

Weekly Report
Week of 1-19

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Last week in this column, we began a discussion of the state budget crunch, a subject far too complex to accurately describe in one week's column. In particular, we examined the boom years of the late 1990s and the growth in the state's budget throughout the decade of the 1990s. This week, we will explore the effect that the downturn in the economy has had on the state's budget.

Needless to say, times changed when the stock market tanked in 2000. The very unreal world of those boom years gave way to the hard, cold reality of a phenomenon that I call "reversion to the mean." That is a fancy way of saying that what goes up must come down. For the past three years, Missouri taxpayers have made less money than they did the year before. Instead of capital gains, Missouri taxpayers have had large capital losses. Missouri lost more jobs than any other state in this downturn because our economy is still very dependent on the manufacturing sector, especially on the automobile and airline industries. Thus, many Missourians who were paying taxes in the 1990s are not paying taxes now because they do not have a job or have a job that pays less. When the people who pay the taxes make less money, there is less income and fewer sales to tax, which means that government receives less money.

Missouri state government is used to having more money to work with every year, not less. But for several years, tax revenue has declined, which has not happened since the 1950s. In fiscal year 2003, Missouri received \$284.4 million less in tax revenue than it did in 2002. While the amount of money coming into government coffers has declined the cost of maintaining government programs has continued to increase. Medicaid, the state health insurance program for the poor, is an entitlement program. Every year, the cost of providing health care to the poor rises substantially. Also, the cost of educating children has risen, even though inflation has been very tame. This has put Missouri state government, and state governments across the land, in a bind. Thus, the legislature was faced with three options, none of which was politically easy or popular: raise taxes, cut spending or do a combination of the two. Elected officials have an aversion to cutting budgets because it makes people mad. Very few people like higher taxes and even conservative folks complain when their favorite budget item is cut.

Although Missouri's budget troubles began in earnest during the 2001 legislative session, the legislature was loath to cut school funding. In order to avoid cutting school funding, Missouri cut other areas of the budget. During that session, Missouri managed to spend 3.26 percent more on education than it did the year before. Government revenues dried up even more in 2002, but again Missouri managed to give schools a 2.04 percent increase by cutting other areas of the budget. This was especially difficult to do because Missouri spends 37 percent of its general revenue on schools. Thus, other areas of the

budget suffered massive cuts so that school funding could be maintained.

In 2003, the third consecutive year of declining government revenue, the state was forced to make a cut in school funding. The legislature made a cut of less than 1 percent in school funding. (The actual cut made by the legislature was .56 percent.) The Governor then withheld monies fearing that revenues would not support the legislature's appropriation. With the Governor's withholding, the cut to Missouri schools is 4.93 percent. I am hopeful the Governor will release these monies and that the cut to education will be reduced to the .56 percent, originally approved by the legislature.

Make no mistake: a cut of .56 percent or even 4.93 percent may sound small, but it has had a big impact on our local schools. Schools in Eastern Jackson County have suffered even bigger cuts than 4.9 percent because of the way that Missouri distributes money to school districts. Most Eastern Jackson County districts are considered relatively wealthy and capable of raising money locally. I believe the state school finance formula is unfair and discriminates against our school districts — more on that later.

Next week we will discuss the impact on the recovering economy on Missouri's state budget and the limits on raising Missouri state taxes.

If you have comments or questions about this week's column or any other matter involving state government, please do not hesitate to contact me. You can reach my office by e-mail at matt_bartle@senate.mo.us. Also, you can read any of the bills I file on my website at:

<http://www.senate.state.mo.us/04info/members/mem08.htm>). Thank you again for making it possible for me to serve in the Missouri Senate.