

## Missouri Budget Project E-News State and Federal Policy Update April 22, 2011

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### State Issues

1. Legislative Action on Tax & Revenue Related Bills

#### Senate Sponsor Proposes New Version of the “Mega Sales Tax”

Senator Ridgeway presented a new version of [Senate Joint Resolution 1](#) to the Senate Ways and Means Committee on 4/21/11. The committee has not voted on the measure, so the text of the substitute is not available online. However, the MBP was able to attain a copy from one of the proponents and the following summarizes the major provisions.

Like its predecessors, the new “mega sales tax” proposal seeks a constitutional amendment on the November 2012 ballot to create a greatly expanded sales tax in Missouri and eliminate the individual income tax. **The sales tax is unlike anything ever enacted in any state, and although it would be capped at a 7 percent rate, because the tax is expanded to nearly all services, it would result in a significant tax increase on the vast majority of Missourians.**

The proposal is similar to previous “mega tax” proposals from past years and similar to the current House proposal, with some key exceptions. The distinctions in SJR 1 include:

- The proposal would phase in the elimination of the individual income tax between 2012 and 2016, requiring income tax to be cut in half by 2014 and completely eliminated by 2016.
- Unlike previous versions, SJR 1 does not eliminate the corporate income tax, but neither does it eliminate, reduce, or address tax credits nor how individual tax credits apply in a system without an individual income tax.
- **The new proposal does not include the “prebate” provision that had been included in previous versions as a means to offset a portion of the increased tax for low and middle income Missourians. Because the “prebate” is no longer provided, the**

**increased tax burden on low and middle income Missourians would be much more severe.**

- Previous versions of the proposal exempted used products, K-12 and Higher Education, and business to business transactions from the sales tax. In addition to these exemptions, the new proposal exempts Rent and Home Sales, Health Care, and Food. However, even with the exemptions, critical services remain subject to the sales tax, including child care (as one example).

Proponents of the measure argue that states that do not have an income tax have stronger economic growth. However, the MBP has countered that valid comparisons are not possible given that no other state has ever enacted a tax structure like this one; therefore, it is impossible to point to empirical data. The breadth of services taxed under the proposal is unlike anything that has ever occurred in any state. For example, according to the Federation of State Tax Administrators, Tennessee applies its sales tax to 67 of 168 potentially taxable services. A majority of states apply their sales tax to just one-third of these services. Missouri would be extending its sales tax to apply to nearly all of the 168 services identified.

In addition, when reviewing current state economic data, state tax structures and state population change, it is clear that there is no correlation between income taxes and economic growth or population fluctuations. **To read more on state economic growth, population change and state tax policy, see the Missouri Budget Project papers below:**

[\*Dispelling the Myth: State Individual Income Taxes Do Not Control Economic Growth\*](#)

[\*State Income Taxes Do Not Drive Population Growth\*](#)

### **Support for the Streamlined Sales Tax Continues to Grow**

The House Ways and Means Committee voted to add the streamlined sales tax agreement language to [House Bill 979](#) on 4/21/11. Although the MBP has significant concerns about the underlying bill that the issue was amended to, the committee's support of the Streamlined Sales and Use Tax Agreement is a significant and positive step for Missouri. The Agreement would allow Missouri to collect sales tax for online purchases just as it does for purchases made in local stores. **To read more about this issue click [here](#).**

*Note: The MBP does not expect HB 977 to advance this year.*

### **Tax Amnesty and Tax Credit Reform Merge**

The Senate Ways and Means Committee voted to merge the tax amnesty provisions in [House Bill 116](#) with the tax credit reforms in [Senate Bill 280](#). Many of the provisions within SB 280 are highly controversial, which is likely to slow the progression of the underlying tax amnesty bill. The merged bill is HB 116.

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

### **Senate Passes Appropriations Bills**

The Senate passed the 13 budget bills on Wednesday, 4/20. For the most part, their decisions followed the lead of the Governor and the House. The Senate departed from tradition in allowing floor amendments to the bills. Discussion focused almost solely on the amendments. Only one amendment, offered by Appropriation Chair Curt Schaeffer, passed. This amendment deleted appropriation authority for two federal grants that provide for planning to implement a health insurance exchange and a process to review premium increases proposed by insurance companies. These changes, along with other decision items that differ from those in the budget bills passed by the House, will be discussed in a conference committee next week. The budget bills must be passed by both chambers and sent to the Governor by May 6.

Key areas of difference in the House and Senate versions of the bill include the following. The Senate:

- Gave modest **increases** to each State Department for administrative costs

*In HB2 (Department of Elementary and Secondary Education)*

- **Eliminated** \$1.3 million in grants for drop out recovery and math and science tutoring in St. Louis, as well as an early literacy program offered at Southeast Missouri University, but **restored** \$300,000 for the Missouri Scholars and Fine Arts Academies
- **Cut** more than \$2.5 million from Independent Living Centers, which constitutes more than 50 percent of their funding and will jeopardize the existence of the smaller centers.

Total increase (compared to the House proposal) amounts to approximately \$13.5 million.

*In HB3 (Department of Higher Education)*

- **Reduced** the overall cuts in the core budget of higher education institutions to 4.8 percent. The Governor proposed a 7 percent core cut for higher education institutions.
- Used \$1 million from the Nursing Board Fund to support 4 year nursing degree programs.
- **Eliminated** \$2 million that funded a pharmacy doctorate program at Missouri State University in collaboration with the University of Missouri-Kansas City School of Pharmacy

Total increase (compared to the House proposal) amounts to approximately \$7.2 million.

*In HB10 (Departments of Health & Senior Services and Mental Health)*

- Made additional reductions in funds for services in almost every service area. (The withholds made in last year's budget have already been assumed as permanent cuts.)
- **Increased** funds for overtime payments.
- **Cut** about \$1.6 million from the Division of Community and Public Health.
- **Cut** \$24 million from senior services (respite care, homemaker, personal care, adult day care, home-delivered meals and other related services).
- **Cut** about \$1.5 million to Area Agencies on Aging for services including meals.

Total cut (compared to the House proposal) amounts to approximately \$27.2 million in the Department of Health & Senior Services, and \$5.5 million in the Department of Mental Health.

*In HB11 (Department of Social Services)*

- **Cut** \$1 million from early childhood programs.

- **Eliminated** funding for the MO Rx program (assistance with pharmacy costs for low income individuals)
- **Added** \$10 million to fund medical homes affiliated with public entities.

Total cut (compared to the House proposal) amounts to approximately \$25 million.

There continue to be a number of unknown factors that could have a serious impact on the budget. All of the budget proposals assume the passage of [HB116](#), which is expected to increase revenue through a tax amnesty program. As previously discussed, HB116 was voted DO PASS by the Senate Ways & Means Committee on 4/21. However, it went into the Committee as a 34 page bill, and came out with 196 pages. The controversial recommendations of the Tax Credit Review Commission have been amended. These recommendations include something for almost everyone who utilizes tax credits to dislike. Nonprofits oppose the provisions that decrease the portion of donations that would be eligible for a tax credit. The Missouri Budget Project opposes the recommendation to eliminate the Circuit Breaker (property tax relief for low income seniors) for renters. Of the 18 states that provide a Circuit Breaker, 16 allow renters to qualify. The addition of the tax credit recommendations clouds the passage of HB116.

The budget proposals also assume the passage of [SB322](#), which extends the FRA taxes that provide the matching money to draw down federal funds in Medicaid. Passage of this bill is absolutely critical. The extension of the MO Rx program, a pharmacy assistance program for 207,000 seniors and individuals with a disability, was amended to SB322 in the House Budget Committee on 4/20. The Senate budget proposes eliminating this program, and assumes it will not be extended. Passage of both the FRA tax extension and the MO Rx extension are priorities in the House. SB322 was referred to the House Rules Committee on 4/20.

### **Other budget related bills**

HB18 is the budget bill that appropriates federal money for capital improvements, technology upgrades, transportation, energy, conservation, natural resources, economic development, social services and more. It also appropriates significant funds for education programs for children who are homeless or disadvantaged (\$84 million), and for vocational rehabilitation, special education and First Steps (\$53 million). A number of the services funded in HB18 were previously funded in the “regular” budget bills – particularly the education and health related programs. An expectation of the four Senators who opposed passing the extended unemployment benefits was that \$250 million in federal funds would be cut, most likely from HB 18. However, legislators in both chambers broadly do not agree with the demand for those cuts. HB18 was placed on the House calendar on 4/22.

### **3. [Legislative Action on Health Care](#)**

[House Bill 609](#) (Molendorp), which sets up the health insurance exchange required by the Affordable Care Act, sailed through a hearing in the Senate Small Business, Insurance and Industry Committee on 4/21. It now heads to the Senate floor, where opposition is expected.

The Health Insurance Committee heard [HB547](#) (McNeil) and [HB573](#) (Kirkton) on 4/19. Missouri is one of only three states that do not require insurance companies to file their premium rates with the Department of Insurance. Twenty-eight other states not only require rate increases

to be filed, but also give their Department of Insurance the authority to approve proposed increases.

HB573 would require rate increases to be filed prior to any increase, and HB547 gives the Department of Insurance authority to approve rate increases.

The Affordable Care Act requires rate increases to be filed, and regulations regarding this are being finalized. If states do not implement rate review, the federal Department of Health and Human Services will do so. While there appears to be legislative support for the state (rather than the federal government) to assume responsibility for rate review, it is unlikely that either bill will move forward as an independent bill.

## **Federal Issues**

### **1. Unique Opportunity to Improve School Meals Applications**

Due to recent federal legislation reauthorizing school meals programs, every school district must revise its application for free or reduced-priced school meals for the 2011-2012 year. This required revision provides districts an opportunity to make other changes that would make their applications more user-friendly and ensure that families can get healthy meals for their children.

To learn more, click [here](#). A checklist of specific application features can be found [here](#).