

MESSAGE FROM THE DIRECTOR

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TO: Department Directors, Deputy Directors, and Budget Officers

FROM: Dan Haug, State Budget Director

DATE: August 7, 2025

RE: Fiscal Year 2027 Budget Instructions

The following summarizes the Fiscal Year 2027 fiscal outlook. Detailed instructions for the completion of your department's budget request are in the attached document. If you have questions, please contact your assigned Budget and Planning analyst.

Fiscal Outlook

The Missouri Fiscal Year 2026 state operating budget is approximately \$50.8 billion, including \$15.4 billion in general revenue. In the Fiscal Year 2026 budget approved by the General Assembly, nearly \$775 million in new general revenue spending was added above the Governor's budget recommendation, including 450 items that Governor Kehoe did not propose or went beyond his recommendation.

Additionally, the Office of Administration's Division of Budget and Planning estimates a nearly \$1 billion shortfall in general revenue starting in Fiscal Year 2027. Contributing to this shortfall, ongoing general revenue spending authorized in the Fiscal Year 2026 budget is projected to outpace ongoing revenues by over \$1 billion and grow larger in future years. While Missouri currently has a general revenue fund balance to absorb some of this imbalance in the short term, the current trajectory of state-level spending grows this imbalance, exhausts any remaining surplus, and leads to the aforementioned \$1 billion shortfall starting in Fiscal Year 2027, if correction is not made.

There were also several budgetary and legislative decisions made during the 2025 Legislative Session and Extraordinary Session that were not considered in Governor Kehoe's Fiscal Year 2026 budget recommendation but compound the budgetary challenges the State is facing:

- Additional funding for the K-12 Foundation Formula – In his budget recommendation, Governor Kehoe proposed a \$200 million increase for public education funding, representing the largest increase ever seen, and nearly 4 times larger than the average annual increase. The General Assembly chose to spend an additional \$297 million on top of Governor Kehoe's historic recommendation.

- Tax Cuts – The General Assembly approved, and Governor Kehoe has committed to signing, pro-growth legislation eliminating the income tax on capital gains, which is expected to reduce state revenues by approximately \$400 million annually. Governor Kehoe supports tax cuts and is proud to return Missourians' hard-earned dollars back to them, but the reduction in state revenues must be accounted for in current and future budget decisions.
- Disaster Relief – Unforeseen severe storms, tornadoes, and flooding have caused unprecedented damage to communities across the state. Governor Kehoe supported, and the General Assembly approved, over \$210 million in extraordinary emergency disaster relief for Missourians. While the need is undeniable, the cost must still be reconciled in the budgetary process.

Governor Kehoe issued 208 vetoes, totaling nearly \$300 million in general revenue. In addition to his vetoes in the FY26 budget, Governor Kehoe also restricted spending on 32 budget items, totaling \$211 million in general revenue, from the Fiscal Year 2026 state operating budget.

Fiscal Year 2025 general revenue collections were flat compared to Fiscal Year 2024 collections, which increased by 1.5% from Fiscal Year 2023. The revised budgeted revenue estimate was for a decline of (0.6%). Growth in Fiscal Year 2025 was the result of modest growth in income and sales taxes, offset by strong growth in refunds.

As economic growth continues to moderate, revenues are expected to remain restrained through Fiscal Year 2026. Since Fiscal Year 2025 finished above the budgeted revenue growth, net general revenue collections need to grow by 1.0% to reach the Fiscal Year 2026 budgeted revenue estimate.

Going forward, forecasters expect wage growth and consumption to continue moderating uncertainty around trade policy continues and inflation remains elevated. As is typical, domestic and international financial concerns as well as geopolitical issues pose key risks to this outlook. Uncertainty about national policy, a slowing global economy, the wars in Ukraine and the Middle East all pose downside risk to the U.S. and Missouri economies.