

Michael L. Parson
Governor



State of Missouri
OFFICE OF ADMINISTRATION
Division of Budget and Planning
Capitol Building, Room 124
Post Office Box 809
Jefferson City, MO
65102-0809
573-751-2345
573-526-4811 (FAX)

Sarah H. Steelman
Commissioner

Daniel D. Haug
Director
Budget and Planning

TO: Department Directors, Deputy Directors, and Budget Officers
FROM: Dan Haug, State Budget Director
DATE: July 21, 2021
RE: Fiscal Year 2023 Budget Instructions

The following summarizes the Fiscal Year 2023 fiscal outlook and budget instruction highlights. 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

Fiscal Year 2021 general revenue collections increased by 25.8% compared to Fiscal Year 2020 collections, which declined by (6.6%) from Fiscal Year 2019. Growth of 14.2% was needed to meet the revised budgeted revenue estimate. A significant portion of the increase in Fiscal Year 2021 revenues was due to a timing shift in individual and corporate declarations and remittance payments from Fiscal Year 2020 into Fiscal Year 2021.

As the economy continues to recover from the COVID-19 pandemic, revenues are expected to remain strong through FY 2022. However, the timing shift in individual and corporate payments from FY 2020 into FY 2021 will create the appearance that FY 2022 revenues are artificially weak. Since Fiscal Year 2021 finished well above the budgeted revenue growth, net general revenue collections could decline by (12.9%) and still meet the Fiscal Year 2022 budgeted revenue estimate. As federal fiscal stimulus continues to wane, general revenue growth is expected to moderate.

Going forward, forecasters expect wage growth to be strong as labor force pressures put upward demand on wages and compensation. Consumption is expected to moderate as federal fiscal stimulus from COVID-19 begins to wane. As is typical, domestic and international financial concerns as well as geopolitical issues pose key risks to this outlook. Uncertainty about national policy, a global economy recovering unevenly from the COVID-19 pandemic, the British exit from the European Union, and tensions in Asia and the Middle East all pose downside risk to the U.S. and Missouri economies.

The Fiscal Year 2023 budget will also need to consider the implications of the federal tax reform, and Missouri tax changes including SB 509 (2014), HB 2540 (2018), and SB 153 (2021). The federal tax reform made multiple changes to the federal tax code and because

Missouri conforms with many pieces of the federal code, Missouri's tax code was also subsequently changed. The federal tax reform nearly doubled the standard deduction while concurrently eliminating the personal and dependent deductions, both at the federal and state levels.

SB 509 (2014) will reduce state income tax collections by phasing in a top rate reduction and income exemption for pass-through businesses. The first reduction to the income tax rate and the first phase-in of pass-through business income occurred during tax year 2018. The second reduction to the income tax rate and the second phase-in of the pass-through business income occurred during tax year 2019. The third reduction to the income tax rate and the third phase-in of the pass-through business income will occur during tax year 2022. In addition, HB 2540 (2018) further reduced the top individual income tax rate beginning with tax year 2019. Both pieces of legislation will affect Fiscal Year 2022 and Fiscal Year 2023 general revenue collections.

SB 153 (2021) requires use taxes to be paid on out-of-state purchases, beginning mid- FY 2023. While this provision also reduces the individual income tax rate, those reductions would not begin until tax year 2024.

Overview of Budget Instructions

Departments may request mandatory and high priority Fiscal Year 2023 new decision items. For priority items, departments need to look at existing resources as a funding source.

Key Changes and Reminders

1. **Timely Submission** –
 - Completed budget requests due to B&P by October 1 as required by state statute.
 - Leasing information due to FMDC by September 1.
 - Cabinet IT Governance Council approved information technology requests from consolidated agencies due to OA ITSD and B&P by September 1.
 - Capital improvement items due to FMDC by September 15.
2. **Web-Ready Budget Books** – Each department must provide B&P with a PDF copy of the department's October budget request and the January Governor's recommended budget. The PDF copy must include a table of contents as well as be bookmarked and searchable to allow easier online access to the information. The PDF, searchable and bookmarked copy of the budget request with the Governor's Recommendations must be provided to B&P 24 hours prior to the first budget hearing for each department. B&P has set up a shared network folder - <\\oaadminfiles\OAFILE\Department Budgets> - where departments can save their PDFs.
3. **Other budget submissions** -- All budget submissions that have historically been submitted via e-mail to your B&P analyst may be submitted via the same shared network file used to electronically submit your department budget books. Folders have been set up to submit supplemental requests, tax credit analysis forms, fund financial summaries, department organizational charts, vehicle request forms, and flex request summaries. Once submitted, please notify your B&P analyst and Pamela McQuary (Pamela.McQuary@oa.mo.gov) of the completed submission.

4. Program Description Forms – Program Description Forms will once again be included on the Missouri Budget Explorer website. Departments should submit a PDF copy of each Program Description Form as well as an Excel listing of all Program Description Forms to ITSD via the shared network folder - <\\Oaadminfiles\\oafile\\BudgetPDFs> - by January 31.
5. Information Technology Requests –The General Assembly has asked to have all information technology decision items included in the OA ITSD budget instead of individual departments' budgets. IT related new decision items must be approved by the Cabinet IT Governance Council (CITGC) to be submitted with ITSD's budget request. The CITGC Project Business Case must have been completed and submitted to Lisa Glasgow in ITSD (lisa.glasgow@oa.mo.gov) by June 1. The CITGC will review and prioritize potential NDIs in its June, July, and August sessions. If approved by the CITGC, departments should submit an electronic copy of New Decision Item Requests to your assigned B&P analyst and Tara Dampf in ITSD (tara.dampf@oa.mo.gov) by September 1. Departments are expected to have representation at the OA budget hearings to answer questions about the specific new decision item requests. OA ITSD will provide the impacted departments with the hearing information.
6. Estimated Appropriation “E” Requests – There are no estimated “E” appropriations in the FY 2022 budget, and departments are not to request “E”s in the FY 2023 budget. Core decision item forms should not reflect the “E” column.
7. Capital Improvements – The Fiscal Year 2023 capital improvement bills will be submitted as annual bills. Agencies should work with FMDC to determine which, if any, requests for new projects will be submitted in the Fiscal Year 2023 request.
8. Supplemental Requests Forms – Agencies may request mandatory supplemental decision items. Limit these requests to essential items that cannot wait until the next fiscal year. Assume a release of the statutory three-percent reserve when determining the supplemental request amount. Submit the supplemental requests even if the statutory reserve release will cover the entire requested amount.
9. Organizational Dues – Any organizational dues greater than \$70,000 for a single membership must have a separate appropriation number and a separate line in the appropriation bill. Include a description of these dues in the Core Request Form under the Core Description section.
10. Core Reallocations – Any core reallocations should be between the same fund types (GR/Federal/Other) so the net reallocation is \$0 and 0 FTE by fund type. It is generally unacceptable to reallocate funds between PS and EE. Any exceptions will be rare and must be discussed with your assigned B&P analyst prior to BRASS coding. Also, include a clear description of the reallocation on the “Justification” tab on the BRASS Form. B&P and General Assembly staff need this information for their analysis, and the explanations should therefore be as clear and specific as possible.
11. Core Reconciliation Summary -- A core reconciliation summary should be submitted with the department request and Governor's Recommended budgets to B&P and the assigned House and Senate analysts. A template for use as part of the submission is available on B&P's website.

12. Fund Financial Summary Forms (FFS) – All FFS Forms should be submitted in Excel format. Please review the instructions and do not change the format of the forms. Submit the forms to B&P no later than October 15, and B&P will provide the General Assembly Appropriations and Oversight staff with a copy of all FFS Forms. Updated forms with the Governor Recommendations are due to the General Assembly within two weeks of the announced Governor Recommendations. Submit your forms to B&P within that time frame and B&P will provide the General Assembly Appropriations, Oversight, and to OA Accounting (OAACFR@oa.mo.gov) with a complete set of the updated forms.

Fund Financial Summaries reflecting the Governor's Recommendations will be posted to the B&P website.

13. General Assembly FFS information – As was done in previous fiscal years, the House Appropriations Committee has requested a separate spreadsheet with certain information from the FFS forms. (The template is available on B&P's website.) This spreadsheet should be submitted along with the October 15 FFS submission and along with the Governor Recommendation FFS submission two weeks after Governor Recommendations are announced. Submit an electronic copy to B&P and B&P will submit a comprehensive set of the worksheets to the House and Senate Appropriations and Oversight staff. Any questions about this spreadsheet should be directed to your House Appropriations analyst.

14. Approved Reorganizations – Include any transfers/reallocations related to Fiscal Year 2022 reorganizations in the October 1 budget submission. Please work with your B&P analyst to ensure the amounts are accurate and consistent between departments prior to submission.

15. New Reorganizations – Consult with B&P prior to conducting any new reorganizations within or between departments and/or making BRASS changes. The Governor must approve and submit to the General Assembly any departmental reorganizations or program/function transfers. Reorganizations may require document filings separate from the budget process. Changes may also require filing by the Governor under the Reorganization Act of 1974.

16. House Bill Language – Review current House Bill language and discuss any changes for FY 2023 with B&P.

17. Flexibility Requests/Reports – Flexibility Request forms should be completed to continue flexibility received for FY 2022 and to request any new or changed flexibility. As a reminder, each department is responsible for reporting flexibility use to B&P and the House and Senate Appropriations staff.

18. New Decision Item Descriptions - Add a description of each new decision item to the textbox of the decision item in the Info Edit form in BRASS. The Governor's Office, Budget and Planning, and the General Assembly use the descriptions; therefore, the descriptions should be clear and concise. BRASS limits the number of characters so use only the most important facts and do not add line returns or breaks in the narrative.

19. Pay Plan Cost-to-Continue – The Fiscal Year 2022 budget included six months of a 2% pay plan for state employees requiring a cost-to-continue in Fiscal Year 2023 for the remaining six months. The cost-to-continue will be pre-loaded to BRASS when the system is made available for departments. The new decision item form will be provided to departments by their B&P analyst. There will be no existing forms to adjust, departments will need to create new forms to make changes. Use the same method as coding a core reallocation to make adjustments, but use Decision Item 0000013 in the Pay Plan Fiscal Year 2022 Cost-to-

Continue forms. Adjustments should net to zero within the department. For questions regarding changes to your department's coding, contact your B&P analyst or Matt Bess (Matt.Bess@oa.mo.gov).

20. **Federal Stimulus Funding** – Departments should include in their request appropriation authority for any additional grant moneys they directly receive from the federal government as a result of the 2020 and 2021 federal stimulus bills. For tracking purposes, grants awarded through the American Recovery Plan Act (2021) will be appropriated from a new 2400 fund series. Departments should not submit requests utilizing ARPA – State Fiscal Recovery Funds.