Missouri Budget Project E-News
December 6, 2013

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I. State Revenue Update: Missouri Faring Better than Kansas

Missouri completed the fifth month of the current state fiscal year (FY 2014) in November, with state general revenue for the year to date 2.2 percent higher compared to the same period in fiscal year 2013. The amount is below the Consensus Revenue Estimate of 3.1 percent, on which the FY 2014 budget is based.

However, Missouri's revenue continues to be far healthier than Kansas' revenue. Kansas completed November with less revenue than originally projected, prompting an official revision to the State's consensus revenue estimate for Fiscal Year 2014. Kansas revenue is now expected to drop by 7.6 percent this fiscal year below the amount received last year. **In the official estimate, Kansas budget leaders noted that the steep tax reductions approved in Kansas in 2012 are a significant factor in this decline.**

II. Special Legislative Session: What Happened

Missouri Lawmakers completed the extraordinary session of the state legislature today with their **approval of an incentive package** to lure a new Boeing incentive plant to Missouri. If implemented, Boeing could receive as much as $150 million in annual incentives (as much as $1.74 billion over a 23 year period) to locate the plant in Missouri.

The Governor's office released a **cost-benefit analysis** this week to lawmakers and members of the media, and indicated that the Boeing incentives could generate more than **$50 billion in economic activity in the state over 23 years.** The extraordinary economic impact is dependent upon several factors including significant capital investments, and direct and indirect employment resulting from the new facility. The cost-benefit estimate also projected that, should that level of economic activity be attained, the new incentives would result in increased state general revenue over and above the cost of the incentives. However, other experts have voiced concern about over-estimating the impact of incentive-driven projects, and even state audits have indicated much lower final results than originally projected under other Missouri incentives, as described in this St. Louis Post Dispatch story.

Missouri Budget Project will be fully analyzing the revenue projections, should the package of incentives be implemented. **However, we encourage lawmakers and others to be cautious in utilizing the cost-benefit projections as a basis for other public policy decisions.** Rather, policy choices should be based on actual revenue gains, not projections. This caution stems from the Senate floor debate this week, wherein some lawmakers encouraged their colleagues to use the additional projected revenue gains from the new Boeing development to fund steep tax cuts, such as those considered in the 2013 legislative session.

In addition, while lawmakers approved an incentive package to entice Boeing to locate their production facility in Missouri, there is no guarantee that Boeing will accept that proposal. Several states, in addition to Missouri, have or will be submitting proposals to Boeing by the company's December 10th deadline. The St. Louis Post Dispatch received a copy of the confidential request for proposals that Boeing released to state officials. The proposal notes a variety of factors, including access to sea-based transportation, which Boeing will consider in making its determination.

III. A Preview of What's to come in 2014 – Pre-filed Legislation

Also this week, on December 1st lawmakers began pre-filing of bills for the 2014 legislative session. Already, 224 bills have been filed, including several relating to state budget and tax policy. We've summarized some of the bills that are of primary interest, below:

Bills Related to the Circuit Breaker Property Tax Credit & Other Tax Credits:

HB 1119 (LaFaver) – Would increase the maximum amount of the Circuit Breaker Property Tax Credit for low income seniors and people with disabilities who own or rent their homes.

SB 541 (Munzlinger) – Would eliminate the Circuit Breaker Property Tax Credit for low income seniors and people with disabilities who rent their homes for persons first qualifying after January 1, 2014.

SB 513 (Lamping) – Would create a nonrefundable income tax credit of $400 per child for Missouri families. Eligibility is targeted for single filers with incomes below $46,100 and married filers with incomes below $92,200 per year. An estimated 650,000 children in Missouri would qualify under the income limits. If approved, Missouri would join a handful of other states that have Child Tax Credits.

HB 1120 (LaFaver) – Would create a state earned income tax credit (EITC) for Missourians who qualify for the Federal EITC. The state credit would be equal to 20 percent of the federal credit. If approved, Missouri would join 24 other states that have mirrored state EITCs on the successful federal EITC.

SB 577 (Kraus) – An omnibus bill that would eliminate and/or modify a number of tax credits and includes lowered caps on the Low Income Housing and Historic Preservation Tax Credits.
While growth in tax credits has been an ongoing concern for lawmakers over the last several years, actual tax credit redemptions declined significantly in the last year, dropping from $629 million in FY 2012 to $512 in FY 2013.

Steep Tax Cut Proposals:
Lawmakers have already filed a number of bills that would reduce tax revenues severely, and undermine Missouri's ability to invest in education, public safety and infrastructure. The pre-filed bills include many of the components of the tax cuts within House Bill 253 and/or Senate Bill 26 from the 2013 legislative session.

SB 496 (Schmitt) – Would phase in an income tax deduction of 50 percent for LLCs and other businesses that file through the individual income tax (was contained in HB 253 and SB 26 from the 2013 Legislative Session).

SB 497 (Schmitt) – Would cut the top tax rate for individual income tax from 6 percent to 4 percent, phased in over a period of years and dependent on a "trigger" of state general revenue growth of $100 million compared with the average of the preceding three years. As noted during debates on HB 253 in the 2013 legislative session, the "trigger" would not allow even enough growth to provide for inflation, let alone make up for the shortfall in the K-12 school funding formula and other services.

SB 509 (Kraus) – The bill is substantially the same as SB 26 from the 2013 legislative session and would reduce state revenue by at least $1 billion annually when fully implemented. The bill would create a business income deduction of 50 percent for businesses filing through the individual income tax, reduces the top tax rate for individual income tax by 1 percent, and creates a new personal exemption for those with incomes under $20,000.

Other Bills Impacting General Revenue:

SB 544 (Lamping) – Would divert ½ of one cent of Missouri's 3 cent general revenue sales tax from general revenue to transportation & roads. As a result, the measure would reduce funding for general revenue funded services including education, public safety, health & social services by at least $316 million.

SJR 26 (Lager) - The latest TABOR proposal, the measure would propose to voters a constitutional amendment, limiting general revenue appropriations to an inflationary measure. The proposal is largely similar to the failed TABOR measure in Colorado.

IV. Homage to Nelson Mandela

With the death of Nelson Mandela this week, we have been reminded of his many impacts on our world. We share with you one of his many famous quotes, and one that we find most inspiring as we continue our work to improve the quality of life for all Missourians:

"There is no passion to be found playing small - in settling for a life that is less than the one you are capable of living". **Nelson Mandela**