

Missouri Budget Project E-News  
State and Federal Policy Update  
March 18, 2011

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State Issues

1. **Missouri Legislature Recesses for Spring Break – Contact Your Legislators**

The legislative spring break begins today, and legislators will be in their home districts until the session reconvenes on Monday, March 28<sup>th</sup>. The spring recess is a great time to contact your legislators to let them know what you think about these issues. The Missouri Budget Project encourages you to call your legislators or attend district events they may be hosting.

2. **Mega Sales Tax Measure Ready for House Debate**

The House Rules Committee approved **House Joint Resolution 8** [<http://www.house.mo.gov/billsummary.aspx?bill=HJR8&year=2011&code=R>] this week, making it prime for debate when state lawmakers return from their break on March 28<sup>th</sup>. **The spring recess provides a pivotal opportunity to contact your state lawmakers and let them know how you feel about this drastic measure.**

HJR 8 proposes a constitutional amendment to eliminate the state's current general revenue tax structure and replace it with a greatly expanded sales tax. The proposal is unlike anything ever enacted in any state and would expand the sales tax to apply to nearly everything Missourians purchase – including services such as child care and rent, and items that are currently exempt from the sales tax, such as food and prescription medication. While the details of the proposal are fraught with uncertainty, it caps the sales tax rate at 7 percent. However, many independent analyses, including separate assessments prepared by the Missouri Budget Project and Jim Moody, former budget director under Governor Ashcroft, found that the actual rate necessary to

replace existing revenues would near 12 percent. As a result, a constitutionally capped rate of 7 percent would significantly compromise the ability of Missouri to fund critical core services including education, health care and infrastructure. To read Missouri Budget Project's statement on the measure click here.

[[http://www.mobudget.org/files/Mega\\_tax\\_efforts\\_advance.Threaten\\_Missouris\\_future.pdf](http://www.mobudget.org/files/Mega_tax_efforts_advance.Threaten_Missouris_future.pdf)]

### 3. Legislative Action on Tax & Revenue Related Bills

#### **Corporate Franchise Tax Bills**

House Bill 76 [<http://www.house.mo.gov/billsummary.aspx?bill=HB76&year=2011&code=R>] (Nolte), which passed the House early in the month, has been assigned to the Senate Committee on Jobs, Economic Development and Local Government

[<http://www.senate.mo.gov/11info/comm/jobs.htm>]. The bill eliminates the corporate franchise tax in Missouri. When fully phased in, the elimination of the corporate franchise tax will cost Missouri \$85 million in state general revenue annually. The Senate has already passed Senate Bill 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)] (Schmitt), which is substantially similar to HB 76. HB 76 was passed by the House International Trade and Job Creation Committee and awaits approval by the House Rules Committee. Click here to see the MBP's statement on the issue.

[[http://www.mobudget.org/files/MO\\_House\\_Debates\\_Elimination\\_of\\_Corporate\\_Franchise\\_Tax.pdf](http://www.mobudget.org/files/MO_House_Debates_Elimination_of_Corporate_Franchise_Tax.pdf)]

#### **Tax Credits**

Senate Bill 280

[[http://www.senate.mo.gov/11info/BTS\\_Web/Bill.aspx?SessionType=R&BillID=4147458](http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4147458)]

(Purgason) has been placed on the Senate Calendar for debate. The bill proposes significant changes to tax credits, some of which were recommended by the Tax Credit Reform Commission. The Commission was formed in recognition of the fact that while state revenues have declined significantly, spending on tax credit programs has grown.

In an interesting "twist," while modifying several tax credits impacting neighborhoods, nonprofits, and low-income populations, the committee added to the bill the **repeal of the corporate franchise tax**. The fiscal summary of the committee substitute bill results in a combined gain of \$66.7 million in state revenue. However, while some provisions removed or limited state costs, others actually increased costs to the state. For example, provisions of the Senior Citizen Circuit Breaker/Property Tax Credit that allow renters with fixed incomes (seniors and people with disabilities) to receive a partial credit to offset their housing costs were eliminated, reducing the costs to the state of that credit by \$57 million per year. However, the elimination of the Corporate Franchise Tax reduces available state revenues by \$85 million per year, more than offsetting the savings from the circuit breaker provision and decreasing the bill's overall savings to the state.

The Committee substitute includes the following provisions:

- Removes renters from eligibility for the Senior Citizen Property Tax Credit (Circuit Breaker);

- Broadens the definitions of taxpayer under the Youth Opportunities Program, the Domestic Violence Shelter, the Maternity Home Tax Credit, the Pregnancy Resource Center Credit, Residential Treatment Agency Tax Credit and the Food Pantry Credit, but reduces the credit size under all of these categories from 50 percent to 35 percent;
- Prohibits International Adoptions from qualifying for the Special Needs Adoption Tax Credit;
- Reduces the Neighborhood Assistance Program (NAP) from a 50 percent credit to 35 percent and from 70 percent to 50 percent in rural areas, changes NAP from an entitlement-basis to discretionary, and reduces annual funding available from \$16 million to \$10 million;
- Reduces the Affordable Housing Assistance Program from a 55 percent credit to 40 percent and decreases the total amount of funding available to \$10 million to \$8.5 million;
- Prohibits both the Neighborhood Assistance Program and Affordable Housing Assistance Program tax credits after August 28, 2015;
- Caps the Low Income Housing Tax Credit at \$80 million per year and prohibits stacking of Low Income Housing Tax Credits and Historic Preservation Tax Credits for the same project;
- Enacts a \$75 million cap on Historic Preservation Tax Credits;
- Replaces a number of corporate-related credits, including Quality Jobs, Enhanced Enterprise Zone, Business Facility, and others, with a new “Compete Missouri Program.” The new credit allows companies to qualify for a sales and use tax reduction for a limited time period if the company is meeting required benchmarks for new jobs created at 90 percent of the average county wage.

### **Tax Amnesty & Collections**

House Committee Substitute for House Bill 116 & 316

[\[http://www.house.mo.gov/BillSummary.aspx?bill=HB%20116&style=new\]](http://www.house.mo.gov/BillSummary.aspx?bill=HB%20116&style=new) (Flanigan and Chris Kelly), which already passed the House, has been assigned to the Senate Ways and Means Committee [\[http://www.senate.mo.gov/11info/comm/wame.htm\]](http://www.senate.mo.gov/11info/comm/wame.htm). The bill would enact several tax collections and amnesty related provisions that are expected to generate \$7 million in general revenue in FY 2012, \$25 million in FY 2013 and \$26 million in FY 2014.

### **Creating a Missouri State Earned Income Tax Credit**

The House Tax Reform Committee held a hearing this week on House Bill 581

[\[http://www.house.mo.gov/billsummary.aspx?bill=HB581&year=2011&code=R\]](http://www.house.mo.gov/billsummary.aspx?bill=HB581&year=2011&code=R) (Oxford). The bill would create a state Earned Income Tax Credit in Missouri that mirrors the Federal EITC and would benefit middle- and low-income workers. Click here to read the Missouri Budget Project’s testimony on the bill, which discusses the economic benefits of a state EITC.

[\[http://www.mobudget.org/files/EITC%20Missouri%20Testimony%20-%20House%20Cmt%20March%2015%202011.pdf\]](http://www.mobudget.org/files/EITC%20Missouri%20Testimony%20-%20House%20Cmt%20March%2015%202011.pdf) To read testimony provided to the Committee by the Institute on Taxation and Economic Policy describing why Missouri’s tax structure needs this critical update, click here. [\[http://itepnet.org/pdf/mo\\_eitc\\_te\\_0311.pdf\]](http://itepnet.org/pdf/mo_eitc_te_0311.pdf)

For more information on how the EITC and other programs that alleviate childhood poverty can have a significant long-term impact, please see “Poverty in Early Childhood Has Long and Harmful Reach” in the federal update below.

### **FRA Extensions**

Senate Bill 322

[[http://www.senate.mo.gov/11info/BTS\\_Web/Bill.aspx?SessionType=R&BillID=4177402](http://www.senate.mo.gov/11info/BTS_Web/Bill.aspx?SessionType=R&BillID=4177402)]

(Schaefer, Appropriations Chair) has been placed on the Senate Calendar. The bill would extend the sunset date of several current provider taxes/federal reimbursement allowances (FRA) from 2011 to 2016. The measure includes the ambulance service FRA, nursing facility reimbursement allowance, the Medicaid managed care reimbursement allowance, the pharmacy reimbursement allowance, the intermediate care facilities assessment and the hospital reimbursement allowance. These funds and assessments currently generate more than \$1 billion in state-based revenue that in turn brings into Missouri \$1.86 billion in federal funding for health care services.

## **4. Legislative Action on the State Budget**

### **Supplemental Appropriations**

Two supplemental appropriations bills, HB14

[<http://www.house.mo.gov/billsummary.aspx?bill=HB14&year=2011&code=R>] (Silvey)

and HB15 [<http://www.house.mo.gov/billsummary.aspx?bill=HB15&year=2011&code=R>]

(Silvey), are still stalled in the Senate. HB14 appropriates money needed to continue the current fiscal year, and HB15 appropriates federal money for elementary and secondary education. The funds in HB15 are needed so currently appropriated funds can be carried over into the next fiscal year. Funding for elementary and secondary schools is projected to be flat in FY2012 in the budget bill just passed by the House Budget Committee. Without the federal money in HB15, more than \$100 million in additional cuts will be needed.

### **FY 2012 Budget**

House Bills 1-13, the “regular” budget bills for FY2012, were passed by the Budget and Rules Committees. Budget Chair Ryan Silvey did a masterful job in handling the budget bills. Input from the Appropriations Committees was considered as he developed the House Committee Substitute bills. When the Budget Committee marked up the bills, only 62 amendments were offered. Chair Silvey only brought up 14 of the proposed amendments, and 10 were passed by the Committee. Silvey recognized members of both parties to present their amendments, and continued to use the process in which a proposed increase in any line item must first have an approved decrease in another line item. While the process was managed well, the budget cuts will still be painful for Missourians.

The House Budget Committee made a few substantial changes from the budget presented by Governor Nixon. Some highlights of the budget passed by the Committee:

- Foundation Formula funding is flat for the second year in a row. As explained above, unless HB15 is approved, schools will likely lose ground
- Funding for Parents as Teachers was increased by \$3.2 million, to \$16.2 million. This is far below the \$24 million level in FY2010.

- School bus transportation funds were increased, but are still about a third of the FY2010 level.
- Need-based scholarships were increased by \$30 million and the Preparing to Care program by \$12million.
- “Global” recommendations made across all departments when the Governor signed the FY2011 budget were made permanent. These include 5.5 percent reductions in Professional services and a five cent decrease in mileage reimbursement
- Funds were budgeted for caseload growth in MoHealthNet (Medicaid and CHIP) and in pharmacy costs, although at lower levels than the Department of Social Services estimated were needed.
- Funds were budgeted in all Medicaid line items to adjust for the change in the amount of reimbursement the state gets from the federal government. In FY2011, due to a temporarily enhanced federal matching rate, every dollar spent on Medicaid was 63.6 percent federal money. The Children’s Health Insurance Program’s enhanced match rate was 71.5 percent. In FY2012 the federal match rates are lower at 63.4 and 71.4 percent respectively.
- Youth Treatment Programs in the Division of Youth Services had significant personnel reductions in positions ranging from cooks (15 Full Time Equivalent employees, FTEs), service coordinators and treatment staff (26 FTEs), nurses (4 FTEs), to clerical staff (2 FTEs).
- Small increases were made in administration of Department of Mental Health programs.
- Staff cuts were made in comprehensive psychiatric services facility support (14 FTEs) (Department of Mental Health).
- Staff cuts were made in the Division of Community and Public Health (19 FTEs), the Division of Senior and Disability Services (38 FTEs), and the Division of Regulation and Licensure (13 FTEs) (Department of Health & Senior Services).
- The House Budget Committee restored the 4 percent core cuts made to in-home provider reimbursement rates last year and 15 percent of the core reductions made to Area Agencies on Aging (Department of Health & Senior Services).
- Staff cuts were made in income maintenance field staff (181 FTEs) and in the Children’s Division field staff (68 FTEs) (Department of Social Services).
- The House Budget Committee increased funding for domestic violence by \$750,000 over the Governor’s recommendation

After the full House passes the budget bills, the Senate will make changes and vote on them. A conference committee will iron out differences in the House and Senate, and both chambers must approve the same bills by May 6. Once approved by the General Assembly, the bills are sent to the Governor for his signature, vetoes (the Governor has line item veto power in the budget bills) and/or withholds. The Missouri Constitution requires the state to have a balanced budget.

## **5. Other Bills Pertaining to Economic Opportunities for Missourians**

### **Extended Unemployment Bill Stalls in Senate**

House Bill 163 [<http://www.house.mo.gov/billsummary.aspx?bill=HB163&year=2011&code=R>] (Representative Fisher), a bill that would allow Missourians who are facing long-term unemployment due to the economic recession to receive extended federally funded

unemployment benefits, has stalled in the Senate. Three senators continued to prevent the passage of the bill this week. As a result, the thousands of Missourians who would be eligible for more than \$80 million in federally funded extended benefits beginning in April may experience a delay in those benefits, if the bill is allowed to pass after spring break. Technical language in Missouri's unemployment statute needs to be altered each time the extended benefits become available in order to draw down the money. The most recent unemployment numbers indicate that 9.6 percent of Missourians were unemployed in December.

## **6. Legislative Action on Health Care**

A Committee Substitute for House Bill 609

[<http://www.house.mo.gov/billsummary.aspx?bill=HB609&year=2011&code=R>] passed the House Health Insurance Committee on Thursday. This bill sets up the framework for the health insurance exchange required by the Affordable Care Act. For more background on the exchanges, please see last week's update.

[[http://www.mobudget.org/files/Missouri\\_Budget\\_Project\\_E-News\\_3-11-2011.pdf](http://www.mobudget.org/files/Missouri_Budget_Project_E-News_3-11-2011.pdf)]

The Missouri Budget Project is analyzing the substitute and will continue to monitor the progress of the bill.

## **7. ACA Roundtable Events for Small Businesses**

March 23 marks the one year anniversary of the Affordable Care Act (ACA). In recognition, the Missouri Health Advocacy Alliance along with AARP, the Healthcare Foundation of Greater Kansas City, and the Small Business Majority are hosting a series of roundtable meetings for small business owners to discuss the ACA and its impact on their companies.

The ACA includes provisions, such as small business tax credits, insurance reforms and the creation of insurance marketplaces, aimed at lowering small employers' costs and making it easier for them to buy insurance for themselves and their employees. Small business owners across America and in Missouri are already taking advantage of these and other provisions, and the roundtable will allow entrepreneurs to discuss how the law is affecting their companies and learn how the state is moving forward with implementing other key provisions.

Roundtables will be held from 8 to 10 a.m. in:

St. Louis, Monday, March 21<sup>st</sup> <http://aarpmosmallbusinessroundtablestlouis.eventbrite.com>

Columbia, Wednesday, March 23<sup>rd</sup> <http://aarpmosmallbusinessroundtablecolumbia.eventbrite.com>

Kansas City, Thursday, March 24<sup>th</sup> <http://aarpmosmallbusinessroundtablekc.eventbrite.com>

For more information, visit the corresponding web sites or call 573-634-9800.

## **Federal Issues**

## **1. FY 2011 Budget Discussions Continue**

Congress has sent to President Obama a three-week, short-term continuing resolution to fund the federal government through April 8<sup>th</sup>. Discussions continue regarding a continuing resolution to fund the government for the remainder of the fiscal year.

## **2. Poverty in Early Childhood Has Long and Harmful Reach**

As policymakers at both the federal and state level consider budget cuts, two researchers point to evidence that poverty in early childhood impacts both their learning and school performance and their incomes later in life. As a result, the researchers recommend that policymakers expand tax credits such as the Earned Income Tax Credit and avoid changes to the Temporary Assistance to Needy Families (TANF) program that may threaten the well-being of young children.

To learn more, click here. <http://www.offthechartsblog.org/poverty-in-early-childhood-has-long-and-harmful-reach/>