



SHOW-ME newsletter

SHOW-ME INSTITUTE HAS BIG PLANS FOR 2014

The Show-Me Institute is in the midst of planning a big year in 2014.

One of our top priorities is to continue pressing for tax reform at the state and local levels. On a statewide level, we have argued for the elimination of income taxes on businesses, which are considered some of the most economically harmful taxes a state can levy. Most of the state's economic development tax credits should be repealed and used to cut taxes on business — and fund the legitimate functions of state government.

On the local level, we will continue our focus on limiting the use of tax subsidies such as Tax Increment Financing (TIF) and Enhanced Enterprise Zones (EEZ). TIF decisions should be restricted to county officials who can take a more broad view of the fiscal situation than cities. In 2014, the Show-Me Institute also intends to promote limitations on the use of TIF in floodplains throughout Missouri's river regions. We also intend to focus a spotlight on the misuse of EEZs in Missouri.

We will continue our efforts to remove barriers to educational excellence. We are working to empower schools to attract and retain the best teachers and remediate or remove the worst. We will release a series of studies on how tuition

tax credits programs and educational savings accounts have worked successfully in other states to provide choice for parents and their children.

Additionally, building upon the momentum of this year's study about Missouri's underfunded public pension system and the need for reform, the Show-Me Institute will publish two additional studies on the topic in 2014. The first will explore the economic implications of transitioning from a defined benefit to a defined contribution plan. The second study will examine the potential legal hurdles that may be encountered under Missouri law during a transition process and identify ways to navigate those legal barriers.

We will release a paper demonstrating how local governments can partner with the private sector to provide services that are traditionally considered public services. We will provide examples of how cities and counties in Missouri have contracted or outsourced public services to the private sector, enabling cities and counties to expand services and save taxpayer money.

The Show-Me Institute faces many exciting challenges as we enter 2014. We are up to the challenge with strong backing from our supporters and a staff dedicated to our mission of promoting free-market solutions to Missouri public policy issues.

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

A MESSAGE FROM THE EXECUTIVE DIRECTOR

The generous support of our donors enabled the Show-Me Institute to continue its work of advancing individual liberty and free-market public policy solutions throughout Missouri in 2013. I am pleased to report that we made great strides this year in several areas.

Recent tax cuts in Kansas intensified the need for Missouri to reform its tax code in order to remain competitive with surrounding states. Our research shows that Missouri could eliminate the corporate income tax, or significantly reduce income taxes on other business entities, by eliminating most economic development tax credits. The state spends about \$400 million annually on tax credits. Throughout the year, we discussed the need for such reform in our media appearances, presentations, op-eds, letters to the editor, blog posts, and social media.

The message about the need for tax reform is starting to resonate. Missouri House Bill 253, which would have cut income taxes for individuals and businesses while restructuring other parts of the tax code, passed both houses of the legislature. Although the legislature failed to override Gov. Jay Nixon's veto, we expect tax reform will be a top priority in the legislative session that starts in January.

We continued opposing Tax Increment Financing (TIF) and similar local subsidies throughout Missouri. Because of our efforts, proposals for Enhanced Enterprise Zones in Lee's Summit, Callaway County, and Warren County were blocked. Concerned citizens tapped into the expertise of Institute staff members, who also provided important testimony at hearings about these proposals.

We also raised awareness about the threat that unfunded public pension liabilities pose for the state and its taxpayers. The Show-Me Institute issued a study by Andrew Biggs, of the American Enterprise Institute, making the case that the real value of unfunded pension liabilities for the state's five largest public employee pensions is nearly \$54 billion — far higher than the \$11.1 billion officially reported.

This year also proved to be the most successful in raising awareness about the importance of school choice. In April, we released an essay called "Public Dollars, Private Schools: Examining the Options in Missouri," which explains the differences among vouchers, education savings accounts (ESAs), and tax credit scholarships, and summarizes the research on private school choice programs.

Our outreach efforts continued with the Show-Me Institute Speakers



Brenda Talent
Executive Director

Series in St. Louis and Kansas City. We hosted Lee Ohanian, professor of economics at UCLA, at Saint Louis University. In Kansas City, we hosted John Blundell, author of *Margaret Thatcher: A Portrait of the Iron Lady*, *Waging the War of Ideas*, and *Ladies For Liberty: Women Who Made a Difference in American History*, and Michelle Rhee, former chancellor of the Washington D.C. Public Schools and founder of Students First.

We have been very successful in garnering media attention, with frequent publication of our commentaries, blog posts, and letters to the editor in newspapers throughout the state. We now also have weekly radio appearances on KTRS in St. Louis, KRMS in mid-Missouri, and KWTO in Springfield. We continue to be featured in television news broadcasts in St. Louis and recently broke into the Kansas City television and radio markets.

All of these efforts mean that more Missourians are being exposed to free-market ideas. Thank you for your support in 2013 and we look forward to working with you in 2014.

SHOW-ME INSTITUTE LAUNCHES UNIQUE DATA TOOL

After months of hard work, the Show-Me Institute has unveiled a new tool to keep Missourians informed: Show-Me Data (showmedata.org). Show-Me Data is an interactive website that allows users to create custom charts to track Missouri's (or other states') economic or demographic information and compare it to the rest of the country.

The information contained in this web tool is a collection of data from the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, and the U.S. Census Bureau. Arthur Laffer began maintaining this dataset in 1977 and transferred ownership to the Show-Me Institute in 2009. The Show-Me Institute now maintains this dataset and had made it available through its previous website, Show-Me IDEAS.

When you access the new Show-Me Data site, you will find information to

Visit Showmedata.org today!

enhance and inform discussions on how to improve Missouri's competitiveness.

For example, many people believe that Missouri performs about the same as the national average when it comes to economic growth. However, Missouri lags significantly behind the country as a whole. Please view the accompanying chart created from Show-Me Data to illustrate this point.

Before a substantive discussion about policy reform can take place, Missourians must be educated to the realities of our state's economic performance. Media, policymakers, and concerned citizens can use Show-Me Data for accurate, current information on Missouri's compari-

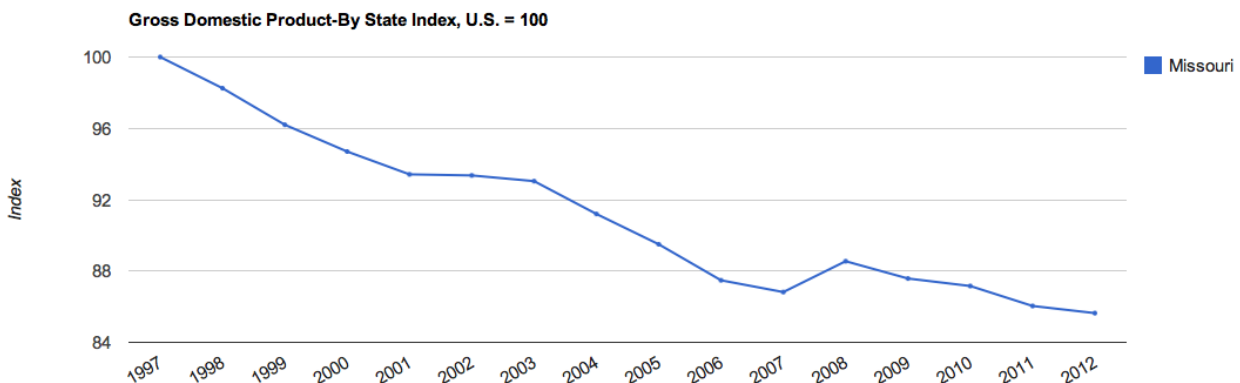
sons to other states. The information in Show-Me Data helps identify areas where Missouri is performing well and where we need improvements.

Users of the site can select from a collection of pre-made "Popular Charts" or build their own "Custom Charts" to include in their work. These charts can be embedded into blogs or shared on Facebook, Twitter, and other social media outlets.

We have worked to ensure that Show-Me Data is user-friendly and easy to navigate. Users will be able to access step-by-step written and video tutorials on how to use all features of the site, including applying filters and sharing charts via social media. We encourage you to visit Show-Me Data and share your feedback with our staff. We also welcome comments and tips on how to make it even better.

GROSS DOMESTIC PRODUCT - BY STATE INDEX, U.S.=100, 1997-2012

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By clicking on any state's color icon, that state's corresponding line will be highlighted for increased visibility. Hovering over lines or dots within a chart, will display data for that particular point.



From left: David King, Shannon Dougherty, and Chris Sommers.

INITIATIVE CAPTURES PASSION OF NEXT GENERATION

One of the Show-Me Institute's goals is to energize, motivate, and empower future generations. We aim to create a better state for all Missourians, and that includes ensuring a brighter future for the next generation.

As part of that goal, the Show-Me Institute hosted its fifth Next Gen Voices event on Nov. 7. The event, titled "Red Light, Green Light: Does Government Help Or Hinder Start-ups?" generated a record number of attendees and a spirited debate.

The featured speakers were Shannon Dougherty, of Rack Media LLC and Suzanne Lay Designs; David J. King, M.D., of King Orthopedics; and Chris Sommers, of Pi Pizzeria. The event also included comments from Show-Me Institute President Rex Sinquefeld.

The host committee included Raymond and Sarah Chandler, Rich Chrismer, Jim Gwinner, Gregg and Lorie Keller, Erin Olson, Linda Ragsdale, Ben Terrill, Stephen Wagner, Kristin Yemm, and Mark Zinn.

SALES TAXES ARE NOT THE WAY TO FIX TRANSPORTATION FUNDING IN MISSOURI

By Joseph Miller

Imagine ordering the usual for dinner at your favorite restaurant. When the check arrives, you are surprised to find a \$2 surcharge for "movie tickets." When you demand an explanation, the waiter says that the local theaters were losing money. Moviegoers did not want to pay higher ticket prices, so to save the theaters, they decided to make restaurant patrons pay for their tickets.

If the waiter's explanation seems outrageous to you, it may interest you to know that a new ballot initiative uses the same logic to pay for transportation. The initiative, which the private group "Missourians for Safe Transportation and New Jobs" supports, proposes a 1 percent sales tax on all businesses for 10 years. Its purpose is to raise \$8 billion for the cash-strapped Missouri Department of Transportation (MoDOT) to use on transportation (mainly road) projects.

MoDOT needs the cash because in the last decade, its road construction costs have rapidly risen while gas tax revenues fell. In 2012, MoDOT's expenditures outstripped its funding by more than \$300 million. If something is not done, MoDOT might not have the funds to maintain, much less improve, more than 33,000 miles of state roads.

The fundamental problem with MoDOT funding, which a sales tax would only exacerbate, is that people who use the roads are paying less than their fair share. With a sales tax, those who use public transportation, ride their bike to work, or simply drive less end up subsidizing those who use roads more often. Aside from being fundamentally unfair, the policy incentivizes individuals to drive more and shop less, because

road use is artificially cheap and shopping is artificially expensive. That behavior results in increased congestion and pollution.

The real solution to MoDOT's funding problems is simple: make drivers pay for the roads. Aside from the fairness issue, charging users for the amount of road used will discourage overuse of highways and create a sustainable funding structure for MoDOT. Faced with higher gas prices and tolls, people will drive less or opt for fuel-efficient vehicles. This reduces congestion, road degradation, and pollution.

At 17 cents a gallon, Missouri has one of the lowest gas taxes in the country. This is not automatically a bad thing, but it is an issue when state road maintenance is underfunded. If Missouri simply raised its rate to adjust for the inflation since the tax was set in 1996, MoDOT calculated it would get additional revenues of more than \$150 million per year. Another option is to toll new or improved roads. Other states, such as Texas and Oklahoma, have low gas taxes, but they finance roads with toll revenue. Tolling Interstates 70 and 44, along with new bridges such as the proposed Washington, Mo., bridge over the Missouri River, could greatly defray project costs. Missouri could find financing for roads and bridges in the private sector by auctioning the right to build or operate those tollways.

Missouri should alter its constitution to create a sustainable transportation tax structure that makes economic sense and enshrines the concept of fairness. Missouri makes the restaurant patron pay for his meal and the moviegoer pay for his theater ticket; it is time to make drivers pay for their roads.

ROBBING PETER TO PAY FOR PAUL'S PENSION

By James V. Shuls

Peter and Paul are friends. They went to the same college, majored in education, and graduated the same year. Peter began teaching in the Jefferson City School District and Paul joined the faculty in the Hickman Mills School District. After working for 30 years, both retired. Little did they know that over the course of their careers, the defined benefit pension system had been robbing Peter to pay for Paul's retirement.

Teachers in Jefferson City (Peter) start at a slightly higher salary than teachers in Hickman Mills (Paul) and they continue to earn a higher salary for 23 years. However, toward the end of their careers, Hickman Mills teachers receive larger pay raises and surpass their Jefferson City counterparts.

Over the course of a 30-year career, a teacher in Jefferson City will earn \$29,213 more than a Hickman Mills teacher. Each of these districts is part of the Public School Retirement System of Missouri (PSRS).

This system requires 29 percent of a teacher's salary be contributed to the pension system, 14.5 percent each from the employee and the employer. Assuming a constant 29 percent contribution rate, a Jefferson City teacher will have \$8,472 more deposited into the pension system than a Hickman Mills teacher.

Because they deposit more into the retirement system, it would make sense for the Jefferson City teachers to earn more in retirement, but that is not the case. Pensions in the PSRS system are based on a teacher's three highest consecutive salaries, usually his or her last three years. The spike at the end of their career gives Hickman Mills teachers a higher final average salary, meaning they will earn more in retirement than the Jefferson City teachers.

Despite paying \$8,472 more into the pension system, the Jefferson City teacher will receive \$55,080 less than the Hickman Mills retiree over the course of a 30-year retirement.

This is a clear problem. Indeed, Missouri's teacher retirement system is rife with problems. The end result is escalating payments by the state or declining benefits for pensioners. Since 2004, Missouri teachers have seen their contribution rate increase eight times, rising steadily from 21 percent to the current 29 percent. These increases are necessary to combat growing pension liabilities.

The problem with PSRS and many other public employee pension systems in Missouri is that they do not tie an individual's contributions to his or her pension wealth accrual. That is, what you put into the retirement system is not related to how much you get out of the retirement system. That is why Peter can contribute more, but receive less.

The current pension system is flawed and unfair for teachers in Jefferson City and other districts that are robbed to fund the pensions of teachers in other districts. It is time to stop robbing Peter to pay Paul's pension. It is time to fix our pension problems.



KANSAS CITY AIRPORT PLAN HITS TURBULENCE

The Kansas City Aviation Department spent millions of dollars studying the need for a new terminal and ended up settling on a \$1.2 billion single-terminal design. The Show-Me Institute questions both the immediate need and immense cost of the new terminal design, as well as its effects on Kansas City residents and the airport's competitiveness.

Many travelers love Kansas City International Airport (MCI), with good reason. The current terminal configuration has many benefits: parking is cheap, plentiful, and next to the gates. Decentralized security means shorter average lines, making the car-to-gate trip at MCI especially fast. Passengers like this, as evidenced through the highest customer satisfaction survey in 2010 for a medium airport by J.D. Power and Associates, and vociferous defense of the airport from "Friends of KCI."

There are reasons MCI may need a new terminal or at least an extensive terminal overhaul. The terminals are more than 30 years old, with increasing maintenance costs. The configuration is not well suited to streamlined security and there is significant access capacity

in the design. These issues should have prompted an open discussion, with the Kansas City Aviation Department presenting a slate of options to improve the airport. However, the manner in which the Aviation Department settled on the current plan is often opaque and sometimes unsettling.

The Show-Me Institute has been involved in the matter from the time the Aviation Department presented the results of its study to the Kansas City City Council. We have since demonstrated that many claims were baseless or, at the very least, unsubstantiated. Moreover, members of the City Council refused to answer our very simple questions at a public hearing. Because of the public outcry, the mayor appointed a task force to review the airport's needs, and again, the Show-Me Institute has been present throughout. In short, the Aviation Department has needlessly constricted the options of Kansas City residents and is using inconsistent accounting to make the plan comparatively attractive.

While city leaders dig in, it is becoming clear — in part due to Show-Me Institute research cited in Kansas City-area blogs, radio, and newspa-

per stories — that the project should be re-evaluated. Not only is the cost considerable, there is little hope it will receive minimal federal aid, thereby straining the finances of MCI. According to the Aviation Department's own estimates, the need to service debt on a new terminal will push MCI's cost per enplaned passenger (CPE), or total airport expenses per passenger, from a current \$5 to approximately \$19 by 2025. In MCI's case, much of the cost will have to come from airlines. This may have the effect of reducing demand or service at MCI. Just recently, Southwest Airlines, responsible for 40 percent of MCI's flights, echoed these concerns and pushed for a more cost-effective solution.

Kansas City taxpayers, who recently rejected a county sales tax with an impressive margin, are wary of expensive alterations to an airport many enjoy. The Show-Me Institute has been there to research the city's claims and give voice to their skepticism. The turbulence in this case is not a result of external forces, but the product of a city flight crew that seems determined to redirect the flight to some place no passenger desires to go.

UPCOMING EVENTS

The Show-Me Institute offers several events throughout the state to learn more about policy issues that affect everyone.

We regularly host Policy Breakfasts at the Show-Me Institute office in Saint Louis; Show-Me Forum policy breakfasts in Columbia; Speakers' Series with nationally known guests in Saint Louis and Kansas City; National School Choice Week events; Friedman Foundation Day events every July 31; Next Gen Events for young professionals, and special events throughout the year. In 2014, Policy Breakfasts will also become a regular event at our Kansas City office.

For more details about Show-Me Institute events, visit www.showmeinstitute.org/events or contact Scott Tanner at (314) 454-0647 or scott.tanner@showmeinstitute.org.

To be notified personally about all Show-Me Institute events and to receive exclusive invitations for special events, please email your name and contact information to events@showmeinstitute.org or sign up in person at any of our events.

OBAMACARE: LESS CHOICE, HIGHER TAXES, SLOWER ECONOMIC GROWTH

(Excerpt of commentary that originally appeared in the *Saint Louis Beacon* on Sept. 30, 2013)

By R.W. Hafer

Recent polls show that the majority of Americans continue to disapprove of the health care law — the Affordable Care Act, commonly referred to as Obamacare — enacted in 2010. But how many of us really understand what we can expect and [how much] we will pay for this “affordable” health program? The simple fact is that most of us are just plain bewildered, not knowing how the controversial law will affect us.



Kaiser Health News reported that Obamacare affects treatment choice for many patients in eastern Missouri. . . . [J]ust which services will or will not be covered under the new plan remains uncertain.

There also are broader negative economic affects that will arise from implementing the new law. What are the tax consequences that the average individual will face? How will these tax changes affect decisions to work?

Answering such questions is the purpose of a recent study by University of Chicago economist Casey Mulligan. . . . The basis for his research is the observed fact that policies that raise taxes on your income reduce your incentive to work more. You may need to work to pay the bills, but your incentive to work a second job or someone in your household to take on a part-time work is reduced at a higher tax rate. The after-tax income may simply not be enough to induce you to work.

Mulligan’s study finds that implementing Obamacare will create significant implicit and explicit tax increases that negatively affect the decision to work for many individuals.

One avenue for these higher taxes is through employer tax penalties. It also comes through higher taxes on individuals. . . . [U]nder Obamacare, a large portion of the working population will experience a significant increase in their effective tax rate. And this increase comes on top of existing tax rates. The disincentive to work is larger under Obamacare than currently exists.

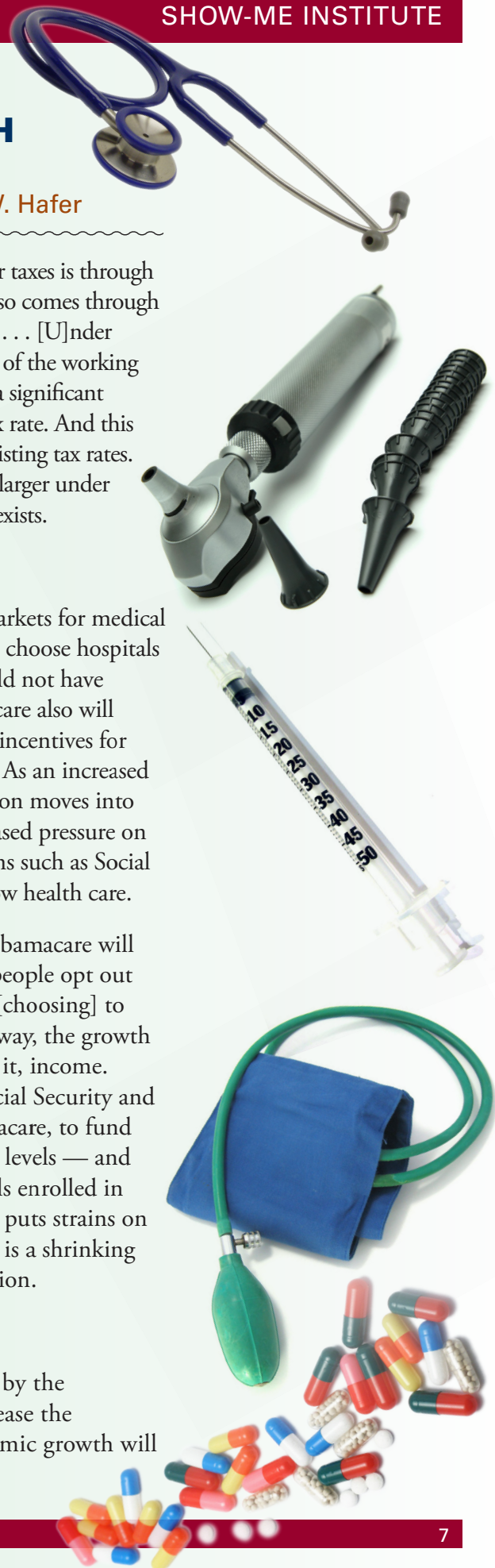


Obamacare will disrupt markets for medical care, forcing individuals to choose hospitals and doctors that they would not have chosen otherwise. Obamacare also will create substantial negative incentives for many individuals to work. As an increased proportion of the population moves into retirement, this puts increased pressure on government social programs such as Social Security, Medicare, and now health care.

The tax increases under Obamacare will reduce the labor force as people opt out of working by retiring or [choosing] to work fewer hours. Either way, the growth of output slows, and with it, income. Because income funds Social Security and Medicare and now Obamacare, to fund these programs at existing levels — and with even more individuals enrolled in retirement programs — it puts strains on those still working, which is a shrinking proportion of the population.



The disincentives created by the Affordable Care Act decrease the likelihood that . . . economic growth will rebound any time soon.





4512 West Pine Blvd.
Saint Louis, MO 63108

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Show-Me Institute Executive Director, Others Tout Limited Government Policies

The Show-Me Institute participated in the 2013 St. Louis regional Conservative Political Action Conference (CPAC) on Sept. 28 at the St. Charles Convention Center. CPAC-St. Louis was a packed day of inspiring speeches, policy discussions, and networking opportunities. The event celebrated the principles of smaller government and traditional values.

Show-Me Institute Executive Director Brenda Talent received a standing ovation for her



Patrick Ishmael

speech, which advocated a conservative, free-market vision in contrast to big-government policies. Talent also described the mission of the Show-Me Institute.

A video of her speech can be viewed at: <http://showmeinstitute.org/publications/video/red-tape/1036-brenda-talent-at-cpac-st-louis.html>.

Show-Me Institute Policy Analyst Patrick Ishmael was a panelist discussing “The Real War Between the States: How Americans Are Changing Zip Codes for Good Tax Codes.” Other panelists included Ted Dabrowski, vice president of policy for the Illinois Policy Institute, Oklahoma Secretary of State Larry Parman, and Jonathan Williams, director of the Tax and Fiscal Policy Task Force for the American Legislative Exchange Council.

A video of his speech can be viewed at: <https://www.youtube.com/watch?v=C3KKY9NqDOg>.



U.S. Sen. Mike Lee

On the eve of CPAC-St. Louis, the Show-Me Institute hosted its first Freedom Celebration at the Log Cabin Club in St. Louis. U.S. Sen. Mike Lee (R-Utah) was the guest speaker. Lee has been a vocal critic of the Affordable Care Act (Obamacare), calling it an “unaffordable and unfair” program. Lee spoke at our exclusive hour-long round-table discussion and later told a larger gathering of Show-Me Institute supporters that now is not the time to simply accept the failed big-government spending habits of government at all levels.