Show-Me Institute
Where Liberty Comes First

SHOW-ME newsletter

2019 | Issue 2

ADVANCING LIBERTY WITH RESPONSIBILITY BY PROMOTING MARKET SOLUTIONS FOR MISSOURI PUBLIC POLICY

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

We'll always be honest with our supporters about the direction of policy in Jefferson City. In recent years, we've been able to report good news. The last two state legislative sessions produced a number of solid reforms of the kind the Show-Me Institute has fought for. Those included the passage of a course access program, a reduction in individual income taxes, increased transparency for school districts, and licensing reform.

But this year was different, both because of what the legislature did and what it didn't do.

As Institute writers have demonstrated again and again, economic development incentives have been a blight on Missouri public policy for decades, with hundreds of millions of dollars handed out to developers with little accountability and little to show in terms of economic benefits. Missouri is, unfortunately, a national leader in this kind of corporate welfare. In recent years, the legislature has reduced its giveaway programs somewhat, but this year—like a dieter who secretly resents the restrictions on his dining options—the legislature decided to pig out with a $50 million-dollar giveaway to General Motors to expand its facility in Wentzville.

I won't mince words. This is a corporate welfare bonanza—the worst kind of economic development policy that takes taxpayers' hard-earned money and puts it in the pockets of powerful private interests. The bill did include a much-touted "Fast Track" provision that is intended to help lower-income Missourians aged 25 and older go back to school to earn degrees in high-demand fields. We have no objection to that, but as we explain elsewhere in this newsletter, the money would have been better spent on several simple reforms—proven successful in other states—that help high school students get on the right career track in the first place.

Then there is what the legislature didn't do. The public-employee pension system in Missouri is facing a looming crisis, as unfunded liabilities continue to grow. The legislature did nothing about it. Medicaid ate up nearly 40 percent of Missouri's budget this year, and that percentage is expected to increase unless the program is significantly reformed. The legislature did nothing about that, either.

And most important of all, another year has come and gone without any significant expansion of school choice in Missouri. Thousands of kids are trapped in failing schools, and yet charter schools remain effectively impossible to open outside of Kansas City and St. Louis.

What's particularly frustrating is that charter schools and other innovative school choice reforms have proved to be successful in other states. The doubters, deniers, and defenders of the educational status quo have been proved wrong. All across the country, other states have opened up opportunity for all their students and are achieving documented results.

Missouri is being left further and further behind. Or if you want to put it differently, our state is emerging as a national leader in putting the interests of the educational establishment ahead of the needs of students, the desires of parents, and the health of Missouri's economy.

That's a hard thing to say, but it's the truth.

I don't want you to think that the Show-Me Institute has been on the sidelines during this legislative session. Our scholars and analysts continued to testify before legislative committees, brief decision makers, and take the free-market case directly to the public. The ideas we believe in were too powerful to be shut out entirely. Many legislators were persuaded and fought for necessary changes; others know we are right but have yet to summon the courage to act.

We will, as always, build on our support, seek new allies, and gear up for another push next year.

Nothing in life is achieved without persistence. The entrenched ideologies and interests that oppose us are well aware of that. In fact, they are counting on it. They believe that if they can hold out long enough, we will give up and go away. They are wrong. There is quite simply too much at stake for us to stop fighting now.

We hope and trust you feel the same way. And as always, we are so very grateful for your support.

–Brenda Talent

LEGISLATURE GIVES TAX BREAK TO GM, STIFFS MISSOURI TAXPAYERS

Patrick Ishmael

After several years of forward-looking tax policy reforms, Missouri legislators took a step backward in 2019, passing a giveaway of taxpayer funds to one of the biggest corporations in the country and, simultaneously, denying tax relief and reform to Missourians statewide.

At issue is a tax credit package for auto manufacturing giant General Motors, which—less than a month before the legislative session ended—made public its plan for a billion-dollar expansion of its Wentzville production facility. The credits will not be contingent on job creation or even job retention, as could have been defined by the people's elected representatives through the legislative process. Instead, the credits will be triggered by expenditures related to the facility expansion, with job requirements, if any, to be determined by bureaucrats in the state's Department of Economic Development.

Despite broad opposition, the package passed late in the session and is valued at a minimum of $50 million, with some estimates suggesting the company's ultimate payout could be closer to $100 million. Meanwhile, taxpayers received no tax relief.

It took GM fewer than four weeks to get its tax break. Yet, taxpayers couldn't get a tax cut from their elected representatives after over four months of legislative debate.

It is not news that politicians like associating themselves with high-profile companies. They like donning hard hats and plunging shovels into the ground at ribbon cuttings because it looks good on campaign literature, regardless of whether the government's role in subsidizing these conglomerates is appropriate. That doesn't mean that companies seeking these incentives are at fault; to the contrary, it is wholly reasonable for companies to seek easy money, including from the government itself. However, the government isn't obligated to be a willing mark.

Subsidies may ease the overall tax burden for some companies, but this is unfair to other, less powerful companies that would also benefit from tax relief if they could get it. Rather than have a special tax break offered to a well-connected business, all businesses and individuals should be eligible for tax relief through broad-based tax cuts.

Although I'm generally a realist (rather than an optimist) on the prospects of tax policy reforms, I had nonetheless hoped that Missouri policymakers had started to move past a calculus that put political expediency above policy progress. Indeed, recent revenue-neutral tax reform has reduced individual and corporate income tax rates and broadened the base of income taxes generally. This year there was an opportunity to further slash income taxes by using potential internet sales tax revenue to lower income tax rates.

Unfortunately, that opportunity went for naught. Instead, GM got a corporate giveaway courtesy of taxpayers.

If decades of research into the futility of tax-incentive programs isn't enough to convince legislators to reject giveaways like this one, then elected officials should pledge that for every special tax cut made for a well-connected interest, a corresponding tax cut must be made for the public writ large. The public shouldn't simply be a piggy bank for the legislature's largesse.

COURSE ACCESS IS FINALLY AVAILABLE

Susan Pendergrass

After almost a year of waiting, course access for Missouri students is finally in sight. In May 2018, a course access bill was signed into law. This new program would allow students to take classes online that would otherwise be unavailable at their schools. Show-Me Institute analysts have written extensively about the need for course access in Missouri, and seeing it signed into law was exciting. Although the Department of Elementary and Secondary Education (DESE) did not produce the list of approved providers and courses by the end of 2018 as promised, we're glad to see the list finally available on the Missouri Course Access and Virtual School Program (MOCAP) website.

The combined course list shows courses available on a wide range of topics including foreign languages, advanced science, and even audio and visual production classes. Some of the classes are available at the AP (Advanced Placement) level. Classes are currently available for 6th through 12th grade subjects, and all are tuition-free. Courses are required to be taught by a certified teacher and students interact with teachers electronically, through messaging platforms or email. The education providers include Mizzou K-12, Edison Learning, and others.

Traditional, on-site offerings across high schools vary widely; some schools don't offer any AP courses, and some offer many. In 2016, there were 285 districts across the state without any students enrolled in an AP course, 255 districts without students enrolled in calculus, and 213 districts without students enrolled in physics. Districts may struggle to offer high-level courses for a variety of reasons, including a lack of resources, limited building availability, or scheduling conflicts. With course access, students can now take whatever classes they need to prepare for their post–high school future without being limited to the offerings in their home districts. In addition to having access to courses not taught in their schools, students can now elect to take their entire course load online. Students who are bullied, need flexible scheduling, or require extra support could benefit from an entirely online course load.

Implementation of the law is not yet complete. Districts are required to inform parents and students about MOCAP on their home page, but not all districts are compliant yet. As DESE is implementing course access, districts should be informing students about the opportunities provided by online learning.

Talented kids come from every corner of Missouri, and they shouldn't be prevented from taking the classes they need because of where they live. Course access empowers families with a wider array of choices to help get their kids the best education possible. As the 2019–2020 school year approaches, we look forward to seeing students enroll in MOCAP classes as they customize their education and prepare for the future.

WORKFORCE DEVELOPMENT MUST START IN HIGH SCHOOL

Emily Stahly

During the 2019 legislative session, the Missouri Legislature approved a new workforce development program called "Fast Track." Fast Track offers lower-income adults with some or no college education scholarships for additional training in high-demand careers. While this program could help some adults advance their careers, the call for such scholarships reveals the shortcomings of Missouri's career and technical education—shortcomings that can be fixed and that other states are fixing.

More than nine out of ten high schoolers graduate in Missouri, but that does not mean they are adequately prepared for college or the workforce. According to the Department of Elementary and Secondary Education (DESE), only about 42 percent of graduates are "college or career ready." When 1,000 Missouri employers were asked if they thought high schools were preparing students for the workforce, only 150 responded yes.

Too many students are getting a high school diploma but not the skills that would put them on the path to a good career. To remedy this, Missouri should consider two initiatives that have been successful in other states: implementing teacher bonus pay (the short-term fix) and investing in regional vocational academies (for the long term).

A teacher bonus program would pay teachers $25 or $50 for each of their students who earn an industry-recognized credential (IRC), which is a credential that demonstrates to employers that students are workforce ready. IRCs can be earned by passing an exam or skills test that is approved by a third-party industry organization.

After Florida implemented a teacher bonus pay program, the number of credentials students earned increased from 803 in 2008 to more than 86,000 in 2017. In 2008, barely two percent of Florida students were enrolled in a class that led to an IRC; now the number is 40 percent. North Carolina gives a similar bonus to its career and technical education (CTE) teachers, and students in that state earned over 160,000 IRCs during the 2016–2017 school year. Missouri students earn only about 8,000 IRCs each year. It turns out that even a small cash incentive for teachers can have a big effect on vocational education opportunities for students.

Missouri should also consider establishing regional or county-run vocational academies. Massachusetts and New Jersey already have such academies. Students attend them full-time instead of taking a few CTE classes in a traditional high school or going to a career center for part of the day. On top of regular graduation requirements, students choose one of many career pathways and are able to earn college credit and IRCs that give them a jump start on college or a career. As autonomous schools of choice, these high schools have the flexibility to respond to the needs of the regional economy.

Even if Fast Track proves to be a worthwhile investment, it will not address the poor quality of the CTE programs in Missouri's high schools. More fundamental reforms are needed. As other states have shown, the reforms need not be complicated or very expensive.

To the extent additional funds are needed, we have a suggestion for where to find them: Missouri can stop paying what amounts to welfare to big companies. The $50 million Missouri will pay to General Motors to update its plant in Wentzville would fund a teacher bonus program for at least ten years. And I am willing to bet that companies would value a well-trained workforce a lot more than one-time payoffs when deciding whether to locate in Missouri.

ECONOMIC INCENTIVE PROGRAMS NEED SCRUTINY

Patrick Tuohey

Addressing economic incentive policy requires resolve. Missouri municipalities continue with the tried-and-failed approach of showering private firms with subsidies despite mountains of evidence that this simply doesn't work. Even when leaders attempt to examine economic development practices, they choose flawed methodologies.

In Missouri, city and state leaders often award incentives to private companies to encourage them to invest where they otherwise might not. At first glance, it makes some sense. For example, a city might offer a 10-year property tax abatement in order to reduce a developer's cost of investing in a moribund shopping center in a downtrodden neighborhood.

Unfortunately, as incentives have become increasingly common, they have started hollowing out the tax bases of taxing jurisdictions such as school districts, libraries, mental health funds, and county governments. The cost of all these incentives is adding up.

Take Kansas City for example. The cost in lost tax dollars to the Kansas City Public Schools is more than $30 million. The Kansas City Public Library tallied its losses at $2.48 million. For Jackson County, the total is $5.04 million. For Kansas City itself, the costs of abatements and tax redirection programs add up to just over $95.86 million for the year, but there's a difference. Schools and libraries depend heavily on property tax revenue to cover operating costs. The city, on the other hand, has other revenue streams (such as the earnings tax and sales taxes) to lean on, so the impact of the reduction in property tax revenue on the city itself isn't nearly as great.

Supporters of development incentives argue that without them, development wouldn't happen at all. To support their argument in the case of tax-increment financing (TIF), they point to a "but-for" analysis required of every application. In short, the but-for analysis is meant to be a cost–benefit analysis that demonstrates without ("but-for") the subsidy, the development would not take place—in other words, a reasonable developer would only find the project to be financially viable if he could anticipate an abatement of future taxes.

Rigorous assessment of the but-for analysis in Missouri and around the United States suggests it's less a demanding test and more a rubber stamp. A 2018 study conducted by the W. E. Upjohn Institute found that "for at least 75 percent of incented firms, the firm would have made a similar location/expansion/retention decision without the incentive." A 2017 Show-Me Institute study of TIF in Missouri found that "the use of TIF has not diverted investment or increased economic activity beyond what we would have expected if TIF was not used." These conclusions are consistent with those of other studies.

In Kansas City, the need to justify the incentive regime led the city to conduct an analysis of its incentive policy. However, the city's study, which was released in 2018 and itself cost taxpayers approximately $350,000, did not examine but-for analyses as did the studies mentioned above. It merely assumed that any development that occurred after an incentive was provided happened because of the incentive. Both *The Kansas City Star* and the *Kansas City Business Journal* questioned the value of the study; one member of the city council said the report "did not contain the necessary information" needed to help shape policy. It appears to have been more a public relations effort than a serious policy study.

This is shameful. Until political leaders get serious about reform, one can expect economic development subsidies to siphon away more and more public funds. The first step of serious reform ought to be thorough examination of the cost and benefits of economic development policy, not an apparent whitewash.

STATE LOW-INCOME HOUSING TAX CREDIT DORMANT—FOR NOW

Elias Tsapelas

Increasing the availability of affordable housing for Missouri's low-income population is a laudable goal. But the state's low-income housing tax credit (LIHTC) program is a costly and unsuccessful attempt at achieving that goal. In what was an otherwise underwhelming legislative session, Missouri policymakers wisely resisted demands to restart the state's LIHTC program. However, shortly after it became clear that the legislature would not be acting, Governor Parson's staff indicated to the *Kansas City Star* that he was considering reviving the program unilaterally. For a host of reasons, resuming the state's LIHTC program without substantial reforms is a bad idea.

A little over nine months ago, the governor said: "As a member of the [Missouri Housing Development] Commission, I am committed to considering current federal tax credit applications, but until substantial reforms are enacted, state tax credits will not be issued." Since the legislature failed to reform the LIHTC, reviving the program would violate one of the first promises made by the governor.

Prior to being halted in 2017, Missouri's LIHTC program was one of the most generous in the country. The LIHTC program is federally created and funded, and in 1996 Missouri agreed to match up to 100 percent of the federal funds allocated to the state each year. In 2018, the federal government allocated a little over $168 million for low-income housing projects in Missouri.

Stonebridge Townhomes/ Affordable Housing Online

The academic research on the subject is clear. The state and federal LIHTC programs have not increased the amount of affordable housing in Missouri. Regulations governing the construction and development of low-income housing inflate project costs, and the publicly funded tax credits crowd out private investment. Three consecutive state auditors have concluded the program is not an efficient use of taxpayer dollars. For each dollar the state allocates to the program, little more than forty cents are actually spent on building low-income housing. The rest goes to tax-credit syndicators, real estate developers, and federal tax payments.

Even Missouri's elected officials know the program is ineffective. When debate began in the legislature about restarting the program, the state treasurer released a statement opposing the revival absent substantial reforms. The treasurer—who sits on the board that issues LIHTCs—echoed many of the concerns expressed by Show-Me Institute researchers. Many lawmakers eventually conceded the LIHTC was inefficient and proposed a hard cap on the amount the state could spend on the program in a given year. They also recommended multiple transparency measures intended to improve the program's efficiency. These reforms didn't pass, but even if they had, they wouldn't have gone far enough to fix the program's underlying flaws.

As lawmakers struggle to balance the state's budget as a result of the increasing cost of other programs, it's fair to insist that each tax dollar go only toward efficient and effective programs. In other words, the best course would be to leave the state's LIHTC program dormant for good.

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