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### **FY 2016 Revenue Shows Impending Tax Cuts Reckless**

Final state general revenue numbers for fiscal year 2016 show that Missouri simply cannot afford tax cuts passed by the legislature in 2014. While poor revenue growth has put off the pain of steep cuts to services for at least an additional year, the combination of unmet needs and new budget restrictions to be announced this week indicate that lawmakers should revise the tax cuts before it's too late. Lawmakers should take advantage of this delay in implementation to create a different path for Missouri by pursuing policies that will invest in hardworking Missourians.

“At a time when Missouri does not even have the resources to fully fund its local schools, it would be irresponsible to allow the looming tax cuts to be implemented as planned,” said Amy Blouin, Executive Director of the Missouri Budget Project. “The experience in Kansas should show our legislators that these tax cuts will make the situation in Missouri even more dire.”

Tax cuts included in 2014's Senate Bill 509 will cost our state at least \$620 million annually when fully implemented, and that money will hurt the state's ability to pay for services that Missourians rely on like our public schools, roads and bridges, and affordable health care. Kansas, Oklahoma, Louisiana and other states that have cut income taxes have struggled to fund K-12 schools, higher education, and other needs. The crisis in Kansas has been ongoing, with businesses exiting the state and the state's bond rating being downgraded.

“To compete in a 21<sup>st</sup> century economy, we need a skilled and educated workforce nimble enough to address the needs of the future, and Missouri families rely on public education as a path to a better future for their children,” continued Blouin. “But even as our state isn't bringing in enough revenue to meet current forecasts, we have tax cuts hanging over our head, threatening to make things even worse as soon revenues increase.”

Although the tax cuts won't go into effect as envisioned in 2017, the trigger is set so that they can go into effect even when state revenue growth is insufficient to cover the cost of inflation. Based on last year's budget, and a very conservative two percent inflation rate, the state would need upwards of \$180 million in revenue growth just to fund current levels of service – but the tax cut will be triggered if revenue grows by just \$150 million. And when the tax cuts go into effect, they will send revenue falling once again, bringing new economic pain.

“We may have dodged a bullet this year,” concluded Blouin. “But it's only a matter of time before these tax cuts wreak havoc on the Missouri economy. Lawmakers should use this brief reprieve to instead pursue policies that will allow Missouri to strengthen the services that provide the foundation for families, our communities and the economy to thrive, including quality education, public safety, health and mental health.”

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## Background on Revenue and Tax Cuts:

Missouri ended fiscal year 2016 on June 30<sup>th</sup> with net general revenue collections of \$8.786 billion for the year. The amount is just \$77.5 million higher than what was collected the prior fiscal year.

Senate Bill 509 from the 2014 state legislative session includes a “trigger” provision that requires state general revenue to grow by at least \$150 million compared to the highest amount attained for the preceding three fiscal years for tax cuts to begin being phased-in. **However, this amount is less than what is needed to meet just inflationary needs to maintain current public services.**

The trigger does not account for additional, currently unmet needs. For example:

- Although lawmakers included in the new budget year an increase of \$71 million in state funding for local schools to be distributed through the Foundation Formula, that funding is still below the level required by statute, and well below the funding provided by the state for each student in 2007 when adjusted for inflation.
- Although lawmakers increased funding for Missouri’s public colleges and universities by \$49 million in the new budget year, the amount of funding remains \$600 per student under the amount provided in 2007.
- Missouri also invests less in early education than most other states. Although funding for child care assistance received modest increases over the last two years, Missouri’s eligibility for child care assistance stops at just 138 percent of the federal poverty level (FPL), falling 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.
- Funding for the Parents as Teachers early intervention program has been cut nearly in half since fiscal year 2009, dropping from \$34 million in that year to \$18 million in the new budget year.
- Although Missouri has been instituting some innovative changes in mental health services, the state continues to lag other states in providing access to affordable health care. Eligibility for Medicaid assistance for low-income parents ends at just 19% of FPL – or an income of \$301 per month for a family of three. This is the lowest eligibility level in the nation, tied with Texas and Alabama, and is well below the national average of 138% FPL

If implemented, the tax cuts in SB 509 would require Missouri to make additional cuts to already diminished public services. When fully implemented, SB 509 will cost \$620 million per year.

In context, that amount is the equivalent of:

- One-fifth of state funding for local K-12 schools, **or more than 13,000 teachers**
- Six times the amount Missouri spends on all early education services each year;
- 80 percent of state funding for public safety and corrections each year – **Missouri could close all state prisons and only cover about ½ the cost of SB 509**

For more information on the Missouri Budget, and unmet needs, see:

[New State Budget Makes Modest But Critical Improvements, Misses Big Opportunities](#)

[MBP's Invest in Missouri series, examining the status of education and health care in Missouri](#)