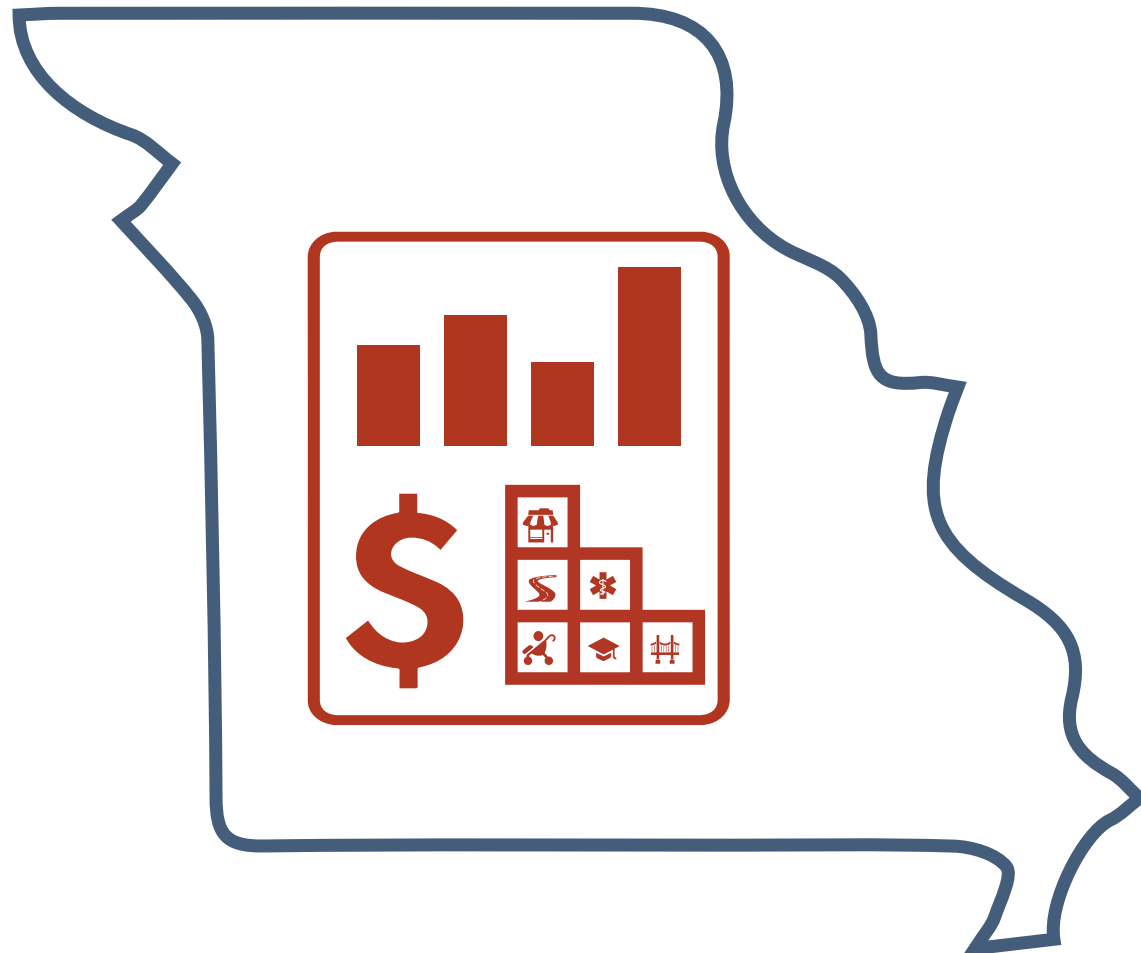


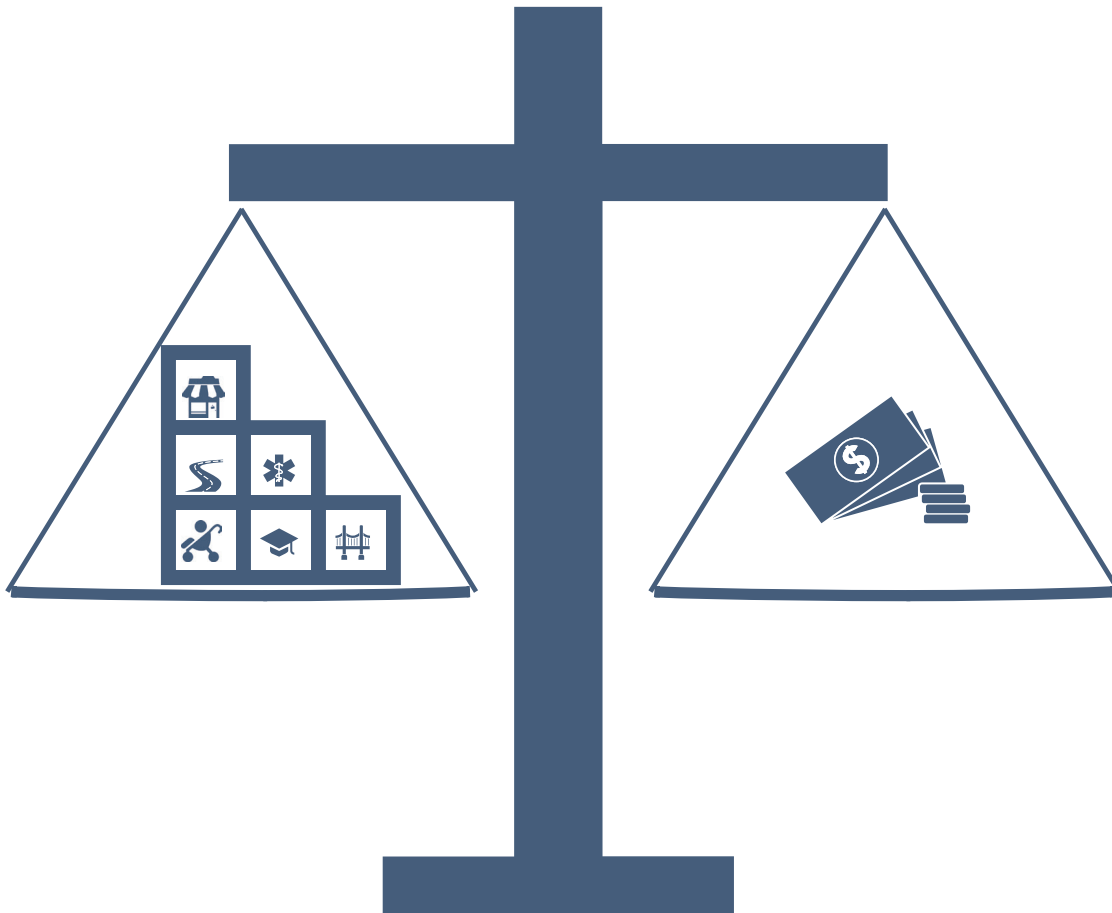
How Missouri Funds State Services

Introduction to the Missouri Budget

2017



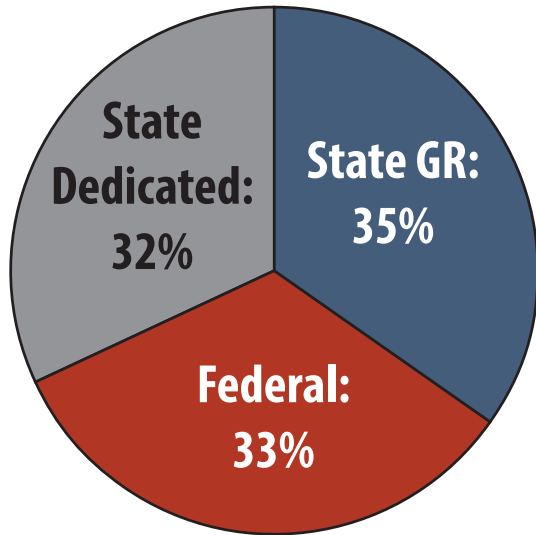
Missouri Requires a Balanced Budget



- Developing the state's annual budget is one of the most important – and complicated – responsibilities of Missouri lawmakers.
- In 2017, the full legislature must pass a budget by May 5th, setting the spending limits for the next fiscal year, which runs from July 1 to June 30.
- Because the budget year begins in the middle of a calendar year, it is named for the coming calendar year. So, the budget lawmakers will be debating in 2017 is the Fiscal Year 2018 budget.
- Missouri's state constitution requires the budget to be balanced, so spending by the state cannot exceed incoming revenue.

Sources of Missouri's Budget

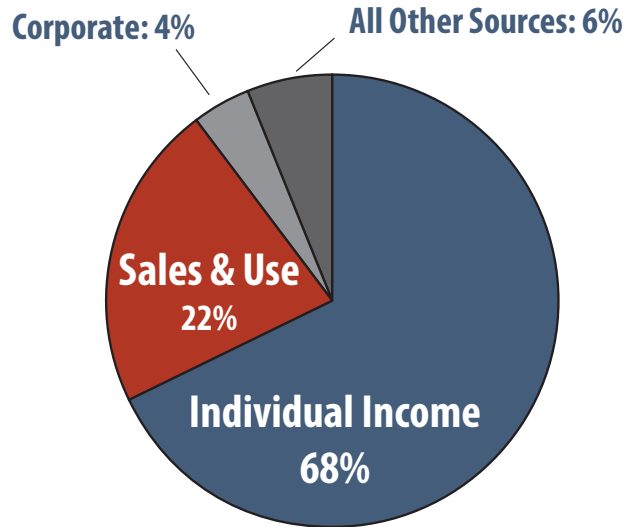
Revenue Sources, Fiscal Year 2017 Operating Budget



- Missouri's budget for the current year is slightly more than \$27 billion.
- About one-third of the funding to support the budget comes from the federal government for very specific purposes.
- Another third is state revenue dedicated to specific state purposes, like the fuel tax, which is dedicated to transportation.
- Lawmakers have the most authority to allocate the final third, referred to as General Revenue.

State General Revenues

Sources of State General Revenue, FY 2017



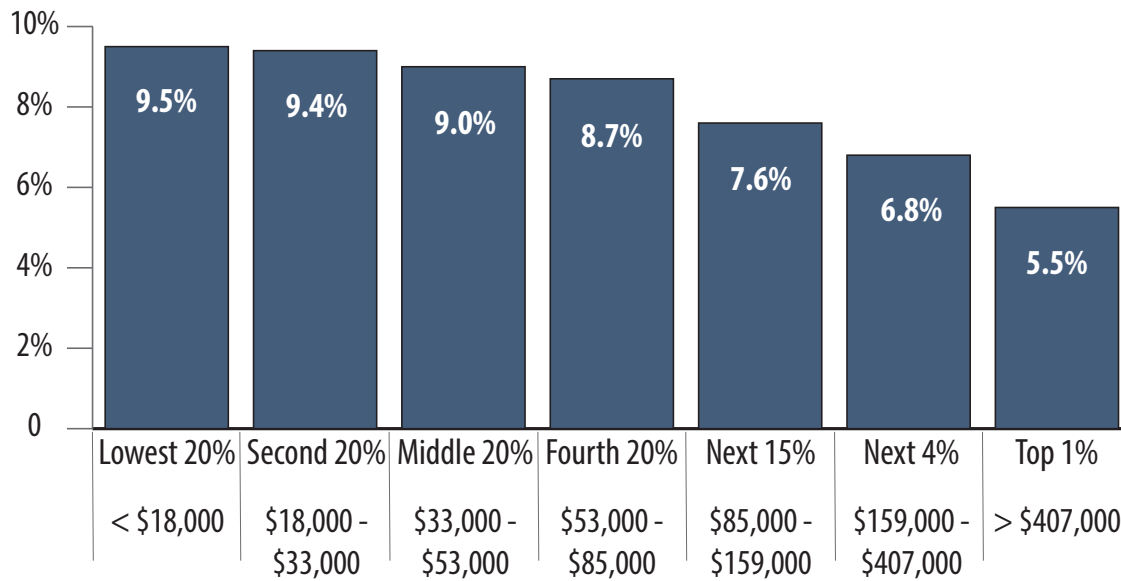
The primary sources of state general revenue funding are individual income tax and sales and use tax.

- Approximately two-thirds of general revenue comes from individual income taxes, while one quarter of state general revenue comes from sales and use taxes.
- Another 4 percent of general revenue is collected through corporate tax.

Lower Income Missourians Pay a Higher Share of Their Income in Taxes

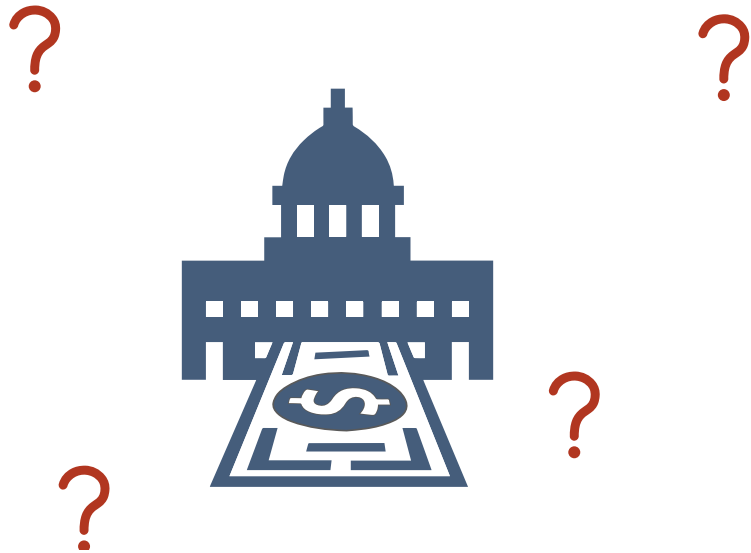
State and Local Taxes as a Share of Family Income

Non-Elderly Taxpayers, 2015



- Missouri has a progressive income tax structure, which means that the income tax rate increases as the amount of taxable income increases.
- However, the income tax brackets have not been adjusted in decades. As a result, the highest income tax bracket kicks in at just \$9,000 of income.
- The state's tax structure has many additional regressive features, like the sales tax. Sales taxes are considered regressive because they require a higher contribution as a portion of income from those who earn less.

Consensus Revenue Estimate

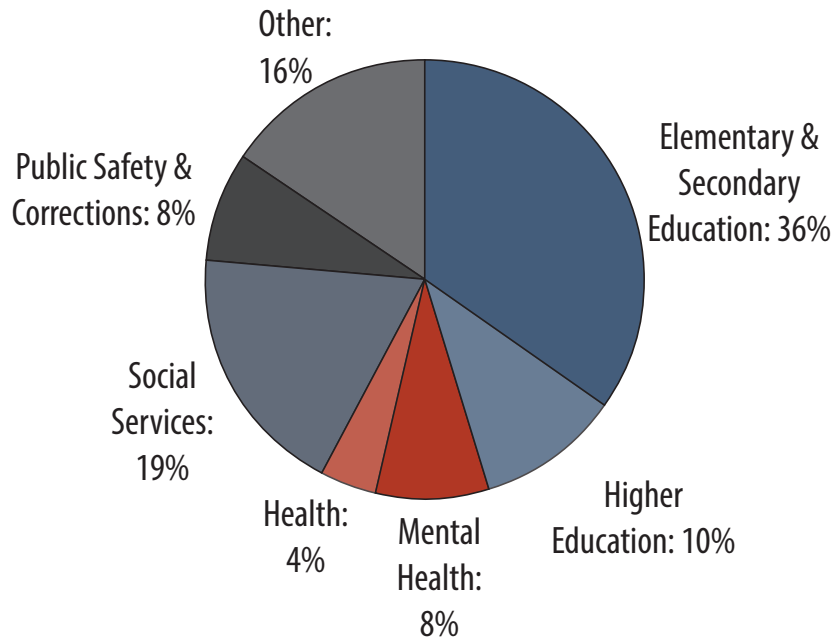


- Because the state budget must be balanced every year, the legislature relies on an estimate of expected state revenue as a starting point for the budget process. Lawmakers work together with the Governor to determine this estimate, which is referred to as the Consensus Revenue Estimate (CRE).
- As the budget process progresses, other revenues are also considered. These other considerations may include a beginning balance, any lapses from the previous year, adjustments for legislative changes, and any other transfers to the general revenue fund.
- As the name implies, the Consensus Revenue Estimate is only an estimate. According to available data, the CRE has accurately predicted the actual revenue growth in only two years since 1992.
- In other years the estimate has missed the mark, sometimes by a significant amount. For example, in 1995 the CRE predicted growth of 4.4 percent; however actual revenue increase by 13.9 percent. The biggest miss was in 2010 when the CRE and actual growth differed by 10.3 percent.

State Expenditures

Fiscal Year 2017 Operating Budget

Based on Appropriated Amounts Including Vetoes, But Not Mid-Year Restrictions



- The legislature outlines its recommendations for the state budget in 13 different House Bills, which are referred to as the budget bills. Each bill includes the spending recommendations for different state government departments and functions.
- While most other bills are assigned a number in the order they are filed, the 13 operating budget bills are always the first 13 numbered bills and appropriate funds for the following functions:

HB 1 *Board of Fund Commissioners (public debt)*

HB 2 *Elementary and Secondary Education*

HB 3 *Higher Education*

HB 4 *Revenue and Transportation*

HB 5 *Office of Administration & Employee Benefits*

HB 6 *Agriculture, Natural Resources, Conservation*

HB 7 *Economic Development, Insurance, Financial Institutions & Professional Registration, and Labor & Industrial Relations*

HB 8 *Public Safety*

HB 9 *Corrections*

HB 10 *Mental Health, Health & Senior Services*

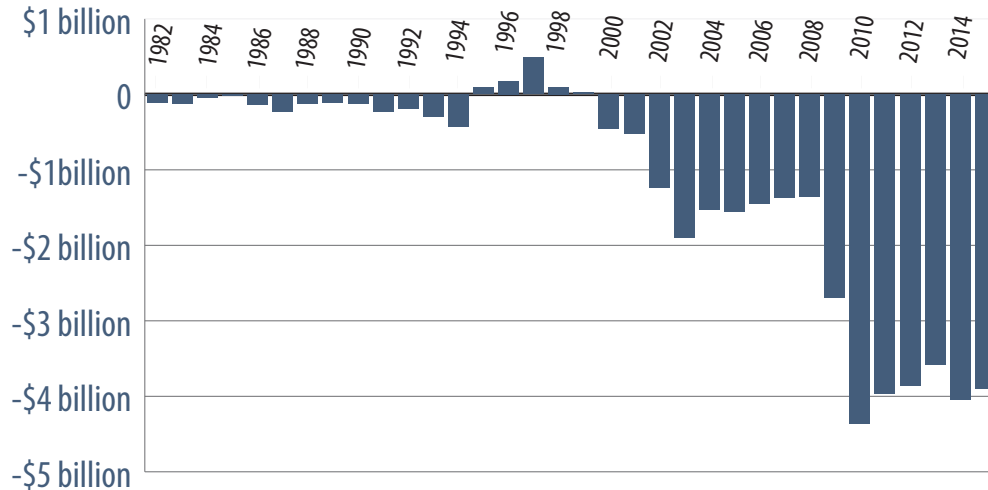
HB 11 *Social Services*

HB 12 *Offices of Statewide Elected Officials, Judiciary, & State Public Defender*

HB 13 *Statewide Real Estate*

Hancock Amendment & Voter Approval of Tax Increases

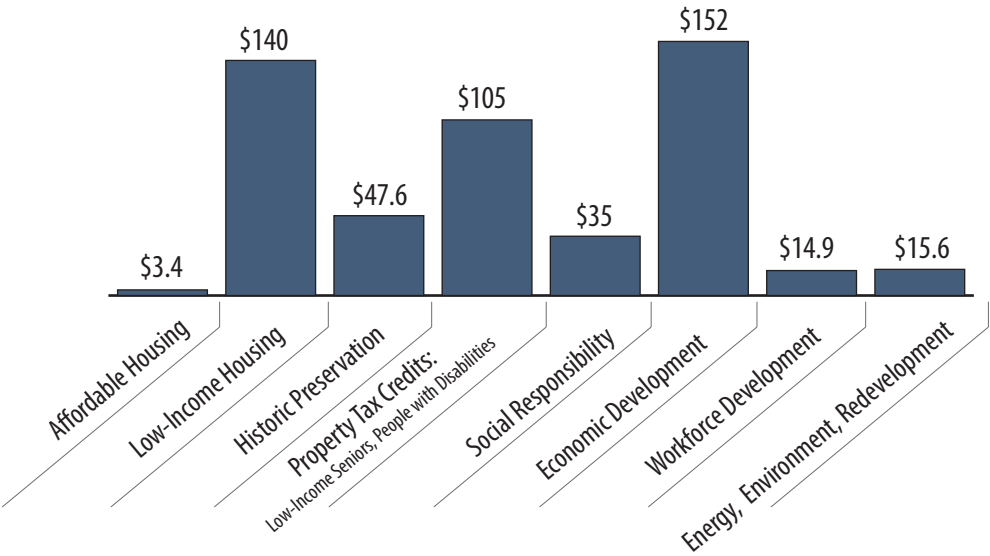
Missouri General Revenue Declining Relative to the Economy
GR Billions Short of Hancock Limits



- In 1980, the Constitution of Missouri was amended to limit the amount of revenue raised by the state. This is commonly referred to as the Hancock amendment.
- The Hancock Amendment limits the amount of Missourians' personal income that may be used to fund state government. to no greater than the portion used to do so in 1981, when it was 5.6 percent.
- For the 2016 state budget year, total state revenue was approximately \$3.76 billion under the Hancock refund threshold.
- Another part of the Constitution requires voters to approve taxes or fees passed by the General Assembly that exceed specific annual limits.
- In fiscal year 2016 (the most recent year included in state audit findings), the legislature had authority to authorize tax changes that would generate up to \$94.3 million.

Tax Credits Cost Missouri More Than \$500 Million Each Year

Tax Credits Redeemed by Category, FY 2015



- Many tax credits serve important policy goals. Some help low-income seniors remain in their homes or help nonprofits like food banks, domestic violence centers, or organizations serving pregnant women and children leverage donations. Others promote affordable housing or economic development.
- The growth of tax credits has significantly reduced state general revenue, costing almost \$515 million in fiscal year 2015.
- Tax credits have policy benefits that cannot be overlooked, but the value and impact of the credits depend on how each of them are designed.

Missouri By the Numbers

885,000 students in Missouri public schools

92,000 people under supervision of the Missouri Department of Corrections

7th largest state highway system in the nation, including:
33,890 miles of highway, and more than **10,000** bridges

25,696 investigations into abuse & neglect of seniors and persons with disabilities are expected to be completed by Adult Protective Services in FY 2017

20,287 children are anticipated to be in the custody of the Children's Division custody at some point during the year

32,504 kids access early childhood special education services or services for children with developmental disabilities

28,500 individuals with physical or mental disabilities receive vocational rehabilitation services

State Rankings:

47th per capita state government revenue (from state non-federal sources)

43rd state & local government revenue from state non-federal sources)

44th per capita state government total expenditures

875,000 Missourians live in poverty, including
1 in 5 Missouri kids.

Missouri's child poverty rate is the **21st highest in the country**

The Missouri Budget Process (2017)

Executive Budget

Summer through October 1st:
Departments submit budget requests to the Office of Administration for consideration by the Office of Budget & Planning and the Governor.

By February 4th:
Governor releases Executive Budget

House Budget

January:
The Chairman of the House Budget Committee introduces the Budget Bills, and they are referred to the House Budget Committee.

January & February:
House Appropriations Committees discuss specific department budgets from previous years and give recommendations for the coming year.

February & March:
House Appropriations Committees present their recommendations to the full Budget Committee to be accepted, amended or rejected.

March:
Budget Chair presents the Committee's budget to the entire House of Representatives for amendment and passage.

Senate Budget

Janurary through March:
The Senate Appropriations Committee considers the various department budgets and considers changes for the next fiscal year.

March & April:
The House Budget bills are assigned to the Senate Appropriations Committee for amendments or approval

April:
Senate Appropriations Committee Chair presents the Senate Budget to the entire Senate for amendments or approval.

Conference Committee

April or May:
Select members of the House Budget Committee and the Senate Appropriations Committee meet to reach a compromise on the differences between their budgets.

Floor Approval

April or May:
Both the House of Representatives and the Senate vote on the Conference Committee verison of the State Budget.

Governor Approval

Before July 1:
The Governor has until July 1 to make line item vetoes, veto, sign or allow budget bills to become law without a signature

Veto Override

September:
The General Assembly meets for a veto session in September to consider overriding the Governor's vetoes.

Notes

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