



## Governor Planning Over \$170 Million in Budget Withholds

### *Higher Education Faces the Largest Funding Restriction*

Governor Mike Parson is expected to announce a set of budget withholds in response to cashflow issues driven by the COVID-19 pandemic. Withholds enable the Governor to restrict funding if revenues are not projected to cover the expenditures as passed in the budget.

One primary driver of Parson's withholds is that the federal and state tax filing deadlines were pushed back from April 15 to July 15. This will delay the state's receipt of tax payments, even as Missouri is paying out refunds to individuals who have filed. The change also means that 2019 tax receipts will be collected in the next fiscal year, which creates a trough in SFY 2020.

Longer-term, the state budget will very likely face lower-than-expected revenues due to the slow-down in economic activity. The Federal Reserve Bank of St. Louis President predicted COVID-19 could result in an unemployment rate as high as 30%. Such an economic downturn would severely impact the two largest sources of Missouri's general revenue, individual income taxes and sales/ use taxes. This is exacerbated by increased spending needs related to COVID-19 as well as the higher demand for safety net programs that accompanies any economic downturn. The three federal COVID-19 relief bills, and the anticipated fourth package, will help states offset some of these expenditures.

In order to address the state's immediate cash flow crunch, Governor Parson is expected to announce \$175,983,774 in withholds from the current fiscal year (SFY 2020, which ends June 30, 2020). \$170 million of the withholds are state general revenue. The full withhold list will be available soon. Some of the largest items are:

- \$61 million from Four-Year Higher Education Institutions
- \$12 million from the Multipurpose Water Resource Program
- \$11.6 million from Community Colleges
- \$6.4 million from the Division of Tourism
- \$2.9 million from Treatment Courts

It is possible we will see another round of withholds, depending on the revenue picture and

COVID-related demands on the state budget. Unlike line-item budget vetoes, withholds can be released if funds come in better than anticipated. It seems likely that as federal funds flow in from the COVID relief bills, this picture will change quickly and likely for the better. It is also important to note that no withholds were made to social service or health care programs.

The state Legislature will be in session next week to address the supplemental budget and the extension of provider taxes, which are pivotal to funding Missouri's Medicaid program. The supplemental budget is passed every year to allocate needed funds for the remainder of the fiscal year. However, this year it takes on special importance as it will provide the spending authority needed for the Administration to utilize the federal COVID-19 money coming into Missouri.