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## **MISSOURI FACING CRITICAL BUDGET CLIFF: UPCOMING BUDGET SHORTFALL MEANS REDUCTION IN STATE SERVICES**

St. Louis, MO – A new report from the economic analysts at the non-partisan Missouri Budget Project shows an alarming trend in the state’s budget: **over the past three fiscal years, the State of Missouri has continually spent more than what it actually takes in through general revenue growth.**

This spending beyond revenue collections has been financed with a significant “carry-forward” of funds that were not used in FY 2006. As recently reported by the Governor’s office, Missouri began the new fiscal year, FY 2009, on July 1<sup>st</sup> with more than \$800 million in unspent revenue. While \$288 million of this carry-forward balance results from revenue that was not spent in the last fiscal year, more than \$500 million of it is attributable to “carry-forward” funds that were not used in FY 2006.

As Missouri’s “carry-forward” balance is used up to meet the state’s ongoing spending obligations, a hole emerges. **By Fiscal Year 2011 the loss of the “carry-forward” funds will result in a substantial budget shortfall of more than \$680 million.**

“Our state is not operating with the type of budget discipline that Missouri families must follow everyday to make ends meet and avoid unwanted debt,” said Amy Blouin, Executive Director of the Missouri Budget Project. “Over the last few years our elected officials have spent more money than the state is collecting annually, and one-time funds have been used for ongoing financial commitments. Now, Missouri is headed for a budget shortfall as these one-time funds are used up and revenue collections cannot keep pace with government spending.”

However, Missourians are not seeing an increase in services due to the use of these one-time funds. Missouri’s general revenue spending today is just slightly above what it was in FY 1999, when adjusted for inflation. This means increased financial hardship for many Missouri citizens. **For example: reductions in funding for Missouri’s Public Universities and Colleges has resulted in tuition increases of 75 percent since 2001, and 770,000 Missourians are now uninsured, an increase of 15 percent from 2006-2007.**

Instead, an increasing amount of state funds are being used for sizeable tax cuts and tax credits enacted by the Missouri Legislature. Recent tax cuts, passed during the 2007 and 2008 legislative session, have reduced available general revenue by an additional \$250 million per year. These tax policy changes were phased in over a number of years, so their impact will not be fully felt until FY 2011.

**Additionally, over the last decade the amount Missouri spends on tax credits each year has more than doubled.** In fiscal year 1999, the state issued \$182 million in tax credits. In 2006 that number grew to \$417 million.

Combined, the tax policy changes and the inflationary needs just to maintain current services will require nine percent growth in state general revenue per year. In the recently completed fiscal year 2008, the state reached only 3.7 percent net general revenue growth.

The new report's projection of the general revenue shortfall does not take into account the additional pending shortfall in the state's transportation funding. **The Missouri Department of Transportation announced recently that the state transportation budget faces a decline in earmarked revenue sources of at least \$700 million by FY 2010.**

The annual decline in sales and use tax, coupled with the significant drop in corporate income tax during the fourth quarter of FY 2008, are indicators that the negative economy is beginning to impact state revenue. If these trends continue, the projected state general revenue shortfall could grow significantly.

"In these difficult economic times, Missouri families need an increase in state services, including funding for K-12 and higher education, transportation infrastructure and health care coverage," Blouin continued. "Unfortunately, with the current fiscal outlook, we are instead facing a dramatic reduction in support for these already under funded services. **Maintaining critical services is a vital part of the state's ability to provide assistance when it is most needed and can serve as a real economic stimulus.**"

The Missouri Budget Project believes proactive policy steps must be taken by Missouri's elected officials to overcome the state's ongoing structural deficit, and protect critical state services. Additionally, the U. S. Congress is considering providing fiscal relief for states, as they did following the 2001-2002 recession. The Missouri Budget Project feels that by passing state fiscal relief, Congress can help Missouri, and 29 other states that face budget deficits within the next 18 months, to avoid cuts in services.