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Testimony in Support of SJR 51
Senate Governmental Accountability & Fiscal Oversight Committee

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- In the past four fiscal years, Missouri has faced a significant fiscal crisis resulting in core reductions and withholds totally more than \$2.1 billion dollars.
- These cuts have resulted in the over 100,000 Missourians losing access to health care, and thousands more losing mental health coverage and other vital services. In other words, the cuts have had a significant impact on the well-being of Missourians.
- Other states have had similar crisis and have responded through a combination of efforts including utilizing their state Rainy Day Funds.
- In fact, Missouri is one of only a handful of states that has not accessed its State Rainy Day Fund in the current fiscal crisis.
- A key barrier to utilizing the fund has been the interpretation that use of a rainy day fund will negatively impact the state's bond rating. This is not true and far exaggerated. In fact, Standard and Poor's *Commentary on the States* October 18, 2001 edition concludes that the "use of reserves is not a credit weakness in and of itself. These reserves are accumulated in order to be spent during times of budgetary imbalance and extraordinary economic events....a balanced approach of adjusting spending and drawing on reserves will reduce out-year structural imbalance..." Missouri could therefore utilize the fund and still maintain its high bond rating.
- Another very significant reason the Missouri legislature has been reluctant to access the fund is due to the current "payback mechanism" required by the state Constitution.
- Currently, if the Rainy Day Fund is accessed, it must be paid back in the next three fiscal years, regardless of ability or economic recovery.
- This payback mechanism is excessively restrictive and is not actually required by most states. In fact, only The District of Columbia requires a faster payback than Missouri, and only South Carolina has a similar three-year payback requirement. The majority of states do not have this requirement in any form.
- Eliminating the payback clause does not equate with not paying back in future years as the legislature chooses. However, having a payback requirement starting in the next fiscal year does have the effect of discouraging use given the uncertainty of timing of the economic recovery.
- Missouri's payback requirement should be eliminated to allow for appropriate use of the Rainy Day Fund by the Legislature, when necessary.

- According to all revenue estimates, Missouri's fiscal crisis is continuing in Fiscal Year 2005 and could likely result in further cuts to state programs in the coming year. These cuts may not be necessary if the Rainy Day Fund is utilized. We know that the House estimate of the budget shortfall is approximately \$250 million. This amount could be covered with the Rainy Day Fund in the coming year. In other words, the Rainy Day Funds could be utilized to prevent the very harmful and unnecessary continuation of cuts.
- We recommend this committee's adoption of SJR 51.

For more information contact

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