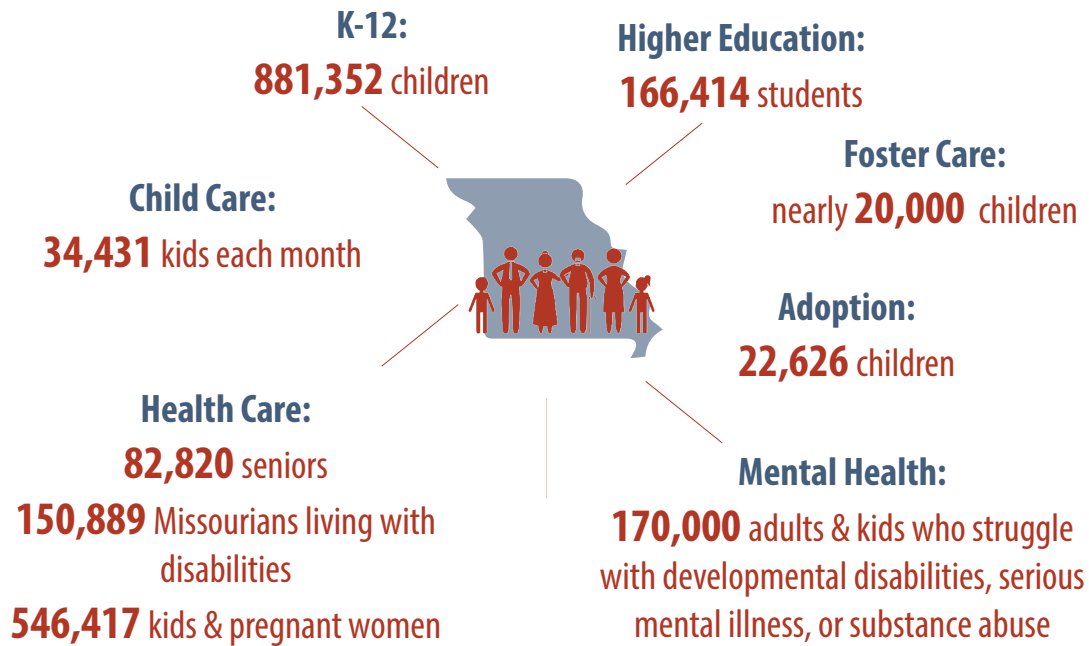


Introduction to Missouri's State Budget 2020

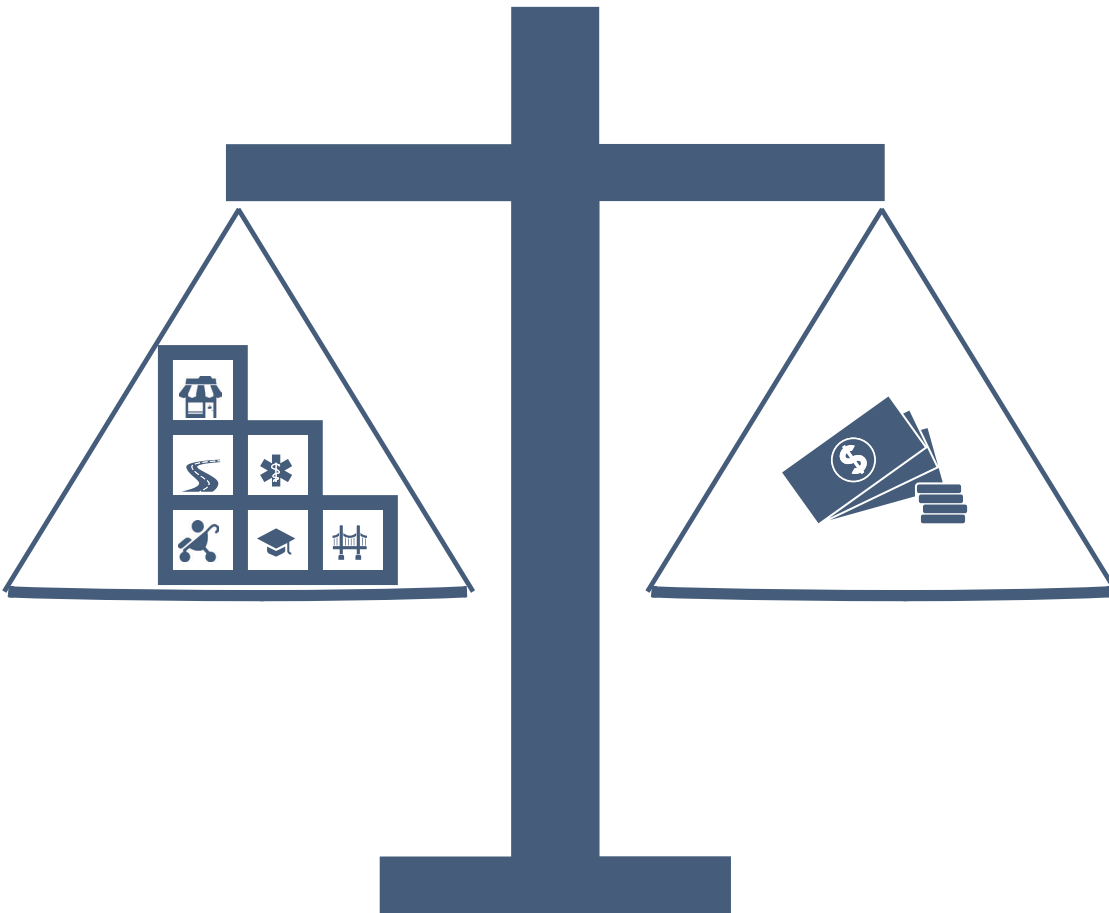


State Budget & Taxes: Impact at a Glance



The impacts of Missouri's investments are far reaching, helping thousands of Missourians across the state reach their full potential.

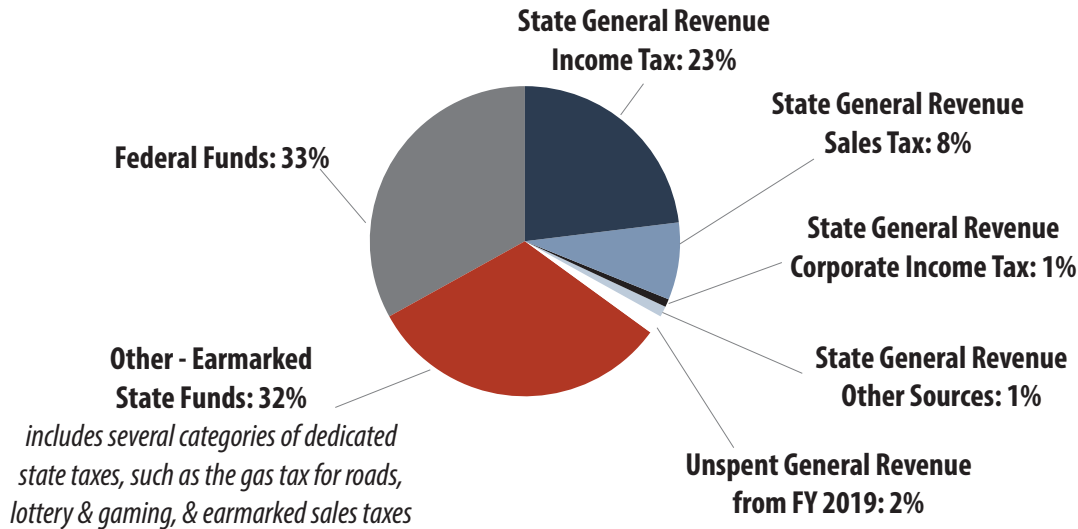
Missouri Requires a Balanced Budget



- Developing the state's annual budget is one of the most important – and complicated – responsibilities of Missouri lawmakers.
- Missouri's state constitution requires the budget to be balanced, so spending by the state cannot exceed incoming revenue.
- The state's fiscal year runs from July 1st to June 30th every year. Because the budget year begins in the middle of a calendar year, it is named for the coming calendar year. So, the budget that lawmakers will be debating in 2020 is the Fiscal Year 2021 budget.
- The full legislature must pass its final budget one week prior to the end of the legislative session. In 2020, that means the legislature must pass the budget by May 8th.

Sources of Revenue to Support Missouri's Budget

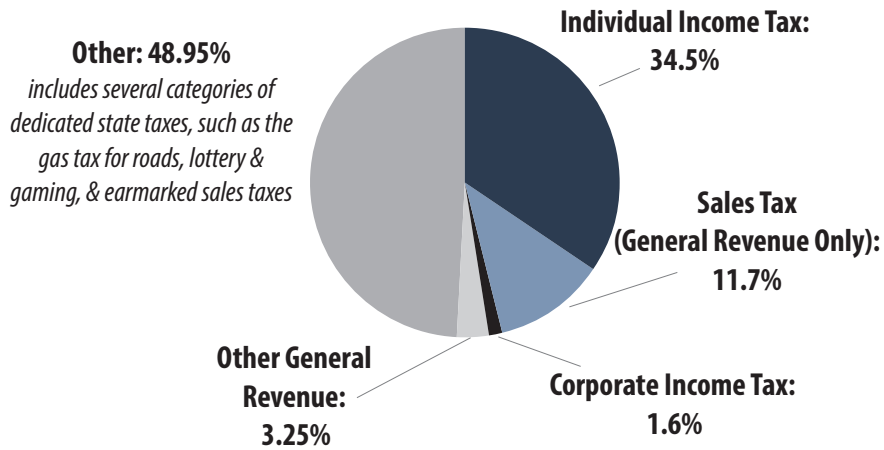
Missouri's FY 2020 Budget
Sources of Funding
\$29.661 billion



- In the current year, the total budget to support public services in Missouri is \$29.661 billion.
- About one-third of the funding in the budget comes from the federal government for very specific purposes.
- Another one-third is state-generated revenue that is dedicated to specific purposes, and includes excise taxes like the gas tax, which is dedicated to transportation.
- The final one-third of the budget is referred to as state general revenue, which lawmakers have the most authority to allocate.

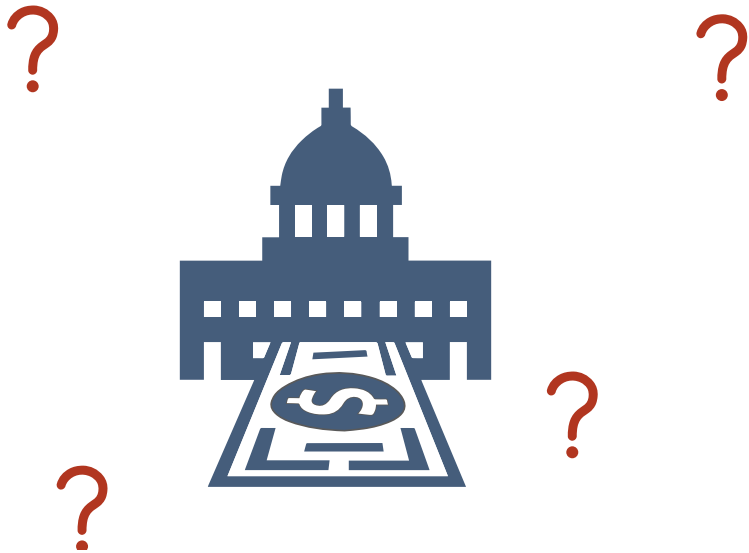
State Sources of Revenue

Missouri's FY 2020 Operating Budget
Sources of State-Generated Revenue (Excludes Federal Funds)
\$19.81 billion



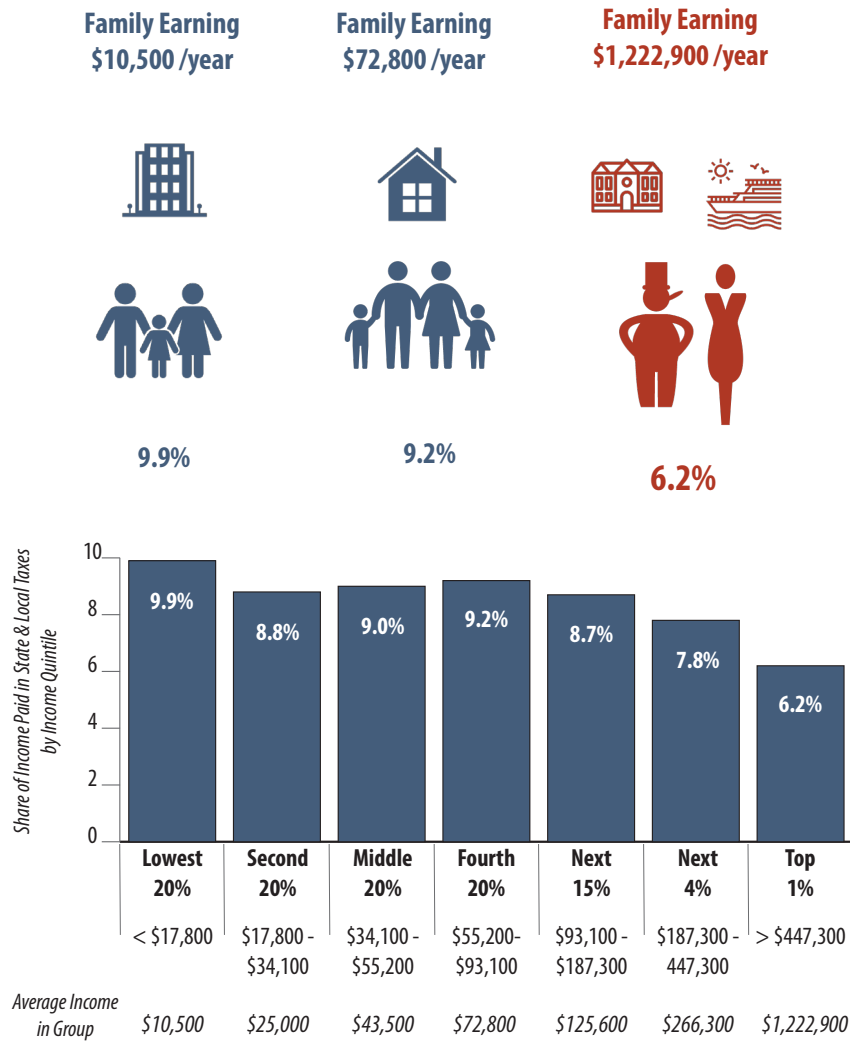
- State budget needs are supported by a diverse base of state-generated tax revenue, including income and sales tax, gas and tobacco taxes, and lottery and gaming revenue.
- The diversity of funding sources provides more stability in funding, making Missouri less vulnerable to shortfalls that result from short-term economic changes.
- Compared to other states, Missouri earmarks more state-generated funds for specific purposes.

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. Traditionally, lawmakers work together with the Governor to determine this estimate, which is referred to as the Consensus Revenue Estimate, or “CRE.”
- However, legislators and the Governor did not come to an agreement on an updated CRE for the current budget year or for fiscal year 2020.
- The Governor’s Executive Budget is based on 2.4% growth in the current fiscal year, and 1.9% growth for fiscal year 2021.
- Lawmakers are expected to base their budget on slower growth rates than those used by the Governor.
- 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.

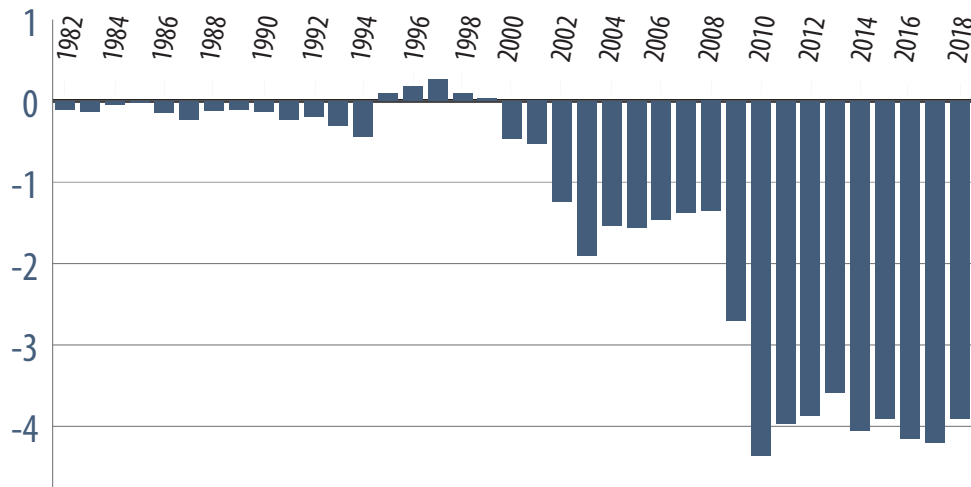
Lower Income Missourians Pay a Higher Share of Their Income in Taxes



- Missouri’s overall tax system is regressive, which means the more income you earn, the less you pay in taxes as a percent of that income.
- Missouri’s income tax structure is considered “progressive.” However, the tax tables have not been adjusted since the 1930s. As a result, the highest income tax bracket in Missouri is only \$8,000 per year.
- 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.
- Many tax changes recently passed by the Missouri legislature will disproportionately flow to the highest income brackets, including tax cuts currently being implemented from Senate Bill 509 (2014), as well as individual and corporate tax changes passed in 2018.
- These changes make the state tax structure more regressive because workers with low wages pay a larger share of their income to support the budget than wealthy Missourians.

“Hancock Lid”

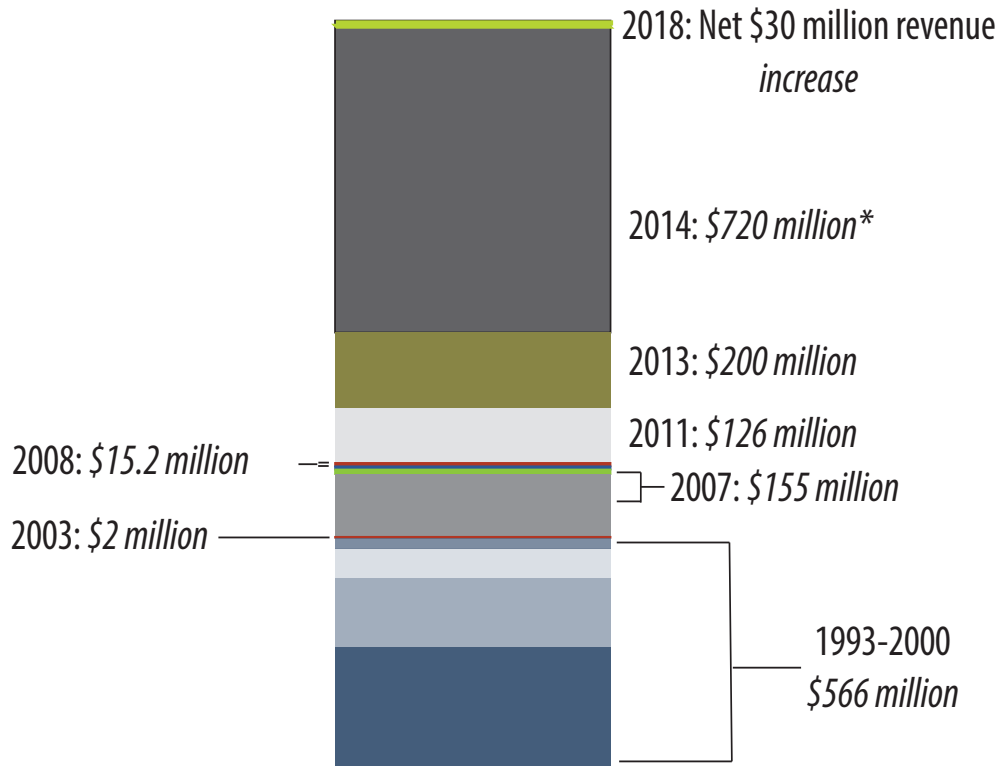
Missouri Revenue Declining Relative to the Economy State Now Billions Short of Hancock Limits



- 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 Missouri's 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.
- Missouri revenue did not reach the Hancock limit until the late 1990s, when economic growth was exceptional. From 1995 to 2000, the state reached the lid every year and was required to refund nearly \$1 billion to taxpayers.
- Though a significant amount of money as a whole, the average Missouri family received a refund of just \$40 over those five years.
- Missouri revenue is now approximately \$3.9 billion BELOW the Hancock lid.

Tax Cuts Follow After Hancock Lid Hit

Tax Cuts Enacted in Just 25 Years Cumulatively Cost Missouri More Than \$1.5 Billion Per Year



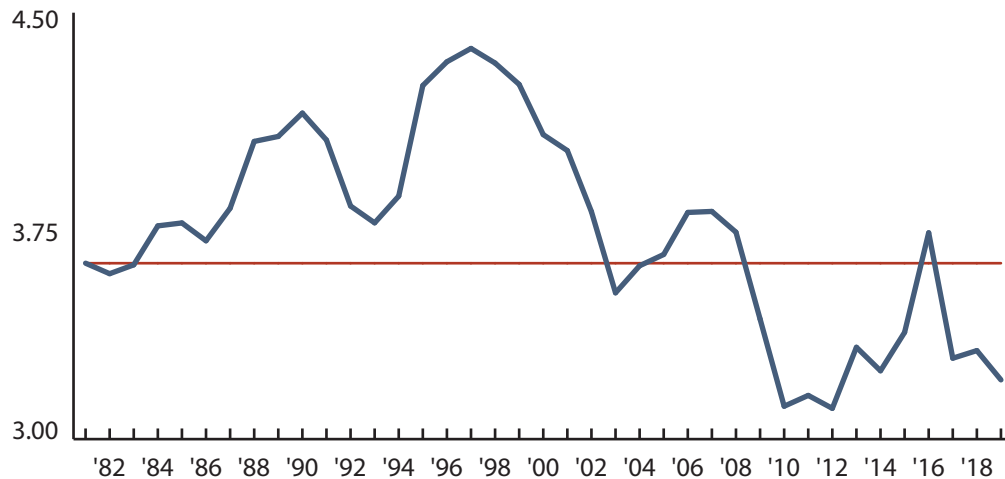
* when fully implemented

- Between 1993 and 2018, Missouri legislators made multiple tax changes that will reduce state revenue by \$1.5 billion annually when fully implemented.
- While some of these cuts benefitted families, many were targeted to corporations, including a phase out of the corporate franchise tax and changes to the ways corporations can determine what profits are taxed.
- Overall, the tax changes significantly diminished Missouri's ability to invest in the services that help families, communities and the economy thrive.

Hancock Amendment & Voter Approval of Tax Increases

Missouri Invests Less in Services as GR Has Fallen Relative to the Size of the Economy

General Revenue as Percent of Personal Income, by Fiscal Year

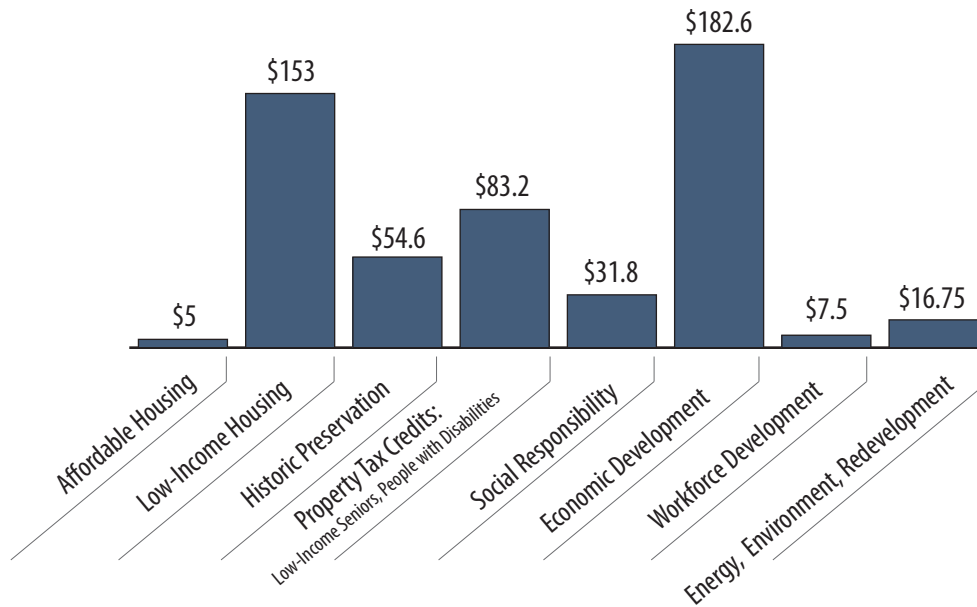


- In fiscal year 2018, total state revenue was \$3.9 billion under the Hancock refund threshold.
- This is reflected in net general revenue collections, which have declined significantly as a portion of the economy (measured by Missouri personal income) since the Hancock amendment passed.
- By nearly every measure, Missouri invests less in critical public services today than it did three decades ago.
- 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 2020, the legislature had authority to authorize tax changes that would generate up to \$110.1 million.

Tax Credits Cost Missouri Over \$535 Million Each Year

Tax Credits Redeemed by Category in FY 2019

in millions



- 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 over \$535 million in FY 2019, up from 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.

State Expenditures

- 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*

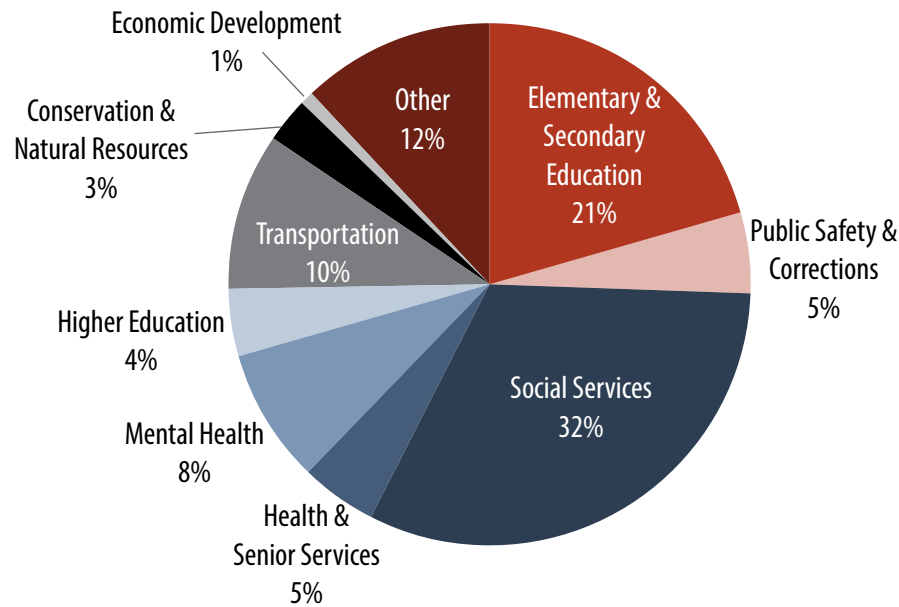
HB 12 *Offices of Statewide Elected Officials, Judiciary, & State Public Defender*

HB 13 *Statewide Real Estate*

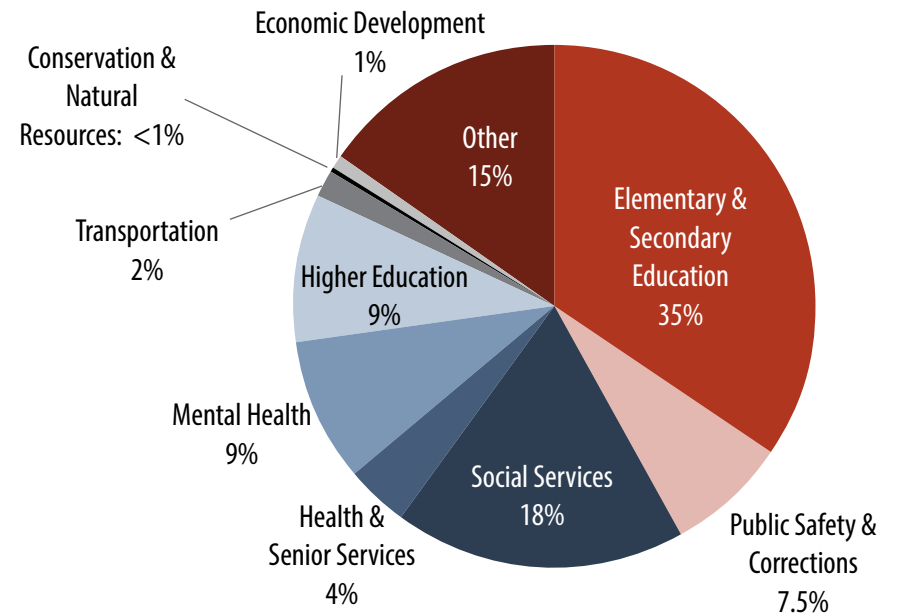
State Expenditures

- The budget bills include the support from all funding streams, federal, state earmarked dollars and state general revenue dollars.
 - The most flexible of the funding streams is state general revenue because it does not include specific requirements for how it must be spent like the other funding streams do. Because of this, the state general revenue budget is generally what lawmakers spend the most time debating each year.
-

Missouri Fiscal Year 2020 Budget - TOTAL Funds
\$29.661 billion



Fiscal Year 2020 General Revenue Operating Budget
\$10.111 billion



The Missouri Budget Process

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 2nd:
Governor releases Executive Budget
** deadline for submission is 30 days after the legislative session begins**

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

January 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:
The House of Representatives & the Senate both vote on the Conference Committee version of the state budget.
the legislature must approve the budget by one week prior to the end of the legislative session

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.