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Missouri State Auditor

Analysis of General Revenue Fund Financial Condition Follow-up

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SCOTT FITZPATRICK
MISSOURI STATE AUDITOR

Honorable Mike Kehoe, Governor
and
Members of the General Assembly
Jefferson City, Missouri

We have performed follow-up work related to our review of the financial condition of the state's General Revenue Fund. Due to the significance of the General Revenue Fund to the state and its taxpayers, the State Auditor's Office previously conducted an analysis to assess the financial condition of the fund and communicated the results to budget decision makers, as well as to taxpayers and relevant stakeholders.

Our previous report documented how the state had begun the process of depleting the General Revenue Fund's surplus balance due to deficit spending through a combination of expenditure increases and slowing revenue growth. Our report showed that immediate action was necessary to reduce budget deficits to avoid emergency action. This follow-up report updates budget projections of the General Revenue Fund following the most recent legislative session.

The accompanying Management Advisory Report presents the results of our follow-up review of the General Revenue Fund Financial Condition.

A handwritten signature in black ink that reads "Scott Fitzpatrick". The signature is written in a cursive, flowing style.

Scott Fitzpatrick
State Auditor

Analysis of General Revenue Fund Financial Condition Follow-up

Introduction

Background

We released Report No. 2025-101, *Analysis of General Revenue Fund Financial Condition*, in December 2025. The report highlighted extreme deficit spending caused, in part, by massive General Revenue Fund (GRF) spending increases from fiscal year (FY) 2020 through FY 2025. During this period, spending increased by 53.4% while the Consumer Price Index (CPI) increased by only 25.1%.¹

The report emphasized the need for the General Assembly and the Governor to take immediate action to bring spending down to the level of ongoing revenue. The report concluded that "the longer Missouri waits to equalize GRF revenues and expenditures, the harder this exercise will become and the more drastic the required budget cuts will be."

Scope and Methodology

The scope of our follow-up review included the recent Truly Agreed and Finally Passed (TAFP) FY 2027 budget, which is awaiting action by the Governor, as well as projections for FY 2028 resulting from the FY 2027 budget.

This report combines information from a variety of sources. Our methodology included reviewing reports by the Office of Administration Division of Budget and Planning (OABP), House Appropriations staff, fiscal notes prepared by the General Assembly's Joint Committee on Legislative Research - Oversight Subcommittee, and the State Treasurer's Office (STO) fund reports. This information was combined with additional data from the state's accounting system, Statewide Advantage for Missouri (SAM II), the state's budgeting system (MoBGT), as well as a review of recently passed legislation that may impact state finances. To produce estimates for ongoing and future fiscal years, we used historical revenue and appropriation information.

¹ The CPI increase is calculated by comparing June 2020 CPI with June 2025 CPI.

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State Auditor's Findings

Deficit Budgeting Continues in FY 2027

The FY 2027 budget process resulted in an authorized increase, rather than a decrease, to General Revenue Fund (GRF) spending, and is projected to result in deficit spending of over \$1.7 billion for the year. The Governor's recommended budget increases GRF appropriations from approximately \$16.7 billion in FY 2026 to approximately \$17 billion in FY 2027 - an increase of over \$289 million. The General Assembly's recommended budget increases GRF appropriations from approximately \$16.7 billion in FY 2026 to approximately \$16.8 billion in FY 2027 - an increase of over \$66 million.²

Figure 1 shows GRF activity for FYs 2025 through 2028 using the most recent OABP Budget Summary including FY 2025 actual amounts, FY 2026 and FY 2027 estimated amounts from the FY 2027 budget process, and FY 2028 estimated amounts based on historical average revenue growth³ and assuming spending equal to FY 2027. Notably, any mandatory spending increases for FY 2028 must be offset by reductions to items included in the FY 2027 budget to achieve the spending levels represented below, and additional cuts will be required to prevent the GRF from running out of money as illustrated.

Figure 1: Actual and Projected GRF Activity FY 2025 through FY 2028

	Actual	CRE ¹		Average Growth
	FY 2025	FY 2026	FY 2027	FY 2028
Projected Revenue Change	0.0%	-2.1%	3.8%	3.7%²
RESOURCES				
Beginning Balance	4,802,183,414	4,320,169,337	2,325,590,605	600,270,321
Revenue	13,430,978,645	13,150,000,000	13,650,000,000	14,148,225,000
Collections Additions		58,000,000	59,000,000	59,000,000
Transfers to Fund	219,552,389	170,851,394	177,624,278	177,624,278
Total Resources Available	18,452,714,448	17,699,020,731	16,212,214,883	14,985,119,599
EXPENDITURES				
Total Appropriations	15,717,537,148	16,681,928,251	16,748,478,625	16,748,478,625
Other Adjustments	0	(231,128,967)	(286,534,063)	(286,534,063)
Regular Lapse	(1,584,992,037)	(1,077,369,158)	(850,000,000)	(850,000,000)
Total Expenditures	14,132,545,111	15,373,430,126	15,611,944,562	15,611,944,562
Ending Balance	4,320,169,337	2,325,590,605	600,270,321	(626,824,963)
Spending Surplus/(deficit)	(482,014,077)	(1,994,578,732)	(1,725,320,284)	(1,227,095,284)

¹ The Consensus Revenue Estimate (CRE) is a projected rate of growth for GRF revenues agreed to by the Governor, the Chairman of the House of Representatives Budget Committee, and the Chairman of the Senate Appropriations Committee on an annual basis.

² Average growth rate of 3.65% has been rounded for consistency.

The GRF balance peaked at the end of FY 2023 at approximately \$5.8 billion. Since then, Missouri has been running a budget deficit and relying on the

² The Governor recommended an increase of approximately \$56 million more in FY 2026 supplemental funding than the General Assembly approved.

³ The average change in actual net collections from FY 2003 through FY 2025 is 3.65%.

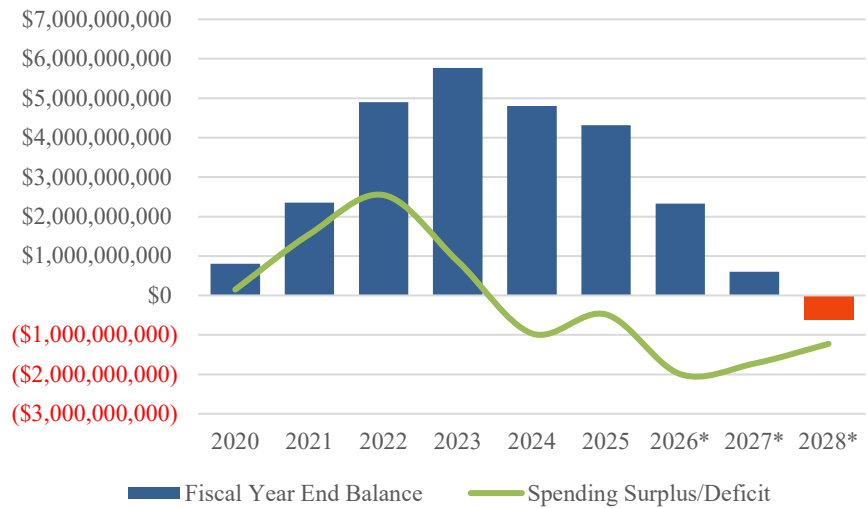


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accumulated GRF balance to fund state government. See Figure 2 for historic and projected GRF deficit spending.

Unfortunately, the GRF balance cannot sustain this deficit spending. According to current projections, the GRF balance at the end of FY 2026 will be approximately \$2.3 billion, the balance at the end of FY 2027 will be approximately \$600 million, and the balance will be completely exhausted early in FY 2028. See Figure 2 for historic and projected GRF end-of-year balances.

Figure 2: Historic and Projected GRF Balance and Spending Surplus/Deficit, FY 2020 through FY 2028



*Amounts projected

Other challenges

As difficult as the current budget situation is, it could get even worse as the state faces several other challenges.

First, the current projections assume GRF revenue growth in FY 2027 (3.8%) and FY 2028 (3.7%) based on the Consensus Revenue Estimate (FY 2027) and average growth over time (FY 2028). As noted in our previous report, tax revenue can be extremely volatile. If Missouri's tax revenue does not grow by as much as projected, the problem could get significantly worse in a short period of time.

Second, the projections above include an estimate for an emergency spending bill for FY 2027, also known as the supplemental budget, that is lower than recent supplemental budgets. The supplemental budget is passed in the 4th quarter of a given fiscal year to handle emergency spending needs. The Office of Administration Division of Budget & Planning (OABP) has projected the GRF total for the FY 2027 supplemental to be \$100 million. The average annual GRF supplemental total for FY 2020 through FY 2026 was approximately \$371 million, or \$271 million more than the OABP's projection for FY 2027.



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Third, the General Assembly appropriated over \$192 million of the fund balance from the Missouri State Capitol Commission Capitol Preservation Fund and the Blind Pension Fund for ongoing purposes in FY 2027. These balances are not likely to recur, and once they are used, they cannot be used again. Balancing the budget by using one-time fund balances does not address the structural imbalance between revenue and expenditures.

Finally, in FY 2028 and beyond, there will likely be hundreds of millions of dollars in additional "mandatory" increases throughout the state budget. Examples of mandatory increases include Medicaid utilization, funding for children with disabilities, and utility cost increases for state government. Since Missouri is already budgeting an enormous deficit, any additional increases from the examples listed or from legislation signed by the Governor will necessarily result in additional dollar for dollar decreases from other areas in the state budget.

Conclusion

Missouri's budget is broken. Expenditures are projected to be nearly \$2 billion more than revenues for FY 2026 and instead of reducing appropriated amounts to correct this, appropriations increased. Expenditures must be brought down to the level of ongoing revenue. The good news is the budget will eventually be balanced even if no action is taken in advance of the balance of the GRF reaching zero. State spending will be reduced to no more than what is being collected, since, unlike the federal government, Missouri's borrowing is constitutionally limited.⁴ The bad news is the state is on a path to missing its chance to make these reductions in a responsible, proactive way. Instead, the state is on track to completely run out of money in the GRF and be forced to implement emergency budget reductions - limiting options and maximizing pain for every Missourian and entity who relies on state funded services.

It is imperative the Governor and General Assembly take whatever measures necessary to proactively balance Missouri's budget, including line-item vetoes and withholds to the FY 2027 budget, vetoes of legislation that have significant associated costs, significant reductions to future appropriation bills, or a combination of these remedies.

⁴ Missouri Constitution, Article III, Section 37.