

HARNES & ASSOCIATES, L.L.C.

Kathi @kathiharness.com

P. O. Box 2302, Jefferson City, MO 65102 Phone – 573-634-5200 Fax – 573-634-5278

MISSOURI LEGISLATIVE UPDATE – OCTOBER 29, 2009

TO: American Institute of Architects of Missouri

Governor Jay Nixon taps Kansan for Economic Development Director

Missouri's new economic development director will be **David Kerr**, secretary of the Kansas Department of Commerce, sources said this morning. Nixon just made the announcement. He said Kerr, 56, will start work Nov. 9. The appointment is subject to confirmation by the Missouri Senate.

Kerr, a former AT&T official, has strong St. Louis ties. According to his bio, he joined AT&T in Topeka in 1979, then came to St. Louis in 1981 and led marketing, account and finance teams until moving to Dallas in 1997.

Kerr also knows the Kansas City area. A native of western Kansas, he got his bachelor's degree from Avila University in Kansas City. He took over at the Kansas commerce department after serving as president of AT&T Kansas from 2003 to 2007.

Governor Jay Nixon Announces \$200M in Additional Budget Cuts

Gov. Jay Nixon cut an additional \$204 million from Missouri's budget Wednesday and eliminated nearly 700 jobs in attempt to offset a continued decline in state tax revenues.

The wide-ranging cuts will reduce busing aid to public schools, Medicaid payments to some health care providers and subsidies to the arts and humanities. Grants for life sciences research will be eliminated, funding for the state's online school will be halted during the second semester, and no new clients will be accepted for certain mental health care services.

The latest round of cutbacks raises the total eliminated by Nixon to \$634 million out of \$23.7 billion approved by lawmakers for state operations and capital improvements during the current fiscal year. About 2,300 full- and part-time state employee positions now have been eliminated, either by the Nixon or legislators.

Nearly all states are struggling financially because of sharp declines in income and sales taxes caused by high unemployment rates and a falling consumer spending during the recent recession.

Missouri revenues were down 10 percent through the first quarter of its budget year, which began July 1. Nixon said Wednesday that revenues are expected to improve but still likely will end the fiscal year more than 5 percent below last year, marking a second straight year of decline. More budget cuts remain a possibility in future months, he said.

Even though education and health care are affected by the latest cuts, Nixon stressed that there is no reduction in basic aid for public K-12 schools, colleges or universities and no eligibility restrictions for Medicaid recipients.

Nixon's budget director, Linda Luebbering, said the state will cut \$32.5 million from Medicaid. But she said it was too soon to know how much of that would come from reduced payments to health care providers versus other cost-saving measures such as a greater reliance on generic prescription drugs. She said

provider payments would be reduced only for services in which Missouri's Medicaid reimbursement rate is higher than that of the federal Medicare program.

Nixon also emphasized that no prisons will be closed nor guards laid off, although he said the Department of Corrections may leave some guard vacancies open longer to save money.

Of the nearly 700 positions being eliminated, 493 are part-time and the rest full-time. Nixon said he opted against furloughs because they wouldn't have saved as much money.

State Senator Renews Call for Tax Credit Scrutiny

On the same day Gov. Jay Nixon announced \$200 million in additional mid-year budget cuts, a state senator has renewed his efforts to make tax credits subject to appropriations approval by the General Assembly.

State Sen. Jason Crowell, R-Cape Girardeau, sent lawmakers and reporters a detailed plan this morning for exposing tax credits to annual scrutiny by the House Budget and Senate Appropriations committees.

During this year's legislative session, Crowell participated in multiple Senate filibusters of an economic development bill choked full of tax credits that was being pushed by Nixon and House Speaker Ron Richard, R-Joplin.

The legislation was ultimately allowed to pass on the last day of the session, but it was clear Crowell and a gang of conservative Republicans in the Senate was just getting the discussion started.

Tax credits play a vital role in Missouri's economical development, but these cannot be an entitlement and should compete for Missouri's limited amount of resources against basic services provided by the state," Crowell wrote in a letter to lawmakers.

Crowell maintains tax credits have become an entitlement to big businesses and special interests who hire high-powered lobbyists to roam the halls of the state Capitol, lobbying lawmakers to carve out credits in the tax code for everything from restoring historic homes and buildings to converting saw dust to wood pellets for alternative energy.

In the 2009 fiscal year, which ended June 30, the state of Missouri paid out \$584.7 million in tax credits, according to Crowell.

Critics of tax credit contend the rising cost of subsidies to a wide variety of industries has left the state with less money to spend on essential government services. The state's annual budget totals about \$23 billion, but less than \$8 billion is comprised of general revenue. The rest is earmarked for specific spending programs, such as Medicaid, the federal-state health care program for the poor.

The main part of Crowell's proposal would be to set annual caps on the amount of tax credits that can be authorized annually, giving state budget writers more certainty to the true annual cost of tax credits. Part of the problem for lawmakers trying to write a constitutionally mandated balanced budget is they never really know many tax credits will be cashed in on tax forms.

Crowell's proposal would not apply to tax credits that have already been authorized, but not cashed in. Some entities buy tax credits from recipients at less than their value to give the recipient an immediate influx of cash for their project. The entity then can either cash in the refundable tax credit in full — and make a profit — or hold on to it until a later date.

Crowell and others predict if tax credit programs were subject to annual public hearings, just like Medicaid and children's health insurance eligibility and state agencies are, that lawmakers would be more inclined to scrutinize whether they are worthy expenses of taxpayer money.