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MISSOURI STATE TREASURER

Missouri General Assembly
Subject: Don't be like Illinois

July 11, 2017

To my fellow public servants in the Missouri General Assembly:

As I'm sure you have noticed, the financial news out of Illinois is getting worse by the day. Decades of government expansion, budgetary neglect, unaddressed pension liabilities, and passing the buck have left the Illinois state budget in shambles. The long-term effects of these decisions have now culminated in a crisis so severe that they could become the first state ever downgraded to a "junk" credit rating – a stark contrast to our state's perfect rating.

Just last week, our neighbors across the Mississippi River enacted a spending plan that will increase taxes by 32 percent in an attempt to patch their funding woes. For a middle class family in Belleville, Illinois that could mean a \$700 tax increase next year due to no fault of their own, but rather the recklessness of state lawmakers.

As our state's Chief Financial Officer, I have kept a watchful eye on the situation to our east, and I believe it offers us an important opportunity to think constructively about the future of our state. The brutal truth we must face is that many of the underlying issues that led to the crisis in Illinois exist on some level here in Missouri.

Address the Pension Liability

Missouri's \$15.07 billion total unfunded pension liability is a crisis on the horizon that, if left unaddressed, will threaten our ability to balance the budget. In the absence of meaningful reform that liability, which equates to \$2,477 per Missouri citizen, can result in cuts to vital services and higher taxes like we've seen in Illinois and other states. The term-vested reform passed earlier this year was an important first step, but there is much work still to be done. The long-term fiscal health of our state requires us to address our troubled pension systems before it's too late.

Protect our AAA Credit Rating

We must also work together to protect our AAA credit rating. This perfect rating lowers our cost of borrowing, and the cost of borrowing for our political subdivisions like school districts. As your State Treasurer, I commit to you that I will make smart, safe investments while protecting taxpayer dollars to supplement our revenue. Our team has earned millions in additional income for the state in my first six months in office, and we will work to continue that success. In your duties as legislators, this means budgeting strategically, thinking beyond the next fiscal year, and embracing a longer-term view of Missouri's finances. Decisions made today will impact taxpayers for generations to come, and we must keep that fact in mind with every financial decision we make.

Provide Tax Relief



The good news is that we are moving in the right direction on tax policy. I'm proud to have worked with members of both parties to pass two of the largest tax cuts in state history in 2011 and 2014, and these reforms will help to grow our economy. Small businesses, which represent 97% of Missouri businesses, have struggled for years to stay open in the midst of burdensome regulation and excessive taxation. By finding new ways to provide relief to those businesses and letting Missourians keep more of their hard-earned money, we can significantly strengthen our economy. For middle class families, tax relief means greater financial empowerment, higher take-home pay and flexibility to address immediate needs.

Shrink the Size of Government

There is a renewed focus in Jefferson City on making state government more efficient, which is another step in the right direction. Governor Greitens has made his intentions to eliminate wasteful spending crystal clear, and I look forward to working with his administration to see that vision through. Shrinking the size of government makes it easier to keep our fiscal house in order and maintain priorities in the long run. My office is working hard to identify opportunities to make state funds more transparent, something that has plagued Illinois.

A Word of Caution

In the wake of our neighboring state's budget crisis, Missouri finds itself at a crossroads. One path forward requires we start making tough decisions now to ensure our state is one full of opportunity for our children and grandchildren. The other path, the one Illinois foolishly followed to their demise, resembles a pattern of kicking the can down the road until our problems are beyond repair.

My word of caution is this: **Don't be like Illinois.**

Yours in service,

A handwritten signature in black ink that reads "Eric S. Schmitt". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Eric S. Schmitt
Missouri State Treasurer