


MBP



MISSOURI BUDGET PROJECT



Building a Prosperous Missouri & Strong Middle Class: A Policy Framework



Building a Prosperous Missouri & Strong Middle Class

Missourians work hard every day to provide a better life for their families. In small towns, suburban neighborhoods, and urban centers across the state, many families are struggling to make ends meet. Some are rushing to get kids to school before their shift starts, others are quietly taking care of an elderly parent who can't get around too well anymore.

But every day they put one foot in front of the other, investing their time and energy in their families, their jobs, and their communities. And though metrics of the economy are improving, many Missourians don't feel it.

Decades ago, our parents and grandparents decided to make investments in the generations to come. They built roads and bridges and invested in education systems that have educated millions of Missourians.

But these investments have faltered in recent years as the state tried cutting its way to prosperity, approving dozens of tax cuts that made it impossible to invest in the things that help families, communities and our economy thrive.

Missouri families struggling to pay the bills know these failed strategies aren't working. Economic growth depends on people. Businesses look for an educated and skilled workforce with the spending power to fuel our economy. But our middle class is struggling, and we've disinvested from the very human capital and transportation infrastructure needed to build a strong economy.

We can forge a new path in 2017 - one that makes the investments we need to build a stronger tomorrow and modernizes outdated tax policies that work against working families. One that builds the middle class and a vital economy by giving families the tools they need to succeed.

Build a Strong Economy through Human Capital Investments 4

A strong commitment to human capital and developing our workforce benefits families and communities and builds strong economies – to the benefit of us all. To strengthen the middle class and attract quality jobs that allow working families to make ends meet, Missouri must invest in its people. Quality public schools, a strong public health system, access to health and child care, and workforce training and development give Missourians the tools they need to succeed and create a vibrant economy that can keep and attract quality jobs.

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Build a Strong Economy by Investing in Human Capital

Missourians want to provide for their families – to put a roof over their heads and a warm supper on the table, and to offer comfort for their parents as they age and a better future for their kids.

Although by several measures Missouri's economy has improved, many Missouri families feel left out of the economic recovery.

To build the middle class and attract quality jobs that allow working families to make ends meet, Missouri must invest in its people. Developing our human capital strengthens families, communities, and the economy - to the benefit of us all.

SENIOR SERVICES EARLY EDUCATION
 QUALITY OF LIFE ELEMENTARY EDUCATION
 SECONDARY EDUCATION MODERN SERVICES
 LOWER UTILITY BILLS LIBRARIES
 SAFE BRIDGES DISABILITY SERVICES
 SERVICES FOR THE BLIND SERVICES FOR THE DEAF
 SAFE COMMUNITIES FIRE PROTECTION
 SAFE WORKING CONDITIONS STATE PARKS
 CLEAN WATER POLICE PROTECTION GOOD
 COMMUNITY COLLEGES WORKER TRAINING
 SAFE FOOD AFFORDABLE PRESCRIPTIONS
 AFFORDABLE TRANSPORTATION SAFE STREETS
 CHILD SAFETY FAMILY PROTECTION TRAIL
 MATERNITY SERVICES LOWER COLLEGE TUITION
 AFFORDABLE HOUSING PUBLIC SAFETY SAFE BRIDGES
 NATURAL RESOURCES GOOD ROADS LIBRARIES
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 LIBRARIES SAFE BRIDGES DISABILITY SERVICES CLEAN WATER
 SERVICES FOR THE BLIND SERVICES FOR THE DEAF
 FIRE PROTECTION

- **Quality public education** offers all Missouri kids the tools they need today to become the creators, leaders, and entrepreneurs of tomorrow.

Fulfilling the state's promised school funding will get all our kids off to a good start, no matter what their zip code.

- **Access to quality, affordable child care** gives parents the stability they need to be successful at work, while preparing the next generation to enter school ready to learn.

Continuing to strengthen income eligibility guidelines for child care assistance and improving Missouri's

payment structure for child care providers will bolster access to quality early education and boost the ability of families to succeed.

- **A strong public health infrastructure and access to health and mental health care** keeps Missourians healthier throughout their lives, and more productive at work and school.

Rebuilding the state's public health infrastructure and protecting health insurance are critical to the state's growth.

- **Workforce training and development** give workers the tools they need to adapt their skills to rapidly changing technology and economic environments.

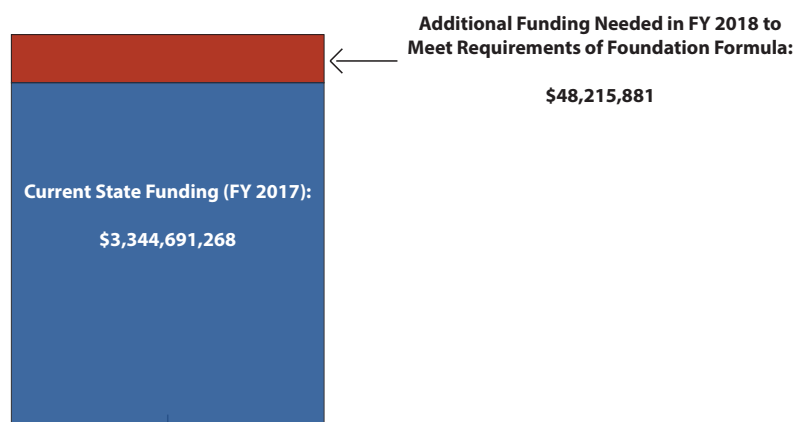
The Bottom Line: Investing in human capital through quality education, access to child care, public health infrastructure and health insurance, and workforce training and development will pave the way to better jobs and a stronger economy.

Education provides kids a path to a better future, and quality public schools are the bedrock of successful communities.

Unfortunately, Missouri hasn't lived up to its promised funding for our schools for years. As a result, local governments are shouldering more of the responsibility for school funding, setting the stage for enhanced disparities in educational opportunity between school districts.¹

Fulfill state promises for school funding so kids from across the state can be prepared for success throughout their lives, no matter their zip code.

Fulfilling State's Promised Education Funding Attainable in FY 2018



- In 2016, the legislature passed changes to the formula used to determine state funding for school districts (known as the “foundation formula”).
- As a result of these changes, for the first time since 2010, it's within reach for the state to provide the promised level of school funding.
- What's more, fully funding Missouri's school funding formula would trigger a much needed expansion of school-based preschools – better preparing young children to enter kindergarten.²

The Bottom Line: Fully funding our public schools will make good on our state's fundamental obligations to provide for public education and allow all kids an opportunity for a better tomorrow, whether they live in a town of 500 or 500,000.

Notes

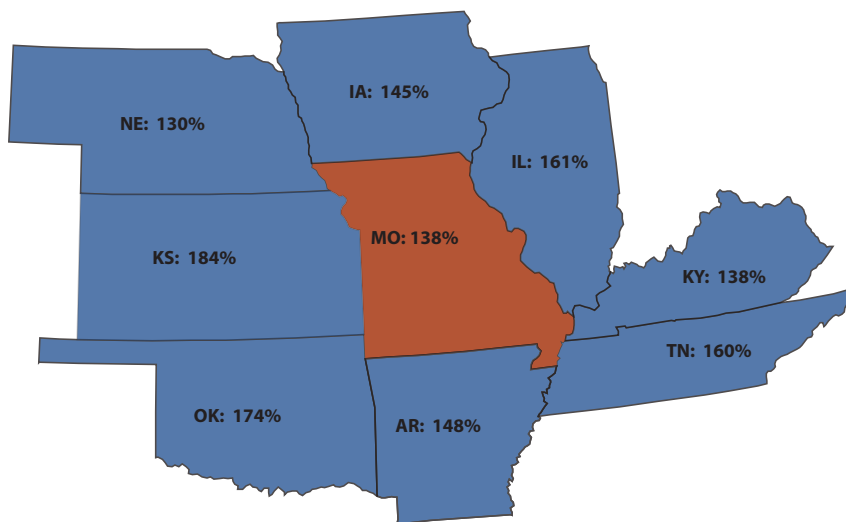
1. “Investing in Our Students: K-12 Education,” Missouri Budget Project, October 2015, available at: <http://www.mobudget.org/investing-students/>
2. Missouri House Bill 1689, approved in the 2014 legislative session and implemented in the 2015-2016 school year, allowed funding for school-based preschools to be included in the calculation of the Foundation Formula to serve children in school districts that were unaccredited or provisionally accredited. The bill also included a provision to extend that preschool funding to all school districts in the year after the Foundation Formula reaches full funding levels. As a result, meeting the required level of funding for the Foundation Formula in the 2018 budget will not only provide full state aid to local school districts for the first time since 2010, it will trigger a much needed expansion of funding for preschool.

Children who receive quality early education do better in school, and as adults have higher incomes and better health outcomes than their peers. But high child care costs put quality affordable child care out of reach for many families struggling to make ends meet. In 2015 the average annual cost of full-time care for an infant in a Missouri child care center was nearly 40% of a single parent family's income.¹

In order to help parents work and to provide children with safe, quality child care, Missouri provides child care assistance to qualifying families based on income. However, Missouri's child care assistance is more restrictive than other states, making it difficult for working families to receive the help they need.

Continue to strengthen income eligibility levels for child care assistance and make improvements to Missouri's payment structure for child care providers to help families offset high child care costs, and ensure kids are ready to learn when they start school

- Public investments in preschool and other early learning initiatives provide a significant return to taxpayers, resulting in as much as a \$7 return for every \$1 invested due to decreased public expense for remedial education, criminal justice and social services.²
- Missouri's eligibility for child care assistance is well below the national average and most neighboring states, ranking 43rd nationally in 2016.³



- It is also very difficult for eligible families to find child care providers to serve their children.

- Reimbursement rates for providers who care for Missouri children through the subsidized child care program are well below market rates, averaging just 68 percent of the cost of care.⁴ Due to the low payment rates, many child care providers limit the number of children they serve through the child care assistance program, and

some centers altogether refuse to participate in the program, compromising access to quality early care for low-income families.

The Bottom Line: Improving Missouri's payment structure for child care providers, and continuing to strengthen the income eligibility level for child care assistance, would bolster access to quality early education and boost the ability of families to succeed.

Notes

1. Child Care Aware of America, “Parents and the High Cost of Child Care,” 2016
2. “Invest in Early Childhood Development: Reduce Deficits, Strengthen the Economy,” and “Four Big Benefits of Investing in Early Childhood Development,” by James J. Heckman, University of Chicago. www.heckmanequation.org, retrieved 9/27/2015
3. National Women’s Law Center, “Red Light Green Light, State Child Care Assistance Policies 2016,” October 25, 2016. In Missouri, eligibility for full assistance ends at an income of 138% of the federal poverty level, or an income of just \$2,318 per month for a family of three.
4. Missouri Department of Social Services

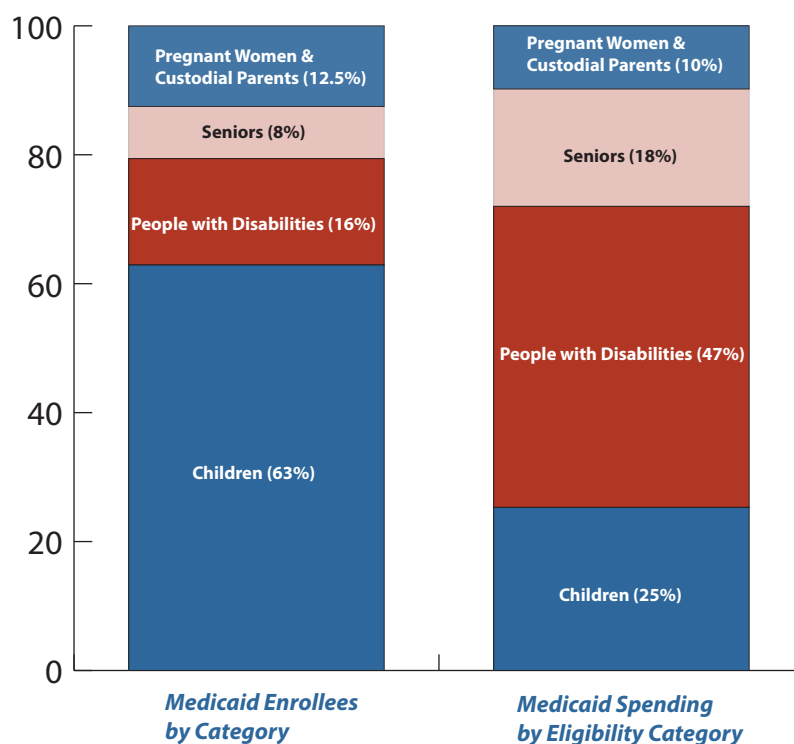
Healthy Missourians are happier and more productive at school and work, keeping our state economy churning. When Missourians can access the health care they need, chronic illnesses like diabetes, mental illness, and heart disease can be kept in check, keeping people well and active.

The health of Missourians is fundamental to building a prosperous economy and good quality of life. But decreased public health investments and threats to the integrity of health insurance programs could compromise the health care infrastructure that serves all Missourians.

Invest in our public health infrastructure and insurance now to prevent increased illness – and associated costs – in the long run.

Missouri Medicaid Enrollment & Spending by Population

FY 2016



- Missouri's investments in critical public health care services have fallen well behind other states,¹ leaving nearly one in ten Missourians without access to health insurance.²
- Proposals at both the state and federal level threaten to make deep cuts to Medicaid & Medicare, which would increase the number of uninsured Missourians and compromise the health care infrastructure that serves us all.³
- Less than 18% of Missouri's Medicaid costs are paid for by state general revenue – making it a really good deal for Missouri taxpayers.⁴
- Medicaid provides seniors, people with disabilities, young children & pregnant women, very poor single moms, and people with mental illness access to quality, preventive care. The majority of Medicaid funding pays for services for seniors & people with disabilities.

The Bottom Line: Investing in and strengthening public health and Medicaid would protect Missouri's health care infrastructure, be fiscally prudent for the state, and save money in the long run.

Notes

1. Investing in Healthy Families,” Missouri Budget Project, October 2015, available at: <http://www.mobudget.org/investing-healthy/>
2. Kaiser Family Foundation, State Health Facts, available at: <http://kff.org/statedata/>
3. “Medicaid Block Grant Would Slash Federal Funding, Shift Costs to States, and Leave Millions More Uninsured,” Center on Budget & Policy Priorities, November 2016, available at: <http://www.cbpp.org/research/health/medicaid-block-grant-would-slash-federal-funding-shift-costs-to-states-and-leave>
4. Missouri Department of Social Services, Fiscal Year 2017 MO HealthNet Budget by Funding Source

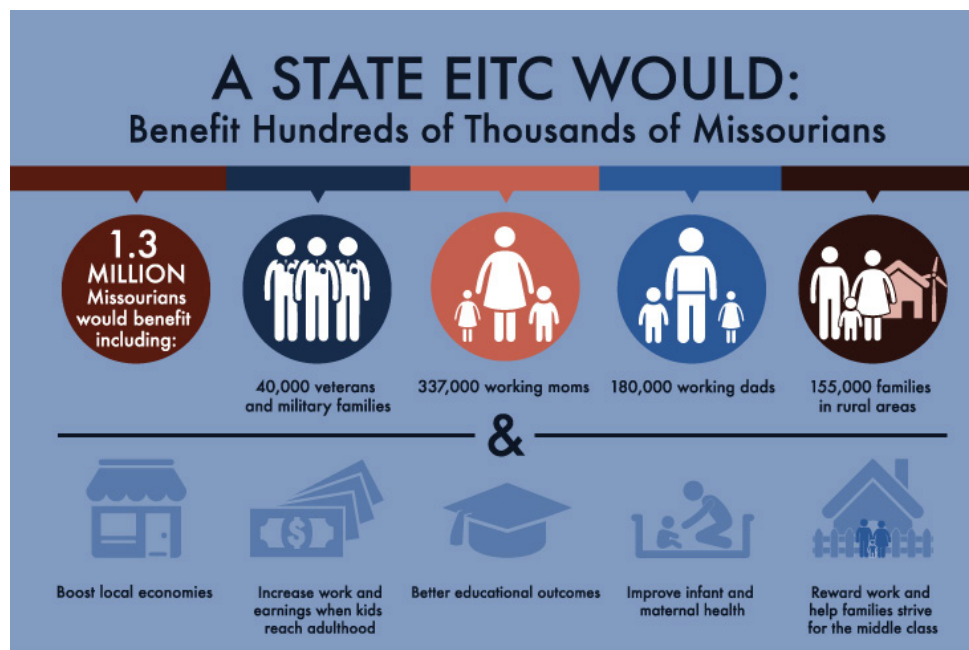
Bolster the Middle Class with an Earned Income Tax Credit

Many Missouri families struggle to make ends meet, putting pressure on families and the economy. Businesses expand and create jobs when customers have money to spend, not when the middle class is struggling.

Create a state Earned Income Tax Credit for hardworking families, providing a bottom-up tax cut that builds the middle class, spurs local economic growth and provides long-term benefits to families and communities.

The federal Earned Income Tax Credit (EITC) has long provided hardworking families the ability to achieve a better future and a pathway to the middle class. The structure of the EITC encourages people to stay working and to work more hours. Though most families receive the EITC only temporarily, it has profound long-term benefits for families and communities.

Building on the demonstrated success of the federal credit, 26 states and the District of Columbia have created state EITCs that offer a credit towards state and local taxes for low- and moderate-income workers struggling to get by.



A Missouri EITC would:

- Provide a bottom-up tax cut for working families.
- Help as many as 515,000 Missouri families from across the state pay for basic necessities like child care and car repairs, which are essential to success in work and life.¹
- Boost local economies, by putting more money in the pockets of people most likely to spend it at local community businesses.
- Improve the lives of

Missouri's children and our future workforce. Children whose families receive the federal EITC have higher test scores, are more likely to go to college, and enjoy greater earnings as adults, establishing a more productive and skilled workforce for Missouri's future.

The Bottom Line: A Missouri Earned Income Tax Credit (EITC) is one of the best ways our state can help working families – and the state of Missouri – achieve a more prosperous future.

Notes

1. For detailed information, including fact sheets and county level details of the impact of a Missouri EITC, see: <http://www.mobudget.org/eitc/>

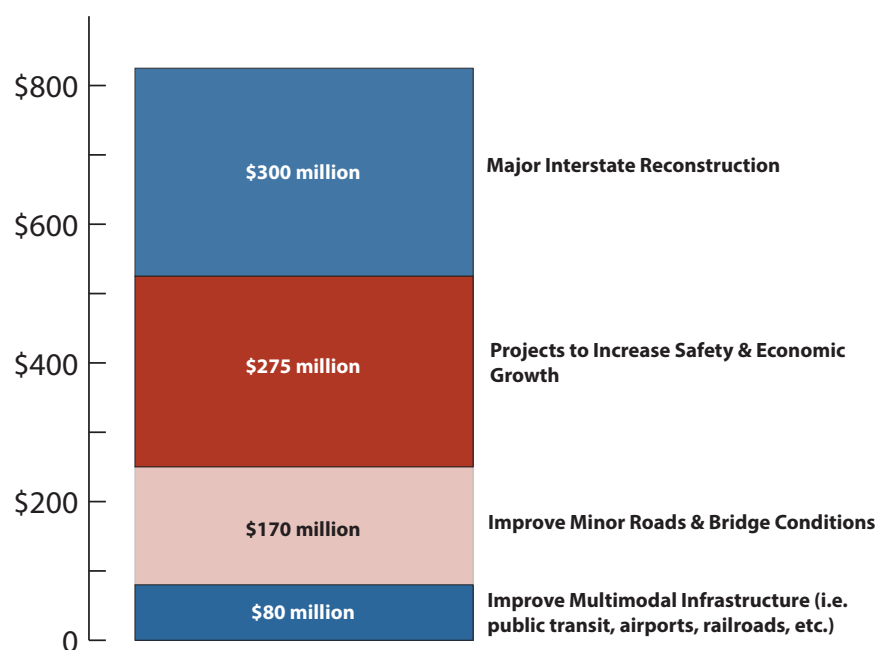
Strengthen Missouri's Transportation Infrastructure

Despite having the seventh largest transportation infrastructure in the country – bigger than Kansas and Illinois combined – Missouri's investment in that infrastructure is among the lowest in the nation.¹

As a result, Missouri has a number of unmet transportation funding needs, jeopardizing the state's economic growth and the safety of Missourians.

By investing in high priority transportation projects, Missouri can create jobs, improve state economic conditions, and reduce road fatalities and serious injuries due to traffic accidents

Missouri Department of Transportation High Priority Unmet Funding Needs for FY 2018 Total \$825 Million



- 866 Missouri bridges are in poor condition and an additional 1,303 bridges that have weight-restrictions.²
- Most of Missouri's interstates were built decades ago and were designed for much lower traffic patterns and capacity. In fact, Interstate 70 is the oldest in the nation, built 60 years ago.
- MODOT has identified \$825 million in high priority unmet funding needs for fiscal year 2018. Projects include adding capacity to I-70 to handle increased traffic, creating new interchanges, and adding lanes in congested areas.

The Bottom Line: State and/or federal investments in high priority transportation projects would create jobs, improve state economic conditions, and reduce road fatalities and serious injuries due to traffic accidents.

Notes

1. Missouri ranks 42nd in per capita highway spending
2. “Citizens Guide to Transportation Funding in Missouri,” Missouri Department of Transportation, November 2016, available at:
<http://www.modot.org/guidetotransportation/documents/CompleteGuide.pdf>

Level the Playing Field for Missouri's Bricks & Mortar Businesses

It used to be that when we needed something, we went to the local store to buy it. When we checked out, as we wished the clerk a good day, we paid sales taxes on our purchases. Those taxes helped fund the roads we used to get there, and the education of the kids we saw playing at the park along the way.

Now, we can hop on our computer or phone, and with just a few clicks, we can buy the same products. A truck still uses the roads to deliver our packages, and it still passes local school kids along the way. But because of antiquated state and federal laws, even though we owed sales & use taxes on our items, they likely weren't collected.

Missouri's economy has changed, but our state tax collections systems haven't. As a result, local stores are at a competitive disadvantage, and public services in our communities suffer.

Level the playing field for Missouri retailers, and protect our communities by implementing the streamlined collections mechanism.



- Missouri's "mom & pop" shops and other bricks and mortar businesses provide valuable jobs in all areas of the state. They sponsor little league teams, donate to schools, and give back to the community. But Missouri's tax laws put them at a competitive disadvantage.
 - Implementing the Streamlined Collections Mechanism would allow Missouri to join with 23 other states, including most of our neighbors, and begin automatically collecting the sales tax due for online retail purchases at the time of sale.
 - Both state and federal legislation are required to fully update outdated tax laws.
- Based on state action alone, the Streamlined Collections Mechanism would initially generate about \$20 million a year in uncollected sales and use taxes. With both state and federal legislative changes, Missouri would see an estimated \$358 million annually in currently uncollected state and local sales taxes.

The Bottom Line: Updating the collections mechanism for sales taxes owed on remote sales would level the playing field for local businesses that invest in their communities and protect state and local investments in schools, roads, and other public services.

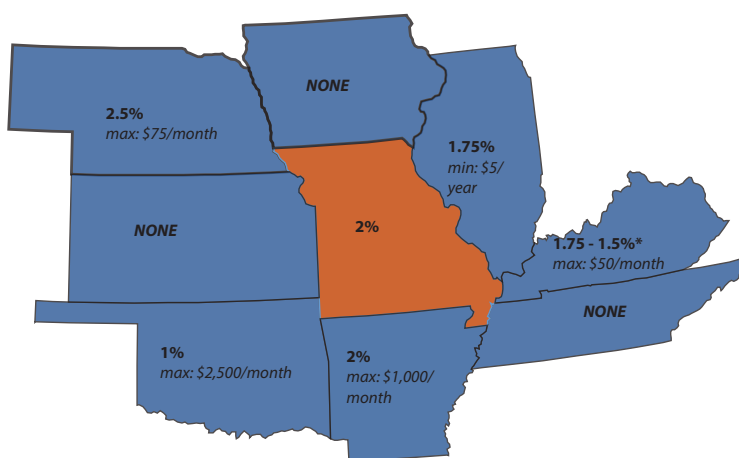
Notes

1. For more information about the streamlined collections mechanism, visit:
www.mobudget.org/enact-sst/

When you buy something at the store, you pay your sales tax, and retailers submit it to the state. Before computers, store clerks had to manually calculate and remit sales taxes to state and local entities, so Missouri reimbursed retailers for those collections costs by allowing them to retain a portion of the sales tax collected in exchange for timely remittance to the state. This payment is called a “timely filing or vendor discount”. While times – and technology – have changed, Missouri’s vendor discount hasn’t.

Bring vendor discounts in line with other states to reduce outdated tax giveaways that have outlived their purpose.

Missouri’s Timely Filing Discount Far Exceeds Other States



* Kentucky's larger discounts apply to the first \$1,000

Source: Federation of State Tax Administrators

- Although Missouri struggles every year to adequately fund our schools, roads, and other services that provide the foundation for our state’s economic growth, it offers some of the most generous tax benefits in the nation to corporations.
- Missouri’s “timely filing discount” or “vendor discount” is the second most generous in the country, costing Missourians \$114 million in 2016.

- Only 28 of the 45 states and the District of Columbia that have sales taxes provide these so-called “vendor discounts.” Of those that do, most limit the amount retailers can retain in some way.
- Automation has minimized the amount of time and staffing required for this function, reducing the costs for companies. But while the cost for retailers has decreased, the size of Missouri’s vendor discount has not.
- Moreover, Missouri is the only state that provides an additional timely filing discount to employers for remitting their employee withholding taxes on time.

The Bottom Line: Bringing vendor discounts in line with other states would allow Missouri to make much needed investments in Missourians that would strengthen our quality of life and economic competitiveness.

Notes

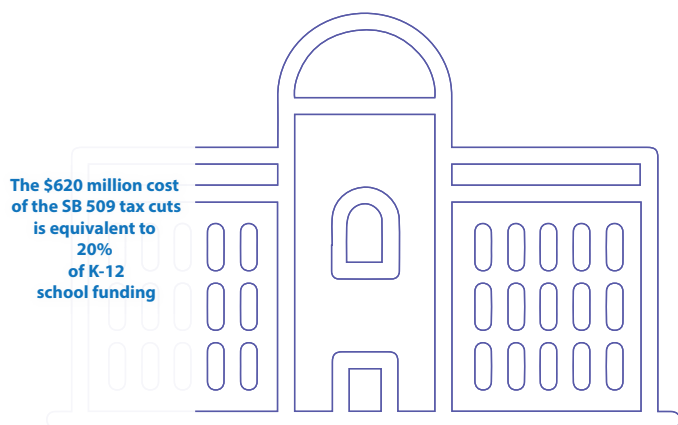
1. For more information about the streamlined collections mechanism, visit:
<http://www.mobudget.org/timely-filing-discount/>

Hardworking Missouri families know that every penny counts. They huddle around the kitchen table late at night to figure out how to pay for college or save up the last bit they need to buy the family home. They might even take on a second job to make ends meet.

Missouri is also struggling to pay its bills: K-12 education, needed health care for seniors, road and bridge maintenance. But between 1993 and 2013 state lawmakers passed twenty different special interest tax cuts that combined cost \$1 billion per year. And they keep passing more.

It's time for our state to show the same responsibility that Missourians do every day.

Roll back ineffective and irresponsible business income tax deductions that Missouri can't afford.



- Already, \$151 million has been blocked from the state's current budget, and about \$300 million more in cuts are likely due to lower than anticipated state revenue. Much of the decline in revenue is attributed to legislative changes in how corporate taxes are calculated.
- Tax cuts from Senate Bill 509, which passed in 2014 but have not yet gone into effect, will further jeopardize Missouri's ability to invest in education, health,

and infrastructure. When fully implemented, the cuts will cost at least \$620 million per year, the equivalent of about one-fifth of state funding for local schools.

- Senate Bill 509 cuts the top rate for individual income tax from 6 to 5.5 percent, but also provides a 25 percent deduction to business income that is paid through the individual income tax.
- Tax analysts across the political spectrum agree that the type of business income deduction included in Senate Bill 509 simply encourages tax avoidance by giving certain businesses an unfair tax advantage, and it does nothing to stimulate economic growth.
- To see the evidence, one can look to Kansas, where the first year of tax cuts alone cut more from the Kansas state budget than the great recession. Since then Kansas has made nine rounds of budget cuts, built up record-high levels of debt and had three downgrades in their credit rating.¹

The Bottom Line: Given Missouri's ongoing struggle to fund schools, public health and safety, and transportation, lawmakers should roll back at least some of these tax cuts before they take effect. In particular, the business income deduction should be reversed.

Notes

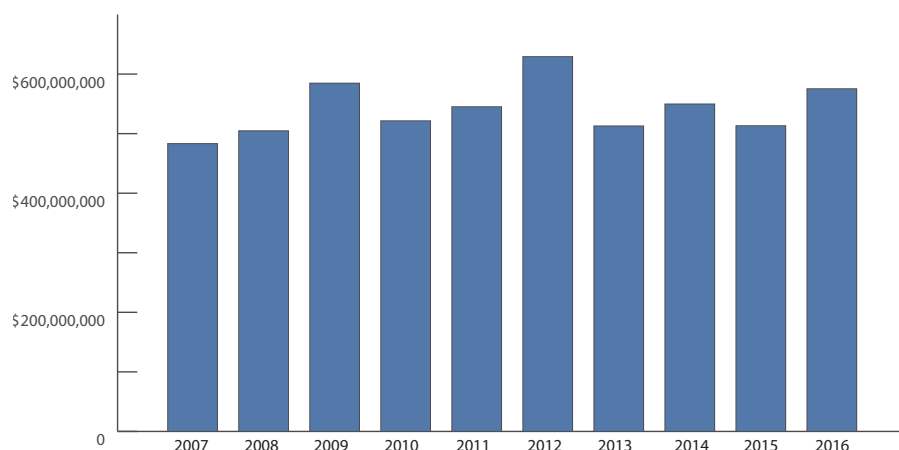
1. Rise Up Kansas,” Kansas Center for Economic Growth, November 2016, available at: <http://realprosperityks.com/rise-up-kansas2/>

The growth of tax credits has significantly reduced state revenue, costing \$575 million in 2016 alone. While tax credits have public policy benefits that can't be overlooked, the value and impact of tax credits depends on how the credit is designed.

Evaluate and improve tax credit to increase value for Missourians while achieving policy goals.

Missouri's Tax Credits Cost Hundreds of Millions Annually

Cost of Tax Credits to General Revenue By Fiscal Year



- Many tax credits serve important policy goals. Some are intended to help low-income seniors remain in their homes or help nonprofits like food banks, domestic violence centers, or organizations that serve children and pregnant moms leverage donations. Others promote affordable housing or economic development.
- Making changes to tax credit programs must be a precise and cautious endeavor.

- Lawmakers should carefully evaluate tax credit programs and make changes that increase efficiency and lower cost, while protecting the policy intent of the programs.
- For example, the Low Income Housing Tax Credit promotes growth in affordable housing. When developers qualify, they reduce their state tax burden. However, a reduction in state tax liability has the unintended consequence of increasing federal tax liability – diminishing 30 percent of the value of the credit.
- North Carolina addressed this concern by converting their Low Income Housing Tax Credit program to a no-interest forgivable loan program.¹ By doing something similar, Missouri could reduce the cost of the Low Income Housing Tax Credit, while maintaining the housing development policy benefits.

The Bottom Line: Tax credits can be powerful tools to promote economic growth and provide other public policy benefits. Tax credit programs should be carefully evaluated to increase efficiency and lower cost, while protecting the policy intent of the programs.

Notes

1. “Analysis of Low Income Housing Tax Credit Program,” State Audit Report No. 2008-23, April 2008, available at: <http://app.auditor.mo.gov/Repository/Press/2008-23.htm>