



March 11, 2008

All Roads Leading to No Education: The Problem with Earmarking

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At least two bills (House Joint Resolution 67 and Senate Joint Resolution 43) have been filed in the 2008 Missouri General Assembly that propose to alter Missouri's Constitution and "earmark", or require, a portion of state general revenue funds to be spent on Transportation.

Although the Missouri Department of Transportation is projecting a significant budget shortfall in funding for transportation projects in the near future, earmarking state funds would do little to help ease the fiscal pressures of the Department *and* would instead create further burdens for other state services by reducing the amount of revenue available for all other services.¹

Earmarking state general revenue for specific projects is a dangerous policy course. As this brief finds:

- Slightly more than 33 percent of Missouri-based revenue, and 20 percent of all funds including federal funding utilized in Missouri, is already earmarked for specific services;
- New earmarks would further restrict how state funds can be spent, thereby limiting Missouri's ability to fund all services adequately;
- New earmarks would lock in funding for today's priorities in the State Constitution, restricting the state's ability to effectively fund new or different priorities in the future as the state's population changes.

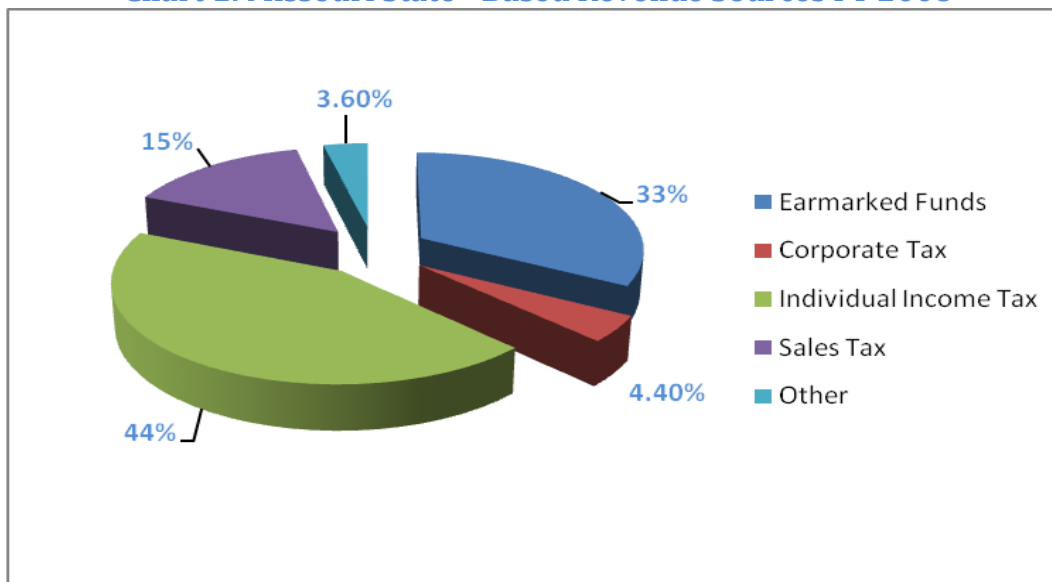
Finally, earmarking the limited state revenue available in Missouri is not a real solution to the funding needs for any of the state's services. Missouri needs adequate and sustainable funding solutions, not shifting of funds to one priority at the expense of another.

¹ For more detail on the Transportation Funding Shortfall see "Missouri Transportation Funding Under Strain", August 13, 2007, Missouri Budget Project, available at:
http://www.mobudget.org/Transpo%20Funding%20Report%20Aug%20_07.pdf

Missouri already Earmarks a Considerable amount of Revenue:

Missouri is no stranger to the use of earmarking. In fact, 33 percent of Missouri-based revenue (and 20 percent of all funds, including federal transfers) is already earmarked for specific services.² The following chart summarizes the breakdown of state-based funds for Fiscal Year 2008.

Chart 1: Missouri State - Based Revenue Sources FY 2008



Data Source: Missouri Senate Appropriations Committee "2007 Annual Fiscal Report"

Perhaps the best known of Missouri's earmarked revenues is the "Gaming Tax". Initially approved in 1992, the gaming facilities are assessed a 20 percent tax on their proceeds, with the bulk of the revenue earmarked for K-12 Education funding in Missouri. The revenue gained by this tax is expected to provide nearly \$288 million to K-12 education in the current year.

However, there are several additional state-based revenue sources that serve as earmarked funding streams in Missouri beyond the gaming tax including the gas tax, lottery tax revenue, gaming facility boarding fees, the motor vehicle sales tax and others.

Earmarking revenue is a growing phenomenon, brought on in part by Missouri's Hancock Amendment, which requires voter approval of tax increases. As voters consider tax increases, it has been easier for proponents of measures to garner public approval if the tax comes with some sort of "guarantee" of where it will be used.

² Missouri Senate Appropriations Committee, "2007 Annual Fiscal Report: Fiscal Year 2008", Prepared by the Senate Appropriations Committee Staff, available at <http://www.senate.mo.gov/07info/RedBook07.pdf>

In recent elections, special interests have moved a variety of tax increases, or new earmarks of existing funds, at the local or statewide level, with varied results. Examples include the failed tobacco tax increase in 2006, which would have earmarked funding for health care; the approved constitutional amendment to the motor vehicle sales tax in 2004, which requires 100 percent of the funds to be used for transportation; and between 2004 and 2006 several counties passed local sales taxes for children’s services.

In an attempt to assure continuity of funding for specific services in the state budget pinch, proposals to earmark new or existing revenue streams are increasing. As a result, a growing portion of Missouri’s available state revenue, 33 percent, is tied up in designated services. The following table gives some examples of earmarked funds.

Table 1: Examples of Earmarked Funds in Missouri

Revenue Source	Year Initially Approved & Year of Most Recent Update	What Services it Funds	FY 2008 Estimated Funding Amount
20% Tax on Gaming Revenue	1992 & 1994	K-12 Education receives bulk of revenue (2% of the tax is earmarked for local governments)	\$287.9 million for Education
\$2 Gaming Boarding Fee	1992 & 1994	Early Childhood, National Guard, Veterans, Other needs and local governments	\$66 million
Lottery Sales	1984 & 1992	60% is dedicated to lottery prizes, 30% is dedicated to Higher Education & K-12 Education	\$256 million
Fuel Tax (gasoline and aviation)		Transportation	\$516 million
One-Half of Sales Tax on Motor Vehicle	1979	Roads & Bridges	\$175.1 million
The Remainder of Motor Vehicle Sales Tax	2004	Roads & Bridges	\$65.7 million (phased in over several years-amount shown is 2006)
\$3 Filing Fee on Real Estate Documents	1994	Housing Trust Fund	\$6.3 million (FY 2007)

Sources: Missouri Senate Appropriations Committee “2007 Annual Fiscal Report”, Department of Transportation Data, and Missouri Housing Trust Fund data.

Missourians need a Variety of Services; Earmarking Limits the State's ability to Respond Effectively

As indicated above, a sizeable portion of Missouri's revenue is currently tied up in specific budget priorities. While all of these services are valuable components of state operations, overtime the decrease in flexibility of state funding can lead to significant problems. By earmarking funding for the specific priorities of today, the state is effectively locking in these priorities for future years.

One hundred years from now Missouri's population, its industries, economy and needs may be quite distinct from what they are now. However, the state will be forced to utilize the funds for services it may not need in the future because the priorities and funding streams have been constitutionally, *permanently*, earmarked.

House Joint Resolution 67 and Senate Joint Resolution 43 would constitutionally require that 10 percent of the growth of state general revenue as compared to the current year (fiscal year 2008) be earmarked for transportation funding. Because the allocation in these bills is tied to a comparison with FY 2008, the amount of funding that would be required for transportation over time grows exponentially.

Based on average growth rates, these bills would require the state to earmark just \$27 million for transportation needs in the first year, or less than one percent of general revenue. However, that amount would grow to require \$423 million to be earmarked by the tenth year of implementation, or more than 3.5 percent of general revenue.³ As a result, over time, the amount of state funding for transportation needs would grow significantly, comprising a larger percent of the state's budget, and would more significantly impair funding for other services.

While transportation is a critical state service, the people of Missouri need the variety of state services that are funded with the state's limited budget. Earmarking would limit the state's ability to provide that variety.

Earmarking Will Not Increase the Adequacy of Revenue

The Missouri transportation funding outlook is bleak, as is the Missouri general revenue budget. The Missouri Department of Transportation announced in the fall of 2007 that they anticipate a *drop* of \$700 million in funding by fiscal year 2010.⁴ The steep decline is due to a combination of factors including a decline of federal funding for transportation.

The overall state budget outlook is equally dreary. The Missouri Budget Project has projected that by fiscal year 2010 the overall budget will be \$500 million short.⁵ This amount is in addition

³ Missouri Budget Project estimates of the impact of the proposals, based on the Consensus Revenue Estimate for FY 2008 and 4% growth each year following.

⁴ Missouri Department of Transportation

⁵ See: "Moving From "Surplus" to Shortfall: The Critical State of Missouri's Revenue and Policy Options", *The Missouri Budget Project*, February 24, 2008 available at www.mobudget.org

to the transportation funding shortage. The earmarking proposals do nothing to ameliorate this situation, and would not increase the adequacy of Missouri's revenue. Instead, given the budget outlook, by requiring a portion of the very limited state budget to be dedicated to transportation funding, the bills would be directly requiring the reduction of available funding for another service.

The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the MBP through our website at www.mobudget.org