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Missouri FY 2013 Budget Relies on Risky Assumptions

Tom Kruckemeyer, Chief Economist

As required by the Missouri Constitution, the General Assembly completed the Fiscal Year (FY) 2013 budget by May 11, 2012 and sent the budget bill to Governor Nixon for final action. Although the budget is balanced in the sense that appropriated spending equals expected revenues, it relies on budgeting maneuvers and optimistic assumptions. As a result, the FY 2013 may not be truly fully funded, which may necessitate $150 - $200 million in mid-year budget reductions.

The major potential problems with the FY 2013 budget include:

1. **The Consensus General Revenue Estimate is Optimistic**: The Consensus Revenue Estimate (CRE) for FY 2012 and FY 2013 calls for net General Revenue (GR) Collections to increase by 2.7 percent and 3.9 percent respectively. As of May 24th, net GR collections were up about 3.2 percent for FY 2012 overall. While this is somewhat above the target for the year, the net growth rate is aided considerably by the fact that GR refunds have declined 7.1 percent, while gross collections are up only 1.5 percent. Should refund growth return to levels seen in FY 2010 and FY 2011, the net collection growth rate will fall. Achieving 3.9 percent growth in FY 2013 will likely require substantial improvement over the growth seen this year.

2. **FY 2013 Budget Lacks Adequate Provisions for Reserves**: As passed by the legislature, the FY 2013 budget has no supplemental amount built into the budget. It is normal to set aside an amount to account for the unforeseen costs that usually occur over the course of the year. It is also prudent and customary to leave some significant "ending balance," as it is possible that there will at least some revenue shortfall and/or unexpected increases in spending. Given the magnitude of the state budget, it is risky to attempt to "budget to zero." The lack of a supplemental budget along with the lack of a planned "ending balance" may create a shortfall of as much as $150 million.

3. **Education Funding Relies on Unusually Strong Growth in Lottery Proceeds**: As a result of several shifts in funding sources for programs, education funding now relies on an assumption of unusually strong growth in lottery proceeds.[i] While proceeds increased 2.1 percent in FY 2011 and are estimated to increase 1.8 percent in FY 2012, the budget assumes that lottery proceeds will grow by $50 million in FY 2013, or 18.5 percent. Should the anticipated growth in lottery proceeds not occur, the resulting shortfall would necessitate cuts in K-12 education or other areas of the budget funded by general revenue.

Summary

Given the uncertainties and complexities involved, it is difficult to estimate a specific budget shortfall for FY 2013. However, due to the combination of the lack of planned supplemental funding, the lack of a planned ending balance, and the need for exceptionally strong growth in lottery proceeds, the state may be faced with a shortfall in the $150 to $200 million range.

Moreover, even if all of the assumptions upon which the budget is based are realized, the state is underfunding several critical services. Although funding for higher education modestly increased, state support is still below FY 2009 levels and is inadequate to keep up with inflation and population growth. In addition, FY 2013 appropriations for elementary and secondary education will fall about $440 million short of the adequacy target called for in the state's foundation formula.

The fundamental problem is that Missouri simply does not collect enough revenue to meet the needs of its citizens. Even if net GR collections for the current year meet the revenue estimate of $7.3 billion, the state will remain **$703 million** under the amount of net GR collected in FY 2008. The state budget is likely to remain under severe strain unless and until policymakers address Missouri's chronic revenue shortfalls.

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[i] As work on the FY 2013 budget proceeded, it became apparent that new funding for veterans' homes would be needed. After much debate, the legislature passed and the Governor signed House Bill 1731, which allocates a portion of gaming revenues for veterans' homes. This amount is expected to be about $37 million. However, as a result, early childhood education programs that had been funded by gaming revenues no longer have this source of revenue. Legislators then allocated $35 million from the Master Settlement Agreement (MSA) with tobacco companies to early childhood programs. The problem that arises is that MSA money in previous years has been allocated to various programs that are funded by both GR and other state revenue sources such as lottery proceeds. So as not to reduce funding for K-12 education that would normally come from MSA proceeds, it was decided to assume unusually strong growth in lottery proceeds.