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### State Issues

1. **Fiscal Analysis of “Fair Tax” Proposals Concludes 15% Sales Tax Rate Necessary to Fund Services**

A recent fiscal analysis of the latest proposals to eliminate the state’s income tax and replace it with a greatly expanded sales tax concluded that a **sales tax rate of up to 15 percent may be required to pay for the proposal.**

James Moody, a former state budget director and director of the office of administration for the state of Missouri, submitted the fiscal analysis of the nine petition initiatives to State Auditor Tom Schweich. The analysis examines the work and analyses of the proponents of the so-called “fair tax” measure, and finds serious flaws in their calculations of proposed sales tax rates, based on faulty assumptions regarding the sales tax base and incorrect figures for replaced General Revenue. Moody’s full fiscal analysis can be accessed here [<http://www.jamesmoody.com/fileshare/January%2024%20State%20Auditor%20submission.pdf>].

2. **Decoupling from the Federal “Bonus Depreciation” Could Save Missouri Millions**

The tax bill signed into law in December allows businesses to utilize accelerated investment expensing. Businesses can make qualified investment purchases and deduct these expenses over an accelerated two-year period, as opposed to the normal, more extended depreciation schedules.

As a result, Missouri and other states that use federal definitions of taxable income as the starting point for their state tax base are likely to see substantial reductions in state revenues over the next two years. The Center on Budget and Policy Priorities estimates that Missouri will lose as much as \$143 million in state corporate tax revenue in 2011 and 2012. Missouri can prevent this loss by enacting a provision in its own state tax code to disallow the additional state tax deduction, as it did in 2002 with bipartisan support. To read the Missouri Budget Project’s complete fact sheet, *Decoupling from the Federal “Bonus Depreciation” Could Save Missouri Millions*, click here. [[http://mobudget.org/files/Decoupling\\_Fact\\_Sheet\\_Feb\\_2011.pdf](http://mobudget.org/files/Decoupling_Fact_Sheet_Feb_2011.pdf)]

3. **Rainy Day Fund in Need of Revisions**

In 2000, Missouri established a “rainy day fund,” or a budget reserve intended to facilitate cash flow and provide the state with funds to respond to a budget shortfall or unanticipated spending needs. While many states have

successfully responded to recent revenue declines by using their rainy day funds, flaws in the design of Missouri's fund have proven to be obstacles for its intended use.

The Missouri Budget Project has issued a report identifying barriers to the use of the fund and recommending modifications that would enable appropriate access of the fund for budget stabilization, including:

- Eliminating the supermajority requirement for using the fund
- Allowing a larger portion of the fund to be used for budget stabilization purposes,
- Permitting a more extended repayment period, and
- Removing or increasing the cap on the size of the fund.

To learn more about this issue, read the Missouri Budget Project's full report by clicking here. [[http://www.mobudget.org/files/Missouri\\_Rainy\\_Day\\_Fund\\_in\\_Need\\_of\\_Revisions.pdf](http://www.mobudget.org/files/Missouri_Rainy_Day_Fund_in_Need_of_Revisions.pdf)]

#### 4. Missouri Takes Steps to Insure Those with Pre-existing Conditions

As outlined in a recent Missouri Budget Project Policy Brief, the Department of Insurance is making changes to remove barriers to enrolling eligible Missourians in its Pre-Existing Conditions Insurance Plan (PCIP). Per the Affordable Care Act, Missouri received \$81 million in federal funds to establish this temporary high risk pool, until the Act's prohibition on charging higher premiums to those with pre-existing conditions takes effect. Unfortunately, however, the take-up rate for the PCIP has been low.

To boost enrollment, as of February 1<sup>st</sup> the Department of Insurance has lowered premiums and begun offering a choice of deductibles. Plans to allow online applications are also in the works. However, the combined cost of premiums, deductibles, and other out-of-pocket expenses is still likely to be problematic for many individuals.

To learn more about the changes, as well as eligibility requirements and other frequently asked questions about the PCIP, read the Missouri Budget Project's full Policy Brief, *Missouri Takes Steps to Insure Those with Pre-existing Conditions: Stop-Gap Measure Seeks to Address Barriers to High Risk Pools*. [[http://mobudget.org/files/Missouri\\_Rainy\\_Day\\_Fund\\_in\\_Need\\_of\\_Revisions.pdf](http://mobudget.org/files/Missouri_Rainy_Day_Fund_in_Need_of_Revisions.pdf)]

#### 5. Missouri Budget Project Issues Quarterly General Revenue Report

The Missouri Budget Project has issued its quarterly general revenue report. For the quarter ending December 31<sup>st</sup>, Missouri's net General Revenue (GR) collections rose 6.8 percent, marking three consecutive quarters of revenue growth. In view of the sharp decline in net GR collections that characterized fiscal years 2009 and 2010, there is now reason to believe that the worst of the revenue decline has ended.

However, it is important to note that the fiscal year (FY) 2009 and FY 2010 revenue decline is **the largest sustained decline since the Great Depression of the 1930s**. To place this in context, **Missouri's FY 2010 net GR total of \$6.774 billion was \$1.23 billion less than the \$8.003 billion the state collected in FY 2008**. While the revenue increases are welcome news, the state still has an enormous revenue problem to address.

Click here to read the full report.

[<http://mobudget.org/files/December%20FY%202011%20MBP%20GR%20Report.pdf>]

#### 6. Missouri Office of Administration Releases January General Revenue Report

According to the Missouri Office of Administration, January 2011 net general revenue collections increased by 15.9 percent compared to January 2010. Fiscal year 2011 year-to-date net general revenue has also increased by 6.3 percent compared to FY 2010, putting the level of collections slightly ahead of forecasted revenue. While all increases are good news, Missouri still faces a shortfall of hundreds of millions in the next fiscal year.

#### 7. Legislative Action

### *Tax & Revenue Bills*

On Tuesday, the Senate Jobs, Economic Development, and Local Government Committee passed **SB 18** and **SB 19**, both of which were introduced by Sen. Eric Schmitt. **SB 18**

[[http://www.senate.mo.gov/11info/BTS\\_Web/Bill.aspx?SessionType=R&BillID=4065318](http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4065318)] would cap corporate franchise taxes at \$2 million annually, and **SB 19**

[[http://www.senate.mo.gov/11info/BTS\\_Web/Bill.aspx?SessionType=R&BillID=4065317](http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4065317)] would eliminate the taxes over a 5-year period. According to their fiscal notes, SB 18 would cost the state \$1.18 million in general revenue in FY 2013. SB 19 would cost \$27.8 million in FY 2013 and \$42.2 million in FY 2014.

### *Budget & Appropriations*

The **Senate Appropriations Committee** will meet on Monday, February 7<sup>th</sup> at 12 p.m. to discuss tax credits administered by Economic Development; Agriculture; Health & Senior Services; Insurance, Financial Institutions & Professional Registration; Natural Resources; Revenue; and Social Services. The committee will reconvene at 8 a.m. on Tuesday, February 8<sup>th</sup> to discuss the Department of Labor & Industrial Relations and at 8 a.m. on Thursday, February 10<sup>th</sup> regarding the Department of Economic Development.

The **House Appropriations Committees** will hold further meetings next week on the budget:

- **House Appropriations Committee for Health, Mental Health and Social Services** meets Tuesday, 2/8, at 2 p.m. in House Hearing Room 5 to hear the budget presentation by the Department of Health and Senior Services. The committee will reconvene on Wednesday, 2/8, to continue the budget overview.
- **House Education Appropriations Committee** meets on Tuesday, 2/8, at 2 p.m. in House Hearing Room 3 to continue the budget presentation by the Department of Elementary & Secondary Education.

### *Health Bills*

**HB 201** [<http://www.house.mo.gov/billsummary.aspx?bill=HB201&year=2011&code=R>], which would authorize the implementation of a statewide dental delivery system to ensure dental services under MO HealthNet, was referred to the House Committee on Health Care Policy.

**HB 262** [<http://www.house.mo.gov/billsummary.aspx?bill=HB262&year=2011&code=R>], the Foreign Health Insurance Purchase Act, would allow Missourians to purchase a health insurance policy that is licensed in certain other states, even if the carrier is not licensed or in compliance with Missouri state laws. The bill, sponsored by Rep. Jason Smith, was referred to the House Committee on Health Insurance.

## Federal Issues

### 1. **CBPP: Federal Debt on Unsustainable Path**

In a recent report, the Center on Budget and Policy Priorities (CBPP) further analyzed the Congressional Budget Office's (CBO) latest projections on the federal debt and found that if current policies continue, deficits will total nearly \$13 trillion in the decade between 2012 and 2021. Moreover, debt will rise to 95 percent of Gross Domestic Product by 2021.

To learn more, visit <http://www.cbpp.org/cms/index.cfm?fa=view&id=3382&emailView=1>.

### 2. **Florida Judge Rules Key Provision of Affordable Care Act Unconstitutional**

On Monday, a second federal judge ruled that the requirement in the Affordable Care Act that everyone purchase affordable health insurance was unconstitutional. Unlike the most recent ruling, the judge ruled that in striking down the provision, the entire bill should be invalidated. While the judge did not suspend the law pending appeals, he said the ruling was the functional equivalent of an injunction, leading to some confusion as to how the law should be implemented.

Two federal judges have now upheld the law, and two have ruled that the provision exceeds Congress' authority to regulate interstate commerce, almost ensuring that the question will eventually be decided by the U.S. Supreme Court.

Proponents of the law believe the provision is critical to ensuring that premiums are affordable to individuals with pre-existing conditions, or who are otherwise sick. (To see related information on changes to Missouri's high risk pools, [click here](#)). To read the Missouri Budget Project's analyses of the federal health care law, visit [www.mobudget.org/health\\_care.html](http://www.mobudget.org/health_care.html).

Undoubtedly the Affordable Care Act will need to be improved and modified, but it is already providing significant benefits for Missourians with pre-existing conditions, young adults who are able to stay on their parents' insurance up to age 26, seniors who fall into the donut hole in Medicare, and small businesses who will get tax credits this year to assist with health insurance costs for their employees. In addition to the health benefits, the Affordable Care Act will provide significant economic benefits to Missouri through grants that improve health information technology, the expansion of the pool of nurses and other providers, and the reduction in the cost of health insurance for those who are insured by decreasing the number of uninsured and the use of emergency rooms for primary care.