



April 4, 2005

Elementary & Secondary Education Funding: Increases DO NOT Require Decreases in Other Vital Services

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On January 26, 2005 Governor Blunt announced his Fiscal Year 2006 budget plan. Among the “highlights” was the Governor’s proposal to increase funding for K-12 education by \$170.6 million, 4.7% increase relative to FY 2005. The Governor also proposed reductions, in some cases substantial reductions, in nearly every other area of the state budget. The proposed reductions are particularly severe in Medicaid and many other programs provided by the Departments of Social Services, Mental Health and Health.

During the Governor’s speech and throughout subsequent debate and media releases, the Governor has given a clear implication that the reductions proposed in Medicaid and Social Services are necessary in order to be able to provide the increase in K-12 education spending. There are many people who support or have at least acquiesced to the proposed Medicaid and other cuts because they believe that this is an acceptable “tradeoff” if these reductions “free up” revenues for K-12 education.

A careful analysis, however, of the proposed K-12 education funding increase performed by the Missouri Budget Project reveals that the entire \$170.6 million **increase does not contain any “discretionary” General Revenue funding increase for K-12 education.** In fact, the touted \$170.6 million comes from estimated increases in various tax streams that are **already** dedicated by law to K-12 education or from recent Court orders. **The proposed cuts to Medicaid and numerous other worthy programs are NOT providing ANY increased revenues for K-12 education.** Furthermore, the estimates for FY 2006 for several of these dedicated tax sources are extremely optimistic and are inconsistent with the Consensus General Revenue Estimate for FY 2006.

Table 1:

Sources of K-12 Education Increases from FY 2006 Executive Budget

<i>Funding Stream</i>	<i>Amount of Increase</i>
Senate Bill 380- Outstanding Schools Trust Fund	\$39 million
Proposition C – School District Trust Fund	\$42.3 million
Riverboat Gaming Revenues	\$75.002 million
Cigarette Tax (Fair Share Fund & State School Monies Fund)	\$2.7 million
Lottery Proceeds For Education	\$9.82 million
One-Half County Foreign Insurance Tax	\$1 million
Court Order St. Louis Desegregation Case	\$2 million
<i>Less: Reduction in Early Childhood Education Program</i>	<i>-\$1.787 million</i>
Total	\$170.641 million

Totals may not add due to rounding

As Table 1 shows, the entire \$170.6 million dollars comes from estimated increases in taxes that are required by law or by Court Order to go to K-12 education. The Governor was and *is required* to allocate these revenues to K-12 education. This, in fact, is the *minimum* increase that could have been

recommended. There is no increase whatsoever, in K-12 education funding that would come about as a result of the budget reductions being or enacted in other areas.

K-12 Funding Increase Estimates Appear To Be Unsound

In the context of the extremely tight FY 2006 budget situation, it would seem that proposing a 4.7% increase in K-12 education funding represents a major commitment to this area. Unfortunately, the estimates for several of these K-12 education dedicated taxes are extremely optimistic and seem to be totally inconsistent with the Consensus General Revenue Estimate. The funding streams and assumptions regarding their growth are discussed below:

SB 380 – Outstanding Schools Trust Fund - Increase of \$39.6 million.

SB 380 increases both Individual and Corporate Income taxes by limiting the amount of the allowable Federal Income Tax Deduction and increasing the Corporate Income tax rate. The Governor's Executive Budget shows an estimate for the SB 380 transfer to grow from \$396.2 in FY 2005 to \$435.8 in FY 2006 or an increase of 10%. At the same time the Consensus Revenue Estimate (CRE) for FY 2006 predicts an increase in Individual and Corporate taxes of 4.7%. While the SB 380 portion of these taxes may grow at a slightly different rate than the GR portion, the two portions **must** grow at a *similar* rate. It would be near impossible that the SB 380 portion will grow 10% while the rest of this tax is growing less than 5%. It is noted that it may be possible for the *Outstanding Schools Trust Fund* transfer to exceed the revenue generated by this tax in the current year if excess revenue has been accrued in previous years that in then allocated to the current year.

Proposition C - School District Trust Fund – Increase of \$42.3 million.

Proposition C is the 1 cent Sales Tax dedicated to K-12 education. The Executive Budget shows an increase in the School District Trust Fund from \$706.4 in FY 2005 to \$748.7 in FY 2006 or an increase of 6%. At the same time, the CRE predicts an increase in GR Sales and Use tax of 3.2% (adjusting the FY 2006 total upward by \$30 million to account for the Amendment 3 MV Sales tax transfer to MODOT) While the Proposition C portion of the Sales tax may grow at a slightly different rate than the GR portion, the two portions must grow at a *similar* rate. There is no way that the Proposition C portion will grow 6% while the rest of this tax is growing about 3%. It is noted that the Executive Budget does not revise the Proposition C – School District Trust Fund estimate for the current (in this case FY 2005) budget year. This makes it difficult to compare the “Proposition C” sales tax estimate with the General revenue sales tax estimate. An upward revision in the FY 2005 “Proposition C” estimate would make the FY 2006 estimate more plausible.

Cigarette Tax – State School Monies Fund and Fair Share Fund – Increase of \$2.7 million

Of the 17 cent per pack cigarette tax, 13 cents is dedicated to K-12 education. The Executive Budget shows an increase in cigarette tax of \$2.7 million or a 4% increase relative to FY 2005. In Fiscal Years 2003 and 2004, cigarette taxes grew 0.7% and 0.9% respectively. It is most unlikely that cigarette taxes in FY 2006 will grow at 4%. While the dollar amount here is relatively small, this would seem to confirm that these estimates are quite optimistic and bear little resemblance to reality.

Summary

This MBP analysis shows the following:

1. The assertion that the Medicaid and numerous other budget cuts are needed to provide a decent increase to K-12 education funding is completely false.
2. The **entire** proposed increase in K-12 education funding come from taxes dedicated by law to K-12 education and/or from Court orders.
3. The estimates provided for many of these dedicated K-12 taxes are extremely optimistic and are inconsistent with the Consensus Revenue Estimate. These taxes are not likely to yield a 4.7% increase in K-12 education funding.

4. Under the current budget proposal, K-12 education will be poorly funded; will receive ZERO new discretionary revenues, and WILL NOT benefit from the cuts to Medicaid and numerous other vital services.

The Missouri Budget Project is a Statewide, Non-Profit, Nonpartisan Fiscal Analysis Center. The Project analyzes the impact of tax and budgetary proposals and shares the information with the public. Web: www.mobudget.org; Phone: 314-652-1400; Address: 4130 Lindell Blvd. St. Louis, MO 63108.