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Missouri's "Surplus" Revenue Fails to Measure Up to Definition

"Surplus: An amount remaining after the original purpose has been served or the original requirement met"

There has been much discussion of a so-called "surplus" in Fiscal Year 2006 general revenue collected in Missouri and the projection that Fiscal Year 2007 (ending June 30, 2007) will also yield greater than expected revenue.

But does the state have a surplus? The dictionary definition of surplus is "an amount remaining after the original purpose has been served or the original requirement met." An examination of Missouri's fiscal status clearly demonstrates that the state does not meet the definition of "surplus."

Missouri Experiences Revenue Growth

Each year, the Missouri governor and legislature develop, debate and approve a budget for the state, covering the fiscal year of July 1-June 30. The budget is based on a projection of how much revenue will be available for allocation to a number of services the state provides to its citizens. In Missouri, the majority of the state's general revenue budget is allocated to important services, with the largest share going to K-12 education, healthcare and higher education.

Surpluses develop when revenue exceeds initial projections and/or expenditures are lower than expected. In Fiscal Year 2006 revenue grew at 9.2%, well higher than anticipated, allowing the state to carry forward \$300 million in excess revenue. For the eight months of Fiscal Year 2007 to date, state general revenue is continuing to grow at an acceptable rate of 3.6%. Although much smaller than the previous year, this growth will allow the state to end the current year with a projected combined "surplus" of \$500 million.

The Expense Side: How Did Cuts Affect the Bottom Line?

The other factor that determines the year-end bottom line for the state is expenditures. In fiscal year 2006, the Missouri legislature enacted some of the deepest cuts in the nation to Medicaid, the state's health care program for low-income people. More than 114,000 seniors, people with disabilities, children and working parents lost their Medicaid health coverage, due to

changes in eligibility. These cuts were estimated to save the state more than \$255 million annually. In addition, several services were cut, including dental care and rehabilitation services that would save the state an additional \$50 million per year.

In addition, K-12 education remains \$600 million below what is constitutionally required to adequately fund public schools. State aid to Missouri's colleges and universities for Fiscal Year 2007 is below the levels of Fiscal Year 2001; this has resulted in 60% increase in tuition over the past 5 years, pricing many Missouri families out of the college market.

Use “Surplus” to Invest in Missouri’s Future

Better-than-expected revenue growth leaves Missouri with a projected \$500 million “surplus.” However, can this really be called a surplus? Has the “original purpose” of the state budget been served? Has the “original requirement” been met?

The answer to these questions is a resounding “no.” The state has not met its obligation to adequately fund vital state services such as healthcare and education. Missouri has yet to recover from the \$2 billion in cuts made during the economic downturn in 2001-2005.

The so-called revenue “surplus” is a significant opportunity for the state to begin investing much needed funding to services that benefit all Missourians.

Yet, there is a disturbing trend emerging as the legislature considers several proposals to change some tax policies. The vast majority of these would result in permanent reductions to Missouri's revenue. For example, bills to exempt Social Security and other retirement income from state taxes could leave Missouri with more than \$400 million less revenue every year.

Missouri cannot continue to count on the sustained revenue growth seen in the past two years. While an improving economy is a welcome development, it is not a “green light” to make changes that reduce the state's revenue on an ongoing basis.