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Missouri's 2007 Budget Falls Short of Adequately Funding Education, Healthcare

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On May 5, the Missouri General Assembly approved the fiscal year 2007 budget, which begins on July 1, 2006. After another relatively lean year, the FY 2007 budget is significantly larger. If Governor Blunt signs the budget bills sent to him without any line item vetoes, the state overall operating budget will increase by 8.6%.

It is notable that the increase in FY 2007 spending is built upon spending virtually all surplus revenues from FY 2006. This, in turn, will cause FY 2008 to begin with a negligible opening balance. But even with the brighter financial picture, the FY 2007 budget has serious deficiencies.

State General Revenue Collections Continue To Improve

At the end of April, Missouri General Revenue (GR) collections net of refunds had grown 8.2%. This is well ahead of the 4.9% net GR growth rate the current year budget is based upon. As a result, the state enjoys favorable revenue variance compared to the revised forecast about \$177 million. Even if net GR growth tapers off in May and June, the state is almost certain to the end the current year with substantial GR surplus. This is primarily due to solid growth in *Individual Income tax*, up 11.3% as of April 30th. On the downside, *Sales and Use tax* has been sluggish (up 2.0% through April) and the *Estate tax* has nearly vanished. Nevertheless, the state will end the current year and begin FY 2007 in good shape regarding revenue.

A Better Budget; But Problems Remain

The 8.6% increase in the state operating budget is heavily influenced by the Transportation (MO-DOT) budget, which will increase by about 52%. This is the result of the motor vehicle sales tax being re-allocated to Highway uses. This revenue stream, in

turn, is available for debt service on revenue bonds issued for Highway projects. Absent the MO-DOT increase, the budget growth is a more moderate 4.3%.

But even with the brighter financial picture, the FY 2007 budget has serious deficiencies.

K-12 Education –Basic state aid to local school districts will increase by \$128 million, an increase of 5%. Many leading Missouri education experts judge this an inadequate, and believe that at least an additional \$800 million is needed. Indeed, 237 Missouri school districts have joined in litigation to address this issue.

Higher Education – While Higher Education funding dominated much of the budget debate over the final weeks, Missouri institutions ended up with a meager increase of only 2.4% over FY 2006. State aid to both two and four year institutions for FY 2007 will total \$873 million. And more importantly, this is 4.6% below the state aid to colleges provided in FY 2001.

State Worker Pay – Most state employees will receive a 4% pay increase. While this is substantial improvement, Missouri state employees are likely to remain the lowest paid in the nation. A flat 4% increase also disproportionately benefits employees with the highest salaries.

Medicaid Restoration – Perhaps the greatest shortcoming in the new budget is the failure to enact significant restorations to Medicaid, which was severely slashed in FY 2006. A small amount was appropriated to tweak the premium structure for children in the State Children’s Health Insurance Program, slightly ameliorating the hardship it presents for many families.

Only eyeglasses and wheelchair batteries were restored in the FY 2007 budget, out of the dozens of services and medical equipment cut in FY 2006.

Funds were also appropriated to restore an estimated 3,300 of the 17,000 individuals who lost Medicaid insurance when the Medical Assistance for Workers with a Disability was eliminated. Unfortunately, the House leadership refused to bring enabling legislation (HB 1742) to the floor for debate, leaving the restoration in limbo.

Perspective and Outlook

The outlook for revenue growth into FY 2007 appears favorable. But rising interest rates and increased energy prices could curtail economic and revenue growth in the coming fiscal year.

It is our view that despite the improvements in FY 2007, the Missouri budget is inadequate in many areas. Debate continues about whether Missouri has a “revenue” or a “spending” problem. Consider that in FY 1999, Total State Revenue (TSR), as defined by the Hancock Amendment, exceeded the Revenue Limit and taxpayers received \$102 million in refunds. From FY 1999 through FY 2005, TSR has grown only 10.1%, while

Missouri Personal Income has grown 31.9%. The state is now about \$1.6 billion below the Hancock Revenue Limit.

The Missouri Budget Project believes that this disparity in growth indicates that Missouri has a revenue problem. Our budget does not meet basic needs in the areas of health care and education, thus harming our most vulnerable citizens and contributing to an undesirable quality of life for all Missourians.

The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.

