

# Illinois Business Journal

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## Earnings tax referendum threatens city of St. Louis and Southwestern Illinois

By ALAN J. ORTBALS

A statewide referendum in November will put one-third of the revenue of the city of St. Louis at risk. At this point, no one knows how - or even if - it would be replaced.

If the referendum passes, it will change the economic dynamics of the city of St. Louis, according to Patrick McKeehan, executive director of the Leadership Council Southwestern Illinois. And that will spell trouble for Southwestern Illinois, he says.

"There's a strong relationship between the economy of the city of St. Louis - particularly Downtown St. Louis - and the Metro East region," McKeehan said. "It was a major factor in the location of the New Mississippi River bridge. There are tens of thousands of people every day who leave the Metro East region and travel to Missouri for jobs, and a high percentage of those are located in the central core of the city of St. Louis. The ability of the city to provide key services like police, fire protection, utilities and general maintenance will be compromised not to mention all the recreational amenities and cultural amenities that are there, too," he added.

The effort to put the question of repeal of the earnings tax on the ballot has been pushed by one individual: St. Louis city resident Rex Sinqefeld. It has been reported that Sinqefeld invested \$1.75 million in the petition drive required for inclusion on the November ballot. More recently, Sinqefeld donated \$2.5 million to finance the campaign to pass the referendum.

The referendum will essentially ask the voters across the state if city voters in St. Louis and Kansas City should have the right to abolish the earnings tax. If the answer is yes, the question of repealing the earnings tax will go on the ballots in those two cities in the April 2011 election - and every five years thereafter until it passes. When it passes, the earnings tax then would be gradually reduced to nothing over a 10-year period.

Maggie Campbell, president and chief executive officer of the Partnership for Downtown St. Louis, is concerned that a general dislike of taxes among voters may carry the referendum to passage.

"It certainly seems like it might play

■ See EARNINGS, page 19



photo courtesy of The Associated Press

The city of St. Louis stands to lose one-third of its revenue if efforts to repeal the earnings tax are successful.

## State lawmakers ignore deficit, put off hard decisions for another day

By ALAN J. ORTBALS

Once again, Illinois lawmakers refused to take action to solve the state's financial woes, putting off decisions about cost cutting or tax raises until next year - at the earliest.

The budget that was sent to Gov. Pat Quinn called on him to decide where to make cuts. His call for an income tax increase was ignored; and so far, his appeal to issue bonds to fund the state's pension obligations lacks enough votes to pass the Senate.

"We're going to keep the bus running but once in awhile we're going to have to stop and put the wheel back on," said Rep. Tom Holbrook, a Democrat from Belleville. "It's sad, but that's the situation."

Holbrook says that of the \$52 billion budget, about one-half is general revenue over which the state has control. Of that \$26 billion, about one-third goes to education, one-third goes to Medicaid and the rest covers everything else.

"That \$9 billion (everything else) includes all of the state salaries," Holbrook said. "It's people running our prisons, our state police, our department of education, our parks, our legislature, our Supreme Court, our court systems, all of those things. We could



photo courtesy of The Associated Press

State Rep. Tom Holbrook (D-Belleveille) says Illinois ranks 50th among U.S. states in employees per capita of population. Of the \$52 billion state budget, \$9 billion includes all the state salaries.

eliminate state government completely and we would still be behind," Holbrook added.

Illinois ranks 50th among the states in terms of state employees per capita of population, according to Holbrook.

State Sen. Dave Luechtefeld, a

■ See DEFICIT, page 22

## Giving to basic needs up in 2009 as donors see 'face of need' in neighbors, friends, jobless

By KERRY L. BEISER

Although overall charitable giving nationwide fell 3.6 percent in 2009, giving toward disaster relief, research for cures and basic human needs increased in spite of one of the worst years economically since the Great Depression.

These conclusions come from the executive summary of the Giving USA Foundation's newly released 2010 report. The Foundation, formed in 1985 and headquartered in Glenview, Ill., advances the research and public understanding of philanthropy; it regularly publishes data and trends about charitable giving through its publication, Giving USA.

Edith Falk is chair of the Giving USA Foundation and chief executive officer of

Campbell & Co., a large Chicago-based fundraising consulting firm.

Falk notes that while giving was down for most of 2009, Americans rallied toward the end of the calendar year. "We had a very strong, positive 4th quarter," she said, "23 percent higher than in the 4th quarter of the previous year. People were feeling more confident (4th quarter '09) than they were a year earlier at that point, and were therefore able to continue to support some organizations as they'd done in the past. For a good number of organizations, 40 to 50 percent of their fundraising happens in the last quarter of

■ See GIVING, page 22

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# News from Around the Nation

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## Unexpected costs of financial reform

By **RACHEL BECK**  
AP Business Writer  
June 18, 2010

NEW YORK (AP) - Here's the thing about financial reform: It sounds good, until you try to get a car loan or pay your dentist.

Those are the kind of unintended consequences that could emerge from the biggest financial regulatory overhaul the country has seen since the Great Depression.

That doesn't mean reform isn't warranted, especially after the worst financial crisis in 70 years. But in order to prevent future crises, Americans' own finances might take an unexpected hit along the way.

We still don't know how far-reaching financial reform will be. The final details are still being worked out by a panel of lawmakers. They're trying to resolve the differences in the House and Senate bills by the end of the month, so that President Barack Obama can sign the legislation into law by July 4.

Two outstanding issues have to do with how a consumer financial protection watchdog will be structured and who it will cover. The House bill would create a stand-alone agency, while the Senate bill would make it an independent arm of the Federal Reserve.

A sticking point is whether businesses like doctors, florists or retailers that don't primarily make their money extending credit, but do offer such services, should face increased oversight.

Trade groups representing those small businesses are fighting new regulations. They say the extra burden will raise their costs and force them to offer less credit to consumers.

"We're asking why people who had nothing to do with the financial crisis are being scoped into more regulation," says

David Hirschmann, who head the U.S. Chamber of Commerce's Center for Capital Markets.

Part of their argument is the kind of spin you would expect from the chamber. No business one likes the prospect of more regulation. But they also make some fair points.

Consider your dentist: He's in the business of teeth, not finance. But he happens to let patients pay for costly treatments over at least four installments. As a result, he would be considered a lender under the House financial reform bill and would face new rules. The Senate bill provides for some exemptions.

Your dentist lets you pay for that root canal or new porcelain veneers in installments because he doesn't complete the dental work in one visit. He also knows that his patients appreciate the flexibility of the payment plan.

But if faced with new regulations, the dentist might stop offering that service. He might have to dedicate extra time and staff toward meeting extra regulatory requirements. He could be more prone to lawsuits or enforcement actions from the new agency.

It could be easier to just have patients to pay upfront.

Local auto dealers also say that new regulation could change how they'll do business.

Tony Federico of Federico Chrysler Dodge Jeep in Wood River, Illinois, says he's a middleman in the lending process. He matches up car buyers with banks, credit unions and other auto lenders.

He acknowledges that he makes money when arranging auto loans, but he argues customers get a better rate from him than if they went to the bank directly.

Federico says he can buy a loan from a bank with an interest rate of 2.5 percent and then can extend it to a borrower at 3.5 percent. If the same customer went to a local bank in his area about 20 minutes outside of St. Louis, the lowest rate would run around 3.99 percent, he says.

Just like the dentists, Federico says that more regulation will boost his costs. It could mean he does fewer loans, or is less generous in the deals he offers. Consumers then would have to seek out loans elsewhere, which could be less convenient and cost more.

"I am always looking out for my customers' best interests, but I also want to do deals that are worthwhile," Federico says.

Nearly four out of five auto loans are distributed by dealerships like Federico's, according to research by the nonpartisan Cambridge Winter Center for Financial Institutions Policy in Washington. The rest consumers arrange themselves at banks or other lenders.

Consumer groups say dealers should be more heavily regulated because they aren't just matchmakers. The dealers often decide what interest rates consumers get on loans and can steer car buyers toward loans that give the dealership the highest profits.

Dealers have been aggressively lobbying on Capitol Hill to be exempted from the new consumer protection rules. They got their way in the House bill, but not in the Senate. The White House is against any carve-out for auto dealers.

Financial reform isn't just about the banks. It could be coming to auto dealerships and dentists' offices near you.

Let's hope the new rules strike a balance between protecting consumers without pinching small businesses.

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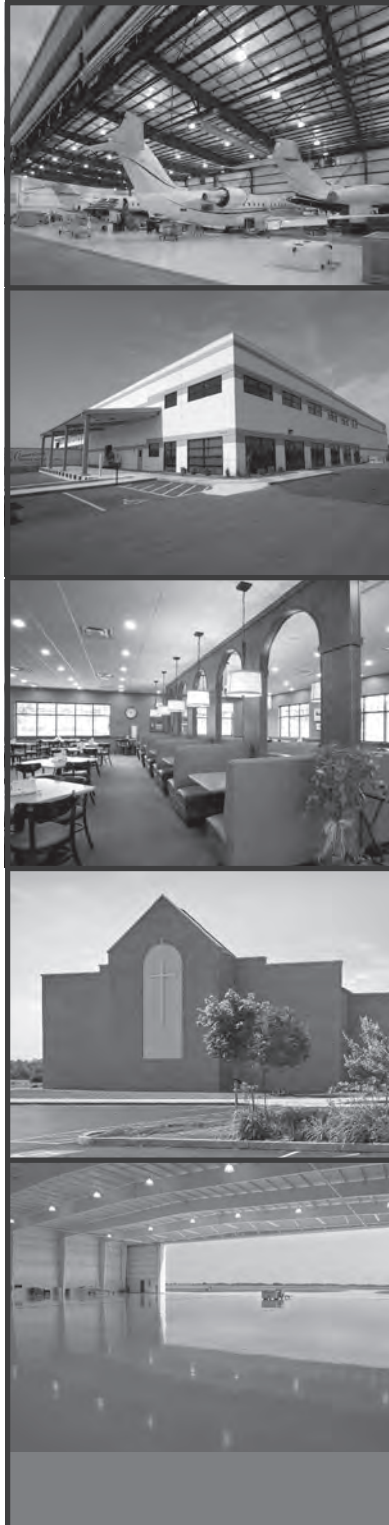
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