Revenue Levels Hinder Growth

Historical Trends Show There is a Better Way

Tom Kruckemeyer and Traci Gleason

MISSOURI BUDGET PROJECT
January 20, 2015

Creating and maintaining good jobs and promoting a decent quality of life come from providing quality education from preschool through college, ensuring a solid safety net for when times are hard, and investing in reliable infrastructure, but Missouri is heading in the opposite direction.

In fiscal year 2016, which begins on July 1st, Missouri will be well short of the resources necessary to fully fund the K-12 education funding formula, and when the tax reductions passed last year begin to go into effect, the state's finances will become far worse.

Even before the 2014 tax cuts go into effect, Missouri is facing general revenue tax levels that are at near record lows. Since 1993, Missouri has cut taxes more than 20 times, resulting in more than a $1 billion loss to general revenue in fiscal year 2014.

Were last year's general revenue collections the same proportion of the economy as in 2003 (which was not even a high point), the state would have been able to fully fund K-12 education and meet many other state needs that would have helped strengthen the Missouri economy.

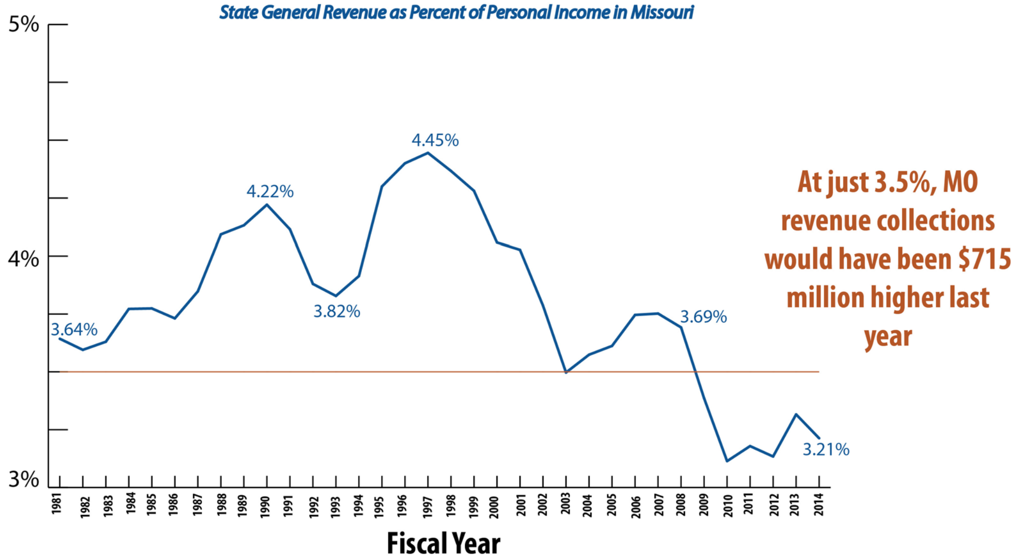
General Revenue Fails to Keep Pace with Economy

Although the economy is generally improving, it is no surprise that Missouri is struggling to fully fund K-12 education or restore cuts made to mental health, social services, or other essential services made during the Great Recession. Relative to the size of the economy, net general revenue collections are near record lows.

After dipping during the recession, the number of general revenue dollars is finally recovering. However, these simple numbers fail to tell the real story about the ability of the state to provide essential public services for Missourians. As population increases and the economy grows, the funding needed to simply maintain the same level of public services grows. But the best way to measure the growth in state funding is not simply inflation, which only keeps up with the value of a dollar. Assessing general revenue relative to the size of the economy better reflects whether the funding available to the state is keeping up with changing needs, while also taking into account economic growth or stagnation.

As State General Revenue Falls Relative to the Economy, Missouri Loses the Ability to Invest in Its Residents

State General Revenue as Percent of Personal Income in Missouri



Missouri's revenue is clearly not keeping pace.

The downward trajectory of general revenue intake relative to the size of the state's economy has had a significant impact on Missouri's ability to spur the economy and develop its human capital through its schools, infrastructure, and health services. While the ratio is slightly higher than during the recession years, it is well below the levels of the 1980s and drastically under that of the 1990s.

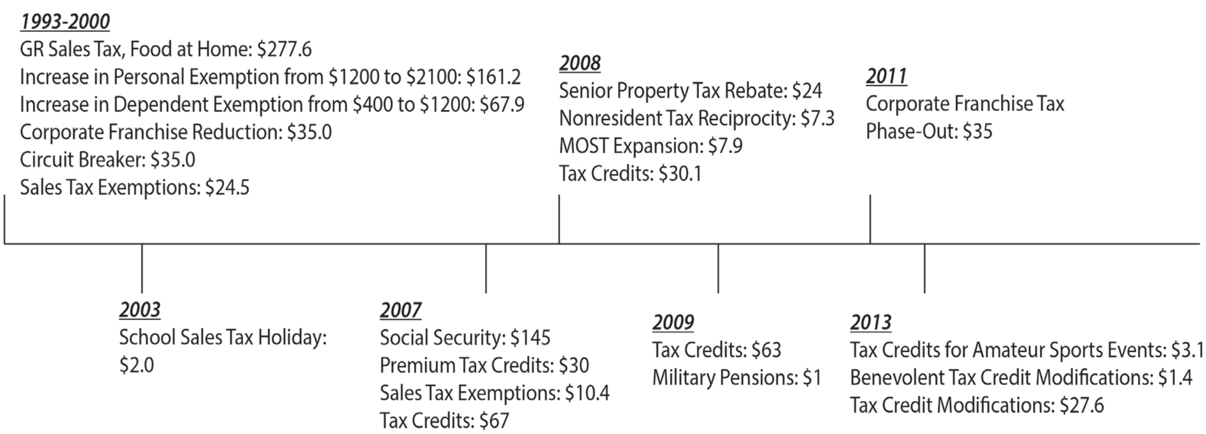
If the ratio in fiscal year 2014 had been just 3.5 percent, net general revenue collections would have been $8.718 billion, or $715 million more than last year's actual revenue of $8.03 billion – enough to fully fund the K-12 education formula and meet many other needs.

Tax Cuts Have Cost More Than $1 Billion, Undermining State's Ability to Fund Education, Infrastructure, and More

These reductions have not come about simply due to economic challenges. Since 1998, at least 20 tax cuts have been enacted in Missouri, totaling more than $1 billion in FY 2014 dollars:

Timeline: Two Decades of Tax Cuts Cost More Than $1 Billion

Cost of Each Tax Reduction is Estimated for FY 2014 , Amounts in Millions



Unfortunately, once the tax cuts enacted last year go into effect, Missouri will experience even further challenges in balancing its budget and meeting the needs of Missouri families, losing an additional $640 million in fiscal year 2023 once those cuts are fully implemented.

Outlook for FY 2016: Revenue Will Be Stable, But Insufficient

Because the 2014 tax cuts will not yet be implemented, the outlook for fiscal year 2016, which begins on July 1st of this year, is stable. The Governor and legislative leadership have agreed to revenue estimates for the remainder of the current fiscal year and for fiscal year 2016, detailed below. However, even with fairly optimistic revenue growth expected, the state will be well short of the resources needed to fully fund K-12 education and its many other critical services.[1]

Consensus Revenue Estimates Achieved *Dollars in Billions, FY 2014 are Actuals*			
Fiscal Year	FY 2014	FY 2015	FY 2016
Gross GR Collections	$9.2819	$9.7168	$10.0672
GR Refunds	($1.2786)	($1.3453)	(1.3944)
Net GR Collections	$8.0033	$8.3715	$8.6728

A Path Forward

Good jobs and a decent quality of life come from access to quality education from preschool to college, reliable infrastructure, and a solid safety net for when times are hard, but Missouri is heading in the opposite direction. Missourians deserve better.

[1] The Missouri Budget Project (MBP) has independently developed a net general revenue estimate for the remainder of FY 2015 and FY 2016. While it varies in some details, in the aggregate, the MBP estimate is substantially similar to the consensus revenue estimate agreed to by Governor Nixon and legislative leadership.