

**SENATE APPROPRIATIONS:** This week the Senate Appropriations Committee received a presentation on the Governor's budget by his Budget Director Linda Luebbering. She began her presentation by stating that Missouri's economy is moving forward with unemployment at its lowest point in three years. Missouri is one of only a few states that have maintained its AAA bond rating from all three bond rating agencies.

The consensus revenue estimate agreed upon by the Governor, House and Senate for FY 2013 assumes \$7.585 billion in net general revenue (GR) collections which is an additional \$285 million from FY 2012, a growth of 3.9%. But unfortunately with the loss of one-time federal funding and mandatory spending increases in Medicaid, there is a net \$500 million gap between FY 2012 and 2013.

Despite the bad budget picture, the Governor has several spending increases. Elementary and Secondary Education (DESE) will receive an increase of \$5 million in their budget for FY 2013 which will mean a record \$3.009 billion for public schools. The Governor will also backfill their budget \$198 million to make up lost one-time federal funds. School transportation funds will stay the same for FY 2013 at \$99.8 million.

Higher Education scholarship funding will be stable with an increase of \$25 million GR to make up for a reduction in MoHELA funding. The Customized Job Training Program will get \$14.9 million to maintain their funding to the same level as FY 2012.

The Governor is recommending \$4 million to jump-start innovations in science and technology as authorized by the Missouri Science and Innovation Reinvestment Act (MOSIRA). One million is requested in the supplemental request for MOSIRA. State employees will receive a 2% salary increase under the Governor's proposal.

The Partnership for Hope program in the Department of Mental Health which helps young adults with development disabilities locate services will get a total increase of over \$12 million (\$2.2 million state, \$2.2 million local, and \$7.7 federal funds).

The Governor proposes to fill the funding gap with the following GR cost saving strategies:

- \$89 million GR reduction to 4-year higher education institutions. Senator Schaefer pointed out that in the last three years Higher Ed has been cut 25%. Luebbering had no answer when he asked her what the Governor's response would be when the legislature does "a lot of things to minimize these cuts to higher education." The committee was very concerned about the Governor "punishing" the University of Missouri for raising tuition by withholding \$1 million extra from their funds this fiscal year after they were approved for a tuition increase waiver from the higher ed commission;
- \$16.9 million GR reduction for community and technical colleges. This was included in the discussion on higher ed;
- \$2 million GR cut to local public health agency grants. The rationale for this cut was that the local health clinics only get a small percentage of their funding from the state. Their \$7.7 million was reduced to \$5.7 million;

- \$7 million GR reduction in biodiesel subsidy payments;
- \$64 million GR in additional debt collections and other revenue efficiencies including increased Department of Revenue (DOR) collection efforts, vendor offsets, garnishment of wages, no-tax-due provisions for licensure, 1% collection fee, debt collection consolidation with other departments, first class instead of certified mail, \$4 million from MO Health & Education Facilities Fund, \$5.8 million from a settlement with Merck. Some of these require legislation to be passed;
- \$51 million GR from a tax amnesty plan. Although not passed in the last couple of years, the Governor's office believes it can be passed this session since it has bi-partisan support;
- The state is refinancing and restructuring its debt and will see a \$41 million GR savings;
- The Governor proposes an increase in lottery advertising which they project will bring in an additional \$15 million in lottery revenue. This was the Senate's proposal last year that did not stay in the budget during conference;
- \$29.3 million GR in state staff (FTE) reductions and administrative costs. This will be a reduction of 816 FTE in FY 2013 with a total of 4,181 state workers since 2009. Most of this year's cuts are in the Department of Transportation (MoDOT) with 604 followed by 89 in Social Services and 70 to IT staff and 66 in Health and Senior Services. Luebbering also explained a small reduction in the Governor's budget;
- A savings of \$191.7 million has been booked through additional efficiencies in the Medicaid program, with no change in eligibility or covered services. These savings break down as follows:
  - o Although savings in the area of managed care (MC) is touted as being \$36.7 million GR, the actual core reduction is \$13.5 million GR and the rest is cost avoidance from not granting an increase on the new MC contracts that the department requested;
  - o Ten generic versions of prescription drugs will become available this year with an expected savings of \$29.5 million GR;
  - o \$51.5 million GR has been realized in the pharmacy rebate fund with improvements in collections;
  - o Medicare premiums decrease allowing for a \$14.1 million GR core reduction and cost avoidance;
  - o Due to multiple payment reforms affecting hospitals, a one-time \$30 million is available to the state from the FRA fund;

- o Three hospitals will be included in the health home initiative that is in place for FQHCs and mental health providers which will generate a savings of \$4.6 million GR;
- o A private and public nursing home agreement awaiting federal approval for a state plan amendment will generate a savings of \$10.9 million GR;
- o There will be a \$1.5 million GR savings from utilizing the mental health clinic (community mental health centers) upper payment limit;
- o The state will receive a federal grant that will increase the FMAP (federal portion of the Medicaid payment) by 2% for home and community based services (HCBS) resulting from transitioning out of institutions and into the community. Linda said the federal government would like states to get to 50% of their long term care spending to be in HCBS;
- o One-time savings of \$1.3 million GR from two fund balances in the Medicaid program.

Senator Green asked Luebbering about an article he read in the newspaper that morning about increasing gaming boat entry fees to help the veterans. He was curious why it wasn't part of her presentation. She said she only focused on general revenue and that proposal was for the veterans. She said the state has been funding the veteran's commission with excess reserve funds which are no longer available and a new influx of funding is needed. She also said the commission would like to build a new veteran's nursing home. The increased gaming fee has been proposed by several legislators and would generate \$50 million per year. Senator Lempke noted the almost 33% tax and fees paid by gaming boat operators and that they had "gone to that well too many times." He also referenced the supplemental request to backfill a \$30 million shortfall in gaming revenue. When asked Luebbering said if the legislation does not pass they will find the money for the veterans and make expenditure restrictions in other areas. She said they would also entertain the idea of eliminating the unneeded 2 hour boarding and go to a flat fee per day.

The committee also asked about the Joplin recovery funds. Luebbering said \$70 million had been set aside for disaster recovery in FY 2012 with \$30 million expended to date.

The committee then moved on to their review of the Governor's supplemental budget request. The supplemental includes \$72.3 million GR, \$62.9 federal funds and almost a half million in other funds. The following items are requested in the supplemental budget:

- \$31 million for the foundation formula for DESE due to shortfalls of \$30 million from gaming and \$1 million in cigarette sales revenue;
- \$81,000 federal funds for student advanced placement exam costs;

- An additional \$11,000 for enforcement of the provisions of the Tobacco Settlement Agreement;
- \$1 million for MOSIRA legislation that passed during special session. Several legislators questions the reasoning for this request in supplemental. Luebbering just said they wanted to get the program started;
- The Governor recommended \$2.4 million GR for transfer to State Highways and Transportation Fund for collection costs that exceeded the constitutional 3% limit;
- The state received \$13.5 million in federal Multimodal Operations funds in 2011 and would like to use \$4 million of it in FY 2012 for the Merchant's Bridge replacement in St. Louis;
- Eco Devo needs \$300,000 for a revolving fund for research activities;
- Almost \$90,000 is needed to pay for a legal settlement for the Board of Healing Arts;
- MO Highway patrol is using \$68,000 in fuel then they projected;
- Federal spending authority is needed for SEMA to administer disaster funds at \$124,000 and 1.5 FTE;mark
- For FY 2012 the legislature left the Department of Corrections \$3.4 million short for their contract for health care services for inmates;
- More overtime was needed in the department of mental health institutional facilities then projected at a cost of \$2.7 million;
- Traditionally, increases in the number of home and community services clients have been paid for during the supplemental budget. This year the so called, caseload growth and increased utilization, will cost \$35 million;
- Due to an increase in the number of children in state custody, \$9.5 million is needed for foster care and residential treatment;
- Federal funds of \$40 million to continue the health care technology incentives for hospitals, physicians, and other providers for implementing electronic health records;
- The state owes the feds an additional \$5.6 million in Medicare Part D, Clawback payments;
- Hospital FRA funds of \$243,000 will be used to fund the health home initiative discussed earlier.