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Kenneth J. Zellers
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Daniel D. Haug
Director
Budget and Planning

TO: Department Directors, Deputy Directors, and Budget Officers
FROM: Dan Haug, State Budget Director
DATE: July 19, 2023
RE: Fiscal Year 2025 Budget Instructions

The following summarizes the Fiscal Year 2025 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 2023 general revenue collections increased by 2.7% compared to Fiscal Year 2022 collections, which increased by 14.6% from Fiscal Year 2021. The revised budgeted revenue estimate was for growth of 1.4%. The growth in Fiscal Year 2023 was notable given that it followed two previous years with record growth (FY 2022 – 14.6% and FY 2021 – 25.8%).

As the economic expansion slows, revenues are expected to continue moderating through Fiscal Year 2024. Since Fiscal Year 2023 finished above the budgeted revenue growth, net general revenue collections could decline by (0.6%) and still meet the Fiscal Year 2024 budgeted revenue estimate.

Going forward, forecasters expect wage growth and consumption to moderate as the labor market loosens and interest rates remain high. 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 dealing with high inflation, the war in Ukraine, 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 2025 budget will also need to consider the implications of the federal tax reform, and Missouri tax changes including SB 153 (2021), SB 3 (2022), and SB 190 (2023). 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 153 (2021) creates the Working Family Tax Credit, with the credit equal to a percentage of an individual's federal earned income tax credit. The first phase-in of this credit occurred in tax year 2023. The second, and final, phase-in of this credit will occur in tax year 2024.

SB 3 (2022) will reduce state income tax collections by phasing in a top rate reduction. The first rate reduction occurred in tax year 2023. The second rate reduction will occur in tax year 2024. There are three additional rate reductions scheduled to occur, dependent on net general revenue growth.

SB 190 (2023) exempts social security and public pension income from state income tax beginning with tax year 2023.

Overview of Budget Instructions

Departments may request mandatory and high priority Fiscal Year 2025 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 August 15.
 - 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 1.
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. If you are unable to submit your electronic PDF version of your budget book through the network folder, you can send an email to Jessica.Farley@oa.mo.gov to request a secure file transfer. **If a department has multiple books, please submit one comprehensive PDF to be posted on the website.**
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 Jessica Farley (Jessica.Farley@oa.mo.gov) of the completed submission.
4. **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 the ITSD Enterprise Project Management Office (EPMO) (ITSD.PMO@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. Also submit the Project Business Case form for any approved new IT requests to your assigned B&P, House, and Senate analysts. 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.

5. Estimated Appropriation “E” Requests – There are no estimated “E” appropriations in the Fiscal Year 2024 budget, and departments are not to request “E”s in the Fiscal Year 2025 budget. Core decision item forms should not reflect the “E” column.
6. Capital Improvements – The Fiscal Year 2025 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 2025 request.
7. 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.
8. 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.
9. 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.
10. 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. The summary submitted in January should reflect both department and Governor’s recommended changes.
11. 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 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.

12. 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 15th 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.
13. Approved Reorganizations – Include any transfers/reallocations related to Fiscal Year 2024 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.
14. 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.
15. House Bill Language – Review current House Bill language and discuss any changes for Fiscal Year 2025 with B&P.
16. Flexibility Requests/Reports – Flexibility Request forms should be completed to continue flexibility received for Fiscal Year 2023 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.
17. 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.
18. American Rescue Plan Act (HB 20) – No requests for additional funding from ARPA State Fiscal Recovery Funds shall be included in the department request. Additionally, no core changes shall be made in department request. Potential core changes can be discussed after the October 1 department budget submission. In department request, agencies should include a core request form and program description form for items funded through the American Rescue Plan Act – State Fiscal Recovery Fund as an additional submission to their Fiscal Year 2025 budget request (similar to how a supplemental is submitted). Electronic copies of the request form and program description form should be submitted to Budget and Planning with the agency's October 1 submission. B&P will coordinate compilation of forms as one budget book for the Governor's Recommendation. Any core changes should be discussed with your B&P analyst.