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MISSOURI PUBLIC SERVICE COMMISSION

Case No. ER-2012-0166

REBUTTAL TESTIMONY

OF

CHRIS L. CUDNEY

ON

BEHALF OF

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

**St. Louis, Missouri
August, 2012**

Ameren Exhibit No. 14
Date 10-22-12 Reporter XF
File No. ER-2012-0166

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **CHRIS L. CUDNEY**

4 **CASE NO. ER-2012-0166**

5 **Q. Please state your name and business address.**

6 A. My name is Chris L. Cudney. My business address is One Ameren Plaza,
7 1901 Chouteau Avenue, St. Louis, Missouri 63103.

8 **Q. By whom and in what capacity are you employed?**

9 A. I am employed by Ameren Services Company ("Ameren Services") as
10 Manager, Non-Income Taxes.

11 **Q. Please describe Ameren Services.**

12 A. Ameren Services provides various corporate, administrative and technical
13 support services for Ameren Corporation ("Ameren") and its affiliates, including Union
14 Electric Company d/b/a Ameren Missouri ("Company" or "Ameren Missouri"). Part of that
15 work involves analytical support for regulatory activities, including rate case support.

16 **Q. Please describe your employment history with Ameren Services.**

17 A. I was employed by Ameren in January 2000 in the Tax Department and have
18 managed the non-income tax function since that time.

19 **Q. Please describe your duties and responsibilities as Manager, Non-Income**
20 **Taxes.**

21 A. My job responsibilities involve management of the non-income tax function
22 within Ameren Services' Tax Department. Tax types included within this function are
23 property tax, franchise tax, municipal taxes, sales/use tax, motor fuel tax and others. I also

1 am responsible for management of the compliance and the consulting activities related to
2 these types of taxes.

3 **Q. Please describe your qualifications.**

4 A. I received a B.S in Accounting from Missouri Southern State University in
5 1984, and I earned an MBA from Webster University in 1988. I am a licensed CPA in the
6 State of Missouri. Prior to my employment by Ameren Services, I was employed as a
7 government state & local tax auditor for the State of Missouri and City of Lakewood,
8 Colorado; as a Tax Manager with Arthur Andersen; and as a Tax Partner/Director with
9 CBIZ, Inc., a consulting firm.

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my testimony is to rebut arguments made by witnesses for the
12 Commission Staff ("Staff") and the Missouri Industrial Energy Consumers ("MIEC") that
13 property tax expense used to set rates in this case should be based on the assessed values and
14 tax rates that were used by local taxing jurisdictions for Tax Year 2011. My testimony will
15 show why Ameren Missouri's property tax expense used for ratemaking in this case should
16 not be based on the property tax assessed values and rates used for Tax Year 2011, but
17 should, instead, be based on the 2012 certified Missouri State Tax Commission ("Tax
18 Commission") value and the increases in local property tax levies that are expected for Tax
19 Year 2012.

20 **Q. Please explain how the amount of property taxes that Ameren Missouri is**
21 **required to pay each year is determined.**

1 A. The Tax Commission is responsible for the valuation and assessment of the
2 distributable commercial real and personal property of all Missouri utility companies,
3 including Ameren Missouri.

4 The Tax Commission uses the Aggregate Statement of Taxable Property and related
5 schedules to determine the fair market value of Ameren Missouri's property as of January 1
6 of the taxable year. That means that the fair market value of Ameren Missouri's property as
7 of January 1, 2012, will be used to determine the Company's distributable property for Tax
8 Year 2012. The Tax Commission determines the fair market value of Ameren Missouri's
9 property through a thorough process of reviewing information and related research, which
10 includes a formal hearing that was conducted on June 12, 2012. The Tax Commission
11 certified its results on June 28, 2012, for access by Ameren Missouri and the taxing
12 jurisdictions within the Company's service area.

13 Using the Tax Commission's certified value, the various taxing jurisdictions begin
14 their budgeting process in August. The budgeting process then determines if current rate
15 levies applied to the Tax Commission's fair market valuations are adequate to meet each
16 jurisdiction's revenue needs, or if a tax rate increase will be needed. Each taxing jurisdiction
17 has the ability to raise their tax rates to a cap level without additional voter approval. After
18 their budgets are completed, the various taxing jurisdictions file their respective tax rates for
19 Tax Year 2012 with the State Auditor's office any time between September and December
20 2012. Following the filing of those tax rates, Ameren Missouri will be able to determine its
21 property tax expense for Tax Year 2012.

22 **Q Please explain why you believe it is likely that Ameren Missouri's**
23 **property tax expense for Tax Year 2012 will be greater than it was for Tax Year 2011.**

1 A. As local jurisdictions, especially school districts, continue to struggle with
2 maintaining adequate levels of local revenues, they are forced to look at property tax rate
3 increase options on an annual basis. For example, school districts on average utilize 60% of
4 local property tax revenues received per county, and the need for additional funding from
5 local property tax revenues will likely be one of the major factors that causes an increase in
6 property tax levies for Tax Year 2012.

7 A February 19, 2012, an article in the St. Louis Post-Dispatch, which is attached to
8 my testimony as Schedule CLC-ER1, describes the factors that have squeezed school district
9 budgets in the recent past and that likely will cause taxing authorities within Ameren
10 Missouri's service area to increase tax rates – and therefore total property tax expense – for
11 2012. The article notes that over the period 2006 to 2011, the costs of labor, textbooks,
12 diesel fuel, utilities, and health premiums have increased for Missouri school districts. A
13 change in the state funding formula for education and an unprecedented infusion of federal
14 stimulus money has helped school districts deal with a portion of those increases in the past.
15 But even this additional state and federal funding failed to fully keep pace with the school
16 districts' cost increases, and the gap between revenues and expenses has widened, and will
17 continue to do so, due to the loss of further federal stimulus support and reduced property
18 values in many districts. Many school districts, and the taxing authorities that they rely on,
19 now face the hard choice of cutting funding or increasing tax rates.

20 A July 22, 2012 article from the Columbia Missourian, which is attached to my
21 testimony as Schedule CLC-ER2, provides additional information regarding the budget
22 challenges facing school districts in the coming year. This article notes that state lawmakers
23 were forced to freeze the formula used to provide state funding for public schools at a level

1 that is about \$250 million short of what education officials say is required. That action
2 prompted Missouri's Commissioner of Education to send a letter to the state's public and
3 charter schools stating that "[t]he fiscal challenges now facing Missouri prohibit full funding
4 of the current formula, resulting in the potential of extreme funding shifts for school
5 districts." For school districts whose tax rates are below the cap level, one of those shifts
6 likely will be to increase funds available from property taxes through increased tax rates.

7 Another factor affecting property tax expense that is often overlooked is that although
8 property values, and therefore assessed valuations, for non-utility property (such as private
9 residences and commercial real estate) have decreased in recent years, Ameren Missouri's
10 assessed value continues to increase. Consequently, if tax rates are increased by the taxing
11 jurisdictions to compensate for dropping values of non-utility property, those higher tax rates
12 will be applied to an assessed valuation of Ameren Missouri property that is larger for Tax
13 Year 2012 than it was for Tax Year 2011. This combination of higher rates and higher
14 assessed valuation will cause a significant increase in property tax expense for Ameren
15 Missouri for 2012.

16 **Q. The property tax expense adjustments proposed by Staff and MIEC**
17 **would limit the amount of property tax expense used to set rates in this case to the**
18 **property tax rates in effect for tax year 2011. Is that approach realistic?**

19 A. As recent history shows, it is unrealistic to assume that there will be no
20 property tax rate increase from 2011 to 2012 based on current revenue shortfalls in many
21 taxing jurisdictions. The composite annual rate levy increase per \$100 of assessed value
22 increase between 2008 and 2009 was 6 cents, between 2009 and 2010 was 11 cents, and
23 between 2010 and 2011 was 17 cents, producing an average increase in the composite annual

1 rate levy over the three years of 11 cents per \$100 of assessed value. In terms of the actual
2 tax expense, the 17 cents composite annual rate levy increase between 2010 and 2011, along
3 with the increased assessed valuation to which it applied, caused Ameren Missouri's property
4 tax expense to increase \$4,563,734 in 2011 compared to 2010.

5 **Q. What then is an appropriate basis for determining the tax rates to be**
6 **applied to the Tax Commission certified value?**

7 A. The Commission should reflect a normalized tax rate increase based upon the
8 actual history of increases we have experienced over the past three years. That normalized
9 increase is 11 cents, as noted earlier. This increased rate should be applied to the market
10 valuation that the Tax Commission certified for Ameren Missouri in June of this year, which
11 is \$6.55 billion. This is a conservative calculation of the 2012 Missouri property tax to be
12 paid by the Company, as we expect the composite rate levy increase to be close to the 2010
13 and 2011 increase of 17 cents rather than the three year average increase of 11 cents.

14 Using the Tax Commission's June 28, 2012, certified valuation for the 2012 property
15 tax year, effective January 1, 2012, and the normalized 11 cent rate levy increase, Ameren
16 Missouri requests that the revenue requirement reflect \$130,382,527 for property tax.
17 Reflecting the 2012 certified valuation and the 2011 actual rates would produce a revenue
18 requirement related to property taxes of \$128,254,011, or \$2,128,516 less than that derived
19 by using a normalized increase based on the past three years of history and applying it to the
20 Tax Commission certified value. Given the actual historical data that we have, coupled with
21 the other evidence discussed above that strongly suggests the increase will actually be
22 greater, the property tax expense for ratemaking purposes set in this case should be
23 \$130,382,527.

1 **Q. Does this conclude your rebuttal testimony?**

2 **A. Yes, it does.**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

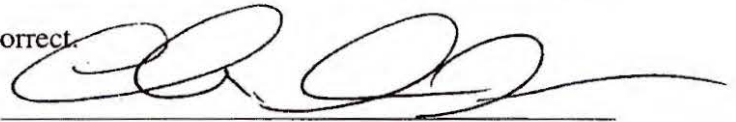
In the Matter of Union Electric Company d/b/a Ameren)
Missouri's Tariffs to Increase Its Annual Revenues for) File No. ER-2012-0166
Electric Service.)

AFFIDAVIT OF CHRIS L. CUDNEY

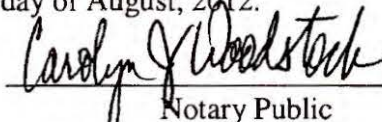
STATE OF MISSOURI)
) ss
CITY OF ST. LOUIS)

Chris L. Cudney, being first duly sworn on her oath, states:

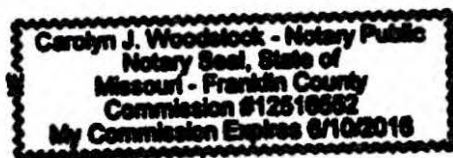
1. My name is Chris L. Cudney. I am employed by Ameren Services Company as Manager, Non-Income Taxes.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company, d/b/a Ameren Missouri, consisting of 7 pages and Schedule(s) CLC-ER1 thru CLC-ER2, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Chris L. Cudney

Subscribed and sworn to before me this 13th day of August, 2012.


Notary Public

My commission expires: 6/10/16



“As property values have dropped, the districts have had the flexibility by law to raise their property tax rates to bring in more money while remaining below voter-imposed tax ceilings.”

SCHOOLS IN ST. LOUIS AREA HAVE ESCAPED THE ECONOMIC DOWNTURN - SO FAR

BUT WITH FEDERAL STIMULUS DRYING UP AS COSTS RISE, HARDER TIMES COULD BE COMING FOR AREA DISTRICTS.

February 19, 2012 12:05 am • [BY ELISA CROUCH • ecrouch@post-dispatch.com > 314-340-8119](#) and [JESSICA BOCK • jbock@post-dispatch.com > 314-340-8228](#)

Bus routes have been cut, summer school eliminated, teachers have lost jobs and taxes have risen.

Along the way, an image has emerged of recession-battered school systems losing a fight against the worst financial crisis in decades.

Yet state data suggest most area districts have weathered the storm quite well.

At least until now.

A Post-Dispatch analysis of state, federal and local education funding shows that total school revenue has climbed in Missouri and Illinois in recent years at a rate that approaches or slightly exceeds inflation. In Missouri, spending rose to \$9.3 billion in 2011, up from \$8.9 billion in the 2008 fiscal year, just prior to the economic collapse. Illinois schools drew in \$25.4 billion in state, local and federal aid in 2010, \$1.8 billion higher than two years prior, though state revenue for schools has since declined.

In six Missouri counties of the St. Louis region, just six of 46 school districts received less last year on a per-pupil basis than in 2008. For the most part, school districts have been able to hold onto cash reserves. And some school districts have even experienced what some might call a windfall of new money.

Data from the Missouri Department of Elementary and Secondary Education show five area districts - including Jefferson County and Bayless - had 20 percent more revenue to spend per student in 2010-11 than they did in 2008. Eighteen saw gains of 10 percent or more.

To be certain, not all school districts are the same.

Each has its own tax rates and mix of revenue from property taxes, sales taxes and state funding. And those factors have combined for losses for a few regional districts. The Ladue and Lindbergh districts, for example, have experienced revenue reductions of more than 10 percent per student since 2007-08.

Illinois, meanwhile, is behind by \$751 million in state payments to school districts for some services and programs, even as overall school revenue from state, local and federal sources has climbed.

But on balance, school districts in Missouri and Illinois have been at least partly insulated from one of the worst economic storms.

In the lead-up to the recession, a new Missouri school funding formula showered hundreds of millions of dollars in new aid on districts from 2006 to 2009. That new investment was later fortified by an unprecedented infusion of federal stimulus money for schools, helping to offset lost state revenue and prop up the funding formula.

"The only reason schools didn't get whacked more was the federal money that came to the states for education," said Chris Straub, a consultant with the Missouri Association of School Administrators and an expert in school finance.

A few districts, such as Maplewood-Richmond Heights, benefited from voters who approved operating tax increases that spared school officials from issuing pink slips.

"Our community backed us on every issue," said Kay Lesley, chief financial officer for Maplewood-Richmond Heights, where voters passed a 67-cent operating tax increase in 2009. Otherwise, she said, "We would have had to look at cutting back."

Other districts have been able to make up for declining property values without needing to turn to voters.

As property values have dropped, the districts have had the flexibility by law to raise their property tax rates to bring in more money while remaining below voter-imposed tax ceilings.

In other cases - as districts have seen substantial increases in revenue slow to a trickle - school boards, such as Parkway's, have dipped into rainy day funds to avoid layoffs.

A few districts have imposed furloughs or frozen salaries in the past few years.

Still, far more have continued to sustain teacher raises. Statewide, average teacher pay in Missouri roughly kept pace with inflation and climbed by about 10 percent from 2008 to 2011.

But harder choices could be coming.

STIMULUS RUNS OUT

Superintendents and chief financial officers expect the next couple of years to be bleak now that federal stimulus money has run dry. Despite the loss of stimulus, Missouri has managed to keep core state school funding level in the past few years by cutting from other areas of state government.

But with stimulus money gone in Illinois, spending on schools from state coffers in Illinois dropped by about \$650 million this year from 2009, according to the state. The state board has asked the Legislature for additional money - but not enough to get state education funding back to where it was three years ago.

As a result, rainy day fund balances in the Metro East are shrinking.

Meanwhile, some districts in Missouri, such as the Pattonville School District, are approaching voter-imposed tax ceilings, exhausting their ability to roll up tax rates to make up for declining property values.

"I don't think anybody realized how long this economic recovery was going to take," Straub said. "We've had downturns before. We've had times in the past where school funding didn't increase or got cut, but it was a short duration."

Compounding the situation is uncertainty around Missouri's school funding formula, which was written in 2005 on the assumption that the state could funnel an additional \$800 million to schools over seven years.

With funding now stagnant, the formula cannot complete its own goals and - because of the intricacies of how it was built - could result in large drops in state aid for some districts even as others experience large increases. That has lawmakers struggling this session to patch the formula to smooth out such inequities.

Regardless of the outcome, "Something's going to have to give this year," said Randal Charles, superintendent of the St. Charles School District, which has eliminated summer school, reduced positions through attrition, retooled its employee health plan and brought bus service in-house.

In so doing, the district has avoided layoffs, salary freezes and larger class sizes - three things every superintendent tries to avoid. But this spring, Charles said, the district could face choosing at least one of the three.

A COMPLICATED PICTURE

School officials say the budget situation is more complicated than just looking at the increase in total revenue. The question, they say, is whether those increases can keep pace with costs of labor, textbooks, diesel fuel, utilities and health premiums. In fact, while education revenue climbed from 2006 to 2011 in Missouri, it fell shy of keeping pace with inflation over that period.

Some districts have been bypassed by the gains in total school revenue.

For example, in the immediate aftermath of the recession, the Lindbergh and Ladue districts were the only two in St. Louis County that - because of the particularities of state statutes - were left with no flexibility in adjusting property tax rates on their own. Voters in Lindbergh have since freed the district from those restraints, following up with approval of a 65-cent increase in the operating levy. But even so, the district has seen an \$18 million revenue drop since 2008.

"We got creamed," said Pat Lanane, Lindbergh's chief financial officer.

Ladue, meanwhile, is asking voters on April 3 to help the district break through its tax ceiling by approving a 49-cent operating tax increase. Already, the district has reduced its reserve fund by half and eliminated 66 positions, resulting in layoffs for 22 employees, including five teachers. Ladue also has offered early retirement incentives. After the layoffs, the district gave remaining teachers a 1 percent raise to offset rising health insurance costs.

Meanwhile, while education funding in general has increased statewide in Missouri and Illinois, both states have cut from specific funds, forcing districts to shoulder greater costs and trim programs.

For example, Missouri's transportation subsidies to school districts have shrunk by 40 percent - sending nearly \$100 million to districts this year, compared to \$167.8 million in 2008. St. Louis Public Schools responded by eliminating more than 100 routes. Bayless schools eliminated school buses altogether. The St. Charles School District cut bus service for after-school activities.

The state has also stopped reimbursing school districts - mostly rural ones - for the additional money teachers make for extra work, such as coaching the tennis team or working Saturdays.

The program cuts partly explain why some school systems, such as the Jefferson County School District, have been forced to make cuts despite having 36 percent more revenue per student than before the recession.

Unlike other parts of the region, property values in the Jefferson County district, near Festus, have climbed each year except for 2011. Nevertheless, the district of 950 students has eliminated positions as support staff members have retired or left for other jobs.

"The bottom line is, if the economy doesn't turn around ... there are a lot of schools that are going to make some tough decisions," said Superintendent Clint Johnston.

HARD CHOICES

As the budget season begins for schools, many administrators say they may no longer be able to avoid doing what most districts in the region have thus far avoided - laying off teachers and/or trimming the pay of those who remain.

Some local districts have frozen salaries in recent years, or imposed furloughs, but few, if any, have cut pay.

In general, 80 percent of a school district's budget is salaries. The other 20 percent covers areas such as supplies, transportation, utilities and textbooks.

Eventually, cutting within that 20 percent isn't enough, school officials say. And that's when discussions begin about layoffs and salary cuts.

"Those are worst-case scenarios for every school district," said Ron Orr, chief financial officer for the Pattonville School District. "That's what you do when you've done everything you possibly can."

And his district, he said, is almost to that point.

Hancock Place is already there. The River City Casino promises at least \$4.3 million in annual revenue to the tiny district, but drops in other funds and declining enrollment mean the school system is considering \$1.5 million in cuts, about 9 percent of its operating budget. Administrators will recommend a salary freeze for the coming year, and 20 to 25 jobs could be eliminated.

"We need to ask ourselves if we are doing everything we can," Superintendent Kevin Carl said.

In Illinois, St. Clair County districts are also running out of options.

"There is no easy answer," said Susan Sarfaty, the county's regional superintendent. "They've already cut any kind of fat, any kind of extras that they could out of budgets last year and the year before, so now we're starting to cut to the meat and bone."

Elizabeth Holland and Kevin McDermott

COLUMBIA MISSOURIAN

Missouri public school aid formula facing \$700 million shortfall

By Matthew Patane

July 22, 2012 | 6:00 a.m. CDT

COLUMBIA — Both returning and newly appointed state lawmakers will have to deal with a contentious, yet vital, issue: how to fully fund the foundation formula that determines how much state aid Missouri's public school districts get.

Lawmakers and Gov. Jay Nixon this year approved more than \$3 billion for elementary and secondary education. That amount, however, still falls about \$250 million short of what education officials said was required. By fiscal year 2014, the foundation formula will face an estimated \$700 million shortfall.

The formula divides public schools into two main categories known as "hold harmless" and "formula" districts. "Hold harmless" districts are those that rely more on local property taxes and receive the same amount of state aid per student every year. Aid to formula districts, which rely more on state funding, is recalculated every year.

Although Missouri education officials have begun implementing a plan to help fund public schools, the state remains without a long-term solution to the problem.

What candidates are saying

Candidates for local seats in the Missouri House and Senate agreed not only that K-12 funding is a priority but also that the foundation formula is complicated and confusing. Newcomers to legislative campaigns said they will have to look to others with more experience before developing fully informed opinions about what should be done. The consensus among most of the candidates is that the state needs more revenue, but some have suggested the state could throw more money into education by tweaking its budget.

State Senate District 19

- **Incumbent Sen. Kurt Schaefer (R)** said education funding has to be a priority, second only to paying off Missouri's public debt. "You can close the gap (in the formula) with funding from other areas in the budget," said Schaefer, who is the chair of the Senate Budget Committee. Still, he expects stagnant economic growth over the next couple of years will make funding the foundation formula a continuing challenge.
- **State Rep. Mary Still (D)** said the state could "tinker around with hold harmless and not hold harmless, but it becomes increasingly unfair" to some schools. She would like to look at increasing state revenue and adjusting education funding to find more "viable options" for fixing the funding disparity.

House District 44

- **Mike Becker (R)** suggested school districts could save money by not building lavishly constructed schools. "We need to build simple multipurpose buildings. Schools should be a place of education, not a place of glamour."
- **Caleb Rowden (R)** said lawmakers have to find a way to be "transparent" about how schools are funded and keep pushing to find a proper fix for the formula. Rowden said he's open to finding more revenue, but is "not a big fan of increasing revenues more than you have to."
- **Chris Dwyer (R)** conceded he knows "very, very little" about the formula and said he would talk to members of the legislature's education and budget committees to learn more. Dwyer also said the state should look at how private and home-based schools manage on smaller budgets.
- **Former state Sen. Dennis Smith (R)** said lawmakers should take a closer look at the overall budget. "We need to narrow our financial obligations in other parts of the budget and put the extra money into education."
- **Former state Sen. Ken Jacob (D)** said that the foundation formula is a "major problem facing the state" and that proposed solutions would only be a marginal stopgap. "You can't succeed in a knowledge economy when you rank near dead last in education funding."

House District 45

- **Incumbent Rep. Chris Kelly (D)** could not be reached for comment. He is unopposed in the primary and in the November general election.

House District 46

- **Incumbent Rep. Stephen Webber (D)** could not be reached for comment.
- **Fred Berry (R)** said he would wait until he had the opportunity to speak with state budget and education officials before offering a solution. "You have to look at each element ... this is not something you want to hip-shoot."

House District 47

- **Former state Rep. Nancy Copenhaver (D)** said that the new formula "needs to be tweaked" and that "it hasn't been doing what it was supposed to be doing" since its inception. "We can't keep cutting money," she said, adding that legislators also must find new revenue streams. "The problem is we don't have fewer and fewer students, we don't have less complicated situations."
- Neither **John Wright (D)** nor **Mitch Richards (R)** could be reached for comment.

Explaining the foundation formula

Missouri's foundation formula is used to calculate how much money the state's 559 local education agencies — which include 520 school districts and 39 charter schools — should receive*. School systems get additional funding from various statewide and federal programs, but the foundation formula is the main source of money besides local property taxes.

Funding amounts are determined by a variety of factors, including local wealth, student attendance and property tax rates, and a "state adequacy target," established by the Missouri Department of Elementary and Secondary Education, that sets a desired amount of average spending per student each year.

The adequacy target now is \$6,131 per student; it was supposed to rise to \$6,423 this school year and to \$6,716 in fiscal year 2014. Budget woes and lawmakers' inaction, however, prompted the education department to freeze the adequacy target.

State lawmakers adopted the most recent foundation formula in 2005, replacing a previous formula that relied heavily on local property tax revenue as a way to determine

how much state aid school districts would receive. The new formula has been phased-in over the past seven years and was scheduled to take full effect this school year.

Chris Nicastro is the state's commissioner of education. She explained the decision to freeze the adequacy target in a May 23 letter sent to Missouri's public and charter schools. "The fiscal challenges now facing Missouri prohibit full funding of the current formula, resulting in the potential of extreme funding shifts for school districts," she wrote.

Past work and the effect on Boone County

Although leaders in the General Assembly touted full funding of education as a top priority for the 2012 legislative session, lawmakers ultimately failed to find a fix due to disagreements over how the legislation would affect school districts. Some worried about the disparity in the impact on urban vs. rural districts, others about the impact on hold-harmless and formula districts.

During the session, Rep. Mike Thomson, R-Maryville, and Sen. David Pearce, R-Warrensburg, sponsored measures intended to fix the funding issues and "minimize the winners and losers." The bills died, however, requiring the education department to step in.

Roger Dorson, the department's coordinator for financial and administrative services, said the "across-the-board" approach meant all school districts bore the burden of the budget shortfall. Deputy Education Commissioner Ron Lankford told the Associated Press in early June that more districts would see cuts rather than increases.

Thomson and Pearce's legislation would have cut less aid from hold harmless districts than formula districts. Still, debate over the fairness of their bills brought them to a standstill.

One-hundred and sixty of Missouri's school districts were considered hold harmless in fiscal 2012. Of the five districts in Boone County, only Sturgeon is hold harmless; Centralia, Columbia, Harrisburg, Hallsville and Southern Boone have formula district status. Columbia and Hallsville used to be hold harmless but became formula districts in 2010 and 2011, respectively.

Regardless of status, every district in the state shared in the lack of funding in fiscal 2013. That means they either suffered cuts or received smaller increases than proposed under law. The Centralia, Harrisburg and Hallsville school districts received slight increases; Columbia and Sturgeon were cut.

Dorson said the freeze is intended to be in place only this year, but the department might be forced to extend it. "We don't know what fiscal year 2014 will bring."

Revenue opportunities

Several potential avenues for increasing state revenue have stalled in the legislature. They included a mechanism that would allow the state to collect taxes on Internet sales, which would generate an estimated \$20 million to \$40 million annually as well as a \$70 million tax amnesty program that would have encouraged people to pay back taxes without penalty. The Internet sales tax was never scheduled for floor debate in the legislature. The House passed tax amnesty, but the Senate held it up.

Lawmakers also have had extensive debates on paring back the state's tax credit programs, but the House and Senate couldn't find agreement. State officials estimate Missouri will redeem \$685 million in tax credits this fiscal year.

Pending a legal challenge before the state Supreme Court, Missourians might get to vote in November on whether to increase the state's cigarette tax, which is 17 cents per pack. The 73-cent increase proposed by the initiative would generate between \$283 million and \$423 million to the state's coffers. The money would be used for K-12 and higher education and for tobacco-cessation programs.

Missourian reporter Jordan Shapiro contributed to this report.

Supervising editor is Scott Swafford