The MISSOURI BUDGET PROJECT
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Proposition A: How Missourians Are Harmed by Repeal of City Earnings Taxes

In the November election Missourians will be asked to vote on Proposition A.

What does *Proposition A* do?

- It would create a state prohibition on local government earnings taxes (St. Louis and Kansas City currently have an earnings tax)
- St. Louis and Kansas City residents would be required to vote every five years to continue the current 1 percent local earnings taxes to pay for services and infrastructure
- If city residents voted to eliminate their local earnings taxes, it would be eliminated over 10 years
- It would prohibit any other Missouri city or locality from ever selecting a local earnings tax as a revenue option, even if the local voters voted to approve one.

What does this mean for St. Louis and Kansas City?

- The earnings tax makes up 32 percent of St. Louis's general fund revenue, about $141 million[1]
- The earnings tax makes up 40 percent of Kansas City's general fund revenue, about $199 million[2]

Eliminating the earnings tax would devastate the ability of St. Louis and Kansas City to provide public services

These services include police protection, fighting fires, schools, after school programs, street cleaning and snow removal, street maintenance, trash pick-up, park maintenance, services for seniors including senior nutrition, services for homelessness and more. *This would happen at a time when local budgets are already strapped.*

Replacing the earnings tax with another source of income would require large increases in sales taxes and/or property taxes

There are no good options for replacing the local earnings taxes. St. Louis would have to more than **triple** its current local general revenue sales tax, increasing it from 1.375 to 5.3 percent. [3] This amount would be in addition to St. Louis' dedicated local sales tax rate of 2.641 percent, the additional St. Louis sales tax of 1.5 percent for sit-down restaurants, and the state sales tax rate of 4.225 percent. The result would be a combined state and local sales tax rate in St. Louis between 10.791 – 12.291 percent (the higher amount would apply within sit-down restaurants).[4]

Kansas City would have to more than **double** its local sales tax, increasing from 2.375 to 5.4 percent.[5] Currently the Kansas City sales tax is dedicated to specific spending priorities. The increase would generate revenue to replace the lost earnings tax revenue. Kansas City's local sales tax would be in addition to the Jackson County sales tax levy of 1.125 percent and the state sales tax rate of 4.225 percent, meaning Kansas City's combined state, local and county rate would increase to 10.75 percent.

If St. Louis and Kansas City would choose to increase the local property tax instead, property taxes would need to go up nearly **400 percent** to fill the gap.[6]

The burden of funding the city services that benefit all Missourians, whether they work or live in the cities or visit the multiple cultural and entertainment offerings in the cities would fall entirely on people who live in the cities.

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[1] Fiscal note provided by St. Louis to the Secretary of State's office
[2] Fiscal note provided by Kansas City to the Secretary of State's office
[3] Missouri Budget Project Calculation of Rate based on city revenue collections data from 2009
[4] St. Louis City current sales tax rates available at http://stlcin.missouri.org/FAQs/displaytopicdetail.cfm?TopicID=592
[5] Missouri Budget Project Calculation of Rate based on city revenue collections data from 2009. Kansas City's sales tax is currently dedicated, the estimated increase would be to replace the earnings tax revenue specifically.
[6] Missouri Budget Project Calculation of Rate based on city revenue collections data from 2009

Bonding for Infrastructure Improvements at Risk
Proposition A would also place future Bond funds at risk. Currently both Kansas City and St. Louis have strong Bond ratings, St. Louis has an A rating[7] and Kansas City retains an AA rating[8]. These strong bond ratings lower the cost of borrowing and issuing bonds for large infrastructure projects such as road work or building repairs.

Because Proposition A would require voters to "renew" the earnings tax every five years, the revenue stream would be perpetually at risk, and the certainty of the cities' revenue structures would therefore be considered more risky. The stability of revenue is a critical factor when bond ratings are given. In addition, bonds are often provided on 20 to 25 year repayment schedules. The votes to extend the earnings tax would occur several times during the life of the bonds. By placing the stability of city revenue at risk, Proposition A would likely result in diminished bond ratings for both cities.

Why *Proposition A* is unwise public policy

- It violates principles of local control. Missourians across the state will be asked to make decisions about local St. Louis and Kansas City issues. Proposition A also prohibits any town or city from enacting an earnings tax in the future, even if their citizens want it.
- It places current vital services and infrastructure at risk – public safety, education, streets, parks and human services.
- Replacing the earnings tax with a sales tax places St. Louis and Kansas City retailers at a disadvantage.
- Requiring a public vote every five years places funding of local services and infrastructure perpetually at risk.

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[7] St. Louis City Comptroller's Office
[8] Kansas City Finance Director