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**For Immediate Release**

## **Decisions in Next Five Weeks Will Determine Whether Missouri's Bottom Line Goes from Black to Red**

### *State's Modest Revenue Growth Signals Need for Caution by Legislature*

Missouri's restrained revenue growth rate for the first nine months of Fiscal Year 2007 signals a need for the legislature to be cautious when making key spending and tax policy decisions during the remaining five weeks of the session, according to Tom Kruckemeyer, chief economist with the Missouri Budget Project, a fiscal analysis organization.

While the state has experienced a 4.8 percent net revenue growth rate to date in Fiscal Year 2007 (July 1-March 31), this is about half of the 9.2 percent growth in Fiscal Year 2006. "This slowed growth raises a red flag for several bills moving through the legislature," Kruckemeyer said.

Several tax cut proposals are under consideration, including one affecting state taxes on Social Security benefits and other pensions and capital gains income (HB 444). "This bill would result in a \$285 million revenue loss in Fiscal Year 2008 alone, a figure that will continue to grow every year," Kruckemeyer said.

A Missouri Budget Project analysis shows that the state's expected surplus of \$516 million at the end of Fiscal Year 2007 on June 30 would be depleted by Fiscal Year 2009 even if no tax cuts are enacted. "The state could easily find itself without sufficient revenue as soon as 16 months from now," Kruckemeyer said.

Even without any significant changes in either spending or tax policies, Missouri will face a \$200 million budget shortfall by 2010, Kruckemeyer said.

In addition to revenue concerns, the state must address the need to adequately fund basic services. "We must be aware that even in an improving economy, Missouri has not totally recovered from the post 9/11 recession," Kruckemeyer said. "Funds for K-12 and higher education which suffered substantial cuts has not been restored even to the levels of 2001. There is the critical need to restore access to health care for the more than 300,000 Missourians who were cut from the Medicaid public insurance program or whose services were significantly reduced," Kruckemeyer said.

The outlook for Missouri's economy, while generally positive, includes several areas of concern, particularly rising gasoline and other energy prices, Kruckemeyer said. Should inflationary pressures increase, the Federal Reserve may switch to a policy of increasing interest rates which may result in slowing economic activity, particularly in the already sluggish housing sector. Also, the *U.S. Index of Leading Economic Indicators* declined in both January and February; perhaps signaling a period of restrained economic activity, Kruckemeyer said.

"While Missouri's financial position has improved somewhat, careful analysis of revenue trends and prudent budgeting and tax policy is very much in order," Kruckemeyer said.

**The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.**