

New State Budget Makes Modest But Critical Improvements, Misses Big Opportunities

Missouri's annual operating budget is more than a set of numbers. In its funding for education, health care, and other services that serve as a foundation for Missouri families and our economy to thrive, the budget reflects the priorities of our state.

Although lawmakers increased appropriations in many areas, our state continues to pass by opportunities to invest in the tools that strengthen our state.

- Missouri increased its funding for K-12 education in next year's budget. However, in response to ongoing shortfalls in K-12 education funding, lawmakers re-instituted a cap in the state's education funding formula. The amount of state funding required for education under the cap will be more than **\$1,000 per student lower than what was required per student a decade ago**, when adjusted for inflation.
- Despite increased funding for higher education, the **amount of state funding per full-time four year college student is lower than it was in 2007**, in nominal terms (not adjusted for inflation).
- Increased child care reimbursement rates put Missouri on a path to strengthen access to quality care and make child care more affordable for 20,000 low-income families throughout the state.
- A healthy Missouri is a fundamental building block of a prosperous economy and a good quality of life. While lawmakers made

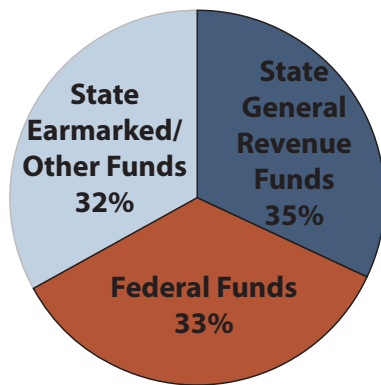
strides to improve access to behavioral health services, the legislature failed to close the health care coverage gap, bypassing an opportunity to build a stronger, healthier, and more fiscally responsible Missouri.

Overview of the FY 2017 Budget

Lawmakers approved a \$27 billion state budget for fiscal year 2017, which begins on July 1st. The budget is made up of three pools of funding, which each make up about one-third of the total operating budget:

- **State General Revenue**, which is made up of the state personal and corporate income tax, and general revenue sales tax;
- **State Earmarked Funding**, comprised of state funding sources that are mostly constitutionally dedicated to a specific purpose, such as the gas tax which is dedicated to transportation and gaming revenues which are dedicated to education; and
- **Federal Funds**, which are also largely dedicated to specific purposes, such as health care and services for children.

Total Missouri State Budget Increased 7.4% Over FY 2016

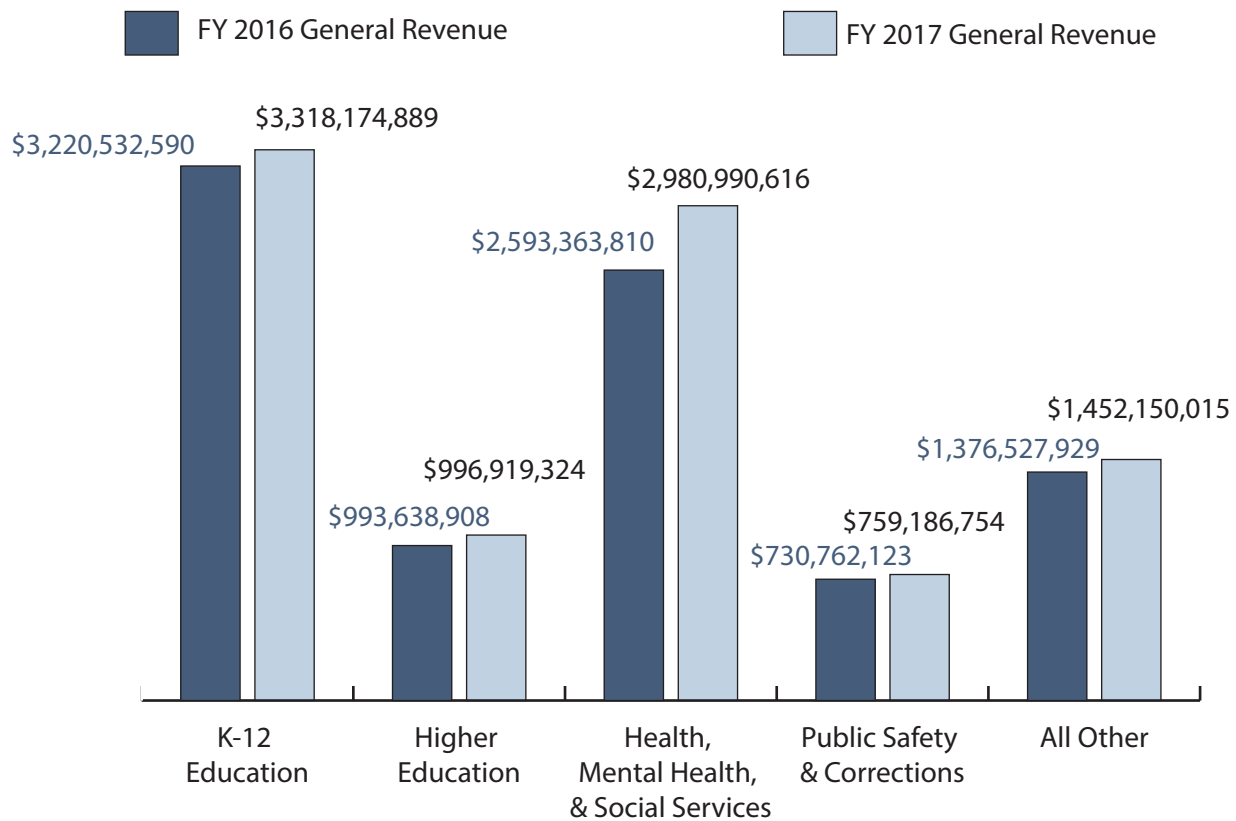


The legislature has the most flexibility in determining where state general revenue funds are spent because these dollars are not dedicated or earmarked like Missouri's other sources of funding.

Source: Missouri General Assembly Appropriations Staff, "FY 2017 TAFP Tracking Sheet" and "FY 2017 Conference Committee Worksheets"

The following chart shows how general revenue funding has been allocated in the 2017 budget and how those allocations compare to 2016 levels. The \$9.5 billion FY 2017 general revenue budget is about 7.4 percent higher than the 2016 general revenue budget (Please see the Appendix for a more detailed table of the FY 2017 and FY 2016 Total Operating Budget).

FY 2017 General Revenue Budget Increases Compared with FY 2016

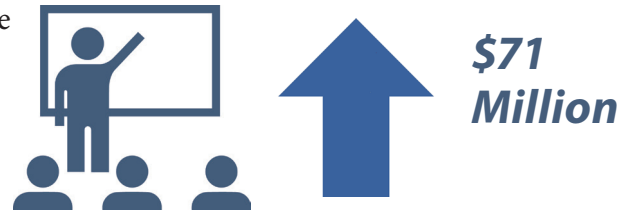


Source: Missouri General Assembly Appropriations Staff, "FY 2017 TAFP Tracking Sheet" and "FY 2017 Conference Committee Worksheets"

Funding for Local Schools Increased Modestly, But with Big Changes in the Formula

K-12 education is the largest area of spending in the Missouri general revenue budget. However, based on the legislature's own target funding levels, as defined in the "Foundation Formula," Missouri has been underfunding local schools for the last seven years.

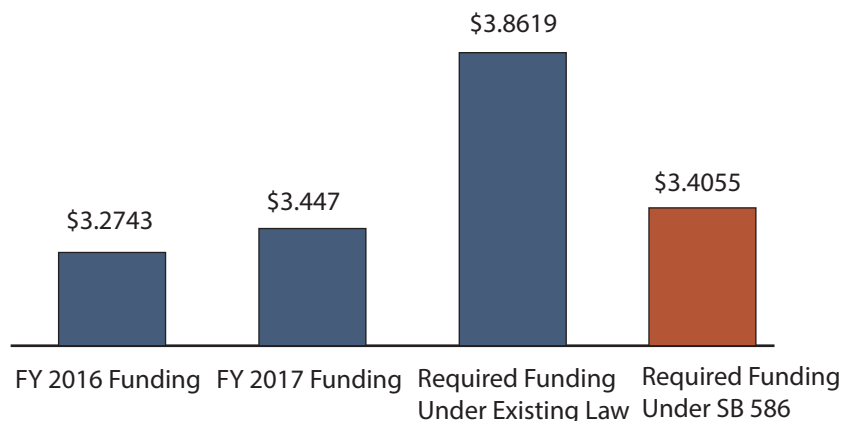
This year, state lawmakers increased total funding for the Department of Elementary and Secondary Education (DESE) budget by about \$140 million overall, to \$5.92 billion. This amount includes a \$71 million increase in state funding for local schools, which is distributed through the "Foundation Formula."



However, even after the increase, state funding for local schools would have remained \$500 million under the existing school funding formula's required amount. In response to ongoing shortfalls in the funding of education, lawmakers passed Senate Bill 586 (SB 586) concurrent with the state budget bills this year. SB 586 reinstates a 5 percent cap on the growth in the State Adequacy Target (SAT), which determines the required level of funding per student under the Foundation Formula. Effectively, the bill will reduce the amount of required funding under the Formula by about \$460 million, thereby reducing the shortfall amount. Even after this change, which will take effect July 1st in tandem with the new budget year, state funding will fall slightly below the updated foundation formula requirements.

Even After Reinstatement of Cap Under SB 586, State Funding for Local Schools Remains Below Required Levels

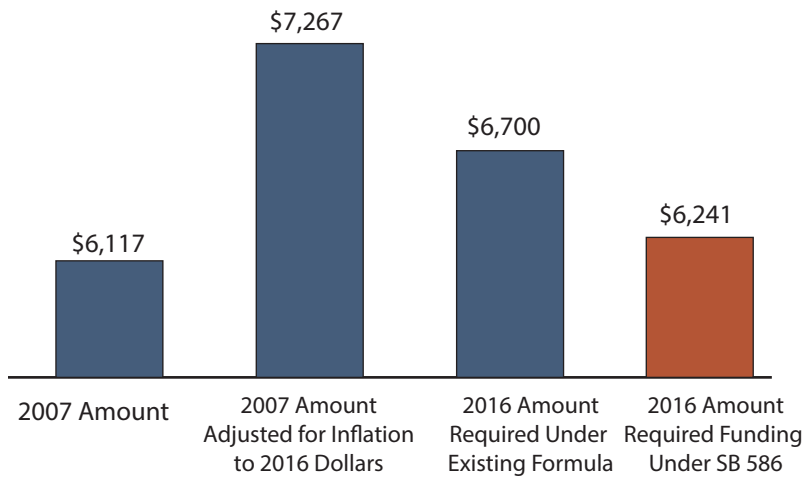
Amounts in Billions



Source: "Impact of Senate Bill 586 on the School Funding Formula," Office of the Governor, available at: <https://governor.mo.gov/sites/default/files/2016-final-formula.pdf>

Further, by reinstating the cap on the SAT, SB 586 will reduce the amount of funding required per student by a significant amount, from \$6,700 to about \$6,241 per student.¹ In context, that amount is well below the 2007 level, when adjusted for inflation.² **In other words, compared to the real cost of educating students, the required level of state funding will be nearly \$1,000 per student lower than it was a decade ago.**

Per Student Funding Required Under the “State Adequacy Target” Cap in SB 586 Well Below 2007 Amount When Adjusted for Inflation



Source: 2007 per student funding amount from the Missouri Department of Elementary and Secondary Education, adjusted for inflation by the Missouri Budget Project. 2016 amounts from the Missouri Council of School Administrators and Missouri NEA

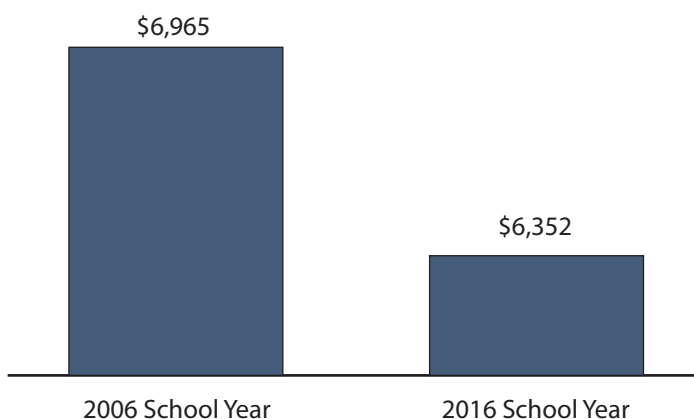
Proponents of SB 586 assert that by making the formula requirements more attainable, lawmakers will have an incentive to fully fund it and will therefore provide more consistent increases in funding. In addition, once full funding of the formula is reached, a provision regarding early education funding will trigger, requiring additional state funding for schools to strengthen access to preschool. Opponents argue that by reinstating the cap, lawmakers are simply avoiding the hard work of providing adequate funding for local schools, and instead are passing that responsibility onto local governments. Although the

Governor vetoed SB 586, lawmakers immediately overrode the veto, requiring the caps to take effect on July 1st.

Higher Education Funding Increased, But Remains Far Below 2007 Level

State lawmakers increased the higher education budget by \$49 million, for a total budget of \$1.3 billion including state and federal funding. The amount includes an increase of \$42 million in general revenue funding for Missouri’s public four-year colleges and community colleges, and an increase of \$5 million in general revenue funding for state scholarship programs including Bright Flight, Access Missouri and the A+ Scholarship.

State Funding Per College Student Has Dropped By Over \$600 Over the Last Decade



Source: Missouri Department of Higher Education enrollment numbers, and Missouri General Assembly Appropriations Staff, “FY 2017 TAFP Tracking Sheet” and “FY 2017 Conference Committee Worksheets

Even with this significant increase, the state’s investment per student is below what it was a decade ago in nominal terms (not adjusted for inflation). In fiscal year 2007, state funding for four-year colleges was \$716 million. While that funding increased to \$766.9 million in FY 2016, nearly 18,000 more students were enrolled in that year compared to 2007.³ As a result, while in 2007 the state invested \$6,965 per student, by FY 2016 that investment had dropped to \$6,352 per student. Despite increased state funding of \$776.8 million in the new budget, Missouri will continue to invest less per student in its future workforce than it did in 2007.

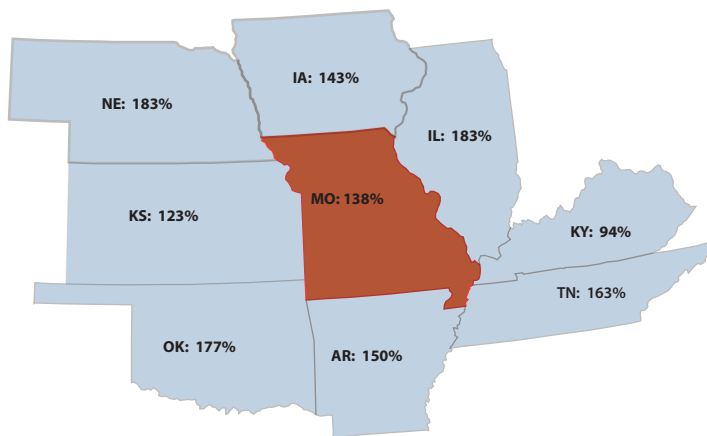
Budget Improves Child Care Assistance and Early Education

Lawmakers included some very important increases in the new budget to make child care more affordable for Missouri's families. Total funding for the state's child care assistance program was increased by \$17 million:

- \$10.7 million of that amount will be used to increase payments for those providers who are licensed or religiously exempt in compliance.
- \$5.3 million will be used to further enhance rates for providers that care for a disproportionate share of children through the child care assistance program.

In 2015, Missouri increased the eligibility level for its child care assistance program to 138 percent of the federal poverty level. Families that earn up to \$2,318 per month for a family of three are eligible for full child care assistance. Although a significant step forward, that eligibility level still falls well below the national average of 182 percent of FPL. The low eligibility level means that families are often faced with losing child care assistance if they receive even small increases in wages, compromising their ability to get ahead.

Eligibility for Child Care Assistance in Missouri is Below the National Average of 182%, Below Most Neighboring States



Compounding the problem, Missouri's payment rates to providers of child care services are just 68 percent of the comparable market rates, well below the cost of caring for children. The low reimbursement rates have served as a barrier for families in accessing quality child care. Providers often either limit the number of children they serve through the child care assistance program or require low-income parents to provide a co-payment to compensate for the difference between the state's reimbursement rate and the actual cost of care.

The increase in funding dedicated to improving provider payments puts Missouri on a path to strengthen access to quality care and make child care more affordable for 20,000 low-income families throughout the state.

In addition to the child care assistance program, lawmakers included important increases in other early childhood programs in the new budget. Missouri is the home of the internationally renowned Parents as Teachers (PAT) home visiting program. PAT enhances school readiness for Missouri children by helping their parents develop skills to be their child's first teacher in the critical early years of life. It also serves as a first line of detection for potential developmental delays or other health problems in young children.

Missouri's funding for Parents as Teachers has been cut nearly in half since fiscal year 2009, dropping from \$34 million in that year to \$17.5 million in fiscal year 2016. In the new budget, lawmakers added another \$537,750 to the 2016 amount, which is dedicated to PAT services in unaccredited or provisionally accredited school districts.

State Improves Access to Mental Health Care, But Misses Opportunity to Save Money and Close Health Coverage Gap

A healthy Missouri is a fundamental building block of a prosperous economy and a good quality of life. While lawmakers made strides to improve access to behavioral health services, the legislature failed to close the health care coverage gap, bypassing an opportunity to build a stronger, healthier, and more fiscally responsible Missouri.

Lawmakers included important funding in the budget that will help low-income Missourians access needed mental health care services. Specifically, budget increases of \$25.6 million in general revenue funding and \$42.4 million in federal funding will allow community providers of mental health services to respond to greater demand and provide services to an additional 2,905 Missourians with mental illness and developmental disabilities.⁴

Increased Patient Numbers for Department of Mental Health Services	
Service Population	Number of New Clients
Comprehensive Psychiatric Services for Adults	698
Comprehensive Psychiatric Services for Kids	767
Alcohol & Drug Abuse Treatment (CSTAR)	321
Developmental Disabilities – Individuals in Crisis	270
Developmental Disabilities – Crisis Residential Care	270
Nursing Home Transitions	41
Children’s Division Transitions	38
Prevent in Home Wait List	500

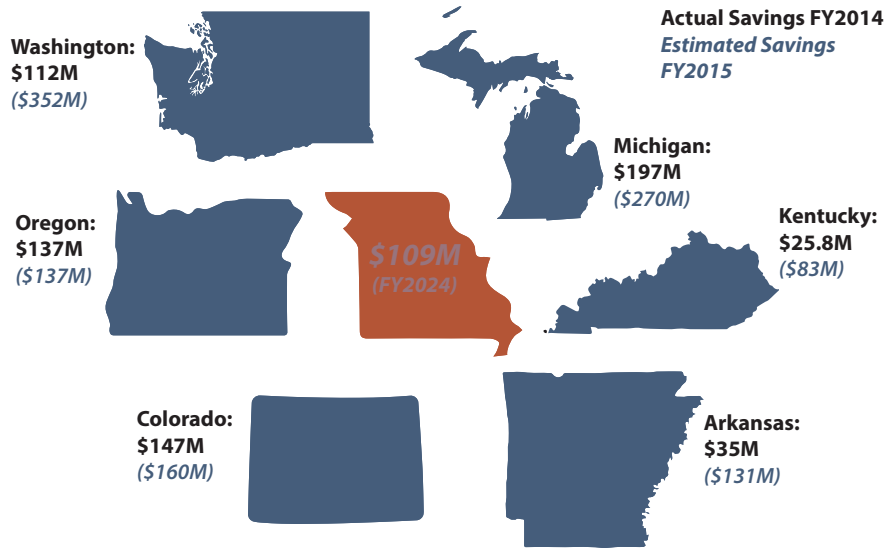
Source: Missouri Department of Mental Health “FY 2017 Decision Item Summary with Brief Description,” available at <http://dmh.mo.gov/about/admin/docs/fy17disummaryw-briefdescription.pdf>, downloaded 5/22/2016

In addition, the budget will increase rates for service providers. Rates will increase three percent for all mental health services providers with the exception of those that provider residential services for Missourians with developmental disabilities. Those providers will receive a re-basing and a flat increase of 46 cents per hour. Combined, the funding for these increases totals \$62.2 million including \$25.8 million in general revenue.⁵

However, lawmakers again failed to take advantage of Medicaid Expansion as provided for under the federal Affordable Care Act. Expanding Medicaid would provide essential health care coverage for 300,000 Missourians, while saving the state funds that could be used for other purposes.

Thirty-two states including the District of Columbia have expanded Medicaid, including several of Missouri’s neighbors: Arkansas, Illinois, Iowa and Kentucky. An analysis commissioned by the Robert Wood Johnson Foundation examined actual state budget savings in twelve states that expanded Medicaid, including Arkansas, California, Colorado, Kentucky, Maryland, Michigan, New Mexico, Oregon, Pennsylvania, Washington, District of Columbia and West Virginia. The report found that by the end of 2015 (just 1.5 years into expansion) **these states experienced savings in state spending and state revenue increases of more than \$4.2 billion combined.**⁶

States with Medicaid Expansion Already Realizing Savings Missouri Would Net More than \$100 Million Annually in General Revenue Savings and New Tax Revenue



Similarly, Missouri would save significant state revenue by expanding Medicaid. By moving people from existing state-funded services into the federally-funded Medicaid expansion, Missouri could net savings of at least \$47 million per year in state general revenue dollars when the expansion is fully implemented. That amount is net of new state general revenue costs for the expanded coverage. In addition, Missouri can expect to collect at least \$50

million per year in additional state sales and income tax revenue resulting from the jobs supported by enhanced federal funds coming to the state.

As a result, when fully implemented, Missouri will see approximately \$100 million per year in state budget savings and new revenues as a result of Medicaid expansion, even accounting for the state costs of Medicaid expansion. These are real dollars that would be saved in the state's budget and that could be used to increase funding for education or other services to build a stronger Missouri.

CONCLUSION

By investing in Missourians, our state can build an economy where the middle class can thrive and everyone has a shot at a better tomorrow. While legislators made strides in many important areas, there is still much progress to be made to invest in our future and build a stronger Missouri.

FOOTNOTES

- 1 Missouri Department of Elementary and Secondary Education
- 2 Ibid
- 3 According to the Missouri Department of Higher Education, the number of students enrolled in four-year institutions increased from 102,885 students in budget year 2007 to 120,741 students in the current year.
- 4 Missouri Department of Mental Health "FY 2017 Decision Item Summary with Brief Description", available at <http://dmh.mo.gov/about/admin/docs/fy17disummaryw-briefdescription.pdf>, downloaded 5/22/2016
- 5 Ibid
- 6 "States Expanding Medicaid See Significant Budget Savings and Revenue Gains", Robert Wood Johnson Foundation, March 2016