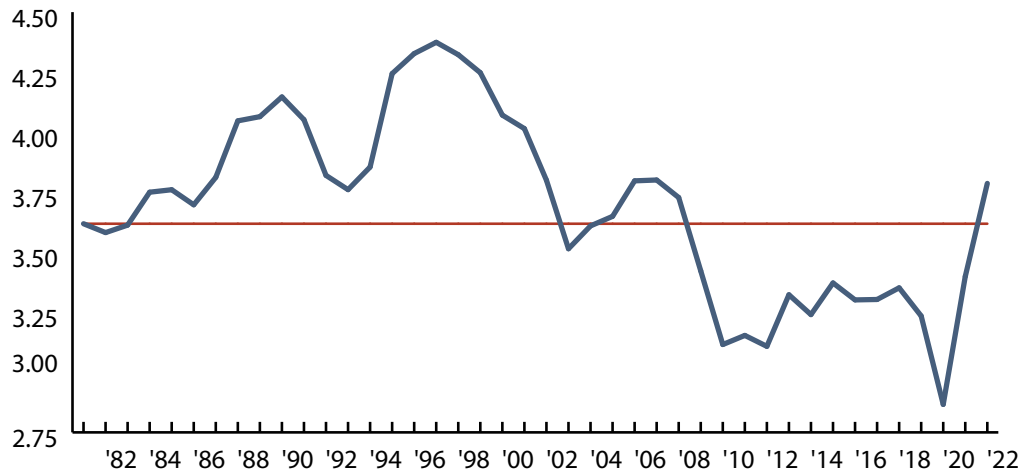
- Since 2014, Missouri legislators made multiple tax changes that reduce state revenue.
- While some of these cuts benefitted families, many were targeted to corporations, including a phase out of the corporate franchise tax and changes to the ways corporations can determine what profits are taxed.
- Overall, the tax changes significantly diminished Missouri’s ability to invest in the services that help families, communities and the economy thrive.
- During a special legislative session in 2022, Missouri’s General Assembly passed an individual income tax bill that disproportionately benefits Missouri’s wealthiest households. When fully implemented, the tax changes will reduce state revenue by more than \$1 billion annually.
- Combined, tax changes made since just 2014 will cost Missouri more than \$1.8 BILLION every year.

# Hancock Amendment & Voter Approval of Tax Increases

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## Missouri Invests Less in Services as GR Has Fallen Relative to the Size of the Economy

*General Revenue as Percent of Personal Income, by Fiscal Year Compared to 1981 Baseline*

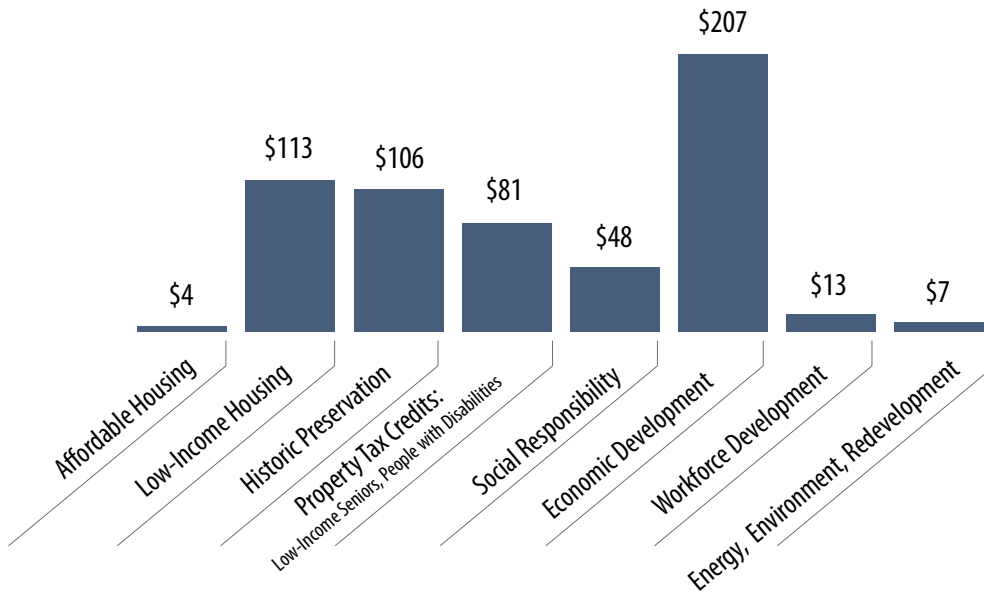


- In fiscal year 2021, total state revenue was \$3.8 billion under the Hancock refund threshold.
  - This is reflected in net general revenue collections, which have declined significantly as a portion of the economy (measured by Missouri personal income) since the Hancock amendment passed.
  - By nearly every measure, Missouri invests less in critical public services today than it did three decades ago.
- 
- Another part of the Constitution requires voters to approve taxes or fees passed by the General Assembly that exceed specific annual limits.
  - In fiscal year 2023, the legislature had authority to authorize tax changes that would generate up to \$132.8 million.

# Tax Credits Cost Missouri Over \$579 Million Each Year

## Tax Credits Redeemed by Category in FY 2022

*in millions*



Source: Missouri Department of Revenue

- Many tax credits serve important policy goals. Some help low-income seniors remain in their homes or help nonprofits like food banks, domestic violence centers, or organizations serving pregnant women and children leverage donations. Others promote affordable housing or economic development.
- The growth of tax credits has significantly reduced state general revenue, costing over \$579 million in FY 2022, up from almost \$515 million in fiscal year 2015.
- Tax credits have policy benefits that cannot be overlooked, but the value and impact of the credits depend on how each of them are designed.

## State Expenditures

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- The legislature outlines its recommendations for the state budget in 13 different House Bills, which are referred to as the budget bills. Each bill includes the spending recommendations for different state government departments and functions.
- While most other bills are assigned a number in the order they are filed, the 13 operating budget bills are always the first 13 numbered bills and appropriate funds for the following functions:

**HB 1** *Board of Fund Commissioners (public debt)*

**HB 2** *Elementary and Secondary Education*

**HB 3** *Higher Education & Workforce Development*

**HB 4** *Revenue and Transportation*

**HB 5** *Office of Administration & Employee Benefits*

**HB 6** *Agriculture, Natural Resources, Conservation*

**HB 7** *Economic Development, Commerce & Insurance, and Labor & Industrial Relations*

**HB 8** *Public Safety*

**HB 9** *Corrections*

**HB 10** *Mental Health, Health & Senior Services*

**HB 11** *Social Services*

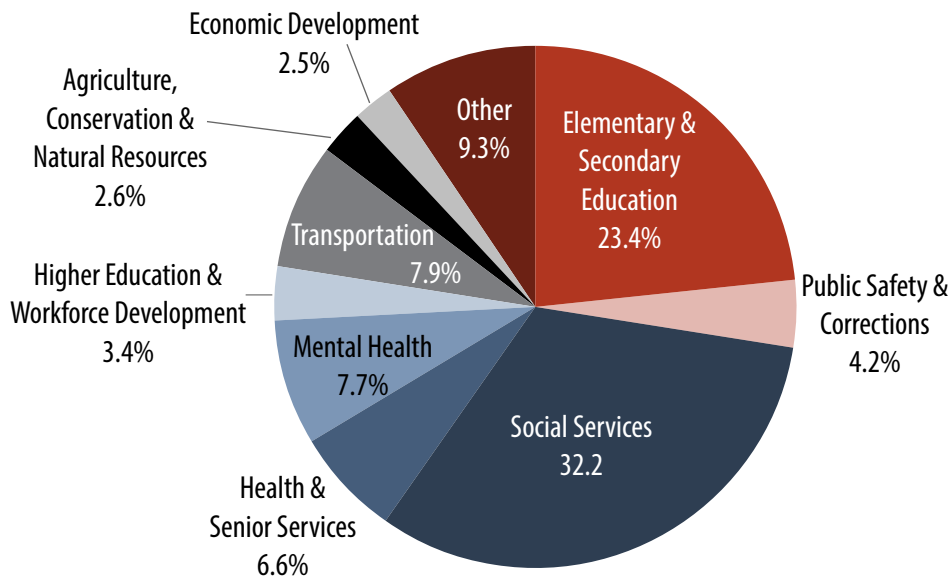
**HB 12** *Offices of Statewide Elected Officials, Judiciary, & State Public Defender*

**HB 13** *Statewide Real Estate*

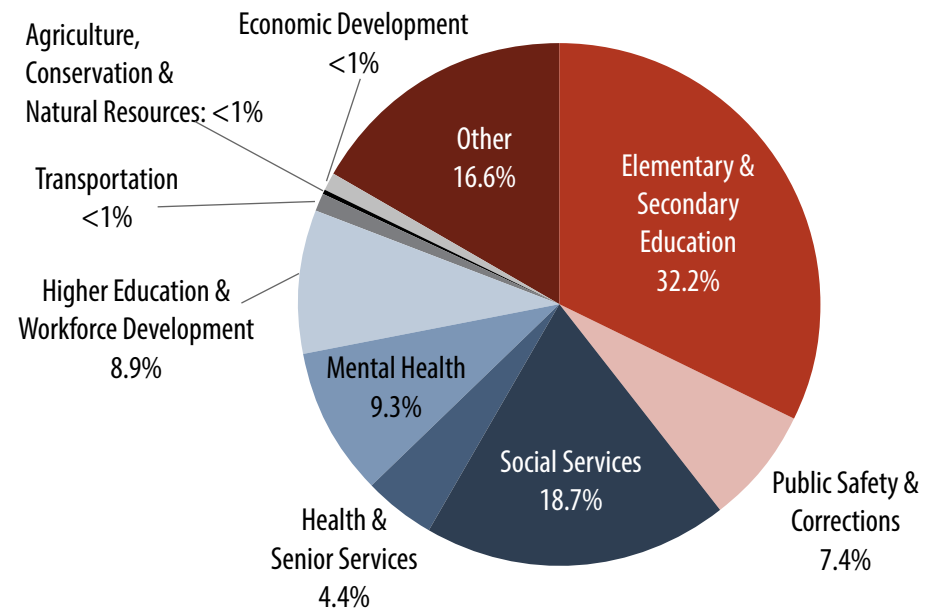
# State Expenditures

- The budget bills include the support from all funding streams, federal, state earmarked dollars and state general revenue dollars.
- The most flexible of the funding streams is state general revenue because it does not include specific requirements for how it must be spent like the other funding streams do. Because of this, the state general revenue budget is generally what lawmakers spend the most time debating each year.

**Missouri Fiscal Year 2023 Budget - TOTAL Funds**  
\$44.34 billion



**Fiscal Year 2023 General Revenue Operating Budget**  
\$12.084 billion



NOTE: Total Budget by Department Chart does not include ARPA Coronavirus State Fiscal Recovery Funds (House Bill 3020)

Source: MO Senate Appropriations Committee: 2022 Annual Fiscal Report FY 2023

# The Missouri Budget Process

## Executive Budget

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

**Late January/early February:**  
Governor releases Executive Budget  
*\* deadline for submission is 30 days after the legislative session begins\**

## House 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:**  
Budget Chair presents the Committee's budget to the entire House of Representatives for amendment and passage.

## Senate Budget

**Janurary 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 amendments or approval

**April:**  
Senate Appropriations Committee Chair presents the Senate Budget to the entire Senate for 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:**  
The House of Representatives & the Senate both vote on the Conference Committee version of the state budget.  
*\*the legislature must approve the budget by one week prior to the end of the legislative session\**

**Governor Approval**  
**Before July 1:**  
The Governor has until July 1 to make line item vetoes, veto, sign or allow budget bills to become law without a signature

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

## Notes

- i. [Missouri How Missouri Taxes & Revenue Compare to Other States](#), Missouri Budget Project, January 2023
- ii. Ibid
- iii. Federation of State Tax Administrators, “State Individual Income Tax Rates for Tax Year 2023,” January 1, 2023. Of the states with lower income tax rates than Missouri, 9 states do not have a broad-based income tax.
- iv. Federation of State Tax administrators, “State Sales Tax Rates and Food and Drug Exemptions,” January 1, 2023. Five additional states do not have a state sales tax.