

Week of July 27, 2009



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Budget Realities

Even though lawmakers passed our balanced budget in early May, concerns are still surrounding the budget and the state's ability to meet projected revenue. Last month, when the governor signed the budget bills for the current fiscal year, which began July 1 and runs through June 30, 2010, he cut \$105 million through line-item vetoes while restricting an additional \$325 million in spending from the budget until revenue improves. Due to decreased revenue, it's also possible that more budget cuts lie ahead in the coming weeks. The situation is less than ideal, but so far we are responding in a way that will soften the blow of any future budget tightening, if necessary.

After the vetoes, the operating budget contains \$2.46 billion for elementary and secondary education, the state's primary expenditure. Social services are the second-largest expense at \$1.52 billion. The budget also contains \$921 million for higher education, \$842 million for health and mental health and \$22 million for agriculture, conservation and natural resources. These figures are based on an overall state budget of \$23 billion.

Less than projected revenue has led to changes in state spending. For FY 2009, which ended June 30, Missouri's general revenue dropped nearly 7 percent—the weakest revenue growth the state has experienced since the Great Depression. This amounted to the state collecting about \$550 million less than it did in FY 2008 and about \$775 million less than it was estimating to bring in overall. Unfortunately, the projected budget growth last year was 3.4 percent, leading us to use a large portion of the federal stimulus money we received to fill in the gaps.

To get through FY 2009, we had to use \$250 million in federal stabilization dollars. For the FY 2010 budget, we allocated almost \$800 million in stabilization funds—and spent all but 25 percent of the rest on special projects. Unfortunately, the money in the operating budget will somehow need to be replaced in FY 2011, which is a huge concern, as are the years to follow. We have about \$1 billion of the federal stimulus money left, but if revenues keep dropping, we could burn through our reserves much faster than expected. Lawmakers built the FY 2010 budget on plans of 1 percent growth, but now some budget officials are revising that number to negative 1 percent growth. By using the stimulus money without making any substantial cuts, we may have to make painful decisions in the next few years.

There is a bright side, however. We submitted a balanced budget on time, unlike other states such as Illinois, California and North Carolina. Missouri is also in a much better financial position than many other states, which provides us with the incentive to remain vigilant in not living beyond our means. Our state’s common-sense approach to finances in recent years is the reason we were able to better absorb the economic downturn and we have enjoyed balanced budgets without cutting essential programs and services or raising taxes. Still, we should not take this for granted, because a few wrong choices could easily put us in a tough position down the road.

As a member of the Senate Appropriations Committee, it is especially clear to me that the Legislature’s role in the state’s budget process never ends. We must closely monitor the budget situation, so we are prepared when the time comes to develop a budget for next year. Until the economy begins to improve, it’s more important than ever to exercise the financial responsibility and restraint that has allowed Missouri to stay afloat during this economic crisis.

As always, please feel free to contact me or my staff with any questions or concerns at any time. We look forward to hearing your comments and suggestions and trying to answer any questions you may have. You can reach us by phone at 866-277-0882 (toll-free) or 573-751-2272, or by fax at 573-526-7381.

Senator David Pearce serves Bates, Cass, Johnson and Vernon counties in the 31st State Senate District.

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