July 6, 2007

TO THE SECRETARY OF STATE OF THE STATE OF MISSOURI

Herewith I return to you Senate Substitute for Senate Committee Substitute for House Committee Substitute for House Bill No. 327 entitled:

AN ACT

To repeal sections 21.750, 32.105, 32.115, 99.805, 99.820, 99.825, 100.286, 135.400, 135.403, 135.460, 135.478, 135.500, 135.535, 135.545, 135.550, 135.600, 135.630, 135.750, 135.950, 135.963, 135.967, 135.1150, 137.106, 142.815, 144.030, 144.605, 147.010, 173.196, 173.796, 178.895, 178.896, 208.750, 208.755, 238.202, 238.207, 238.208, 238.225, 238.230, 238.275, 348.300, 578.395, 620.495, 620.521, 620.523, 620.527, 620.528, 620.529, 620.530, 620.537, 620.638, 620.1039, 620.1878, and 620.1881, RSMo, and to enact in lieu thereof eighty-two new sections relating to certain programs administered by the department of economic development.

I disapprove of Senate Substitute for Senate Committee Substitute for House Committee Substitute for House Bill No. 327. My reasons for disapproval are as follows:

I. The bill would create a new incentive program that is poorly structured because it is not aimed at attracting businesses to create jobs with health insurance and above-average pay.

House Bill 327 creates a Quality Jobs type program for small businesses. However, businesses that pay only 85 percent of the average county wage and do not offer health insurance coverage would be able to qualify for incentives under the program. I remain insistent that any incentives of this type pay employees at or above the average county wage, or the average state wage in some instances, and provide health insurance to its employees consistent with the Quality Jobs program.

II. The bill could force Missouri businesses to operate at a competitive disadvantage due to changes in state tax laws.

The language changing current law regarding the presence of businesses in the state and their tax liability is bad public policy. The resulting effect could put businesses already operating in Missouri at a competitive disadvantage. The bill would also create an opportunity for businesses to realign their corporate structure to avoid tax liability. Finally, even though the short-term fiscal impact would be minimal, the long-term negative impact on state revenues could be substantial.

III. The bill would put the Quality Jobs Program at risk to a legal challenge.

Language in the bill could undermine the basic objectives of the highly successful Quality Jobs program. The bill adds a provision to the Quality Jobs Act allowing a 50 percent tax credit for companies that provide tuition reimbursement to eligible employees. The credit is capped at $5,000 per employee with a total annual cap of $250,000. When this provision was added, the definition of employee was changed to a full-time worker who has an annual salary equal to or less than the average county wage. This definition was supposed to apply only to the eligibility for the tuition reimbursement tax credit, but, due to what I assume was an inadvertent drafting error, was made to a definition that applies to the entire Quality Jobs program. This creates a potential legal issue regarding companies that pay above average county wages and their ability to qualify for benefits and companies that pay less than average county wages and their potential for claiming benefits. This could lead to valuable tax credit cap allocation being consumed by jobs that are less desirable than the high quality jobs the program was intended to encourage.

IV. The bill would create a regional railroad authority giving eminent domain and taxing authority to unelected officials.

House Bill 327 authorizes local government entities to create a new type of political subdivision called a regional railroad authority. Regional railroad authorities created under this legislation will be directed by unelected officials and granted some degree of eminent domain and taxing powers. This comes at a time when we have been working successfully to end the abuse of eminent domain authority to protect private landowners.

V. The bill could divert money intended to support regional airports across Missouri to fund a tax exemption on fuel purchases for flights that merely connect to transoceanic flights departing from an out-of-state city.

House Bill 327 creates a fuel-tax exemption for transoceanic flights originating in Missouri. Currently, there are no such flights. However, there is concern that airlines could claim the exemptions for flights that merely connect to transoceanic flights in non-Missouri cities. Those claims could lead to a loss of $400,000 in state revenue that is intended to support regional airports across Missouri.

VI. The bill includes language which conflicts with provisions in Senate Bill 30, which was signed into law on June 13, 2007.

The bill contains two provisions that conflict with language in Senate Bill 30. First, subsection two of Section 144.054 creates a sales tax exemption for energy sources used in manufacturing, and in research and development. With regard to this exemption, Senate Bill 30 references the term “other energy sources” while House Bill 327 references the term “other utilities.” Because the terminology is different, it is estimated to cost an additional $27 million in general revenue to implement the provisions in both bills. Secondly, the exemptions for energy sources created by both bills do not align. SB 30 does not apply the exemption to local sales taxes while HB 327 does exempt local sales taxes. Local government officials have raised concerns about the conflict.

For the above stated reasons, I am returning Senate Substitute for Senate Committee Substitute for House Committee Substitute for House Bill No. 327 without my approval.

Respectfully submitted,

Matt Blunt